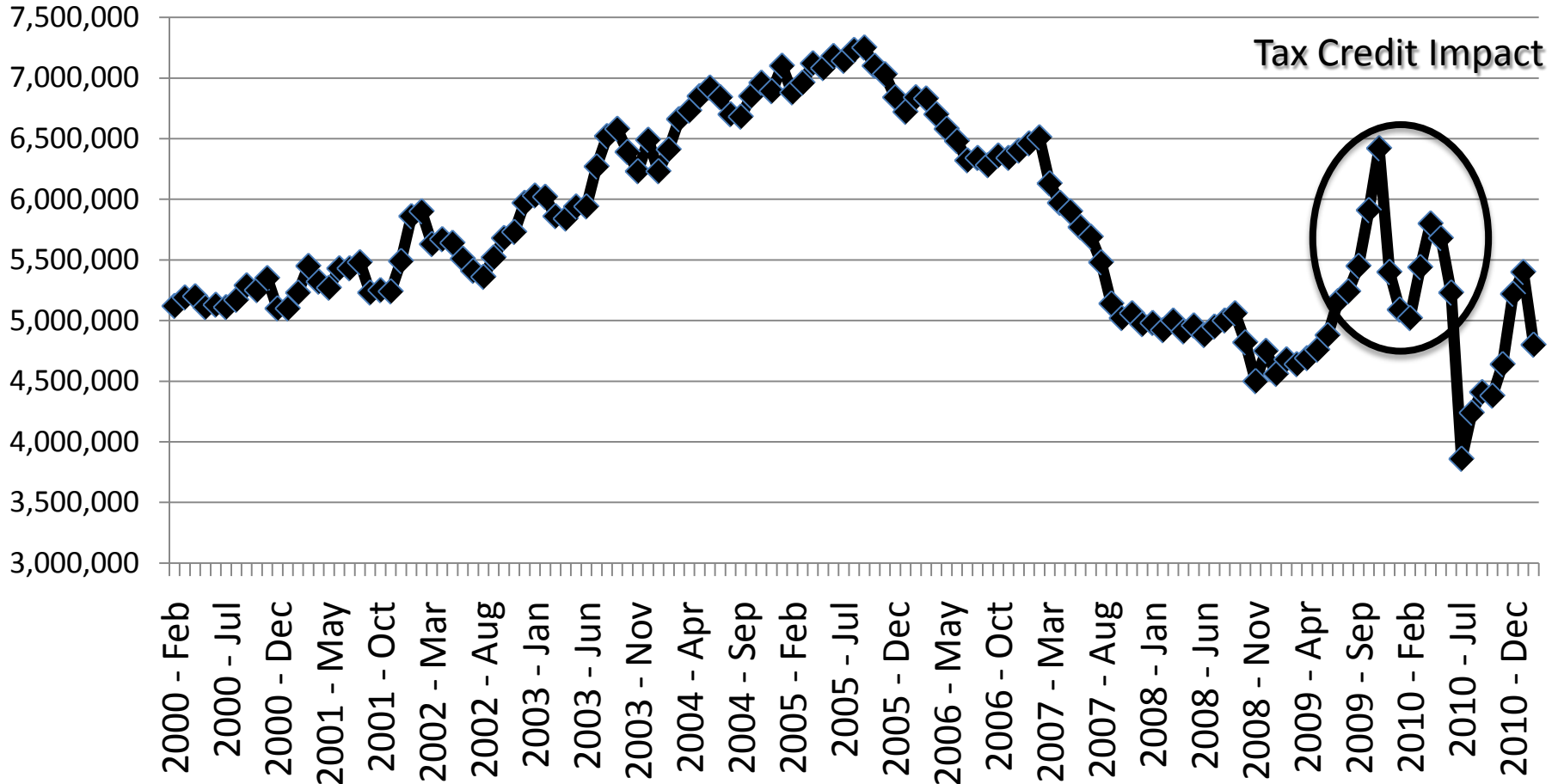


# Housing Market Outlook

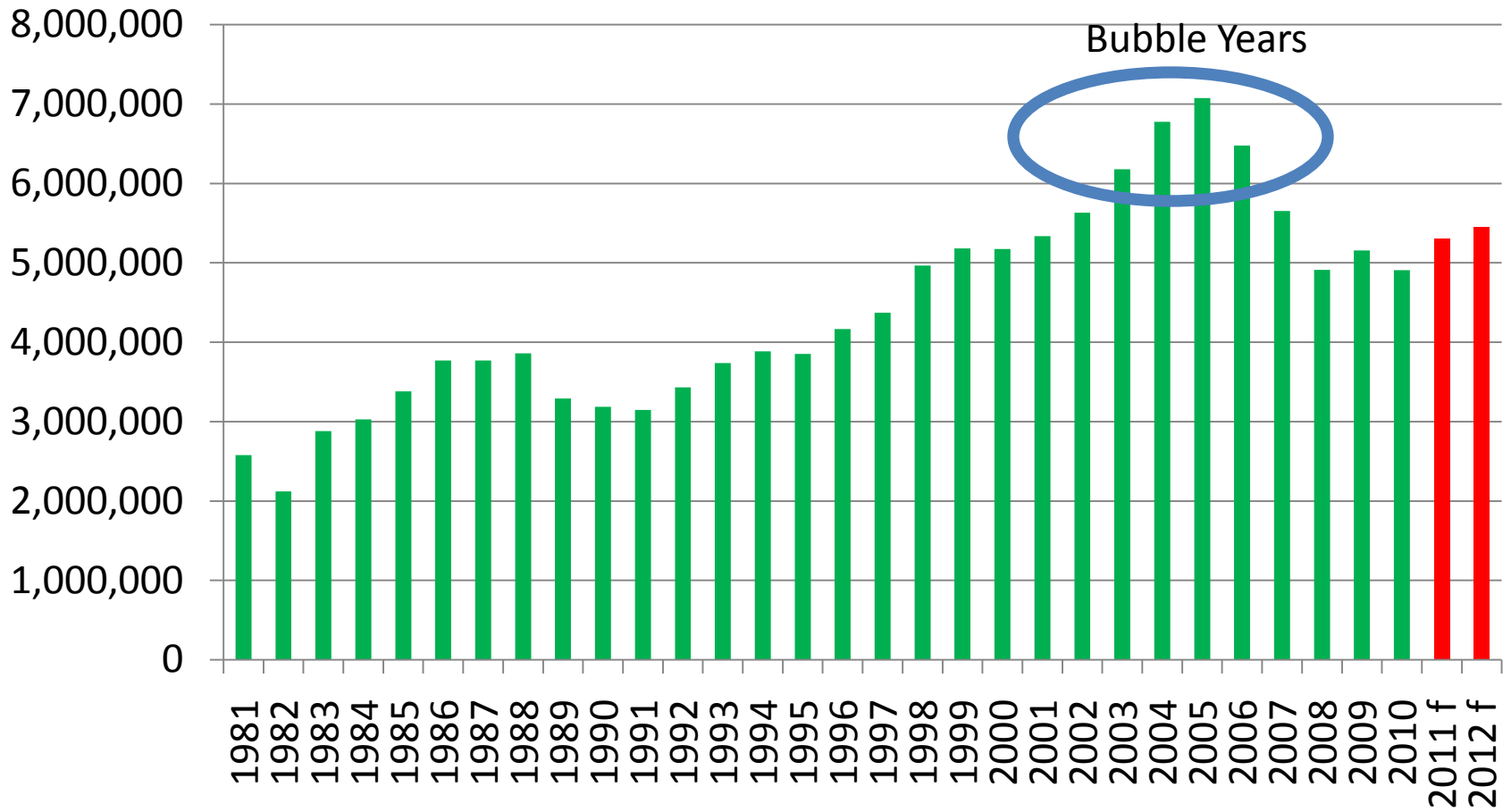
**Lawrence Yun, Ph.D.  
Chief Economist  
NATIONAL ASSOCIATION OF REALTORS®**

**Presentation to Santa Clara Association of REALTORS®  
Real Estate Industry Summit  
March 25, 2011**

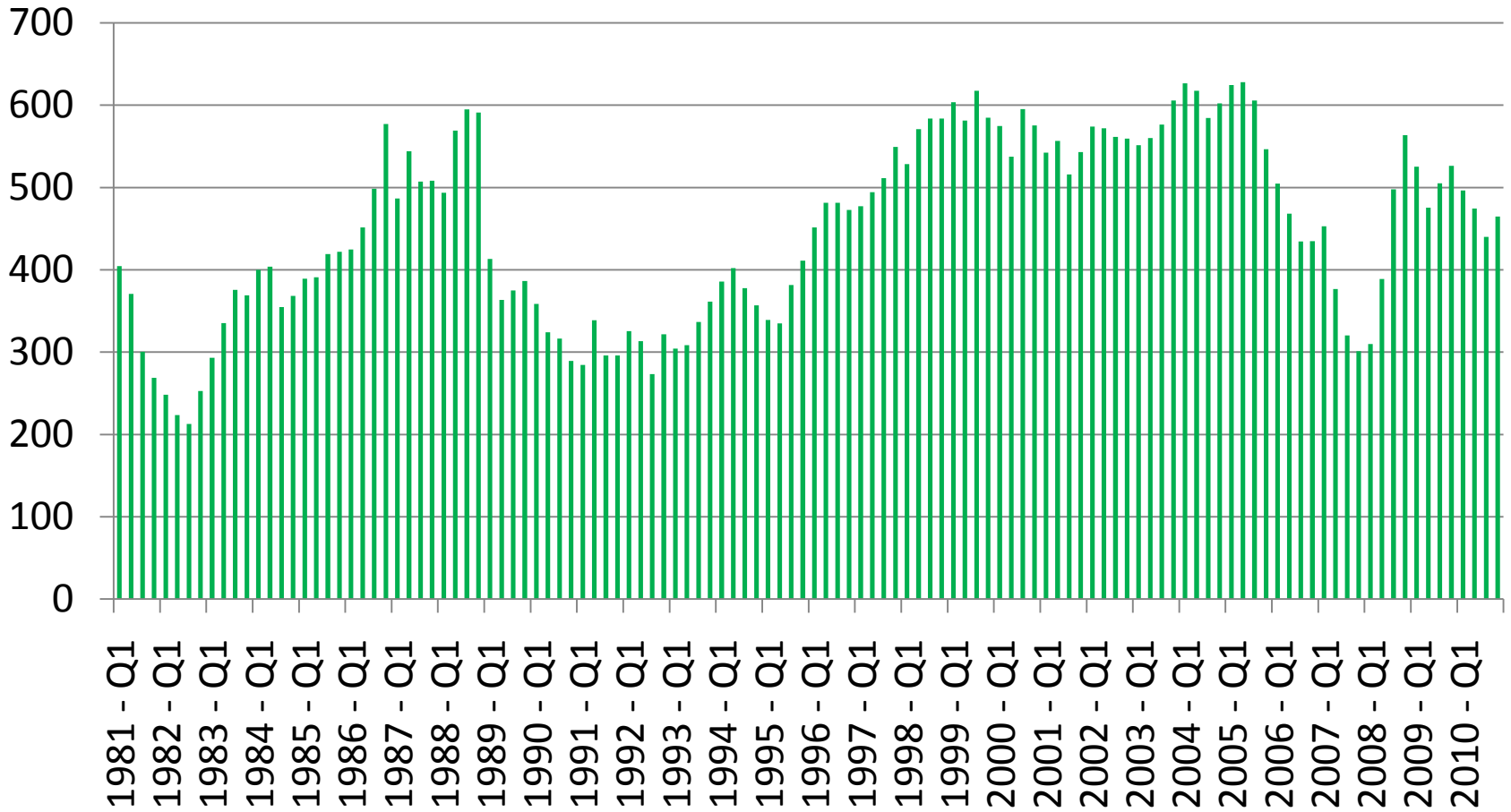
# Existing Home Sales (Closings)



