

The background of the slide features a 3D bar chart with several horizontal bars in red and blue, receding into the distance against a blue gradient background. The text is centered over this graphic.

# **Residential Economic Issues & Trends Forum**



# Housing Market and Economic Outlook

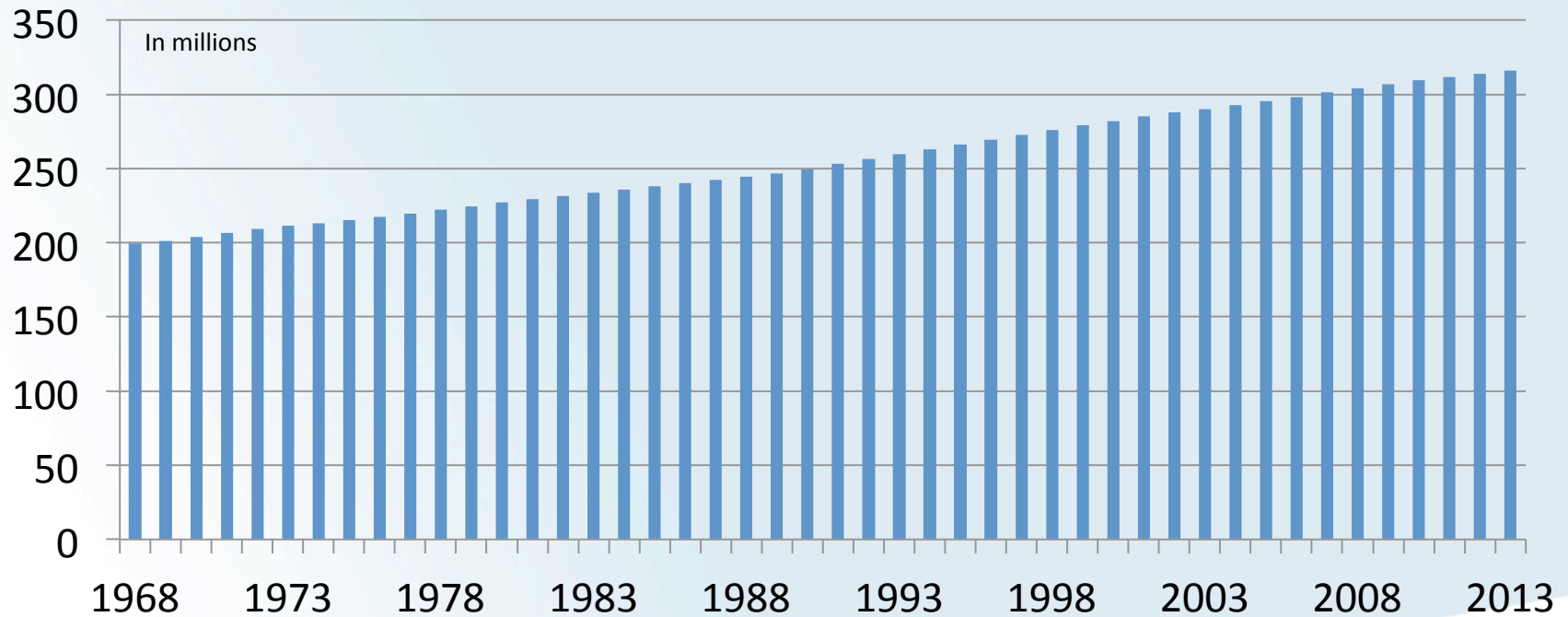


Lawrence Yun, Ph.D.  
Chief Economist  
NATIONAL ASSOCIATION OF REALTORS®

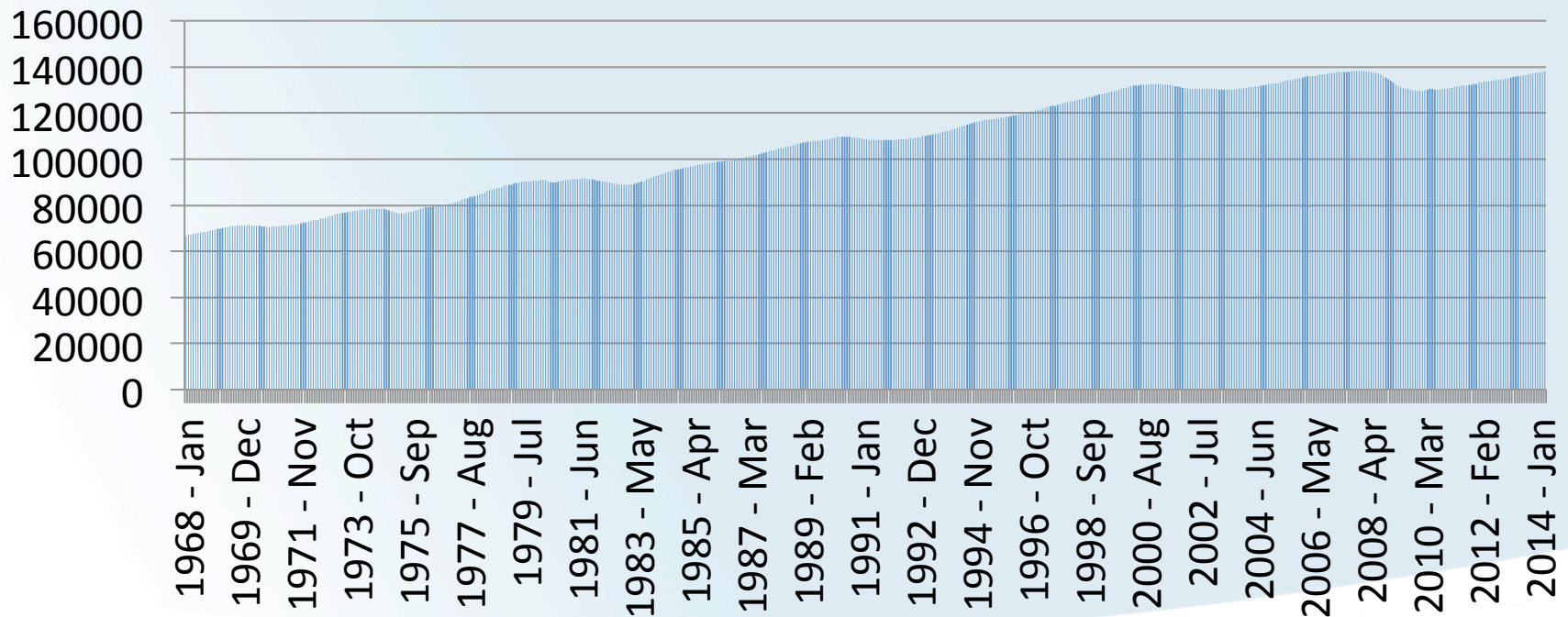
Presentation in Washington, D.C.



# U.S. Population

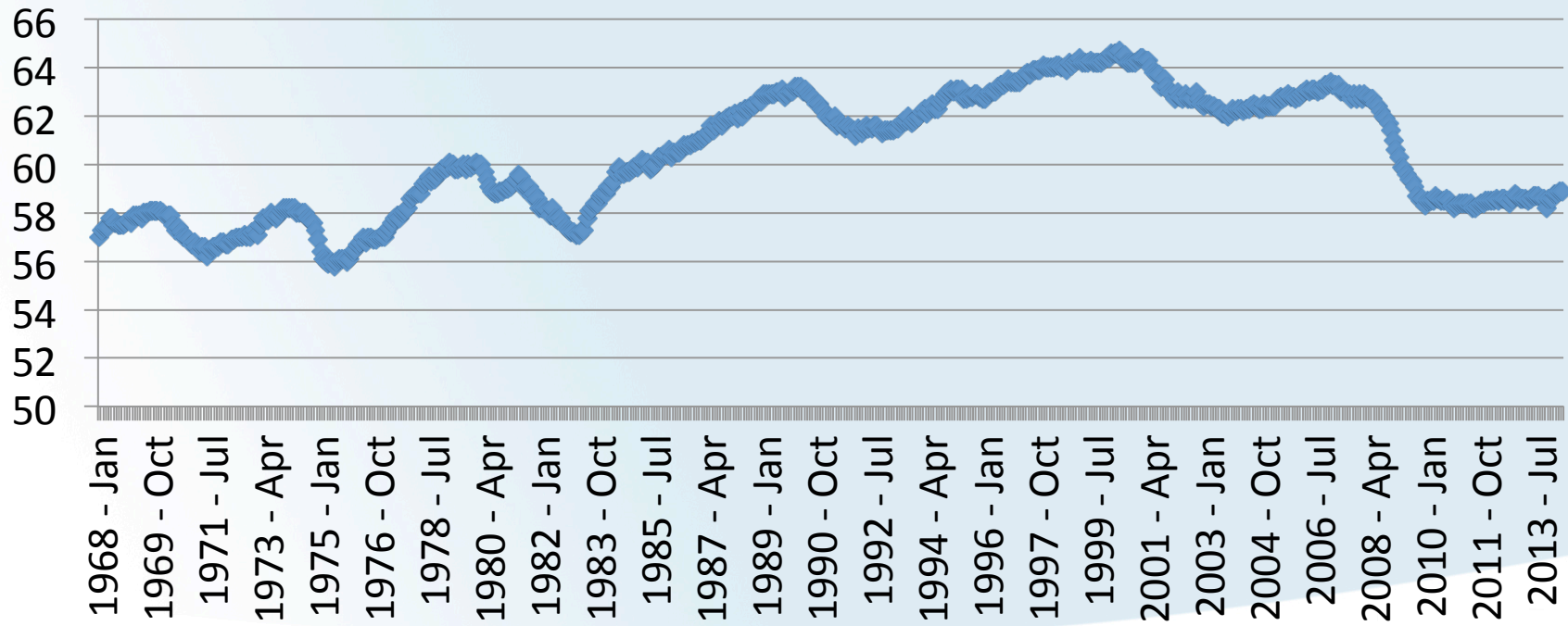


# Jobs in America – Less Smooth

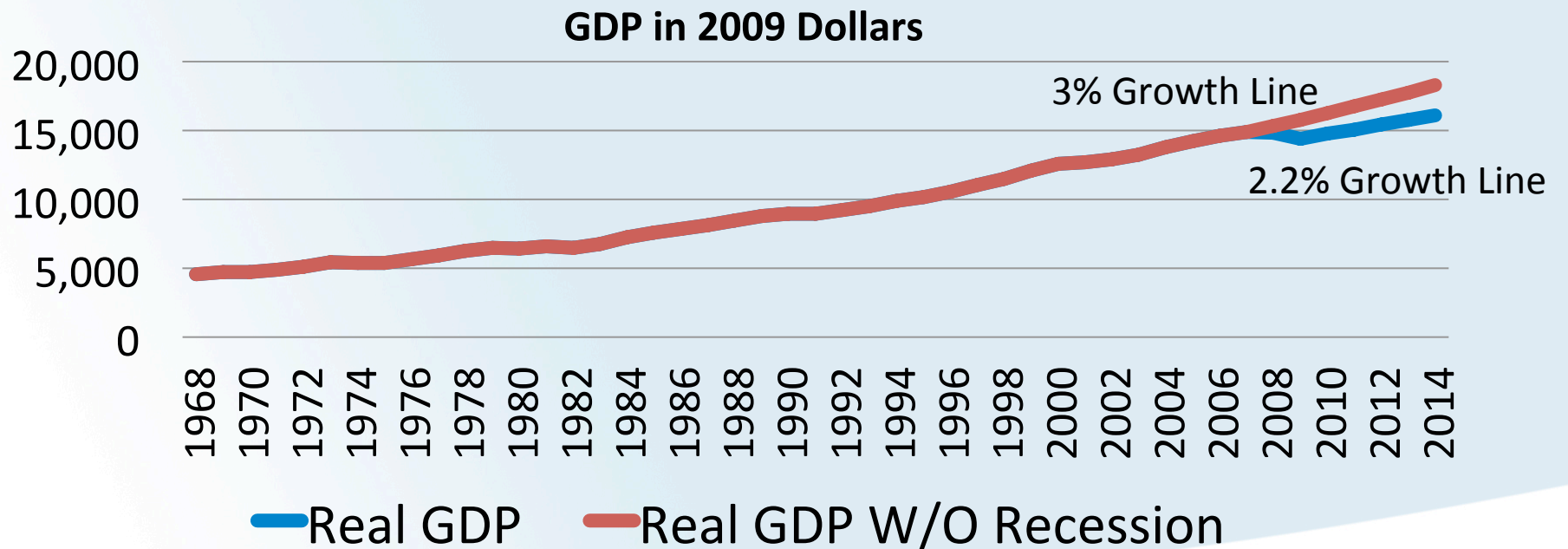


# Jobs to Population Ratio

(16 years and over)



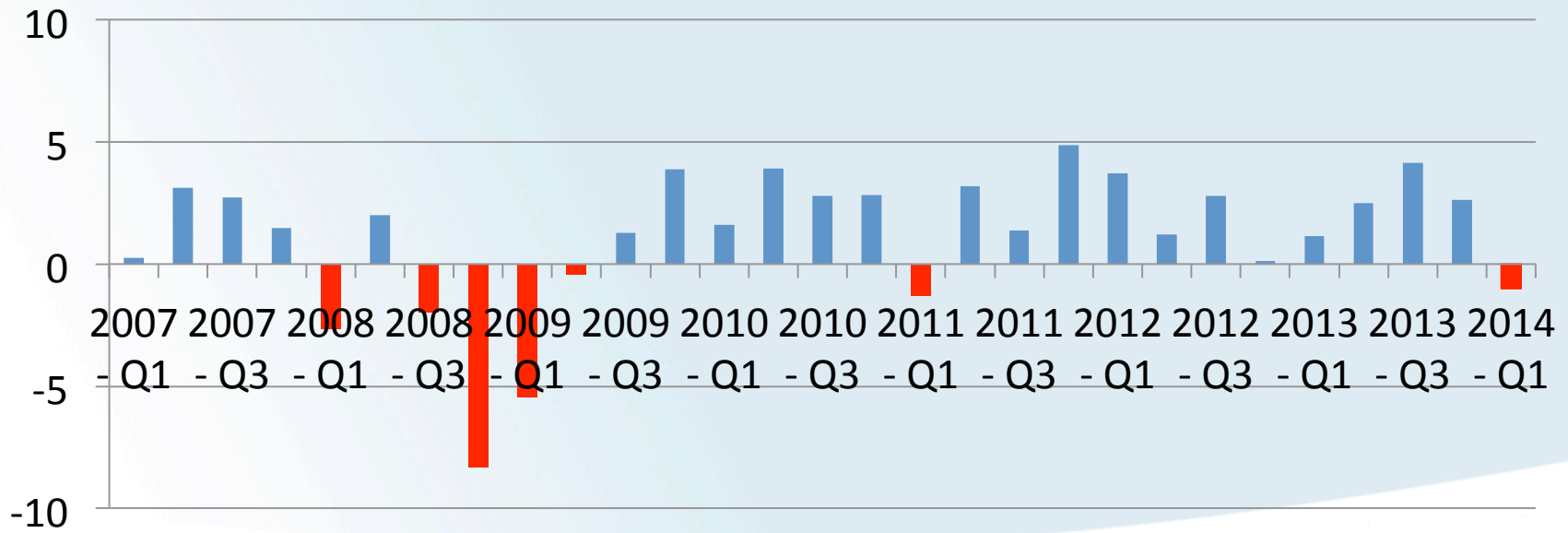
# Sluggish Growth + Gap after Great Recession (\$1.5 trillion gap ... \$4,700 per person)



