

# ***Housing Market Outlook Through Economic Recession***

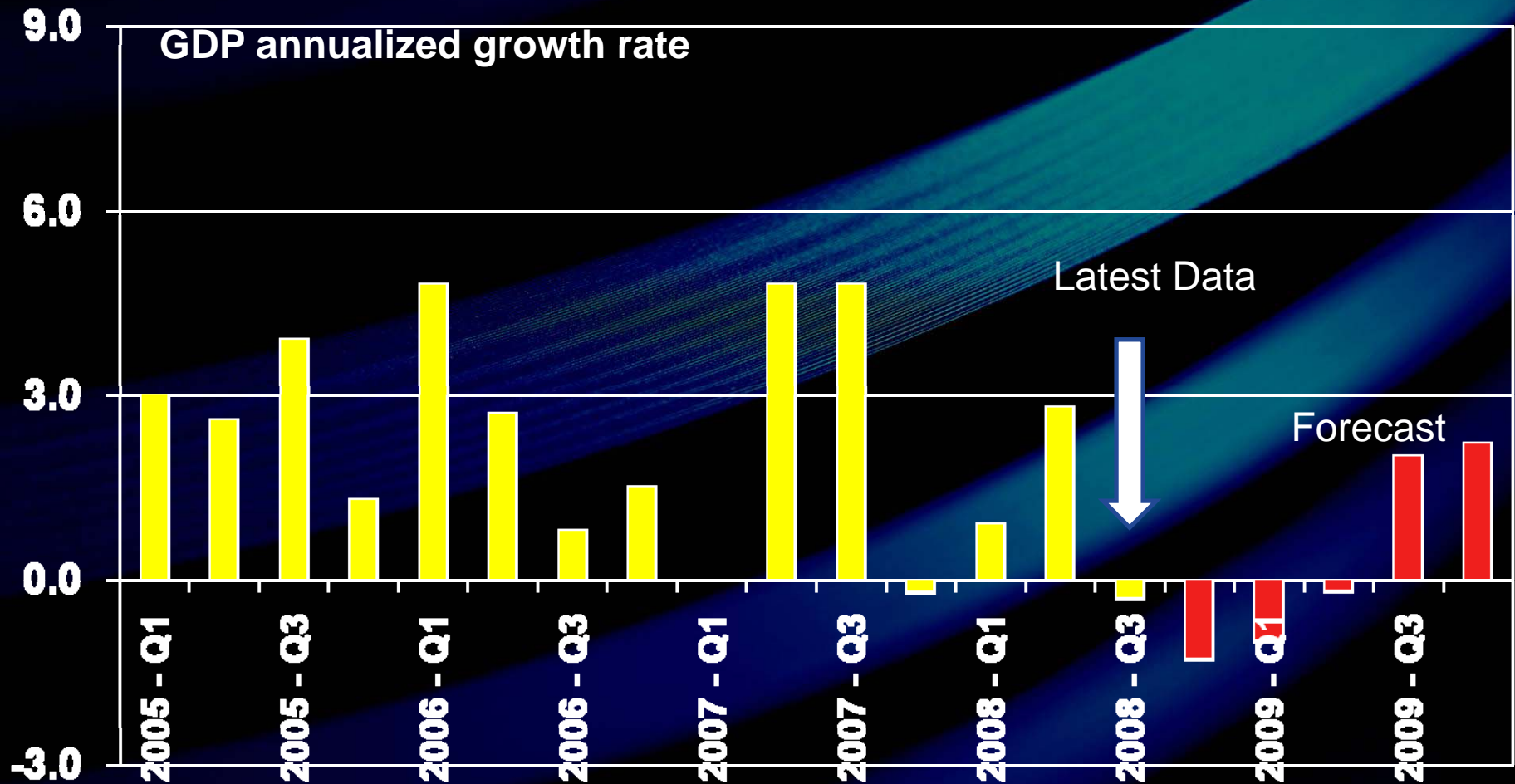
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Chief Economist  
NATIONAL ASSOCIATION OF REALTORS®**

