

Enter symbol(s):

[Find symbol](#)

[Keyword search](#)

[Get 50% off a subscription to Barron's](#)

REAL ESTATE TOP FEATURES

[Real Estate Library](#)

[Mortgage Rates](#)

[Home Equity Rates](#)

[More Features](#)

SPONSORED LINKS

ADVERTISER LINKS

American Express

[- College 529 Planning](#)

[- Invest Smarter, Safer](#)

[- Retirement, Know More](#)

CBS MARKETWATCH FEATURED PRODUCTS

[The Technical Indicator](#)

Technical analysis for sophisticated traders **NEW**

[The Calandra Report](#)

Real world profit-seeking strategies

[HFD Newsletter](#)

The definitive guide to financial newsletters

[HFD Profiles](#)

Detailed newsletter performance

[HFD Honor Roll](#)

Top performers in up & down markets

ORDER NOW!

RESIDENT AUTHORITY

Rate hikes won't kill home prices

Data show few markets vulnerable, even at 8% mortgages

By [Steve Kerch](#), [CBS.MarketWatch.com](#)

Last Update: 12:01 AM ET Aug. 28, 2003

CHICAGO (CBS.MW) -- Interest rates have risen and mortgage applications have tumbled, although home sales and prices have remained remarkably strong -- through July anyway.

A number of housing analysts have speculated that the strong July readings, in the face of the other negative data, amount to a swan song for the roaring housing market.

"Members of the housing industry, including Realtors, homebuilders and mortgage lenders, are virtually unanimous in their conclusion that rising mortgage rates will not lead to lower prices for residential real estate," wrote Peter Schiff, president of Euro Pacific Capital, in an e-mail.

"This belief is naturally rooted in self-interest, and fails to account for a fundamental law of economics, which states that supply and demand determine price. It should be obvious to even the casual observer that in the real estate market, both supply and demand are greatly influenced by interest rates," he said.

Buyers will typically purchase a home based on the largest monthly mortgage payment for which they have been approved, Schiff says.

"If a bank approves a borrower to pay no more than \$2,500 per month in mortgage payments, that borrower could bid a much higher price for a home if mortgage rates are 5 percent than if rates were 7 percent."

As an example, with a 5 percent rate a buyer might be able to pay \$600,000 for a house, but with a 7 percent rate that same buyer might only be able to pay \$450,000.

"So the level of interest rates actually helps form the demand curve. Any increase in interest rates reduces housing demand, causing home prices to be lower than they would have been had rates not risen," Schiff said.

But that doesn't necessarily mean prices will fall as rates rise.

Price appreciation of interest rates

Michael Sklarz, chief valuation officer for Fidelity National, looked at mortgage rates and home prices over a 17-year period and then figured how homes would have appreciated if interest rates had been one or two percentage points higher since the start of 2000.

At the end of 1999, the price of a median existing home in the United States was about \$137,000; at the end of

2002, the median price was just over \$155,000.

Sklarz calculated that if mortgage rates had been one percentage point higher over those two years than they actually were, the median would have been just \$150,000; at 2 percentage points higher, \$144,000.

In both cases, prices would have taken a dip in the first half of 2000, but then would have increased steadily through the end of 2002.

The rate on the 30-year fixed mortgage was about 8 percent at the end of 1999 and 6 percent at the end of 2002.

Sklarz also looked at the effect of different interest-rate scenarios on home prices over the next five years. With rates at 5 or 6 percent, home prices would rise in every quarter from the middle of 2003 to the end of 2008, in his forecast. Except for a three-quarter stagnation in 2003 and early 2004, the same is true if the 30-year loan were to jump to 7 percent.

If rates were to go as high as 8 percent, the national median price would fall from now through the first quarter of 2004, but prices would then turn up again and rise steadily through 2008.

Assuming the median price of an existing home is \$167,000 now, with rates at 6 percent -- about their current level -- prices would rise to \$178,000 at the end of 2004, \$186,000 at the end of 2005, \$195,000 at the end of 2006, \$203,000 at the end of 2007 and \$212,000 at the end of 2008.

The increases under the 7 percent scenario would be to \$175,000 in 2004, \$182,000 in 2005, \$188,500 in 2006, \$195,500 in 2007 and \$202,500 in 2008. At 8 percent, the figures would be \$172,000 in 2004, \$177,500 in 2005, \$183,000 in 2006, \$189,000 in 2007 and \$195,000 in 2008.

With rates at 6 percent, home prices would rise 27 percent in five years, or about 5 percent a year; at 7 percent, 21.25 percent, or 4 percent a year; and at 8 percent, 16.75 percent, or just over 3 percent per year.

The interest rate-home price relationship is not universal across markets, though. In San Francisco, for example, an 8 percent rate scenario would send prices tumbling for the next three years, from a median of about \$550,000 today to \$450,000 in 2006, before prices turned up again.

Prices would also decline with rates at 7 percent, although the downturn would be milder. If rates stay around 6 percent, home prices in the Bay Area will remain flat at their elevated levels through 2005 and turn up again after that.

Risk highest in tech centers

One other measure shows the likelihood of home-price declines to be small over the next two years. The PMI Risk Index, developed by PMI Mortgage Insurance Co., finds that as of the end of June the 50 largest metropolitan statistical areas in the United States have on average a 15.5 percent probability of experiencing a home-price decline within the next two years.

PMI analysts cautioned, though, that the robust home-price appreciation rates of the past will moderate and outright home-price declines could occur in a number of areas.

