



# FTA Revenue Estimating and Tax Research Conference

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## Forward-Looking Statement



Information in this presentation is derived principally from publicly available information, forest products and building industry publications and websites, data compiled by market research firms, and similar sources. Although we believe that this information is reliable, we have not independently verified any of this information and we cannot assure you that it is accurate. This presentation also contains forecasts regarding future economic conditions, demand, commodity prices and similar matters. The accuracy of such forecasts is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected, including, but not limited to, the effect of general economic conditions, including the level of interest rates, housing starts and exchange rates; the relative strength of various U.S. and global business segments; energy prices; raw material prices; transportation disruptions; the effect of governmental actions; natural disasters; and the outbreak of terrorism, war and other hostilities.

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## What should you consider in your state?

September 2006



- Fewer home sales and at lower prices
- Downside risk to consumer spending from drop in real estate values
- Inventory correction likely to run through at least 2008
- Homeowners looking for property tax relief
- Consider the unthinkable
- Develop signposts and a tracking system so you can forewarn policymakers

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## Four issues for today's discussion



- Excess stock of housing persists
- Federal government support to the housing industry
- Prospective homeownership rate
- Home prices and equity

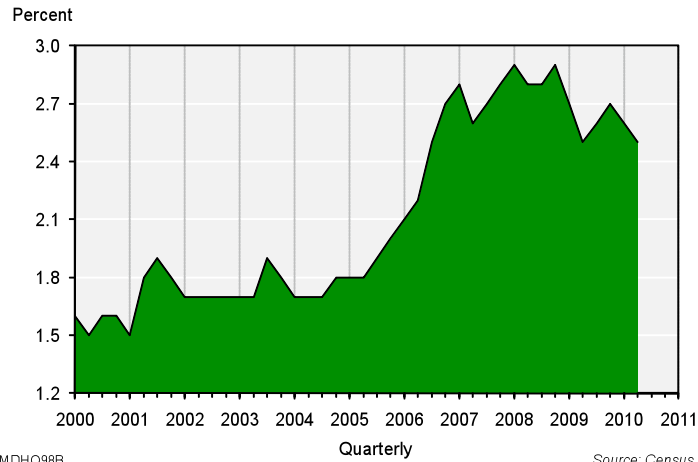
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## Excess stock of 600-700,000 units



Vacancy Rate for Homeowner Units  
(Seasonally Adjusted)



QMDHO98B

Source: Census

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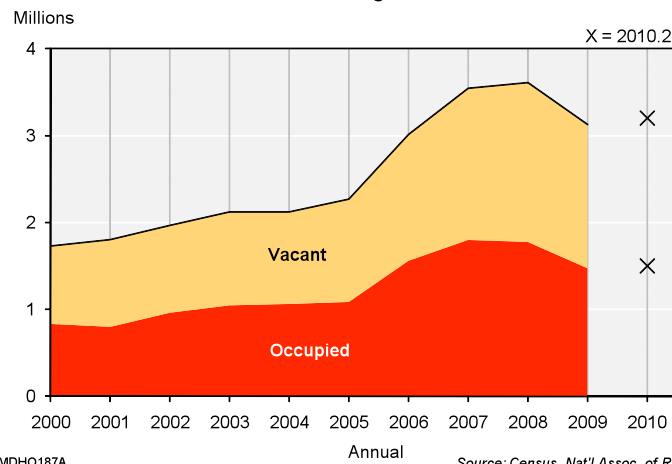
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## Homes being brought back on the market



