

Durango Real Estate: Look West to Cal-i-for-n-i-a
by Luke T Miller

As a finance professor, I often get asked my opinion of the housing market. Many times I respond with the most recent housing numbers.

“On August 1st, the National Association of Realtors reported that existing home sales, which represent approximately 85% of the housing market, fell 3.8% in June to a 5.75 million annual rate. That was a larger decline than expected and marked the lowest level in nearly five years. Additionally, on August 2nd, the Commerce Department showed sales of new homes dropped by 6.6% last month to an annual rate of 834,000, well below the consensus estimate of 900,000. The median home price also fell 2.2% to \$237,900. That was the largest drop since April 2007.”

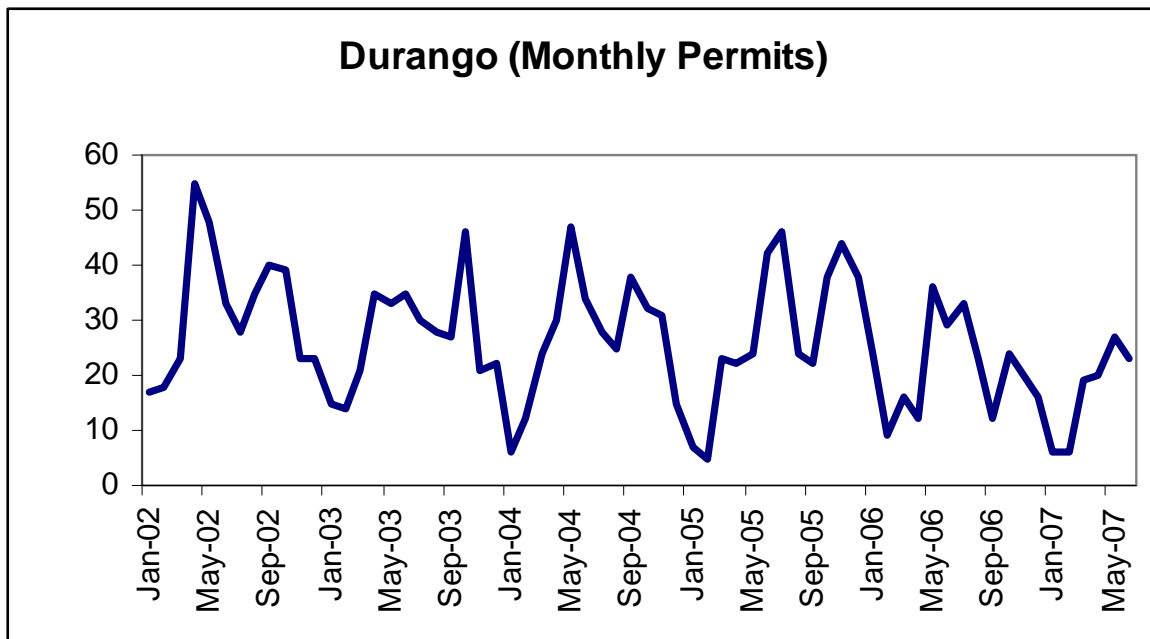
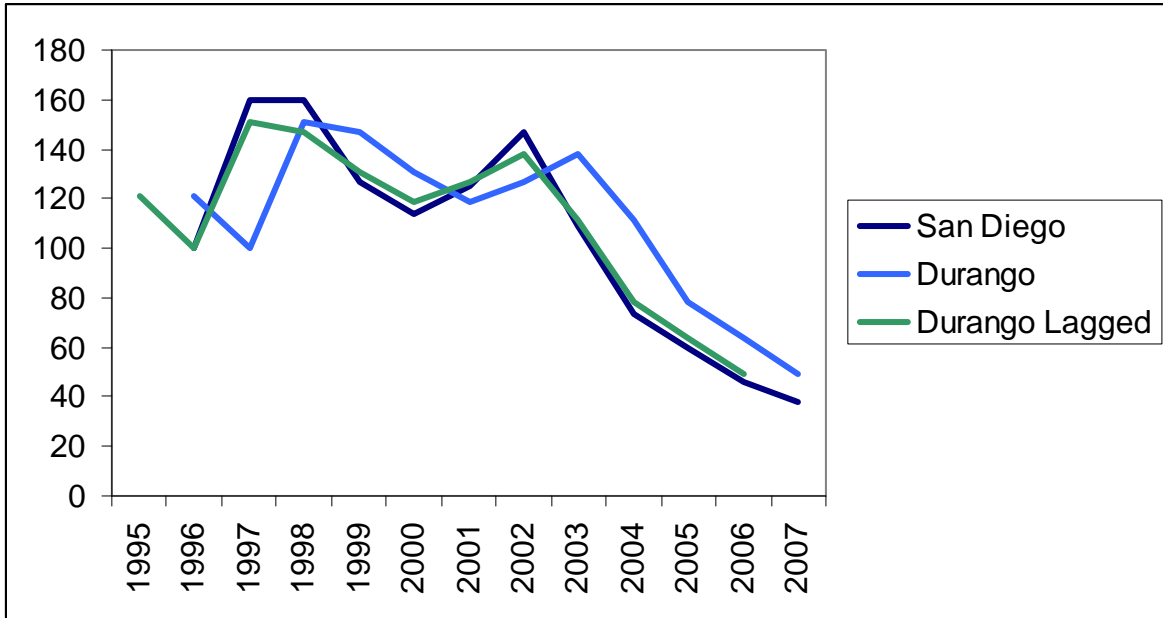
Today I would like to share a relatively unknown statistic with you concerning the housing market and indicators of its future direction. Over the last 80 years, housing activity in southern California has preceded moves in other U.S. cities with 90% accuracy. For example, southern California's real estate market leads New York City by 6 months, Boston and Washington D.C. by about 1 year, and Seattle and Houston by about 2 years. It's like having a crystal ball to gauge the future of your local housing market.

