No bubble, economists say; housing a safe purchase

Across the nation, average sales price of single-family homes have risen 25 percent since January 2000. In Michigan, it's been reported that median house prices have increased by 21 percent over the last four years.

Because of this dramatic increase, the media and many Wall Street analysts have speculated about the existence a housing "bubble" that is quivering and may burst at any time.

It is speculated that if the bubble bursts, the housing market would share the same fate as the stock market and the dot-coms, riding high one day and a risky investment the next. Since many Americans rely on their homes as their main investment and as their leading source of capital, this prediction is especially troubling.

Generally speaking, price bubbles involve rapid price gains that are fueled by speculative fervor or unrealistic expectations. These price gains aren't supported by economic fundamentals.

The explosion of the high-tech component of the stock market is the most recent example of irrational exuberance, and the subsequent collapse of this market occurred when earnings expectations came back to reality. The generation of this bubble, and the subsequent bust, required massive inflows and outflows of investment capital over short periods.

Could this type of thing occur in the housing market? Most experts don't think so.

For one thing, the inventory of homes on the market relative to sales is historically very low. This suggests that supply has not gotten too far out of line with demand.

In addition, people haven't been irresponsible in cashing out equity when they refinance. Mortgage and home equity borrowing only account for 40 percent of the equity value of American homes.

Last July, Federal Reserve Chairman Alan Greenspan told Congress not to worry about bubbles in house prices despite well-publicized concerns on this front. "We've looked at the bubble question and we've concluded that it's most unlikely," he said.

Greenspan focused on major differences between the stock and housing markets that illustrate the practical impossibility of housing price bubbles.

He stressed the substantial financial and emotional costs to homeowners of selling, buying and moving, which is very different from other investments like stocks.

Joseph Krul

Greenspan also pointed out that unlike the strategic purchase and sale of stocks to increase wealth, housing markets are localized and few people can or will jump from market to market in order to pursue house price gains or to avoid price declines.

In October, chief economists from the nation's two mortgage powerhouses – Fannie Mae's David Berson and Freddie Mac's Frank Nothaft – echoed Greenspan's views that no housing bubble exists.

"The simple answer to the question of whether there is a housing market bubble is no," Berson said. "In fact, price gains could go higher if constraints on new construction continue to intensify over the next decade."

Most analysts predict that annual home price appreciation in the 3-to-5-percent range seems a reasonable expectation for the next few years. While that's slower than the pace of recent years, it's well above the forecasts of consumer or gross domestic product price inflation.

Systematic analyses of data haven't yielded any evidence of a national house price bubble.

There are isolated areas of the country, however, where unrealistic income, financial wealth or house price expectations generated a surge in demand. There are also areas, such as Silicon Valley, where a downtown in the area's major industry such as high technology left house prices hanging at unreasonably high levels.

Overall, I believe that the experts and the data support housing as a solid investment that won't burst leaving homeowners in the same financial shape as the downturn in the stock market.

Today's low interest rates make housing extremely affordable. In addition, unlike many other investment options, homebuyers and their families will be able to enjoy their housing investment each day for years to come.

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Rural folks embrace cellular technology to keep in touch

THE ASSOCIATED PRESS

Cellular phones were once more curiosity than necessity – a convenience when they worked, and an object of abuse when they didn't.

But technology has improved dramatically in recent years, as have calling rates. And with improved service, Wyoming and other sparsely populated areas of the nation have been quick to embrace wireless.

A recent survey conducted by Western Wats, an Utah research firm, indicates rural customers are becoming increasingly reliant on cellular phones for business and personal needs.

Western Wats polled 1,000 customers of Western Wireless Corp., in areas with population of eight people or less per mile.

The results indicate an increasing reliance on wireless communication, with 51 percent of wireless users saying their cell phone has at least partially replaced land line phones.

Twenty-three percent said they regard a cell as their primary phone, and 15 percent of those polled plan to eventually replace a land line with cellular.

Western Wireless, which operates Cellular One service in Wyoming and 13 other Midwestern and Western states, commissioned the survey.

President Mikal Thomsen said his company made a conscious decision more than a decade ago to focus on rural customers, and the decision is beginning to bear fruit.

"As little as four years ago in Wyoming, the average customer had about 125 minutes of use. Today it's something over 400," Thomsen said.

"A lot of that is changing the rate plans. But an awful lot of it is people are just coming in and saying 'OK, I'm not just going to just use a cellular phone while I'm on the road in between wired phones'" he said.

"Just in the last year, our company has seen a 30 percent increase in the number of minutes per month over its entire million-person customer base. It's been pretty remarkable," Thomsen said.

Cell phones have become so efficient and versatile, some customers are electing to go totally wireless – a decision Rebecca Tennille, senior manager of media relations for Qwest, calls "cutting the cord."

Tennille said statistics compiled by The Yankee Group, a firm that analyzes the telecommunications industry, indicate up to 3 percent of customers nationwide are strictly wireless.

"We see it a lot in college students, we see it mainly for second-line, wire-line replacement – people using wireless in lieu of a land line. Wireless competition is very robust and healthy, especially in rural areas like Wyoming," said Tennille.

Cell phone usage in the West is strong because wireless adapts well to rural life.

Spencer Brennan, 30, is a methane-gas consultant from Sheridan, and a Western Wireless customer. Brennan spends numerous hours in his pickup and said cell phones are ideal for his work and mobile lifestyle.

"With all your long-distance carriers and everything else, you have to fight with them every month. Half the time, a land line, you don't even use that stuff and you still get charged for it," he said. "My cell phone, I pay $150 a month for two phones – one in my truck and one that I carry with me – and I make all the calls and talk to anybody I want to.

"I'm out in the field a lot. I wouldn't know what to do without it," he said.

Land-line companies aren't ready to tear the wire out of the ground, however. Tennille pointed out that Qwest, which provides much of the land-line service in Wyoming, has a cellular branch of its own.

Habitat to build straw bale home

THE ASSOCIATED PRESS

Habitat for Humanity plans to build the first straw bale house in Bloomington, Ind. And the Big Bad Wolf won't be around to blow it down, either.

The $47,500 project is co-sponsored by the Center for Sustainable Living, Bloomingfoods and Harmony School. Organizers have already started a fundraising campaign for the project.

Organizers hope to have the money raised by the end of May, construction started in early June and the home completed in August. The house will be on the city's west side.