Nationwide's Health of Housing Markets (HoHM) Report

Nationwide Economics

2017 Q2

Data as of 2017 Q1

HoHM Report Executive Summary:

- The national LIHHM* ticked down just a tad, but the U.S. housing market maintains a positive ranking due to strength in key drivers of demand. Unsustainably strong house price gains, however, continue to weigh on affordability and the overall housing outlook.

- Regionally, the LIHHM rankings show positive and healthy housing trends in more than 75 percent of metropolitan statistical areas (MSAs) suggesting sustainable housing expansion over the next year.

- While markets with strong ties to the energy sector (including North Dakota, Texas, Louisiana, and Alaska) continue to dominate the bottom 10 rated MSAs, the outlook for housing in these areas is slowly improving as energy production and employment recover.

- A historically low number of homes for sale is constraining home sales while pushing the pace of house price appreciation higher. Supply levels in some local markets are extremely tight, leading to unsustainable house price gains.

* Leading Index of Healthy Housing Markets (LIHHM): A data-driven view of the near-term performance of housing markets based upon current health indicators for the national housing market and 400 metropolitan statistical areas (MSAs) and divisions across the country.
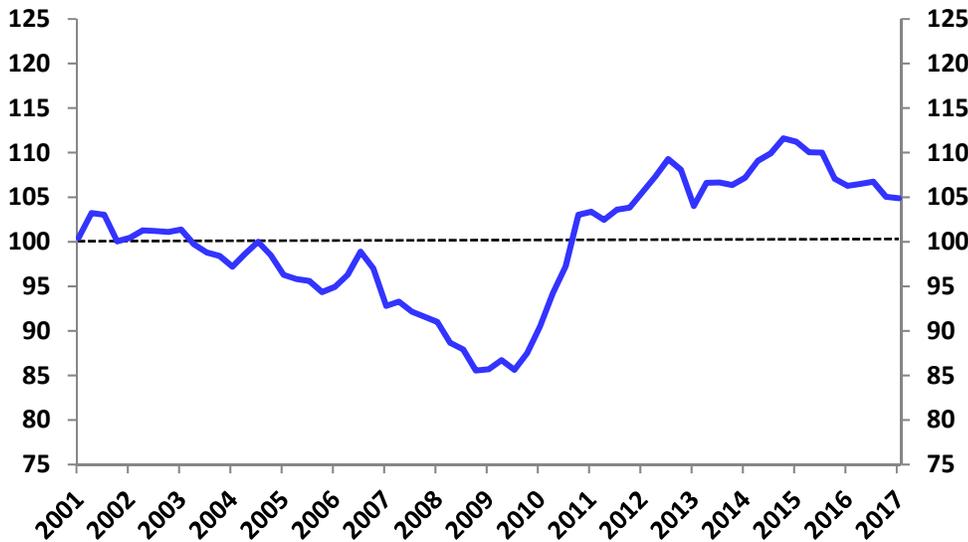
Nationwide®
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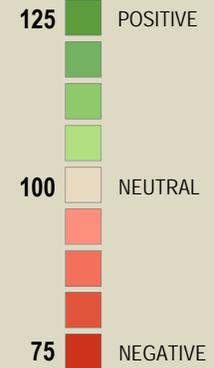See more at blog.nationwide.com/housing

Outlook for the U.S housing market remains positive due to underlying housing demand

The national LIHHM* is currently at 104.9, a slight decline from the previous-quarter reading of 105.0. National house price appreciation continues to run at a pace above the long-term average, negatively impacting housing affordability (especially for first-time homebuyers). On the positive side, household growth picked up sharply with the most recent figures moving above the long-term average. When combined with still-solid job gains, the household formation data paint a bright outlook for housing demand.

