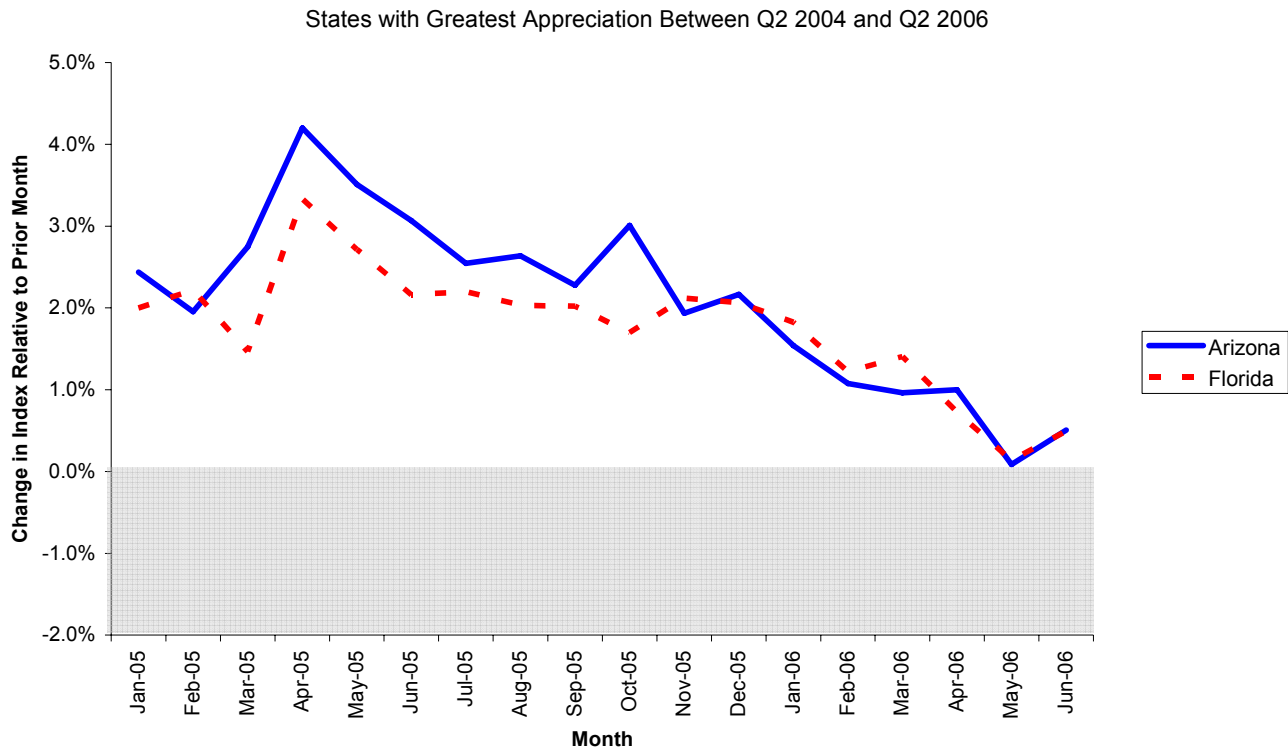


## Highlights: Appreciation Rate Declines

In many states, price appreciation rates have declined rather dramatically. Higher interest rates and greater inventory levels are apparently having a significant impact, with the largest effects being felt in areas that have recently experienced the greatest appreciation. Using monthly and quarterly house price indices that employ OFHEO's usual indexing methodology but that rely exclusively on home purchase prices, this section takes a closer look at the ongoing phenomenon.<sup>1</sup>

Figure 1a below illustrates the deceleration that has occurred in the two states having the greatest appreciation over the past two years: Arizona and Florida. The monthly series reveals that, while both states saw tremendous overall appreciation, a steady price deceleration has been underway since the Spring of 2005. Recent monthly appreciation for both states in fact implies annual price appreciation rates in the single digits.