**Presentation at NAR Annual Conference and Expo**

**Orlando, FL**

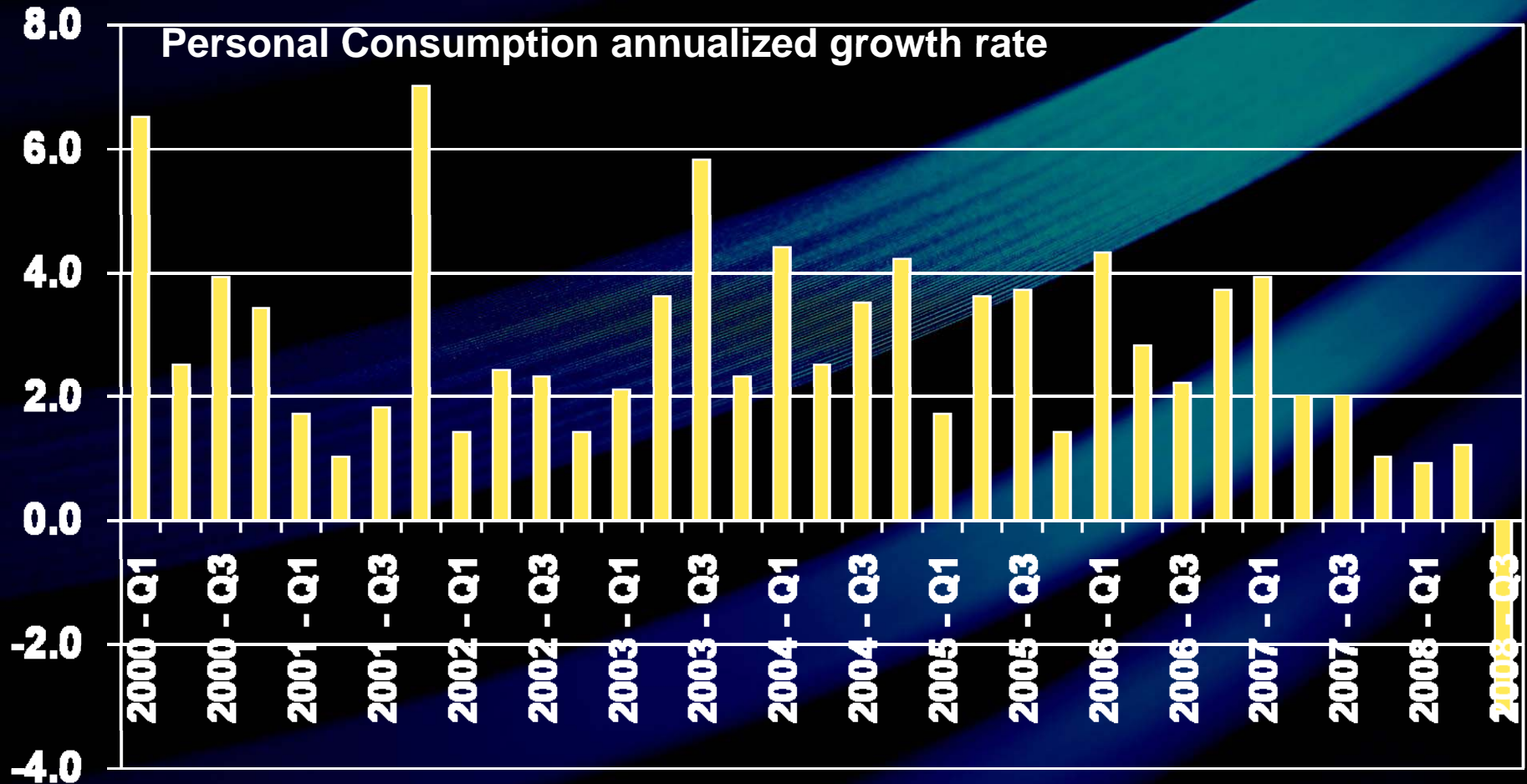
**November 7, 2008**

# Economy Contracts



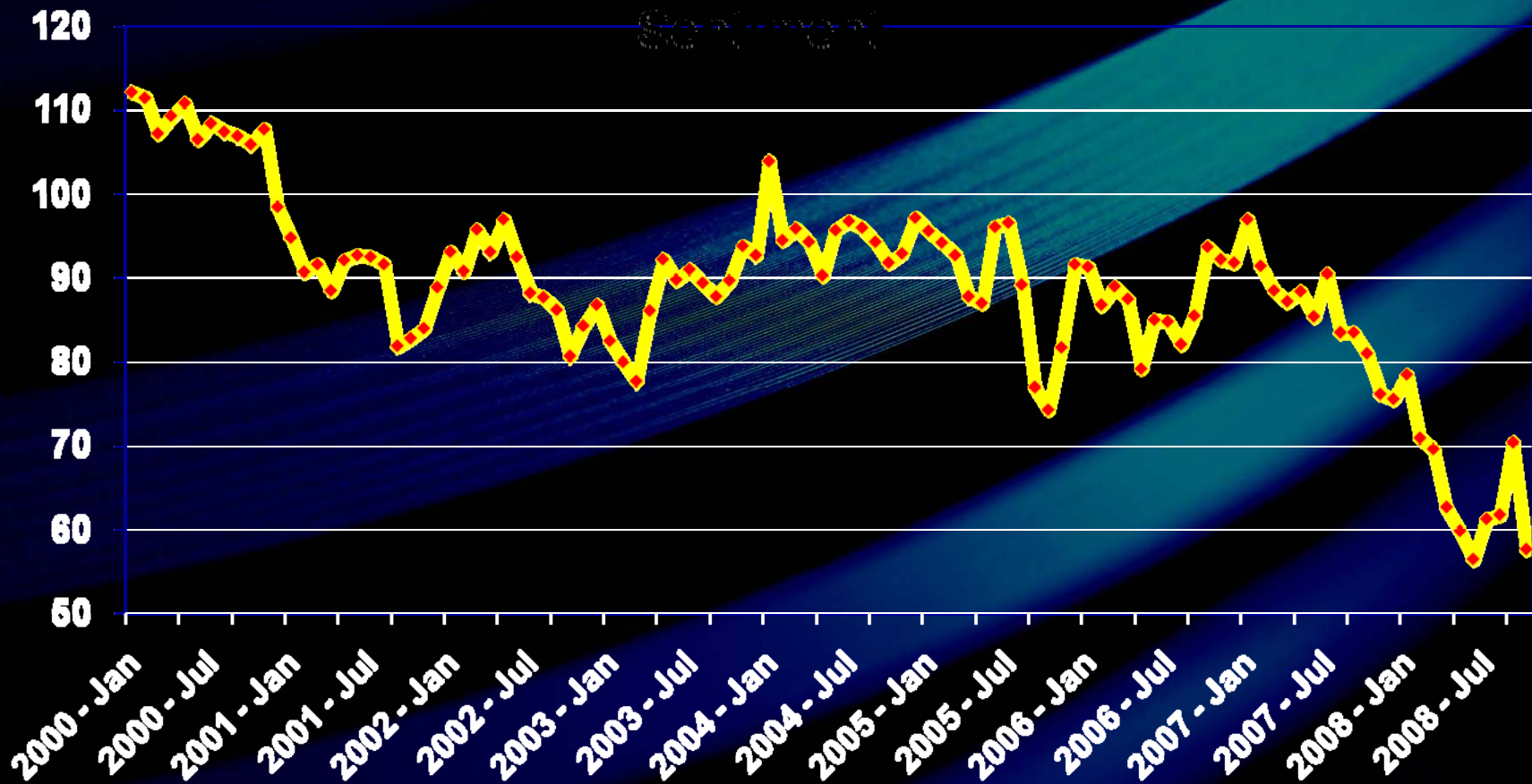
Source: BEA

# Consumers Tapped Out



Source: BEA

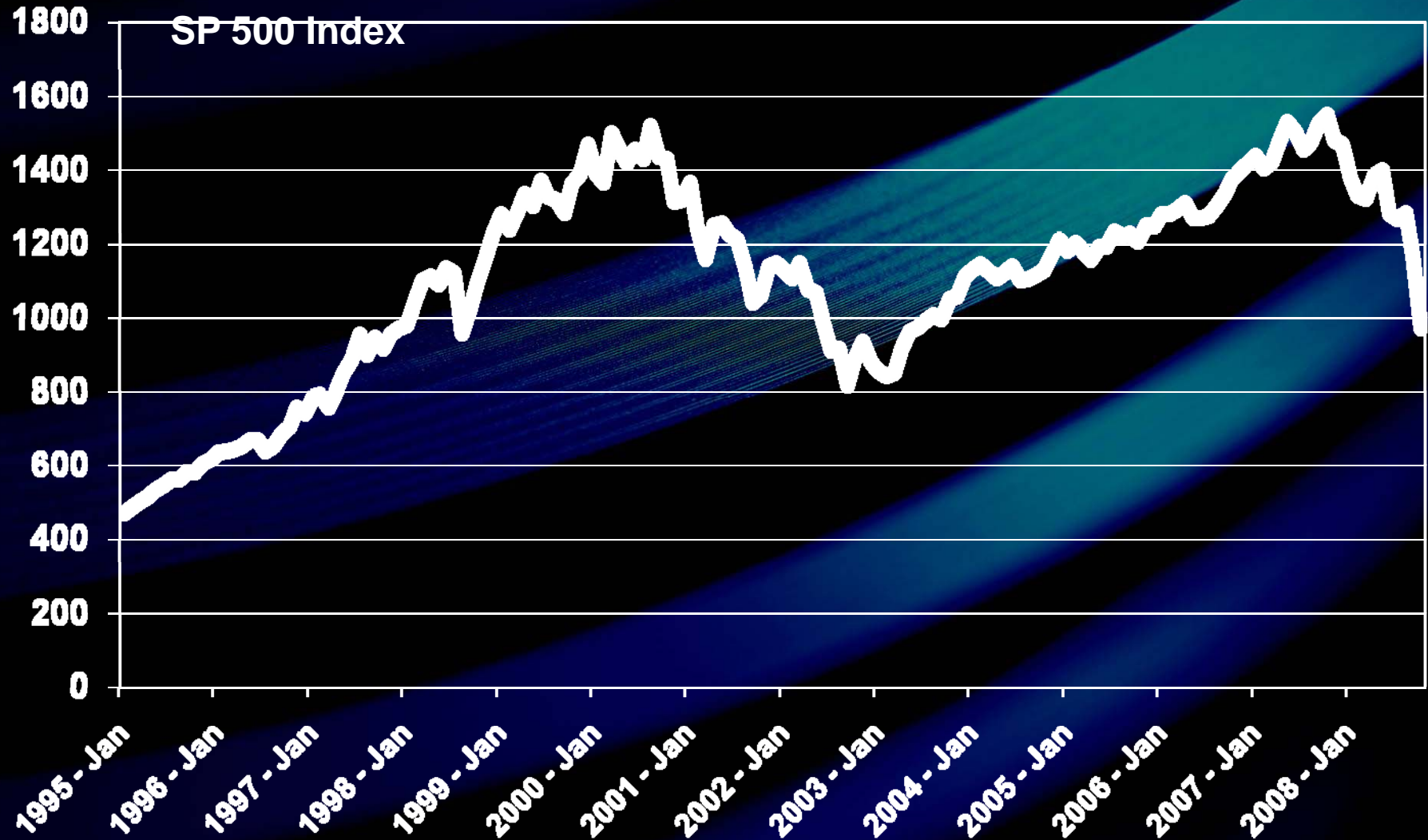
# Consumer Sentiment



Source: University of Michigan

# Stock Market Wealth

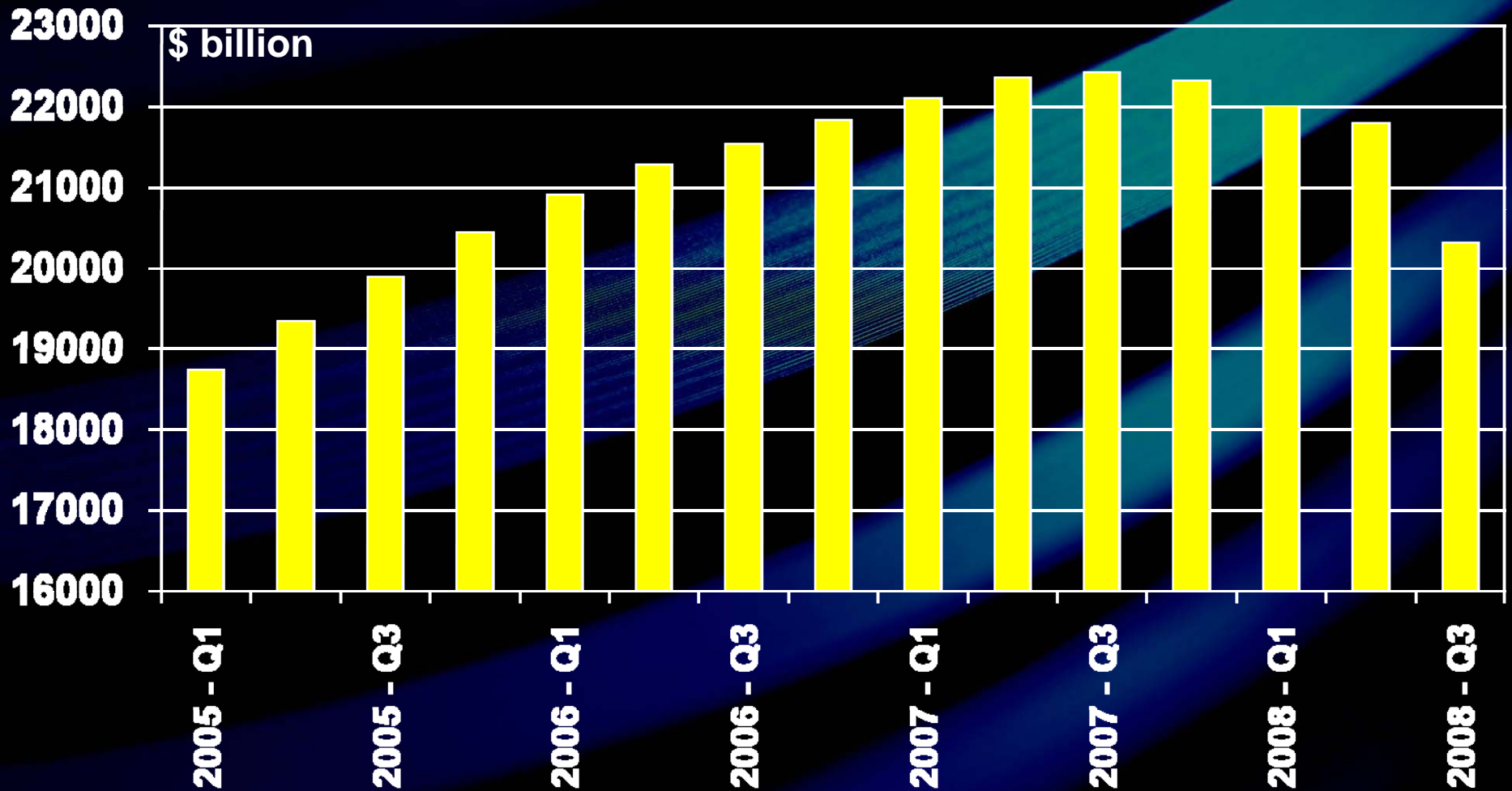
(\$8 trillion loss from peak)



Source: WSJ

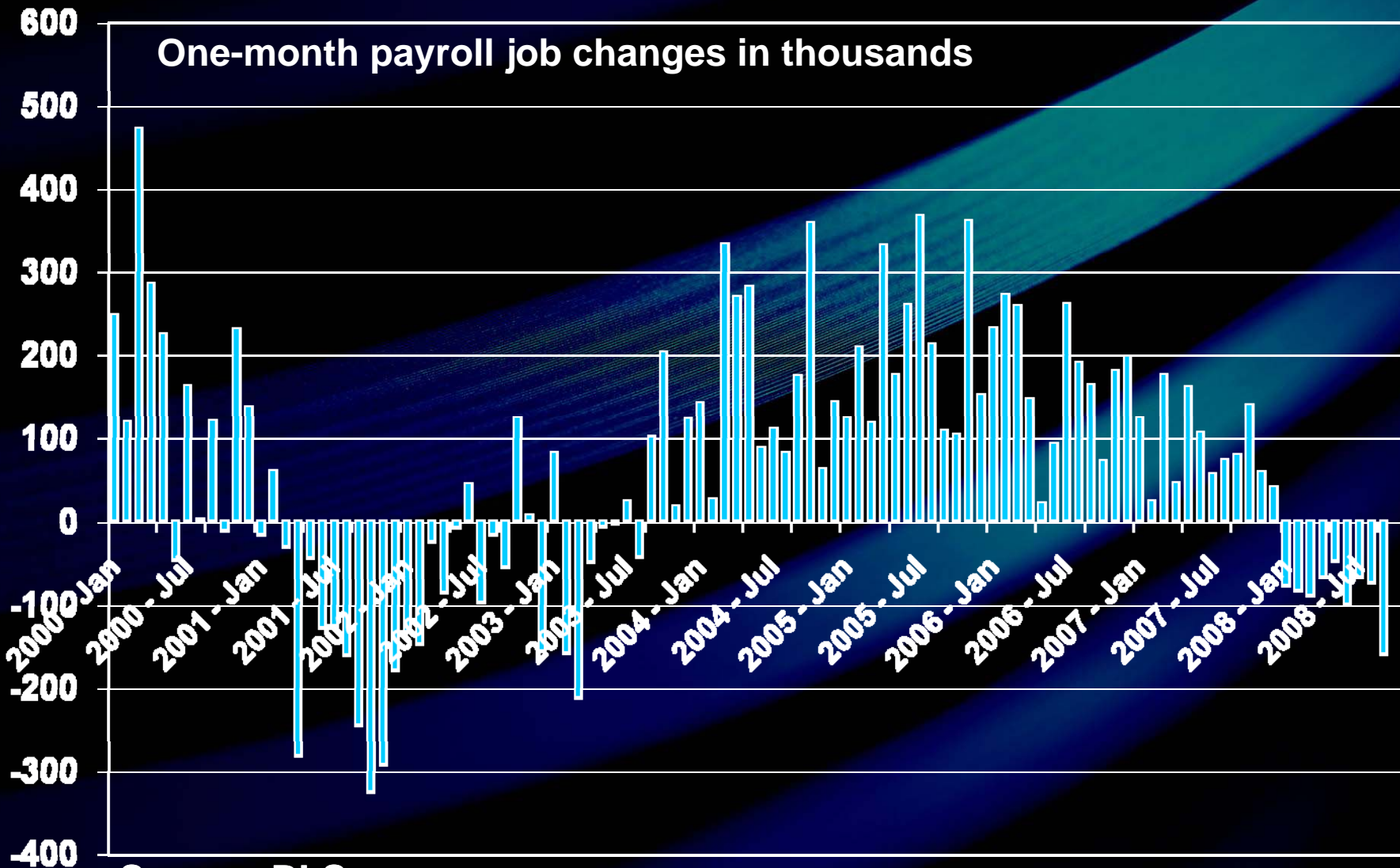
# Housing Valuation

(\$2 trillion loss in wealth from peak)



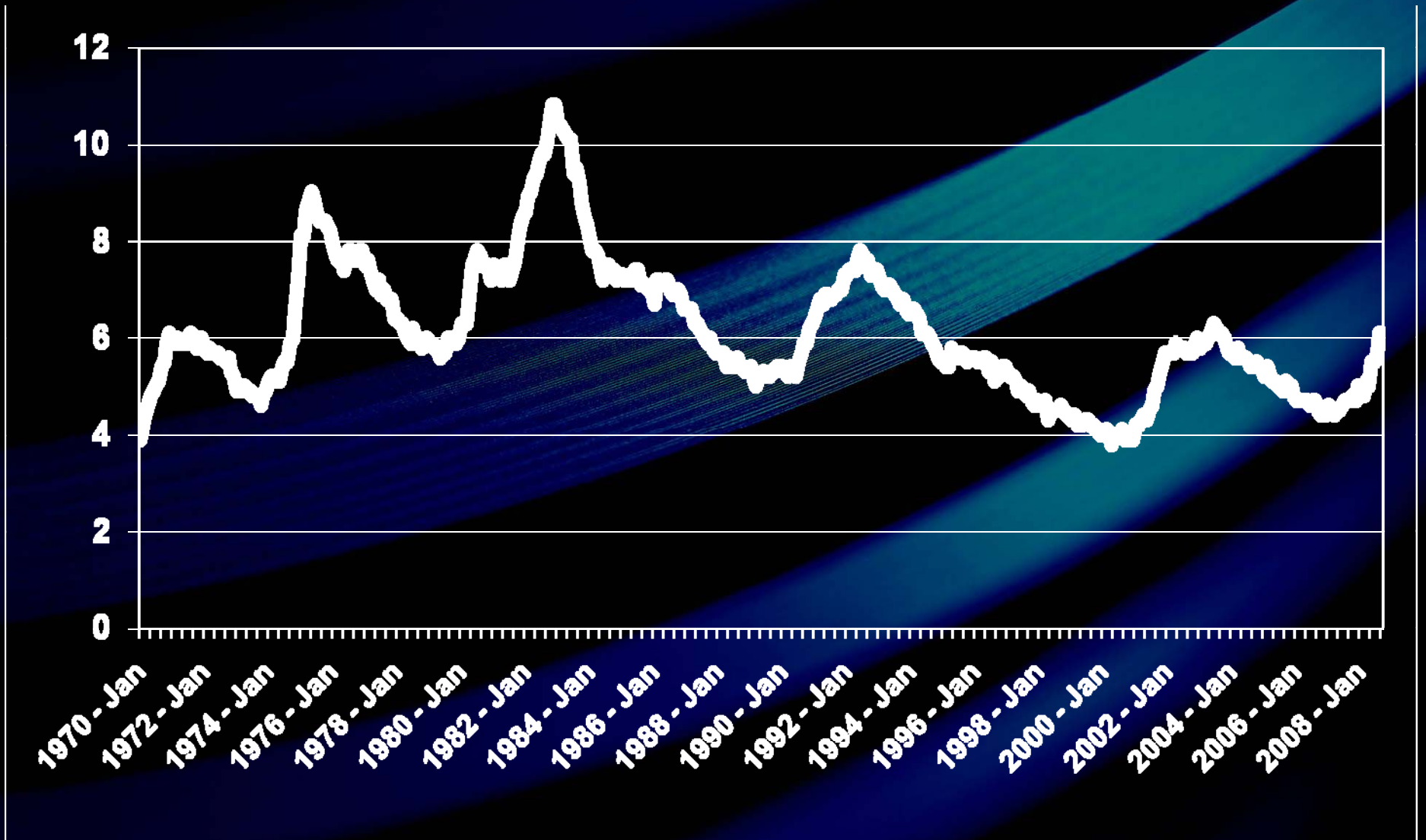
Source: Federal Reserve, NAR estimate

# Job Changes in U.S.



Source: BLS

# Unemployment Rate



Source: BLS

# Recession Impact on Housing Market

- **Mid-1970s Recession**
  - Little Change in Home Sales
- **Early 1980s Recession**
  - Deep Cuts in Home Sales
- **Early 1990s Recession**
  - Moderate Cuts in Home Sales
- **Early 2000s Recession**
  - Rise in Home Sales



