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“The Housing Market: Boom and Bust”

Housing prices nationally have fallen 9% as of Nov '07 from their peak in June 2006 according to the Case-Shiller composite measure. Median price measurements are not a good guide due to the various mix of products i.e. condo, detached single. Also the reduction in price varies by tier – low tier housing is down 11%, while high tier housing is down only about 5%. The loan performance of said properties in LA/OC as measured by First American Loan Performance House Price Index reports additional negative activity yet again by property type. However, OC data shows some positive indications whereby the rate of decline appears to be shrinking. So.....the impact.....

The losses in the OC Housing Market will

- Reduce state income tax revenue, fewer capital gains
- Reduce local government property tax revenues, property values re-assessed downward

Santa Ana and Anaheim probably the hardest hit areas

The mortgage market nationally has about 45MM mortgages as first lien mortgages. As of September 2007, Mortgage Bankers Delinquency Survey, reports 2.95% are seriously delinquent (defined as 90 days past due or in foreclosure process). California is at 2.66%. Adjustable Rate Mortgage (ARM) serious delinquency rate (1.83%) far exceeds Fixed Rate Mortgage (FRM) serious delinquency rate (.33%) of the 4.7million first lien mortgage loans in the prime category. The .8 million sub-prime category reports Adjustable Rate Mortgage (ARM) serious delinquency rate (15.6%) and the Fixed Rate Mortgage (FRM) serious delinquency rate (5.4%).

Conclusion: Clear downward patterns in repeat sales house price indices, but we may be close to the bottom. Mortgage market evolution has produced costs and benefits; probably too soon to net them out. Winners and losers will vary; there are always some opportunities.