

BRIEFING PAPER

In the Eye of the Storm: An Update on Pennsylvania Housing Prices

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The Keystone Research Center
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Overview

In January 2008 the Keystone Research Center released *A Building Storm: The Housing Market and the Pennsylvania Economy*, the first detailed study of the housing market in Pennsylvania and its major economic regions. Data available at that time showed that the growth in housing prices in Pennsylvania had slowed but not yet begun to fall. We warned in our first housing report, however, that the Pennsylvania housing market appeared to be following national trends and that nationally, home prices were already falling.

Brand new data, released August 26, 2008 by the Office of Federal Housing Enterprise Oversight, or OFHEO, show that:

- Adjusting for inflation, housing prices in Pennsylvania have now fallen for three straight quarters.
- In the second quarter of 2008, the most recent quarter for which data are available, home prices in Pennsylvania have fallen by 6.9% from the same quarter a year ago. Over the same period, home prices nationally declined by 9.5%.
- A different index¹, useful because it reports separately on housing prices in metropolitan areas, shows that home prices declined in the second quarter of 2008 in 15 of 16 metropolitan areas in Pennsylvania. Home prices fell the most in Lebanon (8.8%); in Newark-Union, which is primarily located in New Jersey but does include Pike County, Pennsylvania (7.7%); and in Allentown-Bethlehem-Easton (6.9%).

Since the primary source of wealth for most Pennsylvania families is their home, the fall in home prices is eroding the net worth of many families.

Dean Baker and David Rosnick of the Center for Economic and Policy Research (CEPR) recently estimated the impact of a 10% further decline in real housing prices from their March 2008 levels—a decline that they believe likely to occur by 2009—on the wealth of the typical U.S. family.² Baker and Rosnick find:

- From 2004 to 2009, the median wealth of families in the 18 to 34 age group is projected to fall by 68%.
- Median wealth for families in the 35 to 44 age group is projected to fall over the same

¹ which understates the decline in the price of homes for sale

² State-level wealth data are not widely available; hence the need to rely on national statistics in looking at the impact of housing price trends on middle-class wealth.

period by 57%.

- Median wealth for families in the 45 to 54 age group is projected to decline by 35%, leaving even this group, hit less hard than the others, with only \$800 more in wealth than they held in 1989.
- From 2004 to 2009, the median wealth of families in the 55 to 64 age group is projected to decline by 44%.
- Typical families in the 65 to 74 group and in the 75 and above group are projected to experience a decline in median wealth of less than 10%, reflecting the smaller role home equity plays in the total wealth of older families and the fact that older families have frequently paid off their mortgages.

For middle-class families, rising housing prices had remained the last bright spot in the otherwise difficult economic period that began in 2001. While wages and incomes had remained stagnant during that period for about 90% of families, increasing home values had given families security, wealth—and hope. Now, with home prices plummeting, that bright spot has been extinguished.

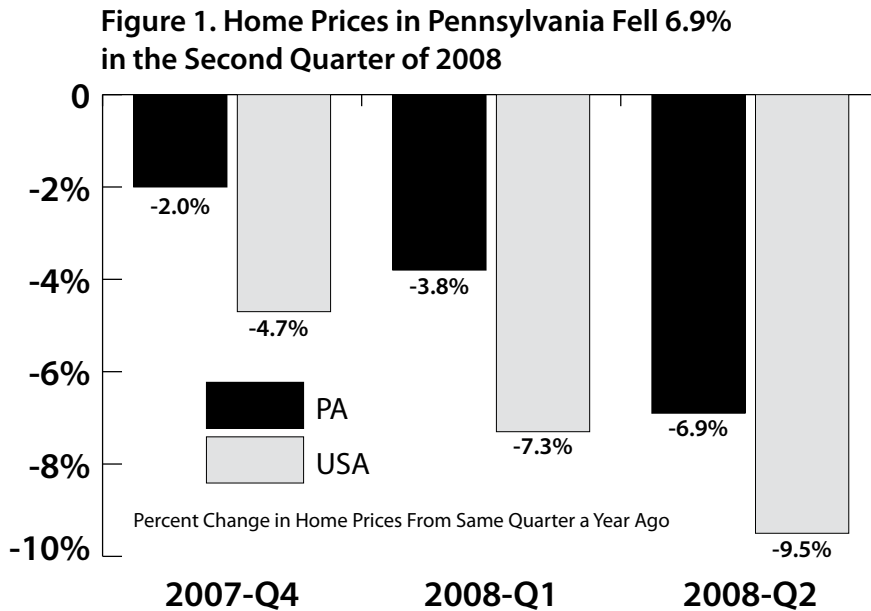
A Building Storm: The Housing Market and the Pennsylvania Economy, together with other information on the housing crisis in Pennsylvania and the U.S., including an interactive map of Pennsylvania home prices, is available for download at www.keystoneresearch.org/housingmarket.

For a more comprehensive look at the economic status of Pennsylvania working families, see *The State of Working Pennsylvania 2008*, online at www.stateofworkingpa.com

For KRC's view of how to turn around the economic situation of the typical Pennsylvania and U.S. family, and how to produce a prosperity that is broadly shared by families of all income levels, see the concluding section of *The State of Working Pennsylvania 2008* as well as "Building a Moral Economy." Both are available on the KRC website: www.keystoneresearch.org.

Home Prices Fall in Pennsylvania

On August 26, 2008 the Office of Federal Housing Enterprise Oversight (OFHEO) released new data on home prices in the second quarter of 2008 for Pennsylvania and 16 metropolitan areas that are entirely or partly in the state.



