REALTORS® CONFIDENCE INDEX

Report and Market Outlook
April 2014 Edition

NATIONAL ASSOCIATION OF REALTORS®
Research Department
Lawrence Yun, Senior Vice President and Chief Economist

Based on Data Gathered May 2 – 9, 2014

NATIONAL ASSOCIATION of REALTORS®

Table of Contents

SUMMARY

Jed Smith and Gay Cororaton

The *REALTORS® Confidence Index* (RCI) Report provides monthly information about market conditions and expectations, buyer/seller traffic, price trends, buyer profiles, and issues affecting real estate based on data collected in a monthly survey of REALTORS®. The current report is based on the responses of 3,072 REALTORS® about their transactions in April 2014[1]. The survey was conducted during May 2-9, 2014. Questions about the characteristics of the buyer and the sale are based on the REALTOR'S® last transaction for the month. All real estate is local: conditions in specific markets may vary from the overall national trends presented in this report.

The April data indicates a dip in the confidence level compared to that in March.[2] There were reports from some states that the harsh winter has had a lingering impact (IN, NC, VA, NJ). Tight credit conditions and the lack of inventory, particularly for "middle-priced" homes were reported as the major roadblocks to increased sales. Part of the reason for the tight inventory is the reluctance of homeowners to sell because they had refinanced at lower interest rates. With the tight supply, properties were generally on the market for fewer days, and prices continued to increase in many areas although not as strongly as in 2012-2013.

REALTORS® continued to report that first-time homebuyers are finding it difficult to secure financing although there were some reports that some lenders have eased up (TX, TN, CO) . Cash buyers, investors, and foreign buyers were reported as having an edge in the purchasing process. The modest pace of income growth and compared to the robust price growth and the increase in interest rates have made homes less affordable. New construction is producing additional housing inventory, but prices of new homes are higher and less affordable than existing homes.

The cost of obtaining flood insurance continued to be reported as negatively impacting some areas(FL, NJ, HI). Higher property taxes (TX) and mortgage insurance rates were also reported to be a causing financial difficulties for would-be buyers. There were reports that the levels of student loans owed by some potential buyers are having a negative impact on the ability to complete a transaction.

---

1 The number of responses to a specific question can be less than 3072 because the question is not applicable to the respondent or because of non-response. The survey was sent to a random sample of about 50,000 REALTORS®. To encourage survey participation, eight REALTORS® are selected at random each month to receive a gift card. In the past three months gift cards have been won by REALTORS® in FL, IN, CA, MA, TN, GA, VA, SC, MD, NJ, OH, CO, UT, HI, and ME.

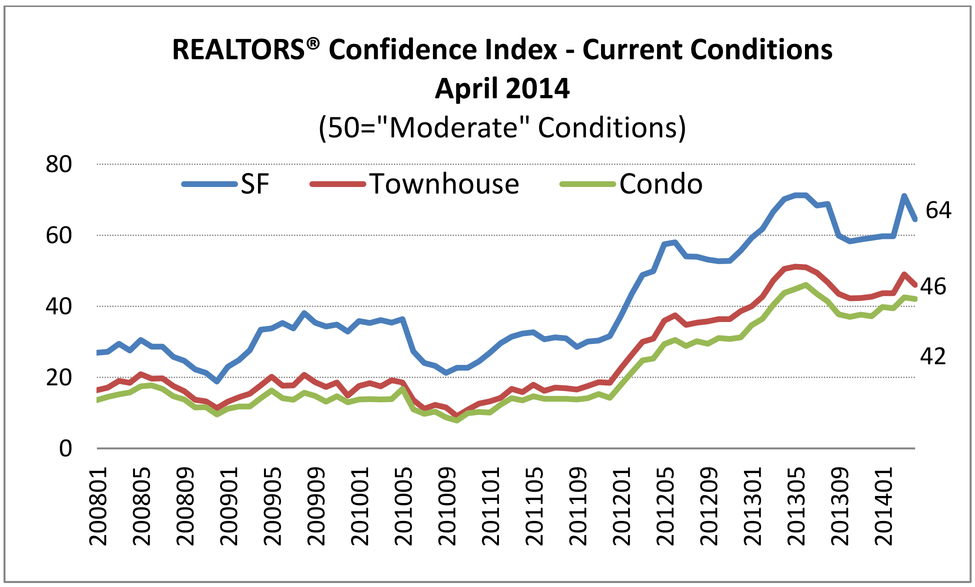
2 The responses and data are not adjusted for seasonality effects.

I. Market Conditions

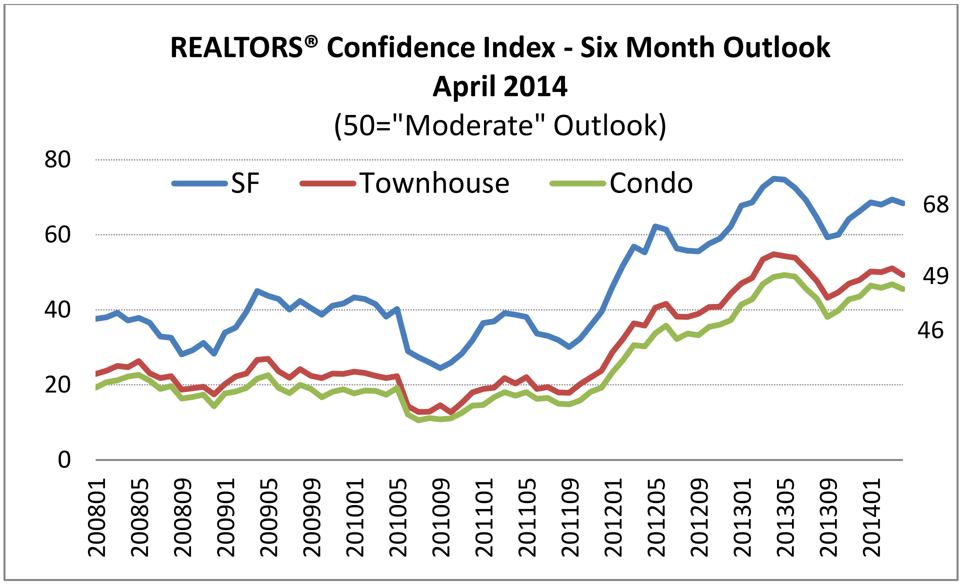
REALTORS® Confidence Dips in April

Confidence about current market conditions dipped in April 2014 compared to March 2014. The index dropped as more *REALTORS ®* reported "weak" than "strong" conditions. [3] The *REALTORS® Confidence Index* - Current Conditions for single family sales dropped to 64 (71 in March) . The indexes for townhouses/duplexes also decreased to 46 (49 in March), while the index for condominiums stayed at 42. Some REALTORS® reported the lingering negative effect of the unusually harsh winter on spring sales (IN, NC, VA, NJ), and many reported problems with "tight financing" and "extremely low inventory."

Confidence about the outlook for the next six months edged down in April compared to March. REALTORS® remained concerned about the low levels of inventory, difficult credit conditions, and in some states the effect of higher property taxes (TX) and the uncertainty about flood insurance regulation (FL, NH, HI). The six-month Outlook Index for single family homes slightly dipped to 68 (69 in March), the index for townhouses at 49 (51 in March) , and the index for condominiums at 46 (same as in March).

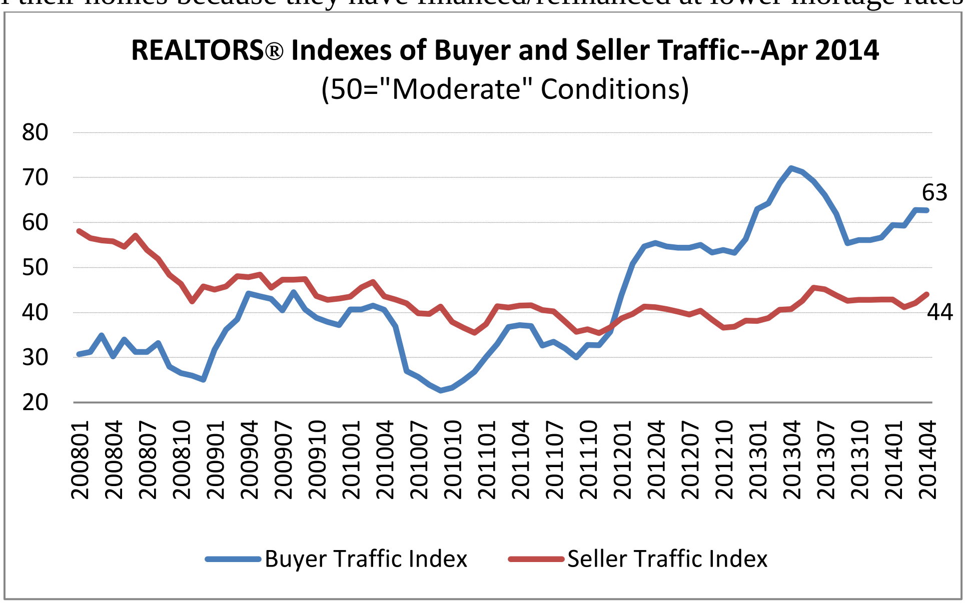


[3] An index of 50 delineates "moderate" conditions and indicates a balance of respondents having "weak"(index=0) and "strong" (index=100) expectations or all respondents having moderate (=50) expectations. The index is calculated as a weighted average using the share of respondents for each index as weights. The index is not adjusted for seasonality effects.



Supply Was Up But Far Short of Demand in April

The Buyer Traffic Index stayed flat at 63 in April while the Seller Traffic Index slightly improved to 44 (42 in March) [4]. Although the Seller Traffic Index rose, many REALTORS® reported that inventory levels are still woefully inadequate compared to demand. Sellers are reluctant to sell their homes because they have financed/refinanced at lower mortage rates.

