

U.S. Housing Outlook



Real Estate Outlook for:
VCU Real Estate Trends Conference
October 13, 2009

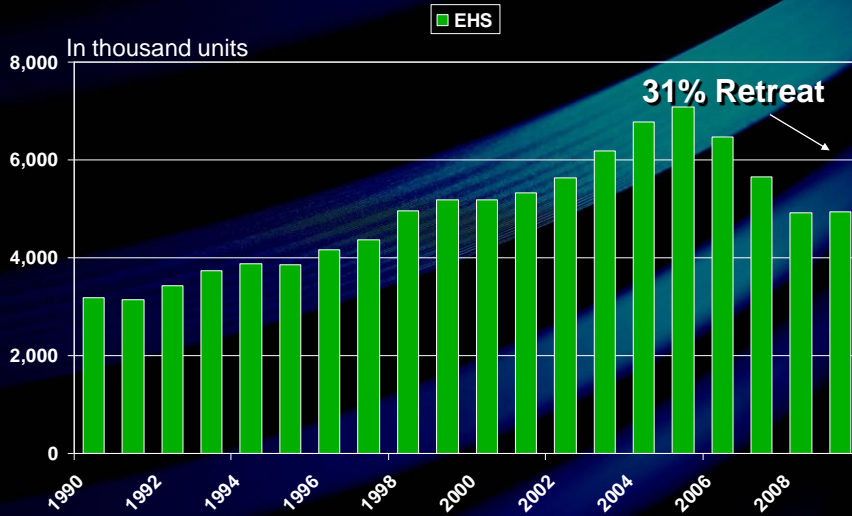
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President
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Real Estate Economy Watch.com

Status Report on Housing

- Financial crisis almost over
- GSEs; PMIs; banks- conservative credit practices
- Home sales trending up
- Home supply trending down
- Over 2 mln vacant homes
- Foreclosures continue to rise
- M Double digit home price drops slowing
- Massive job losses slowing
- Economic recession over
- Treasury proposal- regulate Wall St/mortg
- Fed Accommodative