Number of Existing Homes for Sale



AMDHO187A

Source: Census, Nat'l Assoc. of Realtors

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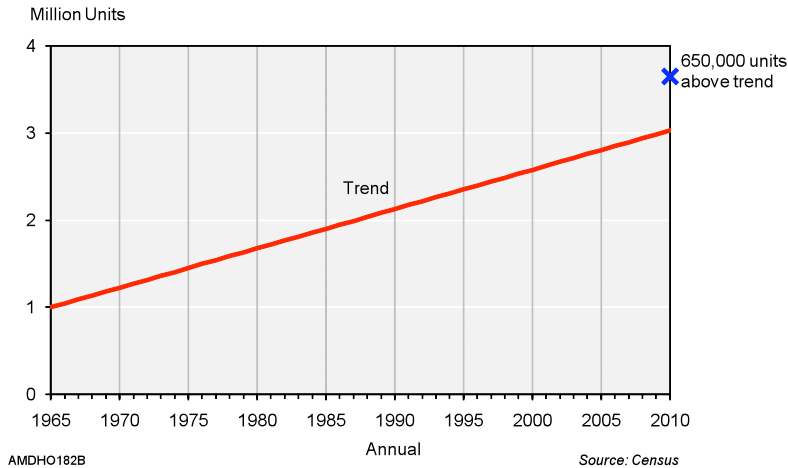
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## One piece of the shadow inventory



Vacant Homes Held off Market for Other Reasons



AMDHO182B

Source: Census

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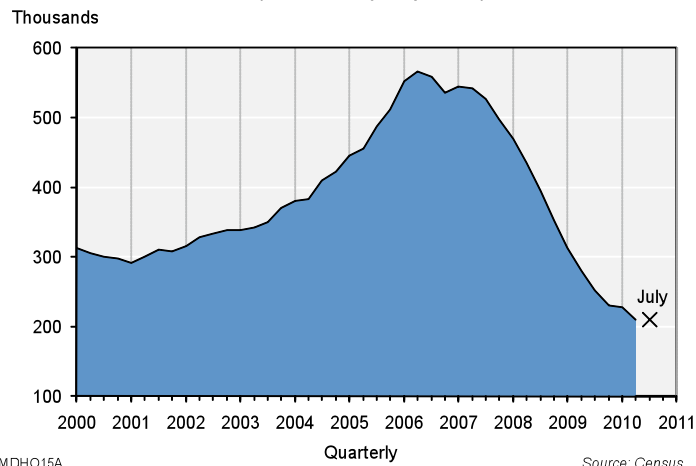
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## Lowest level since 1970s



Inventory of New Homes for Sale in the U.S. (Seasonally Adjusted)



QMDHO15A

Source: Census

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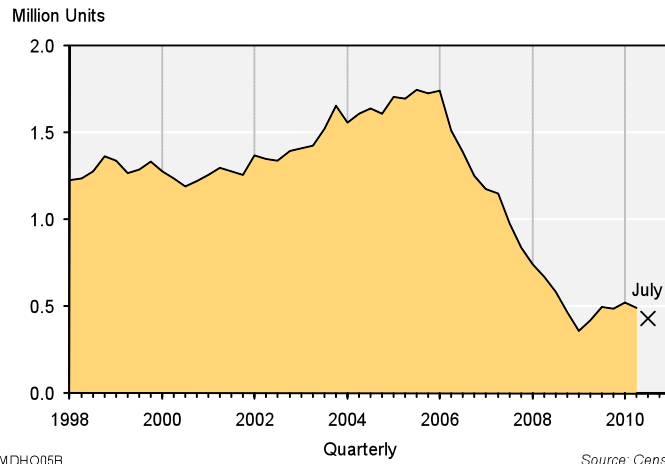
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## Primary means for eliminating excess supply



U.S. Single-family Housing Starts  
(Seasonally Adjusted Annual Rate)



QMDHO05B

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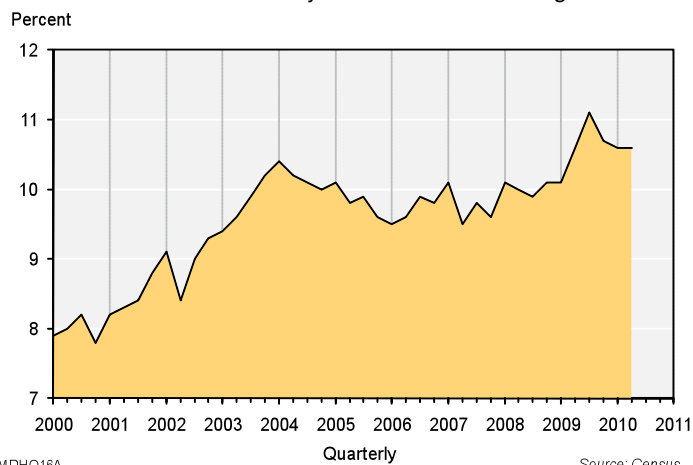
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## Excess supply of 300-400,000 units



