

## Real estate & development in the northern rockies

# Thornberg: 'Trouble on the Horizon' for Real Estate Market

By Matthew Frank, 10-25-07

Last year at NewWest.Net's first Real Estate and Development conference, regional economist Chris Thornberg, a founding partner of [Beacon Economics](#), was on the money, predicting many of the recent developments in the real estate market. So during this morning's keynote address at the second annual conference, the audience of 300-plus at the Hilton Garden Inn in Missoula was all ears.

For the housing market and the economy in general, the forecast doesn't look good: things are going from bad to worse, Thornberg said. "Trouble is on the horizon."

To start out, though, Thornberg said a few words about forecasts. The first rule, he said, is that forecasts are always wrong and good forecasters are *less* wrong. The second rule is that forecasts are all about *trends* and *bends*.

The 2001 economic downturn was a bend, the result of an imbalance between non-residential investment and corporate profits. The gap between the two created the so-called bubble, the increase in real estate values to unsustainable levels relative to other economic elements. But the downturn was mild, he said, in part because there was no housing cycle and no consumer cycle, and remarkably unique: it was all on the business side of the economy, and the consumer didn't follow.

Good news about trends, Thornberg said, is that "for every slow down, there's a speeding up."



Christopher Thornberg of Beacon Economics delivering his keynote address at NewWest.Net's second annual Real Estate and Development in the Northern Rockies conference in Missoula.

Photo by Yogesh Simpson.

Where are we today? Well, Thornberg offered a summary: First, as one of his slides read, “The ‘bear-come-latelys’ came out in force in August...and went back to hibernating in September!!” In addition, a mass of graphs showed that GDP growth is rebounding, and the labor markets are still tight; industry is stable; and equity markets are turbulent but have solid fundamentals.

Thornberg then localized the discussion a bit and looked at regional population and GDP growth. All of the Rocky Mountain states are growing (Idaho the fastest at a net rate of 11.8 percent), and the economies are robust. Unemployment rates continue to dip while worker income growth is generally rising.

Montana, in particular, is growing faster than the rest of the country, with growth driven by shift toward more productive occupations.

What about the bubble? Thornberg said the bubble popped in late 2005, which saw a drastic drop in existing home sales and housing permits. One of the questions is whether the bubble would have a hard or soft landing. He said there are four general reason why the housing market was *never* going to have a soft landing: housing markets don’t bounce, there was massive appreciation, the mortgage meltdown (and the worst is to come), and the rest of the economy, which isn’t doing so hot.

Thornberg said that as a nation we’re consuming five to six percent more than we’re producing. Perhaps we should go to Wal-Mart and say, “You have to raise your prices because I can’t control my spending,” he quipped.

How’s the third quarter shaping up? Data from a couple weeks ago showed that in September retail sales in the U.S. were up at the slowest rate in five months. In addition, he said, the labor market is slowing. Not good.

Thornberg left the audience with a few final thoughts. First, the Feds can’t help the housing problem, the president can’t either, but Congress can, he said: They can adjust bankruptcy law to include housing assets, which would reduce foreclosures, but perhaps cause all sorts of other disasters.

Overall, Thornberg’s real estate outlook isn’t rosy. He said that prices will continue a slow decline through 2007 and 2008, with the speed dependent on the rest of the economy. Sales markets, he said, new and existing, will get colder and stay cold for some time. And mortgage markets will get much worse—the reset peak will hit in the middle of 2008, he said.

For 2008, Thornberg said: Recession is almost certain, there will be a local impact (Idaho will most likely feel a direct pinch, Colorado somewhere in the middle, Montana less so), and

investment property demand will be driven by rest of the country.

Stay tuned to [NewWest.Net/RealEstate](#) for more from the second annual Real Estate and Development in the Northern Rockies conference.