



REALTORS[®] Confidence Index

NATIONAL ASSOCIATION OF REALTORS[®]
Research Division, September 2009



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REALTORS® Confidence Index Highlights- September 2009

The REALTORS® Confidence Index measures the strength of the current housing market and expectations about the future. It is computed using data obtained from the survey of a random panel of Realtors®. This index is built to provide member Realtors® a snap shot of the performance, sentiments and expectations of their counterparts. The questions are designed to capture the effects of the existing economic conditions on the real estate business.

Each month participants respond to questions regarding the current and expected demand for homes, the price of homes and other economic conditions. Their answers are then quantified and used to create the confidence index. Their responses are then assigned weights of 0, 50 or 100. A response of "strong" gets 100 points, while "moderate" is given 50 points, and "weak" is assigned 0 points. The index represents the average score for each question.

*The results below reflect respondents' confidence level in **September 2009** and their future expectations, compared with both the previous month and the same month last year. Perceptions of current residential real estate market conditions are also compared with expectations for business over the next six months. For the current month's report responses of **2665** Realtors® were used.*

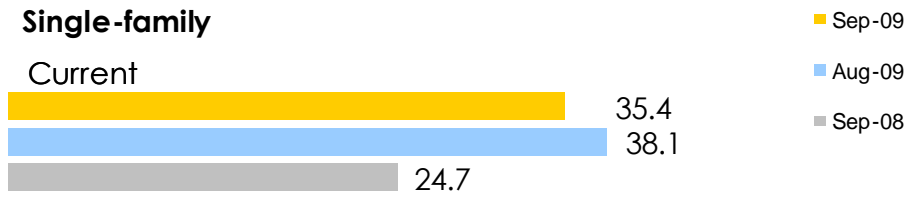
Current Month's Reading

The REALTORS® Confidence Index for single-family home sales in **September** see-sawed downward to the level of 35.4 after an increase last month (38.1). For the same month last year, the index was at 24.7. Similarly, the index for town-houses and condos slipped compared to a month ago. The town-house index was at 18.7 from last month's 20.7 and the condo index declined to 14.8 from 15.7. Both indexes are higher than last year's levels of 16.1 and 13.8, respectively. Expectations of real estate practitioners, for residential properties for the next six months, declined from a month ago for all types of housing. Single-family declined to 40.5 from 42.4, town-houses were at 22.4 from 24.2, and condos fell to 18.9 from 20.0. The index measuring the traffic of prospective home buyers was at 40.7 in September, which was lower than last month's level of 44.5 and higher than last year's level of 28.0. The seller's traffic index for the current month remained nearly unchanged at 47.4 compared to last month's 47.3, but was lower than last year's 48.4.

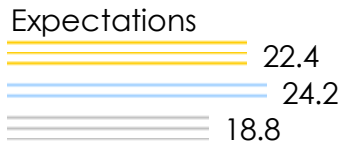
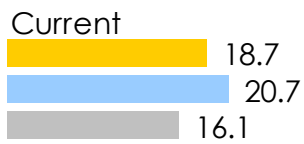
For further insights into current market conditions, see this month's Forecast by Dr. Lawrence Yun, NAR's Chief Economist of Research, on pages six.

REALTORS® CONFIDENCE INDEX BY TYPE OF HOME

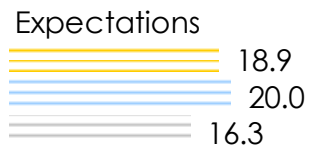
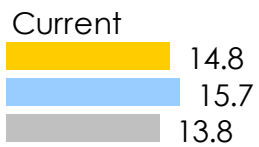
Single-family



