REALTORS® CONFIDENCE INDEX

Report on the April 2015 Survey

NATIONAL ASSOCIATION OF REALTORS®

Research Department

Lawrence Yun, Senior Vice President and Chief Economist

The *REALTORS® Confidence Index* (*RCI*) Report provides monthly information about real estate market conditions and expectations, buyer/seller traffic, price trends, buyer profiles, and issues affecting real estate based on a monthly survey of REALTORS®. The April 2015 report is based on the responses of 2,012 REALTORS® about local market conditions in March. Of these, 1,143 respondents closed a sale and were asked information about the characteristics of their last transaction in April. The data on a combined basis, are viewed to be representative of the sales for the month[1]. Responses were received from May 1-13, 2015. All real estate is local: conditions in specific markets may vary from the overall national trends presented in this report. REALTORS® may be interested in comparing their markets against the national summary.

Lawrence Yun, Senior Vice President and Chief Economist

Jed Smith, Managing Director, Quantitative Research

Gay Cororaton, Research Economist

Meredith Dunn, Research Communications Representative

[1] The survey was sent to 50,000 REALTORS® who were selected through simple random sampling. To increase the response rate, the survey is also sent to respondents in the previous three surveys and who provided their email addresses. The number of responses to a specific question varies because the question is not applicable to the respondent or because of non-response. To encourage survey participation, eight REALTORS® are randomly selected to receive a gift card.

Table of Contents

Summary

The information provided by REALTORS® based on their client interactions indicated a pickup in market activity and more widespread confidence in April 2015 compared to the situation in March 2015 and a year ago. The seasonal uptick in market activity in spring and summer, low 30-year fixed rates of below 4 percent, continued job growth, and recent measures to make credit more accessible and cheaper (e.g, lower FHA mortgage insurance, 3 percent downpayment for GSE-backed loans) appear to be having a positive market impact.

For the third month in a row, the *REALTOR® Confidence Index-Six-Month Outlook* was above 50 across all property types (single family townhomes, condominiums), indicating that the number of respondents who viewed the market as "strong" outnumbered those who viewed the market as "weak." Inventory remained tight as indicated by the Seller Traffic Index which stayed below 50. With stronger demand and tight supply, homes sold realtively quickly, typically within 39 days. First-time homebuyers continued to account for 30 percent of existing home sales, while investors accounted for 14 percent. Given the decline in sales to investors, cash sales accounted for 24 percent of sales.

Although REALTORS® were optimistic about the outlook for the next six months , they noted several issues of concern:

- tight inventory in most states especially for move-in ready and "affordable" units;
- financing issues: qualifying for a mortgage is tough, and the underwriting process is slow, leading to delayed closings;
- appraisal valuation issues and delays due to "questionable" comps--especially for FHA/VA loans, use of "out-of-town appraisers", and second appraisal requirements;
- impact of the new mortgage procedures (RESPA-TILA) on closings;
- adverse impact of low oil prices in states with oil/gas production;
- slowing demand from international buyers (e.g., Canadians) due to strong US dollar;
- uncertainties associated with flood insurance rates;
- impact of upcoming interest rate increase on demand.

April 2015 REALTORS® Confidence Index Survey Highlights

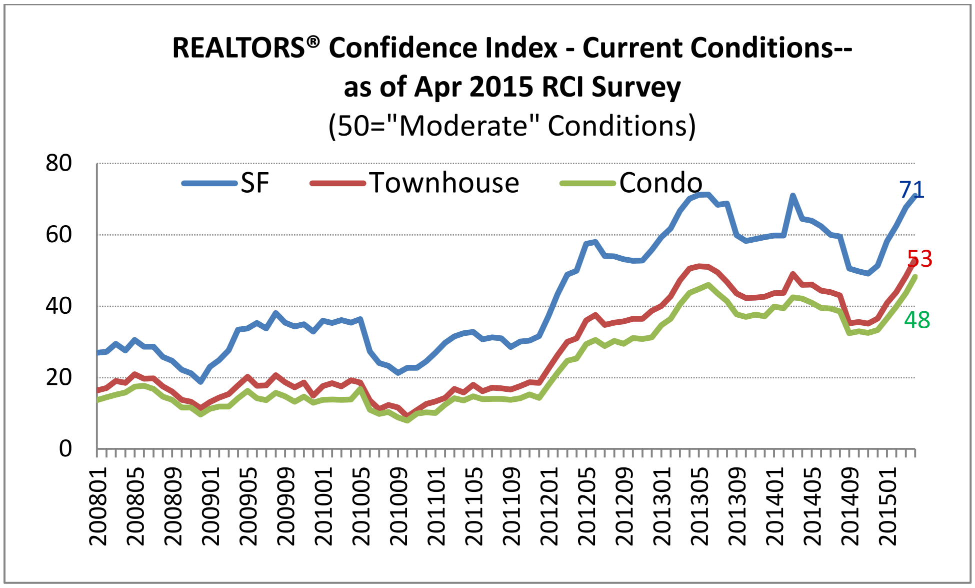
	Apr 2015	Mar 2015	Apr 2014
RCI –Current Conditions: Single Family Sales /1	71	68	64
RCI- 6 Month Outlook: Single Family Sales /1	76	75	68
RCI –Buyer Traffic Index /1	69	66	63
RCI-Seller Traffic Index /1	48	43	44
First-time Buyers, as Percent of Sales (%) /2	30	30	29
Sales to Investors, as Percent of Sales (%)	14	14	18
Cash Sales, as Percent of Sales (%)	24	24	32
Distressed Sales, as Percent of Sales (%)	10	10	15
Median Days on Market	39	52	48
Median Expected price growth in next 12 months (%)	3.9	3.5	4.0

/1 An index of 50 indicates a balance of respondents having "weak"(index=0) and "strong" (index=100) expectations. An index above 50 means there are more respondents with "strong" than "weak" expectations. The index is not adjusted for seasonality effects.
/2NAR's 2014 Profile of Home Buyer and Sellers (HBS) reports that among primary residence home buyers, 33 percent were first-time homebuyers. The HBS surveys primary residence home buyers, while the monthly RCI Survey surveys REALTORS® and captures purchases for investment purposes and vacation/second homes.

I. Market Conditions

REALTORS'® Reported Stronger Market in April 2015

With 30-year fixed mortgage rates holding to below 4 percent in April and the economy yielding 3.5 million net new jobs since 2014, REALTORS® broadly reported an improvement in most local markets. The *REALTORS® Confidence Index-Current Conditions* increased for all property types in April 2015 compared to March and a year ago[2]. The index for single-family homes was 71 (68 in March 2015; 64 in April 2014). The indexes for townhomes rose to 53 (48 in March 2015; 46 in April 2014). The index for condominiums improved to 48 (44 in March 2015; 42 in April 2014). An index above 50 indicates that the number of respondents who viewed their markets as "strong" outnumbered those who viewed their markets as "weak."[3]



REALTORS'® Confidence About the 6-Month Outlook Improved in April 2015

In April 2015, REALTORS® were increasingly more confident about the outlook for all property types in the next six months compared to their outlook in March and a year ago.[4] For the third month in a row, the index rose above 50 for all property types. In the single family market, the *REALTORS® Confidence Index - Six-month Outlook* rose to 76 (75 in March 2015; 68 in April 2014). The index for townhomes rose to 58 (56 in March 2015; 49 in April 2014), while the index for condominiums increased to 52 (51 in March 2015; 46 in April 2014). An

---

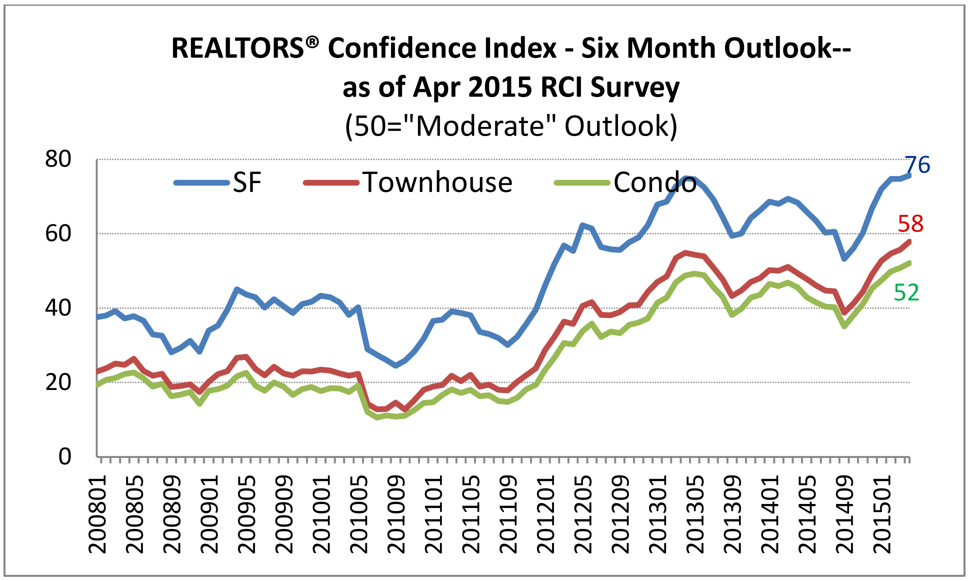
[2] Respondents were asked "How would you describe the past month's housing market in the neighborhood(s) or area(s) where you make most of your sales ?"

[3] An index of 50 delineates "moderate" conditions and indicates a balance of respondents having "weak"(index=0) and "strong" (index=100) expectations or all respondents having moderate (=50) expectations. The index is not adjusted for seasonality effects.

[4] Respondents were asked "What are your expectations for the housing market over the next six months compared to the current state of the market in the neighborhood(s) or area(s) where you make most of your sales?"

index greater than 50 indicates that the number of respondents with "strong" outlook outnumbered those with "weak" outlook.

The seasonal uptick in market activity during spring and summer, low interest rates and a sustained growth in jobs, and recent measures to lower the cost of borrowing and make credit more available (e.g, lower FHA mortgage insurance, 3 percent downpayment GSE-backed loans) are likely underpinning the improved market confidence.



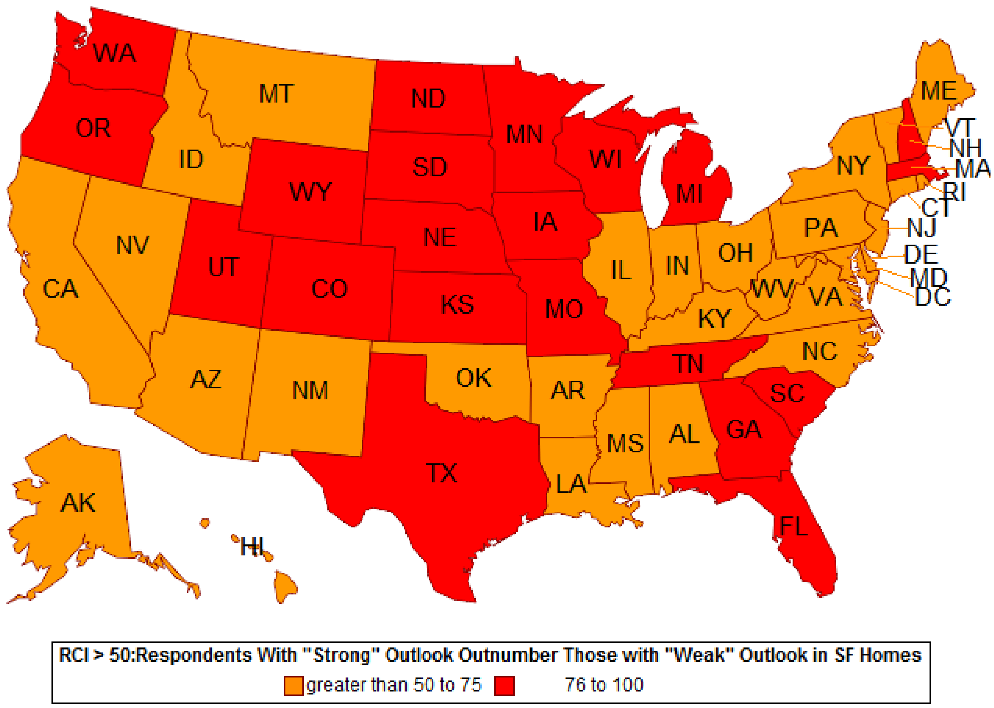
The following maps show the *REALTOR® Confidence Index-Six-Month-Outlook* by state .[5] In the case of single family homes, all states registered an index greater than 50 for the third month in a row, which means that the number of respondents who had a "strong" outlook outnumbered those with "weak" outlook. Despite the slump in oil prices, the real estate market remained broadly "strong" in North Dakota, Texas, and Oklahoma where the indexes were above 50. In the case of townhomes and condominiums, Colorado had the highest index which indicates that many areas had "strong" markets. The West Coast states of California, Oregon, and Washington, as well as Florida New York, and Massachusetts also had generally "strong" markets. REALTORS® have reported that FHA's and the GSE's (Fannie Mae and Freddie Mac) financing eligibility regulations make condominium financing difficult to obtain[6].

