REALTORS® CONFIDENCE INDEX

Report on the May 2014 Survey
Conducted June 2-6, 2014

NATIONAL ASSOCIATION OF REALTORS®

Research Department

Lawrence Yun, Senior Vice President and Chief Economist

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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 2,805 REALTORS® about their transactions in May 2014[1]. The survey was conducted during June 2-6, 2014. Questions about the characteristics of the buyer and the sale are based on the REALTOR'S® last transaction for the month, which altogether are viewed to be representative of the sales for the month. All real estate is local: conditions in specific markets may vary from the overall national trends presented in this report.

Broadly, the May 2014 survey of REALTORS® indicates the same level of confidence about current conditions in May as previously while registering a slight dip in confidence about the outlook for the next 6 months across all markets. REALTORS® reported continued weakness in seller traffic and a decline in buyer traffic. Low supply relative to demand, tougher lending standards, and the lackluster growth in income and savings were reported to be constraining sales. With tight supply, home prices were generally still increasing, and many properties were on the market for less than two months. Distressed sales continued to account for a smaller portion of the market. Student debt, higher mortgage insurance rates, and the inability to pay the closing costs were reported to be a causing financial difficulties for would-be buyers. In some markets, the cost of obtaining flood insurance continued to be reported as having a negative impact on potential sales.

May 2014 REALTOR Confidence Index Survey Highlights
Current/Previous Month

- RCI –Current Conditions: Single Family Sales: 64/64
- RCI- 6 Month Outlook: Single Family Sales: 66/68
- RCI –Buyer Traffic Index: 60/63
- RCI-Seller Traffic Index: 43/44
- First-time Buyers, as Percent of Sales:27%/29%
- Cash Sales, as Percent of Sales: 32%/32%
- Sales to Investors, as Percent of Sales: 16%/18%
- Distressed Sales, as Percent of Sales: 11%/15%
- Median Days on Market: 47 days/48
- Expected price growth in next 12 months: 4%/4%

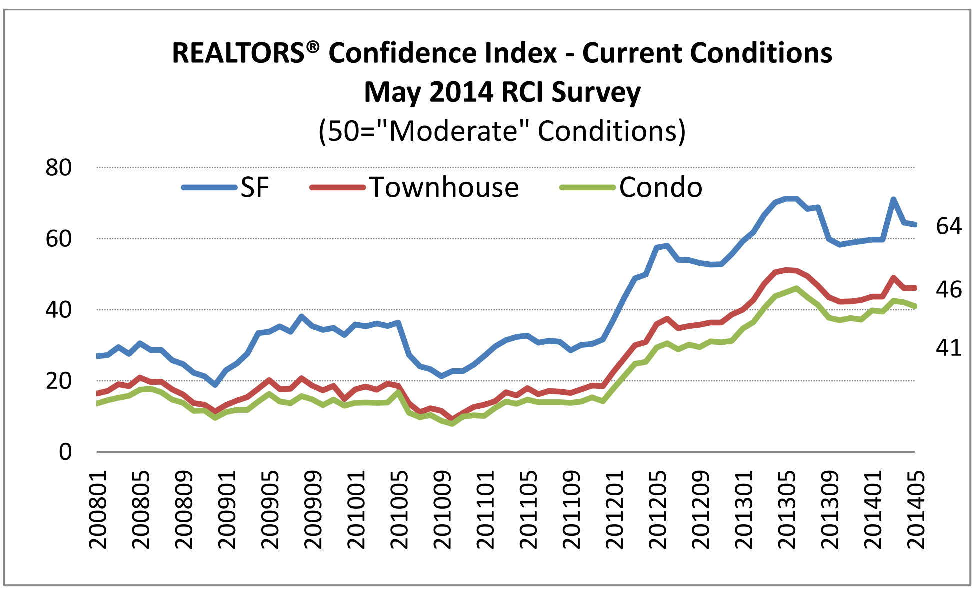
[1] The number of responses to a specific question can be less because the question is not applicable to the respondent or because of non-response. The survey was sent to a random sample of about 50,000 REALTORS®. To encourage survey participation, eight REALTORS® are selected at random each month to 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.

I. Market Conditions

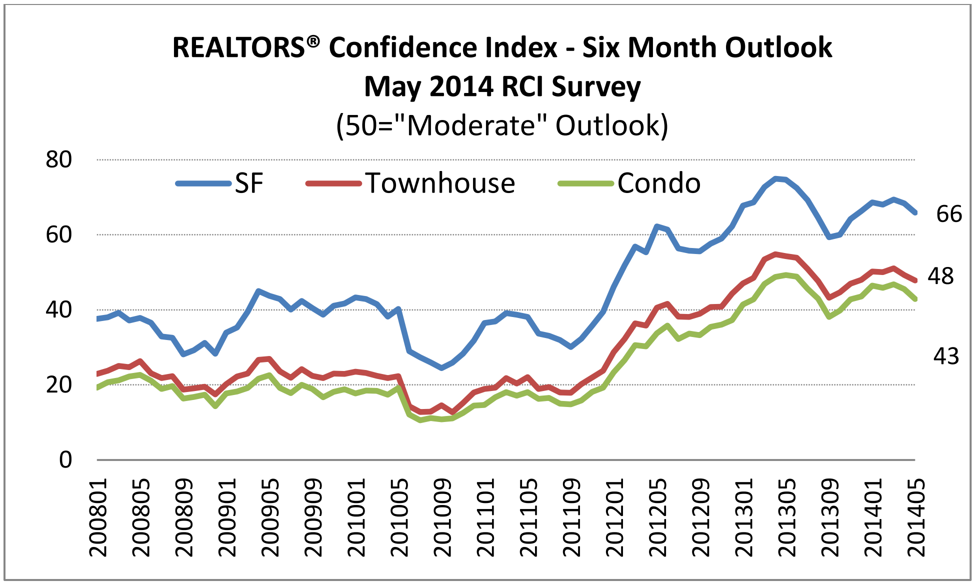
REALTORS® Confidence Eases in May

Confidence about current market conditions was essentially unchanged in May 2014 compared to April . The *REALTORS® Confidence Index - Current Conditions* for single family sales was unchanged at 64 (64 in April) . The markets for townhouses and condominiums were generally viewed as "weak". The indexes for townhouses/duplexes was unchanged at 46 (46 in April), while the index for condominiums slightly fell to 41 (42 in April). An index above 50 indicates that more REALTORS® view housing conditions as "strong" compared to those who view it as "moderate" or "weak" [2]. Continued tightness in supply, although improving, difficult credit conditions, and lackluster growth in income and savings were reported to be constraining sales.

Confidence about the outlook for the next six months dipped across all markets in May compared to April. The six-month Outlook Index for single family homes slightly fell to 66 (68 in April), the index for townhouses edged down to 48 (49 in April), and the index for condominiums dropped to 43 (46 in April). REALTORS® commented on the difficulty of obtaining mortgage financing for condominiums which are typically the starter homes for first-time buyers due to FHA approval issues.



[2] 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.

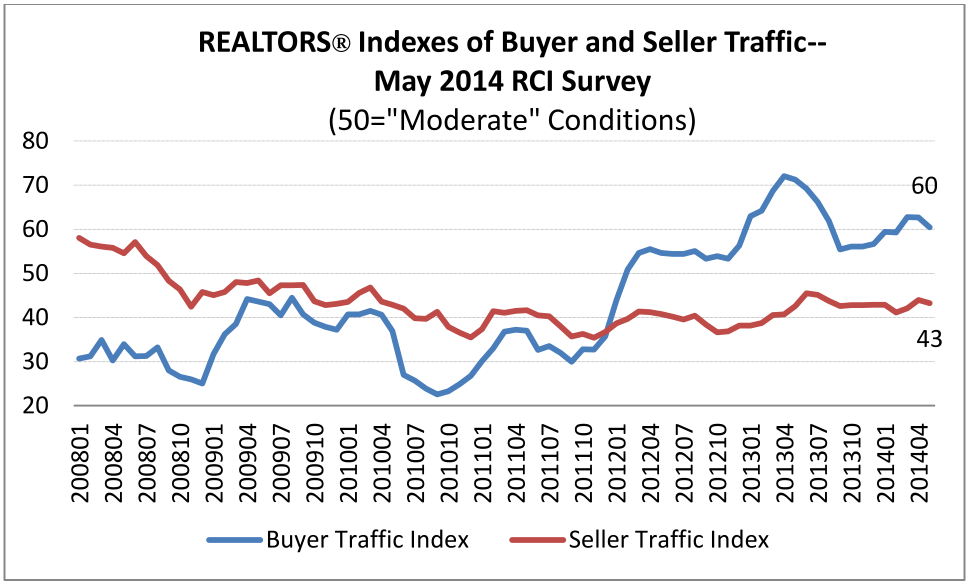


Buyer Traffic Index Dropped in May

The Buyer Traffic Index eased in May to 60 (63 in April) while the Seller Traffic Index essentially stayed flat at 43(44 in March) [3]. An index above 50 indicates that more REALTORS® view traffic conditions as "strong" compared to those who view it as "moderate" or "weak". There were reports that inventory constraints are easing (CA, FL, OH, HI, UT), but inventory levels are still reported as broadly inadequate compared to demand. Supply was reported as not significantly increased for a variety of reasons: uncertaintly that a potential seller may not find an affordable replacement home; the home was recently refinanced; the seller is still waiting for further price increase either to increase his equity gain or to move out of negative equity.

