July 2006
NATIONAL ASSOCIATION OF REALTORS®

Home Price Analysis for Detroit Region

By the Research Division of the National Association of REALTORS®

Executive Summary

- Home prices in the region have been stagnant in the past four years. Continuing job losses in the region have greatly reduced housing demand.

- Jobs are the key to recovery. Mortgage rates, which have risen by about one percentage point, are less of a factor in affordable regions like Detroit.

- The affordable home price and the associated low mortgage servicing costs in the local region suggest that there is a good possibility of better-than-average price growth in the coming years, provided the local economy generates jobs at a respectable pace.

- A recent sharp cut back in new home construction in the region is encouraging. Homebuilders need to be extra careful not to oversupply the market that is losing jobs.

- The share of adjustable-rate mortgages (ARMs) fell to 24% in the first quarter from 28% a year ago. Though ARMs are the best financing choice for some homeowners, they also carry risk in the current rising interest-rate environment. The reduction in ARM usage is, therefore, a positive sign in minimizing risk.

- The percentage of homebuyers who utilized sub-prime mortgages (those with rates more than 3 percentage points higher than the average market rate) was above the national average. A continuing weakness in the job market can, therefore, spell trouble in raising delinquency and foreclosure rates.

- The Detroit region shed 19,000 jobs in the past 12 months. The local unemployment rate is one of the highest in the country.

- The negative migration pattern out of the region reflects the poor job market conditions. Policy makers need to take a careful look at introducing new measures to reverse the tide. (The fastest growing regions of the country typically have lower taxes and fewer union membership.)

- High oil prices have raised inflation and have slowed economic growth. The Midwest economies generally tend to suffer more than the rest of the country during a recession due to a higher concentration of manufacturing industries in the region. Therefore, should the national economy tip into a recession, job cuts in the local region are likely and could even be severe. Home prices would be dragged down as a result.

Summary of Activity

	Detroit	National Average	Comment
Price Activity			
Latest Appreciation (2006 Q1 vs 2005 Q1)	N/A	10.3%	N/A
Last Year Appreciation	0.7%	12.0%	Weak
3-year Appreciation	-0.4%	31.0%	Weak
Historical Average Annual Appreciation*	4.7%	5.0%	Neutral
Affordability			
Mortgage Debt Servicing Cost to Income Ratio** (2006 Q1)	12.6%	22.0%	Favorable
Historical Mortgage Debt Servicing Cost*	15.7%	22.0%	Favorable
Home Sales			
State Existing Home Sales (2006 Q1 vs 2005 Q1)	-8.8%	-2.1%	Unfavorable
Single-family Housing Permits (2006 Q1 vs 2005 Q1)	-43.0%	-0.9%	Favorable
Mortgages			
Share of New Loans with ARMS (2006 Q1)	24.0%	28.0%	Neutral
Share of New Loans with LTV higher than 90%	35.0%	16.0%	Unfavorable
Percentage of Sub-Prime Mortgages	18.3%	10.1%	Unfavorable
Percentage of Mortgages for Second Home Purchase	10.2%	15.3%	Favorable
State Delinquency Rate (2006 Q1)	5.8%	4.0%	Unfavorable
Local Fundamentals			
3-year Job Growth	-2.3%	2.4%	Unfavorable
Unemployment Rate (2006 Q1)	7.2%	4.7%	Unfavorable
Housing Permits to Total Employment (2005)	0.8%	1.6%	Neutral
Net Migration	-25,300	0	Favorable

Risk Factor

The delinquency rate is uncomfortably high. In recent years, Michigan has had one of the highest foreclosure rates due principally to large job losses in the state. The recent decrease in new home construction does help in reducing supply. Jobs are the key. Continuing trouble in the auto industry could spell trouble for home prices. Nonetheless, due to the very favorable mortgage debt servicing cost in relation to income, the market could quickly turn for the better if jobs make a comeback.

