

# **Market Trends and Forecasts**

**Lawrence Yun, Ph.D.  
Chief Economist**

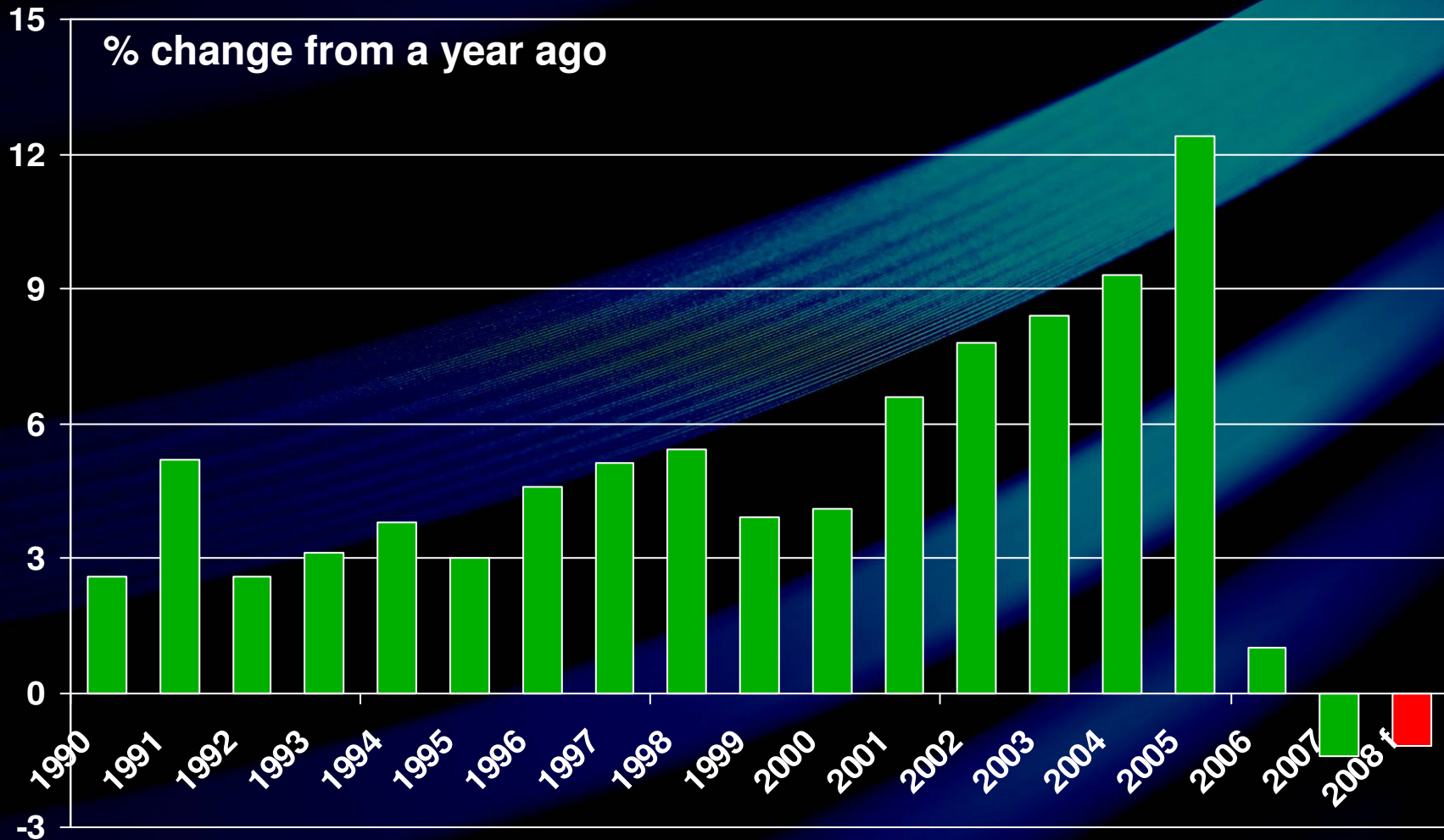
**NATIONAL ASSOCIATION OF REALTORS®**

**Presentation at New England REALTORS® Conference**

**Cambridge, MA**

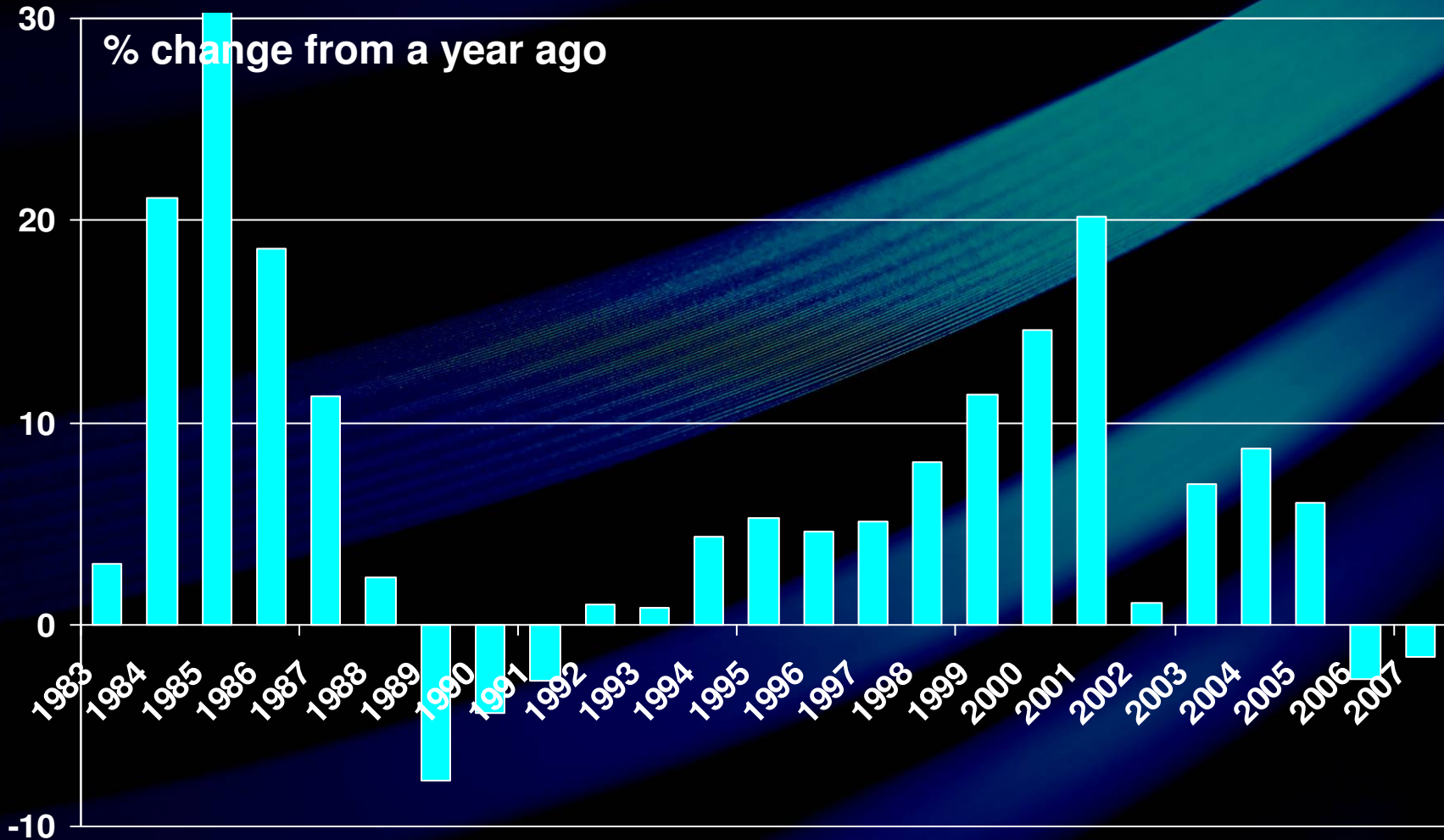
**March 3, 2008**

# National Home Price Growth



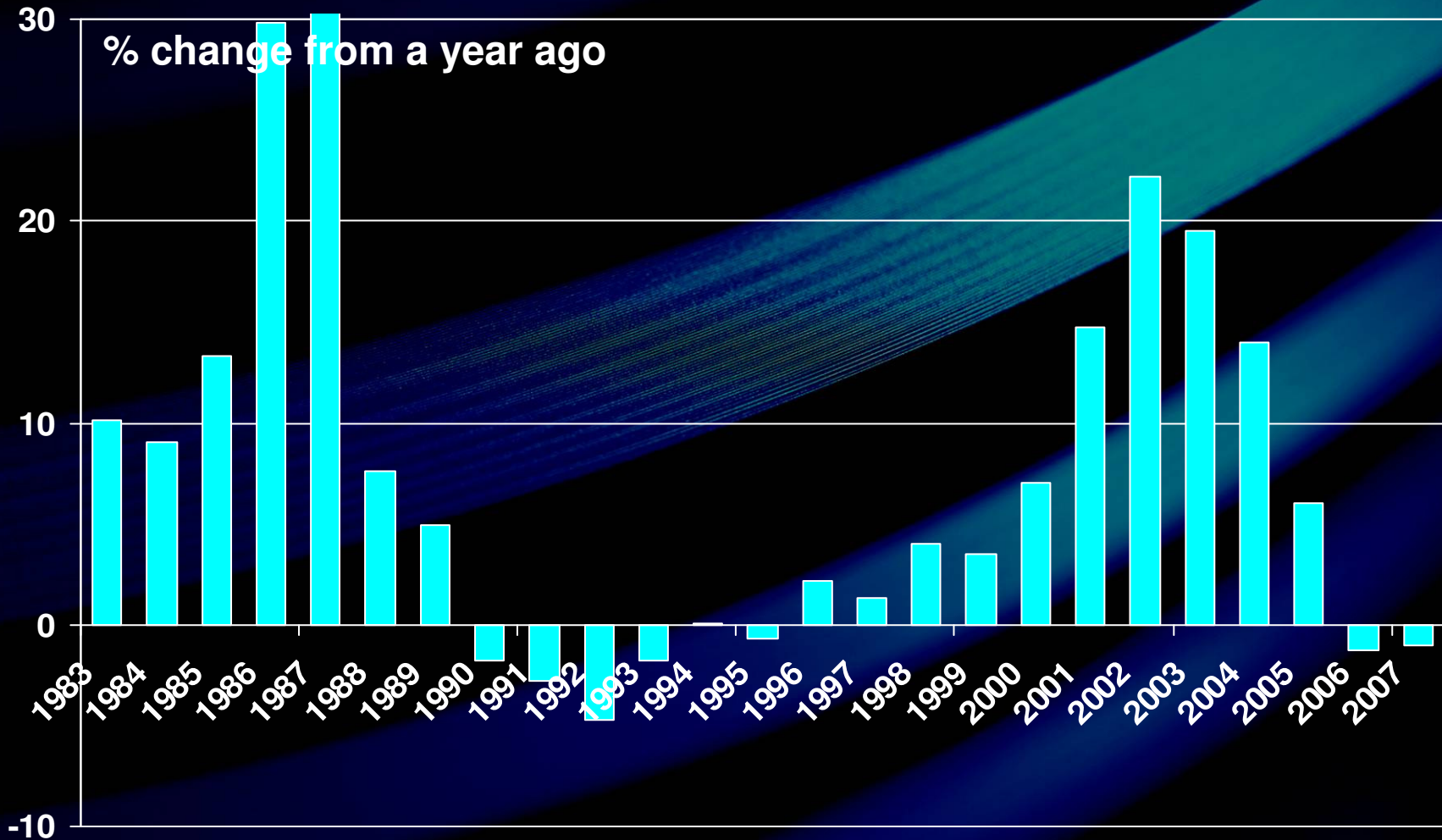
Source: NAR

# Greater Boston Home Price Growth



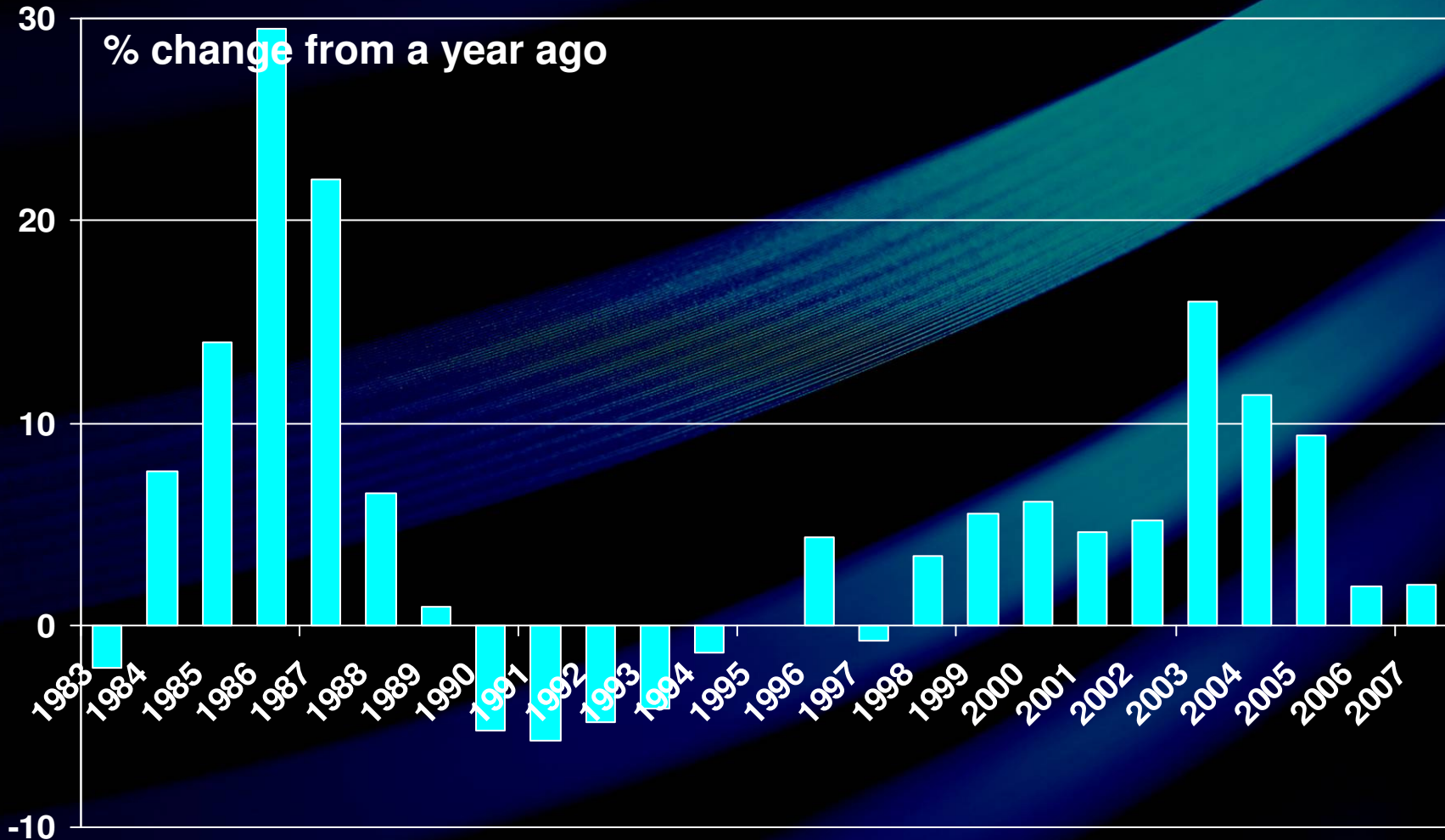
Source: NAR

# Greater Providence Home Price Growth



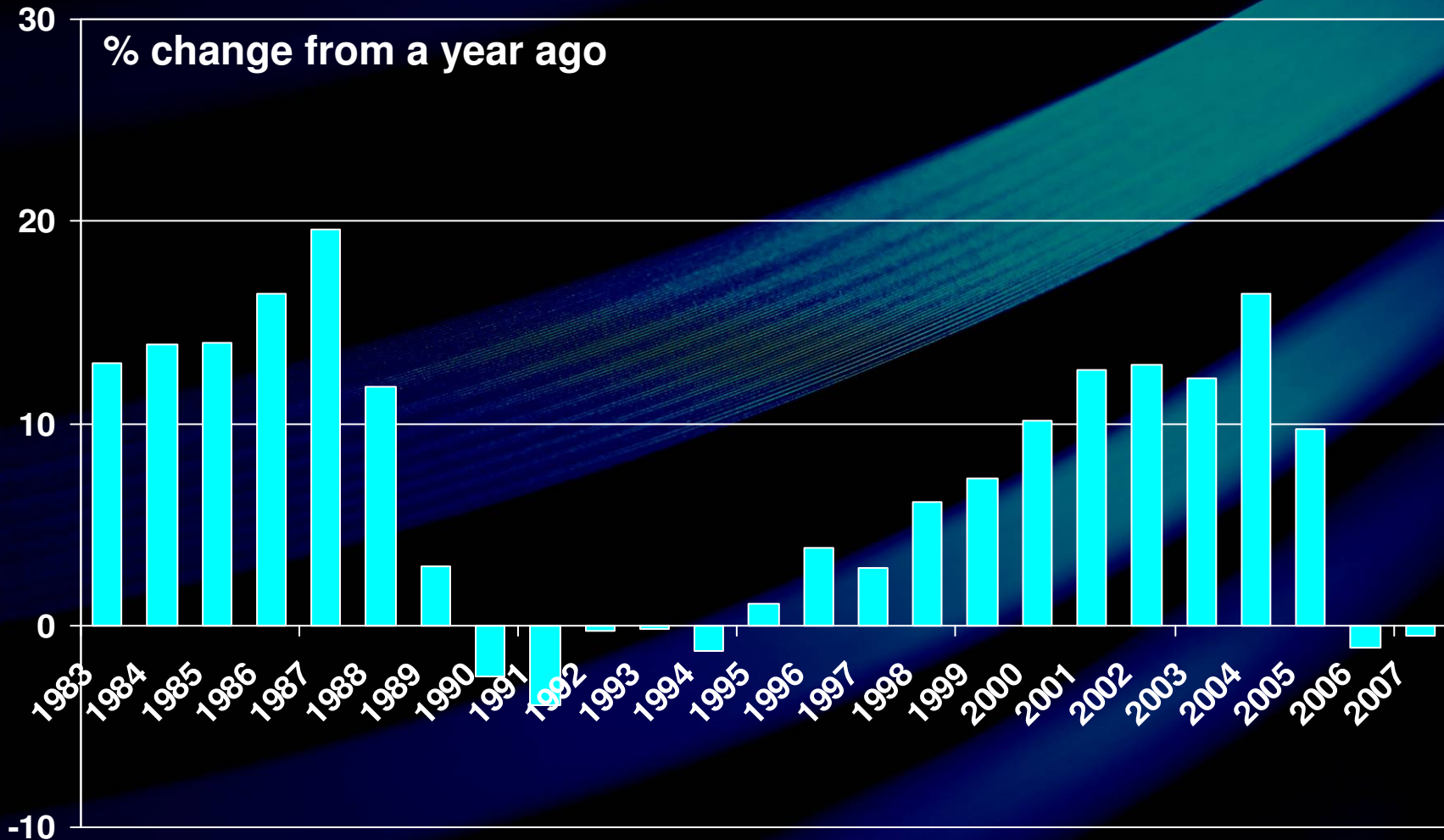
Source: NAR

# Greater Hartford Home Price Growth



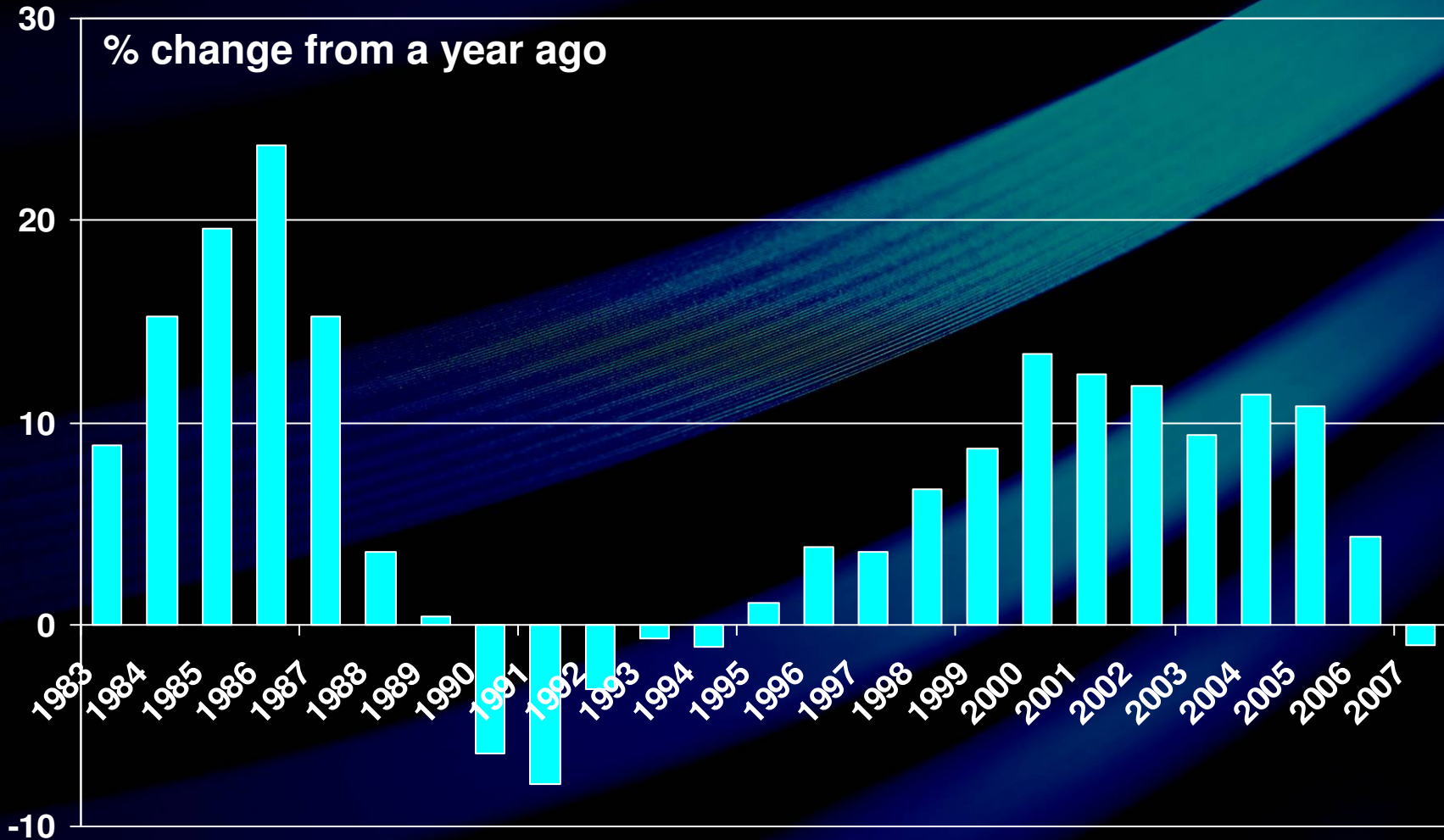
Source: NAR and OFHEO

# Greater Portland Home Price Growth



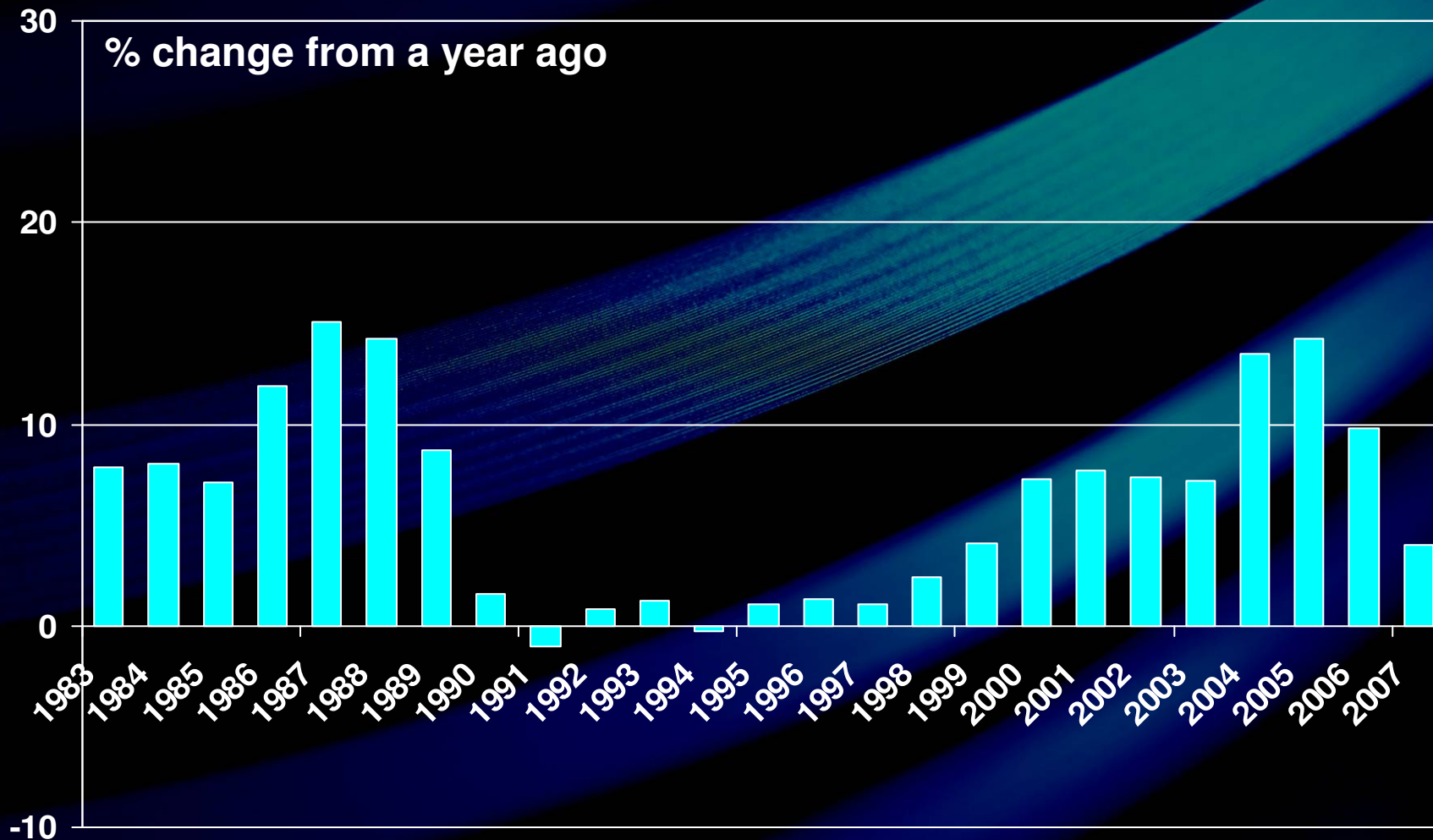
Source: OFHEO

# New Hampshire Home Price Growth

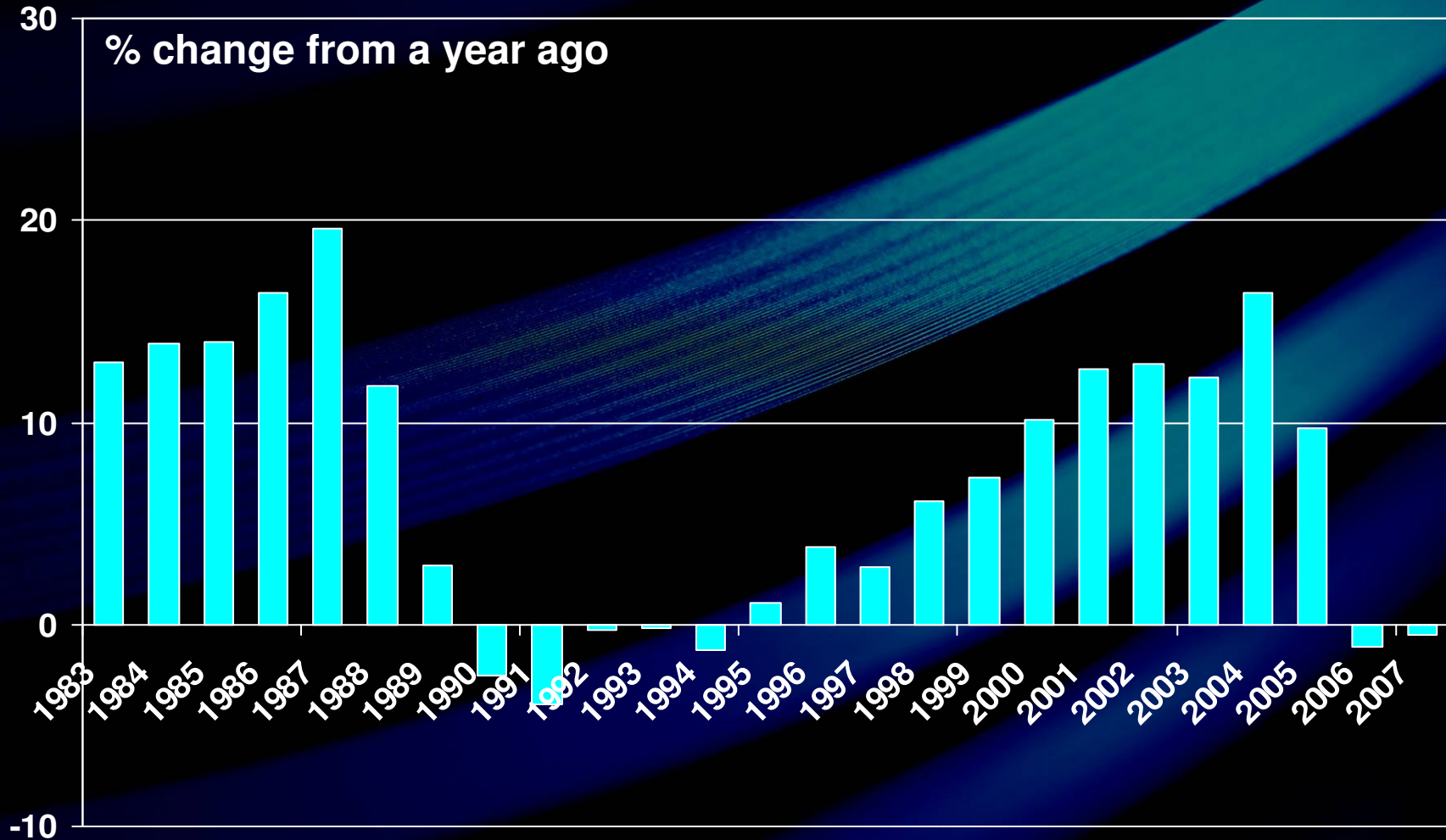


Source: OFHEO

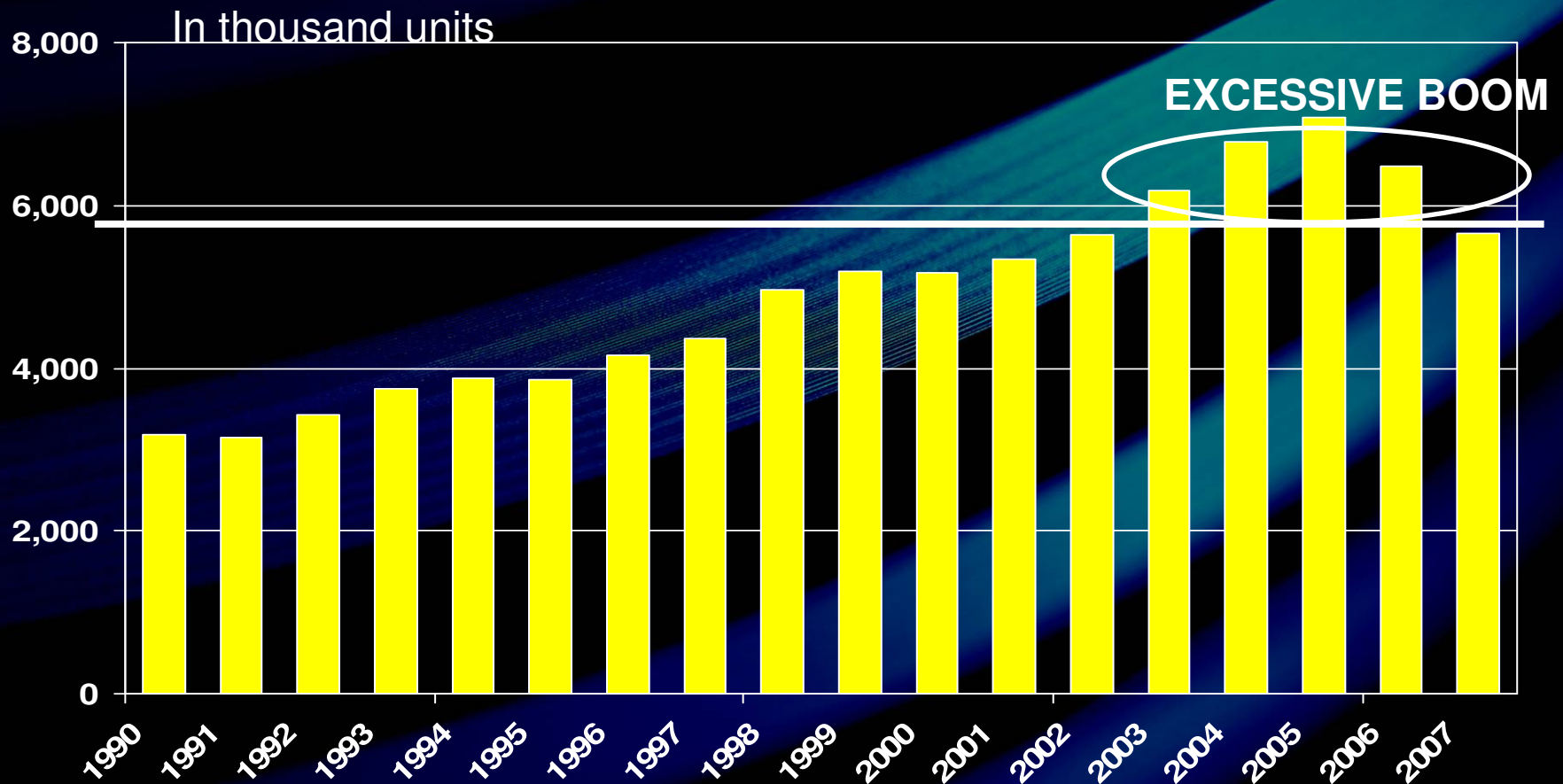
# Vermont Home Price Growth



# Greater Portland Home Price Growth



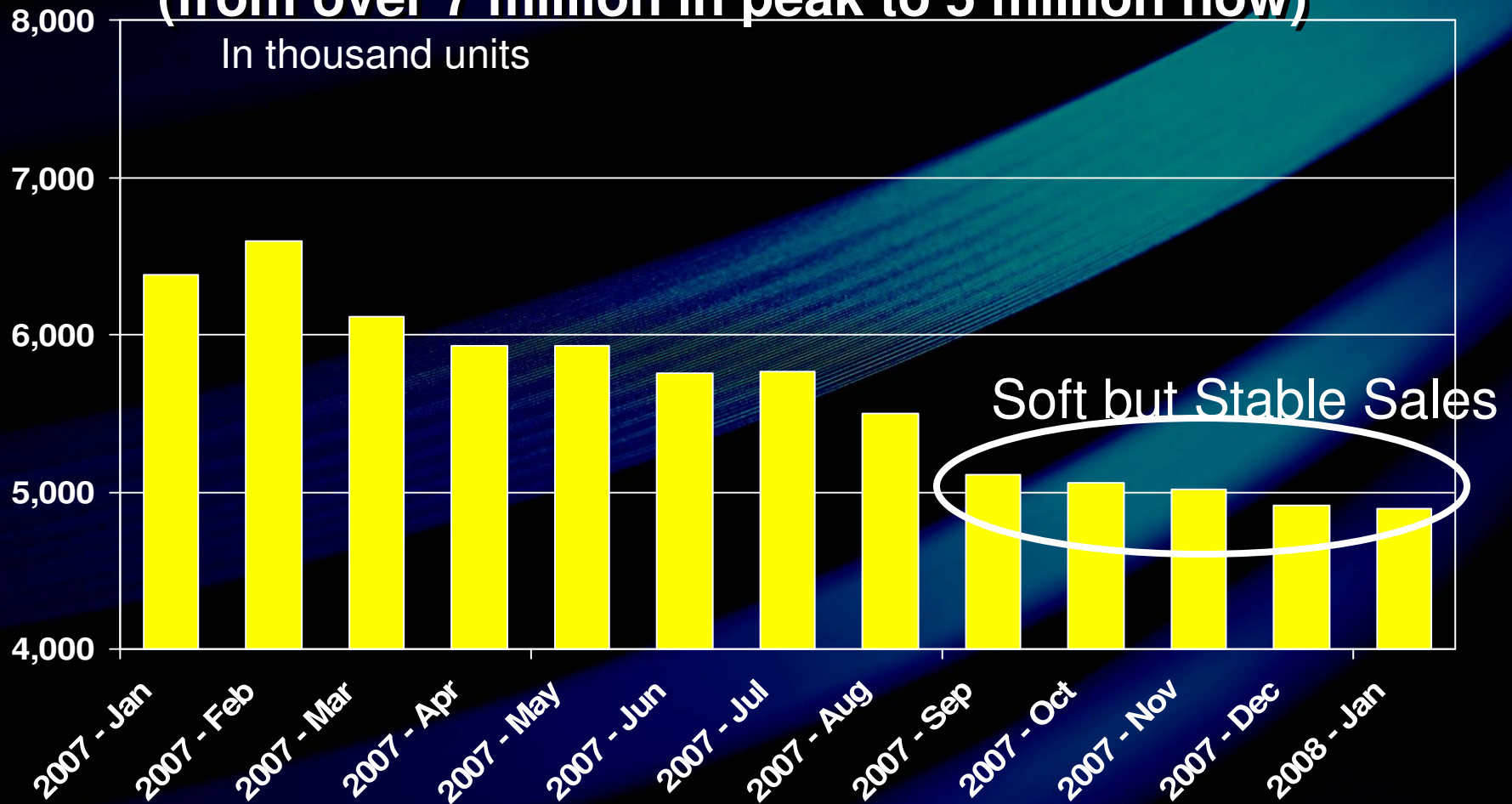
# Annual Existing-Home Sales



Home sales have retreated back to pre-boom years, which was then considered to be at healthy levels.

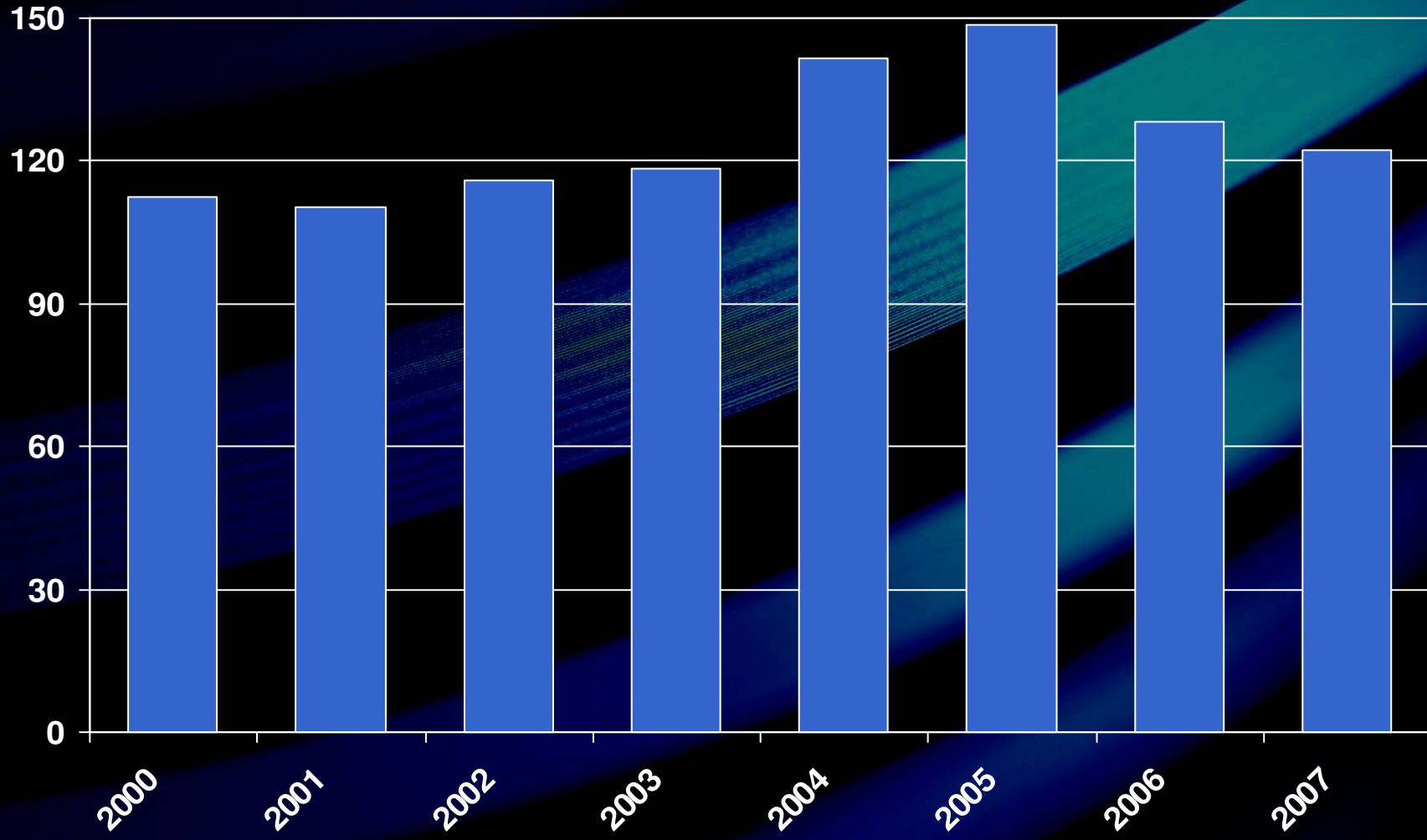
# Recent Monthly National Existing-Home Sales

