

Market Trends and Forecasts

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NATIONAL ASSOCIATION OF REALTORS®

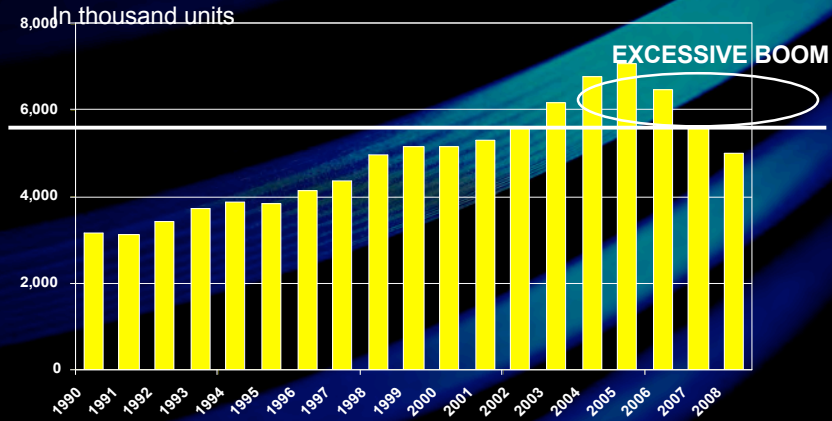
Presentation to Federation of Tax Administrators
Holiday Inn By the Bay Hotel
Portland, Maine
September 15, 2008

Where Are We? Housing Markets: Current Status

- **Sales—Existing Homes**
 - National Down 31% as of June 08 from Sept 05 peak.
 - National Down 13.2 % 12 mo ending July 08.
 - Virginia: Down 8.1% for 12 mo ending June 08.
 - Northern Virginia down 16.8%, July YTD.
 - Maine: -20% 2nd qtr 08 vs. 07; +3.7% most recent qtr.
- **Prices**
 - Median National Down 7.7 % as of July 08 from July 2006 peak.
 - Median National Down 7.1 % 12 mo ending July 08.
 - Washington/No. Va. MSA Median down 16.8 %, 2007Q2 to 2008Q2.
 - Median Northern Virginia down 16.9% 12 mo ending July 08.
 - Median Portland price -5.7%, 2nd qtr 07/2nd qtr 08.
- **Sales—New Single Family Homes**
 - National Down 61 % from March 2005 peak.
 - National Down 35 % for 12 mo ending July 08.

Annual Existing-Home Sales

Includes Single Family, Condos, Coops

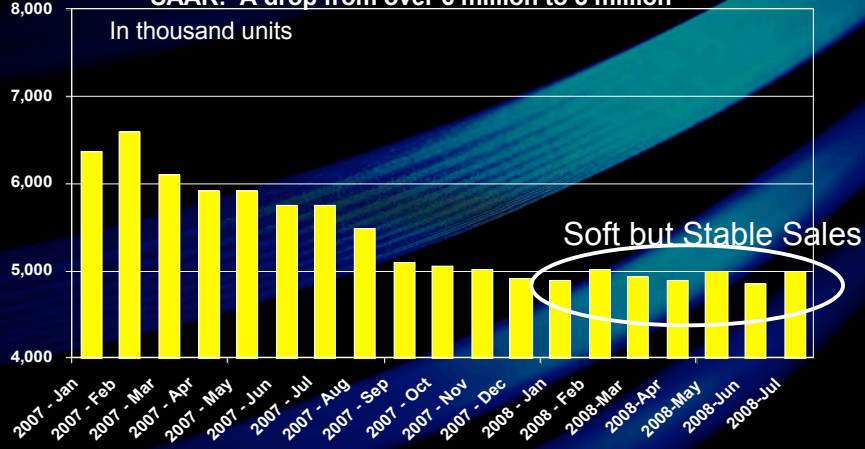


Home sales have retreated back to pre-boom years, which was then considered to be at healthy levels.

Source: NAR

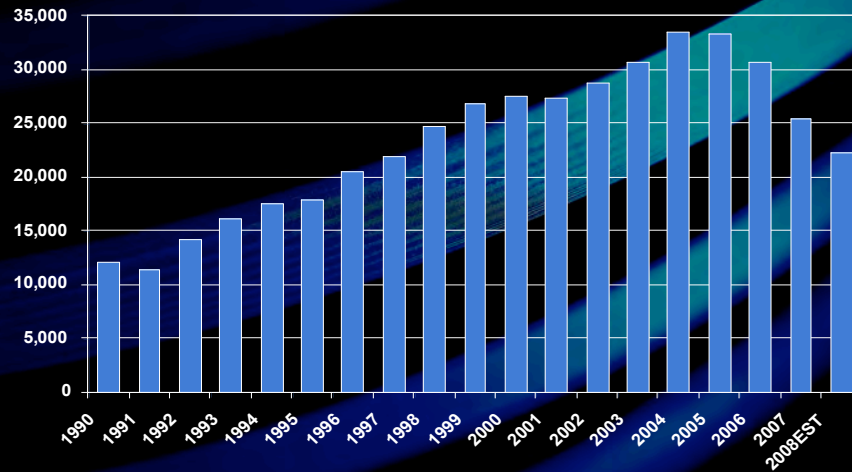
Recent Monthly National Existing-Home Sales

SAAR: A drop from over 6 million to 5 million



Source: NAR

Maine: Existing Home Sales

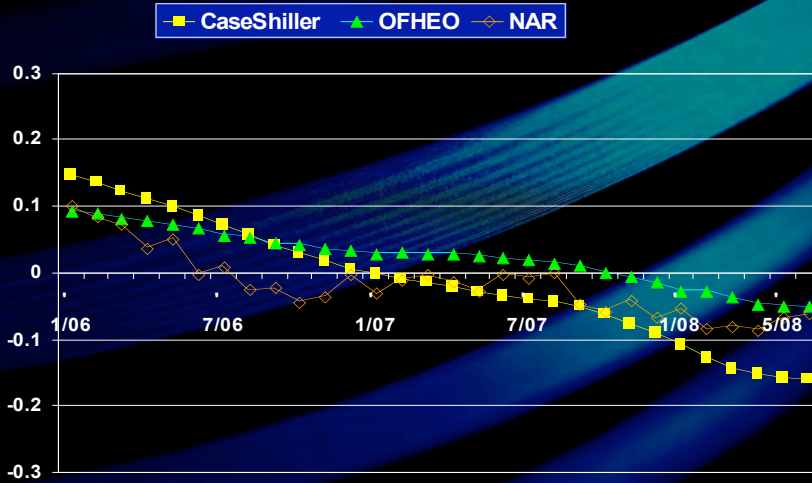


Source: NAR

Where Are We—Price? NAR, OFHEO, Case Shiller

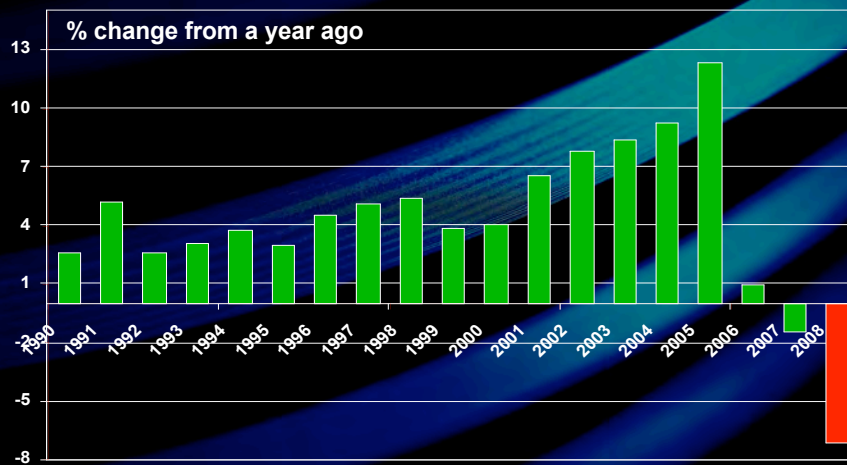
- **NAR**
 - MLS data, all transactions.
- **OFHEO**
 - Conforming loans (Freddie/Fannie), repeat sales.
- **Case Shiller**
 - Repeat sales, twenty major areas.
 - Heavy concentration in distressed markets.
- **Some Confusion—What is the Clear Message?**
 - Each local market is different.
 - Representative Market/Submarkets.

