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## Report predicts further housing slide

By: CHRIS BAGLEY - Staff Writer

The burst of a real estate bubble could lead home prices to slide as much as 18 percent over the next four years, a Southern California economist argued in a report released Wednesday.

Prices could also begin to recover next year, according to a "best-case" scenario outlined in the report, but weaker consumer spending and a continuing rise in foreclosures make that less likely, said Christopher Thornberg, a co-author of the report. A regional economist not connected to the report disagreed, saying the region's growing economy makes the best-case scenario much more likely.

The recent proliferation of risky mortgage loans leaves plenty of room for uncertainty, said Thornberg, a consultant and former economist for the respected UCLA-Anderson Forecast.

The rate of mortgage defaults has risen sharply since 2006, with Riverside County's number of foreclosure-related legal filings nearly doubling to about 6,900 in the first three months of this year, according to one research firm.

Thornberg said that number probably will continue to rise to the point where it severely undercuts home prices. Median prices have fallen in the last year by 1 percent countywide, to \$409,000, and more dramatically in several areas of Southwest County. Trends are even more dramatic when viewed over only the last six months, Thornberg said.

Most homeowners who have recently sold houses that they held for more than three years are walking away with healthy gains, and prices are more than double what they were six years ago. But such appreciation simply isn't sustainable, Thornberg said.

"Prices relative to incomes are just ridiculously high," he said. "Clearly, prices must fall. The question is how fast. It depends on the rest of the economy."

While recent U.S. Census data show incomes rising between 5 percent and 6 percent a year in Riverside County, local home prices were rising at annual rates of 10 percent to 30 percent until last year.

Citing such discrepancies and other economic data, a study by Global Insight, a forecasting firm, concluded in March that home prices here and in neighboring San Bernardino County should be about 38 percent lower, a discrepancy surpassed in only seven U. S. metropolitan areas.

On the upside, Thornberg and other economists cite state government data showing unemployment in the two-county area at just 5 percent in April, near an all-time low. And the region is creating jobs remarkably quickly, which in turn creates demand for houses.

If that situation continues, housing prices will probably bottom out this year and stay stable through 2010, Thornberg and Mark Schniepp of the California Economic Forecast argued in the report.

John Husing, an economist who advises several city governments in the two counties, said that scenario is more likely. Inland housing markets draw their strength not only from local economies, but also from business activity in larger cities along the coast, Husing said. Many economic studies fail to take that into account, he added.

"We're a piece of a much larger market," Husing said. "More than half of the effect on our markets are people who work in Los Angeles, Orange or San Diego."

Thornberg said the future will become clearer early next year. Consumer spending accounts for roughly two-thirds of the nation's economy, and it has taken on particular importance in areas with particularly fast home appreciation, such as Riverside County, Thornberg and other economists have said.

The most recently available data don't show any significant drops in consumer spending. Thornberg said he expects such a drop in the second half of this year, as more consumers suddenly realize that they can no longer spend money as if their homes were appreciating by \$50,000 a year. Depending on its scope locally, other sectors of the local economy may or may not be affected, he said.

Also unclear is the extent to which a decline in home sales is affecting the local industry. Riverside County's government has been issuing just 30 percent to 45 percent as many residential building permits as it was a year ago, according to industry figures. So far, construction of commercial and industrial buildings has kept the industry's payrolls steady, according to state data. But those figures don't account for individual contractors and under-the-table workers, Thornberg said.

Better indicators of the construction job market are the growing lines of day laborers in front of local hardware stores, Thornberg said.

-- Contact staff writer Chris Bagley at (951) 676-4315, Ext. 2615, or [cbagley@californian.com](mailto:cbagley@californian.com).