

San Diego's Super Year

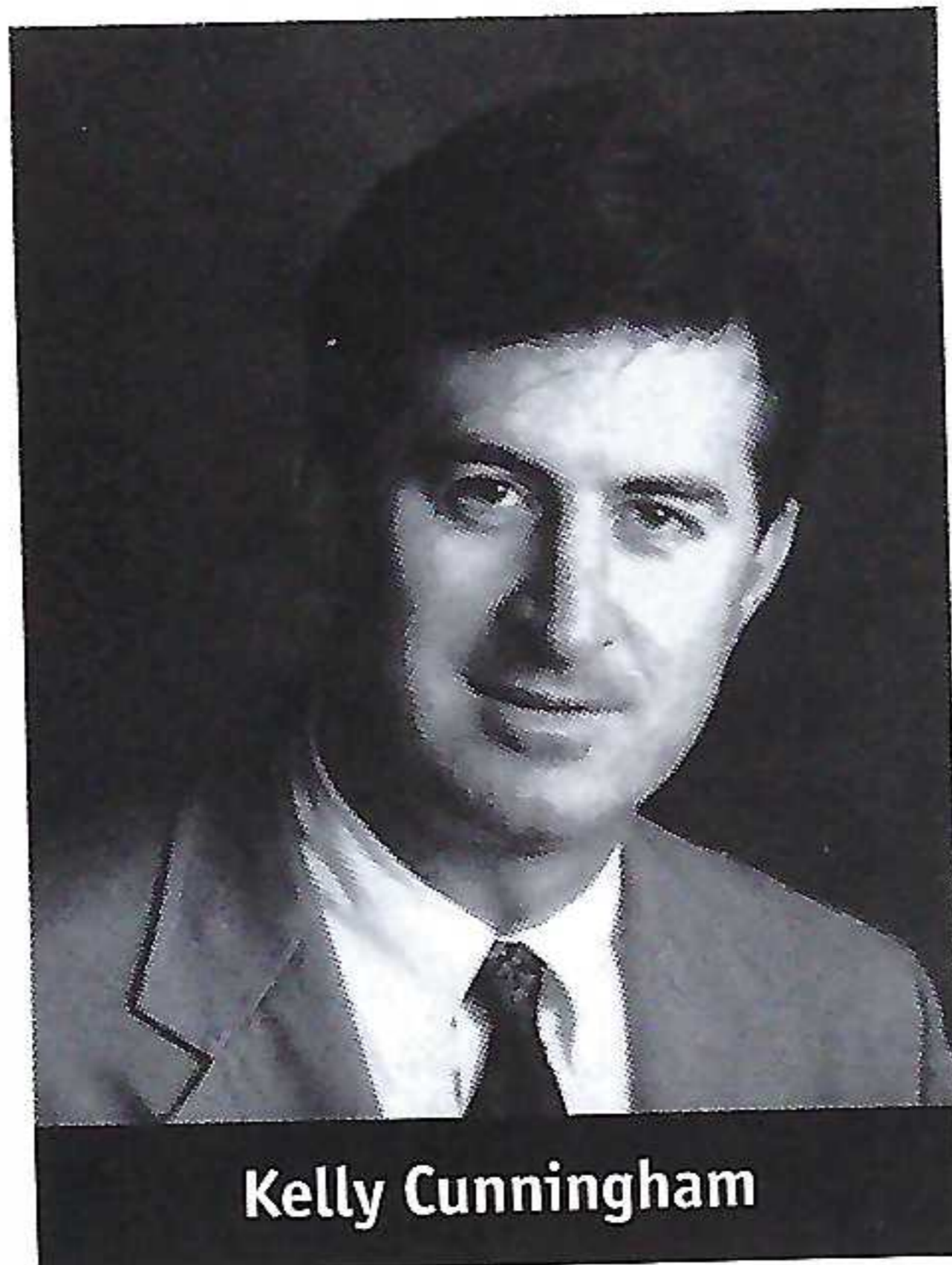
Building Industry Predictions for 1998

BY HOLLY M. LIVINGSTON

One - nine - nine - eight. Hike! The ball is snapped and passed for a successful completion. The team charges down the field like a locomotive. It's looking good and the crowd goes wild! The team regroups and the game continues. Industry commentators agree: the team is looking good, the game is going well. For the San Diego building industry, it's going to be a super year!

