

Greenspan: Housing Price Bubbles, Yes. Housing Price Bust, No.

by Kenneth R. Harney

Federal Reserve Board chairman Alan Greenspan made it official last week: Yes, there are home price "bubbles" in some parts of the country, where values have soared far beyond local income growth, and yes, they might deflate.

But on a national basis, there is no housing bubble that threatens to go bust and harm the country's economic growth or real estate values overall.

Testifying before the House Financial Services Committee last Thursday, Greenspan said "I think we're running into certain problems in certain localized areas. We do have characteristics of bubbles (in those markets) but not, as best I can judge, nationwide."

"I don't expect that we will run into anything resembling a collapsing bubble," he added. "I do believe that it is conceivable that we will get some reduction in prices... but that is not a particular problem."

Greenspan did not identify specific markets the Fed characterizes as bubble-like or prone to deflation. But his testimony paralleled conclusions reached by a number of private economists, who have warned of price bubbles underway in anywhere from two to three dozen markets, primarily along the West and East coasts.

Greenspan's comments were prompted by questions from Rep. Scott Garrett (R-N.J.), who said he is buying a home in the Washington DC area, but is worried that "the bubble is about to burst." Home prices in the DC market -- including the District of Columbia, northern Virginia, Maryland, and parts of West Virginia -- jumped by 24.01 percent from the third quarter of 2003 to the same period of 2004, according to the Office of Federal Housing Enterprise Oversight (OFHEO), which monitors home price patterns in over 250 markets around the U.S.

OFHEO also identified unusually high appreciation rates in Las Vegas (a record-setting 41.7 percent), Los Angeles (30.5 percent), San Diego (30.4 percent), Port St. Lucie-Ft. Pierce, FL (28.2 percent), Santa Barbara, CA (27.7 percent), and Honolulu (24 percent), among three dozen metropolitan markets with 20 percent-plus annual appreciation rates.

Greenspan said homeowners in such high-froth markets have accumulated huge paper gains in recent years. According to the Fed's estimates, home equity wealth in the U.S. has doubled since 1996, jumping from \$8 trillion to \$16 trillion last year. Mortgage debt also ballooned during that period from \$3.5 trillion to \$7 trillion.

"Some reversal in that (rate of buildup of equity) is not out of the question," said Greenspan -- but any sort of wipeout or major decline is unlikely.

"Remember," he told the congressional panel, "there's a very significant buffer in home equities at this stage" -- essentially the estimated \$9 trillion differential between the \$16 trillion in home market values and the \$7 trillion in outstanding

mortgage debt.

Greenspan said the equity buffer should be enough to protect even low-downpayment buyers in high-cost markets in the event of local economic reversals.

Published: February 21, 2005