



# IMAGINE THE POSSIBILITIES

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# Magic of Low Interest Rates

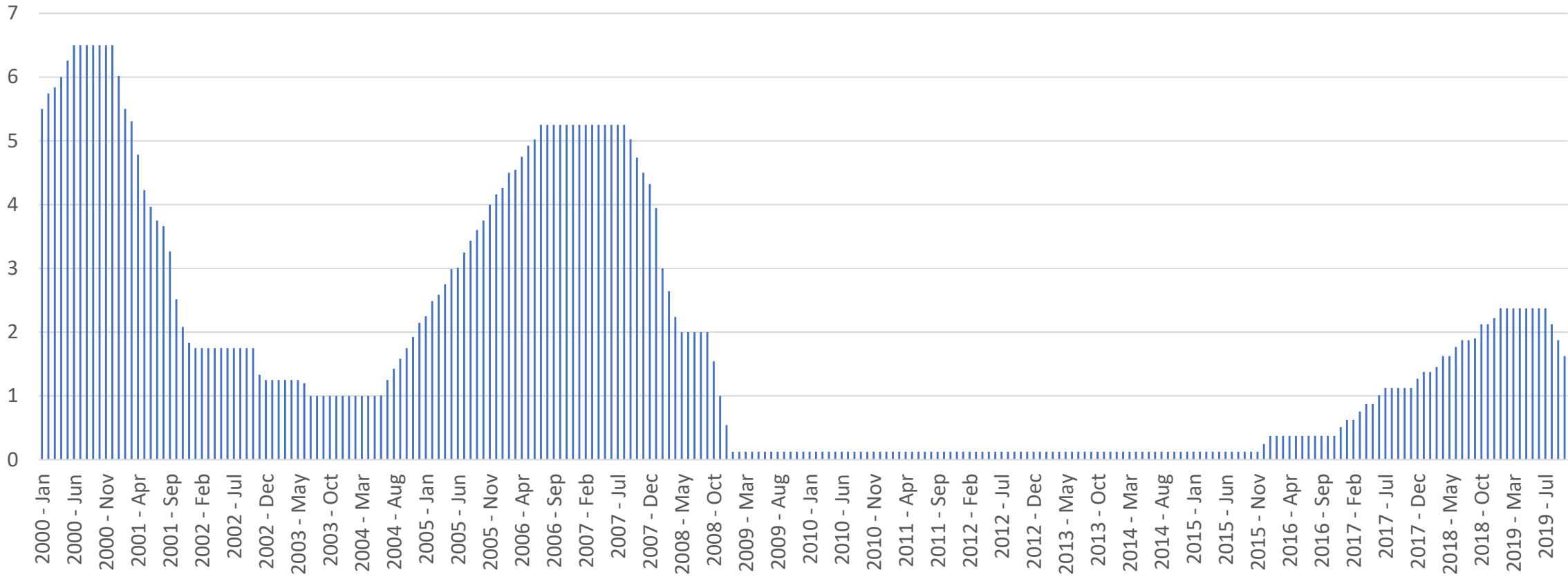


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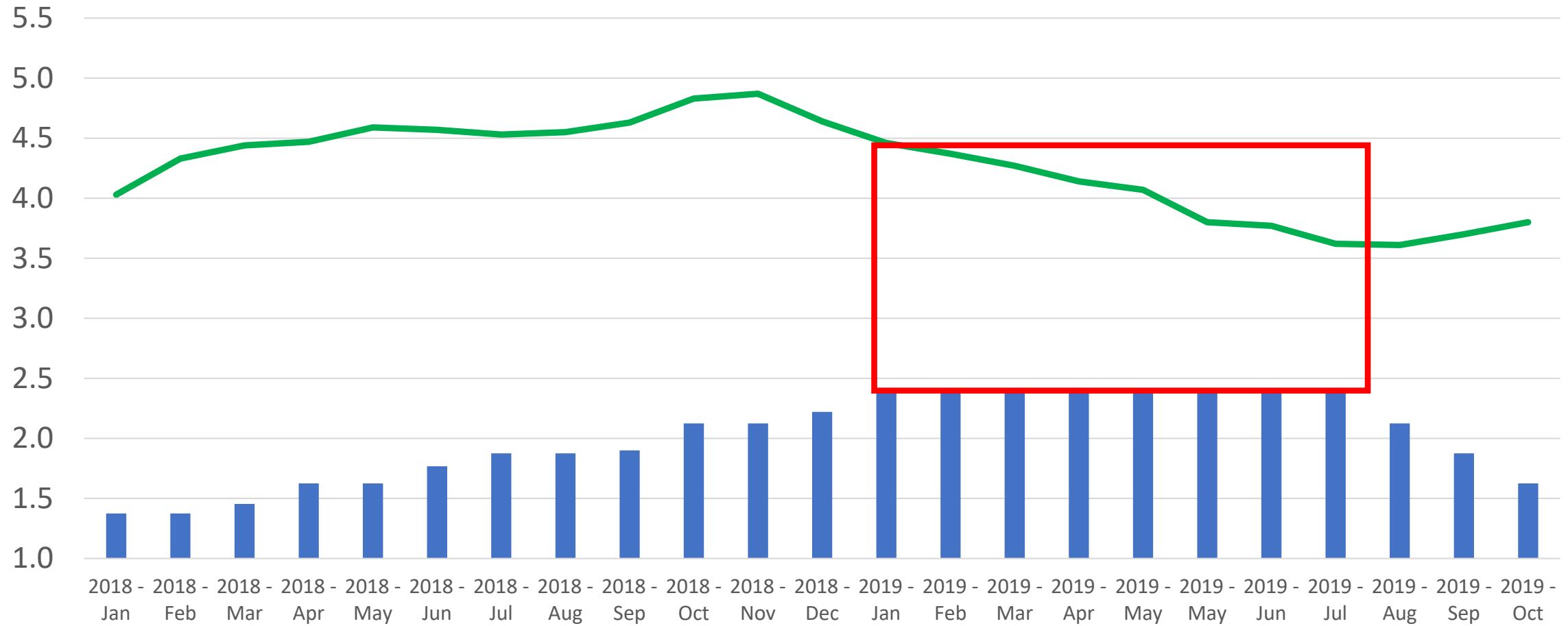
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# Federal Reserve Monetary Policy

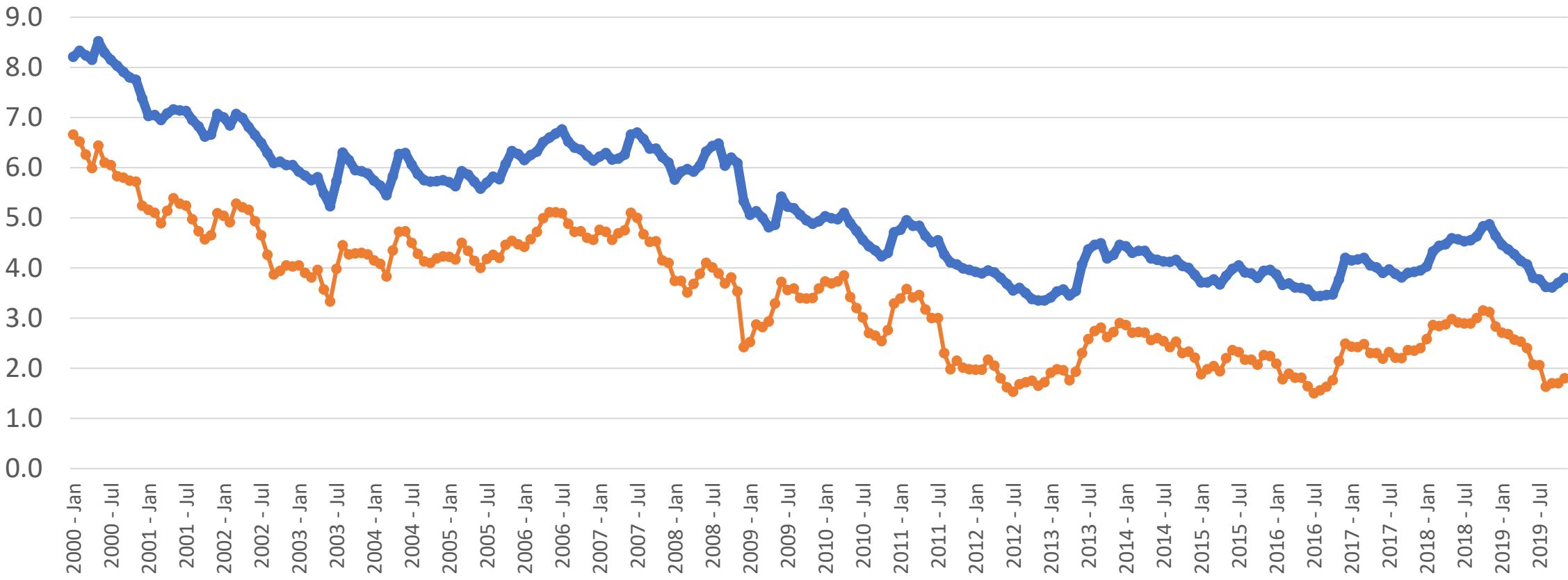
Fed Funds Rate



# Fed Funds Rate and 30-year Mortgage Rate



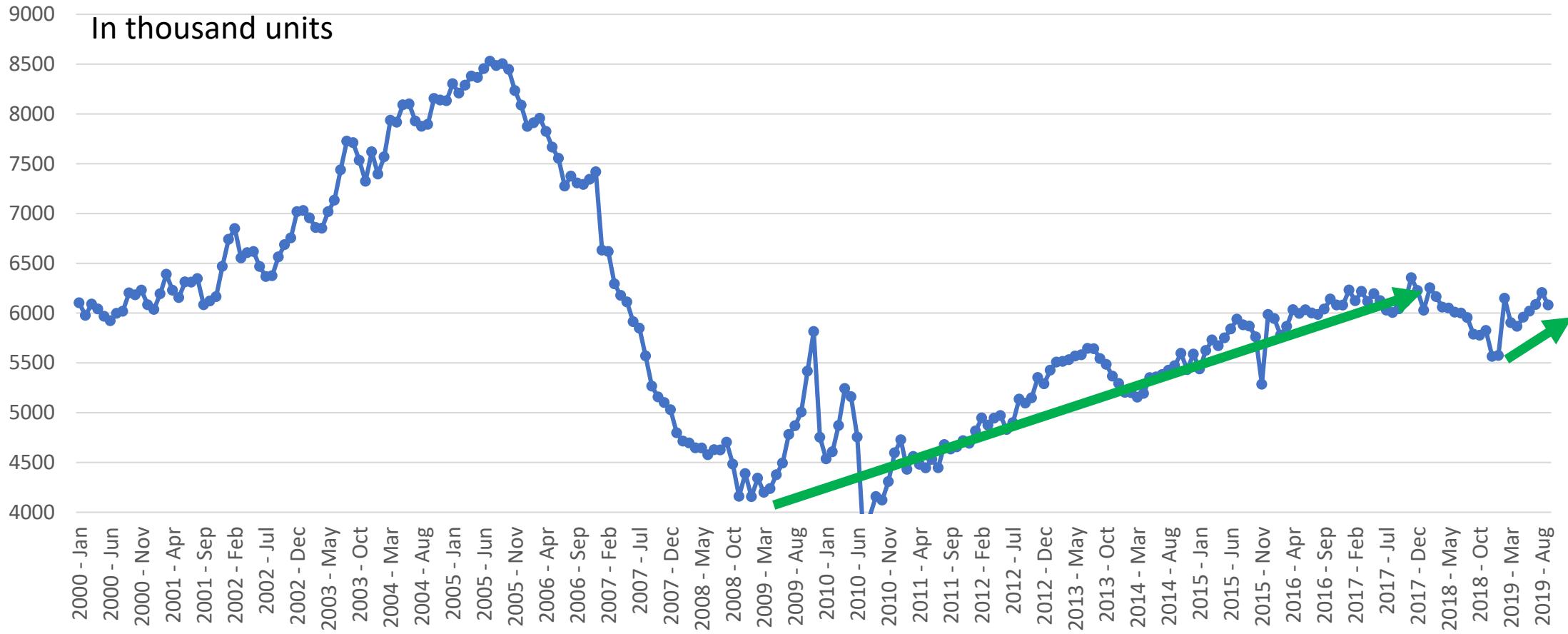
# Mortgage Rates tied to 10-year Treasury



