

American Economics Group

Clear and Effective Economic Analysis

Presentation for:

Federation of Tax Administrators 9/30/02

Charles W. de Seve, Ph.D.

www.AmericanEconomics.com

The Housing Market:

Bubble, Bubble, Interest, Trouble?

- **The National Economic Setting**
- **Implications for The States**



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American Economics Group, Inc. (AEG) provides full service economics analysis to the states:

- 1. Revenue Forecasting Systems**
(with Michael Evans)
- 2. Sales & Use Tax Gap Measurement**
(with ChainBridge Software and Evans)
- 3. Tax Policy Analysis Via Micro Simulation Models**
(with ChainBridge Software)



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National Housing Forecast: **Overview**

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- **No National Bubble**
- **No Precipitous Fall in Value**
- **Price Growth Lower on Average**



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National Housing Forecast: **Overview**

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Also

- **Localized-Bubbles in Some Markets**
- **Pockets of High Growth, of Stagnation**
- **Reduced Contribution to GNP**



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Housing Forecast: **Overview**

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Demand for Housing Set by:

- **Housing Prices**
- **Population & Immigration**
- **Employment & Income**



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Housing Forecast: **Overview**

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Demand for Housing Also Set by:

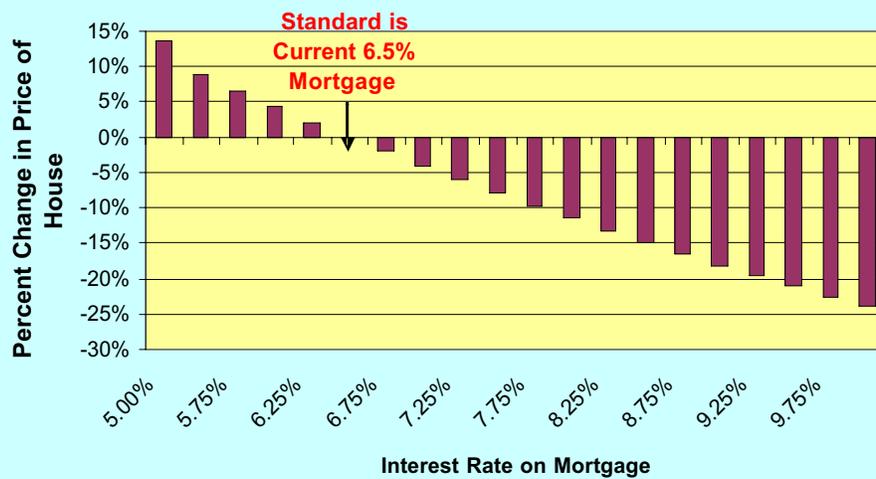
- **Mortgage Rates & Other Costs**
- **Area Characteristics**
- **Alternative Investments**



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Maintain Constant Monthly Payment

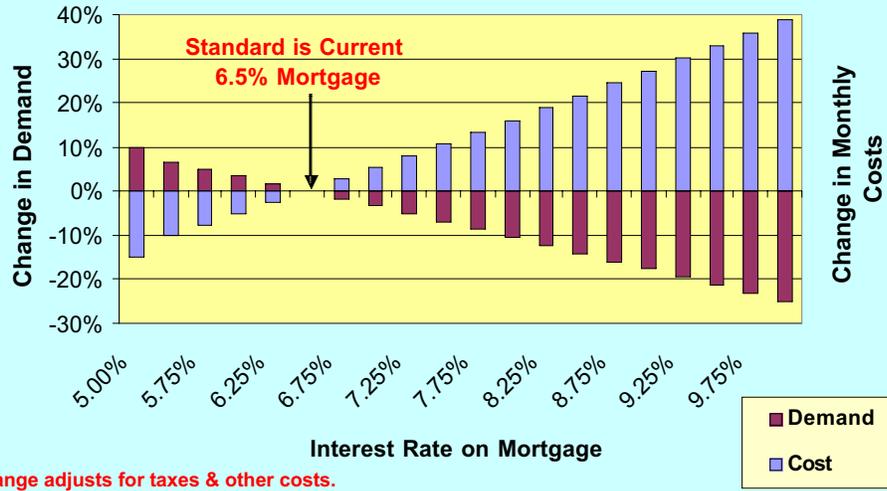


Change adjusts for taxes & other costs.

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Change in Demand for Home Ownership



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30 Year Mortgage Rates



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Expected 30 Yr. Mortgage Rates

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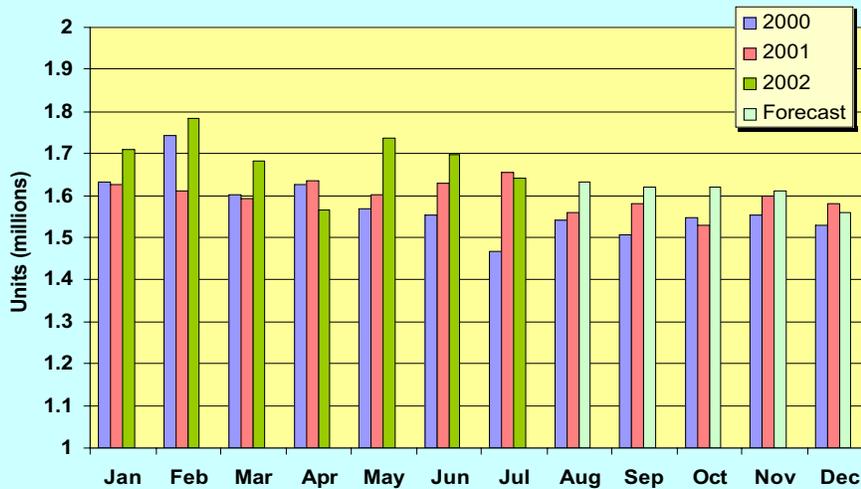
2002 Q3 actual	6.42%
2002 Q4	6.23%
2003 Q1	6.20%
2003 Q2	6.35%