# Recent Year Activity

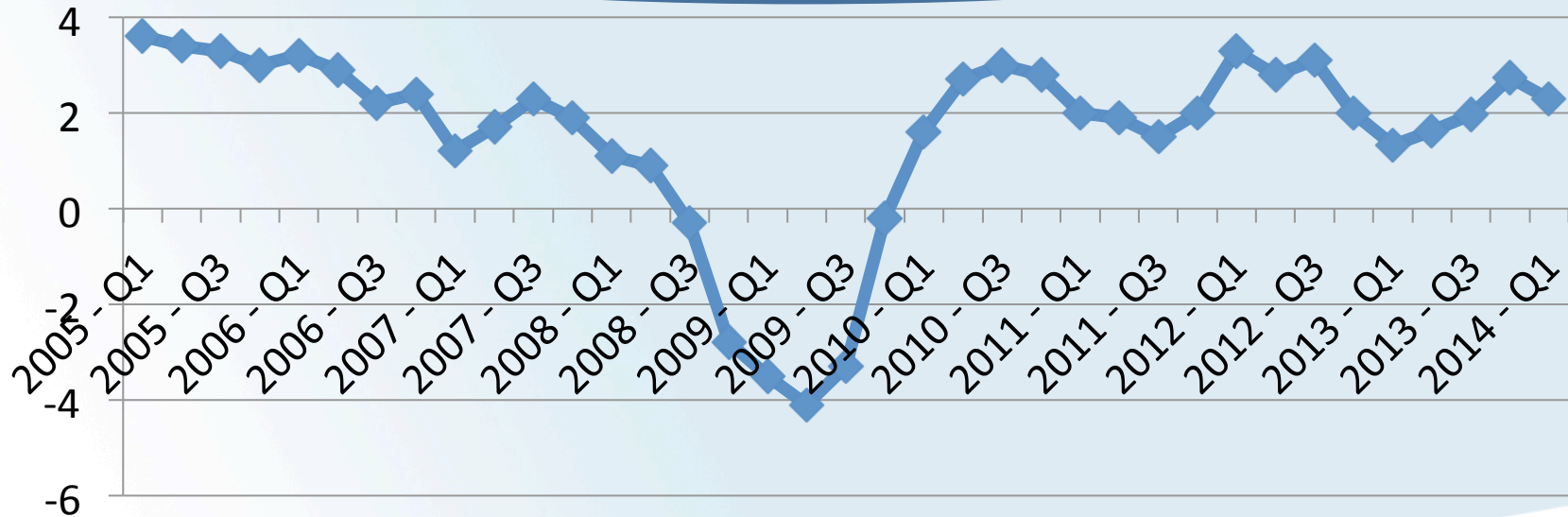
## GDP Contraction in 2014 Q1

GDP Annualized Growth Rate



# But No Fresh Recession in Sight

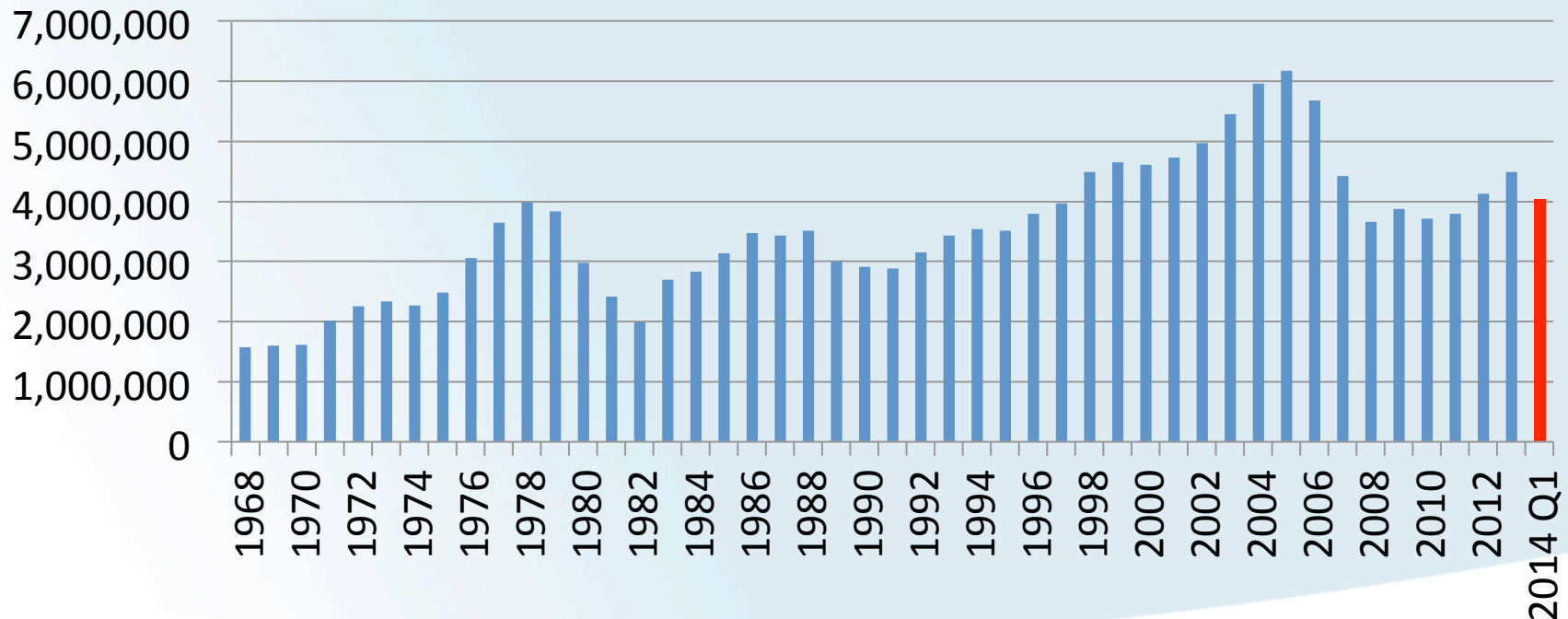
GDP Growth Rate from one year ago



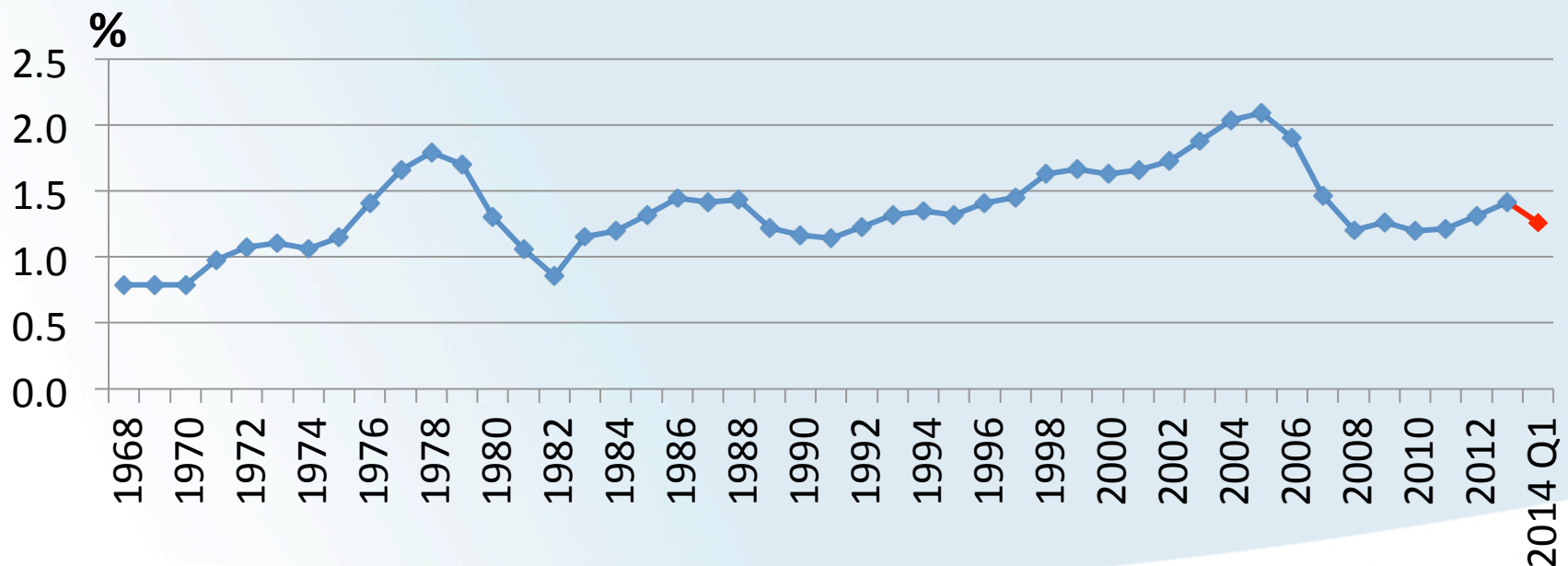


# Cyclical Housing Sector: Single-Family Existing Home Sales Only

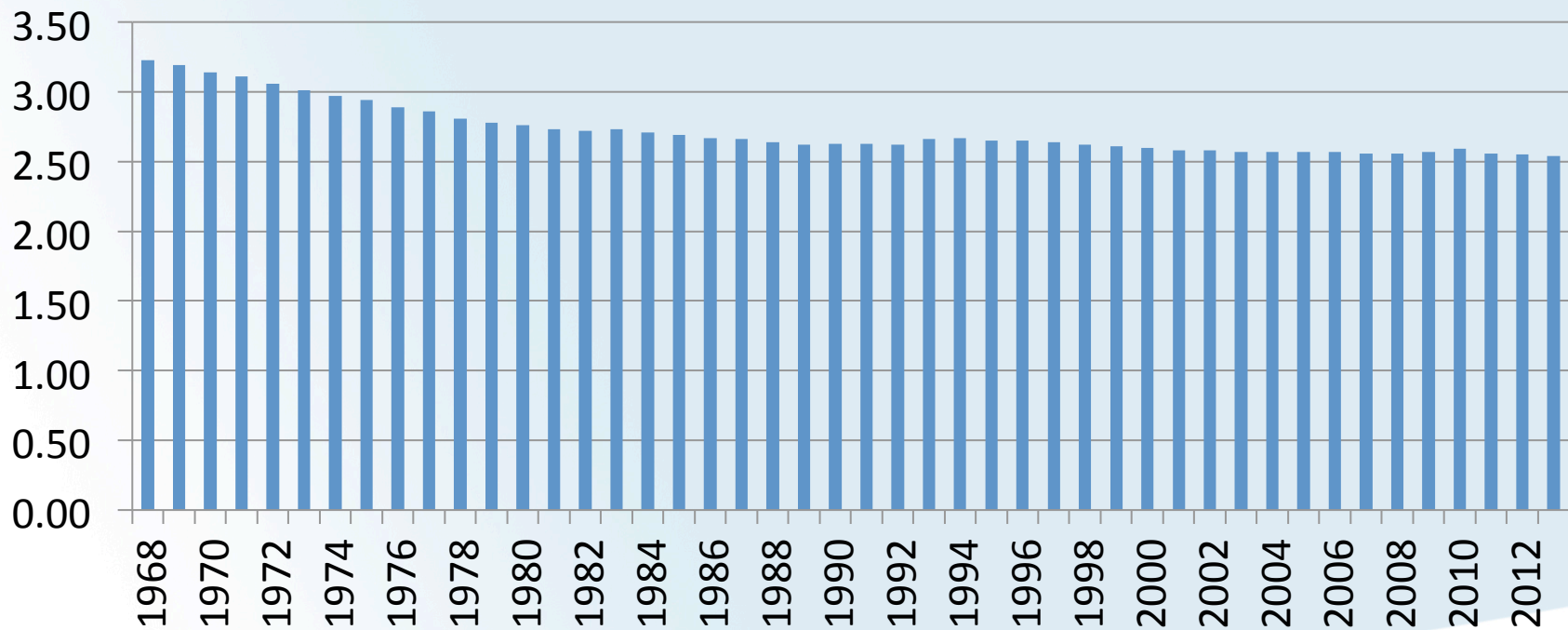
(Best Estimation – could be off by several % points)



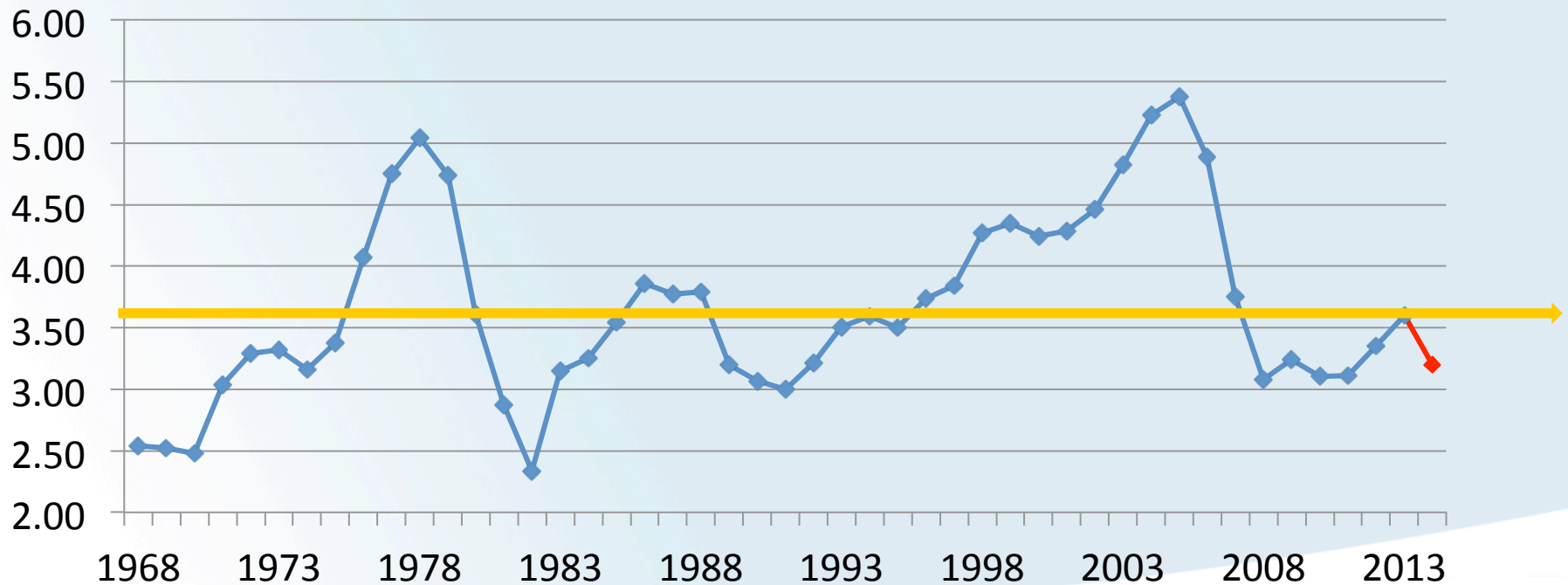
# Single-Family Sales to Population Ratio (Average = 1.36%)



# # of People per Housing Unit

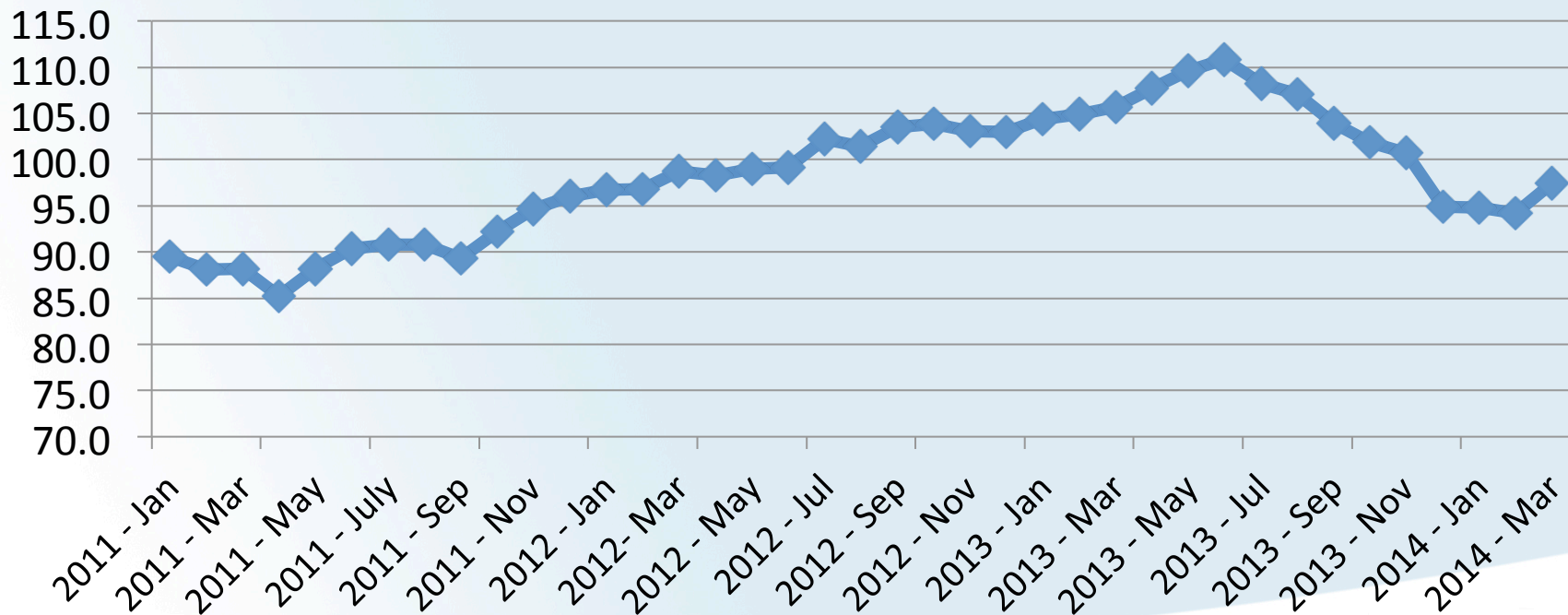


# Single-Family Sales to Household Ratio (Average = 3.66%)



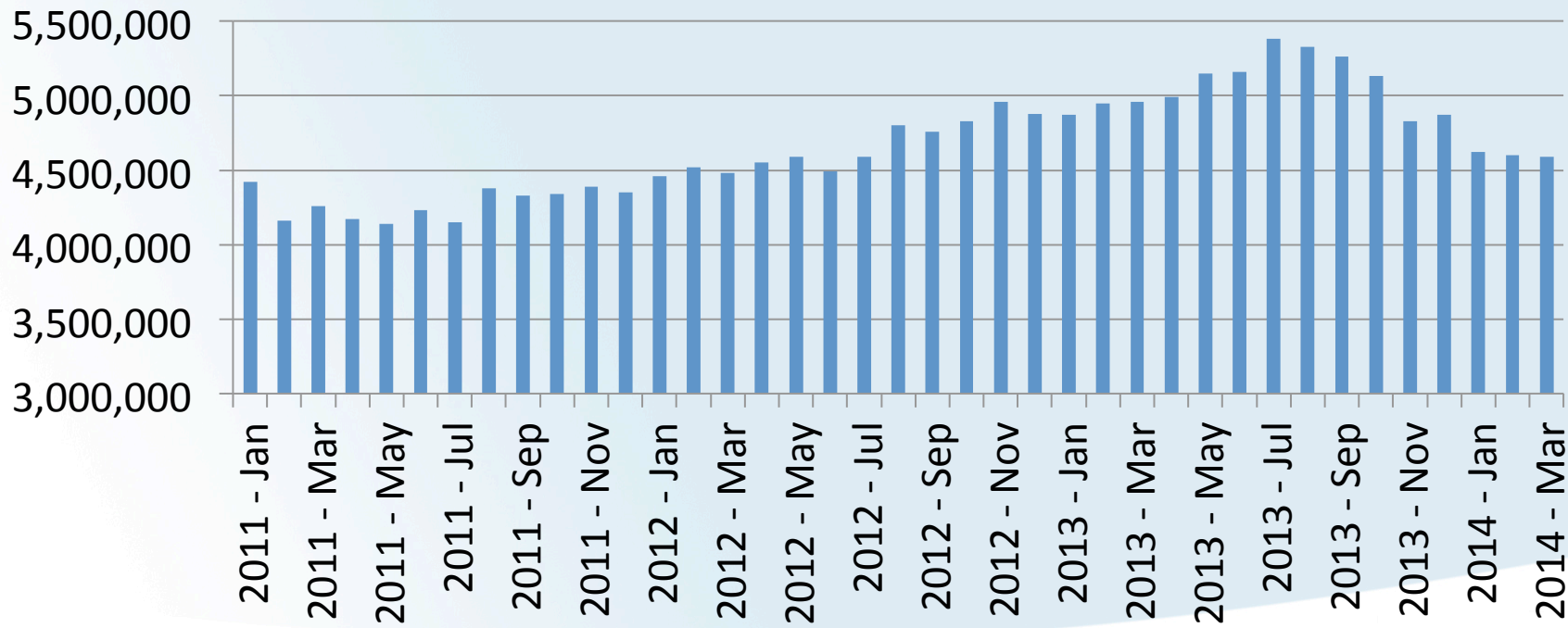
# Monthly Pending Sales Index

(Seasonally Adjusted)



