The Current Economy: What lessons can be drawn for Urban Property Valuation?

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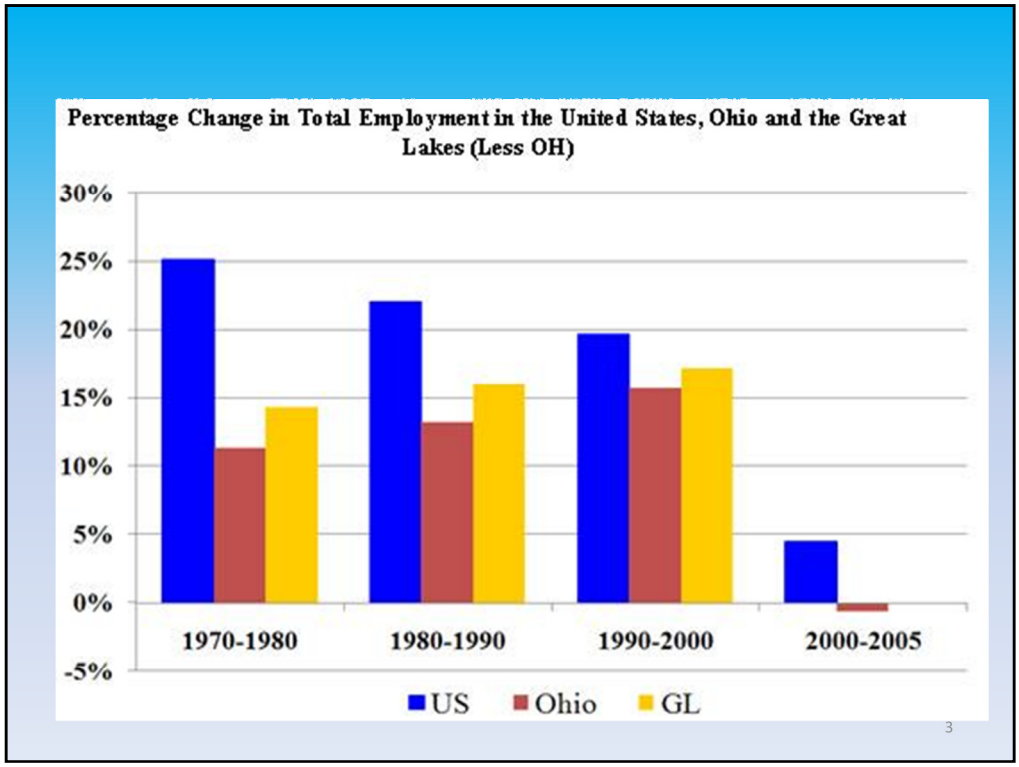
Ohio in long-term perspective

- Even w/o a crisis, Ohio faces systemic problems that present greater long-term challenges than the current crisis.
- Ohio's economy has lagged the nation for decades.
- Who cares—old news… **BUT Important!**
  - If Ohio returned to the national average in per-capita income: $13,000+ more income for a family of 4.
  - 60,000 more jobs a year if Ohio's job growth equaled the U.S. rate in 2000-07.
  - Private investment does not occur with current expectations.
    - Vicious cycle that limits wealth creation.



OH compared to U.S. and our Great Lake State peers (Rust Belt). Great Lake States all have a manufacturing history, settlement history and weather that drives Sunbelt migration. So doing worse than them is particularly alarming for Ohio's future.

Ohio economic crisis

- Housing/land prices are the market's way of signaling a location's future long-term potential. Understanding long-term trends are very helpful in predicting housing trends.
- Need to make Ohio more competitive for growth.
  - We can't control the global economy/climate, etc. but we can control our government and education system.
- One near term problem is state and local budgets are billions out balance going forward.
  - Good: this is the time to eliminate 'bad' programs—i.e., 'across the board' cuts are not serving the interest of Ohioans.
  - Perhaps there will finally some impetus in streamlining Ohio's many layers of local gov't

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Reforming Ohio to Make Sustainable Communities

- In the global economy, capital, talent, and entrepreneurship flow to places with slightly higher profits and higher quality of life.
  - "At the touch of a button"

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U.S. Situation and the housing market

- Today's local housing markets are strongly affected by national conditions—not all housing factors are local.
  - Job growth drives confidence and foreclosures.
  - Financial sector and regulation affect the degree to which more households qualify to buy houses.
  - National migration creates a constant churning that helps make housing markets more liquid.
  - Demographic changes—immigration vs aging population.
    - Immigration is slowing and reversing in some places.