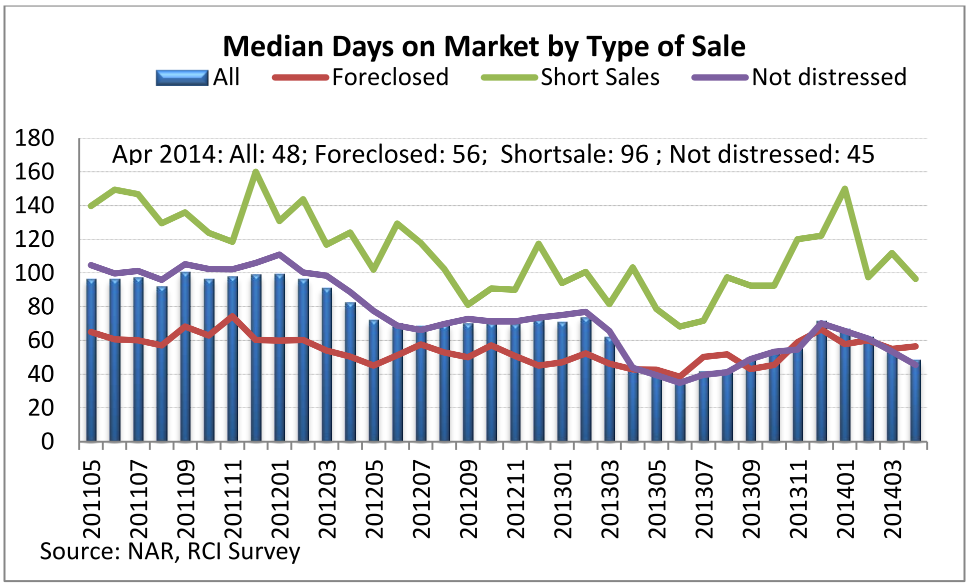


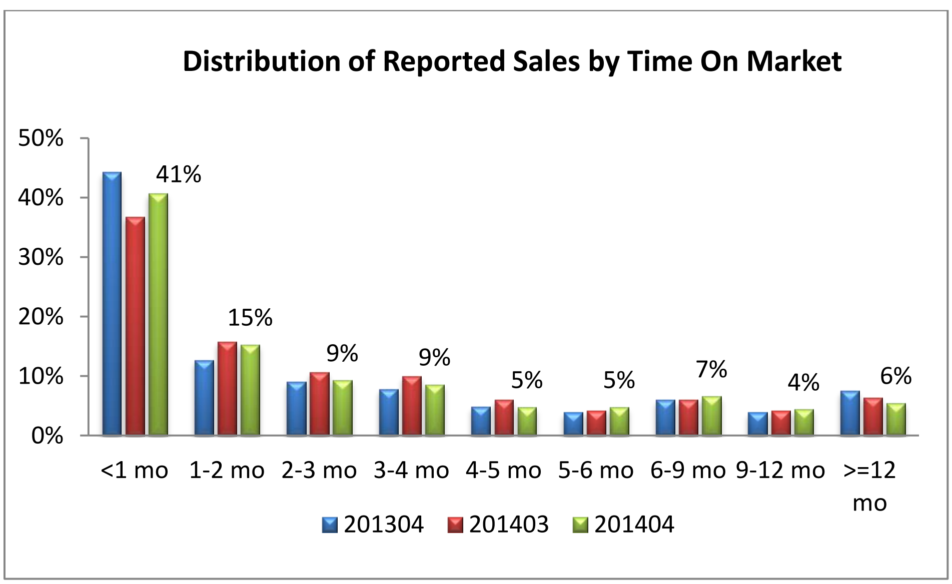
[4] An index of 50 delineates "moderate" conditions and indicates a balance of respondents having "weak"(index=0) and "strong" (index=100) expectations or all respondents having moderate (=50) expectations. The index is calculated as a weighted average using the share of respondents for each index as weights. The index is not adjusted for seasonality effects.

Median Days on the Market Fell to 48 Days in April

With little inventory relative to demand, properties sold faster for the fifth straight month, typically at 48 days (55 days in March)[5]. Short sales were on the market for the longest, at 96 days (112 in March), and foreclosed properties were on market at 56 days (55 days in March). Non-distressed properties were on the market at 45 days (53 days in March). Conditions varied across areas.

Approximately 41 percent of respondents reported that properties were on the market for less than a month when sold, and about 6 percent were on the market for more than six months.

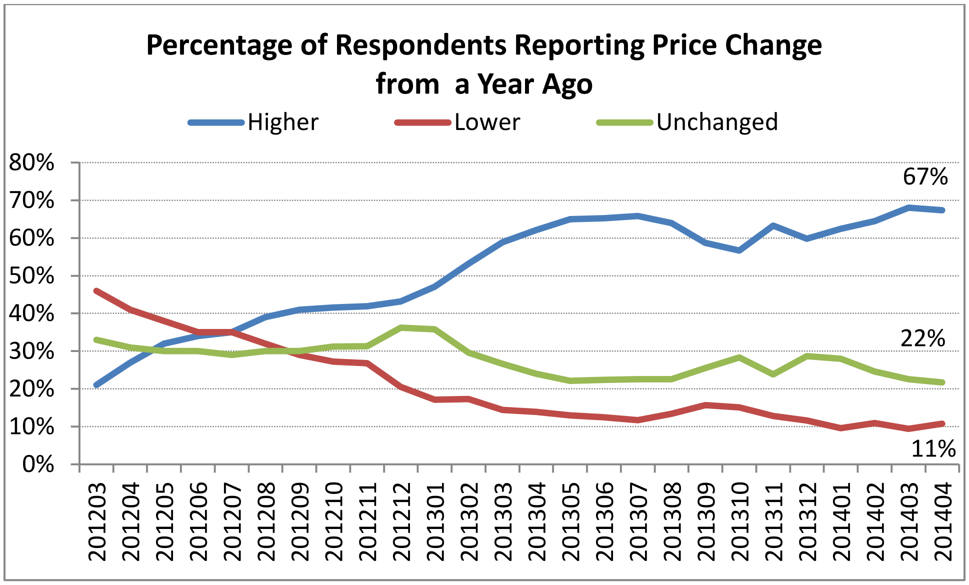




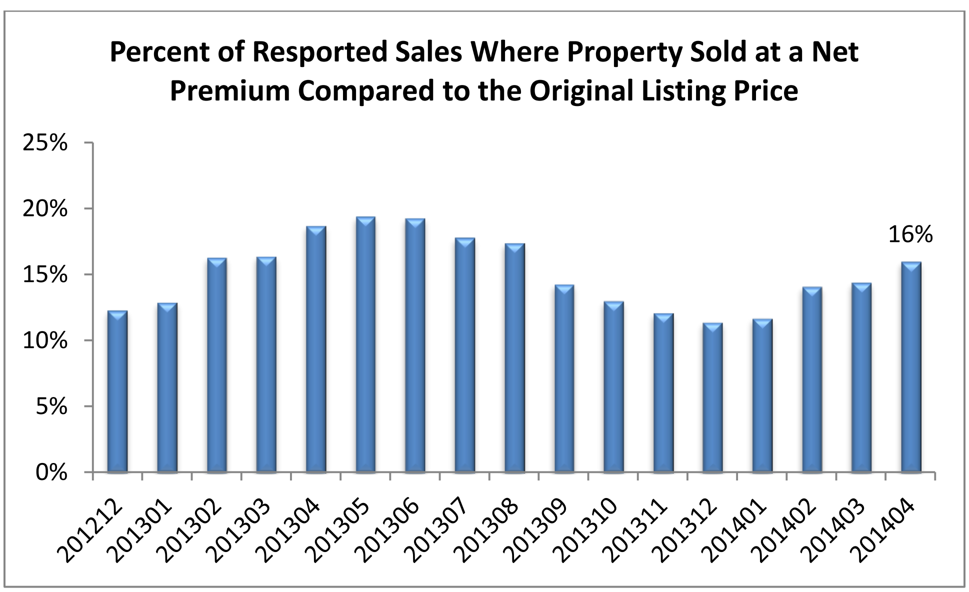
5 A median of say 60 days means that half of the properties were on the market for less than 60 days and another half of properties were on the market for more than 60 days.

Home Prices Rising Moderately

REALTORS® continued to report that prices are generally still on an uptrend. About 67 percent of respondents reported that the price of their "average home transaction" is higher today compared to a year ago (68 percent in March). About 22 percent reported constant prices, and 11 percent reported lower prices.



Approximately 16 percent of reported sales were of properties that sold at a net premium compared to the original listing price (14 percent in March). In mid-2013, about 20 percent of REALTOR® respondents reported selling properties at a premium.

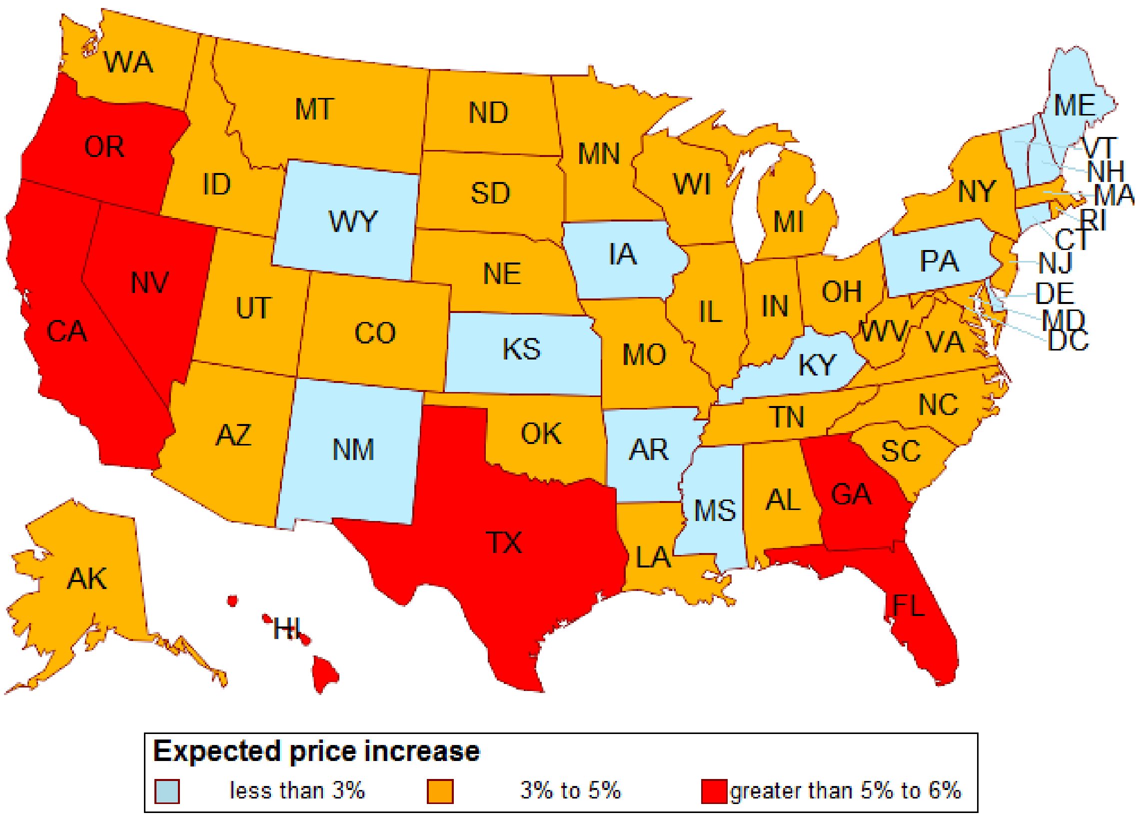


REALTORS® Expect Prices to Increase Modestly in the Next 12 Months

REALTORS® generally expect prices to increase over the next 12 months with a median expected price increase of 4.0 percent[6]. Slower sales due to tight credit conditions, declining affordability due to the recent price growth amid modest income gains, and fewer distressed sales likely account for the modest expectations.

