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## Supply of Houses Is Finally Rising In Parts of U.S.

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The number of houses on the market is finally rising in some parts of the U.S. where shortages have led to soaring prices.

The new supply should help soften price increases, and some economists say it may eventually bring prices down in some places where they have risen at double-digit rates in the past few years.

"There's going to be a day of reckoning," said Edward E. Leamer, an economist at the University of California, Los Angeles. "The question is how that reckoning is going to occur."

### STATE OF THE MARKET

See a [state-by-state map](#)<sup>1</sup> of home sales and prices, including snapshots on local economies.

Any reckoning probably will be gradual. Unlike stocks, the general level of home prices couldn't plunge 20% or 30% in a few days. Many homeowners would refuse to sell if they couldn't get something near their target price, so it could take years for the market to adjust to a new supply-demand reality. Because local conditions vary, prices may continue to rise in some cities while falling in others.

Rising supplies are particularly notable in California, where the median home price has shot up 21% in the past year to \$463,540. The California Association of Realtors says the inventory of previously occupied single-family homes in Orange County was enough to last 7.5 months at the current sales rate in July, up from 1.4 months in April. For the whole state, the supply stood at 3.3 months in July -- the first time since February 2003 that the inventory has topped three months.

Inventories also have risen in some other parts of the country. A survey by Jeffrey G. Otteau, who runs an appraisal firm in East Brunswick, N.J., showed that the inventory of homes in the 18 New Jersey counties he covers was up 14% in July from a year earlier. Inventories are up about 10% from a year earlier in Boston but have fallen more than 50% in Manhattan. In Las Vegas, where the median home price has soared about 50% in the past year, developers are responding with more plans for high-rise housing.

Nationwide, the inventory of newly built homes in July jumped 14% from a year earlier. The National Association of Realtors says the national supply of resale homes remains tight at 4.3 months, down from 4.7 months a year earlier. But Realtors report fewer bidding wars and more overpriced houses that linger for months rather than selling in days. Ben Coleman, owner of Century 21 Hartford Properties in San Francisco, said the market is still strong but no longer "on fire."

Many Realtors and housing-industry executives insist the boom will continue. David Lereah, chief economist for the National Association of Realtors, is so confident that he is finishing a book titled, "Are You Missing the Real Estate Boom?" due for publication early next year. Because interest rates are low, he said, many people can afford "exorbitant" prices. Mortgage payments account for about 18% of home buyers' income, down from more than 30% in the early 1980s when rates were high.

But economists expect interest rates to rise, and some worry that home prices have raced too far ahead of income. Median U.S. home prices rose 33% in the four years ended June 30, while per-capita personal income climbed just 10.4%. "You are pricing a lot of people out of the market," said Sung Won Sohn, chief economist at Wells Fargo & Co.

Another danger signal is that home prices have risen far faster than rents, said UCLA's Mr. Leamer. In the long term, the price of a home shouldn't be too far out of line with the rent it could fetch, he argued.

Realtors note that there hasn't been an annual decline in U.S. median home prices in the past five decades. That is true on a national basis, but prices have fallen brutally in some places, such as Los Angeles, where they sank nearly 30% in the early 1990s. On an inflation-adjusted basis, the national median home price has declined in eight of the past 33 years.

Frank Borges LLos, a real-estate agent who works in the Virginia suburbs of Washington, said he warns his clients they can't bank on continued price gains. "Do I think it is a bubble? I don't know," he said, "but I'm sick of agents pretending like it is an impossibility." He is giving his customers T-shirts that read, "I bought a house during the '04 bubble and all I got was this lousy T-shirt!"

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