

Home Prices - When You're Down, You're Down

Foresight Analytics has released its “de-smoothed” version¹ of OFHEO’s paired-sales home price index. Results for the 100 largest metro areas highlight important differences across markets.

- Markets in California and Florida — especially Central and Southern California, and West Coast and Southern Florida — have been hit the hardest by the housing downturn, registering cumulative declines from their peaks of 20% or more.
- In many of the weakest markets, the drop in the first quarter of 2008 was particularly sharp. Stockton, Bakersfield, Las Vegas, Riverside and Sarasota suffered the most severe declines in 1Q 2008, ranging from -9% to -11%.
- About three-quarters of the nation’s markets have shown a price decline as of 1Q 2008, but some markets are still posting price increases. Among the top markets are areas such as Austin, Houston and Dallas in Texas, and Charlotte and Raleigh in North Carolina.
- Across the nation, nearly 20% of markets fall into what we would term “severe” (more than 20%) or “significant” (10% to 20%) declines. Another roughly 25% of markets fall into the “moderate” (2.5% to 10%) price decline category. A little over 30% of markets are in the “slight” (0 to 2.5%) decline category. And a final 25% of markets have prices that are still rising.
- There are significant differences by geography. In Nevada, California and Florida, most markets are experiencing “severe” declines. Arizona has a majority of markets with “significant” declines. But markets in Texas and North Carolina, for example, are either still experiencing price gains or slight price declines.
- Steep home price declines have occurred before — in the Early-1980s and the Late-1980s / Early-1990s — but one feature that distinguishes the current cycle from those cycles is the synchronization of the declines across markets. At the depths of the previous downturns (in 1Q 1984 and 1Q 1993, respectively), approximately one-half of U.S. markets were in decline, as compared to three-quarters of markets currently.
- The current downturn may also prove to be of a longer duration than previous downturns. The Early-1980s decline was severe in many markets, but relatively

¹ See page 3 for more information about our de-smoothed home price index.

Hardest Hit Markets Cumulative Change from Peak to 1Q 2008 (From the 100 Largest Markets)

Metro Area	Cumulative Price Change	Date of Peak
Stockton, CA	-38.6%	2005 Q4
Sarasota, FL	-32.5%	2006 Q1
Sacramento, CA	-28.5%	2005 Q4
Bakersfield, CA	-26.6%	2006 Q1
West Palm Beach, FL	-26.1%	2006 Q1
Fresno, CA	-24.8%	2006 Q1
Riverside-S.B., CA	-24.2%	2006 Q2
Ventura, CA	-24.1%	2006 Q1
Fort Lauderdale, FL	-22.8%	2006 Q1
Orange County, CA	-22.4%	2006 Q1

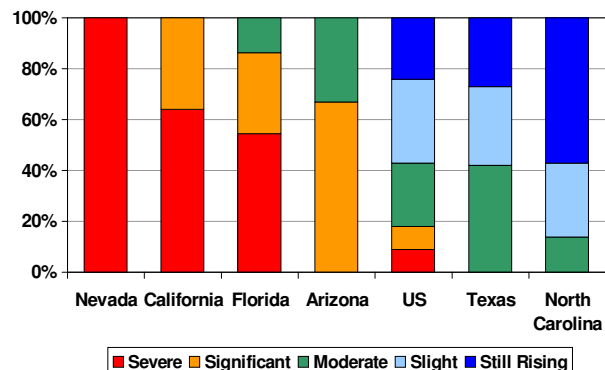
Sources: OFHEO, Foresight Analytics

Rising Markets Cumulative Change from 1Q 2006 (From the 100 Largest Markets)

Metro Area	Cumulative Price Change	Change in 1Q 2008
Austin, TX	19.9%	2.2%
Charlotte, NC	15.1%	1.0%
Greenville, SC	12.2%	1.6%
Raleigh-Cary, NC	11.7%	0.2%
Houston, TX	10.4%	0.9%
Knoxville, TN	10.4%	0.1%
Nashville, TN	10.0%	0.1%
Wichita, KS	9.9%	0.2%
Columbia, SC	8.5%	1.8%
Dallas, TX	7.2%	1.1%