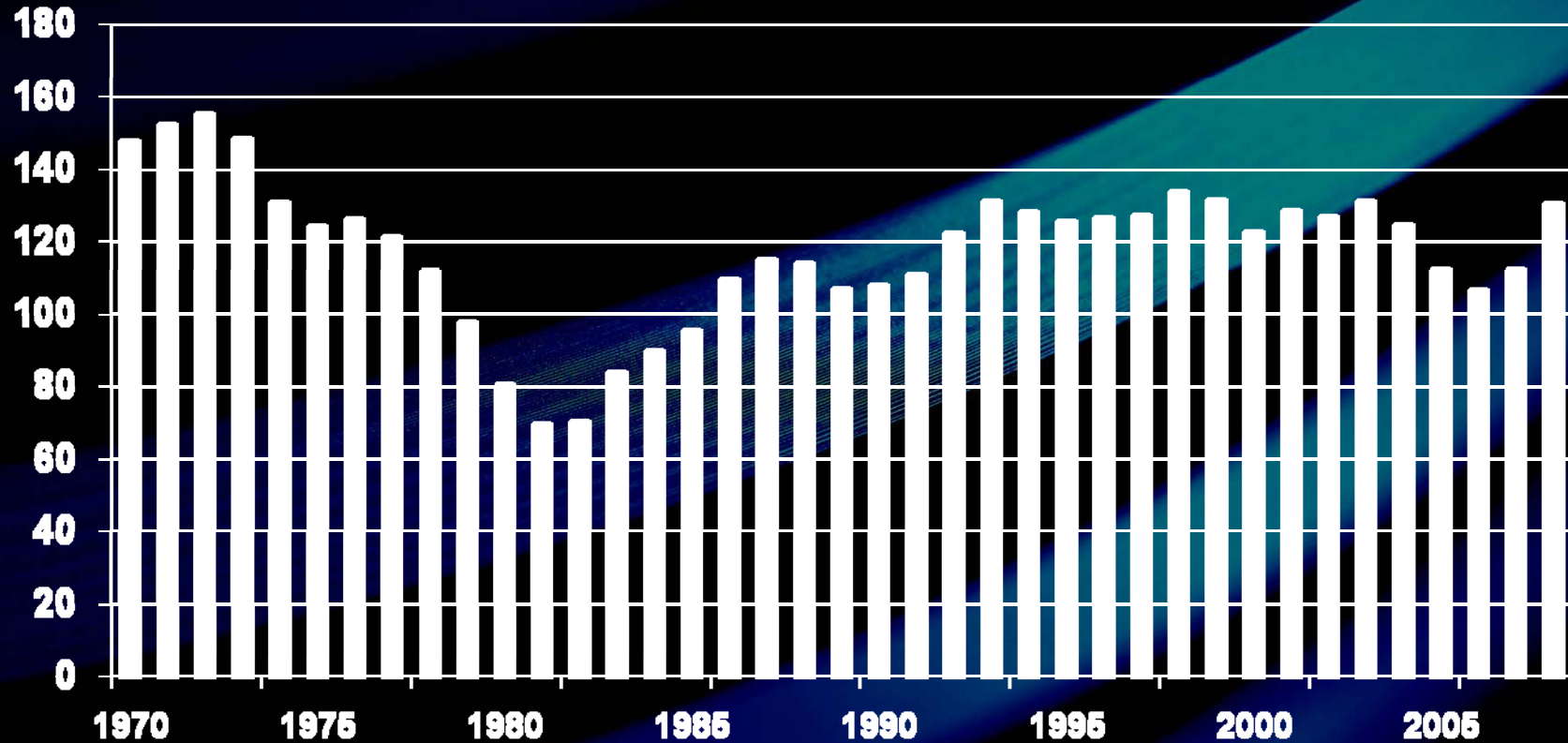
# Recession Impact on Home Sales



Source: NAR

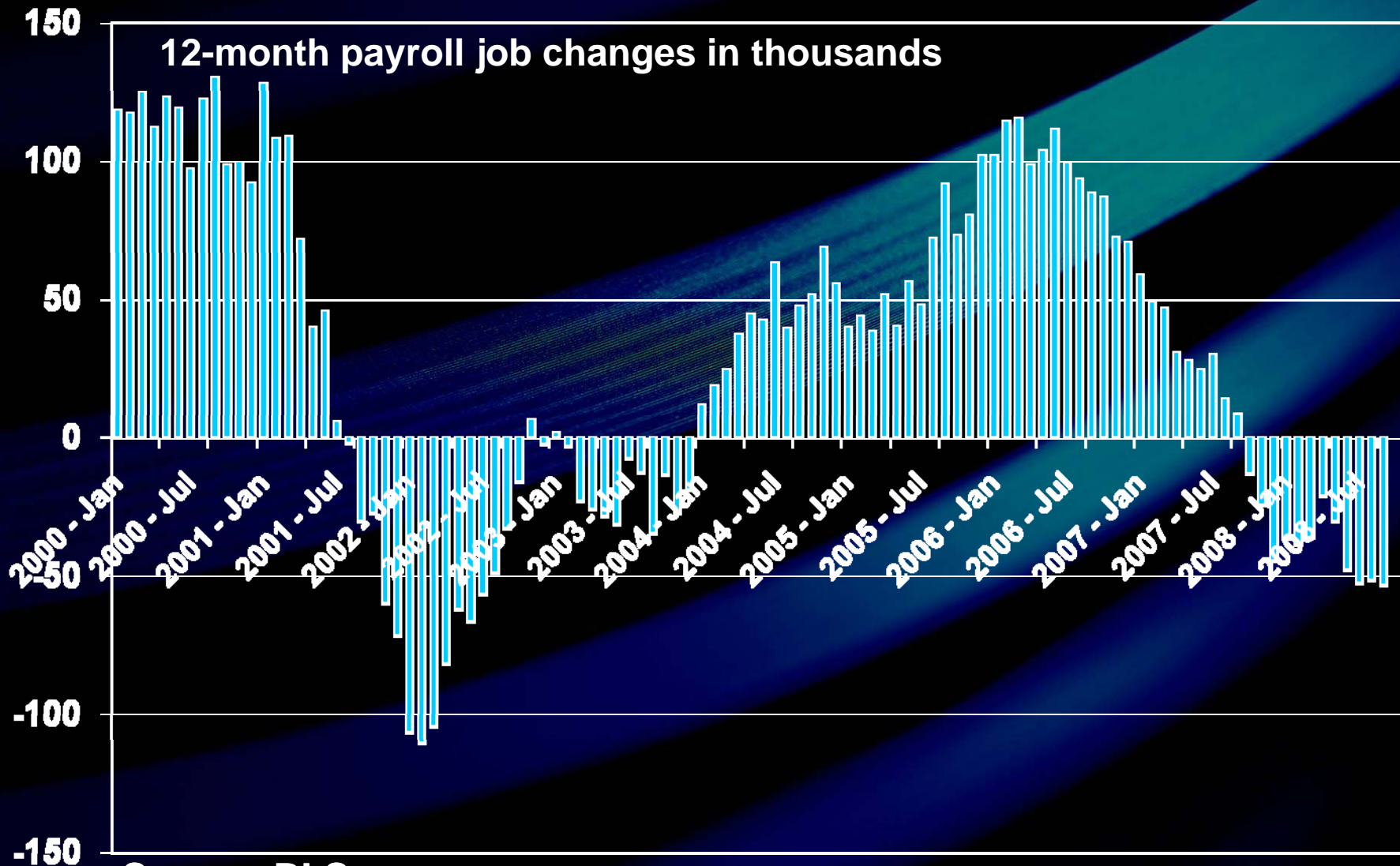
# Housing Affordability Index

(Higher numbers mean more people can afford to buy a home)



