Home Prices in 20 U.S. Cities Rise Most Since February 2006

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Home prices in 20 U.S. cities rose in November from a year ago by the most in almost eight years, providing a boost to household wealth.

The S&P/Case-Shiller index of property prices in 20 cities climbed 13.7 percent from November 2012, the biggest 12-month gain since February 2006, after a 13.6 percent increase in the year ended in October, a report from the group showed today in New York. The median projection of 31 economists surveyed by Bloomberg called for a 13.8 percent advance.

A limited number of available properties is helping to sustain home price appreciation even as higher mortgage rates cool demand and leave purchases out of reach for some Americans. Further strides in the housing market this year would be made easier by a pickup in job and income growth.

“One of the reasons consumer spending has looked better is because household balance sheets are appearing to be healthier, and an important part of that is that home values are going up,” said Michael Feroli, chief U.S. economist at JPMorgan Chase & Co. in New York and the most accurate forecaster of home prices over the past two years, according to data compiled by Bloomberg. “If home prices continue to increase, that indicates that there is still a shortfall of supply, and that should lead to more construction.”

Estimates in the Bloomberg survey ranged from year-over-year gains of 12.9 percent to 14.7 percent. The S&P/Case-Shiller index is based on a three-month average, which means the November figure was also influenced by transactions in October and September.

Stock Futures

Stock-index futures pared gains after another report showed durable goods orders unexpectedly declined in December. The contract on the Standard & Poor’s 500 Index expiring in March rose less than 0.1 percent to 1,776.2 at 9:23 a.m. in New York, after rising as much as 0.6 percent.

Bookings (DGNOCHNG) for goods meant to last at least three years dropped 4.3 percent, exceeding the weakest forecast of 82 economists surveyed by Bloomberg, after a 2.6 percent gain in November that was smaller than previously reported, Commerce Department figures showed.

Home prices adjusted for seasonal variations rose 0.9 percent in November from October after a 1.1 percent gain the prior month. That Bloomberg survey median called for a 0.8 percent advance.

The month-over-month price gains were led by Atlanta and Miami, which showed a 1.6 percent increases, followed by 1.3 percent gains in Detroit, Boston and San Francisco. Property values rose in all 20 metropolitan areas, with the smallest advances coming in Phoenix and Seattle.

‘Real Appreciation’

“Home prices continue to rise despite last May’s jump in mortgage interest rates,” David Blitzer, chairman of the S&P index committee, said in a statement. “Combined with low inflation -- 1.5 percent in 2013 -- homeowners are enjoying real appreciation and rising equity values.”

Unadjusted prices fell 0.1 percent in November from the previous month after a 0.2 percent gain in October.

The year-over-year gauge, which uses records dating back to 2001, provides a better indication of price trends, according to Karl Case and Robert Shiller, creators of the index.
All 20 cities in the index showed a year-over-year gain, led by a 27.3 percent advance in Las Vegas. Values climbed 23.2 percent in San Francisco.

Advances in home equity may be harder to come by as Federal Reserve policy makers begin to trim stimulus, causing mortgage rates to climb. Fed officials said on Dec. 18 they would reduce monthly bond purchases intended to spur the expansion to $75 billion from $85 billion.

Fed Meeting

Policy makers conclude a two-day meeting tomorrow in Washington, and the median projection in a Bloomberg survey of economists calls for an additional $10 billion of tapering.

“Home price appreciation has remained strong despite the decline in affordability,” probably because of a lack of inventory, economists at Bank of America Corp. in New York, said in a Jan. 23 research report. “That said, we continue to believe that price appreciation will slow into 2014 as investor demand declines and mortgage rates continue to head higher.”

Borrowing costs for prospective buyers have climbed since Fed officials last year signaled they would pare purchases of mortgage-backed securities and other bonds, a process that began this month.

The average rate for a 30-year fixed mortgage was 4.39 percent last week, up from 3.35 percent in early May, according to data from Freddie Mac in McLean, Virginia.

Home Sales

New-home sales dropped 7 percent to a 414,000 annualized pace in December, weaker than any estimate of economists surveyed by Bloomberg, Commerce Department figures showed yesterday.

Sales of previously owned homes climbed in December for the first time since July, according to figures last week from the National Association of Realtors.

KB Home, a Los Angeles-based homebuilder, sees a tempering in home prices as an important step in sustaining America’s housing recovery.

“We feel that less upward pressure on home prices is healthy for a measured, sustainable housing recovery,” Chief Executive Officer Jeffrey T. Mezger said on a Dec. 19 earnings call. Both KB Home and Miami-based Lennar Corp. project further housing market growth this year.

‘Solid Recovery’

“The housing market remains on track for a solid recovery and is likely to continue to improve over an extended period of time,” Lennar’s Chief Executive Officer Stuart A. Miller said on a Dec. 18 earnings call. “We feel that the short supply of available homes and pent-up demand, along with a generally improving economy, will continue to drive the housing recovery forward and we’re anticipating a robust spring selling season, which historically begins just after the Super Bowl.”

Higher home prices bode well for consumer spending, because it helps to boost household net worth. Economists at Bank of America led by Ethan Harris estimate that between 1980 and the third quarter of 2013, every additional earned dollar of housing wealth translated to 9 cents of consumer spending, compared with 5 cents for every additional dollar of financial asset wealth. The housing wealth effect has slowed in the wake of the financial crisis, they found.

“Assuming our asset price forecasts are correct -- with about a 5 percent increase in home prices and with the S&P 500 hitting our year-end target of 2,000 -- the wealth effect on consumption growth increases to 1.5 percentage points in 2014,” from 1.1 percentage points last year, Harris wrote.