NAR also tracks foot traffic using Sentrilock, LLC data. Lockboxes made by SentriLock, LLC. are used in roughly a third of home showings across the nation. This index also shows that foot traffic eased modestly in May to 44.5. (See Section IV Commentaries for a discussion of this index.)

[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.

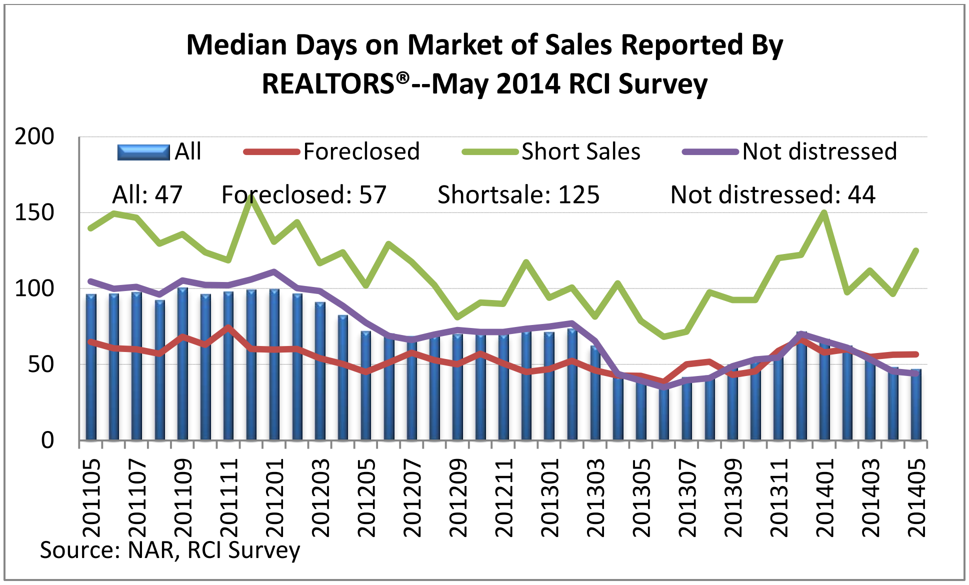


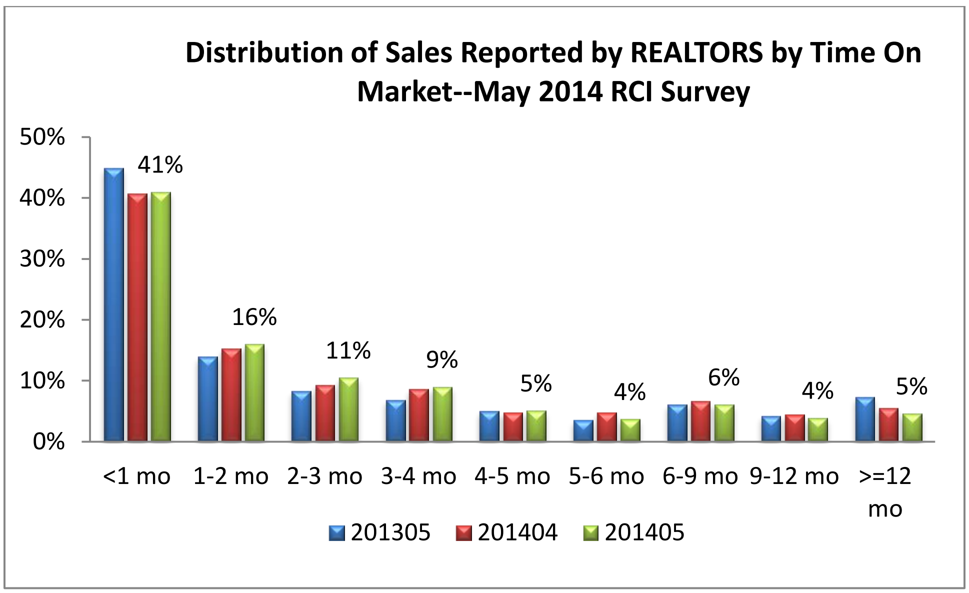
Median Days on the Market Down to 47 Days in May

With little inventory relative to demand, properties were reported as selling faster for the fifth straight month, typically at 47 days (48 days in April)[4]. Short sales were on the market for the longest, at 125 days (96 days in April), and foreclosed properties were on market at 57 days (56 days in April). Non-distressed properties were on the market at 44 days (45 days in April). 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 5 percent were on the market for more than six months.

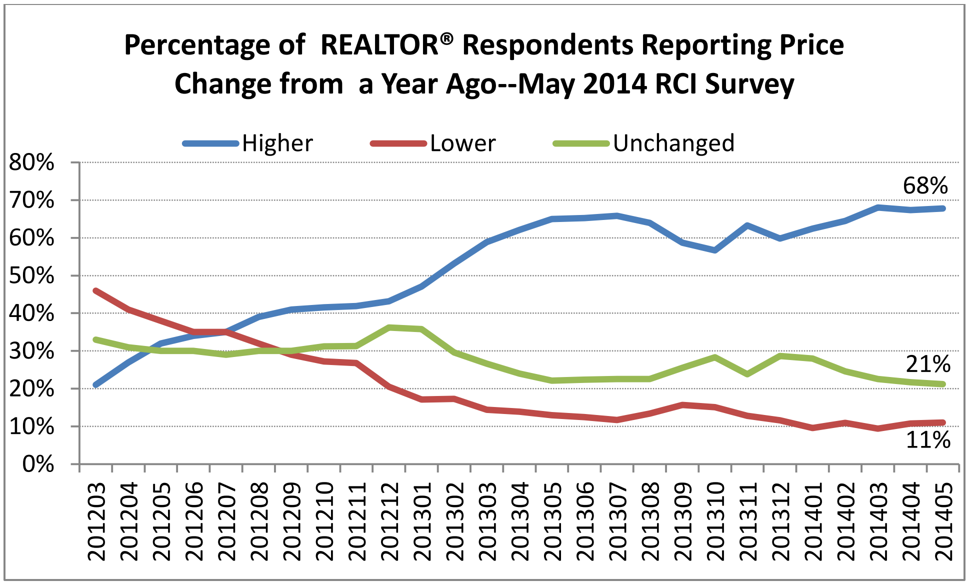
[4] A median of say 60 days means that half of the properties were on the market for less than 60 days and another half of properties were on the market for more than 60 days.



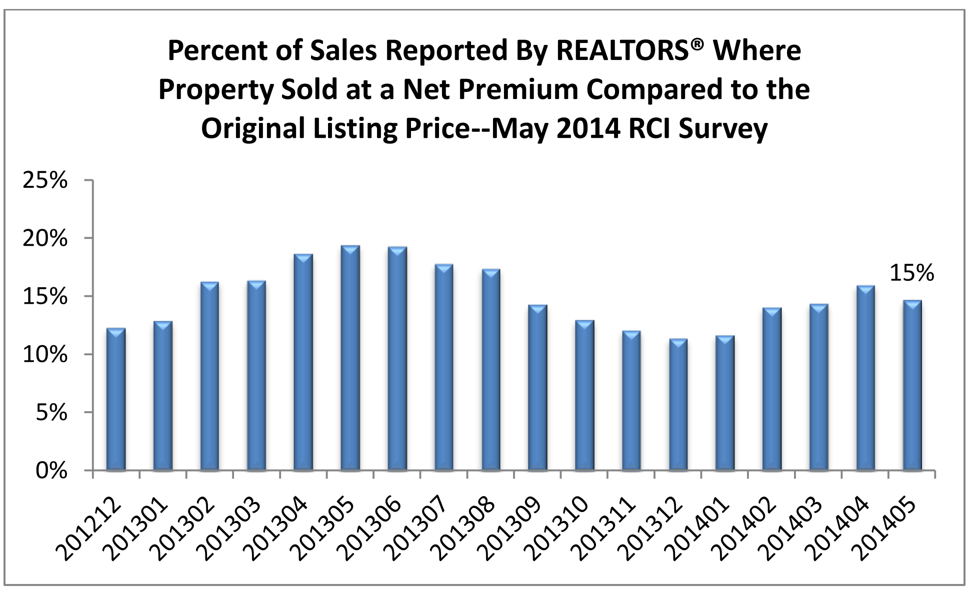


Home Prices Rising Moderately

Approximately 68 percent percent of REALTOR® respondents reported that the price of their "average home transaction" is higher today compared to a year ago (67 percent in April) . About 22 percent reported constant prices, and 11 percent reported lower prices. While rising prices are good for home owners seeking to sell, the increase in prices has also crimped home affordability for borrowers because incomes have not increased as much as home prices.



