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Home prices push Denver to top ranks City in top 10 overpriced markets in U.S., reports say

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Sticker-shocked homebuyers who think Denver's housing prices are too high are in good company.

Three separate analyses have ranked Denver among the 10 most overpriced housing markets in the country.

The rankings, produced by Economy.com, Fidelity National Information Solutions and John Burns Real Estate Consulting, compared home prices and incomes to determine benchmark home values. Some rankings also used mortgage rates, employment and builder costs to determine the benchmark or ideal home value.

"What we're looking at is what values would be if there was no emotion in the market," said Mike Sklarz, author of the Fidelity National Information Solutions report.

Actual home prices tend to fluctuate above and below the benchmark values. A market is considered overpriced, according to the reports, when it exceeds the benchmark by a large percentage.

Denver, along with San Diego, earned an overpriced ranking in all three reports. Boston, Baltimore, Miami and San Jose, Calif., each appeared on two of the lists. Colorado Springs made a single appearance on Economy.com's list.

"The situation in Denver is, in so many ways, a product of nearly a decade of prosperity and growth," said Tom Clark, a regional economist at the University of Colorado at Denver.

Rocky Scott, president of the Greater Colorado Springs Economic Development Corp., said it's difficult to determine whether a market is overpriced based on incomes alone.

Prices are high in places such as Denver and Colorado Springs because there's a premium in mountain areas, he said.

Home prices are outpacing incomes in Colorado Springs and Denver, but experts are hesitant to say that either market is in a bubble, meaning prices are at risk of dropping.

"The bubble characterization implies that there is going to be a sudden collapse," Clark said. "I think what we're really going to see is a gradual shift in the market."

High-end homes could lose some of their value, but more moderately priced homes will hold their value because of low mortgage rates and demand from first-time and downsizing buyers, Clark said.

"Just because prices are extended doesn't mean they're going to come down," Sklarz said. "Prices tend to be very sticky on the downside." He predicts that prices will level off for a few years until incomes catch up.

Scenarios that might cause home prices to plummet include a sharp spike in mortgage rates or massive job losses and an exodus of residents, experts said.

Colorado cities might be at greater risk of losing jobs, as recent figures from the U.S. Bureau of Labor Statistics showed that the state ranks last in job growth. The state demographer also has lowered his projection for the number of people expected to move into the state this year from 35,000 to 20,000.

While it's lower, it still represents an increase in population.

"People still want to live and locate their businesses in the area," said Kit Cowperthwaite, a broker associate with Distinctive Properties and president of the Denver Board of Realtors. "We have a lot of cushioning in our market that will protect us from a freefall in prices."

A recent increase in the number of homes on the Denver-metro market caused a small dip in higher-priced homes, but houses priced below \$300,000 will continue to appreciate, Cowperthwaite said.