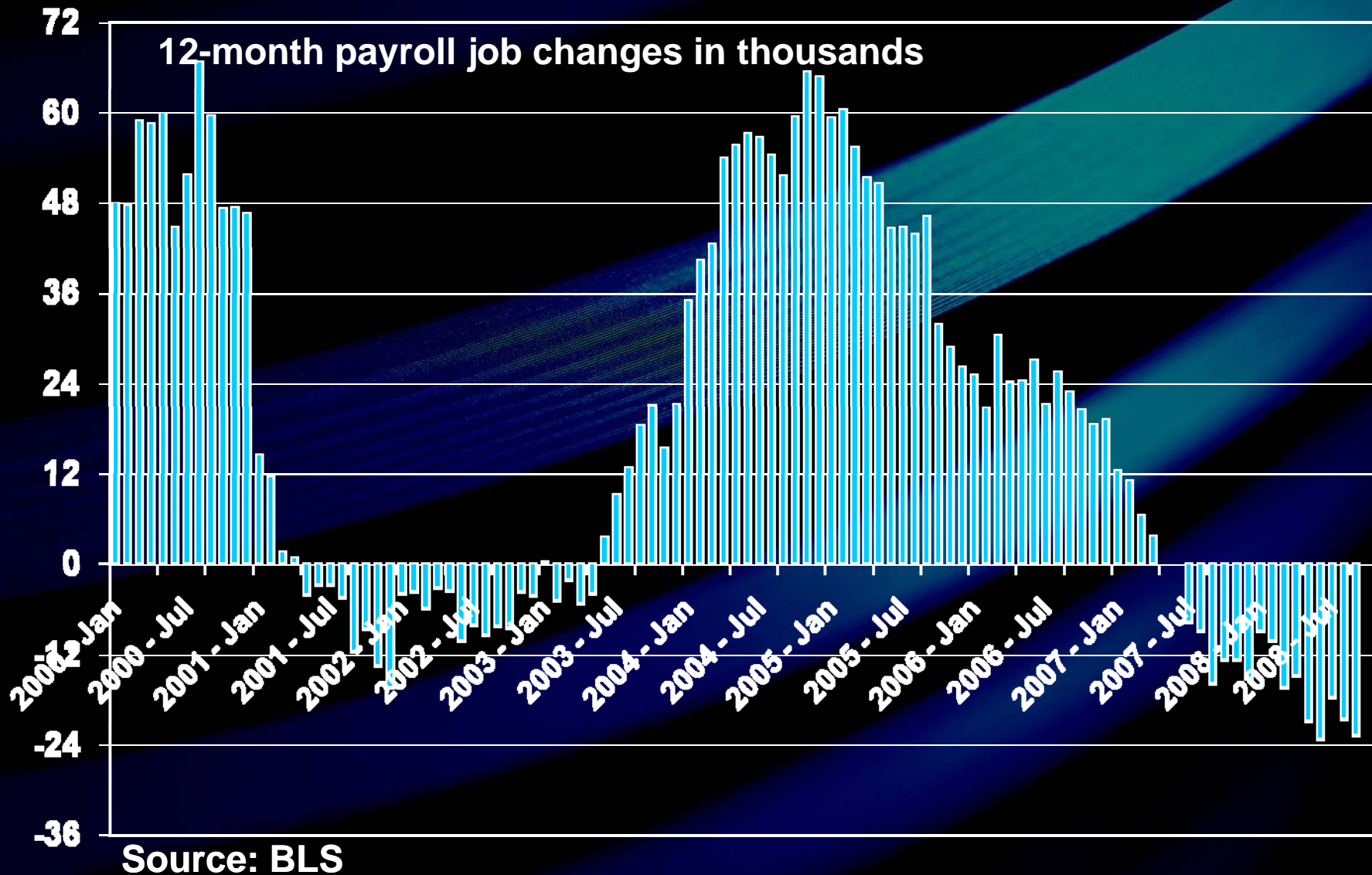
Source: NAR

# Job Changes in Los Angeles

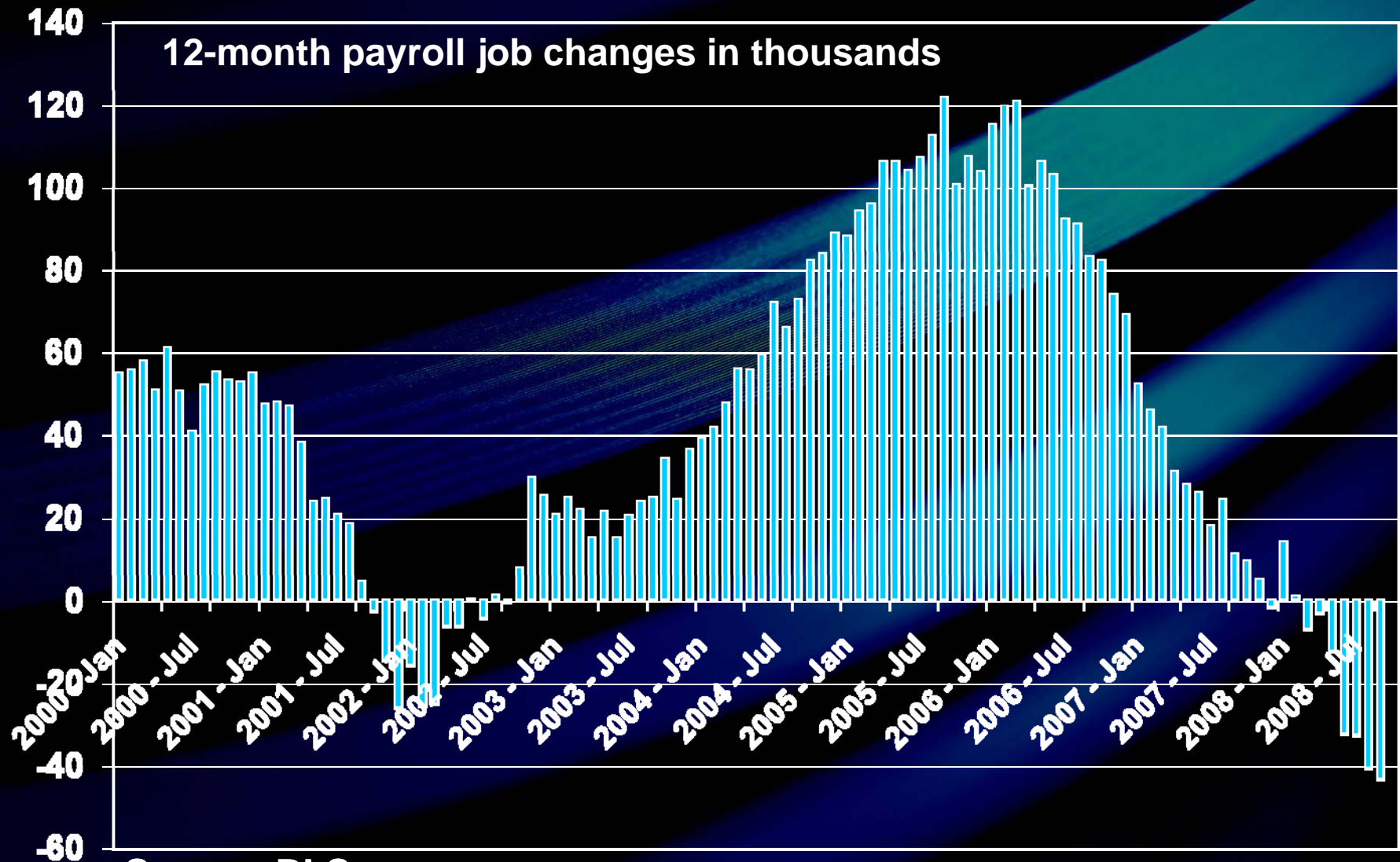


Source: BLS

# Job Changes in Tampa-St. Petersburg

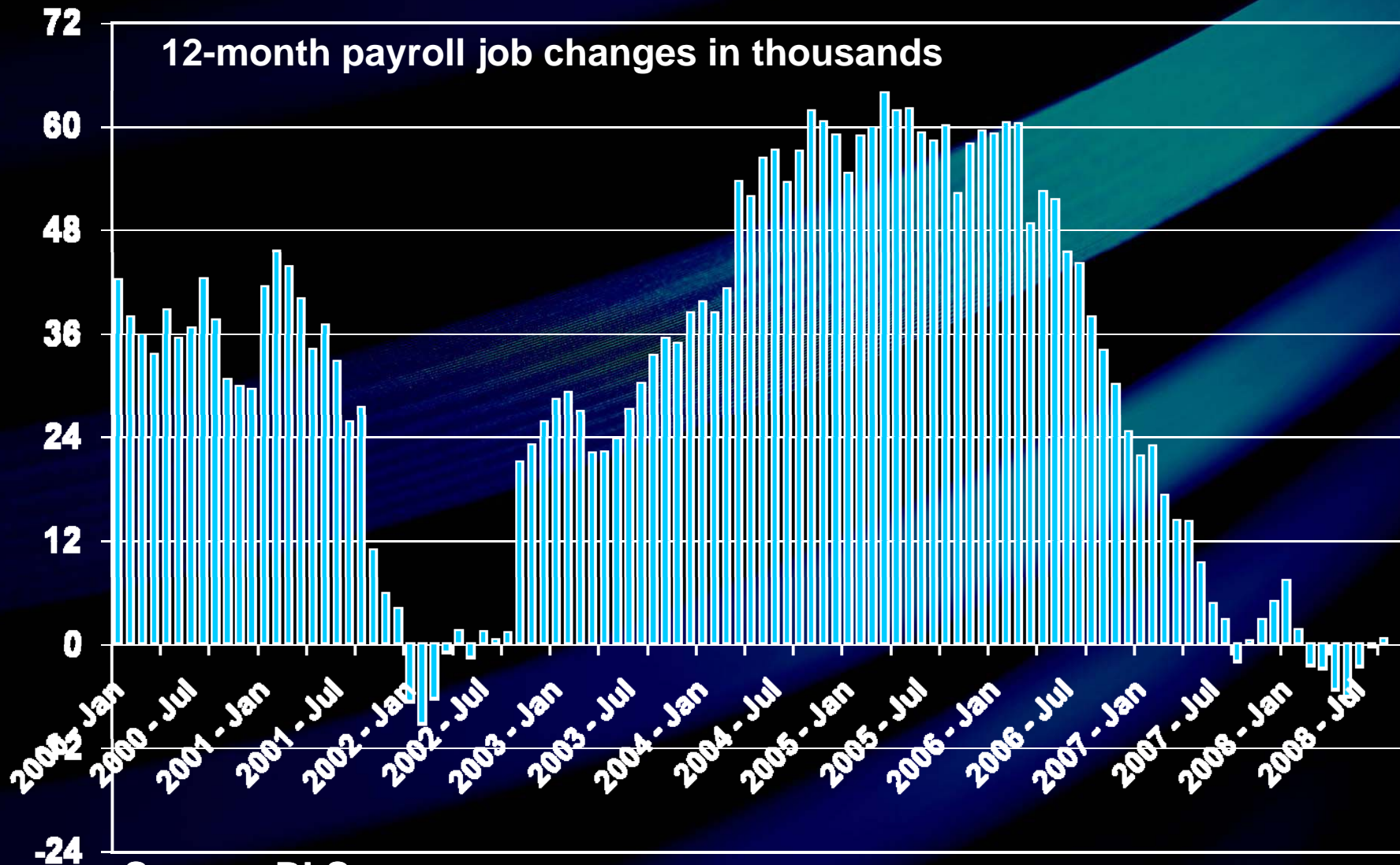


# Job Changes in Phoenix



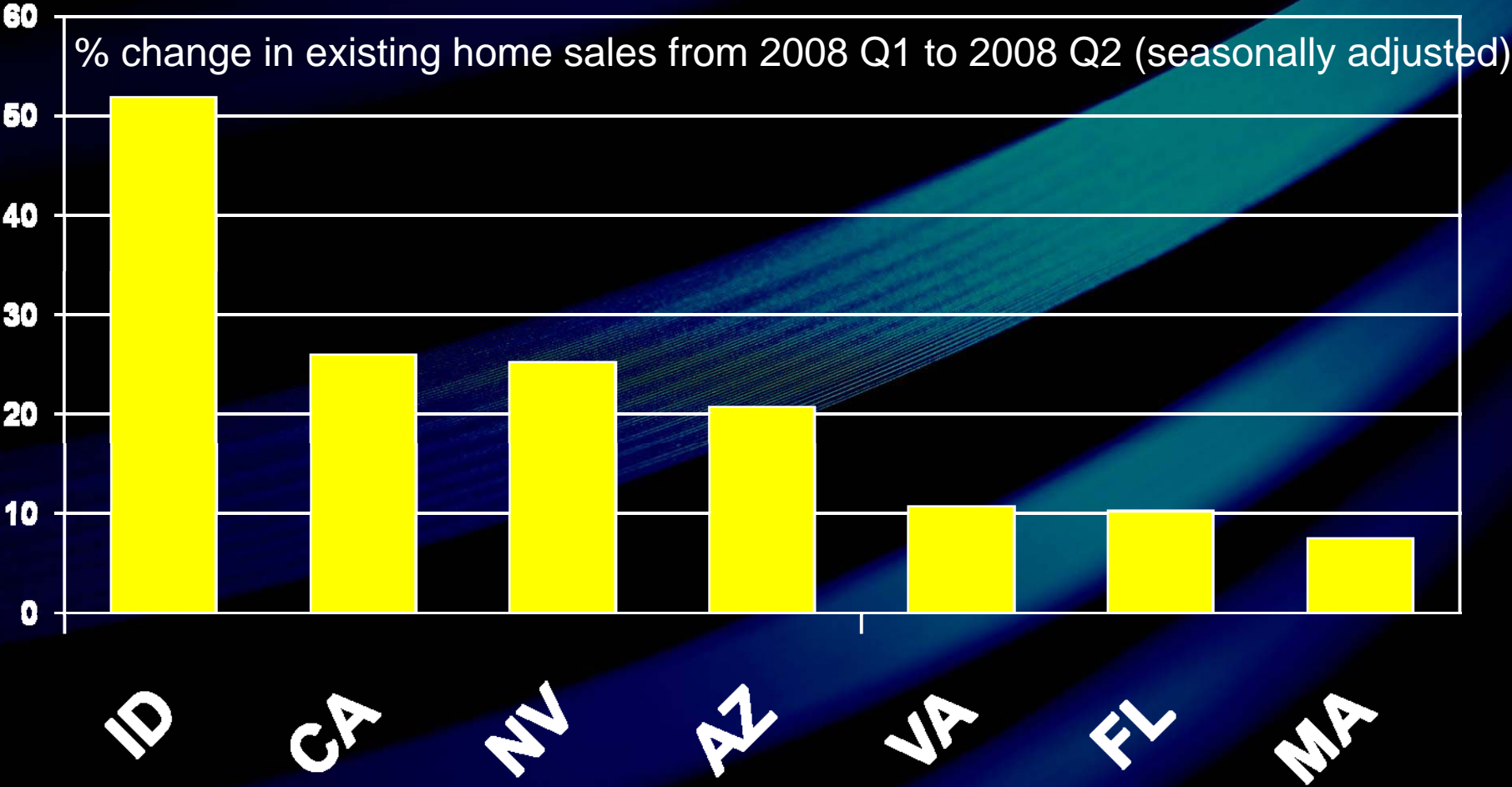
Source: BLS

# Job Changes in Las Vegas



Source: BLS

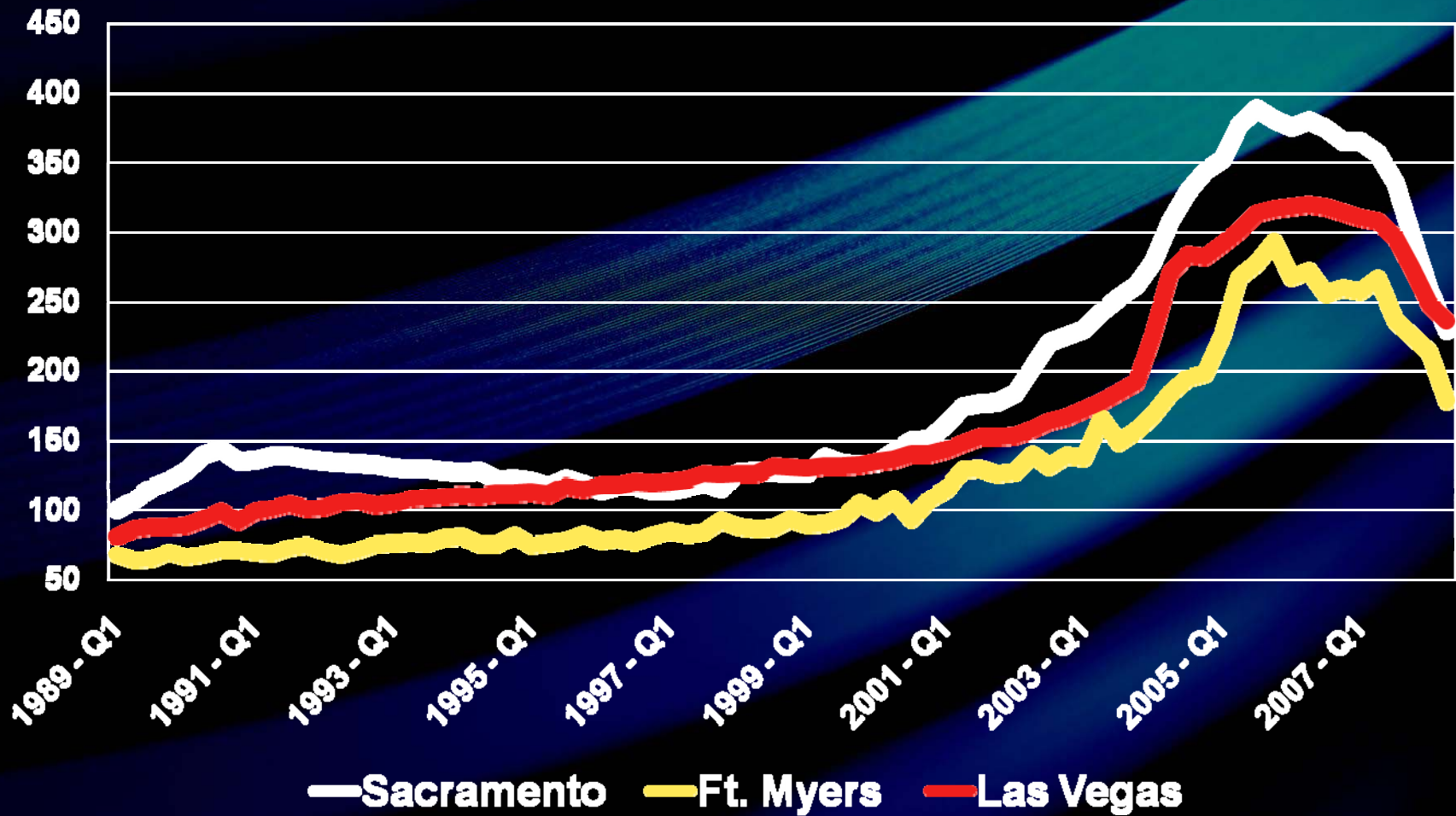
# Home Sales Starting to Recover from Improving Affordability Conditions



Source: NAR

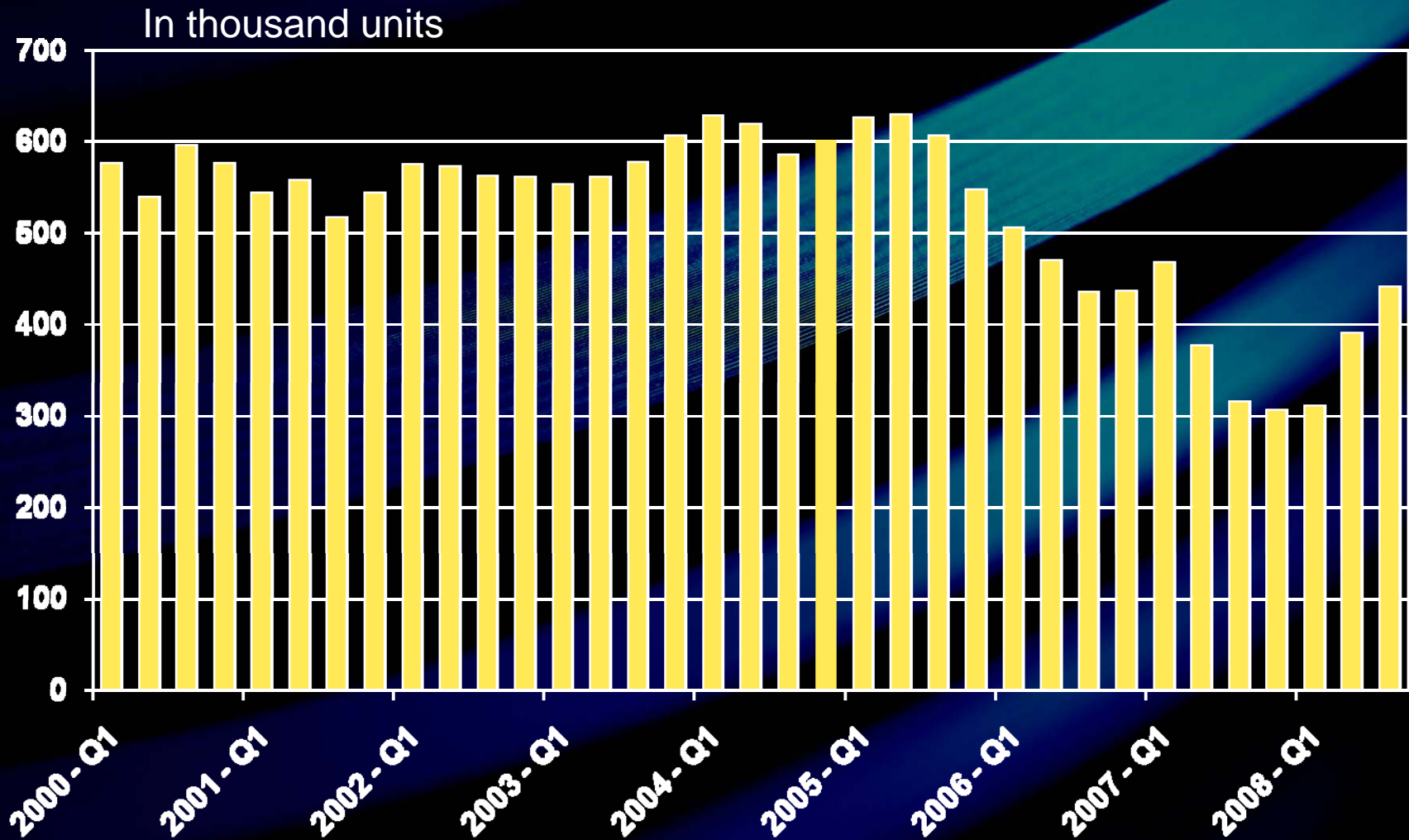
# Home Price Trend

Median Price in \$ thousand



Source: NAR

# California Existing-Home Sales



# Sales Still Struggling

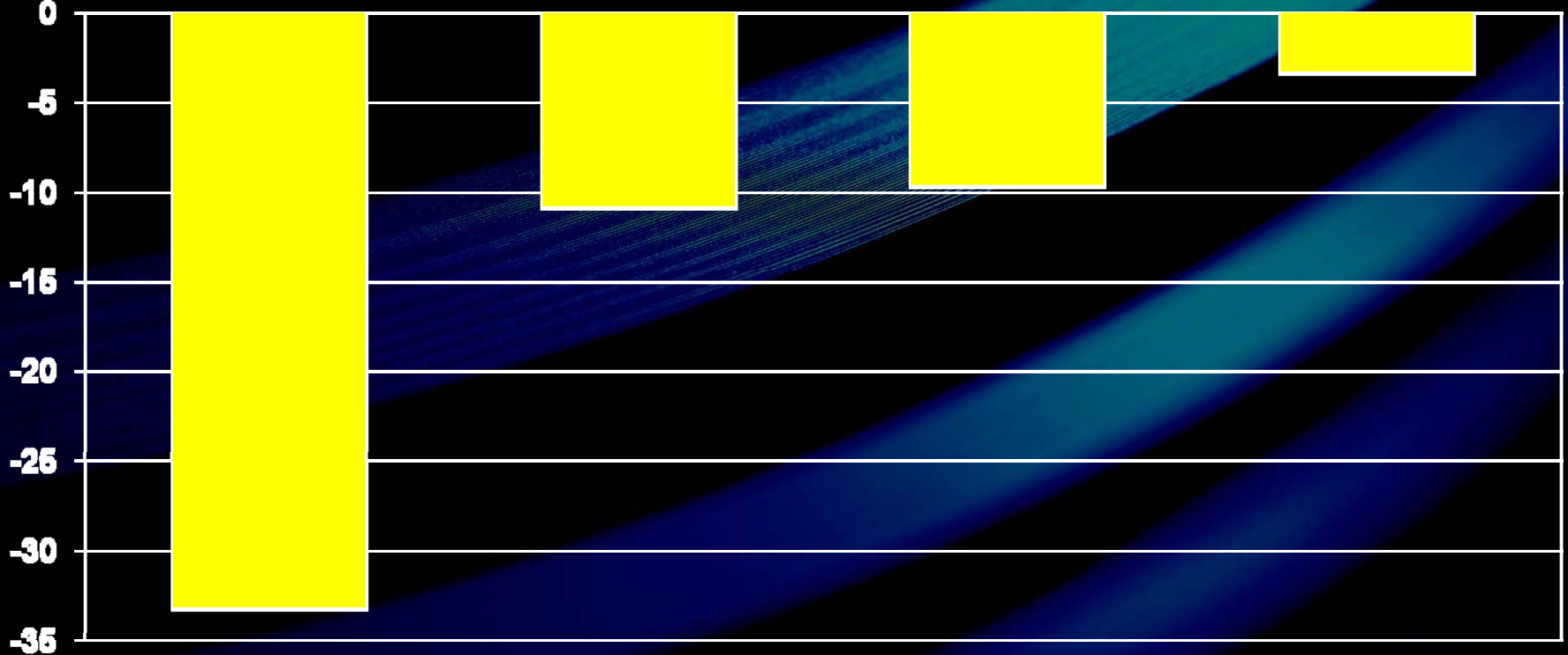
AK

WA

NC

TX

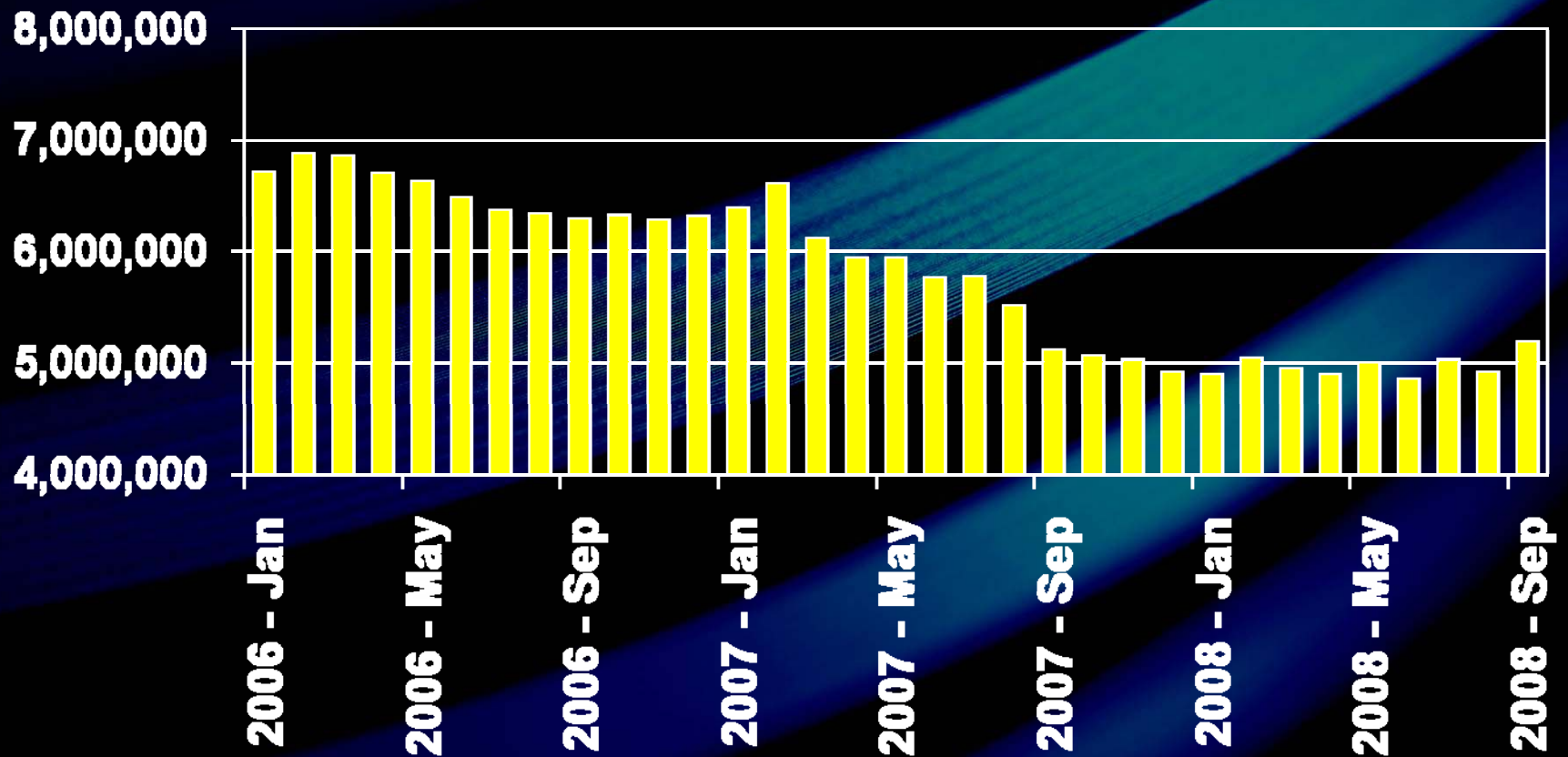
% change in existing home sales from 2008 Q1 to 2008 Q2 (seasonally adjusted)



