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Gas prices latest worry for real estate market

The financial burden of longer commutes makes homes in outlying areas that are already reeling even less attractive.

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Rising gas prices may be the latest ailment afflicting the housing market, as figures released Monday showed Southern California home prices plunging 27% in May from a year ago and falling even more precipitously in distant suburbs.

Outlying areas like the Antelope Valley and the Inland Empire have long appealed to people who were willing to accept a burdensome commute for the chance to own a better house. But buyers are increasingly factoring gasoline costs into their purchase decisions, said Dan Griffith, a Rancho Cucamonga-based real estate agent.

"It seems like the money they can save in housing is being absorbed by higher gas costs, so they are a little reticent to commit," Griffith said. "Gas is definitely beginning to be a concern."

The median home sale price in six Southern California counties sank to \$370,000 in May, down from \$505,000 a year earlier, according to DataQuick Information Systems.

DataQuick said that was the biggest annual decline it has recorded since it began tracking prices in 1988. The last time the median was lower was in March 2004, when it was \$364,000.

Price drops were especially steep in far-flung suburbs. The median price fell 38% in Lancaster and 42% in Palmdale, compared with 23% in Los Angeles County overall.

San Bernardino County saw prices drop by 31%, but it was worse in the remote town of Victorville, where values declined 43%.

Christopher Leinberger of the Brookings Institution, a Washington think tank, says home values in these so-called exurbs may continue to languish long after urban markets begin to recover, thanks to higher gas costs.

"Under the old model we have lived with for the past 50 years, you could drive away from major employment concentrations until you could qualify for a house because cheap energy costs made it possible," Leinberger said. "Now as energy prices go up, the

housing prices out there on the fringe take a major hit."

Lynette Williams, a real estate agent in Pasadena, said the clients she sees these days are more willing than in the past to accept modest homes if they are close to work.

"They're downsizing what they think their ideal house would be," Williams said. "Compared to two years ago, they are staying in closer proximity to their jobs. They're more focused on the neighborhood they want."

Foreclosures also continue to play a role in falling home values, as buyers default on loans and lenders unload properties at a discount.

Of all the Southern California homes that were resold in May, 37% had been in foreclosure at some point in the prior 12 months, DataQuick said.

Gas prices, however, could even be playing a role in foreclosures, according to real estate agent C.J. Johnson in Tehachapi.

"If someone has to decide between putting gas in the car to get to work and feed their family or [making] the house payment, believe me the house payment is not going to get paid," she said.

Johnson said most people were better off buying a home within an easy commute of work. Gas is not tax-deductible, she pointed out, but mortgage interest is.

Robert Haywood, 40, says he has seen firsthand the effect of rising gas prices. He commutes from his Lancaster home to his job as a warehouseman in Santa Clarita in a 2001 GMC Yukon, which he says gets about 16 miles to the gallon.

Haywood estimates he is spending \$400 more a month on gas than he did a couple of years ago. He plans to sell his Yukon and get a smaller car with better fuel economy.

"I cannot buy myself anything," he said. "I can't buy that new barbecue grill or other little things that might keep the economy going."

The steady decline in home prices over most of the last year, meanwhile, appears to be luring bargain hunters into markets where values have fallen the most, DataQuick said.

In Riverside County, for example, home values tumbled 28.6% from May 2007 to May 2008, DataQuick said. But the volume of home sales in May of this year actually increased by 4.1% from a year earlier, to 3,444.

"One can argue that the stage is being set for a bottoming-out in home sales volume in many areas because prices are coming down sharply enough to attract buyers and home builders have stopped adding new supply," said DataQuick analyst Andrew LePage.

But economist Christopher Thornberg of Beacon Economics thinks home values must fall even lower to come in line with what people can afford to pay.

He and others contend that home values were artificially inflated by the easy availability of mortgage financing in recent years -- an era that has now ended.

"We are probably halfway there at this point in terms of price declines," he said. "I predict prices will be down 40% to 50% [from their peak] in Southern California when all is said and done."

Home buyers don't need to be told it's a buyer's market, according to Williams, the Pasadena realty agent.

"Buyers are being very aggressive in the offers they are writing," she said. "They are hearing about foreclosures, hearing prices are dropping and feeling that if they wait long enough the seller is going to come down in price."

DataQuick sales figures include new homes, previously owned homes and condos. The company tracks the median sale price, the point at which half the homes sold for more and half for less.

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