

Real Estate and Economic Outlook

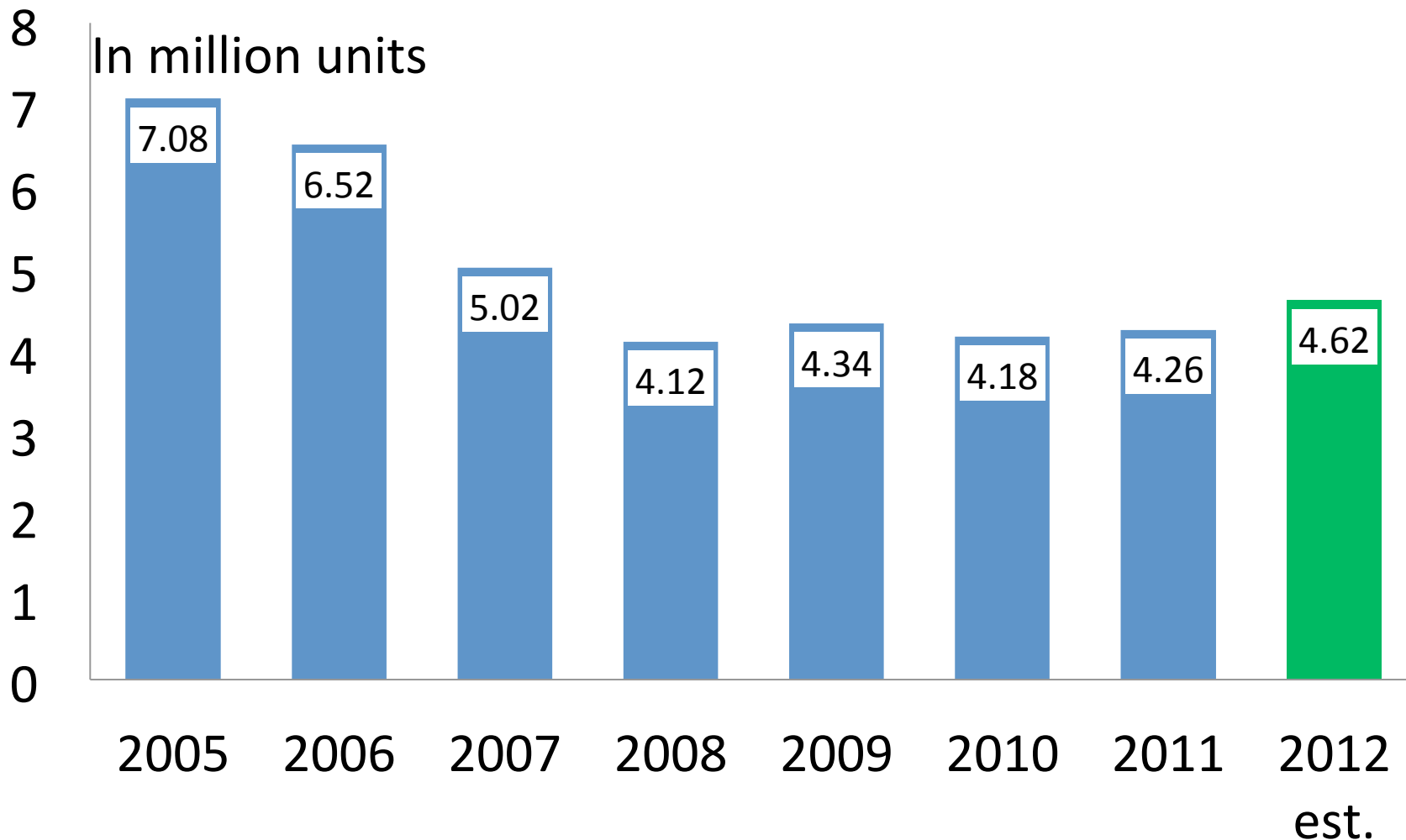
Lawrence Yun, Ph.D.
Chief Economist
NATIONAL ASSOCIATION OF REALTORS®

Presentation at Cleveland State University

Cleveland, OH

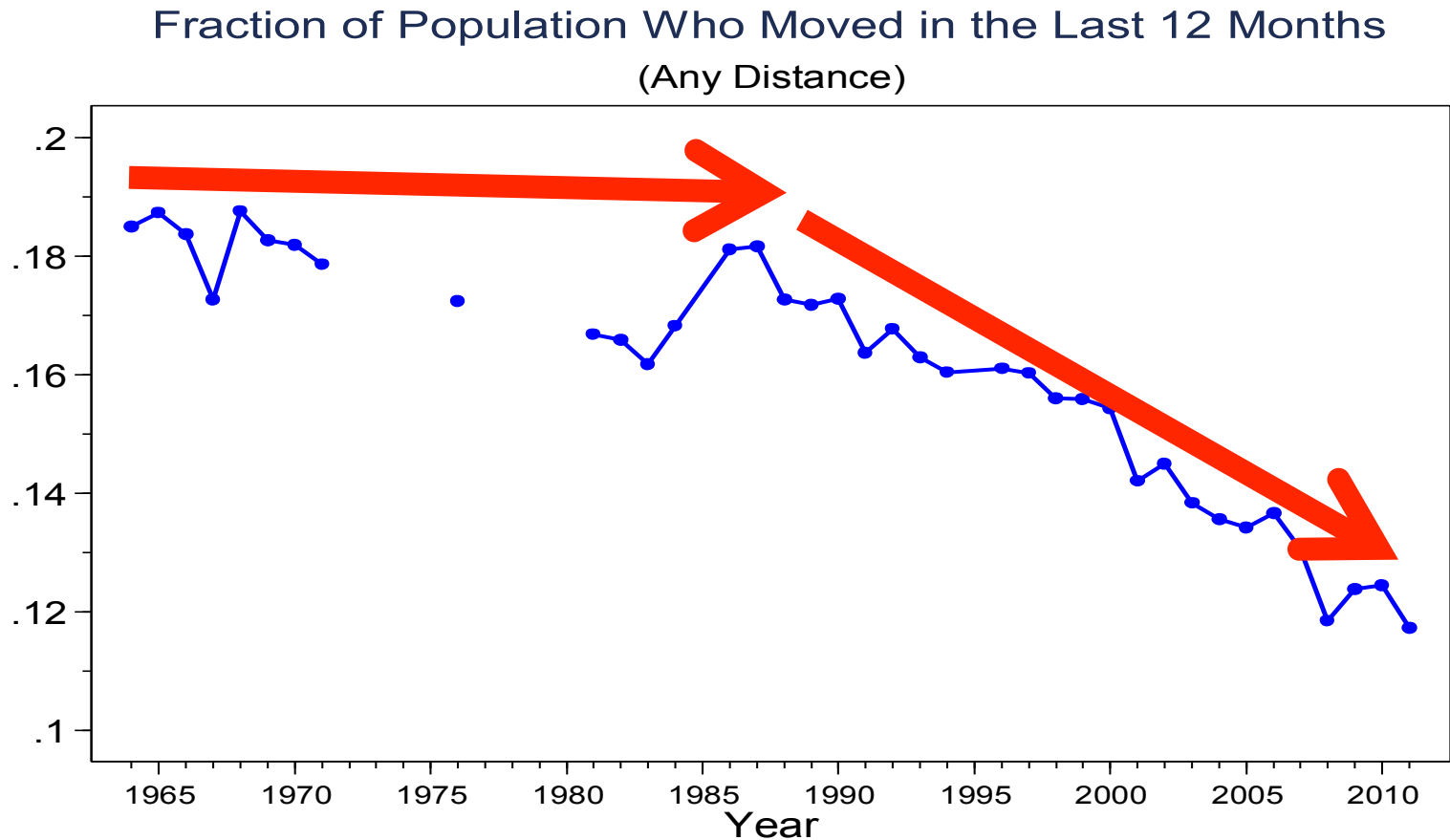
October 3, 2012

Existing Home Sales Recovery: Best in 5 years, but only up 8% year-to-date



One Reason for Slower Recovery, aside from credit bubble hangover, is the falling mobility rate

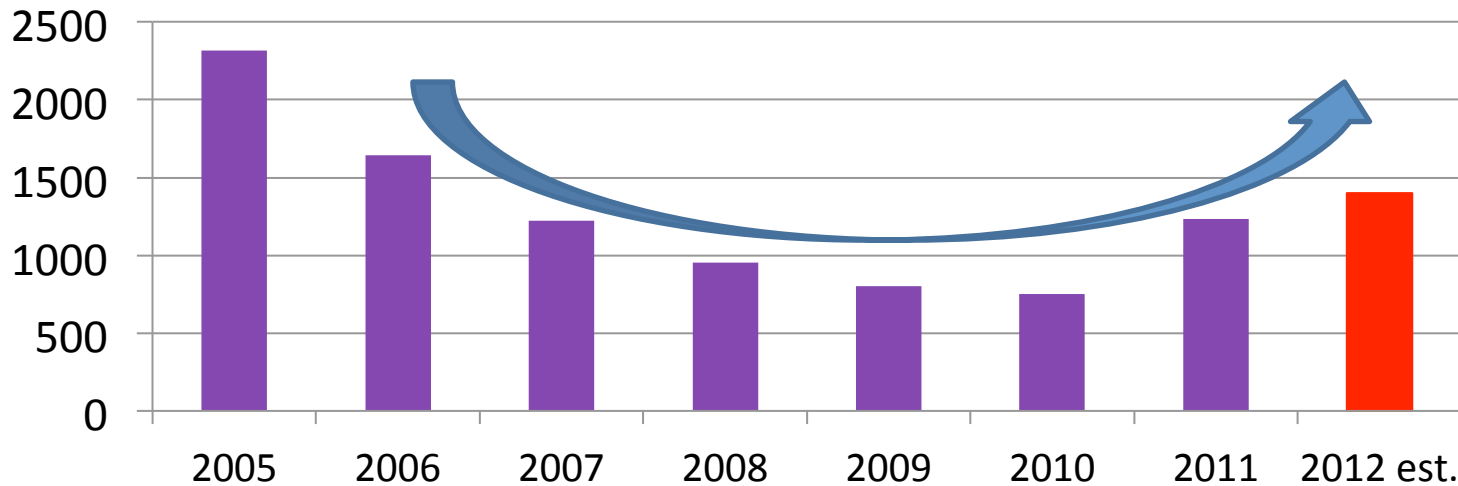
From 18% to 12%



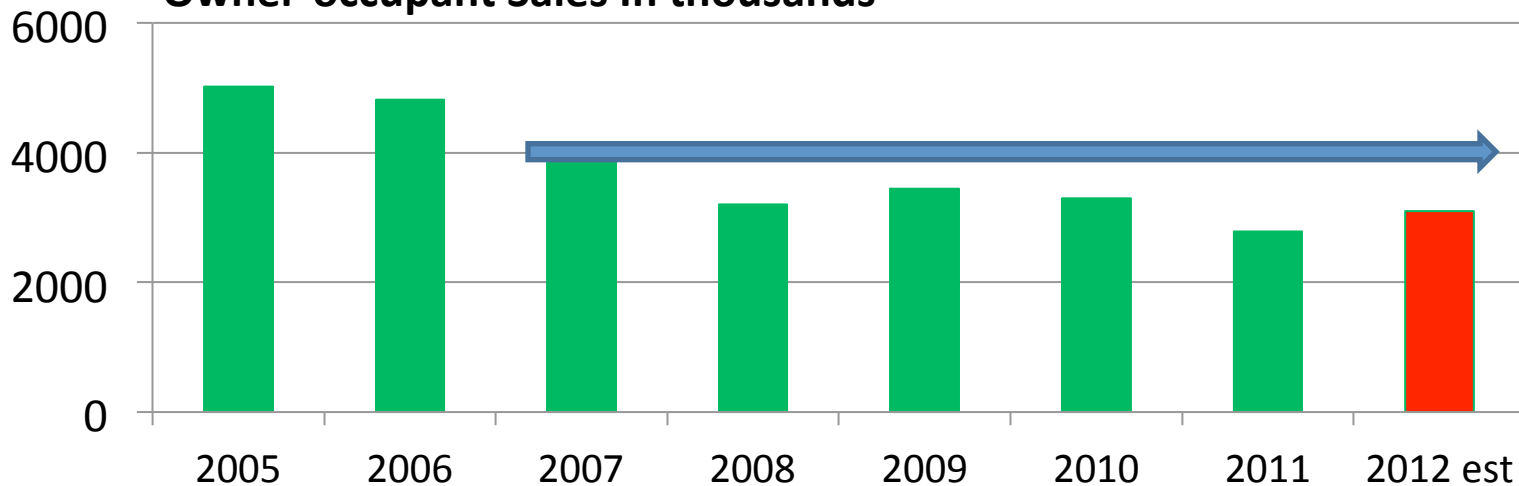
Source: Raven Molloy, Federal Reserve Economist, Current Population Survey.

Investors in the Market; and Homebuyers Frustrated

Investor Sales In thousands



Owner-occupant Sales In thousands



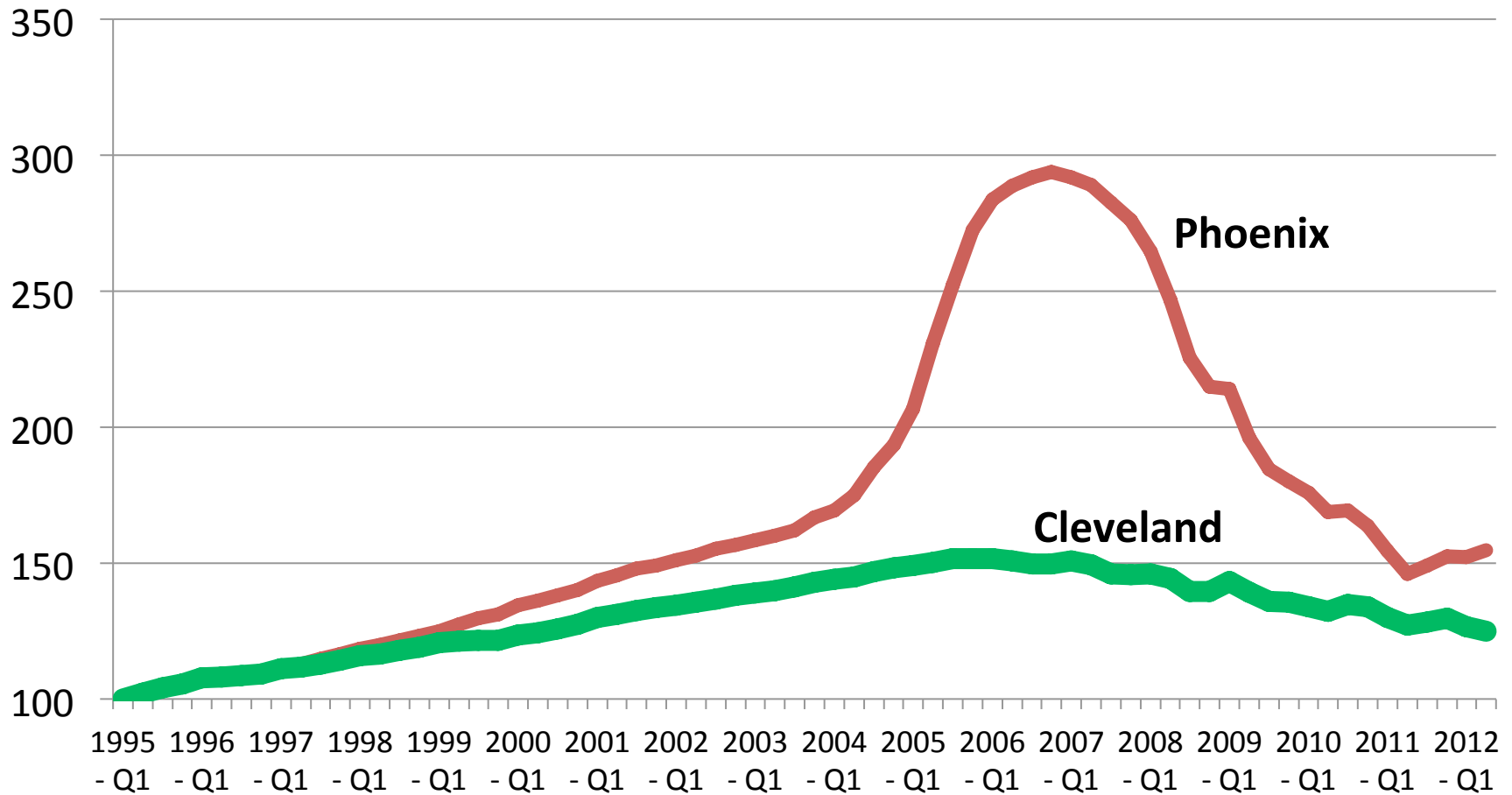
Cleveland Area Housing Statistics (August 2012)

- Units Sold ... up 17.0% from one year ago
- Median Price to \$127,600 ... up 4.1%
- Dollar Volume ... up 21.8%
- Pending contracts for Ohio ... up 15.6%

Source: OAR using Northeast Ohio Real Estate Exchange

Everyone Seeing Low Home Prices

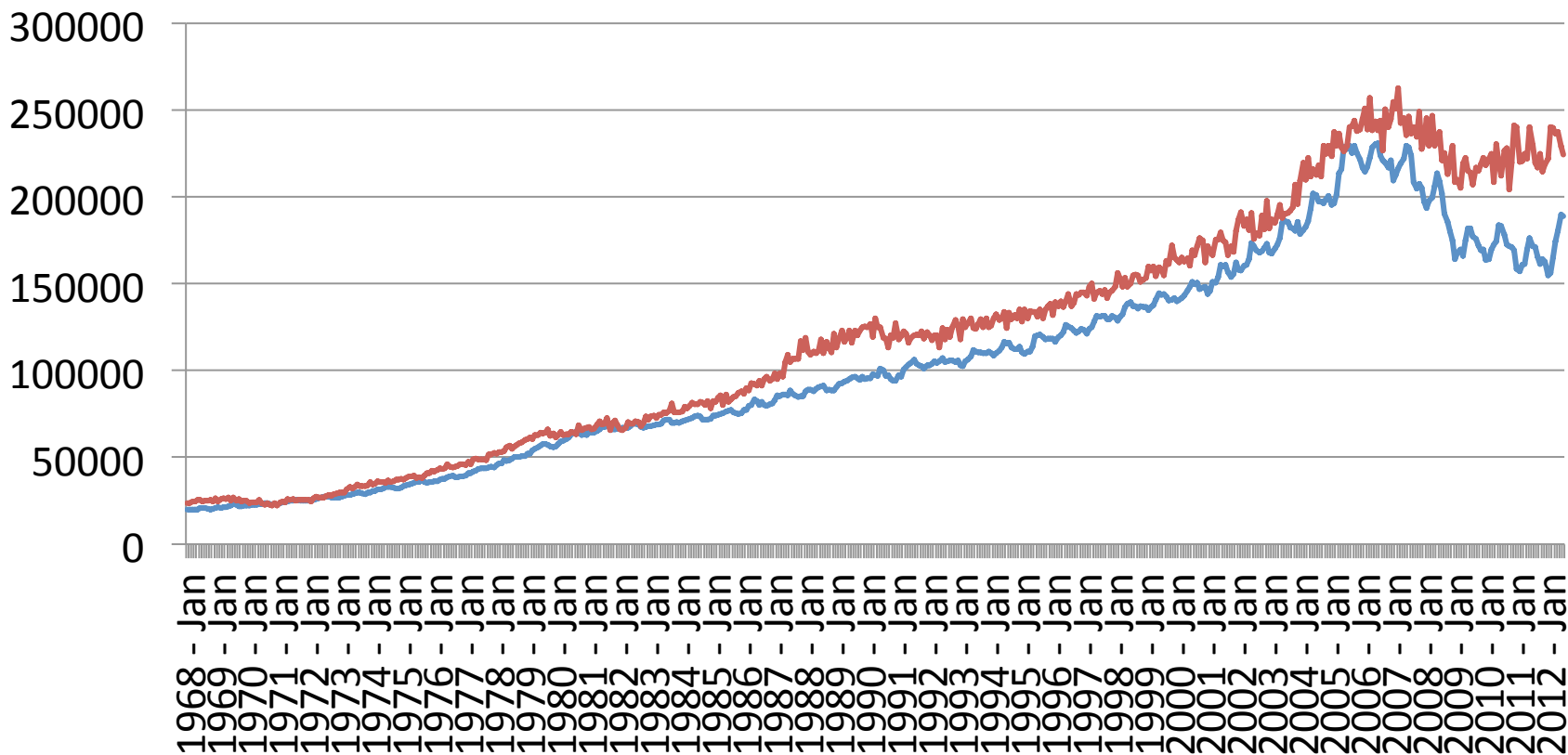
Warrant Buffet: Buy Low (not Buy High)



