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Home Prices Start to Dip, Recalling '90s Slump

By PATRICK McGEEHAN

For homeowners in the metropolitan area, all of the talk in the past year about a real estate collapse may have sounded as foreign as a Bollywood musical.

After all, the value of the typical home in the area has more than doubled in this decade. And at the region's core, the prices of apartments in Manhattan have floated upward on seemingly unquenchable demand.

But lately, more cracks in the housing market have begun to show, and the trend is reminding some analysts of the severe downturn in the region during the recession that followed the boom years of the late 1980s.

Even in Manhattan, signs of weakness have appeared beneath the headlines about ever-rising average sale prices of condominiums and co-ops.

A report last week found that rents in Manhattan declined in January, by more than 7 percent in some neighborhoods, according to the Real Estate Group New York.

The latest set of numbers "reinforces our sentiment that the market has, in fact, turned," Daniel Baum, the chief operating officer of the company, said in the report.

Economic distress signals are not nearly as widespread as they were in the early 1990s, and economists are still debating whether there will even be a recession this time.

Nonetheless, the long advance and subsequent retreat in house prices in the region bear an eerie resemblance to the rise and fall of two decades ago. It is too soon to tell just how deep the current decline will be. But James W. Hughes, who has tracked the market for homes around New York City through cycles of boom and bust, said he expected it to be worse than — maybe twice as bad as — the fallout from the "real estate bubble" of the 1980s.

Mr. Hughes, the dean of the Edward J. Bloustein School of Planning and Public Policy at Rutgers University, said that housing prices in New Jersey rose 145 percent from 1980 to 1988, then fell about 9 percent by 1992.

The pattern for the suburbs in New York and Connecticut was similar, he said. That flow and ebb left people who stayed in their houses during that period with property values that more than doubled, on average.

But the people who bought near the peak in 1988 faced significant losses if they had to sell quickly. Indeed, it took 10 years for house prices in New Jersey to return to their 1988 level, Mr. Hughes said. (Taking inflation into account, the recovery was not complete until 2002, he said.)

"A lot of the pain was felt by peak-of-market buyers that bought in '88," Mr. Hughes said. "Those are the ones that really got stuck."

From 1998 to 2006, the suburban housing market was sizzling again, with prices of homes in New Jersey rising 135 percent during that period, he said. According to the data that Mr. Hughes uses, prices in the region peaked in mid-2007.

Figures for Long Island show a similar pattern. In Nassau and Suffolk Counties, median home prices peaked in August and were lower by the end of the year than at the end of 2006, according to data compiled by the Multiple Listing Service of Long Island.

Compared with most of the country, New York City property values have held up better. During the 12 months ending in November, prices in the metropolitan area fell 4.8 percent, according to Standard & Poor's/Case-Shiller Home Price Indices. But that was not as bad as the 7.8 percent drop in the Washington area and far better than the declines of more than 12 percent in Miami, San Diego, Las Vegas, Phoenix and Tampa, Fla.

Property values in Sun Belt cities grew faster than those in New York in the latest run-up. That was a reversal of the pattern of the 1980s, when house prices in the New York area rose faster and higher than in the rest of the country, then sank faster and farther.

Within the region, the closer to Manhattan, the better the situation looks.

Homes in suburbs within a one-hour commute have not lost value as fast as those in the outer suburbs, said Jeffrey Otteau, president of the Otteau Valuation Group in East Brunswick, N.J. And Mr. Otteau forecasted that the closer suburbs would suffer only half of the decline of the outer suburbs by the time the market hit bottom early next year.

"Up to this point, the state of the market is worse now in the outlying suburbs than it was in the '89-'92 correction," Mr. Otteau said.

By his measure, those prices fell 15 percent during that recession and already are down almost 15 percent since they peaked in 2005, he said. In all, he predicted that prices in the outlying suburbs would decline by about 19 percent and would not reach their previous peak again until about 2014.

Homeowners who are waiting for the market to rebound to sell their houses will regret that decision, Mr. Otteau said.

"For those sellers who've decided to wait until spring to get what they think their house is worth, the spring they're waiting for is a very long time off," Mr. Otteau said. "Unless you have the ability to wait this out for five years, waiting is a losing game."

Mr. Hughes of Rutgers relies on a different set of numbers than Mr. Otteau cites, but both concluded that house prices in the region would drop by at least 15 percent in the current correction, despite the recent decline in interest rates.

Although the local job market has not been battered by widespread layoffs as it was in the early 1990s, Mr. Hughes said he believed the housing market would suffer more this time because of the reckless lending practices that allowed so many people to buy homes with little or no money down.

"I think the excesses of the subprime lending and extraordinarily low interest rates, as well as all those other exotic loans, really helped inflate the bubble," Mr. Hughes said. "The correction from that and the fallout from the credit meltdown globally probably portends a more severe correction."