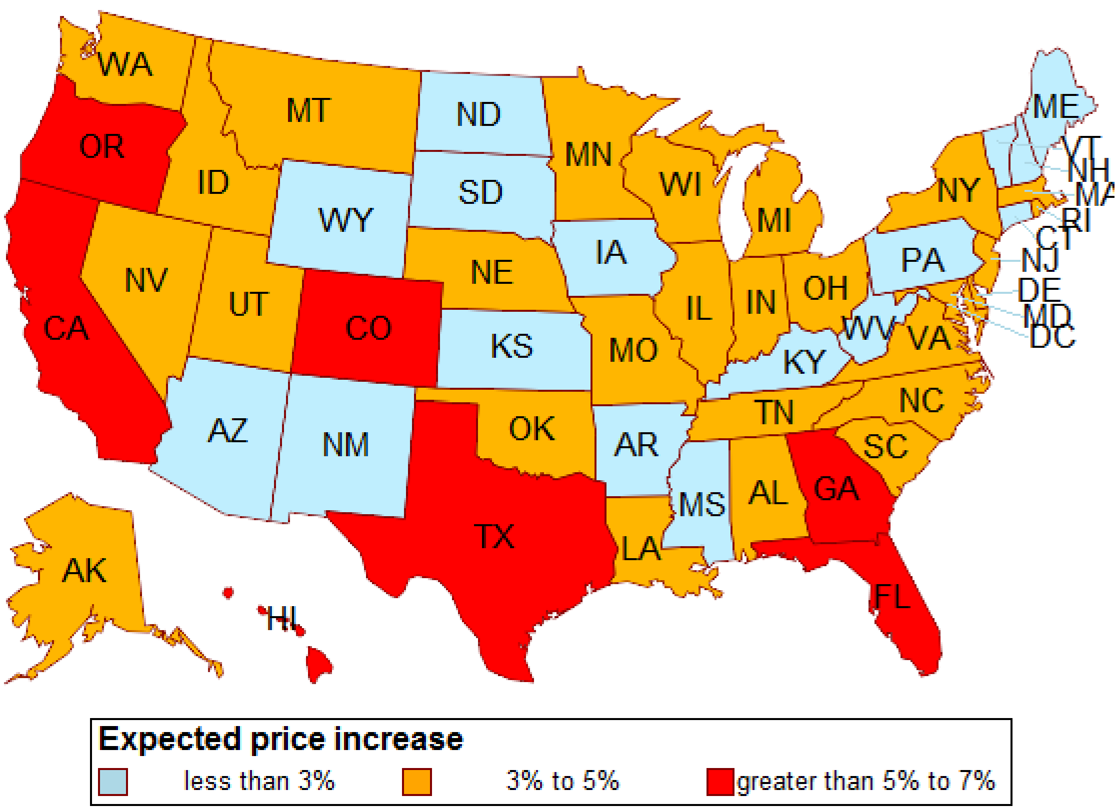
With inventory still generally tight and multibidding prevalent, approximately 15 percent of reported sales were of properties that sold at a net premium compared to the original listing price (16 percent in April). In mid-2013, about 20 percent of REALTOR® respondents reported selling properties at a premium.



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

REALTORS® generally expect home prices to increase in all states and the District of Columbia over the next 12 months. The median expected price increase is 4.0 percent[5]. Expected price movements depend on local conditions relating to housing demand and supply, demographics, and job growth. The difficulty in accessing mortgage financing, and modest expectations about overall economic and job prospects are factors underpinning the modest price expectation. The expected price growth was highest (red) in states with low inventory levels, strong cash sales , and with strong growth sectors (e.g, technology, oil).

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

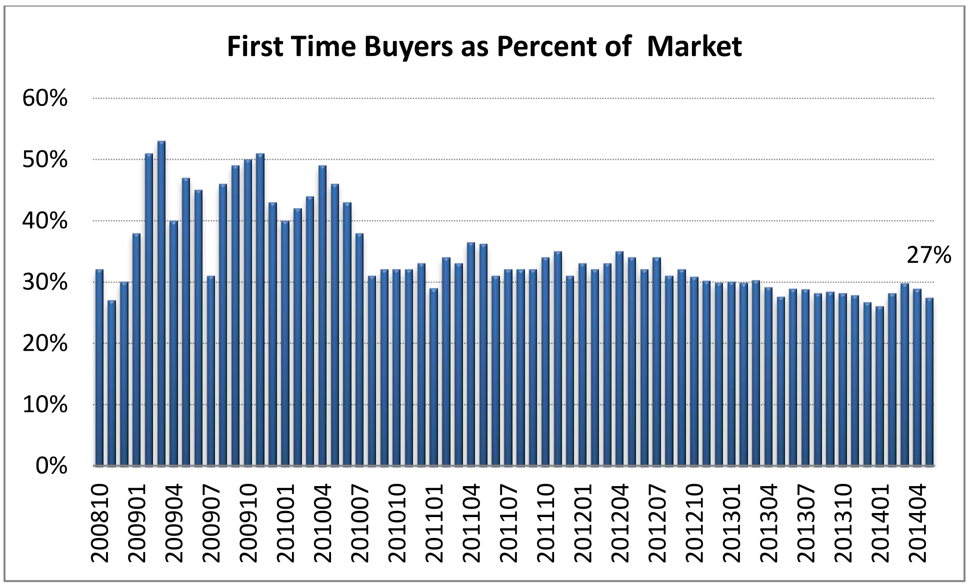


5 The median expected price change is the value such that 50 percent of respondents expect prices to change above this value and 50 percent of respondents expect prices to change below this value. A median expected price change is computed for each state based on the respondents for that state. The graph shows the range of these state median expected price change. To increase sample size, the data is averaged from the last three survey months.

II. Buyer and Seller Characteristics

Sales to First Time Buyers: 27 Percent of Sales

Approximately 27 percent of REALTOR® respondents reported that their last transaction in May was by a first time home buyer (29 percent in April)[6]. Tight 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[7]. Inability to pay for the closing costs were also reported to be adversely affecting sales.



Cash Sales: 32 Percent of Sales

Approximately 32 percent of REALTOR® respondents reported that their last transaction was a cash sale (same as in April).[8] REALTORS® have reported strong cash sales by investors, buyers of second homes, foreign clients. There are also reports that high income earners, specially those working in the technology sector, are paying all-cash. Baby boomers who have accumulated equity gains and are trading down were also reported to be paying cash.

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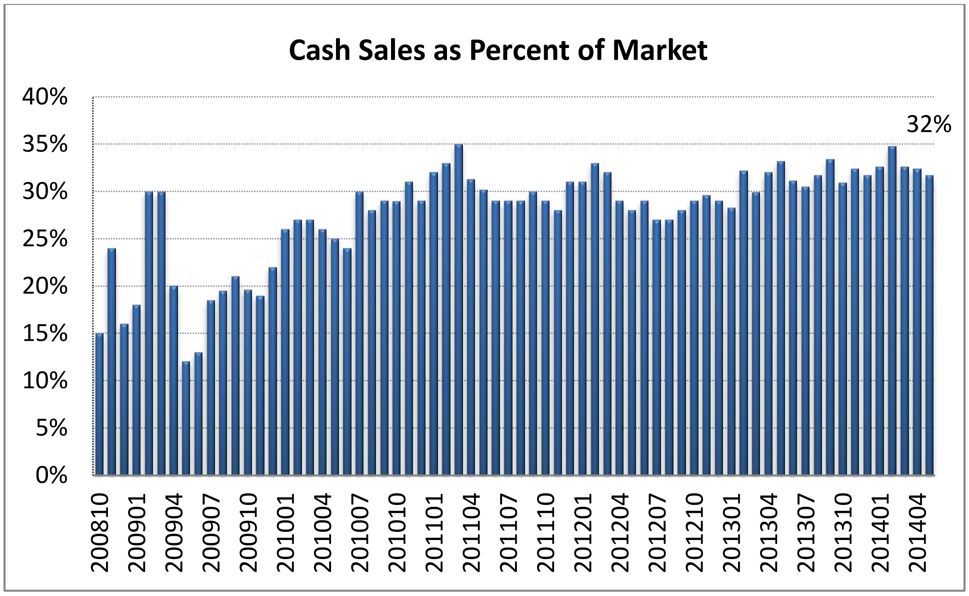
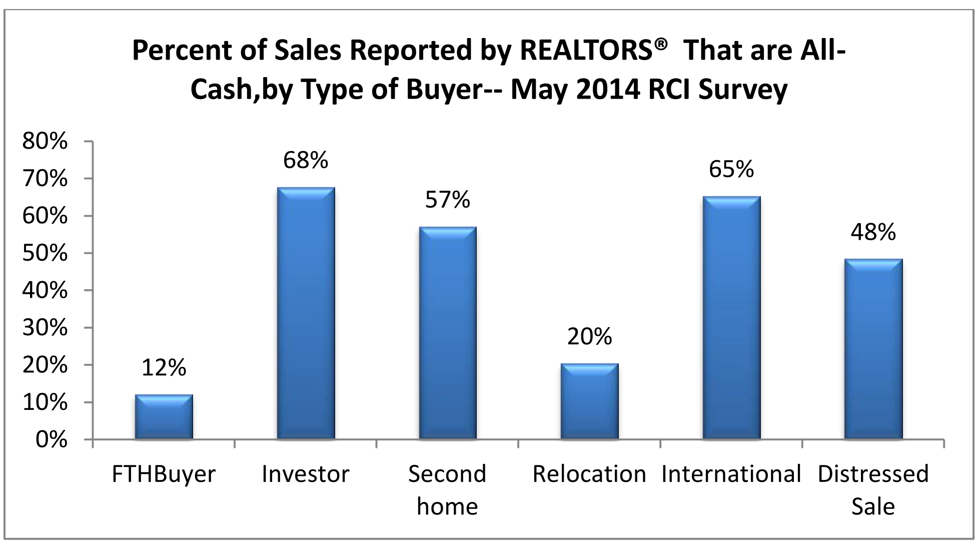
[6] First time buyers account for about 40 percent of all homebuyers based on data from NAR's *Profile of Home Buyers and Sellers.* NAR's survey of buyers and sellers in general does not capture investor purchases but does cover both existing and new home sales. In contrast, NAR's Realtor Confidence Index Survey which surveys REALTORS® captures purchases for investment purposes.

