

Housing Market and Economic Outlook

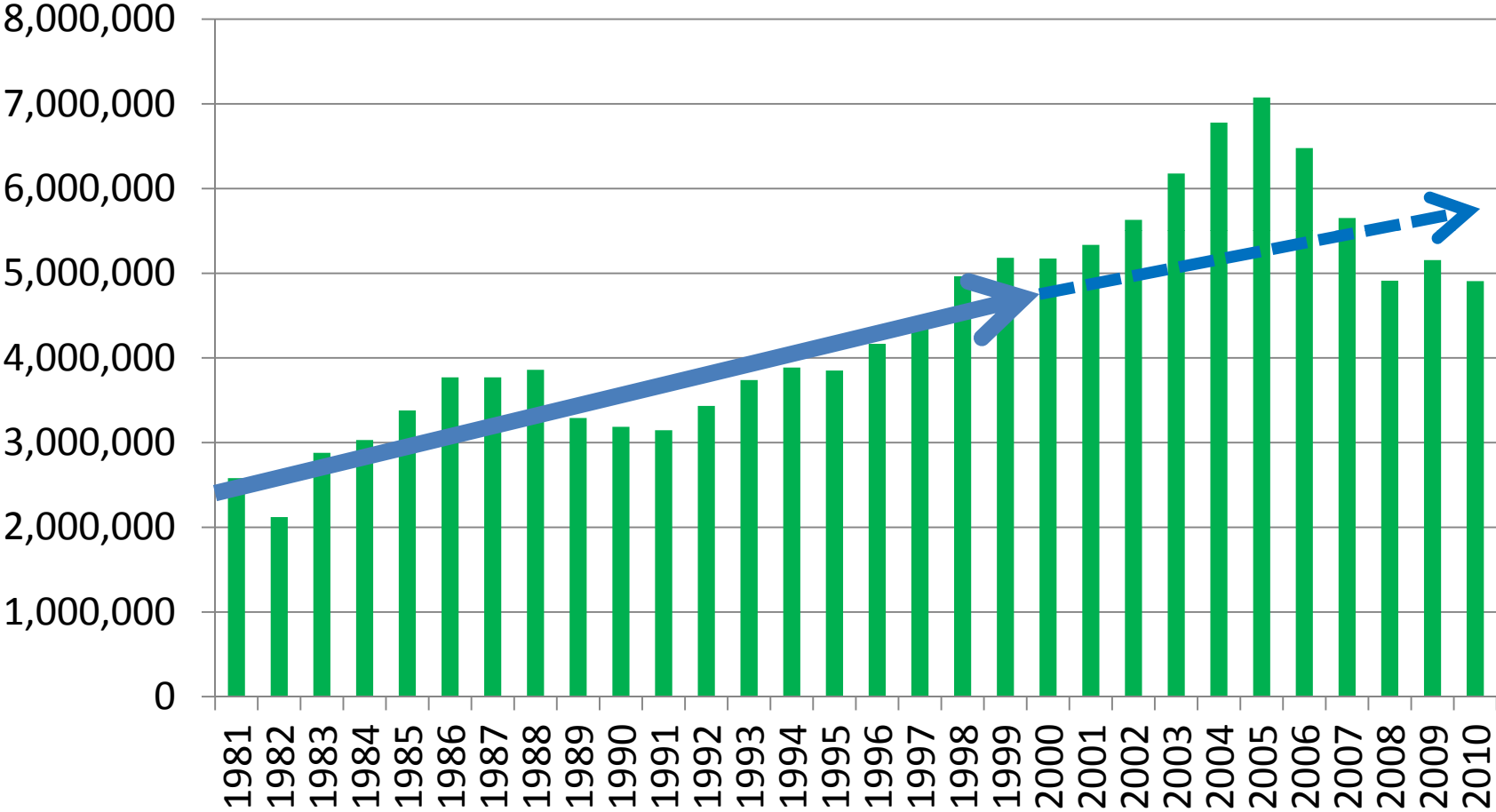
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NATIONAL ASSOCIATION OF REALTORS®**

Presentation at Hawaii Association of REALTORS®

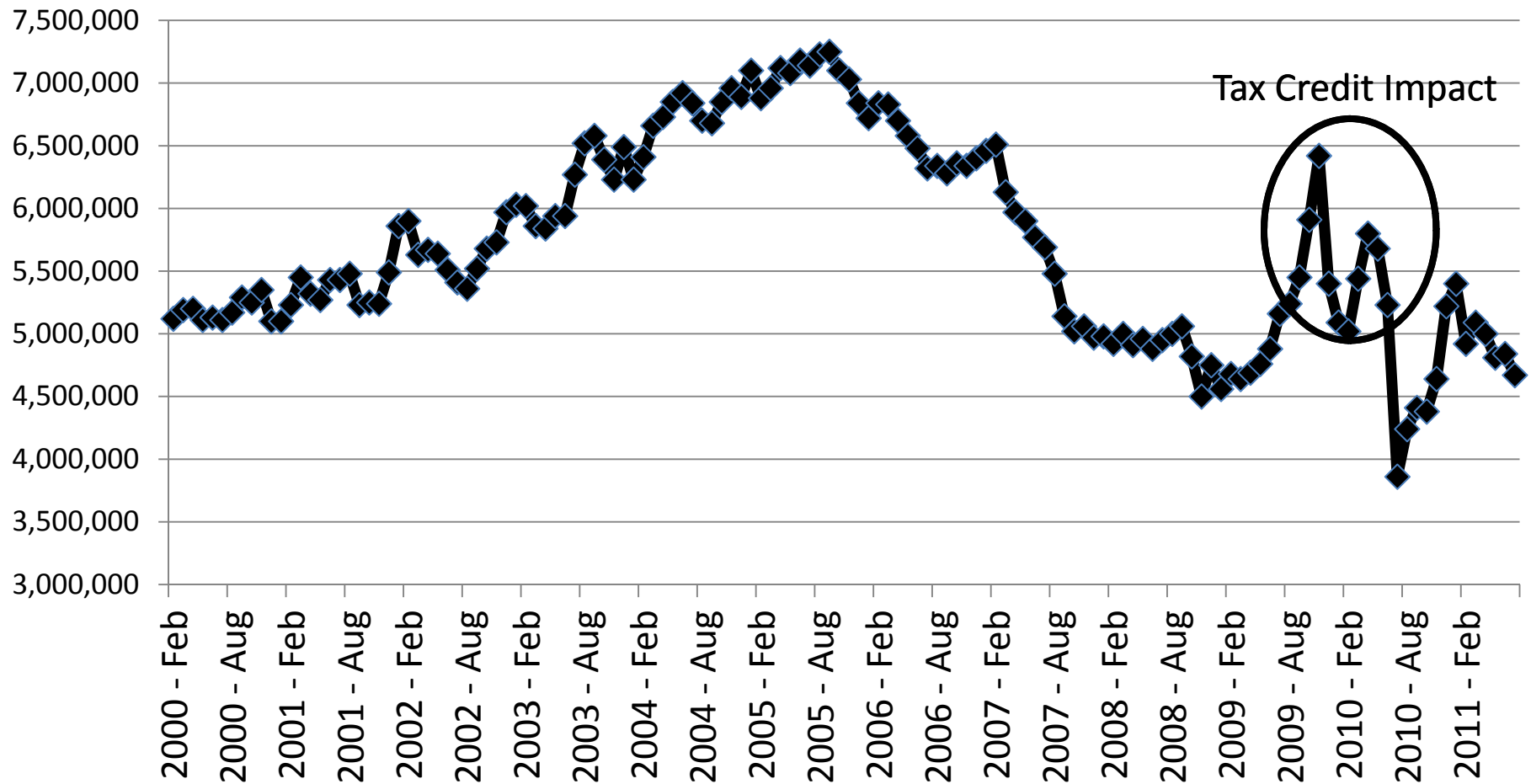
Honolulu, HI

September 16, 2011

U.S. Annual Existing Home Sales ...Ready to Breakout?

