Past trends and current realities in the US housing market

By John A. Tuccillo

THE housing market in the United States, like the entire economy, is passing through a seventh year of growth. In 1989 total home starts were about 1.42 million, down from a peak of 1.81 million in 1986, yet well above the recession-low of 1.06 million in 1982. Similarly, sales of existing homes in 1989 were approximately 3.45 million units, a figure generally associated with a strong housing market. Moreover, the majority of housing analysts suggest that the numbers for 1990, while somewhat lower, will be very close to 1989 results.

But, as with most statistics, national averages and totals obscure a great deal of variation. The real story of the United States housing market as it currently exists and as it has developed during the decade of the 1980s is one of strong regional variation and cyclicality. Thus, housing in the north-eastern states, the most populated of all regions of the country, has passed through three distinct stages of depression, boom and recession between 1980 and the present. At the same time, the housing market in California enjoyed virtually uninterrupted growth in both sales and prices.

During the decade, there also grew a divergence between the markets for new and existing homes. The latter, which is approximately four times as large as the former, was generally marked by price increases that closely mirrored the general rate of inflation, particularly in the second half of the decade, when inflation was moderate. The new home market, on the other hand, has until quite recently exhibited appreciation, in part reflecting the persistent growth in size and quality of newly-built housing.

This article examines the current state of both the national housing market in the United States and the particular performances of the various regions. While the analytical emphasis is on the present, the statistical material surveys the entire past decade.

Price performance over time

Tables 1 and 2 show, respectively, median prices and sales rates for new and existing homes over the past 10 years. For the decade, sales reached their low point in the recession year of 1982, at a total of 2.4 million. After that, sales of both new and existing homes recovered to their highest levels of the '80s, peaking in 1986 at over 4.3 million units.

'House sales recover'

The more rapid recovery of new home sales is symptomatic of a change in housing market behaviour. Traditionally, the existing home market was looked upon as a "trade-up" market, whose clientele were predominantly current homeowners seeking better accommodation. Conversely, the new home market was more heavily patronised by first-time buyers. In the '80s, that reversed, with the result that (since "trade-up" buyers tend to be more numerous) new home sales recovered much more quickly from their recession lows.

Table 1
United States Median Sales Prices, 1980-1989

Year	*Existing homes*	*New homes*
	$	$
1980	62,200	64,600
1981	66,400	68,900
1982	67,800	69,300
1983	70,300	75,300
1984	72,400	79,900
1985	75,500	84,300
1986	80,300	92,000
1987	85,600	104,500
1988	89,300	112,500
1989e	93,200	120,700

e = estimate
Source: National Association of Realtors, Bureau of the Census

Price changes showed little impact from the recession at the beginning of the decade, increasing steadily over the entire period. In the earlier years, inflation was rather high, so in fact real prices fell, but nominal prices were consistently higher year to year.

After the recovery of the economy, new home prices began to increase more rapidly than those for existing homes. Part of this movement can be traced to the switch in behaviour described above. However, the price pattern is most easily understood in the context of quality increases in new homes. Over this entire period, new homes increased in both average size and amenities to such a degree that correcting for these changes results in little if any price movement.

The United States Department of Commerce publishes an index that measures a "constant quality" new house. That index shows a 10-year price increase of 50.8%, as opposed to the nominal increase of 87.5%. Clearly, adjusted for both quality changes and inflation, the price of the typical new home actually fell during the past 10 years.

During the past decade, strong regional differences in home prices emerged in the United States. These resulted in the main from regional economic differences. Thus, real estate values in the south-west, an area heavily dependent on the petroleum industry, peaked in 1984 and have declined since, reflecting the pattern of oil prices. Similarly, the north-east, on the basis of a drop in energy costs and the development of high technology and service industries, experienced a housing boom during much of the decade, but has slumped recently as difficulties in the financial services industry have led to job reductions.

Table 3 displays median existing home prices for pairs of cities in four distinct regions of the United States. Examination of these data immediately suggests the disparity in prices in different localities. In places like Boston and San Francisco, limitations on available land have created prices significantly higher than national norms. Conversely, Dallas, Denver and Columbus, Ohio, suffer from no such restrictions and have lower prices.

32 →

Table 2
United States Home Sales, 1980-1989

Year	*Existing home sales*	*New home sales*	*Total*
1980	2,973,000	545,000	3,518,000
1981	2,419,000	436,000	2,855,000
1982	1,990,000	412,000	2,402,000
1983	2,719,000	623,000	3,342,000
1984	2,868,000	639,000	3,507,000
1985	3,214,000	688,000	3,902,000
1986	3,565,000	750,000	4,315,000
1987	3,526,000	671,000	4,197,000
1988	3,594,000	676,000	4,270,000
1989e	3,440,000	659,000	4,099,000