Most states expect prices to increase in the range of 3% to 5%. However, in states where inventory is very low and where cash sales are strong (e.g. FL), the expected price growth is in the range of 5% to 7%. In states that have modest income growth, the expected price growth is less than 3 percent (blue).

State Median Price Expectation for Next 12 Months (in%)
Based on REALTORS Confidence Index Survey, Feb 2014 – Apr 2014 Surveys

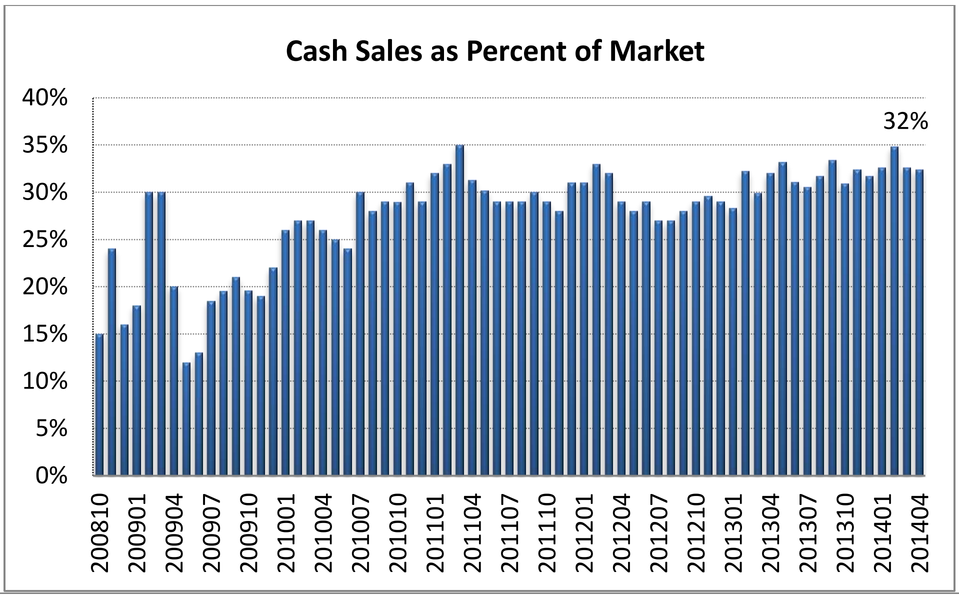


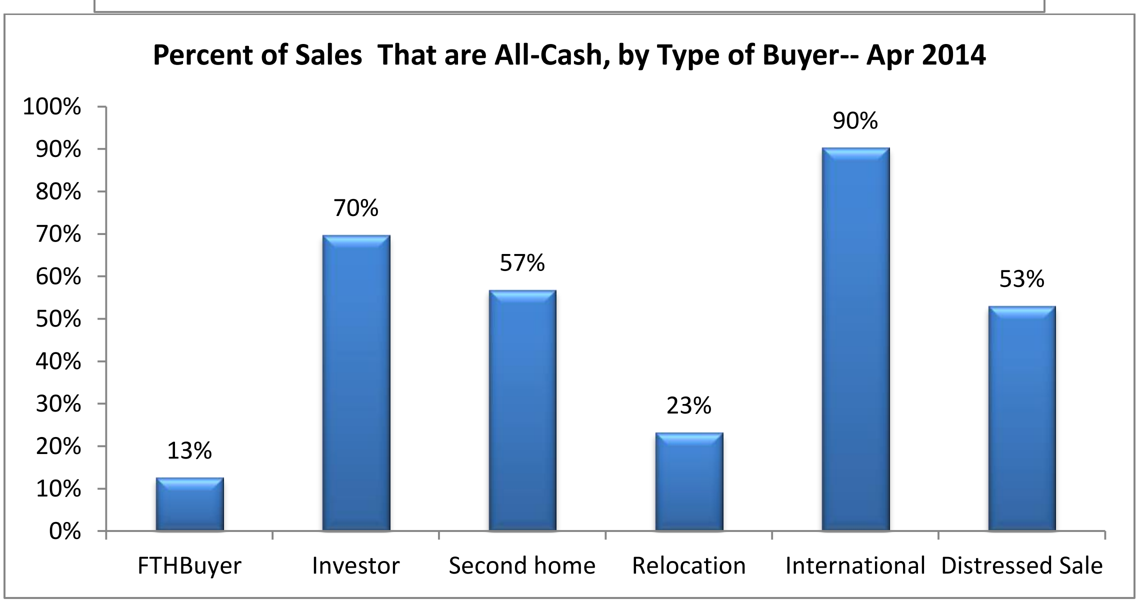
[6] The median expected price change is the value such that 50 percent of respondents expect prices to change above this value and 50 percent of respondents expect prices to change below this value. A median expected price change is computed for each state based on the respondents for that state. The graph shows the range of these state median expected price change.

II. Buyer and Seller Characteristics

Cash Sales: 32 Percent of Sales

Approximately 32 percent of respondents reported cash sales (33 percent in March). [7] Move-up buyers, investors, buyers of second homes, and foreign clients are more likely to pay cash. Baby boomers who have accumulated equity gains and are trading down are also likely to pay cash. About 13 percent of reported sales to first-time buyers were cash sales compared to about 70 to 90 percent of buyers of property for investment purposes and international buyers.

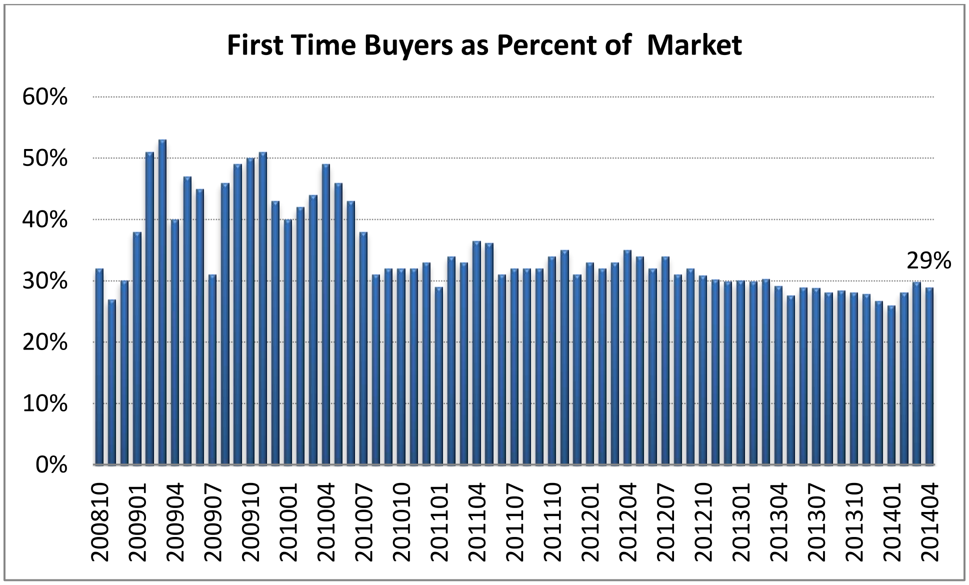




7 The *RCI* Survey asks about the most recent sale for the month.

Sales to First Time Buyers: 29 Percent of Sales

Approximately 29 percent of respondents reported a sale to a first time home buyer in April (30 percent in March)[8]. The tighter underwriting standards are especially challenging for first-time buyers who generally need mortgage financing with low downpayment terms, who may be paying off student debt, and who have credit scores that are not top-notch . REALTORS® have also reported that the increase in FHA mortgage insurance costs is discouraging buyers or making loans unaffordable[9].



Fewer First-Time Buyers Making Low Down Payment Mortgages

Fewer first time home buyers are offering low downpayments. Of REATORS® who reported a sale to a first-time buyer using mortgage financing in the last three months, about 61 percent reported that the first time home buyers made a downpayment of 6 percent or less. This is down from 74 percent in 2009. REALTORS® have reported that buyers generally have to make a downpayment of 20 percent or more to be approved for financing. Unfortunately, the typical renter's savings are substantially less than the hefty downpayment and closing costs[10].

For buyers with sufficient financial resources, a higher downpayment also means saving on the monthly mortgage insurance premium payments. Since 2010, the cumulative increase in FHA premiums translates to about $100 a month in additional out-of-pocket costs for borrowers[11].

