Market Trends and Forecasts

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NATIONAL ASSOCIATION OF REALTORS®

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Portland, Maine
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Where Are We?
Housing Markets: Current Status

• Sales—Existing Homes
  – National Down 31% as of June 08 from Sept 05 peak.
  – National Down 13.2% 12 mo ending July 08.
  – Virginia: Down 8.1% for 12 mo ending June 08.
  – Northern Virginia down 16.8%, July YTD.
  – Maine: -20% 2nd qtr 08 vs. 07; +3.7% most recent qtr.

• Prices
  – Median National Down 7.7% as of July 08 from July 2006 peak.
  – Median National Down 7.1% 12 mo ending July 08.
  – Median Northern Virginia down 16.9% 12 mo ending July 08.
  – Median Portland price -5.7%, 2nd qtr 07/2nd qtr 08.

• Sales—New Single Family Homes
  – National Down 61% from March 2005 peak.
  – National Down 35% for 12 mo ending July 08.
Annual Existing-Home Sales
Includes Single Family, Condos, Coops

Home sales have retreated back to pre-boom years, which was then considered to be at healthy levels.

Source: NAR

Recent Monthly National Existing-Home Sales
SAAR: A drop from over 6 million to 5 million

Source: NAR
Maine: Existing Home Sales

Where Are We—Price?
NAR, OFHEO, Case Shiller

- NAR
  - MLS data, all transactions.
- OFHEO
  - Conforming loans (Freddie/Fannie), repeat sales.
- Case Shiller
  - Repeat sales, twenty major areas.
  - Heavy concentration in distressed markets.
- Some Confusion—What is the Clear Message?
  - Each local market is different.
  - Representative Market/Submarkets.
Comparison of Three Indexes
Trends in National Prices

National Home Price Growth
Total Homes, Median Sales Price

Source: NAR
**Washington-Arlington-Alexandria, DC-VA-MD-WV Median Home Price Growth**

Source: NAR; Data for 2008 are estimates based on first two qtrs.

**NVAR Median Price Divided by Median Fairfax Household Income**

Based on NVAR and BEA data
What Drives the Housing Market?

- Mood
- Financial Issues, Subprime, Foreclosures.
- The Economy—Positive
- Impact of the Economy on Housing
- Approaches for Addressing the Current Market

Consumer Confidence
Negative Housing, Economic, Financial News, Uncertainties
Financial Issues
Loan Originations—Billions of Dollars

- Over a trillion dollars of subprime loans per year in 2005 and 2006.
- Subprime default and delinquency rates high.
- Prime—Lower default.
- Outlook—Additional defaults?

<table>
<thead>
<tr>
<th>Year</th>
<th>Prime Loans</th>
<th>Subprime</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2353</td>
<td>295</td>
</tr>
<tr>
<td>2002</td>
<td>3032</td>
<td>356</td>
</tr>
<tr>
<td>2003</td>
<td>3961</td>
<td>503</td>
</tr>
<tr>
<td>2004</td>
<td>2083</td>
<td>882</td>
</tr>
<tr>
<td>2005</td>
<td>1879</td>
<td>1138</td>
</tr>
<tr>
<td>2006</td>
<td>1548</td>
<td>1051</td>
</tr>
<tr>
<td>2007</td>
<td>1509</td>
<td>466</td>
</tr>
</tbody>
</table>

Source: Harvard Joint Center 2008

Subprime Loan Exposure

- Prime 53%
- FHA+VA 6%
- Sub-prime 9%
- Free + Clear Homes 32%

Source: NAR Estimate
Foreclosed Homes

- FHA+ VA: 9%
- Prime: 37%
- Sub-prime: 53%

Source: NAR Estimate

Subprime Loan Exposure: Virginia

- Sub-prime: 7%
- FHA+VA: 8%
- Free + Clear Homes: 27%
- Prime: 58%

Source: NAR Estimate
Foreclosed Homes: Virginia

*Source: NAR Estimate*

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Foreclosure Rate</th>
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<tbody>
<tr>
<td>Prime</td>
<td>57%</td>
</tr>
<tr>
<td>FHA+VA</td>
<td>6%</td>
</tr>
<tr>
<td>Sub-prime</td>
<td>37%</td>
</tr>
</tbody>
</table>

Foreclosure Rates by Loan Type
2008 Q1

*Source: MBA*
Foreclosure Rate Comparisons
(All Loans, 2008 Q1)

Source: MBA

Subprime Problem Outlook

- Huge Loss Write Downs: Possibility of additional write downs and distress in financial markets.
- Fannie and Freddie.
- Government Agencies Involved:
  - Federal Reserve, FDIC, FHFA, OCC
  - Can provide liquidity
- Consumer/Homebuyer Confidence: A Major Issue
- Somewhat tighter credit.
- Impacts on prices and housing market.
- Problem diminishing, but potential additional losses.
Economic Snapshot
Not Great/Not Bad

• Recession or weak economic performance?
• Rising unemployment.
• Stock market – roller coasting.
• Housing slowdown – negative to economy.
• Credit Crunch.
• Consumer Confidence.
• Interest Rates Cut: Appropriate level?
• Oil Prices – Alarmingly high--Fluctuations?
• Inflation.

