

Why the Housing Market “Crisis” Isn’t

Dr. Stanley D. Longhofer
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WICHITA STATE UNIVERSITY





Some Scary Housing “Facts”

- New and existing home sales are “plummeting” while inventories are “through the roof”
- New home construction has “come to a standstill”
- Foreclosures are “skyrocketing”
- Home prices are “in a freefall”



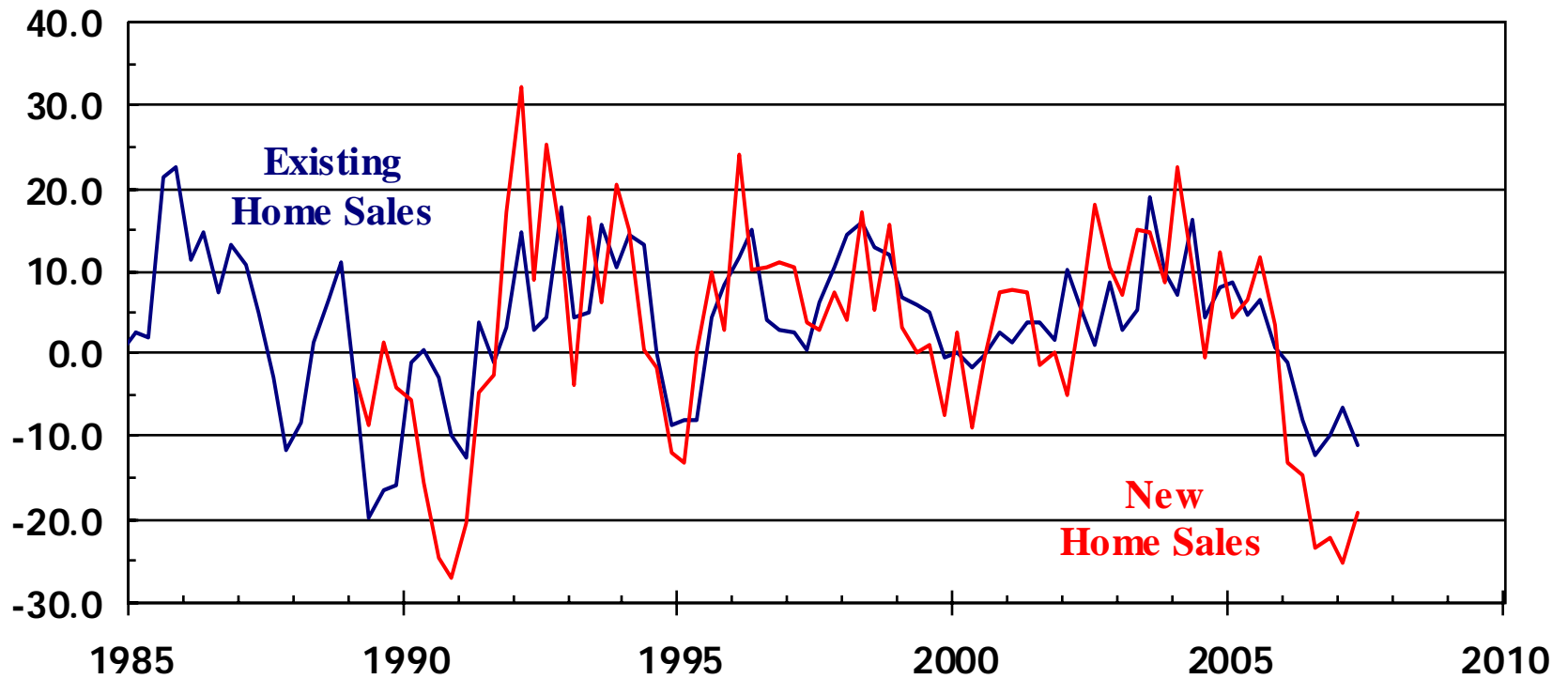
Why Do We Care?

- Macroeconomic impact of housing
- Determine what is happening to my personal housing investment
 - Should I buy or sell?
 - What is happening to the value of my house?

