

Downtown's Shrinking New Condo Inventory

As builders stop building, the supply of homes no longer is bottomless

BY ALAN NEVIN

It has been almost a year since we broached the topic of the Downtown condominium market in this column. Yes, things have changed, and despite the glut of negative press, the glut of condominiums some predicted has not materialized, and business isn't so bad.

The resale market is holding up rather nicely. The inventory of active resale listings at the end of July was 492 compared to 613 one year ago. Days on market remain at about 90. That is a lot longer than ordinary (60 days), but condominiums are selling.

At the end of July, Downtown sales had totaled 246 compared to 467 for the entirety of 2006. With any luck, 2007 will match 2006 and

that wasn't such a bad year. The upper end of the market has fared better than the lower end. Two-thirds of all Downtown resales this year have been more than \$500,000. In 2006, almost 200 units sold for more than \$700,000. It looks like this total may be achieved again this year, too. The average price of a resale unit was \$679,000 (\$560 per square foot), the same as the average for 2005.

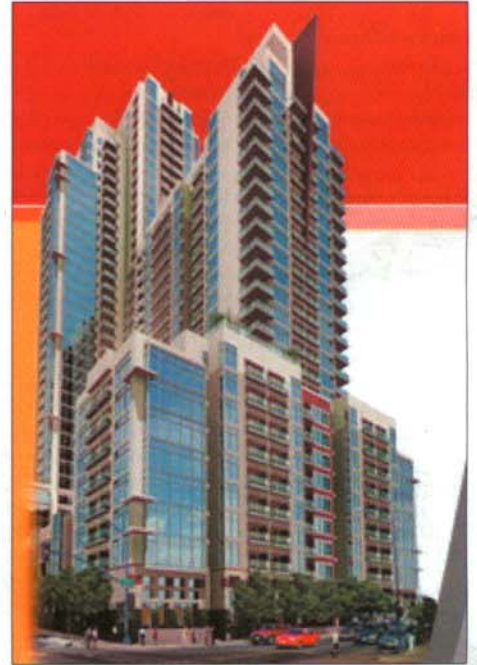
It is true that the average price per square foot is down by 7 percent this year, but that is skewed by the large number of units sold last year at the luxurious Grande at Santa Fe. In 2006, the Grande sold 60 condominiums at an average price of \$1,020,000.

In early 2006, buyers could peruse almost 100 listings at the 440 — unit Grande at Santa Fe. Now there are 37. The average unit there is 1,515 square feet with an average list pricing of \$1,152,893. Actually not a bad buy considering the quality of the building and the spectacular views from its 39 stories.

"Not a bad buy," you say? Well, one has to consider that the price per square foot is about \$750. When you look at the other West Coast markets with vibrant downtowns and parallel water views, like San Francisco, Seattle and Vancouver, San Diego is a bargain, and with much better weather. In those other three towns, downtown view condos sell for well over \$1,000 per square foot.

In the new condo market, the inventory of available units is negligible. *Fortune* magazine in a recent issue counted more than 6,000 units coming on line Downtown and declared San Diego one of the nation's major downtown disasters. Obviously, its researchers didn't do their homework, or talked to the wrong people. Let's look at reality:

A look at the skyline reveals nine high-rise condominium projects that have just been completed or will be finished by the end of 2007. As a group, they total 1,922 units. Of those, only 700 remain to be sold and a third of those are in Smart Corner



Vantage Pointe

at 12th Avenue and C Street. Only one is west of the Gaslamp Quarter, Electra, and it is sold out.

In 2008, three more projects will be delivered: Bayside by Bosa, Breeza by Intergulf and Sapphire Tower. The view units in those projects average well over \$800 per square foot. The typical Bayside unit is priced at almost \$900 per square foot (and selling nicely).

In 2009, only Vantage Pointe with its 677 units at 10th and B will be delivered.

After that, if you look at the next 2 1/2 years, the total number of units to be delivered will be 3,100, but 1,700 of those already have been sold, leaving 1,400 units to sell over the next 1 1/2 years. Of those 1,400, more than 500 are in moderate cost projects (Smart Corner and Vantage Pointe) and the remainder in higher priced projects. That hardly sounds like a glut.

On the 2007 better quality projects, a sufficient number of units have been sold to substantially pay off the construction loan, thus relieving the major burden for the developer. It also eliminates any incentive for deep discounting. By and large, the equity partners in these projects are big boys like Lehman Brothers and Capstone, and they are in no particular hurry to give away the condominiums that they have labored so hard to produce and which cannot, under any circumstances, be reproduced for the same prices.

The latter point is exceptionally important.

Most of the product now being completed was bid out two to three years ago before concrete and steel prices accelerated. Neither concrete nor steel prices are going down in price as



Sapphire Tower



The Mark

a result of massive infrastructure and commercial construction both in the United States and around the world, which means not just China. (Single family homes, by comparison, are primarily constructed from wood.) Therefore, to reproduce the 2007 condominiums today would

cost \$100 to \$150 per square foot more than the condominiums are selling for today. As a result, the prices of projects like The Mark, Park Terrace, Alta, Aria, Aperture and Icon are a veritable bargain.

Those costs also are a big reason the skyline has almost no cranes in the air, except in projects that have waterfront views and can generate sales prices in excess of \$700 per square foot. The best evidence of this is the Grande at Santa Fe where the units resell for \$700 per square foot while Bayside, under construction next door and also by Bosa, is selling for \$850-plus per square foot. (Hint: when Bayside is complete and approaching sell-out,

what do you suspect will happen to the prices of the Grande units?)

On balance, we will see amazingly few new residential high-rise projects delivered prior to 2010 that haven't already broken ground or been completed.



Park terrace

In pure Econ 101 terms, this is a great time to buy a condo Downtown or near Downtown — not for flipping mind you — but for at least a three — to four — year hold. More than 30,000 folks own or rent today Downtown. In many quarters, Downtown San Diego is being heralded as the next great downtown in the United States. I believe it.

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