

Housing Market Overview

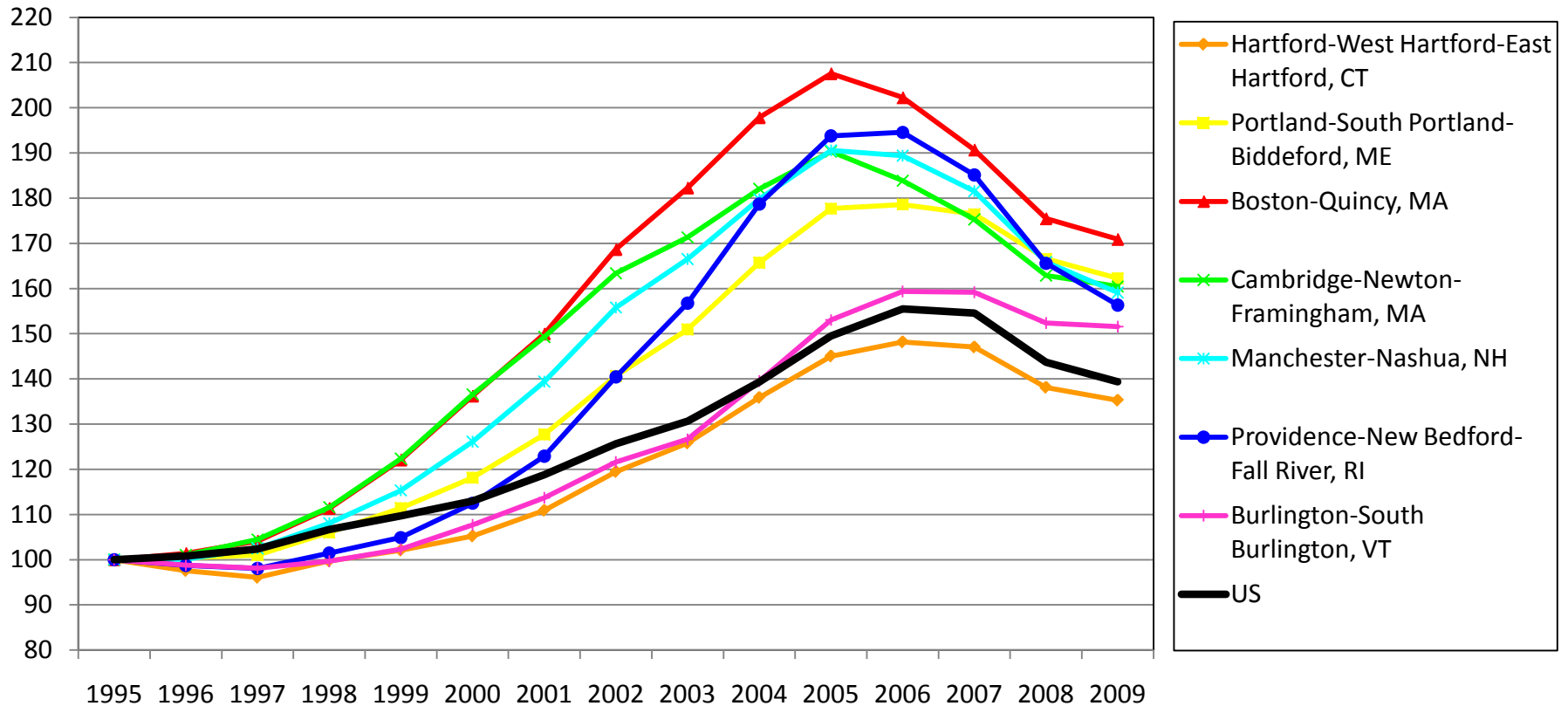


Alicia C. Sasser
Senior Economist
New England Public Policy Center
Federal Reserve Bank of Boston

Presented at:
“Understanding the Housing Collapse:
What is to Blame and What Can Be Done?”
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Between 1995 and 2005, house prices in many New England metro areas rose faster than the U.S., doubling in Boston.

**New England Metropolitan Areas:
Growth in Real Single-Family House Prices, 1995-2009**

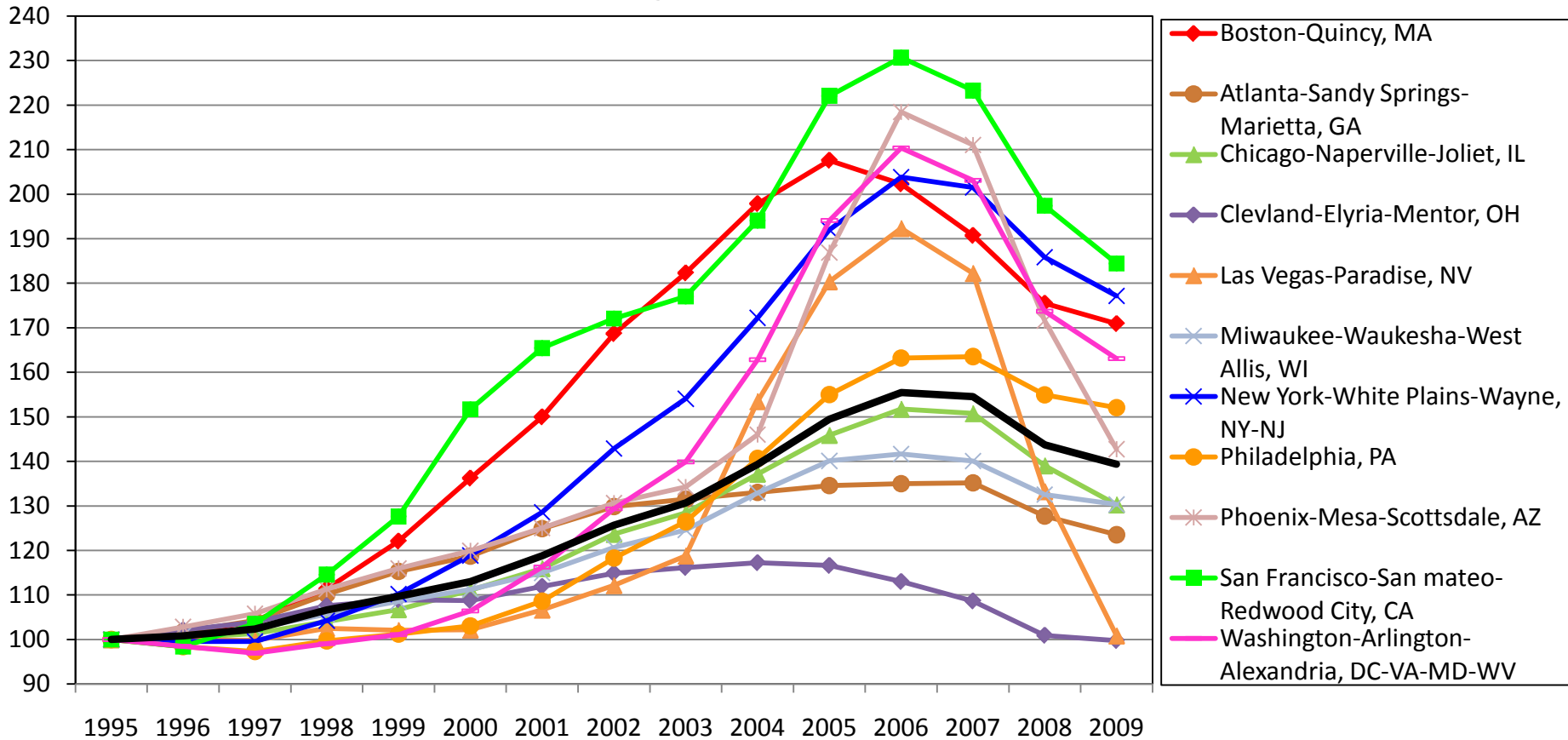


Source: Authors' calculations based on the house price index calculated by Federal Housing Finance Agency (FHFA).

Notes: Adjusted for inflation using the Consumer Price Index, excluding shelter.

Although the boom in house prices affected most regions, there was significant variation across cities.