Data from the OFHEO³ show inflation-adjusted Pennsylvania housing prices falling by 6.9% from the second quarter of 2007 to the second quarter of 2008 (Figure 1). The same index shows home prices in the nation falling by 9.5% over the same period. Pennsylvania home prices have now fallen for three consecutive quarters, and as of the second quarter are now lower than their levels in the second quarter of 2005 (Figure 2).

Note. Data are for home sales. Inflation-Adjustment based on the CPI-U-All Items Less Shelter

Source. KRC estimates based on Office of Federal Housing Enterprise Oversight (OFHEO) Not Seasonally Adjusted Purchase-Only House Price

Home Prices Fall in Most of Metropolitan Pennsylvania

Housing price data for Pennsylvania metropolitan areas comes from the OFHEO All-Transactions House Price Index, which includes price data derived from refinance appraisals as well as home sales. When housing prices are falling, the decline in the appraised value of homes lags behind the value of homes sold. This is because appraisals rely heavily on sale prices from the recent past, when housing prices had not yet fallen as much. As a result, the All-Transactions House Price Index for Pennsylvania is showing smaller home price declines (3.7%) than the statewide Purchase-Only index (6.9%).⁴ Although understating the decline in prices being experienced by homeowners seeking to sell their homes, the All-Transactions Index is still showing that home prices are falling in 15 of 16 metropolitan areas in the state (Figure 3).

Home prices fell the most in Lebanon (8.8%), Newark-Union⁵ (7.7%) and Allentown-Bethlehem-Easton

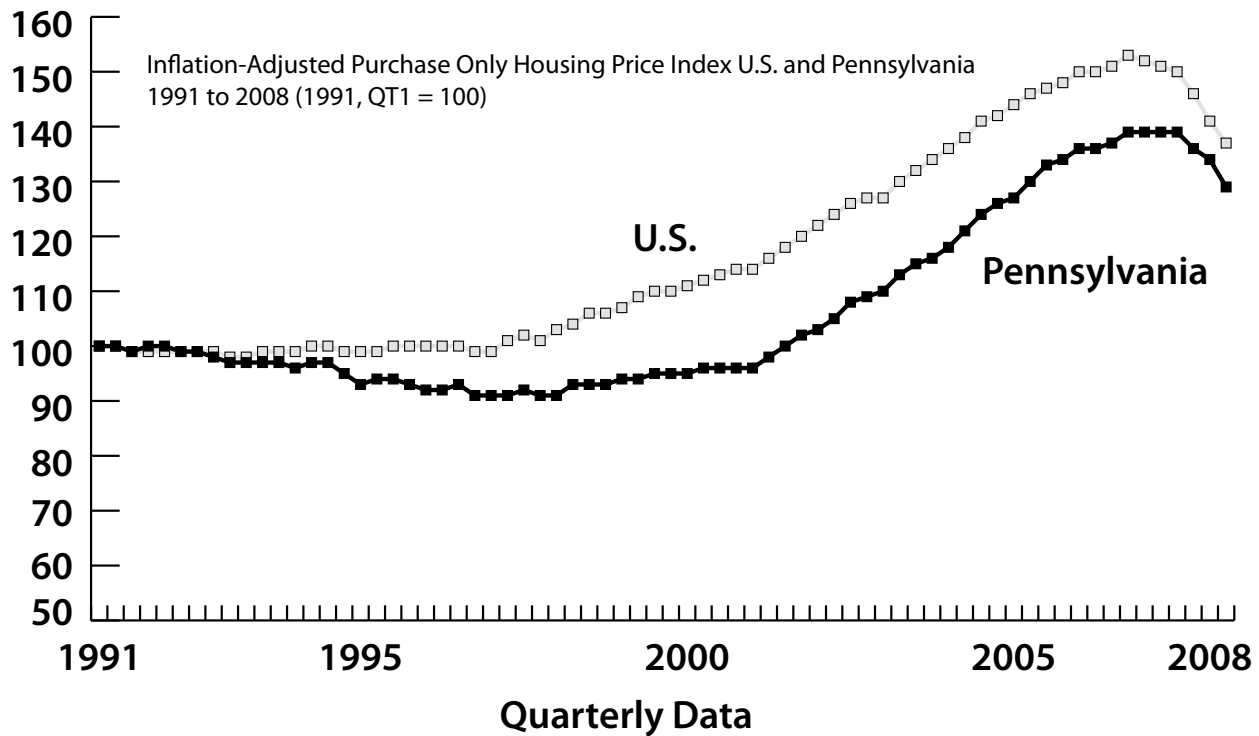
³ which includes only price data derived from home sales

⁴ The home price index most widely cited in the media, the S&P/Case-Shiller Index, is not available for Pennsylvania. The S&P/Case-Shiller Index is also a purchase-only index, which is one of several important reasons why the OFHEO All-Transactions Index is showing smaller housing price declines than the S&P/Case-Shiller Index. For more about these home price indexes, see Revisiting the Differences between the OFHEO and S&P/Case-Shiller House Price Indexes: New Explanations, OFHEO Research Reports, January 15, 2008. Online at <http://www.ofheo.gov/media/research/OFHEOSPCS12008.pdf>.

⁵ The Newark-Union Metropolitan Area lies primarily in New Jersey, but includes Pike County, Pennsylvania.

(6.9%). Figures 4 through 19 in the summary of home price trends by Pennsylvania MSA section beginning on page 7, summarize home price data for each MSA in Pennsylvania.