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

[8] The *RCI* Survey asks about the most recent sale for the month.

Buyers paying all cash are reported to be winning over first-time buyers who generally obtain mortgage financing. About 12 percent of reported sales to first-time buyers were cash sales compared to about 70 percent of buyers of property for investment purposes and international buyers.

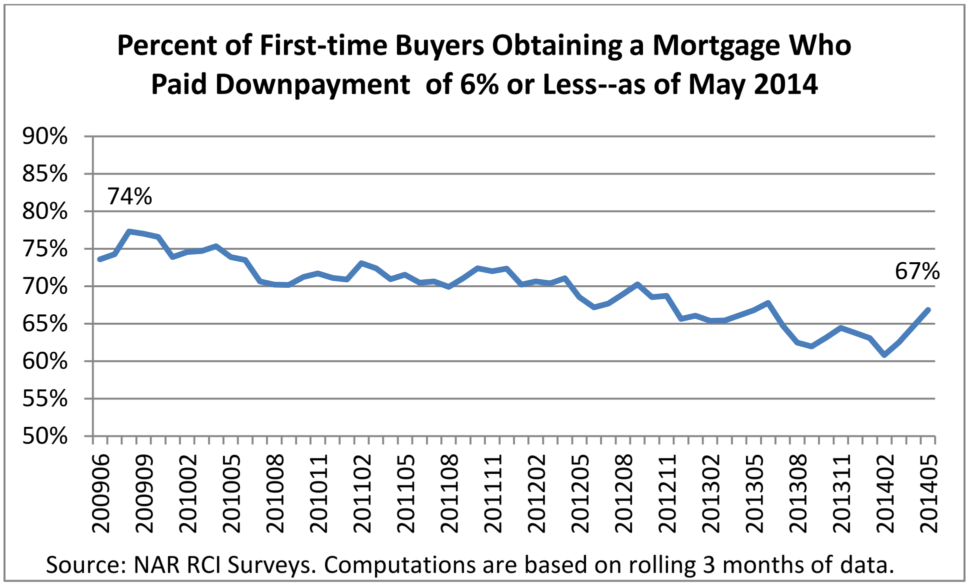




Fewer First time Home Buyers Paying Low Down Payment

First-time homebuyers are increasingly providing higher downpayments than was previously the case. Among first-time buyers using mortgage financing in the months of March-May 2014, about 67 percent made a downpayment of 6 percent or less. This is down from 74 percent in 2009. REALTORS® have reported that buyers frequently have to make a downpayment of 20 percent or more to be approved for financing. There are reports that the typical renter's savings are substantially less than the hefty downpayment and closing costs[9].

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[10].

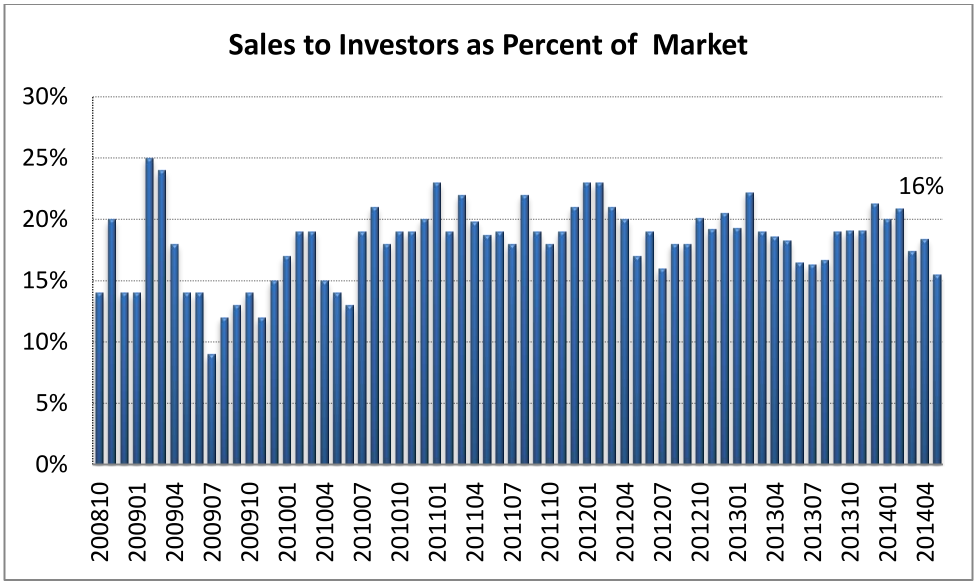


Sales for Investment Purposes: 16 Percent of Sales

Approximately 16 percent of REALTOR® respondents reported that their last sale was for investment purposes (18 percent in April). Since January this year , the share of sales for investment purposes appears to be on the decline from the historical average of about 20 percent in recent years. For investors intending to rent out the property, rising home prices are cutting into profits even if rents continue to rise. On the other hand, rising prices may be sustaining the interest of investors who are just flipping the property.

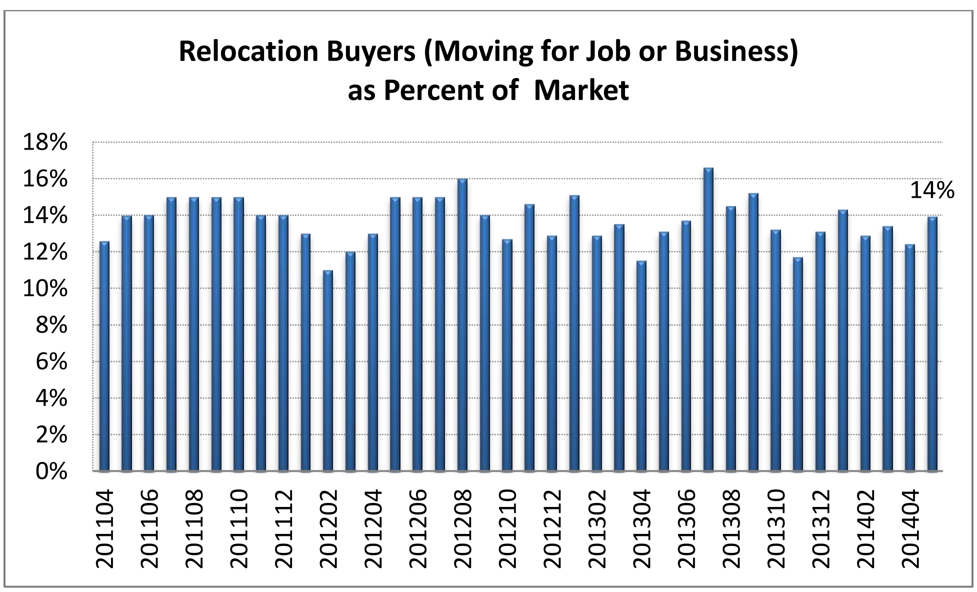
9 See http://economistsoutlook.blogs.realtor.org/2014/04/11/the-down-payment-challenge-and-the-typical-renter/

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

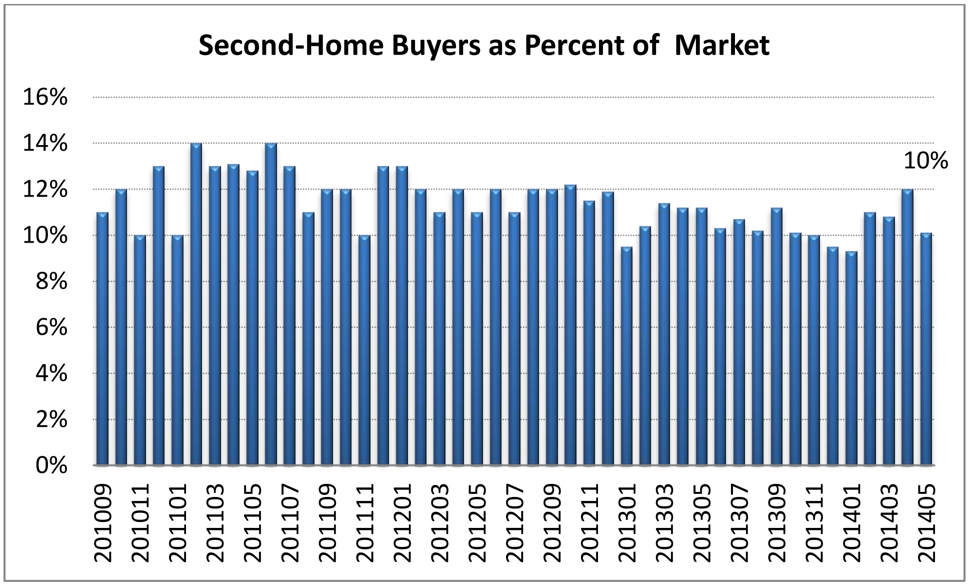


Second-home Buyers and Relocation Sales: Still Weak

Purchases for vacation/second home purposes and for job/business relocation purposes have been reported as relatively constant since 2010. About 10 percent reported a sale to a second-home buyer, and 14 percent reported a sale to a relocation buyer. As an example, there are reports that vacation home sales in Colorado Springs , Central Oregon, some markets in Texas, Florida, and Maryland are still weak.