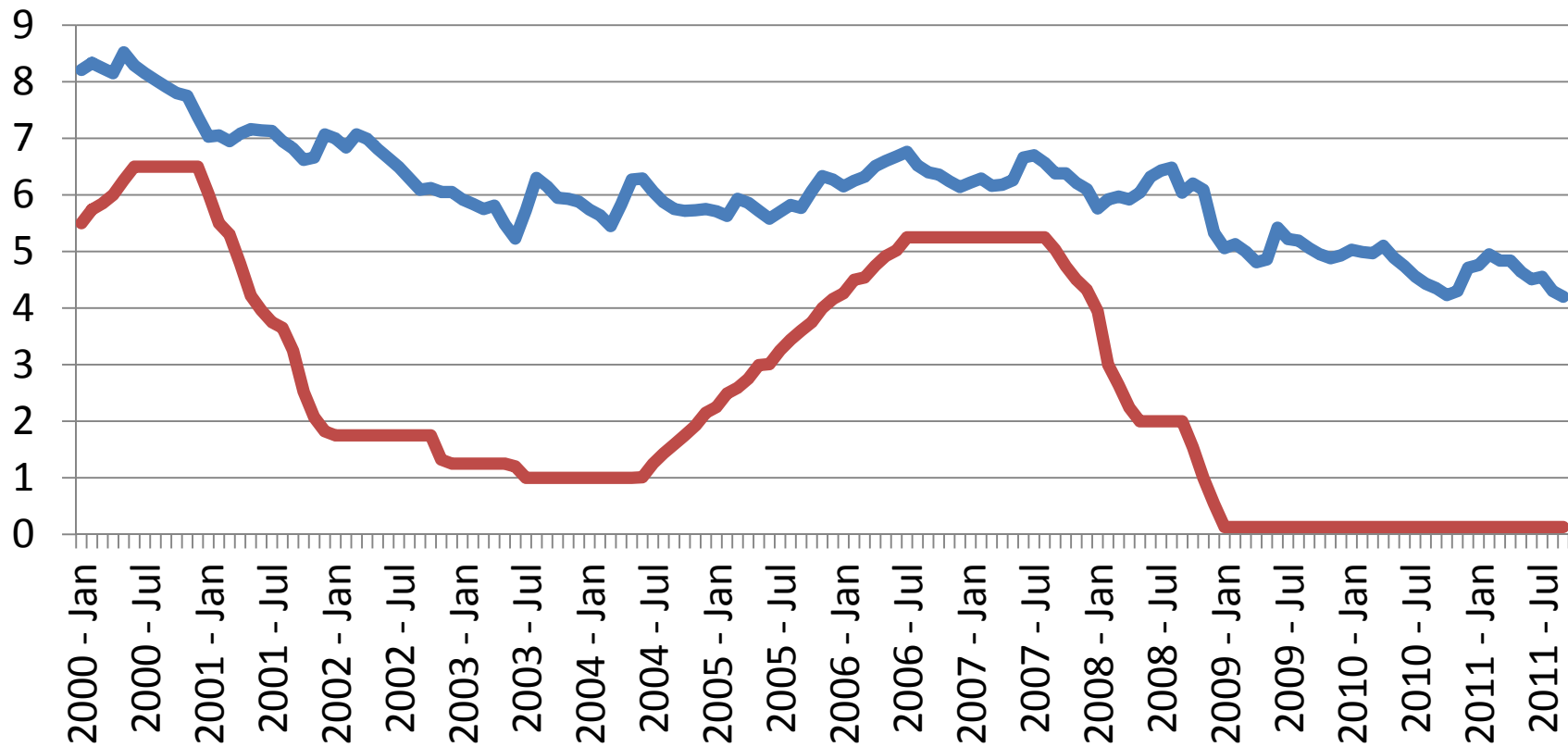


Monthly Existing Home Sales ... Weakening



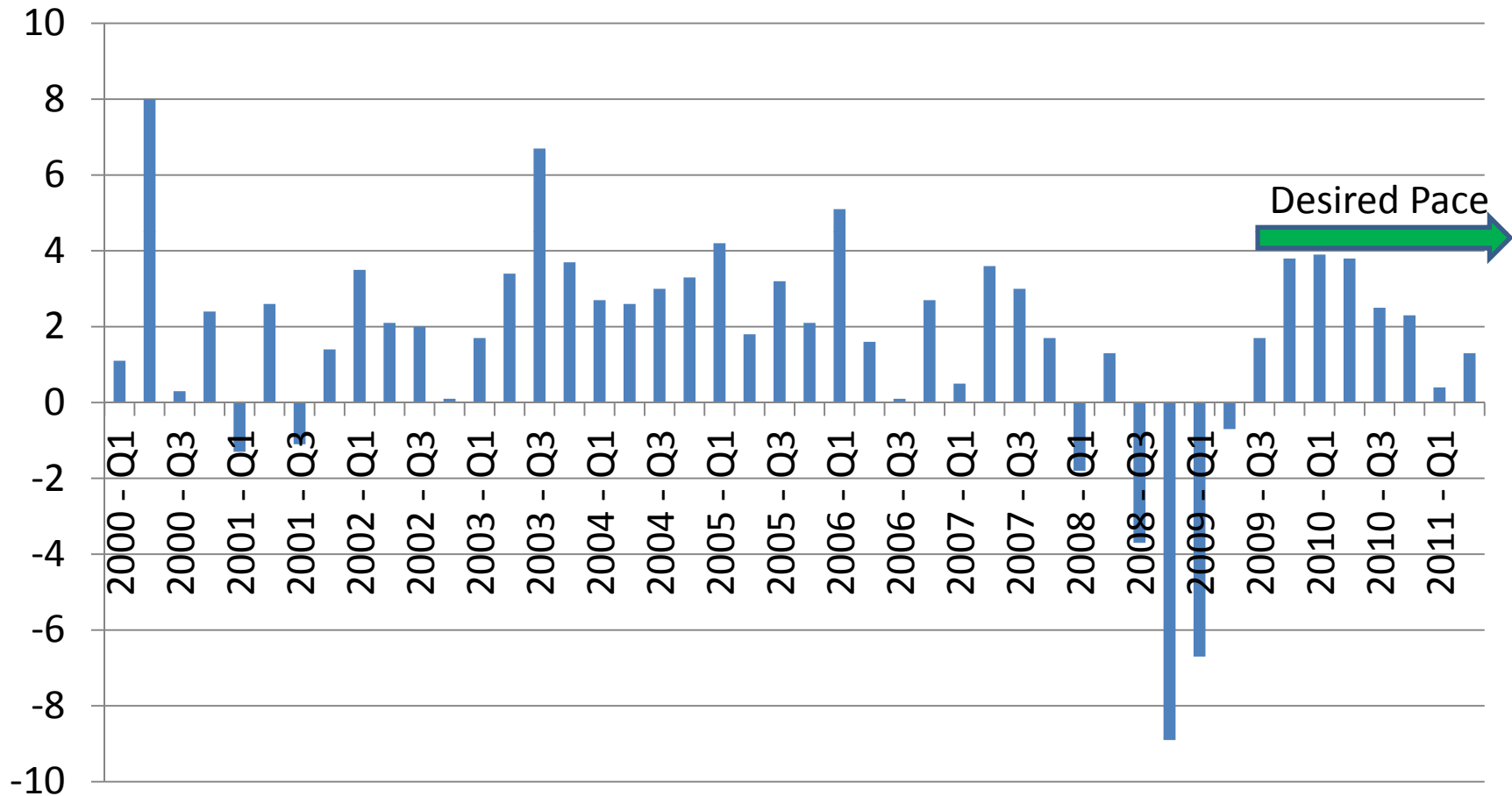
... Despite Record Low Rates

— 30-year Mortgage — Fed Funds

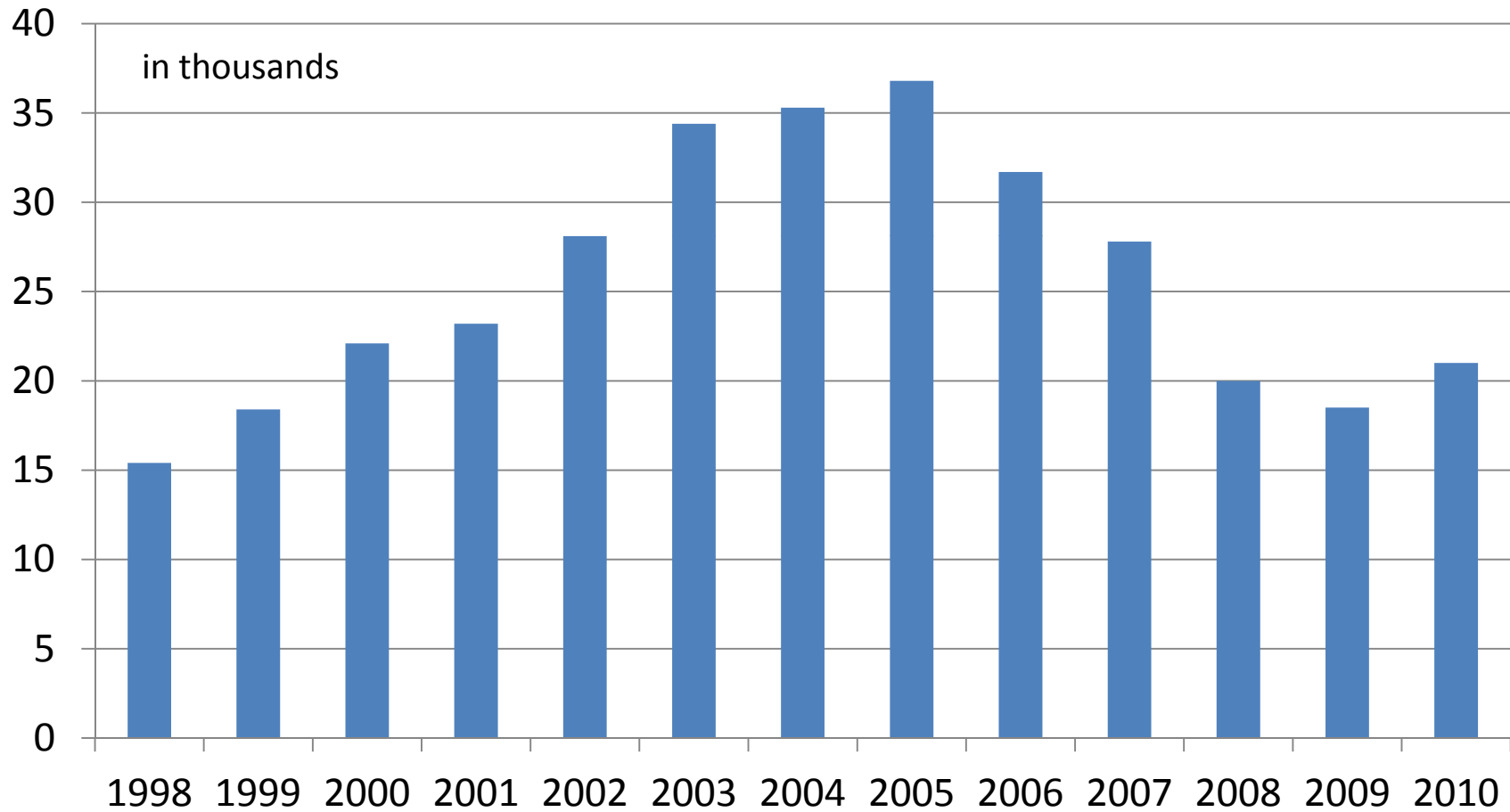


Economy Losing Momentum

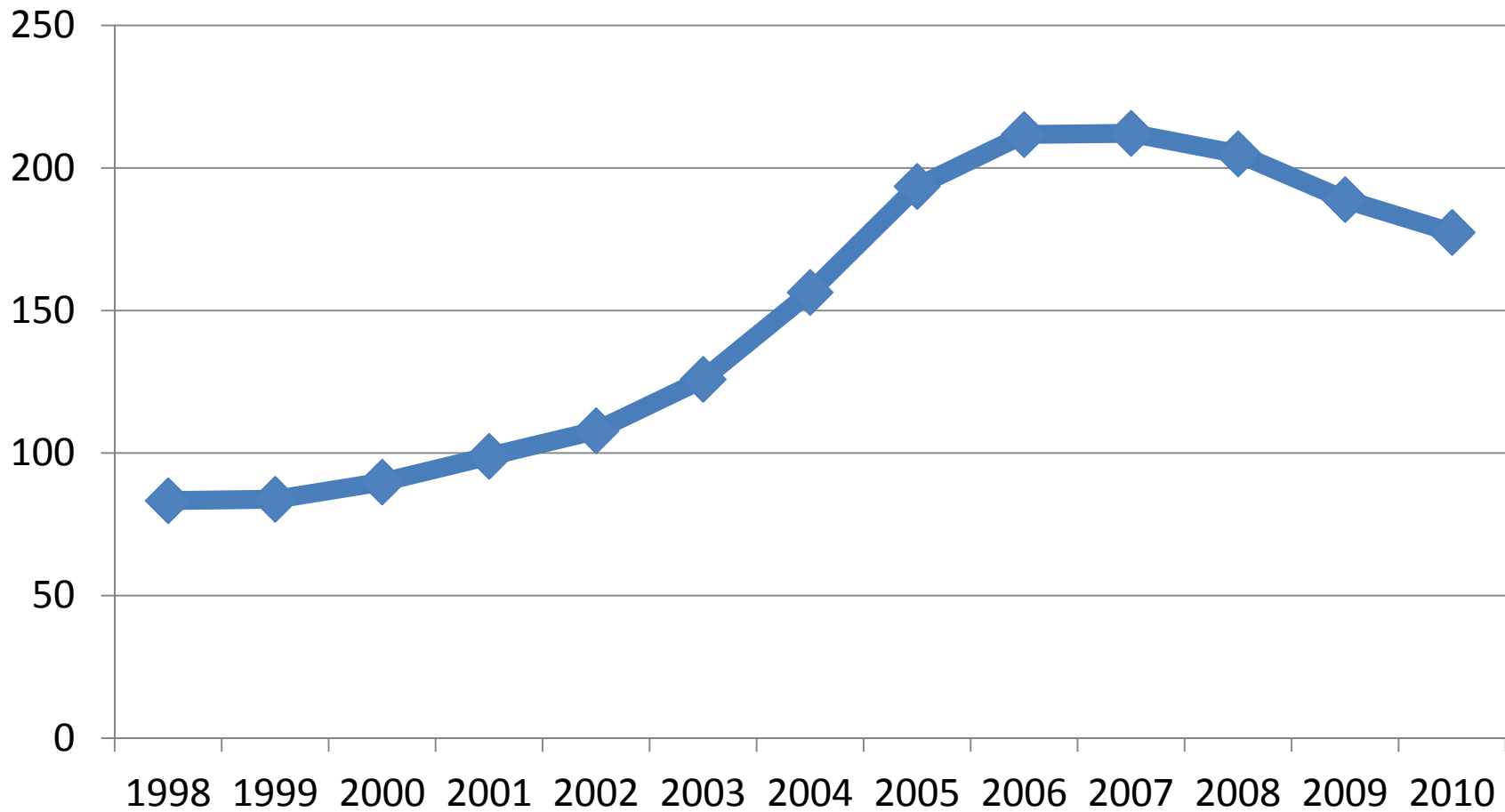
(GDP growth after recession should be sustained 4% to 5% ...
not 1% as in 1st half in 2011)



