

Risk of Home Price Declines Increases Slightly, According to Risk Index

RISMEDIA, Oct. 19, 2005 — A number of the nation's largest housing markets remain at risk of price declines, according to the PMI U.S. Market Risk Index, issued, and prices in many markets are overvalued. The median Risk Index value increased 11.6 percent, from 120 to 134.

Topping the Risk Index list with a greater than 50 percent chance of experiencing price declines are Boston, MA, San Diego, CA, Long Island (Nassau-Suffolk), NY, Santa Ana, CA, and Oakland, CA. Nationwide, there exists a 21.8 percent probability of an overall house price decline, as measured within the next two years and across the 50 largest housing markets, up slightly from 21.3 percent last quarter.

At the top of the valuation index, a new feature this quarter, were Los Angeles, where home prices are estimated to be overvalued by 33.7%, Sacramento, by 31.3%, and Riverside, by 30.7%. The fall report is based on second quarter data, so excludes the impact of Hurricanes Katrina and Rita.

“House prices are sticky, so moving to another phase in the real estate cycle can be a slow process,” explained Mark Milner, chief risk officer with PMI Mortgage Insurance Co. “But we believe that over the medium to long term, prices will move into better alignment with local economic factors, in particular income.” Marco van Akkeren, an economist with PMI Mortgage Insurance Co., explained, “In the riskier markets affordability has weakened over the past several quarters as house price appreciation diverged from economic fundamentals. With this quarter's report we are seeing a continuation of that trend.”

The PMI US Market Risk Index is published quarterly by PMI Mortgage Insurance Co., a subsidiary of The PMI Group, Inc. (NYSE:PMI) as part of its Economic and Real Estate Trends (ERET) report. The Risk Index indicates the probability that home prices will decline in two years. The new Valuation Index indicates whether prices are over- or undervalued compared to their long-term trend, and by how much.

The Valuation Index found that half of the nation's 50 largest housing markets are overvalued by 10 percent or more. Three are overvalued by 30 percent or more and another eleven are overvalued by 20 percent or more. Eleven markets are undervalued. Van Akkeren explained, “This is another way of looking at the markets, and the results reveal a strong association between PMI's Market Risk

Index values and deviations from long-term home-price trends, shown in the Valuation Index. Taking a historical view, we also see that markets are more overvalued today than they were in the past.”

Market Risk Index trends include:

-- Boston, MA, San Diego, CA, and Long Island (Nassau-Suffolk), NY continue to top the Market Risk Index with scores of 551, 536, and 532, respectively, although San Diego has jumped over Long Island to second place.

-- The MSAs that experienced the biggest change in Market Risk Index score since last quarter are Fort Lauderdale, FL and Las Vegas, NV. Fort Lauderdale's score increased 69 points to 288, moving it from the 18th spot to the 16th; Las Vegas also moved up two spots, from 24th to 22nd, as its score increased 67 points to 201.

-- Other big gainers were in California and Florida. In Florida, Miami added 40 points for a score of 206, while Tampa gained 35 points, taking it to 201. In California, Riverside increased 44 points to 466, Los Angeles was up 39 points to 460, and Sacramento gained 37 points for a score of 456. San Jose, CA, made the biggest move in the other direction, dropping 41 points to 472, below the 50% mark and out of the top five.

-- The five least risky areas are Columbus, OH, Cincinnati, OH, Memphis, TN, Indianapolis, IN, with Pittsburgh, PA last on the list with a score of 54, down a point from last quarter.

Findings of PMI's new Valuation index include:

-- Of the 14 markets overvalued by 20% or more, seven are in California (Los Angeles, Sacramento, Riverside, San Diego, Santa Ana, Oakland, and San Jose), three are in the Northeast (Edison, NJ, Newark, NJ, and Nassau-Suffolk, NY), and two are in Florida (Tampa and Miami). The other two are Las Vegas, NV and Phoenix, AZ.

-- Detroit, MI leads the list of undervalued markets at -10.3%, followed by three Ohio markets: Cleveland (-6.9%), Cincinnati (-3.4%), and Columbus (-3.2%).

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