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## Study: I.E. homes too pricey

**Analyst says 16% difference likely means values will drop**

By Jason Newell, Staff Writer

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Homes in the Inland Empire are more overvalued than almost any place else in the nation, according to a study released this week.

Housing prices in the San Bernardino and Riverside counties area are overvalued by 16.7 percent based on rent-to-price ratios - third only to Pittsburgh and Dallas, according to a study from Laguna Hills-based GeoStat Advisory.

For the Inland Empire, the figures mean home values are likely in store for a drop, said Nima Nattagh, a market analyst who prepared the report.

"It doesn't mean that prices are going to drop by 16.7 percent," he said. "But prices are probably going to decline at a steeper rate than in other areas."

The study measured the historical relationship between rents and home prices in metropolitan areas across the nation since 1990.

According to the study, when house prices are too high in relation to rents, potential home buyers are more likely to rent and potential investors are less likely to buy - putting pressure on home prices to fall.

Regional economist John Husing expressed reservations about the numbers, saying it's tougher to quantify values in the Inland Empire than in most other areas because of its interplay with the markets

in Los Angeles and Orange counties.

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"We are not a market that is isolated out in the middle of Kansas," Husing said. "We are part of the Southern California market."

Whatever the "overvalue" figure in the Inland Empire is, Husing said prices will probably drop in the months ahead.

At this point, after several years of tremendous growth, prices have leveled off and have remained generally "horizontal," he said.

With the large gap that exists between rent values and home values, the market is facing less demand from investors who buy second homes, said Bruce Engles, a real-estate agent with Re/Max Legends in Rancho Cucamonga.

"A lot of people who do buy investment properties ... have pretty much stopped buying in Southern California because the rent values do not make up the costs," he said.

Jack Kyser, chief economist at the Los Angeles County Economic Development Corp., said many such buyers were contributing to the housing demand in the Inland Empire in the first part of the decade.

"Prices (in the Inland Empire) were running up and knocking them out of the affordable market," he said. "So maybe they will be coming back into the affordable range."

When it comes to overvalued homes, the only markets ahead of the Inland Empire are the Dallas metro area, overvalued by 19.3 percent, and Pittsburgh, overvalued by 25.7 percent, GeoStat said.

By contrast, housing prices in the Los Angeles, Long Beach and Glendale metro area are currently overvalued by 2.7 percent.

The most undervalued market is St. Louis at 28.4 percent.

Staff writer Gregory J. Wilcox contributed to this report.

The widest gaps in the country

Overvaluation of homes in 2007

based on rent-to-price ratios:

Pittsburgh: 25.7 percent

Dallas: 19.3 percent

Riverside-San Bernardino:

16.7 percent

New York: 11.4 percent

Santa Ana: 7.9 percent

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