Declining home prices continue to curb rate of overvaluation

by Bend_Weekly_News_Sources

Home price appreciation is strongest in Oregon, Arizona, Utah, Idaho, and Washington; Prices reflect a market returning to normal

Global Insight, the world's leading company for economic and financial analysis and forecasting, this week released the 2006 fourth quarter update of the U.S. Housing Valuation Analysis, which shows the incidence of overvaluation in the nation's housing market continues to decline, the result of falling home prices. The overall number of single family housing units deemed to be overvalued eased down from 17 percent to 16 percent of the total number of single family housing units. In terms of single family asset value, the percent deemed to be over-valued fell to 28 percent from 31 (revised) percent in the prior quarter.

Single-family home prices moved up in the fourth quarter by 1.8 percent, the first quarterly acceleration - albeit small - since the second quarter of 2005. Compared to the same period last year, prices have moved ahead by 4.1 percent. Seventy-two metro market areas, accounting for 22 percent of all single family real estate assets, experienced price declines in the fourth quarter.

The declines were concentrated in California, Florida and the New York metro area. Between the third and fourth quarters, California had 21 metro areas out of 26 with negative price appreciation, while Florida had 10 out of 18. Price declines were broadly dispersed throughout the rest of the country - only 21 of the 50 states were entirely exempt from falling prices.

Home price appreciation continued to be strongest in those parts of the country that came late to the explosion in home prices - the interior and northern parts of the west, including northern Arizona, Utah, Idaho, Washington and Oregon.

Markets identified in the study as over-valued decreased to 57 metro areas in the fourth quarter from 60 metro areas (revised) in the third quarter. As it has for the past several quarters, the greatest incidence of overvaluation continues to exist in pockets along the Atlantic and Pacific Coasts. New England, however, no longer appears to be significantly overvalued, while Orange County, CA; Tucson, AZ; Reno and Carson City, NV; and Kingston, NY also fell below the threshold denoting extreme overvaluation. Meanwhile, parts of Texas continued to experience above-average price increases in the latest quarter, but also continued to have the highest concentration of under-valued markets in the nation.

Naples, FL remains the most over-valued market in the country, although its level of overvaluation declined during this period to 79.9 percent, down from 83.6 percent (revised) in the third quarter. Meanwhile, Dallas and College Station-Bryan, TX remained virtually tied for the most undervalued markets, 21.6 and 22.5 percent, respectively, although home prices rose slightly in both markets.

Jeannine Cataldi, senior economist and manager of Global Insight's Real Estate Service, stated that "Nearly all markets posted a decline in the level of overvaluation, which signals that the overall housing market is beginning to trend back to more normal price growth."

The U.S. Housing Valuation Analysis, a joint effort by Global Insight and National City Corporation, examines the top 317 U.S. real estate markets, or 91 percent of the single family housing market, to determine what home prices should be, accounting for differences in population density, relative income levels, interest rates, and historically observed market premiums or discounts. Markets with valuation premiums above 35 percent were deemed at risk for price corrections based on the typical degree of overvaluation that preceded the 63 known local market price declines observed since 1985.