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Credit Crisis and Grand Rapids Housing Prices

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It is common knowledge that the housing market in Michigan has been in turmoil for several years. The primary problem for Michigan has been the loss of 147,000 jobs in transportation manufacturing. The loss of these jobs has resulted in the loss of many others that were linked to the 147,000. Since the end of 2005 the loss of jobs has been impacting the Michigan housing market, as fewer people have jobs that allow them to buy houses.

Several statistics show the weakness in the Michigan housing market. Michigan has continuously been in the top 10 states for foreclosures since 2005 (Realty Trac 2008). Figure 1 shows the number of houses sold in Michigan has dropped every year since 2005 (NAR 2008). Housing prices have dropped continuously. However, by the summer of 2008 there were signs that the market in Grand Rapids was nearing bottom. Every month from June through October, the number of foreclosures dropped in Michigan when compared to the same month the previous year. This indicated the ever-increasing number of housing sales that resulted from mortgage trouble might finally be peaking. In addition, the decline in home sales eased during 2007. There was hope during the summer of 2008 that the freefall in home prices since 2005 had finally ended.

The combination of decreasing foreclosures and improvement in home sales came to an abrupt end as the Credit Crisis heated up during September. The decrease in home sales again accelerated in 2008, especially since September. Then in November the number of foreclosures increased year over year. The housing market is now searching for a new bottom.

The effect of the change in foreclosures and number of sales can be shown using the change in housing prices. The change in house values over time can be tracked using a technique that compares sales of the same individual house. Data from the Grand Rapids and Kent County assessor’s offices are used to compare the sale prices for every house sold more than once between 1987 and 2008 (City of Grand Rapids, Kent County). The drop in housing values since 2005 is clearly seen in figure 2. However, the improvements seen prior to the Credit Crisis slowed the price erosion during the 3rd quarter of 2008. Finally, the 4th quarter shows the prices in the market are now searching for a new low as credit has become scarce.

Prices in West Michigan have held up better outside Grand Rapids in some cases. For example, the price index for Rockford is compared to the price index for Grand Rapids in figure 3. Prior to 2006 the increases in price in the two locations mirrored each other. For every $100,000 spent on a house in 2000, a purchaser of that same house in 2005 would need $140,000. Since 2005, the value of a house in Grand Rapids has dropped so that in December 2008 only $90,000 would be required, well below the initial $100,000 spent in 2000. However, the news is better in Rockford where houses are still valued above their 2000 level. So, even though most areas in West Michigan have seen the value of a house drop since 2005, the magnitude of the drop varies depending on the local conditions.

These changes show that the employment problems in Michigan that had been weighing down housing prices in Grand Rapids finally started to ease during the summer, but now have been replaced by national problems. The Credit Crisis is restricting the ability of new home purchasers to finance a home. This is because lending standards have greatly increased, lenders have less to loan, and lenders have to address the risk that a house will be worth less one year from now. These credit problems have now mired the United States in a recession which is also decreasing income and wealth. The result is that no matter where you live there is less money to buy houses.

Since the problems facing the housing market in West Michigan are now the result of national problems, the solutions will need to address these national problems. The Federal Reserve has actively been trying to solve these problems. It has increased the number tools used to stabilize the credit market from 3 to 11 over the last 12 months. An example of these tools is the Term Auction Facility where the Federal Reserve provides banks a way to borrow money from the Federal Reserve. Using these tools, the Federal Reserve has been able to bring mortgage rates down to 5.125% by the middle of December. By the end of December, the Federal Reserve will begin purchasing $600 billion of securities backed by entities like Fannie Mae and Freddie Mac which...
will increase the funds available for mortgages. Finally the Federal Reserve combined with the Treasury has also introduced a program to do the same for automobile loans. These actions should begin to ease the credit crunch that consumers have felt for the last six months.

The West Michigan housing market has had to weather both the downturn in the automotive industry in Michigan and the world-wide Credit Crisis. Only after the efforts of the Federal Reserve to end the Credit Crisis start to take hold and jobs begin to recover from the recession, will the housing market start to recover.  

References