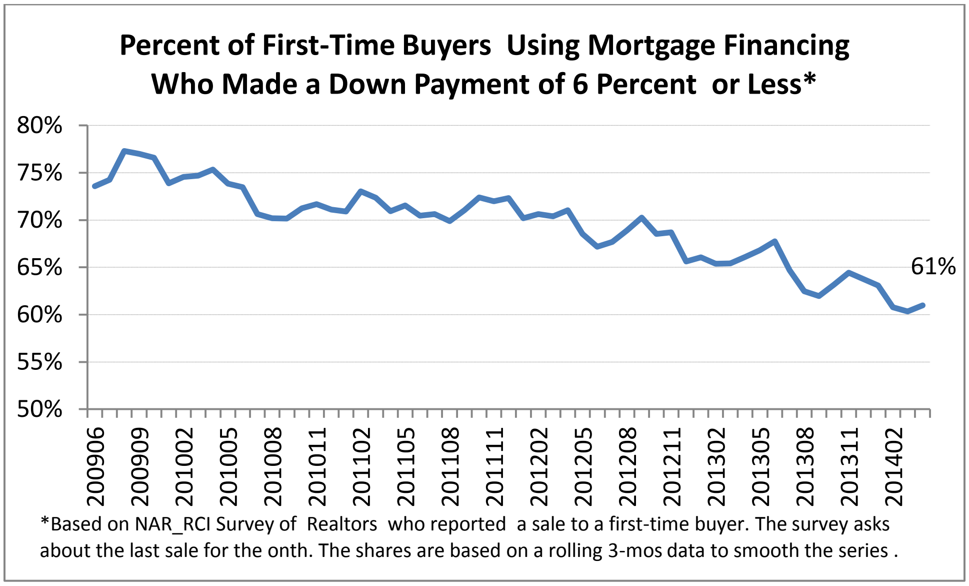
---

[8] First time buyers account for about 40 percent of all homebuyers based on data from NAR's *Profile of Home Buyers and Sellers.* NAR's survey of buyers and sellers in general does not capture investor purchases but does cover both existing and new home sales.

[9] Borrowers can shift to conventional financing, but are in general likely to come up against more stringent underwriting standards.

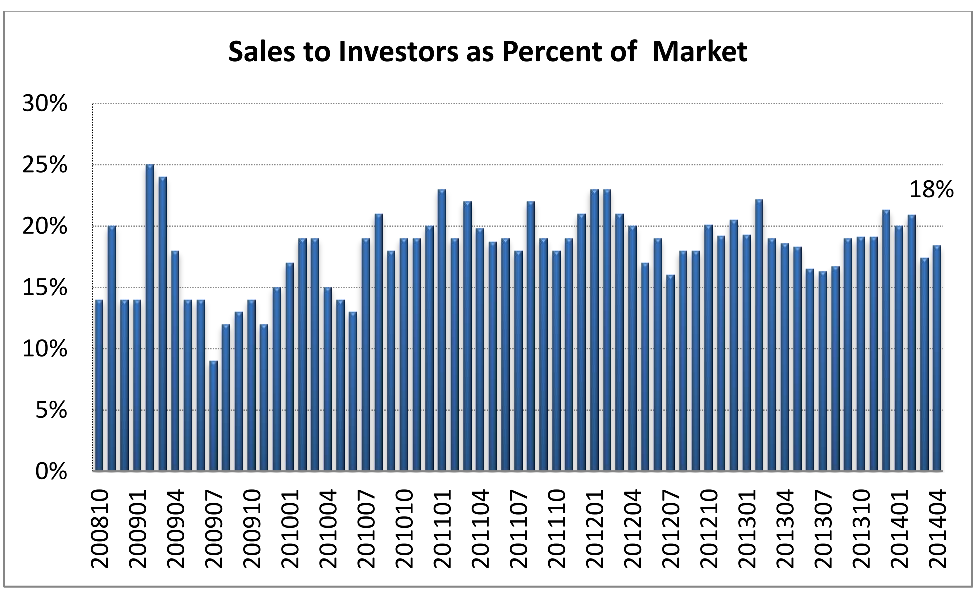
[10] See http://economistsoutlook.blogs.realtor.org/2014/04/11/the-down-payment-challenge-and-the-typical-renter/

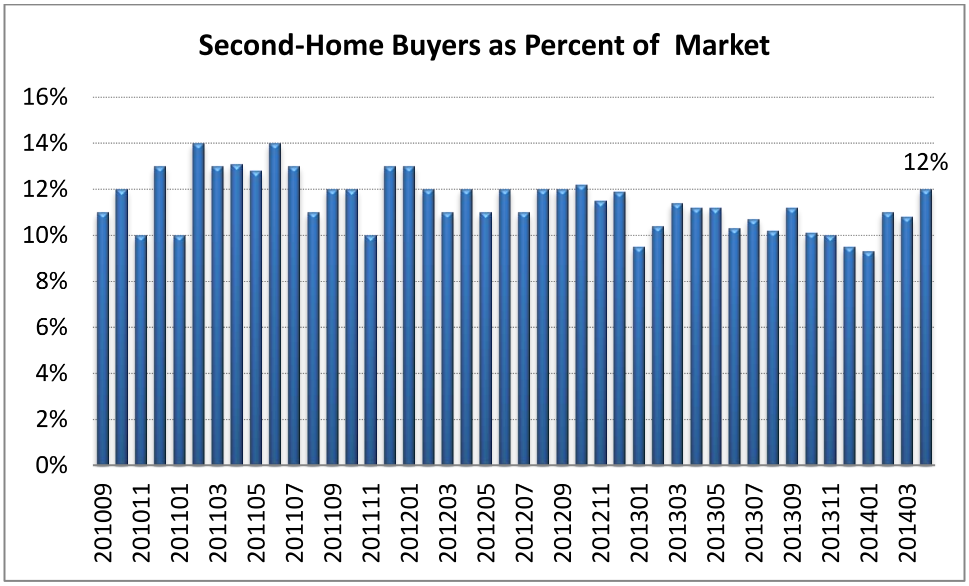
[11] See http://economistsoutlook.blogs.realtor.org/2014/04/10/when-the-sting-of-fhas-fees-becomes-a-bite/

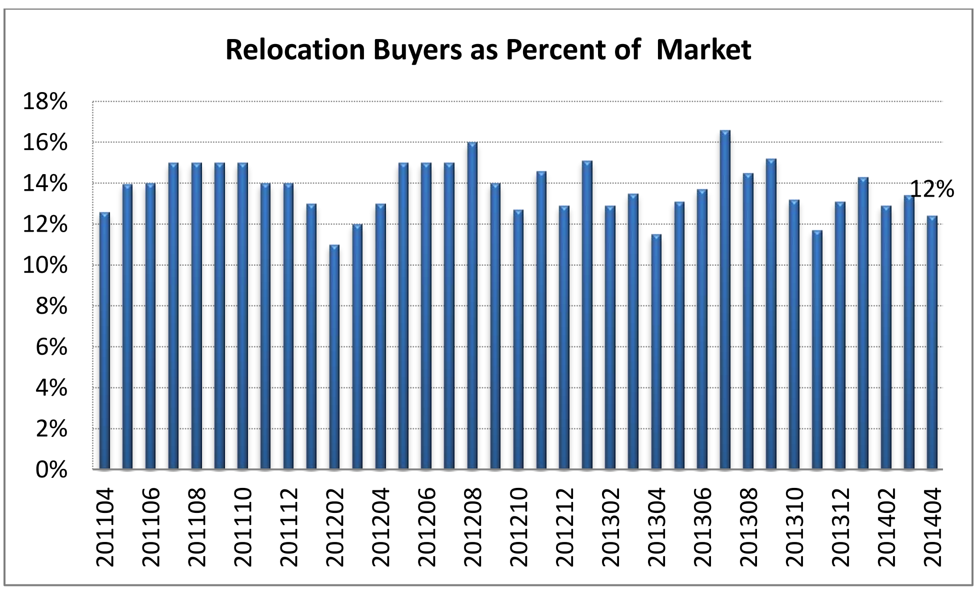


Investors, Second-home Buyers, and Relocation Buyers

Investor interest for rental housing appears to be sustained, with about 18 percent of respondents reporting a sale for investment purposes. About 12 percent reported a sale to a second-home buyer, and 12 percent reported a sale to a relocation buyer. Due to the tight inventory, sellers who want to move up or down are having trouble finding a suitable property. REALTORS® have reported that baby boomers would like to downsize, but that there are not enough buyers for larger homes.

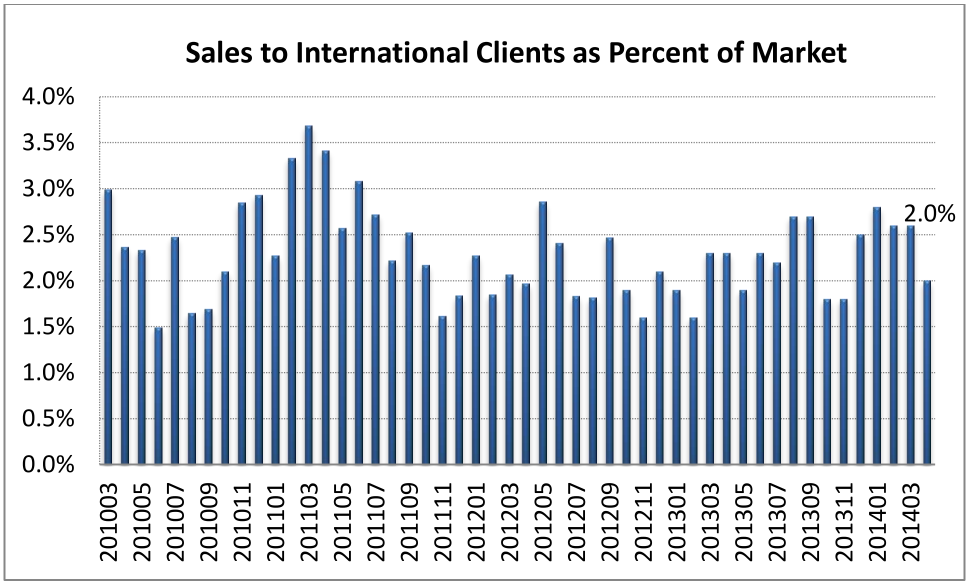






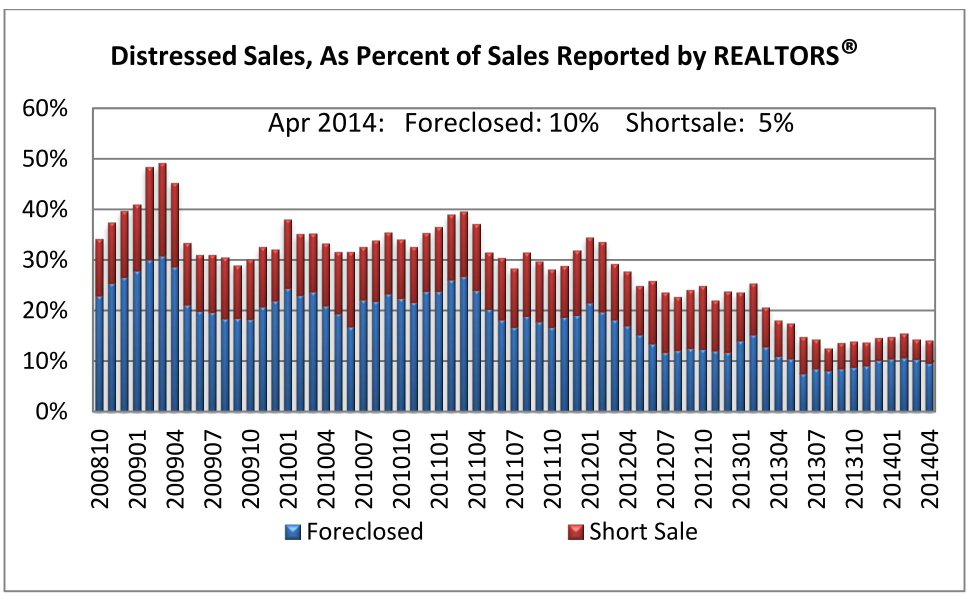
International Transactions: About 2 Percent of Residential Market

Approximately 2 percent of REALTOR® respondents reporting on their last sale was of a purchase by a foreigner not residing in the U.S. International buyers frequently pay cash. In NAR's *2013 Profile of International Homebuying Activity*, the major buyers were reported as being from Canada, China, Mexico, India, and the United Kingdom.



