

From the Roulette Table to the Closing Table

Lessons for Serious Buyers



**Economic Issues and Residential
Real Estate Business Trends Forum**

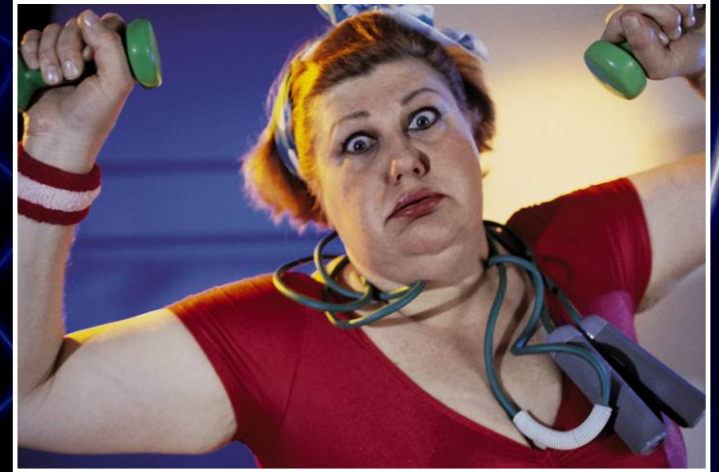
Las Vegas – Nov. 13, 2007

Dr. Lawrence Yun
Chief Economist
**NATIONAL ASSOCIATION OF
REALTORS®**



2007 – Year of Challenge

- **First national price decline since the Great Depression**
- **Sharply lower home sales**
- **Sharply lower new home construction**
- **Job cuts in construction and lending**
- **Painful revaluation--mortgage-backed securities**
- **Souring loan performance**
- **Rising foreclosures**
- **Families losing homes**



2008 – Year of Opportunity

- **All real estate is local**
 - Robust local markets
 - Recovering local markets
 - Under-priced local markets
- **Favorable economic backdrop**
- **Unleashing of pent-up housing demand**
- **Declining inventories**
- **Wall Street coming clean**
- **Plentiful mortgage funding**
- **Safer and affordable mortgage products**
- **REALTORS® building communities**