e = estimate
Source: National Association of Realtors, Bureau of the Census

Table 3
Median Home Price by Selected Cities, 1980-1989

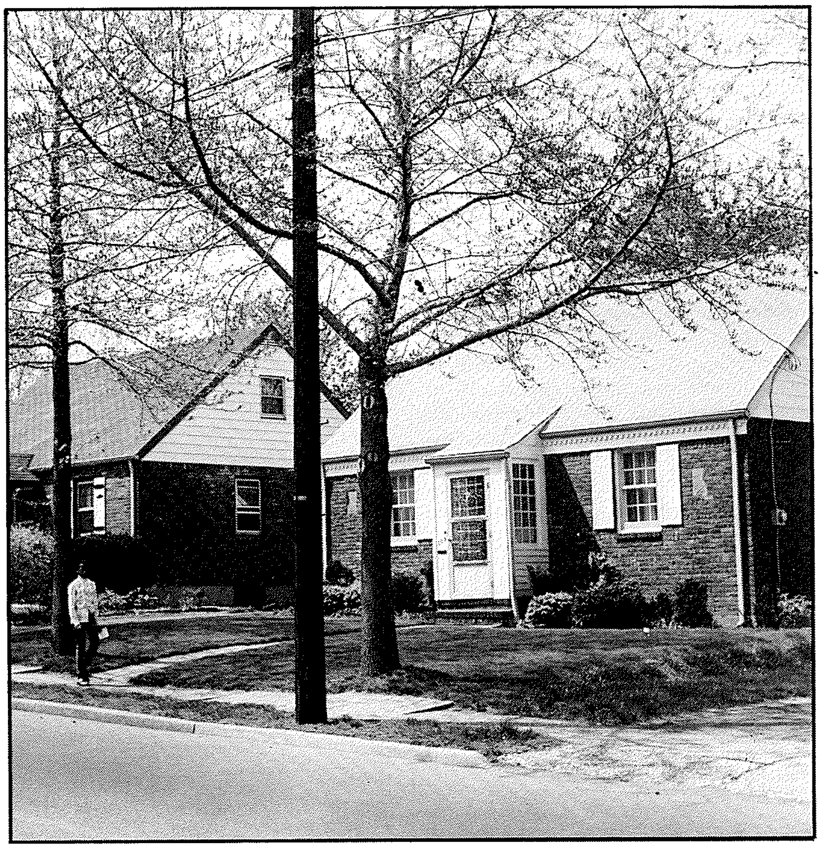
	East		*Mid-west*		*South-west*		*West*	
Year	*Boston*	*New York*	*Columbus, Ohio*	*Chicago*	*Dallas*	*Denver*	*Los Angeles*	*San Francisco*
	$	$	$	$	$	$	$	$
1980	N/A	N/A	51,900	67,400	N/A	N/A	N/A	N/A
1981	N/A	73,800	55,000	70,300	N/A	N/A	111,400	121,600
1982	80,200	70,500	57,800	73,000	76,700	76,200	113,400	124,900
1983	82,600	88,900	59,400	76,400	80,900	78,300	112,700	129,500
1984	100,000	105,300	59,900	79,500	86,800	82,700	115,300	129,900
1985	134,200	134,000	62,200	81,100	94,000	84,300	N/A	N/A
1986	159,200	160,600	65,500	86,100	93,200	86,400	128,800	161,200
1987	177,200	183,500	68,700	90,800	90,800	88,900	147,700	171,300
1988	181,200	183,800	72,600	98,900	90,800	81,800	179,400	212,600
1989e	184,800	185,000	79,000	108,200	93,600	85,900	221,300	267,600

N/A = Not available
e = estimate
Source: National Association of Realtors, Bureau of the Census

← 31

However, these cities also differ in the pattern of price change. Both Californian cities have shown rapid price increases since the recession ended in 1982, with Los Angeles nearly doubling in median price and San Francisco increasing by nearly 125% since 1981. And while Chicago and Columbus have enjoyed much smaller percentage increases, their prices have grown relatively rapidly over the past three years.

Again, these changes are a mirror for the course of economic activity in the United States over the past 10 years. This suggests another change that has occurred in the housing sector during the '80s. Housing has long been thought to be a sector that leads the economy into and out of recession. Over the past 10 years, that has gradually changed to the point where housing activity reflects the economy. And while the state of the economy as a whole will impact on the housing sector, it is primarily local conditions that determine the course of house prices. The cities shown in Table 3 are specimens, but are indicative of the patterns prevailing throughout entire regions.



US housing: wide regional variations in prices.

Where next?

Currently, the United States economy is in an uncertain condition. Growth appears to be slowing, but the probability of a recession seems small. Monthly numbers on inflation appear to be contradictory, so the general price climate is also mixed. Under these circumstances, the conduct of economic policy is hard to predict. Thus, the national economic component of price changes in the housing sector is very tough to figure.

Local conditions, however, are little clearer. The eastern seaboard is locked into economic conditions that lag behind the rest of the country. Thus, house prices are likely to remain static, or even fall slightly. This is reinforced by the relatively high prices for housing in this area.

On the opposite coast, prices are also high, but the economy is exceeding national performance. Thus, vigorous housing activity and price increases will continue. Potential buyers, however, are coping with high prices by moving toward lower priced adjacent markets. Thus, prices are now rising faster in the lower-priced cities like Sacramento, California, and Portland, Oregon, as markets begin to cool in Los Angeles and San Francisco.

Meanwhile, in the mid-west, and even in some areas of the south-west, low prices and improving economic conditions have combined to generate strong and growing housing markets.

Over the past seven years, the housing sector in the United States economy has experienced significant growth. During the period nearly 20 million new jobs were created, and the incomes they generated supported strong demand for home-ownership. However, this was merely an overlay. The lesson that the '80s taught us is that housing markets are essentially local markets and that the conditions prevailing in any given place may say little about what is happening hundreds, much less thousands, of miles away. The interesting statistics in the United States housing market today are those that describe activity and price change on a regional and city level. ■

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