



A. Gary Anderson Center for Economic Research

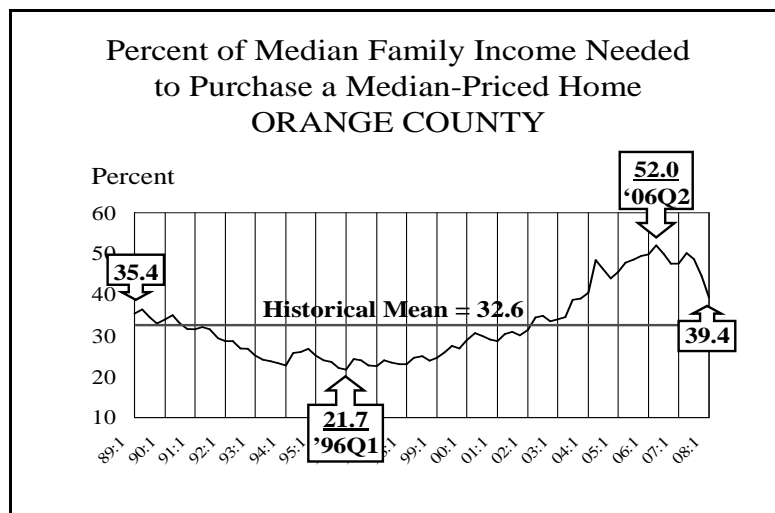
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Housing Prices Likely to Continue Falling at a Double-Digit Rate

Orange, CA — The Chapman Econometric Model, forecasting the direction of housing prices, consists of a number of explanatory variables. These variables include job and income growth, housing affordability index, fixed and adjustable mortgage rates, supply of new homes, and inventory of unsold housing units. The model is constantly revised to capture the structural changes in the economy. We will be releasing our comprehensive forecasts of key national, state and local economic variables at our update conference on June 24. This release presents an analysis of housing affordability, one of the explanatory variables impacting home prices.

In spite of sharp declines in home prices, housing affordability continues to be an important factor dampening home sales activity and placing further downward pressure on home prices.



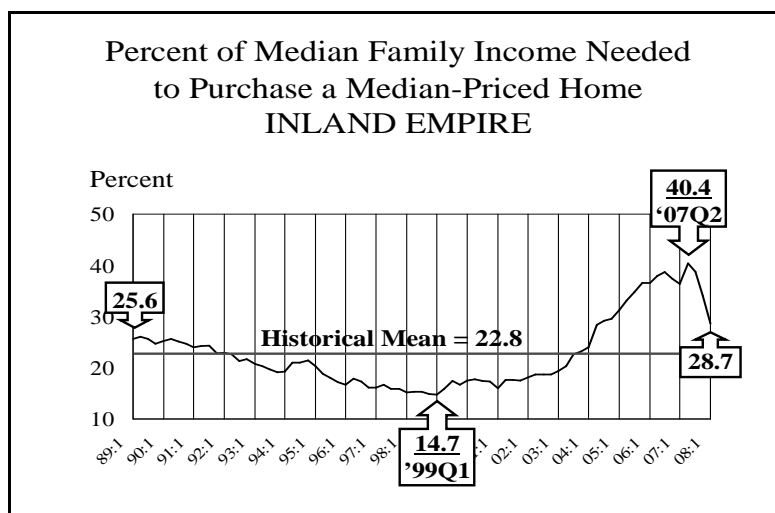
Our measure of housing affordability shows that a homebuyer with a median family income of \$76,300 in the second quarter of 2006 needed to allocate about \$39,700 annually to pay for property taxes, interest and principal payments on a loan to buy a median-priced home – 52.0 percent of gross family income. This annual payment is based on the assumption that a home buyer uses a 30-year fixed rate mortgage with 20 percent down payment.

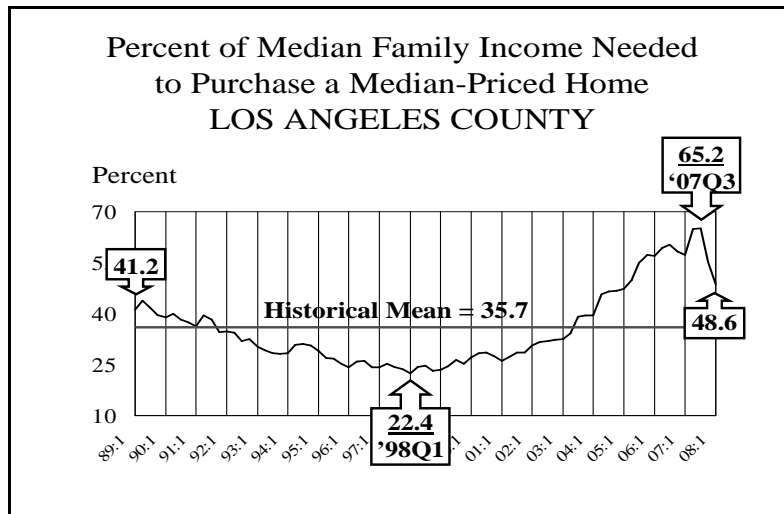
An annual payment of \$38,000 is computed after taking into account federal and state tax savings resulting from the deduction of mortgage interest and property taxes from taxable income. Over the 2003-06 period, the rapid decline of housing affordability was masked by homebuyers obtaining interest-only, option-ARMS, and stated income mortgages, purchasing homes they could not have qualified for using conventional mortgages.

In spite of recent declines in home prices, a potential homebuyer with an estimated family income of \$78,300 in the first quarter of 2008 needed to allocate 39.4 percent of his family income to purchase a median-priced home. This figure is above the historical average of 32.6 percent and substantially higher than the figure of 21.7 percent registered in early '96.

Assuming no change in fixed 30-year mortgage rates and annual increase of 4.0 percent in family income, Orange County home prices need to decline by an additional 13.7 percent by 2009 for our affordability measure to hit the mean of 32.6 percent. It is likely, however, that home prices will decline even greater than 13.7 percent since correction usually drops affordability index below the historical mean.

The following two figures show our housing affordability measures in the Inland Empire and Los Angeles County.





Using the same methodology as presented for Orange County, the results show that home prices in the Inland Empire and Los Angeles County have to drop by 8.2 percent and 23.3 percent, respectively by 2009, for our affordability measure to reach their corresponding historical average.

ABOUT THE ANDERSON CENTER FOR ECONOMIC RESEARCH

The A. Gary Anderson Center for Economic Research (ACER) was established in 1979 to provide data, facilities and support in order to encourage the faculty and students at Chapman University to engage in economic and business research of high quality, and to disseminate the results of this research to the community.

ANNUAL SCHEDULE OF CONFERENCES AND PRESS RELEASES

- JANUARY** † Economic Forecast Conferences for Los Angeles County and the Inland Empire
 † California Purchasing Managers Survey
- FEBRUARY** † California Leading Employment Indicator
- MARCH** † California Consumer Sentiment Survey
- APRIL** † California Purchasing Managers Survey
- MAY** † California Leading Employment Indicator
- JUNE** † Economic Forecast Update Conference for the U.S., California, Orange and Los Angeles counties, and the Inland Empire
 † California Consumer Sentiment Survey
- JULY** † California Purchasing Managers Survey
- AUGUST** † California Leading Employment Indicator
- SEPTEMBER** † California Consumer Sentiment Survey
- OCTOBER** † California Purchasing Managers Survey
- NOVEMBER** † California Leading Employment Indicator
- DECEMBER** † Economic Forecast Conference for the U.S., California and Orange County
 † California Consumer Sentiment Survey