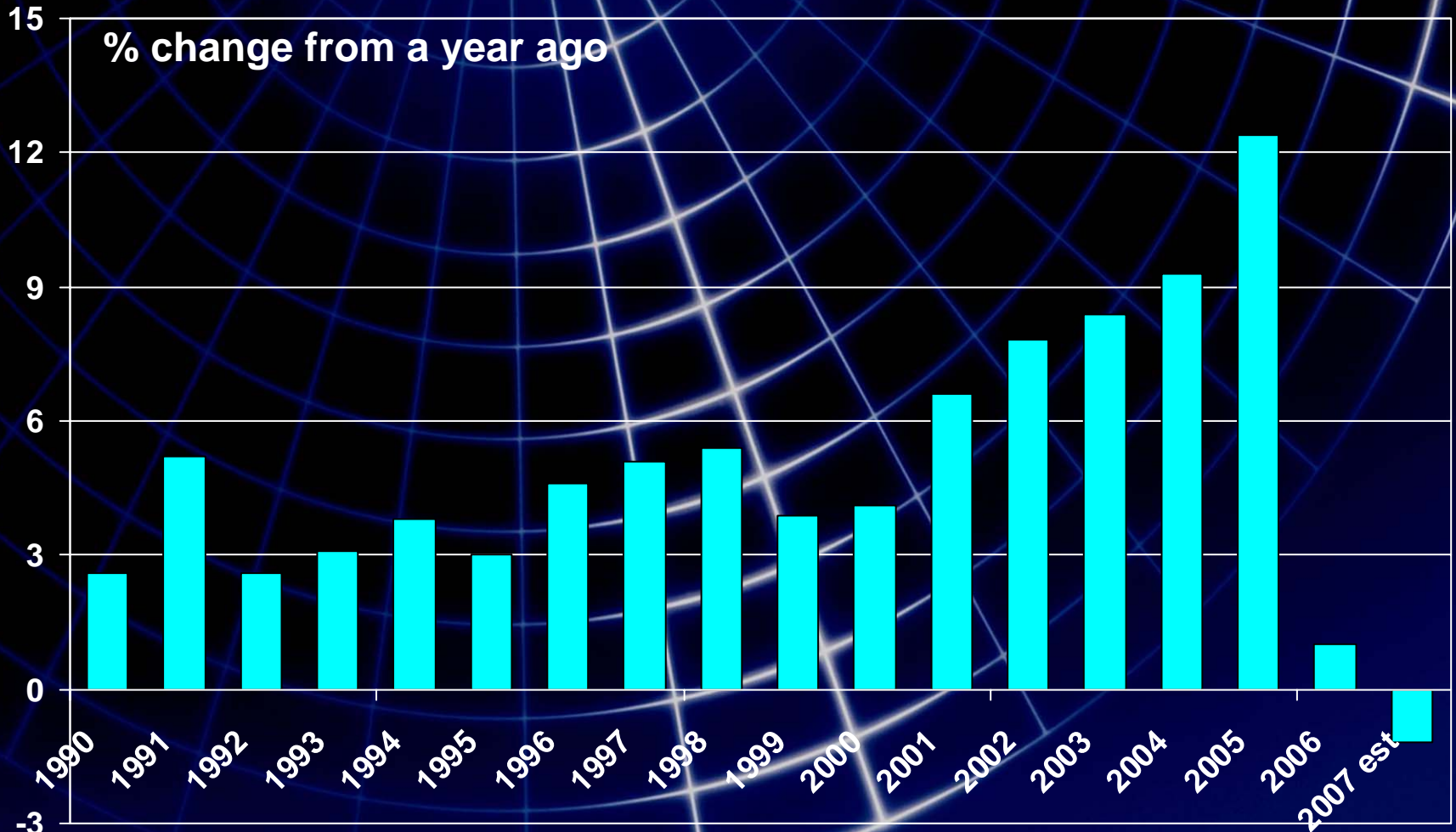




Housing Recession in 2007

Year of Challenge

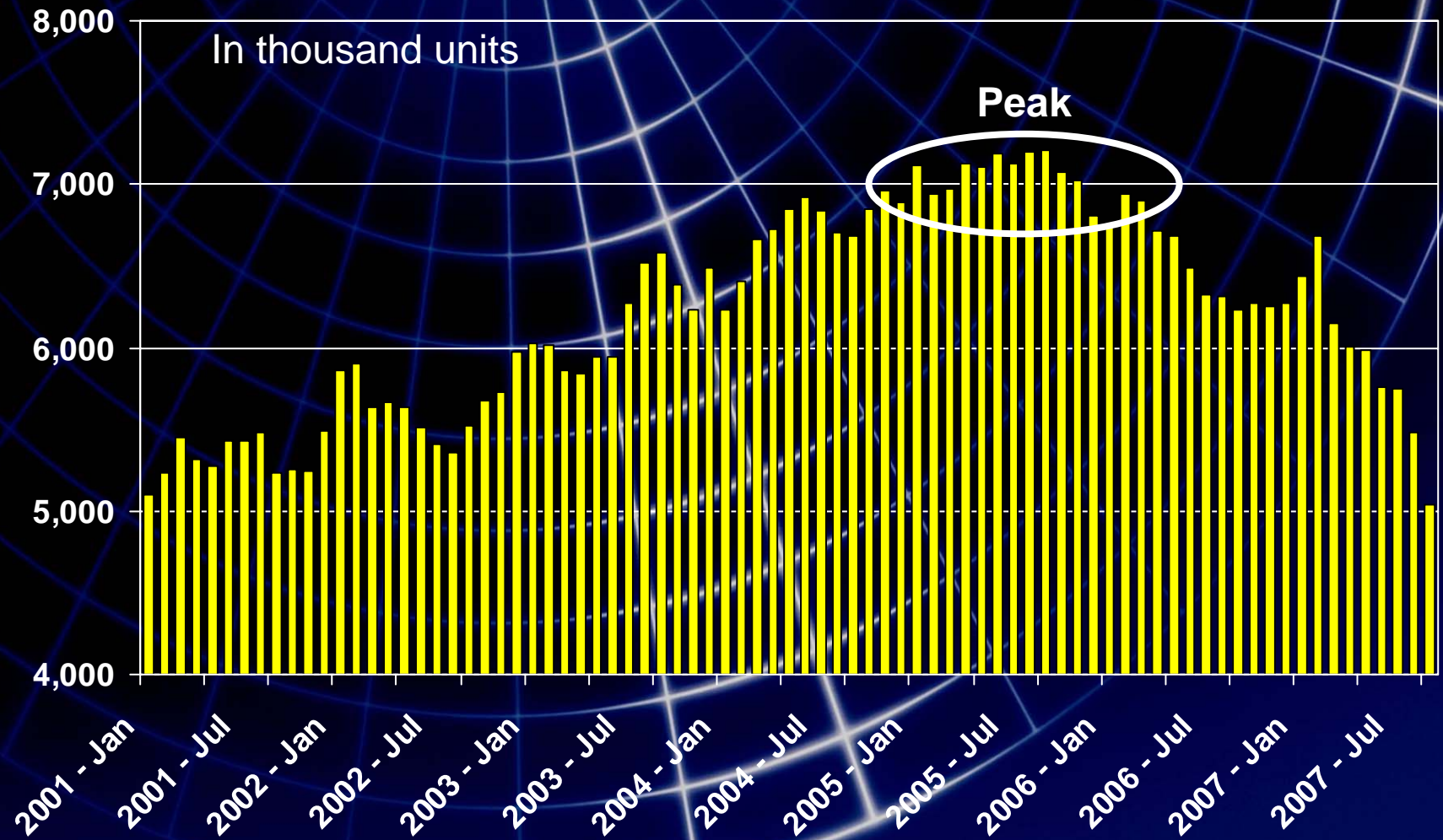
National Home Price Growth



Source: NAR

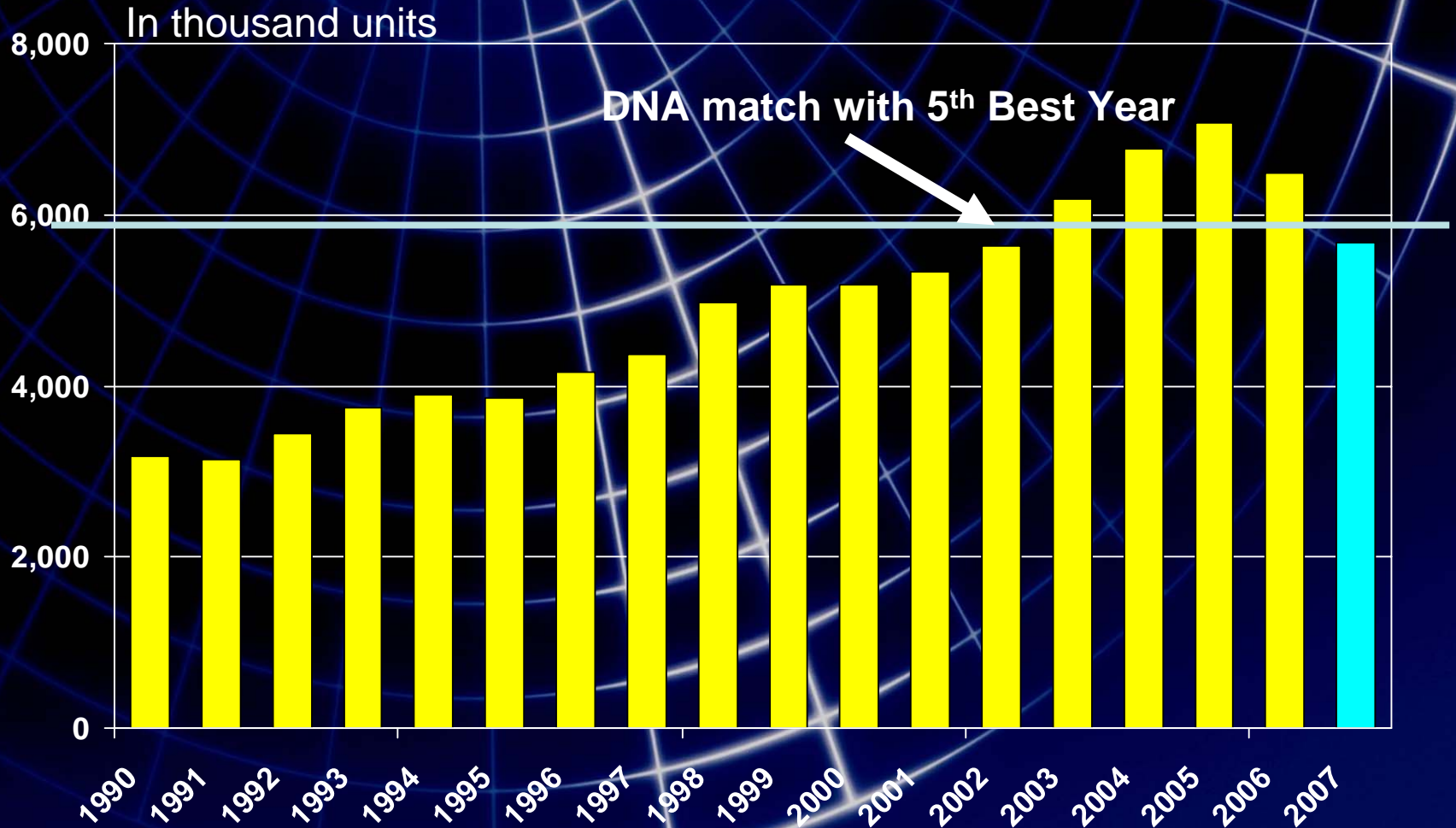
Monthly Existing-Home Sales

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



Source: NAR

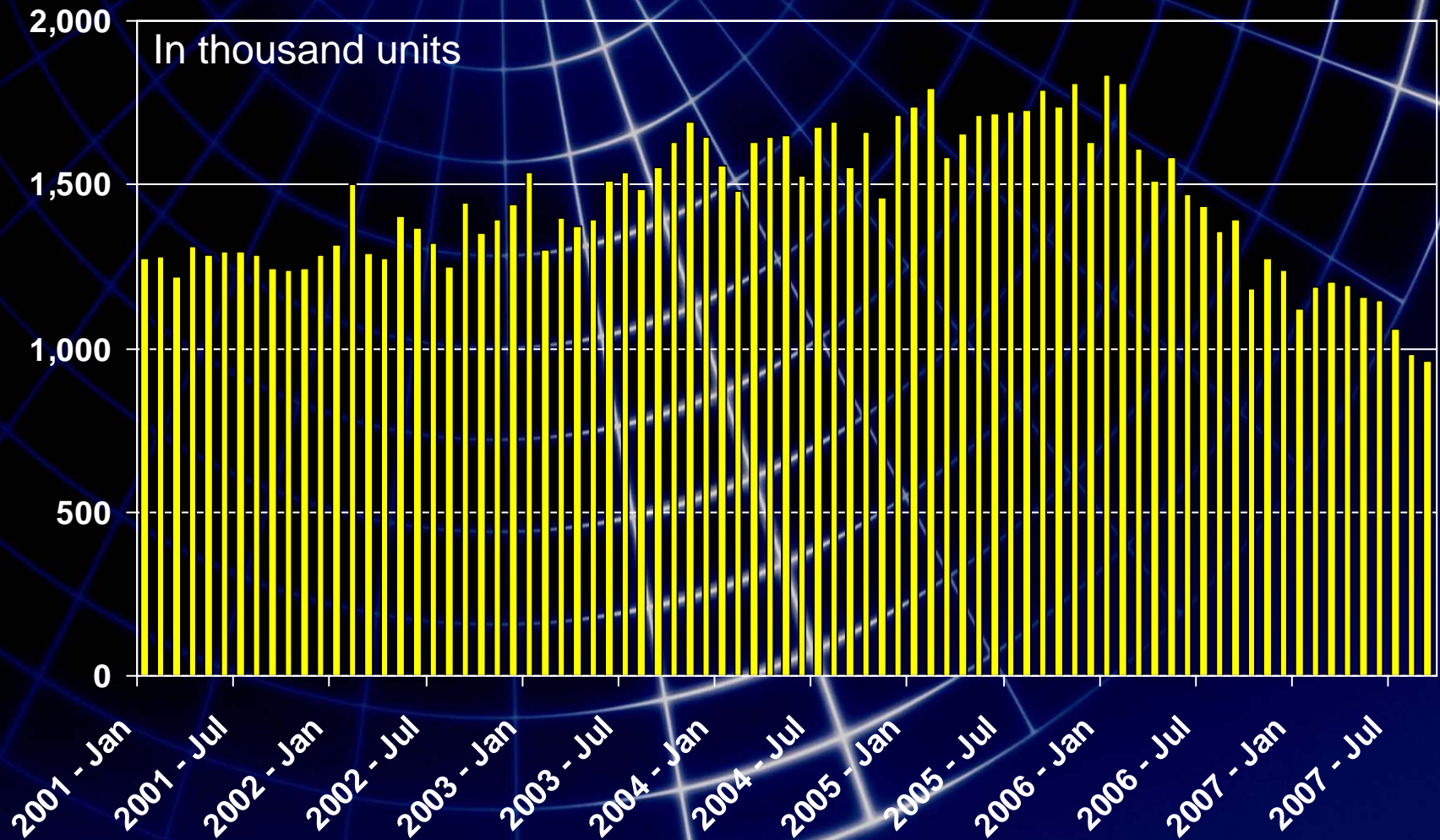
Annual Existing-Home Sales and Forecast



Source: NAR

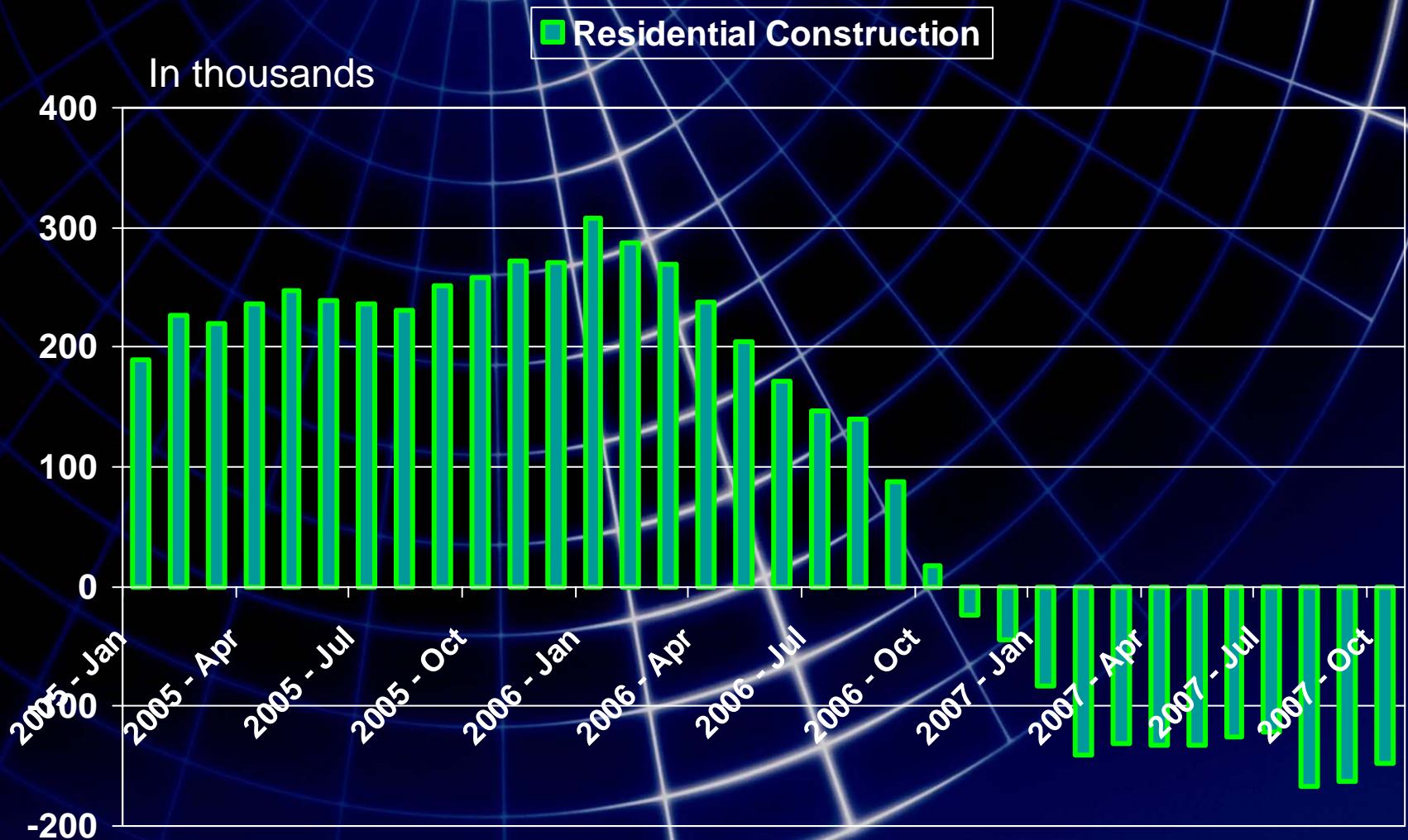
Single-Family Housing Starts

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



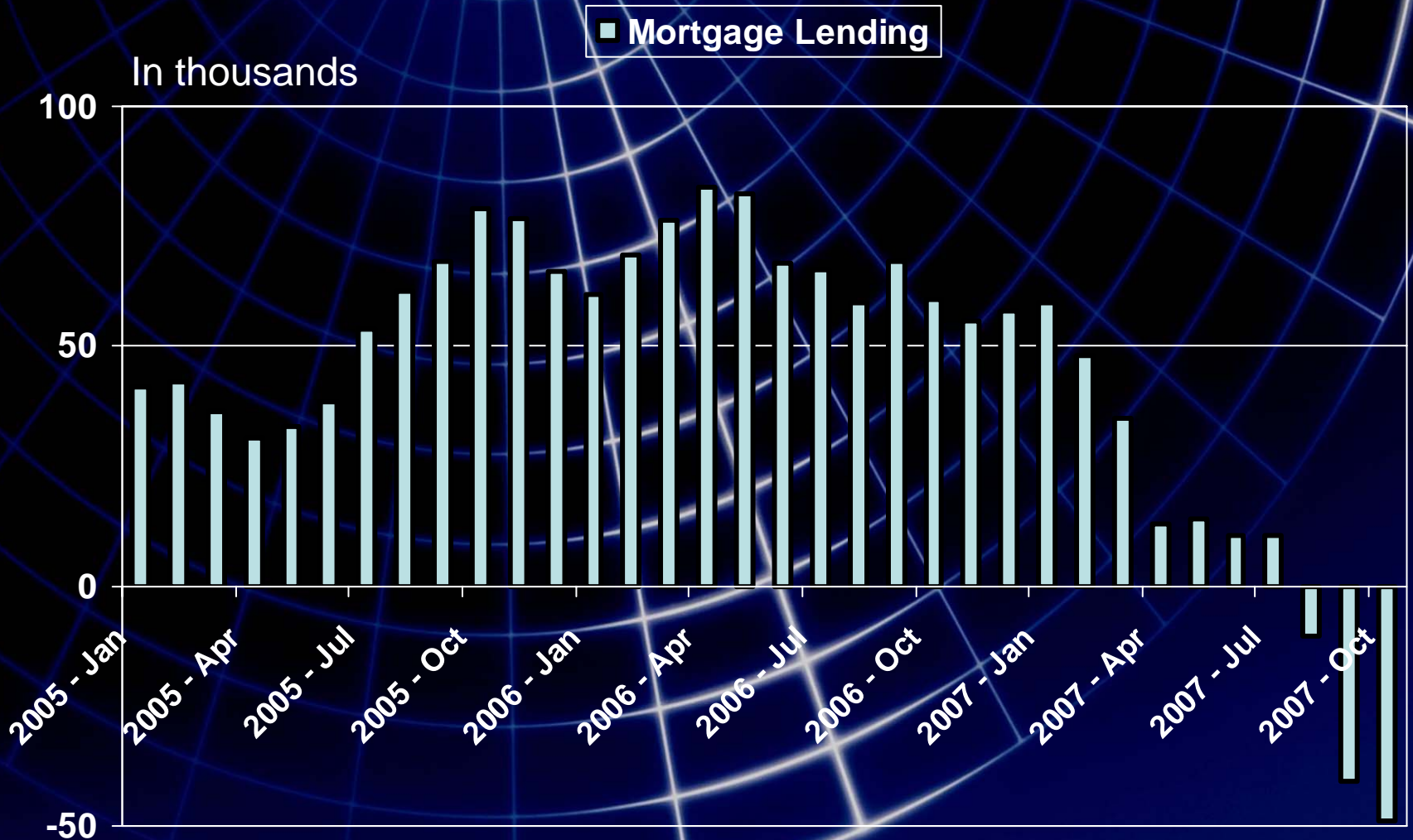
Source: Census

Construction Jobs Falling



Source: BLS, *residential construction and contractors

Mortgage Lending Jobs Falling



Source: BLS, *credit intermediation



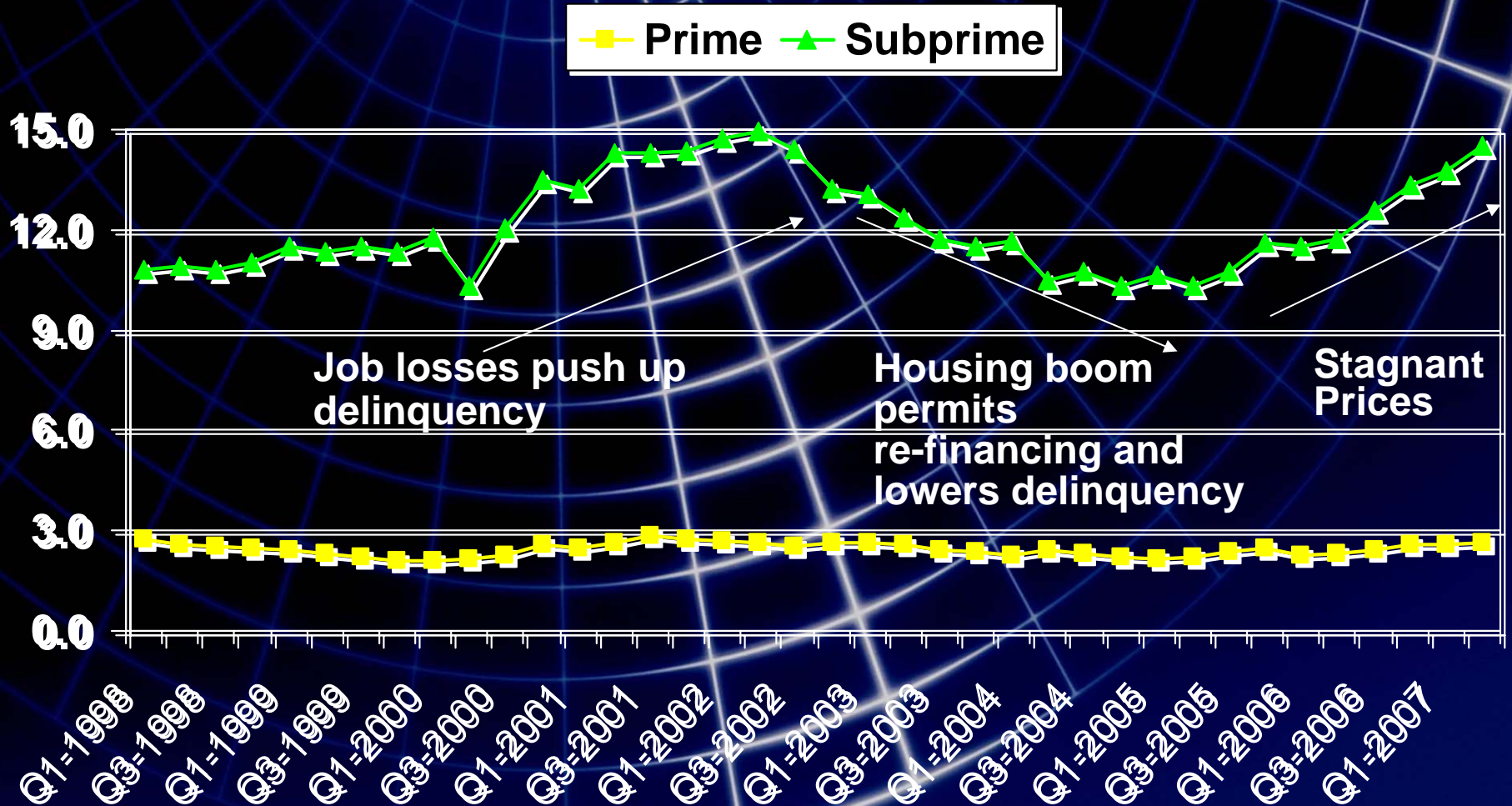
REALTOR[®] Membership

- Essentially Unchanged at 1.36 million
- Good or Bad News?
- Fiercely Competitive