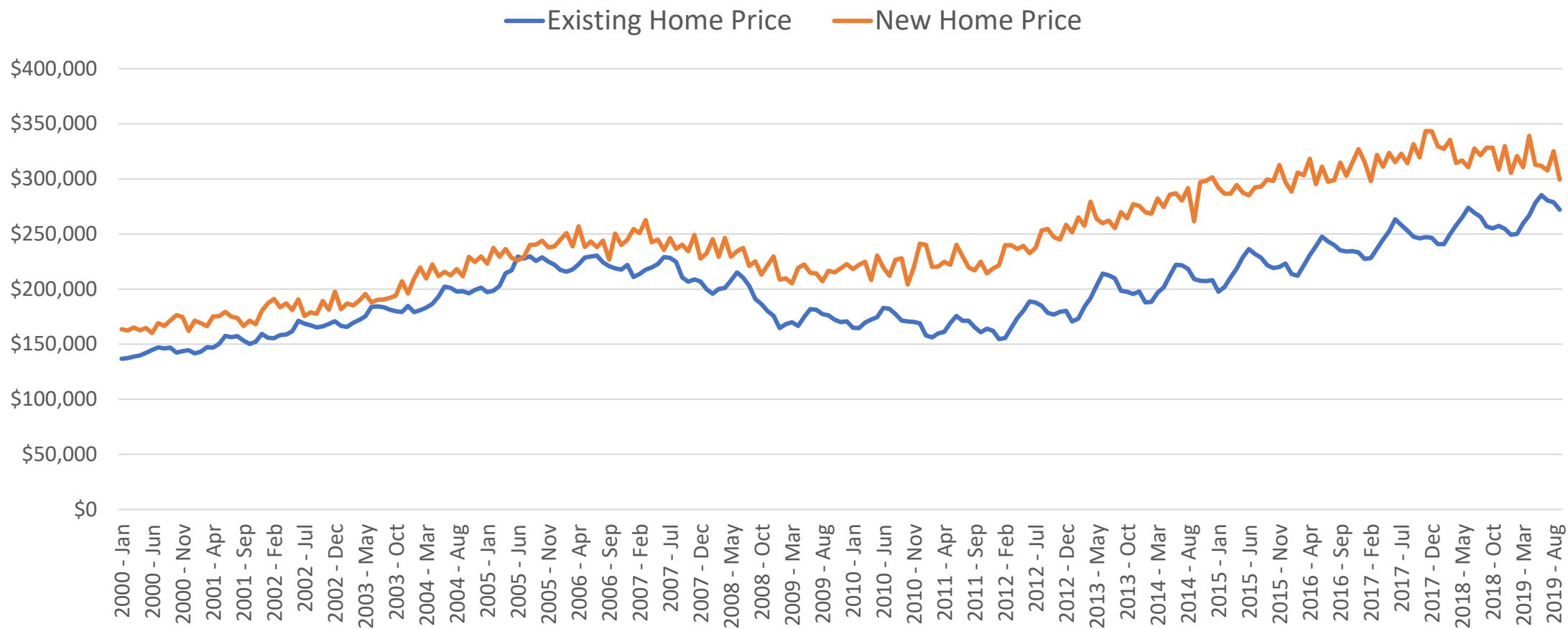
# Spread at Upper-End



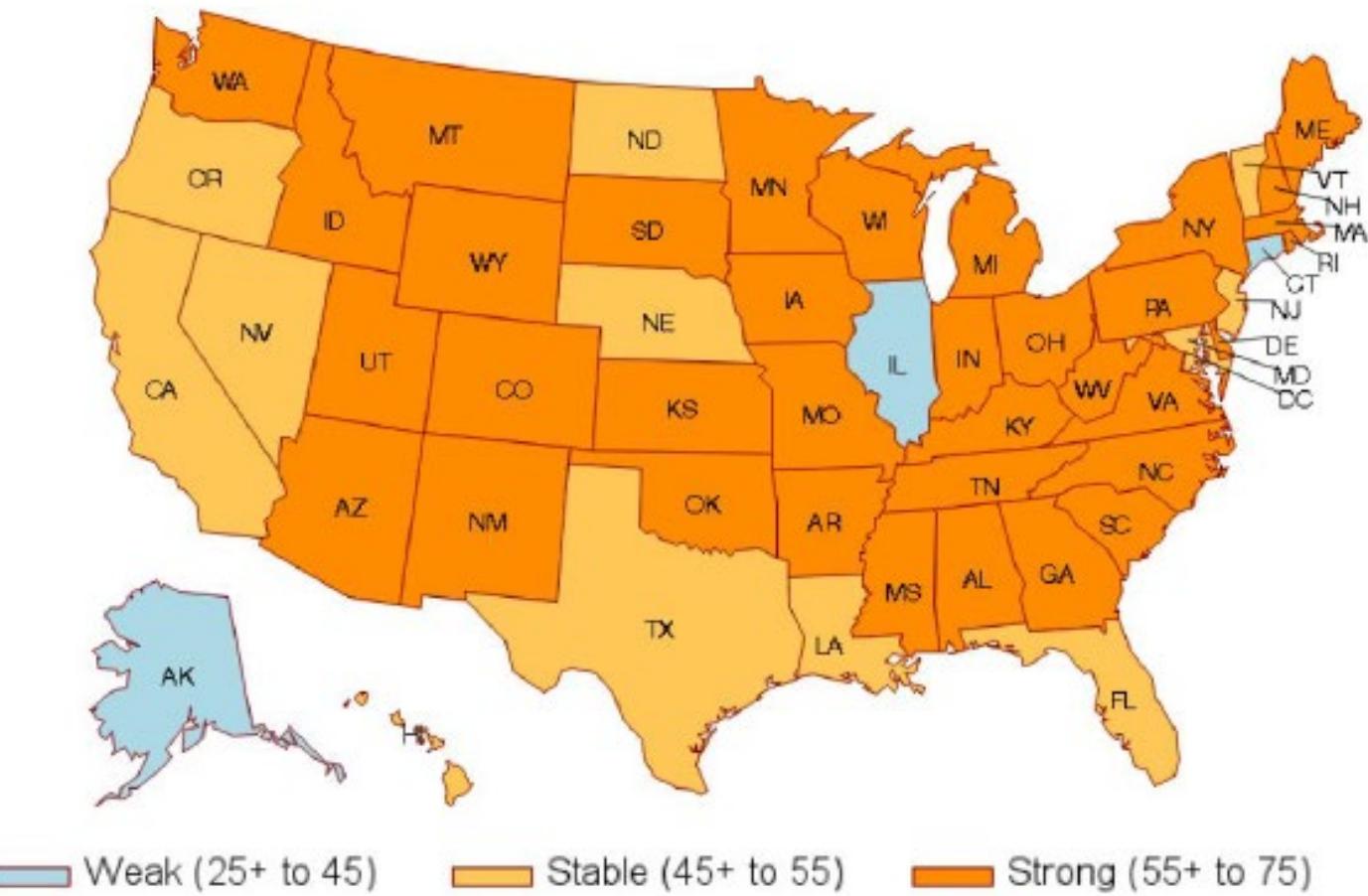
# Existing and New Home Sales Combined



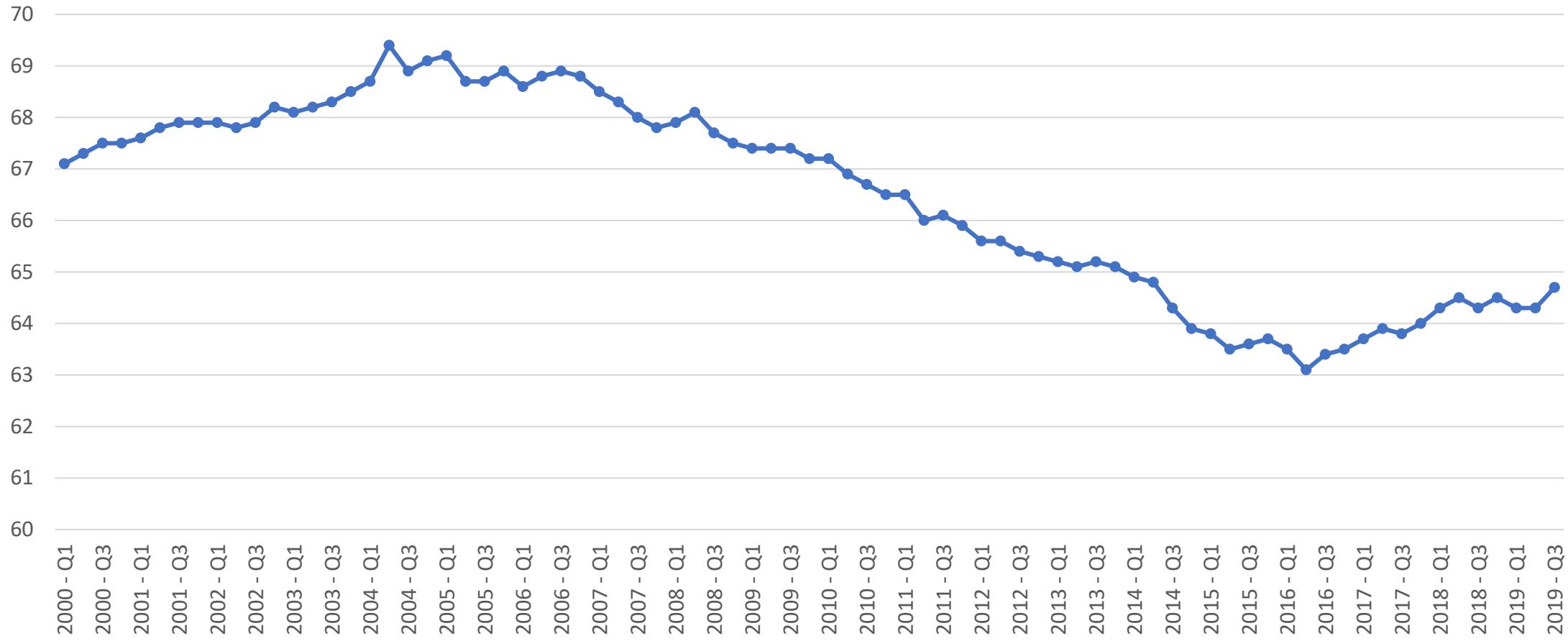
# Existing and New Home Price



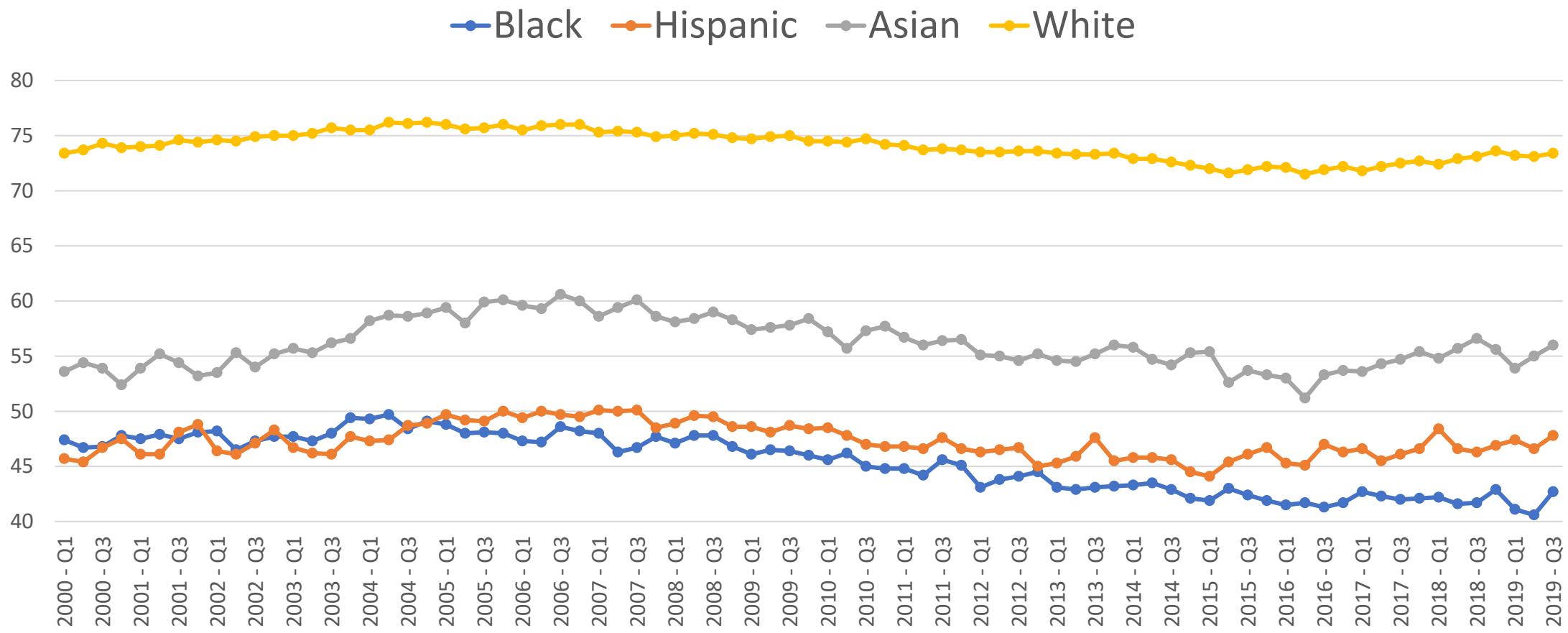
# REALTORS® Buyer Traffic Index



# Homeownership Rate Inching Higher 63% to 65%

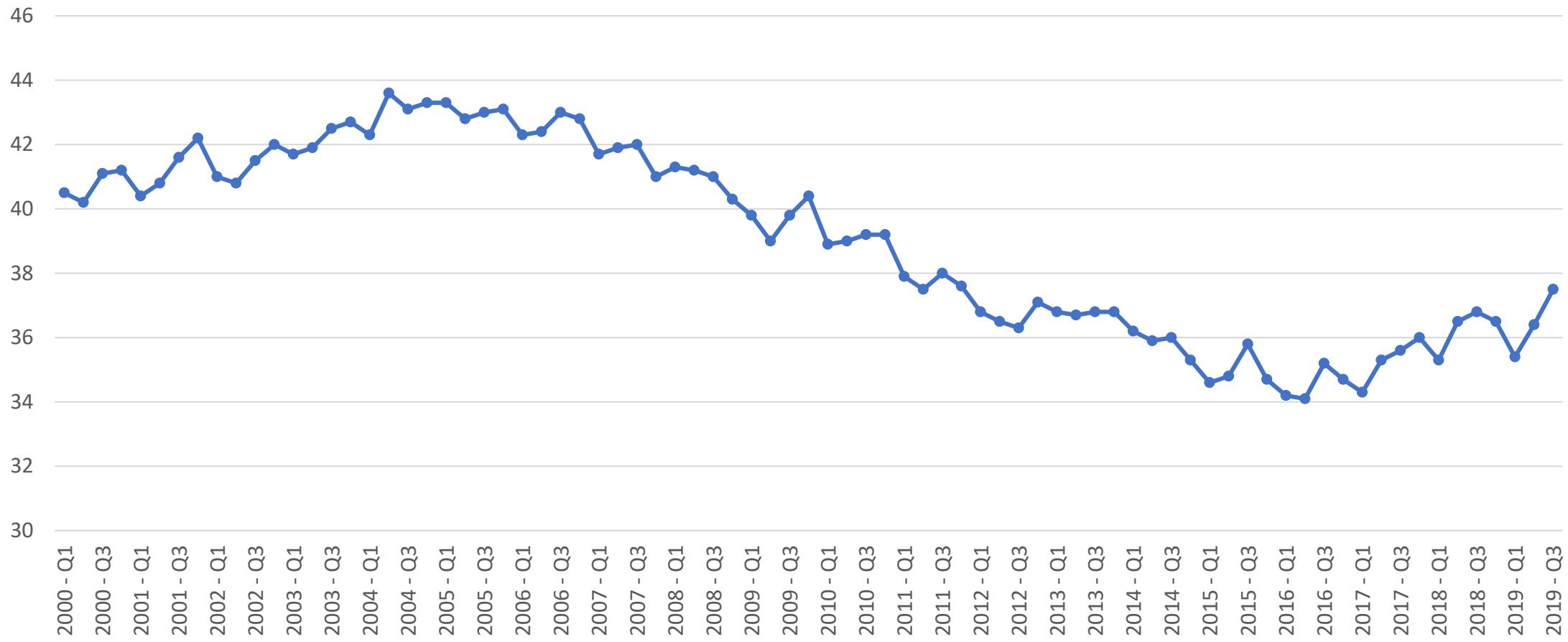