Source: NAR

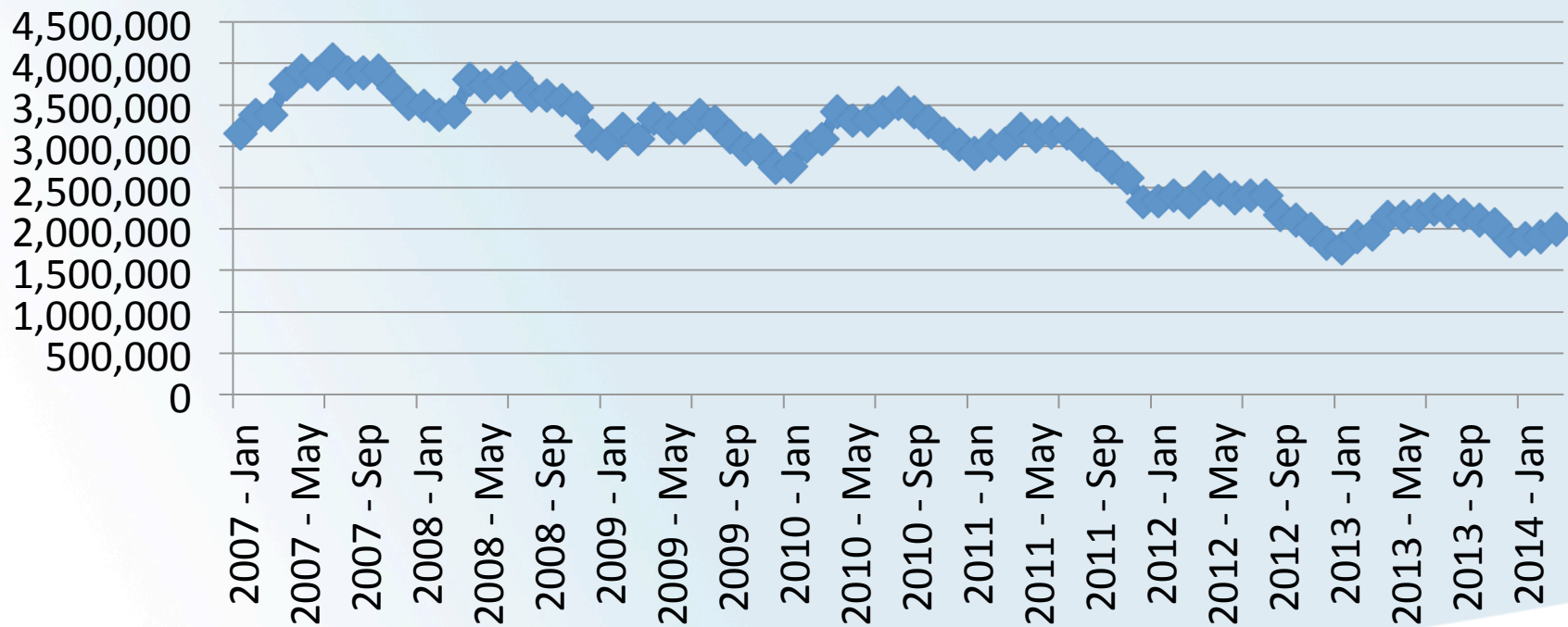
# Existing Home Sales - Closings



# Causes of Recent Sales Slowdown

- Bad winter
  - Only delayed sales not cancellation
- Lack of inventory
  - Steadily more inventory coming to market
- Home prices rose too fast
  - Showing signs of slowing
- Mortgage credit difficulties
  - New Qualified Mortgage Rules
  - Surely cannot get worse!
- Mortgage rates jumped
  - Trouble !

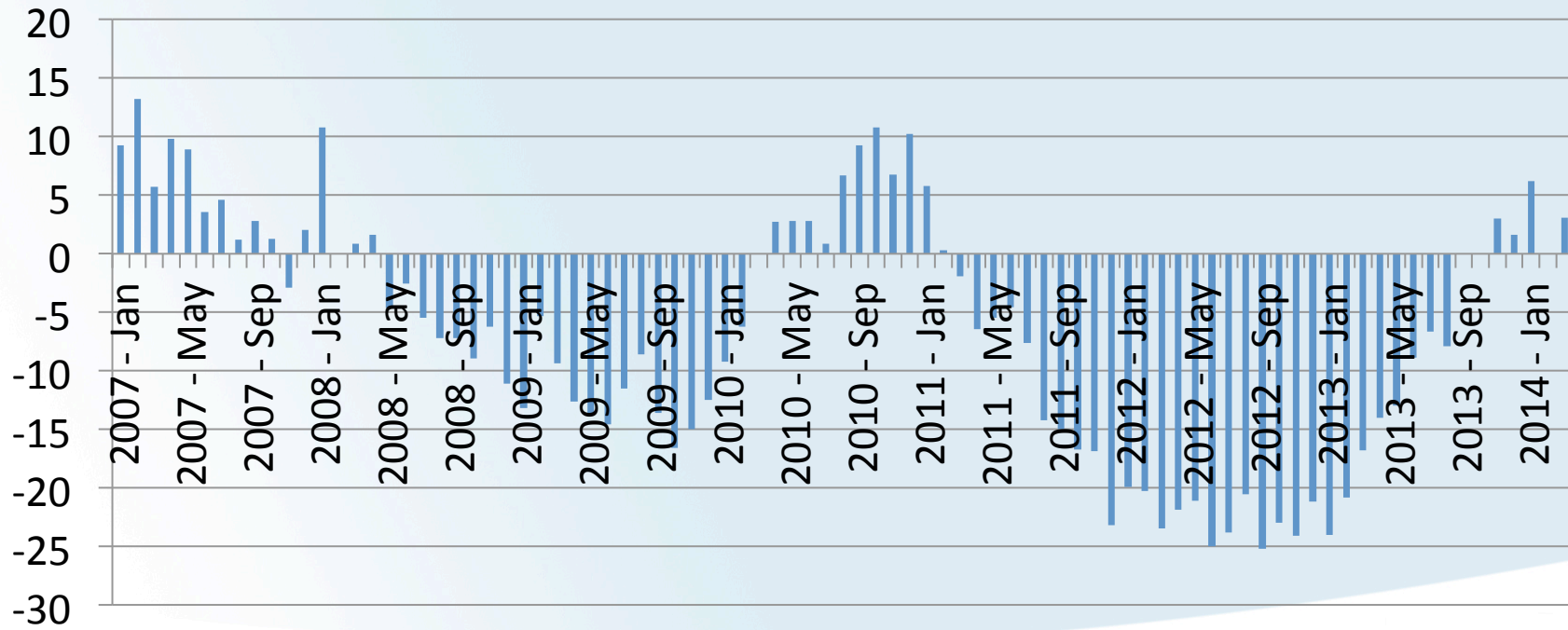
# Inventory of Homes for Sale





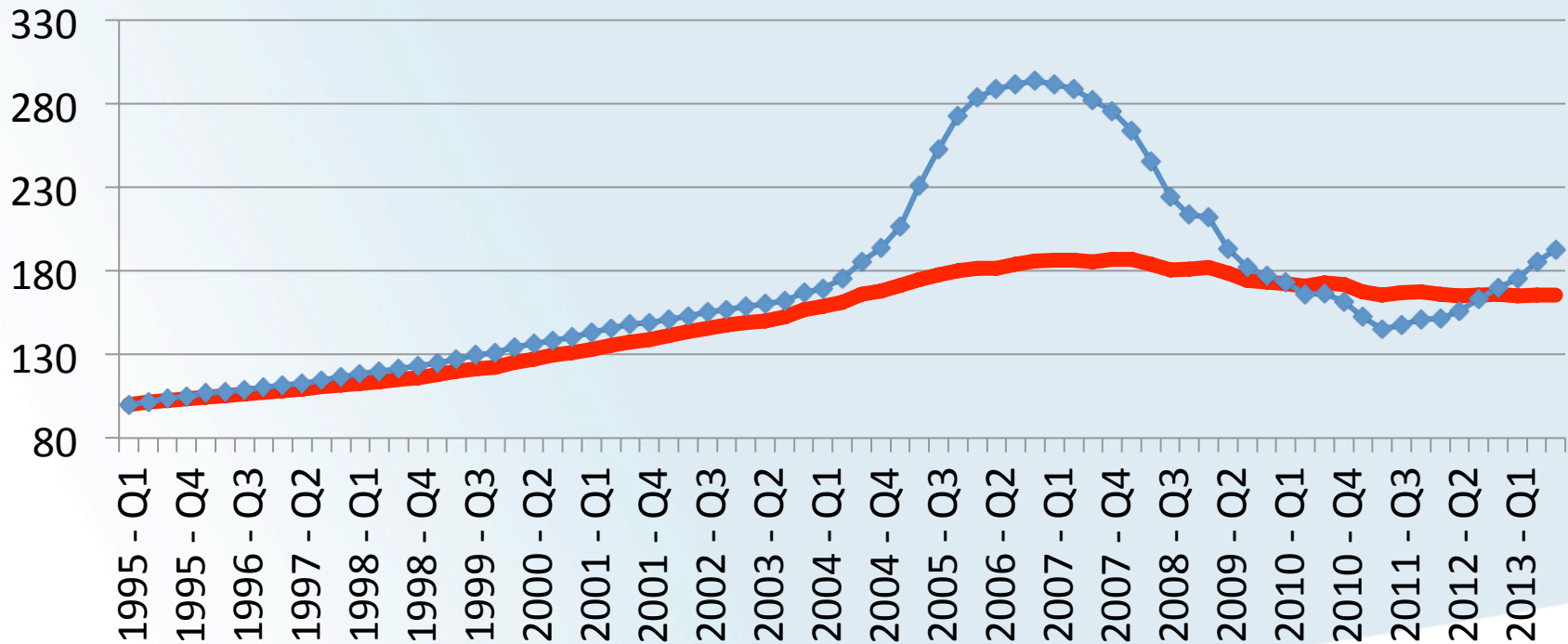
# Change in Inventory

(% change from one year ago)



# Home Price Index in Phoenix and St. Louis

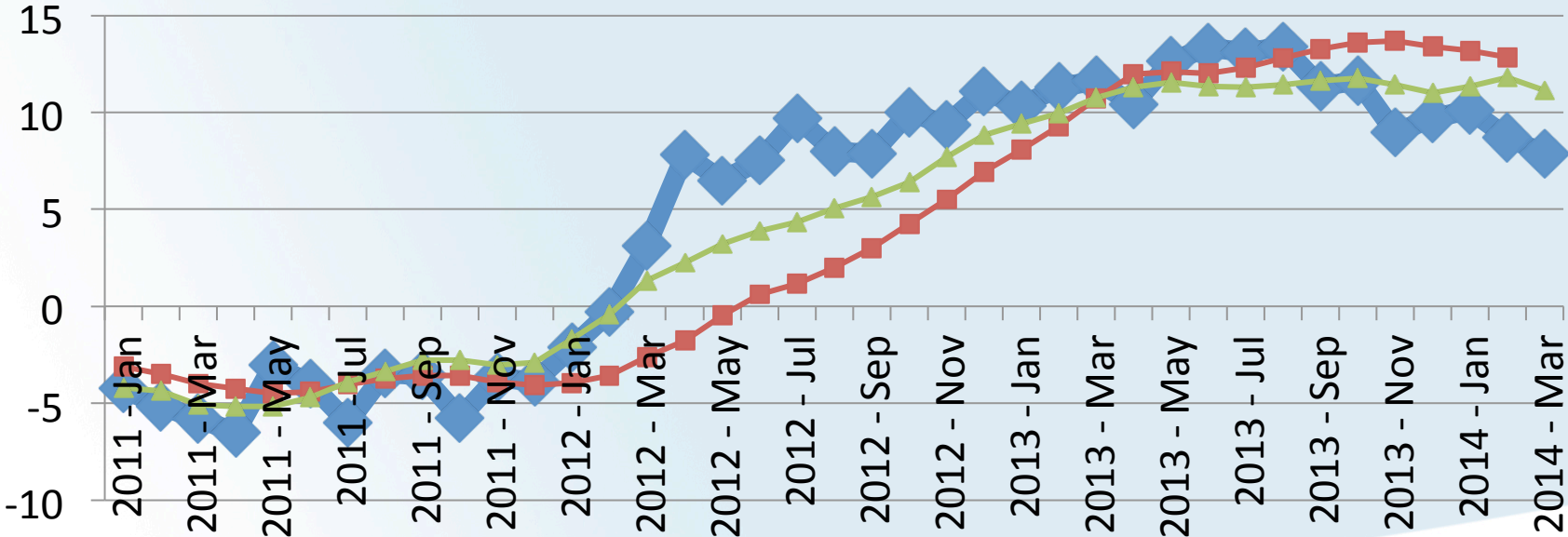
## Repeat-Transaction Home Price Index



# Change in Home Price

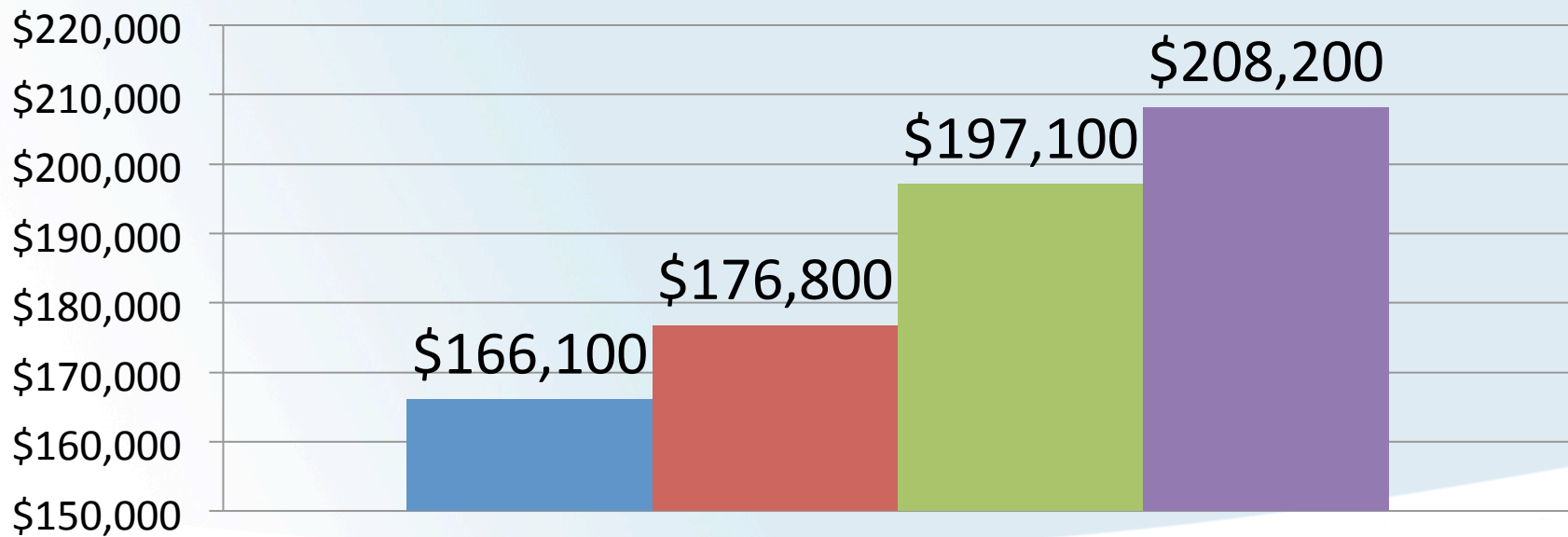
(% change from one year ago)

NAR Case-Shiller CoreLogic



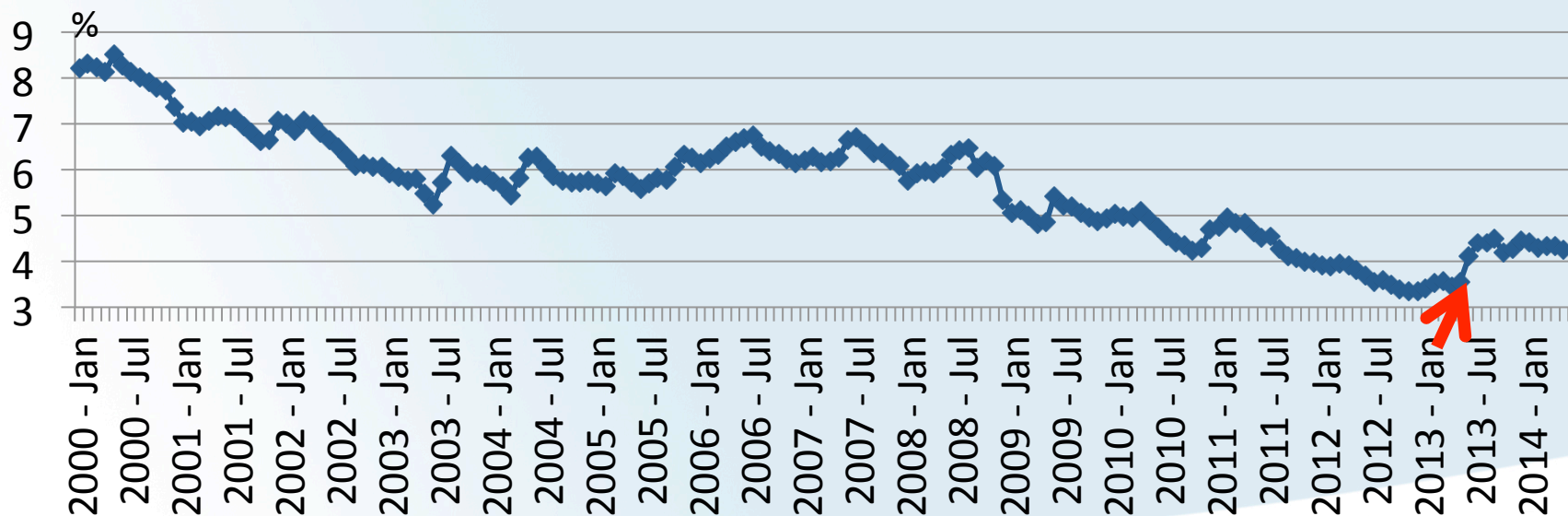
# Median Home Price – Rising (\$40,000 Equity Gain in 3 years)