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U.S. Situation and the housing market

- U.S. recession appears to be the worst since the Great Depression.
  - Fixing the banking problem is the key to beginning economic recovery. Stimulus packages are insufficient.
  - Job growth is even weaker than 1981-1982.
  - A key problem is the crisis is synchronized worldwide.
  - There appears to be no source of demand outside of gov't—e.g., consumers are tapped out, business/housing investment has collapsed, financial sector remains over-leveraged, and trade is collapsing.

Current Ohio Conditions

- Employment data suggests Ohio may have entered recession in late 2006.
  - Ohio may not be as worse off as the nation due to a smaller real estate bubble and less financial speculation (though foreclosures hit us earlier).
    - Ohio job growth was weaker in: 1945, 1949/50, 1954, 1958, 1961, 1975, 1982.
  - Columbus is outperforming the U.S., though it is also in recession.

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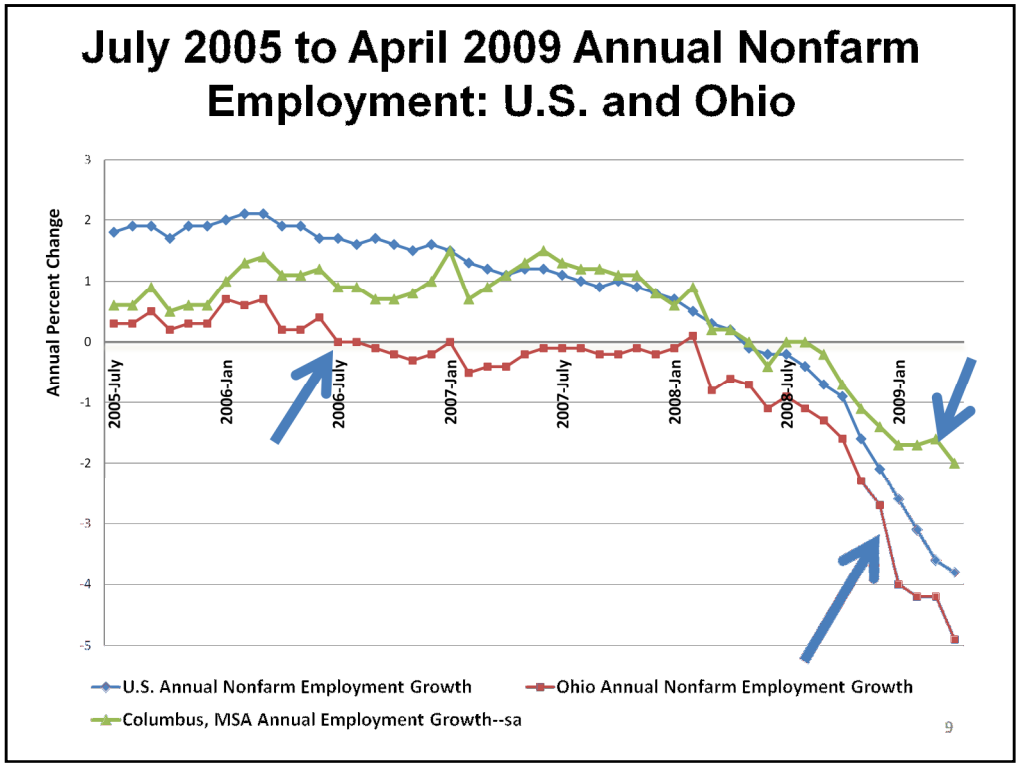
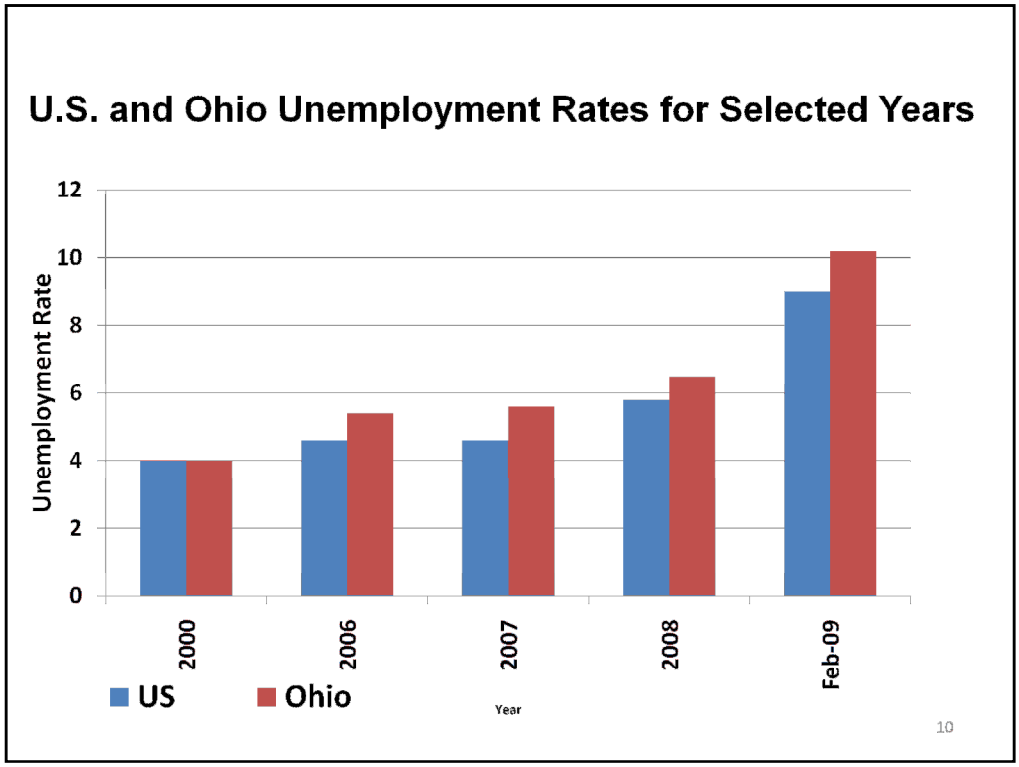
Ohio Employment data is from the BLS with the exception of January 2009, where it is from the State of Ohio—see the notes to the next slide.

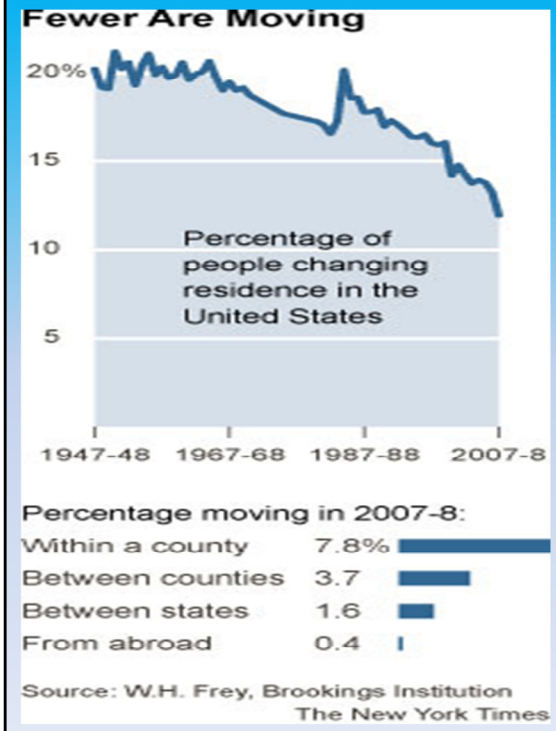


Source U.S. BLS: **State and Area Employment, Hours, and Earnings; Current Employment Statistics, Downloaded May 22, 2009**



