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Housing Market in the Grand Rapids Area

Paul Isely
Grand Valley State University, iselyp@gvsu.edu

Laudo M. Ogura Ph.d.
Grand Valley State University, ogural@gvsu.edu

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Laudo M. Ogura, Ph.D., Professor, Department of Economics
Paul Isely, Ph.D., Associate Dean

Laudo M. Ogura

Paul Isely

Home prices continued to rise in the Grand Rapids region during 2019. Employment growth, although at a lower rate than in previous years, kept pushing demand higher. On the supply side, the inventory of homes for sale remained very low, thus also contributing to higher prices.

At the national level, average housing prices rose at a much lower 2.1% rate in the past 12 months compared to rates of 5% or above in the previous 7 years. There were slight declines in home sales and construction activity, but the recent drop in mortgage rates has helped avoiding a stronger slowdown (see **Table 1** for recent changes in housing market and economic indicators). Incidentally, the reduction in long-term interest rates was connected to fears of a coming recession in the U.S. economy, which could bring a more substantial decline in home sales and construction, and perhaps even a drop in home prices.

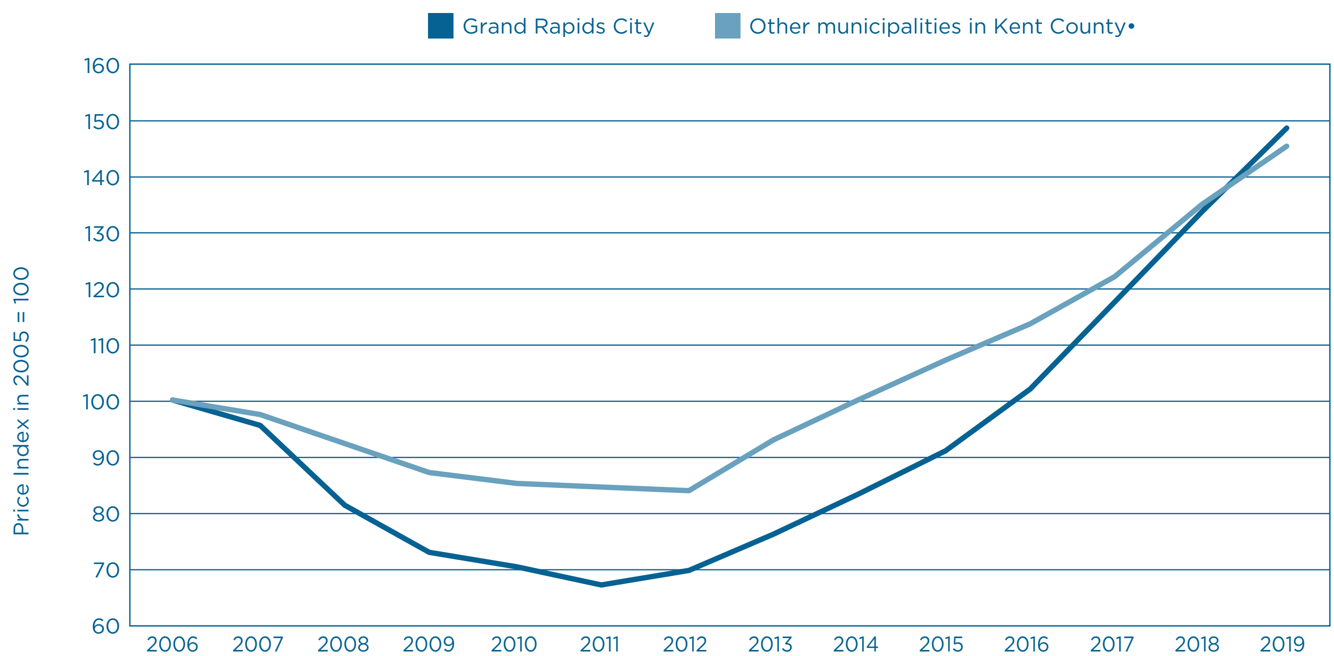
Table 1 – Economic and Housing Market Conditions