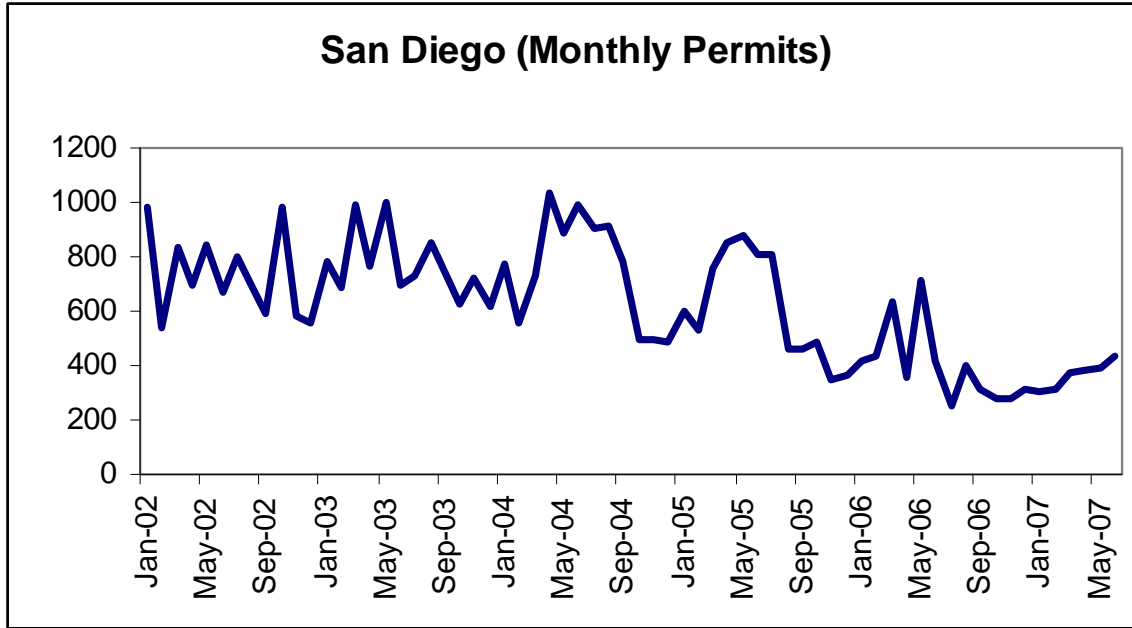
So, how does Durango measure up? Well, first you need to select an indicator. Although there are numerous indicators to consider, the favorite of most economists is residential building permits. When demand is strong, builders pull more building permits so they can build and sell homes. Unwilling to be stuck with homes they can't sell in a softer market, builders reduce the number of permits when demand drops. Second, I selected San Diego as the benchmark city, as it has had the highest correlation with other U.S. cities over the last 20 years.

I evaluated Durango versus San Diego residential building permits since 1995. As you can observe on our website at soba.fortlewis.edu/econoweb, Durango is eerily tracking San Diego building permits with a one-year time lag. If the trend through the first half of 2007 continues, San Diego building permits will be down for the year – suggesting a weaker 2007-2008 for Durango real estate, as well. As for median home prices versus sales, I have found these attributes are unique; in some areas home prices correct to the downside, whereas other areas maintain prices through an increase in unsold inventories. Finally, one important point to consider is the greater volatility (upswings and downswings) of the southern California market versus most other markets. As such, the magnitude of southern California swings is not as important as the direction of the swing and the duration.