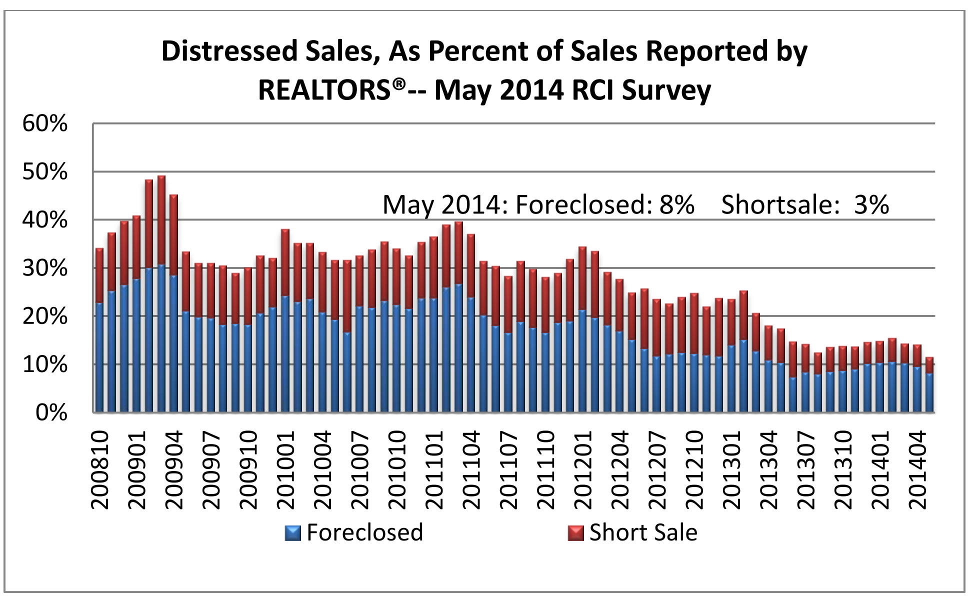


In the case of second homes, REALTORS® reported that tight lending standards have made it more difficult to obtain a loan for a second home.

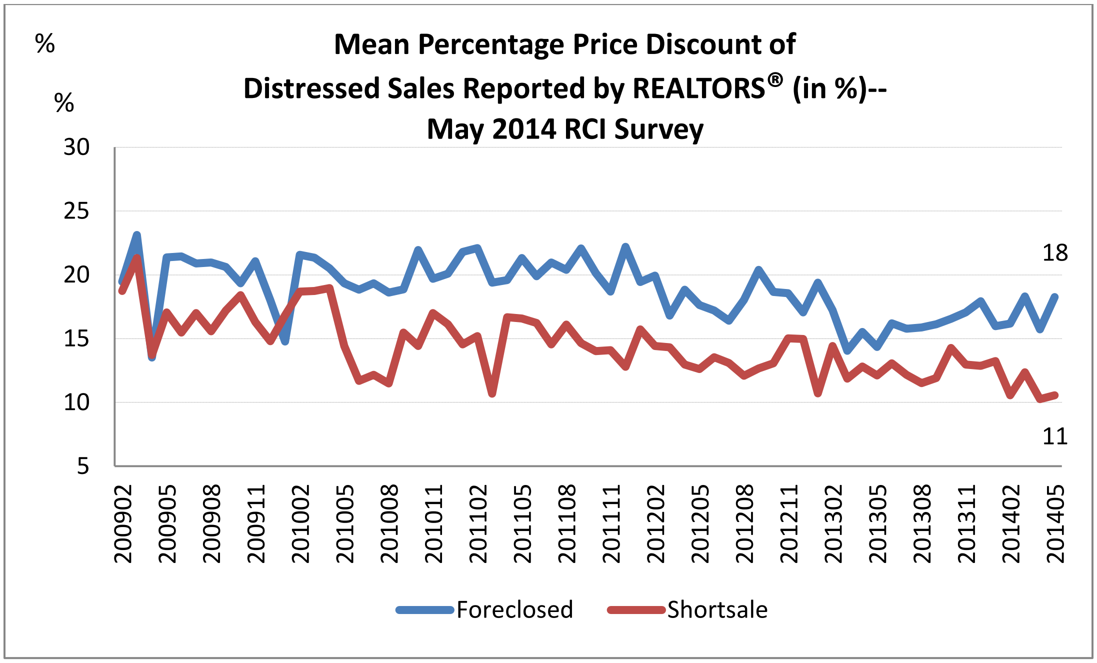


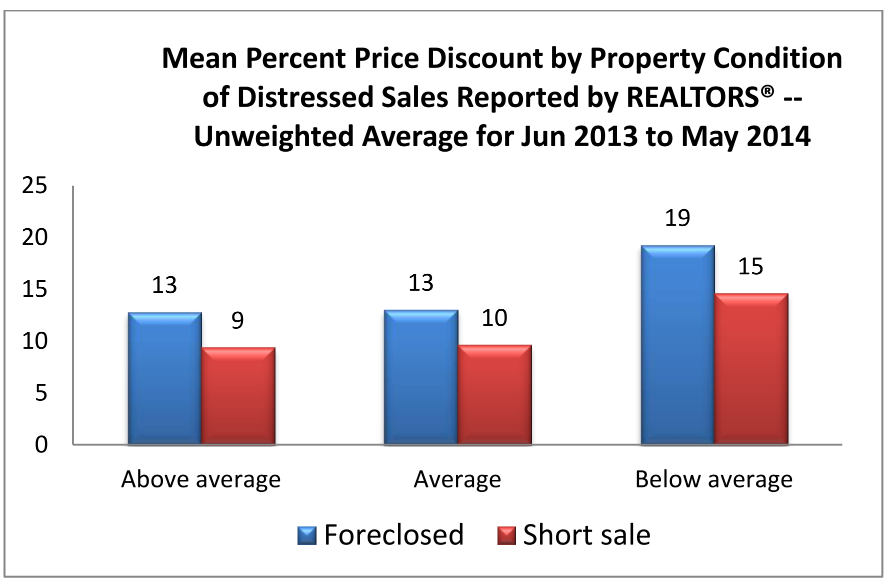
Distressed Sales: 11 Percent of Sales

With rising home values and fewer foreclosures, the market is seeing fewer distressed sales compared to the early years of the Great Recession. In May, distressed sales accounted for 11 percent of sales: 8 percent of reported sales were foreclosed properties, and about 3 percent were short sales.



Foreclosed property sold at a 18 percent average discount to market, while short sales sold at a 11 percent average discount.[11] The discount varied by house condition. For the past 12 months, properties in "above average" condition were discounted by an average of 9-13 percent, while properties in "below average" condition were discounted at an average of 15-19 percent.

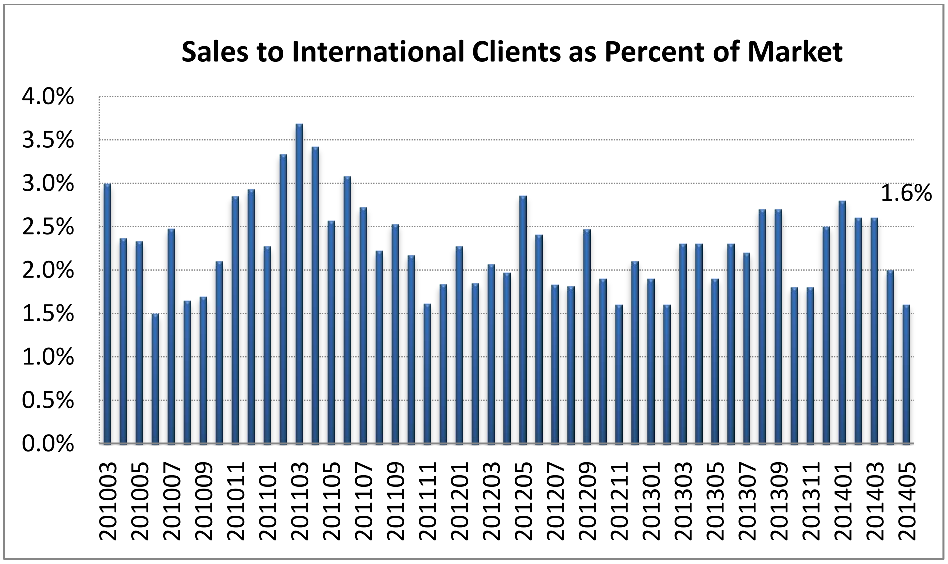




[11] The estimation of the level of discount is based on an estimate of what the property would have sold for if it had not been distressed (possibly in better condition, absent any taint of being distressed).