Source: NAR

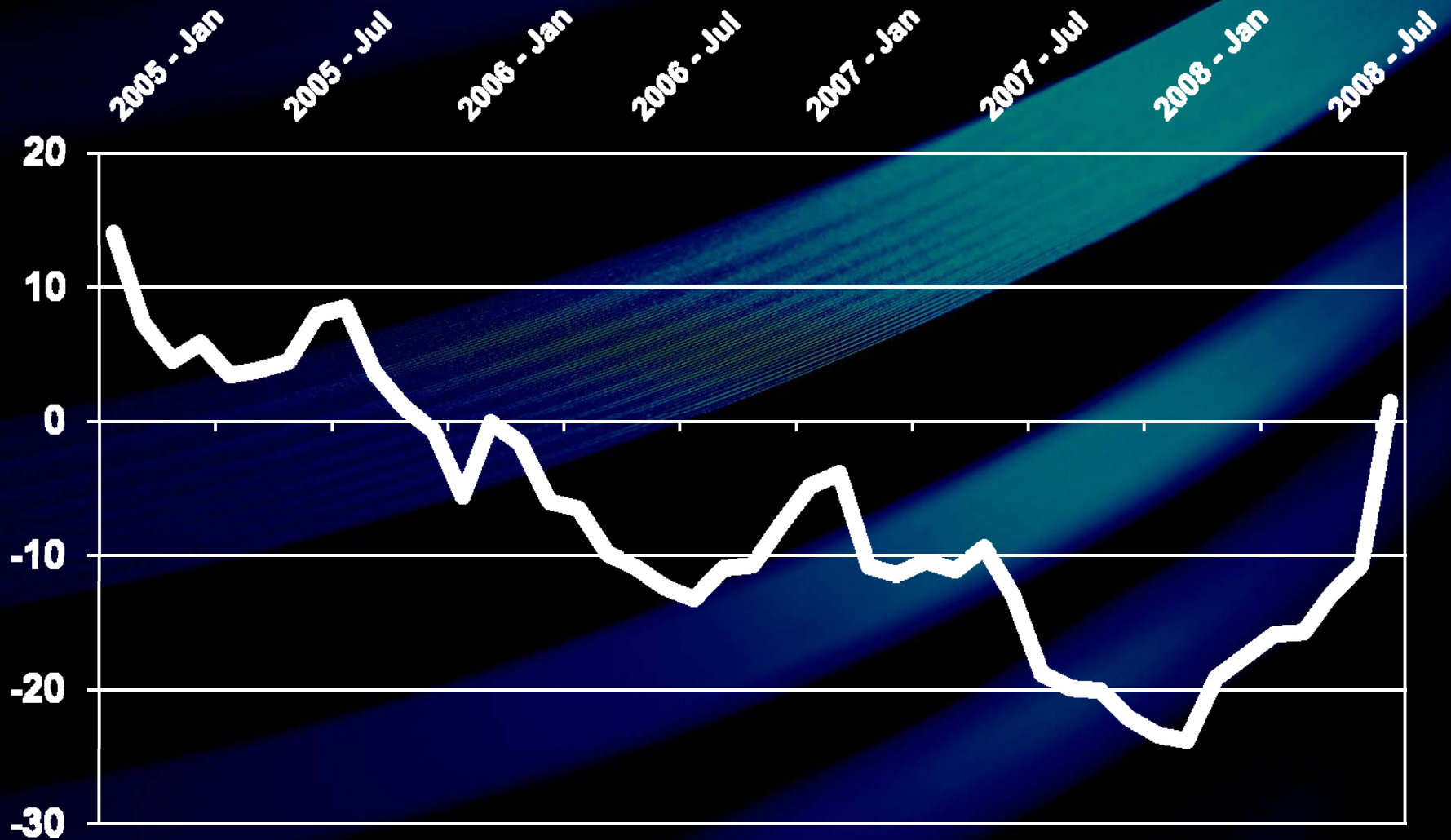
# National Total Existing-Home Sales

(Up markets + Down markets = Stable total)

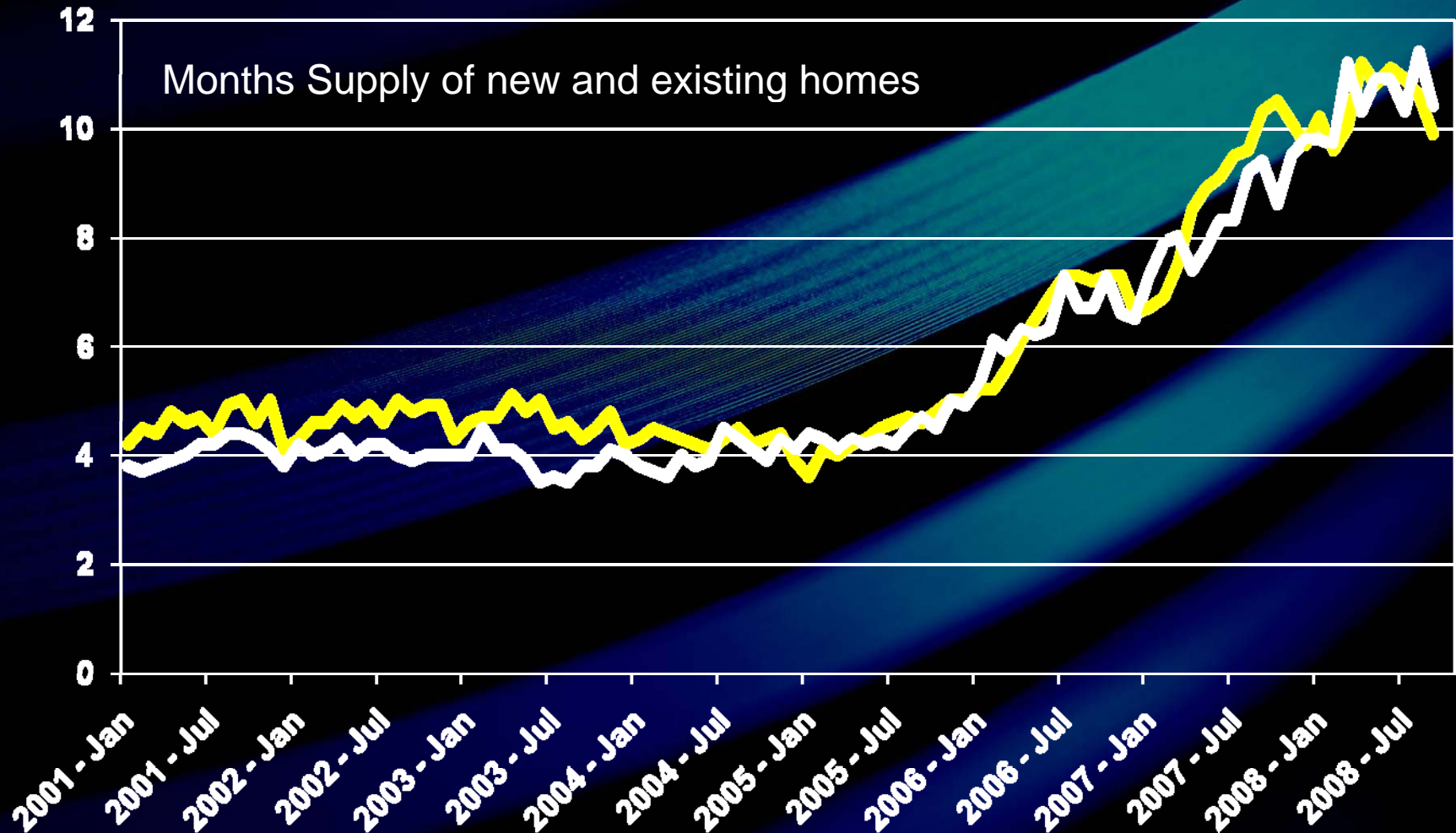


# Total Existing-Home Sales Change

(% change from a year ago)

