

REALTORS® CONFIDENCE INDEX

Report and Market Outlook

January 2014 Edition



NATIONAL ASSOCIATION OF REALTORS®
Research Department
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Based on Data Gathered February 4 – 11, 2014



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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 information gathered from REALTOR® responses to a monthly survey. The current report is based on the responses of 3,303 REALTORS® about their transactions in January 2014¹. The survey was conducted during February 4 -11, 2014. Questions about the characteristics of the buyer and the sale are based on the respondent's last transaction for the reference month. All real estate is local: conditions in specific markets may vary from the overall national trends presented in this report.

The January data indicates a modest pace of expansion compared to the heated recovery in 2012 through mid 2013. The extreme winter weather was reported to have negatively affected sales particularly in the East Coast and Midwest. But across many states, a major factor reported by REALTORS® that is impeding sales is the low inventory of available properties. Another problem is the tight access to credit; there are reports that the self-employed have a tough time obtaining mortgages. The uncertainty regarding flood insurance premiums has also stalled demand in coastal areas. NAR has estimated that flood insurance issues impacted approximately 40,000 sales during the October-January time frame. Most REALTORS® expect prices to continue rising albeit at a modest pace. The rental market is still strong remained strong with rents continuing to increase.

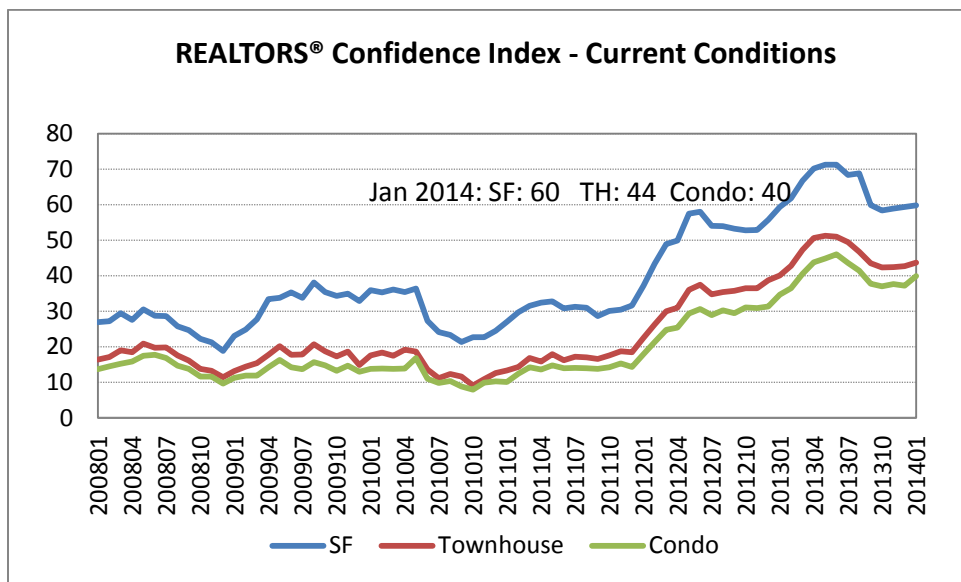
¹ This is the total number of respondents for the entire survey. The number of responses to a specific question can be less because the question is not applicable to the respondent, non-response, or drop out. The survey was sent to a random sample of about 50,000 REALTORS®.

I. Market Conditions

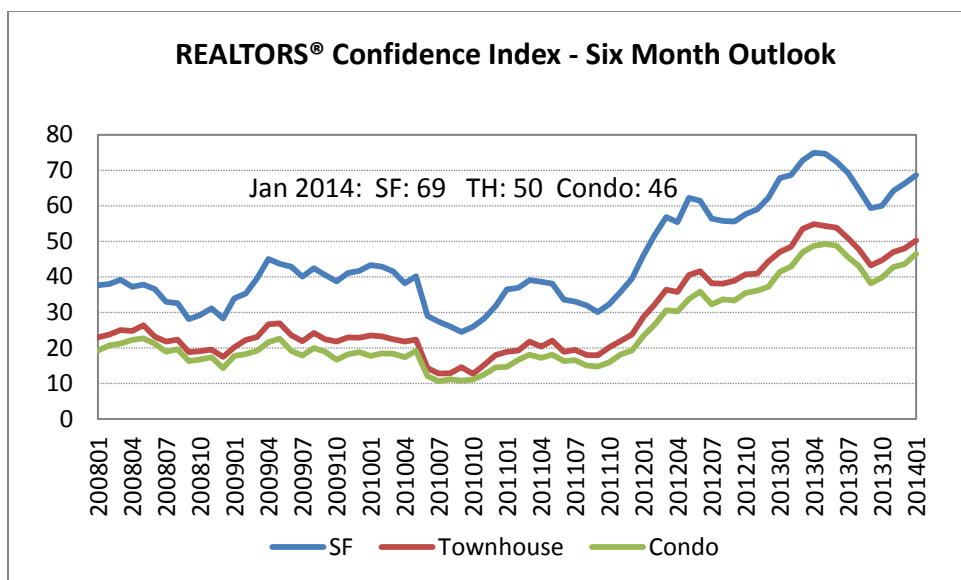
REALTORS® Confidence Indicates Modest Market Expansion

Confidence about current market conditions was essentially unchanged in January compared to December 2013, but still below the strong level in the first half of 2013. The REALTORS® Confidence Index for single family sales registered at 60 (59 in December). The index for townhouses/duplexes was at 44 (43 in December) while the index for condominiums was at 40 (37 in December). The indexes are at about their levels compared to the same month last year but are lower than their peak levels in mid-2013. An index of 50 marks “moderate” conditions.² Low inventory and difficulty in accessing credit continued to be reported as the key factors weighing down on the housing market. Although the increase in flood insurance premiums has been postponed, the issue about flood insurance rates was reported to be depressing activity in flood zone areas.

With spring around the corner, the 6-month Outlook Index is reflecting the seasonal market optimism. The index for single family homes rose to 69 (66 in December). The index for townhouses hit 50 (48 in December) while the index for condominiums registered at 46 (44 in December).

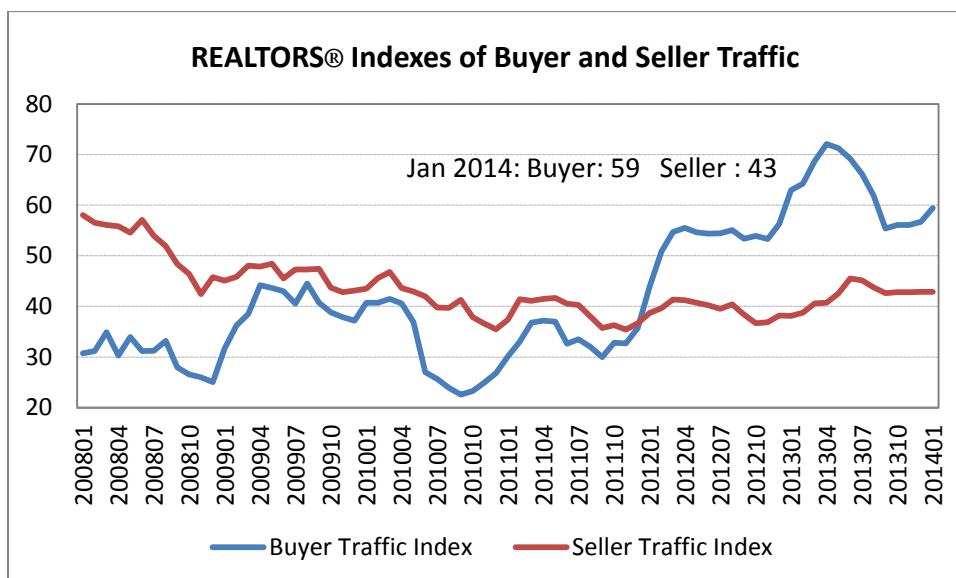


² An index of 50 delineates “moderate” conditions and indicates a balance of respondents having “weak”(index=0) and “strong” (index=100) expectations. The index is calculated as a weighted average using the share of respondents for each index as weights. The index is not adjusted for seasonality effects.



