Experts in NH say there was no real estate bubble

By NANCY WEST
Sunday News Staff
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TRYING TO SELL your house? Buying your first home? Living in fear of the real estate bubble bursting?

Housing experts say the downturn that some predicted would decrease the value of a home by as much as 20 percent in New Hampshire hasn't materialized.

In fact, the housing market is thriving and healthy here for buyers and sellers. And home prices did not and are not likely to decline, experts say.

"The hype has been wrong. So far, the hype about a bubble was wrong," said Dean Christon, deputy executive director of the New Hampshire Housing Finance Authority.

"We never believed there was a real bubble in the New Hampshire market. Our projection was that the market would slow down and go back to a normal rate of growth," Christon said.

And that seems to be exactly what is happening in New Hampshire.

The big increases in home values by up to 15 percent a year since 2001 are slowing a bit.

But house prices are still increasing a healthy 5 to 6 percent a year, a much more sustainable growth that will make future bubbles more unlikely, Christon said.

"Prices are still increasing. It is still a healthy market. The rate of increase has slowed. That's probably good news because it is more sustainable.

"A more normal rate of increase makes it easier to enter the market, and people who already own homes don't have to worry their house is losing value," Christon said.

"People need to understand the rate of growth will slow, not that values will decline."

And rates are still pretty good, he said.

In March 2005, the conventional 30-year mortgage rate was 6 percent. This March, the rate is up slightly to 6.375, Christon said.

Bubble history

Economist Dennis Delay was predicting a painful 20 percent correction nine months ago, but he now says certain factors, such as a dramatic spike in mortgage rates, just didn’t happen.

Delay, director of special projects with New Hampshire Workforce Opportunity Council, said a housing market downturn in New Hampshire is now unlikely unless the economy changes dramatically.

If mortgage rates were to increase two percent in a short period of time, energy prices increase even more and businesses stop hiring, there could be more bubble fear, he said.

For now, the average homeowner needn’t worry, although real estate investors are being squeezed out and high prices are keeping some people out of the market, Delay said.

Rather than “bursting bubble,” Delay said New Hampshire’s real estate market is making a graceful adjustment, or ordered retreat.

“It’s looking now less likely like those things are going to happen. The bubbles are much bigger and inflated in other parts of the country. We have a wee bit of a bubble,” Delay said. “Smaller bubbles are less to worry about.”

Delay said he still believes New Hampshire’s homes are overvalued by about 20 percent, but added that statement in and of itself doesn’t mean much when other parts of the country are said to be more than 80 percent overvalued.

Even if houses are overvalued, that doesn’t mean there will be a correction or that prices will go down, he said.

Places like Naples, Fla., Santa Barbara, Calif., Medford, Ore., and Providence, R.I., are as much as 60 to 80 percent overvalued, he said.

Foreclosures

Delay said another indicator — foreclosure rates — also shows a vibrant market in New Hampshire.

New Hampshire has the third-lowest rate of foreclosures per household, just behind Rhode Island and Massachusetts.

In Georgia, there was one foreclosure for every 422 households in January.

During that month, there was one foreclosure for every 42,000 households in New Hampshire, he said.

He said Georgia's economy is suffering because of the flight of textile jobs to China.

Delay said there is a lot of anecdotal evidence that houses are staying longer on the market in New Hampshire, but the evidence shows that the difference is only a matter of days.

The average number of days on the market for 2005 for the whole state was 131 days, up from 128 in 2001.

In 2002 and 2003, the average number of days on the market was 126 days and 130 days on the market in 2004.

"It doesn't sound like anything to get terribly excited about," Delay said.

"The remarkable thing to me is the shocks the economy endured last year. The economy slowed a bit, but it didn't get knocked on its rear end. We had Katrina taking out much of the Gulf Coast, the war and high energy prices," he said.

U.S. home prices up

Average U.S. home prices leaped nearly 13 percent from the fourth quarter of 2004 to the same period last year, showing no signs of a slowdown during the period, federal regulators reported last week.

The figures released by the Office of Federal Housing Enterprise Oversight, the agency that oversees the big mortgage-finance companies Fannie Mae and Freddie Mac, indicated that while housing prices appear now to be cooling, they continued to increase sharply last year.

OFHEO's chief economist, Patrick Lawler, said that despite slowing in some regions, the rate of increase in home prices last year generally was "extremely strong."

"Mortgage rates climbed significantly during the second half of last year, but the effect of that increase on (home price rises) so far appears to be limited," he said in a statement issued with the report.

The agency noted that house prices nationwide continued to grow far more rapidly over the past year than prices of other goods and services included in the Consumer Price Index — 12.95 percent versus 4.3 percent.

Average home prices rose 12.95 percent on an annualized basis from the October-December quarter of 2004 to the fourth quarter of 2005, the new report showed. That was up from a revised 12.55 percent increase from the third quarter of 2004 to the same quarter last year.

The fourth-quarter figure is derived from an average of prices in October, November and December. Prices in that October-December period were up 2.86 percent from the third quarter.

In the latest sign that the nation's housing boom is now easing after five record-breaking years, the Commerce Department reported last week that construction activity in January slowed to the most sluggish gain in seven months.

The OFHEO report, based on data from Fannie Mae and Freddie Mac on repeat sales and refinancings of single-family homes, also found that:

- Home prices grew by record levels during the fourth-quarter yearly span in 26 metropolitan areas around the country.

- Growth in home prices in Arizona continues to accelerate, with a one-year rate of increase of 39.7 percent in the Phoenix-Mesa-Scottsdale area — the largest of any metropolitan area.

- The Mountain states became the area with the fastest-growing home prices, edging out the Pacific region. The slowest growth in prices continues to occur in Illinois, Indiana, Michigan, Ohio and Wisconsin.

- Home prices in the East Coast states from Maryland to Florida showed their fastest growth rate since 1975, when the OFHEO survey began. Prices in the region jumped by 17.8 percent from the fourth quarter of 2004 to the same period last year.

The Associated Press contributed to this report.