

The Oregonian

Portland home values take first dip

Metro-area values fall for the first time since 1987, and economists expect worse is to come

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The Portland area, once a star performer in an otherwise gloomy U.S. housing market, crossed into the same dismal territory in January when home values dropped for the first time since record-keeping began in 1987, according to a report released Tuesday.

The Standard & Poor's Case-Shiller report comes amid warnings from a respected economic consulting firm that home values could fall as much as 15 percent in Portland, Salem and Eugene and up to 25 percent in resort or retirement communities on the coast and in Bend, Hood River and southern Oregon.

Mark McMullen, an Oregon-based senior economist for Moody's Economy.com, says he expects the state will suffer through a short housing-sparked recession this summer. Oregon, he said, will need five years to reach the boom-time peaks.

Except for coffee shop chatter, the rise and fall of real estate values means little to people who don't plan to move any time soon. But falling home values do cause trouble for some people and the economy.

Homeowners will have less equity to put their children through college or hire a contractor to put in new hardwoods. Others caught in a financial bind can no longer refinance their homes to get out of trouble. That's likely to bring more foreclosures that can drag down neighboring home values.

The declining values cap a six-month slowdown in the Portland region. In January, values dropped a half percent compared with January 2007. It's such a slight drop that economists consider values to be essentially flat.

But Portland suffered a swift decline in prices in January, the largest one-month drop on record. Standard & Poor's has yet to see a city bounce back into the black, and the decline falls in line with Portland's recent trends.

"Nobody's convinced we're at the bottom," said David Blitzer, chairman of the Case-Shiller index committee.

Oregon, along with the rest of the country, enjoyed a historic real estate boom from 2004 to 2006. Now, both are suffering through a historic collapse.

In the Portland region, home values grew by double-digit percentages for 28 straight months. During that time, the home values grew 36 percent, according to the Case-Shiller index. Nationwide, the housing run-up ran earlier, longer and higher. Then the mortgage market melted.

Subprime borrowers -- those with spotty credit -- started to stumble and lost their homes. Investors, who helped prop up demand, left the market. Lenders failed and Wall Street lost billions. The housing struggles, according to some economists, have already pushed the country into recession.

"That's over"

Nationwide, McMullen expects home values to fall 20 percent from their peak, a drop four times worse than during either the 1980s or 1990s recessions.

Despite the troubles, Portland joined Seattle and Charlotte as the only U.S. cities still reporting annual price

growth through December. Portland was aided by Californians' continued migration north in search of affordable housing.

"Now, of course, that's over," McMullen said.

The slowdown has officially ticked negative, but real-world effects have hit the region.

Oregon's housing boom times provided a perpetual opportunity for homeowners to bail themselves out of financial trouble. If they racked up too much debt or got a divorce, homeowners could refinance to pull out their growing equity.

But with values leveling off, homeowners who bought at the peak have only a small cushion at most.

Real estate brokers Paul Johnson and Sam Purtle have seen their business in distressed home sales jump in the slowdown.

"What we're seeing more of is people who bought houses in 2005 or 2006," Johnson said of the homes in short sales. "People who bought before that have equity in their homes."

Their co-worker at Windermere Realty Group, broker Christina Smith, is listing a home on Southwest Hart Road in Washington County for \$399,500. The current owner is trying avoid foreclosure after buying his home in August 2006 for \$408,500.

Smith listed the home Feb. 1. So far, no broker has even visited the home.

Recovery a year out

So where does Portland go from here?

The region still has too many houses and slow demand.

Bill Conerly, a Lake Oswego economist, says the market needs to wait for about a year for new residents to buy up the remaining home inventory before the market stabilizes.

Conerly said he isn't certain how much home values will drop because so much of the market is driven by buyer's perceptions. But he said Moody's projections don't "surprise me and may be accurate."

Portland is likely to remain better off than Rust Belt and Sun Belt cities. Prices here never saw the same 150 percent growth that California and Florida saw.

"A smaller increase means a smaller collapse," said Blitzer of Standard & Poor's.

So far, the Portland region's home values have fallen 4 percent from their July 2007 peak, according to the Standard & Poor's report. The Regional Multiple Listing Service, which tracks thousands of sales annually, says the region's median home value peaked at \$302,000 in August.

McMullen expects price declines to bottom out in the summer of 2009. If prices fall 15 percent, they'd hit bottom at \$256,000, a price not seen in the region since January 2006.

McMullen forecasts that sputtering home sales will help drive the state into a short, mild recession this summer. That pain, he said, will continue to hit hardest among contractors, bankers and brokers who depend on housing for a paycheck.

"There's an unsustainable army of these folks out there," he said.

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