Seidman Business Review

Volume 23 | Issue 1 | Article 7

2017

Housing Market Trends in the Grand Rapids Area

Laudo Ogura
Grand Valley State University, ogural@gvsu.edu

Paul Isely
Grand Valley State University, iselyp@gvsu.edu

Housing Market Trends in the Grand Rapids Area

Laudo M. Ogura, Ph.D., Associate Professor of Economics
Paul Isely, Ph.D., Professor of Economics
Seidman College of Business

Laudo M. Ogura

Paul Isely

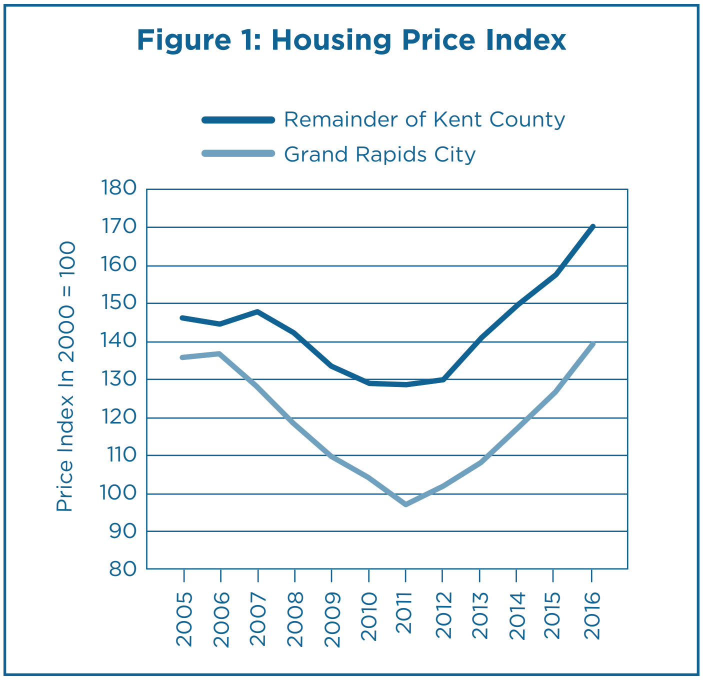
Housing prices, sales, and construction activities continued to rise in 2016 as overall economic and credit market conditions in the U.S. have improved, with lower unemployment and lower mortgage delinquency rates (see Table 1). Due to the slow recovery of the global economy, interest rates are still very low, helping to fuel the housing market. In Michigan, the homeownership rate actually increased from 2014 to 2015, from 73.8% to 74.6%, while it continued to decrease in the nation as a whole. This reflects the faster recovery of the Michigan economy and housing market. In the Kent County area, the number of employed workers has steadily increased from 280,000 to 331,000 from 2009 to 2015, with the unemployment rate staying around 3% in the past 12 months.

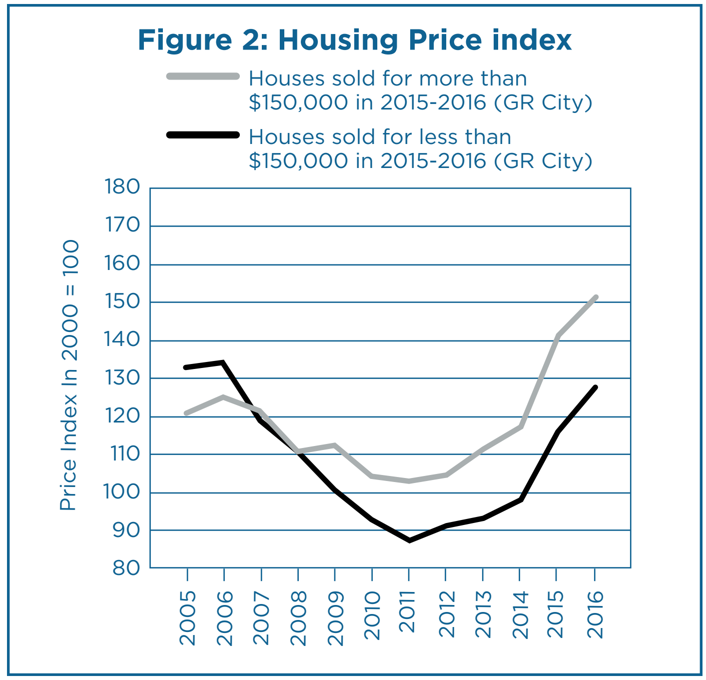
Table 1: Economic and Housing Market Conditions

