

2018

Housing Market in the Grand Rapids Area

Laudo M. Ogura
Grand Valley State University

Paul Isley
Grand Valley State University

Follow this and additional works at: <https://scholarworks.gvsu.edu/sbr>

Recommended Citation

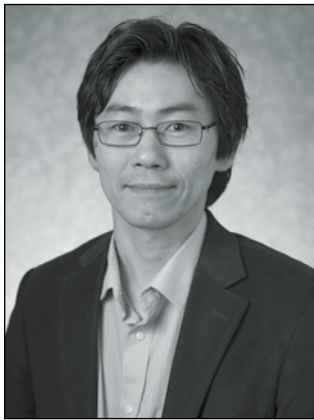
Ogura, Laudo M. and Isley, Paul (2018) "Housing Market in the Grand Rapids Area," *Seidman Business Review*: Vol. 24 : Iss. 1 , Article 5.

Available at: <https://scholarworks.gvsu.edu/sbr/vol24/iss1/5>

Housing Market in the Grand Rapids Area

Laudo M. Ogura, Ph.D., Associate Professor of Economics

Paul Isely, Ph.D., Professor of Economics



Laudo M. Ogura



Paul Isely

Housing prices continued to rise in the Grand Rapids area in 2017. Unemployment is still under 4% in Kent County, while employment in the metropolitan area keeps rising (see Table 1). At the national level, housing prices have also risen, helped by lower unemployment and lower mortgage delinquency rates. Mortgage rates are still below historical levels due to the sluggish global economic growth that keeps long term interest rates low. Construction activities are now at normal market condition levels, but not enough to match the high demand for housing in many regions.

In the Grand Rapids market, home prices have risen by about 15% in 2017. Figure 1 shows housing price indexes (HPI) for the Grand Rapids city and the remainder of Kent County. These indexes were calculated using arm's length sales only, which better reflect market conditions for non-distressed houses. The estimation uses the repeat-sales method, comparing sales prices of the same houses over time (details on the methodology are provided in the technical note at the end of this article). The large increase in home prices in Grand Rapids reflects the rise in employment in the region together with a low growth in the supply of homes for sale. In fact, during the first eleven months of 2017, the Grand Rapids Association of Realtors recorded 6.2% fewer closed sales than in the same period in 2016 in Kent County, with its inventory-to-sales ratio going down to an average of only 1.4 months' supply during 2017 (the average in 2016 was 1.8). Construction of new housing units has risen significantly in the region in the last two years (see Table 2), but it is still not enough to accommodate the rise in demand. Within Grand Rapids, even the areas with lower average incomes (ZIP code 49507) have seen a fast recovery in home prices in the last couple of years (see Figure 1, lower graph). Similar to the suburban areas of Kent County, the more affluent neighborhoods in Grand Rapids city (ZIP code 49506) have experienced a smaller decline in home prices during the crisis and a faster subsequent recovery, with prices now being around 30% higher than in 2005-2006.

Table 1 - Economic and Housing Market Conditions

	2005	2016	2017	2016-2017 Change
U.S. unemployment rate (%)	5.1	4.9	4.1 (November)	-0.8
Kent County unemployment rate (%)	5.8	3.4	3.3 (October)	-0.1
Grand Rapids-Wyoming area employment (in thousand)	496.0	544.1	559.6 (October)	+2.8%
30-year fixed mortgage rate (%)	5.9	3.7	3.9 (November)	+0.2
Home mortgage delinquency rate* (%)	1.6	5.1	4.1 (3rd quarter)	-1.0
S&P/Case-Shiller 20-city (Jan-2000 = 100)	190.3	189.5 (September)	201.2 (September)	+6.2%
Consumer Price Index - CPI (Jan-2000 = 100)	113.4	143.1 (November)	146.2 (November)	+2.2%
New private housing starts (annual rate, in millions)	2.07	1.18	1.17 (3rd quarter)	-1.0%
NAR Existing Home Sales (annual rate, in millions)	7.07	5.44	5.55 (November)**	+2.0%
Michigan homeownership rate (%)	76.4	72.8	73.3 (3rd quarter)	+0.5