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



# Massachusetts Existing-Home Sales

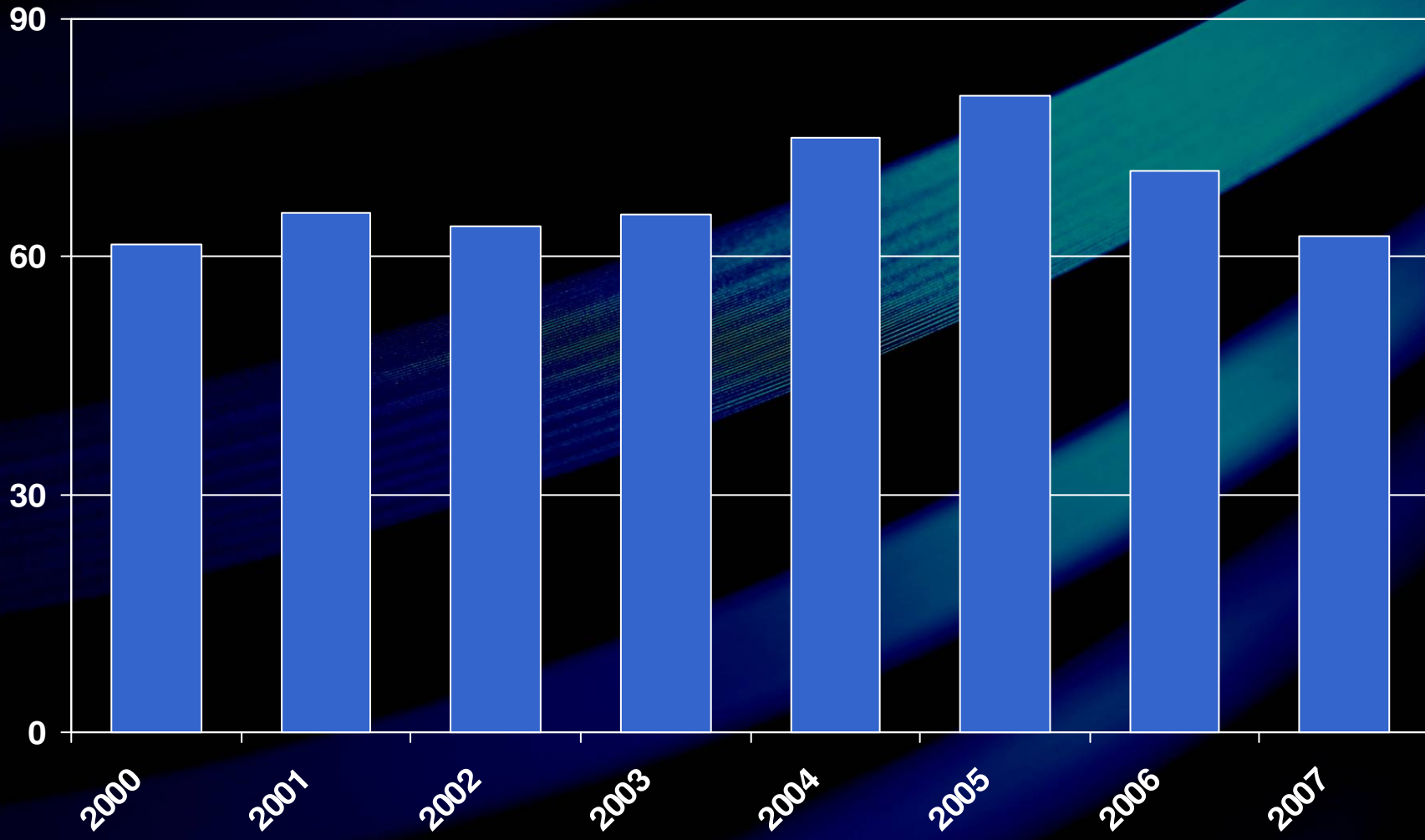
In thousand units



Source: NAR

# Connecticut Existing-Home Sales

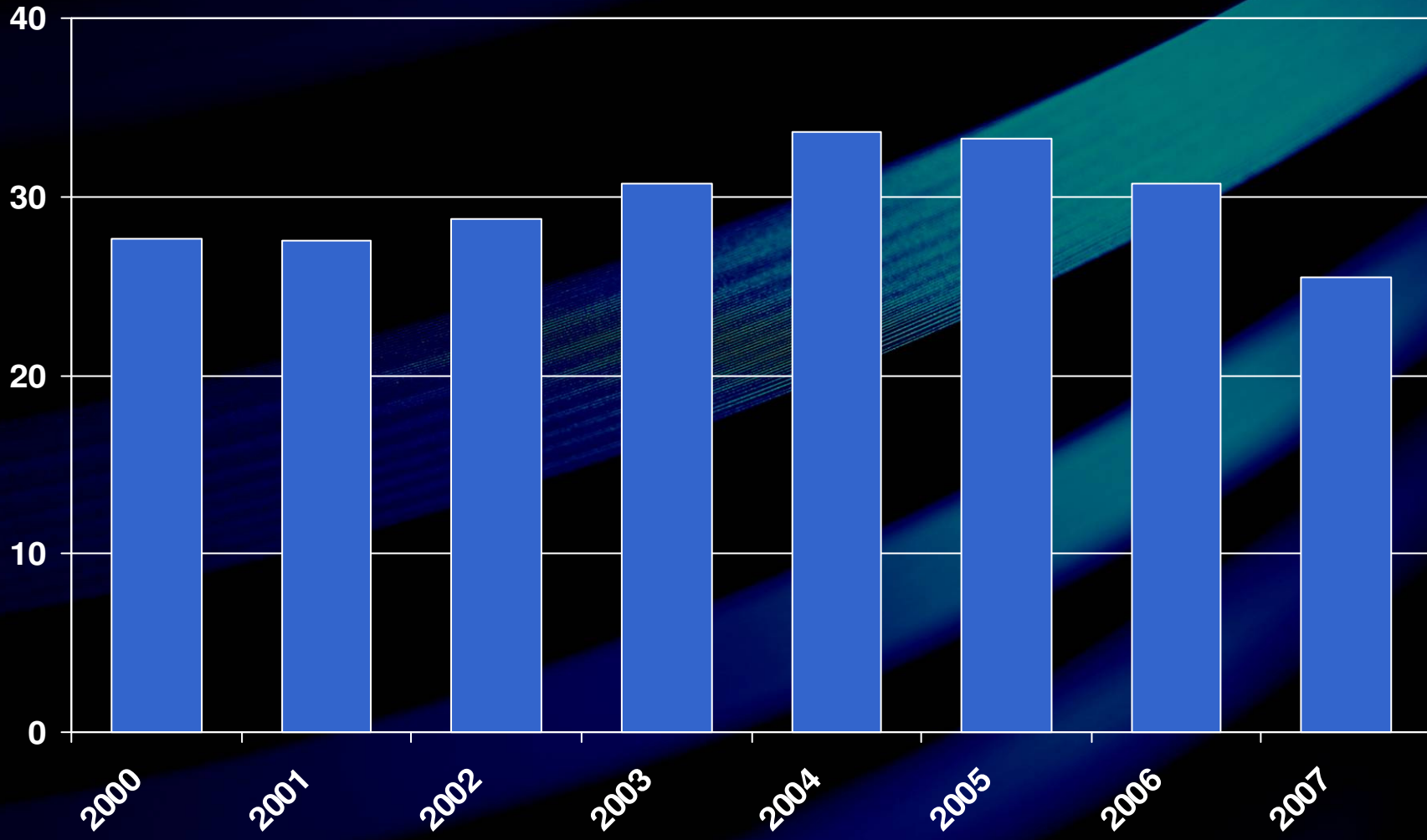
In thousand units



Source: NAR

# Maine Existing-Home Sales

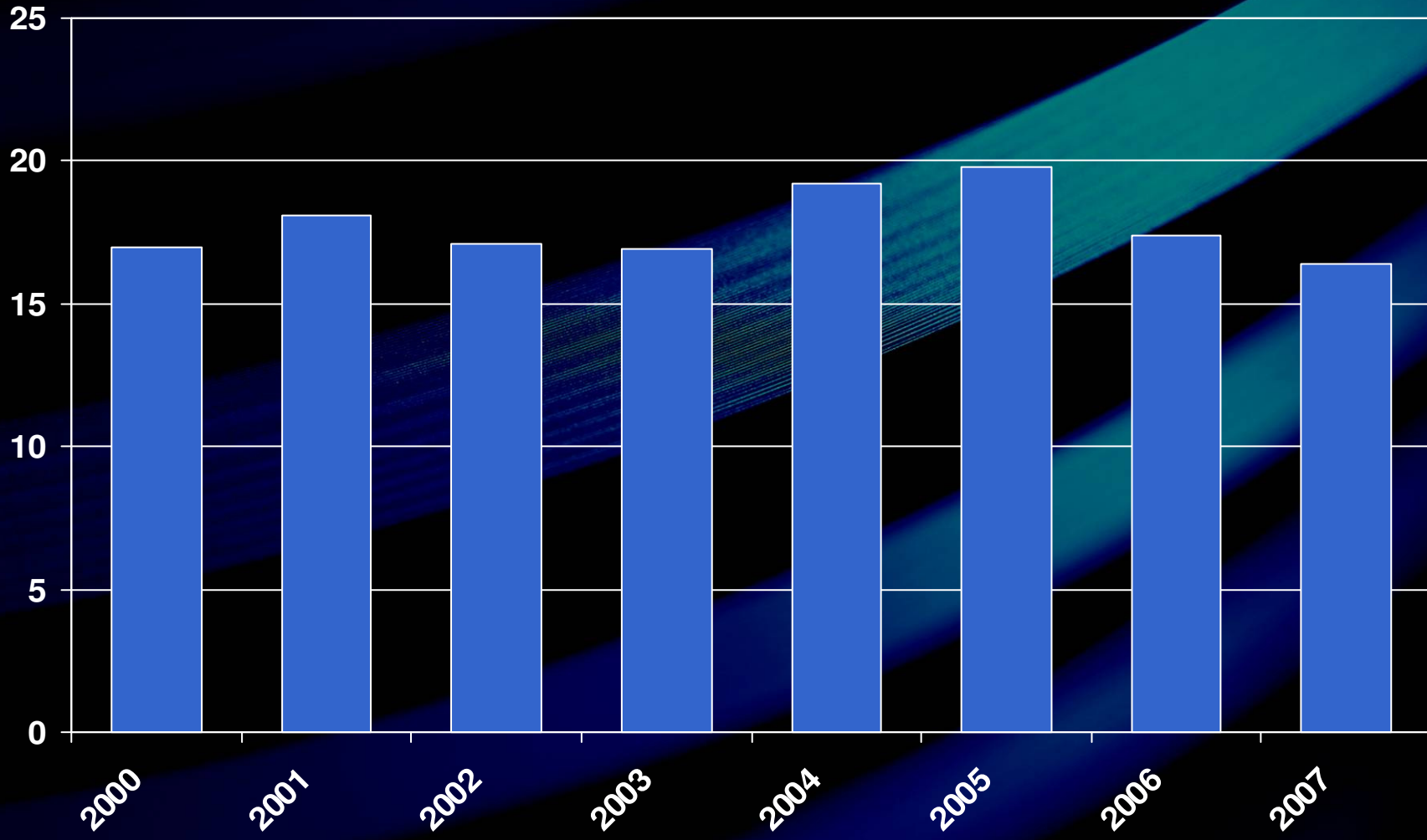
In thousand units



Source: NAR

# Rhode Island Existing-Home Sales

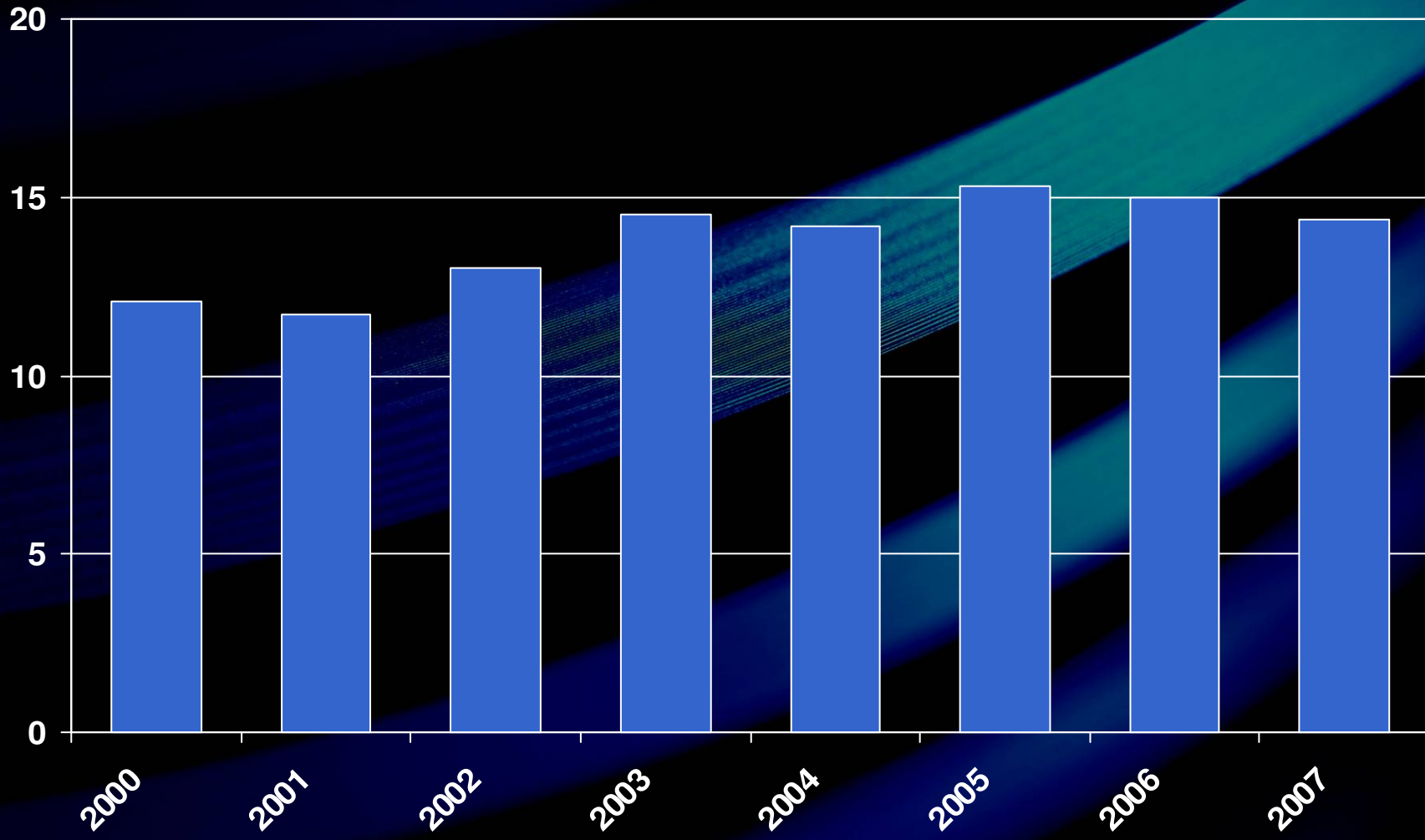
In thousand units



Source: NAR

# Vermont Existing-Home Sales

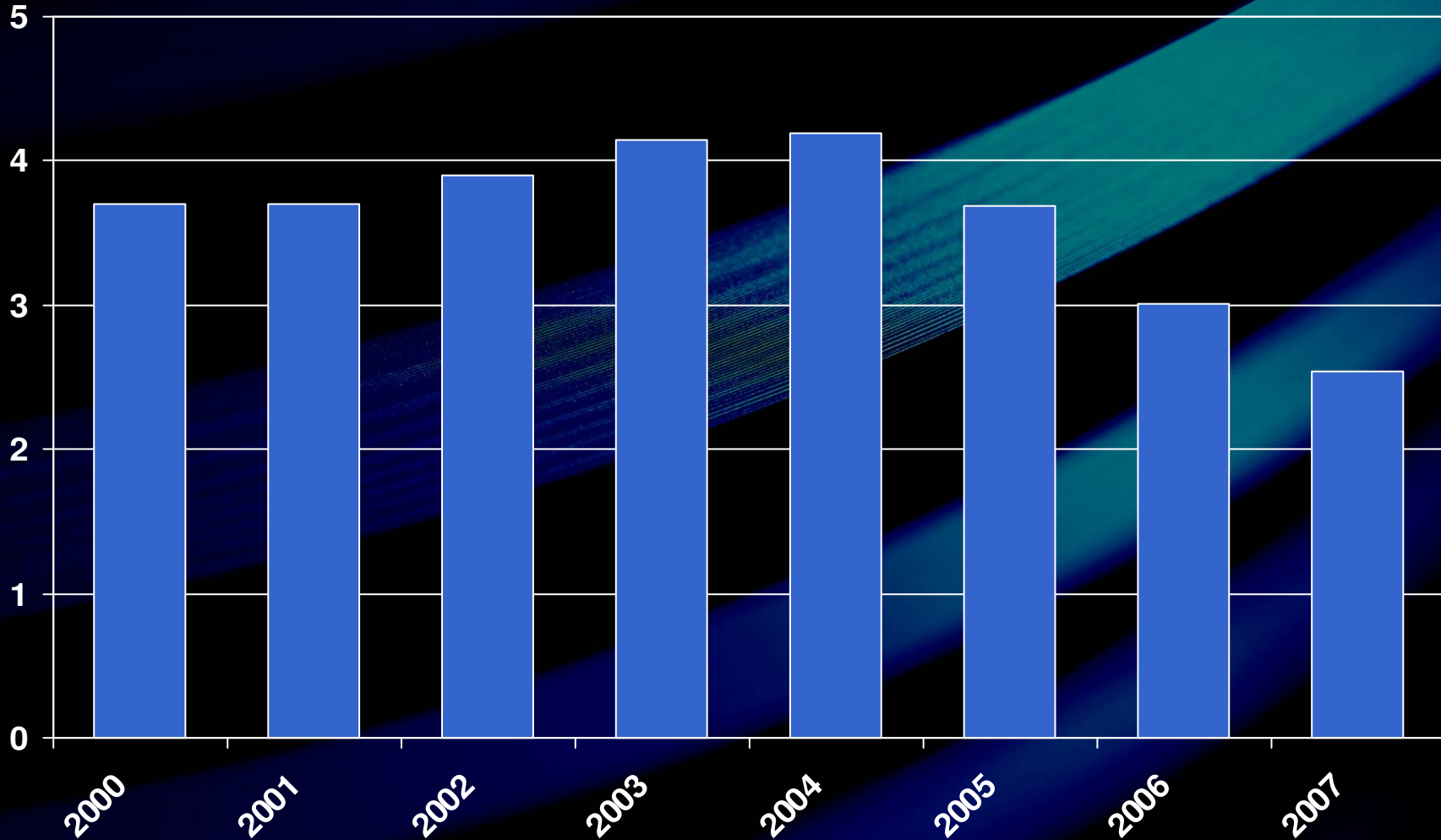
In thousand units



Source: NAR

# New Hampshire Existing-Home Sales

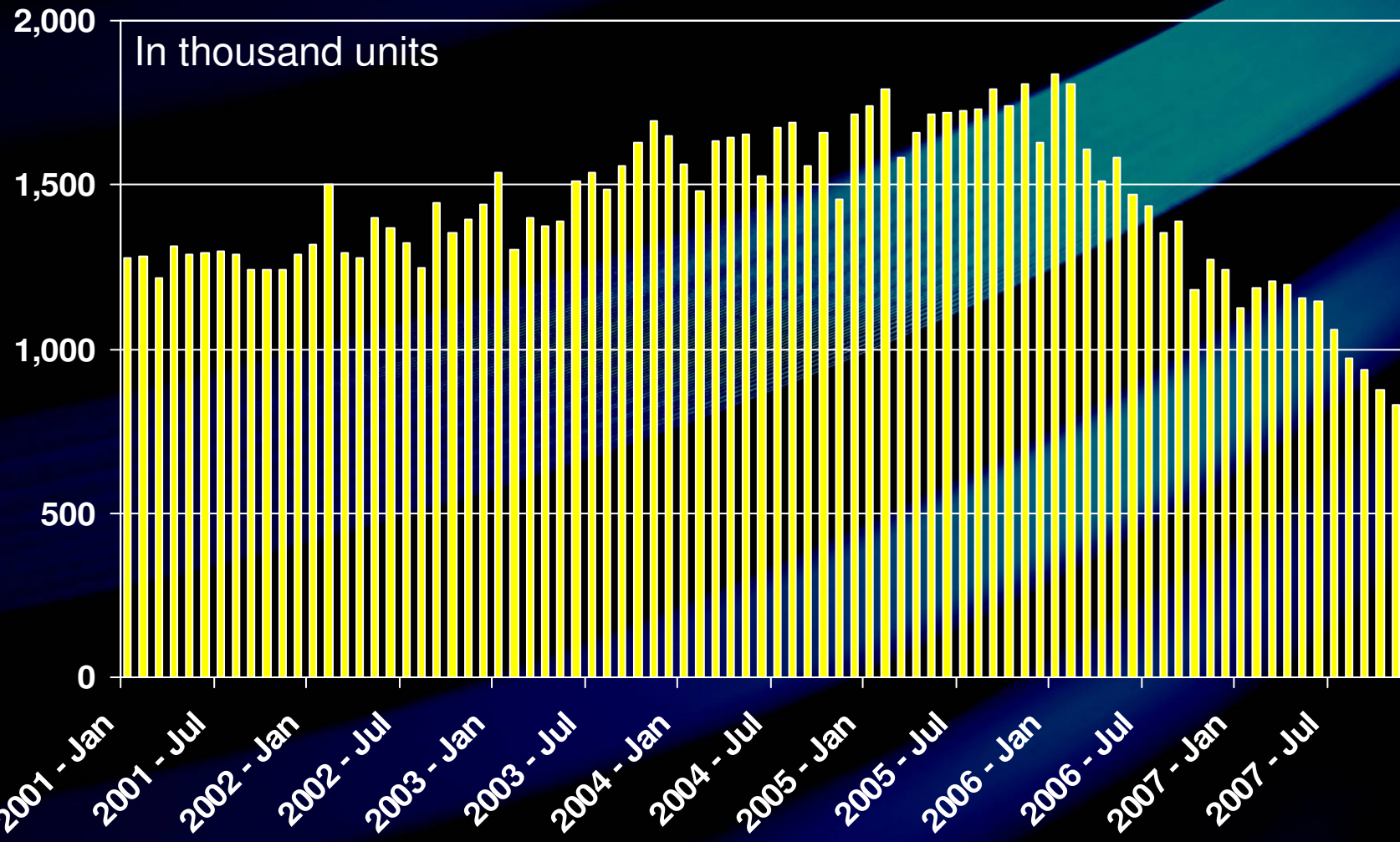
In thousand units



Source: Northern New England Real Estate Network, NHAR

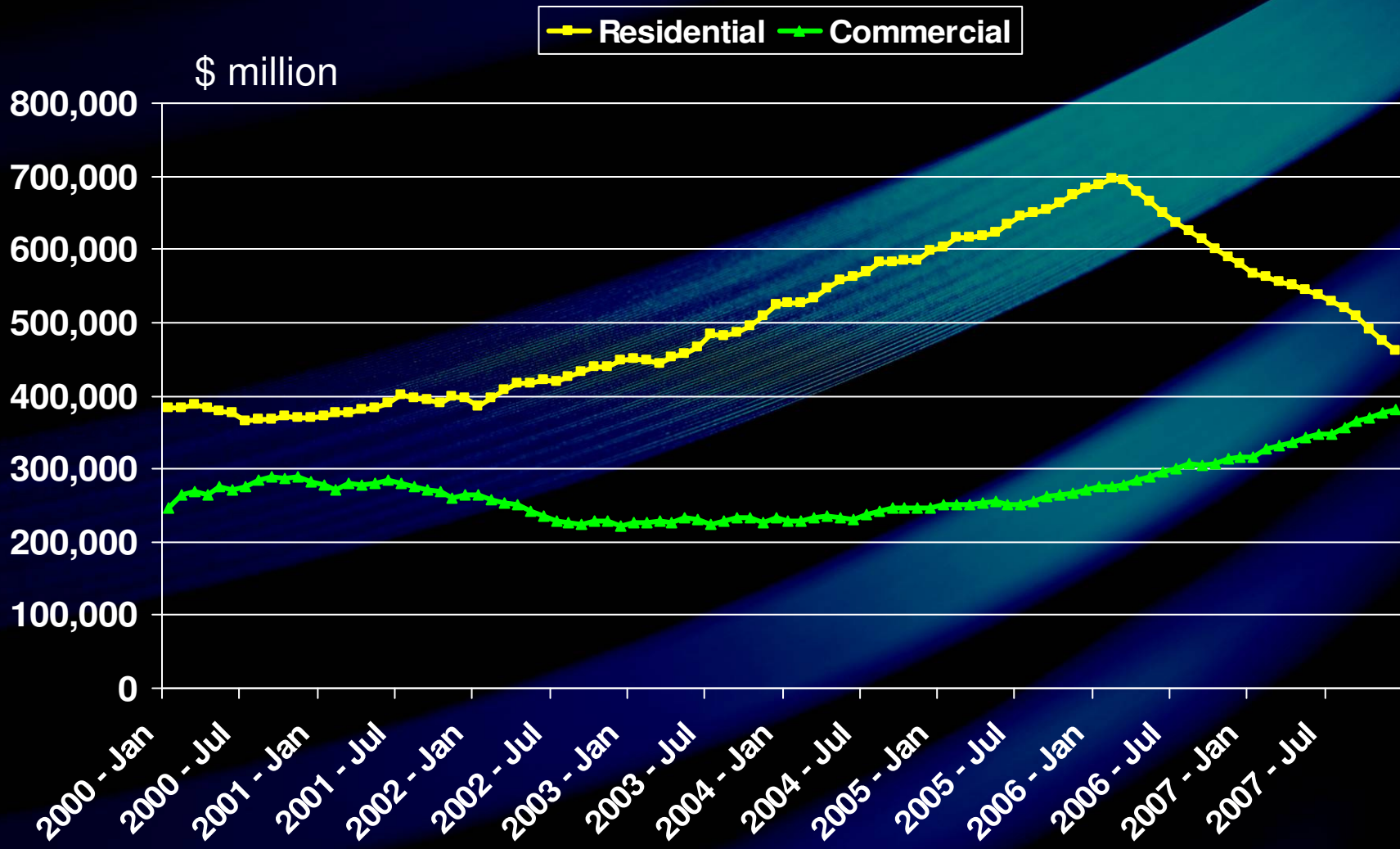
# Single-Family Housing Starts

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



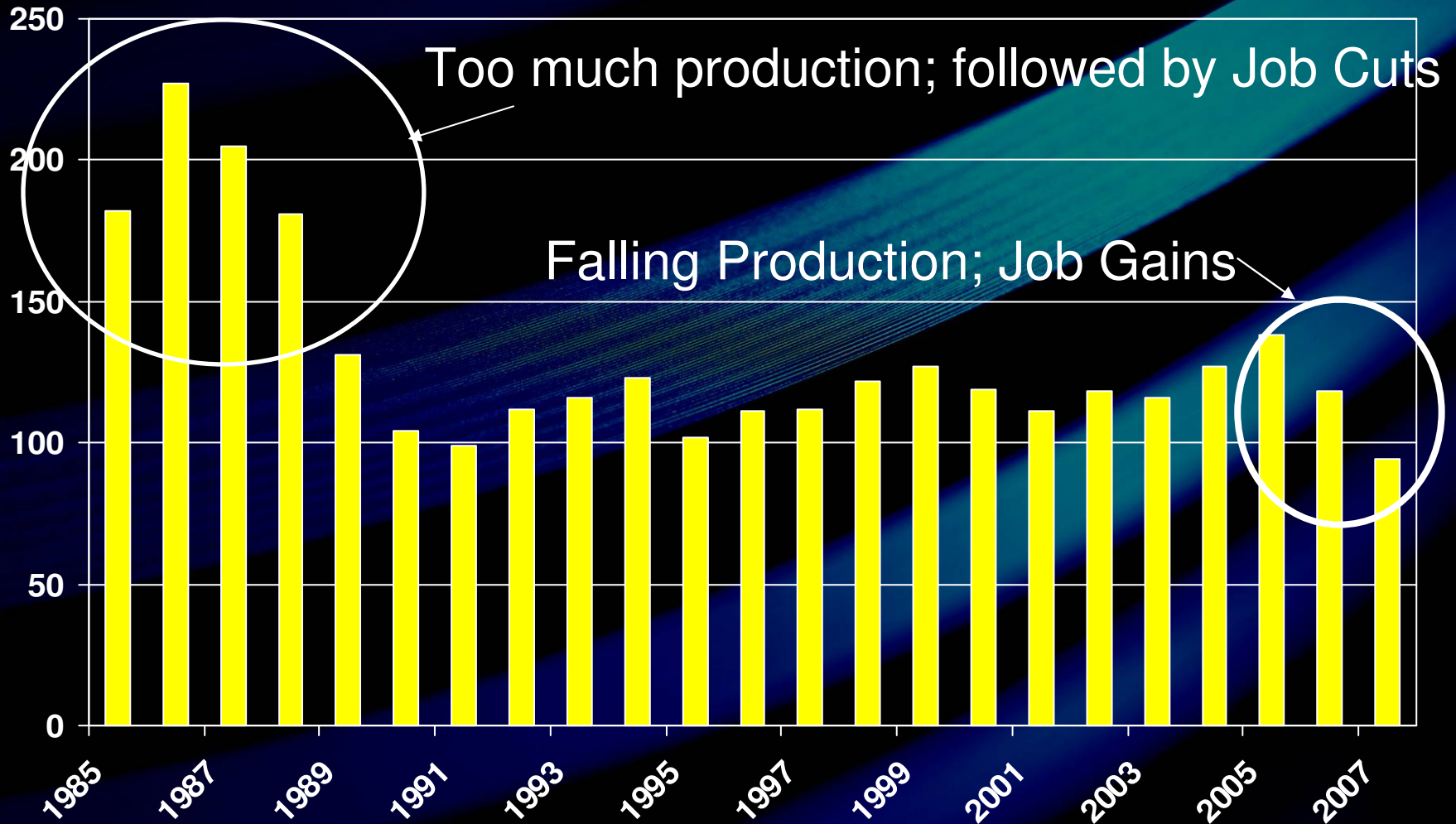
Source: Census

# Construction Spending



Source: Census

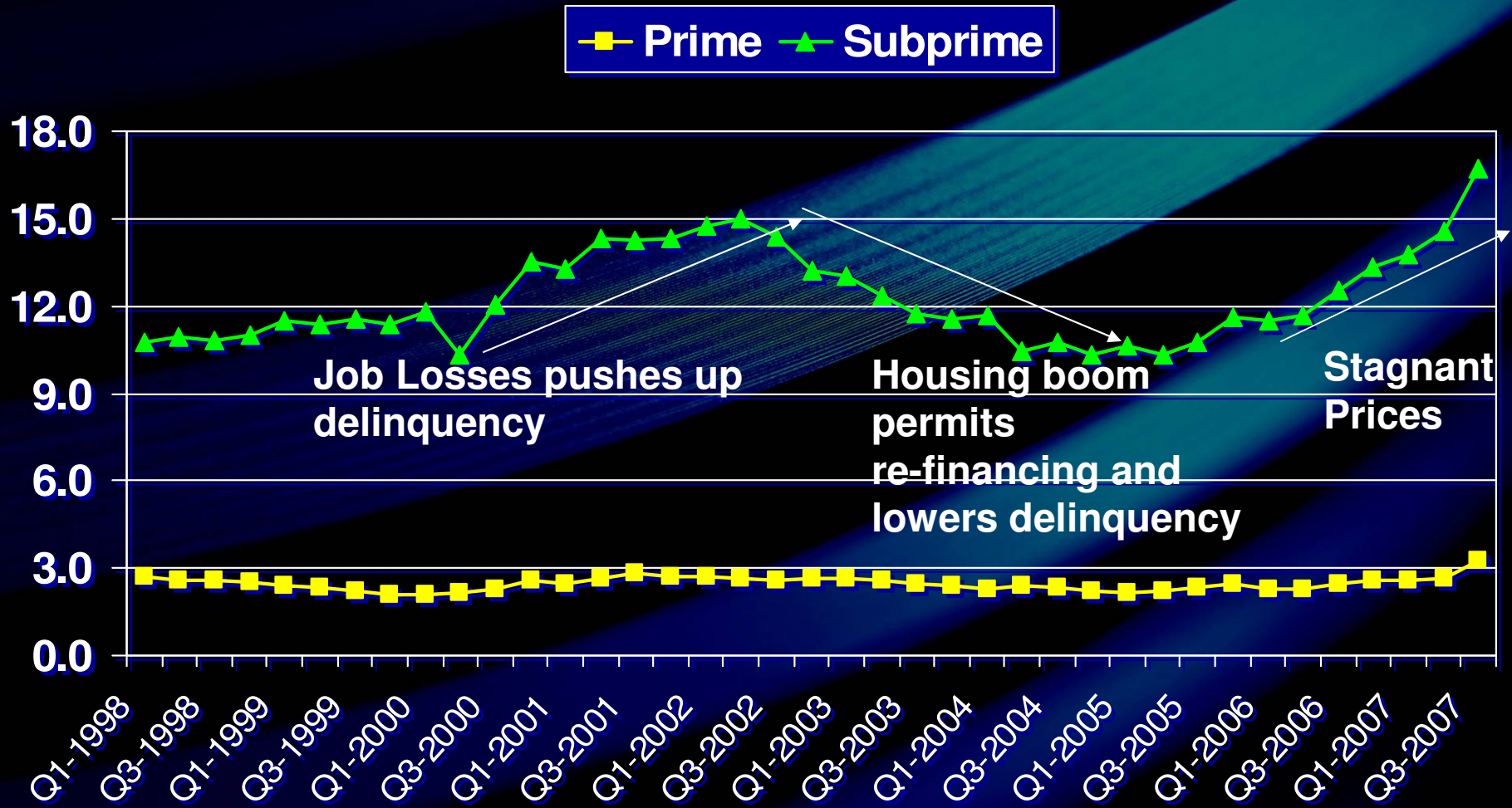
# Northeast Region Single-Family Housing Starts