U.S. Vacancy Rate in Rental Housing



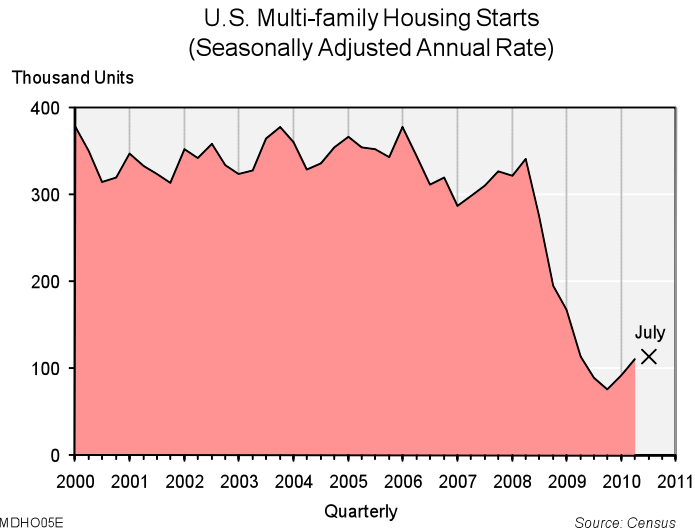
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## Virtually all current multi-family starts are for-rent units



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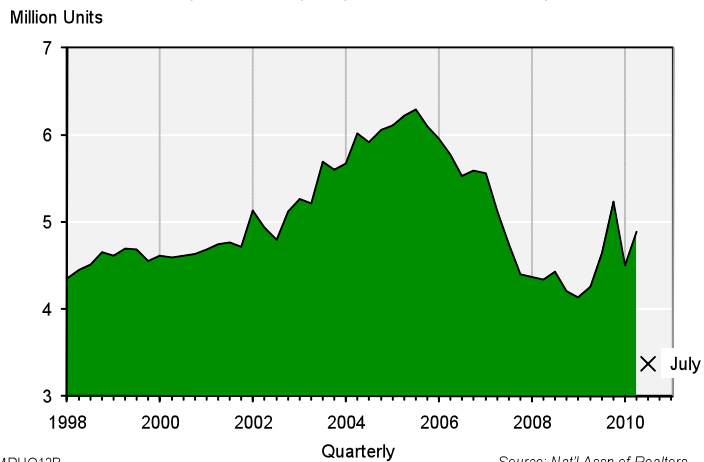
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## Tax credit just affected timing



U.S. Existing Homes Sales  
(Seasonally Adjusted Annual Rate)



QMDHO12B

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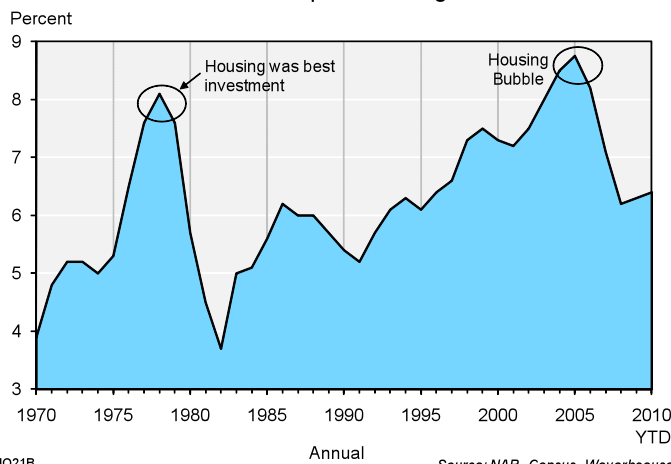
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## Sales at a "trend" rate