# U.S. Annual Existing Home Sales

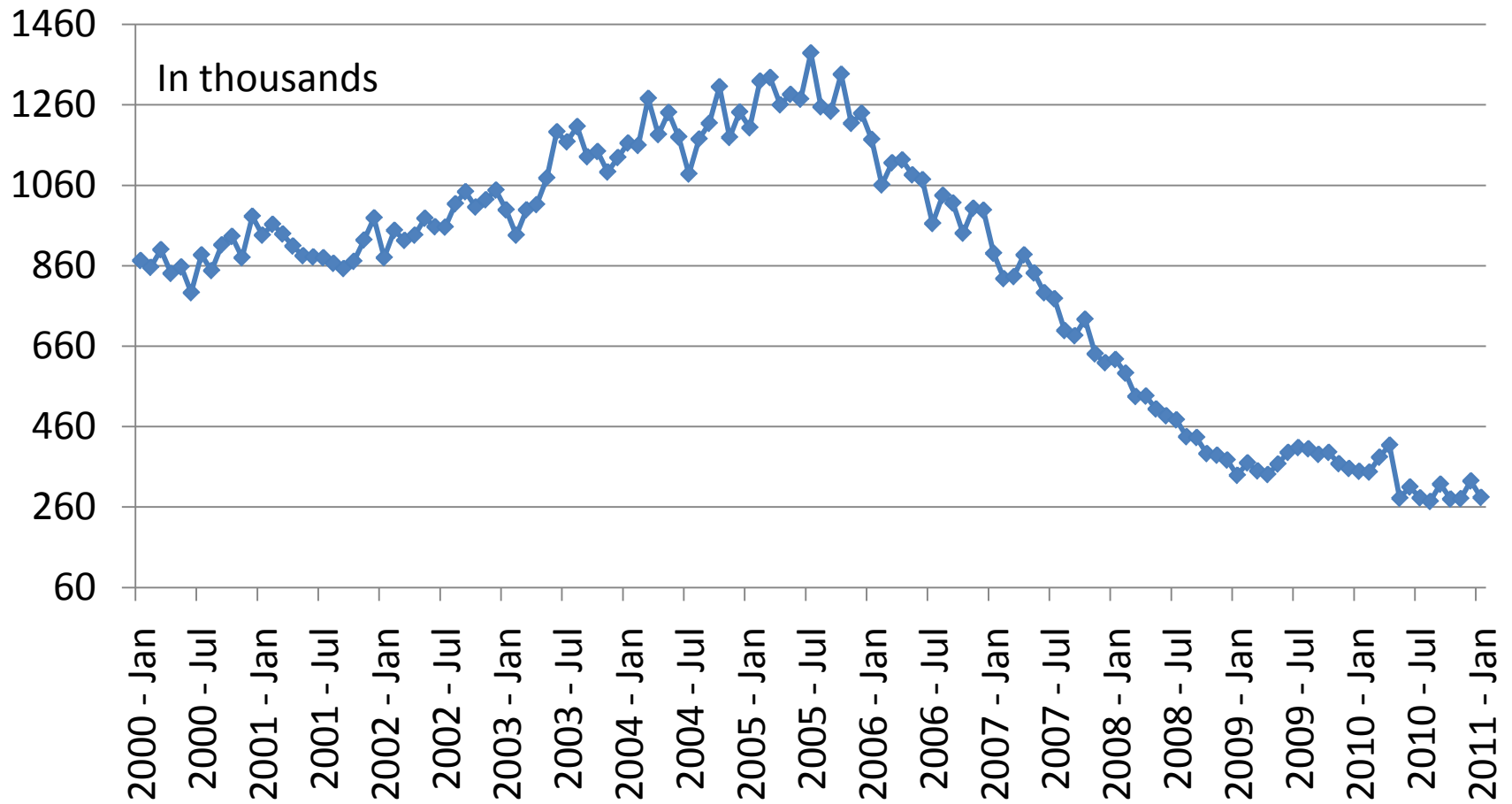


# California Existing Home Sales

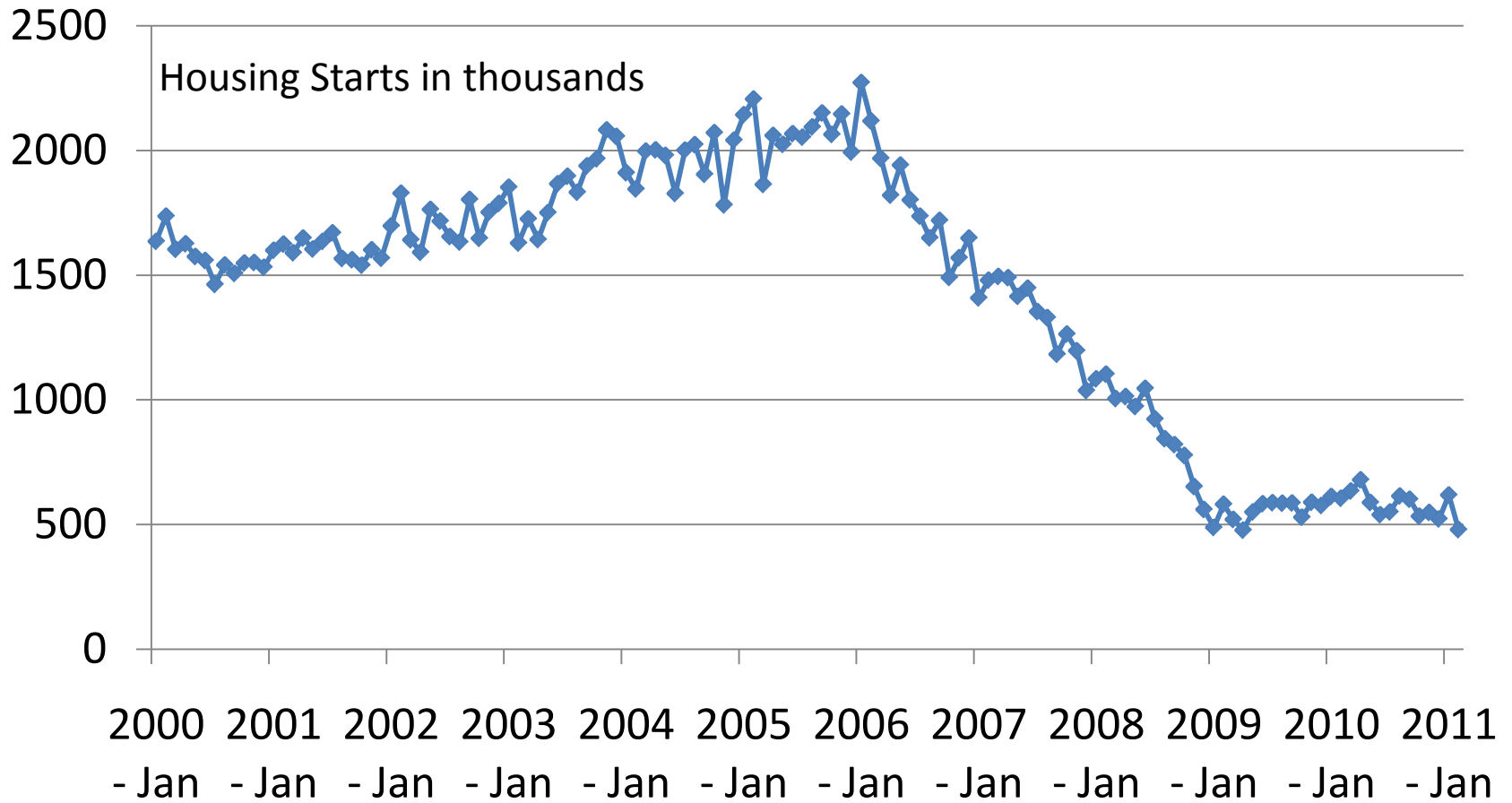


# New Home Sales

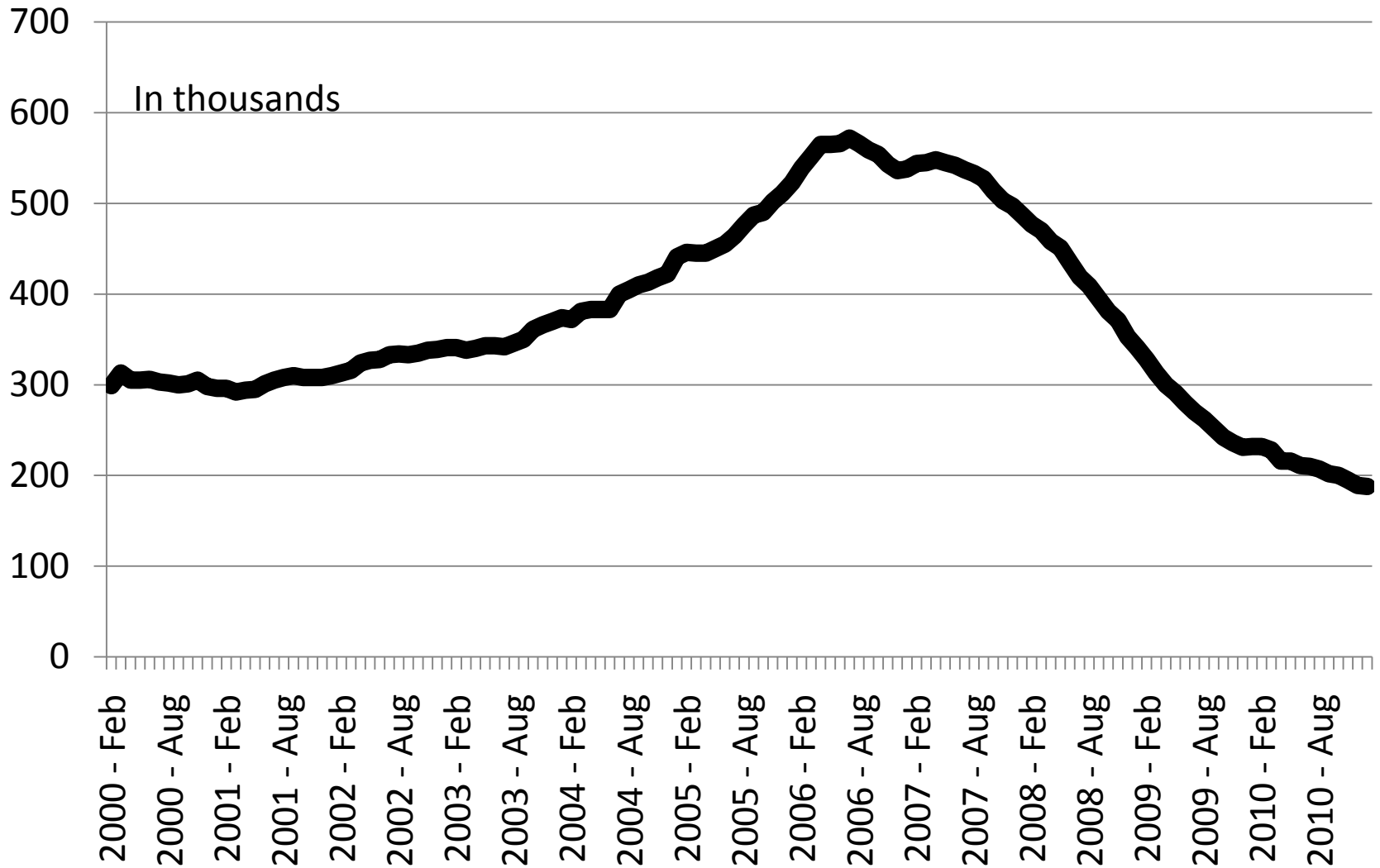
(Pending contracts, not Closings)



# Housing Starts



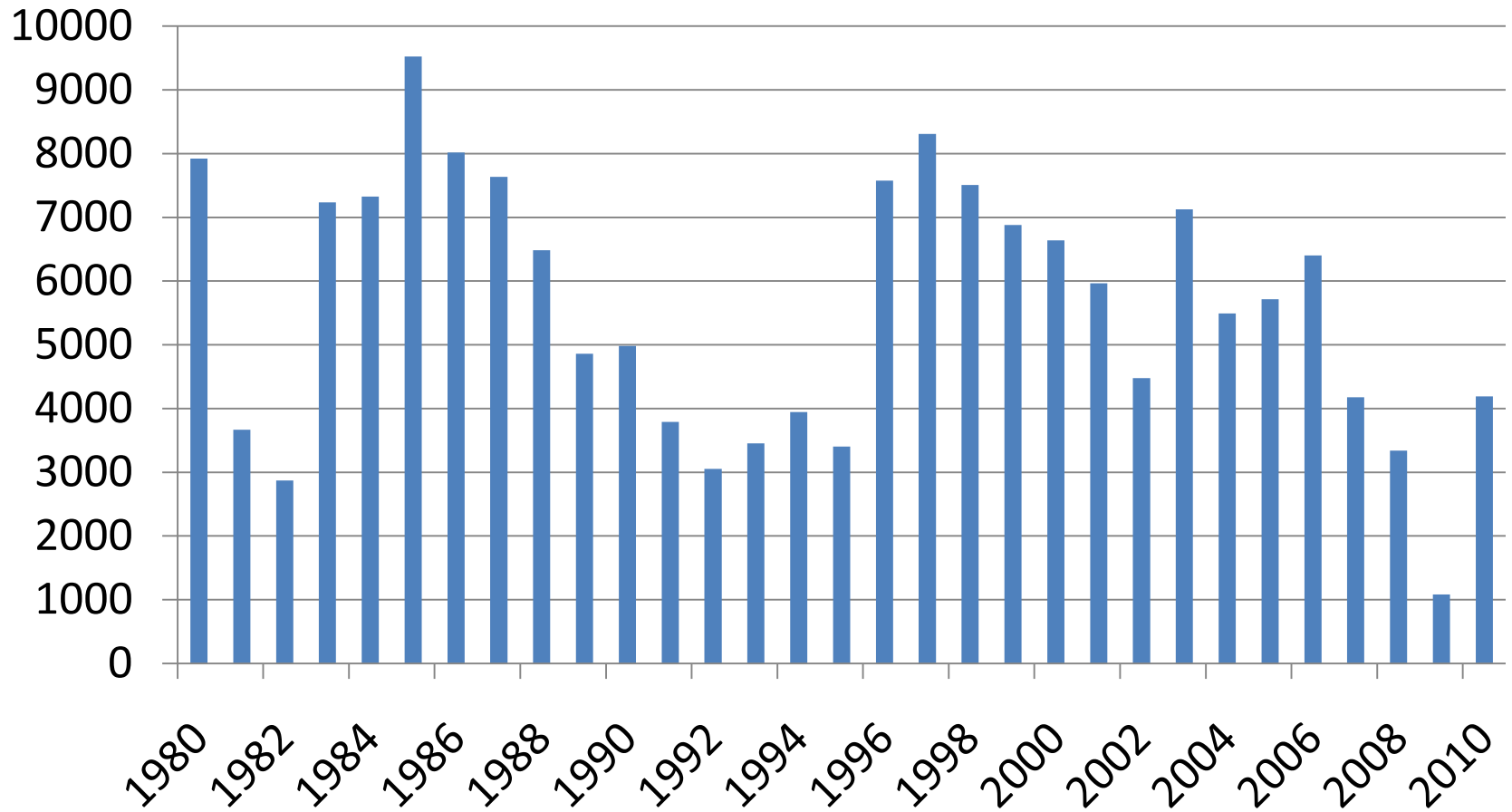
# Newly Built Home Inventory



# Future Housing Shortage?

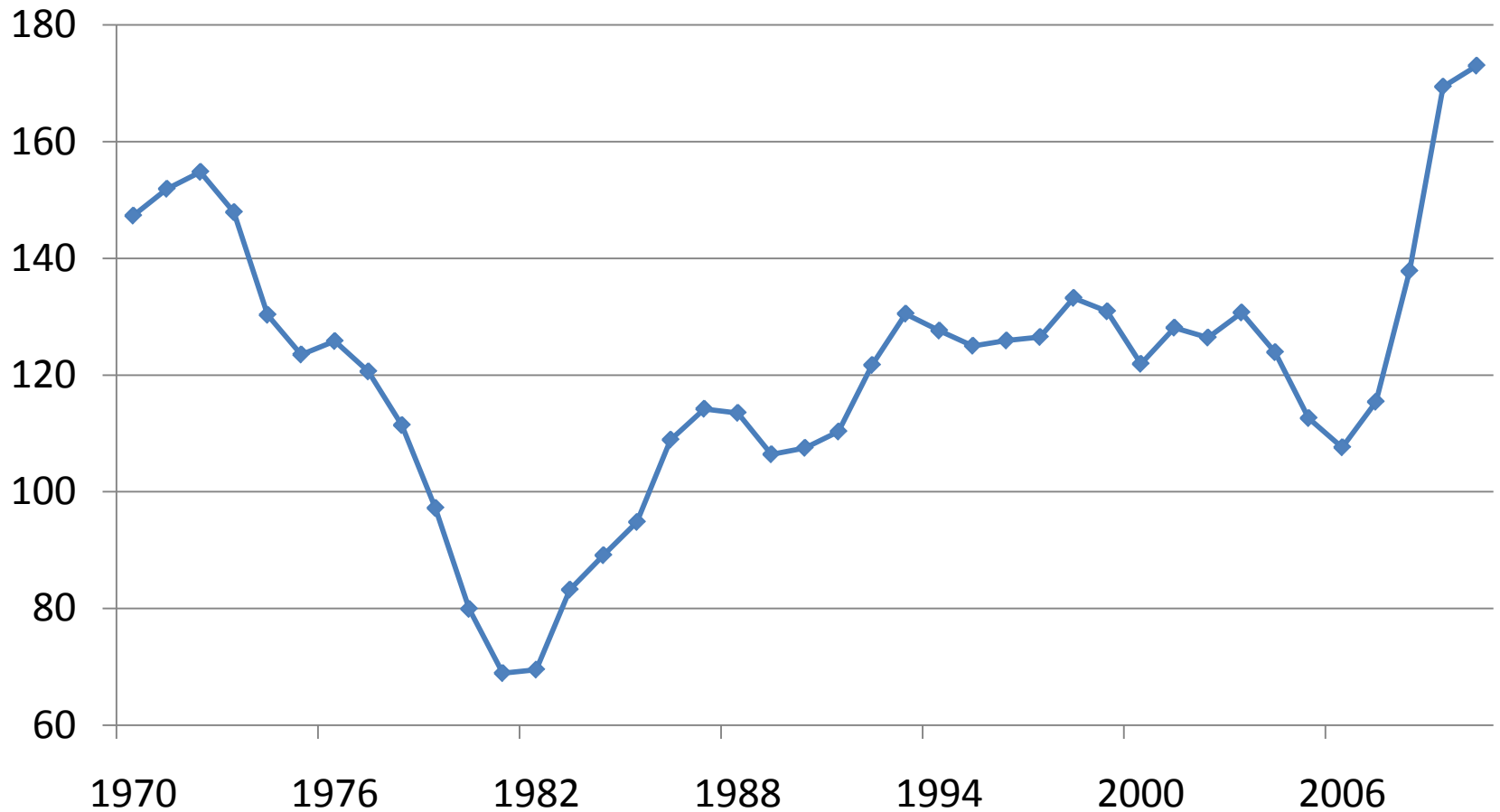
Year	Housing Starts	Historical Normal	Cumulative Surplus/Deficit
2003	1.85 million	1.6 million	+ 0.25 million
2004	1.95 million	1.6 million	+ 0.60 million
2005	2.07 million	1.6 million	+ 1.07 million
2006	1.81 million	1.6 million	+ 1.28 million
2007	1.34 million	1.6 million	+1.02 million
2008	0.90 million	1.6 million	+ 0.32 million
2009	0.55 million	1.6 million	- 0.73 million
2010	0.59 million	1.6 million	-1.74 million
2011 forecast	0.72 million	1.6 million	- 2.62 million