Buyer and Seller Traffic Index Reflects Moderate Market Activity

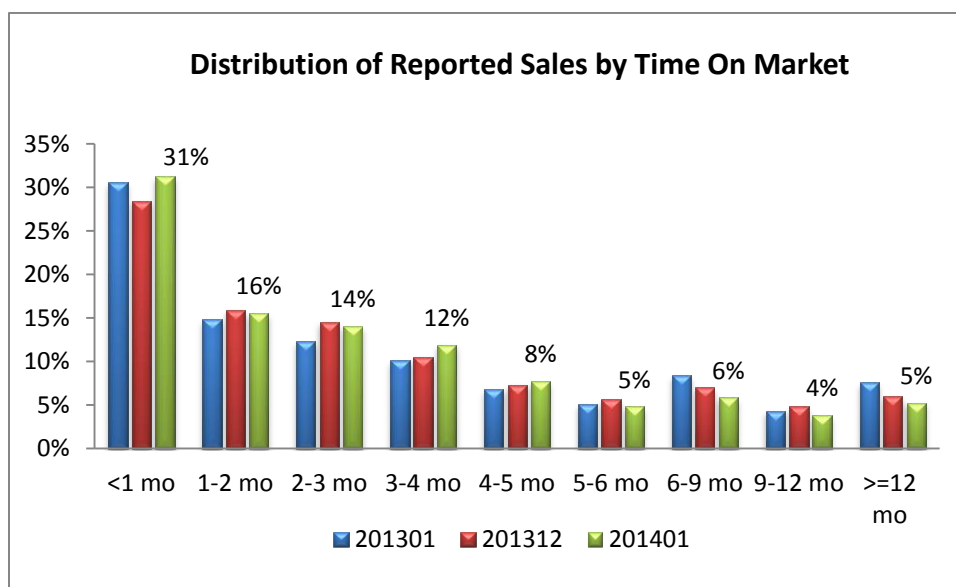
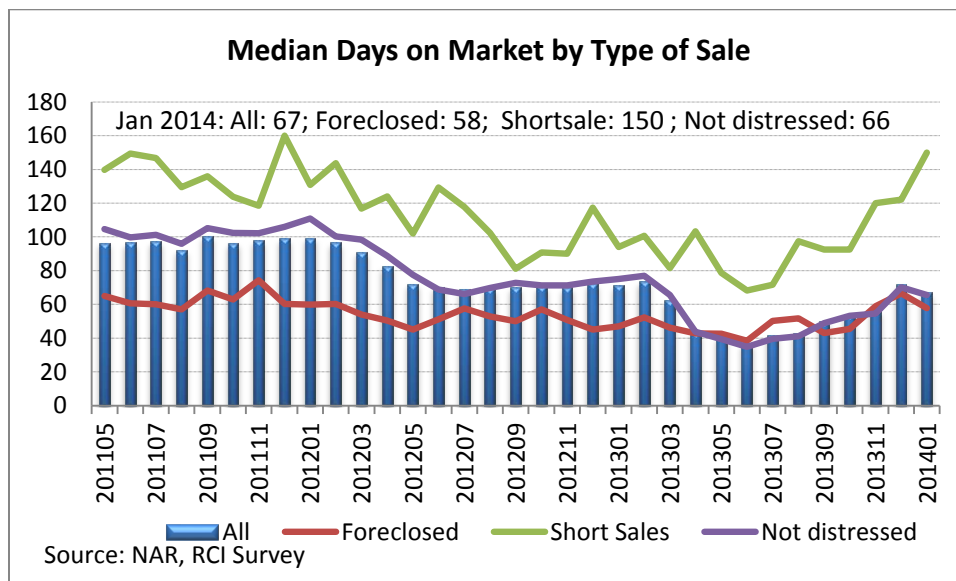
Despite extreme weather conditions in parts of the country (the Northeast and Midwest), the Buyer Traffic Index slightly moved up in January at 59 (57 in December) while the Seller Traffic Index stayed at 43 (same as in December). In many states, REALTORS® reported low inventory levels, negatively impacting sales and causing upward pressure on prices.



Median Days on the Market Falls to 67 Days

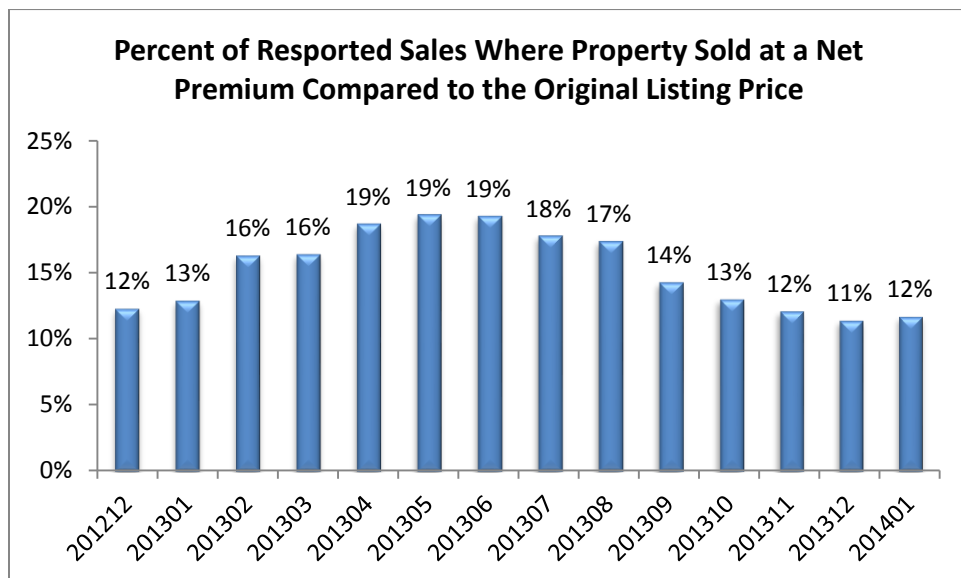
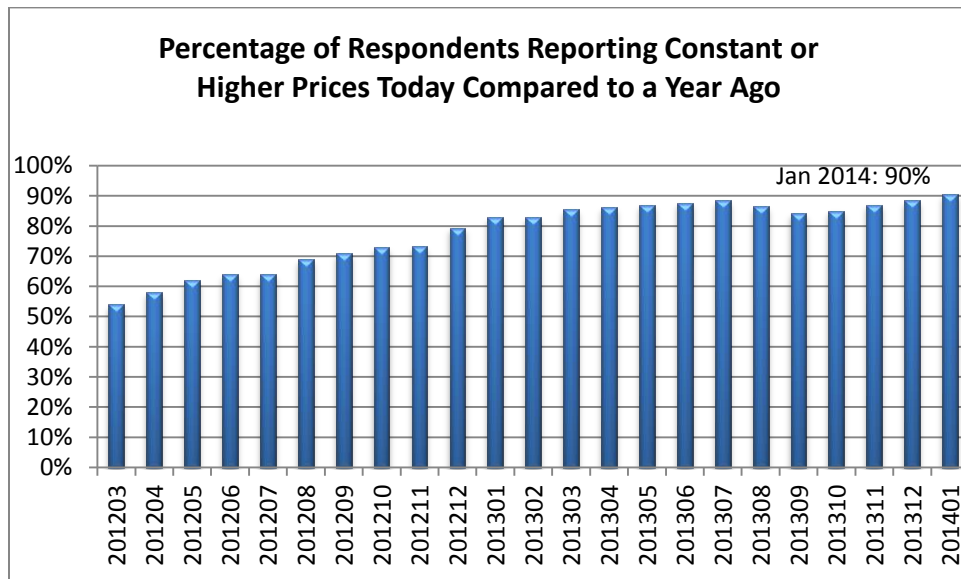
The median days on the market reported by REALTOR® respondents was 67 days (72 days in December). Days on market hit their lowest level of 35 days in June 2013. Short sales were on the market for the longest, at 150 days (122 days in December), and foreclosed properties were on market at 58 days (67 days in December). Non-distressed properties had a median stay of 66 days (70 days in December). Conditions varied across areas.

Approximately 31 percent of respondents reported that properties were on the market for less than a month (28 percent in December).



