

In Real Estate Conversation, 'People Hear What They Want to Hear'

As the region sorts through thousands of houses on the market, slowed sales and foreclosures, its loudest housing optimists continue their evangelism. Critics say an end to the cheerleading is long overdue.

By [KELLY BENNETT](#) Voice Staff Writer

Monday, Oct. 22, 2007 | As the man in a dress shirt and tie got up from the table outside Starbucks in Kearny Mesa one morning last week, two guys who looked to be in their 30s called out, begging for a "quick opinion."

"Condo conversions, North Park," one blurted out. "What's the --"

"Are prices, are they going off a cliff?" the other one interjected.

They recognized this man, though not necessarily by his name. He's George Chamberlin. Money in the Morning on KOGO. Business commentary on NBC 7/39 and in the pages of the *San Diego Daily Transcript*, a business newspaper where he's executive editor. Op-eds in the *North County Times*.

He reassured them that he's been hearing about properties that, if they're in good shape, at good prices and in good locations, are doing just fine. And rents are up, he added.

The coffee drinkers weren't quite finished; they had a few follow-up questions. But when it was clear they were looking for a promise that the market will be kind to them, Chamberlin stopped.

"You know, I don't know," he says, and wished them luck before walking to the parking lot. That's not the first time he's been stopped, he told a reporter there for the exchange. People even come up to him on the treadmill at the gym, he said.

"It used to be, 'What do I do with my Qualcomm stock?'" he said. "Now it's, 'What do I do with my house?'"

Chamberlin remains one of San Diego's most high-profile bulls. He is hardly the only voice San Diegans listen to when they try to figure out the real estate market. Nor is he the only one who believes, despite some of the current pain in the market, that housing is a great investment -- one that people should make now, if they can. He's a key source used by real estate agents to reassure their clients.

Faced with dropping home prices and skyrocketing foreclosures, Chamberlin and others have barely changed their tune, if they have at all. For that, they get plenty of flack. Posters on housing blogs lampoon them and blame them for much of the trouble in the market. Analysts on the other side who've issued warnings about the housing market's unsustainable meteoric rise for years say enough already with the rose-colored glasses.

Chris Thornberg worked as an economist with the University of California, Los Angeles' Anderson Forecast when it began predicting and warning consumers and federal decision makers about a [housing market](#) crash in 2002. The group was ridiculed while its bearish predictions took several years to come true.

But Thornberg, now a Bay Area analyst with Beacon Economics, said the *caveat emptor* warning, "Let the buyer beware," applies to information as well as purchases.

"Every one of these bubbles always has a group of cheerleaders sitting on the side saying 'Rah rah, aren't we great? Rah rah, don't be late,'" he said. "That's part of the bubble. ... To some extent, people hear what they want to hear. There have been those of us out here saying, 'It's a bubble, it's not going to last.'"

Even government officials have loudly wished the phrase "housing bubble" could be banished from the San Diego lexicon. Greg Smith, the county's assessor/recorder/clerk, has been invited often to present to real estate and public groups. He's written an article disseminated by Realtors about "Why the real estate bubble isn't real." Smith declined to be interviewed for this story.

And Nancy Graham, head of the Centre City Development Corp., downtown's redevelopment arm, stops barely short of a personal guarantee that housing prices won't drop in the city's core. She boosts downtown real estate alongside the developers who directly carry out its facelift.

For Chamberlin, finding a root for his housing optimism is as simple as walking outside. In January, he spoke to potential homebuyers at Del Sur, a master-planned community in North County. The seminar's title? "Why Buy 2007." His answer? Sunny weather without being in L.A., 357 golf-friendly days, a strong economy.

And, did you hear the study that homeowners' kids do better in school and fewer of their teenage daughters get pregnant than do renters' kids? Don't listen to the media, with their "amazing, negative bias," he told the crowd.

But for many of the region's homebuyers in recent years, the only way into the overheated market was through mortgages with low introductory payments that would reset in a few years. To hear some of real estate agents or mortgage brokers tell it then, there would be no problem refinancing their loan at the reset -- their homes would surely appreciate. Some of them twisted the housing-goes-up historical trends into some sort of guarantee in order to make a sale.

Now, without the appreciation those homebuyers counted on, many are unable to weather the huge jump up in payments that has come after their loan reset. Their homes are being repossessed by the banks and they now face the reality that housing doesn't always "go up."

If any of his words were used to convince people to buy with a loan that proved troublesome, Chamberlin disavows responsibility. He said he doesn't claim that homeownership is right for everyone, and if he includes that caveat in a column or speech, he can't be responsible for whether or not the caveat is included with the original optimistic message.

"I have no idea what's going to happen with prices," he said. "Sales are obviously much slower than I

thought they would be. ... I do know that long-term, housing prices can only go up."

'A Nice, Warm, Fuzzy Sweetener'

Chamberlin said that the current pain in the market is insignificant compared to the number of people who make their mortgage payments on time or don't need to sell their houses in the region. Some like him have seen this year's blowup in the mortgage market -- where Wall Street yanked funding from some of those popular mortgages -- as a monkey wrench in the market's normal downturn.

