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REAL ESTATE: More pain coming in housing market

By CHRISTOPHER THORNBERG - For the North County Times

Although there are some promising signs in the housing market for San Diego and Southwest Riverside Counties, more pain is coming.

Foreclosures and general economic malaise will continue to take their toll. Consequently, potential homebuyers don't need to be in a hurry to find that first home or move up into a larger one: Once the market hits bottom, it won't be bouncing back anytime soon.

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The housing boom-bust was and is driven by two major factors: Families buying homes they couldn't afford in a speculative frenzy, enabled by a mortgage industry that lost any sense of underwriting standards, along with a recession that has turned into the worst we've seen since the end of World War II.

The first part ---- unqualified buying ---- pushed prices in San Diego County to levels that were unsustainable by any measure when compared with income. Prices had to fall 40 to 45 percent from their peak just to get back to historical levels of affordability.

The pace of foreclosures in the region has moderated in recent months, but only because banks have not kept up with the huge growth of seriously delinquent mortgage loans, which hit 4.5 percent of all loans in the fourth quarter of 2008, according to the Mortgage Bankers Association.

On top of this, the traditional source of mortgage problems ---- unemployment ---- has revved up as the recession has come into full play. These things add up to a market that won't bounce, but will splat.

Is there any good news? The declines in prices to date have been more than 40 percent in San Diego since the housing boom peaked.

This, combined with falling interest rates, has started to bring buyers back into the market, and sales have risen sharply in recent months. Since liquidity leads prices, this is an important sign that we are nearing the bottom.

Beacon Economics forecasts that home prices will fall by another 10 to 15 percent (to a median price of \$301,000) by the first quarter of 2010.

And there is good news for new homebuilders: The local economy doesn't have an excess supply of housing units. We expect permit growth to move into positive territory by the third quarter of this year as the inventory of unsold homes continues to decline and incentives from the federal and state governments bring in new buyers.

Just don't expect a quick revival of the previous boom. Be patient, and wait for prices to gradually rise to early 2007 levels by late 2015.

Of course, different local areas are seeing slightly different trends. It's more difficult to find silver linings for Southwest Riverside County, which relied more heavily on jobs in neighboring San Diego and Orange counties to provide the fuel for its own supercharged housing bubble.

Consequently, according to preliminary forecasts that Beacon Economics will present on Tuesday at the University of Redlands, the rebound for the Inland Empire's housing market will be much more muted, with resale home prices at the end of 2015 matching those of mid-2008 ---- a time when prices had already fallen by 34 percent from their 2007 peak.

And within both counties, the correction will not necessarily be uniform.

For example, San Diego's coastal Interstate 5 corridor is seeing fewer foreclosures and less pricing pressure than along its more inland Interstate 15. But this doesn't mean the coast is immune to bigger declines, especially as job losses, equity market declines, and loan defaults increasingly affect higher-income households.

The market will take time to recover, but recovery is a given.

And though none of us likes watching our home values drop, lower prices will actually be a boon for the economy. During the bubble, California was effectively priced out of the national labor market, and businesses struggled to stay competitive as housing affordability for employees disappeared.

The return of affordability will make the state attractive to employers and employees once again. Patience is the name of the game, and in the long run, the outlook for the local housing market is bright.

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