■ 2011 ■ 2012 ■ 2013 ■ 2014 forecast



# Inevitable Rise in Mortgage Rates will further hurt Affordability

1/3rd of homeowners have no mortgage  
1/3rd have 4.3% rate or lower  
1/3rd have higher rate

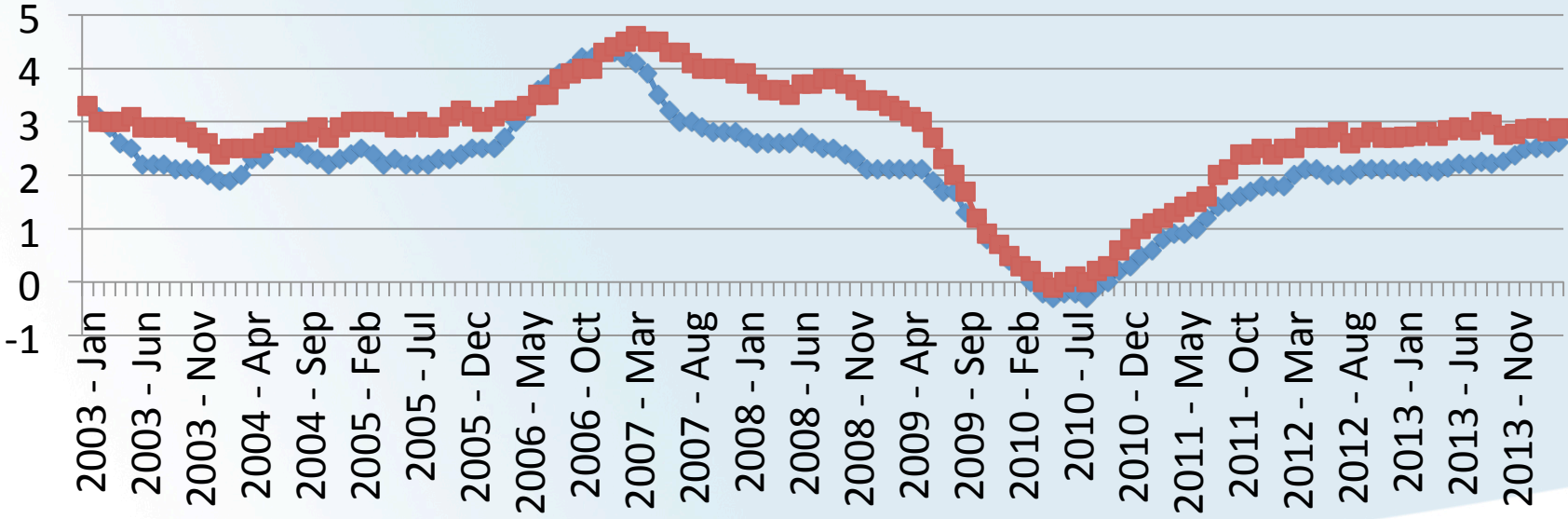


# Locked-in Effect of Low Rates?

- Housing cannot get back to normal in a hurry
- People move even in high interest rate environment
  - Marriage, divorce, new baby, school district, new job, fed-up with local government, ...
- Many unplanned landlords
  - Take advantage of rising rents while rates are low and fixed
- Potential future lock from longer holding period for capital gains tax exclusion

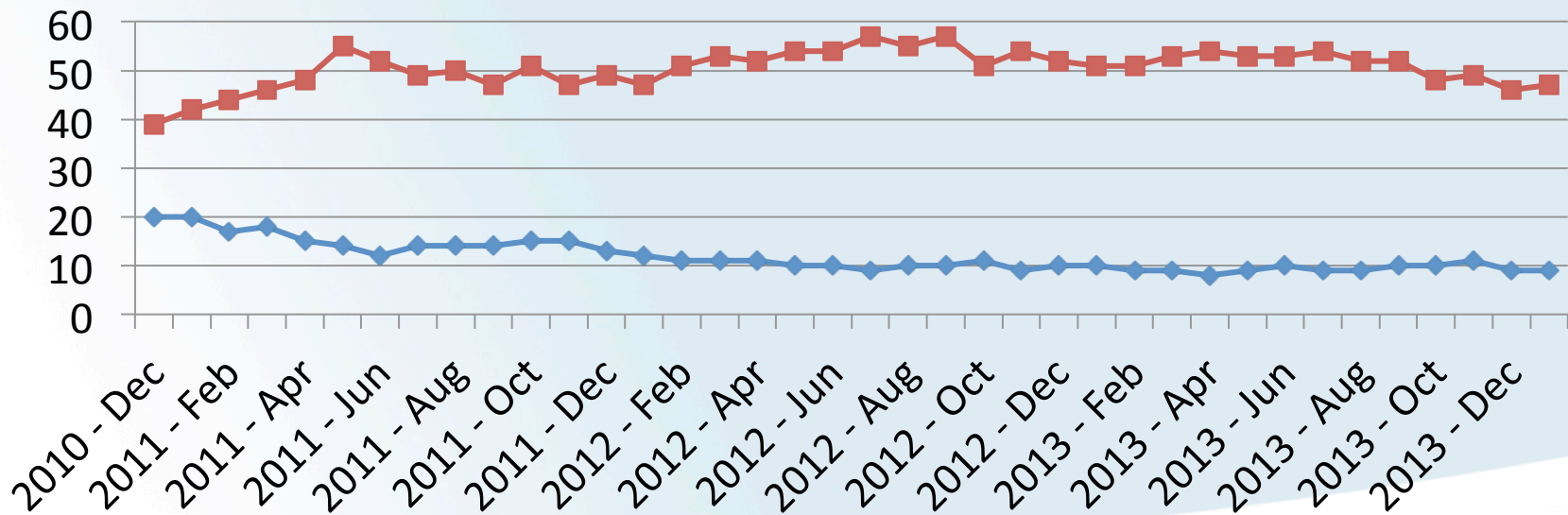
# Rising Renters' and Homeowners' Rent Growth (On the Way to 3%)

— Owners' Equivalent Rent      — Renters' Rent



# REALTOR® Rent Survey – Shows Rent Pressure

— Falling — Rising



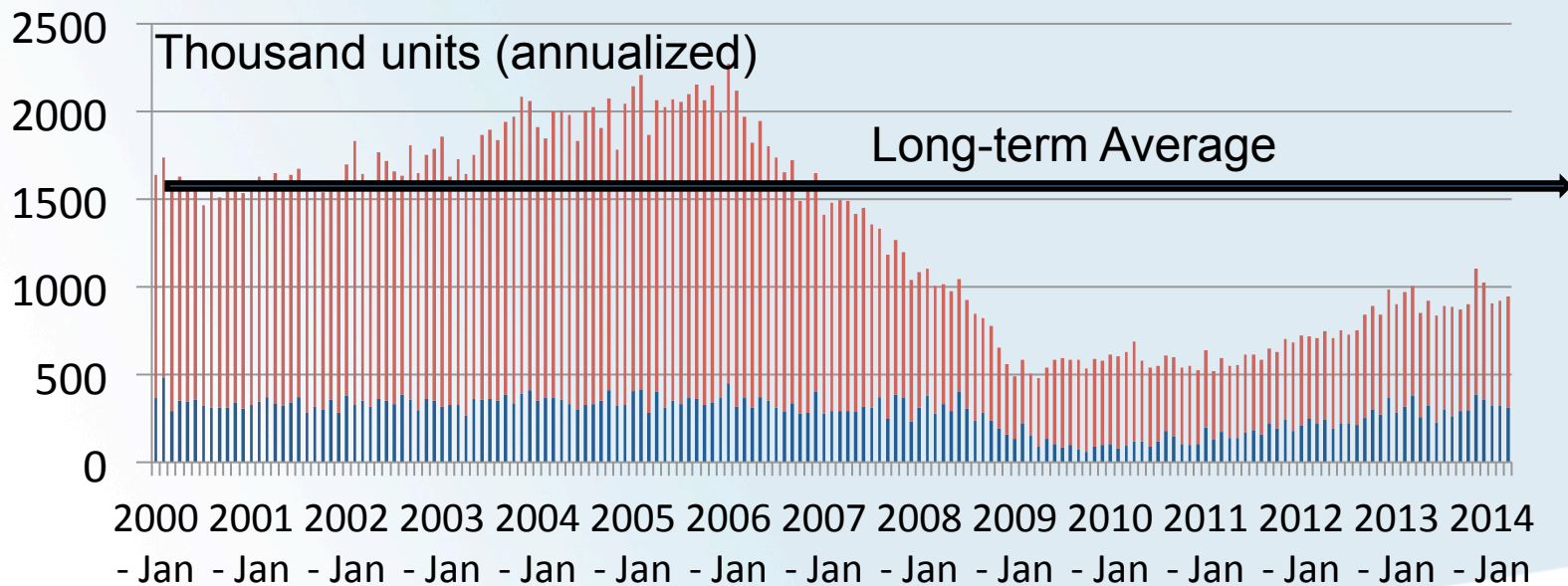


If there is persistent housing  
shortage ... then the battle begins

Landlord from Hell  
versus  
Rent Control

# Housing Starts Rising ... More Inventory But Needs to Reach ~~1.5~~ 1.7 million

■ multifamily ■ single-family



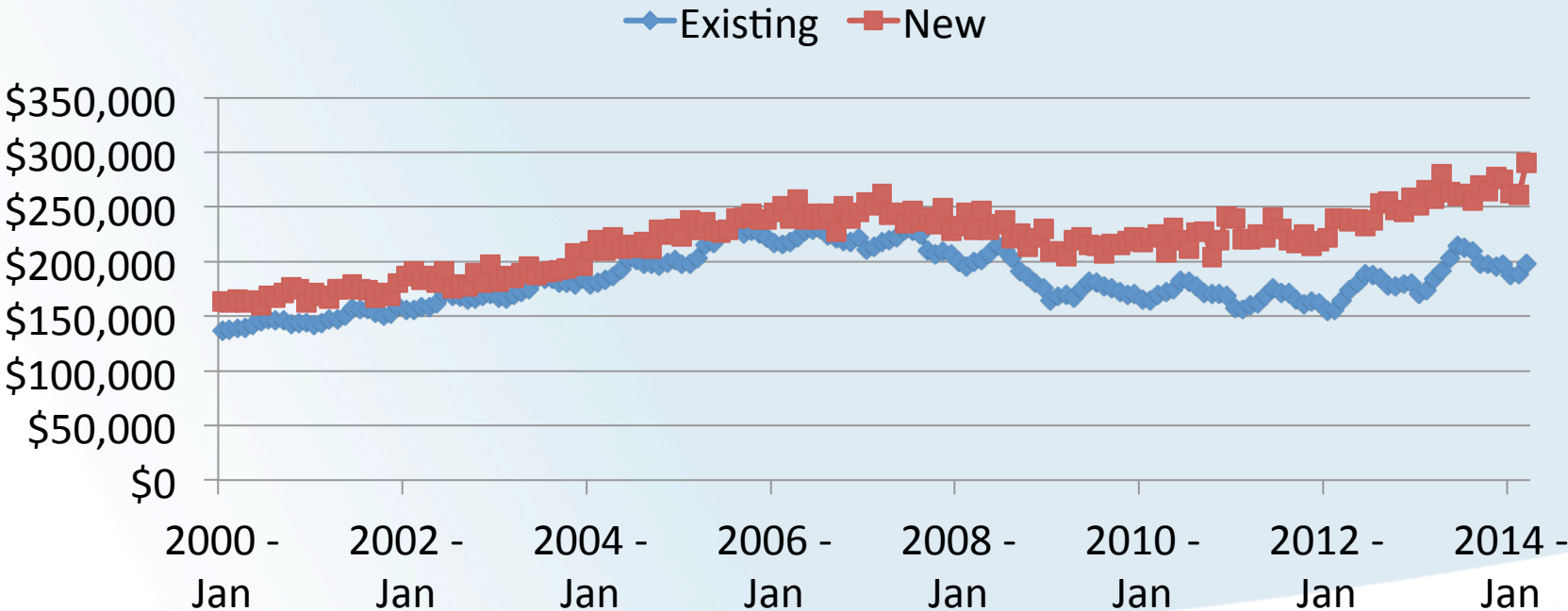
# New Home Sales



# Sluggish Recovery in Housing Starts

- Cost of Construction Rising Faster than CPI
- Labor Shortage for construction work
- Construction loan difficulty for small local homebuilders ... Dodd-Frank financial regulations?

# Existing vs. New Home Price



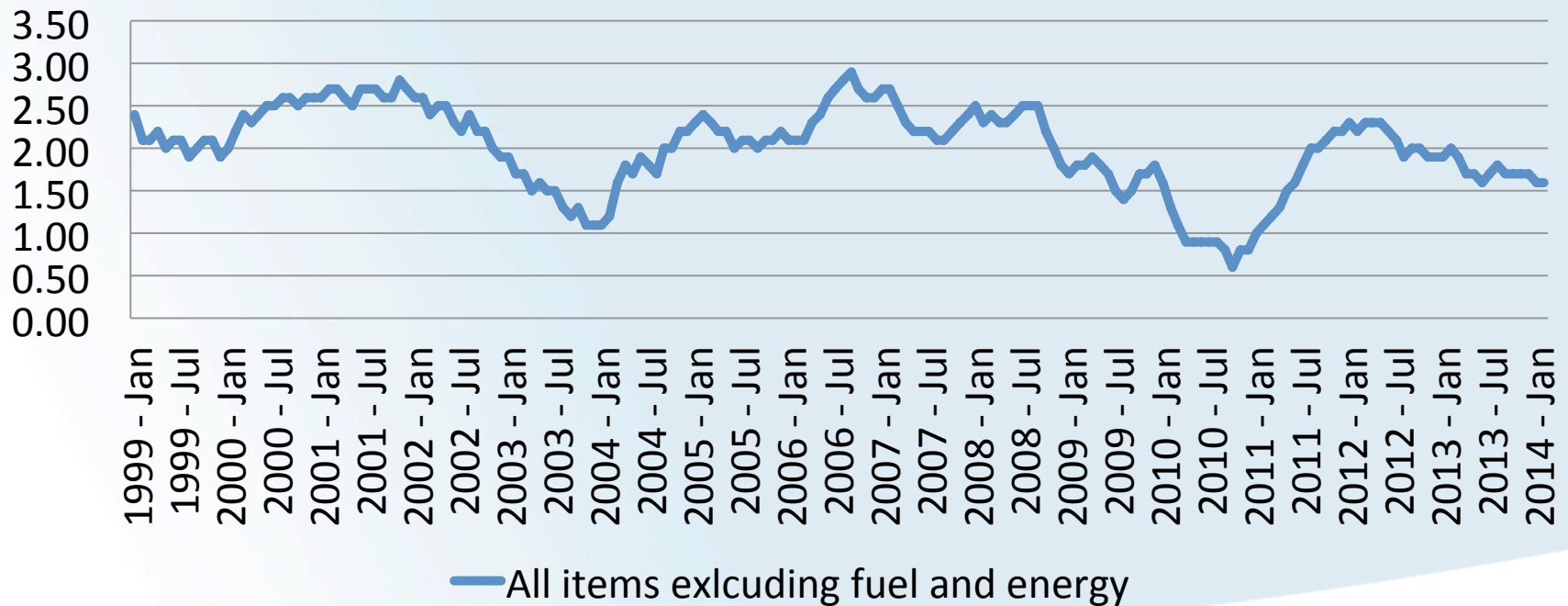
# Economic Outlook

# Monetary Policy

- Tapering Ends by the year end 2014
- Fed Funds Rate ... hike in 2015 Q1
- Earlier Move to Tighten because of Inflation Pressure
- Long-term Steady State Rate (2016 onwards) .. 10 year Treasury at 5.0% ... 250 basis points higher than current

