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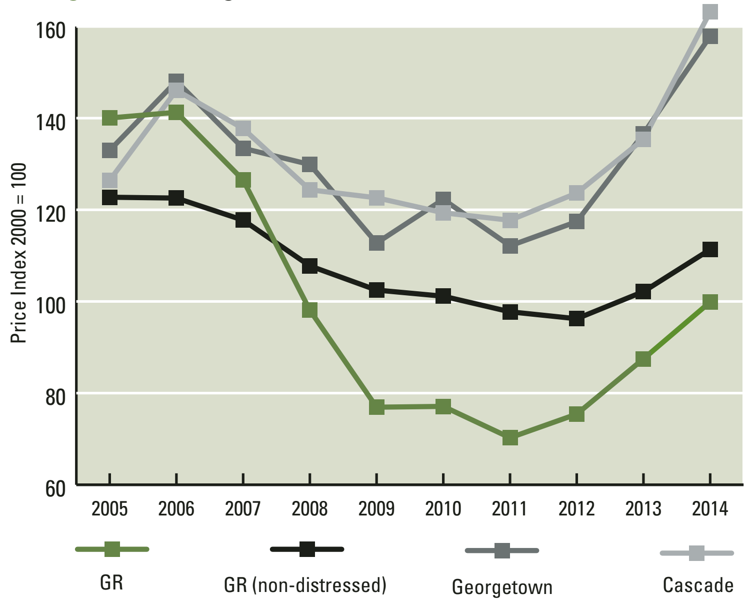
In 2014, U.S. housing prices, sales, and construction were at a higher level compared to the same period last year, reflecting the continuing recovery of the housing market. However, during the first 9 months of 2014, U.S. housing prices rose only 2% (seasonally adjusted S&P/Case-Shiller 20-city price index; Federal Reserve Bank of St. Louis) and existing home sales remained relatively stable at an annual rate of 5.3 million in October 2014 (National Association of Realtors). Private housing starts (construction) have also been stable at a rate of 1 million units per year (Federal Reserve Bank of St. Louis). This stability of the housing market in 2014 reflects economic conditions that are still unfavorable to the full recovery of the industry. For instance, unemployment rate has gone down substantially, but it is at 5.8% in November 2014 (Federal Reserve Bank of St. Louis). The delinquency rate on residential real estate loans was at 7% in the third quarter of 2014 (Federal Reserve Bank), which is decreasing, but much above the 2% rates seen in early 2000s. Strict credit requirements also make it harder for first time buyers to apply for mortgage financing, with homeownership rates having decreased to mid-1990s level (the national rate reached 64.3% in the third quarter of 2014; Federal Reserve Bank of St. Louis). On the positive side for housing markets, mortgage rates declined during 2014 after rising quickly during the previous year. The 30-year fixed payment mortgage rate went down from 4.5% at the end of 2013 to 4% in November 2014 as economic growth in foreign economies has slowed.

At the regional level, our quality-adjusted housing price index shows average prices rising in the last 3 years in Grand Rapids. Figure 1 presents the indexes for Grand Rapids and for two nearby suburban communities (Georgetown Township and Cascade Township, which have higher income population). For Grand Rapids, an alternative index called the non-distressed is also shown, which excludes houses with sale prices below $50,000 (these are houses more likely affected by the foreclosure crisis). Details on the estimation of these indexes are discussed in a technical note at the end of this article.

Based on the non-distressed index, prices of Grand Rapids homes sold in 2014 were 9% higher than in 2013, but the index was still below the peak in 2005. In comparison, price changes in Georgetown and Cascade Townships were larger, with increases of 16% and 21% respectively, reaching levels that are already above the peaks in 2006. The full recovery in these communities reflects their better income and employment conditions. As a result, construction has also picked up, especially in Cascade, where the number of building permits

Figure 1: Housing Price Index



See Technical notes at the end of the article for details. Source: Indexes computed using data from IS BS&A (accessmygov.com).

in 2014 is more than double than in 2005. See Table 1 for changes in building permits and a comparison of income and employment conditions across places.

With higher home prices and a decreasing inventory of houses available, the volume of sales has stabilized in 2014. The Grand Rapids Association of Realtors reported a 3% decline in units sold in their area of activity until October, compared to the same period in 2013. The inventory of available houses has decreased quickly recently, reaching an inventory-to-sales ratio of 3 months' supply in October 2014.

With better price and sales conditions, foreclosure activities have also decreased significantly compared to last year. In Table 2, we show the number of Sheriff's sales in Grand Rapids city decreasing from a monthly average of 75 homes in 2012 to 29 in 2014 (data available until October 2014).

These changes have increased interest in building new residential properties. Local builders are finding it hard to take advantage of this change as there is a lack of skilled construction workers. This has made it particularly hard to find sub-contractors to work on projects. This has resulted in wages for construction workers increasing faster than inflation (3.5% increase 2013–2014 according to the Bureau of Labor Statistics). As workers are drawn back into the construction sector, it is likely new residential construction will increase at a faster rate.

Table 1: Building Permits, Income, and Employment

Area	Building permits (annual rate) 2005	2009	2014	Median Household Income 2013	Worker Population Change 2005–2011
Grand Rapids	318	30	229	$39,227	-15.4%
Georgetown	448	64	238	$61,504	-2.4%
Cascade	167	139	382	$101,273	+28.8%

Building permits data until October 2014. Median household income is based on the American Community Survey 2009–2013 estimates. Employment and worker population from Longitudinal Employer-Household Dynamics (LEHD) estimates. Source: U.S. Census Bureau.

Table 2: Sheriff Sales in Grand Rapids City

Year	Monthly Average
2012	75.1
2013	46.3
2014*	29.2

Data until October 2014. Source: Estimated using data from IS BS&A (accessmygov.com).

In conclusion, we have seen a substantial improvement in overall economic and housing market conditions in 2014 in the region. For 2015, we will likely see a continuation of increasing home prices due to further improvement in the regional economy and low inventory of homes for sale, although at a slower rate than in 2014. The weak recovery of foreign economies still poses risks to the U.S. economy growth, but the resulting lower interest rates and energy prices may be helpful to the housing industry. Credit availability is still an issue due to the strict lending requirements imposed during the foreclosure crisis, but there are recent signs that lending practices are starting to loose, which should bring more first-time home buyers to the market.

Technical Note

The repeat-sale housing price index shown in Figure 1 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 sales prices of the same houses over time. The use of repeat-sales is a way to control for variation of quality and location across houses. Thus, the estimation does not include sale prices of houses that were not resold during the period analyzed. It also disregards the impact of renovation or deterioration of houses. Nonetheless, it is a widely accepted method to measure the average changes in prices in the housing market. Our indexes were computed using home sales from 2000 to October 2014, with sale prices as low as $10,000 and as high as $1 million (this value boundary is to better reflect changes in the prices of average homes).

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