

Southern California median home price surges 22.5%

The May increase to \$305,000, compared with the same period a year earlier, reflects a shift in sales in the region. Purchases climb 7.2% as buyers rush to take advantage of tax incentives.

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The Southland's housing market surged in May with the median home price soaring 22.5% from its year-earlier level as tax incentives for buyers and rock-bottom interest rates ignited sales, a real estate research firm reported Tuesday.

The median hit \$305,000, according to MDA DataQuick of San Diego, putting the closely watched figure above \$300,000 for the first time since October 2008, when valuations were declining rapidly amid the fallout from the subprime mortgage debacle, credit crunch and financial crisis.

Despite the May gains, experts and real estate professionals fear Southern California is headed for a slump in coming months as the effect of federal and state tax credits for buyers begins to wane. A rise in interest rates also could put further downward pressure on real estate in the region.

"I just think Southern California is headed for one heck of a hangover," said Glenn Kelman, chief executive of online real estate brokerage Redfin. "If the state credit runs out, and interest rates run up, I just think the market could be in a real jam."

A total of 22,270 new and previously owned single-family homes, condominiums and town houses were sold in the Southland last month, a 7.2% jump from May 2009 and a 9.7% increase from April. Sales last month hit their highest level for a May since 2006.

DataQuick reports its figures when contracts close, so the May surge probably reflects a rush of buyers finalizing deals ahead of the June 30 deadline to grab the federal credit.

The California tax credit of as much as \$10,000 for first-time purchasers and those buying new homes helped sweeten that deal, with some qualifying first-time buyers able to grab as much as \$18,000 in incentives if they timed their purchase just right.

"We have a medicated economy," said Ed Leamer, director of the UCLA Anderson Forecast. "When we remove the meds, we are not so sure how the economy is going to

perform. We know there is going to be softness compared to where we are now, because people accelerate their decision-making to take advantage of these programs."

The federal credits of up to \$8,000 for first-time buyers and \$6,500 for some current homeowners required that deals be reached by April 30 and close by June 30. The California credits, which kicked in May 1, are for both first-time buyers and purchasers of new homes, with \$100 million set aside for each credit.

The California incentives for first-time buyers are quickly running out, with 12,740 applications received as of last Tuesday, which the state's Franchise Tax Board estimates represents \$65.8 million worth of the \$100-million allotment. Data for the state's new-home credit were not available.

Interest rates are also fueling sales, experts said, with rates remaining at rock-bottom levels despite the Federal Reserve ending its program in late March to buy up mortgage-backed securities from Fannie Mae and Freddie Mac. Many experts feared that when the Fed ended its \$1.25-trillion mortgage-bond-purchase program in March, rates would rise again, because the Fed had been buying virtually all of the bonds churned out by the two mortgage giants.

But with investors flooding into the U.S. as worries over the European debt crisis persist, rates remain very low. A Freddie Mac survey released last week found 15-year fixed mortgage rates setting record lows for the fourth consecutive month, while 30-year fixed loans were close to the lowest rates ever recorded for the survey.

"People worried that interest rates could jump, and they didn't," said Richard Green, director of USC's Lusk Center for Real Estate. "There is an appetite for investors to buy mortgages even without the Fed competing, so that is a real, positive thing."

Green was less optimistic about DataQuick's May sales report, characterizing it as "neutral."

Evidence of a coming slump also emerged last month as the number of contracts signed on new purchases fell substantially in May compared with April in some cities. The number of contracts signed on resales of single family homes fell 9.5% from April in Los Angeles, 20.7% in Santa Ana and 25.2% in San Diego, according to data from the California Assn. of Realtors.

Pessimism among U.S. builders about the future of the market also deepened in June, according to a confidence index by the National Assn. of Home Builders released Tuesday, signaling housing demand is slowing. The index dropped to 17 from 22 in May. Readings below 50 indicate conditions are poor.

Southern California's \$305,000 median — the price at which half the homes sold for more and half for less — represented a 7% jump from April, according to DataQuick, but

reflected less of a rise in the actual valuation of homes than a continued shift in the sales mix for the region.

As in other recent months, sales fell in the Inland Empire while San Diego and Orange counties took off. The sales rebound in these more expensive markets represents a shift by sellers of costlier homes to reduce prices to more "realistic" levels, DataQuick said.

The jump in values also reflected the steep decrease in the number of foreclosures, which tend to drag down prices because they often sell at a big discount. Sales of foreclosed properties accounted for 33.9% of the resale market, down from 49.8% in May 2009 and a high of 56.7% in February 2009, DataQuick said.