Comparison of Three Indexes Trends in National Prices



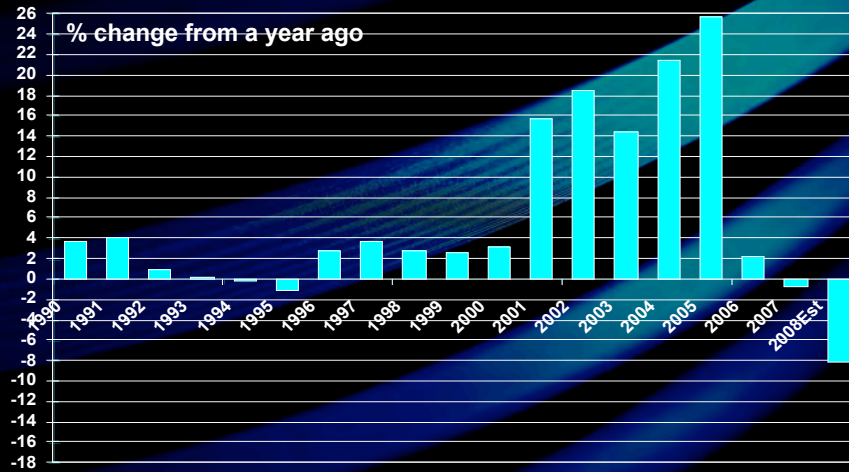
National Home Price Growth

Total Homes, Median Sales Price



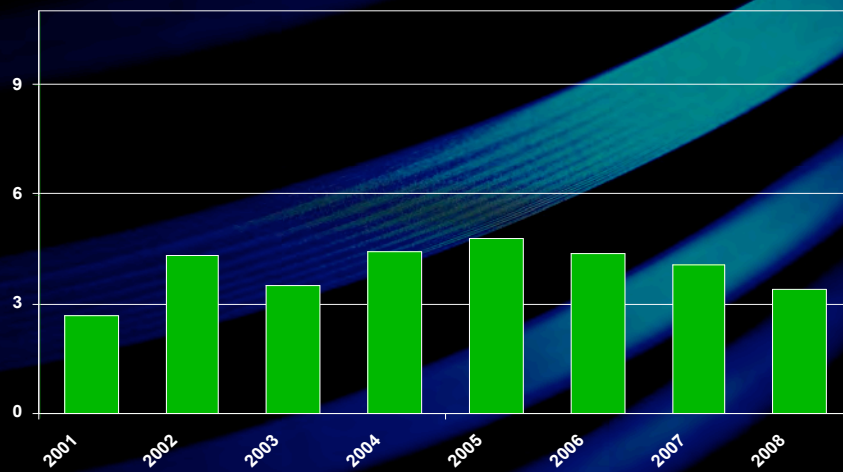
Source: NAR

Washington-Arlington-Alexandria, DC-VA-MD-WV Median Home Price Growth



Source: NAR; Data for 2008 are estimates based on first two qtrs.

NVAR Median Price Divided by Median Fairfax Household Income



Based on NVAR and BEA data

What Drives the Housing Market?

- **Mood**
- **Financial Issues, Subprime, Foreclosures.**
- **The Economy—Positive**
- **Impact of the Economy on Housing**
- **Approaches for Addressing the Current Market**

Consumer Confidence
Negative Housing, Economic, Financial News, Uncertainties

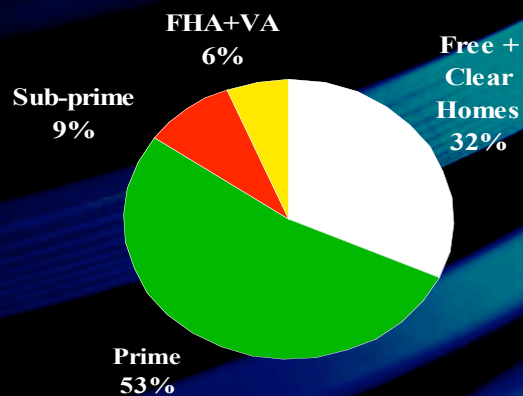
Financial Issues Loan Originations—Billions of Dollars

- Over a trillion dollars of subprime loans per year in 2005 and 2006.
- Subprime default and delinquency rates high.
- Prime—Lower default.
- Outlook—Additional defaults?

Year	Prime Loans	Subprime
2001	2353	295
2002	3032	356
2003	3961	503
2004	2083	882
2005	1879	1138
2006	1548	1051
2007	1509	466