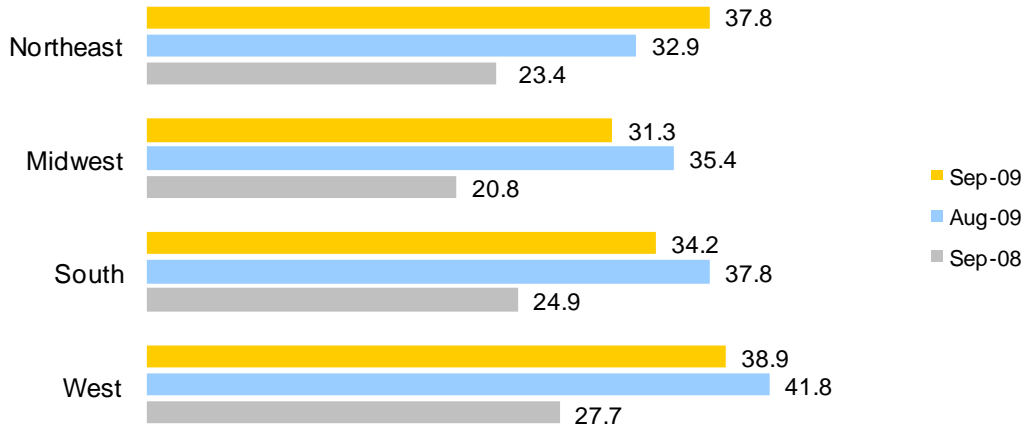
Townhouses/Duplexs



Condos

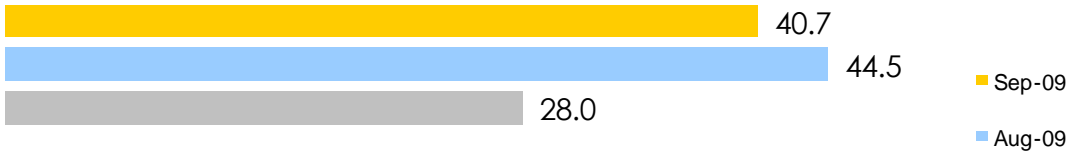


REALTORS® CONFIDENCE INDEX BY REGION



REALTORS® MEASURE OF PROSPECTIVE CLIENTS

Traffic of prospective buyers



Traffic of prospective sellers



<u>2009.09</u>	<u>2009.08</u>	<u>2008.09</u>	
35.4	38.1	24.7	Current residential real estate conditions (SFH)
40.5	42.4	28.1	Expectations of business over the next six months (SFH)
18.7	20.7	16.1	Current residential real estate conditions (Townhouses)
22.4	24.2	18.8	Expectations of business over the next six months (Townhouses)
14.8	15.7	13.8	Current residential real estate conditions (Condos)
18.9	20.0	16.3	Expectations of business over the next six months (Condos)
40.7	44.5	28.0	Traffic of prospective buyers
47.4	47.3	48.4	Traffic of prospective sellers
			Regional current residential real estate conditions (SFH)
37.8	32.9	23.4	Northeast
31.3	35.4	20.8	Midwest
34.2	37.8	24.9	South
38.9	41.8	27.7	West

Home Price Expectations

In your area, what are your expectations for home prices over the next year?

- 60.8% Home prices will rise 0-5%
- 7.8% Home prices will rise 5-10%
- 0.8% Home prices will rise 10-20%
- 0.2% Home prices will rise greater than 20%
- 30.3% Home prices will fall over that time period

Based on this month's activity, did you participate in a real estate purchase or sale?

Yes	34%
No	66%

If you answered "Yes" to question 1, please select the response that applies:

Buyer purchased a vacant home	37%
Buyer purchased an occupied home	26%
Buyer purchased a foreclosed home	19%
Buyer purchased a short-sale home	10%
Buyer was a first-time buyer	31%
Buyer use a FHA loan	24%
Buyer was an investment purchaser	9%
Buyer paid all cash	21%

If you recently participated in (buyer side or seller side) a short sale or foreclosure transaction, how would you rate the condition of the house sold?