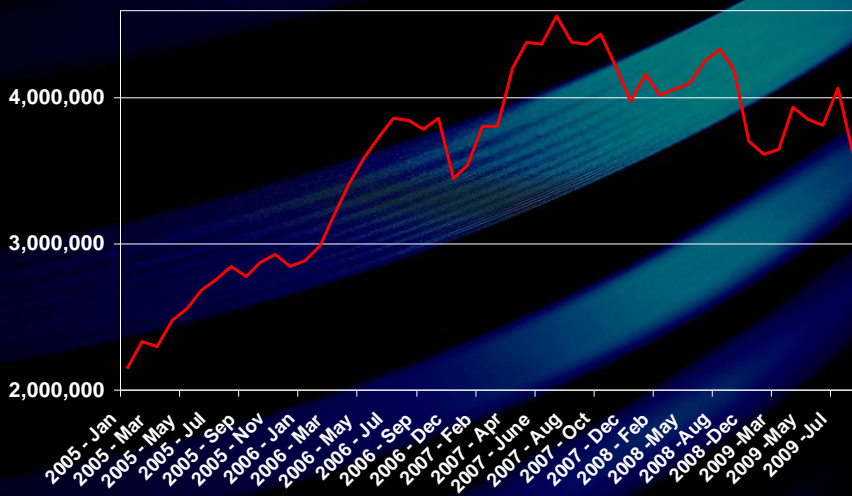


U.S. Existing-Home Sales



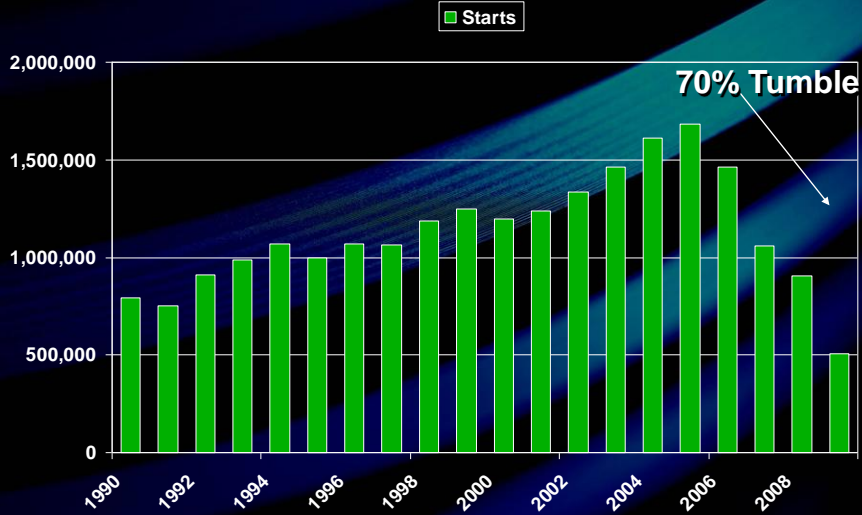
Source: Census

Existing Housing Inventory



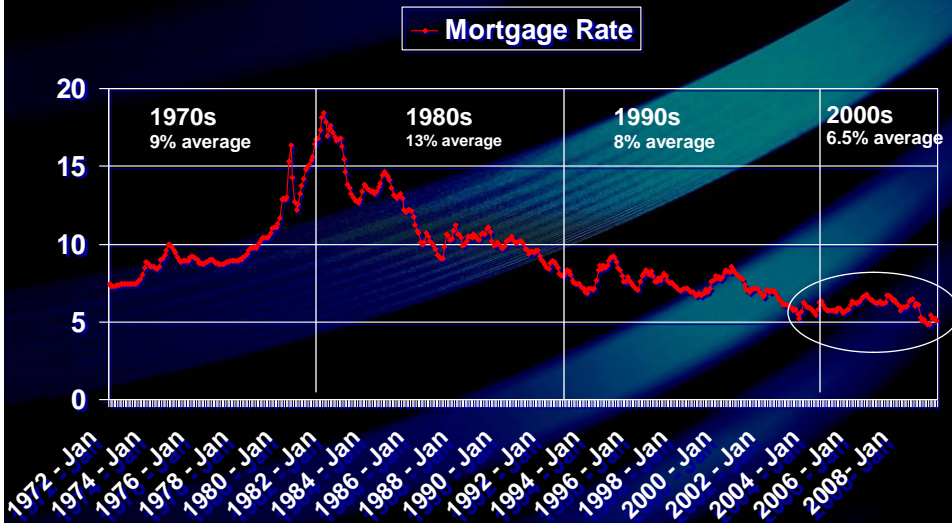
Source: NAR

U.S. New Single-Family Construction



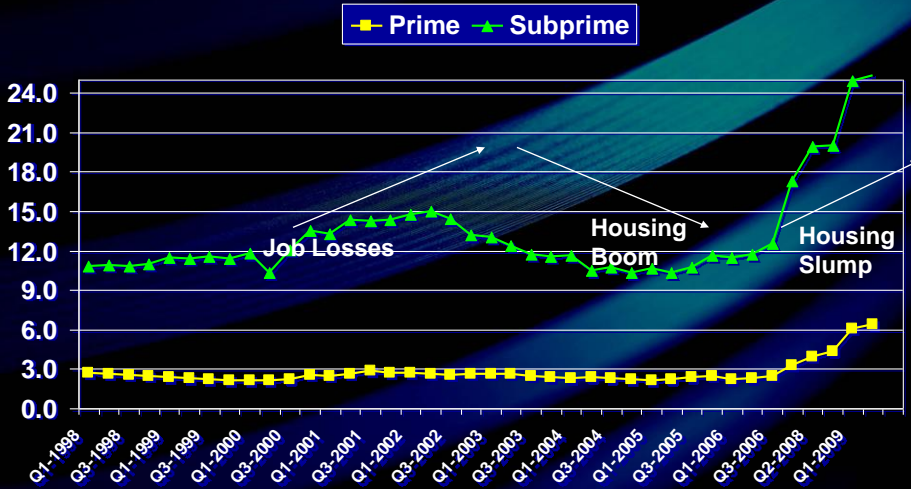
Source: Census

Rates: Near 45-Year Lows



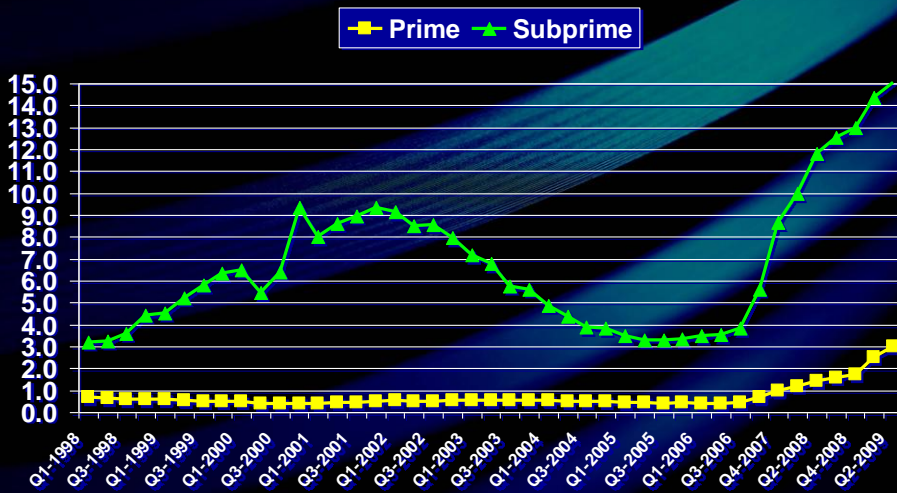
Source: Freddie Mac

Mortgage Delinquencies



