Recovery to Normalcy

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

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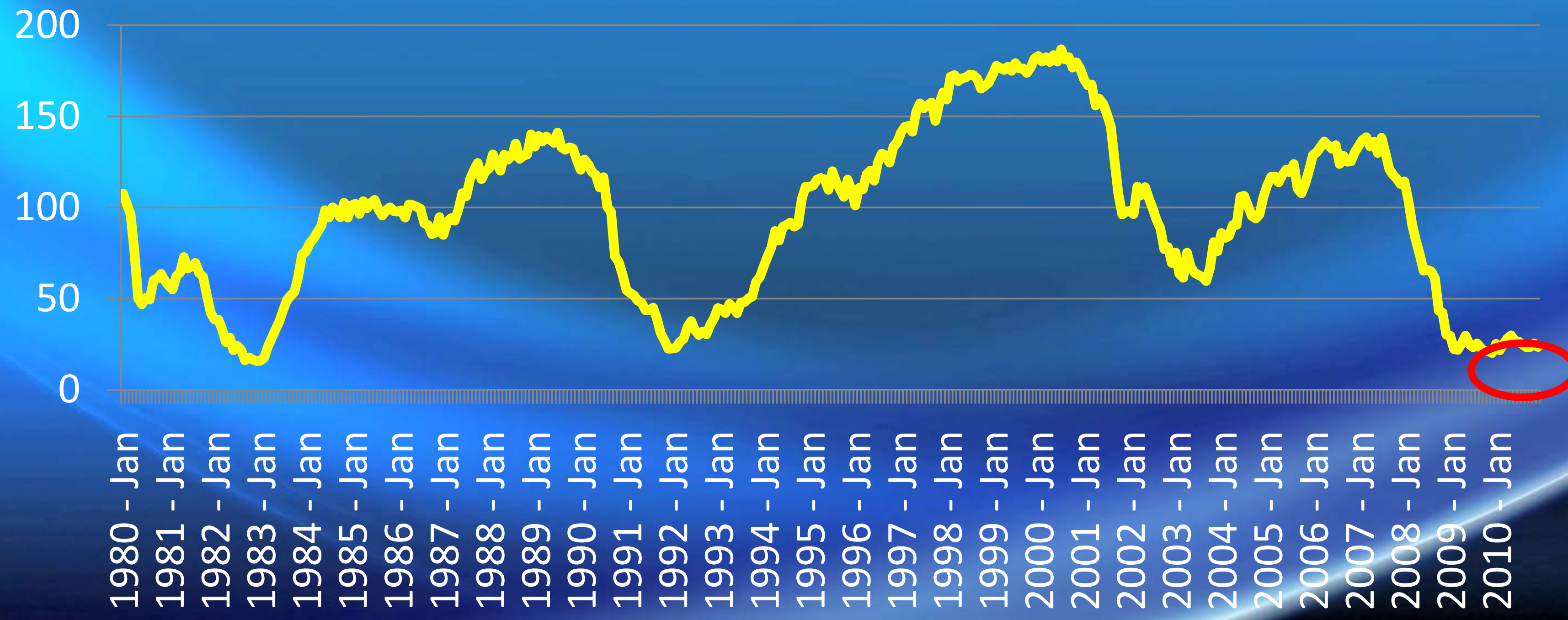
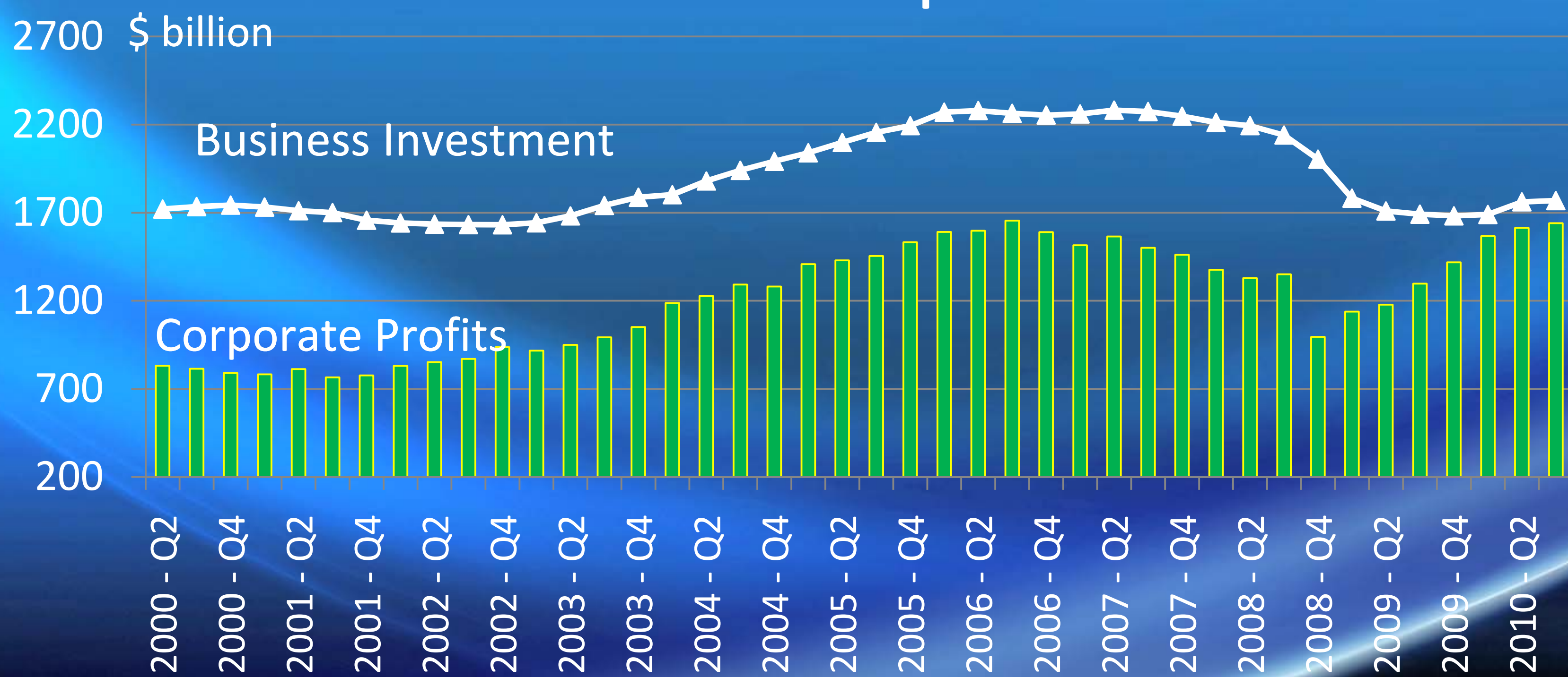
Consumer Confidence about Present Conditions: Awful



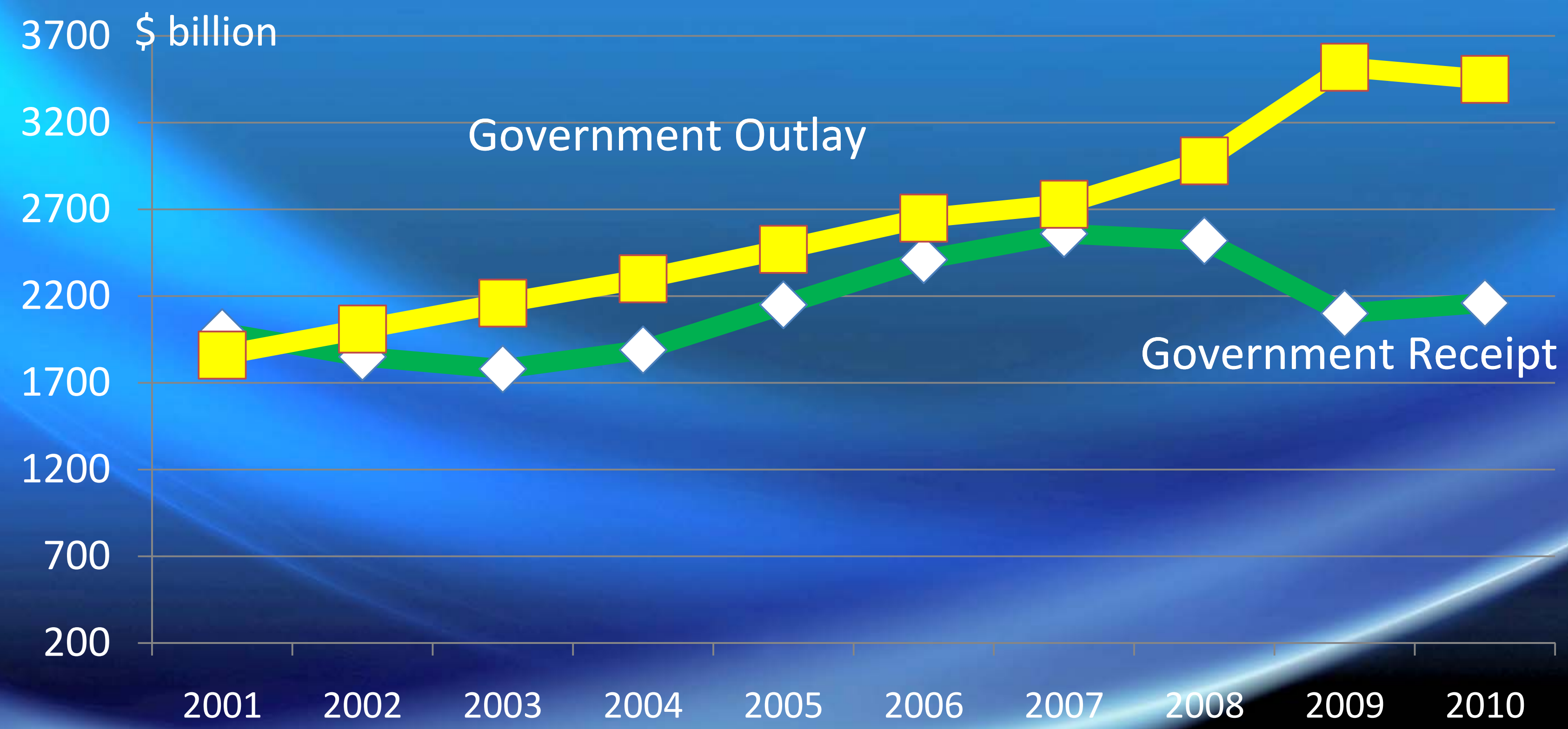
Consumer Confidence about Future Conditions – Better, but Great

