

# **Market Trends and Forecasts**

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**NATIONAL ASSOCIATION OF REALTORS®**

**Presentation at Tucson Association of REALTORS®  
Tucson, AZ**

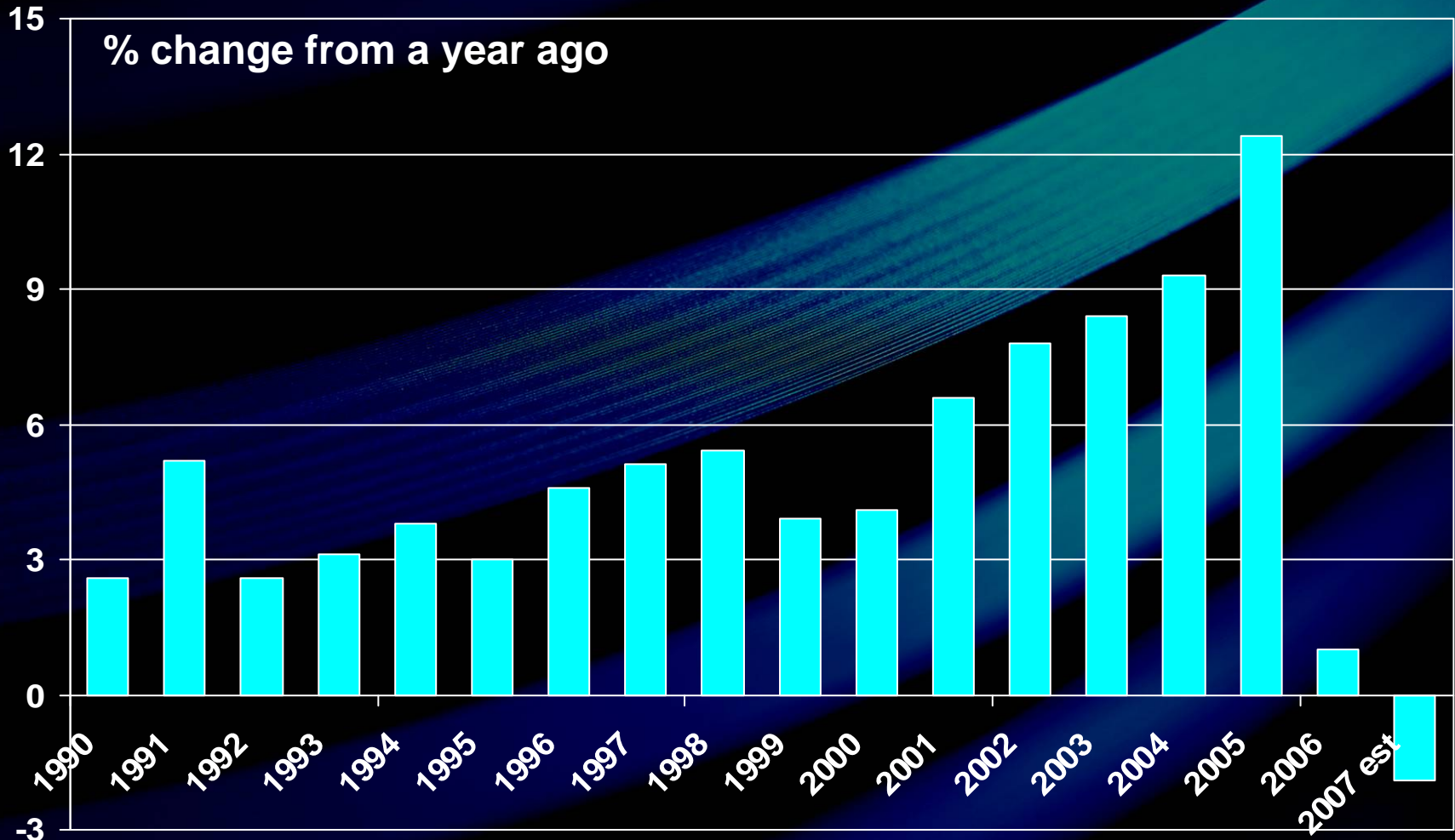
**January 9, 2008**



# **Housing Recession in 2007**

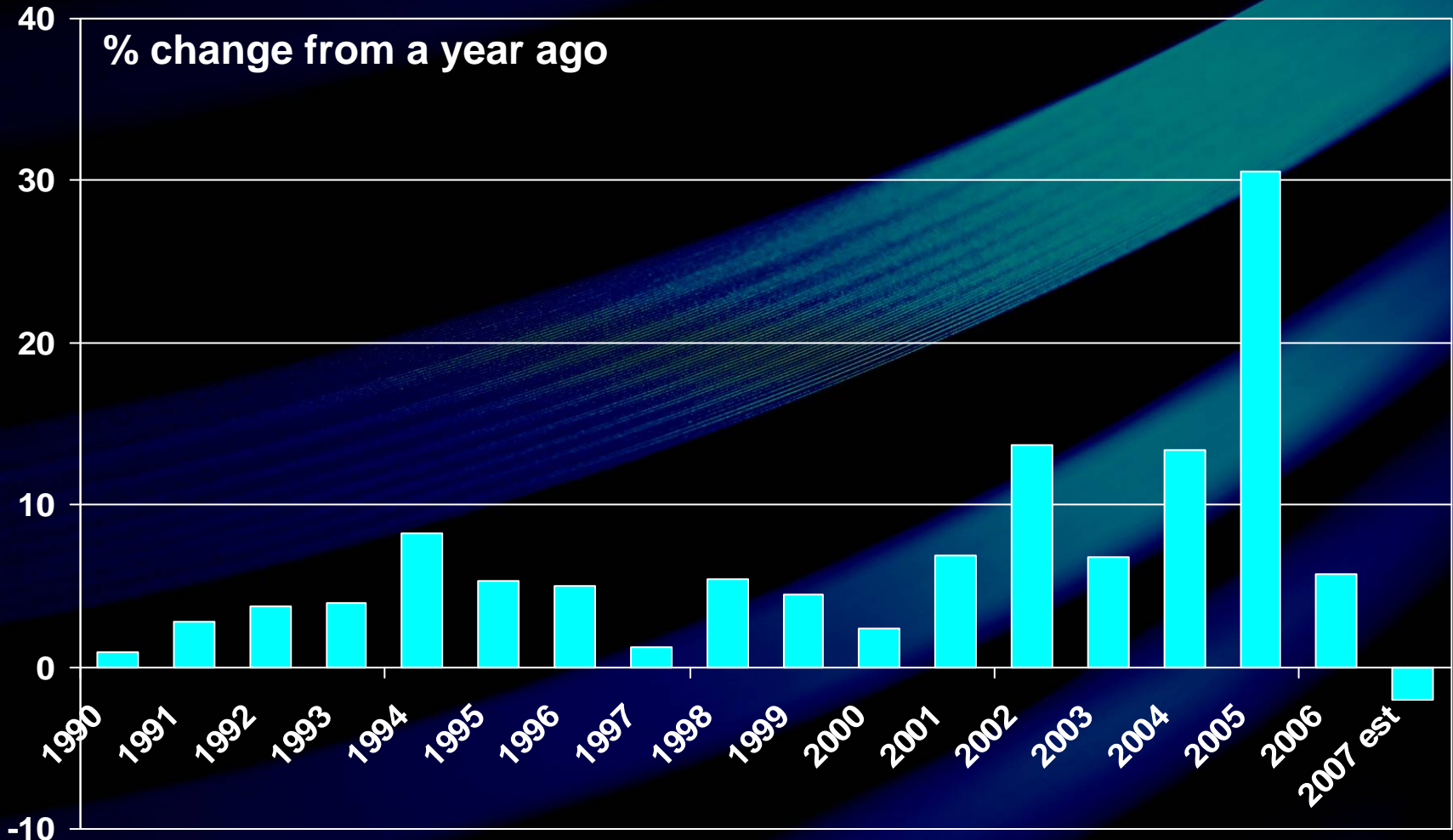
**Year of Challenge**

# National Home Price Growth



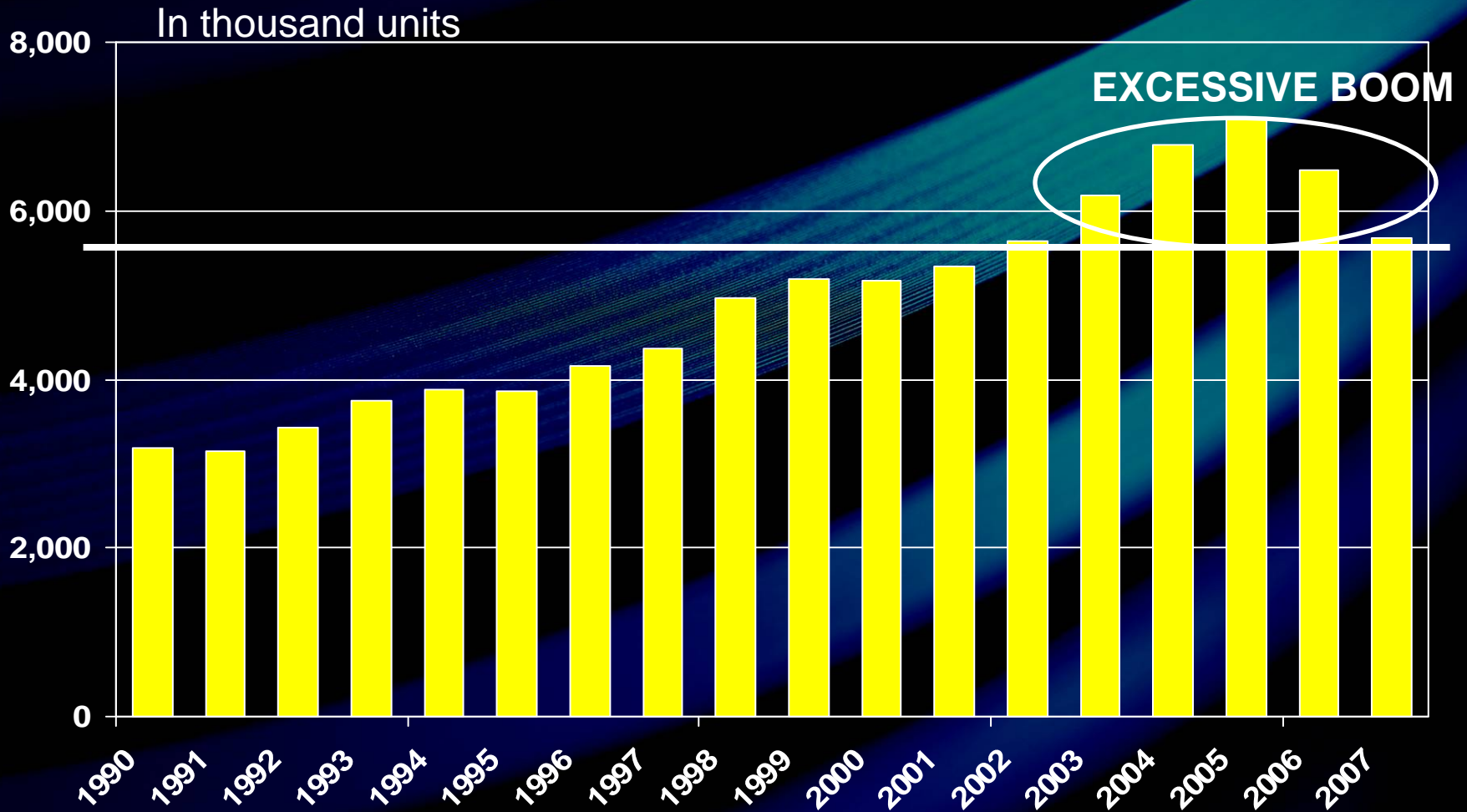
Source: NAR

# Tucson Home Price Growth



Source: NAR

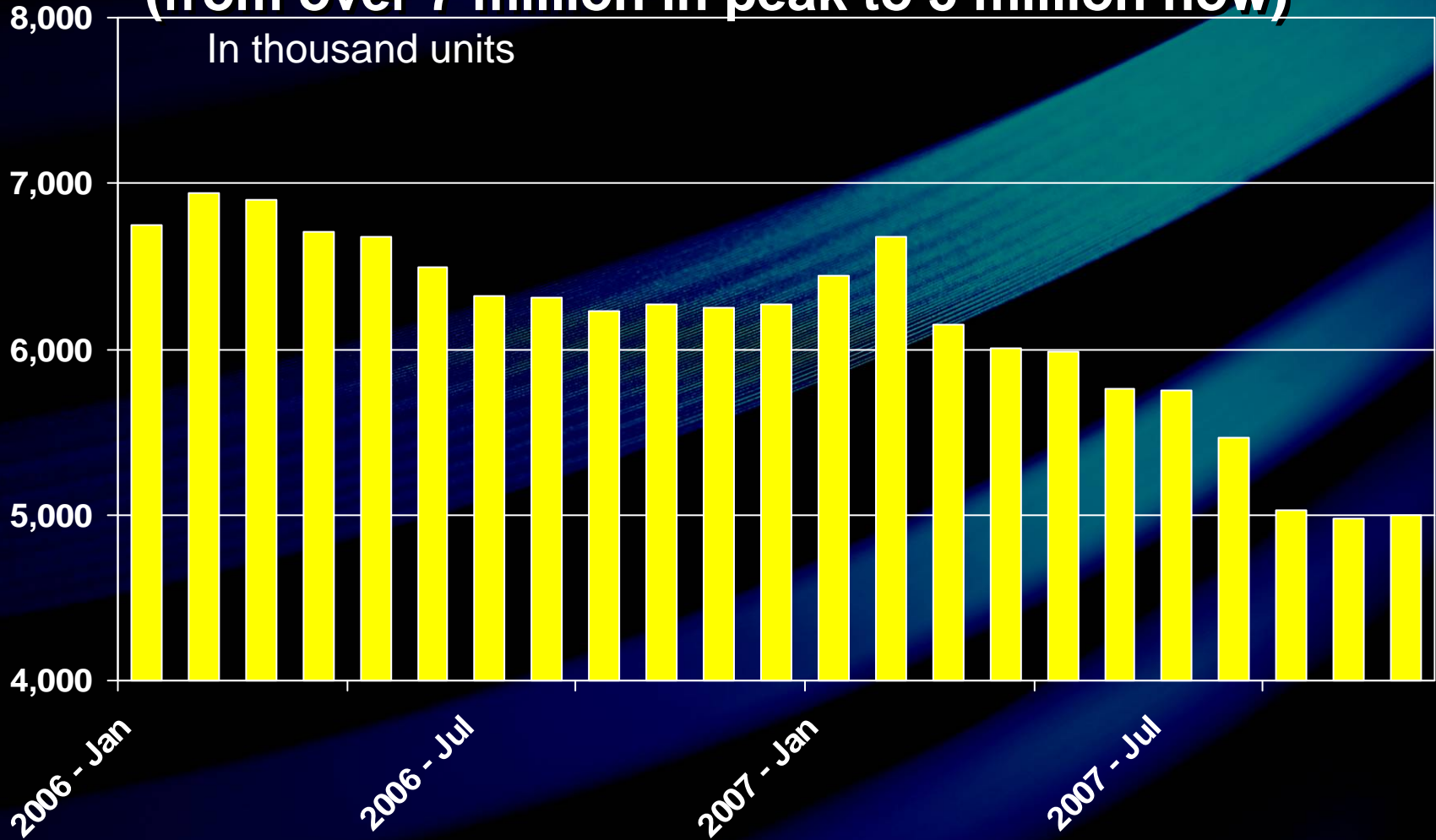
# Annual Existing-Home Sales



Source: NAR

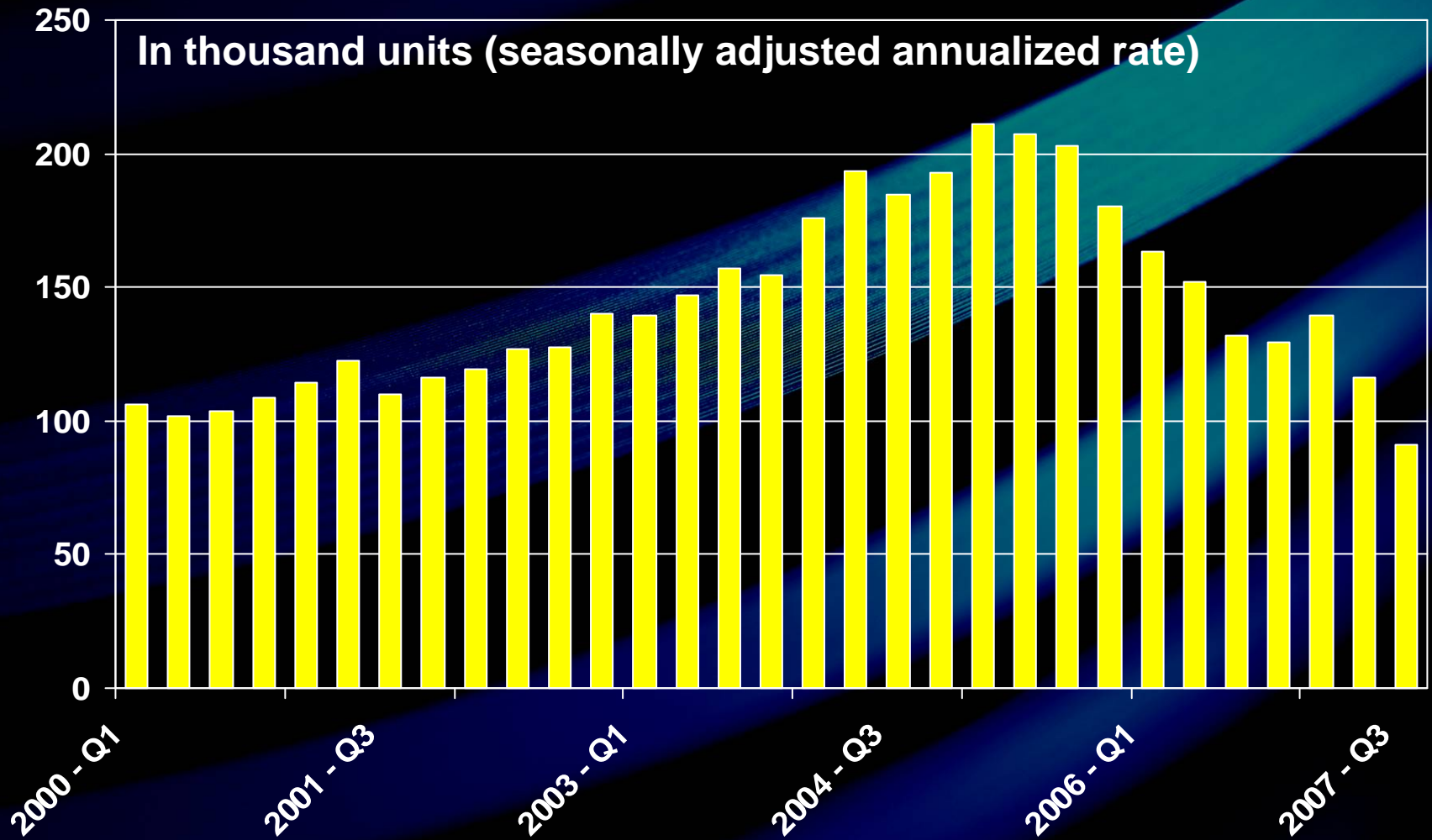
# Monthly National Existing-Home Sales

(from over 7 million in peak to 5 million now)