	2006	2018	2019	2018-2019 Change
20-city S&P/Case-Shiller housing price index (100 in 2006)	100	103.8 (Sept)	106.0 (Sept)	2.1%
U.S. Consumer Price Index - CPI (100 in 2006)	100	125.0 (Sept)	127.2 (Sept)	1.7%
U.S. Real Gross Domestic Product annual growth rate (%)	2.9	2.9	2.4 (3rd quarter)	-0.5
U.S. unemployment rate (%)	4.6	3.9	3.5 (Nov)	-0.4
U.S. 30-year fixed mortgage rate (%)	6.4	4.5	3.7 (Nov)	-0.8
U.S. home mortgage delinquency rate* (%)	1.8	3.5	2.6 (3rd quarter)	-0.9
U.S. NAR Existing Home Sales (annual rate, in millions)	6.48	5.43 (Sept)**	5.29 (Sept)**	-2.6%
U.S. new private housing starts (annual rate, in millions)	1.81	1.26 (Nov)**	1.26 (Nov)**	0.0%
U.S. homeownership rate (%)	68.8	64.4	64.5 (3rd quarter)**	0.1
Grand Rapids metro area unemployment rate (%)	6.2	3.0	3.0 (Oct)	0.0
Grand Rapids metro area employment (nonfarm, in thousands)	492.4	563.0 (Oct)**	569.1 (Oct)**	1.1%
GRAR home sales (annual, single-family, pending sales)	11,562	12,556	12,910 (Nov)**	2.8%
GRAR average home price (single-family, closed sales, in thousands)	$163.9	$225.3	$240.3 (Nov)[YTD]	6.7%
GRAR home sales months of inventory	10.7	1.6	1.6 (Nov)[YTD]	0.0

* Delinquency rate of single family residential mortgage in the top 100 banks.
** Average in the 12-month period ending in that month.
YTD Average during the year to date.
Annual data represents the average or total for the year. Non-annual values are seasonally adjusted, except for mortgage rates.
The Grand Rapids metropolitan area includes Kent, Ottawa, Barry, and Montcalm counties.
Sources: Data from Federal Reserve Bank of St. Louis (2019), National Association of Realtors - NAR (2007, 2019), and Greater Regional Alliance of Realtors - GRAR (2019).

In the Grand Rapids city, our estimate is that home prices increased by an average of 11% in 2019, based on data until September. In other municipalities in Kent County that had data available (East Grand Rapids, Grand Rapids Township, Cascade, Plainfield, Walker, and Grandville), home prices rose by about 7% on average. **Figure 1** shows our housing price indexes since 2006, which was the year when prices in Grand Rapids city had peaked in the 2000s. The data was restricted to reflect market conditions for typical non-distressed single-family home sales (details, including the estimation method, are in the Technical Notes at the end of the article). For comparison, data from the local Greater Regional Alliance of Realtors – GRAR (2019) shows that the average price of single-family homes sold in its area of activity was 6.7% higher in 2019 (until November) than in 2018. The GRAR also reported a slightly higher number of home sales in the past 12 months (until November) compared to 2018 and a still very low inventory of homes for sales (see **Table 1** for GRAR data).

Figure 1: Housing Price Index for the Grand Rapids Area*



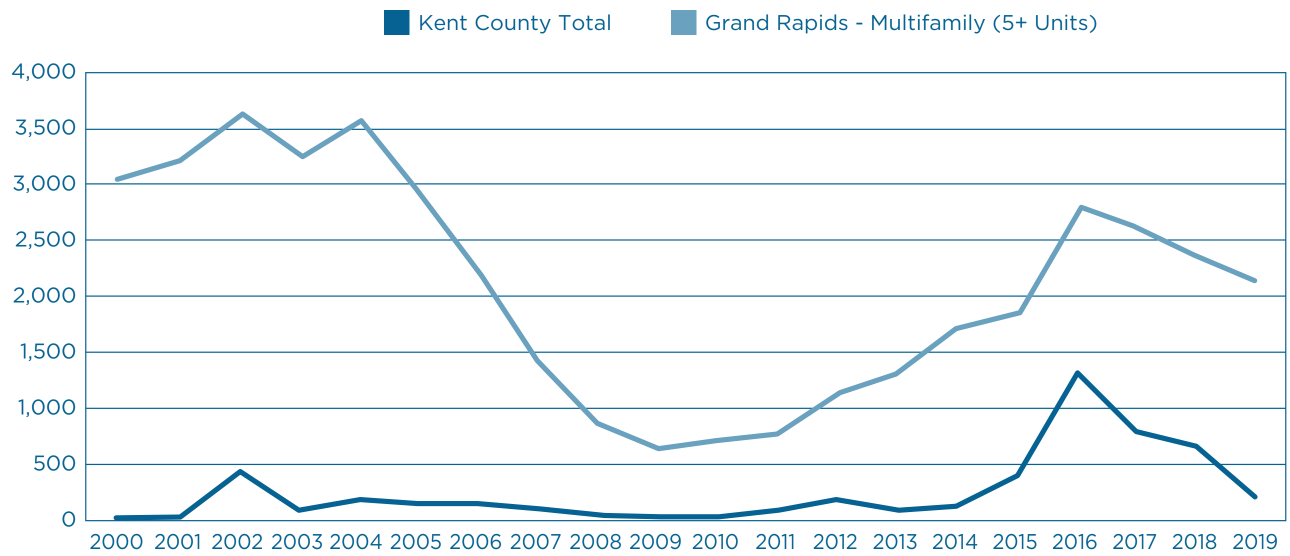
The 2019 index is based on data until September. See Technical Notes at the end of the article for details.
* Data was available for the following municipalities: City of East Grand Rapids, Cascade Township, Grand Rapids Township, Plainfield Charter Township, Alpine Township, City of Walker, and City of Grandville.
Source: Sales data retrieved from BS&A Software (2019).

