

More home markets 'extremely' overvalued

Still rising prices and interest rates leave dozens of markets in dangerous territory, according to a new report.

By Les Christie, CNNMoney.com staff writer
September 21 2006: 4:24 PM EDT

NEW YORK (CNNMoney.com) -- Despite a cool-off in home prices, more markets are overpriced than ever, according to a new survey.

Higher interest rates, especially for adjustable-rate mortgages (ARMs), helped push some housing markets into the overpriced category last quarter, according to Jeannine Cataldi, an economist with Global Insight, which conducted the analysis with National City.

[Though rates have declined since the end of the second quarter](#), the 30-year fixed rate is still at 6.4 percent versus 5.8 percent a year ago. The difference for ARMs is even bigger.

The survey also takes into account differences in population density, relative income levels and historical valuations. Markets with premiums above 34 percent of "fair value" were deemed at risk for price corrections.

"Price growth will have to be stagnant while income and employment rises for housing valuations to fall," said Cataldi.

Despite a substantial cooling of real estate markets, home prices were still 10.6 percent higher nationwide than a year ago, according to the Office of Federal Housing Enterprise Oversight.

79 of the 317 markets studied in the Global Insight/National City report were judged to be "extremely overvalued," up from 68 during the first quarter.

The pace of housing price increases has definitely slowed. More than two-thirds of the markets - 219 metro areas - saw a decline in the rate of price appreciation during the second quarter, according to the report.

"Significant slower appreciation, or outright declines, among overvalued markets are a signal that we are in the early stages of a correction," said Richard DeKaser, National City's chief economist.

DeKaser suspects that this correction will be gradual but lengthy, and the oldest bubble markets are the shakiest. "What we see happening is that markets early to the boom - Boston, California - are now showing adjustments," he said.

On the other hand, "Some of those late to the party such as North Carolina, are still showing heady appreciation."

Naples, Florida, remains the most overvalued market in the nation, deemed 101.5 percent above what National City considers fair value. Bend, Oregon, was second to Naples, 89.3 percent overvalued.

The five most undervalued markets were all in the state of Texas, with College Station, at a discount of 22.3 percent from fair value, leading all others. Dallas (21.2 percent) was second.

Furthest to fall?**The 10 most overvalued housing markets**

City	State	Median price	Percent overvalued
Naples	FL	\$389,200	101.5%
Bend	OR	\$296,700	89.3%
Salinas	CA	\$618,400	79.4%
Merced	CA	\$295,400	78.4%
Madera	CA	\$311,000	76.9%
Port St. Lucie	FL	\$240,800	74.0%
Stockton	CA	\$346,600	73.9%
Santa Barbara	CA	\$638,300	72.8%
Miami	FL	\$292,800	70.8%
Punta Gorda	FL	\$210,900	70.2%

Near the bottom already**The 10 most undervalued metro markets**

City	State	Median price	Percent undervalued
College Station	TX	\$97,100	22.3%
Dallas	TX	\$129,900	21.2%
Ft. Worth	TX	\$107,500	19.3%
Houston	TX	\$113,000	17.3%
McAllen	TX	\$57,300	16.4%
Shreveport	LA	\$97,100	15.2%
Killeen	TX	\$94,200	14.9%
Wichita Falls	TX	\$74,500	13.8%
Tulsa	OK	\$98,100	12.3%
Monroe	LA		

Source:Global Insight/National City Housing Valuation Analysis