REAL ESTATE FORECAST SUMMIT

DECEMBER 11, 2019 | WASHINGTON, D.C.

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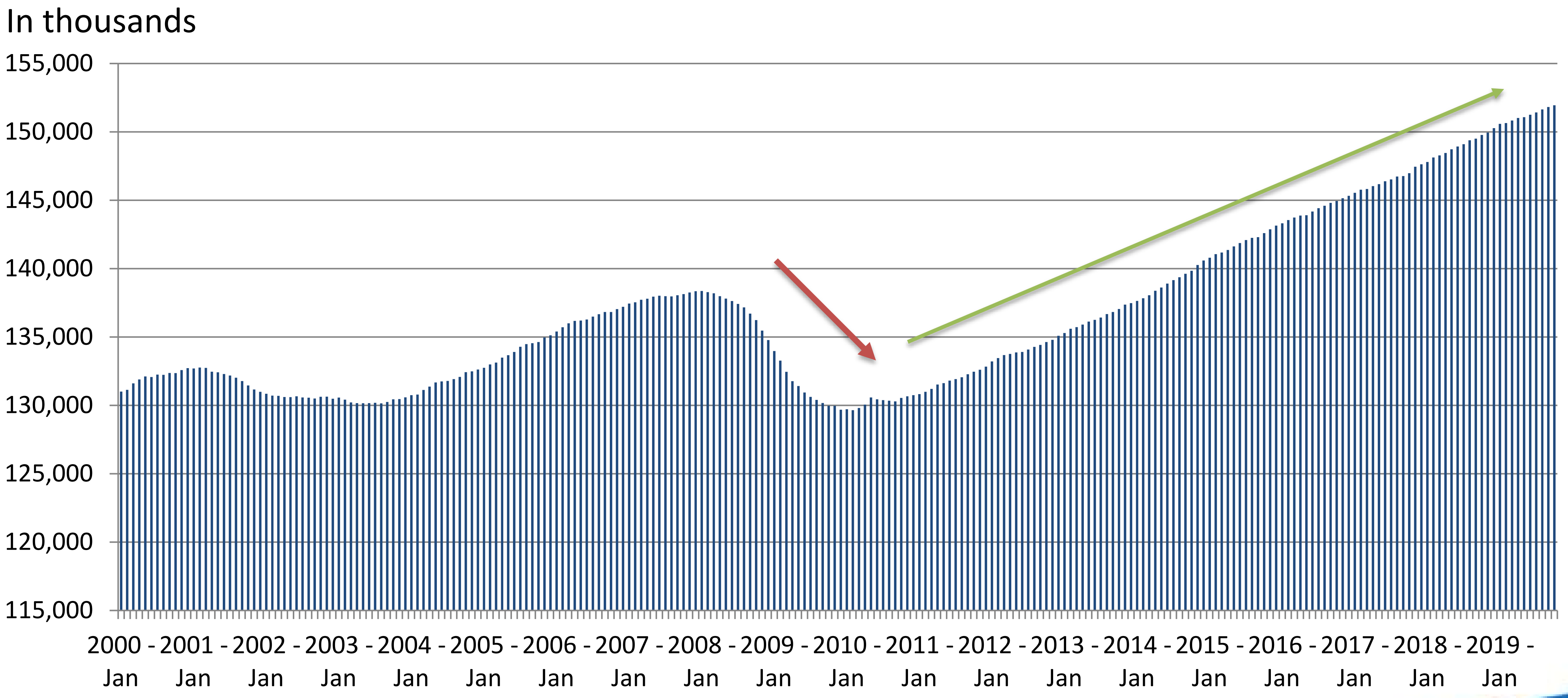
Big Picture Review and Challenges

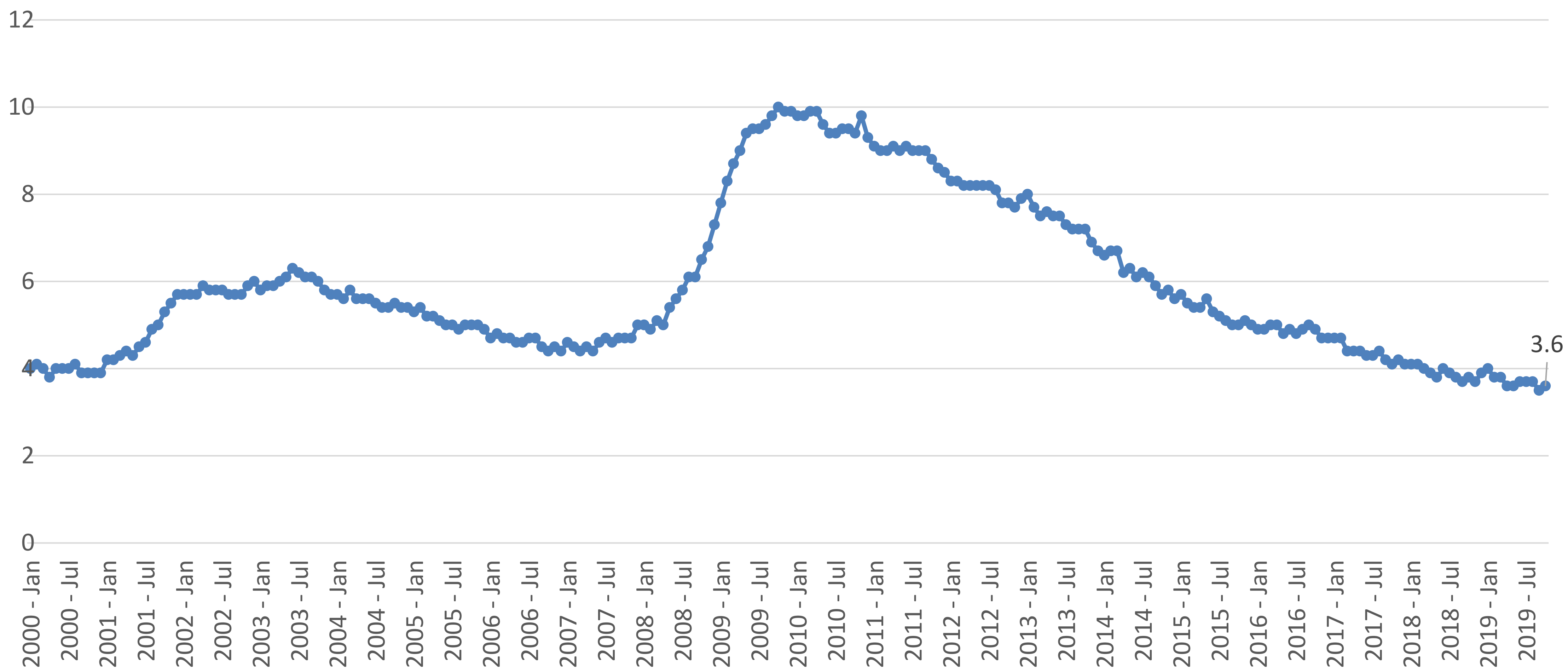
Lawrence Yun, PhD
NAR Chief Economist and Senior Vice President, Research
NATIONAL ASSOCIATION OF REALTORS®
December 11, 2019

Record Jobs

(22 million gained from 2010 … 2.1 million in 12 months)



Super-Low Unemployment Rate of 3.6% in U.S.



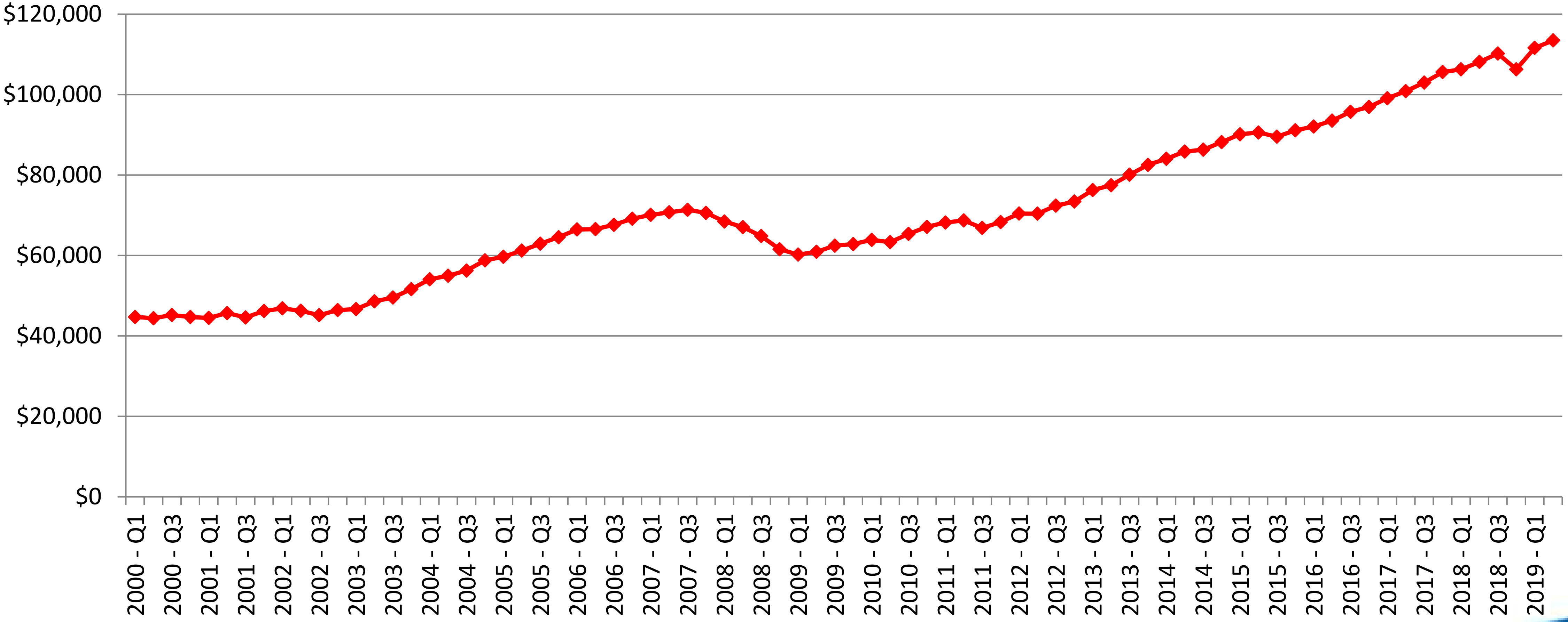
Record High Stock Market

(Standard & Poor's 500 Composite Index)

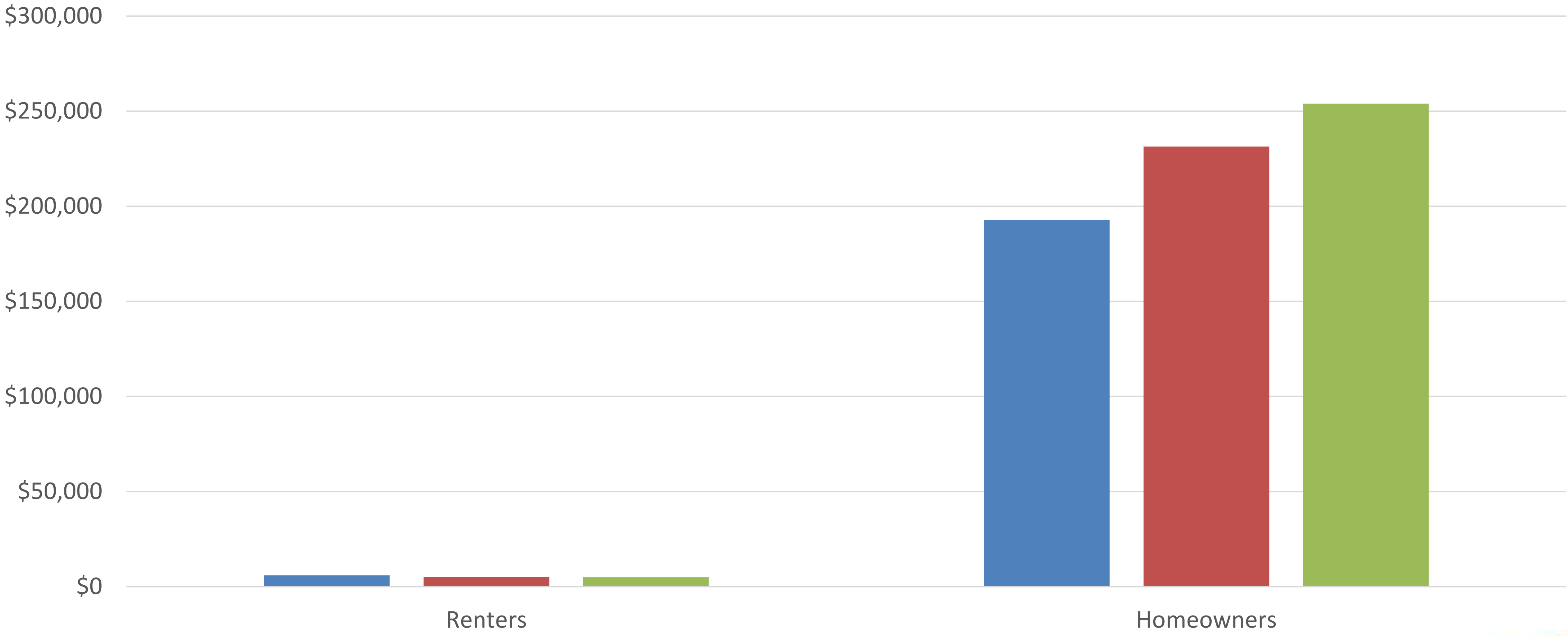
Total Household Net Worth

(Financial and Housing Net Wealth)

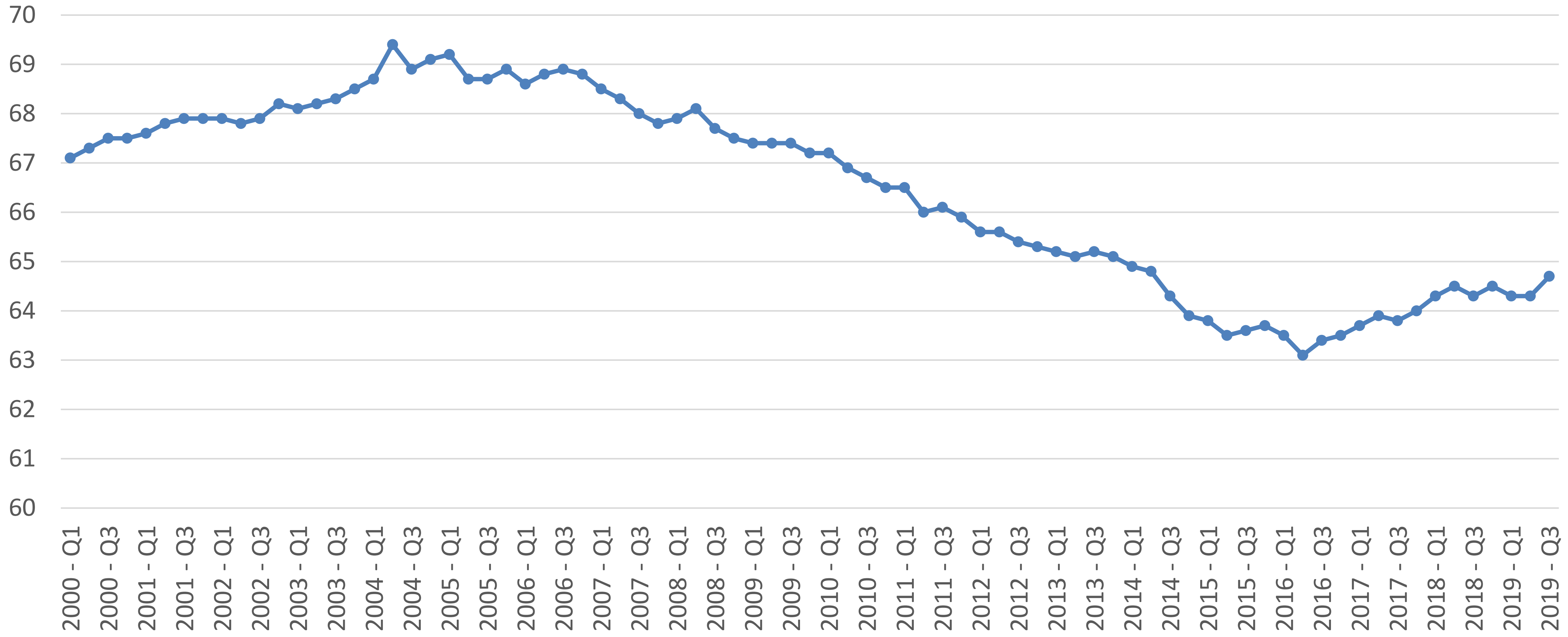
In billion $



Wealth: From 2000 to 2016 to 2018



Homeownership Rate Subpar?



Home Sales Subpar?

2000 versus 2019 comparison

	2000	2019	Comment
Housing Affordability	122	146	Better
30-year mortgage rate	8%	4%	Better
Population	282 million	329 million	Better
Population (16 yrs old and over)	218 million	263 million	Better
Households	103 million	122 million	Better
Jobs	132 million	152 million	Better
Total Home Sales (New + Existing)	6.1 million	5.9 million	Worse

MODERATOR

AMY SCOTT

SENIOR CORRESPONDENT, HOUSING
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GOVERNMENT POLICY TOWARD HOUSING

NAR Real Estate Summit

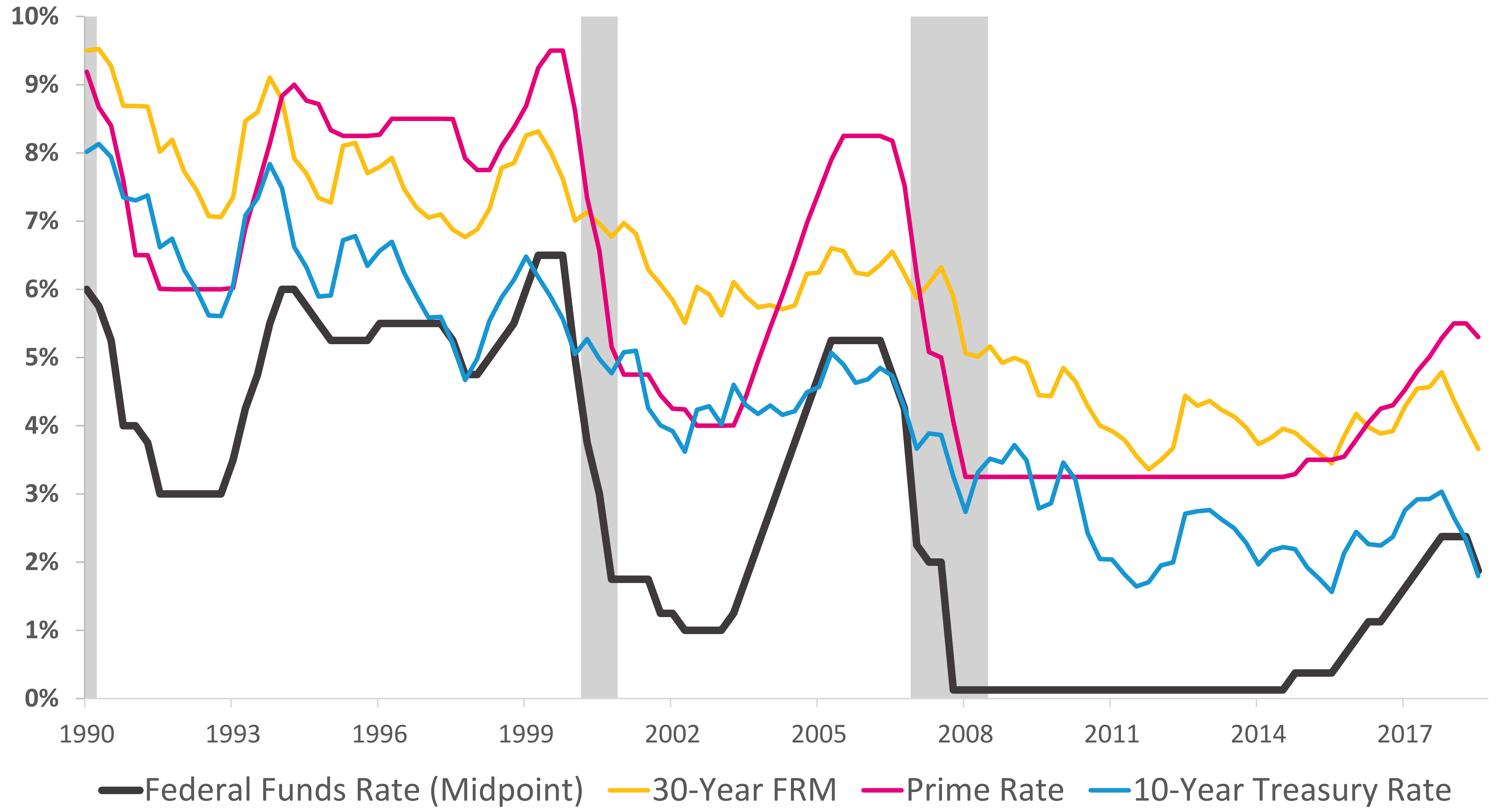
Government Policy Towards Housing

URBAN INSTITUTE · ELEVATE · THE · DEBATE

Michael Neal
Senior Research Associate
December 11, 2019

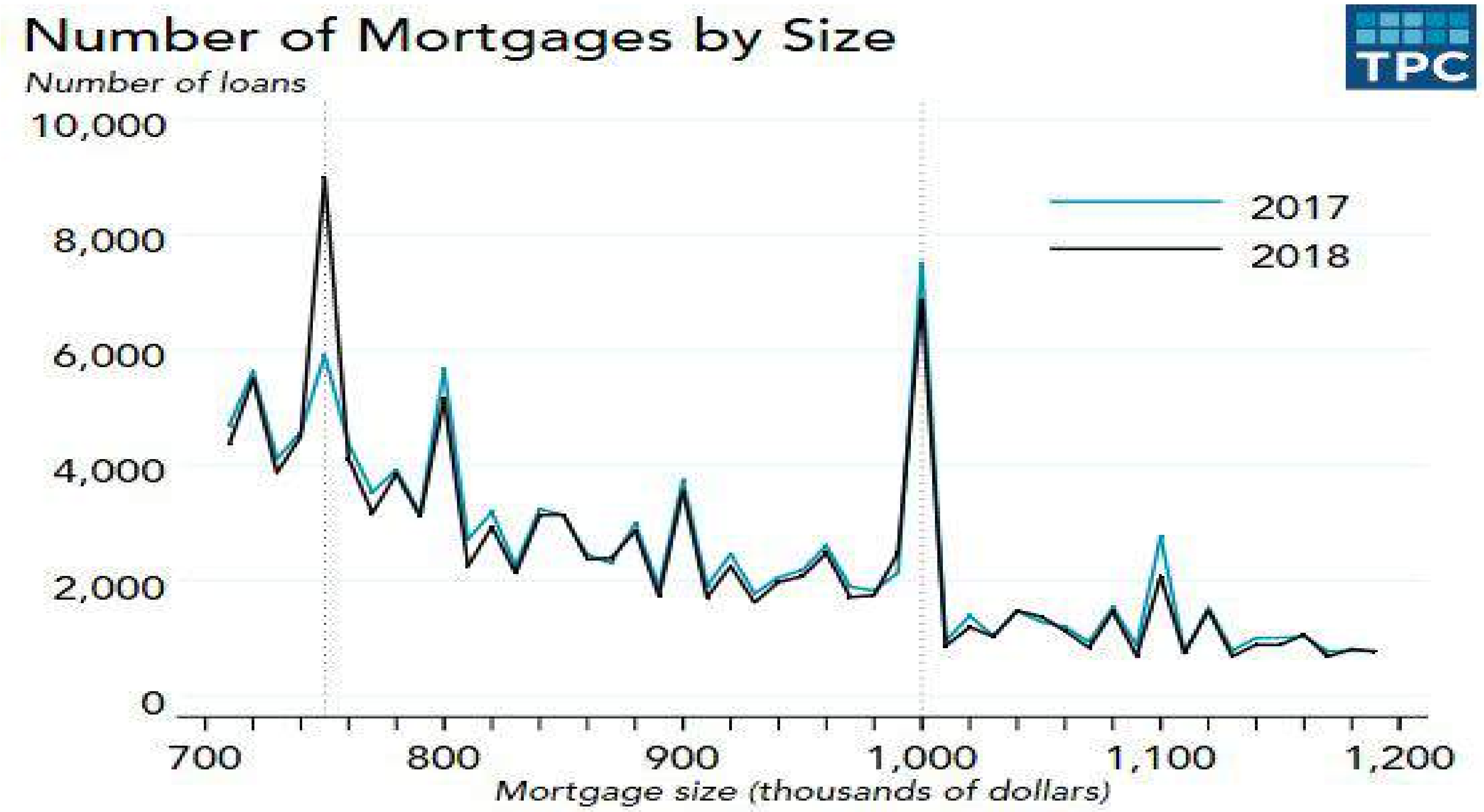
Macroeconomic Policies

Direct Impact of Traditional Monetary Policy



Sources: Federal Reserve Board, Freddie Mac

Impact of Tax Cuts and Jobs Act



Source: Consumer Financial Protection Bureau, Home Mortgage Disclosure Act Snapshot National Loan Level Dataset (2018).

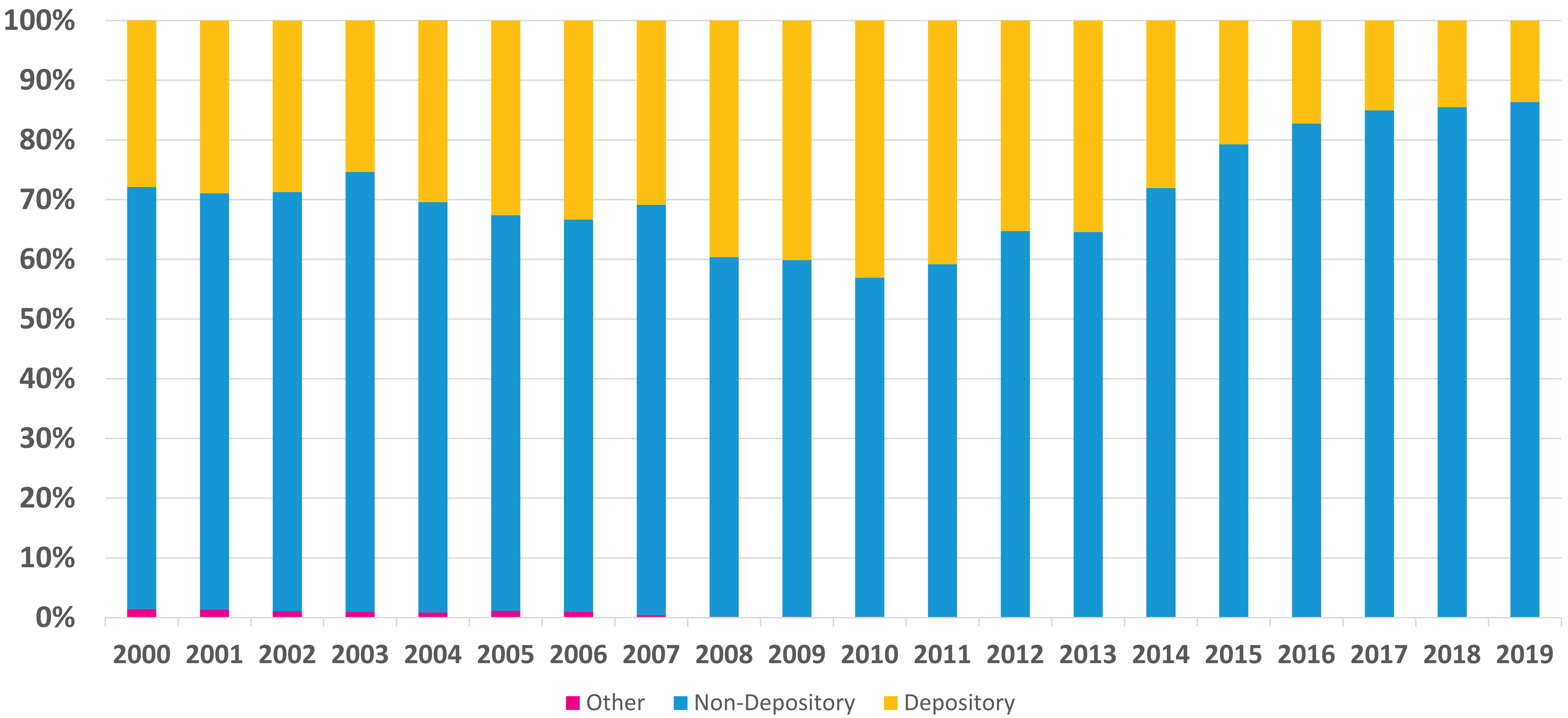
Other Federal Policies – Housing Finance

Possible Impact of Treasury Administrative Reforms

	2018	2019	2020	2021	2022	2023	2024	2025
GSE Origination Market Share (%)								
Status Quo	45.1	39	39.4	39.1	38.5	38.3	38.5	38.8
Treasury reforms	45.1	39	39.4	22.6	19.1	18.2	18.9	19.3
Difference				*-16.5*	*-19.4*	*-20.1*	*-19.6*	*-19.5*
Home Sales (new and existing)								
Status Quo	5,956	5,991	6,011	6,428	6,707	6,856	7,026	7,071
Treasury reforms	5,956	5,991	6,001	6,239	6,464	6,594	6,766	6,814
Difference				*-189*	*-243*	*-262*	*-260*	*-257*
Housing Starts (ths.)								
Status Quo	1,250	1,264	1,312	1,691	2,082	2,111	2,055	1,972
Treasury reforms	1,250	1,264	1,312	1,621	1,978	1,996	1,937	1,857
Difference				*-70*	*-104*	*-115*	*-118*	*-115*

Source: Urban Institute and Moodys.

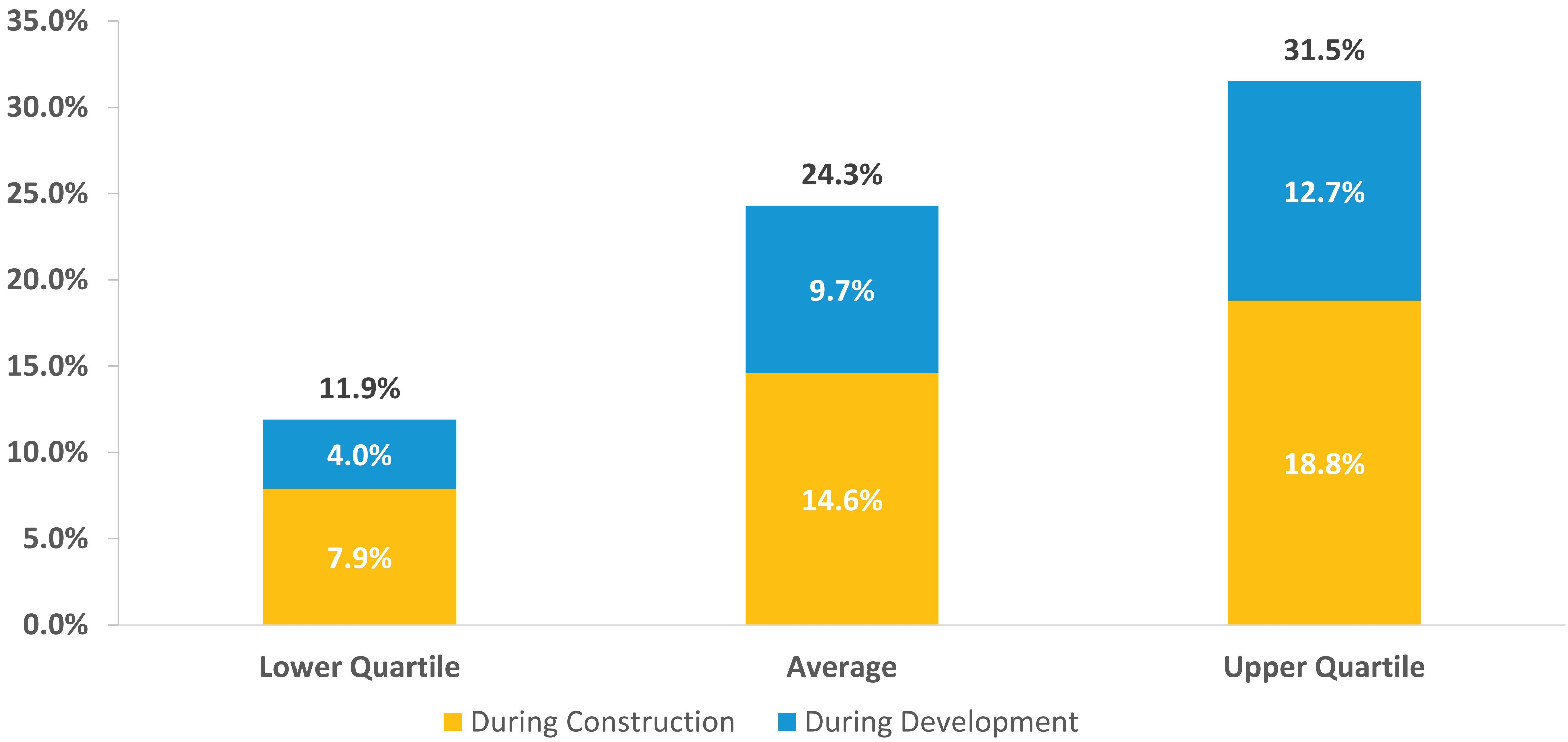
Share of FHA Mortgages by Lender Type



Source: FHA FY 2019 Annual Report to Congress

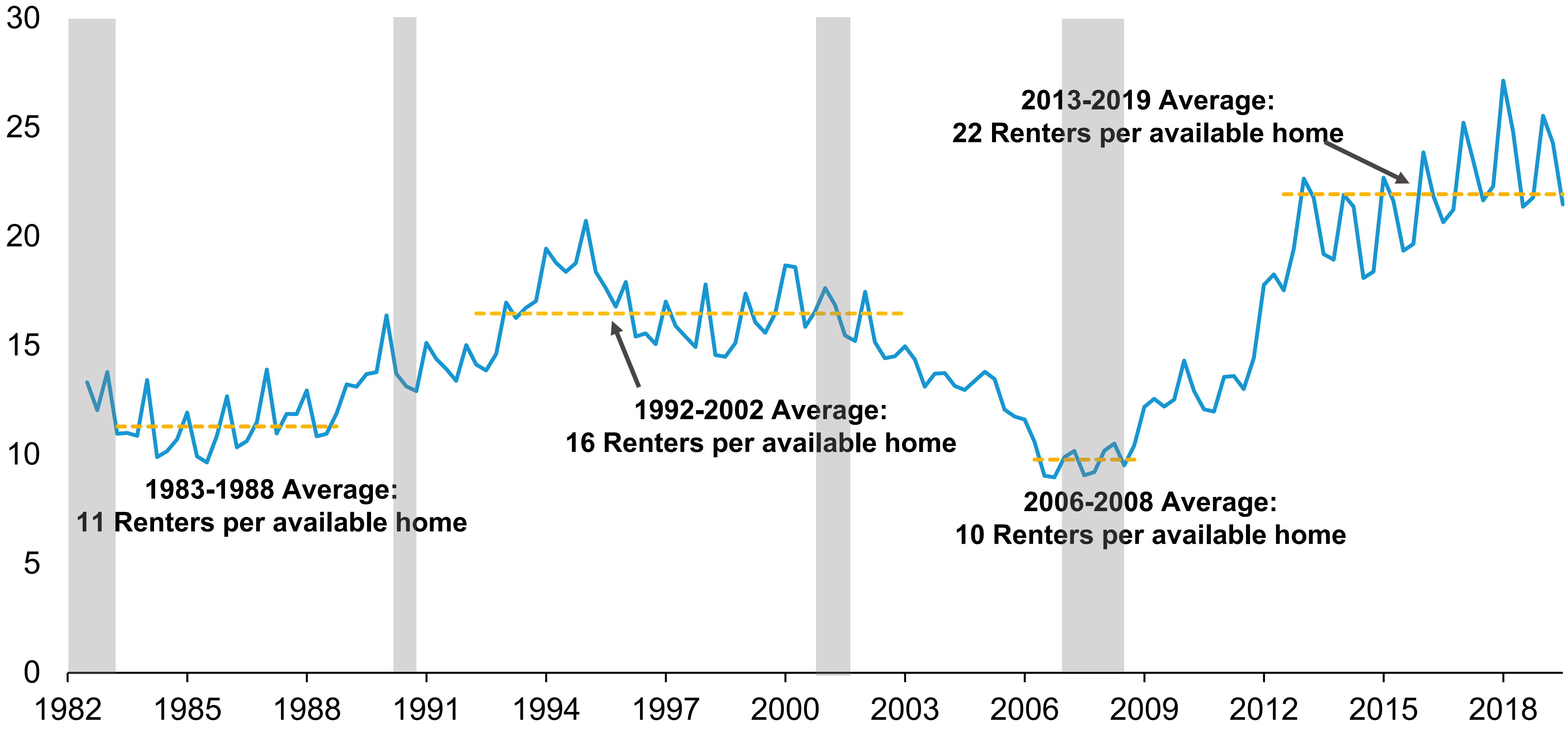
(Largely) State and Local Policies

Impact of Regulatory Costs



Source: NAHB.

Not Enough For-Sale Inventory to Meet Potential Renter Demand



Source: NAR, Census Bureau and Department of Housing and Urban Development.

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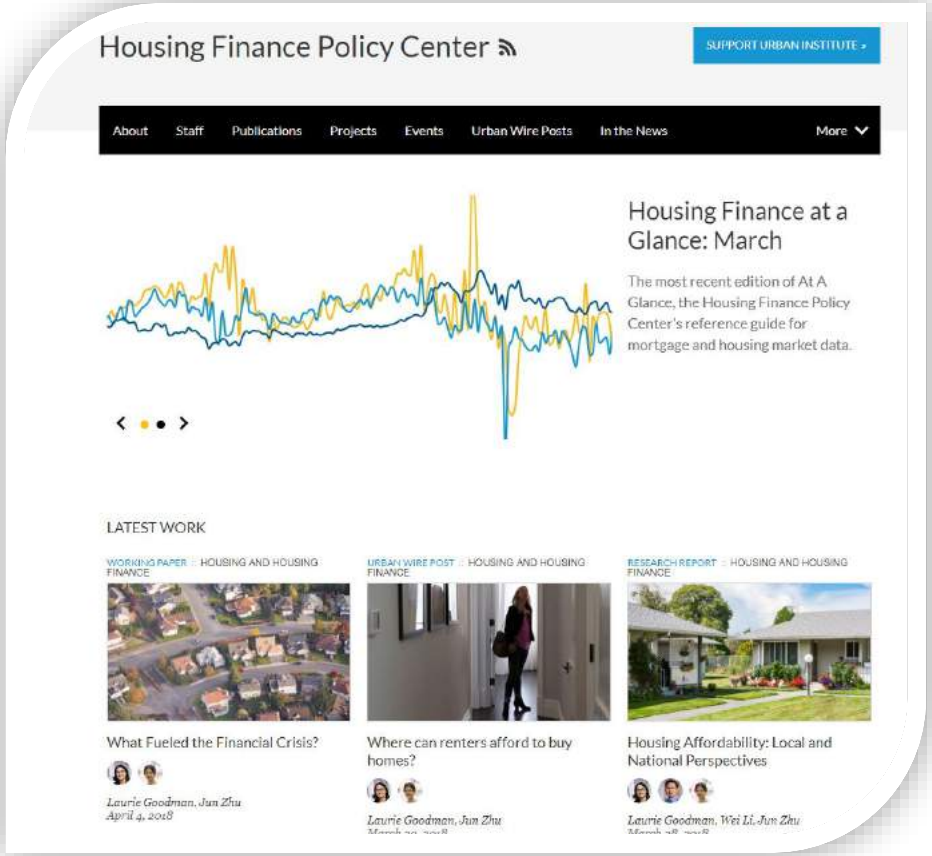
- **Contact me by e-mail:** mneal@urban.org
- **Check the Housing Finance Policy Center** **website** **regularly:** **www.urban.org/center/hfpc**



GOVERNMENT POLICY TOWARD HOUSING

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Government Policy towards Housing

Edward Pinto (pintoedward1@gmail.com)

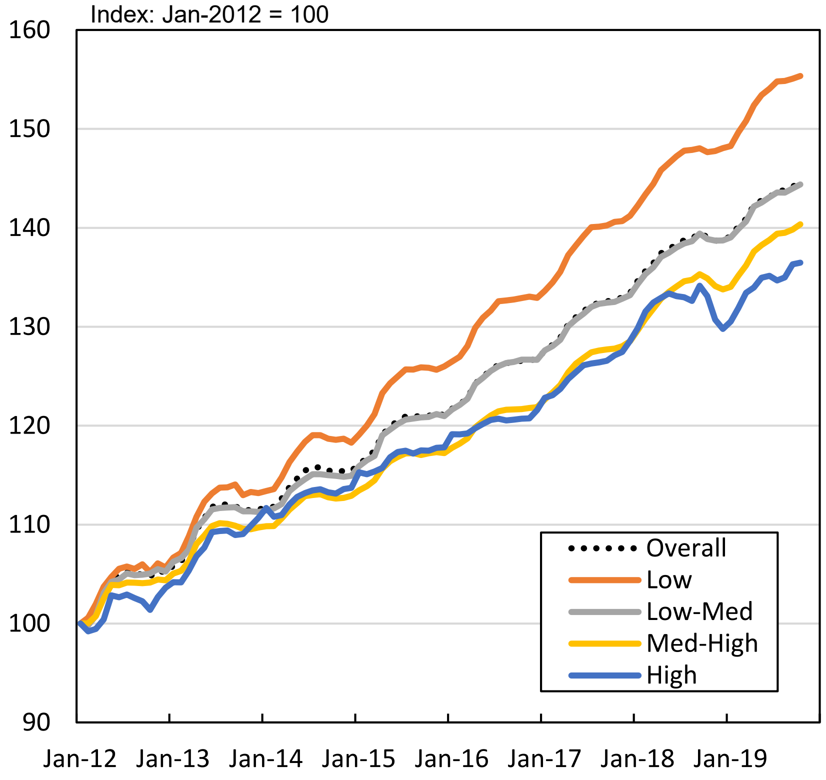
AEI Housing Center
AEI.org/housing
December 11, 2019

Link to AEI National and Metro Housing Market Indicators to obtain metro reports
Link to AEI Mortgage Risk Interactive to create your own risk charts
Link to AEI State of the Nation's Housing Market, which provides local housing data
Link to House Prices and Supply Interactive with house price appreciation and supply data

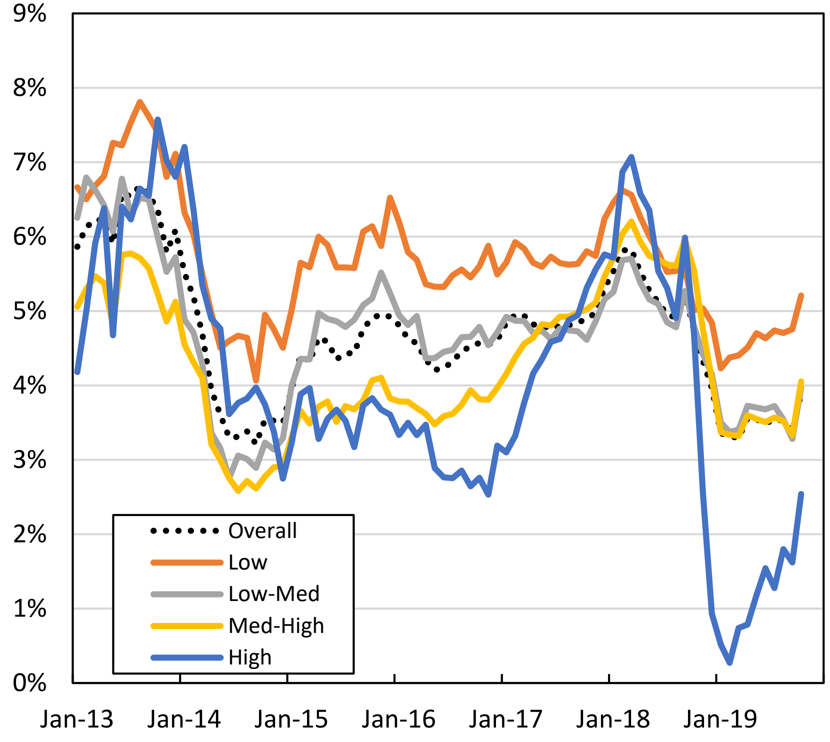
National House Price Appreciation (HPA) by Price Tier

In October 2019, overheating of the low price tier continued (right panel). HPA in the low price tier was 5.2% year-over-year (yoy). In both the low-medium and medium-high tiers, HPA was 4.0% and 4.1%, respectively. HPA in the high tier (about 7% of the market) was a more modest 2.5%.