Mortgage Rates Relatively Low

Source: FHFB, Residential Existing House
Mortgage Obligation Manageable
Median as Percent of Income

Source: NAR

Mortgage Obligation to Income
Very High in Some Markets

debt service to buy a median priced home by a middle income family

San Diego

Source: NAR
Mortgage Obligation to Income
*Historically High in Some Markets*

- debt service to buy a median priced home by a middle income family

Source: NAR

Under-Priced Markets
With Affordable Mortgage Obligation to Income

Source: NAR
NVAR Median Price Divided by Median Fairfax Household Income

Based on NVAR and BEA data

GDP Growth

% annualized growth rate

Source: BEA
U.S. Job Gains - Decelerating

12-month payroll job changes in thousands

Source: BLS

Job Gains in Virginia

12-month net non agricultural payroll job changes in thousands

Source: BLS
Single-Family Housing Starts
(Major fall – but, good trend to control inventory)

Source: Census

Virginia
Single Family Home Permits

Source: Census
Gross Private Domestic Investment
Chained 2000 Dollars

Source: BEA

Dollar vs. Euro
U.S. Exports Increasingly Competitive

Source: BLS
Net Exports Goods and Services
Some Improvement

Current Year Dollars

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
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<tbody>
<tr>
<td>2000</td>
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<td>2007</td>
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<tr>
<td>2008</td>
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</tbody>
</table>

Net Export

Source: BEA

Personal Consumption Expenditures, Changes in Billions of Chained 2000 Dollars

% year-over-year growth rate

Source: BEA
Big Worry - Oil Price
Europe: Brent Spot Market

Source: Haver

Inflation: A Potential Issue
(Core CPI Inflation)
### Economic Outlook

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>GDP</td>
<td>2.0%</td>
<td>1.7%</td>
<td>1.5%</td>
</tr>
<tr>
<td>CPI Inflation</td>
<td>2.9%</td>
<td>3.2%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Job Growth</td>
<td>1.1%</td>
<td>0.1%</td>
<td>.2%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>4.6%</td>
<td>5.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>10-year Treasury</td>
<td>4.6%</td>
<td>4.0%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

### Housing Affordability Index

*(Median Income/Qualifying Income) * 100

Source: NAR
Existing-Home Inventory
(From 2 million to 4.5 million; but most are owner-occupied)

New Home Inventory
(Already Topped Out)

Source: NAR

Source: Census
### Housing Markets—Outlook

- **Short Run:** Existing Home Sales stable but trending at 10 year ago levels. From 1998 to 2008
  - 25 million more people, 13 million more jobs, reasonable interest rates.
  - Recovery: Affordability, Housing Stimulus Package, Higher GSE Loan Limits, Lower Inventories of New Homes, Slowing Foreclosures.
  - Financial problems being resolved.
  - Prices down 7% this year; up 2.4% next year.
  - Sales down 11% this year; up 7% next year.
  - New Housing: 1.6 to 1.8 million houses per year.
  - Will support a substantial resale market.

### Pent-Up Demand?

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2007</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Home Sales</td>
<td>8.4 million</td>
<td>6.5 million</td>
<td>5.1 million in 2008</td>
</tr>
<tr>
<td>(new and existing)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jobs (in October)</td>
<td>133.7 million</td>
<td>137.6 million</td>
<td>137.6 million, 2nd quarter 2008</td>
</tr>
<tr>
<td>Wage + Salary (in October)</td>
<td>$5.7 trillion</td>
<td>$6.4 trillion</td>
<td>$6.6 trillion</td>
</tr>
<tr>
<td>Household Wealth (3rd quarter)</td>
<td>$51 trillion (3rd quarter)</td>
<td>$59 trillion (3rd quarter)</td>
<td>$58.2 trillion, 2nd quarter, 2008</td>
</tr>
<tr>
<td>Home Prices</td>
<td>$219,600</td>
<td>$219,000</td>
<td>$215,000, July 2008</td>
</tr>
<tr>
<td>Mortgage Rates</td>
<td>5.9%</td>
<td>6.3%</td>
<td>6.2% for 2008</td>
</tr>
</tbody>
</table>
From the Realtor® Perspective
Addressing Current Market Conditions

• What appear to be some of the Key Issues in Addressing Current Market Conditions?
  – A market where prices have declined, inventories are high, sales are slower.
  – How do principles of Marketing and Economics apply?

• The Realtor® Story
  – Trusted resource for real estate information
  – Realtors® Add Value
  – Realtors® are Industry innovators
  – NAR is an advocate for homeownership
  – Realtors® build communities
  – Homeownership—immediate benefits and long-term value

From the Realtor® Perspective
Addressing Current Market Conditions

• Trusted Resource for Real Estate Information
  – Professional Advice.
  – Coming off of Unusual Boom Times.
  – Economy favorable, significant underlying demand.
  – A three to five year horizon is appropriate.

• Adding Value
  – Marketing: Realistic Pricing, targeting, segmentation, demographics, defining needs.
  – Staging—How many times do you make a first impression?

• Innovator
  – Implementation of Technologies,
  – Customer communications: boomers, GEN-X, GEN-Y.
From the Realtor® Perspective

• NAR an advocate for homeownership.

• Homeownership and long-term value.
  • Lifestyle, long term investment.

• Building Community
  – Establishing a presence/active in community service.
  – Part of the backbone/establishment.