The consensus seems to be that 1996 was the start of our comeback. In 1997, we had the ball and were scoring big points. Economic indicators suggest that the next three years will also be good, with 1998 taking us to new highs for this decade.

According to the Greater San Diego Chamber of Commerce, in 1997, everything was up: employment, population, personal income, sales activity, and construction just to name a few. Also up were inflation (slightly) and the cost of a single family home. The immediate forecast for 1998 is more of the same. However, as you will read, the longer range forecasts are not quite so rosy.



Kelly Cunningham,
Research Manager
Greater San Diego
Chamber of Commerce

The average price of homes has risen 4.3% since October, 1995, when housing prices bottomed out during a five year slump. The turnaround and upward momentum which began in 1996 and increased in '97 represents the first annual gains since the beginning of the decade.

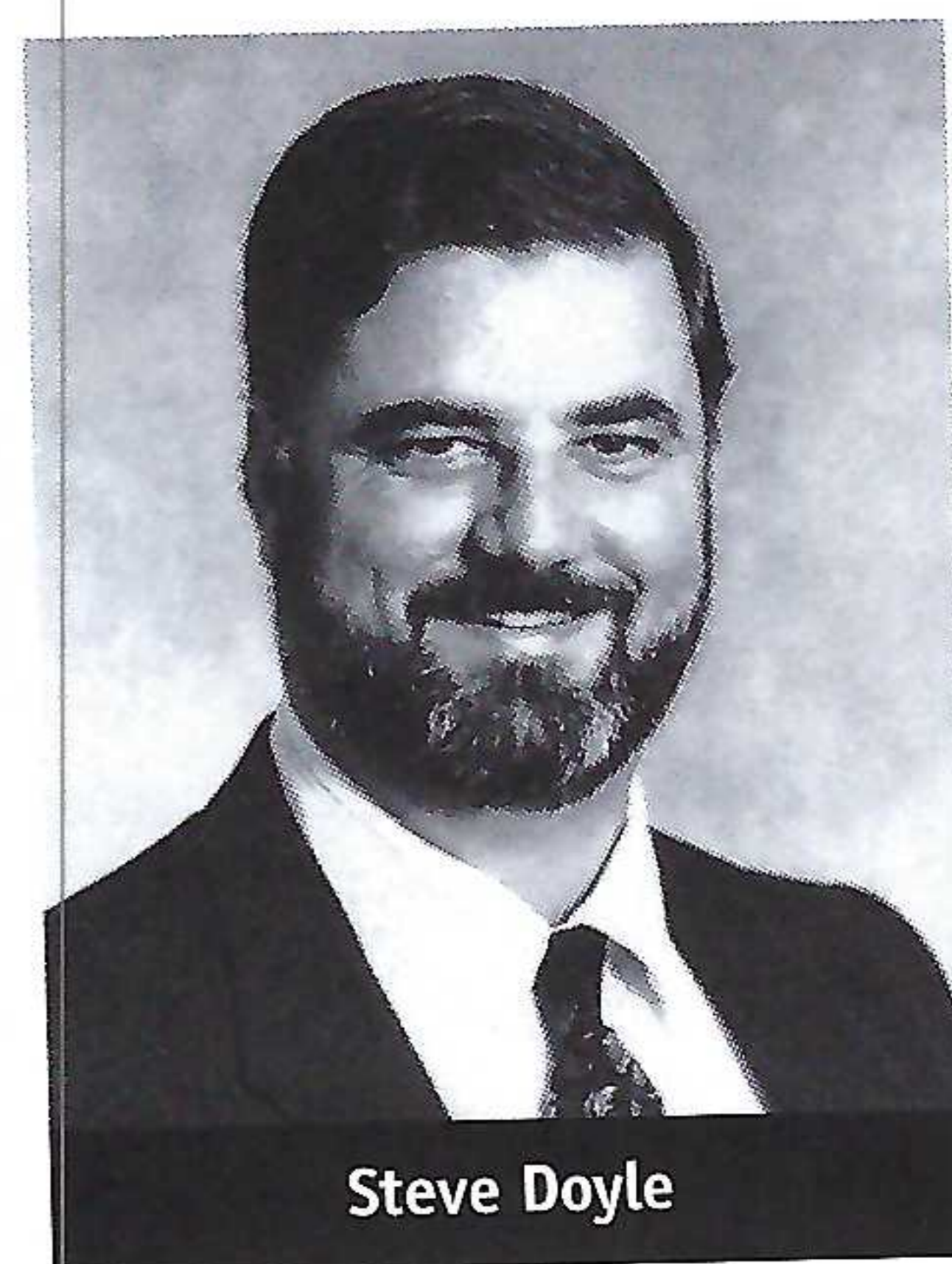
San Diego's employment rates are high and the population is expanding rapidly. Approximately 20,000 jobs will be added next year. Despite San Diego still being one of the least affordable places to live in the country, more people with more money they're willing to spend has resulted in a burgeoning demand for housing. That's the upside. The downside is that we aren't going to build enough and most of it won't be affordably priced.