On a regional level, the LIHHM performance rankings continue to indicate that the majority of metro areas across the country are healthy for now, but similar affordability issues are clouding the outlook for a few areas. Extremely tight housing supply conditions in some local markets are likely to restrict near-term home sales and are a primary cause of unsustainable house price appreciation.
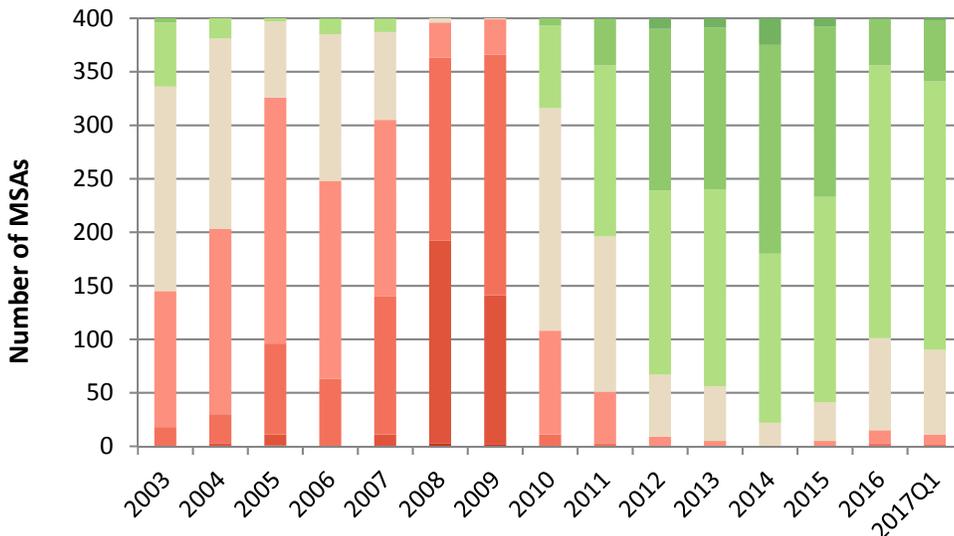
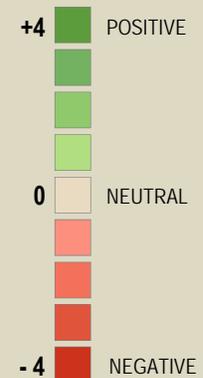## National LIHHM

MSA LIHHM Performance Rankings

LIHHM Scores*

125 POSITIVE
100 NEUTRAL
75 NEGATIVE

Performance Rankings*

+4 POSITIVE
0 NEUTRAL
- 4 NEGATIVE

* See appendix for full descriptions

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Regional LIHHM rankings show sustainable housing trends in most housing markets

- This quarter there are two MSAs with a +3 ranking while 57 MSAs have a ranking of +2, suggesting very healthy housing fundamentals in these local markets. Overall, more than three-quarters of the MSAs across the country have a positive ranking.
- The majority of the bottom 10 MSAs continue to be located in energy-intensive states (North Dakota, Texas, Louisiana, and Alaska) and all have negative rankings. There are 11 total MSAs with a negative rating this quarter, suggestive of a modest risk of a housing slowdown over the next year.
- An additional 79 MSAs are ranked neutral, indicating a mixed outlook for near-term housing growth.