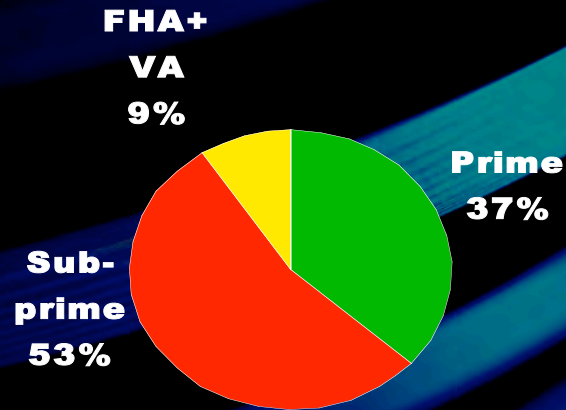
Source: Harvard Joint Center 2008

Subprime Loan Exposure



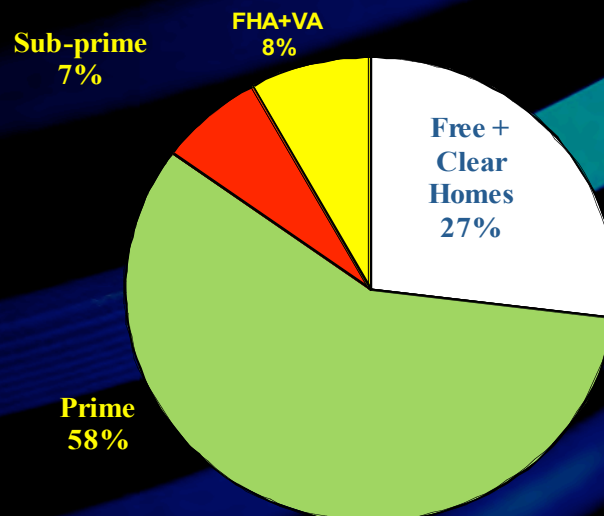
Source: NAR Estimate

Foreclosed Homes



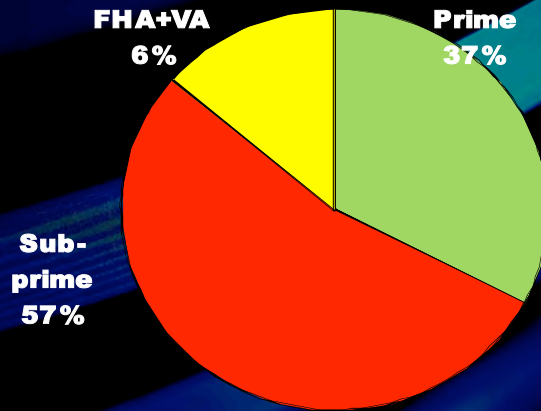
Source: NAR Estimate

Subprime Loan Exposure: Virginia



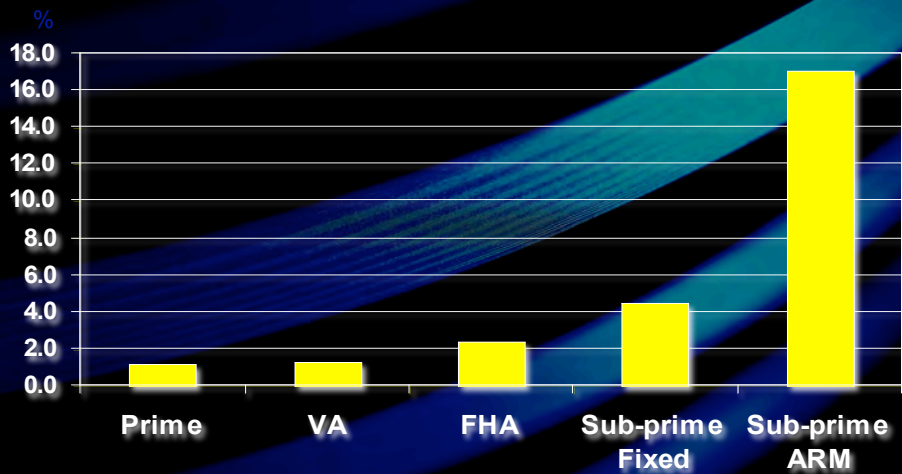
Source: NAR Estimate

Foreclosed Homes: Virginia



Source: NAR Estimate

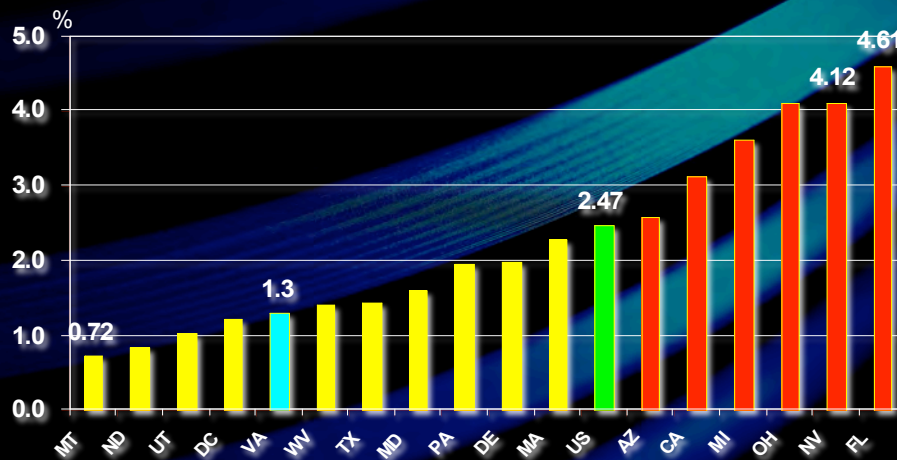
Foreclosure Rates by Loan Type 2008 Q1



Source: MBA

Foreclosure Rate Comparisons

(All Loans, 2008 Q1)



Source: MBA

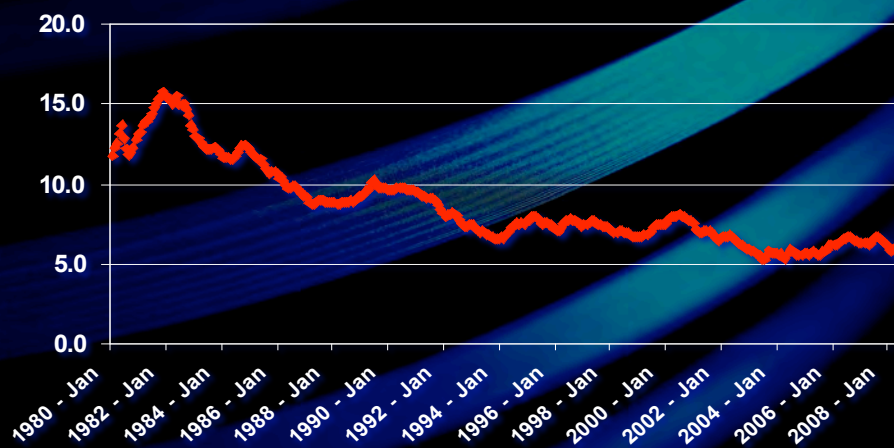
Subprime Problem Outlook

- **Huge Loss Write Downs:** Possibility of additional write downs and distress in financial markets.
- **Fannie and Freddie.**
- **Government Agencies Involved.**
 - Federal Reserve, FDIC, FHFA, OCC
 - Can provide liquidity
- **Consumer/Homebuyer Confidence:** A Major Issue
- **Somewhat tighter credit.**
- **Impacts on prices and housing market.**
- **Problem diminishing, but potential additional losses.**

Economic Snapshot Not Great/Not Bad

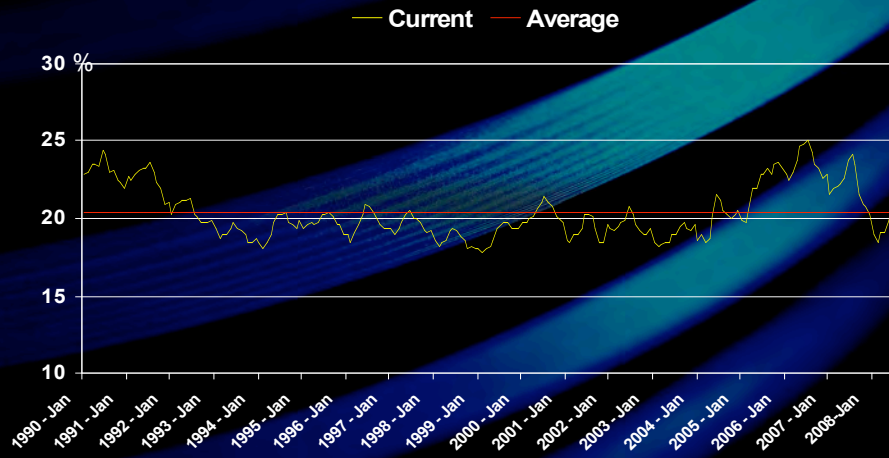
- Recession or weak economic performance?
- Rising unemployment .
- Stock market – roller coasting.
- Housing slowdown – negative to economy.
- Credit Crunch.
- Consumer Confidence.
- Interest Rates Cut: Appropriate level?
- Oil Prices – Alarmingly high--Fluctuations?
- Inflation.

Mortgage Rates Relatively Low



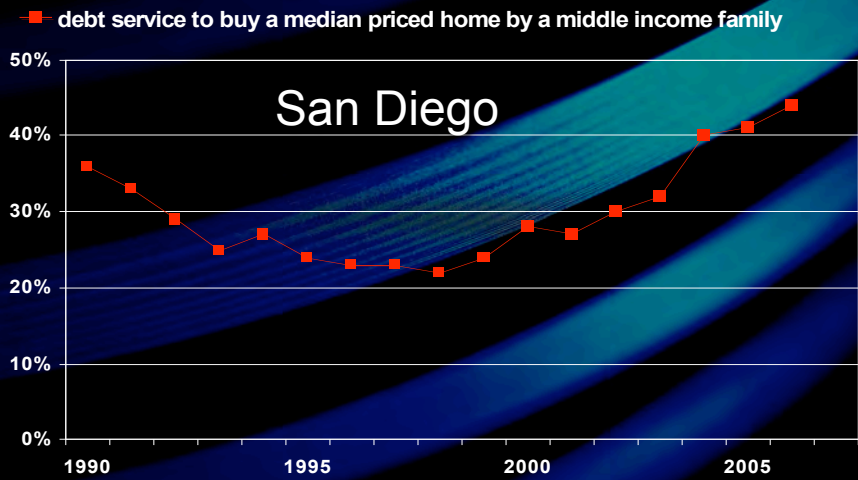
Source: FHFB, Residential Existing House

