

Mortgage Mania Part 13 - A Halloween Story



Chris Iverson, Realtor

October 31st, 2007 · [No Comments](#)

Disclaimer: The following post is based on a presentation by Christopher Thornberg, an economist at [Beacon Economics](#), that I attended last night, courtesy of my accountant, Tom Wagstaff of [Petrinovich, Pugh and Co](#)

. This is a departure from my normally upbeat view of the local economy, and fortunately they reopened the bar following the presentation for all the Realtors in the audience to drown their sorrows.

Economist Chris Thornberg showed some pretty convincing evidence for his expectation that housing prices will fall between 20% and 25% over the next couple of years, primarily because the ratio of home prices to incomes is higher than anytime in history, almost double the peaks in previous economic cycles. Gloom and doom for an hour, ah it brought tears to the eyes of many a Realtor in San Jose. Smugly I said, ” . . .but I live and work in Palo Alto, land of Stanford, Venture Capital, Facebook and Google! Sushi on every table and a BMW in every driveway! We are our own little world here, so we don't have to worry about the housing market meltdown in Nebraska, or even the East Bay.”

Not so fast. The latest housing boom has been driven by increasing housing prices, driven in part by cheap credit and loans. More people got these loans, bought more expensive houses, so the demand for these loans went up, and the cycle accelerated.

Now the appreciation is going the other way (flat to negative), and the equity that has driven consumer spending over the last few years (cash out refi = new boat), has gone away (bye, bye boat, and house!). Thornberg forecasts that the subprime meltdown will be followed by Alt - A defaults (already happening) which will pull down the high-end markets from below (that would be Palo Alto, Los Altos, etc.). Even if the Fed were to reduce interest rates to 0%, it wouldn't fix this mess. Much like last night's temblor in San Jose, Palo Alto will be on the periphery of this shakeup. We won't be knocked flat, but we will rock and roll a bit, and not in the fun way.

Sigh . . .

To add to the gloom, I have been attending recent forums for candidates for Palo Alto City Council. Whether the topic is Palo Alto's aging libraries, or green initiatives, the same topics keep coming up: Infrastructure, Schools, Tax revenue.

If you live or work in Palo Alto, I highly recommend you take an interest in the upcoming City Council race and the issues the candidates are raising. You can learn more about the issues and candidates on the [Palo Alto Weekly website](#).

Happy Halloween!!