Above average	22%
Average	41%
Below average	26%
Well below average	10%
Bottom 1%	1%

Help for a Sustainable Recovery

By Lawrence Yun, Chief Economist, NAR Research

While we listen to the animated discussions surrounding the health care debate, war strategies, flu vaccines and Nobel Peace Prizes, the federal budget deficit continues to rise. There is certainly no delight in watching the budget deficit soar. The \$1.4 trillion deficit in the 2009 fiscal year to September is the highest ever in U.S. history – both in sheer dollar figures as well as the highest since the Second World War if measured in relation to the overall economic pie. It's a huge burden to future generations.

Why should we be concerned? Because continuing high budget deficits could easily cause interest rates to rise much sooner – and possibly quite sharply. Yes, there will be arguments about what federal programs work and which ones just bleed money. But Washington needs to come out with a credible plan to reduce the deficit over time.

Meanwhile, price correction – and over-correction – has wreaked havoc on the broader economy. Wall Street balance sheets were bleeding heavily before the big help from the \$700 billion TARP funding. Property owners felt it, too: foreclosures spiked, strategic defaults rose among financially capable but underwater homeowners, and appraisals became messier. Most importantly in terms of economic impact, the bulk of American families have experienced a major hit to their wealth accumulation -- by more than \$4 trillion in the past three years. The economy will have a difficult time gaining firm footing without government life support if home values continue to fall.

One area where federal taxpayer dollars have been effectively utilized is that first-time homebuyer tax credit. The key to any future sustainable economic recovery lies in home values stabilizing or, better yet, a return to a historical home price appreciation rate of 3 to 5 percent each year. The bubble prices crash landed, but all the excesses have already been removed. In fact, one could legitimately argue that home values have overshot downward. Price-to-income ratio is now below the historical average. The monthly mortgage payment for a middle income person buying a middle priced home is well below its historical norm.

A review of the latest data strongly suggests that the homebuyer tax credit has had its intended impact of significantly stimulating home sales. From about 4.5 million annualized home sales pace in the few months prior to the stimulus, sales have jumped to 5.1 million in recent months. That is a change of 600,000 additional existing-home sales. New home sales have risen from the mid 300,000 to low 400,000 range over the similar period. The rise in sales has been concentrated in the lower-priced home segment largely because first-time buyers are looking to stay, rightly, well within their budget.

Housing inventories, while still higher than desired levels, have been trimmed. The latest 8-month supply of existing-home inventory is much better than the double-digit figures of last year. Home values have likewise moved in an "improving" direction. Broadly speaking, they are down from one year ago, but the declines have been less steep in recent months compared to the pre-stimulus times. The median existing-home price as of August was down 12.5 percent compared to a nearly 20 percent decline early in the year. In short, sales have risen and home prices are on the verge of stabilizing.

But the housing stimulus package is set to expire. A settlement, and not the contract signing to buy, must occur by the end of November. Some first-time buyers who are signing contracts to buy in October just may make the deadline. It would be pity if the housing market which is just on the cusp of a self-sustaining recovery rolls downhill again. That could happen if potential buyers step back and inventory returns to an upward climb. Falling home values – independent of whether it is over-correcting or not – will bring back all the associated collateral damage.

A much happier scenario would be that the buying momentum continues for few additional quarters so that inventory falls back down to the normal 5 to 7 months, a level consistent with home value stabilization. Once that is accomplished, the consumer "fear factor" of waiting and waiting for a lower price later will no longer be part of the home buying decision. We will have reached a point of housing market self-sustainability. Consumer confidence will be lifted. The wealth impact of consumers opening up wallets for general consumer goods will steadily turn positive. Thus, the

broader economy also gets set for a sustainable recovery without needing further stimulus dollars.

