



OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT

# NEWS RELEASE

**For Immediate Release**

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**U.S. House Prices Grew 6.5% Since First Quarter 1999**

**Rural House Prices in Census Divisions Appreciate More Rapidly Than  
Regular Census Division House Prices**

**Top 10 Lists of Fastest and Slowest Growing House Prices in Metropolitan Statistical Areas**

**WASHINGTON, D.C.** – Armando Falcon, Jr., Director of the Office of Federal Housing Enterprise Oversight (OFHEO), financial safety and soundness regulator for Fannie Mae and Freddie Mac, today released two new housing price indexes with its quarterly House Price Index (HPI). The HPI report analyzes housing appreciation trends in various geographic regions of the U.S. OFHEO has determined that average U.S. home prices increased by **6.5 percent** from the first quarter of 1999 to the first quarter of 2000.

OFHEO will also begin releasing its **Metropolitan Statistical Area Price Index** on a quarterly basis, which includes appreciation rates in 328 MSAs. The **Rural House Price Index**, which will be produced periodically, includes a comparison of rural house price appreciation rates versus metropolitan house price appreciation rates and is depicted with graphs. The MSA Index includes a list of the Top 20 and Bottom 20 fastest and slowest growing house prices in metropolitan areas as well as rankings for all MSAs (this news release includes only Top 10 and Bottom 10 MSAs). For more detailed information on these indexes and to check for information on your region, please e-mail your request for OFHEO's First Quarter 2000 HPI report (approximately 50 pages) or visit OFHEO's web site at **[www.ofheo.gov/house](http://www.ofheo.gov/house)**.

OFHEO's House Price Index (HPI) is published on a quarterly basis and tracks average house price changes in repeat sales or refinancings on the same single-family properties. OFHEO's index is based on analysis of data obtained from Fannie Mae and Freddie Mac from over 12.5 million repeat transactions over the past 20 years. The HPI reflects price movements on a quarterly basis of sales or refinancings of single-family homes whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac. OFHEO analyzes the combined mortgage records of these two government-sponsored enterprises which form the nation's largest database of mortgage transactions.

MSA indexes are published beginning in the quarter in which a minimum of 1,000 transactions have cumulated since 1975. Hereafter, indexes will be published for every quarter as long as at least 10 transactions are observed in that quarter.

Rural areas are defined as those areas not within the boundaries of any Metropolitan Statistical Area.