**Boston and Selected Metropolitan Areas:
Growth in Real Single-Family House Prices, 1995-2009**



Source: Authors' calculations based on the house price index calculated by Federal Housing Finance Agency (FHFA).

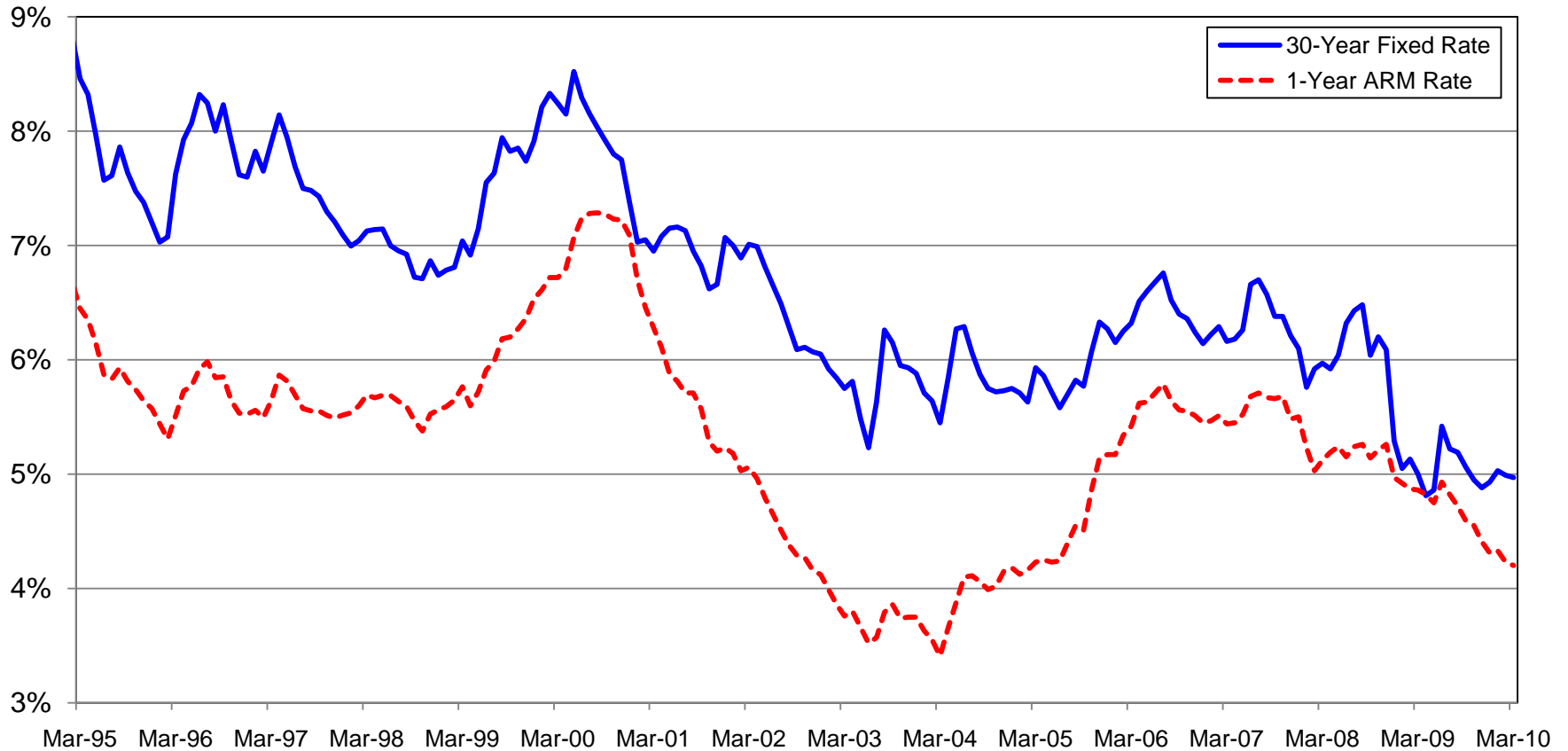
Notes: Adjusted for inflation using the Consumer Price Index, excluding shelter.

Why did house prices increase so rapidly?

- Artificially low interest rates
- Bad lending
- Irrational expectations about future house prices

Mortgage rates fell, but was the decline large enough to spur such a rapid increase in prices?

Mortgage Interest Rates
March 1995 - March 2010

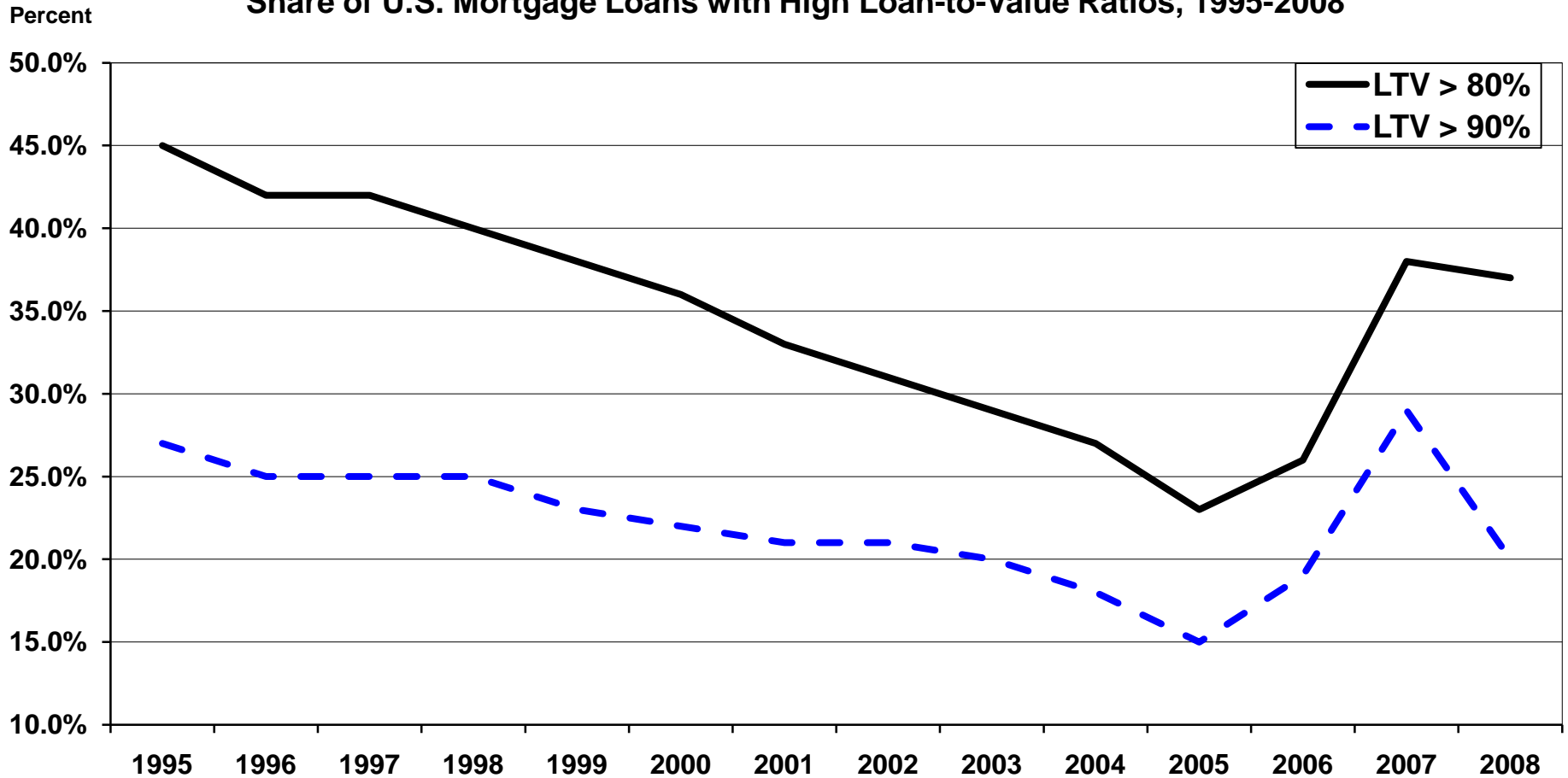


Source: Freddie Mac.

