



# NAR Convention 5-14-09



Friday, May 22, 2009



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## Lawrence Yun, NAR Chief Economist





# NAR Marketing Tips



- ✓ Provide Market Data to buyers
- ✓ Forbes Buyer Survey: Now good time to buy home
- ✓ Best Banner Ads:
  1. “Has Market Stabilized?” (ask compelling question)
  2. “Get list of homes reduced 10% - 30%” (be specific)
- ✓ Add videos to your web sites - less then 3 minutes

# NAR Single Family Mid-Year Forecast Lawrence Yun, NAR Chief Economist



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# ***Housing Market Trends & Outlook***

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

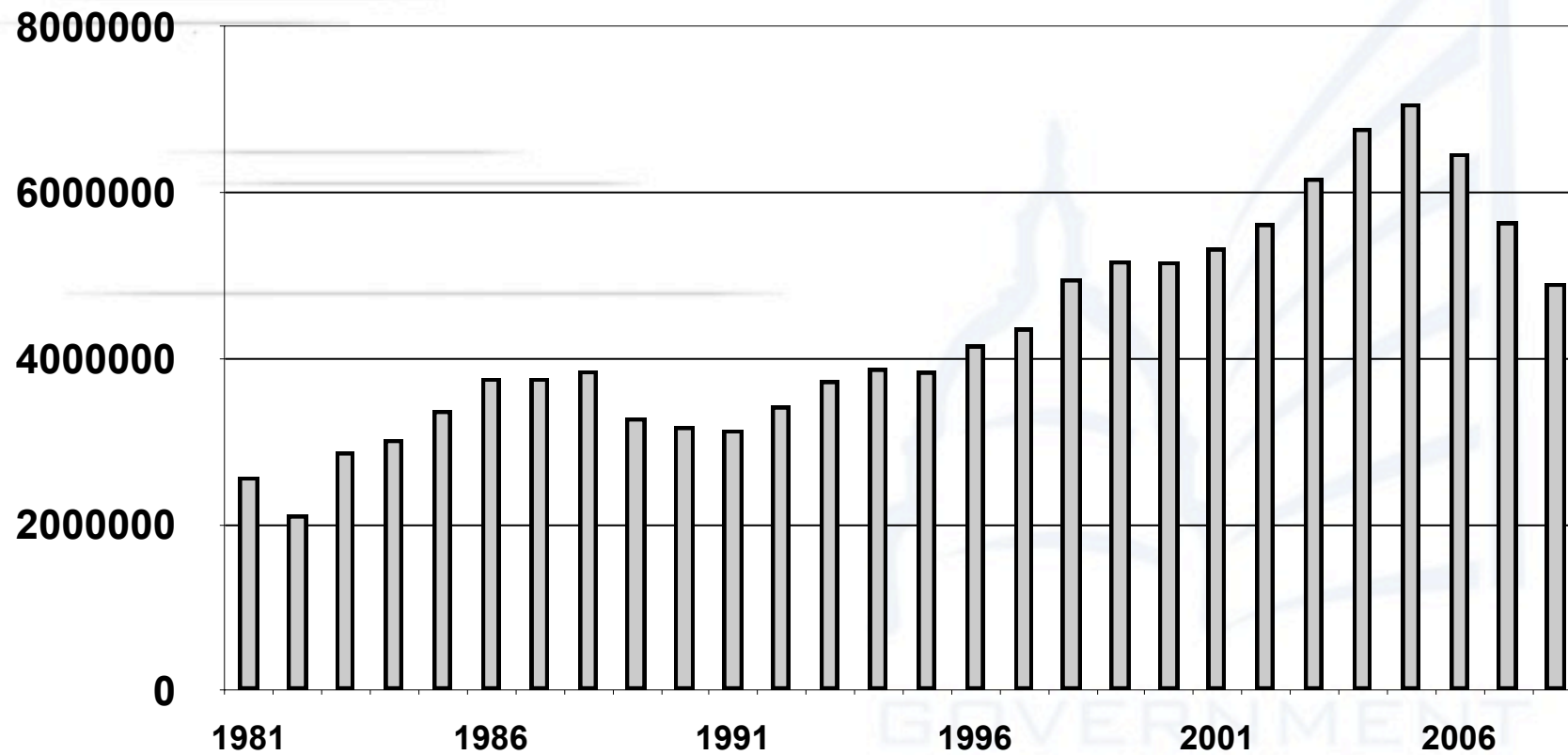
***Presentation at NAR Residential Forum***

