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# How low will the mortgage meltdown drag O.C.'s economy?

## Orange County's job market is more vulnerable than some other places to housing cycles, but it will come back, economists say.

By **ANDREW GALVIN**

The Orange County Register

The vast sea of empty parking spaces at the South Coast Home Furnishings Centre tells a story about our local economy better than any graph or chart.

The Costa Mesa retail center, envisioned as a Mecca for people looking to upgrade home interiors, was conceived and built during the historic run-up in housing prices a few years back. It opened in 2007, just as the housing market was dropping into freefall.

Today, the center has the feel of a ghost town.

Stores sit empty, while shoppers are few and far between. The food court has a single tenant. The center's owner is in foreclosure after defaulting on an \$84 million mortgage.

Yet some merchants are sticking it out, convinced that better days are ahead.

"We'll get through it," said Chris Mulhall, whose store, Visions in Contemporary Living, sells what he calls "high-end contemporary" furniture. "It's just going to take time and perseverance."

Mulhall opened his store last November. Since then, some larger retailers at the center, such as Wickes, House of Windsor and Salmo's Custom Sofa Factory, have gone out of business or simply left.

"I knew I was opening up at a time that business wasn't going to be too good," Mulhall said. "But I knew I had to keep my overhead down and advertise to bring my clientele to my store."

Orange County got hit with a double whammy in the current economic downturn. We're suffering the same housing-market woes as the rest of the nation. But Orange County was also the center of the subprime mortgage industry, which has been destroyed by its own excesses. Tens of thousands of well-paying jobs are gone, and with them the income that supported countless restaurants, auto dealers, and – yes – furniture stores.

Those with enough of a financial cushion to take prudent risks can prosper during economic upturns without suffering too much during down cycles. But some renters and those who live paycheck-to-paycheck are facing real hardships now that the boom has ended.

"The ups I never noticed too much and the downs kind of kicked me in the pants," said Mark Hosmer, 55, of Anaheim. Hosmer, an auto mechanic, was laid

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off in July by a Chrysler dealership where he had worked for three years.

Hosmer is a semi-professional oil painter who won a "Best in Show" at this year's Orange County Fair. He'd like to try painting full time to see if he could make a living at it, but "I feel like right at this moment I need to get a job," he said.

Orange County's lending and construction industries grew rapidly during the housing boom, but that made our local economy more vulnerable than some other parts of the state when the boom ended, said economist Esmael Adibi of Chapman University.

Two years ago, 10.4 percent of Orange County jobs were in lending or construction. Among California counties, only Ventura – home to Countrywide Home Loans – had a higher percentage of workers in these two "volatile sectors," as Adibi calls them.

As mortgage companies have disappeared and construction work dried up, those sectors shrank to 8.9 percent of Orange County's job base as of July. That share should continue to fall toward its historical average of about 8.25 percent, Adibi said.

"When you think about all those mortgage guys driving around in their Lamborghinis and spending money hand over fist, driving up the local economy – what everybody's got to understand is that the weirdness was when those guys were making that kind of money, not what's happening now," said economist Chris Thornberg of Beacon Economics.

Orange County has seen big job losses before. In the early 1990s, as U.S. military spending shrank in response to an easing of Cold War tensions, Southern California's defense and aerospace industries jettisoned tens of thousands of workers. Between 1990 and 1994, Orange County employers shed 45,600 nonfarm jobs, a drop of 3.9 percent.

Compare that to the current, housing-related downturn: From the local job market's peak in December 2006 through last month, Orange County employers shed 53,700 nonfarm jobs, a drop of 3.5 percent, according to the state's Employment Development Department.

Still, pain isn't apportioned equally. The bursting of the housing bubble might have hurt us worse than some other places, but it's nothing compared to what the bursting of the tech bubble did to Silicon Valley in the early 2000s.

Between 2000 and 2004, Silicon Valley employers shed 182,300 jobs, a drop of 17 percent, according to EDD. Since then, the Valley's economy has been growing steadily, which points to some things the two regions have in common.

When their respective bubbles burst, both Silicon Valley and Orange County still "had the two most highly educated workforces in California, both had a venture capital structure that was going to recover, and neither had their forward-looking industries devastated," said Stephen Levy, who runs the Center for the Continuing Study of the California Economy in Palo Alto. "Orange County is still a great place to live and work, and so is Silicon Valley."

Or as Rick Chance, managing director at KPMG Corporate Finance in Costa Mesa, put it, "For those who can get through this cycle, the population will continue to prosper and grow."

In the meantime, "It's been difficult," said Mike Sorochman, owner of Elegant Openings, which sells windows and doors from a location in Fountain Valley and its new store at the South Coast Home Furnishings Centre. His business is down 40 percent since 2005, he said.

"If the banks aren't lending money, nobody's going to be taking out their refis and fixing up their

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homes," he said. "But some people know they're going to stay and they have the money, so they do it anyway, and they know to do it now because now's a down market."

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