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Housing bubble? Part 1

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There are growing articles in the general media expressing concern that we are entering a period best described as another "housing bubble." The signs of recovery in the housing market are more and more evident. The recent report of the S&P/Case-Shiller Home Price Index through May report a 12.1% increase in their 20-city home price index and an 11.8% increase in the 10-city index. Other indicators from similar sources showing substantial positive movement in home prices include CoreLogic at +11.9% and the National Association of Realtors Existing Home Price Index at 12.2%. The question at hand is whether these significant year-to-year home price increases are moving too fast and are a symptom of pending disaster in the home price market.

In my opinion, these statistics are not sufficient to cause immediate concern. Clearly, these numbers describe a strong positive trend in home prices, although the circumstance for home sellers is far better than it is for home buyers in many markets. Many people have different opinions about what constitutes a housing bubble, but several themes run through their definitions. As noted in their monthly home value forecast, Pro Teck Valuation Services notes that "...a common theme to describe bubbles in markets is the idea that prices have risen very quickly to levels which could not be justified by underlying fundamentals." They continue to note that "...in the late stages of a bubble, prices keep rising primarily because they are expected to keep rising." In a recent article published in Forbes Magazine, contributor, Bill Conerly, notes that a speculative bubble is characterized by "...prices being bid up substantially by people expecting a short run gain." He further notes that "...prices can rise because of fundamentals, such as greater demand or limited supply. Such price increases are not a bubble."

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