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UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

STELLA STEPHENS, AND )  
TIMOTHY YOUNG, AS )  
INDIVIDUALS AND ON )  
BEHALF OF ALL OTHER )  
SIMILARLY SITUATED, )  
 )  
Plaintiffs, )  
 )  
v. )  
 )  
LENNAR CORPORATION; )  
LENNAR HOMES OF )  
CALIFORNIA, INC.; )  
UNIVERSAL MORTGAGE )  
COMPANY; EAGLE HOME )  
MORTGAGE, INC.; AND DOES )  
1 THROUGH 10, INCLUSIVE, )  
 )  
Defendants. )  
 )

Case No. EDCV 09-01668  
VAP (DTBx)

**[Motion filed on January 22,  
2010]**

**ORDER GRANTING DEFENDANTS'  
MOTION TO DISMISS FOR LACK  
OF STANDING, WITH PREJUDICE,  
AND DENYING DEFENDANTS'  
MOTION TO STRIKE AS MOOT**

Defendants' Motions to Dismiss and to Strike came before the Court for hearing on March 15, 2010. After reviewing and considering all papers filed in support of, and in opposition to, the Motions, as well as the arguments advanced by counsel at the hearing, the Court

1 GRANTS the Motion to Dismiss and DENIES the Motion to  
2 Strike as moot.

3  
4 **I. BACKGROUND**

5 **A. Plaintiffs' Allegations**

6 Plaintiff Stella Stephens ("Stephens") alleges she  
7 purchased a new residence in November 2005 in Riverside  
8 County, California from Lennar Homes, paid cash for the  
9 residence, and still owns and occupies the residence.  
10 (First Amended Complaint ("FAC") ¶ 36.) Stephens and  
11 Lennar Homes executed a purchase contract and related  
12 disclosure documents in May 2005. (Motion ("Mot."),  
13 Request for Judicial Notice ("RJN"), Exs. A & B.)

14 Plaintiff Timothy Young ("Young") alleges he  
15 purchased a new residence in December 2006 in Riverside  
16 County, California from Lennar Homes, made a down payment  
17 of 45% of the total purchase price, and financed the  
18 balance through Universal American Mortgage Company  
19 ("UAMC"). (FAC ¶ 37.) Young and Lennar Homes executed a  
20 purchase contract and related disclosure documents in  
21 July 2006. (Mot., RJN, Exs. C & D.)

22  
23 Plaintiff Stephens and Young (collectively,  
24 "Plaintiffs") bring this putative class action on behalf  
25 of themselves and a national class including "[a]ll  
26 Lennar customers who purchased a new Lennar house from  
27 January 1, 2004, through December 31, 2006, and put 20%

1 or more down toward the purchase of the house[,] or  
2 alternatively, "a class of new Lennar Corporation  
3 customers whose homes are located in California." (FAC  
4 ¶¶ 49-50.)

5  
6 Plaintiffs allege "on information and belief" that  
7 before 2004, Defendants Lennar Corporation, Lennar Homes  
8 of California, and UAMC (collectively, "Defendants" or  
9 "Lennar Defendants") implemented a "scheme" to increase  
10 the number of houses sold and to increase the amount of  
11 profit per sale. (FAC ¶ 19.) The "scheme" was intended  
12 to "convince government entities, then the community, and  
13 finally buyers that Defendants were building a  
14 traditional neighborhood with stable owners who occupied  
15 their homes and who were vested in the community and the  
16 neighborhood." (FAC ¶ 20.) "Implicit in this marketing  
17 scheme was that Defendants were making a good-faith  
18 effort to sell homes to buyers who [Defendants] expected  
19 could afford to buy the houses and would be stable  
20 neighbors." (Id.)

21  
22 Plaintiffs allege that they were provided "marketing  
23 materials that depicted the community as a stable,  
24 family[-]based neighborhood." (FAC ¶¶ 36, 37.)  
25 Plaintiffs also allege "on information and belief" that  
26  
27  
28

1 Defendants represented that Lennar Homes requires buyers  
2 to occupy the houses and discourages speculation. (FAC ¶  
3 41.)

4  
5 Plaintiffs allege Defendants engaged in a scheme to  
6 market the houses to, and provide financing for,  
7 "unqualified buyers who posed an abnormally high risk of  
8 foreclosure . . . to increase both the number of sales  
9 and the prices of the houses in same neighborhoods in  
10 which Defendants were selling to traditionally qualified  
11 and low-foreclosure- risk buyers." (FAC ¶ 21.)

12 Plaintiffs generally allege that Defendants assisted and  
13 encouraged the "unqualified" buyers to appear qualified.  
14 (FAC ¶ 24.)

15  
16 Plaintiffs assert that Defendants "concealed and  
17 intentionally failed to disclose to prospective buyers .  
18 . . that numerous houses in the neighborhoods were being  
19 purchased by unqualified and high-foreclosure-risk  
20 buyers, despite Defendants' knowledge that this could,  
21 and likely would over time, have a material negative  
22 effect on the value and desirability of the house and the  
23 neighborhood." (FAC ¶ 30.) Plaintiffs allege Defendants  
24 also failed to disclose that "they had sold houses, and  
25 planned to sell houses in the future, to investors who  
26 would not occupy the houses." (FAC ¶ 45.)