# San Jose Area Housing Permits



# Housing Affordability Index

(assumes constant underwriting standards)



# QE2 Inconsequential if Too Strict Underwriting Standards?

Fannie and Freddie Backed Mortgage Loan Performance

Fannie Mae Vintage	Cumulative Default Rate after 18 months
2002	3.1%
2003	2.5%
2004	4.6%
2005	4.8%
2006	11.6%
2007	28.7%
2008	12.6%
2009	1.2%

Freddie Mac Vintage	Cumulative Default Rate after 18 months
2002	2.7%
2003	1.2%
2004	2.0%
2005	1.8%
2006	6.0%
2007	22.3%
2008	13.7%
2009	1.1%

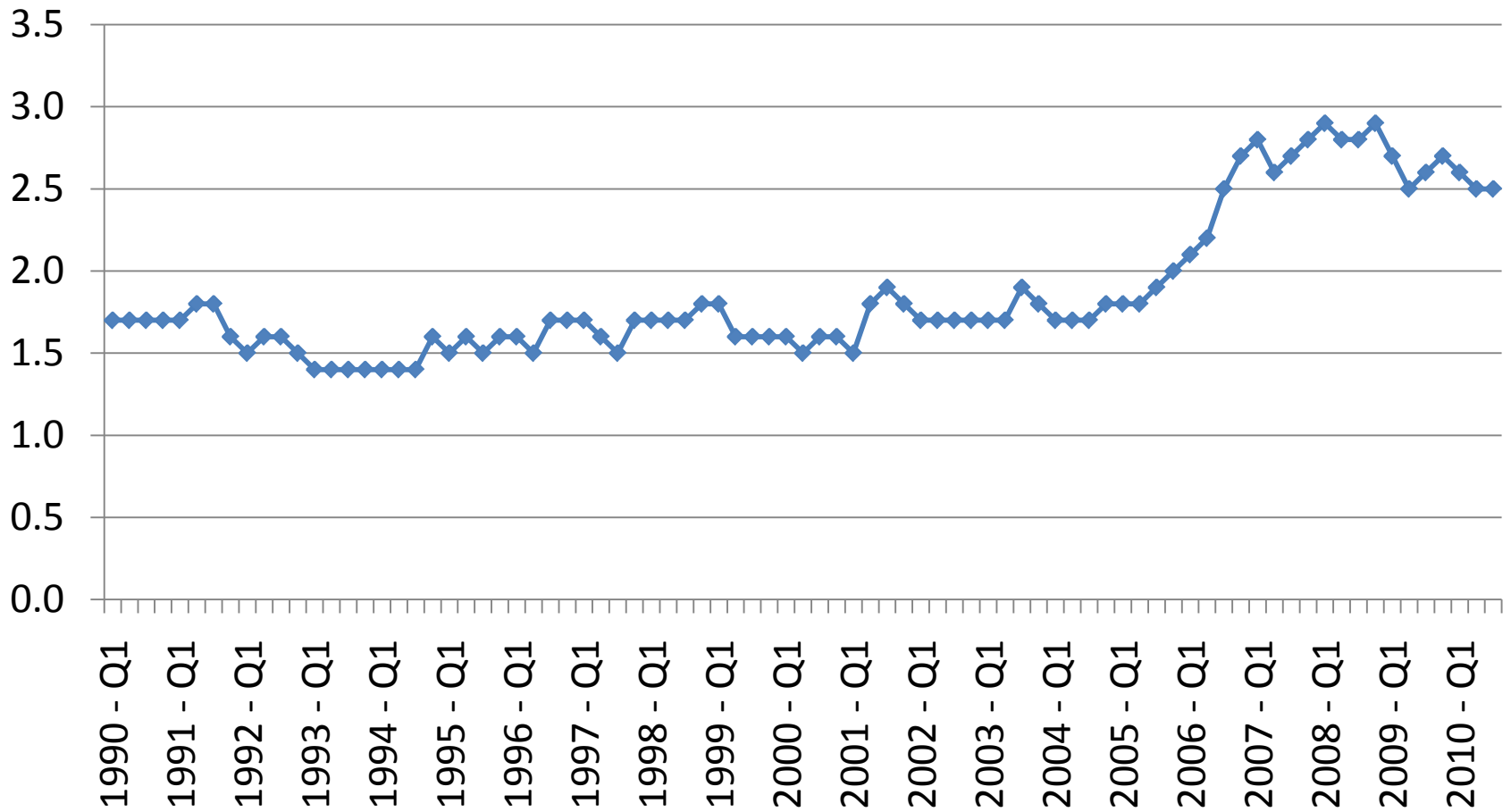
Source: Federal Housing Finance Agency

# Underwater Homeowners and Short-Sales

- 11 million underwater homeowners
  - 75 million total homeowners
- Short-sales and Foreclosures: about 1/3 of existing home sales ...1.5 million per year
- Assume ½ underwater homeowners stay put by choice (and not go through distressed sale)
  - 5.5 million out of pocket (CoreLogic data) ... 7% lower sales
- 2010 Existing + New Home Sales are ... 15% lower sales versus 2000
- Credit Score tightening (e.g., 760 now vs 720 normal on Fannie/Freddie backed loans) ... 15% lower sales

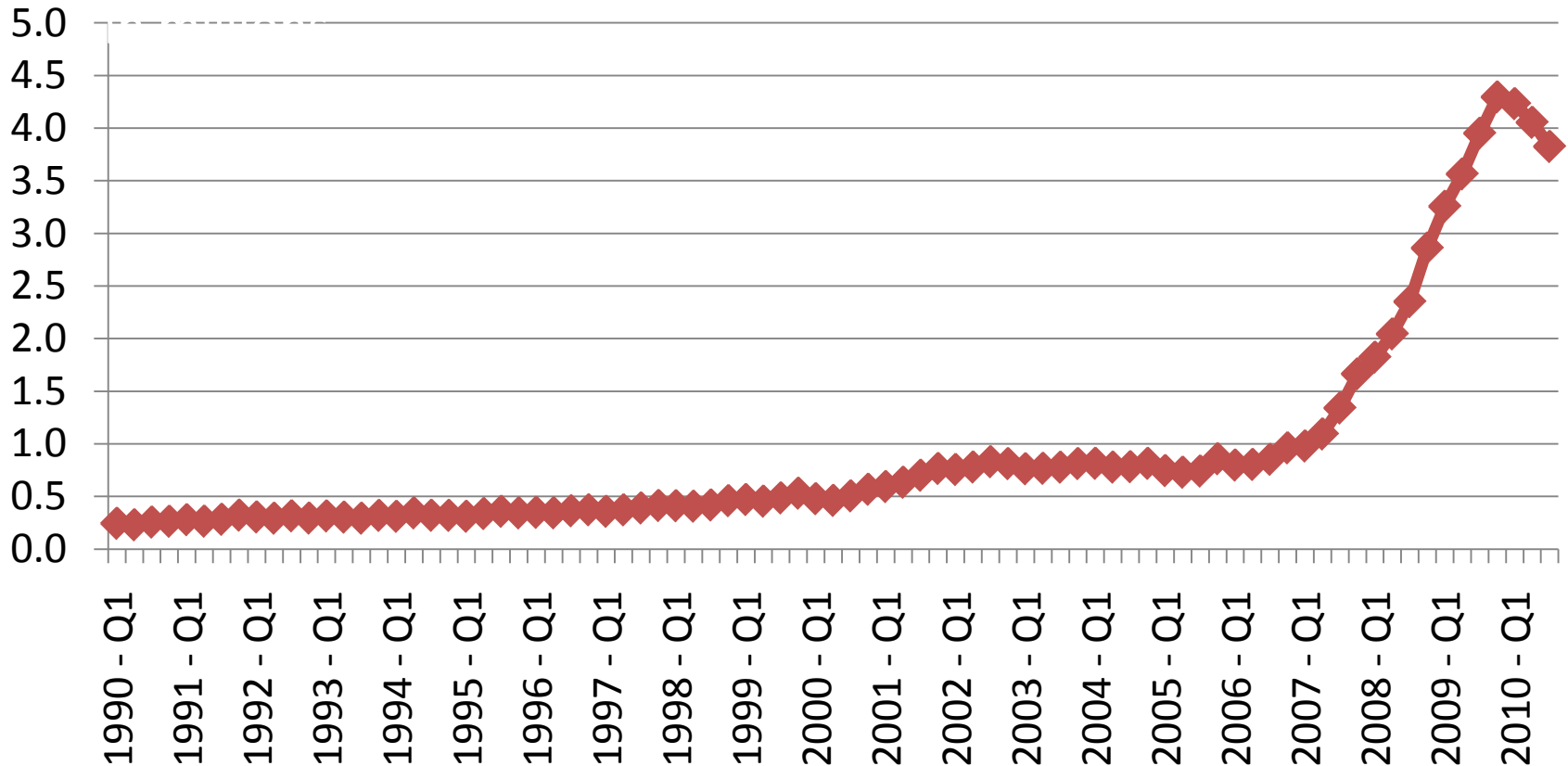
# Homeowner Vacancy Rate

(0.8% point above normal = 600,000 above normal)



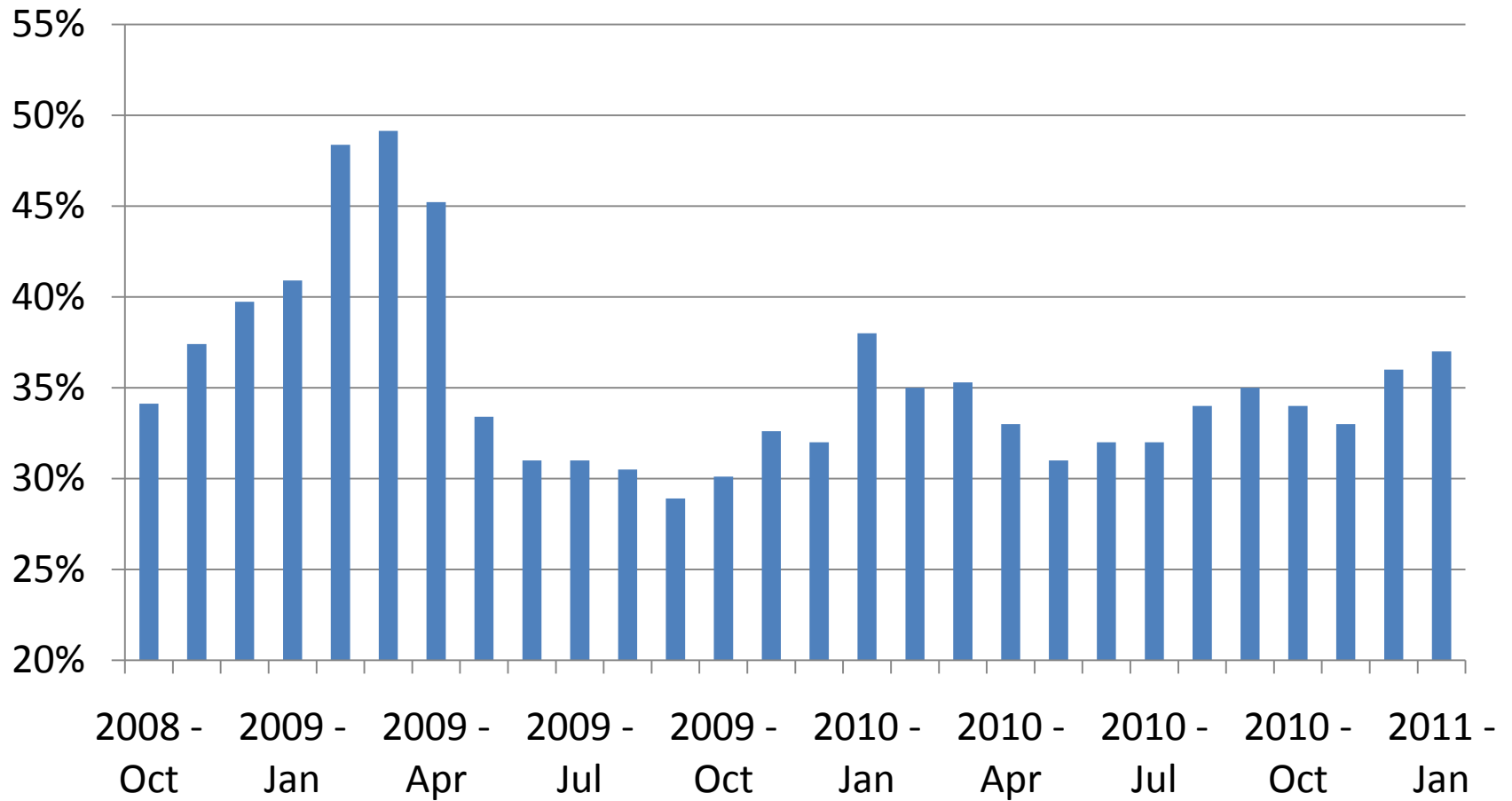
# # of Serious Delinquent Mortgages

(90+ days late or in foreclosure process)