Performance Rankings†

+4 POSITIVE
0 NEUTRAL
- 4 NEGATIVE
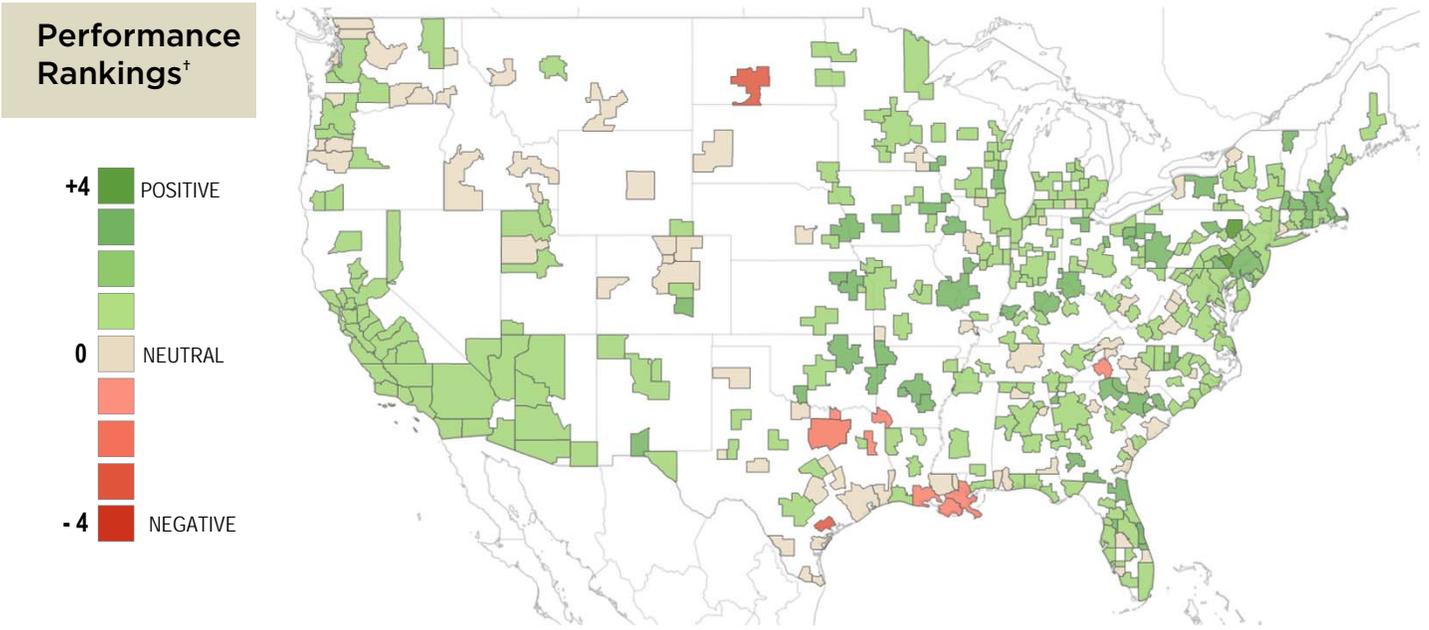
Top 10 MSAs

Rank	Metropolitan Statistical Area
1	Lancaster PA
2	Scranton-Wilkes-Barre PA
3	Fort Smith AR-OK
4	Lawton OK
5	Durham-Chapel Hill NC
6	Pittsfield MA
7	Toledo OH
8	Springfield MA
9	Philadelphia PA
10	Vineland-Bridgeton NJ

Bottom 10 MSAs

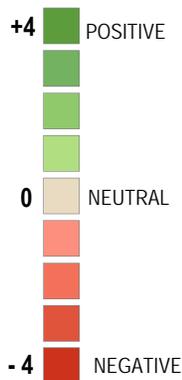| Rank	Metropolitan Statistical Area
400	Victoria TX
399	Bismarck ND
398	Texarkana TX-AR
397	Longview TX
396	Dallas-Plano-Irving TX
395	Houma-Thibodaux LA
394	Anchorage AK
393	Sherman-Denison TX
392	Lafayette LA
391	Asheville NC

† Data as of 2017 Q1

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Only one of the top 40* largest MSAs has a LIHHM performance ranking that is negative (mainly due to worsening affordability), while five more of these MSAs are neutral. This suggests that most of the major U.S. housing markets are sustainable with little chance of a downturn in the near term.

MSAs by size (Top 40), with corresponding performance rankings

Performance Rankings:

+4 POSITIVE

0 NEUTRAL

- 4 NEGATIVE

	Metropolitan Statistical Area	Performance Rankings		
		Current†	Prior Qtr	Prior Year
1	New York-Jersey City-White Plains NY-NJ	1	1	2
2	Los Angeles-Long Beach-Glendale CA	1	1	1
3	Chicago-Naperville-Arlington Heights IL	1	1	2
4	Houston-The Woodlands-Sugar Land TX	0	0	0
5	Atlanta-Sandy Springs-Roswell GA	1	1	1
6	Washington-Arlington-Alexandria DC-VA	1	1	1
7	Phoenix-Mesa-Scottsdale AZ	1	1	1
8	Dallas-Plano-Irving TX	-1	-1	0
9	Minneapolis-St. Paul-Bloomington MN-WI	1	1	1
10	Riverside-San Bernardino-Ontario CA	1	1	1
11	Tampa-St. Petersburg-Clearwater FL	1	1	1
12	San Diego-Carlsbad CA	1	1	1
13	Seattle-Bellevue-Everett WA	1	1	0
14	St Louis MO-IL	2	1	2
15	Denver-Aurora-Lakewood CO	0	0	1
16	Baltimore-Columbia-Towson MD	1	2	2
17	Anaheim-Santa Ana-Irvine CA	1	1	1
18	Warren-Troy-Farmington Hills MI	1	1	1
19	Pittsburgh PA	2	1	1
20	Oakland-Hayward-Berkeley CA	1	1	1
21	Portland-Vancouver-Hillsboro OR-WA	1	0	1
22	Nassau County-Suffolk County NY	1	1	1
23	Charlotte-Concord-Gastonia NC-SC	0	0	1
24	Miami-Miami Beach-Kendall FL	1	0	1
25	Orlando-Kissimmee-Sanford FL	1	1	1
26	Cambridge-Newton-Framingham MA	1	1	1
27	Newark NJ-PA	1	1	2
28	Fort Worth-Arlington TX	0	0	1
29	Cleveland-Elyria OH	1	1	2
30	Cincinnati OH-KY-IN	2	1	2
31	San Antonio-New Braunfels TX	1	1	1
32	Sacramento-Roseville-Arden-Arcade CA	1	1	1
33	Philadelphia PA	2	2	2
34	Kansas City MO-KS	1	0	2
35	Columbus OH	1	1	2
36	Las Vegas-Henderson-Paradise NV	1	1	1
37	Indianapolis-Carmel-Anderson IN	1	1	2
38	Boston MA	2	1	1
39	Fort Lauderdale-Pompano Beach-FL	1	1	1
40	Austin-Round Rock TX	0	-1	-1

† Data as of 2017 Q1

* Largest 40 determined by number of households

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Limited housing inventory raises risks within the housing market

Home sales have been rising steadily for the past six years, and home values are climbing strongly across the country. Job and income gains play a key role in the demand for homes, augmented by the millennial generation forming new households at an expanding pace. Looking ahead, household growth is expected to remain above average over the next few years, spurring increasing demand for a limited supply of homes for sale.

While demand conditions are robust, housing supply remains inadequate, generating an imbalance in the market. At the current sales pace, for example, the supply of existing homes for sale would be exhausted in just over four months, a historically low level (see chart). This has caused both rapid house price appreciation and reduced the number of home sales in recent years.

Inventory-sales ratios were similarly low in the 2000-05 period, fueling the double-digit house price gains of the housing boom. In that period, however, the lack of inventory was mostly demand caused, as opposed to the supply constraints of today.

In recent years, national price gains have been modestly above their long-term average. At a regional level, however, there are several metro areas where extremely tight supply conditions are causing unsustainably rapid price growth.

- **Washington/Colorado**: With under one month of sales supply, the Seattle and Denver metros have the tightest housing markets in the country according to CoreLogic. Other MSAs in Washington and Colorado (including Tacoma, Olympia, Boulder, and Fort Collins) also have very low inventory-sales ratios and are seeing extremely rapid house price appreciation as a result (some in double digits). Affordability is a significant concern in these metros.

- **California**: San Francisco, Sacramento, San Diego, and Oakland also have extremely low inventory-sales ratios. Affordability has long been an issue in these markets and has been exacerbated by rapid price gains in recent years.

- **Texas**: Dallas is the largest metro area to make the list of tight inventories. Home price growth has been near double digits for over five years in a row and has resulted in very low housing affordability. While other parts of Texas are struggling with lower energy prices, the Dallas/Fort Worth markets have been immune.