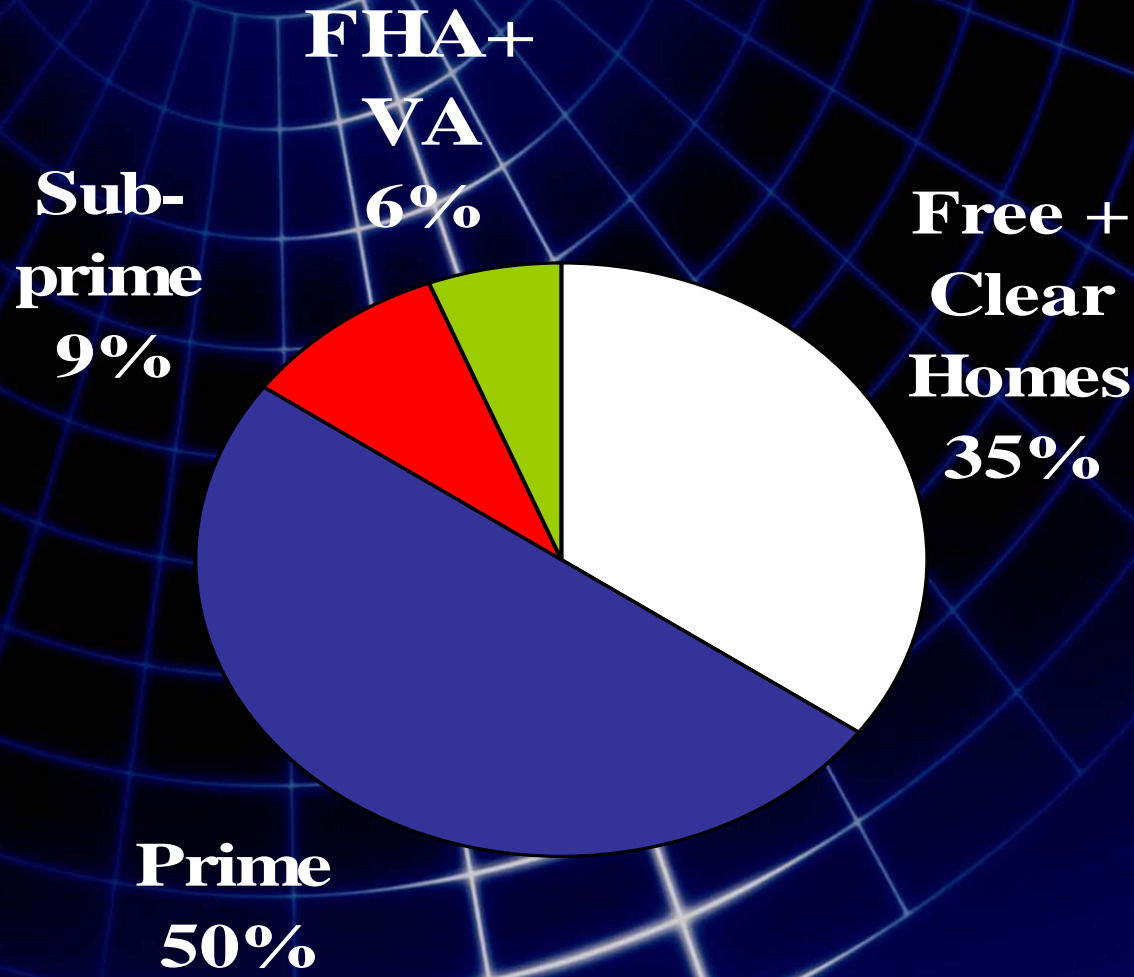
Souring Loan Performance

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



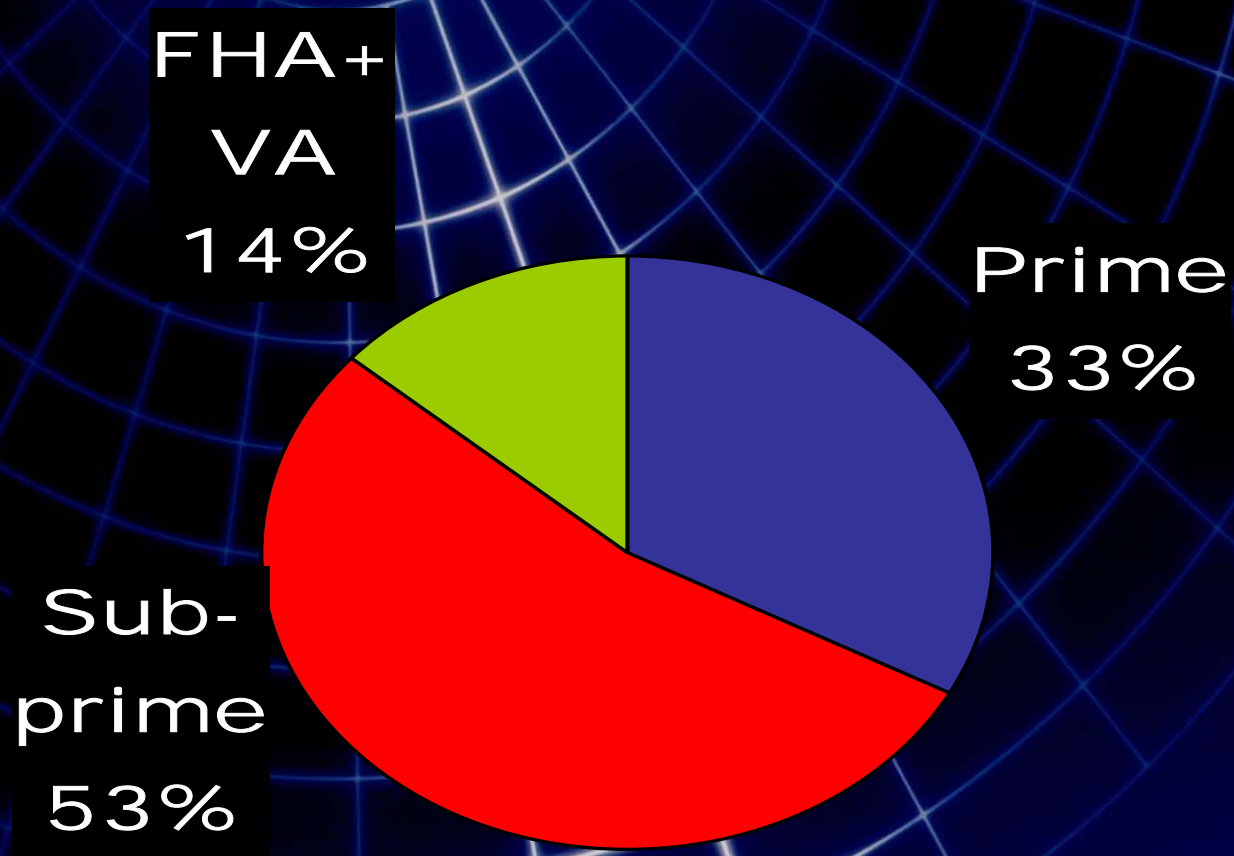
Data: MBA

Subprime Loan Exposure



Source: NAR Estimate

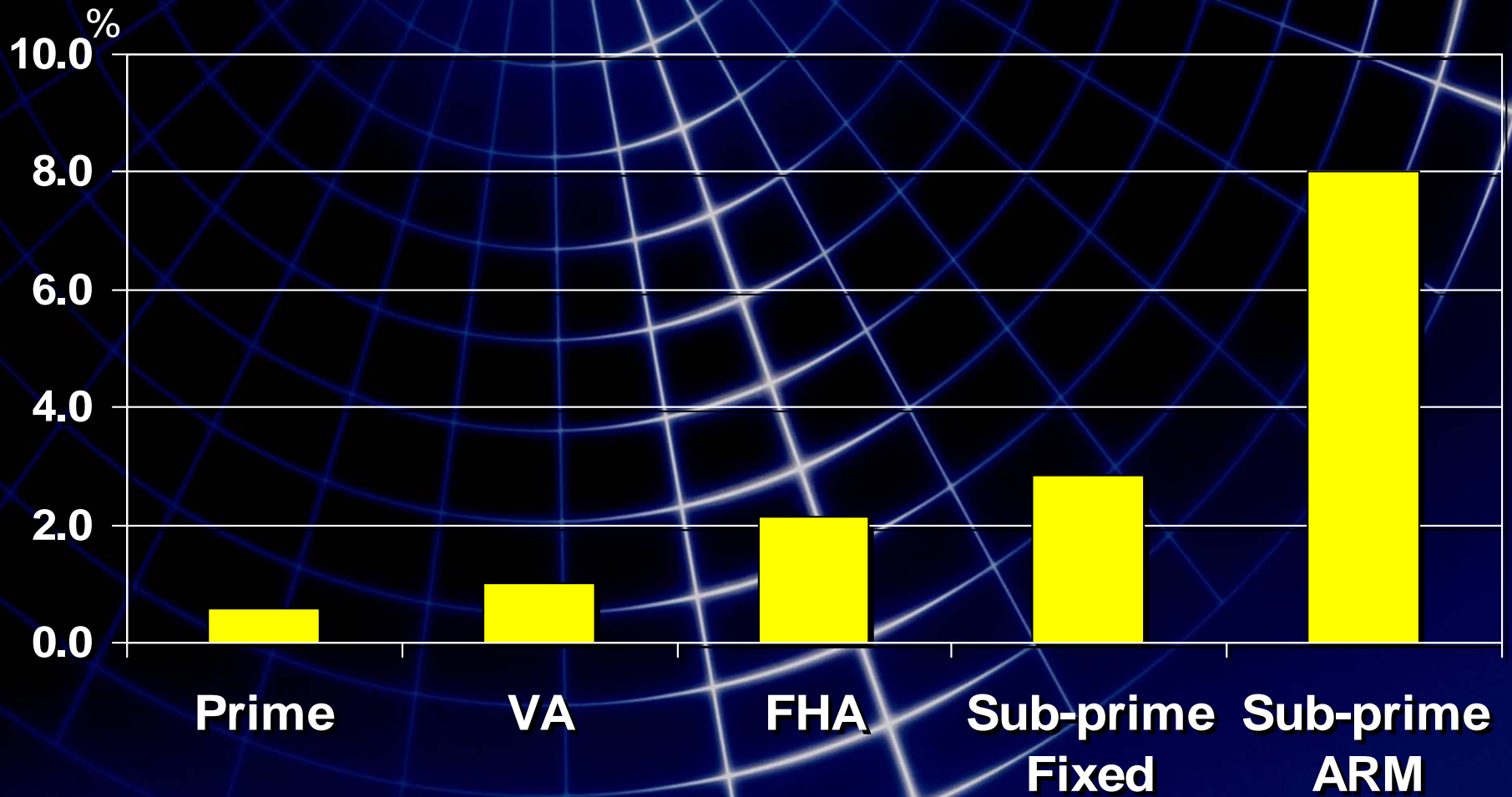
Foreclosed Homes



Source: NAR Estimate

Foreclosure Rates by Loan Type

2007 Q2

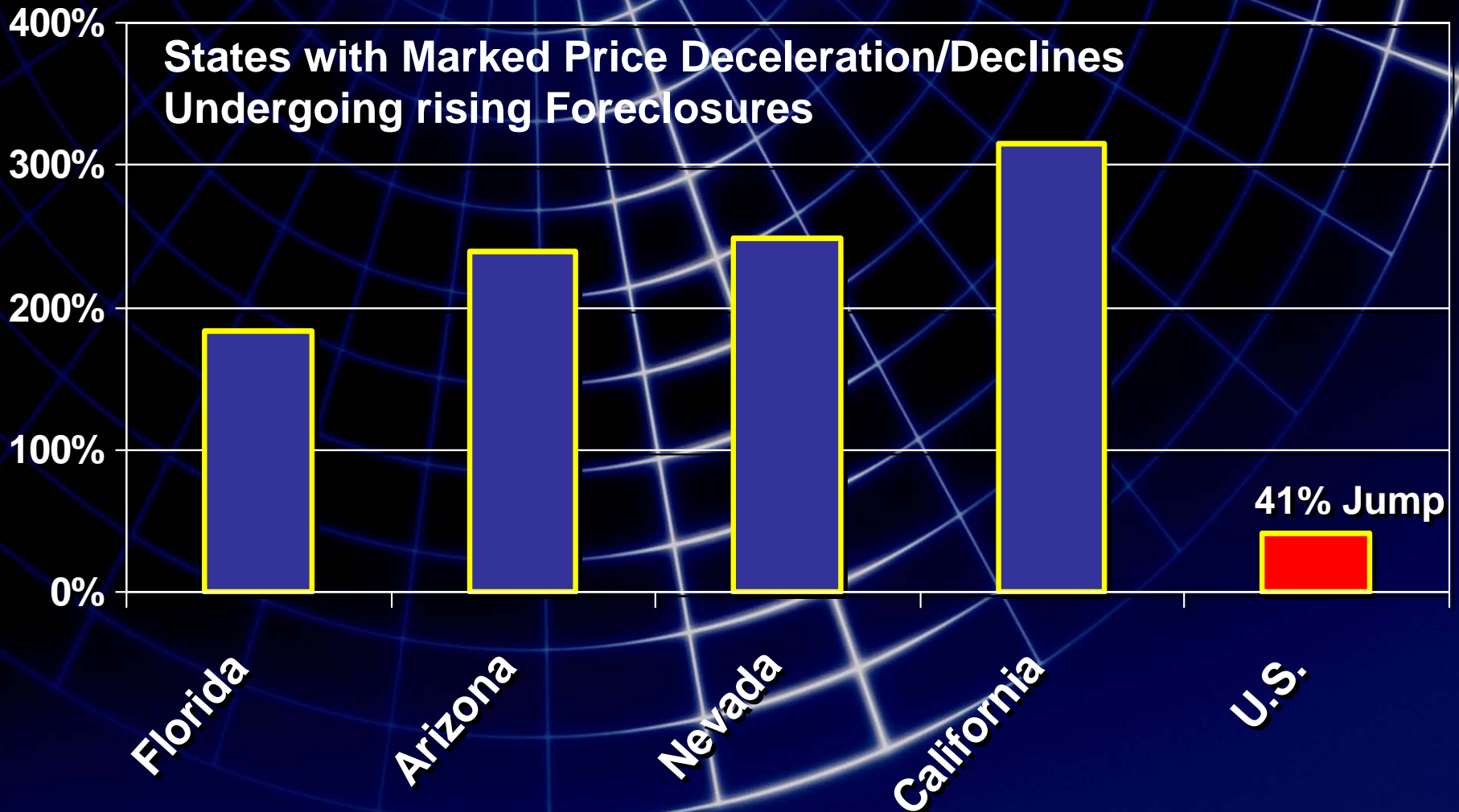


Data: MBA

Rising Foreclosures

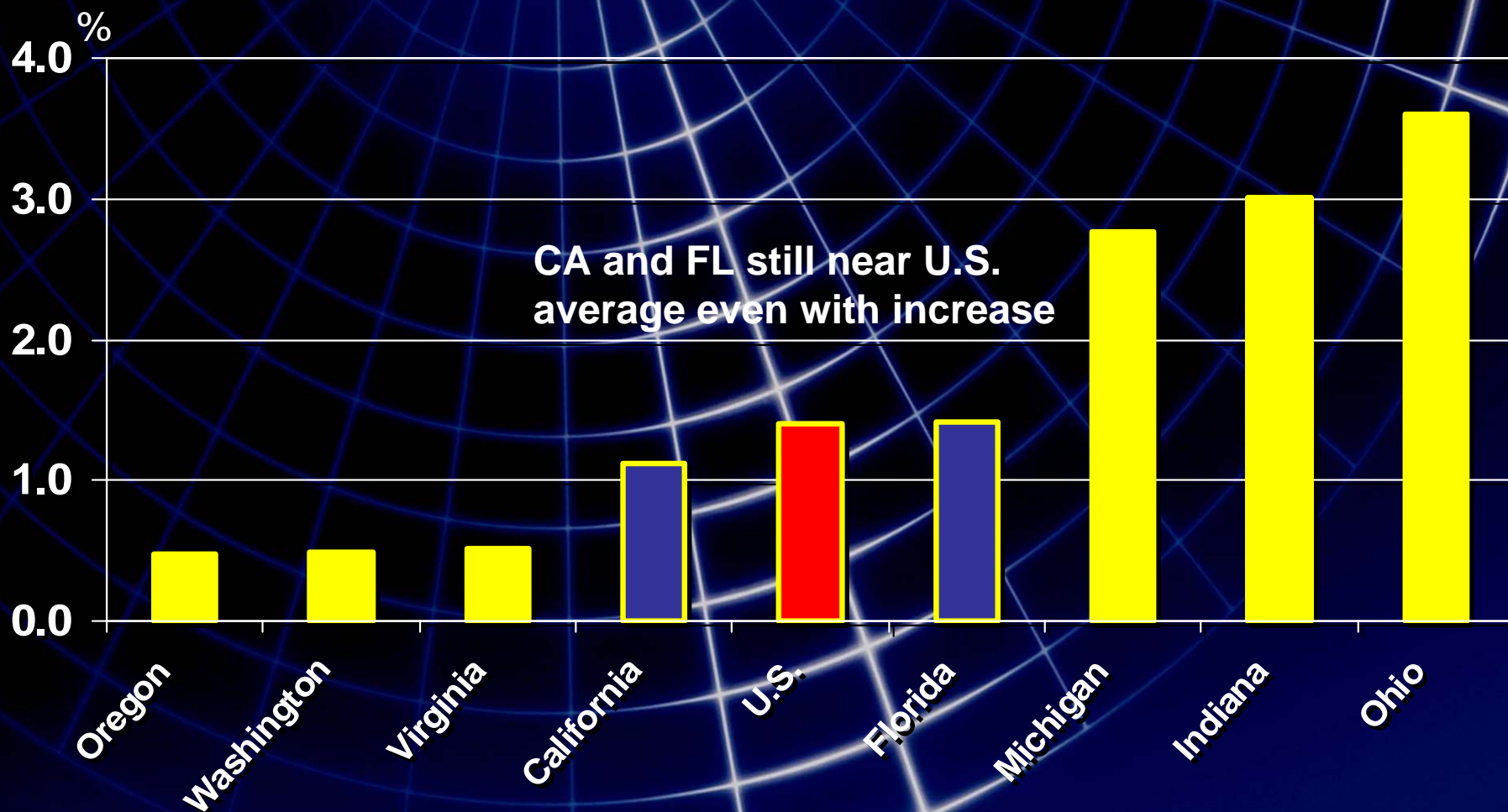
Percent change in foreclosure rate in 2006 Q2 vs 2007 Q2

States with Marked Price Deceleration/Declines
Undergoing rising Foreclosures



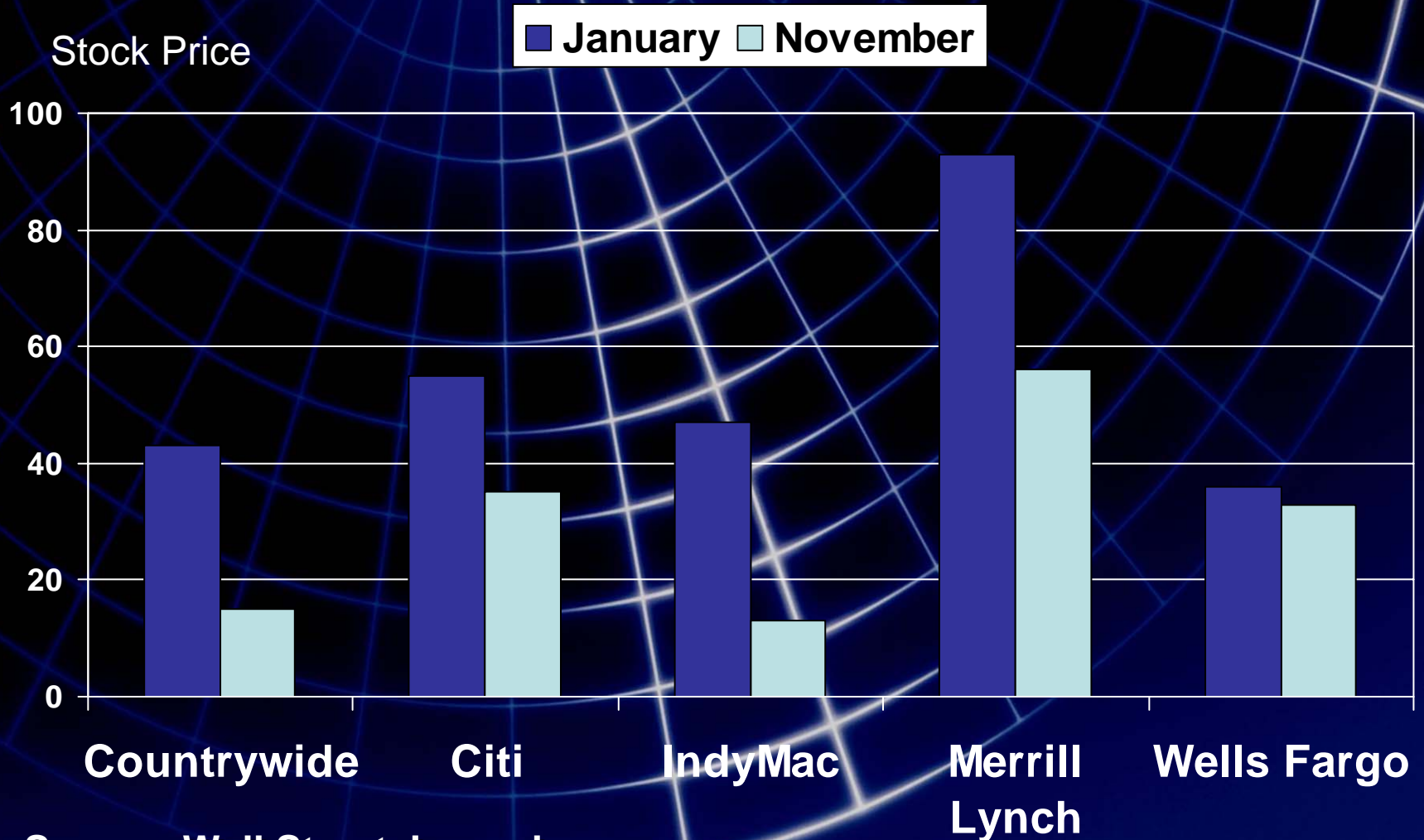
Foreclosure Rate Comparisons

(2007 Q2)



Data: MBA

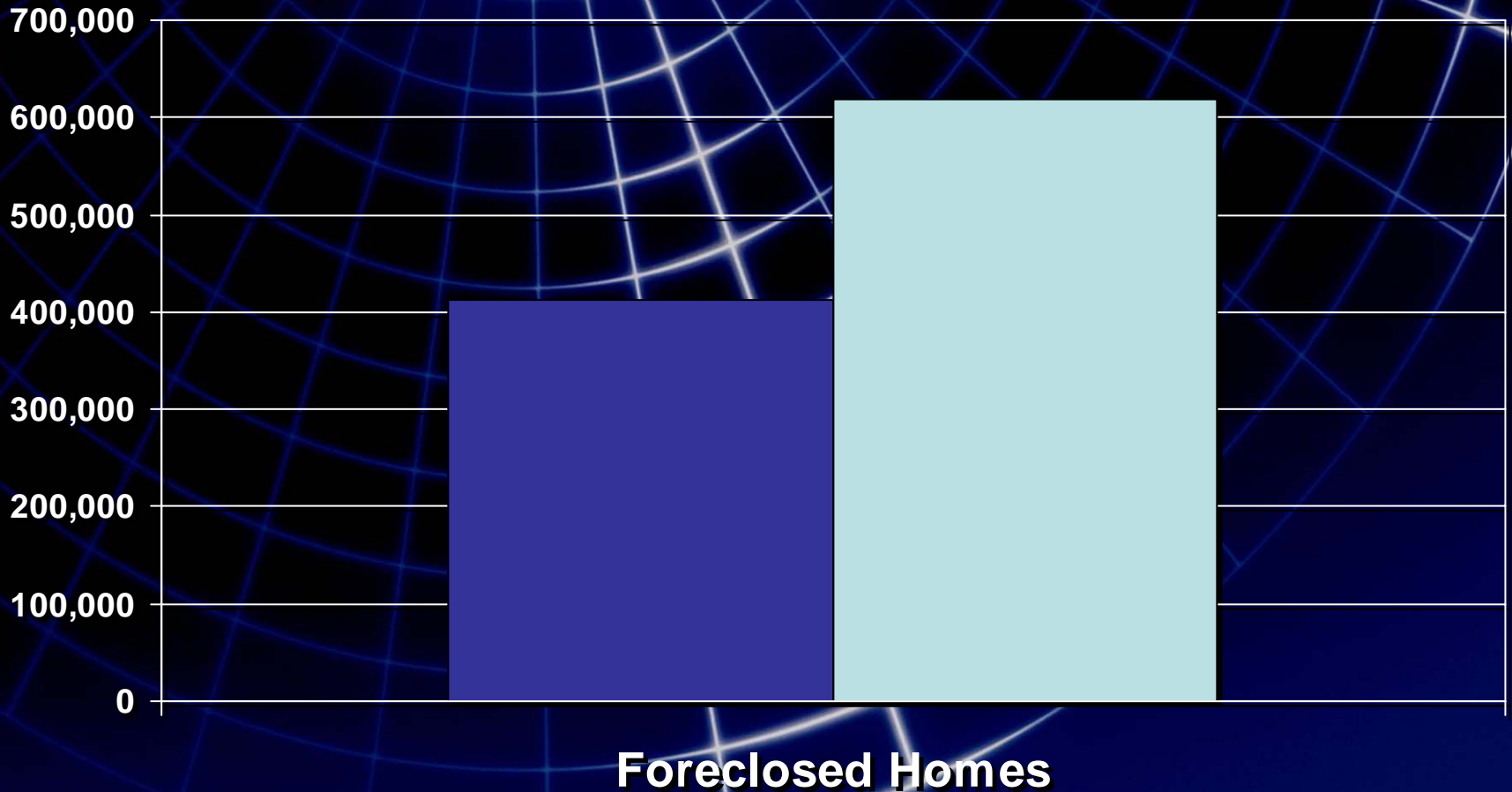
Gamble Did Not Pay: Wall Street Re-valuation



Source: Wall Street Journal

Families Losing Homes

■ 2006 Q2 ■ 2007 Q2



Data: NAR analysis of MBA data

A hand in a brown leather glove holds a large, white dollar sign cutout over a document. The document has the word 'SOLUTION' partially visible. The background is a dark blue grid pattern.

Important Factors for 2008

Year of Opportunity

**All
Real
Estate is
Local**

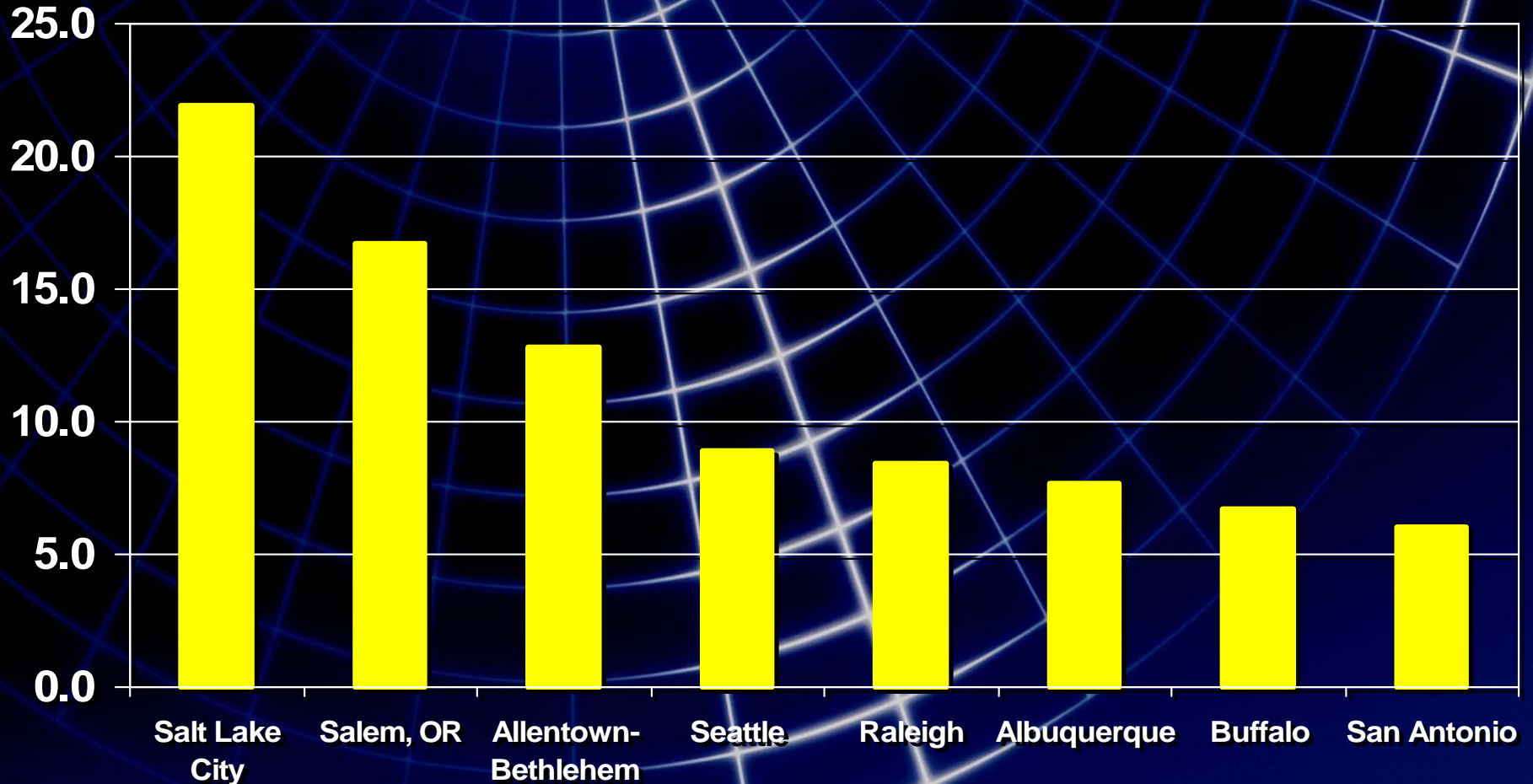


National vs. Local Information

- **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 -- not meaningful

Robust Home Price Appreciation

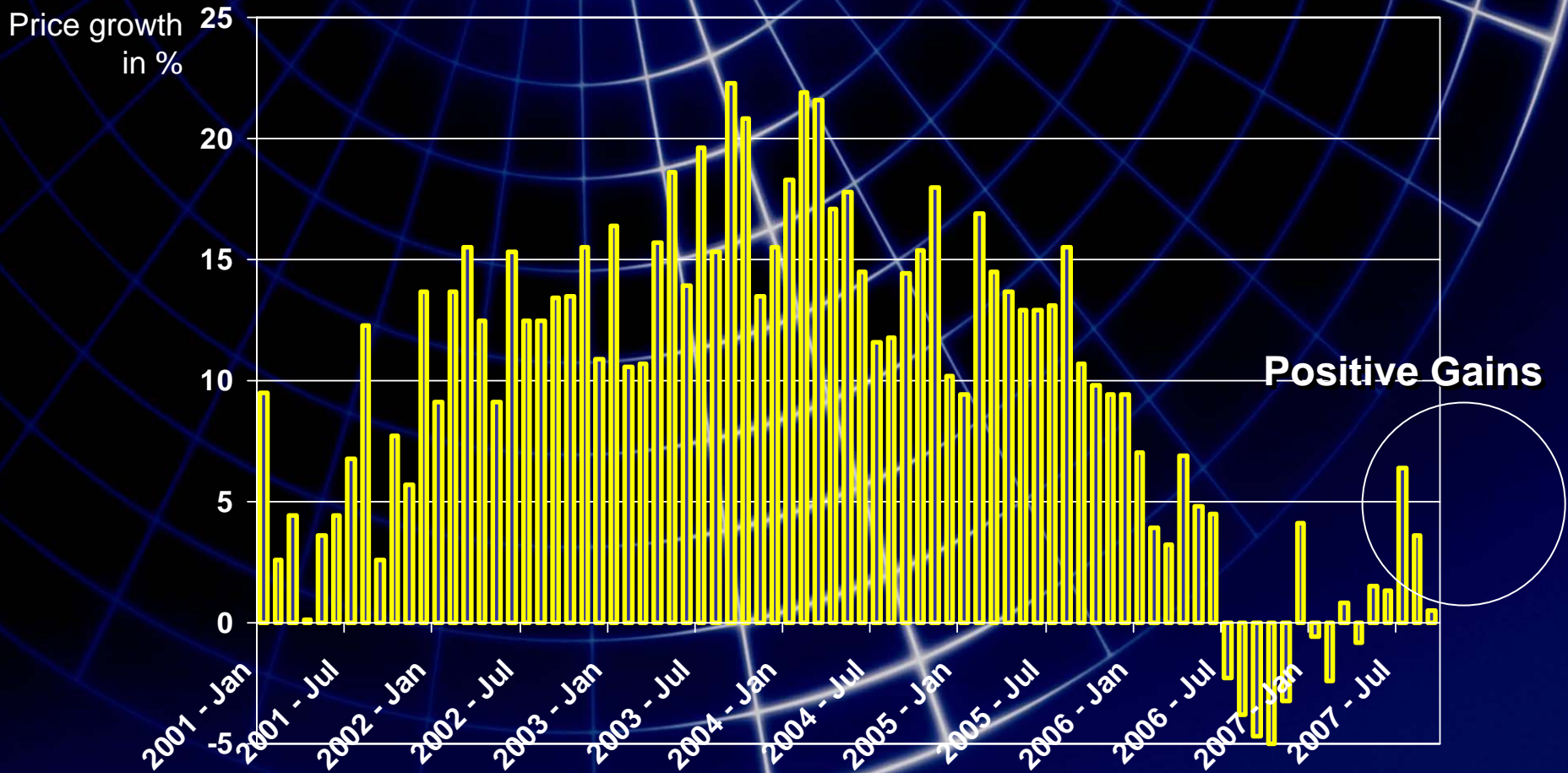
(2007 Q2 vs 2006 Q2)



