THE WALL STREET JOURNAL. ONLINE

August 14, 2002

Housing Prices Continue Ascent, Fueling More Fears of a Bubble

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Fears of a housing bubble just got worse.

A new report from the National Association of Realtors found that home-price appreciation in the nation's hottest markets, far from cooling off as many economists had expected, actually accelerated.

On New York's Long Island, for example, prices rose a breathtaking 29.6% to a median level of $307,200 during the 12-month period ended in June. In San Diego, the median price jumped 21.3% to $361,900. Boston, long considered one of the most overheated markets in the country, saw prices surge 11.7% to $397,700.

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IS YOUR TOWN IN A BUBBLE?

See a chart[1] showing hot and cold metro-area markets, and **view a graphic**[2] highlighting which states are seeing home prices boom.

Double-digit price increases weren't confined to the usual hotspots of the Northeast and California. They were also evident in Chicago; Baltimore; Tucson, Ariz.; Reno, Nev.; Miami and numerous other cities where prices have climbed at rapid rates in recent years. In Washington, D.C., the median home price leaped 20.8% from the past year, to an eye-popping $249,700.

There's little doubt such gains can't continue too much longer. "What concerns me is that real-estate markets tend to peak two or three years after a stock-market peak," says Ian Morris, an economist at HSBC Securities in New York, who sees renewed reason for worry in the latest batch of home-price data. Mark Zandi, the chief economist at Economy.com (www.economy.com[3]), says it's likely some markets will see outright price declines. "I wouldn't have said that six months ago," he says.

The report from the realtor's association didn't show major price gains for all parts of the country. Price increases slowed in cities like Minneapolis-St. Paul and Dallas, especially in the markets for high-end properties priced above $1 million. Realtors in certain markets say properties have started taking longer to sell and that some owners are dropping their selling prices.

In fact, nationwide, median home prices cooled slightly, rising 7.4%, compared with an 8.1% growth rate in the first-quarter report.

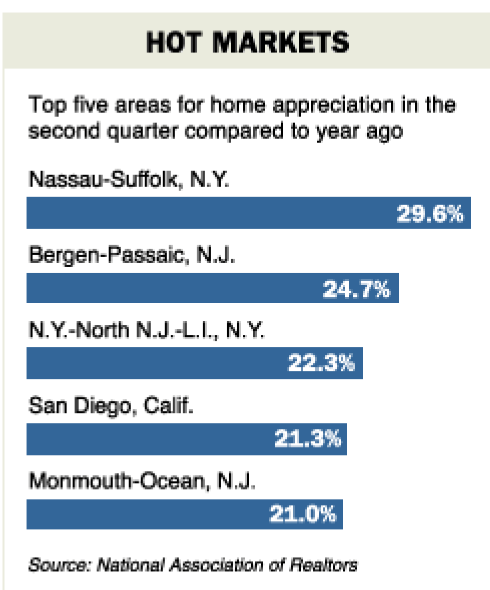
Yet, the hottest markets kept soaring, adding fuel to the concerns about price bubbles. That doesn't necessarily mean a big crash in housing prices is coming. Home prices traditionally don't tumble as far or as fast as stocks. A large number of economists believe prices in the most expensive areas may simply stagnate -- or slow to a more normal rate of appreciation. They point to strong demand from immigrants and tight supply of new homes as two factors that should keep home prices from falling.

"I don't see bubbles bursting -- I see bubbles deflating," says David Lereah, the chief economist at the National Association of Realtors. Still, he adds that prices could continue soaring a little longer if mortgage rates remain low.

But it is also true the current housing market is beginning to show disturbing similarities to the late-1990s technology-stock boom.

One indication is the emergence of a new generation of get-rich-quick books pegged to housing, similar to the flood of do-it-yourself stock-investing books that appeared a few years ago. Among the latest titles: "Millionaire Real Estate Mentor: The Secrets of Financial Freedom through Real Estate Investing," which was written by an author who purchased an investment property at age 20 and was a "millionaire several times over by 27," according to the book's marketing materials.

At the same time, real estate appears to have supplanted the stock market as the topic du jour at cocktail parties and office gatherings.



"Amongst my friends, hearing people talk in the elevator in the office, you don't hear people talk about their stocks anymore," says Rosa Kim, a New York-based public-relations consultant. "If they're talking about finance, it's real estate, it's 'should I buy a place? Should I buy that summer home?' "

Such zeal for real estate is a sure sign of a market peak to Dean Baker, co-director of the Center for Economic & Policy Research, a Washington think tank. "You're getting the same kind of nonsense you used to get about the stock market," he says."So many people are going to get taken." He notes that prices for Nasdaq stocks accelerated, too, just before the market correction starting in March 2000.

For the long haul, economists say, home prices should grow just one to two percentage points faster than inflation. At the moment, inflation -- excluding volatile segments like food and energy -- is only 2.3% a year.

This time around, however, prices seem to be getting an extra boost from the lack of new supply. One case in point is San Francisco, where feverish price growth in the late 1990s came to a halt after the dot-com bust in 2000. But more recently, with supply still tight, San Francisco showed signs of a turnaround, with prices rising 11.8% in the second quarter from a year earlier.

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Updated August 14, 2002 4:19 p.m. EDT