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Housing Prices and Foreclosures in Grand Rapids

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U.S. housing prices have been rising since reaching a bottom in the first month of 2012. From that time to September 2013, prices have gone up by 23.6% (seasonally adjusted S&P/Case-Shiller 20-City Price Index; Federal Reserve Bank of St Louis). Housing sales have risen from an annual rate of 4.7 million in 2012 to 5.1 million in 2013 (until October; National Association of Realtors). Private housing starts have also increased from an annual rate of 783 thousand in 2012 to 919 thousand in 2013 (until November; Federal Reserve Bank of St. Louis).

The main factors that have helped the housing market recovery were the improvement in the economic conditions (the national unemployment rate decreased to 7% in November 2013), mortgage rates kept low (reaching 3.4% in October 2012), and the winding down of the foreclosure crisis (delinquency rate on residential real estate loans was down to 8.6% in the third quarter of 2013, two percentage points down from one year ago, according to the Federal Reserve Bank).

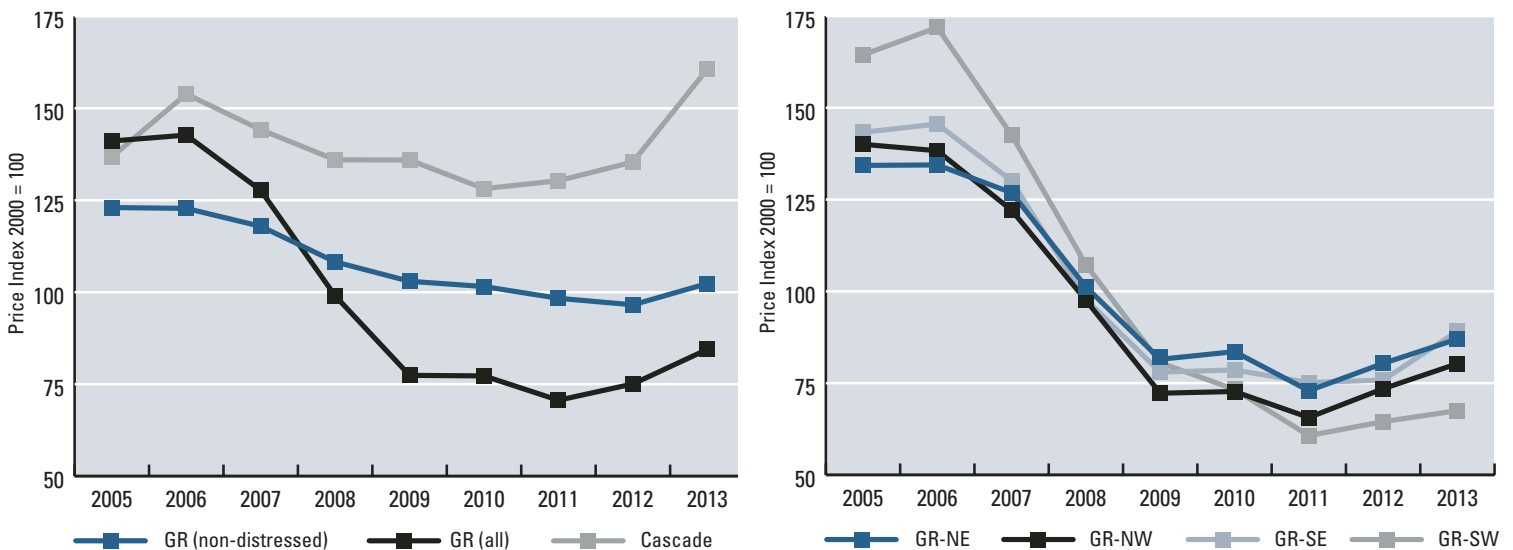
However, recently rising housing prices and mortgage rates seem to be slowing down the growth of sales and prices nationally. In addition, foreclosure filings rose in October due to houses with delayed judicial processes now being scheduled for public auction as lenders take advantage of the increasing demand.