Note: ARM refers to adjustable rate mortgage.

If bad lending was so pervasive, then why was the share of mortgages with high loan-to-value ratios falling?

Share of U.S. Mortgage Loans with High Loan-to-Value Ratios, 1995-2008



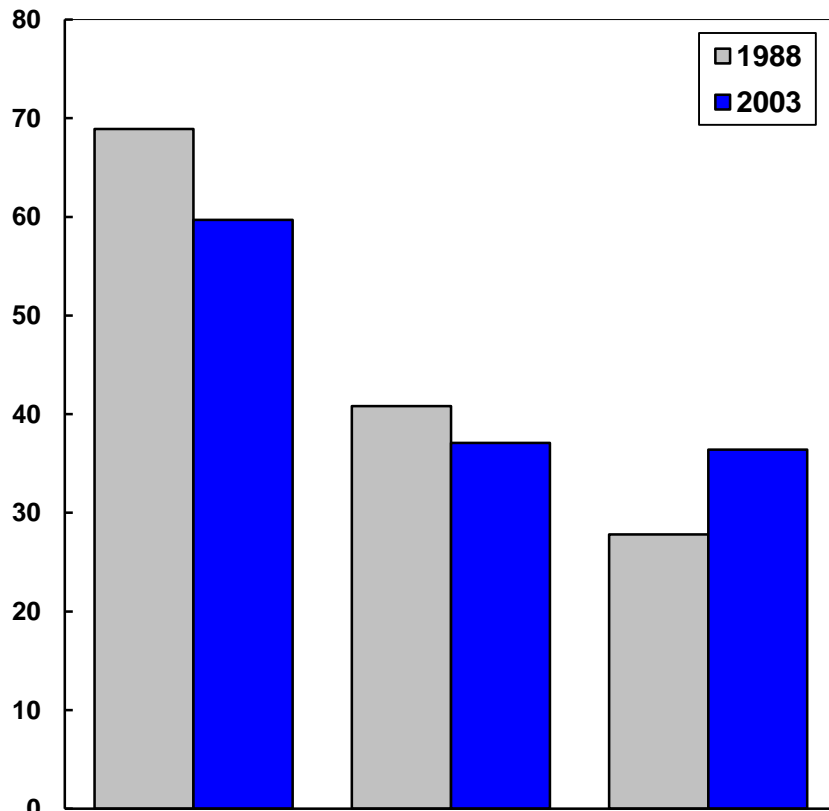
Source: Federal Housing Finance Agency.

Note: These data are based on mortgage loans used to purchase single-family, non-farm homes. Loans used to refinance houses are excluded.

Were buyers' expectations about future prices irrational?

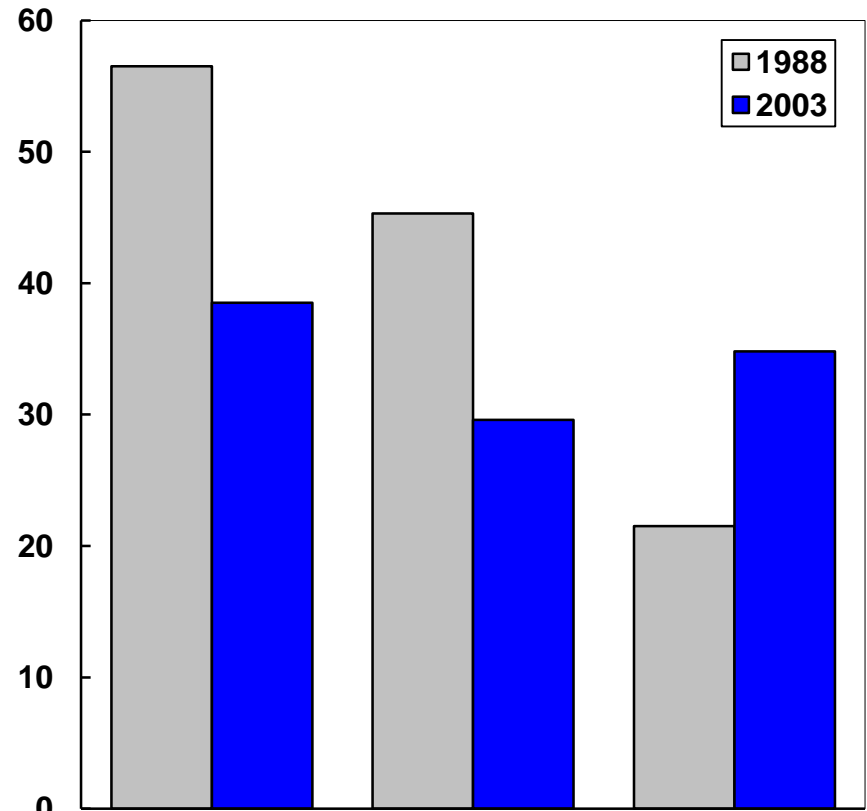
Sense of Excitement

"Housing prices are booming. Unless I buy now, I won't be able to afford a home later."



Answered: "Agree"

"There has been a good deal of excitement surrounding recent housing price changes. I sometimes think that I may have been influenced by it."

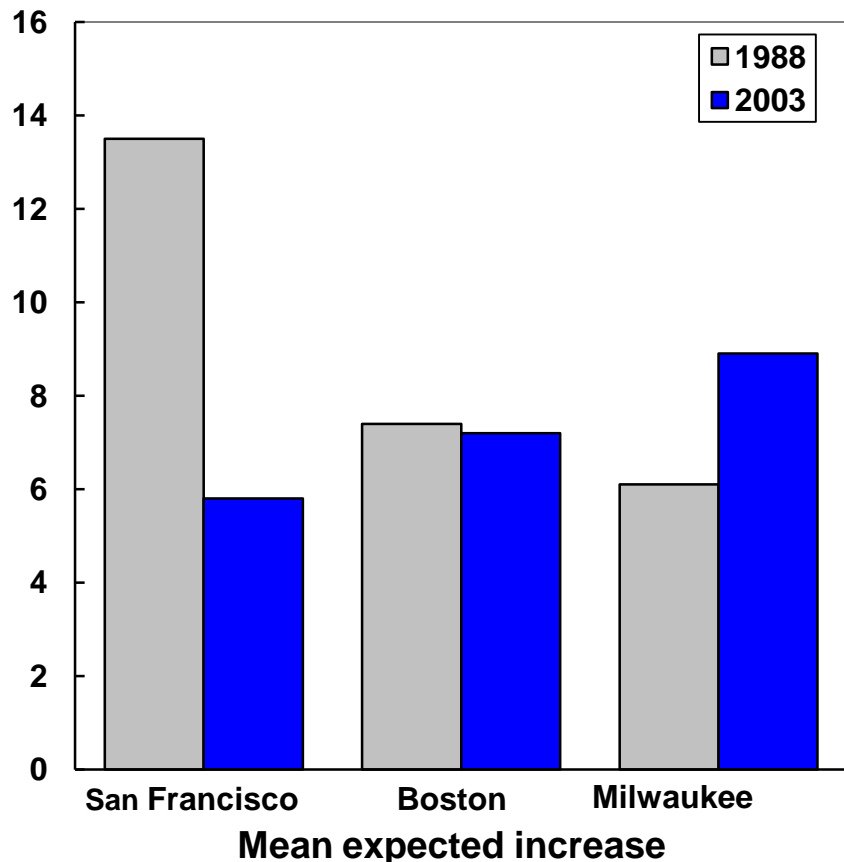


Answered: "Yes"