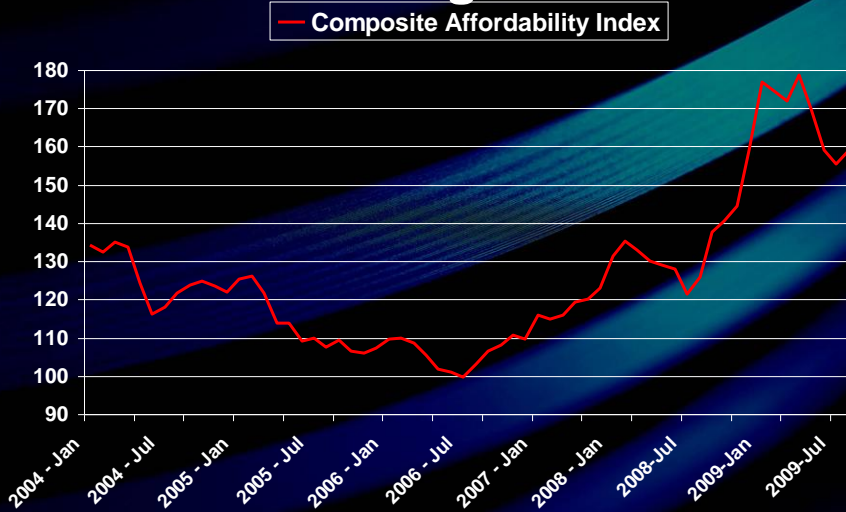
Source: MBA

Mortgage Loan Foreclosures: Prime is Deteriorating



Source: MBA

Housing Affordability Historic Highs



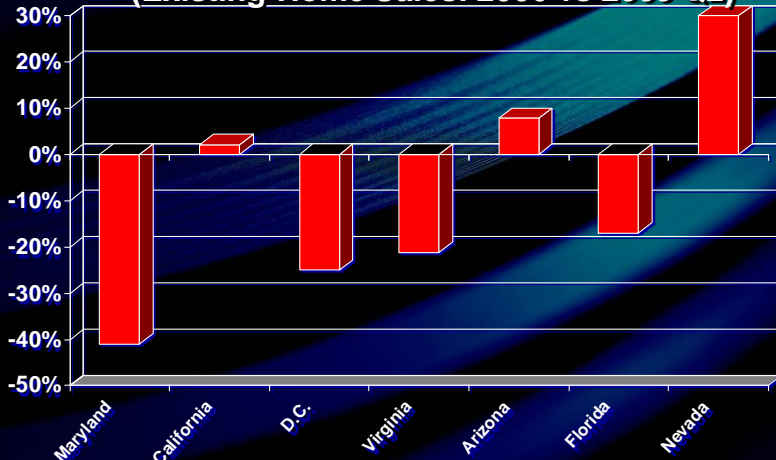
Source: NAR

Economy Providing Wobbly Support

- Monthly job losses shrinking
- Quarterly GDP growth projected, but modest
- Household wealth- first Q rise since 2007
- Households reducing debt
- Consumer spending still constrained
- Industrial sector improving

