

EDITORIAL 8 LETTERS 8 ALAN BAUER 9

Fear of housing price 'bubble' has no basis in fact

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For the Register

The continuing rise in home prices on Staten Island has led many people to equate this housing market with the spectacular rise of stock prices during the late 1990s, and to predict a similarly precipitous decline. Such speculation about parallels between the two markets, and the imminent bursting of the housing price "bubble" are the result of a superficial analysis of the situation.

The parallels that have been made between stock prices and home prices are based on the erroneous notion that the stock and housing markets are comparable and behave in similar ways. Apples are not oranges, and homes are not stocks or commodities.

Generally, people buy homes for far different reasons than they do stocks or other financial instruments.

Homes and stocks perform very differently and are subject to very different influences.

Homes are neither fungible or negotiable, and more importantly, they serve a tangible purpose: a home provides a family with a place to live - it is not just another piece of paper to be traded or filed away and forgotten. Certainly, there is an investment factor involved in homeownership, but the very nature and character of real property makes it a relatively stable, long-term investment. Most homebuyers treat it as such, and realize that it probably will not earn the spectacular returns sometimes generated by other financial vehicles.

But, a home is also unlikely to show the dramatic declines that are often associated with other investments.

Interest rates key demand

Historically low interest rates -

the lowest in decades - have been key to the strength of home sales and house prices, and have triggered a demand, magnified by relatively low unemployment and tight housing stocks, that has boosted house prices.

Every year, across the nation, more than a million new households are being formed. For the foreseeable future, builders will have to construct about 1.6 million new housing units annually just to meet the needs generated by population growth and new household formations.

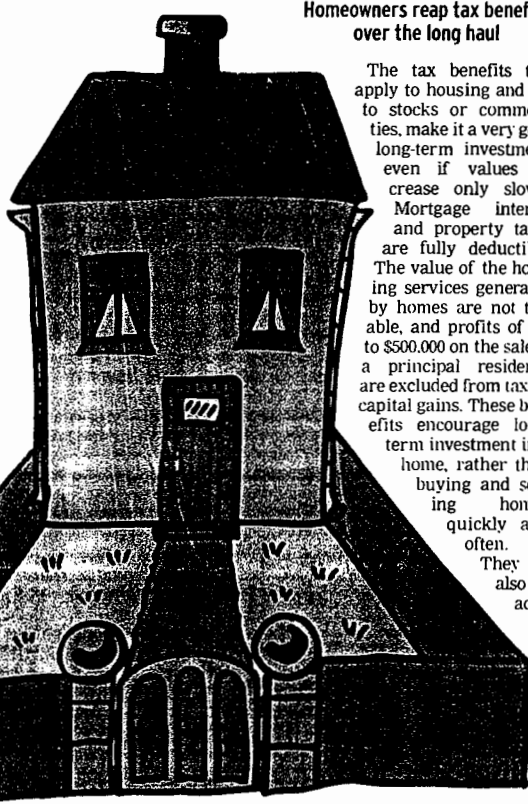
Like politics, housing markets are a local phenomenon, with increasing house prices, in particular metropolitan areas, being a natural result of the imbalances between supply and demand caused by growth restrictions that have limited the availability of developable land. Staten Island hasn't shown itself to be any different.

Eventually, interest rates will begin to gradually rise. This will have an effect on housing prices, but nothing dramatic.

The increase in home prices may slow, but the housing market will not undergo anything remotely like the volatility that the stock market is currently experiencing.

This is particularly true in Staten Island, where the supply of buildable land is ever diminishing together with a squeezing down of density, while demand continues to rise.

Construction costs add to sustainability



Homeowners reap tax benefits over the long haul

The tax benefits that apply to housing and not to stocks or commodities, make it a very good long-term investment, even if values increase only slowly. Mortgage interest and property taxes are fully deductible. The value of the housing services generated by homes are not taxable, and profits of up to \$500,000 on the sale of a principal residence are excluded from tax on capital gains. These benefits encourage long-term investment in a home, rather than buying and selling homes quickly and often.

They also act

ing homes examine all of the alternatives, everything from the style of house available to the test scores of local schools, before making a decision. And, once they have picked the home and made the requisite commitment to that home and the neighborhood, they are unlikely to turn around and repeat the process immediately ... or repeatedly.

Occasionally, local markets may experience stagnant prices or even declines, if a severe economic setback causes housing demand to weaken in a particular area or region. On a national basis, home values have never once shown an annual decrease. For this to occur, the country would have to be in very dire economic straits indeed, and, even though there have been some dips, the overall market direction, since the Depression has been up.

This is not to say that housing prices cannot decline. However, there are strong indicators that argue against the proposition that we are experiencing a bubble on the verge of bursting.

For most people, a home is a solid investment in their future - potentially their largest asset in retirement. Its value will likely increase steadily over time without the extreme ups and downs associated with many other investments, and it enjoys unique tax benefits. But, a home cannot be completely valued in monetary terms, because it is so much more than just a solid investment. It is a place to live.

to stabilize values.

Nature of homeownership makes a sudden drop in prices doubtful

Unlike stocks - which can be purchased and sold in seconds - a transaction involving a home typically involves careful deliberation and a significant investment of time, since a home is typically a family's greatest asset and single largest purchase. People buy-

Prices for construction labor and materials continue to increase here and elsewhere, and growth and land use restraints are driving up the prices of building lots - with little relief in sight. For the so-called housing "bubble" to burst, the cost of acquiring land and building a home would have to decline dramatically. And given building costs and land use restraints, that is very unlikely.

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