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## 'Black Cloud' Panel Discusses the Perilous State of Housing

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Posted on Thursday, September 13, 2007  
Source: Bond Buyer

by Rich Saskal

The troubled state of the California housing market will pose some uncertainties for the municipal market, according to members of a panel at The Bond Buyer's California Public Finance Conference.

Conference co-chair Carol Lew called it "the black cloud panel" during her introduction Tuesday.

The housing market's travails are already being felt in the muni finance arena, said panelist Joe Janczyk, president of Empire Economics, a firm that conducts market studies for land-secured financings.

Earlier this year, he said, his calendar included 36 community facilities district bond financings that were expected to close by Thanksgiving. As of now, only 12 are expected to close.

"The rest are off to '08 and beyond," he said.

Until 2004, Janczyk said, housing prices in Southern California were strongly correlated with household income figures.

From 2004 through 2006, that relationship diverged completely, as home prices soared far above what household incomes could support through traditional mortgage structures.

"The key was people were using more aggressive mortgage structures," Janczyk said. Now those aggressive mortgages are unraveling as interest rates reset and home owners who borrowed 100% of the purchase price, or close to it, find their homes can't be sold for what they owe.

The dislocation in the housing market won't end, Janczyk said, until the relationship between household incomes and housing prices is restored. That could happen quickly, if there is a quick reduction in prices that spurs sales, or slowly, if sellers are resistant to dropping prices, keeping sale numbers down.

"It's going to be a challenging process," he said.

There is some light at the end of the tunnel, however, according to panelist Lewis Feldman, partner at law firm Goodwin Proctor LLP and specialist in real estate.

Housing starts are down substantially, and costs for labor and materials like lumber have started to come down as well.

"Over time, that will constrain supply," Feldman said.

Credits that rely on general property tax collections are fairly insulated from the housing downturn, said Riverside County Treasurer Tax-Collector Paul McDonnell.

The tax assessment process in California effectively dampens volatility, he said. Homes are only reassessed when sold, so there are many properties on the books with valuations based on 10-, 20-, or 30-year-old sale prices. Market values won't decline to anywhere near those old valuations, he said.

"There is a significant cushion built into the [tax] roll," McDonnell said.

This year his office reduced the assessments on 30,000 properties, he said, adding that the

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• Online Solutions	reduced valuation, \$610 million, is a very small fraction of the county's \$239 billion tax roll.
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• E-Licensing	Land-secured financings are the most obvious place to look for muni-bond collateral damage in a real estate slowdown, and those deals are already paying a market penalty,
• Reprints	said Stephen Heaney, managing director at Stone & Youngberg LLC.

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Stronger community facility district credits that priced 70 or 75 basis points off triple-A indexes a year ago are now 100 basis points above the curve, he said, while weaker credits that were 100 basis points above the curve last year are 130 higher now.

"Investors are starting to shy a little bit away from residential projects that are in the early stages of development," Heaney said.

Other areas of concern, he added, could be redevelopment districts, particularly those with sizable recent housing development, and some school district credits.

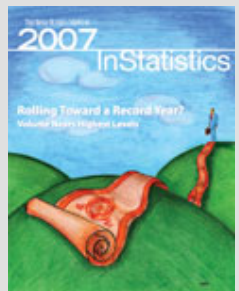
California school districts set their budgets in June. Most of their operating revenue comes in per-pupil payments from the state government, and those aren't finalized until the following April.

Districts that based their budgets on enrollment growth that fails to materialize could face budget pressures, Heaney said. (c) 2007 The Bond Buyer and SourceMedia, Inc. All Rights Reserved. <http://www.bondbuyer.com/> <http://www.sourcemedia.com/>

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