*Remember: No one owns
the average U.S. home*

Home Sales are Down

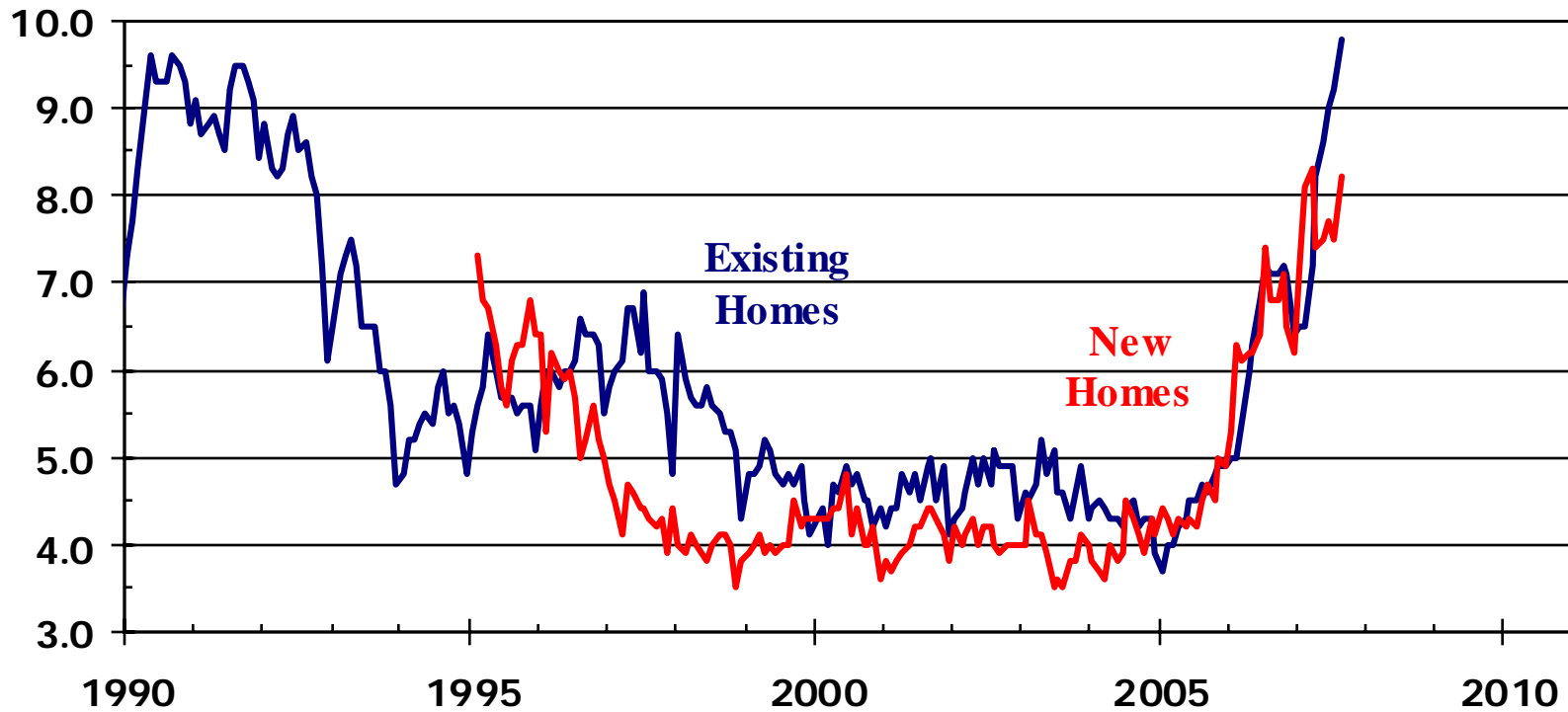
Year-over-year Percentage Change



Sources: NAR; U.S. Census Bureau

Inventories Are Up As Well

Months Supply (SA)



Sources: NAR; U.S. Census Bureau



Home Sales: The Real Story

- New and existing home sales have fallen and this is a nationwide phenomenon
 - The rise in inventories is largely due to the decline in sales, not an up-tick in new listings
- Question: Why are sales falling while the overall economy is still fairly strong?
 - Real GDP growth was up 3.4% in 2007Q2
 - Unemployment was 4.6% in August



What about Construction?

