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Inland Empire real estate trends: Interest rates likely to rise as prices fall

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The Press-Enterprise

If you want experts to tell you the perfect time to buy a house, when it is priced so its value goes nowhere but up and you will get the lowest cost mortgage, forget it.

Nobody will venture more than a guess.

Economists and real estate insiders agree that the biggest price drops are behind in Inland Southern California. But they say prices could fall another 15 percent or so, bottoming in mid- to late 2009 or 2010.

Story continues below



Amanda Lucidon/The Press-Enterprise
Michael Carlin, of Corona, is looking forward to getting out of his tiny condo, which has about 400 square feet of space.

"If I had patience, I would wait, personally," said Tara Bleakley, vice president of John Burns Real Estate Consulting, voicing an opinion shared by a number of other consultants to home builders and banks. Bleakley suggests that next spring might be a good time for those with no urgent reason to buy to test the waters.

However, most agree that waiting is a gamble because of the possibility mortgage interest rates could climb with inflation.

The question of whether mortgage rates will rise is debated.

"My bet is the cost of financing will not go up as much as the prices will fall. You may pay more in interest but buy a house for significantly less and therefore you are better off," said Paul Habibi, lecturer in real estate at the UCLA Anderson School of Management.

But Bruce Norris, a Riverside real estate investor who has successfully predicted past trends, figures the interest rate on a 30-year-fixed rate mortgage could climb from 6.5 percent to as high as 9 percent in the next two years. That would make even significantly lower prices "a moot point," he said, for those needing financing.

For someone wanting to buy a house to live in, Norris said, it's a good time to tie up long-term financing, which now is as cheap as it is going to get.

He said home prices in the last three months have fallen enough so rents will cover the carrying costs for those who want to buy investment properties to hold for a future market rebound.

Testing Waters in Drovers

Judging by last month's existing home sales in Riverside and San Bernardino counties, which the California Association of Realtors said increased 177 percent from a year earlier, many consumers have decided that their circumstances make it right to buy now.

Most important: more people can afford it. In a year, prices on the resale market have fallen about 39 percent to a median of \$238,190, influenced by a tremendous influx of bank-discounted houses in foreclosure. In just one month, from June to July, the median price dropped more than 9 percent.

"I always wanted to be a homeowner and now it is finally possible," said Michael Carlin, a 29-year-old Corona school teacher. Carlin, who started house hunting in July, has faced fierce competition in his \$200,000 to \$240,000 price range, with each house receiving up to 18 offers. He said recently he made offers on eight houses in hopes of having one accepted.

Carlin said he considers a house an investment and wants one with resale value. But he said he is not willing to wait for the lowest price because he is tired of living in a condominium he rents for \$875 a month.

"Once I buy a house, I will make a definite effort not to monitor housing prices for my own peace of mind," he said.

Springboard Nonprofit Consumer Credit Management reports that this month 16 people came to its monthly class in Riverside for first-time home buyers. That was the highest attendance in years, said Springboard Vice President Melinda Opperman.

Prepare Credit Score

Opperman said before first-time buyers start making offers on houses, they should take time to improve their credit score, which has become increasingly important in qualifying for the lowest cost mortgages.

On a recent morning Gene Wunderlich, chairman of the Southwest Riverside County Association of Realtors and a Coldwell Banker real estate agent in Murrieta, drove his 27-year-old daughter around town in search of her first home. He said home prices probably haven't stopped falling but he wants her to buy before helpful financing programs disappear.

Story continues below



Amanda Lucidon / The Press-Enterprise
Michael Carlin and his girlfriend's son, Logan Yost, 9, can be in all three rooms of Carlin's Corona condominium at once. "I always wanted to be a homeowner and now it is finally possible," Carlin says.

Wunderlich said because his daughter is a self-employed hairdresser, she needs one of the few remaining programs that will allow her to qualify for a mortgage without documenting her income.

Others like Gary Davis, a 46-year-old construction plumber, are counting on using a popular program that permits the seller to pay a buyer's closing costs on FHA mortgages. That program will end Oct. 1. Davis said he and his wife need assistance with closing costs so they can spend their own money to repair a bank-repossessed house they are buying in Riverside.

While home buying is starting to revive, most everyone agrees this is not yet the time to sell. Several people who toured model homes last weekend at Van Daele Development's tracts in Eastvale said they intended to hold onto the houses they own and buy new homes.

Carmen and Marco Campos said they had put a renter in the house they own in Fullerton on a year's lease and moved in with Carmen's parents while they shop for a larger house for themselves and their two sons. They said the first week they listed their Fullerton house for rent they got three offers. They said the rental market is strong because people who lose their homes in foreclosure need somewhere to live.

Not everyone who wants to buy can. Beatrice Torrez, a 37-year-old office manager, said she and her fiancé, a 61-year-old truck driver, have waited in vain for home prices at the Van Daele development to fall within their range. The least-expensive new house they could find there last Sunday was \$389,000. They said they could pay \$360,000 tops.

Torrez said the couple sold their house in Apple Valley early this year -- losing \$20,000 of the \$80,000 down payment they had made in late 2005 -- because she wearied of the time and expense of

commuting 62 miles each way to her job in Pomona.

They are renting now. All the offers they have made for foreclosed houses in Fontana and Eastvale have been outbid by other buyers. Their best option, she said, may be to wait.

Others are choosing that strategy also.

"I am going to buy and I am just waiting. It doesn't hurt to wait," said Christopher Thornberg, principal of Los Angeles-based Beacon Economics.

Thornberg said panic buying is not necessary because in normal housing market cycles prices tend to "overshoot" on the way down and then ascend very slowly.

"It is not like the stock market where prices tank and then fly back up again. It just doesn't do that," he said.

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