Source: NAR

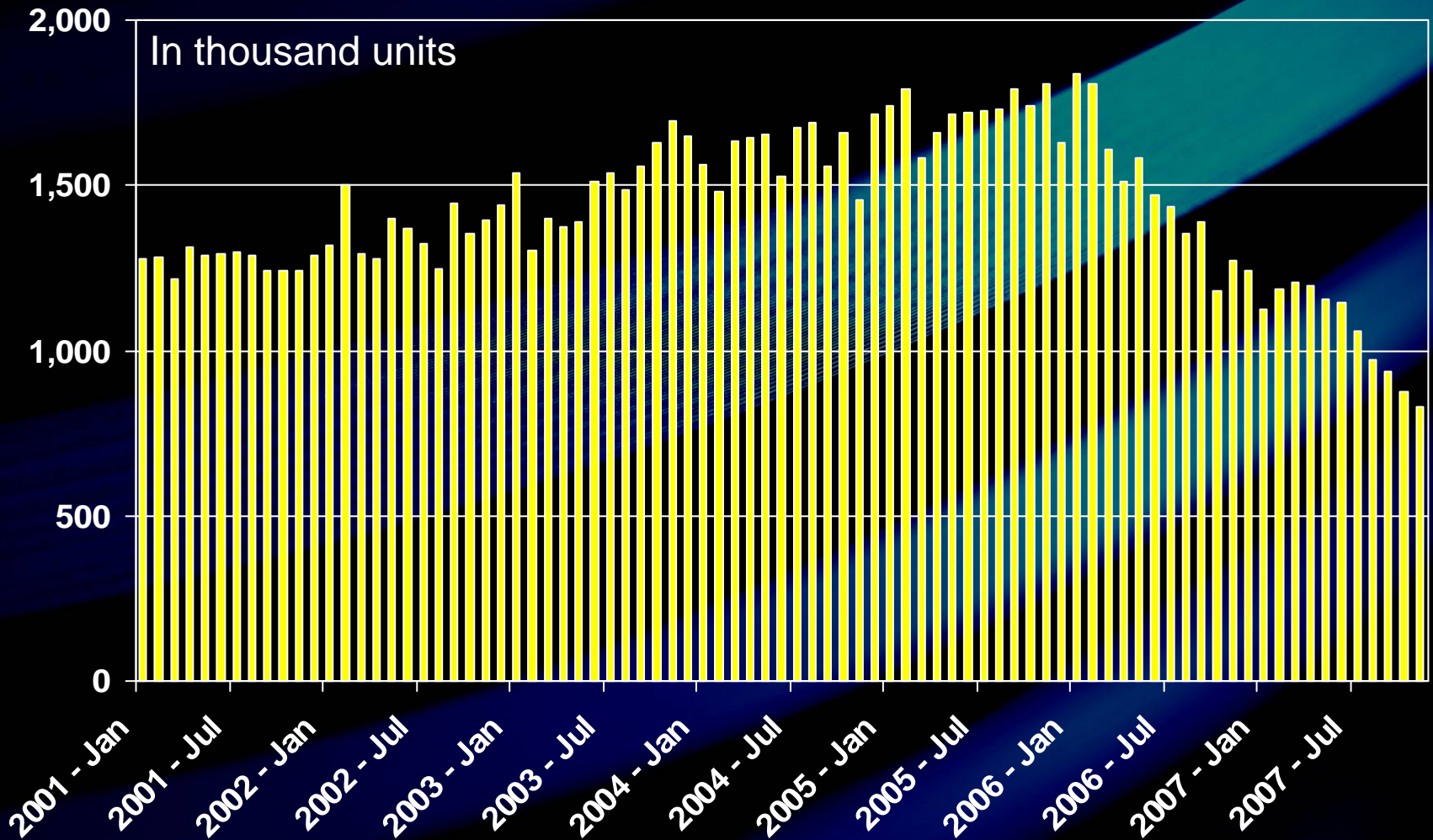
# Arizona Existing-Home Sales



Source: NAR

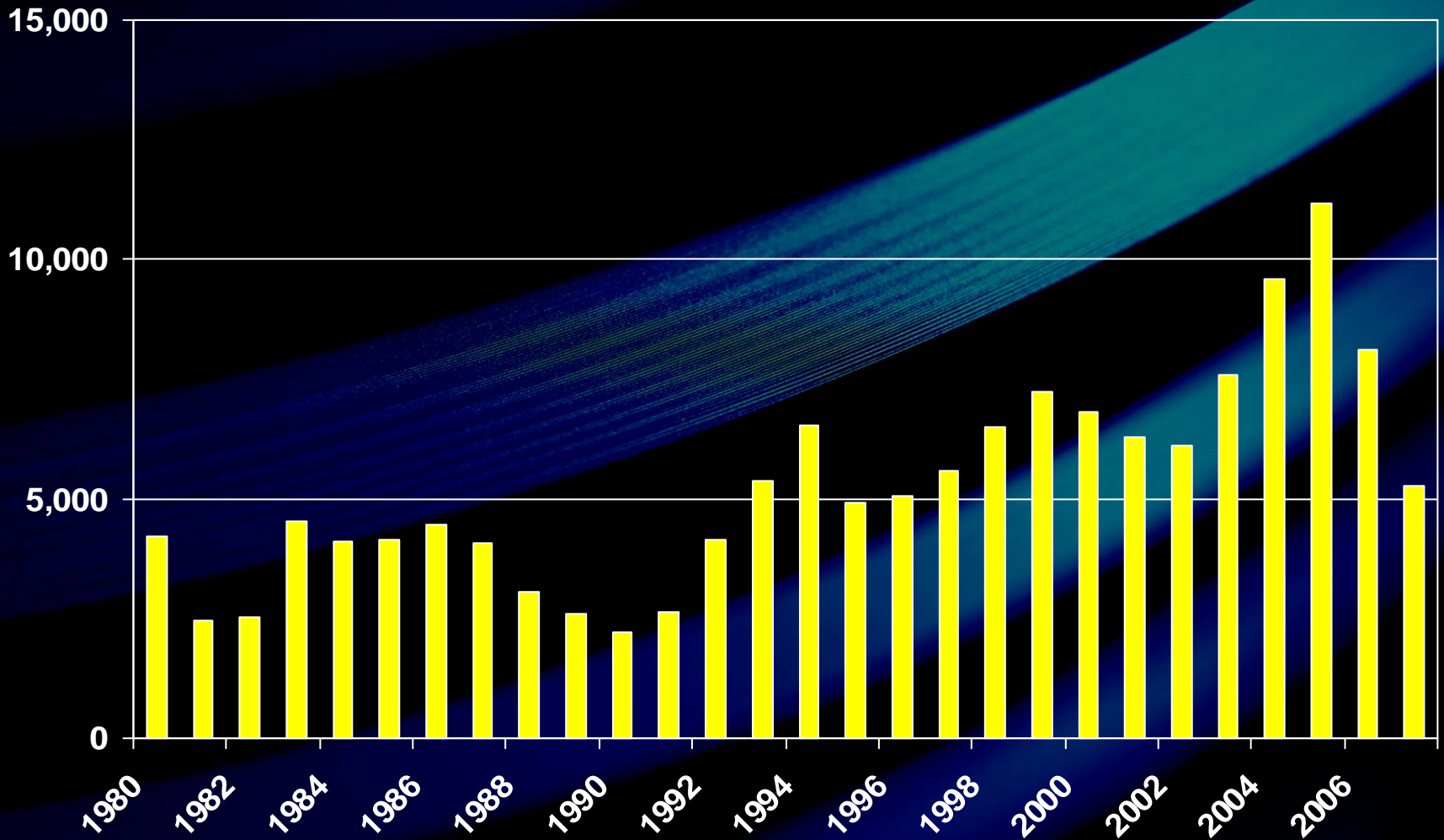
# Single-Family Housing Starts

(Major fall – but, good trend to control inventory)



Source: Census

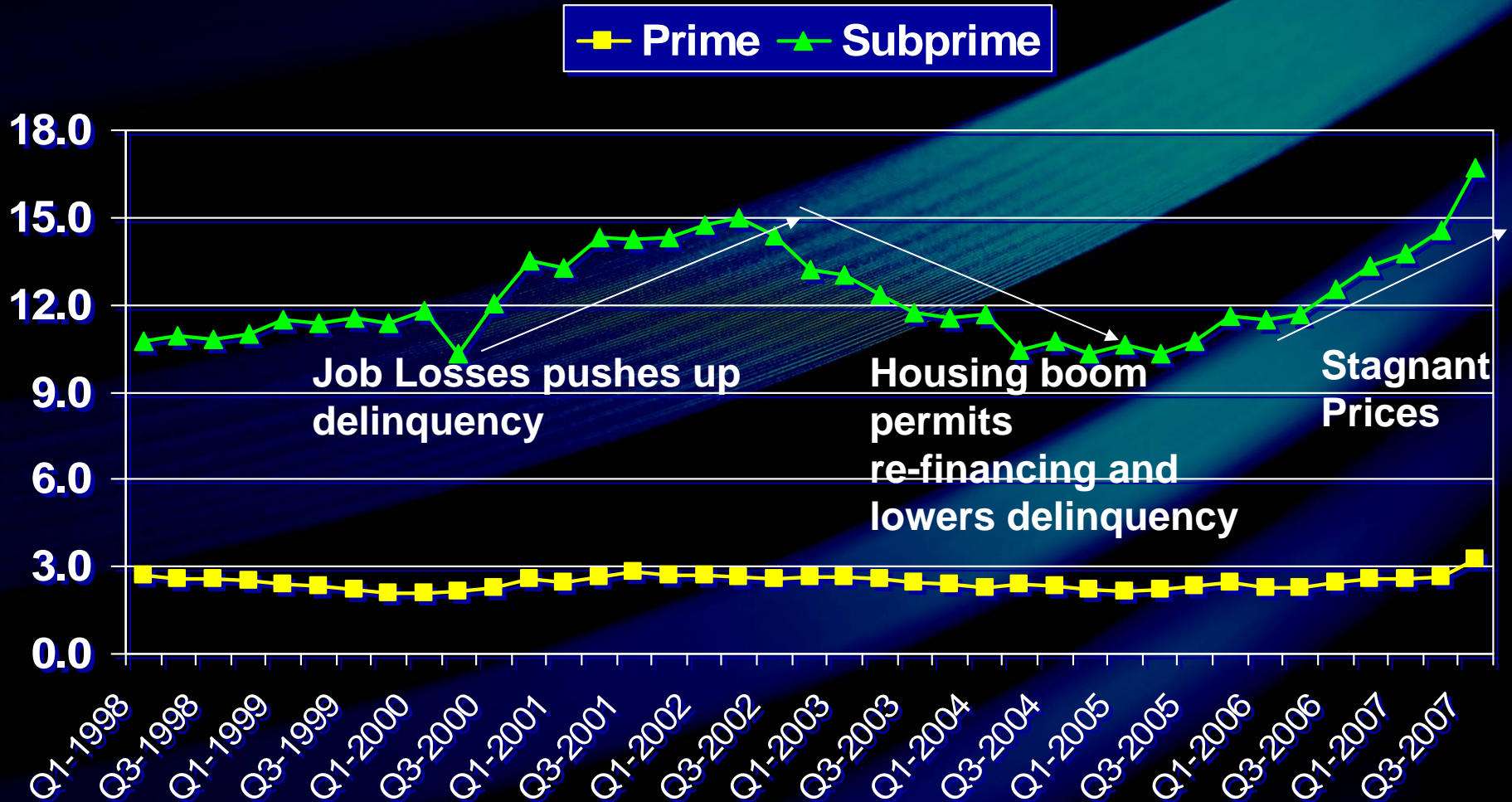
# Tucson Single-Family Housing Starts



Source: Census

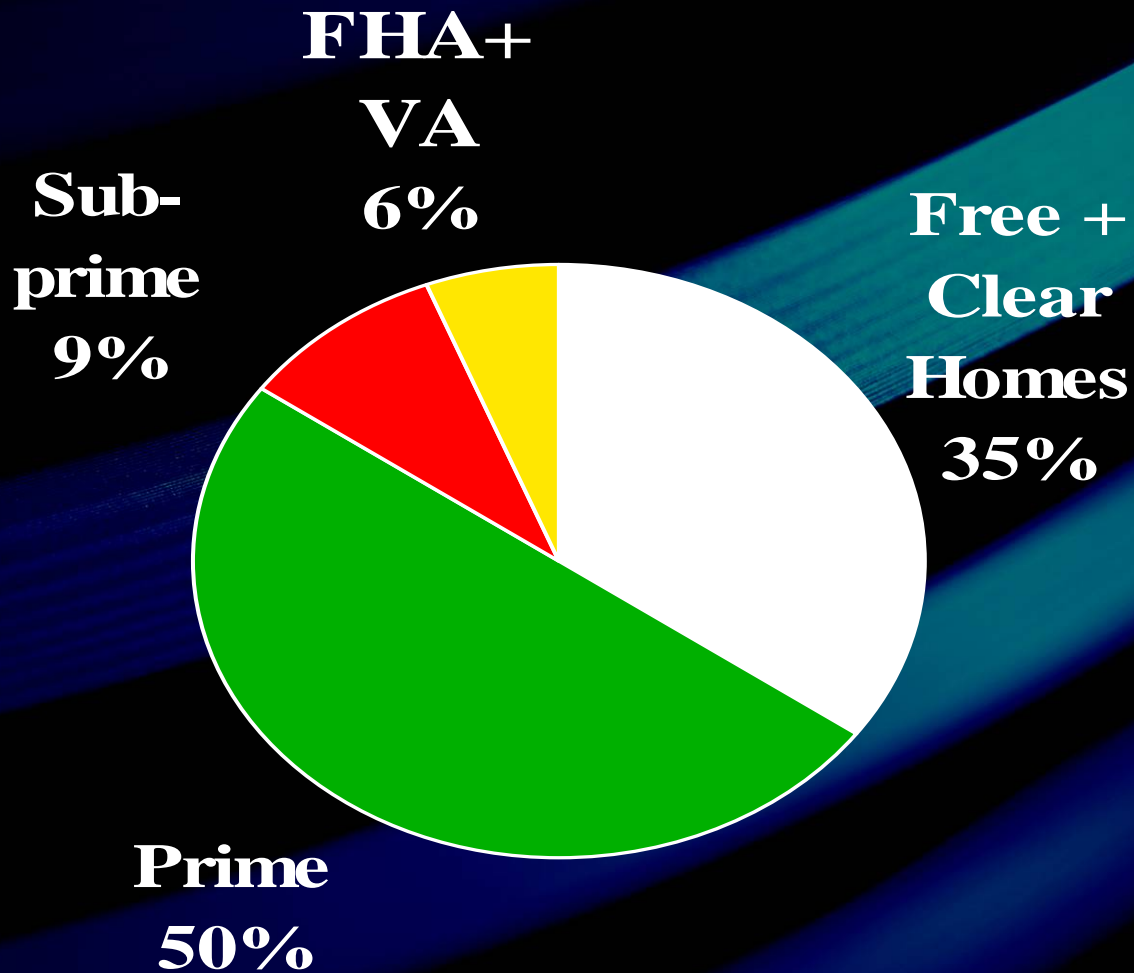
# Souring Loan Performance

(Big swings for subprime; no real change in prime)