Distressed Sales: 15 Percent of Sales

With rising home values and fewer foreclosures, the market is seeing fewer distressed sales compared to the early years of the Great Recession. In April, about 10 percent of reported sales were foreclosed properties, and about 5 percent were short sales.

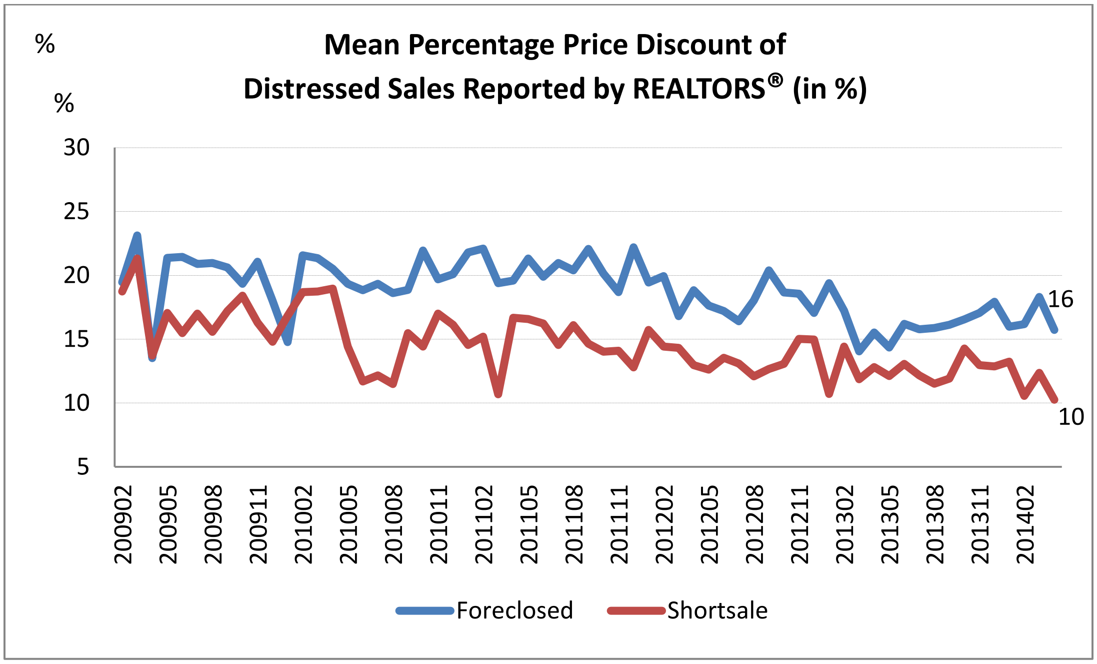


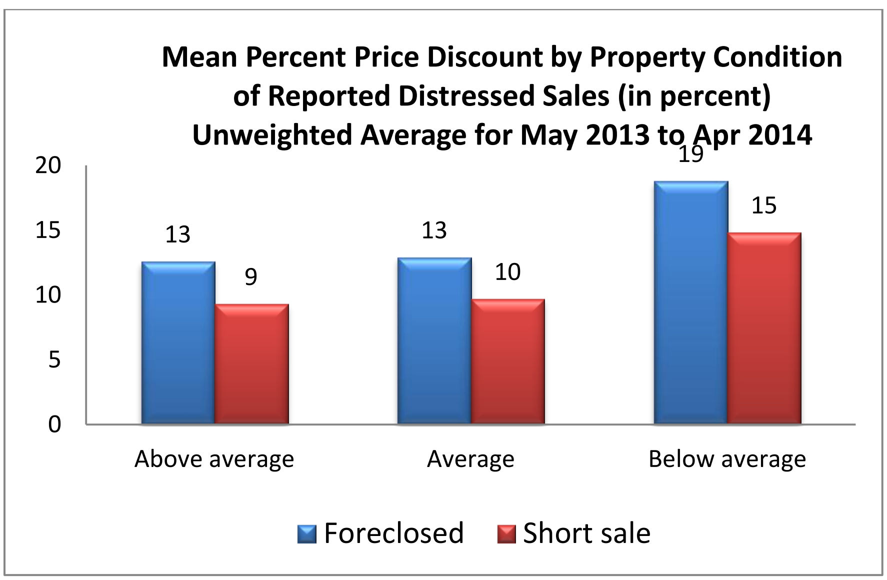
Foreclosed property sold at a 16 percent average discount to market, while short sales sold at a 10 percent average discount.[12] The discount varied by house condition. For the past 12 months, properties in "above average" condition were discounted by an average of 9-13

---

[12] The estimation of the level of discount is based on an estimate of what the property would have sold for if it had not been distressed (possibly in better condition, absent any taint of being distressed).

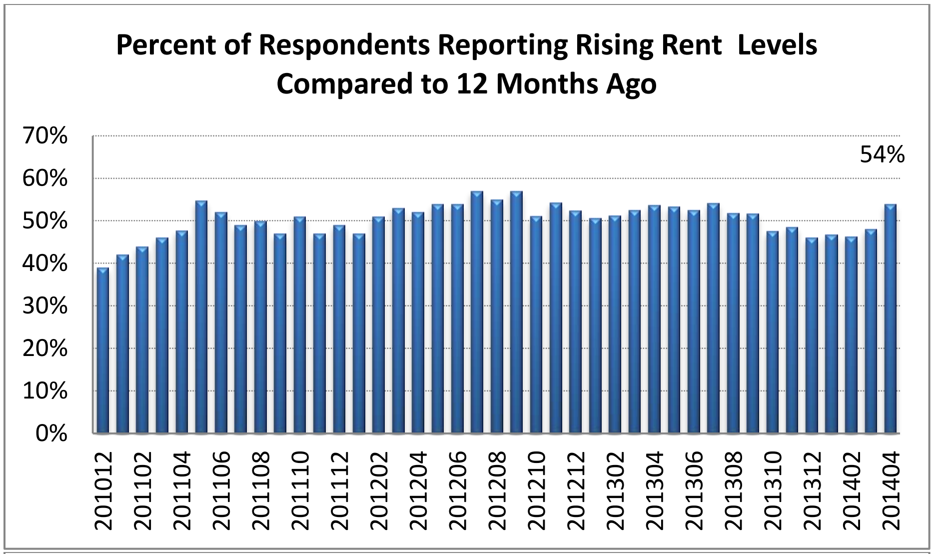
percent, while properties in "below average" condition were discounted at an average of 15-19 percent.

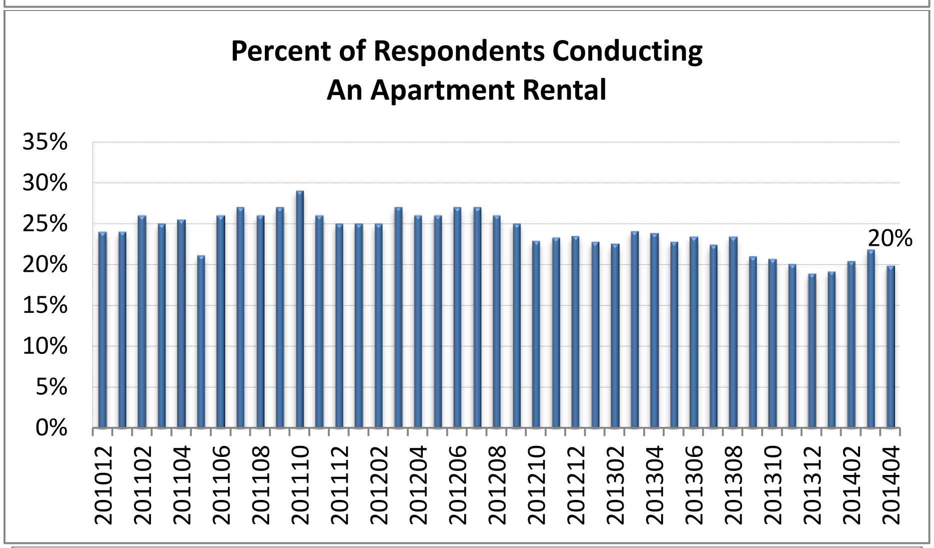


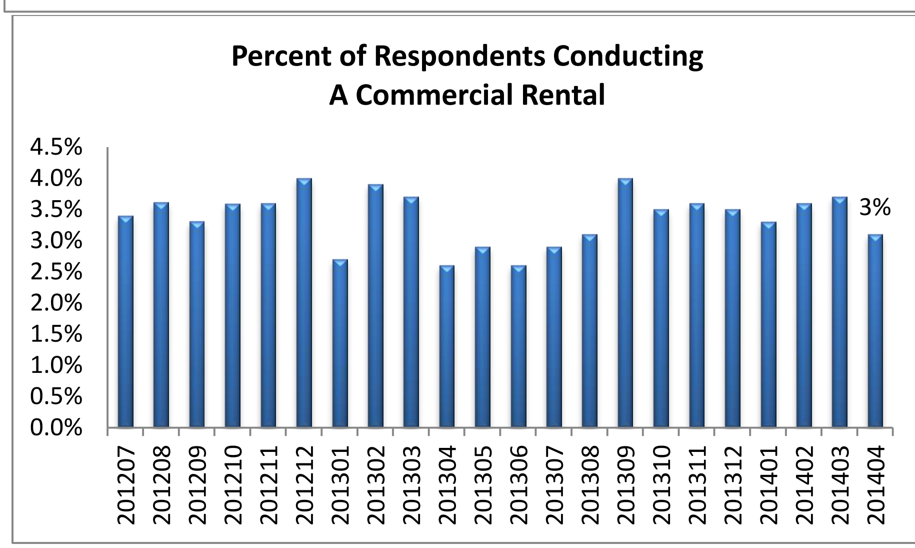


Rising Rents for Residential Properties

Demand for rentals remained strong. Among those REALTORS® involved in a rental, 54 percent (48 percent in March) reported higher residential rents compared to 12 months ago. About 20 percent of REALTORS® reported conducting an apartment rental, and about 3 percent reported a commercial rental transaction. While rising rents make home ownership more attractive, rising rents also slow the ability of current renters to save for a home purchase.