# Homeownership By Race and Ethnicity

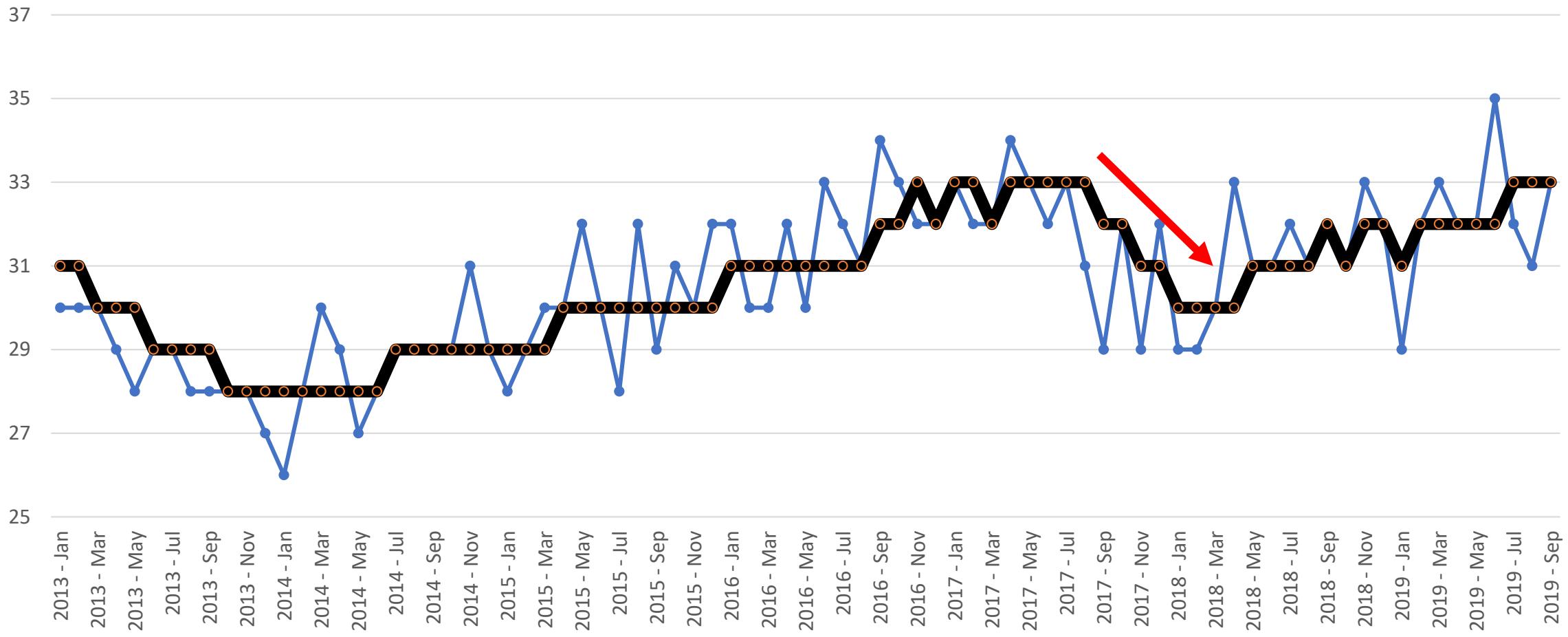


# Millennial (under-35) Homeownership Recovery

## 34% to 38%



# First-time Homebuyers ... more sensitive to rates (% of all transactions; monthly and 6-month average)





# Screw up to low interest rates



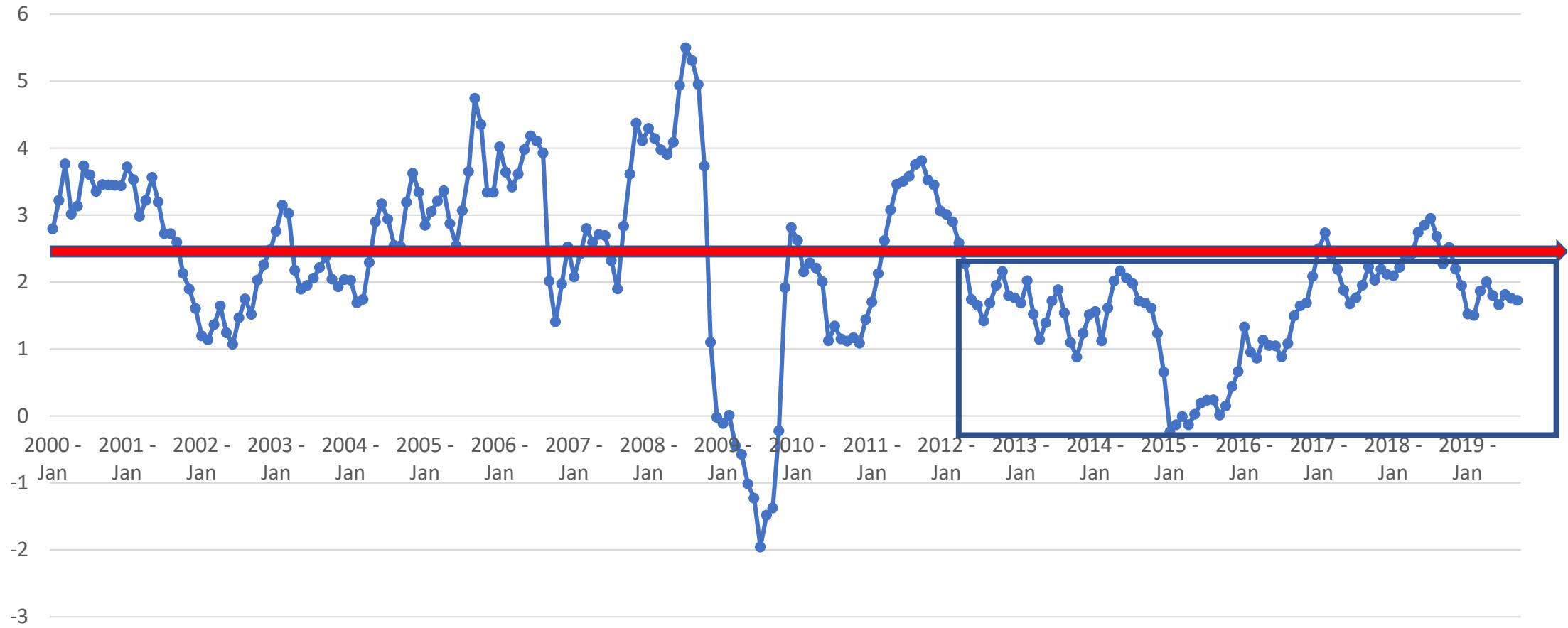
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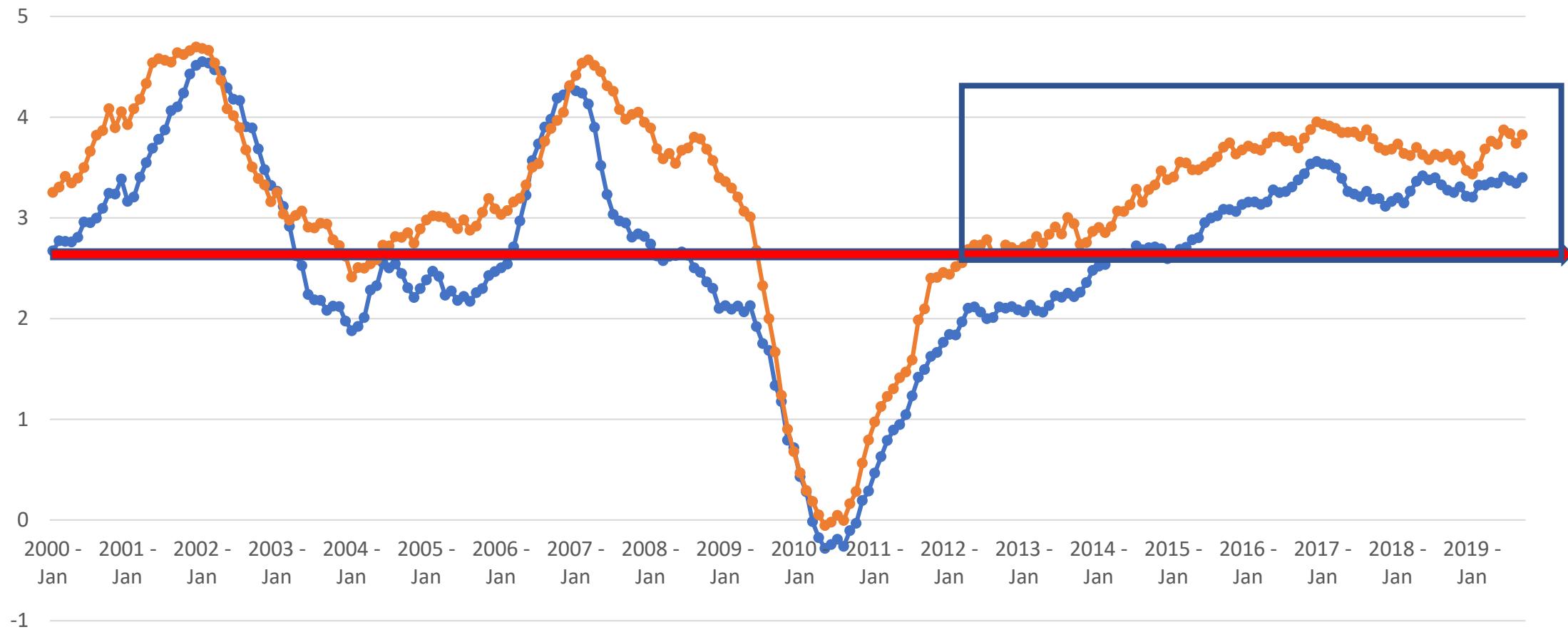
# Interest Rates will Rise Because ...