Source: FHFA

New versus Existing Home Price

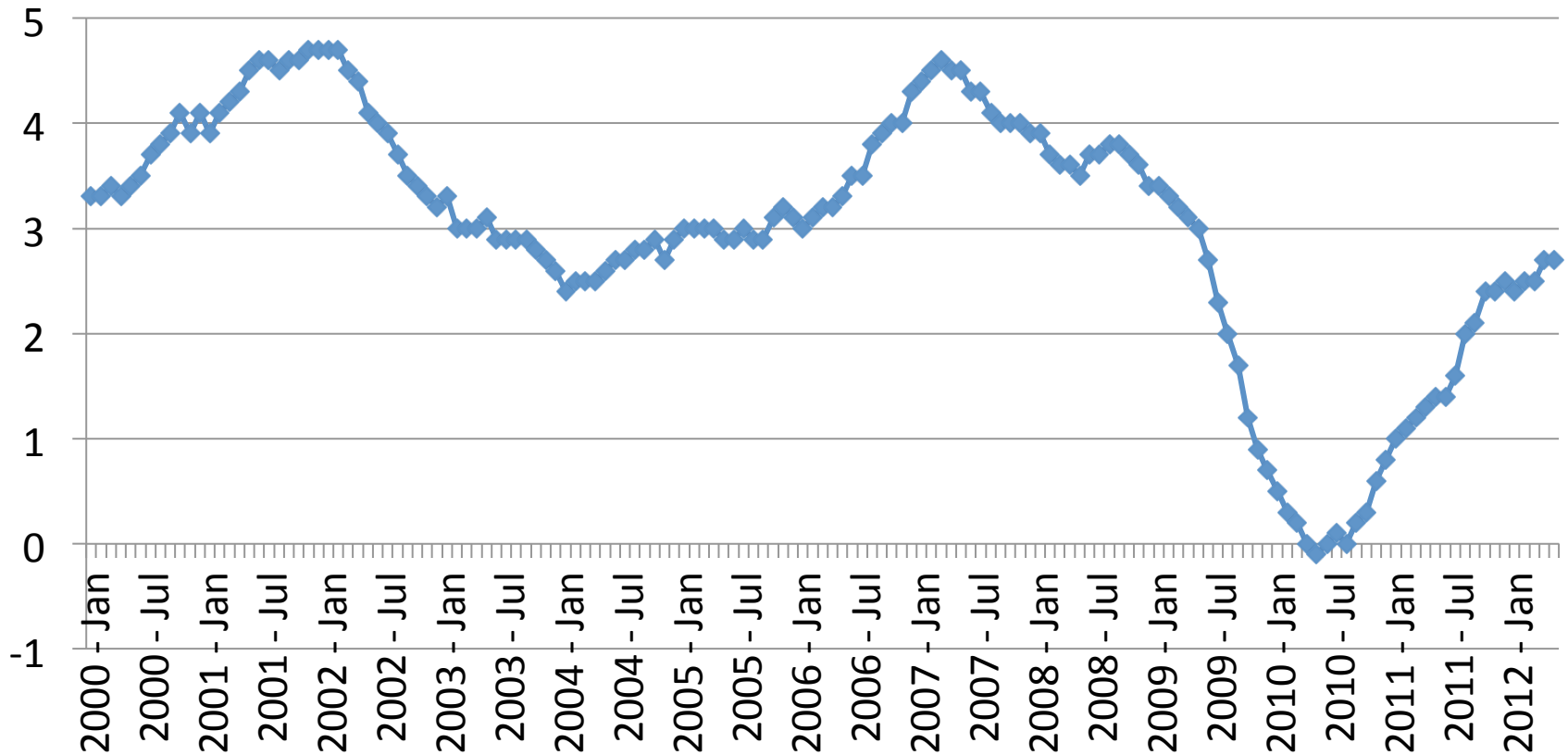
Existing Home Price New Home Price



Investors seeing Rising Rent

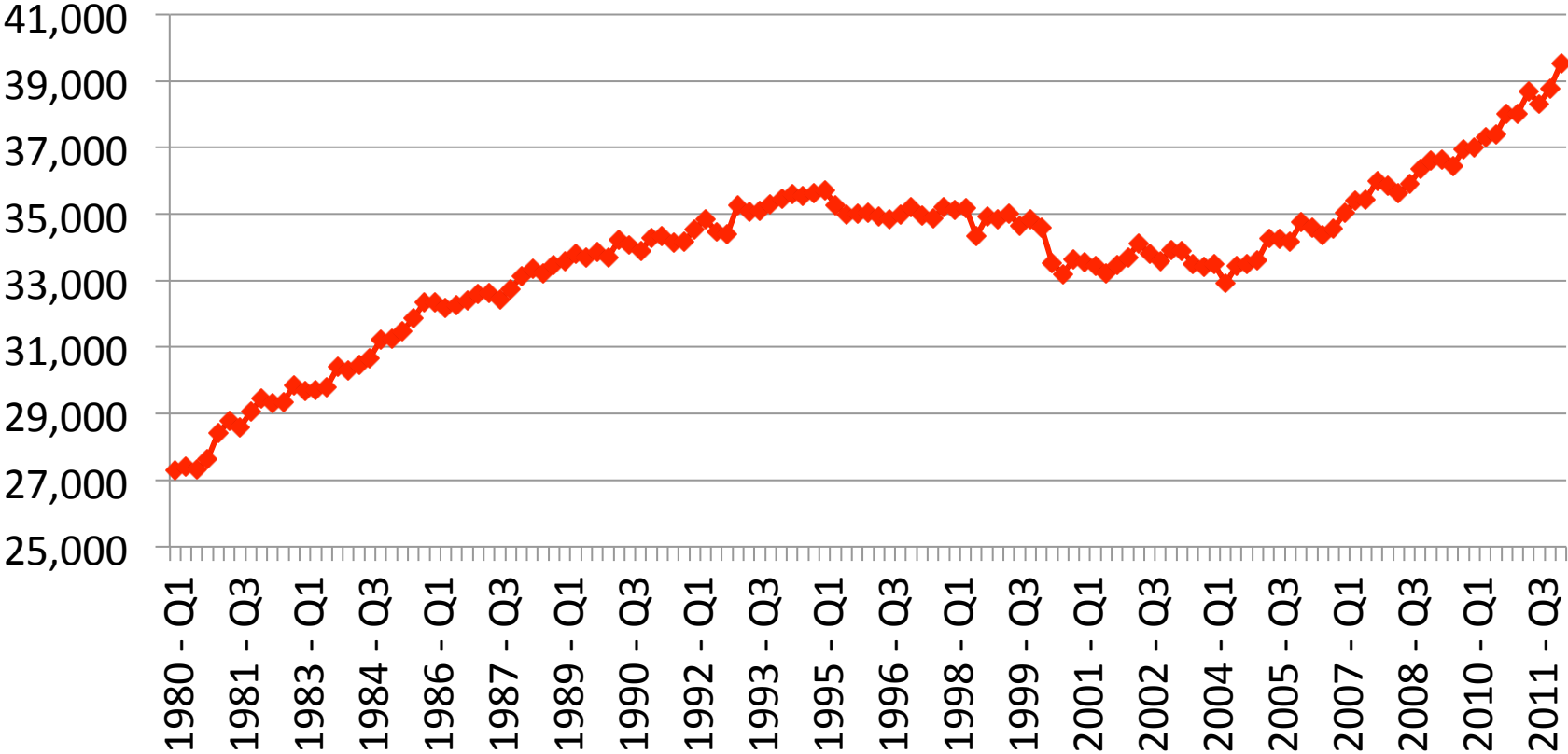
(Not deterred by 3.8% Health Care Tax on Rental Income ... because some of it will be passed on to renters)

% change from one year ago



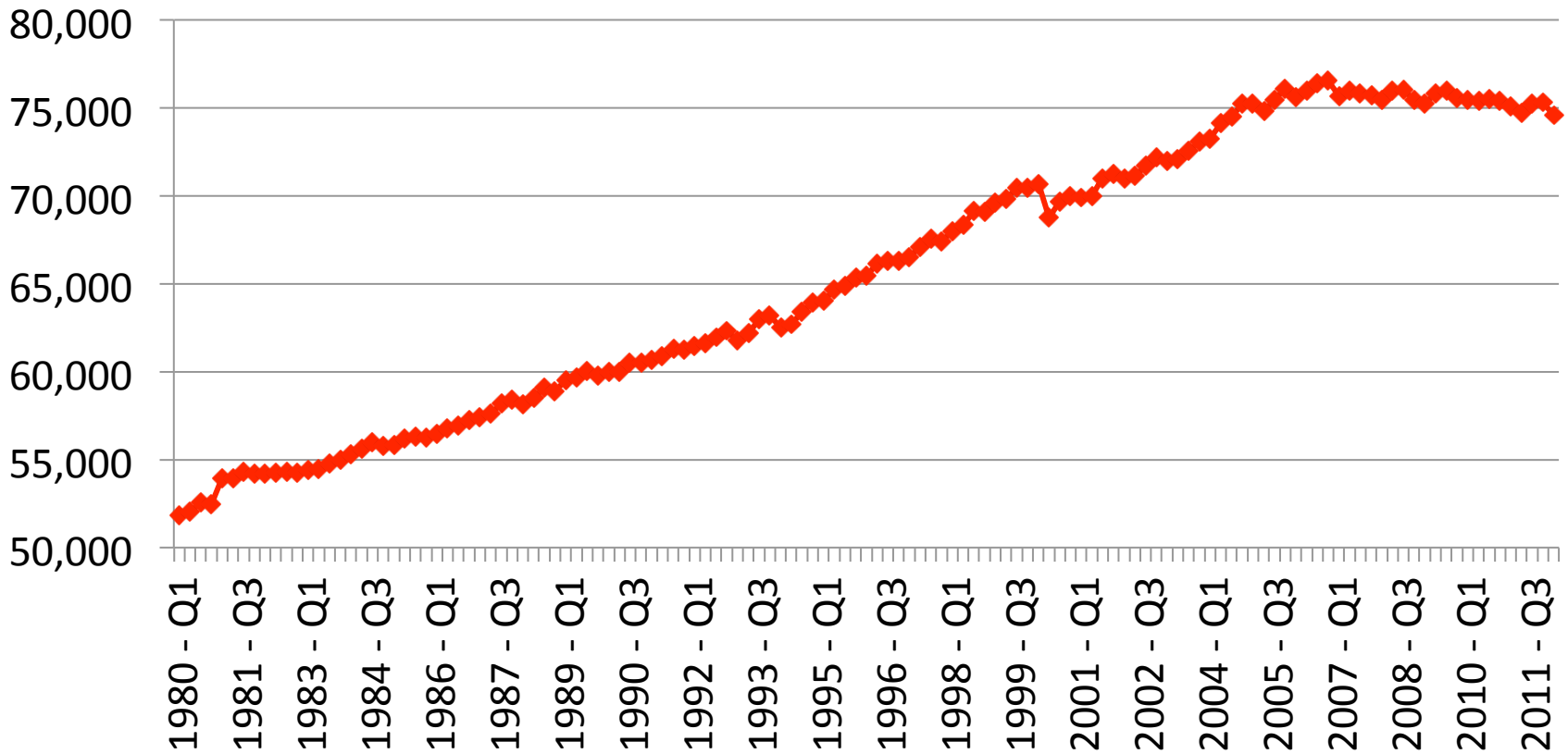
Investors also seeing rising # of renters

Rental Households



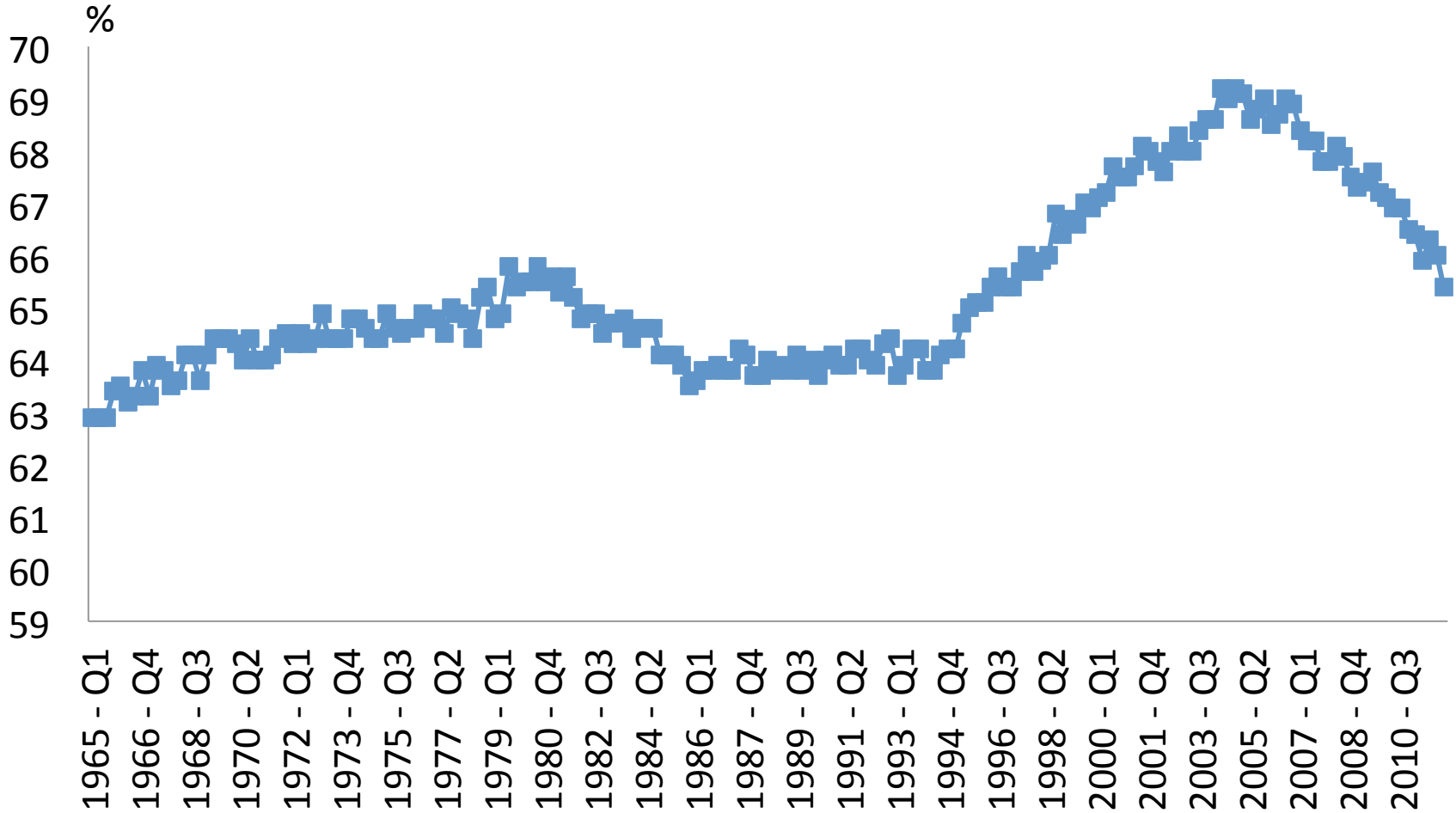
Homeowners not Rising

Homeowners



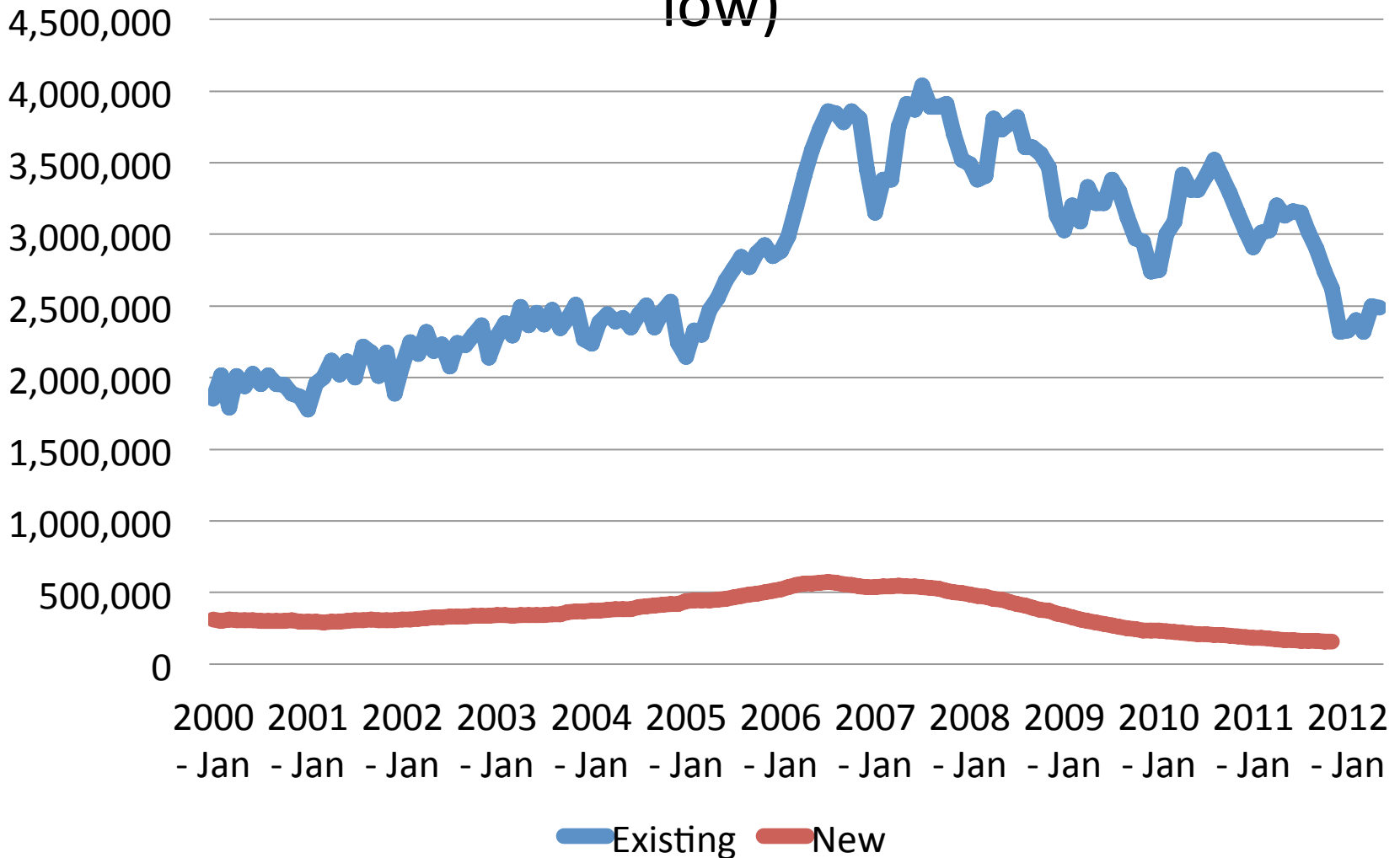
Homeownership Rate at 65.4%

(Lowest in 15 years)