Estimated Turnover Rate of  
Owner-Occupied Housing Stock



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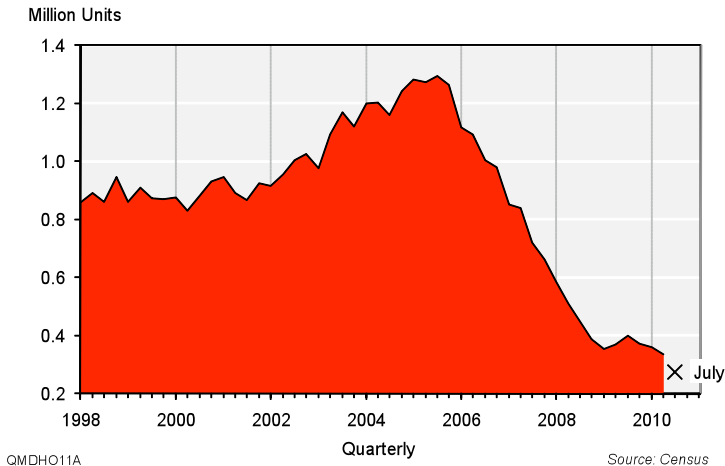
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## Competing with abundant supply of existing homes



U.S. New Homes Sold  
(Seasonally Adjusted Annual Rate)



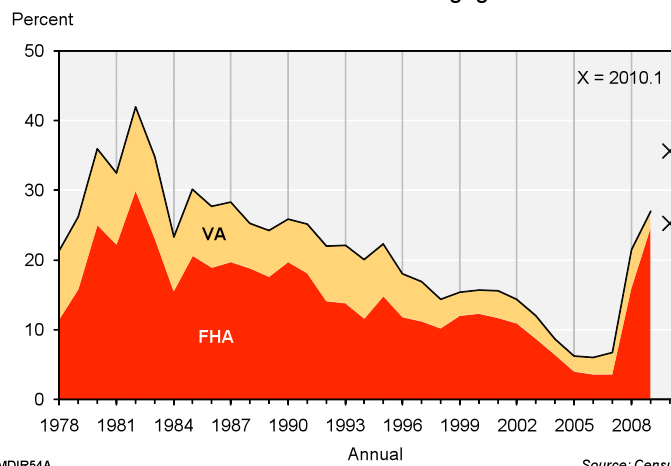
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## Government guarantee of low down-payment loans



Share of New Homes Sold  
via FHA and VA Mortgages



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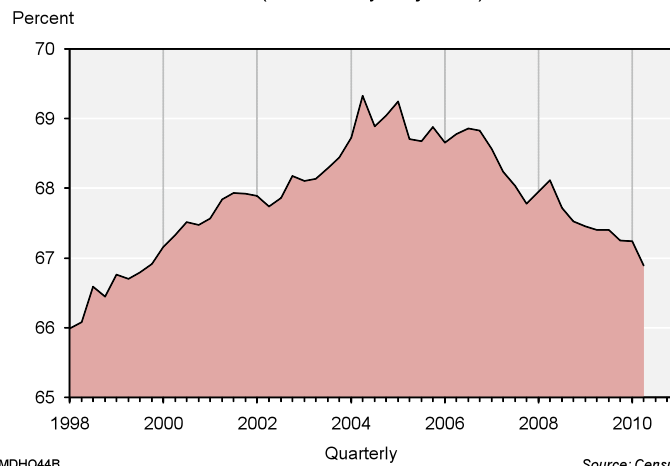
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## 2.4 million fewer owners than otherwise



U.S. Homeownership Rate  
(Seasonally Adjusted)



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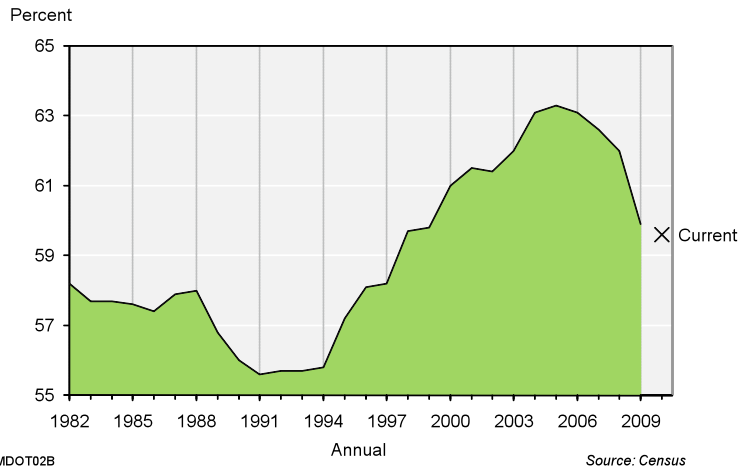
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## Loss in first-time home buyers