Percent of Respondents Reporting Rising Rent Levels Compared to 12 Months Ago
70%
60%
50%
40%
30%
20%
10%
0%
54%
201012
201102
201104
201106
201108
201110
201112
201202
201204
201206
201208
201210
201212
201302
201304
201306
201308
201310
201312
201402
201404


Percent of Respondents Conducting An Apartment Rental
35%
30%
25%
20%
15%
10%
5%
0%
20%
201012
201102
201104
201106
201108
201110
201112
201202
201204
201206
201208
201210
201212
201302
201304
201306
201308
201310
201312
201402
201404


Percent of Respondents Conducting A Commercial Rental
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
3%
201207
201208
201209
201210
201211
201212
201301
201302
201303
201304
201305
201306
201307
201308
201309
201310
201311
201312
201401
201402
201403
201404

III. Current Issues

Comments Supplied by REALTORS® Responding to the April 2014 Survey

Jed Smith, Managing Director, Quantitative Research

Every month REALTORS® provide a variety of comments on the state of the market when responding to the *RCI* survey. In general, REALTORS® noted that uncertainity about economic conditions, rising prices, weather, the limited inventories of available homes, and flood insurance were negatively impacting the home sales markets.

Comments received this month provided mixed messages—low available inventories in many areas, more buyers than sellers, and a market that is still producing sales but that also seems to have lost momentum, and an active market in many areas (in some cases multiple bids) and a slowing market in other areas. Buyers were reported as increasingly cautious. As stated repeatedly, all real estate is local, so the summary of the comments has many exceptions to it based on regional differences and the underlying economies. Weather, higher prices, and credit availability/interest rates were mentioned as problems. In some areas, REALTORS® noted low consumer confidence coupled with problems in the local economies. The overall message from REALTORS® was that the housing markets are cautious, and demand is slower but still substantial.

The market has slowed. In particular, buyers are reported as resistant to higher prices, are more demanding, extremely cautious, and looking for properties in perfect condition. In many cases buyers are approaching sellers markets as if they were buyers markets, offering unrealistic and unobtainable prices.

Limited inventories are reported as a major problem. An exceptionally large number of respondents noted that inventories of available homes were very low. This was reported to be a major problem.

REALTORS® reported credit availability as very tight with unrealistic underwriting standards. REALTORS® reported that cash is king: a cash offer or large down payment has a major impact on contract acceptance. REALTORS® reported that good clients were having trouble qualifying for mortgages. This was repeatedly mentioned. Many good credit clients were reported as being unable to buy a home due to unrealistically high credit standards.

Appraisals continue to slow/kill contracts. Appraisals have again shown up as a major issue. In particular, there was concern that current appraisals do not reflect changing and improving market conditions. Appraised values were reported as coming in too low. In addition, there was major concern in some cases about the lack of knowledge of local conditions by the appraisers.

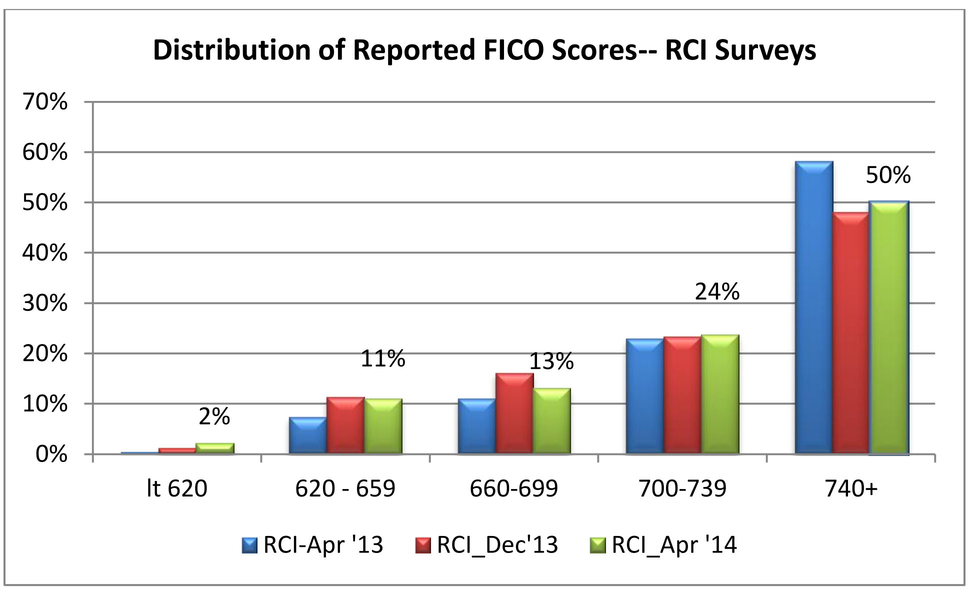
A major function provided by REALTORS® was reported to be buyer/seller education. The survey highlighted the value of REALTORS® in changing markets. In particular, both buyers and sellers have extensive access to on-line websites, news stories, and media reports; however, local markets are very site specific and the data and conclusions from public sources are reported to be frequently out of data and inaccurate. REALTORS® mentioned the need in many situations to address buyer and seller expectations, unrealistic due to selective and inaccurate news reports.

A number of regulatory problems were reported as impacting the real estate markets.

- FHA and VA condo financing—seen as a problem in a number of cases.
- Flood insurance—Mentioned by a number of respondents even though premium issues have been to some degree ameliorated. The reclassifications of flood plains has been a problem and in some cases is seen as inaccurate/inappropriate.
- Dodd Frank debt ratios—reported as unrealistic for a number of clients, preventing sales from going through for credit-worthy clients.

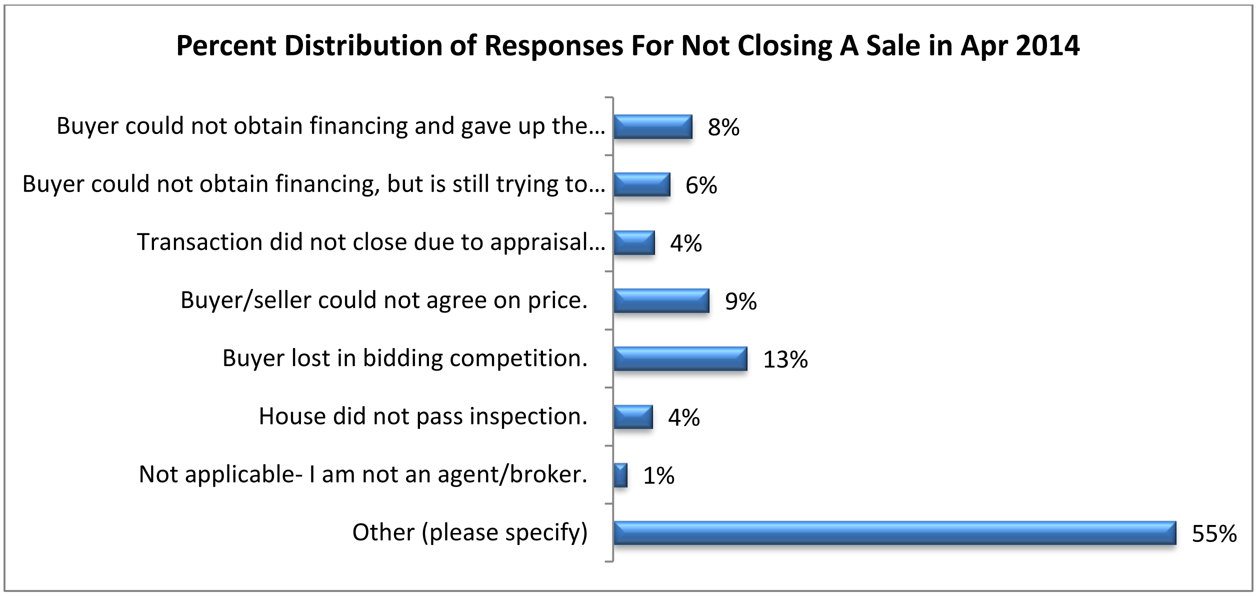
Tight Credit Conditions and Slow Lending Process

REALTORS® continued to report that even borrowers with "strong " credit scores are having difficulty getting financing. Slightly more than half of survey respondents who provided credit score information reported FICO credit scores of 740 and above. In the 2001-04 time frame approximately, 40 percent of residential loans acquired by the Government Enterprises (Fannie Mae and Freddie Mac) went to applicants with credit scores above 740. Only about 2 percent of REALTORS reported a purchase by a buyer with credit score of less than 620.



Reasons For Not Closing A Sale

Lack of access to credit was often cited as a deterrent to home buying. About 14 percent of REALTORS® who did not close a sale in April reported having clients who could not obtain financing. About 6 percent reported that the buyer gave up, while 8 percent reported that the buyer continued to seek new/other financing. Lack of agreement on price accounted for 9 percent. Another 13 percent reported that the buyer lost the competition. Appraisal issues were reported as accounting for 4 percent of failures to close a sale. "Other" reasons include to closing because the buyer is still searching for a home or that inspection/closing is underway.

