A tarnished future in the Golden State

Scott Burns, Commentary

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In the evening, as light fades, shadowy figures appear along downtown side streets. They are men carrying bulky plastic garbage bags, reminding you that life in California isn't all about people who spend their weekends sipping wine at their vineyard. It's also about people who are homeless.

More recently, it's about people who are about to become renters because the bubble has burst and home values have plummeted.

No, it's not as bad here as it is in, say, Las Vegas or Fort Myers, Fla. But you can't look at the fallen prices and not wonder whether anything resembling a middle class still exists in California.

You can get some idea from the gross data. Visit Zillow.com. Look up Santa Rosa, and you'll find a perfect tsunami of a graph. It's a huge, steep wave showing the rise of the median home price from $324,000 in April 2001, peaking at $557,000 in September 2005 and descending to $300,800 in January of this year.

In other words, in spite of a **decade** of trips to Home Depot and Lowe's, in spite of acres of new granite countertops and millions of faucet improvements, in spite of all that attention and devotion, the median price of an existing home has declined by 7.2 percent over the past 10 years. Worse, the purchasing power of the dollars in a sale has declined about 25 percent during the same period.

It wasn't supposed to happen like that.

Since the end of World War II, buying a home was the best way for a middle-income person to turn consumption into wealth. You bought a house with a low down payment. Then the Angel of Inflation magically transformed mortgage payments into net worth.

I've received letters from readers who never saved a dime but retired to Florida or Arizona with plenty of money. How? They sold a modest home for an immodest price.

If you are wealthy, this might not matter. According to the Survey of Consumer Finance, a Federal Reserve exercise in tracking household wealth, assets and debt, in 2007 the households in the top 10 percent of wealth had only 19.8 percent of their assets in the value of their homes.

For the other 90 percent of households, home values loomed large. They accounted for nearly 50 percent of assets. Worse, while those in the top 10 percent may also own their homes debt-free, a home mortgage is a fact of life for most people.

So it isn't difficult to imagine that just about everyone who bought a house here during the past 10 years is now "upside-down." Their mortgage debt is greater than the market value of the house. This means they can't move. And they probably can't refinance. It also means that the blessing from the Angel of Inflation — rising home prices — isn't there for them. They are on their own.

What amazes me on this visit is how complete the bubble burst is. Nothing escaped.

Because conventional housing has been out of reach for many people in California, manufactured housing has been popular around Santa Rosa. There are the tough trailer parks lining Santa Rosa Avenue. But there are also well-manicured 55-and-over parks where neighbors look out for one another.

Several years ago, in one along U.S. 12, I saw a 1973 doublewide, in need of work, for $60,000. (The value here isn't in the structure. You buy the structure to be able to lease the land under it because most parks have no vacancies.)

This time, I saw a virtually identical unit only two doors away offered at $33,500. Prices are down even here.

The damage shows up in the abstract, too. At the end of 2005, the Federal Reserve flow-of-funds figures showed that we collectively owned $11.2 trillion in home equity. It accounted for 58.2 percent of the value of our homes. The report for the end of 2010 shows home equity is down (again) to $6.3 trillion. It now accounts for only 38.5 percent of home value.

As heavily reported as the housing bust has been, we haven't begun to fathom the effect it will have on how we live or on the decisions we make. All we know for certain is that change is here.

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Courtesy of JB Goodwin