Homeownership Rates for Married Couples Under 35 Years



AMDOT02B

Source: Census

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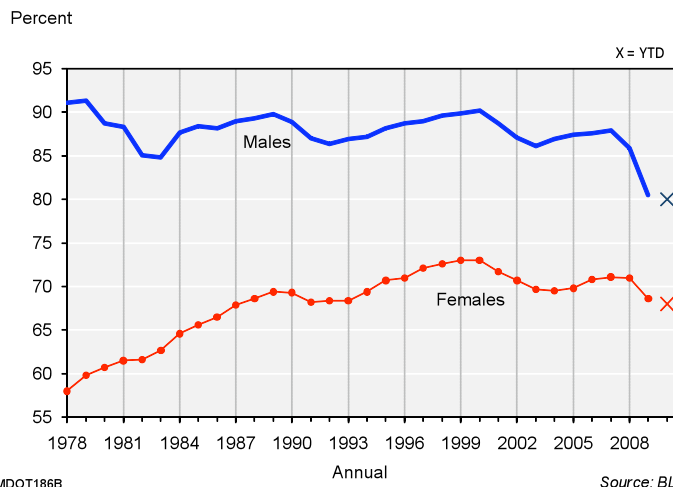
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## A concern for the next 3-5 years



Employment Rates for 25-34 Year olds



AMDOT186B

Source: BLS

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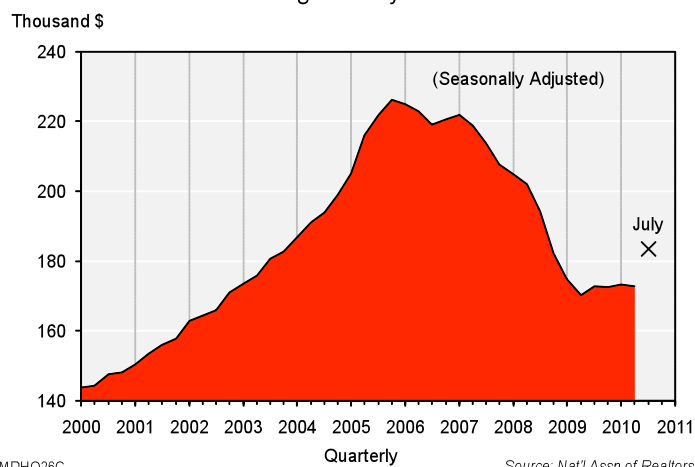
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## Prices are stable for now



Median Price for Existing  
Single-family Homes



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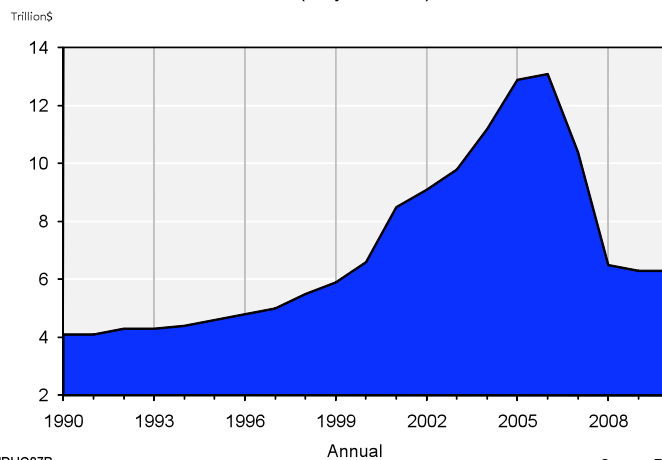
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## The paper gains are gone



Homeowner Equity in Real Estate  
(At year-end)



AMDHO97B

Source: FRB

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## Home price down and mortgage debt flat



Household Net Worth in Real Estate  
(Trillion \$)

	2002	2006	2010.1
Assets	14.9	22.9	16.5
Liabilities	6.0	9.9	10.2
<b>Net Worth</b>	<b>8.9</b>	<b>13.0</b>	<b>6.5</b>