***Washington, D.C.***

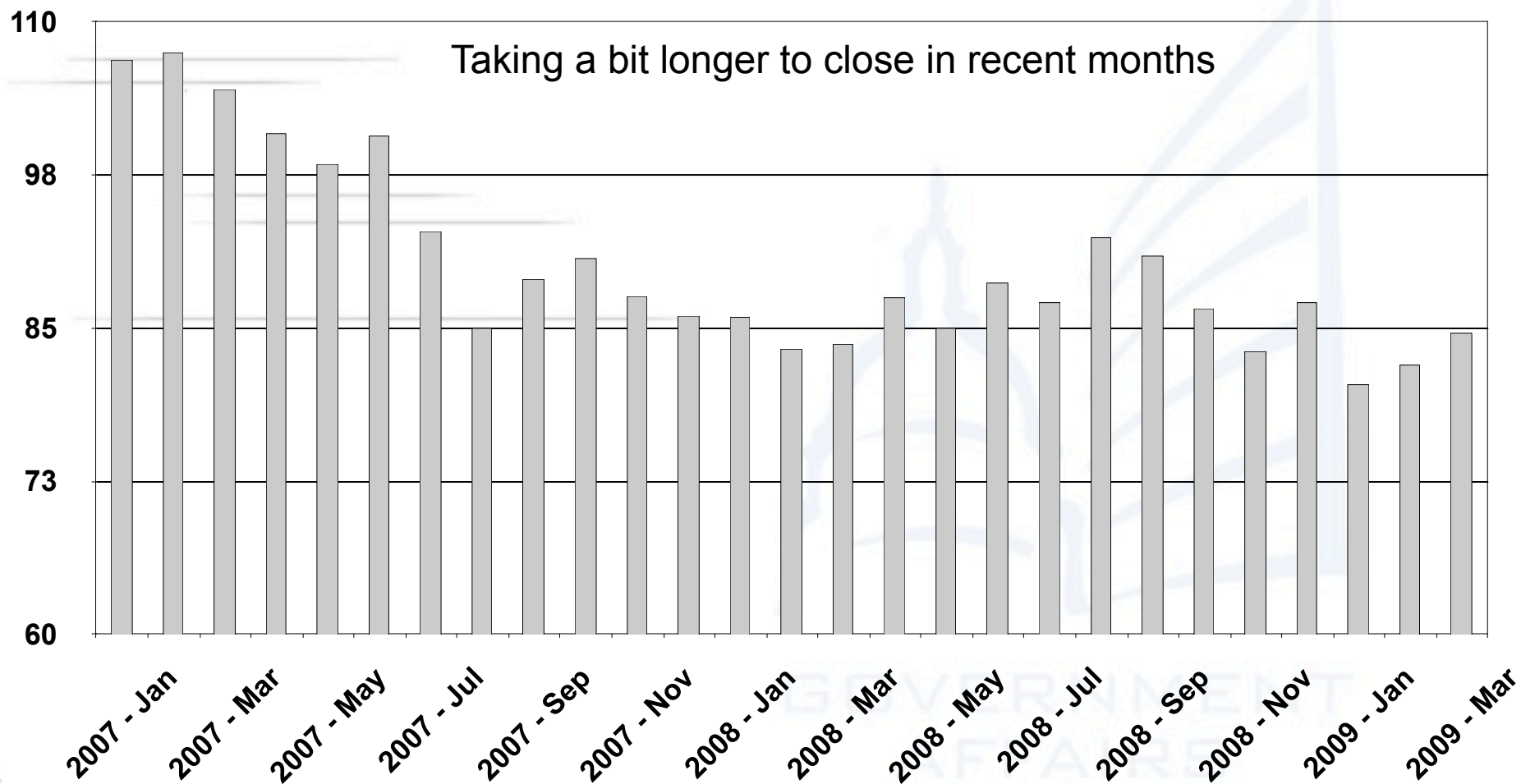
***May 14, 2009***



# *Existing Home Sales*



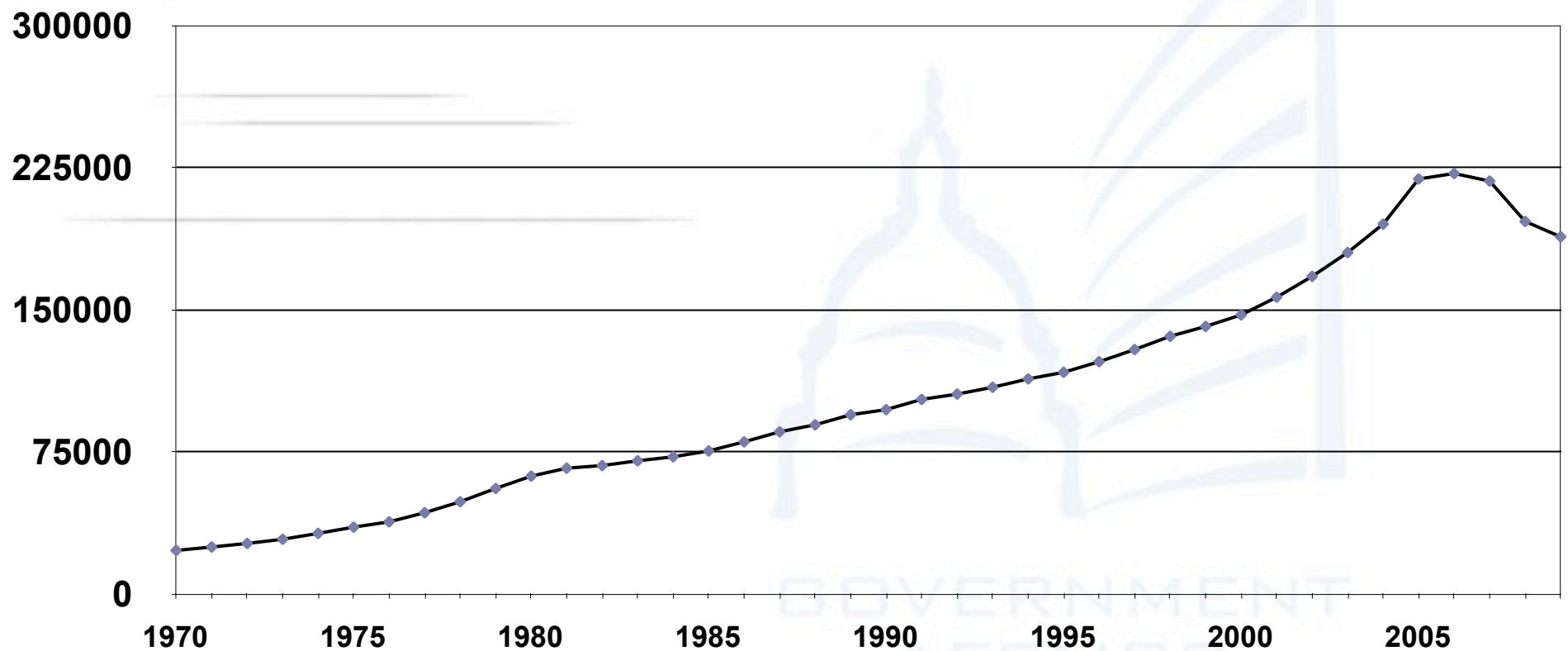
# Pending Home Sales Index



# ***National Existing Home Price***

## ***(of transacted homes and not listed homes)***

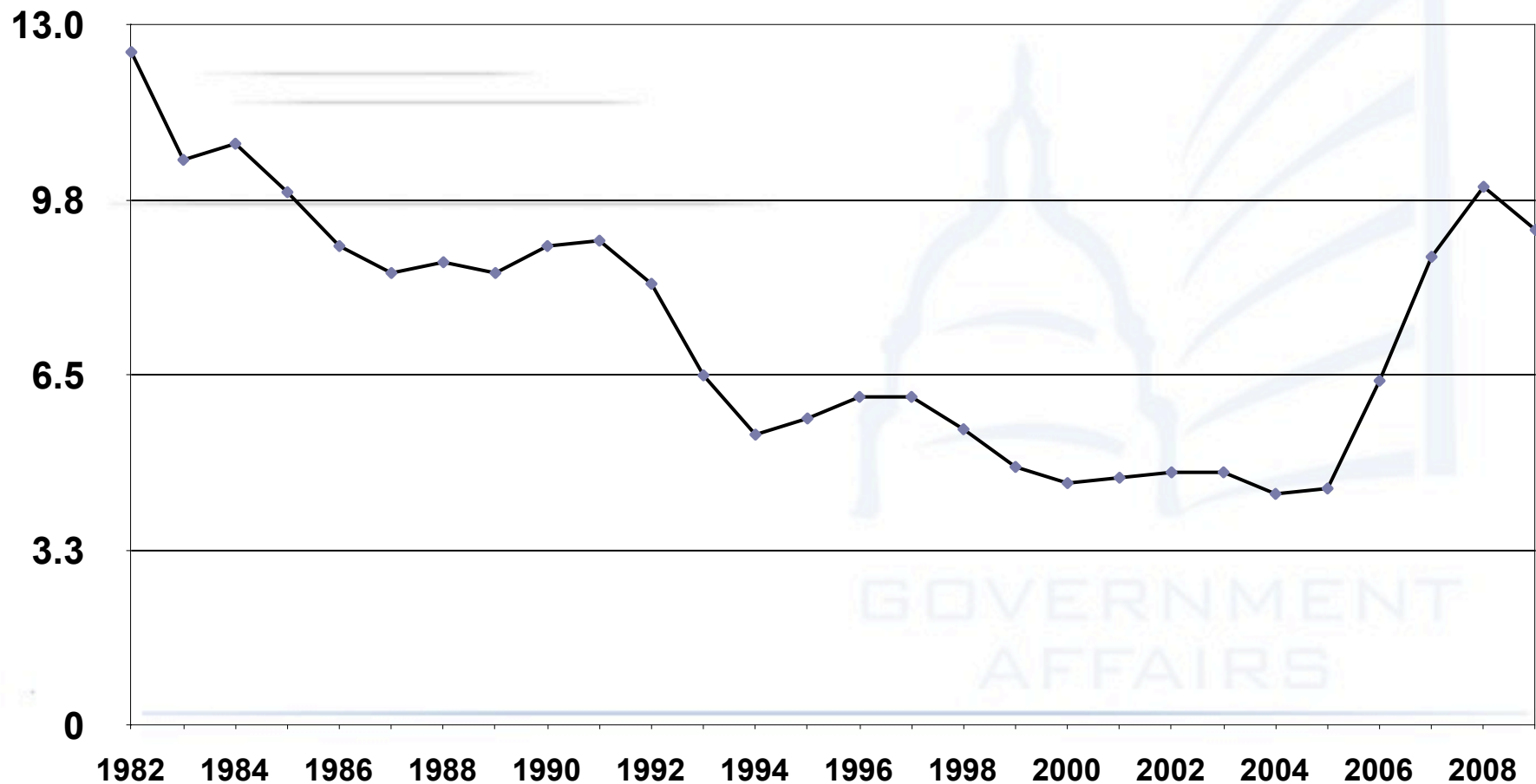
First-time buyers attracted to deeply discounted distressed sale properties.



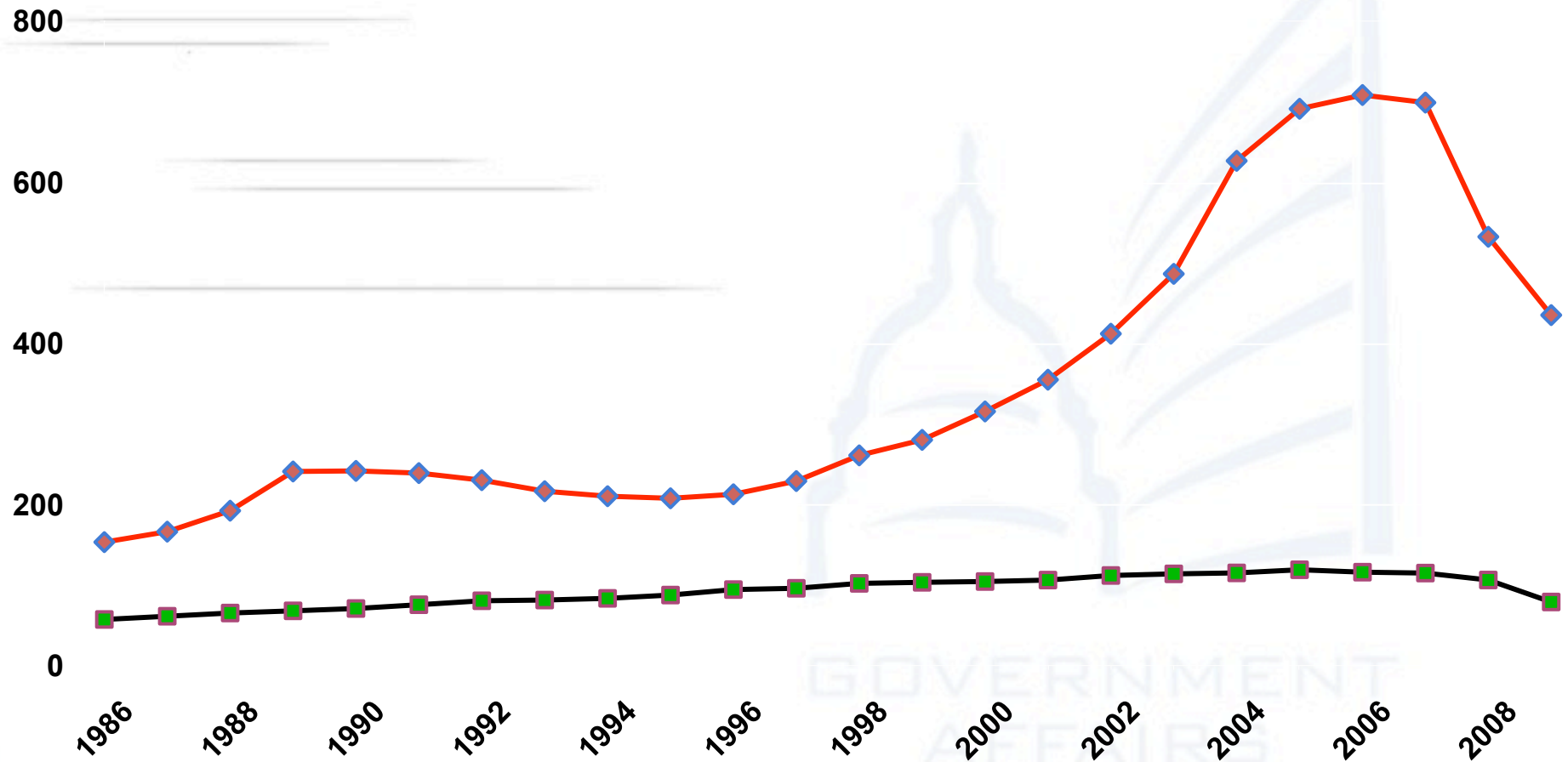


# Months Supply of Single-Family Homes

First-time buyers attracted to deeply discounted distressed sale properties.