About 11,000 housing permits, most of them for single family residences, will be given in 1998. Unfortunately, due to a number of factors such as rising land costs, diminishing land availability and escalating fees, the cost to build a home will also continue to rise and, consequently, so will the sales tag.

Construction of new housing projects is occurring further away from population and employment centers and transportation corridors. Of the current available developable land in the County's land use plan, more than 90% is designated for low-density housing. What we need is high density housing along those transportation corridors, but for a variety of political and economic reasons, that need won't be

met to the degree dictated by the demand. So, while the current land use plan creates enough homes for San Diegans until the year 2005, thereafter, a projected shortfall of housing will commence and continue until over 220,000 residents will be without a home by 2015.

Meanwhile, San Diego has entered its winning season after a long slump. The '98 numbers look favorable. We're hitting our stride. But we should also be able to see "the defensive wall" that is headed our way and take the appropriate offensive action to avoid getting flattened.



Steve Doyle,
Brookfield Homes

Optimism is high for '98. Last year saw us experiencing a turnaround and we're just going to build on that. A strengthened economy, growth in the job market and solid consumer confidence have resulted in buyers who are actually out to make a purchase. This seems to be across

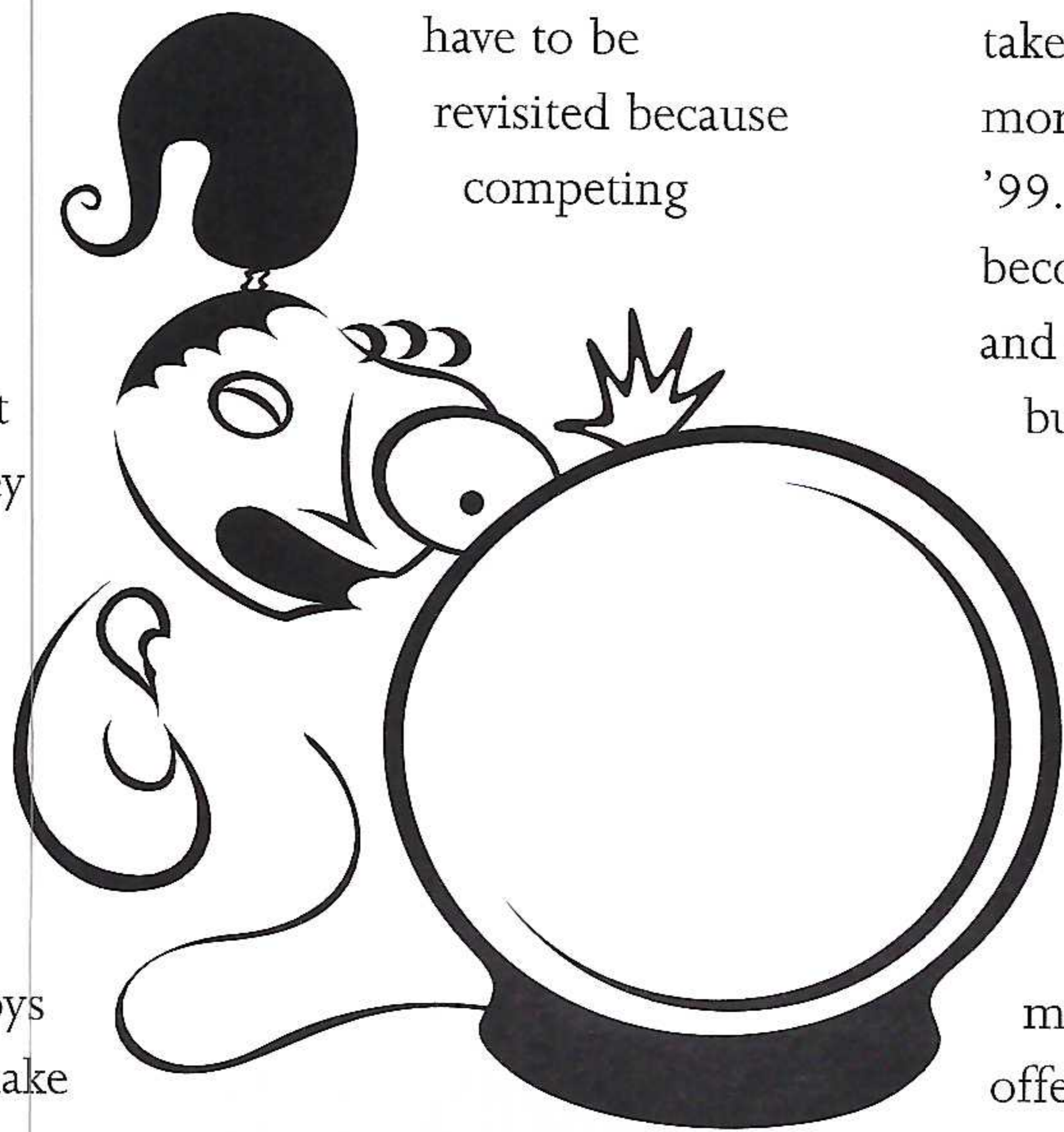
the board, from entry level to the luxury market. Buyers have had and will continue to have more discretionary income.