Source: Census

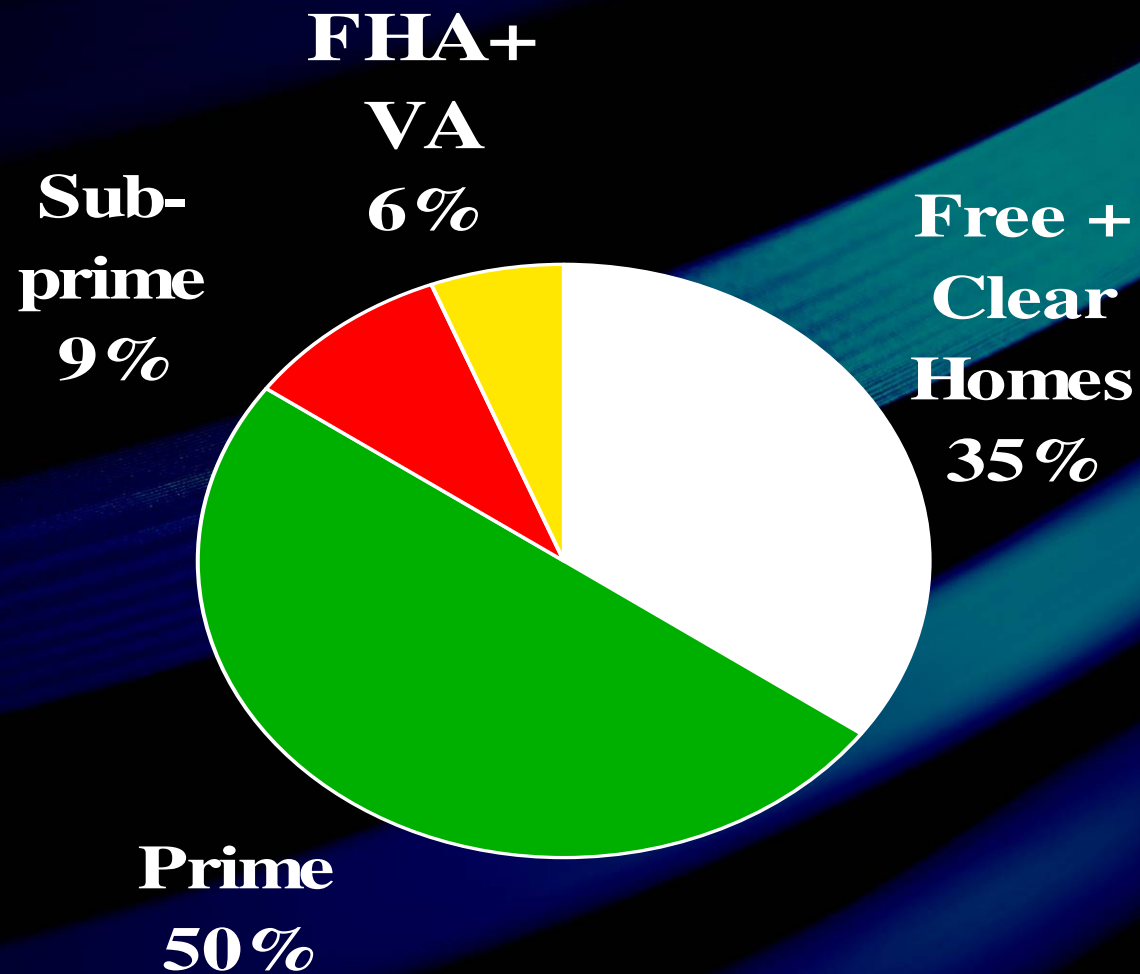
# Souring Loan Performance

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



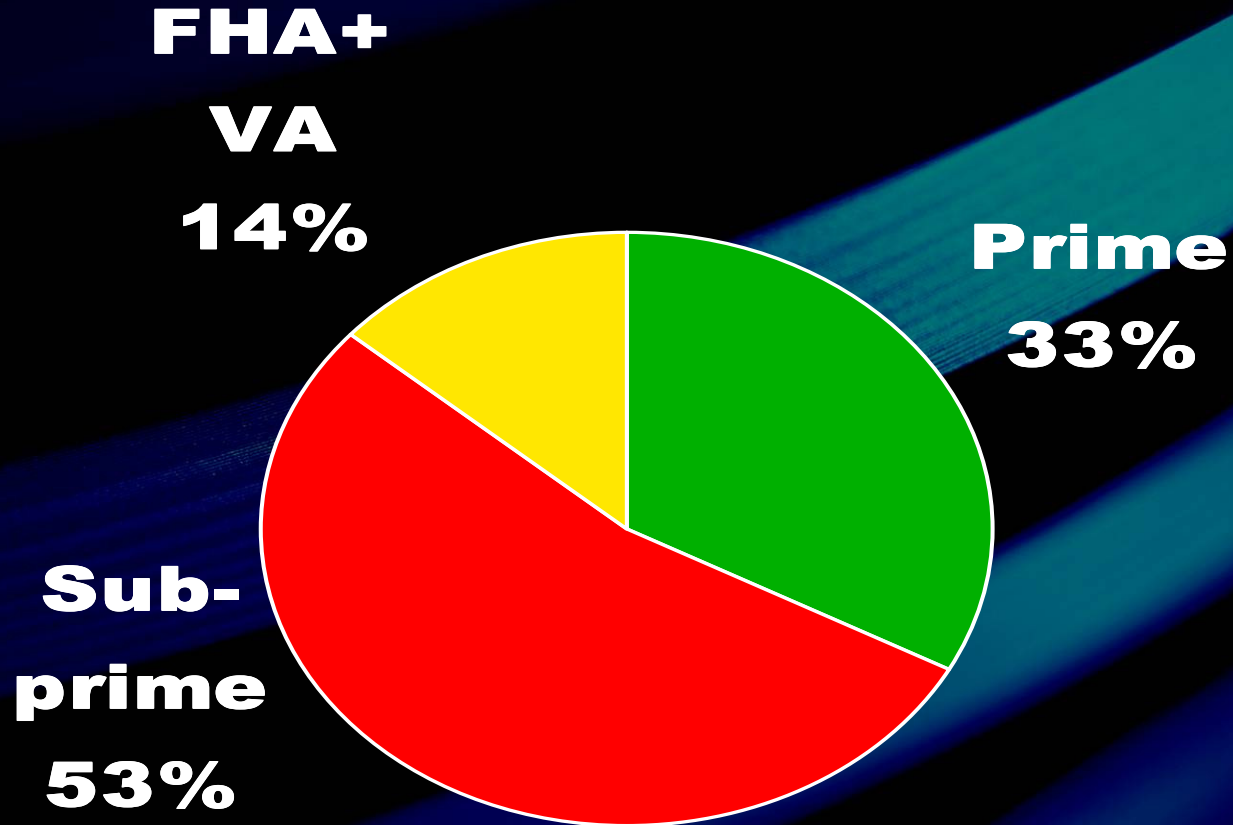
Data: MBA

# Subprime Loan Exposure



Source: NAR Estimate

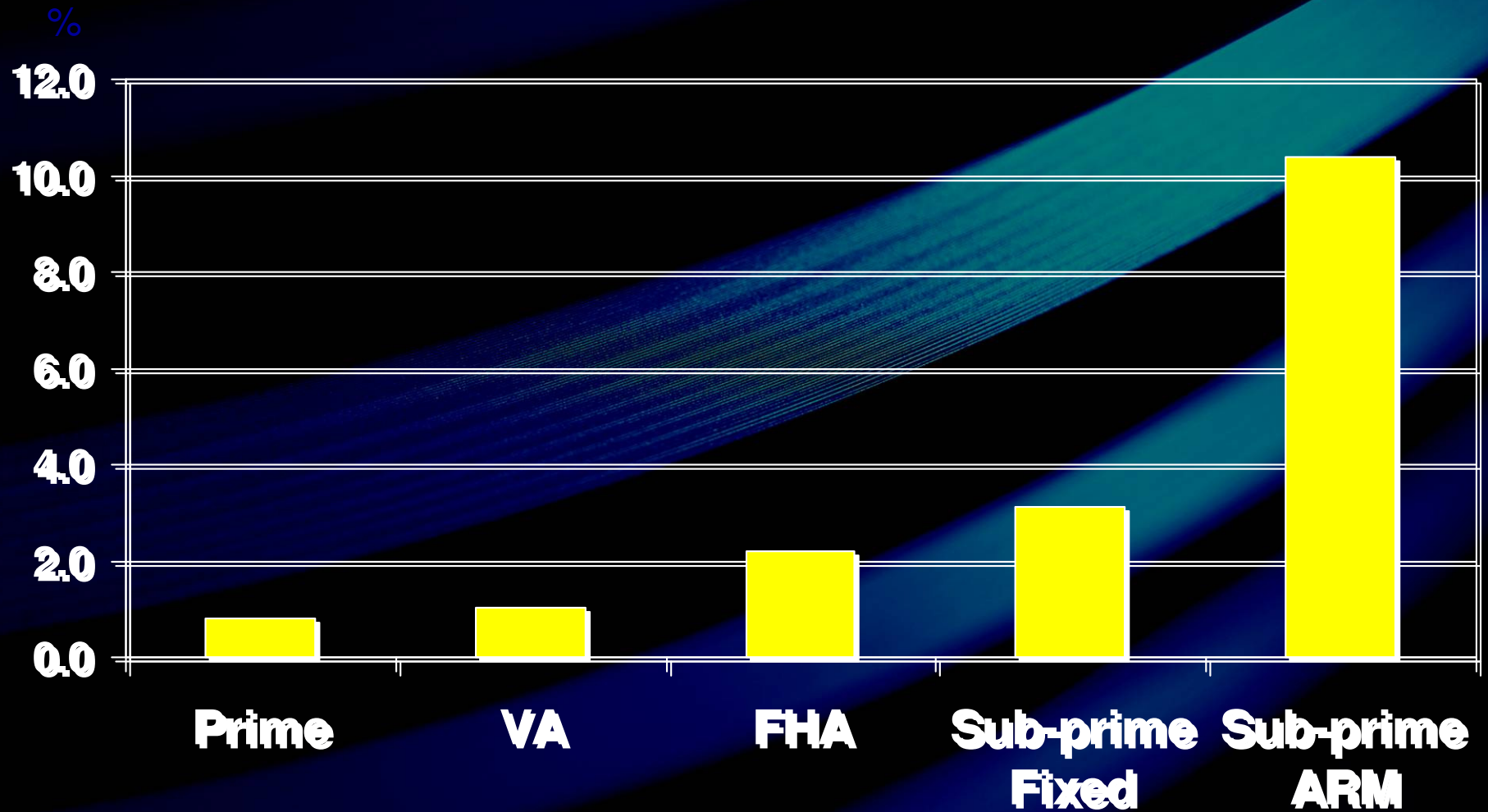
# Foreclosed Homes



Source: NAR Estimate

# Foreclosure Rates by Loan Type

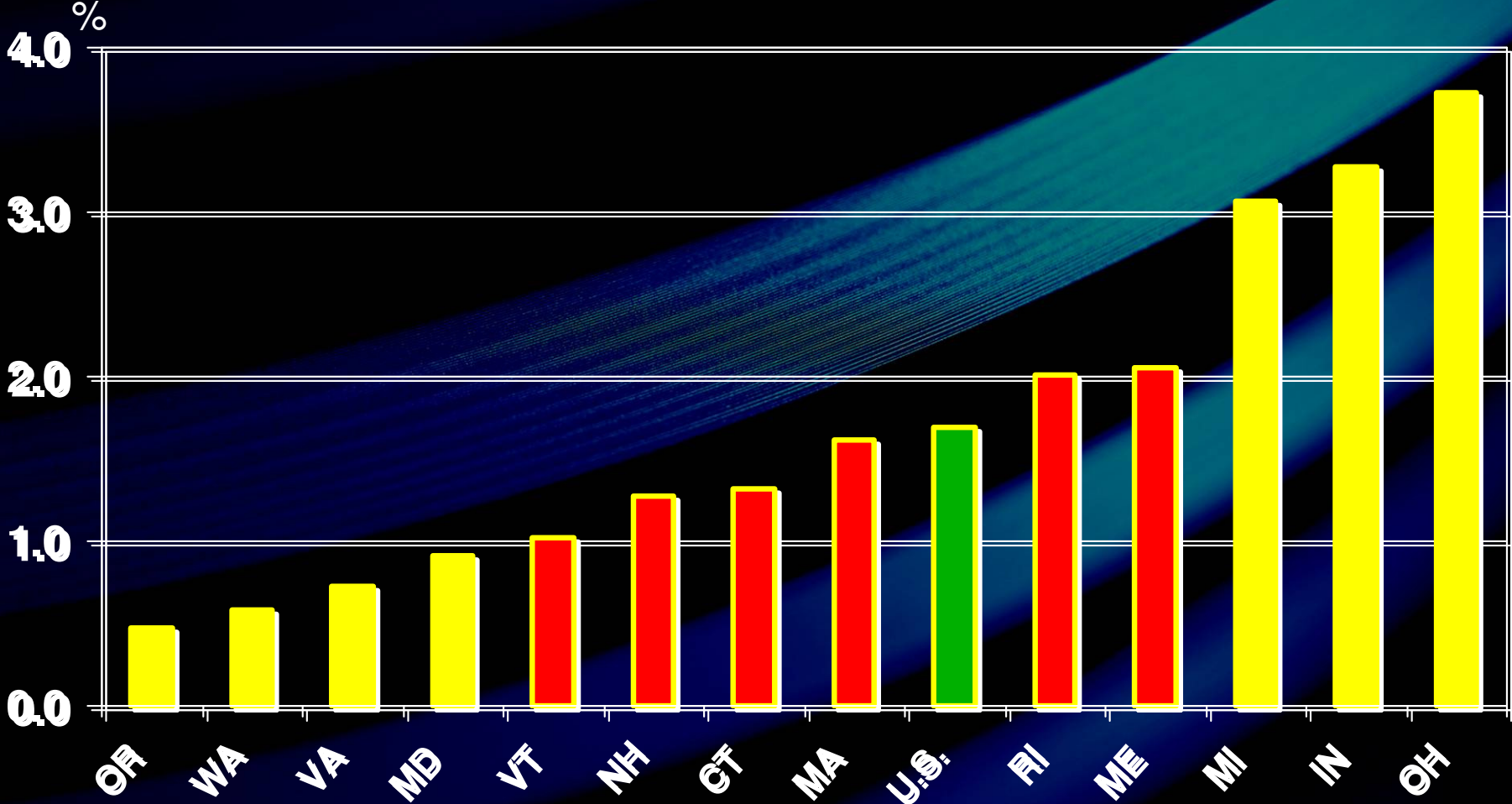
## 2007 Q3



Source: MBA

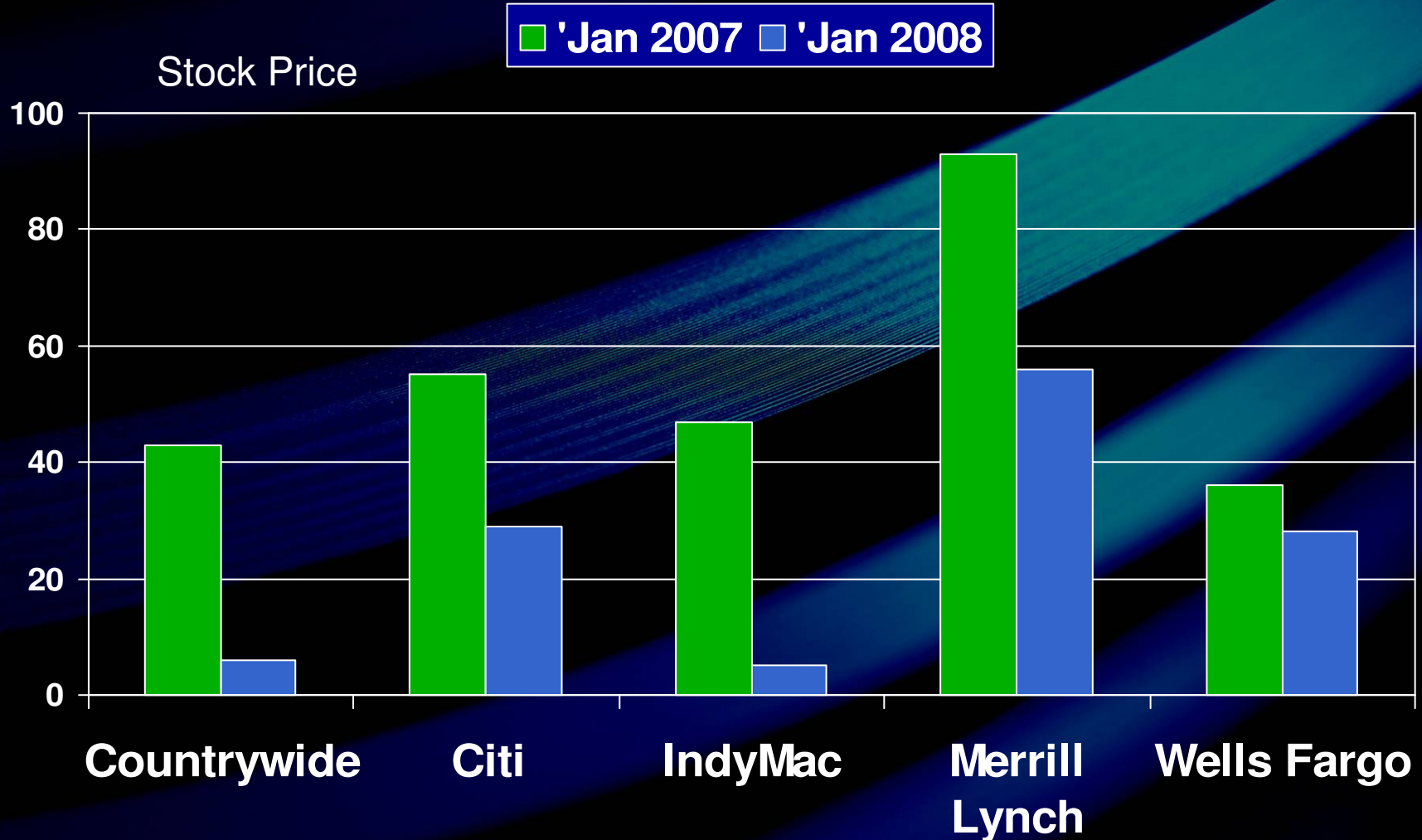
# Foreclosure Rate Comparisons

(2007 Q3)



Source: MBA

# Gamble Did Not Pay: Wall Street Re-valuation



Source: Wall Street Journal

# Subprime Problem

- **Huge Loss Write-downs from PAST lending mistakes**
- **Expect more write-downs and rising foreclosure from PAST lending mistakes**
- **Does not impact CURRENT mortgage borrowers**
  - **Historically low rates**
  - **FHA safer alternative**
- **Impacts home values from rising defaults**
- **Impacts homebuyer confidence**

