

The Case-Shiller Housing Price Index

Why this narrow measurement of today's housing markets is "the rich man's home index" and not a true reflection of home price conditions

A Limiting Index

- The Case-Shiller Home Price Index is often cited as an authoritative source of real estate price tracing information. However, the facts show a different story.
- The Standard & Poor/Case Shiller U.S. National Home Price Index is a repeat-sales index that includes jumbo loans. This makes it a fairly accurate measure of price movement in the areas covered, but it is not representative of the entire country.
- The index only tracks 20 areas, which are generally more expensive than the national median. The index places a larger weight on higher priced homes in each area it covers, so the results are skewed toward the upper end of the market. Some economists have called Case-Shiller a "rich man's home index."

Where are the Prices?

- The Case-Shiller index reports percentage changes as a three-month moving average, but doesn't report actual home prices. Besides providing information on a rather limited number of metropolitan markets, the index has only been around for a short time – since 2000 – so it definitely is not the most comprehensive yardstick of housing price movement.

Where Does the Data Come From?

- The Case-Shiller Index relies on data collected with a time lag using mortgage securities and county records. That time lag can be significant. People close on a home and only after several months do mortgage securities and county recording offices pick up this information. Consequently, the Case-Shiller Index may display a pattern similar to underlying trends in NAR's figures, but three months later!
- Furthermore, the Case-Shiller Index is subject to constant revisions because the methodology demands this. What is reported currently by Case-Shiller may be way off after one or two years and then the index is revised. This has consistently occurred throughout the short history of this index.

Price Weighting and Other Tricks

- The Case-Shiller Index is price weighted. Because it was created with hedge funds in mind – where a \$1 million mortgage loss is 10 times greater than a \$100,000 mortgage loss – this index gives greater weight to higher priced homes. Not treating all homes equally in the Case-Shiller index is troubling, if not downright misleading.

What's in a Name?

- The labeling of the Case-Shiller Index is misleading. Although it's called a monthly index, it is actually a rolling three-month average of price changes for the prior period. Because its data coverage is thin – especially compared to NAR's data as well as a number of other yardsticks – this three-month average is necessary to “fatten” the sample, not to “increase accuracy” as frequently reported in the media.

A Better Way to Measure Home Prices

- The most reliable yardstick of housing prices is most likely obtained by using the more reputable existing-home sales and metro home price statistics from NAR, combined with the OFHEO Index, which displays a pattern very similar to NAR's metro figures.
- Despite its adoption by Standard and Poor's, Case-Shiller is a weak measurement tool. The sample is too small, the methodology is flawed, providing skewed results, and its limited information--based on a small number of urban markets--cannot logically be extended to provide numbers indicative of the whole market, as media sources often report.