

Report: Bend tops nation in overvalued home prices

by Bend_Weekly_News_Sources

Bend, OR & Prescott, AZ Markets Remain Stubbornly Overvalued; Home Prices Fall Back to Historic Norms as Prices Drop and Housing Markets Cool Nationally

Global Insight, the world's leading company for economic and financial analysis and forecasting, recently released the first-quarter 2007 update of its study, *House Prices in America*. The updated U.S. housing valuation analysis shows a widely dispersed drop in single-family home prices, resulting in a continued decline in the incidence of overvaluation in the nation's housing market.

The overall number of single-family housing units deemed to be overvalued fell from 17% in the fourth-quarter 2006 to 14% (revised). Meanwhile, in terms of single-family asset value, the percent deemed to be overvalued fell to 25% from 33% (revised) in the prior quarter.

Nationally, single-family home prices increased in the first quarter at an annualized rate of 2.2%. On a year-over-year comparison, however, prices are up only 3.0%, further normalizing the market with the weakest gain in a decade. Nearly 50% or 157 of the 317 metro areas in the study experienced price declines in the first quarter, accounting for 38% of all single-family units and half of all single-family real estate assets in the nation.

The most highly concentrated declines, while widely dispersed, occurred in areas that had experienced the most dramatic run-up in overvaluation, including California, Florida, New York, and New England. The industrial Midwest was hit hard by the cutbacks in automobile manufacturing. The most dramatic declines among the nation's large metro areas were seen in California's Central Valley. Sacramento CA, where prices fell by 8.2% in the past year and 10.0% since 2005, experienced the greatest decline among the nation's large metro areas.

Prices were most resilient in the Pacific and Mountain Northwest, most of Texas, and the Carolinas.

Markets identified in the study as overvalued decreased to 54 metro areas in the first quarter, down from 62 metro area markets (revised) in fourth-quarter 2006. The nation's most overvalued markets are now Bend, Oregon and Prescott, Arizona, highlighting the precarious nature of the price resiliency in the interior West. Meanwhile, the most undervalued markets continued to be in Texas, specifically Dallas (24.9%) and Houston (22.1%).

James Diffley, managing director of Global Insight's Regional Services Group, said, "The price declines we are seeing today in California, Florida, and New England were predicted two years ago when we identified

them as the most extremely overvalued markets in the nation. Widespread weakness across the country is a reflection of the dramatic swing in sentiment and bargaining power between buyers and sellers." "Going forward," Diffley continued, "the accelerating declines in California, where home prices crested earliest warn of further declines elsewhere. The huge glut of new and existing homes for sale on the market, and the tightening of credit standards in light of the sub-prime mortgage troubles, will continue to exert downward pressure on prices for some time."

The House Prices in America study, a joint effort by Global Insight and National City Corporation, examines the top 317 U.S. real estate markets, representing 92% 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 34% 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.

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