Data: NAR

Recovering Markets in the Northeast

(First region to undergo a slump – but now already into a respectable recovery)



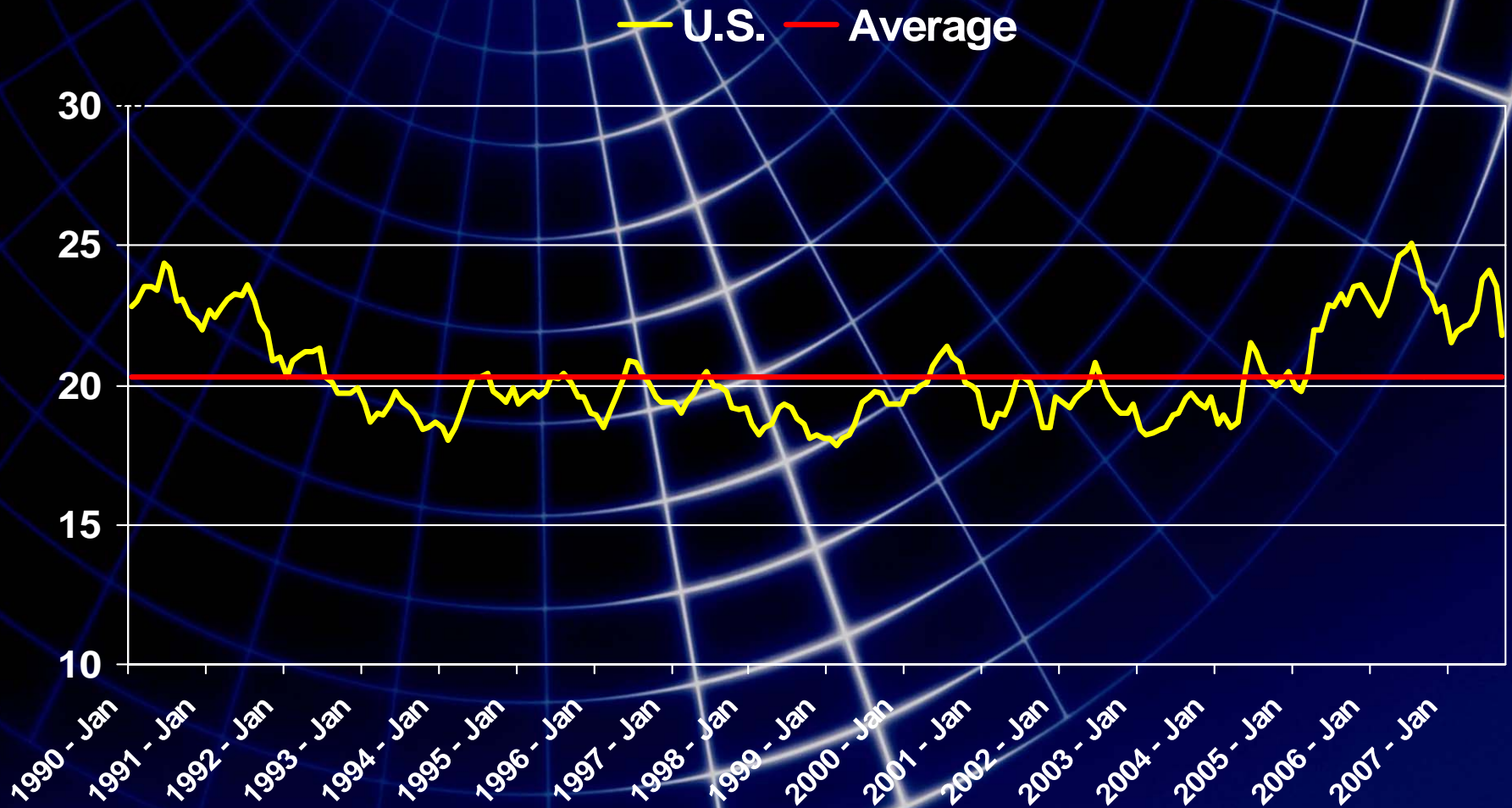
Source: NAR

Falling Foreclosures

Percent change in foreclosure rate in 2006 Q2 vs 2007 Q2



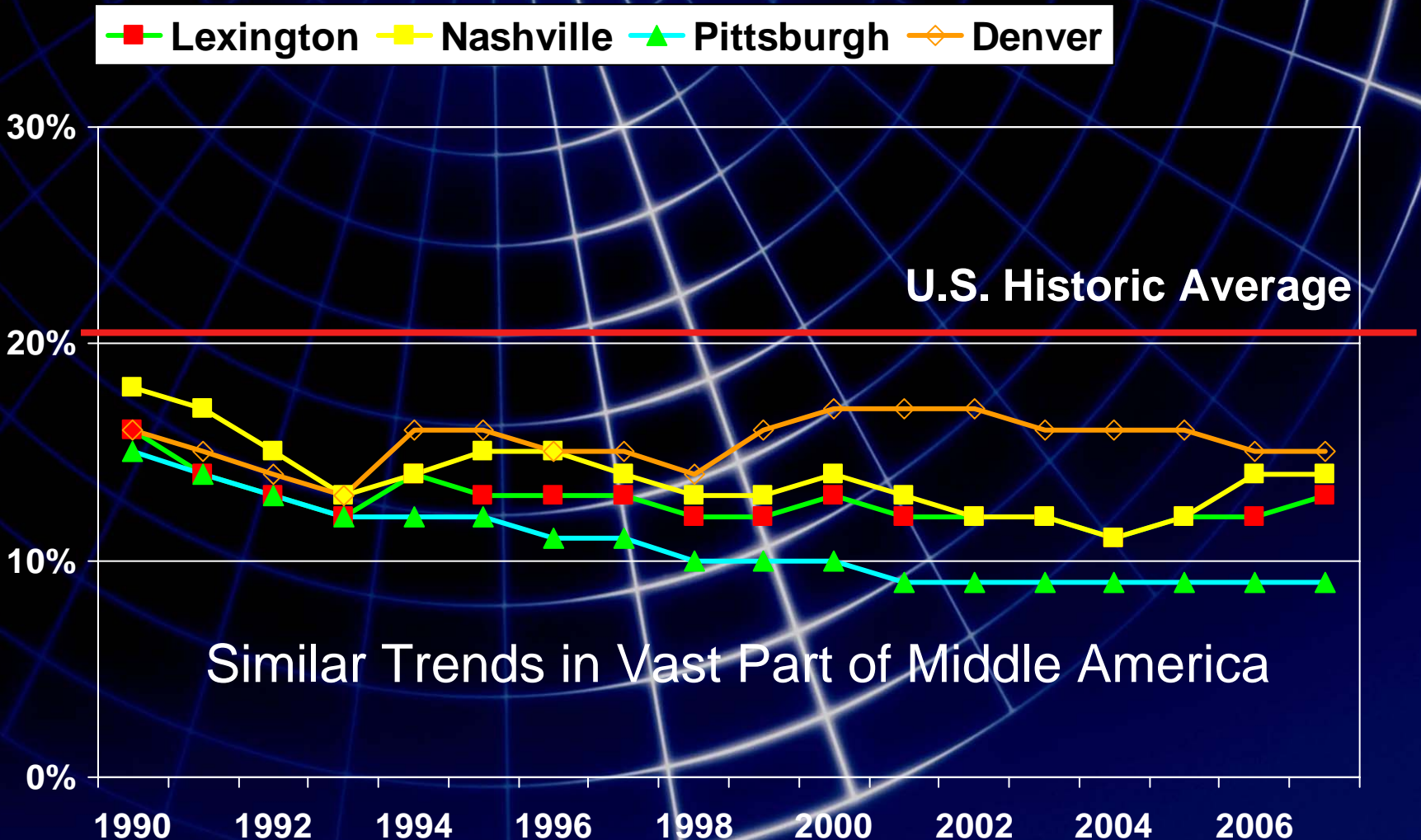
Mortgage Obligation to Income Manageable



Source: NAR

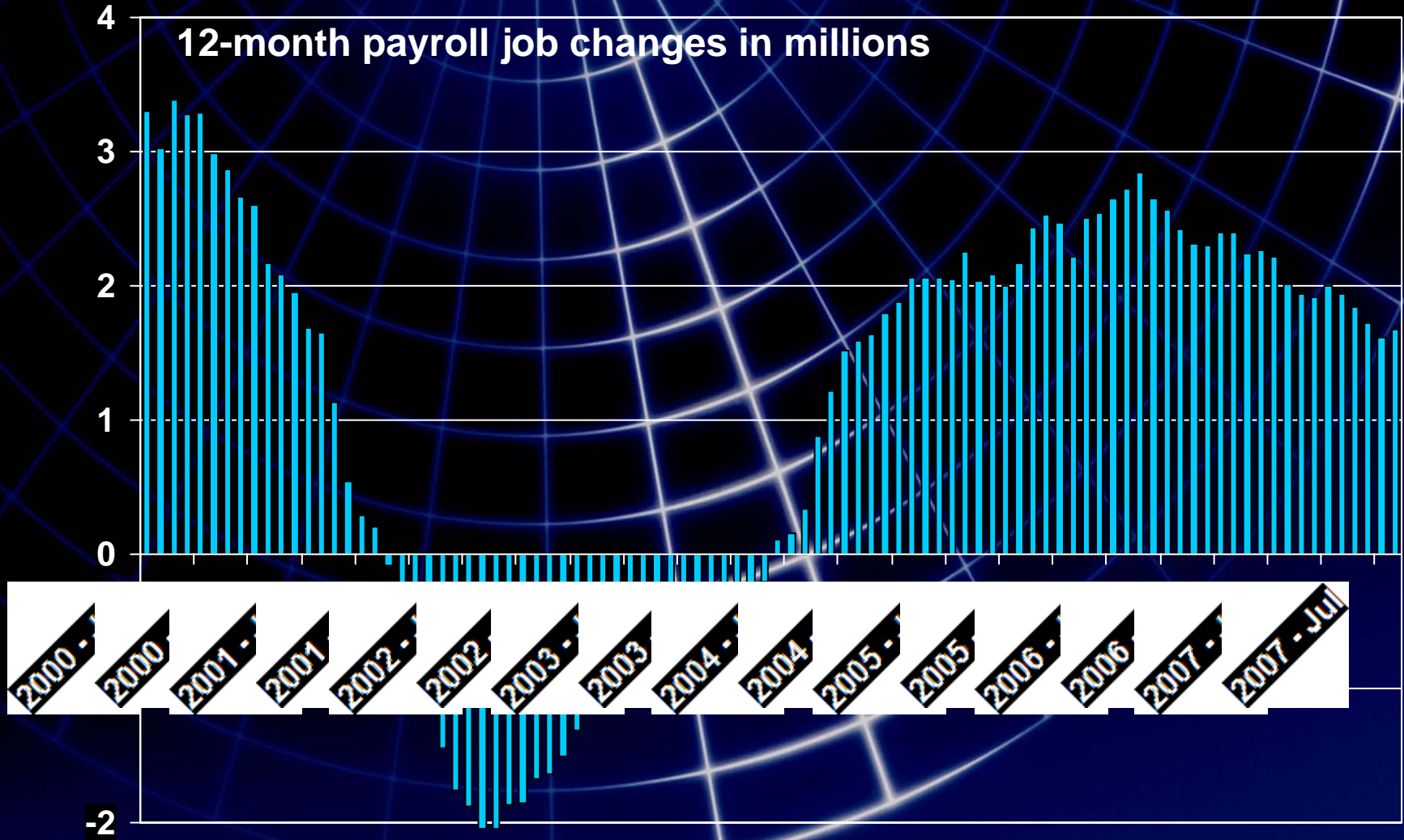
Under-Priced Markets

With Affordable Mortgage Obligation to Income



Source: NAR

Favorable Economy: 4 Million New Jobs in Past 24 months



Source: BLS

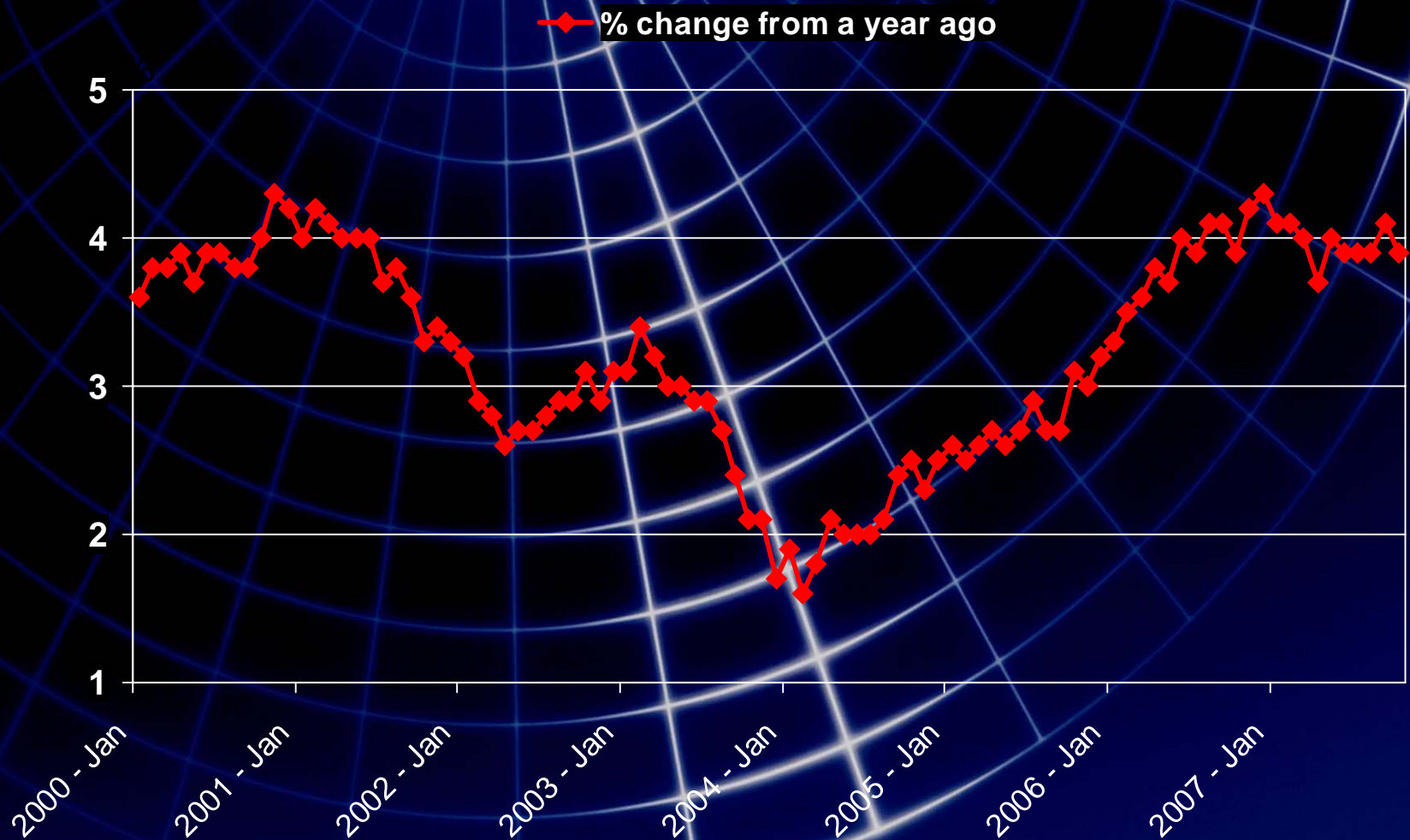
Wichita Strong Job Growth – Assures Good Market

◆ Wichita ■ U.S.