Business Spending shows weak confidence in relation to profits

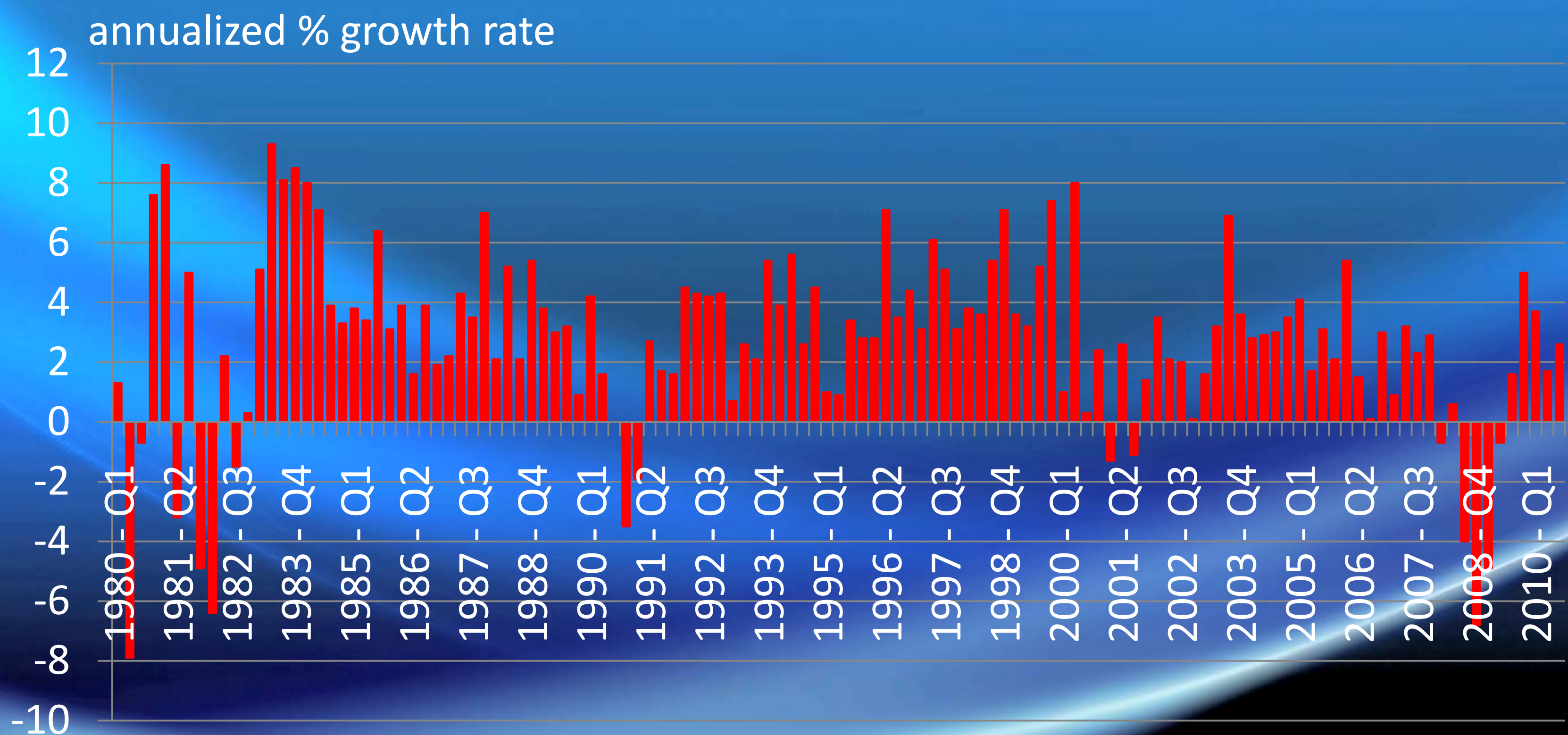


Business Investment = private fixed investment in GDP accounting

Government Spending (Confidence)



GDP Growing, but without vigor




Total Payroll Jobs
(1 million in the past 12 months)
In thousands
140000
138000
136000
134000
132000
130000
128000
126000
124000
2000 - Jan
2000 - Jul
2001 - Jan
2001 - Jul
2002 - Jan
2002 - Jul
2003 - Jan
2003 - Jul
2004 - Jan
2004 - Jul
2005 - Jan
2005 - Jul
2006 - Jan
2006 - Jul
2007 - Jan
2007 - Jul
2008 - Jan
2008 - Jul
2009 - Jan
2009 - Jul
2010 - Jan
2010 - Jul
2011 - Jan

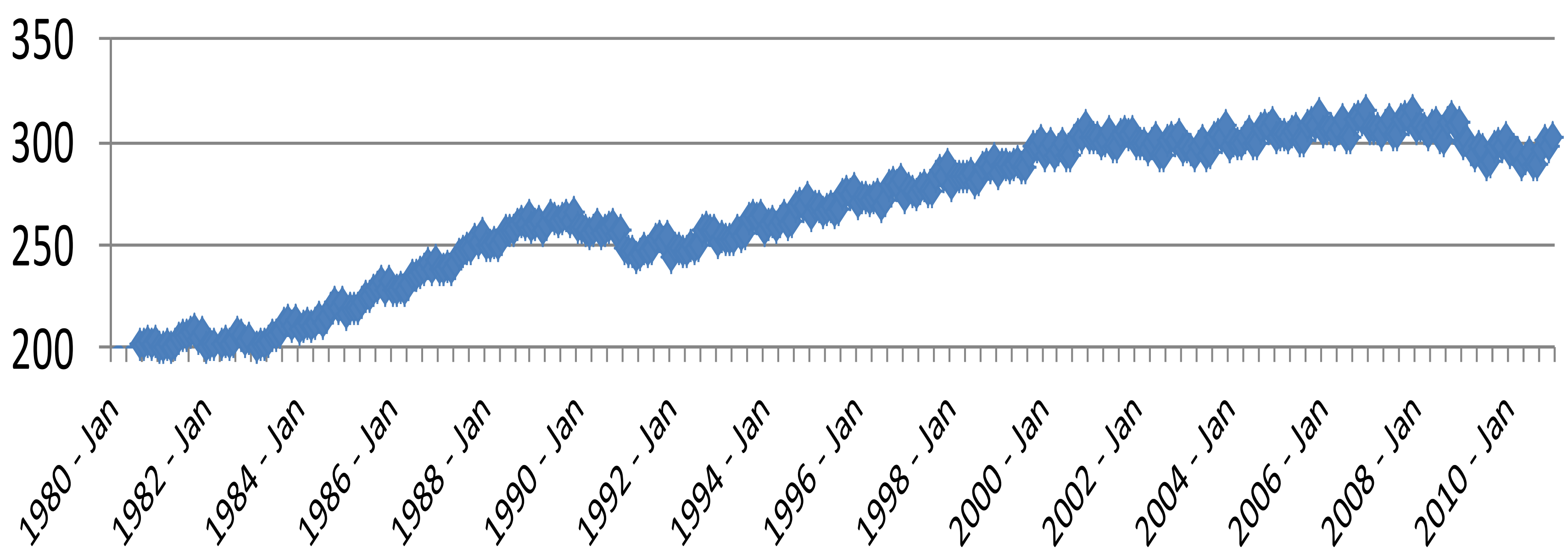
How Many Years to Get Job Market Back to Normal?