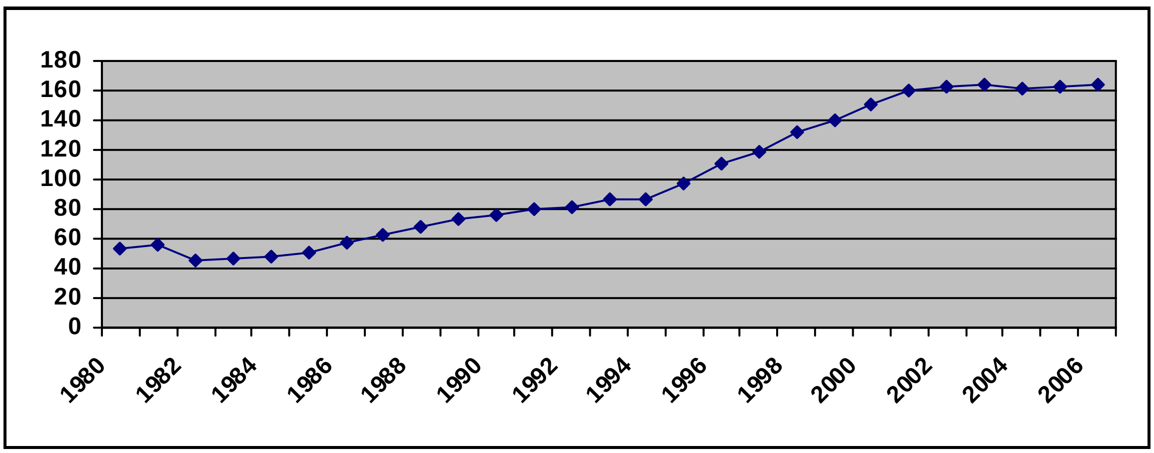
** Average ratio from 1980 to 2005*
*** This ratio compares the monthly mortgage payment for a median-priced home financed at the prevailing mortgage rate to the median household income.*

Price Activity

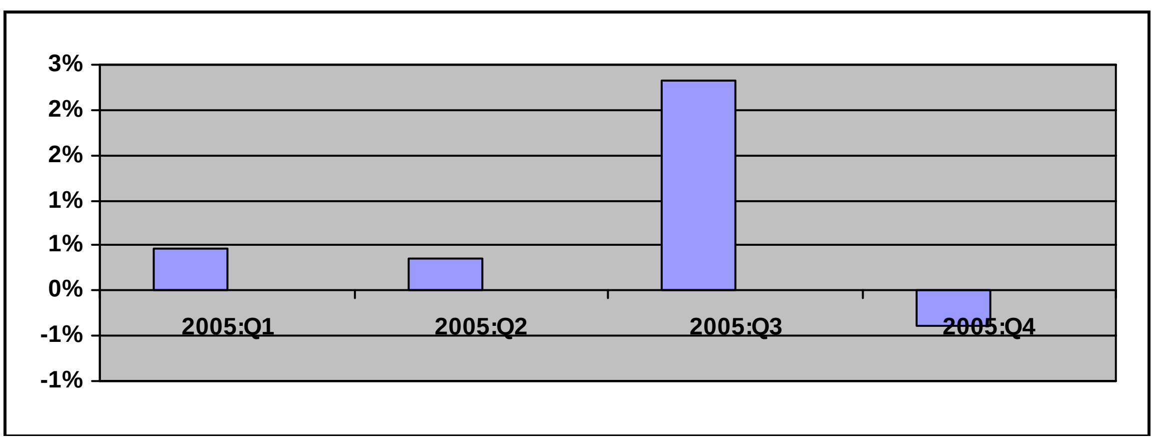
	Existing Home Price	Price Growth	Local to National Price	Per Capita Income	Mortgage Servicing Cost to Income	12 month Job Gain
2001	160,000	6.3%	1.0	34,460	15.0%	-66,300
2002	162,800	1.8%	1.0	34,708	14.0%	-51,300
2003	164,400	1.0%	0.9	36,330	13.0%	-20,900
2004	161,000	-2.1%	0.8	36,650	12.0%	-22,600
2005	162,100	0.7%	0.7	38,299	12.0%	-4,500

- In 2005 the median home price in the Detroit region was affordable at $162,100.
- Home prices missed out on the national housing boom and have barely budged in the past four years.
- Jobs are needed to provide a boost to home prices. To date, job losses are continuing in the region.
- Home prices have underperformed in relation to the country as a whole. So there is an opportunity for a measurable "catch-up” effect in the coming years provided the job market turns around.