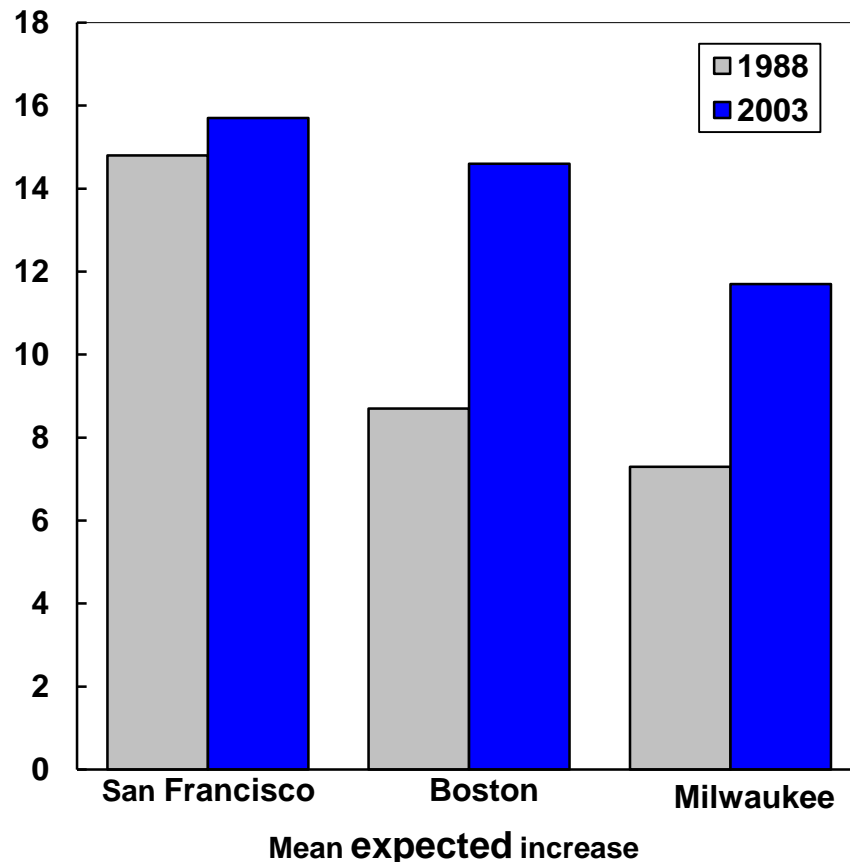
Long-term expectations reveal that people believed prices would continue to rise indefinitely at a rapid pace.

Mean Price Expectations

“How much of a change do you expect there to be in the value of your home over the next 12 months?”

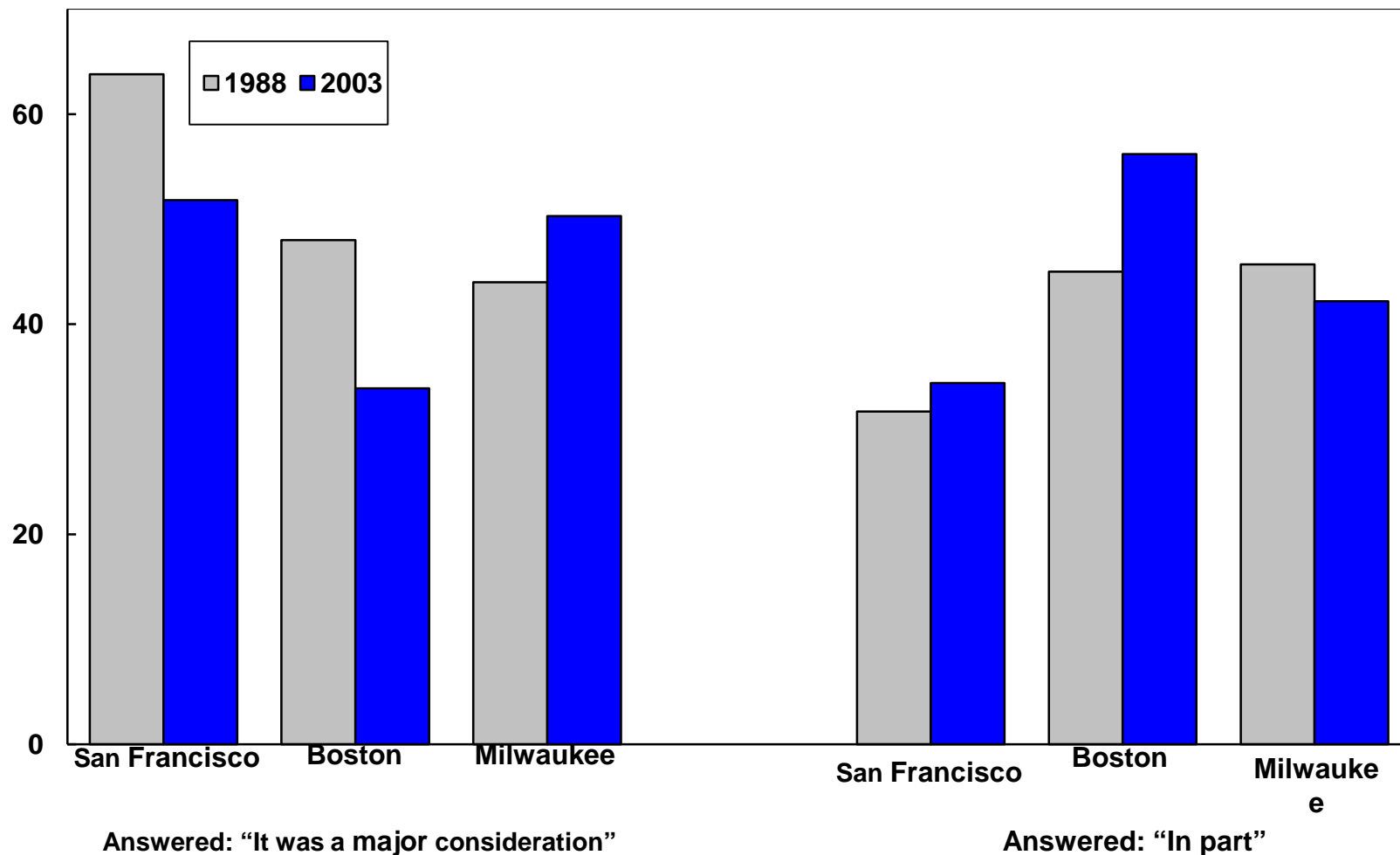


“On average over the next 10 years, how much do you expect the value of your property to change?”



About three-quarters of buyers said they bought their homes as an investment in all or in part with only "some risk" involved.

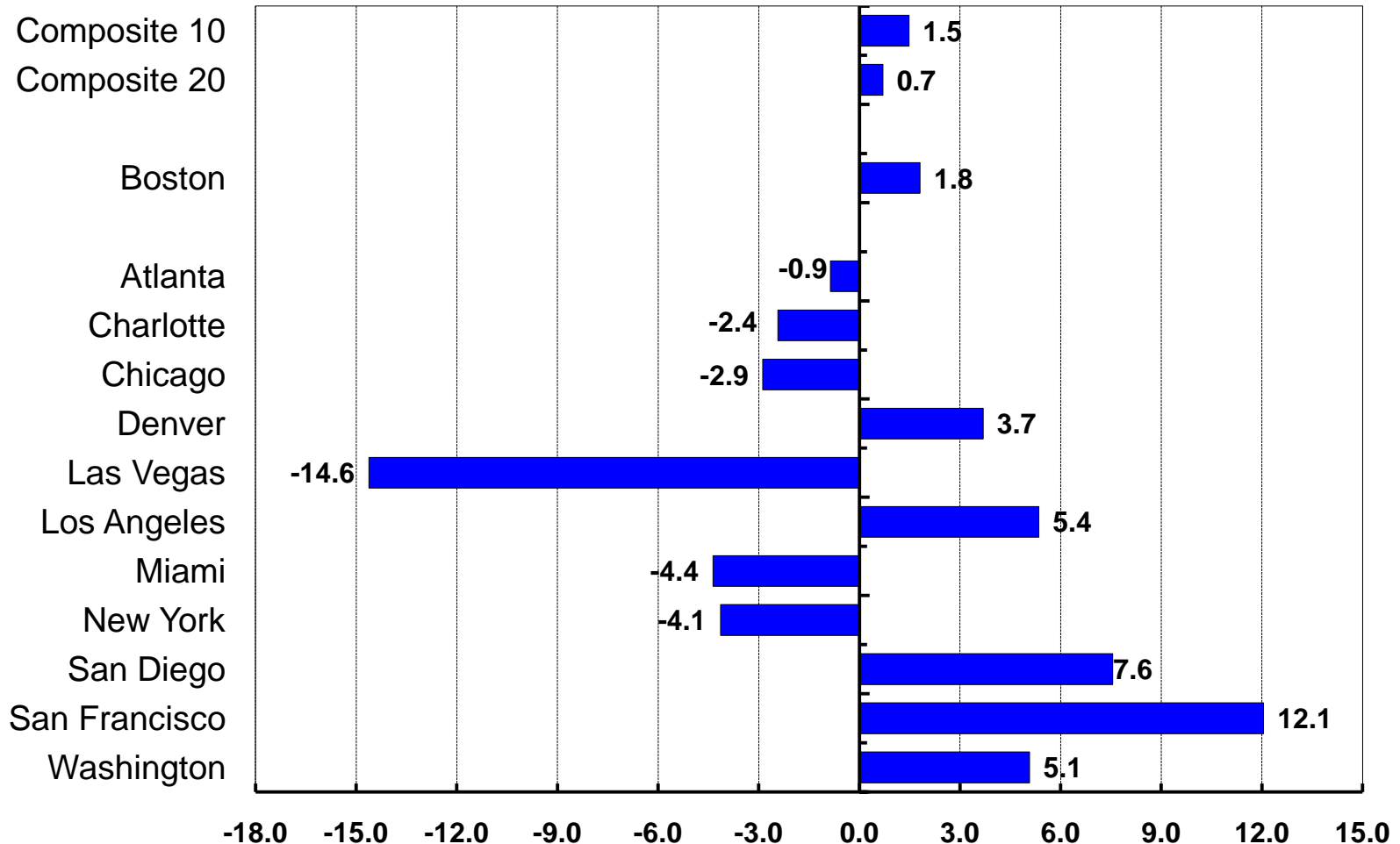
"In deciding to buy your property, did you think of the purchase as an investment?"