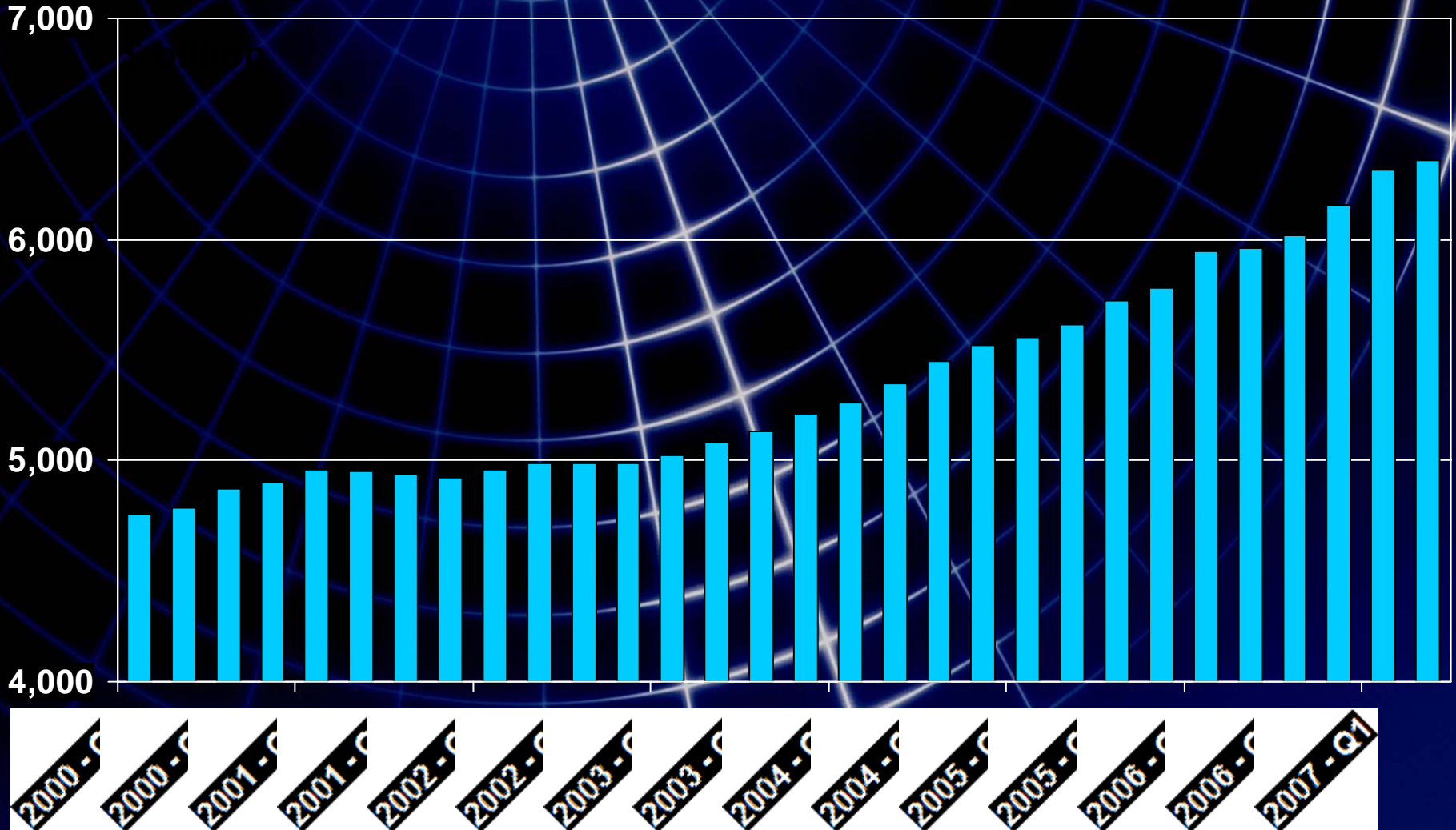
Source: BLS

Wage Growth Picking Up



Source: BLS

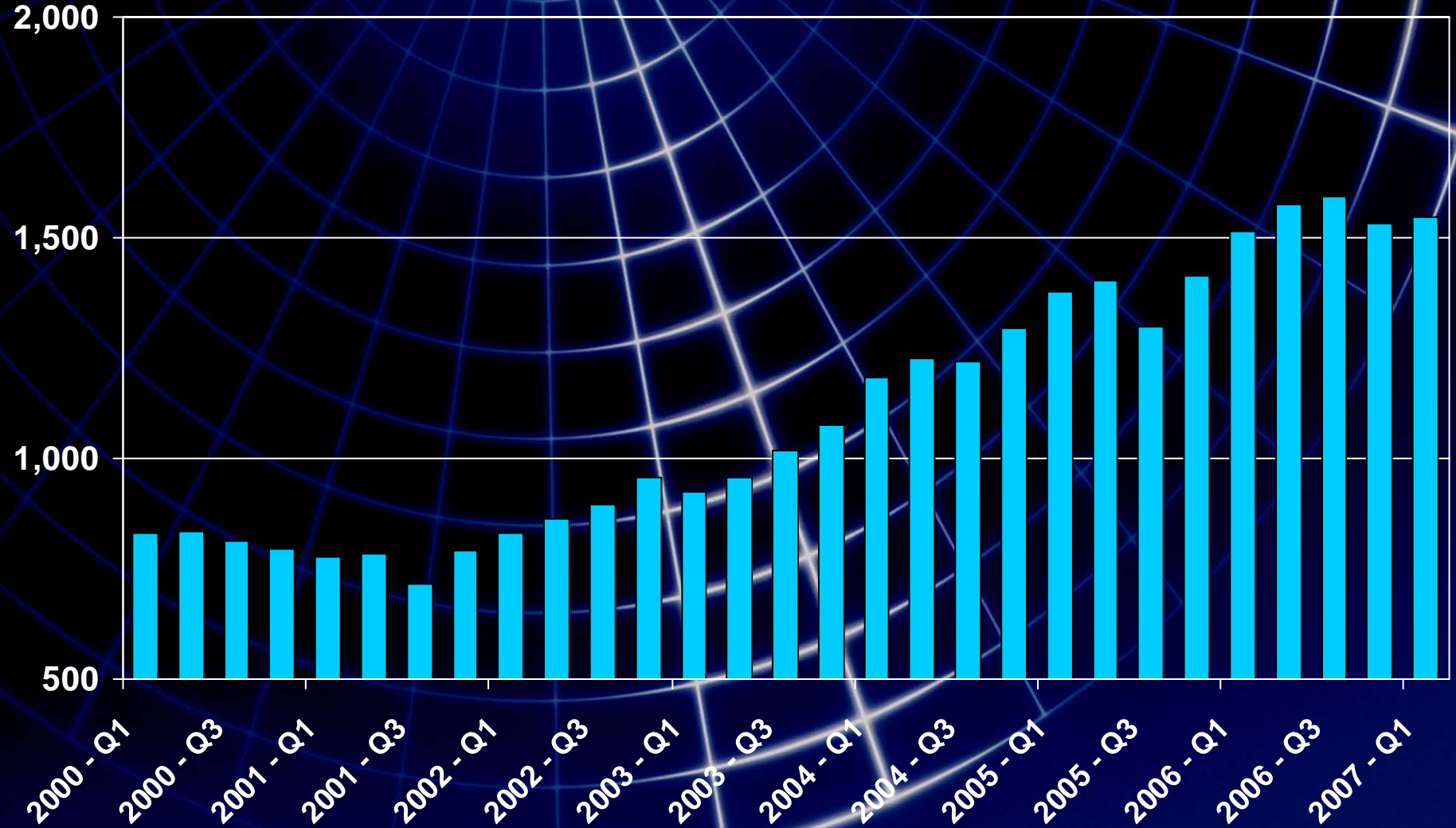
Aggregate U.S. Wages and Salary Disbursement