Figure 2. After Adjusting for Inflation, Home Prices in Pennsylvania Are Now Lower Than They Were in the Second Quarter of 2005



Note. Data are for home sales. Inflation-Adjustment based on the CPI-U-All Items Less Shelter

Source. KRC estimates based on Office of Federal Housing Enterprise Oversight (OFHEO) Not Seasonally Adjusted Purchase-Only House Price Index.

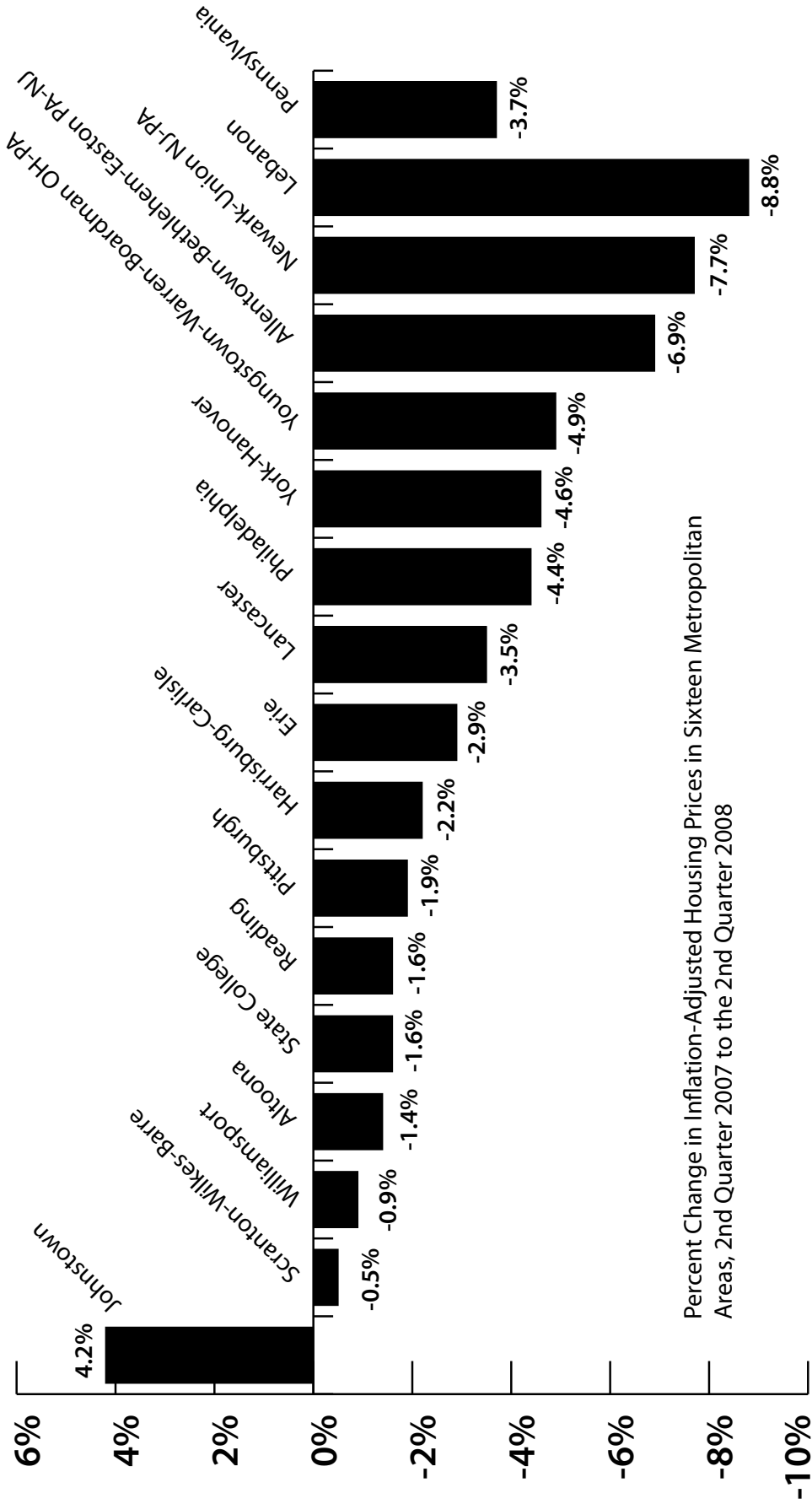
Falling Home Prices Threaten Household Wealth in Pennsylvania

In July 2008, Dean Baker and David Rosnick of the Center for Economic and Policy Research (CEPR) projected the impact of a 10% further decline in real housing prices from their March 2008 levels—a decline that they believe likely to occur by 2009—on family wealth. Their findings are presented in Table 1.⁶ Although there is no data that would allow similar projections for Pennsylvania families, there is no doubt that falling home prices in Pennsylvania will have a similar negative impact on what is for most Pennsylvania families their primary source of wealth: their home.

Baker and Rosnick expect further declines in home prices to reduce the wealth of the typical family in every age group, with the youngest groups suffering the largest declines. Younger homeowners typically have less home equity and have paid off only a small portion of the principal on their mortgage. This leads to larger losses in wealth as home prices fall.

⁶ Dean Baker and David Rosnick, The Impact of the Housing Crash on Family Wealth, Center for Economic and Policy Research, July 2008, online at www.cepr.org.

