

Economics Group

Special Commentary

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Real Home Prices: A Metro-Area Look

In our latest *Housing Chartbook*, we mentioned that a definitive bottom for home prices is within sight.¹ Even though nominal nationwide home prices are still about 15 percent above their long-run trend, on a trough-to-trough basis, home prices have now fallen back down to trend in real, or inflation-adjusted, terms (Figure 1 and Figure 2).² Real home prices could certainly break through their long-run trend in the coming months—as distressed sales continue to account for a large share of total existing home sales—but any further price depreciation from current price levels will likely be relatively modest.

Home prices have now fallen back down to trend in real, or inflation-adjusted, terms.

Figure 1

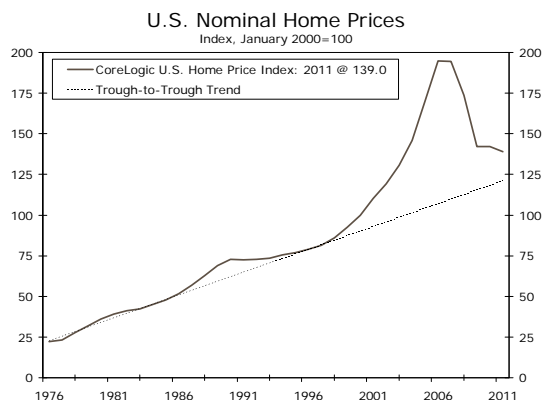
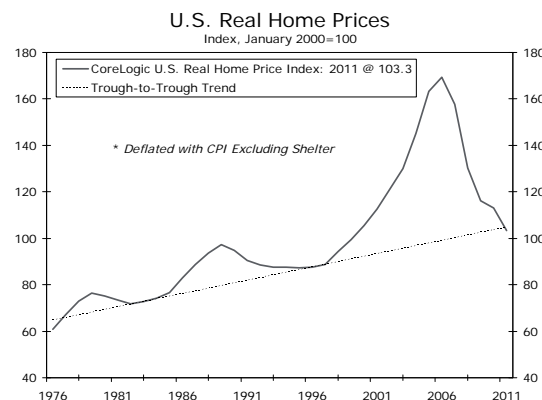


Figure 2



Source: CoreLogic, U.S. Department of Labor and Wells Fargo Securities, LLC

While prices may be close to bottoming nationwide, conditions will clearly vary from area to area. Metropolitan-level home prices will likely deviate from national home prices over the next several quarters, with prices bottoming in some areas where excesses were less severe and continuing to fall in others. Local area home prices will likely be driven by several factors, including household growth, employment and income growth and how quickly the overhang of foreclosures and vacant homes for sale clears the market. Another important factor is how far prices have already fallen on a metro-level basis and whether metro-level prices, in real terms, have returned to their long-run trend, have overshot that trend or still have a ways to fall further.

While prices may be close to bottoming nationwide, conditions will clearly vary from area to area.

The U.S. Bureau of Labor Statistics reports bimonthly consumer price data for 11 major metropolitan areas. We calculated a real home price index for 10 of these 11 major metropolitan areas, using metro-level consumer price data, excluding shelter prices, to deflate CoreLogic's corresponding metro-level home price data. The 10 considered metropolitan areas are: Boston,

¹ See *Housing Chartbook: September 2011* (September 29, 2011), which is available at: <https://www.wellsfargo.com/com/research/economics/real-estate-and-housing>.

² Here, we deflate CoreLogic's Home Price Index by the Consumer Price Index excluding shelter prices.



Philadelphia, Cleveland, Miami, Atlanta, Houston, Dallas, San Francisco, Seattle and Detroit.³ A chart of each city's respective real home price index can be found on pages 3 and 4. The results of a trough-to-trough trend analysis for each metropolitan area are shown below in **Table 1**.

Real home prices in Boston, Dallas, Philadelphia, Houston and San Francisco have not yet fallen back down to each city's respective long-run trend.

There are several important takeaways from examining real home prices by metropolitan area. The first is that, while real home prices at the national level have returned to their long-run trend, the same is not true for many metropolitan areas across the country. Of our 10 considered metropolitan areas, real home prices in Boston, Dallas, Philadelphia, Houston and San Francisco have not yet fallen back down to each city's respective long-run trend. This does not mean that home prices are likely to fall further in each of these five cities; for example, strong population growth will probably continue to limit price declines in Houston and Dallas. But it does support the notion that home prices in many areas across the country are still overvalued relative to historical trends.

Real home prices in Atlanta, Seattle and Detroit have broken through their respective long-run trends. In the case of Detroit, a structural break in real home price data is apparent: real home prices in Detroit are currently 55.2 percent below their long-run trend. The primary driver of this outcome is negative population growth. From 2000 to 2010, Detroit's population decreased by 25 percent, which was the largest percentage loss for any American city with more than 100,000 residents over the past decade.