Mortgage Obligation Manageable Median as Percent of Income



Source: NAR

Mortgage Obligation to Income *Very High in Some Markets*

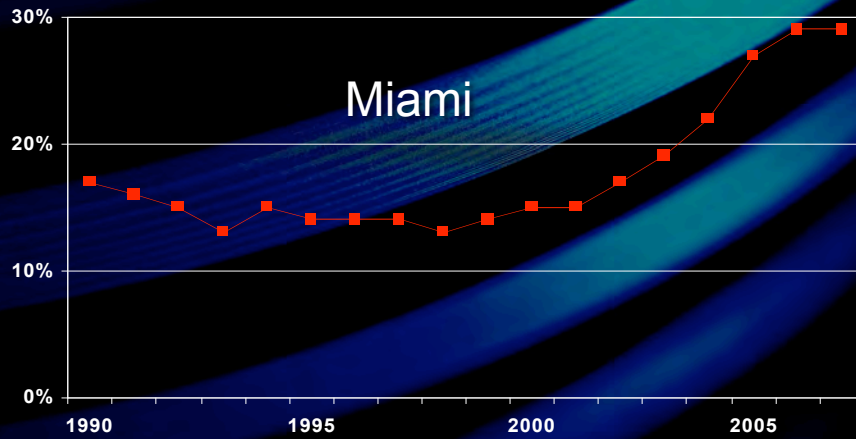


Source: NAR

Mortgage Obligation to Income

Historically High in Some Markets

■ debt service to buy a median priced home by a middle income family

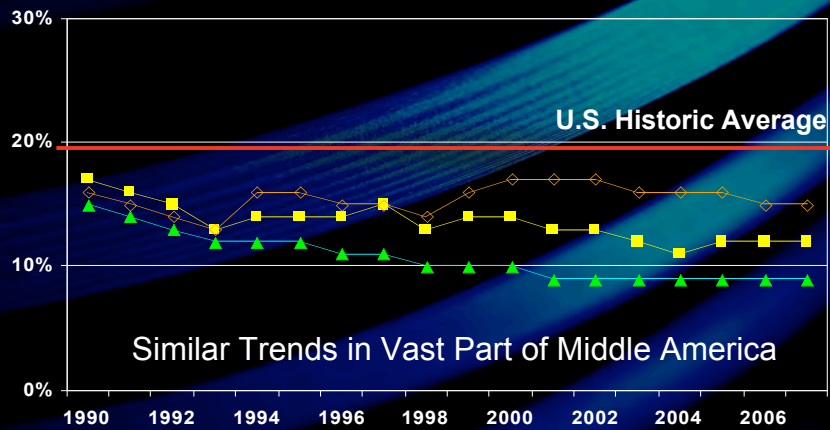


Source: NAR

Under-Priced Markets

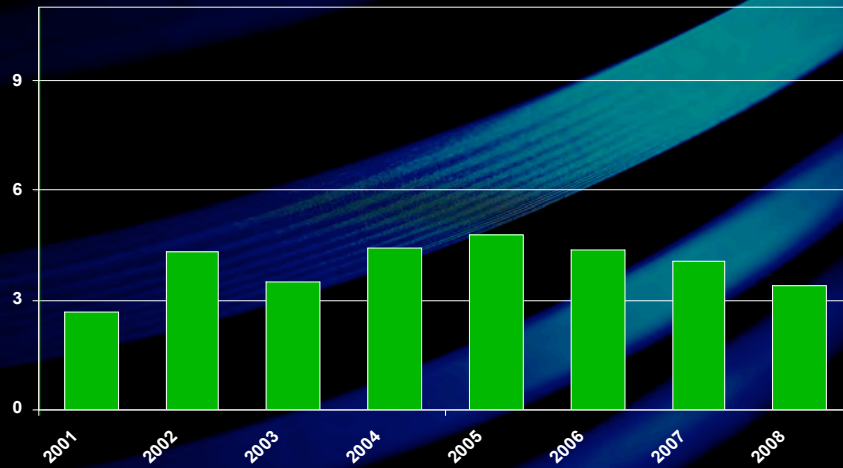
With Affordable Mortgage Obligation to Income