Sources: OFHEO, Foresight Analytics

Home Price Declines Since Peak
Proportion of States' Markets



Sources: OFHEO, Foresight Analytics

**Cumulative Change from Peak to 1Q 2008
100 Largest Markets**

Metro Area	Cumulative Price Change	Metro Area	Cumulative Price Change
Stockton, CA	-38.6%	Camden, NJ	-2.5%
Sarasota, FL	-32.5%	Little Rock, AR	-2.5%
Sacramento, CA	-28.5%	Seattle, WA	-2.2%
Bakersfield, CA	-26.6%	Honolulu, HI	-2.2%
West Palm Beach, FL	-26.1%	Hartford, CT	-2.1%
Fresno, CA	-24.8%	Charleston, SC	-1.8%
Riverside-S.B., CA	-24.2%	Portland, OR	-1.8%
Ventura, CA	-24.1%	Chicago, IL	-1.7%
Fort Lauderdale, FL	-22.8%	Springfield, MA	-1.4%
Orange County, CA	-22.4%	Norfolk, VA	-1.4%
Las Vegas, NV	-21.5%	Oklahoma City, OK	-1.4%
Oakland-East Bay, CA	-21.5%	Richmond, VA	-1.4%
San Diego, CA	-19.8%	Colorado Springs, CO	-1.2%
Phoenix, AZ	-18.6%	Lake County, IL	-1.2%
Tampa, FL	-18.0%	El Paso, TX	-0.9%
Los Angeles, CA	-17.4%	Albuquerque, NM	-0.8%
Orlando, FL	-17.1%	Baton Rouge, LA	-0.7%
Detroit, MI	-13.8%	Fort Worth, TX	-0.6%
Warren, MI	-12.7%	Kansas City, MO-KS	-0.6%
Miami, FL	-12.7%	Atlanta, GA	-0.5%
Washington DC	-12.0%	St. Louis, MO-IL	-0.5%
San Jose, CA	-11.3%	Syracuse, NY	-0.4%
Bethesda, MD	-10.4%	Rochester, NY	-0.4%
San Francisco, CA	-10.3%	Albany, NY	-0.3%
Tucson, AZ	-10.0%	Philadelphia, PA	-0.2%
Worcester, MA	-7.7%	Denver-Aurora, CO	-0.1%
Jacksonville, FL	-7.6%	Tulsa, OK	-0.1%
Providence, RI	-7.5%	Cincinnati, OH	-0.1%
Edison, NJ	-7.1%	Gary, IN	*
Boston, MA	-6.8%	Nashville, TN	*
Cambridge, MA	-6.3%	Knoxville, TN	*
Nassau-Suffolk, NY	-5.8%	Raleigh-Cary, NC	*
Poughkeepsie, NY	-5.0%	Wichita, KS	*
Bridgeport, CT	-5.0%	Greensboro, NC	*
New Orleans, LA	-4.0%	Milwaukee, WI	*
Minneapolis, MN	-3.9%	Dayton, OH	*
Cleveland, OH	-3.9%	Louisville, KY-IN	*
McAllen, TX	-3.6%	Houston, TX	*
Newark, NJ	-3.6%	Indianapolis, IN	*
Akron, OH	-3.2%	Charlotte, NC	*
Grand Rapids, MI	-3.2%	Columbus, OH	*
New York, NY	-3.2%	Memphis, TN	*
San Antonio, TX	-3.1%	Omaha, NE	*
Allentown, PA	-3.0%	Dallas, TX	*
Toledo, OH	-3.0%	Greenville, SC	*
Baltimore, MD	-2.9%	Columbia, SC	*
New Haven, CT	-2.9%	Birmingham, AL	*
Salt Lake City, UT	-2.8%	Pittsburgh, PA	*
Tacoma, WA	-2.8%	Austin, TX	*
Wilmington, DE	-2.7%	Buffalo, NY	*

* Market has not yet peaked.

Sources: OFHEO, Foresight Analytics

short-lived, with a median duration of a year. The Early-1990s was generally not as severe, but lasted longer: the median duration of a downturn was one and one-quarter years. The median age of the current downturn is one year, though we note that the housing market has not yet begun a recovery.

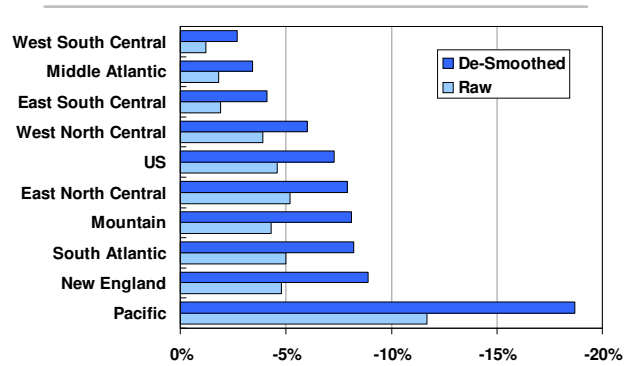
About the “De-smoothed” Index

Our de-smoothed index is based on OFHEO’s HPI,² which is a paired-sales home price index. While the OFHEO HPI enjoys the advantages of having a long timeseries and availability of data for a wide array of metro areas, the HPI has seemed to lag behind actual changes in housing market conditions. We have employed a de-smoothing technique similar to those developed for addressing smoothing in commercial real estate measures, such as NCREIF returns.³

The result is an index that we believe better captures market conditions.

- The de-smoothed index shows a steeper rise and subsequent drop for the boom-bust markets. It also generally shows an earlier peak for these markets, about 2 quarters earlier than the raw index would show.
- The de-smoothing has a much smaller impact on stable markets (either steady growth or flat prices).
- At the national level, our de-smoothed index indicates an extra 2.7% decline from the peak as compared to OFHEO’s index (see chart).
- At the regional level, the greatest differences are in the Pacific, New England, South Atlantic and Mountain areas, with extra declines from the peak of 7.1%, 4.1%, 3.2% and 3.8% respectively.
- In terms of timing the peak, the de-smoothed index indicates a much earlier peak in the Pacific: 2Q 2006 as compared to 2Q 2007 for the raw index.

Home Price Changes
Peak – 1Q 2008, Purchase-Only



Sources: OFHEO, Foresight Analytics

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² For more information on OFHEO’s HPI home price index, visit the OFHEO website: <http://www.ofheo.gov/hpi.aspx> . Freddie Mac produces a similar paired-sales index. More information on Freddie Mac’s index is available at: <http://www.freddiemac.com/finance/cmhpi/>

³ See, for example, Appendix 1 in “The Role of Uncertainty in Investment,” by Holland and Riddiough: <http://web.mit.edu/CRE/research/papers/wp78riddio.pdf>