In Grand Rapids, our quality-adjusted housing price index shows prices rising since 2012. Figure 1 shows this index for Grand Rapids. For the sake of comparison, it also shows the index for the nearby Cascade Township, which is a suburban

community with higher income households. The index is set at 100 in 2000, so it can be interpreted as the amount of money needed to buy a house for every \$100 that was needed to buy the same house in 2000. The index is computed by comparing the sales prices of the same houses over time, which means that only the value of houses sold more than once are taken into account. The use of repeat-sales to compute housing price indexes is a way to control for the variation of quality and location across houses. Although the estimation does not include the sale prices of all houses and disregards the impact of renovation or deterioration, the index is considered to be a good measure of the average changes in local market conditions. The indexes were computed using home sales from 2000 to November 15th 2013, with sale prices as low as \$10,000. For Grand Rapids, an alternative index is estimated that excludes houses with sale prices below \$50,000 (these houses are more likely affected by the foreclosure crisis). In Figure 1, the alternative measure is called non-distressed index.

As seen in Figure 1, housing prices have gone up in 2013, with the index in Cascade Township already higher than its peak level reached in 2006. In Grand Rapids, the overall market price index is still below the 2000 level. The non-distressed index shows a better recovery, being now slightly higher than the 2000 level. The difference indicates that the recovery is likely affected negatively by foreclosures, which impacted especially lower income homeowners. Foreclosures across Grand Rapids during the first six months of 2013 occurred at a rate below any year since 2004 and were 80% below the comparable period in 2008.

Figure 1: Housing Price Index



Source: Indexes computed using data from Access Kent

Table 1: Foreclosure Sales during 2004–2012

Area	Foreclosure Sales (A)	housing units in 2012 (B)	rate (A/B)
NE	2,212	15,344	14.4%
NW	1,912	12,195	15.7%
SE	4,026	20,112	20.0%
SW	1,356	4,425	30.6%

Source: Community Research Institute

In order to better understand the impact of foreclosures on home prices, we divided the Grand Rapids city area in four quadrants (Northwest, Northeast, Southwest, and Southeast). In Figure 1, the right-side graph shows the differences in housing price indexes across these four areas. It is notable that the Southwest (SW) area had the largest decline in housing prices. Indeed, that area had the highest rate of foreclosure sales (see Table 1). The SW area also experienced the highest increase in prices during the housing boom. All neighborhoods with boundaries within the SW have median household incomes more than 25% below the citywide average, making them benefit the most from the ease borrowing standards prior to the recession and most vulnerable once the economy slowed. It is also interesting that the NE area, which had the smallest variations in prices over the last 13 years, was also the area with lowest rate of foreclosure sales in the period 2004–2012. This pattern shows the correlation between high housing price increases during the boom and foreclosure activity during the crisis. Then, large declines in prices were seen in areas of high foreclosure sales rate.

To understand the difference in housing price changes in Grand Rapids and Cascade, first notice that households in Cascade are much richer and the population of workers have increased there since 2005 (Table 2). Employment opportunities have also risen slightly in Cascade, while dropping in Grand Rapids. These changes help explain why housing demand remained higher in Cascade, leading to a fast rise in home prices recently. Higher expectations on future prices and income also give home buyers incentive to bid more for houses in growing areas.

On the other hand, greater supply of available housing makes it easier to buy homes at lower prices. The high rate of foreclosure home sales in Grand Rapids has kept this supply high in recent years. On the other hand, construction is still growing in Cascade, but prices are rising fast, indicating a lack of available houses.

In 2013, we have seen improvements in employment opportunities, loosening of credit requirements, lower

foreclosure rates, and rising home sales and construction. For 2014, rising mortgage rates, stricter mortgage regulations, and higher availability of newly built housing will likely reduce the pace of the housing recovery. In fact, the latest data on price changes and existing home sales already show a slowdown.

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Table 2: Building Permits, Income, and Employment

Area	Building Permits (annual rate)		Median Household Income	Employment Change	Worker Population Change
	2005	2013	2011	2005 to 2011	2005 to 2011
Grand Rapids	318	101	\$38,731	-4.6%	-15.4%
Cascade	167	203	\$98,273	1.1%	28.8%

Building permit includes data until September 2013. Median household income is based on the American Community Survey 2007–2011 estimates. Employment and worker population from Longitudinal Employer-Household Dynamics (LEHD) estimates. Source: US Census Bureau.