

The State of the Nation's Housing 2007: A Sneak Peek

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Remodeling Futures Conference
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The Homebuilding Correction

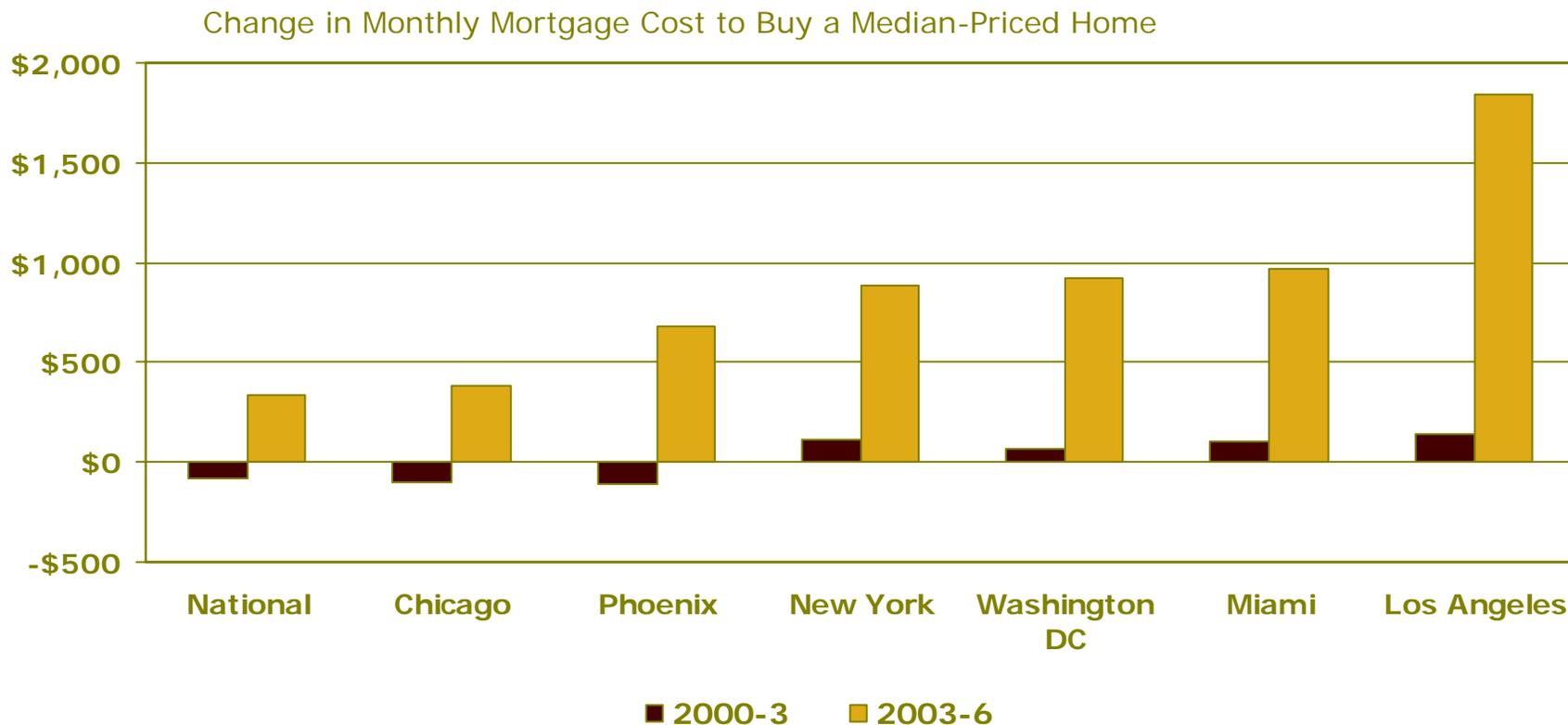


Different day – same story

- 2001-2003 low interest rates and tight inventories spark unprecedented price appreciation
- 2004-2005 markets overheat, demand inflates (speculation, pulled forward demand) and builders meet demand
- 2006 markets do about face—affordability too eroded, creative finance runs out of steam, sales fall, prices soften, demand softens more as it deflates
- Builders try to pull out of nose dive but too late – inventories balloon and month's supply increases



Affordability Eroded in Both Rapidly and Slowly Appreciating Markets After 2003



Note: Monthly mortgage costs based on 30-year fixed mortgage assuming a 10% down payment.

