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**Land Prices Increasingly Drive Housing Markets, Fed Study Says**

By **Campion Walsh**  
From [The Wall Street Journal Online](#)

WASHINGTON -- Housing prices in big U.S. cities have increasingly reflected underlying land value rather than building value since the mid-1980s, and that trend is likely to continue, according to a Federal Reserve study released Tuesday.

In the 46 biggest metro housing markets, land's share of property prices increased on average to 51% in 2004 from 32% in 1984, according to the study authored by Michael Palumbo, chief economist in the Fed's flow of funds section, and Morris Davis, a former Fed economist now at the University of Wisconsin.

The increase was especially sharp during the 1998-2004 housing boom, when land's share of property values gained 11 percentage points, the study said.

"With residential land having appreciated so significantly over the past 20 years around the country, the future course of land prices is expected to play an even more important role in governing home prices -- in terms of average appreciation rates and volatility -- in the next two decades," according to the study.

The report concludes that land's increased share of property values "could mean faster home-price appreciation, on average, and possibly larger swings in home prices."

Even if land appreciation returns to the slower pace seen before the 1998-2004 boom, cumulative gains in land value mean that house prices might rise more quickly on average than they did before the boom, it said.

Regionally, relatively expensive housing markets have seen somewhat bigger increases in land's share of prices in the 1998-2004 period, but the current housing boom has been marked by rapid appreciation of residential land "just about everywhere," according to the report.

The Fed study also found that at some point since 1984 most large U.S. cities have gone through one pronounced price cycle in which residential land lost value for several years, usually after several years of rapid appreciation.

"In real terms, land prices have generally taken several years to go from peak to trough, and the subsequent recovery from these price declines has generally occurred at a more gradual pace," the study said.

Email your comments to [rijeditor@dowjones.com](mailto:rijeditor@dowjones.com).

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