Local Home Price (in $1,000)



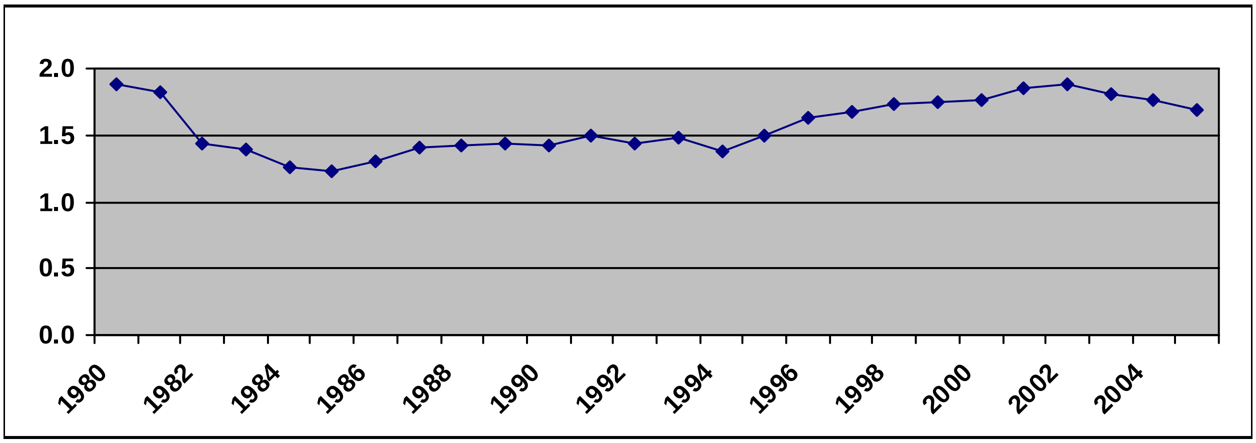
Recent Price Appreciation



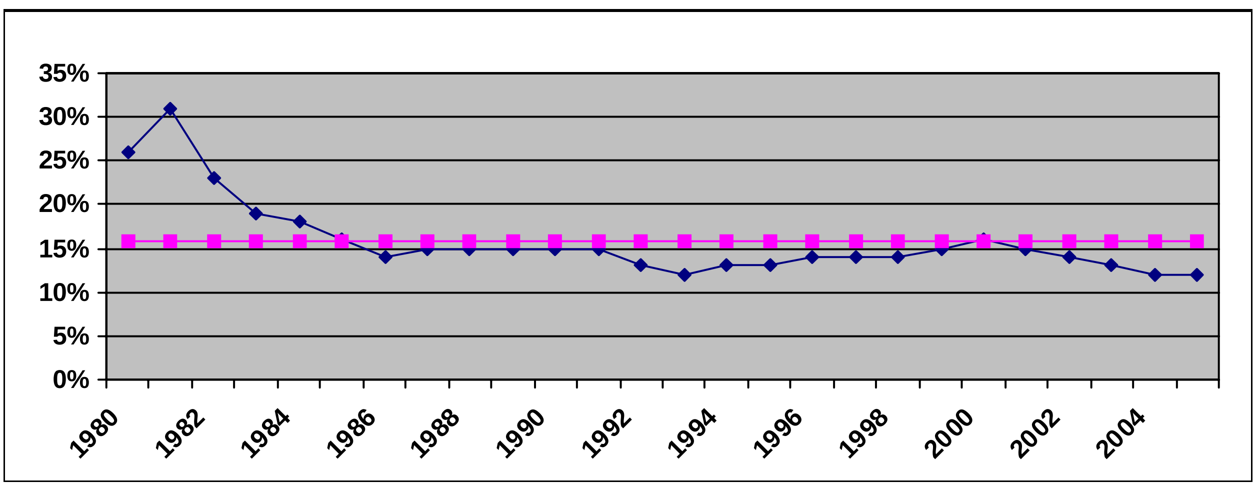
Affordability

- The ratio of price-to-income is in a comfortable range. By this measure, local home prices are underpriced.
- A more relevant measure for assessing the risk of a home price bubble is the median mortgage servicing cost relative to the median income. This measure has been treading at historic lows.
- The below-normal mortgage servicing cost implies no widespread financial overstretching to purchase a home in the region. It also implies the potential for a strong rise in home prices in the coming years - again, provided the job market turns around.