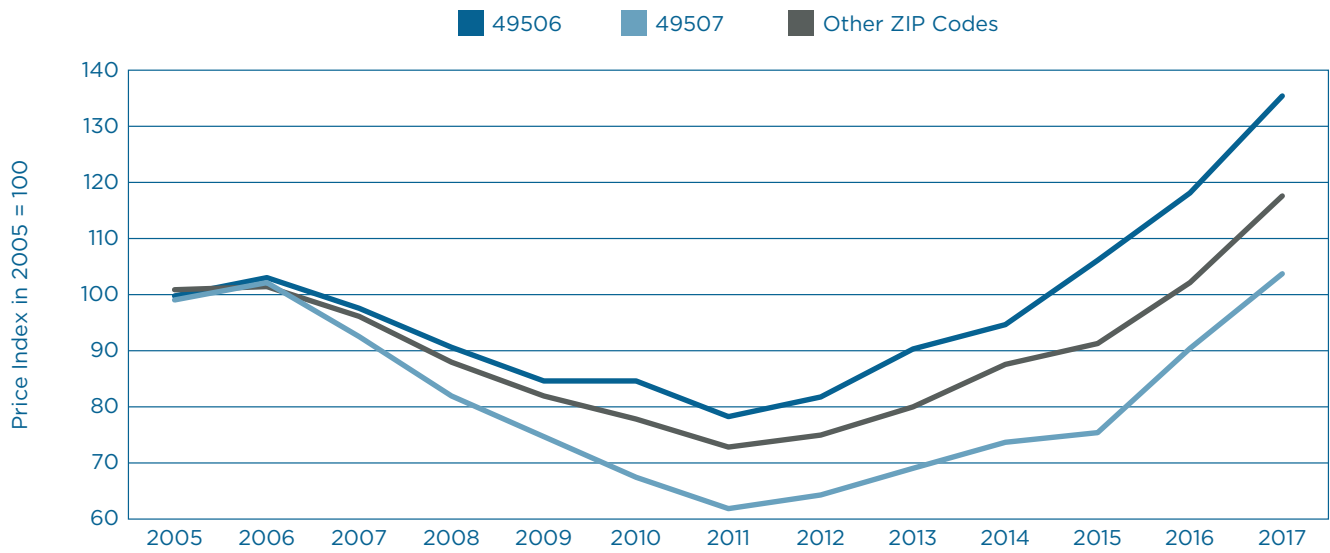
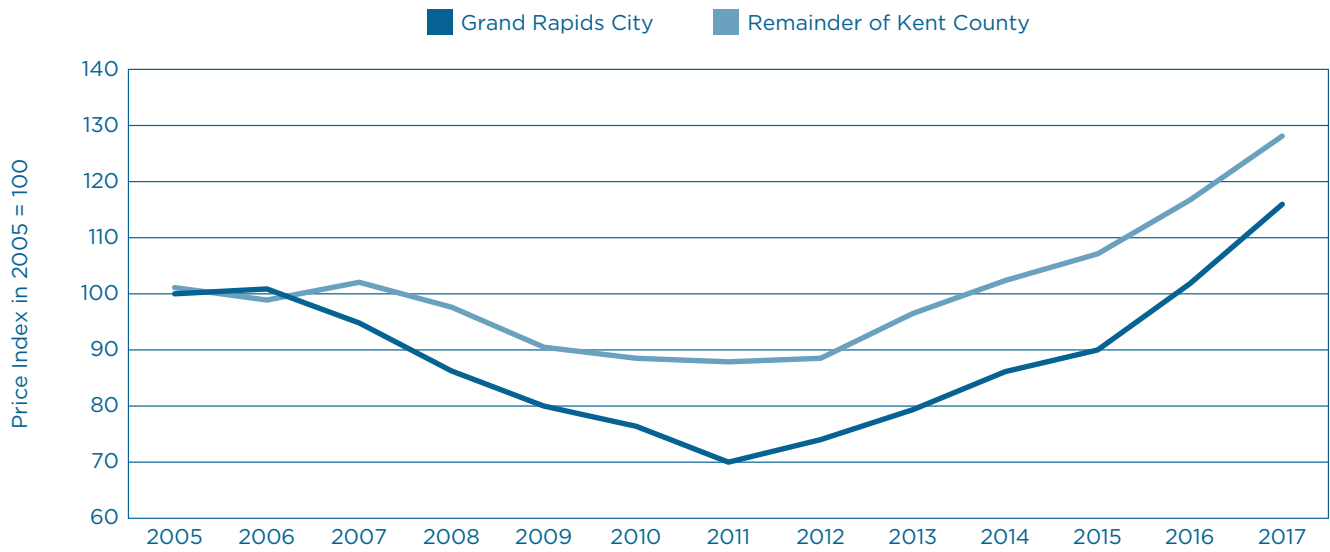
* Delinquency rate of single family residential mortgage in the top 100 banks.