There is a good chance that, in real terms, home prices in Boston are close to a bottom.

Even though real home prices in Boston are still above their long-run trend, they are only slightly above trend. Moreover, real home prices in Boston have fallen only 2.3 percent over the past year, the mildest price decline of any of the 10 metropolitan areas we examined. There is a good chance that, in real terms, home prices in Boston are close to a bottom. Seattle is in a similar situation, with real home prices only slightly below trend and down a modest 6.1 percent over the past year.

Since 1976, when CoreLogic's home price data begin, real home prices in both Miami and Cleveland have gone through only one cycle, so a trough-to-trough trend in each of these cities is not observable. Nevertheless, real home prices in each of these two cities are down about 9 percent over the past year. In the case of Cleveland, when a definitive bottom in real home prices does emerge, the long-run trend is likely to be negative. This is surprising, given that the trend in real home prices for any region should slope upward over time, as real home prices should be a function of long-run population growth and labor productivity growth. Cleveland's population has been declining since 1950. Yearly population declines in Cleveland, however, have moderated in recent years. So it is difficult to imagine a case in which long-run labor productivity growth over the next few decades does not lift real home prices in Cleveland.

Table 1

Real Home Prices*	Year-over-Year Percent Change	Relation to Trough-to-Trough Trend	Deviation From Trough-to-Trough Trend
Boston	-2.3%	Above	2.5%
Dallas	-4.9%	Above	15.5%
Seattle	-6.1%	Below	0.9%
Philadelphia	-6.7%	Above	7.6%
Houston	-6.9%	Above	21.9%
San Francisco	-6.9%	Above	19.9%
Miami	-9.0%	N/A	N/A
Cleveland	-9.1%	N/A	N/A
Detroit	-12.3%	Below	55.2%
Atlanta	-12.4%	Below	11.4%

* Deflated with each city's respective CPI less shelter index

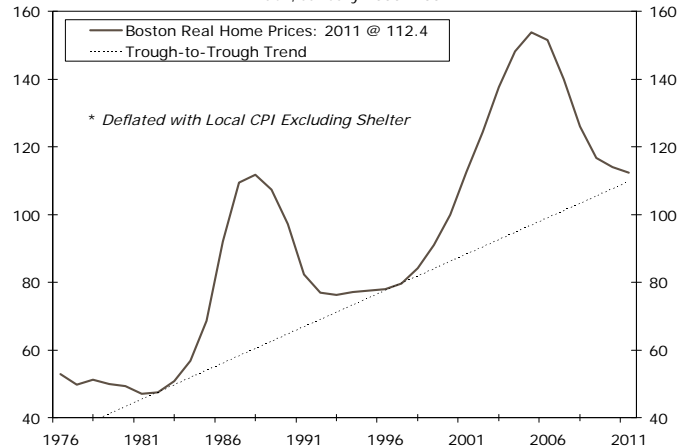
Source: CoreLogic, U.S. Department of Labor and Wells Fargo Securities, LLC

³ Washington, D.C. is the only metropolitan area that is left out of our analysis, because local consumer price data in that region does not have a long enough history for consideration.

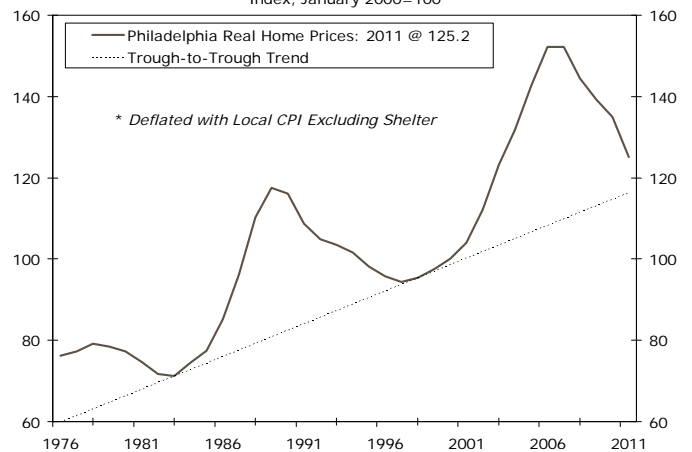
Northeast & South

- Real home prices in Boston and Philadelphia are above their respective long-run trough-to-trough trends. In the case of Boston, real home prices have fallen only 2.3 percent over the past year and are only 2.5 percent above trend. In Philadelphia, real home prices are still 7.6 percent above trend.
- Real home prices in Atlanta have fallen 12.4 percent over the past year and have dramatically overshot their long-run trend, at a level that is currently 11.4 percent below the trough-to-trough trend.
- Real home prices in Miami and Cleveland have gone through only one cycle, so a trough-to-trough trend is not observable. Real home prices in each city are down about 9 percent over the past year. In Cleveland, prices are currently 5.9 percent below their previous trough, while in Miami real home prices are still well above the pre-boom level.