Jobs added per month	Assumed new jobs needed for growing population per month	How many years?
100,000	100,000	Treading water and never back to normal
200,000	100,000	6.3 years
300,000	100,000	3.2 years
400,000	100,000	2.1 years

Total Payroll Jobs in Vermont

(1980 to 2010)

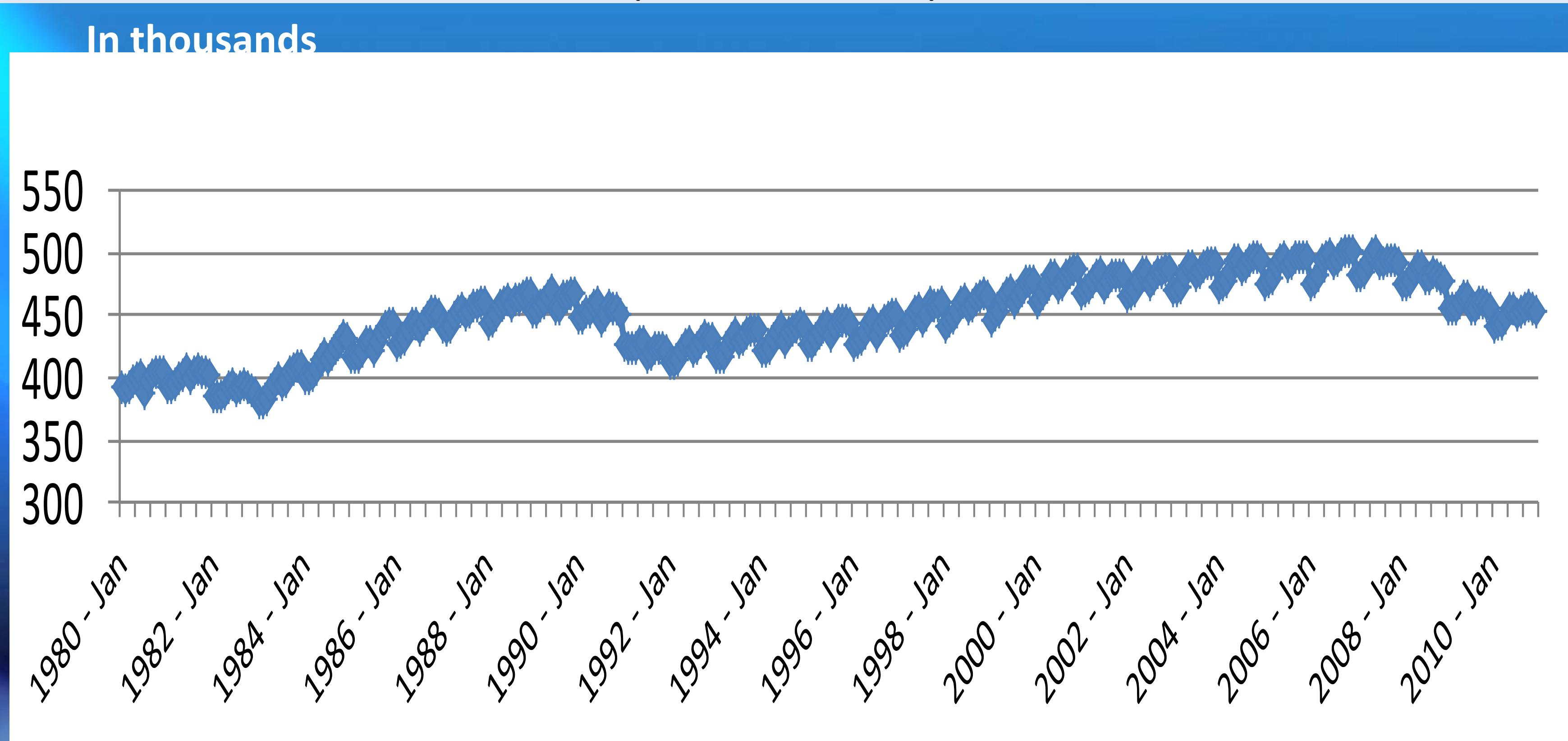
In thousands



Source: BLS

Total Payroll Jobs in Rhode Island

(1980 to 2010)

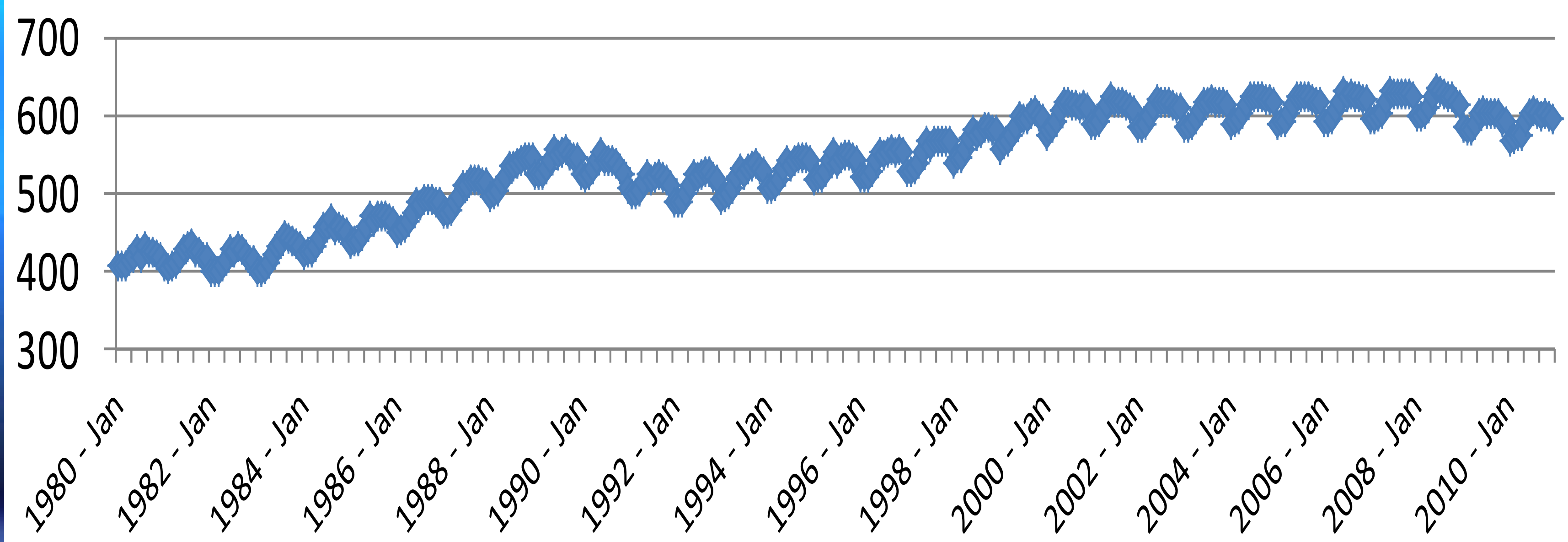


Source: BLS

Total Payroll Jobs in Maine

(1980 to 2010)

In thousands

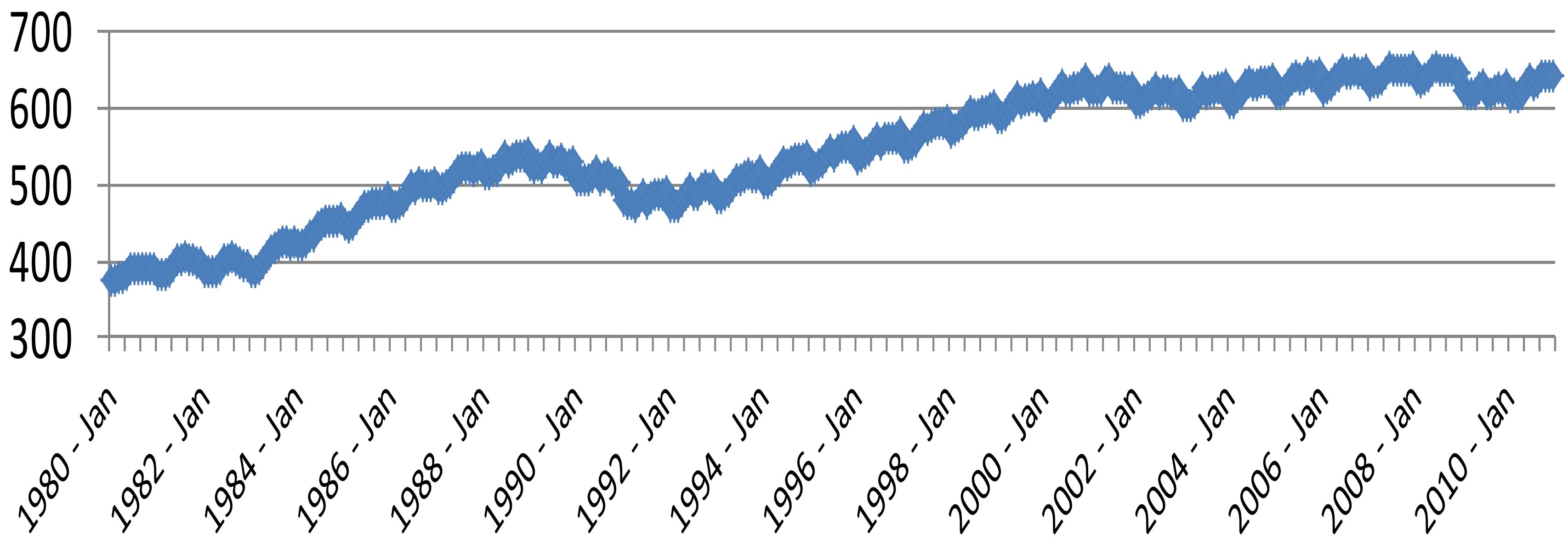


Source: BLS

Total Payroll Jobs in New Hampshire

(1980 to 2010)