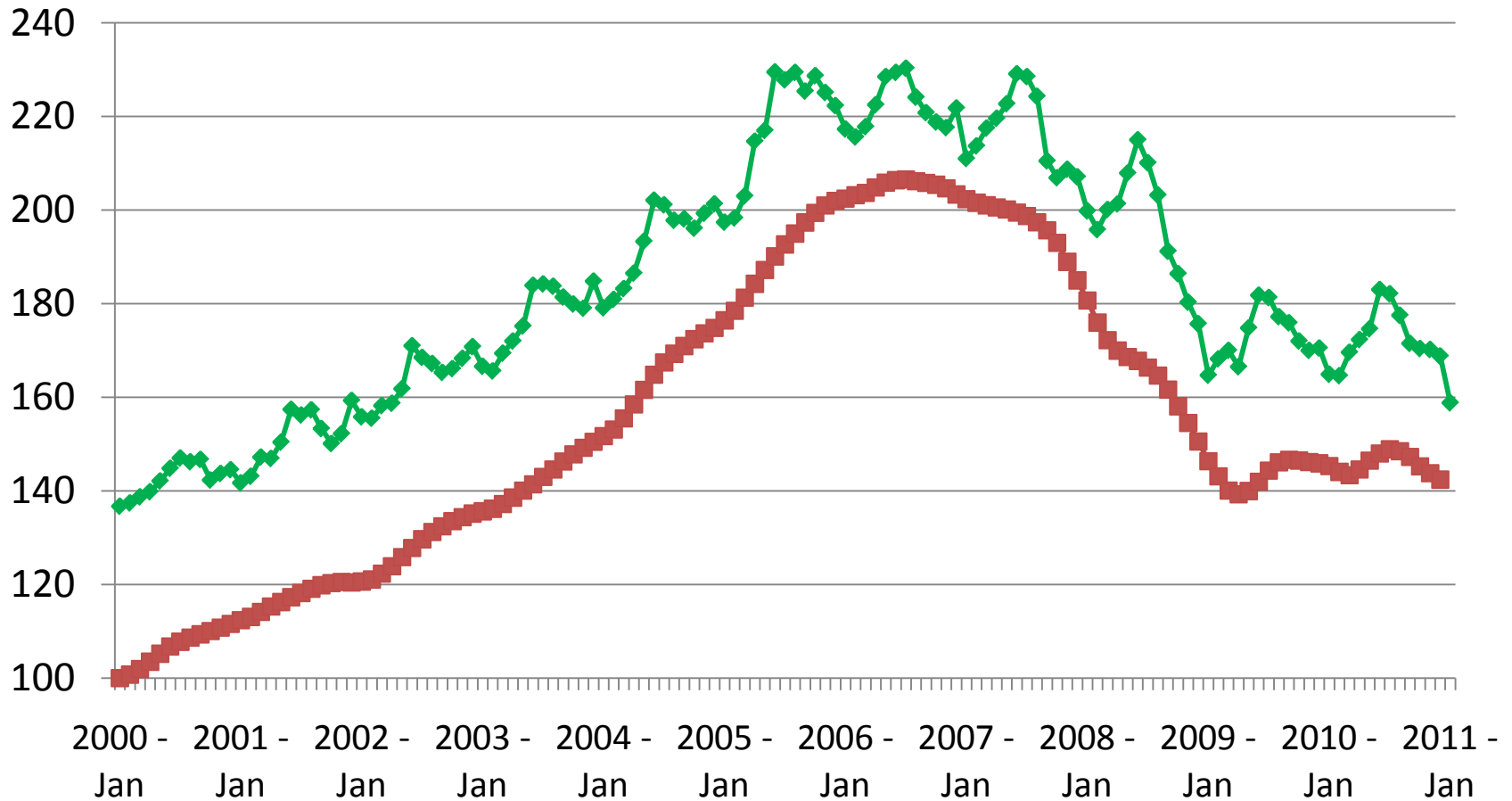
# Distress Sales

(as % of total transactions)



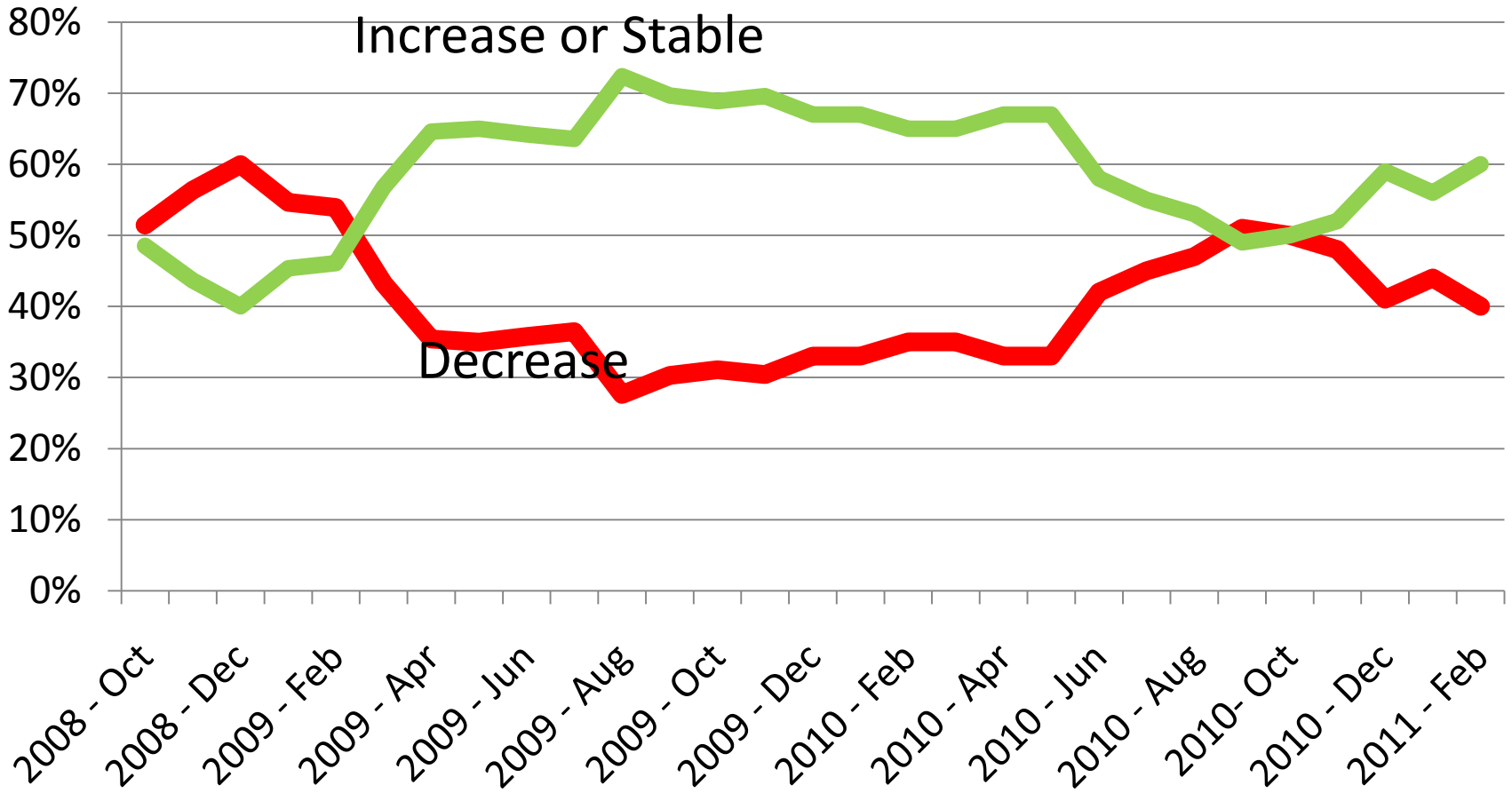
# Nationwide Home Price Trend – Modest Changes from 2009

(NAR and Case-Shiller)



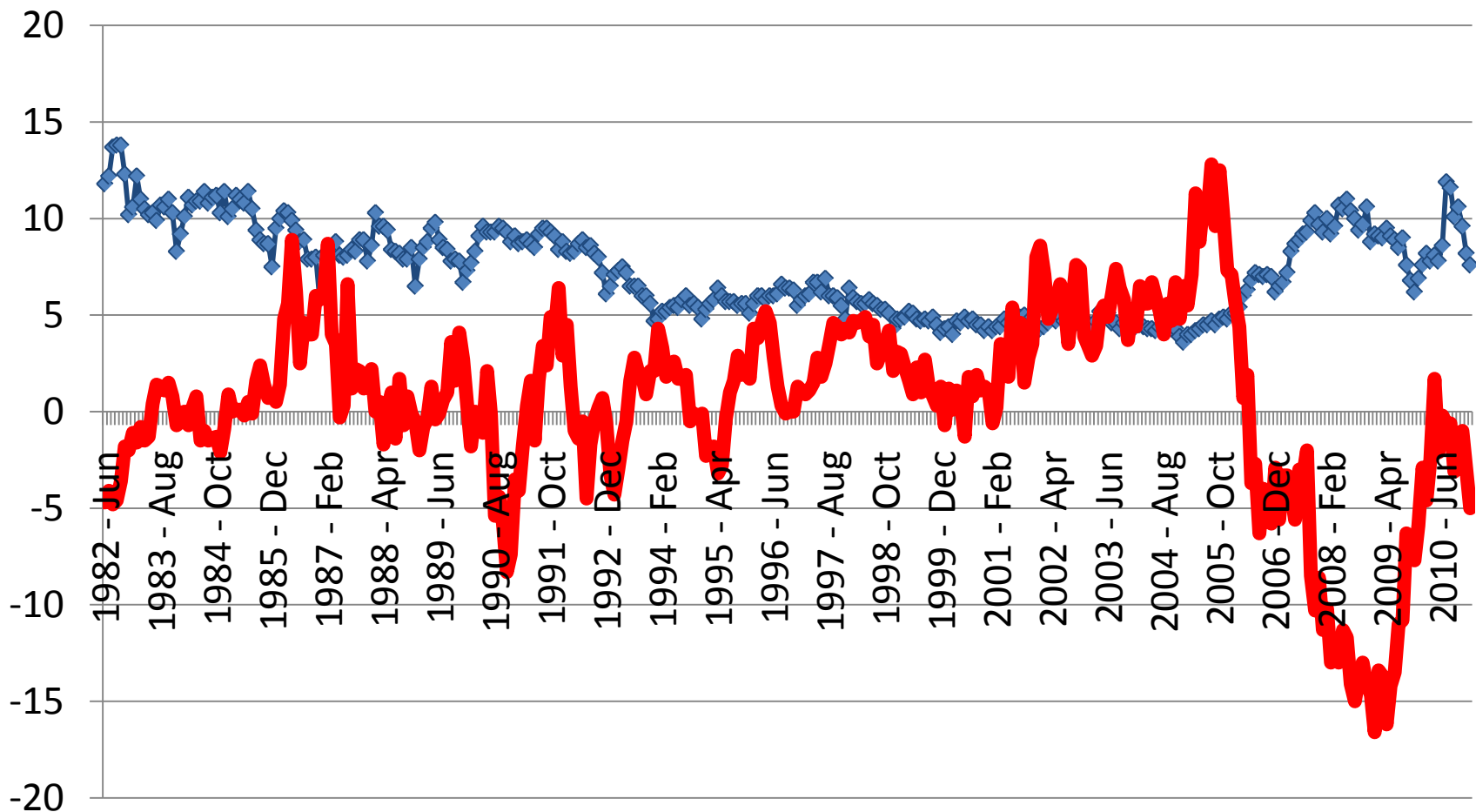
# REALTORS' Home Value Expectation:

Survey of Realtors regarding prices in 12 months



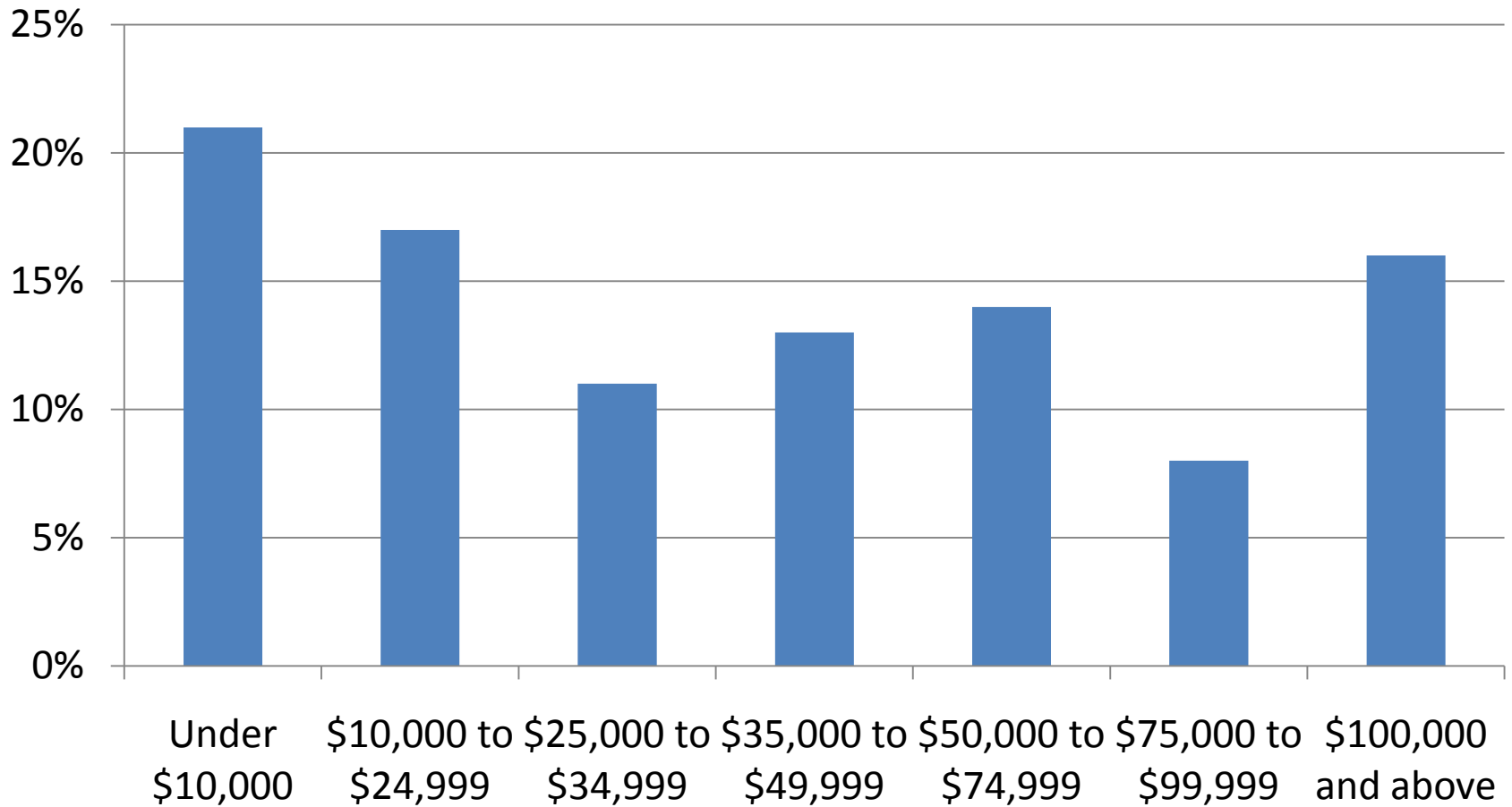
# Months Supply of Inventory and Real Price Growth