No one is capable of exactly calling the end of this housing correction and the start of the next run. However, I will gladly take one quick glance at San Diego residential building permits over the word of any self-proclaimed sage. Please visit our website at soba.fortlewis.edu/econoweb, for several plots comparing Durango and San Diego on an annual and monthly basis, plus links to building permit and other indicator websites.

The following plots compare La Plata County and San Diego residential building permits annually and monthly. Because of the magnitude differences between the two areas, I developed an index to better depict the relationship.





In addition to building permits, consider the following five indicators as a good starting point for the status of the real estate market: (1) Interest Rates: Rising interest rates have an inverse relationship with real estate prices, (2) Building Permits: When demand is strong, builders pull more building permits so they can build and sell homes. Unwilling to be stuck with homes they can't sell in a softer market, builders reduce the number of permits when demand drops, (3) Home Sales: Simple principles of supply and demand affect home sales, (4) Loan Defaults: Defaulting home owners are having job or money troubles or both which signals a weakening economy, and (5) Foreclosure Sales: Foreclosures signal even deeper consumer money troubles and a worsening economy. It also signals dropping home prices.

For building permit information please go to the following U.S. Census Bureau website:
<http://censtats.census.gov/bldg/bldgprmt.shtml>



The screenshot shows a Windows Internet Explorer browser window displaying the U.S. Census Bureau's Building Permits website. The browser's address bar shows the URL <http://censtats.census.gov/bldg/bldgprmt.shtml>. The website header features the U.S. Census Bureau logo and the title "Building Permits". Below the title, there are two radio buttons: "By Place" (selected) and "By County". A dropdown menu is set to "Alabama" with a "Submit" button next to it. To the left of the form is an illustration of a house on a construction site with a crane. The main content area contains a paragraph explaining that the application provides construction statistics by place and by county on new privately-owned residential housing units authorized by building permits. A notice below states that 2005 Annual Housing Units Authorized by Building Permits data are now available, with estimates revised to correct errors. The source is cited as "U.S. Census Bureau". At the bottom, there are "Census Bureau Links" including Home, Search, Subjects A-Z, FAQs, Data Tools, Catalog, Census 2000, Quality, Privacy Policy, and Contact Us. The USCENSUSBUREAU logo and tagline "Helping You Make Informed Decisions" are also present. The browser's taskbar at the bottom shows the start button and several open applications, with the system clock displaying 11:19 AM.

The National Association of Realtors provides a list of real estate indicators that one can analyze to indicate some trends. Here are some of the indicators they follow:

- Existing Home Sales
- Pending Home Sales Index
- New Home Sales
- Housing Starts
- Housing Affordability
- Mortgage Rates
- Mortgage Applications

Go to: <http://www.realtor.org/Research.nsf/Pages/EcoIndicator>

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Housing & Economic Indicators

NAR's analysis of housing and economic indicators provides real estate professionals with tools to interpret the market and apply that knowledge to their business. In addition to NAR's own existing-home sales series, NAR Research monitors other indicators such as new-home sales, housing starts, producer prices, mortgage rates and more.

	Current Figures	Time Period Covered	Next Release Date
Existing-Home Sales (26K PDF)	SAAR* of 5.75 million units -- down 3.8% from previous month. Median price up 0.3%	June	8/27
Pending Home Sales Index (13K PDF)	102.4 -- up 5.0% from previous month	June	9/5

Internet 100%

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The University of San Diego prepares the economic indicators for San Diego County on a monthly basis. Please visit their website to follow the San Diego economy.

<http://home.sandiego.edu/~agin/usdle/lei07jun.htm>

USD Index of Leading Economic Indicators - June 2007 - Windows Internet Explorer

http://home.sandiego.edu/~agin/usdle/lei07jun.htm

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Leading Economic Indicators Down in June

August 1, 2007 -- The University of San Diego's Index of Leading Economic Indicators for San Diego County fell 0.7 percent in June. Leading the way to the downside were sharp drops in building permits, consumer confidence, and help wanted advertising. There were also smaller declines in initial claims for unemployment insurance and the outlook for the national economy. The only positive component was local stock prices, which were up slightly during the month.

	Index of Leading Economic Indicators The index for San Diego County that includes the components listed below (June) Source: University of San Diego	- 0.7 %
	Building Permits Residential units authorized by building permits in San Diego County (June) Source: Construction Industry Research Board	- 1.09%
	Unemployment Insurance Initial claims for unemployment insurance in San Diego County, inverted (June)	- 0.32%

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