# Dayton vs. Orange County Home Price



Source: Census



# ***Prices based on Transaction Only***

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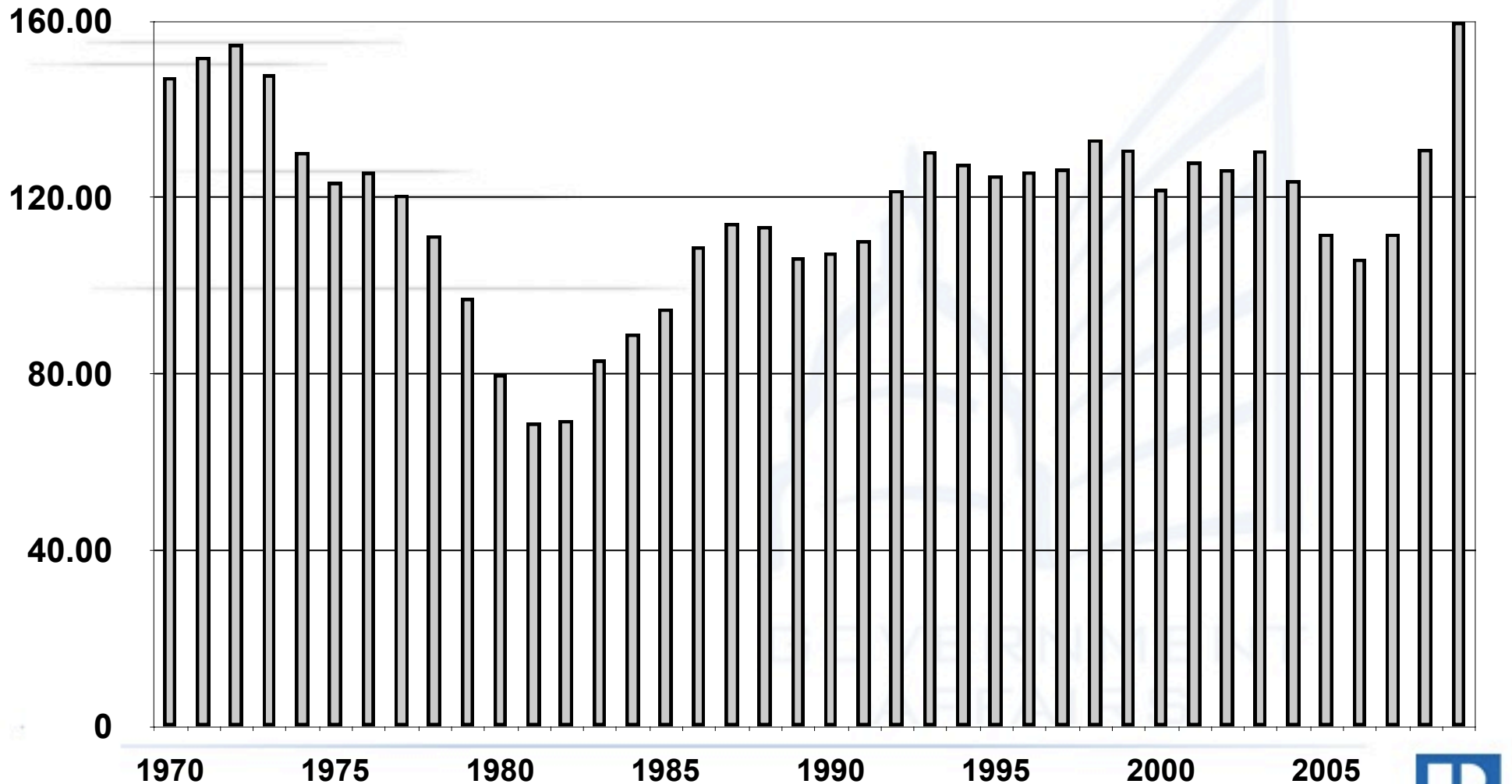
- ***About half of all recent transactions have been distressed sales***
  - ***15% to 20% short sales***
  - ***30% to 35% foreclosures***
- ***Market price is based on transaction***
- ***What about non-transacted homes that is not on market?***
- ***Can we extrapolate market price to other non-listed homes?***
- ***Estimates of 20% or 25% of all homeowners are UNDERWATER ... True?***



# ***Housing Affordability Index***

***(Higher numbers mean more people can afford to buy a home)***

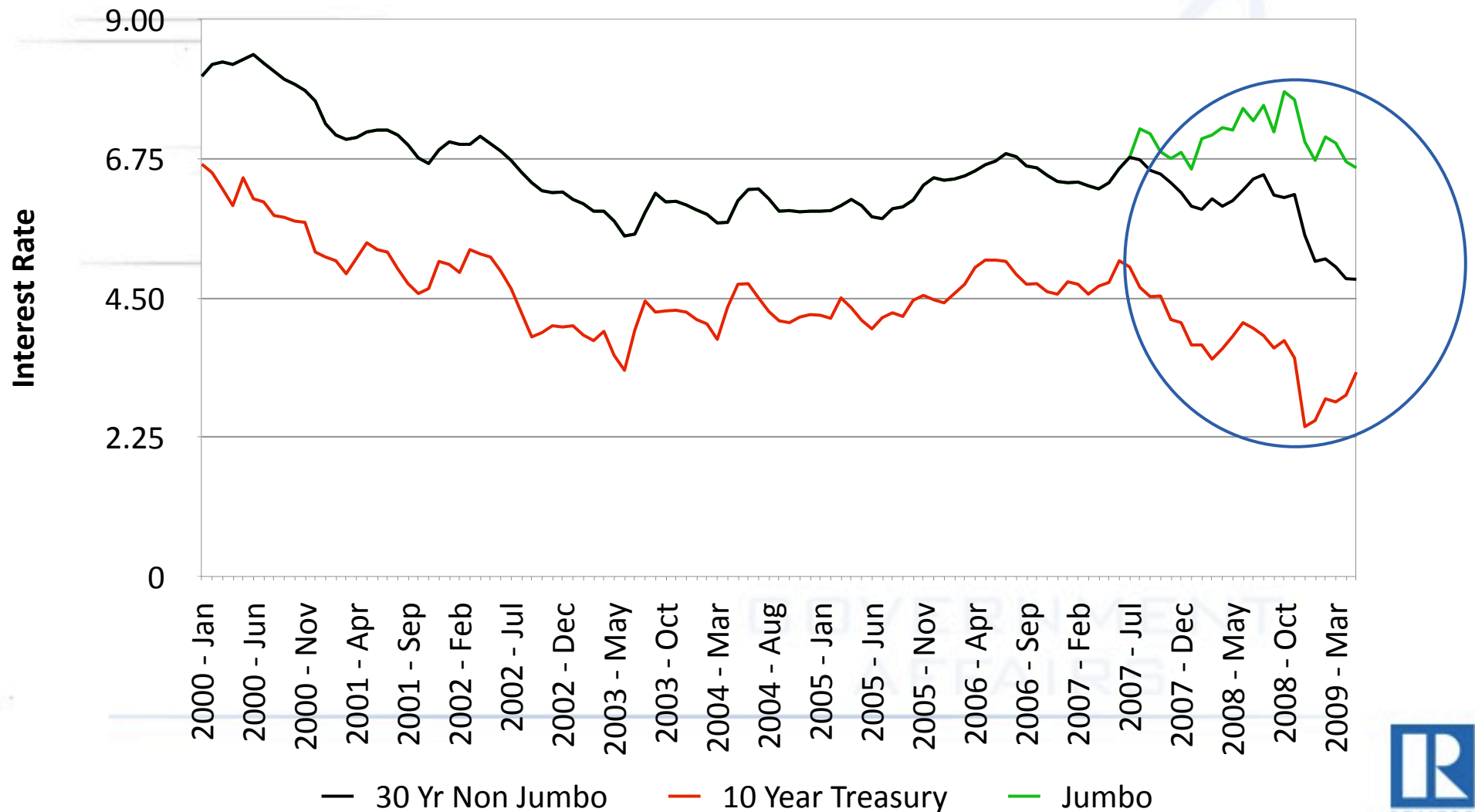
**ALL-TIME HIGH ... on conforming loans ...if people need to stay within budget**





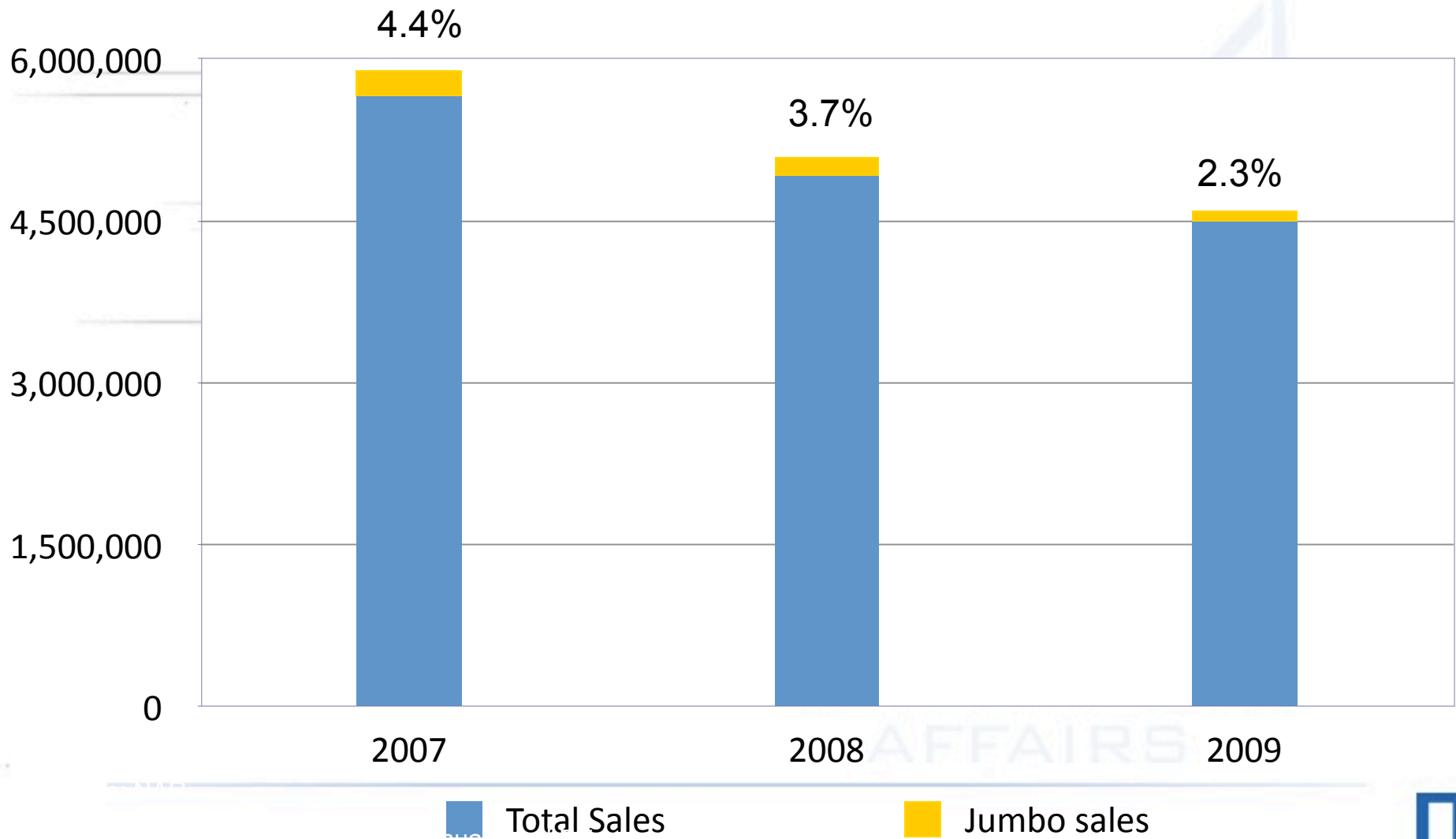
# ***Lowest Rate since President Eisenhower Days, but not on Jumbo Mortgages***

