



# In the Loop Realty Newsletter

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*Amerival*

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## ***HOUSING MARKET IS THE BUBBLE REALLY BURSTING?***

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According to the National Association of Realtors, the United States Real Estate market has experienced a steady increase in housing values for the past 5 years. Any of us in real estate markets throughout the US know this to be quite accurate.

The question is whether the housing boom reflected true increases in housing values or simply increases in prices. Having experienced several periods of excited values since the early 1970's, it is recognized that the answer is outside the scope of all our crystal balls during the growth period of housing "values". Only after the fall out can we truly see the sustained "value" increases.

Yes, the adage, "what goes up, must come down" is appropriate in real estate market trends. For those who read and listen to the economists spewing their lofty, *magna* grad school prestidigitation of financial times and trends, reality is oft non-existent. Having been a guest speaker as well as organize professional conferences, participants dread the announcement

that the "economist" will be addressing market trends and reflecting value impacts for the next 5 years. The "oohs" and "aahs" are deafening. The myriad of comments funnel to one feeling.....sit in the back and bring a magazine. And for sure, the economist rises to the level of horror the conferees anticipated. A power point presentation outlining the statistics used in the analysis and a step by step trend development. Much of the data are based on US government census information which to the chagrin of many "trend sayers" did not in the 2000 census include condominiums and cooperatives as homeownership. In 2005 they were, but because of a varied base, those relying on the data, ignorantly, have skewed results because the scheme of data was changed.

Also, much of what of late was stated as high values and increasing trends was based on 2005 to 2004 data. Gee, what could have gone wrong. Where are those increases

and growth times?

The relationship of great import in the housing market is income to housing costs. It has been stated that historically the upper limit of income to cost is 30%. For years this encompassed very few homeowners .

From an article titled "Across Nation, Housing Costs Rise as Burden" written by Janny Scott and Randal C. Archibold and printed in the New York Times on October 3, 2006. Some of the statistics are frightening and very insightful into the housing bubble.

The article doesn't set forth any interpretation of what may be or does it conclude. Its merely a compendium of statements from economists and demographers.

Homeowner costs vs income ratios have risen to 50% in some locales like Dutchess, Nassau, Orange and Putnam Counties in NY. It was said that in some areas in Los Angeles the housing burden rose to 57% last year up by 27% prior. It is in those areas in

which over 30% are at poverty level. Conceivably, this will translate similarly in other major markets . These people will suffer most. In all the housing bubble will burst, but it's the size of the hole in the balloon that will determine the degree of value lost. Each locale will differ based on employment opportunities, wages and the necessity for the working force to travel further for jobs.

Stretched housing costs families will likely fall victim to foreclosures and short sales first and foremost.

Now is a time to hold. Properties that are "for sale" will sell, and those just "on the market" won't.

### **Monthly Sayings**

Don't let what you can't do interfere with what you can do.

-John Wooden

The harder you work, the luckier you get

- Gary Player.

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