Source: National Association of Realtors® 2006 Median Existing Single-Family House Price, adjusted by the Freddie Mac Conventional Mortgage Home Price Index and the Bureau of Labor Statistics' CPI-UX for All Items.

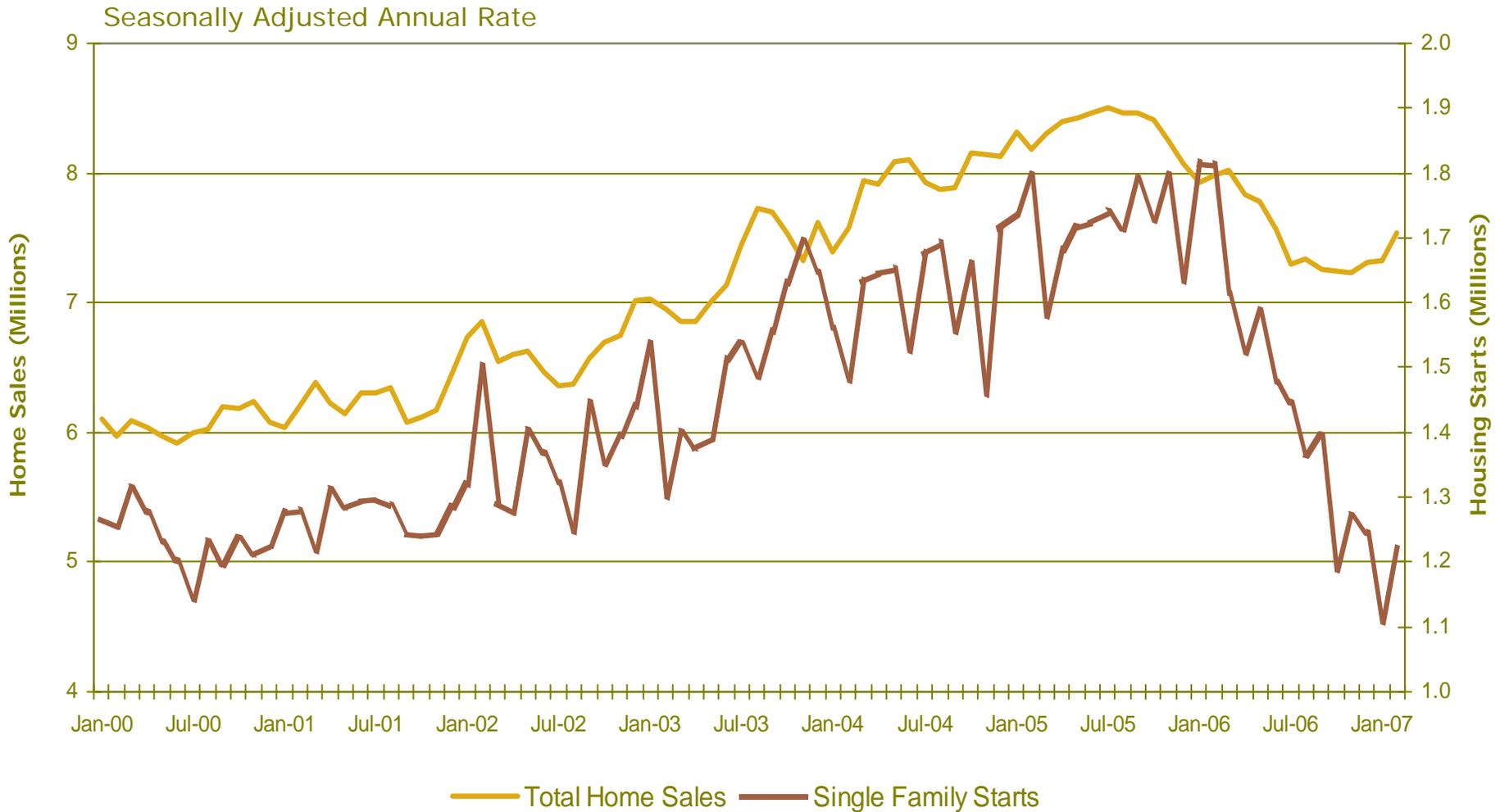


Top Ten Decliners in Number of Investor and Second Home Loans 2005-2006 Est.