- Fannie and Freddie and GSE reform goes wrong
  - No government guarantee means higher interest rates
  - Corollary: No FDIC means bank runs
- Inflation surprises on the upside
  - Strengthening economy
  - Tariffs ... tax on consumers and businesses
  - Housing shortage ... Housing inflation
- Budget Deficit
  - Tax revenue rises ... but spending rises even more
  - Deficit gets added then multiplied (the power of compound interest)

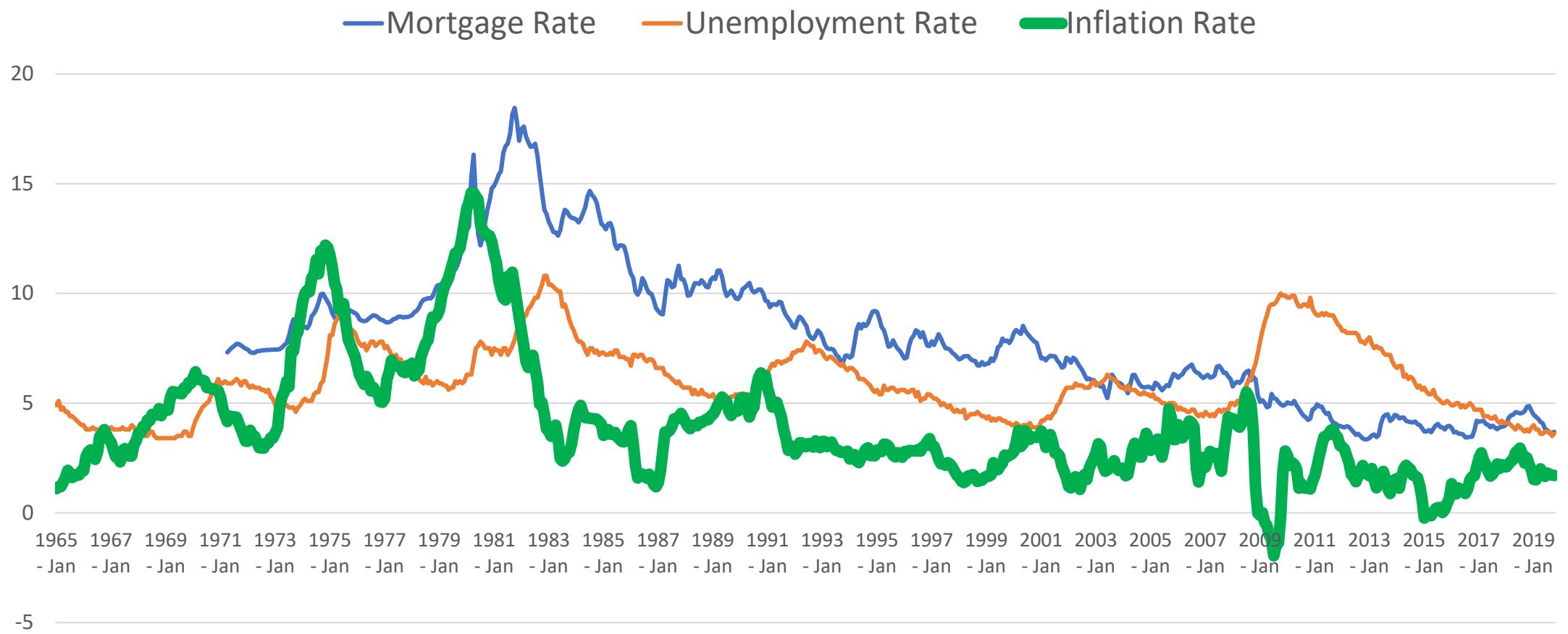
# Inflation Rate at 1.7% ... consistently undershooting



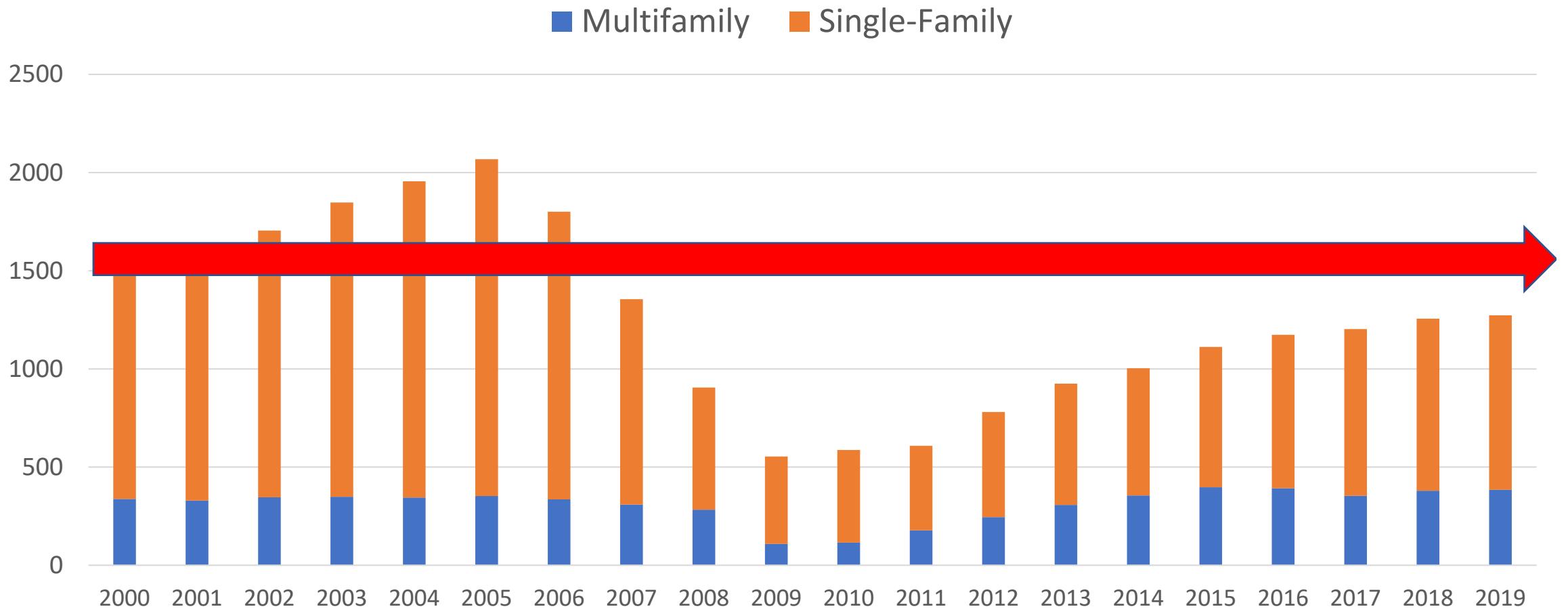
# Housing Inflation Rate ... consistently overshooting Tenant Rent and Owner-equivalent Rent



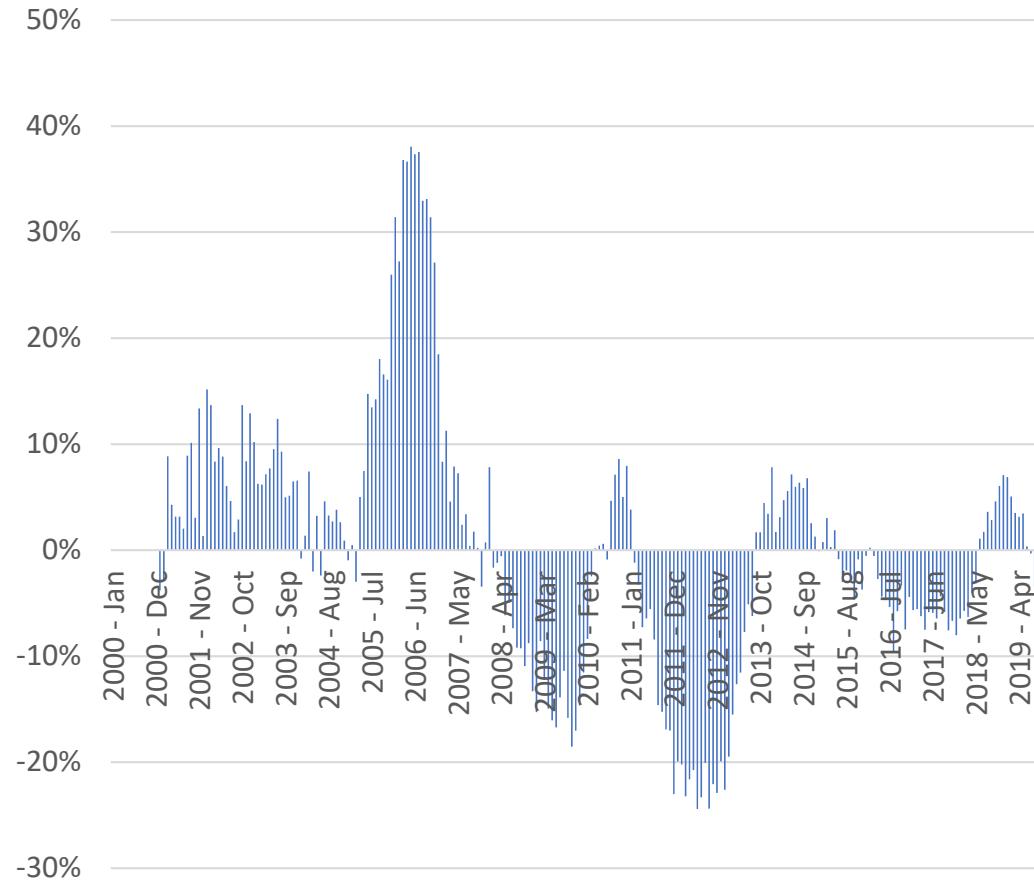
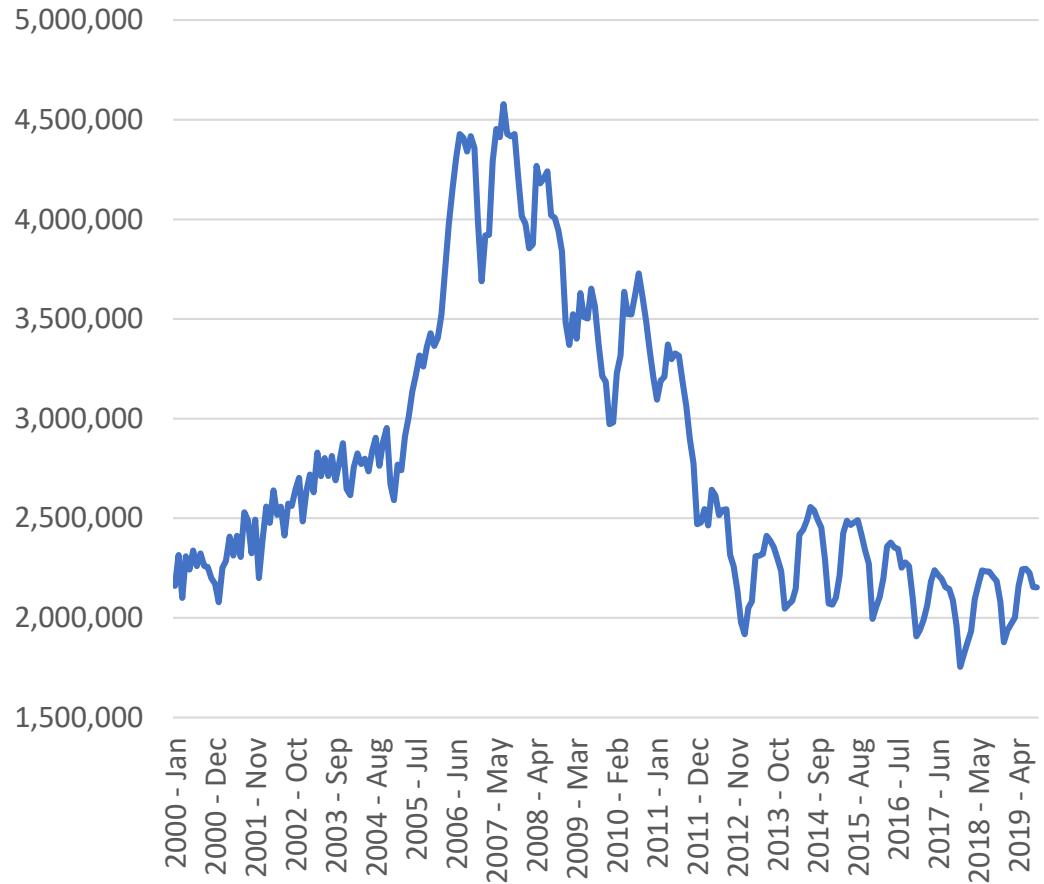
# Inflation of 1970s ... led to high interest rates