Figure 3. Home Prices Are Now Falling in 15 of 16 Pennsylvania Metropolitan Areas



Percent Change in Inflation-Adjusted Housing Prices in Sixteen Metropolitan Areas, 2nd Quarter 2007 to the 2nd Quarter 2008

Note. Data are for all-transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
 Source: KRC analysis based on Office of Federal Housing Enterprise Oversight (OFHEO) data

For example, if there is a 10% price decline and a family has paid off only 10% of the original price of their home, the family loses all of the wealth it had accumulated in the home. By contrast, if a family has paid off the entire mortgage, a 10% price decline only erodes 10% of the wealth the family had accumulated in the home.

- From 2004 to 2009, the median wealth of families in the 18 to 34 age group is projected to fall by 68%.
- Median wealth for families in the 35 to 44 age group is projected to fall over the same period by 57%.
- Median wealth for families in the 45 to 54 age group is projected to decline by 35%, leaving even this group with only \$800 more in wealth than they held in 1989.
- From 2004 to 2009, the median wealth of families in the 55 to 64 age group is projected to decline by 44%.
- The typical family in the 65 to 75 group and the 75-and-above group are projected to experience a decline in median wealth of less than 10%, reflecting the smaller role home equity plays in the total wealth of older families.

Table 1. Median Family Wealth 1989, 2001, 2004 and projected for 2009

Age Cohort	1989	2001	2004	2009	Percent Change from		
					1989-2009		2004-2009
18-34	\$7,830	\$11,305	\$14,500	\$4,700	-40%	-58%	-68%
35-44	\$56,670	\$85,100	\$72,451	\$31,292	-45%	-63%	-57%
45-54	\$97,600	\$140,440	\$150,520	\$98,400	1%	-30%	-35%
55-64	\$98,550	\$195,350	\$275,360	\$154,373	57%	-21%	-44%
65-74	\$76,880	\$197,150	\$213,730	\$194,603	153%	-1%	-9%
75+	\$72,100	\$156,350	\$167,700	\$155,275	115%	-1%	-7%

Note. Median family wealth projected to 2009.

Source. Center for Economic and Policy Research (www.cepr.net)

Summary of Home Price Trends by Pennsylvania MSA

Figure 4. Home Prices in Lebanon County Fell 8.8% in the Second Quarter of 2008

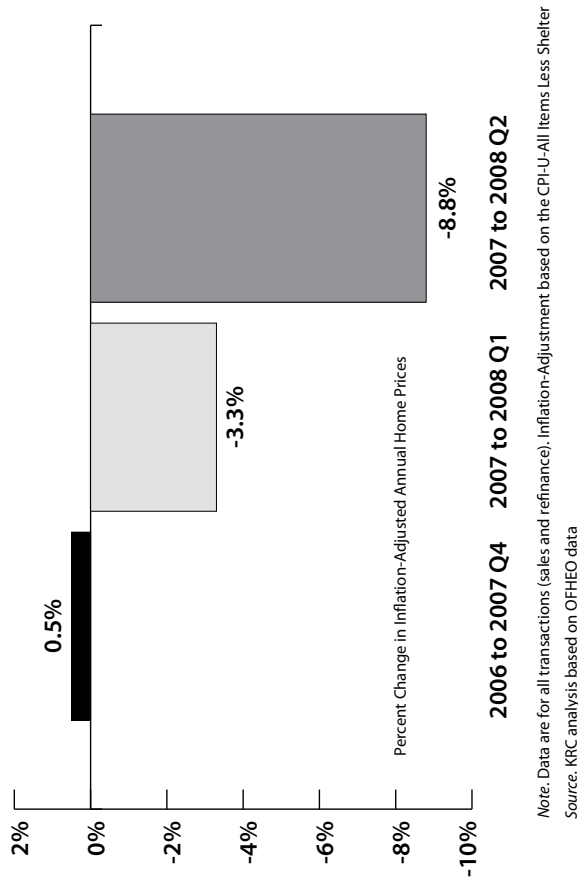


Figure 6. Home Prices in York-Hanover Fell 4.6% in the Second Quarter of 2008

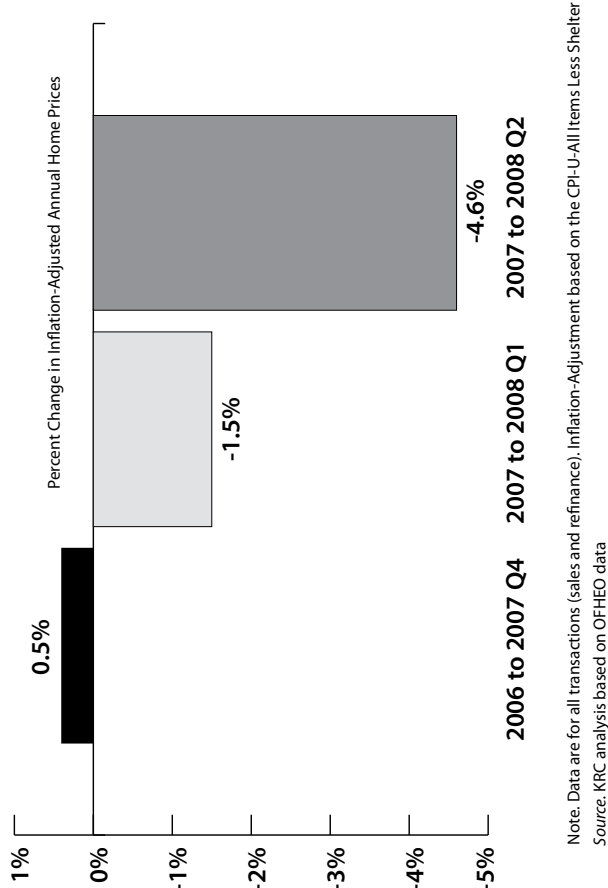


Figure 5. Home Prices in Allentown-Bethlehem-Easton PA-NJ Fell 6.9% in the Second Quarter of 2008