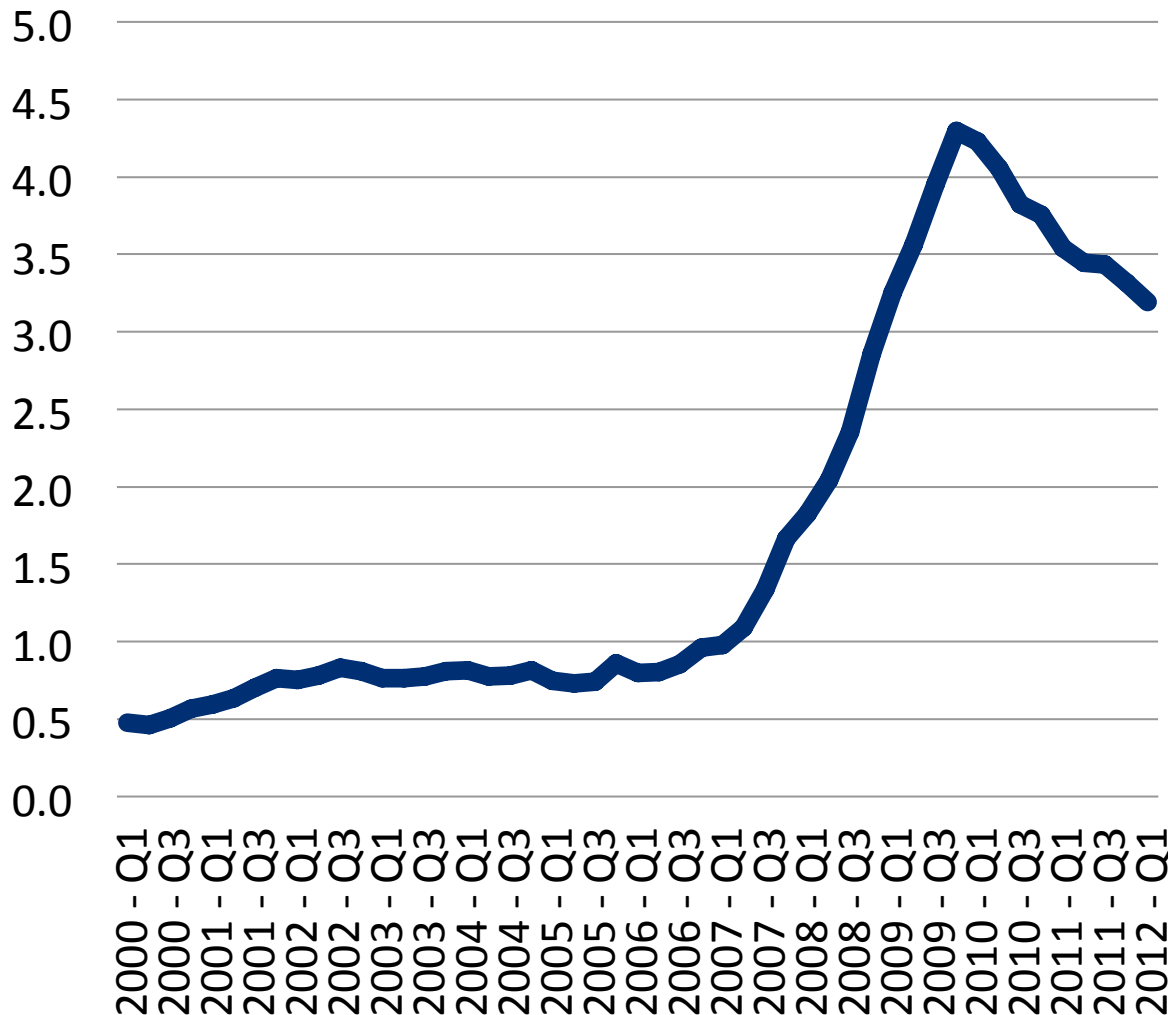
Visible Housing Inventory

(Existing inv. At 8-year low; New inv. at 50-year low)



Shadow Inventory ... Falling

(Seriously delinquent mortgage + homes in foreclosure process)
million units



Distressed Sales
Market Share

2010 ... 33%

2011 ... 33%

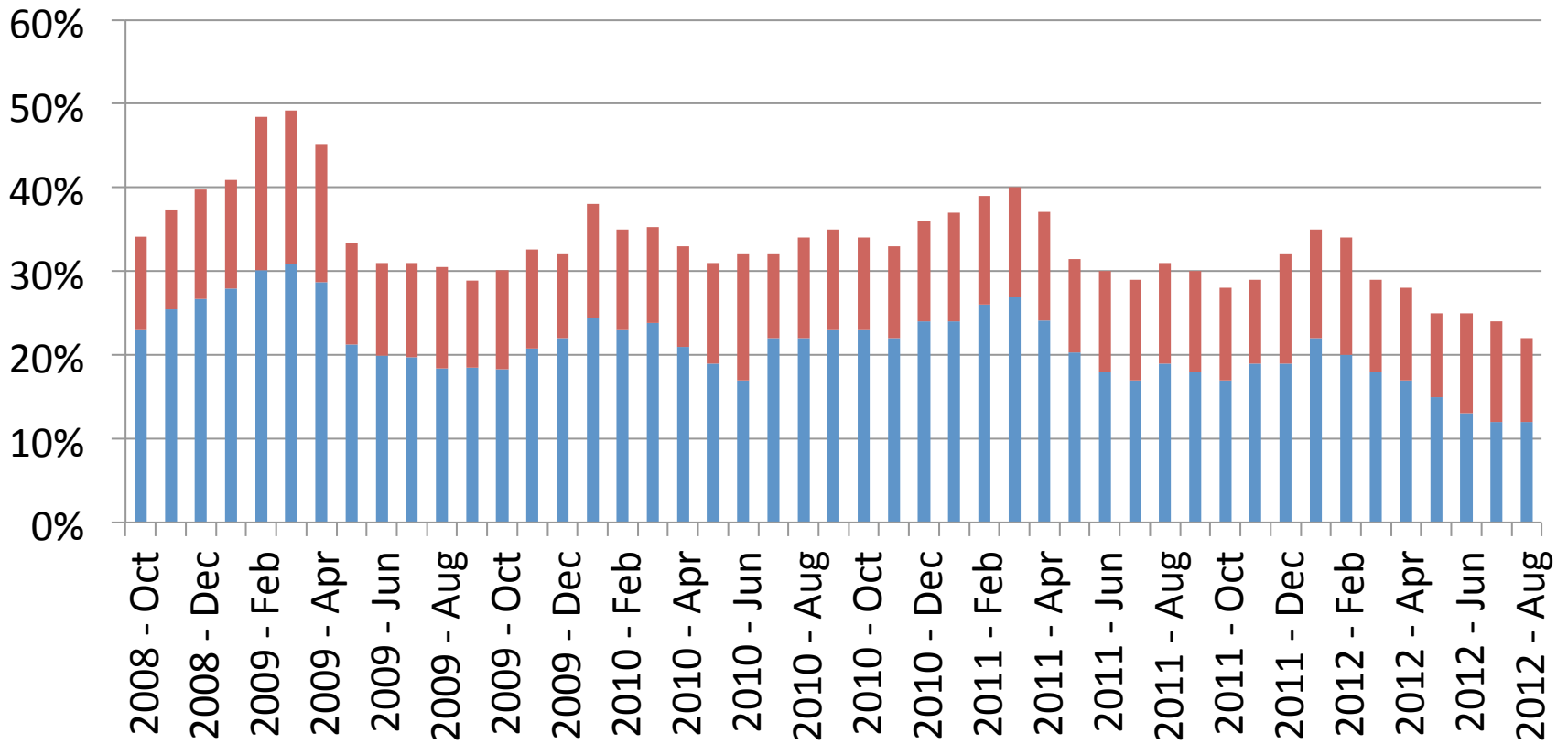
2012 ... 25%

2013 ... 15%

2014 ... 8%

Distressed Property Sales

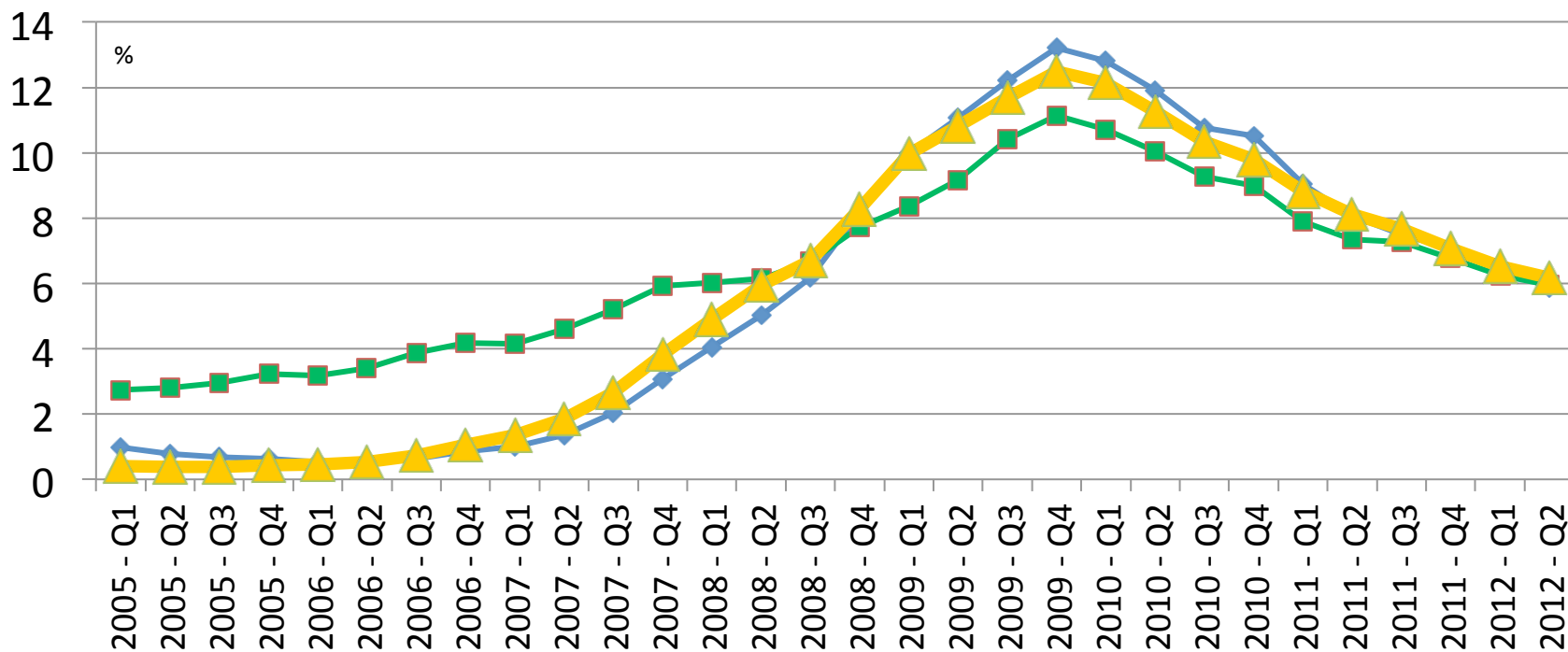
REO Short-Sale



Foreclosures Rapidly Falling in Non-Judicial States

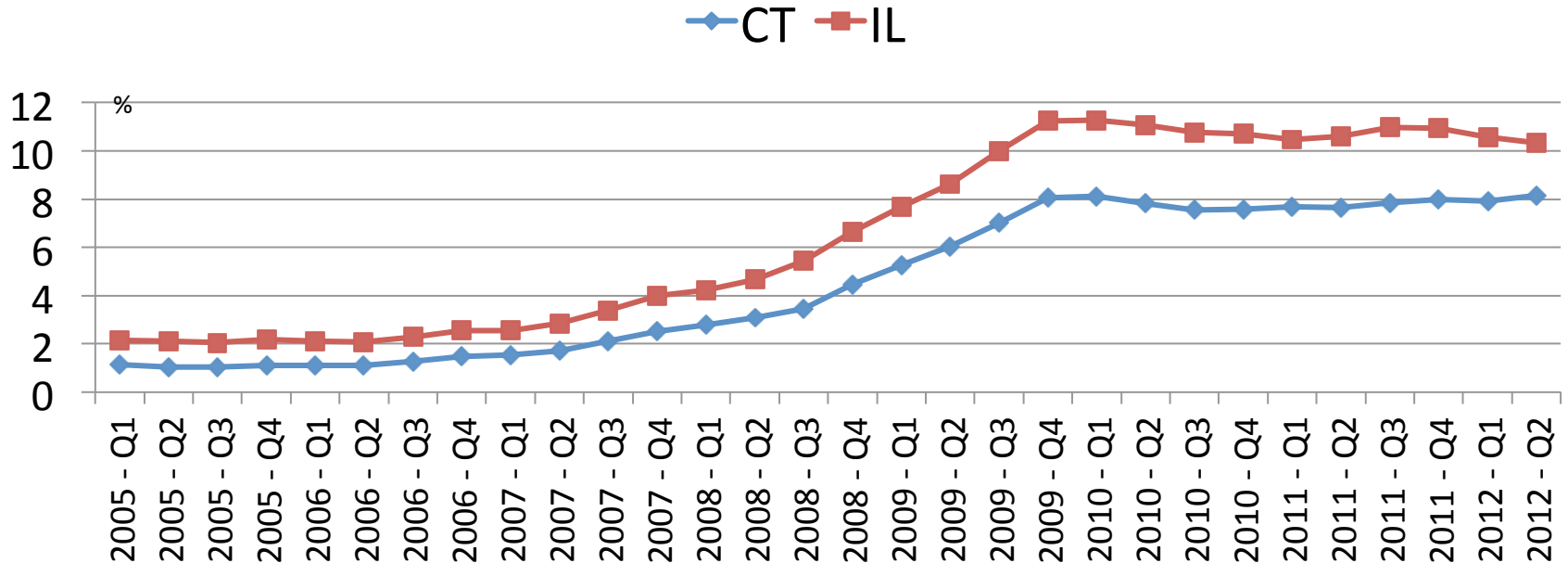
Example: Seriously Delinquent Mortgages in AZ, CA, MI

AZ MI CA



Foreclosures Clogged in Judicial States

Example Seriously Delinquent Mortgages in CT and IL

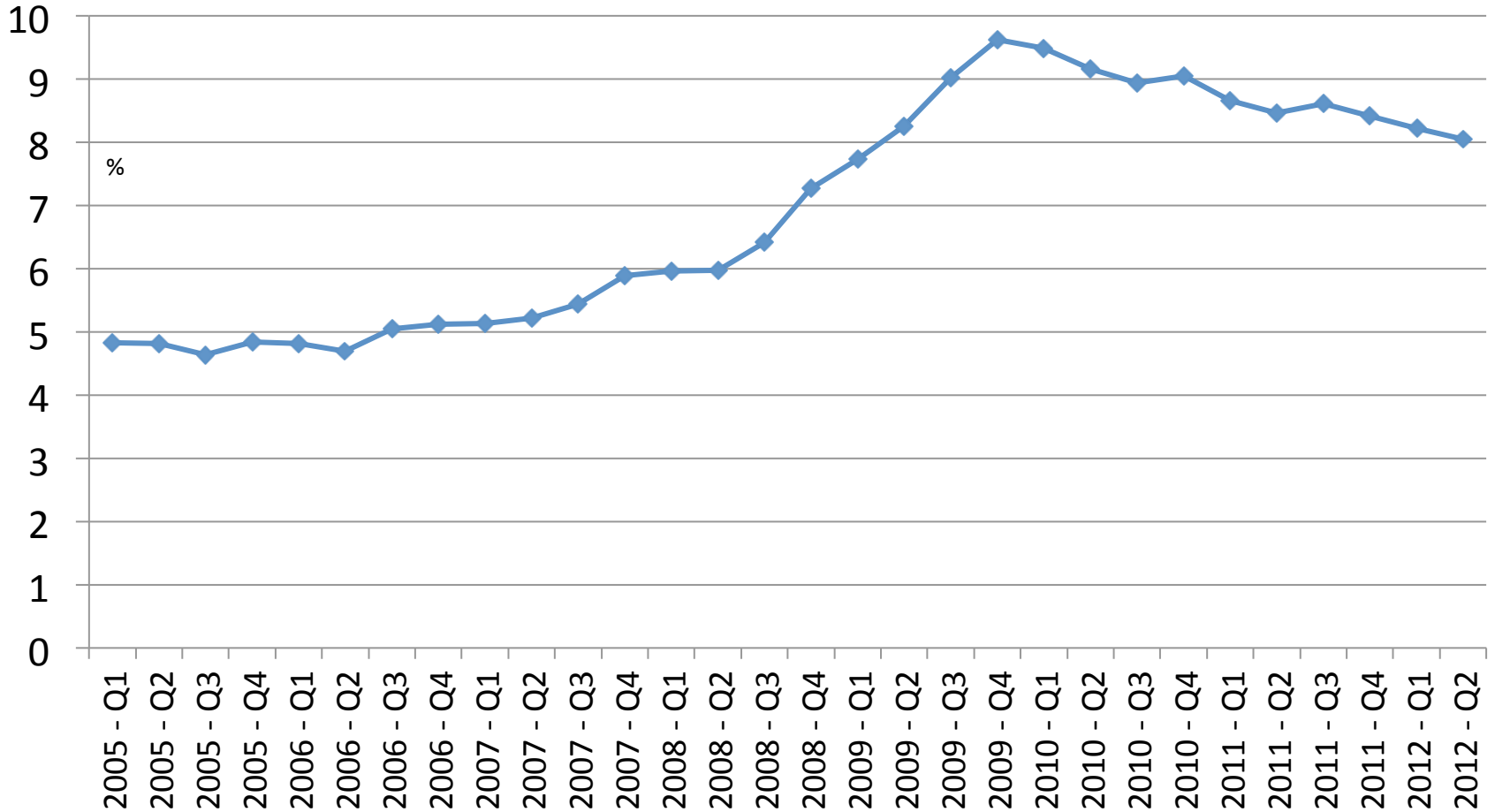


Should a trigger be set up to foreclose without a court approval?

