

LAT Home | My LATimes | Print Edition | All Sections

Jobs | Cars.com | Real Estate | More Classifieds

Los Angeles Times | Blogs

 SEARCH

You are here: [LAT Home](#) > [Blogs](#) > [L.A. Land](#)

News/Opinion

- [California | Local](#)
- [National](#)
- [World](#)
- [Business](#)
- [Sports](#)
- [Washington](#)
- [Science](#)
- [Environment](#)
- [Opinion](#)

Arts/Entertainment

- [Entertainment](#)
- [The Guide](#)
- [Arts & Culture](#)
- [The Envelope](#)

Living

- [Travel](#)
- [Health](#)
- [Autos](#)
- [Home & Garden](#)
- [Food](#)
- [Image](#)
- [Books](#)
- [Living Green](#)

- [Data Desk NEW](#)
- [Video](#)
- [Photography](#)
- [Obituaries](#)
- [Crosswords/Sudoku](#)
- [Your Scene](#)

Blogs

- [Columnists](#)
- [Print Edition](#)
- [Readers Rep](#)
- [Corrections](#)
- [All Sections](#)

Buy, Sell & More

- [Jobs](#)
- [Cars](#)
- [Real Estate](#)
- [Foreclosure Sale NEW](#)
- [Apartments](#)
- [Personals](#)
- [Deals at Local Stores](#)
- [Coupons](#)
- [Newspaper Ads](#)

Place an Ad

- [In the Newspaper](#)
- [Online](#)

Settings/Services

- [Sign In](#)
- [Register](#)
- [Personalized News](#)
- [E-Mail Newsletters](#)
- [RSS Feeds](#)
- [Help](#)
- [Contact Us](#)
- [L.A. Times Archives](#)
- [Reprint Requests](#)
- [Work for Us](#)

L.A. LAND

THE RAPIDLY CHANGING LANDSCAPE OF THE LOS ANGELES REAL ESTATE MARKET AND BEYOND.

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Is a bottom close? Is it silly to ask?

Is it pointless to ask whether a bottom is near?

News reports have been seizing on data to raise the possibility of a leveling in house prices -- the tiny bump in new home sales reported this week is one example. Never mind that the 2.7% increase in new homes sold in September versus August was smaller than the bump in the same period last year.

Irvine real estate consultant John Burns, in an e-mail exchange with me, wonders why the idea of a bottom is getting so much play. "What's the expectation? That once a bottom is reached that housing prices will shoot back up? Doubt it," he writes.

Here at The Times, we have avoided jumping on the "Is the bottom close?" question. We've quoted economists as stating that even when a bottom is hit, it will be a long time before home prices begin any meaningful appreciation. They include Christopher Thornberg, an economist who was one of the first to call the real estate boom a bubble, as well as the California Assn. of Realtors' Leslie Appleton-Young -- and when's the last time you heard a real estate agent *not* say this is the best time to buy?

As consultant Burns notes: "The bottom line is that the housing prices in L.A. are still over-inflated from all of the false appreciation from 2000-2006."

Indeed, home prices in Southern California have fallen more than 30% from their peak in 2007, and sales activity is picking up. But Los Angeles-area homes are still expensive compared to...

local incomes.

About 15% of homeowners could afford to buy a midpriced house in the Los Angeles market in the second quarter of 2008, according to a National Assn. of Homebuilders index. That's up from about 10% in the first quarter, and much higher than the 2% rate in 2006.

But it's still a long way from the late 1990s, when about 50% of L.A. area residents could afford a midpriced home.

The gulf between incomes and house prices suggests that we are not close yet to a "bottom" in the market. Declining house prices may have made some homes more affordable, but now unemployment is rising, meaning some people will not be able to buy a house at *any* price.

If the past is any guide, when prices start leveling they do tend to bounce along that floor for a long time. When the Southern California median home sales price began to bottom out at around \$150,000 in January 1995, it took almost three years to climb back up even to \$160,000.

During our most recent long run-up in housing prices, we often heard that double-digit annual percentage gains would not lead to a market crash because this cycle was different.

Now that we are in a downturn, is there any reason why it should not last as long as the previous one? Get ready for a round of news stories exploring why it *is* really different this time.

-- Peter Y. Hong

Posted by [Peter Hong](#) on November 3, 2008 in [Housing prices](#) | [Permalink](#)

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There are no FACTS that point towards a bottom in todays RE market. Everyone should read the story today by Martin Weiss on his website Money and Markets, if you believe other wise. It is quite compelling for prices to drop over 70 to possibly 80%, from peak pricing.

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PROPERTY TYPE: Any | BEDS: Any | BATHS: any

PRICE RANGE: No minimum To No maximum [GO](#)

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- [November 2008](#)
 - [October 2008](#)
 - [September 2008](#)
 - [August 2008](#)
 - [July 2008](#)
 - [June 2008](#)
 - [May 2008](#)
 - [April 2008](#)
 - [March 2008](#)
 - [February 2008](#)

