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## Home Prices Seem Far From Bottom

By [VIKAS BAJAJ](#)

The American housing market, where the global economic crisis began, is far from hitting bottom.

Home prices across much of the country are likely to fall through late 2009, economists say, and in some markets the trend could last even longer depending on the severity of the anticipated recession.

In hard-hit areas like California, Florida and Arizona, the grim calculus is the same: More and more homes are going up for sale, but fewer and fewer people are willing or able to buy them.

Adding to the worries nationwide are rising unemployment, falling wages and escalating mortgage rates — all of which will reduce the already diminished pool of would-be buyers.

“The No. 1 thing that drives housing values is incomes,” said Todd Sinai, an associate professor of real estate at the Wharton School at the [University of Pennsylvania](#). “When incomes fall, demand for housing falls.”

Despite the government’s move to bolster the banking industry, home loan rates rose again on Tuesday, reflecting concern that the Treasury will borrow heavily to finance the rescue.

On Wednesday, the average rate for 30-year fixed rate mortgages was 6.75 percent, up from 6.06 percent last week. While banks are moving aggressively to sell foreclosed properties, the number of empty homes is hovering near its highest level in more than half a century.

As of June, 2.8 percent of homes previously occupied by an owner were vacant. Nearly 1 in 10 rentals was without a tenant. Both numbers are near their highest levels since 1956, the earliest year for which the [Census Bureau](#) has such data.

At the same time, the number of people who are losing jobs or seeing their incomes decline is rising. The unemployment rate has climbed to 6.1 percent, from 4.4 percent at the end of 2007, and wages for those who still have a job have barely kept up with inflation.

In New York and other cities that rely heavily on the financial sector, economists expect that job losses will increase and that pay heavily tied to year-end bonuses will decline significantly.

One reliable proxy of housing values — the ratio of home prices to rents — indicates that in many cities prices are still too high relative to historical norms.

In Miami, for instance, home prices are about 22 times annual rents, according to analysis by [Moody’s Economy.com](#). The average figure for the last 20 years is just 15 times annual rents. The difference between

those two numbers suggests that a home valued at \$500,000 today might be worth only \$341,000 based on the long-term relationship between prices and rents.

The price-to-rent ratio, which provides one measure of how much of a premium home buyers place on owning rather than renting, spiked across the country earlier this decade.

It increased the most on the coasts and somewhat less in the middle of the country. Economy.com's calculations show that while it remains elevated in many places, the ratio has fallen sharply to more normal levels in places like Sacramento, Dallas and Riverside, Calif.

The current housing downturn is much more national in scope and severe than any other in the postwar period, partly because of the proliferation of risky lending practices. Today, foreclosures are running ahead of the downturn in the economy, a reversal of previous housing slumps.

"We are in uncharted waters," said Brian A. Bethune, an economist at Global Insight, a research firm.

Colleen Pestana, a real estate agent in Orange County in California, said many people losing their homes in Southern California used to work at mortgage and real estate companies. Many of them bet heavily on real estate by upgrading to bigger houses every few years. Now, many are losing their homes.

At the same time, Ms. Pestana said, her clients who are looking to buy are having a harder time lining up financing. One of her clients recently had to give up on a home after the lender that had offered a pre-approved loan changed its mind — a frequent occurrence, according to real estate agents and mortgage brokers.

"I am working harder than I have ever had to work to get a deal together and keep it together," said Ms. Pestana, who has been a real estate agent for seven years.

To cushion themselves from potential losses if homes lose value, [Fannie Mae](#) and [Freddie Mac](#), the mortgage finance companies that the government took over in September, have increased fees on loans made to borrowers who have good but not excellent credit records, even those who are making down payments as big as 30 percent.

Those higher fees are generally invisible to borrowers because banks factor them into mortgage interest rates. While the national average rate for a 30-year fixed-rate mortgage is now 6.75 percent, according to HSH Associates, mortgage brokers say the rates for many borrowers in the Southwest or Florida can be as high as 8 percent, especially for so-called jumbo loans that are too big to be sold to Fannie Mae and Freddie Mac. (Those loan limits vary by area from \$417,000 to roughly \$650,000.)

Higher interest rates result in bigger monthly payments, pricing some potential buyers out of the market. For example, monthly payments are \$2,700 on a 6 percent 30-year, fixed-rate loan of \$450,000. If the interest rate rises to 7 percent, those monthly payments jump to \$3,000. All things being equal, when rates rise prices generally fall.

This month, Fannie and Freddie canceled a fee increase that would have applied to markets where home

prices are falling, but the companies still have many other fees in place. In an effort to help drive down rates, the Treasury Department has announced plans to buy mortgage-backed securities issued by Fannie and Freddie. The government also recently increased the amount of loans the companies can buy and hold.

Still, those efforts will take time to have an impact and it is not clear whether they will be sufficient to get banks to lend more freely, especially in areas where jumbo loans make up a bigger percentage of lending, like New York and parts of California and Florida. Economists say that prices in those places will probably fall further.

In some of those places, price declines are being driven by a sharp increase in sales of foreclosed homes.

Hudson & Marshall, a Dallas-based auctioneer that holds sales for lenders, reports that banks are accepting prices that they refused to consider just 12 months earlier. In a recent auction of 110 foreclosed homes in the Las Vegas area, for instance, the auctioneer's clients accepted 90 percent of the bids submitted by buyers, up from 60 percent a year earlier, said David T. Webb, a co-owner of the company.

Single-family home prices in Las Vegas have already fallen 34 percent from their peak in the summer of 2006, according to the Standard & Poor's [Case-Shiller home price index](#). Prices in San Diego have fallen 31 percent since late 2005.

While those declines have been painful to homeowners in those cities, economists said the quick decline might help the markets reach bottom faster than in previous housing cycles, said Edward E. Leamer, an economist at the University of California, Los Angeles. In a previous boom, home prices peaked in the Los Angeles area in 1990 but did not hit bottom until 1996. Prices remained near that low for more than a year before starting to climb again.

"In some areas of California, we are really at appropriate levels," Mr. Leamer said of current home prices. But he added: "The risk is that we are going to get some overshooting, meaning that prices will be lower than they ought to be."

In Florida, Jack McCabe, a real estate consultant, said that while some cities, like Fort Myers, are showing tentative signs of a rebound, others like Miami and Fort Lauderdale are still under pressure. Two homes on his street in Fort Lauderdale that sold for about \$730,000 apiece in 2005 recently sold for \$400,000 — a 44 percent decline.

"The rocket has run out of fuel, and now it's plunged back down to earth," he said.

*Tara Siegel Bernard contributed reporting.*

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