

Housing prices update

Investors expect more of the same

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By [Stephen Bedikian](#)



Stephen Bedikian

Standard & Poor's this week released its S&P/Case-Shiller U.S. National Home Price Index for May 2007 and most American homeowners should just be glad they don't live in Detroit. While the composite index of 20 markets was down 2.8 percent over the past year, in Detroit the market plunged 11.1 percent. For the record, the steepest decline in the 20 years that the indices have been compiled was Boston in 1991 when the market was off 11.2 percent in a single year.

Of the 20 markets tracked by the indices, 15 showed price decreases and five showed price increases. Seattle was up a very strong 9.1 percent, Charlotte a healthy 7 percent and Portland 5.7 percent. Other markets like Atlanta and Dallas had nominal increases of 1.7 percent and 1.8 percent, respectively.

Several markets are down more than 5 percent with San Diego down 7 percent, Tampa down 6.7 percent, Washington, D.C., off 6.3 percent and Phoenix down 5.5 percent over the past 12 months.

The composite index and its regional sub-indices use the repeat sales pricing technique to measure housing markets by collecting data on single-family home re-sales, capturing re-sold sale prices to form sale pairs. Price appreciation or depreciation is more accurately reflected by the change in value of the same properties over time across entire market areas rather than the more volatile median home prices published by NAR.

Market	Index Value for May 2006	Index Value for May 2007	Percent Change
20 MARKET COMPOSITE	205.86	200.04	-2.8%
Seattle	174.84	190.68	9.1%
Charlotte	124.70	133.42	7.0%
Portland	175.20	185.21	5.7%
Dallas	123.31	125.51	1.8%
Atlanta	132.72	135.03	1.7%
Chicago	166.61	165.68	-0.6%
Denver	138.31	136.32	-1.4%
New York	215.57	210.69	-2.3%
Cleveland	121.80	118.42	-2.8%
Los Angeles	272.12	263.19	-3.3%
Miami	278.68	269.52	-3.3%
San Francisco	218.37	210.89	-3.4%
Minneapolis	170.38	164.44	-3.5%
Las Vegas	234.39	224.79	-4.1%
Boston	178.61	170.95	-4.3%
Phoenix	226.51	213.94	-5.5%
Washington, D.C.	251.07	235.15	-6.3%
Tampa	237.92	222.06	-6.7%
San Diego	249.15	231.80	-7.0%
Detroit	123.78	110.09	-11.1%

Investors seem to expect more of the same. Investor expectations are reflected in housing-price futures and options traded on the Chicago Mercantile Exchange, which are based on a subset of the S&P/Case-Shiller U.S. National Home Price Indices. These property derivatives are traded on indices for a 10-market index and the component markets of that composite. Expectations of future price changes are implied by the percentage difference in the index value for the relevant market

(most recently published on July 31, 2007, for the May 2007 period) and the current price of the four traded futures contracts expiring in August 2007, November 2007, February 2008 or May 2008.

Right now, investors are betting on a decline in the composite index of 3.8 percent by the end of the first quarter of 2008 (the futures contract expiring in May 2008 is based on that period). They are most optimistic on the San Francisco area expecting a decline of just 2.8 percent and most pessimistic on Denver with an expected decline of 6 percent.

Contract	May 2007 Index Value (as of 7/31/07)	May 2008 Contract Value (as of 6/27/07)	Implied Price Change
COMPOSITE	\$ 218.37	\$ 210.00	-3.8%
Denver	\$ 136.32	\$ 128.20	-6.0%
Boston	\$ 170.95	\$ 162.40	-5.0%
Miami	\$ 269.52	\$ 257.80	-4.3%
San Diego	\$ 231.80	\$ 221.80	-4.3%
Los Angeles	\$ 263.19	\$ 252.00	-4.3%
Las Vegas	\$ 224.79	\$ 215.80	-4.0%
Washington, DC	\$ 235.15	\$ 226.40	-3.7%
Chicago	\$ 165.68	\$ 160.60	-3.1%
New York	\$ 210.69	\$ 204.40	-3.0%
San Francisco	\$ 210.89	\$ 205.00	-2.8%

It's worth keeping in mind that these expected declines, while substantial, are extremely modest given the long climb in housing prices. For example, the Los Angeles market began its ascent in February 1997 and climbed steadily before hitting its peak in July 2006. Over that period, the market increased a whopping 272 percent, so even if the market does decline 4.3 percent, that's hardly a scratch as long as you didn't buy too recently.

Stephen Bedikian is a partner at Real IQ Consulting (www.realiq.com), which provides real estate strategy consulting and lead analytics services. He can be reached by phone at: 310.871.3737 or by e-mail: sbedikian@realiq.com.

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