Buyers are getting much more selective, more discriminating in their tastes. They are not afraid to tell us what they want. Buyers are demanding more customized options to personalize their homes. They will want lots of the latest and greatest high tech toys and design features to make their home a retreat. The advent of the home office is and will continue to be a dominant theme. These trends will continue into 1998 and as long as the discretionary income remains available.

Land prices, without a doubt, will continue to go up. The supply is already constrained and it's only going to tighten up. Construction defect litigation will continue to plague us thus limiting our ability to pursue the needed attached housing products.

We made some real legislative headway in '96 and early '97, but Governor Wilson vetoed a modification to the Calderon Bill (AB 594) in October and we lost the momentum we had going. We are now going to have to revisit some of the same issues we thought we had

dealt with. Similarly, the issue of school fees, despite "yards gained" during the '97 season, will also have to be revisited because competing



coalitions couldn't get together to move forward on this matter.

Building permits will be at their highest for this decade in '98, but even at this new peak, it's not enough for the growth that is occurring in San Diego. We cannot provide affordable housing until we are building at a rate that is consistent with the demand.

The hot positive issues for '98? Staying in touch with the buyer market.

Continuing to reach out and provide value in a product they want where they want it. We need to find the balance between the books and the buyer. Hot negative issues are anything that hinders or delays the affordable house: CDL, permits and fees, school fee reform, MSCP.

Marketing strategies are also going to get more and more sophisticated. Websites, on line tours and take home CDs will be more prevalent in '98 and '99. The technology is becoming more affordable and more practical and builders will take advantage of those additional opportunities to establish one more "memory link."