Source: U.S. BLS. **Local Area Unemployment Statistics, downloaded April 15, 2009.**

Despite the attention of journalists, economists who study regional economies focus on employment growth. Unemployment is hard to define and especially hard to accurately measure at the state level with current survey approaches. Also, unemployed workers may out-migrate, giving the misleading impression that a state is doing well—a la North Dakota's historically low unemployment rate despite virtually no long-run population growth.



- **Americans are the most mobile in the world.**
- **Continuous churning puts a floor on the demand for houses.**
- **During recessions, mobility shrinks—reducing demand for homes**
- **Long-term mobility rates are falling. Churning will decline. Home markets will be less liquid and harder for appraisers.**

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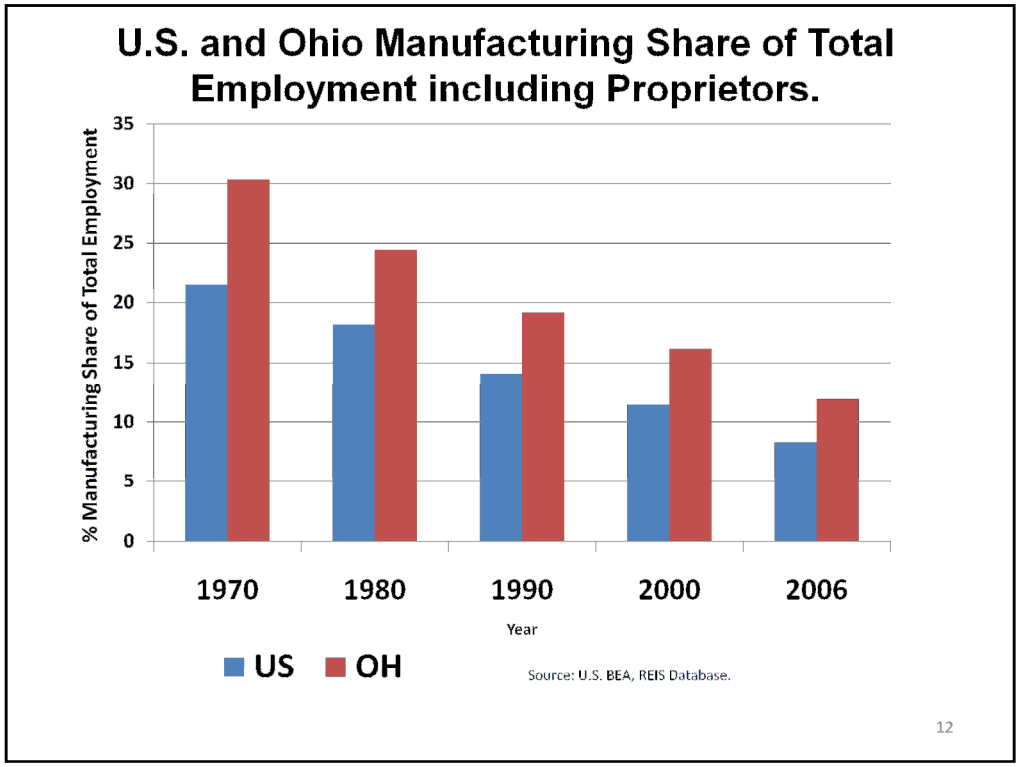

Including proprietors provides a more complete picture than just examining wage & salary workers.

