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The Mortgage Corner

NO SIGN OF HOUSING BUBBLES DEFLATION

A growing percentage of U.S. housing markets are "extremely overvalued" and are at risk of falling prices, according to a study based on government data released Monday by Global Insight and National City.

In the first quarter, 71 housing markets, representing 39% of all U.S. housing, were deemed to be "extremely overvalued" based on median sales prices, median income, population and historic values.

That's up from 64 markets accounting for 36% of housing in the fourth quarter. In the first quarter of 2004, just 1% of housing was considered overvalued. To be "extremely overvalued," homes had to be valued at least 34% more than "normal."

When prices do fall from overvalued levels, they typically fall by about half the overvaluation, said Richard DeKaser, chief economist for National City. The correction usually takes three and a half years.

The study used the most recent sales-price data from the Office of Federal Housing Enterprise Oversight, which showed that single-family housing prices increased at a 7.3% annual rate in the first quarter, the slowest price gains since 2003.

"Price appreciation is slowing but it continues at a historically high rate, boosted by especially strong increases in already overvalued markets," said National City's DeKaser. The most overvalued markets continue to have the highest price appreciation, he said.

California and Florida accounted for 17 of the top 20 overvalued markets, economists at the two firms said. Homes in Naples, Fla., were deemed to be 102% overvalued, the economists said. Other highly overvalued markets included Salinas, Calif.; Port St. Lucie, Fla.; Merced, Calif.; Bend, Ore.; Stockton, Calif.; Punta Gorda, Fla.; Santa Barbara, Calif.; Madera, Calif.; and Riverside, Calif.

Among other big cities, Miami was overvalued by 64%, Los Angeles by 61%, Oakland by 47%, San Jose by 44%, Nassau and Suffolk counties in New York by 44%, and Phoenix by 43%.

Not all markets were overvalued. Of 317 markets, 88 were deemed to be undervalued. College Station, Texas, was undervalued by about 24%. Among big cities, Dallas and Fort Worth were undervalued by 19%, Houston by 16%, New Orleans by 12% and San Antonio by 11%.

In fact, sales in those states left behind in this boom are beginning to heat up. Year-over-year sales rose 15 percent in New Mexico, Louisiana, Montana and Mississippi in Q1, according to the National Association of Realtors.

David Lereah, NAR's chief economist, said various housing and economic indicators have been moving in different directions. “When some measures are up and others are down, it tells us that we're in a period of transition. Pending homes sales probably give us the best measure for the overall direction of the housing market, which is falling from historical highs,” he said. “I see this time of adjustment as being a trough in home sales that will more or less level out toward the end of the year. Over time, homeownership remains the best investment a family can make."

But the number of undervalued markets has been steadily declining, DeKaser said.

The 10 most overvalued U.S. home markets
1. Naples, Fla.
2. Salinas, Calif.
3. Port St. Lucie, Fla.
4. Merced, Calif.
5. Bend, Ore.
6. Stockton, Calif.
7. Punta Gorda, Fla.
8. Santa Barbara, Calif.
9. Madera, Calif.
10. Riverside, San Bernardino, Calif.