

Bubble trouble? Not likely

NEW YORK -- Sept. 21, 2005 -- Some observers of the housing market point to rapid residential appreciation, the widening gap between property prices and incomes, and the fact that home prices greatly outpace rents in many cities as evidence of a housing bubble; but other analysts, such as Columbia Business School's Chris Mayer and Wharton real estate professor Todd Sinai, disagree.

They insist that the annual cost of homeownership -- after-tax financing costs, plus maintenance and depreciation -- has not increased significantly over the last 10 years.

Research by Mayer, Sinai and Federal Reserve Bank of New York research economist Charles Himmelberg reveals that annual housing costs in Boston, Los Angeles, New York and San Francisco, for instance, rose no higher than 3 percent over long-run averages between 1980 and 2004.

Mayer and Sinai note that low interest rates are responsible for the large difference between ownership costs and actual home prices, adding that the hottest housing markets are extremely sensitive to interest rates and tend to have the lowest costs of owning.

Source: *The Wall Street Journal* (09/19/05)