

POP PROOF

Does Michigan Still Have a Housing Bubble?

BY ALEX L. ROSAEN

When speculative bubbles burst, there is plenty of pain to go around. During the stock market bubble of the late 1990's, people stopped saving and borrowed against their homes because the stock market was doing their saving for them. Most analysts now agree that a speculative bubble in house prices is a major cause of some of our nation's current economic problems. Families bought houses they could barely—or not at all—afford because house price appreciation was going to put in the equity they didn't have. Unfortunately, investment banks bundled, sold, and borrowed against those mortgages, which was just fine as long as house prices kept rising fast.

Michigan homeowners and realtors are certainly feeling some pain right now, battered by lower prices and fewer houses being sold. Some might be tempted to think there is a Michigan housing bubble that is to blame. However, Michigan's housing market problems are not

like those of California or Florida, where a massive rise in prices necessitates a fall, even when the national economy recovers. Our analysis shows that Michigan's housing market never inflated very much, so a housing market recovery will likely follow an economic recovery.

Michigan & U.S. Economy During the Housing Bubble

During the years 2000-2007, when the national housing bubble occurred, Michigan's economy did not fully share in the rest of the nation's success. As shown in Table 1, personal income grew by 2.3% during this time in Michigan, which was

outpaced by the 4.7% annual growth in the nation's personal income.

Similarly, employment and population growth lagged in Michigan, and the state's unemployment rate changed for the worse.

Michigan & U.S. Housing Market During the Housing Bubble

Using data provided MAR by local realtor associations, we can see what has happened in Michigan's housing market compared to the nation as a whole. Figure 1 shows the average price of homes sold in Michigan compared to the nation as a whole for 2000-2007.

Table 1 Michigan & U.S. Economy During the Housing Bubble Years (2000-2007)

	MICH	US
Personal Income (CAGR)	2.34%	4.72%
Total Population (CAGR)	0.19%	0.95%
Total Nonfarm Employment (CAGR)	-1.32%	0.62%
Unemployment Rate (Percentage Point Change)	+3.5	+0.7

Note: CAGR is Compound Annual Growth Rate.
Source: Anderson Economic Group analysis of BEA, BLS, and Census figures



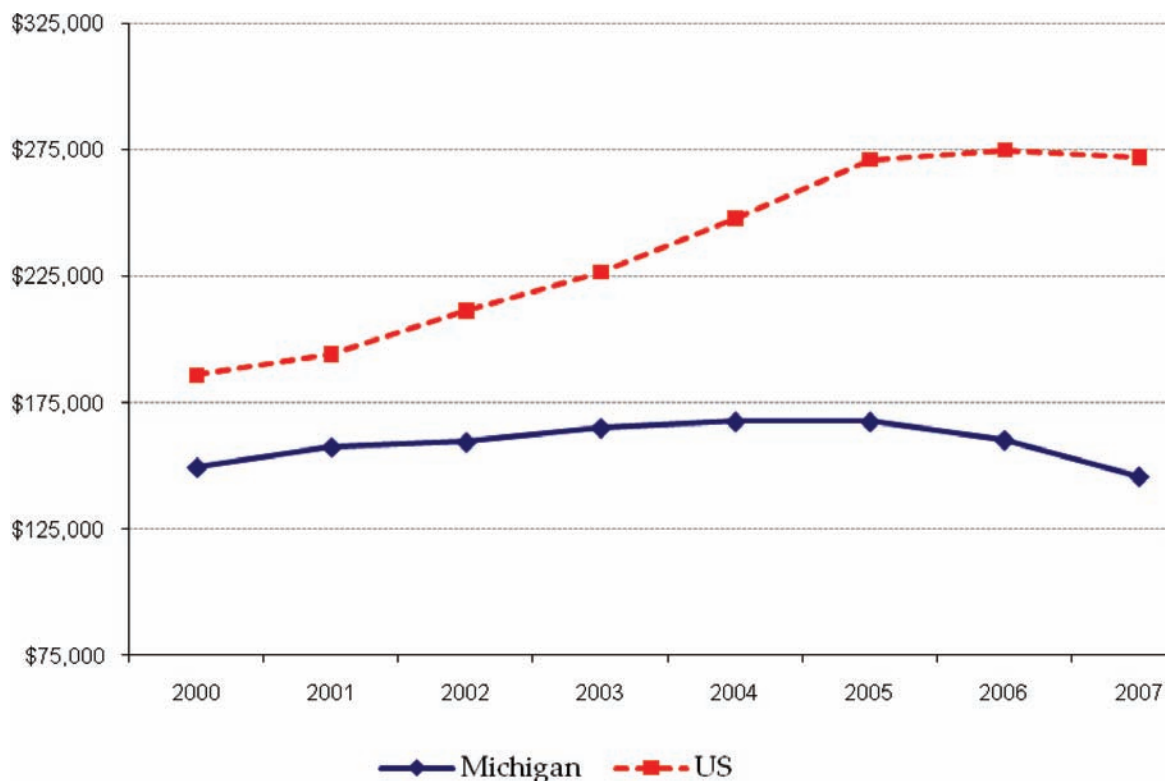


Figure 1 Average Selling Price of Homes Sold in Michigan and the U.S., 2000-2007 *Source: MAR local association data and National Association of Realtors.*

This data shows that Michigan did not see the dramatic house price inflation that the nation saw from 2000-2005, and has seen a more severe drop than the nation since 2005 as Michigan's economy has lagged behind.