Recently we have begun to see some tentative signs of improvement in housing market conditions in some metro areas.

Metro Area Home Price Changes (S&P Case Shiller)

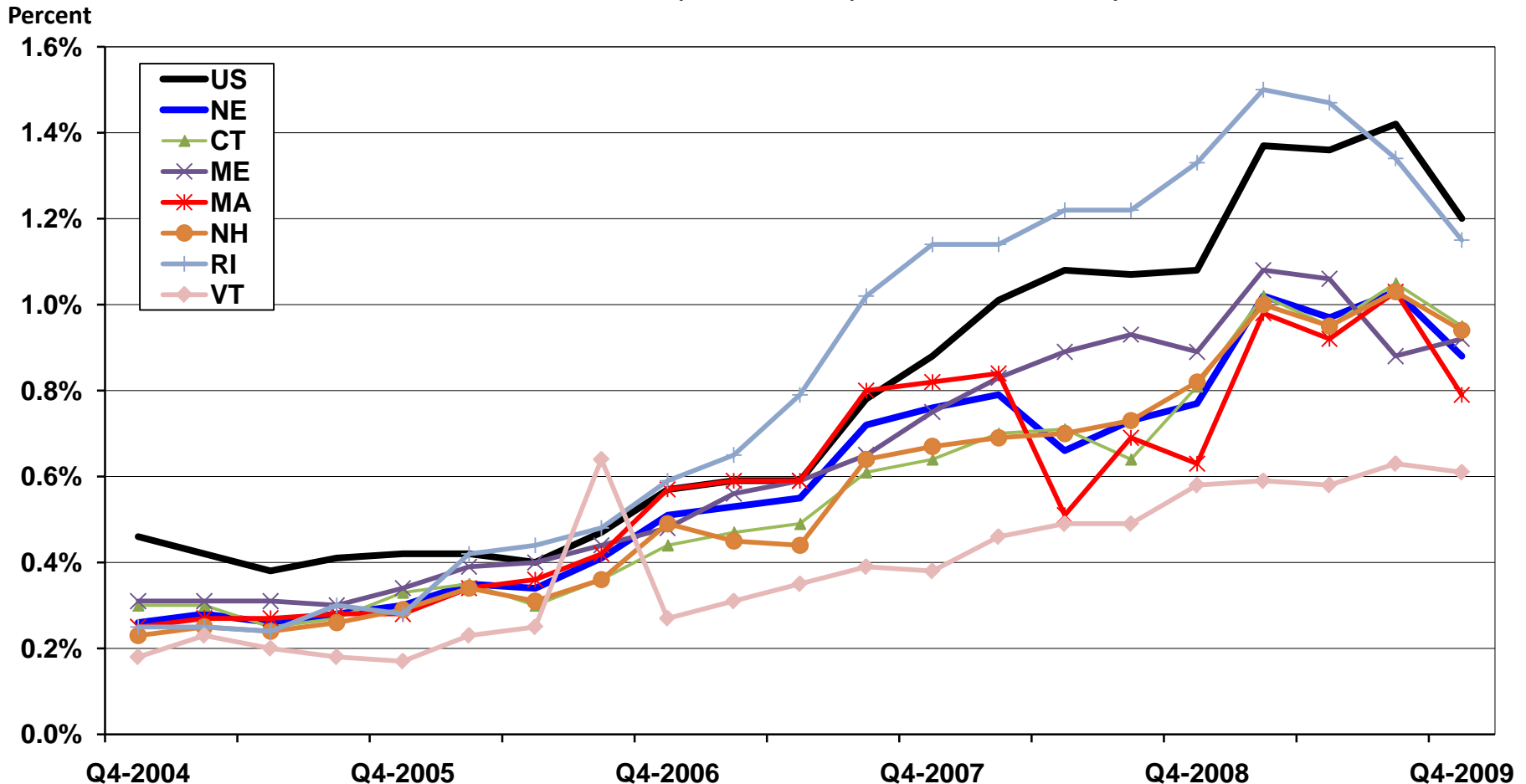
Percent Change, February 2009 – February 2010



Although most New England states have fared better than the nation during the foreclosure crisis, there is little optimism yet.

Foreclosures Started, All Loans

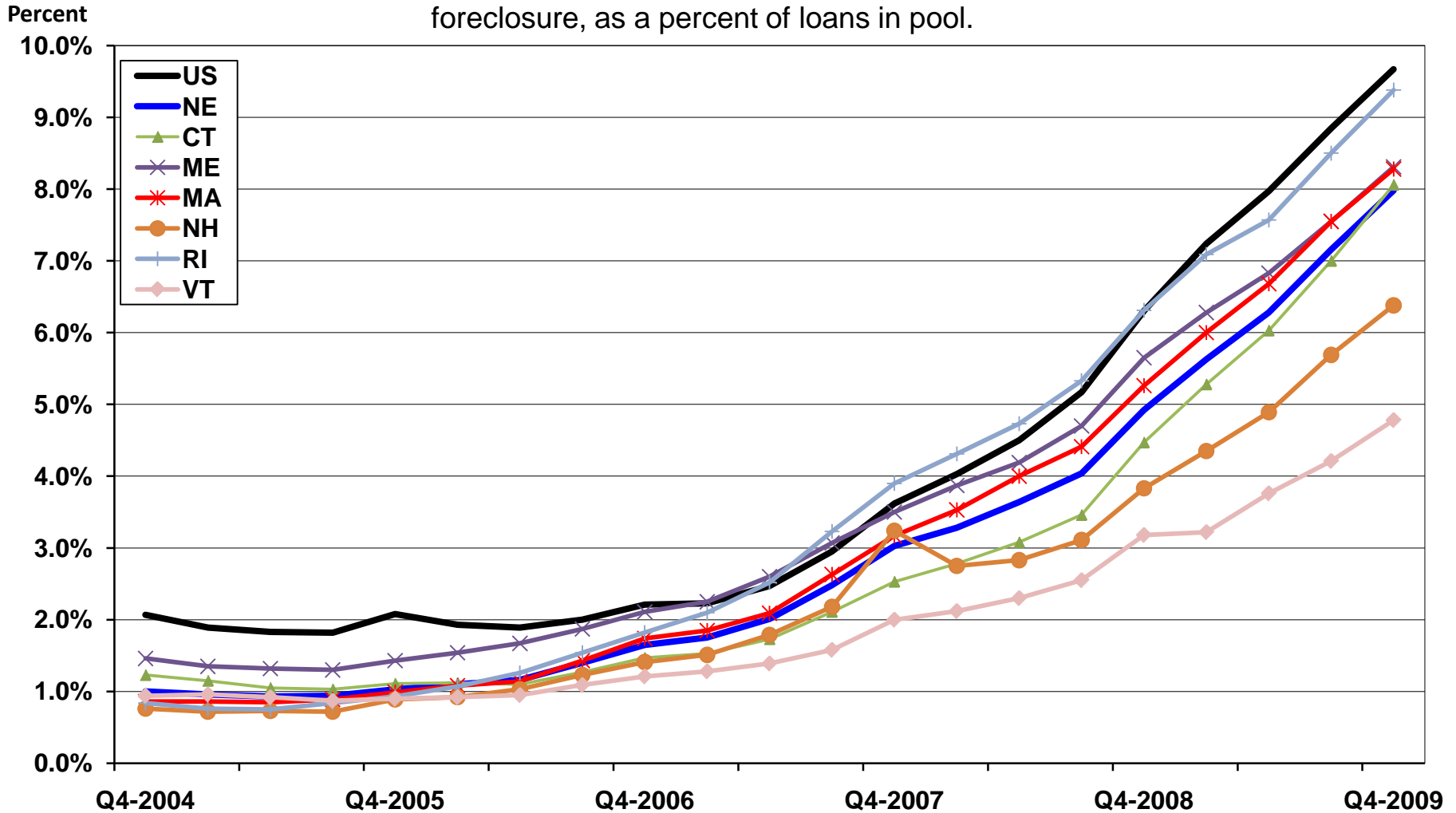
Foreclosures initiated in quarter, as a percent of loans in pool