But critics of that perspective say the frenzy of a few years ago drowned out common sense. As the market moved away from its peak in 2005 and 2006, they say, some such voices became positive pundits, spinning data each month to convince sellers not to abandon hope for top dollar and convince buyers it was a good time to buy.

"I don't think it had that much impact on the way up -- it was a nice, warm, fuzzy sweetener," said local Realtor Jim Klinge of the optimistic analysts. "But these cheerleaders have been disastrous on the way down. The sellers are the ones who are listening to them, thinking, No. 1, 'It's not that bad,' and No. 2, 'It'll get better later.' Those are the two worst things for sellers to think."

Now the buyers waiting on the sidelines have won, he said. If sellers had believed for the last two years that the market was entering a decline, they may have lowered their prices earlier, and the region may have had a hope of a "soft landing."

Instead? A "crash landing," Klinge said. "Sellers are not doing their homework, or the homework they are doing is listening to the cheerleaders. Literally, nine out of 10 sellers are not selling their homes. That's not good."

'Both Buyer and Lender Were Thinking the Same Thing'

But the economist often credited with the soft-landing term, Leslie Appleton-Young at the California Association of Realtors, said it's unfair to judge her statements in hindsight.

"There's no doubt that we knew the market was going to change," she said. "It just happened with a much greater severity (than we predicted)."

Appleton-Young said if forecasting were an easy game, everyone would be a player. She denigrated forecasters who started to predict trouble in [housing market](#) a couple of years after the start of the decade, when the market still had years of boom ahead.

But the other side says now more people are listening to them. Ed Leamer, director of the Anderson Forecast, said the group's warnings since 2002 went unheeded by both homebuyers and federal decision-makers. In the meantime, Wall Street seized the opportunity to profit on the activity, popularizing investment vehicles that diced mortgages -- even high-risk, low-verification loans -- and packaged them for sale to investors like stocks. The result? Lenders would make extremely risky loans, knowing that investors would snatch them up and spread the risk around.

"It's absolutely amazing that Wall Street was buying those loans," Leamer said. "Both buyer and lender were thinking the same thing -- that housing always goes up."

In Downtown, Boosters from the Public and Private Sectors

Some of the loudest voices boosting real estate in the county are in downtown San Diego.

Alan Nevin is an economist with MarketPointe Realty Advisors, which provides market analysis for

homebuilders and developers. He's also the chief economist for the state's Building Industry Association.

In a column for downtown's San Diego Metropolitan Magazine this summer, Nevin claimed, "This is a great time to buy a condo downtown or near downtown -- not for flipping mind you, but for at least a three to four year hold." The column came out as builders continued to drop prices and up incentives to move inventory downtown, and as lenders resold foreclosed condos in several buildings downtown.

Nevin admits his position as an economist whose clients include homebuilders leaves him in a tough spot to truly qualify his optimism.

"There are buildings where you don't want to buy," he said. "But builders are our clients. I'm not about to take potshots at any one particular building (in an article). It's buyer beware."

Among other downtown boosters, Graham, of CCDC, and Sherm Harmer, a real estate developer with Urban Housing Partners, touted the benefits of living downtown and reassured potential condo-buyers in an op-ed in May 2006 in *The San Diego Union-Tribune*, a local newspaper, that the cooling [housing market](#) wouldn't steal away "steady, reasonable appreciation."

And even now, with some condo-dwellers facing mortgage problems and with faceless investors abandoning their units, Graham remains upbeat.

"You're not going to lose your value in downtown," she said. "You will not lose your equity or your value. ... I don't know that I could guarantee it's not going to lose five or ten thousand dollars, but it'll stabilize."

As a government official, Graham wondered aloud whether her statements should sound different from those made by developers.

"It's technically not CCDC's job to sell units in downtown," she said. "Our job is to build affordably housing. By law, we just can't do a lot. But do we try to work with the developer some? Sure. Should we be out there saying, 'Now, be careful?' 'If you want to buy something anyway, come downtown?' ... It's probably a good question. A really good question."

'If It's Your Loan, It's a Disaster'

Though made into a villain on many bearish housing blogs, Chamberlin said he doesn't speak flippantly about the housing market. The vitriol directed at him and Nevin and others manifested itself when he received an anonymous threat to his life and his daughter's life.

He can't speak for individuals who made the bet on housing and are now facing foreclosure, he said. He believes the problem has been blown out of proportion.

"But if it's your loan, it's a disaster," he said.

And Nevin sees, between himself and a would-be homebuyer, a significant decision to be made -- how am I going to finance this home? Too many lenders were too eager to give money away to people with any inkling of the homeownership dream, he said.

"The lenders lie at fault for doing virtually no due diligence," he said.

Still, most of the current speculation seems like just talk to other Realtors like Lori Staehling, the president-elect of the San Diego Association of Realtors.

"Of course, we all want to listen to the person who's on our side of any argument," she said. "If we're a Republican we think a Republican's perspective on an issue is right. And if we're a Democrat, we think the Democrats are always right."

From Klinge's street view as a Realtor, sellers are forced to dramatically drop prices to even attract a potential buyer to an open house. He said the factors that combined to drive prices so far up could leave in their wake an unprecedented reality in the county: a real estate market that doesn't always go up over time.

"Who says real estate always goes up?" Klinge said. "Just because it always has been in the past, who says it has to in the future?"

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