**All  
Real  
Estate is  
Local**

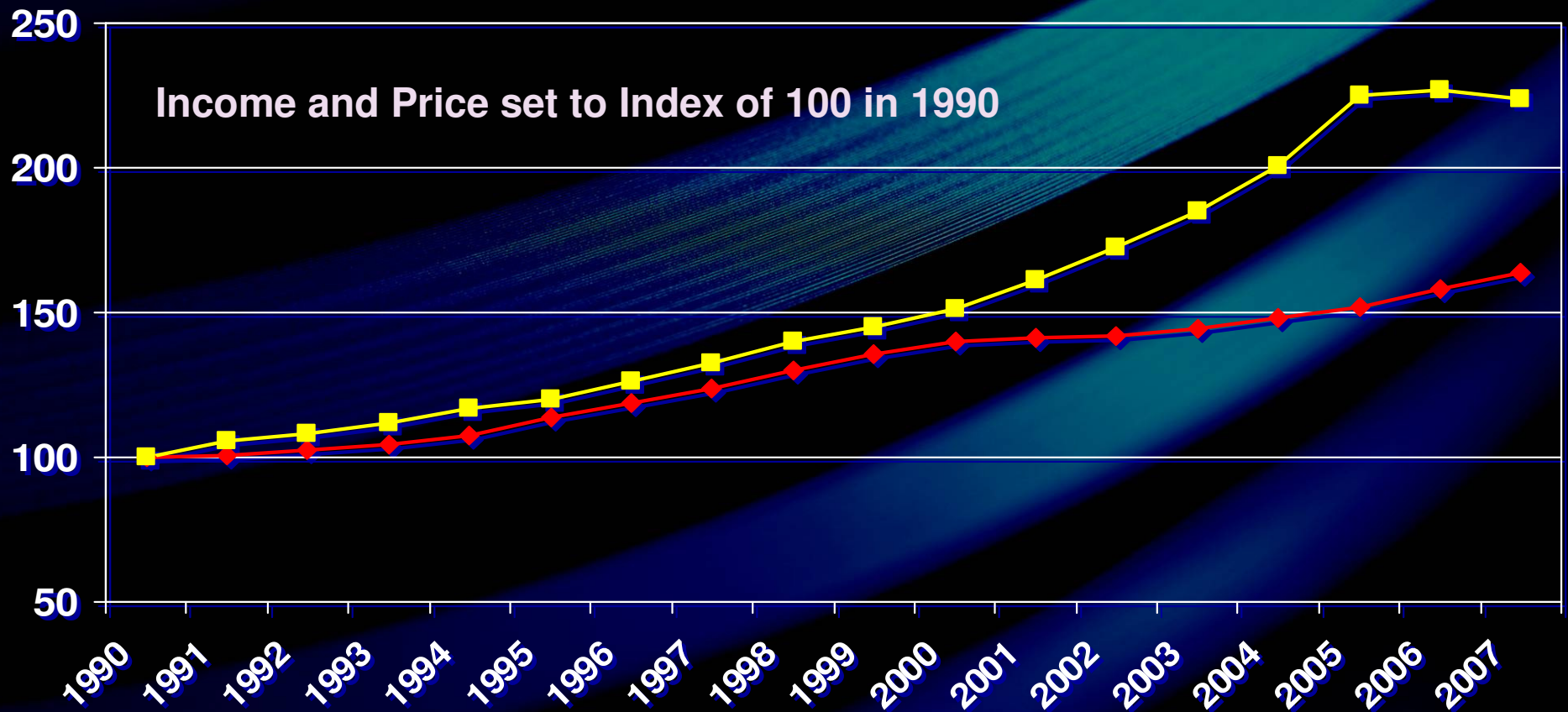


# National vs. Local Information

- **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 are not meaningful

# Something appears Out of Whack!

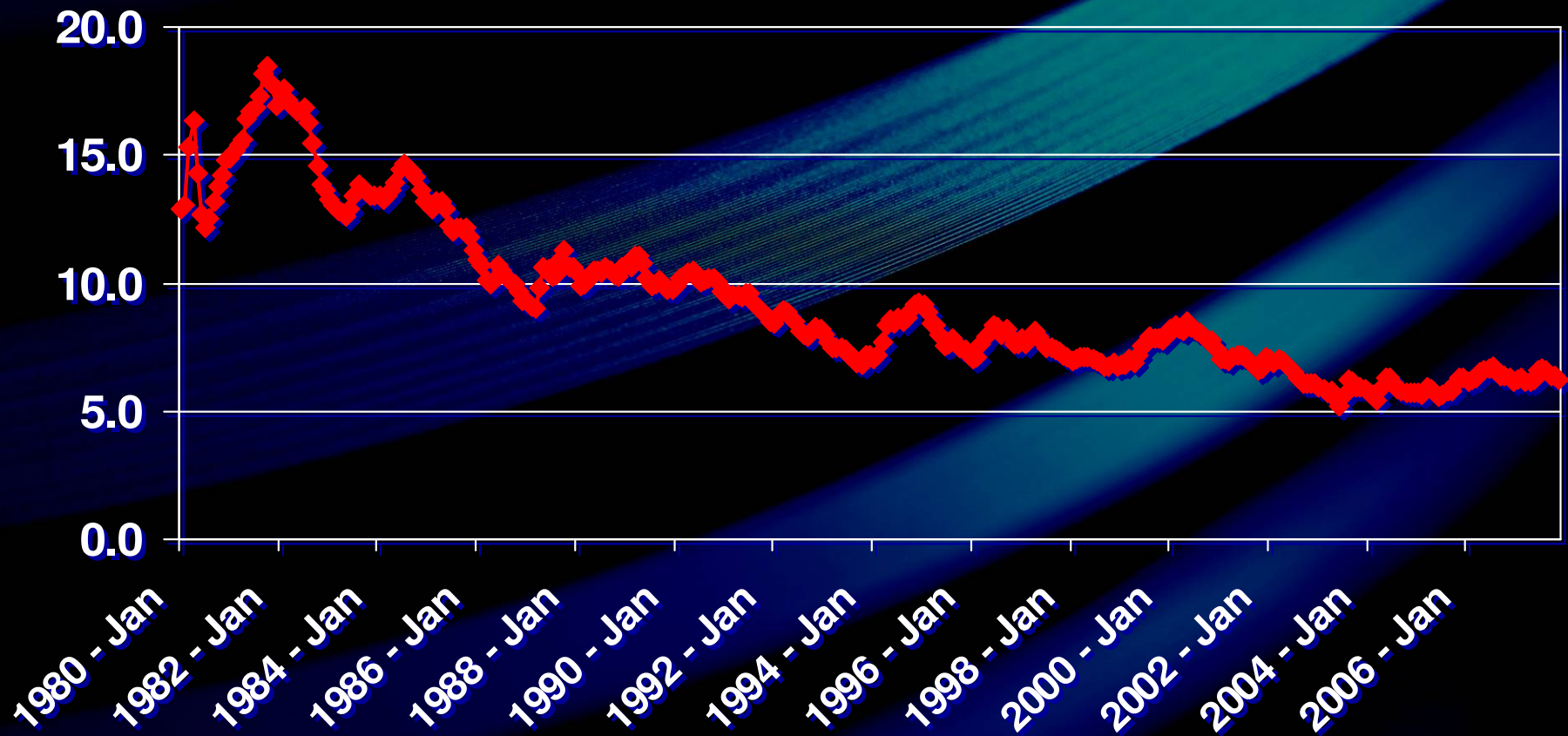
◆ Income    ■ Home Price



Source: NAR

# Mortgage Rates Falling

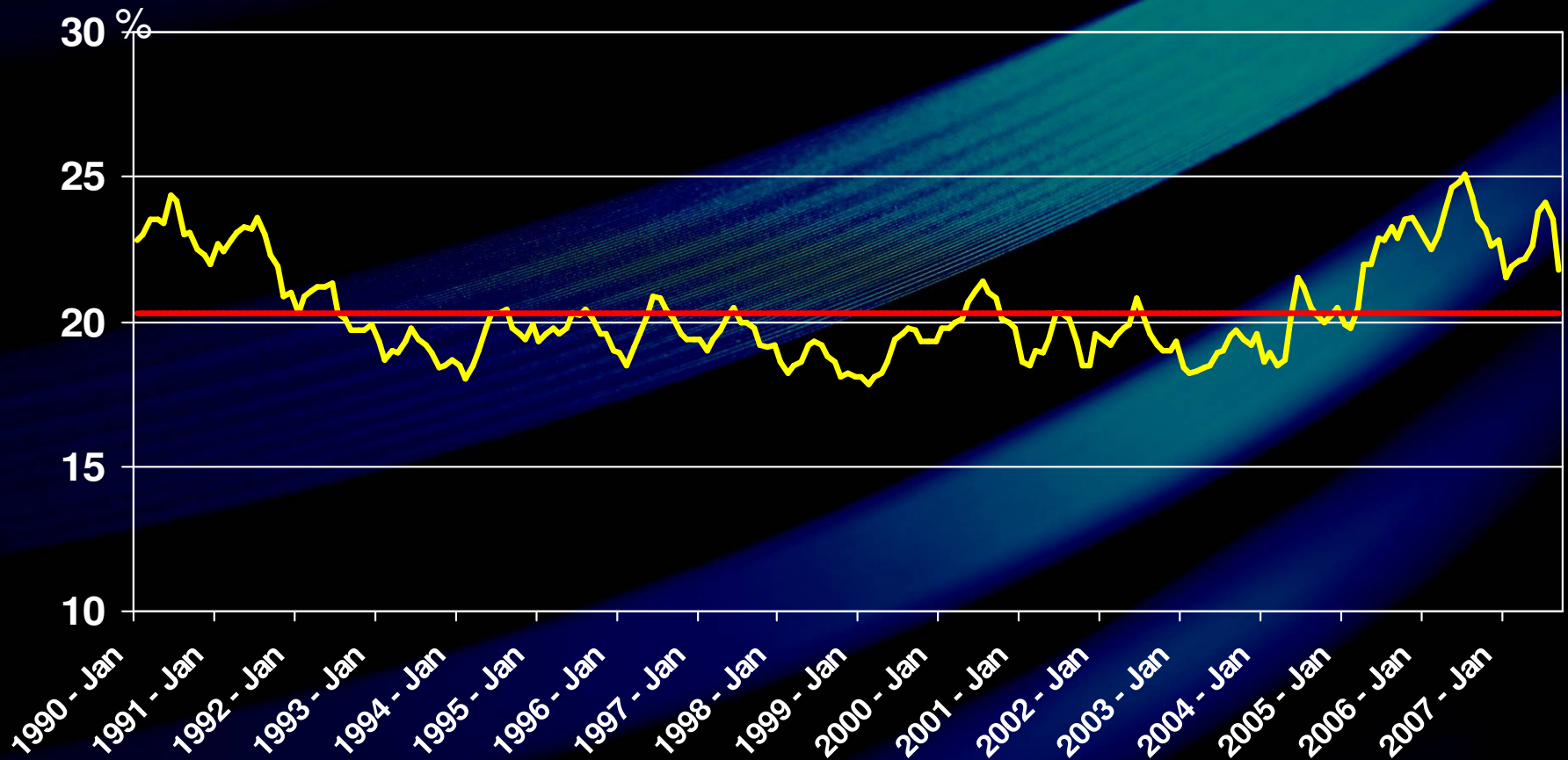
◆ Mortgage Rate



Source: Freddie Mac

# Mortgage Obligation to Income *Manageable*

— U.S. — Average

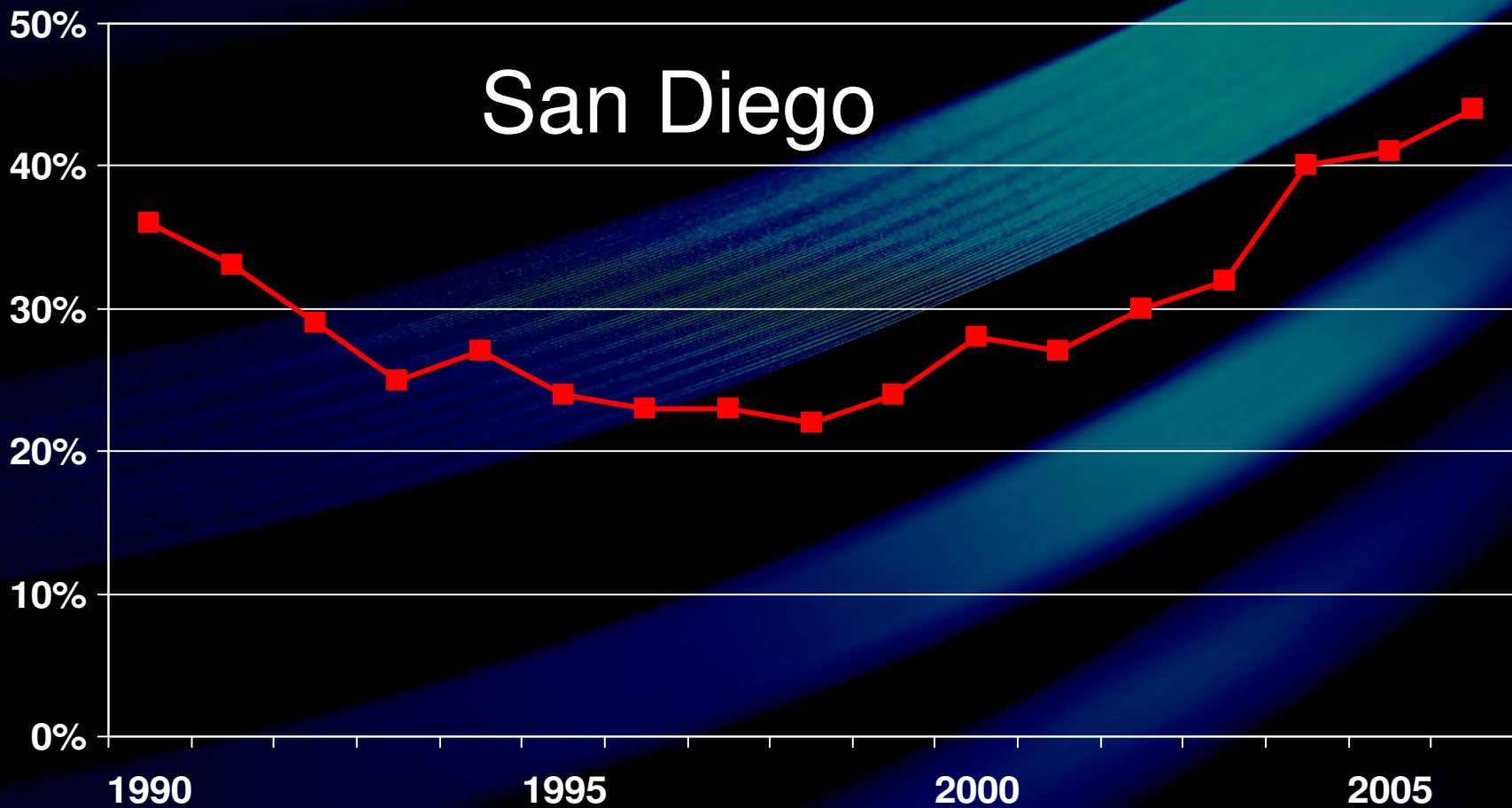


Source: NAR

# Mortgage Obligation to Income

## Very High in Some Markets

—■ debt service to buy a median priced home by a middle income family

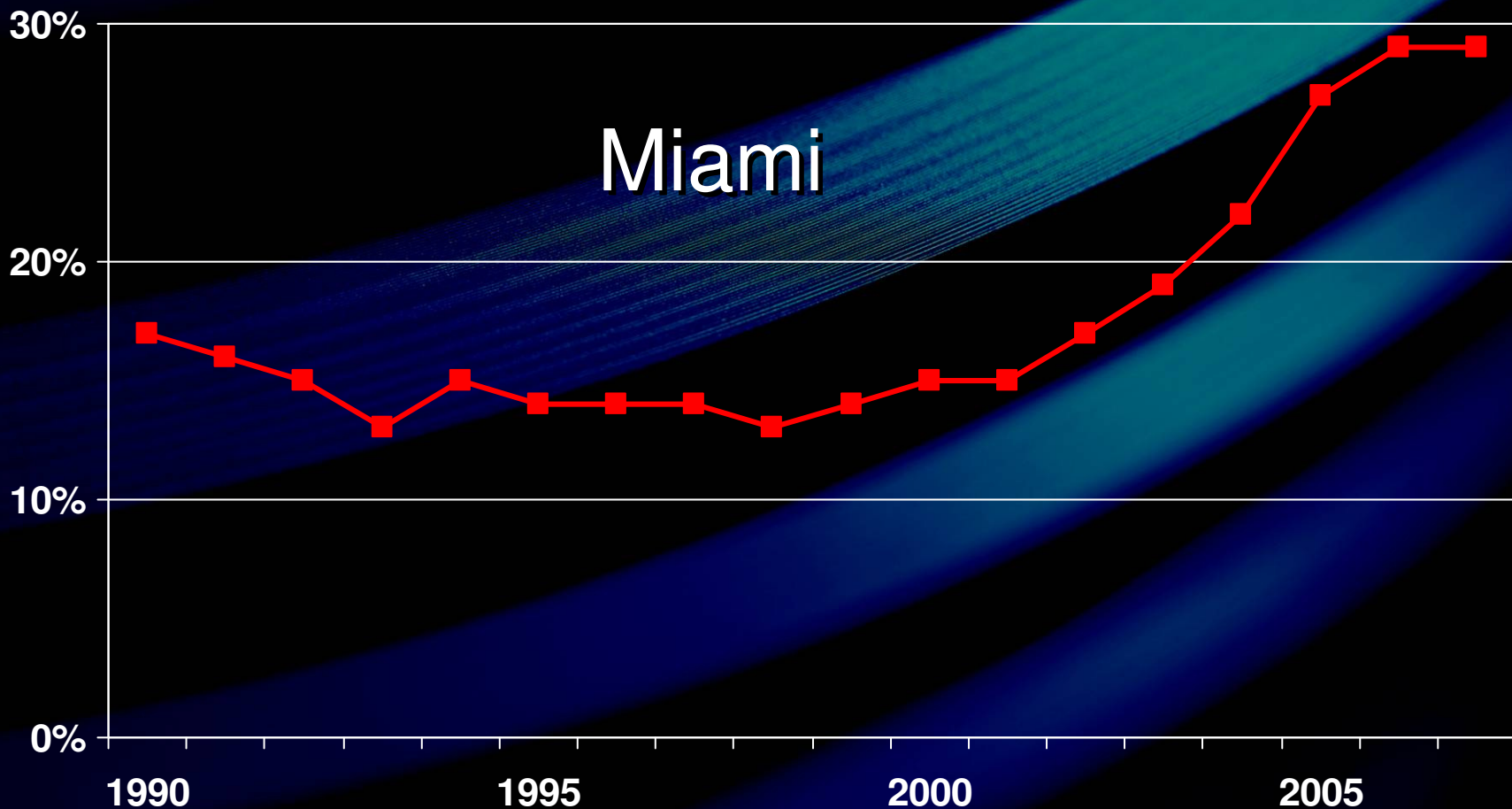


Source: NAR

# Mortgage Obligation to Income

## Historically High in Some Markets

■ debt service to buy a median priced home by a middle income family



1990

1995

2000

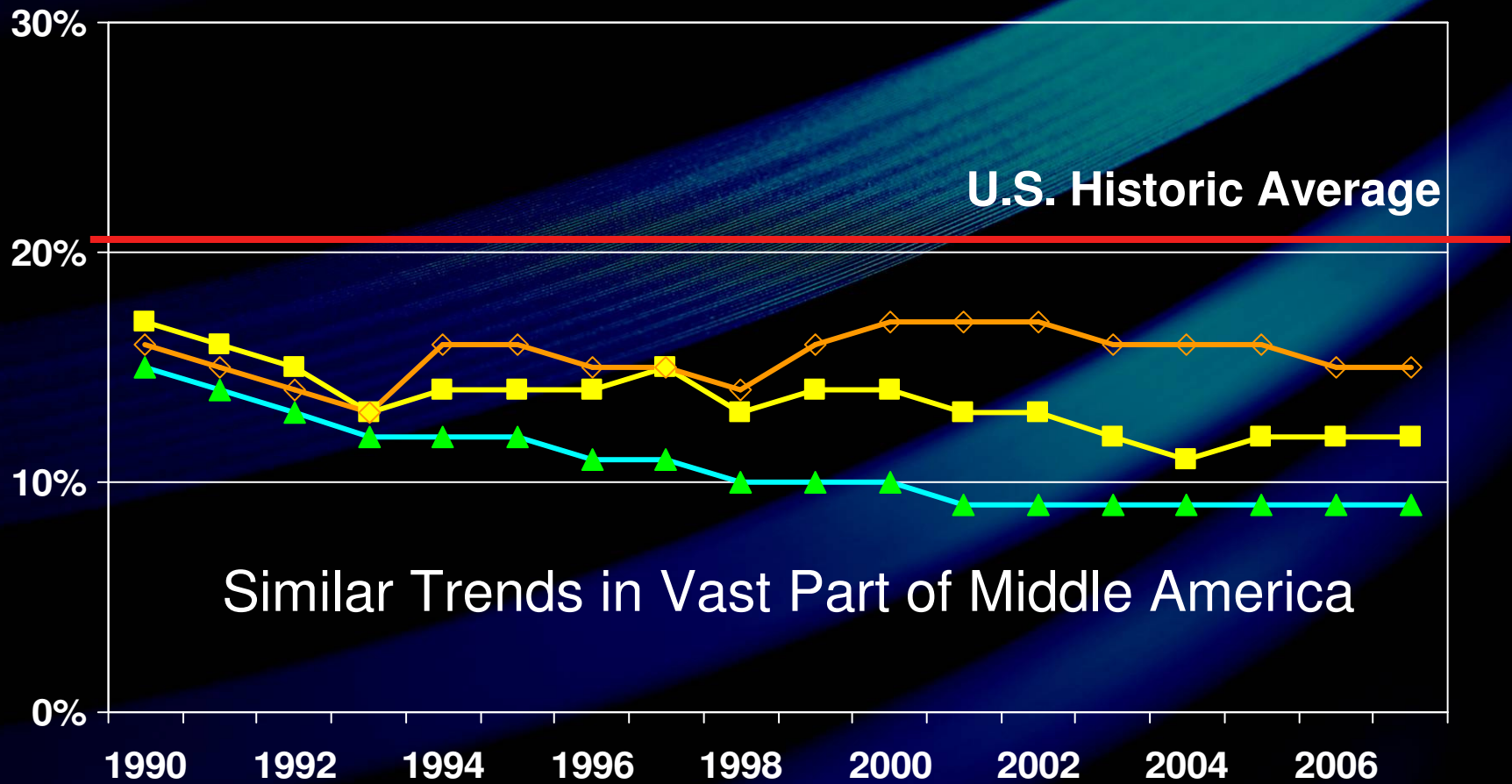
2005

Source: NAR

# Under-Priced Markets

With Affordable Mortgage Obligation to Income

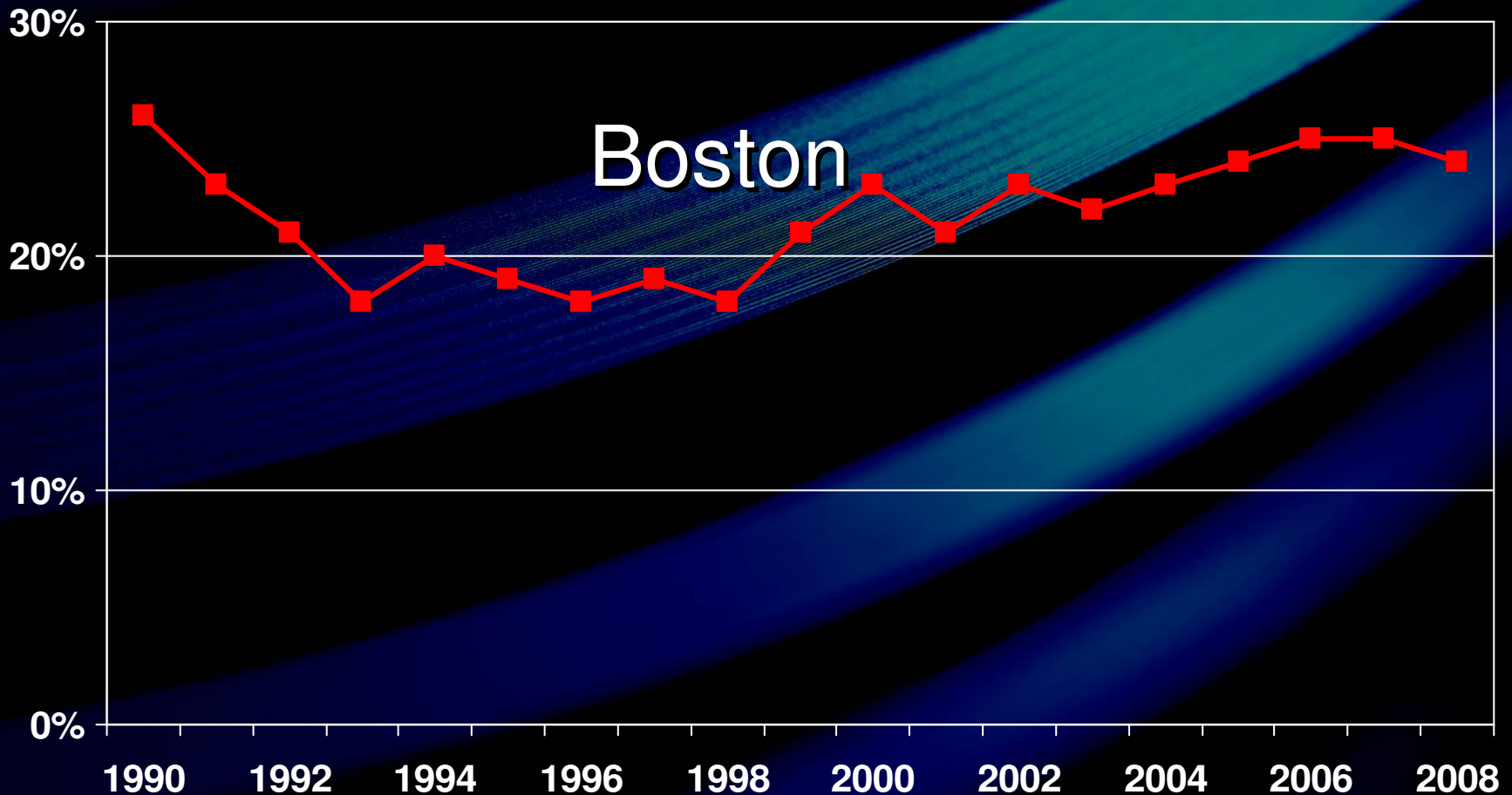
■ Columbus ▲ Pittsburgh ◇ Denver



Source: NAR

# Mortgage Obligation to Income Manageable in Boston

■ debt service to buy a median priced home by a middle income family

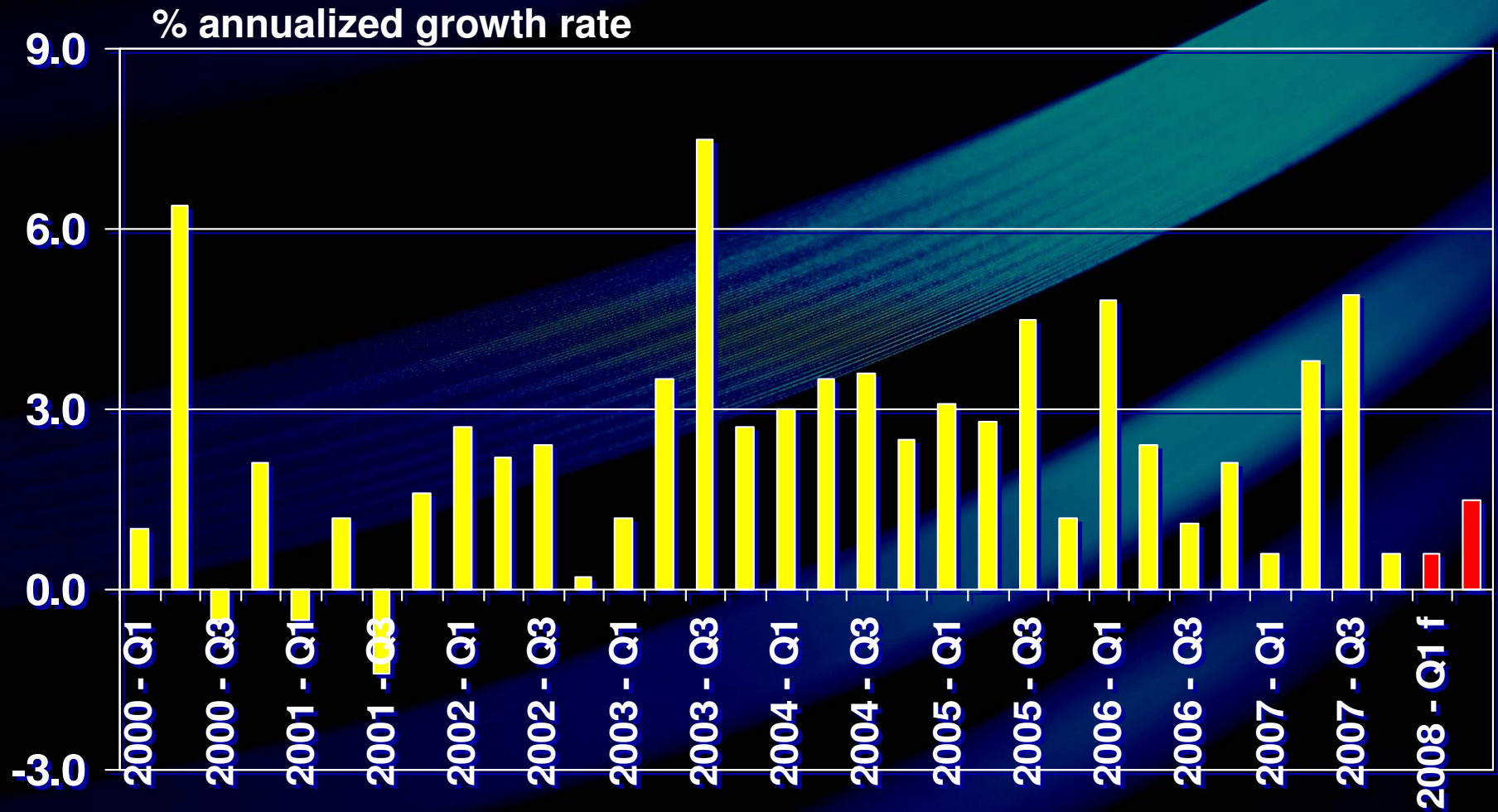


Source: NAR

# Economic Snapshot

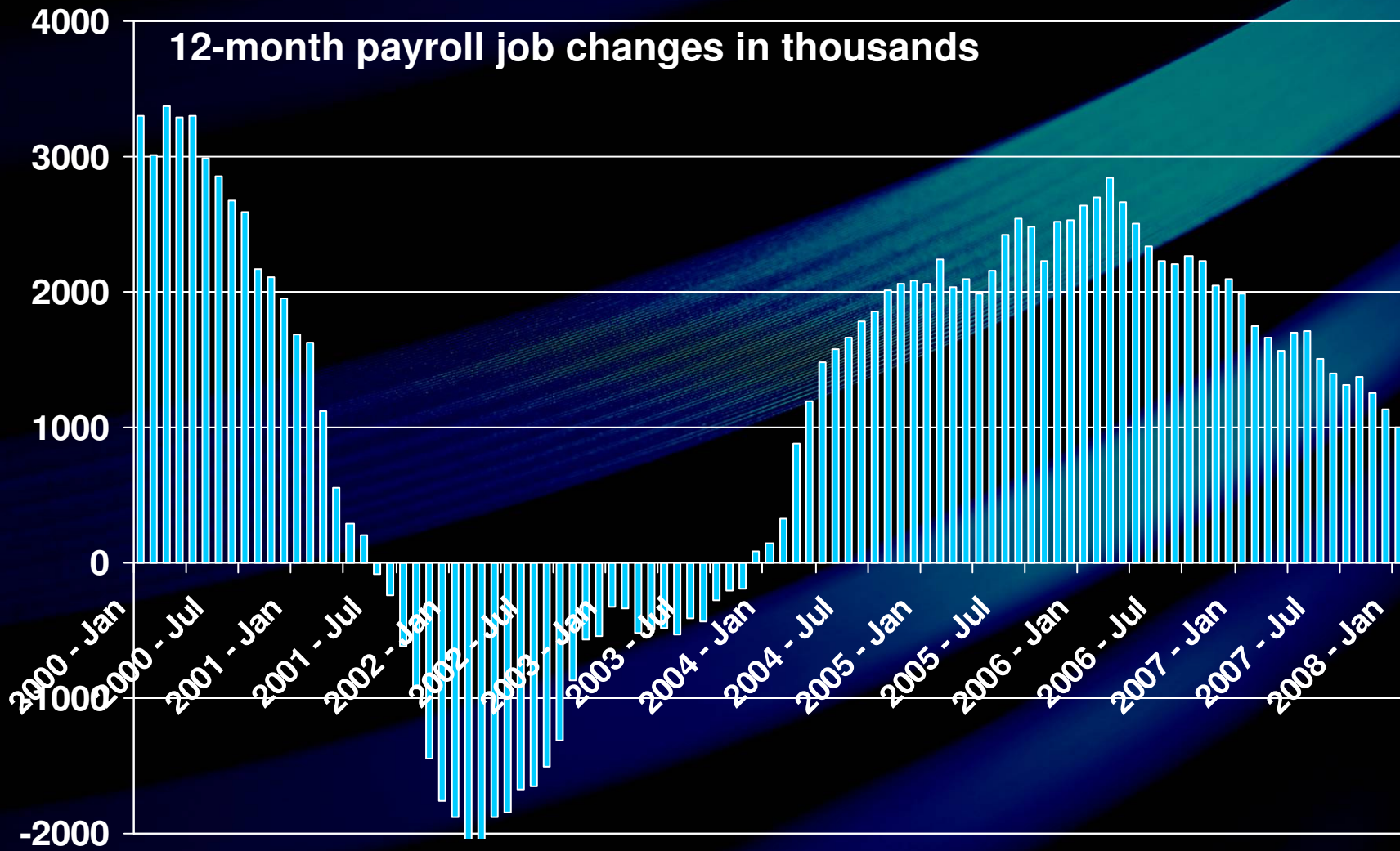
- **Very weak economy – though not a recession**
- **Rising unemployment**
- **Stock market – roller coasting**
- **Housing slowdown – negative to economy**
- **Credit Crunch impacting confidence**
- **Interest Rates Cut – is it enough?**
- **Oil Prices – alarmingly high?**

# GDP Growth



Source: BEA

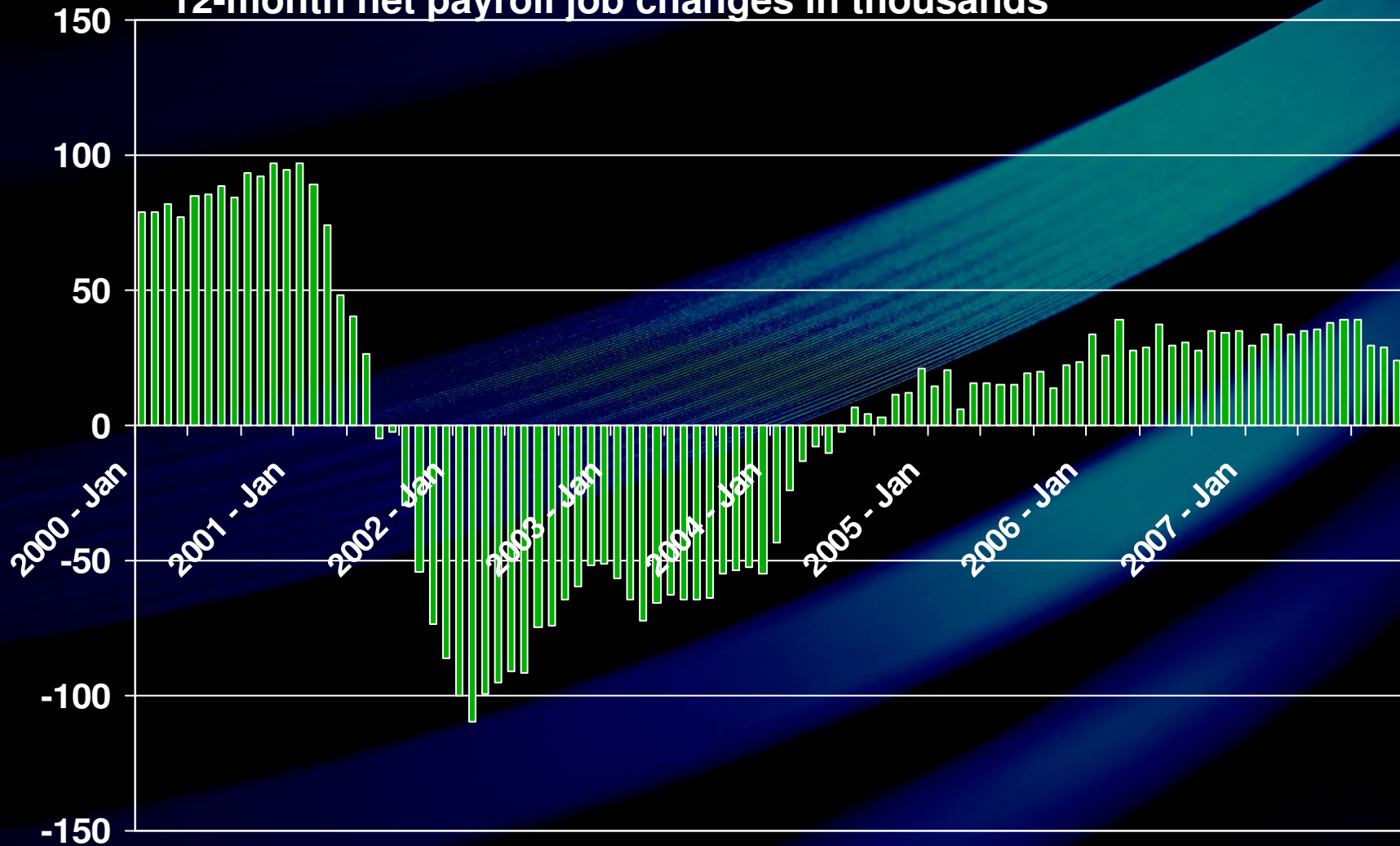
# Job Gains - Decelerating



Source: BLS

# Job Gains in MA

12-month net payroll job changes in thousands



Source: BLS

# Job Gains in CT

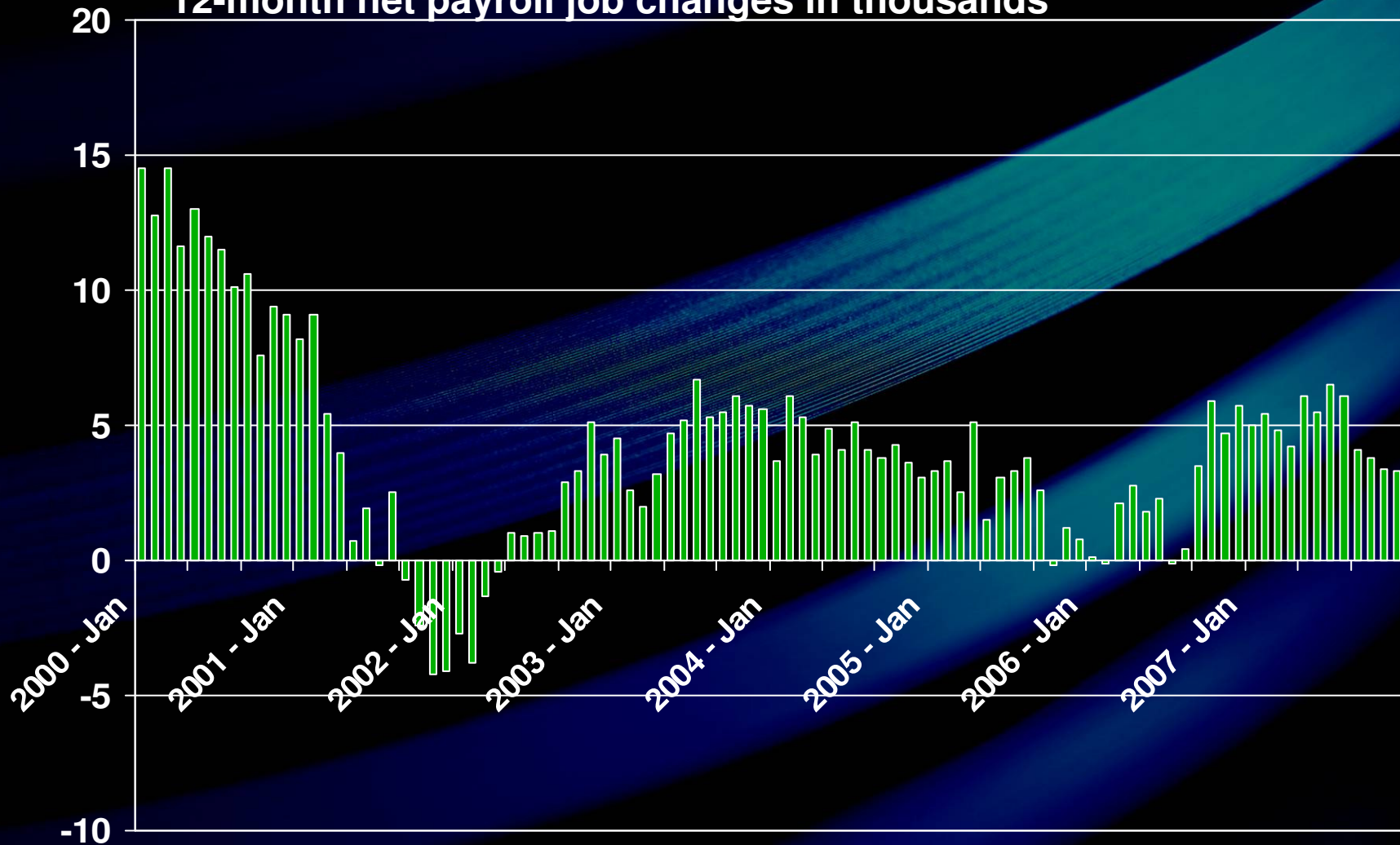
12-month net payroll job changes in thousands



Source: BLS

# Job Gains in RI

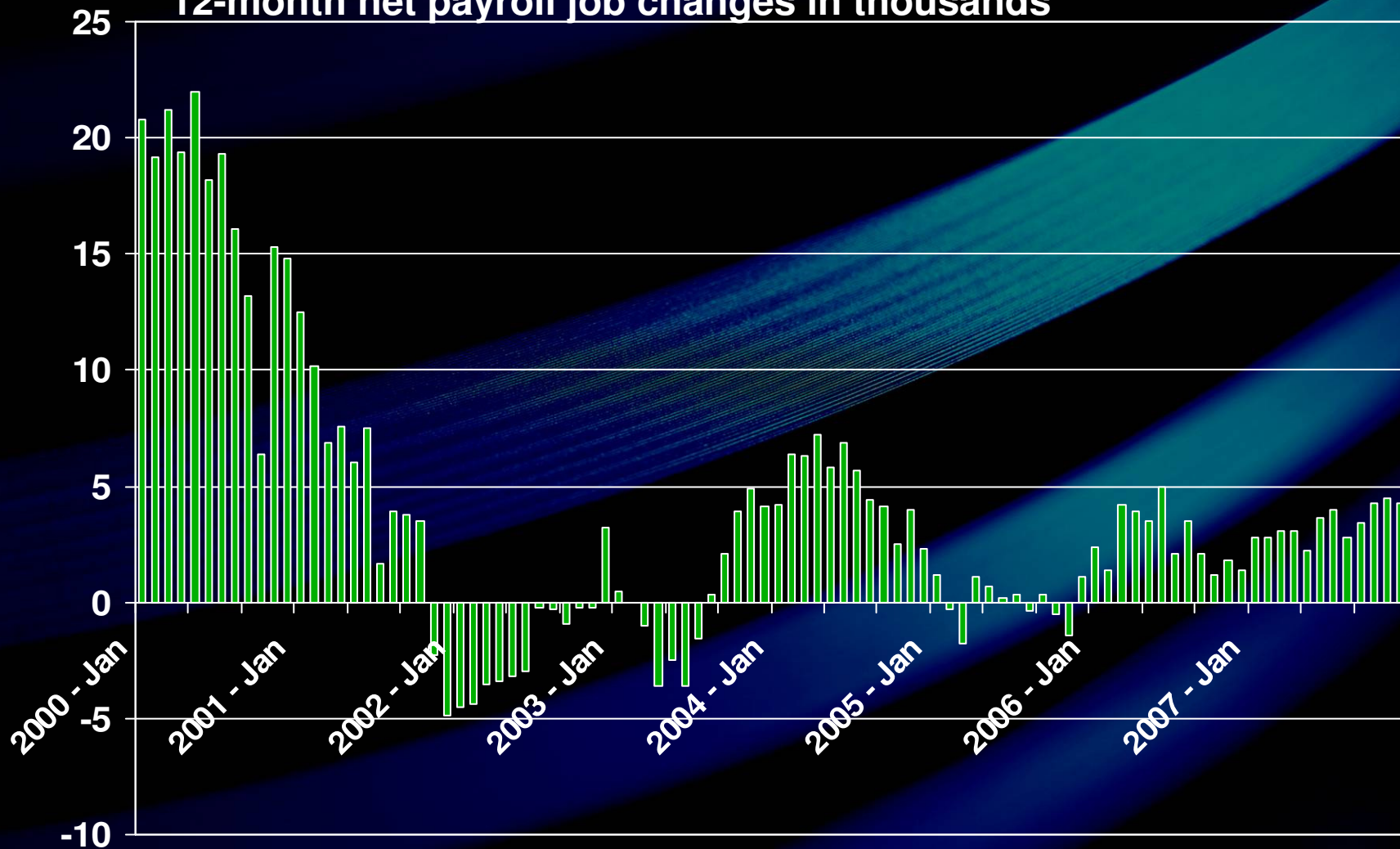
12-month net payroll job changes in thousands



Source: BLS

# Job Gains in ME

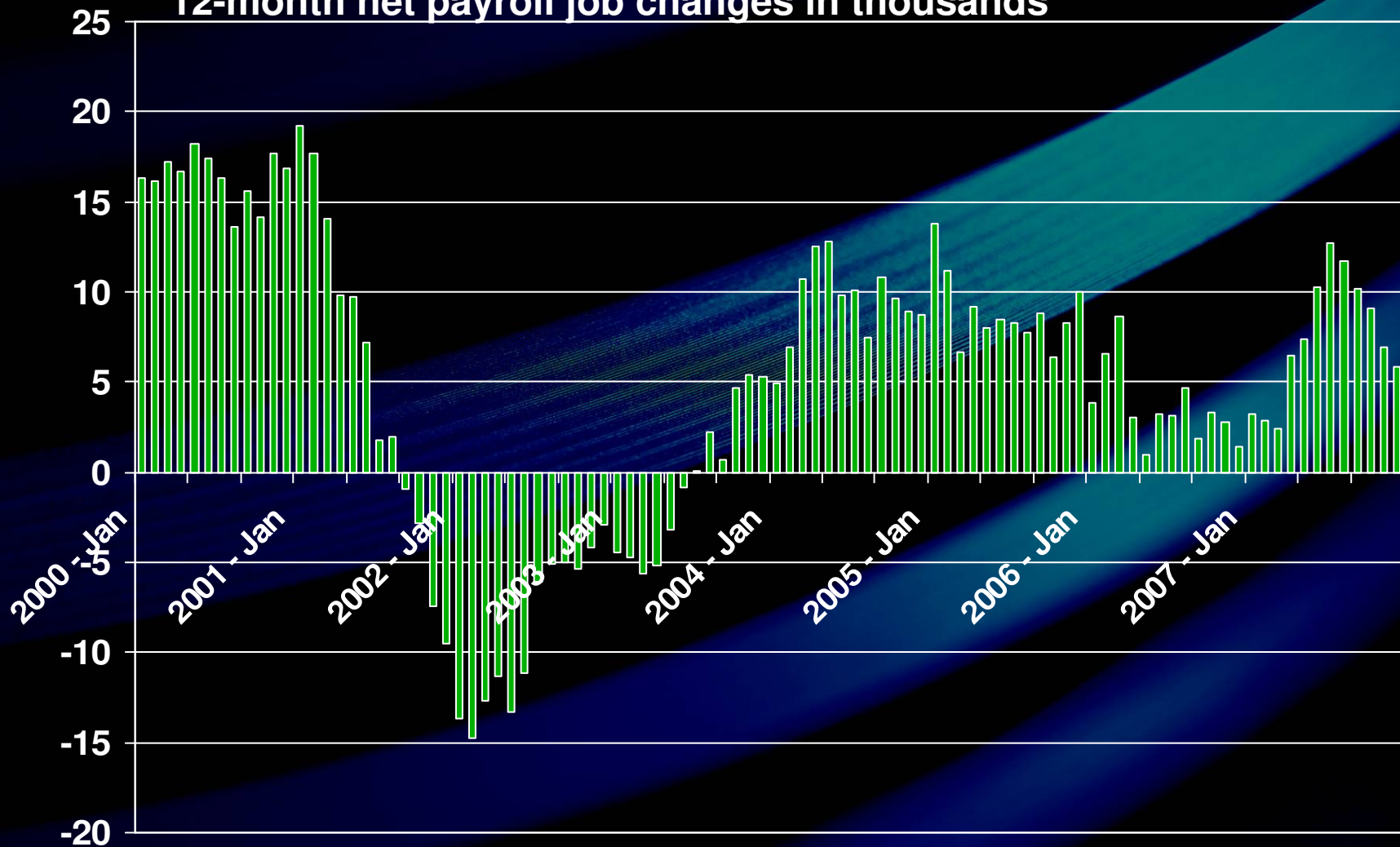
12-month net payroll job changes in thousands