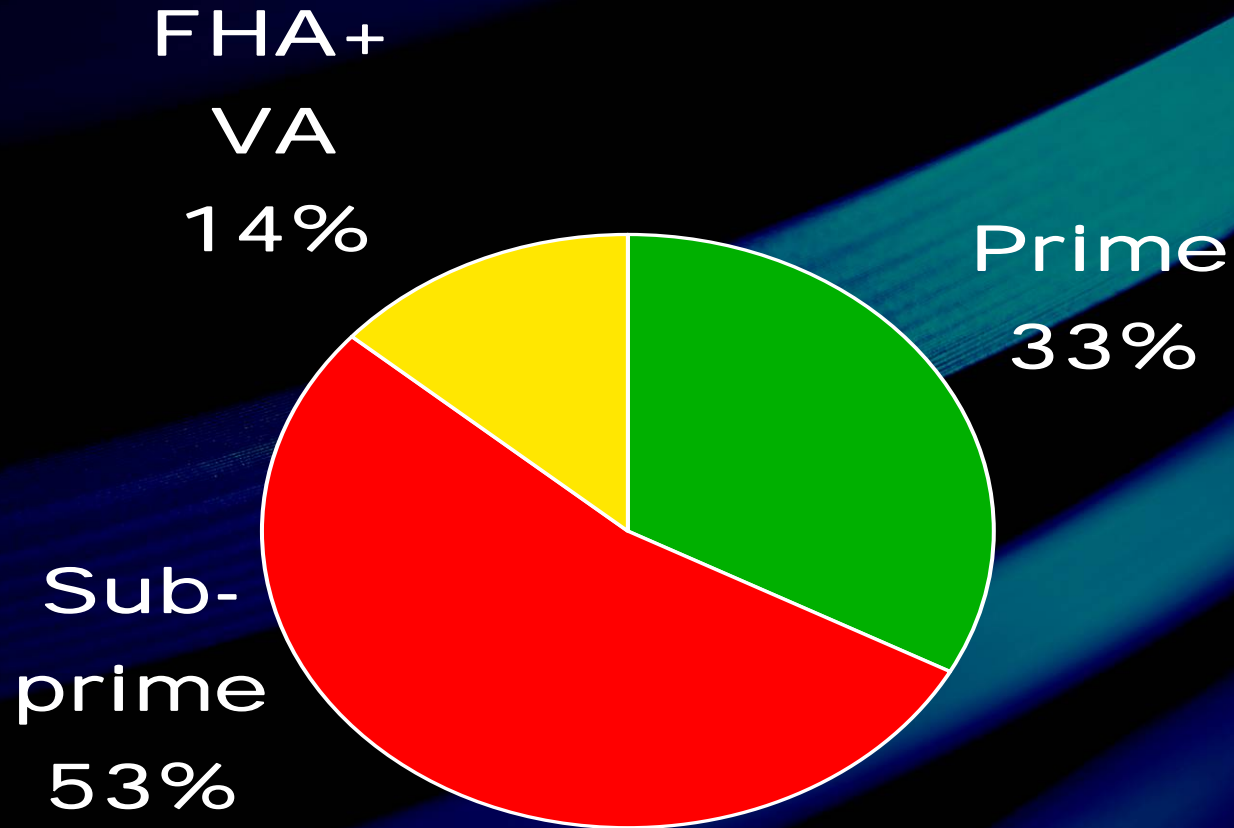
Data: MBA

# Subprime Loan Exposure



Source: NAR Estimate

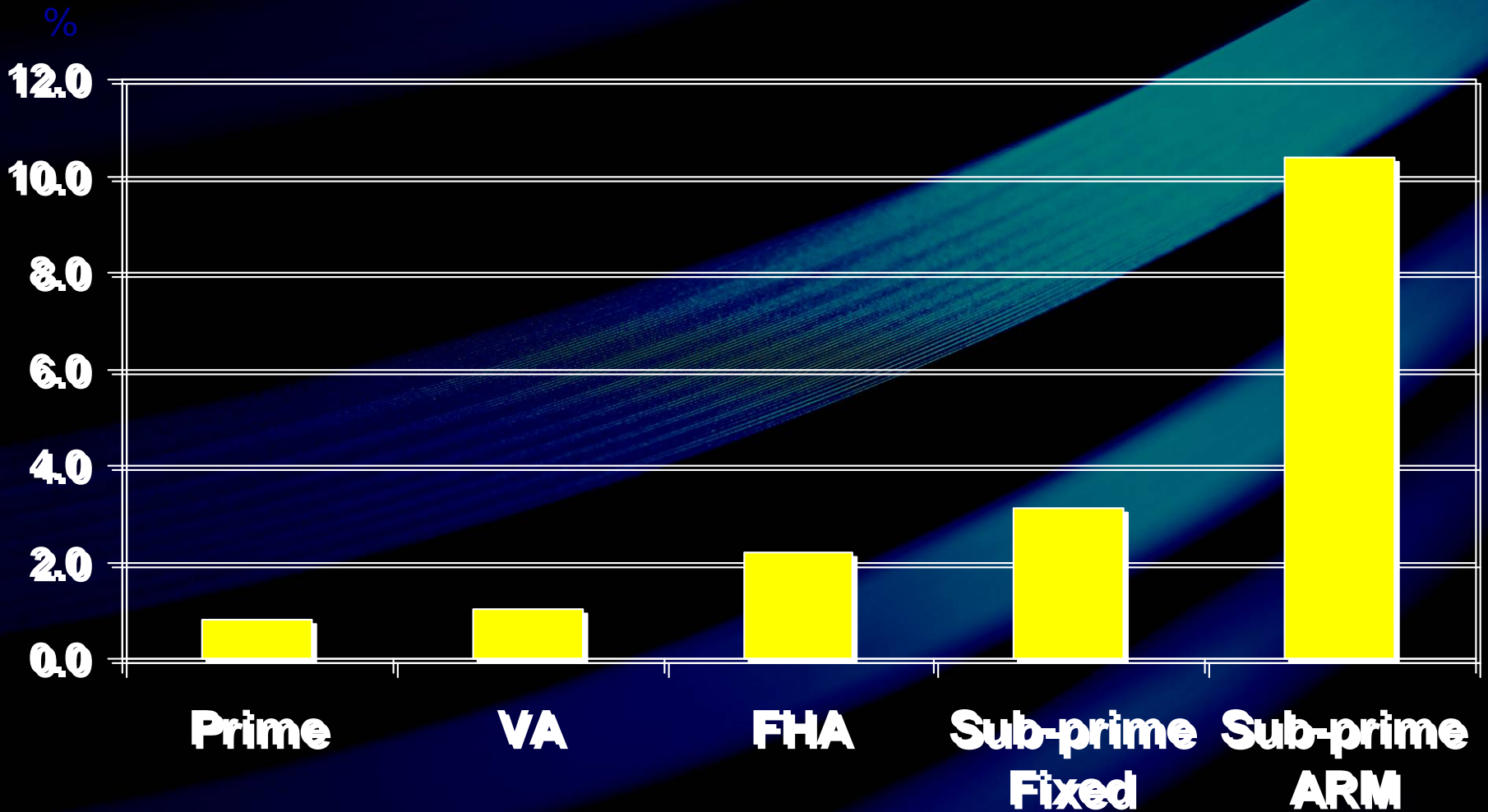
# Foreclosed Homes



Source: NAR Estimate

# Foreclosure Rates by Loan Type

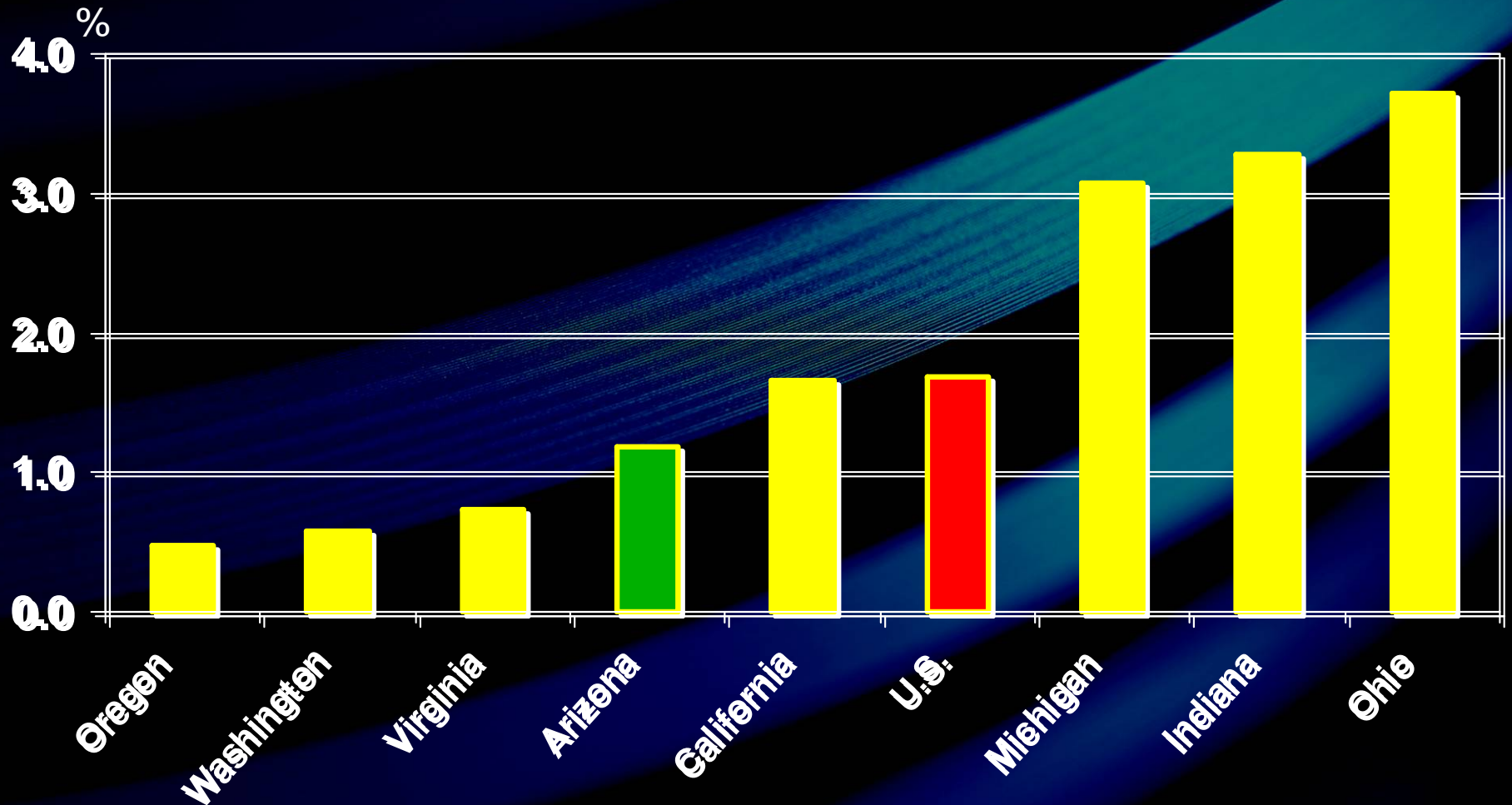
## 2007 Q3



Data: MBA

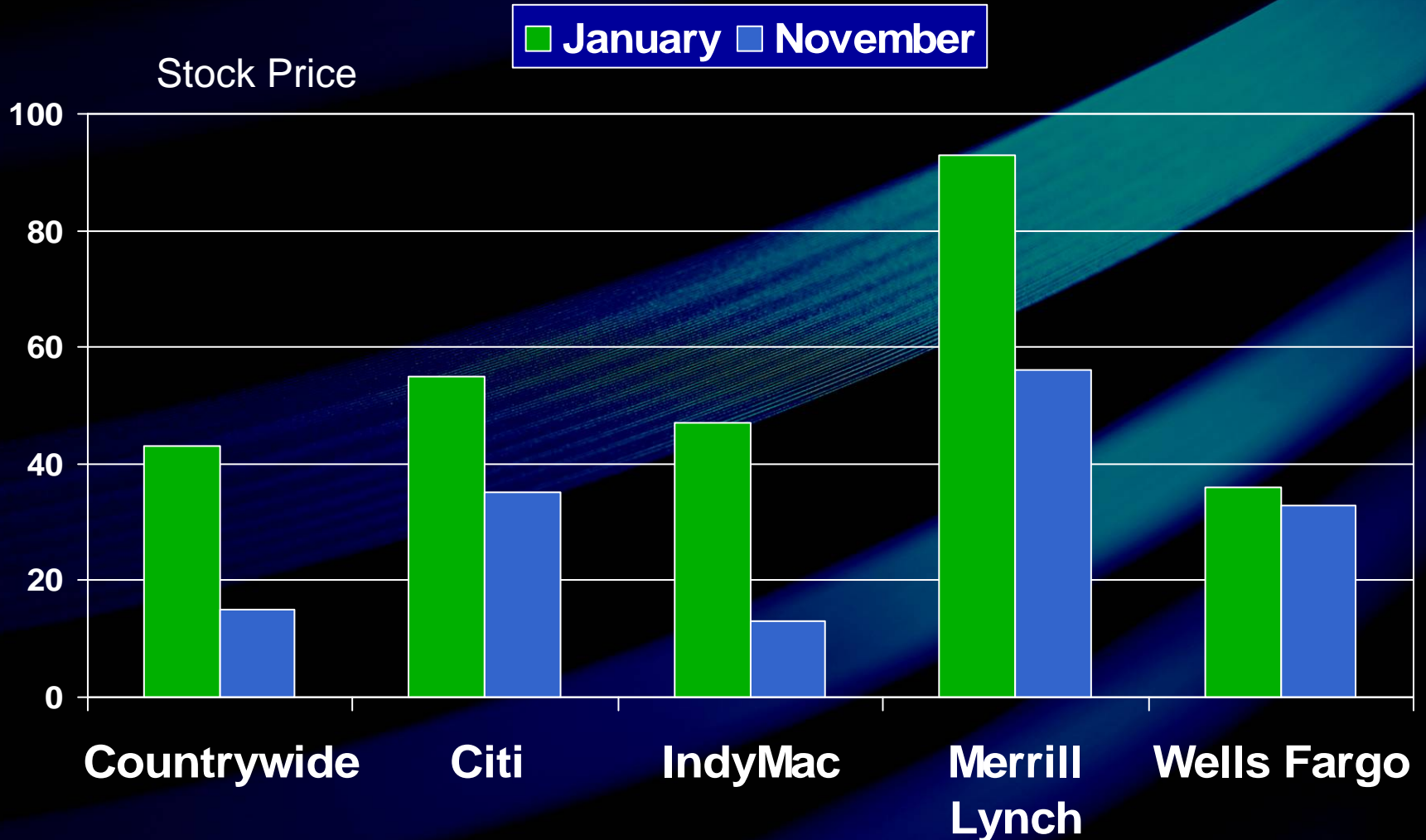
# Foreclosure Rate Comparisons

(2007 Q3)



Data: MBA

# Gamble Did Not Pay: Wall Street Re-valuation



Source: Wall Street Journal

A hand in a brown leather glove holds a large, white, three-dimensional dollar sign cutout. The hand is positioned over a desk with a printer and several papers. One paper has the text 'Of Skills' visible. The background is a dark blue gradient with diagonal stripes.

# **Important Factors for 2008**

## **Year of Opportunity**

**All  
Real  
Estate is  
Local**

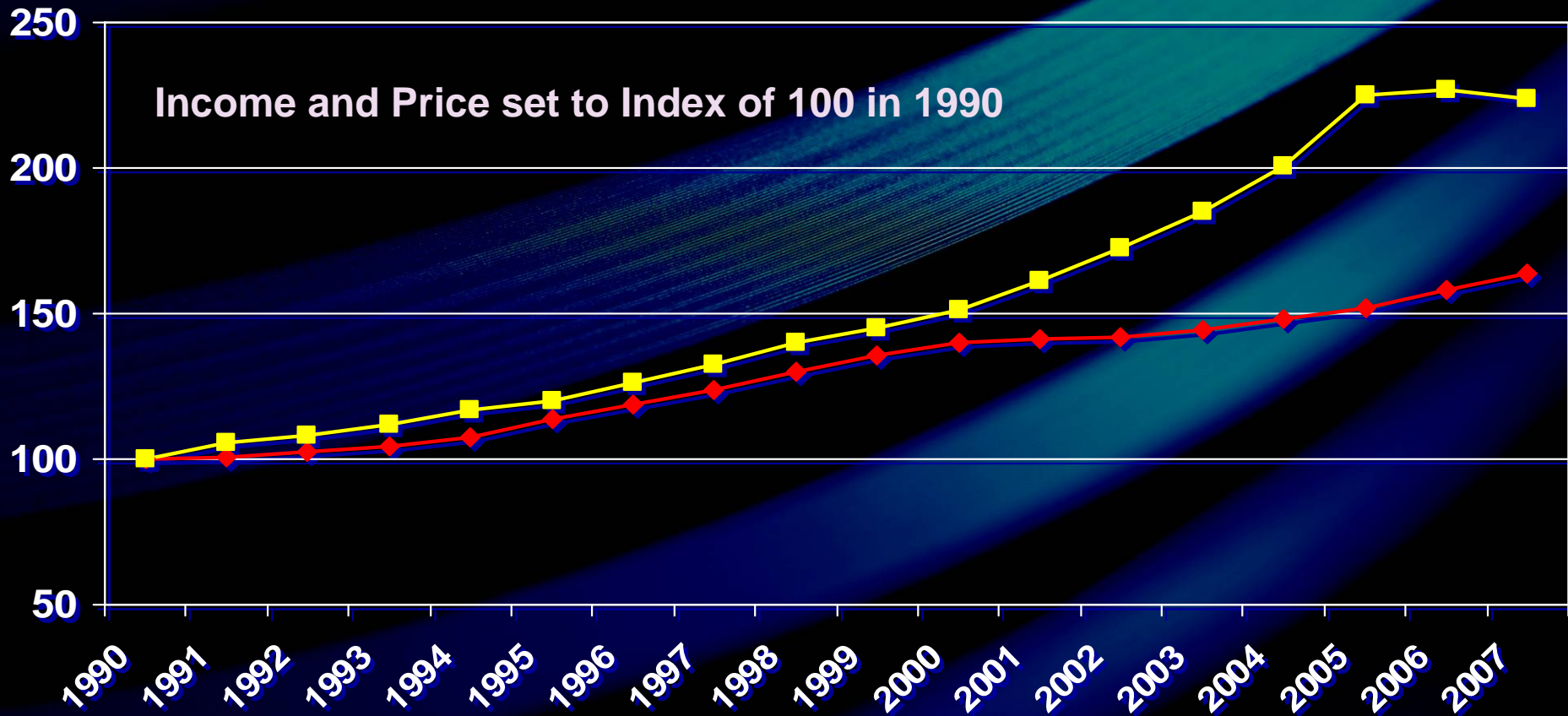


# National vs. Local Information

- **National data are important**
  - Quick casual glance
  - Economic impact and monetary policy
- **Local data are important**
  - Home purchase is a serious decision
  - Huge local variations
    - national data are not meaningful