---

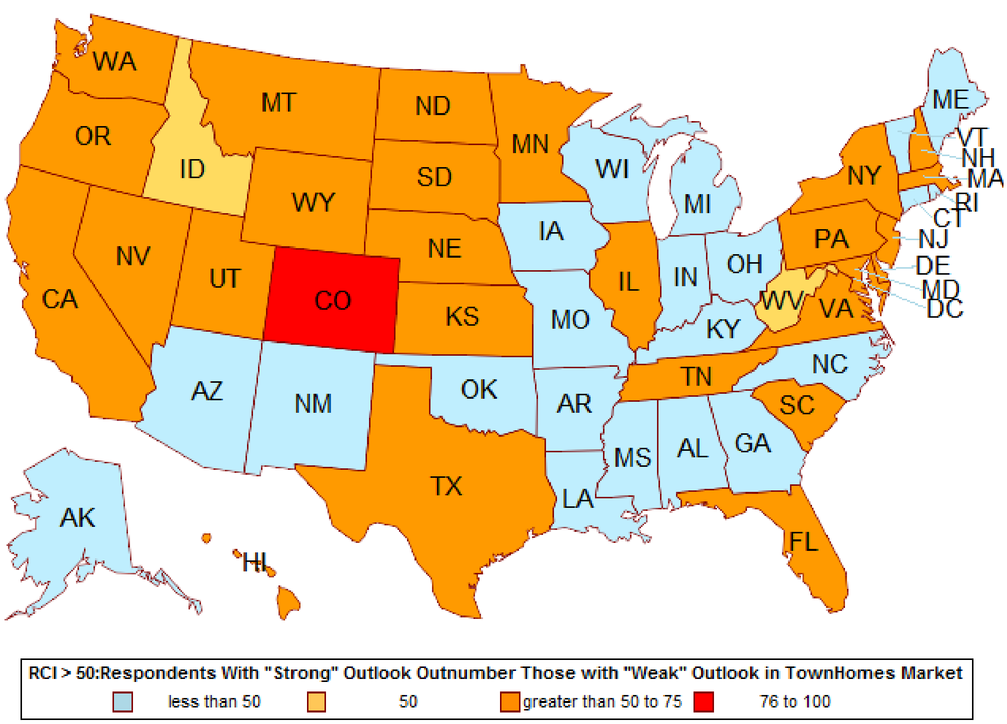
[5] The market outlook for each state is based on data for the last 3 months to increase the observations for each state. Small states such as AK,ND, SD, MT, VT, WY, WV, DE, and the D.C. may have less than 30 observations.

[6] These regulations pertain to ownership occupancy requrements, delinquent dues, project approval process, and use for commercial space. Read the Statement of NAR Sumbitted for the Record to the Senate Committee Housing and Banking Affairs on December 9, 2014 at htttp://www.ksefocus.com/billdatabase/clientfiles/172/1/2180.pdf

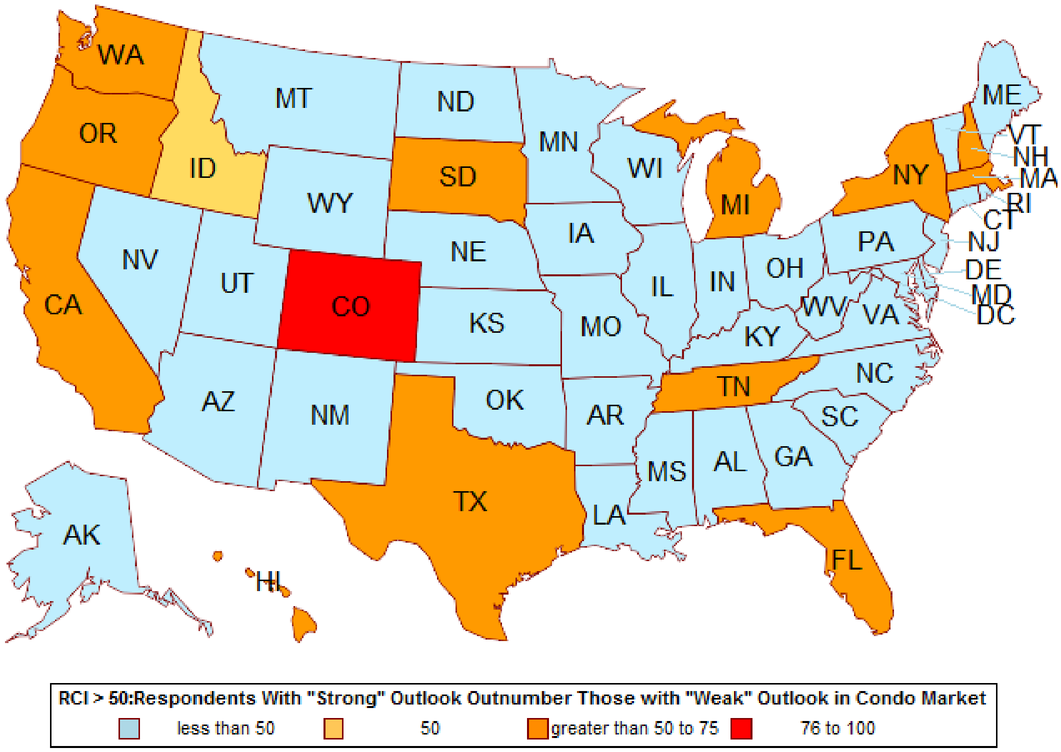
REALTORS® Confidence Index: Outlook in Next Six Months for Single-Family Homes
Based on Feb 2015-Apr 2015 RCI Surveys



REALTORS ® Confidence Index: Outlook in Next Six Months for Townhouses
Based on Feb 2015-Apr 2015 RCI Surveys



REALTORS® Confidence Index: Outlook in Next Six Months for Condominiums
Based on Feb 2015-Apr 2015 RCI Surveys

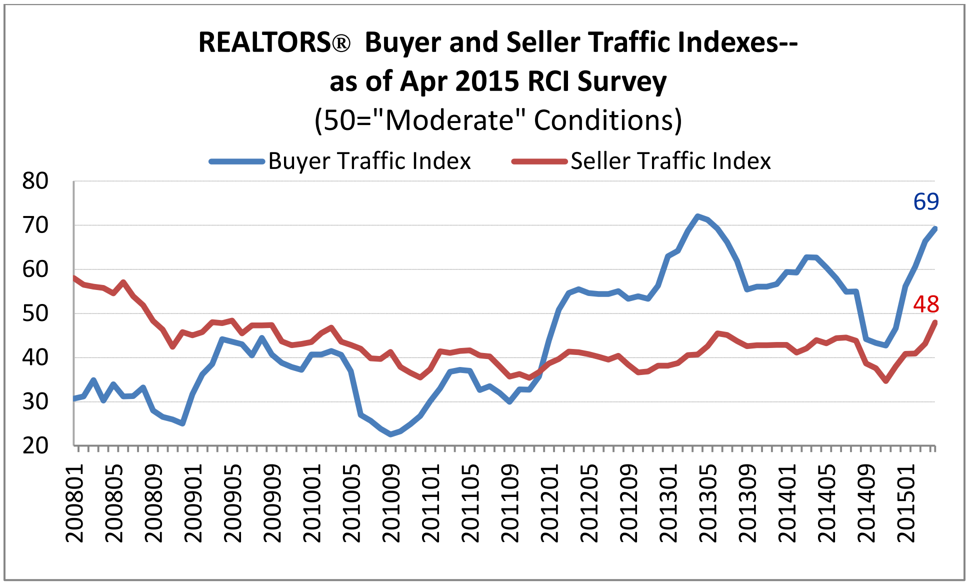


REALTORS® Reported Strong Buyer Traffic Amid Weak Seller Traffic in April 2015

With 30-year fixed mortgage rates still at below 4 percent and the economy generating 3.5 million jobs since 2014, REALTORS® reported "strong" buyer traffic in their local markets in April 2015 than in March 2015 and a year ago[7]. The Buyer Traffic Index rose to 69 (66 in March 2015; 63 in April 2014) . An index greater than 50 indicates that more respondents viewed traffic as "strong" than those who viewed traffic as "weak." REALTORS® have reported that lower FHA mortgage insurance premiums (0.5 percentage point reduction starting in January 2015) and the re-introduction of the 3 percent downpayment product for GSE-securitized loans were helping homebuyers.

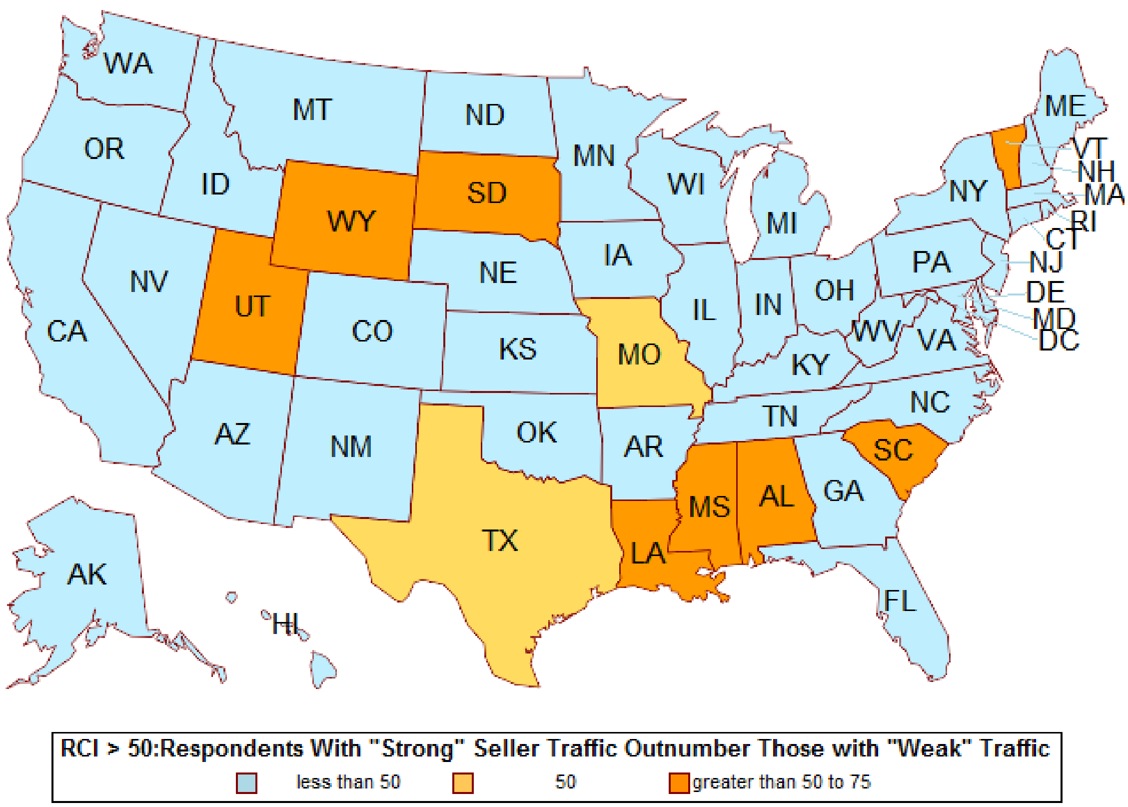
Supply remains tight, although improving. The Seller Traffic Index registered at 48 (43 in March 2015 and 44 in April 2014). Construction of new homes is below the normal pace of 1.5 million units required arising from household formation and the replenishment of depreciated housing. REALTORS® reported a severe inventory shortage in most areas, especially for properties in the lower price range and for those that are move-in ready.

[7] Respondents were asked "How do you rate the past month's traffic in the neighborhood(s) or area(s) where you make most of your sales?" The responses were "Strong", "Moderate" "Weak."

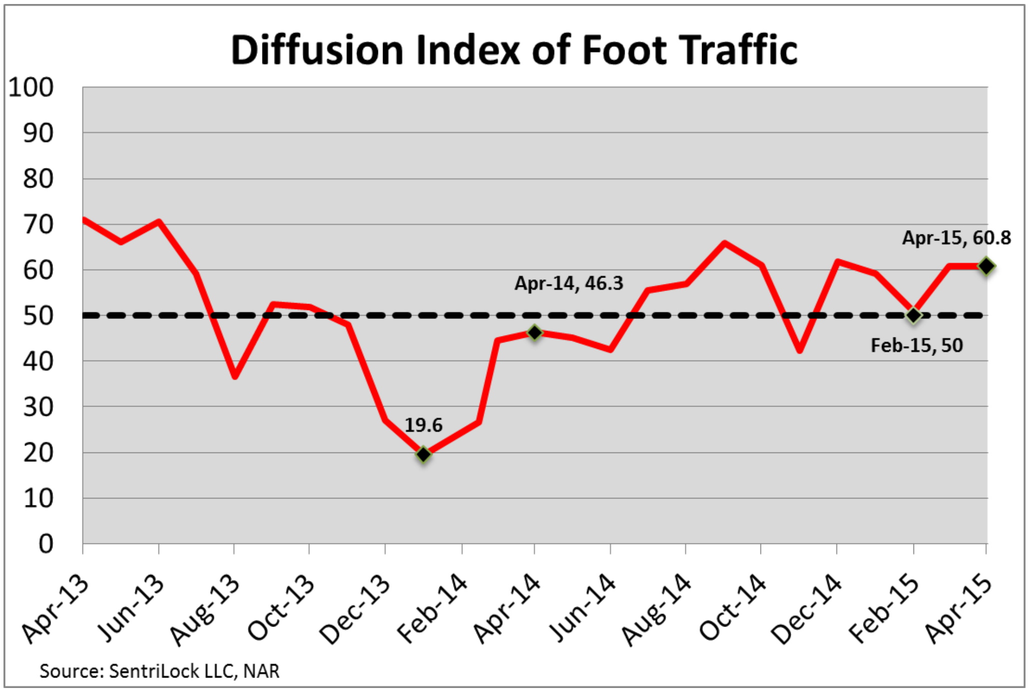


Supply is still tight in many states, but seller traffic was reported to be improving in many areas in Utah, Wyoming, South Dakota, Texas, Missouri, Louisiana, Mississippi, Alabama, South Carolina, and New Hampshire.