- Vacant property
- Missed Mortgages for 6 months or longer

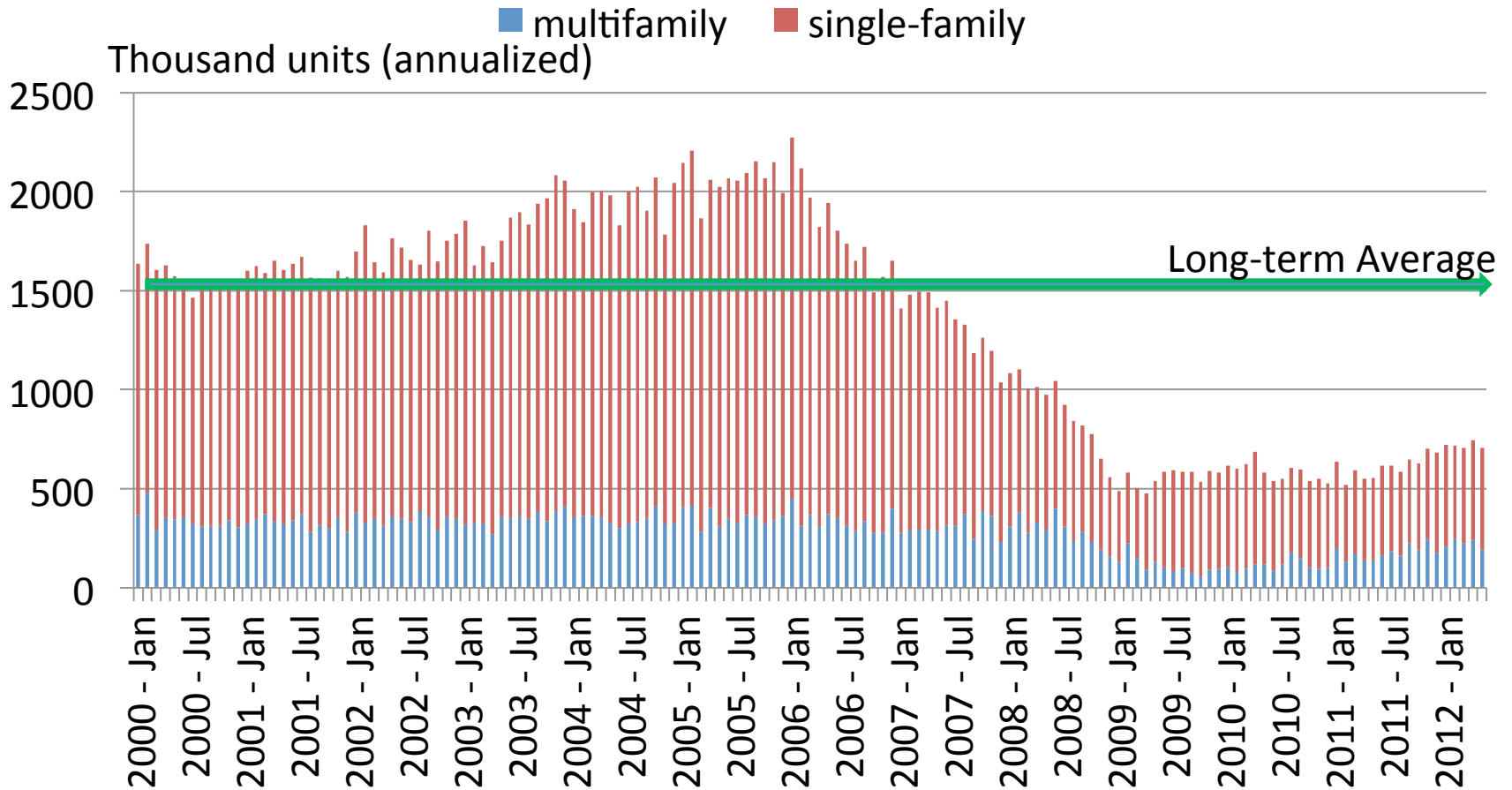
Foreclosures in Ohio

Example Seriously Delinquent Mortgages



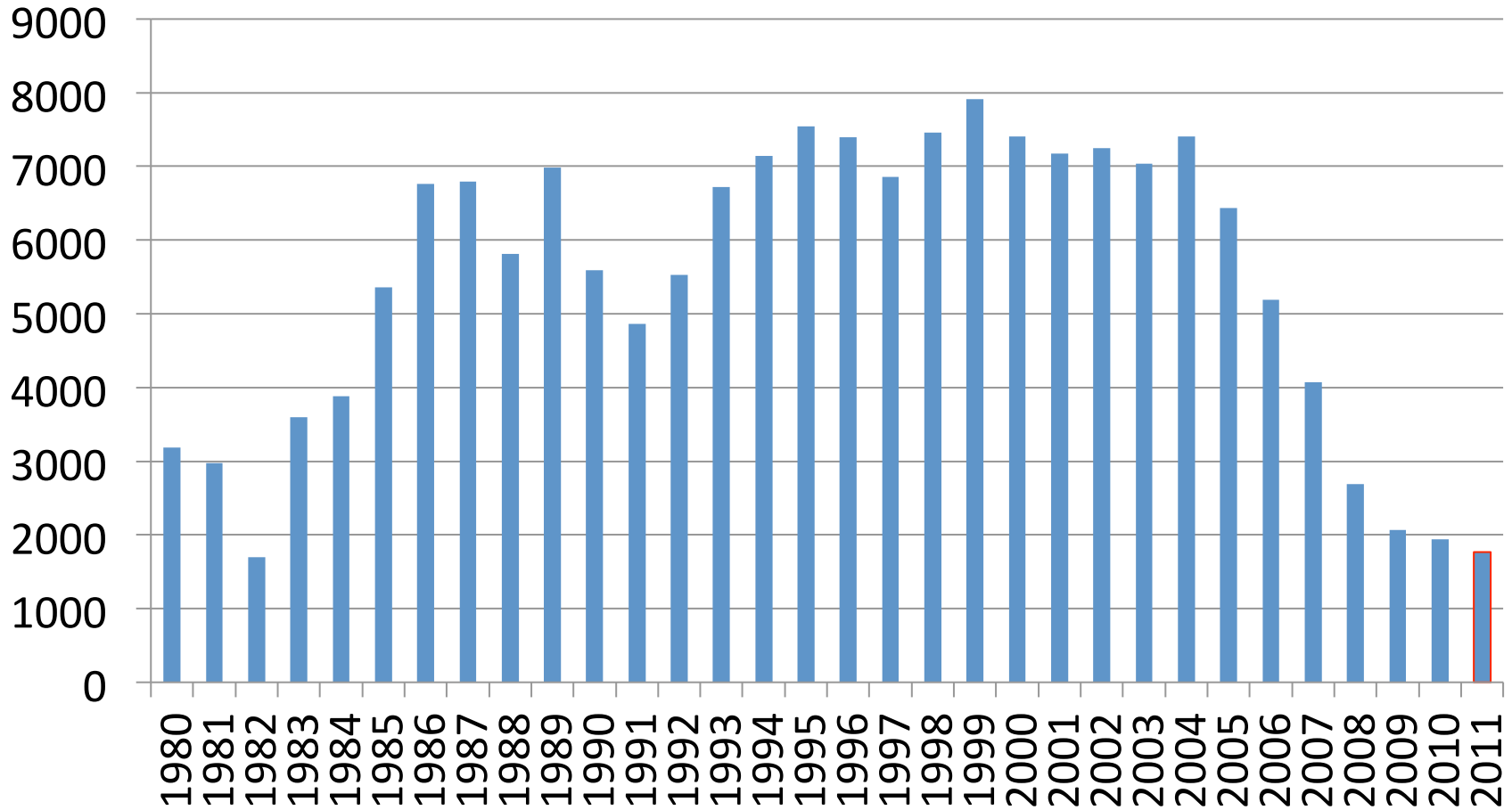
Housing Starts

(Well Below 50-year average of 1.5 million each year)



Source: Census, HUD

Cleveland-Lorain-Elyria Housing Permits



Falling Inventory of Homes for Sale

	2010 July	2011 July	2012 July
Existing Homes for Sale	3.41 million	3.15 million	2.40 million
Newly Constructed Homes for Sale	210,000	165,000	142,000
“Shadow” Estimate (Seriously Delinquent Mortgages and Homes in Foreclosure Process)	4.2 million	3.5 million	3.2 million
Homeowners waiting <ul style="list-style-type: none"> • for higher home prices • To be freed from Tax Credit Lock Period 	???	???	Inconsequential Impact since most will list homes, but with intent also on buying

Wealth Distribution ... Who will get Future Wealth?

(Federal Reserve data on median net worth)

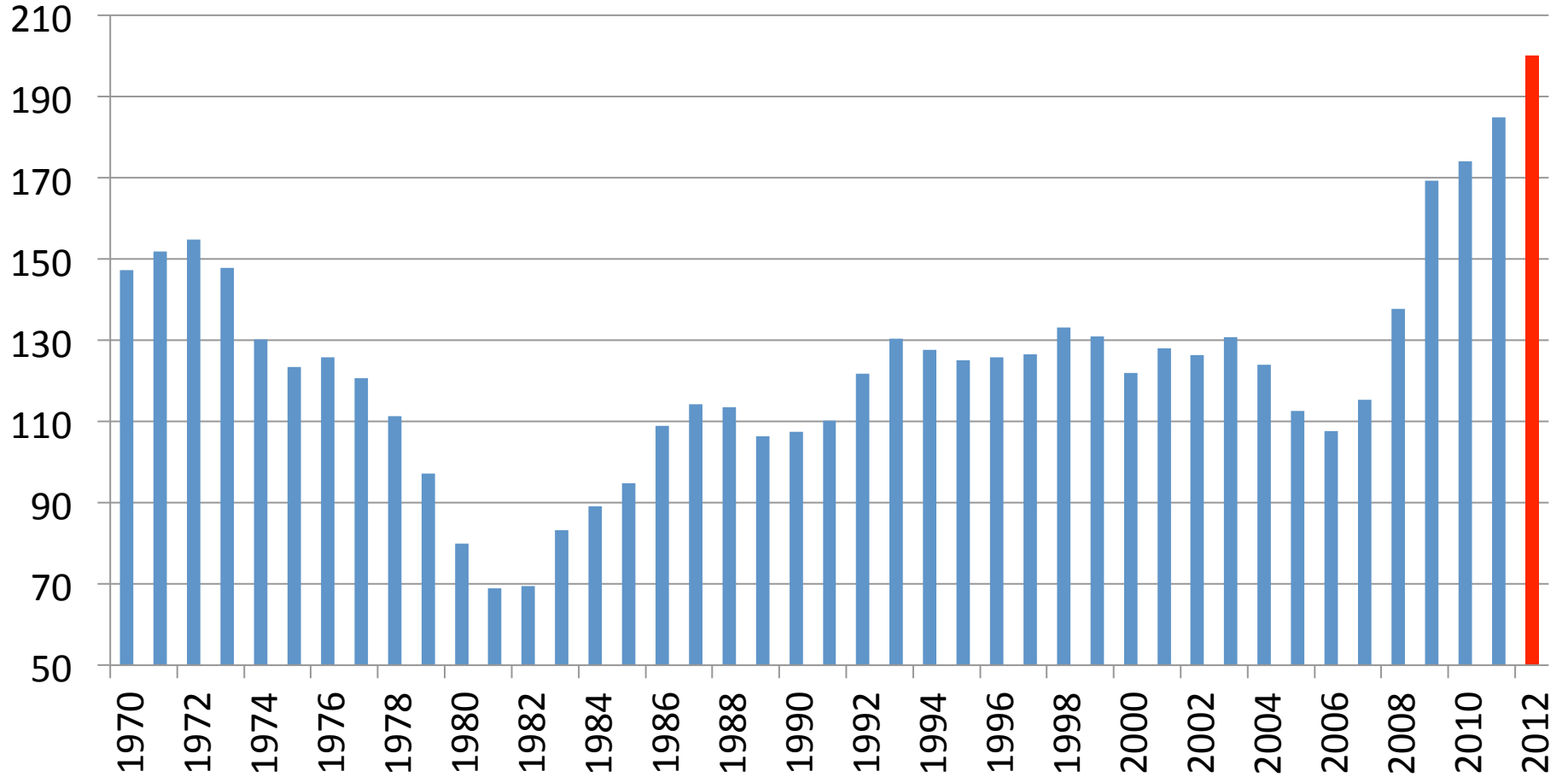


2014 Forecast by NAR

Improving Factors for Sales in 2012 and Beyond:

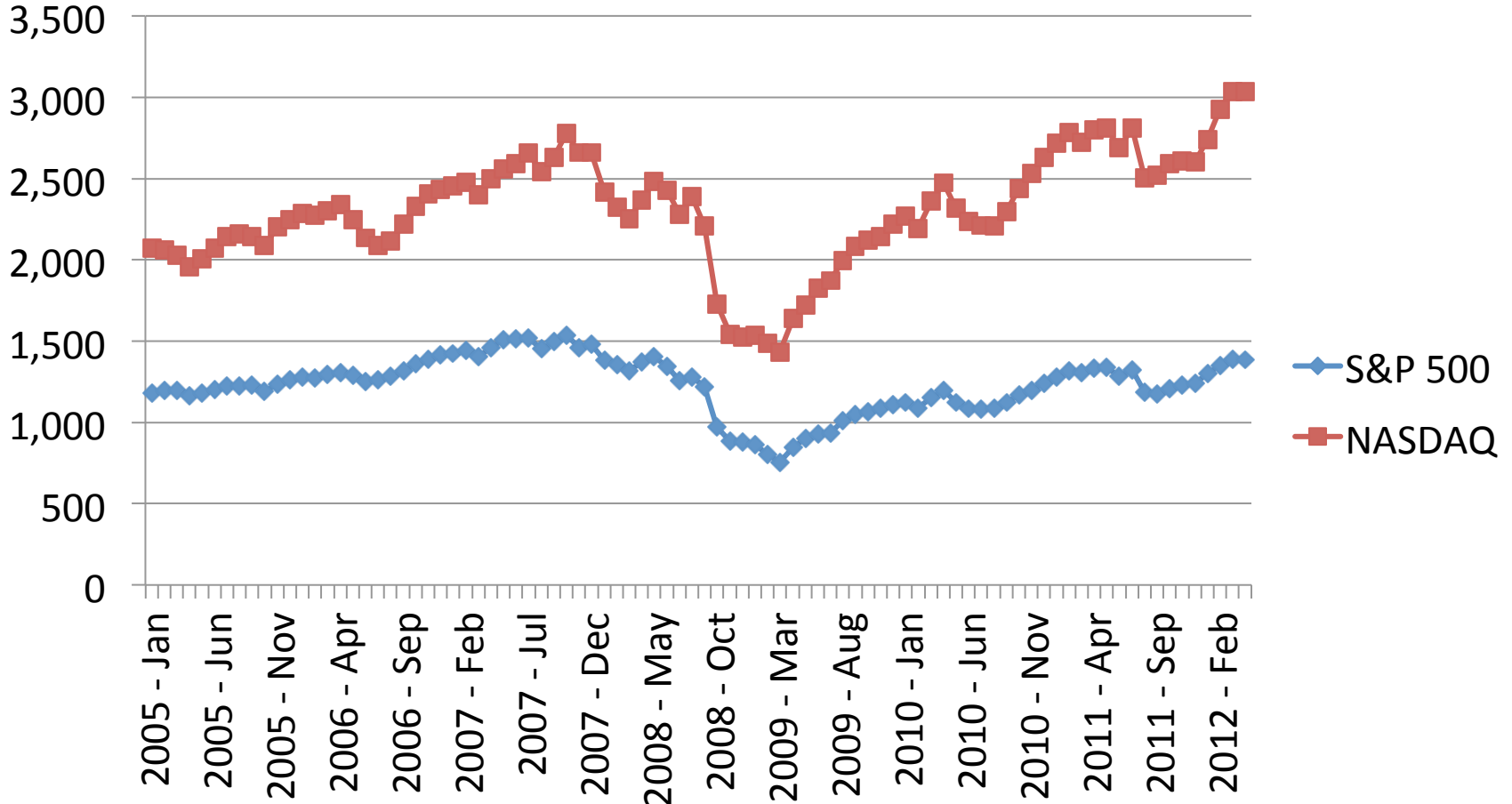
1. High Affordability and Job Creation
2. Solid stock market recovery from 2008
3. Rising rents and a larger pool of qualified renters
4. Pent-up release of Household Formation
 - Rising demand for ownership and rentals as young-adults move out of parent's basement
5. Smart money chasing real estate (i.e., investors)
6. Consumer confidence in buying an appreciating asset

Best Affordability Conditions



S&P 500 (Almost 100% from low point)

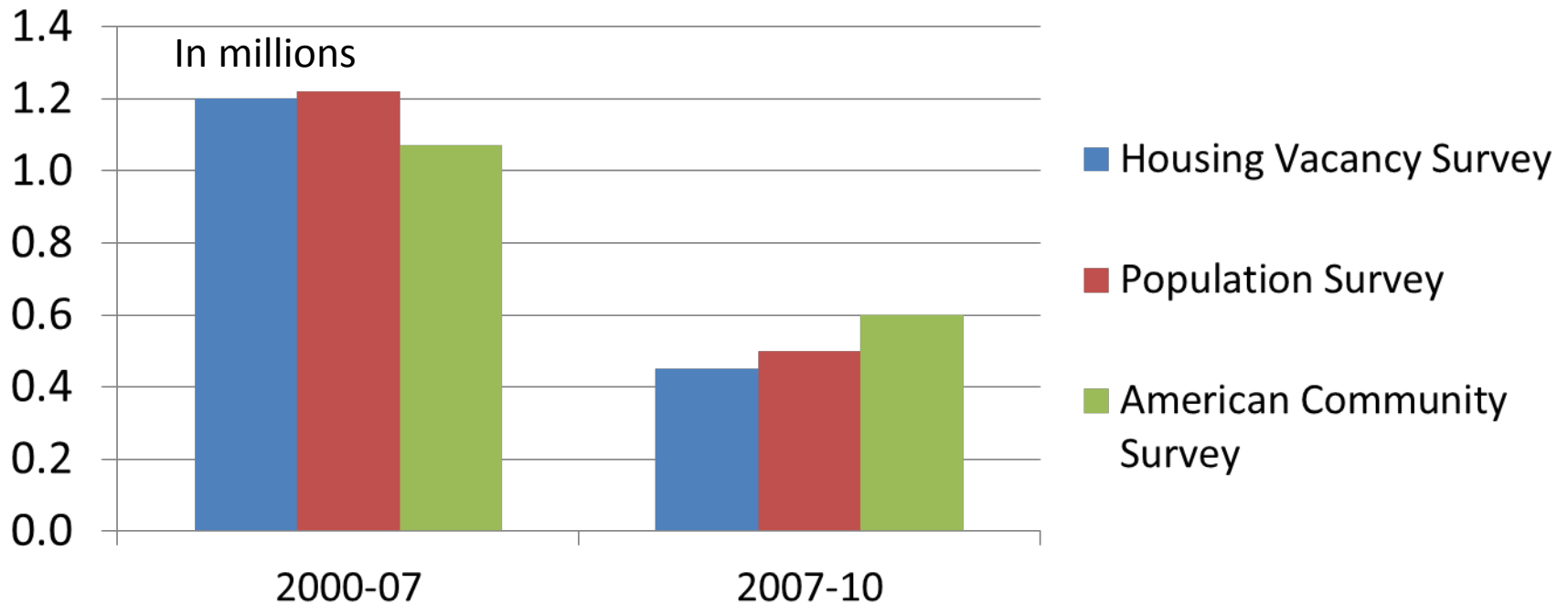
NASDAQ (More than 100% increase from low point)



Annual Household Formation...

Future Rent Pressure?

(3 separate Census data)



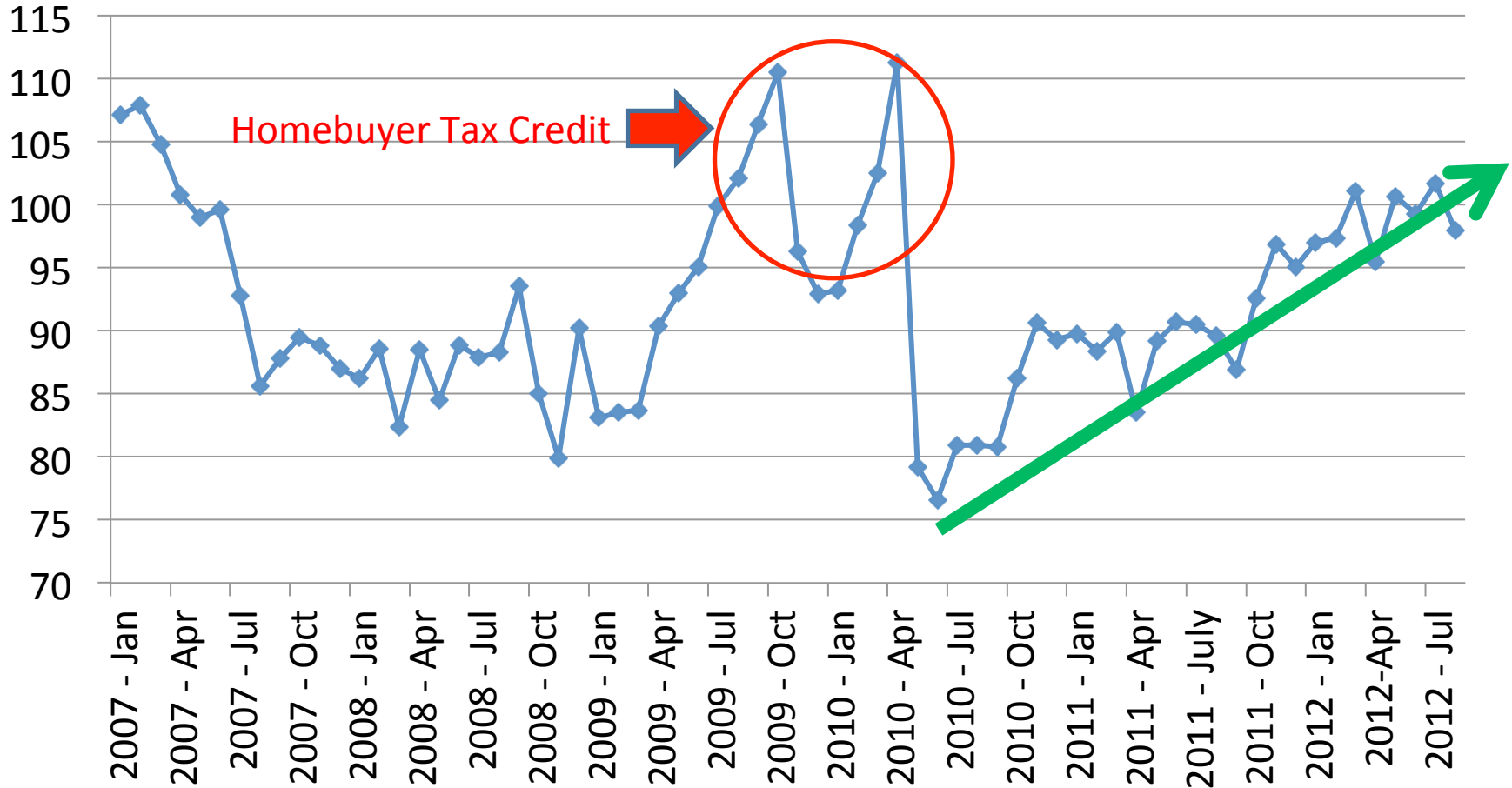
Household Formation leads to increase ownership and renters;
Could begin to return to normal of at least 1 million from 2012.