Hawaii Home Sales - Annual

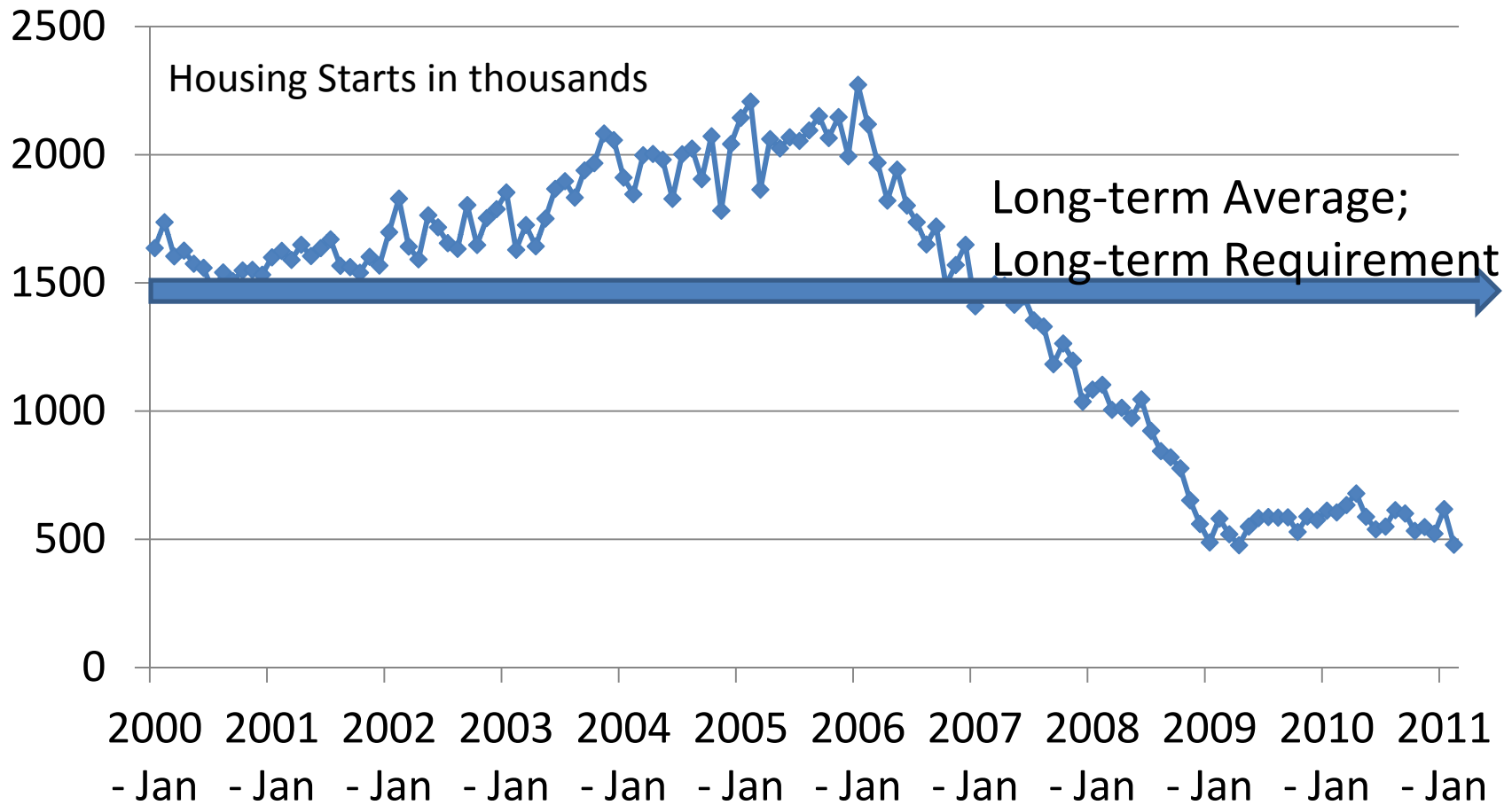


Hawaii Home Price Index



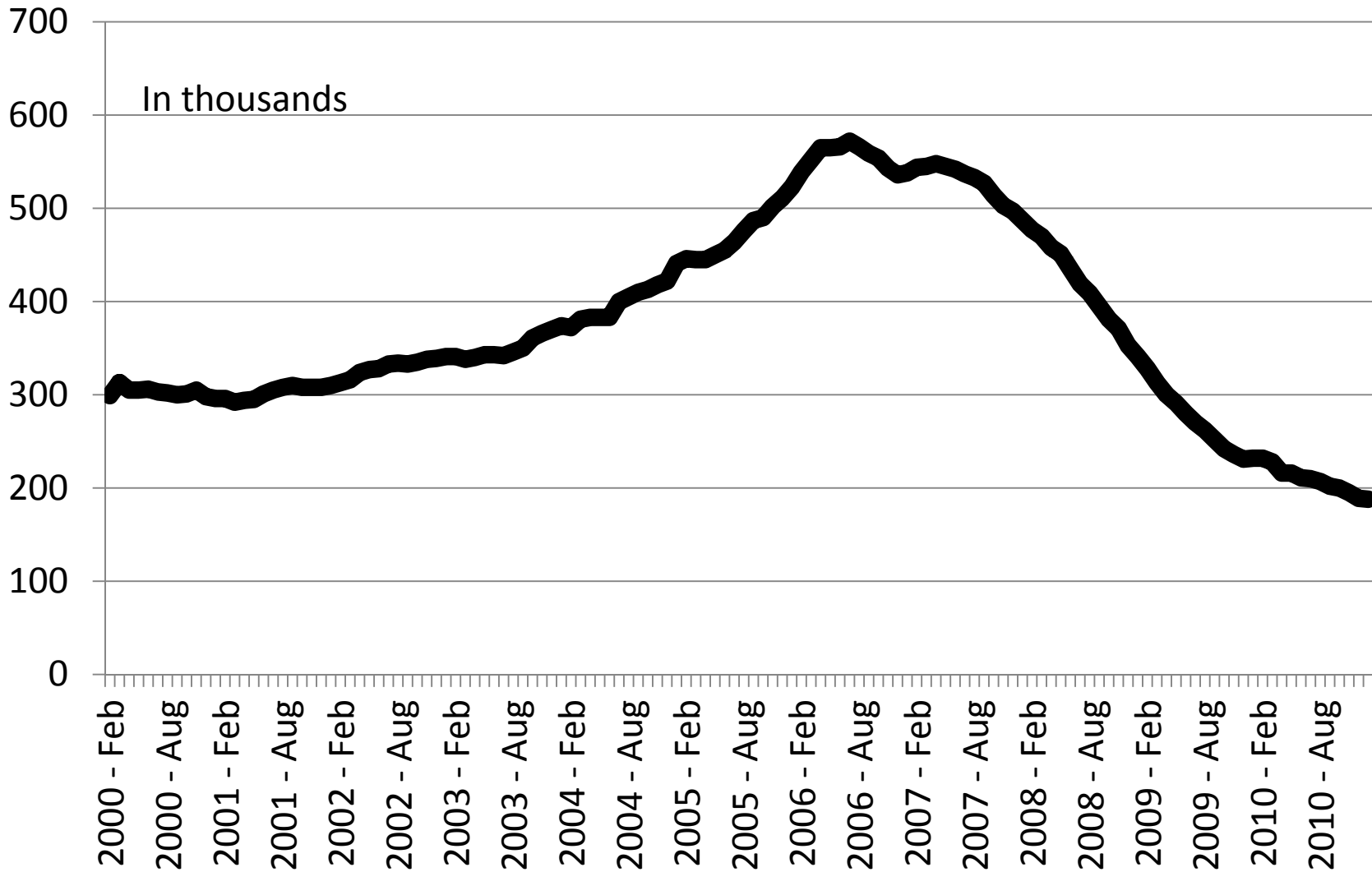
Source: FHFA

U.S. Housing Starts... Very Low and much below Long-term Average

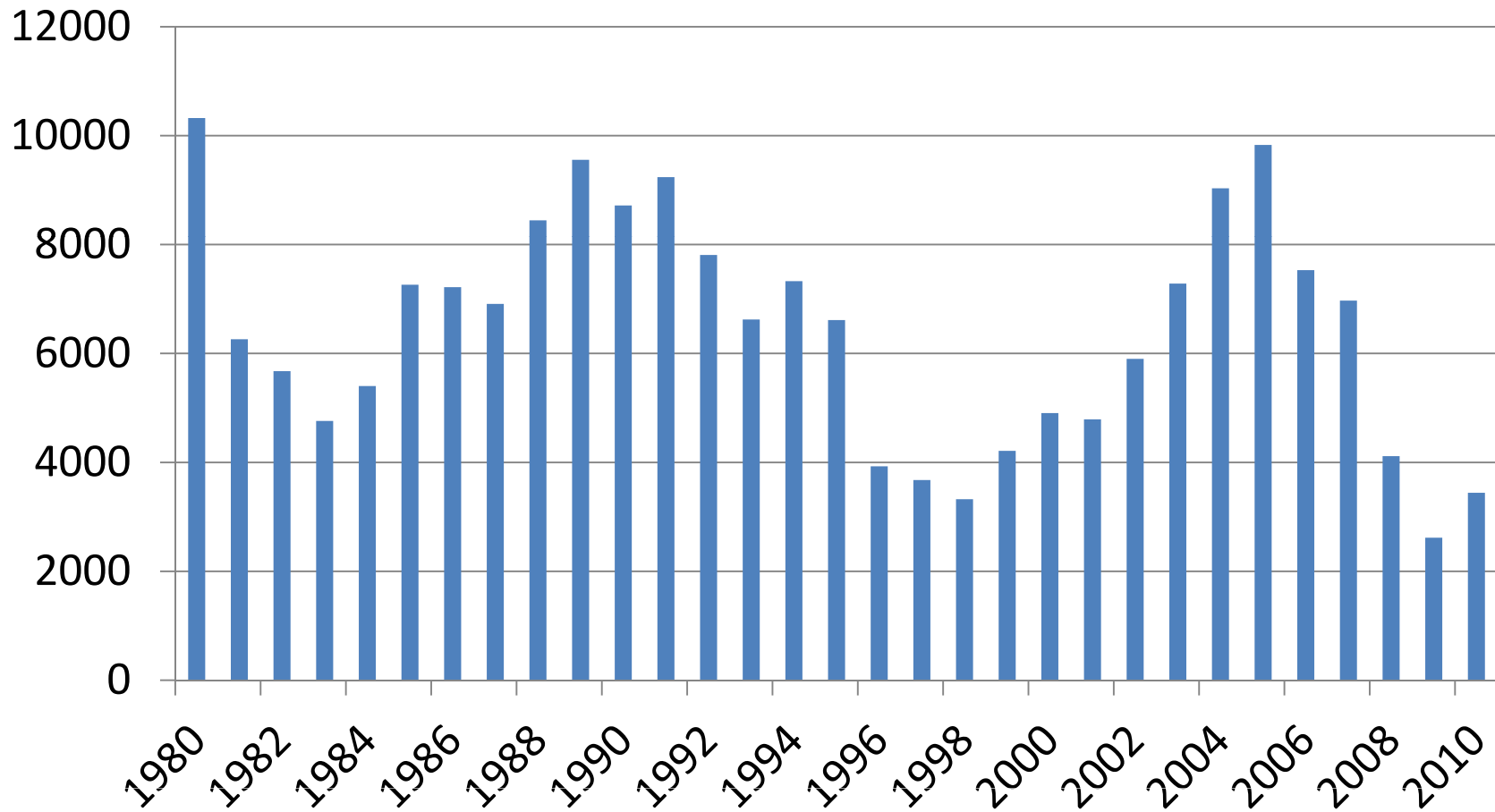


Newly Built Home Inventory

(40 year lows)