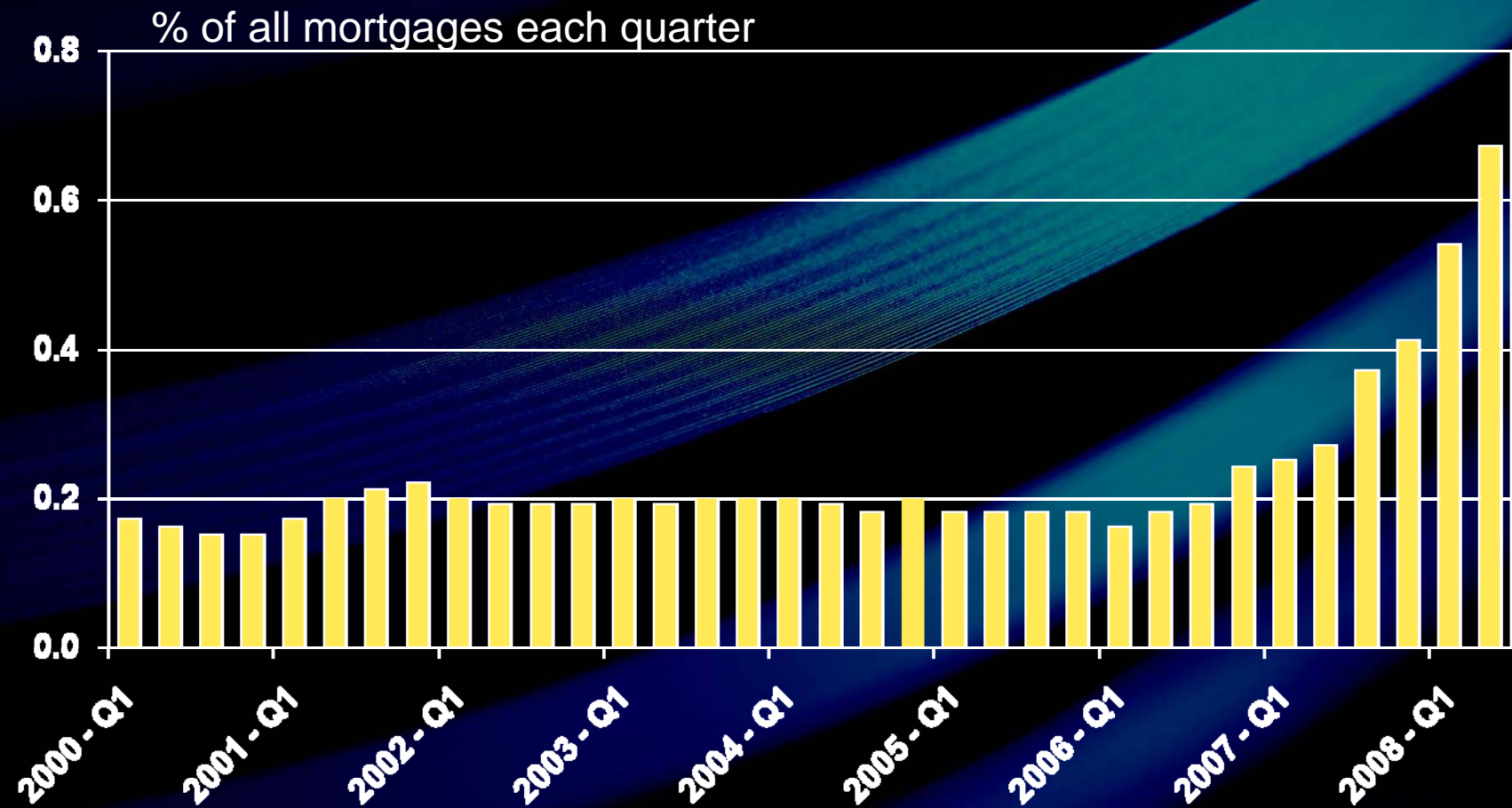


# Inventory Still High



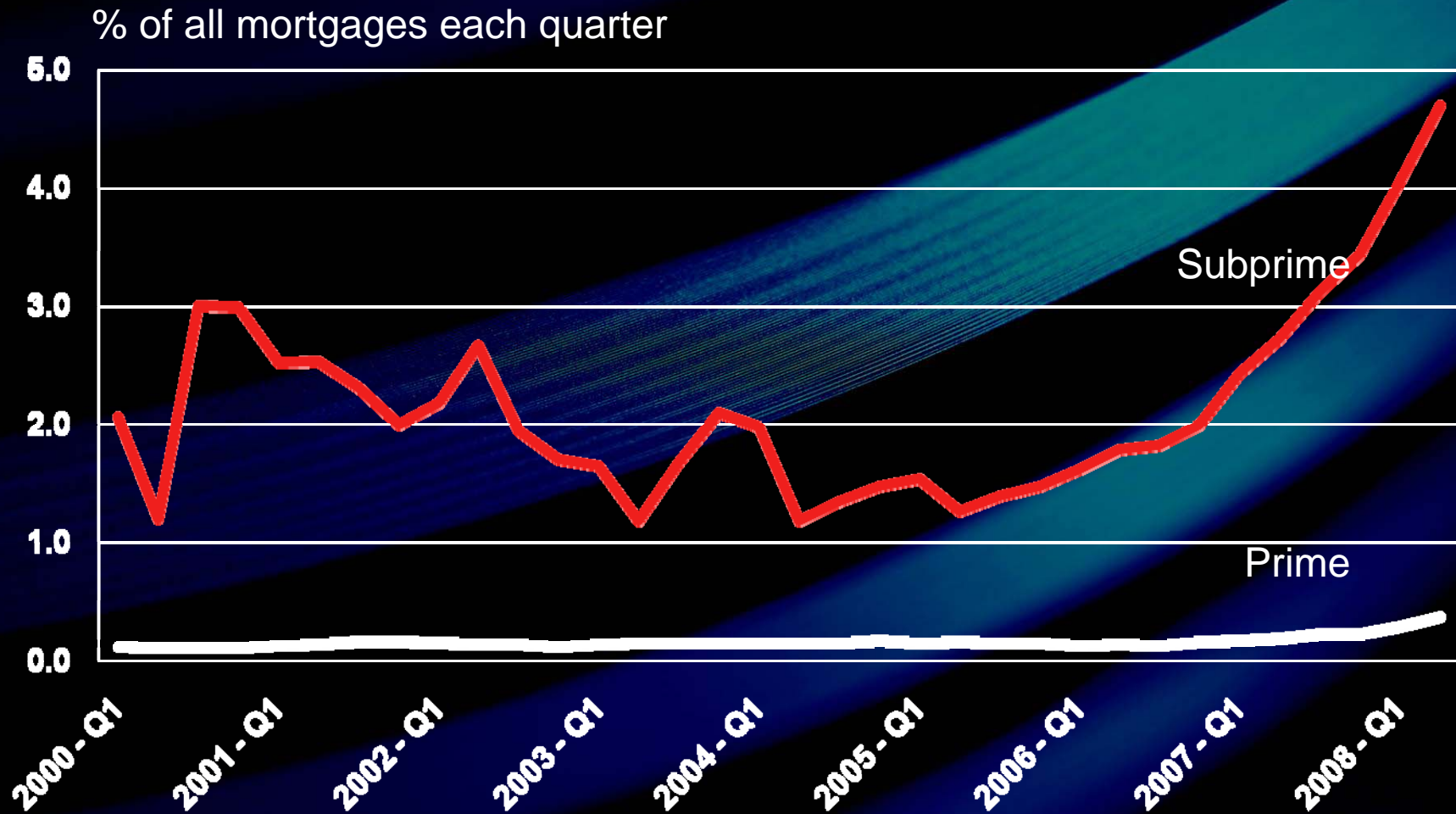
Source: NAR, Census

# Foreclosure Starts



Source: Mortgage Bankers Association

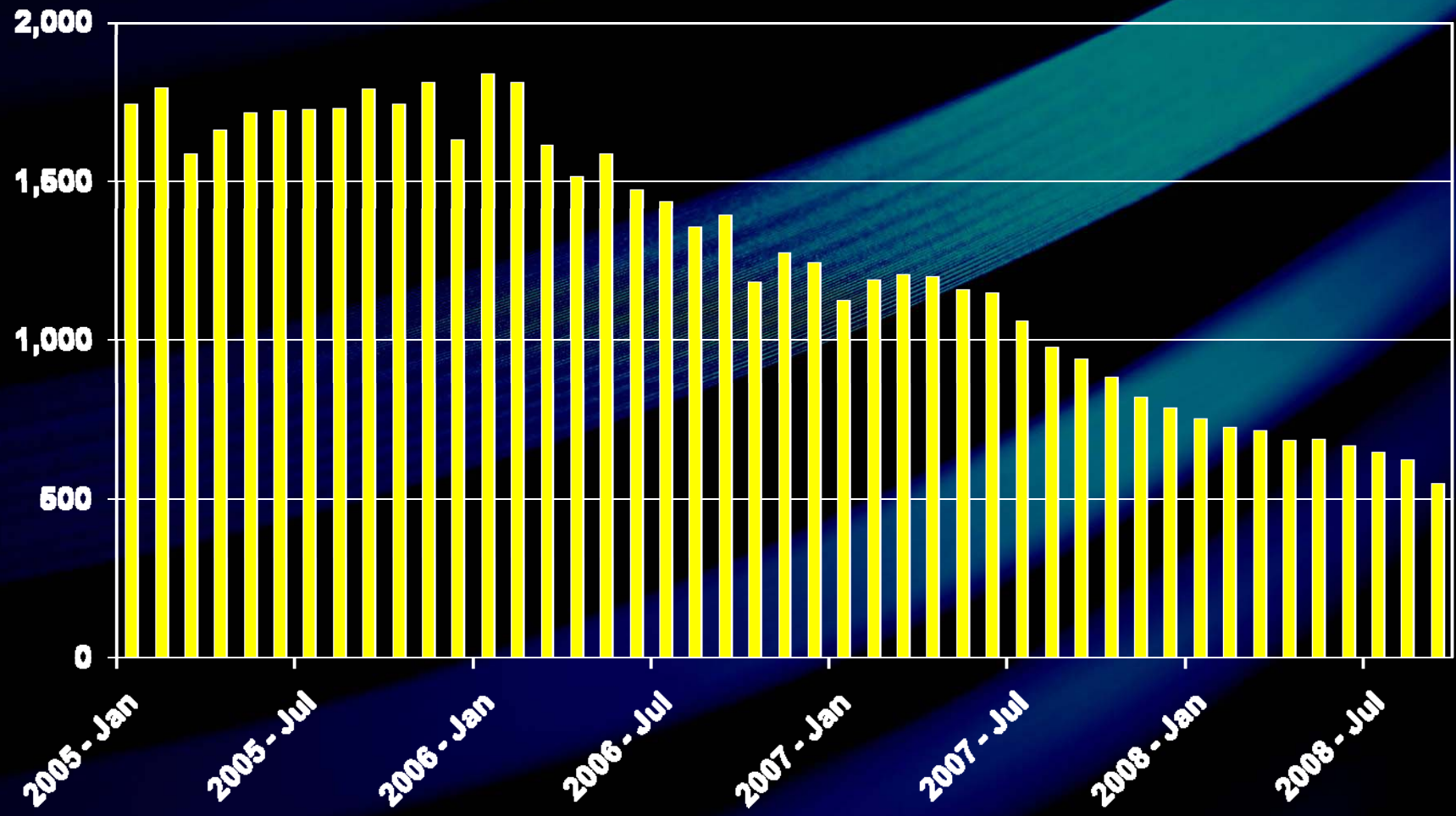
# Foreclosure Starts: Prime vs. Subprime



Source: Mortgage Bankers Association

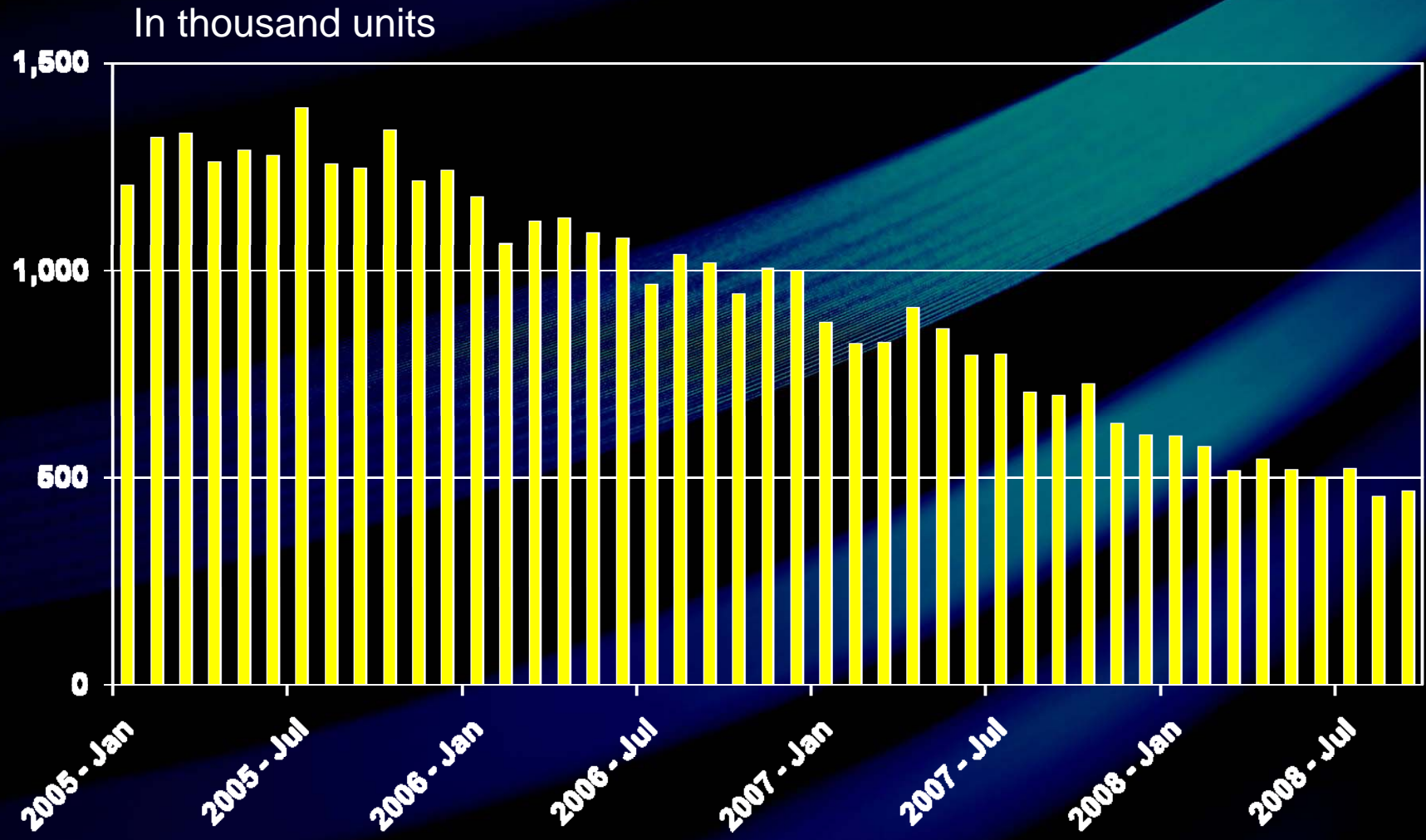
# U.S. Single-Family Housing Starts

In thousand units



Source: Census

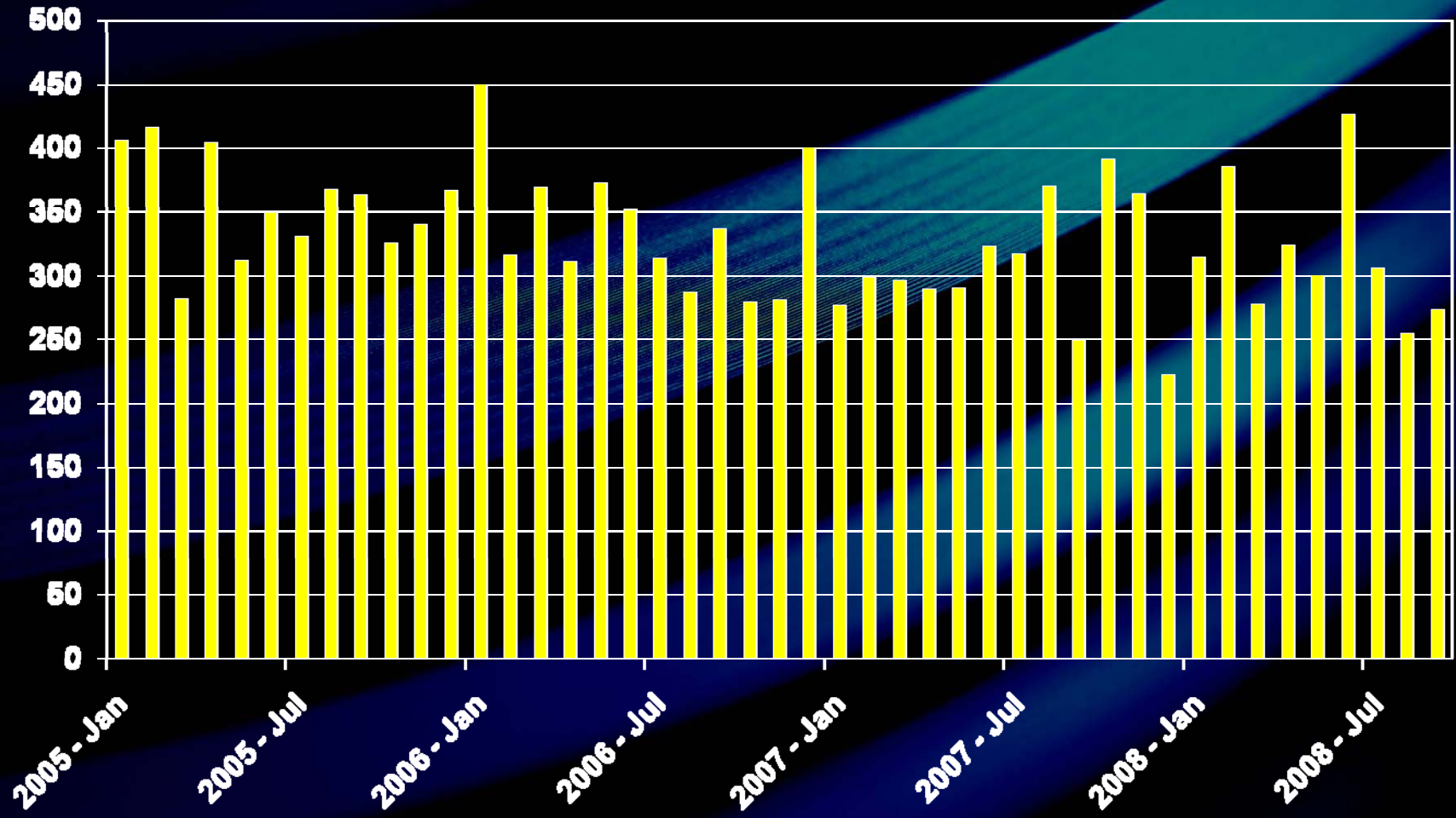
# New Home Sales



Source: Census

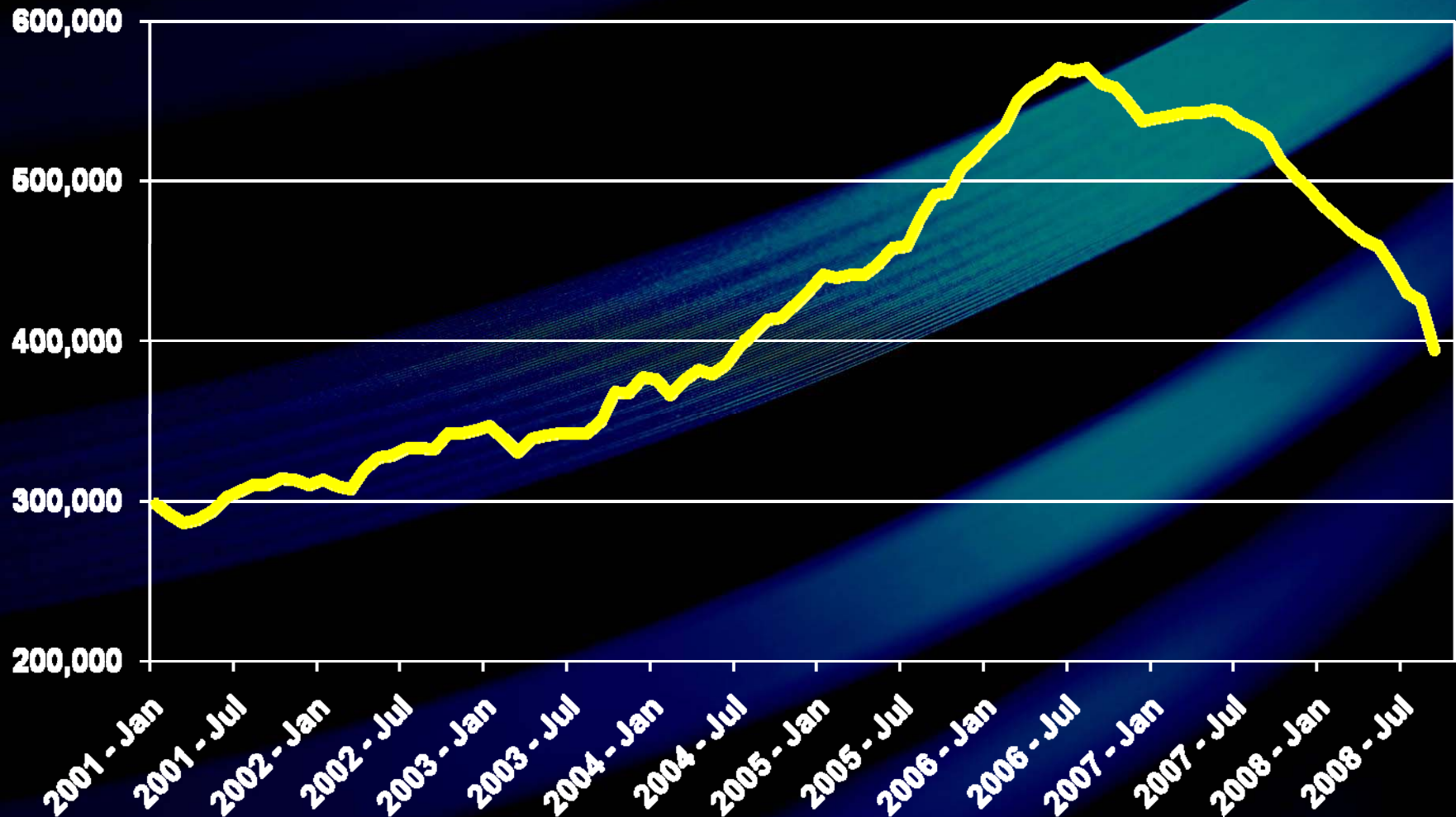
# U.S. Multifamily Housing Starts

In thousand units



Source: Census

# Inventory of New Vacant Homes Falling



Source: Census

# Buyers are Needed to Soak Up Inventory

- **First-time Homebuyer Tax Credit**
  - Without repayment feature
- **Permanently higher Loan Limit**
  - Up to \$729 K
- **Interest Rate Buy-down**
  - Fixed low rates for homebuyers with government subsidizing rates
- **Other Ideas**