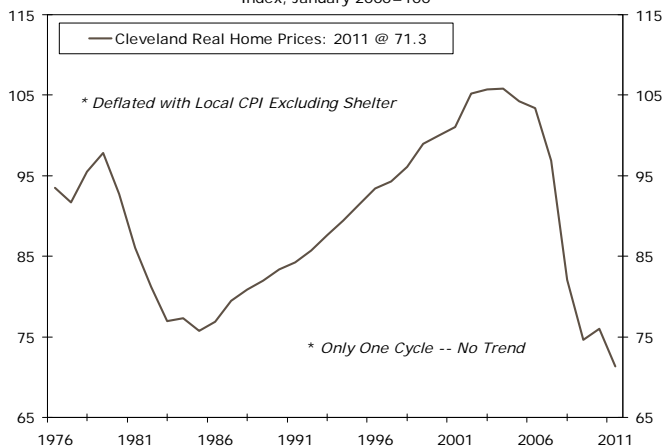
Boston Real Home Prices
 Index, January 2000=100



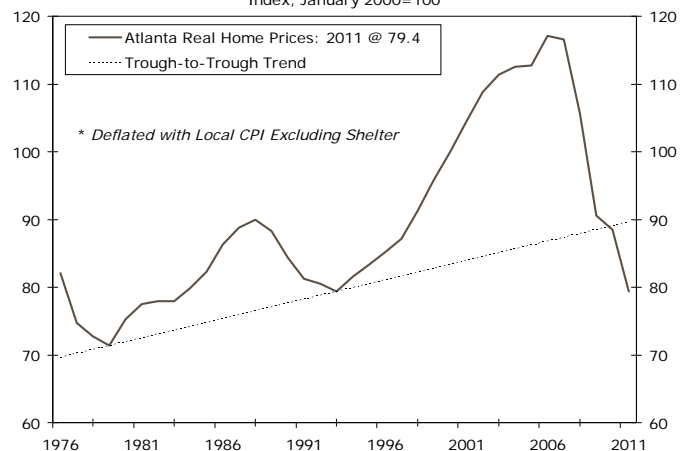
Philadelphia Real Home Prices
 Index, January 2000=100



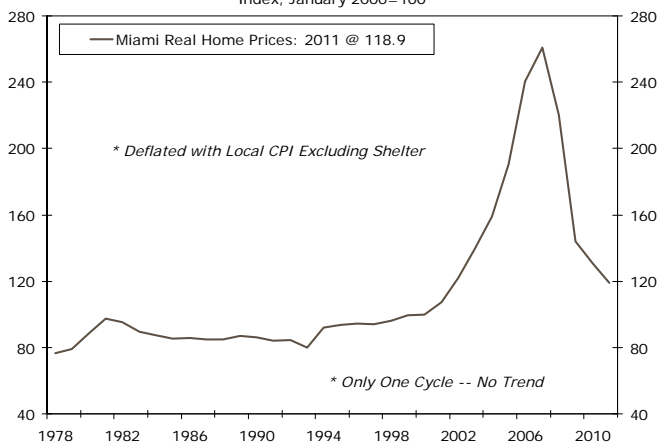
Cleveland Real Home Prices
 Index, January 2000=100



Atlanta Real Home Prices
 Index, January 2000=100



Miami Real Home Prices
 Index, January 2000=100



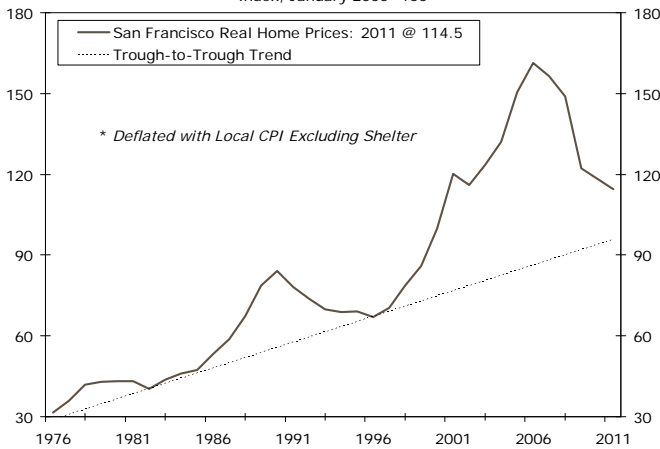
Source: CoreLogic, U.S. Department of Labor and Wells Fargo Securities, LLC

Southwest, West & Midwest

- Real home prices in Houston and Dallas remain above their respective long-run trough-to-trough trends. Prices in Houston are nearly 22 percent above trend, while prices in Dallas are 15.5 percent above trend. Texas' strong economy and its rapid population growth are likely supporting home prices in these markets. Both cities also have few homes in a negative equity position and a low foreclosure rate.
- Real home prices in San Francisco are nearly 20 percent above trend. Home prices there have likely been buoyed by relatively strong job growth in technology-related industries.
- Real home prices in Seattle are now 0.9 percent below trend and will probably garner support there.
- In the case of Detroit, real home prices are currently 55.2 percent below trend, primarily driven by population declines.

