

WEST MICHIGAN VIEWPOINT

Housing Prices: Location, Location, Location

Unlike the ubiquitous losses registered by stock markets around the world and their painful effects on investors everywhere, the decline in housing prices has not been shared by all. In fact, there are some metro areas in Texas, for example, where one would be hard-pressed to see a problem. At the same time, residents in metro areas in the hard-hit states of California, Nevada, and Florida have seen their homes plunge in value and their home equity virtually disappear. Here in west Michigan, we are somewhere in the middle. Yes, our housing prices have slipped, but the good news is that because we did not share in the housing boom experienced in other parts of the country, our housing bust is not as great.

The Data

The data used in this analysis come from the Office of Federal Housing Enterprise Oversight (OFHEO) and are based on sale prices of homes where the new mortgages were bought on the secondary market by the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Federal National Mortgage Association (Fannie Mae). The index is estimated by tracking the repeat sales for individual single-family residential properties. To be in the sample, a house must have been sold at least two times since 1975; needless to say, millions of houses meet this criterion. Using repeat sales data controls for the quality of the houses making up the sample. In other indexes that do not control for the houses, it is possible that movements in the index are caused by changes in the type or quality of housing on the market and not in the prices themselves.

Take My House—Please

If you were one of those unfortunate buyers who purchased a \$200,000 house at the peak of the housing market in Stockton, California, or Las Vegas, Nevada, your home was worth around \$127,000 or \$162,000, respectively, after the second quarter of this year. As shown in the chart below, both metro areas' home prices soared from 2002 to 2007 by more than 80 percent. Such dramatic growth is rarely sustainable, and this

case was no exception. However, even in these markets, homeowners who purchased their homes before 2004 still see a net gain in appreciation in their homes.

What Crisis?

For those living in the metro areas of Texas, the housing crisis is clearly someone else's problem. If you had bought a \$200,000 house in Austin or San Antonio in the third quarter of 2006—the quarter in which the nation hit its housing market peak—it would have sold for around \$228,000 or \$222,000, respectively, in the second quarter of 2008. As the chart shows, both areas clearly avoided the unsustainable run-up in prices, and so did west Michigan.

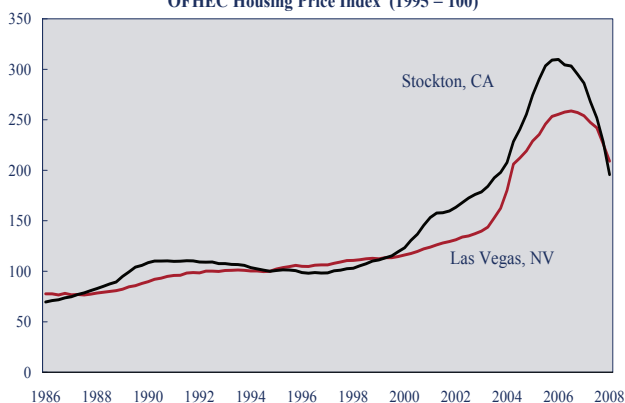
West Michigan—Steady as She Goes

We built a population-weighted composite of the OFHEO housing price index for the six metro areas in west Michigan and charted it alongside Austin and San Antonio (shown below). West Michigan tracked well with the two Texas cities until its market reached a plateau in the third quarter of 2005. West Michigan hit its high in the first quarter of 2007 and had declined from that by just 2.3 percent as of the second quarter of 2008. In other words, that same \$200,000 house purchased at the peak of the market would have been valued at just above \$195,000 in the second quarter of 2008.

Boring Is Nice

If it is too good to be true, it probably isn't, and if it is true, it likely won't last. Homeowners in many states, including Michigan, were left out of (and perhaps were envious of) the dramatic rise in home prices recorded in California and Florida several years ago. However, now that the bubble has popped, these same homeowners can feel relieved that this folly did not occur in their housing markets.

Crisis Metro Areas: Housing Prices in Free Fall
OFHEC Housing Price Index (1995 = 100)



Austin, TX, San Antonio, TX, and West Michigan
OFHEC Housing Price Index (1995 = 100)