# Something appears Out of Whack!

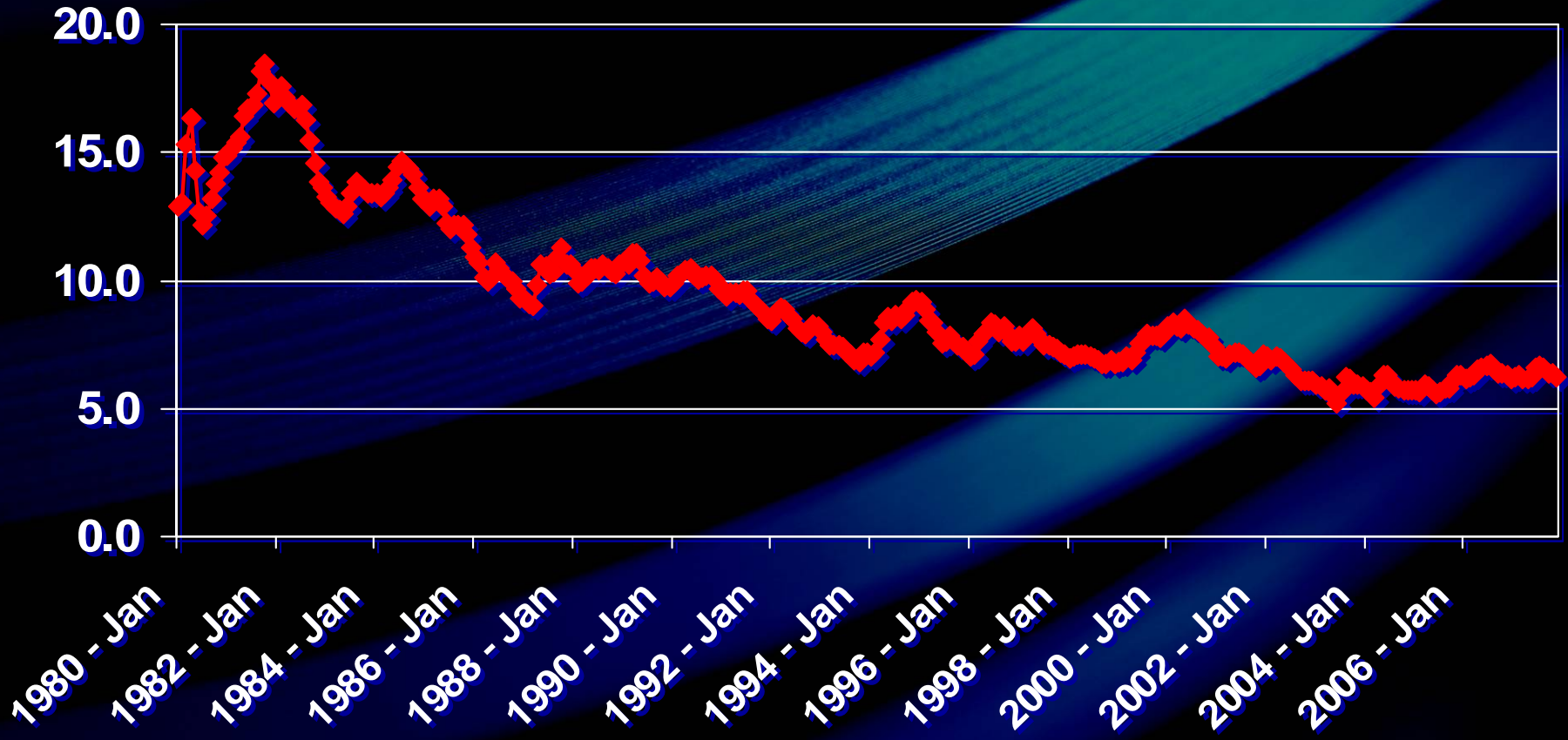
◆ Income    ■ Home Price



Source: NAR

# Mortgage Rates Falling

◆ Mortgage Rate

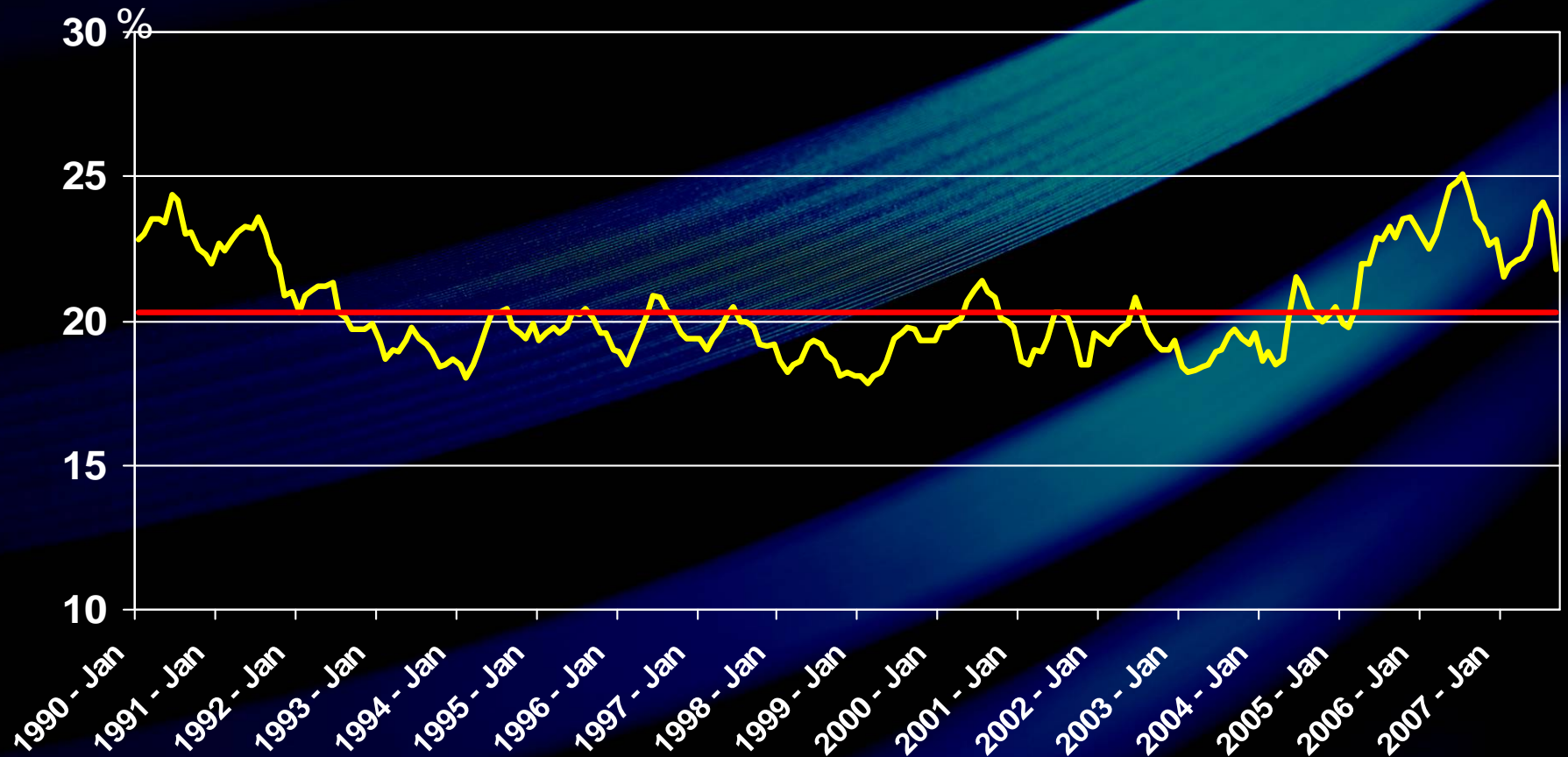


Source: Freddie Mac

# Mortgage Obligation to Income

## Manageable

— U.S. — Average



Source: NAR

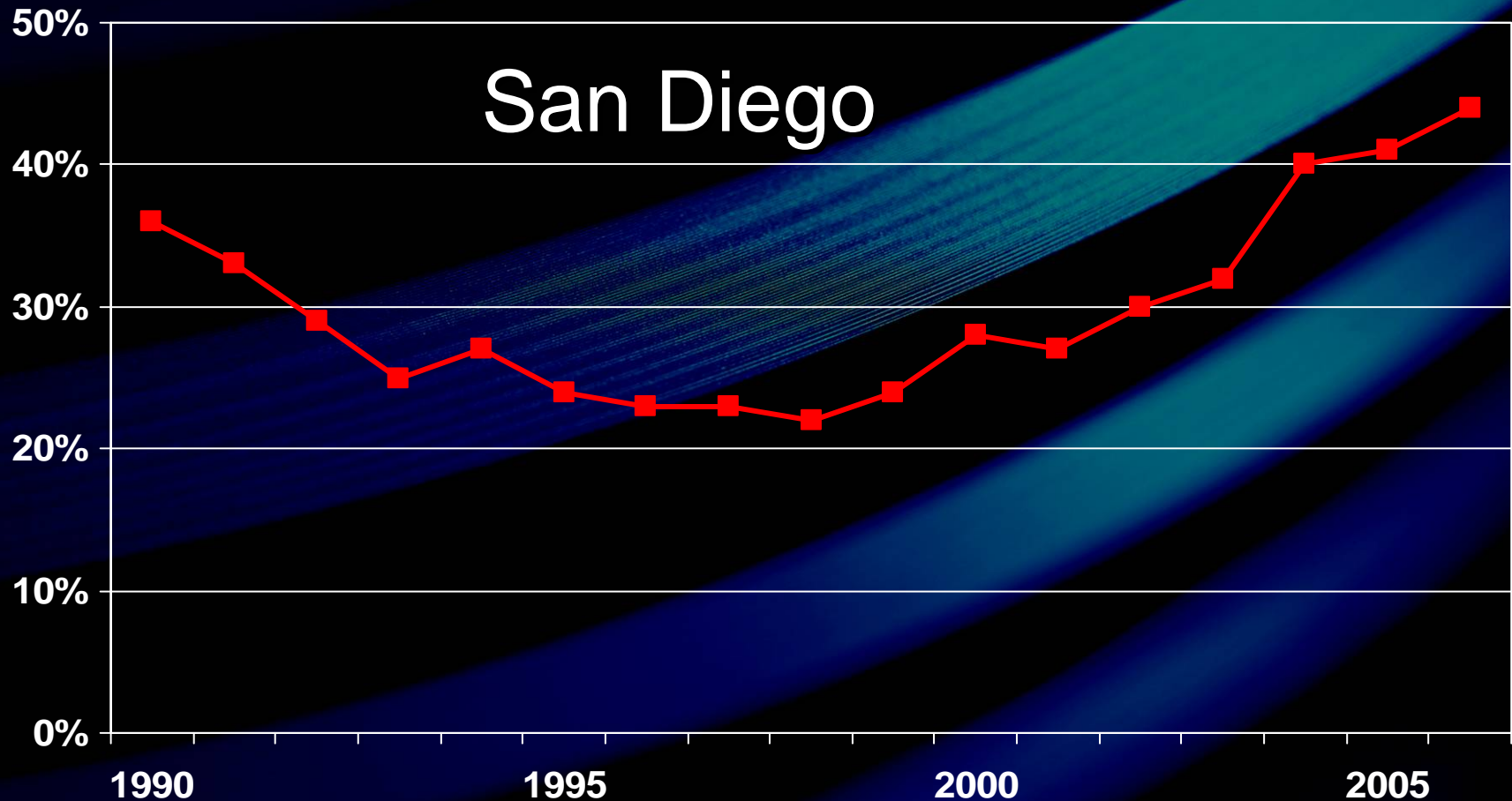
# Local Markets

- **NAR data**
- **2/3 of 150 metro markets with price expansion**
- **Treat all homes equally (low priced home gets same weight at high-priced home)**
  
- **OFHEO data**
- **70% of 287 metro markets with price expansion**
- **Treat all homes equally (low priced home gets same weight at high-priced home)**
  
- **Case-Shiller**
- **3 or 4 of 20 markets with price expansion**
- **Do not treat all homes equally, price weighted index**