## Percent Change in House Prices with State Rankings

Period Ended March 31, 2000

State	National Ranking *	1-Yr.	Qtr.	5-Yr.	Since 1980
Massachusetts, (MA)	1	13.5	2.4	42.1	309.9
New Hampshire, (NH)	2	11.7	2.3	36.4	167.3
Colorado, (CO)	3	11.6	2.0	42.3	159.6
New York, (NY)	4	10.3	2.4	26.6	254.8
Minnesota, (MN)	5	10.2	1.1	37.8	131.0
Vermont, (VT)	6	10.2	5.0	21.2	163.8
California, (CA)	7	8.7	2.0	29.4	159.9
Michigan, (MI)	8	8.7	1.1	43.6	158.9
District of Columbia, (DC)	9	8.2	-1.3	23.9	125.1
Kansas, (KS)	10	7.9	1.8	30.6	85.1
New Jersey, (NJ)	11	7.4	1.5	22.3	181.2
Missouri, (MO)	12	6.7	0.4	26.3	110.8
Georgia, (GA)	13	6.6	0.6	33.2	143.0
Texas, (TX)	14	6.6	0.5	23.3	60.8
<b>United States **</b>		<b>6.5</b>	<b>1.1</b>	<b>27.3</b>	<b>137.8</b>
Montana, (MT)	15	6.1	2.8	25.4	112.5
Arizona, (AZ)	16	6.0	1.2	29.4	103.9
Connecticut, (CT)	17	5.9	0.9	20.8	169.0
Nebraska, (NE)	18	5.9	-0.5	29.4	107.9
Kentucky, (KY)	19	5.8	0.4	27.1	126.0
Florida, (FL)	20	5.7	2.1	24.0	108.6
Wyoming, (WY)	21	5.6	2.3	23.6	56.6
Washington, (WA)	22	5.5	1.1	28.9	173.0
Iowa, (IA)	23	5.5	0.4	26.5	89.9
South Dakota, (SD)	24	5.3	0.7	27.6	106.6
Illinois, (IL)	25	5.3	1.1	21.2	138.0
Rhode Island, (RI)	26	5.3	1.9	17.1	180.7
Delaware, (DE)	27	5.0	0.8	17.4	167.6
Virginia, (VA)	28	5.0	0.4	18.4	133.1
Wisconsin, (WI)	29	4.9	-0.2	26.2	123.2
Maine, (ME)	30	4.8	-1.3	22.3	160.7
North Carolina, (NC)	31	4.8	1.1	28.0	144.1
Ohio, (OH)	32	4.7	0.7	27.5	124.1
Maryland, (MD)	33	4.3	0.9	16.0	139.4
Louisiana, (LA)	34	4.3	0.6	27.6	62.6
Indiana, (IN)	35	4.3	0.8	25.9	114.0
South Carolina, (SC)	36	4.1	0.0	28.1	120.3
Mississippi, (MS)	37	4.0	1.1	25.8	81.6
Oregon, (OR)	38	3.7	0.8	32.4	156.5
Tennessee, (TN)	39	3.0	0.1	27.4	126.8
Alabama, (AL)	40	2.8	0.0	23.7	108.4
West Virginia, (WV)	41	2.7	0.4	21.9	85.9
Idaho, (ID)	42	2.6	2.1	19.7	101.8
Oklahoma, (OK)	43	2.4	-1.4	21.7	44.4
Pennsylvania, (PA)	44	2.0	-0.3	15.2	141.9
New Mexico, (NM)	45	1.6	0.0	15.3	107.3
Arkansas, (AR)	46	1.4	-0.5	18.2	82.5
North Dakota, (ND)	47	1.3	-0.6	19.8	62.2
Alaska, (AK)	48	1.3	-0.1	16.6	57.2
Nevada, (NV)	49	1.1	0.1	14.7	90.3
Hawaii, (HI)	50	0.6	1.6	-7.7	139.5
Utah, (UT)	51	0.4	-0.3	31.3	143.0

\* Note: Rankings based on annual percentage change.

\*\* Note: United States figures based on weighted division average.

## **CENSUS DIVISION SUMMARY for the HOUSE PRICE INDEX (HPI)**

### **NEW ENGLAND**

**Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island and Vermont**

House prices rose 2.0% in the first quarter of 2000, and rose 10.2% since the first quarter of 1999. House prices in New England have risen 33.4% in the five years ending in the first quarter of 2000.

### **WEST NORTH CENTRAL**

**Iowa, Kansas, Minnesota, Missouri, North Dakota, South Dakota, Nebraska**

House prices rose 0.6% for the first quarter of 2000, and 7.8% for the last year. The five-year increase was 31.1%.

### **EAST NORTH CENTRAL**

**Illinois, Indiana, Michigan, Ohio, Wisconsin**

House prices rose 0.9% for the first quarter of 2000, and 6.3% since the first quarter of 1999. The five-year increase was 30.8%.

### **PACIFIC**

**Alaska, California, Hawaii, Oregon, Washington**

House prices rose 1.6% in the first quarter, and rose 7.1% since the first quarter of 1999. House prices in the Pacific division have risen 28.5% in the past five years.

### **MIDDLE ATLANTIC**

**New Jersey, New York, Pennsylvania**

House prices rose 1.3% for the first quarter, and prices rose 6.5% for the last year. For the five years ending in the first quarter of 2000, house prices in the Middle Atlantic division rose 21.3%.

### **WEST SOUTH CENTRAL**

**Arkansas, Louisiana, Oklahoma, Texas**

House prices rose 0.3% in the first quarter of 2000, and rose 5.3% for the last year. The five-year increase was 23.4%.

### **MOUNTAIN**

**Arizona, Colorado, Idaho, Montana, New Mexico, Nevada, Utah, Wyoming**

House prices increased 1.2% for the first quarter of 2000, and 5.9% for the last year. For the past five years, house prices rose 30.3%.

### **SOUTH ATLANTIC**

**Washington, D.C., Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia**

House prices rose 1.2% for the first quarter and 5.7% for the past year. The five-year increase was 25.1%.