Source: BLS

# Job Gains in NH

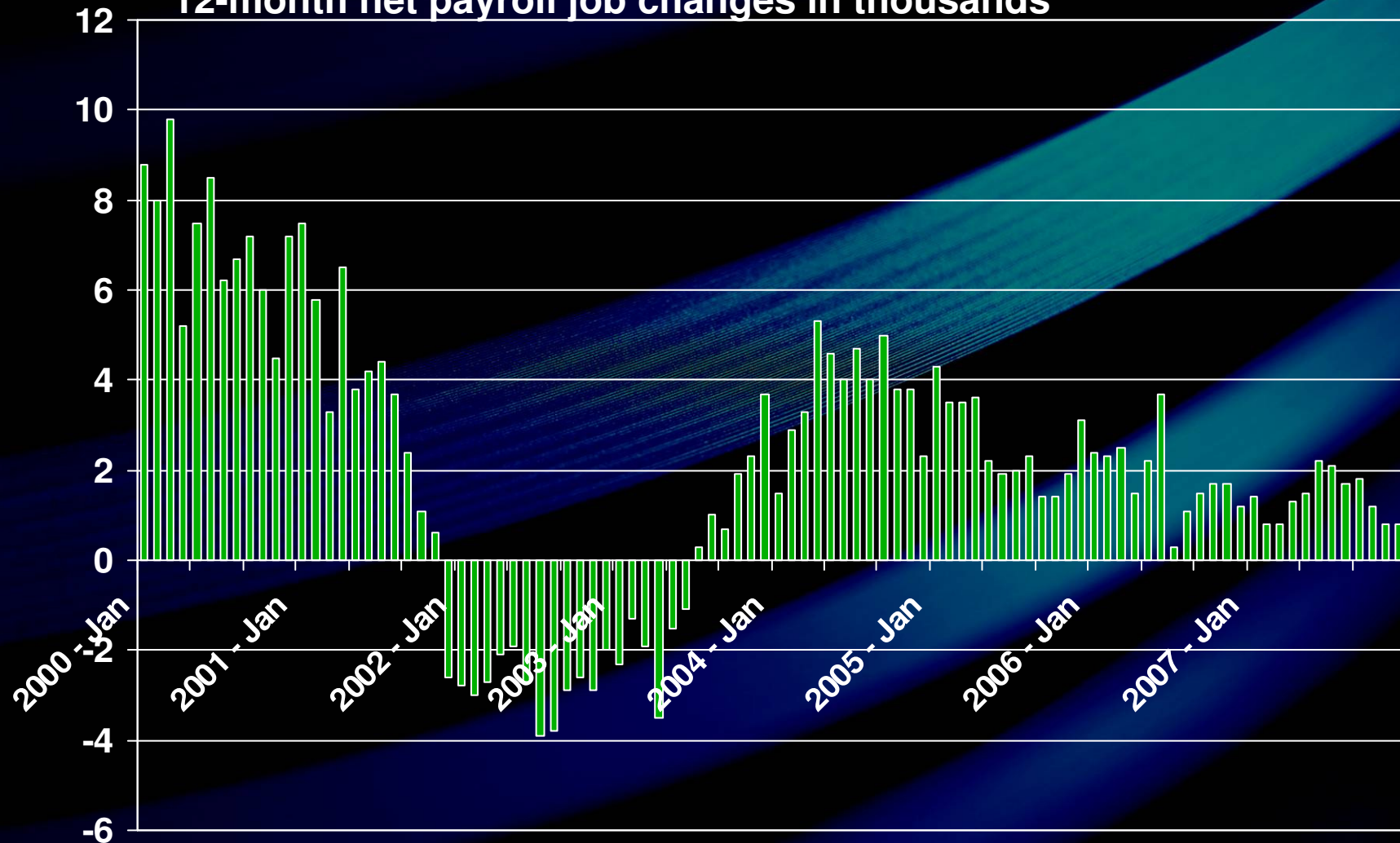
12-month net payroll job changes in thousands



