Merrimack Valley
housing*report*

An e-publication of UMass Lowell and the Middlesex North Registry of Deeds

UMASS LOWELL University of Massachusetts Lowell

MIDDLESEX NORTH REGISTRY OF DEEDS

Volume 4, Issue 10 October 2011

Professor Karl Case and the Housing Bubble

By Richard P. Howe Jr

On Monday, October 3, 2011, economist Karl "Chip" Case spoke at the UMass Lowell Inn & Conference Center as part of this year's Moses Greeley Parker lecture series. Along with Robert Shiller and Allan Weis, Case developed the Case-Shiller index, a widely respected and quoted quarterly report on changes in home prices across the United States.

Professor Case opened his remarks by explaining how he became involved in housing statistics in the first place. After completing his service in the United States Army back in the 1970s, Case came to Boston to pursue a graduate degree. Along the way, he purchased a home and saw its value rapidly increase. This got him interested in home prices but he found that while there were data for individual homes and median sales price calculations, there were no data that accurately tracked changes in home sales. He set out to solve this omission by constructing a model that, using sales records obtained from registries of deeds, tracked changes in sales prices of the same houses over time. This is the basic methodology of the Case-Shiller index.

Offering his interpretation of the causes of the mid-decade housing bubble and its subsequent collapse, Professor Case proceeded to explain how the economy appeared soft in 2001 and 2002, a situation he attributed in large part to earlier preparations for Y2K. Back in 1998 and 1999, the uncertainty of what would happen to computers when the calendar reached 2000 caused enormous amounts of money to be invested in technology and related infrastructure. While that investment allowed society to smoothly navigate the transition to the new millennium, it also caused a substantial drop in expenditures in the years that followed.

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Deeds, Mortgages, Foreclosures and Orders of Notice Recorded

September2010 and September 2011 compared

	Haverhill		Lawrence		Lowell		Methuen	
	Sept-10	Sept-11	Sept-10	Sept-11	Sept-10	Sept-11	Sept-10	Sept-11
Deeds	88	97	87	62	98	139	90	73
Mortgages	212	154	122	77	230	196	196	139
Foreclosure Deeds	14	4	18	10	29	13	7	13
Orders of Notice	43	10	62	9	75	13	35	8

The Numbers Are In

By Mike Poore

September marks the close of the third quarter; The Valley's housing market appears to be faring better than the nation as a whole. National housing prices are decreasing at a slow rate (-.4%), while Massachusetts prices are flat. Third quarter numbers can give us a bit of a clearer picture of what's going on in the housing market than year over year or month to month numbers, although we will also highlight month to month (Aug '11 vs. Sept '11) changes, as well as year over year (Sept '11 vs. Sept '10). This year's third quarter results once again gives some mixed signals, while foreclosures and orders of notice are down across all four regions; mortgages are also down with a slight increase in deeds, although more flat than they appear. So while we see improvements in foreclosure numbers, mortgages are down with deeds flat. In a recovering market we would expect to see both increasing in tandem.

Lawrence makes the biggest move down in Q3 foreclosures with a decrease of 62% from the same time period a year earlier, Haverhill seeing a decrease of 55%, and Lowell and Methuen seeing decreases of 27%. Orders of notice are down at least 45% in all four areas, with Haverhill seeing the biggest decrease of 60%. These numbers indicate that foreclosures and orders have decreased immensely; this may be due to several reasons. The first is the backlog at the nation's banks, with foreclosures still at elevated levels in states such as Florida, California, and Nevada processing times have slowed, and many of the banks have laid off thousands since the crisis began. The second is increased number of individuals restructuring loans which increases paper work and can also extend the time before a foreclosure takes place. The third being the increasing number of short sales combined with the slowing of foreclosures by loan servicers due to weak housing prices and high inventory.