### **EAST SOUTH CENTRAL**

**Alabama, Kentucky, Mississippi, Tennessee**

House prices rose 0.3% for the first quarter of 2000, and 3.9% for the last year. The increase over five years was 26.2%.

**\*Ranking of U.S.  
Top 10 Fastest and Slowest  
Metropolitan Statistical Areas  
in Home Price Appreciation Rates by Annual Growth  
(period ending March 31, 2000)**

(Please go to [www.oftheo.gov](http://www.oftheo.gov) for detailed list of 328 MSAs)

**Top 10 Metropolitan Statistical Areas in Home Price Appreciation**

	<u>1-Yr</u>	<u>5-Yr.</u>
1. Santa Rosa, CA	20.9	41.2
2. San Francisco, CA	19.9	53.8
3. Parkersburg-Marietta, WV-OH	19.0	42.1
4. San Jose, CA	18.3	64.7
5. Jersey City, NJ	17.9	38.0
6. Santa Cruz-Watsonville, CA	16.8	47.7
7. Nassau-Suffolk, NY	16.3	37.8
8. Dutchess County, NY	16.3	34.1
9. Salinas, CA	16.2	34.0
10. Oakland, CA	16.0	39.9

**Bottom 10 Metropolitan Statistical Areas in Home Price Appreciation**

	<u>1-Yr.</u>	<u>5-Yr.</u>
287. Honolulu, HI	-2.2	-12.4
288. Las Cruces, NM	-2.2	12.0
289. El Paso, TX	-2.4	4.8
290. Odessa-Midland, TX	-3.7	10.0
291. Bakersfield, CA	-3.7	0.2
292. Montgomery, AL	-3.8	10.2
293. Olympia, WA	-3.9	10.8
294. Lewiston-Auburn, ME	-5.1	6.1
295. Wheeling, WV-OH	-6.3	19.8
296. Casper, WY	-8.7	10.3
297. Williamsport, PA	-8.8	10.7

\*Rankings are based on annual percentage rate of appreciation.

\*\*Some transactions were too infrequent to produce statistically valid data.

**Rural House Prices Appreciate More Rapidly than  
Metropolitan Area House Prices in the 1990s**  
(Please go to [www.ofheo.gov](http://www.ofheo.gov) for Census Division graphs)

**U.S. Average**

Over the past 10 years, house prices in rural areas have grown more rapidly than house prices in metropolitan areas and more rapidly than the prices of other consumer goods and services. The reverse was true in both cases during the 1980s. OFHEO computed rural price indexes for the United States and each of the 9 Census Divisions by using the same methodology and data used for the standard House Price Index (HPI) but eliminating data for properties located in designated Metropolitan Statistical Areas<sup>1</sup>. In the accompanying charts, indexes created for rural areas were compared with standard HPI indexes, and each index was adjusted to net out the effects of general price inflation<sup>2</sup>. Inflation-adjusted house prices in rural areas declined an average 8 percent between 1980 and 1990, while the overall inflation-adjusted standard HPI rose 10 percent. However, rural areas have grown more rapidly throughout most of the 1990s. Over the whole 20- year period beginning in the first quarter of 1980, rural house prices declined 9 percent relative to prices in metropolitan areas (see Graph on page 7).<sup>3</sup>

The 1980s were characterized by more pronounced cyclical price behavior than the 1990s. During the early 1980s, house prices suffered in all areas because of high interest rates and economic recession. Agricultural areas were especially hard hit, and the sharp house price declines in rural areas reflect that. Prices improved during the second half of the decade, especially in metropolitan areas. Generally, metropolitan areas tend to have less available land on which to build, and more restrictions associated with building. As a result, supply is slower to adjust to increased housing demand than in rural areas where there is abundant available space and fewer regulatory barriers. In a cyclical upswing, buyers often expect house prices to rise in subsequent periods following some positive market impetus. That is, individuals may observe appreciation and anticipate future appreciation, which results in prices rising period after period. The cycles eventually turn when prices have sufficiently exceeded their natural equilibrium such that they can no longer be sustained. Suppliers can react more quickly to increased demand in rural areas as inexpensive land is more plentiful and fewer regulatory barriers to building exist there. Likewise, market participants are more likely to expect price increases to be temporary. Cycles, therefore, are likely to be less pronounced in rural areas than metropolitan areas. This is what we observe during the boom in the 1980s.