Interest Rates: Treasuries, 30-Year, Jumbo



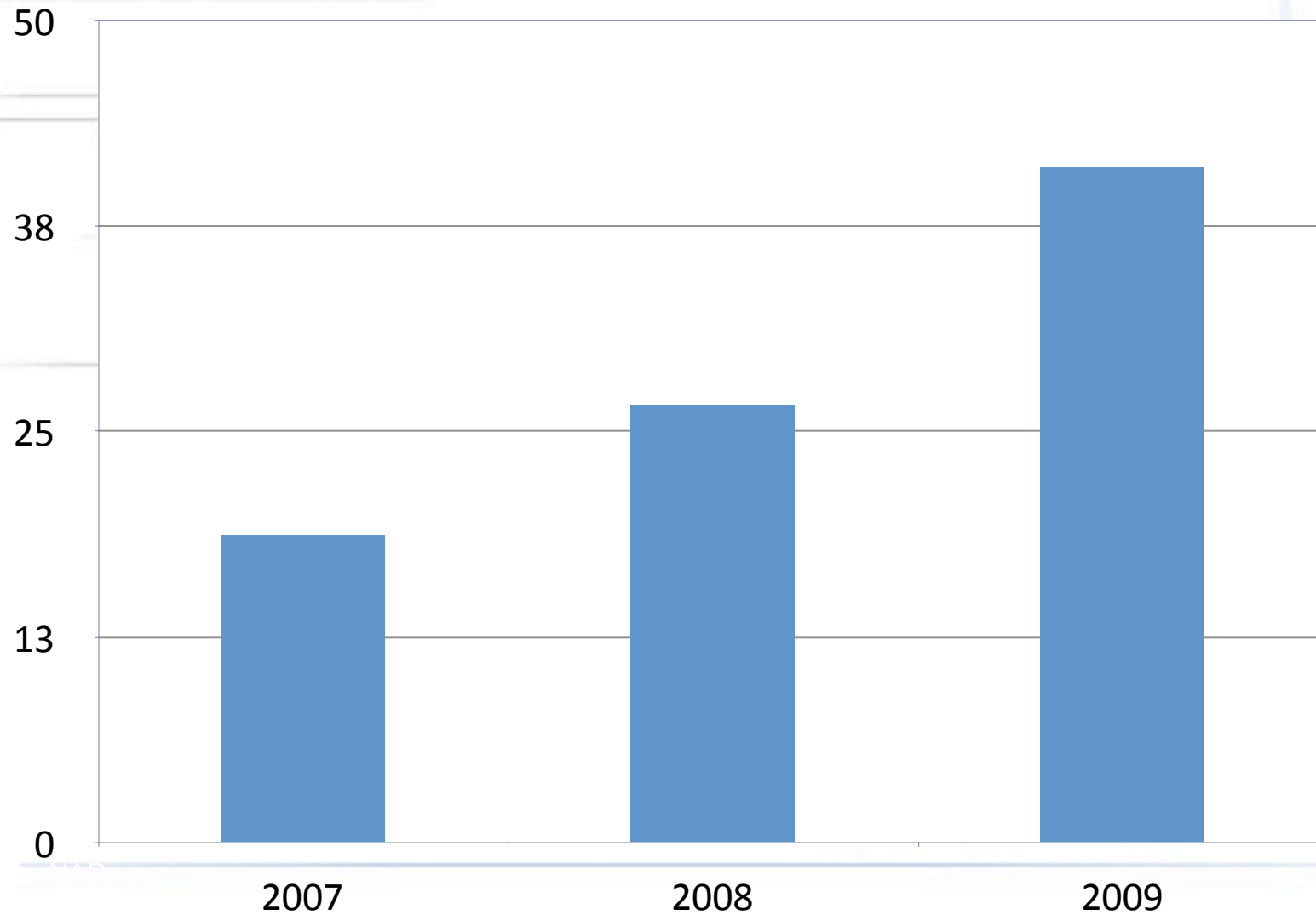
# High-end Existing Home Sales

(Homes priced above \$750,000)

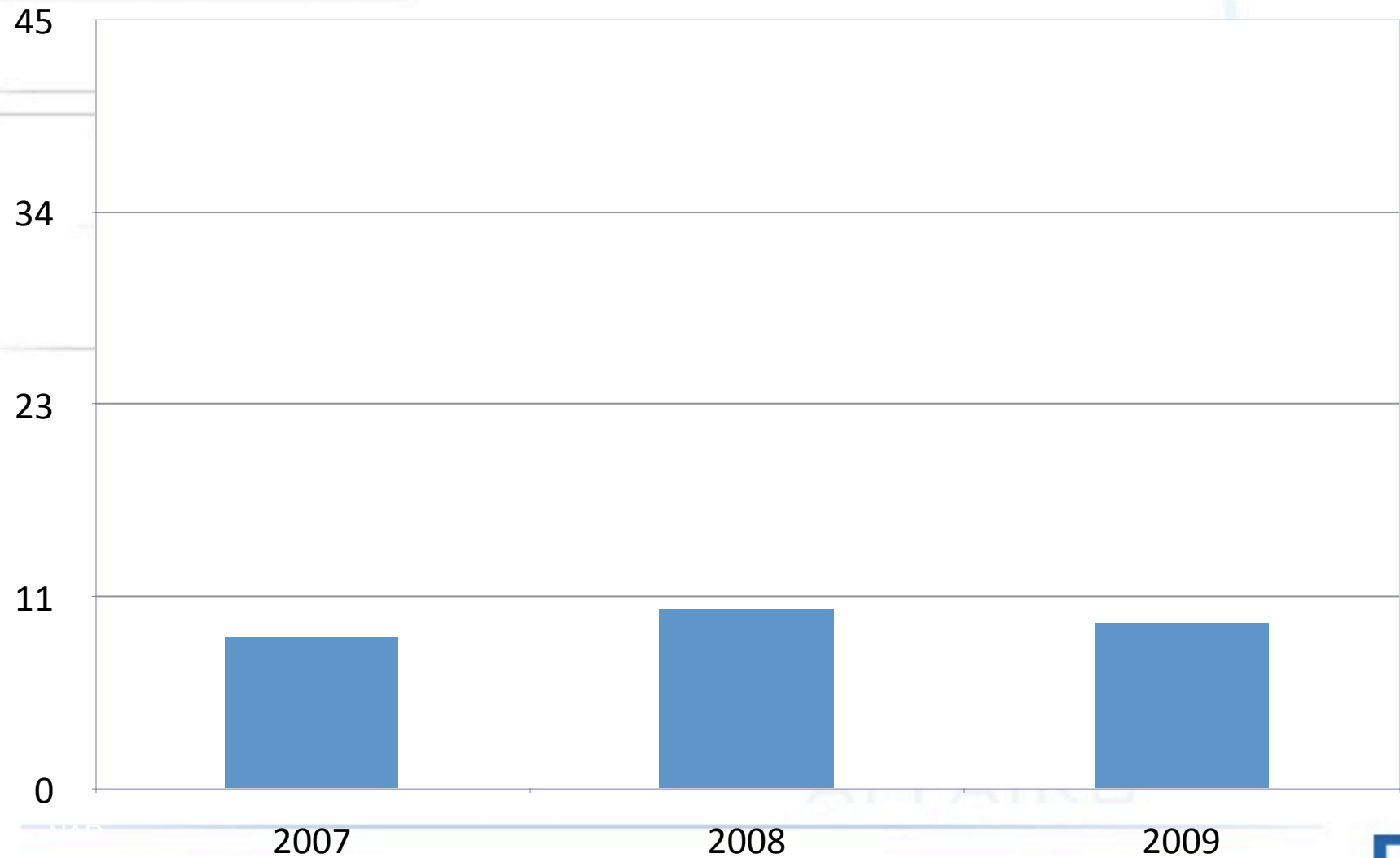


# ***Months Supply of Inventory***

***(Homes priced above \$750,000)***



# *Months Supply of All Existing Homes*





# ***High-Income Families contribute heavily in taxes, yet getting punished on mortgage rates***

## **Taxes paid by percentile**

■ Total income tax share (percentage)