REALTORS® Seller Traffic Index
Based on Feb 2015-Apr 2015 RCI Surveys



NAR also tracks data on the number of properties shown by REALTORS® using Sentrilock, LLC data. Foot traffic continued to show strength in April, with the housing market benefiting from a strong year of employment growth and improved confidence in 2014, combined with low mortgage rates and better FHA pricing.Showings need not necessarily translate to sales, but foot traffic has a strong correlation with future contracts and home sales.[8]



REALTORS® Expect Prices to Increase at a Slightly Faster Pace in Next 12 Months

REALTORS® who responded to the April 2015 survey expected prices to increase at a slightly faster pace in the next 12 months compared to the expectation a month ago. The median expected price growth in the next 12 months is 3.9 percent (3.5 percent in March 2015; 4.0 percent in April 2014).[9]

Since all real estate is local, price expectation varies across local markets and states. The map below shows the median expected price change in the next 12 months for each state based on the Feb 2015 –April 2015 surveys.[10] REALTOR® respondents from Colorado had the most upbeat price expectations, with the median expected price growth at 6 percent, followed by the District of Columbia at 5 percent. Price expectations were also upbeat in Washington, Oregon,

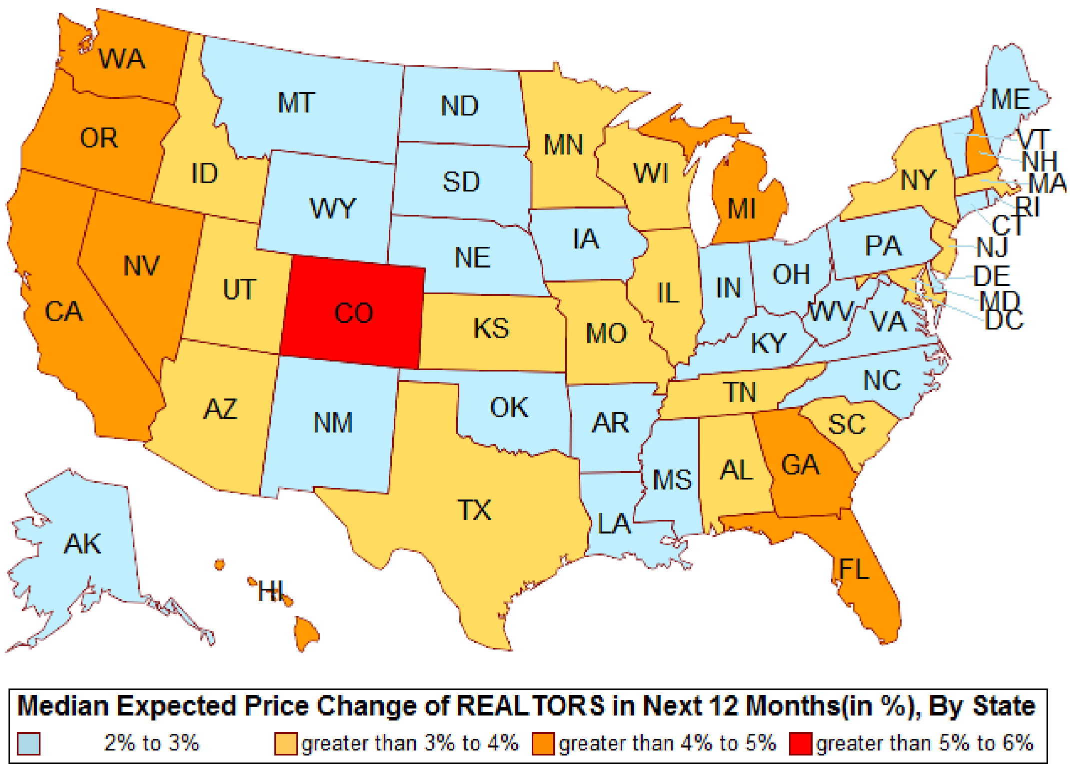
[8] For more information on the Foot Traffic Index based on Sentrilock data, please contact Ken Fears, Director, Regional Economics and Housing Finance Policy at kfears@realtors.org.

[9] A comparison of the expected price growthfor the next 12 months compared to the actual price growth shows the expected price growth to be more conservative than the actual price growth, but in the same direction.

[10] In generating the median price expectation at the state level, we use data for the last three surveys to have close to 30 observations. Small states such as AK,ND, SD, MT, VT, WY, WV, DE, and the D.C. may have less than 30 observations.

Nevada, Florida, Georgia, Michigan, Hawaii, and New Hampshire with the median expected price growth at 4 to 5 percent. With oil prices still at a slump, REALTORS® expected prices to increase more modestly at a median price growth of 2 to 3 percent in North Dakota, Oklahoma, Wyoming, and Louisiana. In Texas, where the economy is more diversified, the median expected growth in prices in the next 12 months is about 4 percent.

Median Expected Price Change of REALTORS® in Next 12 Months, By State
Based on Feb 2015-Apr 2015 RCI Surveys

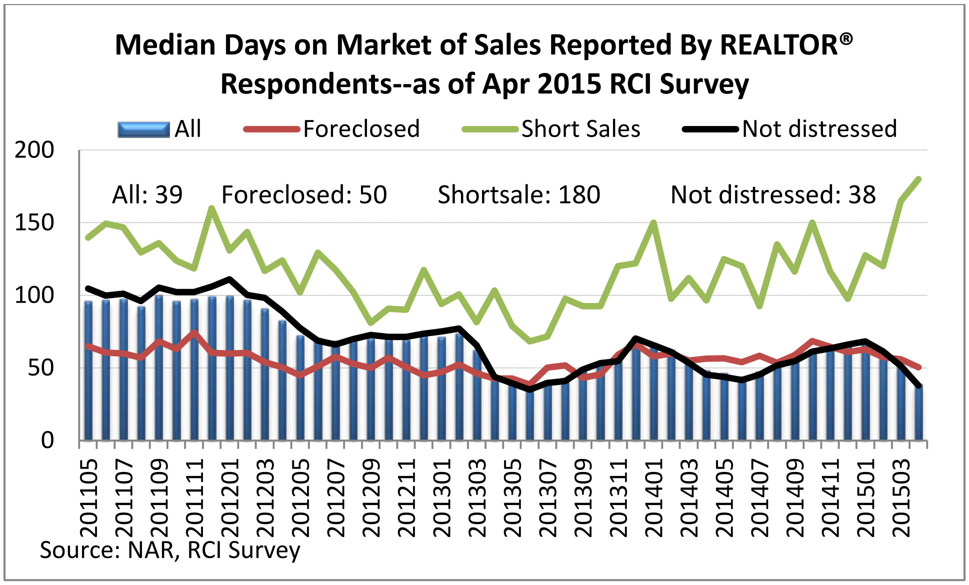


Properties Stayed for Shorter Days on the Market at 39 Days in April 2015

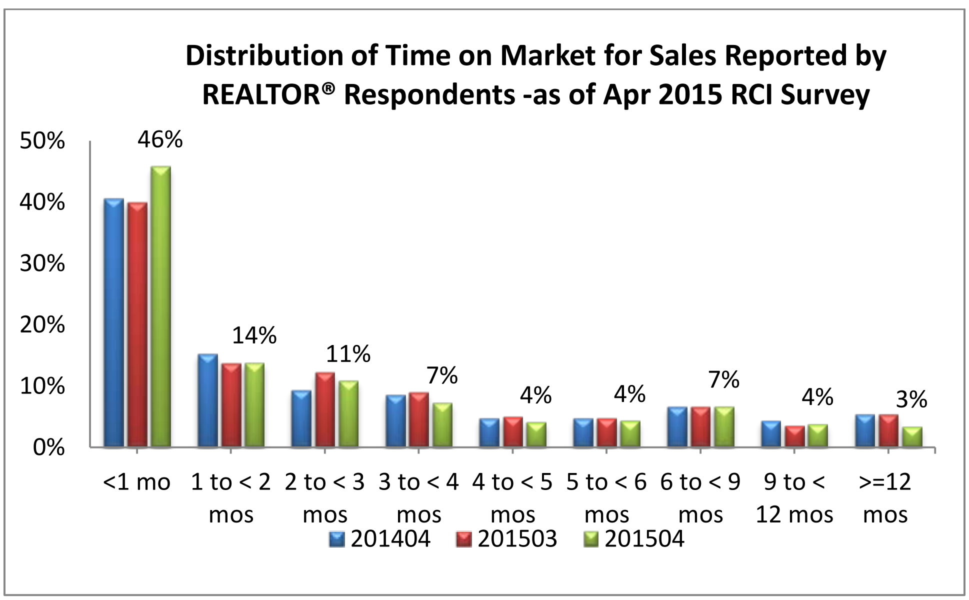
With tight inventory, properties that closed in April 2015 were typically on the market for a relatively short period of time at 39 days (52 days in March 2015; 48 days in April 2014)[11].

Short sales were on the market for the longest time at 180 days, while foreclosed properties typically stayed on the market at 50 days. Non-distressed properties were on the market at 38 days.

[11] Respondents were asked "For the last house that you closed in the past month, how long was it on the market from listing to the time the seller accepted buyer's offer?"A median of x days means that half of the properties were on the market for less than x days and another half of properties were on the market for more than x days.

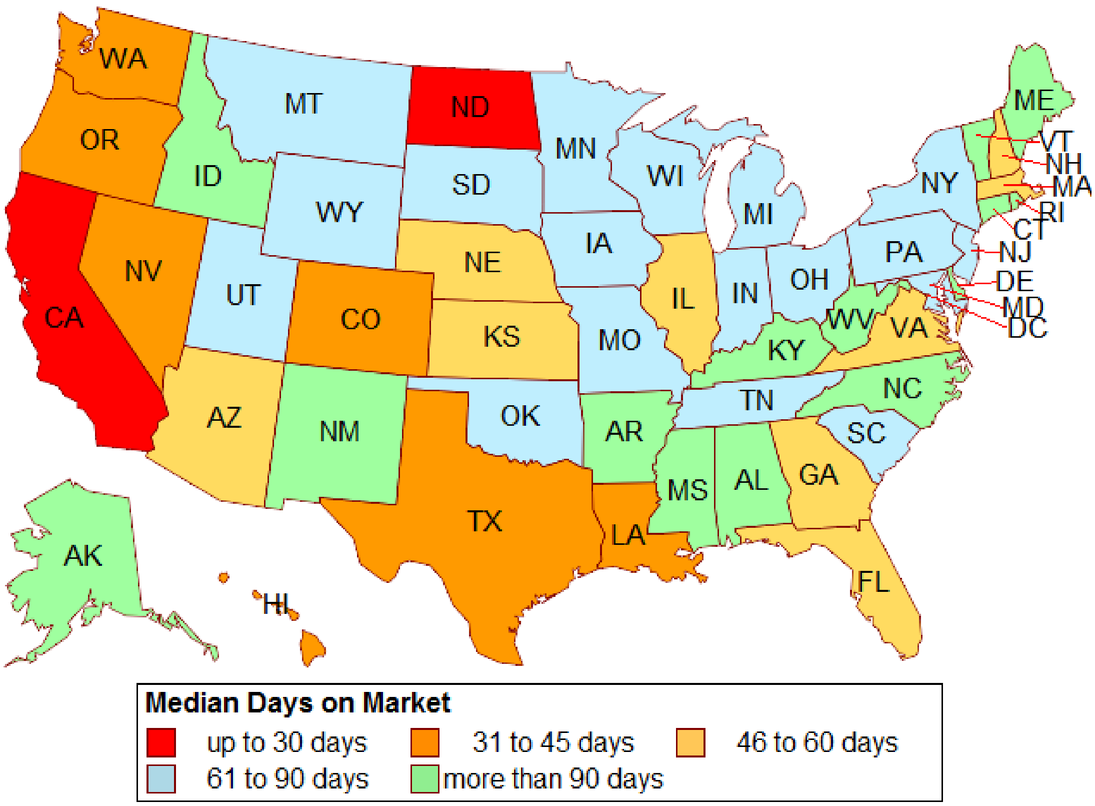


Approximately 46 percent of properties were on the market for less than a month when sold (40 percent in March 2015; 41 percent in April 2014).



Properties typically sold within 45 days in the West Coast states of California, Oregon, and Washington as well as in Nevada , North Dakota, Colorado, Texas, Louisiana, and the District of Columbia. All real estate is local. State-level data is provided for REALTORS® who may want to compare local markets against the state and national summary.

