

Southland home sales and prices plummet

Southland purchases in September fall nearly 50% from a year earlier. Prices drop overall, but L.A. County's rise 1.2%.

By Peter Y. Hong and Maura Reynolds
Los Angeles Times Staff Writers

October 17, 2007

Home sales in Southern California plummeted in September to a two-decade low, and a rash of grim housing-market assessments Tuesday suggested the worst is yet to come.

"We're on our way down and still picking up speed," said Christopher Thornberg, a Los Angeles-based economist who four years ago warned that the pace of housing price gains in the region couldn't be sustained.

The gloom extended to Washington, where Treasury Secretary Henry M. Paulson Jr. called the U. S. housing downturn the "most significant current risk to our economy." Paulson echoed a prediction by Federal Reserve Chairman Ben S. Bernanke on Monday that the slump would be a "significant drag" on economic growth into next year.

Adding to the sobering picture, the National Assn. of Home Builders said its builders' confidence index hit a record low. The index, which tracks builders' views of market conditions and sales expectations for the coming six months, fell to 18 from 20 in August. It has been below 50 -- above which indicates a positive industry outlook -- since May 2006.

In Southern California in September, home sales in six counties -- Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura -- fell 48.5% from the same month last year. They were at their lowest since DataQuick Information Systems, a real estate service, began compiling such statistics in 1988.

The median price in five of the counties slipped, and in Los Angeles County it moved up only 1.2%.

The relatively high price of property in L.A. County can prop up the region's median -- the point at which half the homes sell for less and half sell for more -- even as overall sales fall.

Garden Grove real estate broker Patrick Schwier, who specializes in apartment buildings, said he had sold 70% fewer buildings this year compared with the same period in 2006, and recently saw one sale fall through when the potential buyer's loan application was rejected.

Schwier said he saw two more years of falling sales and prices.

"Prices were too inflated when credit was easier," he said, and now home prices, though they've been slipping, still "don't make sense. And they will drop until they make sense."

DataQuick President Marshall Prentice blamed the declines on the trouble people had last month obtaining jumbo loans, which are for more than \$417,000 -- loans many buyers need to purchase property in Southern California, where the median price in September was \$462,000.

"It's likely there will be some catch-up sales activity as jumbo loans become available again," Prentice said.

Delores Conway, director of USC's Casden Real Estate Economics Forecast, said September sales were probably hurt by tighter lending standards that went into effect in August in response to the sub-prime mortgage meltdown. But she said weak sales and prices also showed the market was correcting itself after years of surging prices.

Los Angeles mortgage broker Mitchell Ohlbaum, however, said that although jumbo financing was tougher to obtain for many of his clients, all were able to finance their purchases.

"We had some challenges, but we were able to get them done," Ohlbaum said.

Thornberg discounted the overall credit squeeze's effect on the housing market. He said housing prices, pumped up for years by questionable mortgages, had to drop considerably.

The median income of L.A. County homeowners, he said, is at 60% of what's required to buy a median-priced home in the county, assuming a housing budget of 35% of gross income.

Many people have mortgages they can't afford, such as those that start with a very low "teaser" interest rate that rises dramatically over time. When those loans reset at higher rates -- as many are scheduled to next year -- the market could be in for another shock as more over-extended homeowners go into foreclosure.

"This thing's going to get worse when the peak of resets occur next year," Thornberg, the L.A. economist, said. His prediction: Southern California sales and prices will decline into 2009.

In Washington, Paulson said, "The longer housing prices remain stagnant or fall, the greater the penalty to our future economic growth."

The Treasury secretary said the government should take some steps, such as nationalizing standards for the licensing and monitoring of mortgage brokers, which could clamp down on

predatory behavior by unethical lenders. But he stressed that there was no call for a government bailout.

"When investors are relieved of the cost of bad decisions, they are more likely to repeat their mistakes," Paulson said in a speech at Georgetown University Law Center. "I have no interest in bailing out lenders or property speculators."

Paulson has urged private-sector action, calling a meeting last month to discuss bond-market troubles. Three big banks announced plans Monday for an \$80-billion fund to buy bonds whose values have plummeted in the wake of the credit crunch induced by the sub-prime mortgage troubles.

The comments he made in the speech at Georgetown marked a change in tone by the administration.

Until now, President Bush and his advisors had suggested that the problems appeared to be contained to the housing sector and would not trigger a recession.

Mickey Levy, chief economist at Bank of America Corp. in New York, said Paulson's giving a speech about housing was enlightening.

"The fact that he addresses this issue reflects heightening concern by the administration regarding the implications for the rest of the economy of the housing downturn and the growing problem with housing finance," Levy said.

Ken Goldstein, an economist with the Conference Board in New York, countered that as bad as the situation might be now, "it's not intensifying."

"My view is that indeed, we're mired in a slump in housing. I don't really think it's getting much worse," Goldstein said. "But I do agree it will take until 2009 until we start to see housing improve a little bit."

The bad news continued Tuesday as Countrywide Financial Corp., the nation's largest mortgage lender, reported it would take a pretax restructuring charge of \$125 million to \$150 million to cut expenses because of slower lending. The Calabasas-based mortgage giant said it might cut 10,000 to 12,000 jobs.

D.R. Horton Inc., the nation's second-largest home builder, said its new-home orders fell to a six-year low in the third quarter because of customer cancellations and tighter financing.

peter.hong@latimes.com

maura.reynolds@latimes.com