
Job losses mount as real estate declines

By QUINN EASTMAN - Staff Writer

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Regional unemployment has been rising, hitting 4.8 percent in July compared to 4.6 percent nationwide. Economists who track Southern California said last week that because of reliance on the business of buildings during the last few years of economic growth, the region has little choice but to feel the pain now.

In California, construction and real estate represented just over 8 percent of the jobs in 2006 and 30 percent of the jobs gained since 2002 ---- more than any other state.

"No other state came close to California's reliance on real estate as an engine of growth," University of California, Los Angeles, economist Ryan Ratcliff noted in a recent report on the state's economy.

On top of that, the San Diego region relies on construction and real estate related jobs more than the rest of the state, according to figures from the state Employment Development Department.

In 2006, construction and real estate related jobs represented 9.5 percent of the jobs in the San Diego region and 27 percent of jobs gained regionally since 2002.

Several analysts saw a crunch coming. Job growth over the last few years, combined with limits on new building, led to ever more expensive homes, whose prices didn't keep up with wages.

Home buyers chose riskier mortgages with more flexible terms. So when the mortgage market soured, San Diego County was exposed.

"(Unemployment in) the rest of the U.S. economy will catch up before unemployment in the San Diego region falls back down," said Chris Thornburg, a principal at the Beacon Economics consultancy in Los Angeles. "It's because California was on the cutting edge of sub-prime lending."

In the first six months of this year, 36 percent of all mortgages were originated in San Diego County required borrowers to pay only the interest or actually allowed the debt balance to increase each month, according to First American, a mortgage services firm.

Out of those, the share of such "alternative" mortgages in the San Diego region that were at risk ---- two months delinquent or heading into foreclosure ---- was 19.5 percent, just under the Riverside/San Bernardino area and less than Stockton and Sacramento, Thornburg found.

Mortgage woes spill over

He said he expected California's unemployment rate to rise to 6.5 percent or 7 percent over the next year before coming down again, with San Diego County reaching 6 percent during that period.

Trouble in the mortgage market hits the local economy in several ways, Thornburg said.

Job cuts in construction, real estate and finance cause the resulting unemployed workers to cut back their spending.

An important but indirect effect, he said, is that people who can't extract cash out of their homes by refinancing put off remodeling their kitchens or buying new cars.

But so far, the region's trouble with mortgages hasn't translated into more general consumer problems, such as more bankruptcies and credit-card delinquencies, several local economists said.

"An outright downturn is not expected, but the possibility of a recession in the local economy is at its highest point in years," according to University of San Diego economist Alan Gin's most recent economic forecast.

Bankruptcy filings heading up

At the same time, the rate of bankruptcy filings in San Diego and Imperial Counties is rising, according to data supplied by the Southern District of California's bankruptcy court, which oversees the two counties.

At around 700 per month, the current bankruptcy filing rate is about 50 percent higher than a year ago but hasn't reached the 1,000-per-month level of 2004, a time when the housing market was still climbing.

Just before a stricter federal bankruptcy law took effect in October 2005, local bankruptcy filings reached an unusual peak and then fell dramatically afterwards, chief clerk Barry Lander said.

Nowadays, a bankruptcy filing may represent an alternative to foreclosure rather than an

unfortunate event that usually takes place along with it, he said.

Relying on real estate

The San Diego region did not rely on construction and real estate-related jobs as much as the Riverside and San Bernardino areas, where they represented almost 12 percent of the jobs in 2006. But it's more than the Los Angeles and Long Beach areas, where they made up less than 6 percent of the employment mix.

The region's reliance on real estate came partly because growth in other sectors was feeble, economists said.

"Part of the exaggerated importance of real estate jobs during this period was due to weak job creation in the non-real estate sectors in the wake of the 2001 recession," the UCLA report says.

Despite the local economy's emphasis on real estate, the area's relatively pricey homes could mean the region will avoid the worst of the mortgage troubles, the report says.

Foreclosure rates are highest in counties such as Riverside and San Bernardino, where buyers enjoy moderate home prices yet rely heavily on adjustable-rate mortgages. The combination is a sign of working families overstretching to buy a home, the UCLA report says.

In San Diego County, the volume of foreclosures per month has tripled over the past year, according to the Web site of the Pennsylvania firm Default Research Inc. However, the rate per capita over the last four months here is half that in Riverside and two-thirds that in San Bernardino counties.

Spread the risk, economists say

During the painful recession of the early 1990s, job losses in construction and real estate also played a large role, alongside hits to aerospace and manufacturing.

In 1992, the statewide unemployment rate hit 9.5 percent, and San Diego County's exceeded 7 percent.

After that deep recession, the regional economy became less dependent on aerospace and defense-related business. Tourism, biotech, agriculture, communications and sports equipment are all playing supporting roles as "tradable clusters," according to a recent report by the San Diego Association of Governments.

But such diversity might not be enough to sustain future growth, economists say.

Over the past year, San Diego County has gained more than 7,000 leisure and hospitality jobs even as 5,200 construction jobs were lost, according to state figures.

Gabriel Renteria, an economic analyst at the regional association, called this an example of an "disturbing trend": exchanging low-paying for high-paying jobs.

The weakening dollar ---- the euro recently passed \$1.40 ---- may help export-oriented industries such as communications and sports equipment, but those sectors can't add jobs quickly enough to compensate for the loss of construction and real estate jobs, Thornburg said.

"Other sectors will pick up some slack, but it will take time," he said.

Some construction jobs will remain in North County because of big government projects such as highway widening and hospital construction, he said.

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Fast Facts

JOB GROWTH: Fears that the country could slide into a recession eased in September, as employers created the most jobs in four months and workers' wages grew solidly.

UNEMPLOYMENT: The unemployment rate crept up to 4.7 percent, the highest in more than a year but still low by historical standards.

MARKET EFFECT: Wall Street breathed a sigh of relief. The Dow Jones industrial closed up 91.70 points. The Standard & Poor's 500 index, the measure most closely followed by market watchers, reached a new closing high.

---- The Associated Press

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