Housing in the national economy

- I use 2006-2009 price changes—not annual changes because the national cycle was not synchronized across regions. E.g., OH entered the recession early and the Pacific NW late.
- Columbus median housing prices are at about the 40th percentile during the 2006-2009 period.
  - Among its national peers, Columbus is typical.
  - Incredible national variation
    - Bottom 10% have price declines of -67% to -45%
    - Top 10% have price increase of 4% to 20%

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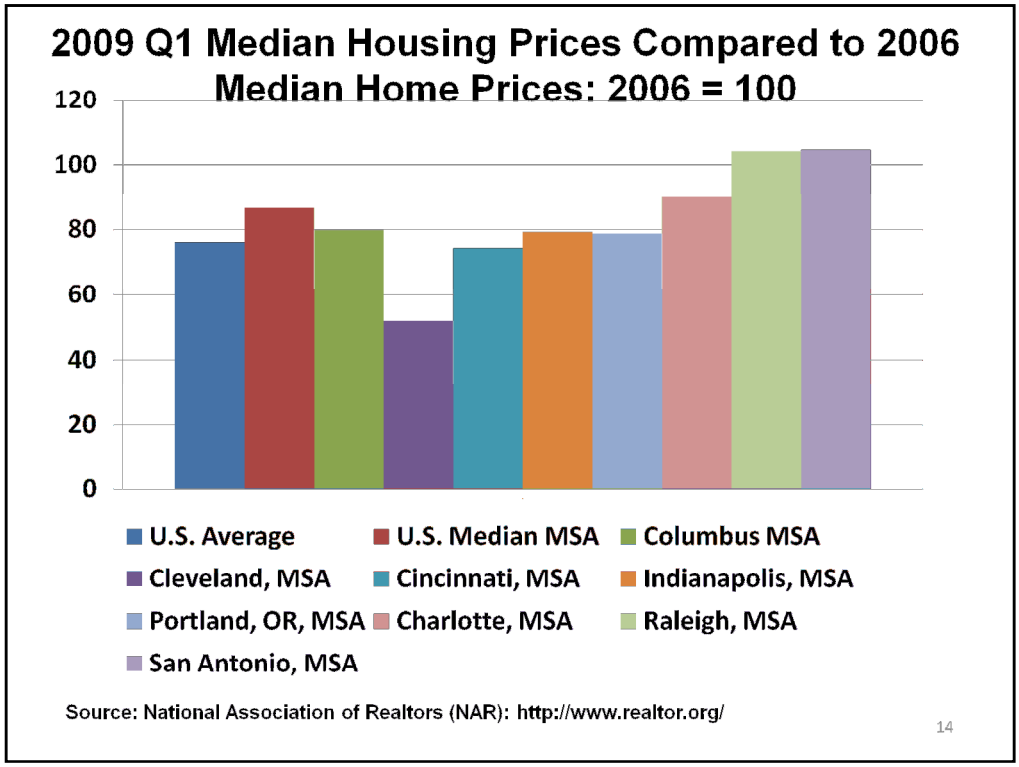
2009 Q1 Median Housing Prices Compared to 2006
Median Home Prices: 2006 = 100
120
100
80
60
40
20
0
U.S. Average
U.S. Median MSA
Columbus MSA
Cleveland, MSA
Cincinnati, MSA
Indianapolis, MSA
Portland, OR, MSA
Charlotte, MSA
Raleigh, MSA
San Antonio, MSA
Source: National Association of Realtors (NAR): http://www.realtor.org/
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What lessons can be drawn for housing valuations?

- Near-term negatives:
  - The recession will continue—maybe into 2010. This will slow migration, stagnate incomes, reduce immigration, more foreclosures due to job losses. The outcome suggests that housing problems will linger into 2010 or later. 2011? 2012?
  - That suggests comparables are an upper estimate—appraisers will need a more dynamic approach.

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What lessons can be drawn for housing valuations?

- Near term positive signs:
  - Underwriting will likely loosen as 'normalcy' returns.
  - Columbus prices are below what you would expect on a national basis.
    - Columbus 2009 Q1 median price $118,300
    - Jackson, MS $122,600
    - Lincoln, NE $132,400
    - Des Moines, $137,300
    - Champaign-Urbana, $141,600
    - Adding to this argument is Columbus is outperforming national economy.

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What lessons can be drawn for housing valuations?