In **Figure 1**, it should be noted that the "Other municipalities in Kent County" are suburban places that have higher median household income levels and housing prices than Grand Rapids city (U.S. Census Bureau, 2019b), so housing sales were less affected by the mortgage foreclosure crisis in 2008-2011 in those places. In fact, according to our indexes, home prices dropped by 23% on average during the crisis in the Grand Rapids city, but by only 16% in the "Other municipalities." After the crisis, home prices grew faster in the Grand Rapids city and are now 49% higher than in 2006. In the "Other municipalities," home prices are now 45% higher than in 2006. To put these numbers into perspective, the inflation rate since 2006 was 27%.

The rise in housing prices in recent years in the region was due to a combination of fast employment growth and low inventory of homes for sale. The number of non-farm employees in the metropolitan area increased by 15.6% since 2006, while homes for sale are still at a very low 1.6 months' supply in 2019 (see **Table 1**). Homeowner vacancy rates have also been very low in recent years, at or below 1% since 2015 (U.S. Census Bureau, 2019c).

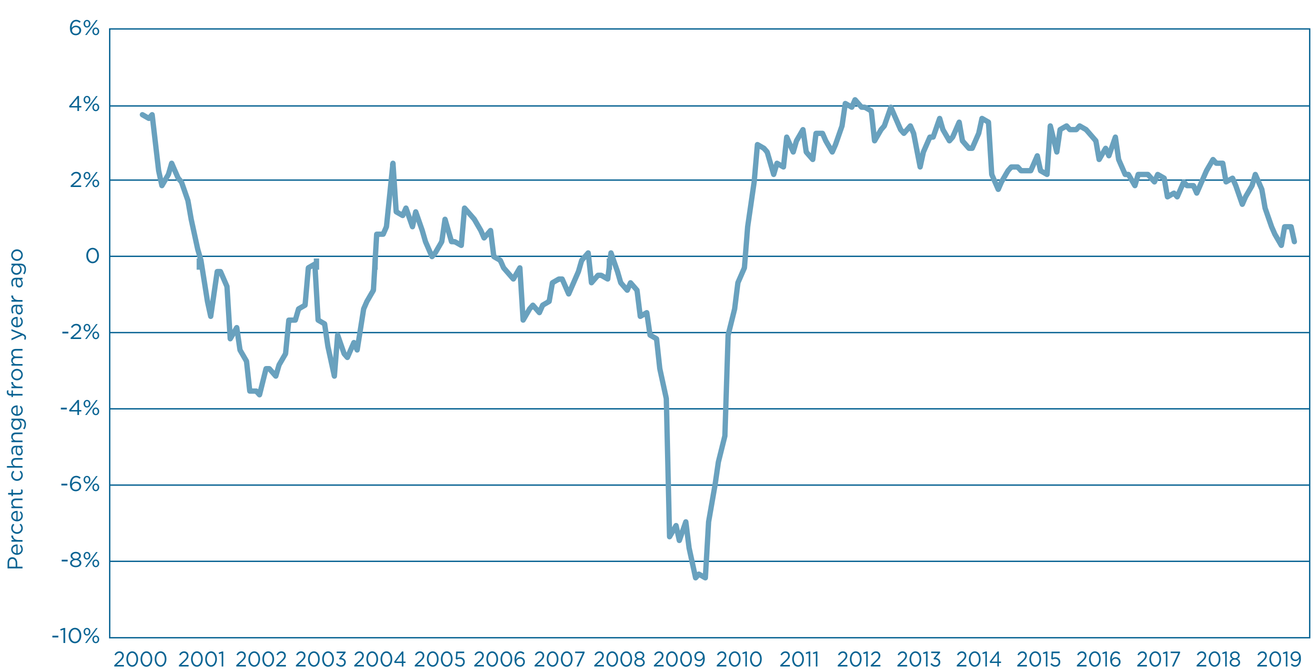
To accommodate a sustained annual population growth rate of 1%, which is the rate observed since 2010, Kent County would need about 2,500 new housing units per year, given that it had 257,370 units in 2018 (U.S. Census Bureau, 2019b). While construction activity has risen over the decade, it only matched the 2,500 level in 2016 (see Figure 2). It severely lagged behind population growth until that year and it is trending down since then. The slowdown in construction may be due to a fear of overbuilding in certain areas like downtown Grand Rapids, where multifamily building construction reached levels unseen in previous decades (**Figure 2**). Developers may have also become more cautious due to fears of a coming economic slowdown. Indeed, employment growth in the region has declined in the past six months from an annual rate of 2% to 0.5% (see Figure 3). A drop in employment growth has also been seen at the national level, but at a smaller degree. This reflects the slowdown in manufacturing and the fact that West Michigan has more exposure to manufacturing than the rest of the country.