- New home construction has fallen sharply as well, no matter how you measure it
 - Building permits
 - Housing starts
 - Completions
- This is of more concern, because it represents real economic activity, not simply the transfer of existing assets

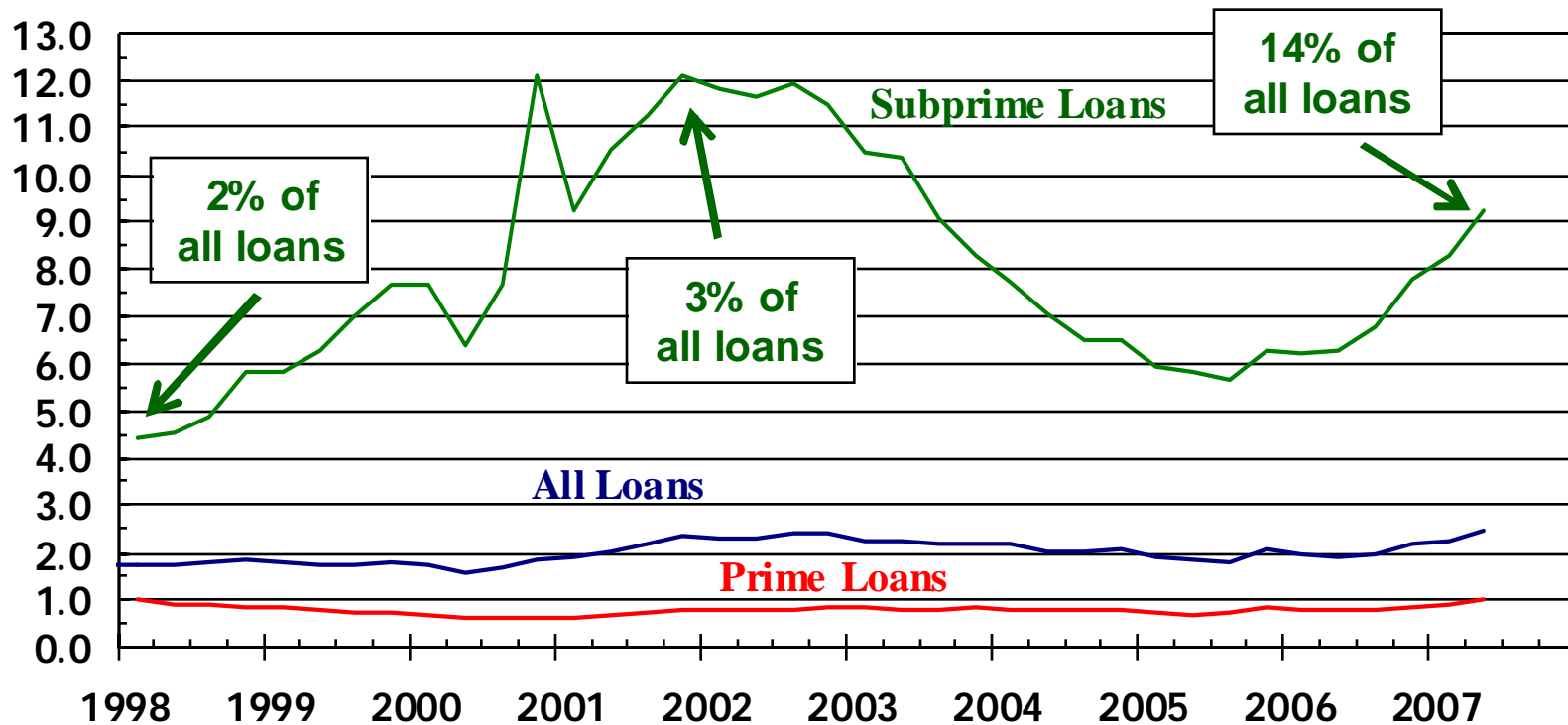


Are Foreclosures Skyrocketing?

- Ignore foreclosure reports that use data from RealtyTrac
 - The areas covered by these reports change from month to month, making comparisons over time meaningless
- The “good” foreclosure and delinquency data are compiled by the Mortgage Bankers Association of America

Severely Delinquent Loans

Percent of Loans Serviced



Source: MBAA



The Foreclosure Debacle?