Median Days on Market for Sales Reported by REALTORS®, By State
Based on Feb 2015-Apr 2015 RCI Surveys



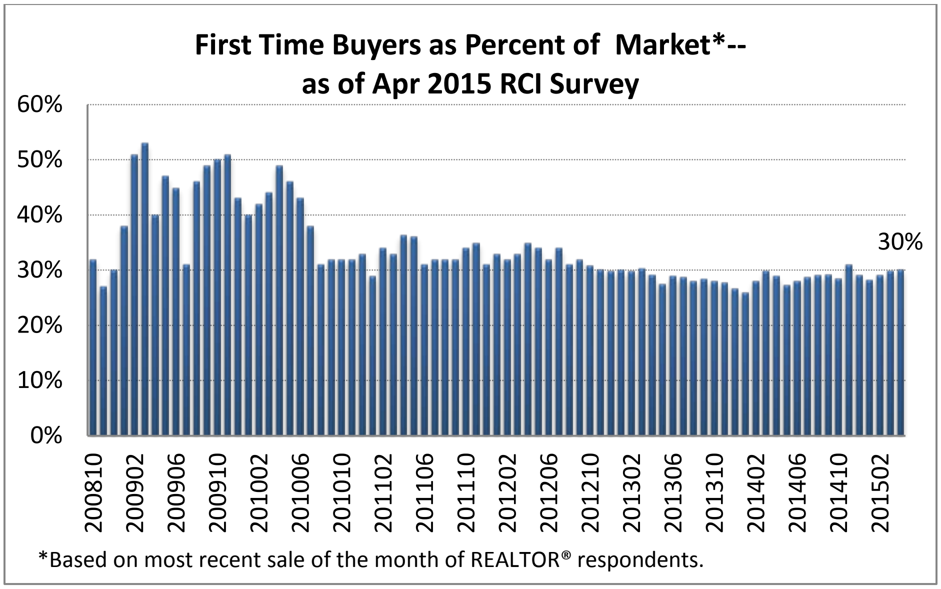
II. Buyer and Seller Characteristics

Sales to First Time Buyers: 30 Percent of Sales

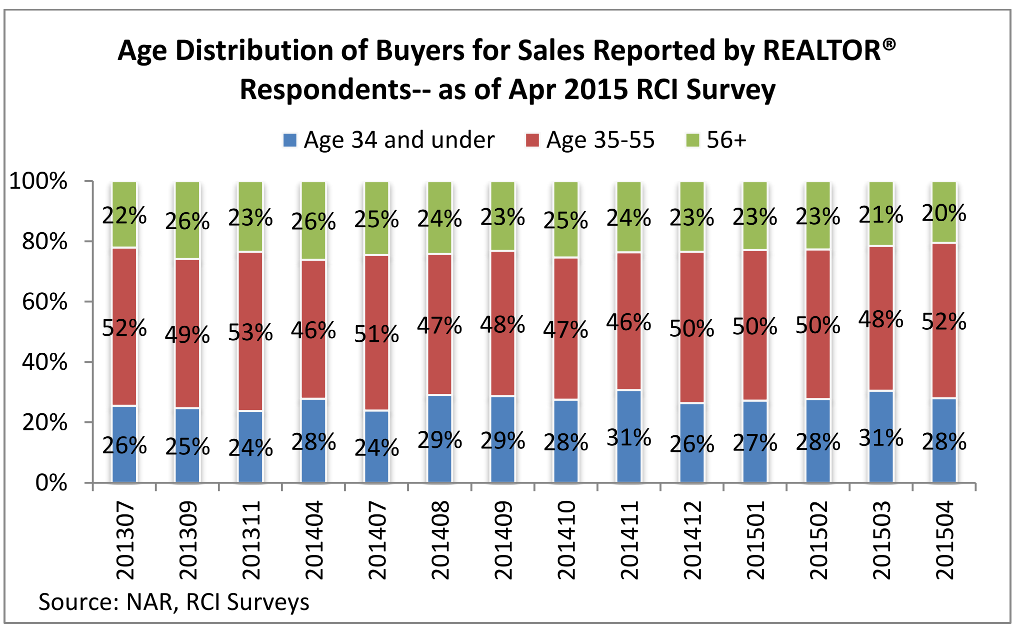
First-time homebuyers made up 30 percent of existing home sales in April 2015, substantially unchanged from past months' levels (30 percent in March 2015; 29 percent in April 2014).[12] REALTORS® continued to report that first-time homebuyers find it hard to obtain a mortgage under tighter underwriting standards, particularly in relation to credit score and debt-to-income standards. There does appear to be some easing of credit score standards with more approval of buyers with FICO scores below 740 (see Section III. Current Issues). REALTORS® have reported in previous surveys that the lowering of the FHA mortgage insurance premium (from 1.35 percent to 0.85 percent) and the reintroduction of the 3 percent downpayment

[12] First time buyers accounted for about 33 percent of all homebuyers based on data from NAR's 2014 *Profile of Home Buyers and Sellers (HBS).* The HBS is a survey of primary residence homebuyers and does not capture investor purchases but does cover both existing and new home sales. The *RCI Survey* is a survey of REALTORS® about their transactions and captures purchases for investment purposes and second homes for existing homes.

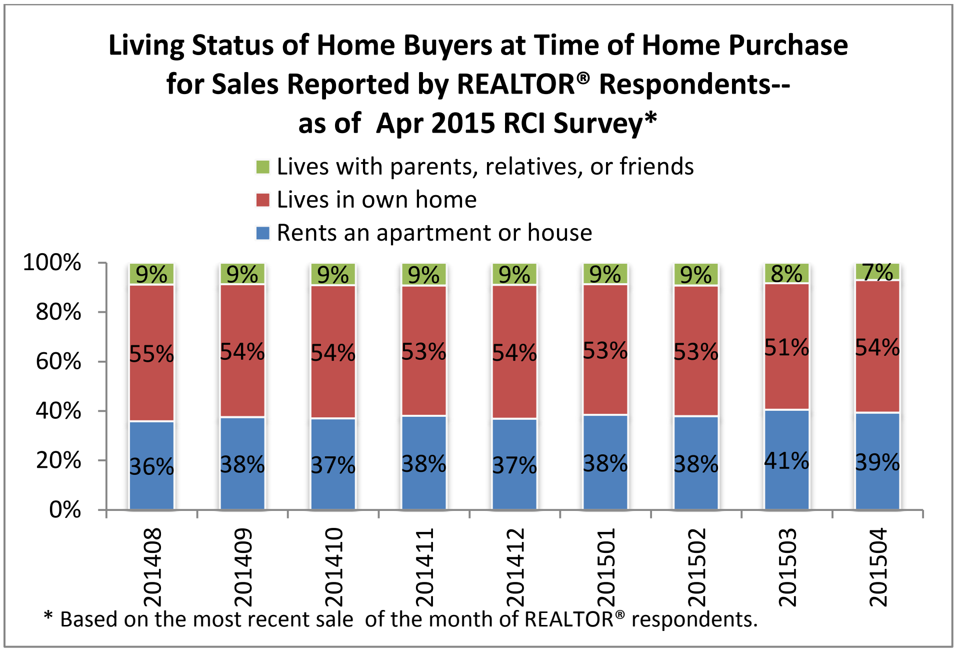
mortgage for loans purchased by Fannie Mae and Freddie Mac are positive measures towards easing access to credit.



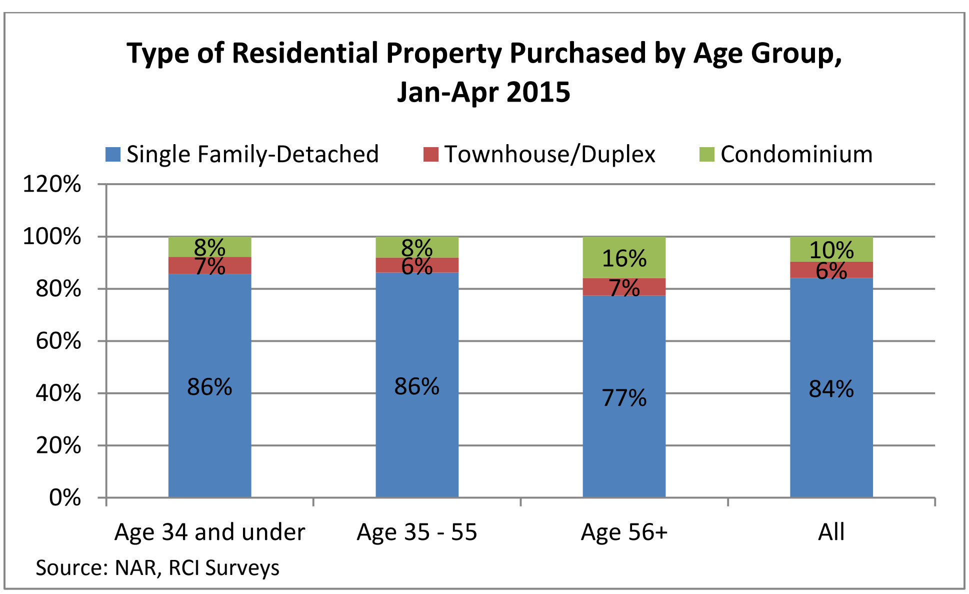
About 28 percent of all buyers were in the age group 34 and under, a group that has typically included first-time homebuyers.



About 39 percent of buyers were previously renters, a group that includes first-time homebuyers. The share appears to be on the rise from about 36 percent in 2014.

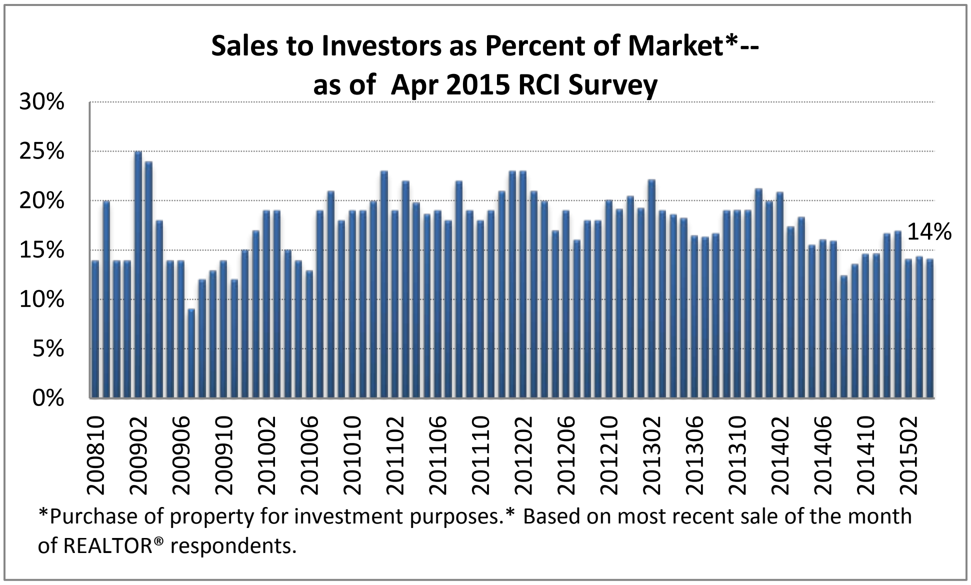


In reporting on their last sales for Jan-April 2014, REALTORS® reported that about 84 percent of sales were for single-family detached homes. Among buyers 34 years and under, 86 percent purchased single-family homes, slightly above the overall rate of 84 percent. First-time home buyers have typically tended to to purchase condominiums as starter homes. The shift towards single-family detached homes may be due to the difficulties associated with obtaining a mortgage for condominium properties or the inclination to stay in or stay longer in a property. The median tenure increased from 7 years to 10 years, according to data from the NAR's *2014 Profile of Home Buyers and Sellers.*



Sales for Investment Purposes: 14 Percent of Sales

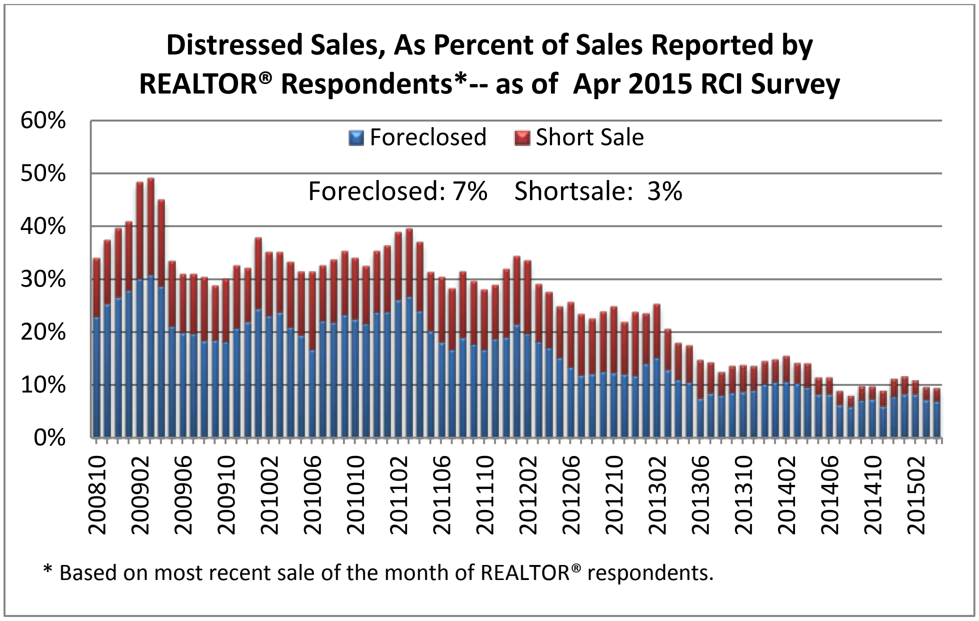
Approximately 14 percent of REALTORS® reported that their last sale was for investment purposes (14 percent in March 2015; 18 percent in April 2014). Purchases for investment purposes have been on the decline with fewer distressed sales on the market.