39



**Top 1 percent**

60



**Top 5 percent**

***Total income tax  
(millions of dollars)***

**\$394,066**

**\$597,863**



# ***Tax Cut (or no increase) for 95% of Families***

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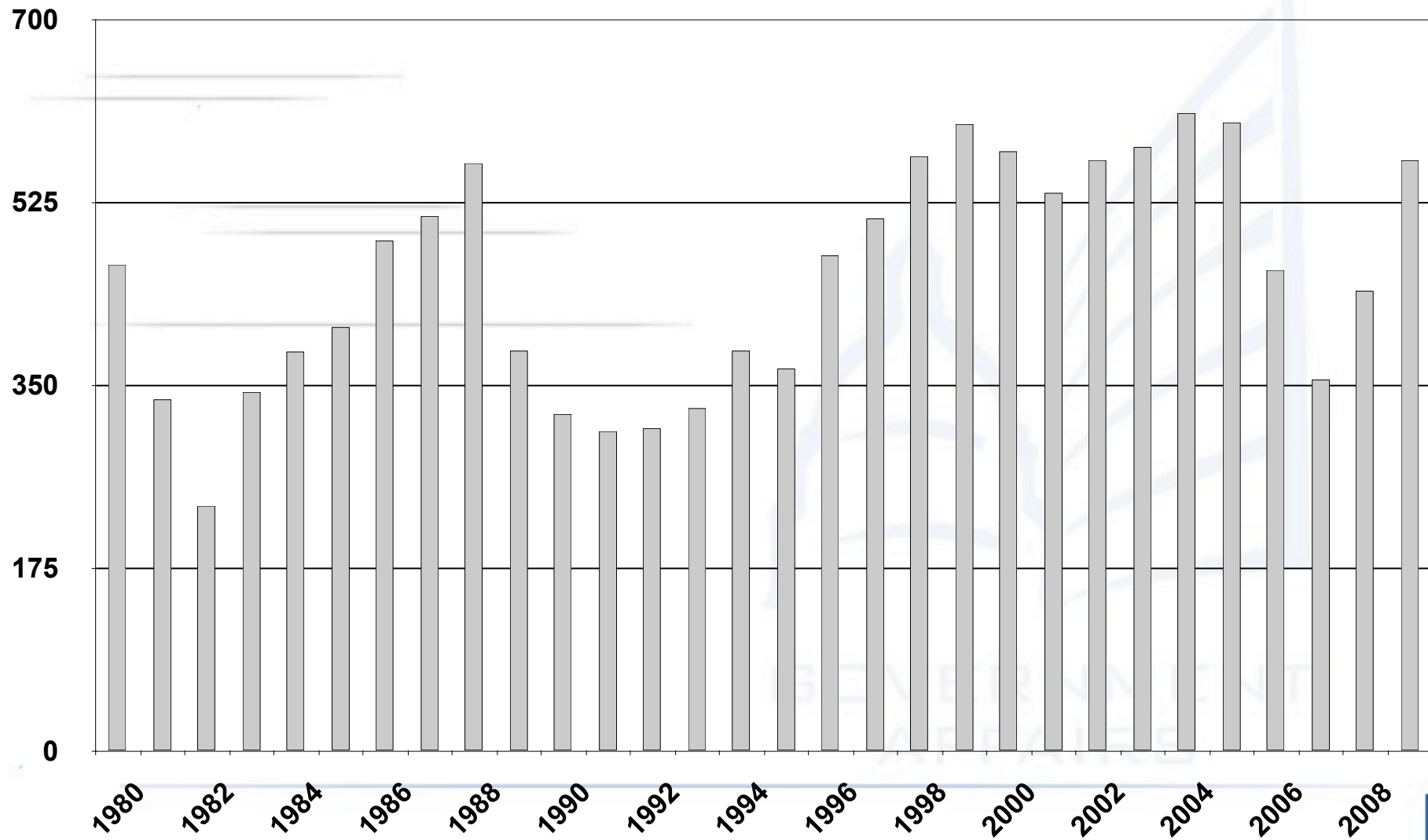
- ***What about the 5%?***
- ***Mortgage Interest Deduction tweaks for 5%, but will impact nearly all homeowners in terms of housing equity destruction***
- ***Will 5% become acutely cognizant of state income taxes paid?***
- ***Will people migrate to FL, NV, AK, SD, WA, WY, TX? (States with No income tax)***

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# California Existing Home Sales – Tipping Point

In thousand units

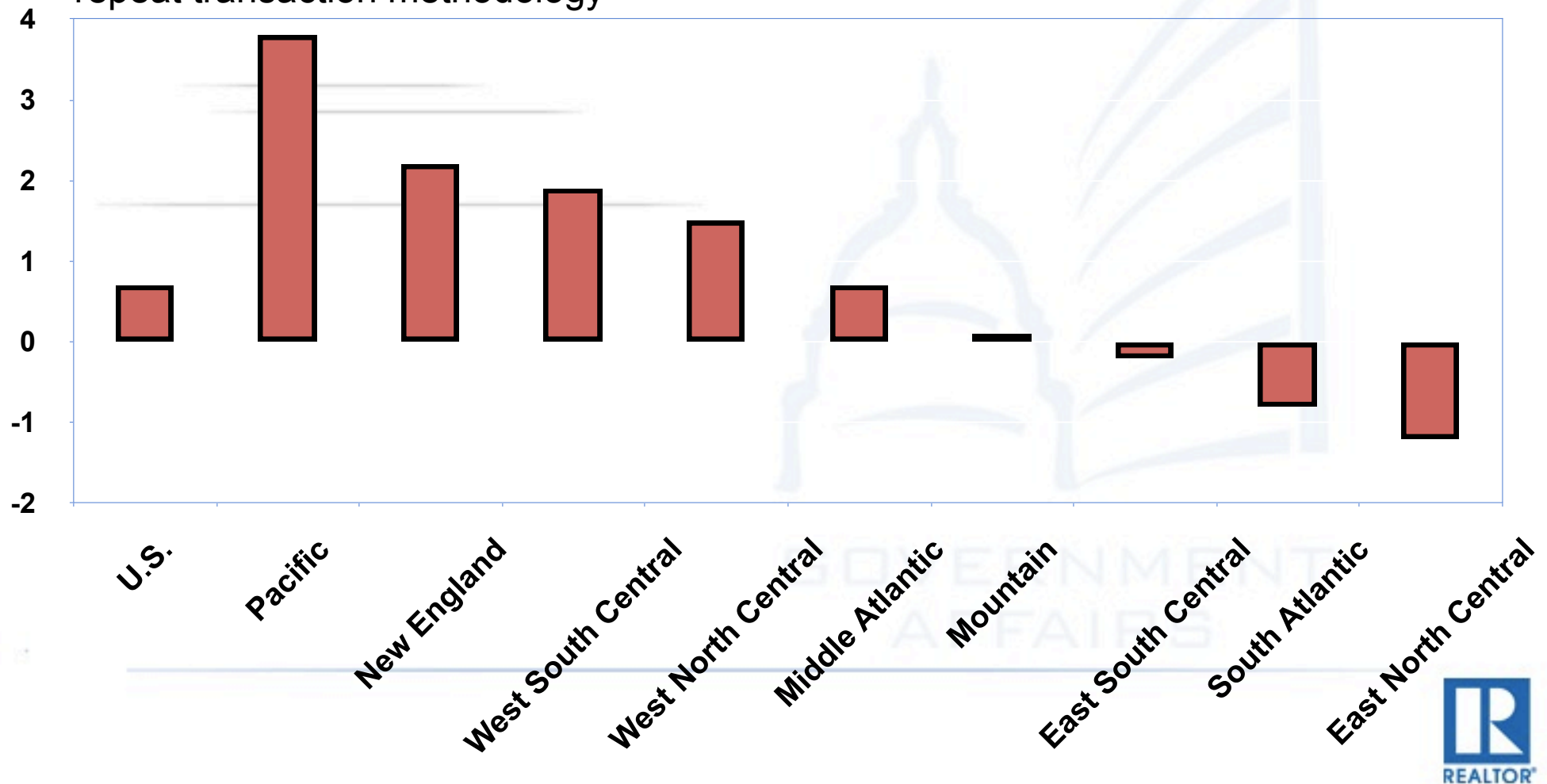


Source: CAR



# Home Price Bid Up in West

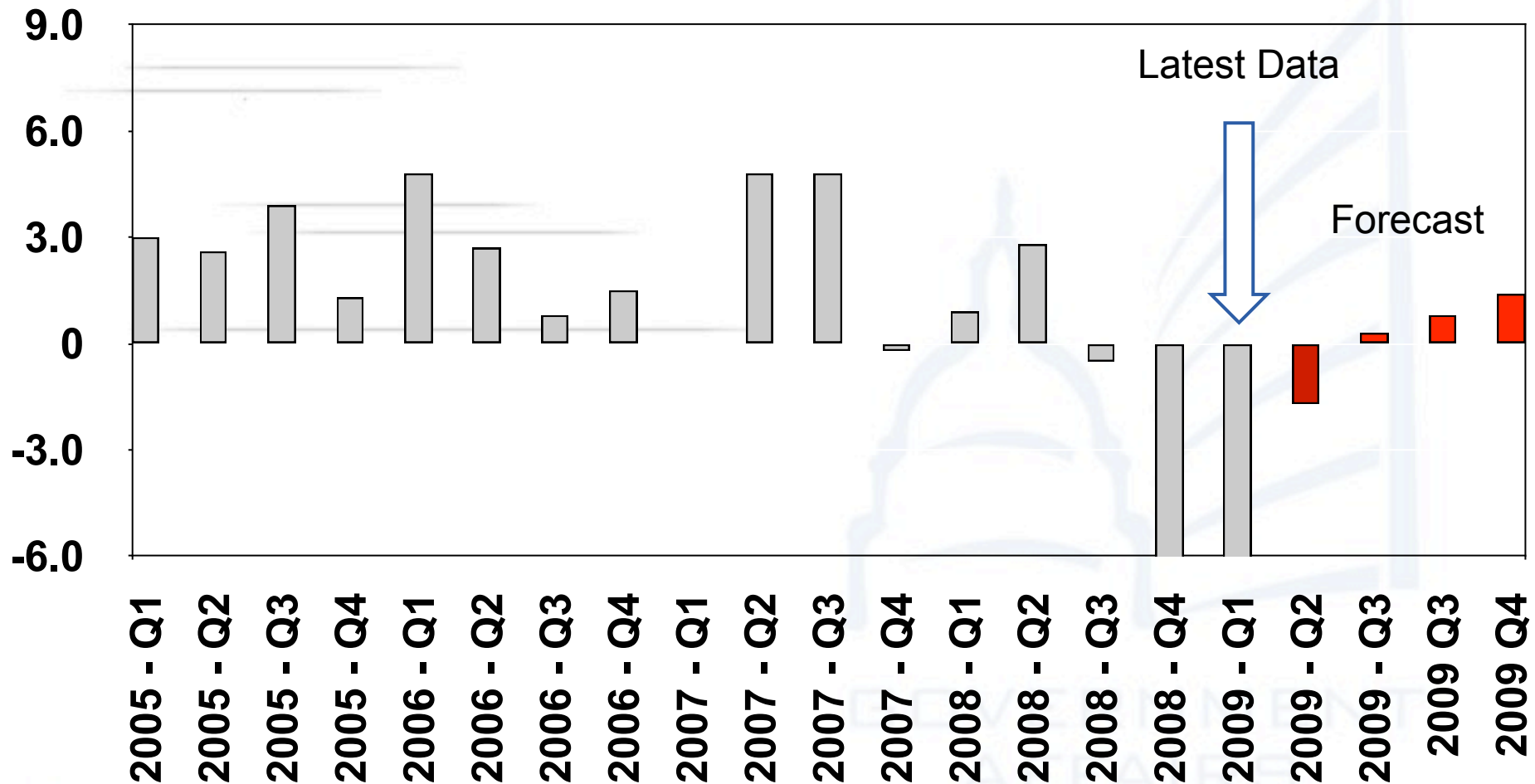
- February price from January according FHFA Home Price Index
- Measure price change only of those homes with Fannie-Freddie mortgage using repeat transaction methodology