The subsequent bust in metropolitan areas in the early nineties narrowed the gap between rural and metropolitan area house prices. Rural areas experienced modest appreciation during this time, while metro areas experienced significant declines. While rural areas have been performing relatively well, their growth has slowed slightly relative to metro areas in the late nineties. It may not be a warning sign of future divergence, however. A recent article in SMM (Cutts 2000) highlights the convergence of regional house prices in the nineties and attributes this phenomena to technological advancement and the accompanying

joining of regional economies<sup>4</sup>.

A slightly different twist on this argument can be applied to the case of rural and metropolitan area housing markets. The article alludes to the fact that falling costs of transportation and more efficient communication systems facilitate business relationships that are not as dependent on location as they have been historically. In this case, businesses may find rural areas a more desirable place to locate, as they enjoy a combination of less expensive land rents and less congestion. Accordingly, individuals follow businesses to rural areas to take advantage of job opportunities. Even the businesses that remain in central cities are more often affording employees the opportunity to telecommute. This provides flexibility for an individual to work from a "central business district" based office while living in a less expensive rural area and enjoying more disposable income from which to pursue other consumption or investment opportunities.

### **The Case of the New England and Pacific Census Divisions**

The largest regional disparities in rural and metropolitan cumulative price movement occurred in the New England and Pacific Divisions. This is not surprising, since metropolitan areas that comprise a large population share in these Divisions are characterized by more stringent regulatory markets and a limited supply of available land<sup>5</sup>. In New England, rural area house prices lost significant ground to metropolitan prices in the early eighties. Since then, rural house prices have grown at similar rates. In other words, rural areas appear to have experienced booms and busts in similar magnitudes as in metropolitan areas. Over the full 20 years, rural house prices in New England declined 26 percent relative to prices in metropolitan areas.

In the Pacific Division, rural area prices dropped relative to metropolitan prices throughout most of the eighties. By 1990, metro area prices had risen 37 percent while rural area prices had declined 10 percent. In the early to mid nineties; however, metropolitan house prices experienced a large bust while rural areas continued to experience appreciation, narrowing the gap between cumulative rural and metro price change. By 1997, rural area prices had fallen only 7 percent relative to prices in metro areas. The boom of the past two years seems to be once again increasing this gap. The gap between rural and metro area indexes grew to 16 percent by the end of the 20-year period.