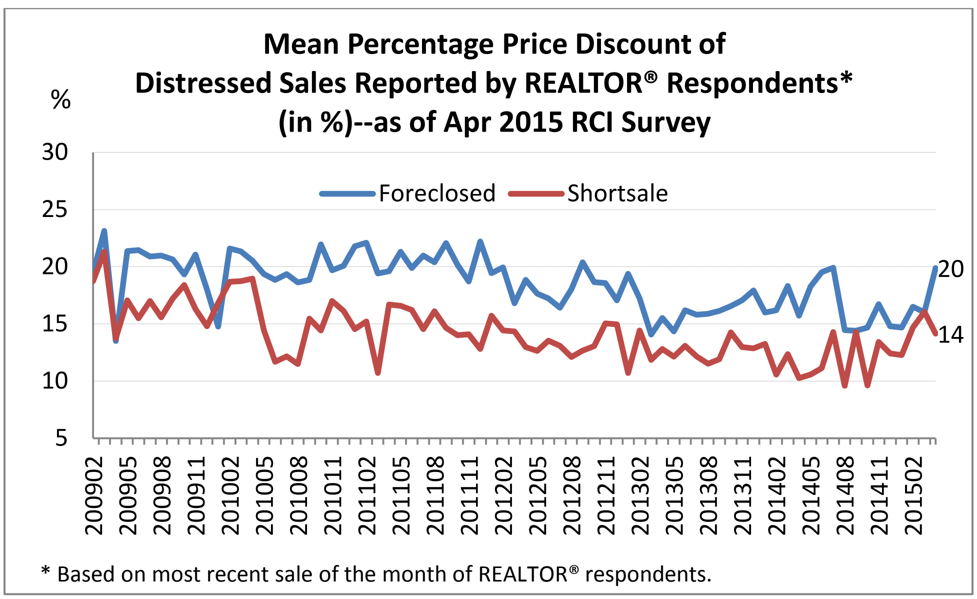
Distressed Sales: 10 Percent of Sales

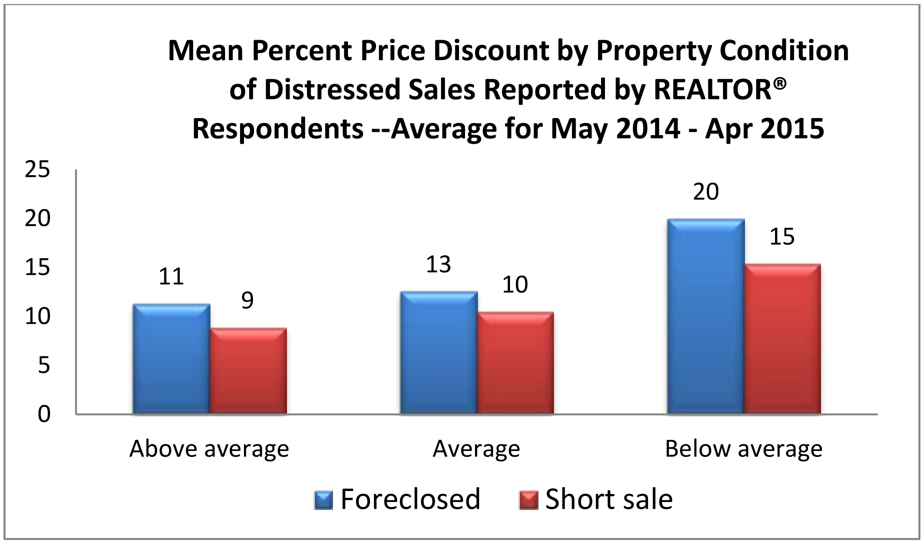
With rising home values and fewer foreclosures, the share of sales of distressed properties continued to decline. In April 2015, distressed sales accounted for 10 percent of sales (10 percent in March 2015; 15 percent in April 2014). About 7 percent of reported sales were foreclosed properties, and about 3 percent were short sales.[13] Fewer foreclosed properties on the market explains to some degree why investment sales have generally been on the decline.

13 The survey asks respondents to report on the characteristics of the most recent sale for the month.



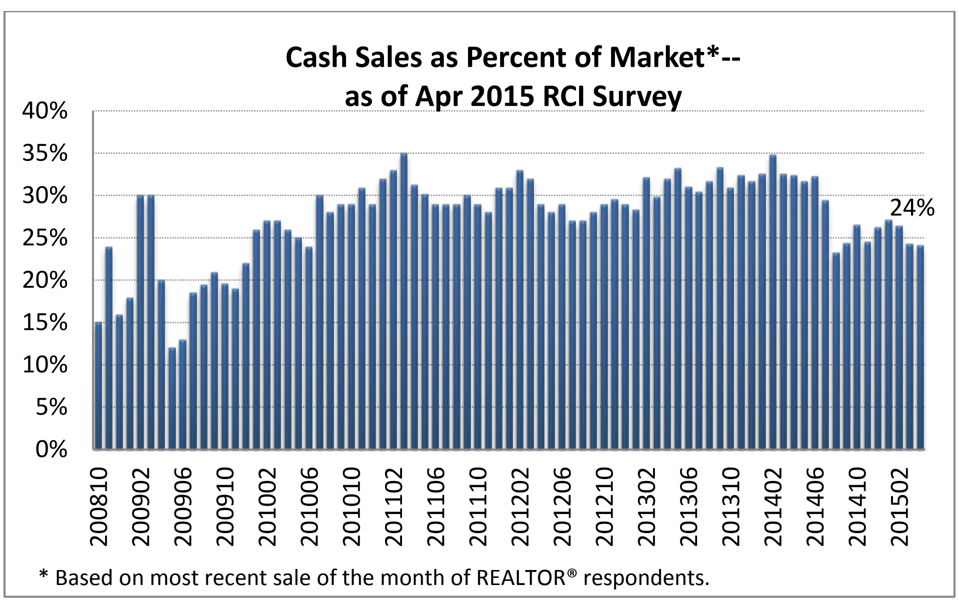
Foreclosed property sold at a 20 percent average discount, while short sales sold at an average of 14 percent discount. For the past 12 months, distressed properties in "above average" condition were discounted by an average of 9-11 percent, while properties in "below average" condition were discounted at an average of 15-20 percent.

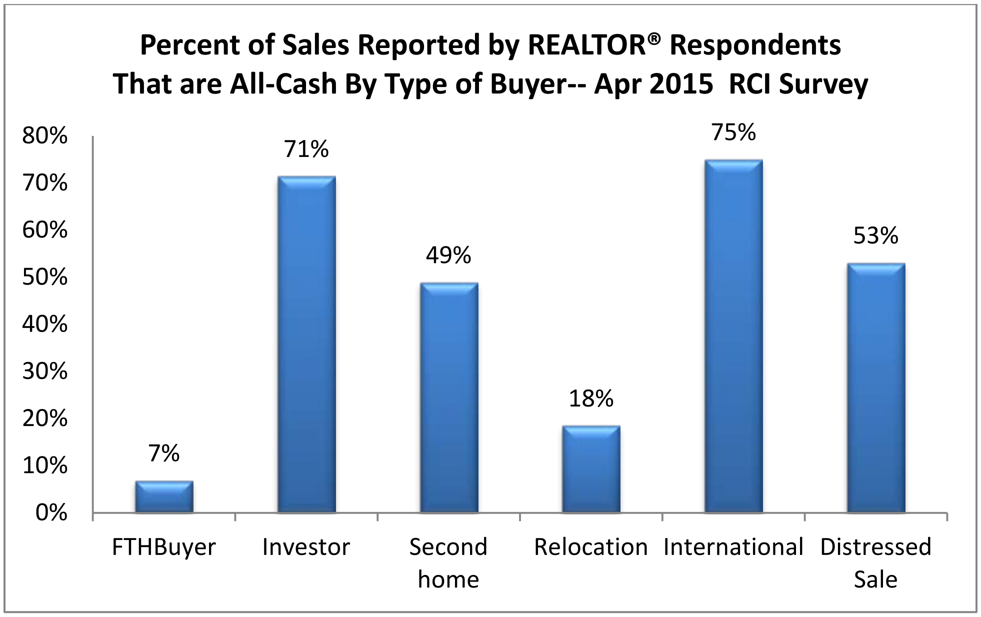




Cash Sales: 24 Percent of Sales

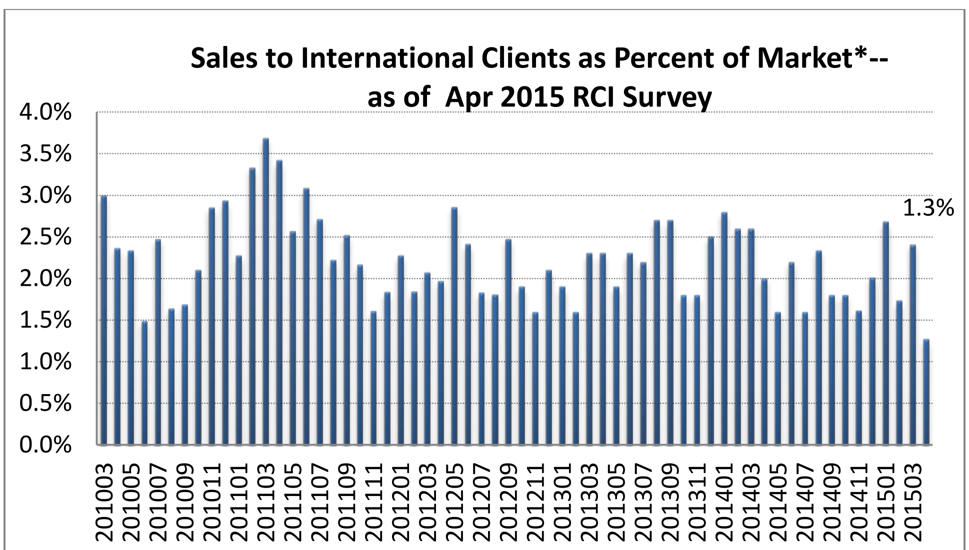
The share of cash sales to the market has declined compared to the levels seen in 2010-2014. Approximately 24 percent of REALTOR® respondents reported that their last transaction was a cash sale (24 percent in March 2015; 32 percent in April 2014). Buyers of homes for investment purposes and second homes and foreign clients are more likely to pay cash than first-time home buyers. As sales to investors and distressed properties have fallen, the share of cash sales has declined as well.





International Transactions: 1.3 Percent of Residential Market

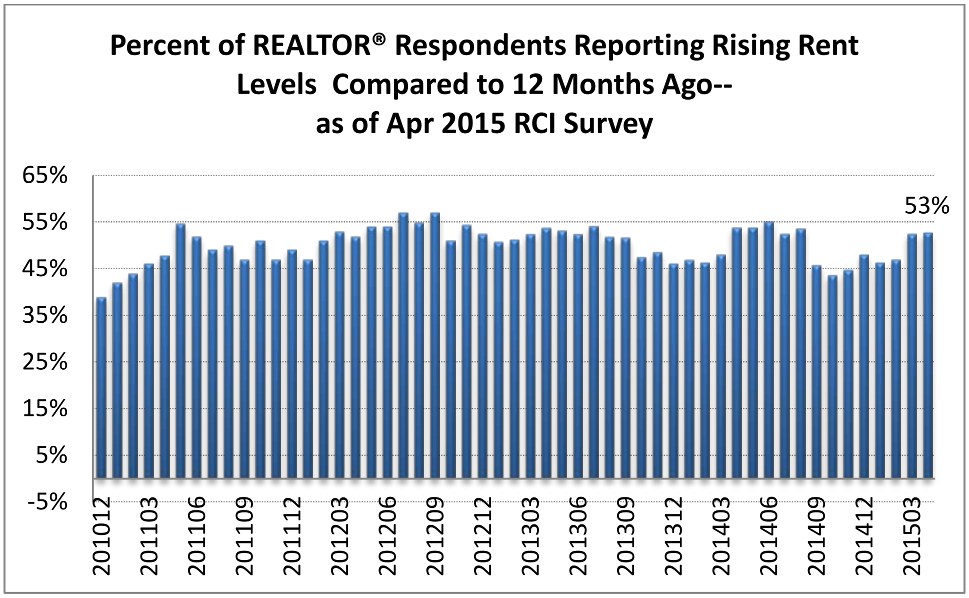
Approximately 1.3 percent of REALTOR® respondents reported their last sale was a purchase by a foreigner not residing in the U.S. International buyers frequently pay cash as well as purchase properties above the median price of the domestic buyer. There were reports that the strengthening of the dollar against most currencies, including the Canadian dollar, has caused a decline in homebuying by Canadian clients (FL, AZ).



*Based on most recent sale of the month of REALTOR® respondents.

