

HIGHLIGHTS

Quarterly Price Slowdown in Many Areas

In the fourth quarter of 2004, housing prices decelerated sharply from the previous quarter. Because of large house price increases in recent quarters, year-over-year house price growth remained high in the fourth quarter. At the national level, house prices appreciated 11.17 percent. However, quarterly appreciation was 1.69 percent, compared to 4.79 percent the previous quarter. Thirty-one of the ranked 265 Metropolitan Statistical Areas (MSAs) and Divisions experienced negative quarterly house price growth. As a comparison, in the third quarter, only 5 of the 245 ranked MSAs had negative quarterly house price growth. While no state experienced negative quarterly house price growth, 16 states experienced growth that was lower than 1.0 percent.

Most of the Metropolitan Statistical Areas with negative quarterly appreciation are concentrated in the **South Atlantic** and **East North Central** Divisions, but some areas in the **Pacific** and **New England** Divisions experienced notable falloffs in house price growth. While the very rapid growth rates for the third quarter of 2004 may partly reflect the use of refinance data in the indexes, that factor does not fully account for the decelerations and does not explain the small or negative fourth quarter growth rates noted here.

Virginia, in the **South Atlantic** Division, is a state with strong recent house price growth. House prices have risen 16.44 percent over the past year, and the state ranks 8th nationally in annual house price growth. Nevertheless, outside of northern Virginia, which benefits from the continually strong contribution of the federal government, some of the metropolitan areas that have recently seen strong house price growth, particularly areas in southwestern Virginia, experienced negative appreciation during the fourth quarter of 2004. **Blacksburg-Christiansburg-Radford** had negative quarterly house price growth of -2.45 percent in the fourth quarter, the smallest house price appreciation of any ranked MSA. Previously, quarterly growth there was 3.98 percent. Similarly, **Charlottesville**, where quarterly house price growth was 6.92 in the third quarter, saw growth of -0.58 in the fourth quarter. Finally, **Kingsport-Bristol-Bristol, TN-VA** saw quarterly growth of 4.07 percent in the third quarter, but growth of -1.24 percent in the fourth quarter. **Richmond** appreciated a mere 1.11 percent in the fourth quarter.

Ohio, in the **East North Central** Division, also had four MSAs with negative quarterly appreciation: **Mansfield** (-1.31 percent), **Lima** (-0.66 percent), **Toledo** (-0.35 percent), and **Youngstown-Warren-Boardman** (-0.26 percent). However, given that **Ohio** had only moderate annual house price appreciation of 3.91 percent in the fourth quarter, it is less surprising for quarterly appreciation to fall below zero there.

Within the **Pacific** Division, only **Napa, CA** experienced negative quarterly house price growth. It saw quarterly appreciation of -0.14 percent in the fourth quarter, compared to 8.96 percent in the third. Nevertheless, a number of other areas experienced notable declines in quarterly house price growth between the third and fourth quarters. **Redding, CA** appreciated a mere 0.37 percent in the fourth quarter, compared to 10.44 percent in the third quarter. Interestingly, coastal areas generally experienced lower quarterly house price growth than did central California. **Santa Rosa-Petaluma** had quarterly appreciation of 2.06 percent. **Santa Cruz-Watsonville** had 1.43 percent. **San Diego-Carlsbad-San Marcos** appreciated 1.99 percent. Meanwhile in central California, **Bakersfield** appreciated 5.15 percent, **Fresno** appreciated 3.99 percent, and **Merced** grew 5.12 percent during the quarter. Elsewhere in the **Pacific** Division, **Olympia, WA** had quarterly growth in the fourth quarter of 0.37 percent, compared to quarterly growth in the third quarter of 6.16 percent.

In the **New England** Division, **Connecticut** saw an appreciable slowdown in a number of areas. Fourth quarter house price appreciation was only 0.70 percent in **Connecticut**, compared to 5.93 percent in the third quarter. **Bridgeport-Stamford-Norwalk** had quarterly house price growth of -0.30 percent, compared to 6.85 percent in the third quarter. **Norwich-New London** grew only 0.47 percent. **New Haven-Milford** grew only 0.83 percent. **Hartford-West Hartford-East Hartford** appreciated a mere 1.09 percent. Likewise, areas around **Boston** grew appreciably slower in the fourth quarter of 2004: **Essex County, MA** (0.74 percent) and **Cambridge-Newton-Framingham, MA** (0.75 percent).

Such falloffs in house price growth may not be maintained in upcoming quarters, but the clustering of large falloffs in the regions described here is a departure from recent quarters and could signal a change in trends.