Price to Income Ratio



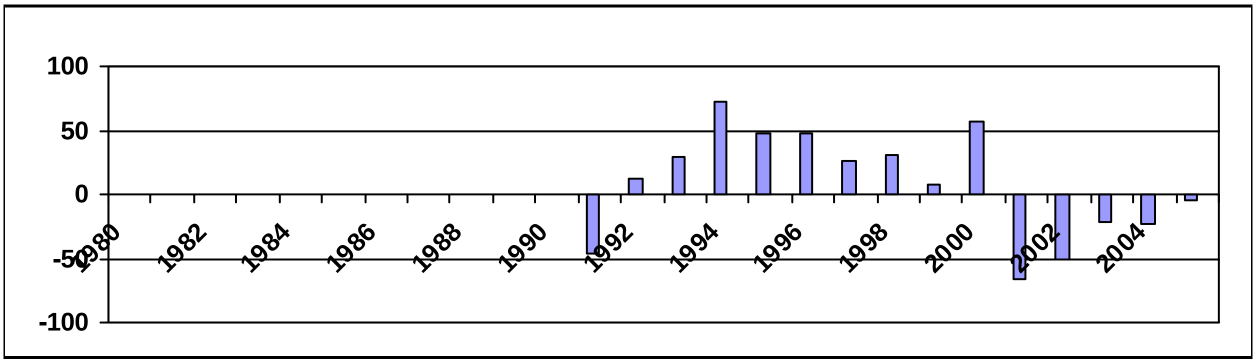
Mortgage Servicing Cost to Income Ratio
(Historical average shown as square boxes)



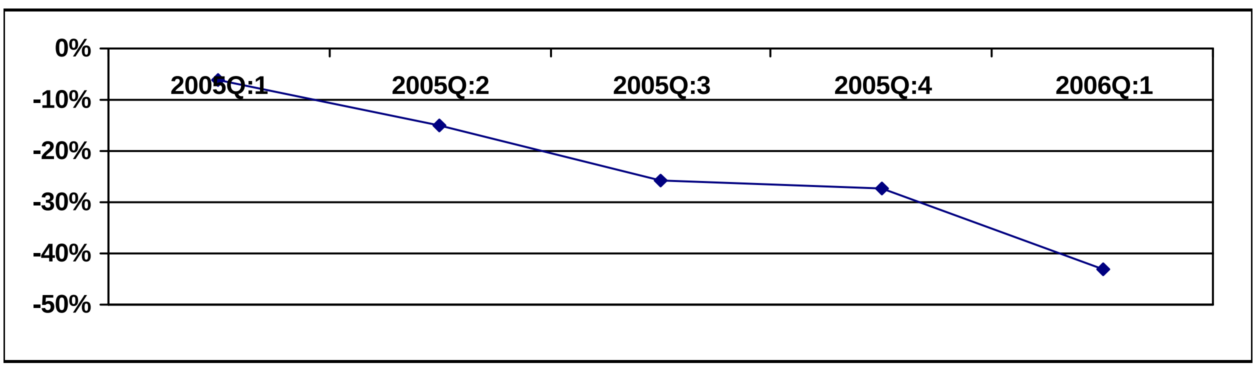
Local Fundamentals

- Job losses have piled on since the recession in 2001. A total of 166,000 jobs were lost in the past five years.
- Over the same five years, the region added 94,700 new housing units, of which 76,000 were single-family units.
- New home construction sharply declined in the latest quarter - a positive sign in keeping supply in check.
- The ratio of five-year job gains to five-year new home construction shows the "hangover" impact of a housing shortage or housing surplus. Based on this measure, there is a large oversupply that needs to be worked off.

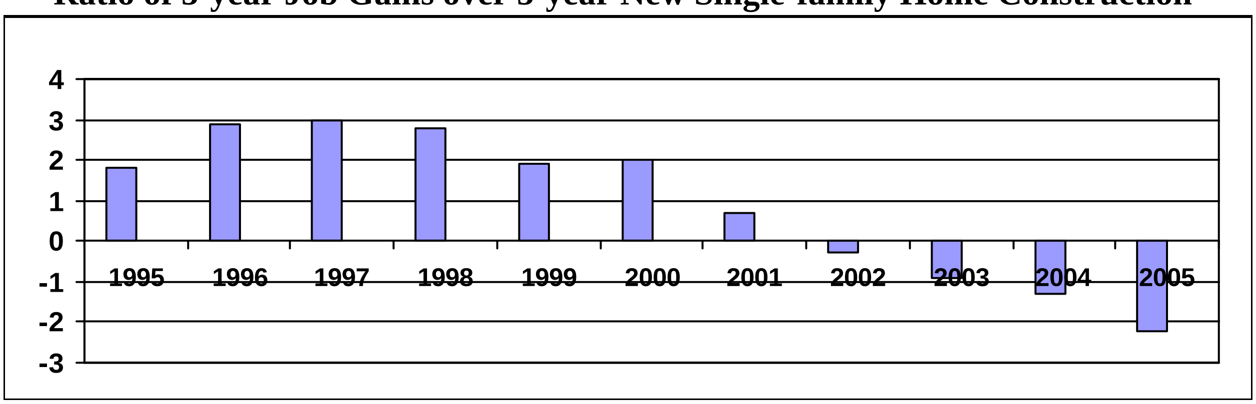
Job Gains (in Thousands)