Home Price Appreciation by Price Tier



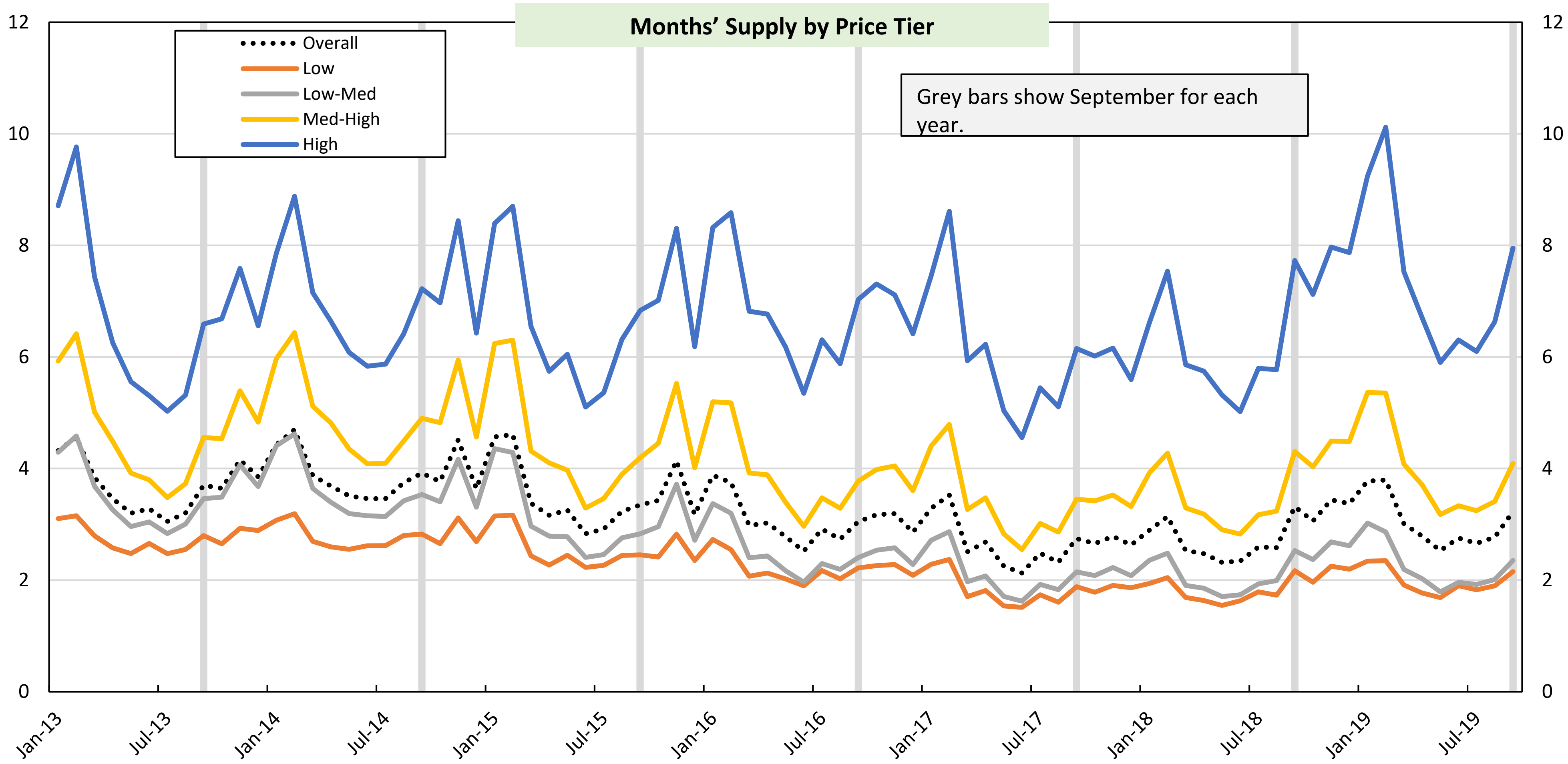
Year-over-Year Home Price Appreciation by Price Tier



Note: Data for October 2019 are preliminary. Price tiers are set at the metro level and are defined as follows: Low: all sales at or below the 40th percentile of FHA sales prices; Low-Medium: all sales at or below the 80th percentile of FHA sales prices; Medium-High: all sales at or below the 125% of the GSE loan limit; and High: all other sales. HPAs are smoothed around the times of FHFA loan limit changes.
Source: AEI Housing Center, www.AEI.org/housing.

Supply-Demand Imbalance Greatest in the Two Lowest Price Tiers

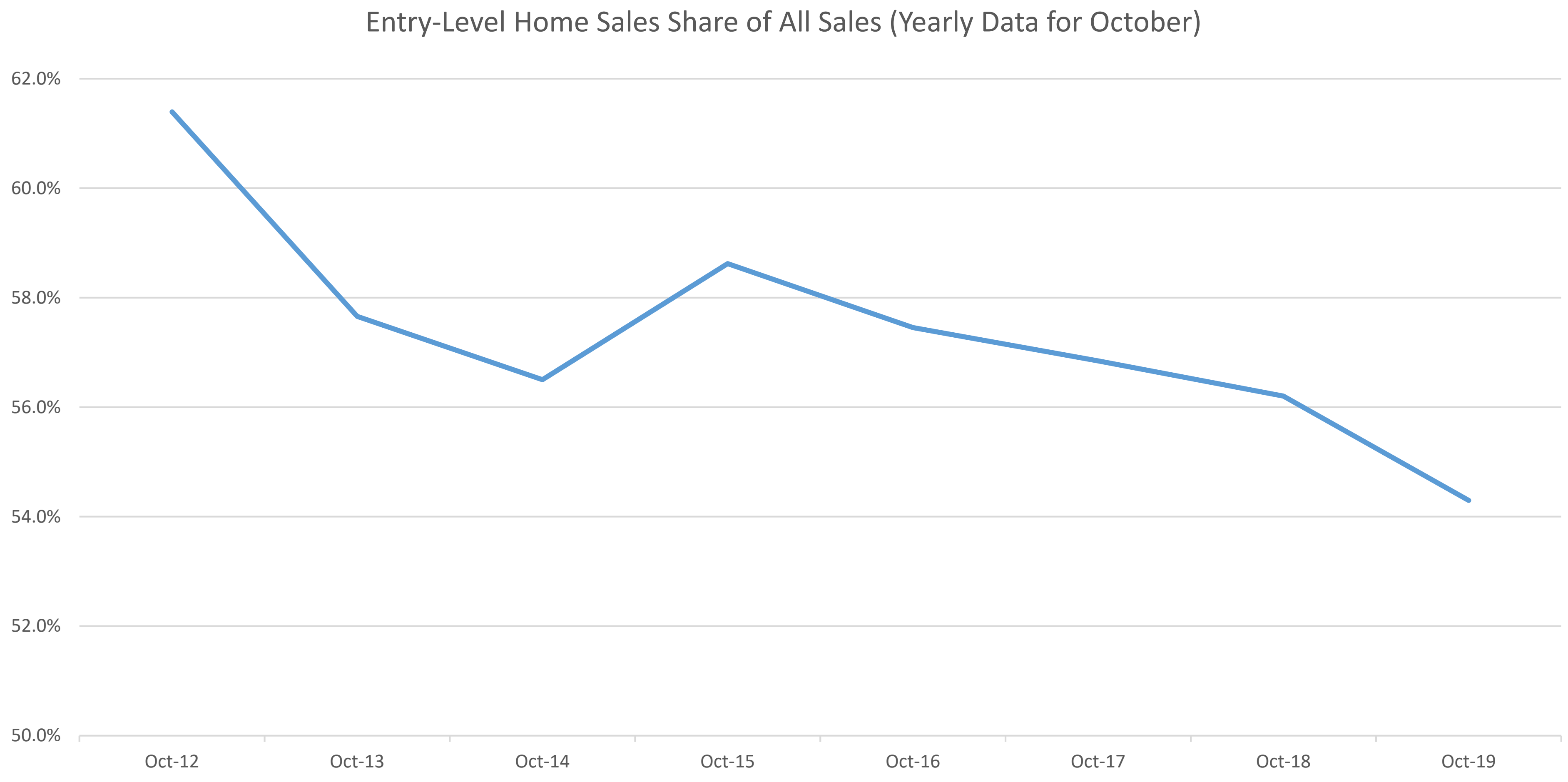
Inventories remain historically tight at the lower end, continuing the strong seller's market, which implies that house prices will continue to increase much faster than incomes, thereby worsening affordability.



Note: Data are for 2,288 counties representing approximately 95% of sales.
Source: AEI Housing Center, www.AEI.org/housing, and Zillow.

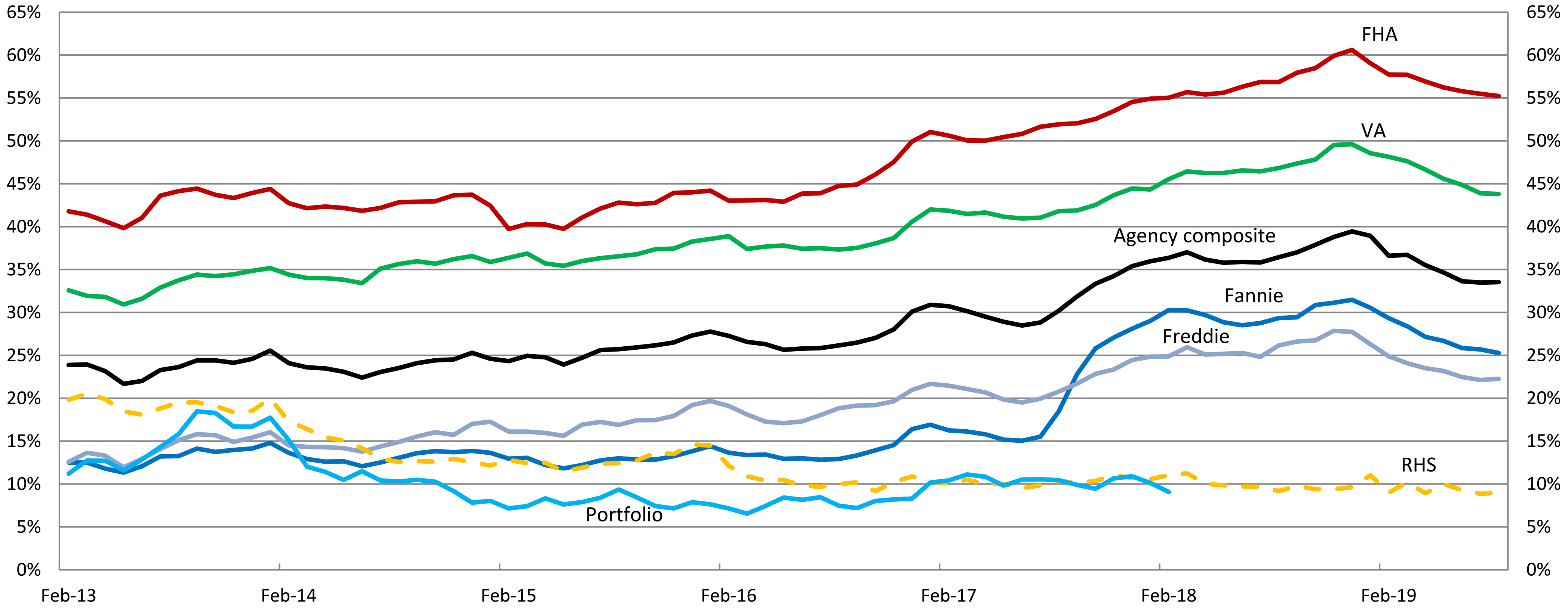
Entry-Level Home Sales Share Continues to Drop

At lowest October level (54.3%) for data series. Entry-level buyers continue to struggle, notwithstanding lower rates.



Purchase Loans with Total DTI Greater than 43%

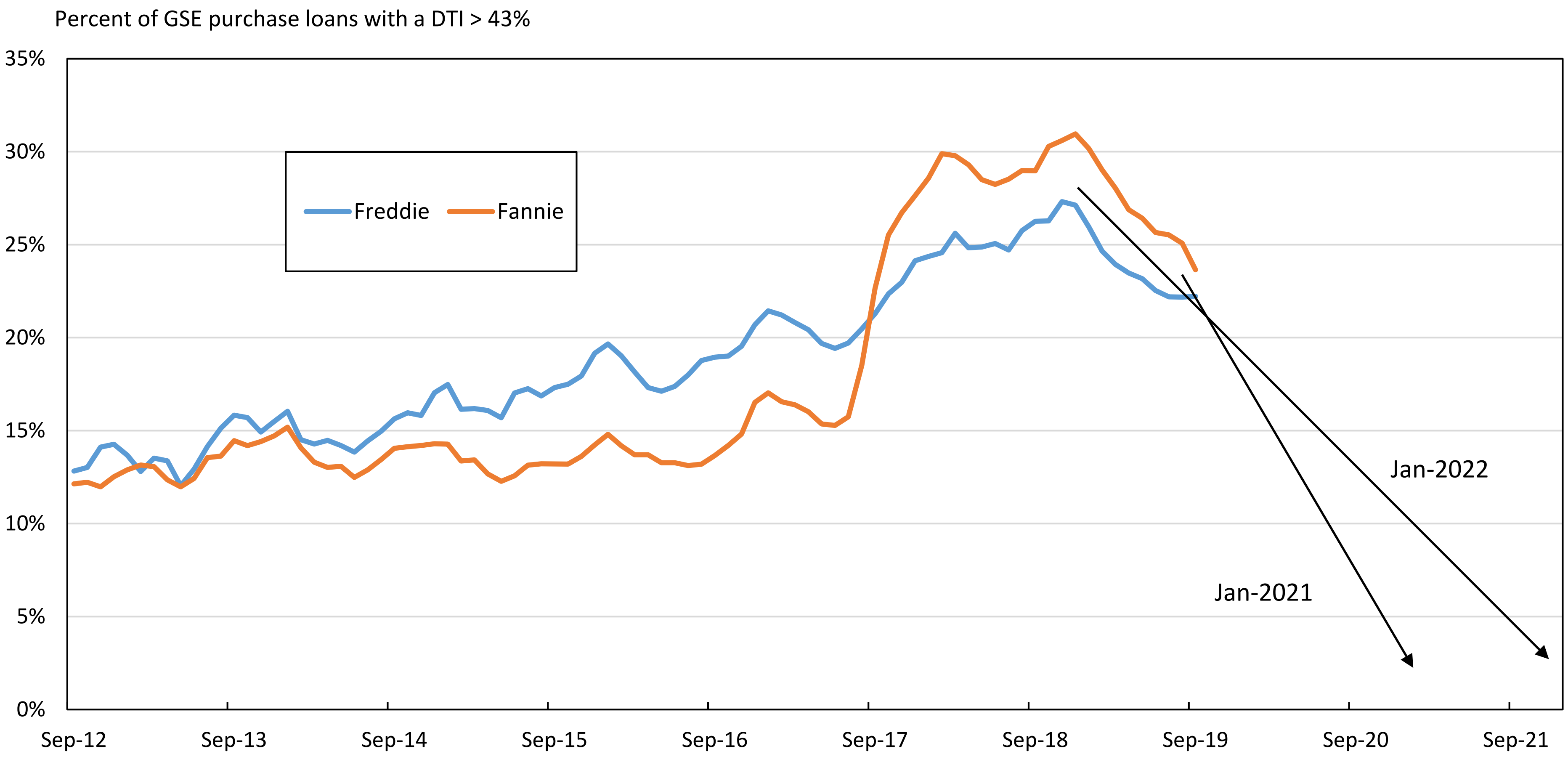
Despite the general seasonal decline in the DTI > 43 share that begins around January, this year's decline has been more pronounced. While this year's decline also coincides with a massive rate drop, some agencies (esp. FHA and Fannie) have announced their intent to reduce their share of high DTI loans or risk layering. Time will tell whether this trend is a sustainable one.



Note: Data pertain to purchase loans for primary owner-occupied properties. Data for the portfolio line come from LLMA and McDash after removing duplicative loans. The data are weighted by loan amount buckets and origination year using HMDA weights. The portfolio series is not shown for the most recent months to allow sufficient time for portfolio lenders to sell loans to the GSEs.
Source: AEI Housing Center, www.AEI.org/housing, CoreLogic, and Black Knight.

GSE Purchase Loan Share with a DTI > 43%

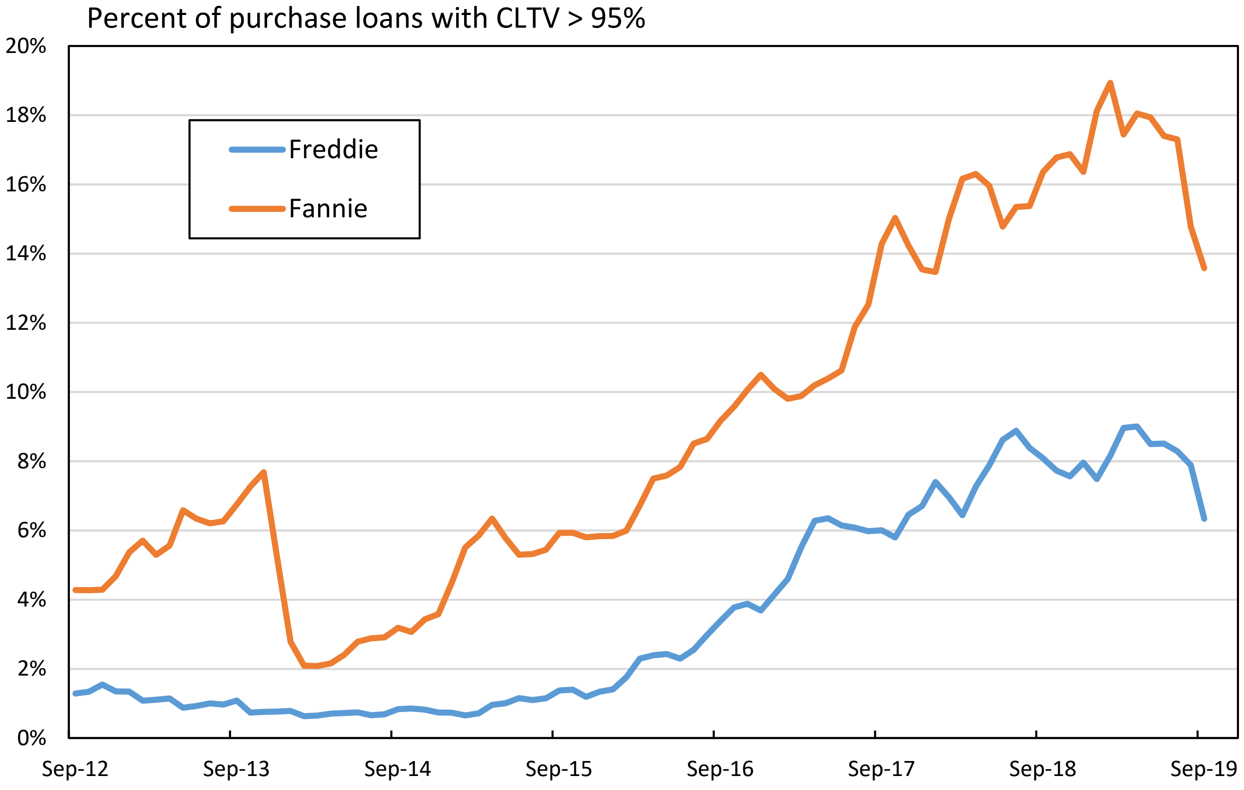
After growing to 31% and 27%, respectively, Fannie and Freddie have begun to shrink their share of loans with a DTI > 43%. With the Qualified Mortgage Patch set to expire in January 2021, the GSEs only need to slightly accelerate their current rate of shrinking this segment to meet the January 2021 sunset date.

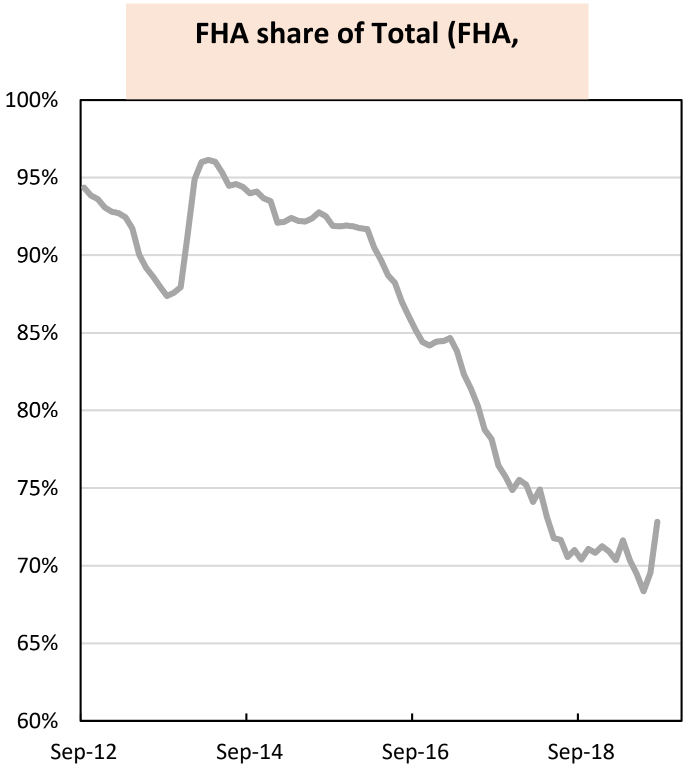


Note: Data for September 2019 are preliminary.
Source: AEI Housing Center, www.AEI.org/housing.

GSE Purchase Loans with CLTV > 95%

The GSEs' share of loans with combined loan-to-value (CLTV) ratios greater than 95% has risen dramatically, esp. for Fannie. In 2014 both agencies were forced by their regulator to aggressively reenter this market. This increased competition with FHA and promoted greater risk taking. This trend now appears to have reversed. If the FHFA were to revert to the policy that limited the GSEs to a maximum CLTV of 95%, this would help de-risk their footprint and establish a bright line between the GSEs and FHA. Their competition unnecessarily drives up home prices and puts taxpayers at risk.

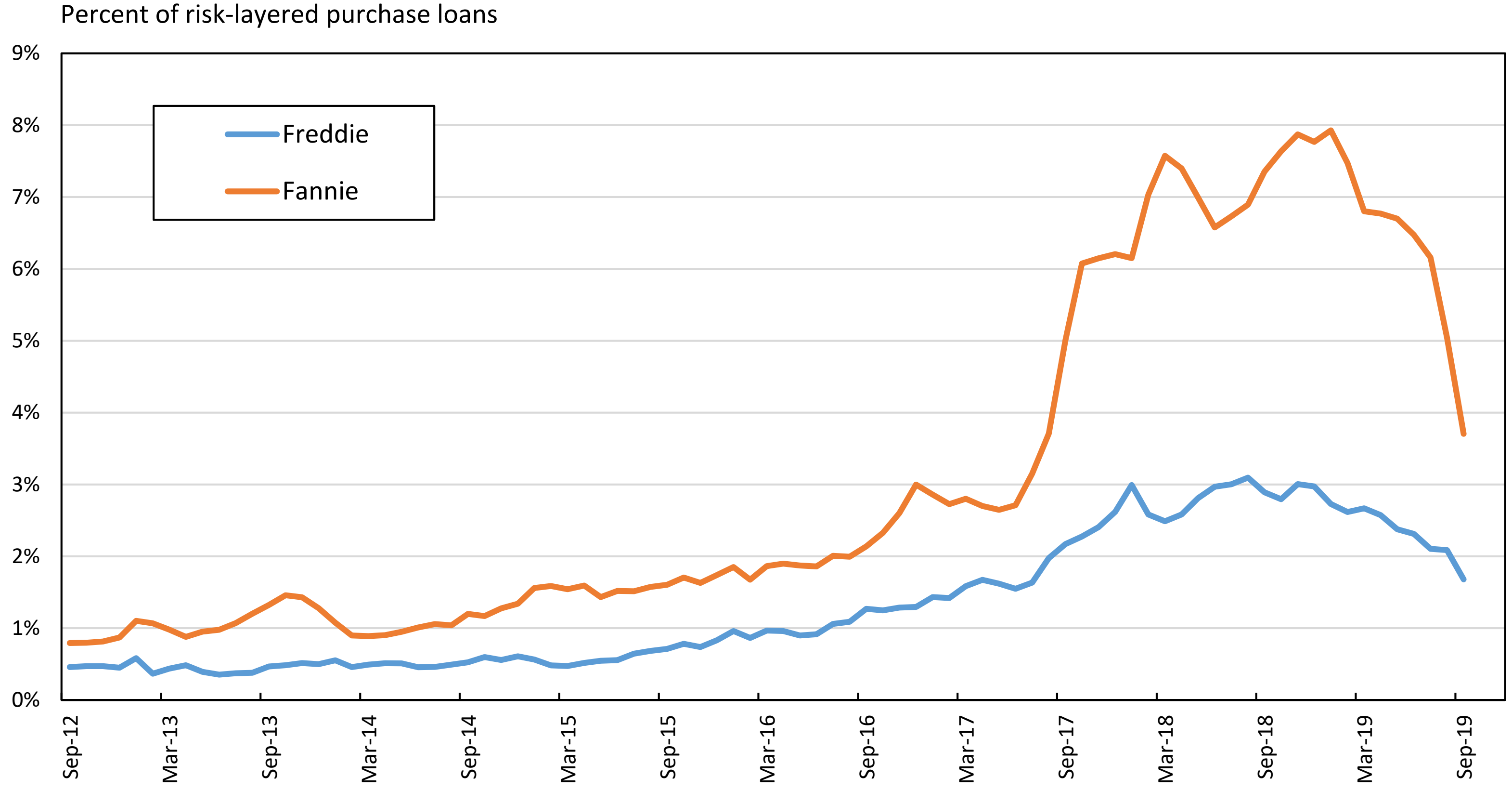




Note: Data for September 2019 are preliminary.
Source: AEI Housing Center, www.AEI.org/housing.

GSE Purchase Loan Risk Layering

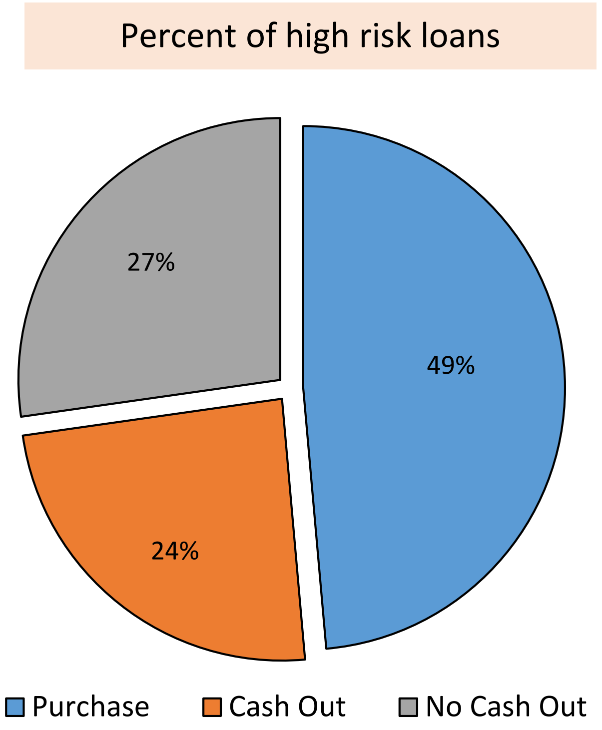
Risk layering occurs when at least three risk factors are present at origination. Risk factors include: Credit score < 660, DTI > 43, CLTV > 95%, and 30 year loan term. The number of risk layered loans rose dramatically beginning in 2017 as FHFA pushed the GSEs towards higher DTIs. Fortunately, due to the reduction in high DTI shares, this trend has begun to reverse.

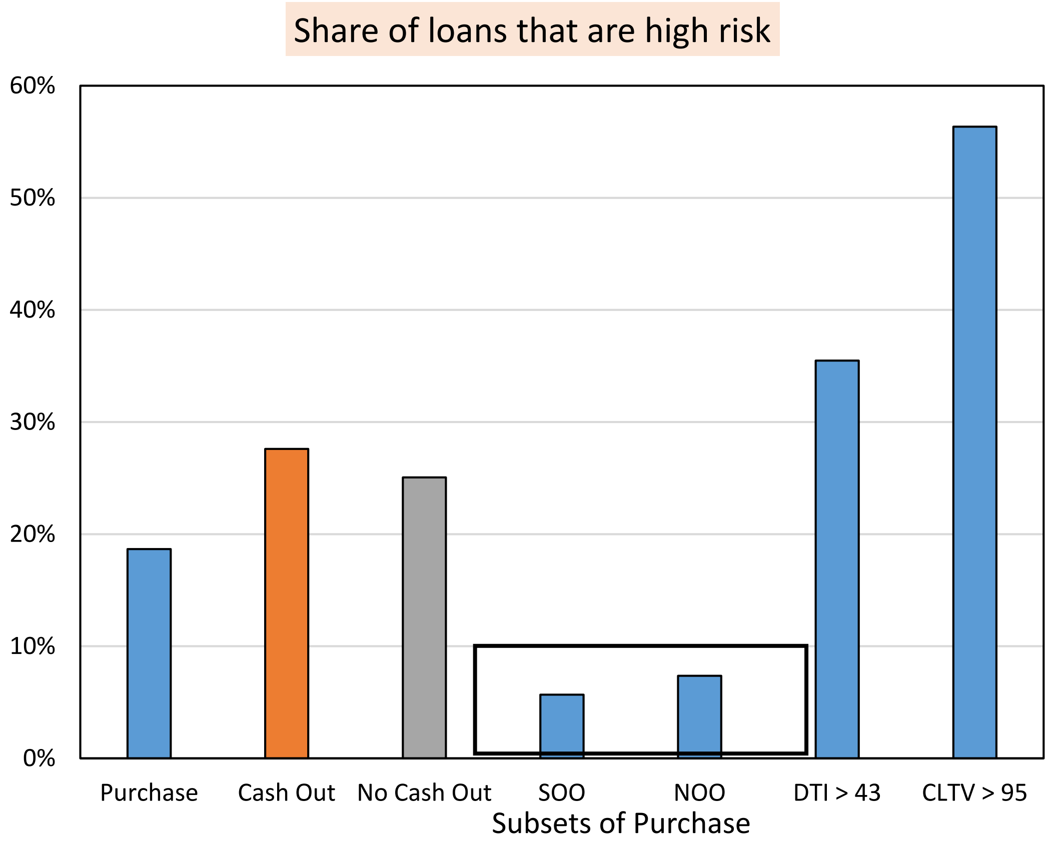


Note: Risk layering is defined as having at least 3 of 4 of the following features: Credit score < 660, DTI > 43, CLTV > 95%, 30 year loan term. Data for September 2019 are preliminary.
Source: AEI Housing Center, www.AEI.org/housing.

De-risking the GSEs, All Loans

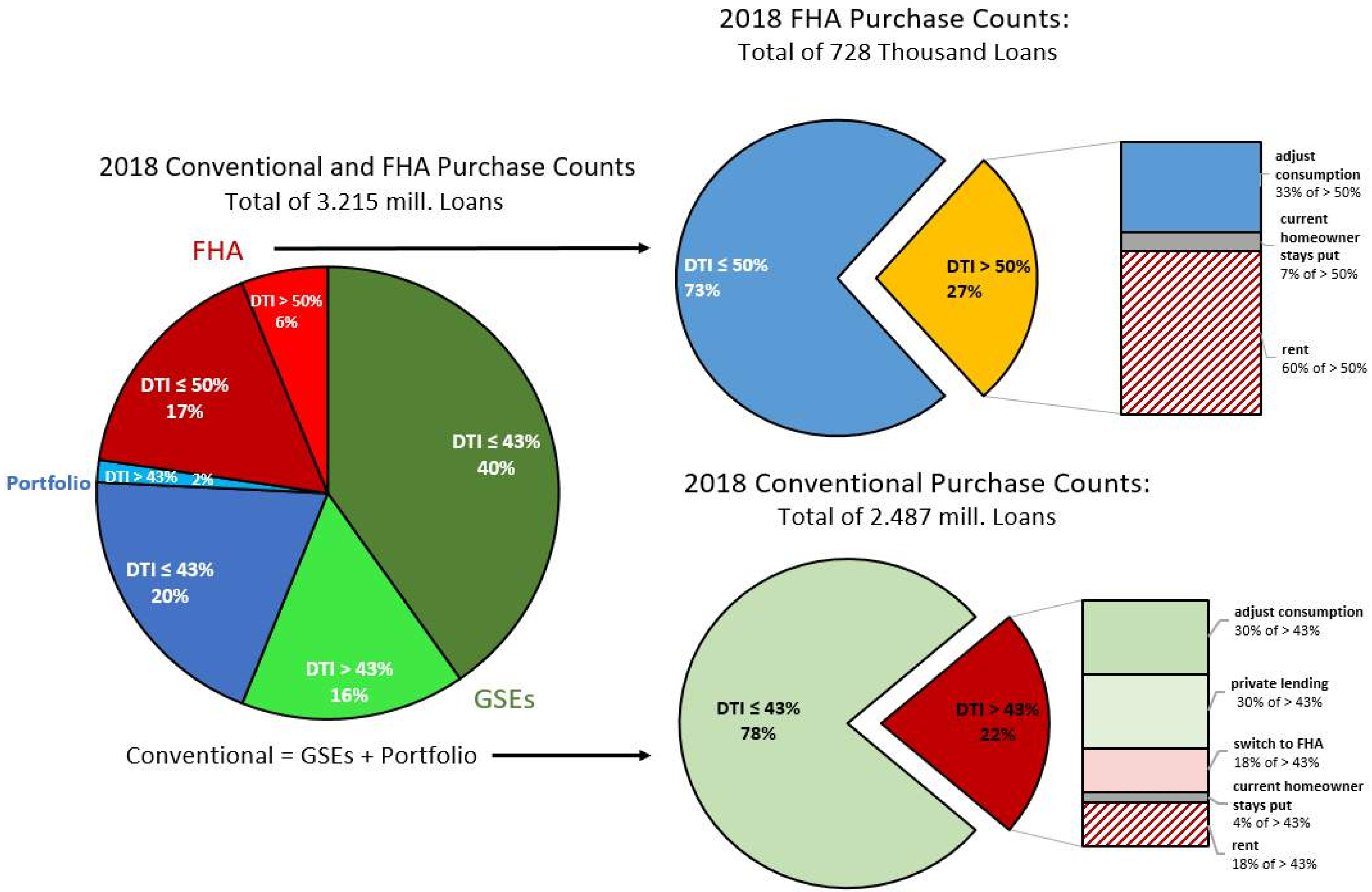
The FHFA Director has set as a goal the de-risking of the GSEs' footprint. High risk loans (those with an MRI greater than or equal to a 12% stressed default rate) currently account for 21% of their August footprint and could be eliminated. The GSEs' high risk loans are about evenly split between purchase loans and refis. The biggest risk drivers are purchase loans with CLTVs > 95%, DTIs > 43%, and refis.





Note: Data are for June-August 2019. SOO refers to second owner occupied loans and NOO refers to investor owner occupied loans. High risk loans have a stressed default rate of 12% or greater.
Source: AEI Housing Center, www.AEI.org/housing.

What would happen to loans after the Patch expires and FHA limits its DTIs to 50?



Note: Data are for primary owner-occupied loans. Portfolio loans are calculated by taking the difference in loan totals from HMDA 2018 for conventional loans and AEI's National Mortgage Risk Index for GSE loans. Conventional loans with missing DTIs are assumed to have the same distribution of DTI > 43% as the rest of the population.
Source: AEI Housing Center, www.AEI.org/housing.

GOVERNMENT POLICY TOWARD HOUSING

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Issues Affecting the Residential and Nonresidential Markets

Kermit Baker
Joint Center for Housing Studies,
and The American Institute of Architects

NAR Real Estate Forecast Summit
December 11, 2019

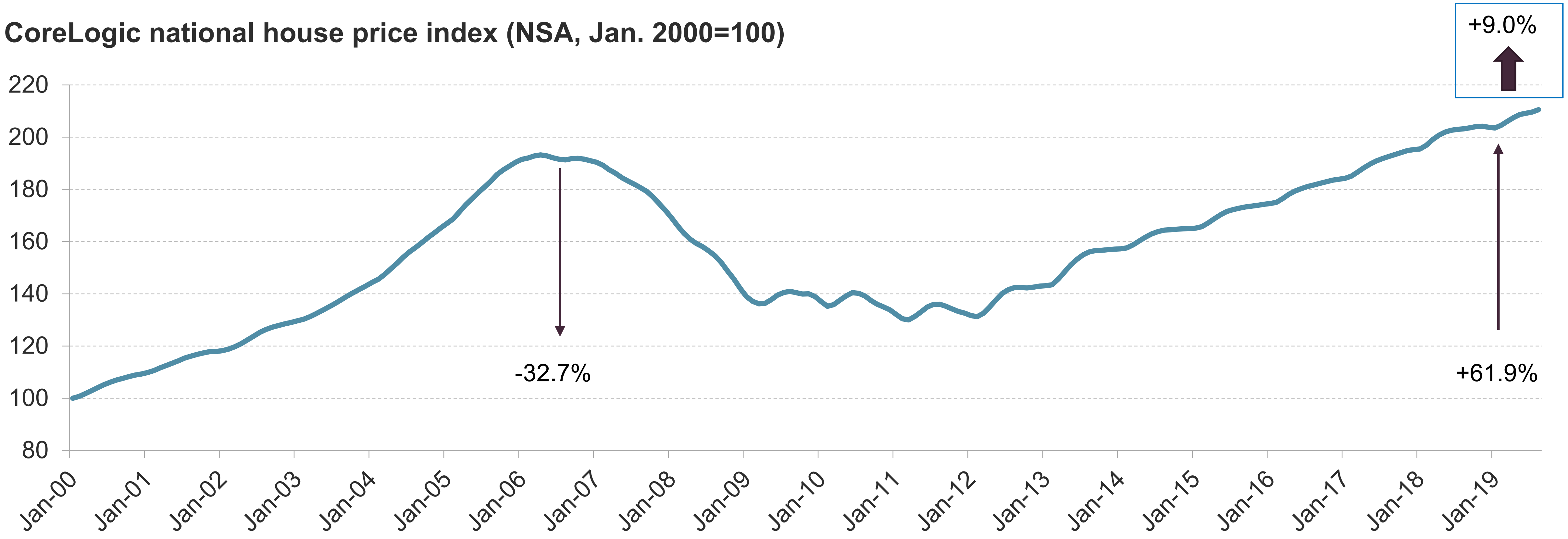
Key residential and nonres. issues

Housing affordability problem is growing.

Older Americans lack accessible housing options.

New building activity being replaced by retrofits.