**Figure 1a: Recent Month-over-Month Appreciation Rates for Select States**



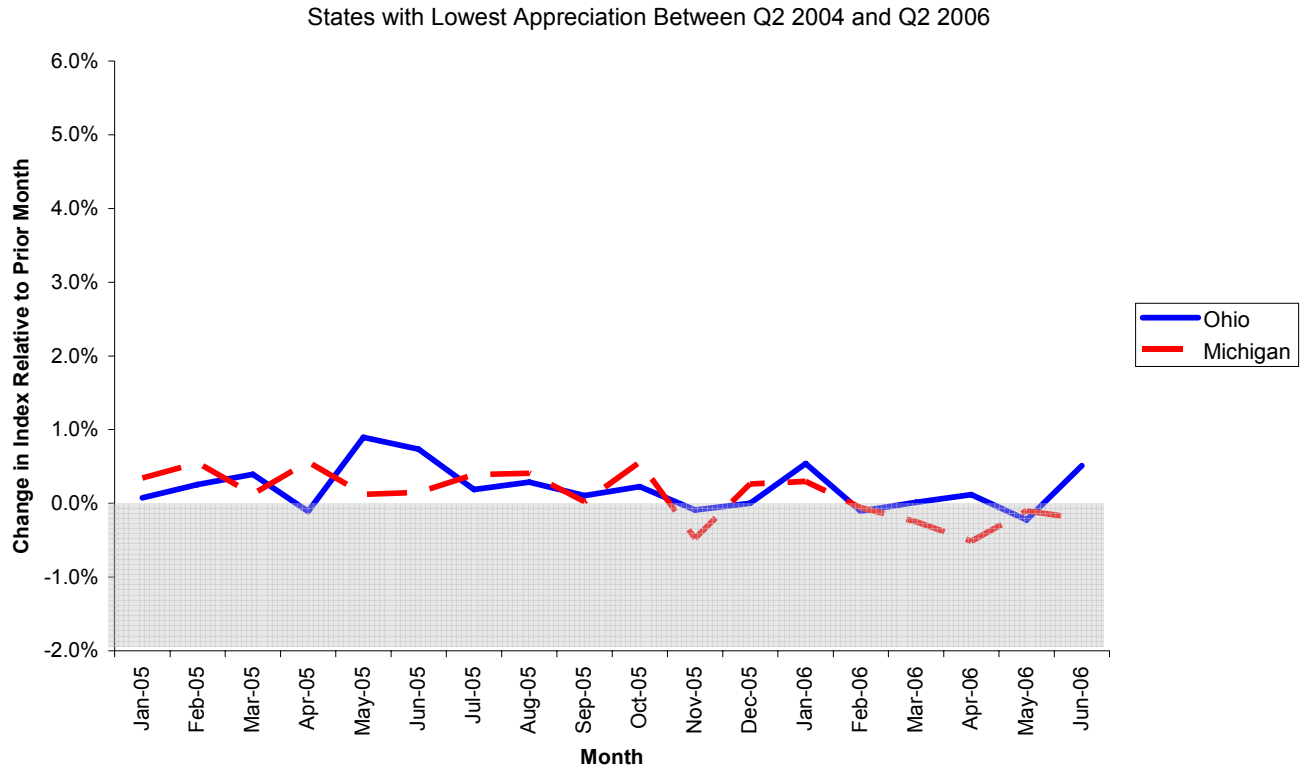
Note: Underlying indices are seasonally-adjusted and do not employ valuation data from refinance appraisals.

<sup>1</sup> Refinance appraisals, which are usually included in the HPI calculations, have been excluded in the construction of this alternative index.

Short-term price movements are subject to measurement imprecision, some of which is related to seasonal factors. While the indices used in this section are adjusted to account for seasonality, it should be recognized that considerable "noise" remains in estimating price trends, particularly for recent periods.

By contrast, appreciation patterns for the two states with the lowest overall appreciation, Ohio and Michigan, do not exhibit the same notable trend. Figure 1b shows monthly appreciation rates in those two states since January 2005. As revealed in the graph, any deceleration from the already-low appreciation rates has been, at most, minimal.

**Figure 1b: Recent Month-over-Month Appreciation Rates for Select States**



Note: Underlying indices are seasonally-adjusted and do not employ valuation data from refinance appraisals.

Figure 2 on the following page provides a broader indication that (formerly) high-appreciation markets have experienced the sharpest decelerations. For each state, the graph plots the cumulative change in house prices during the recent boom against the change in the quarterly appreciation rate over the last year. The latter is calculated as the difference between the quarterly appreciation rate in the second quarter of 2005<sup>2</sup> and the quarterly appreciation rate in the second quarter of 2006. A value of -2 percent, for instance, would indicate that the second-quarter appreciation rate was two percentage points lower in 2006 than it was in 2005. The cumulative price growth, the data plotted on the horizontal axis, is computed for the period between the second quarter of 2001 and the second quarter of 2005. The size of each plotted data point (i.e., each state) is proportional to the size of the state's housing stock.<sup>3</sup>

<sup>2</sup> The quarterly appreciation rate for the second quarter is the change in prices relative to the first quarter.

<sup>3</sup> The estimated number of one-unit, detached properties in 2000 is used as the housing stock figure. These estimates are available at [www.census.gov](http://www.census.gov).

**Figure 2: Recent Appreciation Rate Changes vs. Aggregate Run-Up in Prices by State**



Note: Underlying indices are seasonally-adjusted and do not employ valuation data from refinance appraisals.

The figure clearly illustrates the relationship between the boom-period appreciation and the recent slowdown. Of the seven states that saw more than 80 percent appreciation over the 2001-2005 period,<sup>4</sup> only Rhode Island’s appreciation rate has increased over the last year. The remaining markets experienced rapid decelerations.

Prices in states that experienced relatively limited 2001-2005 appreciation have generally seen only modest decelerations. Figure 2 indicates that price appreciation in some formerly-lagging states, such as Mississippi, Idaho, and South Carolina, has actually accelerated.

<sup>4</sup> The District of Columbia is included as one of these “states.”