Nationwide's Health of Housing Markets (HoHM) Report

Nationwide Economics

2017 Q3

Data as of 2017 Q2

HoHM Report Executive Summary:

- The national LIHHM* edged down this quarter as unsustainably rapid house price appreciation and slower household growth weakened the outlook for housing. The U.S. housing market maintains a positive ranking, however, due to strong drivers of homebuyer demand.
- Home price gains across the country continue to be more rapid, on average, for the lowest price tier of homes — often an entry point for new homeowners. Outsized gains for this segment raise home values for homeowners but reduce affordability for potential buyers.
- Nationally, gains for the lowest price tier have increased by more than 20 percentage points (pps) relative to the highest price tier over the past five years. The discrepancy between tiers has been greater in many of the largest markets — some more than 50 pps apart.
- Regionally, the LIHHM rankings show positive and healthy housing trends in more than 80 percent of metropolitan statistical areas (MSAs) suggesting sustainable housing expansion over the next year.

* 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.

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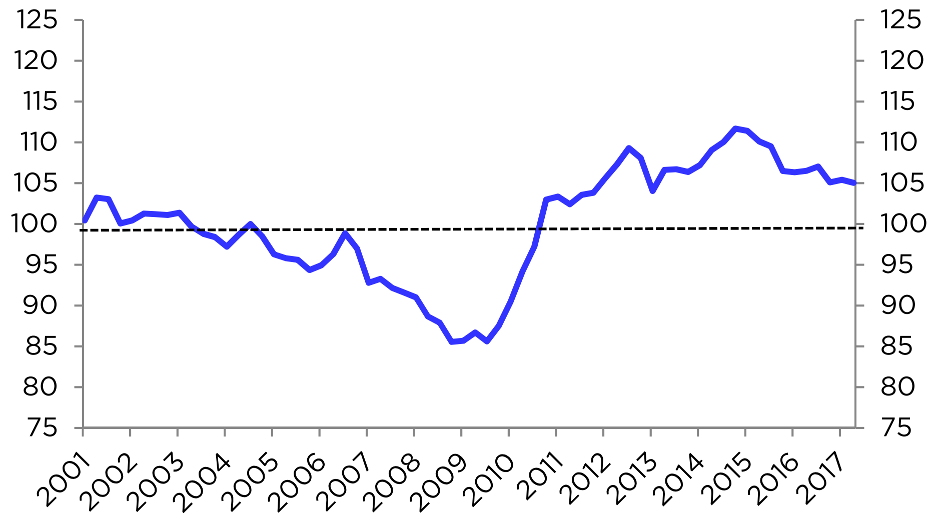
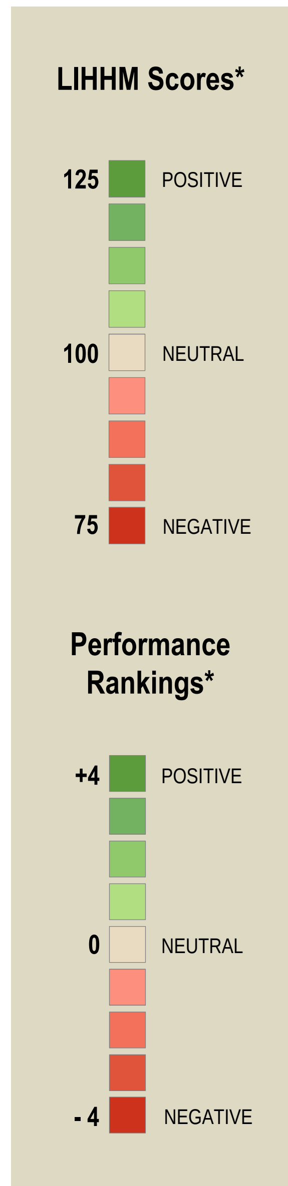
Rapid house price appreciation is weighing on the outlook for the U.S housing market

The national LIHHM is at 105.0, a slight decline from the previous quarter's reading. National house price appreciation continues to run at a pace above the long-term average, negatively impacting housing affordability (especially for entry-level homebuyers). The outlook was further dampened by a surprising slowdown in household formation. The backdrop for housing sustainability, however, remains positive with solid job gains and rising incomes spurring increased demand for housing.