Hawaii Housing Permits

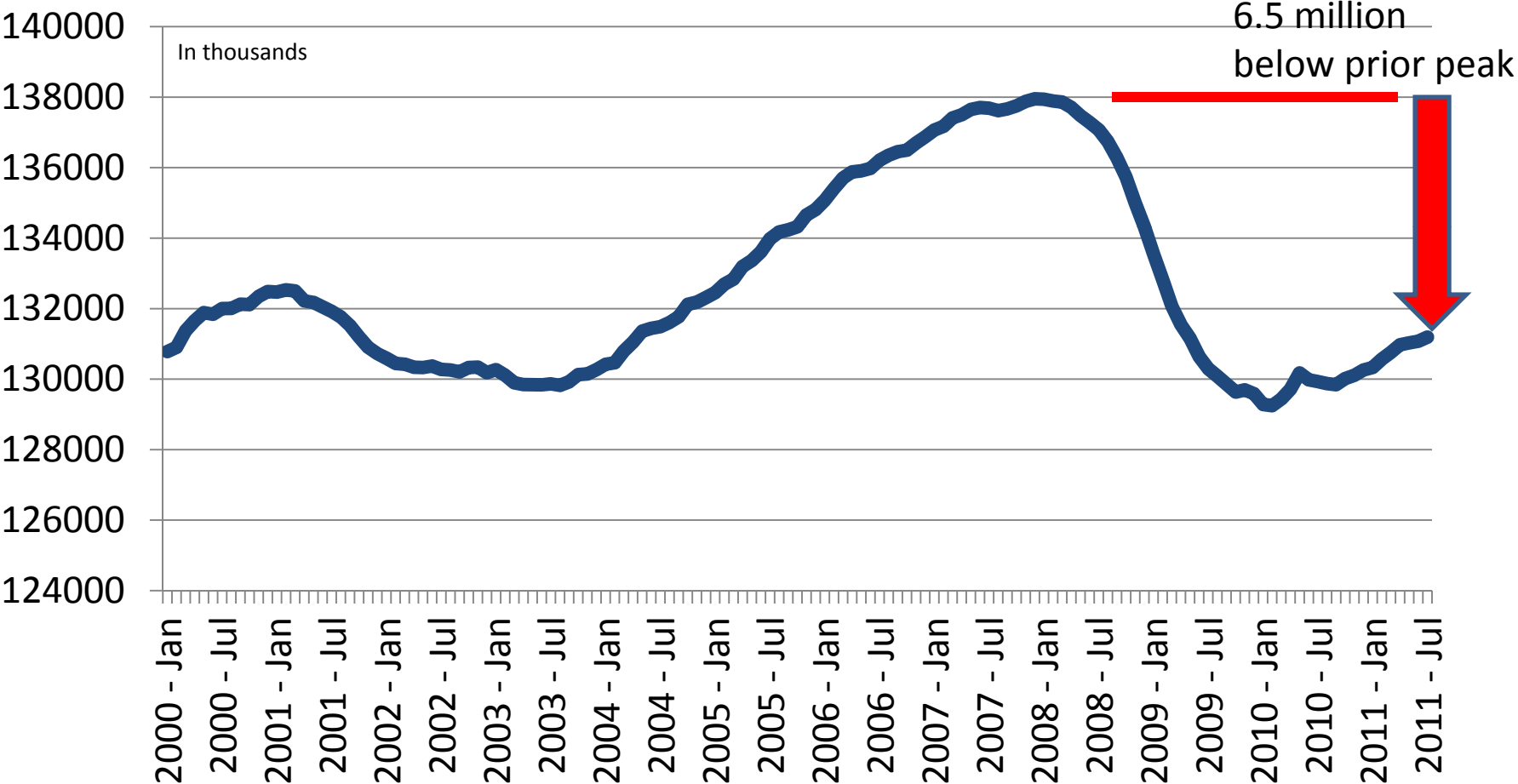


Improving Factors for Higher Home Sales

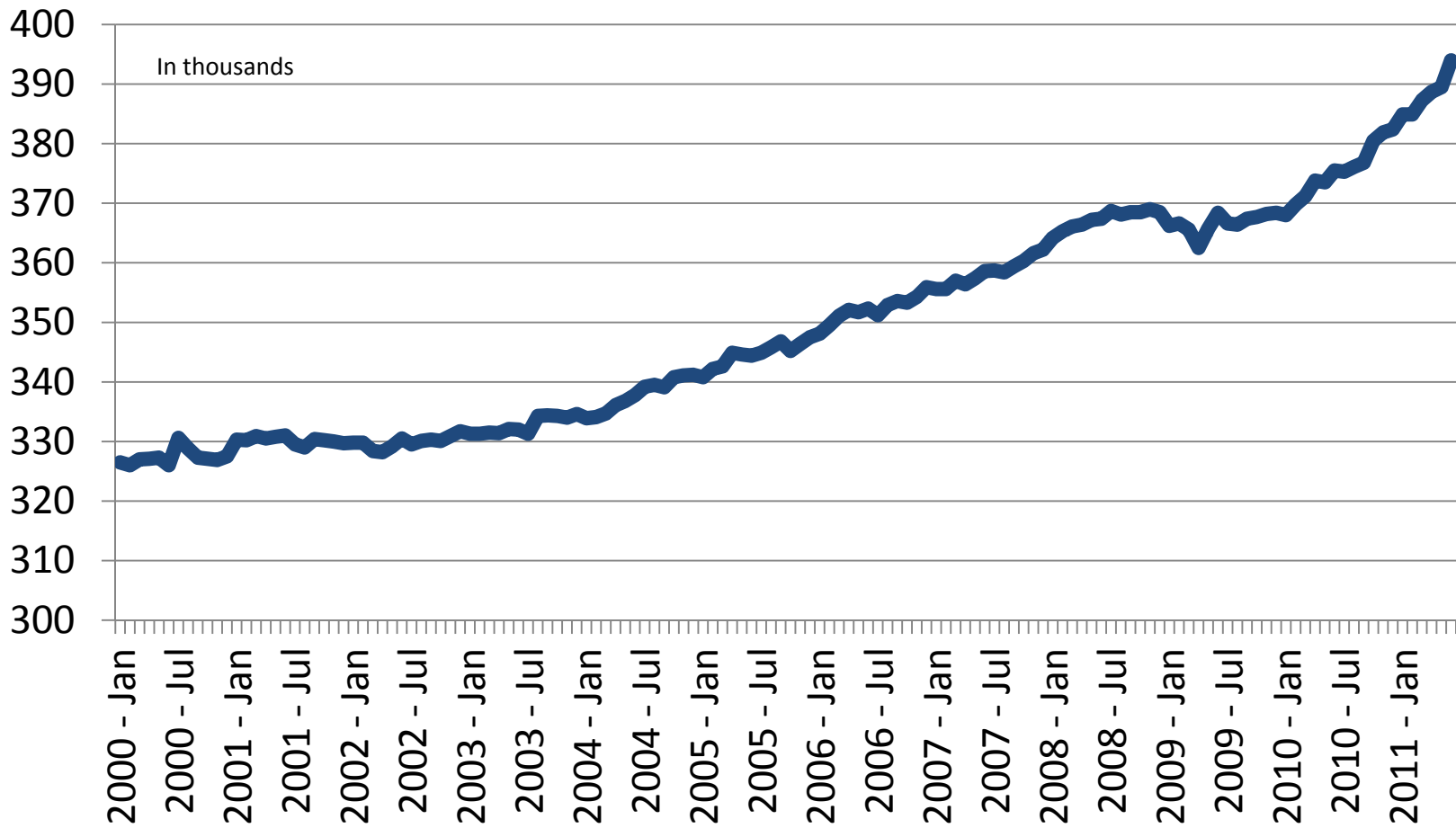
- Improving Factors
 - Job Creation (though slowly)
 - Stock market recovery from 2008
 - Rising rents and larger pool of qualified renters
 - Buyers want distressed properties ... at deep discounts
 - International buyers cashing in on the weakened dollar
 - Smart money chasing real estate
- Potential Huge Positive ... Lending opens up
- Potential Huge Negative ... Washington policy change

Total U.S. Payroll Jobs – Modest Recovery

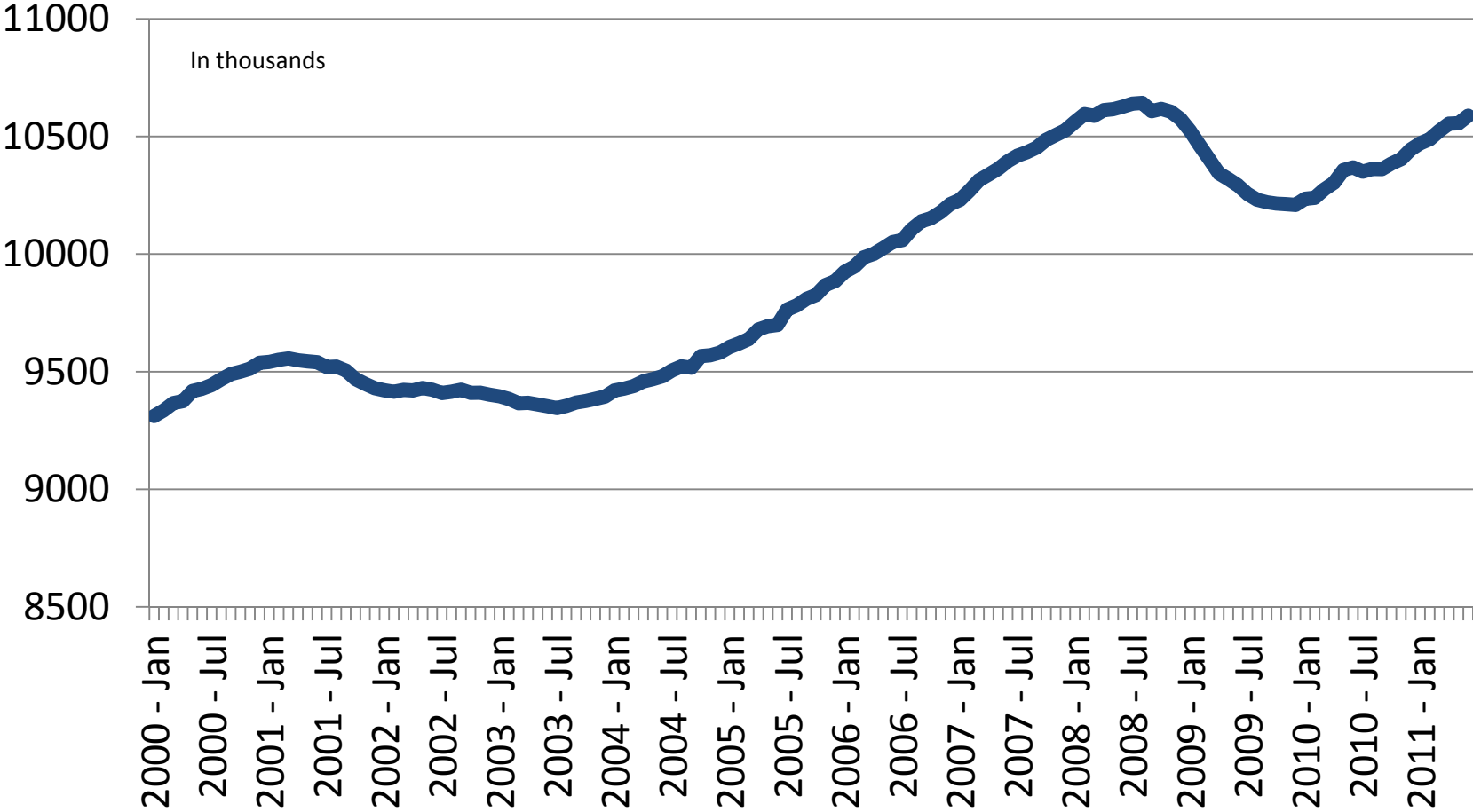
(1.3 million in the past 12 months)