National months' supply of existing homes
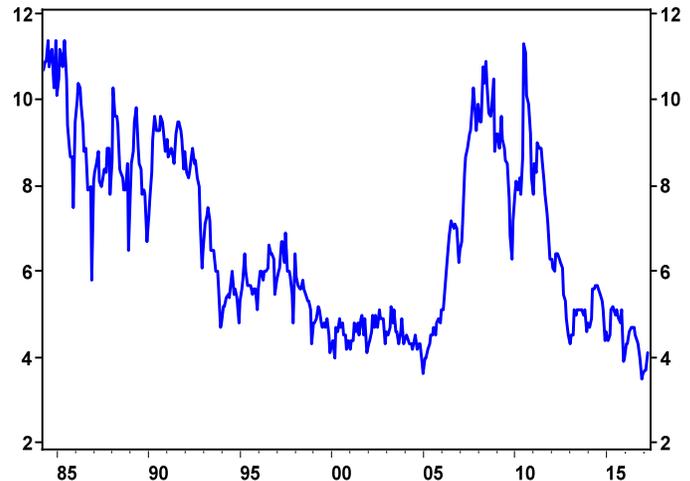


Source: National Association of Realtors

MSAs with lowest housing inventory

Metropolitan Statistical Area	Inventory in Months
Seattle-Bellevue-Everett WA	0.98
Denver-Aurora-Lakewood CO	0.98
Tacoma-Lakewood WA	1.22
Boulder CO	1.24
Fort Collins CO	1.24
Portland-Vancouver-Hillsboro OR-WA	1.28
Mankato-North Mankato MN	1.36
Olympia-Tumwater WA	1.40
San Francisco-Redwood City CA	1.40
Sacramento-Roseville CA	1.42
Fort Worth-Arlington TX	1.61
Dallas-Plano-Irving TX	1.63
San Diego-Carlsbad CA	1.64
Columbus OH	1.68
Oakland-Hayward-Berkeley CA	1.71

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LIHHM rankings in most MSAs are unchanged or have declined over the past four quarters

- The near-term sustainability of housing markets is best measured by the current LIHHM (page 3), but looking at shifts in the LIHHM over the course of a year can provide additional insights.
- While over one-third of all MSAs saw their rankings drop in recent quarters, the majority of these pulled back by only one ranking. There were only 8 MSAs that declined more sharply (down by two or three rankings), indicative of worsening housing outlooks in these local markets.
- More than half of the LIHHM rankings have not changed over the past year — suggesting little movement in the underlying trends in many of these local housing markets — while only 48 MSAs saw their rankings rise.

Current LIHHM 4Q change [†]

