

## Colorado Springs housing market not teetering on bubble

OPINION

DAVID BAMBERGER

On the economy

There has been a lot in the news recently about housing bubbles. Bubbles occur when there is a big imbalance between supply and demand. Strong speculative demand pulls prices up. When the speculation stops, the bubble breaks and prices fall.

Somebody once said, "You don't know you are in a bubble until it breaks." That might be true for most people, but not everybody.

There were a few who saw the stock market bubble develop during the late 1990s. Several economists concluded as early as 1997 that equity markets were overvalued by 30 percent to 50 percent.

They predicted the market would make a big correction. They were right.

History shows that good data and objective analysis can help us see a speculative bubble as it develops. We can take a look at some local housing market data to see if there is an answer to the question: Is a housing bubble developing here in Colorado Springs?

The Office of Federal Housing Enterprise Oversight publishes quarterly estimates of the change in value of homes for cities throughout the country ([www.ofheo.gov/HPI.asp](http://www.ofheo.gov/HPI.asp)). Its estimates have become the authoritative source for housing value changes for the country.

To make the estimates, the agency uses repeat sales and refinancing data on the same property during time. This method is substantially better than using a simple median sales price figure, which is subject to some statistical bias.

Because of the common methodology, comparisons also can be made of housing value changes with other cities.

The most recent data show the value of single-family homes in the Colorado Springs metro area increased by 5.8 percent between the third quarter of 2003 and the third quarter of 2004.

This gain compares to an increase in the Consumer Price Index of 2.9 percent for the same period.

How does Colorado Springs compare with 245 other cities in the United States? Colorado Springs ranks 168th. The Springs is not the highest, nor the lowest. The accompanying list shows how Colorado Springs compares with the top 10 and bottom 10 cities.

Many economists think that, in some parts of the country where values have increased at 20 percent to 40 percent annual rates, the risk of the bubble popping is high.

Double-digit increases in home prices combined with modest gains in income and high rates of consumer debt are thought to be a disaster waiting to happen.

It looks unlikely that a housing bubble is in the making in Colorado Springs. Local home prices have increased only slightly faster than local wages. Housing values in the Springs have increased by 5.9 percent per year, while the average wage increased by 3.9 percent per year during the past five years.

At the same time, the small differential between the increase in wages and home values has been more than offset by the drop in the mortgage rate, from almost 8 percent in 1999 to slightly less than 6 percent today, making local housing just as affordable today as it was five years ago.

David Bamberger owns David Bamberger & Associates, a local firm specializing in consulting and economic research. Reach him at [davebamberger@aol.com](mailto:davebamberger@aol.com).

The weekly Adviser column offers

advice for the business  
community. It rotates among  
a group of local experts and  
business leaders.

### WHERE THE SPRINGS STANDS

Annual rate of increase in housing values, from third quarter 2003 to third quarter 2004 Top 10 Cities 1. Las Vegas-Paradise, Nev., 41.7 percent 2. Riverside-San Bernardino-Ontario, Calif., 33.8 percent 3. Reno-Sparks, Nev., 31.9 percent 4. Oxnard-Thousand Oaks-Ventura, Calif., 31.2 percent 5. Bakersfield, Calif., 30.9 percent 6. Los Angeles-Long Beach-Santa Ana, Calif., 30.5 percent 7. San Diego-Carlsbad-San Marcos, Calif., 30.4 percent 8. Visalia-Porterville, Calif., 29.8 percent 9. Fresno, Calif., 28.5 percent 10. Port St. Lucie-Fort Pierce, Fla., 28.2 percent 168. Colorado Springs, 5.8 percent

Bottom 10 Cities 236. Elkhart-Goshen, Ind., 2.6 percent 237. Tulsa, Okla., 2.5 percent 238. Greeley, 2.5 percent 239. Fort Wayne, Ind., 1 percent 240. Lake Charles, La., 2.1 percent 241. Austin-Round Rock, Texas, 2.1 percent 242. Hickory-Lenoir-Morganton, N.C., 2 percent 243. Anderson, S.C., 1.3 percent 244. Ogden-Clearfield, Utah, 1.2 percent 245. Lafayette, Ind., 0.1 percent