# ***Economy Falls but Recovers with Stimulus Package***

GDP annualized growth rate

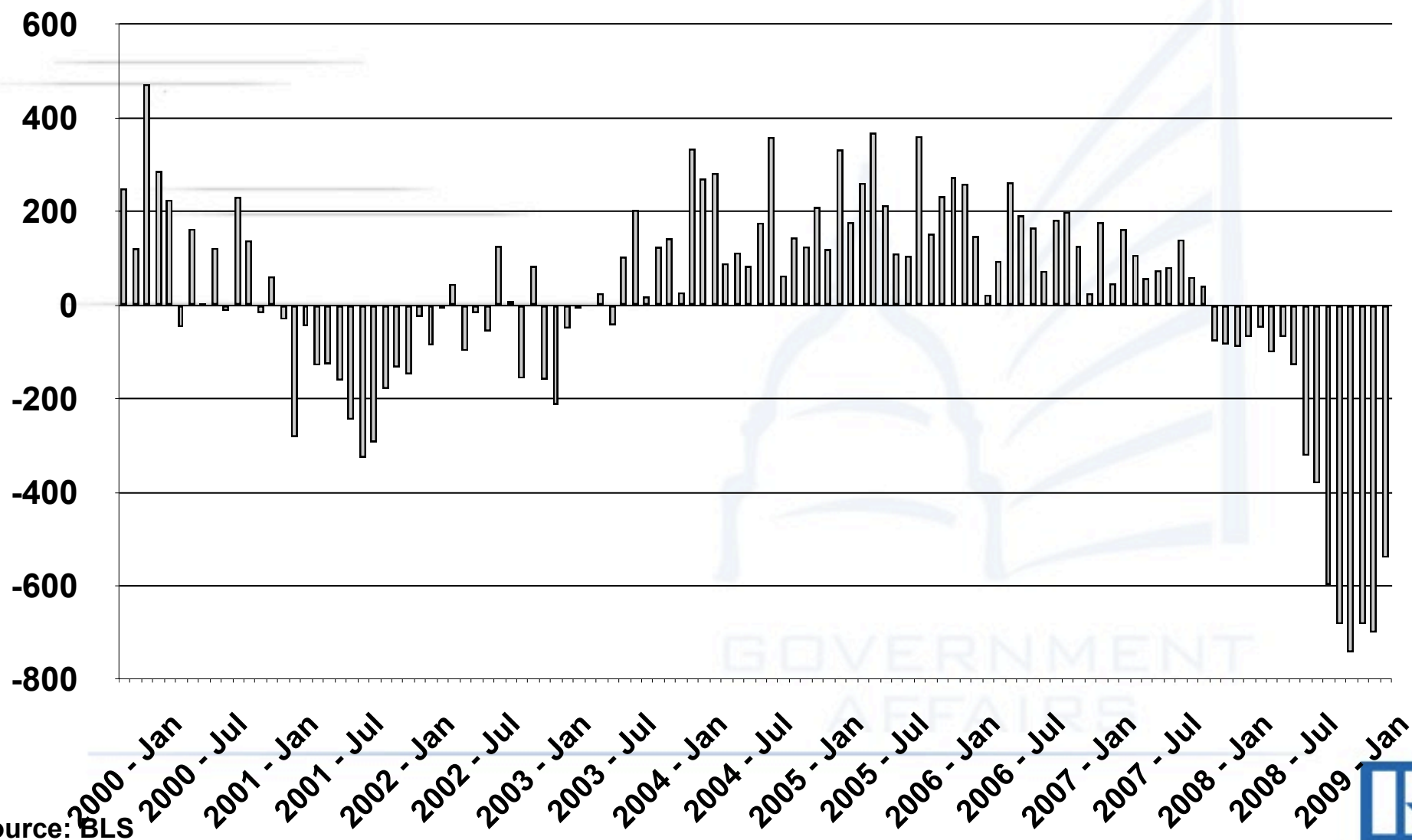


Source: BEA



# Job Changes in U.S.

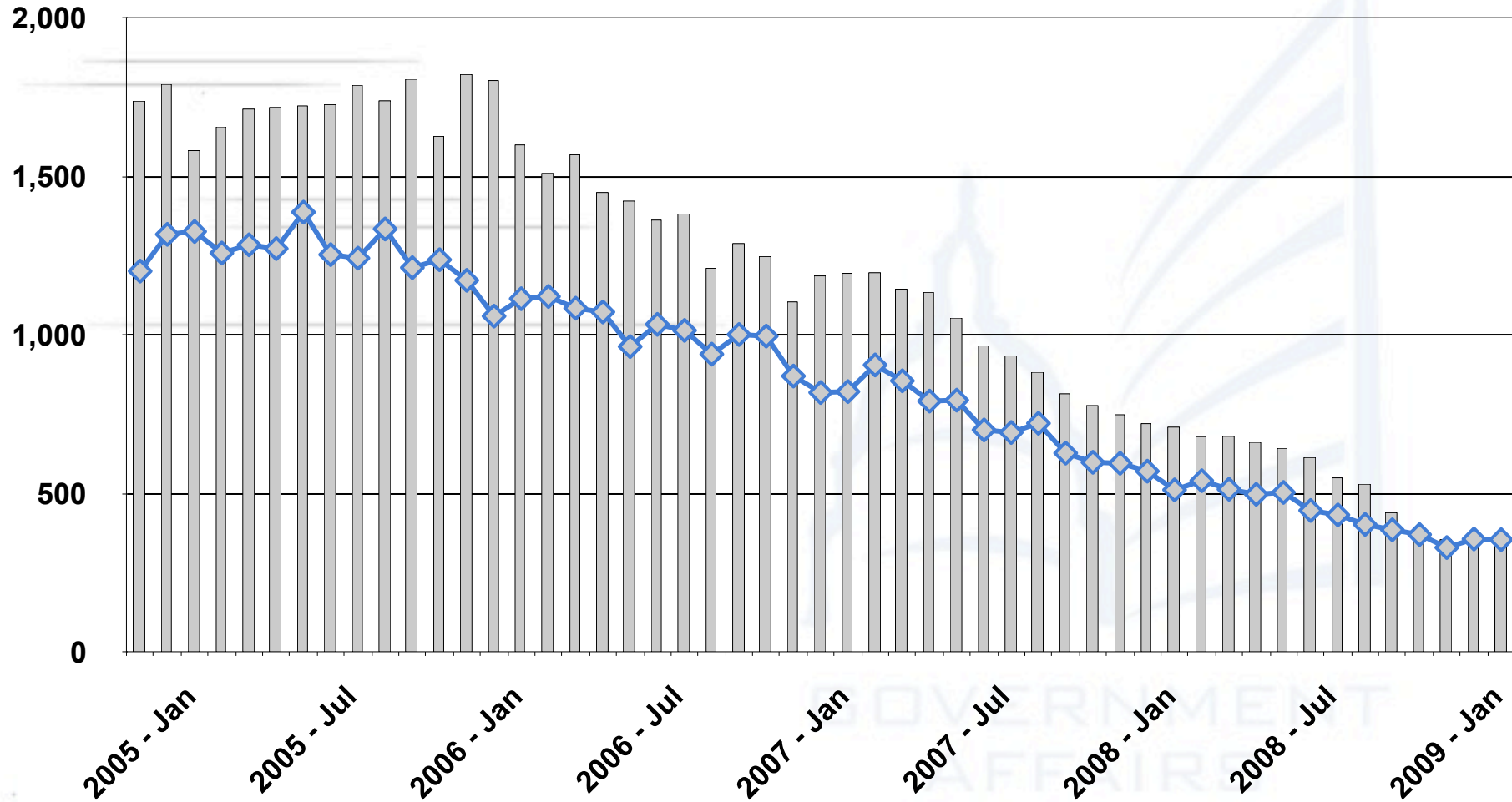
One-month payroll job changes in thousands