■ Columbus ▲ Pittsburgh ◇ Denver



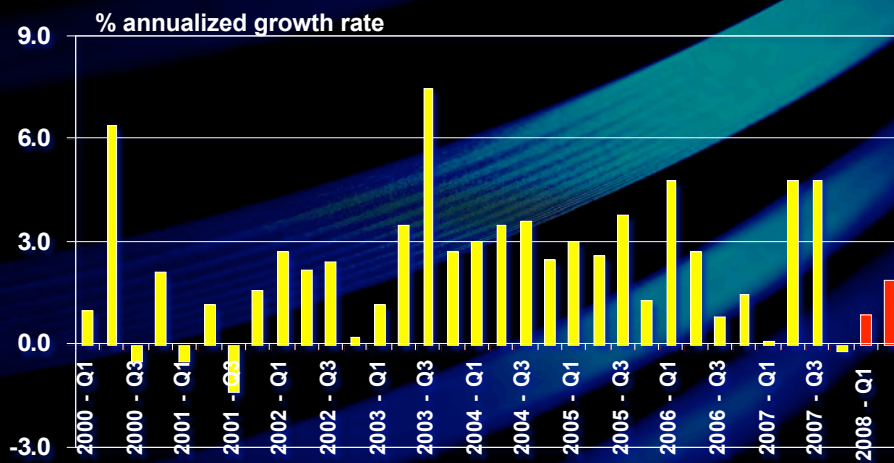
Source: NAR

NVAR Median Price Divided by Median Fairfax Household Income



Based on NVAR and BEA data

GDP Growth



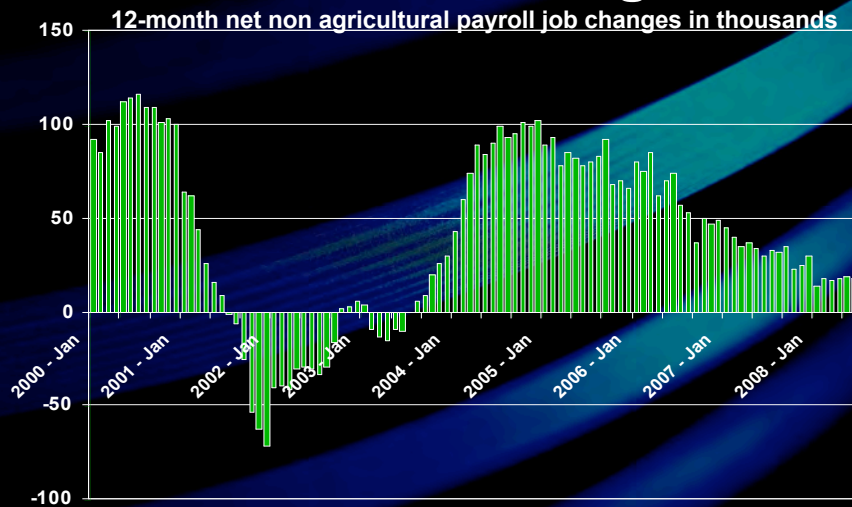
Source: BEA

U.S. Job Gains - Decelerating



Source: BLS

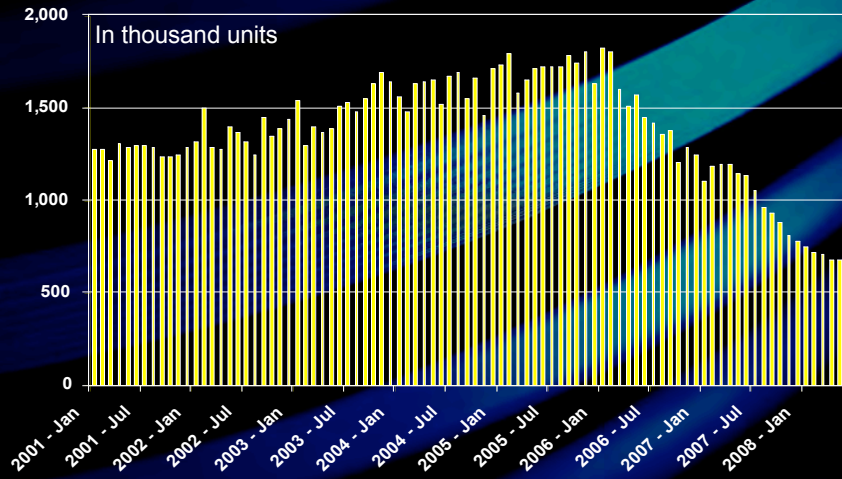
Job Gains in Virginia



Source: BLS

Single-Family Housing Starts

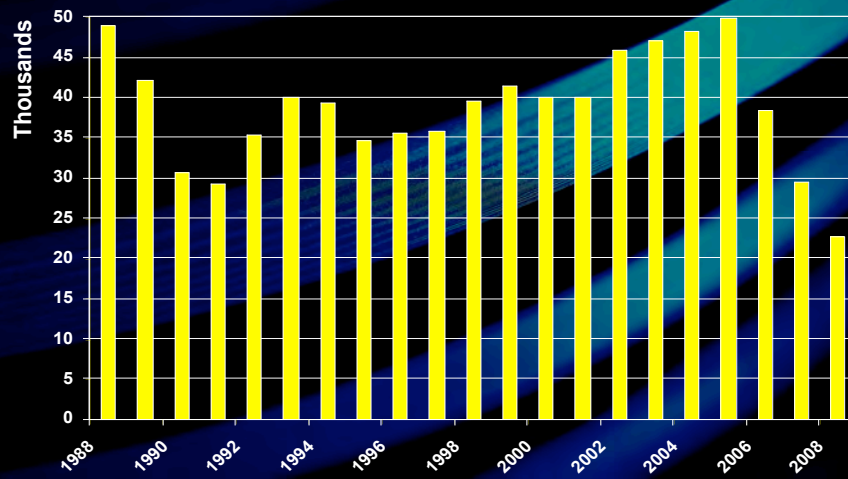
(Major fall – but, good trend to control inventory)