Mortgages made negative moves in the third quarter compared to last year, Haverhill saw the biggest decrease at 22%, Methuen decreased 20% and Lawrence and Lowell were down 14% and 9% respectively. Deeds moved up slightly in Methuen, Lowell, and Haverhill while Lawrence was flat. Although deeds last year in the third quarter were artificially low due to the expiring homebuyer tax credits in June 2010. Deeds in the previous months (April, May, June 2010) were at elevated levels compared to every subsequent month thereafter. The tax credits created an artificial demand which disappeared when the credits expired. So although there was a slight increase, the numbers are more flat than the numbers appear at first glance.

Year over year comparisons have similar patterns, foreclosures are down in three of the four cities with Methuen being the only increase. Orders of notice and mortgages are down in all four areas. Deeds came out mixed with Haverhill and Lowell seeing increases, while Lawrence and Methuen saw decreases. Orders of notice showed a major swing, decreasing by an average of 80% for the four cities.

Month over month numbers also see a drop in orders of notice in all four cities, with Lowell and Lawrence seeing steep declines of 74% and 76% respectively. Foreclosures are down in three of the four cities, with Methuen seeing a 30% increase from the previous month. Both deeds and mortgages see increases in two cities and decreases in two cities.

The Massachusetts economy has recovered slightly better than the nation as a whole, with the unemployment rate at 7.4% in the state and a 9.1% rate as a national average. Housing may see no recovery here, although no recovery may be the new recovery in the short run. California, Nevada and Florida have unemployment rates of 12.1%, 13.4%, and 10.7% respectively. Foreclosures are still at elevated levels and will be major hurdles for those state economies to overcome.

Professor Karl Case and the Housing Bubble
Con't from pg 1

In an effort to perk up the economy, the Federal Reserve suddenly dropped interest rates from 6% to 2%.

The precipitous drop in rates in 2002 caused an explosion in mortgage refinancing, a phenomenon that was clearly visible here at the Middlesex North Registry of Deeds while it was happening and that is also documented in the mortgage and deed recording statistics shown in the accompanying chart (p.4). From the second quarter of 2001 through the second quarter of 2002, the number of mortgages recorded in this office averaged 6657 per quarter. From the third quarter of 2002 through the third quarter of 2003, that number had risen to 10,646, an increase of 60%.

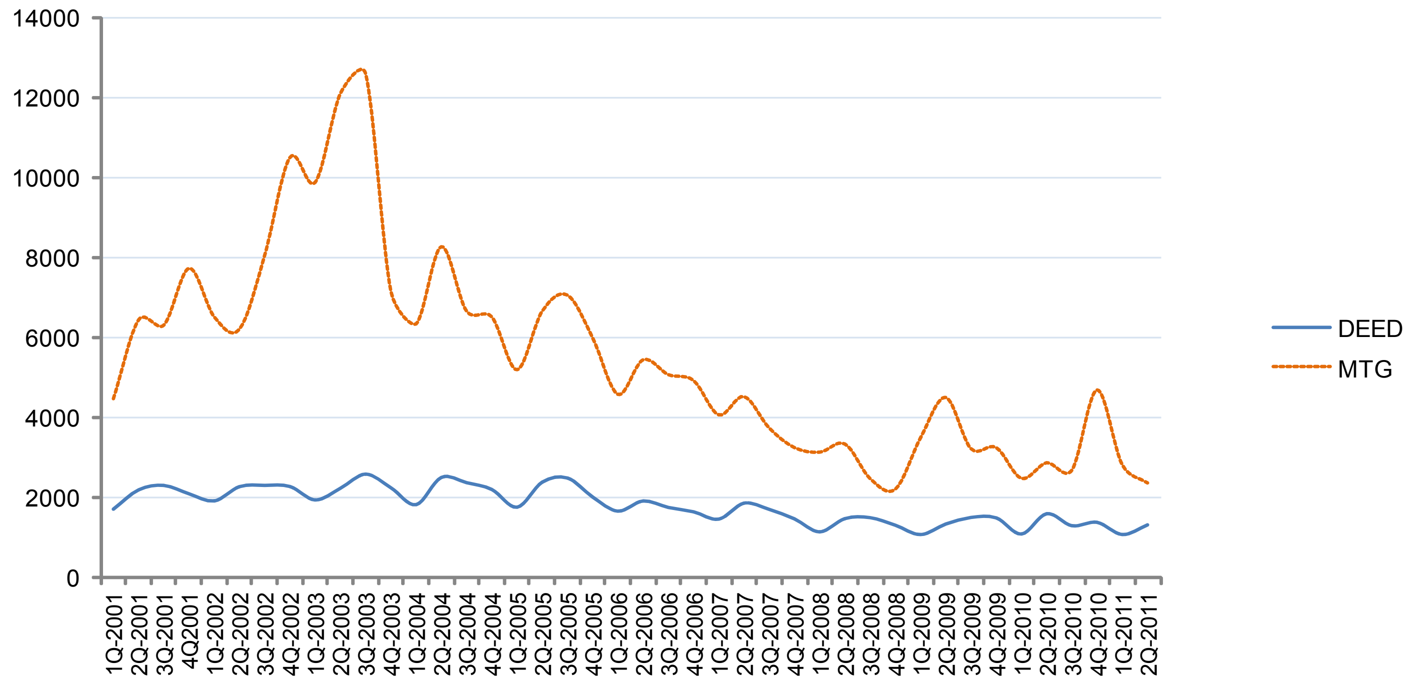
As Professor Case pointed out and as our statistics corroborate, the volume of refinancings suddenly dropped towards the end of 2003 (in Middlesex North, the quarterly average of mortgages recorded from the fourth quarter 2003 through the fourth quarter 2004 was 7003, a drop of 34%). But the Fed continued to keep interest rates low, and the mortgage industry shifted its sights from homeowners wishing to refinance to individuals anxious to purchase their first home. The boom in home sales had begun.