On a regional level, the LIHHM performance rankings continue to suggest that the majority of metro areas across the country are healthy. Deteriorating housing affordability caused by sharp increases in house prices may constrain future housing sector expansion in select areas. This trend is particularly apparent in larger cities where housing supply conditions are extremely tight.

National LIHHM



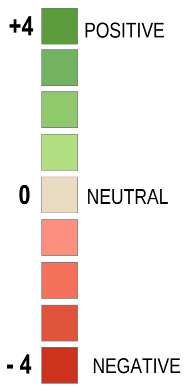


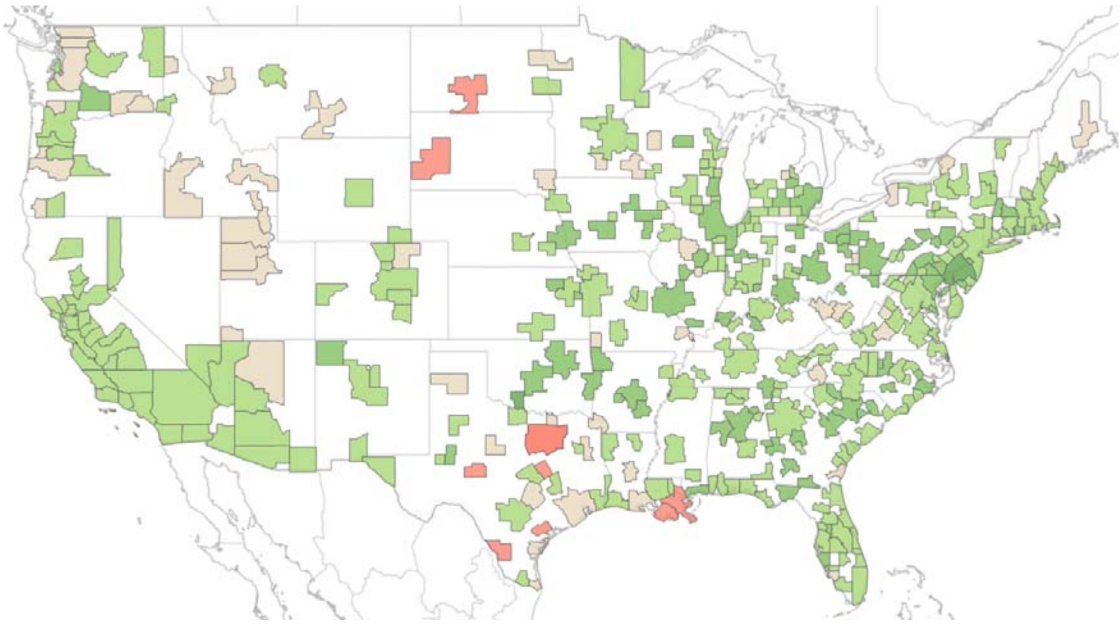
MSA LIHHM Performance Rankings

Regional LIHHM rankings show sustainable housing trends in most housing markets

- This quarter there are two MSAs with a +3 ranking while 89 MSAs have a ranking of +2, suggesting very healthy housing fundamentals in these local markets. Overall, more than 80 percent 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 MSAs with a negative rating this quarter, suggestive of a modest risk of a housing slowdown over the next year.
- An additional 58 MSAs are ranked neutral, indicating a mixed outlook for near-term housing growth.