Source: Census

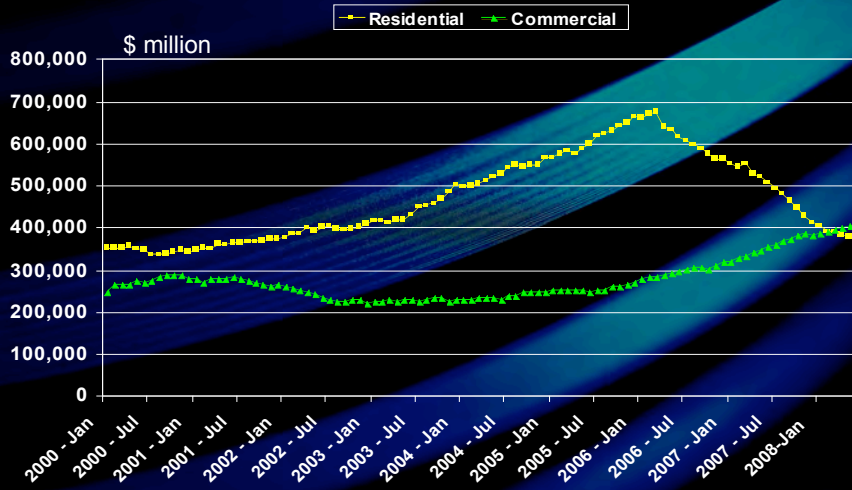
Virginia

Single Family Home Permits



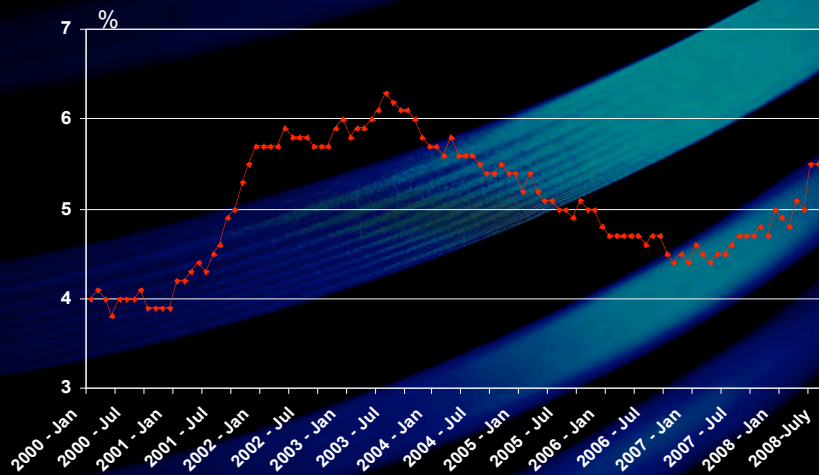
Source: Census

Construction Spending



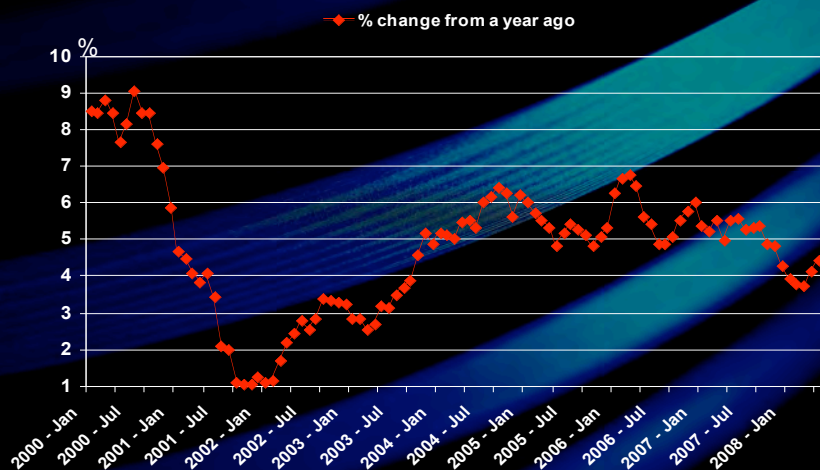
Source: Census

National Unemployment Rate



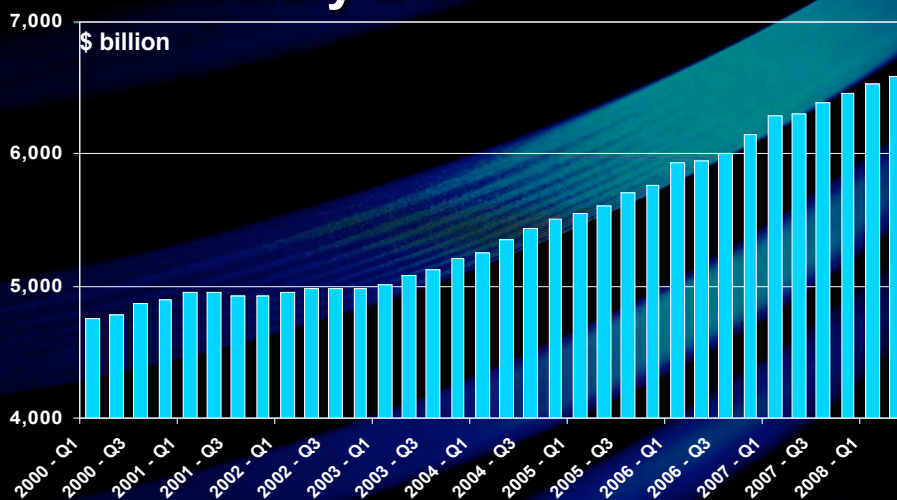
Source: BLS

Employee Compensation



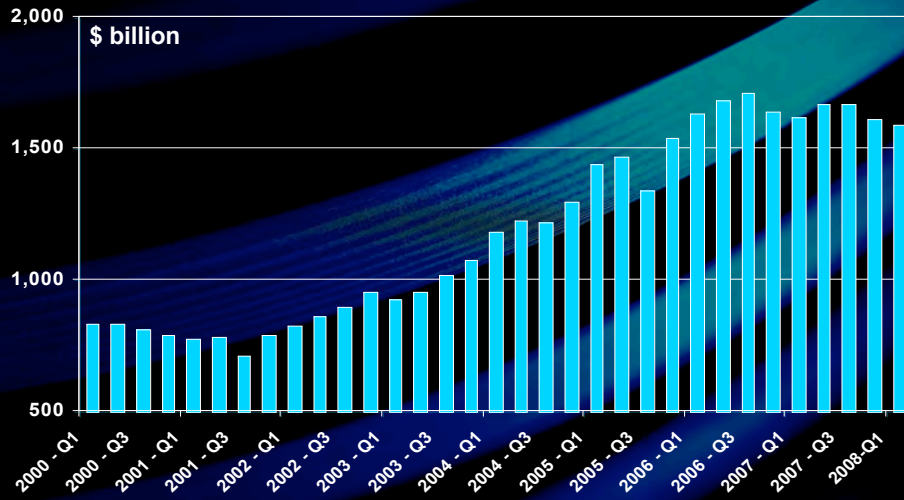
Source: BLS

Aggregate U.S. Wages and Salary Disbursement



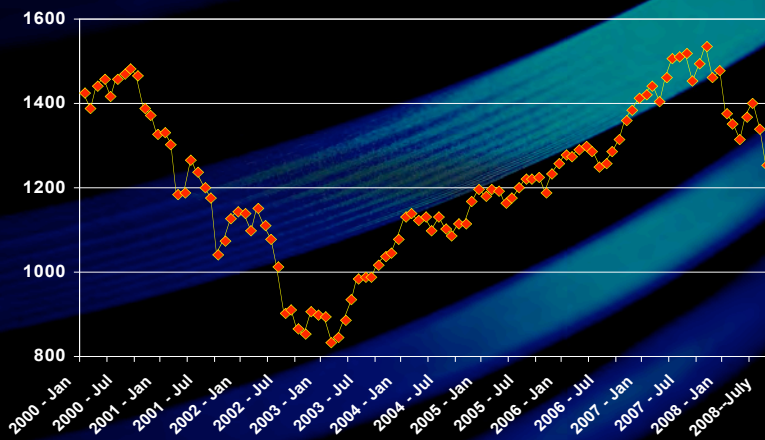
Source: BEA

Corporate Profits Before Tax with Inventory and Depreciation Allowances



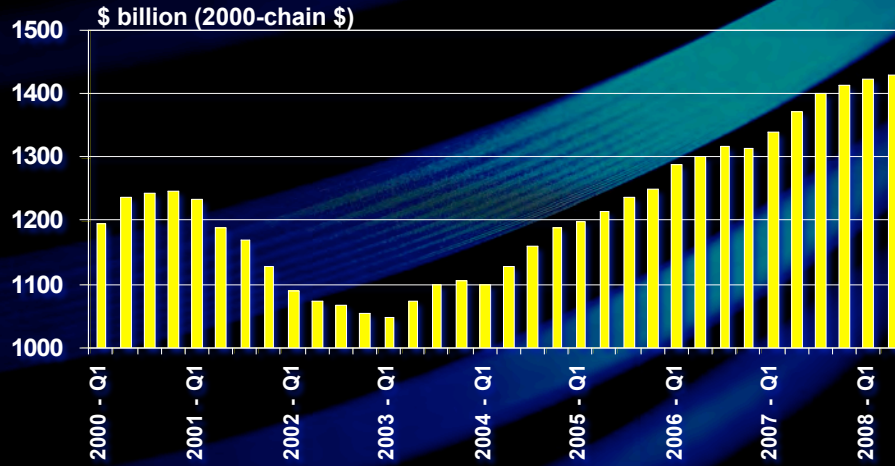
Source: BEA

Stock Market S&P 500 Index



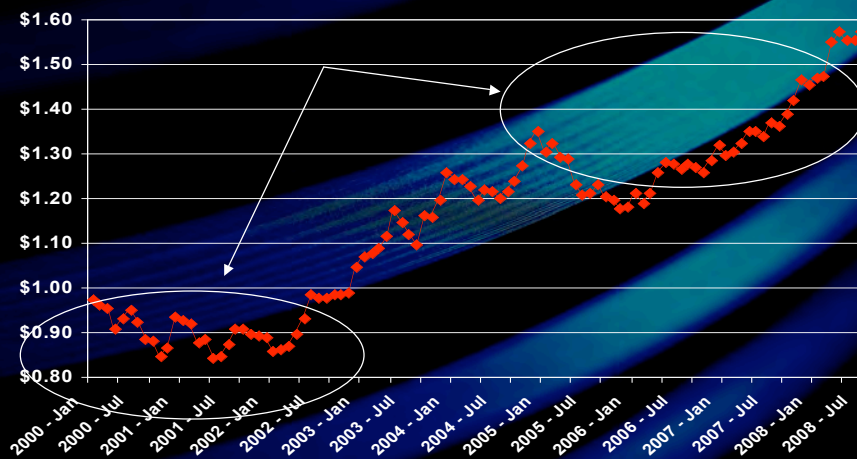
Source: NYSE

Gross Private Domestic Investment Chained 2000 Dollars



Source: BEA

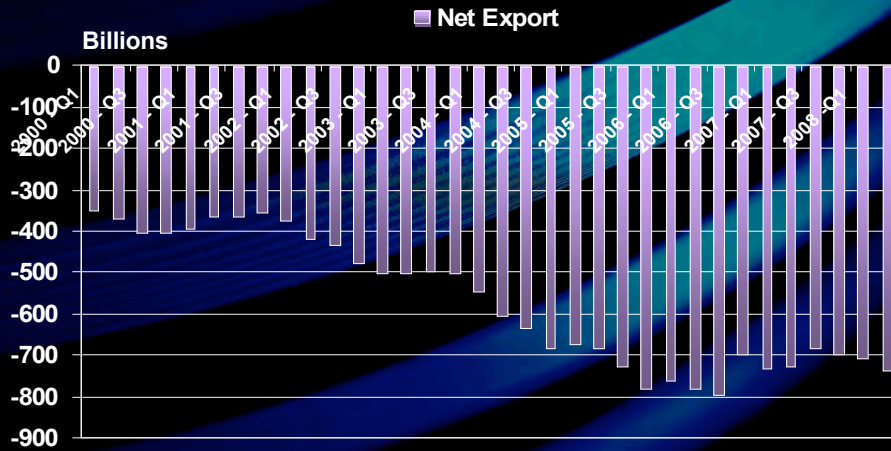
Dollar vs. Euro U.S. Exports Increasingly Competitive