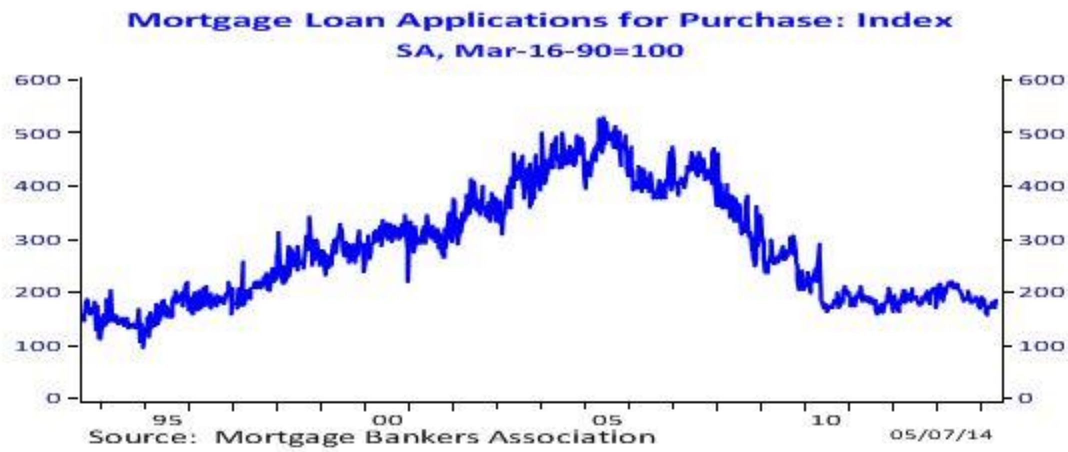


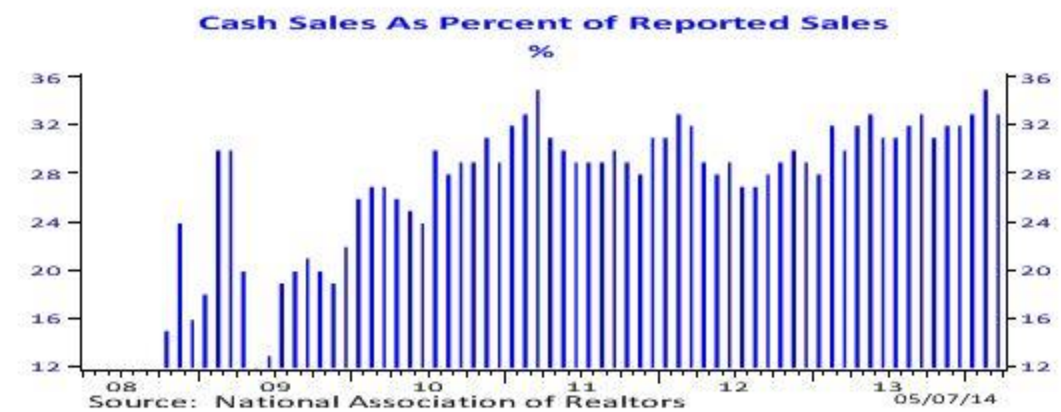
IV. Commentaries by NAR Research

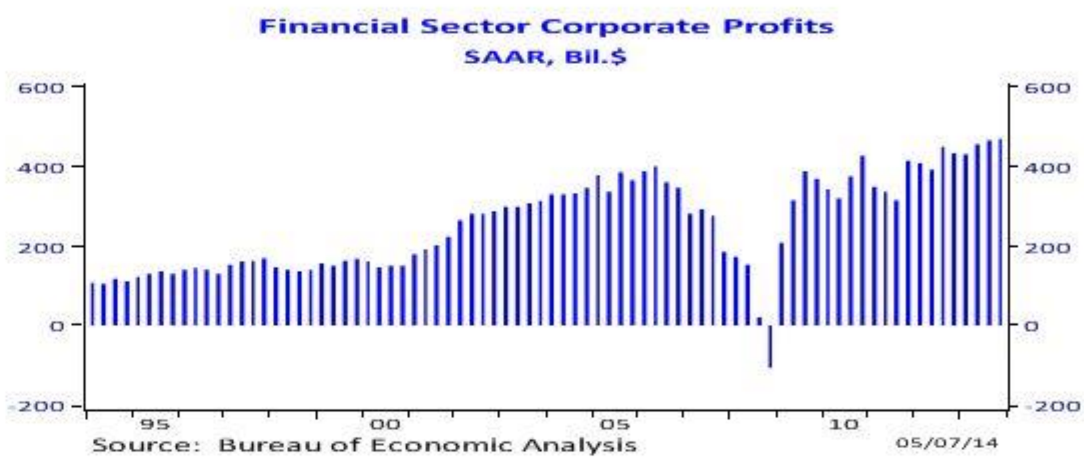
Mortgage Applications

Lawrence Yun, Chief Economist

- More people applied for mortgages to buy a home in the past week (8.8 percent increase). Despite the weekly increase, the overall trend to obtain mortgages has not been too encouraging. It is down by 16 percent from one year ago and has been bouncing around at 15 year lows.
- Good thing all-cash transactions are partly making up for the sluggish mortgage market. Cash sales have been running at around one-third of transactions in recent years, compared to a historical norm of around 10 percent.
- Because of huge cash reserves held by financial institutions there is abundant incentive to lend more. Recent delinquency trends at near historic lows for mortgages originated in the past four years should also be an added incentive to lend more. Moreover, we have a housing shortage situation which assures further price gains. And when prices rise, people do not default. The financial industry profit levels have been sky high of late.
- The very low mortgage default rates are the reason why Fannie and Freddie have been raking-in huge profits lately. It is unclear why Fannie and Freddie now still charge high guarantee fees even after having paid back the taxpayers' bailout money. The extra profit is going straight to the U.S. Treasury, where money is dispensed for all government programs, such as buying fighter jets and food stamps. But why should homebuyers pay the extra fee so that government can get the extra revenue in this fashion, when the sole mission of having Fannie and Freddie is to support the real estate sector and not national defense or welfare programs?
- Meanwhile, because mortgage applications remain mostly lackluster because of excessively tight underwriting conditions, renters are not converting into homeowners. Rental households have risen by seven million in the past decade while homeowner households have increased by only one million. The homeownership rate has plunged as a result.
- Though not everyone can be nor should be a homeowner, limiting many good renters to be stuck being renters raises serious social issues. Past research has shown that children of renters compared to that of homeowners vastly underperform at school (after accounting for socioeconomic demographic factors). Renters are less likely to give to charities or get involved in community activity. Is the country moving unnecessarily towards a renter nation?


Mortgage Loan Applications for Purchase: Index
SA, Mar-16-90=100
600
500
400
300
200
100
0
95
00
05
10
Source: Mortgage Bankers Association
05/07/14


Cash Sales As Percent of Reported Sales
%
36
32
28
24
20
16
12
08
09
10
11
12
13
Source: National Association of Realtors
05/07/14


Financial Sector Corporate Profits
SAAR, Bil.$
600
400
200
0
-200
95
00
05
10
Source: Bureau of Economic Analysis
05/07/14

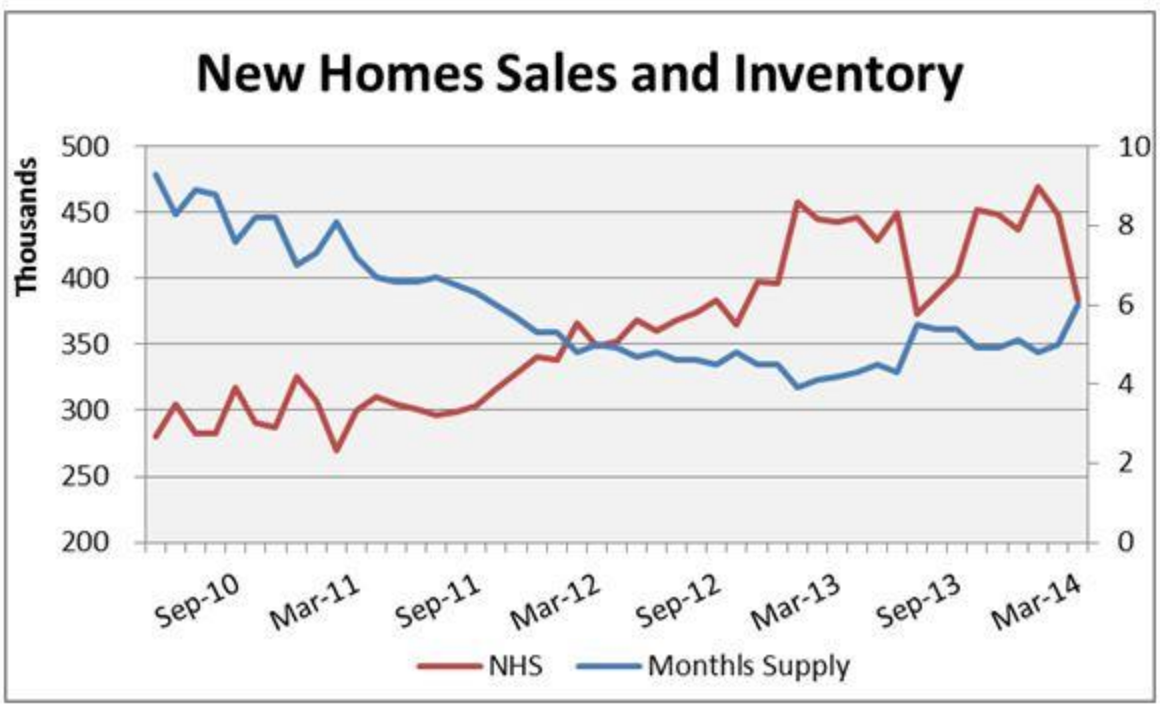

Total Renter Occupied Housing Units
Thous
42000
40000
38000
36000
34000
32000
95
00
05
10
Source: Census Bureau
05/07/14


Total Owner Occupied Housing Unit
Thous
77500
75000
72500
70000
67500
65000
62500
95
00
05
10
Source: Census Bureau
05/07/14

