

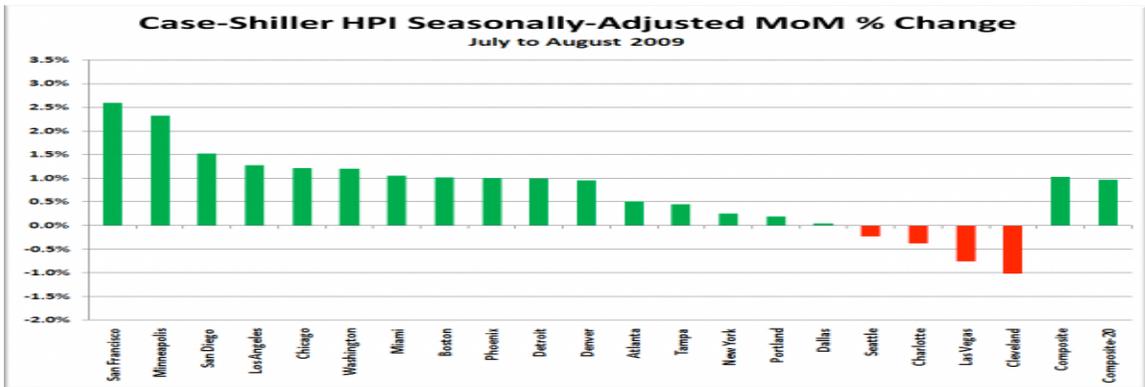


# Popular Economics

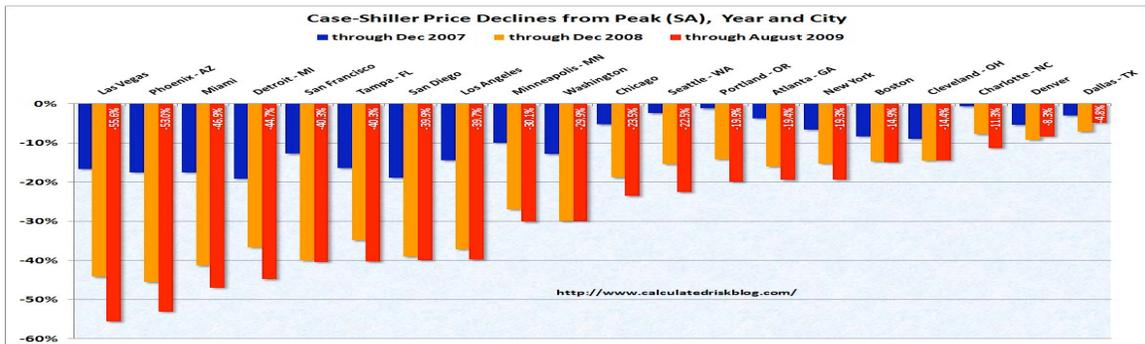
Promoting the Popular Understanding of Economics

## Home Prices Surging Case-Shiller Index Continues Upward

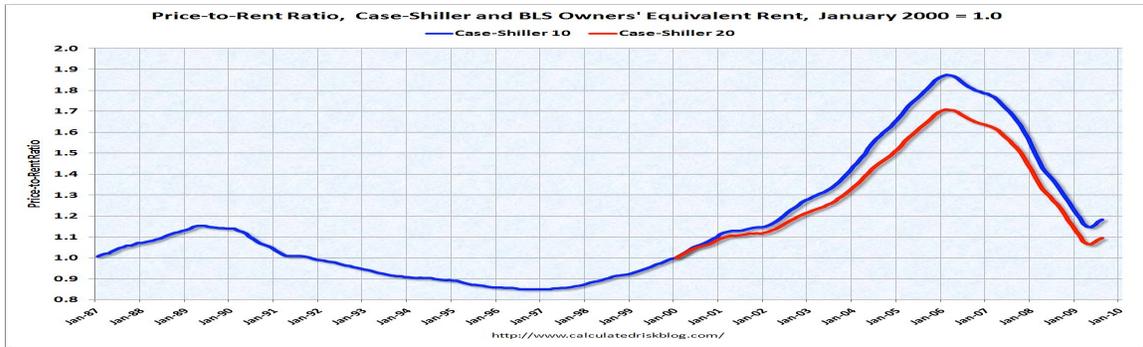
The S&P Case-Shiller home price index increased 1 percent in August, the third consecutive increase. Prices rose in 16 of the 20 cities surveyed. San Francisco topped the increases with a 2.5 percent rise.



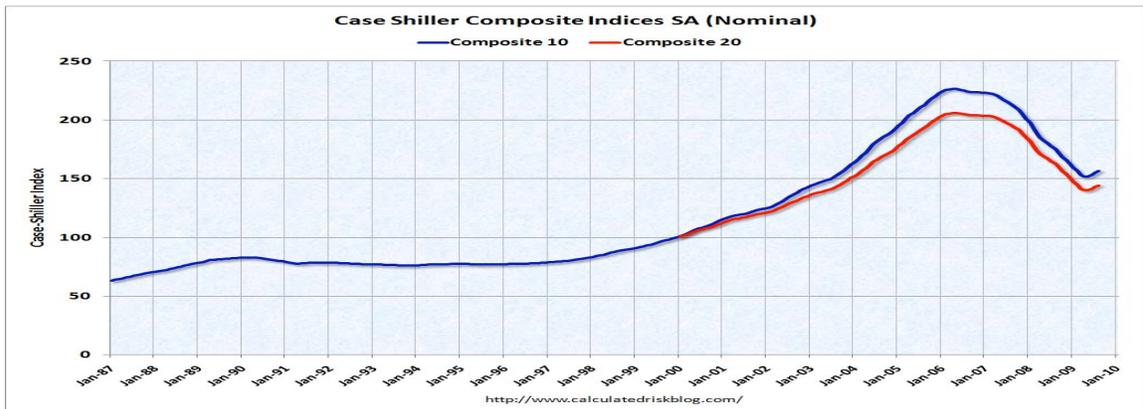
But same-home prices are still down 11 percent over last August. So it means at best that prices have stopped falling in most metro areas. This augurs well for a real estate recovery that in combination with declining inventories (for new and existing-homes), could mean a boost to housing construction and therefore add to GDP growth.



Another reason for the halt in price declines may be that price-to-rent ratios—the measure of whether housing prices are out of whack when compared to rental rates—are returning to normal, after having been elevated during the bubble years.



So leveling of the price-to rent ratio may be the best indicator of a new bottom to real estate values. It also tells us that the price-to rent ratio reached its zenith around January 2006 and bottomed 3 years later—in March 2009. The Case-Shiller index practically mirrors it, with price declines beginning in Feb. 2006 and also ending in March 2009.



The moral? When housing price increases substantially outdistance rent increases, then fundamentals out of whack and we are in a housing bubble.

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