HOW CREDIBLE IS CASE-SHILLER?

While supporters defend the index, analysts say it shouldn't be used to gauge NYC market

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The words may change, but it's always a variation on the same tune: Every couple of months, someone sings the song of Case-Shiller, the widely cited home price index. The question for New Yorkers is whether it's a local theme song.

While there is no question that the Standard & Poor's/Case-Shiller 20-city housing index is an influential measure of the country's shifting real estate fortunes, some New York-based number crunchers argue that it says almost nothing about the city's -- particularly Manhattan's -- real estate reality. Still, New York City publications often cite the index (one recent story ran under the headline "Housing Index: New York home prices decline 10 percent").

"Case-Shiller is an index of single-family homes, and it's terrific for measuring housing markets that are heavily concentrated with single-family homes," said Jonathan Miller, president and CEO of appraisal firm Miller Samuel, which itself produces widely referenced market reports for New York City. "But it doesn't include co-ops or condos, whic account for 98 percent of Manhattan's nonrental properties."

Case-Shiller does have a separate condo index that includes the New York region, but condo sales are not taken into account in the influential 20-city housing index.

Miller believes that drawing conclusions about the city's real estate market -- be it "Manhattan, or any of the boroughs, which have a large proportion of co-ops" -- is "a misapplication of the index."

Other New York analysts take issue with the geographical scope that the index --founded by economists Robert Shiller, Karl Case and Allan Weiss -- uses for the New York region.

"It takes into account counties in New Jersey and Pennsylvania," said Noah Rosenblatt, founder of the brokerage UrbanDigs, which plans to start releasing its own New York market data in the near future. "If you're following Manhattan real estate, you can't compare places like that to Manhattan."

Sofia Song, vice president of research for StreetEasy, a real estate data Web site, is also critical of the index's geographic definition of the New York region. "It's just unbelievable that they're including Pike, Pa., and Fairfield, Conn.," she said. "It includes both the suburban market and the second-home market."

But Case, a professor of economics at Wellesley College, defended the index, saying that co-op sales have too many variables to be included. It should be noted that the three economists sold their company, Case Shiller Weiss, in 2002 to the information management company Fiserv, which then partnered with Standard & Poor's to develop tradable options and futures based on the index.

Shiller and Case still play advisory roles with respect to the S&P/Case-Shiller Home Price Indices.

"Cooperatives differ in terms of their financial fundamentals," Case wrote *The Real Deal* in an e-mail. "I bought a co-op in New York back in 2004. I looked at a large number and found them very difficult to compare. Some have large common mortgages and high monthly payments, while others have very little common debt ... and these things change."

He said, however, that it was "also unclear to me that the relationship between the co-op market and the single-family market is dramatically different over time."

"You get a 'co-op discount' because they are a hassle ... but if that discount is roughly constant and single-family homes and co-ops are substitutes, the rate of change should be the same," he said. "It is important to understand that we are measuring the rate of change. … We are not explaining why some houses are more expensive than others."

David Guarino, a spokesperson for Standard & Poor's, which publishes the index, said he is unaware of pointed criticisms about the index's reliability as a gauge of the New York market.

"The feedback we get is generally quite positive. People do see it as a very good barometer of the market for single-family residential homes and the resales of those homes," he said. He noted that the sample size is too small to include co-ops and that they have different financing and state laws.

Some New York-area market watchers agree that the index is a good tool.

"I think the Case-Shiller Index is the best thing out there. It's very good at measuring what it measures," said Ingrid Gould Ellen, co-director of the Furman Center for Real Estate and Urban Policy.

But that doesn't mean it should be used to gauge the local market. "Is that going to be a good way to measure the housing stock in Brooklyn? I think it's not. Like any index, it's going to measure what it's attempting to measure," Ellen said.

(The Furman Center also releases an annual index that Ellen said is geared toward looking at residential price variations by neighborhood.)

Nonetheless, Song said the fact that the S&P/Case-Shiller 20-city index uses data from the year 2000 as its "ground zero" for trends is also questionable.

"Case-Shiller's data is set up based on 2000," she said. "So that's kind of saying that's the most normal time of the market, but the market was actually pretty high then."

Further, Song said the index's use of data is opaque. "While anyone can look at it and say, 'The index is going up or going down,' it's impossible for most people to really understand why that's happening," she said.

When New York City-centric market reports from StreetEasy and Miller Samuel -- both of which rely on the Department of Finance's public records and include co-op and condo sales -- are compared to the Case-Shiller index, the difference is notable.

Manhattan market reports from Miller Samuel and StreetEasy for the fourth quarter of 2008 show, respectively, small price gains, or none at all, compared to the same quarter in 2007. However, the Case-Shiller index for the New York metro area for the same quarter lodged a 9.2 percent year-over-year decline.

More recently, the Case-Shiller index for the New York region in December 2009 showed a year-over-year decline of 6.3 percent for average prices, while Miller Samuel's Manhattan report for the same quarter found a 12.7 percent year-over-year decline in average sales prices. StreetEasy's Manhattan report for the same period showed a 9.6 percent decline in average sales price.

In explaining the utility of the index, Case said that in many ways it's like the S&P 500.

"[The S&P 500] measures what has happened to a specific bundle of stocks. We all know that the S&P 500 is not particularly useful in valuing individual stocks. ... Some stocks go up and others down in a given day, and the index measures the average. Both are based exclusively on actual arm's-length sales which have been closed."

Shiller, a Yale professor, did not return requests for comments. Meanwhile, S&P's Guarino said that "it's not out of the question" that the index's reporting of New York might one day be retooled, though he did not reveal whether such a change was anywhere on the horizon.