

What's in a Price?

A Comparison of National Home Price Series



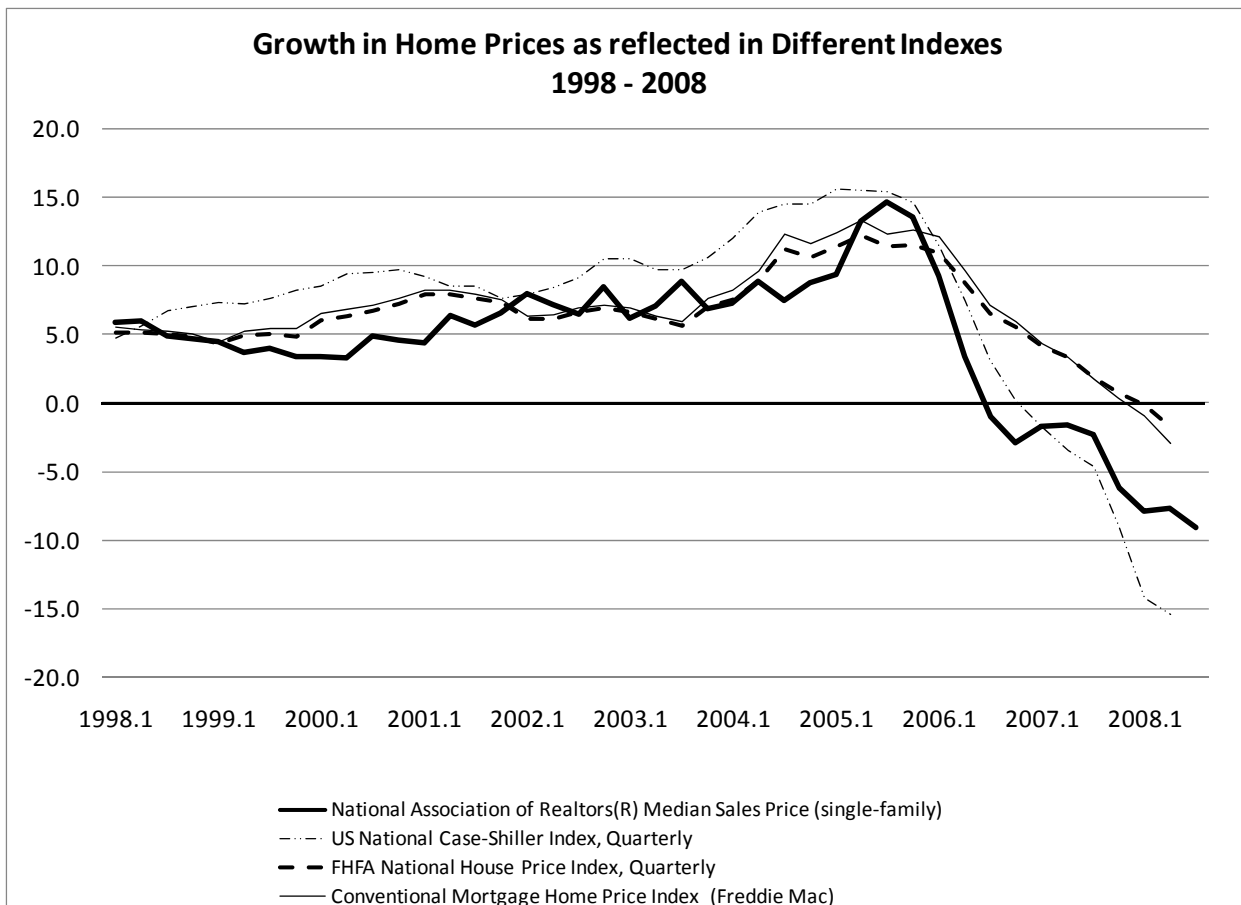
2008



Tracking Home Prices

Since all real estate is local, interpreting changes in home prices at the national or metropolitan level can be difficult. This can be problematic for policy makers and market participants like home buyers, sellers, and REALTORS®. The first step is understanding what the various measures of house prices are actually tracking and how this information can be used. To tackle that challenge, we'll review the most closely watched home price indexes and discuss the major differences between them.

There are four major home price indexes that market participants follow. They are the National Association of REALTORS® Median Sales Price, the Case-Shiller Index group, and two Conventional Mortgage Home Price Indices, one by the Office of Federal Housing Enterprise Oversight (OFHEO) and one by Freddie Mac.