For that happy scenario to play out, a time extension on the home buyer tax credit is critically needed. At a cost of about \$10 billion (if extended through the middle of next year), the housing market will likely have recovered nicely with the broader economy on track for a solid robust expansion. That \$10 billion price tag is rather modest compared to the \$700 billion in TARP funding and \$800 billion of the broader economic stimulus package that was passed early in the year (with debate still raging over the effectiveness of that broad spending bill). Moreover, the cost of \$10 billion is a static measure that does not take into account job creations and increased tax revenue from rising economic activity. Actually, if we take into consideration all of the economic dynamic responses, the homebuyer tax credit can be argued as a net positive revenue generator for the federal government.

There is nothing like economic growth to dent budget deficits. If the economy was already at full capacity, the housing stimulus would simply be moving dollars from one sector of the economy to another. But as is fully visible out in the streets, we are nowhere near full capacity. Factory capacity utilization was 69.6 percent in August, compared to an 80 percent rate that should be the case in normal economic times. On the job market front, the country is facing a double-digit unemployment rate rather than the healthy 5 or 6 percent unemployment rate. Therefore, there is a plenty of room for growth for a win-win situation for the housing market and other sectors of the economy.

Despite these vast potential benefits to the economy from extending the homebuyer tax credit, valid questions should nonetheless be asked. Is there any pent-up demand remaining? Will the tax credit just go to the people who would have bought a home anyway and thereby will simply pocket the \$8,000 check? Well, the following table shows a compelling case for tapping the financially healthy renter population.

In 2000, before the housing market boom, there were 11.5 million renter households who had the necessary income to buy a median priced home at prevailing market

conditions. Today, the pool of renters who can buy a median priced home is over 16 million. Just nudging even a small share – say 5 percent – of these financially healthy renters into buying via a tax credit check will mean 800,000 additional home sales. That number is sufficiently meaningful to get the inventory down to the level of home value stabilization. The housing market will then be on the path to a self-sustaining recovery.

After what we have been through this decade, it would be quite nice to observe a return of a “boring” housing market with annual price growth of a steady and normal 3 to 5 percent - without any of the fits, frenzy, and panic. A faster and firmer recovery can happen if the tax credit is opened up to more buyers by making it apply to any buyers – just first-timers – and by raising the income limit for qualification. It would also contribute to healthy economic activity – a sustained recovery – and thus help to put a dent in the deficit. In short – it's a win/win. NAR is working hard to get that homebuyer tax credit extended. You can help – by calling, writing or emailing your Congressional representatives. It's good for home buyers, it's good for REALTORS®, and it's good for the U.S. economy.

Additional Comments...

In responding to the Realtors'® Confidence Index questionnaire, Realtors® frequently provide additional comments on specific topics. Excerpts of these comments are provided below. In summary, the market has become much more active at the lower end, but is still seen as slow at the upper end. There appears to be very strong agreement that the \$8,000 tax credit has been a significant help to the market and definitely needs to be extended and continued. Buyers are increasingly cost conscious, looking for 'deals,' value, and energy efficiency. Appraisals are continuing to be a problem, particularly in connection with the implementation of HVCC. Mortgages are available for people with strong credit and substantial down payments, but the mortgage markets are seen as very tight. Foreclosures and short sales continue to be a major part of the market, with continued concern over the length of time to close sales. In conclusion, we see a market that is starting to recover, but with significant challenges in a number of areas.

Buyer Preferences

- Buyers are more concerned with energy star rating in housing than before, due to the cost of utilities.
- Cost of living factors have become very important
- Definite preference for smaller homes.
- Aging population looking for one level homes that are full of amenities, not the "starter ranch" variety
- People are looking to downsize and cut energy costs.

Appraisals/HVCC

- Appraisals are a problem. Too many appraisers are not knowledgeable of the areas they are appraising.
- Appraisals are coming in low and will kill deals.
- Appraisals are hurting this market.
- Appraisals are still an issue and often the deal buster because either lack of comparables or standards to create equal comparables from existing sales.
- Appraisers will not give the appropriate value to homes in our area. The appraisers coming to the area are not familiar with the market. Partially they are having issues because of the long period between closings--more than 3 months.
- HVCC is a nightmare.