In thousands

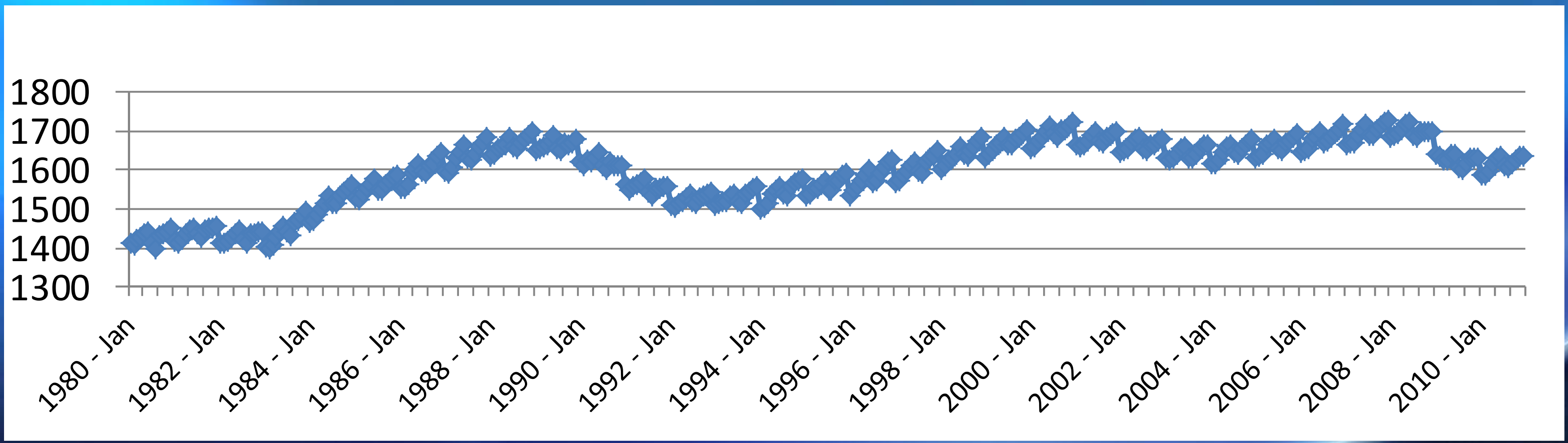


Source: BLS

Total Payroll Jobs in Connecticut

(1980 to 2010)

In thousands

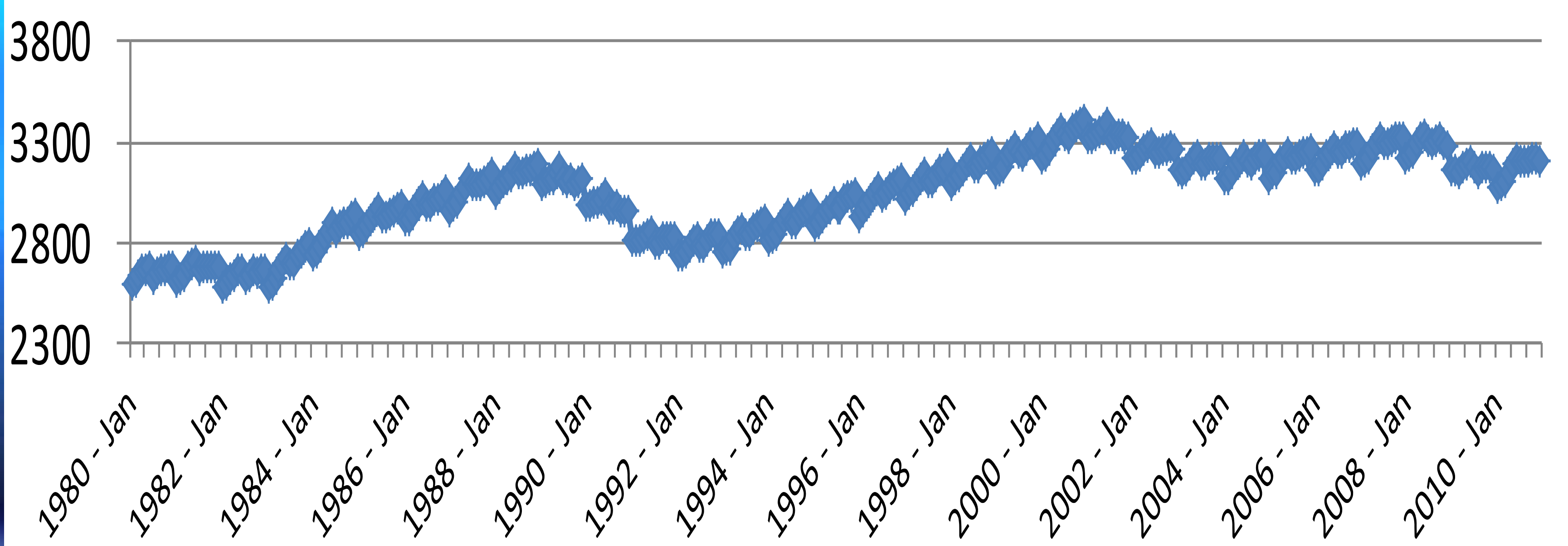


Source: BLS

Total Payroll Jobs in Massachusetts

(1980 to 2010)

In thousands



Source: BLS

Long-Term Job Growth Comparison

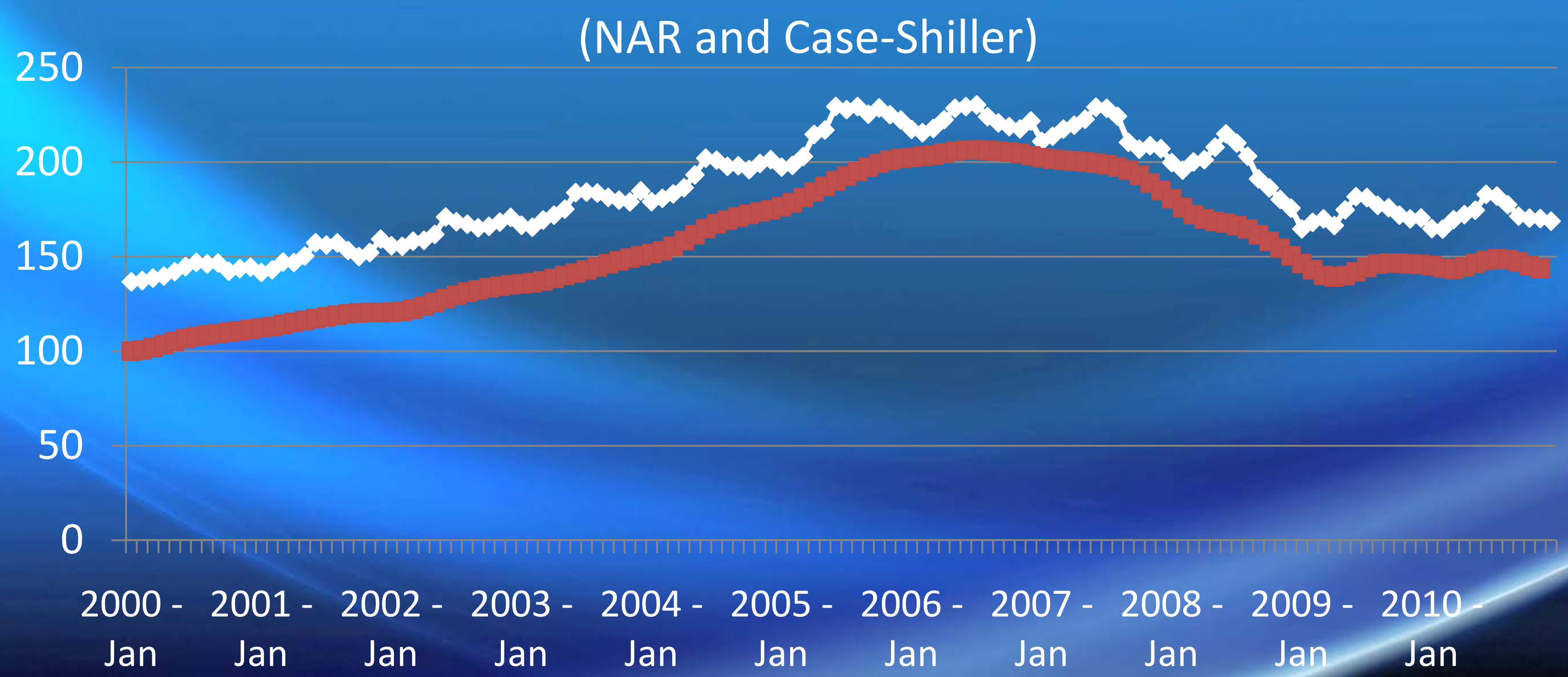
State	30-year Job Growth
NH	71%
VT	53%
ME	47%
U.S. average	43%
MA	24%
RI	16%
CT	16%

National Existing Home Sales (Closings)
7,500,000
7,000,000
6,500,000
6,000,000
5,500,000
5,000,000
4,500,000
4,000,000
3,500,000
3,000,000
2000 - Feb
2000 - Jul
2000 - Dec
2001 - May
2001 - Oct
2002 - Mar
2002 - Aug
2003 - Jan
2003 - Jun
2003 - Nov
2004 - Apr
2004 - Sep
2005 - Feb
2005 - Jul
2005 - Dec
2006 - May
2006 - Oct
2007 - Mar
2007 - Aug
2008 - Jan
2008 - Jun
2008 - Nov
2009 - Apr
2009 - Sep
2010 - Feb
2010 - Jul
2010 - Dec


Annual Existing Home Sales
Bubble Years
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011 f
2012 f


30-year fixed Mortgage Rate
9
8
7
6
5
4
2000 - Jan
2001 - Jan
2002 - Jan
2003 - Jan
2004 - Jan
2005 - Jan
2006 - Jan
2007 - Jan
2008 - Jan
2009 - Jan
2010 - Jan

Nationwide Home Price Trend – Mostly Stable from 2009



Too Strict Underwriting Standards?