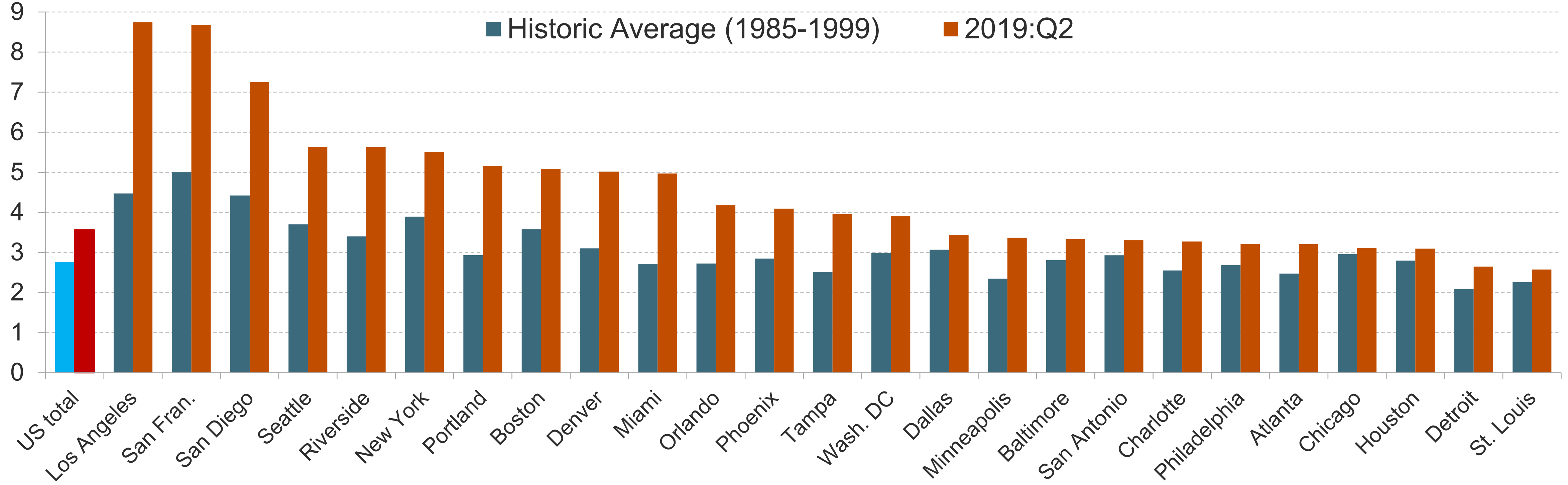
Nationally, house prices have fully recovered from the housing crash



Notes: Index includes single family attached and detached structures. Data accessed on 10/16/19.
Source: CoreLogic, National House Price Index (HPI).

However, prices typically have been rising faster than incomes, pushing up house price-to-income ratios in many large metro areas

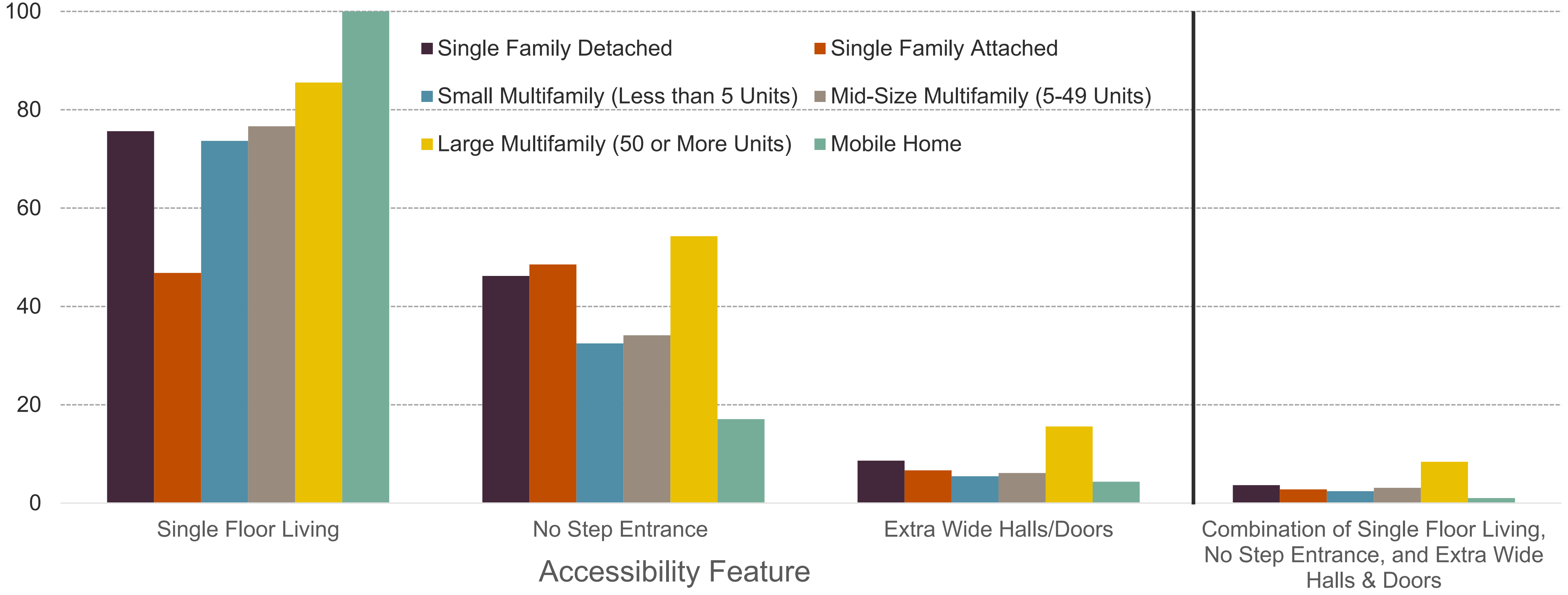
Ratio of existing single-family house prices to household income



Notes: Data are for 25 largest metros ranked by population in the 2017 American Community Survey. Ratio is calculated as part of Zillow's quarterly Affordability Indices and compares the median price of homes to the median level of household income in a given area.
Source: Zillow Price-to-Income Ratio Q2 2019, https://www.zillow.com/research/data/.

Only a small share of homes have basic accessibility features that may be required for those with mobility challenges

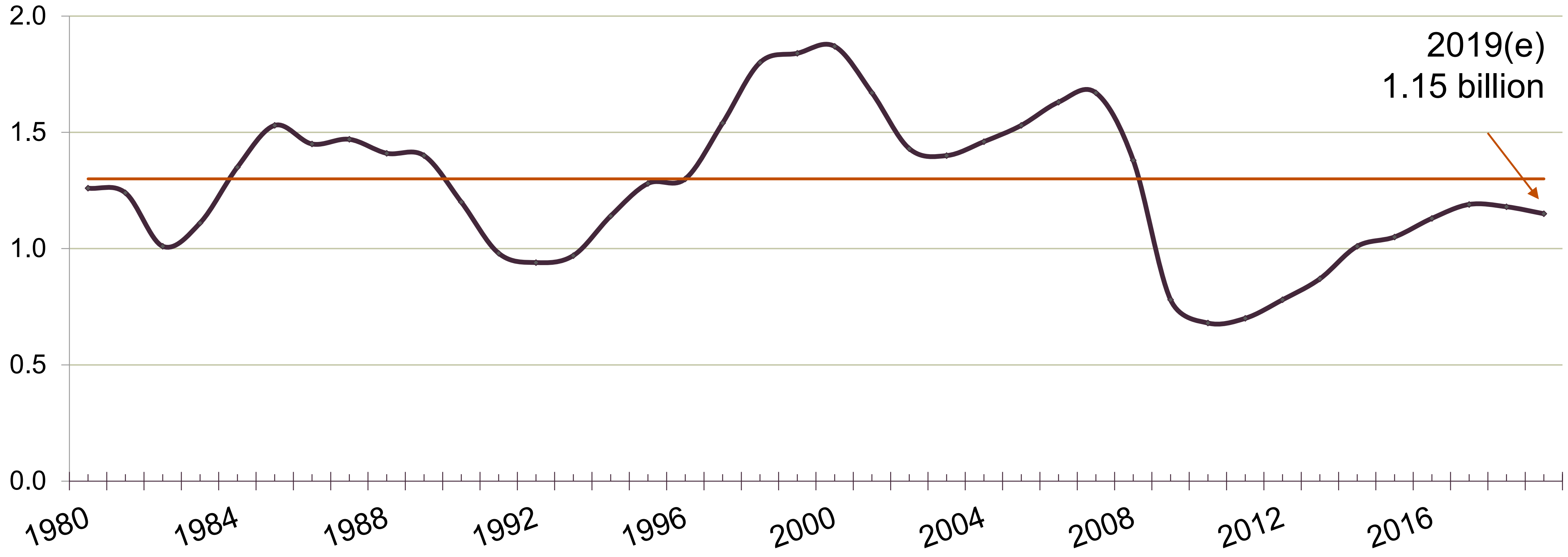
Share of housing units nationally by structure type (percent)



Source: JCHS tabulations of HUD, 2011 American Housing Survey.

Since 1980, nonresidential building construction has averaged 1.3 billion square feet per year

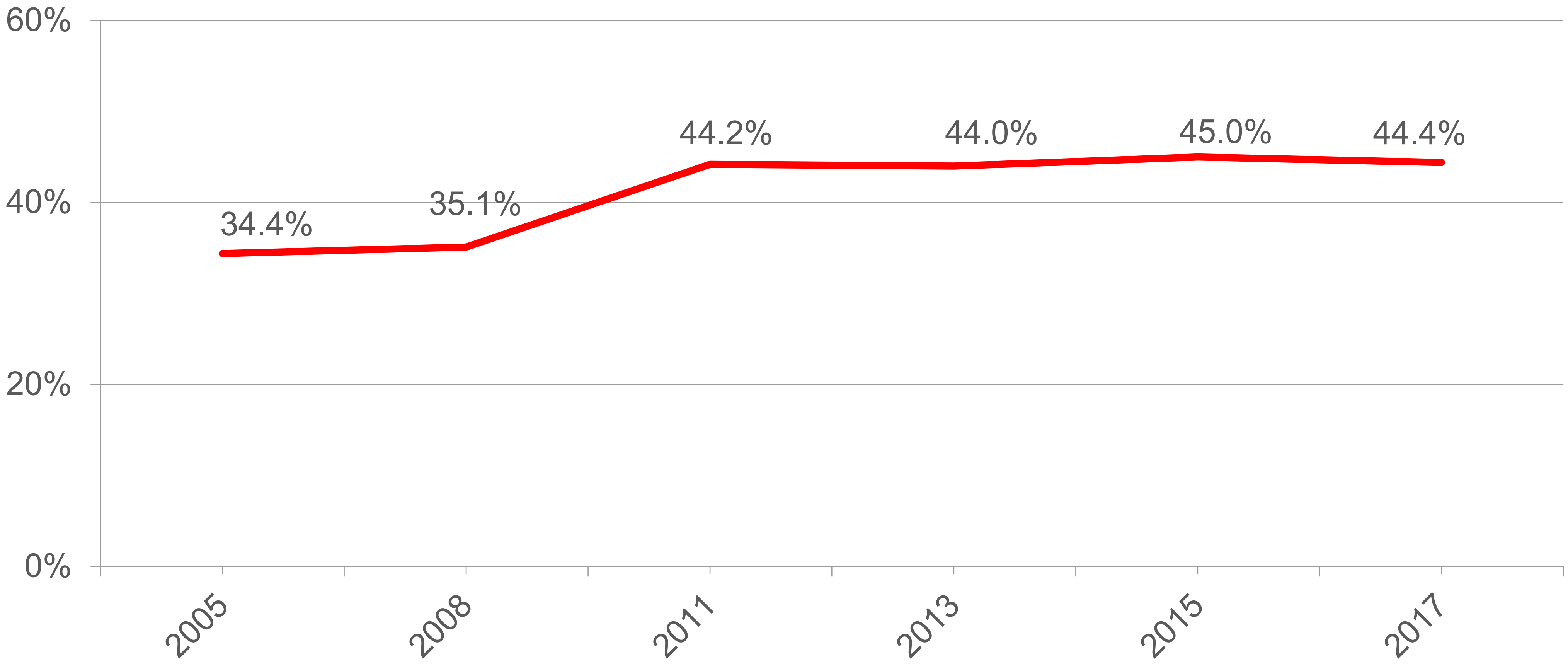
Nonresidential building construction, billions of square feet



Source: Dodge Data and Analytics

Work on existing facilities has been a growing share of design activity

Renovations, rehabilitations, additions, and historic preservation as percent of firm building design billings



Source: AIA Firm Survey Report, various years.

BREAK

15 MINUTES

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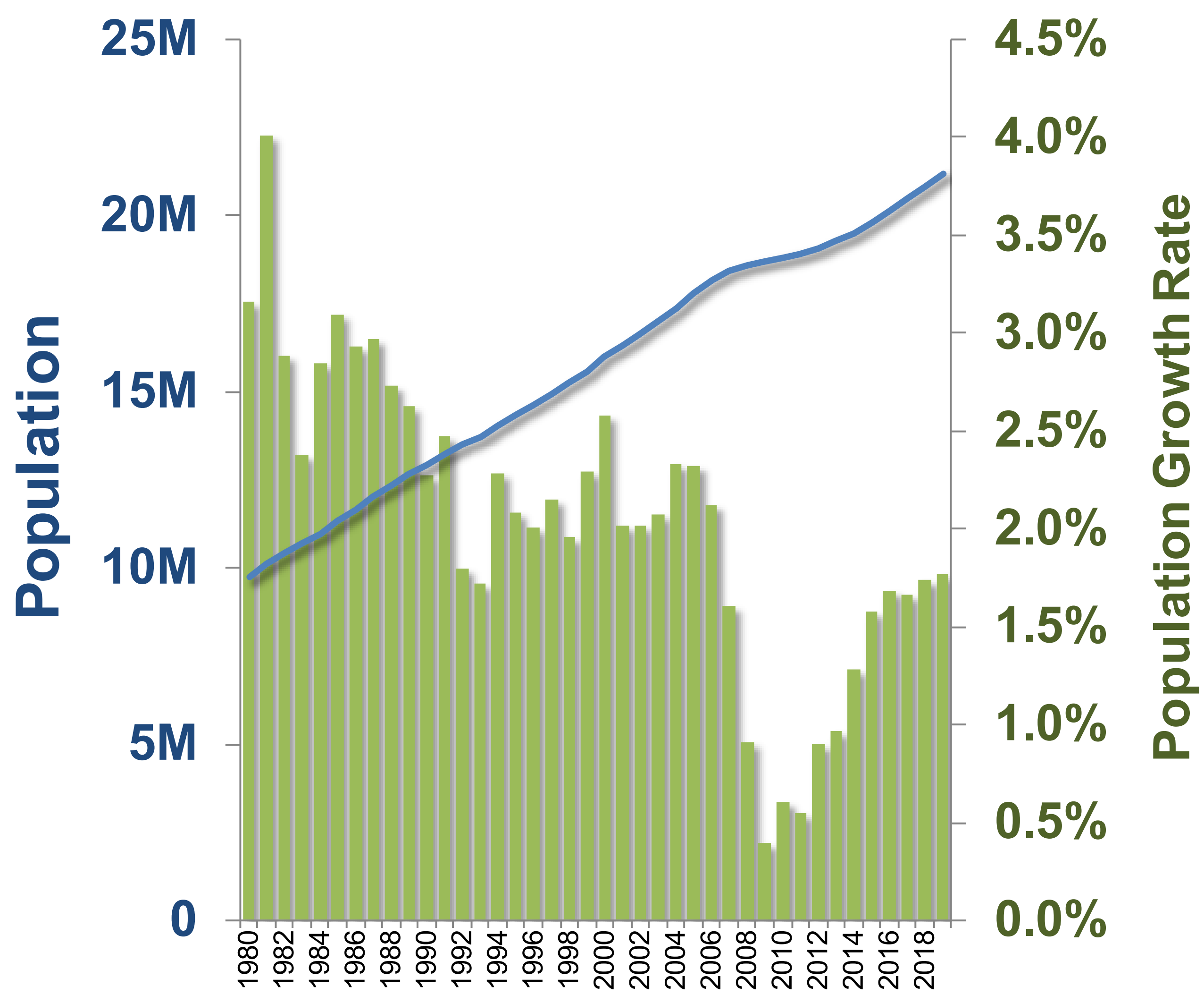
REGIONAL VARIATIONS

Current Housing Market Conditions in Florida

Brad O'Connor, Ph.D.
Chief Economist

Population Growth

Florida Population, Annual, 1980-2019

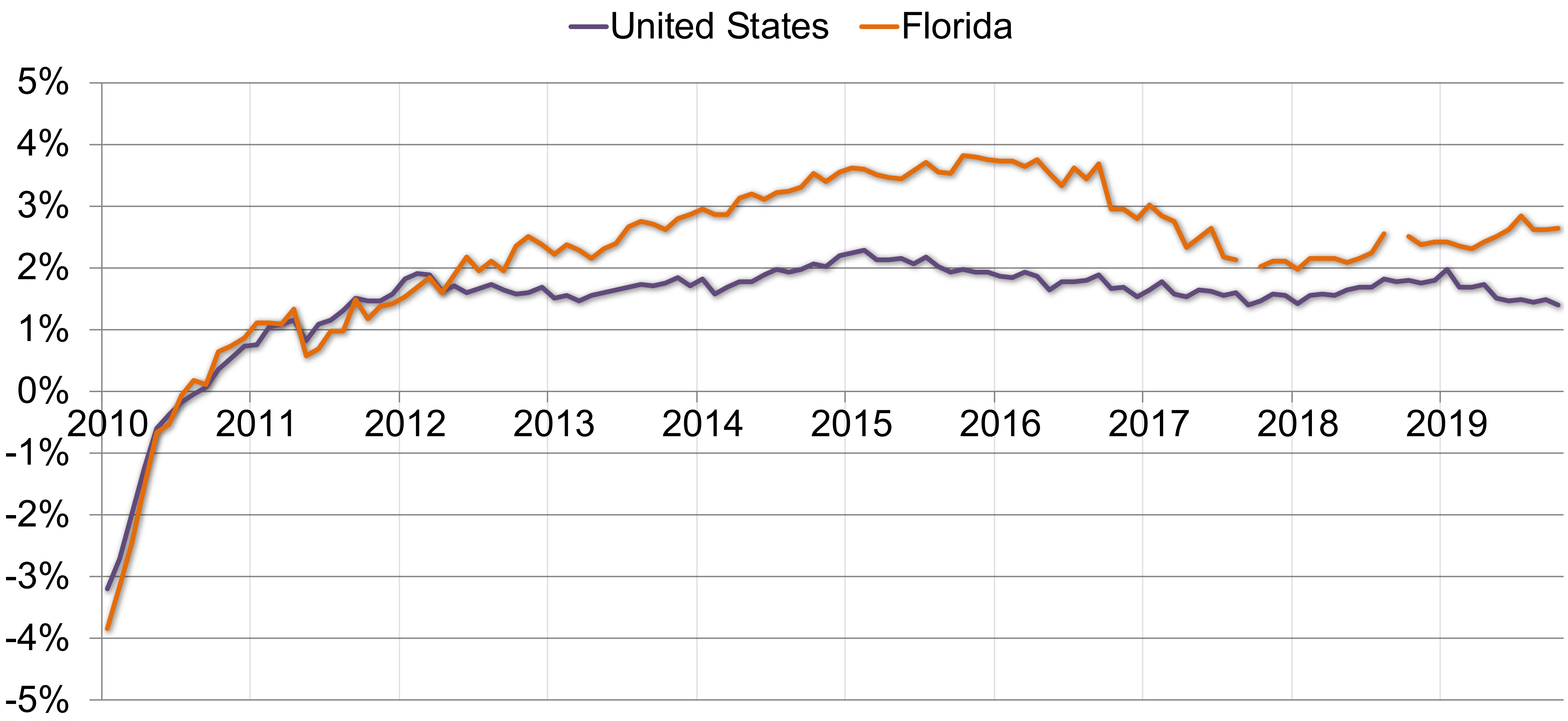


Fastest Growing Metros, 2010 to 2018

Metro Area	Pop. Chg. 2010-2018	US Rank
The Villages	38%	1
Cape Coral-Fort Myers	22%	7
Orlando-Kissimmee-Sanford	21%	9
Crestview-Fort Walton Beach-Destin	18%	18
Naples-Immokalee-Marco Island	18%	19
Lakeland-Winter Haven	18%	20
North Port-Sarasota-Bradenton	17%	25
Punta Gorda	16%	33
Jacksonville	14%	43
Sebastian-Vero Beach	14%	44
Port St. Lucie	14%	45
Tampa-St. Petersburg-Clearwater	13%	50

Employment Growth

Monthly, Year-over-Year Percent Change, All (Non-Farm) Employees, Jan. 2010 - Oct. 2019



Produced by Florida Realtors® Research with data provided by the U.S. Bureau of Labor Statistics; Sept. 2017 & 2018 omitted due to Hurricane Irma

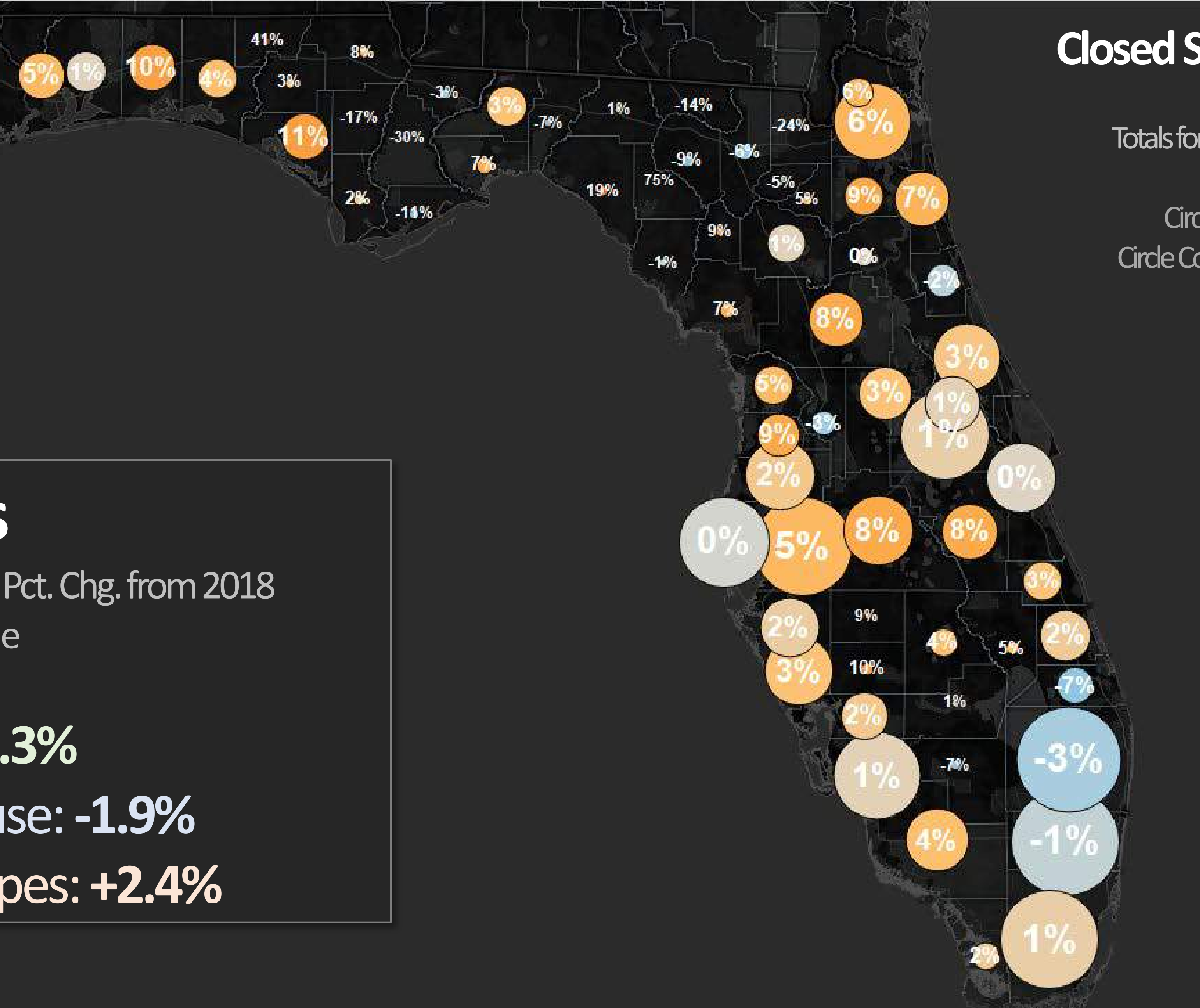
Closed Sales by County

All Residential Types

Totals for 2019 (through October)

Circle Size = Number of Sales

Circle Color = Pct. Chg. from 2018



Closed Sales

YTD 2019 (through Oct.), Pct. Chg. from 2018

Existing Homes, Statewide

Single-Family: **+4.3%**

Condo/Townhouse: **-1.9%**

All Residential Types: **+2.4%**

FloridaRealtors®

Produced by Florida Realtors® Research with data provided by Florida's multiple listing services

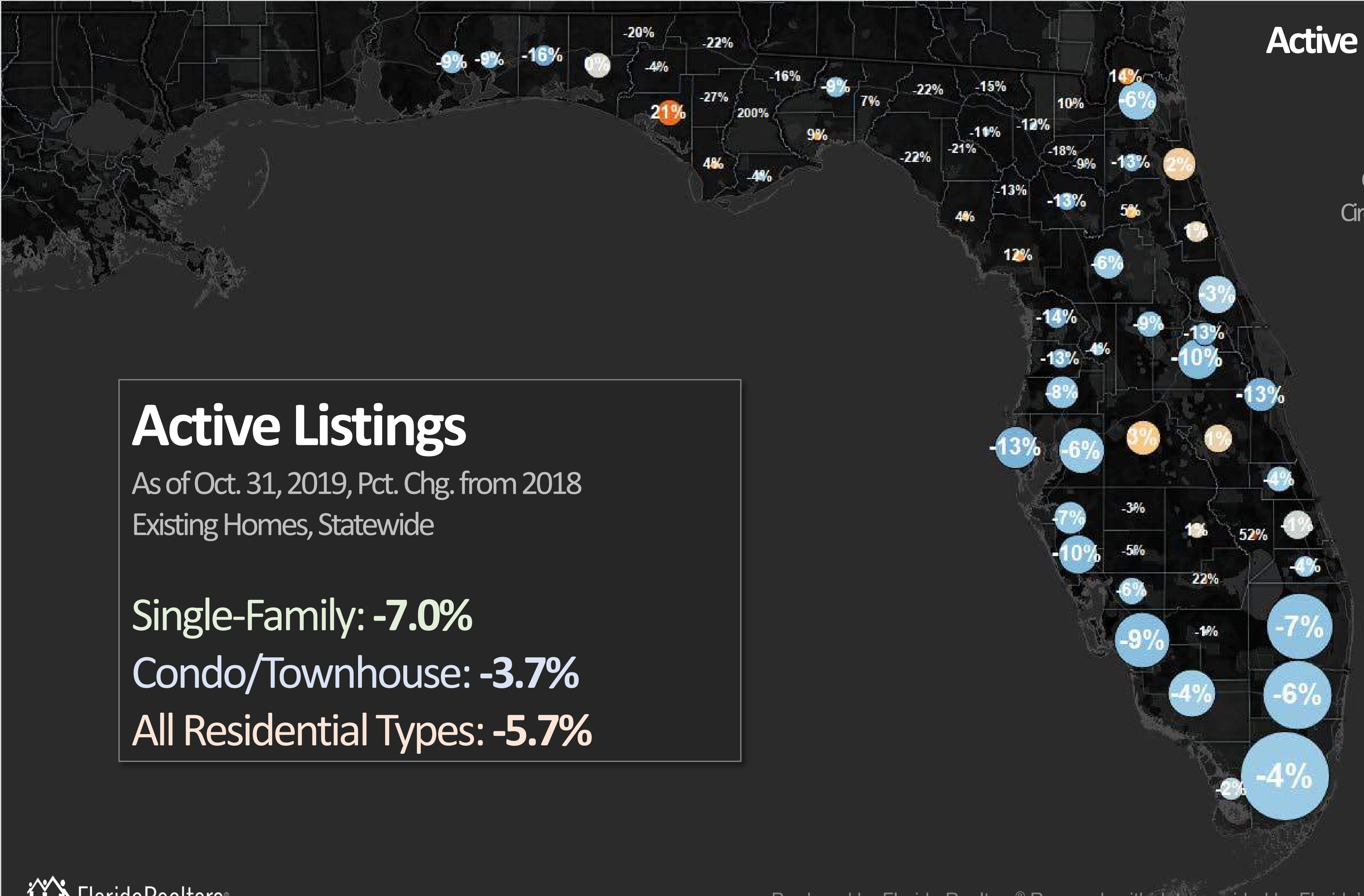
Active Listings by County

All Residential Types

As of Oct. 31, 2019

Circle Size = Number of Listings

Circle Color = Pct. Chg. from 2018



Active Listings

As of Oct. 31, 2019, Pct. Chg. from 2018

Existing Homes, Statewide

Single-Family: **-7.0%**

Condo/Townhouse: **-3.7%**

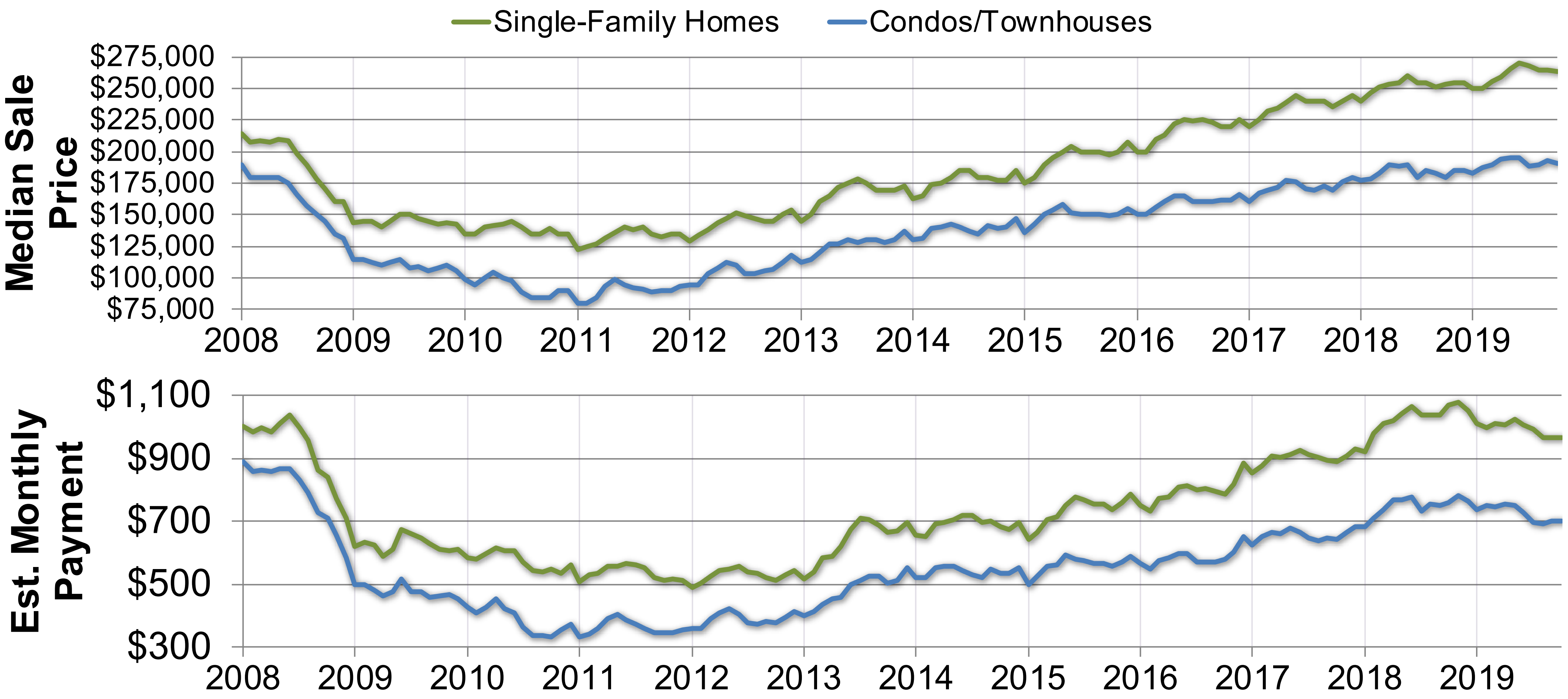
All Residential Types: **-5.7%**

FloridaRealtors®

Produced by Florida Realtors® Research with data provided by Florida's multiple listing services

Median Sale Price and Est. Monthly Mortgage Payment

Florida, Monthly, Jan. 2008 – Oct. 2019



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REGIONAL VARIATIONS

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Regional Comparisons: Texas Economy & Housing

Dr. James P. Gaines

Chief Economist

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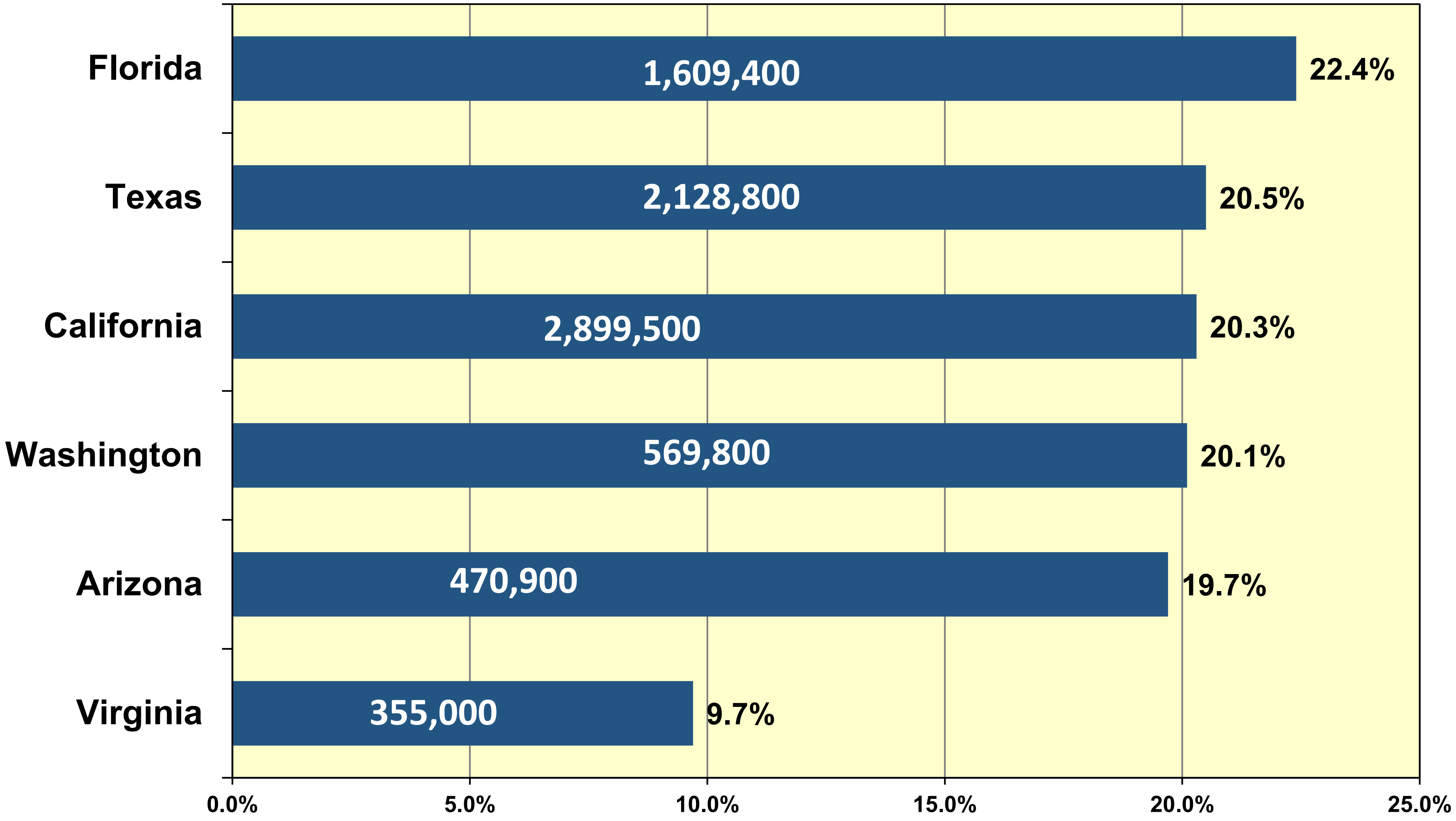
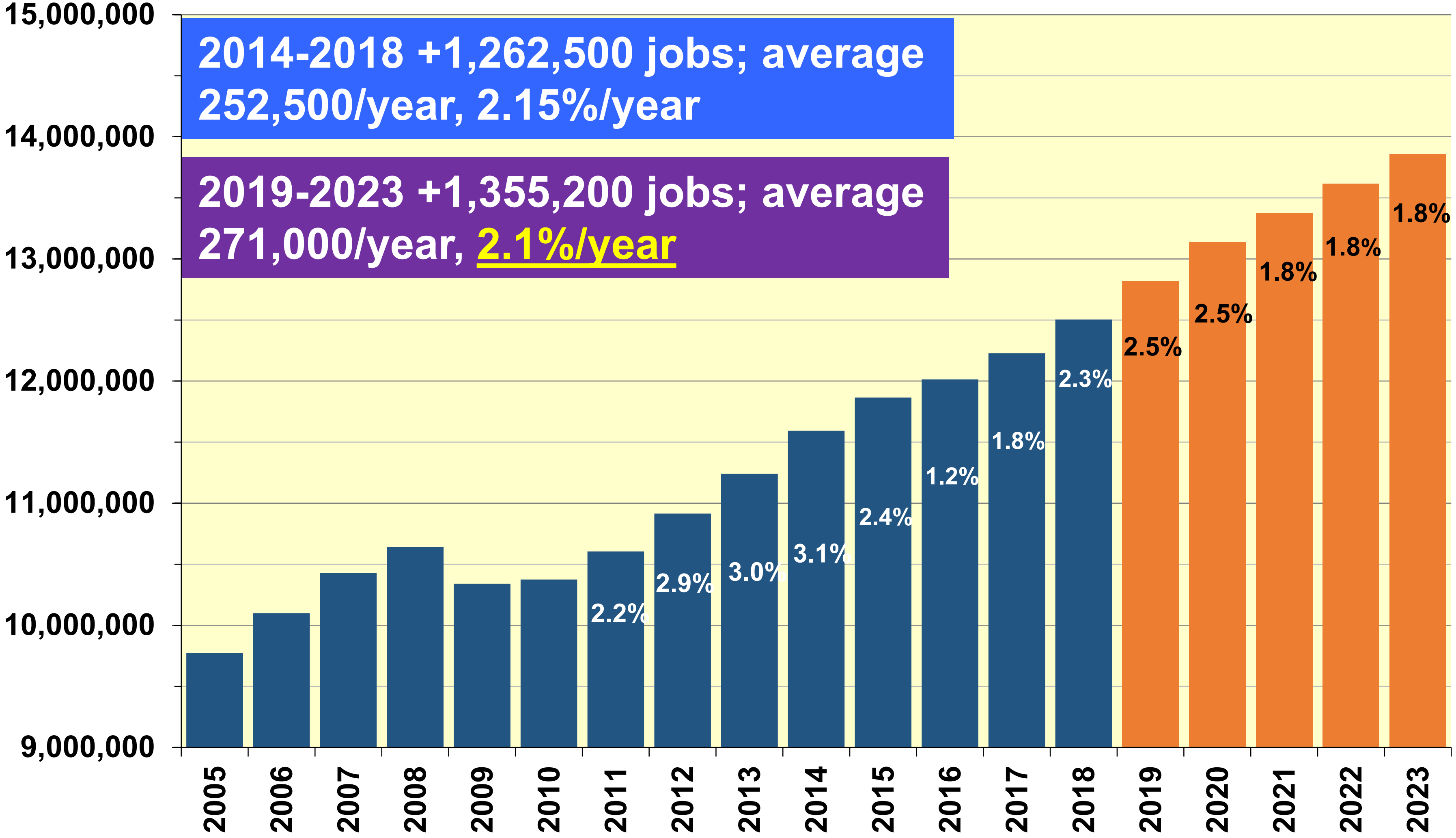
2010-2018 Employment Growth
(Jobs & Percent Increase)