Home Prices

Metric	% change from one year ago	Comment
NAR	+ 9.5%	Mix of homes impact price ... fewer distressed sales recently ... Leading Data
Case-Shiller	+0.5%	30% annualized gains for two straight months
FHFA	+ 3.6%	Monthly gains in 7 of recent 8 months

Monthly Pending Home Sales Index

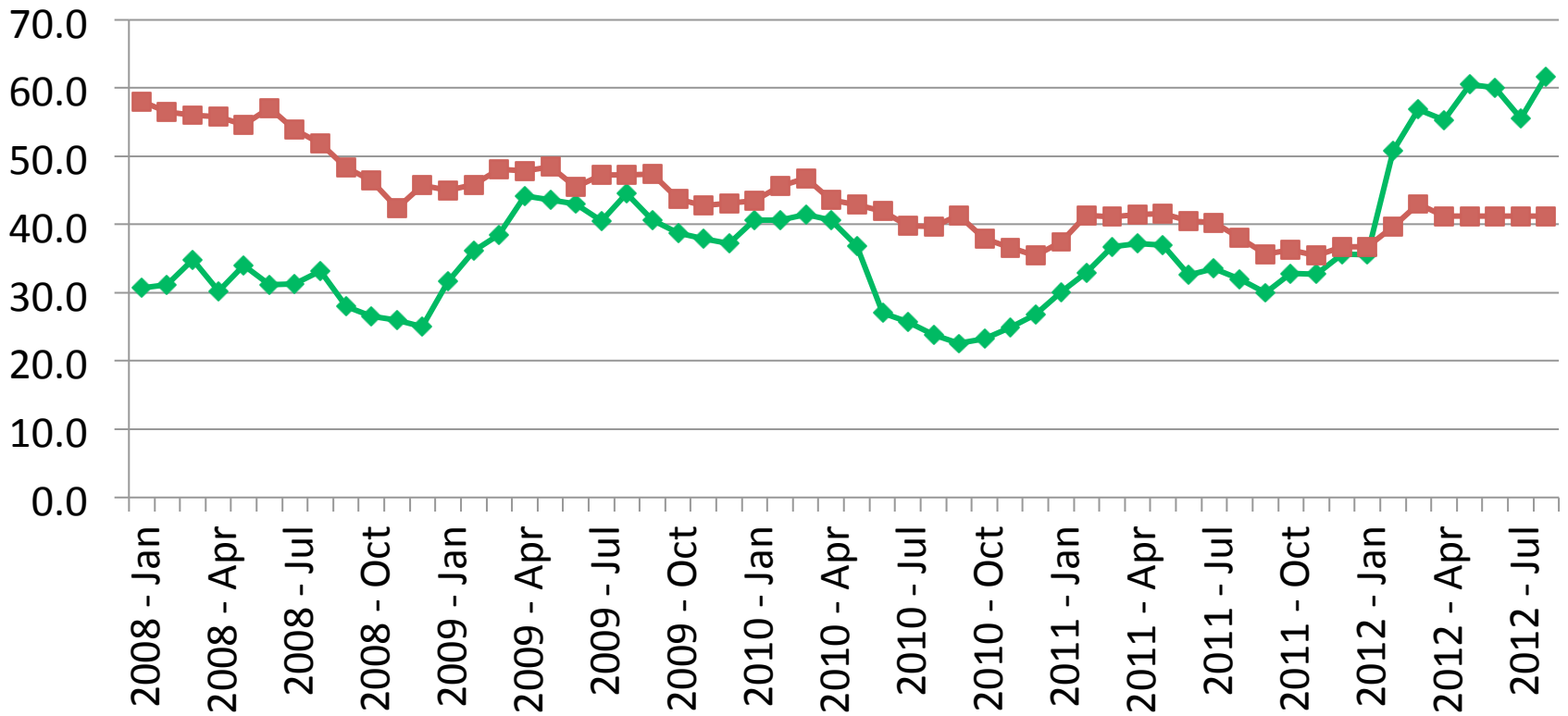
(Seasonally Adjusted)



Source: NAR

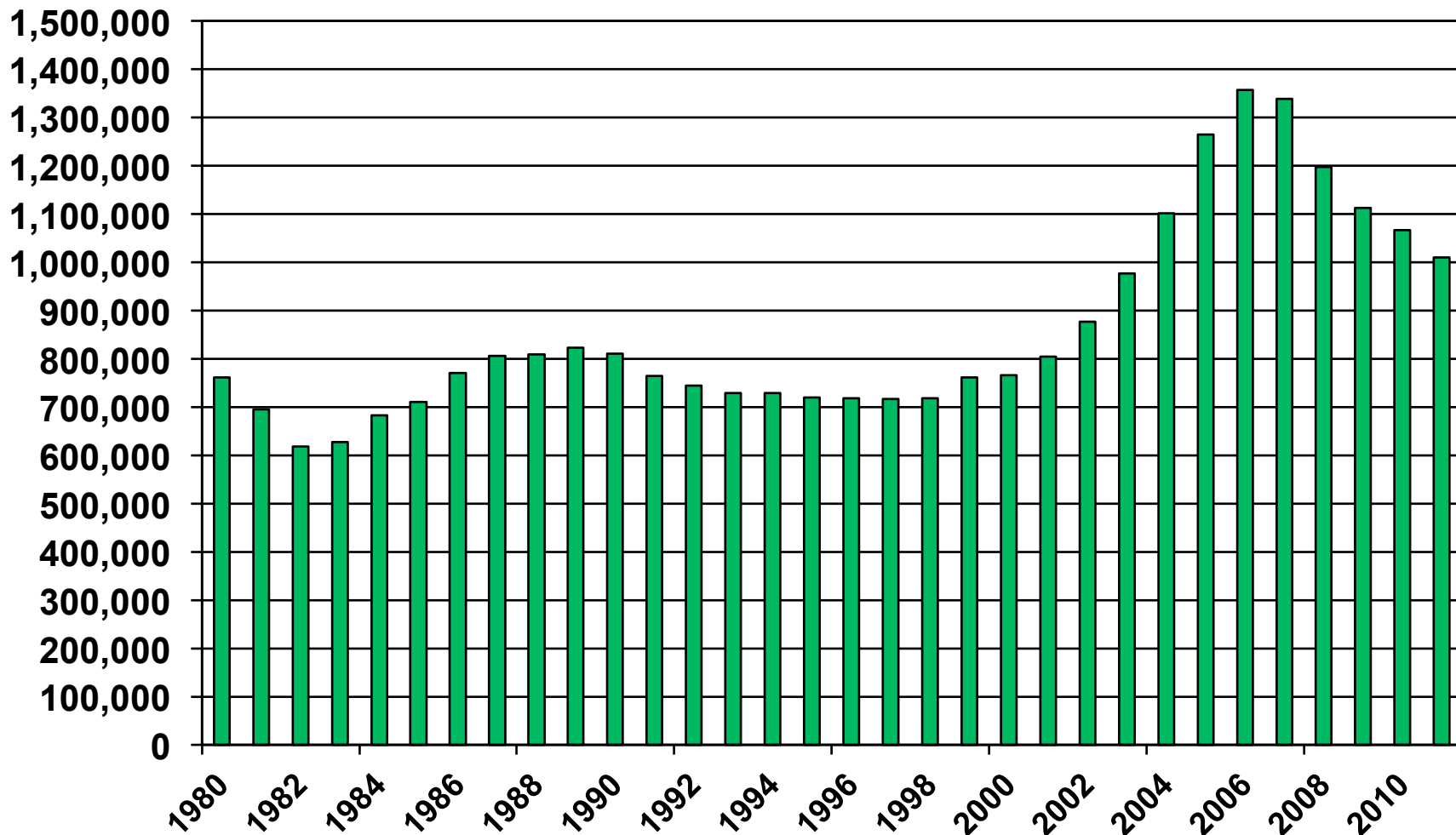
Foot Traffic

◆ Buyer ■ Seller



Annual Membership

(NRDS count at year-end)



Banks/Regulators Restricting Credit

(Average Credit Scores of Approved Loans)

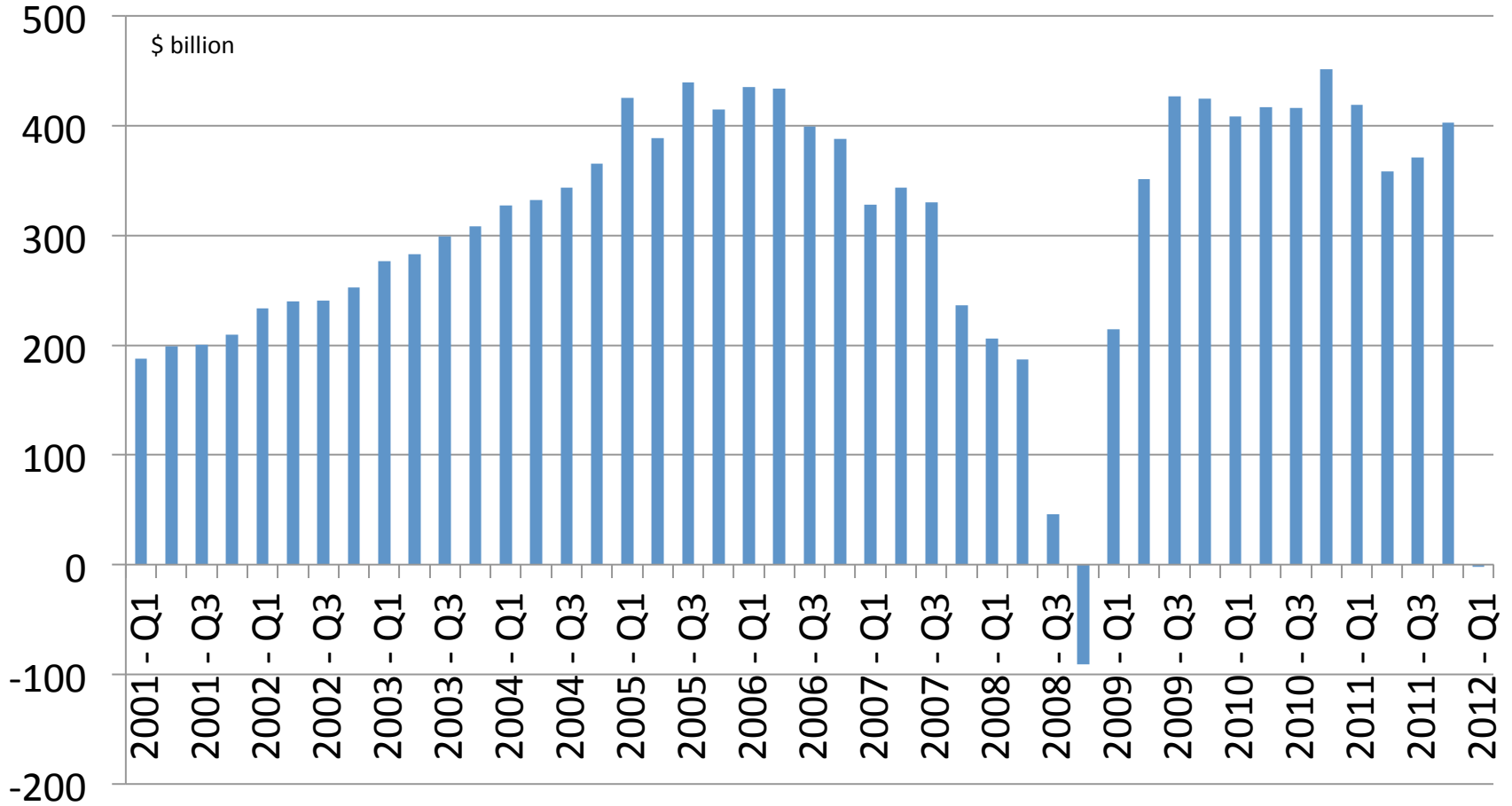
	Normal	2009	2010	If Normal
Fannie	720	761	762	720
Freddie	720	757	758	720
FHA	650	682	698	660



15% to 20% Higher Sales

Financial Industry Profits

(excluding Federal Reserve)

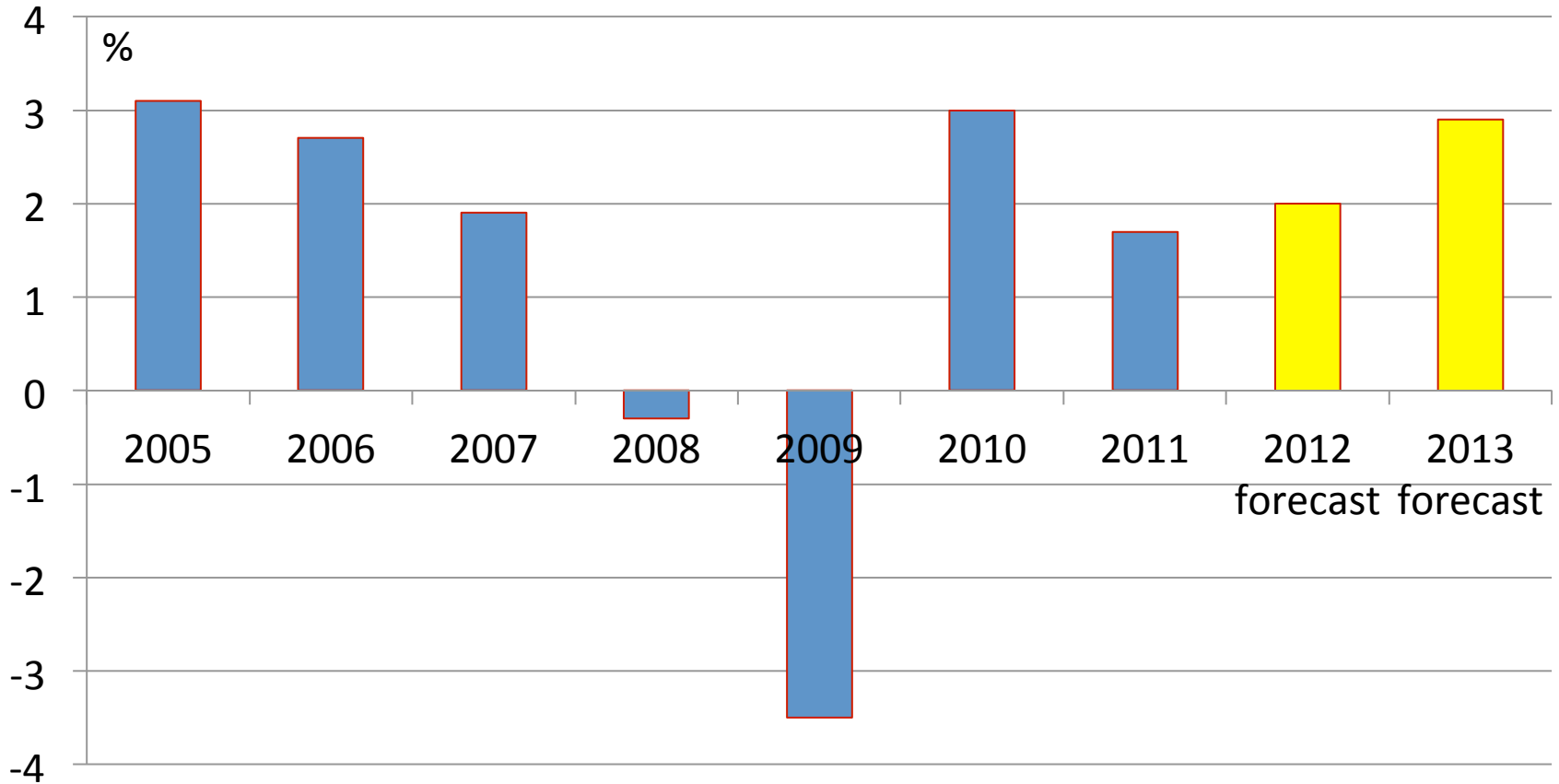


Economy

Economy Growing, though Slowly

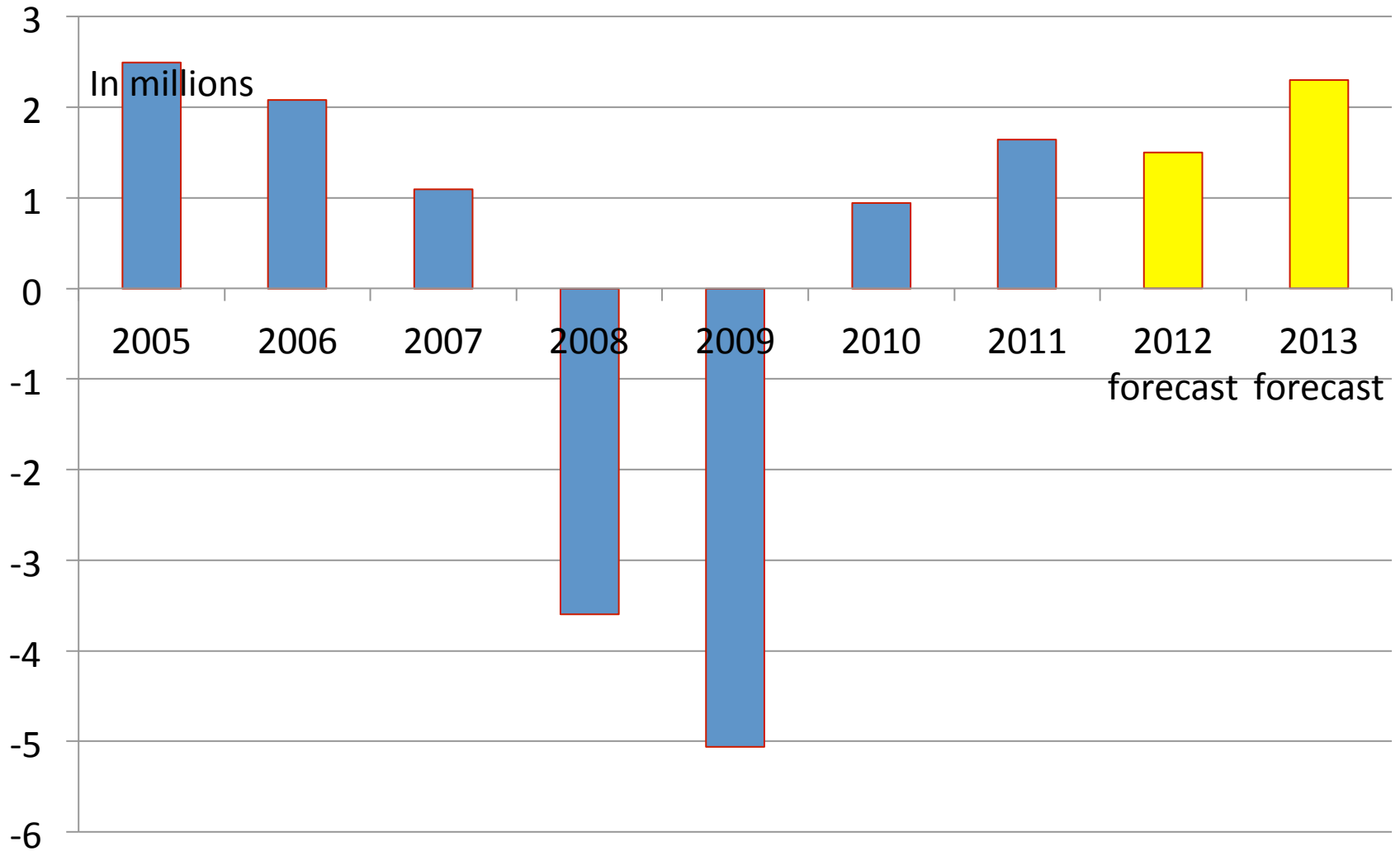
(No Fresh Recession because of Housing Recovery)