(Historic Avg. = 7.3 months and 0.5% real price annualized growth)



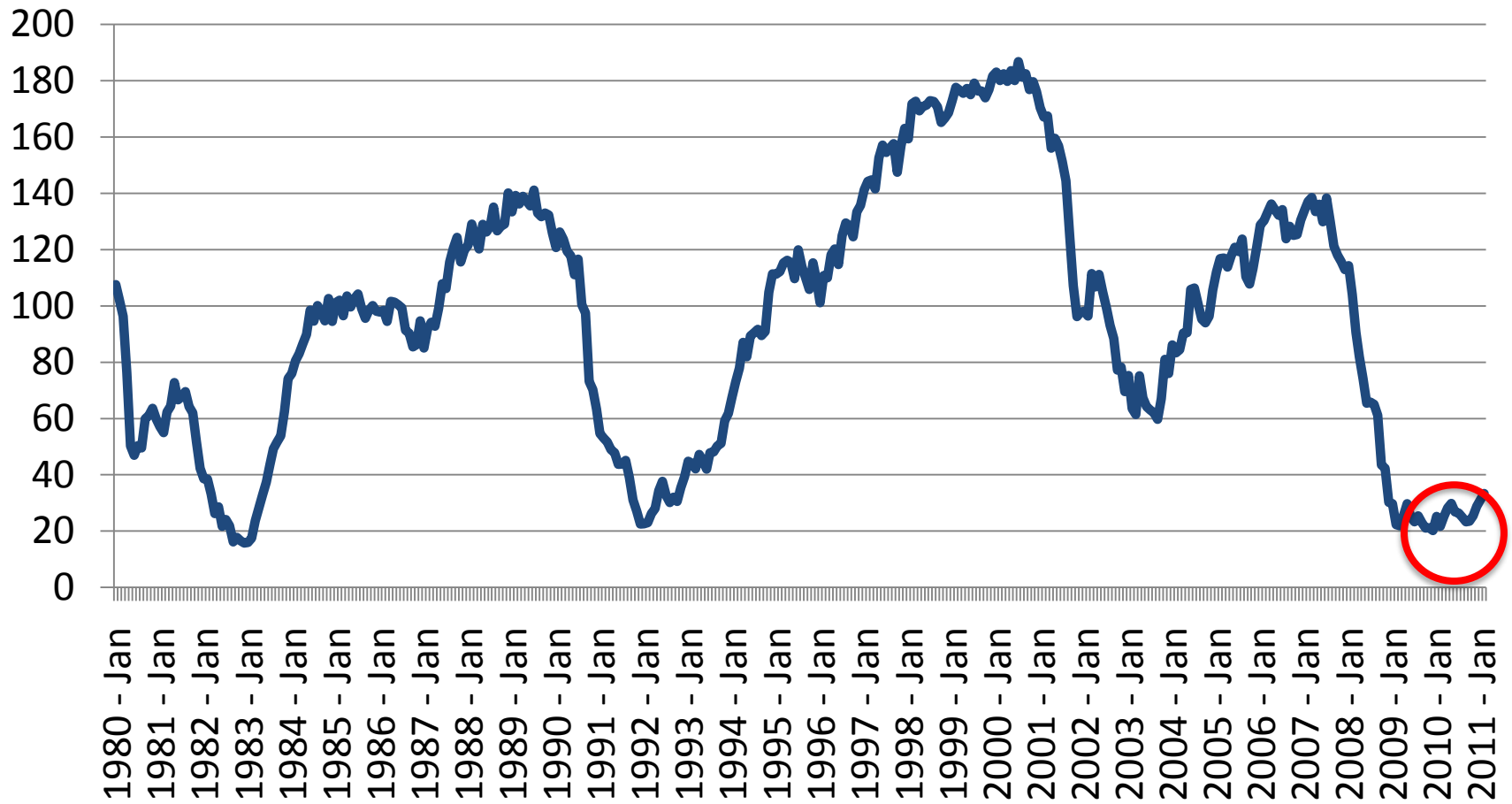
# REALTOR Income Distribution

(Median = \$35,700)

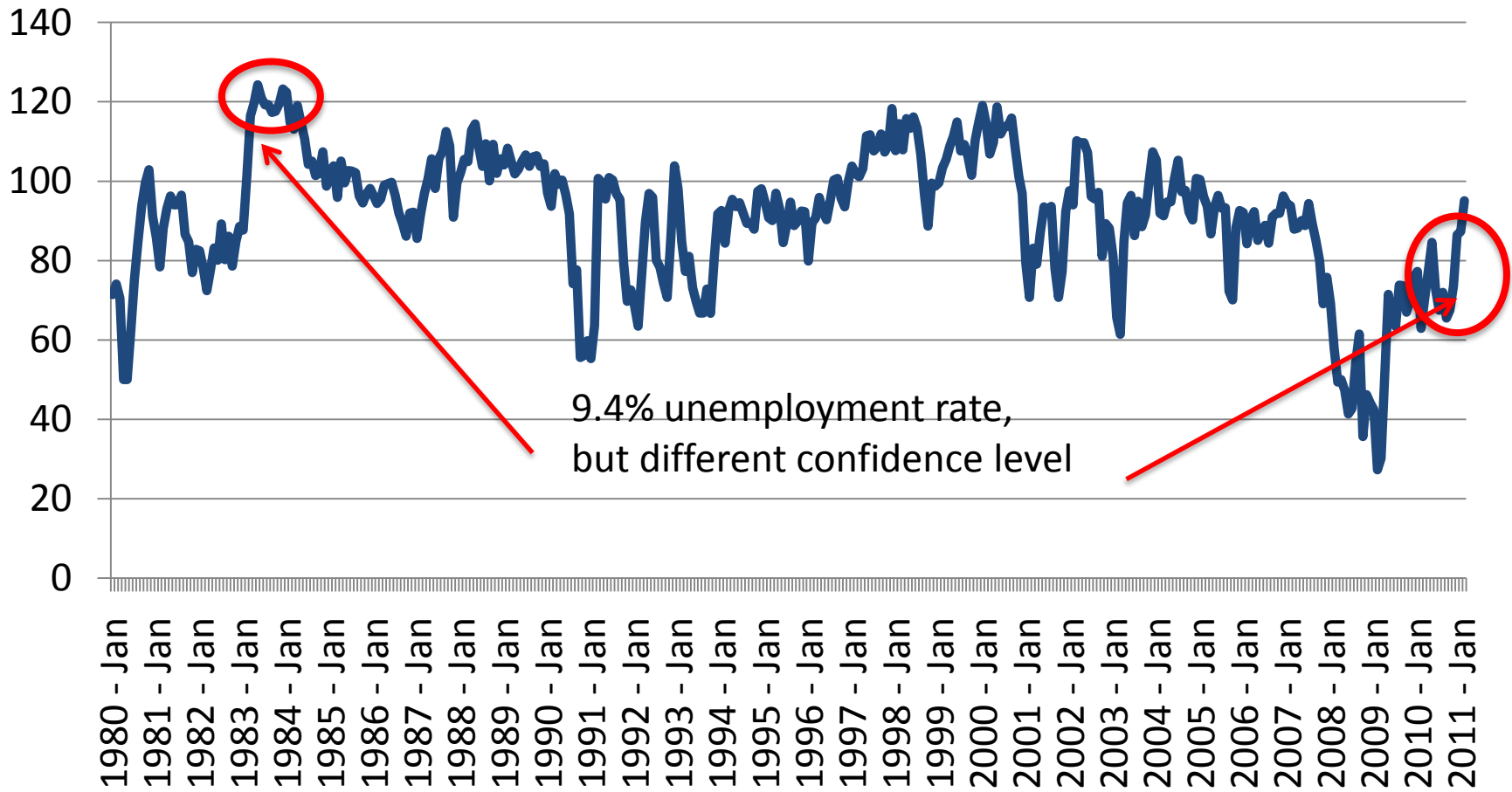


# Economic Backdrop

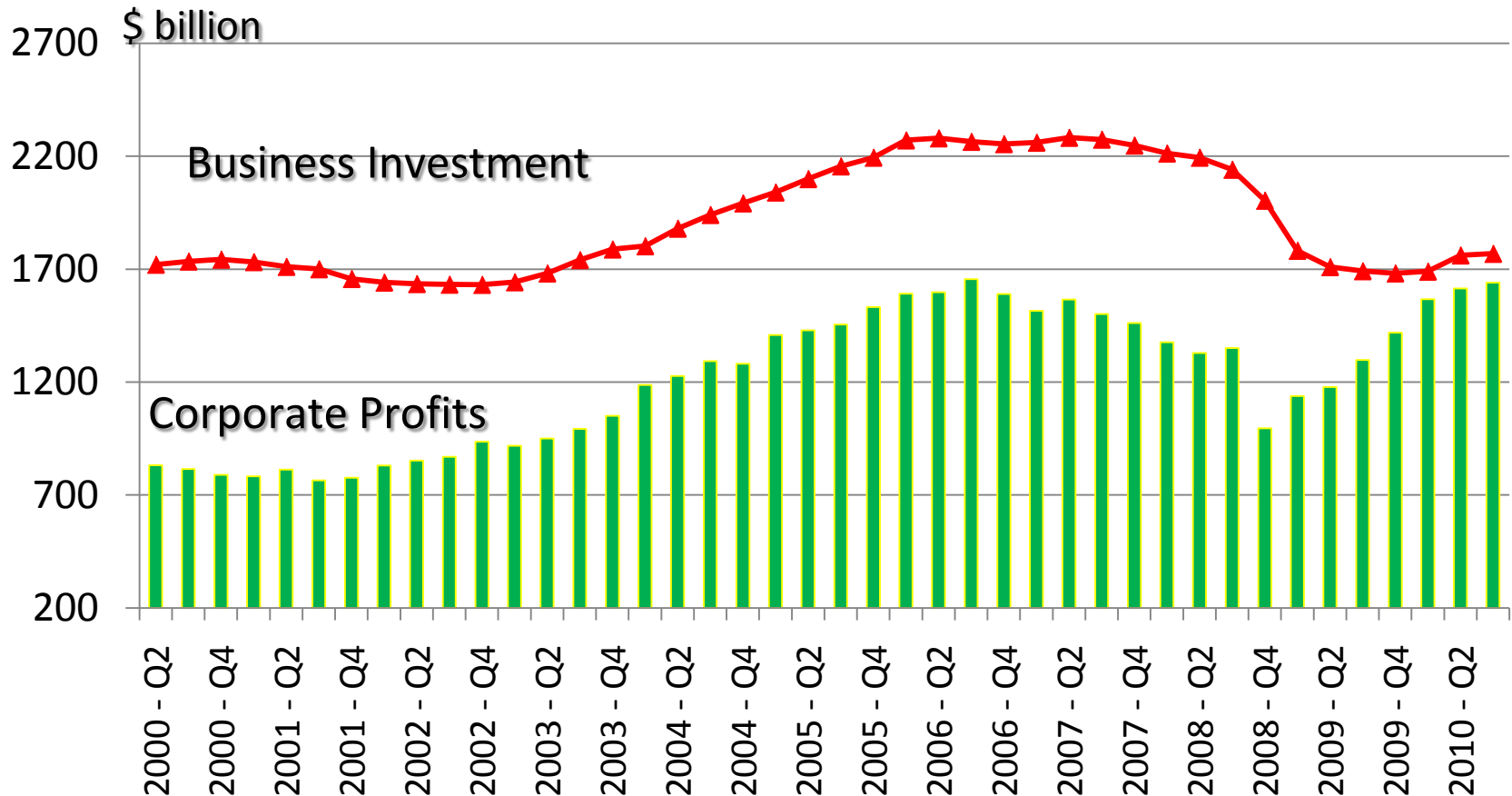
# Consumer Confidence about Present Conditions: Awful