1 Plaintiffs allege two theories of harm stemming from  
 2 Defendants' conduct. First, Plaintiffs allege they "paid  
 3 inflated prices for their houses" as a result of  
 4 Defendants' failure to disclose that "Defendants had sold  
 5 houses . . . to unqualified and high-foreclosure-risk  
 6 buyers. . . [and] to investors who would not occupy the  
 7 houses." (FAC ¶¶ 45, 48.) Secondly, Plaintiffs allege  
 8 they suffered an injury years after purchasing their  
 9 houses when the real estate market declined and the  
 10 "unqualified" buyers defaulted on their loans and lost  
 11 their houses in foreclosure proceedings, which led to a  
 12 decline in the value of Plaintiffs' residences. (FAC ¶¶  
 13 32, 48.)

## 15 **B. Procedural History**

16 On September 3, 2009, Plaintiff Stephens filed a  
 17 putative class action against the Lennar Defendants and  
 18 Eagle Home Mortgage, Inc. On the same day, Plaintiff's  
 19 counsel filed seven other similar class actions<sup>1</sup>

---

21 <sup>1</sup> The Homebuilder Actions are:

- 22 • Dodaro v. Standard Pacific Corp., et al., ED09-  
CV1666-VAP (OPx)
- 23 • Stephens, et al. v. Lennar Corp, et al., ED09-CV1668-  
VAP (DTBx)
- 24 • Lumalu et al. v. Richmond American Homes Corp., et  
al., ED09-CV1669-VAP (OPx)
- 25 • Oneto v. The Ryland Group, Inc., et al., ED09-CV1670-  
VAP (DBTx)
- 26 • Maya, et al. v. Centex Corp., et al., ED09-CV1671-VAP  
(OPx)
- 27 • Martinez, et al. v. D.R. Horton, et al., ED09-CV1672-  
VAP (DBTx)
- 28 • Nielson, et al. v. Shea Homes, Inc, et al., ED09-

(continued...)

1 ("Homebuilder Actions") alleging that the homebuilder  
2 defendants and their mortgage lending affiliates engaged  
3 in conduct that "artificially inflated" the purchases  
4 prices of plaintiffs' residences and eventually reduced  
5 their value.

6  
7 On October 23, 2009, the Lennar Defendants and Eagle  
8 Home Mortgage, Inc. joined in a "Motion to Consolidate,"  
9 which sought to consolidate the eight Homebuilder  
10 Actions. The Court denied the Motion to Consolidate. On  
11 November 18, 2009, the Homebuilder Actions were  
12 transferred to this Court. On December 21, 2009,  
13 Plaintiff Stephens and a newly added plaintiff, Plaintiff  
14 Young, filed the FAC, which removed Defendant Eagle Home  
15 Mortgage, Inc. and added allegations regarding the  
16 remaining three defendants, Lennar Corporation, Lennar  
17 Home of California, Inc., and Universal American Mortgage  
18 Company. The substance of the claims remains unchanged.

19  
20 Plaintiffs allege five claims: (1) fraud; (2)  
21 negligent misrepresentation; (3) violation of  
22 California's Unfair Business Practices Act, Cal. Bus. &  
23 Prof. Code §§ 17200, et seq.; (4) violation of Cal. Bus.

24  
25 \_\_\_\_\_  
26 <sup>1</sup>(...continued)  
27 CV1673-VAP (DTBx)  
28 • Kelly, et al. v. Beazer Homes USA, Inc., et al.,  
ED09-CV1674-VAP (DTBx)

1 & Prof. Code §§ 17500, et seq.; and (5) breach of the  
2 implied covenant of good faith and fair dealing.

3  
4 On January 22, 2010, Defendants filed: (1) a Motion  
5 to Dismiss the First Amended Complaint ("Motion"), (2) a  
6 Motion to Strike Portions of the First Amended Complaint,  
7 (3) the Declaration of Richard S. Ruben ("Ruben Decl.")  
8 (4) a Request for Judicial Notice, and (5) a Compendium  
9 of Unpublished and Out-of-State Opinions. On February  
10 22, 2010, Plaintiffs filed Opposition<sup>2</sup> to both Motions.  
11 On March 4, 2010, Defendants filed a Reply for both  
12 Motions and a Request for Judicial Notice.

13  
14 Defendants argue the FAC should be dismissed for the  
15 following reasons: (1) Plaintiffs lack constitutional  
16 standing to bring this action; (2) Plaintiffs fail to  
17 allege their fraud-based claims with particularity as  
18 required by Rule 9(b); (3) Plaintiffs fail to state a  
19

20  
21 <sup>2</sup> Counsel for the plaintiffs in the eight Homebuilder  
22 Actions divides the subject matter of the Oppositions to  
Homebuilder Defendants' Motions as follows:

- 23 • Stephens, et al. v. Lennar Corp, et al., ED09-CV1668-  
VAP (DTBx): Plaintiffs' Opposition addresses  
constitutional standing ("Stephens Opp'n").
- 24 • Oneto v. The Ryland Group, Inc., et al., ED09-CV1670-  
VAP (DBTx): Plaintiffs' Opposition addresses  
25 Plaintiffs' UCL claims and claims for breach of the  
implied covenant of good faith and fair dealing  
26 ("Oneto Opp'n").
- 27 • Nielson, et al. v. Shea Homes, Inc, et al., ED09-  
CV1673-VAP (DTBx): Plaintiffs' Opposition addresses  
28 Rule 9 ("Nielson Opp'n").

1 claim as to each cause of action under 12(b)(6). (Mot.  
2 at 1-2.)