Overall, we need to maintain a balanced offense, a strong ground game. Rack up those yards by taking little steps one at a time. Keep our passing offense going to keep the defenders on their toes. Stay away from penalties. We will need new product, that "surprise play" that puts us on top.



Ben Bartolotto,
Research Director,
Construction Industry
Research Board

The bottom line is that we have made a very strong come back since the slump of the early '90s. Statewide,

new housing units are up over 60% since 1993. New industrial building has doubled since 1996. It hasn't been this high since 1978. This is excellent since industry is the basis for the local economy, creating spin off jobs, higher employment rates and more revenue. The pent up demand has been released and growth is the result. The recession is receding and things are getting better real fast. The question is, how long can that be sustained?

Statewide the forecast for new housing units shows an increase of 17.3% in '98 and 6.2% in '99.

Notice the slowdown in '99. Statewide growth for the non-residential building will be approximately 4.0% in '98 and 2.0% in '99.

Likewise, there is a projected additional 25,000 construction jobs in 1998 and approximately 10,000 in 1999.

We will see an increase in building permits and their valuations in '98, it just won't be at the same rate of increase as this last year. We will continue to see an increase in commercial building as well. There might be a slight slow down in the industrial sector of the building industry. There is lots of room for growth, not radical jumps, but definitely

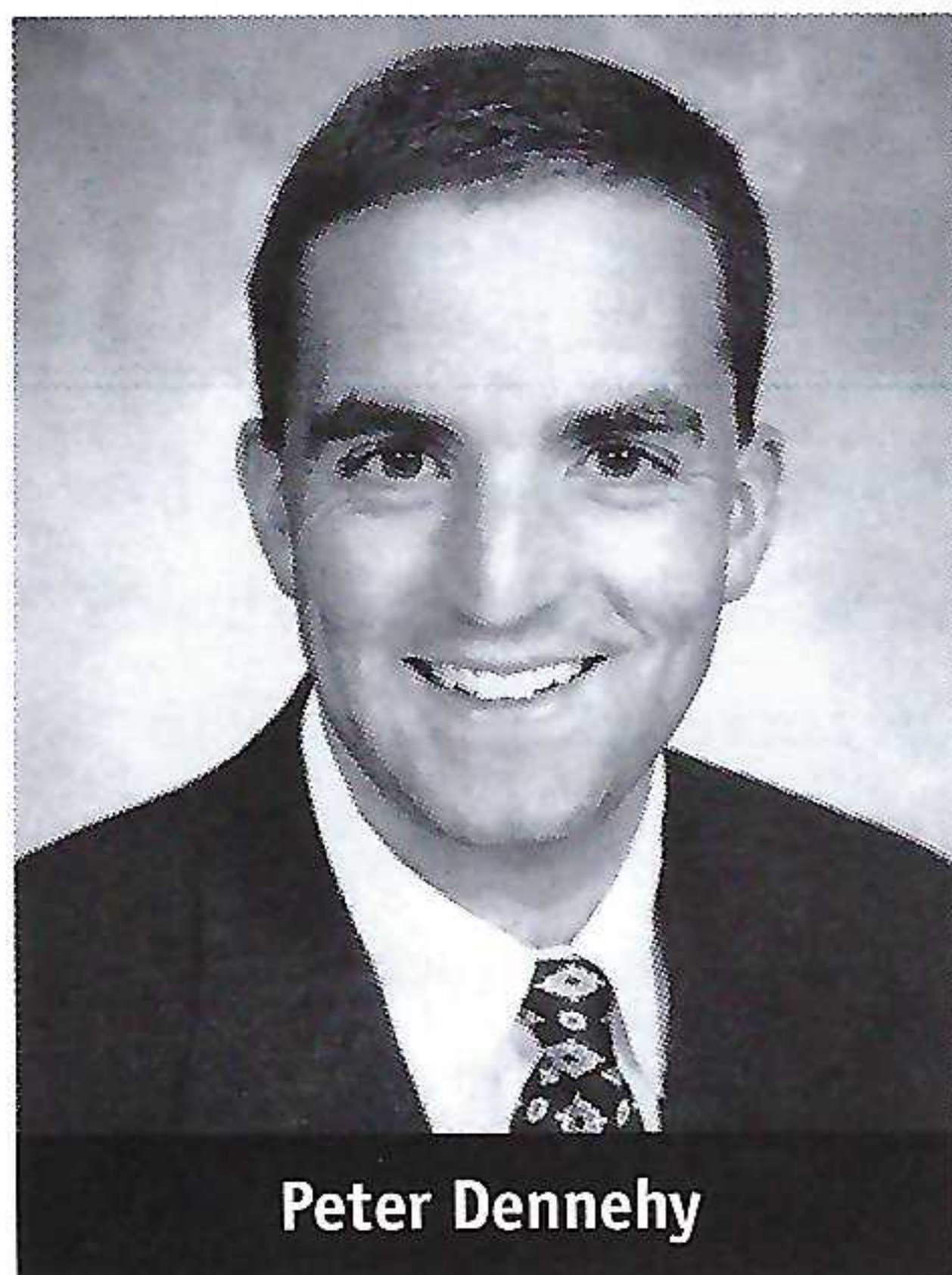
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modest increases in already strong levels of activity.