# Consumer Confidence about Future Conditions – Better, but not Great

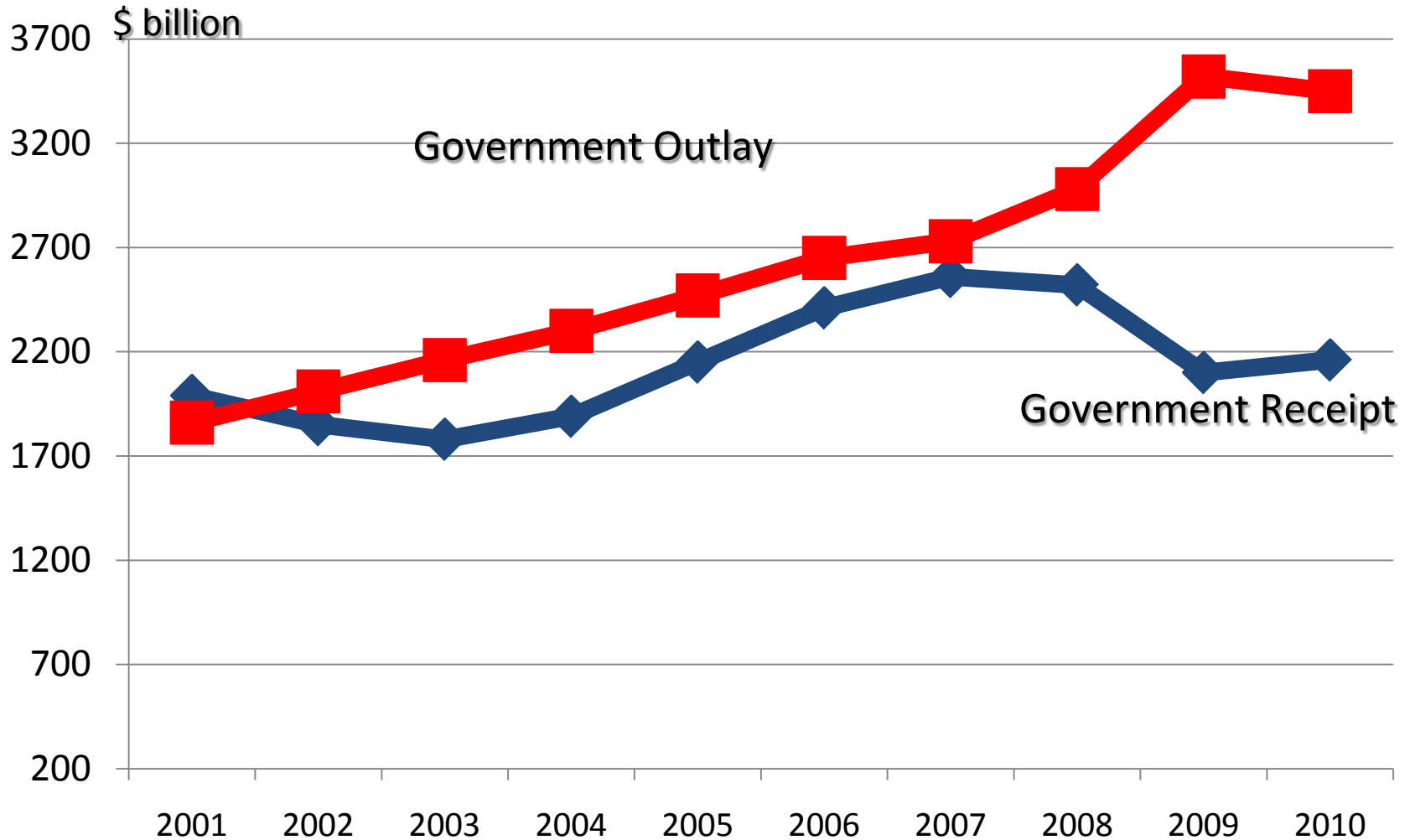


# Business Spending shows weak confidence in relation to profits

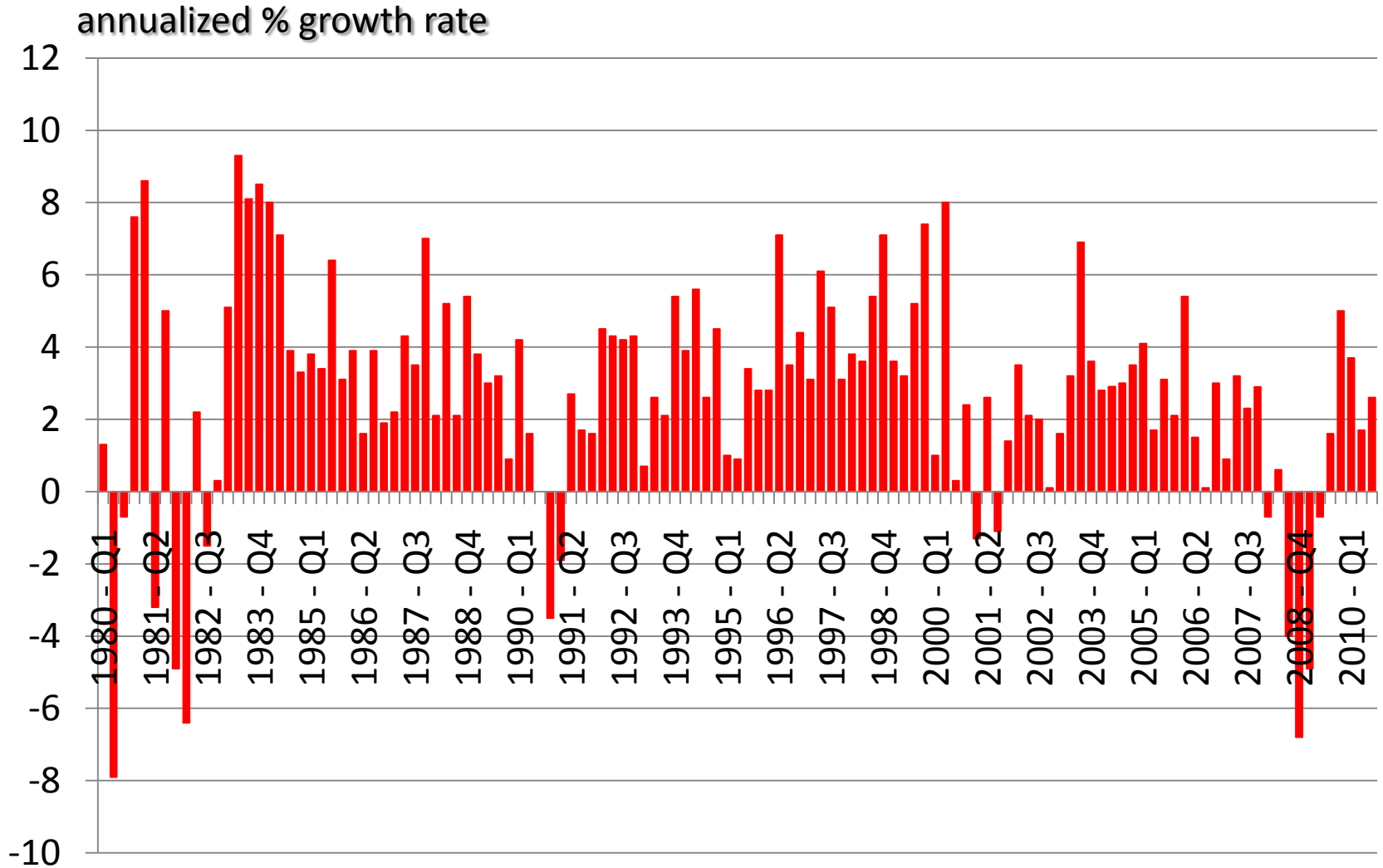


Business Investment = private fixed investment in GDP accounting

# Government Spending

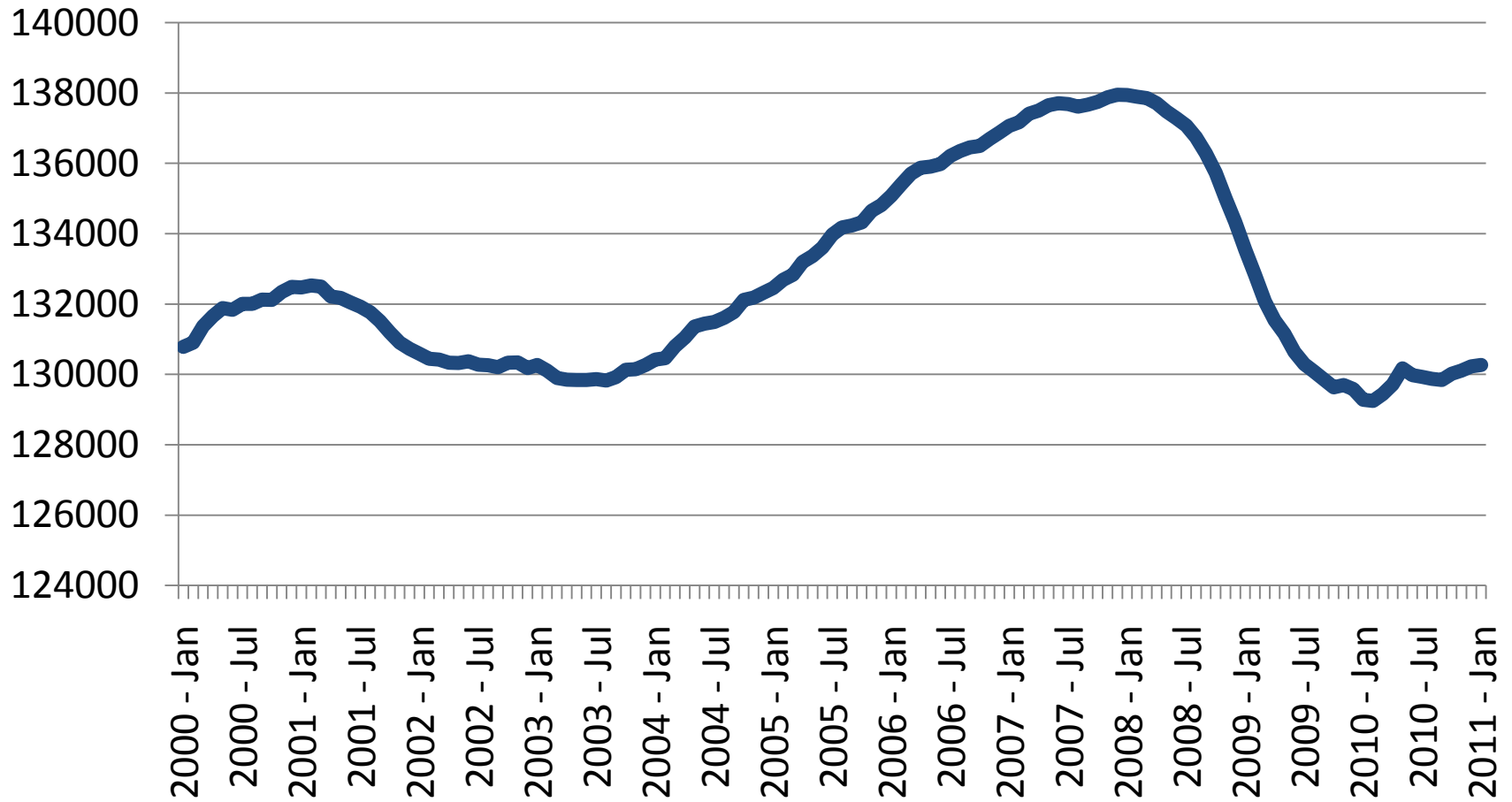


# GDP Growing, but without vigor

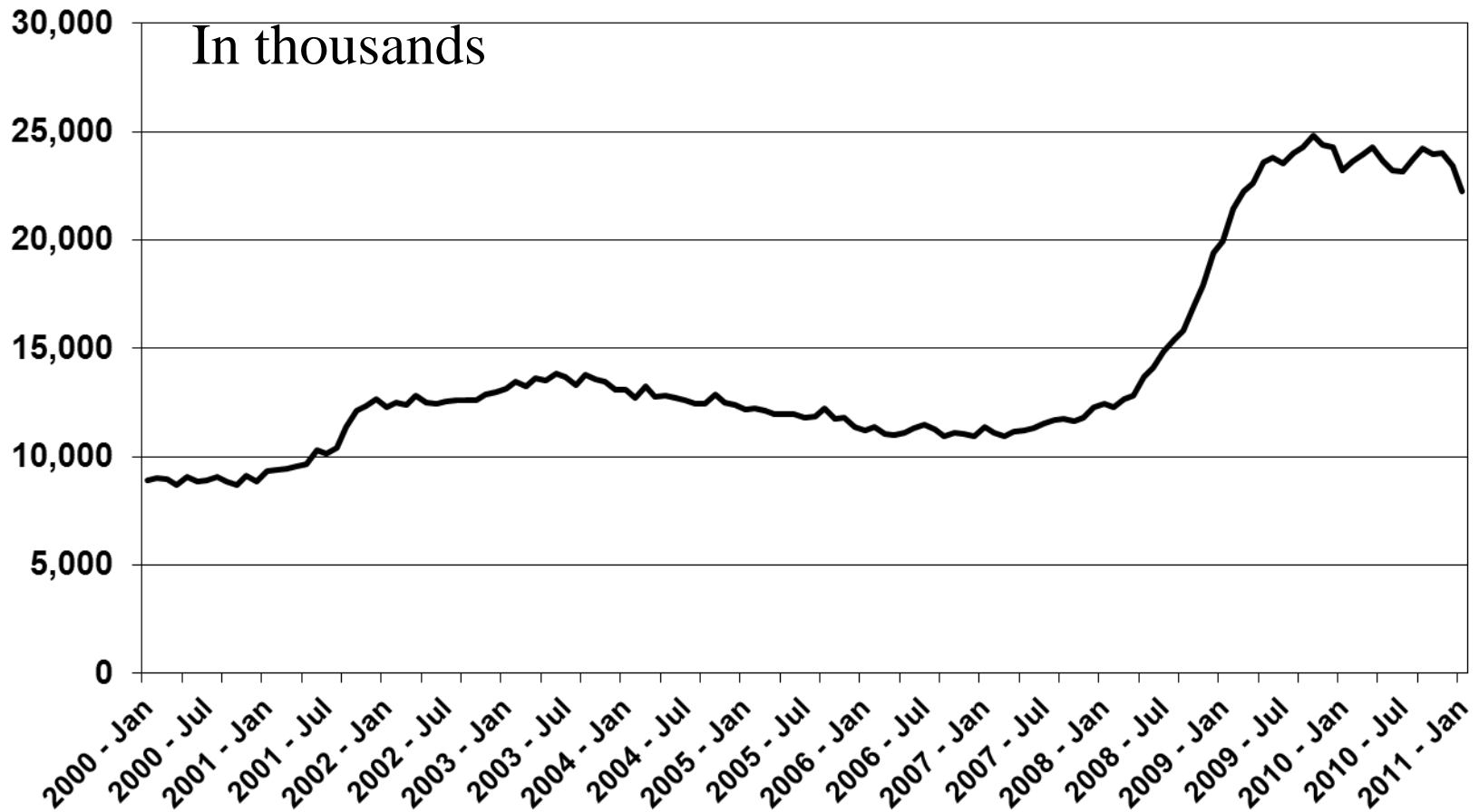


# Total U.S. Payroll Jobs

(1 million in the past 12 months)