The upward trend in seriously delinquent mortgages echoes this concern and is likely to further dampen home prices.

Seriously Delinquent Mortgages

Mortgages with payments 90 days past due plus inventory of mortgages in foreclosure, as a percent of loans in pool.



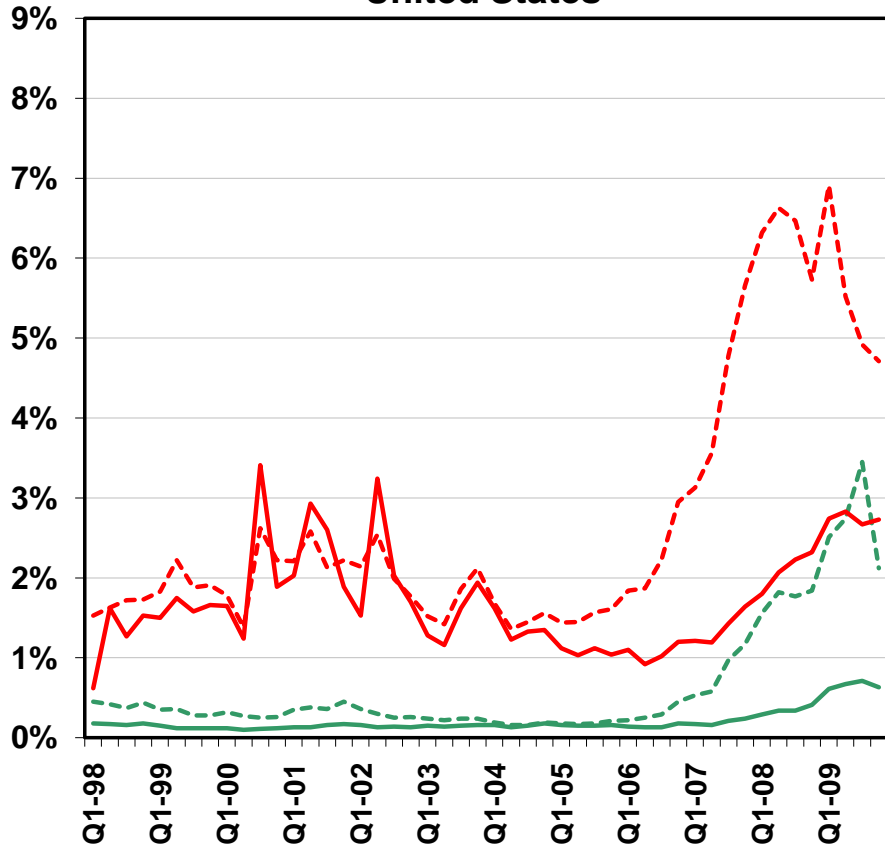
Source: Mortgage Bankers Association / Haver Analytics

The foreclosure crisis is no longer contained to sub-prime loans.