≥ +3   INCREASED

UNCHANGED
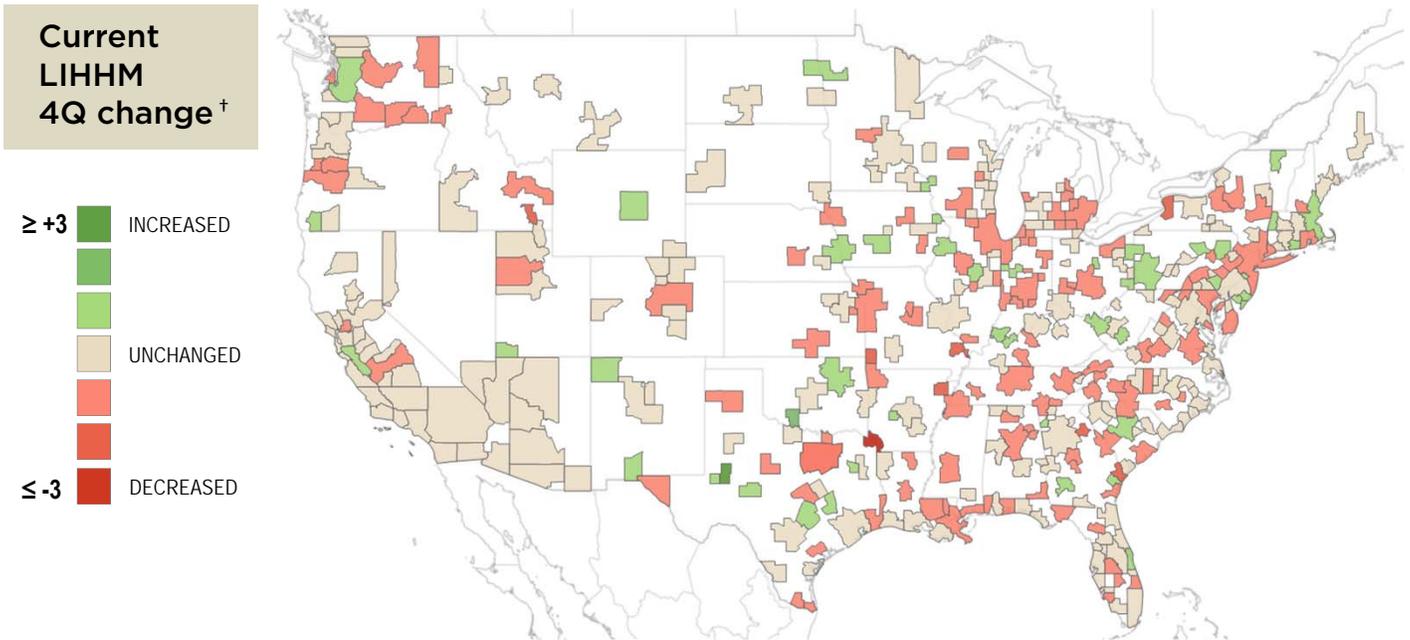
≤ -3   DECREASED

Largest Increase

Rank	Metropolitan Statistical Area
1	Midland TX
2	Lawton OK
3	Beckley WV
4	Rome GA
5	Pittsfield MA
6	Casper WY
7	Williamsport PA
8	Bloomington IL
9	Farmington NM
10	Burlington-South Burlington VT

Largest Decrease

Rank	Metropolitan Statistical Area
400	Texarkana TX-AR
399	Buffalo-Cheektowaga-Niagara Falls NY
398	Cape Girardeau MO-IL
397	Jonesboro AR
396	Pocatello ID
395	Joplin MO
394	Athens-Clarke County GA
393	Savannah GA
392	Knoxville TN
391	Memphis TN-MS-AR

[†] Change in performance ranking; Data as of 2017 Q1

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Leading Index of Healthy Housing Markets (LIHHM)

Nationwide's LIHHM is a data-driven view of the near-term performance of housing markets based upon current health indicators for the national housing market and 400 metropolitan statistical areas (MSAs*) and divisions across the country. For each MSA, the LIHHM uses local-level data to incorporate the idiosyncratic characteristics of regional housing markets. The focus of the LIHHM is on the entire housing market's health, rather than a projection of house prices or home sales.

Nationwide Economics LIHHM methodology

The LIHHM is calculated using a number of variables that describe many of the drivers of the housing market for each MSA. In order to provide the best indicator of housing health, the included variables and corresponding weights for each provide the optimal leading perspective on future housing markets for each MSA. The drivers can be grouped into the following categories:

1. **Employment**
2. **Demographics**
3. **Mortgage Market**
4. **House Prices**

As an illustration, if job growth increases in an MSA, then the resulting rise in incomes creates additional housing demand. Consumers have a greater ability to earn and save for home purchases, increasing sales and pushing up house prices. The LIHHM measures the movements in the included employment, demographic, mortgage market, and house price variables versus the long-term trends within each MSA.

These drivers are used to derive an overall LIHHM score on a scale from 75 to 125 centered around a neutral value of 100. These values are placed into performance rankings to allow for better comparisons across MSAs. These performance rankings are the key metric in comparing the MSAs both to each other and across time. Raw LIHHM values are used for calculation purposes only and will only be shown on the national level as the national score is standalone and is not compared to other areas.

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* MSA: Geographical region with high population density and close economic ties throughout the nearby area, capturing 85-90% of the U.S. population

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