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Off the Charts

After a Bumpy Ride, Back at Square One

By **[FLOYD NORRIS](#)**

IN the last eight years, home prices in the United States have almost exactly kept up with inflation. But it has been a wild ride.

During the period, the [Standard & Poor's Case-Shiller](#) 20-city composite index of home prices rose almost 21 percent. The [Consumer Price Index](#) also rose almost 21 percent.

The period, from June 2001 through the June 2009 figures that were reported this week, can be separated into two periods: the five-year boom and the three-year bust. There are limited indications that prices have started to rally in some areas, but the overall index's move in June just kept up with inflation.

During the boom, home prices outpaced inflation by 10.7 percent a year for five years. During the bust, they plunged, trailing inflation by 13.6 percent a year.

The accompanying chart shows the pace of home prices, adjusted for inflation, and also shows the wide sectional variations. At one extreme is Detroit, where the boom never came but the bust has been severe. Adjusted for inflation, prices there are now down by almost half over the eight-year period.

At the other extreme is New York, where the boom was not nearly as strong as in some areas but a larger part of the gains have been retained. At the height of the period, New York prices had outpaced inflation by 62 percent. At the latest report, prices are still up by 20 percent more than inflation.

The Case-Shiller figures cover very large areas for each city. In New York, the region extends from Trenton up to New Haven. The figures reflect sales of single-family homes only, so Manhattan, a market that is dominated by apartments, has a very small impact.

The maximum performance of various areas reflects the differing housing markets.

In areas like Dallas, Denver and Charlotte, N.C., home prices never rose much more than inflation. Those areas had ample land available to spread out, enabling developers to meet demand without major price changes. In contrast, areas like Los Angeles, New York and Washington were largely built up, and developers had to go far from the city to find raw land. In addition, zoning and other rules sometimes limited or delayed building.

That explanation does not, however, help with the two desert booms and busts — Phoenix and Las Vegas, where speculation went wild despite ample land for expansion. At the height of the boom, new developments around Phoenix would announce plans to begin selling homes — as yet not even started — on a Monday and would-be buyers would spend the weekend in sleeping bags outside the development to get a chance to buy.

Many such “buyers” did not expect to ever move into the house, or even pay for it. Instead, they expected to sell their right to the house, at a profit, before construction was completed. When that strategy stopped working, it left a large supply of unoccupied houses to depress prices.

Now foreclosures are still rising, even as home sales and prices seem to have stabilized. If the worst is over, it will have been a wild ride that ended very close to where it began, but with many people much worse off for the experience.

Floyd Norris comments on finance and economics in his blog at nytimes.com/norris.

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