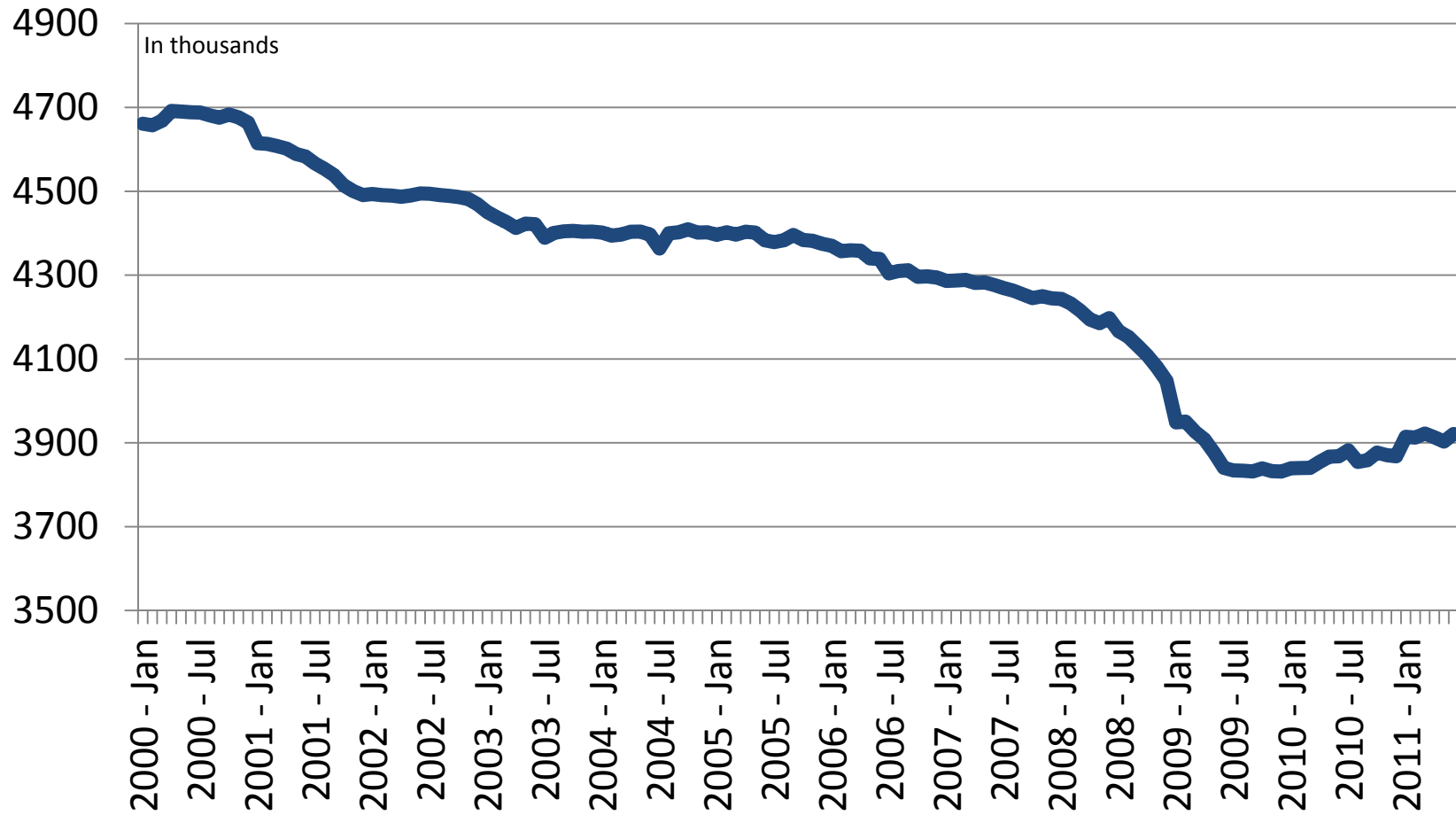
North Dakota Jobs - Booming



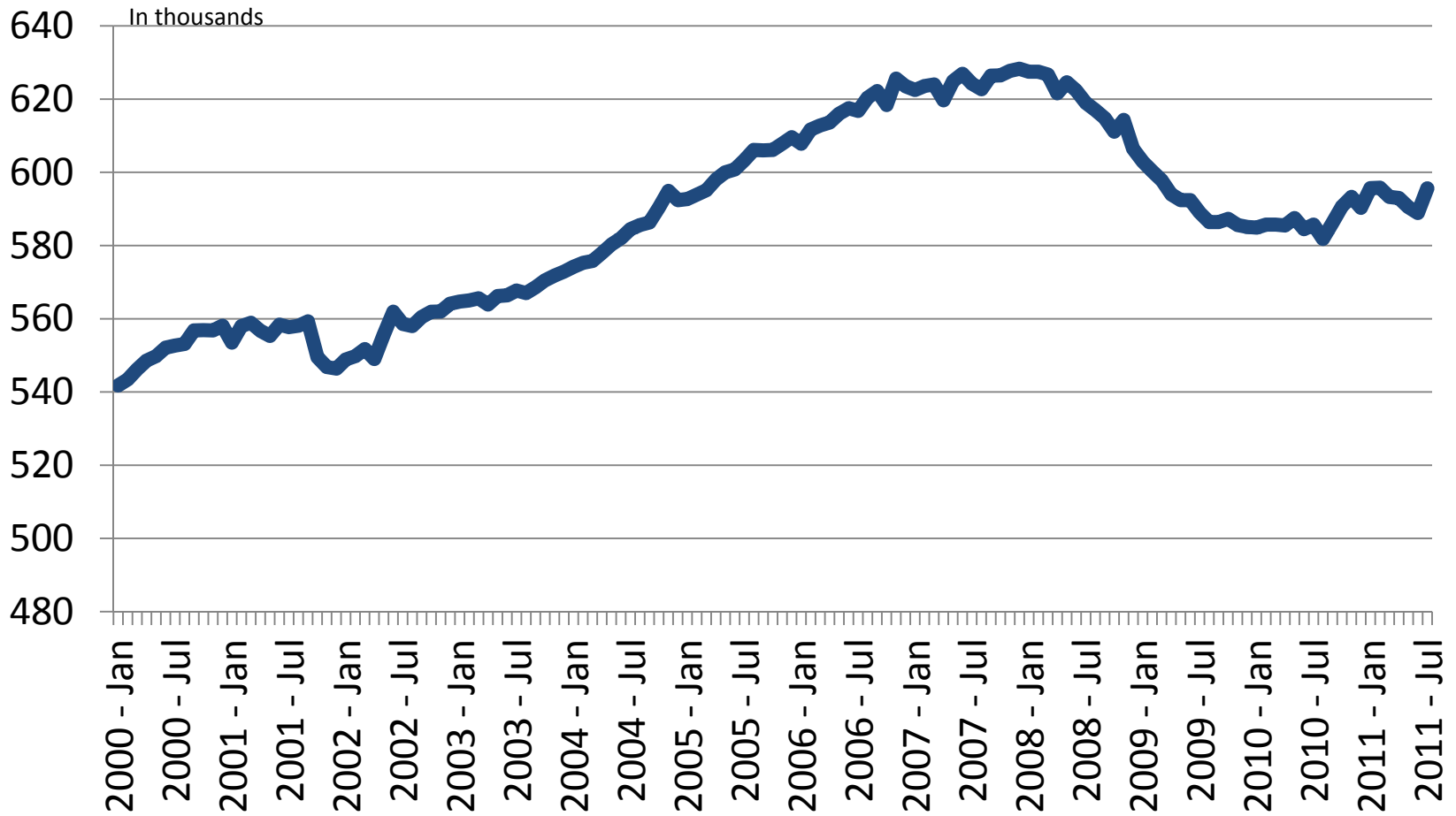
Texas Payroll Jobs – Fully Recovered



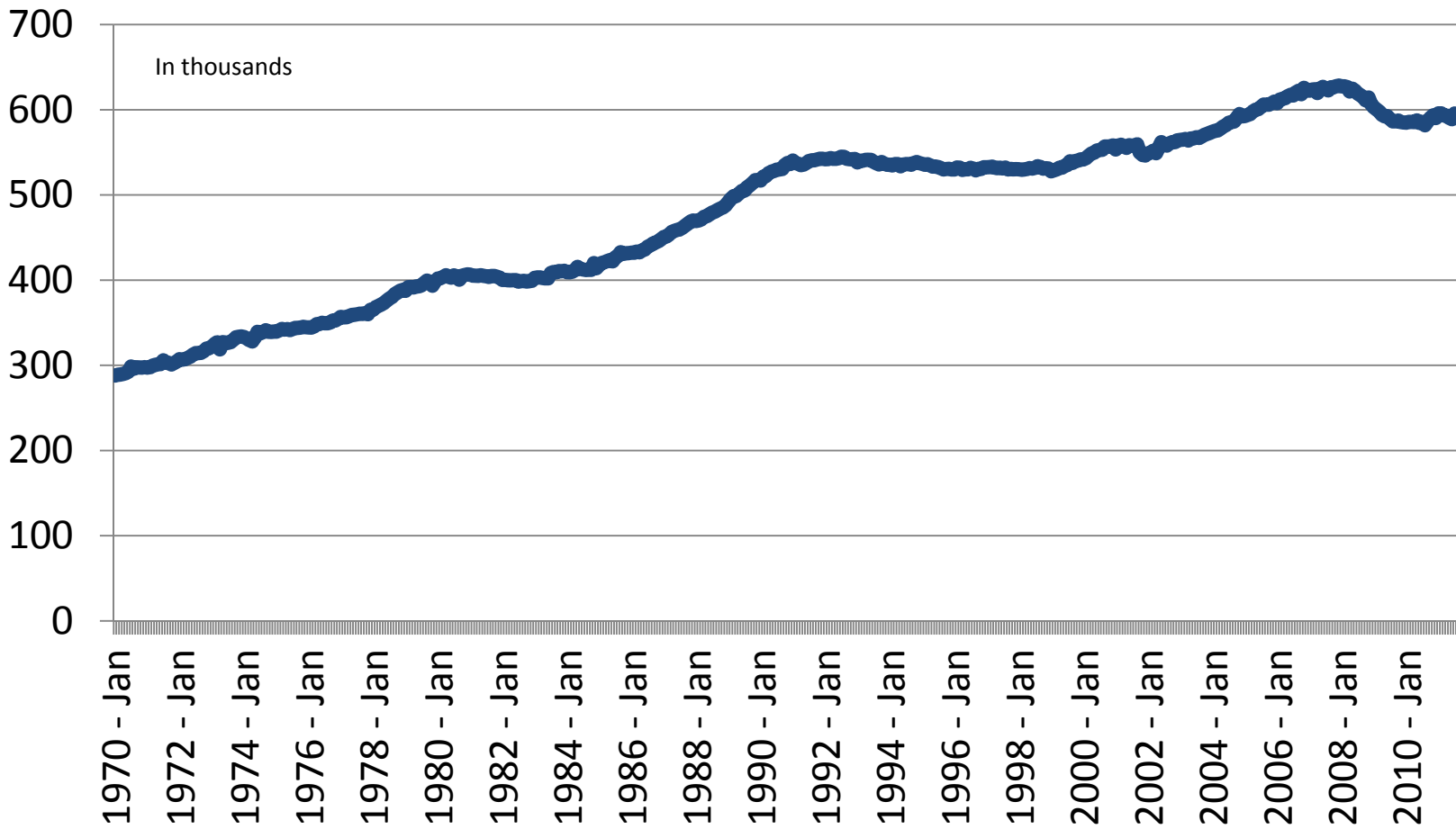
Michigan Payroll Jobs – Ongoing Structural Changes



