

Home prices likely to drop until 2009

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Article Launched: 04/14/2008 01:06:40 PM PDT

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Many Bay Area home prices will likely be lower in two years, the country's second-largest mortgage insurance company reported.

The Walnut Creek-based PMI Mortgage Insurance Company released its quarterly risk index, analyzing year-end federal data and ranking metropolitan areas on the likelihood of prices dropping. Fourteen of the high-risk areas were in California, Florida, Nevada and Arizona.

"We basically assess risk at every metropolitan statistical area in the country and whether that risk will be higher or lower in two years," said Nate Purpura, spokesman for PMI.

In the highest-risk rank was the Inland Empire of Riverside and San Bernardino counties (93.2 percent) and greater Las Vegas (91.9.) The East Bay (63.8), Orange County (80.6), Los Angeles (77.2), San Diego (72.7) and Miami ((61) were also included.

Smaller metro areas like Solano County (66.0) and San Joaquin County (92.0) were also included in a larger release. Santa Clara County was ranked 2 with only a 51.1 percent risk of prices dropping, while San Francisco and San Mateo were ranked 3, and a 30.2 percent of prices falling in two years.

Although the San Francisco metro area is still relatively low, PMI reported that its risk rose 5.8 percent from the quarter before. "Within every MSA there will be areas that perform better and worse," Purpura said.

The report, used by banks, Realtors and insurance companies to assess risk, is a popular resource for the housing and lending industry, he said. The index is based on data from the Office of Federal Housing Enterprise Oversight, which said that California had the highest year-over-year decline of any state, said a report by the Center for Continuing Study of the California Economy.

"No one really has any idea where house prices will be in two years," said Jed Kolko, senior research fellow at the San Francisco-based think tank, Public Policy Institute of California. "It's pretty unusual for house prices to decline in an area, but when they do, it tends to be a long, slow decline."

Kolko said that because the housing crisis wasn't triggered by an industry collapse, like in the 1990s in Southern California, there really isn't much research on a possible outcome. He said other factors like the weak dollar and tightened lending are affecting the economy, but the effect on employment is less straightforward.

"There will be places where jobs are lost which won't always be the same place homes are lost," he said.

Stephen Levy, director of the Center for Continuing Study of the California Economy in Palo Alto, said that while he expected prices to go down for the remaining year, he didn't agree there would be a continued drop until the end of 2009.

Isolated areas like East Contra Costa, San Joaquin and Solano counties may already be nearing the end of their correction because those areas already have been cycling through it for a year. Areas that may have longer to go are San Francisco and San Mateo counties, which started later than other areas.

Christopher Thornberg, economist and founder of Beacon Economics in both Los Angeles and San Rafael, said that while a recession is a possibility, economic depression is unlikely. "A depression is a recession with a failure of the banking industry," he said.

All the changing lending guidelines, federal bailouts and intervention are "maintaining the well-being of the banking industry."

Purpura said that despite pessimistic views of Bay Area values, most homeowners have little to worry about.

"Historically values come back within five years in 98 percent of the time," he said.

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