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December 13, 2002

Housing bubble still afloat

By **HEATHER BOERNER**
Sentinel staff writer

The housing market will end the year with a startling run: For the last seven months, the median home price has been more than \$500,000.

It's the first year home prices have stayed so high for so long. The trend held up this month, with the county's median home price for November at \$510,000. It's also only the second year in county history in which the median has reached the half-million mark.

And this is all happening at a time when experts are predicting a "housing bubble" that would deflate and bring home prices spiraling down. Real estate agents say home prices are edging down, but not slumping.

November's median of \$510,000 is down \$30,000 from the year's high of \$540,000 in July and down \$10,000 from October's median.

"The median may drift but I certainly don't see it crashing," said Gary Gangnes, a real estate agent who crunches housing numbers at his office Real Options Realty in Santa Cruz.

"The strongest indicator of where the housing market is going is the unsold inventory index, and that's staying strong."

A healthy housing market has enough houses on the market to supply buyers for the next six months, Gangnes said. Anything below that, and home prices increase. Anything above eight months, and home prices plunge. For instance, when homes sales slumped in 1996, there were enough homes on the market in the county to last for nearly nine months. Right now, the unsold inventory number is hovering a hair below six months.

Still, it's true that home prices have tumbled a bit since their high earlier this year. The end of the year typically posts lower home prices.

Richard Calhoun, a San Jose real estate broker who publishes a monthly newsletter on the housing market, said he expects home prices to fall below \$500,000 this month and stay low for another few months. After all, he said, sellers are only asking for a median price of

\$50
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\$499,000 this month.

"Right now, Santa Cruz County is high compared to the other counties I study," Calhoun said.

"So it's due to level off and fall to normal levels in the next few months.

"The test will be whether home prices go back up in the spring. Then we'll know if we're in a normal cycle or if home prices are actually falling."

Contact Heather Boerner at hboerner@santa-cruz.com.

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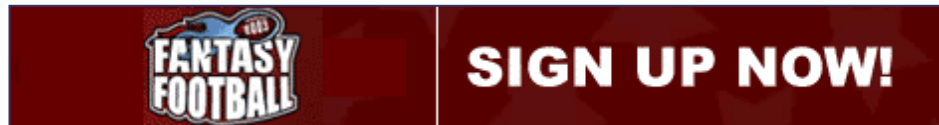
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