RESIDENT AUTHORITY

A grave issue put to rest

Can the media please nail shut housing bubble's coffin?

By Steve Kerch, CBS.MarketWatch.com
Last Update: 12:03 AM ET Jan. 21, 2003

E-mail this article | Reprints | Printer-friendly | Create Alert

LOS ANGELES (CBS.MW) -- As news goes, the housing "bubble" story is old, really old. But it remains remarkably spry in its dotage, still able to kick up its heels and make a spectacle of itself.

The idea that housing prices, which have been on a fairly steady upswing in most parts of the country since the end of the 1990-91 recession, would come tumbling down was born in the aftermath of the collapse of the Nasdaq stock market in early 2000.

Journalists picking through the debris of the tech wreck began hearing from the pundits who predicted that the next such disaster would come in home prices, which were sure to be taken down as a consequence. That crash, however, might lag the market by two years or so.

It's nearly three years and countless tons of newsprint and hours of talking heads later and home prices continue on their merry way.

Isn't it over?

By now, you'd think that nobody would need to convene a housing summit to rehash the "bubble" arguments, as they did last week in Los Angeles. And you'd think 200 or so real estate professionals, economists and scribes would have something better to do than attend such a summit. You'd think that the story would die a natural death. But there remain a few who cannot do the decent thing and pull the plug.

"Different cities are in different bubbles. Well, we're not sure they're bubbles," said Robert Shiller, a Yale economics professor who studies consumer behavior and who is the co-developer of a set of home-price indexes. "But the concept of a bubble is something irrational."

The problem is, there is little evidence consumers have been behaving irrationally when it comes to housing. Despite soaring prices in some markets, Americans have been able to buy houses in record numbers because of low interest rates, a generally favorable employment picture and solid income gains. Coupled with restrictions on new-home construction, especially in popular markets like California, price gains can be seen as a classic Economics 101 supply-demand equation.

Enter symbol(s):
Quote/News
Find symbol
Keyword search
FREE! Sign up for Price/Volume Alerts

REAL ESTATE TOP FEATURES
Real Estate Library
Mortgage Rates
Home Equity Rates
More Features

CBS MARKETWATCH PERSONAL FINANCE
IN INVESTING
Spotting an investment seminar scam
IN MUTUAL FUNDS
Auxier harvests results with proven tools
IN LIFE & MONEY
Take advantage of teaser rate credit card offers
IN RETIREMENT
Some use long-term care insurance to save nest egg
IN REAL ESTATE
Mortgage rates fall in latest weekly survey
IN TAXES
10 steps to avoid common tax filing mistakes

"What we've had is 12 years of steady increases in home prices and sales volumes ... that has only recently gotten attention from the financial press after the stock market fell," said Patrick Stone, CEO of Fidelity National Information Services, a real estate technology and data provider.

A yawn from Middle America

Indeed, for perhaps two-thirds of the country, the issue of a housing "bubble" and why anyone would pay any attention to it is vexing. That's because homeowners in cities like Milwaukee and Cincinnati and Minneapolis haven't seen price spikes that would need puncturing.

"It's not really relevant for people in the Midwest. There's no concern of people buying houses for investment value. It's not 82 degrees today in Minneapolis (as it is in Los Angeles) so shelter is not an option. It's the reason people buy," said Ron Peltier, CEO of Edina Realty Home Services of America.

By all accounts of those participating in the Inman News "The Housing Bubble: Fact or Fiction? Summit on the U.S. Real Estate Market" there are only a handful of cities across the country where runaway home pricing is even a debatable point.

Michael Sklarz, chief valuation officer for Fidelity National, said of 10,000 U.S. housing markets for which he has analyzed data, only 50 have shown an outright decline in housing value and 20 of those might be legitimately identified as bubbles that have popped.

But the few markets that have been on the skids are mostly in just three areas: New York, San Francisco/San Jose and Boston. Southern California, notably San Diego and Anaheim, has also drawn negative attention, but prices there are still going up and may have 10 to 15 percent more gain in them, said Christopher Cagan, director of research and analytics for First American Real Estate Solutions.

"Some of the high-profile stuff seems to dominate the debate, like the Bay Area. But when you look at California as a whole (in terms of the ratio of housing payments to income) we're really closer to the low point than to the maximum," said John Karevoll, an analyst with DataQuick Information Services.

Next news at 11

That's not to say there aren't risks out there. A sharp hike in interest rates, a major catastrophic event or a bigger decline in employment would weigh heavily on housing. But those would be news stories in their own right, and even if they caused price declines would not be indicative of a "bubble," said Raphael Bostic, an economist with the USC Lusk Center for Real Estate.

"There really is a distinction between what you have in housing and what you had in the tech sector. People were investing in tech on the hope of a return; they were gambling," Bostic said. "That doesn't happen in housing. The shelter motive is really important. There is a consumption value to housing that is not there in stocks."

In essence, the summit "proved the media wrong. There isn't a housing bubble," said Richard Purvis, regional director of Re/Max of California and Hawaii. "It's just not the problem it's professed to be."

That seems an appropriate epitaph. So let's bury the "bubble" story and carve mark its grave with this one last headstone. Or rather headline. R.I.P Housing Bubble Story circa 2000-2003.

Please don't anyone order it exhumed.

Steve Kerch is the real estate editor of CBS.MarketWatch.com in Chicago.

More RESIDENT AUTHORITY

- Homeownership shouldn't be for everyone 12:01am ET 03/27/03
- War unlikely to topple housing market 12:01am ET 03/20/03
- Americans accept sprawl; biggest offender counties 12:03am ET 03/11/03
- A mortgage that stays with you, not your house 12:42am ET 03/04/03

•What do home buyers really want this spring? 12:01am ET 02/25/03

Latest Industry News **Get Alerted on News in this Industry**

•Auxier harvests results with proven tools 12:03am ET 04/04/03
•Spotting an investment seminar scam 12:02am ET 04/04/03
•Stupid Investment of the Week: Money market funds 12:01am ET 04/04/03
•NYSE nominates McDonough to board 5:19pm ET 04/03/03
•Banks lead financial losers 4:40pm ET 04/03/03

MarketWatch.com is traded on the Nasdaq stock exchange under the symbol **MKTW**.