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From the *Los Angeles Times*

**THE BIG FIX****Realty reality: Housing prices are headed way down**

Southland house prices have risen past sustainable levels for most homeowners.

By CHRISTOPHER THORNBERG

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In 2002, the median price of a single-family home in Los Angeles was \$270,000 and the median homeowner's income was \$65,000. With a \$50,000 down payment, the annual cost of that house (taxes, insurance and payment on a 30-year fixed-rate conventional mortgage) would add up to about 33% of the median household's income -- just under the 35% mark that the Federal Housing Administration calls the upper limit of "affordable."

By 2006, the cost of that same house doubled, to \$540,000 -- pushed by unbridled speculation fueled by unparalleled access to mortgage capital. But median income rose a paltry 15%. So today that same set of costs come to 60% of gross income.

That might be a manageable burden when home prices are rising at double-digit rates, creating new equity that can be accessed to support spending -- but not when prices are flat and the home-equity ATM is closed.

There are "experts" out there who once preached that there was no bubble; they now preach that all real estate is local and that prices in your neighborhood won't be affected by foreclosures and price declines elsewhere.

The cold, hard truth is that foreclosures are serving only to hasten the painful process of shifting housing prices back to a level the market can sustain. Prices must and will fall. Everywhere. Probably 25% to 30% from their peak.

2008 is the year when gravity will reassert itself. You should be adjusting your expectations of your home's value so that it's correctly aligned with market realities. And when making important financial decisions today, be realistic and factor those declines in.

Christopher Thornberg is a founding partner with Beacon Economics.

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