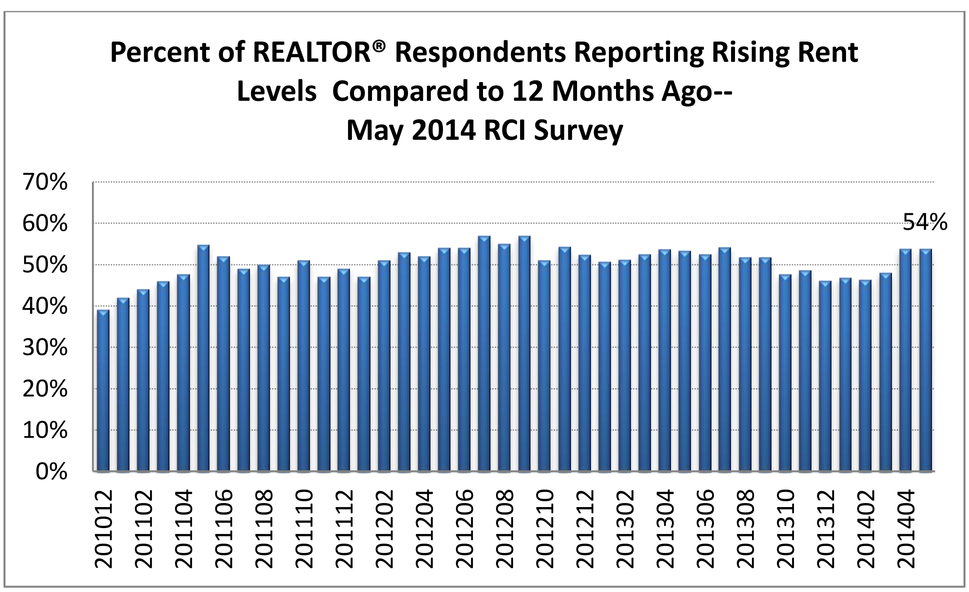
International Transactions: About 2 Percent of Residential Market

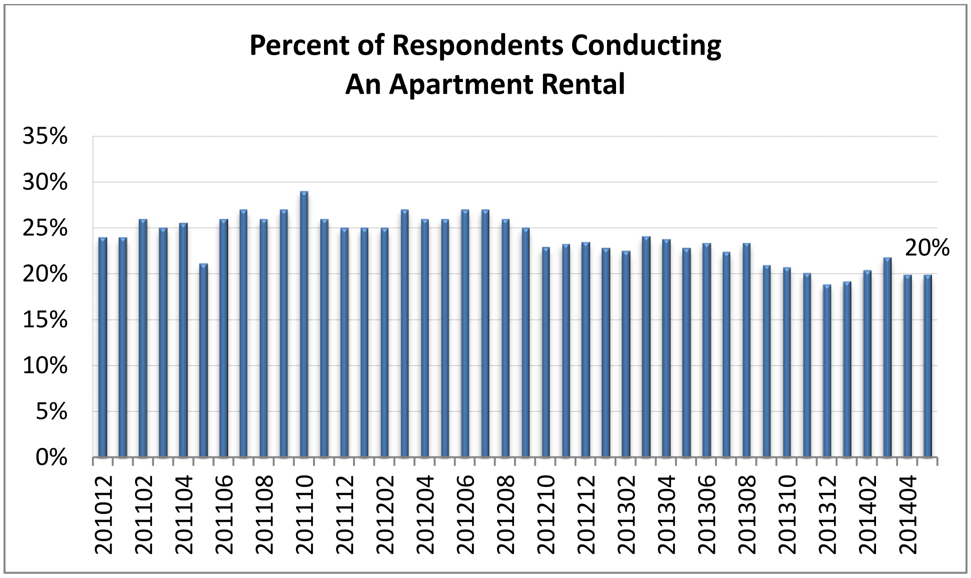
Approximately 2 percent of REALTOR® respondents reporting on their last sale was of a purchase by a foreigner not residing in the U.S. International buyers frequently pay cash. In NAR's *2013 Profile of International Homebuying Activity*, the major buyers were reported as being from Canada, China, Mexico,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



Rising Rents for Residential Properties

Demand for rentals remained strong. Among those REALTORS® involved in a rental, 54 percent (same as in April) 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.





Percent of Respondents Conducting
An Apartment Rental
35%
30%
25%
20%
15%
10%
5%
0%
20%
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201104
201106
201108
201110
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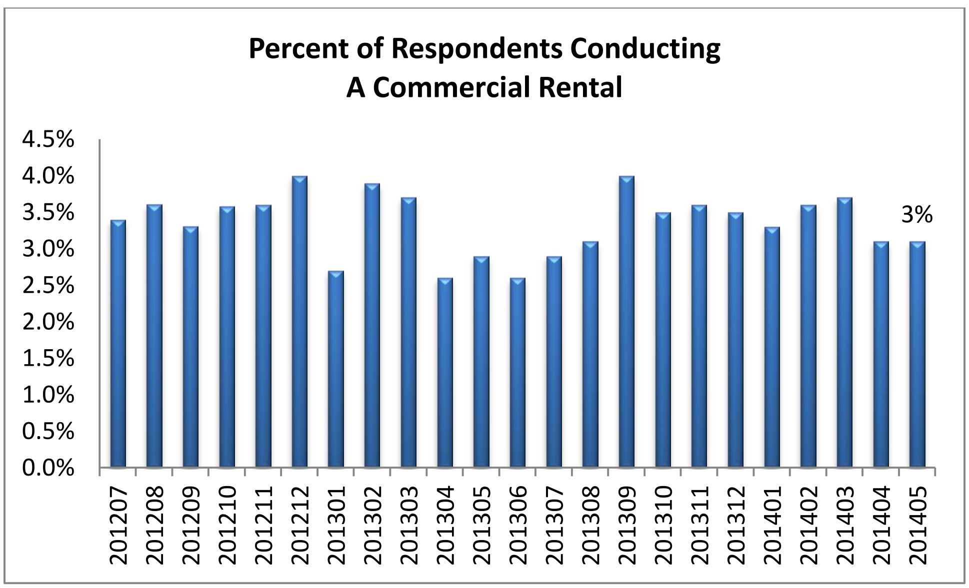

Percent of Respondents Conducting
A Commercial Rental
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
3%
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III. Current Issues

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® repeatedly reported that good clients were having trouble qualifying for mortgages. 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.

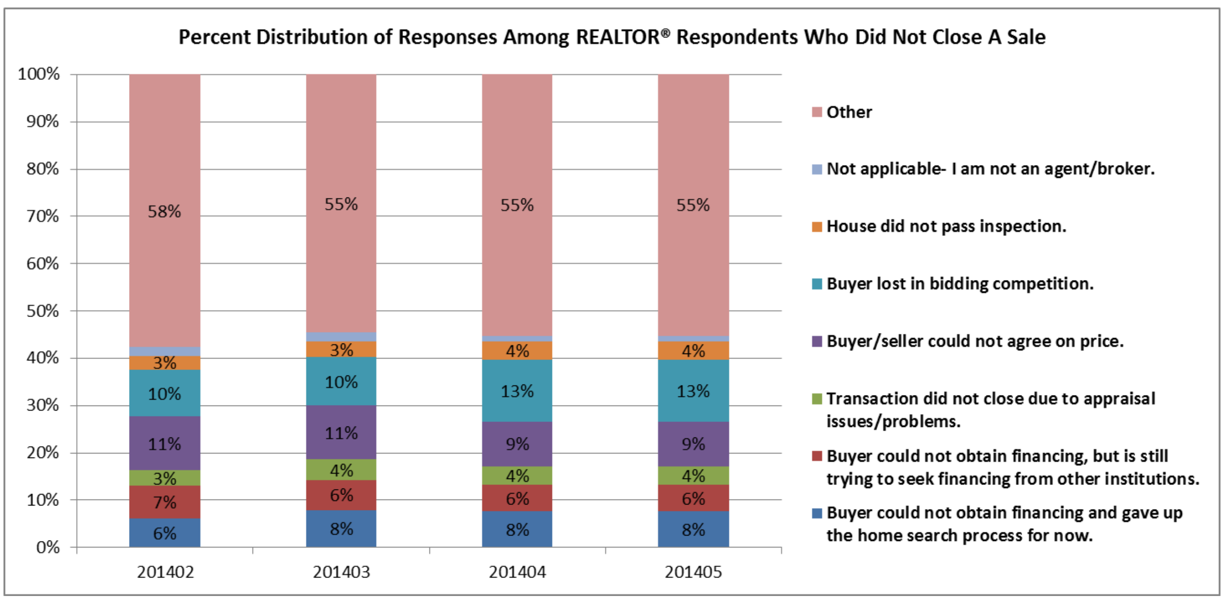
A major function provided by REALTORS® was reported to be buyer/seller education. The survey highlighted the value of REALTORS® in changing markets. In particular, both buyers and sellers have extensive access to on-line websites, news stories, and media reports; however, local markets are very site 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.

