

SMOKESTACKS & GERANIUMS

Foreclosure viewpoint: It'll get worse

Smokestacks and Geraniums

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Economists from Wall Street to the Federal Reserve are scratching their heads trying to parse the future of housing in light of worsening default and foreclosure rates.

But they might have saved themselves some trouble if they had consulted Robert Gertz, a 21-year-old senior at the University of California San Diego.

For his urban studies and planning thesis, he examined the trends in San Diego County, considered by many to be the bellwether of the nation's housing markets, and predicted doom.

“San Diego will likely face the worst foreclosure rates in its history in the coming three years,” said Gertz, a Sacramento resident who plans to go to graduate school in real estate or public health.

What's more, Gertz, who based his predictions on mathematical models that he verified using historic data, said the peak number of 7,605 foreclosures he projects for 2009 represents a “best case scenario” because of the possibility that such failures could tip the local economy into recession and result in more distressed sales.

“Home price deterioration reinforces foreclosures, which reinforces home price deterioration,” he said. “This basic phenomenon is what causes the cyclical nature of the housing market as a whole.”

Gertz also predicts that African-American and Hispanic homeowners may face a disproportionate share of the coming tide of foreclosures because so many of them, as first-time buyers, took out risky adjustable-rate mortgages that are beginning to reset at unaffordable interest rates.



NELVIN C. CEPEDA / Union-Tribune
Rob Gertz, a graduating senior at UCSD, explored the default and foreclosure market in his urban studies and planning class.

He estimated that 90 percent of black buyers and 80 percent of Hispanic buyers took out ARMs, and projected that 19.8 percent of recent African-American buyers and 17.6 percent of Hispanic buyers would probably face foreclosure. About 44 percent of white buyers took out ARMs, he said, and 8.8 percent could be in foreclosure.

“While the foreclosure rates will likely be high throughout San Diego County,” he said, “specific areas will likely be hit harder than others. This economic discrepancy will inherently exist to a large degree along ethnic grounds.”

At two extremes, he said Del Mar's 92014 ZIP code area would theoretically experience a foreclosure rate of 4.2 per thousand while Logan Heights' 92113 area rate could be as high as 7.5 per thousand.

“It is more than likely, though, that the \$129,000-per-year household income for 92014 would insulate them further from foreclosure than the 92113 figure of \$32,000 per year,” he added.

Local economists have been monitoring the default and foreclosure statistics but have not projected the future as precisely as Gertz managed to do in his paper.

The UCLA Anderson Forecast for the first quarter of the year did not predict a recession in California but said San Diego is one of the regions “more vulnerable to defaults.”

Facing a stagnant population growth, financing difficulties and other factors, the first-time-buyer market will probably be weak and “depress sales volumes all the way up the food chain,” the forecast's experts said in a May 1 report on San Diego.

Gertz circulated his 23-page paper among analysts at the San Diego Association of Government, where he is an intern, and showed it to his sister-in-law, a real estate coach, who agreed with his conclusions.

Beth Jarnosz, a SANDAG research analyst who supervised Gertz, was so impressed by his work that she recommended he enter it in a national competition. She lauded his research techniques and methodologies in tackling the foreclosure field.

“His research has just been outstanding, and we've been very happy and lucky to have him here,” she said. “We've been developing a new forecast model that required a lot of data collection and uncovering data sources that have never been used before. He investigated the research and has done an outstanding job for us.”

Alan Nevin, chief economist with the California Building Industry Association and at locally based MarketPointe Realty Advisors, also commended Gertz on his mathematics but said things may not turn out as badly as he thinks.

“It's my belief that there will be a spike in foreclosures, but it will be short and then recede,” Nevin said, with most activity happening by the end of this year. “As long as interest rates stay in

their current range (of about 6.2 percent for 30-year, fixed-rate loans) that should not be a problem.”

In an interview, Gertz said he was surprised that just as he completed his paper, the news was filled with reports of skyrocketing default and foreclosure rates.

“I think it's largely due to the stock market crash back in February that caused people to uncover this as a main cause (of financial jitters),” he said.

Gertz said he's planning to take a year off after graduation next month to explore opportunities in public health. Then he'll decide whether to go to graduate school in health or real estate.

Based on his research this year, he might make a great real estate guru.

■ Smokestacks and Geraniums is an occasional look at the growth and development issues as they relate to historic trends in San Diego. The name is derived from a 1917 San Diego mayoral campaign pitting quick-fix forces against advocates of long-term planning.

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