Hawaii Jobs – Held on



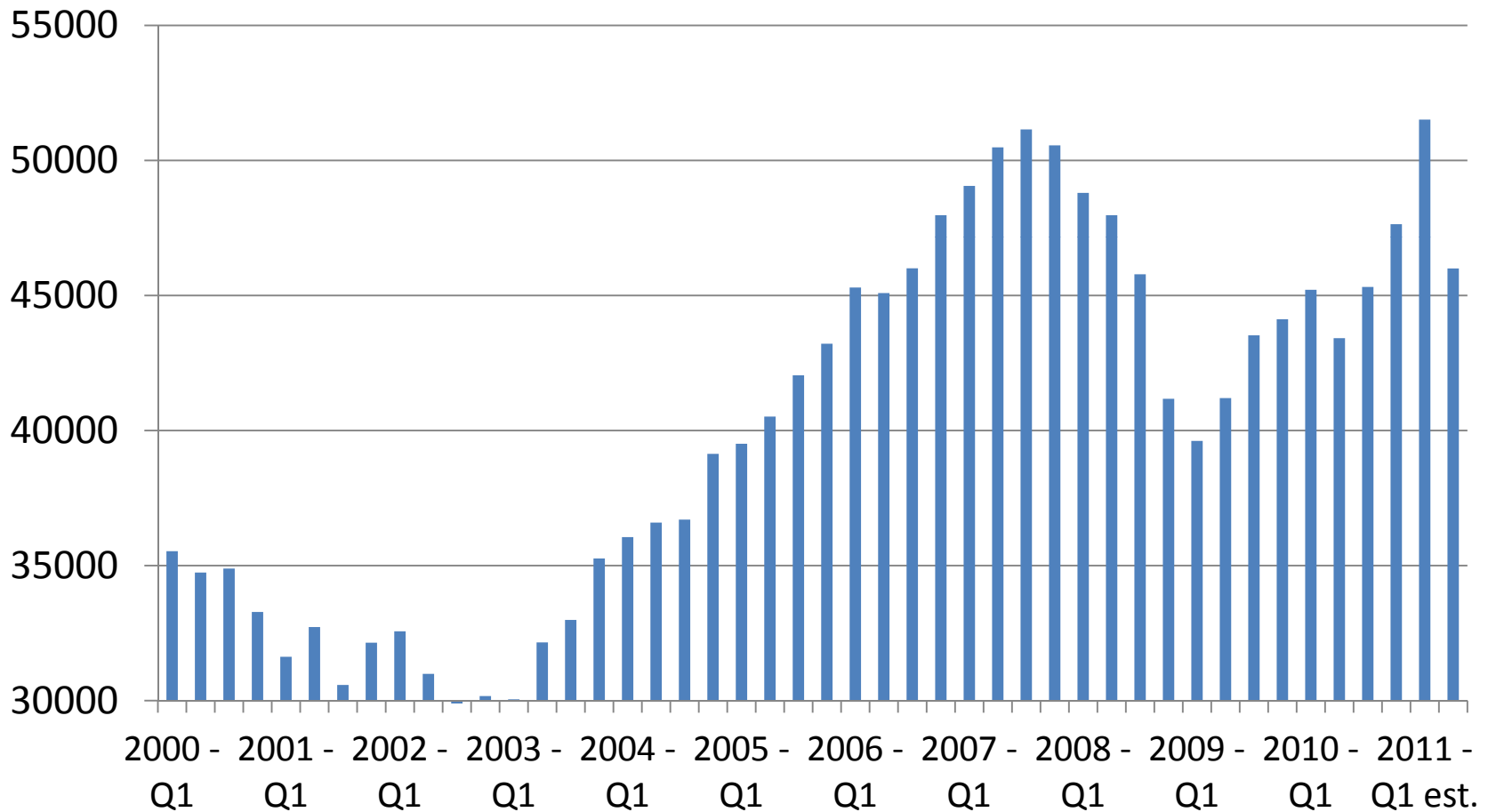
Hawaii Long-Term Growth



Weekly Fresh Unemployment Claims ... Not Going under 400,000

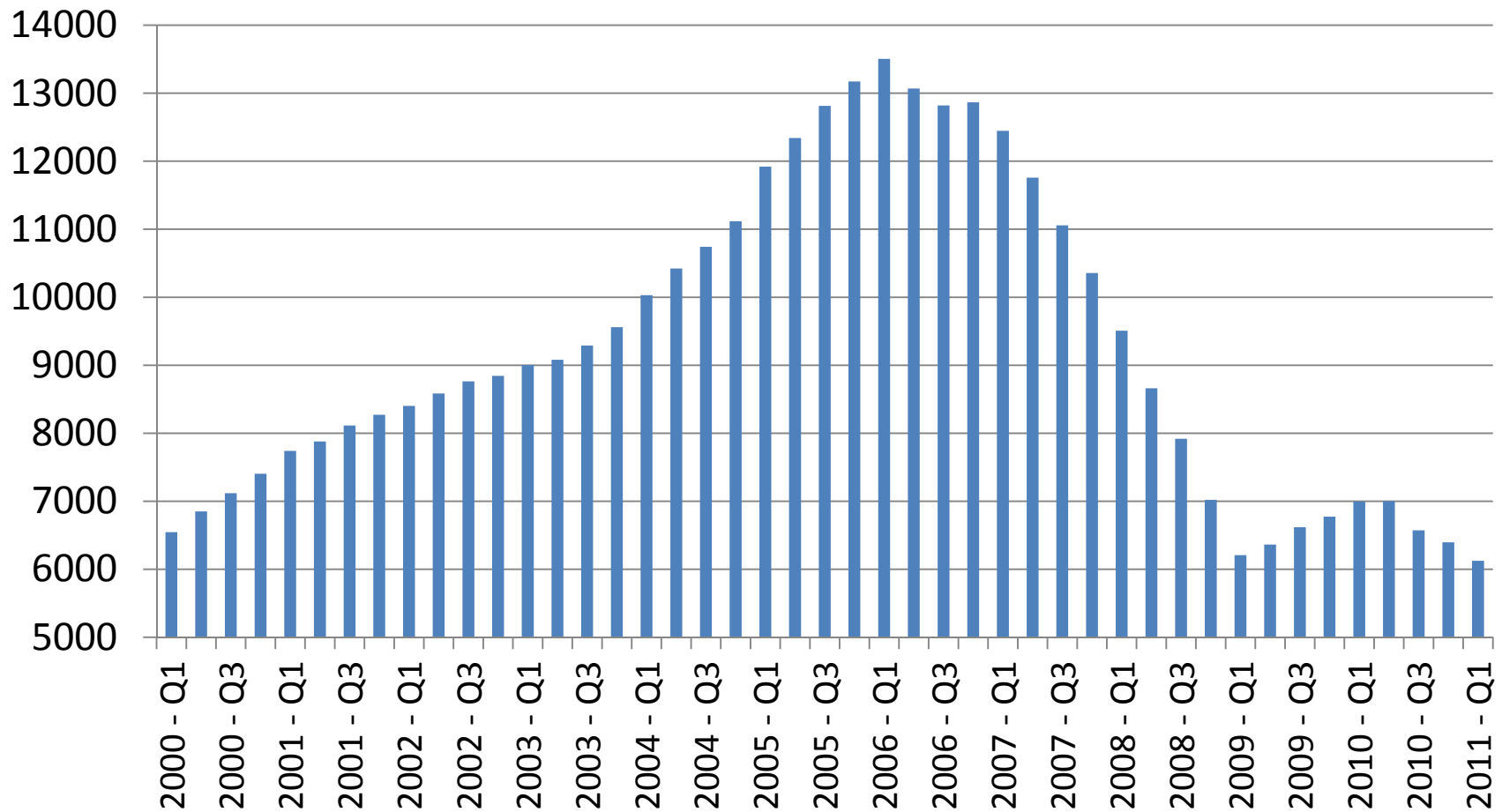


Financial Asset at \$45 trillion ... Good Recovery from 2008



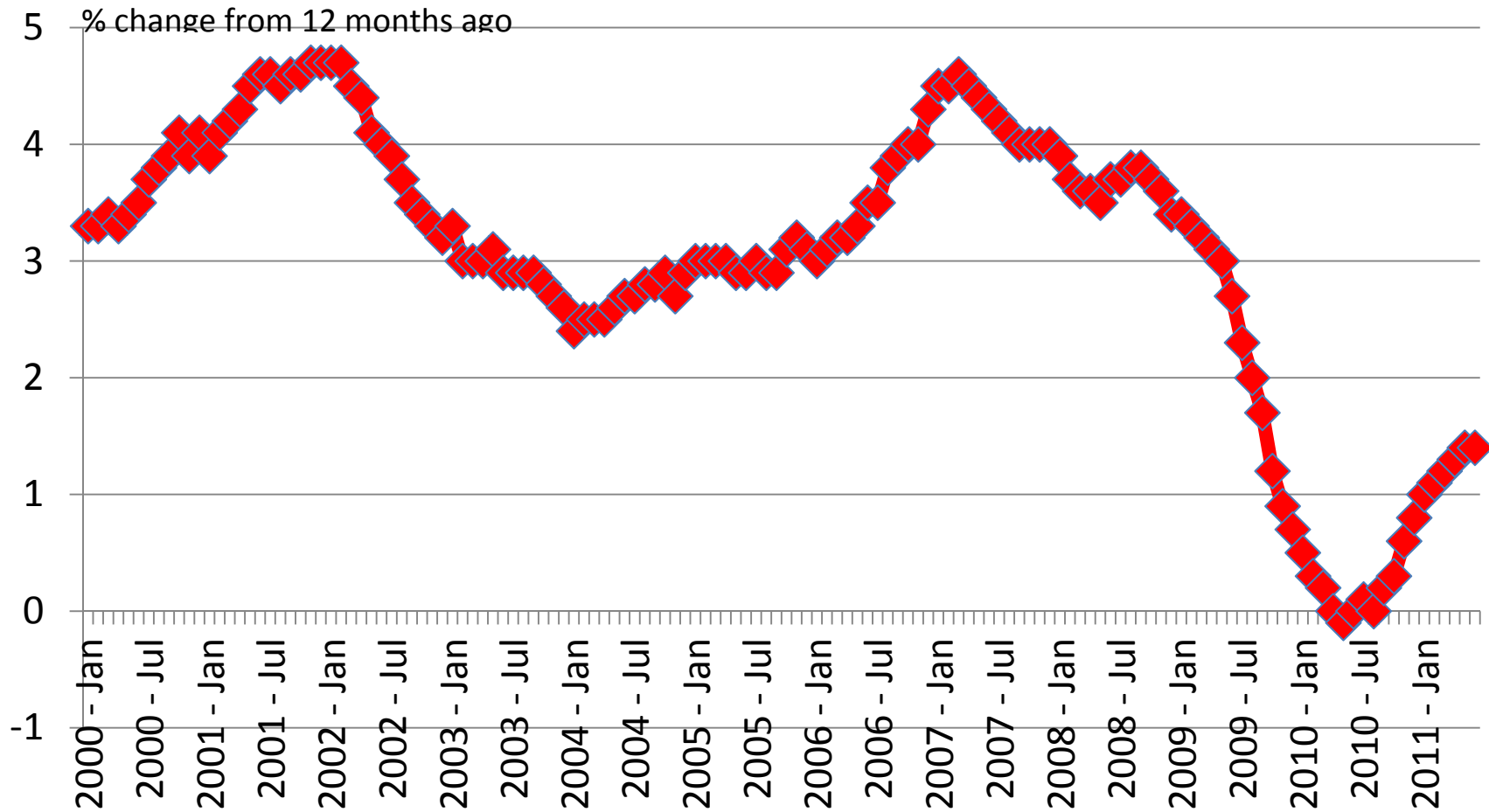
Source: Federal Reserve

Housing Equity (source of funds for small business owners) ... Down



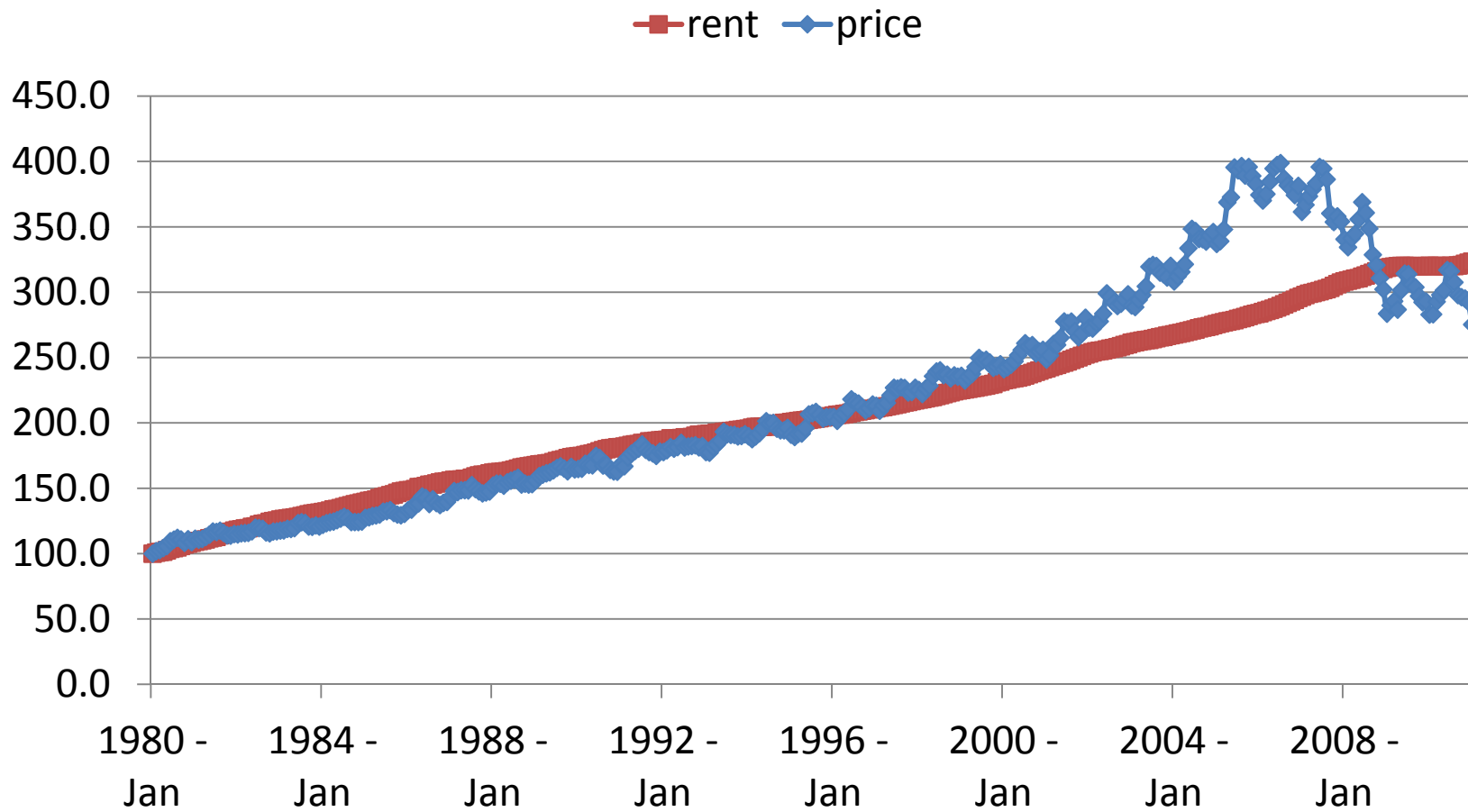
Source: Federal Reserve

CPI Apartment Rent



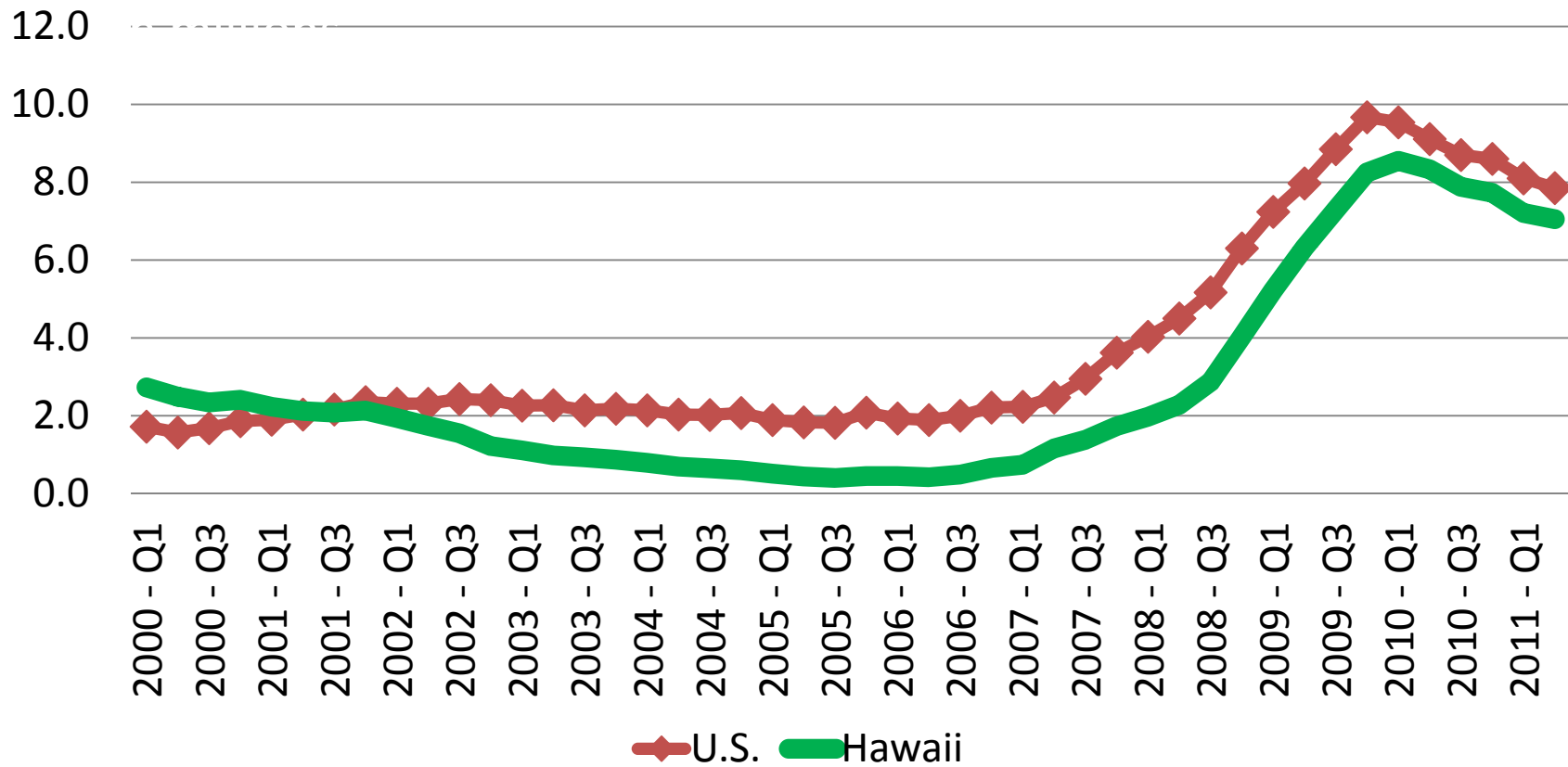
Home Price vs Rent

(index = 100 in 1980)