3  
4 **II. LEGAL STANDARD FOR MOTION TO DISMISS UNDER**  
5 **RULE 12(b)(6)**

6 Rule 12(b)(6) allows a party to bring a motion to  
7 dismiss for failure to state a claim upon which relief  
8 can be granted. As a general matter, the Federal Rules  
9 require only that a plaintiff provide "'a short and plain  
10 statement of the claim' that will give the defendant fair  
11 notice of what the plaintiff's claim is and the grounds  
12 upon which it rests." Conley v. Gibson, 355 U.S. 41, 47  
13 (1957) (quoting Fed. R. Civ. P. 8(a)(2)); Bell Atlantic  
14 Corp. v. Twombly, 550 U.S. 544, 555 (2007). In addition,  
15 the Court must accept all material allegations in the  
16 complaint -- as well as any reasonable inferences to be  
17 drawn from them -- as true. See Doe v. United States,  
18 419 F.3d 1058, 1062 (9th Cir. 2005); ARC Ecology v. U.S.  
19 Dep't of Air Force, 411 F.3d 1092, 1096 (9th Cir. 2005).

20  
21 "While a complaint attacked by a Rule 12(b)(6)  
22 motion to dismiss does not need detailed factual  
23 allegations, a plaintiff's obligation to provide the  
24 'grounds' of his 'entitlement to relief' requires more  
25 than labels and conclusions, and a formulaic recitation  
26 of the elements of a cause of action will not do." Bell  
27 Atlantic, 550 U.S. at 555 (citations omitted). Rather,  
28

1 the allegations in the complaint "must be enough to raise  
2 a right to relief above the speculative level." Id.

3  
4 In other words, the allegations must be plausible on  
5 the face of the complaint. See Ashcroft v. Iqbal, 556  
6 U.S. \_\_\_\_, 129 S. Ct. 1937, 1949 (2009). "The  
7 plausibility standard is not akin to a 'probability  
8 requirement,' but it asks for more than a sheer  
9 possibility that a defendant has acted unlawfully. Where  
10 a complaint pleads facts that are 'merely consistent  
11 with' a defendant's liability, it stops short of the line  
12 between possibility and plausibility of 'entitlement to  
13 relief.'" Id. (citations and internal quotations  
14 omitted).

15  
16 Although the scope of review is limited to the  
17 contents of the complaint, the Court may also consider  
18 exhibits submitted with the complaint, Hal Roach Studios,  
19 Inc. v. Richard Feiner & Co., 896 F.2d 1542, 1555 n.19  
20 (9th Cir. 1990), and "take judicial notice of matters of  
21 public record outside the pleadings," Mir v. Little Co.  
22 of Mary Hosp., 844 F.2d 646, 649 (9th Cir. 1988).

23  
24 "Failure to properly allege standing is a ground for  
25 dismissal under Rule 12(b)(6)." MAI Sys. Corp. v. UIPS,  
26 856 F. Supp. 538, 539 (N.D. Cal. 1994), citing W. Mining  
27 Council v. Watt, 643 F.2d 618 (9th Cir. 1980).

### III. DISCUSSION

1  
2 Article III of the Constitution gives federal courts  
3 jurisdiction over "cases and controversies." U.S. Const.  
4 Art. III, § 2, cl. 2. "In essence the question of  
5 standing is whether the litigant is entitled to have the  
6 court decide the merits of the dispute or of particular  
7 issues." Warth v. Seldin, 422 U.S. 490, 498 (1975).  
8 Standing, therefore, is a threshold issue in every  
9 federal case. Elk Grove Unified Sch. Dist. v. Newdow,  
10 524 U.S. 1, 11 (2004) ("In every federal case, the party  
11 bringing the suit must establish standing to prosecute  
12 the action."); Warth, 422 U.S. at 517-18; McMichael v.  
13 County of Napa, 709 F.2d 1268, 1269 (9th Cir. 1983)  
14 ("Before the judicial process may be invoked, a plaintiff  
15 must 'show that the facts alleged present the court with  
16 a 'case or controversy' in the constitutional sense and  
17 that [he] is a proper plaintiff to raise the issues  
18 sought to be litigated.'"), citing Linda R.S. v. Richard  
19 D., 410 U.S. 614, 616 (1973).

20  
21 To satisfy the "case or controversy" requirement, a  
22 plaintiff "must demonstrate that he has suffered an  
23 'injury in fact'" that a favorable judgment will redress.  
24 Whitmore v. Arkansas, 495 U.S. 149, 155 (1990); Newdow,  
25 542 U.S. at 12, citing Lujan v. Defenders of Wildlife,  
26 504 U.S. 555, 560-561 (1992). In other words, a  
27 plaintiff must demonstrate: (1) he has suffered an  
28

1 "'injury in fact' -- an invasion of a legally protected  
2 interest which is (a) concrete and particularized, and  
3 (b) actual or imminent, not conjectural or hypothetical";  
4 (2) there is a causal connection between the injury and  
5 the conduct complained of -- that is, the injury is  
6 "fairly traceable" to the challenged action of the  
7 defendant, and not the result of the independent action  
8 of some third party not before the court; and (3) it is  
9 "likely," as opposed to merely "speculative," that the  
10 injury will be redressed by a favorable judicial  
11 decision. Lujan, 504 U.S. at 560-61 (footnote,  
12 citations, and quotation marks omitted).

13  
14 The party invoking federal jurisdiction bears the  
15 burden of establishing the elements of standing. Lujan,  
16 504 U.S. at 561, citing FW/PBS, Inc. v. Dallas, 493 U.S.  
17 215, 231 (1990); Warth, 422 U.S. at 508. As the three  
18 elements of standing "are not mere pleading requirements  
19 but rather an indispensable part of the plaintiff's case,  
20 each element must be supported in the same way as any  
21 other matter on which the plaintiff bears the burden of  
22 proof, i.e., with the manner and degree of evidence  
23 required at the successive stages in litigation." Lujan,  
24 504 U.S. at 561; Lujan v. Nat'l Wildlife Fed'n, 497 U.S.  
25 871, 883-89 (1990); Gladstone Realtors v. Village of  
26 Bellwood, 441 U.S. 91, 114-15 & n.31 (1979); Simon v. E.  
27 Kentucky Welfare Rights Org., 426 U.S. 26, 45 & n.25

28

1 (1917); Warth, 422 U.S. at 527 & n.6). "At the pleading  
2 stage, general factual allegations of injury resulting  
3 from the defendant's conduct may suffice . . . ." Id.,  
4 citing Nat'l Wildlife Fed'n, 497 U.S. at 889.