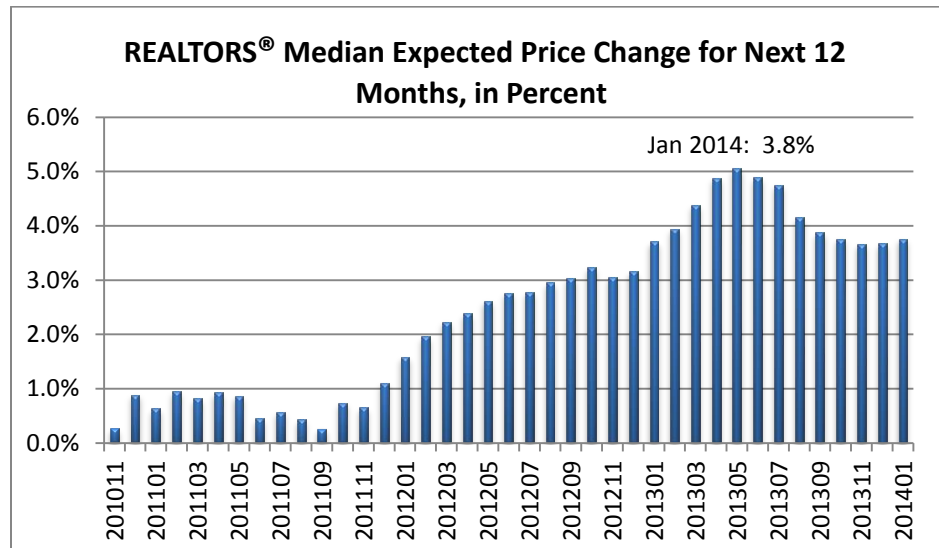
Home Prices Rising Moderately

About 90 percent of respondents reporting constant or rising prices (89 percent in December) compared to the price of their “average” or typical transaction a year ago. Approximately 12 percent of reported sales were of properties that sold at a net premium to the original listing price. In mid-2013, about 20 percent of REALTOR® respondents reported selling properties at a premium.

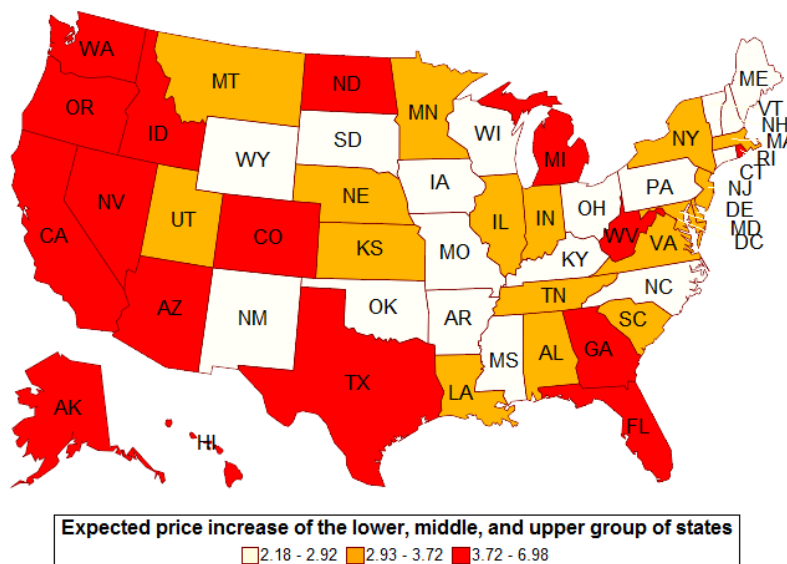


REALTORS® Expect Prices to Increase Modestly in the Next 12 Months

Prices are expected to increase over the next 12 months, although at a modest pace. The median expected price increase is 3.8 percent³. The states with the most upbeat price expectations are mostly those in the West (red) as well states with recovering or booming industries like North Dakota, Texas, and Michigan.



State Median Price Expectation for Next 12 Months (in%)
Based on REALTORS Confidence Index Survey, Nov 2013 – Jan 2014 Surveys

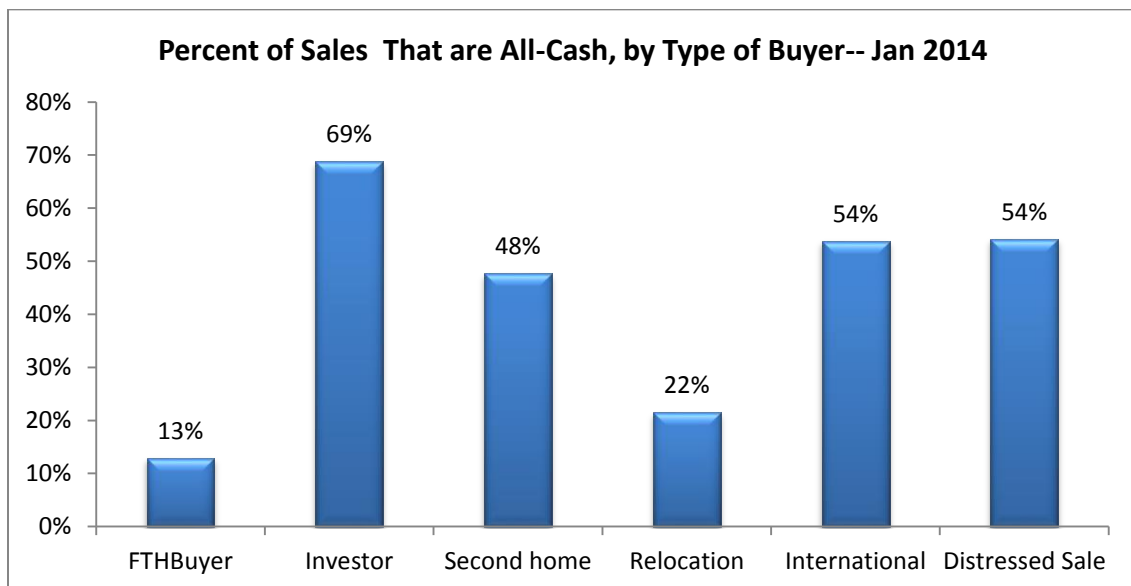
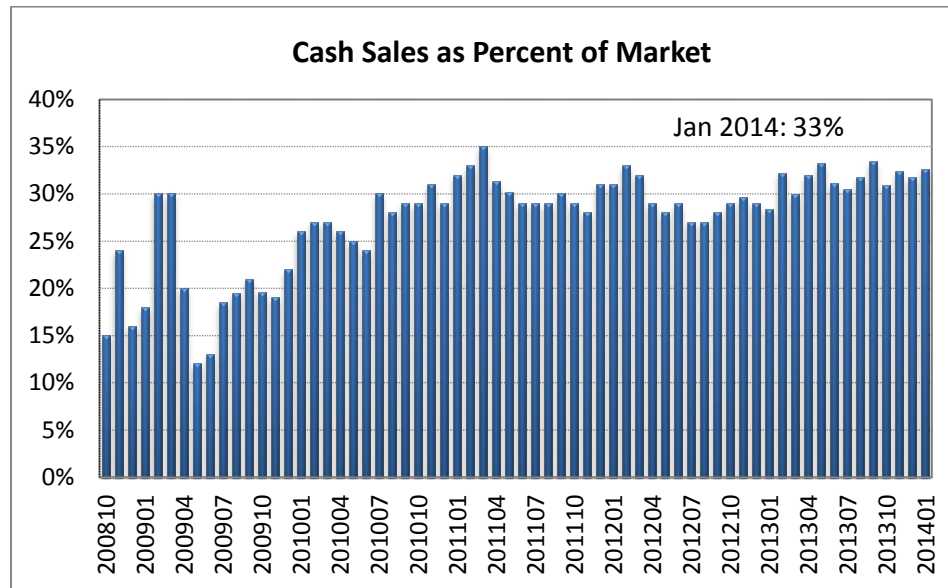


³ The median expected price change is the value such that 50 percent of respondents expect prices to change above this value and 50 percent of respondents expect prices to change below this value.