Nevertheless, there are indications that there is more downward pressure on prices in the U.S. as a whole than there is in Michigan. Figure 2 below shows an index of the number of units sold in Michigan and the U.S. compared to 2000. (For example, an index value of 105 would mean 5% more units sold than in 2000.)

The number of housing units sold dropped much more dramatically in the nation as a whole than it did in Michigan. Furthermore, from 2006 to 2007, Michigan's descent began to slow. This may be an indication that as of 2007, house prices were nearer

to the "market-clearing" price—the price at which buyer and seller can agree that the transaction is fair and go forward with it. This is one indication that any future housing market troubles will have more to do with the economy than with any alleged Michigan "housing bubble."

Of Course, Housing is Local...

As Michigan's realtors well know, there is a limit to what a statewide average can tell you about what is going on. When we break Michigan down into five regions defined by MAR, we can see different regions have had slightly different fortunes. Figure 3 below shows the dollar volume of sales by Michigan region. Note that, as in Figure 2, the data is indexed to the 2000-dollar volume for each region.

As shown in Figure 3, the Southeast and West regions dominate the

statewide averages because of the sheer number of houses sold there, but they do not tell exactly the same tale. Note that dollar volume of sales fell dramatically from 2005 to 2007 in the four most populous regions, and that the Southeast and North regions showed the slowing descent apparent in the statewide figures. It is clear that the North, West, Central, and Southeast regions have had different levels of pain during this period, but all have taken some strong medicine. Whatever housing market run-up occurred in the West and North regions had been largely eliminated by the end of last year, with only the West and U.P. regions showing over 20% higher dollar volumes than 2000. The Southeast region never saw a dramatic rise, and has been punished by the well-known economic problems of the region.

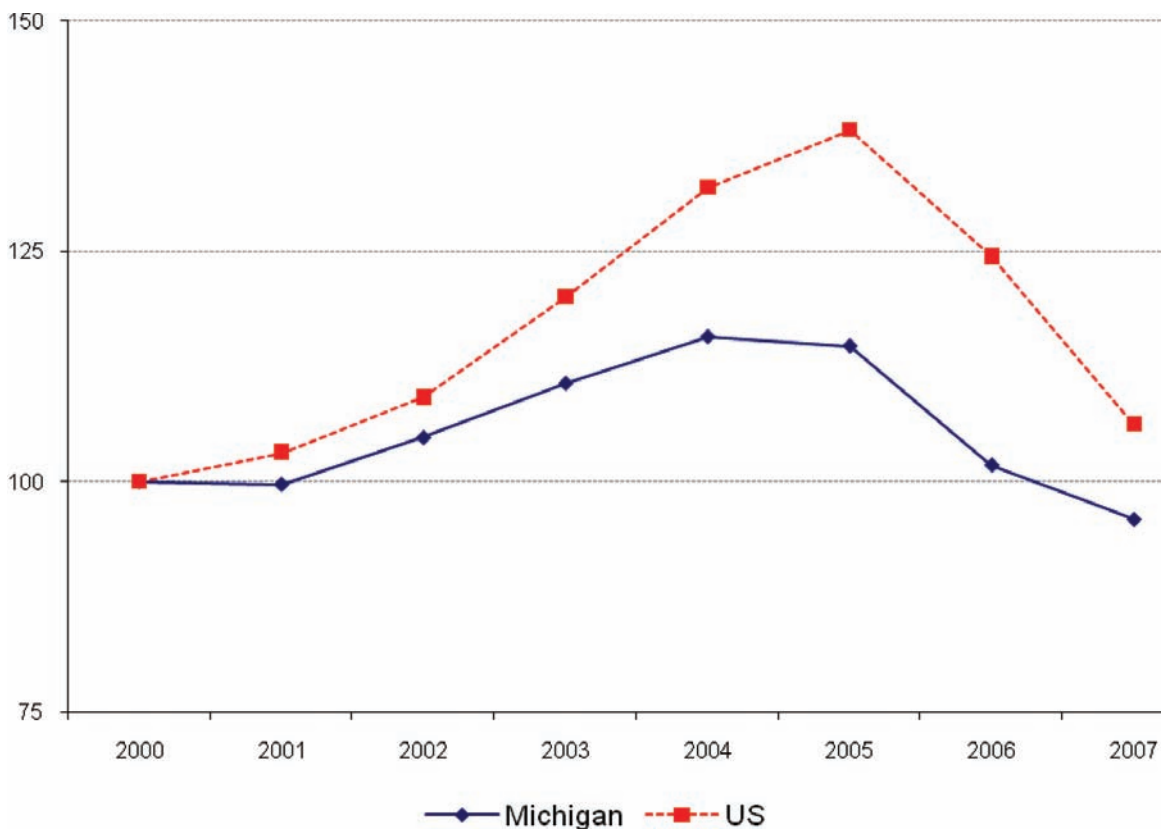


Figure 2 Number of Housing Units Sold, Michigan and U.S. (Indexed, 2000 = 100) *Source: MAR local association data and National Association of Realtors.*