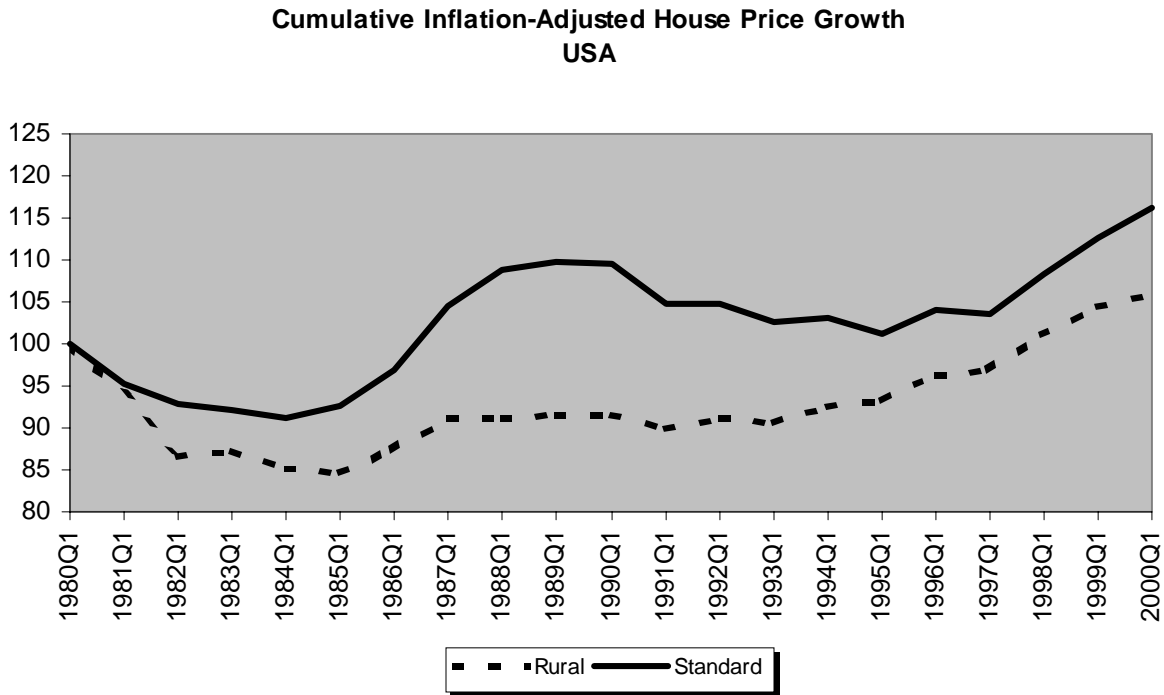
### **Other Census Divisions**

Figures 4 through 10 depict cumulative rural and metropolitan growth for the other 7 Census Divisions. All Divisions appear to exhibit widening gaps between metro and rural area price growth in the mid to late 1980s followed by a tightening beginning in the early 1990s. The percentage by which rural house prices decreased relative to prices in metropolitan areas over the past 20 years is as follows:

- 2.3 percent in East North Central
- 2.5 percent in South Atlantic
- 2.6 percent in West South Central
- 5.9 percent in East South Central
- 9.1 percent in Mountain
- 10.9 percent in Middle Atlantic
- 11.3 percent in West North Central

## Conclusion

House prices have grown more rapidly in rural areas than in metropolitan areas in the 1990s. Technological advancement in the 1990s may be contributing to this phenomena. During recent years, however, we have witnessed rural areas falling off relative to metropolitan areas in the United States as a whole. It is not clear at this stage whether this trend will continue.



<sup>1</sup> As defined by the Office of Management and Budget.

<sup>2</sup> The adjustment was based on the Consumer Price Index for all urban consumers, specifically “all items less shelter” published by the Bureau of Labor Statistics.

<sup>3</sup> References to the behavior of metropolitan house prices are based on the standard HPI, which also contains rural properties. For most Divisions, however, rural properties are a very small share and thus the indexes are essentially representative of metropolitan area markets. The share of rural properties in each Division varies.

<sup>4</sup> Cutts, Amy Crews, “Stellar House-Price Gains: Breaking New Economic Ground,” *Secondary Mortgage Market*, 16:2, 3-7, (1999).

<sup>5</sup> A large percentage of the population in these divisions is located in coastal cities such as San Francisco, Los Angeles, and Boston. To the extent that these metro areas are landlocked by water along part of the border, there is less agricultural land available for conversion to urban land within a given perimeter of the central business district. For further discussion of the price phenomena in these regions see J. Abraham and P. Hendershott, “Bubbles in Metropolitan Housing Markets,” *Journal of Housing Research*, 7(2), 191-206 (1996).

## **OVERVIEW OF OFFICE OF FEDERAL HOUSING ENTERPRISE OVERSIGHT (OFHEO)**

The **Office of Federal Housing Enterprise Oversight (OFHEO)** was established as an independent entity within the Department of Housing and Urban Development by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Title XIII of P.L. 102-550). The Office is headed by Armando Falcon, Jr. appointed by the President for a five-year term. Mr. Falcon was confirmed as OFHEO's second Director in September 1999.

OFHEO's primary mission is ensuring the capital adequacy and financial safety and soundness of two government-sponsored enterprises (GSEs), **Fannie Mae** and **Freddie Mac**.

Fannie Mae and Freddie Mac are the nation's largest housing finance institutions. They buy mortgages from commercial banks, thrift institutions, mortgage banks, and other primary lenders, and either hold these mortgages in their own portfolios or package them into mortgage-backed securities for resale to investors. These secondary mortgage market operations play a major role in creating a ready supply of mortgage funds for American homebuyers. At present, combined assets and off-balance sheet obligations of Fannie Mae and Freddie Mac are more than \$2.1 trillion.

Fannie Mae and Freddie Mac are Congressionally-chartered, publicly-owned corporations listed on the New York Stock Exchange. OFHEO is funded through assessments on Fannie Mae and Freddie Mac. OFHEO's operations represent no direct cost to the taxpayer.

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