- Long-term national trends:
  - Immigration flows are a question.
    - If the economy grows at a sluggish rate and there are immigration restrictions – then housing will be hurt.
  - Falling long-term migration will reduce churning.
  - Long-term—Robert Shiller's index of long-term housing prices suggests U.S. housing is still over valued relative to the past 120 years.
    - Shiller 1st called the dot-com bubble and housing bubble
  - Punch line is that national housing markets will struggle in the next 5-10 years.

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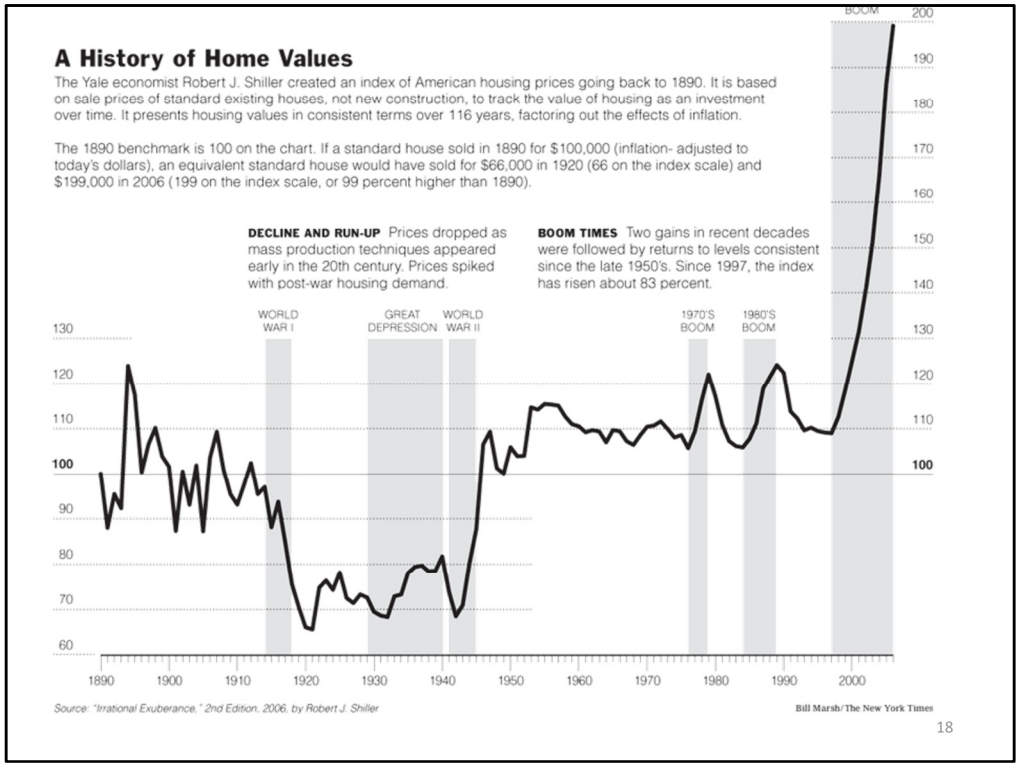

Source: NY times and Robert Shiller, Irrational Exuberance.

Conclusions

- Ohio has faced long-term structural decline that is more important than short-term business cycle.
- This is the worst global economic crisis since the Great Depression—but Ohio has actually performed worse in past recessions.
  - Ohio is much more diversified and less reliant on manufacturing.

Conclusions—cont.

- For housing, the evidence suggests:
- Sluggish national recovery implies more foreclosures and low confidence
- Low migration and immigration will further hurt housing values.
- National housing values are well above their historical trends—falling prices will continue.
- Yet, there are trends that suggest the local Columbus, OH market may be at its bottom.

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Thank you

Presentation will be posted at The Ohio State University, AED Economics, Swank Program website:

http://aede.osu.edu/programs/Swank/

(under presentations)

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To conclude, I want to reaffirm what a pleasure it has been here today. I hope this presentation has stimulated you, not only for the remainder of this workshop, but also to go back and to your communities and try new innovative solutions.