Recent new Single-family Home Construction
(% change from a year ago)



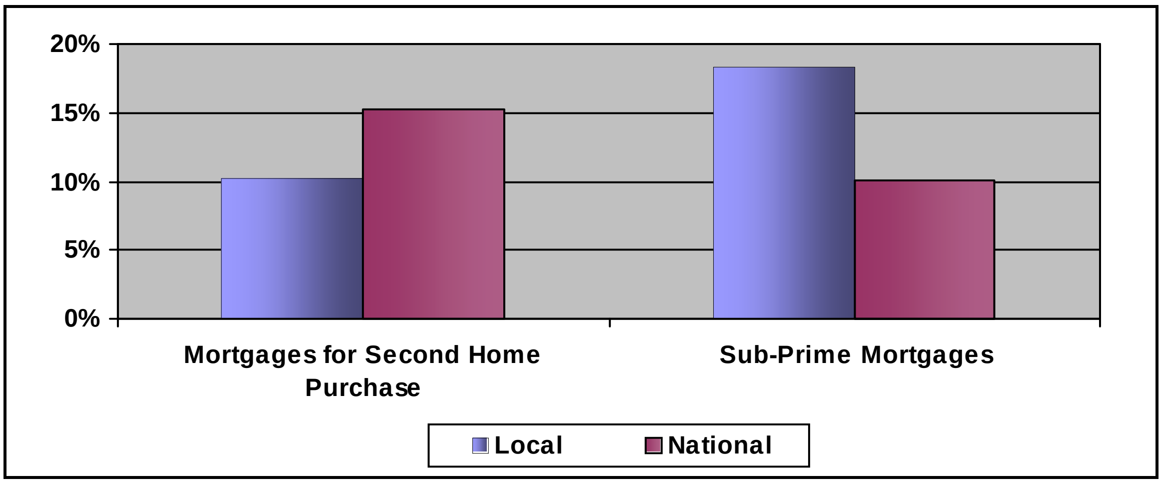
Ratio of 5-year Job Gains over 5-year New Single-family Home Construction



Mortgage Activity

- Mortgage lending activity in the region has expanded to less credit-worthy borrowers. The percentage of sub-prime loans (those carrying interest rates at least 3 percentage points higher than market rates) was 18%, versus the 10% national average.
- The share of adjustable-rate mortgages was 24% in the first quarter of 2006, down from 30% in the prior quarter. Reduction in ARMS lessen interest-rate risk.
- A high percentage (35%) of new loans had a loan-to-value ratio of greater than 90%, implying any price declines can lead to rising foreclosures.

Riskier Mortgages



Prevalence of Riskier Mortgages

(Unit: Percentage)

Quarter	Adjustable New Loans	Loans with LTV over 90%
2005:Q1	28	42
2005:Q2	39	17
2005:Q3	36	30
2005:Q4	30	22
2006:Q1	24	35

Price Scenarios

- Even in the unlikely event of prices declining by 5%, most homeowners will maintain sizable equity build-up in their homes. The table below shows the home equity gains if prices were to fall by 5% in 2006. A homebuyer who purchased in 2005 would suffer $6,000 in home equity loss. But homebuyers who had purchased in prior years would still retain significant housing equity gains.

Year of Purchase	Housing Equity after 5% Price Decline (Home price appreciation + principal payments on mortage)
1980	$131,900
1985	$119,800
1990	$94,300
1995	$70,800
2000	$13,100
2001	$3,800
2002	($500)
2003	($3,600)
2004	($2,700)
2005	($6,000)

- A likely scenario is for home prices to rise, though at a much lower rate than in recent past years. The equity gains under different though conservative price growth assumptions are presented below.