5  
6 Plaintiffs must satisfy Article III standing  
7 requirements to assert each of their claims in federal  
8 court. As Plaintiffs' claims all are founded upon the  
9 same alleged injuries, the Court's analysis applies to  
10 each of them. Plaintiffs fail to establish standing  
11 because they have not pled an injury in fact and have not  
12 shown how their alleged injuries are "fairly traceable"  
13 to Defendants' alleged actions.

14  
15 **A. Injury in Fact**

16 Defendants first focus on whether Plaintiffs have  
17 suffered a "concrete and particularized, and actual or  
18 imminent" injury necessary to meet the first element of  
19 Article III standing. Lujan, 504 U.S. at 560-61. To  
20 satisfy the "injury in fact" requirement, "[t]he  
21 plaintiff must show that he has sustained or is  
22 immediately in danger of sustaining some direct injury as  
23 a result of the [defendant's] conduct and the injury or  
24 threat of injury must be both real and immediate, not  
25 conjectural or hypothetical." City of Los Angeles v.  
26 Lyons, 461 U.S. 95, 101-02 (1983) (citations omitted);  
27 Lujan, 504 U.S. at 560 ("[By injury in fact we mean] an  
28

1 invasion of a legally protected interest which is (a)  
2 concrete and particularized, . . . and (b) actual or  
3 imminent, not 'conjectural' or 'hypothetical'.") .  
4

5 As noted above, Plaintiffs allege they were injured  
6 by (1) paying "inflated" purchase prices for their houses  
7 as a result of the "buying frenzy" created because  
8 Defendants sold houses to "unqualified" buyers  
9 ("overpayment theory") (FAC ¶¶ 22, 33), and (2) suffering  
10 a reduction in the value of their properties caused by  
11 Defendants' wrongful acts and omissions ("reduced-value  
12 theory") (FAC ¶¶ 32, 48). These alleged harms fall short  
13 of a concrete, particular, and actual injury.  
14

15 **1. Reduced-Value Theory**

16 The Court first considers Plaintiffs' reduced-value  
17 theory. Plaintiffs still own their houses, so their  
18 assertions of loss are conjectural. Any loss (or gain)  
19 -- presumably measured against the initial purchase price  
20 -- cannot be ascertained, nor measured, unless and until  
21 the owner sells the house. See Phillips v. Frank, 295  
22 F.2d 629, 632 (9th Cir. 1961) (recognizing that a gain or  
23 loss in real property cases is determined at the time of  
24 sale).  
25  
26  
27  
28

1           Moreover, the cause of any such loss cannot be  
2 determined until that time as well. In other words,  
3 Plaintiffs have alleged only harm which, rather than  
4 being specific and concrete, is general and tied so  
5 closely to pervasive economic conditions and harms, that  
6 it does not suffice as an allegation of direct injury.  
7 See First Nationwide Bank v. Gelt Funding Corp., 27 F.3d  
8 763, 770 (2d Cir. 1994) (recognizing that a number of  
9 variables can affect real estate values).

10  
11           Other courts have reached the same conclusion when  
12 faced with nearly identical allegations. See Kaing v.  
13 Pulte Homes, Inc., No. 09-5057, 2010 WL 625365, at \*5-6  
14 (N.D. Cal. Feb. 18, 2010); Tingley v. Beazer Homes Corp.,  
15 No. 07-176, 2008 WL 1902108, at \*5, n.3 (W.D.N.C. April  
16 25, 2008) ("harm is only realized if Plaintiffs sell  
17 their home."); Green v. Beazer Homes Corp., No. 07-1098,  
18 2007 WL 2688612, at \*3 (D.S.C. Sept. 10, 2007)  
19 (dismissing the action because "Plaintiff does not . . .  
20 suggest that she or any of her other similarly 'injured'  
21 neighbors have realized this decrease in value (e.g., as  
22 a result of sale of the home).").

23  
24           In Kaing, the district court found that a plaintiff  
25 in a putative class action against defendant homebuilders  
26 lacked standing to assert a theory "that she ha[d] been  
27 injured because [the homebuilders'] lending practices  
28

1 caused widespread foreclosures in her neighborhood,  
2 [which had] driven down the value of her house." 2010 WL  
3 625365, at \*5. There, the plaintiff alleged that the  
4 defendants "marketed the neighborhoods as stable and  
5 desirable neighborhoods, while becoming even more  
6 aggressive in selling homes to unqualified and high-  
7 foreclosure-risk buyers . . . ." Id. at \*2. The  
8 plaintiff alleged that high foreclosure rates in her  
9 neighborhood decreased the value of her house by over  
10 50%. Id.

11  
12 Furthermore, the Kaing defendant homebuilders'  
13 misconduct also allegedly "result[ed] in abandoned  
14 houses; multiple families living in one home; transient  
15 neighbors with no long-term ties to the neighborhood;  
16 unfinished yards and unkempt yards; and, in some cases,  
17 increased crime." Id. at \*5. There, as here, the  
18 plaintiff still owned her residence when she brought the  
19 action. Id. at \*1-2. Also like the Plaintiffs here, the  
20 Kaing plaintiff alleged she was harmed by the homebuilder  
21 defendants' failure to provide her with a disclosure that  
22 "Defendants had sold houses, and would sell houses in the  
23 future, to unqualified and high-foreclosure-risk buyers."  
24 Id. at \*2.