II. Buyer and Seller Characteristics

Cash Sales: 33 Percent of Sales

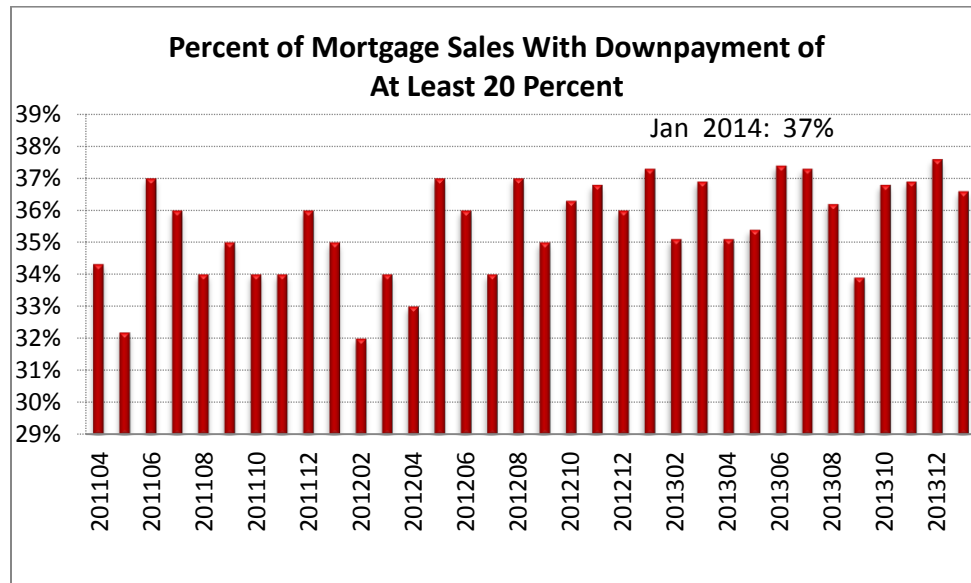
Approximately 33 percent of respondents reported cash sales.⁴ About 13 percent of reported sales made by a first-time buyer were cash sales compared to about 50 to 70 percent for investors and international buyers.



⁴ The RCI Survey asks about the most recent sale for the month.

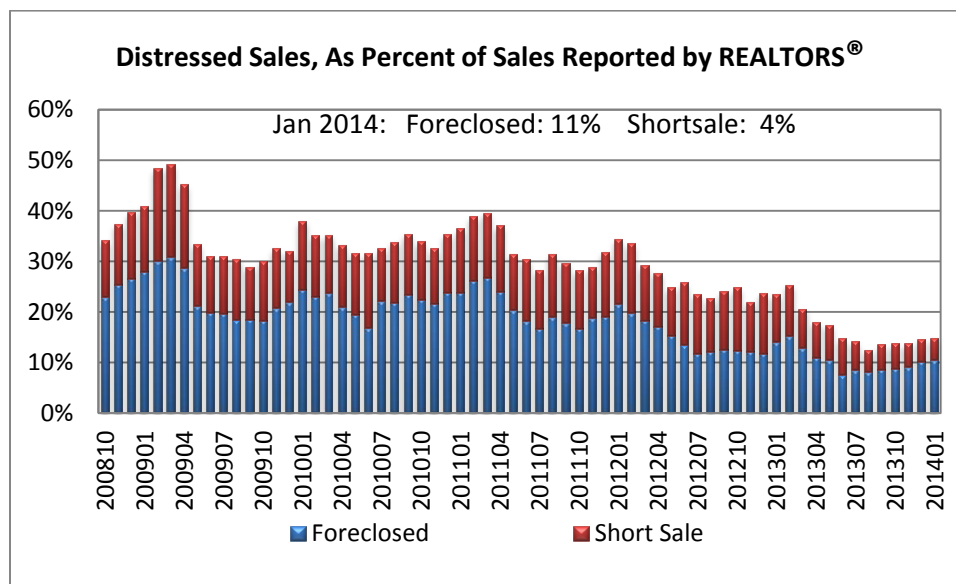
Mortgages With Down Payment of 20 Percent or More: 37 Percent of Mortgages

About 37 percent of respondents who reported a mortgage financing reported a down payment of 20 percent or more. Under tight underwriting standards, REALTORS® have reported that buyers who pay cash or put down large downpayments generally win against those offering lower downpayments.

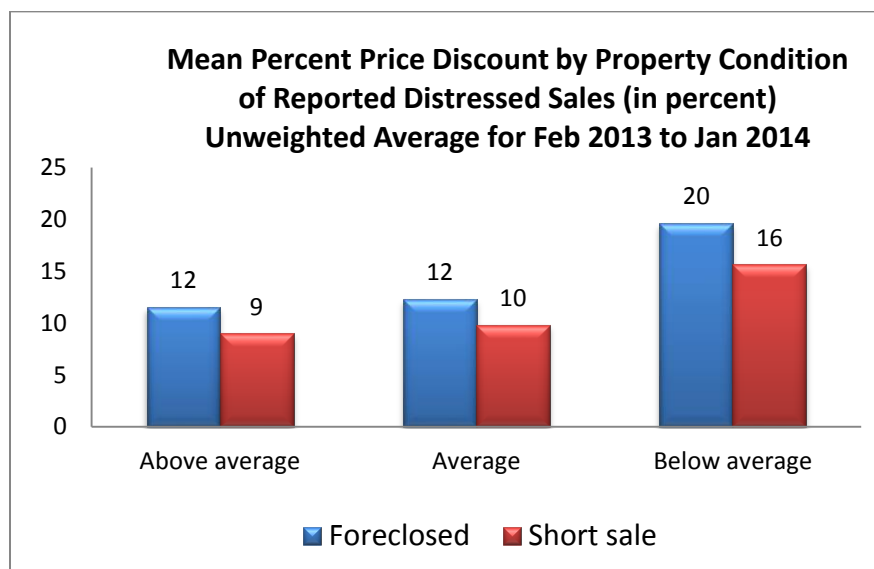
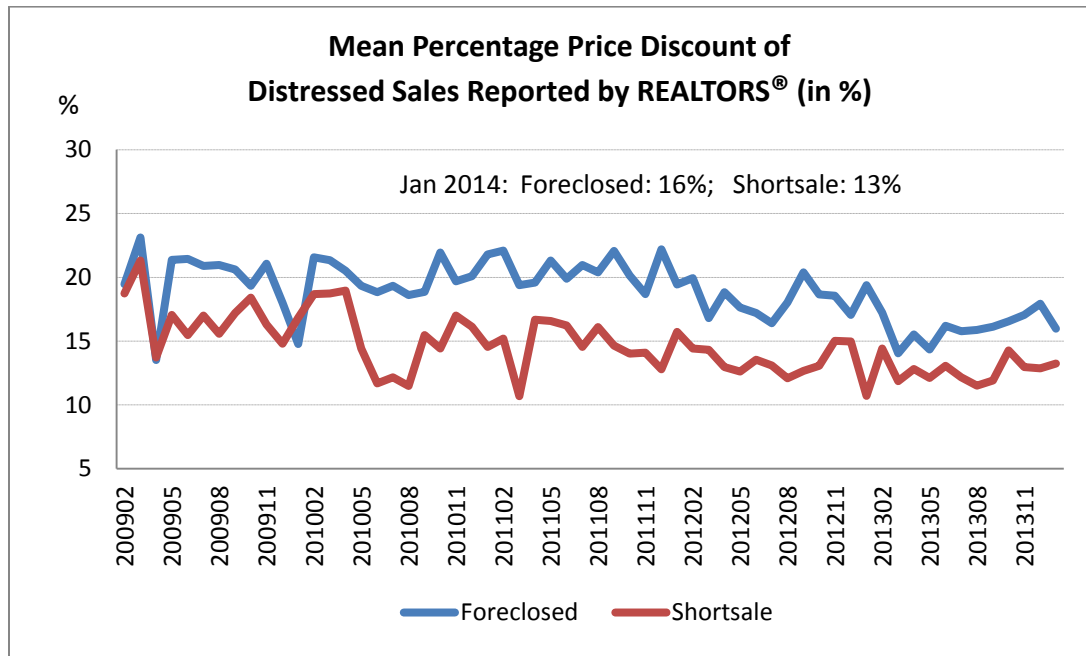


Distressed Sales: 15 Percent of Sales

Approximately 15 percent of respondents reported a sale of a distressed property, substantially down from levels a few years ago. This trend is in line with the broad decline in the foreclosure inventory.



