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The real looming housing crisis

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We face one of the most significant housing crises this region has seen in the last half century. No, it is not the wave of foreclosures that are sweeping across our country and San Diego County. It is what will come after the foreclosure wave.

The current foreclosure epidemic is better characterized as a systemic re-pricing, actually right-pricing, of our for-sale housing stock. As we emerged from the recession of the early 1990s, housing in the San Diego Metropolitan Statistical Area was affordably priced. The cost of housing to the end consumer was not a burden to our economic growth. At that time the challenge of job creation and shifting from a military economy to a creative class was our biggest challenge.

By 2001, two things happened. First, the housing market entered a cyclic, but not astonishing, increase in value. Second, the impact on the national and world economy post-9/11 forced the Fed into lowering interest rates to levels unheard of in our lifetimes. Housing was the engine to avert a terrorist-induced prolonged recession. Unfortunately, the stimulus turned into a financial orgy of low interest, even lower oversight, and the lowest levels of accountability.

The result was believing that 25 percent annual appreciation rates for housing, and affordability levels where less than 5 percent of the population could afford the median home price was sustainable. This was simply a fantasy many fold greater than even Bernard Madoff's Ponzi scheme.

The hand wringing over our current foreclosure "crisis" is a misguided diversion from the real issue. True, there are stories of great sadness. People losing their homes and equity, declaring bankruptcy and the impact on our economy is extremely painful. However, it was entirely predictable.

But there is a silver lining. Affordability in the region is up from the low single digits to in excess of 35 percent -- still well below where it needs to be but affordability is no longer a drag to our economy. A household of average income can actually afford to buy a home within San Diego city limits rather than making the 60-90 mile commute into southwest Riverside. Credit may be tight this quarter but mortgages will become available, if for no other reason than banks will want to make money in 2009.

Looking at the sale of foreclosed homes, virtually every buyer is an owner or occupant -- they are Mom, Dad, Billy and Jane, their dog Max and cat Snowflake. Concepts of "stabilization" and "foreclosure moratoria" are simply dragging out the inevitable. They would simply be the water boarding of the housing market. To pretend a family earning the median income of $72,100 can afford a $550,000 home with 3 percent down is a fantasy. Keeping them in that home is torture. Provided we do not drag our feet on this, we should be able to get through this foreclosure debacle by the middle of 2010 and move on.

So if my premise that the real housing crisis is not foreclosures, where is the real crisis? It begins in 2011, and we will then enter a challenging and prolonged period when affordability is our biggest bugaboo. Local employers will be unable to attract the best and brightest, and the young rising stars graduating from our local universities will look to other areas to live. Our society will further divide into the lower-paid service workers and the highly-compensated creative class. Our scant middle-income industrial base will be nothing more than a distant memory.

The reason for this dire prediction is we have used all available land for our traditional "Greenfield" model of suburban development. We have no more space for another Clairemont, University City, Carmel Valley or East Lake. Further, virtually every developer and builder is gone from our marketplace. None, literally no one, is in the business of entitling land. A recent Fannie Mae report given to leaders at the Urban Land Institute in late January predicted that nationally over then next decade we will need between 5 million and 6 million new units of rental multi-family housing. In the prior decade our net production was only 1 million (after apartments converted to condos are eliminated from this total).

Even worse, our municipalities do not have this on their radar screens. When the recovery occurs, as it will, we will create jobs and people will have no option to purchase new homes for a growing population.

This is not to say that we do not have available land, we just do not have available raw land. As a relatively new area -- remember a century ago, there were only a few thousand people living in San Diego -- we had no need to recycle land. We could simply build further out. The only real example of developing a second generation of land uses in San Diego is the growth of downtown over the past decade.

There is another reason all is not lost, demographics. People of college age and those into their latter 20s are not expecting an Ozzie and Harriet future where a couple were married and with a young family by their mid-20s, and could afford to purchase a home in Clairemont on a single income. A two-income household is the norm. People are postponing marriage, delaying having children, and having smaller families -- and are more focused on urban than suburban lifestyles. While life in a downtown high-rise is certainly not for everyone, life in a three-bedroom row home within a short walk to work, transit, shopping, schools and social networks is highly desired. Vast underutilized portions of our county -- those "grayfields" where we have provided acres of land to park cars so we can have a few shops -- are ripe for redevelopment.

Now is the time our civic leaders and municipal planners look at the opportunities we have in this "down time" to re-engineer the way we look at land, land use and the urban form. We can plan for this shift in demographic trends, the demands the market will bring, and what we must do to effectively compete for business. This does not mean every part of the county should look like downtown. It would simply be inappropriate, and not meet the demands of demographic trends, to assume every city should plan for high-rise condos. However, a mix of low-, mid-, and in some cases, high-rise and mixed-use and mixed-income development forms can compliment the existing urban fabric.

Much can be learned from both our region and other parts of the country. Now is the time to reflect, plan and become prepared. If we do not, we should be prepared for a real housing crisis in the next decade.

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