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Housing market immune to slump

Catherine Burrough

The Arizona Republic
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The economy's ills haven't pulled down metropolitan Phoenix's housing market.

Valley home sales so far this year are on track to break 2001's record pace, and prices continue to climb in many areas. Rock-bottom interest rates are enticing people to buy houses, even if they are unsure about their jobs.

"The housing market has been the one safe harbor for people," said Jay Butler, director of the Arizona Real Estate Center. "People who haven't bought either can't afford to or just plain don't want to."

The housing market's unwavering exuberance in the wake of hefty stock market and job losses has some wondering if it's due to take a hit, too.

The typical price of a used Valley home shot up 76 percent, to \$146,000 during the past decade, and 9 percent this year alone, according to the National Association of Realtors. The cost of a new house has climbed 50 percent since 1992, to \$162,000, increasing 3 percent so far this year.

Housing analysts say the price run-ups are being offset by 30-year mortgages at 6 percent interest, along with loans that require little down payment. More than 80,000 new and existing houses changed hands Valley-wide through September. That puts the market on pace to hit last year's record, when more than 105,000 houses sold.



Jack Kurtz/The Arizona Republic

Candace Cotton and her husband, Dan, sit in front of their northwest Phoenix home. They chose the area because of the desert views and its proximity to the desert preserve.

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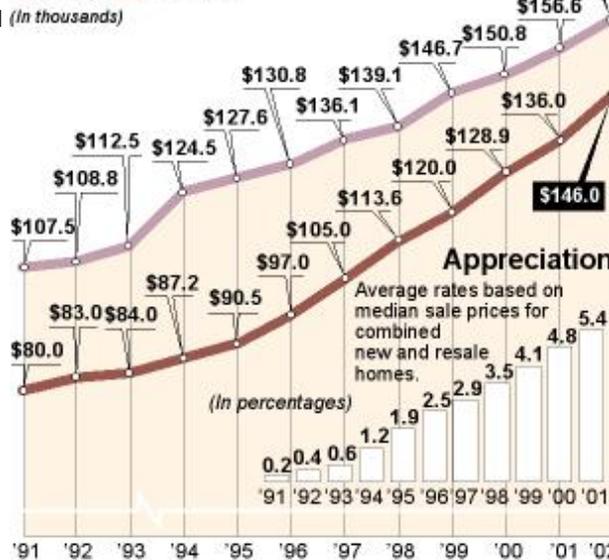
Candace and Dan Cotton were watching prices climb and interest rates fall when they decided it was the right time to buy a bigger house for their growing family. They sold a house in Glendale's Arrowhead Ranch and bought a new one with 4,100 square feet in northwest Phoenix.

Metro Phoenix home prices are still rising...

Sales price and sales data for 2002 is as of September

MEDIAN HOME PRICES

(In thousands)



"We feel like we got so much house and land for our money," Candace said. "It was an easy move."

...The number of home sales is on track



Glendale's rising prices helped. The median cost of a used house in the area has climbed 63 percent in the last decade. Nationally, the cost of an existing house has climbed only 29 percent since 1997.

Source: Arizona Real Estate Center at ASU; R.L. Brown's Phoenix Housing Market Letter

James Abundis/The Arizona Republic

Signs of slowing

However, some indicators suggest that the Valley's housing market is leveling off, prompting concerns over a bubble.

- The number of listings in Phoenix has climbed by 20 percent this year, according to the Arizona Multiple Listing Service.
- It takes an average of 64 days for a Valley house to sell, two weeks longer than it did last year.
- A few of the Valley's most expensive neighborhoods have seen prices dip.

"It's taken longer for houses to sell and buyers have a lot more homes to choose from," said John Foltz, president of Realty Executives. "That means there's going to be more pressure on prices."

But Foltz and other market watchers say the Valley's relative affordability compared with California and the East Coast, along with projections for Arizona's continued population growth, should help homeowners sustain recent gains.

Many who bought at the top of the market or are counting on increased equity to finance other expenses are concerned that home prices will backtrack like stocks. But nearly 98 percent of all Valley houses sold in 2001 went for more than the seller paid, according to Butler.