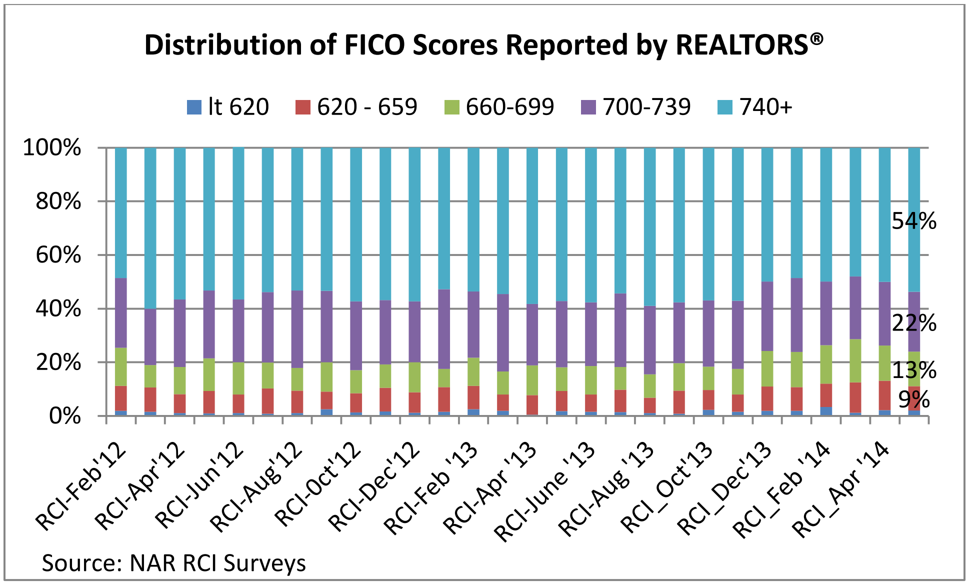
Reasons For Not Closing A Sale

Tight supply and the difficulty in accessing credit are often cited as deterrents to home buying. About 13 percent of REALTORS® who did not close a sale in May reported that the buyer lost the bidding competition, while lack of agreement on price accounted for 9 percent. About 14 percent 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. Appraisal issues were reported as accounting for 4 percent of failures to close a sale. "Other" reasons include responses that the buyer is still searching or that the transaction is in the escrow period or a closing is underway.



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.



IV. Commentaries by NAR Research

Inflation: The Short and Long-run Scenarios

Lawrence Yun, Chief Economist

- Broad inflation still looks tame, up less than 2 percent from one year ago, but could easily rise faster. The annualized inflation in April was already speeding at a higher 2.4 percent rate (that is if price gain in April was to persist similarly for the next 12 months) and then accelerated even faster to 3.2 percent in May.

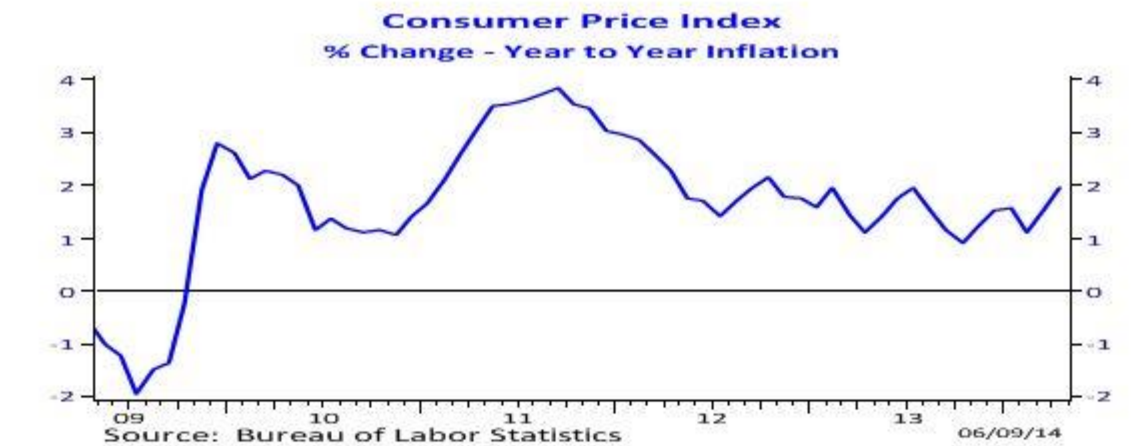
- A higher inflation rate will mean higher mortgage rates. Lenders need to charge a bit more since the returned money will have lost some purchasing power. When the inflation rate was in the double-digits during the 1970s, the mortgage rates were also in the double-digits.
- One key reason for inflationary pressure, though still mild, is that housing costs are rising and rising. Apartment rents are rising at 4 percent rates according to a private sector source (REIS). But this data is not counted in the official government statistics, which captures rent differently and from more regions. According to the government, official rents are rising at 3.1 percent; though smaller compared to the private sector data it still marks the fastest rent increase in nearly 6 years.

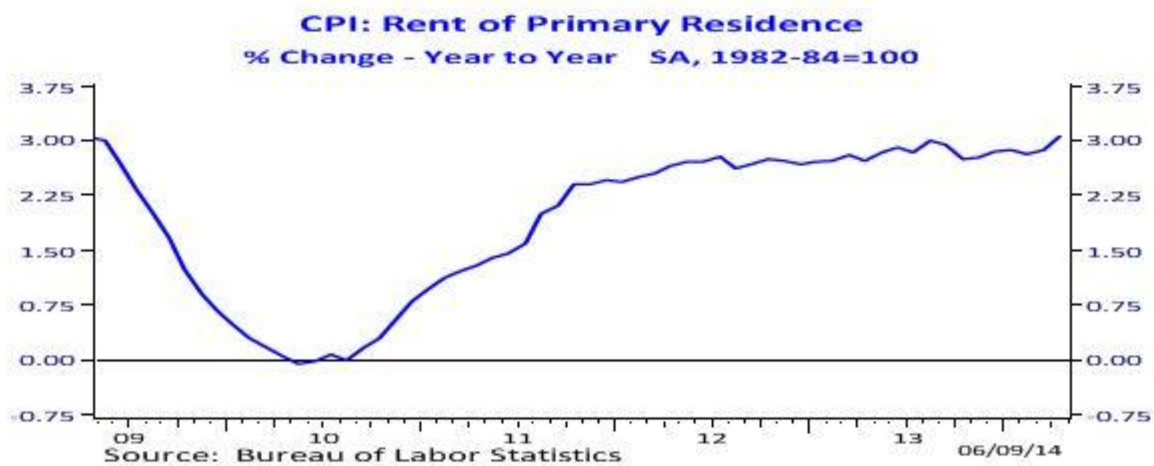
- Home prices have been rising even faster, with a 5 percent gain according to NAR and 11 percent gain according to Case-Shiller home price index. Home prices, however, do not get counted in the inflation data. Rather, a murky homeowner equivalence rent is counted. This data is fuzzy because it tries to estimate what a homeowner would pay in rent if the current lived-in home was a rental home. Irrespective, this ambiguously imprecise measurement of homeowner equivalency rent rose 2.6 percent, the highest increase in nearly 6 years.

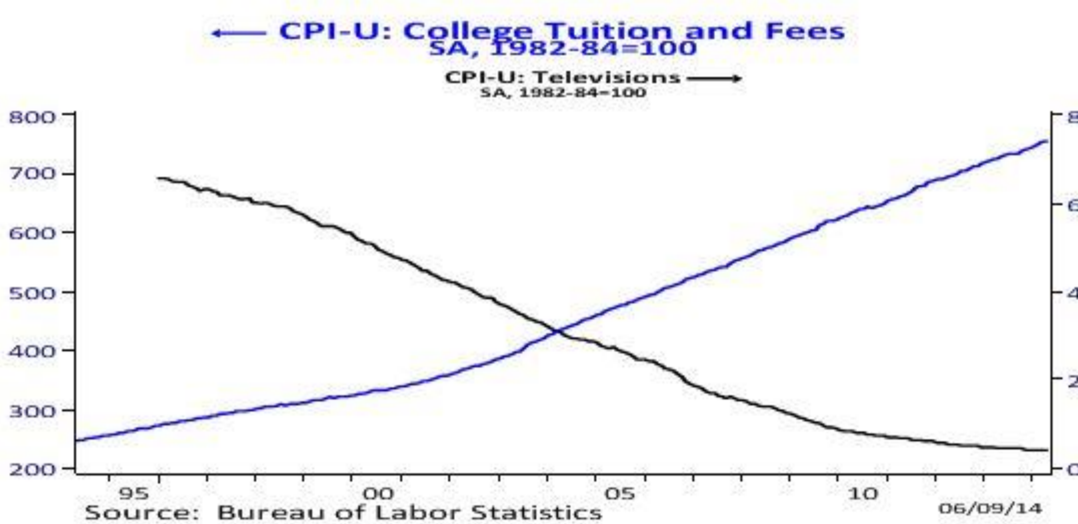
- NAR expects CPI inflation to be 2.5 percent in 2014 and then pick up to 3.5 percent in 2015. Home prices are expected to rise by 6 percent in 2014 and then slow to 5 percent in 2015.

- Over the long-haul, some prices will rise faster than others. Typically, prices of electronic gadgets like television fall over time. Someone with a fixed-rate mortgage will pay the same amount for the rest of the lifespan of the loan, and not a cent more. On the other hand, college tuition, if the past is a guide, could lead to not only a bankruptcy of the student but potentially also of the parents. College tuitions have risen by 200 percent in the past 20 years. Wages grew by 82 percent over the same period.

- It is worth reflecting that one of the most creative times of human minds in human history occurred during the Renaissance, particularly from Florence, Italy. Yet the most inventive minds of that time never went to college. They were simply the Renaissance Men and Women.


