U.S. Housing Market: Peering through the Clouds

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Federation of Tax Administrators
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U.S. Existing-Home Sales

Source: NAR
U.S. New Single-Family Construction

- 35% 2-year Tumble

U.S. New-Home Sales

- 38% Retreat from Peak

Source: Census, NAR Forecast
Inventory of Homes

Home Price Growth

Source: NAR, Census

Source: NAR
Home Sales Tumble in Formerly Strong Markets (2006 Q2 – 2007 Q2)

Source: NAR

Metro Markets with Price Gains on Upswing (percent of markets with y/y price increases)

Source: NAR
Renters Getting Squeezed

Source: Torto-Wheaton Research

Subprime Loan Implosion

- Homeowners facing higher resetting rates and foreclosures
- Wall Street reassessing risk
- Sub-prime brokers desperate for Wall Street funding
- Potential homebuyers left out in the cold
National Mortgage Delinquencies

Source: MBA

Foreclosure Rates by Loan Type
2007 Q2

Source: MBA
Subprime Loan Exposure

Prime 50%
FHA+ VA 6%
Sub-prime 9%
Free + Clear Homes 35%

Source: NAR Estimate

Foreclosed Homes

Prime 33%
FHA + VA 14%
Sub-prime 53%

Source: NAR Estimate
Loans in Foreclosure
(2007 Q2)

Source: MBA

High Foreclosure Rate States
(2007 Q2)

Source: MBA
Rising Foreclosures

Percent change in foreclosure rate in 2006 Q2 vs 2007 Q2

States with Marked Price Deceleration and Sales Declines Undergoing rising Foreclosures

Source: MBA

Not All Markets are Suffering …
States with Falling Foreclosures

Percent change in foreclosure rate in 2006 Q2 vs 2007 Q2

Source: MBA
**Healthier Future Market**

- Cut back in new home construction thins out inventory and strengthen home prices
- Shift to “traditional” products
  - Reckless lenders going belly up
  - Wall Street tightening
  - FHA revival
  - Higher prevalence of fixed-rate mortgages
- Short-term Pain from lower home sales
- Long-term Gain from lower defaults
- Long-term factors still favorable for housing

**U.S. Job Gains Near 2 Million in Past 12 months**

12-month payroll job changes in millions

Source: BLS
**Wage Growth Picking Up**

Source: BLS

**Corporate Profits – Record High**

Source: BEA
S&P 500 Index

Source: NYSE

Economic Growth

% annualized growth rate

Source: BEA
Consumer Spending

% annualized growth rate

Source: BEA

Business Spending

% annualized growth rate

Source: BEA
Economic Outlook

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>2.9%</td>
<td>2.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>CPI Inflation</td>
<td>3.2%</td>
<td>2.8%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Job Growth</td>
<td>1.9%</td>
<td>1.3%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.6%</td>
<td>4.6%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Source: NAR, September 2007

Buyers Lining Up?

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2007</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Home Sales</td>
<td>8.4 million</td>
<td>6.7 million</td>
<td>- 1.7 million</td>
</tr>
<tr>
<td>Jobs</td>
<td>133.7 million</td>
<td>138.0 million</td>
<td>+ 4.3 million</td>
</tr>
<tr>
<td>Wage + Salary</td>
<td>$5.7 trillion</td>
<td>$6.4 trillion</td>
<td>+ $700 billion</td>
</tr>
<tr>
<td>Household Wealth</td>
<td>$52 trillion</td>
<td>$57 trillion</td>
<td>+ $5 trillion</td>
</tr>
<tr>
<td>Home Prices</td>
<td>$219,600</td>
<td>$218,200</td>
<td>- $1,400</td>
</tr>
<tr>
<td>Mortgage Rates</td>
<td>5.9%</td>
<td>6.3%</td>
<td>+ 0.4%</td>
</tr>
</tbody>
</table>
## National Housing Outlook

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<tr>
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<th>2006</th>
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<th>2008</th>
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<tbody>
<tr>
<td>Existing-Home Sales</td>
<td>6.48 million</td>
<td>5.92 million</td>
<td>6.27 million</td>
</tr>
<tr>
<td>New Home Sales</td>
<td>1.05 million</td>
<td>0.80 million</td>
<td>0.74 million</td>
</tr>
<tr>
<td>Housing Starts</td>
<td>1.80 million</td>
<td>1.37 million</td>
<td>1.26 million</td>
</tr>
<tr>
<td>30-Year FRM</td>
<td>6.4%</td>
<td>6.3%</td>
<td>6.5%</td>
</tr>
<tr>
<td>1-Year ARM</td>
<td>5.5%</td>
<td>5.6%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Existing-Home Price Growth</td>
<td>1.0%</td>
<td>-1.7%</td>
<td>2.2%</td>
</tr>
</tbody>
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Source: NAR, September 2007