# Mortgage Obligation to Income

## Very High in Some Markets

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

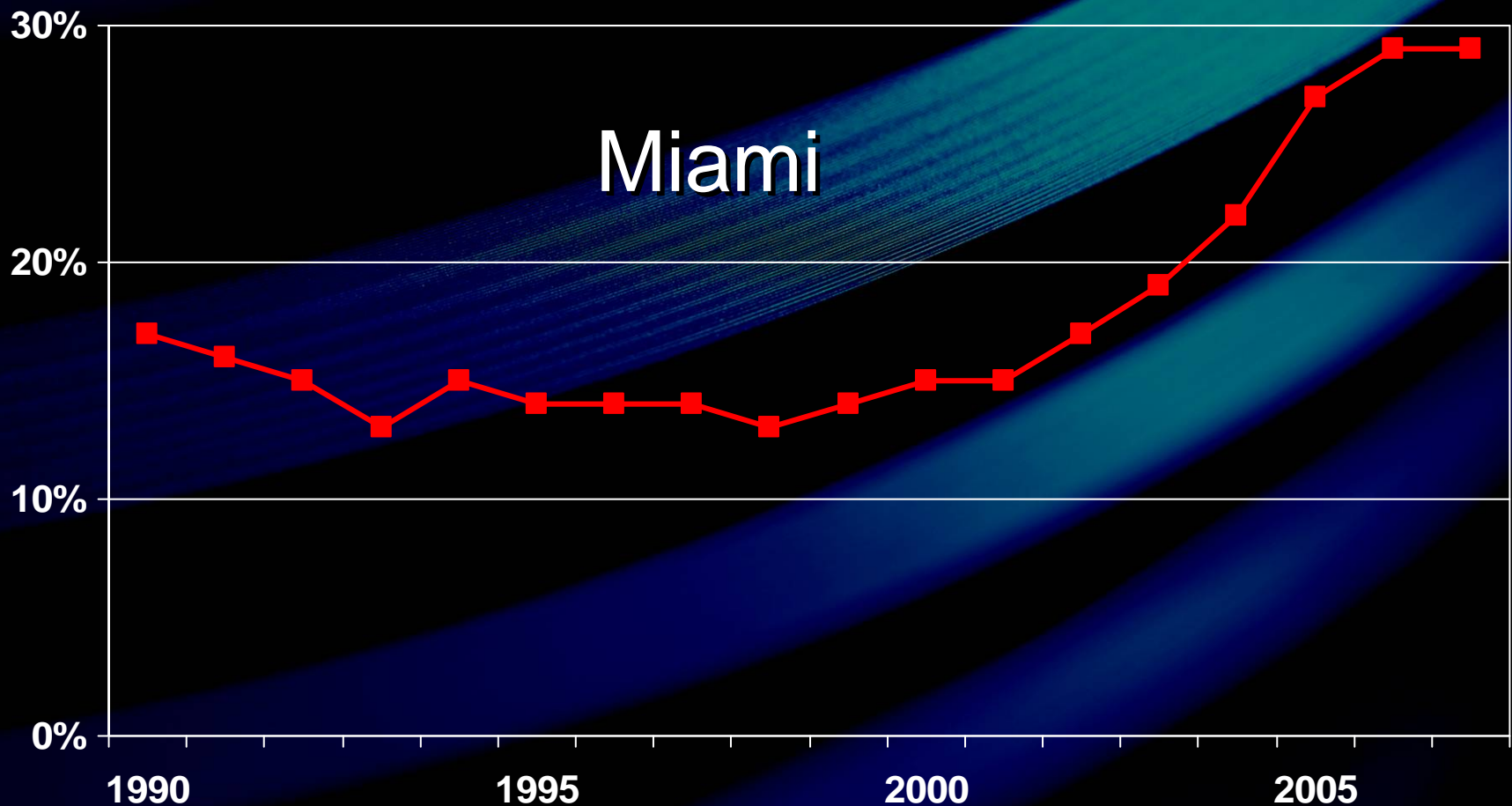


Source: NAR

# Mortgage Obligation to Income

## Historically High in Some Markets

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

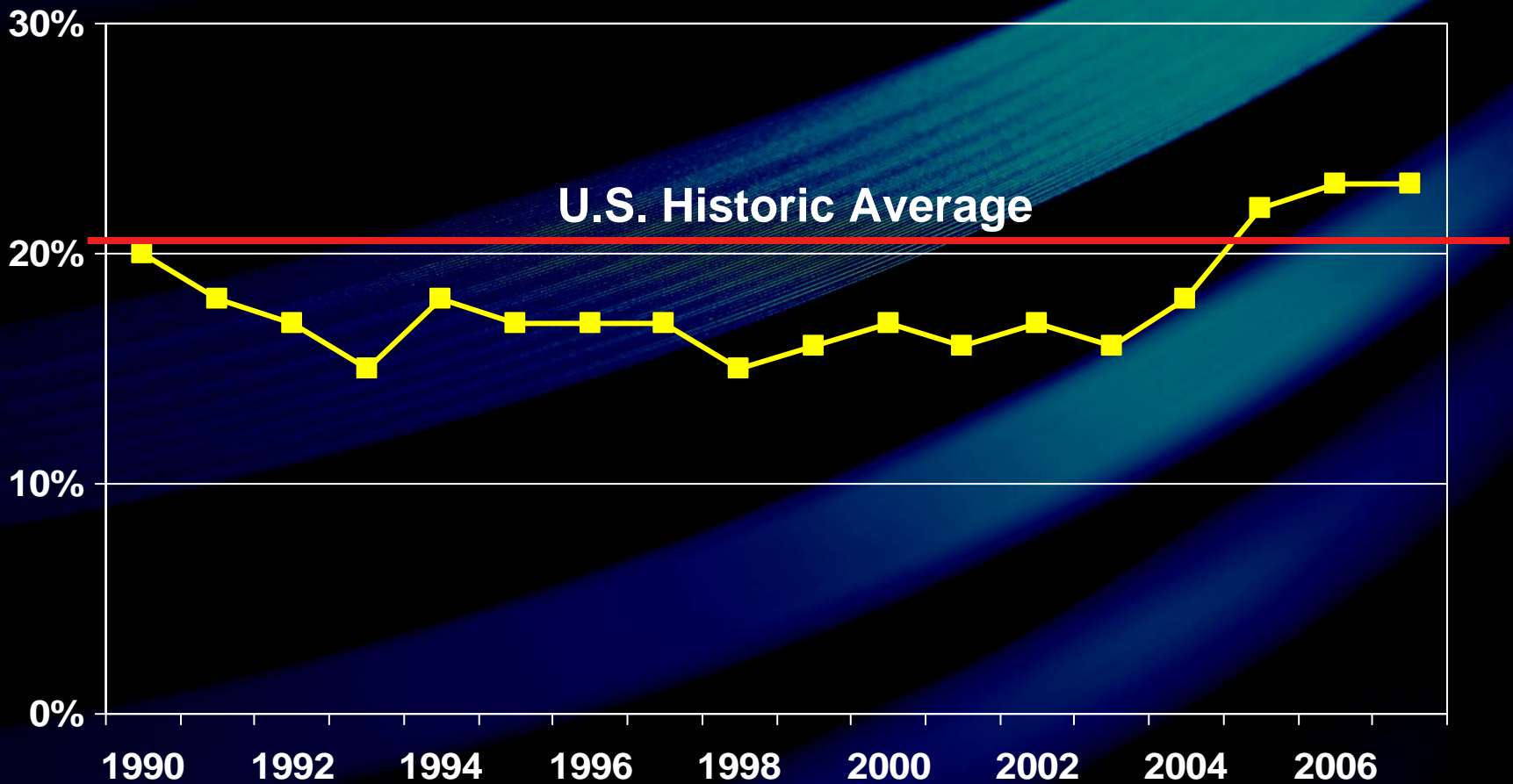


Source: NAR

# Tucson

## Mortgage Obligation to Income

■ Tucson

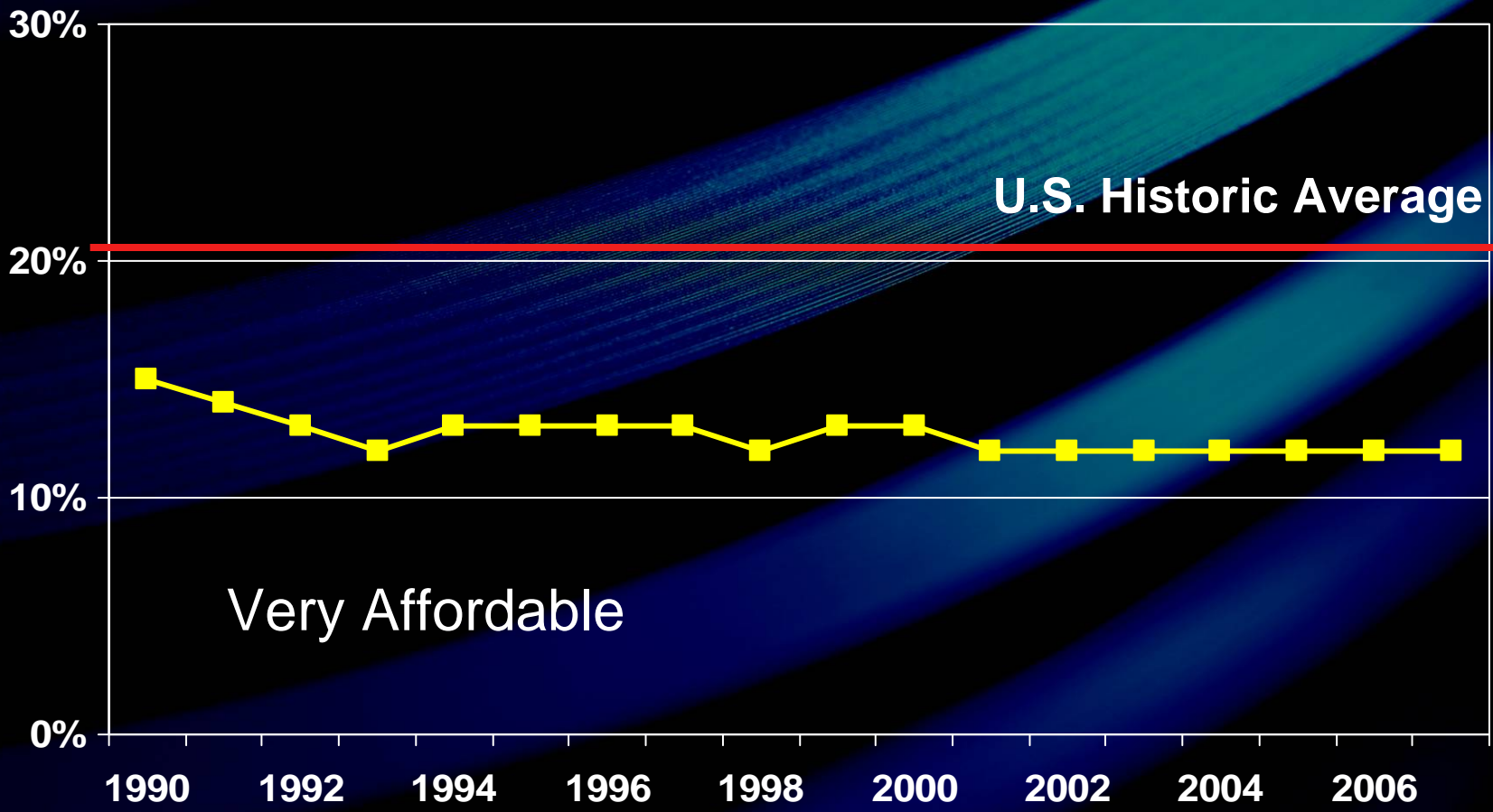


Source: NAR

# Kansas City

## Affordable Mortgage Obligation to Income

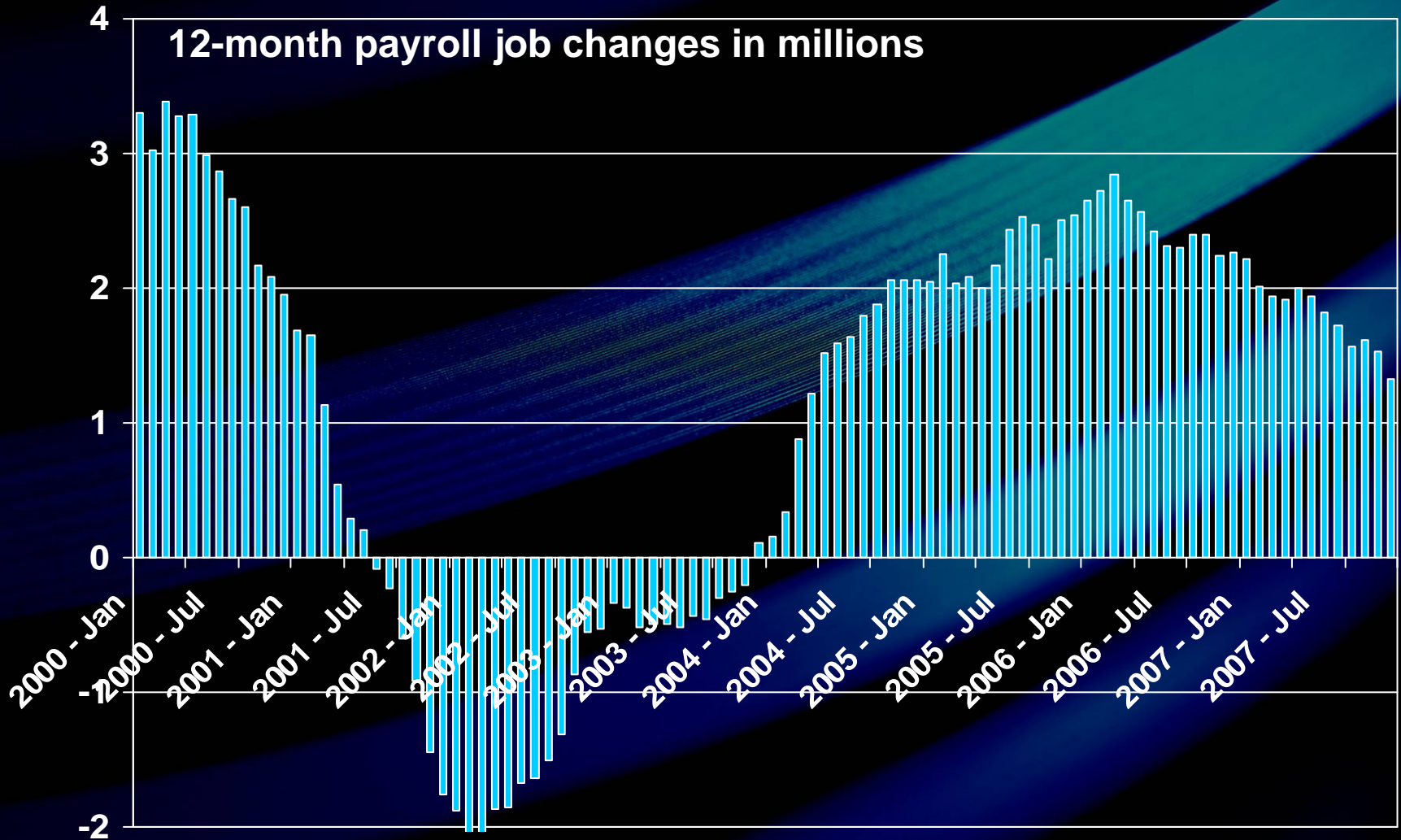
■ Kansas City



Source: NAR

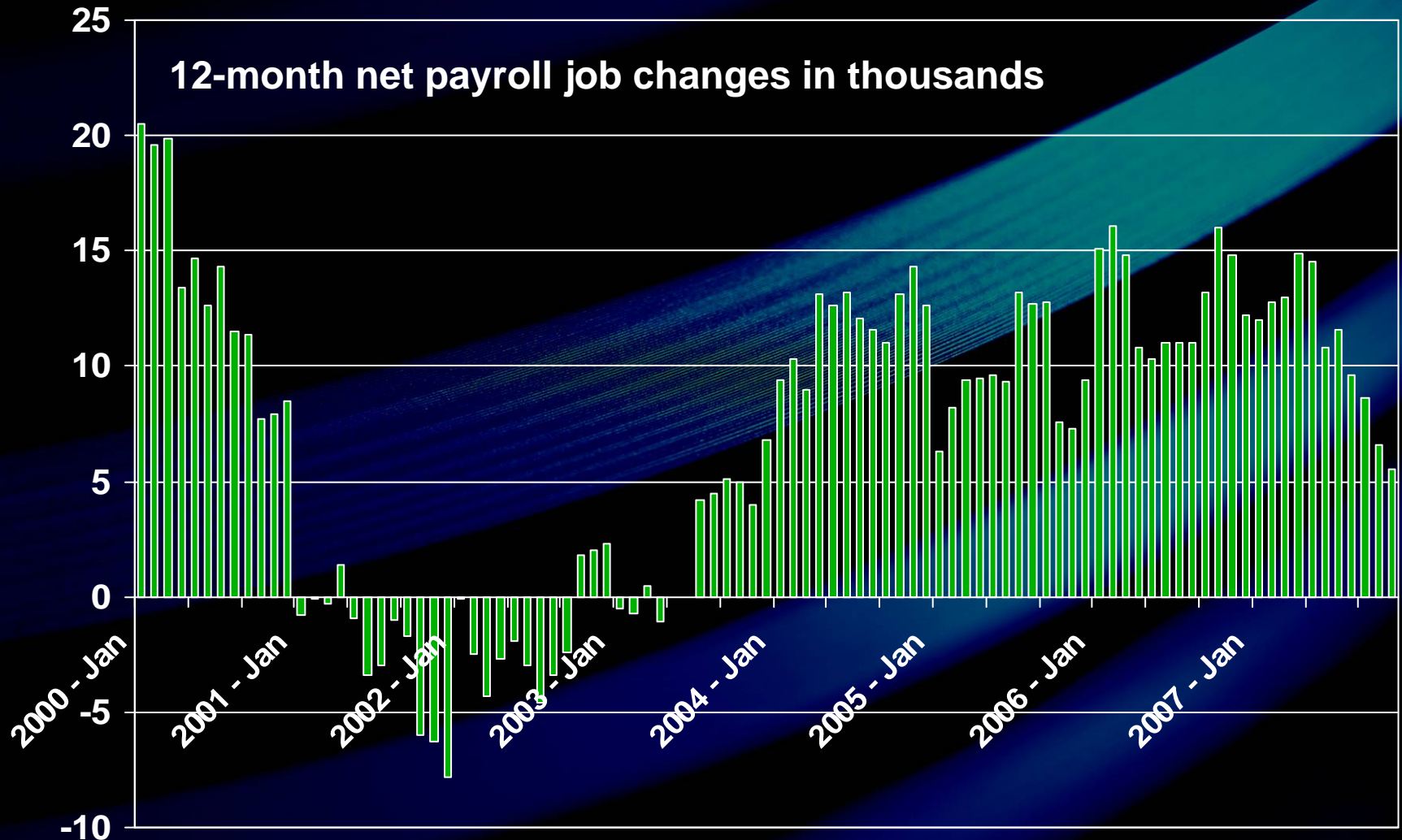
# Favorable Economy:

## 4 Million New Jobs in Past 24 months



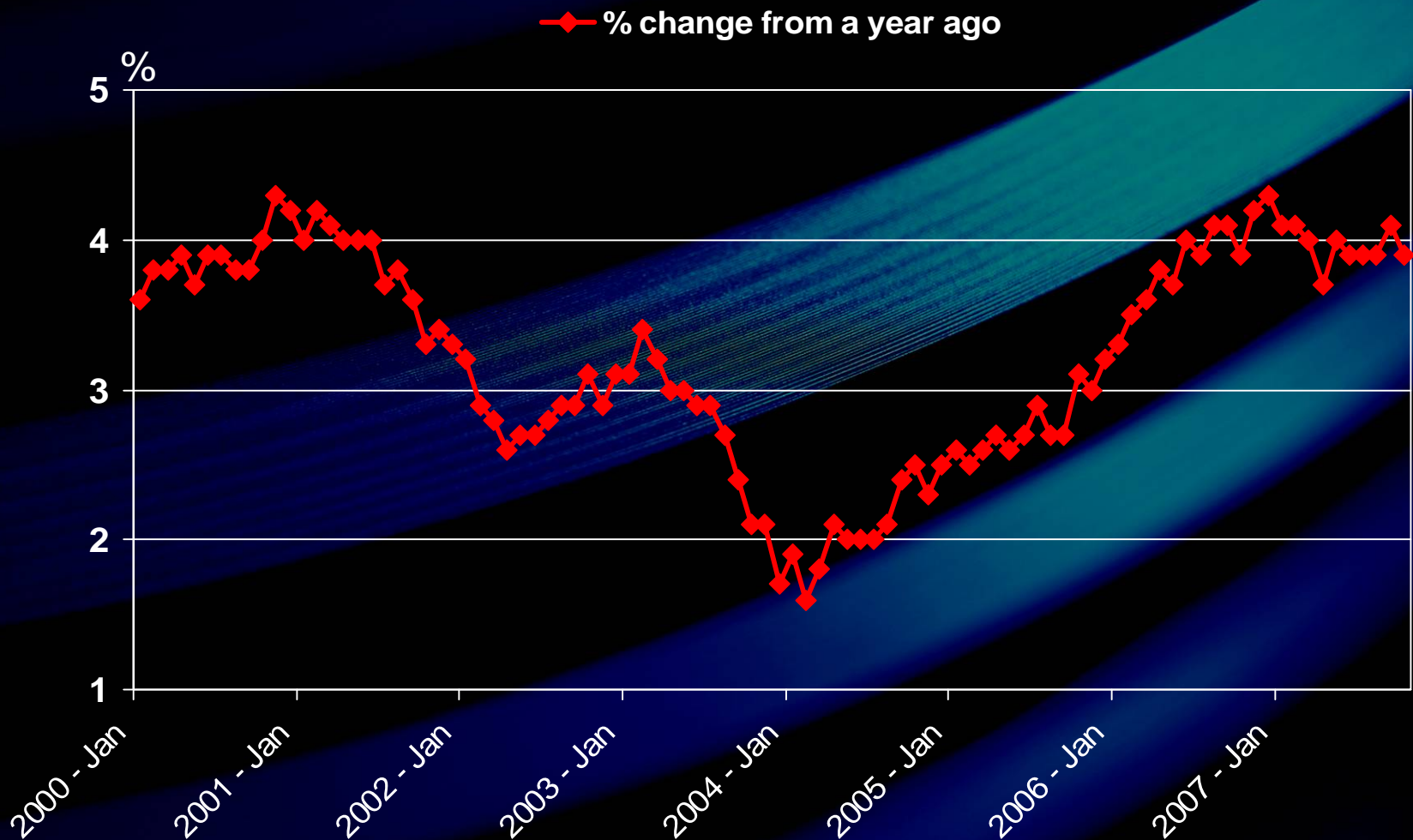
Source: BLS

# Job Gains in Tucson



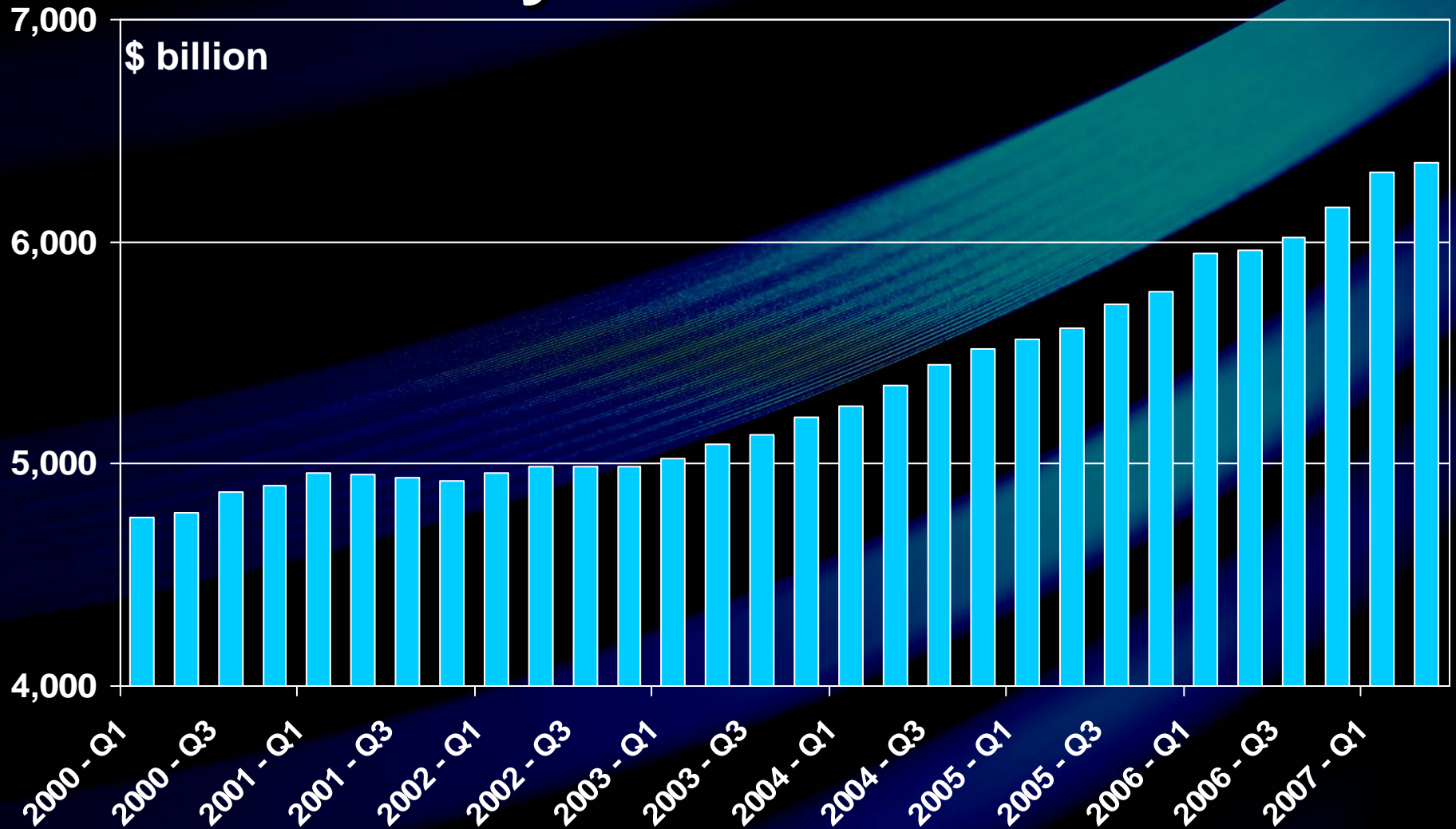
Source: BLS

# Wage Growth Picking Up



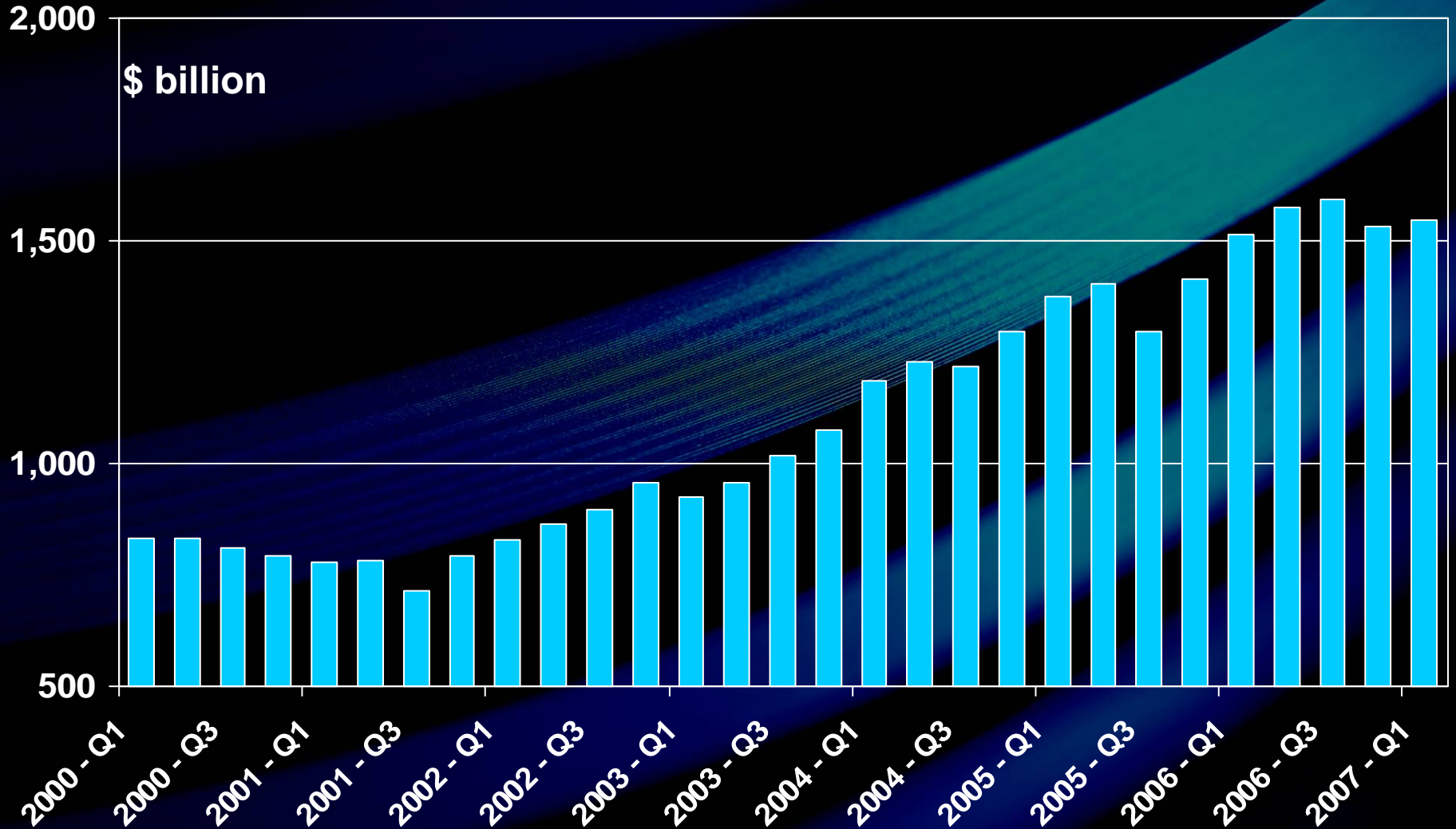
Source: BLS

# Aggregate U.S. Wages and Salary Disbursement



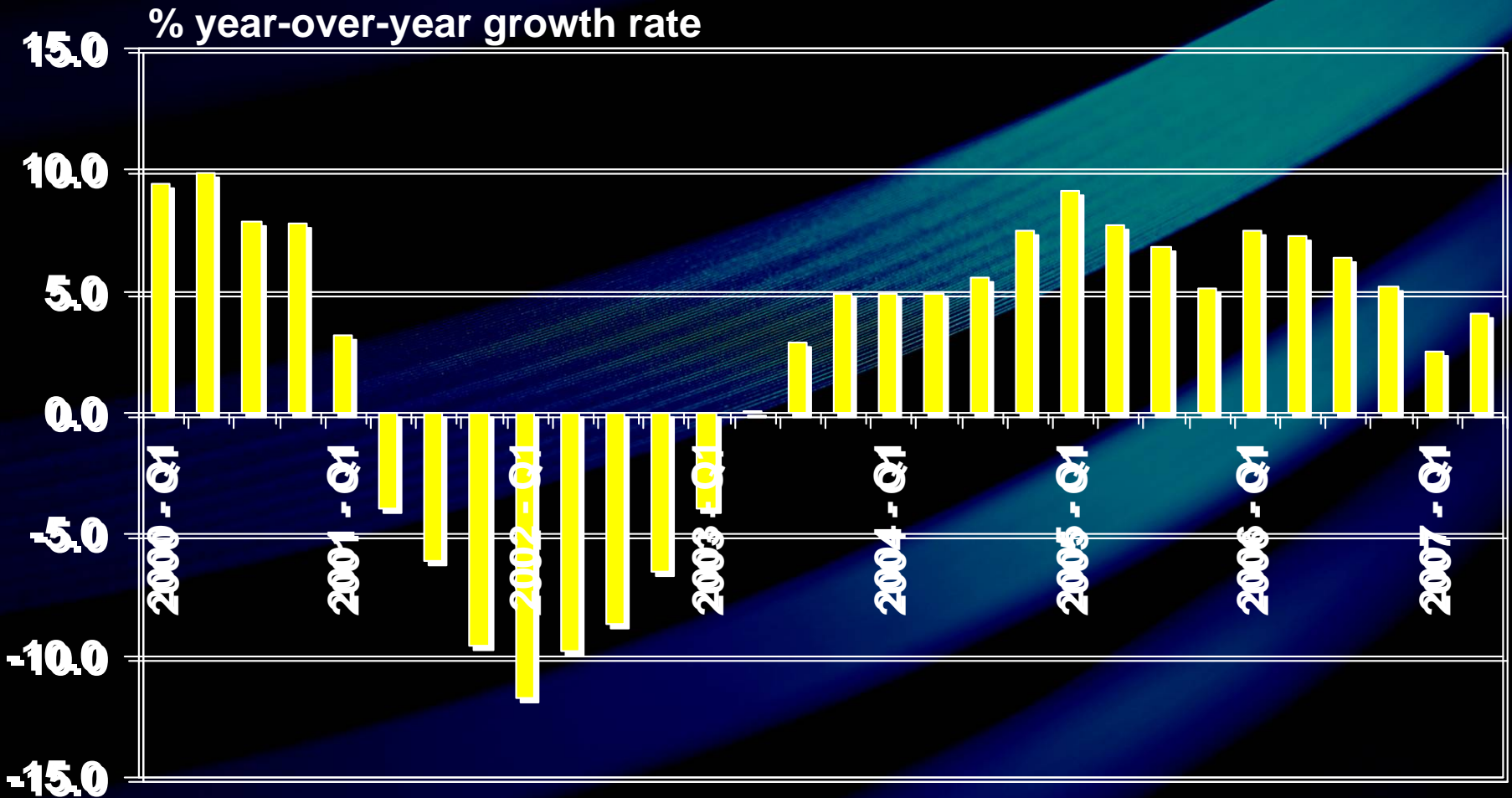
Source: BEA

# Corporate Profits – Record High



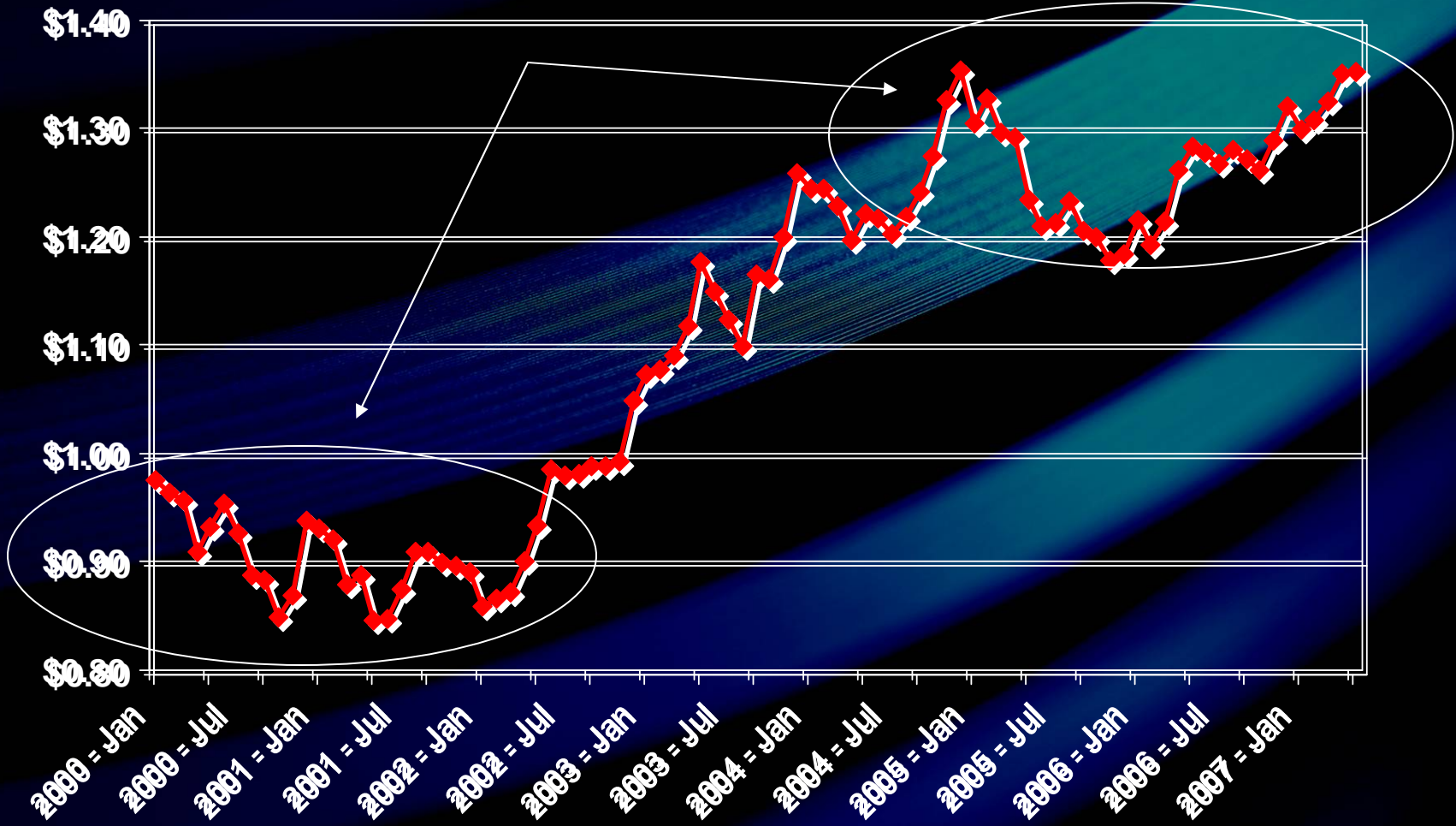
Source: BEA

# Business Spending



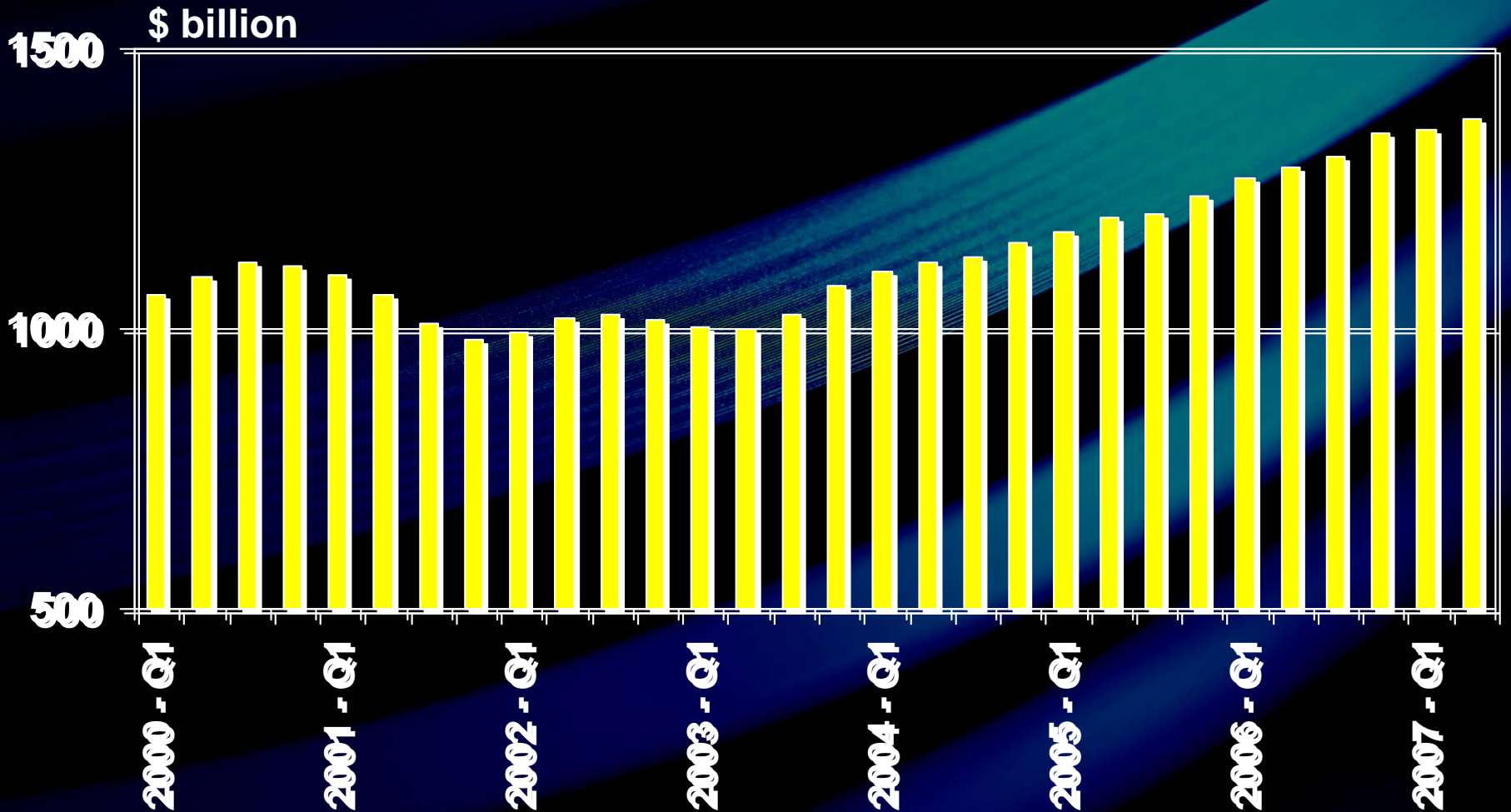
# \$Dollar vs €Euro

U.S. homes are selling at a 30% to 40% discount for foreigners

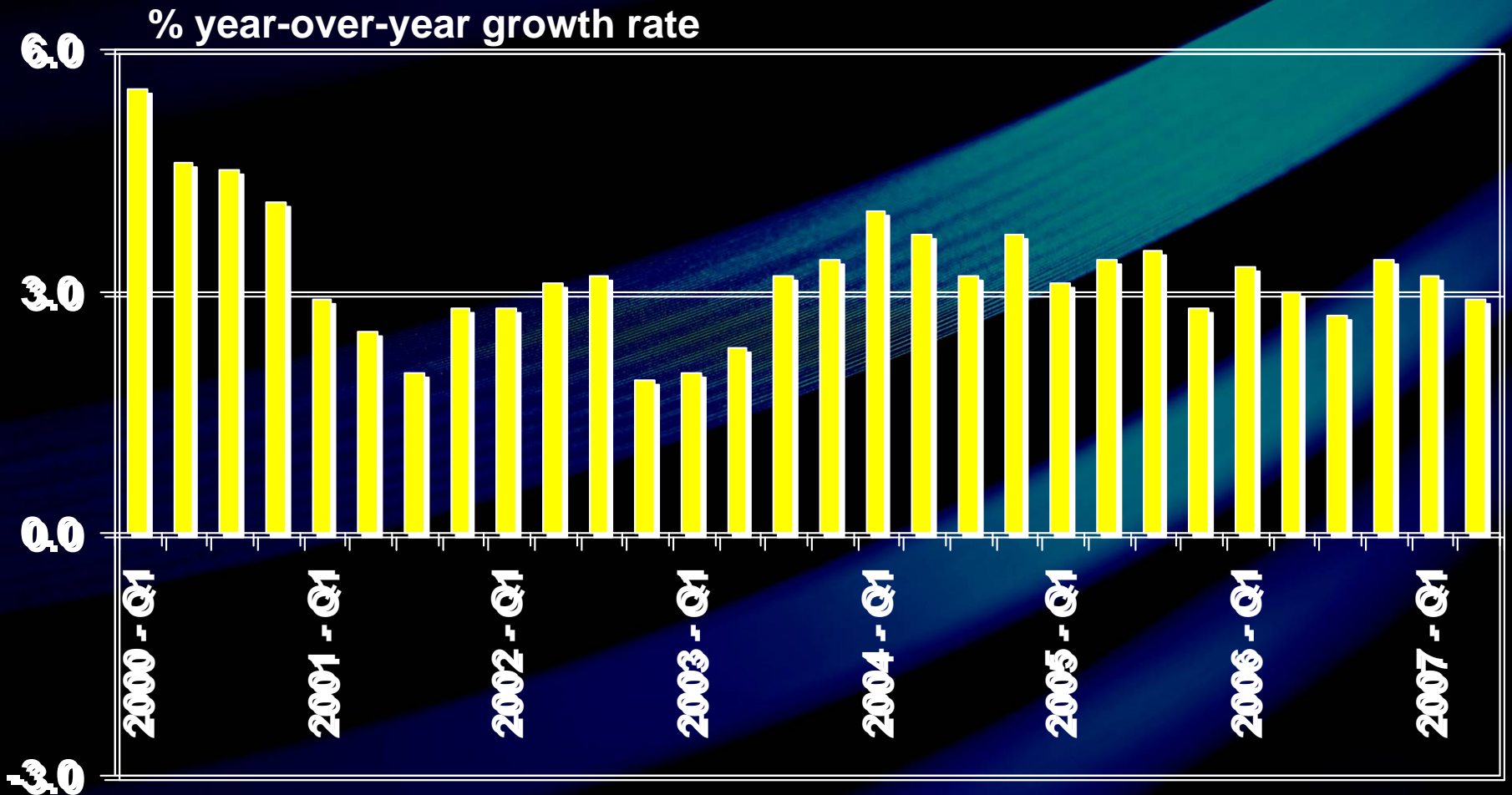


Source: BLS

# Export Growth

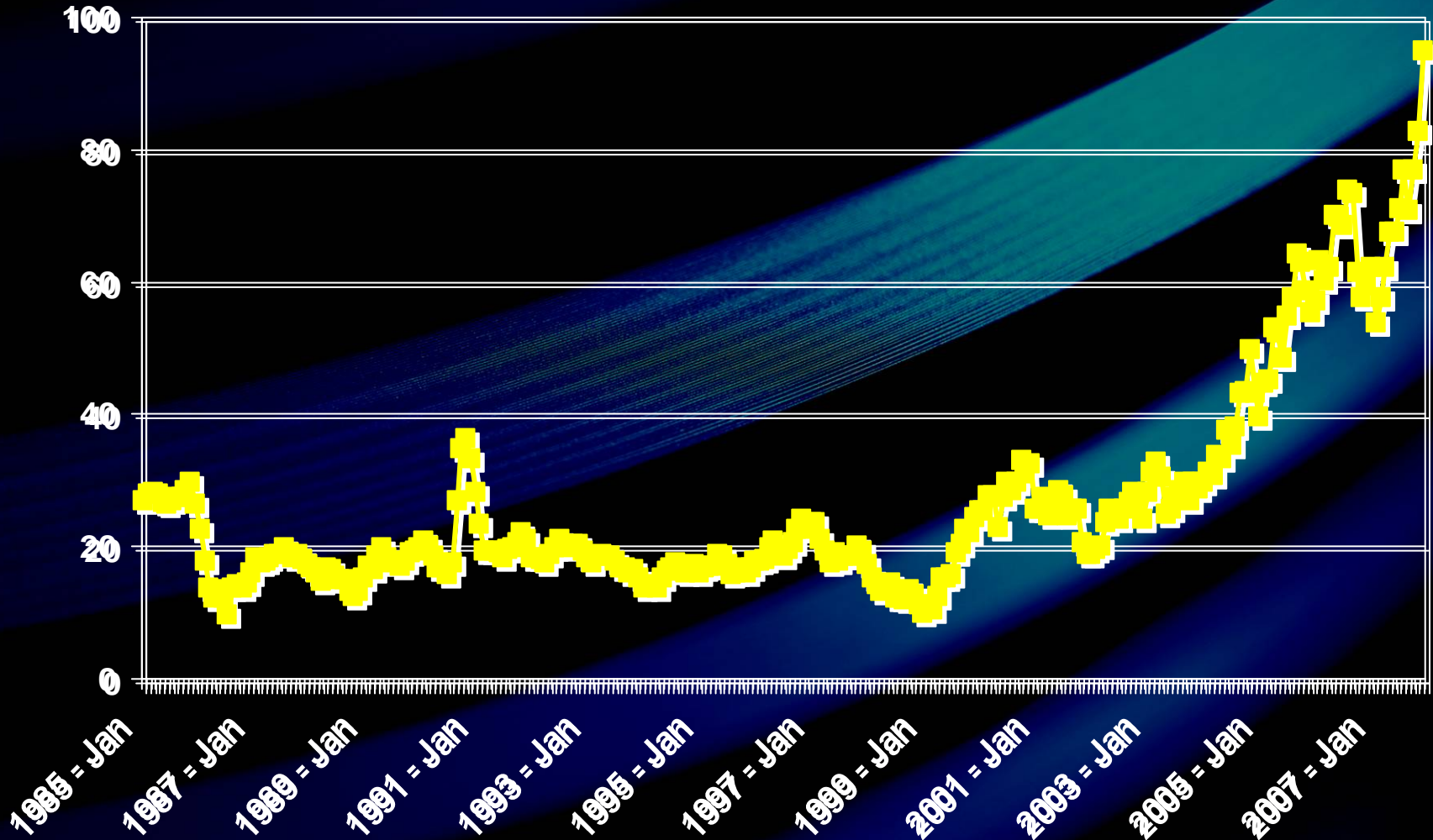


# Consumer Spending



# Worry Spot - Oil Prices

\$ per barrel



Source: Wall Street Journal

# Positive Economic Outlook

	2006	2007	2008
<b>GDP</b>	<b>3.3%</b>	<b>2.1%</b>	<b>2.4%</b>
<b>CPI Inflation</b>	<b>3.2%</b>	<b>2.8%</b>	<b>2.7%</b>
<b>Job Growth</b>	<b>1.9%</b>	<b>1.3%</b>	<b>0.8%</b>
<b>Unemployment Rate</b>	<b>4.6%</b>	<b>4.6%</b>	<b>5.0%</b>
<b>10-year Treasury</b>	<b>4.8%</b>	<b>4.6%</b>	<b>4.4%</b>

# Pent-Up Demand ?

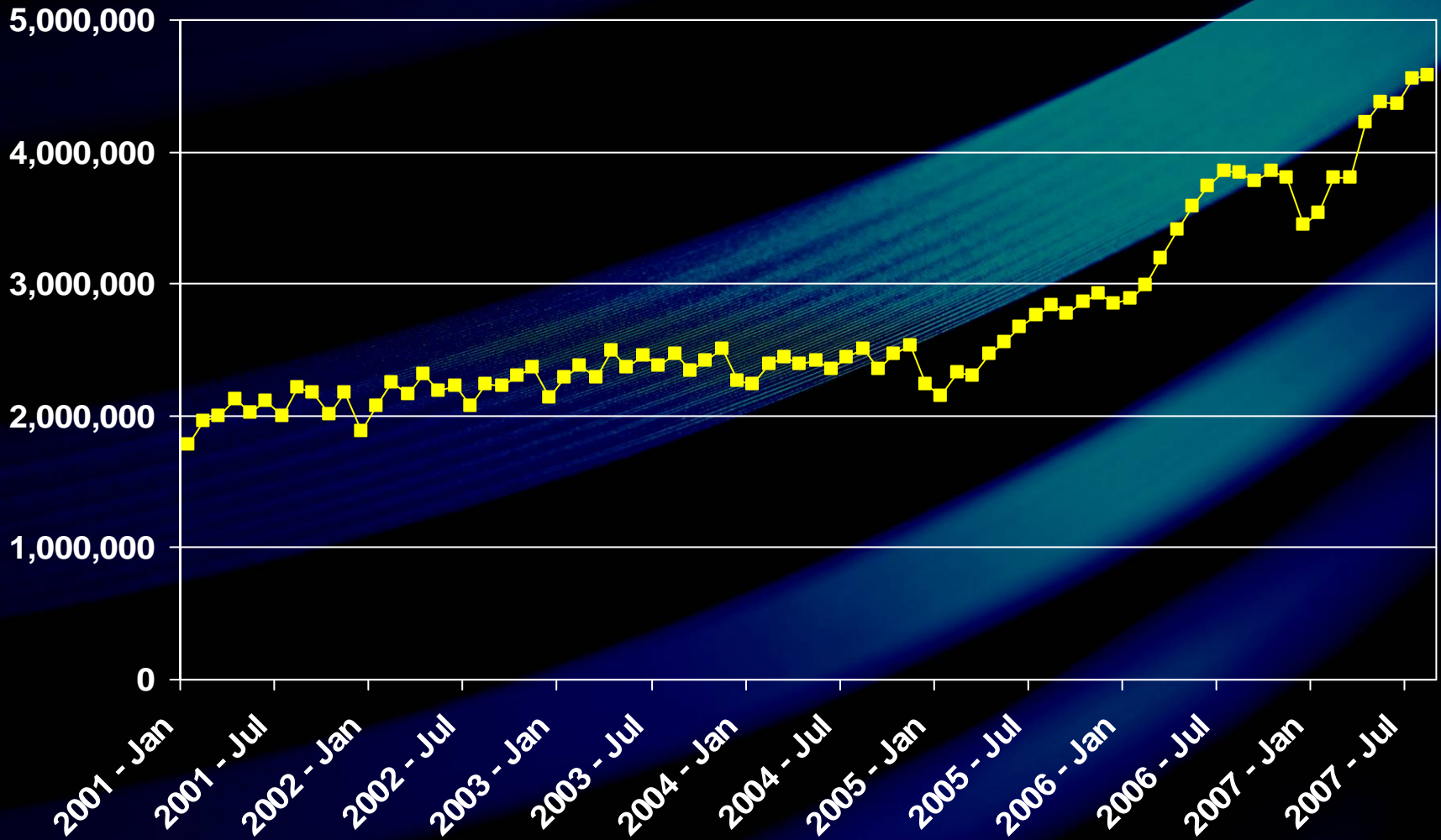