# Government in Action

- **Bear Stearns, Lehman, AIG**
- **Fannie/Freddie Takeover**
- **\$700 billion Troubled Asset Relief Program**
  - **To Save Capitalism?**
  - **To Help Clear Mortgages?**
    - **Quickly re-modify mortgages**
    - **Expedite Short-Sales**
  - **To Help Banks? Auto Industry?**
- **Fed Rate Cut**
- **New Economic Stimulus**
- **What about a plan to soak up inventory ...  
address the source of the problem**



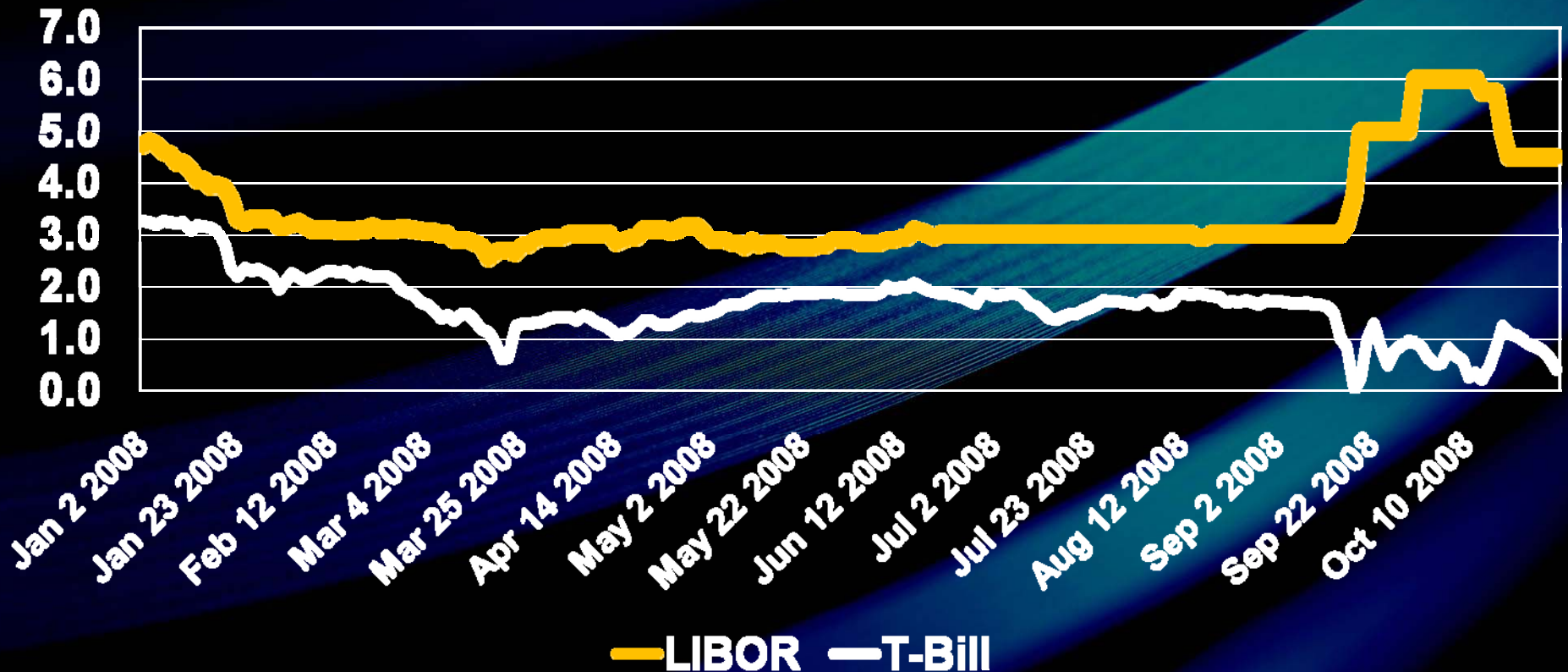
# Sober Up Wall Street

- Establish Sound Leverage Ratios
- Establish Sound Capital Ratios
- Watch Off-Balance Sheet
- Post Bonds for Credit Default Swaps
- Reform and Bring Competition to Credit Rating Agencies
- Until the Next Bubble and Crisis



# Credit Freezes

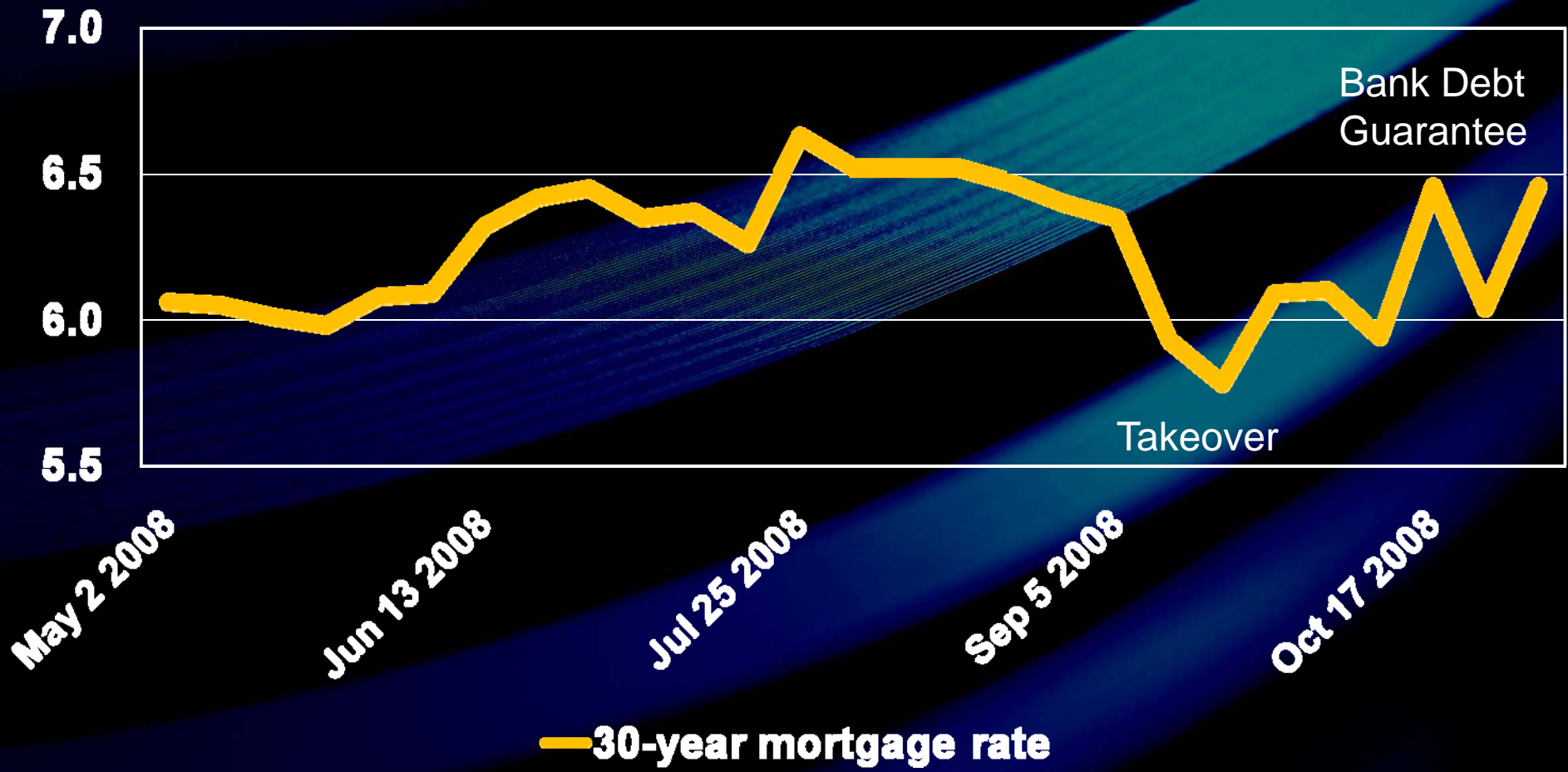
## 3-month LIBOR vs T-Bill



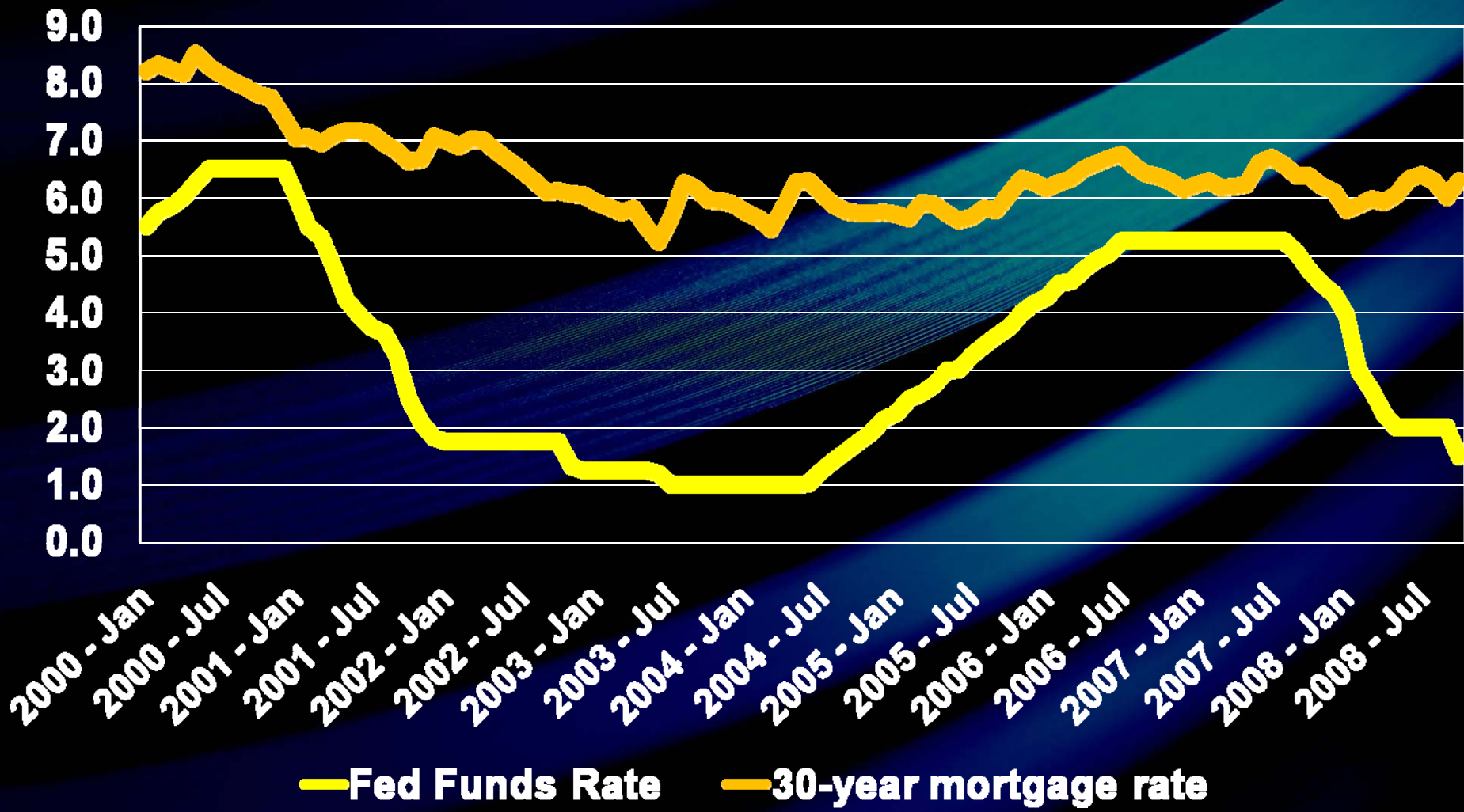
- Is there enough cash to last through the month?
- Can profitable small business borrow to expand?
- Will my car insurance pay up after an car wreck?