Source: BLS



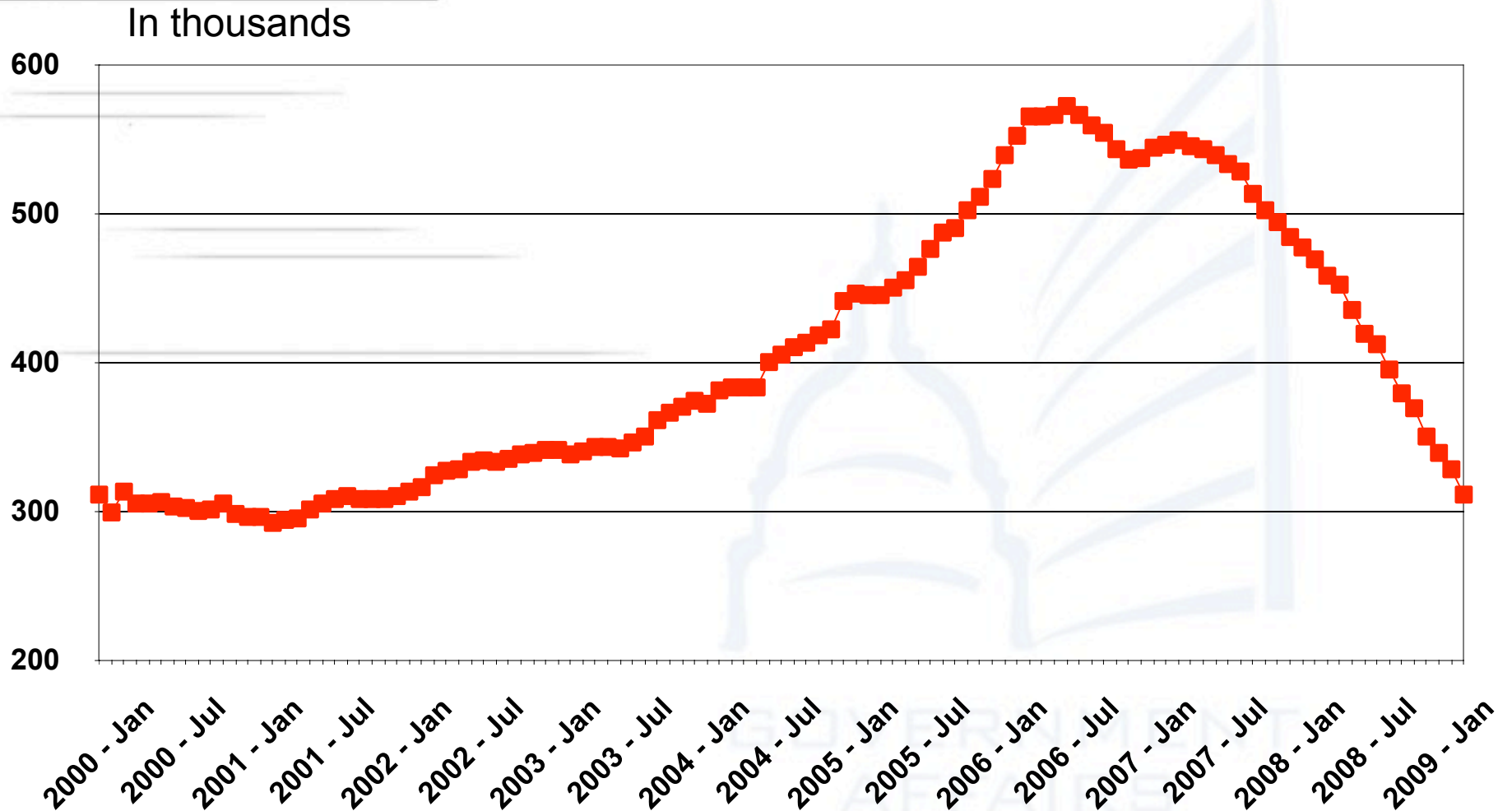
# Homebuilders Down and Out



Source: Census



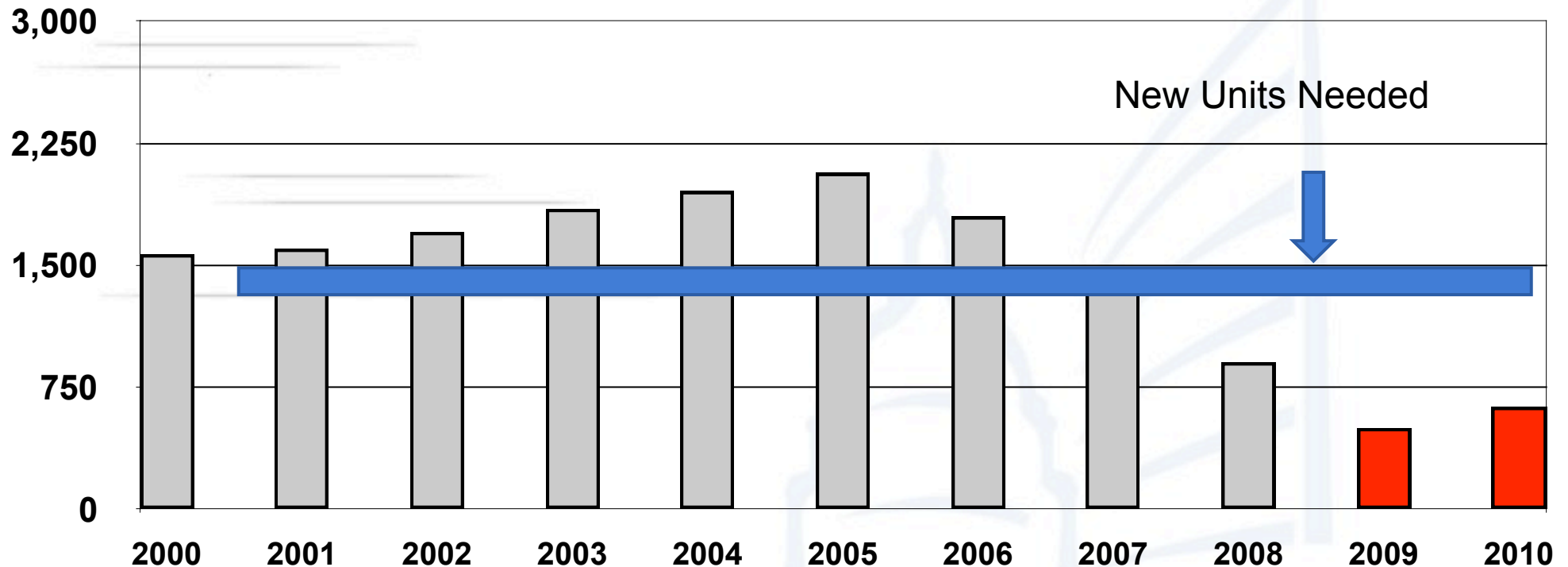
# *New Home Inventory for Sale*



Source: Census



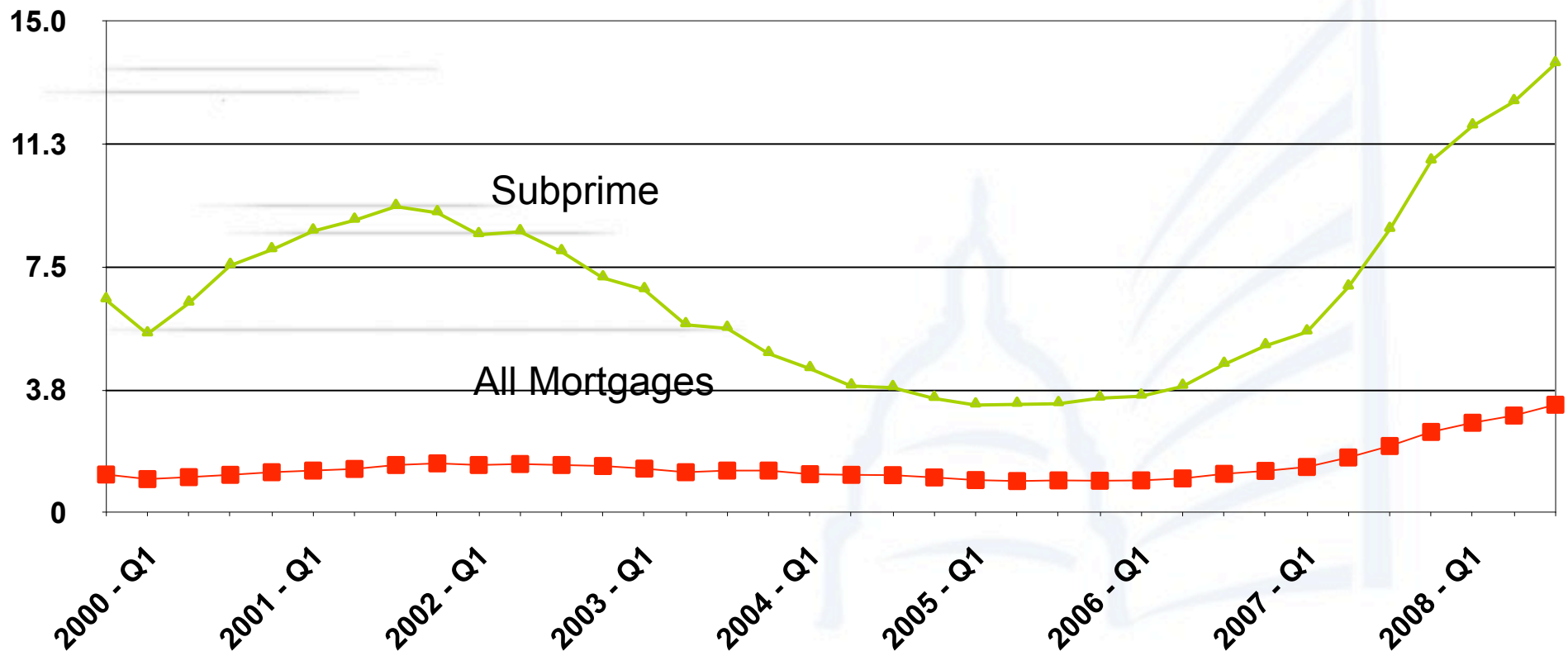
# Housing Starts: Too Much to Too Little



3 million more people each year ... 1 to 1.4 million household formation  
... need to account for 300,000 demolitions .... need 1.3 to 1.7 new units



