

The Housing Bubble

Examining the home price boom and its effect on owners, lenders, regulators, real estate agents and the economy as a whole.

November 4, 2007

[Much Of The Boom Has Turned Out To Be A Bubble](#)

The [Orange County Register](#) reports from California. "Home sales fell to their lowest level in at least 20 years in September. Yet, even with many buyers on the sidelines waiting for the market to settle, some are finding homes and others are signing contracts for personal reasons. There also are a few who bought earlier this year only to see a decline in the value of their homes amid falling prices."

"Some residents of Camden Place, a new home development at the former Tustin Marine base, are feeling buyer's remorse. The three-story condos they bought are now selling for more than \$100,000 less than they paid."

"Erin Kerr said he doesn't regret buying his Camden Place condo but does wish he had waited a little longer. They paid \$577,000. Last week, the developer offered a similar unit for \$464,000. 'We love the community, we love our home, but part of me wishes we waited maybe a few more months. Maybe we would have gotten a better deal,' said Kerr."

"The Tiptons are fixing up their new Anaheim Hills home, getting it ready to move in. While they got a deal on the home they bought, they couldn't find a buyer for their old home in Whittier. So after two months of trying to sell it,

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they took it off the market and plan to rent it out instead.”

“‘It’s just not selling for what it’s worth,’ said drywall contractor John Tipton.”

“Is [now the time](#) to for hesitant homebuyers to make a deal? Or will there be a better time down the road when prices are lower?”

“‘If you have a long horizon, this is a good time to buy,’ said Michael Caruso, president of the Orange County Association of Realtors. ‘You have plentiful inventory, you have willing sellers and you have agents in a problem-solving mode.’”

“But Chris Thornberg, principal at Beacon Economics and a former UCLA professor, countered that buying now is folly. ‘What’s the point of buying today when you can buy it for 10 percent less in a year?’ Thornberg said. ‘For the life of me, I can’t figure out that logic.’”

The [Daily Bulletin](#). “When people talk about a cycle in prices, they imply that prices go up for a while, eventually get too high and then fall back some. It might be true in some areas of the business world, but it doesn’t apply to California home prices.”

“‘People want to be here, and people need places to live,’ said Jack Kyser, chief economist with L.A. County Economic Development Corp. ‘That’s why prices will always go up here - because it’s California.’”

“‘I can’t imagine the median in the High Desert ever being below \$200,000 again,’ said High Desert builder Todd Tatum. ‘There is no price cycle. If you look at a graph, it would look like a stairstep, going up, flattening off, going up, flattening off.’”

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The [Press Enterprise](#). "Just north of Interstate 210 sits one of this city's marquee developments — the 'Beverly Hills of Fontana' as one resident recently described it."

"And like other areas with vast tracts of new development, Fontana and the Sierra Lakes community are now bearing the brunt of the slumping housing market. Thousands of foreclosures are recorded in the area each month."

"'Where there is boom there is now bust,' Fontana Councilwoman Janice Rutherford said in an interview."

"In Sierra Lakes, the southwest corner of the 700-acre development had the highest density of foreclosures and defaults in the city during the second quarter, according an analysis of foreclosure data by The Press-Enterprise. Property values are dropping by more than 10 percent in some parts of the development, the San Bernardino County tax assessor's office reported."

"A large plywood sign propped against the garage door of one Sierra Lakes home begs someone to come to the homeowner's aid. 'Help!' reads the sign in orange-neon paint. 'Going to foreclosure.' The sign says the home is worth \$530,000 but will sell for \$440,000, scratched down from \$450,000.' "

"'We are barely holding on here,' said Jean Beauford, who bought into Sierra Lakes three years ago and has seen her monthly mortgage payment jump from \$1,641 to \$2,500 because of an adjustable interest rate."

"Kevin Parhm's girlfriend bought into Sierra Lakes about a year ago. Parhm said the housing crisis will only get worse. 'If you had a pulse, you could get a loan,' Parhm said, pointing to house after house on the street that is now

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vacant.”

The [Bakersfield](#). Californian. “In September, Bakersfield’s home sales were nearly half what they were a year ago, according to the Bakersfield Association of Realtors.”

“In addition to putting the brakes on brisk growth, the housing bust has left the state and local economy more vulnerable to systemic shocks, said Leslie Appleton-Young, chief economist with the California Association of Realtors. ‘It does mean we’re closer to the edge,’ Appleton-Young said. ‘There’s more risk to the downside because other things can always happen.’”

