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The Future of Housing Prices in Kent County

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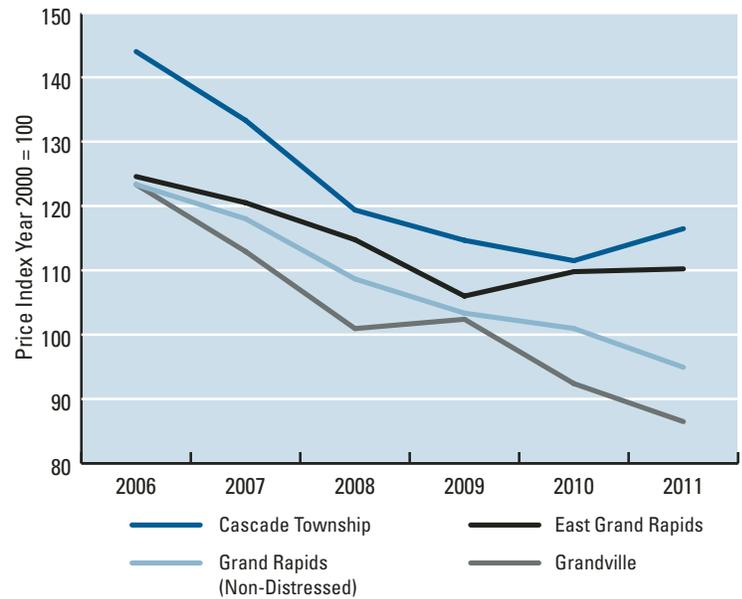
Over the last few years the housing market in Kent County has seen a drop in housing values just like the rest of the country. Since the drop in values began in 2006 people have been trying to understand when the bottom of the market will be reached and when the area will regain the values seen prior to the drop. The current evidence suggests that some markets in Kent County have already bottomed out, whereas other markets are still falling.

A quality adjusted housing price index is used to illustrate the story of the housing market in Kent County. Unlike the change in median prices that report the median price of houses sold, a quality adjusted price index statistically compares the change in value of the same house across time. The index is set to 100 in the year 2000, so it can be interpreted as to how much money is needed to buy a house now for every \$100 needed to purchase the same house in the year 2000. Using data from the Kent County Board of Equalization, the sale prices for every house sold more than once from the early 1990s to the third quarter of 2011 are compared. Although there might be things such as renovations or an owner that does not keep up maintenance that affects the change in the price for a particular house, this technique will find the cumulative effect of all houses across the entire city.

An index for each of four distinct areas within Kent County is used to illustrate the changes including Cascade Township, East Grand Rapids, Grand Rapids, and Grandville. All the indexes include houses sold between \$10,000 and \$1 million except for Grand Rapids. The Grand Rapids market index includes houses sold between \$50,000 and \$1 million. The reason for this difference is that the Grand Rapids market has had a large “distressed” housing market that substantially influences the price index, which is not the case for the three other markets. The effect of these distressed houses on the market was explained in the 2011 *Seidman Business Review*. However, if the distressed houses are included, the Grand Rapids index drops substantially.

Figure 1 contains the price indices since 2006 when the prices in Michigan universally have been falling. The areas shown for Kent County average a 20% drop in prices between 2006 and 2011. However, Cascade Township and East Grand Rapids have recently seen price increases and are currently above prices seen in 2000. This contrasts with Grand Rapids and Grandville where the price index indicates housing prices continue to drop and have fallen below their 2000 price levels.

Figure 1: Residential Housing Price Index



Economists would say the drop in price levels seen in Figure 1 occurred either because of an increase in the supply of housing available for sale or a decrease in demand for housing. The supply of housing available increases when more houses are built or more people choose to sell or face foreclosure. Demand for housing increases when more people move into an area, more people become wealthy enough to buy a house, or it becomes easier to buy a house (like occurred prior to the economic crisis with zero down and interest- only loans).

