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## HOUSING MARKET

### **Some saw the housing bubble and sold; trick now is spotting the bottom**

**Some who sold homes during the bubble are buying again, drawn by deals, despite the possibility of further price drops.**

By Peter Y. Hong

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Mark Kiesel saw the real estate crash coming.

Kiesel, a managing director at investment firm Pimco, wasn't alone in his 2006 warning of a looming housing market meltdown. But he was among the few who put his money -- in his case, a lot of it -- where his mouth was.

Kiesel and his wife, Amy, sold their Newport Beach house in the summer of 2006 for 20% more than they had paid and moved into an apartment one-fifth the size.

Now, news reports highlight signs of a real estate market bottom. And the Kieseles are still renting.

Just as experts couldn't precisely time the bursting of the housing bubble, no one claims to know exactly when the market will hit its bottom.

There are plenty of pundits weighing in with predictions on when the housing crisis will end, but knowing what to do is tougher than knowing what to say. For those who sold homes during the bubble, actions can be as telling as words.

"We're not there yet," Kiesel said, referring to the bottom in housing prices. "I plan to buy when I can get a place for 50 cents on the dollar" compared with the market peak, he said.

Kiesel turned out to be right about the housing bubble. But three years ago, he didn't think the crash was going to be as prolonged as it has turned out to be. The Kiesel family probably will stay in the apartment longer than planned, he said, perhaps even until 2011.

Declining prices are driving home sales up over last year's levels in Southern California and statewide. Nationally, sales are still below year-earlier levels but have been inching up.

Nobel laureate and Princeton University economist Paul Krugman and his economist wife, Robin Wells, bought a \$1.7-million Manhattan apartment this month. The New York residence had earlier been listed for close to \$2.5 million.

Dean Baker, a Washington economist, also bought recently. Baker began warning of a housing bubble in 2002 and got even more nervous as prices kept rising.

Baker and his wife, Helene Jorgensen -- also an economist -- sold their Washington apartment in 2004 and rented a place a couple of blocks away. Although they got about three times the 1997 purchase price, Baker and Jorgensen might have made more if they had held on a year or two longer.

"I wasn't trying to time the peak," Baker said, because he doesn't think it's possible to perfectly time markets. (After all, he was three to five years off in his crash prediction.)

That's why Baker and Jorgensen bought a house recently in Washington. The bottom isn't here yet, he says, but it's close enough for him. Baker said he's psychologically prepared for his house to fall 10% more in value.

That risk, he said, was offset a bit by the 4.25% mortgage rate he obtained and an \$8,000 federal tax credit. He also emphasized that a house isn't just a financial instrument but something one might decide to spend money on for enjoyment.

"I really value having a porch, a yard, other things like that," he said, and he's willing to pay a price for them -- just not any price.

UCLA public policy professor Mark Kleiman also thinks markets can't be precisely timed. "I'm always happy to get in late and get out early," he said. Kleiman sold his house in 2005 and warned on his blog that real estate prices had zoomed into bubble territory.

He did, in fact, get out early -- the buyer flipped the Mulholland Drive house a year later for an additional \$300,000, Kleiman said. But Kleiman was happy to walk away with a hefty profit on the house he bought for \$465,000 in 1997 and sold eight years later for nearly \$1.4 million. (Kleiman notes he spent heavily on remodeling, so it wasn't all profit.)

Although prices are down, he thinks the safe position is to hold off for now. Kleiman is still renting the Brentwood apartment he moved into after selling.

"Two years ago it was clearer we were still headed down. Now it's not so clear how much more we're heading down, but it's also not clear we're at the bottom," he said.

That's because Westside prices, Kleiman said, are still above what incomes can realistically support.

"When I moved here in 1995, I could afford the house I bought," he said. Now, even though prices have come down, Kleiman said he couldn't afford houses near UCLA on his salary, unless he made an unusually large down payment.

Some people who had been saving for years may be doing just that; others have taken advantage of recent record-low interest rates. That could be putting a floor under home prices.

Still, Kleiman thinks "we may not necessarily be at a natural bottom," because "I still think houses in Los Angeles are expensive on an absolute basis." The "natural bottom" would be the level at which homes would be affordable to people with a down payment of about 20% and fixed monthly payments that could be sustained on their incomes. The Westside is not close to that level yet, Kleiman said.

Kleiman and Kiesel may be more likely to wait because they live in markets far pricier than Baker, who paid \$650,000 for his three-bedroom, 1,500-square-foot Washington house.

In Southern California, sales are brisk for homes priced near or below the current \$265,000 median. The majority of those homes are foreclosures, so prices are often low enough to draw multiple offers from potential buyers.

Richard Toscano, who in 2004 started a popular San Diego housing-bubble blog called Piggington's Econo-Almanac, lately has been posting data showing home prices are favorable compared with incomes and rents in lower-priced parts of San Diego.

He's drawn fire from some, but others who have followed the blog for years have recently posted comments detailing home purchases. Toscano, who sold his San Diego condominium in 2002 (he said the sale was due more to a job transfer than his belief in a bubble then), is still holding off on buying for various personal reasons, he said.

But he thinks it's no longer dangerous to buy in some areas.

"We have this weird, disparate bottoming," he said. "In some areas we may be there already, but others are not nearly as close."

Kiesel thinks places such as his home turf in Newport Beach are among those headed for steeper price drops. Interest rates for jumbo mortgages are still relatively high, and lenders

are routinely requiring 35% down payments on loans greater than \$729,000, limiting the pool of people who can afford homes in the millions of dollars, he said.

Kiesel didn't want to talk about the price details of his own home sale and purchase, but said that when he buys again, he will require jumbo financing.

In that segment, Kiesel said, demand is low because few people have the income and savings to afford the high prices and obtain loans. Supply will grow, he said, as owners of expensive homes purchased during the bubble years find they must sell at a loss or be foreclosed on.

Although widespread foreclosures have brought prices down in lower-priced areas, more affluent homeowners have been able to avoid defaulting on mortgages thus far.

That's about to change, Kiesel says, because falling property values are putting more wealthy homeowners underwater, where the value of the home is less than the mortgage. He estimates 35% to 40% of homeowners nationwide will, by the end of next year, owe more on their homes than the properties are worth.

As prices continue to fall at the high end and those homeowners get deeper underwater, they'll have to sell at prices well below today's levels, or get foreclosed on, which will result in the homes being resold by lenders at cut rates.

Meanwhile, rents are falling. Kiesel's rent hasn't increased and others in his building have gotten rent reductions recently, Kiesel said.

The house Kiesel sold in 2006 has been back on the market for about six months, he said. Would he buy it back?

Only if the owner "would sell it to me for 50 cents on the dollar," Kiesel said.

He doesn't expect that to happen soon.

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