Performance Rankings†





Top 10 MSAs

Rank	Metropolitan Statistical Area
1	Lawton OK
2	Philadelphia PA
3	Springfield IL
4	Tulsa OK
5	Morgantown WV
6	Sumter SC
7	Akron OH
8	Oklahoma City OK
9	Waterloo-Cedar Falls IA
10	Gadsden AL

Bottom 10 MSAs

Rank	Metropolitan Statistical Area
400	Anchorage AK
399	Victoria TX*
398	Waco TX
397	Rapid City SD
396	Dallas-Plano-Irving TX
395	Bismarck ND
394	San Angelo TX
393	Houma-Thibodaux LA
392	New Orleans-Metairie LA
391	Fort Worth-Arlington TX

† Data as of 2017 Q2 * Note that this ranking does not include any impact from Hurricane Harvey

Two of the top 40* largest MSAs have a LIHHM performance ranking that are negative, while an additional four are neutral. These lower scores are primarily the result of reduced housing affordability. Most of the major U.S. housing markets show sustainable trends 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

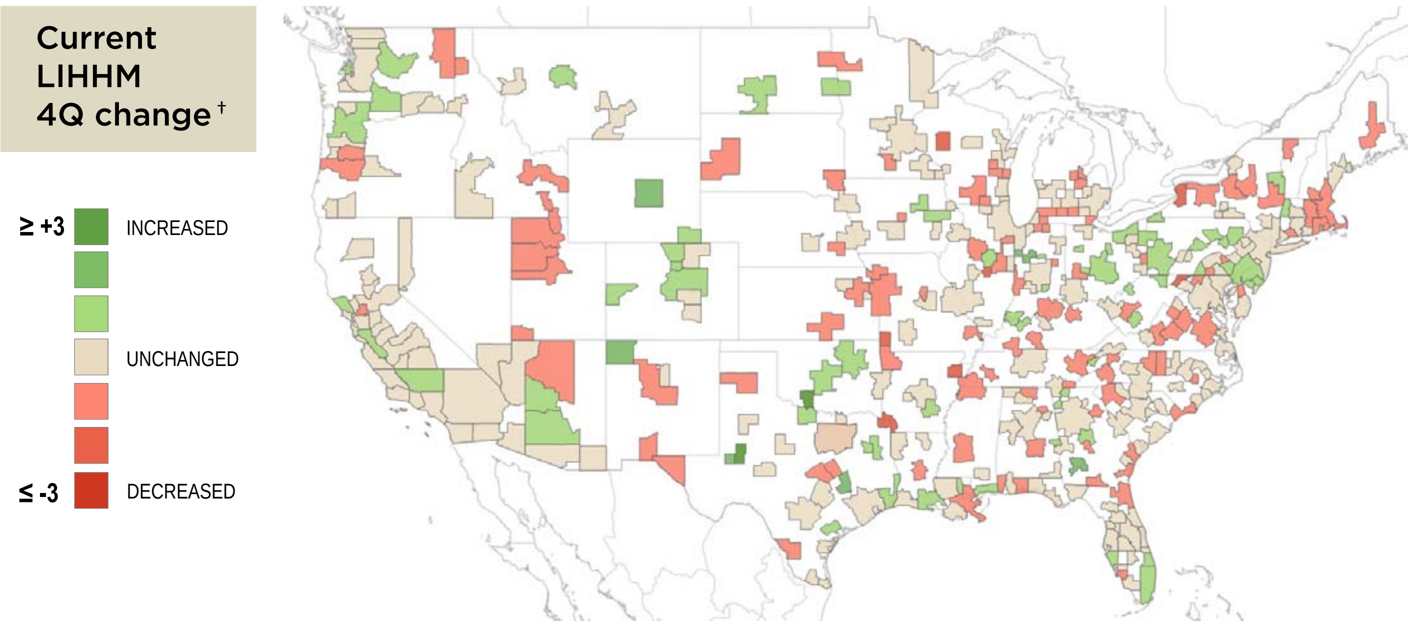
		Performance Rankings		
	Metropolitan Statistical Area	Current†	Prior Qtr	Prior Year
1	New York-Jersey City-White Plains NY-NJ	1	1	1
2	Los Angeles-Long Beach-Glendale CA	1	1	1
3	Chicago-Naperville-Arlington Heights IL	2	1	2
4	Houston-The Woodlands-Sugar Land TX	0	0	0
5	Atlanta-Sandy Springs-Roswell GA	1	1	1
6	Washington-Arlington-Alexandria DC-VA	1	1	1
7	Phoenix-Mesa-Scottsdale AZ	1	1	0
8	Dallas-Plano-Irving TX	-1	-1	-1
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	0	1	0
14	St Louis MO-IL	2	2	2
15	Denver-Aurora-Lakewood CO	1	0	0
16	Baltimore-Columbia-Towson MD	2	2	2
17	Anaheim-Santa Ana-Irvine CA	0	0	1
18	Warren-Troy-Farmington Hills MI	1	1	1
19	Pittsburgh PA	2	2	1
20	Oakland-Hayward-Berkeley CA	1	1	1
21	Portland-Vancouver-Hillsboro OR-WA	1	1	0
22	Nassau County-Suffolk County NY	1	1	1
23	Charlotte-Concord-Gastonia NC-SC	1	0	1
24	Miami-Miami Beach-Kendall FL	1	0	0
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	-1	-1	0
29	Cleveland-Elyria OH	2	0	1
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	3	2	2
34	Kansas City MO-KS	1	1	2
35	Columbus OH	2	1	1
36	Las Vegas-Henderson-Paradise NV	1	1	1
37	Indianapolis-Carmel-Anderson IN	1	1	1
38	Boston MA	1	2	2
39	Fort Lauderdale-Pompano Beach-FL	1	1	1
40	Austin-Round Rock TX	0	-1	0