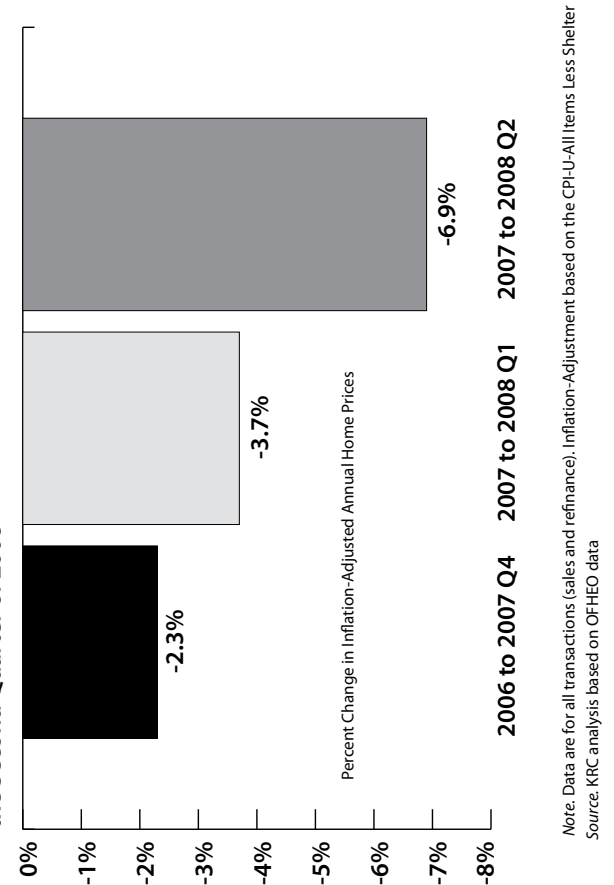


Figure 7. Home Prices in Metropolitan Philadelphia Fell 4.4% in the Second Quarter of 2008

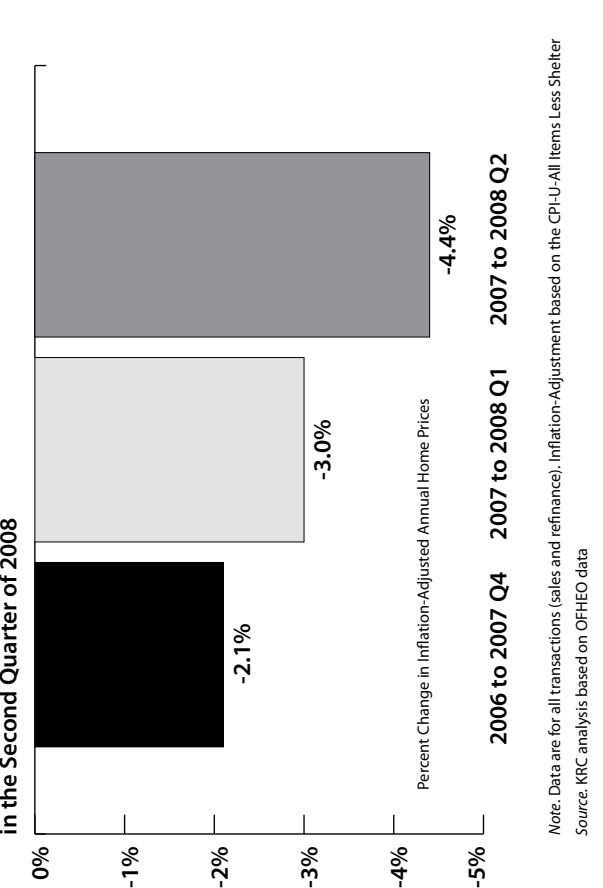
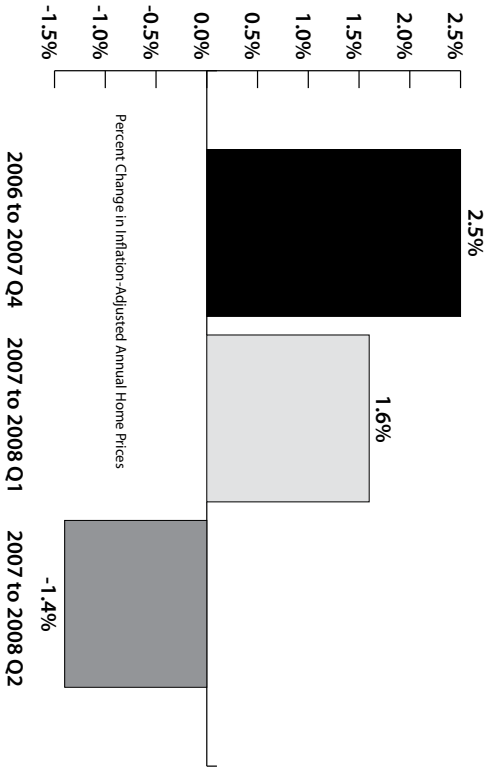
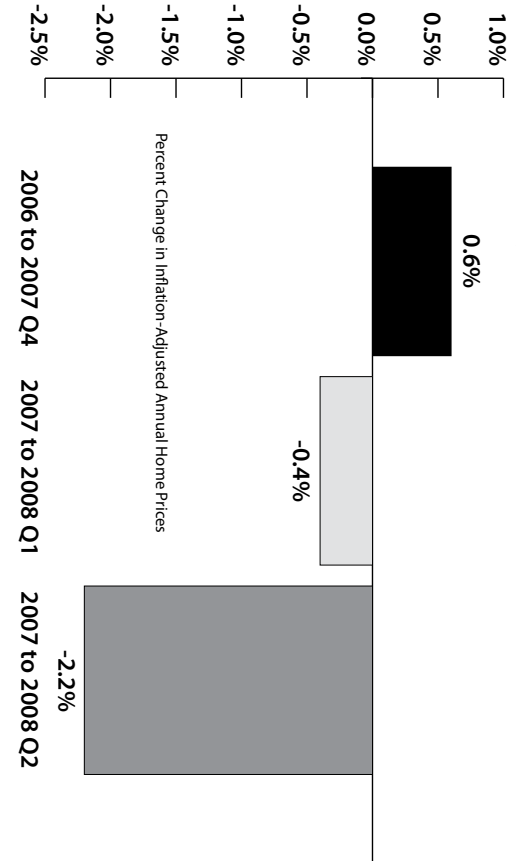