Source: BLS

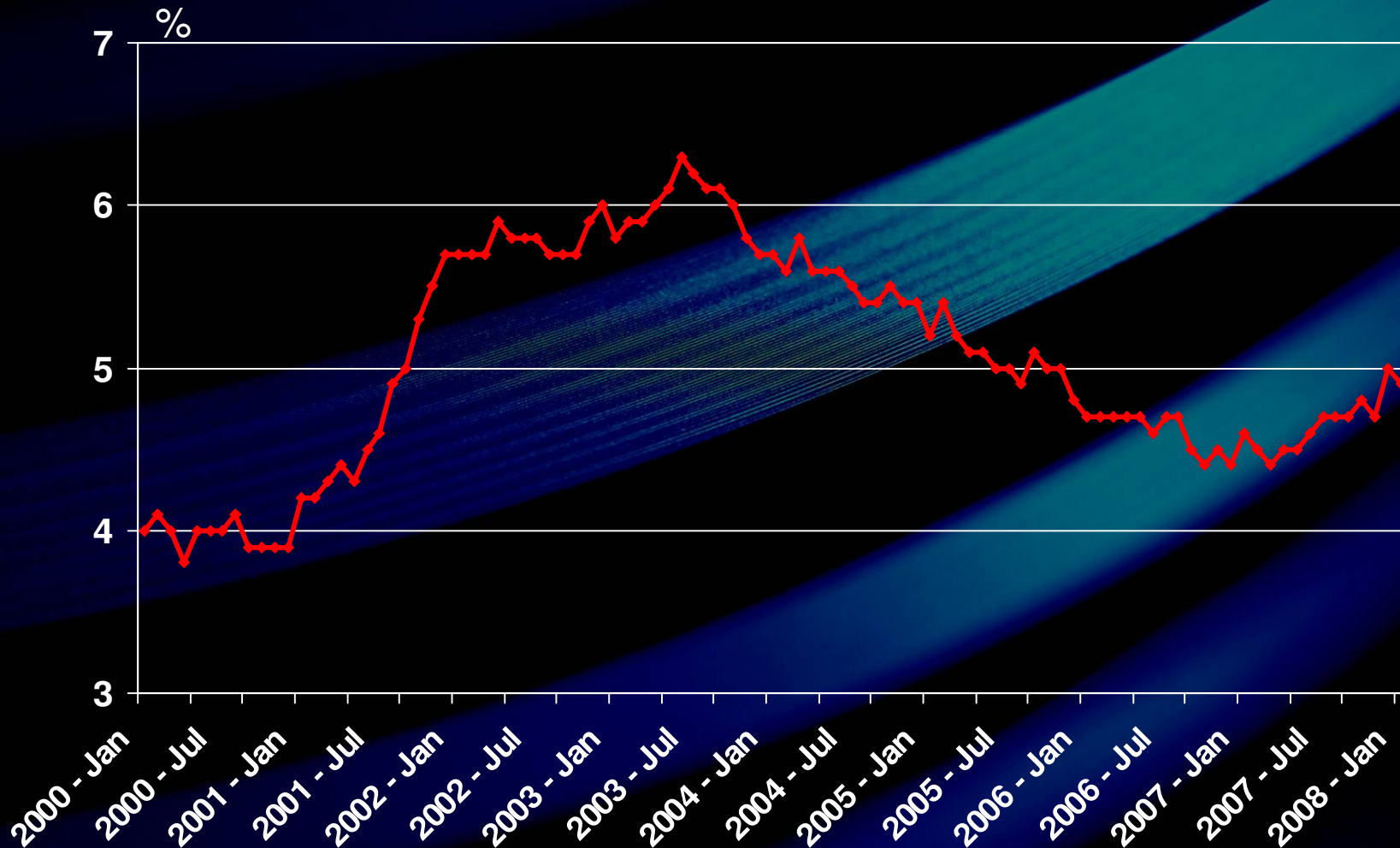
# Job Gains in VT

12-month net payroll job changes in thousands



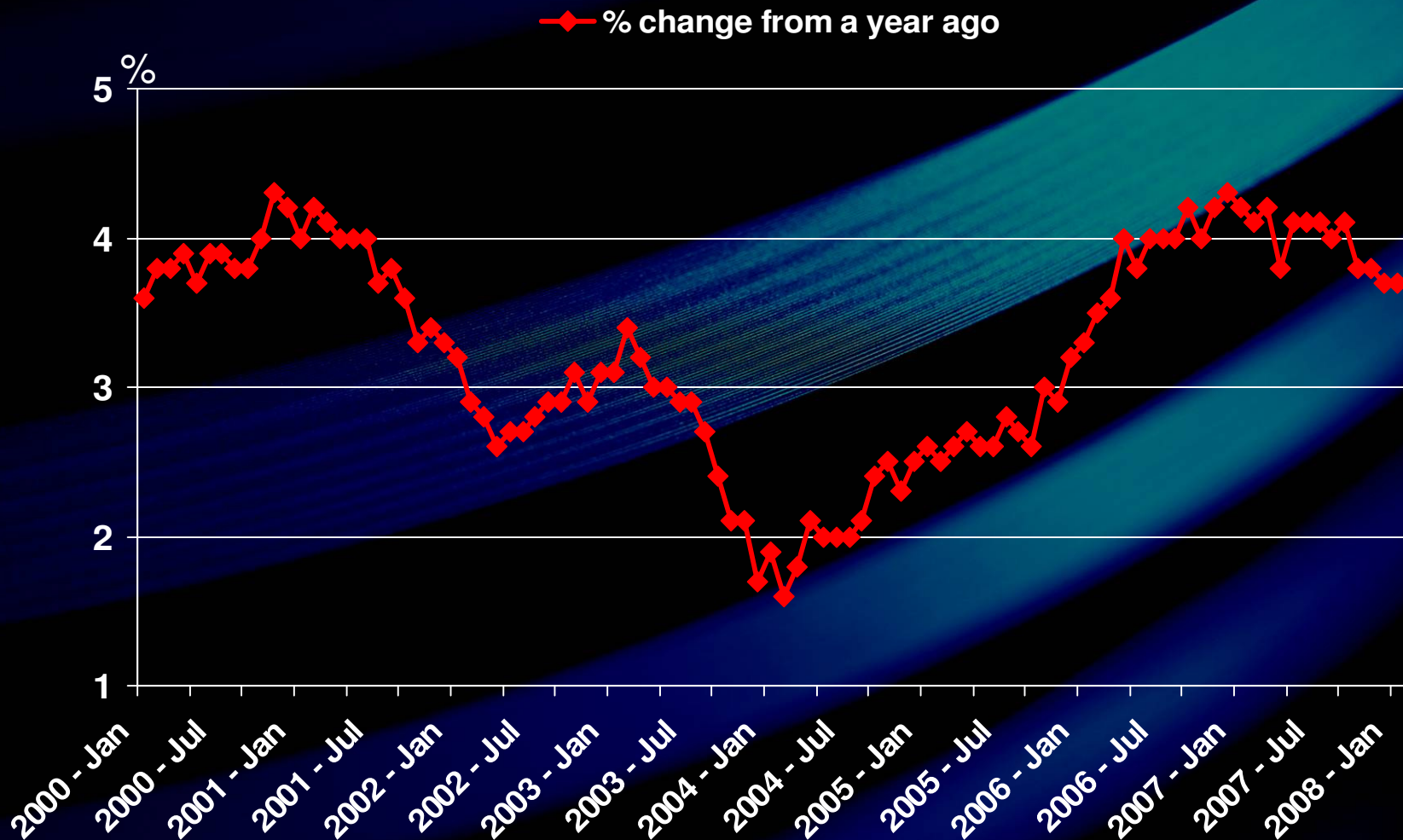
Source: BLS

# Unemployment Rate



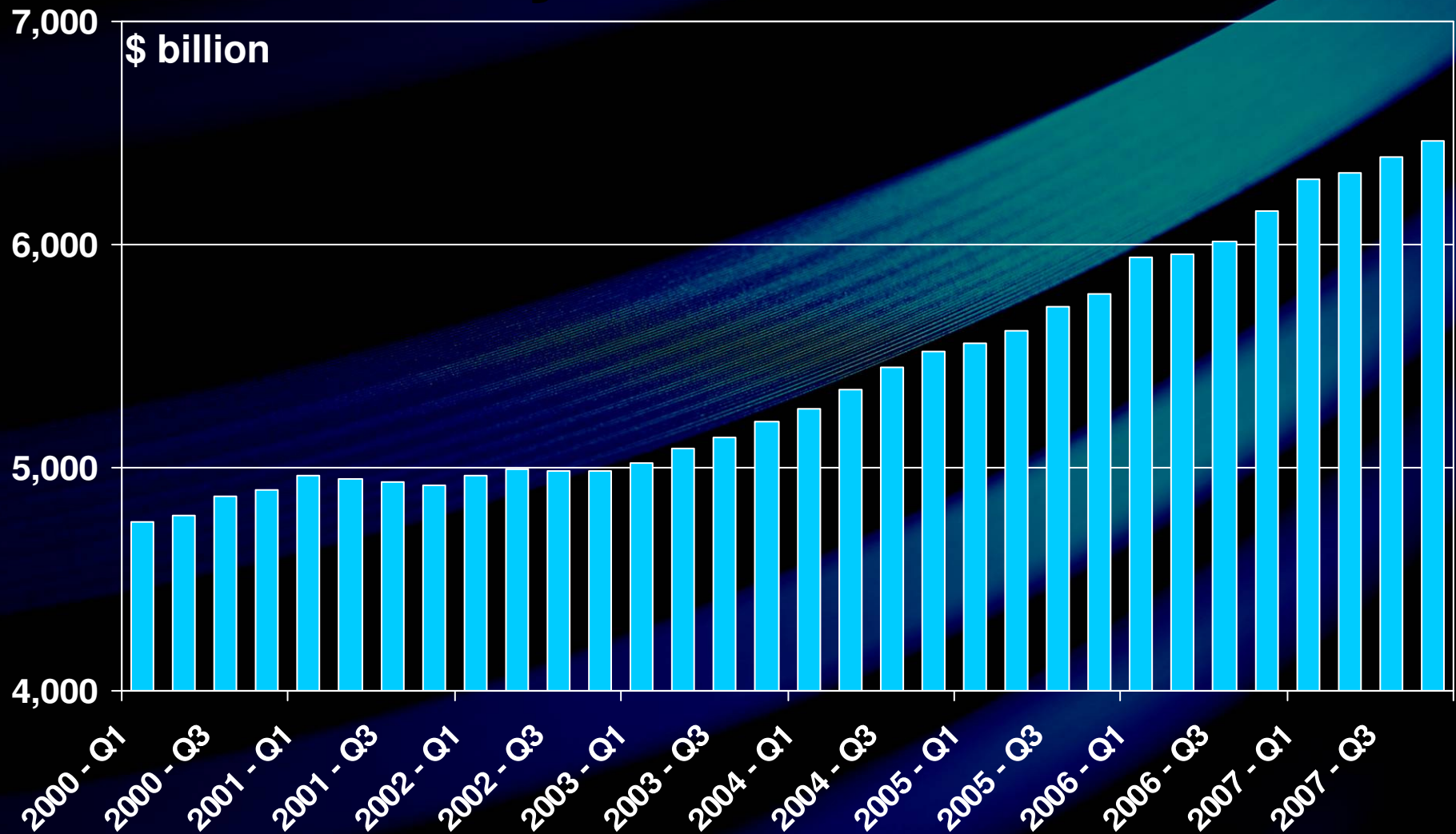
Source: BLS

# Wage Growth Respectable



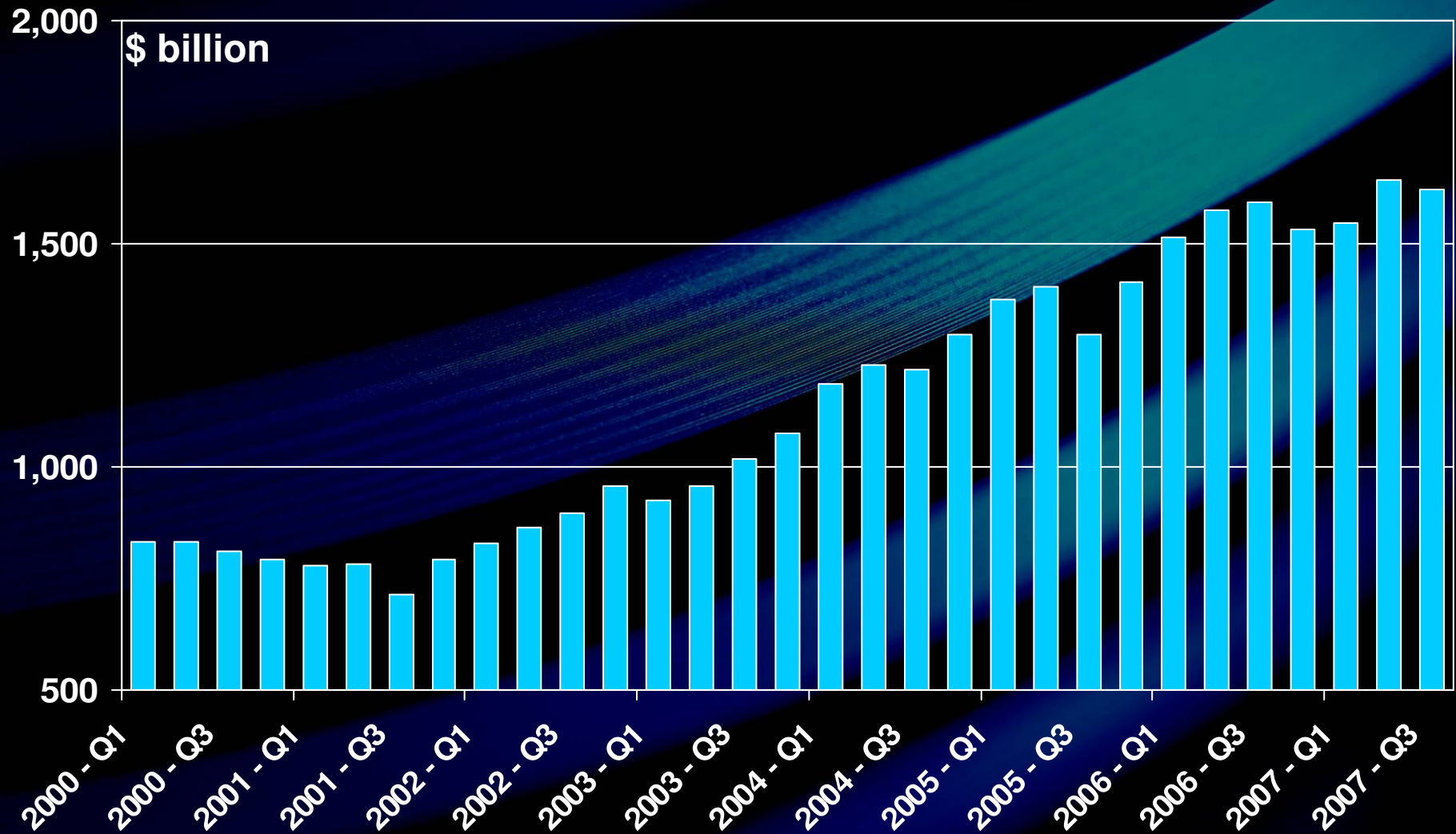
Source: BLS

# Aggregate U.S. Wages and Salary Disbursement



Source: BEA

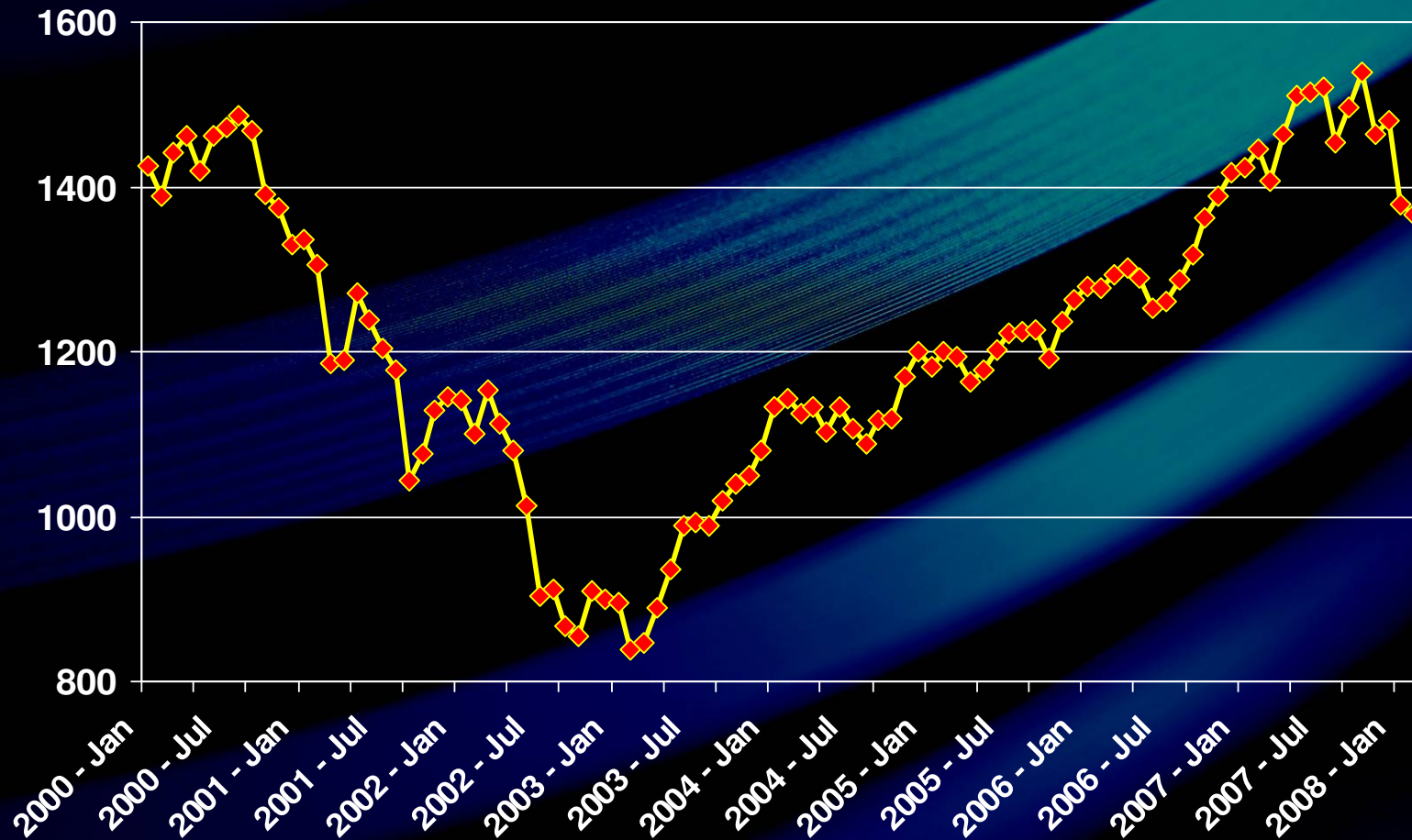
# Corporate Profits – Near Record High



Source: BEA

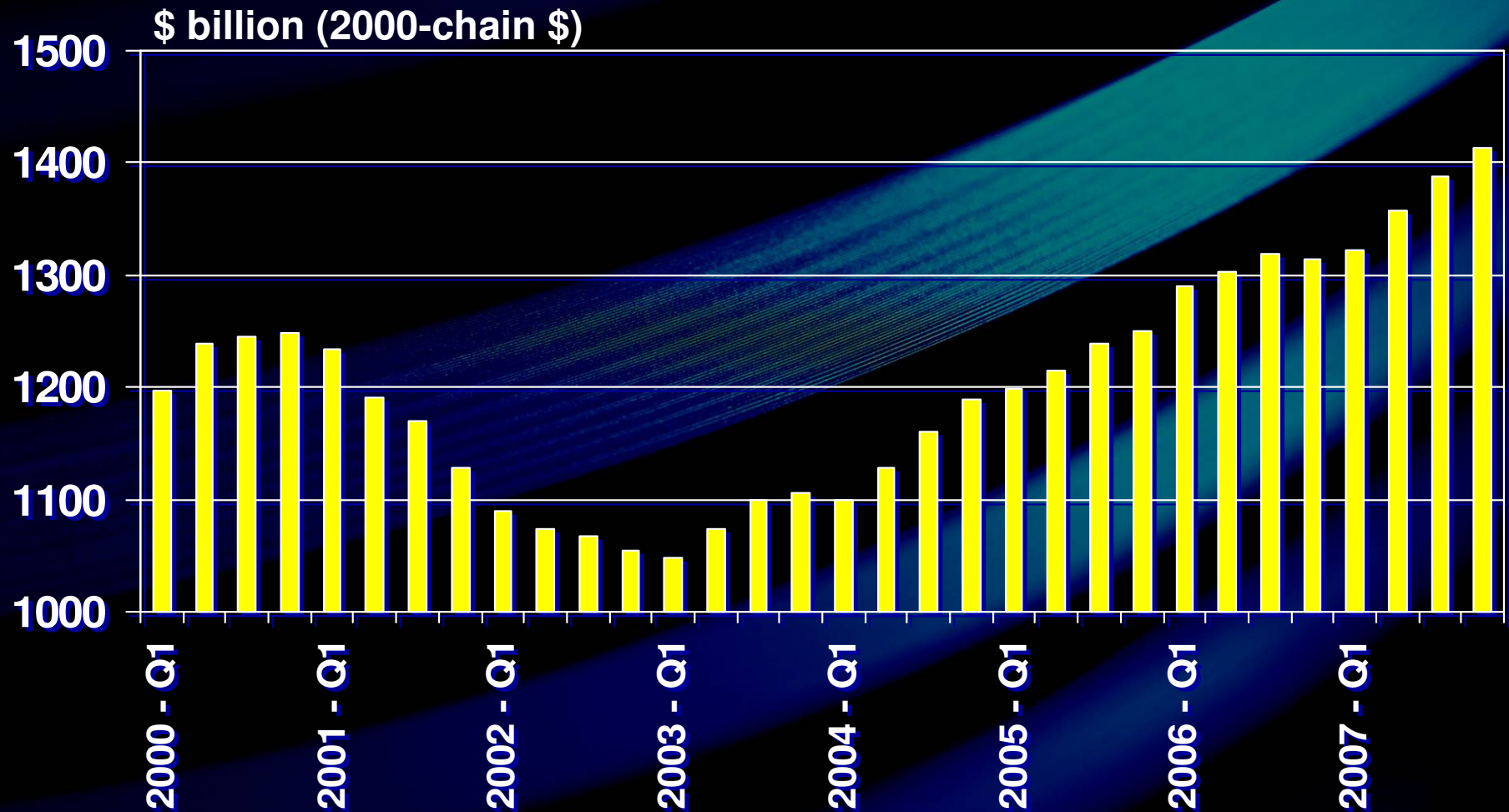
# Stock Market

## S&P 500 Index

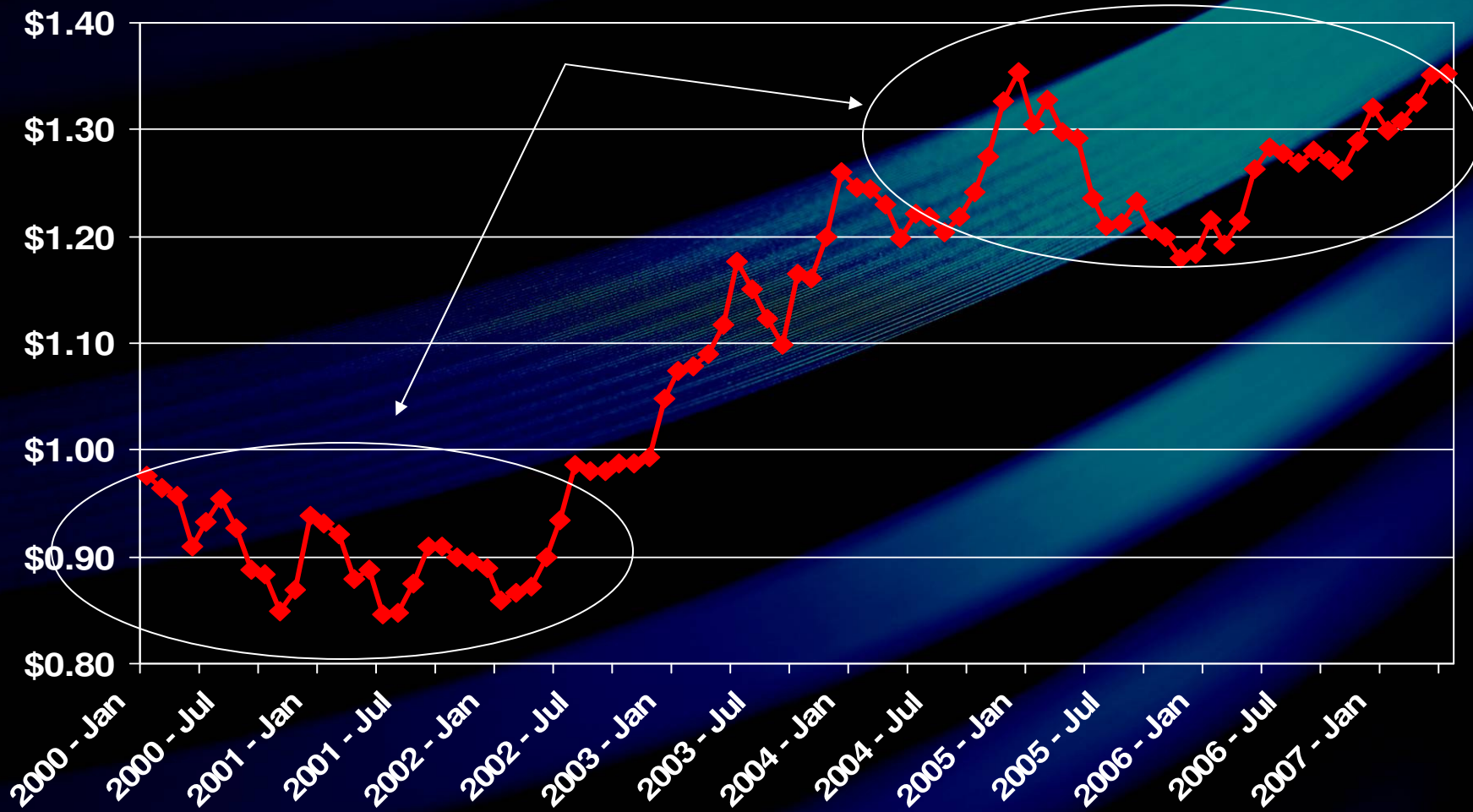


Source: NYSE

# Business Spending

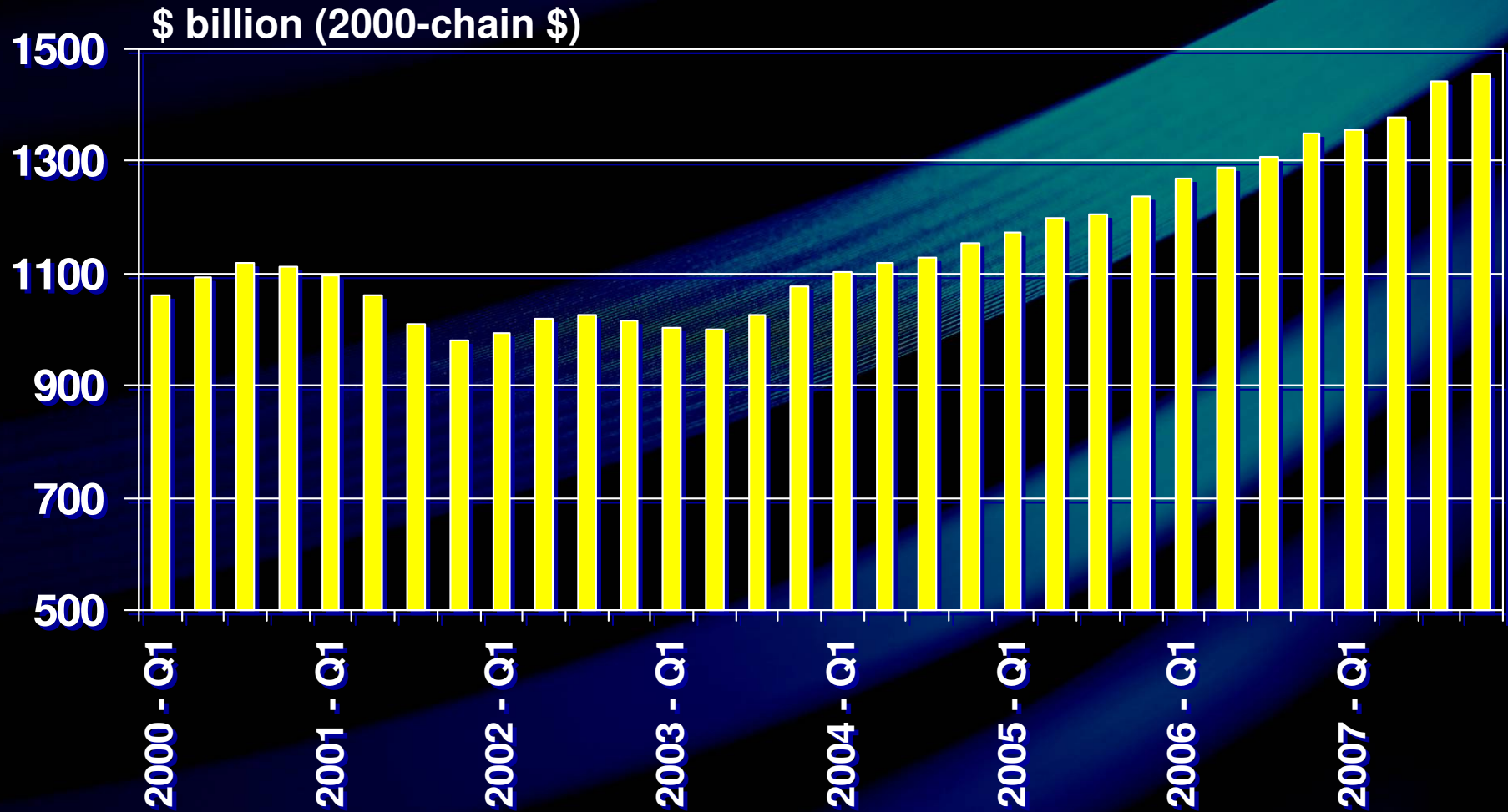


# \$Dollar vs Euro

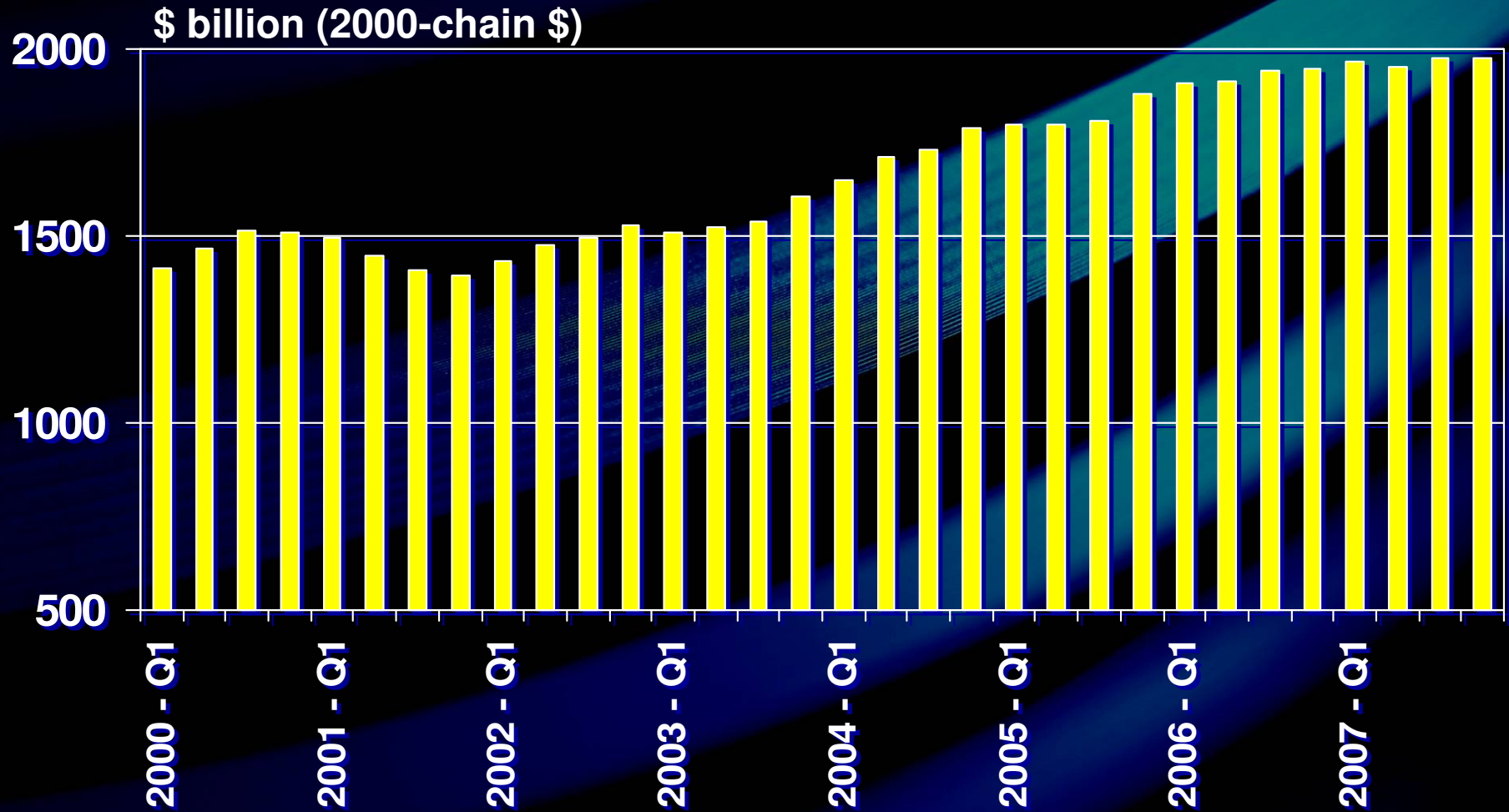