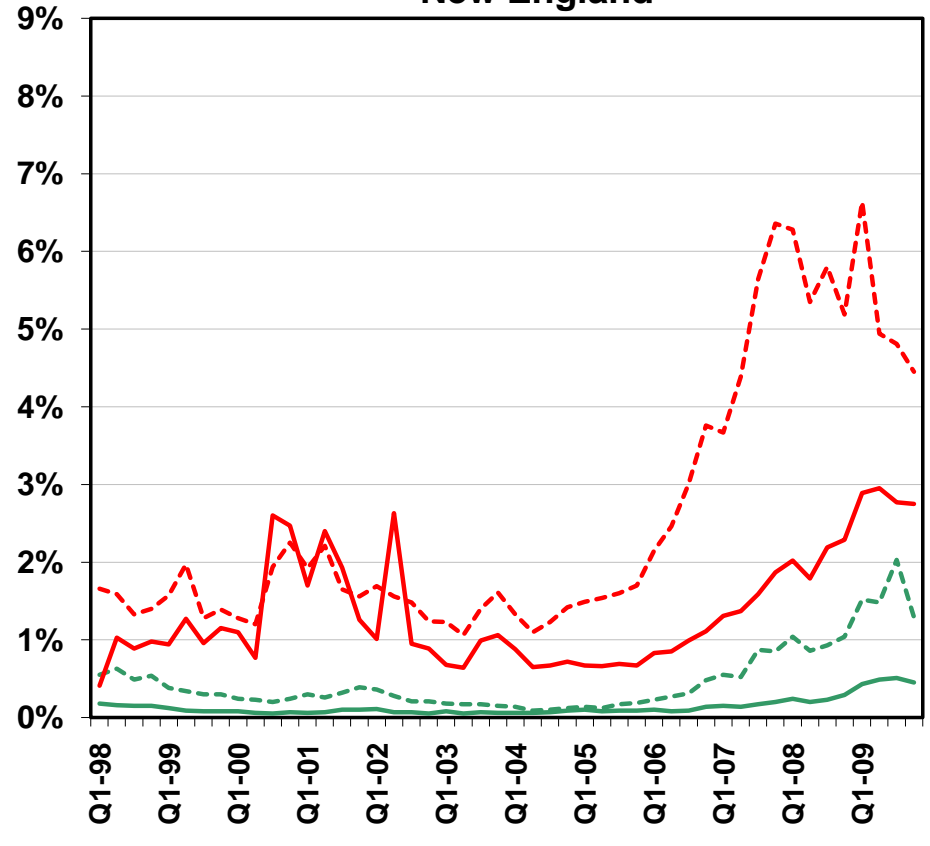
Foreclosure Started by Type of Loan

Foreclosures initiated in quarter, as a percent of loans in pool

United States



New England

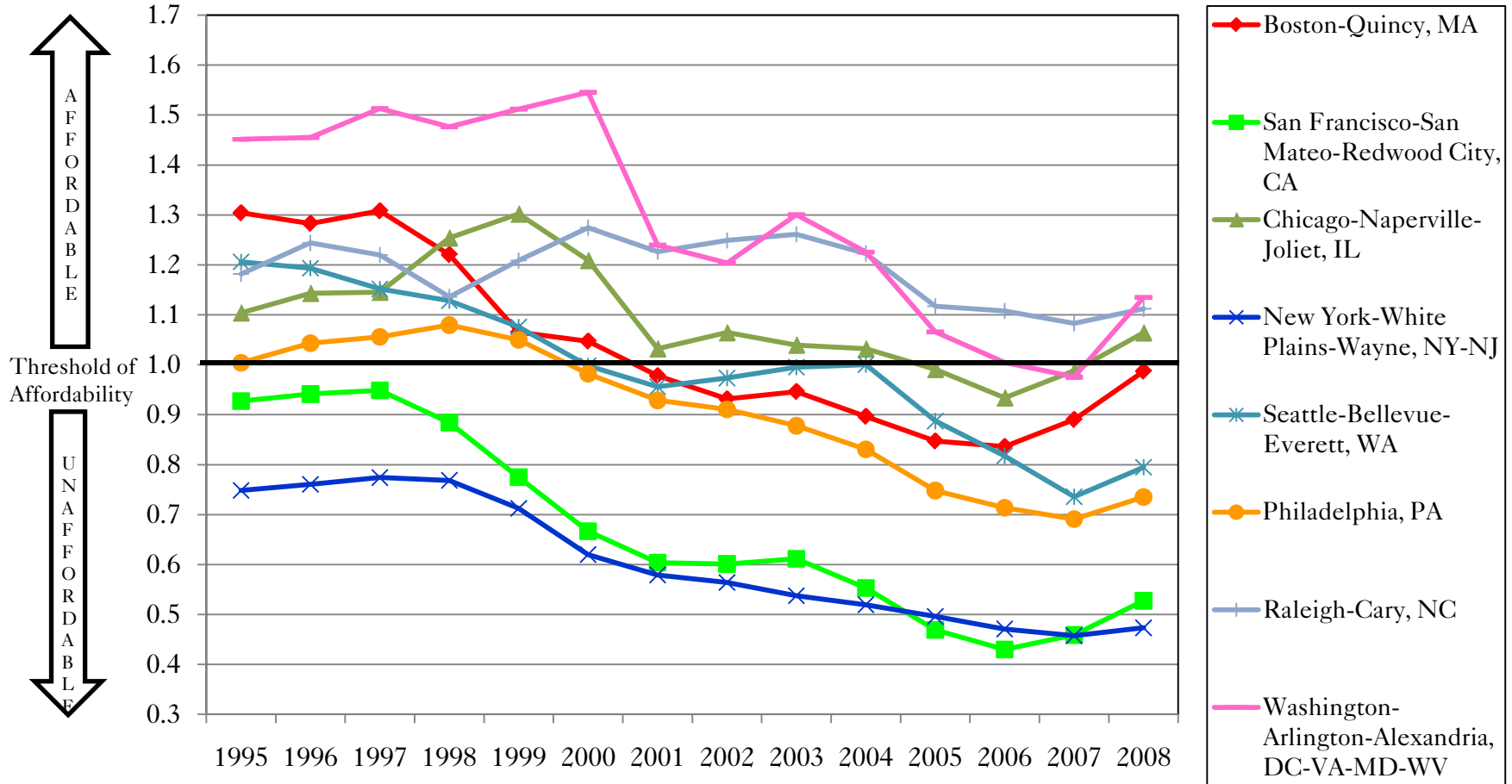


— Prime Fixed - - - Prime Adjustable — Subprime Fixed - - - Subprime Adjustable

Housing affordability has improved in New England, but homes are still less affordable than metro areas in some regions.

Housing Affordability

Ratio of Real Annual Household Income to Real Annual Income Needed to Purchase the Median-Priced House
"Middle-Income" Households

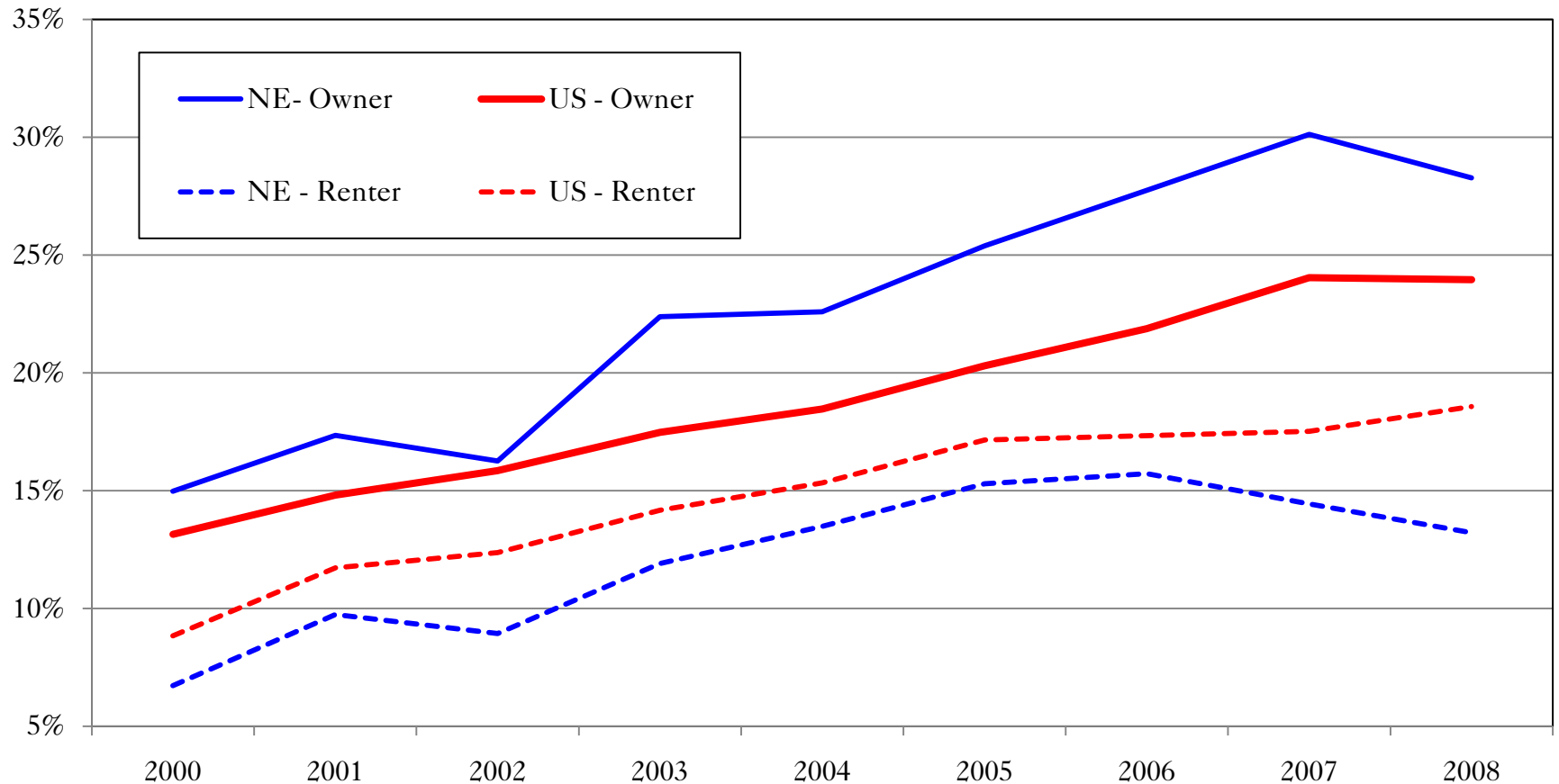


Source: Clifford, Robert, (2010) "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures," Federal Reserve Bank of Boston, NEPPC Discussion Paper 10-1,

Although home prices have fallen, many households are too cost-burdened to be able to take advantage of the situation.