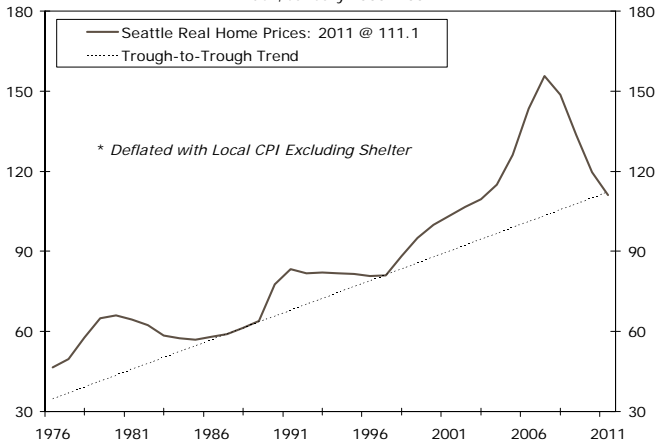
San Francisco Real Home Prices

Index, January 2000=100



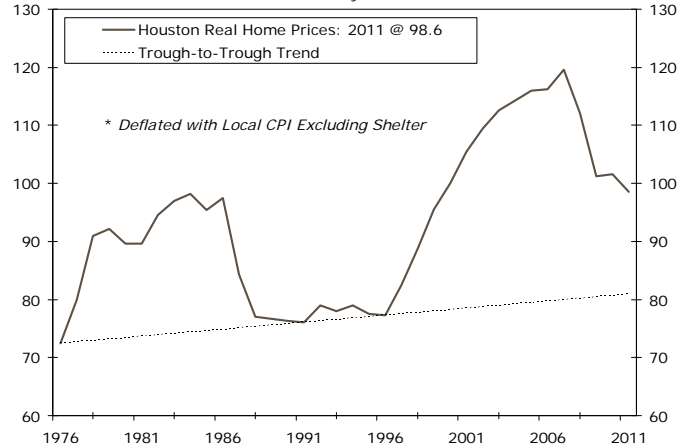
Seattle Real Home Prices

Index, January 2000=100



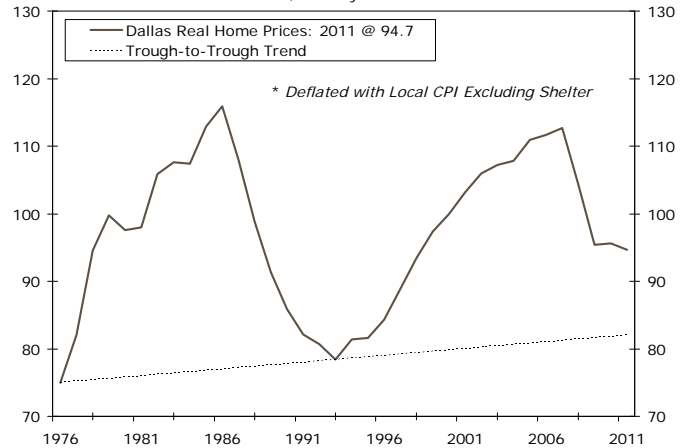
Houston Real Home Prices

Index, January 2000=100



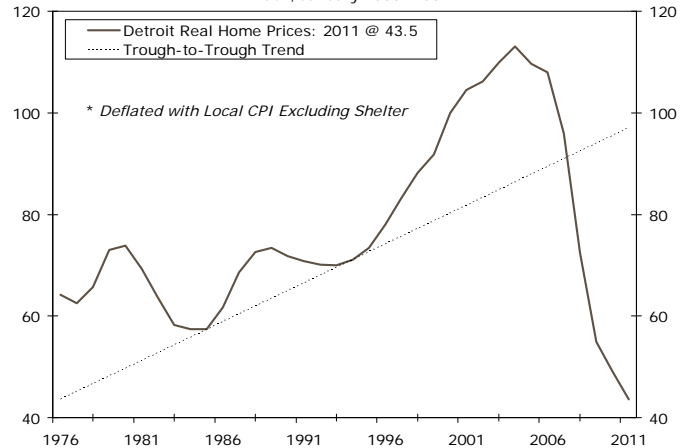
Dallas Real Home Prices

Index, January 2000=100



Detroit Real Home Prices

Index, January 2000=100



Source: CoreLogic, U.S. Department of Labor and Wells Fargo Securities, LLC

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