Source: BEA

Corporate Profits – Record High

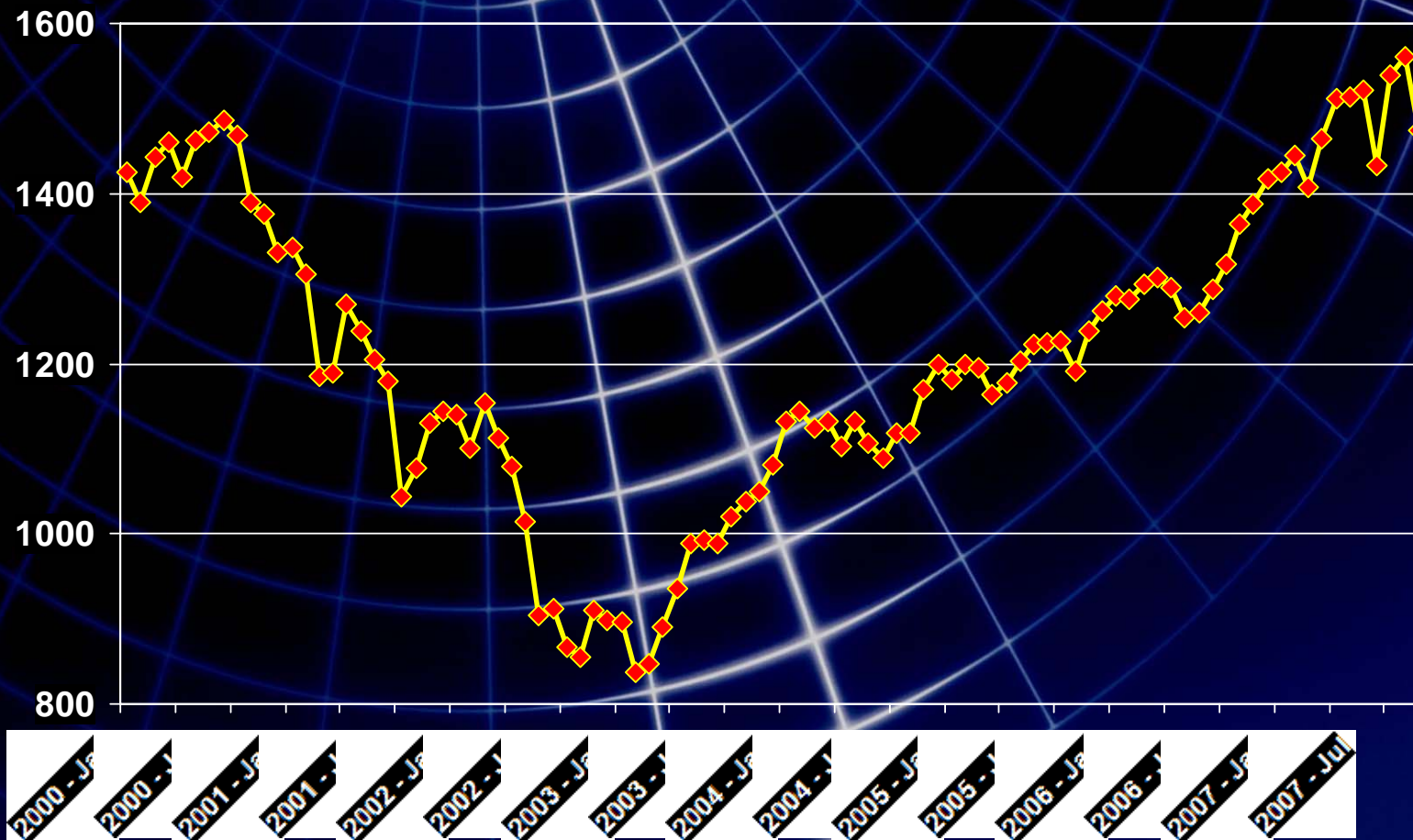
\$ billion



Source: BEA

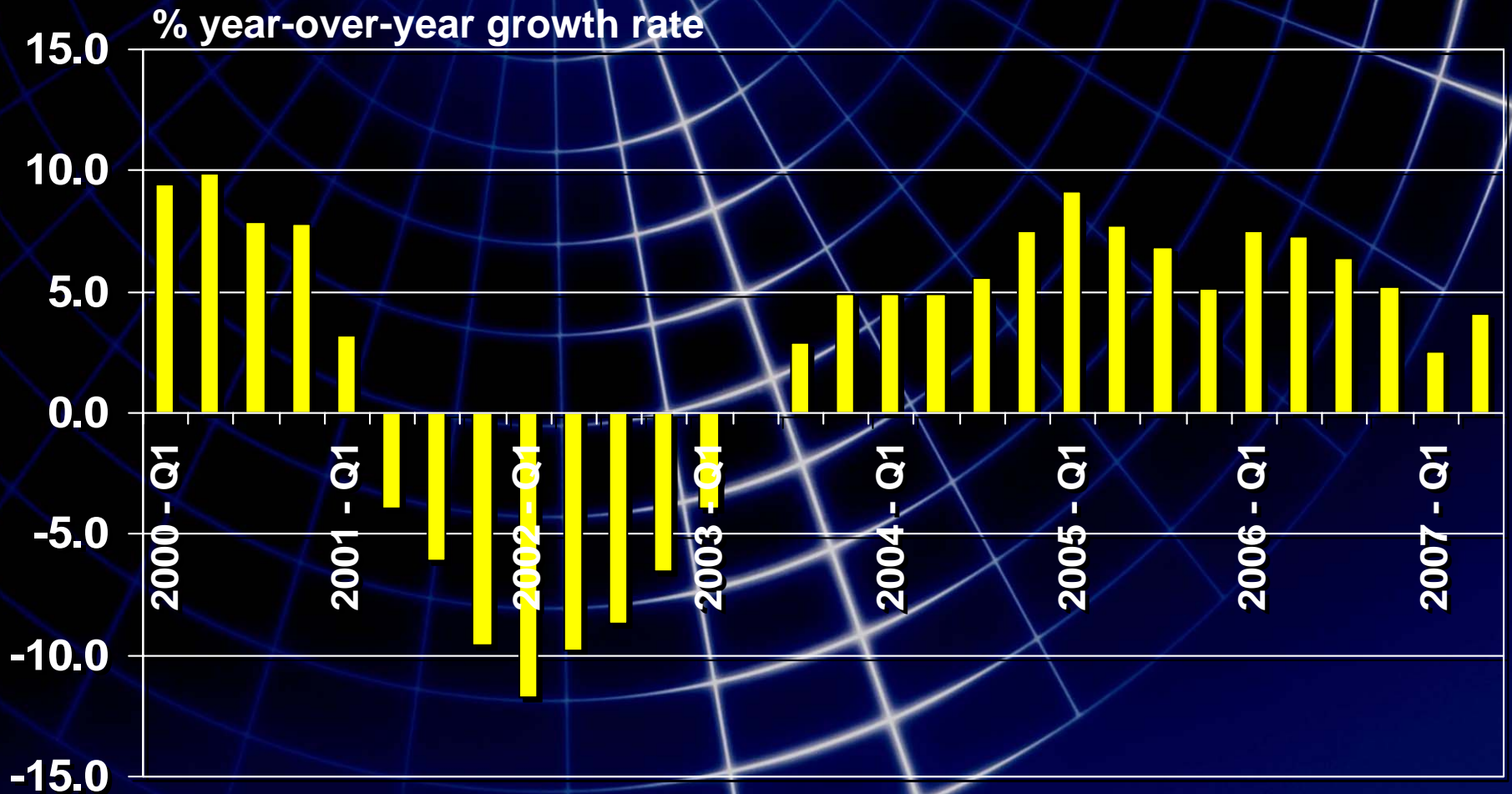
Stock Market at Record High

S&P 500 Index



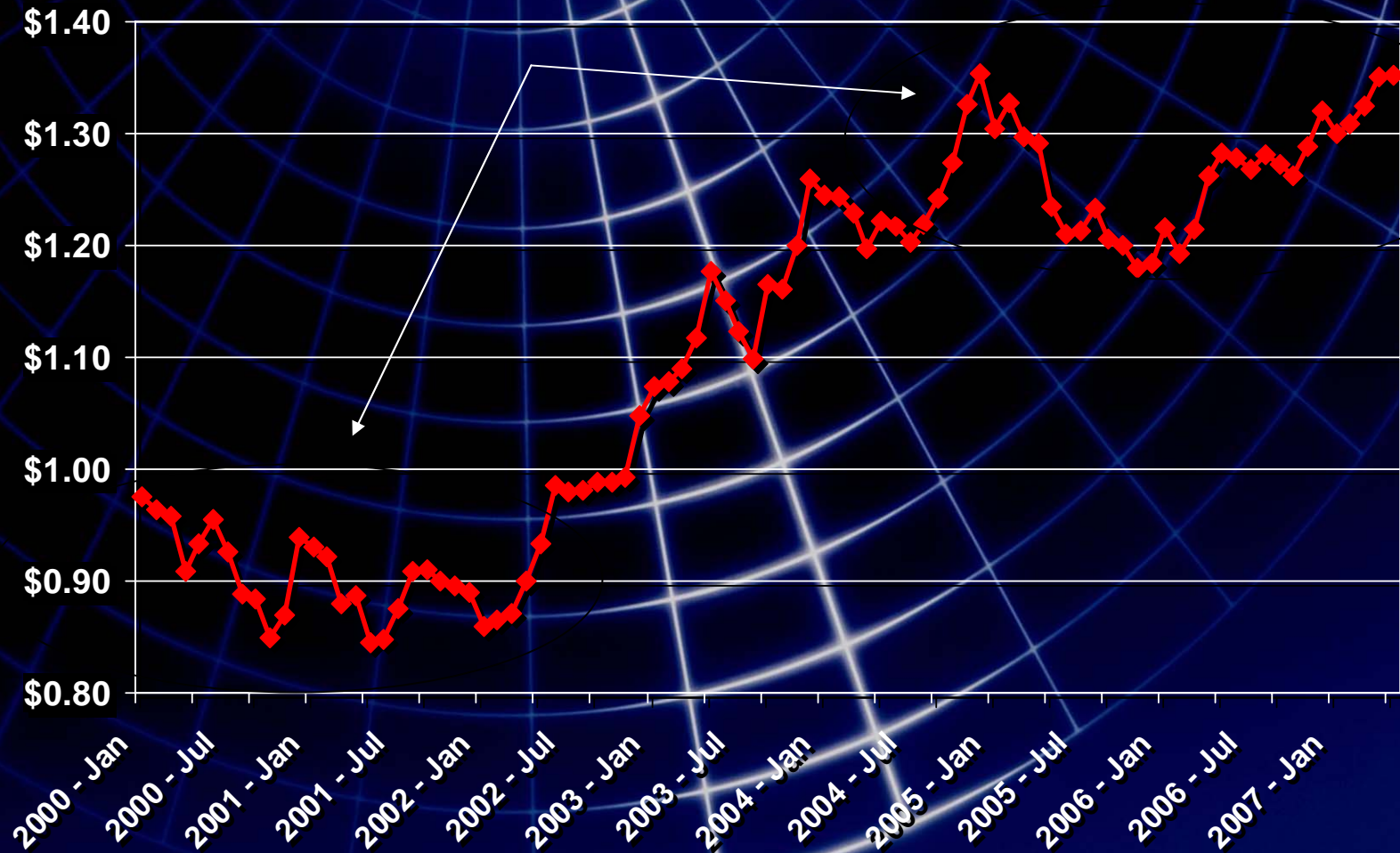
Source: NYSE

Business Spending



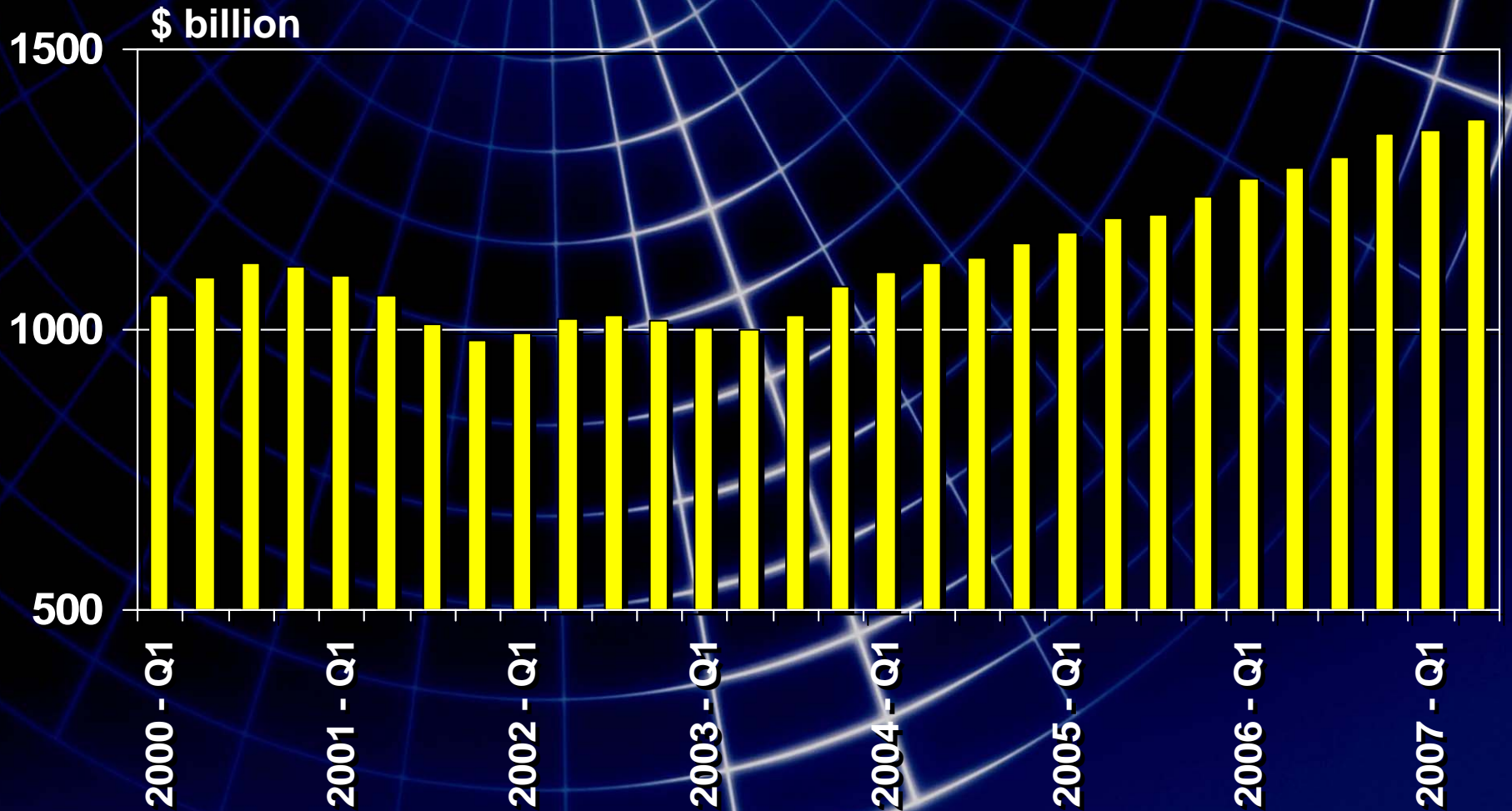
\$Dollar vs €Euro

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



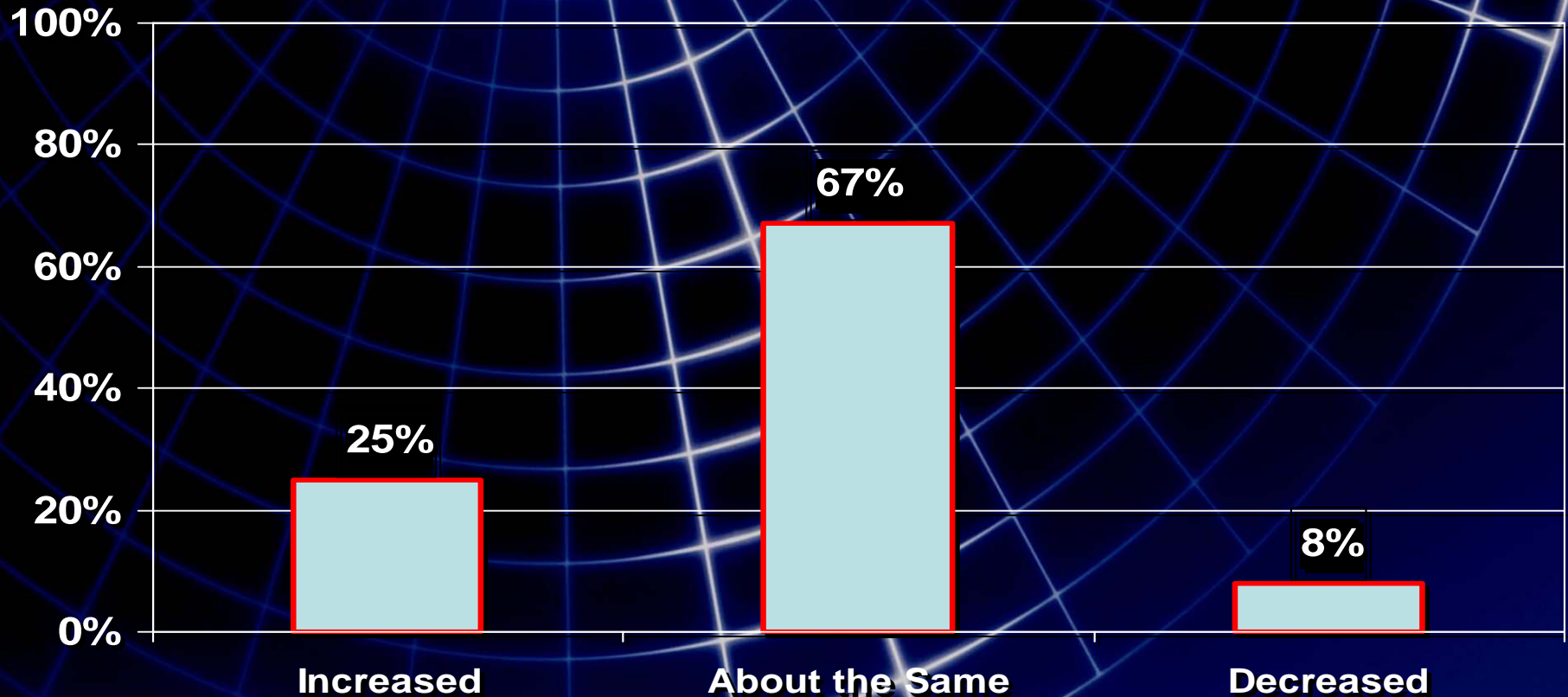
Source: BLS

Export Growth

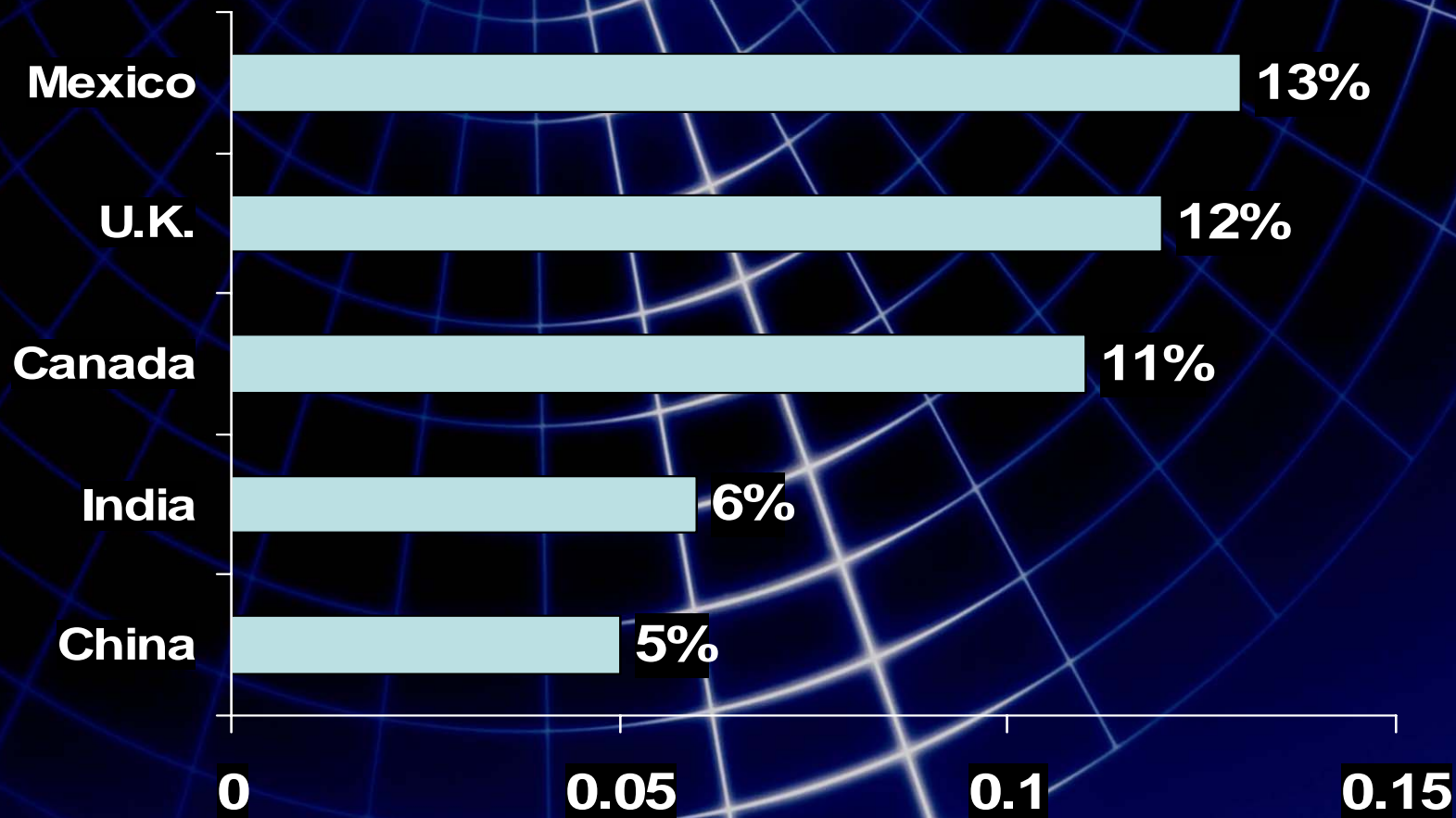


International Homebuyer Trend in the U.S. in 2006

(versus 5 years ago)

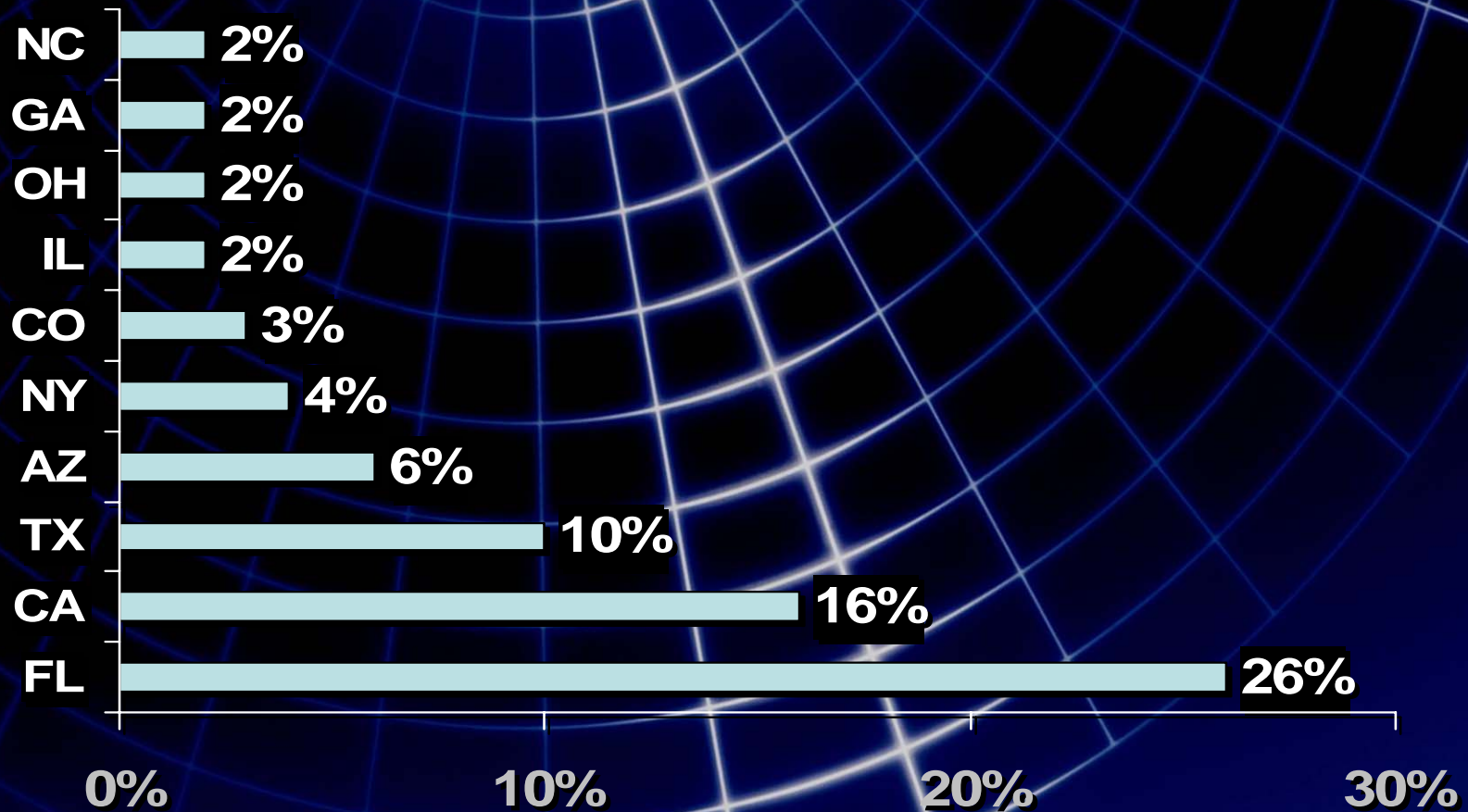


International Buyers' Origin by Country in the U.S.



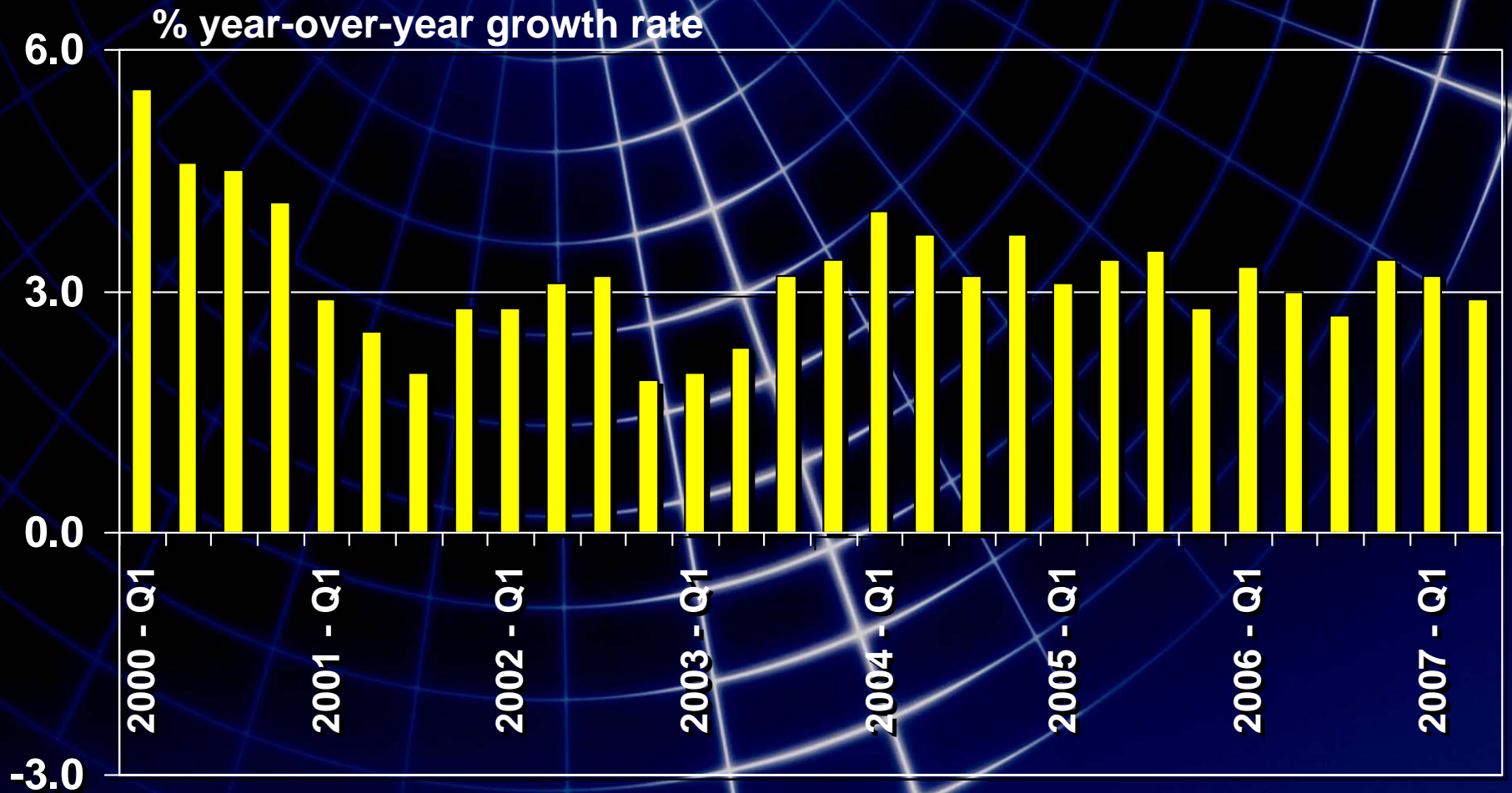
Source: NAR

International Buyers' Destination in the U.S.

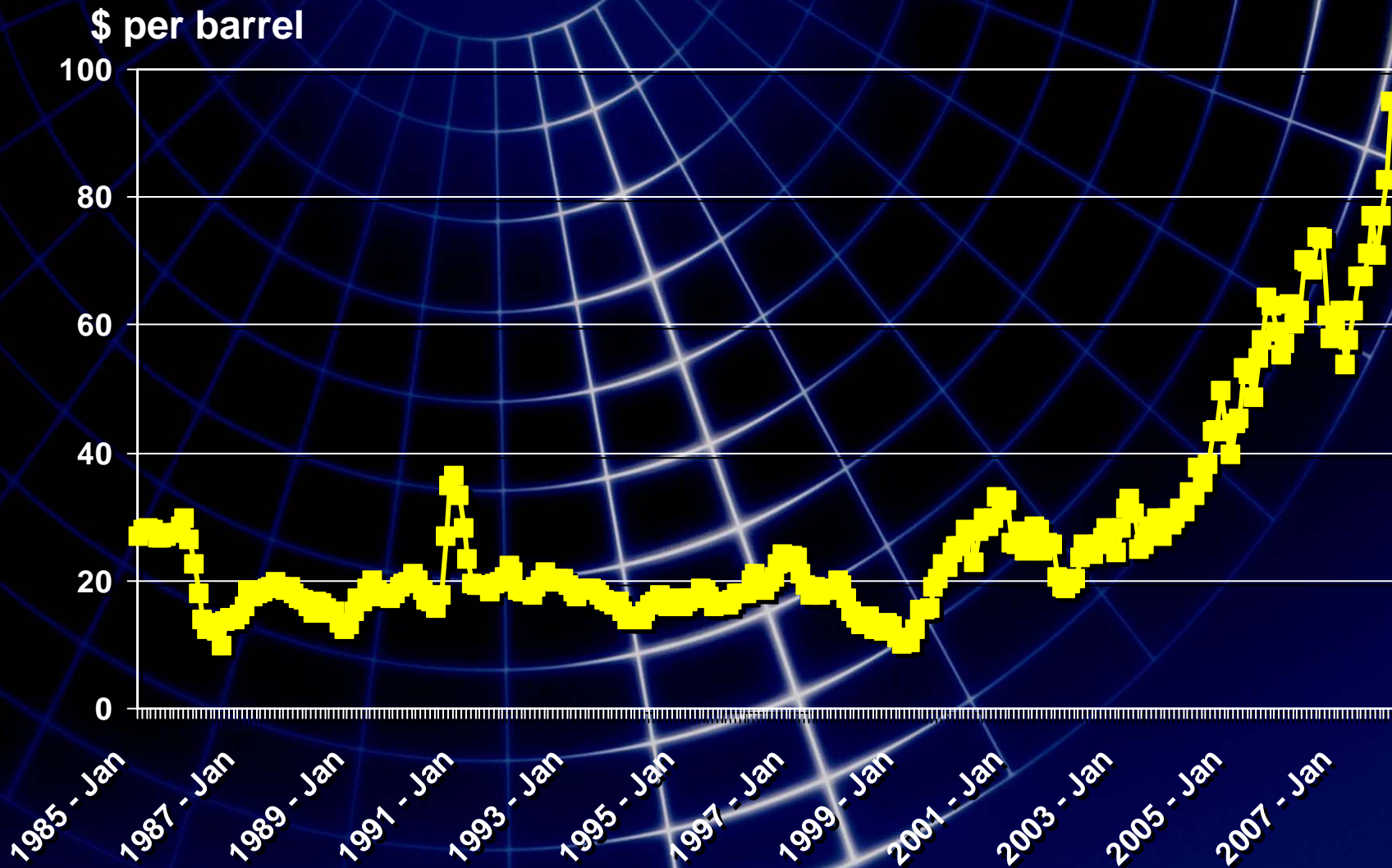


Source: NAR

Consumer Spending



Worry Spot - Oil Prices



Source: Wall Street Journal

Positive Economic Outlook

	2006	2007	2008
GDP	3.3%	2.1%	2.8%
CPI Inflation	3.2%	2.8%	2.8%
Job Growth	1.9%	1.3%	1.1%
Unemployment Rate	4.6%	4.6%	4.9%
10-year Treasury	4.8%	4.7%	4.6%

Pent-Up Demand?

	2005	2007	Difference
Total Home Sales	8.4 million	6.5 million	- 1.9 million
Subprime Loans	1.6 million	700,000 (?)	- 900,000
Jobs (in October)	134.4 million	138.4 million	+ 4 million
Wage + Salary	\$5.7 trillion	\$6.4 trillion	+ \$700 billion
Household Wealth	\$52 trillion	\$58 trillion	+ \$6 trillion
Home Prices	\$219,600	\$218,200	- \$1,400
Mortgage Rates	5.9%	6.4%	+ 0.5% points

Unleashing of Pent-Up Demand



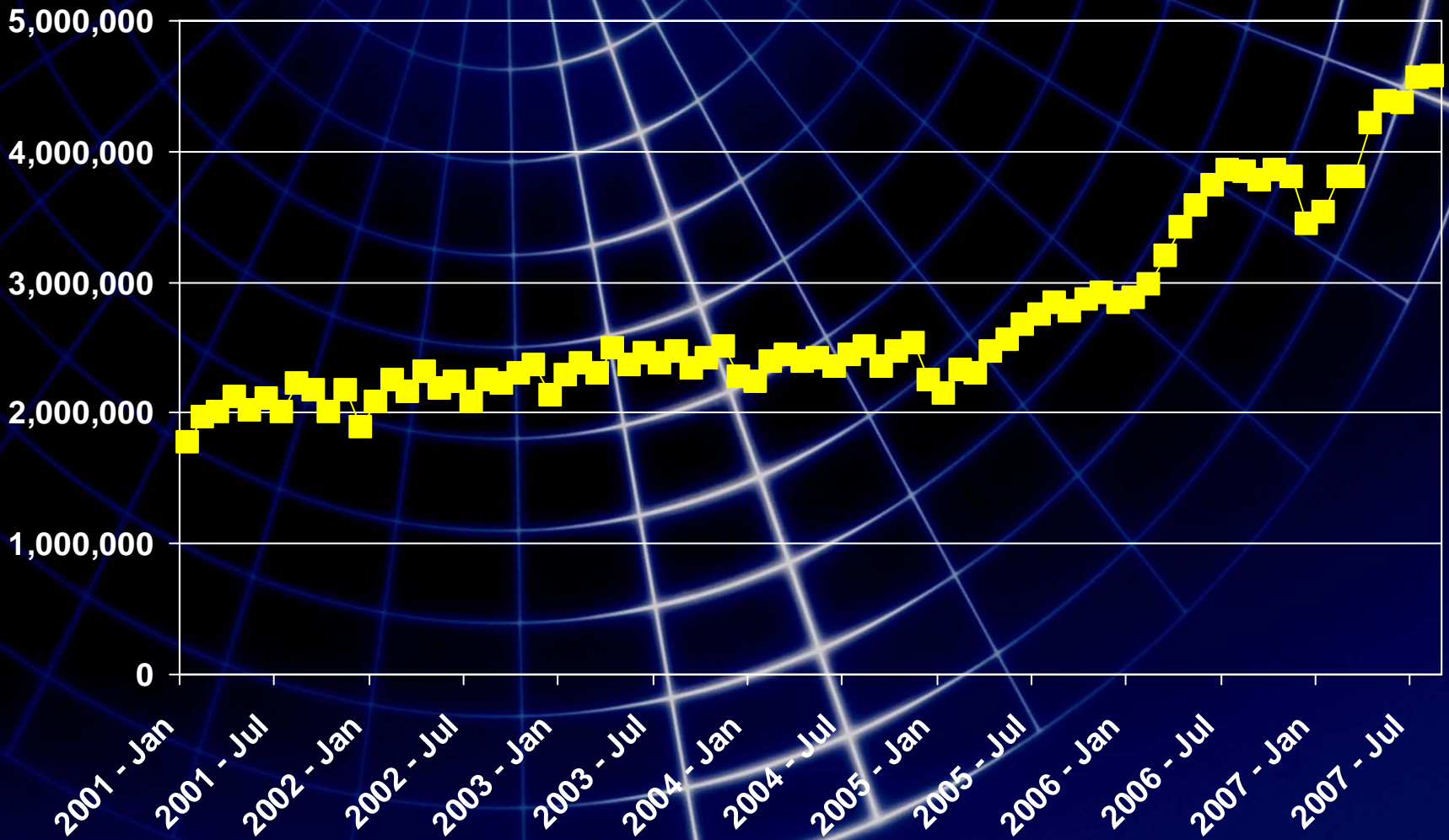
The Evidence

- More Jobs
- Higher Salary Payout
- Higher Net Worth
- Lower Home Prices
- Favorable Mortgage Rates
- Sales down more than subprime loans
- Pent-up Demand clearly exist
- Pent-up Demand ready to be unleashed
... how fast?