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National Housing Starts



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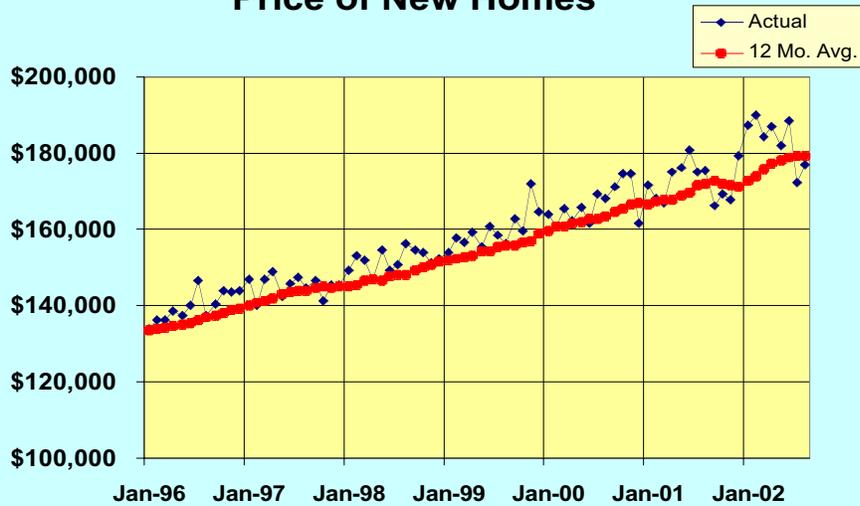
Housing Starts Forecast



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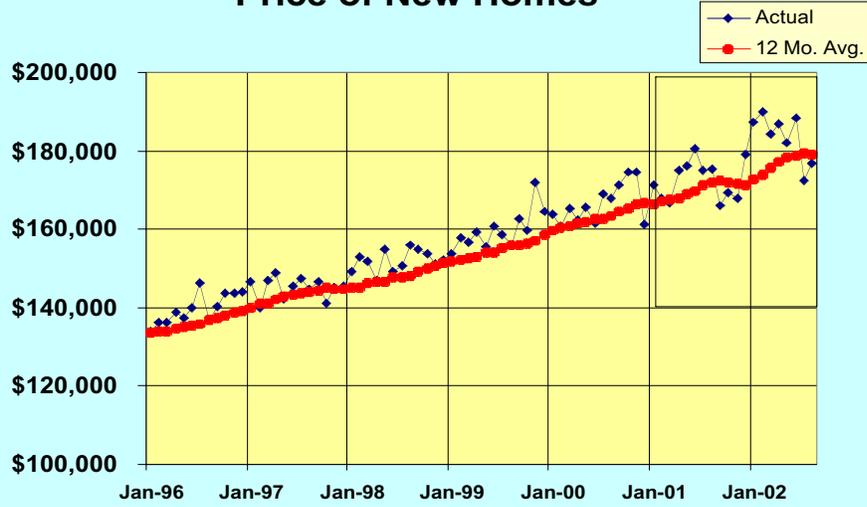
Price of New Homes



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Price of New Homes



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Price of New Homes (Zoomed)



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Regional Housing Forecast :

Results will depend heavily on each areas market characteristics

For example:

- **Some markets of rapid and steep price increases will lose momentum**
- **Some will continue growth at moderate rates**

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Housing Forecast for The States:

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Sort Major Markets into Three Groups:

- **Tier 1: Accelerating High Growth**
- **Tier 2: Continuing High Growth**
- **Tier 3: Past High Growth Receding**



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Prices: Accelerating High Growth

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- | | |
|---|-----------------------------|
| Chicago, IL | Providence, RI |
| Ft. Lauderdale/Hollywood/Pompano Beach, FL | Reno, NV |
| Los Angeles Area, CA | Sacramento, CA |
| Miami/Hialeah, FL | Trenton, NJ |
| New Haven/Meriden, CT | Tucson, AZ |
| Middlesex/Somerset/Hunterdon, NJ | Washington, DC/MD/VA |
| Monmouth/Ocean, NJ | Wilmington, DE/NJ/MD |
| Portland, ME | |



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Prices: Continuing High Growth

Orange Cnty. (Anaheim/Santa Ana MSA), CA

Baltimore, MD

New York/N. New Jersey/Long Island, NY/NJ/CT

Bergen/Passaic, NJ

Nassau/Suffolk, NY

San Diego, CA



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Prices: Past High Growth Receding

Denver, CO

Madison, WI

Newark, NJ

San Francisco Bay Area, CA

Tampa/St. Petersburg/Clearwater, FL

Worcester, MA



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How Large the Bang when a Housing Market Bursts?

- **Not in Same League as Stock Market**
- **Prices Likely to Fall Moderately**
- **Convergence to National Rate of Increase**
- **Localized**



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Other Observations

- **Impact on State Revenue will be Mild**
- **Will Play Out Over Time; No Cliffs Edge**
- **Not a Capital-Gains-Like-Impact to Worry About**
- **Will not be Statewide Anywhere**



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Thank You for Participating

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