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# Metro home prices likely to flatten out

By **Kristi Arellano**, Denver Post Business Writer

Mortgage rates are creeping upward, and experts are warning that the housing market - one of the few bright spots in the local economy - could finally lose its luster.

"The fabulous interest rates have really kept the market going," said Leeann Iacino, managing partner for Prestige Real Estate Group, which has offices throughout the metro area. "Rates jumped (last week). That will definitely flatten the market."

Based on the number of properties placed under contract, Denver-area home sales through the first seven months of the year were already down 2.5 percent from 2002. In July, the median price of a single-family home had climbed 5.8 percent over the 12 previous months.

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Realtors say the market has been kept afloat by mortgage rates that flirted with 40-year lows in the first part of the year. The low rates encourage first-time and move-up buyers to get into the market and allow them to spend more than they might otherwise have been able to afford.

Now that rates are headed upward, Realtors said demand from those groups will drop significantly - and prices could follow.

Experts are divided as to how much the rising rates will affect home sales and prices. But at least one economist is predicting that a continued increase in mortgage rates could lead prices in some Colorado markets to flatten or fall significantly over the next few years.

Projections by Mike Sklarz, chief valuation officer for Fidelity National Information Solutions, suggest that home prices in the Denver and Boulder-Longmont markets will keep rising only if mortgage rates stay below 7 percent. In markets such as Grand Junction and Colorado Springs, home prices keep gaining, no matter what the mortgage rate.

"Prices in Denver and Boulder accelerated a little bit too quickly," said Sklarz, whose offices are in Honolulu. "The market needs to go sideways for a while so home prices can catch up to the intrinsic values."

Sklarz has based his forecasts on each market's historical median home prices, income projections and various mortgage rate scenarios.

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Mortgage rates for the week that ended Friday averaged 6.14 percent with an average of 0.5 points for a 30-year fixed-rate mortgage, up from 5.94 percent and 0.4 points the week before and reaching the highest rate since early last December, according to mortgage buyer Freddie Mac.

Economists agree that rising interest rates will put the brakes on refinancing and home sales.

The Mortgage Bankers Association of America predicts that mortgage production volume will reach a record \$3.39 trillion this year before plunging to \$1.9 trillion in 2004.

"We've probably seen the end of the really low rates," said Doug Duncan, the association's chief economist.

"Rates are still relatively low, but the golden age has passed," he said.

Duncan said home prices will flatten as a result of the rate increase; an all-out price drop is unlikely.

But Sklarz, who has repeatedly included metro Denver on his list of the most overheated housing markets, said the area's prices could take a dive and not recover for several years.

According to his forecasts, mortgage rates at 7 percent would lead to flattened prices for the next few years in Denver. At 8 percent, the median price of a single-family home drops and takes 10 years to recover its value.

In Boulder, even a 7 percent mortgage rate could fuel a price drop, and it would take until 2009 for the median home price to return to its 2003 level, according to Sklarz.

"We're talking about no appreciation for the next few years," Sklarz said. "A buyer should be looking at his home as a place to live and not necessarily as an investment right now."

But Steven Fisher, an independent economist in Boulder, said he's skeptical of claims that the area housing market is overpriced and headed for a fall.

"If people willingly pay for an asset, it's not overpriced," he said. "Something about this market encourages people to pay a premium to live here."

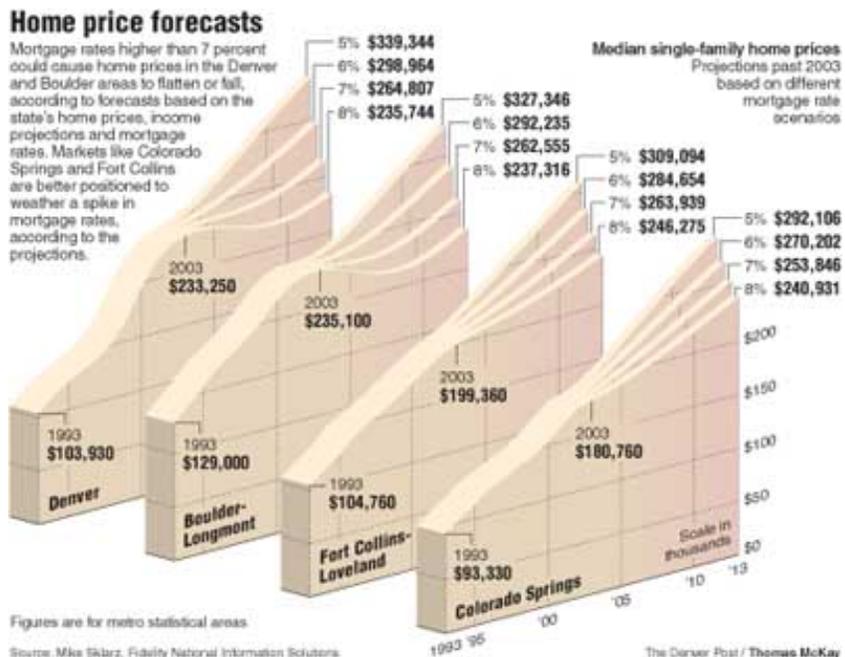
Fisher expects home prices to continue appreciating, though not as fast as in the past. He said part of the reason rising mortgage rates won't pull the rug out from under the housing prices is because rates are generally driven upward by economic improvements.

So the same economic gains that would drive mortgage rates to 7 percent would likely mean higher incomes and increased consumer confidence, he said.

"They sort of cancel each other out. Even if rates go up, people would

probably be earning more and be more willing to pay more for their homes," he said.

The Mortgage Bankers Association is predicting that mortgage rates will hold close to 6.5 percent for the rest of the year.



Post / Brian Brainerd

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