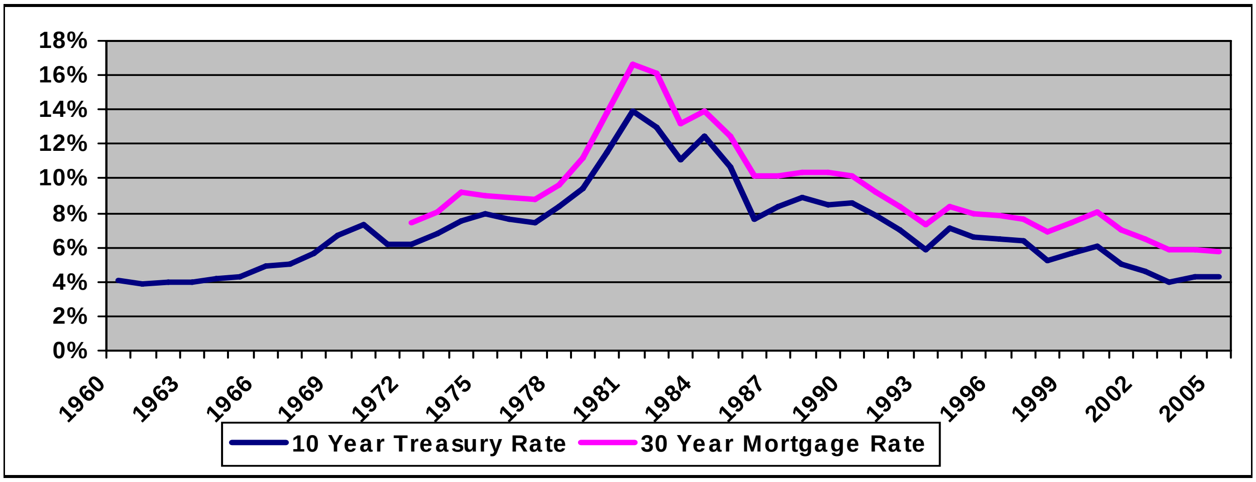
Housing Equity Gain				
Appreciation Rate	***1.5%***	***3.0%***	***4.5%***	***4.8%***
Conservative Scenarios	***Low***	***Middle***	***High***	*25-year average rate*
2010	$24,200	$37,500	$51,600	$54,100
2015	$52,400	$82,100	$116,000	$122,300
2020	$87,300	$137,200	$198,400	$210,200
2030	$184,800	$289,000	$436,800	$467,800
2040	$273,000	$456,100	$756,600	$824,900

Additional Discussion Points

- Home price declines are very rare. In fact, the national median home price has not declined since the Great Depression of the 1930s. Stock market collapses, OPEC oil crunch, economic recessions, and even wars have not negatively impacted national home prices since the 1930s.
- There have been few times when local prices declined. In nearly all these cases, the price declines were accompanied by sharp prolonged job losses. It is difficult to foresee a price decline in a job creating economy.
- Homes trade far less frequently than financial assets (about one home sale every 7 to 10 years for most homeowners). There are also larger transaction costs associated with selling a home due to the lengthy careful examination demanded by home buyers and sellers. Therefore, home prices are not prone to fluctuations as in the stock market. There are neither panic sells nor margin calls associated with homes.
- Many non-quantifiable factors could be important for this metro market in determining home prices. Access to cultural life, the quality of museums, nearby local and national parks, water views, exclusive neighborhoods, weather, the international airport, city vibrancy, restaurants, and a host of other non-quantifiable factors could have an important influence on the overall pricing.
- There are immense tax benefits to owning a home. These tax considerations were not considered in the analysis. For example, the 1997 law permitting primary owner occupants to trade down without having tax consequences. Also most home sales results in no capital gains tax. In addition, long-term capital gains tax rates were reduced in 2003, thereby providing higher return for home investors. These positive benefits, if accounted for in the analysis, would have shown an even stronger case for housing fundamentals in supporting home prices.