Could record home sales, appreciation and low interest rates add up to a weakening housing market?

One nagging concern is that the gap between household income and home prices continues to widen, meaning prices ultimately will have to drop for people to continue to afford to buy, said Nicolas Retsinas, director of Harvard University's Housing Center.

In Arizona, housing prices increased at twice the rate of incomes during the '90s, according to the state's Housing Commission.

Michael Sklarz, chief valuation officer with Fidelity, said San Francisco, Boston, New York, Miami and Portland, Ore., are caught up in a losing cycle with home prices that continue to boom as jobs disappear.

He said those markets are 12 to 22 percent overpriced and could burst.

Who's on the bubble

Potential bubble markets are also characterized as having 80 to 100 percent appreciation gains in only four years.

He said the Phoenix area is only about 6.5 percent overvalued, and most Valley cities have posted a stable price jump of around 20 percent since 1998. Scottsdale was the exception, with a 42 percent jump, but it's still not near the red zone for a housing bubble. "Metro Phoenix's housing market hasn't seen any big spikes that would characterize a bubble," real estate analyst R.L. Brown said. "The market has steadily climbed during the past decade with out any wild gyrations."

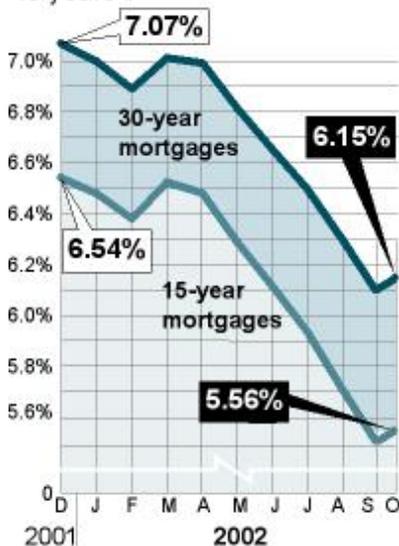
Some economic experts, including Federal Reserve Chairman Alan Greenspan, say there's no housing bubble because higher prices are being offset by cheaper mortgage rates.

Rising demand from newcomers coupled with a lack of supply nationally is also keeping the market in balance.

Retsinas said double-digit home price appreciation is likely over during this

Falling interest rates

Home buying has been spurred by the lowest mortgage rates in 40 years*.



*Averages based on paying almost 1 point.

Source: Freddie Mac

Kee Rash/The Arizona Republic

cycle, but home values will hold their ground because of strong demand and tight supply.

Appreciation gains

That would bode well for the economy. Equity lets homeowners leverage starter homes into bigger ones and potentially move up the chain to a luxury or second home.

Homeowners have tapped recent appreciation gains for other expenses. Americans' home equity soared to a record \$6.7 trillion in 2001, according to Harvard.

About 7 million homeowners refinanced existing mortgages last year, and more than half of them took out a total of \$80 billion in equity.

"Interest rates are so low, we couldn't resist them " said Shauna Boyd. "We knew we were either going to refinance and add on or move."

She and her husband Darrin opted to sell their smaller Phoenix home and are moving to a larger one in the north Valley Anthem development.

Low interest rates have also boosted the spending or savings of homeowners who leave their equity alone. A homeowner with an 8.5 percent interest rate from 1998 can save almost \$250 a month on a \$150,000 mortgage with the market's current rate of 6 percent. Rates aren't expected to rise significantly anytime soon, and housing analysts say that will keep the market going.

Bob McCord, chief executive of Coldwell Banker, estimates that one-third of all Valley home sales this year are due to low interest rates. The Realtors Association is forecasting U.S. home prices will rise 6 percent this year and then 4 percent in 2003.

"With a more even pace of home sales, we should see a better balance between buyers and sellers in 2003," economist David Lereah said.

Propelled by strong population growth, metropolitan Phoenix's home price increases have topped the national average for a decade.

"We didn't necessarily buy for the investment, " Candace Cotton said. "But it appears to be a good one so far."

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