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From the Los Angeles Times

Southern California home prices fall, affordability returns to normal

January's median sales price falls 40% from a year earlier, to $250,000. As the Southland's bubble continues to deflate, the ratio of price to income has returned to historical levels, analysts say.

By Peter Y. Hong

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Southern California -- with home prices now at 2002 levels and falling -- is at the start of what is likely to be a long period of relatively affordable housing, economists and housing market analysts say.

Home prices are now below their historical average compared with incomes, putting them within reach of more people than they have been since about 2000, several studies show.

But that doesn't mean prices will stop falling soon, especially if jobs continue to vanish at their current pace.

After soaring during this decade's housing bubble, home prices recently fell back in line with what people earn -- and then kept falling.

The January median sales price for Southern California homes fell to $250,000, a 40% drop from the same month a year prior, the San Diego real estate research firm MDA DataQuick reported Thursday. The price decline was accelerated by foreclosures, which accounted for 60% of sales last month.

Prices have now dipped below the level at which they'd be in line with the historical ratio of prices to incomes in California, said Christopher Thornberg, a Los Angeles economist who is principal of the consulting firm Beacon Economics.

Thornberg estimates the current median home value in California is $250,000. But wages are high enough -- and interest rates low enough -- that a median value of $290,000 would match historical norms, he said.

"If you're looking for a long-run opportunity, real estate is getting to that point," said Thornberg, who was an early predictor of the housing crash.

But it's not at that point yet.

Thornberg believes home prices have another 25% to 30% to drop. They may be historically low, but "in the past four or five months, unemployment has been through the roof," Thornberg said.

Fearing for their jobs, many potential home buyers are putting off a purchase. Others simply can't buy anything because they are already out of work.

Thornberg forecasts that California home prices will fall until the middle of 2010, when they will begin to slowly creep up.

The local housing market is now in what economists call the "overshoot" stage, when a mid-priced home sells for less than it typically would based on median incomes. Even though homes become relatively affordable, the real estate market tends to linger for years at below-average prices as joblessness persists or buyers shy away.

John Burns, an Irvine consultant to home builders, said he expected the market to continue to drop despite the increase in affordability.

"They're still not as affordable as they were in 1995 and 1996, and I think there's an almost certainty prices will keep falling," Burns said.

Even after the economy exits the recession, people will continue to lack the confidence to buy a home, Burns said. "It's bubble psychology. People believe when something happens for three, four or five years in a row, it's likely to keep happening. It happens in boom times as well."

Burns predicts home prices in the Los Angeles area won't rise again until 2012.

An analysis by Burns shows that the last time Los Angeles home prices dropped below their historical average relative to incomes, in 1992, they kept falling until 1997 and didn't return to their 1992 level relative to incomes until 2002.

In a downturn, prices also tend to fall relatively slowly in more affluent areas. Homeowners there are less likely to be threatened by foreclosure and can delay selling their homes.

The number of January home sales in Bel-Air, Beverly Hills, Santa Monica, Laguna Beach and Newport Beach were all below average or at record lows, DataQuick reported, noting that "such areas have so far seen relatively small price declines and haven't benefited from the wave of bargain hunting that's boosted inland sales for months."

That's why Aarchan Joshi, a 40-year-old ophthalmologist who lives in north Redondo Beach, is putting off a move to Manhattan Beach. He could afford to move now but thinks "there's a big disconnect. The more affluent areas are really just beginning" their price declines, he said.

A bit of an armchair economist, Joshi said he figured Manhattan Beach's median home price is 13 times its median household income. "It's completely unsustainable," he said.

"My range would be when it gets to seven times or eight times income, that would trigger me to seriously look at buying a home," he said. His guess is that will occur around 2012.

Meanwhile, the affordability picture continues to improve. DataQuick reports the typical monthly mortgage payment Southern California buyers committed themselves to paying last month was $1,081, down from $1,239 the previous month and $1,940 a year ago. Adjusted for inflation, current payments are 51% below typical payments in the spring of 1989, the peak of the previous real estate cycle. They are 59.9% below the current cycle's peak in June 2006.

Median sale prices fell sharply in all Southern California counties. The lowest were reported in San Bernardino County ($162,000) and Riverside County ($195,000), where foreclosures have been rampant.

Los Angeles County's median of $300,000 was down 35% from January 2008, while Orange County's median fell 29% to $370,000. San Diego's median of $280,000 was down 35% from a year earlier, and Ventura County's median fell 30% to $335,000.

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