Latest New Home Sales, Inventory Data

Ken Fears, Director, Regional Economics and Housing Finance Policy

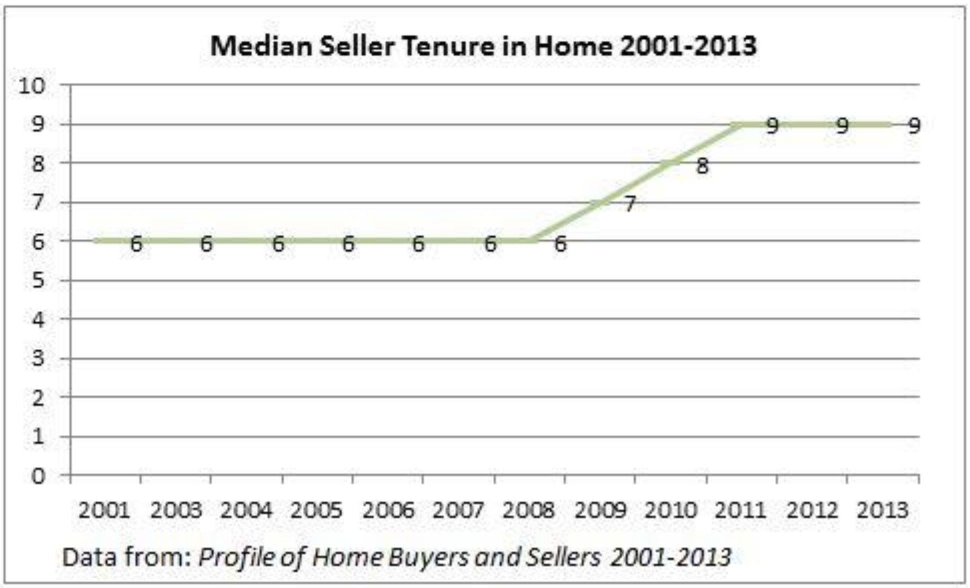
- Contracts for new home sales tumbled 14.5% from February to March, to a seasonally adjusted annualized rate of 384,000. This decline is a sharp acceleration of the declining trend that began last month. New home sales are 13.3% lower than the same period a year ago. Mortgage rates have increased roughly 1% to 4.5% over that same time frame while home prices are roughly 12% stronger.
- Inventories rose 3.2% from February to March and are up nearly 25.3% relative to the same time last year. This increase brings the months supply of home sales up to 6 months, still in neutral territory.
- The median price for a new home under contract jumped 12.6% over the 12-month period ending in March to $290,000. The median existing home price was 31.7% lower at $198,200, more than three times the historical average spread of 10.8%, suggesting that existing homes are a bargain by historical standards. According to the BLS, a shortage of skilled labor and rising labor costs have contributed to the rising median price of new homes.
- It appears that new home sales have begun to feel the weight of the sharp increase in mortgage rates, home price gains, and the erosion of affordability over the last 12 months. The impact of weather on new production will ease through the summer, resulting in additional inventory coming on line in six to nine months. However, inventory remains tight and prices continue to rise. A moderate increase in inventory will help to steady prices to a historically stable growth path.



Increase in Tenure in Home: Due to Increased Buying Power?

Jessica Lautz, Director, Member and Consumer Survey Research

I remember giving my mom a hard time when I was kid saying we moved too much (we did), to which she retorted "Everyone moves every six years. It's a fact." It was only many years later that I did find out it was indeed a fact. Looking at data from the *Profile of Home Buyers and Sellers*, the median tenure from 2000-2008 was six years. From 2009 to 2013 the number has incrementally increased to its present figure, a median of nine years.

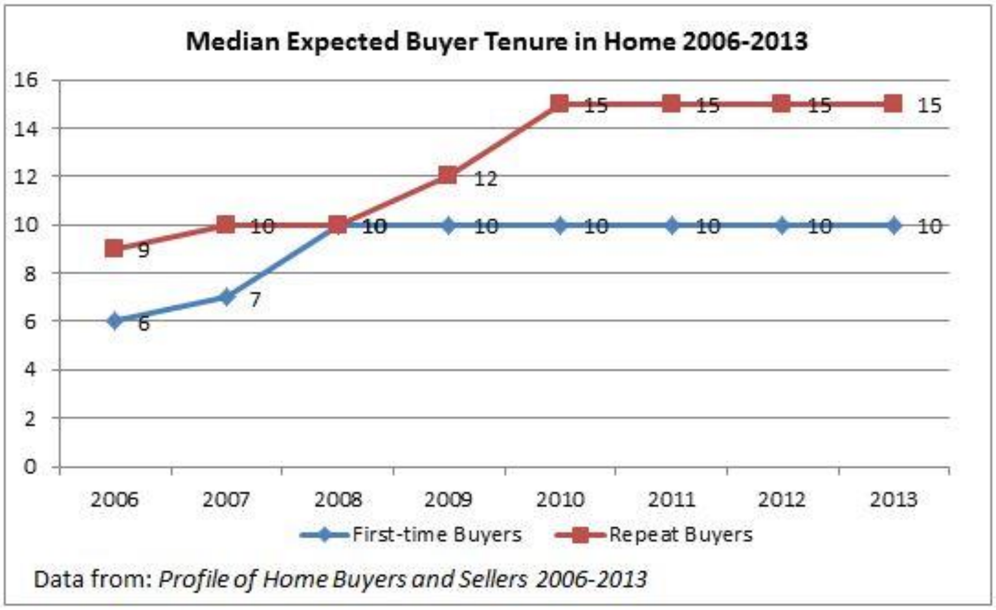


There has been much discussion about the reasons why tenure has increased. It is a multifaceted issue:

• There are still underwater home sellers
• The lock in rate of first-time buyers being able to skip the starter home and jump right into their trade-up/family home
• The lock in rate of low mortgages

I'd like to address the first two issues with time series data from the annual *Profile of Home Buyers and Sellers* report. This year in the profile sellers were asked if they wanted to sell earlier but waited or stalled because their home was worth less than their mortgage—13 percent of recent sellers (who went on to purchase another home) were in this situation. This was most common among those who bought their home six to 10 years ago—about one in five sellers were in this situation. Those sellers who sold at that nine-year mark could have really wanted to sell after six years.

As home prices dropped, interest rates hit record lows, and housing affordability hit record levels, buyers were able to buy more home than they could in the past. This phenomenon increased the expected tenure in home. First-time buyers were buying homes that were 1,516 square feet in 2006 – this figure jumped to 1,670 square feet in 2013. Their desire to move sooner also decreased. The expected tenure in home for first-time buyers in 2006 was just six years in the home – in 2013, the expected tenure in home increased to 10 years. The difference of only 154 square feet could be the difference in having a room for a den that could transform into a room for a child in the future, making the need and desire to move less certain and pushing the idea farther into the future. Interestingly, over the same time period the age of first-time home buyers did not change, staying within a range of 30 to 32 years old.

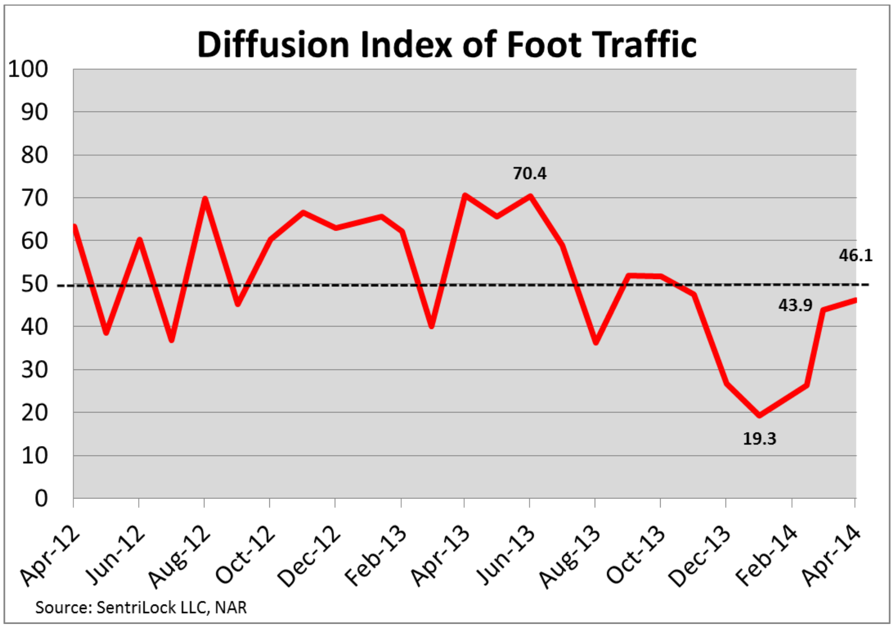


It will be interesting to see in coming years if tenure in home stays at nine years, and a new normal is created, or if tenure will go back to the historical median of six years.
For more information on data from the *Profile of Home Buyers and Sellers*, visit:http://www.realtor.org/reports/highlights-from-the-2013-profile-of-home-buyers-and-sellers

Foot Traffic Diffusion Index—Rising

Ken Fears, Director, Regional Economics and Housing Finance Policy

Foot traffic as measured by NAR's Research diffusion index rose for the 3rd consecutive month in April. This steady, but later-than-normal trend suggests that home sales should improve through the late summer season. Slower housing demand than last year may press up on inventories which are currently slim, moderating price growth to a more sustainable pattern to the benefit of consumers.



Every month SentriLock, LLC. provides NAR Research with data on the number of properties shown by a REALTOR®. Lockboxes made by SentriLock, LLC. are used in roughly a third of home showings across the nation. Foot traffic has a strong correlation with future contracts and home sales, so it can be viewed as a peek ahead at sales trends two to three months into the future. For the month of April, the diffusion index for foot traffic rose 2.2 points to 46.1 after jumping 17.6 points in March.

The index is just below the "50" mark which indicates that more than half of the roughly 200 markets in this panel had weaker foot traffic in April of 2014 than the same month a year earlier. This reading does not suggest how much of an increase in traffic there was, just that nearly half of the markets tracked experienced more foot traffic in April of 2014 than 12 months earlier.

This upward movement in foot traffic relative to last year is important for the summer market as it hints at a stronger second half of 2014. Though affordability was significantly stronger last spring, prior to the Fed's announcement of impending reductions in its MBS purchases, mortgage rates have eased in recent weeks aiding the consumer. The loss of purchasing power combined with bidding wars for a slim inventory has certainly taken a toll. An expansion of the credit box accompanied by an increase in new construction and boomer downsizing would help to ease the market's constriction and stabilize price growth towards its long-term path.