

Real Estate Boom Based on Fundamentals

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A study by the [Federal Reserve Bank of Chicago](#) attributes gains in the housing market during the past five years to innovative mortgages and increased wealth — not to the speculative building or lax monetary policy associated with housing bubbles.

"No doubt housing will be having a slowing effect on the economy, but it shouldn't be a dramatic falloff," writes Jonas Fisher, an economist with the Chicago Fed.

Neither Fisher, nor co-author, economist Saad Quayyum, believe record-high home prices are a cause for concern, considering that the recent housing boom was based on fundamentals.

The [report](#) shows the drop in the federal funds rate to 1 percent in 2003 from 6.5 percent in 2001 did not contribute to the jump in construction during the past three years. Instead, the growth in construction was influenced by technology purchases and subsequent increases in productivity.