

California Home Price Predicted to Fall for First Time in 10 Years

Contributed by Sam Stamper
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Oct. 11--California median home prices are predicted to drop next year for the first time in a decade, as foreclosures and unsold properties continue to pile up and homebuyers wait for better deals, according to a housing industry forecast released Wednesday.

The California Association of Realtors is predicting that in 2008, the median price of a resale home in the state will decline 4 percent to \$553,000 and sales will drop another 9 percent on top of a 23-percent plunge this year.

Riverside and San Bernardino counties, along with those in the Central Valley, are experiencing deeper real estate doldrums than the rest of the state, the forecasters said. These regions have seen an exceptional amount of new-home construction, which has forced builders to take large price cuts to clear unsold inventories.

Real estate economists say the two Inland counties will continue to suffer more than the rest of the state because of the failure of high-risk subprime mortgages that were widely used in recent years by first-time buyers who moved inland from coastal counties to buy affordable housing.

State association President Colleen Badagliacco said she expects the California housing market will again be jolted in the second and third quarters, when more adjustable-rate subprime mortgages are scheduled to reset, possibly at higher interest rates.

The real estate industry is expecting a relatively healthy state economy to enable the market to stabilize sometime next year, Badagliacco said.

She said the industry was caught off guard by the severity of the mortgage crunch this summer by lenders that tightened their practices, which made it harder to qualify.

"Tighter credit standards, affordability concerns and a continued standoff between buyers and sellers will contribute to continued weakness in the market going into next year," Badagliacco said.

She said sales could decline even more steeply if the mortgage crunch lasts longer than expected or if interest rates unexpectedly rise. She said the industry is hoping the federal government will help by raising the lending limits on government-sponsored mortgages.

Chapman University economist Esmael Adibi said the significance of the state Realtors association projection is that it reflects a growing pessimism among real estate experts. Adibi said earlier this year that many experts were forecasting that sales might rebound and home prices might stabilize by 2008. He said it is the first time that Badagliacco's group has acknowledged the downturn may continue for another year.

"We haven't seen any turnaround in sales, and the inventory of unsold homes keeps rising," Adibi noted. "For sure there will be no rebound."

He said he is predicting the median home price will decline 6 percent statewide next year and 7 percent in Riverside and San Bernardino counties.

It would be the first statewide year-over-year drop in the median resale price of single-family home since 1996. In 2003 through 2005, the median resale home price increased annually by more than 16 percent. In 2006, the median price of a home sold on the resale market rose by 6.6 percent, the realty association reported. This year the median price rose by 3.5 percent to \$576,000.

However, Adibi said the 2007 median price has been distorted because of a scarcity of financing for first-time buyers. The result is that a larger proportion of sales were for more expensive houses purchased by the wealthy or move-up buyers with existing equity.

"Comparable home prices have gone down everywhere, but it is not reflected in the median because of the change in the mix of houses being sold," Adibi said.

Foreclosure activity in California last month was up 246 percent from a year earlier, according to a monthly report being released today by RealtyTrac, an online market for foreclosed properties.

Riverside County ranked fourth in the state and San Bernardino County sixth in filings for defaults, bank repossessions and trustee sales relative to their number of households.

Comparing September to August, the number of foreclosure-related filings dropped 11 percent statewide and 7 percent in Riverside County, while increasing 8 percent in San Bernardino County.

Foreclosure activity is expected to remain high, though, said RealtyTrac spokesman Daren Blomquist. San Bernardino County recorded 5,253 foreclosure-type filings last month, up from 196 filings in September 2006. Riverside County posted 6,766 filings, up from 1,772 a year earlier.

Scott Chappell, owner of a Riverside real estate agency, was at the Anaheim Convention Center on Wednesday attending a trade show sponsored by the California Realtors Association. He said the mood there was gloomy.

He said agents had flocked to the trade show in hopes of finding new ways to make a living. They were at seminars in foreclosures, marketing bank repossessions and using home auctions to attract buyers.

Chappell said since 2005 he has seen his business fall off by two-thirds, and he is expecting a two-year-downturn.

"There is no smart money buying right now," he said.