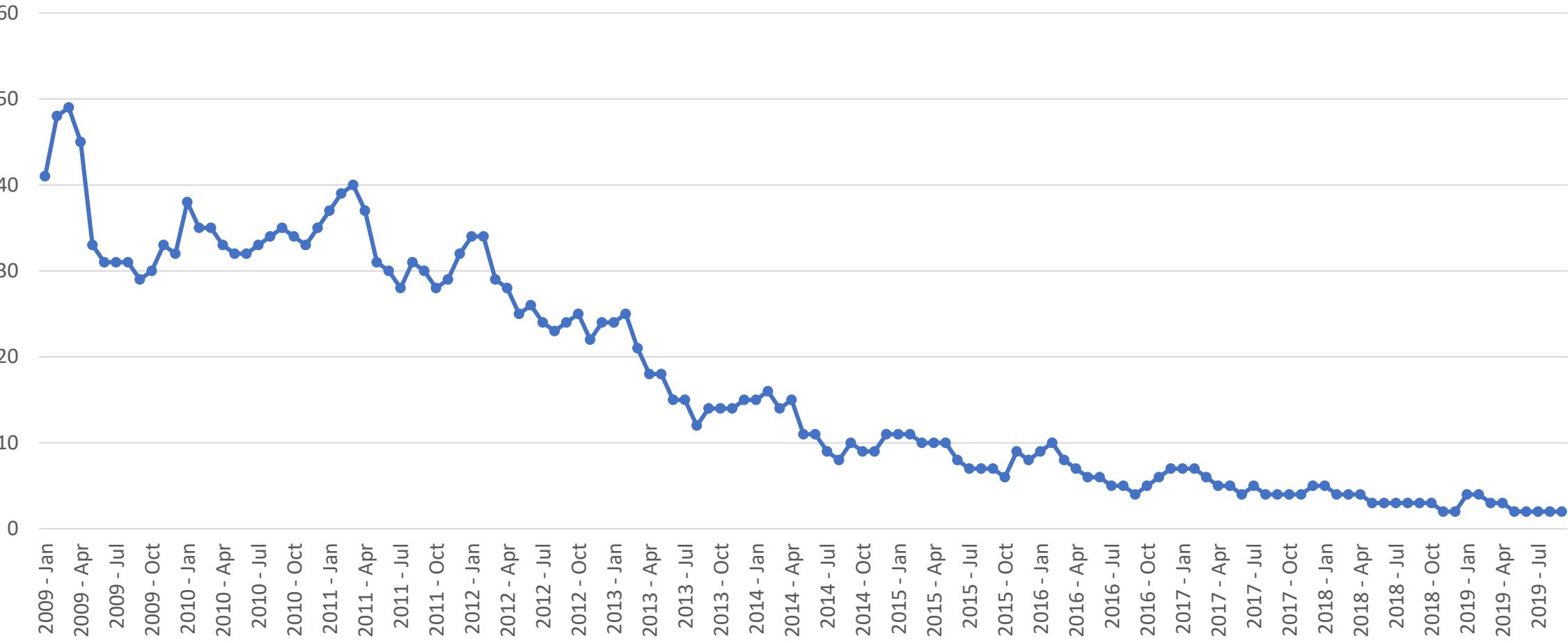
# U.S. Housing Starts ... Insufficient Need more Construction to tame housing inflation



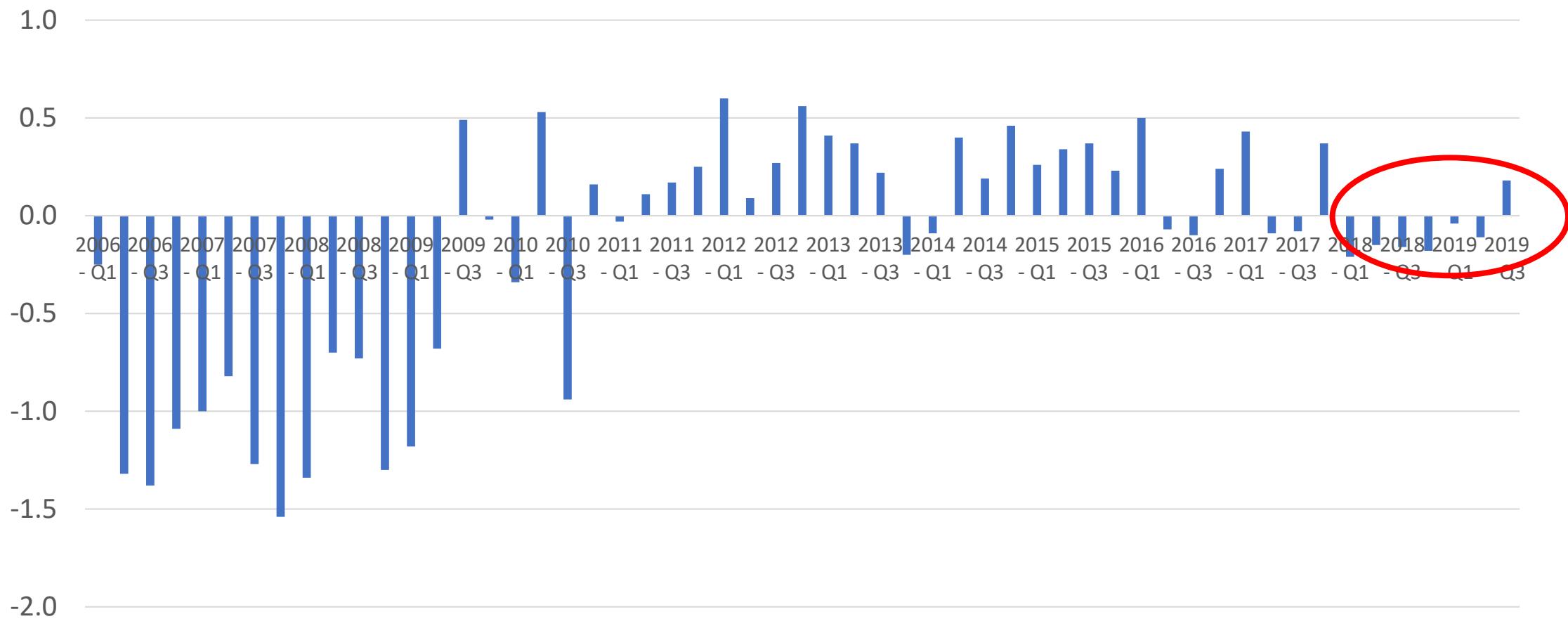
# Total Inventory (Existing and New) and 1-Year Change



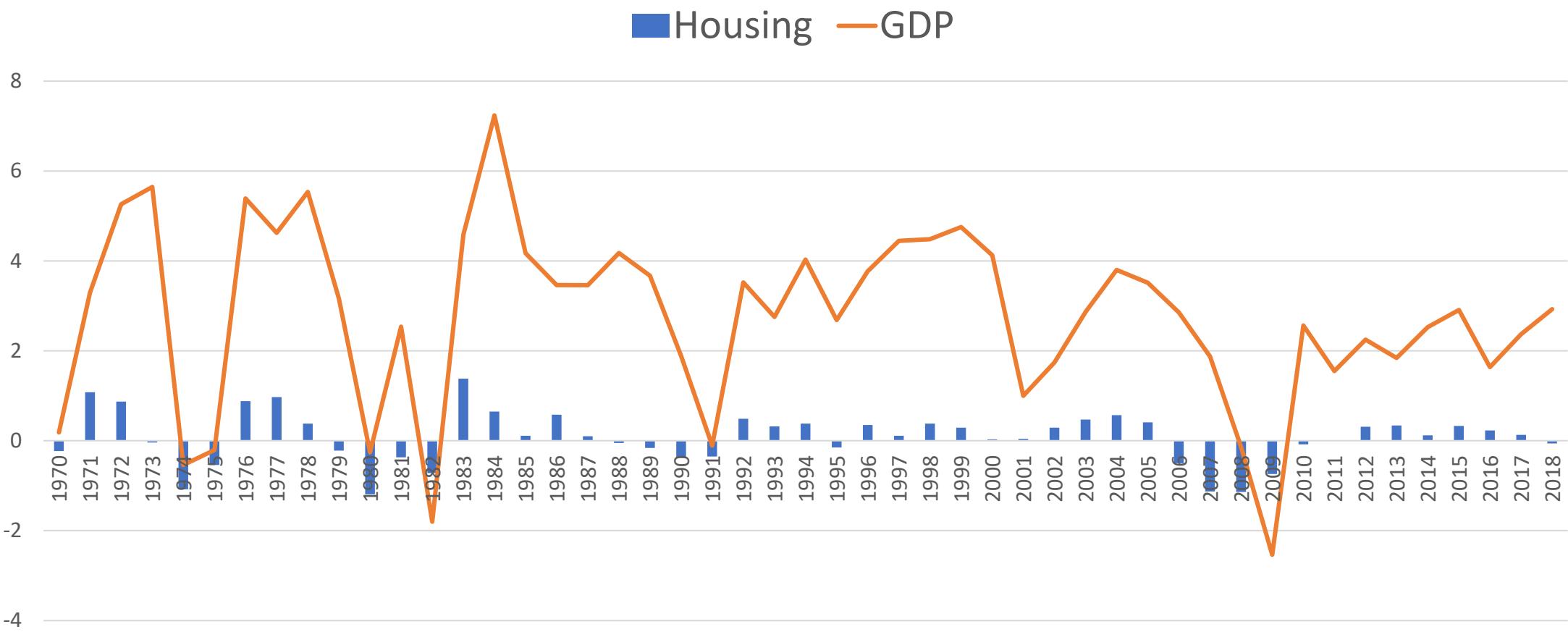
# Distressed Property Sales (% foreclosures or short-sales)



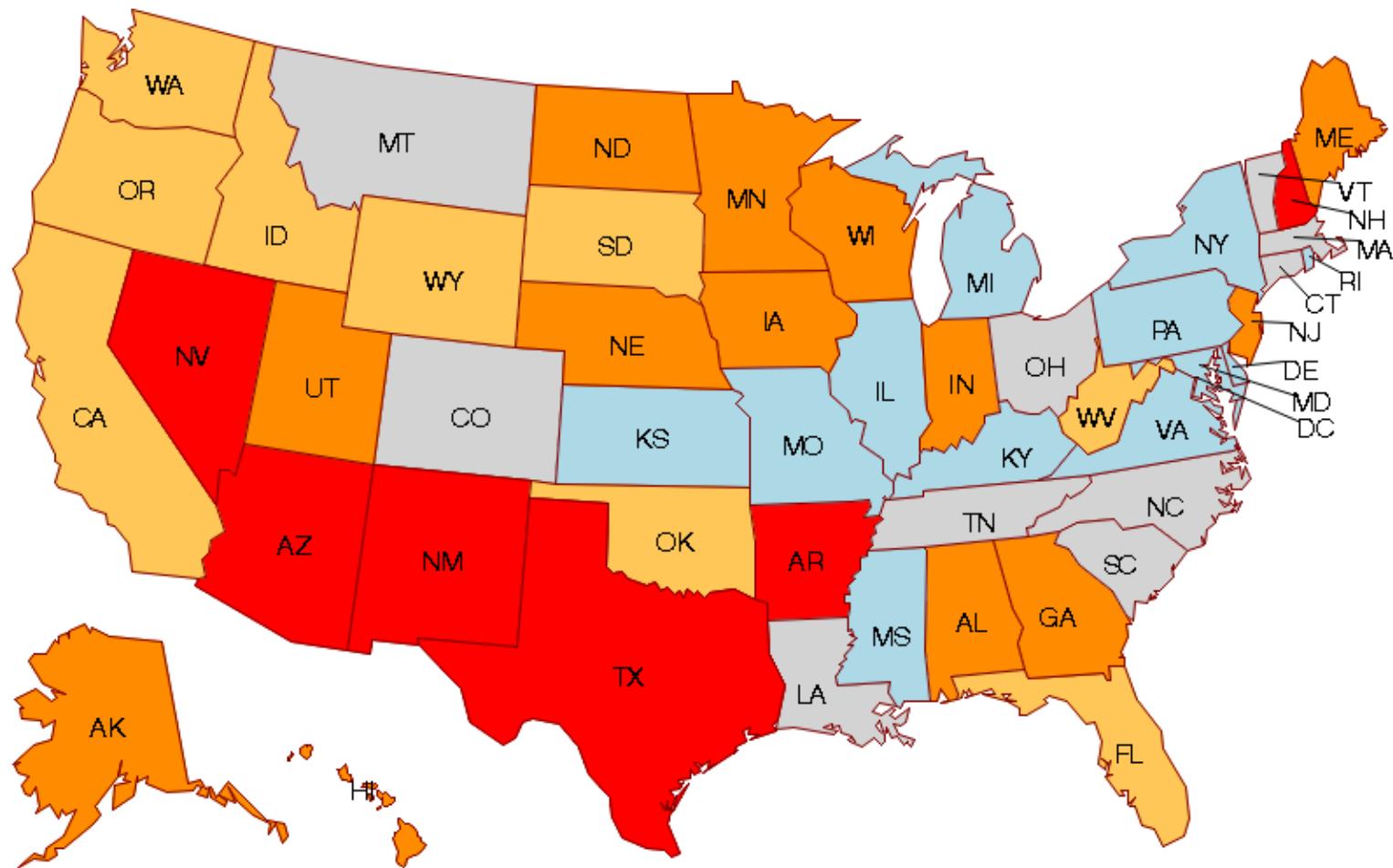
# Housing Sector Contribution to GDP Growth Rate (% points)