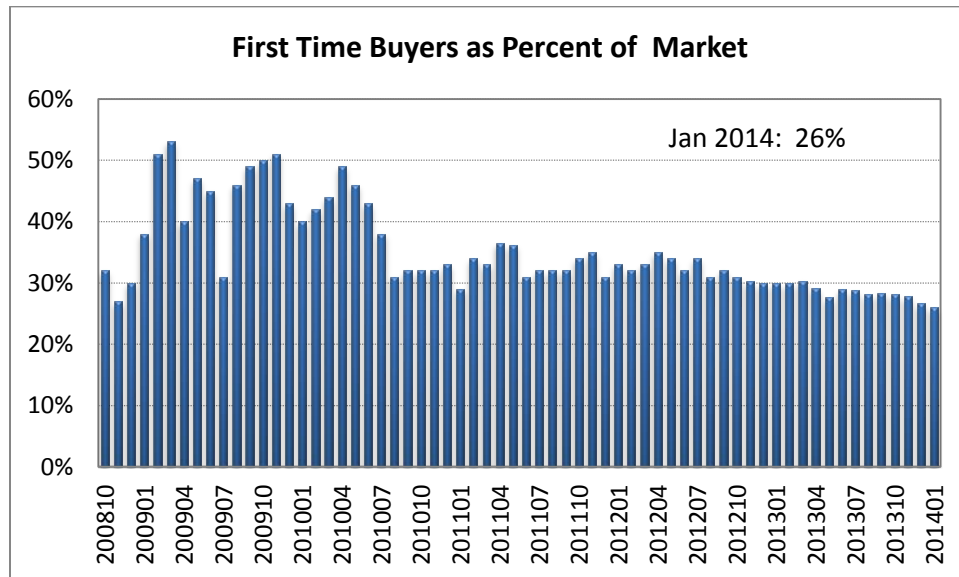
Foreclosed property sold at a 16 percent average discount to market, while short sales sold at a 13 percent average discount.⁵ The discount varied by house condition. For the past 12 months, properties in “above average” condition have been discounted by an average of 9-12 percent, while properties in “below average” condition were discounted at an average of 16-20 percent.



⁵ 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).

Sales to First Time Buyers: 26 Percent of Sales

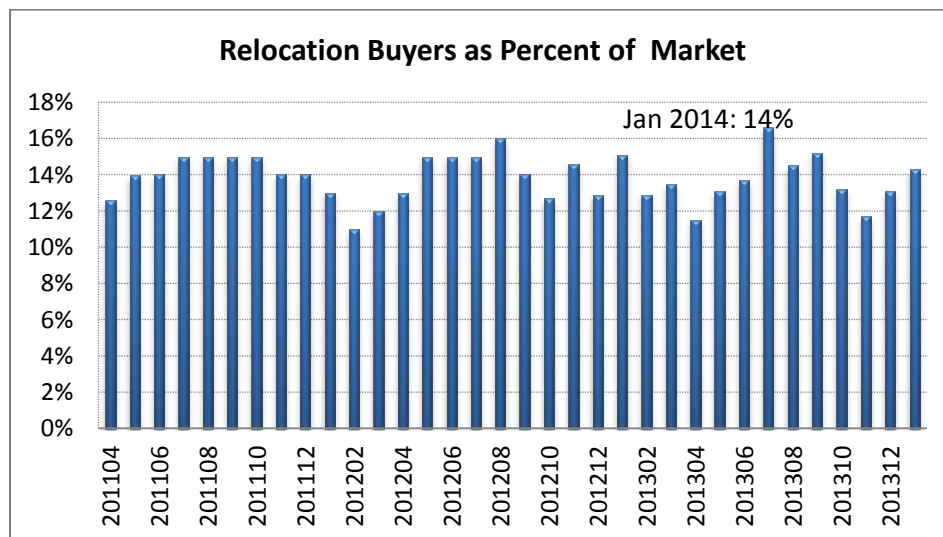
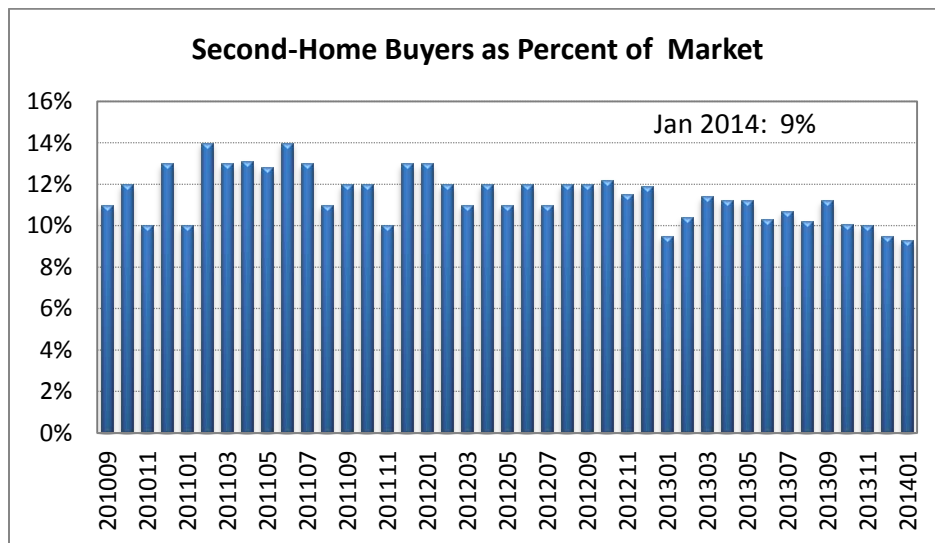
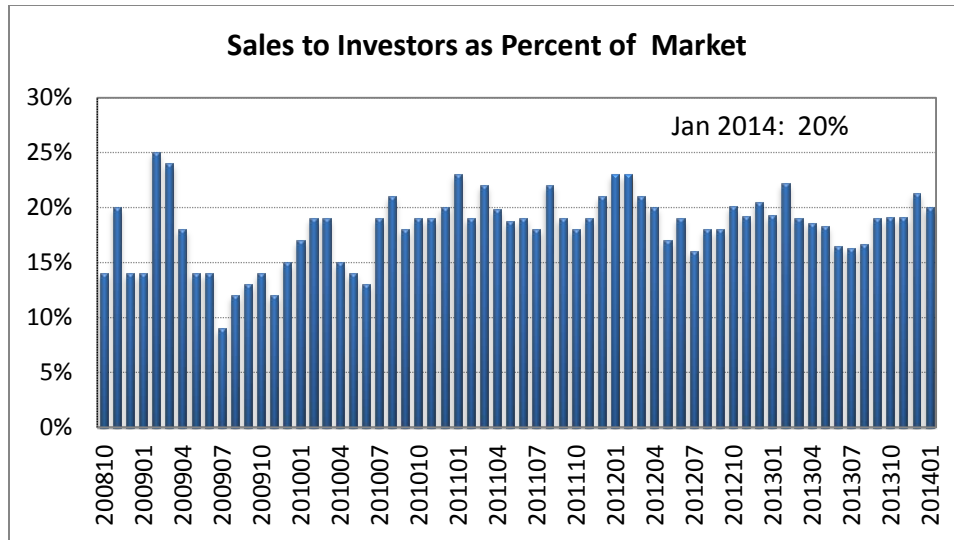
Approximately 26 percent of respondents reported a sale to a first time home buyer⁶ (27 percent in December). REALTORS® continue to report that first time buyers who generally use mortgage financing are finding it hard to compete against investors who typically pay cash.