1 Distinguishing "general economic harms" from the harm  
2 in cases where a plaintiff's injury arose from a physical  
3 change to the neighborhood's environment, the Kaing court  
4 noted, "[A] decline in value that is tied to a purely  
5 economic change to a neighborhood is much more difficult  
6 to characterize as 'concrete and particularized, and  
7 actual or imminent.' Such economic conditions are likely  
8 to change with the broader economy, and any decline in  
9 housing value can potentially evaporate before Plaintiff  
10 has suffered a concrete injury, even in the absence of  
11 redress from the courts." Id. at \*5, citing Lujan, 504  
12 U.S. at 560-61. As the plaintiff had not sold, or even  
13 attempted to sell, her house under the changed economic  
14 conditions, the court concluded, "[I]t is not clear that  
15 the diminished value of her house is cognizable as an  
16 'injury in fact.'" Id.

17  
18 In reaching its conclusion, the Kaing court relied on  
19 two other cases arising under similar circumstances --  
20 Tingley and Green. In both cases, the plaintiffs filed  
21 putative class actions against defendant homebuilders,  
22 claiming the defendants targeted low-income purchasers,  
23 which resulted in high rates of foreclosure in  
24 plaintiffs' neighborhoods and consequently decreased the  
25 value of the plaintiffs' residences. See Tingley, 2008  
26 WL 1902108, at \*1-2; Green, 2007 WL 2688612, at \*2.

27  
28

1        Although the Tingley court premised its holding on  
2 lack of causation rather than injury in fact, the court  
3 noted, "Since the reduced value about which Plaintiffs  
4 complain would have resulted from an economic glut of  
5 supply, then such harm is only realized if Plaintiffs  
6 sell their home during such glut. If Plaintiffs chose to  
7 remain in their home until more favorable economic  
8 conditions arrive, then they will have realized no loss  
9 at all." Tingley, 2008 WL 1902108, at \*5, n.3.

10  
11        The Green court adopted similar reasoning, holding  
12 that although the plaintiff alleged an injury in the form  
13 of a generalized loss in the potential market value of  
14 her house due to excessive foreclosures on other houses  
15 in her neighborhood, she did not "suggest that she or any  
16 of her other similarly 'injured' neighbors [had] realized  
17 this decrease in value (e.g., as a result of sale of the  
18 home)." Green, 2007 WL 2688612, at \*3. The court thus  
19 concluded that the plaintiff's injury was neither  
20 concrete nor particularized. Furthermore, it reasoned,  
21 "the alleged cause of the decreased value (excessive  
22 foreclosures) is of a type which would not necessarily  
23 have a long term impact on home prices. This strongly  
24 suggests that the injury is conjectural and speculative,  
25 and not actual or imminent." Id., citing Lujan, 504 U.S.  
26 at 560-61.

1 Here, Plaintiffs have not sold their houses at a loss  
2 or suffered any actual loss arising from the harms they  
3 allege in the FAC. (See FAC ¶¶ 36, 37.) Thus, like the  
4 plaintiffs in Kaing, Tingley, and Green, Plaintiffs have  
5 not "realized [a] decrease in value." Kaing, 2010 WL  
6 625365, at \*5; Tingley, 2008 WL 1902108, at \*5 n.3;  
7 Green, 2007 WL 2688612, at \*3. Furthermore, the injury  
8 is speculative, rather than actual or imminent, because  
9 economic conditions affecting the value of Plaintiffs'  
10 houses are subject to change with broader economic  
11 conditions. Green, 2007 WL 2688612, at \*3; Tingley, 2008  
12 WL 1902108, at \*4 ("it is just as plausible that a  
13 positive change in the unemployment rate, the housing  
14 market, the mortgage interest rates or other economic  
15 factors could cause an increase in [Plaintiffs'] property  
16 value[s].") (emphasis added). Thus, the alleged decline  
17 in value that Plaintiffs claim to have suffered may  
18 vanish before Plaintiffs suffer a concrete injury. See  
19 Kaing, 2010 WL 625365, citing Lujan, 504 U.S. at 560-61.

20  
21 To bolster their claim and distinguish the facts here  
22 from Tingley and Green, Plaintiffs allege they suffered  
23 additional injuries: "[U]nstable neighborhoods, multiple  
24 families living in one home, transient neighbors with no  
25 long-term ties to the neighborhood, unfinished and  
26 unkempt yards, and in some cases, increased crime." (See  
27 Stephens Opp'n at 13.) This attempt fails, however,

28

1 because Plaintiffs' FAC contains nothing more than  
2 speculation to link these harms to Defendants' conduct or  
3 omissions. See Kaing, 2010 WL 625365, at \*5-6 (holding  
4 that plaintiffs claiming similar injuries failed to  
5 allege a cognizable injury in fact). See Section  
6 III(A)2, below.

7  
8 Plaintiffs also attempt to distinguish this case from  
9 Tingley and Green by arguing that the plaintiffs in those  
10 cases did not allege a failure to disclose or that the  
11 prices of their houses were "artificially inflated" as a  
12 result of the defendant homebuilders' conduct. (Stephens  
13 Opp'n at 13.) The existence of an additional allegation  
14 of harm, however, does not salvage the FAC.