Source: BLS

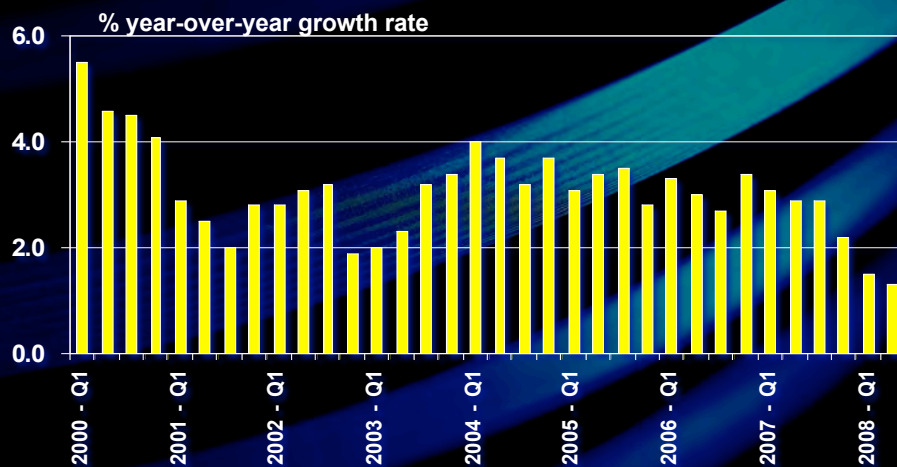
Net Exports Goods and Services Some Improvement

Current Year Dollars

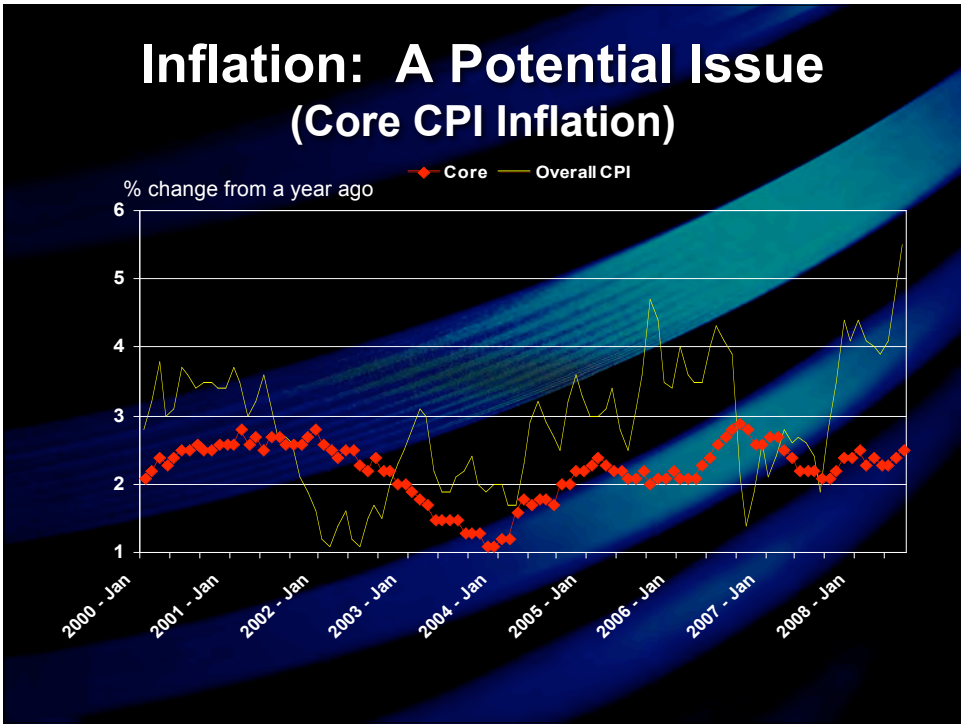
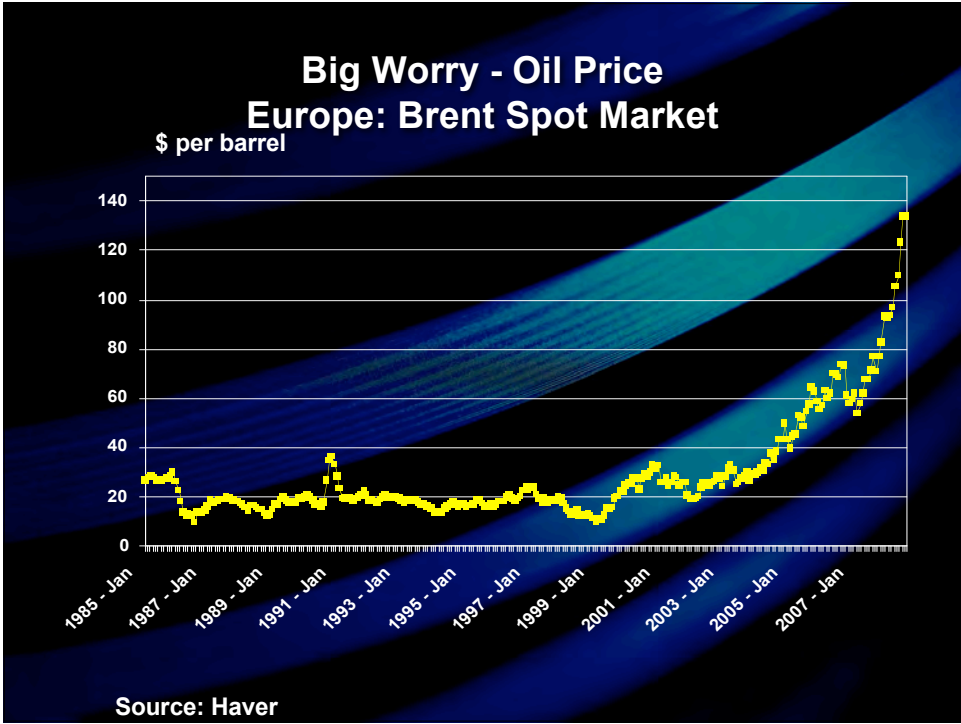


Source: BEA

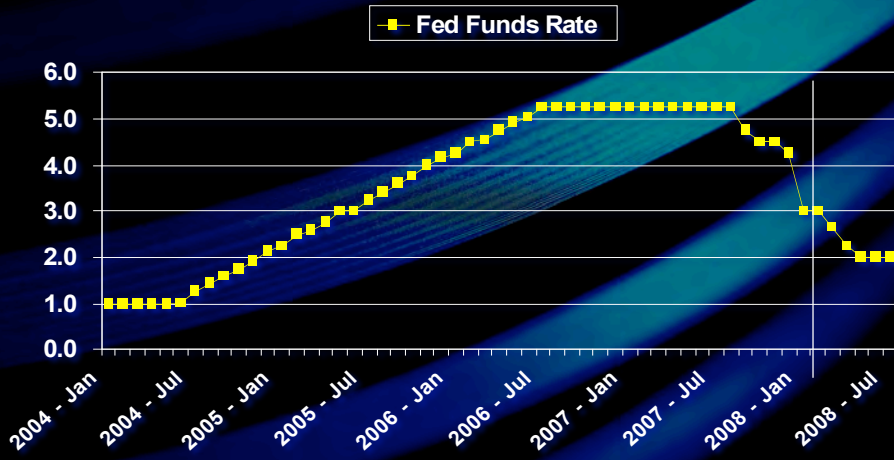
Personal Consumption Expenditures, Changes in Billions of Chained 2000 Dollars