Investors, Second-home Buyers, and Relocation Buyers

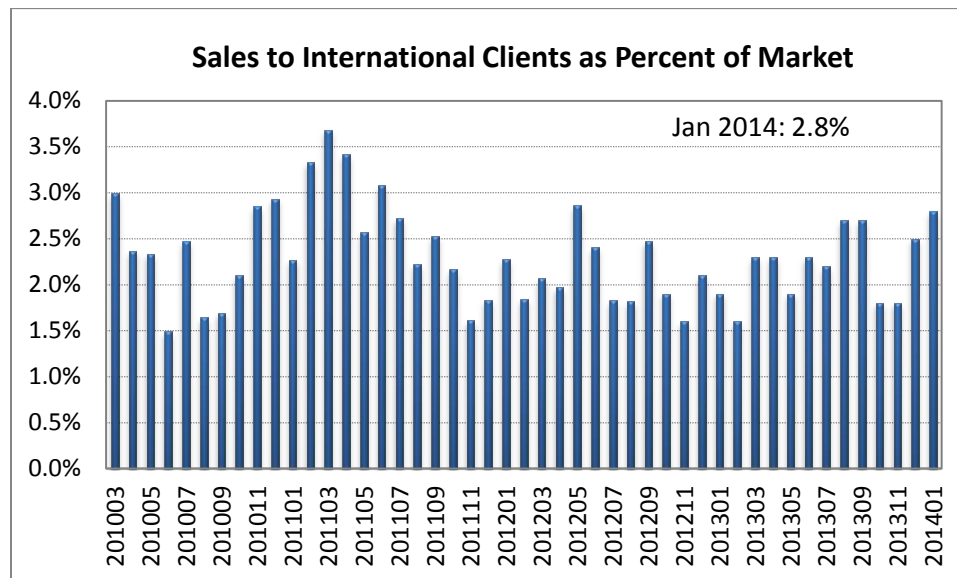
About 20 percent of respondents reported a sale to an investor, 9 percent reported a sale to a second-home buyer, and 14 percent reported a sale to a relocation buyer. The share of sales to investors has remained fairly stable, an indicator of continued investor interest for rental housing. Regarding the demand for properties for relocation purposes, there has been feedback from REALTORS® that many baby boomers would like to downsize, but there are not enough buyers for larger homes.

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 captures only buyers buying for residential purposes.



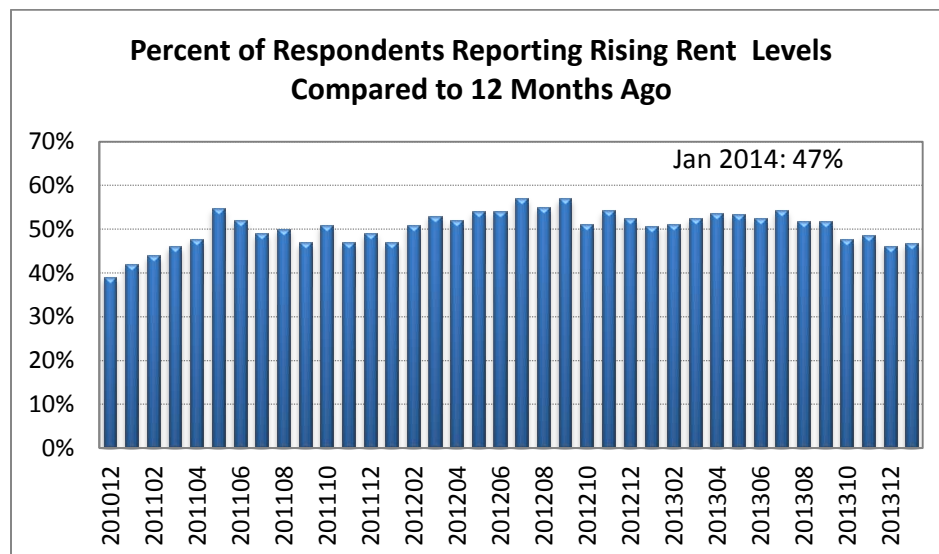
International Transactions: About 2.8 Percent of Residential Market

Approximately 2.8 percent of REALTOR® respondents reporting on their last sale was of a purchase by a foreigner not residing in the U.S. International buyers typically 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.

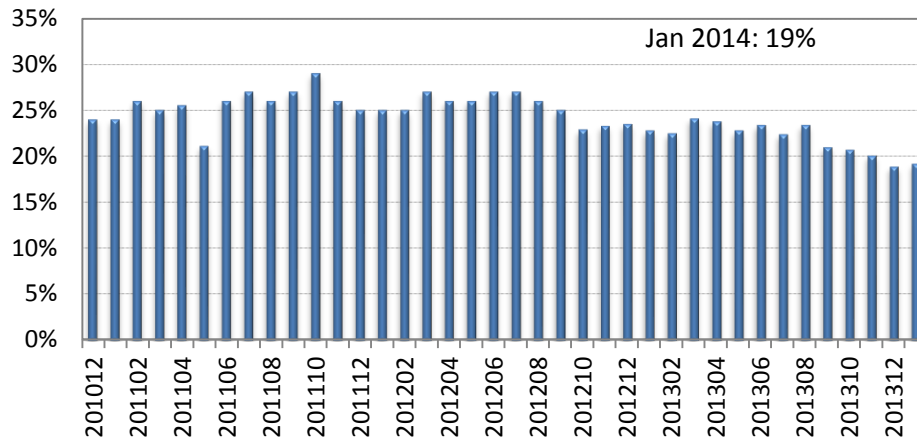


Rising Rents for Residential Properties

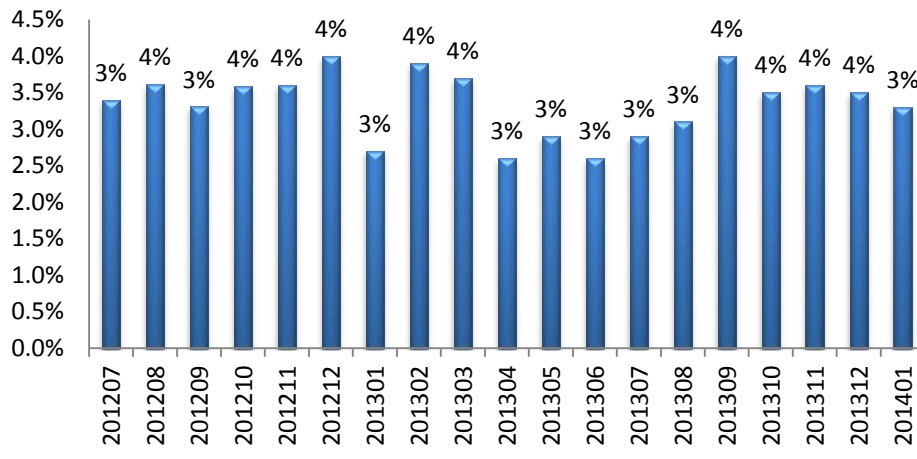
Among those REALTORS® involved in a rental, 47 percent reported higher residential rents compared to 12 months ago. About 19 percent of REALTORS® reported conducting an apartment rental and about 3 percent reported a commercial rental transaction.



Percent of Respondents Conducting An Apartment Rental



Percent of Respondents Conducting A Commercial Rental

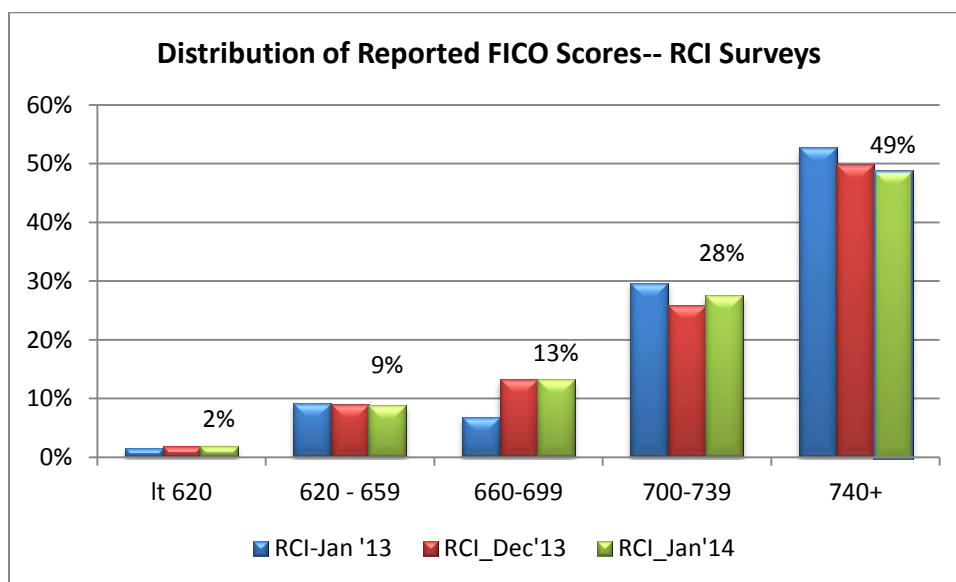


III. Current Issues

Tight Credit Conditions and Slow Lending Process

REALTORS® continued to express concern over unreasonably tight credit conditions. Mortgage lenders were reported as continuing to display an unnecessarily high level of risk aversion. In the 2001-04 time frame approximately, only 40 percent of residential loans acquired by the Government Enterprises (Fannie Mae and Freddie Mac) went to applicants with credit scores above 740. In the FHFA Quarterly Performance Report of the Housing GSEs for the Third Quarter, Fannie Mae's average FICO score for new business was 744 and Freddie Mac was 739⁷.