Figure 8. Home Prices in Altoona Fell 1.4% in the Second Quarter of 2008



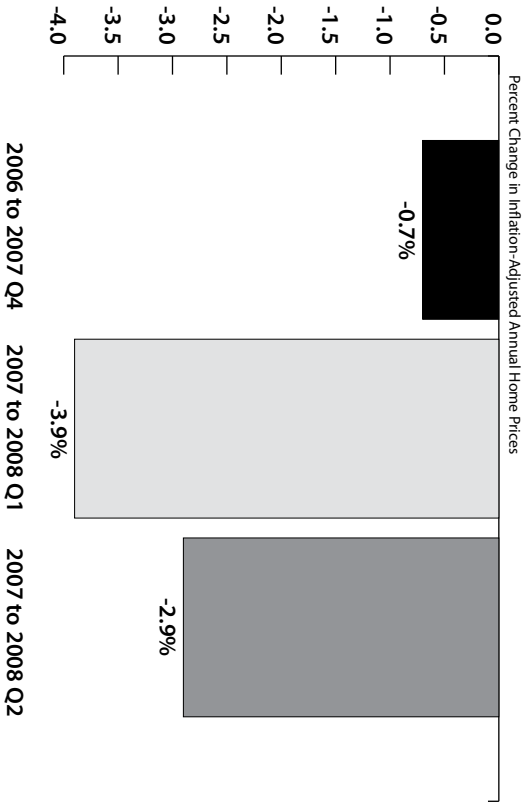
Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 10. Home Prices in Harrisburg-Carlisle Fell 2.2% in the Second Quarter of 2008



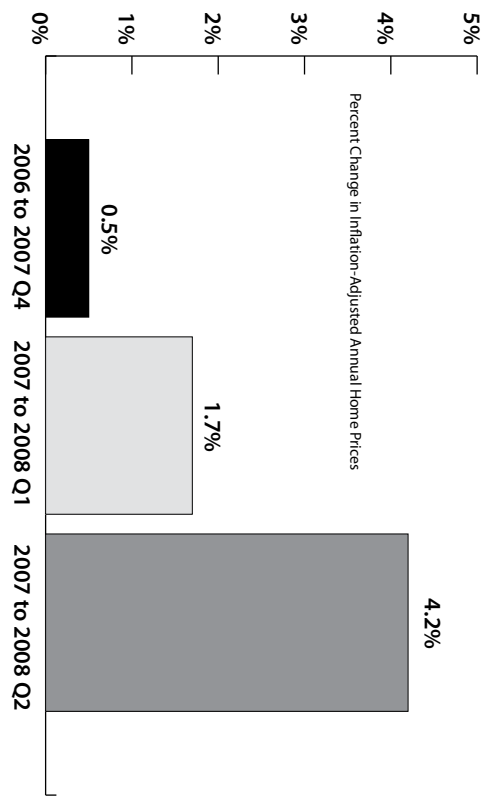
Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 9. Home Prices in Erie Fell 2.9% in the Second Quarter of 2008



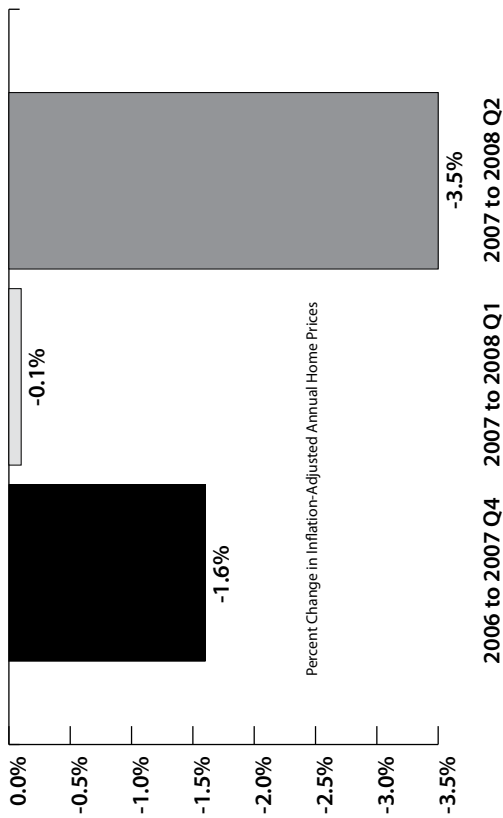
Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 11. Johnstown is the Only Pennsylvania Metropolitan Area Where Home Prices Have Grown in Each of the Last Three Quarters



