

# The Housing Bubble

Examining the home price boom and its effect on owners, lenders, regulators, real estate agents and the economy as a whole.

November 7, 2007

## [On A Daily Basis Prices Are Dropping In California](#)

The [Press Enterprise](#) reports from California. "End-of-the-year deals on a glut of built but unsold homes are in full swing in the Inland counties, as builders slash prices, subsidize mortgage rates and sometimes help to sell their customers' existing houses. Borre Winckel, executive director of the Riverside County chapter of the Building Industry Association of Southern California, said the price discounting on new homes is the steepest the industry has ever seen."

"'Very few (builders) are making money on any of the homes and a lot are taking losses,' Winckel said."

"A measure of how deep the housing market has sunk in a year is that builders are now routinely forfeiting profit by cutting prices, often by 20 percent or as much as \$100,000 and more per house, industry consultants say."

"Many builders last year predicted buyer incentives would no longer be needed in the spring, when they expected home sales would rebound. But sales plunged further. So this year, as the holiday slowdown approaches, many builders are including yesterday's designer upgrades as standard features and concentrating on making their homes more affordable by discounting prices and buying down mortgage interest rates."

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“It is more about price and monthly payments than about granite countertops now,” said John Burns, president of Irvine-based John Burns Real Estate Consulting.”

“Recently there were 5,221 newly built and unsold houses in Riverside and San Bernardino counties and another 7,790 houses under construction, said Steve Johnson, a director with MetroStudy.”

“Winckel said builders slashed prices quickly and aggressively with the aim of pushing the market to a bottom that would draw buyers back. ‘They wanted to create a bottom of the market. But it hasn’t happened yet,’ Winckel said. Instead, he said, price cuts have fueled consumers’ worries that any house they purchase now could decline in value, prompting many to wait for an even better deal.”

“On Sunday afternoon, Brian and Renee Katayama were visiting the model homes at Gavilan Springs Ranch, a community of large single-story homes on 2- to 2 ½-acre lots. The subdivision was part of Century Vintage Homes’ advertised ‘One week only! Huge Inventory Reduction Sale.’”

“It was the last day of the sale offering up to \$200,000 in reductions off the original sales prices, but the couple said they were in no hurry to buy.”

“Renee Katayama said they are expecting the Federal Reserve will take further steps that could lead to lower mortgage rates, and that an explosion in foreclosures next year could cause home prices to ‘tank’ even more.”

“‘We are hoping it all comes together,’ she said.”

“At the Main Street townhouses Sunday in Corona’s Dos Lagos development, Dave Corbet said he would buy a home if he

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could get a deal a bit better than the discounts of up to \$102,000 outlined on the price sheet.”

“I’m going to negotiate big time, or I’m not going to do it,” Corbet said.”

“Most of us will be flexible,” said Mike Dwight, VP of marketing for Ontario-based Frontier Homes. “When somebody walks into the sales office the first thing they ask is ‘What do you have for incentives?’ Our sales people... respond, ‘What do you need?’”

The [Orange County Register](#). “ResMae Mortgage Corp., a Brea-based subprime lender, stopped funding new loans on Tuesday, citing ‘unprecedented’ market conditions, according to an e-mail sent to mortgage brokers and its Web site. The company, which emerged from bankruptcy in June, said the move is temporary.”

“Lou Pacific, a mortgage broker and consultant in Mission Viejo, said he expects ResMae to ‘lay low,’ cut staff and see if the market rebounds.”

“But the housing market will get worse before it gets better,” Pacific said. “I honestly feel like with the amount of foreclosures on the market on a daily basis prices are dropping,” Pacific said.”

“According to a state employment site, ResMae plans to cut 72 jobs in Brea on Nov. 18. That follows 185 cuts in May. ResMae filed for Chapter 11 bankruptcy on Feb. 12 after Merrill Lynch demanded it buy back \$308 million in loans.”

“Lennar Corp. [is slowing](#) development of two major projects in Irvine and Anaheim, holding some homes back from the market until conditions and prices improve, a company

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official said Tuesday.”

“The Miami-based company, which has about two dozen developments in Orange County, will halt sales of 259 low-rise condos in its Central Park West development in Irvine, said Emile Haddad, Lennar’s chief investment officer.”

“The company will take orders on the 240 high-rise units there, but won’t offer discounts to encourage sales, he said.”

“The company had completed the infrastructure in the A-Town Metro project, west of Angel Stadium, and had planned to start construction in January on 2,681 homes in up to 11 high-rise towers. The size of the A-Town Stadium project... also has been downsized.”

“The delays, in place at least until next spring, and possibly extended after that, are to reduce the number of unsold homes being added to an already sluggish housing market, Haddad said. The company wants to hold out for prices it envisioned for the projects, he said. The delays could stay in place until 2009 if the market doesn’t improve.”

“Haddad said the company also is considering the conversion of A-Town Stadium condos into apartments, or it could sell the project to an apartment developer.”

“‘It’s hard for me to imagine that they’d leave newly built buildings unoccupied,’ Irvine Councilman Larry Agran said when told about the delay.”

The [Gazettes](#). “It’s back to square one for Lennar Homes, the developer seeking to replace SeaPort Marina Hotel with a mixed-use project at the corner of Second Street and Pacific Coast Highway.”

“In a letter dated Oct. 22, Lennar project manager Bea Bea

Jiménez formally withdrew the project from the city's entitlement process. Lennar representatives had been scheduled to go before the City Council next Tuesday, Nov. 5."

"That hearing was to decide an appeal of a March 15 approval from a split (3-2) Planning Commission for the project to raze the hotel and replace it with 425 for-sale lofts and townhomes, with 170,000 square feet of retail and restaurant space."

"'We have decided at this time that we need to continue to refine our proposal. Among the refinements under consideration are integrating a boutique hotel into the mix of uses and reducing the number of condominiums,' spokesman Glenn Bunting said."

Inside [Bay Area](#). "The party may be over for those using vacant homes as gathering spots. The Manteca City Council approved a series of ordinances aimed at regulating residential noise at certain times of night and keeping vacant homes secure by fining property owners."

"City leaders pointed to foreclosures as the major reason for the vacant home ordinance."

"The foreclosure homes are being used for teen parties, homeless squatting and drug use, according to police reports. '(The ordinances) should greatly reduce the locations that are attractive nuisances in our neighborhoods and turn into party houses,' said Manteca Police Capt. Dave Bricker."

"The vacant home ordinances give Manteca the ability to dole out civil penalties of \$1,000 per violation per day, or up to \$100,000 per structure per year. Manteca also now has

authority to abate a home by keeping it properly boarded or

maintained at the property owners expense.”

“‘It’s been my experience, a good deterrent is hitting someone in their wallet,’ Councilman John Harris said.”

The [Desert Sun](#). “He talked about the ‘R’ word and advised 150 business professionals and academics attending the Urban Land Institute conference on the economy to brace for a long, turbulent ride in the real estate market.”

“‘Worse years in housing are not behind us, but in front of us,’ said Christopher Thornberg, president of Beacon Economics. He predicted it would be 2009 till the tide turns on the housing market.”

Posted By: Ben Jones @ 4:15 pm

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