



Myth Versus Reality About Today's Housing Market - Part Two

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Last week this column began dispelling some myths that seem to be prevalent throughout the Dayton residential real estate market. It seems there are some misperceptions by potential homebuyers and sellers because of the news from the national media. It has frozen the local Dayton market because the majority of us need to sell a home before we can purchase a new one. So here we go again...

Myth: In today's housing environment, it is a smart move to keep waiting for prices to fall even further before venturing into the housing market.

Reality: The current housing price correction is helping to restore affordability. In other parts of the country where the housing boom was not as strong such as Dayton, price declines have been marginal, and there have even been a few exceptional areas where prices have remained on the rise. The bottom line for most existing home owners is that their homes will be worth significantly more than they paid for them as the market begins to recover – a process that is expected to begin later this year. The repercussion for prospective buyers is that the market has provided some breathing room from the sky-high prices prevailing a year or two ago.

Myth: It seems that home prices will just keep going lower and never recover and there is nothing to stop this from happening.

Reality: It is a virtual given that over time home values will stabilize and then edge upward with the next recovery. To argue that home values will continue to decline and will never recover, somebody has to make a convincing argument that it will cost less to build a new home five years from now than it does today. That's not going to happen.

Despite today's housing slowdown, the price of bricks, mortar, copper and other products used in home building continues to go up due to energy costs, worldwide demand and upward pressure on commodity prices generally. Look at anticipated population and household growth; consider the increasing scarcity of available land in metro markets where jobs are located and where people want to live. And the cost of getting land entitled will continue to go up because of more and more restrictions and fees being added by local governments. As inventories wind down, demand will rise and so will prices. Over time, all these factors will help drive up the cost of housing.

Myth: A recent monthly home price index showed that home prices declined an average of 10.7 percent in the nation's 20 largest markets between January 2007 and January 2008. This means that home prices in these markets -- and nationwide -- are in a major tailspin.

Reality: Different economic and job-market conditions directly affect demand for new and existing homes in every market. Treasury Secretary Paulson made the same point in a March 26, 2008 address to the U.S. Chamber of Commerce: "We do not have a national housing market," he said, adding that housing markets are unique and those experiencing the biggest price corrections are in areas that had the greatest overbuilding. Ohio and the Dayton areas were not over built. Karl Case, who distributes the monthly S&P/Case-Shiller Home Price Index along with Robert Shiller, was recently quoted in National Mortgage News as saying: "There's no question there's no (housing) bubble in 43 states. Case added that home prices have remained relatively flat in most places, even though some of the larger markets are struggling.

For example, nearly all the markets that posted the largest average decline in home prices during the past year – Las Vegas, Los Angeles, Miami, Phoenix, San Diego and Tampa -- have appreciated in value by more than 80 percent since January 2000, according to the latest S&P/Case-Shiller home price statistics. Two of these markets – Miami and Los Angeles – were up by more than 100 percent over this period. It makes sense that the most super-heated housing markets in California, Nevada, Arizona and Florida are now experiencing the most serious market corrections. For the rest of the country, however, the price adjustments have been relatively modest, as Case noted. Though housing is a cyclical business, experience shows that over time, home prices will stabilize and then move upward with the next recovery.