

Home prices on the upswing

A jump in the national S&P/Case-Shiller Home Price Index suggests that the very steep price drops of the past few years may be over.

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NEW YORK (CNNMoney.com) -- National home prices may be on the road to recovery.

After three years of declines, home prices increased 2.9% in the three months ended June 30, according to the latest S&P/Case-Shiller report. That is the first quarter-over-quarter improvement in three years.

Prices in the national index are down 14.9% compared with the second quarter of 2008, the report said. But that is better than the record 19.1% decline that was set in the first three months of 2009.

"We're seeing some positive signs," says David M. Blitzer, Chairman of the Index Committee at Standard & Poor's.

The Case-Shiller 20-city index rose quarter-over-quarter by 1.4% but fell 15.4% year-over-year. Still, that was a smaller loss than analysts were predicting: A consensus of experts compiled by Briefing.com had forecast a 16.4% drop

"This is great news; prices may be starting to grow again" said Pat Newport, a real estate analyst for IHS Global Insight. "Three independent sources, the National Association of Realtors, the Federal Housing Finance Agency and Case Shiller are showing price improvement."

Providing a boost

The slide may be over partially because prices have reached [affordability levels](#) not seen in a generation, drawing many buyers into the market.

Helping housing markets, too, is the government economic stimulus effort, which includes an \$8,000 first-time homebuyers tax credit. That added discount has spurred many entry-level buyers into homeownership.

The rebound may mean that potential homebuyers will have more of a feeling of urgency, afraid that they'll miss the market bottom.

That's already happening in some of the markets that had gone through steep price declines over the past few years, such as the area east of Los Angeles that went through a severe boom and bust cycle. Home sales there are now booming again, according to Chuck Whitehead, a Coldwell Banker real estate broker.

"There's such a frenzy to get in before prices go up again," he said. "Buyers are more concerned about that than about getting the first-time homebuyers tax credit."

Among cities, Cleveland reported the biggest rebound; prices improved by 9.8% compared with the first quarter of 2009. Dallas prices rose 6.5% and San Francisco 5.9%. Prices declined in seven cities, including 7.8% in Las Vegas, 2.2% in Miami and 1.2% in New York.

Warning signs

Despite the upbeat report, Robert Shiller, one of the principle authors of the Case-Shiller index, expressed caution, pointing out that last year's turnaround quickly fizzled out.

In early 2008, prices were falling 3% a month. That improved to -0.5% a month in the spring, giving the impression that the market would turn around. But prices quickly started falling more steeply again. The same thing could happen again, especially with the economy still in a downspin.

"The really important things [affecting home prices] are unemployment and momentum," said Shiller, who is a Yale economist. "We have momentum, which is very important, but we also have high unemployment."

And, he added, "the government has not yet handled the foreclosure problem."

Increased bank repossessions could unleash a flood of new supply on the market, which could dampen prices. Plus, there is also some indication of shadow inventory -- repossessed homes the banks are holding onto because they don't want to flood inventories.

That leads Stuart Hoffman, the chief economist for PNC Financial Services Group ([PNC](#), [Fortune 500](#)), to conclude that it's still a good time to be a buyer.

"Given the tremendous amount of inventory, nearly a year's worth," he said, "it should continue to be a buyer's market for a while."

Shiller, too, is relatively optimistic despite being cautious. "I have found that momentum matters," he said, "and this is a sudden break in [downward] momentum. The [market] psychology seems to be changing."

Looking up

Home prices increased during the second quarter -- the first quarterly improvement since 2006. But homes are still selling for much less than they did last year.

City	Change from Q1	Year-over-year change
Cleveland	9.8%	-3.0%
Dallas	6.5%	-2.2%
San Francisco	5.9%	-22%
Denver	5.4%	-3.6%
Washington, D.C.	5.1%	-11.8%
Boston	2.6%	-5.9%
Minneapolis	3.5%	-19.8%
Atlanta	2.3%	-13.7%
Chicago	2.2%	-16.7%
Charlotte	1.1%	-9.6%
Portland	0.5%	-15.2%
Seattle	0.3%	-16.1%
Los Angeles	0%	-17.8%
Phoenix	-0.2%	-31.6%
San Diego	-0.2%	-16%
Detroit	-0.2%	-25%
New York	-1.2%	-11.9%
Miami	-2.2%	-23.4%
Las Vegas	-7.8%	-32.4%
Composite 10-cities	1.4%	0.5%
Composite 20-cities	1.4%	0.5%

Source:S&P/Case-Shiller Home Price Index

Courtesy of JB Goodwin