Home Sales Rebounding Due to Foreclosure Sales

(Existing-Home Sales: 2006 vs 2009 Q2)



Source: NAR

Today's Real Estate Recession in Perspective

Previous RE Downturns
(peak yr to trough yr)

- | | |
|----------------------|----------------------|
| 1978 – 1982 | 1988 - 1991 |
| - EHS fell 49% | - EHS fell 18% |
| - NHS fell 50% | - NHS fell 25% |
| - Starts fell 47% | - Starts fell 37% |
| - Jobs fell 2% | - Jobs fell 1% |
| - GDP fell 1.9% | - GDP fell 0.2% |
| - Avg Mortg Rate 15% | - Avg Mortg rate 10% |
| - Months Supply 12 | - Months Supply 9 |
| - Home prices stable | - Home prices stable |

Home Prices Tumbled During 2006-2009 Housing Contraction

Home price changes from peak to trough:

Existing home prices
(06-092Q) -21.54%

Case- Shiller 20 city index
(7-06 to 7-09) -30.16%

FHFA home price Index
(072Q to 092Q) -10.88%

Mistakes Made: Strayed from Fundamentals

- Over-estimated boomer effect
- Under-estimated subprime; int. only impact
- Consumers more irrational than thought
- Trusted regulators to regulate
- Trusted rating agencies to rate
- Trusted Wall St investors to be risk averse
- Irresponsible lending practices
- Builders speculated
- Investors speculated
- RE agents were cheerleading home sales

Housing Markets Have Cleansed

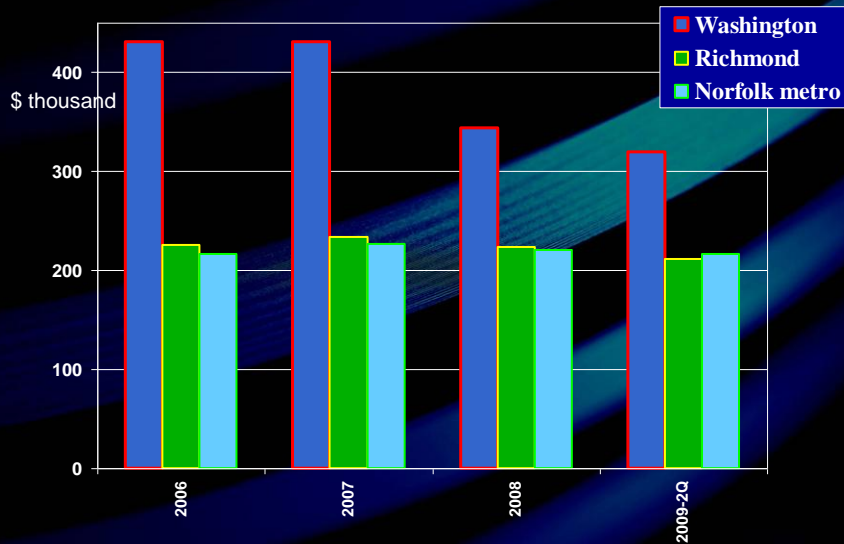
- Resort buyers exiting
- Investors exiting
- Subprime borrowers exiting
- Alt A borrowers exiting

Virginia

Foreclosure Homes	30,403
Avg Foreclosure Sales Price	\$241,951
Median Home Price	\$253,440
% Change yr/yr	-11.14%
Existing Home Sales (2Q 09)	110,400
% Change yr/yr	-1.4%
Unemployment Rate (8-09)	6.5%
Rank in Nation:	
Foreclosures Started	19

Source: Realtytrac; NAR; BLS

Local Metro Home Price Trends



Source: NAR

Metro Prices Second Quarter 2009

	<u>Median Price 2Q09</u>	<u>Yr/Yr % chg</u>	<u>Median Price 06</u>
Richmond	\$211,200	-11.7%	\$225,500
Norfolk Metro	\$216,000	-4.0%	\$216,,000
DC/VA/MD Metro	\$319,200	-14.0%	\$431,000
Las Vegas	\$141,800	-39.7%	\$317,400
Miami	\$207,400	-33.1%	\$371,200
Phoenix	\$131,100	-36.1%	\$268,200