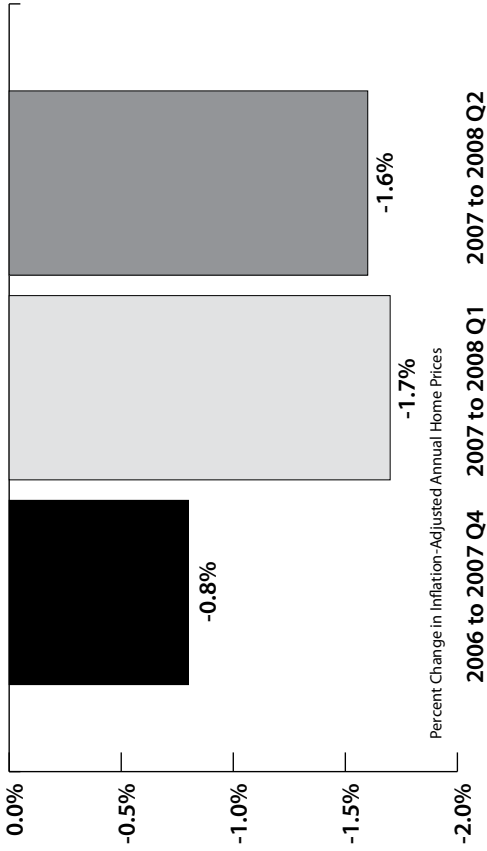
Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 12. Home Prices in Lancaster Fell 3.5% in the Second Quarter of 2008



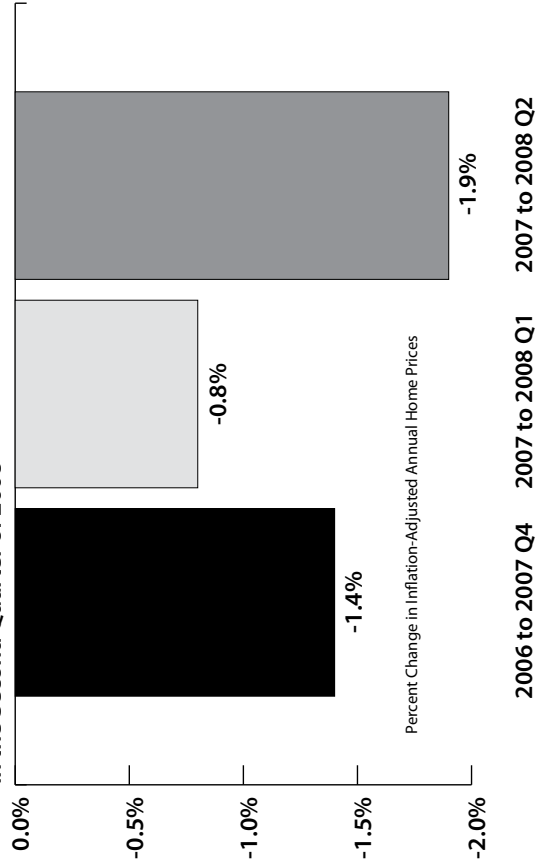
Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 14. Home Prices in Reading Fell 1.6% in the Second Quarter of 2008



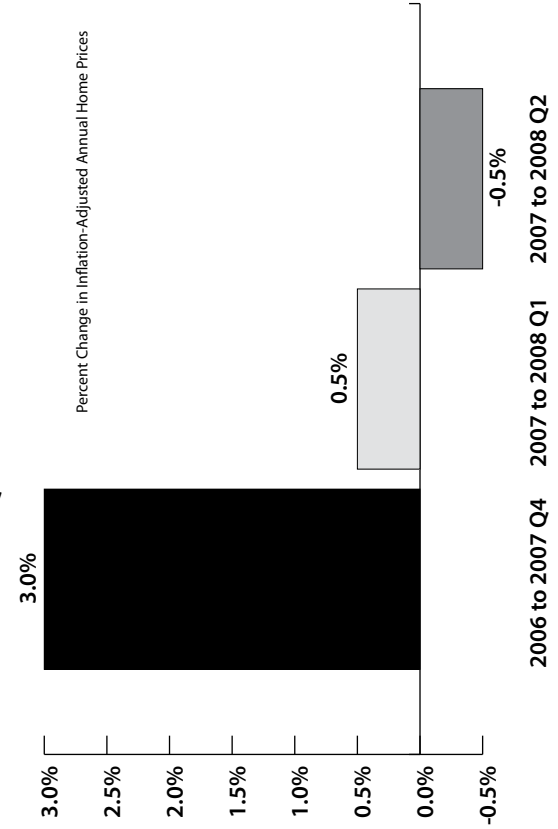
Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 13. Home Prices in Pittsburgh Fell 1.9% in the Second Quarter of 2008



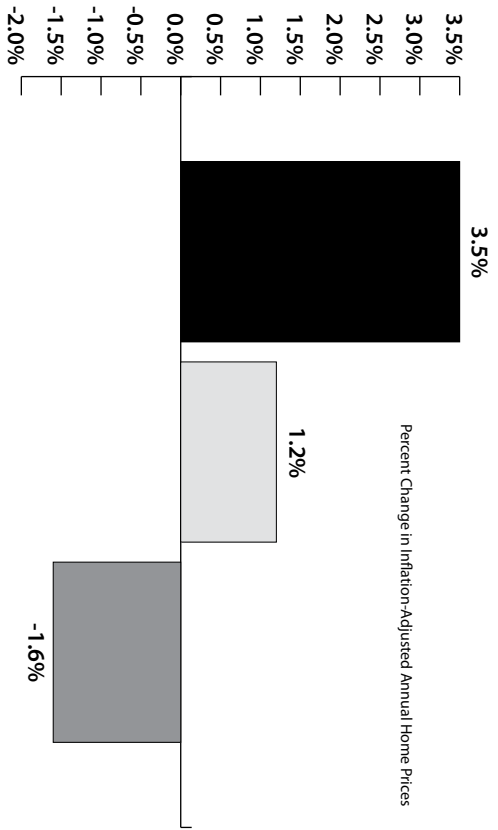
Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 15. Home Prices in Scranton—Wilkes-Barre Fell Declined for the First Time in the Second Quarter of 2008