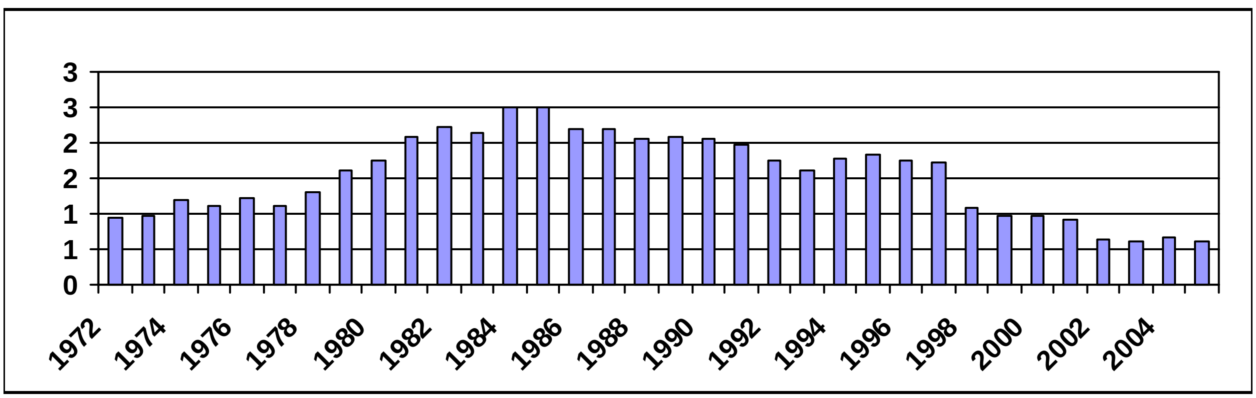
Additional Informative Charts

45-year Low Mortgage Rates



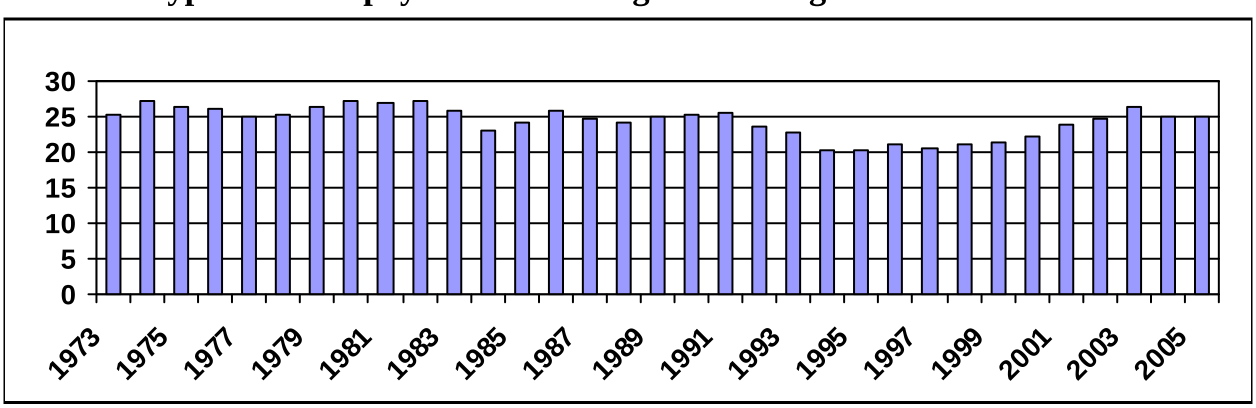
Source: Freddie Mac, Federal Reserve

Historic Low Fees and Points for Mortgage Origination



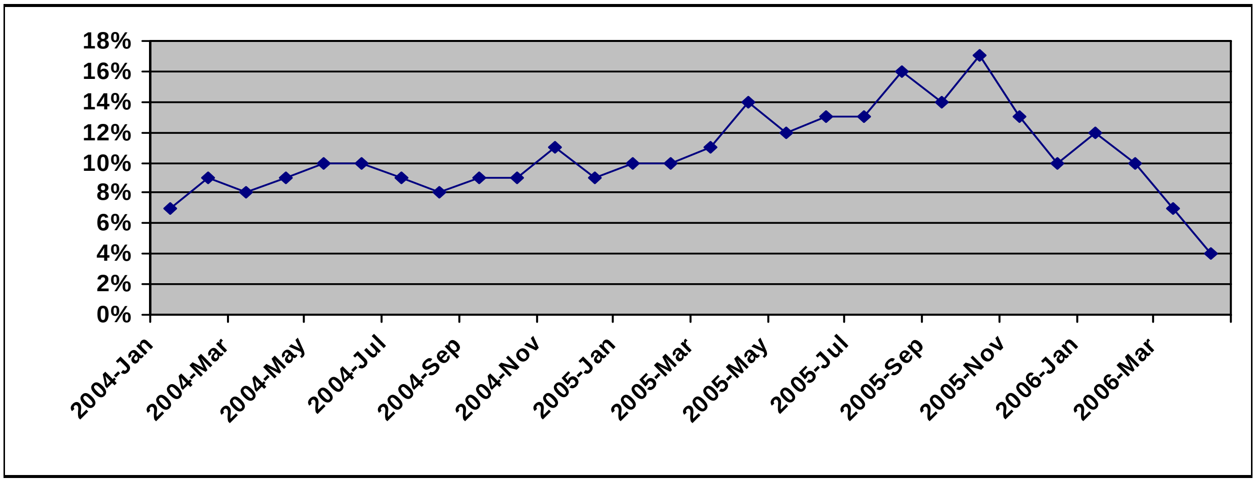
Source: Freddie Mac, Federal Reserve

Typical Down-payment Percentage Returning to Historic Norms



