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Underwater: Home Values in 2012 Battleground States

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As the 2012 election approaches, the nation's unemployment rate will continue to drive the political debate and, in turn, the fortunes of President Obama and his GOP rivals.

Despite the central focus on unemployment, however, another number deserves equal attention as a barometer of the nation's overall economic health: housing values.

As catastrophic as it is to lose a job, the percentage of Americans who are unemployed is actually exceeded by the percentage of Americans who have either lost significant wealth from their homes or are currently "underwater"—owing more on their mortgages than their homes are worth. Since 2006, Americans have lost a total of $7 trillion in housing wealth—a figure that, according to the Federal Reserve, is more than half of the nation's aggregate home equity.[1]

In 15 of 16 battleground states, home values have fallen by an average of 16% since October 2008. Loss of wealth promises to be a potent political issue.

In recent days, the Obama Administration has telegraphed its intention to devote more energy to housing—and with a focus on foreclosures and defaults. While this is laudable, the Administration should not neglect a second front: the tremendous loss of housing wealth.

In this report, we make our case by analyzing home values in the 16 battleground states that will serve as the proving ground for 2012. In 15 of these states, home values have fallen by an average of 16% since October 2008. We also offer up suggestions for tackling this issue.

No doubt, every contender for the White House will have a jobs plan. But no economic plan can be complete without an equally robust plan to rebuild housing—and in particular, to rebuild housing wealth. Policies that address this loss of wealth, even for those not at immediate risk of losing their homes, makes sense both politically and economically.

Negative equity: A new crisis in middle-class wealth

In a reversal of the optimism that is typical of Americans, 41% of people in a January 2012 poll—including a majority of seniors—said they feel less financially secure than last year, while just 14% said they feel more secure.[2]

The loss of wealth—and housing wealth in particular—might help explain why.

According to the Federal Reserve's Survey of Consumer Finances, 62.5% of families suffered a loss of wealth from 2007 to 2009. Moreover, says the Fed, "declines in home equity were an important driver of decreases in wealth."[3]

- Homes made up 47.6% of the total non-financial assets held by Americans in 2009. Between 2007 and 2009, American homeowners saw their equity drop by a median of 11.8% (or $18,700).[4]
- From its peak in 2006, the Case-Shiller housing index (the "Dow" of home values) has fallen 32.93%, including an 11.33% decline from October 2008.[5] Median home prices have fallen from $196,600 to $164,100.[6]
- As many as 12 million Americans are now "underwater" with mortgages that are more than their homes are worth.[7]

The loss of home equity has broad implications for the nation's economy beyond mere sentiments of economic confidence. For example, underwater homeowners can't qualify to refinance their homes, which means they can't take advantage of one of the Administration's most successful monetary policies: low interest rates. A 1% lower interest rate on a $200,000 mortgage can mean $168 less in interest payments per month—money that could be spent in the broader economy on other things.

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Underwater borrowers are also stuck in their homes, unable to trade up or move out (a problem that also limits job mobility). Negative equity also means no nest egg for homeowners nearing retirement, and fewer resources to draw on for households seeking to finance a new business, help a child through college or weather out a spell of unemployment or ill health.

Home values in battleground states

As a case study of the potential economic and political impact of these losses in wealth, we used the Zillow Home Value Index[8] to look at what's happened to home values since 2008 in each of 16 potential battleground states (borrowed from CNN's electoral map for the sake of simplicity): Nevada, Arizona, Colorado, New Mexico, Minnesota, Iowa, Wisconsin, Missouri, Michigan, Indiana, Ohio, Pennsylvania, New Hampshire, Virginia, North Carolina and Florida.[9]

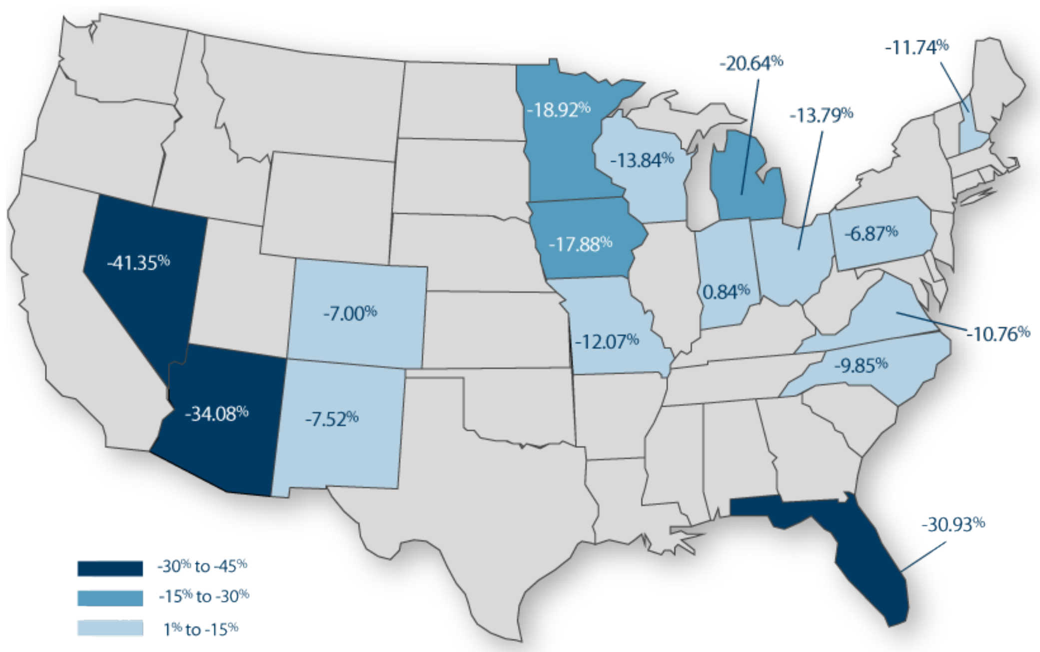
Our key findings:

- Between October 2008 and November 2011, median home prices in these 16 states fell by an average of 16%. Only one state, Indiana, saw an increase in prices (at a very modest 0.8%). Three states—Florida, Nevada and Arizona—saw a greater than 30% drop in median home prices. **(Chart 1, Appendix)**
- Median home prices in these 16 states dropped from an average of $167,231 in October 2008 to $139,319 in November 2011—or $27,913. In the worst hit state, Nevada, median prices plummeted by a whopping $84,500. **(Chart 1, Appendix)**

- 13 out of 16 states continued to see declines in median home prices over the last year. In Nevada, 91% of homes declined in value over the last year, as did 74% of homes in Minnesota and 72% of homes in Arizona. **(Chart 2, Appendix)**

- 14 states also saw a drop in homeownership rates from 2008 to 2011. Overall, battleground state homeownership rates dropped 2% over this time period. With the exception of Nevada, all of these states also had homeownership rates in 2008 that were significantly higher than the national homeownership rate (meaning that losses in wealth and homeownership affect a bigger share of residents in these states). **(Chart 3, Appendix)**

Figure 1. Percentage Decline in Median Home Values in 2012 Battleground States, October 2008–November 2011



Source: Zillow Home Value Index

What it means for 2012: Policy and politics

The loss of wealth and financial confidence that Americans have suffered, along with homeownership's status as a powerful symbol of the state of the American dream, mean that housing is likely to be a potent political issue this year.

Home values are a number that Americans watch. In fact, there's ample evidence that Americans are keen (and often accurate) observers of the state of the housing market.

For example, a poll by the Pew Research Center found that nearly 2 in 3 Americans said home prices in their area have gone down in the past year, with more than a third saying prices have dropped "a lot." [10] Just 44% of Americans think their homes are worth more than their mortgage[11]--which only slightly overstates reality. In addition, most Americans believe home prices will drop or stay flat over the next 12 months—a prognosis shared by the majority of professional housing economists.[12]

It should not come as a surprise that house values are watched so closely. While fewer than 1 in 10 Americans are without a job, 2 in 3 American households own a house. Arguably, home values directly affect more Americans than the unemployment rate.

No doubt, every contender for the White House will have a jobs plan. But no economic plan can be complete without an equally robust plan to rebuild housing—and in particular, to rebuild housing wealth.

Realistically, the big questions on the table for housing can't be resolved in an election year—there will be no progress on the future of Fannie and Freddie. However, policymakers must also make a meaningful effort to restore the housing market and homeowners' wealth.

This means two things. First, policymakers must resist the temptation to succumb to an election-year "easy fix"—i.e. a solution that puts too much of the burden for fixing housing on either "big banks" on the one hand or "irresponsible homeowners" on the other. At this point, Americans know that the housing market's current woes were the result of a combination of mistakes by both lenders and consumers. This is why we think that solutions to "share the pain and share the gain" can have resonance. (In a forthcoming paper, we will flesh out this framework in greater detail.)

Second, policymakers can find and focus on a few ideas that have—or have the potential to have—wide bipartisan support and appeal. Three such ideas include:

- **Championing "shared appreciation mortgages."**

This is a private sector-led approach for rescuing underwater borrowers that is currently being endorsed by such influential housing policy leaders as Realogy President and Chief Executive Officer Richard Smith and New Jersey Senator Robert Menendez.

Here's how it works: In exchange for a lower balance on a mortgage loan, the borrower agrees to give the lender a share of any future appreciation when the house is sold. For example, say that a homeowner owes $200,000 on a home that's now worth $150,000. The lender could write down the principal amount to $125,000, and if the house is later sold for $175,000, the borrower would share some of that future appreciation with the lender in exchange for the lower mortgage today.

This approach is not only intuitively "fair" but could actually work. It should also be broadly appealing because it is cost-effective and led by the private sector.

- **Creating "HomeK" accounts for first-time homebuyers.**

As we proposed in an earlier policy brief,[13] Congress could create "HomeK" accounts—set-aside accounts in existing 401(k) accounts—to help first-time homebuyers save for a down payment. Under this proposal, young savers would be allowed to set aside as much as 50% of their contributions into a 401(k) account for down payment savings, up to a limit of $50,000.