Real GDP Growth Rate

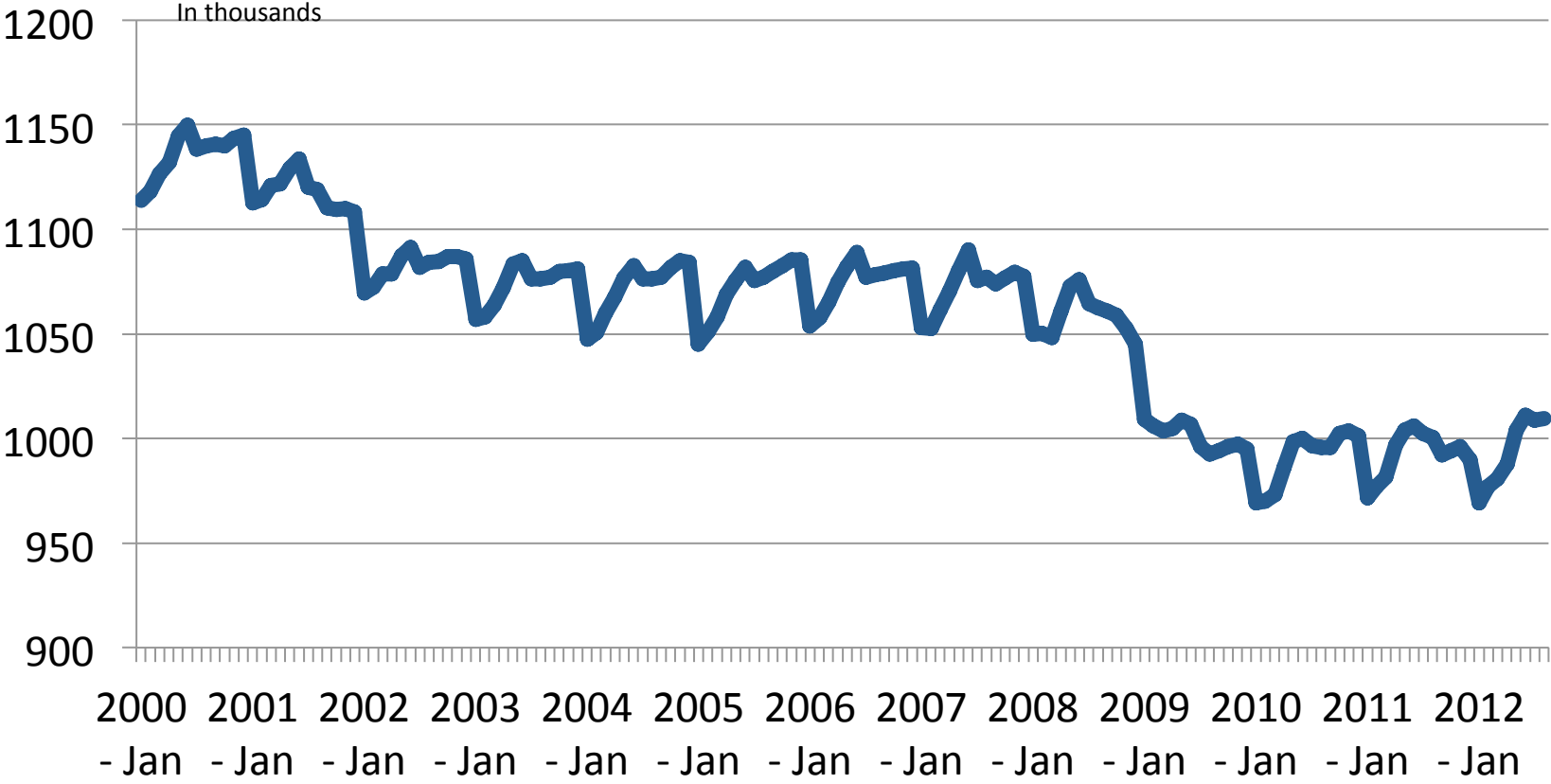


Payroll Jobs Changes

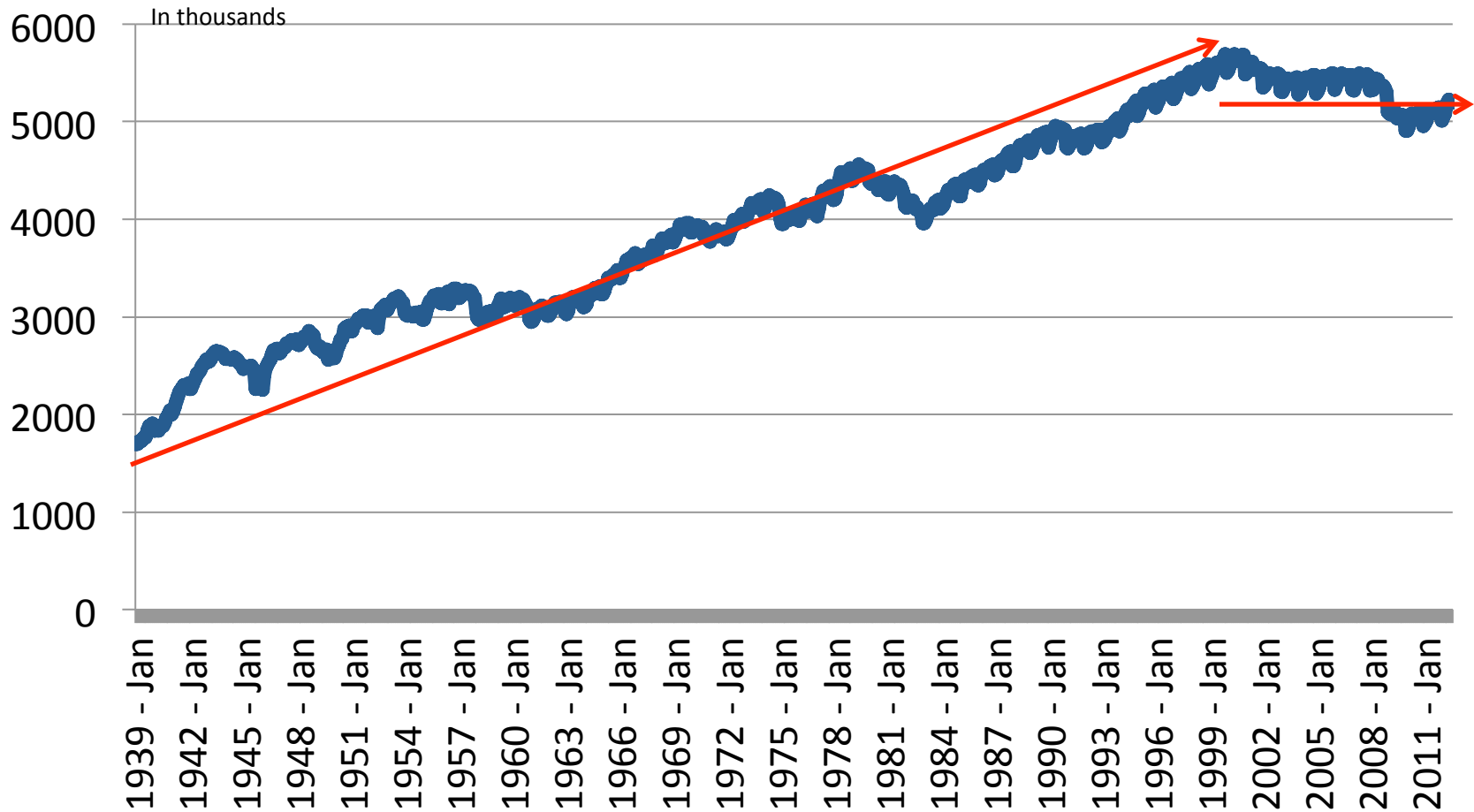
(December to December)



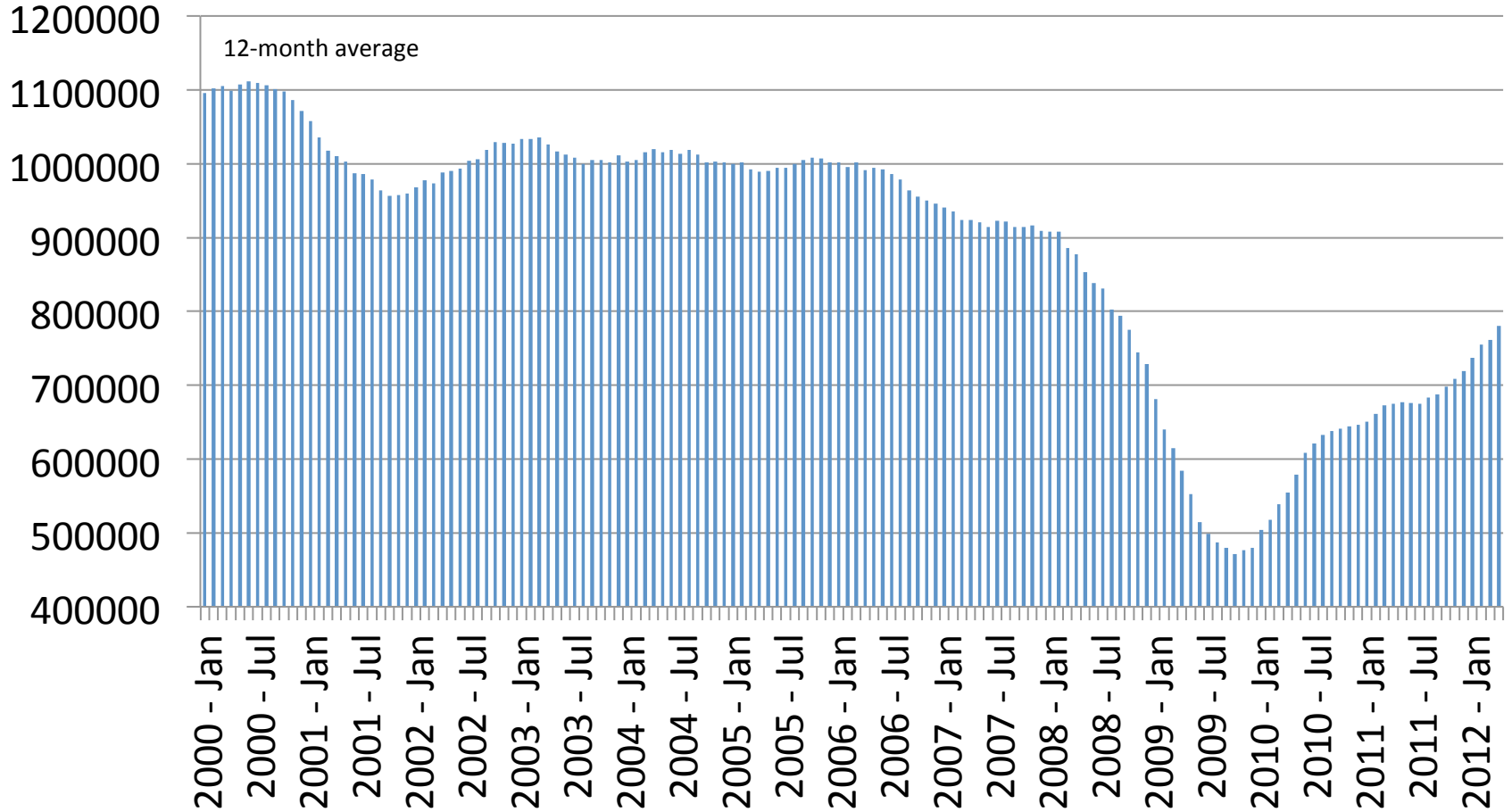
Cleveland Area Payroll Jobs



Ohio Payroll Jobs from 1939

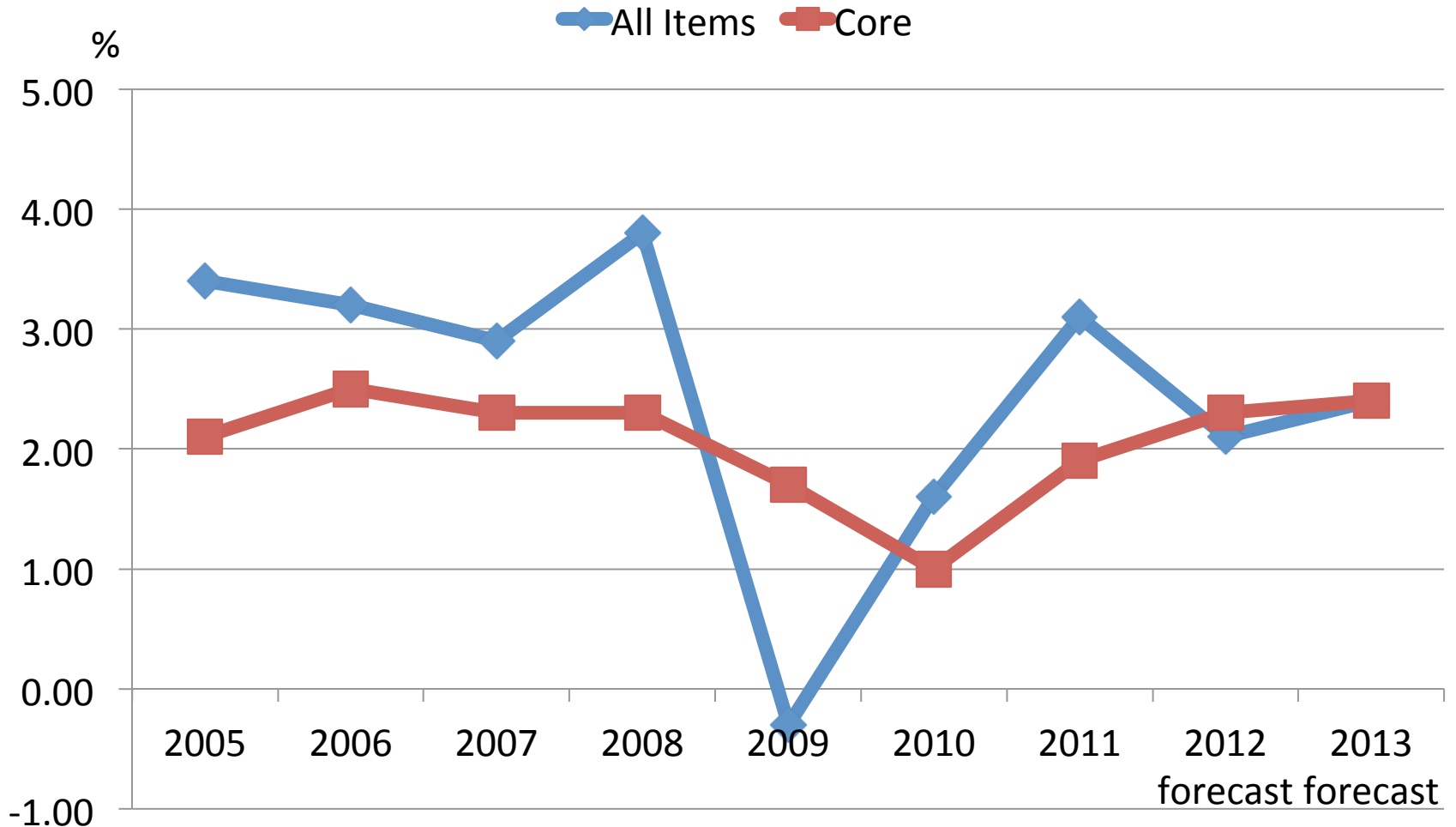


U.S. Car and Truck Production

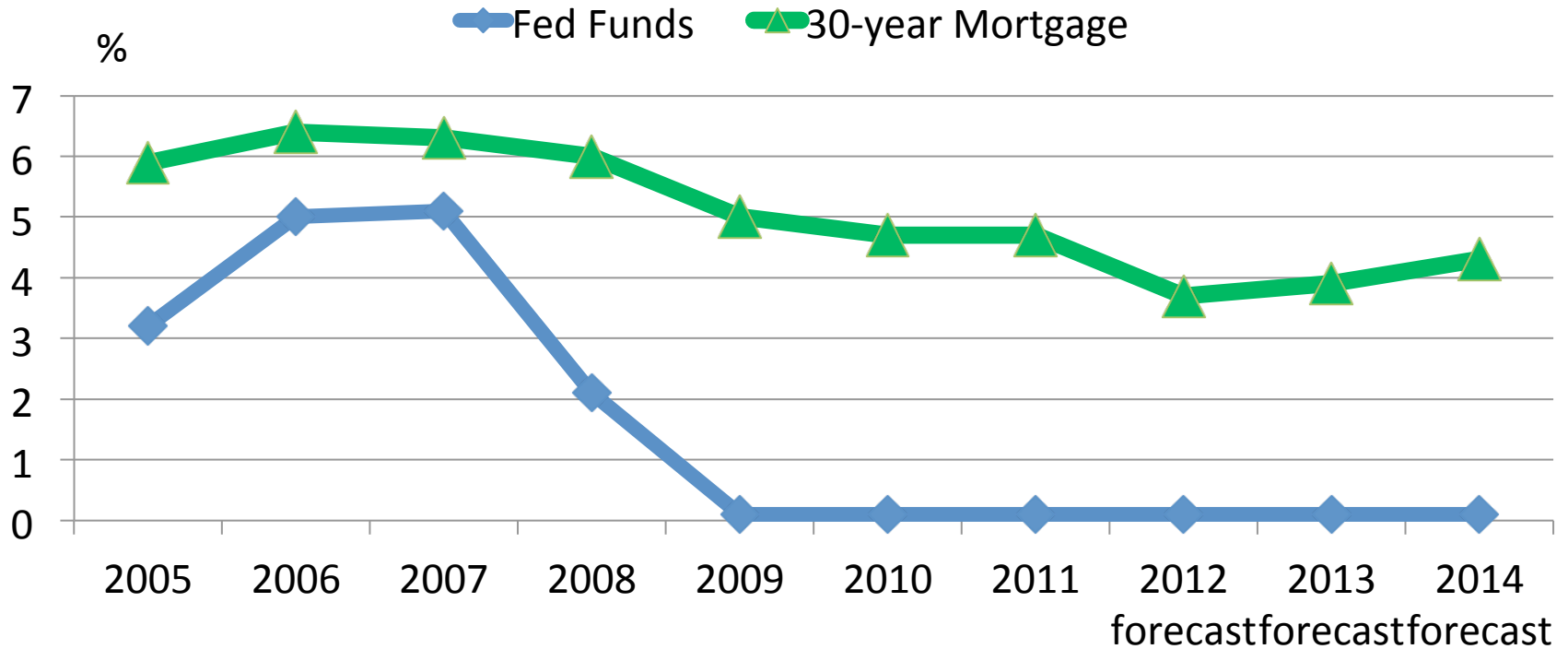


Consumer Price Inflation

(Slightly Above Fed's preferred 2% core inflation rate)

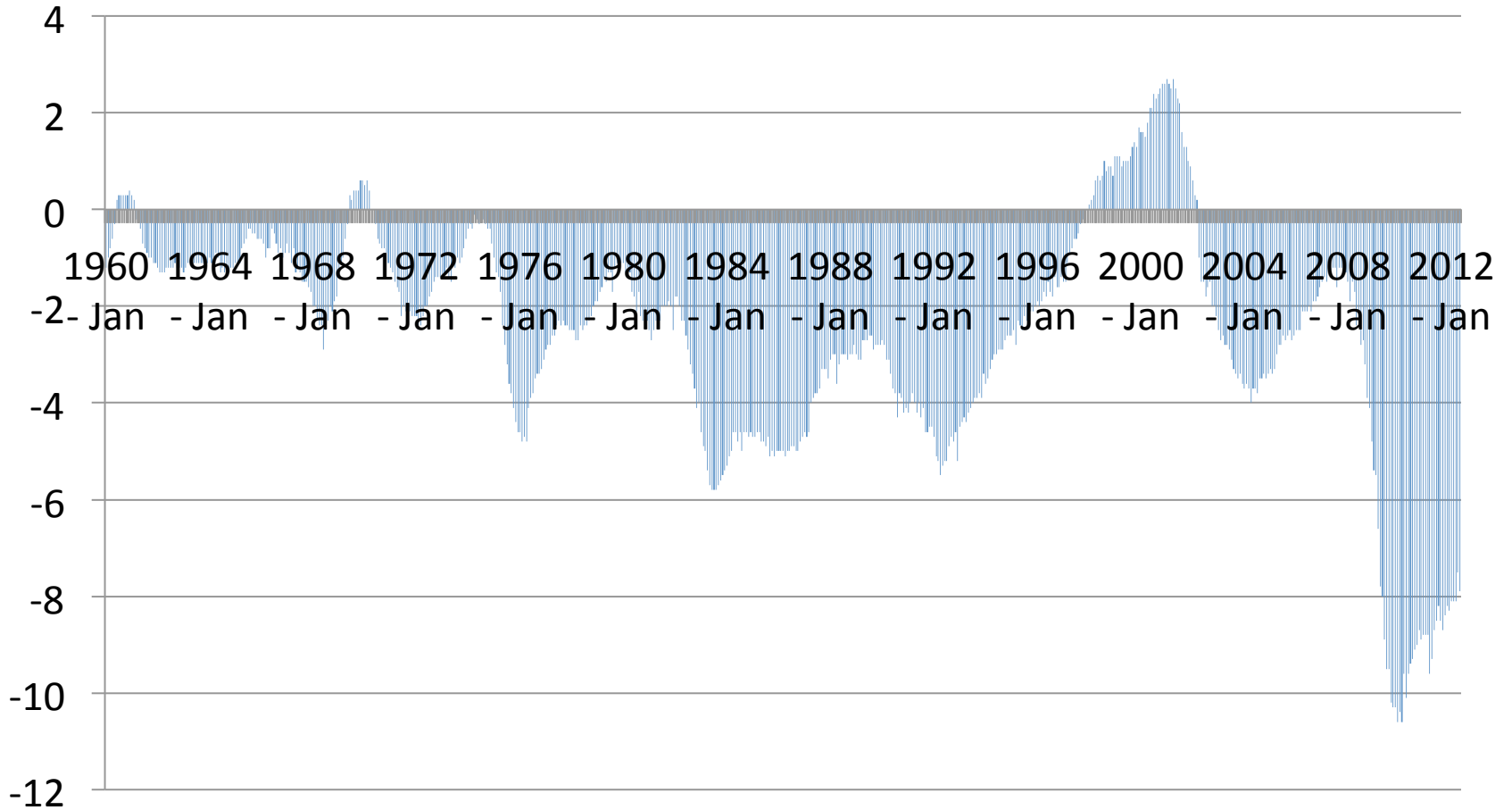


Monetary Policy by Federal Reserve (no change to 2014)