Consumer Price Index
% Change - Year to Year Inflation
4
3
2
1
0
-1
-2
09
10
11
12
13
Source: Bureau of Labor Statistics
06/09/14


CPI: Rent of Primary Residence
% Change - Year to Year SA, 1982-84=100
3.75
3.00
2.25
1.50
0.75
0.00
-0.75
09
10
11
12
13
Source: Bureau of Labor Statistics
06/09/14


CPI-U: College Tuition and Fees
SA, 1982-84=100
CPI-U: Televisions
SA, 1982-84=100
800
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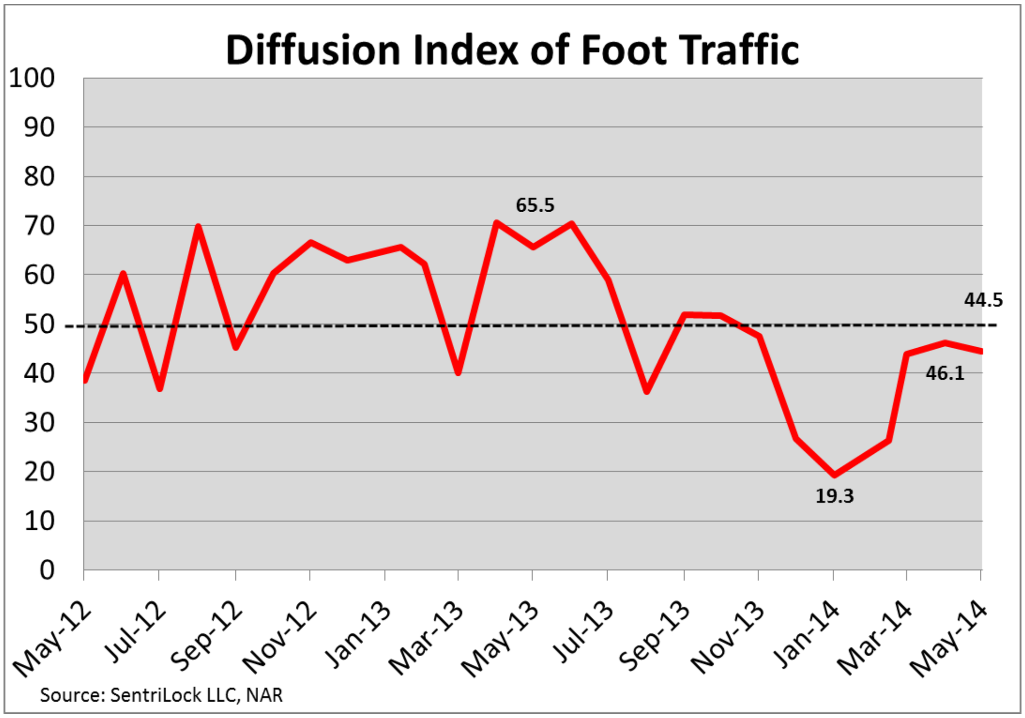
Source: Bureau of Labor Statistics
06/09/14

Foot Traffic Diffusion Index—Modest Easing in May

Ken Fears, Director, Regional Economics and Housing Finance Policy

Foot traffic as measured by NAR's Research diffusion index eased modestly in May. The diffusion index has plateaued around a level of 44, slightly under a neutral market. Survey work such as that produced by Fannie Mae suggests that consumers remain interested in home ownership while other surveys point to restricted credit and consumer fatigue.



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 May, the diffusion index for foot traffic eased 1.6 points to 44.5.

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

Though the foot traffic index remains down from last year, it has improved steadily from the weak early spring market and is on par with last year's market. This upward trend should help to boost late summer sales, but total sales for 2014 likely will not recover from the early weakness. Weather and affordability likely impacted traffic in the early spring market, but a shortage of inventory in key price and quality ranges remains a problem.

REALTORS® in the American Workforce

Danielle Hale, Director of Housing Statistics

With the payroll jobs numbers released last Friday showing that a net of 217,000 jobs were added in May and the unemployment rate held steady at 6.3 percent, we thought this would be a good time to take a look at how members of the National Association of REALTORS® fit into the American workforce.

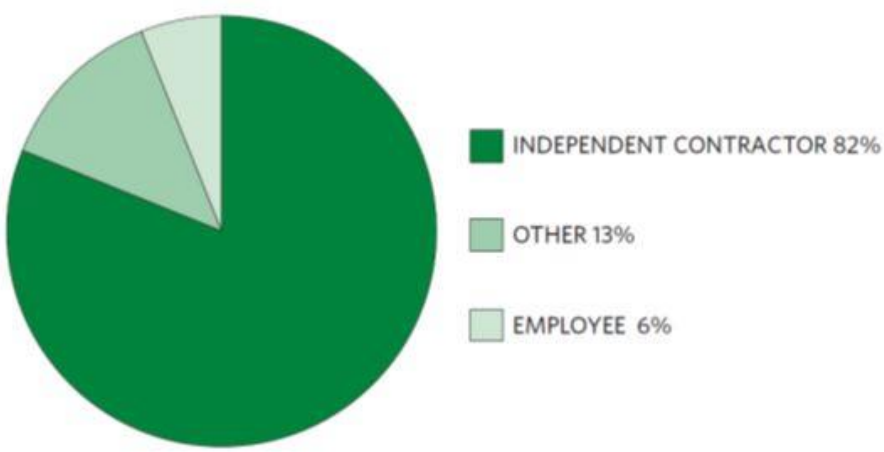
Our primary knowledge about the American workforce comes from a release put out by the Bureau of Labor Statistics (BLS) based on two surveys. The household survey, a survey of households, gives information on the number of employed persons and unemployed persons from which we derive the unemployment rate and labor force participation rate. The establishment survey, a survey of businesses, gives information on the number of employees on payrolls from which we derive the number of jobs added or lost on net.

We used membership data from the association combined with state by state data on the civilian population, labor force, and number of employed persons from the BLS. We used the household survey because surveys of our members show that roughly 8 in 10 Realtor® members are independent contractors.

Figure 1

REALTOR® AFFILIATION WITH FIRMS

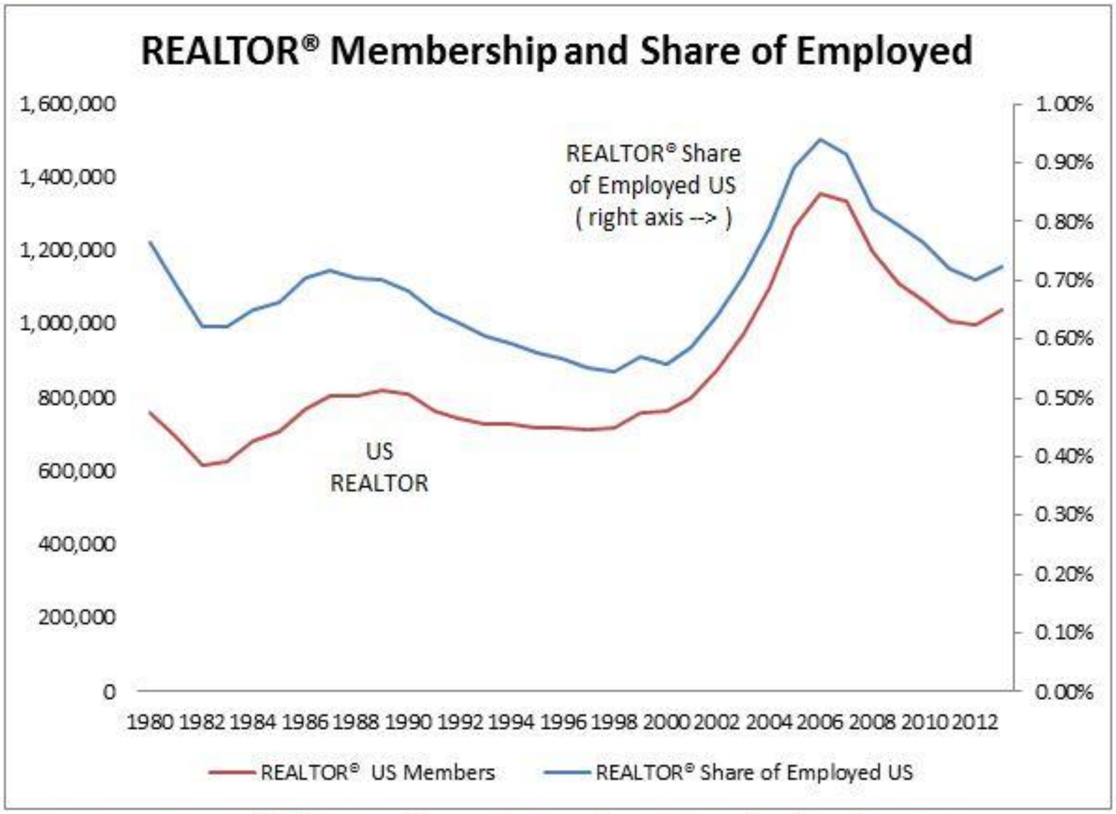
(Percentage Distribution)



Source: *2014 Profile of Members.* National Association of Realtors®, Chart 4-3.

REALTOR® members have made up a moderately consistent share of the number of employed persons in the US from 1980 to 2013, ranging from a low of 0.5% in 1998 to a high of 0.9% in 2006. Still, given the size of the employed population, the difference in membership from the low end to the high end of the range is more than 500,000 members. Currently, membership is near the average rate since 1980 of 0.7%. Because the number of employed persons has grown over time, the number of REALTOR® members has also grown. In 2013 the association had just over 1 million members while the number of employed persons in the US was around 140 million.

Figure 2



Sources: *Historic Membership Count by State*. National Association of Realtors®, June 2014.
Employed Persons, Bureau of Labor Statistics, June 2014.