† Data as of 2017 Q2

* Largest 40 determined by number of households

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 approximately one-third of all MSAs saw their rankings drop over the past year, the majority of these pulled back by only one ranking. There were only seven MSAs that declined more sharply (down by two rankings or more), indicative of worsening housing outlooks in these local markets. The most frequent downward driver was affordability as home price gains outpace income growth.
- More than half of the LIHHM rankings have not changed over the past year — suggesting little change in the housing outlooks for these local housing markets. Only 78 MSAs saw their rankings rise.



Largest Increase

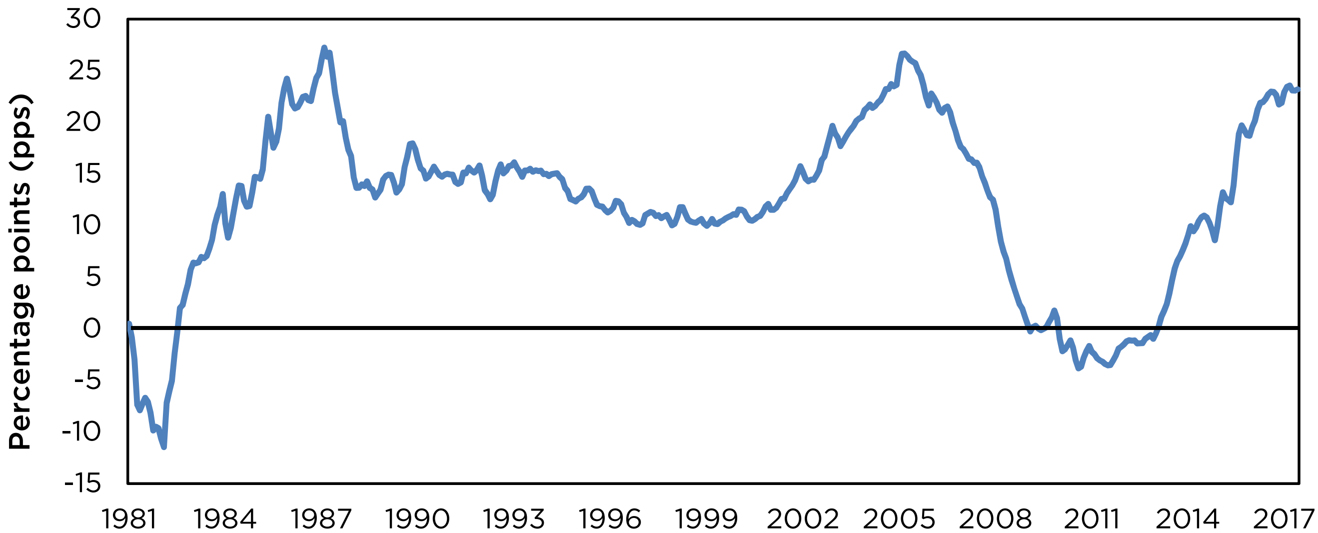
Rank	Metropolitan Statistical Area
1	Midland TX
2	Lawton OK
3	Casper WY
4	Odessa TX
5	College Station-Bryan TX
6	Farmington NM
7	Lafayette-West Lafayette IN
8	Albany GA
9	Waterloo-Cedar Falls IA
10	Beckley WV