According to Case, it was this transition to financing home sales plus the never-ending quest of investors for higher yields that was responsible for the boom in subprime mortgages. The bigger the risk, the higher the interest rate that could be charged and so people who had little actual ability to repay their loans were granted mortgages on the expectation that most of them would keep up for a time and then be able to refinance or sell once the monthly payments became too onerous. This boom in home sales was reflected here in Middlesex North not by a rise in the number of deeds recorded – they rose only slightly during the boom years – but in the amazing rise in home values. For instance, the median price of a deed recorded in Lowell in 2000 was $140,000. By 2005, that had risen to $254,900, a jump of 82%. While the increase in values was not as dramatic for the towns in the Middlesex North district, it was still substantial. The median deed price for town properties in 2000 was $223,000. By 2005, that value had risen to $350,000, an increase of 57%.

Perhaps because his index played some role in it, Case was very hesitant to cast blame on the mortgage industry. He explained that based on sales data that had been collected since the 1950s, it was reasonable to conclude that national real estate prices would never go down, that prior slumps had been regional and were more than balanced off by booms in other parts of the country. Never before had housing values nationwide plummeted all at once. But plummet they did. Case estimated that the combined value of all US housing in 2006 of $22.9 trillion had, by 2010, dropped to $16.5 trillion. In just four years, $6.4 trillion was lost in housing, a decline of such magnitude that it will fundamentally alter the role of housing in our economy and our lives according to Case.

Looking to Showcase Your Vacancy or Looking to Move?
Community Teamwork Inc. (CTI) developed a new website designed to help landlords showcase their vacancies, and tenants to easily find them.
This free service is offered throughout the Merrimack Valley and the North Shore.
For more information go to:
www.nearlistings.org or contact Avi Glaser at aglaser@comteam.org

Number of deeds and mortgage recorded per quarter at Middlesex North Registry of Deeds, 2001 to 2011



CTI & Just A Start Mediation for Results will be offering a special workshop!

Building Real Security through Landlording

Four evening sessions designed to help landlords enhance their business

For details contact Avi Glaser e-mail aglaser@comteam.org.

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&
Community Teamwork Inc.

The *Merrimack Valley Housing Report* is published by
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This project is funded in part by the Office of the Chancellor and the Office of Outreach. UMASS LOWELL

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