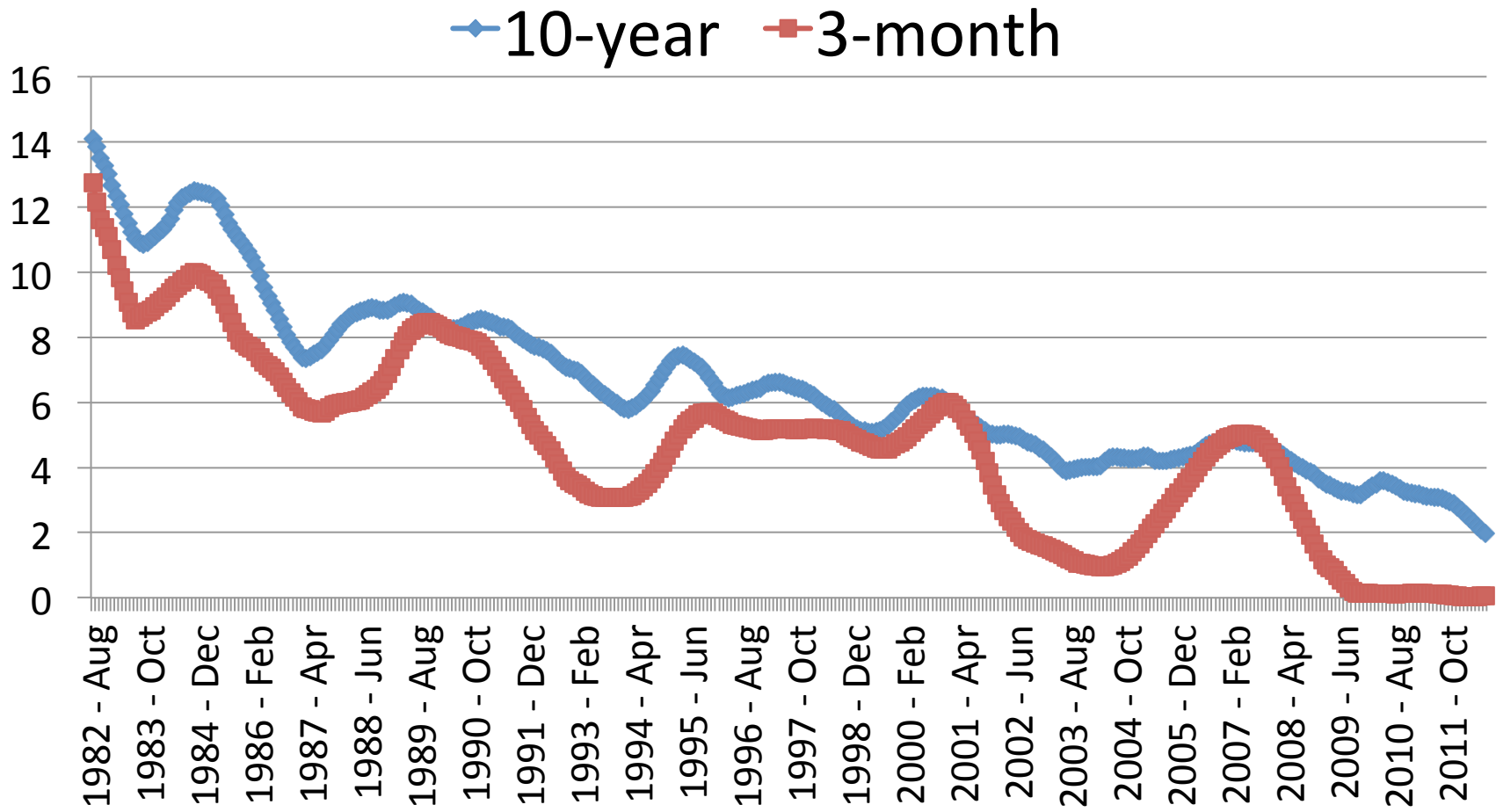


Modestly higher rates could help home sales as banks re-staff mortgage work for home purchase applications and less refinance applications.

Huge Federal Budget Deficit ... Will Push Up Borrowing Cost (% of GDP)




But ... Falling Treasury Borrowing Rate



Impact to Deficit

- Mortgage Interest Deduction ... \$90 billion
 - Not the source of the current budget deficit since MID was present for nearly 100 years
- Interest Rates Revert back to historical average ... \$300 billion in extra interest expense

World Report Card

Country	10-Year Borrowing Rate
Switzerland	0.5%
Germany	1.5%
 United States	1.6%
United Kingdom	1.7%
Canada	1.7%
France	2.2%
Italy	5.1%
Spain	5.8%
Greece	18.9%

Source: Bloomberg as of October 1, 2012

State Report Card

State	10-year Borrowing Rate above Benchmark (% points)
Average State borrowing costs	Around 3.5%
Rhode Island	Benchmark + 0.5%
Michigan	Benchmark + 0.7%
Nevada	Benchmark + 0.7%
California	Benchmark + 0.9%
Illinois	Benchmark + 1.6%

Source: WSJ

Housing Forecast Summary

	2011 History	2012 Forecast	2013 Forecast
Existing Home Sales	4.26 million	4.6 million	5.0 million
New Home Sales	301,000	385,000	608,000
Housing Starts	611,000	775,000	1,150,000
Existing Home Price	\$166,100	\$173,900	\$182,700
GDP Growth	+1.8%	+2.2%	+2.6%
Payroll Job Gains	+1.7 million	+1.5 million	+2.3 million
Fed Funds Rate	0.1%	0.1%	0.1%
30-yr Mortgage	4.7%	3.8%	4.1%

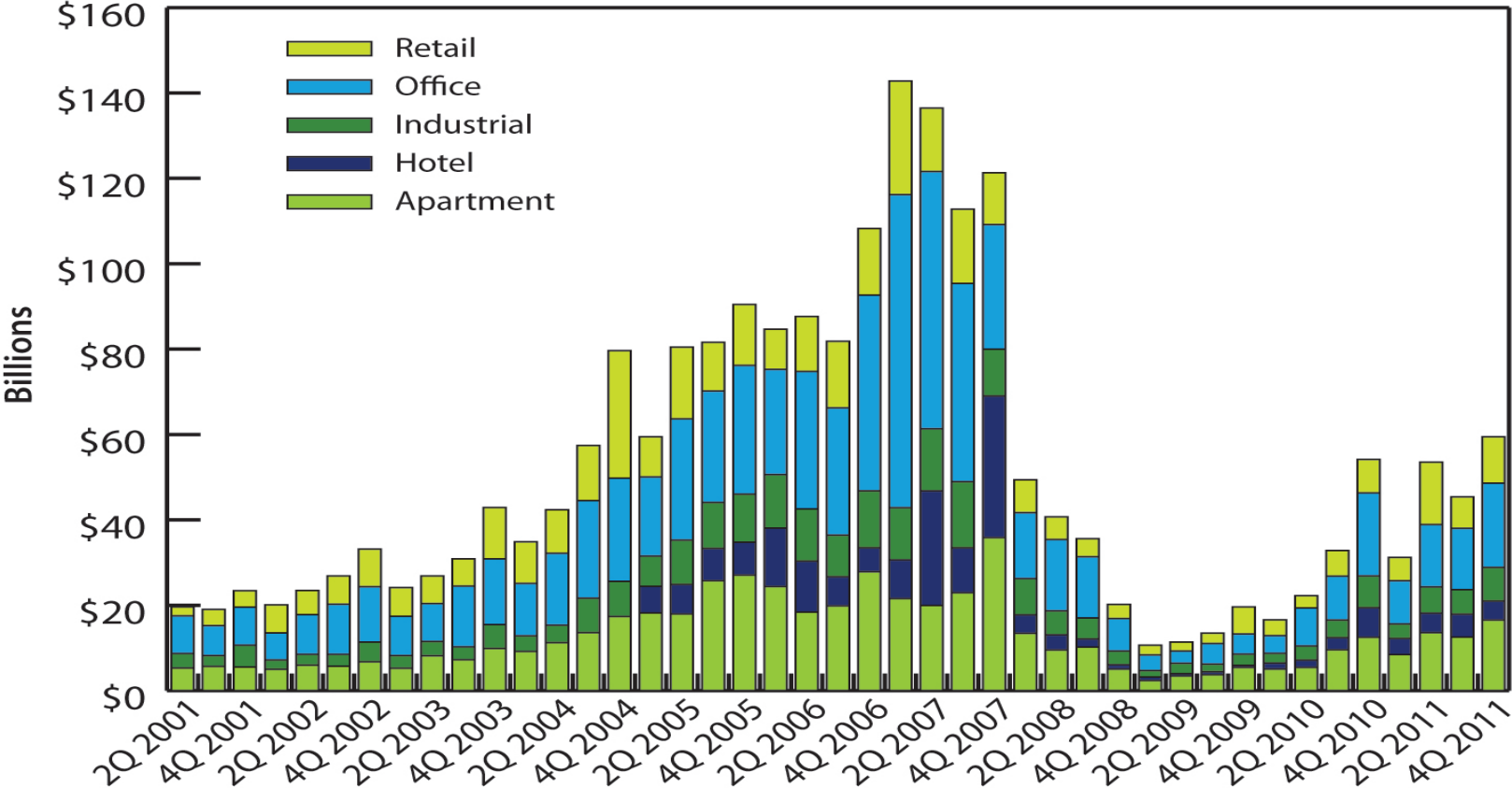
Risks to Forecast

- Washington Policy
 - QRM 20% down payment requirement?
 - Basel 3 ... capital rule that punishes private mortgage with low down payment and commercial loans
 - Trim mortgage interest deduction?
 - Capital gains tax on home sale?
- Fiscal Cliff on January 1, 2013 ... if no new compromised budget, then:
 - Automatic deep cuts to military and domestic spending
 - Automatic higher taxes
 - 3% shaved off GDP ... Fresh Economic Recession

Commercial Real Estate

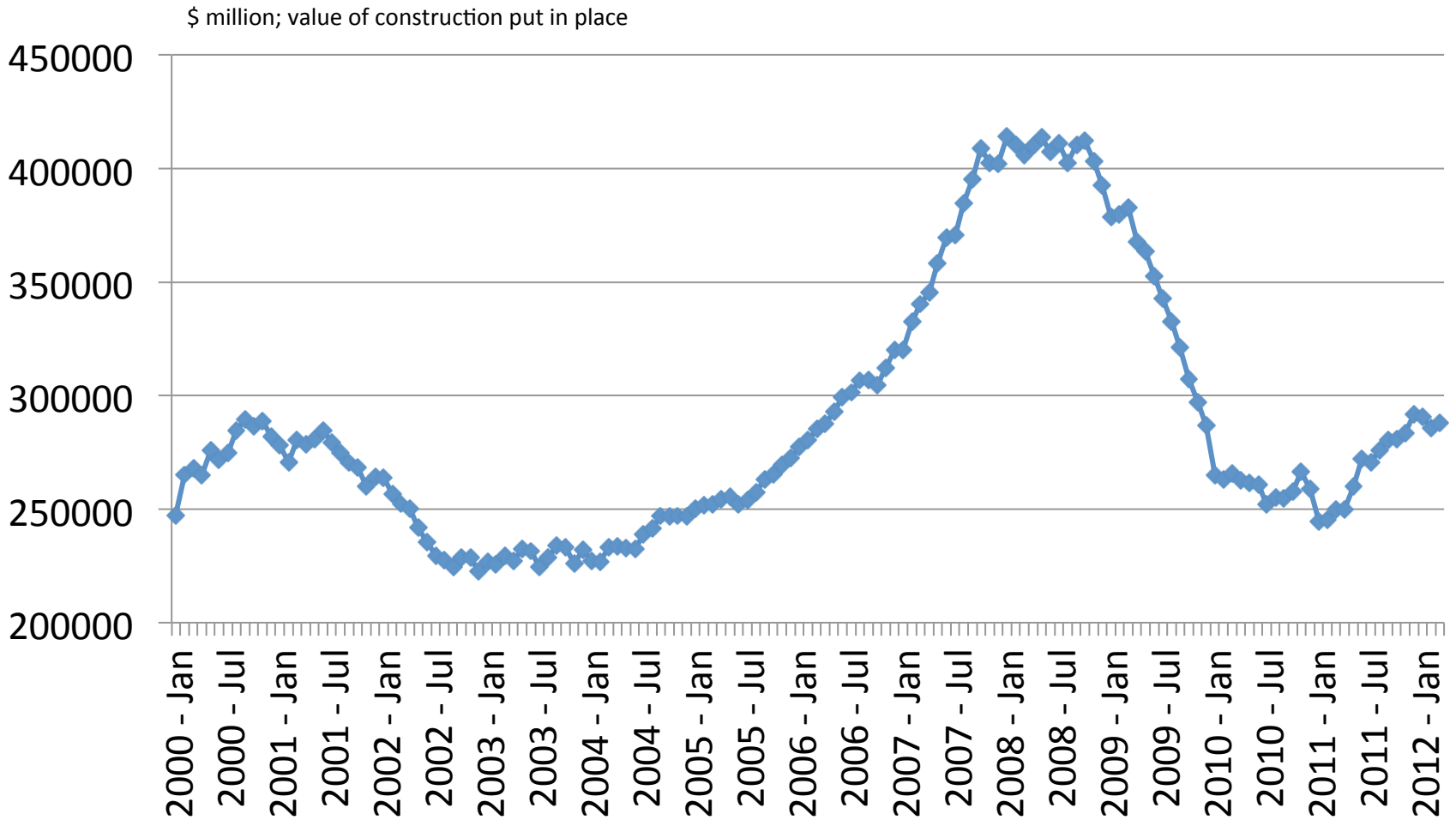
Big Transactions Coming Back

\$2.5 million property and above



Source: Real Capital Analytics, 4Q 2011.

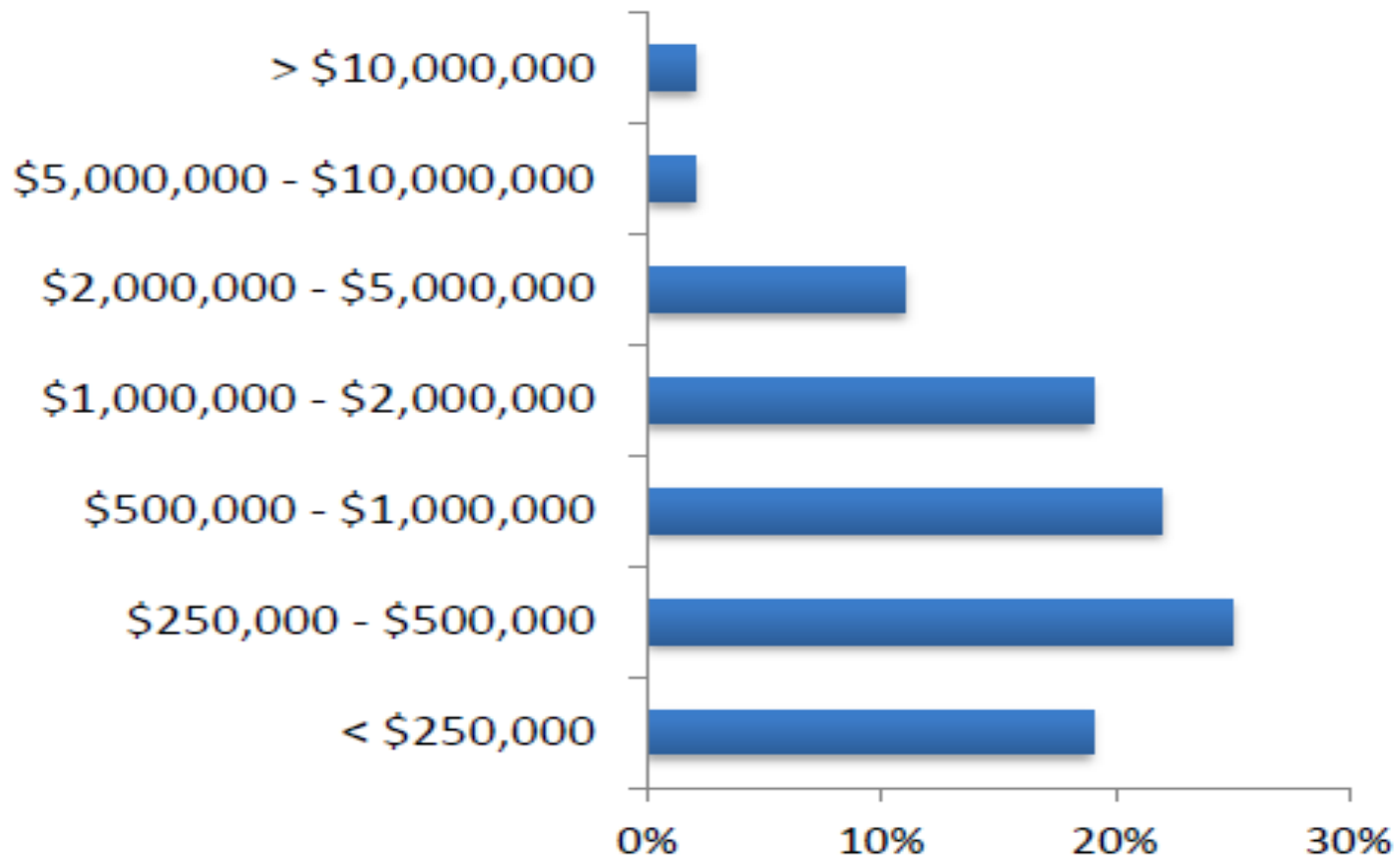
Tepid Commercial Construction



REALTOR® Business Deals

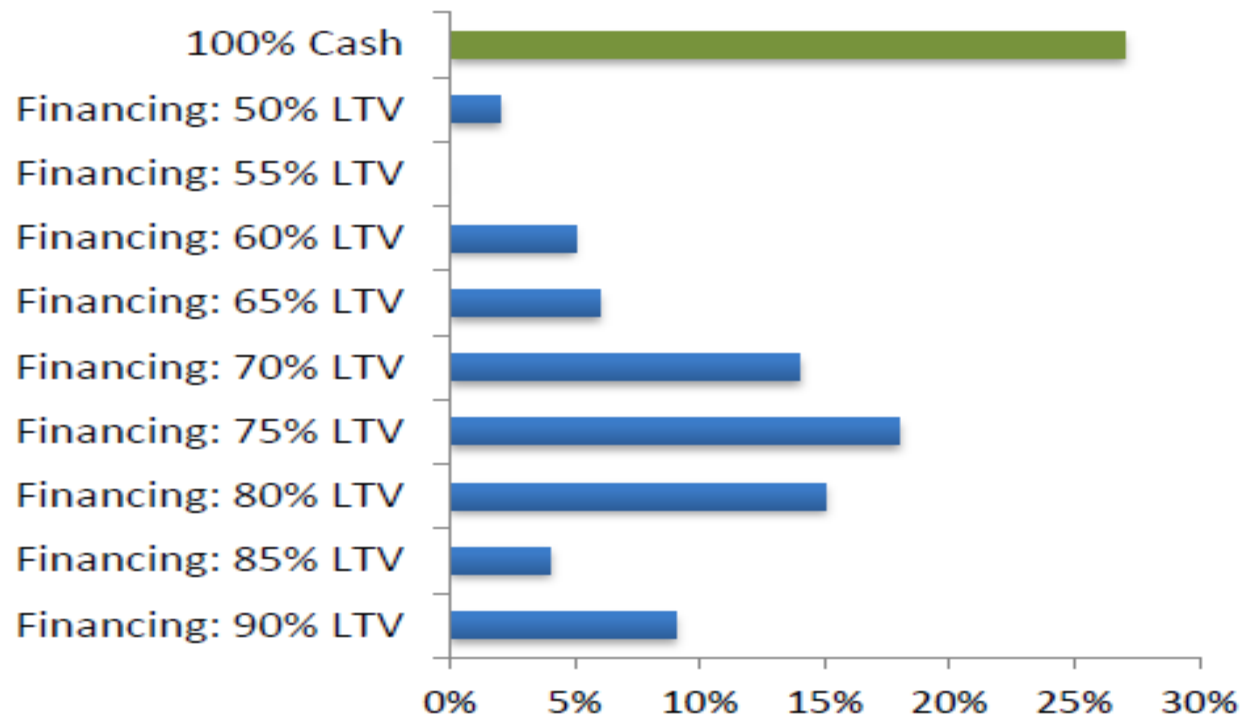
(Majority are less than \$1 million)