# Core Price Inflation: Less than 2%; but rose at 2.5% annualized rate

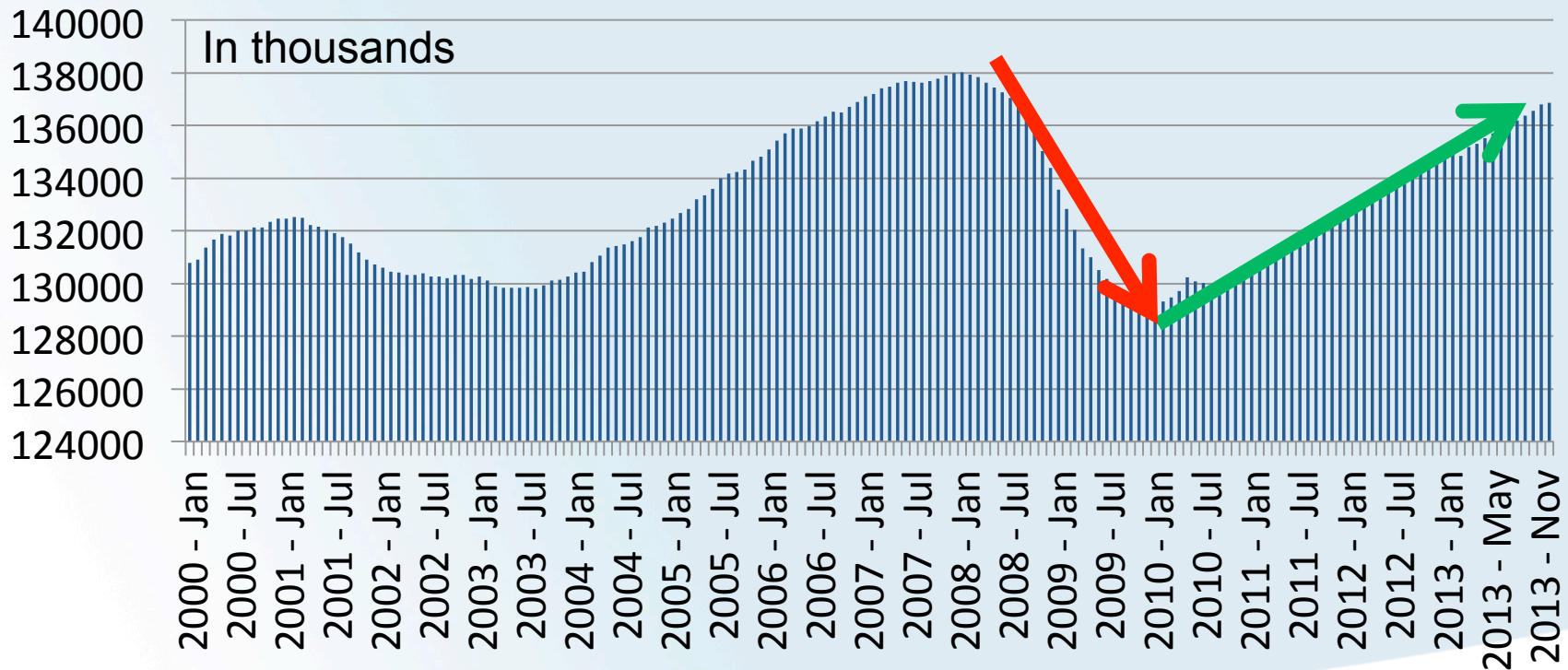
(% change from one year ago)





# GDP Growth = Job Creations

(8 million lost ... 8 million gained)

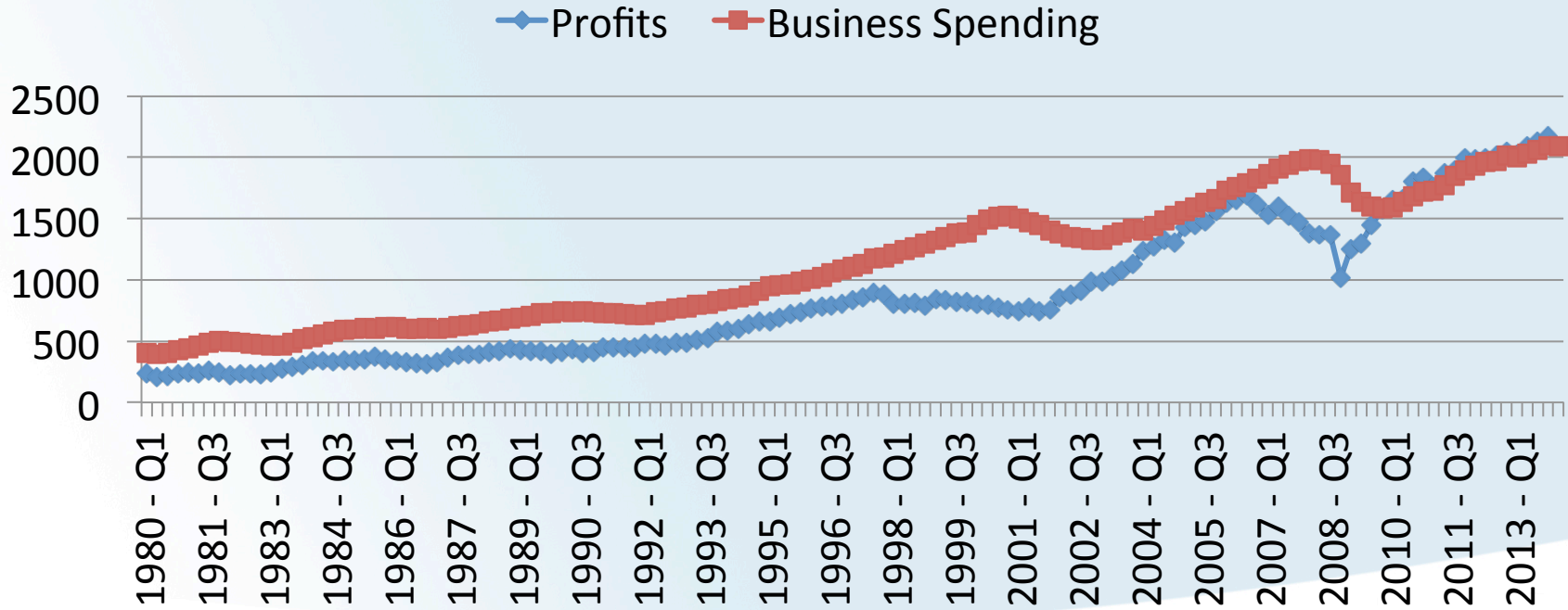


# Local Market Job Comparisons

Fast Growing States	1-year Growth Rate
Nevada	3.8%
North Dakota	3.7%
Colorado	3.0%
Florida	3.0%
Oregon	2.7%
Texas	2.7%
Utah	2.6%
Delaware	2.4%
California	2.3%
Arizona	1.9%

Slow Moving States	1-year Growth Rate
New Mexico	-0.2%
Kentucky	-0.2%
New Jersey	0.0%
Virginia	0.1%
Alaska	0.2%
West Virginia	0.3%
Pennsylvania	0.3%
Maryland	0.3%
D.C.	0.4%
Mississippi	0.5%

# Business Spending in relation to Corporate Profits ... Huge Potential for Business Spending Increase



# Economic Forecast

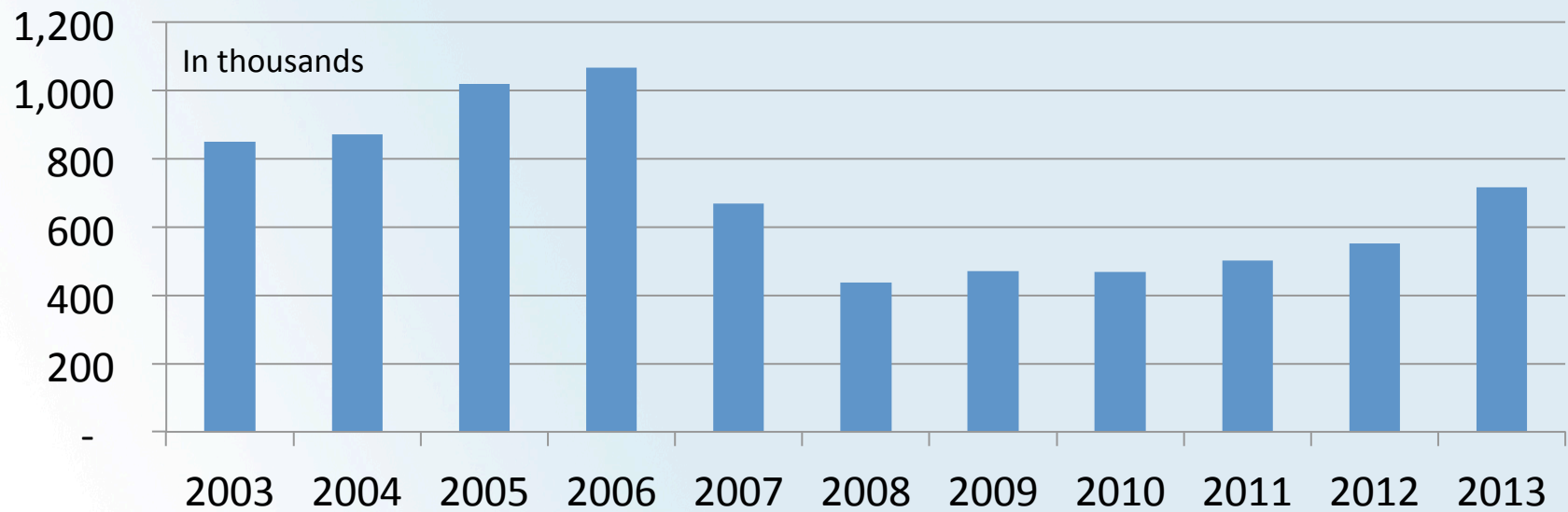
	2013	2014 forecast	2015 forecast
GDP Growth	1.9%	2.2%	2.9%
Job Growth	1.7%	1.6%	1.9%
CPI Inflation	1.4%	2.5%	3.5%
Consumer Confidence	73	82	86
10-year Treasury	2.5%	3.0%	3.8%

# Housing Market Outlook

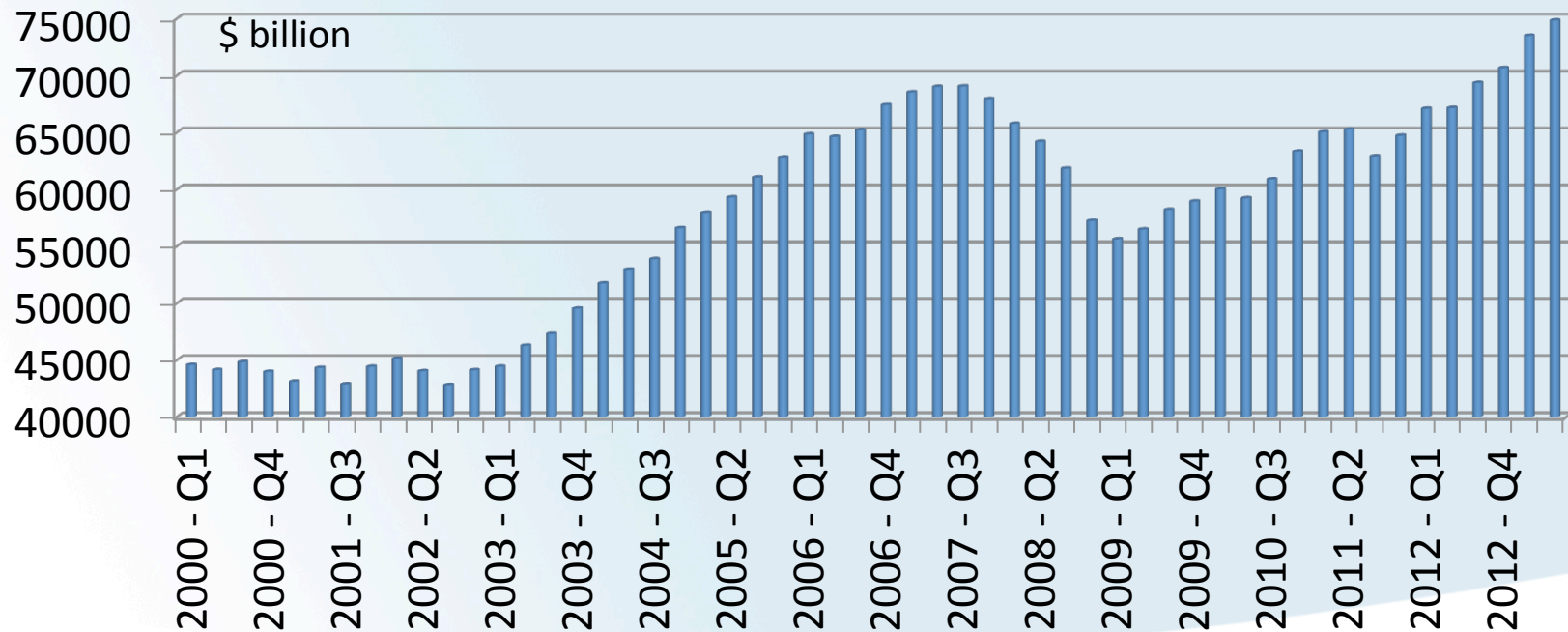
# Pent Up Demand

	2000	2013
Existing Home Sales	5.2 m	5.1 m
New Home Sales	880 K	430 K
Mortgage Rates	8.0%	4.0%
Payroll Jobs	132.0 m	136.4 m
Population	282 m	316 m

# Vacation Home Sales



# Household Net Worth

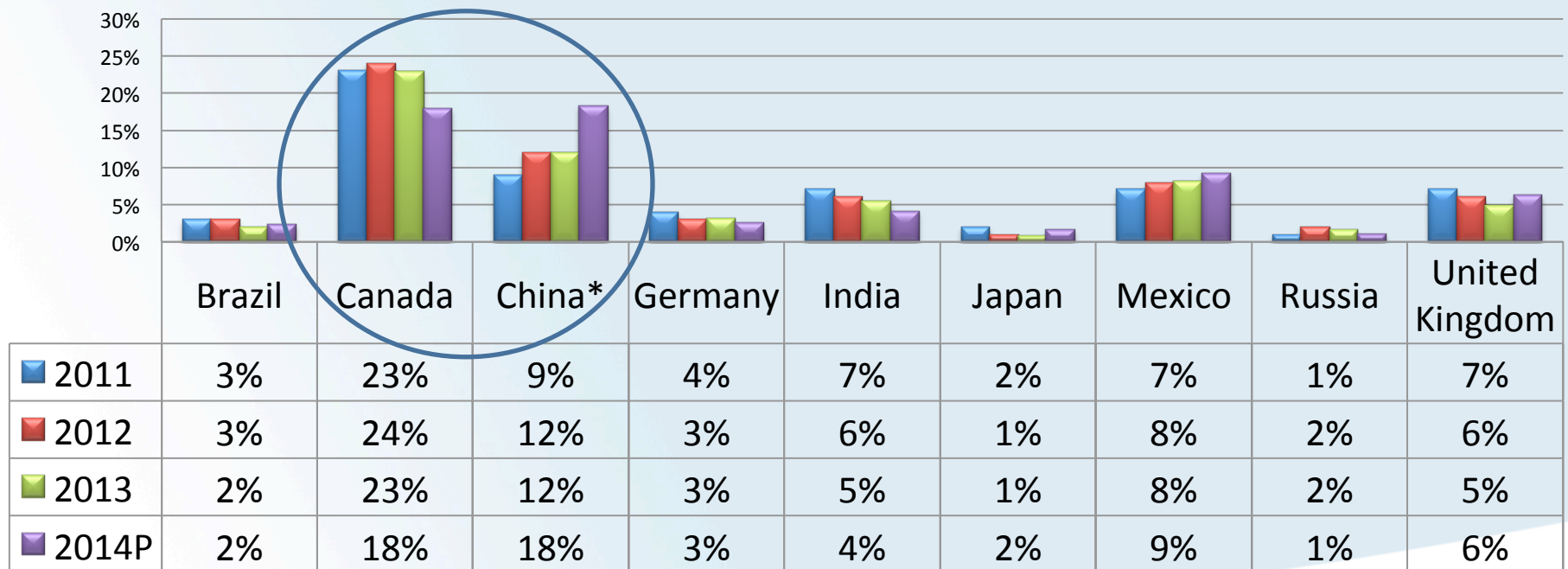




# Home Countries for International Buyers

Preliminary Analysis, Subject to Change

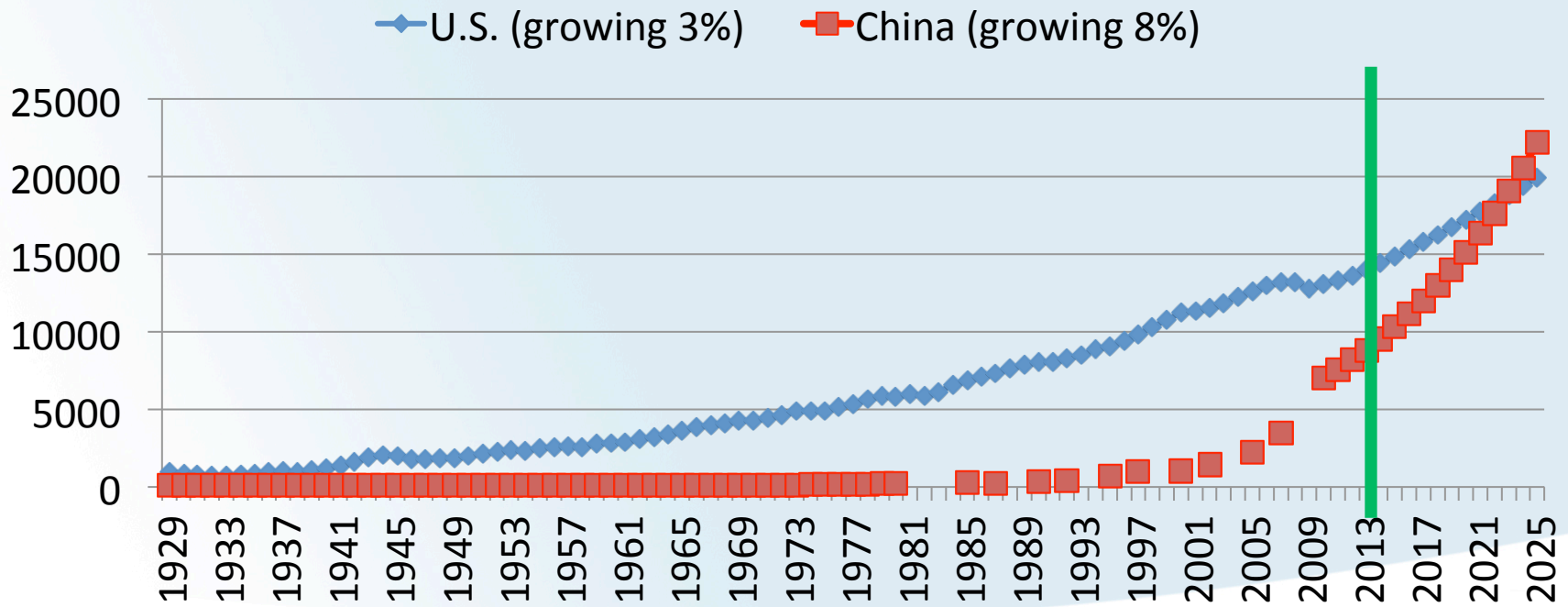
## Distribution of International Sales by Country of Origin



