



Shares of homebuilders weaken ahead of Federal Reserve rate decision

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NEW YORK -- Homebuilding stocks weakened ahead of the Federal Reserve's Tuesday move to narrow interest rates, increasing concern a nationwide real estate slowdown is getting closer.

The interest-rate sensitive group has been one of Wall Street's high fliers during the past few years as housing prices have soared. Even talk by Federal Reserve Chairman Alan Greenspan about a real estate bubble has done little to slow down the industry, though share prices have retreated somewhat since July's highs.

Anxiety over how rising mortgage rates will affect the sector caused some investors to bail out of their holdings ahead of Tuesday's Fed meeting. Hovnanian Enterprises Inc. (NYSE: HOV) shares fell 3.1 percent on the New York Stock Exchange; and Toll Brothers Inc. (NYSE: TOL) shares dropped 3 percent. Other declines were KB Home (NYSE: KBH) and Pulte Homes Inc. (NYSE: PHM). However, DR Horton Inc. (NYSE: DHI) shares rose.

But some analysts say homebuilders have what it takes to weather a slowdown -- even if rates jump another 300 basis points.

"Are we somewhat more cautious because of all the warning signs of a slowdown? Certainly," said Joseph Snider, a senior credit officer at Moody's Investors Service. "Nevertheless, we feel that the positive fundamentals for the industry remain largely intact."

Snider said many in the industry could be shielded due to strong balance sheets. In addition, the group will benefit from some supply constraints during a period of high demand and attractive interest rates. He contends the industry could "withstand a 200 to 300 basis point rise before they really begin to pinch."

Investors will closely follow what the Fed says about real estate prices. In the past, Greenspan has said only some regions of the nation are showing bubble-like conditions.

A study released Monday by the Wharton School and Columbia Business School suggests most cities in the United States showed little evidence of a housing bubble at the end of 2004.

The study, which examined 46 single-family housing markets between 1980 to 2004, suggested that recent growth rates do not reflect a bubble and instead are explained by low interest rates, strong income growth and unusually low housing prices in the mid-1990s.

San Diego was among five national housing markets in the study that saw house price growth exceed the national average rate of appreciation for at least 60 years. San Francisco and Los Angeles were also among those five markets.

Mark Riedy, executive director of the University of San Diego Burnham-Moores Center for Real Estate, was among San Diego experts who agreed with the study, saying that they don't see a bubble about to burst here, but rather a normal progression of the economy that may dip or level off.

"It's hard to devine what a bubble is exactly, and that makes it even harder to predict if there is one in markets like San Diego," Riedy said.

The report -- "Assessing High Housing Prices: Bubbles, Fundamentals and Misperceptions" -- did indicate that further changes in rates can have a "disproportionately large impact" that could cause housing prices to decline. The report was written by Charles Himmelberg, a senior Fed economist in New York, Columbia Business School professor of real estate Chris Mayer, and Wharton School associate professor Todd Sinai.