Last year we were winning by three or four touchdowns. We should be happy with field goals in '98. We will win, but it is more likely to be a closer game with only a few points putting us ahead. Nevertheless, we will still be on the winning side.



Peter Dennehy

Peter Dennehy,
Director of Consulting
Myers Group

The market at the end of '97 was quite healthy and it will absolutely continue in '98. Jobs are being added at a rate of about 20,000 per year, interest rates are stable, consumer confidence is good, there is an availability of product in places that people want to buy it. Unfortunately the latter is not necessarily occurring for the entry-level majority.

Forecasts for 1998 include: There will be approximately 8000 to 8800 new home sales throughout San Diego

County. The median price will continue to trend upwards about five to seven percent from where it is now. One caveat: land prices have gone up 20% to 30% in some areas, so the median price of a new home could be skewed by this.

Consumer confidence is good but it is not out of control like it was in the 80's. I'd say current consumer confidence levels is characterized by a "guarded optimism." Buyers with money to spend are indeed out there, but, there are very real constraints placed upon their ability and willingness to purchase. Skyrocketing home prices will quickly kill the inclination as well as the ability to spend. There is a strong demand for affordable, entry-level housing and it is not being met. I don't see the focus in '98 being on producing the needed levels of product in the lower end price ranges.

The challenges for '98 to be wary of are: maintaining our economic strength, substantially increasing per capita incomes. The gap seems to be widening between income and an affordable home and this could spin out of control in subsequent years. Additional challenges also include dealing with inevitably lower levels of land availability, higher

land prices and consequent higher home prices.

The pent up demand for move up product will continue through '98 and we could price ourselves right out of the market in our short term efforts to snap up immediate profits. The challenge for '98 and beyond is to evolve our strategy so as to experience a winning season year after year, not just go to the Super Bowl once every ten years or so.



Tom Mueller

Tom Mueller, Principal,
Mueller Lewis Concrete

In general, I believe it will be a good year for the whole building industry, particularly the residential housing market. I'm not sure how long that trend will continue uninterrupted.

One specific factor which will contribute to a healthy '98 is the pent up demand for housing that has been released. This will continue in spite of negative factors such as housing affordability, increasing fees, rising costs for land, labor

and materials. Right now, the demand is stronger than the combined effect of these negative trends but ultimately these rising costs will HAVE to affect pricing. We must find a way to achieve a balance between these competing forces of high demand vs high costs.

Construction defect litigation will continue to negatively affect the development of certain products. Also, insurance premiums are going up which makes it more expensive to build attached product. There is and will continue to be a labor shortage. We don't have the qualified bodies who can do specific types of work. Even though we are seeing a rise in employment, it is not in this particular area and I don't see that gap narrowing in '98.

