



NEWS RELEASE

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Healthy Local Economies, Low Mortgage Rates Drive Housing Sales in Fed's Eighth District

ST. LOUIS —Among the metropolitan areas in the Federal Reserve's Eighth District, St. Louis and Memphis had the most affordable housing markets in 1996, a boom year for the District's real estate market, said Adam M. Zaretsky, an economist at the Federal Reserve Bank of St. Louis. He also noted, however, that 1997's first quarter results are running behind last year's record pace.

Zaretsky reviewed real estate activity in the District for "Permits, Contracts, Closings: Real Estate in the Eighth District," an article in the latest issue of *The Regional Economist*, the quarterly publication of business and economic issues published by the St. Louis Fed.

Thanks to strong local economies and low mortgage rates, Zaretsky said, the seven states of the Federal Reserve's Eighth District — Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee — enjoyed a boom in real estate in 1996, when almost 144,000 new single-family homes were built and about 736,000 existing homes were sold.

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In comparing housing affordability, Zaretsky found that St. Louis and Memphis came out on top, based on the National Association of Home Builders' Housing Opportunity Index (HOI). The HOI is a measure of the share of homes sold in a market that a household with the median income could afford. For example, a household in Memphis with an annual income of \$39,500 could have afforded to buy 70.2 percent of the homes that were sold in the fourth quarter of 1996, vs. 64.6 percent in 1995

At the same time, however, Zaretsky found that housing affordability in St. Louis, while the strongest in the District, worsened a bit compared to 1995. In St. Louis, the HOI went from 73.0 in the fourth quarter of 1995 to 70.2 in the fourth quarter of 1996. The same was true for Little Rock and Louisville. The HOI in Little Rock dropped from 67.6 in 1995 to 66.7 in 1996 and the index for Louisville went from 69.3 in 1995 to 65.8 in 1996. Nevertheless, Zaretsky found an upside to those numbers. "The growth in median house prices also means an increase in household wealth," he said.

The number of building permits issued in the first quarter of 1997 for single-family homes in the District's metropolitan areas was below last-year's record-high levels. Evansville, Ind., and Fort Smith, Ark., were the only District metro areas where more construction permits were issued through March of this year than last.

Also during the first three months of 1997, single-family home building permits issued in the District's four major metropolitan areas (Little Rock, Louisville, Memphis and St. Louis)

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were down considerably from a year ago: Louisville was down 9 percent, St. Louis by 11 percent, Memphis by 24 percent and Little Rock by 26 percent. “These declines,” said Zaretsky, “were about the same as those that occurred in 1995. And, as in 1995, the rate of decline in most of these cities is slowing.”

Zaretsky said that the amount of square footage under construction for nonresidential projects declined as well. He said that could be due to several factors, including the recent, moderate increases in interest rates, which may have made financing more expensive. “Another, more likely explanation, however, is that large projects, which can dramatically increase the square footage built, have been completed and new ones are not replacing them,” said Zaretsky. “In fact, the number of projects undertaken in the first quarter of 1997 is greater than the number last year, implying that the projects this year are smaller on average.”

So will this first quarter slowing in District construction continue, or is it just a temporary slowdown? Zaretsky believes that the jury is still out on that. He noted, though, that the District economy is still extremely healthy and that the national economy is outperforming most expectations. “This,” said Zaretsky, “bodes well for further increases in personal income and people’s expectations of economic security — two factors that are very important determinants in home ownership and construction investment.”

Subscriptions to *The Regional Economist* are free and can be obtained by calling (314) 444-8809. The publication is also available on the Bank’s website: <http://www.stls.frb.org>.

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The Federal Reserve Bank of St. Louis has branches in Little Rock, Louisville and Memphis. It serves the Eighth Federal Reserve District, which includes all of Arkansas, eastern Missouri, southern Indiana, southern Illinois, western Kentucky, western Tennessee and northern Mississippi. In addition to serving as a bank for depository institutions and the U.S. government, each Reserve Bank supervises state-chartered member banks and bank holding companies, monitors economic conditions in the District and participates in formulating monetary policy.

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