	2005	2015	2016	2015-2016 change
US unemployment rate (%)	5.1	5.3	4.60 (November)	- 0.7
Kent County unemployment rate (%)	5.8	3.6	3.20 (October)	- 0.4
30-year fixed mortgage rate (%)	5.9	3.9	3.80 (November)	- 0.1
Home mortgage delinquency rate* (%)	1.6	6.4	4.90 (3rd quarter)	- 1.5
S&P/Case-Shiller 20-city (Jan-2000 = 100)	190.3	179.8 (September)	189.0 (September)	+ 5.1%
Consumer Price Index CPI (Jan-2000 = 100)	113.4	140.8 (November)	143.10 (November)	+ 1.7%
New private housing starts (annual rate, in millions)	2.07	1.10	1.14 (3rd quarter)	+ 3.6%
NAR Existing Home Sales (annual rate, in millions)	N/A	5.23	5.38 (3rd quarter)	+ 2.8%
Michigan homeownership rate (%)	76.4	74.6	N/A	N/A

* Single family residential mortgage delinquency rate in the top 100 banks.
Annual data are averages or total for the year. Non-annual data are seasonally adjusted, except for the unemployment rate in Kent County.
Source: Data was retrieved from the FRED Economic Data database provided by the Federal Reserve St. Louis.

In the Grand Rapids region, home prices also continued to rise. Figure 1 shows home price indexes (HPI) for the Grand Rapids city and the remainder of Kent County. These indexes were calculated using arms' length sales only, which better reflect market conditions for non-distressed properties. The estimation of these indexes is discussed in a technical note at the end of the article. Based on the Grand Rapids city's HPI, sale prices in 2016 were on average 12% higher than in 2015, reaching levels seen during the peak of the housing boom in 2006. This large price growth is a result of a rising demand not matched by growth in the number of homes for sale. During the first nine months of 2016, the Grand Rapids Association of Realtors recorded 3.7% more closed sales than in the same period in 2015 in their region of activity, while inventory-to-sales ratio went down to an average of 1.6 months' supply during 2016 (the average in 2015 was 2.5 months' supply). As a result of this low supply, construction of new housing units has risen significantly in Grand Rapids in the last two years (see Table 2). For the remainder of Kent County, home prices had already recovered and surpassed the 2006-2007 peak levels earlier in 2014. In fact, home prices in richer communities did not drop much during the crisis, so prices are now at much higher levels than in 2000. On the other end of the market, lower and mid-income communities had home price trends similar to the Grand Rapids city. Even within Grand Rapids, high priced homes were less affected by the crisis, with prices rising fast in the past two years (see Figure 2).





See Technical note at the end of the article for details. Source: Indexes computed using data from Kent County-MI.

Table 2: Building Permits and Household Income

	Building permits				Median household income
Area	**2005**	**2014**	**2015**	**2016***	**2014**
Grand Rapids City	318	203	455	904	$39,913
Kent County	2,941	1,711	1,838	N/A	$52,713

*Permits data until October 2016. Median household income comes from the American Community Survey 2010-2014 estimates. Source: US Census Bureau.

Foreclosure Crisis

In recent years, mortgage foreclosures have heavily impacted many homeowners and neighborhoods in the region. Based on a recent study by the Community Research Institute at Grand Valley State University, we can identify the neighborhoods that had the highest rate of foreclosure activities. Table 3 shows the zip code areas with high foreclosures per 1,000 houses in the Grand Rapids area. Neighborhoods in Grand Rapids city (49503 to 49508) and Wyoming city (49509, 49519, and 49548), characterized by lower income of residents compared to other places, were the most affected. While some states are still suffering with high foreclosure rates, Michigan foreclosure activities have subsided to pre-recession levels. Table 4 shows the decrease in foreclosures per month in Kent County in recent years.

Table 3: Foreclosure Rates by Zip Code Area (2005-2015*)

Zip code	Foreclosures	Housing units	Foreclosures per 1000 houses
49507	2,403	13,750	174.8
49509	1,419	10,408	136.3
49504	1,776	17,516	101.4
49505	1,108	13,795	80.3
49548	988	12,565	78.6
49503	1,241	16,355	75.9
49506	865	12,710	68.1
49519	722	11,624	62.1
49508	906	16,243	55.8

* Based on data available until June 2015. Foreclosures were measured as transfers to lenders.
Source: Housing units from American Community Survey 2010-2014. Foreclosures from Ogura, L. and Pyne, J. (2016), based on data from RealtyTrac.