# GDP Growth and Housing Growth



# Construction Employment Growth

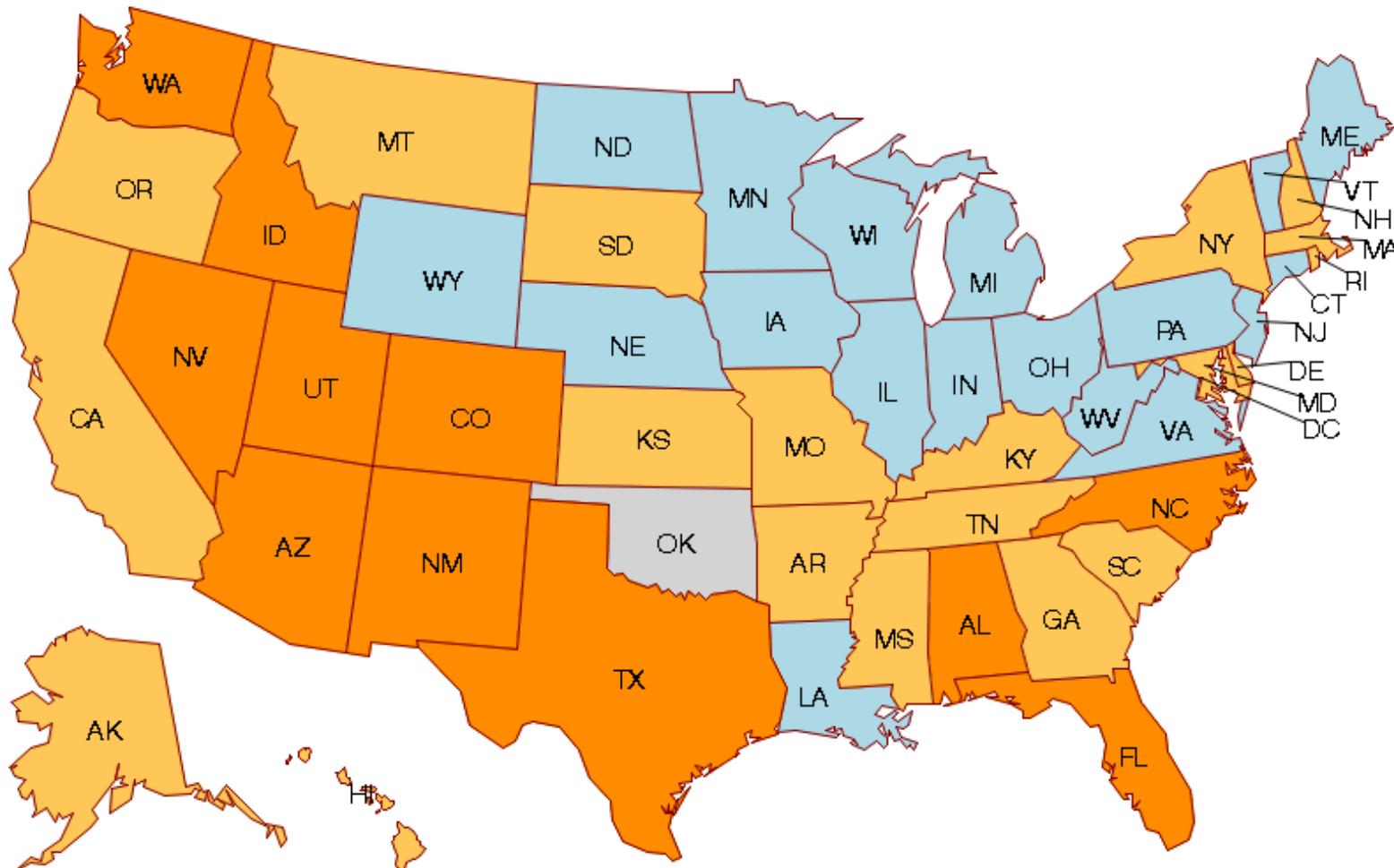


Annual Percent Change in Construction Employment in September 2019

No job growth%  
4+% to 6%

Greater than 0% to 2%  
2+% to 4%

# Total Payroll Employment Growth

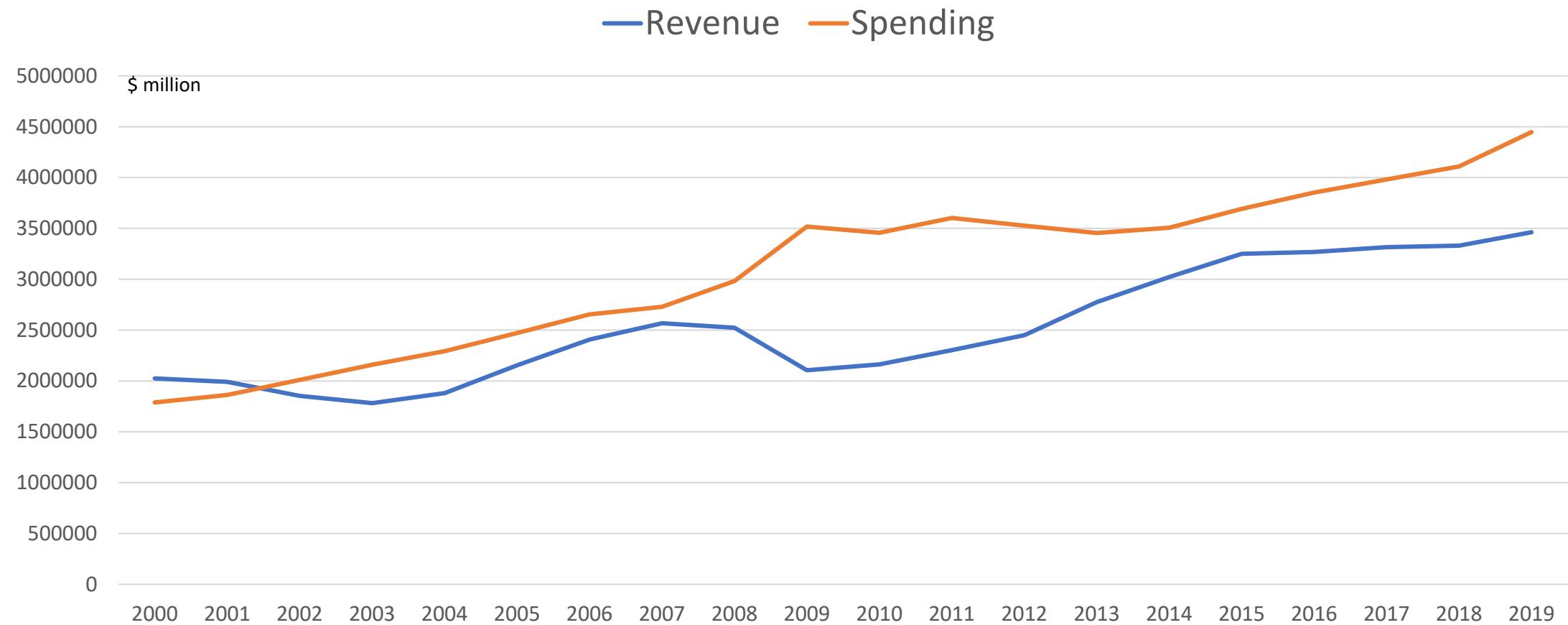


Annual Percent Change in Payroll Employment in September 2019

No job growth  
1% to 2%

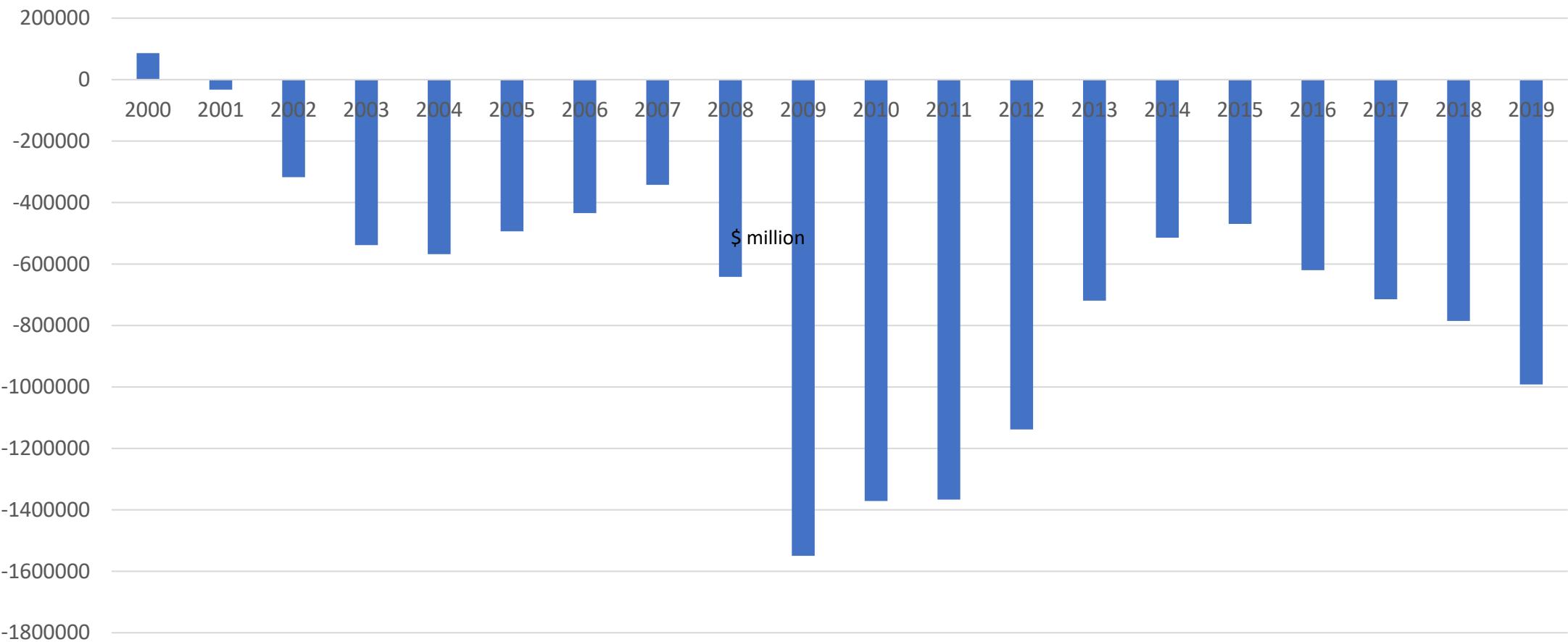
Greater than 0% to 1%  
2% to 3%

# Tax Revenue and Government Spending

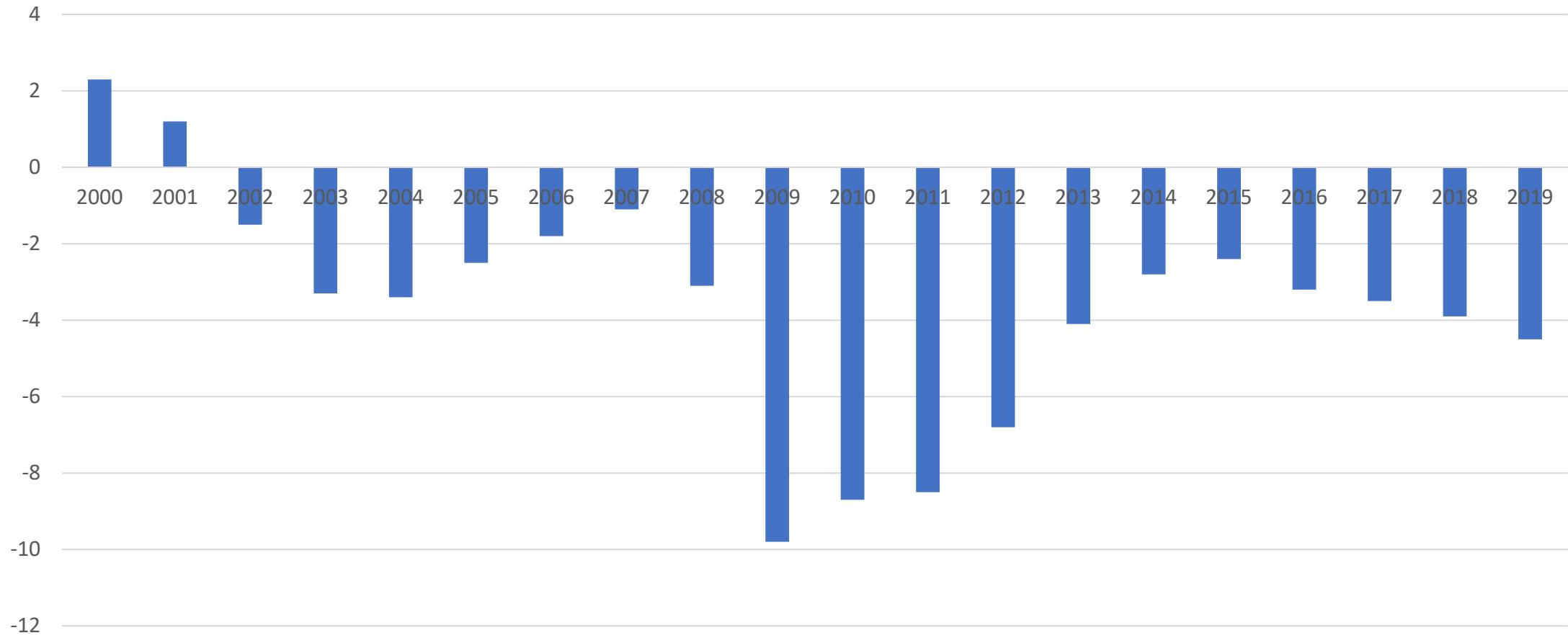


# Federal Deficit

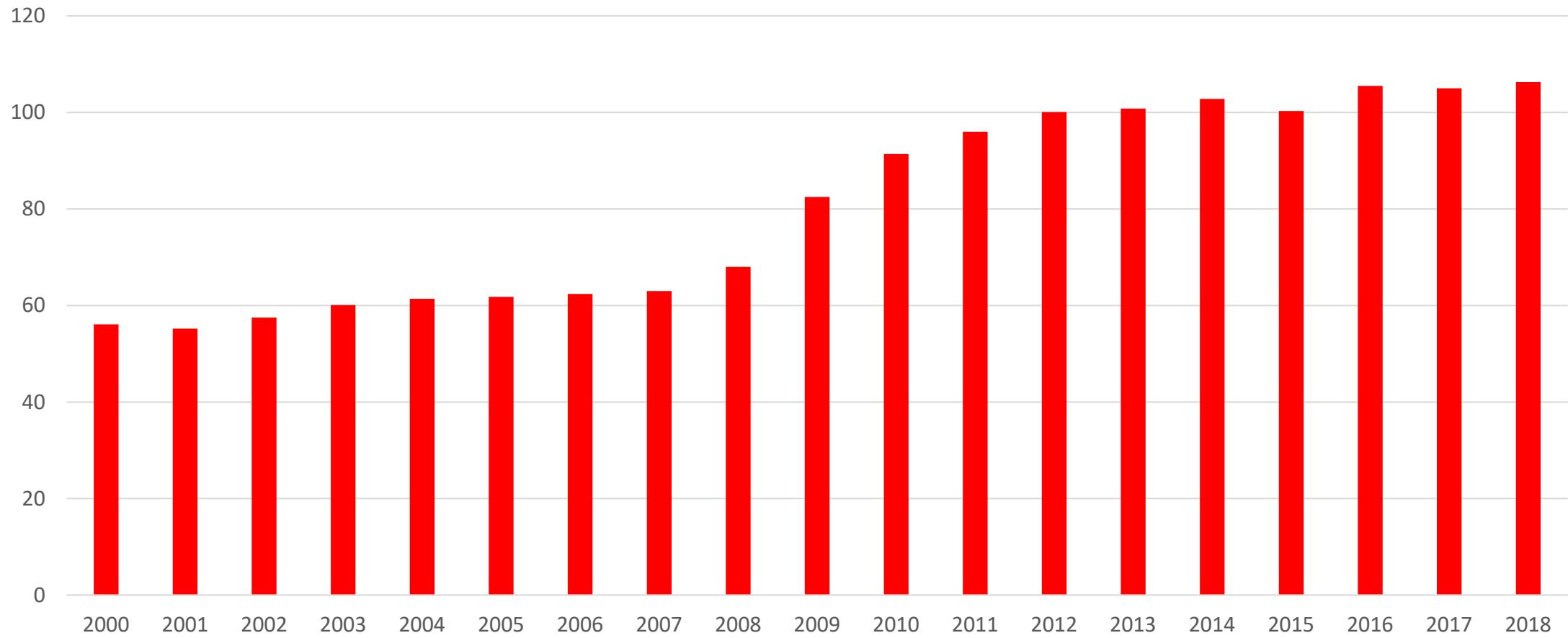
(one-year measure of overspending)



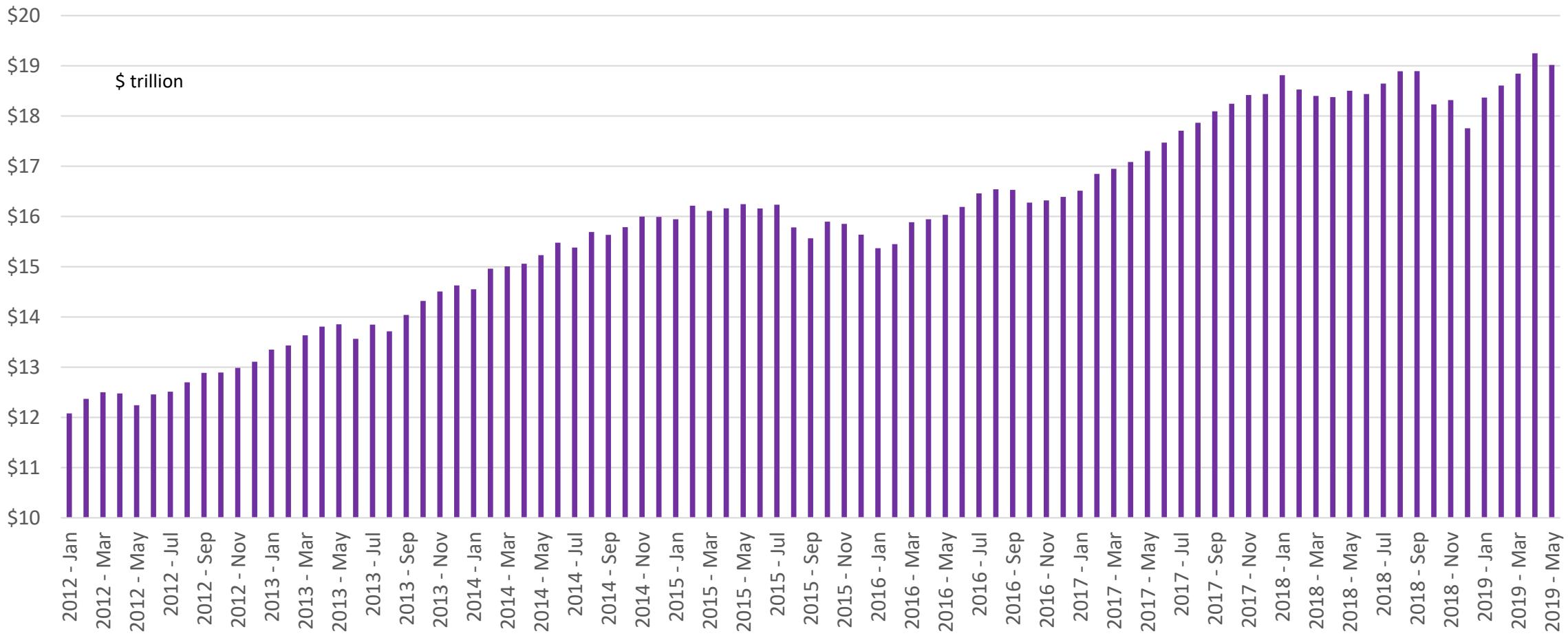