Largest Decrease

Rank	Metropolitan Statistical Area
400	Texarkana TX-AR
399	Buffalo-Niagara Falls NY
398	Eau Claire WI
397	Decatur IL
396	Cumberland MD-WV
395	Joplin MO
394	Jonesboro AR
393	Knoxville TN
392	Waco TX
391	Rapid City SD

† Change in performance ranking; Data as of 2017 Q2

Difference between lowest and highest tier price gains (Rolling five-year totals)



Data provided by CoreLogic, analysis by Nationwide Economics

Rapid price gains are disproportionately affecting entry-level homes

While the fundamentals for the U.S housing market remain healthy, rapid house price appreciation is a growing concern for many potential homebuyers. Data show that the price squeeze is more evident for those trying to find an entry-level home.

The prices of lowest-tier homes, where most first-time buyers start searching, have increased by 56 percent over the last five years. Over the same period, the value of the highest tier has climbed by 33 percent. This difference, shown in the chart above, has widened sharply since 2012 as entry-level homes become more expensive relative to highest prices homes. Faster household formation and strong homebuyer demand on the lower end of the market is driving this disparity.

For current homeowners, the run-up for the lowest tier is welcome news as price gains support homeowners equity. For those who are looking to enter the housing market, the reduced affordability creates a challenging purchase environment.

There have been two other periods (1987 and 2005) when the gap between the lowest and highest price tiers was similarly large (see chart). In each instance, house price growth slowed significantly in the following years, tightening the gap between price tiers. Is this a cautionary signal for today?

Current data suggest that this may not be the case. The lending environment today is more cautious than in 1987 and 2005, restricting the buildup of bad mortgage debt that would portend a downturn. The average FICO scores at mortgage origination is much higher, implying less risk-taking by lenders. Moreover, homeowners are not nearly as levered today as in 1987 or 2005. Reduced mortgage debt and financial obligation ratios suggest that consumers are in more solid financial standing as well.