15  
16 Moreover, Plaintiffs fail to distinguish their case  
17 from Kaing, in which the plaintiff claimed failure to  
18 disclose and also alleged she was overcharged. 2010 WL  
19 625365, at \*2. Plaintiffs fail to persuade the Court  
20 that these factors are sufficient to transform their  
21 speculative harms into a cognizable injury in fact.

22  
23 Plaintiffs rely on Friends of the Earth, Inc. v.  
24 Laidlaw Env't Servs. (TOC), Inc., 528 U.S. 167 (2000), to  
25 argue they have pled a cognizable injury in fact.  
26 (Stephens Opp'n at 9-10.) There, the Supreme Court  
27 considered the ability to sue for environmental harm, and  
28

1 held that a citizen adequately pled an injury in fact by  
2 alleging the defendant's pollution interfered with  
3 recreational opportunities. 528 U.S. at 183. Plaintiffs  
4 point to language in the opinion referring to an alleged  
5 diminution in the value of the litigants' property. Id.  
6 at 182-83. A diminution in value that is tied to a  
7 physical change in the neighborhood's environment, such  
8 as pollution in the case of Friends of the Earth, is  
9 better characterized as concrete and particularized, and  
10 actual or imminent, than a purely economic change in a  
11 neighborhood. Lujan, 504 U.S. at 560-61.

12  
13 When faced with similar facts, the district court in  
14 Kaing found the plaintiff had failed to plead actual  
15 injury. 2010 WL 625365, at \*5 ("Compared to the  
16 diminution in value that is tied to a physical change to  
17 the neighborhood's environment, such as pollution . . . a  
18 decline in value that is tied to a purely economic change  
19 to a neighborhood is much more difficult to characterize  
20 as concrete and particularized, and actual or  
21 imminent."). The Kaing court noted a key difference  
22 between environmental harm tied to physical damage and  
23 economic harm: "[A diminution in value arising from  
24 economic harm] can potentially evaporate before Plaintiff  
25 has suffered a concrete injury, even in the absence of  
26 redress from the courts." Id. While environmental  
27 damage caused by pollution does not redress itself, the  
28

1 complex economic factors that affected the value of  
2 Plaintiffs' residences can improve. See Tingley, 2008 WL  
3 1902108, at \*4 n.3.

4  
5 The capacity for Plaintiffs' alleged injury to  
6 fluctuate with changes in the economy, "strongly  
7 suggests" that Plaintiffs' alleged injury is "conjectural  
8 and speculative, not actual or imminent." Green, 2007 WL  
9 2688612, at \*3; see Sanner v. Bd. of Trade of City of  
10 Chicago, 62 F.3d 918, 924 (7th Cir. 1995) (finding  
11 soybean farmers who refrained from selling their crops  
12 due to a depressed market price lacked standing to sue  
13 under Article III, while those who sold at the depressed  
14 price enjoyed standing because "[t]he fact of a sale at  
15 an allegedly depressed price establishes discernable  
16 injury in a manner in which a failure to sell cannot."),  
17 citing Blue Chip Stamps v. Manor Drug Stores, 421 U.S.  
18 723, 743 (1975).

19  
20 Plaintiffs next argue they have suffered an injury in  
21 fact because California law permits real estate buyers to  
22 sue for rescission and damages when a seller fails to  
23 disclose material facts. (Stephens Opp'n at 10-11); see  
24 Reed v. King, 145 Cal. App. 2d 261 (1983). This argument  
25 fails, however, because it merely states the remedies  
26 available to plaintiffs in failure to disclose cases, but  
27 does not establish an injury.

28

1 Furthermore, the facts in the cases Plaintiffs cite  
2 are distinguishable from the context of this case; the  
3 failure to disclose in the former cases recognized a duty  
4 to disclose (1) physical defects and legal impediments to  
5 use of real property, (Karoutas v. HomeFed Bank, 232 Cal.  
6 App. 3d 767, 771 (1991) (finding a duty to disclose where  
7 plaintiff's residence had substantial and permanent soil  
8 movement that required costly repairs); SanFran Co. v.  
9 Rees Blow Pipe Mfg. Co., 168 Cal. App. 2d 191, 205  
10 (finding a duty to disclose where a property was missing  
11 walls and subject to various building code violations);  
12 Graf v. Sumpter, 207 Cal. App. 2d 391, 392-93 (finding a  
13 duty to disclose where the land upon which plaintiffs'  
14 residence was built was not properly compacted, causing  
15 cracking and crumbling of the residence); or (2) in cases  
16 of extreme stigma, (Reed v. King, 145 Cal. App. 3d 261,  
17 267 (1983) (finding a duty to disclose where residence  
18 was site of gruesome multiple murders committed on the  
19 property, but noting that such circumstances were "highly  
20 unusual"))).

## 22 2. Overpayment Theory

23 Finally, as to Plaintiffs' overpayment theory, the  
24 Court construes these allegations as an attempt to  
25 describe Defendants' motives for issuing subprime loans.  
26 To the extent, however, that Plaintiffs allege they  
27 overpaid as a result of Defendants' efforts to inflate  
28

1 housing demand artificially by offering subprime loans,  
2 the Court finds the alleged injury is too speculative to  
3 constitute an injury in fact because it is not "concrete  
4 or verifiable." See Kaing, 2010 WL 625365, at \*3, n.2.  
5 Plaintiffs allege that Defendants "market[ed] materials  
6 that depicted the community as a stable, family[-]based  
7 neighborhood" (FAC ¶¶ 36, 37) and "provided . . . false  
8 and misleading standardized representations and  
9 advertisements regarding the value of the house sold[,]  
10 [t]he sales practice of selling to investors[,] and the  
11 desirability of the neighborhood where the house was  
12 sold" (FAC ¶ 73). Plaintiffs also allege that Defendants  
13 offered subprime loans to "artificially inflate[] demand"  
14 and thereby increase prices for houses in Plaintiffs'  
15 neighborhoods. (FAC ¶¶ 21, 31, 33, 48, 66.) As with  
16 Plaintiffs' reduced-value theory, the capacity for  
17 Plaintiffs' alleged injury to fluctuate with changes in  
18 the economy, "strongly suggests" that Plaintiffs' injury  
19 is "conjectural and speculative, not actual or imminent."  
20 Green, 2007 WL 2688612, at \*3.