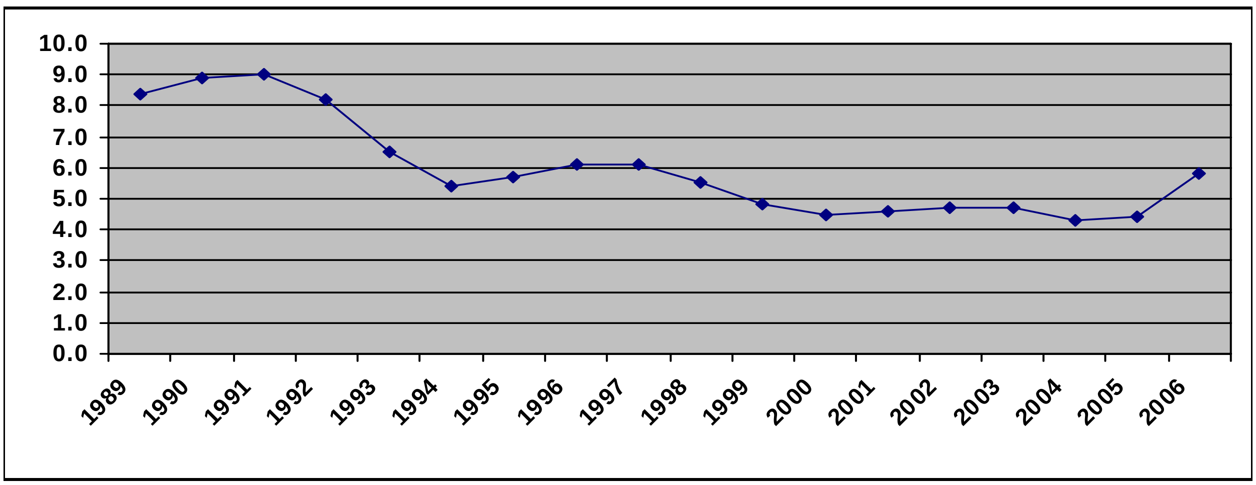
Source: Federal Housing Finance Board

Recent National Price Deceleration



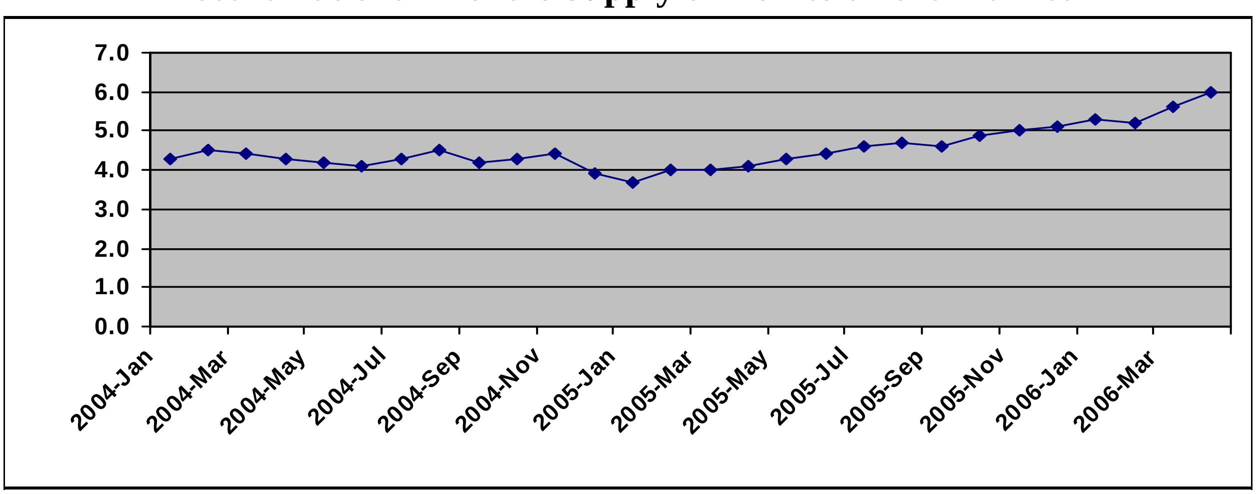
Source: NAR

Historical National Months Supply of Homes on the Market



Source: NAR

Recent National Months Supply of Homes on the Market



Source: NAR

NAR Research

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