

## Oregon's housing market still hasn't hit bottom

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Crummy mortgages and drooping home prices whacked Wall Street this week. If the experts are to be believed, the same forces will slam Oregon at least through the first half of 2009.

The Oregon story about the housing market essentially goes like this:

It ranked as one of the country's most resilient markets through early 2008.

It sank in the summer.

It's likely to sink deeper.

The chapter yet to be written is just how far and how long Oregon's housing market will fall.

As recently as February, Portland joined Seattle and Charlotte as the top three housing markets in the Standard & Poor's Case-Shiller index, considered one of the most reliable reads in the housing world. At the time, real estate brokers liked to say that things were different in Oregon. The economy, they said, is humming along. Builders didn't overbuild in the boom. People kept moving here, driving demand for housing.

But within a few months, the picture changed.

By June, the latest figures available, Portland and Seattle had fallen to the fifth and sixth strongest markets while Charlotte's housing market remained the nation's healthiest.

What happened in the Northwest?

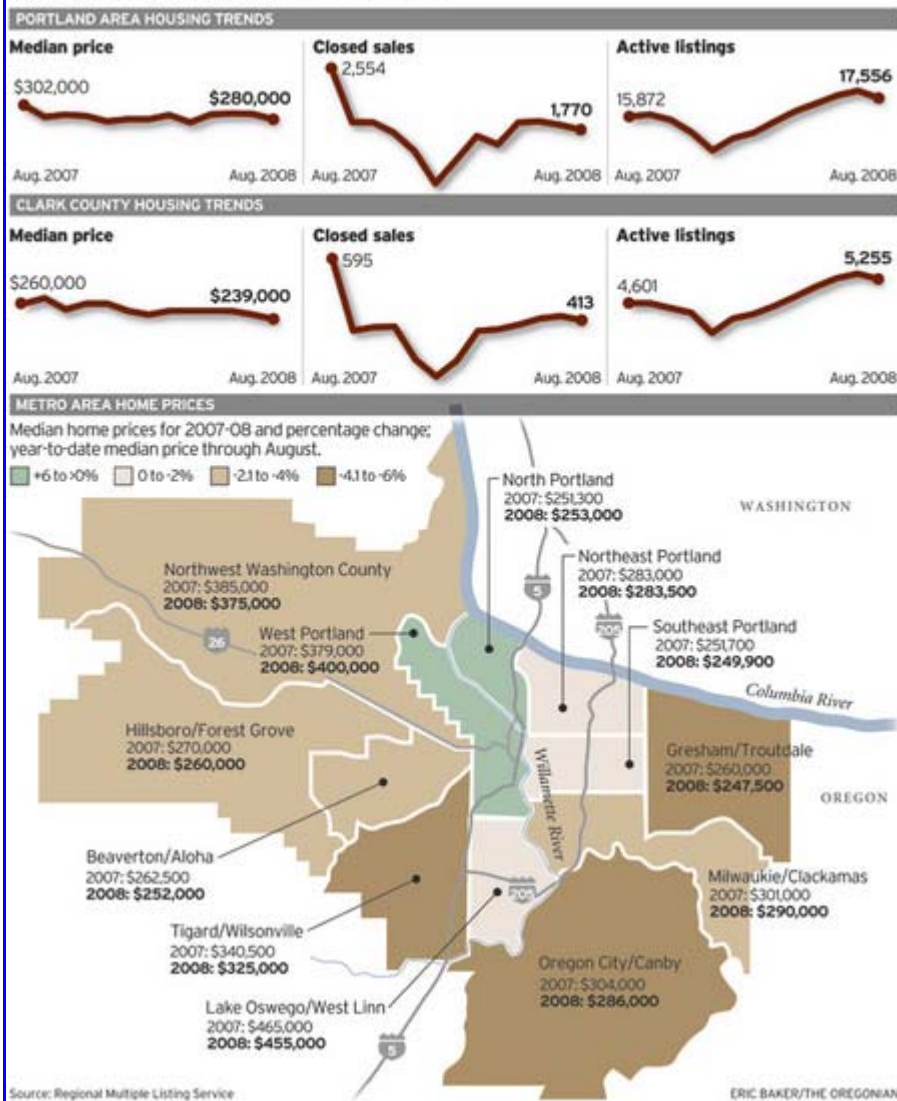
The region rode the housing boom later than most places.