# Deficit as a % of GDP



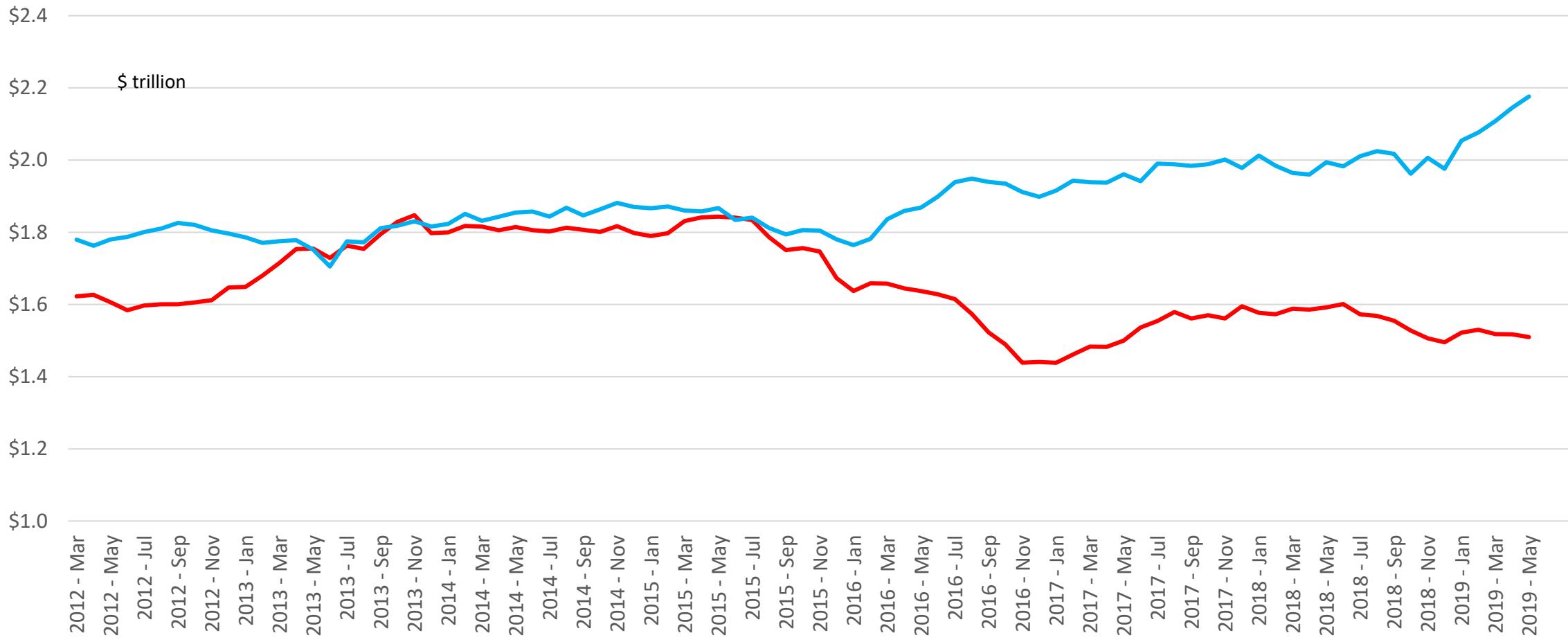
# National Debt = Cumulative Deficits (as % of GDP)



# Foreign Holdings of U.S. Securities (Treasury, Corporate, Fannie and Freddie)



# Foreign Holdings of U.S. Securities by Japan (blue) and China (red)

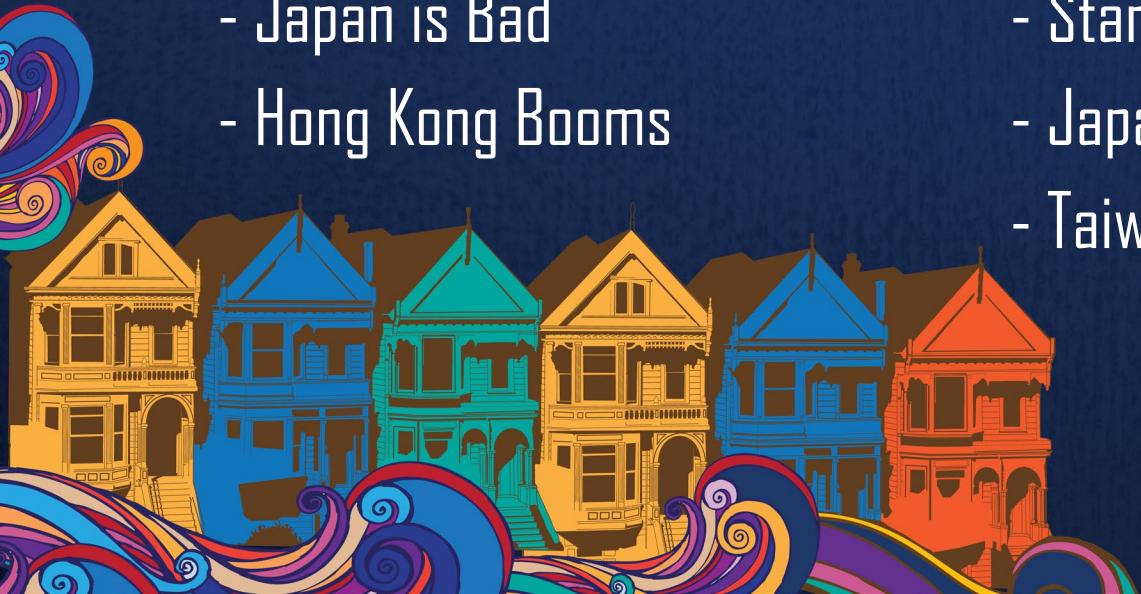


# Short Economic History of China

## China is Good

1912 - 1949

- Emperor ousted
- Japan is Bad
- Hong Kong Booms



## China is Bad

1949 to 1976

- Socialism - Maoism
- Starvation and Deaths
- Japan is Good
- Taiwan Booms

## China: Good or Bad?

1977 to Today

- Socialism with Chinese Characteristics
- "We will get Wealthy, Some before Others."



