

Experts expect real estate slump to last well into 2008

Marni Leff Kottle

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While 2007 slides into the record books as a real estate industry train wreck, few are predicting that 2008 will be much better.

For clues, economists say they will be watching the health of the national economy, the situation with foreclosures and the availability of credit next year. But even under the best of circumstances, a speedy turnaround in the market is unlikely, economists said.

"A real recovery in the housing market is probably at least a year off," said Robert Kleinhenz, deputy chief economist for the California Association of Realtors. The scarcity of credit right now is of particular concern, Kleinhenz said.

"The murkiest part of my crystal ball has to do with the liquidity crunch," Kleinhenz said. "The financial markets haven't quite figured out how to get past the current liquidity crisis and as long as that's in play, we're going to see very weak sales numbers in the Bay Area and throughout the state."

It may take until the end of 2008 or beginning of 2009 for the market to hit bottom, said Mark Zandi, chief economist at Moody's Economy.com. "I think there's a lot of financial pain between now and then," Zandi said.

Part of that pain will come with a continued increase in foreclosures at least through the first half of next year, said Ed Craine, chief executive officer of Smith-Craine Finance, a San Francisco mortgage lender and vice president of the California Association of Mortgage Brokers.

"We're going to see an extended period - and we already have now - of a lot of defaults and foreclosures," Craine said. "It will take some time to work through that and for consumers to get confident again. But they will and prices will come back." Still, some real estate industry executives said that concerns about the credit markets are overblown.

"I saw a complete media overreaction to something they didn't understand," said Larry Klapow, president of Coldwell Banker's San Francisco Bay region. "A very small segment of the population had these subprime adjustable loans."

Economists also said that the national economy is a significant factor.

"Job creation has been good in the Bay Area, with technology as the anchor, but that could slow," said Ken Rosen, chairman of the Fisher Center for Real and Urban Economics at UC Berkeley. "I'm not predicting a Bay Area recession, but if there is a national recession, the Bay Area is not immune."

Some economists say that recession or no recession, the housing market is going to get worse before it gets better.

"People think it's not going to hit their neighborhood, not going to hit their price point," said Christopher Thornberg, a founding partner of the consulting firm Beacon Economics. "But the reality is that it is only going to get worse in 2008."

While certain parts of the Bay Area's housing market, such as San Francisco, remained strong in 2007, Thornberg said he doesn't believe that's a sign of underlying stability. "You can only have prices fall so much in one place without dragging them down in another," he said. "It doesn't happen overnight. It takes time. There is a certain degree of lag you have to go through before this thing can settle out."

And with the future uncertain, Scott Kucirek, general manager for Prudential California Realty, said he relied on his worst-case forecast - sales down by 10 percent and prices falling by 5 percent - to put together a budget for 2008.

"Bay Area-wide it's going to be a push to keep the median home price level this year," Kucirek said. "We try to be sensible in our budgeting and maybe I'm being a bit too pessimistic."

But the one thing that economists and real estate agents seem to agree on is this: As bad as it may get in the Bay Area, the region is weathering the downturn in the real estate market much better than most other places.

"The housing market is fairly strong in the vast majority of the Bay Area," said Berkeley's Rosen. "It's slipping a little, but it's not the free fall you have in some parts of the country."

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