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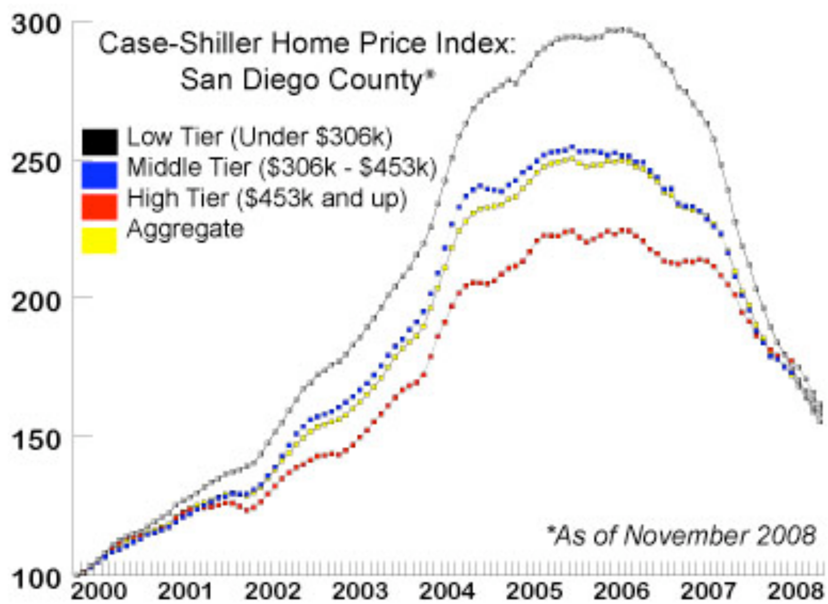
The Housing Downturn, Three Years In

By KELLY BENNETT

Tuesday, Jan. 27, 2009 | Housing prices in the county dropped by 25.8 percent in November compared to the same month a year earlier, according to the Standard & Poor's/Case-Shiller index.

The latest installment of the index, released Tuesday, accounted for sales as of the end of November -- exactly three years from the market peak in 2005. This decade, prices skyrocketed by 150 percent in about six years. They've now fallen 37.9 percent from the peak, but remain 55.5 percent higher than in January 2000.



The Case-Shiller index assigned a value of 100 to the county's home prices in January 2000 and tracked the market's ascent as a percentage of that base. At the peak, in November 2005, the county's index reached a level of 250.34, meaning prices were 150 percent higher then than they were in 2000.

Foreclosures continued to exacerbate price declines in 2008, effecting even more foreclosures. Some market observers hoped the foreclosure trend had faded in autumn when defaults appeared to fall off.

But the drop came from a lag in the foreclosure-related filings due to a new state law requiring lenders to attempt more communication with distressed borrowers. The foreclosure rate came roaring back in December, when 6,701 foreclosure-related records were filed, according to RealtyTrac. That marked a 40 percent increase from the previous month and a 49 percent increase from December 2007.

Last year, 44,931 properties in San Diego County reached some stage of the foreclosure process. That was more than double 2007's 20,219 properties, and more than six times the 7,832 such properties in 2006, RealtyTrac reported.

This installment of the Case-Shiller index signaled new weakness for higher priced homes. The highest priced tier, homes priced above about $450,000, sustained the biggest drop of any tier between October and November, according to a version of the index adjusted for typical seasonal trends. The high tier's monthly drop of 3 percent beat the middle tier's 0.43 percent and the lowest tier's 1 percent drops in the same period. It was the first month the high tier carried that distinction; the deepest monthly declines have most often registered in the lowest tier since the downturn began.

Hopes that high-priced homes would avoid the fallout of this housing crash were ill-placed, said Chris Thornberg, principal with Beacon Economics. Prices swung up by the most and have since fallen by the most in the lowest priced tier. But the top of the market had trouble brewing, too, he said. Not to mention the worsening recession.

"That was a given. That was only a function of when, not if," Thornberg said. "There was a certain degree of spin. ... First it was 'no bubble,' 'soft landing,' 'not in this neighborhood,' 'not with this view.'"

Still, the lowest priced tier, priced lower than $306,515, saw the largest drops for any of the tiers. That tier sustained a year-over-year decline of 30.5 percent and a drop from its June 2006 peak of 46.7 percent.

The middle tier, priced between $306,515 and $453,097, registered a year-over-year decline of 22.2 percent and a 36.5 percent drop from the tier's peak in November 2005. (Those data come from the regular version of the index.)

The wild swing in prices for the lowest tier is evidence of the risky mortgages used to finance those homes. Prices in the low tier appreciated a staggering 196.81 percent between January 2000 and June 2006. They've fallen 46.7 percent since.

David Blitzer, chairman of the Case-Shiller index committee, said the differences in tiers is not nearly as pronounced outside of the Sun Belt -- Arizona, California, Florida and Nevada.

"I think what the tiers thing is really telling us is where all the exotic mortgages were hiding out -- both geographically and from the price of the house," he said.

As prices have fallen, sales have increased. The last six months of 2008 saw sales totals that were higher than the same months in 2007, according to MDA DataQuick. Those sales were about half foreclosures, but the increase in activity heartened some analysts.

"Of course what you're seeing out there is an increase in sales -- to some extent, in some neighborhoods, you are seeing that prices are getting down to reasonable levels," Thornberg said.

La Jolla real estate agent Ed Mracek said the real estate community in that neighborhood is watching some pricey homes that are highly leveraged, wondering if their owners will have to sell at a loss if they can't make the payments.

Among buyers seeking million-dollar properties, those with cash are demanding discounts. Such buyers know sellers are hoping to avoid the headaches associated with anyone using jumbo financing -- loans higher than $625,500.

"We're seeing people come in all cash, wanting 20, 30 percent discounts," he said.

Some such sellers are taking their house and going home. Some have decided real estate is a better place to have big money invested than in the stock market, Mracek said. He had two clients with oceanfront property in La Jolla pull their homes off the market, waiting for better days.

Thornberg forecasted a bottom for prices within the next year, and projected a peak-to-trough decline at between 55 and 60 percent for California. It's already fallen about 45 percent statewide, he said. Relative to today's pricing, that would mean another 25 or 30 percent drop, he said.

"It's just a waiting game," he said. "Of course, being on the bottom is a lot different than getting off the bottom, but we do seem to be coming."

Please contact Kelly Bennett directly at kelly.bennett@voiceofsandiego.org with your thoughts, ideas, personal stories or tips. Or set the tone of the debate with a letter to the editor.