Source: BLS

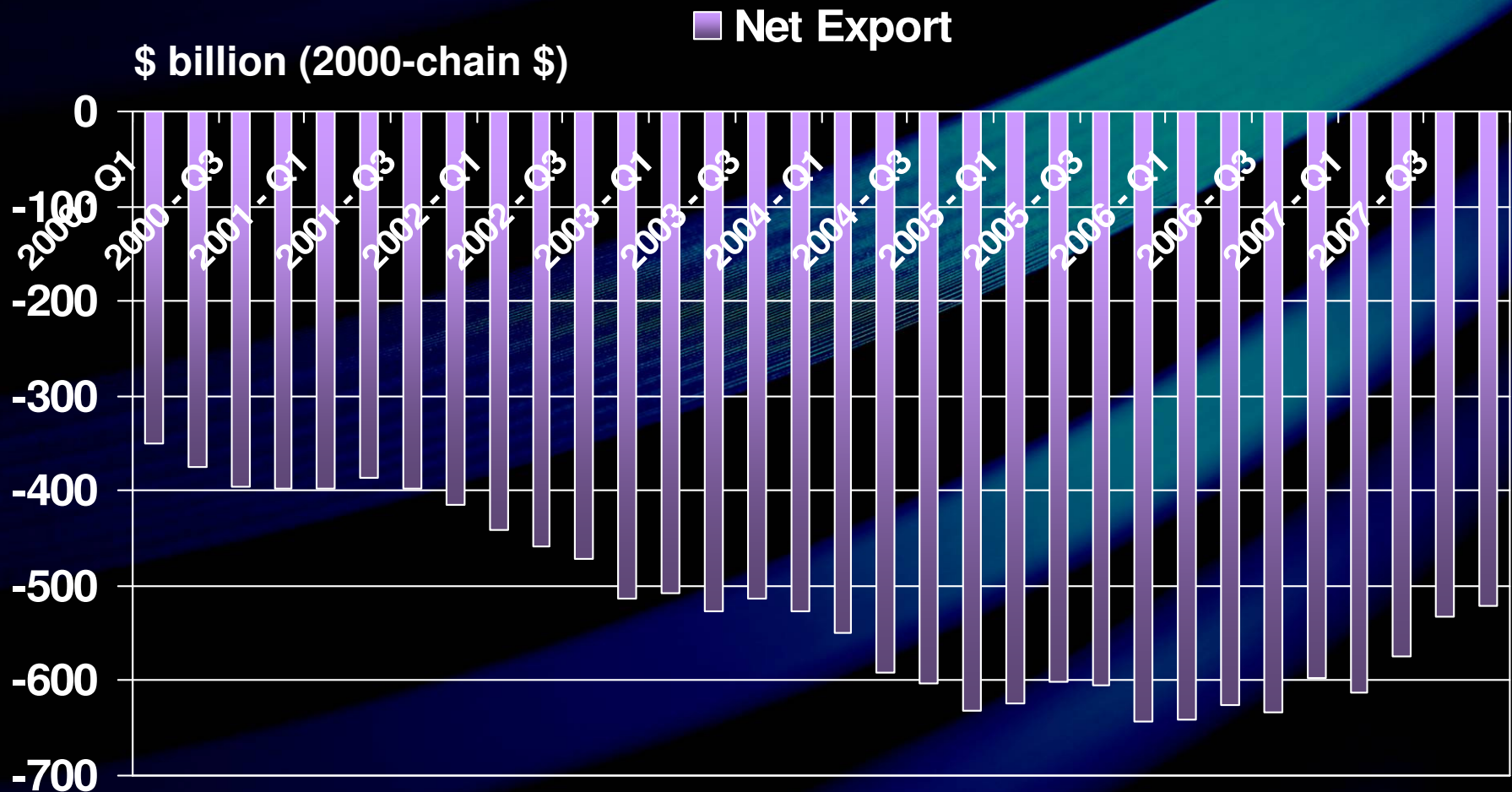
# Exports Growing



# Imports Growing

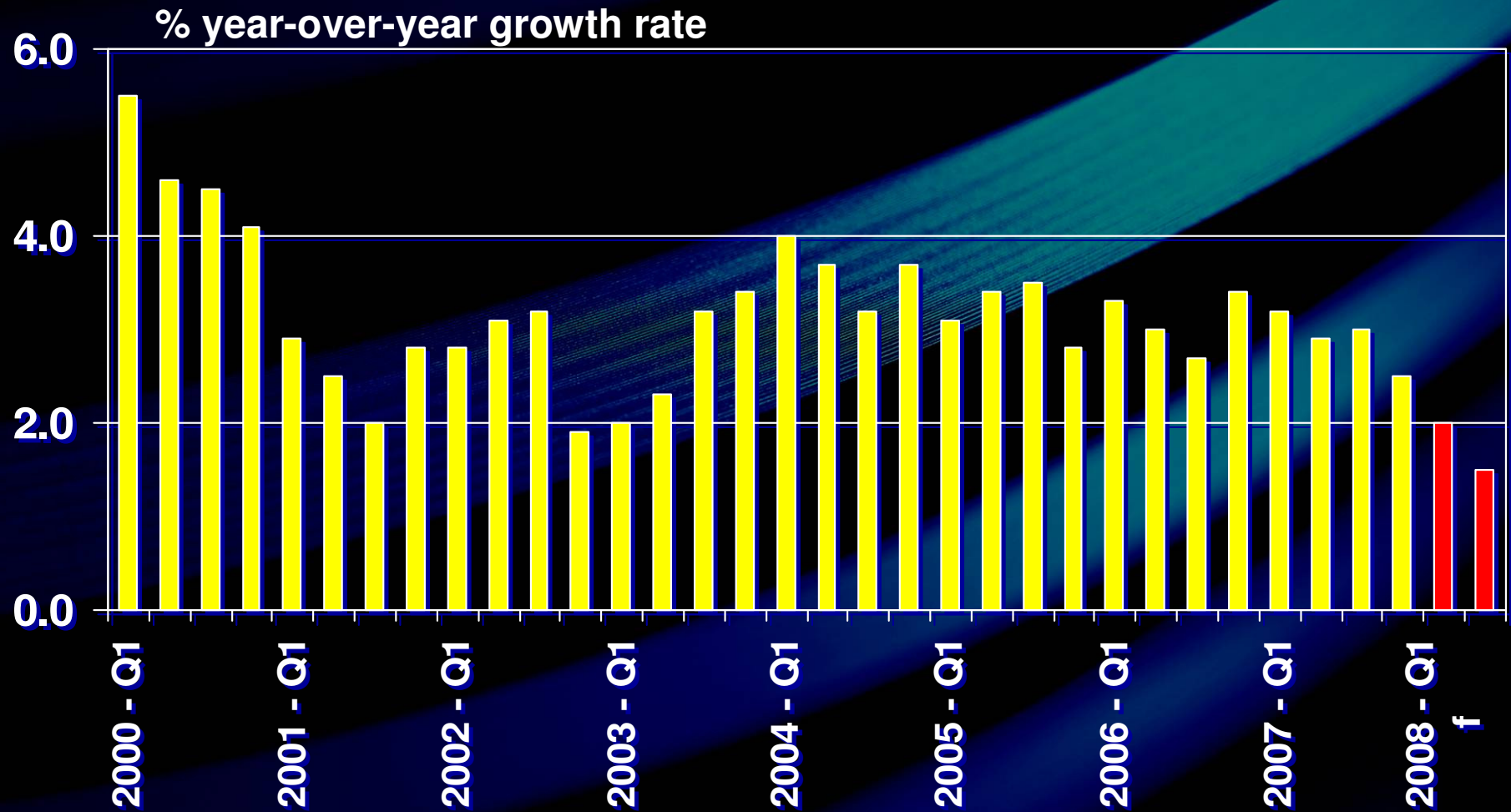


# Net Exports – Finally Improving



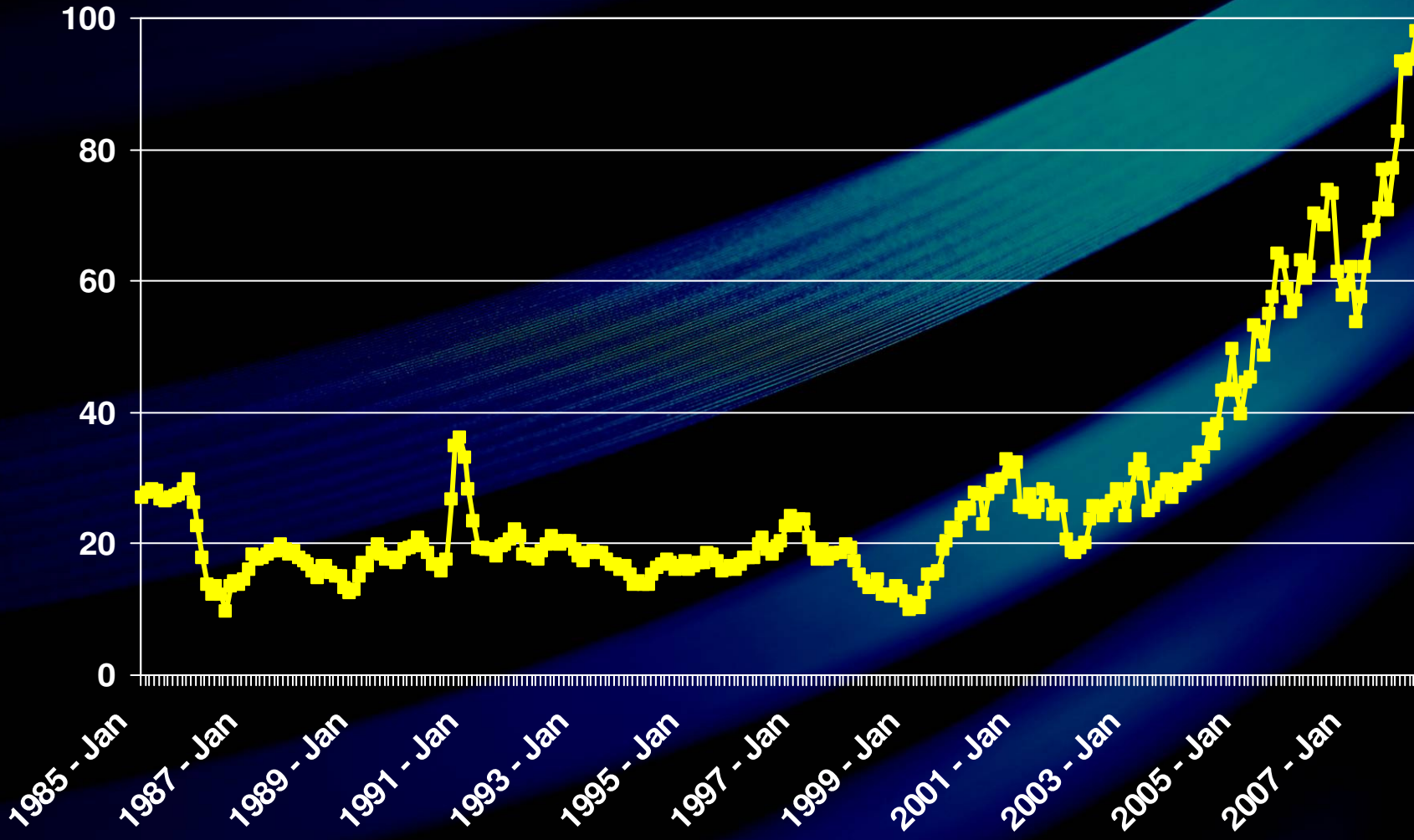
Source: BEA

# Consumer Spending



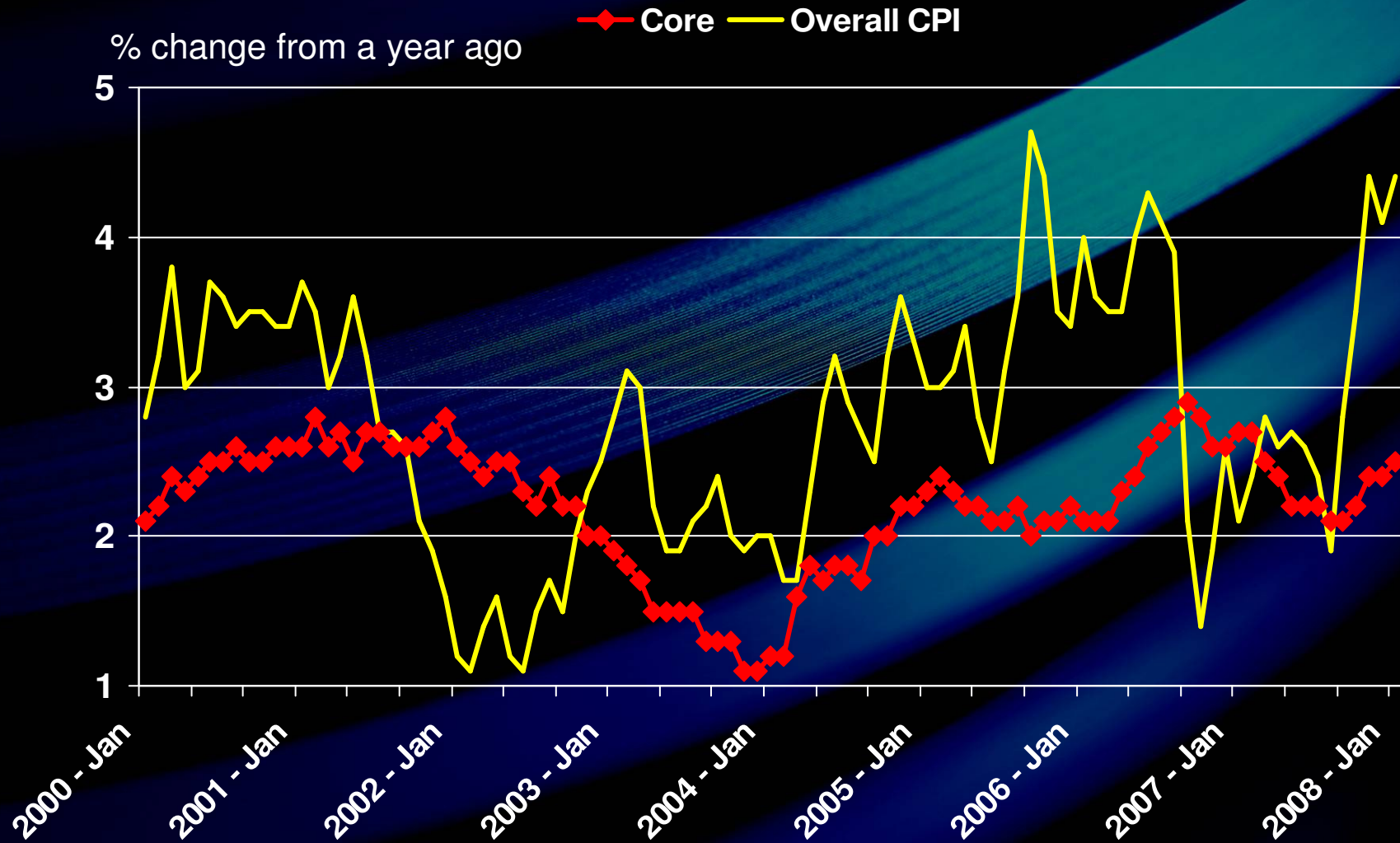
# Big Worry - Oil Price

\$ per barrel



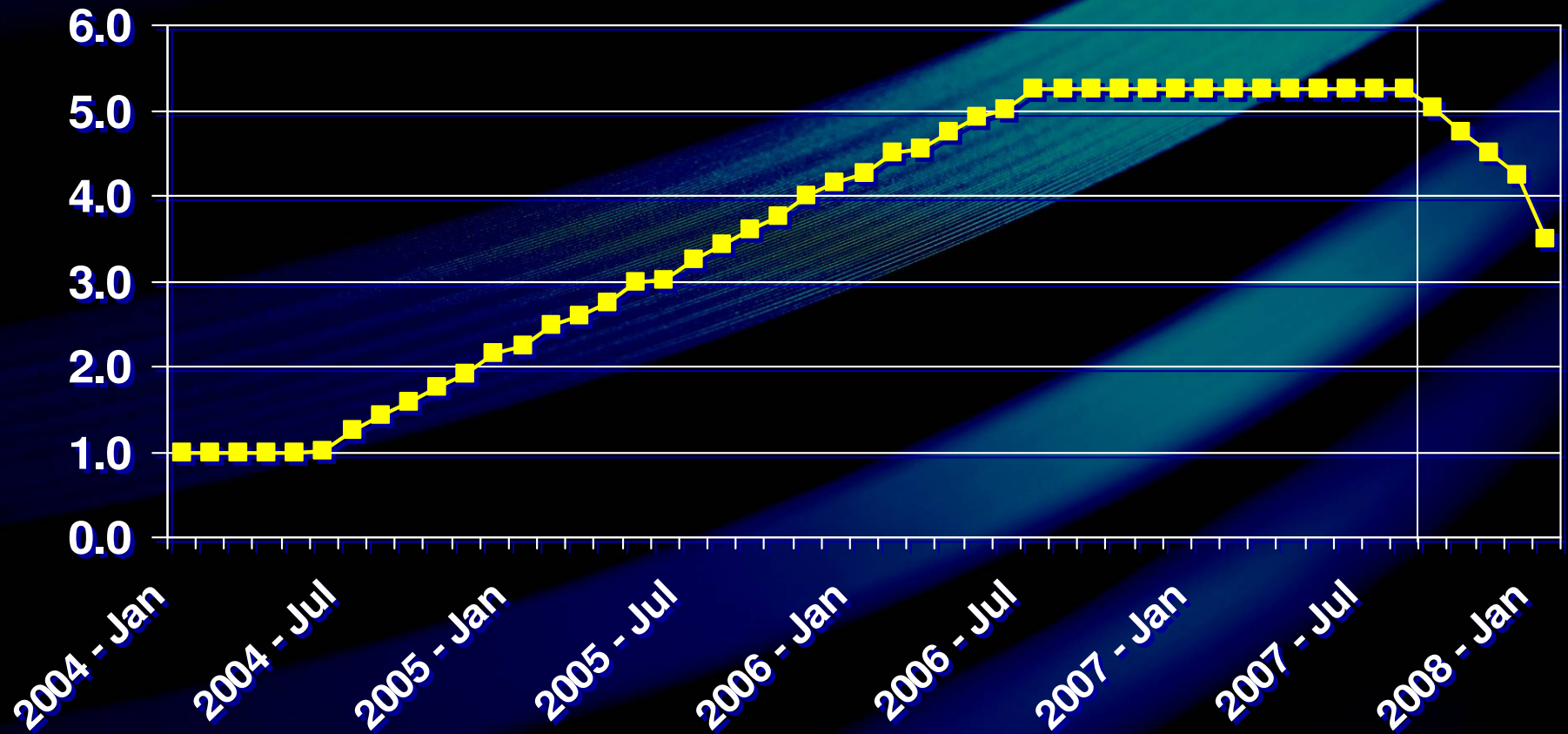
Source: Wall Street Journal

# Inflation Contained? (Core CPI Inflation)



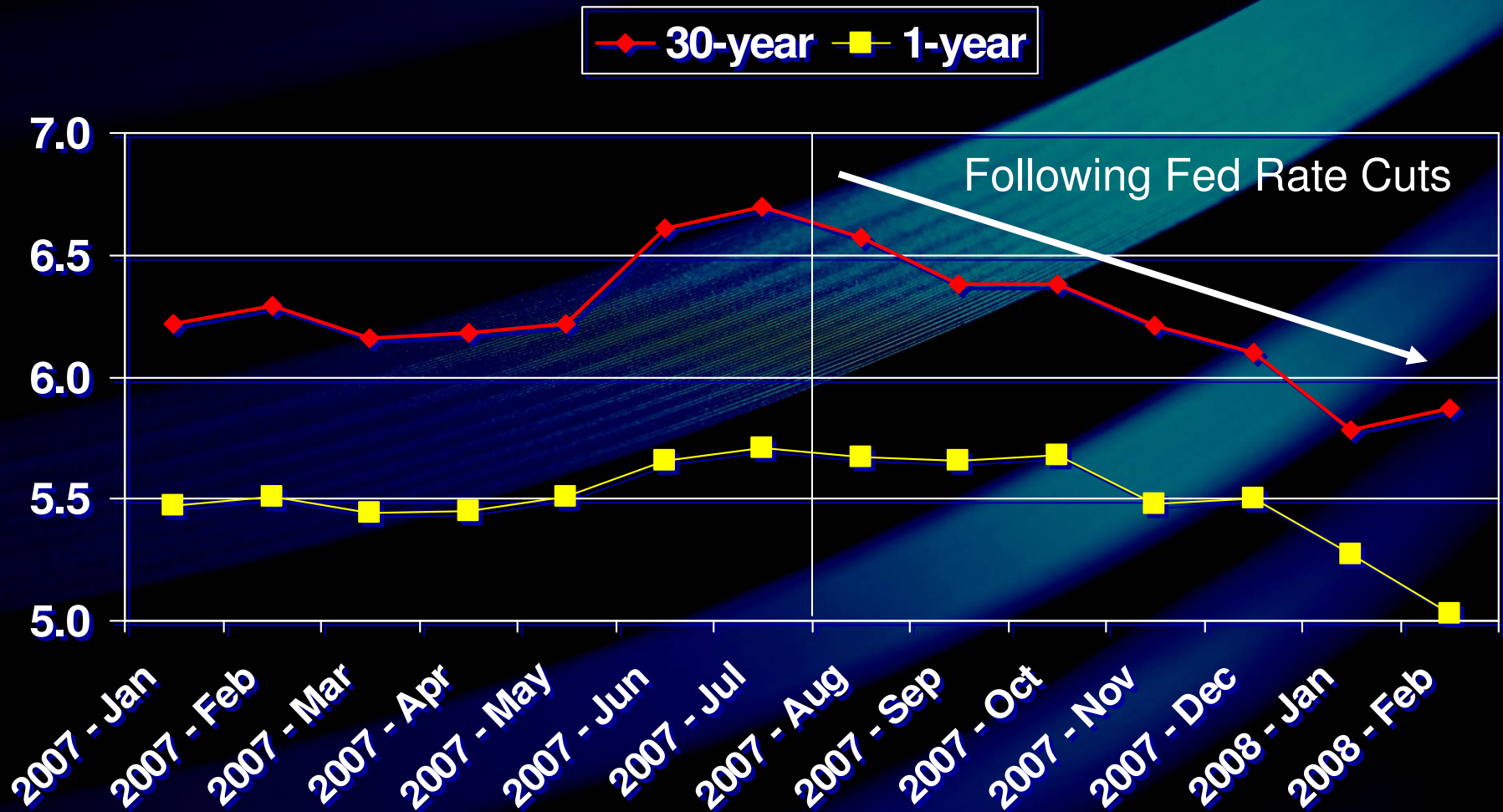
# Fed Rate Cut

■ Fed Funds Rate



Source: Freddie Mac

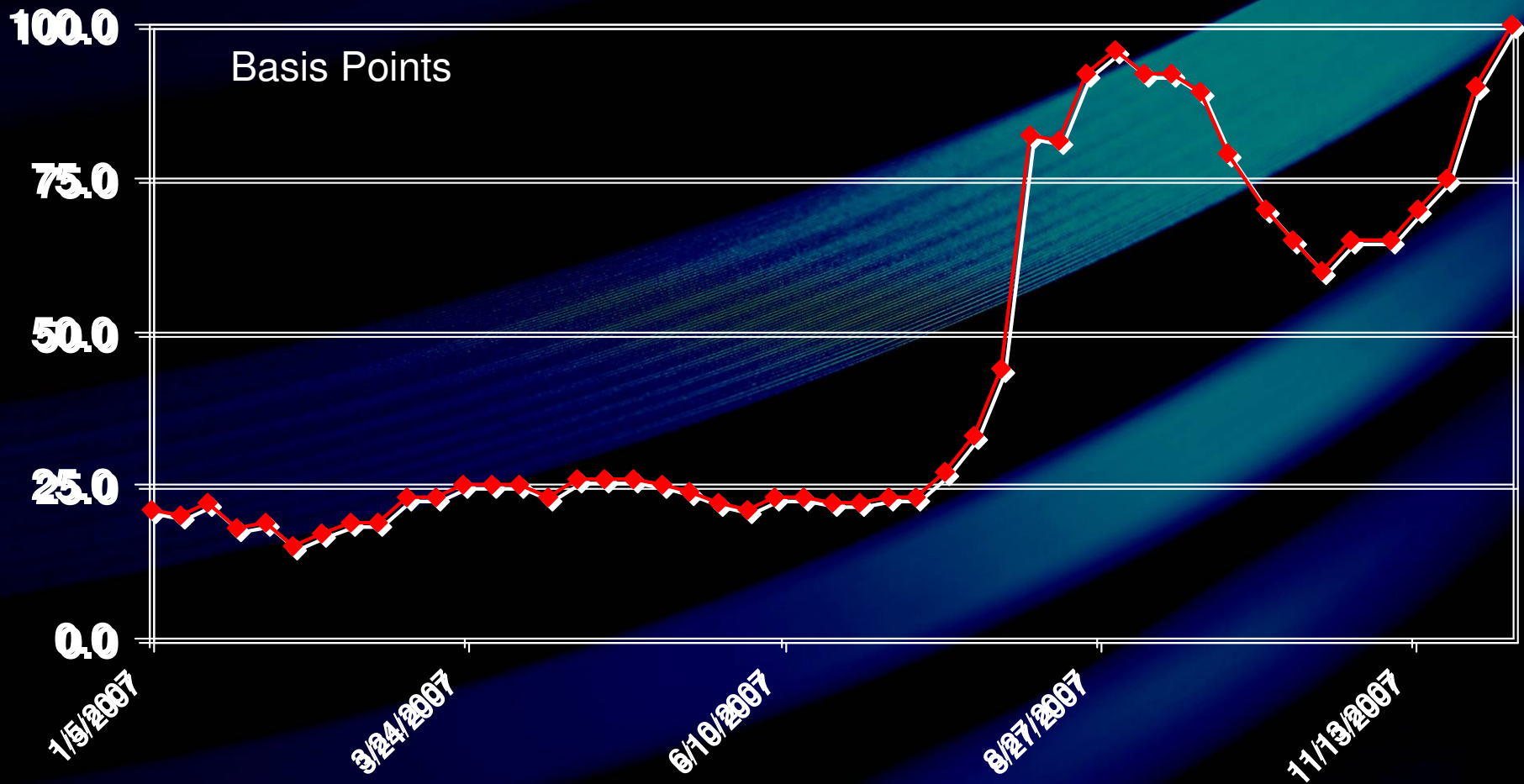
# Mortgage Rates



Source: Freddie Mac

# Jumbo Loan Rate Spread

(Jumbo Loan rate above Prime Conforming Rate)



