



Subject: December 2016 update on home prices.

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From: Richard Curtin, Director

One might have expected that the combination of improved job and income prospects and low mortgage rates would have sparked robust increases in home sales during the past year. To be sure, home sales have improved, but not as much as might have been anticipated. Even prospects for higher mortgage rates and higher home prices have not prompted the advance buying that was common in past cycles. While there are a number of factors that have reduced the growth in home sales, this report focuses on the anticipated rate of appreciation; its investment value. The primary finding is that home purchases have shifted from being a partly investment decisions to fully consumption decisions. In the latest survey, homeowners anticipated an annual rate of gain in home values of just 2.2% over the next five years. Even based on consumers' record low expectations for long term inflation, it implies slight inflation adjusted declines in home values. To be sure, there are large and persistent local variations in housing prices, with some markets currently booming. Nonetheless, the national housing market has been depressed in part because the real returns are now no higher than they had been during the past few years.

Rising home values were reported by 57% of all homeowners in the 4th quarter of 2016, the highest level since the 3rd quarter of 2006, although still below the peak of 75% set in the 2nd quarter of 2005. Most of the gains were recorded before 2016, with the frequency of increases in the market value of homes largely unchanged since mid 2016. Note that homeowners living in the Western region reported more frequent increases in home values compared with the rest of the country, and the frequency of gains was much more common as the value of the home increased. Indeed, homes valued in the lowest third of the distribution lost some ground over the past year, while those in the top two-thirds were more likely to increase in value.

When homeowners were asked about the gains they anticipated during the year ahead in the value of their homes, the same general pattern appeared: most of the gains occurred before 2016, with expected increases in home values peaking in mid-2016. To be sure, the differences in expected gains were quite small, rising to 1.9% in the 4th quarter of 2016 from 1.5% in the 4th quarter of 2013. Only those living in the Midwest and South recorded gains during the past year, although Western residents still anticipated the largest gains (2.5%) during the year ahead. Again the top two-thirds of home values garnered all the gains, with the middle third rising the most since last year. Also note that those who reported declines in the past year anticipated declines in the year ahead, and those who reported recent gains also anticipated continued gains in the year ahead.

When asked about long term prospects for home price appreciation, the data indicate very little change during the past few years. Among all home owners, 64% anticipated increases in the value of their homes over the next five years, just ahead of the 63% recorded in late 2015 and 2014. The mean anticipated annual increase was just 2.2% in late 2016, unchanged from the 4th quarter of 2015, and slightly below the 2.6% expected in late 2014. Only residents of the Midwest anticipated a higher annual gain over the next five years compared with two years ago, and only those whose homes were valued in the bottom third of the distribution expected larger gains compared with two years ago—although it was still below the top two-thirds.

Evaluations of Trends in Home Prices Among Homeowners

(Cases: 2014:Q4 = 1113; 2015:Q4 = 1045; 2016:Q4p = 1092. "Same" and "DK" responses omitted from table.)

	Change in Home Value During Past Year						Expected annual change in value of home . . .																	
	Decreased			Increased			During Year Ahead									During Next Five Years								
	Decrease	Mean	Increase	Decrease	Increase	Mean	Decrease	Increase	Mean	Decrease	Increase	Mean	Decrease	Increase	Mean	Decrease	Increase	Mean						
2013:Q4	16%	39%	9%	40%	1.5	10%	61%	2.3																
2014:Q4	13%	44%	8%	38%	1.5	9%	63%	2.6																
2015:Q4	10%	52%	8%	42%	1.7	9%	63%	2.2																
2016:Q1	9%	49%	8%	42%	2.0	9%	64%	2.5																
2016:Q2	9%	56%	9%	46%	2.1	10%	64%	2.4																
2016:Q3	10%	52%	10%	45%	1.9	10%	65%	2.3																
2016:Q4p	10%	57%	9%	46%	1.9	10%	64%	2.2																
	2014 Q4	2015 Q4	2016 Q4	2014 Q4	2015 Q4	2016 Q4	2014 Q4	2015 Q4	2016 Q4	2014 Q4	2015 Q4	2016 Q4	2014 Q4	2015 Q4	2016 Q4	2014 Q4	2015 Q4	2016 Q4	2014 Q4	2015 Q4	2016 Q4			
Region																								
West	9	8	6	56	65	72	5	6	8	48	57	53	2.5	2.8	2.5	6	9	11	72	71	65	3.5	2.4	2.5
Midwest	16	7	11	41	42	52	9	9	10	35	34	42	1.0	0.8	1.6	10	12	8	57	53	57	1.8	1.7	2.2
Northeast	12	14	10	37	47	54	7	9	9	33	44	39	1.2	2.0	0.9	8	4	9	65	69	62	2.6	2.7	1.4
South	13	13	13	42	51	53	9	8	9	37	38	47	1.5	1.6	2.2	10	8	10	62	62	68	2.6	2.3	2.4
Home Value																								
Bottom Third	24	18	24	27	35	32	15	11	14	24	31	28	0.2	1.2	0.8	18	13	12	46	53	49	1.3	1.8	1.7
Middle Third	11	8	6	48	54	65	7	7	8	42	43	55	1.9	1.5	2.3	6	9	9	70	63	71	2.9	1.9	2.7
Top Third	5	6	2	58	69	77	3	6	5	46	53	57	2.3	2.5	2.6	4	4	7	73	76	75	3.1	3.0	2.3
Past Change Home Value																								
Declined	--	--	--	--	--	--	30	31	36	16	12	12	-1.3	-1.6	-1.4	24	28	26	37	30	36	0.5	-0.6	-0.7
Unchanged	--	--	--	--	--	--	7	8	9	22	25	23	0.6	0.8	0.4	10	9	11	58	59	53	2.1	2.0	1.8
Increased	--	--	--	--	--	--	2	4	4	60	61	65	3.2	3.1	3.3	3	5	6	77	74	76	3.6	3.0	3.1