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From the Los Angeles Times

Real Estate Economist Leaves UCLA Forecast

Christopher Thornberg was one of the first to say that the housing market was peaking last year.

By Roger Vincent
Times Staff Writer

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Bearish real estate economist Christopher Thornberg, who says the Southern California housing market is a bubble beginning to pop, has left UCLA Anderson Forecast to strike out on his own.

Thornberg, 38, will continue to teach economics at UCLA but will no longer be part of the quarterly Anderson Forecast on the economies of California and the nation.

"I wanted to start my own business and do things I wasn't able to do before," said Thornberg.

His new consulting firm, Los Angeles-based Beacon Economics, will prepare forecasts for regions he thinks are underserved, perhaps including San Diego, the Inland Empire, the Bay Area and Sacramento, Thornberg said. His partner at Beacon is San Francisco economist Jon D. Haveman of the Public Policy Institute of California.

Anderson Forecast Director Edward Leamer did not respond to requests for comment Monday.

Real estate forecasting "is becoming a surprisingly competitive field," said economist Jack Kyser of the Los Angeles County Economic Development Corp., which does consulting work for developers. Other competitors include Cal State Long Beach, CB Richard Ellis and the Milken Institute.

Thornberg was one of the first economists to declare that the housing market was peaking. He did so in September, when the median home price in Los Angeles County was \$494,000, and he said that there were "signs that the housing party is ending." Since then, the county's median price rose another 5%, hitting a record \$520,000 last month. But year-over-year sales plunged 25%, the eighth consecutive monthly decline.

Other market observers now agree that the market is cooling but are uncertain about whether it will result in a "soft landing" that won't disrupt the economy. Thornberg said his expectations are growing more gloomy.

"My guess is we're going to have a hard landing," he said. "It's ugly out there."

There has been large-scale overbuilding of homes and condominiums nationwide, he said. "And here in Southern California we have had this massive price appreciation that is just not justifiable by any kind of standards of reasonable economics," he said.

Although home prices in most Southern California markets are still higher than they were a year ago, "there has been no appreciation for four or five months," Thornberg said.

With interest rates rising in recent months and sales declining, "the bubble is popping, just like a bubble is supposed to," he said.

In a soft landing, prices would level out and economic growth would be flat or slow while adjusting to the loss of jobs and spending in the construction, real estate and mortgage industries.

A hard landing could come if housing prices begin to fall, Thornberg said, in large part because that would scare consumers accustomed to watching their net worth rise on paper. Their spending pullback and a corresponding drop in construction could push the economy into recession.

USC forecaster Dolores Conway remains more optimistic even though the inventory of unsold houses is growing and sellers are making price concessions to close deals.

"There is still a strong demand for housing, especially in Southern California," said Conway, director of the school's Casden Real Estate Economics Forecasting Project. "Everything we see is consistent with a soft landing."

Thornberg, whose departure was first reported on the website LA Observed, insists that the real estate market is dangerously puffed up.

"Look at what your house was valued at three years ago and what it is now. Is it really worth 70% more? The answer is no," he said. "There is no way you can justify the math."

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