...And Housing Bubbles Are Even More Local

To put into context just how little an apparent bubble exists in Michigan's housing market, we should compare its performance, not just to the nation as a whole, but to particularly "bubbly" local housing markets. The S&P/Case-Shiller house price index is a nationally recognized house price index that summarizes several metropolitan areas. While its reach is not wide enough to allow the regional and statewide summaries that our data from MAR allows, their indicator for the Detroit Metro area allows some comparisons with other local areas experiencing particularly severe local housing bubbles. Figure 4 shows the Case-Shiller index for selected metropolitan areas.

While the housing market has been adversely affected by the economy in most areas, there are clearly some areas that experienced a tremendous specu-

lative price index which they have still not yet fully unwound. Super-bubble areas such as the Miami, Florida, and Los Angeles, California are still at double the prices seen in 2000. Clearly at least a few areas will continue to see flat or negative home value growth for a while, even when the national economy recovers. Some markets, such as those in Phoenix, Arizona have seen tremendous falls from their peak, and may not have as far to fall as metro areas like Los Angeles. Other areas, such as Atlanta, Georgia, and the Detroit Metro area are not as constrained by land availability and other factors as are the high-flying housing markets, and never saw major housing bubble inflation.

Conclusion

In short, Michigan has taken its medicine; we have likely already worked through any housing bubble

that existed here, especially in Southeast Michigan. The good news here is that with no housing bubble to worry about, our housing market is poised to rise along with the economy. The trouble now is Michigan's poor economic performance: recent Census data shows that Michigan's median household income fell by over \$7,000 from 2000 to 2007. Nevertheless, Michigan homebuyers who can wait out the economy will not regret their purchase, unlike buyers in other states who have to deal with the economy and also have to work through more housing bubble excess. **MAR**



Alex L. Rosaen is a consultant at Anderson Economic Group (AEG), in its public policy, fiscal, and economic analysis practice area. AEG is an economic consulting firm with offices in Michigan and Illinois. Patrick L. Anderson, who contributed to this article, is principal and chief executive officer for AEG.



Figure 3
Dollar Volume of House Sales by Michigan Region (Indexed, 2000=100)

Note: Line thickness proportional to number of units sold in 2007. Thicker lines indicate higher number of units sold.

Source: MAR local association data and National Association of Realtors.

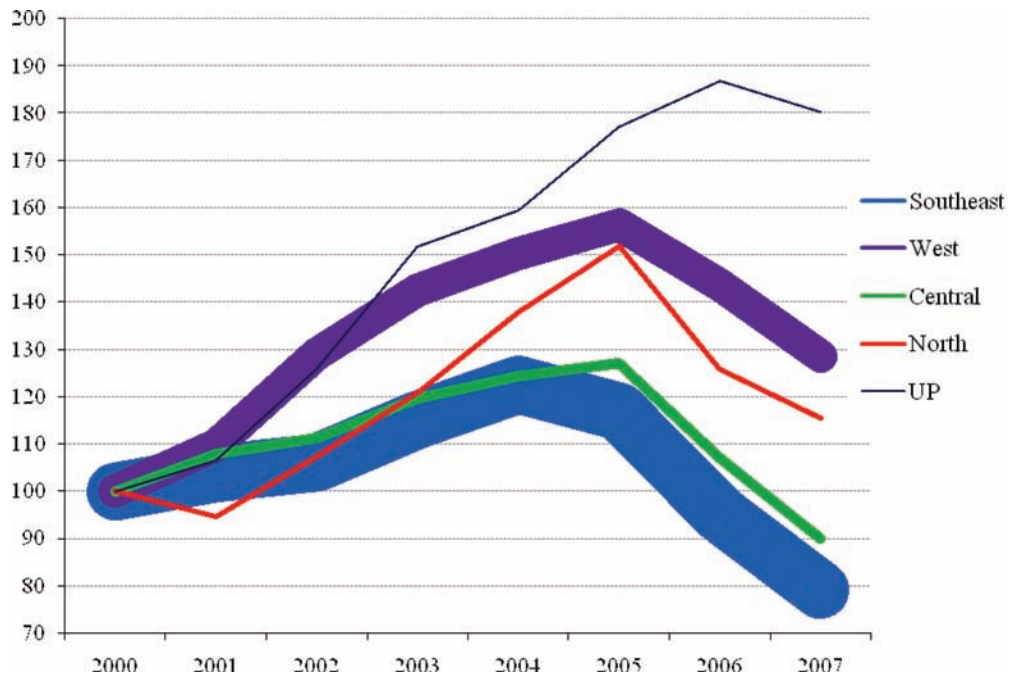


Figure 4
S&P/Case-Shiller House Price Index, Selected Areas (Indexed, 2000=100)

Source: Standard and Poor's

