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Case-Shiller: Home Prices Rise But Growth Rate Slowed

Positive Outlook Still Intact But Muted by Foreclosures & Wage Growth

December 18, 2012 by William L. Pittenger, MAI, SRA

The Case-Shiller national composite home price index, which covers all nine U.S. census regions, increased 3.6% in the third quarter of 2012 as compared to the same period in 2011. That is the strongest growth rate in over six years. It is also the sixth consecutive month of rising prices. Over the quarter (Q2 to Q3), the national index increased 2.2% after having risen 7.1% from the first quarter to the second. The 10 and 20 city indices also rose 2.1% and 3.0% respectively. Eighteen of the 20 cities covered in the composite 20 index saw annual price increases. Phoenix, which was one of the hardest hit major cities in the housing bust, soared back and is leading the recovery with a 20.4% annual growth rate. Miami, which was also hard hit experienced 7.4% annual growth in September while Tampa saw 5.9% growth and Las Vegas experienced a 3.8% rise. In the loss column were New York at –2.3% and Chicago at –1.5%. Both metros were negative month over month as well. Atlanta has been languishing with 26 months of annualized decline but it broke that string with fractional growth of 0.1% in September. The national composite index shows prices back at their mid 2003 levels.

Looking behind the numbers, price gains are both slowing but are becoming more geographically diverse. On a quarterly basis, the gains in the third quarter were only about half of what they were in the second. Nevertheless, appreciation was more diverse as prices increased in 111 of the 134 metropolitan areas covered by the national composite. Prices increased in all but two of the nine census regions. Gains ranged from a paltry 0.5% in the Mid-Atlantic Region to a stunning 21% in the Mountain Region. This recent string of increases supports our view that the housing market has bottomed. The volatility, however, supports our additional view that prices are still likely to fluctuate within a fairly narrow range and that there is still a high probability of modest but short lived price declines.

Foreclosures are improving significantly but are still casting a dark cloud over the housing market. According to RealtyTrac, foreclosure activity decreased three-percent month over month in November. Foreclosures are down a very significant 19% year over year. The decline in overall foreclosure activity was led by a 9.6% decline in pre-foreclosure filings. In fact, November marked a 71 month low in pre-foreclosure activity. Scheduled foreclosure auctions also fell 7.7% from the previous month and are now about 26% fewer than they were a year ago.

On the flip side, bank repossessions rose 10.6% between October and November and are now about 5.3% higher than a year ago. November marked the first increase in more than two years. Mortgage servicers are working through what is still a backlog of distressed properties and processing delays. As these homes move to bank REO (real estate owned), they are likely to renew the downward pressure on home prices. The recent uptick in repossessions implies that there may be modest near term price declines however they are likely to be very short lived as new foreclosure activity is declining.

Overall, housing is benefiting from both tightening inventories and fewer distressed properties coming to market in many parts of the country irrespective of the very recent uptick in repossessions. In general, housing is quickly moving from being a drag on the broader economy to contributing positively. While prices are rising and are clearly off their bottom, they are still climbing out of a very deep hole. Nationally, prices are still about 30% below their 2006 peak. Some of the hardest hit geographies are still in a hole twice as deep where peak to trough declines were 50-65%. Much of the house price appreciation between 2002 and 2006 was artificial and clearly not true demand as it was not backed by consumer income levels or real purchasing power. As history has so painfully revealed, the growth was not sustainable. Given relatively high structural unemployment combined with stagnant wage growth, it remains our view that house price growth will be steady but moderate and at a level consistent with income growth in the community.

S & P Case-Shiller Indices

The Case-Shiller Indices are perhaps the most widely followed U.S. housing price trend indices largely because they are based on repeat sales over a lengthy period of time. The indices include a national index covering all nine census regions as well as 10 and 20 city indices. The numbers in parentheses below are the annualized change rates as of September 2012.

National Composite (+3.6%)
Composite 10 Index (+2.1%)

Greater Boston
Chicago Metro
Denver Metro
Las Vegas Metro
Greater Los Angeles
South Florida Metro
New York Metro
San Diego
San Francisco
Washington Metro

Composite 20 Index (+3.0%)

Phoenix Metro (+20.4%)
Greater Los Angeles (+4.0%)
San Diego (+4.1%)
San Francisco (+7.5%)
Denver Metro (+6.7%)
Washington Metro (+3.2%)
South Florida Metro-Miami (+7.4%)
Tampa Bay Metro (5.9%)
Atlanta Metro (+0.1%)
Chicago Metro (-1.5%)
Greater Boston (+1.9%)
Detroit Metro (+7.6%)
Minneapolis St. Paul (+8.8%)
Charlotte Metro (+3.5%)
Las Vegas Metro (+3.8%)
New York Metro (-2.3%)
Greater Cleveland (+1.4%)
Portland (OR) Metro (+3.7%)
Dallas Ft. Worth Metro (+4.4%)
Seattle Metro (+4.8%)

Cities shown in bold type are also on the Composite 10 Index.

The author is Senior Director, Economic and Consulting Services at Focus Valuation Advisors in Orlando, Florida. Contact Mr. Pittenger at Bill.pittenger@focusvaluation.net

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