

Metro Denver home prices more overvalued than any time since the 1980s

Market protected from collapse by job creation, in-migration and slow pace of new construction

Metro Denver home prices are more overvalued than at any time since the early 1980s, but the chances of them declining over the next two years remains low, according to the [Arch Mortgage Insurance Risk Index](#).

Metro Denver home prices in the third quarter were 22.1 percent overvalued given their long-term relationship to incomes, up from 20.2 percent in the second quarter and 16.1 percent in the first, according to the index.

The index defines over or undervalued in terms of the multiple of income versus the typical home. In one market, homes may cost two times annual incomes, while in another they might cost four times. What matters is how that relationship changes over time.

Before home prices tanked last decade, Denver's index was 14.9 percent overvalued in the first quarter of 2004. Overvaluation levels are now nearing the all-time high of 22.9 percent reached in the third quarter of 1980.

But overvaluation alone won't turn a housing market negative, and in the case of Denver, it could just reflect a shift in the area's popularity, said Ralph DeFranco, global chief economist with the mortgage group at Arch Capital Services, a provider of private mortgage insurance.

When an area becomes popular, people are willing to stretch more to get in, he said. Homes in Boulder, for example, have always commanded a premium to those in metro Denver.

Job losses, shrinking incomes, out-migration and overbuilding are among the additional ingredients that can trigger price declines, but so far those aren't evident in metro Denver.

"There is a very low risk of price declines. It is a hot market," said DeFranco. "Denver is not a concern. Colorado is not a concern"

For buyers though, that means affordability will worsen, although one ray of hope is that builders will create enough new homes to dampen price increases, which have been some of the highest in the country the past two years.

The odds that metro Denver home prices will decline over the next two years now stands at 7 percent, still considered low risk, but sixth highest among the country's 50 largest metros.

Houston faces the highest odds of a price decline, at 30 percent, although that has moved lower as the energy industry hub works its way through oil and gas slump, which may be finally reversing.

Not surprisingly, resource-dependent states like Wyoming, North Dakota and Alaska face the highest risks of home price declines, at 38 percent, 36 percent and 26 percent respectively.

By comparison, Colorado, where home prices are overvalued by 15.1 percent, faces a 5 percent chance of home price declines, ranking 10th among states.

The Arch index estimates Boulder home prices are 16 percent overvalued, Fort Collins homes are 15.6 percent overvalued, Greeley homes 12.4 percent overvalued and Colorado Springs 2.7 percent.

Grand Junction and Pueblo both remain undervalued, at negatively 3.2 percent and negative 4.4 percent.

DeFranco predicts that policy shifts will stimulate additional housing demand, overcoming the drag of higher mortgage rates and supporting continued home price gains across much of the country.