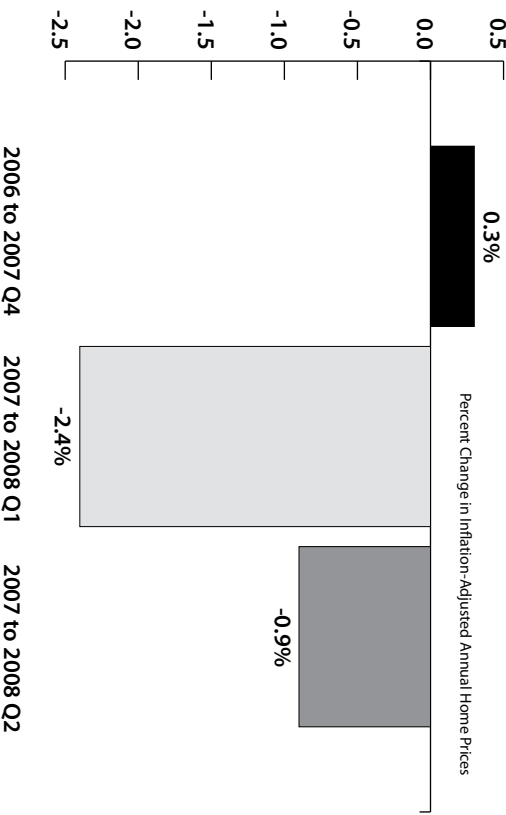
Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 16. Home Prices in State College Declined for the First Time in the Second Quarter of 2008



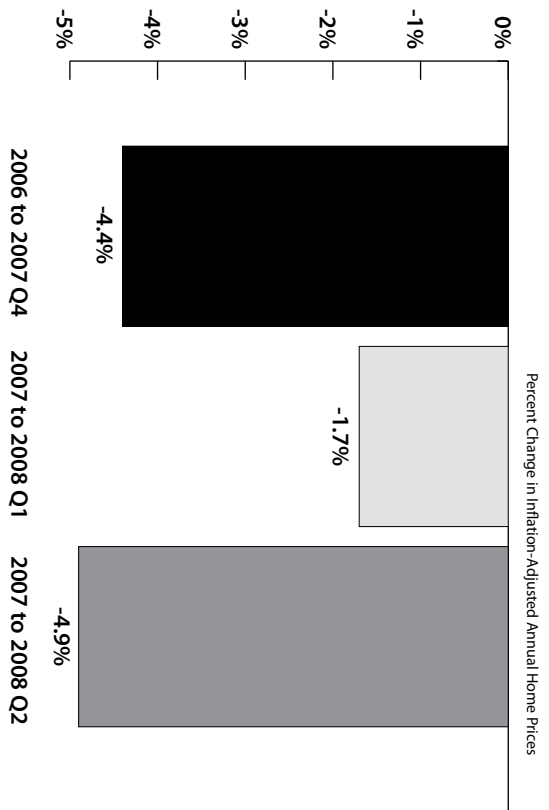
Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 17. Home Prices in Williamsport Have Declined in Each of the Last Two Quarters



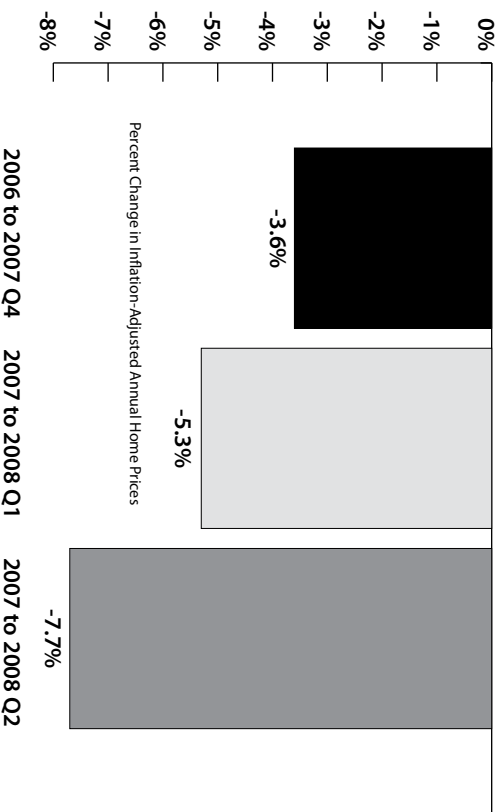
Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 18. Home Prices in Youngstown-Warren-Boardman OH-PA Declined by 4.9% in the Second Quarter of 2008



Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

Figure 19. Home Prices in Newark-Union NJ-PA Declined by 7.7% in the Second Quarter of 2008



Note: Data are for all transactions (sales and refinance). Inflation-Adjustment based on the CPI-U-All Items Less Shelter
Source: KRC analysis based on OFHEO data

