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Has the Grand Rapids Housing Market Bottomed Out?

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Pessimistic reports about the national housing market abound, such as the report titled “Home prices expected to slide another 8%” reported on CNN.com November 1, 2010 (CNN). Articles like this have made many believe that housing has still not bottomed out in West Michigan. However, there is a lot of evidence that there are significant differences between the West Michigan and national markets for housing. The evidence includes differences in foreclosures, defaults and employment. In addition, the behavior of the housing market has been affected by a series of tax incentives for housing purchases that have made it more difficult to predict the trends.

Foreclosures in the United States continue to climb. Realtytrac reports that, nationally, foreclosures increased by 4% from July to August 2010; however, it also reports that overall foreclosures were down over 5% year over year (Realtytrac). Michigan is showing faster improvement, with overall foreclosures down over 8% year over year. In fact, after adjusting for changes in how foreclosures are reported, Michigan has improved from 1 foreclosure in 314 households in September 2007 to 1 foreclosure in 388 households in August of 2010. Although these levels are still elevated from pre-crises levels, Michigan’s foreclosure picture is improving and doing so faster than the national market.

A mortgage 90 days behind is a sign that a household might face a future foreclosure. Again the national market is showing more distress than the West Michigan market. In the second quarter 2010, 5.7% of households were more than 90 days late on their mortgages, but only 4.1% were 90+ days late in Kent County. Looking at Figure 1, it is easy to see that the number of homeowners in Kent county falling behind on their mortgages is also improving more rapidly than the national average. In fact, every county around Kent is improving faster than the national average (New York Federal Reserve). This suggests that the foreclosure picture will continue to improve here in West Michigan.

One of the primary reasons for the improvement seen in West Michigan is the employment picture. In Kent county the unemployment rate is still elevated (10.3% in September 2010), but employment has grown by 0.9% year over year (BEA). This is three times faster than the job growth seen nationally. As the job picture improves, it not only allows people to avoid foreclosure, it also increases the number of people who might buy a house. Both things should improve the housing picture in West Michigan.

To illustrate the story of the housing market in West Michigan, I will use a quality-adjusted housing price index.

Unlike the change in median prices that report the price of the median house 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 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 Grand Rapids assessor’s offices, the sale prices for every house sold more than once between 1987 and 2010 are compared (City of Grand Rapids). Although there might be things such as renovations or overdue maintenance that affect the change in the price for a particular house, this technique will find the cumulative effect of all houses across the entire city.

In figure 2, the price index by year is shown. The index is divided among all houses, including distressed houses selling for prices as low as $10,000 and houses that sell for at least $50,000. For simplicity I will call these indexes the all-house index and the non-distressed index, respectively. The non-distressed index more likely describes the effect on housing prices for owners selling non-foreclosed houses that are in good condition. However, both indices show that the slide in house prices has slowed dramatically over the last year. The index for non-distressed property has settled at around year 2000 prices.

The monthly price index is shown in Figure 3. Here note that both indices in February 2009 are basically the same as the respective index in September 2010. During the course of that time frame, prices increased and decreased in conjunction with the two federal tax incentive programs. The first ended in November 2009 and the second ended in April 2010; in figure 3 these are the vertical lines. Prices
increased before the expiration as homebuyers rushed to take advantage of the incentive and fell after the incentive expired as fewer buyers were left in the market. These incentives caused extra volatility at the bottom of the market as people looked for bargains, so the effect on houses selling above $50,000 was relatively small. Finally, there was no lasting effect of the incentives, as the overall price index has returned to levels seen prior to the incentives.

In conclusion, the residential housing market in Grand Rapids appears to have bottomed out during the first half of 2009, and increases in employment combined with decreases in foreclosures should lead to continued, but slow, improvement in the Grand Rapids area. ■

References