# *Foreclosure Inventory will Rise but will they get cleared off quickly*



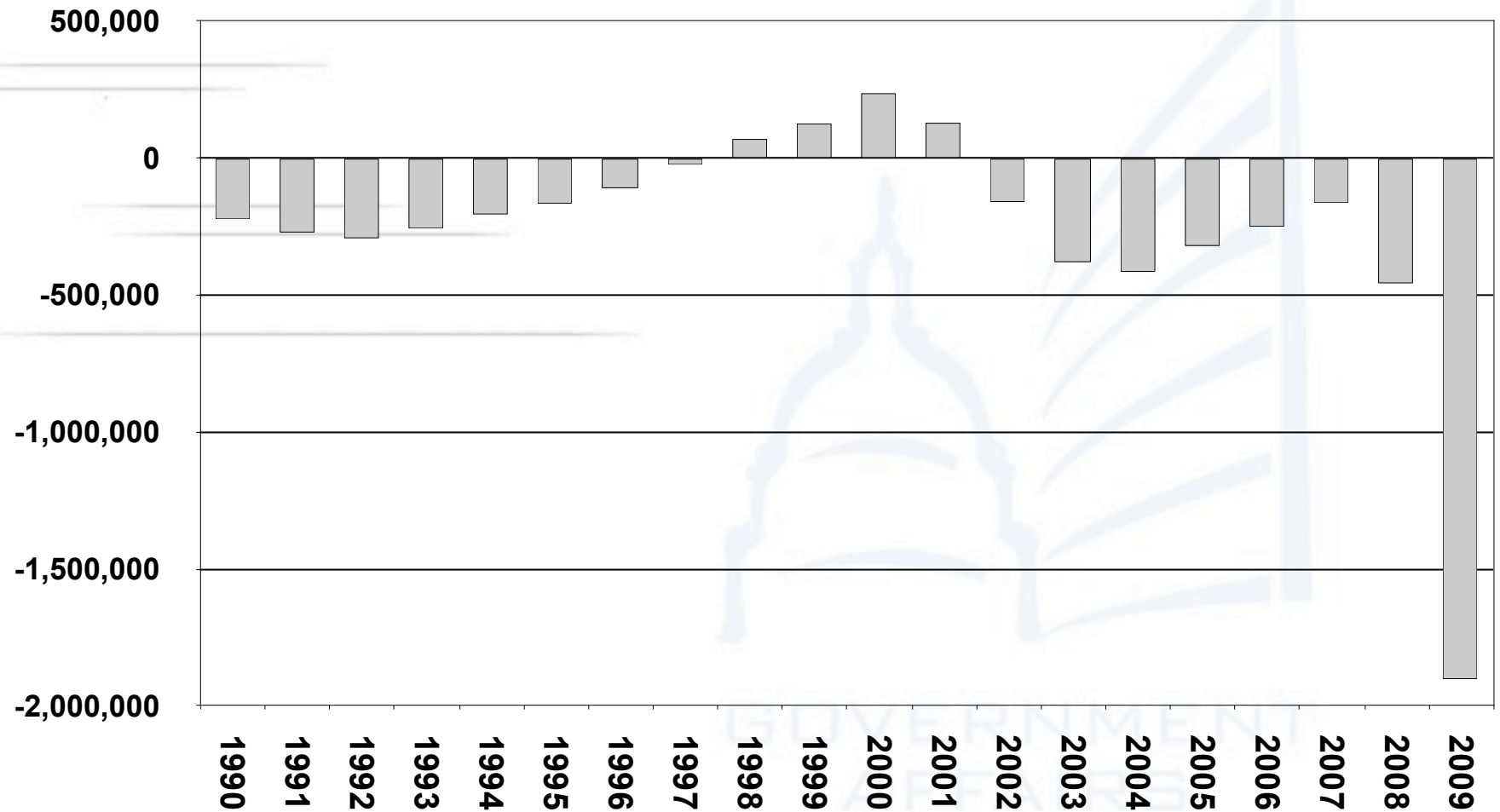
- FHA Reserve Fund depleting ... may need funds to implement a countercyclical policy
- Fannie-Freddie will need funds ... future reform of the secondary mortgage market
- What is going on in Denmark ?





# Federal Budget Deficit

\$ million



# ***Bailouts and Too Big to Fail***

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- ***ALG, Bear Sterns, Lehman Brothers, TARP, and Fannie/Freddie***
  - ***inter-linkages and systemic risks***
  - ***Chrysler***
- ***Make it small and let it fail***
- ***Managerial Hubris ... Want to run big companies***
  - ***Acquiring companies lose stock value***
  - ***Acquired companies get immediate stock boost (windfall gain)***
- ***Too big to manage and diseconomies of scale***
- ***Is the Government becoming too big to manage?  
It cannot fail ... and difficult to fire federal employees***



# ***Credit Crunch Ending?***

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- ***Libor Rates improving***
- ***Junk Bond yields becoming less wild***
- ***Banks making profit ... but are they getting too big again (75% of assets controlled by 10 banks)***
- ***Federal Reserve lending at zero (though not to consumers)***
- ***True Test of credit easing***
  - ***Lower rate on jumbo mortgages***
  - ***Lower rate on second home purchases***
  - ***Lower rate on condo purchases***
  - ***Lower rate on commercial real estate loans***



# ***Economic Outlook***

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>50 year average</b>
<b>GDP</b>	<b>1.1%</b>	<b>-2.9%</b>	<b>1.4%</b>	<b>3.3%</b>
<b>CPI Inflation</b>	<b>3.8%</b>	<b>-0.8%</b>	<b>1.7%</b>	<b>4.1%</b>
<b>Unemployment Rate</b>	<b>5.8%</b>	<b>9.5%</b>	<b>10.2%</b>	<b>5.9%</b>

Strength of GDP recovery dependent on home price growth

- Consumer spending improves from housing wealth effect
- Bank balance sheet improves ... eases credit crunch
- Foreclosure pressure lessens



# ***Housing Forecast***

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- ***Stimulus and falling inventory will help stabilize prices***
- ***Nationwide Existing Home Sales bump of 10% to 20% in the second half of 2009 vs. second half of 2008***
- ***CA now seeing 100% jump in home sales from trough ... Is CA setting trends for others?***
- ***Builders may not see a recovery till 2010***
- ***Local Price Forecasts ... all over the map***
  - ***Sharp downward overshooting is susceptible to sharper price rebound***

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# ***Inflation or Deflation in 2011 ?***

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- ***Inflation: Print money and there goes the inflation***
  - ***Deflation: Excess capacity and high unemployment rate keeps prices in check.***
  - ***Fed's exit strategy to reclaim printed money***
- 
- ***Which one is more dangerous?***
  - ***Which one will occur? ... Watch the energy price as the catalyst for both scenarios***
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- ***If Inflation ... winners will be property owners who locked-in low rate***
  - ***If deflation ... losers will be responsible homeowners with mortgages***

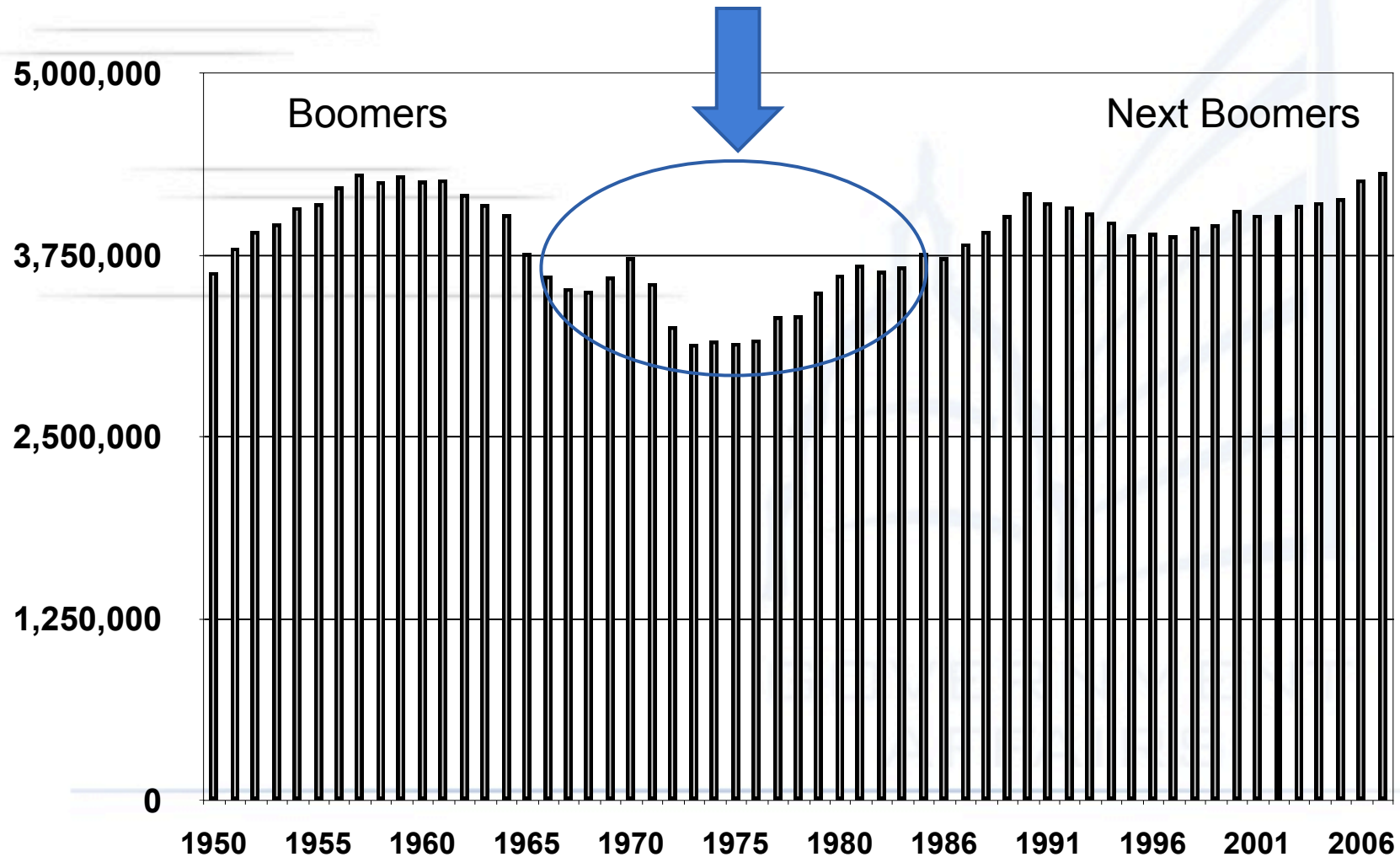


# ***The Next Baby Boomers***

***(Recent Births matching the post-War Baby Boomer numbers)***

**Number of Live Births Each Year**

Baby Bust Impact Ending ?





# ***The Next Middle Class***

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- ***Global Economy is here to stay***
- ***U.S. population: 300 million***
- ***BRIC countries ... nearly 10 times the U.S. population***
  - ***Brazil: 190 million***
  - ***Russia: 140 million***
  - ***India: 1.1 billion***
  - ***China: 1.3 billion***
- ***Potentially 30 million new middle class each year from just 1% upward shift***
- ***How many will want a property in the U.S.?***