	<b>2005</b>	<b>2007</b>	<b>Difference</b>
<b>Total Home Sales</b> (new and existing)	<b>8.4 million</b>	<b>6.5 million</b>	<b>- 1.9 million</b>
<b>Jobs</b> (in October)	<b>134.4 million</b>	<b>138.4 million</b>	<b>+ 4 million</b>
<b>Wage + Salary</b> (in October)	<b>\$5.7 trillion</b>	<b>\$6.4 trillion</b>	<b>+ \$700 billion</b>
<b>Household Wealth</b> (3 <sup>rd</sup> quarter)	<b>\$51 trillion</b>	<b>\$59 trillion</b>	<b>+ \$8 trillion</b>
<b>Home Prices</b>	<b>\$219,600</b>	<b>\$217,600</b>	<b>- 1.9%</b>
<b>Mortgage Rates</b>	<b>5.9%</b>	<b>6.3%</b>	<b>+ 0.4% points</b>

# Unleashing of Pent-Up Demand



# Existing-Home Inventory

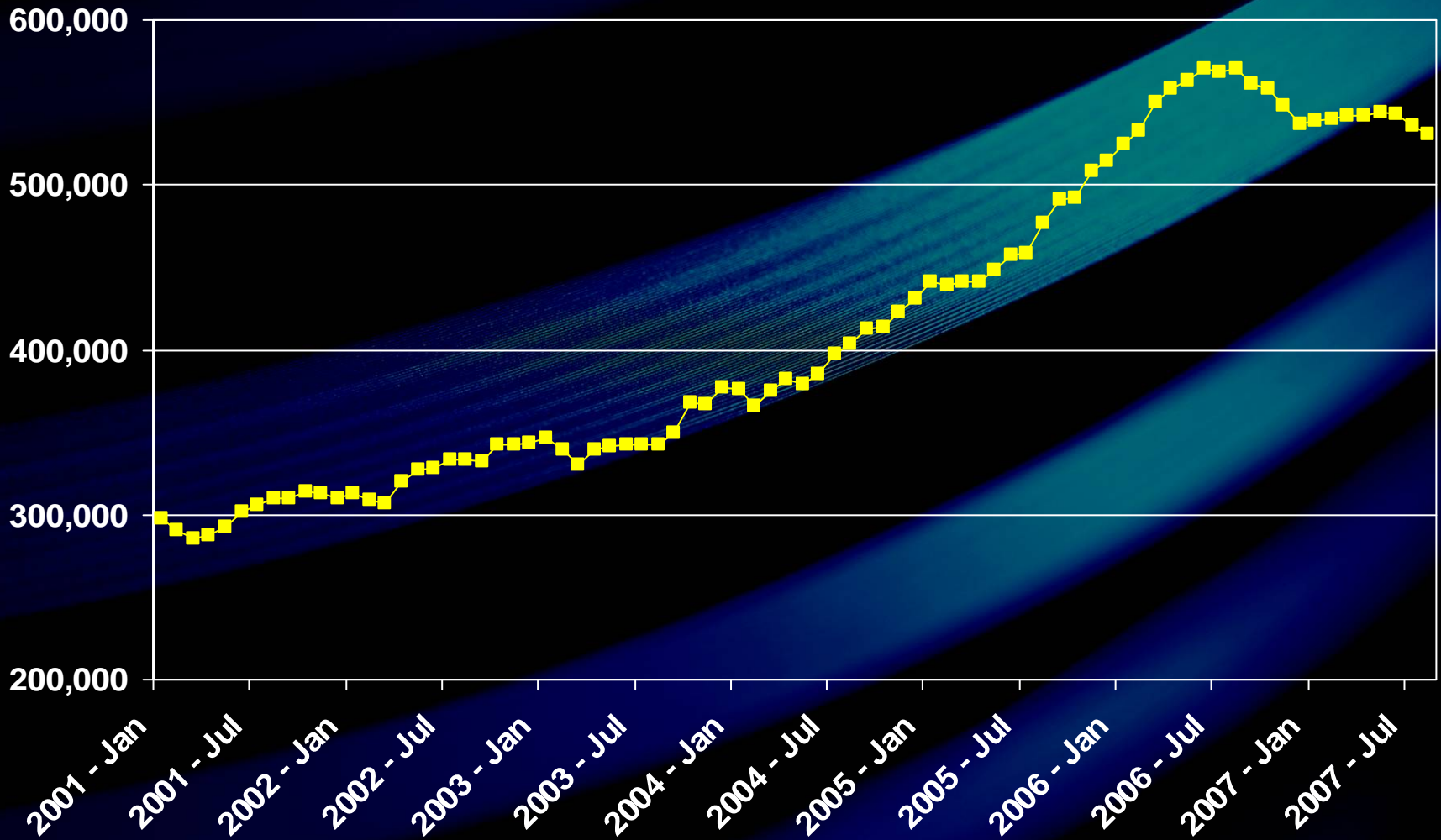
(From 2 million to 4.5 million; but most are owner-occupied)



Source: NAR

# New Home Inventory

(Already Topped Out)



Source: Census

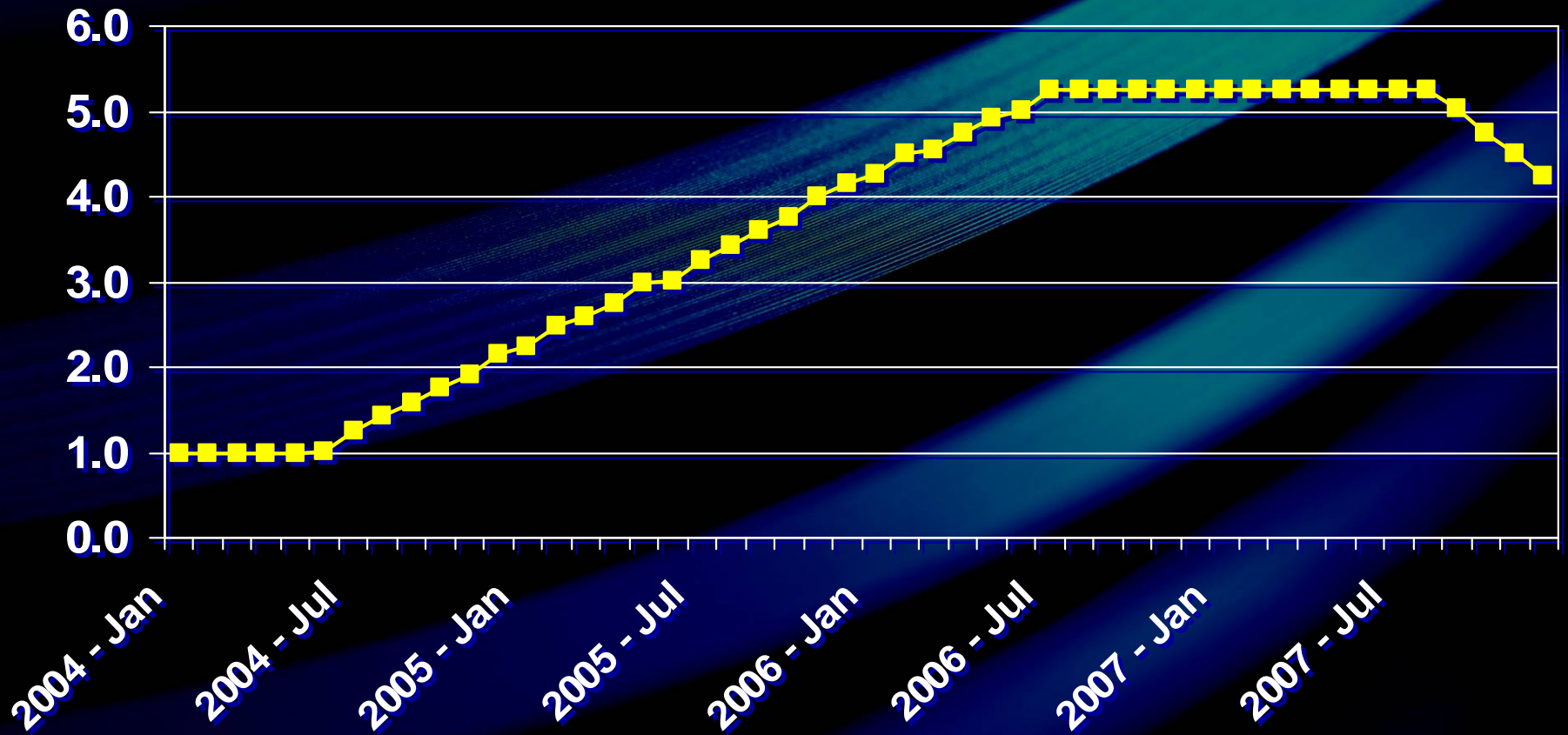
# The Truth on Wall Street

- **Moody's and Standard & Poor's**
  - **Need to quickly downgrade bad debts**
  - **Come clean about conflict of interest**
- **Show us all of your bad cards**
  - **Merrill Lynch \$8 billion in write-down**
  - **Citi \$8 to \$11 billion in write-down**
- **Global investors want transparency before re-entering the market**