Rents Continue to Increase

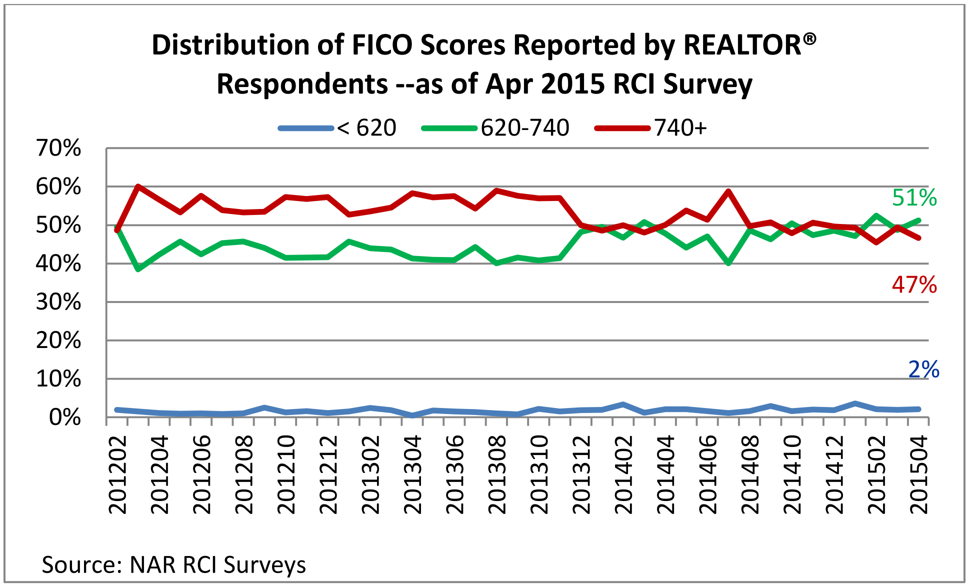
About 53 percent of REALTOR® respondents reported rising rent, (52 percent in March 2015; 54 percent in April 2014). Rising rents indicate continued strong demand for rental properties rather than a house purchase.



III. Current Issues

Credit Conditions

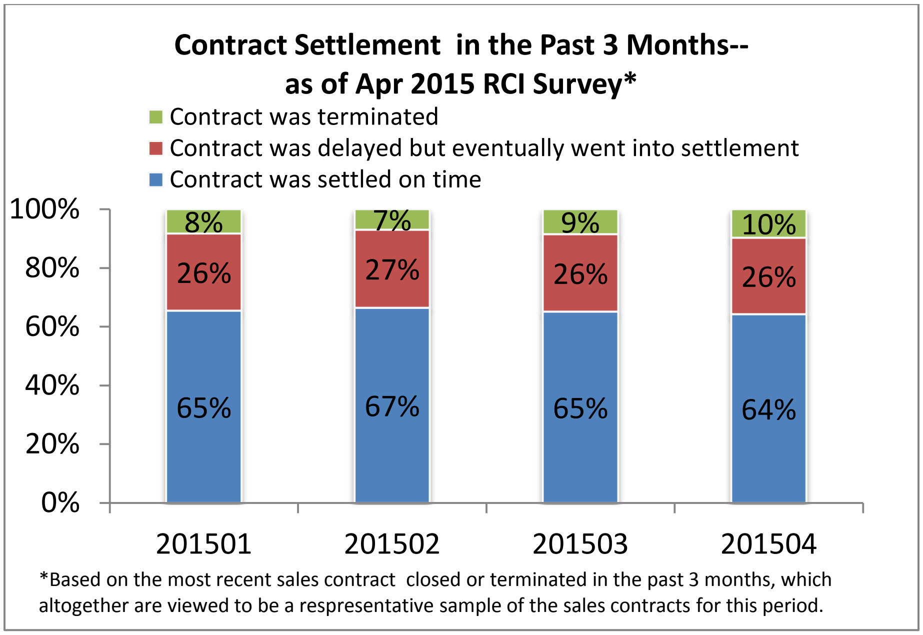
REALTORS® have reported that credit conditions remain generally tight, with significant loan processing delays. However, credit conditions appear to be easing, if slowly based on the FICO scores of buyers where REALTORS® had information on. About 47 percent of REALTORS® providing transaction credit score information reported FICO credit scores in the range 740+, down from about 59 percent in August 2013. Meanwhile, 51 percent reported that the homebuyer had FICO scores in the range of 620-740.

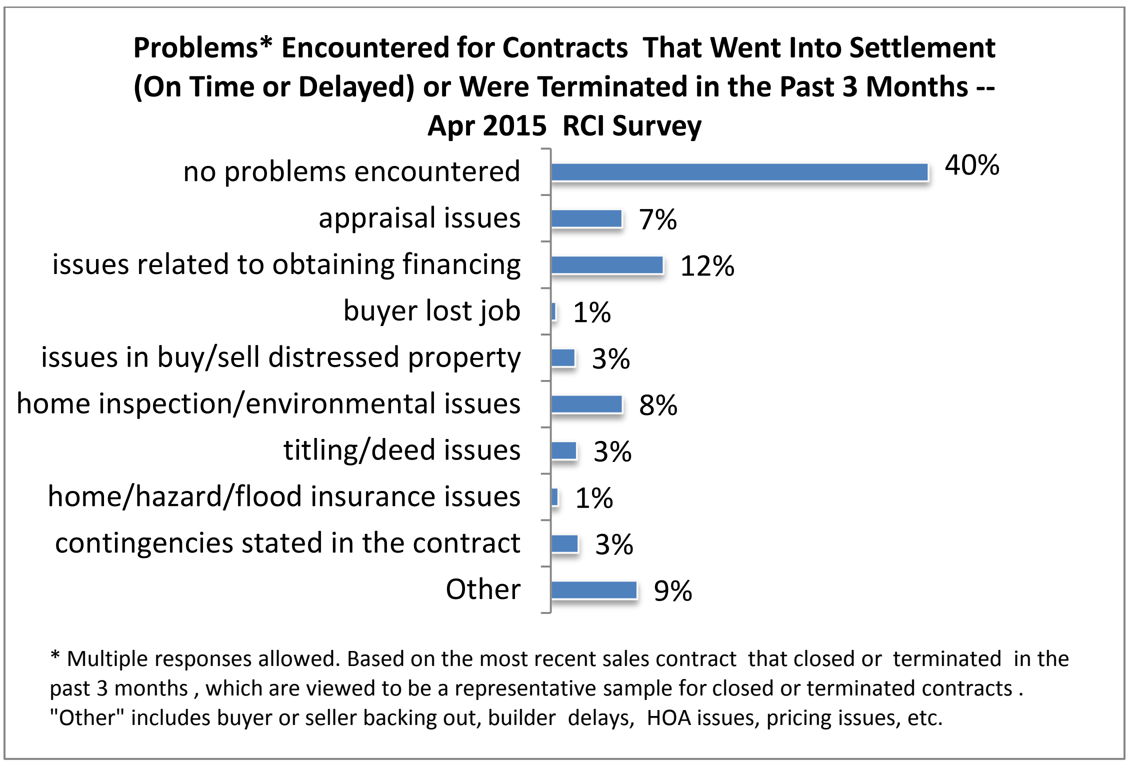


Contract Settlement Issues

In reporting on their last contract, REALTORS® reported that most contracts were settled on time. Among contracts during the three month time period February to April 2015, 64 percent of contracts were settled on time, 26 percent had delayed settlement, and 10 percent were terminated.

About 60 percent of REALTORS® reporting on their last contract indicated that the contract had some type of issue: 12 percent had financing issues, 8 percent had home inspection issues, and 7 percent faced appraisal issues. It is surprising that in a "tight" and "difficult" credit environment , only 12 percent of contracts that were reported to have settled or terminated had financing issues. One explanation may be that potential homebuyers are deciding to sit on the sidelines for now, so these buyers were not captured in the data.


Contract Settlement in the Past 3 Months--
as of Apr 2015 RCI Survey*
Contract was terminated
Contract was delayed but eventually went into settlement
Contract was settled on time
100%
80%
60%
40%
20%
0%
8%
26%
65%
7%
27%
67%
9%
26%
65%
10%
26%
64%
201501
201502
201503
201504
*Based on the most recent sales contract closed or terminated in the past 3 months, which altogether are viewed to be a respresentative sample of the sales contracts for this period.

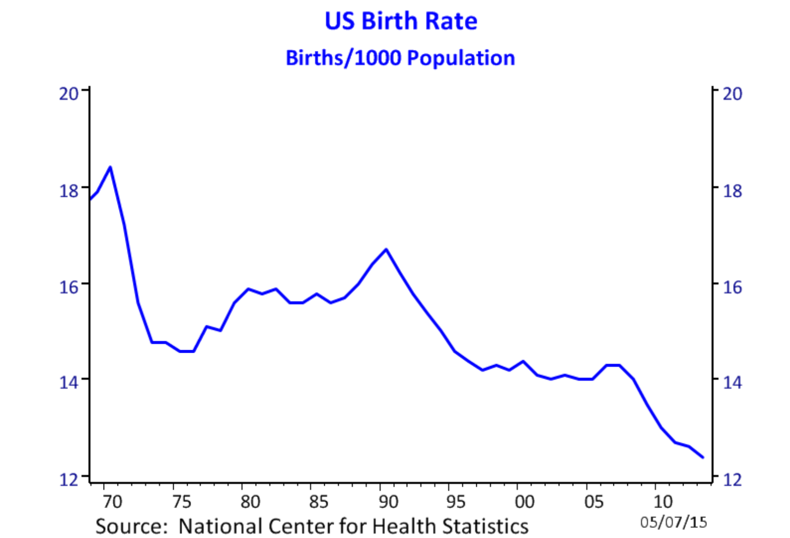

Problems* Encountered for Contracts That Went Into Settlement (On Time or Delayed) or Were Terminated in the Past 3 Months -- Apr 2015 RCI Survey
no problems encountered 40%
appraisal issues 7%
issues related to obtaining financing 12%
buyer lost job 1%
issues in buy/sell distressed property 3%
home inspection/environmental issues 8%
titling/deed issues 3%
home/hazard/flood insurance issues 1%
contingencies stated in the contract 3%
Other 9%
* Multiple responses allowed. Based on the most recent sales contract that closed or terminated in the past 3 months , which are viewed to be a representative sample for closed or terminated contracts . "Other" includes buyer or seller backing out, builder delays, HOA issues, pricing issues, etc.

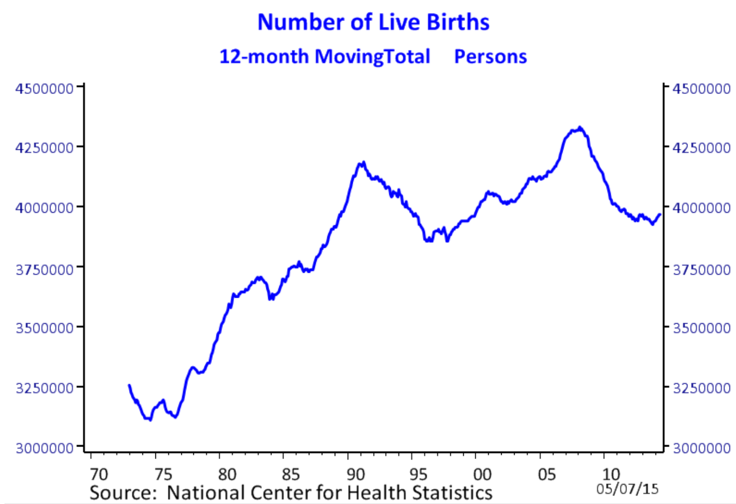
IV. Commentaries by NAR Research

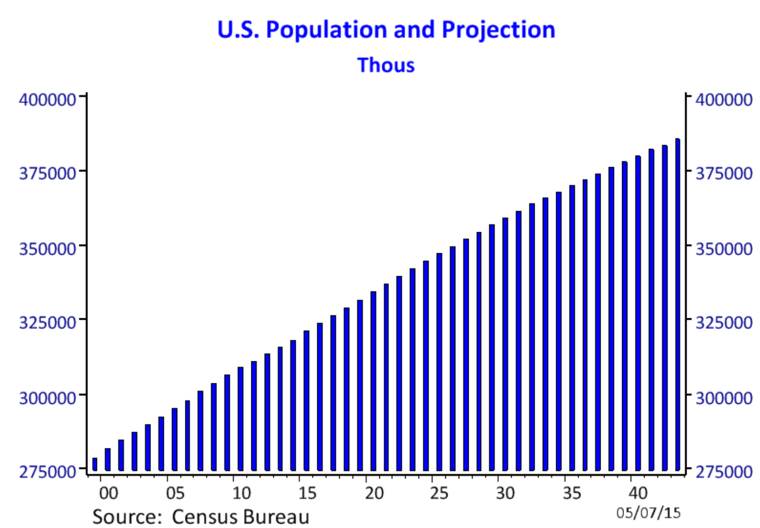
Births and Housing Demand

Lawrence Yun, Chief Economist

- The birth rate in America has been on a long-term decline as people are deciding to have fewer babies and at a later age. The most recently available data shows the lowest birth rate in the U.S. modern history. But due to the overall rise in the number of child bearing years over time, the actual number of live births in the U.S. has been fairly steady at around 4 million each year.
- There are 4 million births each year. There are also about 2 million deaths each year. So the natural process is yielding a gain of about 2 million in population. In addition, immigration makes up another ½ million to one million each year. The total U.S. population, therefore, rises by roughly 3 million each year.
- Nothing can be simpler to understand than the fact that more people mean more housing demand. To accommodate the rising population, about 1.5 million new housing units need to be built each year (including the need to replace demolished units). Unfortunately, housing starts have averaged only 766,000 per year from the economic downturn in 2008 to 2014 (7 consecutive years). These multiple years of undersupply compared to what is needed is the reason why much of the country is experiencing a housing shortage with few inventory of homes for sale and falling apartment vacancy rates. Consequently, rents and home prices are rising by at least twice as fast as wage growth.
- Housing starts have to kick higher soon. Otherwise housing shortage will continue. Housing affordability will take a hit as a result. Many people may then be forced to live in squeezed places. An unhealthy development.
- The most famous live birth of recent days is of Princess Charlotte in Britain. One thing that is nearly assured of Charlotte is that she will be judged in the future as one of the more attractive persons among the royal families. Why? Simple. The mother Kate Middleton was a commoner. Where royal blood mixes with another royal blood, many healthy issues appear. Moreover, it is well known at European courts that the royal family of Monaco is said to be the better looking. And this is no doubt due to Monaco royals' long history of marrying a commoner and doing it without much qualms.