While parts of country saw prices peak in 2005, Portland and Seattle were still climbing two years later.

Today, places such as Denver, Dallas and Boston show signs that they've hit bottom. The Northwest, though, is sliding deeper into the red. Portland's prices in June fell 5.8 percent compared with the same month in 2007, the biggest decline at least since the 1980s. Seattle's market is off 7.1 percent compared with a year earlier.

## A year after Portland's price peak

Sales have plummeted and prices are off for the Portland region as a whole. But the actual figures vary by neighborhood. Here's a look at how parts of the region have fared this year.



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Even so, Portland and Seattle are still outperforming the nation as a whole. The Case-Shiller 10-city and 20-city indexes were both down 15 percent or more.

The slowdown has rippled through the Oregon economy.

Homebuilders are stuck holding millions of dollars in unsold homes and lots. They've cut way back on new construction, and their suppliers and workers are reeling.

About 18,900 real estate related jobs that existed in August 2007 were gone by this August, according to the Oregon Employment Department. The construction industry alone lost 11,300 jobs.

Legend Homes, one of the state's biggest homebuilders, is trying to emerge from Chapter 11 bankruptcy. Trinity Carpet Brokers of Milwaukie filed bankruptcy in June, citing more than \$1 million in unpaid bills from Renaissance Custom Homes. The cutbacks have left construction workers to staff festival games or take other low-paying jobs to cover the bills.

Wood-products employers don't fuel the Oregon economy as they did in the 1980s, but parts of rural Oregon continue to suffer from the nation's cutbacks in home construction.

Oregon's mills, which supply the plywood and joists to build America's homes, have seen their orders fall way off. Some have closed. The Western Wood Products Association reported Thursday that the 2007 lumber production in Western sawmills fell to its lowest level since 1996.

So where does Oregon go from here?

No one knows for certain.

State economists expect the housing market to improve in late 2009. But Ed Kashmarek, a Wells Fargo economist who studies the Portland region, is not that upbeat.

He expects people to keep moving to Portland and doesn't think the economy will fall apart. Here's where the trouble comes: Home prices are still too high compared to average incomes, and a wave of foreclosures is about to flood the market.

In the Portland-area, median household incomes rose 10 percent in the period between the Census reports of 2000 and 2006. But the median home value rose 72 percent, a sign that fewer people can afford mortgages at today's prices.

Oregon's rising foreclosures will boost the supply of for-sale homes just when the market is bloated with more supply than it can handle. The result: Sellers will be forced to drop prices to line up with the pool of buyers.

Bottom line: Kashmarek expects home prices to fall 6.4 percent in 2008 and another 11.9 percent in 2009.

Figures from economics firm Global Insight show that there's still plenty of froth to spoon off the Northwest housing market based on historical prices and incomes.

The firm reported this week that half of the nation's top 20 overvalued housing markets were in Oregon or Washington. After Atlantic City, Bend is the second-most overvalued place. Longview, Wash., is third and Portland seventh.

OK, enough gloom.

Here's a bit of uplifting news to end on: Oregon has survived much worse.

In the 1980s, mortgage delinquencies hit 6.2 percent and foreclosures 2.2 percent. In the second quarter of 2008, delinquencies and foreclosures were about half of those rates. In fact, this summer's figures still haven't surpassed the depths of the 2001 high-tech crash.

On the jobs side, Oregon's construction industry has shed 10 percent of its jobs since peaking last August. But Art Ayre, state labor economist, notes that the drop is nothing compared to the early 1980s when construction jobs plummeted by 49 percent between 1979 and 1983.

"It's fair to say it was worse in the early 1980s," Ayre said, "but we'll see where it goes."

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