21

22 Thus, the Court finds that Plaintiffs have failed to  
23 articulate an injury in fact that is "concrete and  
24 particularized, and actual or imminent." Cf. Lujan, 504  
25 U.S. at 560-61.

26

27

28

1 **B. Causation**

2 Plaintiffs "face[] a similarly insurmountable problem  
3 with respect to the causation element of standing."

4 Kaing, 2010 WL 625365, at \*6. Plaintiffs allege they  
5 overpaid for their houses and suffered a reduction in the  
6 value of their properties caused by Defendants' wrongful  
7 acts and omissions. Plaintiffs' injury must be "fairly  
8 traceable to the challenged action of the defendant, and  
9 not the result of the independent action of some third  
10 party not before the court." Lujan, 504 U.S. at 560.

11 "The line of causation between the [alleged] illegal  
12 conduct and injury" must not be "too attenuated." Allen  
13 v. Wright, 468 U.S. 737, 752 (1984).

14  
15 **1. Reduced-Value Theory**

16 Plaintiffs' reduced-value injury is not "fairly  
17 traceable" to the challenged action of Defendants.  
18 First, any loss in value Plaintiffs have suffered has  
19 resulted not just from the actions of Defendants, but  
20 also from the independent actions of others, e.g.  
21 homeowners in Plaintiffs' neighborhoods who defaulted on  
22 their mortgages and third-party mortgage companies that  
23 foreclosed on houses in Plaintiffs' neighborhoods.  
24 Plaintiffs' theory is premised upon a chain of causation  
25 that is affected by general economic factors. These  
26 general factors can have unpredictable effects, such as  
27 collapse of financial institutions, changes in the credit  
28

1 market, and rising unemployment, which by themselves or  
2 in combination affect the housing market. In other  
3 words, any injuries suffered by Plaintiffs necessarily  
4 depend upon a causal chain that includes numerous  
5 independent forces and individual decisions of "some  
6 third part[ies] not before the court." Lujan, 504 U.S.  
7 at 560-61.

8  
9 Plaintiffs allege that Defendants (1) "marketed the  
10 house and neighborhood as stable and desirable" (FAC ¶¶  
11 20, 29, 36-37); (2) sold houses to "unqualified and high-  
12 foreclosure-risk buyers" and assisted them in purchasing  
13 or financing their houses (FAC ¶¶ 21-22); (3) sold houses  
14 to "investors that were not owner[-] occupiers of the  
15 houses," (FAC ¶ 26); and (4) did not disclose this  
16 information to Plaintiffs (FAC ¶ 29-30, 36-37, 45).  
17 Plaintiffs conclude that as a result of Defendants'  
18 conduct, the "neighborhoods where Plaintiffs live have  
19 had a number of foreclosures," which "have resulted in  
20 substantial loss of value to the surrounding homes."  
21 (FAC ¶ 48.)

22  
23 As Defendants point out, an examination of the causal  
24 chain reveals the speculative nature of Plaintiffs'  
25 injuries. (Mot. at 9.) Plaintiffs allege that  
26 Defendants sold houses in Plaintiffs' neighborhoods to  
27 "unqualified" buyers. Plaintiffs define as "unqualified"  
28

1 those buyers who purchased their houses with less than a  
2 20% down payment. Later, some of these unqualified  
3 buyers defaulted on their mortgage loans. Eventually,  
4 third-party mortgage companies foreclosed on those  
5 houses; Defendants did not initiate these foreclosure  
6 proceedings. The loss of houses due to foreclosure --  
7 along with other factors -- eventually contributed to a  
8 decrease in the value of Plaintiffs' houses. (See  
9 Stephens Opp'n at 9.) When examining the chain of events  
10 Plaintiffs allege, it is apparent that the Plaintiffs'  
11 alleged injuries necessarily depend upon a causal chain  
12 that includes numerous independent forces and individual  
13 decisions of "some third part[ies] not before the court."  
14 Lujan, 504 U.S. at 560-61.

15  
16 Other courts have reached the same conclusion when  
17 faced with nearly identical allegations. See Kaing, 2010  
18 WL 625365, at \*6; Tingley, 2008 WL 1902108, at \*4; Green,  
19 2007 WL 2688612, at \*3. As the Kaing and Tingley courts  
20 noted, a causal chain cannot be found or even inferred  
21 from such allegations because each link in the chain may  
22 be caused by factors other than Defendants' conduct.  
23 Kaing, 2010 WL 625365, at \*6; Tingley, 2008 WL 1902108,  
24 at \*4. For example, the other owners may have defaulted  
25 on their mortgages as a result of "other factors, such as  
26 unemployment, health problems, a general weakening of the  
27 economy, or other financial conditions." Tingley, 2008

28

1 WL 1902108, at \*4. Furthermore, there are "intervening  
2 decisions by the mortgage assignees to foreclose the  
3 defaulted mortgages rather than to restructure the loans,  
4 which may have been done for reasons totally apart from  
5 the alleged fraud." Id.