Figure 2: Building Permits in Kent County



The 2019 values refer to permits issued in the 12 months ending in October.
Source: U.S. Census Bureau (2019a).

Figure 3: Employment Growth in the Grand Rapids Metropolitan Area



The data shown is based on the seasonally adjusted number of monthly total non-farm employees.
The Grand Rapids metropolitan area includes Kent, Ottawa, Barry, and Montcalm counties.
Source: U.S. Bureau of Labor Statistics (data retrieved from Federal Reserve Bank of St. Louis, 2019).

Affordability
These dynamics have begun to affect the affordability of housing in West Michigan. **Table 2** shows the change in housing prices in Grand Rapids. The west side of Grand Rapids is compared to the rest of the city as it has been a traditional working-class neighborhood. In this case the west side is defined roughly using the roads Maynard in the West, Straight in the East, O'Brien in the South, and just north of Richmond in the North.

Table 2: Housing Price Changes

Year	HPI		Mean Sales Price	
	West Side	Other Grand Rapids City Neighborhoods	West Side	Other Grand Rapids City Neighborhoods
2006	100.0	100.0	$125,360	$117,874
2019	154.0	147.4	$181,809.	$171,523
Change	54.0%	47.4%	45.0%	45.5%

Source: Sales data retrieved from BS&A Software (2019).

The average sale price of both the west side and the rest of Grand Rapids has grown at the same rate, but the HPI has grown more quickly on the west side. This means that generally the houses being purchased on the west side are seeing the prices of the same house going up faster than the average sale price of houses.

This increase in housing prices has been outpacing wage growth. Across the Grand Rapids area, the average increase since 2006 has been 27%, but for lower income retail production workers the increase has only been 23% (**Table 3**).

Table 3: Average Weekly Earnings in the Grand Rapids Metropolitan Area

Year	Retail Production Employees	All Employees
2006	$407.03	$732.47
2019	$501.41	$928.40
Change	23.2%	26.7%

Source: U.S Bureau of Labor Statistics (2019).

This wage increase falls far short of the 45% rise in average sales prices for houses in Grand Rapids. For a full-time retail worker to purchase an average house on the west side of Grand Rapids, they would now have to spend around 43% of their monthly income at current interest rates, compared to 36% in 2006. This has made housing much less affordable for all individuals, but this is particularly true for workers.

Conclusions
Employment growth and a short supply of homes for sale have kept home prices in the upward trend during 2019 in the Grand Rapids region. The decline in mortgage rates during the year also allowed buyers to bid higher, since their monthly payments decreased with the lower interest rates. For the near future, the low supply of homes for sales and moderate construction activity should keep home prices in the uptrend as long as the regional economy does not take a downturn.

Technical Note
The housing price indexes shown in Figure 1 are estimated using the repeat-sales method, which compares prices of the same houses as they are resold over time. We used data from January 2000 to September 2019, setting the indexes at 100 in 2006, so that they can be interpreted as the amount of money needed to buy a house for every $100 that was needed to buy the same house in 2006. The use of repeat-sales is a way to control for variation in the quality of the different houses sold in each year. The method excludes houses that were not resold during the period of analysis and disregards the impact of improvements or deterioration of each house and/or neighborhood. Nonetheless, it is a widely used method to measure average price changes in a broad housing market. In order to better measure the changes in market conditions for typical homes, we excluded the following type of sales: cheap parcels sold for less than $30,000 or that never reached a price of at least $50,000; expensive parcels that were sold for more than $1,000,000 during the period; transfers from or to government, nonprofit, or financial institutions, which reflect non-market transactions; parcels that had large variation in prices, usually the case when parcels were developed or redeveloped; and, last, housing units in multifamily buildings. ■

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