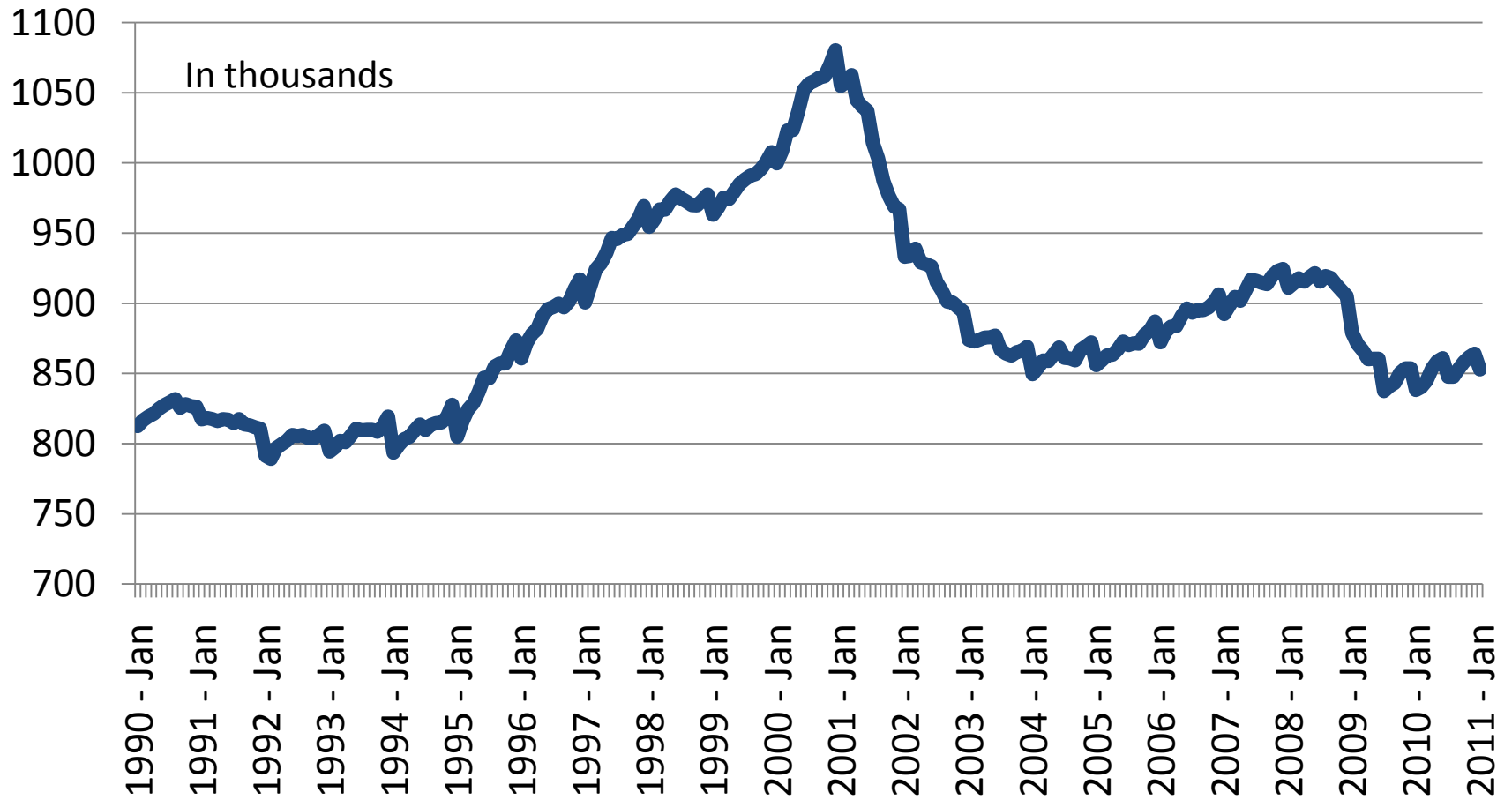
# Unemployed and Underemployed ... 10 million more than normal



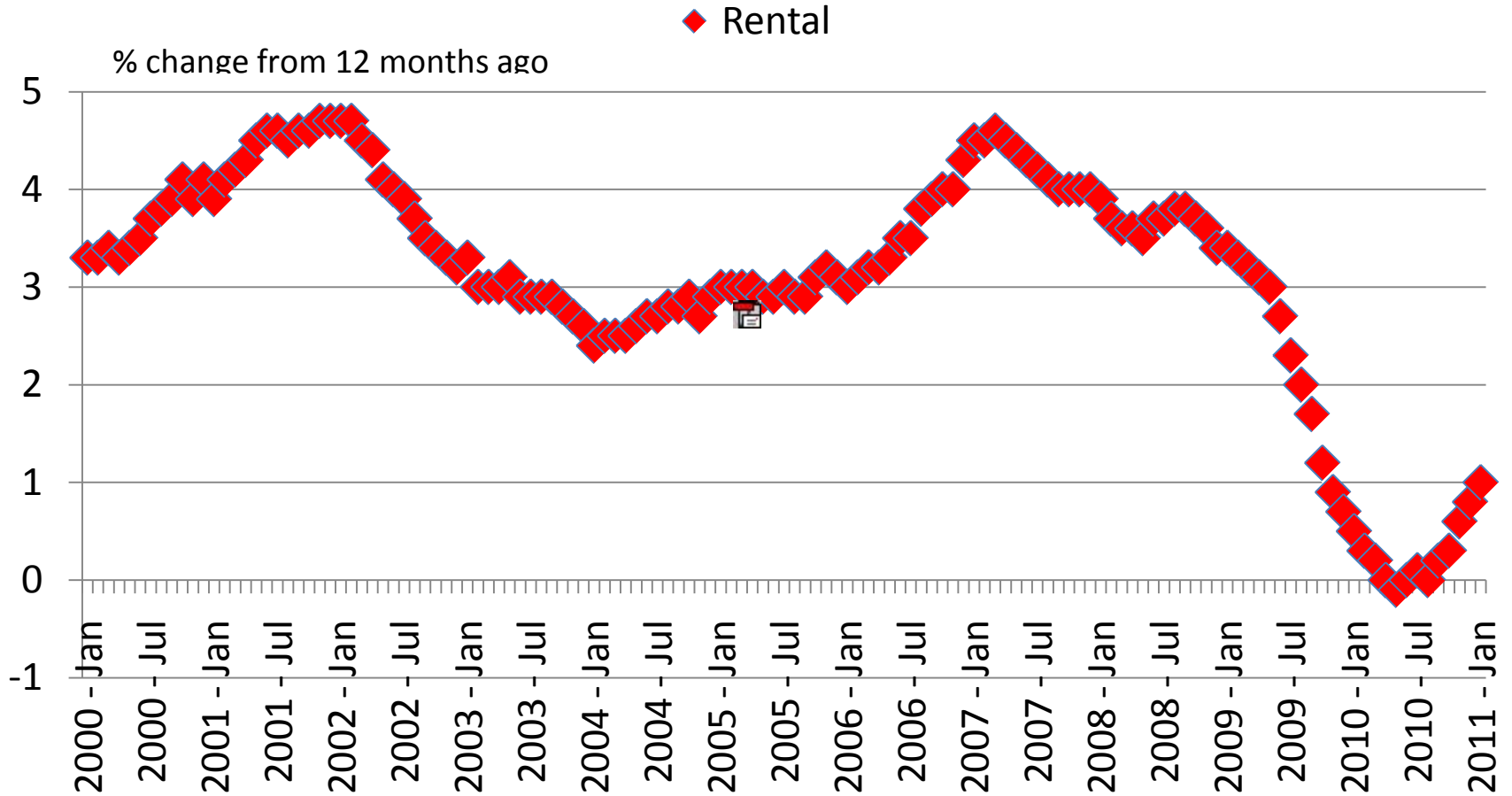
Source: BLS

# Total Payroll Jobs in San Jose MSA

(14,000 job gains in the past 12 months)



# CPI Apartment Rent

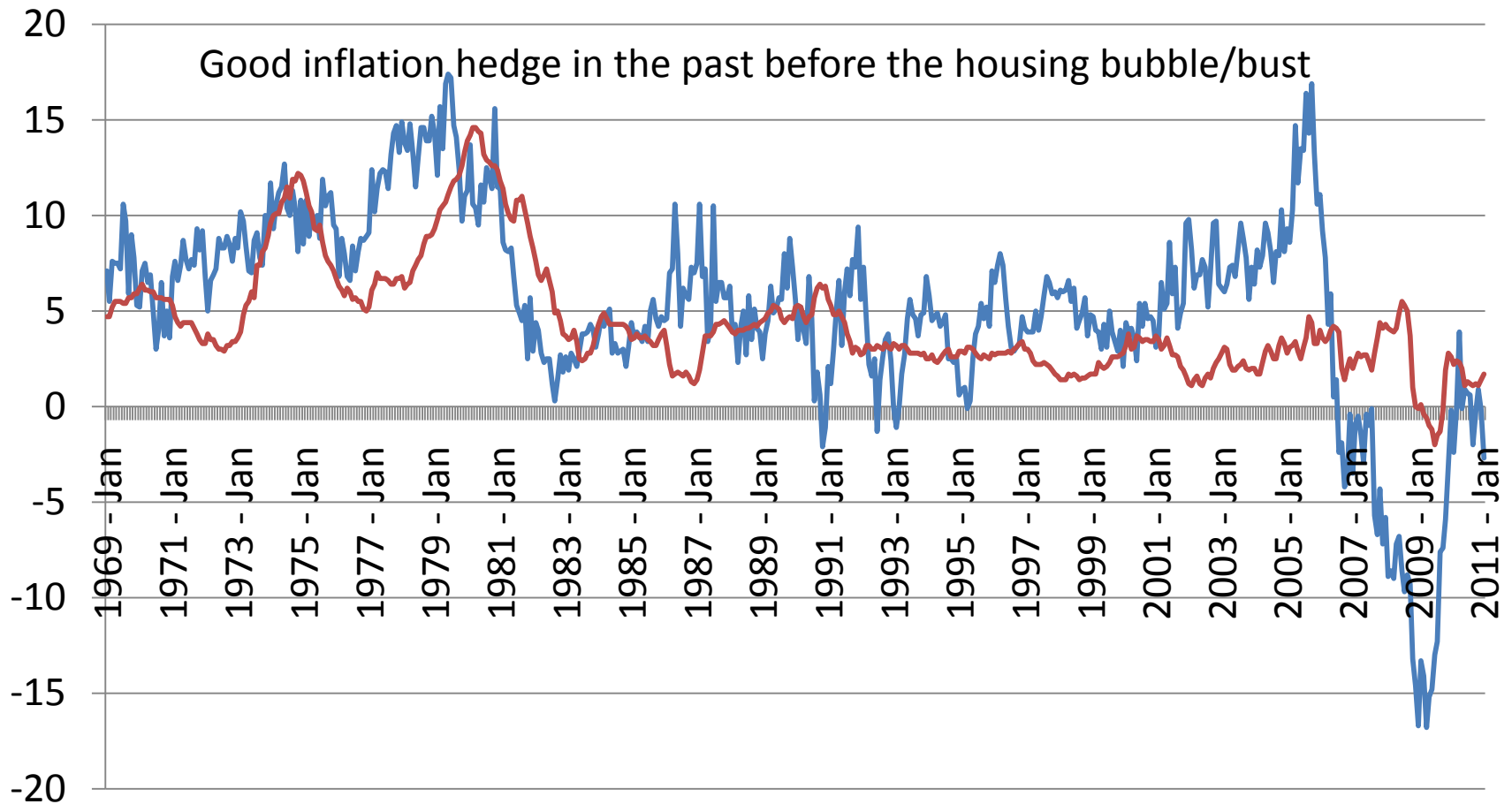


# Broad Inflationary Pressure

Indicator	% change from one year ago
Consumer Price Index	1.7%
Producer Price Index (Finished Product)	5.8%
Producer Price Index (Intermediate Product)	7.9%
Producer Price Index (Crude Product)	16.0%
Dow Jones Commodity Spot Price Index	35.2%
Gold Price	Around Record High Price

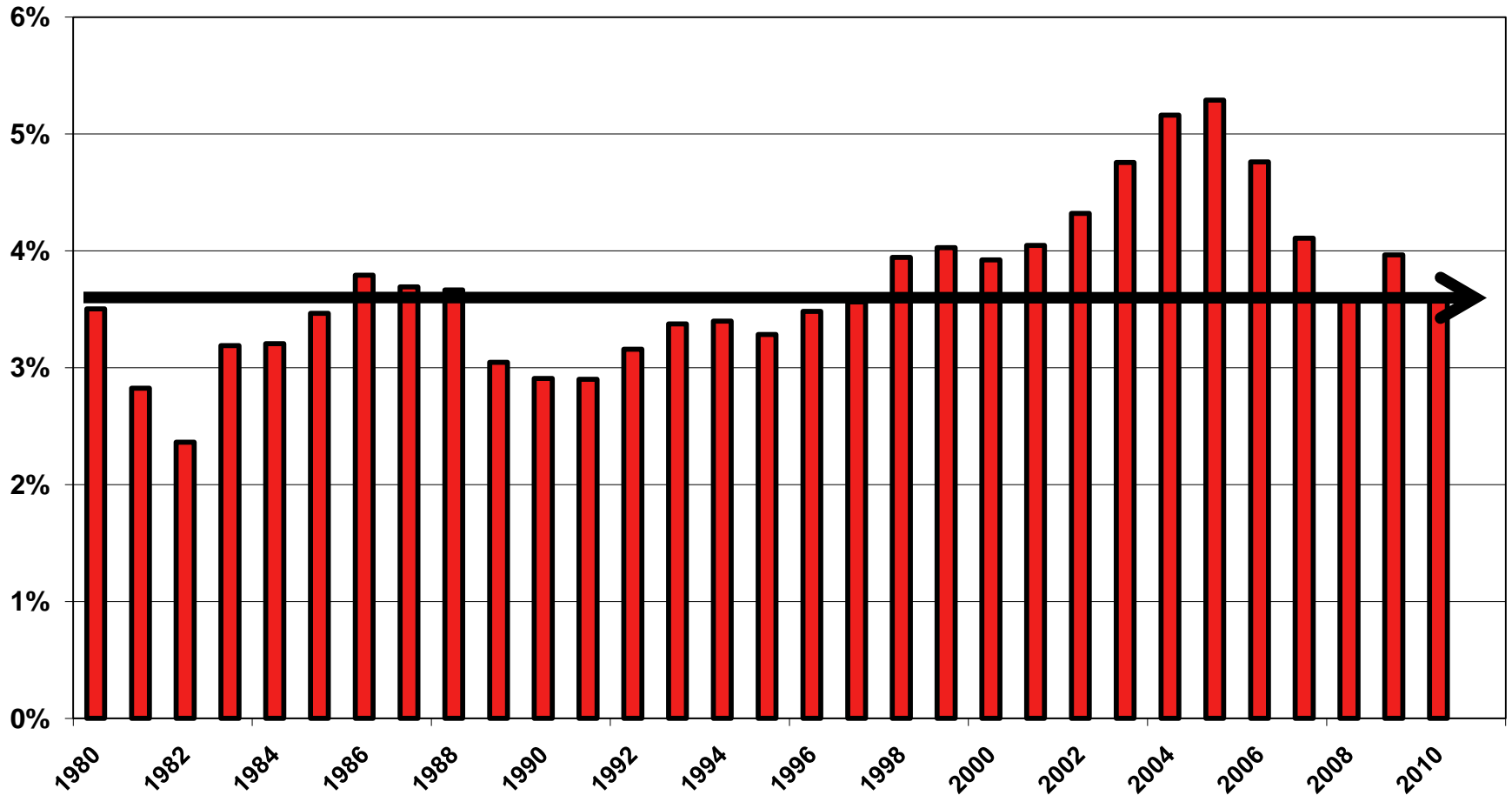
# Real Estate as Inflation Hedge?