- If it were not for two problem areas, foreclosures nationwide would have fallen in the 2nd quarter
 - A regional recession in the rust belt
 - Four states with a high percentage of investor loans: Arizona, California, Florida, and Nevada

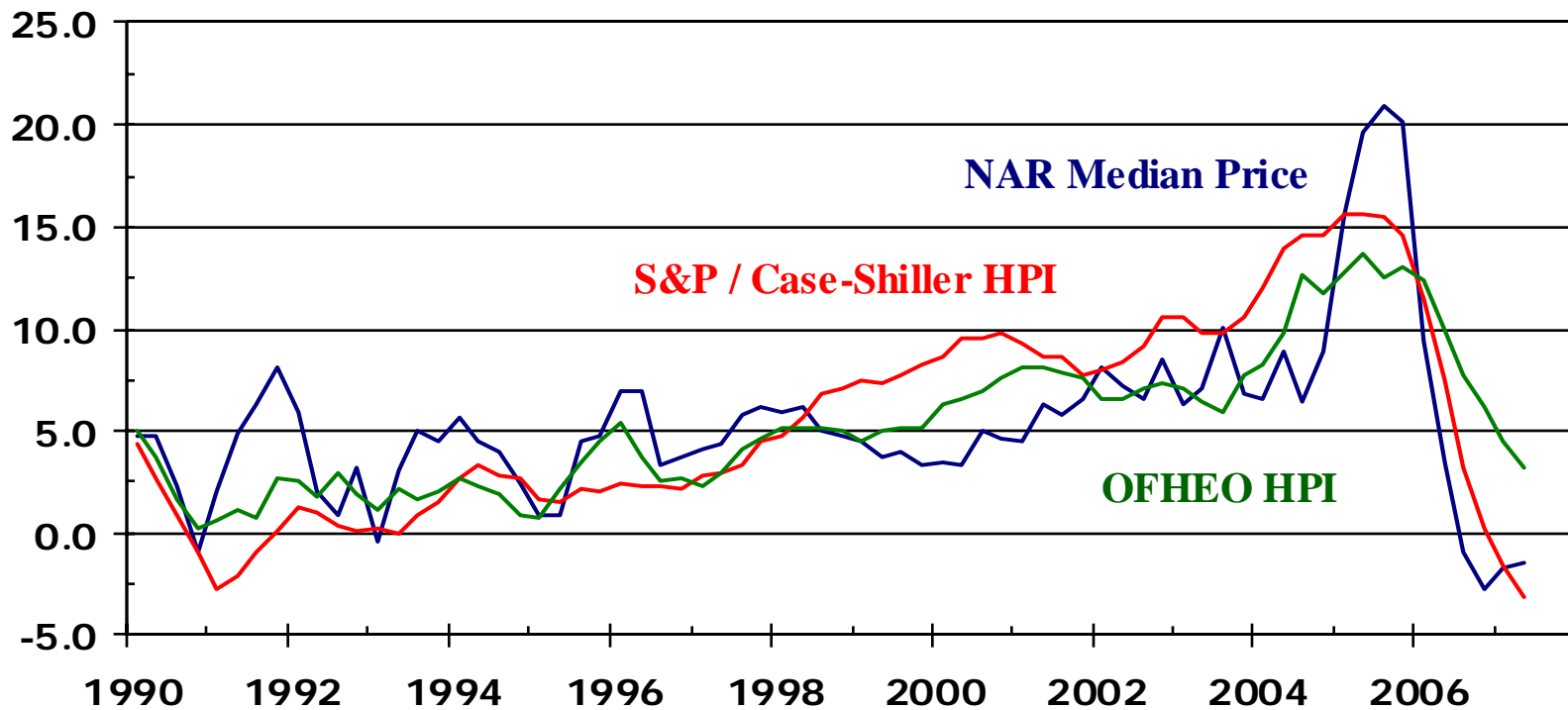


Are Home Prices Falling?

