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Harvard report: Housing outlook remains bleak

Decline 'is shaping up to be the worst in a generation'

By Emmet Pierce
UNION-TRIBUNE STAFF WRITER

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In a grim report on the weakened state of the housing industry, Harvard University says the United States is caught in a real estate market downturn "that is shaping up to be the worst in a generation."

The decline in housing construction and home sales "already rivals the worst downturns in the post World War II era," said the report out today from Harvard's Joint Center for Housing Studies. Price drops and mortgage failures "are the worst on records that date back to the 1960s and 1970s."

Nicolas Retsinas, director of the center, said formerly hot housing markets such as San Diego County saw prices rise to unsustainable levels in the first half of the decade, as lenders relied increasingly on adjustable-rate subprime loans to keep buyers in the marketplace.

"There was almost a kind of steroid quality to lending products," Retsinas said. "Those products are no longer available and the market is going through withdrawal."

The result of high prices and weak underwriting standards was a surge in foreclosures, followed by a credit crunch that prevented many distressed borrowers from refinancing. So far the government and the lending industry haven't been able to come to grips with the problem, the report said.

"Mortgage rates have barely responded to the aggressive easing of the Federal Reserve, the supply of for-sale vacant units continues to grow and much tighter underwriting is locking many would-be home buyers out of the market," Retsinas said.

In the San Diego region, the housing boom led to overbuilding.

"At some point, the law of gravity had to come into play," Retsinas said. "I contrast that with the market in the Midwest. Their problems came from a crumbling economy. Your economy is relatively strong. You haven't had the severe job losses."

Kevin Stein, associate director of the California Reinvestment Coalition, a lending watchdog group based in San Francisco, said the Harvard report is "sobering but not surprising." Congress and state lawmakers should respond to it with programs that provide meaningful relief to homeowners facing foreclosure and eviction, he added.

"The suffering from foreclosure extends beyond the family that loses its home," he said. "There are wider ripple effects" on the overall economy."

Foreclosures here have been depressing prices, creating home-buying opportunities for some households while robbing others of their homeowner status.

April marked the county's 37th consecutive month of year-over-year increases in San Diego County foreclosures and notices of default, the start of the foreclosure process, the DataQuick Information Systems research firm reported. There were 1,413 residential foreclosures countywide, a 35 percent increase from March, but a rise of nearly 170 percent over a year earlier.

Home prices have also continued to fall, with the median sale price in San Diego County at \$380,000 last month, down from \$517,500 at the peak of the market in 2005.

Despite the "State of the Nation's Housing" report's somber tone, some analysts said it might be understating the problem.

"We have never had anything like this happen," said Christopher Thornberg, an economist with the Beacon Economics research firm in Los Angeles. "It's a bloodbath. Prices are falling because they are too high. You would have to have prices in California fall 40 percent in order to get back to an historical level of affordability relative to incomes."

Mark Zandi, chief economist for Moody's Economy.com, called the current housing downturn the worst in the United States since the Great Depression.

"I think it is going to take another year nationwide for us to work through all of our problems in the housing market, at least to make a significant dent," Zandi said. "In some parts of the country, the market will remain depressed well into the next decade. It is going to be a slog."

Because of the slowing U.S. economy, consumers are tightening their belts, the Harvard report said. As home prices drop in many metropolitan

areas, consumers are curbing spending, delaying home purchases and forgoing remodeling projects.

In San Diego County, many large construction firms have scaled back or closed local operations. According to the report, construction had already fallen for at least two years before 2007 in over a third of all U.S. metropolitan areas and in 16 states.

The five sharpest drops in metropolitan area building permitting from 2005 to 2007 were in Florida. Florida tops the list of states with the deepest cutbacks at 64 percent, followed by Michigan at 61 percent and Minnesota at 51 percent.

In Phoenix, cancellations as a share of gross home sales rose from 2.8 percent in the fourth quarter of 2005 to 48 percent in the fourth quarter of 2007, just as gross sales dropped from about 10,600 to 7,400, the report said. Even in a relatively stable market such as Seattle, the cancellation rate rose from 1.2 percent to 12.6 percent over that period. By the end of 2007, the nation had 232,000 fewer construction jobs than a year earlier, Harvard found.

Yet some markets weathered the storm, the report said. "Mississippi and Wyoming issued more permits in 2007 than 2006. Among metros, just eight of the 100 largest saw increases last year, as even previously strong housing markets in the Carolinas, Texas and Washington finally felt the pinch," the report stated.


Although the report predicts an eventual rebound of the housing market, Retsinas says he's uncertain when that may occur.

"It will vary place to place," he said. "You are more likely to see an earlier bottoming out in areas that didn't see overbuilding, like the Northeast. It will probably be in 2009 there. In other places, like Southern California, I think you are looking at 2010."

■ **Emmet Pierce:** (619) 293-1372; emmet.pierce@uniontrib.com

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