Sources: BLS/Haver Analytics;
Real Estate Center at Texas A&M University

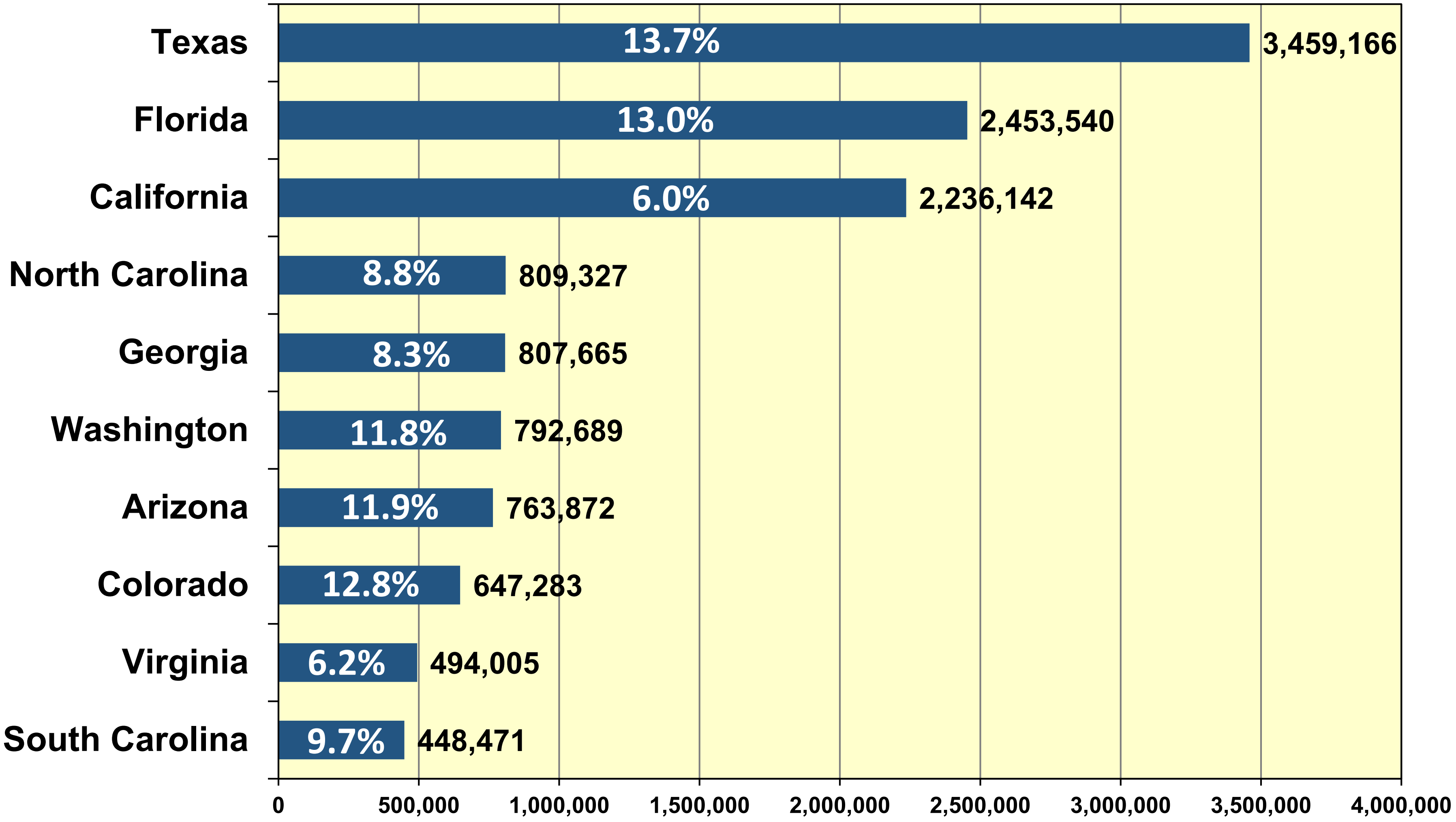
Texas Annual Jobs



Sources: Texas Workforce Commission, Real Estate Center at Texas A&M University

2010-2018 Population Growth

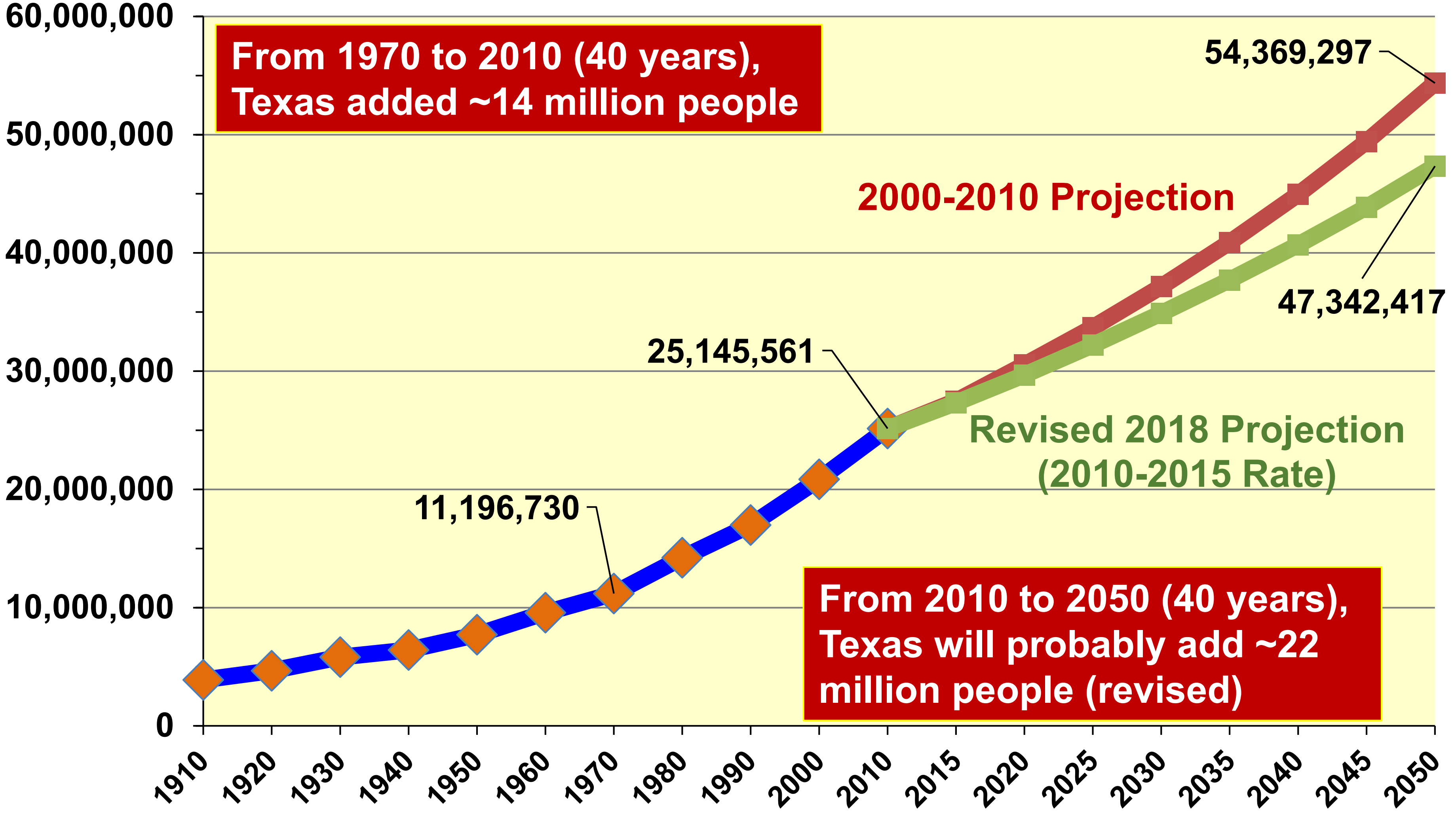
Top 10 by Number of People



Sources: U.S. Census Bureau;
Real Estate Center at Texas A&M University

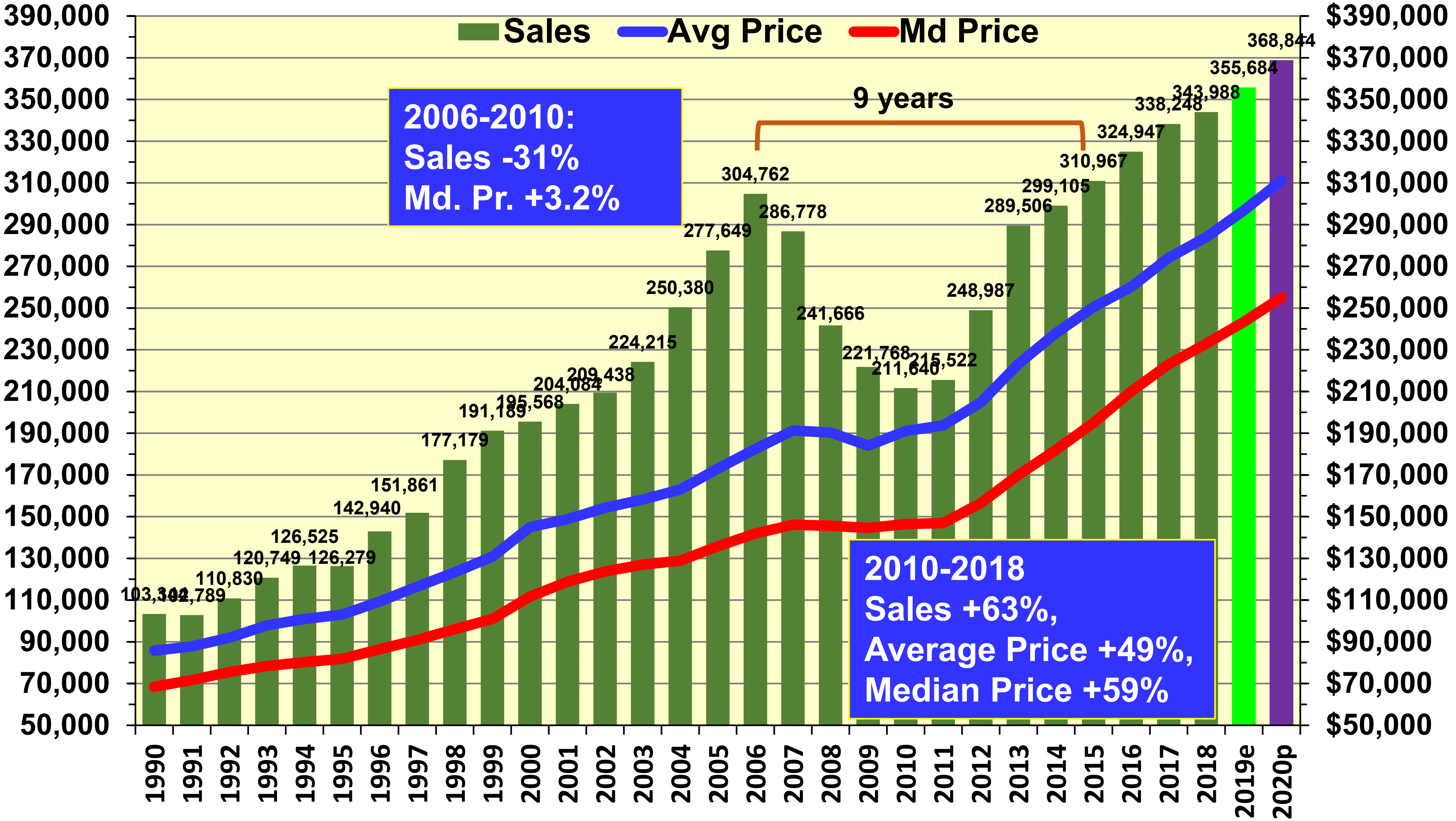
Texas Population 1910-2050

2018 Population Projection



Sources: U.S. Census Bureau, Texas State Data Center 2018 Population Projections; Real Estate Center at Texas A&M University

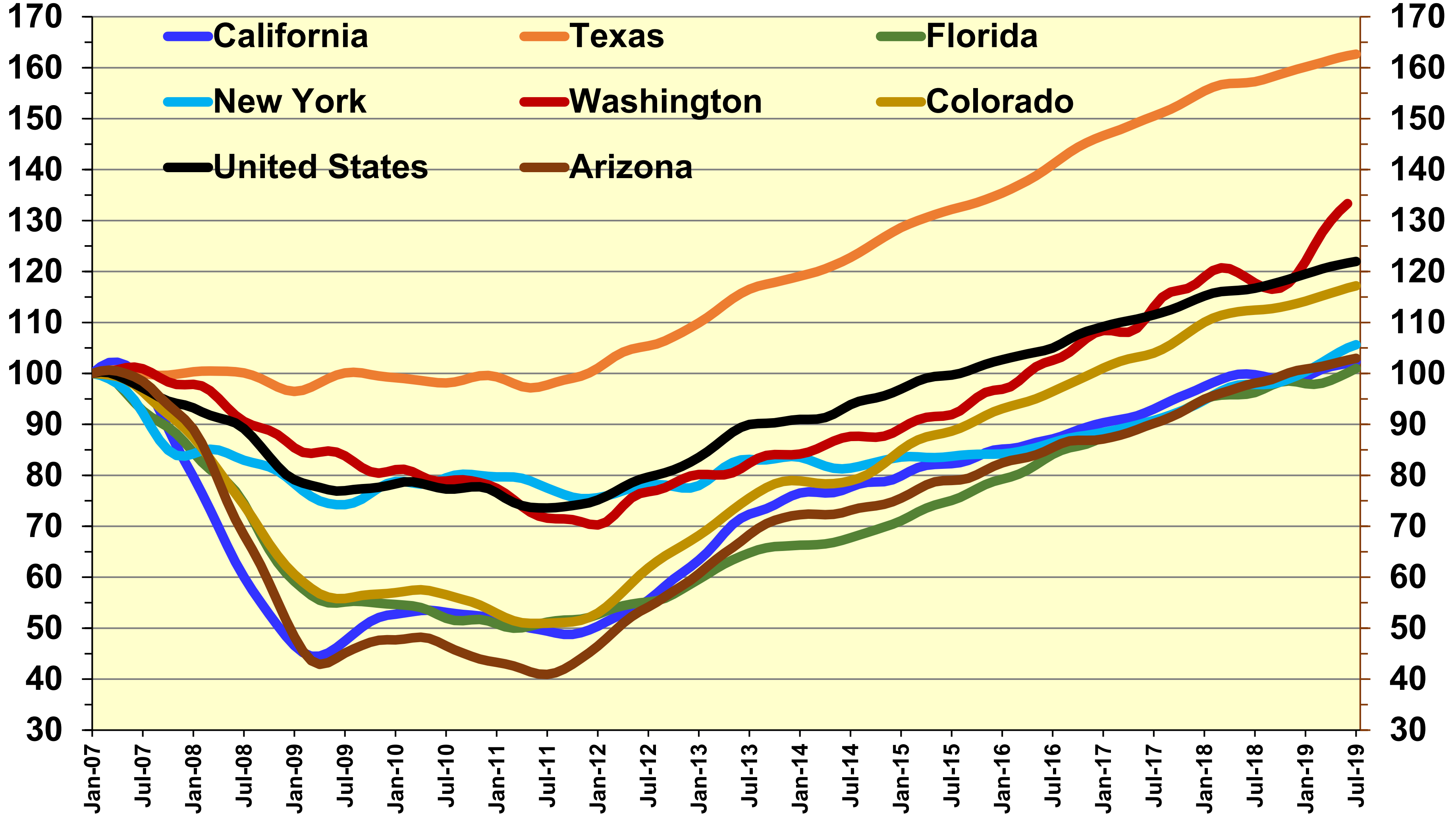
Annual Texas Home Sales & Prices



Source: TAR Data Relevance Program; Real Estate Center at Texas A&M University

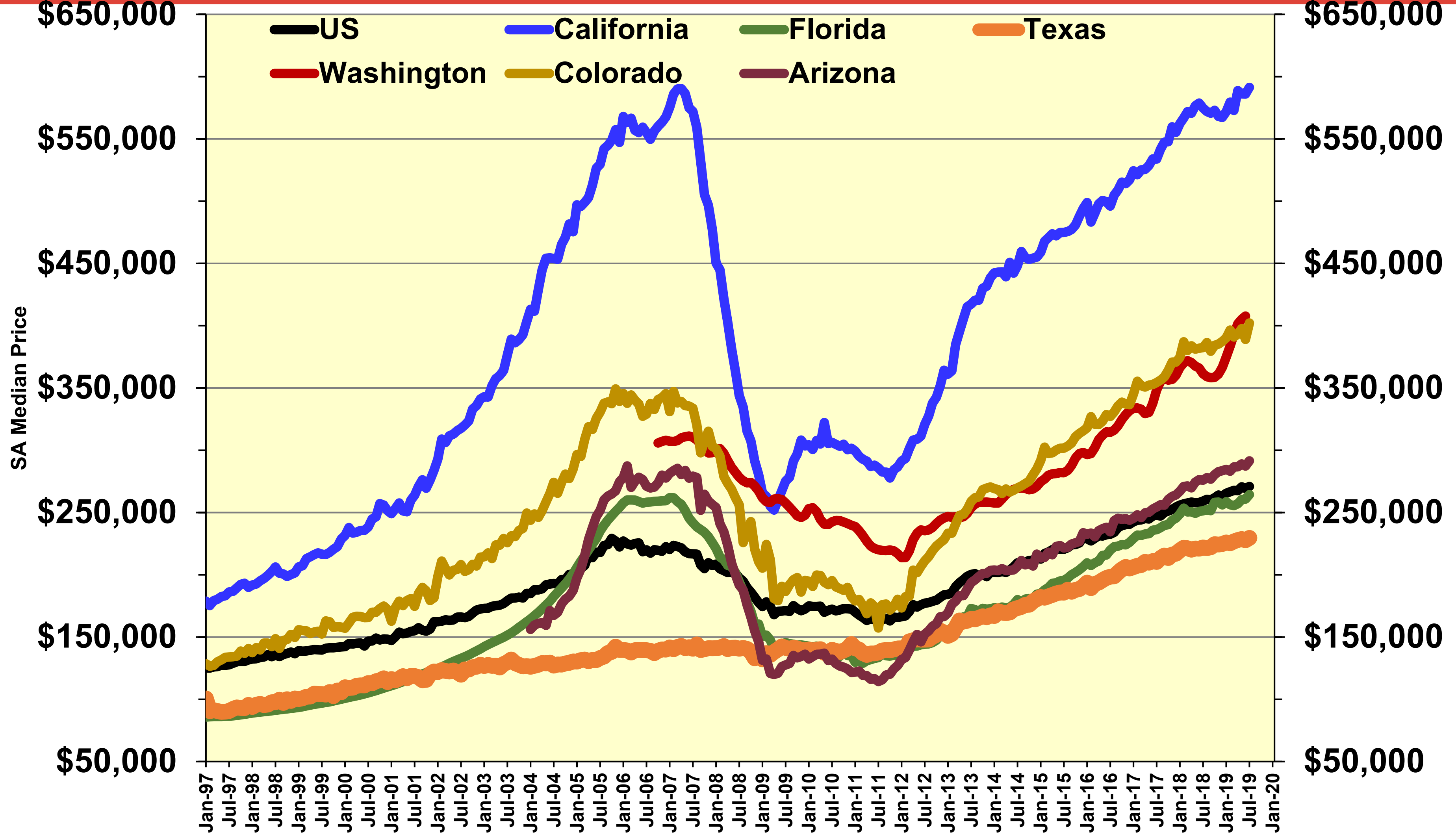
Median Home Price Index

Jan. 2007=100, SA



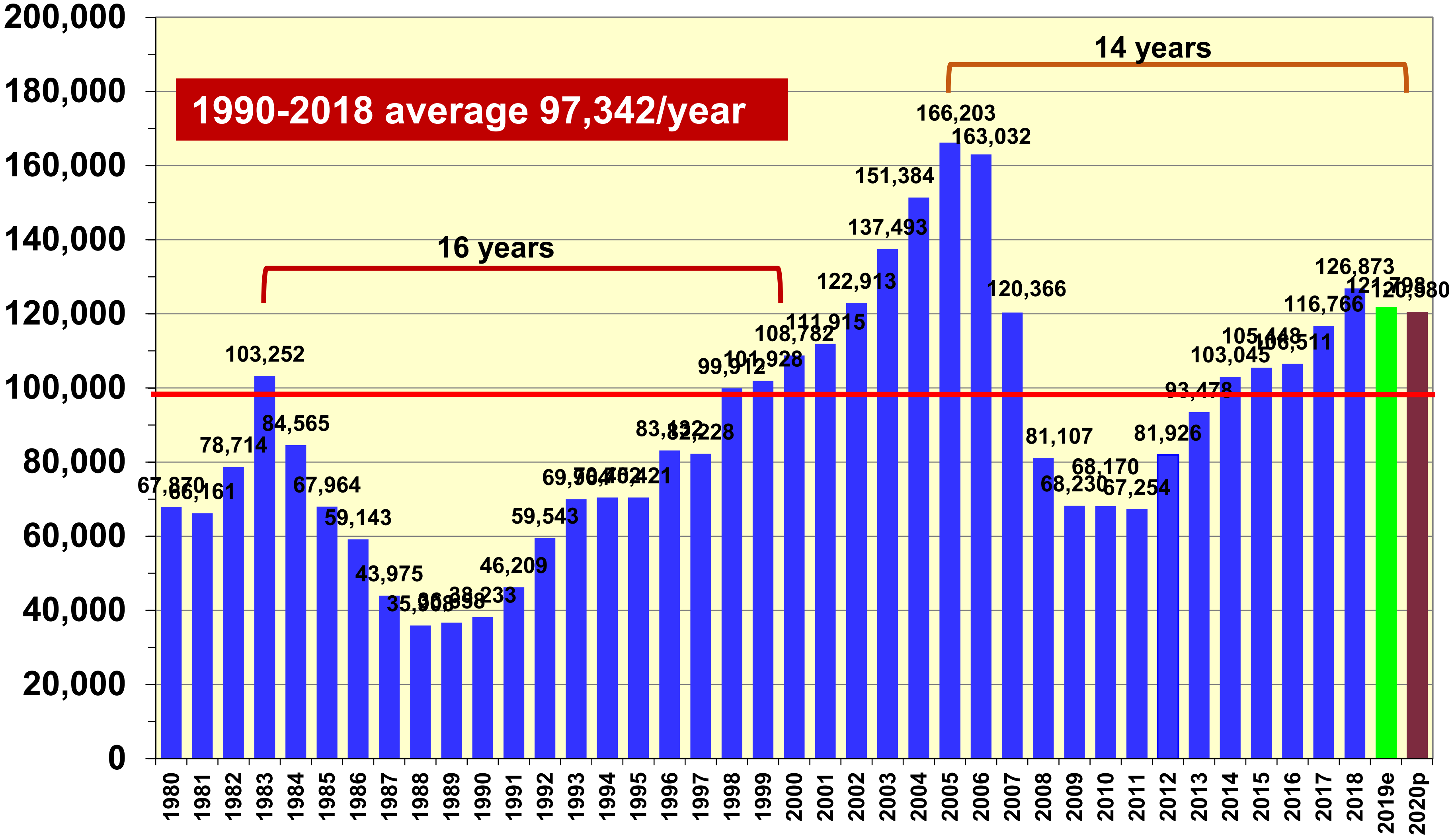
Source: NAR; State Associations of Realtors®; Washington RE Center; Real Estate Center at Texas A&M University

Median Home Price in Selected States



Source: NAR; State Associations of Realtors®; Washington RE Center;
Real Estate Center at Texas A&M University

Texas SF Building Permits: Not Nearly Enough



Source: US Census Bureau, Real Estate Center at Texas A&M

NATIONAL ASSOCIATION of REALTORS®

Regional Comparisons: Texas Economy & Housing

Dr. James P. Gaines

Chief Economist

REAL ESTATE CENTER
TEXAS A&M UNIVERSITY

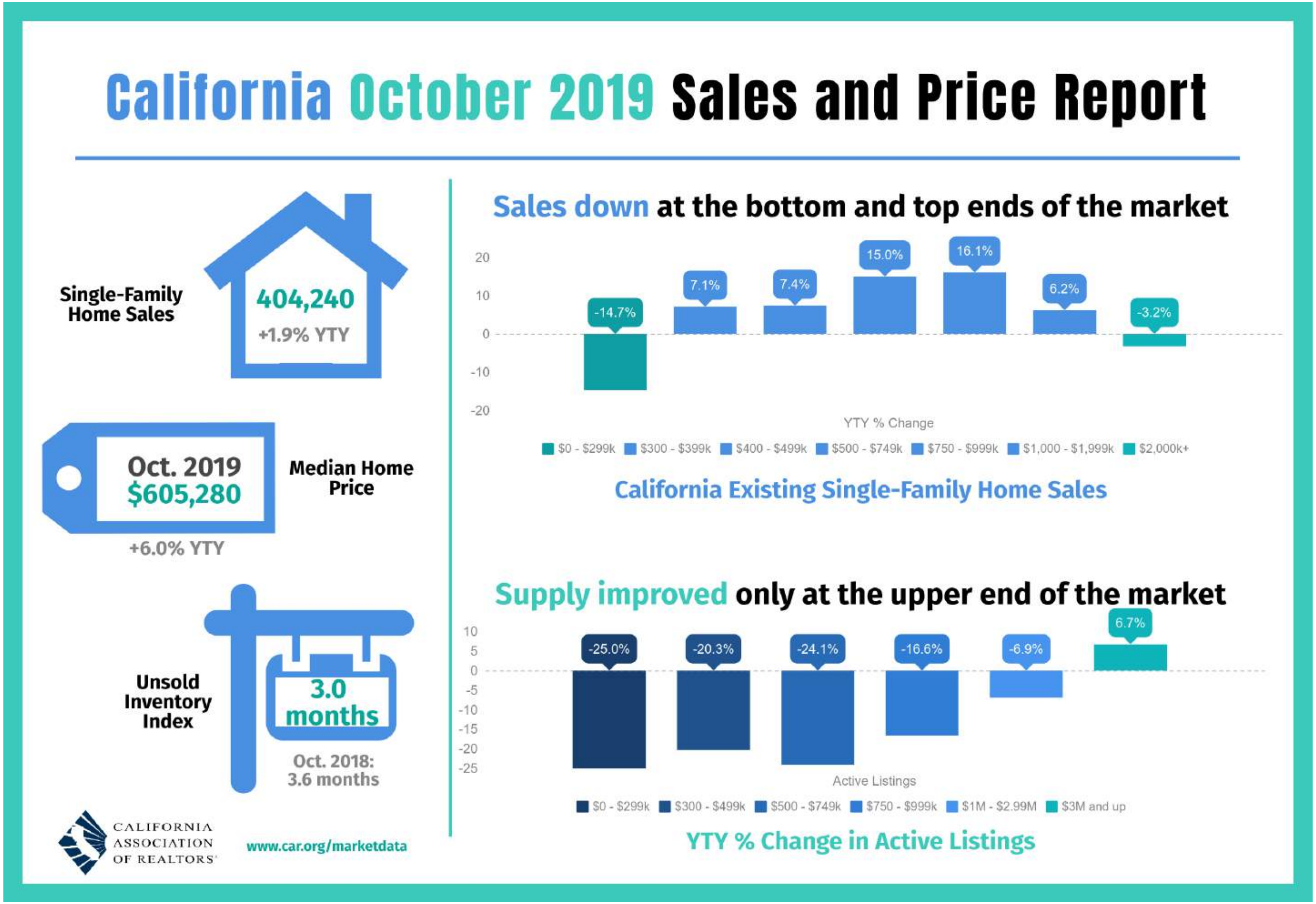
recenter.tamu.edu

REGIONAL VARIATIONS

California 2020 Housing Market Update

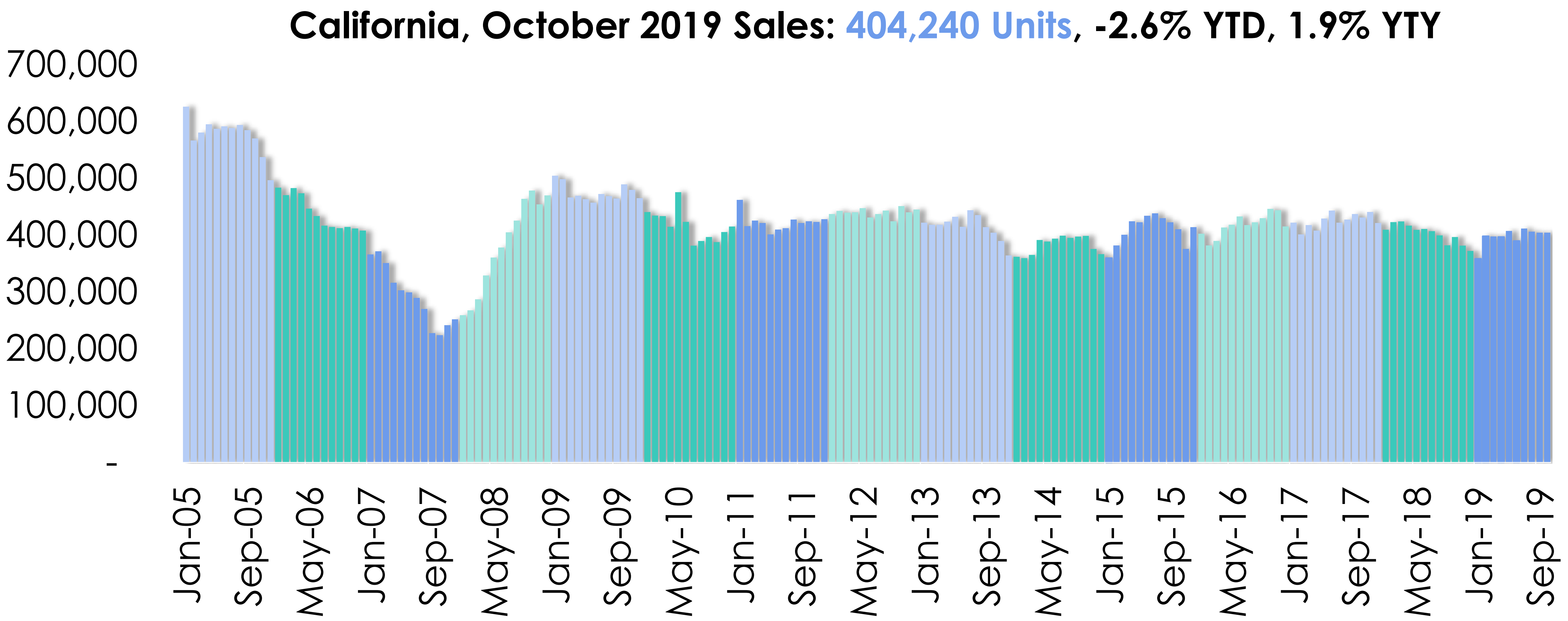
December 11, 2019
Leslie Appleton-Young
Chief Economist + SVP
California Association of REALTORS®

CALIFORNIA ASSOCIATION OF REALTORS®



CALIFORNIA ASSOCIATION OF REALTORS®

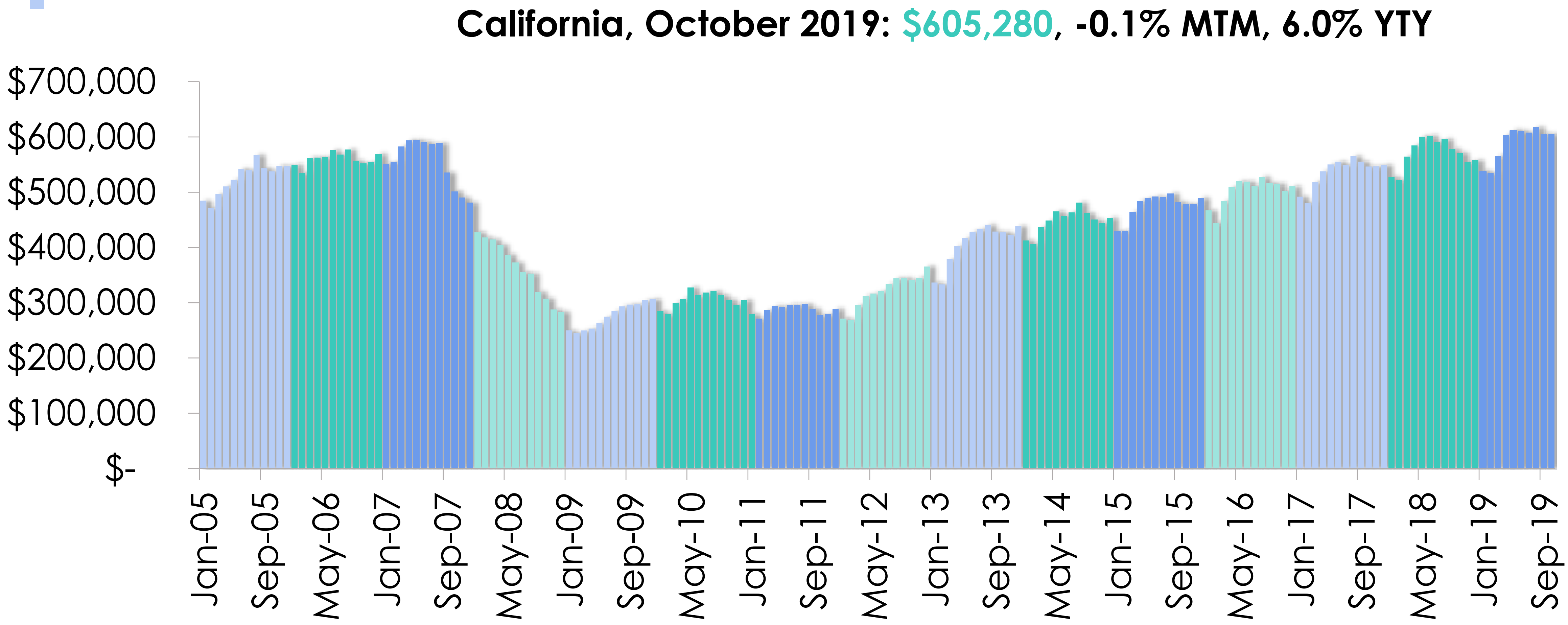
California Home Sales - Flat for 9 years



CALIFORNIA ASSOCIATION OF REALTORS®

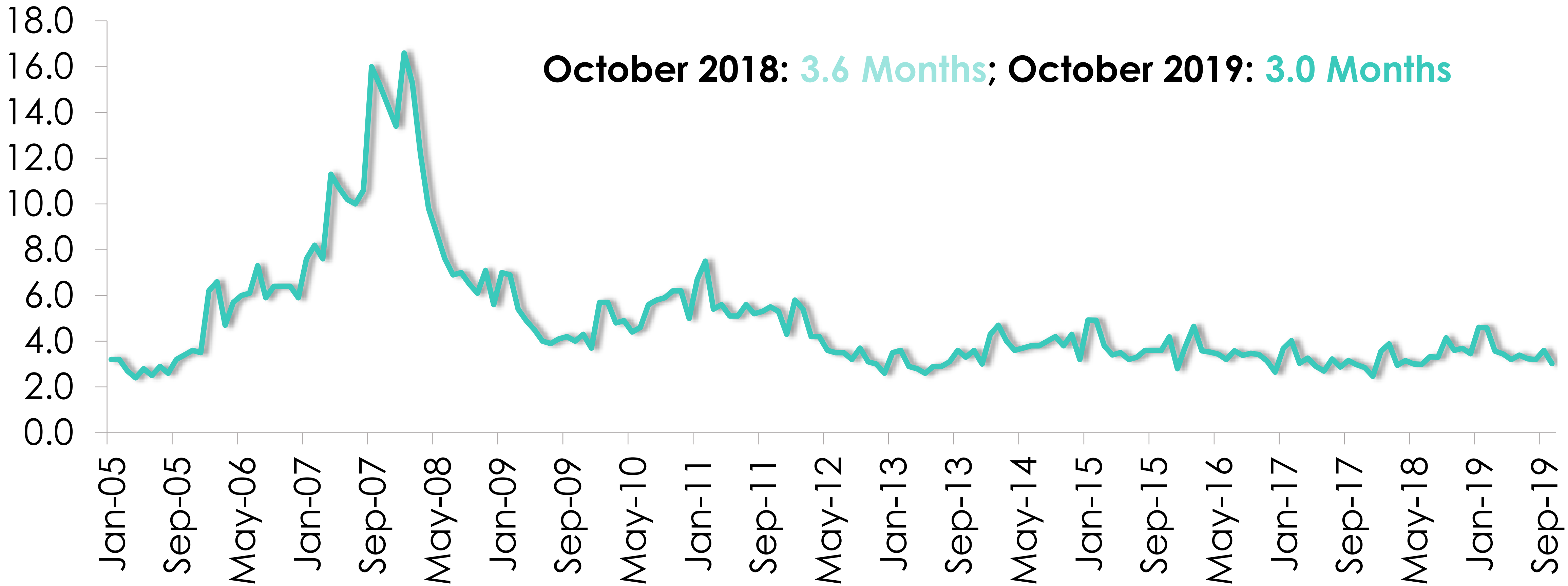
SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

California Home Prices: High with gains moderating



SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Unsold Inventory: Tight is the new normal

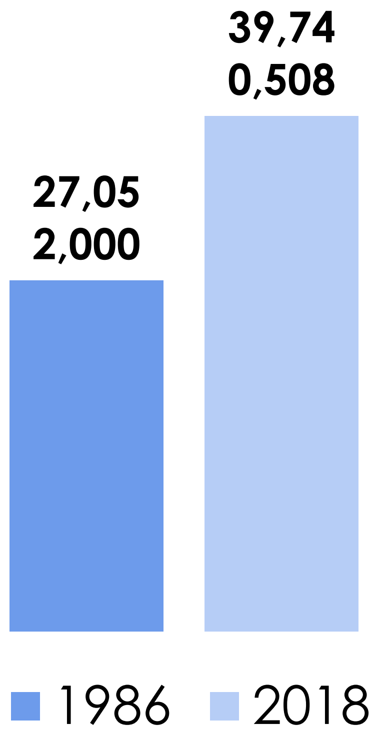


CALIFORNIA ASSOCIATION OF REALTORS®

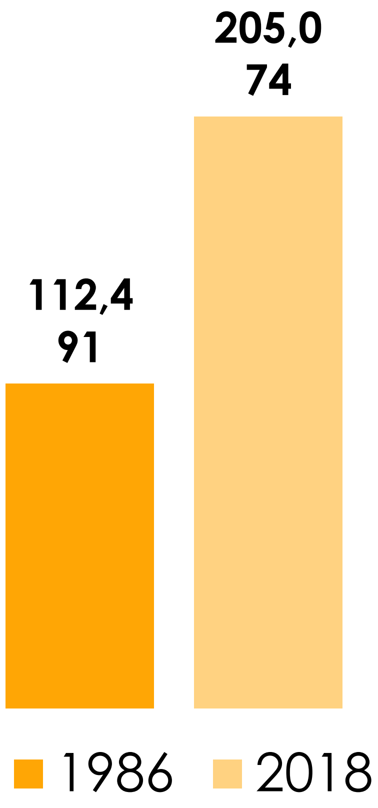
SERIES: Unsold Inventory Index of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Problem – CA has more of everything, except…

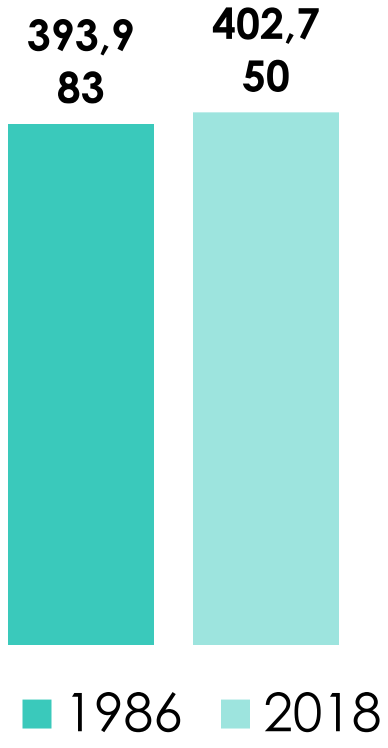
California Population



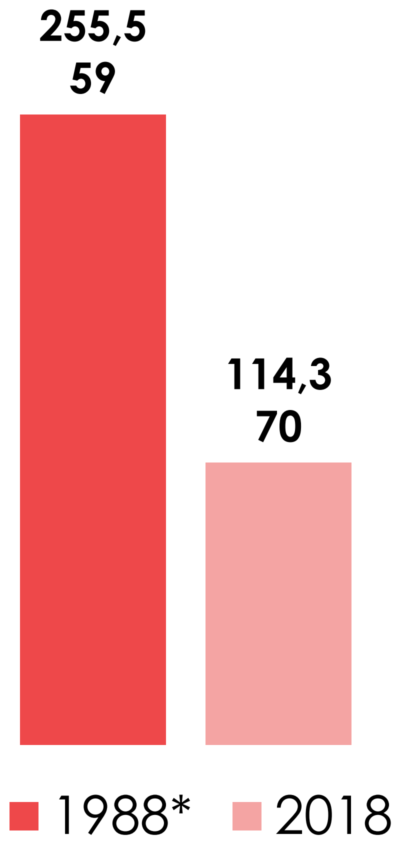
California REALTORS®



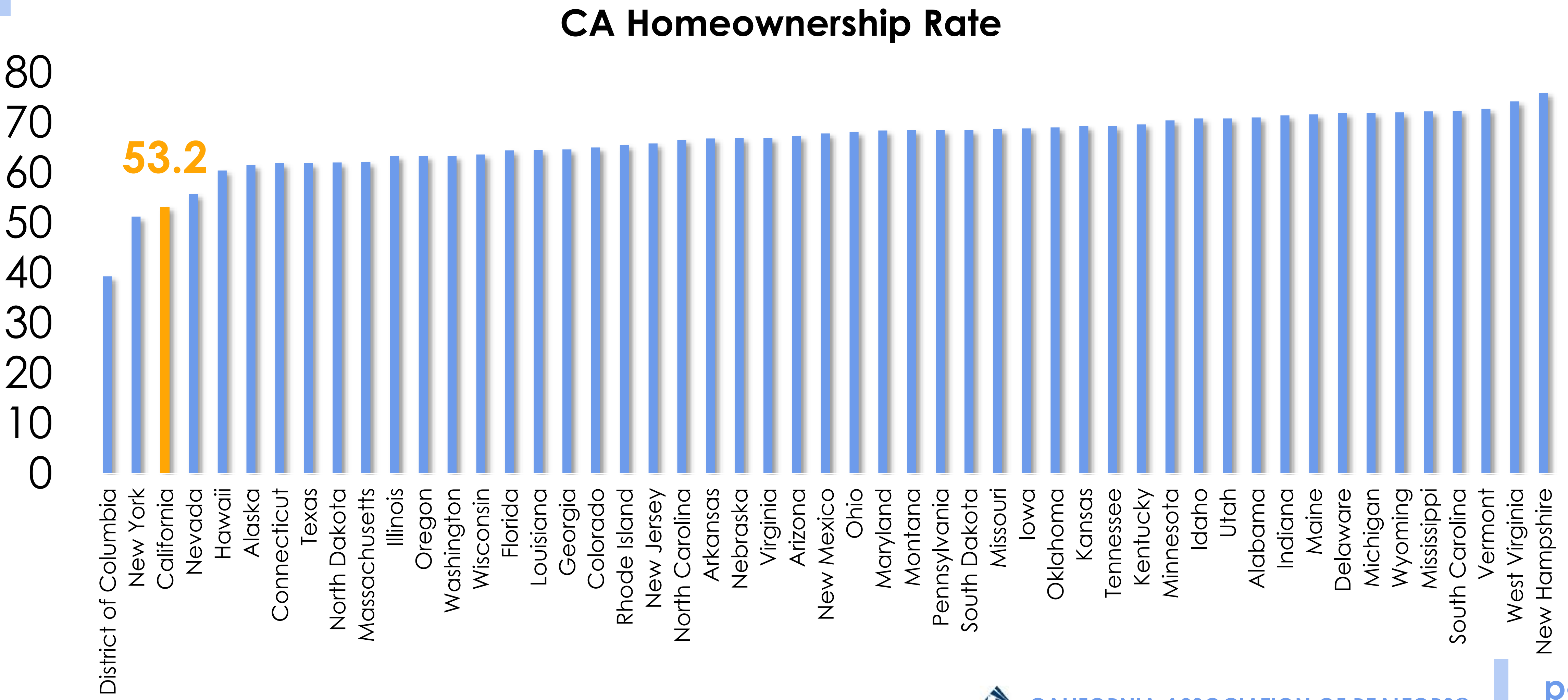
California Home Sales



California Permits



Reality: By 2025 CA will be a <u>**majority renter state**</u>



Eastward Ho!