- It depends on whom you ask?
 - NAR median sale price
 - OFHEO house price index
 - S&P / Case-Shiller house price index

U.S. House Price Appreciation

Year-over-year Percentage Change



Sources: NAR; S&P; OFHEO

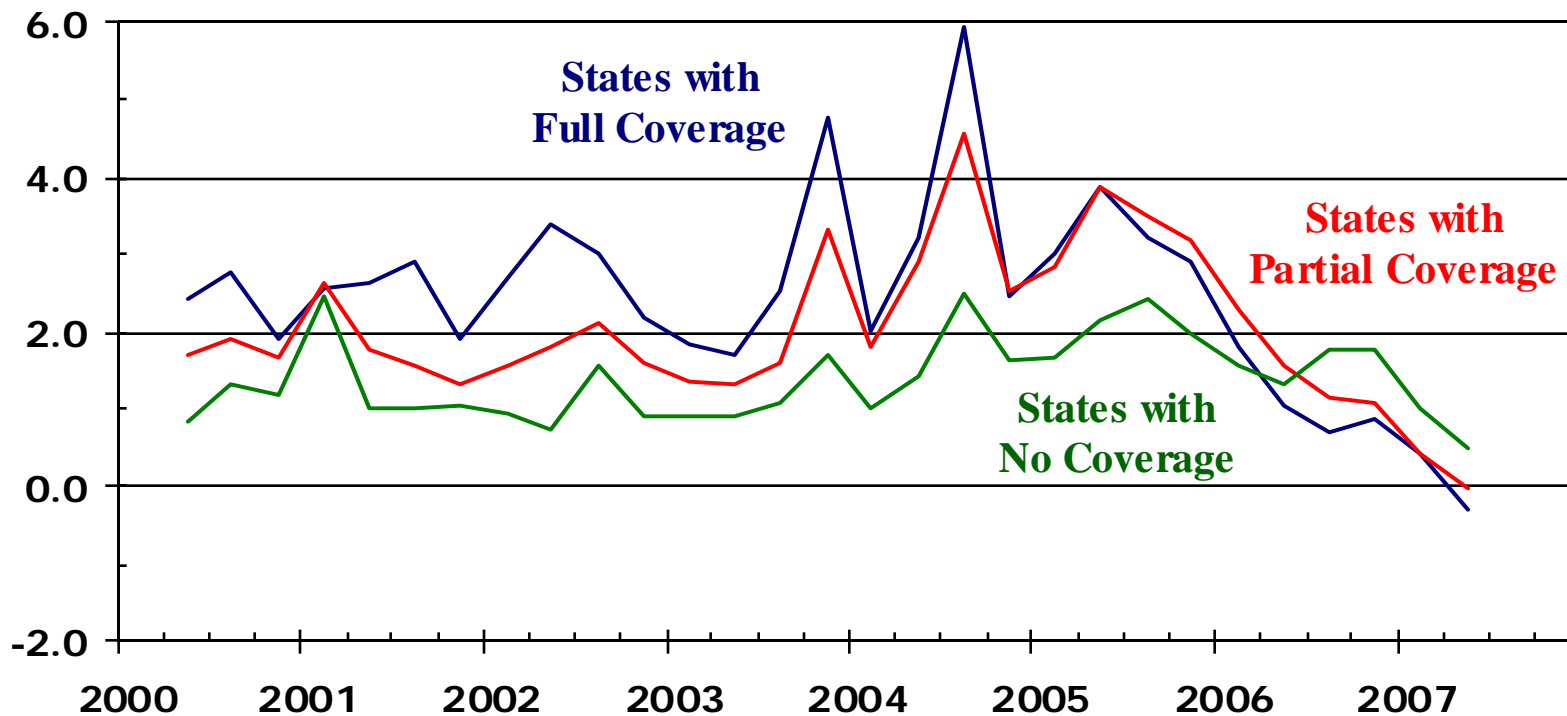


Comparing House Price Indices

- The drop in the NAR median sale price reflects fewer sales in high-priced coastal markets, not a decline in the value of any given house
- The S&P index is constructed so that it emphasizes changes in high-end houses
 - Centered on large, high-priced markets
 - Includes very-high priced houses
 - Value-weighted

