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Report predicts further housing slide

By: CHRIS BAGLEY - Staff Writer

The burst of a real estate bubble could lead home prices to slide as much as 18 percent over the next four years, a Southern California economist argued in a report released Wednesday.

Prices could also begin to recover next year, according to a "best-case" scenario outlined in the report, but weaker consumer spending and a continuing rise in foreclosures make that less likely, said Christopher Thornberg, a co-author of the report. A regional economist not connected to the report disagreed, saying the region's growing economy makes the best-case scenario much more likely.

The recent proliferation of risky mortgage loans leaves plenty of room for uncertainty, said Thornberg, a consultant and former economist for the respected UCLA-Anderson Forecast.

The rate of mortgage defaults has risen sharply since 2006, with Riverside County's number of foreclosure-related legal filings nearly doubling to about 6,900 in the first three months of this year, according to one research firm.

Thornberg said that number probably will continue to rise to the point where it severely undercuts home prices. Median prices have fallen in the last year by 1 percent countywide, to $409,000, and more dramatically in several areas of Southwest County. Trends are even more dramatic when viewed over only the last six months, Thornberg said.

Most homeowners who have recently sold houses that they held for more than three years are walking away with healthy gains, and prices are more than double what they were six years ago. But such appreciation simply isn't sustainable, Thornberg said.

"Prices relative to incomes are just ridiculously high," he said. "Clearly, prices must fall. The question is how fast. It depends on the rest of the economy."

While recent U.S. Census data show incomes rising between 5 percent and 6 percent a year in Riverside County, local home prices were rising at annual rates of 10 percent to 30 percent until last year.

Citing such discrepancies and other economic data, a study by Global Insight, a forecasting firm, concluded in March that home prices here and in neighboring San Bernardino County should be about 38 percent lower, a discrepancy surpassed in only seven U.S. metropolitan areas.

On the upside, Thornberg and other economists cite state government data showing unemployment in the two-county area at just 5 percent in April, near an all-time low. And the region is creating jobs remarkably quickly, which in turn creates demand for houses.

If that situation continues, housing prices will probably bottom out this year and stay stable through 2010, Thornberg and Mark Schniepp of the California Economic Forecast argued in the report.

John Husing, an economist who advises several city governments in the two counties, said that scenario is more likely. Inland housing markets draw their strength not only from local economies, but also from business activity in larger cities along the coast, Husing said. Many economic studies fail to take that into account, he added.

"We're a piece of a much larger market," Husing said. "More than half of the effect on our markets are people who work in Los Angeles, Orange or San Diego."

Thornberg said the future will become clearer early next year. Consumer spending accounts for roughly two-thirds of the nation's economy, and it has taken on particular importance in areas with particularly fast home appreciation, such as Riverside County, Thornberg and other economists have said.

The most recently available data don't show any significant drops in consumer spending. Thornberg said he expects such a drop in the second half of this year, as more consumers suddenly realize that they can no longer spend money as if their homes were appreciating by $50,000 a year. Depending on its scope locally, other sectors of the local economy may or may not be affected, he said.

Also unclear is the extent to which a decline in home sales is affecting the local industry.

Riverside County's government has been issuing just 30 percent to 45 percent as many residential building permits as it was a year ago, according to industry figures. So far, construction of commercial and industrial buildings has kept the industry's payrolls steady, according to state data. But those figures don't account for individual contractors and under-the-table workers, Thornberg said.

Better indicators of the construction job market are the growing lines of day laborers in front of local hardware stores, Thornberg said.

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Comments On This Story

Note: Comments reflect the views of readers and not necessarily those of the North County Times or its staff.

Jack wrote on Jun 7, 2007 6:55 AM:
" 38% drop is HUGE! If your house is "worth" $600k today, that means it will be worth about $372,00 by next year Time to fire your expensive realtor and put out your For Sale by Owner sign. Bwahahahahahahah "

Concerned-1 wrote on Jun 7, 2007 9:32 AM:
" I know it's in the media's nature to report the worst case scneario when ever it can, but you have to ask yourselves: what is news? I find it hard to believe that home prices will continue to fall over the next four years. It could happen, but I'm personally sceptical. The point is the media does affect consumer spending, and publishing a report like this does not do the economy any good. Should have left it on the table until something factual transpires, then refer to it. And, NCT, in this doomsday scenario guess who will be one of the first businesses to go under? You can thank yourselves for that. "

JoePonzeee wrote on Jun 7, 2007 5:01 PM:
" It is never the job of the journalist to "analyze" and "spin" the news so-called "trying to make sense" out of it. Just report it and zip it. Let the readers interpret what all of this means... "

Dave wrote on Jun 7, 2007 5:13 PM:
" It was the news media/realtor hype that drove prices so high in the first place, so it's fitting that bad news is now serving to drive prices back down. "

foursquare wrote on Jun 7, 2007 11:28 PM:
" News account writers generally seek a story that will gain and keep readership for numbers to please advertisers who pay news outlet companies for advertising space. Hence, more readership means more advertising dollars for these news companies. If you believe a dynamic other than the profit motive sets story content, then you only dupe yourself. Exceptions to this rule exist, but overall, news outlet companies must sell advertising space for the revenue to stay in business, exerting a slant on stories toward attention-getting. Under this regime, straight reporting tends to take a back seat. "

Bill D. wrote on Jun 8, 2007 8:49 AM:
" Thornberg was saying only 18% over 4 years, personally think it will be more than that, especially when you consider inflation i.e. A constant price in an inflating monetary system is equivalent of a reduction The media