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Money Talks

By Kevin Bourke

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Kevin, I read in the paper that the government is reporting house prices having declined 3.1% from the first quarter of 2007 to the first quarter of 2008. They said this was the worst decline in the history of the index. It seems to me that houses have declined much more than 3.1%, so how is that possible? — John from Goleta

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Great question, John. There are so many government reports on so many subjects, and they all seem to be contradictory, we tend to ignore them after a while, don't we?

The index you are referring to, I believe, is the OFHEO, or the Office of Federal Housing Enterprise Oversight. The report for April of 2008 can be found here:

http://www.ofheo.gov/media/hpi/1q08hpi.pdf

The report states that California, Nevada, and Florida have seen the biggest declines, but that overall, housing prices are down 3.1% year over year, as you wrote.

A clue to the answer to your question can be found in this quote from OFHEO Director James Lockhart, who said, "While house price declines are widespread, homes financed with prime, conforming mortgages continue to hold up better than those financed with other types of mortgages."

So when we dig a little deeper, we find that this index only analyzes house prices that are financed with prime, conforming mortgages, which are not the main cause of the market decline.

Rarely does a day go by that we don't hear the phrase "sub-prime" in the news. Sub-prime mortgages, those mortgages used by individuals with poor credit, seem to be the culprit behind house price declines.

So, it’s no wonder that the OFHEO index has not declined substantially, since this index does not include subprime mortgages.

What then, is the real picture? Why does the pain feel like so much more than 3.1%?

We need to look elsewhere for the answer. Another respected index of house prices, the Standard & Poor’s/Case-Shiller index, tells a different story. While this index does not cover the broad geography of the OFHEO index, it does include other portions of the real estate market, including subprime. This report can be found here:

http://www2.standardandpoors.com/spf/pdf/index/CSHomePrice_Release_062418.pdf

So, while the S&P/Case-Shiller index includes only 20 major metropolitan areas spread across the country, it gives a broader picture of housing in general.

According to the S&P/Case Shiller index, the housing market saw a 15.3% year-over-year decline nationwide on average. Los Angeles, -23.1%. The worst showing? Las Vegas at –26.8%.

It sounds like your instincts were right, John. The housing market does indeed seem to have declined more than 3.1% year over year overall.

The good news? Many families that have been priced out of the housing market are beginning to see the possibility of owning a home. The bad news? House price declines will likely dampen the economy for some time to come.

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