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# The ratings game: Market analysts rank most expensive, most inflated markets

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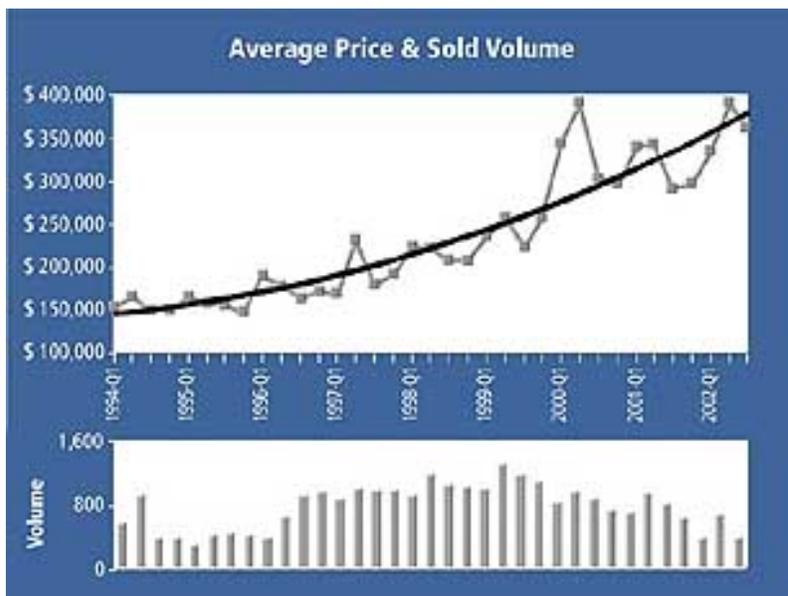
The vice president of a bank in Naples might think twice about moving to Bethesda, Md. if he's offered the same job there.

That's because he would pay \$489,155.27 for a house that he could get in Naples for about \$240,000.

But if he got a similar job offer in Cleveland, Ohio, he may do well to accept it. There he'd pay about \$48,000 less for the same house.

That's according to the 2002 Home Price Comparison Index recently published by the Coldwell Banker Real Estate Corporation, which has 3,200 offices and more than 90,000 sales associates and brokers globally.

The company's annual index shows home price variances in 317 U.S. markets. It's meant to be an apples-



**At the top, the chart shows the average home price has risen steadily every year since 1994 in the City of Naples. At the bottom, the volume of sales has fluctuated widely in the city over the same eight-year period, falling well below 800 in the third quarter of this year. Photo courtesy Fidelity National Information Solutions**

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to-apples comparison of homes that would typically be attractive to middle-managers who are considering relocating.

The study tracks the average sales price of single-family homes spanning about 2,000 square feet. To be included in the survey, the homes must have four bedrooms, 2-1/2 bathrooms and a two-car garage. Each Coldwell Banker office provides the average sales price of its sold listings meeting that criteria, and the headquarters compiles the information in a way that makes it easy for people to see what their home is worth in another city.

Nationally, Coldwell Banker's index shows the average sales price of a home in a typical middle-management neighborhood is \$291,097, up from \$269,241 in 2001. It also reveals that Palo Alto, Ca. is the most expensive market in the country, with an average sales price of \$1,263,250 this year.

The survey shows seven of the country's 10 most expensive markets are in California. Two are in Connecticut and the other is in Massachusetts.

Seven of the 10 most affordable markets are in the Midwest, according to the index.

Yankton, S.D. ranked as the most affordable housing market, with an average sales price of \$101,062. That compares to \$241,666 in the Naples metropolitan area and \$216,134 in Fort Myers metropolitan area.

Naples and Fort Myers are both attractive areas for middle managers looking to relocate, said Jerry Warnken, regional president for Coldwell Banker Residential Real Estate in Southwest Florida.

While there is a shortage of affordable housing in Lee and Collier counties for low-to moderate-income families, there are plenty of housing choices for middle managers in a variety of neighborhoods, he said.

"Years ago it was difficult to look at a community around here and say this is a middle management community," Warnken said. "It's a large enough community that there are areas you can categorize as middle management."

The most recent index shows the average sales price for a typical home in a middle-management neighborhood in Naples has increased 18 percent in the last year. In Fort Myers, it has jumped about 13 percent.

