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CoreLogic: Home Price Surge is Different this Time

CoreLogic, in a recent article on its blog, celebrated, if that's the word, the 10th anniversary of the housing bubble. Principal Economists David Stiff said that the CoreLogic Case-Shiller Home Price Index reached its peak in July 2006. And the beginning of the end. Over the next six years the index **dropped 27 percent** and still remains down 4 percent from its "peak nominal value." (He notes that, in inflation-adjusted terms, the March national Case-Shiller index was down18 percent from its peak value.)

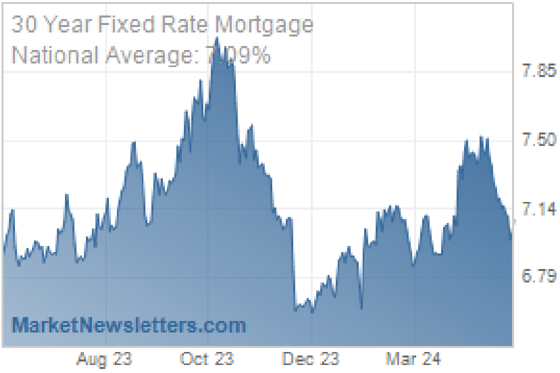
Stiff says the recovery, while incomplete nationally may soon get there, likely hitting or surpassing those 2006 levels next spring or summer. Meanwhile, many local markets are back to pre-crisis prices and 40 percent of metro areas have set new price peaks. Another 30 percent are closing in, now within 10 percent of those old levels. In addition, both mortgage default rates and foreclosure inventories are at eight-year lows and about 2.5 million new jobs are being created each year.

Still, the results of the last housing market cash, which **devastated** the nation's financial system and took us into a severe recession, are not easily forgotten and Stiff says it is natural to be concerned as prices more toward new record highs. However, he feels we are not heading into another market crash simply because "the current run-up in prices is being driven almost entirely by fundamentals - solid job growth boosting housing demand and limits on supply as new home construction slowly drifts upward from record-low levels - and not by easy credit and investor frenzy."

He notes that the housing market leading to the bubble was **very different**. Job growth was strong in those years but much of it was driven directly or indirectly by real estate speculation. He cites California's Inland Empire as an example. Economic growth in the region, (which later suffered very high foreclosure rates) was driven by housing construction, real estate brokerage, mortgage finance, and housing related consumer purchases such as furniture and appliances.

"Think of it as a real estate **perpetual motion machine**," Stiff says, "in which housing became the proverbial tail wagging the economy." Perpetual motion is of course a myth and so reality and fundamentals eventually took hold. "Speculation morphed into fear, and the housing market and, to a lesser extent, the job market gave back nearly all of their bubble-era gains."

National Average Mortgage Rates



	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	7.09%	+0.07	0.00
15 Yr. Fixed	6.56%	+0.03	0.00
30 Yr. FHA	6.62%	+0.07	0.00
30 Yr. Jumbo	7.35%	+0.04	0.00
5/1 ARM	7.30%	+0.06	0.00
Freddie Mac			
30 Yr. Fixed	7.02%	-0.42	0.00
15 Yr. Fixed	6.28%	-0.48	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	7.08%	-0.10	0.63
15 Yr. Fixed	6.61%	+0.01	0.65
30 Yr. FHA	6.89%	-0.03	0.94
30 Yr. Jumbo	7.22%	-0.09	0.58
5/1 ARM	6.56%	-0.04	0.66

Rates as of: 5/17

Recent Housing Data

		Value	Change
Mortgage Apps	May 15	198.1	+0.51%
Building Permits	Mar	1.46M	-3.95%
Housing Starts	Mar	1.32M	-13.15%
New Home Sales	Mar	693K	+4.68%
Pending Home Sales	Feb	75.6	+1.75%
Existing Home Sales	Feb	3.97M	-0.75%

		Value	Change
Builder Confidence	Mar	51	+6.25%

Figure 1: Metro Areas with Largest Home Price Gains from Previous Peak
Metro areas with CoreLogic Case-Shiller index coverage

Metro Area (Population > 1.5 Million)[1]	**March 2016 Home Price Level Compared to Previous Peak**	**5-Year Employment Change** (March 2011 to March 2016)
Denver-Aurora-Lakewood, CO	32%	18%
San Jose-Sunnyvale-Santa Clara, CA	28%	21%
Pittsburgh, PA	21%	2%
Nashville-Davidson--Murfreesboro--Franklin, TN	16%	20%
San Francisco-Oakland-Hayward, CA	15%	19%
Columbus, OH	9%	13%
Portland-Vancouver-Hillsboro, OR-WA	8%	14%
Boston-Cambridge-Newton, MA-NH	6%	10%
Seattle-Tacoma-Bellevue, WA	5%	15%
Charlotte-Concord-Gastonia, NC-SC	4%	16%

Source: CoreLogic, Bureau of Labor Statistics

He sees today's price rebound as being the prior situation in reverse; increases in home sales and prices are the result of solid job gains. In Figure 1, all but one of the ten large metro areas that have **surpassed** the previous home price peaks by the greatest amount have also had double digit employment growth, exceeding the national rate of 9.6 percent. The tenth, Pittsburg, escaped the home price bubble according to Stiff and its home prices reflect a steady appreciation over the last 20 years.

Another difference between the bubble and prices today is the absence of mortgage products such as no docs, optional pay, and teaser rates. Underwriting makes a difference.

Stiff also expects that home price appreciation will **weaken** going forward. The May jobs report was disappointing and some markets are still recovering slowly. But, he adds, there is very little speculation in most housing markets, "so the downside risk to prices is most likely limited to any potential weakness in the job market."