Swelling home prices catch consumers’ attention more than interest rates

By Stephanie Hoops

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ROB VARELA/THE STAR Realtor Michele Manfredi (left) gives her client Debra Sulak a tour of a home that was on sale Monday in Westlake Village.
Amid concern that consumers may begin to lose confidence in the housing market because mortgage rates are climbing, Debra Sulak is house shopping.

"I'm from the old school," the Westlake Village resident said. "I was buying houses starting in the '80s, and you can imagine what the interest rate was back then. It was extremely high. It was like 18."

Even if mortgage rates went to 5, 6 or 8 percent, Sulak wouldn't walk away from buying now.

"It's like, wow," she said. "That's great."

Not everyone shares Sulak's views, however.

Rates jumped a percentage point between May and June, and now the average is above 4 percent. Economists and market watchers worry that the rise will dissuade consumers and undermine the housing recovery. But discouraged consumers don't appear to be materializing in the local market.

Michele Manfredi, a Realtor with Prudential California Realty, said her clients aren't bothered by the rates, which are low by historic standards. They want in because they see home prices rising.

"All of my clients are confident," she said. "That's why there are multiple offers on every, single house in the Conejo Valley. Interest rates going up a point or two, it doesn't scare them that much."

In recent weeks, Federal Reserve Chairman Ben Bernanke has expressed hope that this type of optimism will compensate for the rise in rates, which he said "is not all that dramatic." Bernanke's comments and vague signals that the central bank eventually will cut back on its stimulus program have caused concern that the government may seed another housing bubble like the one that began in 2001 and popped in 2006.

But on Wednesday, Bernanke discounted the idea that surging mortgage rates are undermining economic growth.

"Housing activity and prices seem likely to continue to recover," he said, "notwithstanding the recent increases in mortgage rates, but it will be important to monitor developments in this sector carefully."

Investment broker and Federal Reserve provocateur Peter Schiff said the government is "blowing air back into the bubble that was deflating" and should stay out of the market. He believes speculators drove home prices up unnaturally, and the
rise is temporary.

"The economy is in trouble and real estate prices are going down," said Schiff, CEO of Westport, Conn.-based Euro-Pacific Capital. "They never should have risen. The rise was problematic because prices even at the lows were still too high. The country is poor. So the depths of the real estate crisis are ahead of us, they're not behind us."

Judging by the data, the housing market remains fragile even as it's shown marked improvement. Foreclosure filings are trending down and home prices are soaring. However, housing supply levels are still low and homes won't remain affordable without a 'supply response' to that run-up in prices, according to DataQuick Information Systems President John Walsh.

CoreLogic economists said this week they don't believe the market is experiencing another bubble, either nationally or in the fastest-growing markets. The real estate information firm said the recent upturn in mortgage rates is moderating the pace of rising prices, and rates would have to be much higher to cause a housing downturn.

Echoing that, Stuart Gabriel, director of UCLA's Ziman Center for Real Estate, said: "It's highly unlikely that we're in for another bubble."

Prices will be moderated, he said, by the higher interest rates and a greater supply of housing that will come as construction picks up and existing homes get listed. Stuart expects mortgage rates to climb further in coming years as the Federal Reserve pulls back its stimulus campaign.

Bob Majorino, owner of several Ventura County-based Prudential California Realty offices, said more people would be in the market if they weren't unsure what the government will do that may cause them grief.

"So our role at this point is to help everybody that we can, based on what is available for us to work with," he said.

On a hot afternoon in the Conejo Valley this week, Sulak and Manfredi set out to look at two houses in Westlake Village.

"Inventory is really low," Manfredi said. " Normally, you'd have four or five a week, but in this case, we only have one or two a week to show."

"These houses in this neighborhood are selling in one to two days and prices are up," Sulak said.

"There are a ton of cash buyers," Manfredi said, pointing out that the investors are disappearing. "You see a lot of co-signers with their parents, or parents gifting them money."
The housing bubble burst after homes became overvalued and prices peaked in 2006. Speculative money was exiting the real estate market and the prevalence of low-quality, adjustable-rate mortgages compounded the problem.

As a result, median home sale prices in Ventura County took a tumble, mirroring what happened in the rest of the nation. The county's median home price hovered around $600,000 in 2006 but receded in subsequent years to the low $300,000 range. Home values didn't begin rising again until 2012. The median price last month reached $450,000.

The housing crisis left Sulak and many other homeowners with a newfound sobriety. If and when she finds a house to buy, Sulak does not plan to tap her home equity for spending money.

"I don't think your wealth should be in your home," she said. "I don't think it should all be in your home. You can lose it, as you've seen in the market. It can kill you. I would not do that."