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Homes prices hit new lows in March

The Standard & Poor's/Case-Shiller index of housing prices in 20 metropolitan areas declines 3.6% from March 2010, falling past the bottom reached two years ago and confirming a 'double dip' in home values.

By Alejandro Lazo and Don Lee

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Reporting from Los Angeles and Washington

Home prices hit new lows in March, falling past the bottom reached two years ago and renewing concerns about the economy's ability to fully recover from the grip of recession.

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The Standard & Poor's/Case-Shiller index of housing prices in 20 metropolitan areas declined 3.6% from March 2010, its sixth consecutive year-over-year drop. That pushed the index below its most recent bottom of April 2009, confirming the widely anticipated "double dip" in home values.

Many analysts believe that prices could continue rolling back as the risk of falling prices frightens potential home buyers away from the market. Although the Great Recession ended in June 2009, economists believe that the weak housing market will continue to be a drag on the recovery for years to come.

Construction work driven by residential building typically fuels the U.S. economy when it is coming out of recession. But with home prices sagging and a glut of inventory, there is little demand for new construction.

"This economic cycle is different from anything we have seen in 20 or 30 years, because housing is not playing that leading role," said Christopher Low, chief economist with FTN Financial. "Manufacturing is leading the economy now, and manufacturing is an industry where the last three decades the focus has been on productivity, doing more with fewer people."

The severity of the housing decline is having other broad effects on the economy. Seeing their home values plunge, many Americans are reluctant to spend money — a drag on an economy that depends on consumer spending.

Entrepreneurs, meanwhile, are less able to tap their real estate collateral for loans to launch or expand small businesses. State and local governments are struggling with lower property tax revenues. And all of this has cut into economic and job growth.

The downturn is also leading older workers to postpone retirement and, more broadly, limiting Americans' ability to relocate to new jobs.

Robert Shapiro, an economic advisor to President Clinton, said the housing market's woes present an obvious political risk to President Obama and other incumbent lawmakers.

"Every president wants to run on a strong economy," Shapiro said. "This president will have to run on the fact he's bringing the economy back from the reckless policies of the previous administration. That's the case they'll have to make."

The Obama administration has tried, with little success, to tackle the foreclosure problem by pushing lenders to modify loans and reduce borrowers' payments. Few experts expect any substantial new aid given the tough budget situation.

Advocates for struggling homeowners have urged stronger medicine, including delaying the upcoming reduction of the loan limit on home mortgages and providing emergency loans to "underwater" homeowners whose homes are worth less than the amount they owe.

The Case-Shiller index released Tuesday showed 12 metro areas posting fresh lows since the start of the housing bust. The 20-city index, which declined 0.8% from February, showed prices at 2003 levels. It was the eighth month-over-month decline in a row. A broader national index, also released Tuesday, indicated that housing values were now on par with what they were in 2002.

The picture was brighter in the Los Angeles-Orange County metro area, which remained 5.4% above its most recent bottom, hit in 2009. Prices locally are equivalent to those seen in the fall of 2003.

With prices falling again, some economists fear that the nation's housing market could enter a new downward spiral, with declines pushing more borrowers underwater, triggering more foreclosures and setting off further drops.

"There has been no recovery or even stabilization in home prices during or after the recent recession," said David Blitzer, chairman of the Standard & Poor's index committee. "Further, while last year saw signs of an economic recovery, the most recent data do not point to renewed gains."

Dean Baker, co-director of the Center for Economic and Policy Research, said he expected prices to continue to fall through the rest of the year.

"You are going to see a further negative wealth effect as the price declines from last year," Baker said. "So that is another source of drag on the economy."

Others believe that prices are near, if not at, the bottom and that recent improvements in employment will keep things from getting worse.

"The housing market isn't going to get any worse, it is just not going to contribute moving forward," said Patrick Newport, an economist with consulting firm IHS Global Insight.

Christopher Thornberg, principal economist with Beacon Economics, shares that view.

"With a recovering economy, incomes on the move, interest rates low, the fact that affordability is so good relative to the last decade is more or less supporting the market right now," he said. "But lack of equity is preventing it from going anywhere, so we are just going to sit in this neutral zone."

"The operative word right now is patience," Thornberg said.

The housing market appeared to be headed toward recovery last year, but those gains were largely driven by popular tax credits for buyers. Sales and prices have been weak since the credits expired.

Weighing on prices has been the large number of foreclosure properties, which lenders are unloading on the cheap. Although economists say there are many factors in favor of purchasing a home — including increased affordability and rock-bottom interest rates — falling prices influence buyer psychology because people don't want to make an investment that may drop in value in the near term.

The Case-Shiller index compares the latest sales of detached houses with previous sales and accounts for factors such as remodeling that might affect a house's sale price over time. From those data, an index score is used to show price changes.

Twelve of the 20 cities tracked by the index posted fresh post-bubble lows in March. Those cities were Atlanta; Charlotte, N.C.; Chicago; Cleveland; Detroit; Las Vegas; Miami; Minneapolis; New York; Phoenix; Portland, Ore.; and Tampa, Fla.

Atlanta, Cleveland, Detroit and Las Vegas are markets where home prices are now below their January 2000 levels. Phoenix is also close to that level.

Other than Washington, all of the major cities tracked by the index posted a year-over-year decline.

California cities were not spared, though the Golden State's coastal cities have not fallen into double-dip territory yet. The index does not cover some of the areas most ravaged by the state's housing bust, such as the Central Valley and Inland Empire.

Los Angeles was down 1.7% from March 2010, San Diego 4.0% and San Francisco 5.1%.

Richard Green, director of the USC Lusk Center for Real Estate, said California cities had begun recovering faster than cities in other so-called Sun Belt states such as Florida, Nevada and Arizona because California did not overbuild to the same degree as those places.

alejandro.lazo@latimes.com

don.lee@latimes.com

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