Value of most recent sales transaction

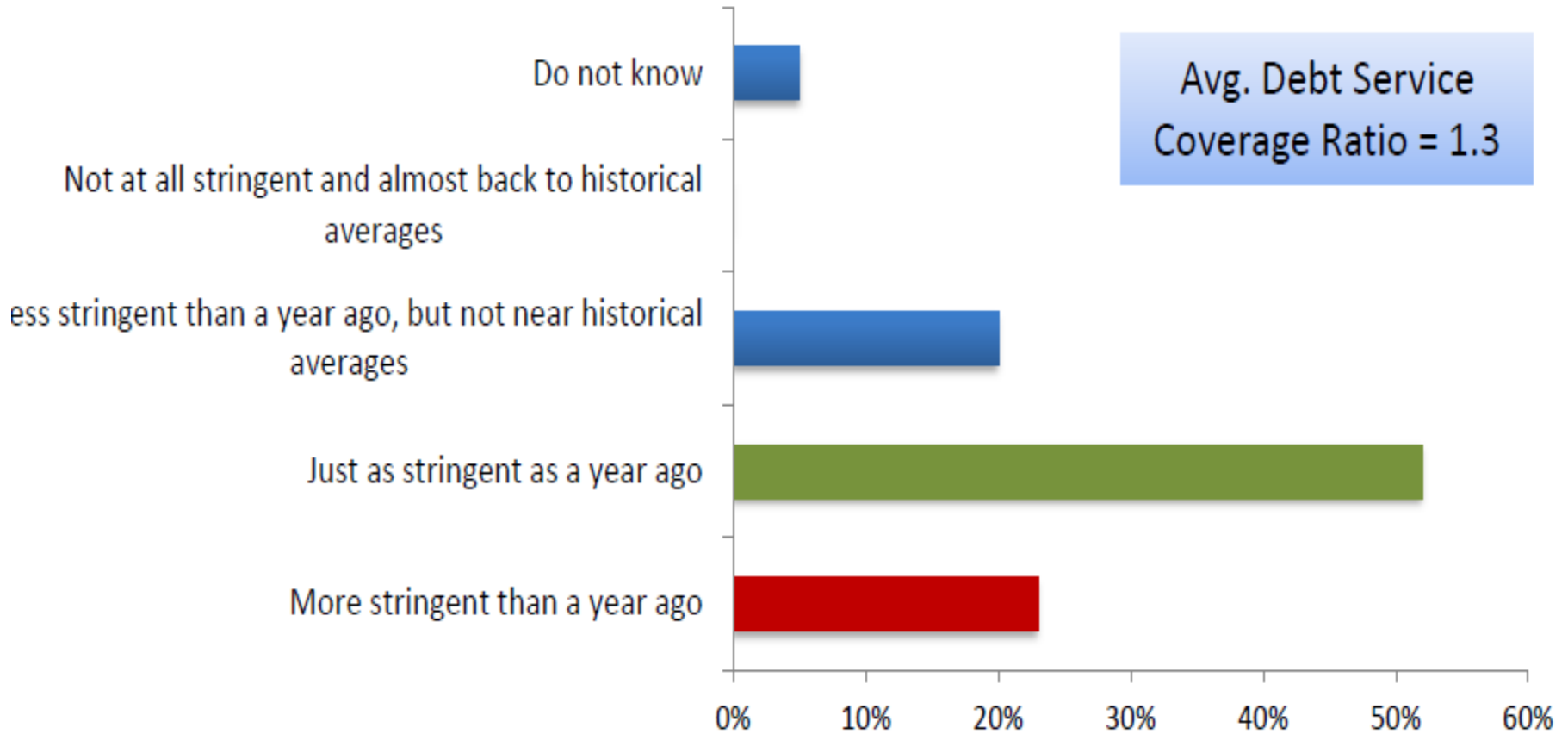


Method of Finance

How were most of your sale transactions in the past 12 months completed?

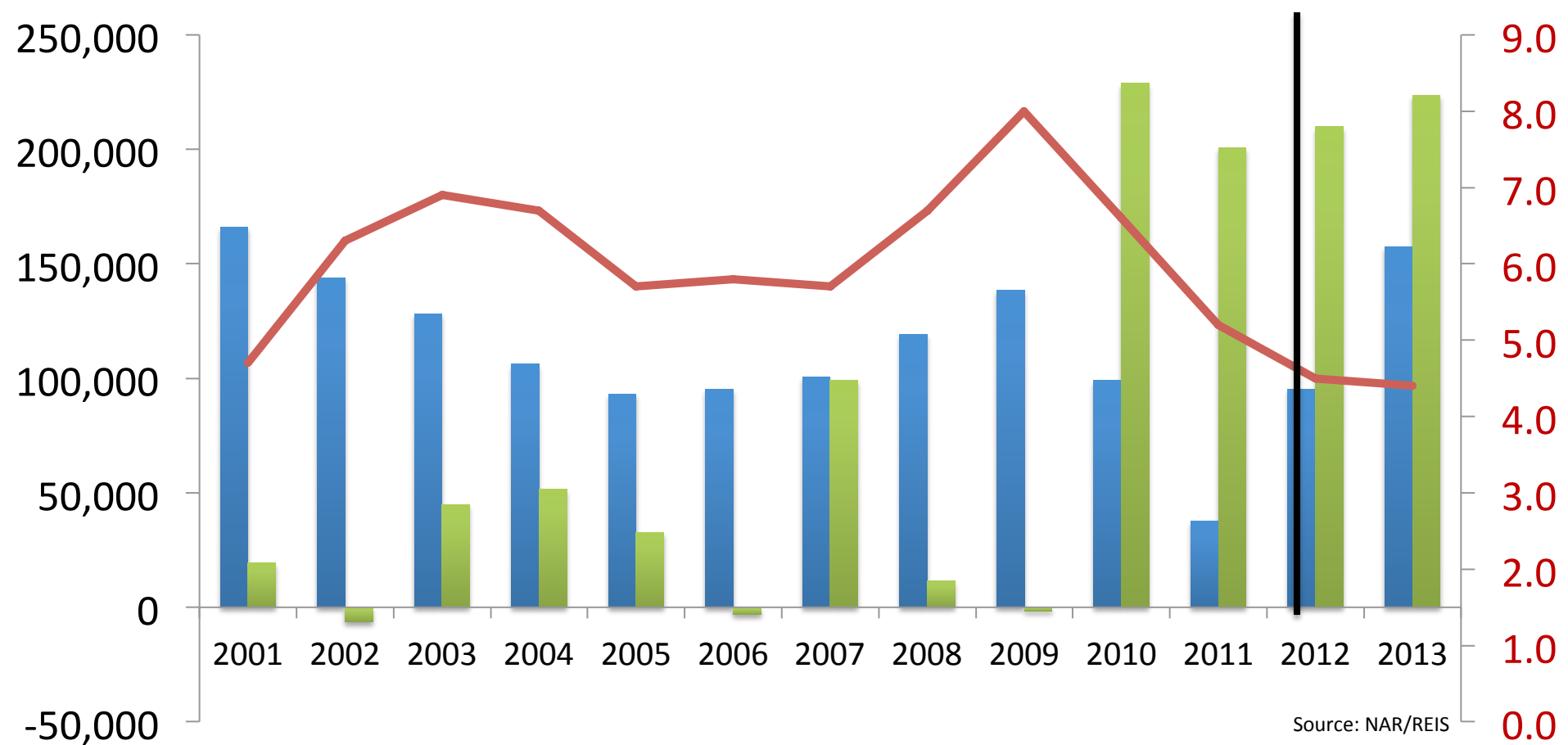


Underwriting Standards?



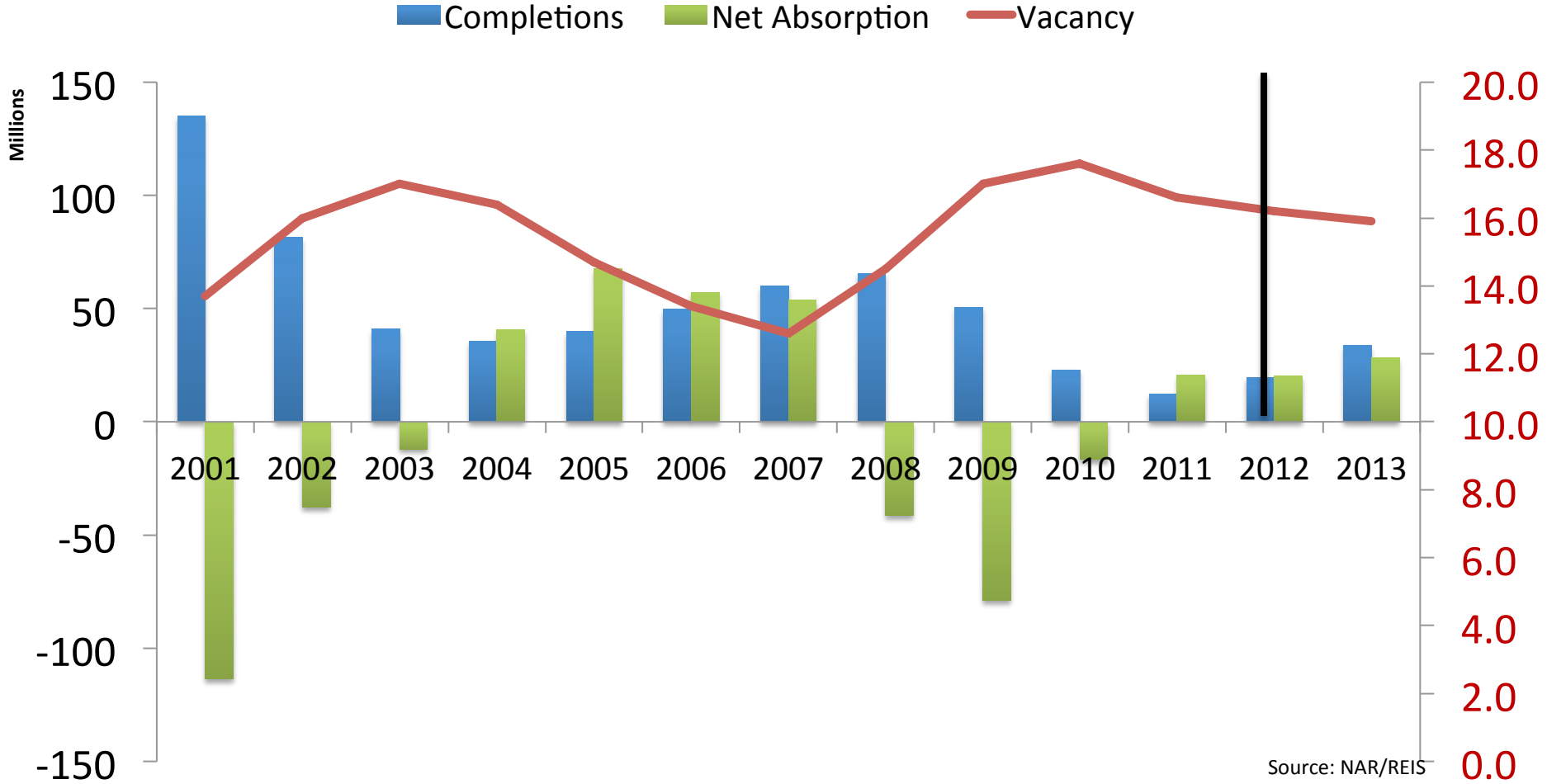
Multifamily Fundamentals

Completions Net Absorption Vacancy



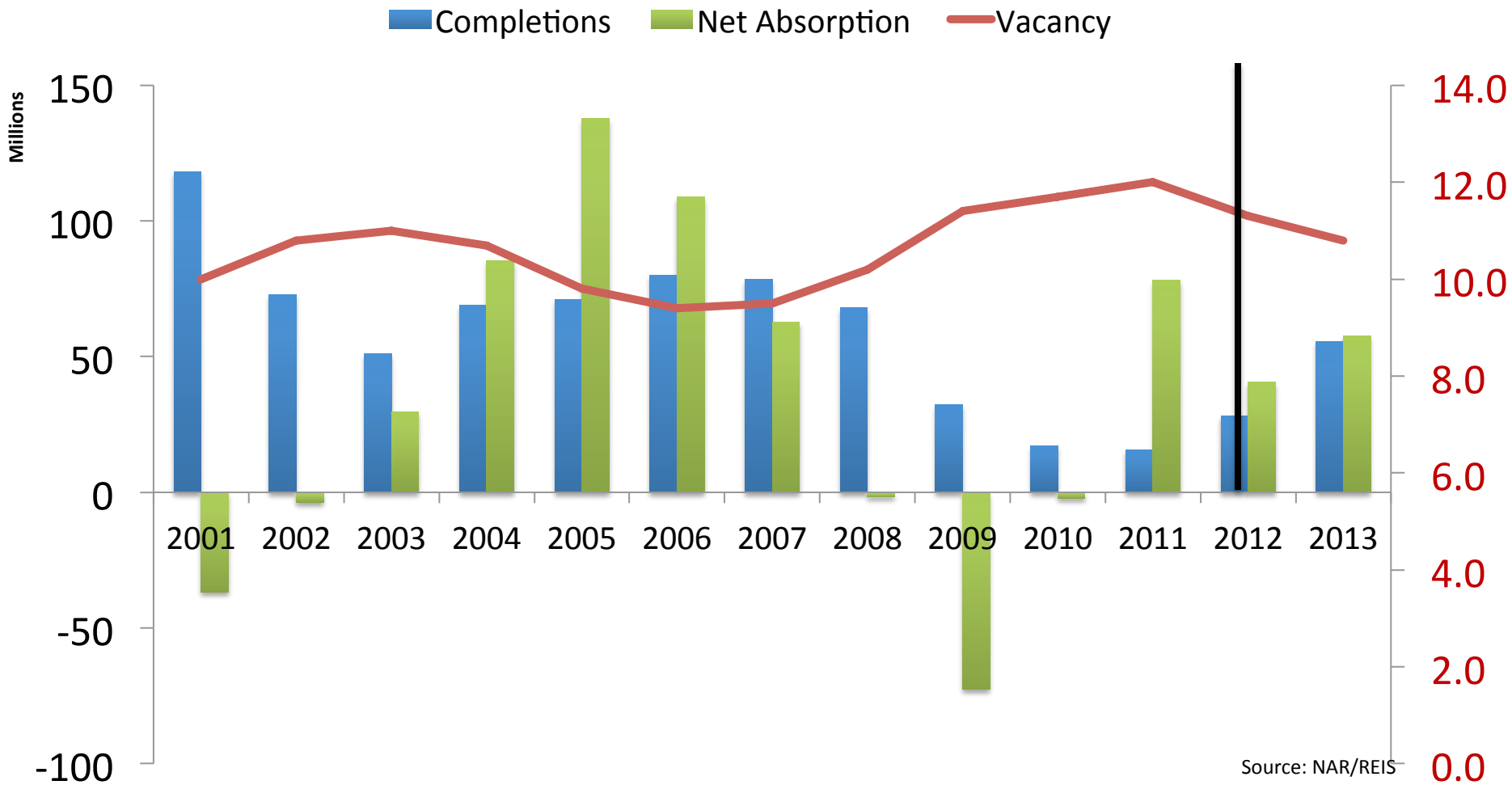
Source: NAR/REIS

Office Fundamentals



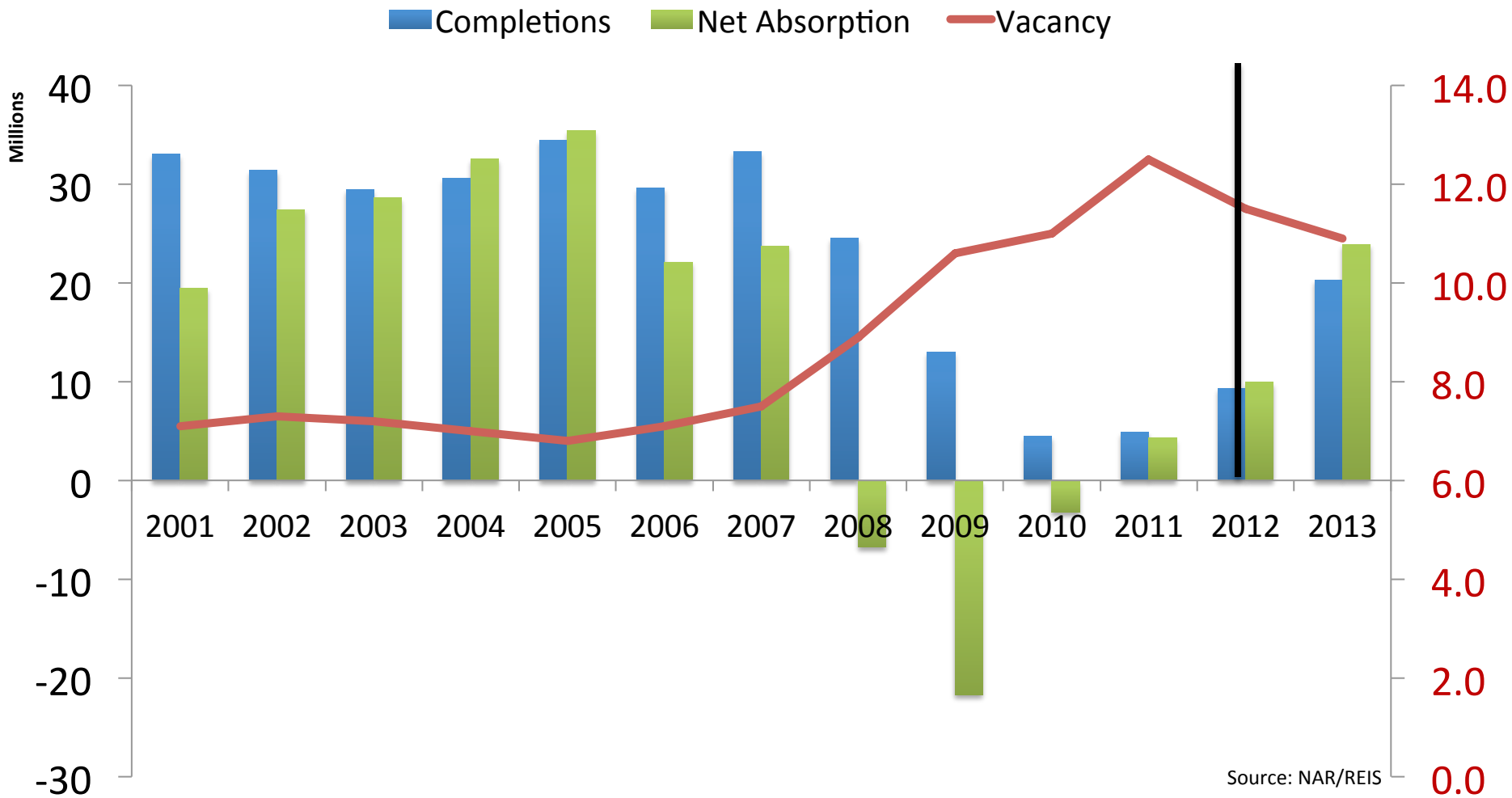
Source: NAR/REIS

Industrial Fundamentals



Source: NAR/REIS

Retail Fundamentals



Source: NAR/REIS

Commercial Market Forecast

OFFICE	2011	2012	2013
Vacancy Rate	16.6%	16.3%	15.9%
Net Absorption ('000 sq. ft.)	20,178	31,700	53,000
Completions ('000 sq. ft.)	11,659	25,474	37,847
Rent Growth	1.4%	1.7%	2.4%
INDUSTRIAL	2011	2012	2013
Vacancy Rate	12.4%	11.9%	11.1%
Net Absorption ('000 sq. ft.)	61,957	41,249	59,855
Completions ('000 sq. ft.)	20,462	26,947	54,881
Rent Growth	-0.5%	1.8%	2.3%
RETAIL	2011	2012	2013
Vacancy Rate	12.9%	12.2%	11.0%
Net Absorption ('000 sq. ft.)	1,238	13,547	23,330
Completions ('000 sq. ft.)	4,207	12,677	19,878
Rent Growth	-0.2%	0.7%	1.4%
MULTI-FAMILY	2011	2012	2013
Vacancy Rate	5.4%	4.6%	4.5%
Net Absorption (Units)	238,398	126,621	102,687
Completions (Units)	38,014	88,839	93,706
Rent Growth	2.5%	3.5%	3.8%

For Daily Update and Analysis

- Twitter

@NAR_Research