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%

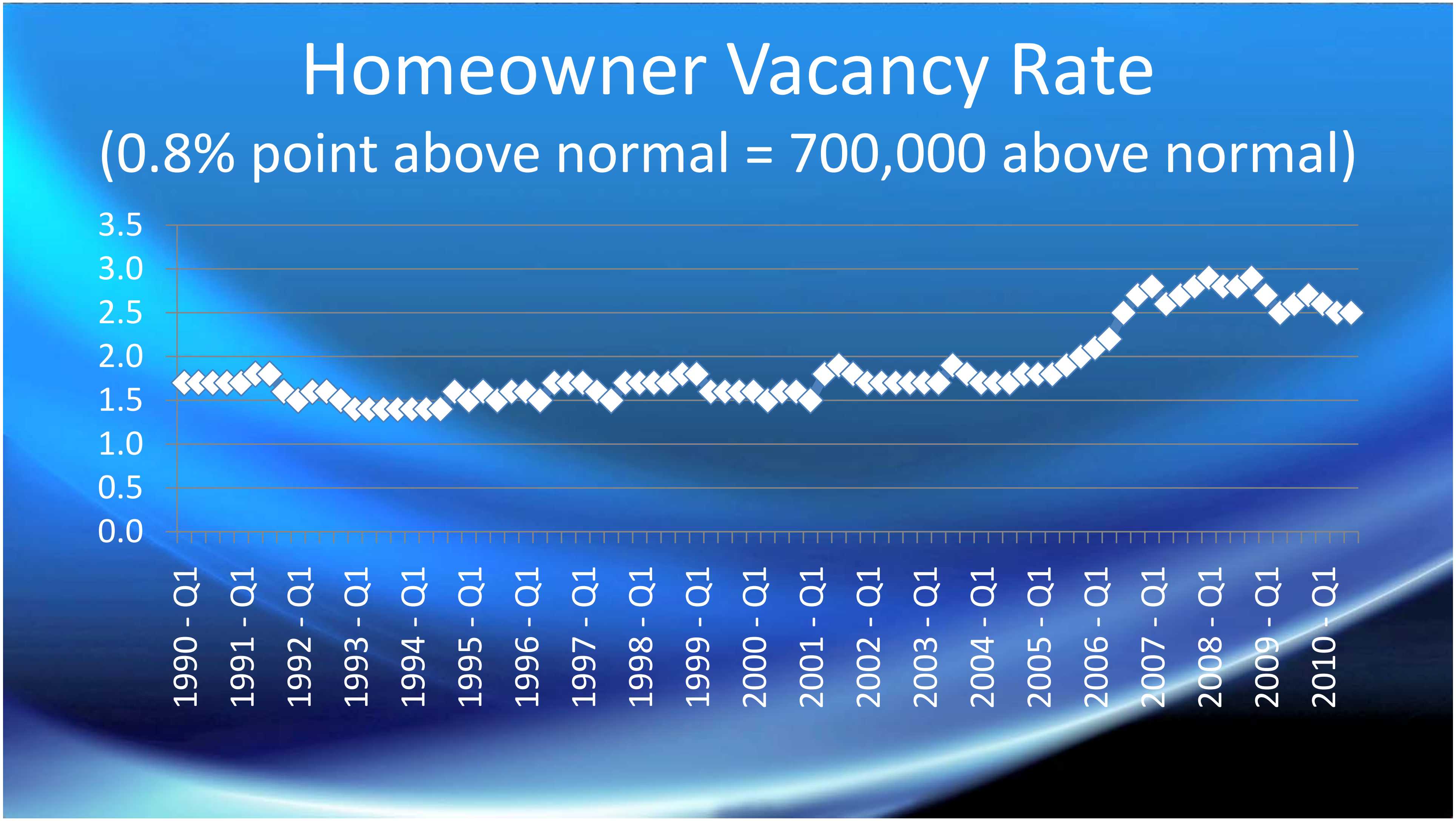
Freddie Mac Vintage	Cumulative Default Rate after 18 months
2002	2.7%
2003	1.2%
2004	2.0%
2005	1.8%
2006	6.0%
2007	22.3%
2008	13.7%
2009	1.1%

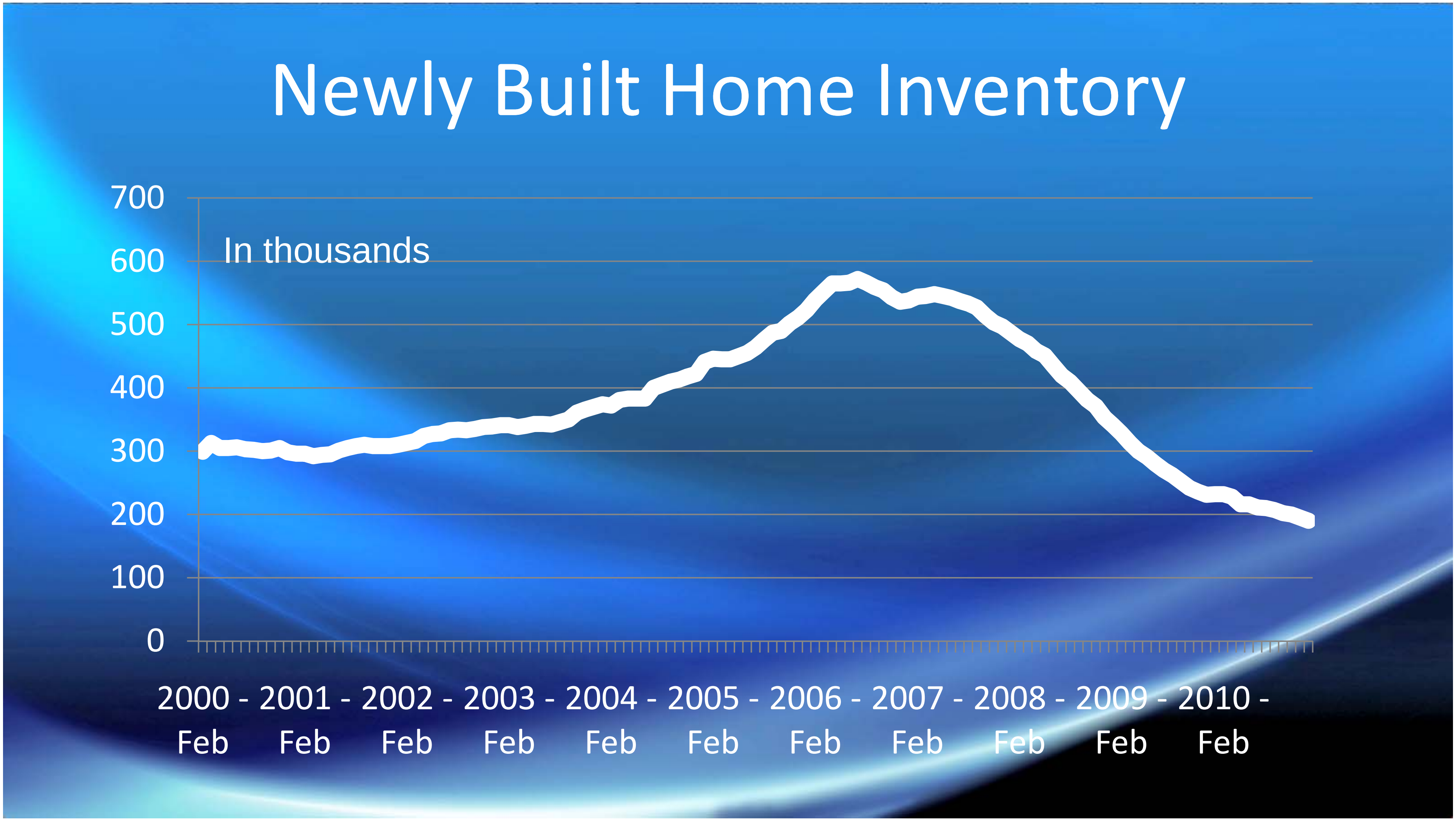
Source: Federal Housing Finance Agency

Mortgage Defaults Still Very High

from past mistakes and not new loans
(90+ days late and foreclosures)

	2000	2010 Q3
U.S.	1.9%	8.7%
New England	1.2%	7.3%


Homeowner Vacancy Rate
(0.8% point above normal = 700,000 above normal)
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
1990 - Q1
1991 - Q1
1992 - Q1
1993 - Q1
1994 - Q1
1995 - Q1
1996 - Q1
1997 - Q1
1998 - Q1
1999 - Q1
2000 - Q1
2001 - Q1
2002 - Q1
2003 - Q1
2004 - Q1
2005 - Q1
2006 - Q1
2007 - Q1
2008 - Q1
2009 - Q1
2010 - Q1


Newly Built Home Inventory
700
600
500
400
300
200
100
0
In thousands
2000 - Feb
2001 - Feb
2002 - Feb
2003 - Feb
2004 - Feb
2005 - Feb
2006 - Feb
2007 - Feb
2008 - Feb
2009 - Feb
2010 - Feb

