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HOME PRICES REBOUNDING

May home prices posted their strongest annual gains in more than seven years, according to a closely watched barometer of the housing market.

By Julie Schmit

Home prices in May turned in their best annual gain in more than seven years and set records in Denver and Dallas as the housing recovery continues.

Home prices were up 12.2% year-over-year, according to the Standard & Poor's/Case-Shiller 20-city composite index released Tuesday.

Dallas and Denver are the first two cities in the index to surpass their previous peaks, but the index shows the average price remains almost 25% below its mid-2006 peak.

The rebound in some cities underscores how far the housing recovery has come — especially where home prices didn't fall as far as in other markets or where there are strong local economies.

In May, home prices in Austin and Houston also hit new highs, according to data from Lender Processing Services, which tracks prices in 1,900 counties nationwide.

Other large metropolitan areas that were within 5% of their pre-housing bust peaks in May include San Jose; Honolulu; San Antonio; Nashville; and Kansas City, Mo., LPS data show.

"Many of those cities have industries that are doing well," says **Bernard Baumohl, chief economist with the Economic Outlook Group.**

San Jose is a technology center, as is Austin. Many of the Texas cities have strong energy industries.

On a year-over-year basis, San Francisco home prices were up the most, 24.5%, the Case Shiller report shows. It was followed by Las Vegas, up 23.3%, and Phoenix, up 20.6%.

On a monthly basis, and when adjusted for seasonal factors, home prices for the 20-city index rose 1% in May from April, Case-Shiller said.

That's still a strong gain, but it was also the weakest monthly price gain in five months. That should reduce worries about a potential housing bubble, says Jed Kolko, economist for real estate website Trulia.

"The housing market is clearly on the road to recovery, but there's still a long way to go," he says, noting that foreclosure and loan delinquency rates are still elevated, and home construction remains far from normal levels.

Home prices are likely to rise more slowly in the next year than they did in the last one, **Baumohl** says.

That's because mortgage interest rates have moved higher since late spring, averaging 4.3% for a 30-year fixed mortgage loan for the week ended July 25, Freddie Mac says.

Rates could climb into the 5% to 6% range by next year, **Baumohl** says. Also, home prices are rising much faster than incomes, and that'll eventually limit the number of people who can afford to buy, he says.

The supply of homes for sale has also started to expand. In June, the supply of existing homes for sale edged up slightly to 5.2 months, from 5.0 months in May, the National Association of Realtors says.

One reason that inventory is so tight is almost a fifth of homeowners with mortgages remain underwater. They can't easily sell their homes because they owe more on their mortgages than their homes are worth.

As prices rise, economists expect more sellers, which could also weigh on home price gains.

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