	Investor Loans	Second Home	Total
Phoenix-Mesa, AZ	-10,045	-6,929	-16,973
Las Vegas, NV-AZ	-4,278	-4,017	-8,295
Riverside-San Bernardino, CA	-3,944	-2,549	-6,494
Fort Lauderdale, FL	-3,753	-2,083	-5,837
Washington, DC-MD-VA-WV	-5,048	-716	-5,764
Tampa-St. Petersburg-Clearwater, FL	-3,210	-2,099	-5,308
Sarasota-Bradenton, FL	-2,433	-2,396	-4,829
West Palm Beach-Boca Raton, FL	-2,502	-1,857	-4,359
Fort Myers-Cape Coral, FL	-1,441	-2,490	-3,932
Miami, FL	-2,205	-1,616	-3,821

Source: Loan Performance 2005 and 2006 (2006 is Jan-Oct multiplied by 1.2 to estimate full year)

While Starts Fell Faster than Sales...



Source: US Census Bureau and the National Association of Realtors®.

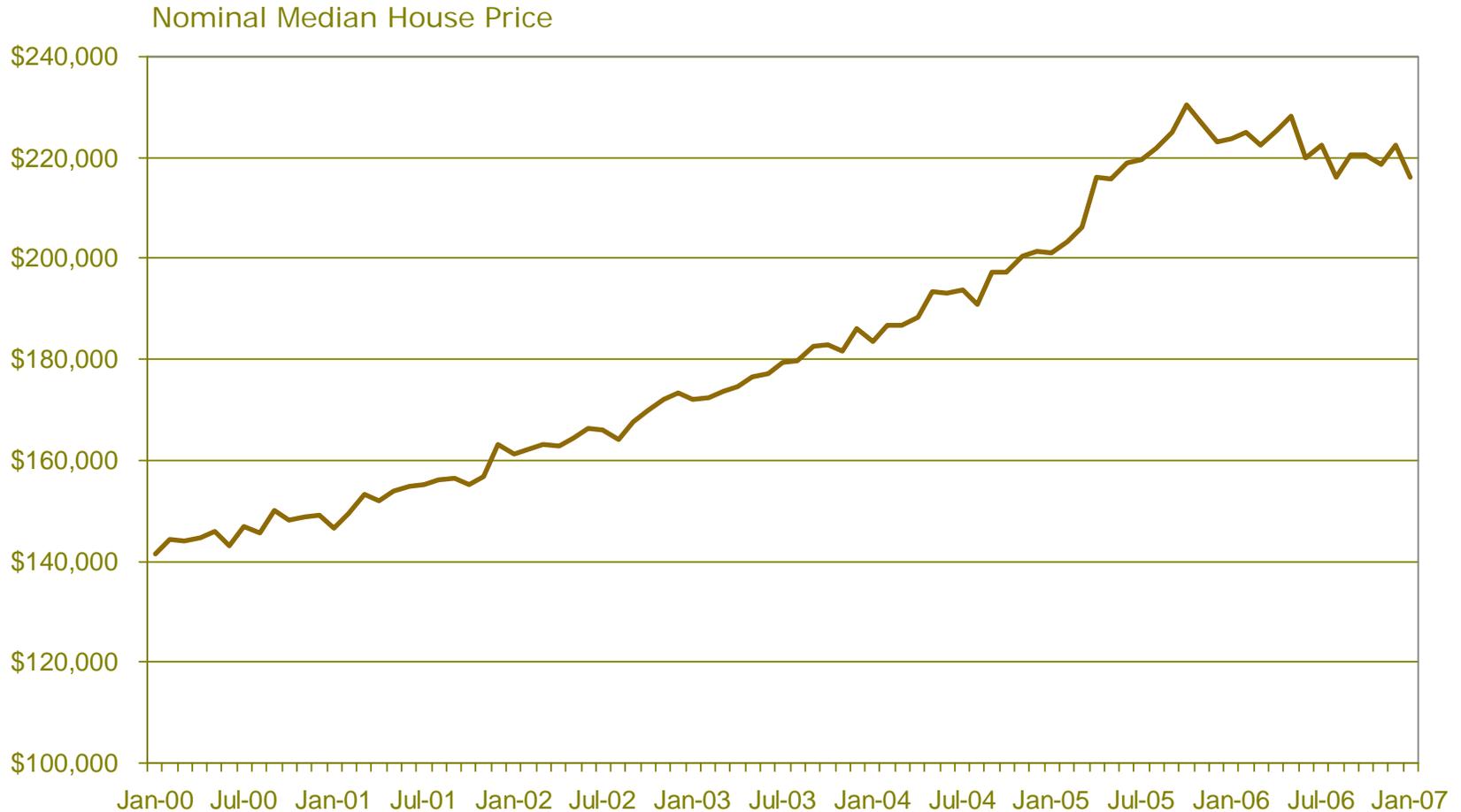
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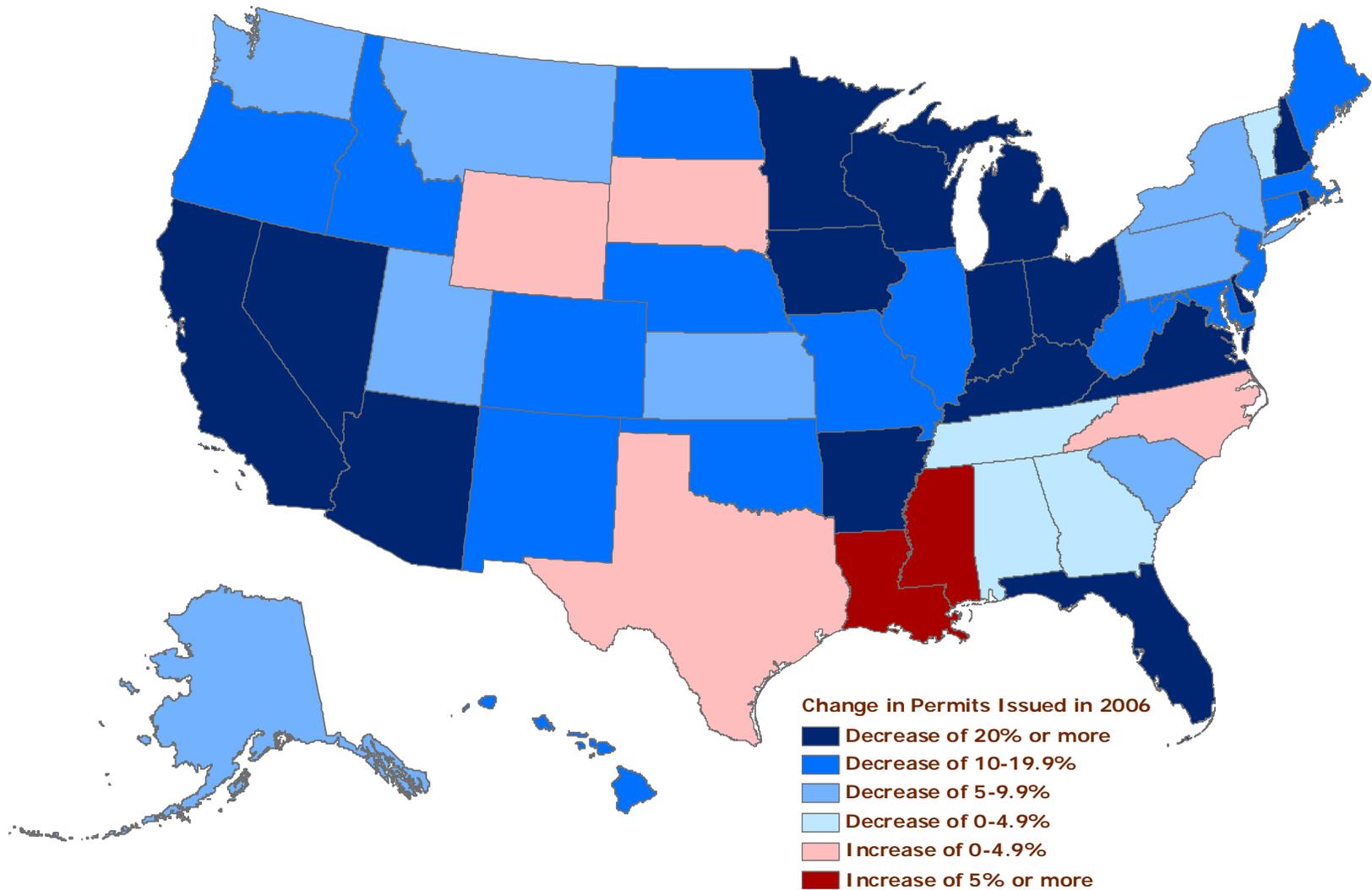
House Prices Have Only Begun to Correct



Source: National Association of Realtors®.



In Many States, Permits Declined More Than 20 Percent in 2006



Source: JCHS tabulations of the US Census Bureau Survey of Construction.