Mortgage Availability

- Self employed buyers are finding it VERY difficult to obtain financing—even if they have great credit scores and are putting 20% down, because the lenders want to see 2 years of tax returns and the last 2 years have been some of the most difficult to make a profit.

- FHA mortgage lender having difficult closing deal on time. Some sellers (REO companies) walking away from FHA offers vs. cash offers at 20% less.
- FHA lending seems to be the primary lending vehicle. Mortgage banks are very tough on requirements. Strongest segment is homes below \$750K.
- Availability of or tough requirements for jumbo loans hurting our higher end market.
- If buyers have to go conventional, it is nearly impossible because the conventional lenders want 20% down. The lowest down I have seen is 10% with....and you need very good credit. The lenders need to loosen up or they're going to sink us. They can be careful not to lend to those who shouldn't be buying without going to the extreme far side where they are now.
- Mortgage credit requirements have gone from one extreme to the other.
- Hard for people to qualify for loans.

Foreclosures and Short Sales

- I don't know why they call it a "short sale". It is anything but short! A buyer falls in love with the house, great sale price, and then it takes months to even find out if our full-price offer is accepted. What a waste of time and energy.
- Buyers are looking specifically for bank-involved properties, assuming that they will be able to get a good "deal". Multiple bids, however, are driving prices up to where sale price more often than not exceeds list price. New REO properties have not been coming on the market, causing an inventory shortage. Buyers are streamlining, downsizing in size and price.
- Banks don't counter other offers if a buyer comes in with all cash.
- All homes priced properly, whether REO, short sale, or equity sales are getting multiple offers. We are writing "sight unseen" just to get buyers in the door.
- Banks are tending to hold onto their properties and not release for sale.
- Banks don't seem to work with short sales as well as foreclosure.
- Buyers want short sales and REOs.
- Continually growing number of foreclosures and short sales; everyone wants one; public needs education on the hurdles in obtaining one. Banks are terrible about communicating.
- Foreclosed homes get multi bids.
- Foreclosures and REO dominating sales.
- FHA appraisal requirements are unrealistic on foreclosures.

General Comments

- Even though a seller prices for today's market, the buyers still want a better deal and tend to bid 20-25% below list price.
- Due to multiple offers on every property, sometimes as many as 40, clients are having to bid way over list price. Lenders response is very slow; agents are not

notifying us if offer was declined. Have to monitor if property went into pending to find out. Very competitive and disorganized. Cash is taking all for the most part.

- It seems that the top 10 percent of homes are going into multiple offers. I mean that the top 10 percent in condition and location are selling, and only homes that are priced right to begin with are selling. If you have overpriced your home hoping to get that once in a lifetime buyer, your home has way more stigma than ever before and will be difficult to sell even at way less than it should have started at.
- Buyers have been told that we are in a buyer's market for so long that they want to submit low ball offers that don't get accepted. The low end of the market is actually pretty good, but above that sales are stagnant.
- As always, properly priced properties are selling. There are even shortages in some price ranges, but many properties still languish on the market. Properly priced means they should be at 2004 prices!
- Buyers are looking for homes closer to transportation corridors just in case energy prices take off again.

Tax Credit

- Extending the homebuyer \$8000 tax credit and applying it to all purchases except corporate would really jumpstart the market, get rid of foreclosures, which in turn would restart new construction starts.
- Extending the tax credit will help tremendously and expanding it to include all buyers will be huge benefit for getting our housing market turned around.
- Buyers who are on the fence are "waiting and hoping" the tax credit will be extended. They don't want to be rushed into anything.
- A big portion of sales are being fueled by the \$8000 tax credit.
- 1st time buyer credit is on the lips of all sales personnel—driving the market.
- \$8000 tax credit is a HUGE stimulus for first time buyers using the FHA loan. Consider that a \$300,000 condo will take approximately \$20,000 liquid funds to close. \$8000 back is a 40% gift of the liquid funds needed to purchase.