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# Lessons to Draw from San Francisco

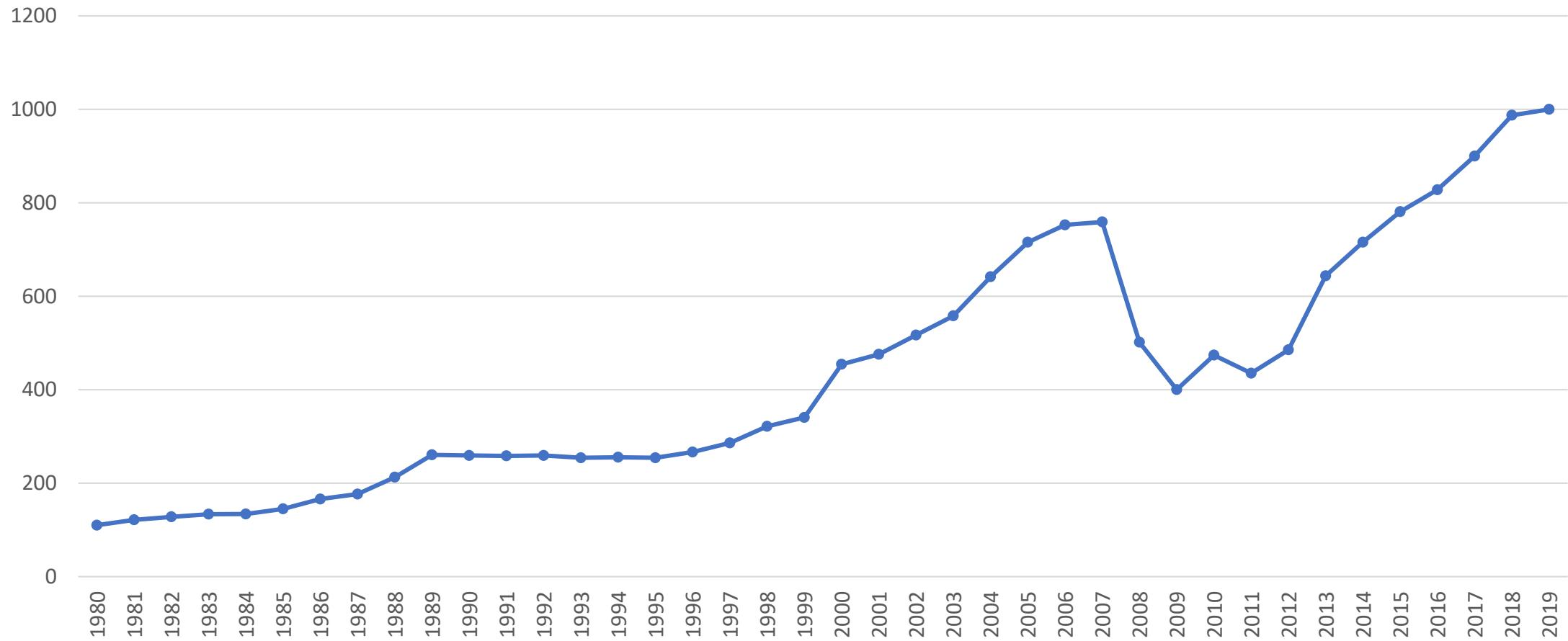


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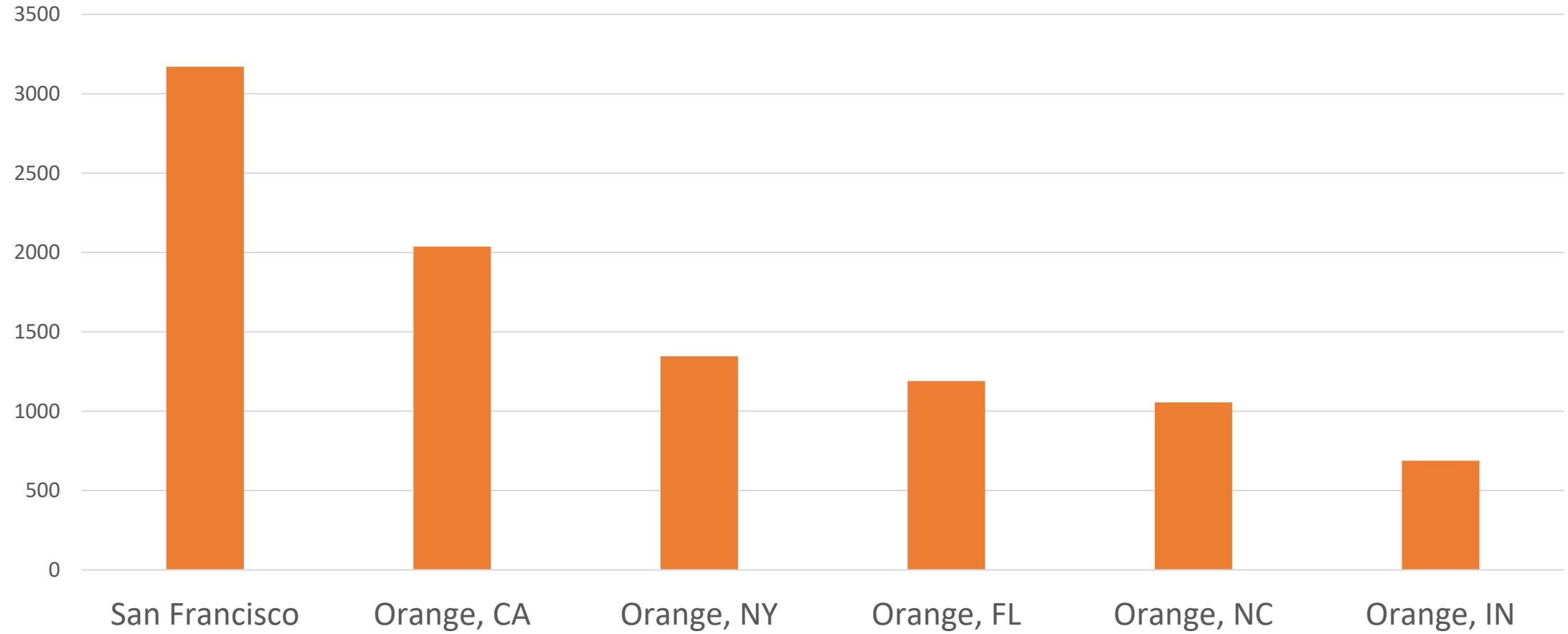
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# San Francisco-Oakland: Haves and Have-Nots

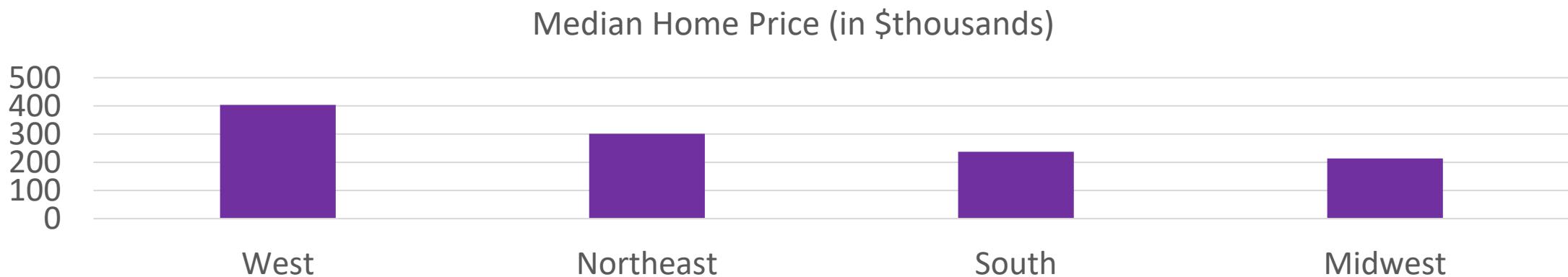
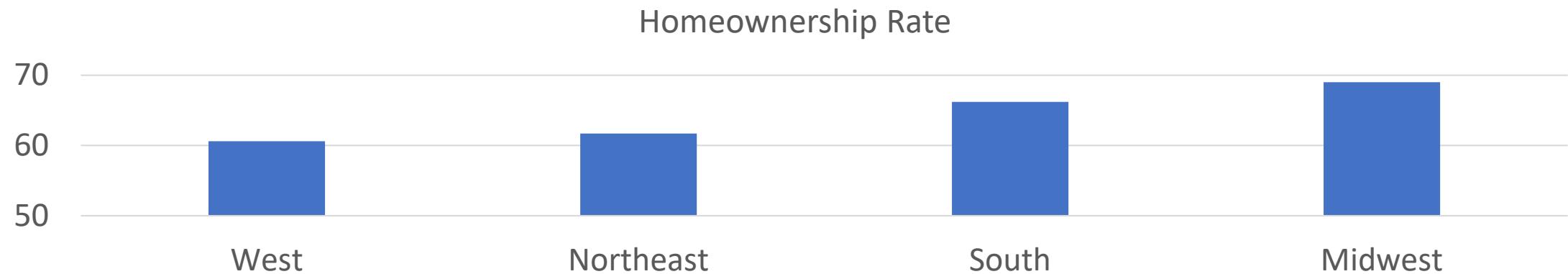
## Who bought a home in 1990s? Who didn't?



# HUD: 2-bedroom Fair Market Rent by County



# Regional Homeownership Rate and Home Price



# West Region: Bubble Concerns or Capitulation?

More optimistic about price, yet more say it is not a good time to buy

	<b>Not A Good Time to Buy</b>	<b>Price Increased in the past 12 months</b>	<b>Believe Prices will Rise in Future</b>
Northeast	35	58	40
Midwest	34	64	40
South	31	65	47
West	50	78	55



# Forecast



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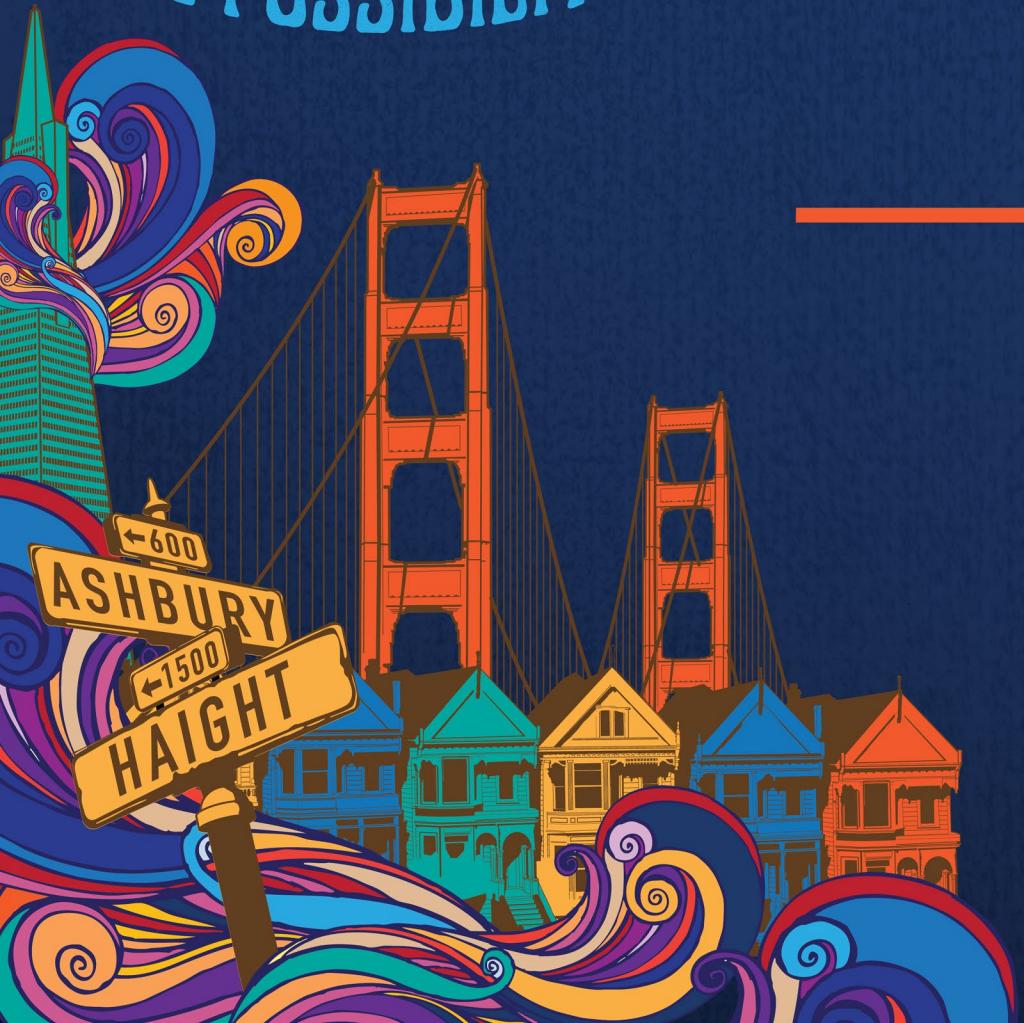
# Economic Forecast: No Recession If No Major Trade War

	2016	2017	2018	2019 Forecast	2020 Forecast
GDP Growth	1.5%	2.2%	2.9%	2.0%	1.6%
Job Growth	+2.5 million	+2.2 million	+2.4 million	+2.0 million	+1.5 million
CPI Inflation	1.3%	2.1%	2.4%	2.0%	1.7%

# Housing Forecast: Moderate Growth

	2016	2017	2018	2019 Forecast	2020 Forecast
New Home Sales	560,000	613,000	617,000	670,000 (+9%)	750,000 (+11%)
Existing Home Sales	5.4 million	5.5 million	5.3 million	5.5 million (1%)	5.6 million (+4%)
Median Price Growth	+5.1%	+5.7%	+4.9%	+4.3%	+3.6%
30-year Rate	3.6%	4.0%	4.5%	4.0%	3.8%

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