

# Home futures: Price-drop seen for 10 top markets

Trading in residential housing futures is more evidence that housing markets may be in decline.

By Les Christie, CNNMoney.com staff writer  
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Prediction: Housing prices are going down across the nation.  
If the sentiment of traders is a valid indication, housing markets will be a lot lower next year.

Metro area	Index (6/2006)	Futures (8/2007)	Diff.
<a href="#">Boston</a>	177.90	164.40	-7.6%
<a href="#">Chicago</a>	167.10	157.20	-5.9%
<a href="#">Denver</a>	139.46	131.60	-5.6%
<a href="#">Las Vegas</a>	233.75	214.60	-8.2%
<a href="#">Los Angeles</a>	273.22	255.00	-6.7%
<a href="#">Miami</a>	278.22	259.20	-6.8%
<a href="#">New York</a>	212.79	202.00	-6.0%
<a href="#">San Diego</a>	249.60	230.00	-7.9%
<a href="#">San Francisco</a>	218.13	202.40	-7.2%
<a href="#">Washington</a>	250.39	233.00	-6.9%
10-City	225.96	211.40	-6.4%

Source: Chicago Mercantile Exchange

Note: All cities were assigned a base of 100 in 2000. An index of 177.90 means prices have risen 77.9 percent since then.

**NEW YORK (CNNMoney.com) -- Home prices will be lower a year from now in the nation's leading markets - at least that's what investors speculating on residential real estate believe.**

Trading in housing futures on the Chicago Mercantile Exchange point to declines by next August of at least 5 percent for 10 leading markets; speculators are betting the **biggest decline will be in Las Vegas**, with a drop of 8.2 percent.

The [S&P CME Housing Futures and Options](#), launched this past spring, enable investors to hedge against a drop in the value of residential properties in the future or to bet that those values will go up.

The investments are tied to the the Case-Shiller Home Price Indices. According to Robert Shiller, author of "Irrational Exuberance," the results of the trading in housing futures have substantial predictive value. "It gives us a finger on the pulse of the markets," he says. "We've never had that before."

Before the launch, there had been little opportunity for real estate speculators to invest in housing markets short of going out and buying actual properties.

Still, the investment vehicles may be too new to have the same predictive power as other derivatives products.

"The [trading results] have some predictive value and I would not expect them to be off investors' expectations by some order of magnitude," says Richard DeKaser, chief economist for National City Corp who compiles his own market valuations. "But it is not a very deep market. It is traded very thinly. I would be reluctant to attach too much importance to the numbers right now."

So far, however, those doing the trading seem to be betting correctly. Trading yielded results earlier in the summer that came "fabulously close" to where the actual index wound up in August, according to Fritz Siebel, director of property derivatives for Tradition Financial Services, which brokers the S&P CME Housing Futures and Options.

That's not good news for homeowners in Boston, New York and other big markets - every one of the 10 cities covered by the indexes is showing a drop. The smallest loss is in Denver, where trading activity forecasts a decline of 5.6 percent. The 10-city cumulative index shows a drop of 6.4 percent.

According to Shiller, the numbers may exaggerate the extent of the decline because there is a risk premium that has to be taken into account. In other words, more traders are interested in protecting themselves against loss than are interested in investing in a growing market.

"As a result the predicted decline might be a bit bigger than the actual one," says Shiller.

As the market for these derivatives grows and investors enter into it who are willing to take the opposite position, that risk premium should shrink.

Even taking all that into account, the trading still indicates a fairly substantial turnaround. It joins a host of other indicators, both statistical and anecdotal, that seem to agree that housing prices will not only soften but actually decline.

As Siebel puts it, "It sounds like the housing market is set up for a fall; I think we've reached a tipping point."