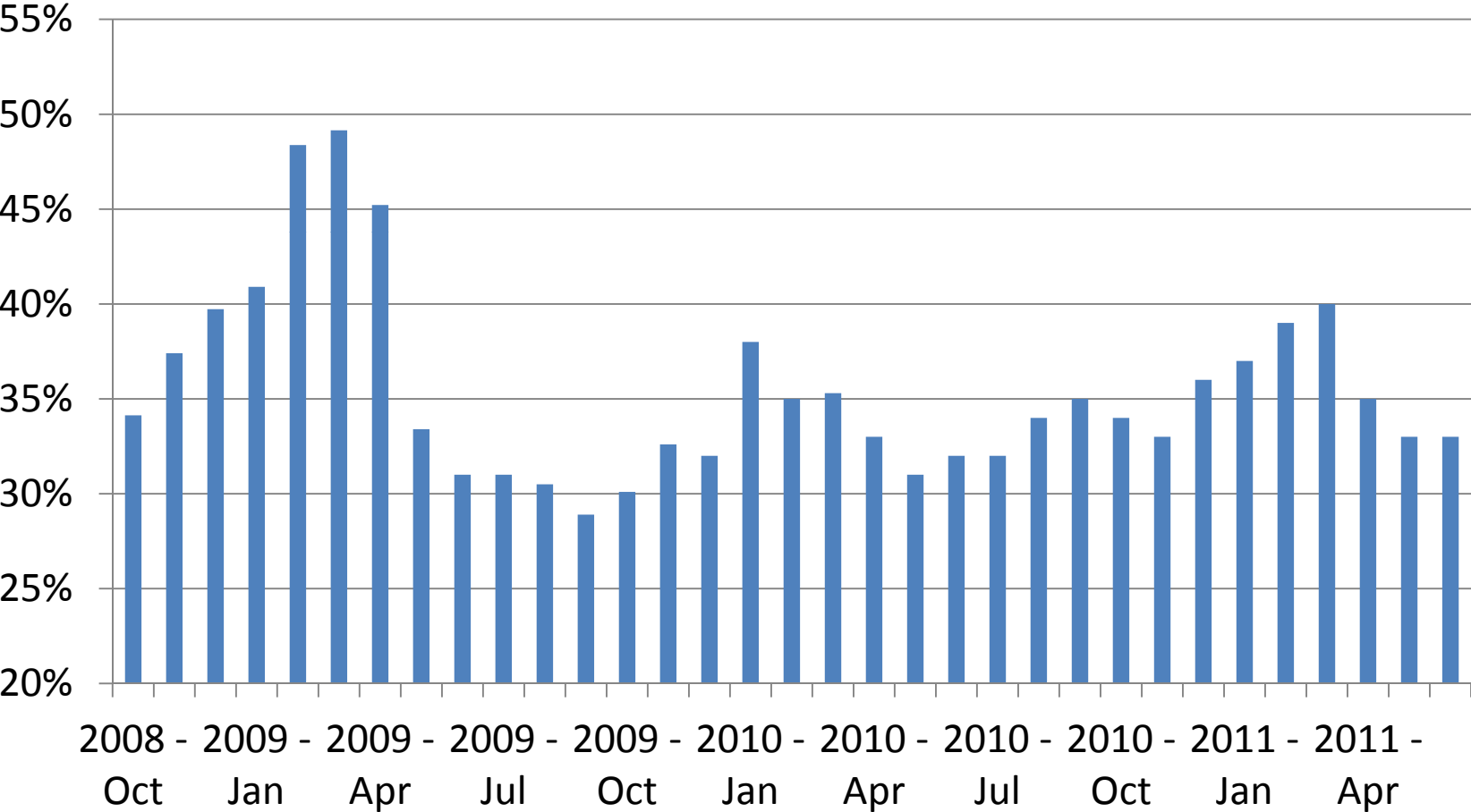
Serious Delinquent Mortgages ... Mostly Borrowers prior to 2009

(90+ days late or in foreclosure process)



Distress Sales: 30% to 40% of Transactions

Will Remain Significant for Next 2 years



Very Low Default among Recent Homebuyers

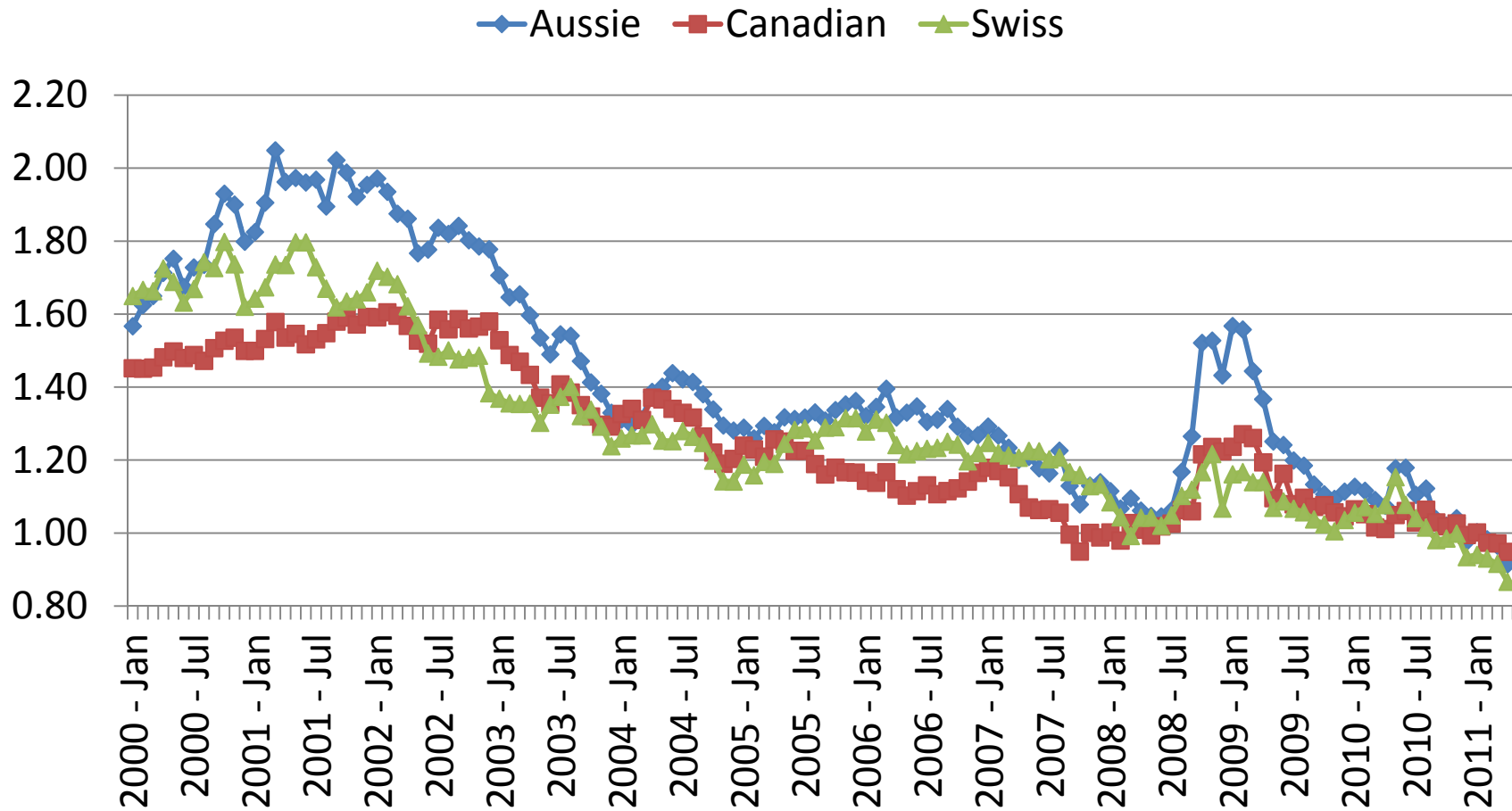
Fannie and Freddie Backed Mortgage Loan Performance

| Fannie Mae Vintage | Cumulative Default Rate after 18 months |
|--------------------|-----------------------------------------|
| 2002 | 3.1% |
| 2003 | 2.5% |
| 2004 | 4.6% |
| 2005 | 4.8% |
| 2006 | 11.6% |
| 2007 | 28.7% |
| 2008 | 12.6% |
| 2009 | 1.2% |

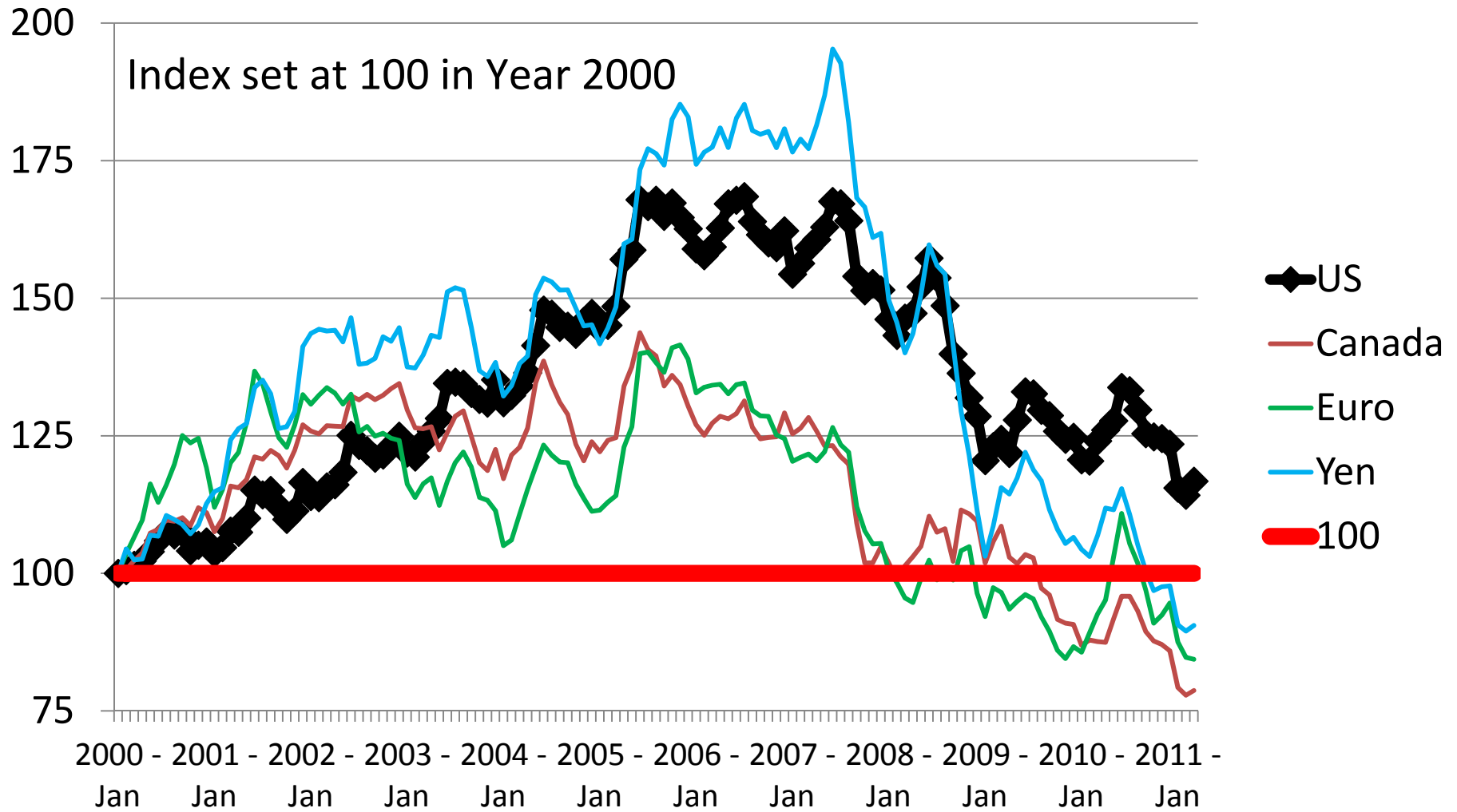
| Freddie Mac Vintage | Cumulative Default Rate after 18 months |
|---------------------|-----------------------------------------|
| 2002 | 2.7% |
| 2003 | 1.2% |
| 2004 | 2.0% |
| 2005 | 1.8% |
| 2006 | 6.0% |
| 2007 | 22.3% |
| 2008 | 13.7% |
| 2009 | 1.1% |

Source: Federal Housing Finance Agency

One U.S. Dollar gets ...