Figure 2: Housing Supply and Demand Drivers 2000–2010

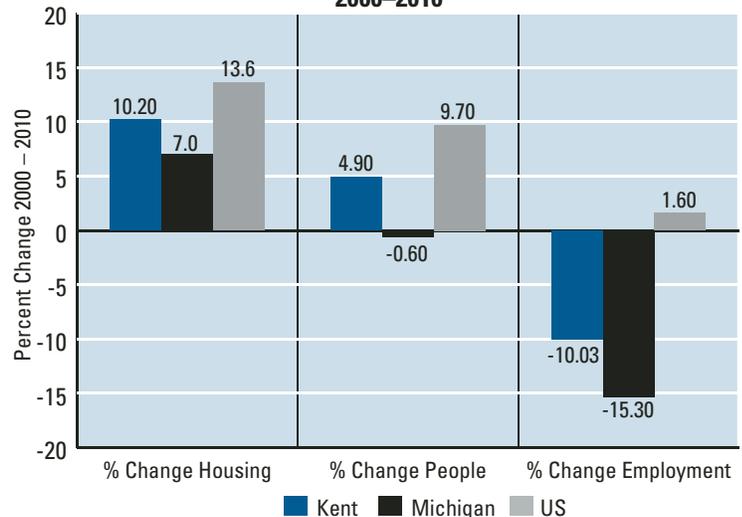
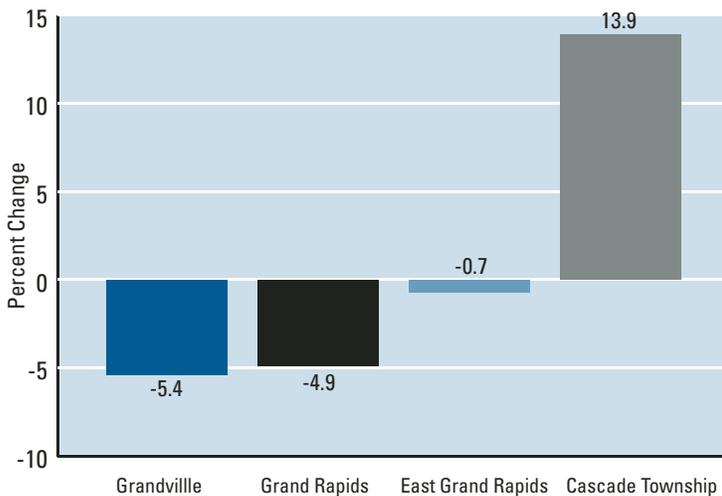


Figure 2 compares some of the supply and demand drivers for Kent County with the rest of the state and country. Currently across Michigan the number of houses entering the market through foreclosure is double the rates seen in 2000 (New York Federal Reserve). In addition, new houses are being built so there are 10% more houses compared to pre-crisis levels (U.S. Census), so the supply of houses available for sale has increased. In addition, higher loan requirements make it much harder to get a mortgage and fewer people in Kent County have jobs when compared to pre-crisis levels (Michigan Department of Technology Management and Budget), which suggests generally across Kent County a decrease in demand for housing. Finally, the population in Kent County has increased, but the population growth rate between 2000 and 2010 is half the growth rate of new houses (U.S.Census). The net result is more people competing to sell houses to fewer people, this competition lowers prices overall in Kent County.

Figure 3: Population Change 2000–2010



The variation in price indexes across the county seen in Figure 1 are most directly explained by population growth (Figure 3). Between the 2000 and 2010 Census Cascade Township has seen more than a 10% increase in population; East Grand Rapids has seen less than a 1% decrease in population; but Grand Rapids and Grandville both have seen close to 5% decrease in population. These shifts in population have increased demand—and therefore values—in some communities and decreased demand in others. In addition, even within each of these communities there can be variation in value changes based on localized conditions.

Given the last 12 years, what are the expectations for Kent county real estate prices during 2012? Virtually all of the demand and supply drivers are moving in the right direction to put upward pressure on prices again across Kent County. On the demand side, job growth has begun again in Kent county with 3.5% more employment now compared to the bottom in 2009 (Michigan Department of Technology Management and Budget) with all indications that this

slow employment growth will continue in 2012. Based on population estimates (U.S. Census), most of the population decreases in cities like Grand Rapids occurred during the first half of the last decade. Since that time slow population growth has returned to most cities. Finally, the Federal Reserve reports that lenders have stopped tightening standards, and during 2011 some even began to loosen them again. The combination of more employment, more population, and more loan options increases the number of households able to purchase a house.

On the supply side, house construction continues to be muted across Kent County with limited strategic building occurring when an opportunity presents itself. However, houses have continued to enter the market through foreclosure. Foreclosure rates remain elevated; however, information from the New York Federal Reserve shows that the rate of new foreclosures in Michigan has dropped by 50% over the last year and a half. In addition, the rate at which people are transitioning from being current on their mortgage to being 30 days late has been dropping and is back to rates seen in 2003 and almost back to rates seen in the late '90s. Therefore, although in some cities there are a large number of houses already in foreclosure or pre-foreclosure, the rate at which homeowners are starting down the path toward foreclosure is quickly retreating toward normal. Slow building and a reduction of the pipeline into foreclosure decreases the options for new buyers.

These demand and supply drivers are good news for Kent County. Over the course of 2012 many more communities will see their prices bottom out and some will start to see appreciation. The best single indicator for individual cities and neighborhoods within Kent County should continue to be population growth.

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