US Birth Rate
Births/1000 Population
20
18
16
14
12
70
75
80
85
90
95
00
05
10
Source: National Center for Health Statistics
05/07/15


Number of Live Births
12-month MovingTotal Persons
4500000
4250000
4000000
3750000
3500000
3250000
3000000
70
75
80
85
90
95
00
05
10
Source: National Center for Health Statistics
05/07/15


U.S. Population and Projection
Thous
400000
375000
350000
325000
300000
275000
00
05
10
15
20
25
30
35
40
Source: Census Bureau
05/07/15

Some Comparisons: Small and Large Commercial Real Estate Transactions

Jed Smith, Managing Director, Quantitative Research

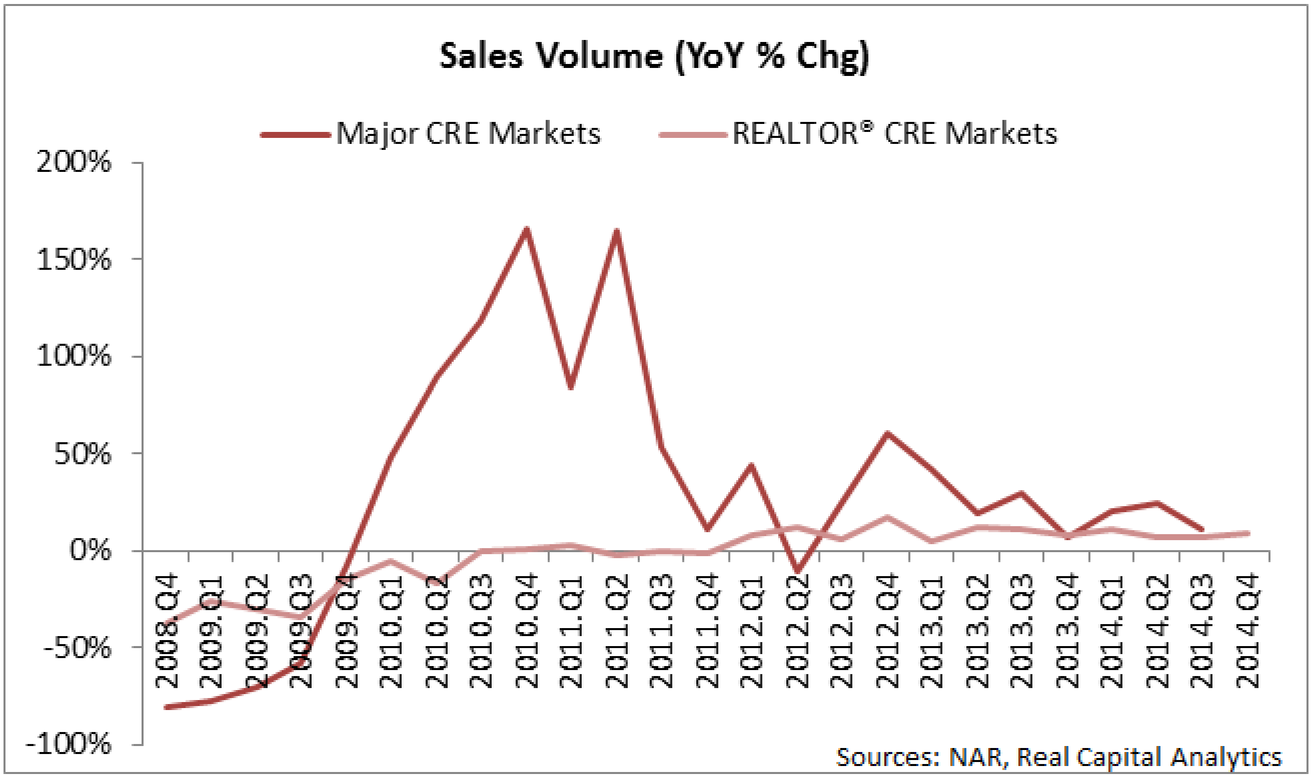
The investment sales markets for large and small commercial buildings are distinctively different. NAR's *Commercial Real Estate Market Trends* report summarizes sales and rental activity based on a quarterly survey of commercial REALTOR® practitioners. A second report, NAR's yearly *Commercial Lending Survey* report provides information on commercial real estate financial issues addressed by REALTORS®. Both reports present commercial real estate information generally not available elsewhere: the average commercial transaction size in markets served by REALTORS® has been about $1.6 million, significantly below the $2.5 million threshold typically used by major databases in providing information on commercial transactions. Although many REALTORS® participate in transactions above the $2.5 million threshold, in general REALTORS® report that they serve a segment of the commercial real estate market for which data are generally not reported—Small Commercial Real Estate transactions*(SCRE) under $2.5 million*, in contrast to Large Commercial Real Estate transactions*(LCRE) over $2.5 million*.

NAR has estimated that the commercial market for buildings selling for under $2.5 million could be in the neighborhood of $50 billion annually, compared to the market for large buildings—which totaled $430 Billion in 2014. A comparison of the two market segments—SCRE properties valued below $2.5 million vs. LCRE properties valued above $2.5 million shows their difference in terms of sales.

In 2014 REALTORS® reported an increase in SCRE sales volume of 10 percent year-over-year. In comparison, data for the LCRE segment showed a sales volume increase of 21 percent for 2014 vs. 2013. The contrast between the two markets is sharper when taking into account a longer time horizon, and it underscores the post-recession difficulties experienced in sales of smaller buildings and properties located in secondary/tertiary markets. Over the 2009-14 period, sales volume for LCRE markets averaged 35 percent growth. For the same period, sales volume in SCRE markets averaged a negative one percent growth.

Some of the discrepancy between the two markets may be due to tight credit—reported by NAR's commercial practitioners as having been unreasonably tight. Some of the discrepancy between the markets may be due to location and usage, with smaller buildings having very different characteristics than larger Class A office space in central business districts.
More information on commercial real estate markets can be accessed at:http://economistsoutlook.blogs.realtor.org/2015/04/30/small-commercial-real-estate-

market/.



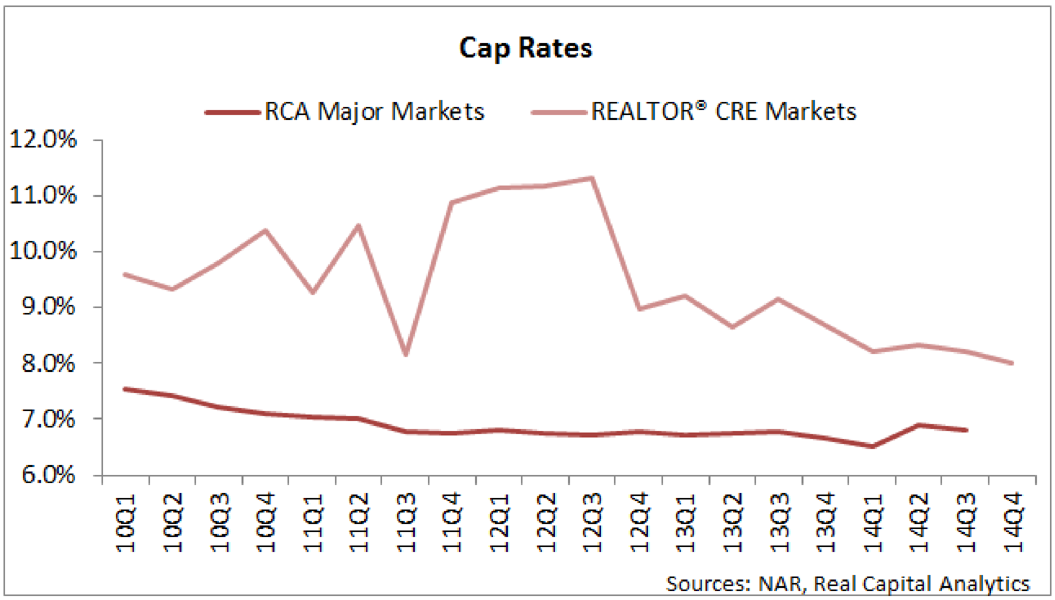
For more information, please visit http://www.realtor.org/research-and-statistics/.

Small Commercial Real Estate Market

George Ratiu, Director, Quantitative and Commercial Research

Based on information for cap rates in NAR's *Commercial Real Estate Market Trends*report one can conclude that the small commercial real estate (SCRE) market for properties less than $2.5 million is distinctly different from the large commercial real estate market (LCRE). NAR has estimated that the commercial market for buildings selling for under $2.5 million could be in the neighborhood of $50 billion annually, compared to the market for large buildings—which totaled $438 Billion in 2014.

REALTORS® have reported that SCRE cap rates averaged 8.0 percent during Q4.14. Data for the LCRE segment for recent cap rates averaged 6.8 percent in the latter part of 2014. Whereas steady cap rate compression characterized the past six years in major markets, capitalization rates in SCRE markets exhibited higher volatility. Moreover, data from SCRE markets clearly display the yield premium associated with secondary/tertiary markets. Averaging the cap rates in LCRE markets over the 2010-14 period, results in a 4-year cap rate of 6.9 percent. Applying the same procedure to data from SCRE markets produces a 9.4 percent yield.



In general, the markets view small commercial buildings as more risky and difficult to finance than is the case for larger buildings. This has been illustrated in the slower post-recession recovery of secondary/tertiary markets, both in terms of fundamentals and asset prices. Conversely, during 2013 and 2014, as investors—buoyed by rising capital availability and shrinking inventory in top-tier markets—shifted their focus to stable markets offering yield premiums over the 5 – 6 percent caps in major markets, secondary/tertiary markets experienced a rebound. More information on commercial real estate markets can be accessed here.

Widening Wealth Inequality at the Local Level

Nadia Evangelou, Research Economist

Based on the recent release of the Federal Reserve, the net worth of households and nonprofits rose to $82.9 trillion during the fourth quarter of 2014. This is an increase of $4 trillion from one year ago and $26 trillion compared to the lowest net worth level in 2008. But how is this net worth distributed by U.S. households at the local level?

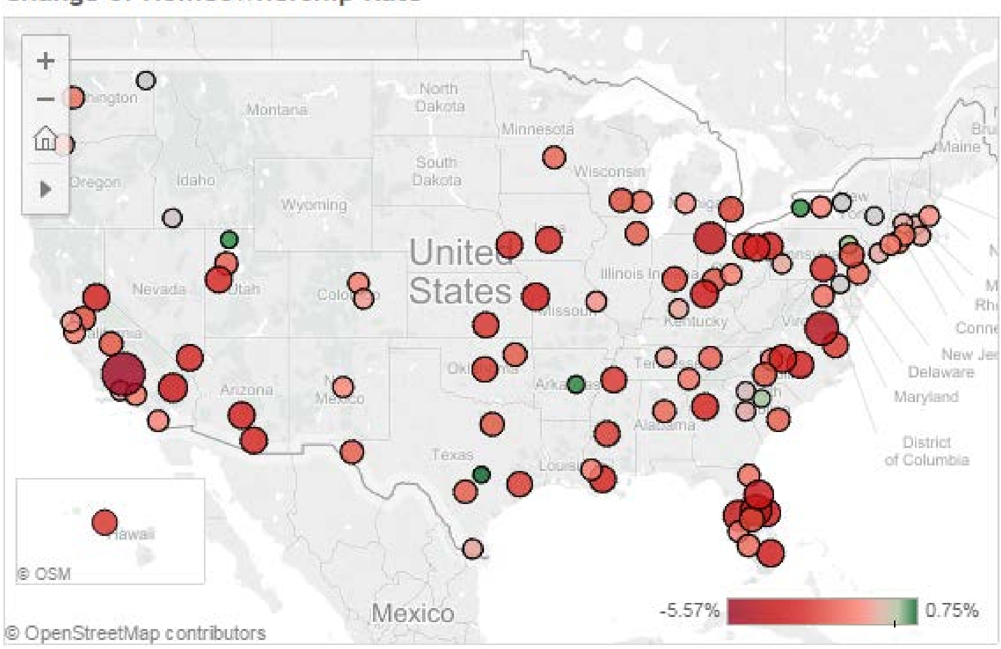
In 2013, the national median inflation-adjusted family net worth – the difference between families' gross assets and their liabilities – increased only in the upper – middle income tiers of households (the top 40 percentile of income) compared to 2010. This increase eased the net worth gap between the top 10 percentile income tier and the top 20 percentile from 4.2 to 3.8 multiples. The gap narrowed also with the top 30-40 percentile income tier from 9.3 to 7.1 multiples. In contrast, the net worth gap increased between the top 10 percentile income tier and the middle, middle – low income tiers. For example, the gap widened between the top 10 percentile and the middle – low income group (top 60-80 percentile) from 46.7 to 50.5 multiples.