CALIFORNIA ASSOCIATION OF REALTORS®

Thank You

REGIONAL VARIATIONS

Looking Ahead: Housing Market Trends & Conditions in Virginia

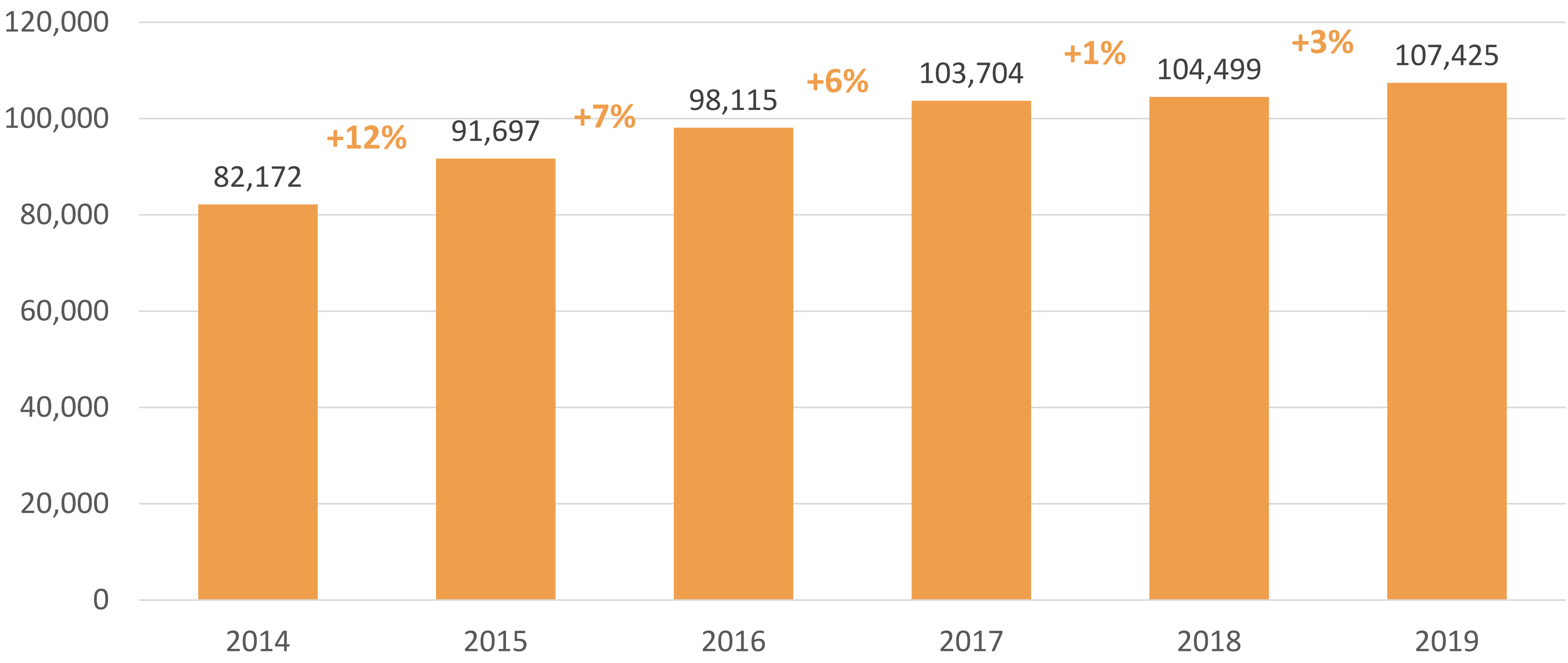
NAR Real Estate Forecast Summit

Lisa Sturtevant, PhD
Chief Economist
Virginia REALTORS®

December 11, 2019

Virginia Existing Home Sales

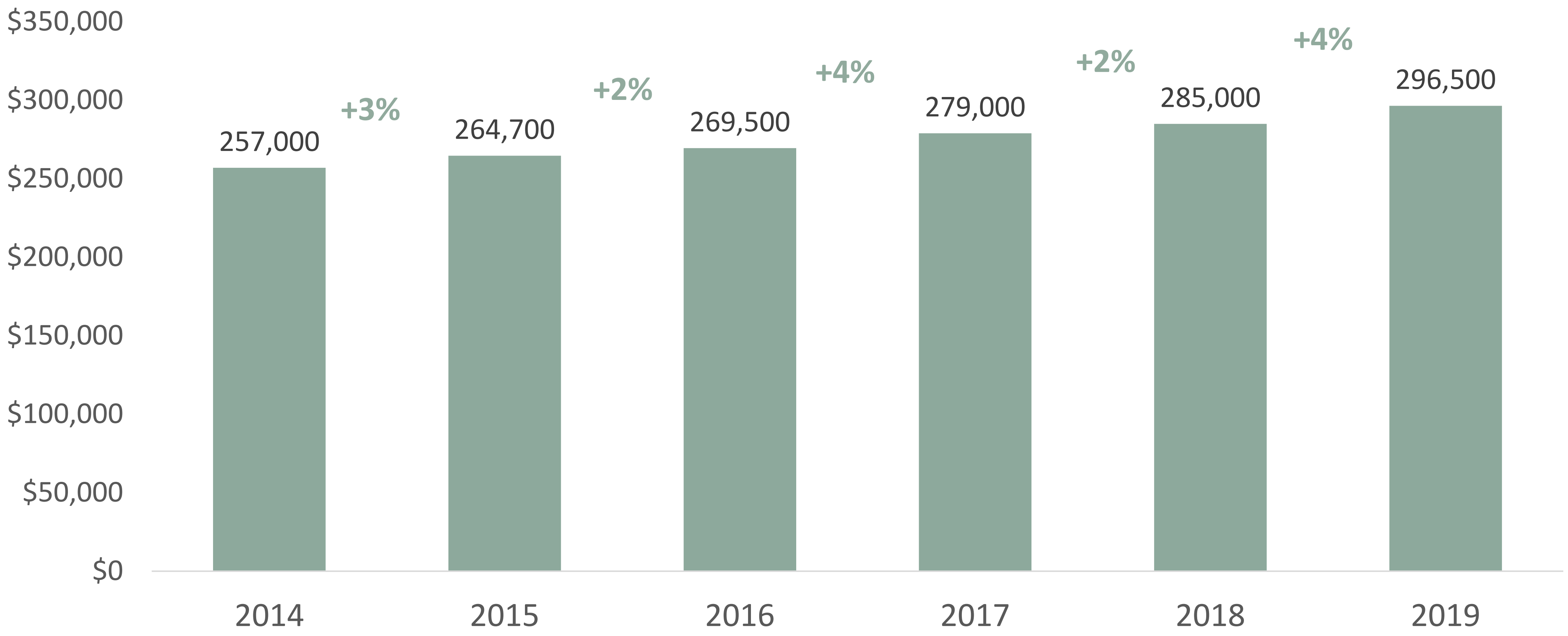
January - October



Source: Virginia REALTORS®

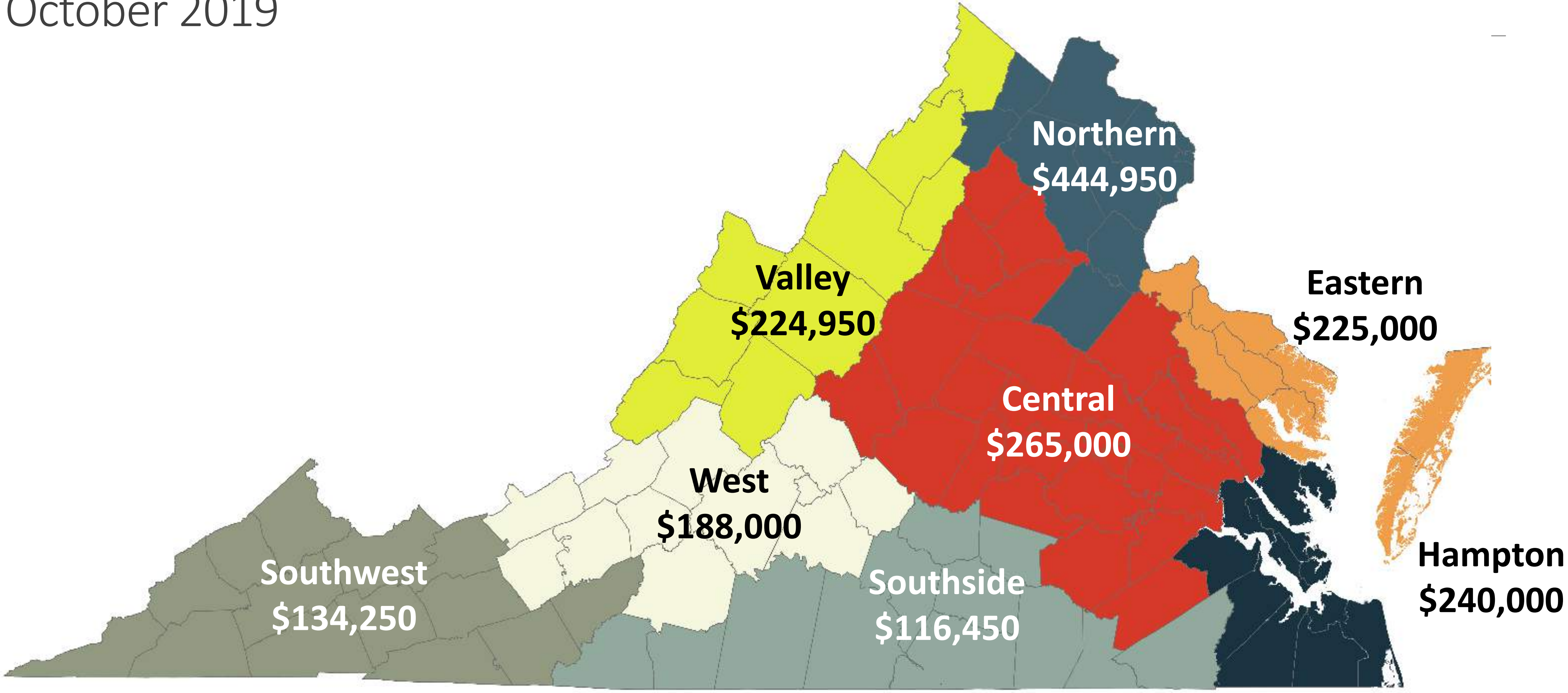
Virginia Home Price Trends

Median Sales Prices ($), January - October



Median Home Prices by Region

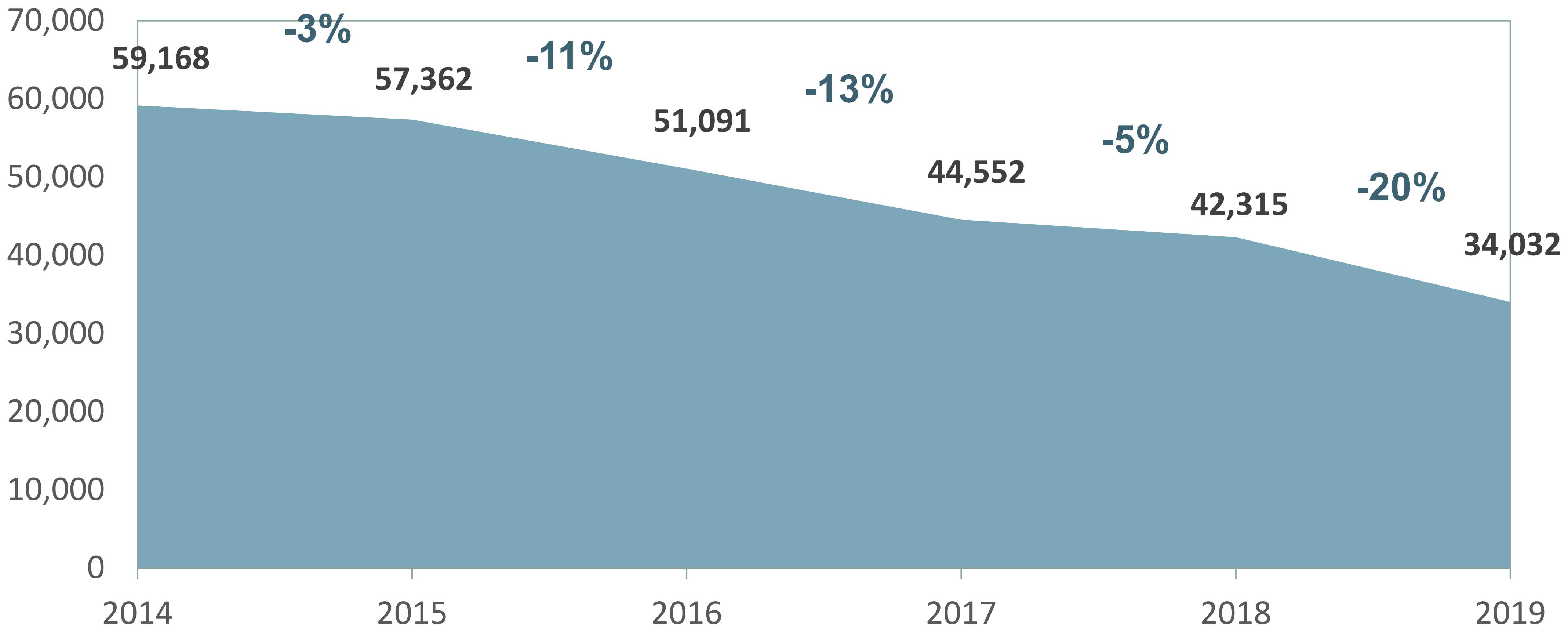
October 2019



Source: Virginia REALTORS®

Inventory

End of October



2020 Employment & Housing Outlook for Virginia

47,840
net new jobs
+1.2%

35,450
new home starts
+8.9%

129,343,
home sales
+3.0%

Median home price
$308,819
+4.6%

REAL ESTATE FORECAST SUMMIT

DECEMBER 11, 2019 | WASHINGTON, D.C.

NAR Real Estate Forecast Summit

Consensus Forecast and Top 10 Markets

Lawrence Yun, PhD
NAR Chief Economist and Senior Vice President, Research
NATIONAL ASSOCIATION OF REALTORS®
December 11, 2019

CONSENSUS FORECAST

The 2019 NAR Real Estate Forecast Summit consensus forecasts for 2020 and 2021 are calculated as the averages (means) of the responses of 14 economic and housing market experts who participated as panelists at the National Association of REALTORS® Real Estate Forecast Summit on December 11, 2019. Respondents are anonymous. The survey was conducted during December 2-5, 2019. The 2019 figures are the latest available data as of the time of the survey.

Panel 1: Policy and Issues

Alanna McCargo, Urban Institute
Edward Pinto, AEI Housing Center
Kermit Baker, Harvard University

Panel 2: Regional Differences

Brad O'Connor, Florida REALTORS®
James Gaines, Real Estate Center, Texas A&M
Leslie Appleton-Young, California Association of REALTORS®
Lisa Sturtevant, Virginia REALTORS®

Panel 3: Commercial Real Estate

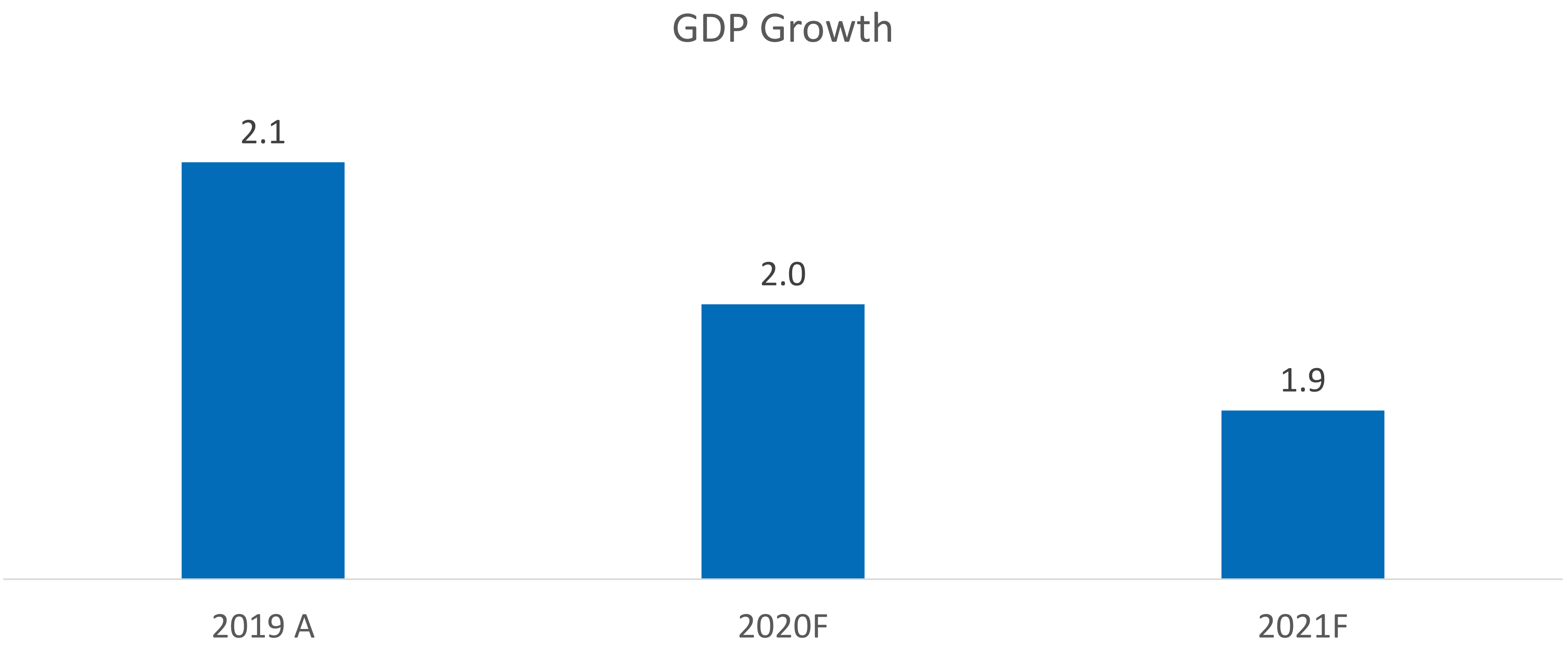
Calvin Schnure, NAREIT
Greg Willett, RealPage, Inc.
Jim Costello, Real Capital Analytics
KC Conway, CCIM Chief Economist, University of Alabama

Panel 4: Sectors and Trade Groups

Danielle Hale, Realtor.com
Jim Chessen, American Bankers Association
Mike Frantantoni, Mortgage Bankers Association
Danushka Nanayakkara-Skillington, NAHB

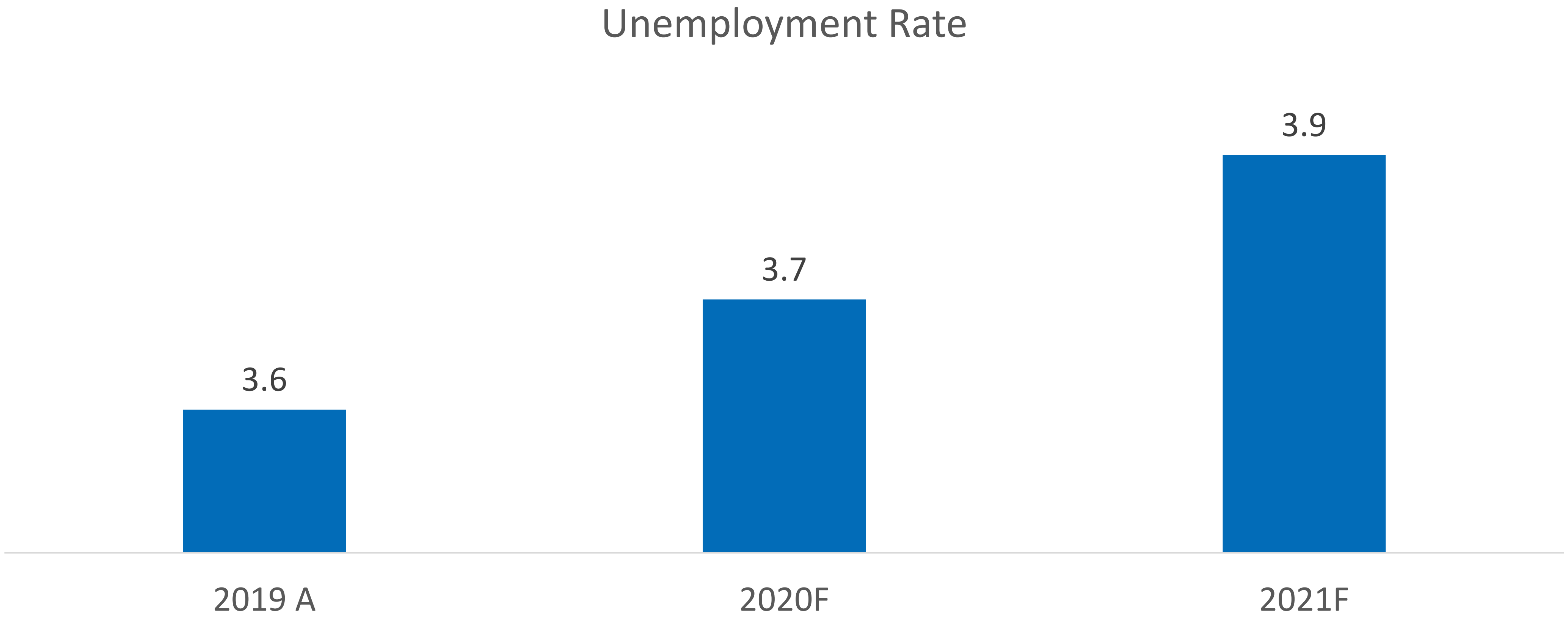
Slower Growth

29% Probability of a Recession in 2020

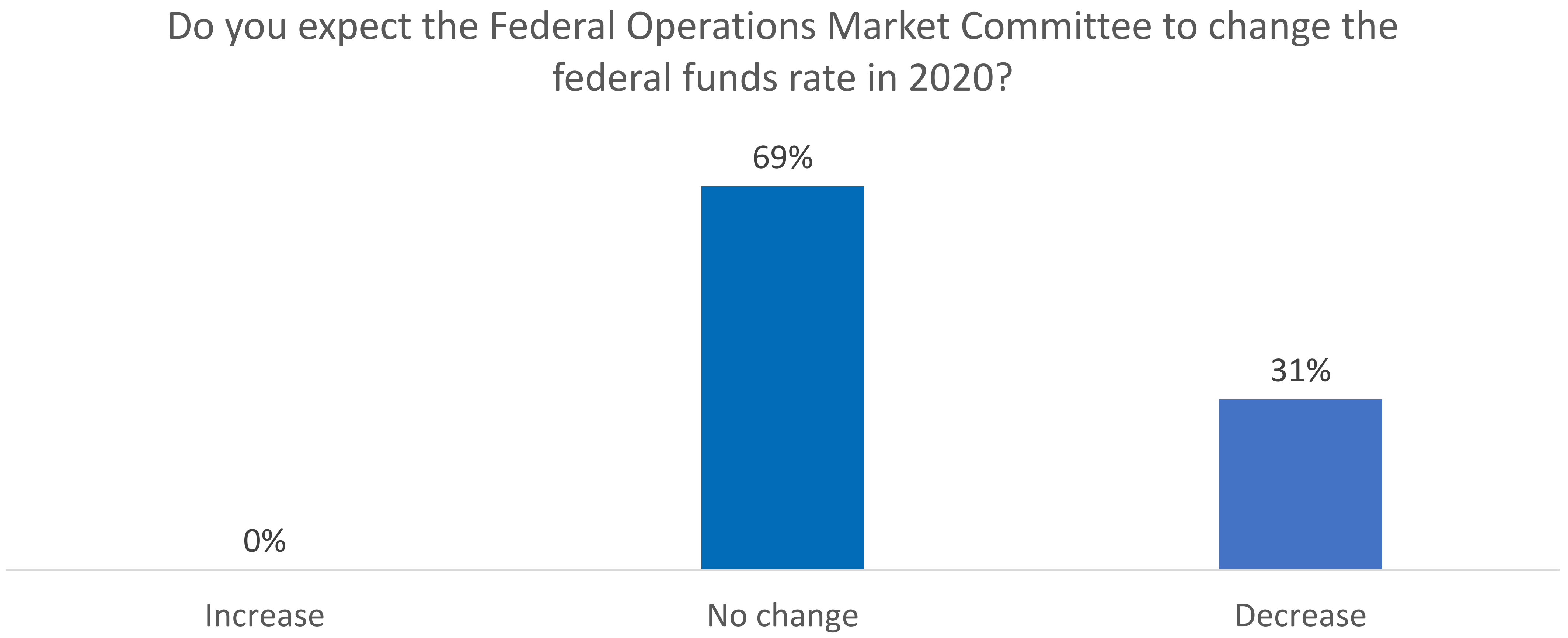


Slightly Higher Unemployment Rate

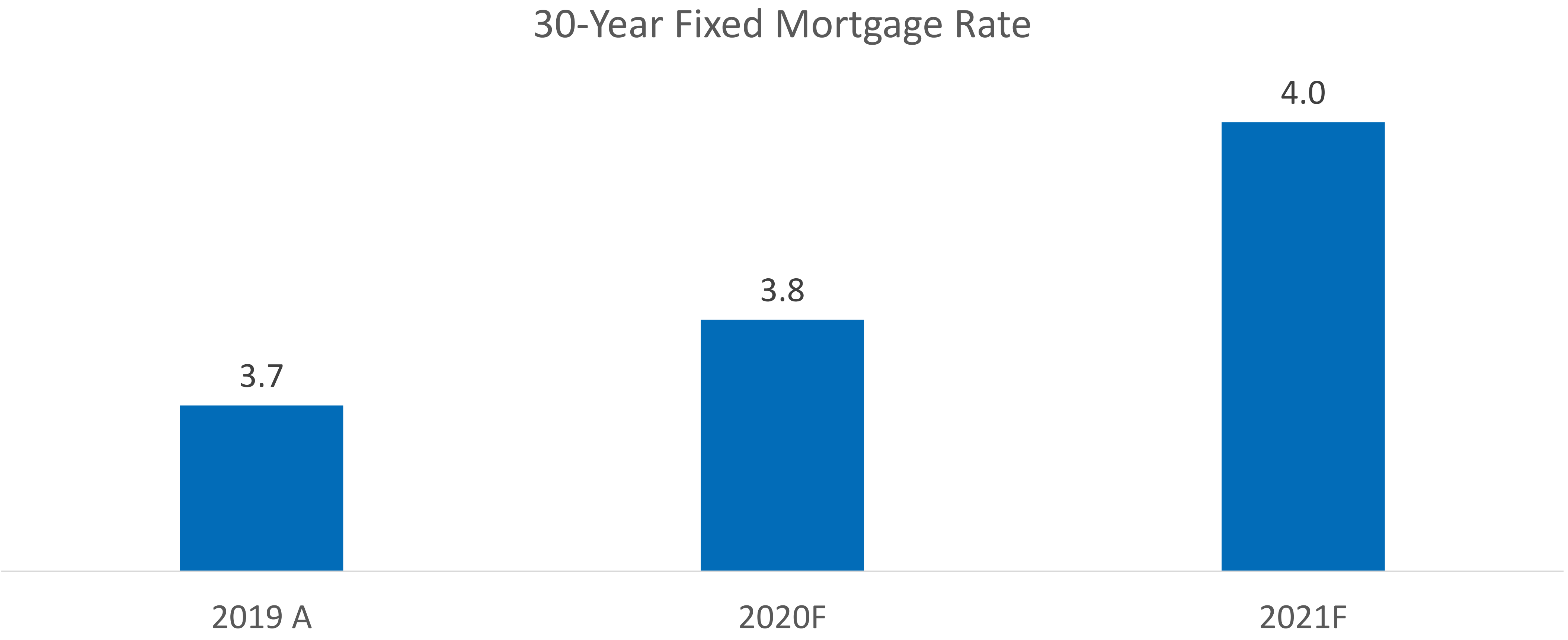
But Below 4%



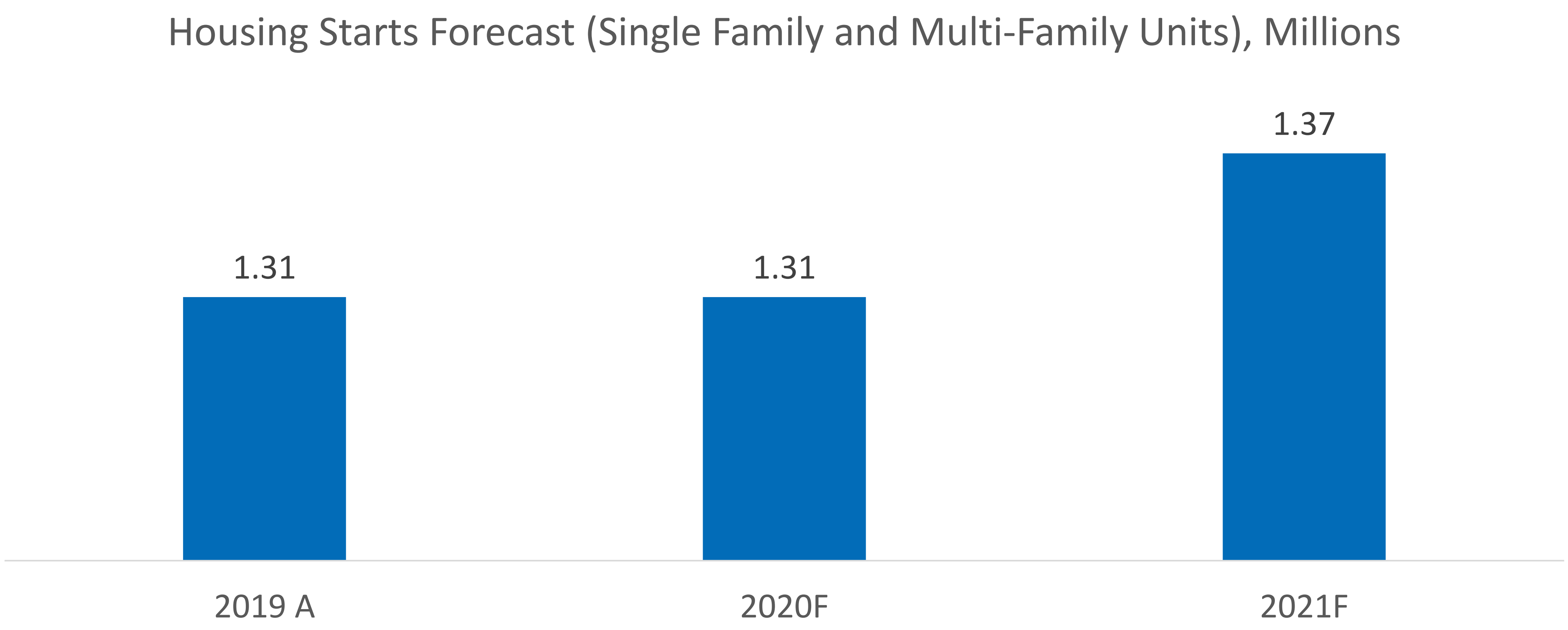
69% Expect No Change in Fed Funds Rate in 2020



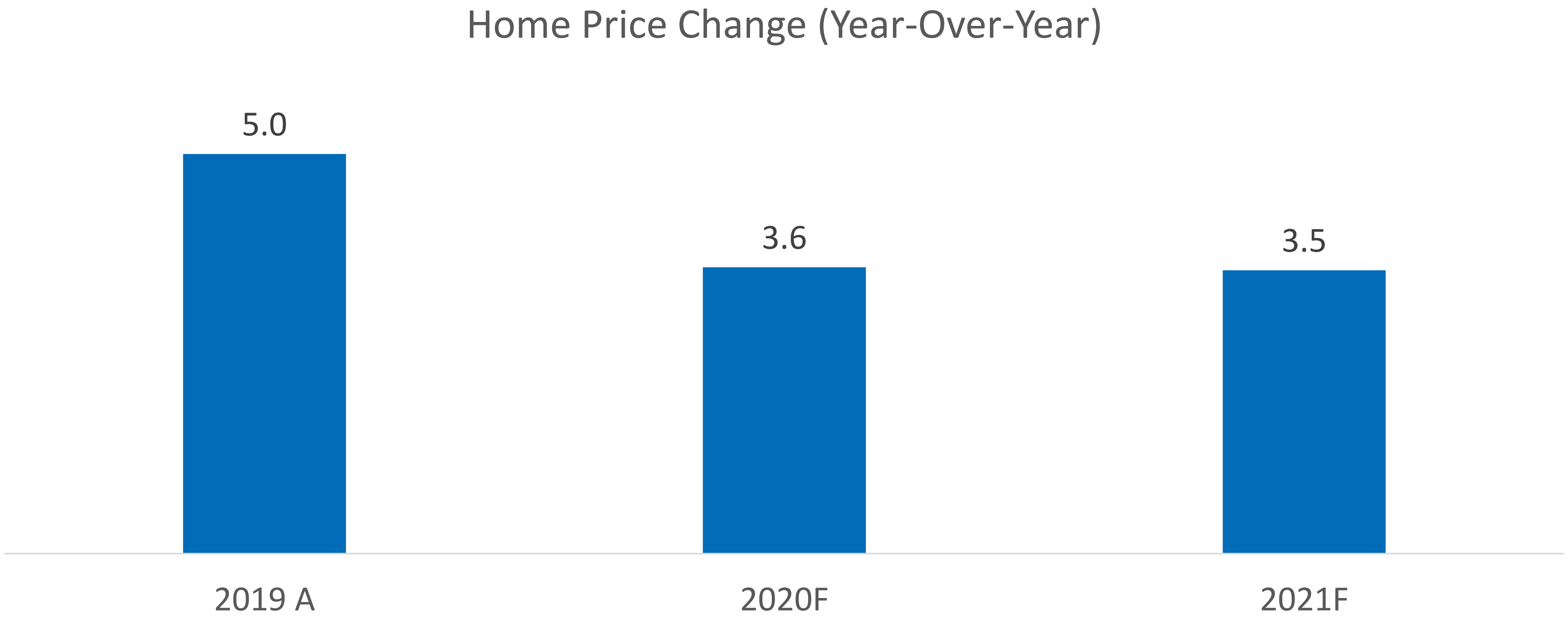
Modest Increase in Mortgage Rates to 4%



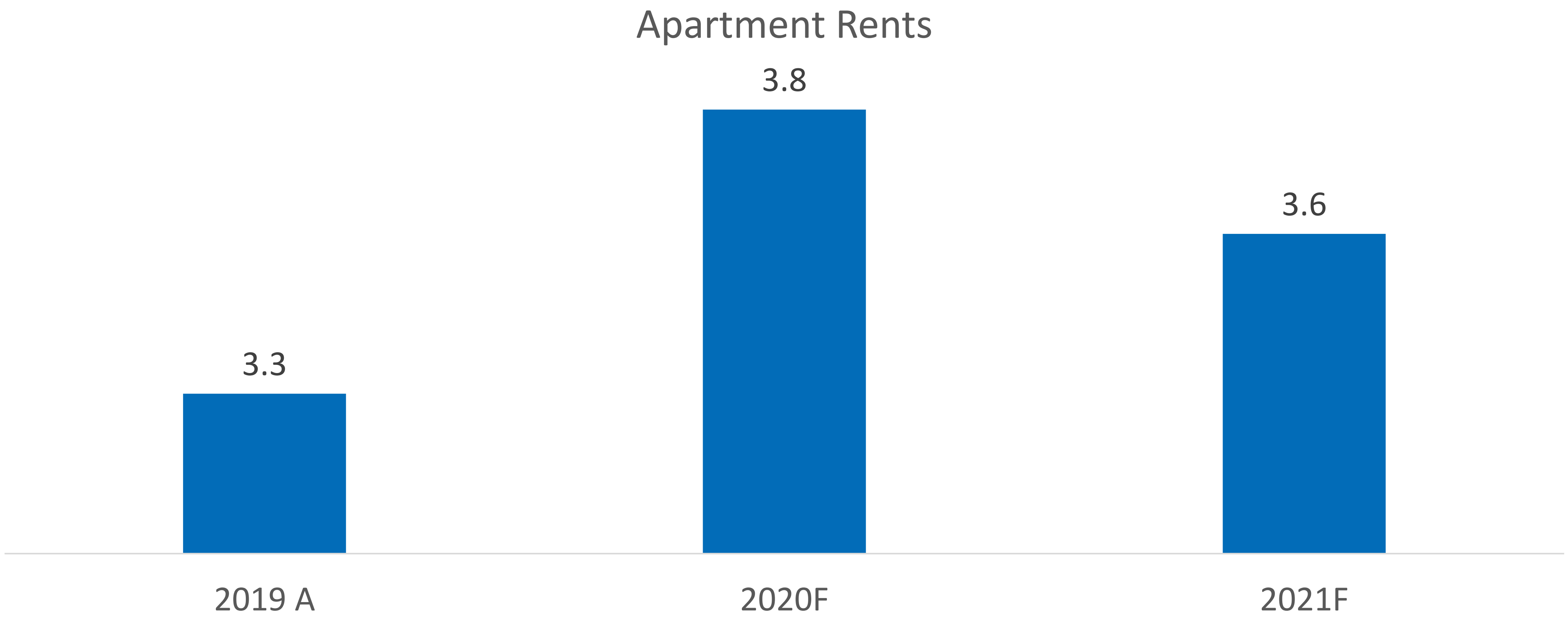
60,000 More Housing Starts in 2021



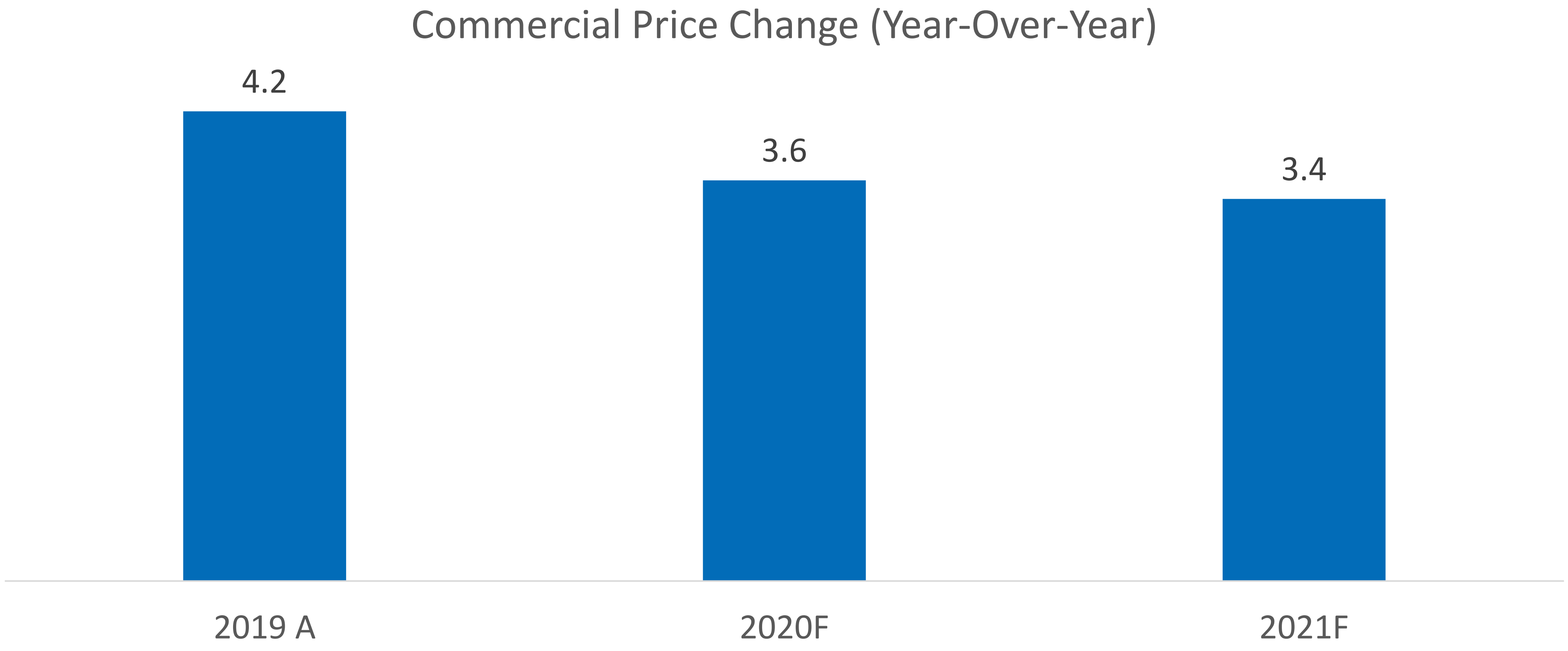
Slower Home Price Growth



But Faster Rent Growth



Commercial Prices to Increase at Moderate Pace



Top 10 Outperforming Markets

Metro Areas NAR Expects Home Price Appreciation to Outpace in the Next 3 to 5 Years Appreciation to Outpace in the Next 3 to 5 Years

NAR identified the top 10 markets taking into account:

❖Domestic migration into the area

❖Housing affordability for new residents

❖Consistent job growth outperforming the national average

❖Age structure of the population

❖Attractiveness for retirees

❖Home price appreciation

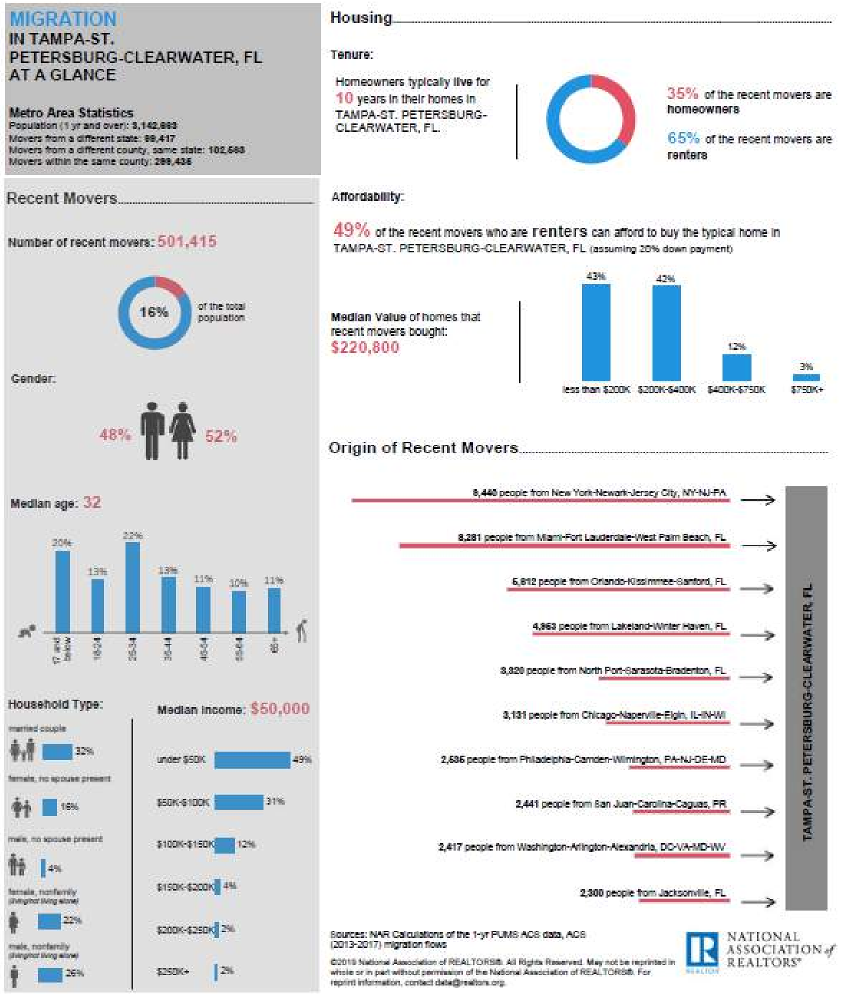
TOP 10 OUTPERFORMING MARKETS

METRO AREAS NAR EXPECTS HOME PRICE APPRECIATION TO OUTPACE IN THE NEXT 3 TO 5 YEARS

NAR identified the top metro areas taking into account a myriad of variables, including domestic migration into the area, housing affordability for new residents, consistent job growth outperforming the national average, age structure of the population, attractiveness for retirees, and the area's home price appreciation.

