LOS ANGELES BUSINESS JOURNAL

PRINT | CLOSE WINDOW

Home Prices Dip as Sales Volume Dives

By DEBORAH CROWE - 1/7/2008
Los Angeles Business Journal Staff

The Los Angeles County residential real estate market continued to tumble in December, with sales nose diving 66 percent compared to a year earlier and the median price dropping 7 percent to $510,000.

The median, which fell in October for the first time year-over-year since the long real estate run-up began, is now $15,000 lower than November and $40,000 lower than it was in December 2006, according to data provided to the Business Journal by Melville, N.Y.-based HomeData Corp. It has not been this low since June 2005.

The median peaked in May and again in July at $585,000.

Driving the fall in December was the precipitous decline in sales. Only 2,161 homes changed hands during the month, compared to 6,263 in December 2006. That was a bigger monthly fall than November when sales were off 55 percent and the median fell 4.5 percent.

And unlike earlier last year when sales in wealthier neighborhoods helped prop up the county median, the decline in December sales and median prices was widespread across the county, from Lancaster, to Tarzana, to Long Beach.

Such a broad decline is consistent with figures from the closely watched S&P/Case-Shiller Home Price Index, which measures price changes in individual homes over time, eliminating distortions to the median caused by higher sales in wealthy neighborhoods. The index, released in December, showed an 8.8 percent price decline in October for Los Angeles. Nationwide, the price was off 6.1 percent, almost as large a decline as in April 1991.

And while many real estate brokers and analysts still do not believe the market will collapse in Southern California as it did in the early 1990s, Mark Morgan, an analyst with Rochdale Securities, expects that 2008 likely will be a transition year – at best.

“I don’t think we’ve hit bottom yet on prices anywhere,” said Morgan, who covers mortgage lender Countrywide Financial Corp. and homebuilder Ryland Group Inc. “We had this mid-teens growth over the last few years driven by loans that shouldn’t have been made in the first place, so I’m not expecting a quick rebound.”

As in the fall, real estate professionals say prospective buyers on both ends of the market have been stymied by a lack of affordability in prices and a lack of financing due to the ongoing credit crunch.

Sub-prime and Alt A loans dried up months ago for moderate-income families with problem credit. But now even higher income families with good credit are having problems getting a jumbo loan, necessary when a home is priced above $417,000. Banks are demanding at least a 20 percent down payment.

“In the last few weeks it seems like everyone has to have a high FICO (credit) score and be able to put down 20 percent,” said Steven Thomas, a regional president for ReMax Real Estate Services in Southern California. “More sellers are going to have to have some skin in the game, help out the buyer, to get a deal done.”

There has been discussion in Congress about raising the limit on conventional mortgages – perhaps only in high-priced markets such as California and Florida– similar to what is allowed in resort markets like Hawaii. Thomas said that would help. (An op-ed on this topic appears on page 42.)

“That will be a step in the right direction, because most of what’s been done up until now have been band-aids,” Thomas said. “When the conventional loan limit is significantly lower than the median price of a home, there’s something wrong with the definition in that market.”

Increased competition

The market collapse has left a huge inventory of unsold homes. What’s more, homeowners seeking to sell also must compete with foreclosed homes that are owned by banks, so-called real-estate-owned, or REO properties.

That’s a particular problem in the once fast-growing Santa Clarita and Antelope valleys and has taken a huge toll on the fortunes of locally based homebuilders such as Ryland Group and KB Home, whose share prices are less than half of what they were a year ago.

RealtyTrac Inc., an Irvine-based online service that lists REO properties for sale, said foreclosure filings in Los Angeles fell to 6,654 in November, after rising 19 percent in October to 9,767. Similar figures are expected for December – all following national trends.

But RealtyTrac spokesman Daren Blomquist anticipates that the pace now will pick up as payments rise on more than 1 million homes nationwide due to adjustable mortgage resets.

“Banks don’t want to foreclose on people over the holidays, so we’ll have to wait until this quarter,” Blomquist said. “Despite the plans being talked about to provide relief, there are many people who are too far into it to be helped.”

Indeed, the downturn was surprisingly widespread throughout the county. The median price in Lancaster’s 93534 ZIP code and Tarzana’s 91356 were down 39 percent from a year ago. Long Beach’s 90813 fell 37 percent and Downey’s 90240 dropped 34 percent.

San Fernando’s 91340, which saw 25 sales in December 2006, had only one deal close last month. Torrance’s 90503 fared only slightly better with three sales last month, down from 23 sales in December 2006. West Hollywood’s 90069 went from eight sales to one.

The collapse in sales also has taken its toll on the California Association of Realtors, which is expecting its membership will have dropped 12 percent in 2007 when final tallies are in. While many of those departures are likely to be agents who got into the business near the height of the bubble, a few, like Orit Gadish, are finding success in the REO market.

Surprising success

Gadish, a former vice president at Countrywide Financial Corp., left the mortgage lender to become an agent three years ago and struck out on her own as a broker in early 2006.

Sensing the changing winds, six months ago she moved her mom-and-pop brokerage near downtown Los Angeles toward the REO market. In December she closed five sales on foreclosed properties and as of last week had 18 listings throughout the county.

“I’m sure there are going to be more of these properties available,” said Gadish. “We have all these jumbo loans out there that people are going to need to refinance and won’t be able to. That’s what’s going to be coming in the higher end neighborhoods."

While many brokerages are shedding agents, Gadish Properties expects to add at least 10 agents over the next few months. Gadish even has to enlist the aid of her husband, a management consultant, to keep up with the work flow.

Still, it's unclear exactly where the market is going, especially given some conflicting recent data. The U.S. Commerce Department reported new homes sales fell an unexpectedly sharp 9 percent in November from the month before when adjusted for seasonal variations.

But a few days later the National Association of Realtors reported that existing homes sold at an annual rate of 5 million in November, up 0.4 percent from October's 4.98 million. That's given some hope that a turnaround could be in the offing as early as next year.

"We may kind of muddle through in '08 but hopefully we'll see a rebound in '09," said Rochdale's Morgan.