Real estate markets, which contribute the value of property to net worth, slowly began to recover from 2010. Specifically, home prices rose in 84% of the 100 largest metro areas. Data show that homeowners have steadily recovered and built housing wealth as a result.

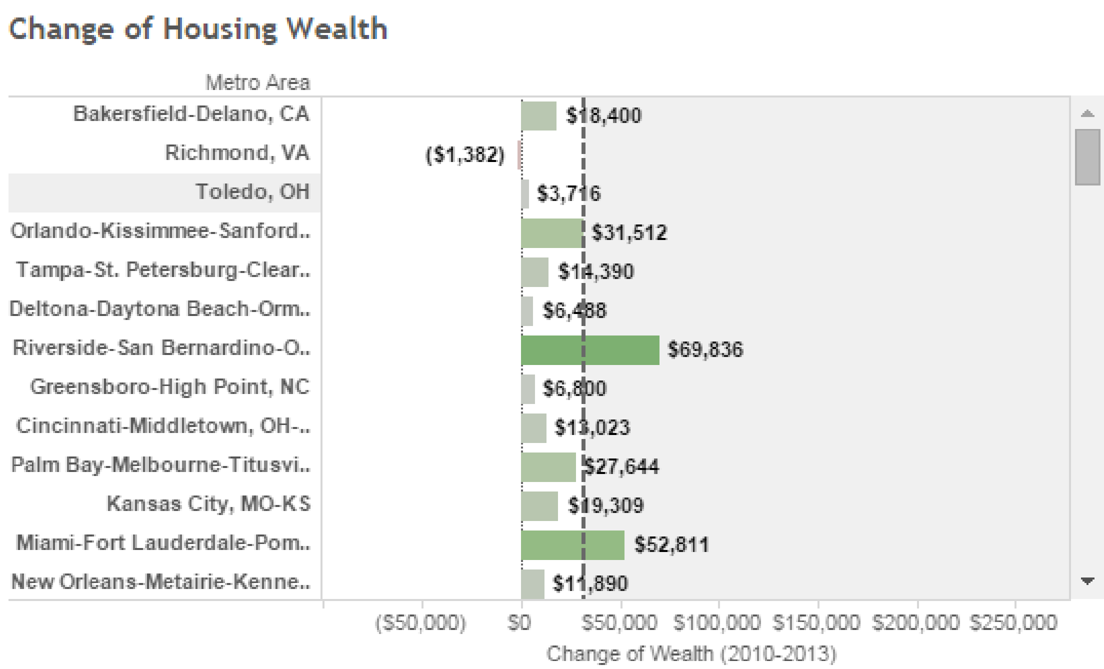
Housing Wealth and Homeownership Rates
(2010 - 2013)

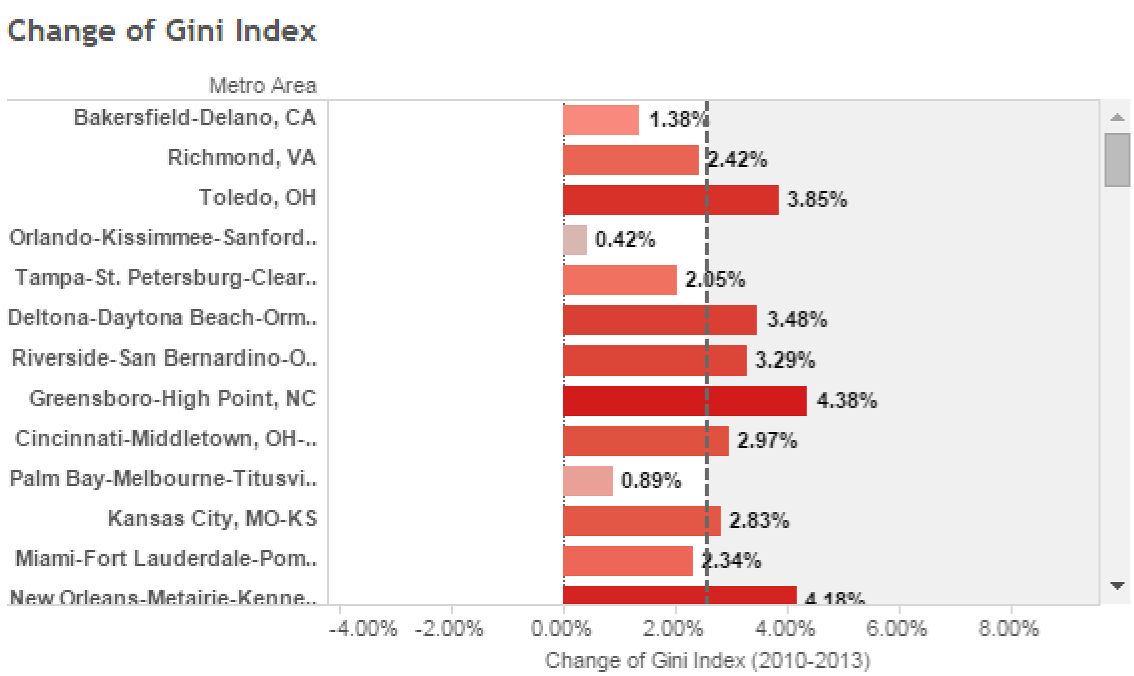
The map below shows the change of Homeownership Rate for 100 top metro areas.

Change of Homeownership Rate



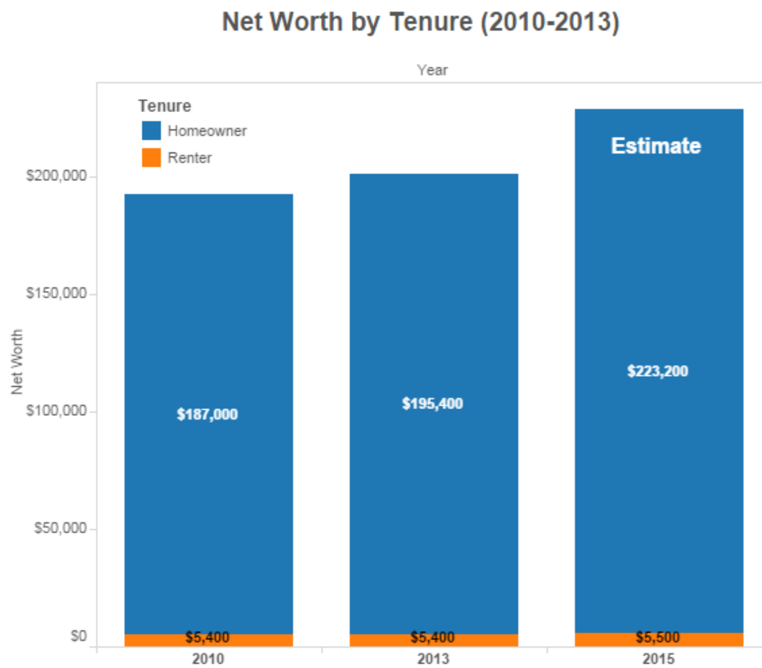
Metro areas in the following bar charts are sorted in descending order based on the change of homeownership rate. The dotted lines show the U.S. level of change of wealth and change of Gini index accordingly





To access the full list of metro areas , please visit http://economistsoutlook.blogs.realtor.org/2015/05/07/widening-wealth-inequality-at-the-local-level/

However, the homeownership rate declined in 93% of those metro areas. Hence, the rising housing wealth goes to fewer people as the number of homeowners has fallen while the number of renters has risen. Based on Federal Reserve data, the typical homeowner's net worth in 2013 was 36 times greater than that of renters. Here is the net worth for Homeowners and Renters for the period 2010 – 2015 estimate.



Although it is difficult to assess the true level of wealth inequality in markets at the metro level, inequality can easily be identified as intensifying or lessening by simply measuring the change in the number of owners and renters at a time when values are rising. Analyzing Census data, Bakersfield, Richmond, Toledo, Orlando and Tampa were found to have experienced the largest decline in homeownership rate among the 100 metro areas. For instance, based on the table above, a typical homeowner in Orlando gained $31,500 in housing wealth from 2010. However, the homeownership rate in Orlando declined by 4.3%. This means that fewer people received that housing wealth increase to their net worth. Therefore, it is easy to infer that Orlando has become more unequal as the number of homeowners has fallen.

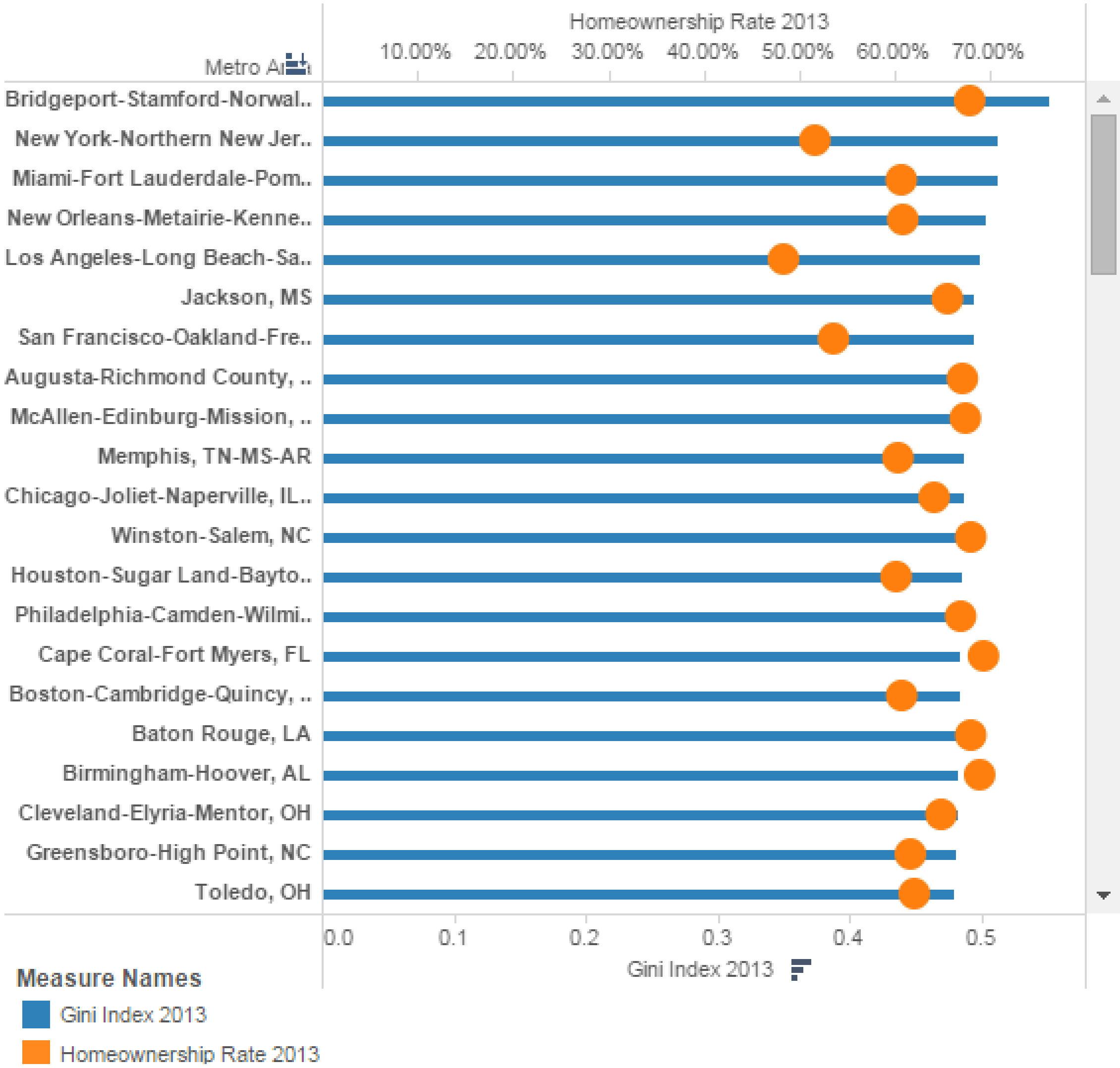
The inability for renter households to become homeowners is leaving them behind financially. A typical homeowner's net worth climbs because of upticks in home values and declining mortgage balances over time. On the other hand, renters have likely seen increased housing costs and are less likely to have been active investors in the stock market's strong growth in recent years.

Additionally, most metro areas also showed intensifying income inequality. While both are important to understanding inequality, wealth is different from household income. Wealth is the difference between the value of a family's assets (money in bank account, value in property, etc.) and liabilities (debts). On the other hand, household income measures the annual inflow of wages, interests, profits and other sources of earnings. Income inequality is measured by the Gini Index[2] (U.S. Census Bureau). Data showed that most of the metro areas with high Gini index had also low homeownership rates (Los Angeles, New York, San Francisco, San Diego). Based on the negative relationship of wealth inequality and the homeownership rate above, it seems that those metro areas with higher income inequality were also associated with greater wealth inequality.

Income Inequality and Homeownership Rate (2013)

The graph below shows the level of the income inequality by metro area in 2013 (**blue** bars) and the level of the homeownership rate for those metro areas (**orange** circles).

Note: Metro areas are sorted in descending order based on the Gini Index level. High Gini Index level indicates high income inequality and vice versa.



To access the full list of metro areas , please visit http://economistsoutlook.blogs.realtor.org/2015/05/07/widening-wealth-inequality-at-the-local-level/