Table 4: Foreclosures per month in Kent County (2005-2015*)

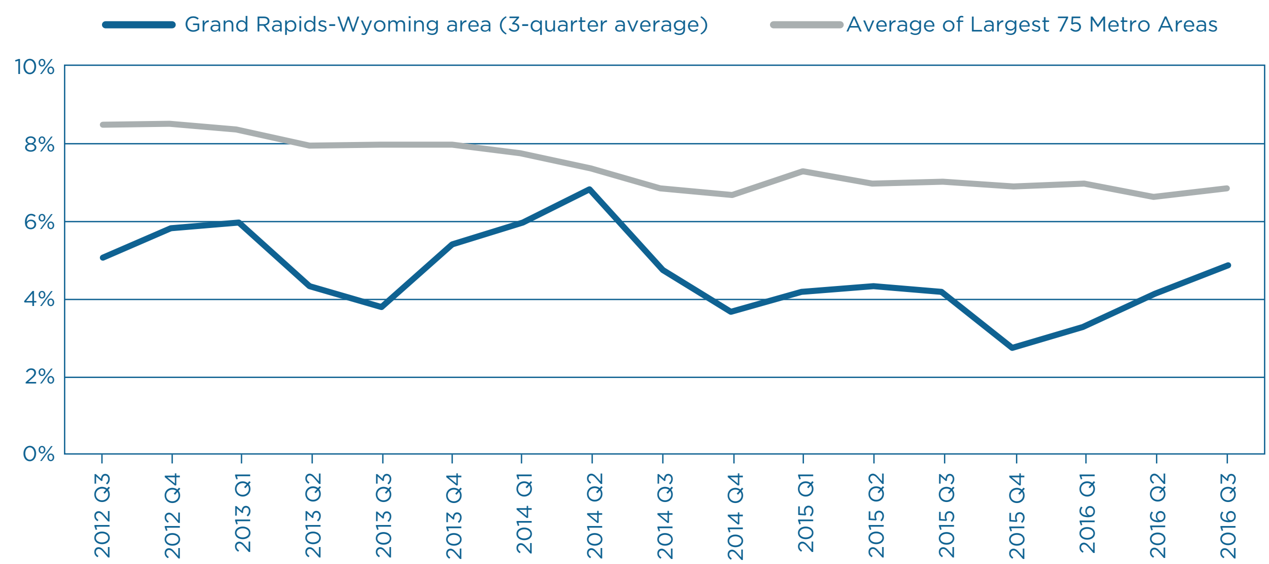
2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
33.9	71.7	124.3	186.5	202.7	192.0	155.8	149.6	90.2	59.3	54.3

* Based on data available until June 2015. Foreclosures were measured as transfers to lenders.
Source: Ogura, L. and Pyne, J. (2016), based on data from RealtyTrac.

Rental market

The alternative to purchasing a house is renting. Therefore, the rental property market provides useful information in gauging home sales. Grand Rapids has seen substantial growth in multi-family housing units over the past two years, which is evidenced by the number of cranes in downtown Grand Rapids. If this market is overbuilt, then rental rates will drop relative to home prices, leading some people to rent instead of purchasing a house. However, if the market is underbuilt, rental rates will rise. In the Grand Rapids region, the vacancy rate has been below the average of other regions over the past four years. There was an increase in the vacancy rate in the region from 3% to 5% during 2016 as new units opened, but this is still well below the 7% rate observed nationally (see Figure 3). Therefore, there should still be an upward pressure on rental prices in 2017, inducing greater demand for home purchases.

Figure 3: Rental Vacancy Rates in the Grand Rapids-Wyoming Metro Area



The counties included in the Grand Rapids metro area changed in 2015. Source: Data from U.S. Census Bureau.

Conclusions

With the improved economic and housing market conditions in the region, demand for housing has continued to rise, especially in the mid-to-high end of the market. Supply of homes for sale has not responded accordingly yet, but increased construction activity should help to slow down the rise in home prices in the next few years. Mortgage rates are also expected to rise as the overall economy improves, which should also reduce the growth in housing demand.

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 in quality across houses. Thus, the estimation does not include prices of houses that were not resold during the period analyzed and disregards the impact of renovation or deterioration of houses. Nonetheless, it is a widely accepted method to measure the average changes in prices in a broad housing market. Our indexes were computed using arms' length sales from 2000 to October 2016, with prices as low as $10,000 and as high as $1,000,000 to better reflect changes in the prices of typical homes in the market. ■

References

Federal Reserve Bank of St. Louis (2016). FRED Economic data [Data file]. Retrieved from http://research.stlouisfed.org/fred2

Grand Rapids Association of Realtors (2016). Monthly Market Update - Comparative activity report October 2016. Retrieved from http://www.grar.com/news-and-stats

Ogura, L. and Pyne, J. (2016). The Michigan Historical Residential Foreclosure Data Project 2016; Community Research Institute, Dorothy A. Johnson for Philanthropy. Available at http://www.cridata.org/michiganforeclosuretaskforce/

U.S. Census Bureau (2014). American Community Survey 2010-2014 [Data File]. Housing units by zip code. Retrieved from https://factfinder.census.gov

U.S. Census Bureau (2016). Building permits [Data File]. Retrieved from http://censtats.census.gov/bldg/bldgprmt.shtml

U.S. Census Bureau (2016). Housing Vacancies and Homeownership CPS/HVS [Data File]. Retrieved from https://www.census.gov/housing/hvs/data/rates.html