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Top 10 real-estate bubble prospects Plus: the 10 most undervalued housing markets

By [Steve Kerch](#), CBS.MarketWatch.com

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HONOLULU (CBS.MW) -- Which housing markets look like they have the biggest price bubbles?

They might not be the ones you think.

Two researchers, Michael Sklarz, chief valuation officer for FNIS, and Norm Miller, director of the University of Cincinnati's Real Estate Center, have analyzed income, employment, mortgage-rate and housing supply data for markets across the country to come up with an index that compares current home prices to what their "intrinsic" values should be.

Sklarz said other analysts that have declared a housing bubble based on a comparison only of home prices to incomes or in relation to implicit rents aren't seeing the whole picture. [See full story on the bubble debate.](#)

"Where the alarmists and the bubble talkers are missing the boat is that interest rates have come down significantly.

And in any model, values go up as rates go down," he said.

Still, there are markets where the fundamentals seem out of whack.

In Daytona Beach, Fla., for example, Sklarz says home prices are 19.7 percent above the intrinsic value and that data suggest it will take 10 years for the market to catch up.

Here's a look at Sklarz and Miller's best candidates for housing bubbles.

Using the same set of calculations, the researchers also compiled a listing of housing markets that would seem the most undervalued, which is shown in the second table.

Metro area	Current price difference vs. intrinsic value	Years to reach current price
1. Daytona Beach, Fla.	+19.7%	10
2. Mobile, Ala.	+22.3%	9

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3. Burlington, Vt.	+16.9%	8
4. Ft. Lauderdale, Fla.	+18.5%	8
5. Salem, Ore.	+18.3%	8
6. San Diego	+22.8	8
7. Tacoma, Wash.	+23%	8
8. Anchorage, Alaska	+14.5%	7
9. Fresno, Calif.	+19.2%	7
10. Oklahoma City	+16.8%	7

Undervalued housing markets:

Metro area	Current price difference vs. intrinsic value	Years to reach current price
1. Buffalo, N.Y.	-9.3%	-6
2. Philadelphia	-8.5%	-4
3. Canton, Ohio	-5.1%	-3
4. Springfield, Mass.	-6.7%	-2
5. Albuquerque, N.M.	-4.9%	-2
6. Newark, N.J.	-2.3%	-1
7. Springfield, Ill.	-5.7%	-1
8. Trenton, N.J.	-9.9%	-1
9. Pittsburgh, Pa.	-5.4%	-1
10. Louisville, Ky.	-5.5%	-1

"In many areas of the country, the available inventory of new and existing homes for sale is at historically low levels," the researchers pointed out. "This, coupled with the expectation that interest rates will remain favorable for the foreseeable future, should buffer most cities from a meaningful decline in home prices over the next several years."

"But the risk is there and warrants watching."

Steve Kerch is the real estate editor of CBS.MarketWatch.com in Chicago.

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