A Word About Indexes

All indexes track home prices with a level of abstraction since there are several ways that information about home prices can be aggregated to develop an index. Consequently, changes in the prices of homes in a particular neighborhood may differ from an index based on home sales from a larger or slightly different geographic area. The NAR Median Sales Price (which is not an index) tracks the sales price of the typical home where half of the homes sold at a higher and half sold at a lower price in a particular month. Other price indexes use a repeat sales technique that attempts to address a well-known characteristic of median sales price series; that is, homes that sell one month, are not the same homes that sell the following month. If these homes differ in size or quality, then a change in the median sales price of homes reflects some combination of a change in the mix of high and low priced homes as well as the underlying change in the price of homes. Researchers track and measure repeat sales to get past this limitation. Unlike a median sales price, the repeat-sales methodology is very complex and requires an extremely large database of home sales transactions that limits its application to the nation or to large metropolitan areas.

National Association of REALTORS®

The National Association of REALTORS®' Median Sales Price is a series of dollar figures released monthly at the national and census region level and quarterly for more than 150 metropolitan areas. NAR reports the observed median sales prices based on closed sales transactions gathered from Multiple Listing Services (MLSs). National data are released around the 25th of the month and cover transactions from the previous month making it the timeliest information about housing market conditions available. Furthermore, only NAR includes information on condo prices, compiled in joint and separate series. Because the underlying data is gathered from MLSs, a substantial majority of all home sales transactions are represented, although transactions not listed through a MLS are therefore excluded.

Website: REALTOR.org/research.nsf/pages/ehspage

Case-Shiller

The Case-Shiller Index group consists of 20 regional (metro area) indices and two composite indices (a 10-region and a 20-region index). These indexes are reported monthly as 3-month moving averages and cover a period ending two months prior. This group also consists of a broader national index that is released quarterly. Case-Shiller uses a weighted repeat sales methodology to measure price change. This type of index examines price changes for the same home based on the two most recent sales transactions. While this methodology helps to control for several factors that influence price, it requires the exclusion of many data points. For instance, Case-Shiller indexes exclude data from foreclosures as well as home sales transactions in the following states: Maine, Indiana, Wisconsin, North Dakota, South Dakota, South Carolina, West Virginia, Alabama, Mississippi, Idaho, Montana, Wyoming, and Alaska. Additionally, Case-Shiller gathers information on transactions from local government sources and therefore, information about sales transactions is subject to delay. Furthermore, the index is value-weighted, meaning that high-priced homes have a greater impact on the index than low-priced homes. Sales financed with conventional as well as jumbo and subprime loans are included in the index.

Website: homeprice.standardandpoors.com

FHFA (formerly OFHEO)

The Federal Housing Finance Agency (FHFA) produces a House Price Index (HPI), formerly by OFHEO, that is released monthly (starting in March 2008) with a 2-month lag at the national and census division levels and released quarterly at the state and metropolitan levels. The index uses a weighted repeat sales methodology to track changes in the price of homes financed with mortgages purchased by Fannie Mae and Freddie Mac including both purchase and refinance mortgages. The index reflects prices of homes that are financed with mortgages that do not exceed the conforming loan limits. FHFA estimates that 40 percent of mortgages fall into this category including a small number of subprime loans. FHFA also publishes a purchase-only series which includes data back to 1991. The index excludes transactions financed with non-conforming jumbo mortgages or homes that were purchased without a mortgage. The index is not value weighted.

Website: ofheo.gov/HPI.aspx

Freddie Mac

Freddie Mac also produces a Conventional Mortgage Home Price Index (CMHPI) that is released quarterly (2 months after the end of each quarter) at the national, census division, state and metropolitan area level. The data to create the index is drawn from the same data pool as the OFHEO index. Unlike the OFHEO index, it is constructed as a value-weighted repeat sales index. Freddie Mac's index excludes the same home sales transactions as the OFHEO index.

Website: freddiemac.com/finance/cmhpi/faq.htm

Why Should You Care?

Pricing a home can be challenging. According to the 2007 NAR Survey of Home Buyers and Sellers 74 percent of sellers were assisted by agents in determining the asking prices for their homes, and 80 percent of sellers received assistance when reviewing offers. Each of the measures discussed here provides a different perspective on the real estate market. Home buyers and sellers should be aware that conditions in their local market may differ quite substantially from the national perspective. Furthermore, REALTORS® can use this information along with local market knowledge to help clients price and sell their homes successfully.

For more information, please go to the NAR Research Division Web site at:

www.realtor.org/research/