The [Tracy Press](#). “About 20 of those prospective homebuyers turned up at the office of real estate brokerage Saturday morning to see what kinds of deals they could get on houses that have been through foreclosure. Real estate agent Joan Fallavena told potential buyers that banks own all 19 homes on Saturday’s tour.”

“Fallavena and three other real estate agents from the office led people on a caravan through Tracy neighborhoods to look at houses that are back on the market. Some of them are among Tracy’s newest homes.”

“The previous owners of a three-bedroom house in the Edgewood subdivision apparently didn’t live there long enough to put in any landscaping in the backyard. ‘They moved in long enough to put up a few pictures, then the mortgage adjusted and they were out of here,’ said real estate agent Claire Trinkle.”

“Peggy Stout of Calaveras County added that the advantage is with people like her daughter and son-in-law, who have a

huge inventory to chose from. 'The market is great,' she said. 'They're in a perfect situation, because they don't have to sell anything.'

The [San Francisco Chronicle](#). "The weight of defaults on real estate loans has forced the Bay Area-based Cal State 9 Credit Union into federal conservatorship."

"The state Department of Financial Institutions announced late Friday that it was putting the National Credit Union Administration in charge of Cal State 9 operations."

"The credit union has five branches in San Francisco, Berkeley, Oakland, Hayward and Pleasant Hill. Its headquarters is in Concord. The Cal State 9 Credit Union, which has been in operation for nearly 60 years, has more than 29,000 members and nearly \$388 million in assets, said Carol Chesbrough, California's interim commissioner of financial institutions."

"'The credit union, however, had impaired capital and had become insolvent,' Chesbrough said. The state's action 'is related to the credit union's defaults on mortgages,' California Department of Financial Institutions spokeswoman Alana Golden said."

"The credit union reported \$54.5 million in loan and lease losses in its September quarterly report on file with the state; in the previous quarter the reported losses amounted to \$17 million."

The [Modesto Bee](#). "Two years ago, economists, Realtors and others carried on a lively and unresolved debate about whether skyrocketing housing prices constituted a bubble, a bubble that was destined to burst."

“Today, in Stanislaus, San Joaquin and Merced counties, to say the bubble has burst is an understatement.”

“Based on past experience, we anticipate that developers soon will be asking cities for major breaks in permit fees in order to jump-start home building. Elected leaders will be tempted to acquiesce in the name of improving an ailing economy.”

“That isn’t the best solution. It’s obvious now that the demand for valley housing was artificially inflated by speculation and subprime mortgages that put many people into houses they couldn’t really afford. And for all the new homes that were built, very few were truly affordable to those with typical valley incomes.”

“Now is the time for sanity. And when building begins to boom again, which it will, let’s remember the lessons we learned.”

The [LA Times](#). “Downtown’s boosters hailed the cranes dotting the skies over Los Angeles as sure signs that the city’s building boom and economic good fortune were continuing. At the same time, ever-rising housing prices convinced homeowners across the region that their bet on Southern California was a prudent, maybe brilliant, one.”

“But now, as the housing market undergoes a painful correction...it’s time to look beyond the real estate hype and wishful thinking. On closer inspection, much of the ‘boom’ has turned out to be a ‘bubble,’ built not on rapid growth in personal income and new jobs in many industries, as in past regional booms, but mostly on a housing market gone mad.”

“Paradoxically, a weakening real estate market may be precisely what L.A. needs. Lower housing prices could keep

businesses from leaving the region because their workers could afford to buy houses. Cheaper condos could make living downtown or in other high-density areas more affordable.”

“And the prospect of fewer buyers and lower home prices may persuade residential developers to sell their land, which could open it up for industrial, warehouse and other productive uses.”

“Far-fetched? Well, much of these scenarios played out after the collapse of the L.A. real estate market in the early 1990s. It could happen again, to the benefit of the region and the long-term sustainability of the real estate market.”

Posted By: Ben Jones @ 11:51 am

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I'm so glad that Chris Thornburg is getting quoted in these articles utilizing “common sense”. Too funny. But no good response. “If you have a long horizon, it's a great time to buy?” Are you f'ing kidding me. Why not just play russian roulette with your finances.

I've been reading a lot lately but with no time to post (newborn keeping me up a lot) but I have to say that the quality of this blog keeps getting better. (Maybe it's just the shift in reality).