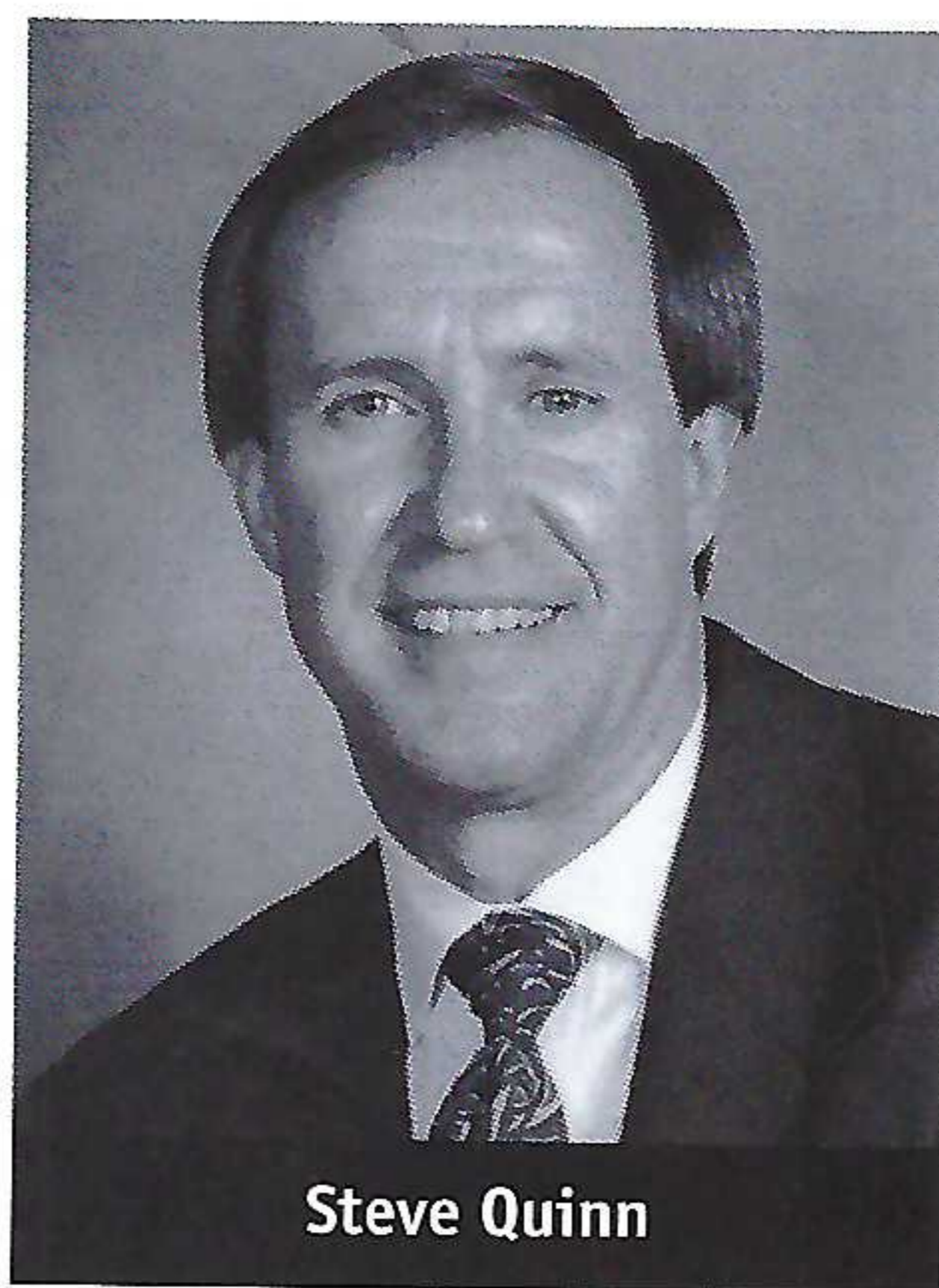
It's possible that condo building will come back slightly. This "wild" prediction is based on a couple of things: legislative efforts have opened the door for the return of this product and this is still being addressed. Additionally, the concept of the "wrap up insurance policy" is growing in the residential industry. The large volume buying power of the builder enables him to have more clout with the insurance company.

