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HOUSING: Signs of life appear in Southwest Riverside County Sales surge for fourth consecutive month

By: ZACH FOX

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Electrician Mike Peri puts up a fan Friday at the new Murrieta home of Martina Kolb and George Farraye, who say falling prices have left the region ripe with bargains. (STEVE THORNTON/Staff photographer)

Engaged owners Martina Kolb and George Farraye take a break from moving into their new Murrieta home Friday. They say falling prices have left the region ripe with bargains. (STEVE THORNTON/Staff photographer)

While most of the nation appears mired in the middle of a severe housing slump, the southwest corner of Riverside County may be showing signs of recovery.

In April, the number of houses sold was higher than the year before for the fourth straight month, leaping 73 percent last month from a year ago.

And, for the first time since the housing market took a dive, house sales in the Temecula-Murrieta region were higher than sales in 2006, near the peak of the housing boom.

To be sure, not all housing data in Southwest Riverside point to recovery.

Some prominent housing analysts think the region's housing recession is far from over, chiefly because foreclosures have doubled from a year ago, and an oversupply of homes for sale threatens to further depress prices.

Yet sellers have already been slashing prices, setting the stage for the recent surge in buying.

The median home price ---- in which half the homes sell for more and half for less ---- in the region sank to \$265,000 in April, a mammoth 36 percent

off the \$415,000 median in 2007 and 40 percent below the \$439,900 level of 2006, according to an analysis by The Californian and North County Times of data from the Multi-Regional Multiple Listing Service.

Escalating home sales, widely considered an indicator of an incipient housing market recovery, have encouraged some analysts to predict that price declines will soon cease in the region.

Meanwhile, North San Diego County's housing market is not showing similar signs of recovery. Its median price has fallen about 25 percent from its peak to \$490,000, but house sales for the last 28 months have been lower than the same month the year before, according to a monthly real estate association report.

Southwest Riverside's data had enough strong points for at least one real estate agent to

warn clients that the region's housing market will soon see prices rise.

"For example, I have a couple in their late 40s. They have never owned a home and have always rented," said Barbara Baker, a real estate agent in Murrieta. "And I told them, 'If you don't do it (buy a home) now, you'll always be a renter.'"

Baker said she thinks the low point in prices is near because she consistently sees multiple offers on houses for sale, driving the sales price above the asking price.

However, plenty of other data point away from an immediate recovery.

The region's housing market is still bloated with large inventory; it would take about eight months to sell off all homes on the market at the sales pace seen in April.

Many housing analysts think an inventory higher than a six-month supply puts downward pressure on prices.

And foreclosures keep rising: Notices of default, the first step in the foreclosure process, in Southwest Riverside doubled from a year ago to 3,700 during the first quarter, according to ForeclosureRadar, a tracking service.

A booming increase in the number of notices of default suggests more bank-owned homes over the next six

months, which tend to depress prices, analysts said.

"There's no bottom in sight," said Christopher Thornberg, an economist with Beacon Economics. "There's nothing more pernicious to prices than supply, and what you have building up right now is a massive amount of foreclosures. And nobody is more motivated to sell than banks."

Thornberg said he thought home prices in the Inland Empire could fall as much as 55 percent from the peak, which would mean an additional 20 percent drop in Southwest Riverside, sending the median to \$200,000.

Thornberg's argument is underpinned by income levels that suggest many homeowners cannot afford the typical mortgage payment.

If affordability is used as the sole predictor of home prices, then Southwest Riverside County appears to be closer to ending its price decline while San Diego County, and North County particularly, could continue to see steep price drops.

In 1996, San Diego County's housing market began to recover from a recession after the typical mortgage payment (using the median home price with the average interest rate) fell to 20 percent below one-third of the median household income, according to data from DataQuick Information Systems and the U.S. Census.

That means the typical mortgage cost about \$1,200 a month while the typical household earned about \$4,500 a month in inflation-adjusted dollars.

The typical mortgage payment in Southwest Riverside County is now 15 percent below one-third of the county's median income, considered by many housing advocates as the recommended portion of income that should be spent on housing costs.

In contrast, the typical mortgage payment in North County is about 40 percent higher than the one-third level, based on the median household income in the county.

For George Farraye, it was Southwest Riverside County's falling prices that spurred him to buy. He bought a home in Murrieta earlier this month at a 43 percent discount off its previous sales price.

"This housing market is unbelievable," he said. "There are some real dumps, and there are some real great buys. And I think we got a great buy --- we got it for less than \$100 a square foot, and we're in a gated community."

Though foreclosures and inventory were still high in Southwest Riverside, some analysts look to the number of sales as a harbinger of price.

April house sales rocketed from 2007, leaping 72.5 percent from 346 to 597 sales of houses last month.

However, home sales were well below a peak for the month of April of 786 homes sold in 2004.

Most of the houses selling were on the lower end: 75 percent of the 597 homes sold last month went for \$350,000 or less. Just 24 percent of the 346 homes sold in the same month a year earlier were under \$350,000.

Gene Wunderlich, a real estate broker in Wildomar,

said he is not quite ready to predict a bounce in prices. But even if prices tick down, he said, a rise in interest rates could wipe out any savings in sales price.

"It's not so much if you don't jump in now you'll be priced out. But you have to weigh the opportunity costs," he said. "Say you wait another year and prices do go down another 10 percent and interest rates go up ... your monthly payments could be higher than they would be now."

Average interest rates nationally were at a

historically low 5.9 percent a week ago, according to the latest survey by the Mortgage Bankers Association.

If the region's median home price fell an additional 10 percent, yet interest rates were to rise a single percentage point, the combination would yield a similar mortgage payment to today's typical bill. The scenario would put interest rates at 7 percent, the highest level since March 2002, according to the bankers association.

Contact staff writer Zach Fox at (760) 740-5412 or zfox@nctimes.com.