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Home prices still falling, but not as fast

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Home prices are still falling fast, but not quite as fast as they were in January.

For the second month in a row, national and local real estate declines backed away from the record territories established at the outset of the year, according to the closely watched Standard & Poor's/Case-Shiller Index released Tuesday.

Industry observers attribute the moderating price drops to growing eagerness among buyers and investors to take advantage of bargains. But few see the market bottoming in the near future, and many worry that rising unemployment and foreclosures could still undermine any nascent recovery.

"If you're waiting for prices to come up, you've got quite a while to wait," said David Blitzer, managing director at S&P, who said the trends would have to hold for months before it becomes clear that any meaningful shift has occurred. "We're at the very beginning of a process."

The Case-Shiller 10-City Composite Home Price Index dropped 18.6 percent from a year ago in March, nearly a percentage point less than the record decrease of 19.4 percent two months earlier. The improvement wasn't equally distributed, however, with more than half of the regions tracked by the index still showing deepening declines from last year's levels.

The San Francisco metropolitan region plummeted 30.1 percent, compared with its record fall of 32.4 percent in January. It was the third-largest decline among the monitored areas in March, after Phoenix (36 percent) and Las Vegas (31.2 percent).

Movements on the index, released the last Tuesday of each month by New York credit rating agency S&P, are designed to correlate to actual price gains or declines for existing single-family homes. The Bay Area's decline, which was down 2.2 percent from February, represents the composite change in Alameda, Contra Costa, Marin, San Francisco and San Mateo counties.

"We've hit an inflection point where prices are no longer freefalling, but they're still falling a lot,"

said Patrick Newport, economist with IHS Global Insight in Lexington, Mass.

He said home prices will probably fall a further 5 to 15 percent, bottoming out sometime in 2010, but added that no one can accurately predict because of the volatility in the economy.

The housing market is particularly vulnerable to increasing foreclosure rates - and some signs suggest they could spike in the months ahead. The number of mortgage default notices issued to California homeowners, which often lead to foreclosures several months later, reached record levels in the first quarter, up 19 percent from a year earlier, according to San Diego research firm MDA DataQuick.

A separate report on Tuesday showed that home construction continued to decline throughout the state in April, with permits down 52 percent from a year ago and 12 percent from March, according to the Construction Industry Research Board. Single-family permits were actually up 21 percent from the prior month, but the overall figure was dragged down by a 48 percent plunge in multifamily permits.

Robert Rivinius, chief executive officer of the California Building Industry Association, seized on the kernel of positive news in the single-family realm as evidence that a \$10,000 state tax credit for buyers of new homes is working and should be extended. The organization, which says that two-thirds of the funds have been allocated, is lobbying legislators for an additional \$200 million.

"The tax credit enacted in March is having the desired effect of stimulating home sales and clearing out inventory, which is helping to generate new construction and put people back to work in the process," Rivinius said in a statement.

Others argue that it's irresponsible for California, nearing the brink of financial insolvency, to offer hundreds of millions of dollars in tax credits to buyers of only new homes. Such a policy encourages new construction in a market where foreclosures are still rising and prices continue to fall, said Chris Thornberg, principal with Beacon Economics in Los Angeles.

"It's so stupid it's amazing to me," he said. "We have an enormous supply of excess foreclosed homes that need to be dealt with, and they should be focusing on that."

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