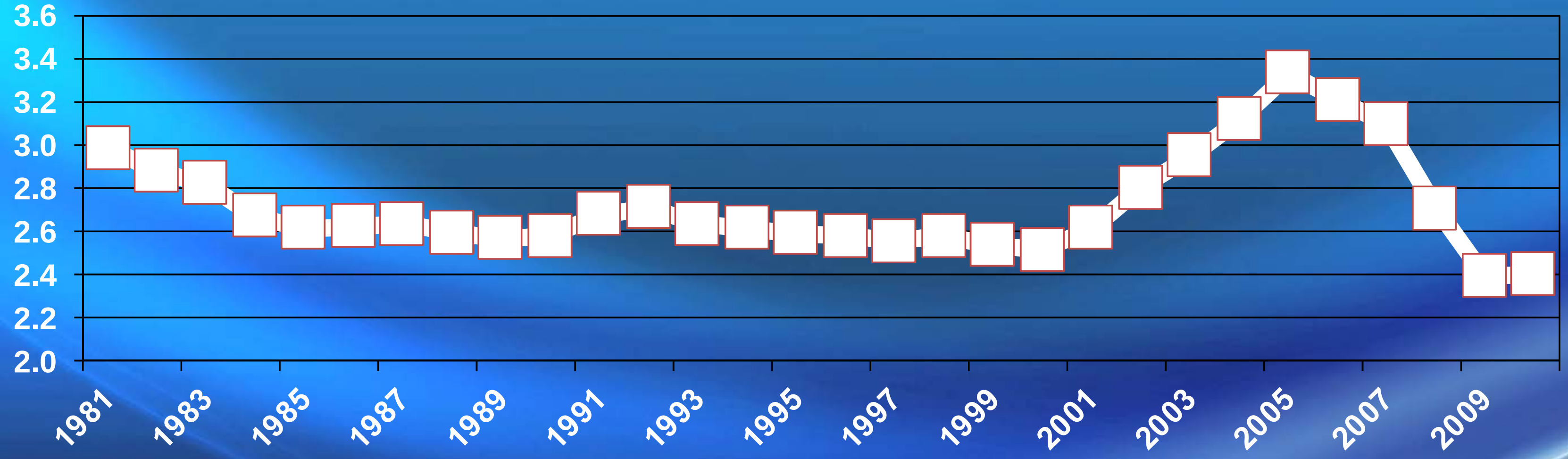
Depressed Housing Starts

Return to Normalcy

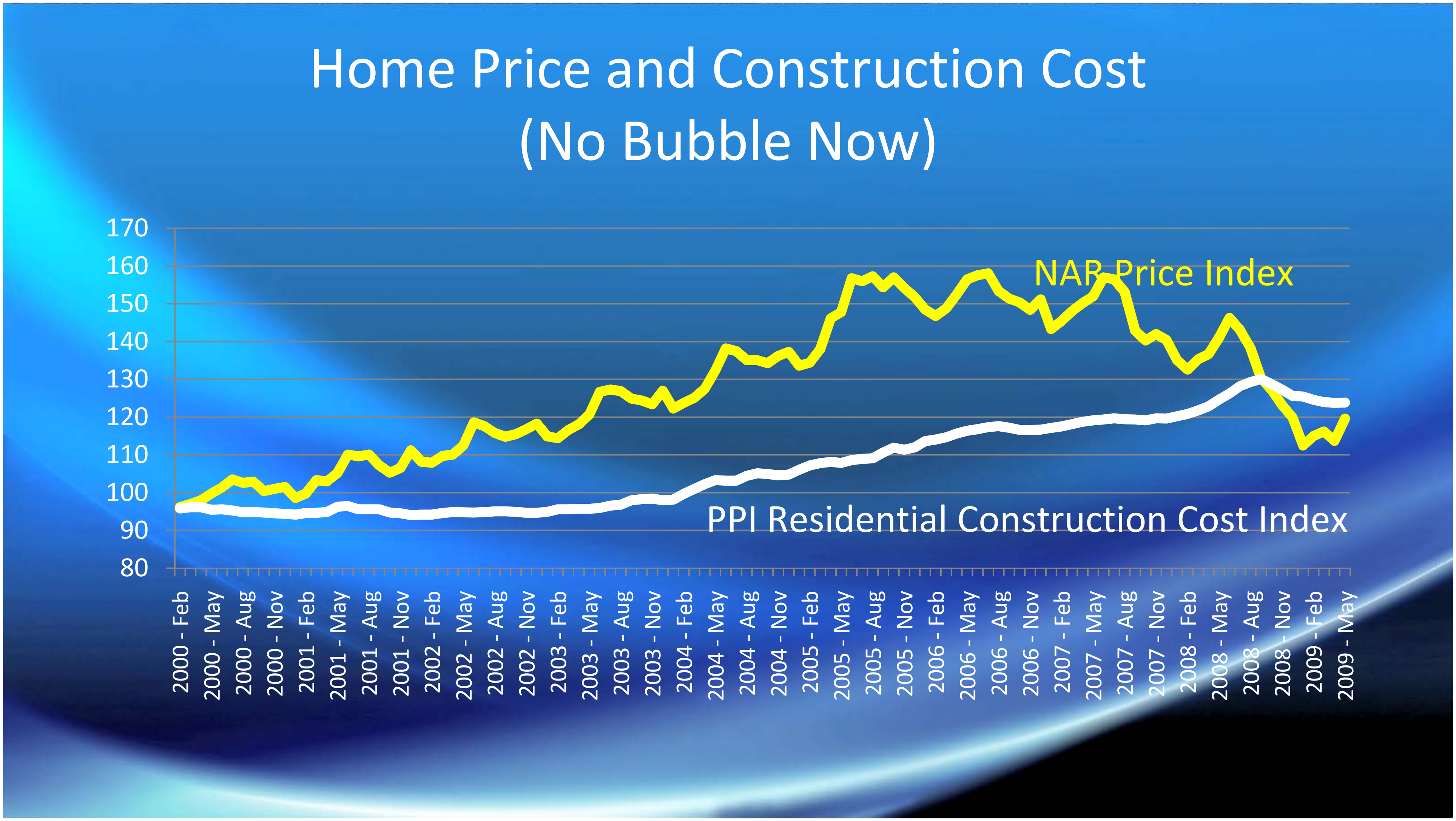
- Unprecedented Boom and Bust: 2000 to 2010
- Sales Boomed and Retreated
- Prices Overshot and Corrected
- Fundamental Back to Justifiable Levels
- Long-standing Housing Policy still in place
- Credit Market Bubble … out the window

Home Sale to Jobs

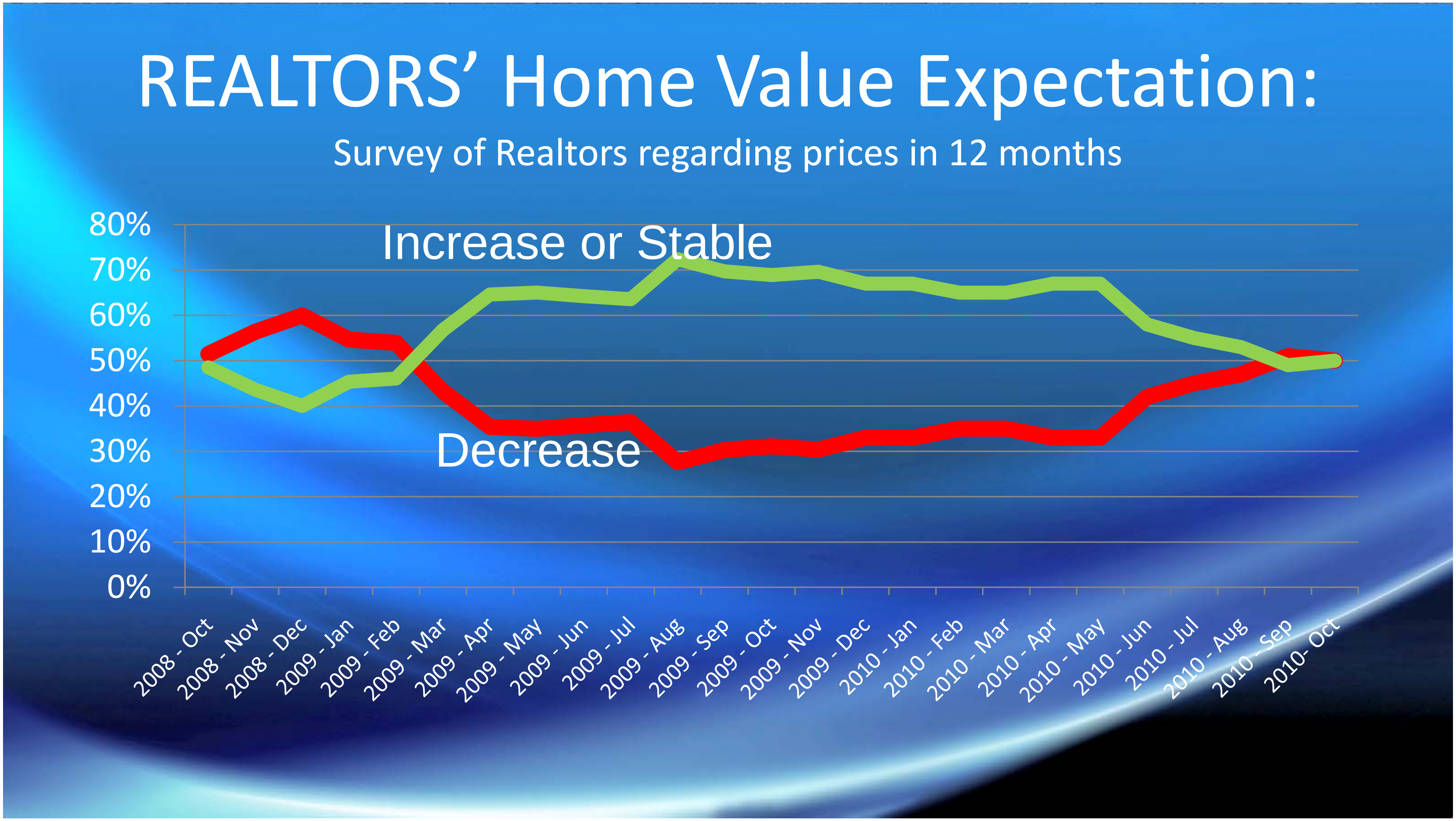
Home Price-to-Income Ratio
(No Bubble Now)



