

# WEST MICHIGAN VIEWPOINT

## Bubble, Bubble, Toil and Trouble

The warnings are becoming almost daily fare: the nation's housing bubble may be about to burst. In fact, some argue that the sector has already lost much of its buoyancy. Here in west Michigan, as well as in most Midwestern states, there is little evidence that the area's housing market has increased at an unsustainable rate during the past several years. However, this does not mean that west Michigan would not be seriously affected by a downturn in the nation's housing market.

As shown in the table below, the median sales price of existing homes rose at only a 2.1 percent annualized rate from 1999 to 2004 in the Kalamazoo area and by a higher 4.5 percent in the Grand Rapids–Holland area. Both are below the national average of 6.8 percent and way below the rate of increase in the “bubble markets” on the two coasts. In fact, the average annualized increase in the median sales price for metro areas on the two coasts was 12.1 percent, compared to just 4.7 percent for metro areas in the interior.

Not only are prices in west Michigan increasing at a slower pace, but the median sales prices in the region are much lower than the national average. The 2004 median prices of existing houses in the Grand Rapids–Holland and Kalamazoo areas were just 72 percent and 66 percent of the U.S. median price. Of course, these data do not control for the type of houses on the market, but still it is safe to say that housing is a bargain in west Michigan. Both demand and supply factors are holding down the region's housing prices. On the demand side, population growth in the Great Lakes region has lagged behind growth in the nation as a whole. On the supply side, with the abundance of flat and developable land that is available, construction costs are relatively low.

So, is this good news? Well, it depends. If prices drop significantly in the nation's housing market, homeowners in west Michigan will not be affected as much as those in the “bubble” areas. At the same time, west Michigan homeowners may feel as if they missed out on the party and would have enjoyed a more robust housing market.

Still, west Michigan would not be immune to the serious consequences of a major correction in the nation's housing. Consumer spending, which accounts for two-thirds of the nation's GDP, would be significantly affected. Car sales would likely drop, as would the demand for many products made in west Michigan, and this, of course, would have a ripple effect throughout the regional economy.

Not only would many households suffer a loss in wealth, but some would be thrown into a financial crisis. Freddie Mac, one the nation's major purchasers of mortgage loans on the secondary market, reports that during the quarter ending in June of this year nearly three-fourths of its loans that were refinanced resulted in a 5-percent-larger loan amount. In other words, if the average loan was for \$100,000, nearly three-fourths of the households that refinanced their homes ended up with a loan that was larger than \$105,000. Couple this with the infamous national household savings rate—0.0 percent in June according to the Commerce Department—and it is clear that a drop in housing values could drive many households into severe financial crisis. Some could find themselves owing more than their house is worth. In short, if there is a bubble, I hope we hear a hissing sound and not a pop.

Rank	Metropolitan area	Median home price (\$ 000s)		AAR (%)
		2004	1999	99–04
1	Sacramento, Calif.	317.6	131.5	19.3
2	San Diego, Calif.	551.6	231.6	19.0
3	Worcester, Mass.	275.9	117.0	18.7
4	West Palm Beach, Fla.	300.9	131.0	18.1
5	Los Angeles, Calif.	446.4	199.0	17.5
<b>87</b>	<b>Grand Rapids–Muskegon–Holland</b>	<b>132.9</b>	<b>106.7</b>	<b>4.5</b>
<b>130</b>	<b>Kalamazoo–Battle Creek</b>	<b>123.1</b>	<b>110.9</b>	<b>2.1</b>
134	Canton, Ohio	115.2	105.0	1.9
135	Boise City, Idaho	135.9	123.9	1.9
136	Cleveland, Ohio	136.4	125.1	1.7
137	South Bend / Mishawaka, Ind.	93.6	86.7	1.5
138	Ft. Wayne, Ind.	96.6	92.2	0.9
	<b>U.S. median price</b>	<b>\$185.2</b>	<b>\$133.3</b>	<b>6.8</b>

SOURCE: National Association of Realtors. Total sample: 138 metro areas.