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Why are home prices too high?

By Thomas A. Fogarty, USA TODAY

Over the last year, Nassau and Suffolk counties outside New York City have seen faster growth in home prices than any real estate market in the USA — up a sizzling 30%. (**Related item:** [Chart: Overpriced markets](#))

But fastest growing is different from most overpriced. That's a more subjective judgment, and it depends on which analyst you ask. Contenders for the most overpriced real estate markets in the USA: Tacoma, Wash.; Naples, Fla.; Boston; Denver; and San Diego.

As speculation grows over a housing price bubble in the hot U.S. real estate market, those cities are among the most worrisome for three leading real estate analysts who predict which real estate markets risk stalling or crashing.

Cities with overpriced housing markets might have any of several factors at play: high land costs, a sluggish job market, rising mortgage payments or incomes that aren't keeping pace with home prices. Every analyst has a different recipe.

Tacoma tops the list of Michael Sklarz at Fidelity National Information Solutions. His latest analysis identifies it as the nation's most overpriced housing market: Prices are 23% over what Sklarz calls the intrinsic value for homes there, vs. 7.2% overpricing for homes nationwide.

Sklarz says a correction is inevitable in markets like Tacoma because prices have gotten out of line with what local economies can sustain. The correction may be a prolonged pause in price increases or a decline, Sklarz says.

"The fact that a housing market is overpriced doesn't necessarily mean it's going to crash tomorrow, or even next month," he concedes.

Though Tacoma home prices remain in the midrange nationally — a \$170,000 sales median — Sklarz says it made the top of the Fidelity National list on the basis of rapid home price appreciation in recent years and employment numbers that have peaked.

Glenn Crellin, a real estate expert at Washington State University, says he's "a little bit surprised" by the ranking.

He says Tacoma has benefited by proximity to many Seattle-area jobs, though not the tech jobs spawned by Redmond-based Microsoft. The market has been "doing just fine," he says.

Nassau-Suffolk, which the National Association of Realtors says has the fastest price growth, ranks No. 7 on Sklarz's list.

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Rankings are aimed primarily at business clients whose livelihoods depend on the housing market — builders, lenders, home-supply retailers and the like. But home buyers and sellers have an obvious stake, too.

Sklarz says the "overpriced" designation should be a signal to both buyers and sellers in those markets that price run-ups are at least about to flatten. Steep price drops are less likely, he says.

"Real estate prices move in long-term cycles," he says.

Economy.com of West Chester, Pa., cites Naples, Fla., as the most overpriced market. Its \$284,000 median sales price in the April-June quarter has nearly doubled since 1995.

Naples, says Economy.com chief economist Mark Zandi, is one of 24 U.S. metros the firm rates as "highly overpriced" and due for correction.

Most are coastal, and Zandi says that's no accident. Shorelines present a barrier to large-scale home building, limiting supply.

To a degree, says Zandi, such building constraints support the high prices. But they can also breed price bubbles by encouraging speculative behavior by buyers and sellers who act as if prices will forever go higher.

"You never see bubbles in places like St. Louis," says Zandi, citing an example of a metro area where it's easier to increase housing supply to meet the demand.

San Diego and Denver make not only the Fidelity National and Economy.com lists of 10 most overpriced markets, but also that of John Burns, an Irvine, Calif., home building consultant.

Burns rates Boston No. 1 on his list of overpriced markets. Boston ranks No. 6 with Fidelity National and No. 12 with Economy.com.



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