(single-family home price in blue vs CPI in red)

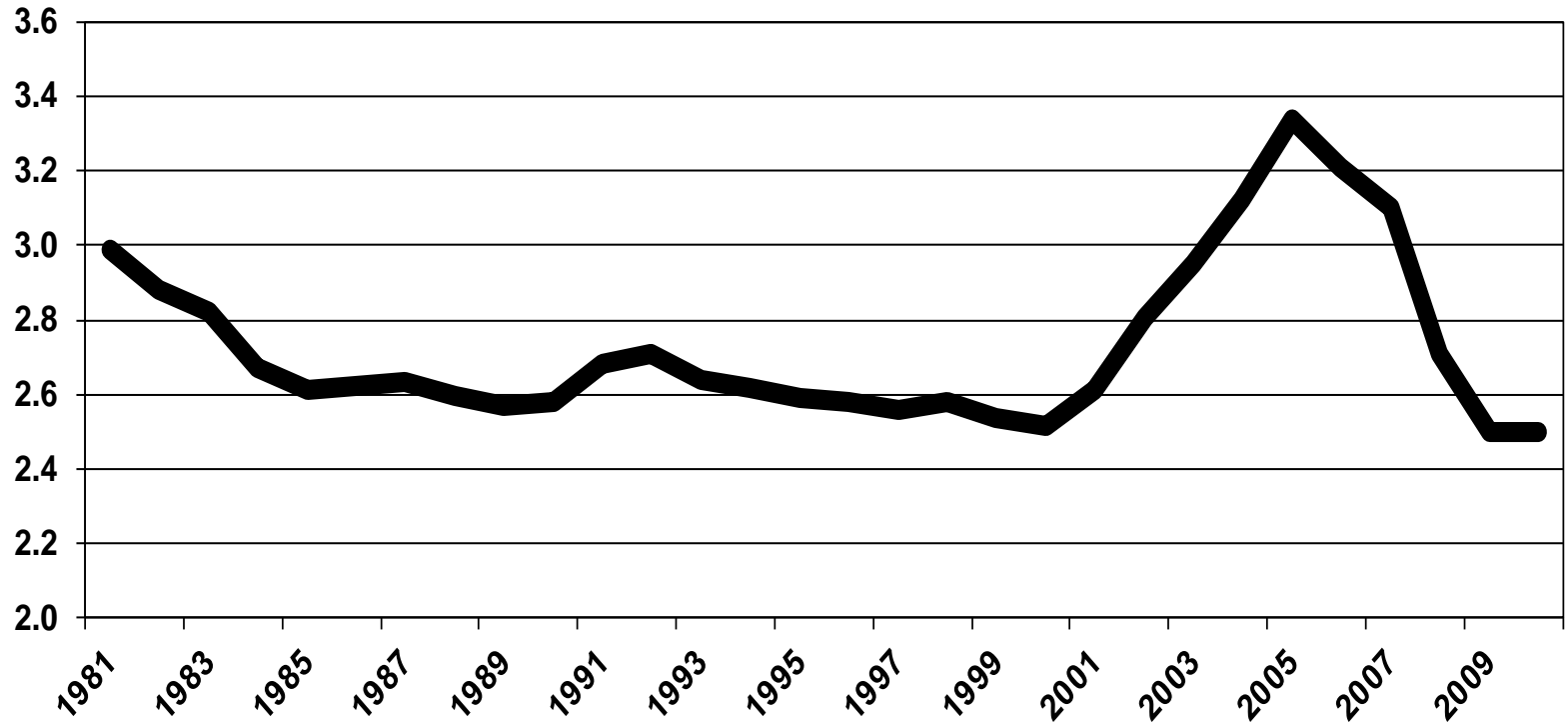


# Back-to-Normal Ratios

# Home Sale to Payroll Jobs

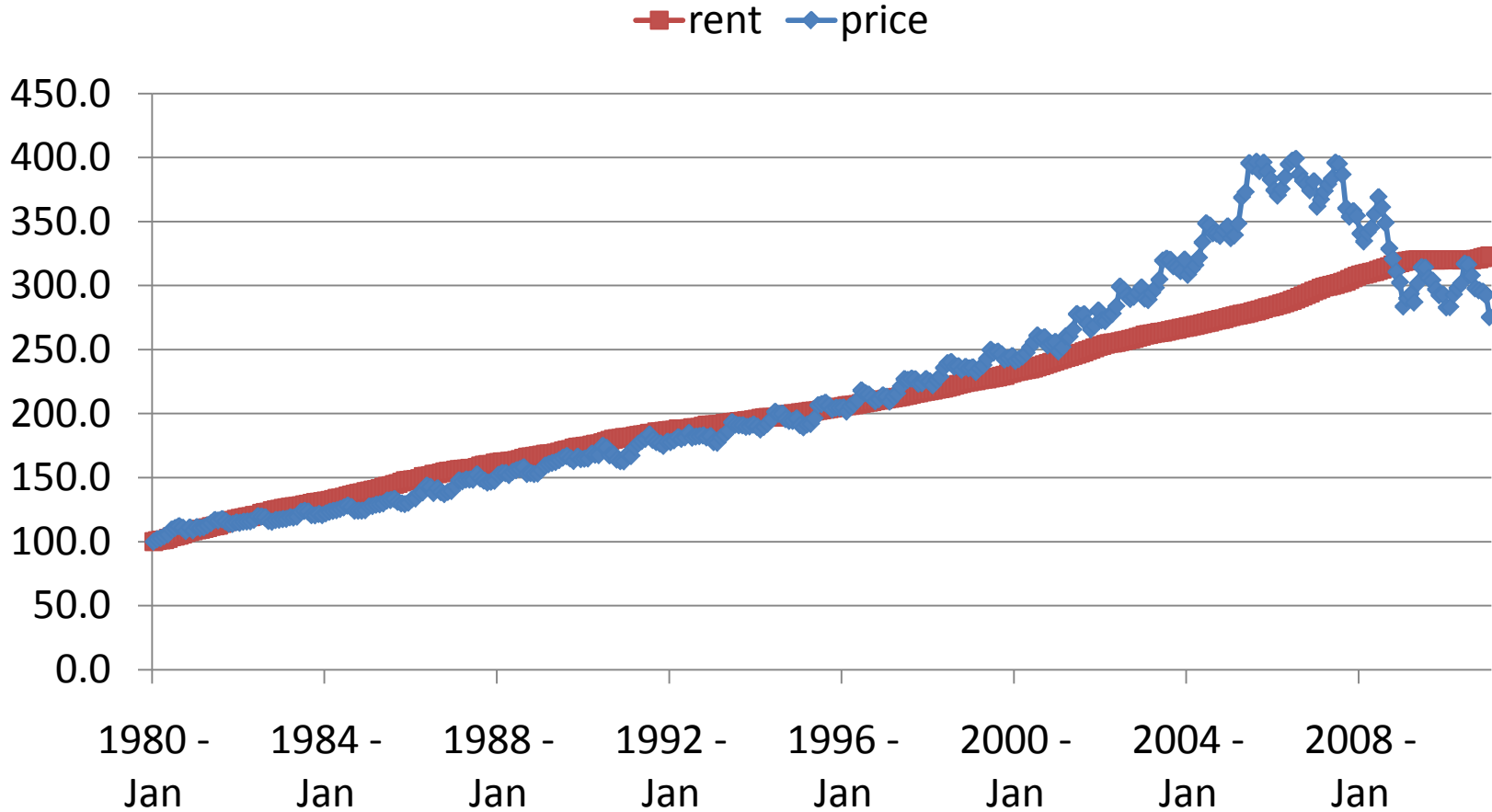


# Home Price-to-Income Ratio

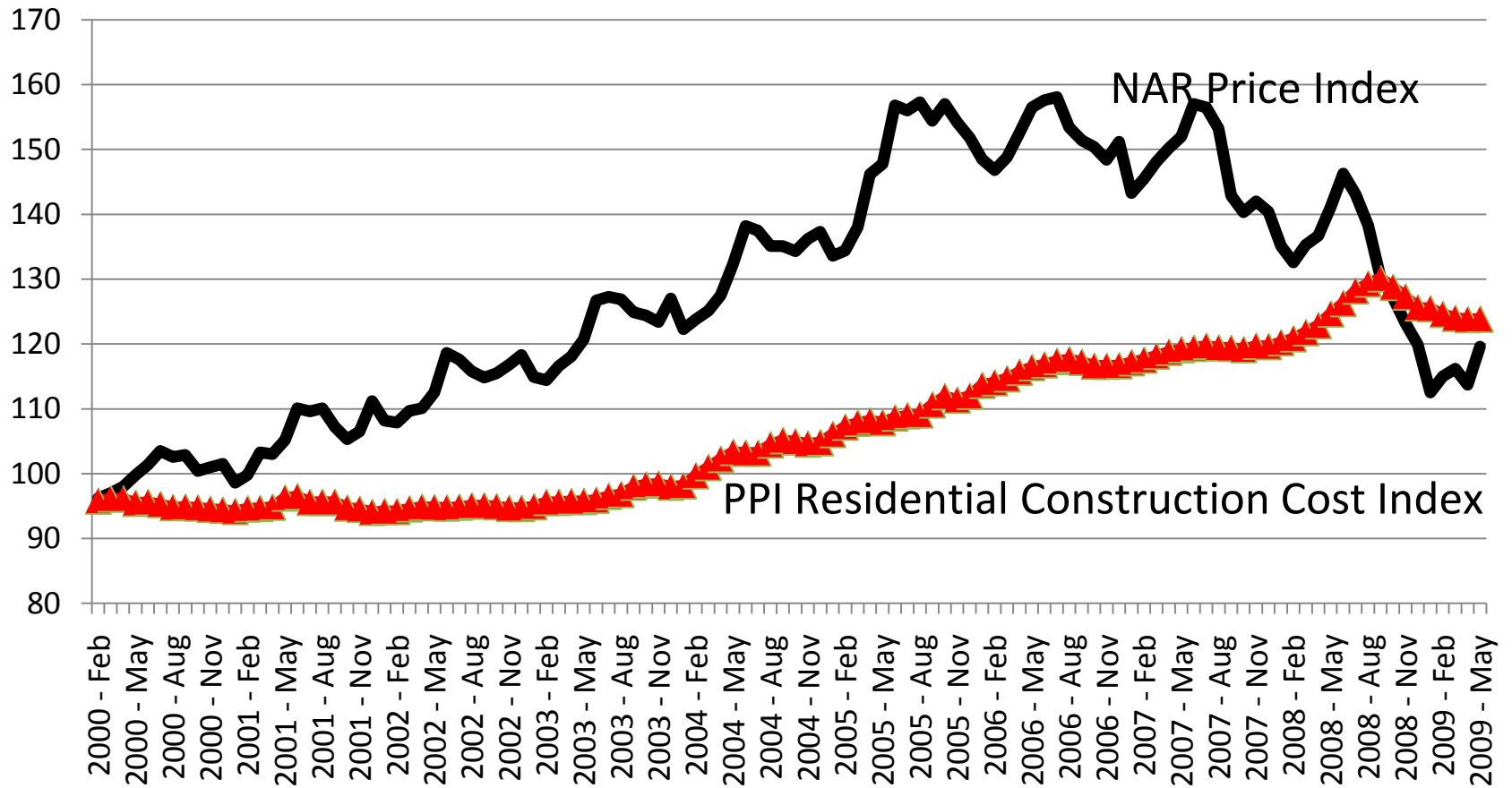


# Home Price vs Rent

(index = 100 in 1980)



# Home Price and Construction Cost

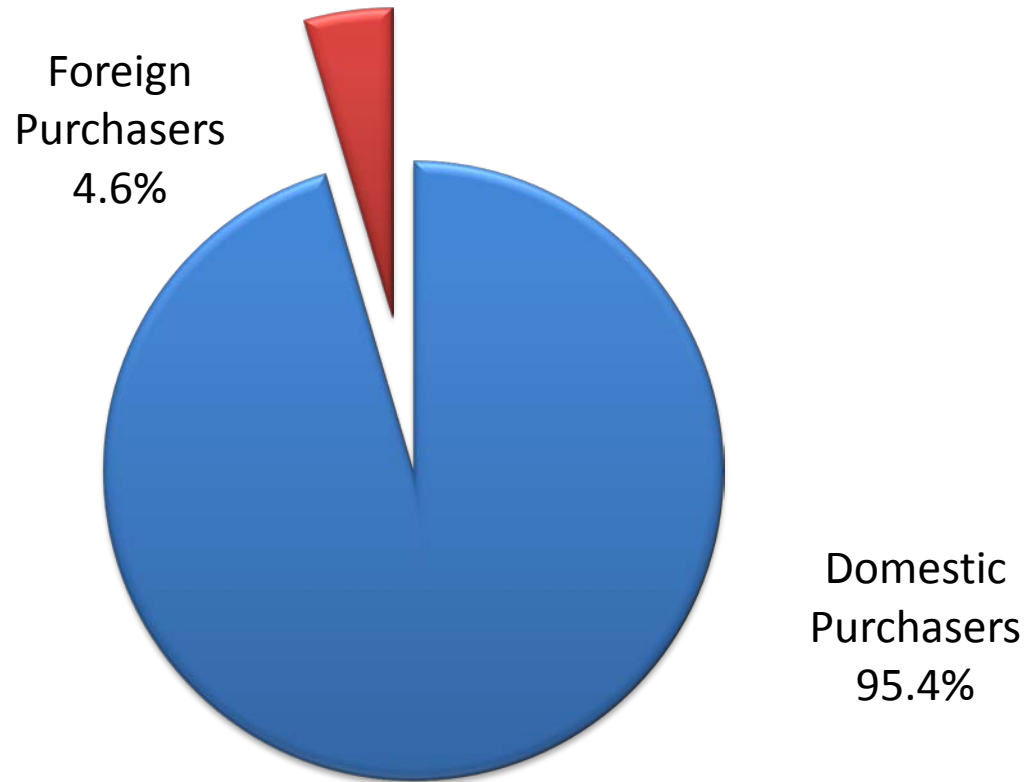


# Pre-Boom vs. Post-Boom

	2000 (pre-boom)	2010 (post-boom)
Existing Home Sales	5.2 m	4.8 m
New Home Sales	880 K	316 K
Payroll Jobs	131.8 m	130.5 m
Household Jobs	136.9 m	139.3 m
Median Home Price	\$143,600	\$172,500
Household Income	\$41,990	\$49,800
Mortgage Rates	8.1%	5.1%
Affordability Index	122	173
Underwriting Standards	Normal	Too Stringent

# Foreign Homebuyers

(12 Months Ending in First Quarter 2010)



# Economic Baseline Outlook

- Moderate GDP Expansion 2.5% to 3% in the next 2 years
- 1.5 to 2 million annual job additions yearly in the next 2 years
- 
- Unemployment rate of 9% in 2011 ... and normal 6% in 2015

# Housing Outlook

- Mortgage Rates rising to 5.5% by year-end 2011 and 6% in 2012
- Home values – no meaningful change in the national price in the next 2 years
- Home sales to be choppy but overall improving in line with job growth ... 5.3 million in 2011 (up from 4.9 m in 2010, but same as in 2000)
  - Affordability conditions are too compelling
  - There maybe a pent-up demand. 27 million additional people from 2000 but same home sales as in 2000.
  - Upside surprise if underwriting moves to 'normal' away from over-stringency

# For More Information

- [realtors.org/research](https://www.realtors.org/research)
  - Research data and analysis
  - facebook, twitter for daily economic updates