# Takeover and Mortgage Rates

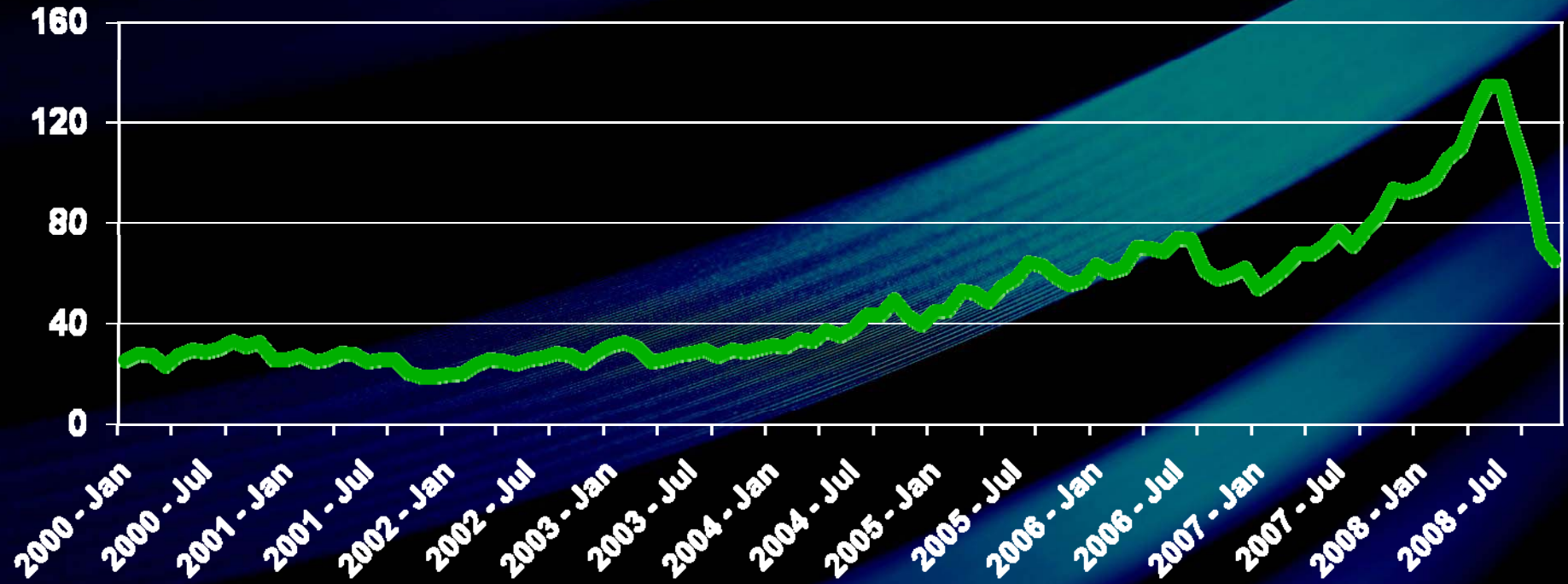
## 30-year mortgage rate



# Fed Rate Cut



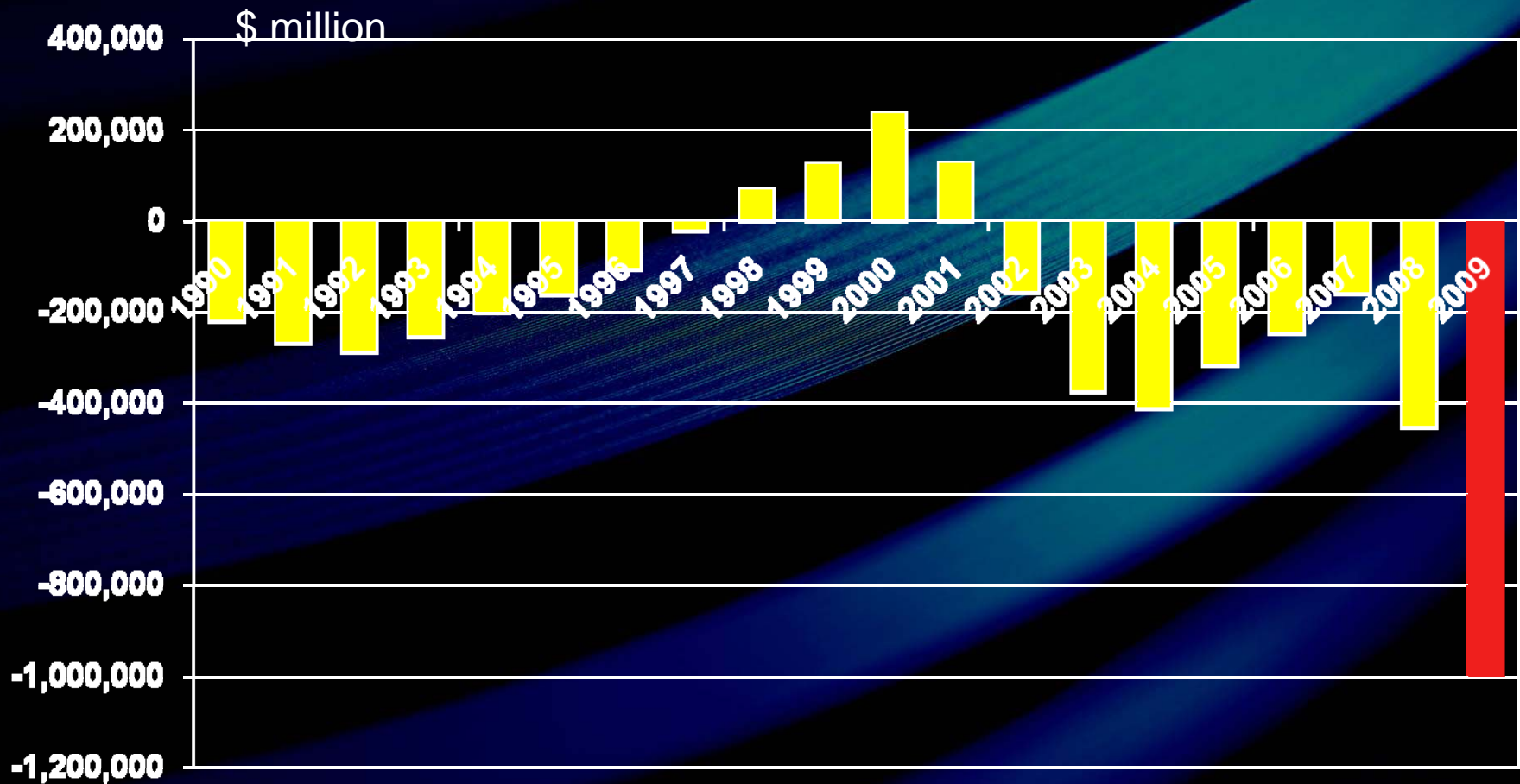
# Next Bubble Has Already Popped (Oil Price)



## Bubble Signs

- Same reasons given for small or big price gains
- Active buying in hopes of selling to the next guy (fool)

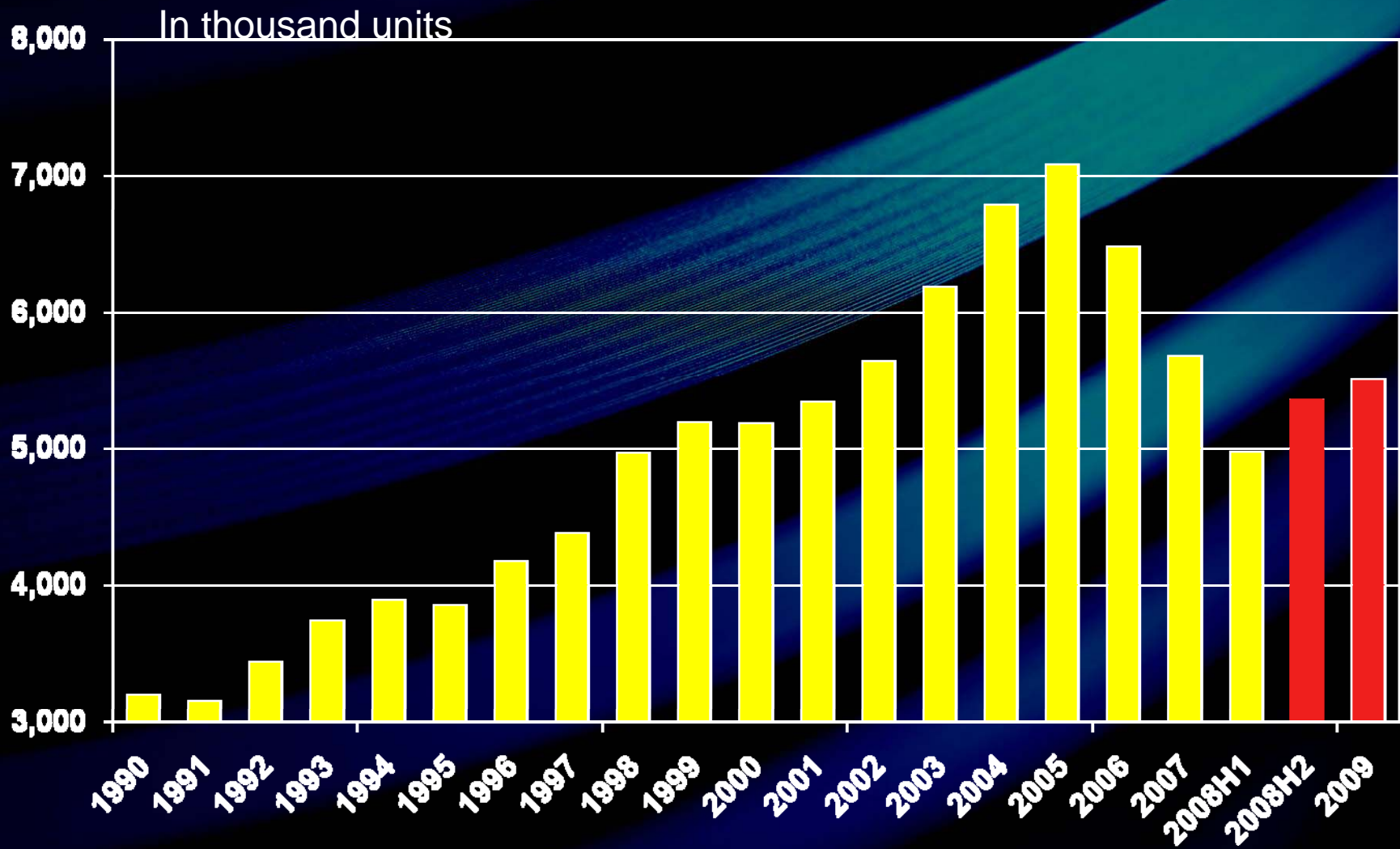
# Federal Budget Deficit



# Economic Outlook

	2007	2008	2009
<b>GDP</b>	2.0%	1.5%	-0.3%
<b>CPI Inflation</b>	2.9%	4.1%	2.0%
<b>Unemployment Rate</b>	4.6%	5.7%	6.7%

# National Existing-Home Sales at 1998 levels



# Home Price Forecast

- **Falling inventory will help stabilize prices**
  - Watch out for Denver and Houston on fundamentals
  - Watch out for CA, NV, AZ, and FL on multi-bids
  - Watch out for Pittsburgh, Indianapolis, Cincinnati, and Upstate NY once jobs come around
- **Stable or rising prices are good for recent buyers**
- **But what about the 12 million “underwater” homeowners?**

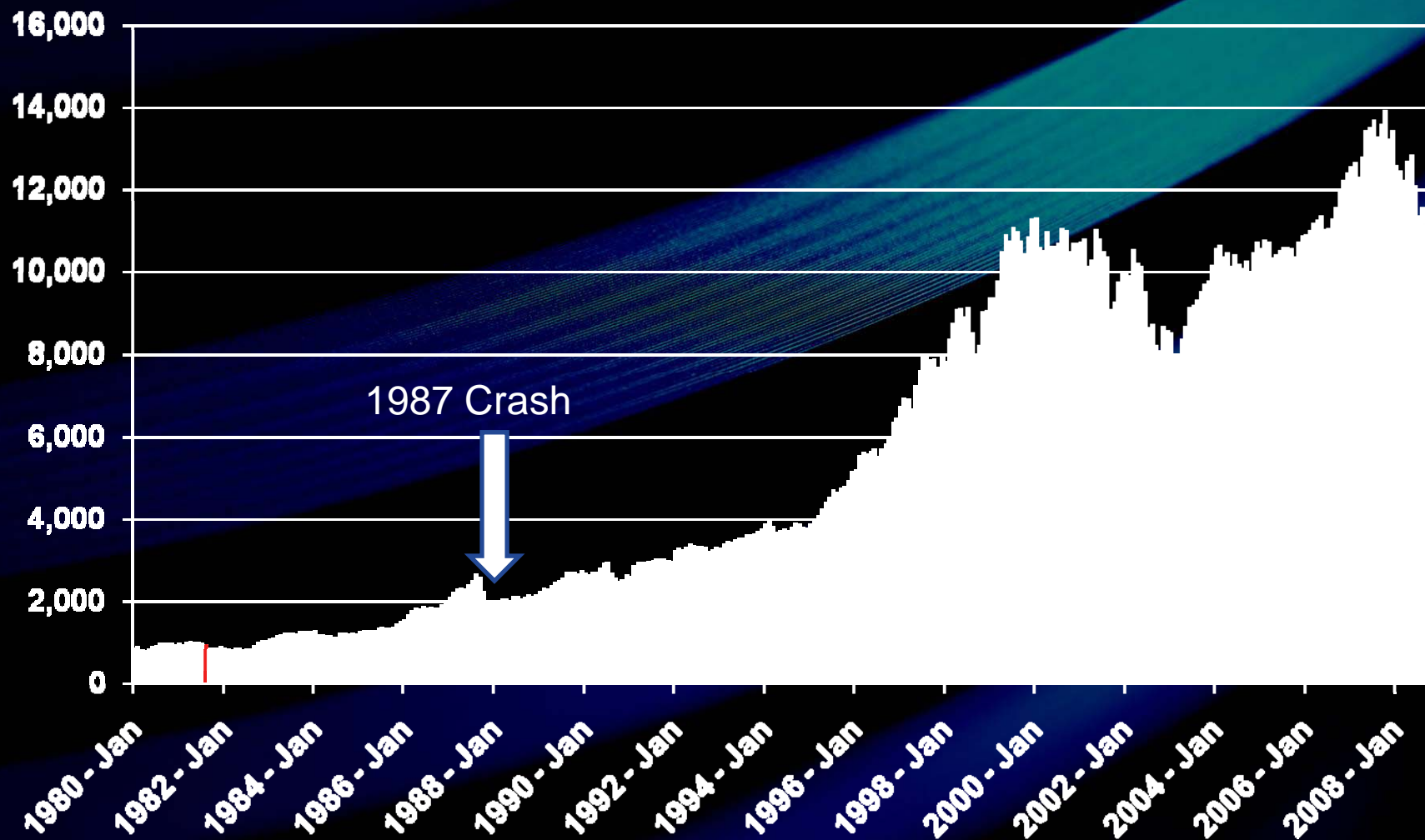


# Latest Data

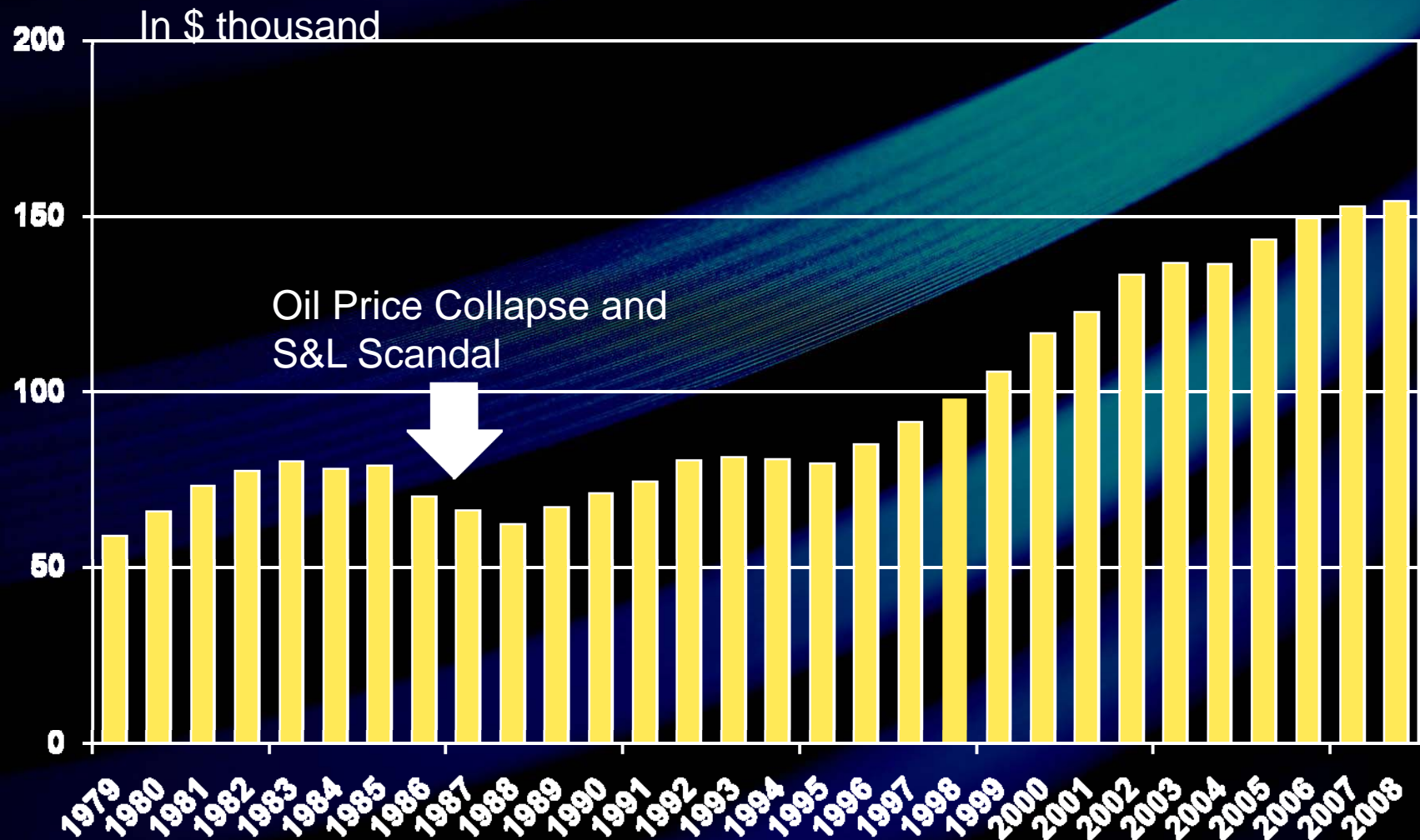
- Homeowner vacancy rate
- Rental vacancy rate
- Household formation
- Distress Sales at about 35% to 40%
- Speculative/Vulture Sales?
  - 80% of recent buyers are for primary ownership
- Stronger Dollar
- Global Economic “Recession”



# Rebound Happens: Dow Jones



# Rebound Happens: Houston Home Price



# Sharp or Modest Rebound?

- Depends on all of us:
  - Press for new housing stimulus bill
  - If financially ready, buy a home and get that special tax break
  - Mortgage rates off rock-bottom points but still historically favorable
  - Though no guarantee, buying a home has been a path to long-term wealth accumulation in a vast number of cases
  - U.S. homes are on a big-time sale, own a piece of America