There are more apartment projects being pursued which could absorb some portion of the demand for entry level housing. It's also possible that the higher density detached communities, commonly referred to as "patio homes" or "courtyard communities," could grow in response to the need for affordable housing.

One downside to all this expansion is that the environmental extremists, the "no growers," will come back as the housing industry makes its comeback. It will be important for the industry to monitor planning

groups to keep their eye on this situation.

We need a balanced attack, giving our offense and defense equal attention. We are not going to score big points unless we plan ahead. We also need to concentrate on teamwork, members doing business with members. The team needs to evolve a strategy that will keep us in the game as a viable force over time. It is better to be always playing, winning slowly but steadily, than to only play once in awhile when the odds happen to be in our favor. We have to find ways to consistently beat the odds.



**Steve Quinn, President
American Property
Enterprises**

Higher, higher, higher! Higher land prices, higher rents, higher levels of space absorption. These are the banner words for 1998.

The trends for commercial properties are positive in general. Lots of space is being leased and from the

owners' perspectives, this means rising rents. There is evidence of recovery in retail property values. This is good for our economy, for the owners of properties and stores and is a reflection of current economic prosperity. It's all interconnected: industry growth, commercial growth, job growth, population growth and the demand for housing. The relationship between supply and demand is being evidenced right now: as supply diminishes, demand and price go up.

The office building is back as well. The suburban office is becoming the dominant theme. People want to work where they

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**Peter Reeb, Owner,
Reeb Development
Consultants**

When projecting the potential for new home sales, we look at three indicators: health of the local economy, consumer confidence and housing affordability. The first half of the 90s found all three of these low and tending towards the negative. In 1996, the first two turned positive while affordability stayed level. In 1997 this translated to new home sales. In 1998, affordability is going to decline while the other two continue to rise. Because of higher land prices and higher building costs, affordability levels will decrease. I believe that there will be demand for at least 10,000 new home sales. I don't think we'll be able to meet that demand. The generally short supply of land and insufficient attached housing product will preclude our meeting that level of sales. As a consequence, I would project that it would be

hard to top 8500 sales simply because of limits on supply. If there is greater demand than supply, this puts upward pressure on prices which will, ultimately, cause affordability to drop.

On the negative side, as the market heats up again, environmental issues will again come to the forefront. As land is graded for development, the industry becomes more visible and will become the target of environmentalists.

Another negative trend is that the new home market is predominantly benefiting the move up buyer. The short term benefits are obvious and tempting. In the long run, however, this is not healthy for the market as a whole. It's also another reason why we are not going to hit those sales of 10,000. If we had a lot of low end single family homes for sale, we could do it, but that's not going to happen. It costs too much to build a home and builders are going to go for projects that pay.

As more builders come back to the area we are going to see more attached product, although not to the levels seen in prior decades. This product will probably be luxury apartments vs condos, again because the high priced rental units will reap greater pay back. So while the going is good right now, if we don't make

long range plans to address this affordable housing issue, we are going to hit our peak sooner than we should.

This is not the year to be conservative. Run up as many points as you can against a weak opponent. Take advantage of the strengths your team has; take advantage of opponents' weaknesses. The profit potential is finally there. Always go for the two-point conversion whenever possible. Maximize your opportunities. However, we also are going to need a long range game plan that keeps us a contender year after year.

Fans and followers agree: this next season is going to be a banner year for the building industry. The consensus also seems to be that the team better not get so carried away in the excitement of the moment that they lose sight of the inevitable defensive response. If we fling

ourselves headlong down the field to score the big touchdowns without balanced long range offensive and defensive strategies, we may find ourselves sitting on the sidelines sooner than we ought. Play on! 🏈

Pattinson

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Advancement Foundation and the Citizens Against Lawsuit Abuse.

Pattinson began his career with Barratt in 1976 in Southern England, coming to California in 1983 as the company's Marketing Director. After a brief return to the U.K. in the late 80's, he came back to California in 1991 to begin the consolidation of Barratt American's three divisions into a single operation, headquartered in the city of Carlsbad. The company is currently building in the counties of Orange, Riverside, and San Diego. 🏠

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