According to PMI analysts, high-tech centers such as the San Francisco Bay Area, parts of the Northwest as well as parts of Texas and Colorado remain the most vulnerable to home-price declines as a result of high local unemployment rates and shrinking employment bases.

In contrast, Southern California was identified as the area with the lowest risk of home price declines. Strong home-price appreciation and acceleration, a fairly stable unemployment rate and continued defense spending remain sources of stability for Southern California, they said.

CBS MARKETWATCH PERSONAL FINANCE

■ IN INVESTING

[Public should demand more fee-only planners](#)

■ IN MUTUAL FUNDS

[SSR manager likes InterActive, SLM and National Semi](#)

■ IN LIFE & MONEY

[Intrafamily loans can be mutually beneficial](#)

■ IN RETIREMENT

[Retirement-savings plans thrive despite market](#)

■ IN REAL ESTATE

[U.S. mortgage rates rise slightly in latest week](#)

■ IN TAXES

[Senate bill could boost charitable contributions](#)

 Free! Sign up here to receive our Real Estate Weekly e-Newsletter!

TRACK THESE TOPICS

My Portfolio Alerts

Column: Resident Authority

[Create](#)

[Get Breaking News sent directly to your inbox](#)

[Edit My Portfolio](#) | [Edit Alerts](#)

"With a modest, gradual rise in mortgage interest rates going into next year, home sales will slow a bit and help to bring the market closer to equilibrium between buyers and sellers," said David Lereah, chief economist for the National Association of Realtors.

"This will reduce pressure on home prices and the rate of price increases should slow, but in most areas they'll still rise a little faster than historic norms."

Steve Kerch is the real estate editor of CBS.MarketWatch.com in Chicago.



[More RESIDENT AUTHORITY](#)

- [Moving time -- five lessons from a stressful relocation](#) 12:01am ET 08/21/03
- [Due diligence on realty Web services left to consumer](#) 12:01am ET 08/07/03
- [Online-listings policy unmask data-ownership issue](#) 5:11pm ET 07/30/03
- [Impact fees can be a positive force](#) 12:01am ET 07/24/03
- [Halls of shame: House-hunting horrors](#) 12:01am ET 07/17/03

Latest Industry News [Get Alerted on News in this Industry](#)

- [REITs a good diversification tool even now](#) 12:23pm ET 08/29/03
- [U.S. dollar lower as Japan stays out of market](#) 11:56am ET 08/29/03
- [U.S. Treasuries pressured by factory data](#) 11:24am ET 08/29/03
- [Greenspan rejects rules-based monetary policy](#) 10:01am ET 08/29/03
- [Vehicle tracking, good times for CEOs and more](#) 9:00am ET 08/29/03

Sponsored Links

[List your site here](#)

[Find a Mortgage - Fast, Easy and Free!](#) - Complete our short form to get free quote from a lender in your area! It's fast, easy, local and free! Do it now, while interest rates are still low!

[Selling a Home? Compare REALTORS® First!](#) - Don't gamble with the biggest transaction of your life! Let top, local REALTORS® compete for your business. Anonymously compare REALTORS® by commission, experience and more. Free. No obligation.

[Home Equity Loans at Wells Fargo](#) - The leading Internet bank offers affordable home equity loan rates. No points, low fees. Get a decision in seconds. Apply online now!

[Refinance Your Home Loan At Lower Rates](#) - Refinance and reduce your payments with today's low rates. Simply choose the type of loan you need and compare the rates that are available. Lock in your rate today.

[Buy a House with a GetSmart Loan](#) - Mortgages, refinancing, debt consolidation, small business financing, credit cards and more. Apply online. Lenders will contact you with rates by e-mail.

Get the Hulbert Financial Digest Newsletter Honor Roll 2002.

Learn which investment newsletters earned an above-average grade in performance during both up and down financial markets with The Hulbert Financial Digest Newsletter Honor Roll 2002. [Get your copy today!](#)

Trading Center

Scottrade
\$7 TRADES

[Trade Here!](#)

AMERITRADE

[Trade Here!](#)

CyberTrader.

[TradeHere!](#)

Get **\$100**
Credit

[Trade Here!](#)

START TODAY

[TradeHere!](#)

Buy stocks for **\$4**
shareBUILDER

[TradeHere!](#)

[Front Page](#) | [Message Boards](#) | [Mobile](#) | [Featured Products](#) | [Free Membership](#)
[Feedback](#) | [Letters to the Editor](#) | [Site Index](#) | [Company Info](#) | [Investor Relations](#) | [Jobs](#) | [Advertising Media Kit](#) | [Licensing](#)

[Make CBS.MarketWatch.com your Home Page](#)

MarketWatch.com is traded on the Nasdaq stock exchange under the symbol [MKTW](#).

MarketWatch.com is a member of the [World Business News Alliance](#).

Partner Sites

[CBSNews.com](#) | [CBS.com](#) | [FT.com](#) | [BigCharts.com](#)



© 1997-2003 MarketWatch.com, Inc. All rights reserved. [Disclaimer](#). [See our Privacy Policy](#) - updated 4/3/03.
CBS and the CBS "eye device" are registered trademarks of CBS Broadcasting, Inc.

Intraday data provided by [Comstock](#), a division of Interactive Data Corp. and subject to [terms of use](#).

Historical and current end-of-day data provided by [FT Interactive Data](#).

Intraday data delayed 15 minutes for Nasdaq, and 20 minutes for other exchanges.

SEHK intraday data is provided by Comstock and is at least 60-minutes delayed.

All quotes are in local exchange time.