

Housing and Mortgage Market Review

HaMMR – Winter 2020

IN THIS ISSUE

*Housing Isn't as Expensive 1
as You Think*

Risk of Home Price Declines..... 6

States with Above-Average Risk8

Metros at Elevated Risk..... 12

*Smaller Cities Take the Lead 13
in Home Price Growth*

Arch MI State-Level Risk Index ... 16

*Housing and Mortgage 18
Market Indicators*

*Arch MI Risk Index for the 26
100 Largest MSAs*

CREATED BY

Ralph DeFranco, Ph.D.

Global Chief Economist, Mortgage Services
Arch Capital Services Inc.

Manhong Feng, Ph.D.

Senior Economist, Mortgage Services
Arch Capital Services Inc.

Marisa Rawling

Senior Marketing
Communications Manager
Arch Mortgage Insurance Company

Henry Nguyen

Senior Graphic Designer
Arch Mortgage Insurance Company

ARCHMI.COM/HAMMR

Housing Isn't as Expensive as You Think

By Ralph DeFranco

Home prices are up 46% nationally since the beginning of 2012, according to the Federal Housing Finance Agency's All-Transactions House Price Index. Since this has caused a lot hand-wringing in the press, we decided to investigate this statistic in more detail.

Many people will tell you home prices are too high. But is it true relative to historic norms? Is there a way to account for all the other moving pieces, such as incomes and interest rates? As we will see, we believe the best way to understand if home prices are reasonable is by comparing affordability now to its historic norms.

But before digging into affordability, it is worth noting that nearly all of the increase can be accounted for by the following:

- Median household income is up 28% since the beginning of 2012, when unemployment was still very high. It is interesting that income growth final exceeded the cumulative inflation of 13% over the same time period.

- 2012 is hardly the right starting point for a comparison since it implicitly suggests that prices were correctly valued back then. In fact, 2012 home prices had overcorrected on the downside by roughly 13% nationally, according to our internal models of fundamental home values. You may recall that home prices in many areas illogically fell below the cost of constructing a new home as potential buyers understandably waited for prices to stop falling (consistent with the old Wall Street adage to avoid trying to "catch a falling knife"). So 2012 was probably a "once-in-a-lifetime" buying opportunity.

(continued on page 3)