OFHEO HPI by S&P Coverage

Quarter-over-Quarter Percentage Change



Source: WSU Center for Real Estate, using data from OFHEO and U.S. Census Bureau

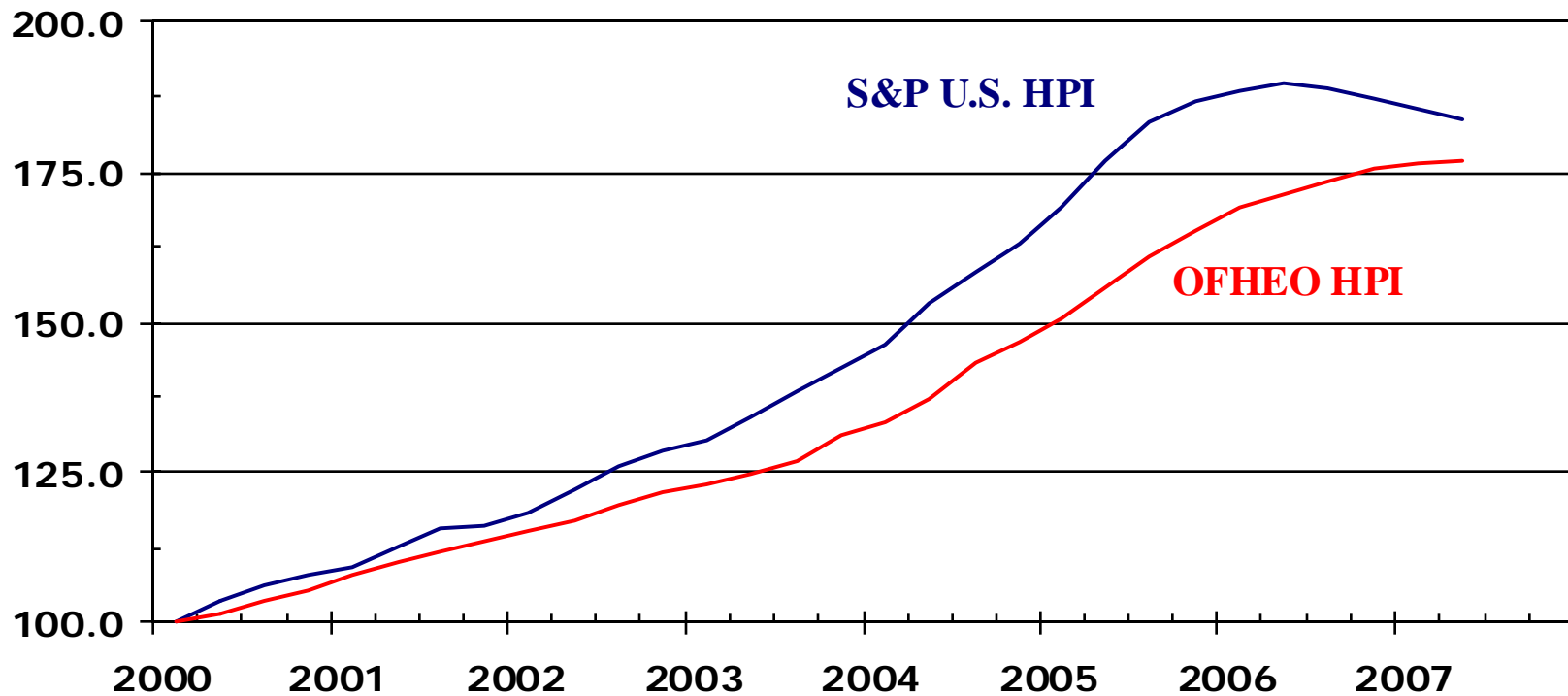


Comparing House Price Indices

- Differences between the OFHEO and S&P indices gives us insight into what is really happening to house prices
 - Appreciation in most markets nationwide has slowed, but is still positive
 - High-end homes in high-priced markets are bearing the brunt of the downturn
 - Even in these markets, prices are well above where they were just three years ago

Comparing House Price Indices

Index: 2000Q1 = 100



Sources: S&P; OFHEO



A Housing Market Crisis?

- New and existing home sales have fallen, but it is hardly the crash being portrayed in the media
 - A self-fulfilling prophecy?
- Foreclosure problems are fairly isolated
- House price appreciation has slowed, but prices continue to rise most markets across the U.S.



A Housing Market Crisis?

- From a macroeconomic perspective, there could hardly be a better time for a housing slowdown
 - Interest rates are low
 - Employment is growing, albeit slowly
 - GDP growth is solid
- Housing market statistics typically reflect what is going on in the overall economy, not the other way around



A Housing Market Crisis?

- From a personal perspective, you should simply ignore what you hear about the housing market in the national media
 - Focus on what is happening in your city or, even better, your neighborhood

Wichita State University Center for Real Estate

*Building a Vision for
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