Approximately slightly more than half of NAR's survey respondents who provided credit score information reported FICO credit scores of 740 and above. Estimates by NAR economists have indicated that a significant number of additional sales—possibly as high as 500,000--could be made if credit conditions returned to normal.

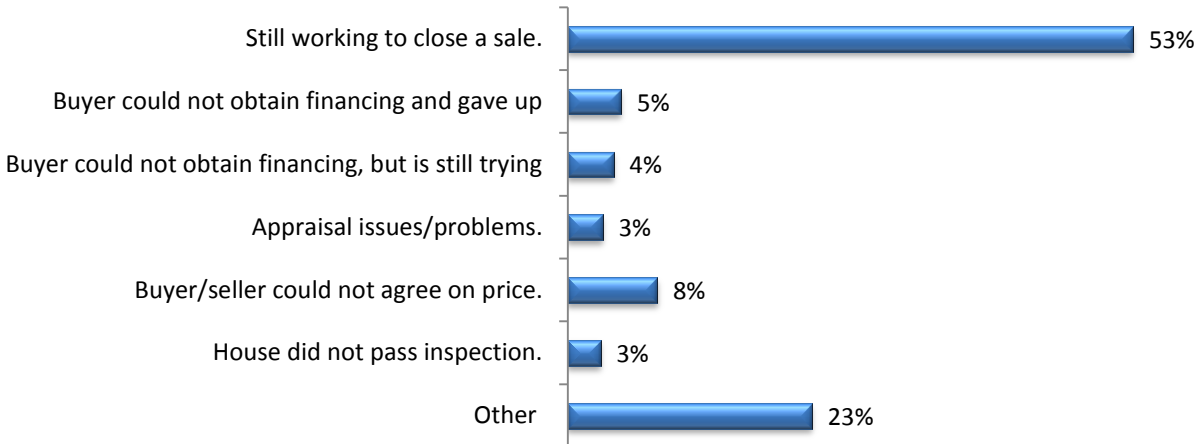


Reason For Not Closing A Sale

Access to credit is often cited as a deterrent to home buying. About 9 percent of REALTORS® who did not close a sale in December and who had transactions in that month reported having buyers who could not obtain financing. About 5 percent reported that the buyer gave up while 4 percent reported that the buyer continued to seek new/other financing. Lack of agreement on price accounted for 8 percent. Appraisal issues were reported as accounting for 3 percent of failures to close a sale.

⁷ FHFA Quarterly Performance Report of the Housing GSEs, Third Quarter 2013.
<http://www.fhfa.gov/webfiles/26023/3Q13QuarterlyPerformanceReportFINAL.pdf>

**Among REALTORS® Who Had An Ongoing Transaction,
Percent Distribution of Responses For Not Closing A Sale in January 2014**



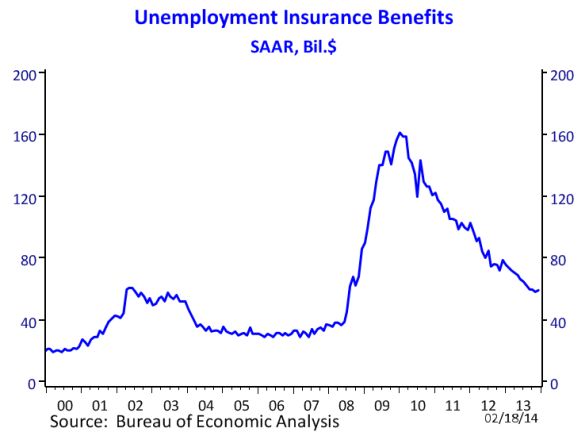
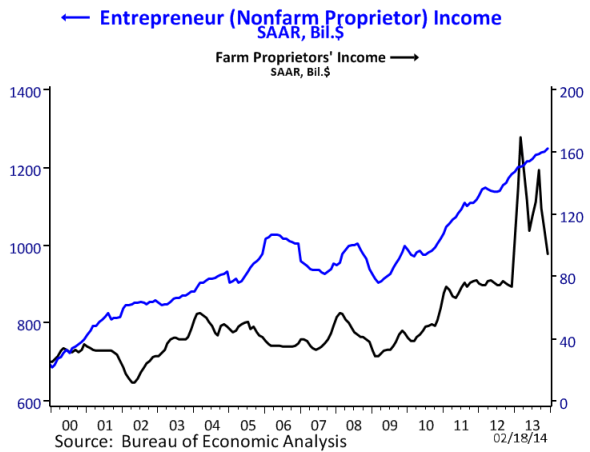
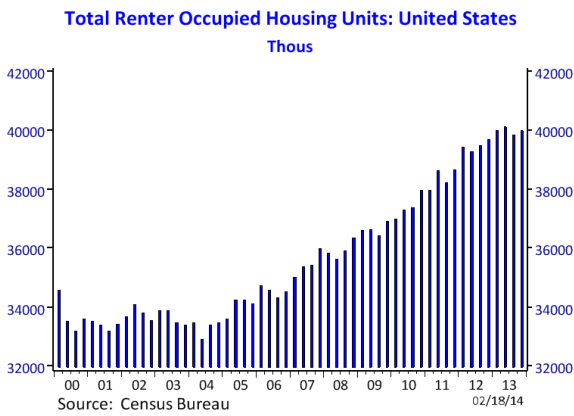
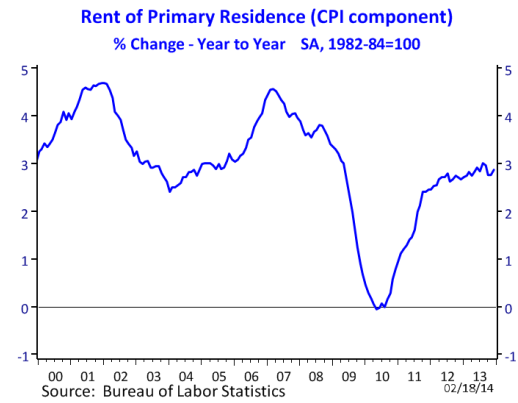
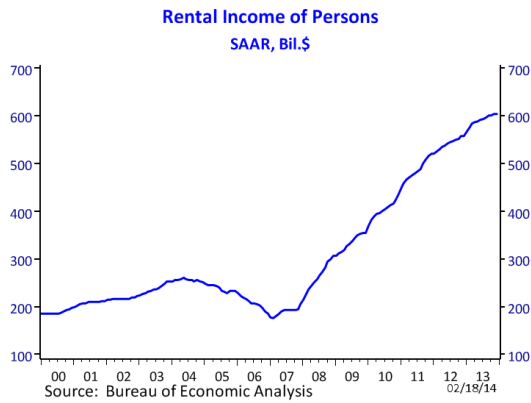
IV. Commentaries by NAR Research

Personal Income Trends

Lawrence Yun, Chief Economist

- Personal income for the country in 2013 rose modestly by 2.8 percent. The aggregate rental income increased much faster at 9 percent due to the combined effects of rises in rents and from more people renting.
- Wages and salaries are following the path of job creation. So they rose as the economy added 2.2 million net new jobs in 2013.
- Farm income is beginning to soften following the huge surge in 2012. Farm land prices therefore may be peaking. Meanwhile, entrepreneurs' income is showing a solid uptick. It is a good early indicator of rising demand for retail, office, and other commercial spaces. Income from unemployment checks are falling, and the reasons behind that are the cut-off to extended unemployment benefits and, more importantly, from job creations.
- Rents are likely to accelerate further in 2014. Aside from falling vacancy rates, some of the new tax levy on landowners will get steadily passed on to renters. There is a new 3.8 percent tax levy on rental income, dividends, and other "non-labor passive" income for those in the high income tax bracket to partly fund the Affordable Care Act. The logics of economics suggest that there will be tax shifting to consumers in the form of higher prices (rents) if the new supply cannot easily reach the market. In the case of apartments and single-family rental homes, there is a great difficulty of obtaining