Top 10 Outperforming Markets

Metro Areas NAR Expects Home Price Appreciation to Outpace in the Next 3 to 5 Years Appreciation to Outpace in the Next 3 to 5 Years



LUNCH BREAK

55 MINUTES

REAL ESTATE FORECAST SUMMIT

NATIONAL ASSOCIATION of REALTORS®

DR. BEN CARSON

SECRETARY OF HUD

MODERATOR

DIANA OLICK

REAL ESTATE CORRESPONDENT
CNBC

JOHN SMABY

2019 PRESIDENT
NATIONAL ASSOCIATION OF REALTORS®

REAL ESTATE
FORECAST SUMMIT

NATIONAL
ASSOCIATION of
REALTORS®
REALTOR®

LESLIE ROUDA SMITH

FIRST VICE PRESIDENT
NATIONAL ASSOCIATION OF REALTORS®

REAL ESTATE FORECAST SUMMIT

NATIONAL ASSOCIATION of REALTORS®

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DENISE PELLEGRINI

EXECUTIVE PRODUCER
BLOOMBERG RADIO

CALVIN SCHNURE

SENIOR VICE PRESIDENT & ECONOMIC ANALYSIS
NAREIT

GREG WILLETT

CHIEF ECONOMIST
REALPAGE, INC.

JIM COSTELLO

SENIOR VICE PRESIDENT
REAL CAPITAL ANALYTICS

KC CONWAY

CHIEF ECONOMIST, CCIM INSTITUTE;
DIRECTOR, RESEARCH & CORPORATE ENGAGEMENT
ALABAMA CENTER FOR REAL ESTATE (ACRE)

REAL ESTATE FORECAST SUMMIT

NATIONAL ASSOCIATION of REALTORS®
REALTOR®

APARTMENT & COMMERCIAL REAL ESTATE

Nareit® Real estate working for you

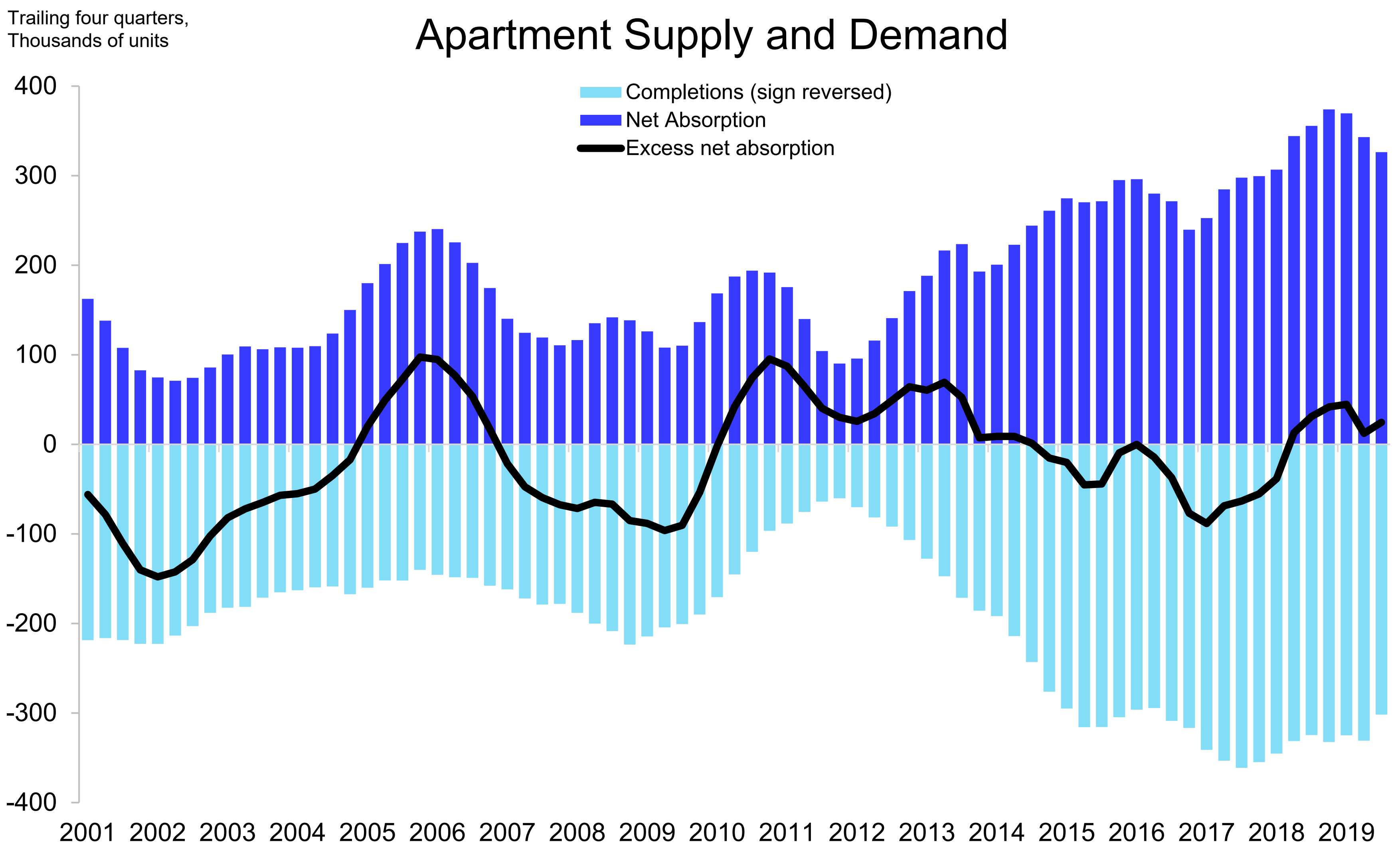
Apartment and Commercial Real Estate Markets

December 11, 2019

Calvin Schnure
SVP, Research & Economic Analysis

Apartment Markets

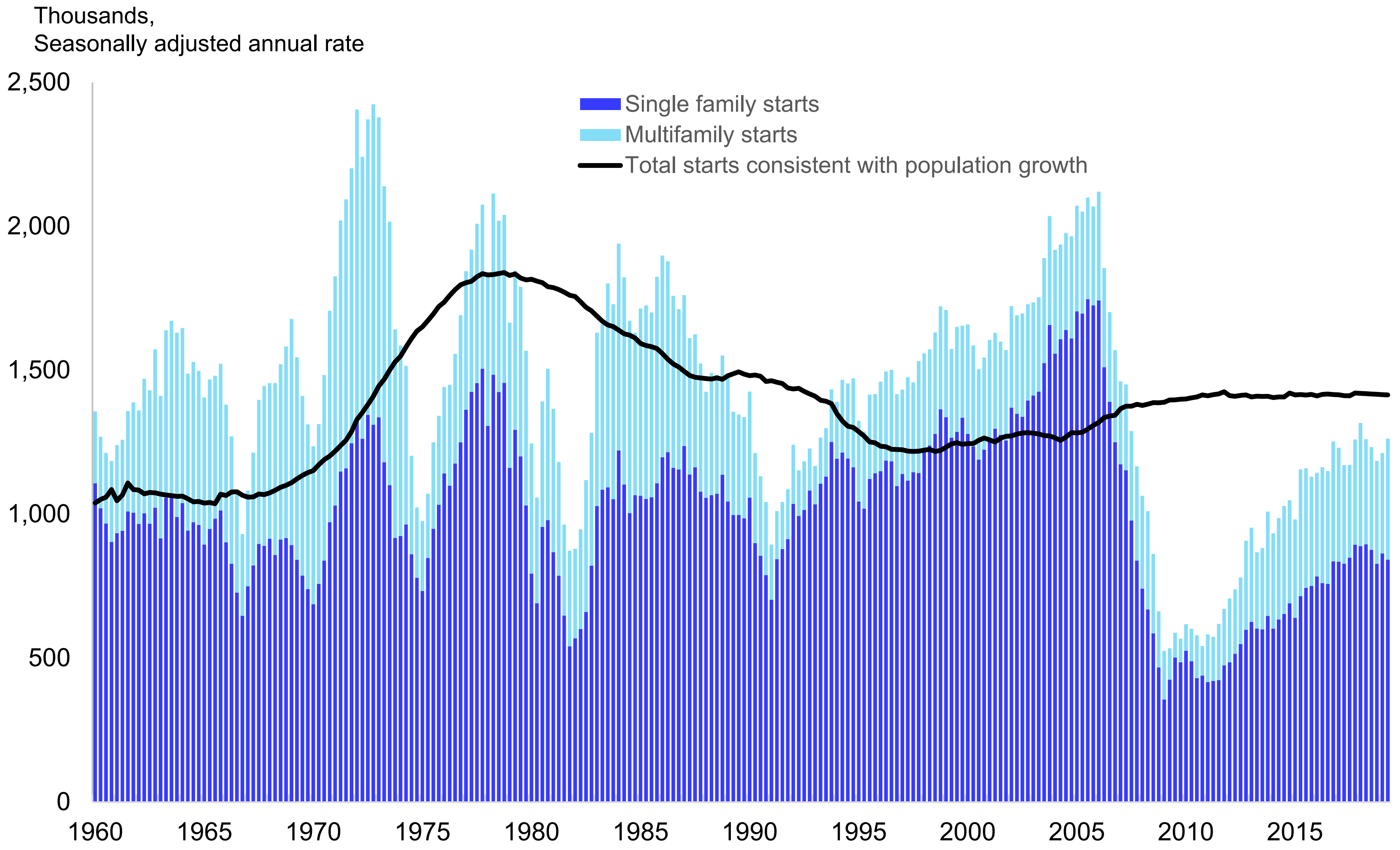
Demand for apartments exceeds even the high level of new supply



Source: CoStar, Nareit

Housing Starts and Population Trends

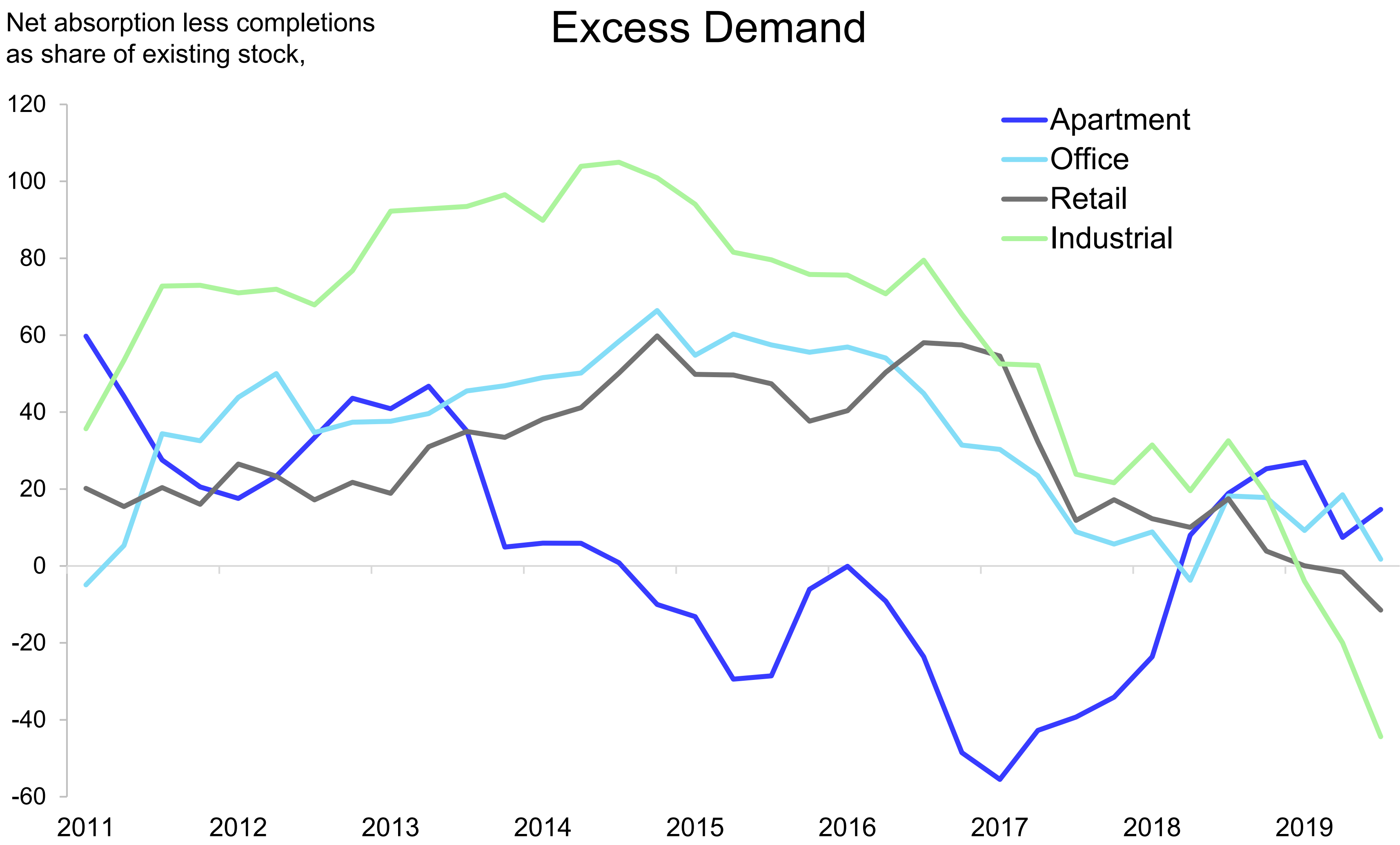
There has been a shortfall of construction by as much as 4 million units



Source: Census Bureau, Haver Analytics, Nareit

CRE Markets

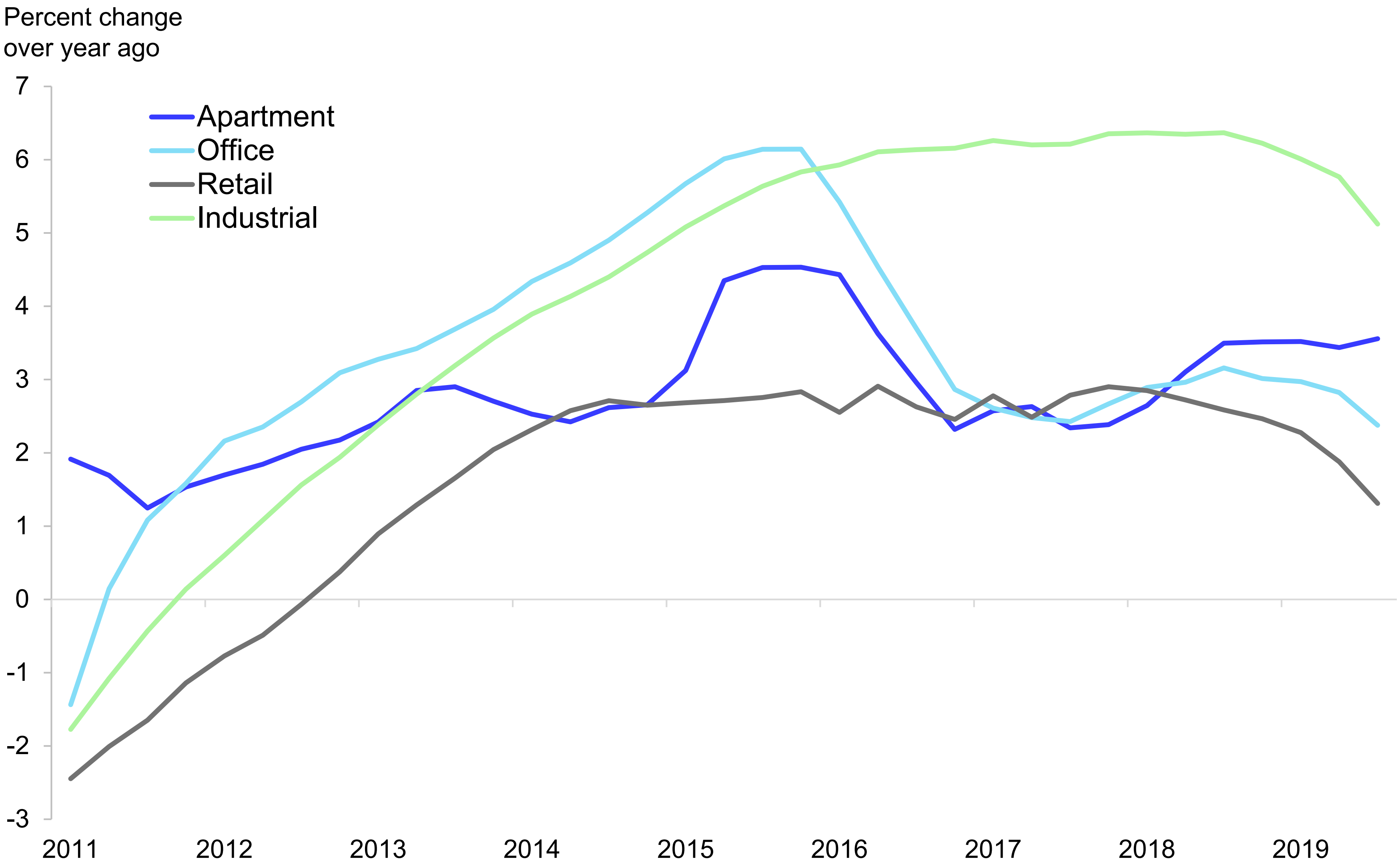
Demand and supply are in rough balance across most property markets



Source: CoStar, Nareit

Rent Growth

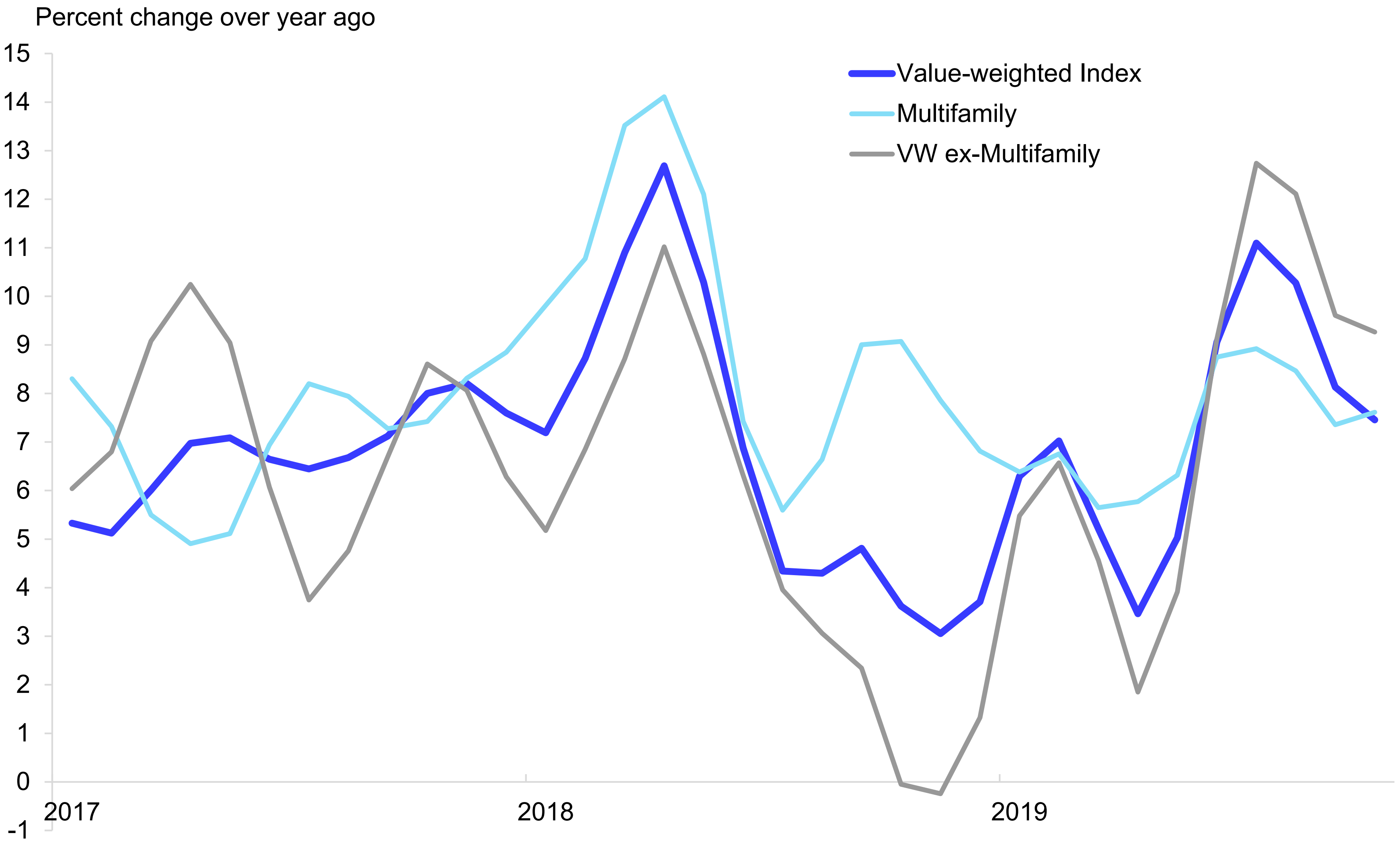
Rent growth has slowed, except apartments



Source: CoStar, Nareit

Property Prices

Surprise! Commercial real estate markets got a second wind in 2019



Source: CoStar, Nareit

Contact

If you have any questions, please contact

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SVP, Research & Economic Analysis
202-739-9434
cschnure@nareit.com

Nareit
1875 I Street, NW, Suite 600
Washington, D.C. 20006-5413
reit.com

APARTMENT & COMMERCIAL REAL ESTATE

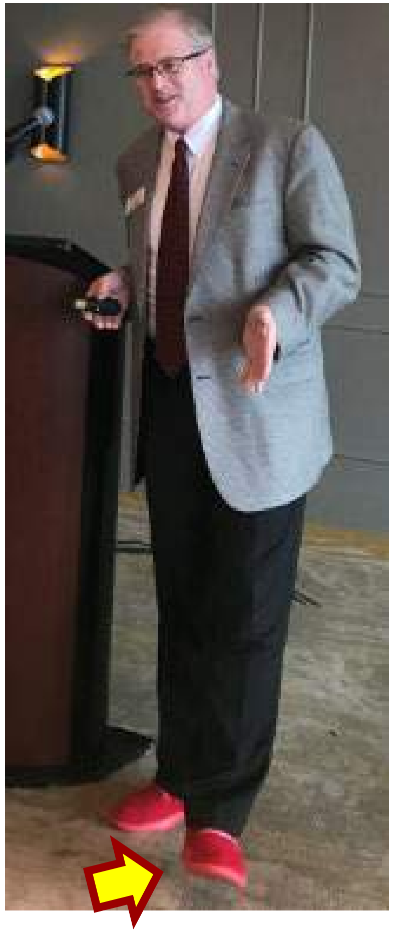
K.C. Conway, MAI, CRE
Director of Research & Corporate Engagement
Alabama Center for Real Estate
Chief Economist, CCIM Institute

A.K.A
“The Red-Shoe Economist”

K.C. Conway currently serves as CCIM's Chief Economist and as the Director of Research and Corporate Engagement at the Alabama Center for Real Estate housed with the University of Alabama's Culverhouse College of Commerce.

K.C. is a proud graduate of Emory University. Professionally, he has amassed more than 30 years of experience in commercial real estate as an appraiser, lender, credit officer and economist. He is recognized as a Counselor of Real Estate (CRE) and Member of the Appraisal Instituter (MAI). Conway is also a prolific speaker, addressing more than 750 industry, regulatory and academic bodies in the last decade. Throughout his career, Conway has been recognized for accurately forecasting real estate trends and changing market conditions across the United States.

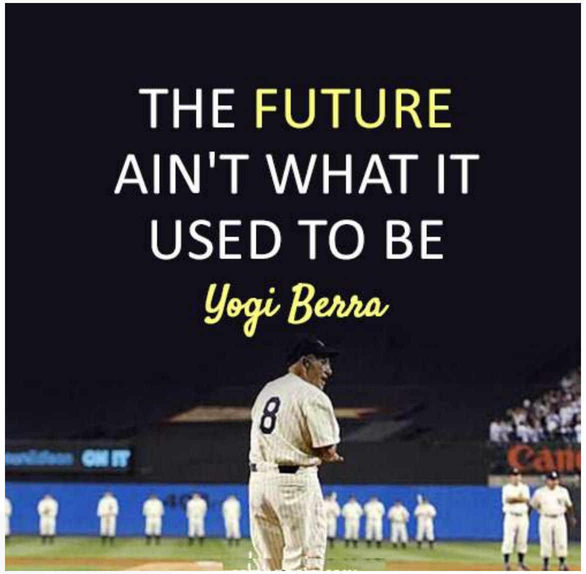
At the Alabama Center for Real Estate, Conway manages the research division's market trends publications and creates new organic and collaborative research initiatives while also serving as its ambassador to corporate real estate entities. The heart of the center is advancing relationships by providing servant leadership with a passionate, adaptable and humble spirit.



K.C. Conway, MAI, CRE
Dir. of Research – ACRE R.E. Center
CCIM Chief Economist / https://www.ccim.com/resources/commercial-real-estate-insights-series/?gmSsoPc=1
KCConway@Culverhouse.ua.edu / http://www.acre.culverhouse.ua.edu/

The Best Futurist Ever!

Yogi Berra had a Quote to put Anything in Perspective.



What's behind this Economy? Disruptive Technologies

Trepp

Understood/ Disruption Done

Transformation in Process creating the Risks & Opportunities

Ahead of Us. We still need to Connect these Dots

Source: Future Thinking Canvas Frank Diana

Know What You Don't Know

It starts with a change in focus from the
Glass is half-full or half-empty
to
Who controls the pitcher
(The Pitcher Influences)

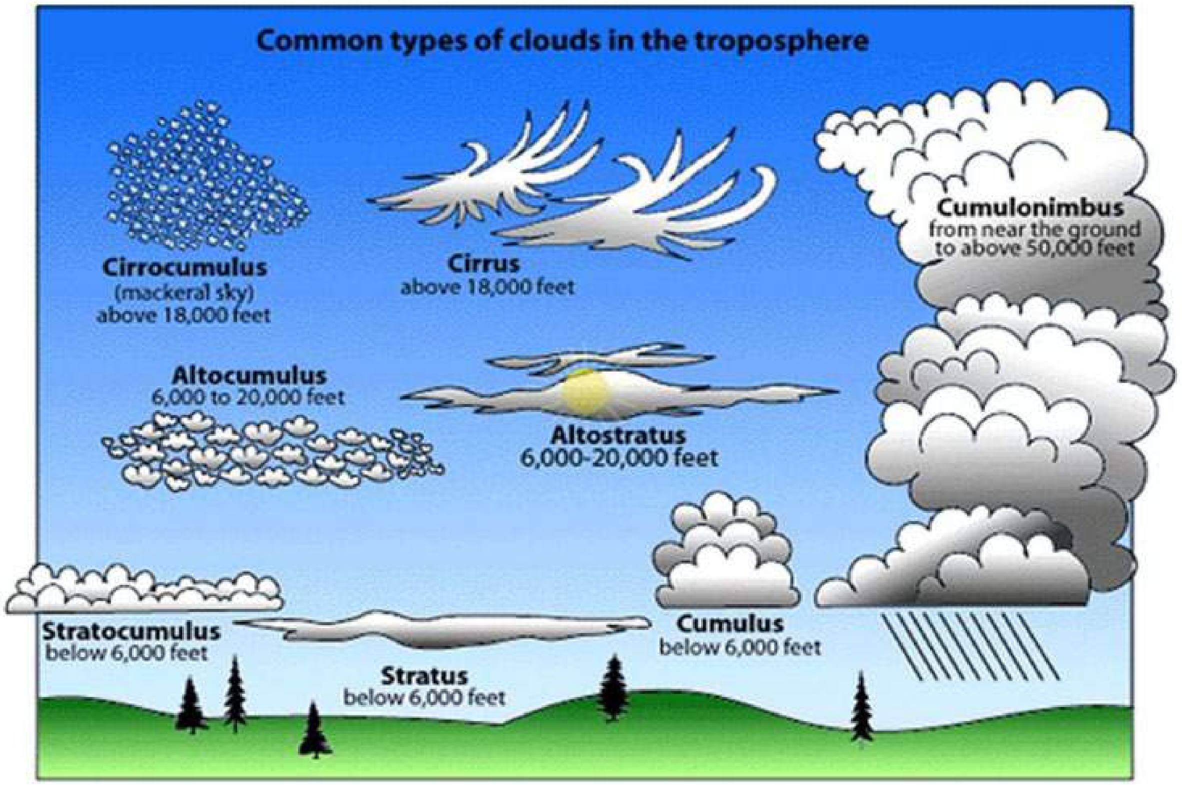
Tariffs & Trade War
Congress & USMCA
2020 Elections – Senate (GA)
Energy – Independence, Demand, Prices, …
Manufacturing & Freight Recession
C-RE Capital – Debt (The FED) & Equity
"Self-Inflicted" Corp. Missteps
(Boeing, Under Armour, etc.
BREXIT 2019 and FLEXIT US 2021

Consumer Confidence
NFIB Small Bus. Optimism
REIT Returns – All about Yield
Corporate Earnings - AMEX, WD-40, WalMart, Target, and yes Home Depot if you look beneath the 10(Q) …
Home Depot is investing CapEx in e-Commerce for long term and still finding efficiencies to meet profit expectations.

The FED, Monetary Policy, Inverted Yield Curve
It's an "ED" thing: "Economic Data Dependent Dysfunction"
Tariffs & Trade Uncertainty
Manufacturing – Freight Recession
Corp. Earnings – Self-Inflicted 20, like Boeing, Under Armour, WeWork
Rail Traffic

Forecasting R.E. Cycles w/o Yogi Requires

Weather Forecasting Skills like Interpreting "Economic Clouds"



- Which clouds/economic metrics are the **innocuous cloud** formations?
- Which clouds/measures are the **cumulus types** that foretell the approach of threatening storms.

ACRE

Innocuous vs. Cumulus Clouds:
What *Cloud Type/Eco Metrics* Determine a Recession?

National Bureau of Eco. Research (NBER) "4 Big Indicators"

- **Non-Farm Employment**
- **Industrial Production**
- **Real Retail Sales**
- **Real Personal Income**

While simplistic, these are dated with too much emphasis on industrial production and retail sales.

https://www.advisorperspectives.com/dshort/updates/2019/10/04/the-big-four-economic-indicators-september-nonfarm-employment

An updated profile of the U.S. economy is needed to reflect the:

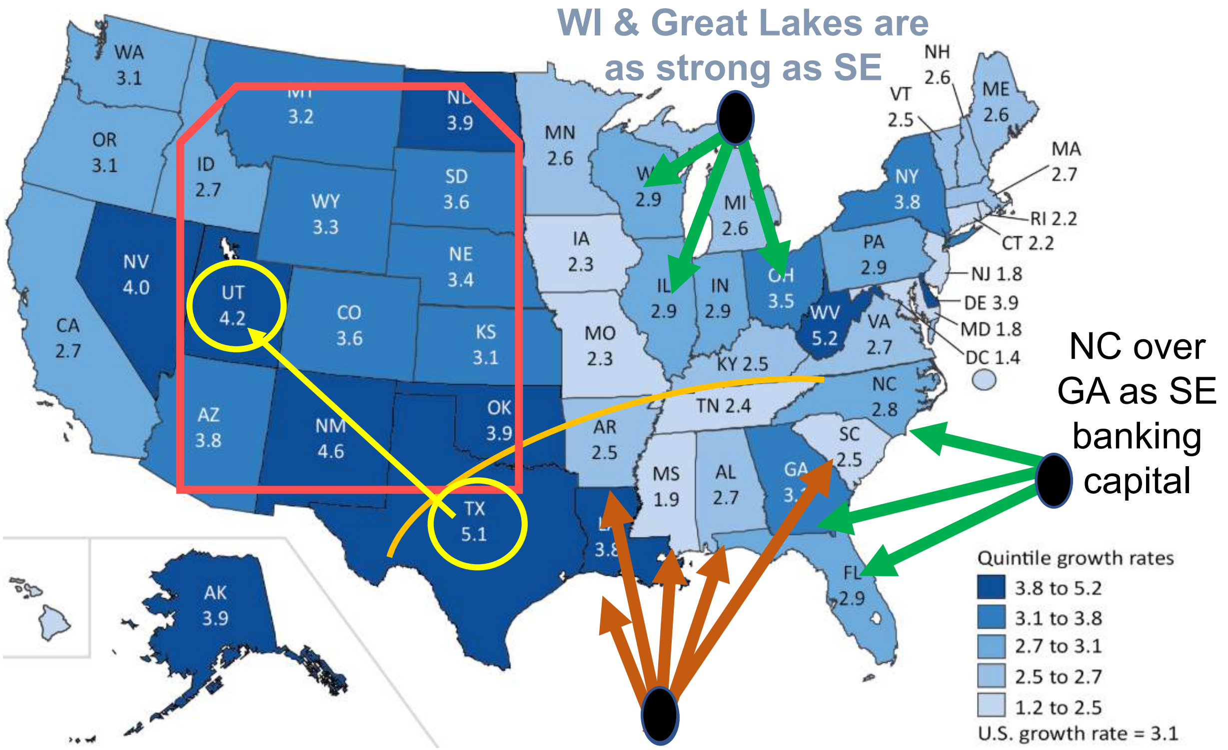
1. **Importance of small business activity over industrial production (more robotic & less labor intensive than prior recessions)**
2. **Consumer spending over physical retail sales**
3. **Intermodal rail traffic**
4. Growth in logistics employment as an alternative to the industrial production measure
5. **Importance of corporate earnings**
6. **Loan performance metrics (DQT %)**

The Red-Shoe Economist's "Modern 8" Indicators

1. **ADP and LinkedIn Employment Measures (BLS-L=BS)**
2. **Forward-Looking Employment Metrics: JOLTS** (more job openings than U-3) & spread between workforce expansion (new entrants 110k+-) and actual net job growth (150k/mo.)
3. **NFIB Small Business Optimism Index:** Readings above 100 are predictive of small business growth and hiring.
4. **Corporate Earnings:** As goes corporate earnings goes, CapEx spending, hiring, and wage growth = **3 quarters > expectations**
   - **"Self Inflicted 20" like Boeing do not make the U.S. economy**
   - **CSX shows a miss on Revenue but beat on expenses = Profits**
5. **Rail Traffic / Emphasis on Intermodal Container Activity:** As goes rail traffic goes U.S. eco. (**Freight Recession** 7 mos decline).
6. **Consumer Spending/Optimism:** Consumers spend less on goods today and more on services.
7. **Interest Rates and Lending Activity:** Low and accommodative lending tends to increase business investment and consumer $.
8. **CMBS Loan Delinquency:** Continuing to decline to lower levels post-2009 Financial Crisis (2.51% 3Q19).

Know What You Don't Know - GDP: Translate GDP LOCAL

Percent Change in Real GDP by State, 2018:Q4–2019:Q1 https://www.bea.gov/system/files/qgdpstate0719.png



+3% to >4% GDP in TX, the Plains & Rocky Mountain West > SE

Why?

- ✓ **Energy,**
- ✓ **Tech flow from West Coast**
- ✓ **Taxes (SALT) & Affordability**

- **A 2020 or 2021 recession will NOT play out uniformly** across all regions of the U.S.
- **Know your region's exposures and risks tied to various industries:**
  - ➢ **ALMA & SC = Autos & Tariffs**
  - ➢ NC & GA = Banking (STI/BB&T)
  - ➢ The Plains = **Energy & AG**
  - ➢ Great Lakes = GM strike
  - ➢ **West & Mtn Region** = Tech, Tourism, Mining & **Where's the STEM – w/o Cannabis issues? Colo unwinding in favor of TX, UT and AZ**

NC, FL, and GA are NOT autos and energy and less AG. It's professional businesses, financial services (SunTrust & BBT merger win for NC and loss for GA), and tech & logistics **(What the OTIF). Could Atlanta & Richmond Fed consolidate to MIA or Charlotte NC?** AL, SC & TN have risks with both **auto and airplane manufacturing.**

UT GDP out-pacing all major Western State Economies except TX.

Salt Lake City is the affordable Austin.

Know What You Don’t Know

Translate Local Data: Job Growth a 5-Yr Look

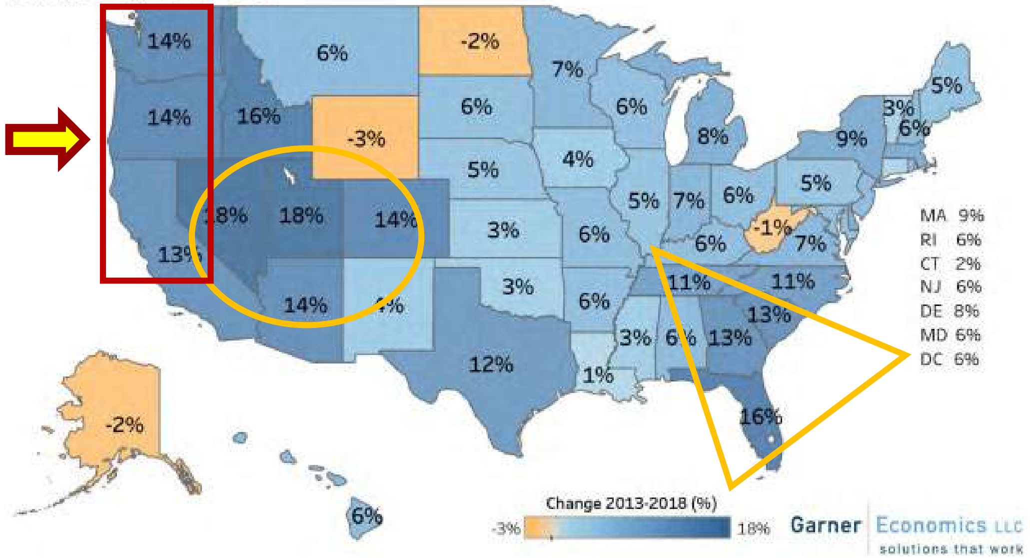
TABLE 1: TOP STATES FOR EMPLOYMENT GROWTH

Ranked by % Change 2013–2018

Rank	State	2013 Employment	2018 Employment	Change 2013-2018	% Change 2013-2018
1	Nevada	1,160,115	1,370,984	210,869	18.2%
2	Utah	1,254,582	1,478,814	224,232	17.9%
3	Idaho	630,328	730,815	100,487	15.9%
4	Florida	7,518,448	8,699,480	1,181,032	15.7%
5	Colorado	2,335,803	2,673,688	337,885	14.5%
6	Oregon	1,678,726	1,919,918	241,192	14.4%
7	Washington	2,960,123	3,374,998	414,875	14.0%
8	Arizona	2,488,009	2,825,980	337,971	13.6%
9	South Carolina	1,846,621	2,092,971	246,350	13.3%
10	Georgia	3,918,085	4,430,043	511,958	13.1%

FIGURE 3: EMPLOYMENT GROWTH IN STATES

Percent Change 2013–2018



Average Annual Employment for States

Source: Bureau of Labor Statistics, Quarterly Census of Employment & Wages, Garner Economics

Utah #2 (+18%)

Ports / Logisiics

Florida #4 +15.7%

(Try growing Big at >10%)

South Carolina #9 +13.3%

Georgia #10 +13.1%

Texas #11 +12%

North Carolina & Tennessee #12 tie +11%

West-Coast still double-digits, but knocked off top perch by Utah & FL.(SALT)

Why?

- **AFFORDABILITY**
- **STEM Workforce**
- **TECH**
- **Logistics**
- **Cannabis Revolt**

AC RE

Housing Affordability: Opportunity or Risk (LIHTC assault)?

