The Housing Outlook

Presented by
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Chief Economist

Booming Residential Investment

Residential Investment as a Share of GDP (L)

Source: Census

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Housing is Through the Roof

Real house price growth
% chg yr ago, 4-qrt moving average
Sources: OFHEO, BEA

Record Housing Activity

Thousands of units
12 month moving average
Sources: Realtors, Census

Single Family Starts (R)
Home Sales (L)
Where Housing is Strongest

Avg Annual % Chg, Past 5 Yrs, OFHEO, U.S. = 8.5%

Housing's Outsized Contribution to Growth

Percentage point contribution to real GDP growth, Source: Economy.com

Wealth Effect
Homebuilding

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Households’ Most Important Asset

The Home Has Become a Cash Machine
Record Low Borrowing Costs

User Cost of Housing
Source: Economy.com

Plunging Transaction Costs

Initial Fees and Points
Source: Federal Housing Finance Board
Nesting

Share of Consumer Spending
Sources: BEA, Economy.com

Foreign Travel (L)

Owner-occupied Housing (R)

Household Portfolio Shifting

12 month moving average
Sources: Realtors, Wilshire

House Price Growth (L)

Stock Price Growth (R)
Exotic Mortgage Lending is Surging...

Source: LoanPerformance

...Especially in These Markets...

IO ARM share of Originations, 2004, Source: LoanPerformance

Source: LoanPerformance
Investor Share of Origination Soars...

Source: Loan Performance

...Especially in These Markets...

Investor Share of Home Sales, 2005q1, Source: LoanPerformance
Housing Is Increasingly Overvalued....

Median Existing House Price
$ ths Sources: Realtors, Economy.com

Expected

Actual

15% Overvalued

00 01 02 03 04 05

0 130 140 150 160 170 180 190 200 210

...in These Metro Areas

Highly overpriced
> 2 SD from historic average
Overpriced
> 1 SD from historic average
Based on the NAR median existing house price index, 2005Q1
House Price Declines Under a 7% Fixed Rate

% of metro areas where house prices decline on a year-over-year basis

Low-End of Housing Market at Greatest Risk

Source: CSW, Economy.com
Overbuilding

Residential Investment as a Share of GDP (L)

Household Growth (R)

5-Year Moving Average

Sources: Census, BEA

Overbuilding

Rental Vacancy Rate (R)

New Homes for Sale, Ths (L)

Sources: Census, BEA
### Long-Term Housing Math

**Annual averages over the next decade**

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Demand</td>
<td>1.90 Million</td>
</tr>
<tr>
<td>Household Formations</td>
<td>1.30 Million</td>
</tr>
<tr>
<td>Second and Vacation Home</td>
<td>0.20 Million</td>
</tr>
<tr>
<td>Obsolesence</td>
<td>0.40 Million</td>
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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Housing Supply</td>
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<td>Single Family</td>
<td>1.30 Million</td>
</tr>
<tr>
<td>MultiFamily</td>
<td>0.35 Million</td>
</tr>
<tr>
<td>Manufacturing Housing</td>
<td>0.25 Million</td>
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</tbody>
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### Supply-Price Balance in the Top 150 Metro Areas

This diagram illustrates the supply-price balance in the top 150 metro areas, indicating whether the market is oversupplied or overpriced.
...Will Soon Become More Pressed

Cumulative share of 2002-04 loans with rate resets, Source: Fannie Mae

Weakening House Price Growth and Credit Quality
<table>
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<th>Outlook Summary</th>
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<tr>
<td>• The single-family housing market is booming. Home sales, single family housing starts, and house price growth are robust.</td>
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<td>• Single-family demand has been supported by extraordinarily low borrowing costs, falling transaction costs, aggressive lending, portfolio shifting, and nesting.</td>
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<td>• Speculation is increasingly evident in housing markets in California, the Southwest, the Northeast corridor and Florida.</td>
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<td>• Single-family demand and house prices will appreciably weaken with even a modest rise in mortgage rates.</td>
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<td>• Mortgage credit quality will erode despite an sturdy job market.</td>
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