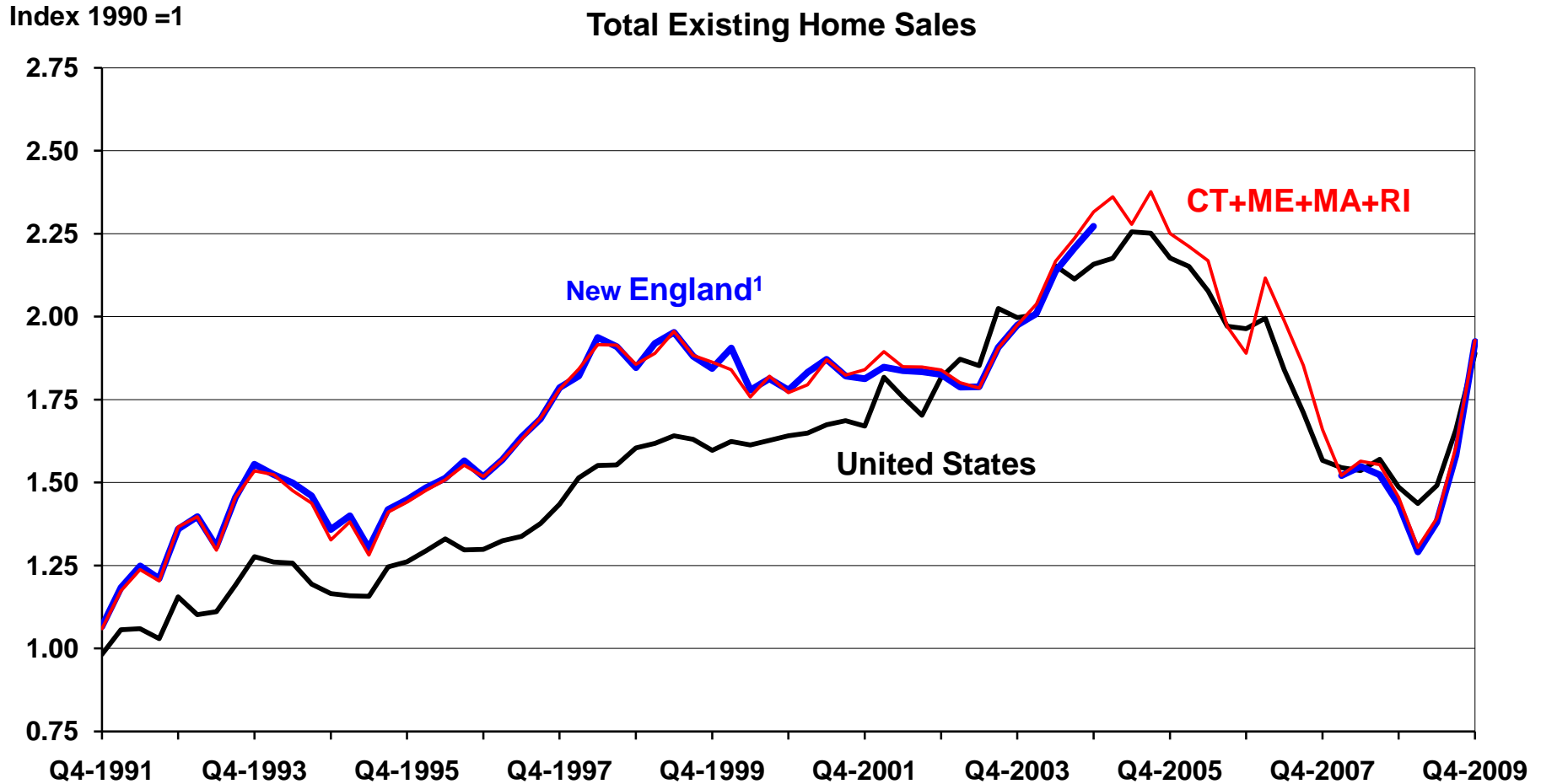
Housing Burden

Percentage of "Middle-Income" Households Experiencing Moderate or Severe Housing Burden



Source: Clifford, Robert, (2010) "The Housing Bust and Housing Affordability in New England: An Update of Housing Affordability Measures," Federal Reserve Bank of Boston, NEPPC Discussion Paper 10-1,

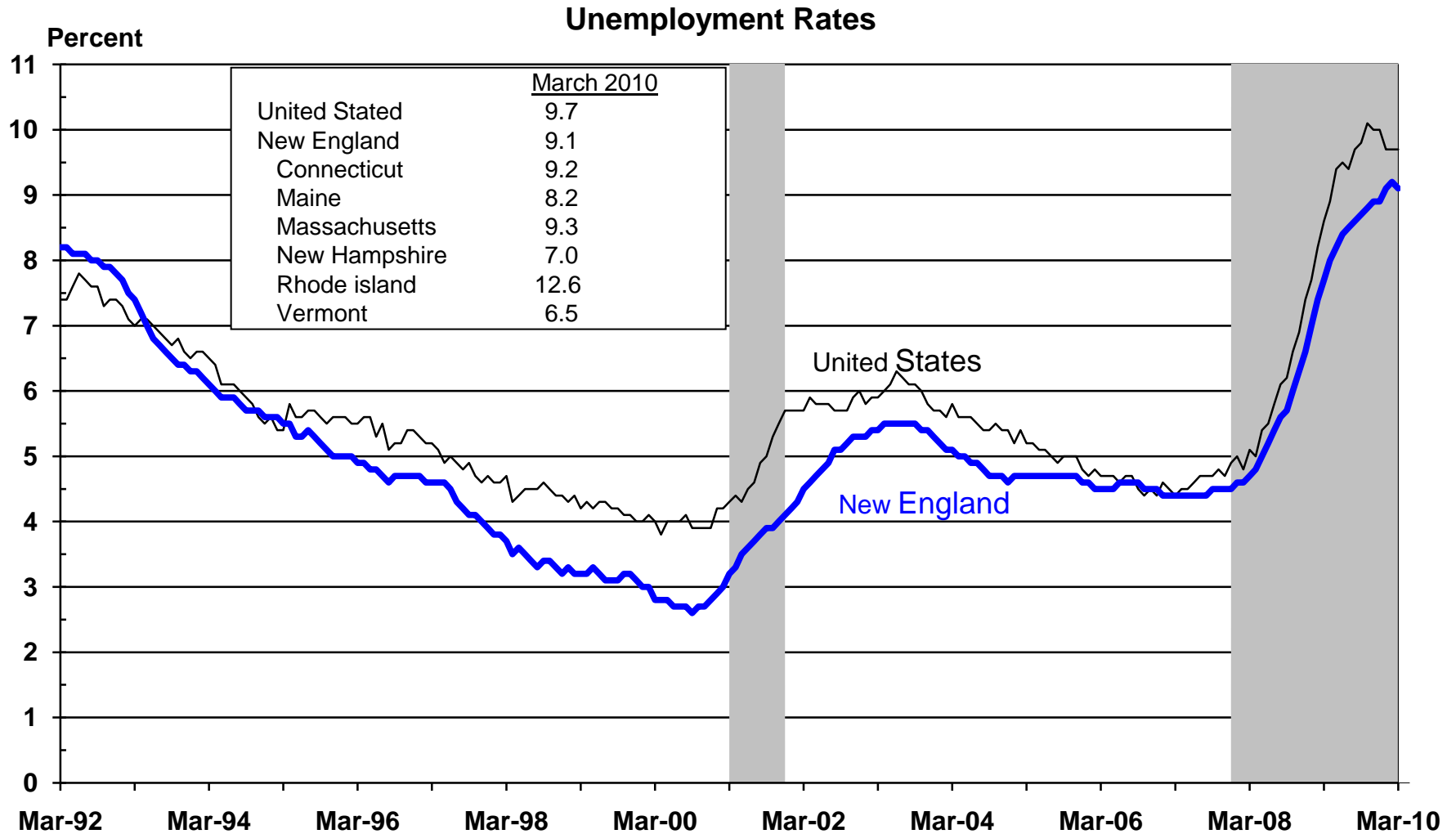
As of 2009 Q4, existing home sales are up, although this level may not be sustainable in the absence of the homebuyer tax credit.



Source: National Association of Realtors

1. Data for New England are not available for some quarters (New Hampshire and/or Vermont data are missing).

The labor market continues to lag behind other economic activity further straining household resources.



Source: U.S. Bureau of Labor Statistics

Note: Data beginning January 1994 reflect the redesigned CPS survey and are not strictly comparable to data for 1993 and earlier year. Shaded bars are recessions. Rates are seasonally adjusted.