Source: NAR


Home Price and Construction Cost
(No Bubble Now)
NAR Price Index
PPI Residential Construction Cost Index
170
160
150
140
130
120
110
100
90
80
2000 - Feb
2000 - May
2000 - Aug
2000 - Nov
2001 - Feb
2001 - May
2001 - Aug
2001 - Nov
2002 - Feb
2002 - May
2002 - Aug
2002 - Nov
2003 - Feb
2003 - May
2003 - Aug
2003 - Nov
2004 - Feb
2004 - May
2004 - Aug
2004 - Nov
2005 - Feb
2005 - May
2005 - Aug
2005 - Nov
2006 - Feb
2006 - May
2006 - Aug
2006 - Nov
2007 - Feb
2007 - May
2007 - Aug
2007 - Nov
2008 - Feb
2008 - May
2008 - Aug
2008 - Nov
2009 - Feb
2009 - May

CPI Apartment Rent



REALTORS' Home Value Expectation:
Survey of Realtors regarding prices in 12 months
80%
70%
60%
50%
40%
30%
20%
10%
0%
Increase or Stable
Decrease
2008 - Oct
2008 - Nov
2008 - Dec
2009 - Jan
2009 - Feb
2009 - Mar
2009 - Apr
2009 - May
2009 - Jun
2009 - Jul
2009 - Aug
2009 - Sep
2009 - Oct
2009 - Nov
2009 - Dec
2010 - Jan
2010 - Feb
2010 - Mar
2010 - Apr
2010 - May
2010 - Jun
2010 - Jul
2010 - Aug
2010 - Sep
2010- Oct

Long Standing Housing Policy

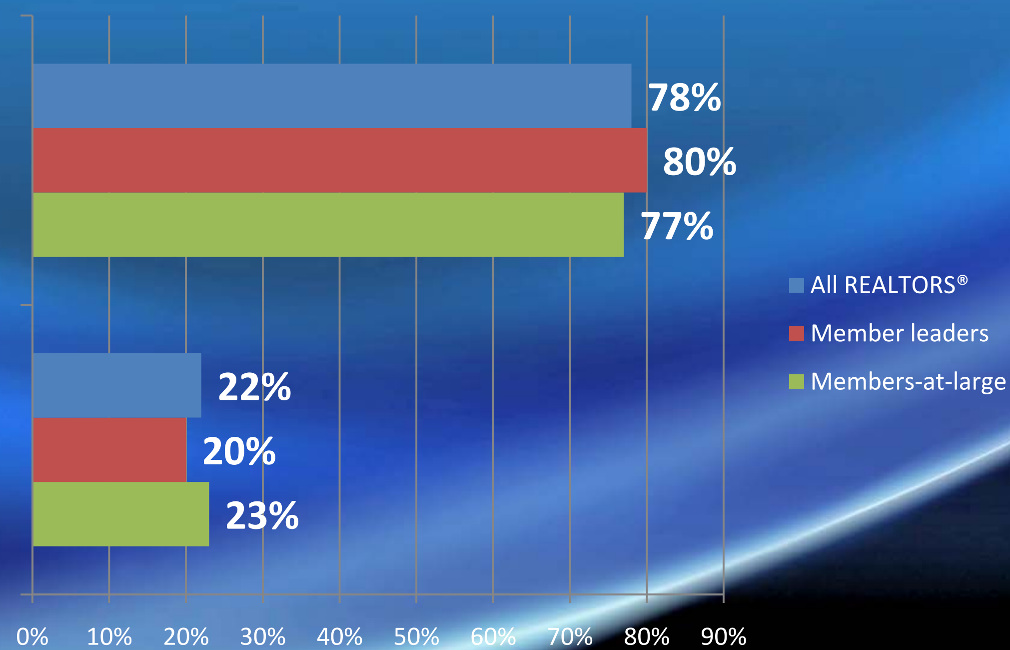
- Mortgage Interest Deduction
  - If eliminated, about 15% hit to home values
  - Massive wealth destruction on property owners who have saved and saved (in many cases to pass it on to the next generation)
- FHA
  - Self-financing without ever needing taxpayer funds (as of yet)
- Fannie and Freddie
  - Made mistakes and need to be restructured

Tax Policy Question

Which of the following statements is closest to your view?

Existing real estate-related federal tax benefits, including the mortgage interest deduction and the $250,000/$500,000 capital gains exclusion, should be preserved in their current form despite concerns about federal deficits and the national debt.

When it comes to changes in tax deductions, real estate tax preferences and federal spending, we must all share in the sacrifice to reduce our national debt to assure the future health of our nation.



Presidential Quotes

- Franklin Delano Roosevelt:

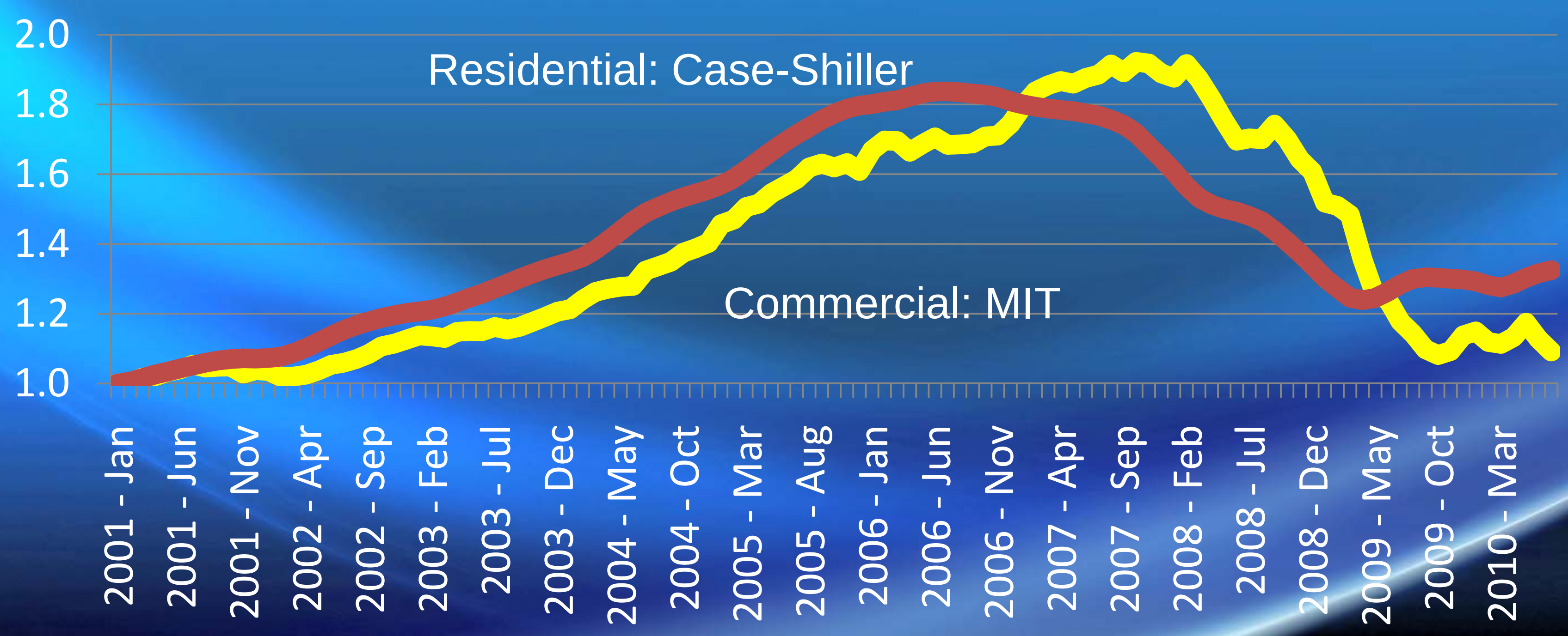
  “A nation of homeowners is unconquerable.”

