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COMMENTARY

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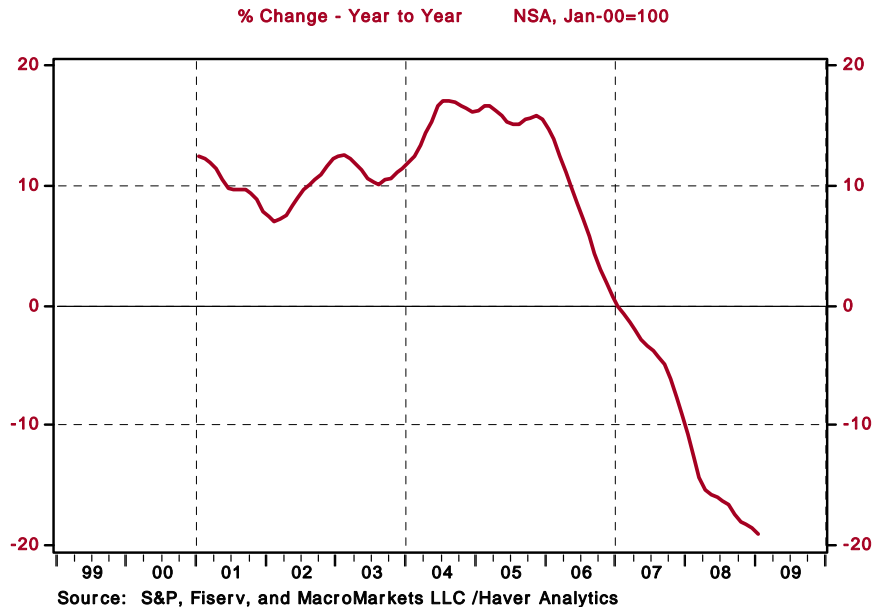
## Home Prices – An Update

April 6, 2009

The [August 27, 2008 comment](#) about the price-to-rent ratio of homes (the price-to-earnings equivalent metric for homes) concluded that home prices were still at elevated levels as of the second quarter of 2008. There has been a significant decline in home prices since that commentary. The Case-Shiller Home Price Index fell 18.3% on a year-to-year basis in the fourth quarter of 2008 and extended the decline further to a 19.0% drop on a year-to-year basis in January 2009 (see chart 1).

Chart 1

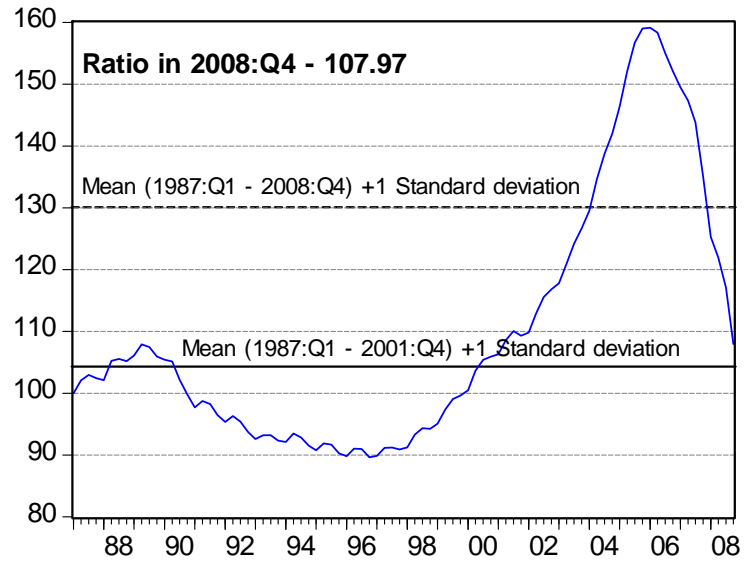
S&P/Case-Shiller Home Price Index: Composite 20



At the end of 2008, the price-to-rent ratio (Ratio of the Case-Shiller Home Price Index and the Owners' Equivalent Rent of the Consumer Price Index) showed a noticeable improvement (see chart 2), with the ratio in the fourth quarter of 2008 (107.97) closer to the long-term average of 98.05 (see table 1, which covers the period 1987-2001). The fourth quarter price-to-rent ratio is well within the range of the mean (109.77) of the entire historical period (1987-2008) which includes the go-go years of 2001-2008. The main take-away from this chart is that home prices are most likely to decline in the months ahead, given the elevated level of inventories; but the pace of decline will be assuredly small.

Chart 2

Price-to-rent Ratio  
1987:Q1 - 2008:Q4



Note: For purposes of convenience, the 1987:Q1 ratio is set to 100.

**Table 1 Case-Shiller Home Price Index vs. Rent**

	Price-to-rent ratio	
	1987:Q1- 2001:Q4	1987:Q1- 2008:Q4
Mean	98.05	109.77
Median	96.91	103.33
Standard deviation	6.25	20.30

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