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News

'What Subprime Has Giveth, Subprime Has Taketh Away'

A near-10 percent drop in housing prices in the county, amid a slew of negative financial news, leaves some economists uttering the word 'recession.'

By KELLY BENNETT Voice Staff Writer

Wednesday, Nov. 28, 2007 | Housing prices in the county dropped 9.6 percent in September compared to the same month a year earlier, according to the Standard & Poor's/Case-Shiller home price index released Tuesday.

The local indicator, which measures price changes for detached houses that have been sold at least once before, came in a slew of depressing news for the local and national economies Tuesday. The national Case-Shiller index fell sharper in the third quarter -- 4.5 percent from the same quarter in 2006 -- than it ever has in the history of the index, stretching back to 1987. National consumer confidence, as reported by the Conference Board, dropped to its lowest point in two years, a slide attributed to gas prices and the slumping housing market.

And the barrage leaves economists on either side of a divide: whether the housing market woes are enough to propel the local or national economies into a recession.

"We’re still holding the line that we'll see a sluggish economy for a while both at the national and state levels," said Ryan Ratcliff, economist with the University of California, Los Angeles, Anderson Forecast. The woes aren't enough for a full recession, he said.

But others point to the constant price drops for more than a year as evidence that the region -- and many places in the country -- are in poor shape. If a recession isn't inevitable, said Chris Thornberg, analyst with Beacon Economics, it's far more than likely.

In the San Diego County breakdown of the Case-Shiller index, data shows that the lowest of the three price tiers appreciated the most during the boom, and has fallen the furthest over the last year.

That tier -- September house sales for less than $474,647 -- showed a 3.6 percent drop from just the month before, and logged a 15.8 percent drop from September 2006. That's more than one-and-a-half times deeper than the overall market.

The middle tier, homes priced between $474,647 and $676,111, dropped 10.3 percent over the year. The highest tier dropped 5.6 percent in that time, while all tiers combined dropped 9.6 percent.

Economists aren't surprised. But the differences will even out over time, some say. The easy financing that swung open the homeownership gate for unqualified buyers fueled a speculative market that sent the region's house values soaring, and the push on the low end trickled up to already high-priced coastal properties. That ripple effect won't vanish on the inverse, they say.

"Subprime is what drove prices up so high, and what subprime has giveth, subprime has taketh away," Thornberg said. "Long-run trends dominate short-run differences. In the long run, the decline in prices in terms of percent is the same. ... Overall, the upper echelons of prices have to come down just as much."

Ratcliff said the numbers show a clear inverse of the boom.

"I think this is sort of the flip side of what we saw between 2002 and 2005 in terms of percent appreciation," he said. "The lower priced homes were the ones that saw the biggest appreciation. The boom was biggest at the low end of the market."

That rings true for Bob Wilson, a real estate agent with Allison James Estates and Homes who's been in the business since 1990. He has a condo listing in the Mid-City area in San Diego where his seller owes more than $180,000. The condo won't likely sell for more than $107,000, he said.

"It doesn’t surprise me that the bottom is going out of the bottom," he said. "They're the people who can afford it the least."

And the conventional wisdom that buyers will be fine as long as they stay in their properties for a decade doesn't work when the most affordable properties are small, he said.

"Few people live in one-bedroom condos long enough to ride out this market," he said.

"The problem we have right now is we have too many people pushing people into properties. Why would you buy, unless you really have to?"

Looking at data on the region's Multiple Listing Service on Tuesday afternoon, Wilson said the listings that have closed escrow in November represent just 5 percent of the total properties listed for sale.

"That number is beyond scary," he said. "When you have such low (sales) numbers, prices can only drop."

Like the price drops measured in the Case-Shiller index, the sales totals for September were markedly lower than the same month in 2006. Home sales totals dropped to 2,152, a 35.5 percent drop from September 2006, according to DataQuick Information Systems. It was the lowest month for sales since January 1996.

Resale condo sales were down 20 percent over the year, while resale detached homes experienced a 40 percent decline in sales. New home sales dropped by 39 percent.

The median price for resale condos as tracked by DataQuick was $350,000, down 8.5 percent from September 2006. The median price is the midpoint among all of the homes that sold in a particular month.

Some market analysts, like Nathan Moeder at the London Group Realty Advisors, recoil at using any indicators that span San Diego County in general. In a recent report, he characterized real estate as inherently local. Demographics, climate, geography and proximity to urban areas make the county's submarkets diverse, he said. Foreclosure trouble in lower-priced neighborhoods shouldn't affect what La

Jolla homeowners consider to be their homes' value, he said.

Moeder recommends that for buyers seeking "stable value," it "might be a good bet to hug [Interstate] 5," and stick to buying in the North County coastal cities and neighborhoods.

But Thornberg, one of California's loudest real estate bears, said a region's markets are inextricably linked. Dropping prices in an inland market pulls demand from the subsequent markets all the way to the coast. And decreased demand will lower those other markets' prices.

"[Realtors] were telling us everything was fine, but now they're telling us all real estate is local," Thornberg said. "But when are you going to stop believing the [expletive]? The reality is your house is not worth as much as you think it is."

Please contact Kelly Bennett directly with your thoughts, ideas, personal stories or tips. Or send a letter to the editor.