\* Includes People's Republic of China, Taiwan, and Hong Kong

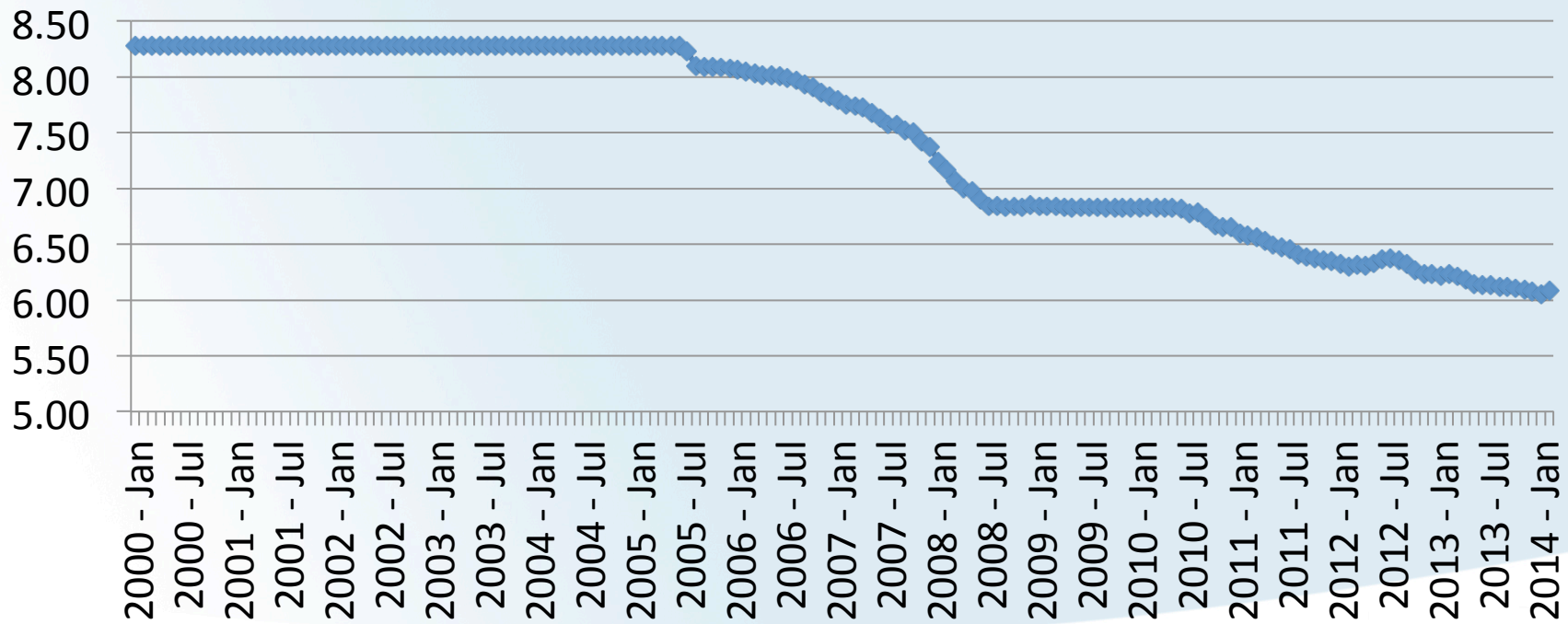
# Will China overtake the U.S. in GDP?

Had Anticipated around 2010

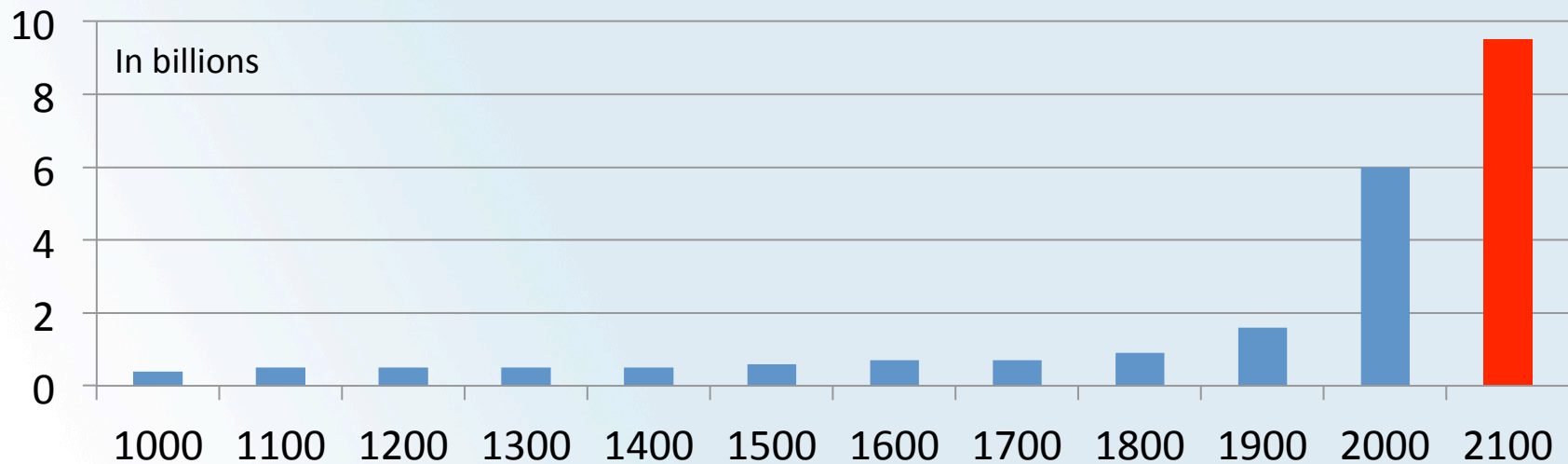


# Chinese Yuan vs. U.S. Dollar

(Yuan per \$)



# Global Pent-Up Demand from Rising World Population



## World-Class Cities will Benefit !

- Boston, Chicago, Dallas, Miami, New York, San Diego, San Francisco, Washington D.C., etc.

# Housing Forecast

	2013	2014 forecast	2015 forecast
Housing Starts	925,000	1.07 million	1.4 million
New Home Sales	430,000	510,000	710,000
Existing Home Sales	5.1 million	4.9 million	5.2 million
Median Price	\$197,000	\$209,000	\$219,000
30-year Rate	4.0%	4.7%	5.5%
Dollar Volume Estimate	+21%	+3%	+11%

# Housing Market and Economic Outlook

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

Presentation in Washington, D.C.

May 15, 2014

# Housing Demand

**Eric Belsky**

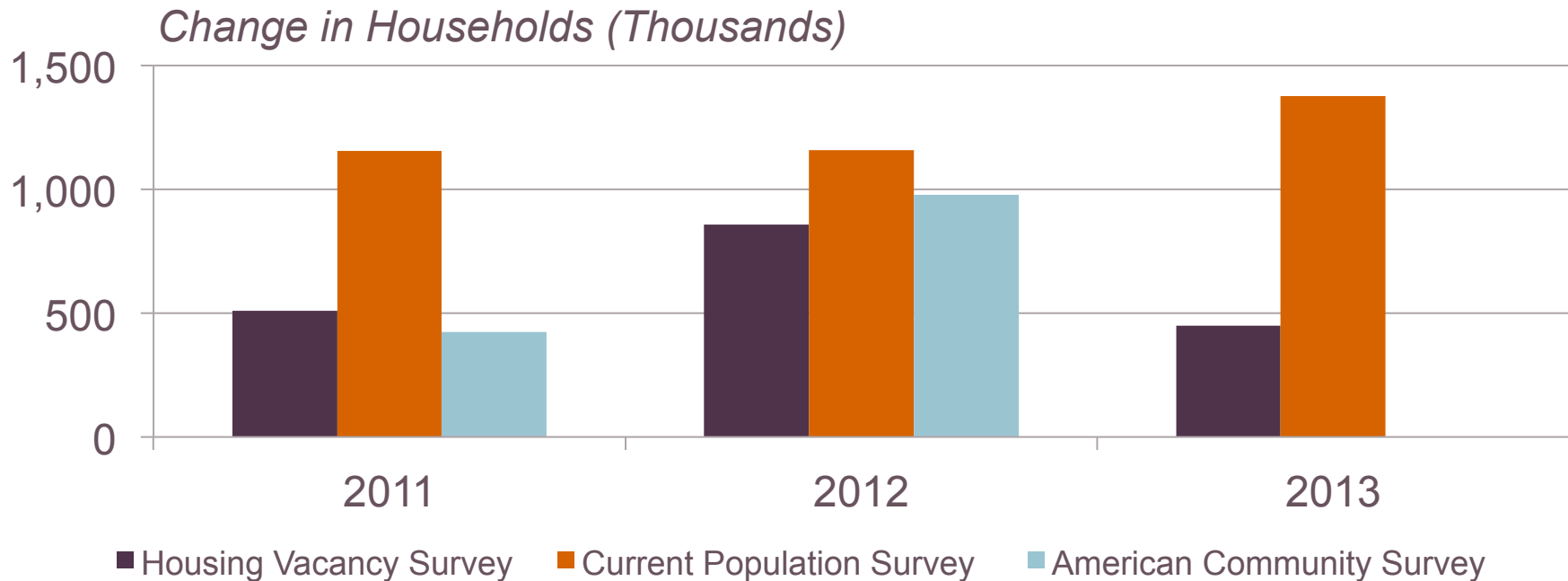
**May 2014**

**Washington, DC**



JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

# Federal Surveys Providing a Murky Picture on Extent of Recent Household Growth



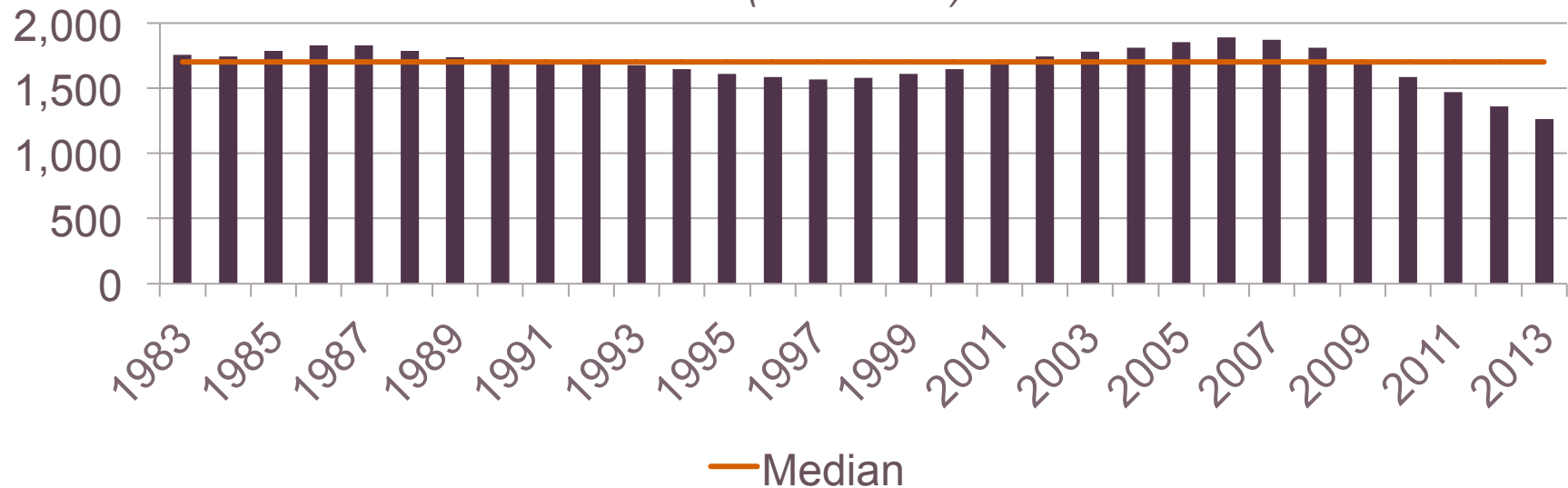
Note: Data for 2013 American Community Survey is not yet available and is not presented on this slide. Household growth for Housing Vacancy Survey uses revised 2010/12 vintage weights, and the Current Population Survey uses 2010 vintage weights





# Hard to Know What's Happening With Household Growth But . . . Long-Run Housing Production Is WAY Below Narrow Normal Range

*Lagging Ten-Year Annual Average Housing Completions and Manufactured Home Placements (Thousands)*



Source: US Census Bureau

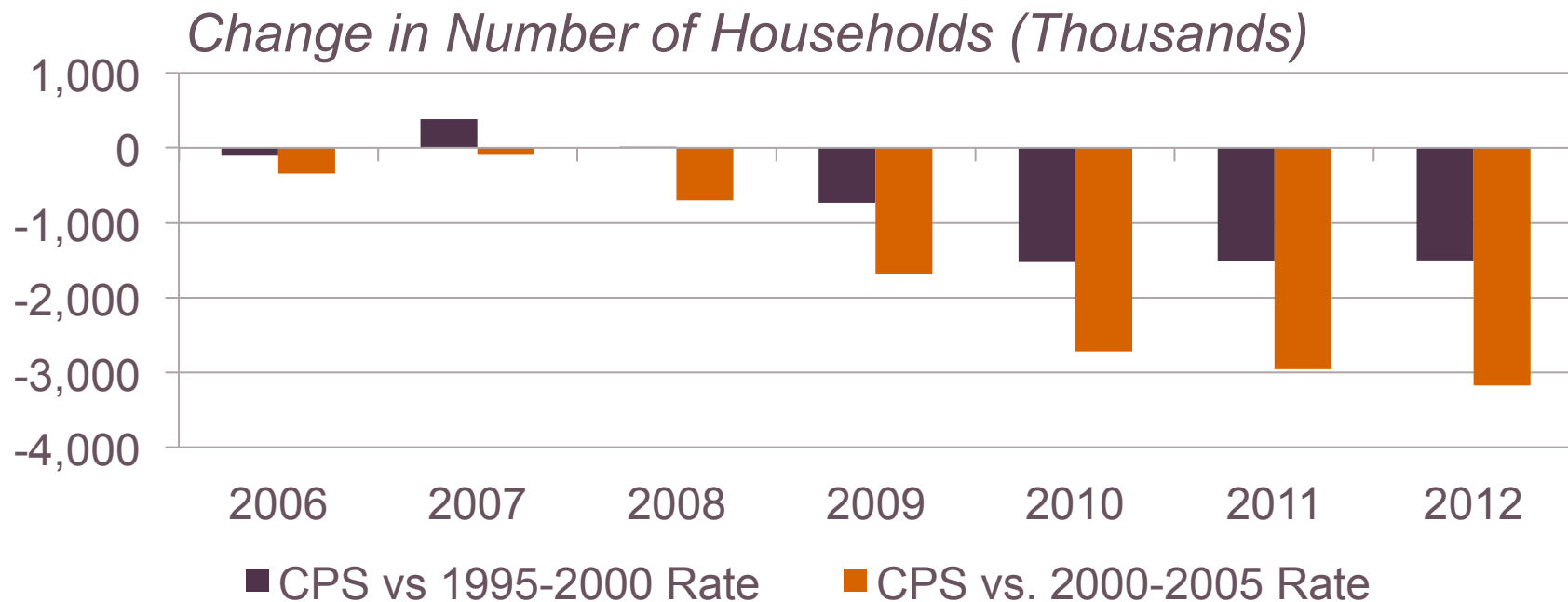


JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

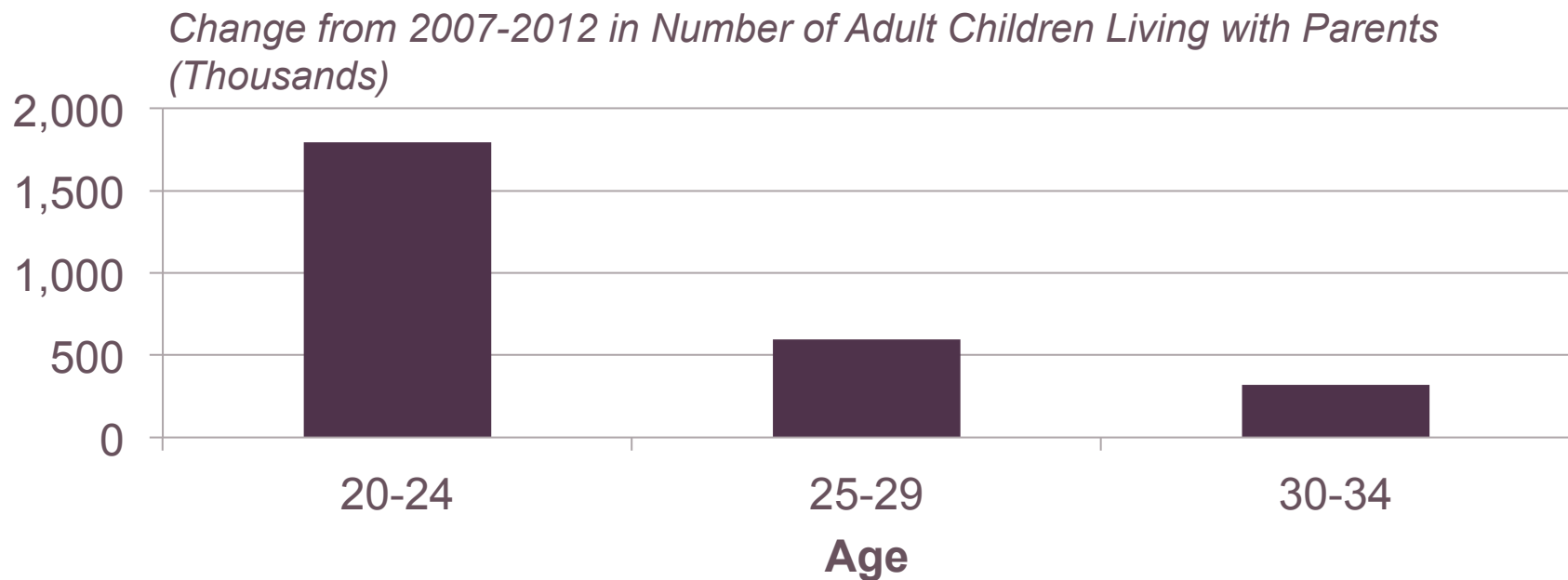
©2012 PRESIDENT AND FELLOWS OF HARVARD COLLEGE