Source: BEA

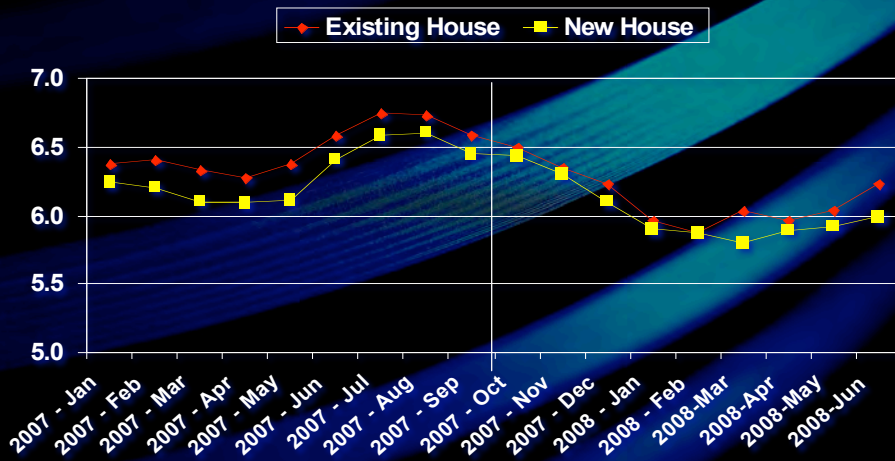


Fed Rate Cut



Source: Freddie Mac

Mortgage Rates



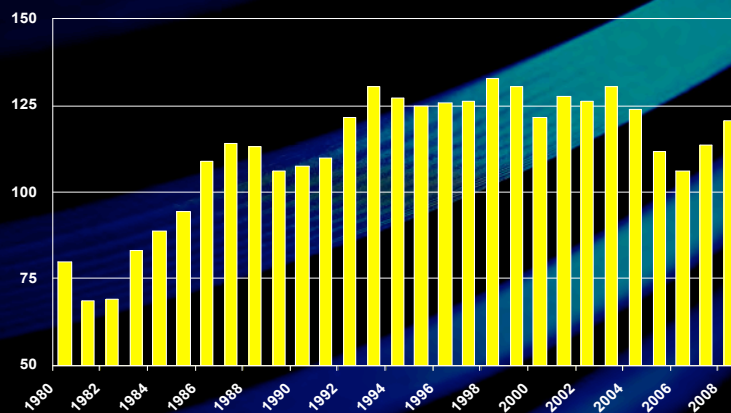
Source: FHFB

Economic Outlook

	2007	2008	2009
GDP	2.0%	1.7%	1.5%
CPI Inflation	2.9%	3.2%	1.5%
Job Growth	1.1%	0.1%	.2%
Unemployment Rate	4.6%	5.5%	6.0%
10-year Treasury	4.6%	4.0%	4.5%

Housing Affordability Index

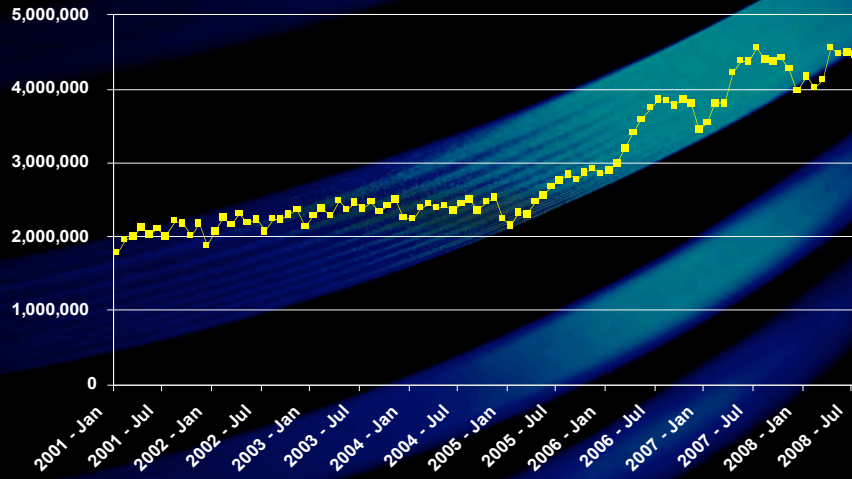
(Median Income/Qualifying Income) * 100



Source: NAR

Existing-Home Inventory

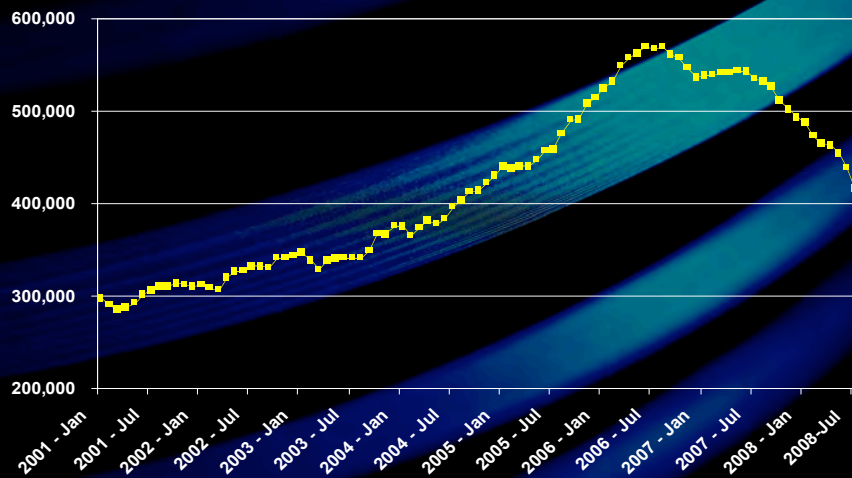
(From 2 million to 4.5 million; but most are owner-occupied)



Source: NAR

New Home Inventory

(Already Topped Out)



Source: Census

Housing Markets—Outlook

- **Short Run: Existing Home Sales stable but trending at 10 year ago levels. From 1998 to 2008**
 - 25 million more people, 13 million more jobs, reasonable interest rates.
 - Recovery: Affordability, Housing Stimulus Package, Higher GSE Loan Limits, Lower Inventories of New Homes, Slowing Foreclosures.
 - Financial problems being resolved.
 - Prices down 7% this year; up 2.4% next year.
 - Sales down 11% this year; up 7% next year.
 - New Housing: 1.6 to 1.8 million houses per year.
 - Will support a substantial resale market.

Pent-Up Demand ?

	2005	2007	Comment
Total Home Sales (new and existing)	8.4 million	6.5 million	5.1 million in 2008
Jobs (in October)	133.7 million	137.6 million	137.6 million, 2 nd quarter 2008
Wage + Salary (in October)	\$5.7 trillion	\$6.4 trillion	\$6.6 trillion
Household Wealth (3 rd quarter)	\$51 trillion (3 rd quarter)	\$59 trillion (3 rd quarter)	\$58.2 trillion, 2 nd quarter, 2008
Home Prices	\$219,600	\$219,000	\$215,000, July 2008
Mortgage Rates	5.9%	6.3%	6.2% for 2008

From the Realtor® Perspective Addressing Current Market Conditions

- What appear to be some of the Key Issues in Addressing Current Market Conditions?
 - A market where prices have declined, inventories are high, sales are slower.
 - How do principles of Marketing and Economics apply?
- The Realtor® Story
 - Trusted resource for real estate information
 - Realtors® Add Value
 - Realtors® are Industry innovators
 - NAR is an advocate for homeownership
 - Realtors® build communities
 - Homeownership—immediate benefits and long-term value

From the Realtor® Perspective Addressing Current Market Conditions

- Trusted Resource for Real Estate Information
 - Professional Advice.
 - Coming off of Unusual Boom Times.
 - Economy favorable, significant underlying demand.
 - A three to five year horizon is appropriate.
- Adding Value
 - Marketing: Realistic Pricing, targeting, segmentation, demographics, defining needs.
 - Staging—How many times do you make a first impression?
- Innovator
 - Implementation of Technologies.
 - Customer communications: boomers, GEN-X, GEN-Y.

From the Realtor® Perspective

- NAR an advocate for homeownership.
- Homeownership and long-term value.
 - Lifestyle, long term investment.
- Building Community
 - Establishing a presence/active in community service.
 - Part of the backbone/establishment.