Cities with Largest Home Price Drops

	<u>Avg Price</u>	<u>Q/Q % chg</u>
Clifton	\$445,304	-27.01
Bealeton	\$186,959	-13.44
Chantilly	\$366,309	-11.35
Newport News	\$172,108	-9.14
King George	\$218,611	-8.82
Midlothian	\$281,561	-8.18
Reston	\$386,857	-6.96
Williamsburg	\$302,012	-6.42
Bristow	\$295,185	-5.11
Norfolk	\$191,060	-4.50

Source: Cyberhomes; Oct 2009

Cities with Largest Home Price Gains

	<u>Avg Price</u>	<u>Q/Q % chg</u>
Portsmouth	\$229,882	43.47
Oakton	\$818,000	32.17
Front Royal	\$195,371	23.58
Leesburg	\$427,063	23.21
Yorktown	\$393,574	20.96
Toano	\$303,541	14.95
Warrenton	\$350,931	14.43
Fredericksburg	\$250,413	13.86
Suffolk	\$278,070	11.92
Alexandria	\$429,553	11.83

Source: Cyberhomes; Oct 2009

Richmond and Va. Beach

	<u>Richmond</u>	<u>Va. Beach</u>
Median Price	\$218,000	\$242,000
Prices Peaked	2008: Q1	2007: Q4
2000 to peak	87.5%	123.7%
Peak thru 2008	-3.3%	-7.0%
Forecast:		
Peak to Bottom	-10%	-26.8%
Hit Bottom	2010:Q3	2011:Q1

Source: Moody's Economy.com; Fiserv

Foreclosure Activity 9-09

<u>Area</u>	<u>Foreclosures Started</u>
Fairfax	1,204
Prince William	873
Loudoun	521
Va Beach City	285
Chesterfield	211
Spotsylvania	207
Richmond City	193
Henrico	186
Stafford	164
Chesapeake City	164

Source: Realtytrac

Outlook

Modest Improvement Since January Bottom

	<u>Aug 09</u>	<u>Jan 09</u>
EHS	5,100,000	4,490,000
MS	8.5	9.7
NHS	429,000	329,000
MS	7.3	12.4
Starts	598,000	488,000

Leading Indicators

• Pending Home Sales	Aug +6.4%	Jul +3.2	+ months 7
• Purchase Apps	Oct 2 306.1	Sep 25 270.4	6 wk avg 286.6
• Housing Permits	Aug 579	Jul 564	6 mo avg 540
• 30 yr FRM	Oct 8 4.87%	Oct 1 4.94%	4 wks ago 5.07%
• Home Prices (C-S index)	Jul 13.3%	Jun 15.4%	

Housing Industry Forecasts

Housing Industry Averages
(MBA; NAR; NAHB; Fannie; Freddie)

	<u>2008</u>	<u>2009</u>	<u>2010</u>
30 yr	6.0	5.2	5.7
EHS	4.913	4.929	5.403
NHS	485	402	504
Starts	906	577	775
Orig	1620	2219	1731
Prices	-9.5%	-12.2%	0.5%

EHS in millions; NHS; Starts in thousands; Originations in trillions; Home Prices are for existing homes

Historical Prices Declines

	<u>Peak-Trough Decline</u>	<u>Duration</u>	<u>Time back to orig peak</u>
Boston	25%	5 years	9 years
New York	10%	7 years	11 years
Los Angeles	21.4%	7 years	9 years
San Fran	3.8%	4 years	7 years
Houston	23.1%	5 years	9 years
Honolulu	24%	9 years	13 years

Regulatory/Legislative

- Fannie/Freddie
 - Raised loan limits
 - Relaxed portfolio limitations
 - New regulator
- FHA Revitalization
 - Insure \$150B/yr in refinance retention mortgages
 - Raised loan limits
- Fed accommodative monetary policy
- New era of underwriting
- Stimulus package
- Foreclosure mitigation programs

Risks/Uncertainty

- **Govt pull back of subsidies (tax credit; Fed purchase program)**
- **Weak economic recovery**
- **Continued job losses**
- **Mounting foreclosures due to rate resets on option ARM; interest only**
- **Further home price declines**
- **Widening budget deficit**
- **Regulation/legislation effectiveness**
- **Extended crisis/liquidity problems**
- **Oil/war**
- **Foreign capital flows**