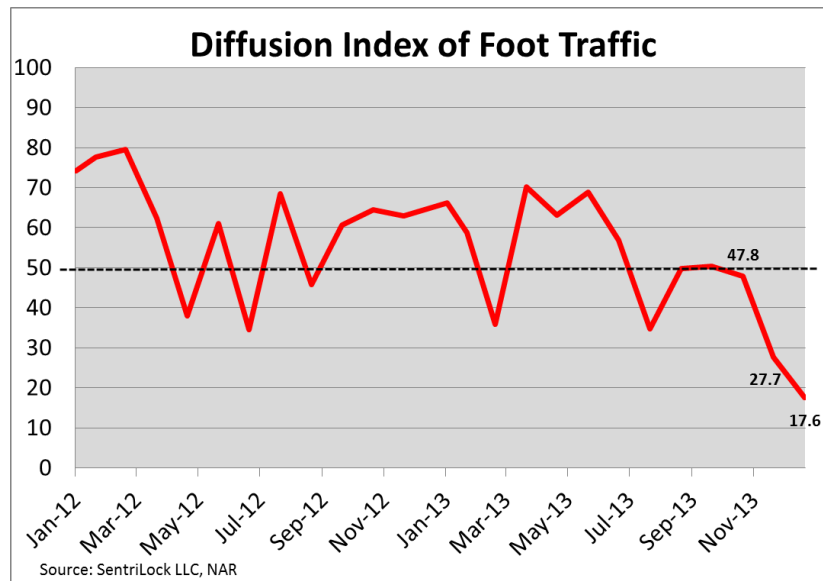
construction loans to add new supply. Moreover, the continuing difficulty in accessing mortgages to buy a home for moderate income households will keep many renters at their current status.



Foot Traffic Declines: Possible Slowdown in Demand

Ken Fears, Director, Regional Economics and Housing Finance Policy

For the second consecutive month foot traffic as measured by NAR's Research diffusion index for foot traffic fell sharply. While bad weather may have played a role in this trend, the effect is widespread and significant. This movement suggests that the year-over-year decline in existing home sales, which was just 0.6% in December, is likely to soften further in January and February ahead of the spring market. A slowdown in demand would help to buttress inventories which are at 5-year lows, moderating price growth.



Every month SentiLock, LLC. provides NAR Research with data on the number of properties shown by a REALTOR®. Lockboxes made by SentiLock, 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 January, the diffusion index for foot traffic fell 10.1 points to 17.6 after declining 21.1 points in December.

The index is well below the “50” mark which indicates that more than half of the roughly 200 markets in this panel had weaker foot traffic in January of 2014 than the same month a year earlier. This reading does not suggest how much of a decrease in traffic there was, just that the majority of markets experienced less foot traffic in January of 2014 than 12 months earlier.

This trend is significant, but relatively new. Higher mortgage rates combined with two years of steady price growth have weighed on affordability. Affordability is still strong by historical standards, but bidding wars, tight credit and lingering sequester-related job uncertainties have weighed on consumers. A rise in inventories would help to normalize the market, but given that sound underwriting is in place with the new qualified mortgage rule, a loosening of credit overlays would also benefit the spring market.

REALTOR® Comments on Housing Market Issues
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. Three of the important areas for comment this month, were weather, inventories, and flood insurance.

Weather: The country appears to have experienced exceptionally difficult weather this winter—including snow, slush, and ice. Many respondents noted that showing homes to potential buyers has been difficult, and many potential buyers appear to have deferred their home search until spring. Reported sales may be unusually light in some of the harder hit areas, although buyers are expected to return in the spring.

- *The Spring Market seems to be getting started more slowly than in previous years. I have begun getting some calls, but not as many as what I am used to seeing at this time of year.*
- *Our extreme weather conditions played a big part in our lack of activity. The closings were from November and December sales and the activity that normally picks up in the third week of January did not show. I expect that to happen soon.*

Inventories: Numerous responses noted the lack of homes for sale. Even though the market has slowed somewhat in recent months, homes that are priced right are in many cases generating multiple offers. Buyers are reported as value-conscious, looking carefully at the overall condition of the home in preparing an offer. The lack of new construction over recent years and the concern of possible sellers that they may not be able to find a replacement house in a tight market are reported as major contributors to low inventories of new homes. There seemed to be a general feeling that the market would produce more transactions if there were more available homes.

- *The lack of inventory in Solano County has been going on for over 2 years. They Buyers are tired of getting beat up with excessive multiple offers and cash buyers. VA Buyers are still the bottom of the barrel and most VA offers are rejected right away no matter how strong their offers are. The Buyer are starting to go away.*
- *Our values are up substantially. But we are approx. 60% below average in inventory. (average # on homes on market is about 900. We are averaging 350.) It has created a complete sellers' market. But our biggest obstacle is still the appraisal. We have buyers willing to buy, and sellers willing to sell, and you can buy the same house anywhere else for higher. But even though we have gained 30%+ value in our area, we are still fighting low appraisals.*

Flood Insurance: Among REALTORS® in coastal areas, the availability and cost of flood insurance is of paramount importance. Based on the January 2014 survey, about 30 percent of transactions in a flood zone area have been delayed or cancelled due to concerns about flood insurance premiums. The premiums in a number of cases were cited as extraordinary in comparison to the value of the property, particularly for homes near the ocean.

- *One of my potential buyers decided against a property because of high flood insurance - the home formerly was not considered to be in a flood plain!*

- *The changing flood insurance will negatively impact our buyers moving from the coast and other flood areas when their sales become more difficult.*
- *flood insurance is an issue. We did not look at many properties in the clients price range because they heard flood insurance is going to skyrocket in price even though the properties they were interested in have NEVER flooded; insurance was required based on maps.*

Loan Availability: REALTORS® continued to note problems with the availability of loans for potential buyers with minor credit or other issues. Although the media has reported increased loan availability, the actual availability of loans to all responsible potential buyers continues to be a problem.

- *Strict loan requirements are making it difficult for buyers to obtain a loan, even with high credit scores and the loan guidelines keep getting tighter. I have Investors that are taking their money out of the banks because of a point 35 return on their money and they are owner financing to people who can't get a loan with great credit scores and large down payments. I had a Buyer qualified last October; they had \$50,000 as a down payment on a \$140,000 purchase price. In January 2014 the loan guidelines changed and they no longer qualified to the debt ratio and their credit score was 780. This is ridiculous!!!!*
- *Lenders have gone to the opposite extreme, from several years ago when they were loaning money to people with awful credit, to now not loaning money to anyone unless credit scores and work history are impeccable. There are not enough lenders who do Energy Efficient Mortgages. They are SO NECESSARY to the industry and the future! Most lenders don't even know what an EEM is, let alone offer this product, even though its been around since the 70s!*

Short Sales: A number of REALTORS® reported continued problems with short sales—primarily extended periods of non-response from the bank followed by an unrealistic offer. Organizational problems were cited the most, with REALTORS® indicating paperwork being lost a number of times and a lack of continuity in contacts at the financial institutions.

- *Short sales are taking forever, especially FHA loans, they keep trying to modify with the seller, 2 times already. Seller can't afford it, hasn't made payments since 11/2012. They need to accept a strong short sale contract or foreclose. It must have something to do with seller still in the home. this is the 3rd short sale offer on the same property. Seller has a lawyer. Bank has asked for same docs over and over and reassigns account to someone else every few months.*
- *What can be done about the length of time the lenders are STILL TAKING FOR SHORT SALE APPROVALS. If we get the contract on a short sale it still takes so long that often the property goes into foreclosure. How can we solve the problem?*

Appraisals: Respondents noted that many appraisals were not providing realistic property valuations, with estimates lagging in upward trending markets.

- *Appraisals are not keeping up with increasing values in some cases.*