

Real Estate

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The future of home-price appreciation



Home prices are expected to hit bottom soon and then start to climb. Here's the outlook for appreciation through 2020.

By Luke Mullins of U.S. News & World Report



After its historic decline brought the global economy to its knees, the [U.S. housing market](#) is gearing up for a long-awaited recovery. Real-estate experts expect home prices to hit bottom in late 2010 or early 2011 before — finally! — heading north again. But what shape will the rebound take? Are we in for another boom? Or will we have to settle for sluggish growth? Here's the outlook for home-price appreciation through 2020.

The trajectory of real-estate values will vary a great deal from one market to the next. But [home prices](#) at the national level should appreciate at "pre-bubble" rates once the market re-establishes its equilibrium, says Kenneth Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at the University of California, Berkeley: "I'd say prices are back to (increasing) 1 or 2 percent more than the inflation rate over the next 10 years." Although that might seem like peanuts to those who watched prices skyrocket during the first half of the past decade, it's actually in line with long-term averages. When adjusted for inflation, American home prices increased by an average of about half a percentage point per year from 1890 through 2008, according to data compiled by Yale University Professor Robert Shiller.

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Modest increases in home prices will be supported by larger paychecks, says Mark Fleming, chief economist of First American CoreLogic. "In the long run, house prices basically go in lock step with wage growth," he says. With the unemployment rate holding near double digits, that might not seem encouraging. But Fleming says that while the labor market is a late arrival in modern-day economic recoveries, jobs always return in some form. This time around, he expects high-tech companies and research-based industries like biotechnology to lead a resurgence that eventually sparks employment and wage growth throughout the economy. Inflation-adjusted personal incomes should increase roughly 2 percent a year from 2010 to 2020, according to [Moody's](#) [Economy.com](#).

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The "echo boomers"

Meanwhile, demographic forces should boost demand for housing over the next decade, according to Harvard University researchers. Members of the "echo boom" generation — children of the [baby boomers](#) — are "entering their peak household formation years of 25 to 44 with more than 5 million more members than the baby boomers had in the 1970s," Harvard researchers said in a June 2009 report. "The echo boomers will help keep demand strong for the next 10 years and beyond." While some of this demand is likely to flow into the rental market, the preferred tax treatment of mortgage loans should help keep the American infatuation with homeownership alive. And, if tax rates increase as many expect, the value of the mortgage interest deduction will go up as well.

A more restricted flow of credit should prevent another housing bubble from forming anytime soon, says former Federal Reserve governor Lyle Gramley. Banks, hammered by souring loans, have raised their lending standards for even well-qualified borrowers. And federal regulators have taken steps to eliminate some of the reckless lending practices that precipitated the crash, such as banning lenders from making a higher-priced mortgage loan without first scrutinizing a borrower's ability to repay it. Tight mortgage credit "is going to persist for quite some time," Gramley says.

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Still, bubbles will build

Still, housing bubbles haven't been driven to extinction. That's because the real-estate market is cyclical. Regional housing markets have gone from boom to bust for as long as people have had mortgages. And because the booms generate so much wealth for homeowners, investors and influential industries — like homebuilders — it's unlikely that Congress can work up the courage to snuff them out with tough regulation, says Mark Calabria, a former senior Senate staffer who now works at the Cato Institute.

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"It's not an economic question, it's a political question: How do you build institutions that push against bubbles when you know they are going to be incredibly popular when they happen?" Calabria says. "And we all know Congress does what's popular, not necessarily what's right." Nothing in Capitol Hill's effort to reform financial regulation suggests that things will be different this time, he says. Insufficient regulation is one reason he expects another real-estate bubble to surface within 15 years. "I would bet my life on it," he says.

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So what's the best way to play an asset that will appreciate 1 or 2 percentage points above inflation during periods of stability but can swing wildly in times of imbalance? Simple: Buy a house because you'd enjoy living in it, not because you expect blowout returns. Then you'll never be disappointed by its quarterly statements.

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wallyp4

Monday, April 05, 2010 4:16:36 PM

Housing prices arent going to climb until salaries climb over and above what your asking for these dumps, and thats not going to happen anytime soon, all you realtors are comserned about is the big commision, once you get that, people are left to struggle.

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LisaPres.

Thursday, April 08, 2010 5:04:41 AM

wallyp4: there is always someone out there that is more educated, and makes a heck of a lot of money.. more and more people nowadays buy property and rent it out, for extra income. That's probably what will start happening again. If people like this didn't exist than I bet prices would surely fall, in order to be aligned with the median income levels.

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Give Our Country Back

Thursday, April 08, 2010 5:11:17 AM

I have seen realtors in my area (small town, nowhere near a large city) drive prices up for the big commission. Once they found their marks, they closed their doors and went to Florida. We have people living in homes that will NEVER sell for what they paid for them. What happened to morals and honesty?

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Thursday, April 08, 2010 5:12:24 AM

the bubble in the gas market will kill any real estate recovery in fact it will kill the entire economy into depression by this summer when it gets speculated up to its expected levels and beyond we can agin thank our too big to fail banks for this because it is now more profits in oil than loans so as you give the banks your money know that they plan to screw you with it by speculating gas during a oil glut imagine if there really becomes a oil shortage losing you house will be the small stuff no jobs will be created when companys have to bear this speculation burden and no consumers will open there wallets when they are facing higher gas every week only the oil cos and congress will make money

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