

# FREE FALL: A Rapid and Uncontrolled Decline

by John Adams / from the Atlanta Journal-Constitution

TERRIBLE DECLINE IN HOME PRICES NOT HERE YET (But look out!)

I recently heard a news report on MSNBC that home values were in a "free fall." Not being exactly sure what a free fall is, I looked it up.

A "rapid, uncontrolled decline" was the meaning I settled on, and because I heard it on the network news, I believed it must be true. After all, if you see it on the news, it's true, right?

If, in fact, home values were in a free fall, that would be very bad for those of us who own real estate, especially those who have invested a lot in their own homes. And since the average American family has a large part of their net worth tied up in their house, a "free fall" in home values could spell trouble for many reading this column.

Thus I was pleasantly surprised when the most widely trusted home price index for the United States was released last week. It showed that, in fact, home prices are not in free fall. Instead, it showed that Georgia home values for the fourth quarter of 2007 were, in fact, higher than they had ever been.

The Office of Federal Housing Enterprise Oversight (OFHEO) is the agency charged with supervising Fannie Mae and Freddie Mac, both government chartered "market-makers" for home loans. In that capacity, they have access to remarkably widespread data regarding home sales and refinancings from all over the United States. Their website is [ofheo.gov](http://ofheo.gov) and this data is from the Home Price Index.

Here are the facts:

\* OFHEO's all-transactions House Price Index (HPI), which includes data from home sales and appraisals for refinancings, showed better results than the purchase-only index. The all-transactions national HPI rose

0.1 percent over the latest quarter and 0.8 percent for the year of 2007. The "all-transactions" index is the broadest measure of home values available anywhere.

I realize that a national average home price increase of less than one percent is statistically no increase at all, and not much to celebrate. But after reports of my home's value being in a free fall, an increase of 0.8 percent nationally begins to sound pretty good. Remember that this number includes California, Florida, and all the states where recent unsustainable price run-ups are being paid back today.

\* The states with the greatest rates of appreciation between the fourth quarter of 2006 and the fourth quarter of 2007 were: Utah (9.3%), Wyoming (8.3%), North Dakota (7.9%), Montana (6.9%), and Alaska (6.0%). None of these states had participated in the speculative frenzy that set up our current slowdown.

\* The states with the lowest rates of appreciation for the same period were: California (-6.6%), Nevada (-5.9%), Florida (-4.7%), Michigan (-4.3%), and Rhode Island (-2.6%). The first three are suffering from their own popularity, Michigan is in a general "rust belt" decline, and Rhode Island is approximately the size of Fulton, Dekalb and Gwinnett counties added together, so it's hard to say what's really happening there (and who cares?).

\* Georgia's price appreciation for 2007 ranked 24th on the list of states, and indicated that the typical home here increased in value by 2.55 percent during the year. It also showed a small increase of 0.76 percent in the fourth quarter alone.

\* The southeastern block of states surrounding Georgia fared even better, with the notable exception of Florida. All other surrounding states were in positive territory, showing price gains of between 3 and 5 percent for 2007.

\* The Atlanta metro area ended the year with a small, but important increase as well. The all-transaction index showed the average home in our metro was up 1.67 percent for the year, with a 0.67 percent increase in the difficult fourth quarter.

Other Georgia cities showed increases for the year as well:

Warner Robins led the way with an increase in values of 6.52 percent for 2007, while Augusta, Hinesville and Brunswick all topped 5 percent.

Nearby Athens and Rome exceeded a 3 percent increase. Not one reported Georgia city experienced any decrease in the Home Price Index for 2007.

Some of you may remember that the widely publicized S&P/Case-Schiller Index of home prices came out earlier this year, and it showed home prices in Georgia declining, although only slightly. I chose not to dwell on those numbers, and I want you to know why.

The Case-Schiller National Index uses only resale data from county tax records in only 37 states, while the OFHEO index uses Fannie Mae and Freddie Mac appraisal data from sales in all 50 states. In addition to having complete national coverage, the OFHEO index expands its data by including refinancings, giving it a much broader base of information from which to draw conclusions.

OFHEO's quarterly Home Price Index is based on more than 34 million repeat transaction pairs over 32 years. You can download the complete report at their website which is located at [ofheo.gov](http://ofheo.gov) by clicking on "Home Price Index".

I guess this means I am still in denial about the broad based "free fall" in housing values across the nation and here in Georgia. And while some broadcasters may not want to admit it, the facts indicate that most Americans are not experiencing a decline in their home's value.