Existing-Home Inventory

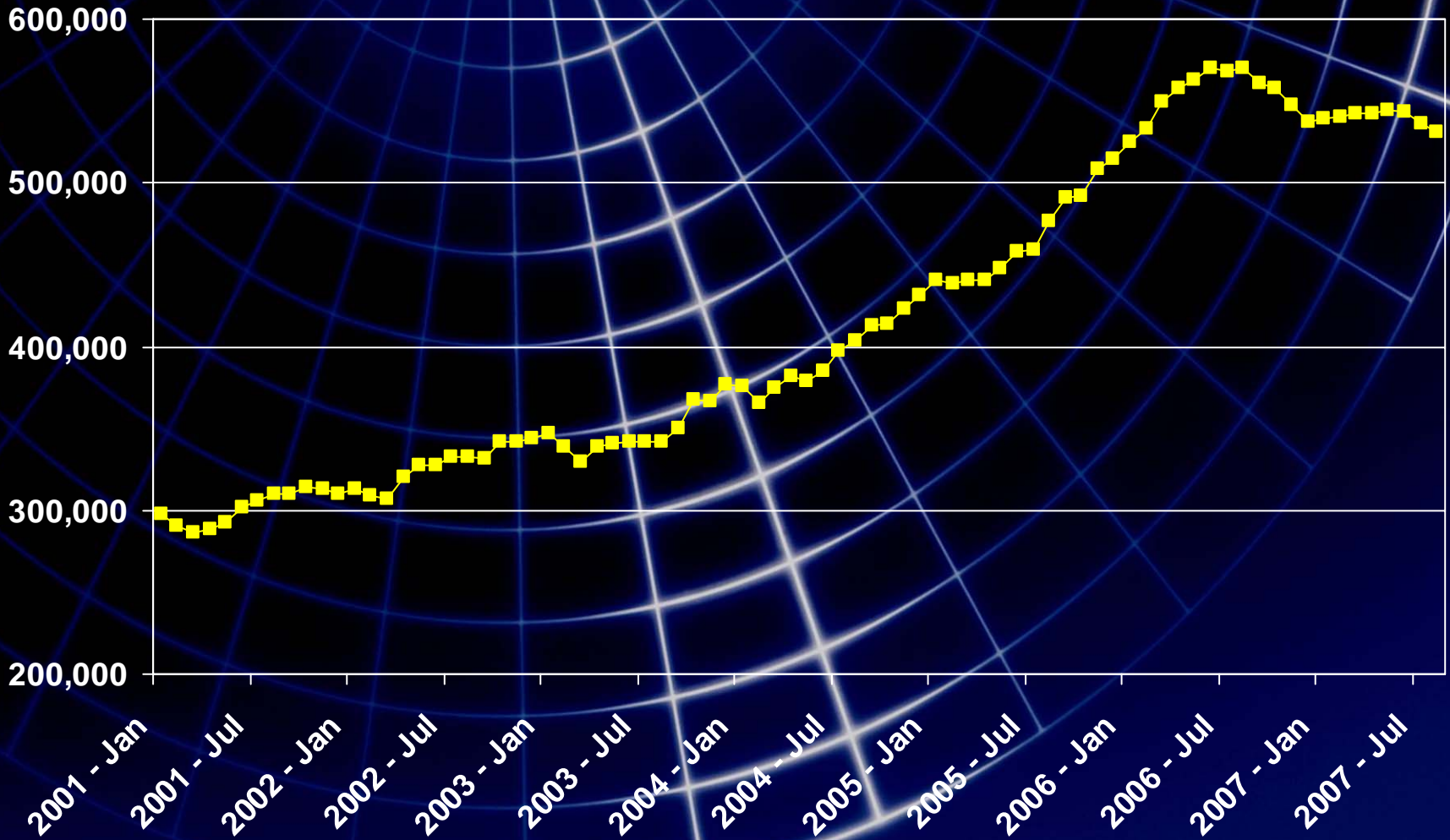
(From 2 million to 4.5 million; but most are owner-occupied)



Source: NAR

New Home Inventory

(Already Topped Out)



Source: Census

Wall Street Comes Clean



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**

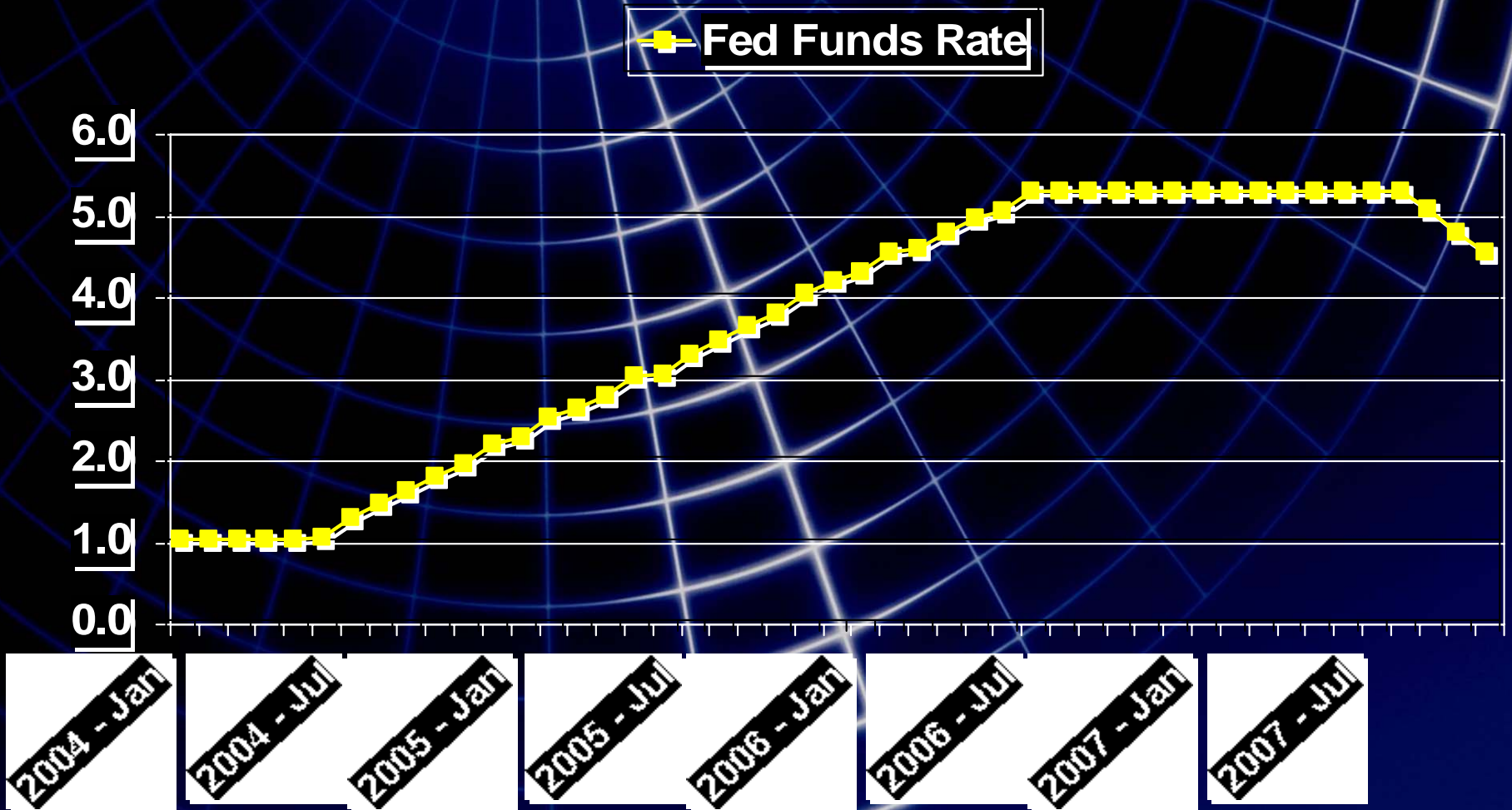


Stable Mortgage Rates with GSE and FHA Backing



Source: Freddie Mac

Fed Rate Cut

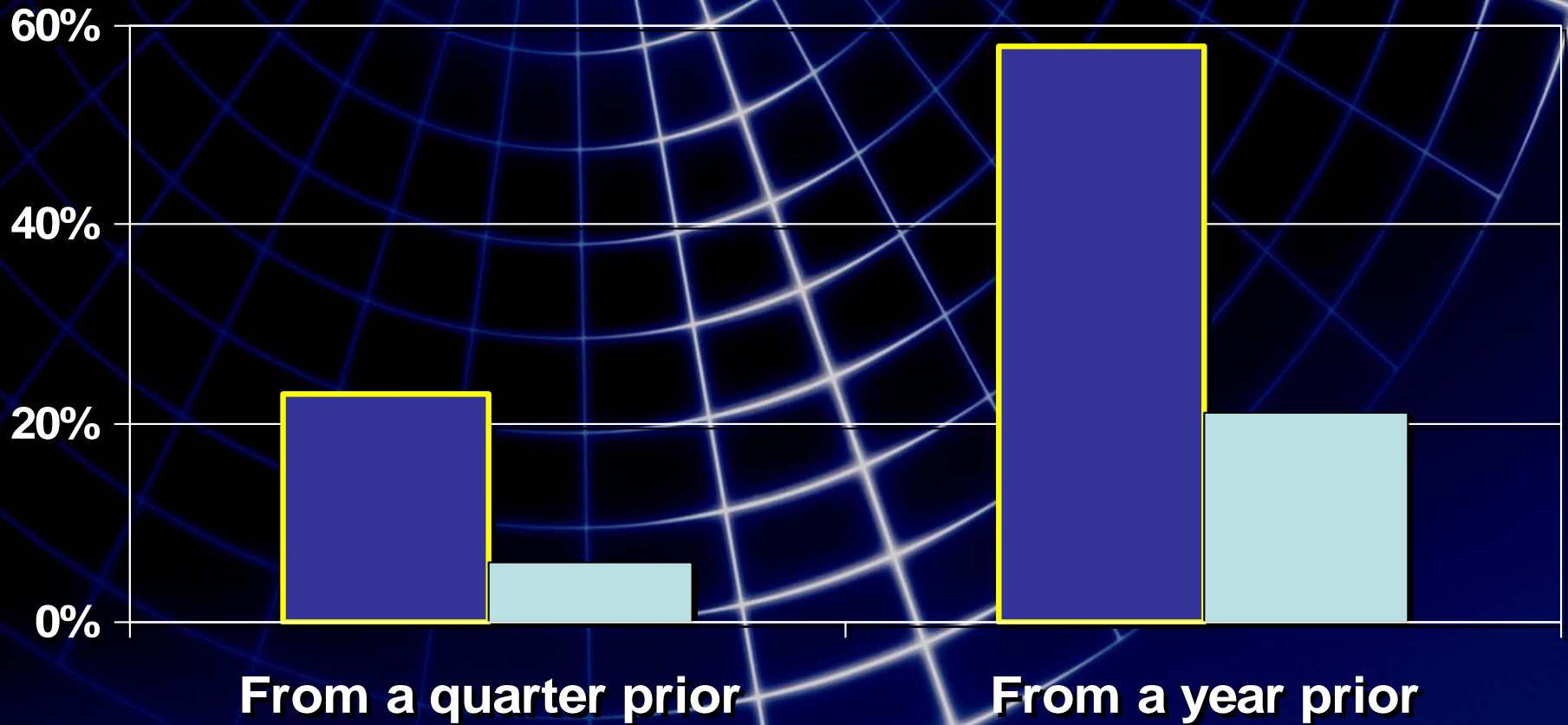


Source: Freddie Mac

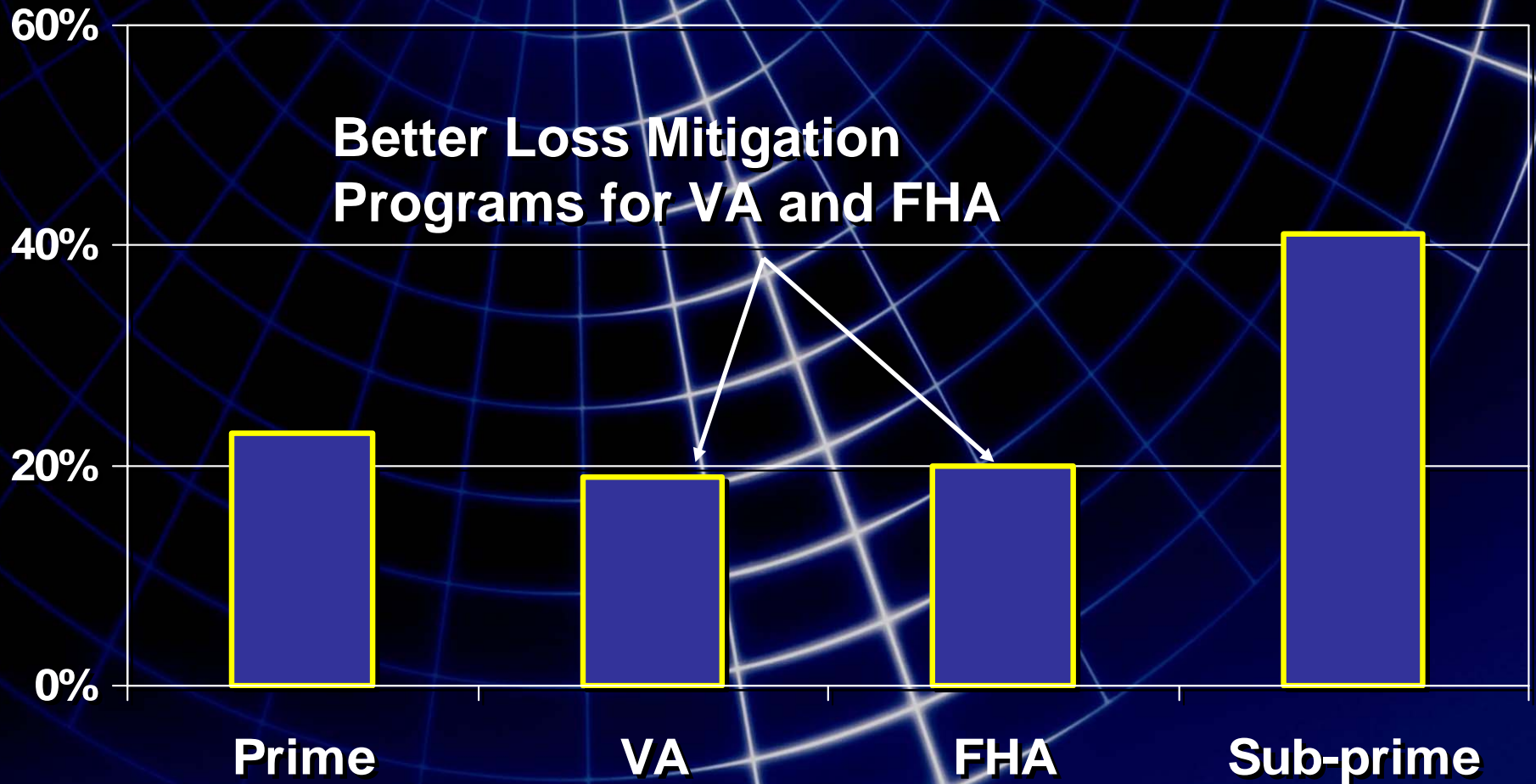
FHA Endorsements Rising

(2007 Q3)

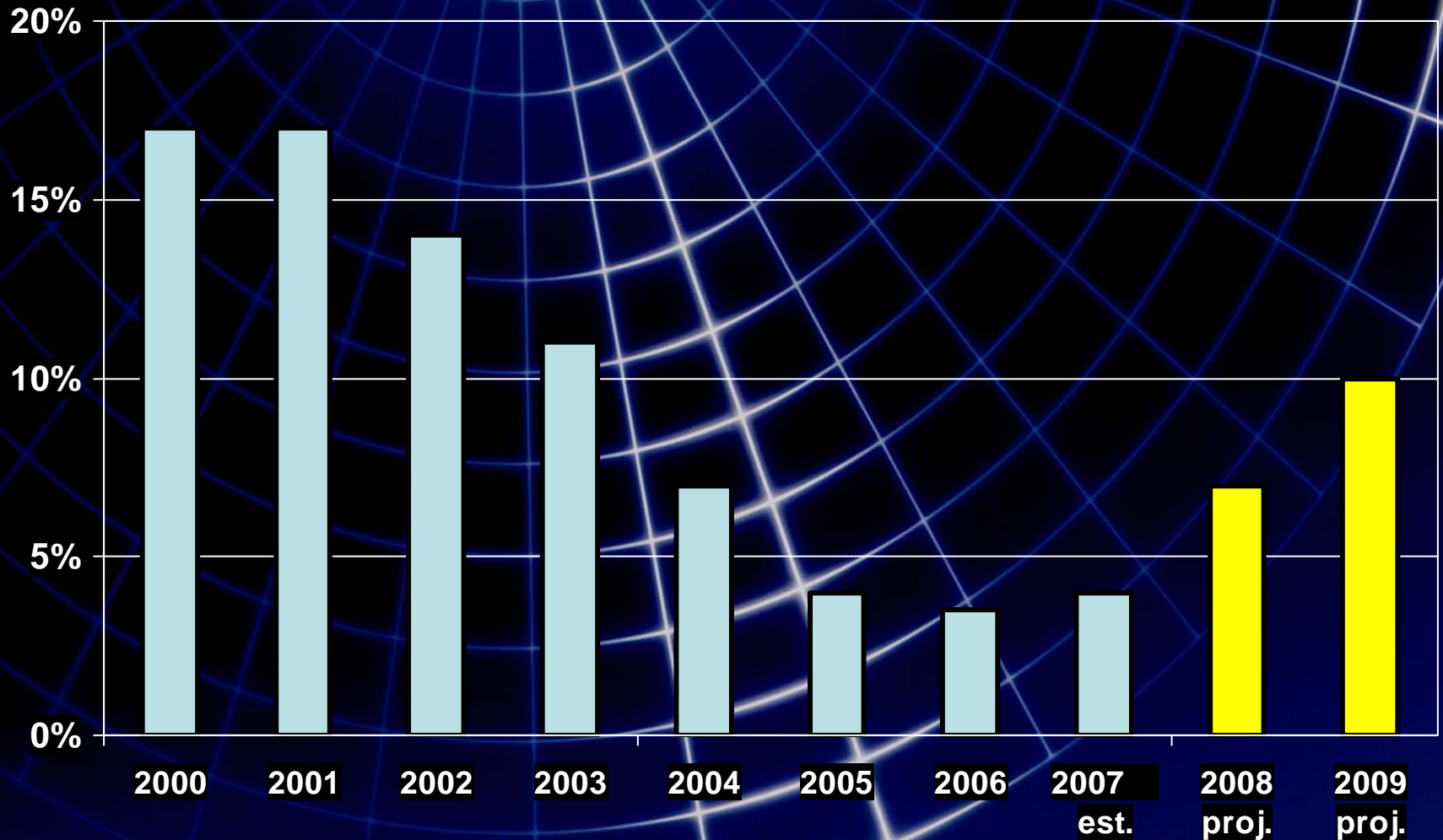
■ Home Purchase ■ Refinance



Delinquency to Foreclosure Probability (Latest Foreclosure/Delinquency ratio)