Source: Freddie Mac, NAR Estimate

# 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**



# Economic Outlook

	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>GDP</b>	<b>2.1%</b>	<b>2.0%</b>	<b>2.9%</b>
<b>CPI Inflation</b>	<b>2.9%</b>	<b>3.1%</b>	<b>1.4%</b>
<b>Job Growth</b>	<b>1.3%</b>	<b>0.8%</b>	<b>1.6%</b>
<b>Unemployment Rate</b>	<b>4.6%</b>	<b>5.3%</b>	<b>5.1%</b>
<b>10-year Treasury</b>	<b>4.6%</b>	<b>4.3%</b>	<b>4.7%</b>

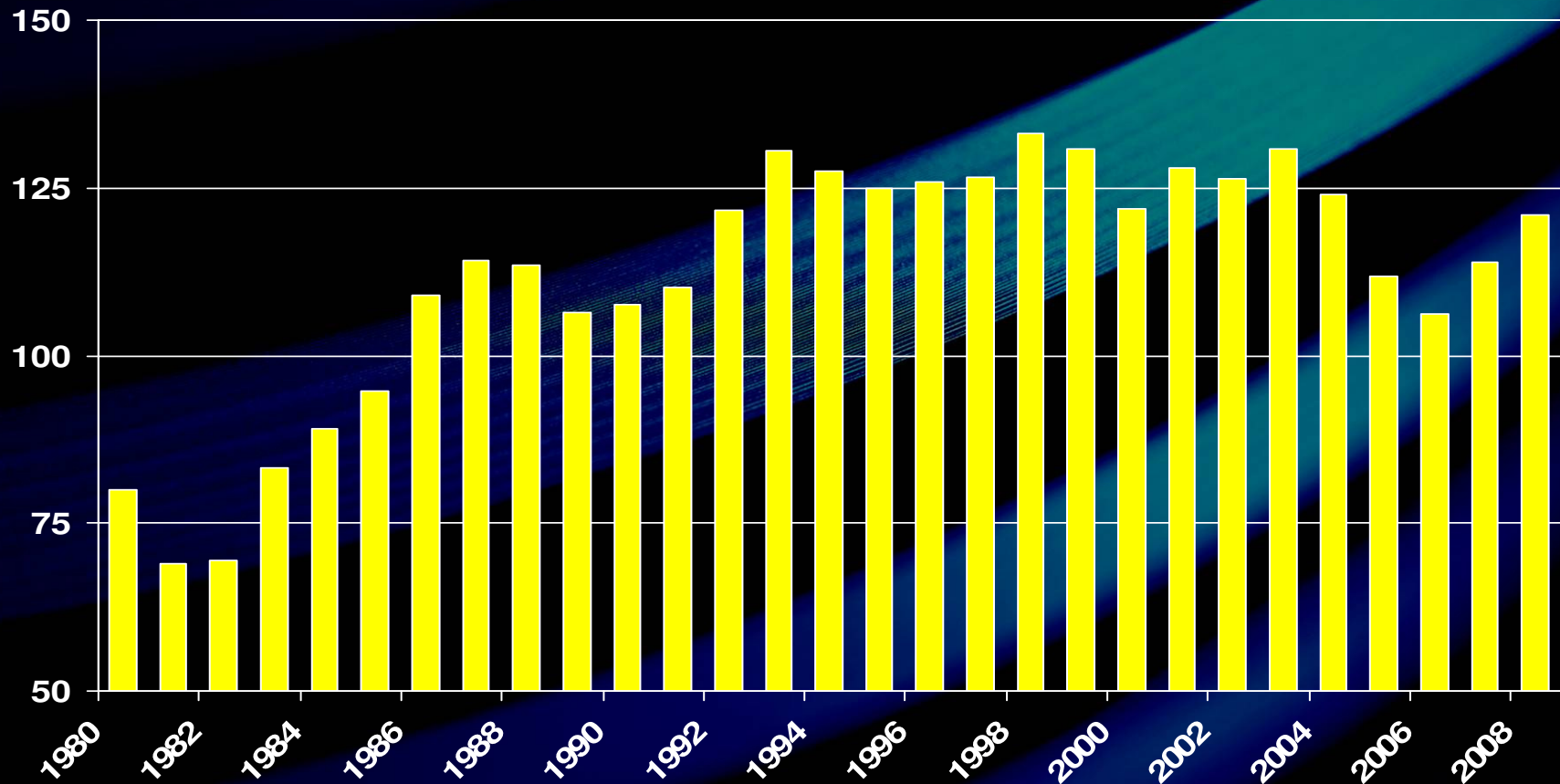
# Pent-Up Demand ?

	2005	2007	Difference
<b>Total Home Sales</b> (new and existing)	8.4 million	6.5 million	- 1.9 million
<b>Jobs</b> (in October)	133.7 million	137.6 million	+ 3.9 million
<b>Wage + Salary</b> (in October)	\$5.7 trillion	\$6.4 trillion	+ \$700 billion
<b>Household Wealth</b> (3 <sup>rd</sup> quarter)	\$51 trillion	\$59 trillion	+ \$8 trillion
<b>Home Prices</b>	\$219,600	\$218,900	Little change
<b>Mortgage Rates</b>	5.9%	6.3%	Little change

# Unleashing of Pent-Up Demand



# Housing Affordability Index



Source: NAR

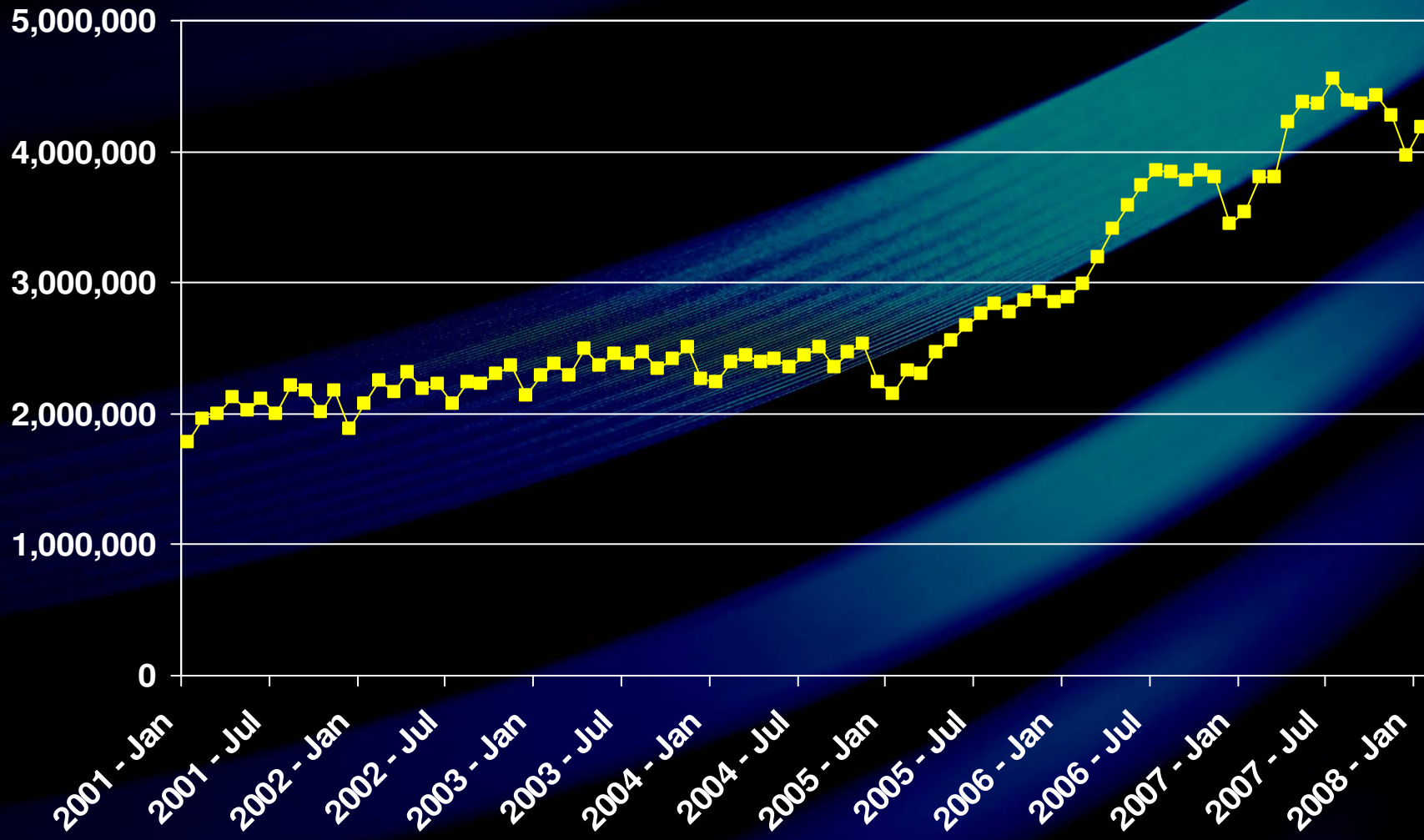
# Impact of Higher GSE Loan Limit

- 348,000 additional home sales
- \$44 billion in increased economic activity
- \$274 to \$411 per month savings in interest payments for consumers who gets new “GSE jumbo” loans versus current private jumbo loans
- Potentially 500,000 refinancing of jumbo loans at lower interest rates
- Reducing national months supply of homes on the market by one month
- Strengthen home price by 2% to 3% points.
- Reduce the number of foreclosures by 140,000 to 210,000

Source: NAR Estimate

# Existing-Home Inventory

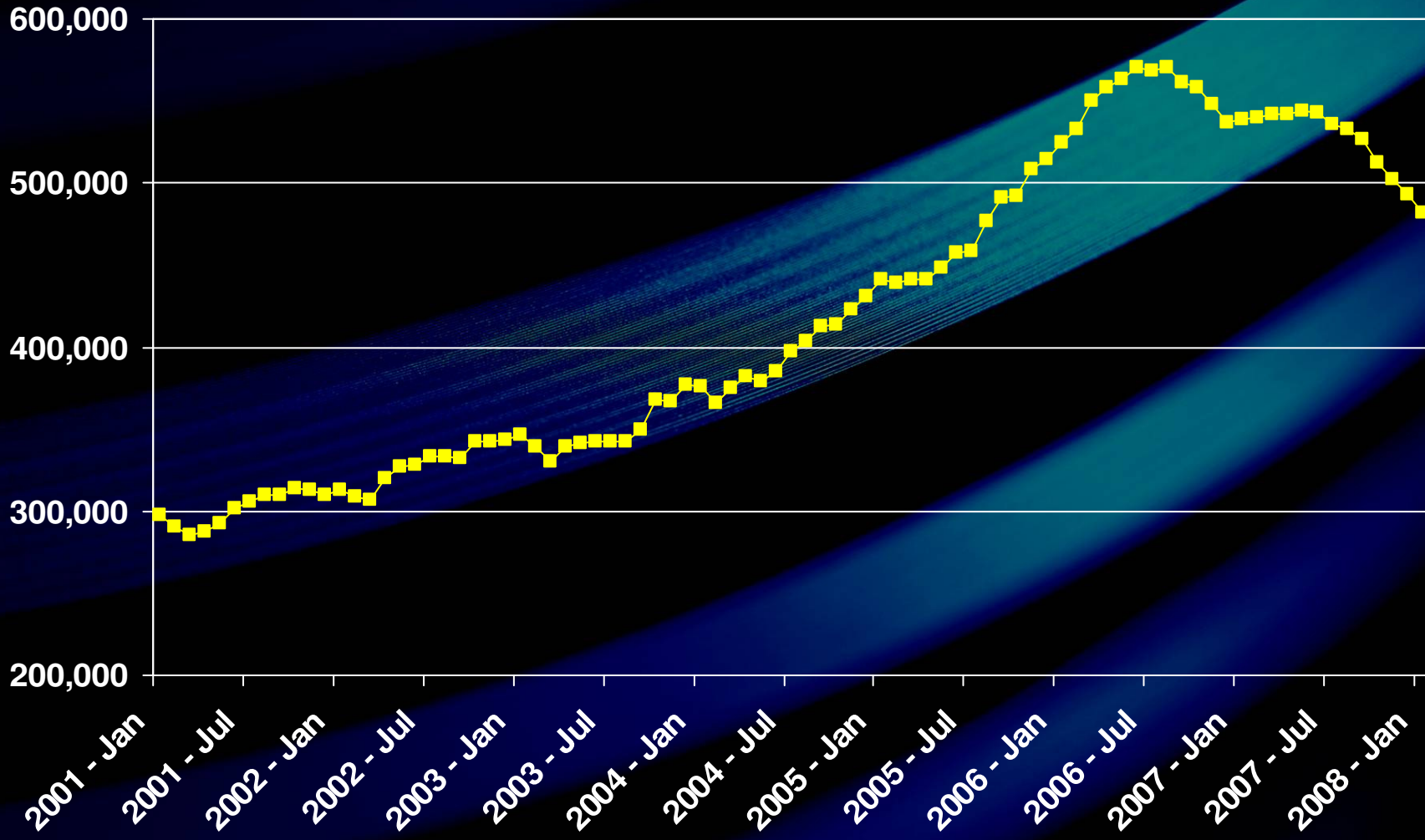
(From 2 million to 4.5 million; but most are owner-occupied)



Source: NAR

# New Home Inventory

(Already Topped Out)

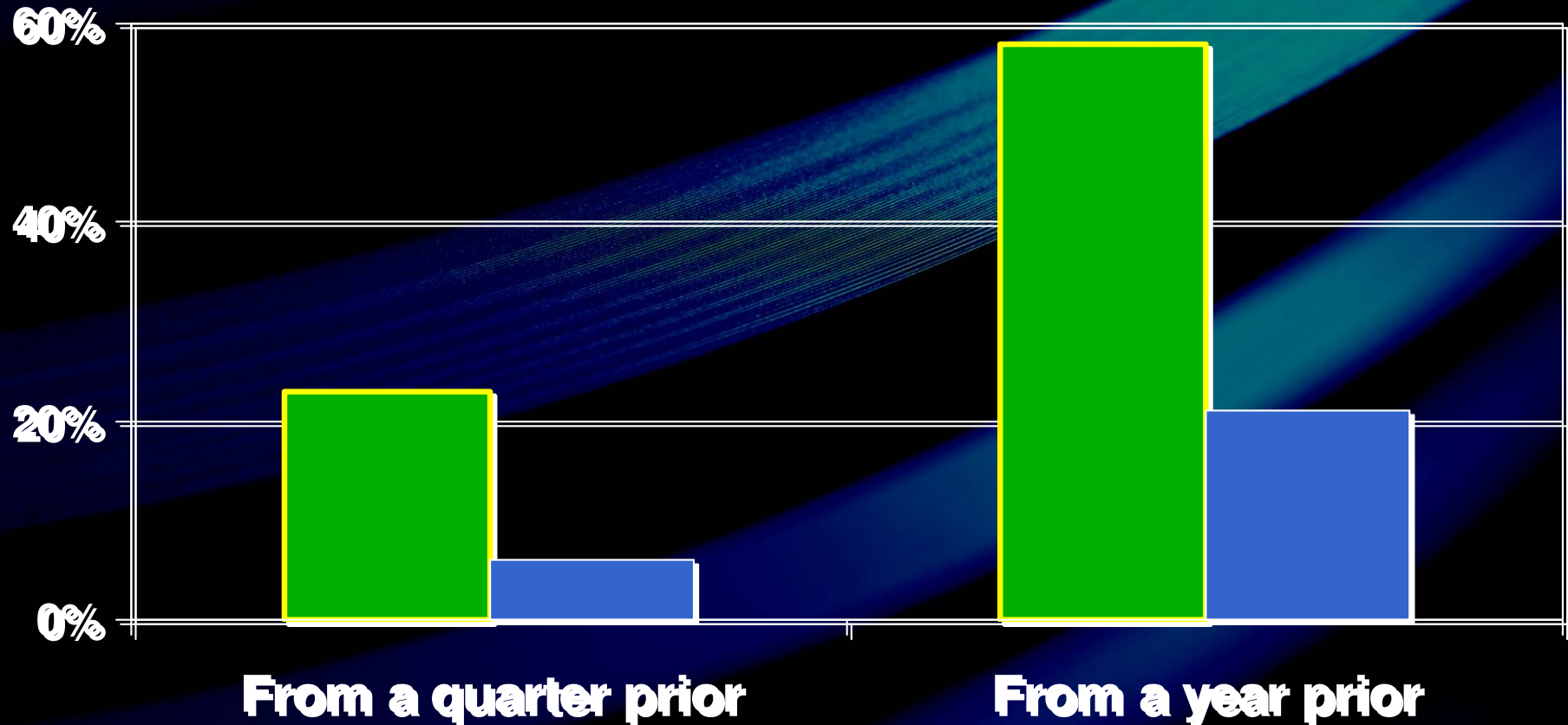


Source: Census

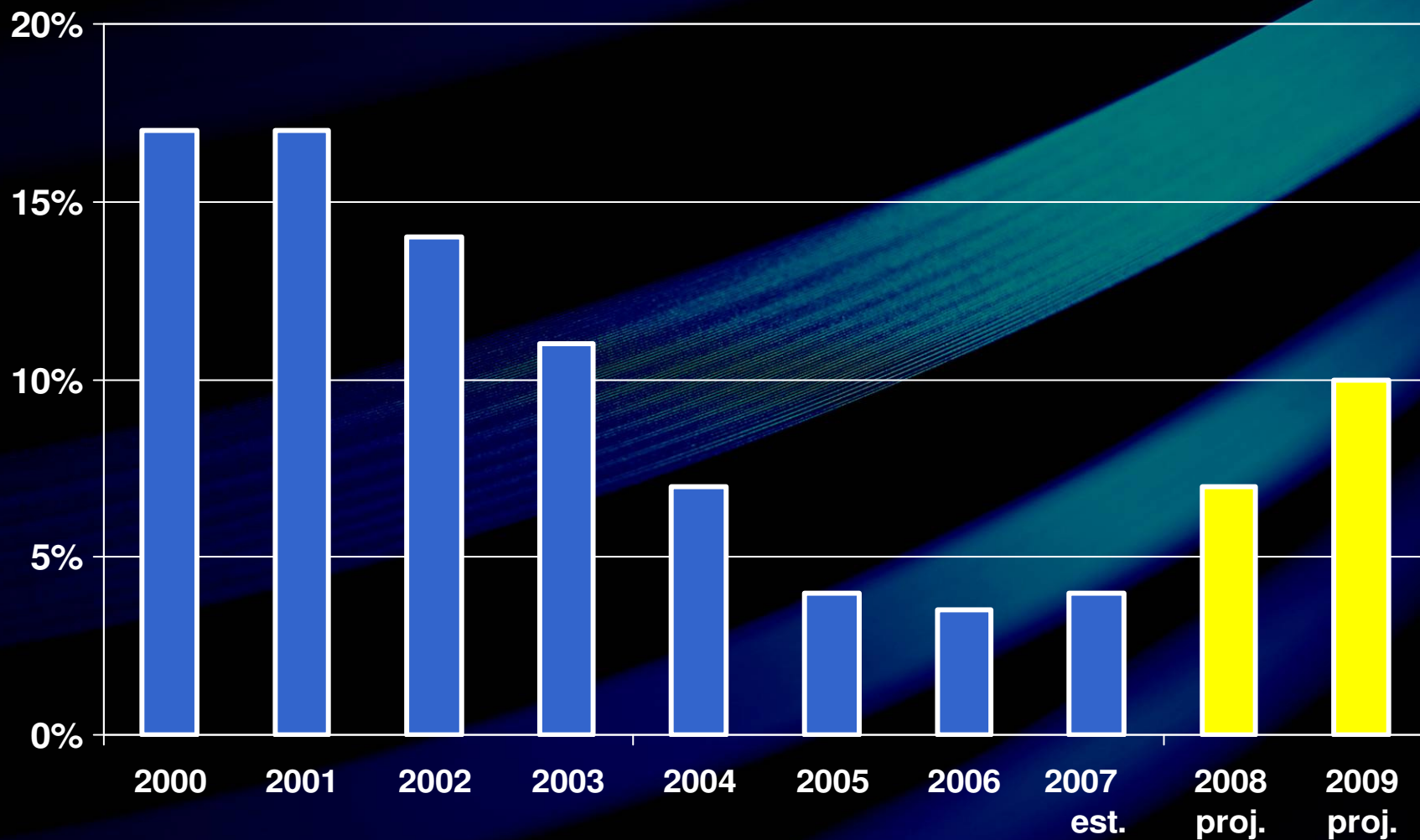
# FHA Endorsements Rising

(2007 Q2)

■ Home Purchase ■ Refinance



# FHA Market Share for Home Purchase



Source: HMDA, NAR Estimate

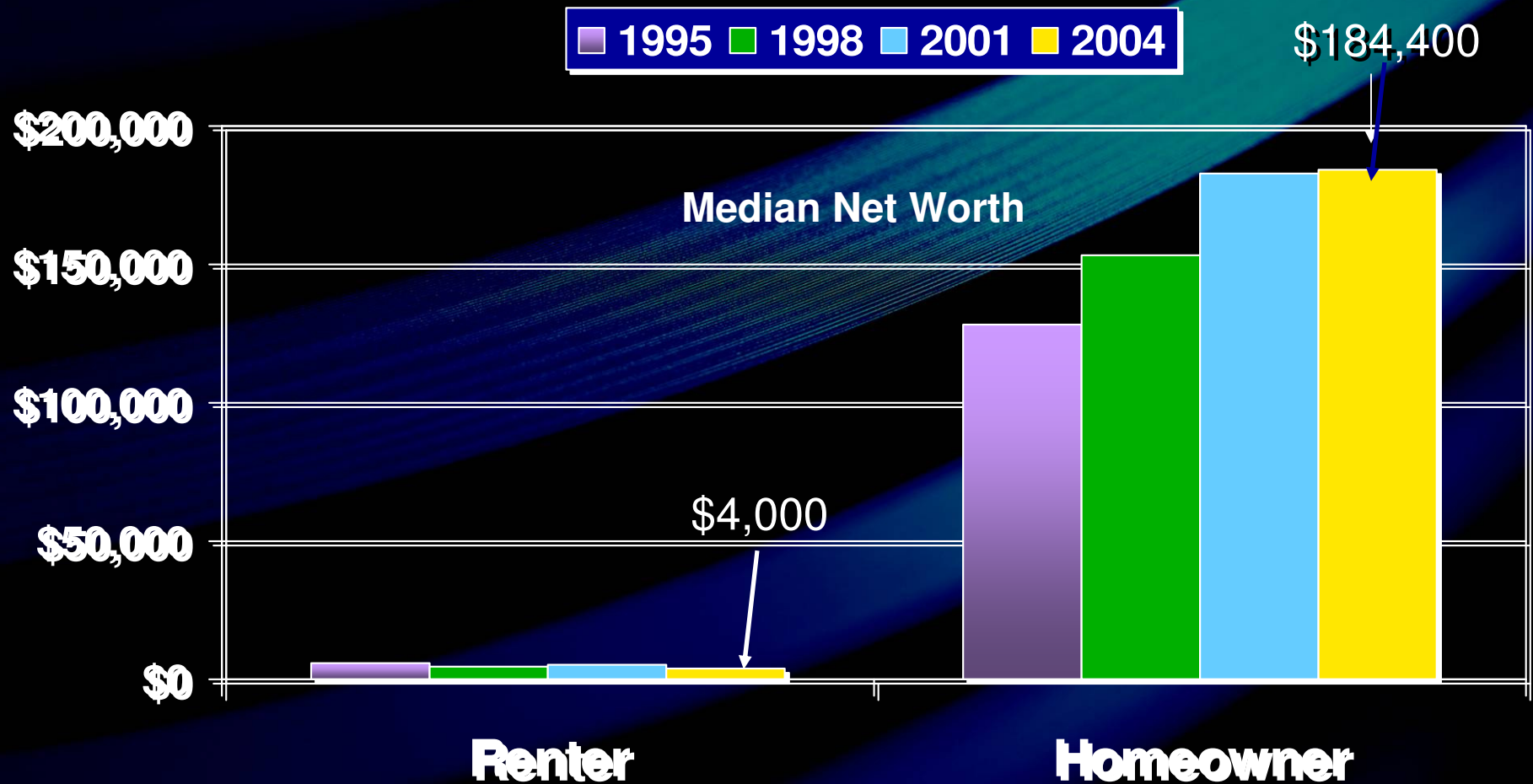
# National Housing Outlook

	2007	2008	2009
Existing-Home Sales	5.65 million	5.38 million	5.60 million
New Home Sales	0.77 million	0.64 million	0.69 million
Housing Starts	1.35 million	1.08 million	1.07 million
30-Year FRM	6.3%	5.7%	6.3%
1-Year ARM	5.6%	4.9%	5.0%
Existing-Home Price Growth	-1.4%	-1.2%	3.2

# Local Forecast

- **Rising Exports help Economy**
- **Consistent Job Growth**
- **Boston – is the anchor**
- **New England Region - educated work force in a knowledge based economy**
- **Falling housing inventory**
- **2008 – Stabilizing to modest improvement**
- **2009 – Healthy rise in sales and prices**

# Best Evidence: Household Wealth Accumulation



Source: Federal Reserve