** Average annual rate based on data until November.

Annual data is the average or total for the year. Non-annual values are seasonally adjusted, except for Kent County unemployment rate and 30-year fixed mortgage rate.

Sources: Federal Reserve St. Louis (2017), NAR (2006), and US Census Bureau (2017).

Figure 1: Housing Price Index



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

Area	Building Permits				Median Household Income
	2005	2015	2016	Jan.-Oct. 2017*	2015
Grand Rapids City	318	455	1,398	643	\$40,355
Kent County	2,941	1,838	2,823	1,638	\$53,063

* Preliminary data (subject to revisions) until October 2017. Median household income is from the American Community Survey 2011-2015. Source: US Census Bureau.

In the rental market, the vacancy rate in the region is still low. Based on the U.S. Census Bureau estimates, the vacancy rate went up in 2016 from about 3% to 5%, but it may have decreased a little in 2017 based on preliminary data. Even a 5% rate is well below the 7% average observed in other large metropolitan areas. Hence, both the home sales and rental markets continue to be pressured by rising demand together with low supply of available homes.

Two events could put headwinds on the price increases seen over the last few years. First, the Federal Reserve moving towards normalizing the interest rate over the next year will likely cause an increase in the short term rates by less than one percentage point, while long term rates will increase less. Second, the primary negative effect of the new tax bill will be the larger standard deduction, which will limit how many people actually itemize, thereby limiting the potential tax benefits of buying over renting a house. For a \$200,000 loan, a 0.75% point increase in APR would increase the monthly payment by around \$100 and the tax change for an average family would decrease the tax benefits of this house by another \$250 per month. Therefore, the monthly cost for this type of house would increase by \$350 per month. However, a third of this increase would be covered by rising wages, while another significant portion may be covered by reduced income taxes.

Conclusions

Over the next year there will be both positive and negative influences on the prices seen for residential properties in the Grand Rapids area. The positive influences include continued strong employment, higher incomes, low levels of inventory, slow construction compared to demand, and movements by the growing millennial population towards home ownership. The negative influences include increasing mortgage rates and reduced tax incentives. The positive influences will likely outweigh the negative ones as demand looks to remain strong in the area, but price growth should slow down.

Technical Note

The repeat-sale housing price index shown in Figure 1 is computed by comparing sales prices of the same houses over time. It is set at 100 in 2005, 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 2005. The use of repeat-sales is a way to control for variation in quality across houses. The estimation does not include prices of houses that were not resold during the period studied and disregards the impact of improvements or deterioration of houses and neighborhoods. 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 September 2017, with prices as low as \$10,000 and as high as \$1,000,000. This type of sales and range of prices better reflect the market for typical homes. ■

References

- Federal Reserve Bank of St. Louis (2017). FRED Economic data [Data files]. Retrieved from <http://research.stlouisfed.org/fred2>.
- Grand Rapids Association of Realtors (2017). Monthly Market Update - Comparative activity report October 2017. Retrieved from <http://www.grar.com/news-and-stats>.
- National Association of Realtors (2006). Existing-Home Sales Down in December but 2005 Sets a Record. Retrieved from <http://archive.realtor.org/article/existing-home-sales-down-december-2005-sets-record>.
- U.S. Census Bureau (2015). American Community Survey 2011-2015 [Data File]. Median Household Income. Retrieved from <https://factfinder.census.gov>.
- U.S. Census Bureau (2017). Building permits survey [Data File]. Retrieved from <https://socds.huduser.gov/permits/>.
- U.S. Census Bureau (2017). Housing Vacancies and Homeownership CPS/HVS [Data File]. Retrieved from <https://www.census.gov/housing/hvs/data/rates.html>.