6  
7 The allegations that the depreciation of Plaintiffs'  
8 property was caused by the foreclosures in their  
9 neighborhood, "rather than as a result of a myriad of  
10 other factors, such as rising unemployment in the region,  
11 changes in the housing market, or other economic  
12 conditions," falls short of the standard required to  
13 plead causation. Kainig, 2010 WL 625365, at \*6. Although  
14 foreclosures can have an adverse impact on property  
15 values, supply and demand are affected simultaneously by  
16 a number of market factors. See Tingley, 2008 WL  
17 1902108, at \*4. Any combination of these factors may  
18 have caused a reduction in Plaintiffs' property values.  
19 See id. Even assuming that the value of Plaintiffs'  
20 property was affected adversely by foreclosures in their  
21 neighborhoods, the connection "remains too tenuous to  
22 provide standing." Id.

23  
24 The additional injuries Plaintiffs allege in the FAC  
25 -- "unstable neighborhoods, multiple families living in  
26 one home, transient neighbors with no long-term ties to  
27 the neighborhood, unfinished and unkempt yards, and in  
28

1 some cases, increased crime" -- are not "fairly  
2 traceable" to the challenged action of Defendants.  
3 Viewing the allegations in FAC in the light most  
4 favorable to Plaintiffs, Plaintiffs fail to plead facts  
5 sufficient "to raise a right to relief above the  
6 speculative level." Bell Atlantic, 550 U.S. at 555. The  
7 FAC contains nothing more than speculation to link these  
8 harms to Defendants' conduct or omissions. See Kaing,  
9 2010 WL 625365, at \*5-6 (holding that plaintiffs claiming  
10 similar injuries failed to allege causation sufficient to  
11 survive a motion to dismiss).

12  
13       The fragility of the connection between Defendants'  
14 alleged conduct and the decreased value of Plaintiffs'  
15 houses is illuminated "with each additional link in the  
16 chain where the choices of others have an impact and make  
17 other scenarios at least as plausible as the one advanced  
18 by . . . Plaintiffs." Id. Put into concrete terms,  
19 because Plaintiffs still own their properties, a positive  
20 change in the unemployment rate, housing market, mortgage  
21 interest rates, or other economic factors could cause  
22 Plaintiffs' property values to increase, thus decreasing  
23 or obviating their alleged losses. Again, other courts  
24 reached the same conclusion. Tingley, 2008 WL 1902108,  
25 at \*4; Green, 2007 WL 2688612, at \*3.

26  
27  
28

1           **2. Overpayment Theory**

2           Turning to Plaintiffs' overpayment theory, the Court  
3 construes these allegations as an attempt to describe  
4 Defendants' motives for issuing subprime loans. To the  
5 extent, however, that Plaintiffs allege they overpaid for  
6 their houses as a result of Defendants' efforts to  
7 inflate housing demand artificially by offering subprime  
8 loans, the causal connection between the alleged  
9 overpayment and Defendants' "scheme" depends upon  
10 numerous independent factors and third parties not before  
11 the court. See Kaing, 2010 WL 625365, at \*6.

12  
13           The third parties include, for example, the alleged  
14 "unqualified" and "investment" buyers to whom Plaintiff  
15 also indirectly assign blame for the decrease in their  
16 property values. These third parties acted  
17 independently, e.g., to default on loan payments, to  
18 choose their tenants, or to maintain their properties,  
19 which in turn directly affect losses Plaintiffs allegedly  
20 suffered, thus making it impossible to trace those losses  
21 to Defendants' alleged misconduct.

22  
23           Similarly, the "housing bubble," or inflation of  
24 housing prices, was a nationwide phenomenon, traceable to  
25 variables independent of Defendants' alleged scheme, such  
26 as lax regulatory enforcement, rates of unemployment,  
27 credit market developments, and general economic growth.

28

1 As with Plaintiffs' reduced-value theory, it cannot be  
2 said that the inflated purchase prices Plaintiffs  
3 allegedly paid are fairly traceable to Defendants'  
4 alleged "scheme."

5  
6 Thus, taking Plaintiffs' allegations as true, as the  
7 Court must for these purposes, Plaintiffs' harm is not  
8 "fairly traceable" to Defendants' alleged conduct.  
9 Plaintiffs, therefore, do not have standing to sue for  
10 paying an "inflated" purchase price for their houses or  
11 for a subsequent reduction in value of their houses.  
12 Hence, the Court lacks subject matter jurisdiction over  
13 this action and accordingly DISMISSES the FAC,<sup>3</sup> with  
14 prejudice.

15  
16 **IV. CONCLUSION**

17 For the foregoing reasons, the Court GRANTS  
18 Defendants' Motion to Dismiss. As the Court finds that  
19 Plaintiffs would be unable to amend their pleadings to  
20 correct the deficiencies related to constitutional  
21  
22  
23  
24

25  
26 

---

<sup>3</sup> As the Court finds Plaintiffs lack standing to  
27 assert their claims, it does not have jurisdiction over  
28 this matter. The Court, accordingly, does not reach  
Plaintiffs' and Defendants' arguments regarding Rule 9  
and 12(b)(6) as to each claim.

1 standing, it dismisses the First Amended Complaint with  
2 prejudice.

3

4 The Court DENIES Defendants' Motion to Strike as  
5 moot.

6

7 **IT IS SO ORDERED.**

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10 Dated: March 31, 2010

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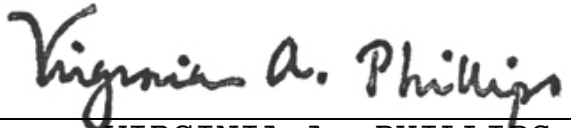
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\_\_\_\_\_  
VIRGINIA A. PHILLIPS  
United States District Judge