This cost-effective proposal should have appeal for many reasons: it encourages workers to start saving at an earlier age by providing a shorter-term goal than retirement; it promotes the notion of a greater equity stake in homeownership; and it helps first-time buyers cope with a tougher environment for entering into the ranks of homeownership.

- **Protecting prospective homebuyers from onerous down payment requirements.**

Finally, Congress and the Administration can help homebuyers by ending the regulatory uncertainty over whether a 20% down payment is required for a mortgage to be a "qualified residential mortgage" under the Dodd-Frank Act—that is easily eligible for purchase and repackaging in a mortgage-backed security.

The coalition against a 20% down payment requirement is both broad and deep, including community organizations and low-income housing advocates as well as business and the housing industry. As we've argued elsewhere,[14] this requirement would unnecessarily stifle demand for housing and burden prospective buyers.

Conclusion

Housing and its related industries make up 17% of the nation's economy.[15] Its footprint both on the broader economy and on the roughly two-thirds of American households who are homeowners is tremendous.

Americans will be closely watching not only the overall direction of the economy, but the progress of their own economic security and well-being. The direction that home values take will be a key indicator of Americans' future confidence.

Endnotes

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[8] Special thanks to Svenja Gudell, Ph.d, of Zillow for her invaluable assistance in providing us the necessary raw data for this analysis.
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[13] Jason Gold and Anne Kim, “HomeK Accounts: A Down Payment on Homeownership and Retirement,” October 2011, Progressive Policy Institute, http://progressivepolicy.org/wp-content/uploads/2011/10/10.2011-Gold-Kim_HomeK_Accounts-A_Down_Payment_on_Homeownership_and_Retirement.pdf.
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[15] Joint Center for Housing Studies, "The State of the Nation's Housing, 2011", Harvard University, 2011. http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2011.pdf.

About the Authors

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About the Progressive Policy Institute

The Progressive Policy Institute (PPI) is an independent research institution that seeks to define and promote a new progressive politics in the 21st century. Through research and policy analysis, PPI challenges the status quo and advocates for radical policy solutions.

Appendix

Chart 1. Median Home Prices in Battleground States, October 2008-November 2011

	Median home price, Oct. 2008	Median home price, Nov. 2011	Dollar decline in median price	Percentage decline in median price
Nevada	$205,300	$120,400	-$84,900	-41.35%
Arizona	$191,600	$126,300	-$65,300	-34.08%
Florida	$173,600	$119,900	-$53,700	-30.93%
Michigan	$111,900	$88,800	-$23,100	-20.64%
Minnesota	$181,800	$147,400	-$34,400	-18.92%
Iowa	$147,100	$120,800	-$26,300	-17.88%
Wisconsin	$179,900	$155,000	-$24,900	-13.84%
Ohio	$116,000	$100,000	-$16,000	-13.79%
Missouri	$136,700	$120,200	-$16,500	-12.07%
New Hampshire	$213,000	$188,000	-$25,000	-11.74%
Virginia	$232,300	$207,300	-$25,000	-10.76%
North Carolina	$144,200	$130,000	-$14,200	-9.85%
New Mexico	$171,600	$158,700	-$12,900	-7.52%
Colorado	$214,200	$199,200	-$15,000	-7.00%
Pennsylvania	$149,900	$139,600	-$10,300	-6.87%
Indiana	$106,600	$107,500	$900	0.84%
Average	$167,231	$139,319	-$27,913	-16.69%

Source: Zillow Home Value Index

Chart 2. Battleground States with Declines in Median Home Prices Since 2010

	Percentage of homes losing value, Nov. 2010-Nov. 2011
Nevada	91%
Minnesota	74%
Arizona	72%
Missouri	69%
Florida	64%
North Carolina	62%
Wisconsin	61%
New Hampshire	59%
Ohio	57%
Colorado	57%
Penn	56%
Indiana	53%
Michigan	53%
Iowa	51%
Virginia	48%
New Mexico	43%

Source: Zillow Home Value Index

Chart 3. Changes in Homeownership Rates in Battleground States, 2008-2011

	Homeownership rate, 4th quarter 2008	Homeownership rate, 3rd quarter 2011	Decline in homeownership rate
Nevada	62.6%	55.3%	-7.3%
New Mexico	71.8%	66.3%	-5.5%
Arizona	69.3%	65.7%	-3.6%
Virginia	71.5%	68.8%	-2.7%
Ohio	71.5%	68.9%	-2.6%
Wisconsin	70.7%	68.5%	-2.2%
Michigan	75.2%	73.1%	-2.1%
Iowa	73.1%	71.2%	-1.9%
New Hampshire	75.8%	74.1%	-1.7%
Indiana	73.2%	71.7%	-1.5%
Colorado	68.5%	67.6%	-0.9%
Florida	70.1%	69.5%	-0.6%
Missouri	72.0%	71.5%	-0.5%
North Carolina	69.7%	69.5%	-0.2%
Penn	71.1%	71.4%	0.3%
Minnesota	72.7%	73.1%	0.4%
Average	71.2%	69.1%	-2.0%
National Average	67.5%	66.3%	-1.2%

Source: U.S. Census Bureau