# Fed Rate Cut

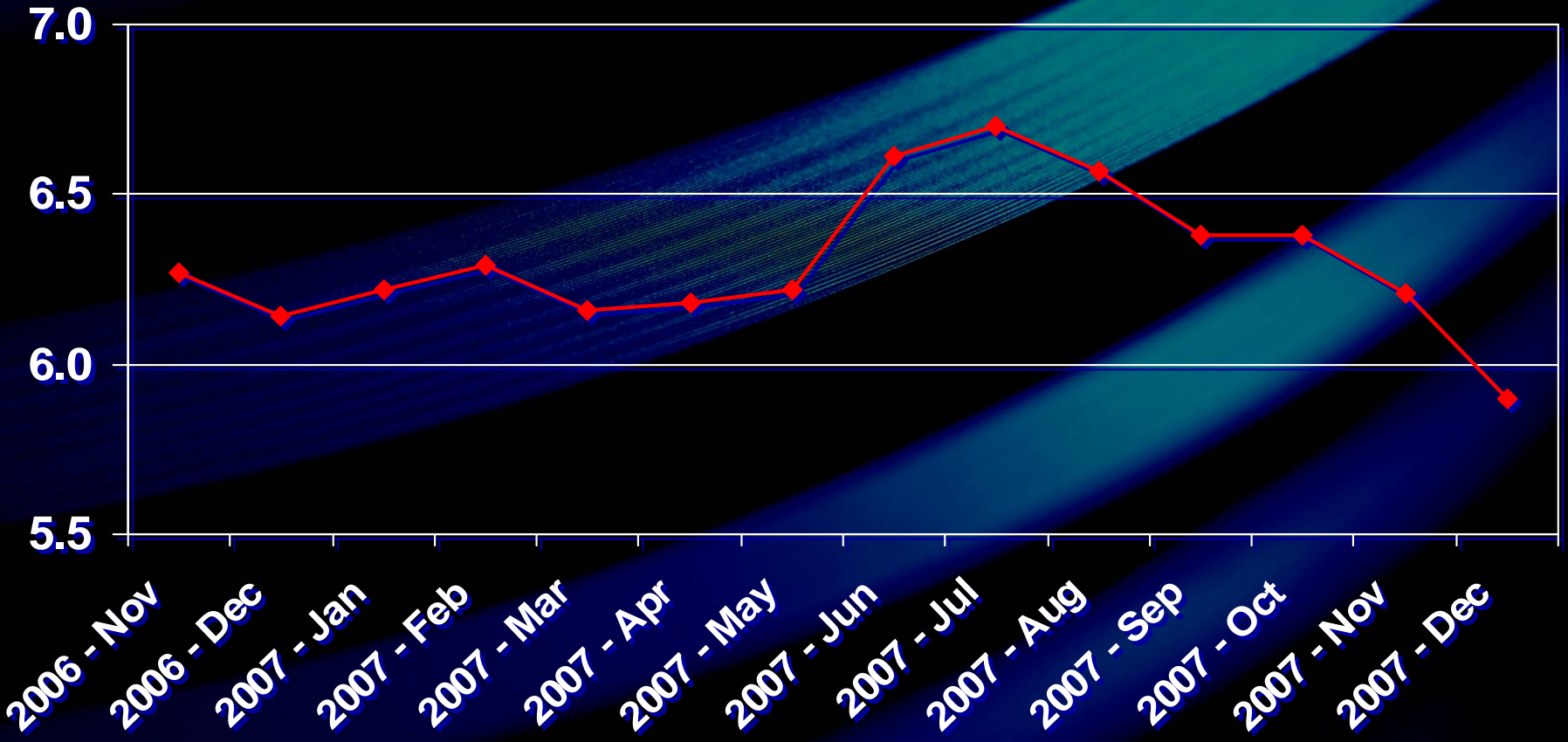
■ Fed Funds Rate



Source: Federal Reserve

# Mortgage Rates Falling

◆ Mortgage Rate

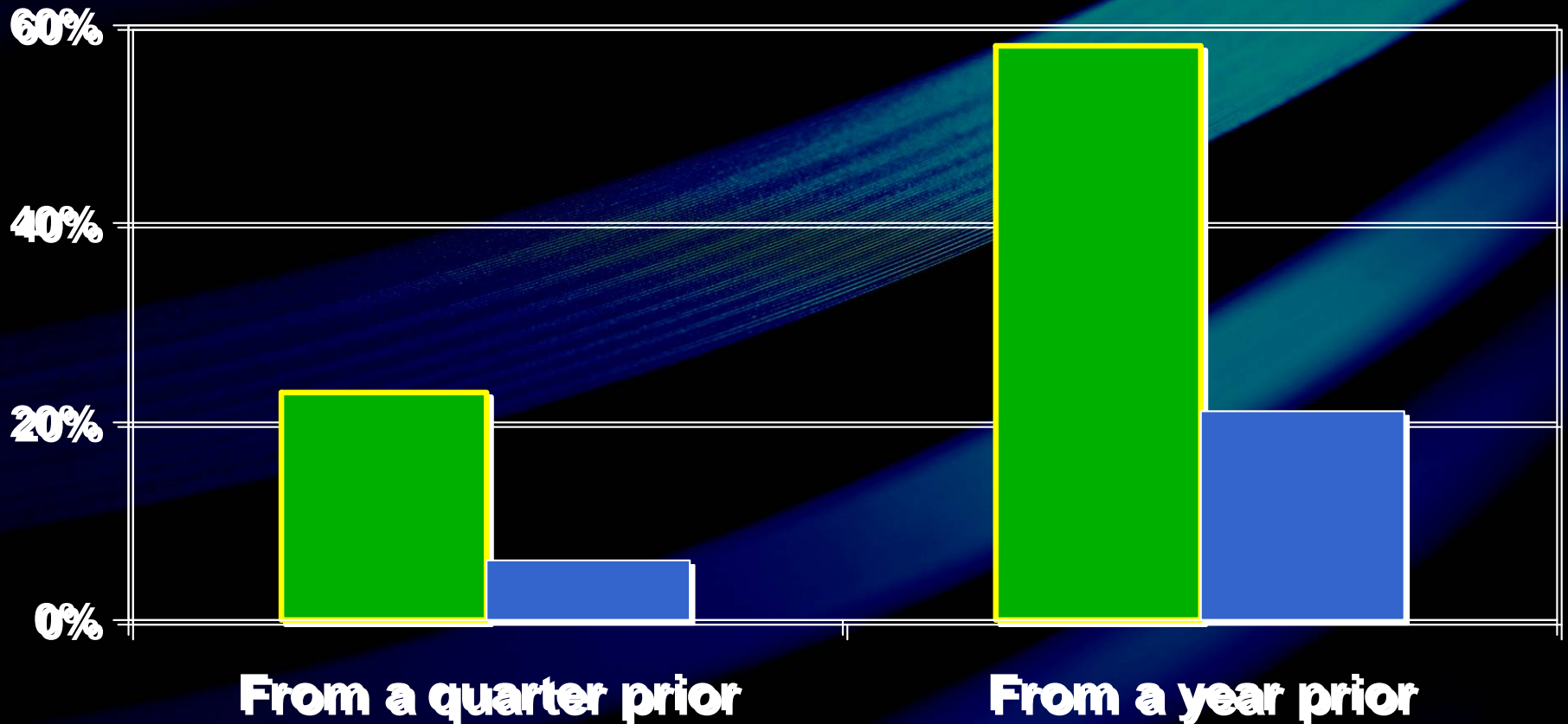


Source: Freddie Mac

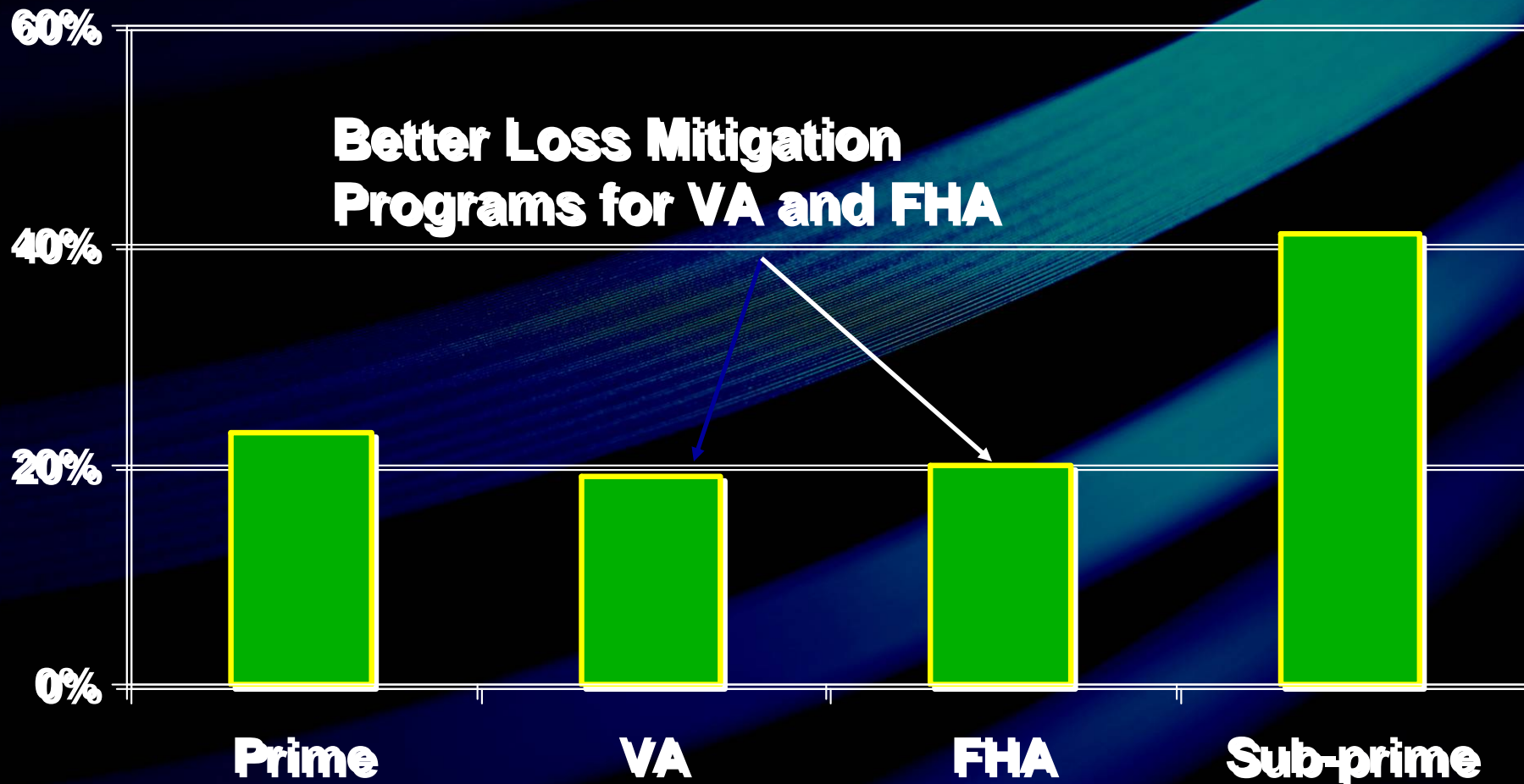
# FHA Endorsements Rising

(2007 Q2)

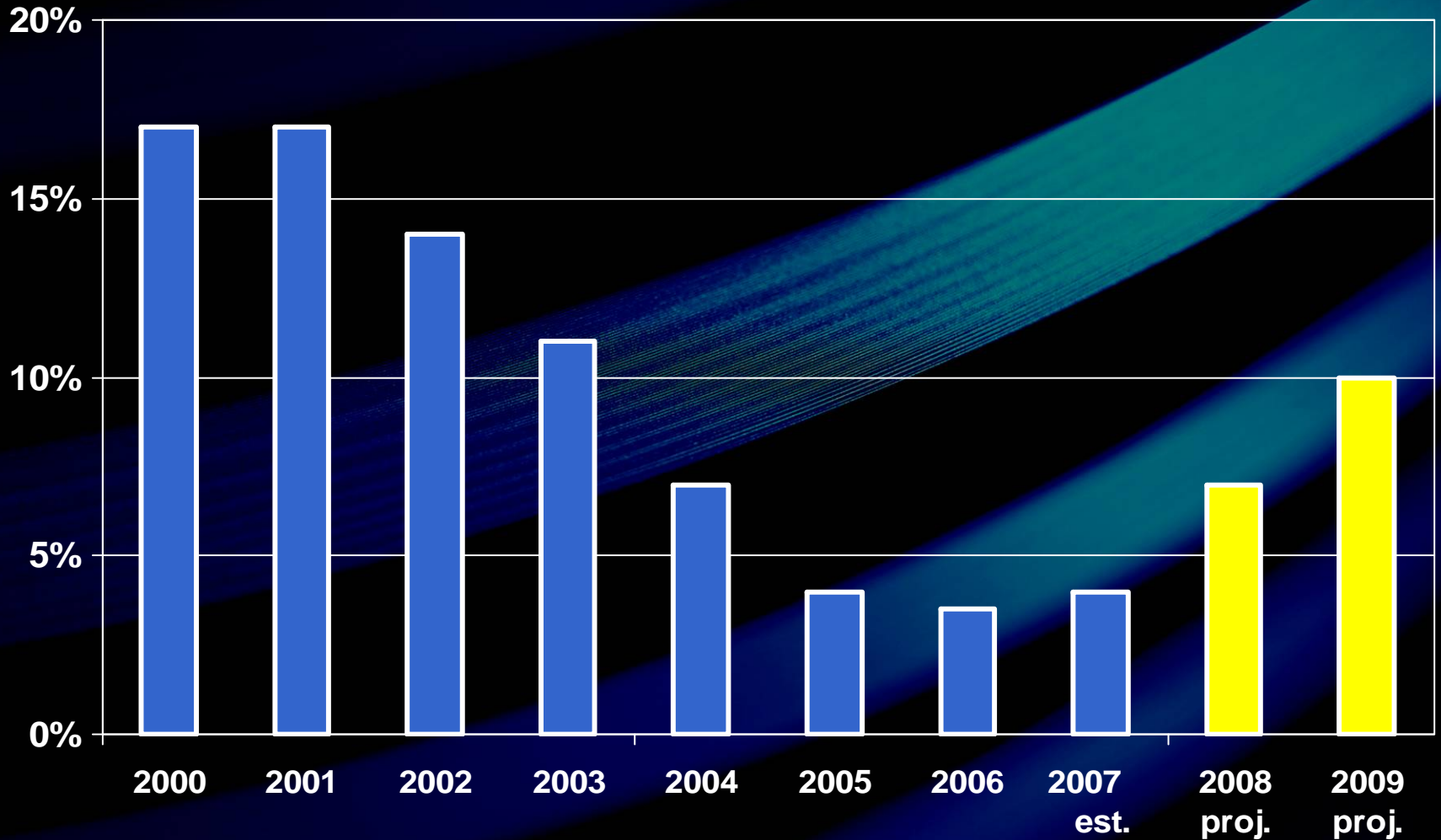
■ Home Purchase ■ Refinance



# Delinquency to Foreclosure Probability (Latest Foreclosure/Delinquency ratio)



# FHA Market Share for Home Purchase



Source: HMDA, NAR Estimate

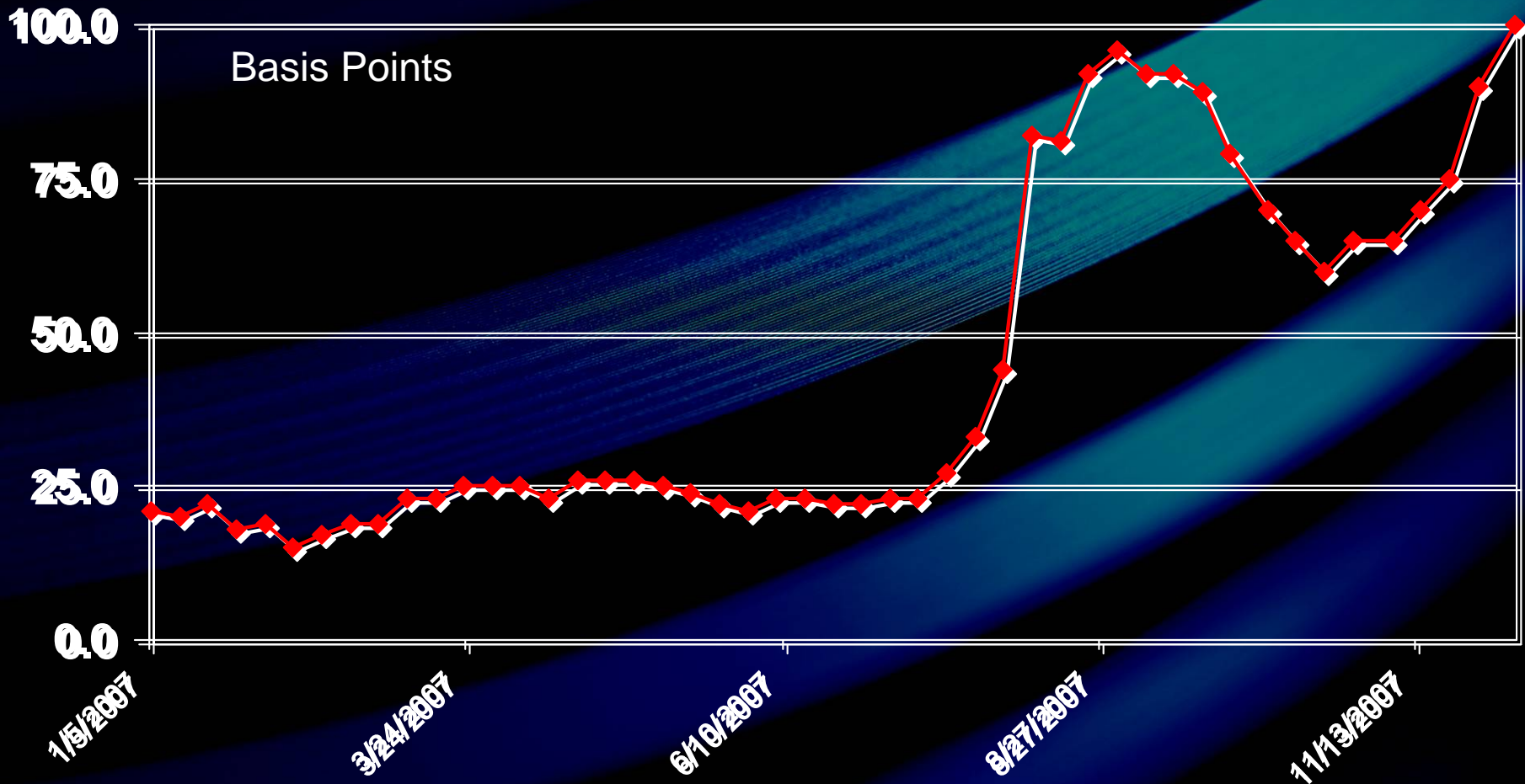
# FHA Reform – Please Enact

- **NAR has been lobbying for**
  - **Higher Loan Limit**
  - **Risk-based Pricing**
  - **Lower Down-payment**
  - **Greater Flexibility**



# Jumbo Loan Rate Spread

(Jumbo Loan rate above Prime Conforming Rate)



Source: Freddie Mac, NAR Estimate

# National Housing Outlook

	2006	2007	2008
Existing-Home Sales	6.48 million	5.67 million	5.70 million
New Home Sales	1.05 million	0.79 million	0.69 million
Housing Starts	1.80 million	1.36 million	1.16 million
30-Year FRM	6.4%	6.3%	6.3%
1-Year ARM	5.5%	5.6%	4.9%
Existing-Home Price Growth	1.0%	-1.9%	0.3%

# Local Forecast

- **Most of the declines already happened**
- **Any further declines to be minor**
- **Pent-up Demand ... Baby Boomers on the Horizon**
- **But the timing of housing recovery a bit uncertain**
- **“World Class Recreational” region commands high premium**