While Warnken finds the information in the index useful, he doesn't see it etched in stone. In fact, he believes the increase in Naples' average home price has been

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overstated. He thinks it's closer to 13 percent.

There are many middle management neighborhoods in the Naples area, Warnken said. The survey only looks at a few, which can easily skew the numbers, he said.

"I know how difficult it is to assist a seller with the pricing of a property," Warnken said. "Generally, you use comparables like this. But it's not an exact science. It's something you have to test."

According to the index, the price increases for Naples and Fort Myers exceed the national average. Of the 317 U.S. markets surveyed, 206 of them — or about 65 percent — showed price increases over the last year. In more than 100 markets, prices were up more than 10 percent over 2001. But the average home price was up by 7 percent.

Despite a general slowdown in the national economy, existing home sales have remained strong this year. Total annual sales are pegged at 5.75 million, which would be the third-highest sales pace since 1968 when record-keeping began, according to the National Association of Realtors.

"Residential real estate has been one of the only bright spots in the U.S. economy," said Alex Perriello, president and CEO of Coldwell Banker Real Estate Corporation, in a written statement. "The sector should stay fundamentally strong because of attractive mortgage rates and the increase of home ownership rates among key demographics such as single-parent families, the baby boom and echo boom generation, minorities and immigrants."

While home sales are expected to remain brisk for the rest of the year, some markets could be headed for trouble, according to several housing analysts.

In a recent article in USA Today, Naples was mentioned as a contender for the most overpriced real estate market in the country along with Tacoma, Wash., Boston, Denver and San Diego. That means the Naples market could see its prices level out or even decline.

A variety of factors can lead to a determination that a real estate market is overpriced, including high land costs and a weak job market.

Mark Zandi, chief economist for Economy.com in West Chester, Pa., recently cited Naples as the most overpriced market in part because home prices have escalated so much over the last seven years. In the second quarter, the median sales price was estimated at \$284,000 — nearly twice as much as it was in 1995.

In coming up with his list, Zandi looked at a variety of factors in 142 metropolitan areas including how the supply of homes has measured up with demand. He also considered household income growth and looked at the pace of homebuilding in each market to determine the markets he feels are overpriced.

The other markets on Zandi's top five list are Monmouth-Ocean, N.J.; San Jose, Calif.; San Diego, Calif., and Orange County, Calif.

While Naples is No. 1 on Zandi's list, other analysts dispute it.

Michael Sklarz at Fidelity National Information Solutions, says Naples isn't on his radar screen as one of the more overpriced markets.

The model Sklarz uses to analyze home prices puts Tacoma, Wash. in first place. He says home prices there are 23 percent higher than their value.

Sklarz says nationwide there is a 7.2 percent overpricing for homes. However, his model shows the median single-family price in Naples is overvalued by 6.9 percent. The number is much greater in Fort Myers at 17.9 percent, he said.

In determining his list of the most overpriced markets, Sklarz looks at what he considers the primary drivers of local homes prices: employment and affordability. Overpriced doesn't necessarily mean people can't afford to buy homes in a market, he said.

"We are not saying that the average household can't afford the average price," Sklarz said. "In fact in a market like Fort Myers, I'm sure they can. It's just they are being asked to pay more for the same thing."

If home prices continue to escalate at a fast pace in the region, the housing bubble here could burst — causing a significant decline in prices, Sklarz said.

In the San Francisco Bay area, which saw some of the more rapid home price increases in the late 1990s, prices have declined significantly in a number of high-end areas in the last year.

In the city of Naples, the average single-family home price has risen steadily since 1994. The increases have slowed somewhat, showing that the market may have already begun to correct itself. The same pattern can be seen in the city of Fort Myers, Sklarz said.

Southwest Florida may be able to avoid any drastic price drops, as long as there's not a frenzy to build too many high-priced homes. This year builders have been

pulling more permits for moderately priced homes in Collier County, and that's a good sign, Sklarz said.

"The real dangerous thing for Naples right now is if home builders build a lot of luxury homes and add them to the inventory," Sklarz said. "That would be dangerous, but it doesn't sound like that is happening now."

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