FHA Market Share for Home Purchase



Source: HMDA, NAR Estimate

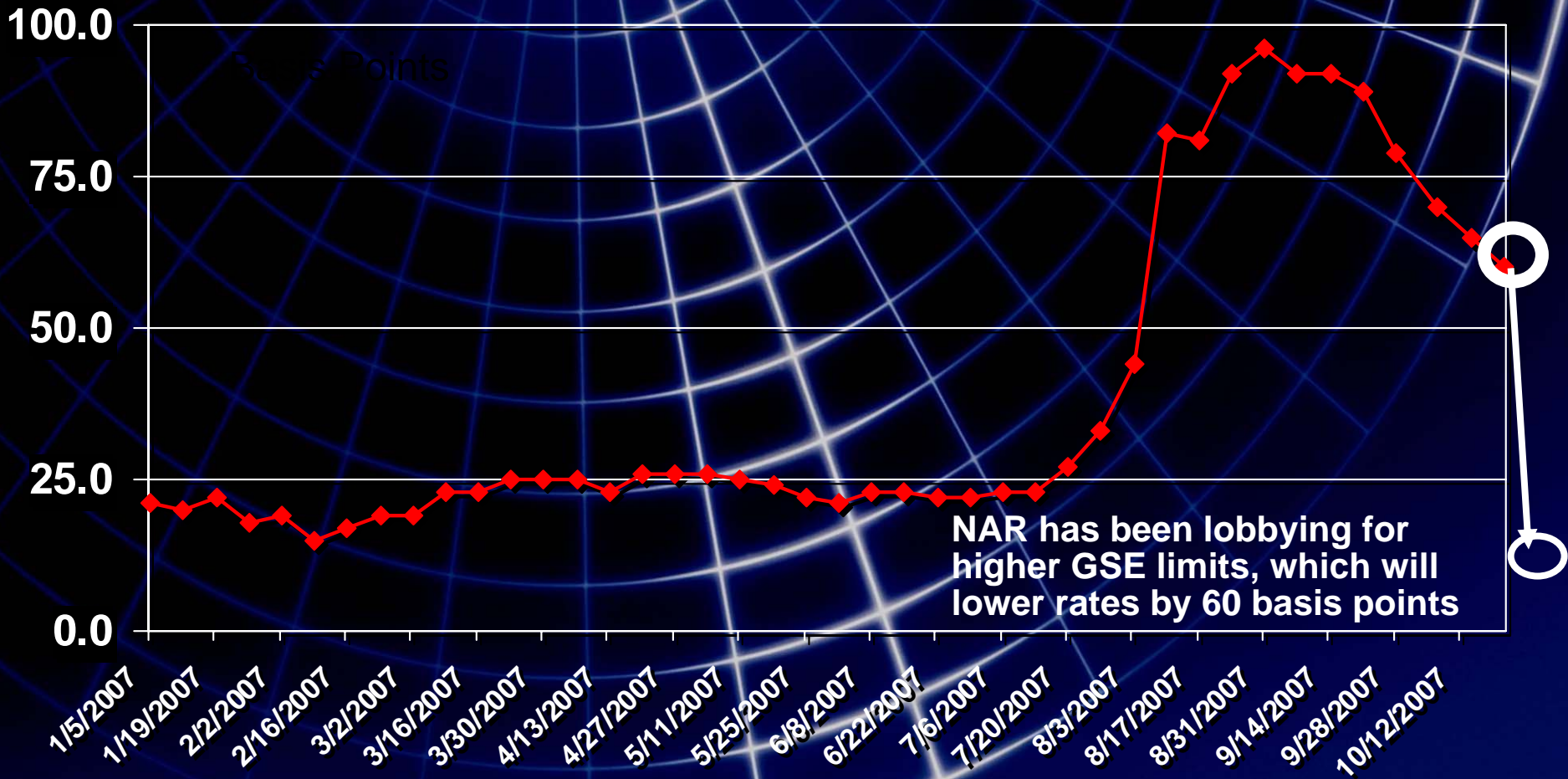
FHA Reform – Please Enact

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



Jumbo Loan Rate Spread

(August panic over – but still not back to norm)



NAR has been lobbying for higher GSE limits, which will lower rates by 60 basis points

Source: Freddie Mac

REALTORS® Build Communities

- **1.36 million members; 1 for every 100 working adults**
- **REALTORS® live in and are rooted in every community**
- **They have incentives to build community**
- **REALTORS® lobby for:**
 - **Modernize FHA**
 - **Eliminate Tax Penalty for Mortgage Debt Forgiveness**
 - **Increase Capital Available through Fannie and Freddie**
- **REALTORS® distribute brochures about**
 - **Avoiding foreclosure**
 - **Avoiding predatory lending**



National Housing Outlook

	2006	2007	2008
Existing-Home Sales	6.48 million	5.67 million	5.69 million
New Home Sales	1.05 million	0.80 million	0.69 million
Housing Starts	1.80 million	1.35 million	1.14 million
30-Year FRM	6.4%	6.4%	6.5%
1-Year ARM	5.5%	5.6%	5.1%
Existing-Home Price Growth	1.0%	-1.7%	0.0%

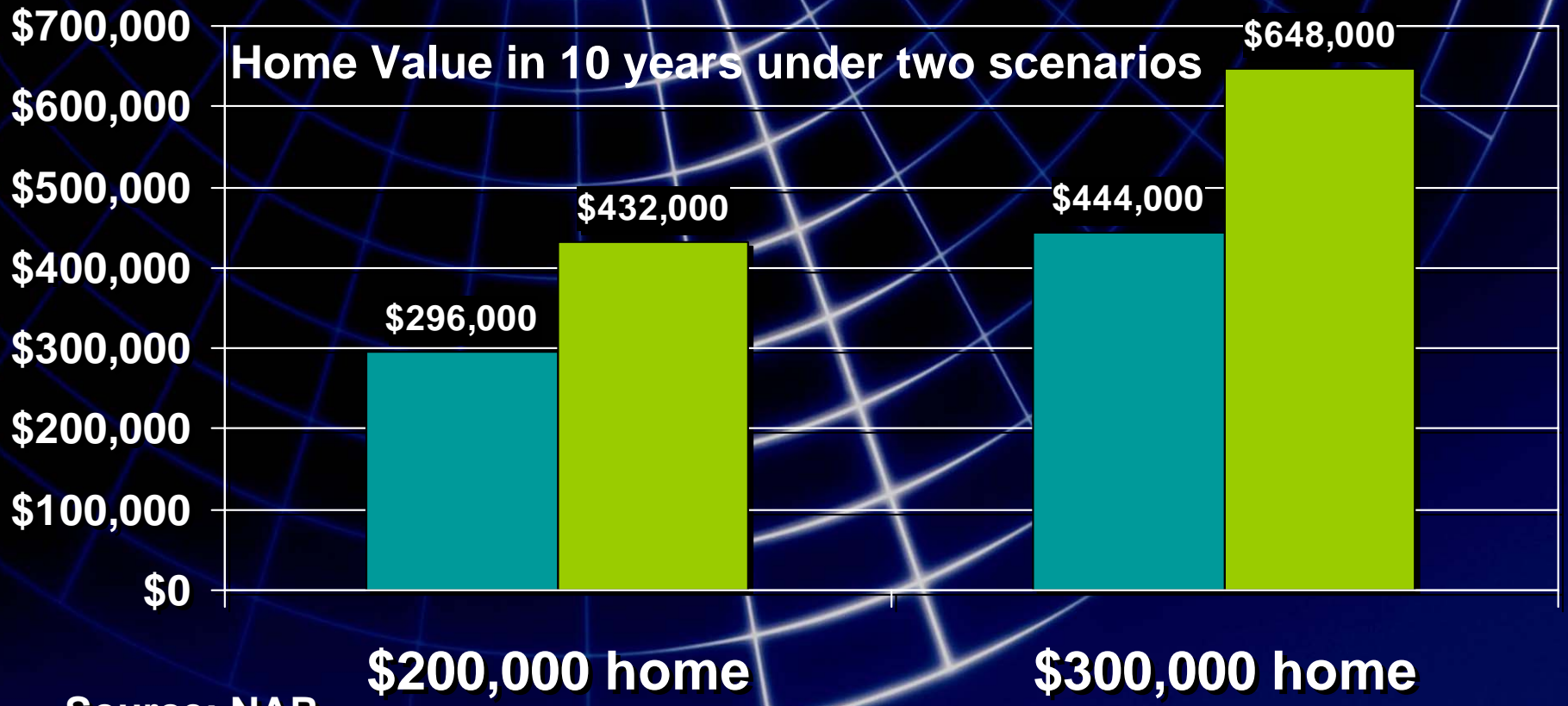
REMEMBER: Not very meaningful for serious home buyers.
Local information is key.

Consumer Messages



For Those Who Need to ... Great Time to Trade-Up: Sell Low & Buy Low

■ 4% annual price growth ■ 8% annual price growth



Source: NAR

Wealth Accumulation

The Power of Leverage for Homeowners

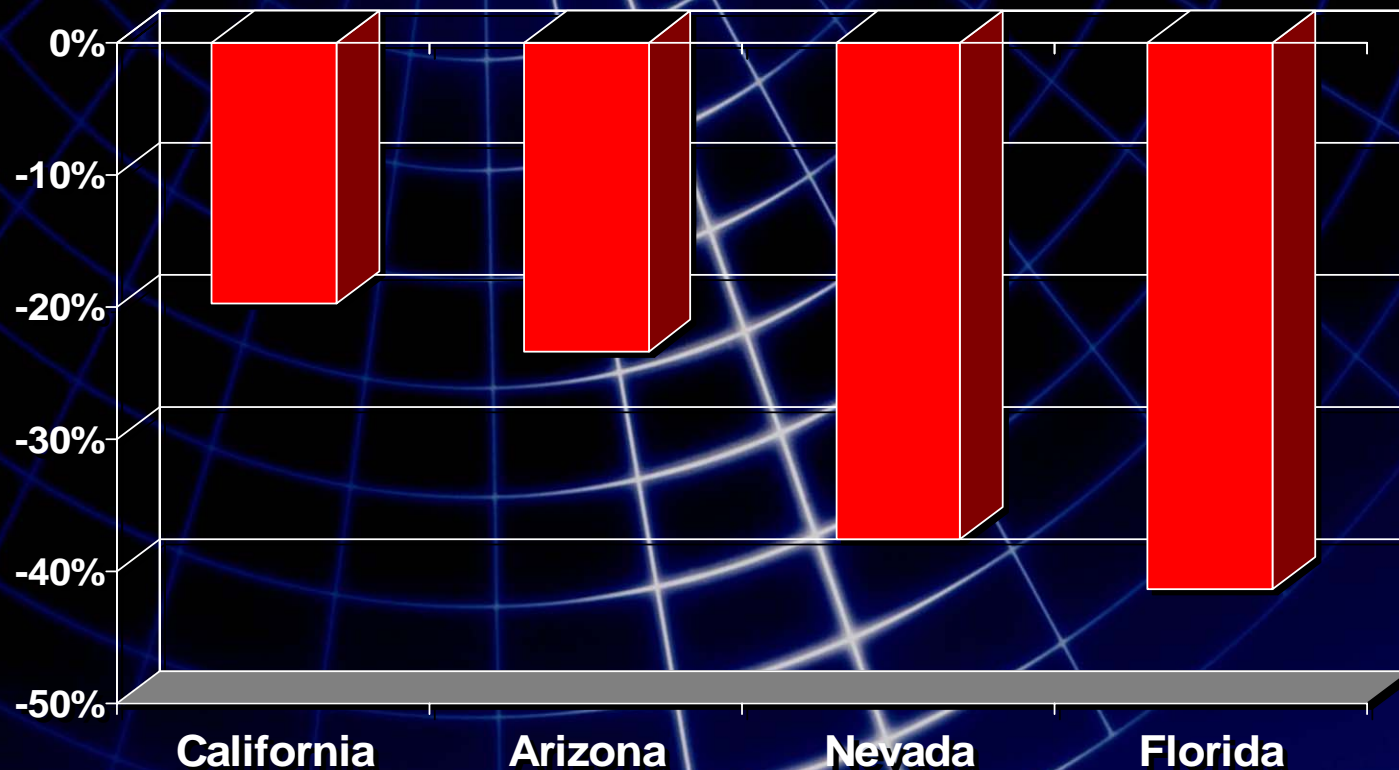
(\$10,000 down payment on a \$200,000 home)



Source: NAR

Investor-Heavy Markets Now Taking a Hit

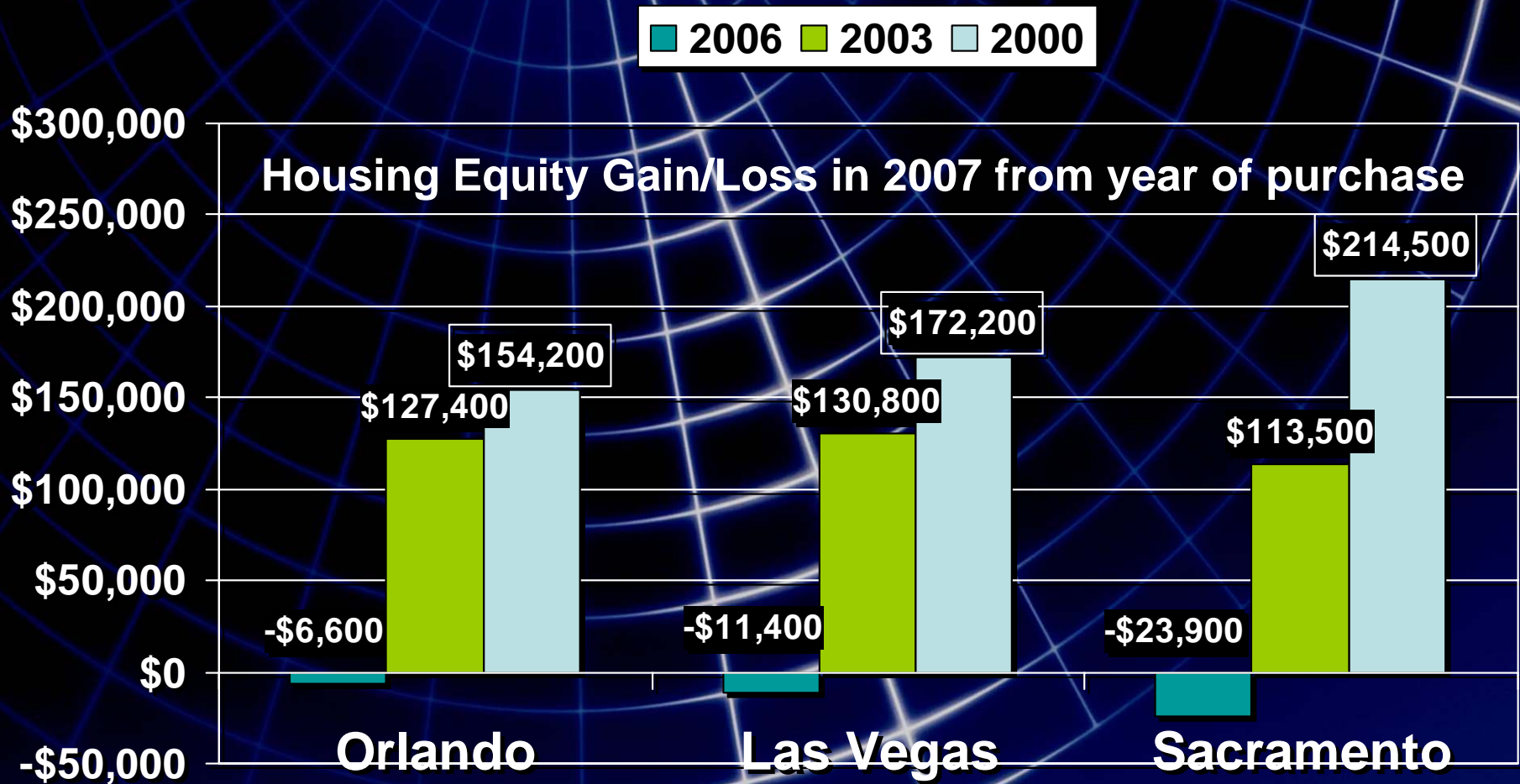
(Existing-Home Sales: 2007 Q2 vs 2006 Q2)



Also had a large sales decline in last year

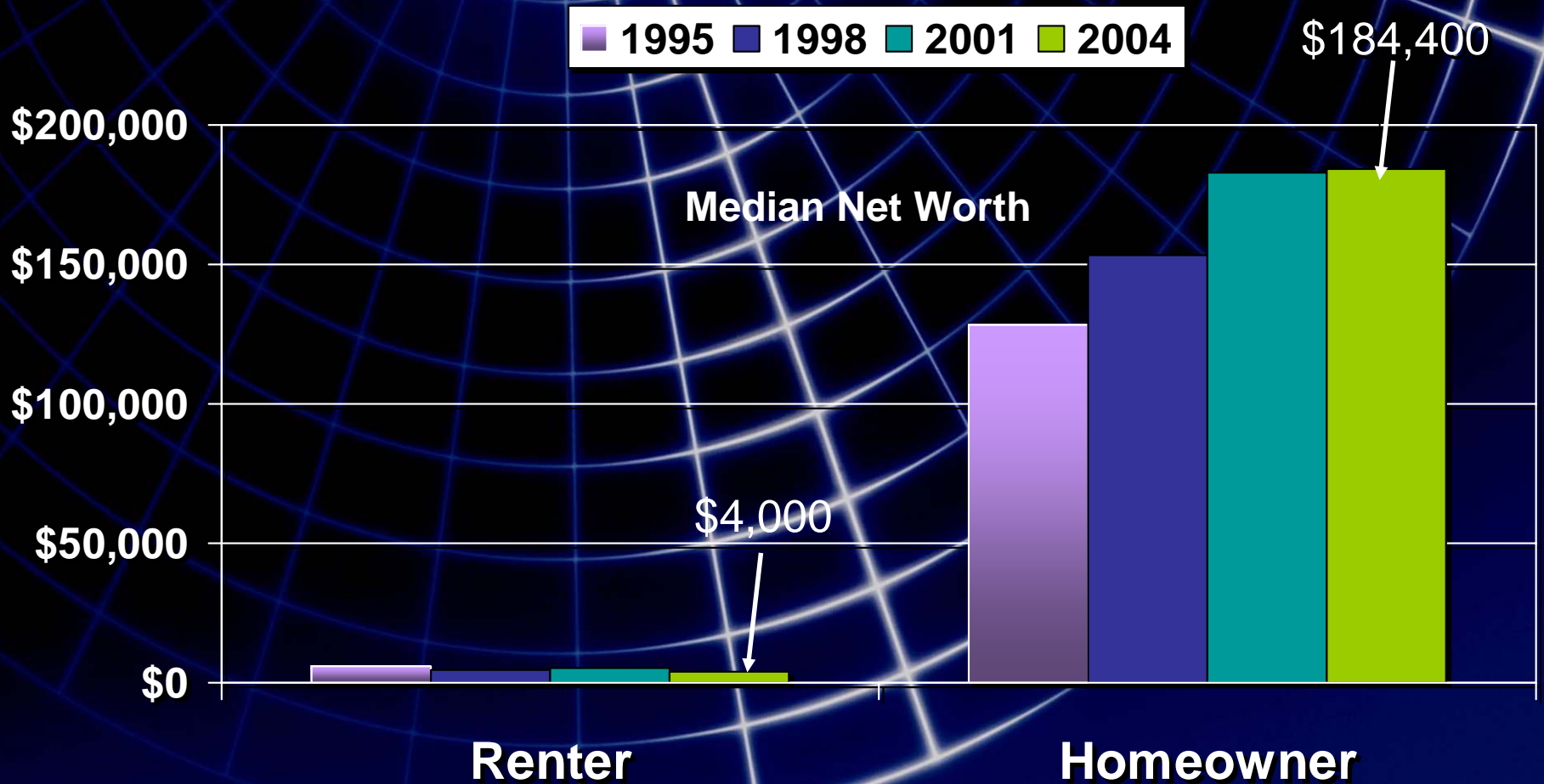
Source: NAR

Ground Zero Markets: Short-Term Pain, Long-Term Gain



Source: NAR, based on second quarter figures at respective years

Best Evidence: Household Wealth Accumulation



Source: Federal Reserve

Social Benefits of Ownership

- **Higher Student Test Scores**
- **Higher Educational Attainment and Lifetime Income**
- **Lower Behavioral Problems at School**
- **Higher Civic Participating (voting at local elections)**
- **Higher Self-Esteem and Perceived Self-Control**
- **Better Physical Health**

**Serious
Buyers –
Take Heart**

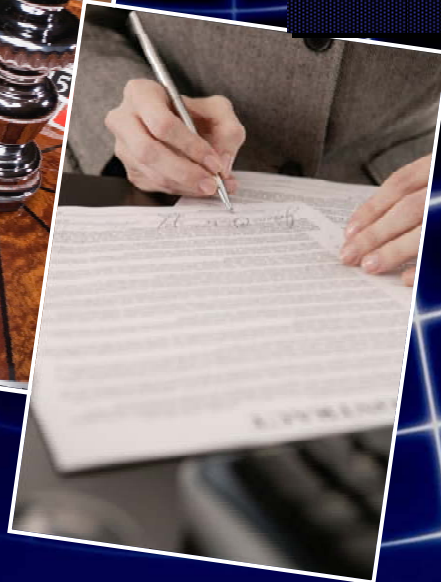


Great Time to Buy

- Time of “crisis” often turns out to have been a time of opportunity in hindsight
- Wide selection of housing inventory
- Favorable mortgage rates
 - Prime borrowers – low favorable conforming rate loans
 - Jumbo borrowers – rates coming down after August credit crunch
 - Non-prime borrowers – moving away from the risky subprime loans into safer FHA loans (Major reform in FHA program taking place)
- More jobs, more income, more wealth --- significant pent-up demand --- buy before others do
- Homeowners in it for the long-term nearly always come out ahead in building wealth

From the Roulette Table to the Closing Table

Lessons for Serious Buyers



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