

## America's most overvalued cities

By Les Christie, staff writer

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NEW YORK (CNNMoney.com) -- Don't say we didn't warn you.

In January 2006, CNNMoney published a [ranking of 299 U.S. housing markets](#), showing where home prices were most overvalued. Little was undervalued: Real estate was white-hot and prices were at or near what later proved to be their tops.

A total of 213 cities were overpriced, and Naples, Fla., was deemed the most insane, with 84% of homes valued over a fair market price, according to statistics compiled by National City Corp. and IHS Global Insight.

That finding so rankled the Naples Chamber of Commerce and area real estate agents that they hired economists to dispute the evaluation, according to Richard DeKaser, the real estate consultant who engineered the report for National City.

What a difference four years makes.

Today, Naples real estate sells at a 29% discount and the median home price is just \$165,500, down from more than \$390,000, according to the newly released 2010 report compiled by IHS Global Insight and PNC Financial Services ([PNC](#), [Fortune 500](#)) (which bought National City).

Nationwide, just 87 markets are considered

overvalued, and Naples is now the 15th most undervalued area. Nearly all markets -- 242 of 330 -- are considered priced below fair market.

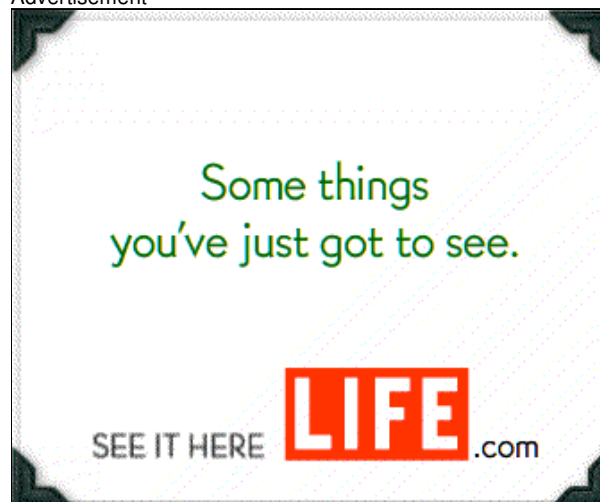
Atlantic City, N.J., is now the most overvalued metro area in the nation. At 30.2% over fair market, it is the only city in the dangerous 30%-plus category. Almost at that cutoff is Wenatchee, Wash., at 28.9%. The third most overpriced area is Ocean City, N.J.

The most undervalued market is [Las Vegas](#), where homes sell for 41.4% below fair market, followed by Vero Beach, Fla. (-39.8%), Merced, Calif. (-37.7%), and [Cape Coral, Fla.](#) (-36.8%).

These judgments are determined by comparing median home prices, local interest rates, population densities and income, plus historical premiums or discounts that areas have exhibited over time.

[San Diego](#), for example, with its great weather and outdoor lifestyle, usually carries a premium, while prices in cold Rust Belt

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cities such as [Detroit](#) generally sell for less than its income stats would suggest.

"At the risk of immodesty, I must say the whole model has performed too well to believe," said DeKaser.

"I've done some research that shows when you get a bubble, you don't just return to normalcy," he added. "You go past normalcy for a long period of undervaluation."

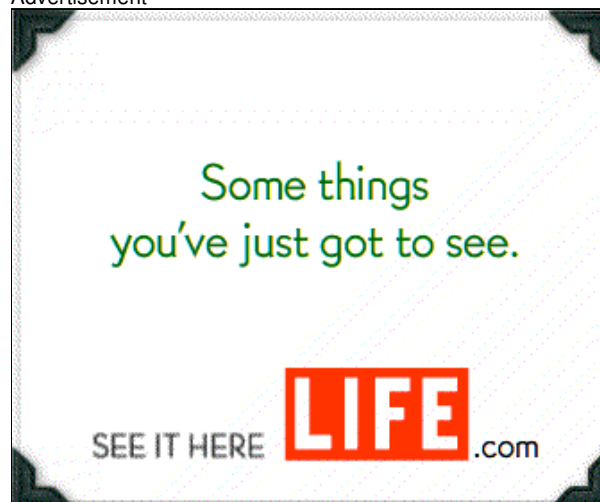
There are psychological reasons for that, of course. In frothy run-ups, builders make big profits and tend to over-produce, resulting in inventory overhangs that dampen price appreciation after the bubble bursts. Plus, people lose confidence.

And lenders, who were pushing out mortgages hand-over-fist four years ago are tight-fisted today, making it harder to get a mortgage and so reducing demand for homes.

The bottom line, at least for a few years, is that the average buyer should forget about home purchases as investments. The good news is that, long-term, their home values should appreciate.



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