Affordable, but … NOT quite a SF-Home; CA at Crisis Point; DC is Innovating

Affordability gone too far, but not far-fetched☺

Parking lots are the new solution to the homelessness crisis in cities — but they're also part of the problem

Los Angeles Curbs Homelessness with Safe, Overnight Parking Lots

Parking lots, subsidies fill breach

The California Assembly has passed a bill that would require every community college in the state to provide a safe parking lot where homeless students can sleep in their cars overnight. Massachusetts, meanwhile, launched a pilot project this year that enables students at four community colleges to live in campus housing at nearby four-year universities.

https://www.usatoday.com/story/money/2019/06/10/homelessness-among-college-students-growing-crisis/3747117002/?utm_source=Alabama+Center+for+Real+Estate&utm_campaign=5bb6c42062-EMAIL_CAMPAIGN_2019_05_31_03_38_COPY_01&utm_medium=email&utm_term=0_4c31a9273e-5bb6c42062-35222455

Housing Affordability showing up in Green Street CPPI

Commercial Property Price Index – November 6, 2019

Green Street CPPI: Sector-Level Indexes

	Index Value	Change in Commercial Property Values		
		Past Month	Past 3 Mos	Past 12 Mos
All Property	134.8	1%	1%	2%
Core Sector	134.1	1%	1%	4%
Apartment	151.3	2%	4%	6%
Industrial	160.6	2%	3%	12%
Mall	107.4	0%	-6%	-13%
Office	116.8	0%	1%	3%
Strip Retail	111.5	0%	1%	2%
Health Care	141.8	0%	1%	1%
Lodging	109.2	0%	0%	0%
Manufactured Home Park	230.2	2%	7%	20%
Net Lease	99.0	0%	0%	1%
Self-Storage	186.7	0%	5%	5%
Student Housing	155.3	0%	2%	5%

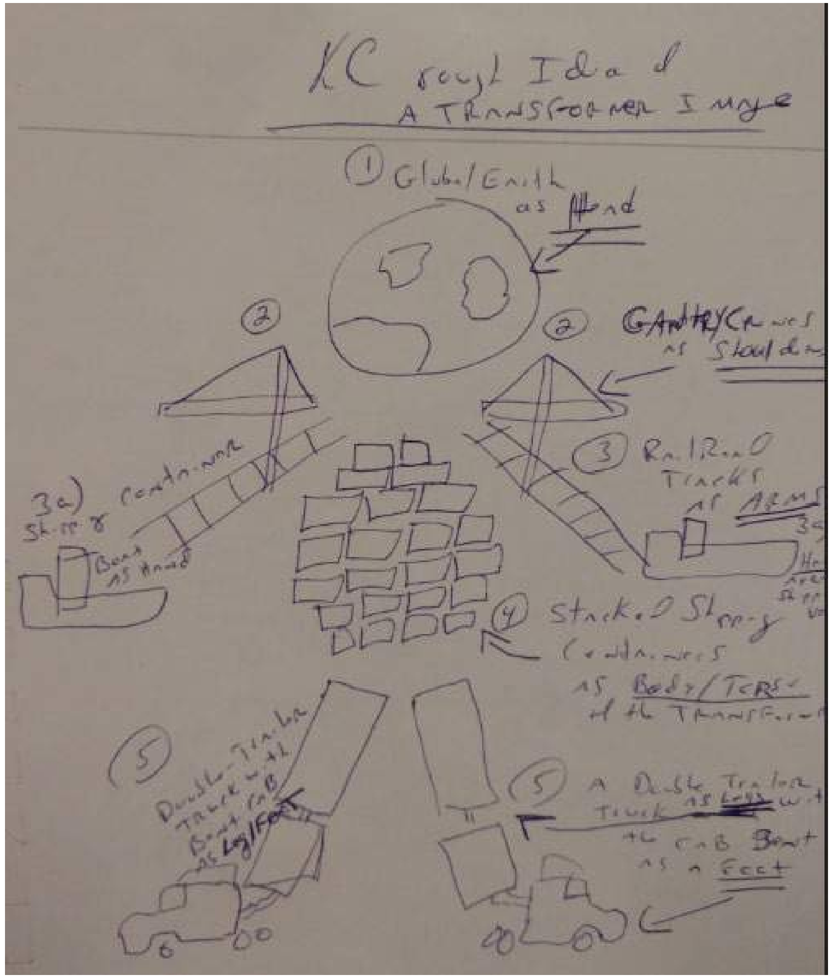
Manufactured Housing leads all Property Types by a long-shot at +20% YOY (Nov '19 Gr-St-Adv CPPI)

https://www.greenstreetadvisors.com/insights/CPPI

Key Attributes of Green Street's Commercial Property Price Index

- **Institutional Quality:** The index is based on Green Street's frequently updated estimates of price appreciation of the property portfolios owned by the REITs in its U.S. coverage universe. It is driven by the NAV models maintained by the research team, which, in turn, are driven primarily by changes in market cap rates and NOI growth prospects. Since REITs own high-quality properties, the index measures the value of institutional-quality commercial real estate.
- **Timeliness:** Other indices, based on either closed transactions or formal appraisals, reflect market prices from several months earlier. Also, the Green Street index value for a given month is released within days of month-end, whereas other indices have a sizable lag.

The Big Story 2019 and Beyond will be
Logistics & Convergence of Retail & Industrial R.E.



1. **The E-commerce economy will drive on-line retail sales to 20 percent of total sales by 2022.** Using Black Friday 2018 on-line sales of a record \$6.2+ billion (up 20% over 2017) as a proxy, the ratio of logistics related leasing will rise from its current level of 20 percent of total industrial leasing to 30-35 percent over the next 3 years. As annual on-line retail activity grows by a mid-teen to twenty percent rate, expands into more merchandise categories - such as grocery, pharmacy, and big-and-bulky

From
"Shop & Take Home"
to
"Order Online and Deliver to me."

http://www.acre.culverhouse.ua.edu/research/logistics-infrastructure-research - Feb 8, 2019 Publication

ACRE

Property Type Outlook: Retail

In Retail, Small Is the New Black; Think Services

This white paper is not another examination into the demise of retail, because in the immortal words of Mark Twain, "The reports of [its] death are greatly exaggerated."

Nor is it another foretelling of how the use of retail stores is morphing from a place to shop to something experiential. Retail has always been experiential.

5 Predictions for the Future of Retail

Prediction #1: As Online Continues to Grow, Retail Reimagines Itself

Prediction #2: More Co-Retailing Pops Up in Hospitality

Prediction #3: E-Commerce Goes the Extra Last-Mile

Prediction #4: What's Old Is New Again: The Rise of Adaptive Reuse

Prediction #5: Nothing Is Certain Except Death and Property Taxes

And new metrics and data like OTIF and inline store closings/openings

OTIF: The New Retail Logistics Metric

What the OTIF?

OTIF is a new metric in the logistics industry being used by retailers like Walmart and Kraft-Heinz to measure logistics performance. It will play into warehouse and e-commerce fulfillment site selection and serve as the measure of success in the online grocery battle.

OTIF went mainstream as a supply chain metric around August 2017 when Walmart began evaluating suppliers by their score and penalizing those that couldn't comply by assessing fines up to 3 percent of the value of the shipment. In 2018, Walmart started imposing this 3 percent penalty on the value of shipments if an OTIF measure of 85 percent or greater wasn't achieved. In 2019, that benchmark increased to 87 percent.

The **Red-Shoe Economist** forecasts OTIF will be an embedded variable in all warehouse site selection for e-commerce and logistics companies within two years.

And don't be surprised if you see an OTIF of 90 percent as the standard among large retailers by 2025.

BOB GOLDBERG

CHIEF EXECUTIVE OFFICER
NATIONAL ASSOCIATION OF REALTORS®

REAL ESTATE FORECAST SUMMIT

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ASSISTANT VICE PRESIDENT
FORECASTING AND ANALYSIS, NAHB

REAL ESTATE FORECAST SUMMIT

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MARKET OUTLOOK: DIFFERENCE & COMMONALITY

NAR Real Estate Forecast Summit

Economic & Real Estate Market Outlook

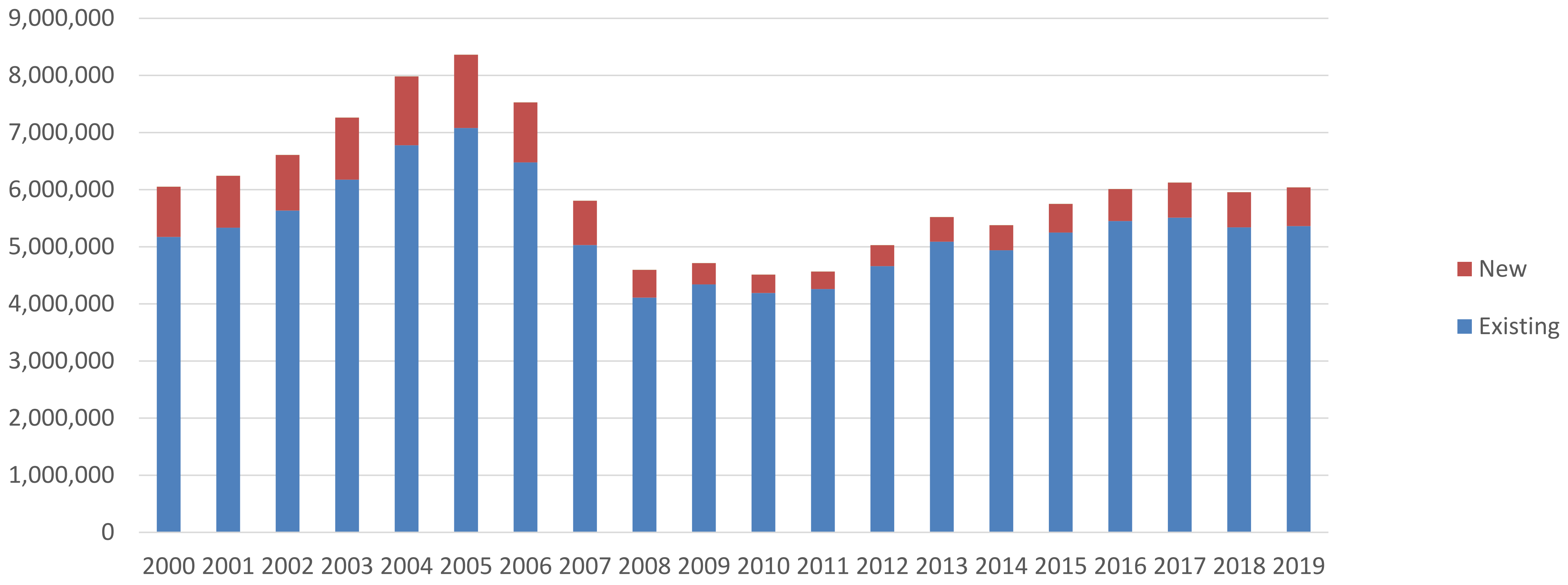
Lawrence Yun, PhD
NAR Chief Economist and Senior Vice President, Research
NATIONAL ASSOCIATION OF REALTORS®
December 11, 2019

THAT'S WHO WE R

NATIONAL ASSOCIATION of REALTORS®

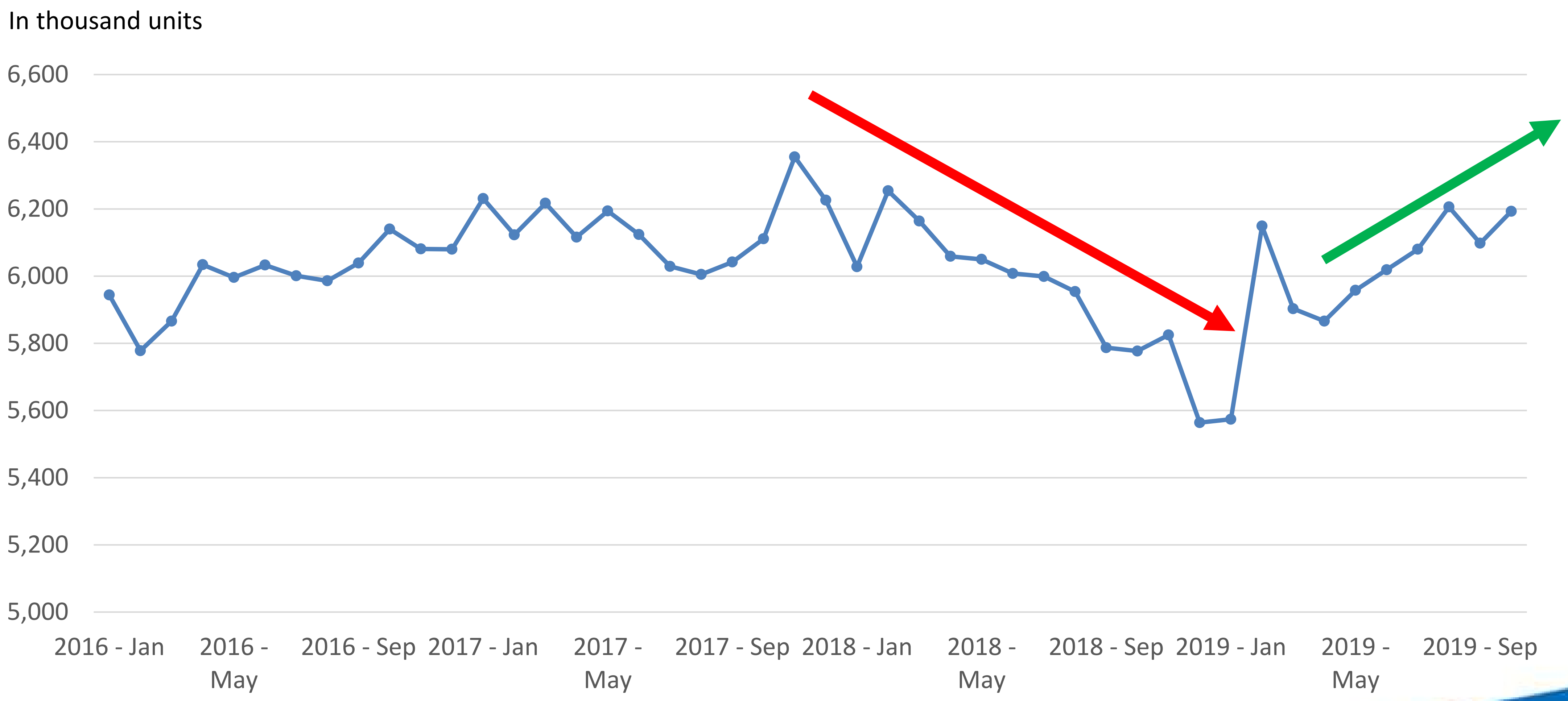
Annual Home Sales

(Flat line at 6 million for 4 years)

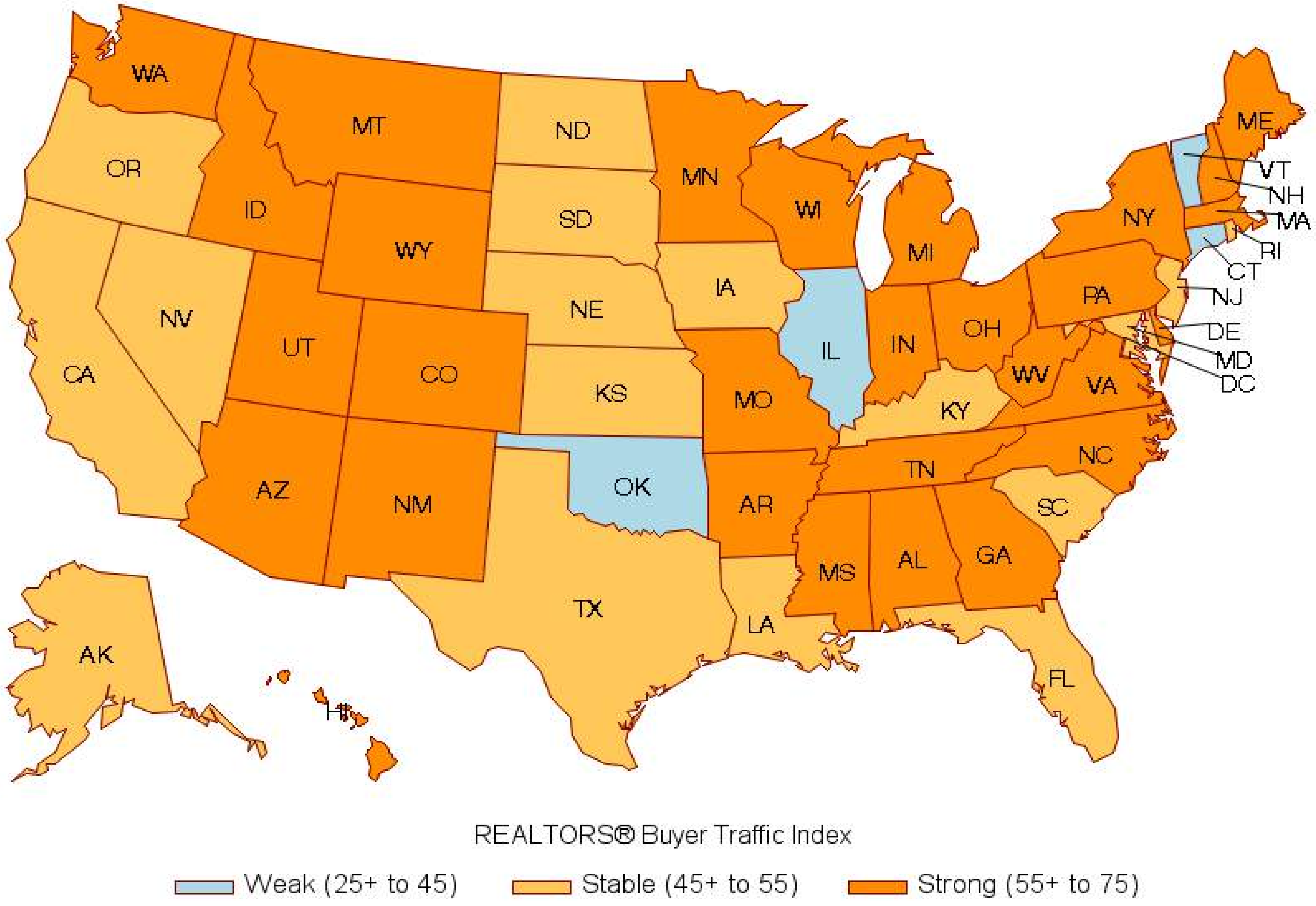


Monthly Home Sales from 2016

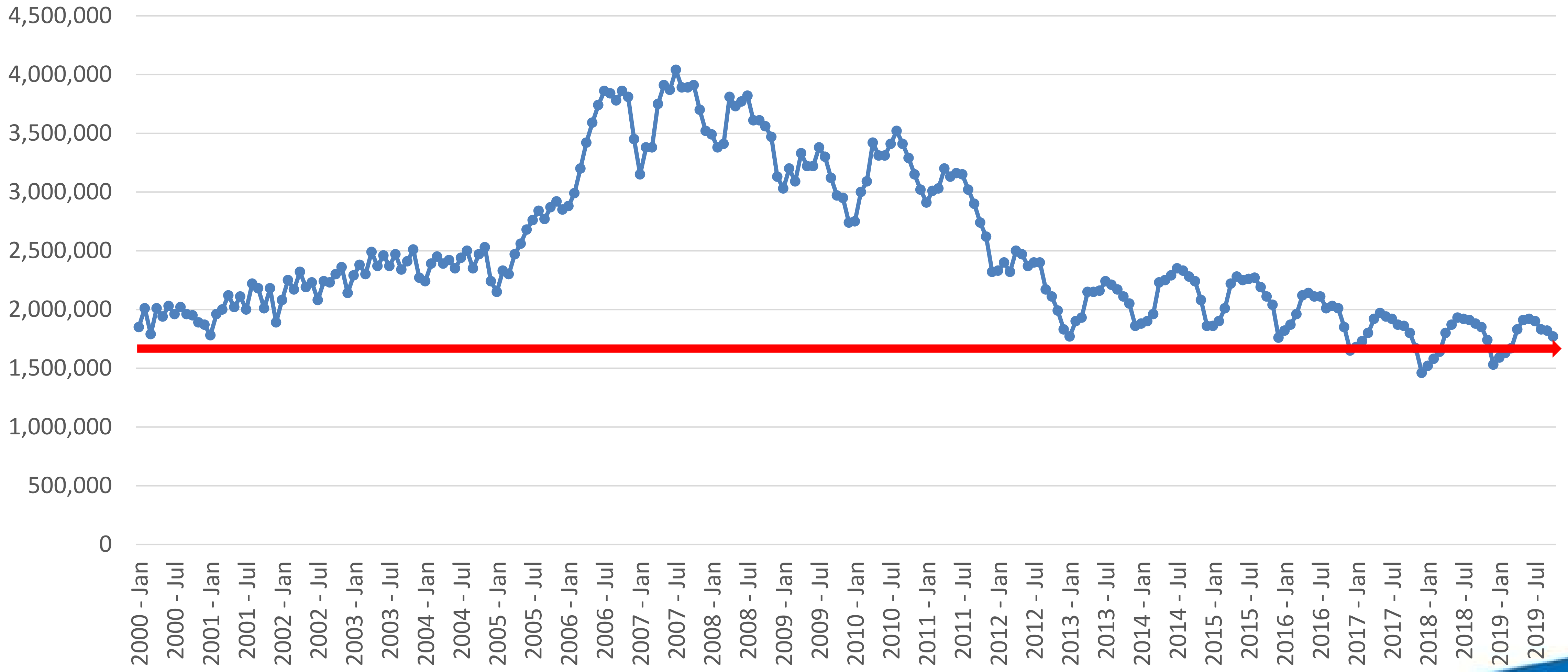
(combined existing and new at annualized rate)



REALTORS® Buyer Traffic Index

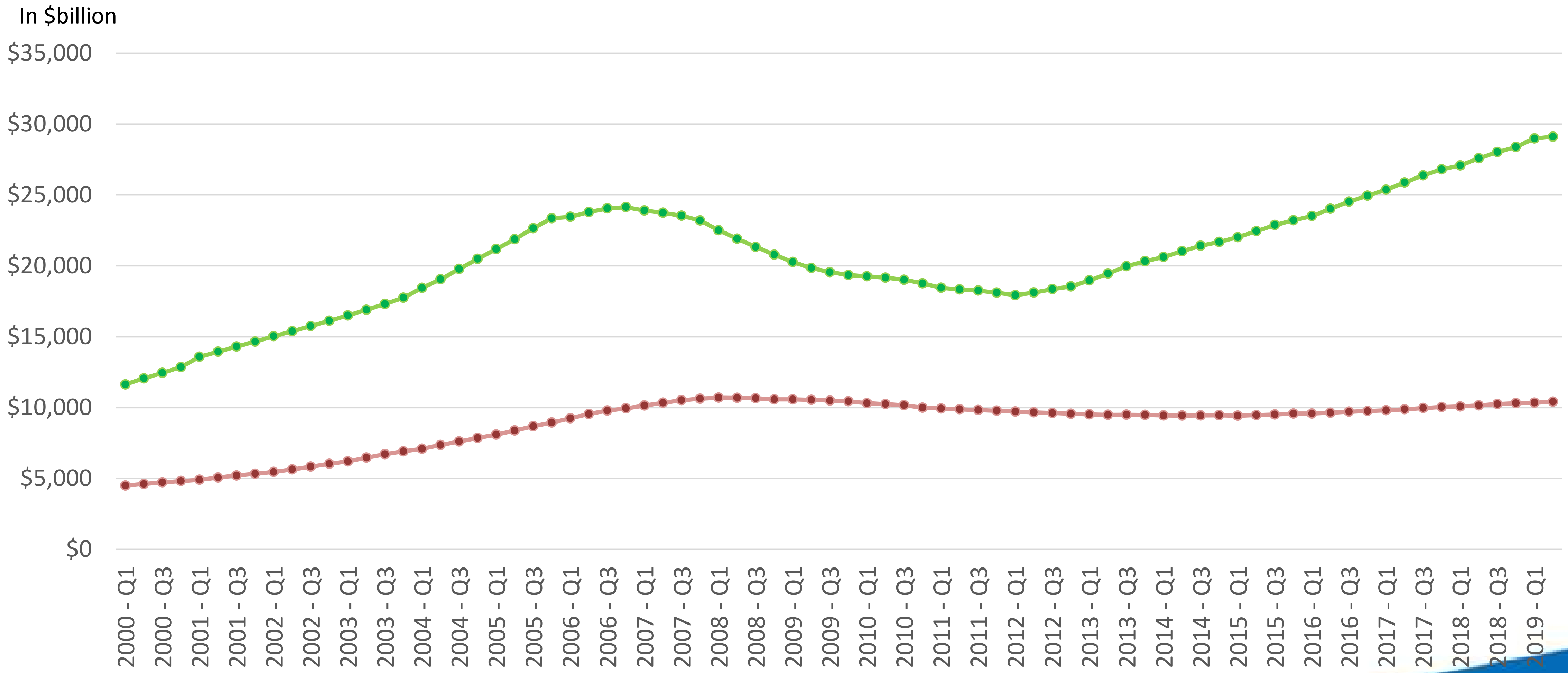


Inventory of Homes for Sale



Rising Home Price means Rising Real Estate Wealth

(Total Asset – Outstanding Mortgage)

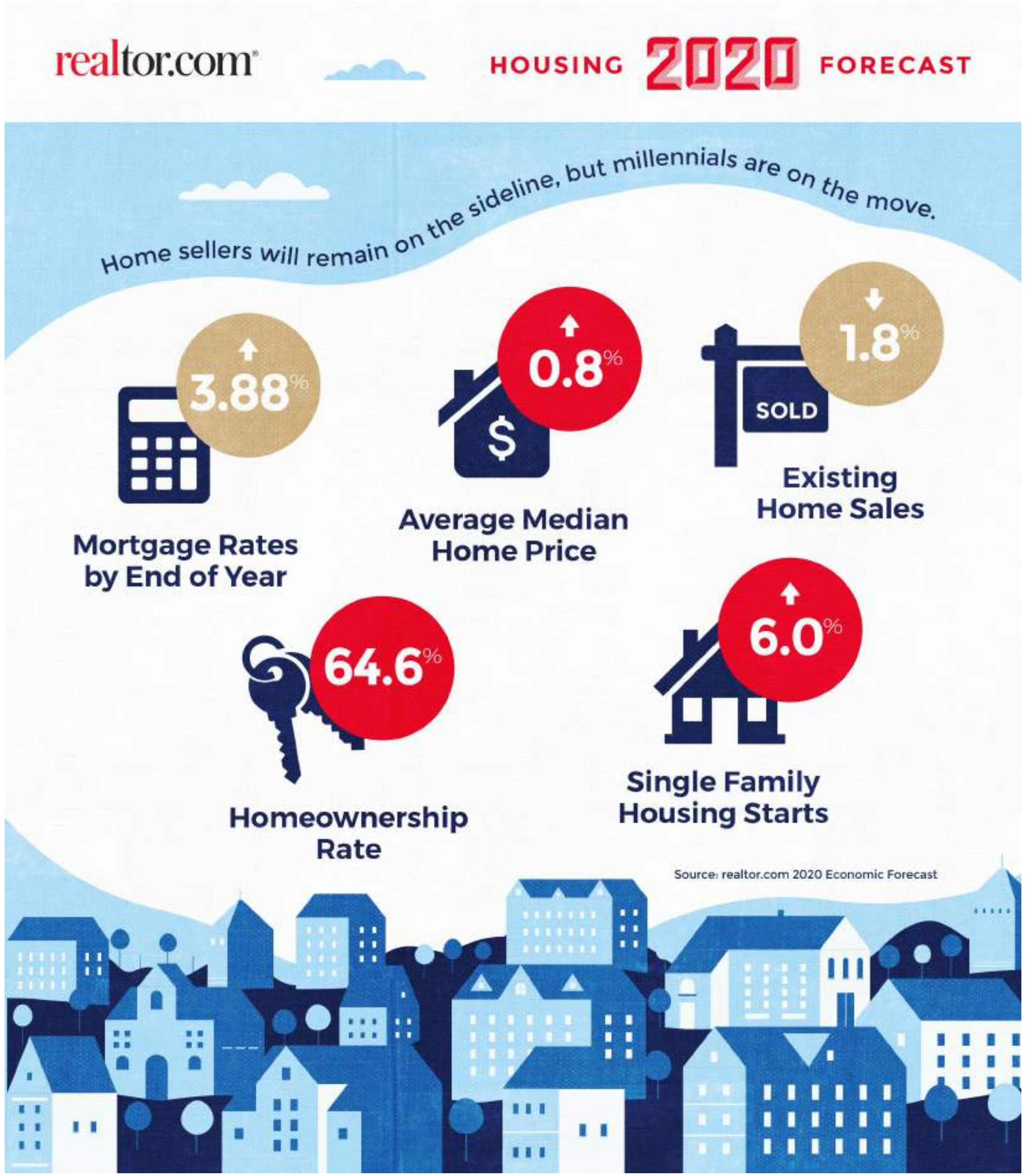


MARKET OUTLOOK: DIFFERENCE & COMMONALITY

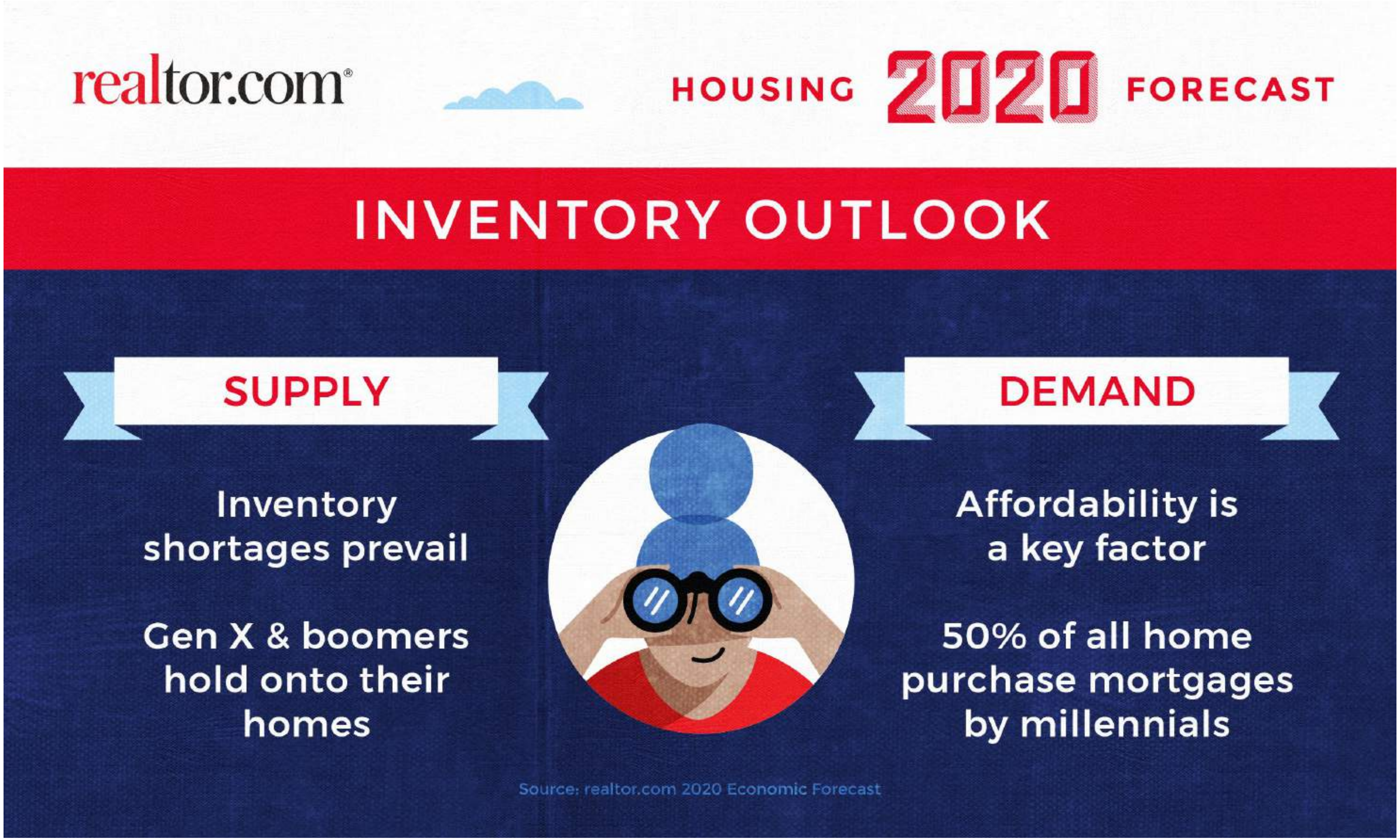
Housing and Economic Outlook 2020

Presented by Danielle Hale, Chief Economist

realtor.com®


realtor.com
HOUSING 2020 FORECAST
Home sellers will remain on the sideline, but millennials are on the move.
3.88%
Mortgage Rates by End of Year
0.8%
$
Average Median Home Price
1.8%
SOLD
Existing Home Sales
64.6%
Homeownership Rate
6.0%
Single Family Housing Starts
Source: realtor.com 2020 Economic Forecast

realtor.com


realtor.com®
HOUSING 2020 FORECAST
INVENTORY OUTLOOK
SUPPLY
Inventory shortages prevail
Gen X & boomers hold onto their homes
DEMAND
Affordability is a key factor
50% of all home purchase mortgages by millennials
Source: realtor.com 2020 Economic Forecast

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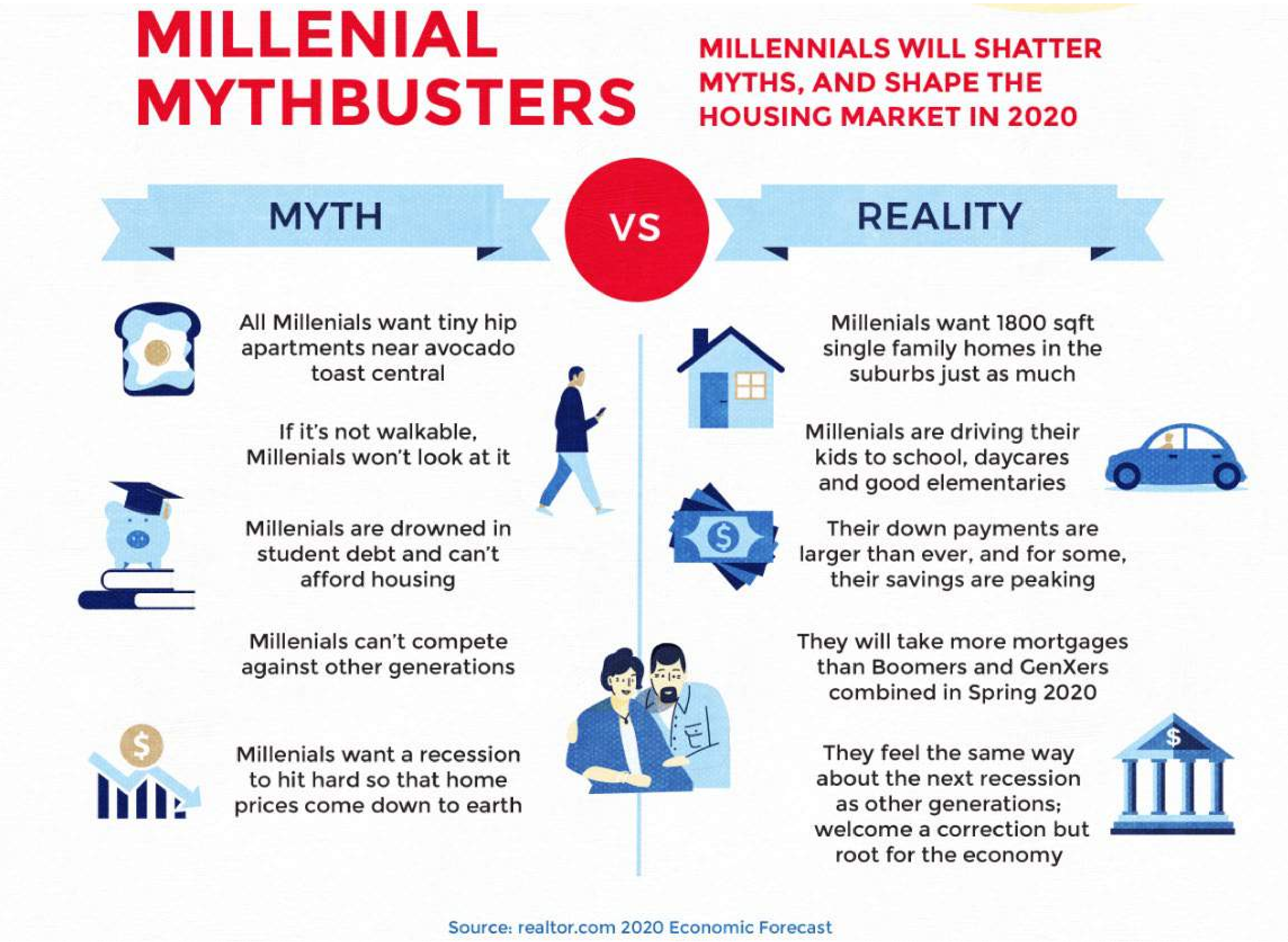
realtor.com
HOUSING 2020 FORECAST
IMPLICATIONS FOR
BUYERS & SELLERS
For Buyers?
A mixed bag
MORE OPPORTUNITIES
New construction grows, home prices flatten, Interest rates remain attractive.
BUYERS LOOK FOR THE RIGHT MARKETS
Will flock to markets with low barriers to entry.
MARCO POLO?
Qualifying for a home could be easier, but finding one could be harder.
For Sellers?
Revised expectations
THE PRICE NEEDS TO BE RIGHT
Sellers will need more patience, and a thoughtful approach to pricing.
AFFORDABLE HOMES WILL MOVE
Upper-tier housing will soften, incentives more frequent.
HALFTIME ADJUSTMENTS?
Savvy sellers who adjust to local market conditions will benefit from steady demand.


