The Housing Market:

Bubble, Bubble, Interest, Trouble?

- The National Economic Setting
- Implications for The States
National Housing Forecast: Overview

- No National Bubble
- No Precipitous Fall in Value
- Price Growth Lower on Average
National Housing Forecast: Overview

Also

• Localized-Bubbles in Some Markets
• Pockets of High Growth, of Stagnation
• Reduced Contribution to GNP

Housing Forecast: Overview

Demand for Housing Set by:

• Housing Prices
• Population & Immigration
• Employment & Income
Housing Forecast: Overview

Demand for Housing Also Set by:

- Mortgage Rates & Other Costs
- Area Characteristics
- Alternative Investments

Maintain Constant Monthly Payment

Interest Rate on Mortgage

Change adjusts for taxes & other costs.
Change in Demand for Home Ownership

-30% -20% -10% 0% 10% 20% 30% 40%

Change in Demand

5.00% 5.75% 6.25% 6.75% 7.25% 7.75% 8.25% 8.75% 9.25% 9.75%

Interest Rate on Mortgage

Change adjusts for taxes & other costs.

American Economics Group
Clear and Effective Economic Analysis

30 Year Mortgage Rates

Nominal Percent

Jan 96 Jul 96 Jan 97 Jul 97 Jan 98 Jul 98 Jan 99 Jul 99 Jan 00 Jul 00 Jan 01 Jul 01 Jan 02 Jul 02

American Economics Group
Clear and Effective Economic Analysis
Expected 30 Yr. Mortgage Rates

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2002 Q3 actual</td>
<td>6.42%</td>
</tr>
<tr>
<td>2002 Q4</td>
<td>6.23%</td>
</tr>
<tr>
<td>2003 Q1</td>
<td>6.20%</td>
</tr>
<tr>
<td>2003 Q2</td>
<td>6.35%</td>
</tr>
</tbody>
</table>

National Housing Starts

- 2000
- 2001
- 2002
- Forecast
Housing Starts Forecast

<table>
<thead>
<tr>
<th>Year</th>
<th>Units (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1.574</td>
</tr>
<tr>
<td>2001</td>
<td>1.597</td>
</tr>
<tr>
<td>2002</td>
<td>1.665 est</td>
</tr>
<tr>
<td>2003</td>
<td>1.65 proj</td>
</tr>
</tbody>
</table>

Price of New Homes

- Actual
- 12 Mo. Avg.

Jan-96 Jan-97 Jan-98 Jan-99 Jan-00 Jan-01 Jan-02

$100,000 $120,000 $140,000 $160,000 $180,000 $200,000
Regional Housing Forecast:

Results will depend heavily on each areas market characteristics

For example:

- Some markets of rapid and steep price increases will lose momentum
- Some will continue growth at moderate rates
Housing Forecast for The States:

Sort Major Markets into Three Groups:

• **Tier 1: Accelerating High Growth**
• **Tier 2: Continuing High Growth**
• **Tier 3: Past High Growth Receding**

Prices: Accelerating High Growth

- Chicago, IL
- Ft. Lauderdale/Hollywood/Pompano Beach, FL
- Los Angeles Area, CA
- Miami/Hialeah, FL
- New Haven/Meriden, CT
- Middlesex/Somerset/Hunterdon, NJ
- Monmouth/Ocean, NJ
- Portland, ME

- Providence, RI
- Reno, NV
- Sacramento, CA
- Trenton, NJ
- Tucson, AZ
- Washington, DC/MD/VA
- Wilmington, DE/NJ/MD
American Economics Group
Clear and Effective Economic Analysis

Prices: Continuing High Growth

Orange Cnty. (Anaheim/Santa Ana MSA), CA
Baltimore, MD
New York/N. New Jersey/Long Island, NY/NJ/CT
Bergen/Passaic, NJ
Nassau/Suffolk, NY
San Diego, CA

Prices: Past High Growth Receding

Denver, CO
Madison, WI
Newark, NJ
San Francisco Bay Area, CA
Tampa/St. Petersburg/Clearwater, FL
Worcester, MA
How Large the Bang when a Housing Market Bursts?

- Not in Same League as Stock Market
- Prices Likely to Fall Moderately
- Convergence to National Rate of Increase
- Localized

Other Observations

- Impact on State Revenue will be Mild
- Will Play Out Over Time; No Cliffs Edge
- Not a Capital-Gains-Like-Impact to Worry About
- Will not be Statewide Anywhere
Introduction
American Economics Group
Clear and Effective Economic Analysis

Presentation for:
Federation of Tax Administrators 9/30/02
Charles W. de Seve, Ph.D.

Thank You for Participating
www.AmericanEconomics.com