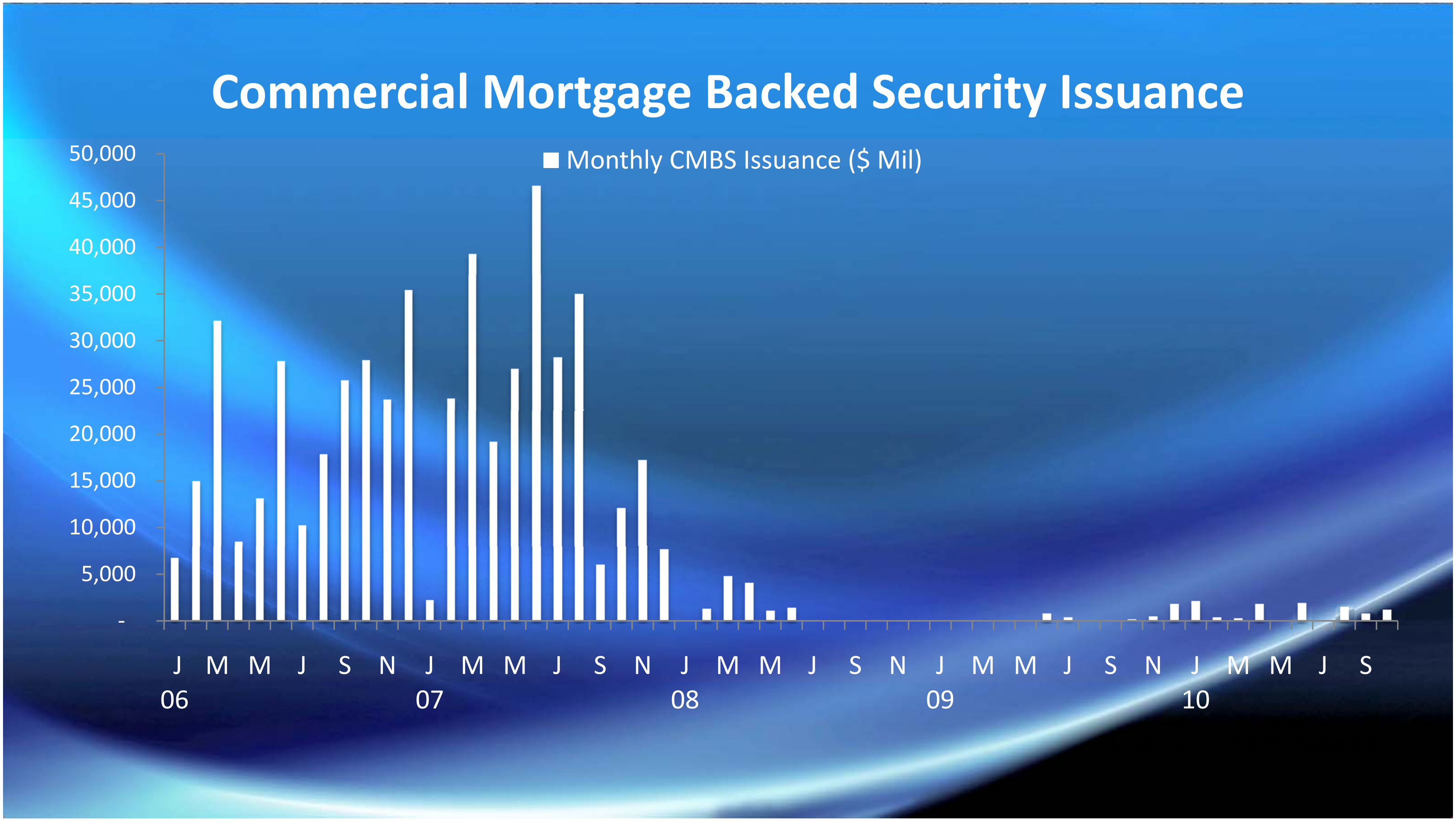
- Ronald Reagan

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

COMMERCIAL REAL ESTATE

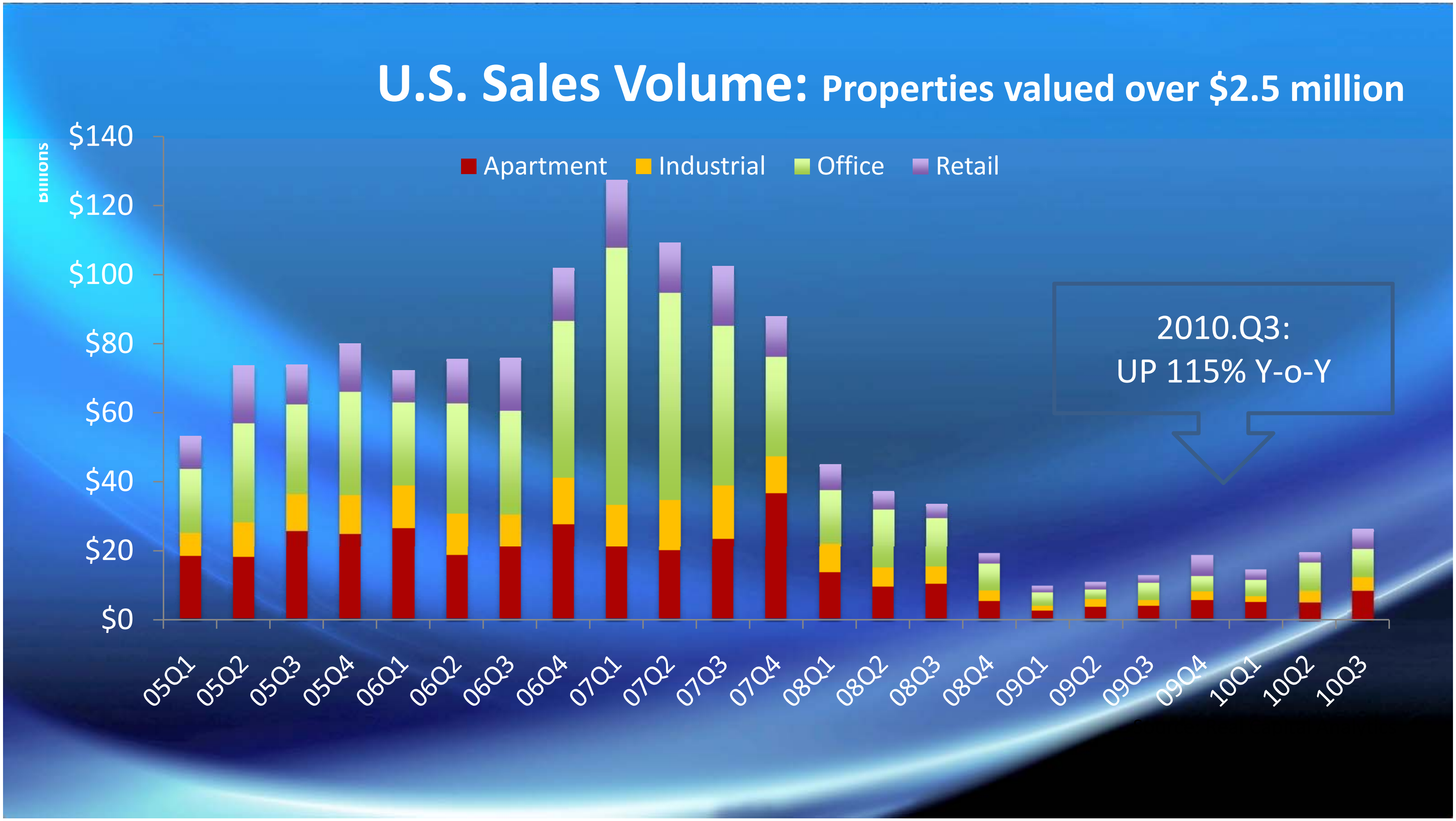
Real Estate Price





Commercial Mortgage Backed Security Issuance
Monthly CMBS Issuance ($ Mil)
50,000
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
J M M J S N J M M J S N J M M J S N J M M J S N J M M J S
06 07 08 09 10

Origination Volume Index (2001 Qtr Avg=100)
400
350
300
250
200
150
100
50
0
2002.Q1
2002.Q2
2002.Q3
2002.Q4
2003.Q1
2003.Q2
2003.Q3
2003.Q4
2004.Q1
2004.Q2
2004.Q3
2004.Q4
2005.Q1
2005.Q2
2005.Q3
2005.Q4
2006.Q1
2006.Q2
2006.Q3
2006.Q4
2007.Q1
2007.Q2
2007.Q3
2007.Q4
2008.Q1
2008.Q2
2008.Q3
2008.Q4
2009.Q1
2009.Q2
2009.Q3
2009.Q4
2010.Q1
2010.Q2
Source Mortgage Bankers Association


U.S. Sales Volume: Properties valued over $2.5 million
Billions
Apartment
Industrial
Office
Retail
$140
$120
$100
$80
$60
$40
$20
$0
05Q1
05Q2
05Q3
05Q4
06Q1
06Q2
06Q3
06Q4
07Q1
07Q2
07Q3
07Q4
08Q1
08Q2
08Q3
08Q4
09Q1
09Q2
09Q3
09Q4
10Q1
10Q2
10Q3
2010.Q3:
UP 115% Y-o-Y

2011 OUTLOOK

Baseline Outlook

- Moderate GDP Expansion 2.5% to 3% in the next 2 years
- 2 million annual job additions in the next 2 years
- Unemployment rate of 9% in 2011 … and normal 6% in 2015

Housing Outlook

- Mortgage Rates rising to 5.5% by year-end 2011 and 6% in 2012
- Home values – no meaningful change in the national price in the next 2 years
- Home sales to be choppy but overall improving in line with job growth … 5.2 million in 2011 (up from 4.9 m in 2010, but same as in 2000)
  - Affordability conditions are too compelling
  - There maybe a pent-up demand. 27 million additional people from 2000 but same home sales as in 2000.
  - Upside surprise if underwriting moves to ‘normal’ away from over-stringency

Commercial Outlook

- Commercial lending to steadily improve … because of record high bank profits
- Net absorption steadily improve … because of recovering job market
- Rents stabilize (but no meaningful increase) … because of very low newly built inventory
- Cap rate falls … price floor established and because of improved investor confidence (to move money out of low yielding Treasuries)

Alternative Possibility

- Uncertain Benefit
  - High inflation … people desire tangible investment like real estate, but interest rate will be higher
- Bad Outcome
  - Deflation … people hold back for better price … holds back economy
  - Budget deficit tipping point … higher interest rate and sharp cut back in standard of living
- Good Outcome
  - Sharp 4% to 5% GDP growth … businesses start to spend and invest … release of pent-up housing demand (30 million more people today versus 2000 when home sales were similar) … surprisingly higher home sales and home prices

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