Source: FRB, Flow of Funds

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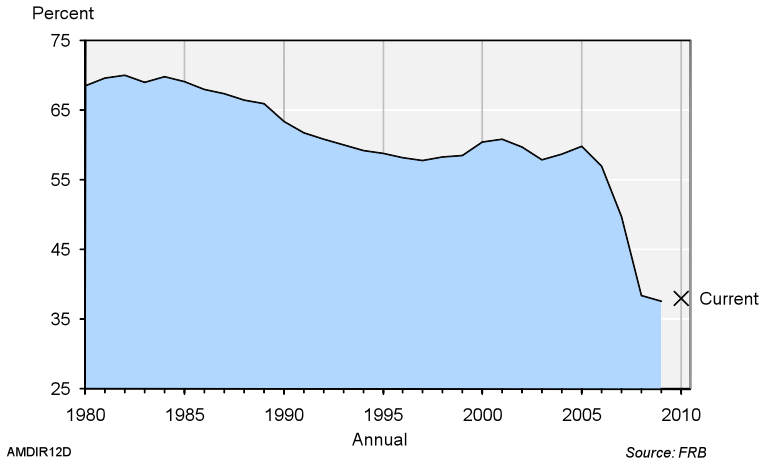
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## Legacy issue for consumer spending



Homeowners Equity as a Percentage of Residential Real Estate Value



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Source: FRB

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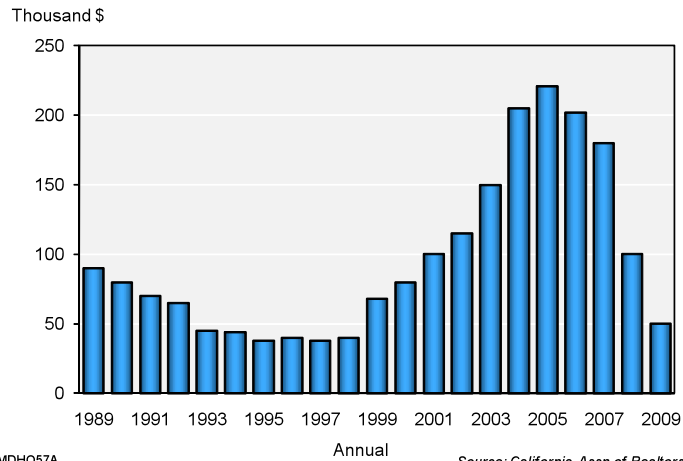
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## Little to no equity for trade-up



Median Net Cash to Existing Home Sellers in California



AMDHO57A

Source: California Assn of Realtors

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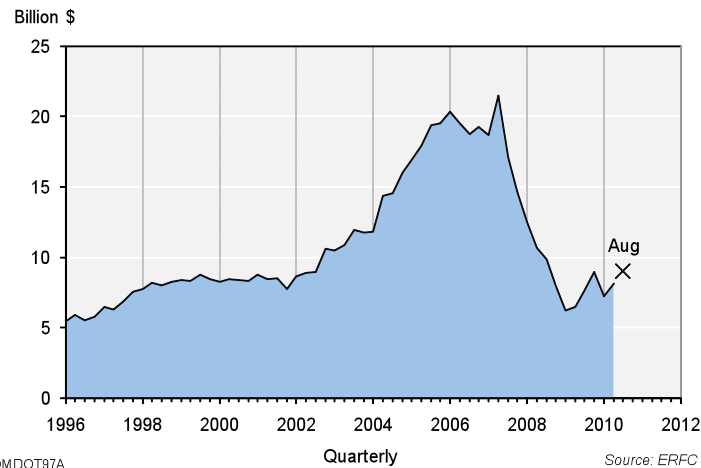
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## The surge in sales values was short-lived



Washington State Taxable Real Estate Activity  
(Seasonally Adjusted)



QMDOT87A

Source: ERFC

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## Similar messages to 2006



- Unprecedented situation continues
- Can traditional econometric models capture the unique circumstances at hand?
- Create a simple model to consider the what-ifs
- Develop signposts and a tracking system so you can forewarn policymakers

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