MILLENIAL MYTHBUSTERS
MILLENNIALS WILL SHATTER MYTHS, AND SHAPE THE HOUSING MARKET IN 2020
MYTH
VS
REALITY
All Millenials want tiny hip apartments near avocado toast central
Millenials want 1800 sqft single family homes in the suburbs just as much
If it's not walkable, Millenials won't look at it
Millenials are driving their kids to school, daycares and good elementaries
Millenials are drowned in student debt and can't afford housing
Their down payments are larger than ever, and for some, their savings are peaking
Millenials can't compete against other generations
They will take more mortgages than Boomers and GenXers combined in Spring 2020
Millenials want a recession to hit hard so that home prices come down to earth
They feel the same way about the next recession as other generations; welcome a correction but root for the economy
Source: realtor.com 2020 Economic Forecast

Thank you

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MARKET OUTLOOK: DIFFERENCE & COMMONALITY

Five Drivers of Change

1) Consumer Health Strong

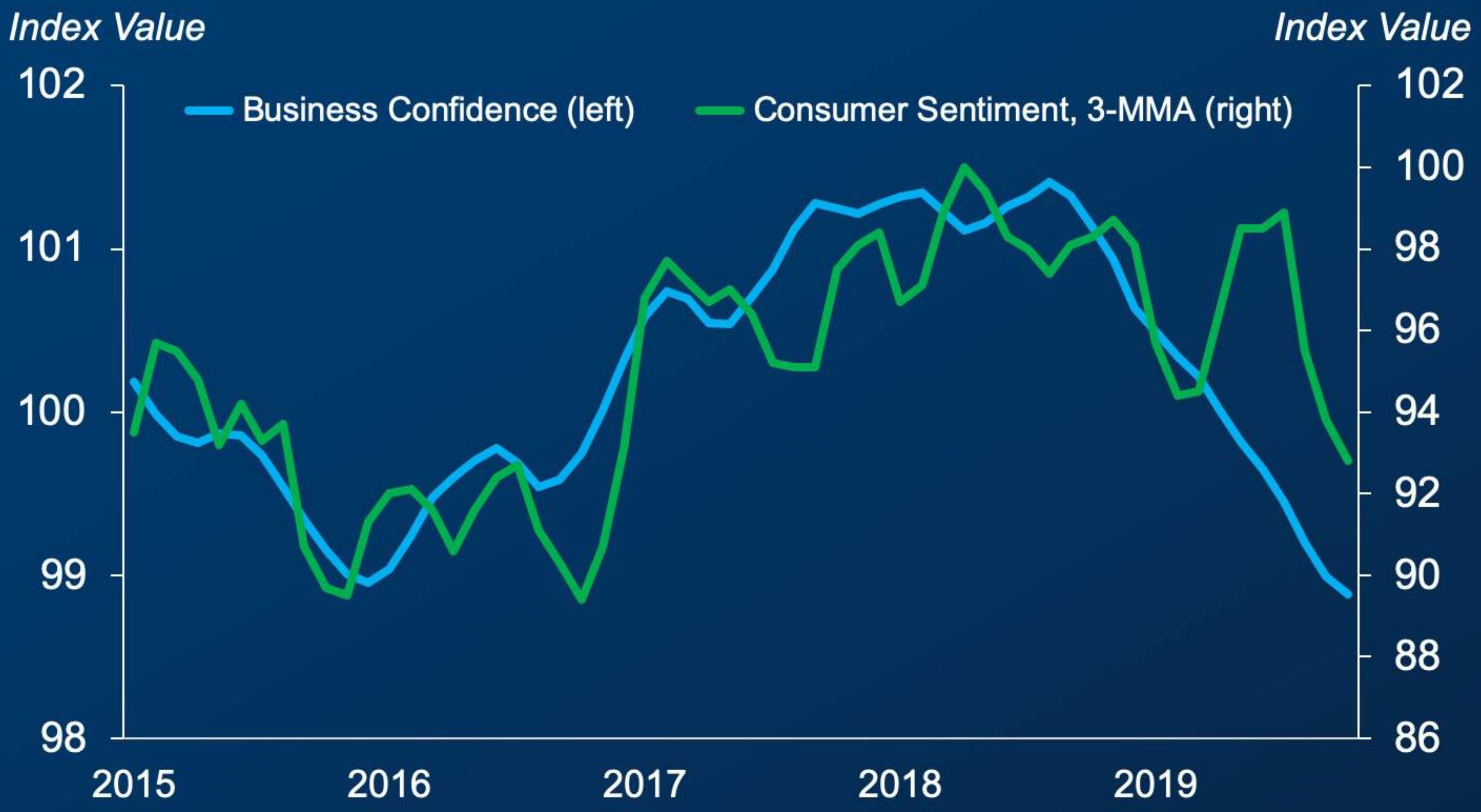
2) Business Sentiment Weak

3) Trade Uncertainty Bites

4) Global GDP Slowdown

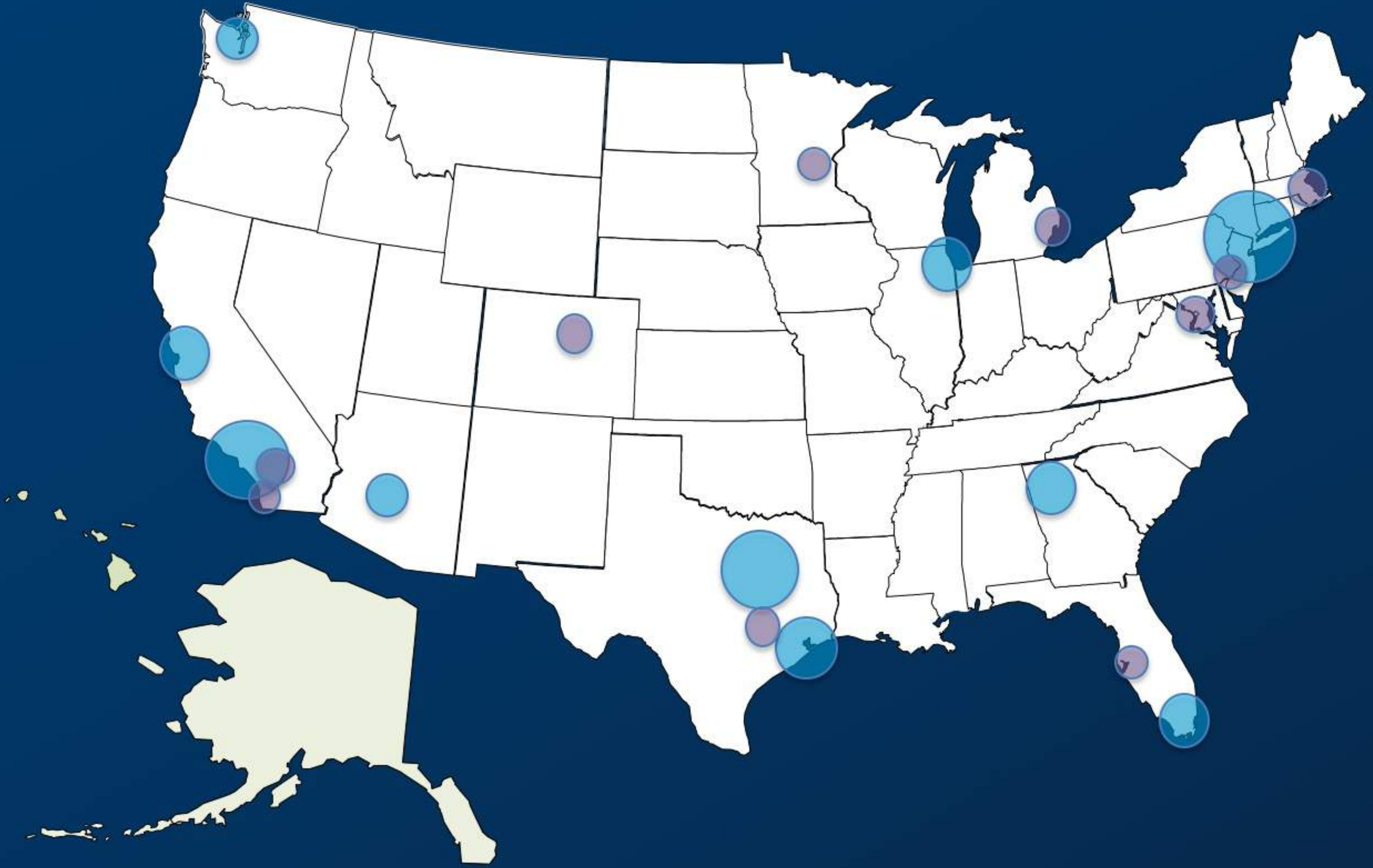
5) Fed Rates on Hold

Confidence is Key



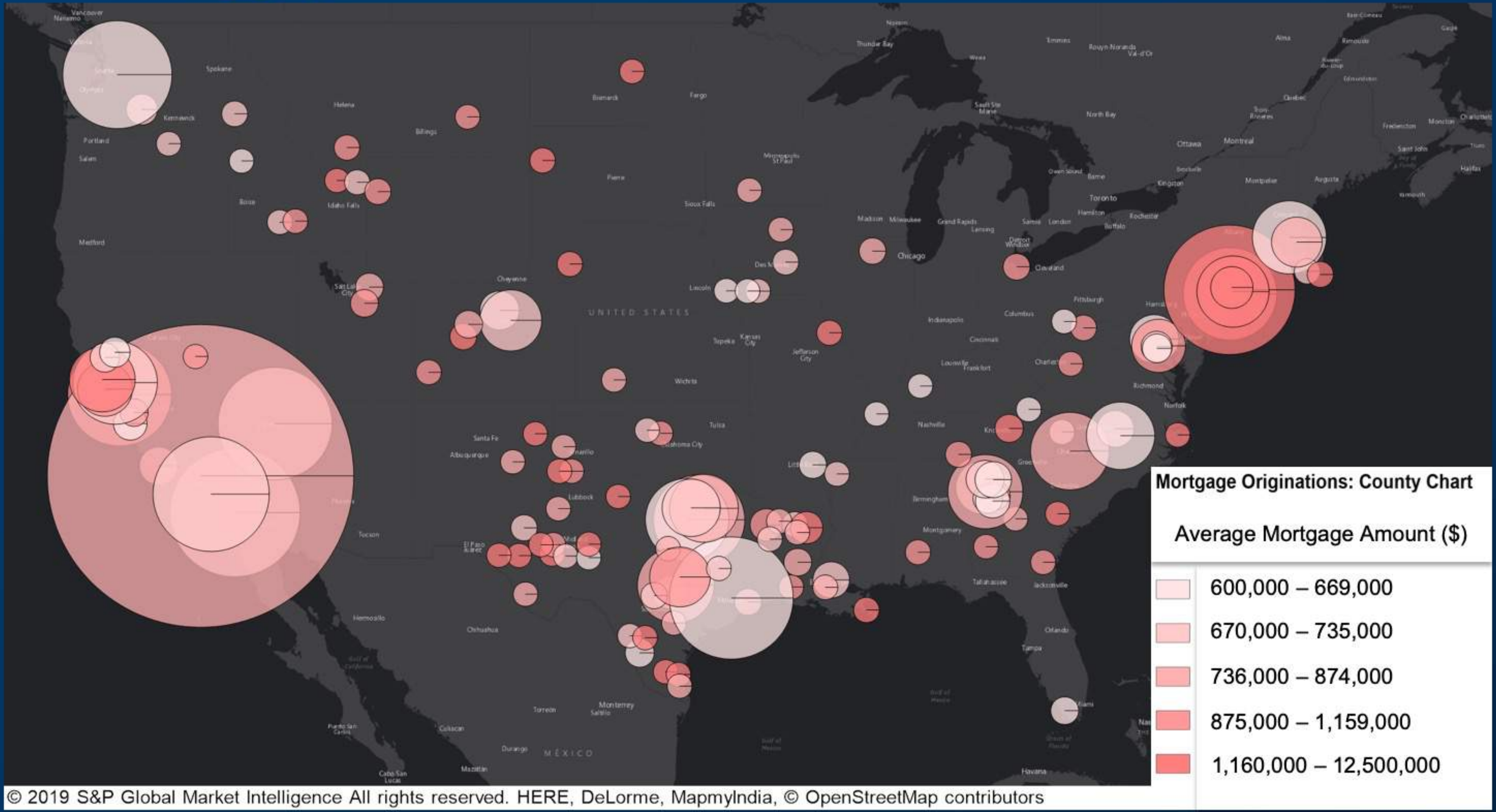
Source: OECD, University of Michigan

Job Growth Driven by Top MSAs



Source: Federal Deposit Insurance Corporation

Large Mortgages and Booming Metro Areas



Source: S&P Global

Housing Prices Outpacing Wage Growth

Source: U.S. Census Bureau, U.S. Bureau of Labor Statistics

Banking Industry Very Healthy

1) Strong Growth in Loans In All Major Categories

2) 99.8% Banks are Well Capitalized

3) Asset Quality is Very Good

4) Fewest Problem Banks (55) Since 2007

5) Industry Consolidation Continues

MARKET OUTLOOK: DIFFERENCE & COMMONALITY

REAL ESTATE FORECAST SUMMIT

NATIONAL ASSOCIATION of REALTORS®

Economic and Mortgage Market Outlook

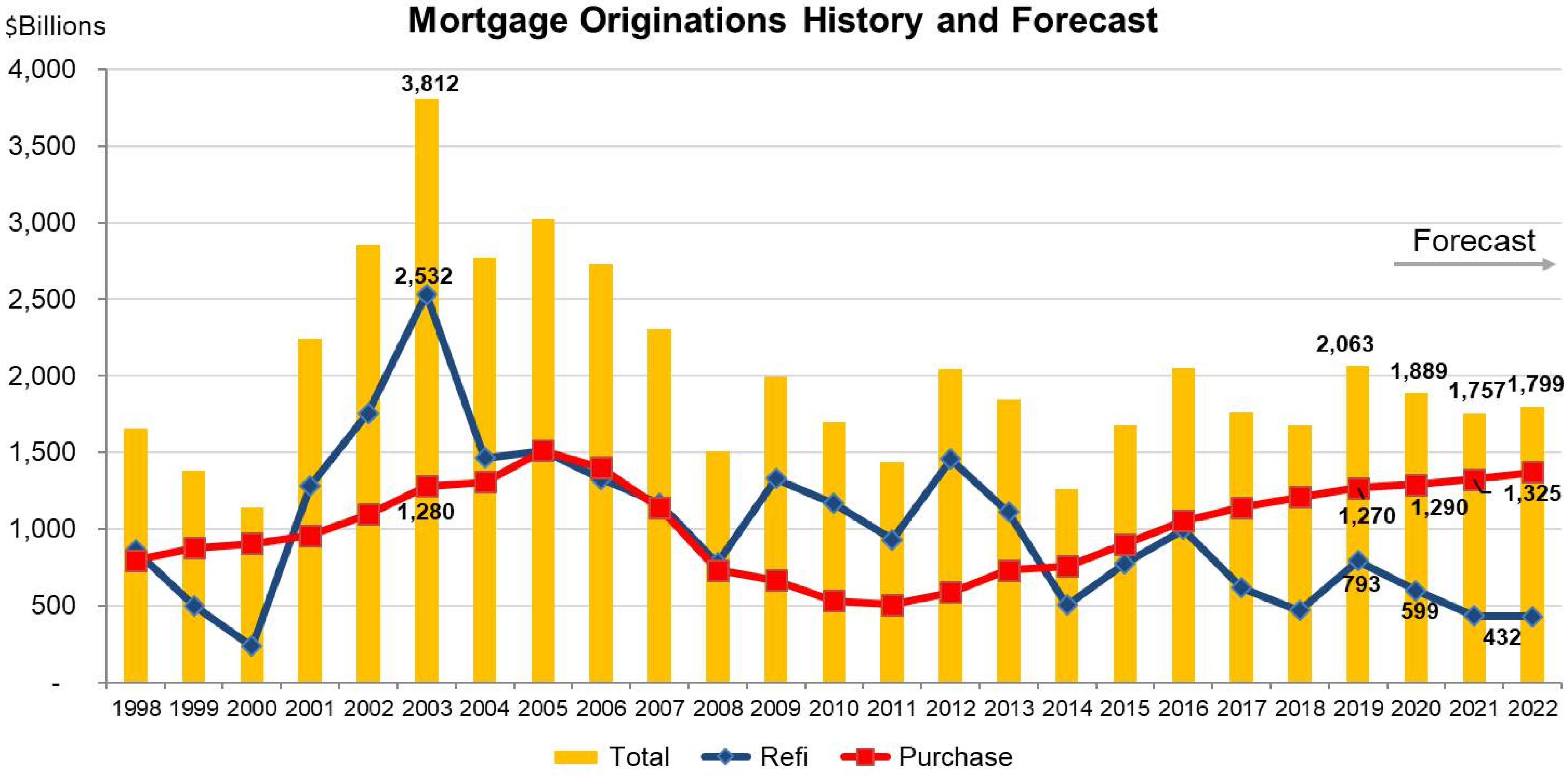
Prepared for Real Estate Forecast Summit 2019

Presented by:

Mike Fratantoni

Mortgage Bankers Association

Forecast of Originations Volume: Refi Wave is Here



Source: MBA Forecast

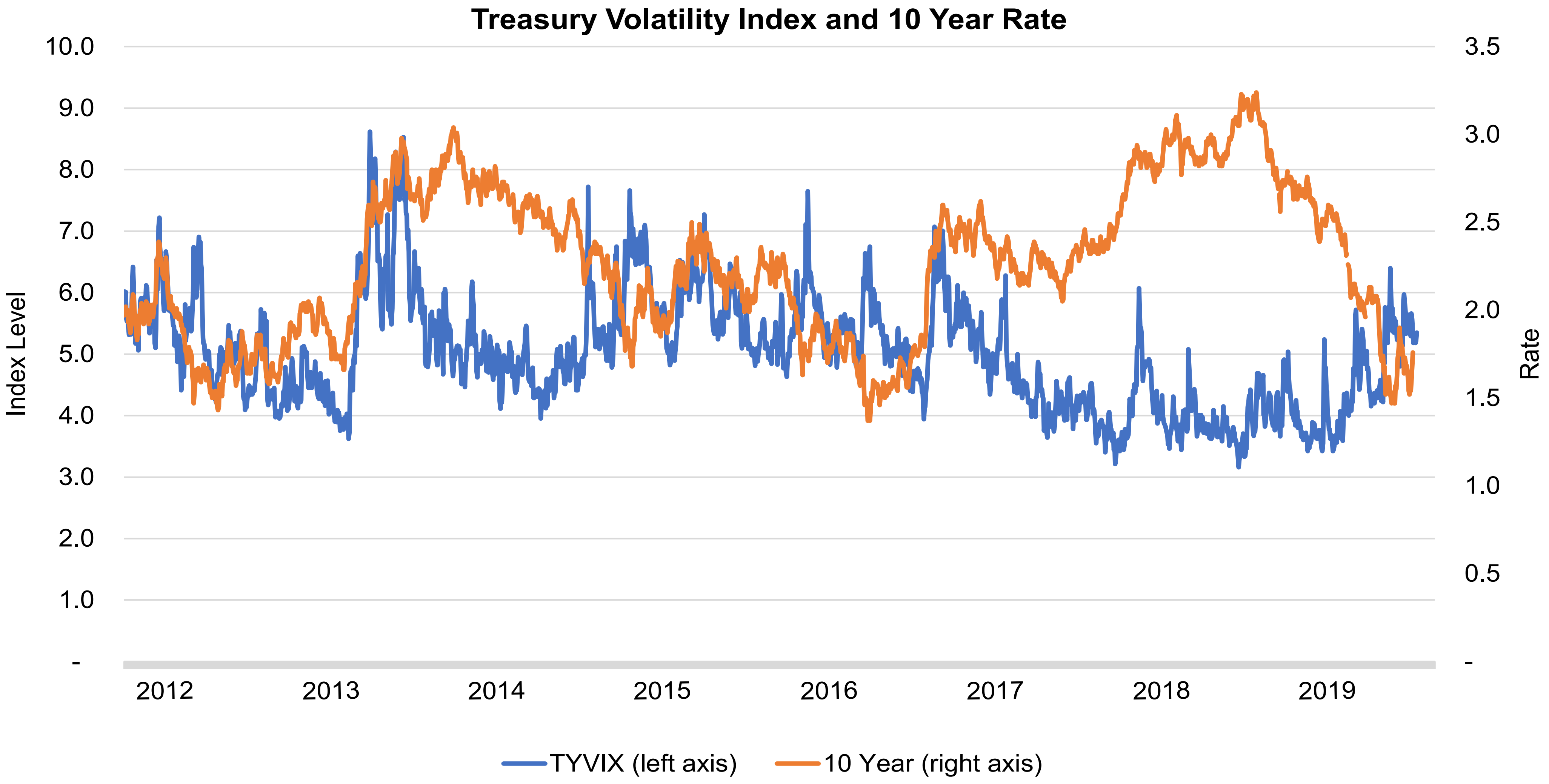
MBA

MBA Forecast: Slowing Growth, Job Market Weakening

	2018	2019	2020	2021	2022
GDP Growth	2.5%	2.1%	0.9%	1.6%	2.2%
Inflation	2.4%	1.8%	1.9%	1.9%	2.3%
Unemployment	3.9%	3.7%	4.1%	4.2%	4.0%
Fed Funds	2.375%	1.625%	1.625%	1.875%	2.125%
10-year Treasury	3.0%	1.8%	1.9%	2.0%	2.3%
30-year Mortgage	4.8%	3.6%	3.7%	3.8%	4.0%
New home sales (000s)	617	675	704	743	766
Existing home sales (000s)	5,341	5,415	5,556	5,699	5,913
Purchase originations ($B)	1,209	1,270	1,290	1,325	1,370
Refi originations ($ B)	467	793	599	432	429
Total originations ($B)	1,677	2,063	1,889	1,757	1,799

Source: MBA Forecast

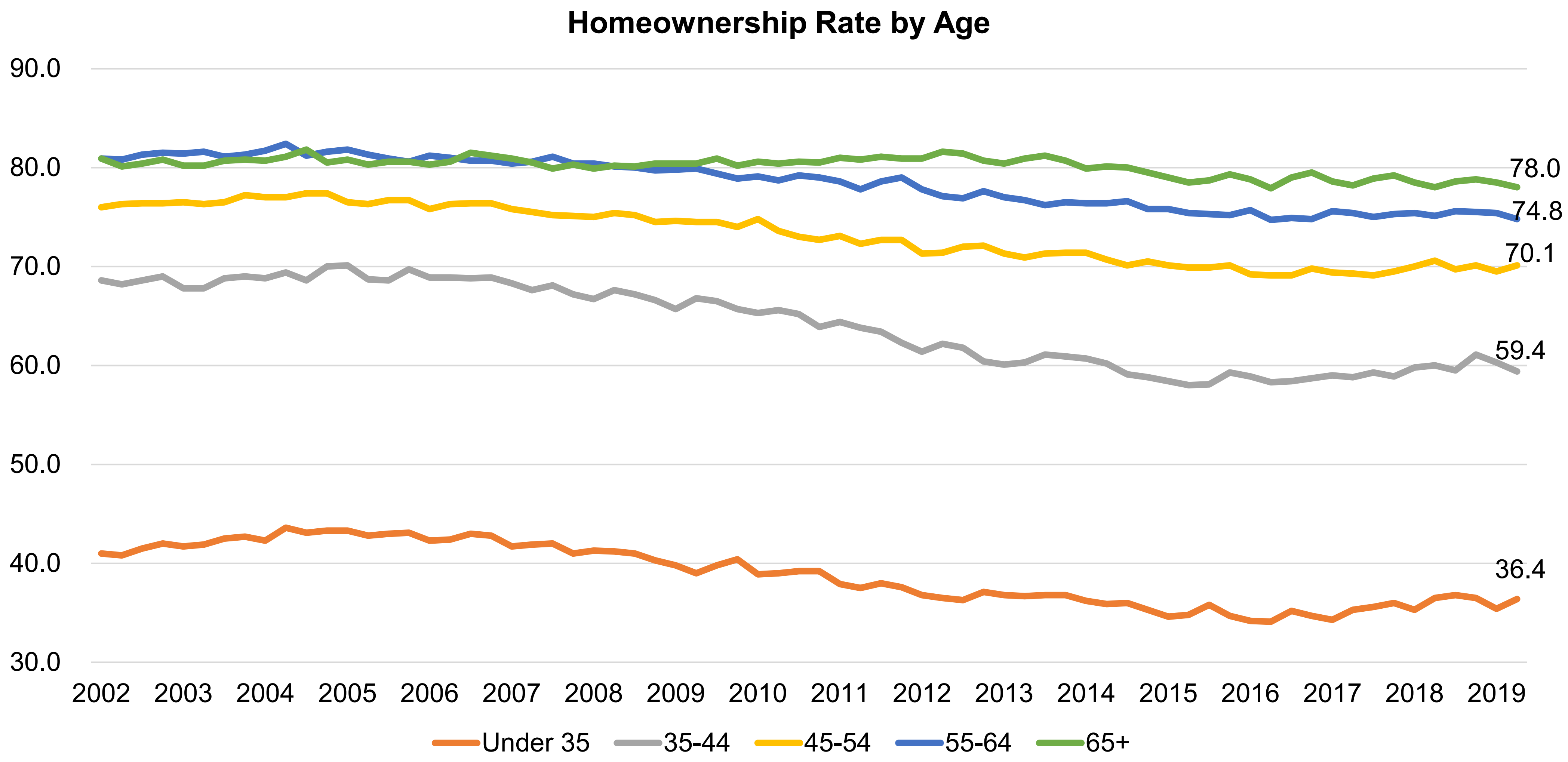
Interest Rate Volatility Is High



Source: CBOE, Treasury

MBA®

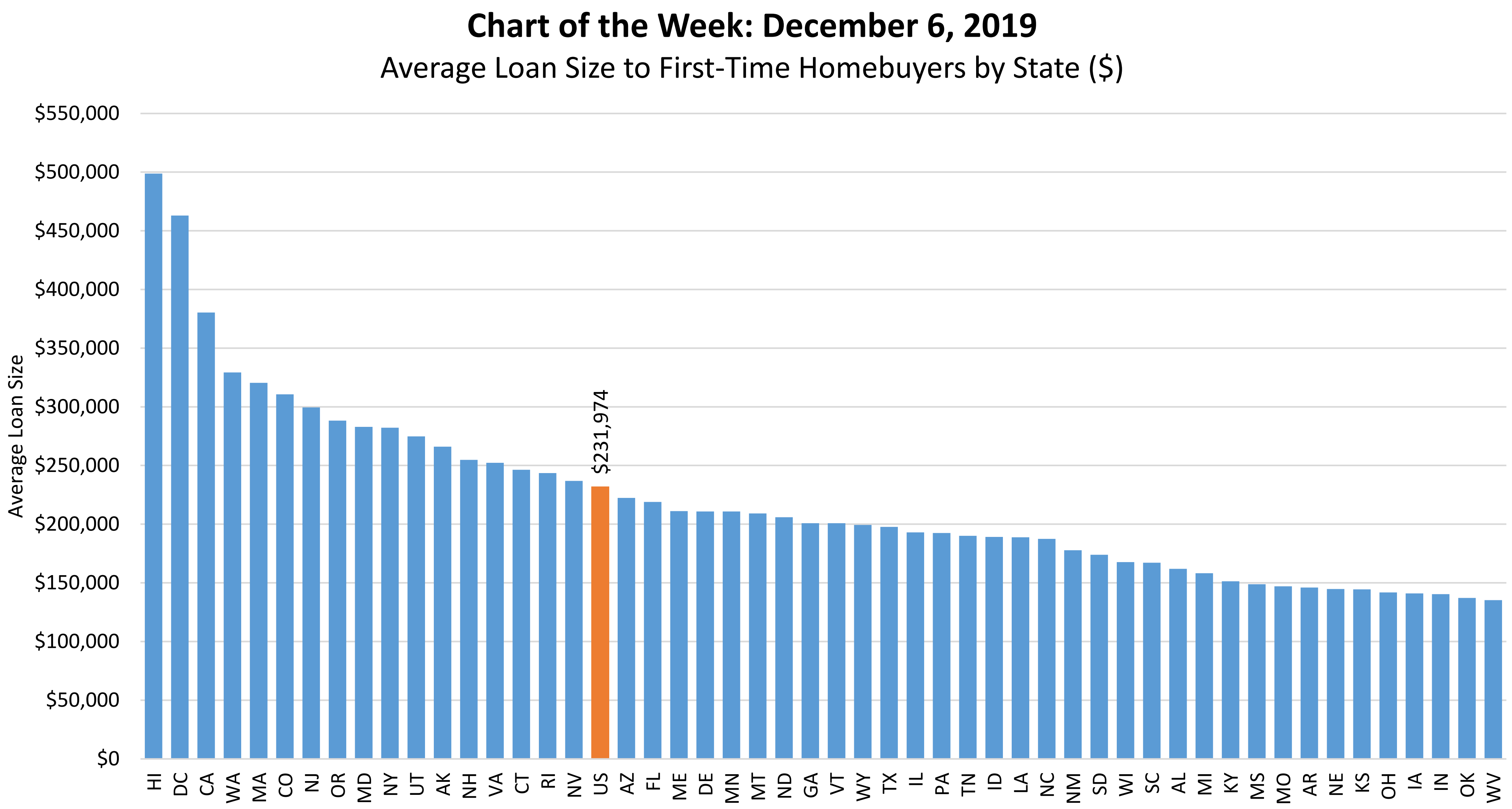
Younger Households Increase Homeownership



Source: Census

MBA®

First Time Home Buyers Borrowing More



Source: Fannie Mae, Freddie Mac

Contact Information and MBA Resources

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MBA Research:
www.mba.org/research

RIHA:
www.housingamerica.org

MARKET OUTLOOK: DIFFERENCE & COMMONALITY

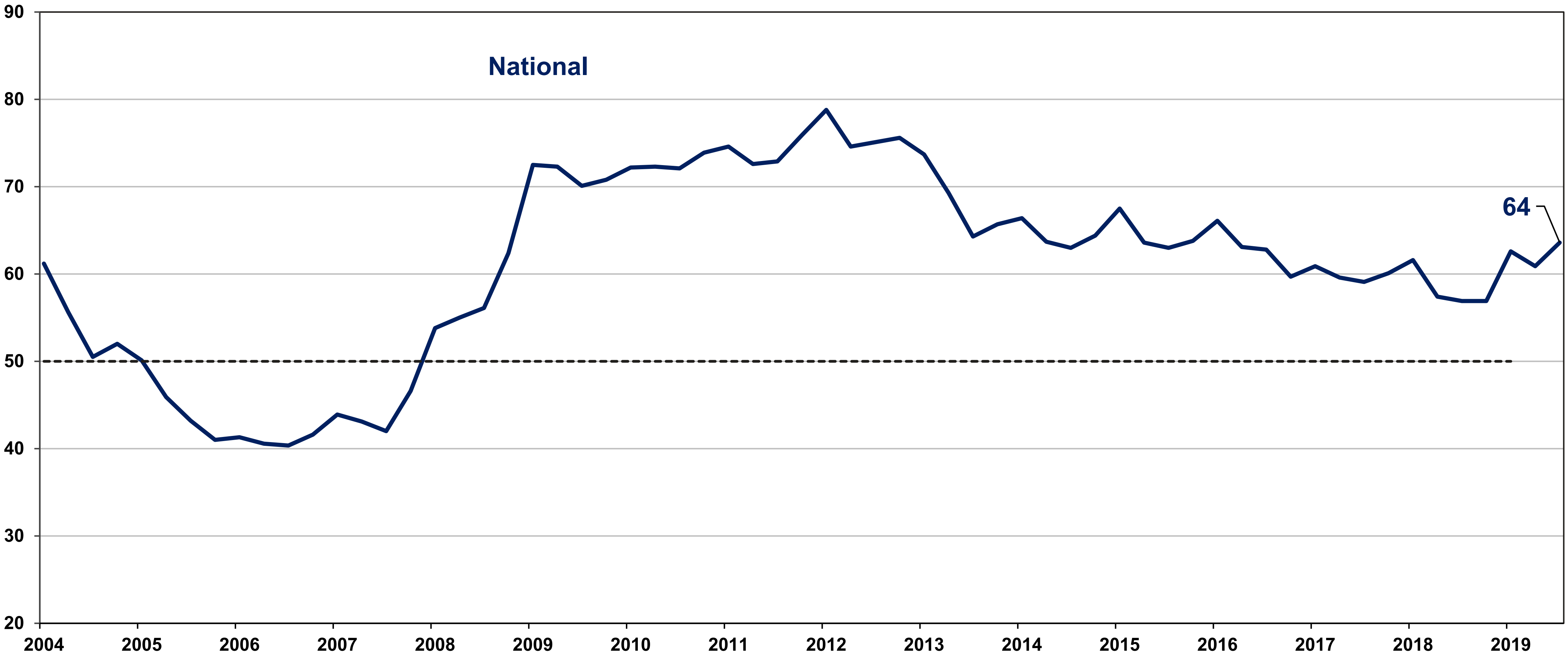
Headwinds for Housing Supply

NAR Real Estate Forecast Summit
December 11, 2019

Danushka Nanayakkara,
NAHB AVP, Forecasting and Analysis

National Association of Home Builders

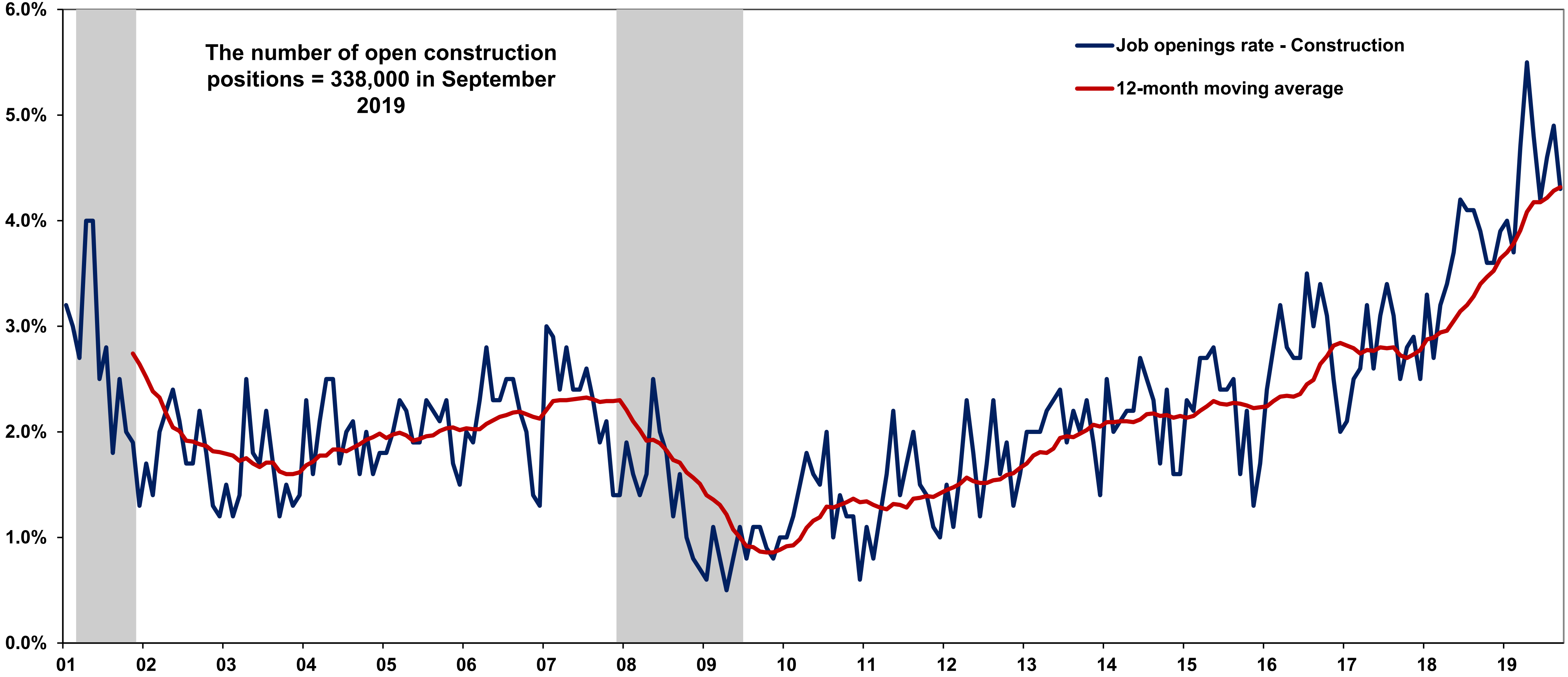
Housing Affordability – NAHB/Wells Fargo HOI



Source: NAHB/Wells Fargo Housing Opportunity Index.

Labor - Construction

Labor shortage continued through 2018

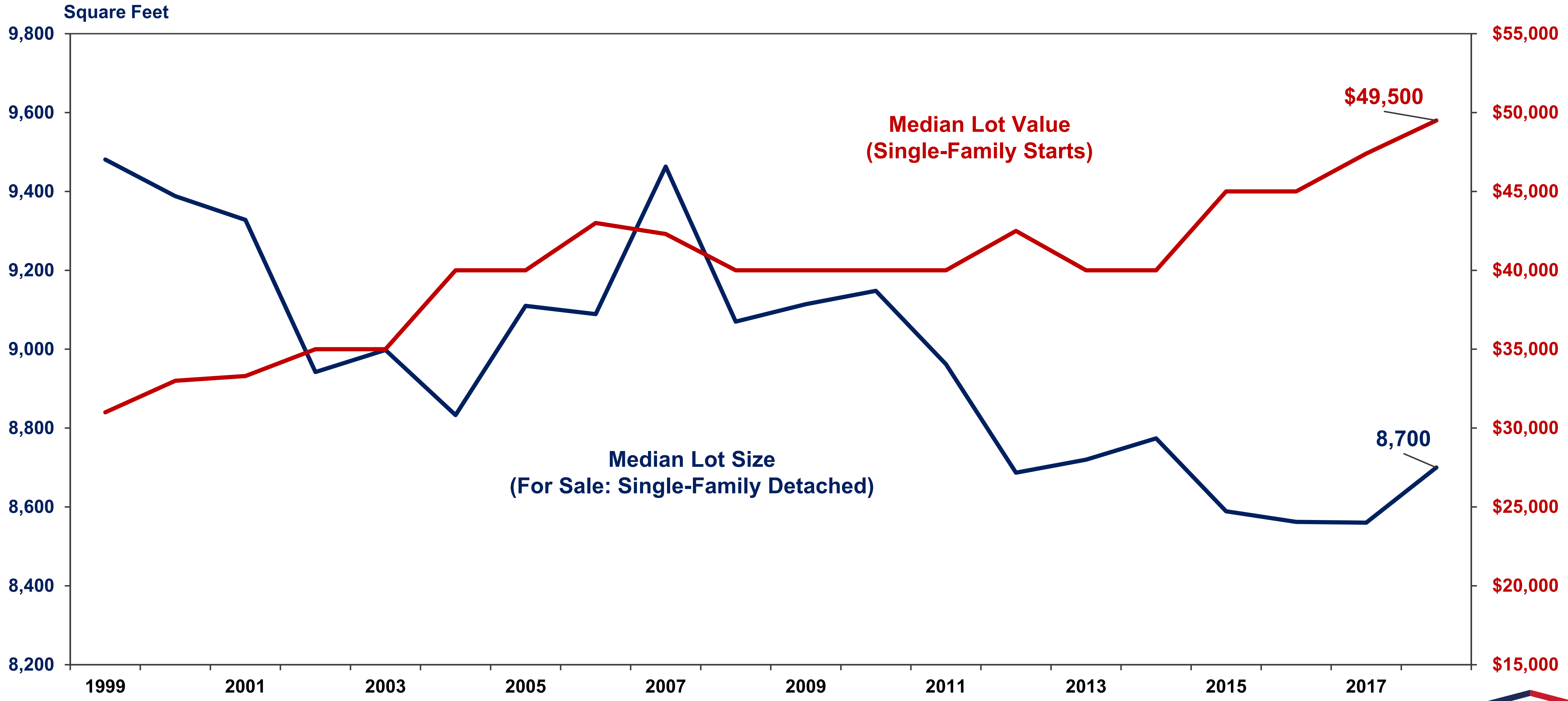


Source: U.S. Bureau of Labor Statistics (BLS)

NAHB
National Association of Home Builders

Median Lot Value and Size

Lot size declining --- lot value increasing

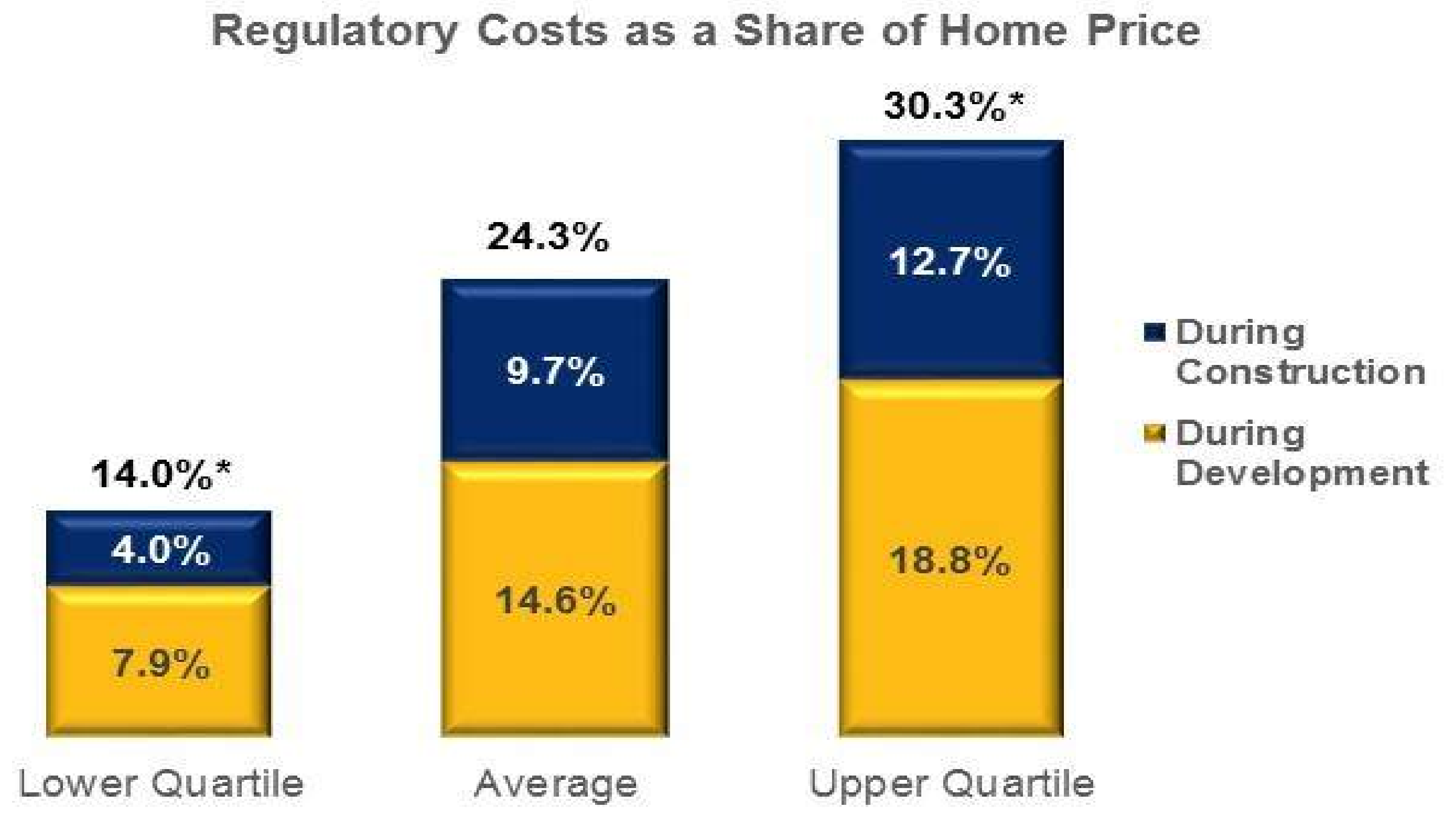


Source: 2018 Survey of Construction (SOC) and NAHB Economics Estimates.

NAHB
National Association
of Home Builders

Regulatory Costs Rising – Up 29% Over Last 5 Years

Total effect of building codes, land use, environmental and other rules

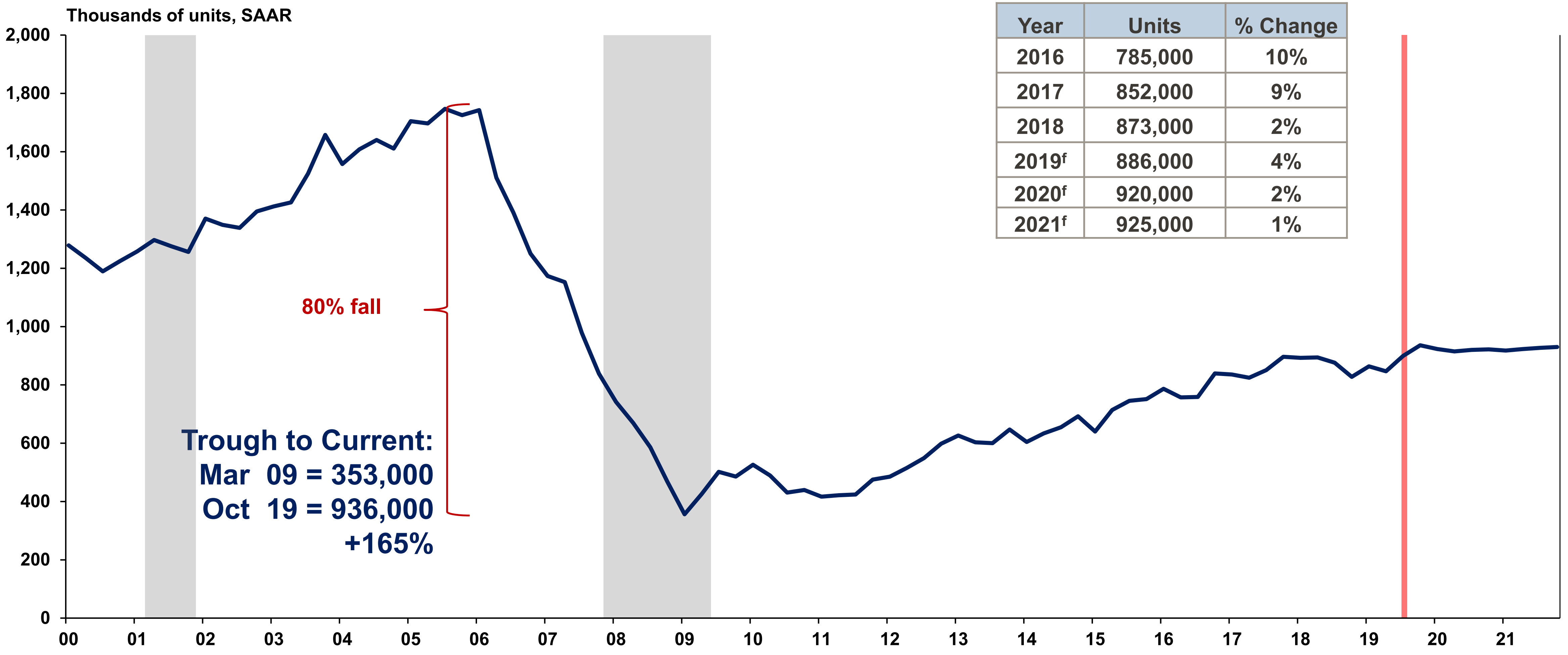


* For quartiles, construction and development costs do not sum to the total.
Source: NAHB/Wells Fargo HMI survey, assumptions described in the Appendix.

NAHB
National Association of Home Builders

Single-Family Starts

Limited growth as economy slows



Year	Units	% Change
2016	785,000	10%
2017	852,000	9%
2018	873,000	2%
2019[f]	886,000	4%
2020[f]	920,000	2%
2021[f]	925,000	1%

Source: U.S. Census Bureau (BOC) and NAHB forecast

NAHB
National Association of Home Builders

Thank you

Questions?

dnanayakkara@nahb.org

National Association of Home Builders

Economic Leadership Sponsor

WELLS FARGO HOME MORTGAGE

eyeonhousing.org

housingeconomics.com

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