# WAITING FOR STRONGER DEMAND REBOUND

## Even CPS Suggests Cumulative Household Growth Is Now 1.5 Million Below Even Modest 1.14M '95 -'00 Trend



## Nearly 3 Million More Adults in Their 20s and Early 30s Lived with their Parents In 2012 Than 2007



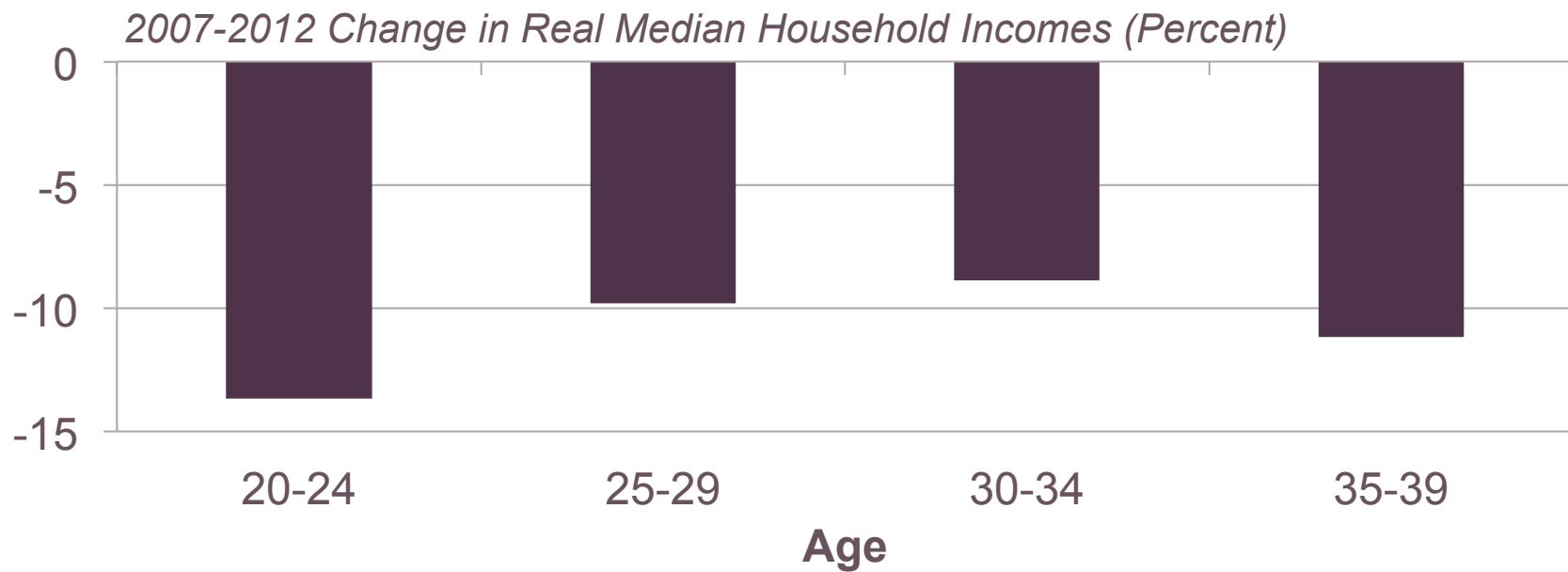
Source: JCHS tabulations of US Census Bureau, Current Population Survey



JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

©2012 PRESIDENT AND FELLOWS OF HARVARD COLLEGE

# Real Median Incomes for All Young Adult Households Have Declined Since Great Recession



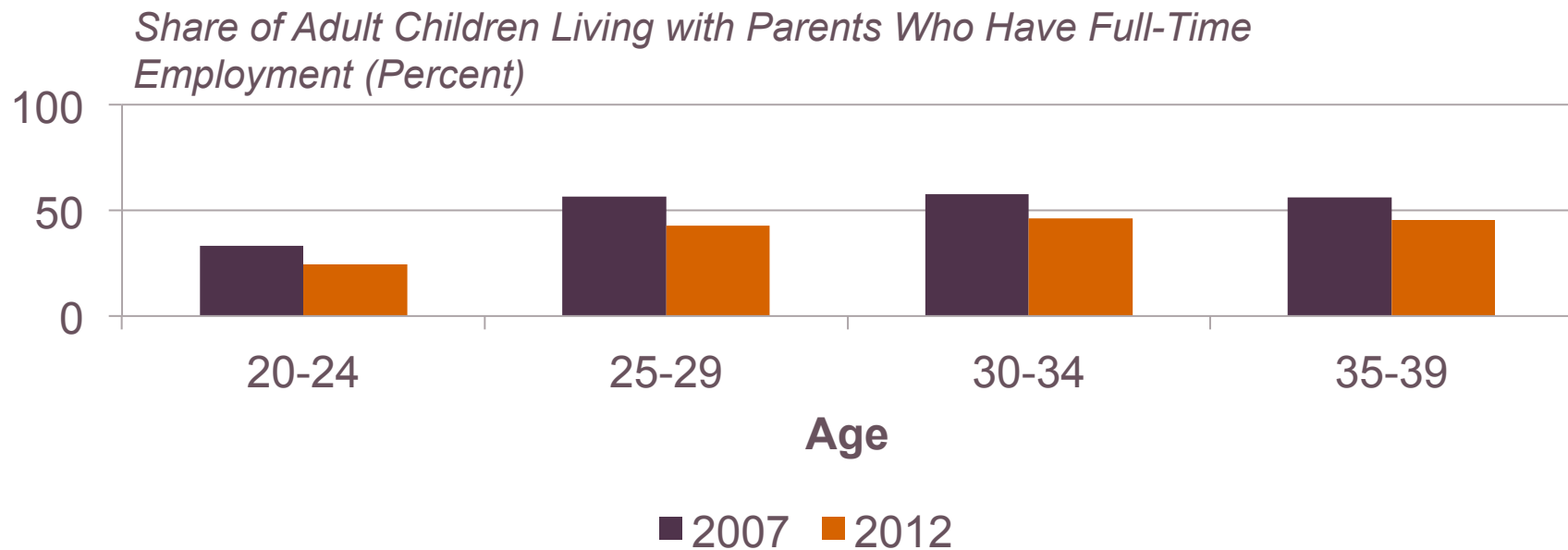
Note: Percent change based on dollar values that have adjusted for inflation using the CPI-U for All Items.  
Source: JCHS tabulations of US Census Bureau, Current Population Survey.



JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

©2012 PRESIDENT AND FELLOWS OF HARVARD COLLEGE

## A Significant But Lower Fraction of Adult Children Living with Parents Were Employed Full Time in '12 than '07



Source: JCHS tabulations of US Census Bureau, Current Population Survey

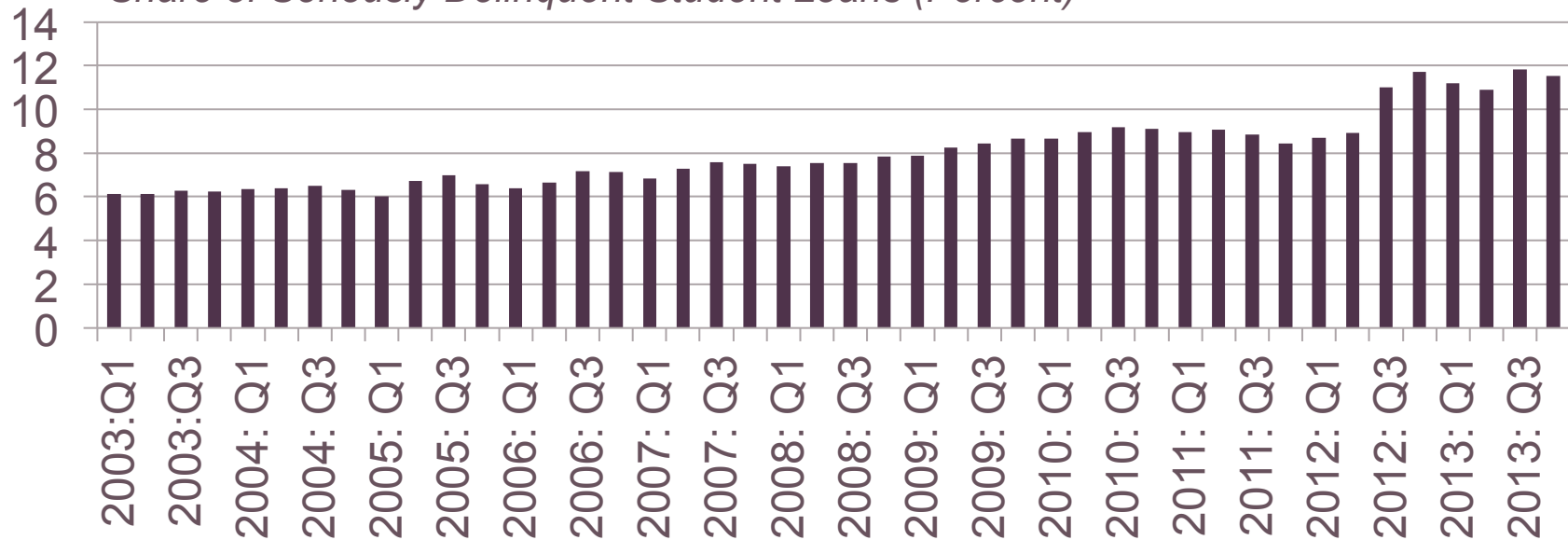


JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

©2012 PRESIDENT AND FELLOWS OF HARVARD COLLEGE

# Student Default Rates Have Soared, Hindering Ability to Qualify for a Mortgage

Share of Seriously Delinquent Student Loans (Percent)



Note: Seriously delinquent student loans are defined as 90-plus days delinquent.

Source: Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit.

# Student Debt Payments May Pose a Significant Barrier to Mortgage Borrowing For As Many 1 in 10 Renters in Their 20s

Share of Households with Head Aged 20 to 29 (Percent), By Tenure and Year



Source: JCHS tabulations of Federal Reserve Board, Survey of Consumer Finances

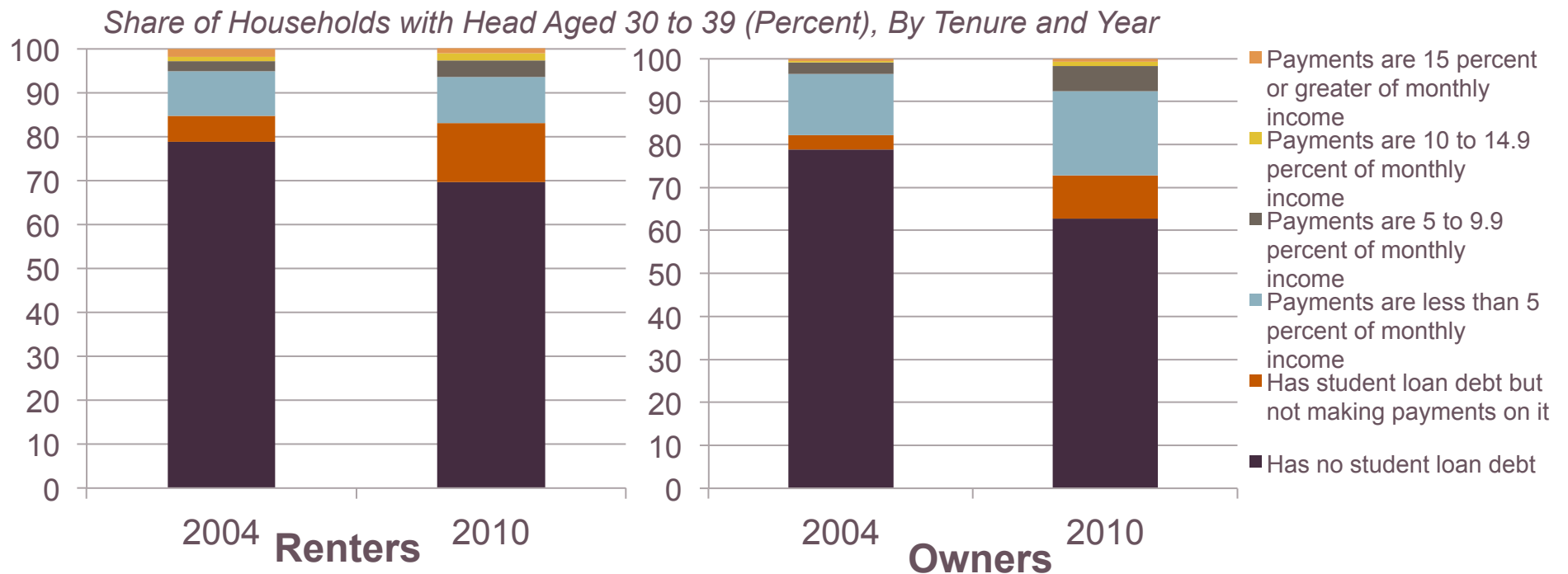


JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

©2012 PRESIDENT AND FELLOWS OF HARVARD COLLEGE



## And Even Smaller Share of Renters in Their 30s Are Spending 5 Percent+ of Income on Student Debt



Source: JCHS tabulations of Federal Reserve Board, Survey of Consumer Finances

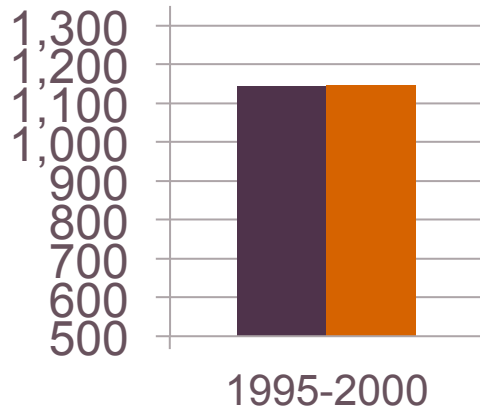


JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

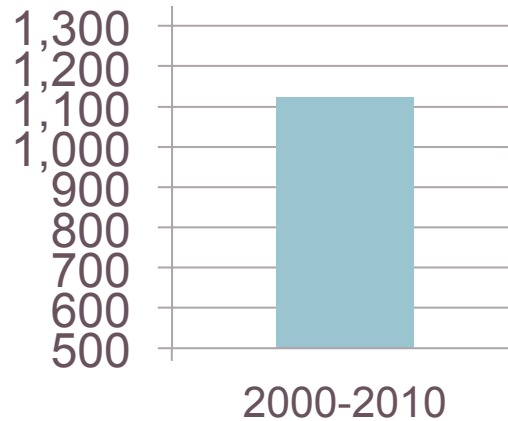
©2012 PRESIDENT AND FELLOWS OF HARVARD COLLEGE

# Household Growth Is Expected to Rival or Top 1995-2000 Annual Average Pace

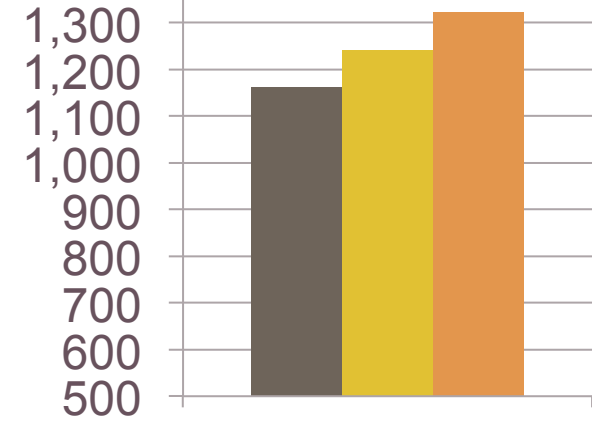
*Average Annual Household Growth (Thousands)*



■ CPS ■ HVS



■ Decennial Census



JCHS Projections 15-25

■ Low Projection ■ Middle Projection  
 ■ High Projection

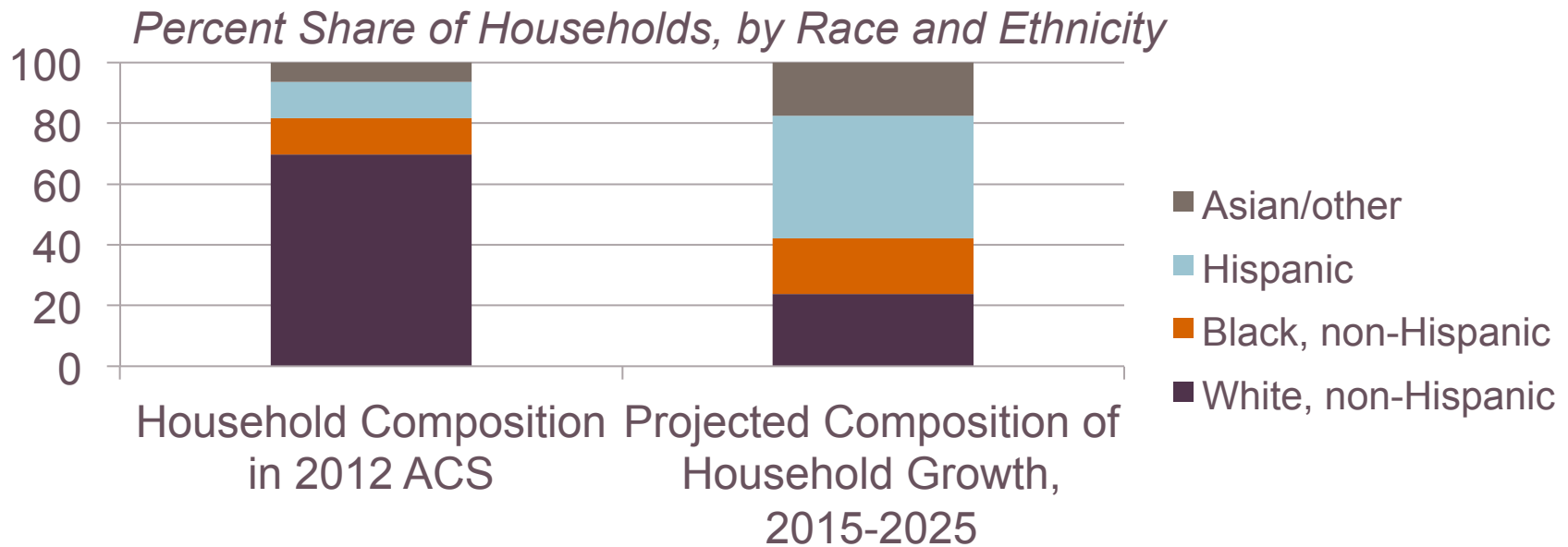
Source: JCHS Household Projections (for Projected Annual Average Household Growth)



JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

©2012 PRESIDENT AND FELLOWS OF HARVARD COLLEGE

# Minority Households Will Account for 76 Percent of Household Growth Over the Next Decade



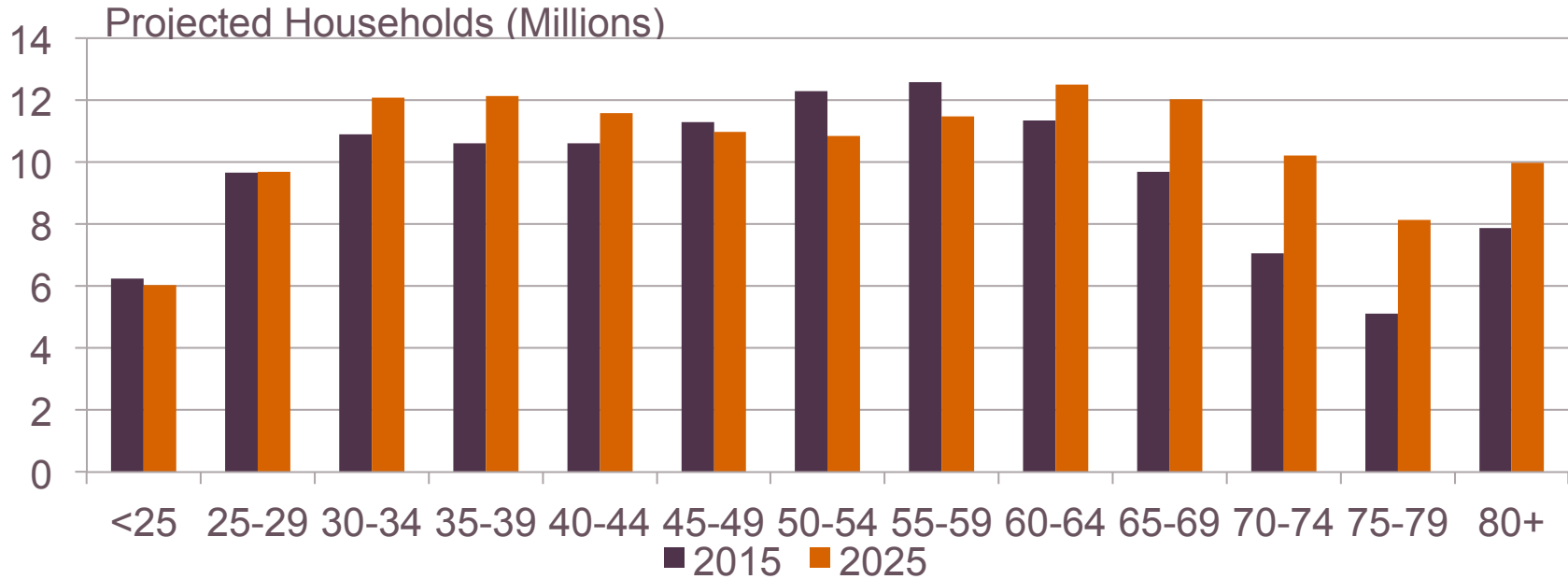
Source: JCHS tabulations of US Census Bureau, 2012 American Community Survey; JCHS Household Projections, Middle Series



JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

©2012 PRESIDENT AND FELLOWS OF HARVARD COLLEGE

# The Greatest Increase in Households Will Be Among Households 65 and Older

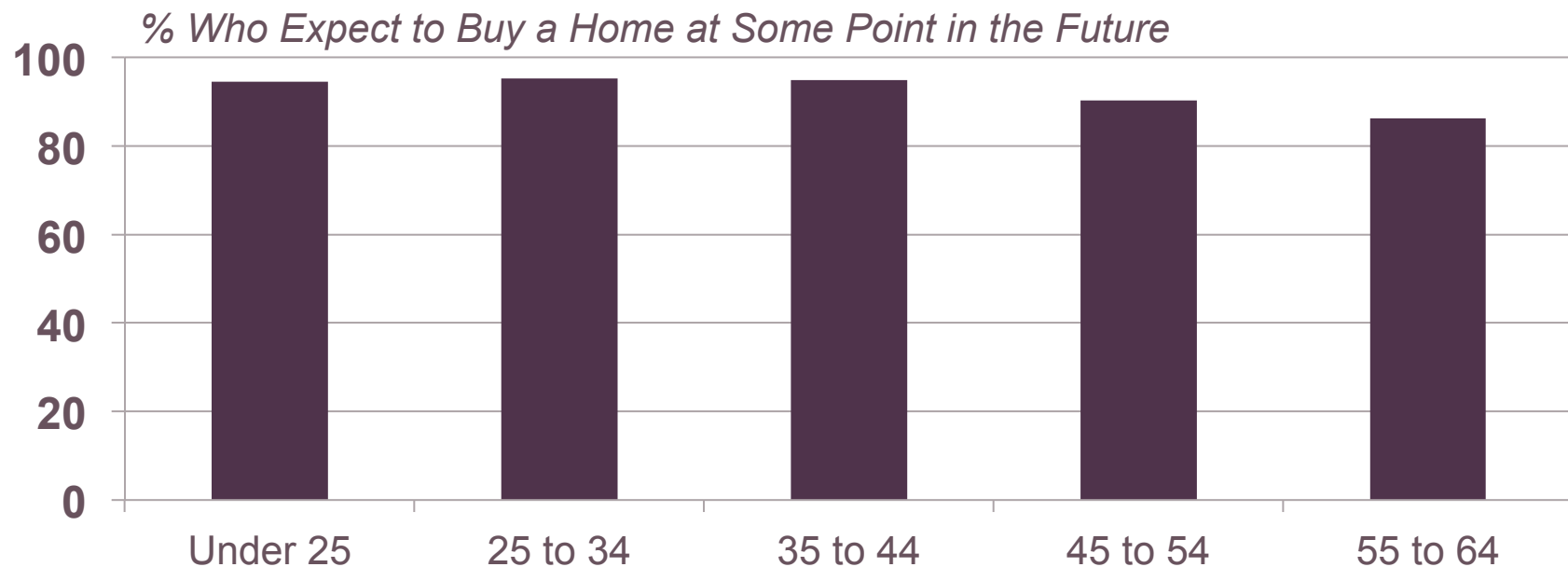


Source: JCHS households projections.



# WILL V. WAY

## Nearly All People Under Age 45 Expect to Buy in the Future . . .



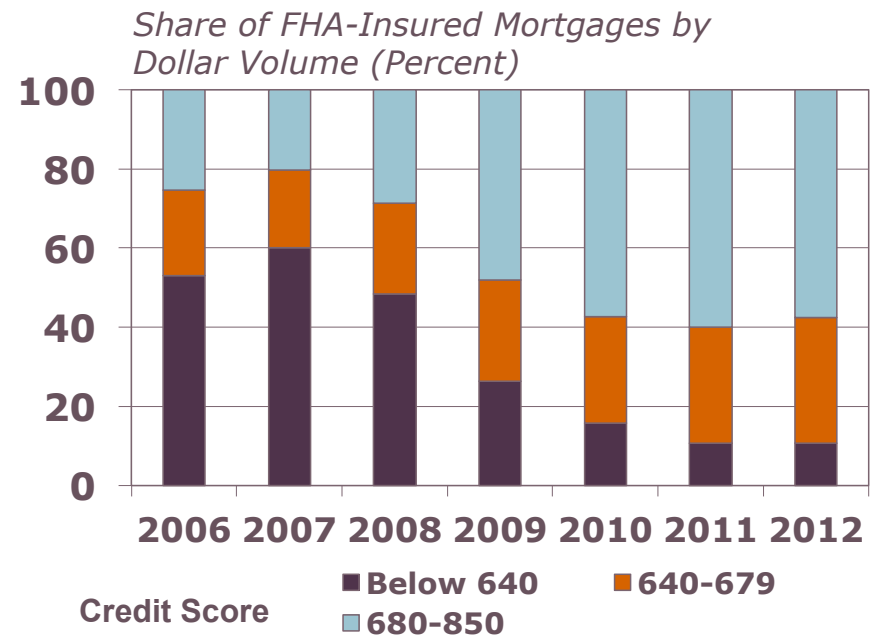
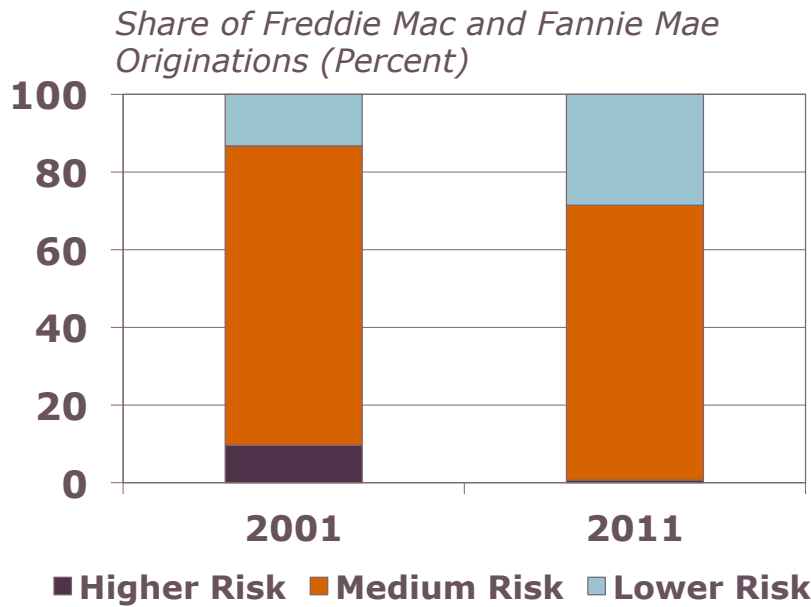
Source: Drew and Herbert, 2012. Based on Fannie Mae National Housing Survey 2010-2012.



JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

©2012 PRESIDENT AND FELLOWS OF HARVARD COLLEGE

# But Underwriting Has Tightened Dramatically



**Notes:** Higher (lower) risk loans are to borrowers with credits scores under 690 (above 750) and have loan-to-value ratios above 85% (below 75%). FHA data exclude records with no credit score information.

Sources: Amherst Securities; US Department of Housing and Urban Development.

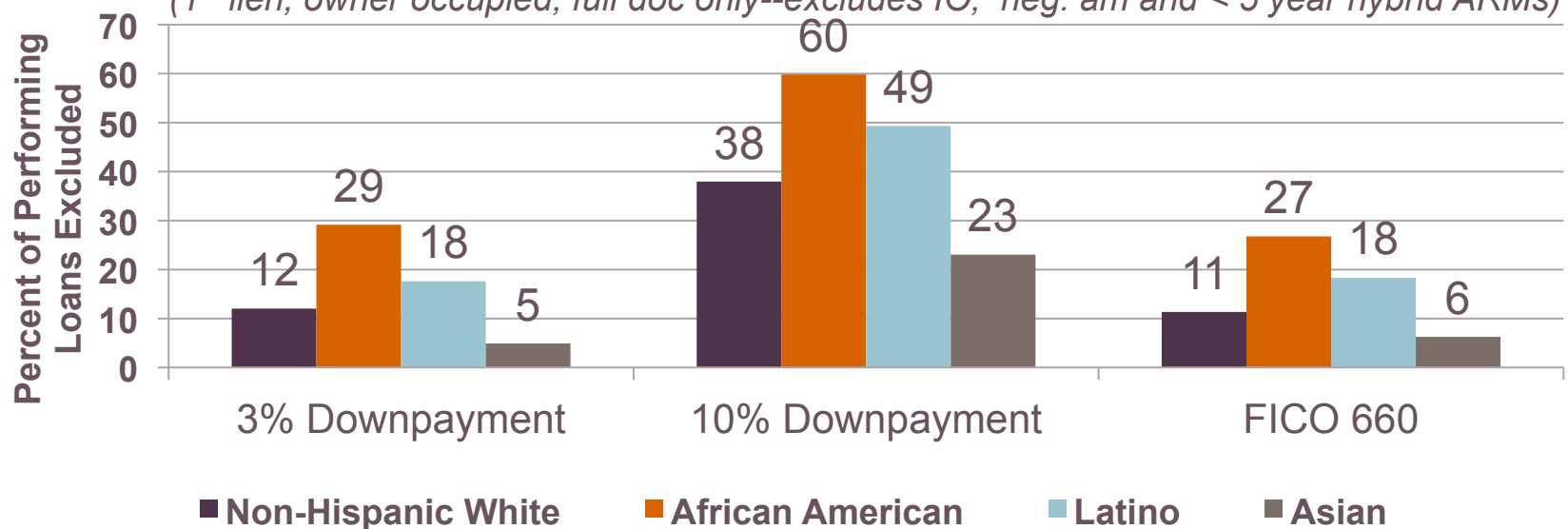


JOINT CENTER FOR HOUSING STUDIES OF HARVARD UNIVERSITY

©2012 PRESIDENT AND FELLOWS OF HARVARD COLLEGE

# Demanding More Down or Capping Credit Scores Disproportionately Impacts Minorities

Percent of performing loans excluded from mortgage market 2004-2008 originations  
(1<sup>st</sup> lien, owner occupied, full doc only--excludes IO, neg. am and < 5 year hybrid ARMs)



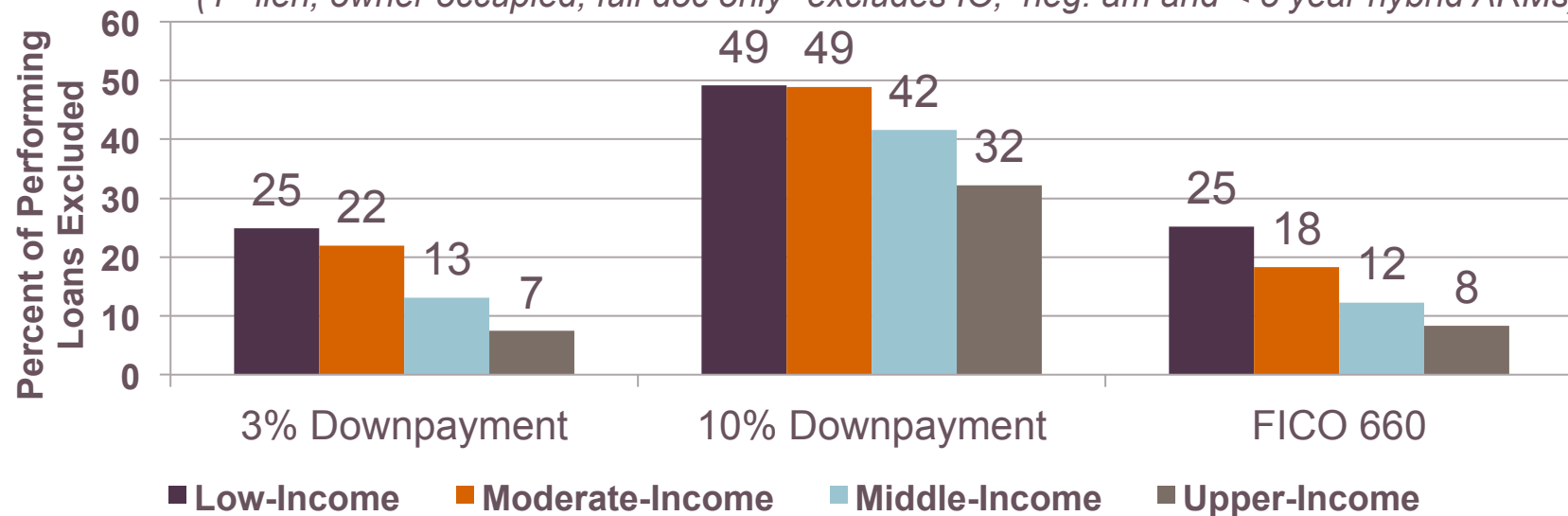
Source: Roberto Quercia, Lei Ding, and Carolina Reid (2012). *Balancing Risk and Access: Underwriting Standards for Qualified Residential Mortgages*, Center for Community Capital Research Report, January 2012.





## ... And those with Lower Incomes

Percent of *performing* loans excluded from mortgage market 2004-2008 originations  
(1<sup>st</sup> lien, owner occupied, full doc only--excludes IO, neg. am and < 5 year hybrid ARMs)



Note: Income categories are defined as follows: low—less than 50% of MSA median income; moderate—50-79%; middle—80-119%; and upper—120%+ of MSA median income.

Source: Roberto Quercia, Lei Ding, and Carolina Reid (2012). *Balancing Risk and Access: Underwriting Standards for Qualified Residential Mortgages*, Center for Community Capital Research Report, January 2012.