



[Print](#) | [Close this window](#)

## Study suggests lengthy U.S. home price decline

Thu Jan 3, 2008 4:18pm EST

CHICAGO, Jan 3 (Reuters) - U.S. home prices could fall "considerably" over a number of years as a benchmark ratio of rents to prices slowly returns to its long-run average, according to a new study.

"If the rent-price ratio were to rise from its level at the end of 2006 up to about its historical average value of 5 percent by mid-2012, house prices might fall by 3 percent per year," two Federal Reserve Board economists and a University of Wisconsin professor said.

In a paper accepted for publication by the Review of Income and Wealth, the authors termed the estimate "more of a back-of-the-envelope calculation than an actual forecast."

Andreas Lehnert and Robert Martin of the Fed and Wisconsin's Morris Davis developed a series that shows the ratio of rents to the value of owner-occupied housing stretching back to 1960.

The ratio, which compares imputed rents of homeowners to the value of owner-occupied housing, is a valuation of residential housing that is equivalent to the earnings-price ratio used to value stocks and is considered an important component of housing valuations.

The rent-price ratio ranged between 5 percent and 5.5 percent between 1960 and 1995 but fell rapidly after that, hitting a historic low of 3.5 percent by the end of 2006.

In the first half of 2007 the ratio started to climb again, and incoming data suggest that the rent-price ratio has continued to increase, the authors said. (Reporting by Ros Krasny; editing by Leslie Adler)

© Reuters 2007. All rights reserved. Republication or redistribution of Reuters content, including by caching, framing or similar means, is expressly prohibited without the prior written consent of Reuters. Reuters and the Reuters sphere logo are registered trademarks and trademarks of the Reuters group of companies around the world.

Reuters journalists are subject to the Reuters Editorial Handbook which requires fair presentation and disclosure of relevant interests.