U.S. Home Price after Currency Conversion

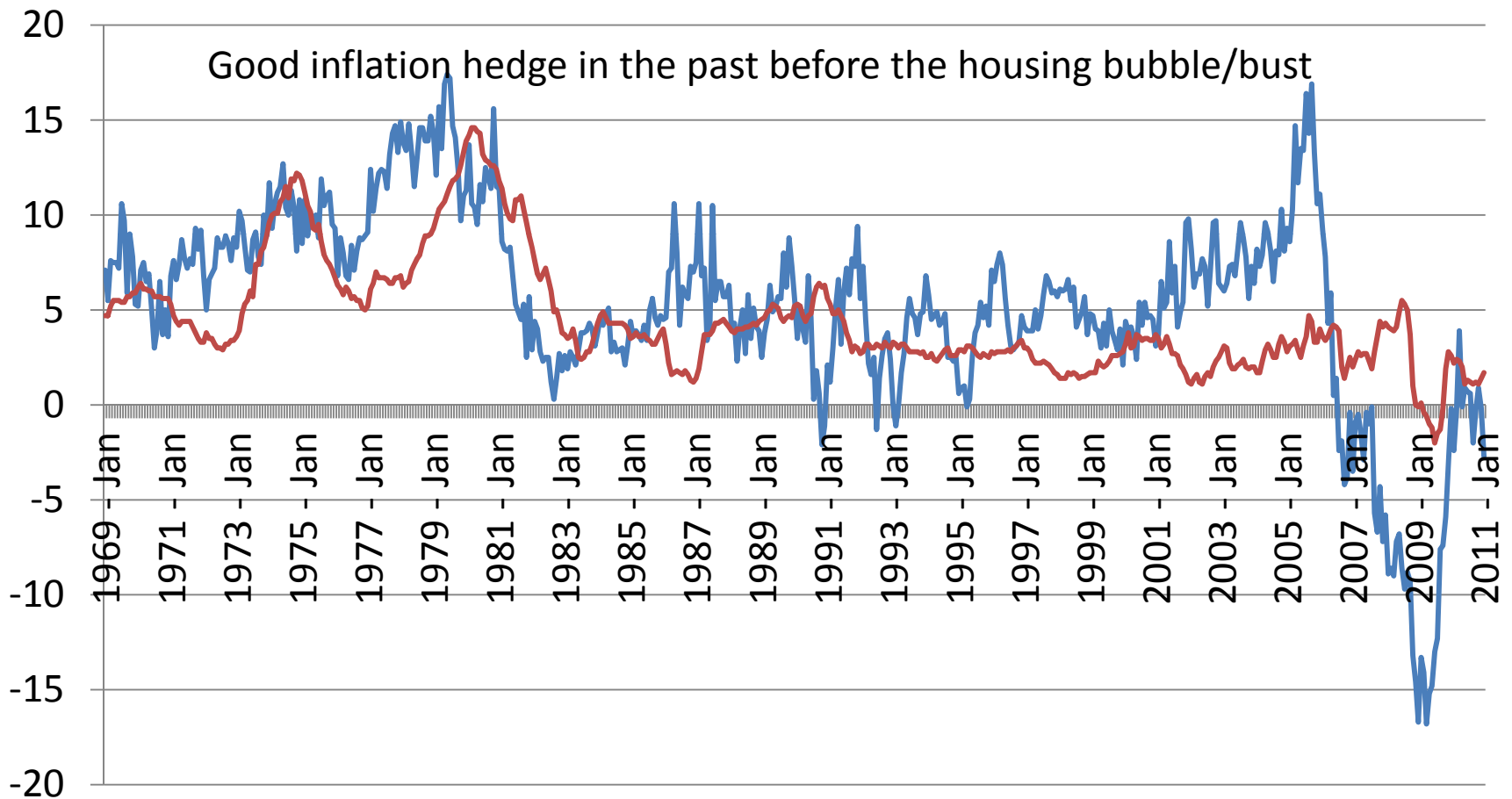


Smart Money Buying?

- All-cash record high at 35% of all sales
 - Investors want quick deals
 - Investors cannot get mortgage
 - Some do not want to bother with appraisals
 - Financial asset recovery helping with cash
 - Hedge against future inflation
 - Hedge against future housing shortage?
 - Empty nesters downsizing and using leftover cash for kids' home?
- Upper-end market beginning to move

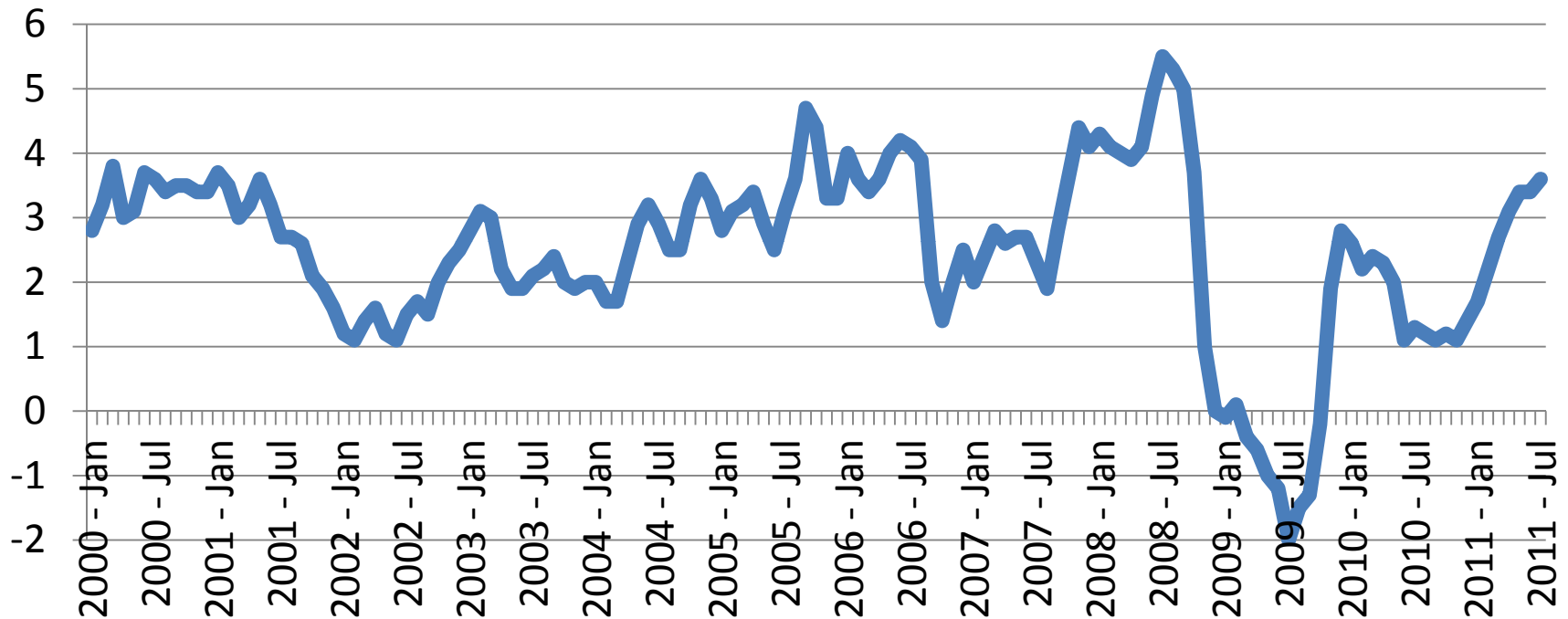
Real Estate as Inflation Hedge?

(single-family home price in blue vs CPI in red)



CPI Inflation Rising

(% change from one year ago)



- Social Security COLA forecast to rise 3.5% in 2011
- Workers Wage to rise by 1.7% in 2011

Broad Inflationary Pressure

| Indicator | % change from one year ago |
|---------------------------------------------|----------------------------|
| Consumer Price Index | 3.6% |
| Producer Price Index (Finished Product) | 7.2% |
| Producer Price Index (Intermediate Product) | 11.8% |
| Producer Price Index (Crude Product) | 22.2% |
| Dow Jones Commodity Spot Price Index | 38.1% |
| Gold Price | Around Record High Price |

Upside Potential Surprise

Average Credit Score for Loan Origination

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



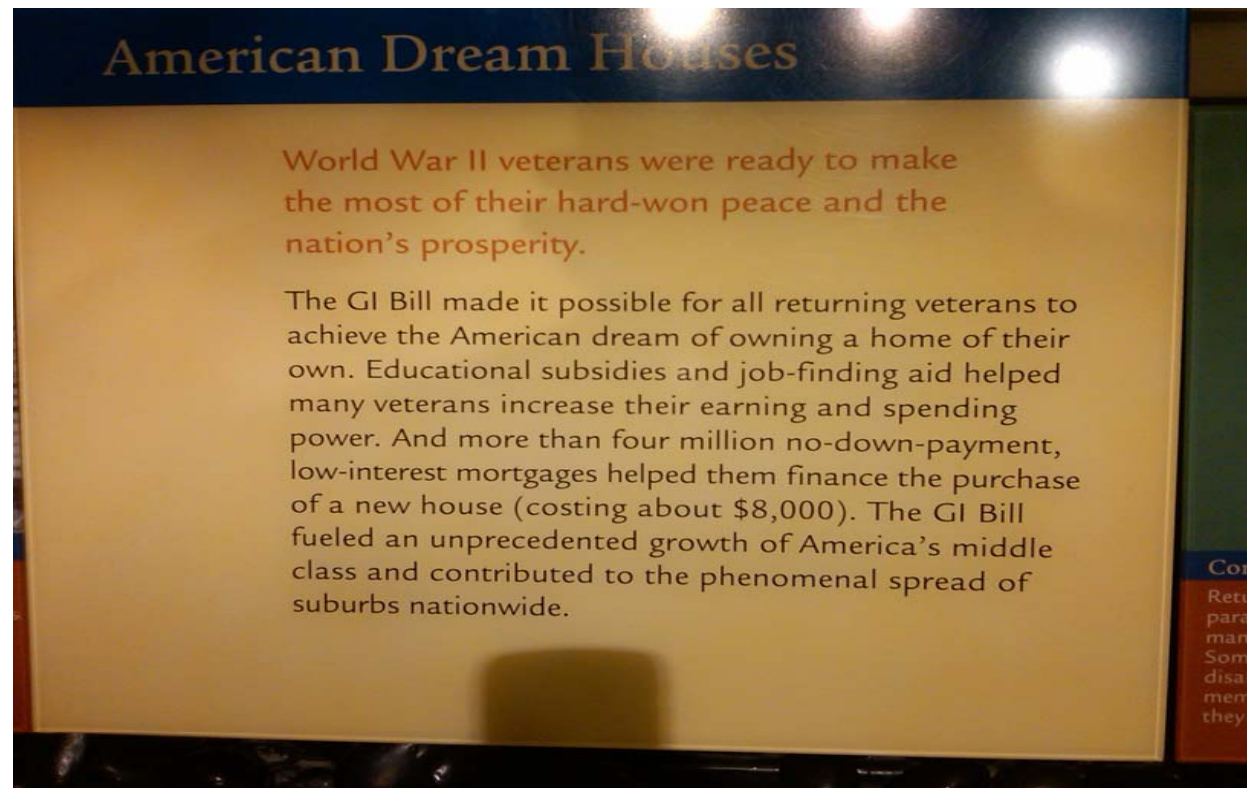
15% to 20% Higher Sales

Downside Potential Surprise

Washington Policy Change?

- QRM and 20% downpayment requirement ???
 - Affordability (staying within budget) more important than down payment
 - No taxpayer bailout for FHA and VA program
- Limit mortgage interest deduction for high income and second homes ???
 - Crush the working class in resort areas (Yacht Tax Impact)
 - Cascading impact to middle class homes and hurts confidence to buy a home
- Lower conforming loan limit ???
- Fannie and Freddie model was flawed (private profit/taxpayer loss) and need a fundamental restructuring ... not total privatization
 - Jumbo interest rates on all loans?
 - Non-existent loans in times of crisis?

National Museum of American History



- 4 million no-down-payment VA mortgages for World War II veterans
- Fueled an unprecedented growth of America's middle class

Real Estate Baseline Outlook

- Moderate GDP Expansion 1.5% to 2.5% in the next 2 years
- 1.0 to 1.5 million annual job additions yearly in the next 2 years
- Mortgage Rates rising to 4.7% by year-end 2011 and 5.5% in 2012
 - Not that important compared to underwriting standards
- Home sales – no reason to go lower ... slight increases next two years
- Home values – steady and slow growth in the national price in the next 2 years ... critical source of small business start-up funds
- Commercial net absorption rising ... vacancy rates falling

Presidential Quotes

- Franklin Delano Roosevelt:

“A nation of homeowners is unconquerable.”

- Ronald Reagan

“We will preserve the part of the American dream which the mortgage-interest deduction symbolizes.”

For More Information

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