Median Credit Score at Origination	
2005	718
2017	759

Mortgage Debt Service Ratio	
1987	5.8%
2005	6.4%
2017	4.4%

Financial Obligations Ratio	
1987	17.4%
2005	17.2%
2017	15.5%

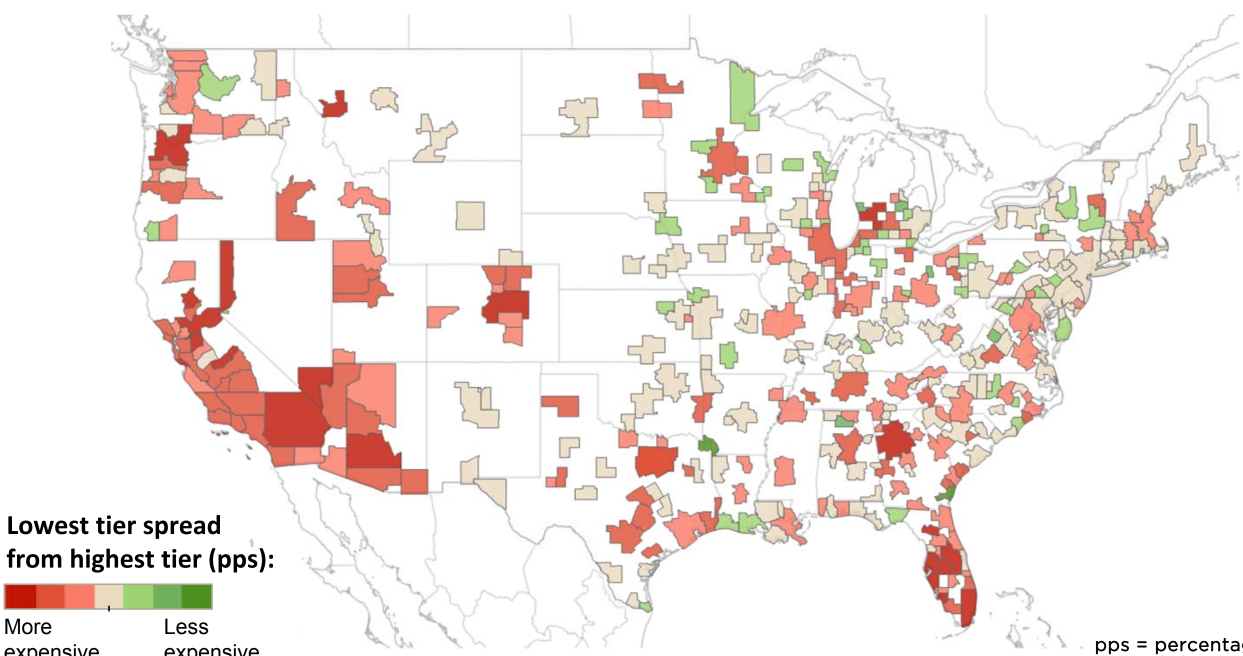
Difference between lowest and highest tier price gains (Rolling five-year totals)

MSAs with widest tier spread (pps)

Metropolitan Statistical Area	Spread
Reno NV	73.7
Oakland-Hayward-Berkeley CA	64.0
Grand Rapids-Wyoming MI	60.4
Cape Coral-Fort Myers FL	59.9
Stockton-Lodi CA	57.0
Sarasota-Bradenton FL	55.0
Las Vegas-Henderson NV	52.1
Missoula MT	50.5
West Palm Beach-Boca FL	49.1
Fort Lauderdale FL	48.8
Madera CA	48.7
Sacramento CA	48.4
Riverside-San Bernardino CA	48.2
Phoenix-Mesa-Scottsdale AZ	47.9
Orlando-Kissimmee-Sanford FL	47.0

Tier spread (pps) for largest MSAs

Metropolitan Statistical Area	Spread
New York NY	2.9
Los Angeles CA	28.4
Chicago IL	24.7
Houston TX	17.3
Atlanta GA	42.5
Washington DC	19.2
Phoenix-Mesa-Scottsdale AZ	47.9
Dallas TX	25.8
Minneapolis MN	28.2
Riverside-San Bernardino CA	48.2
Tampa-St. Petersburg FL	39.0
San Diego CA	26.5
Seattle WA	18.6
St Louis MO	8.4
Denver CO	46.9



pps = percentage points
Calculated with price changes over the last 5 years

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Ben authors periodic economic analyses from the Nationwide Economics team, as well as commentary on key economic topics. Ben is also responsible for understanding and analyzing the enterprise business drivers to assist the strategic planning process. He holds a Master of Science in Economics from the Ohio State University, specializing in applied economic analysis, and a BSBA from the Fisher College of Business at the Ohio State University, with a focus on economics and international business.

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