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And Production is Being Taken Down Even Faster Now

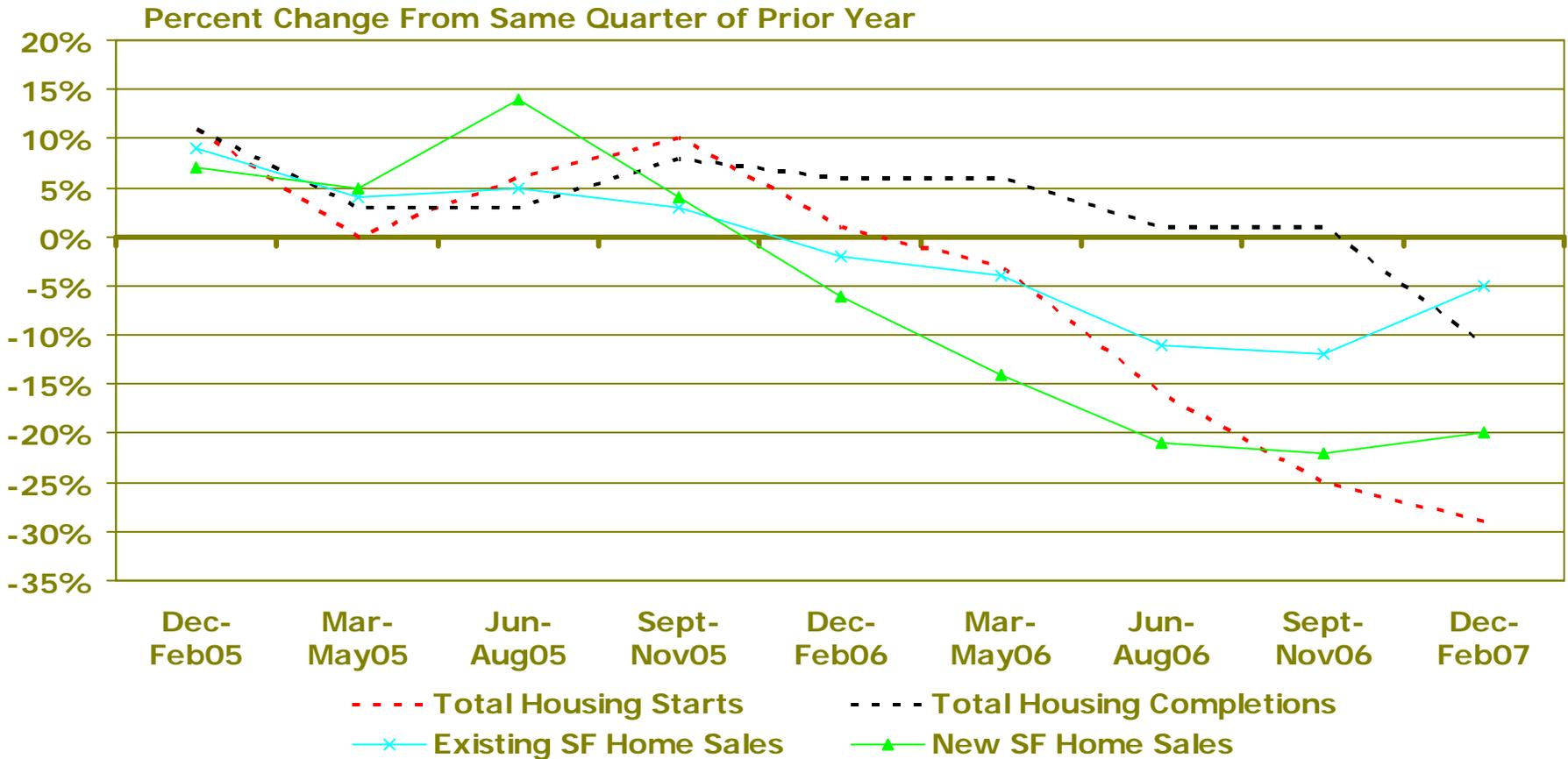
	2005 vs. 2006	Latest Qtr - (Dec-Jan-Feb)
Arizona	-27.7	-30
California	-22.0	-30
Colorado	-13.1	-29
Florida	-26.1	-52
Illinois	-12.9	-30
Nevada	-23.3	-44
North Carolina	+2.6	-6
Texas	+3.0	-16
Virginia	-22.1	-35
US Total	-14.2	-25

Source: US Census C-404 Total Monthly Permits (NSA)
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With Completions Slower to Respond Than Sales and Starts . . .

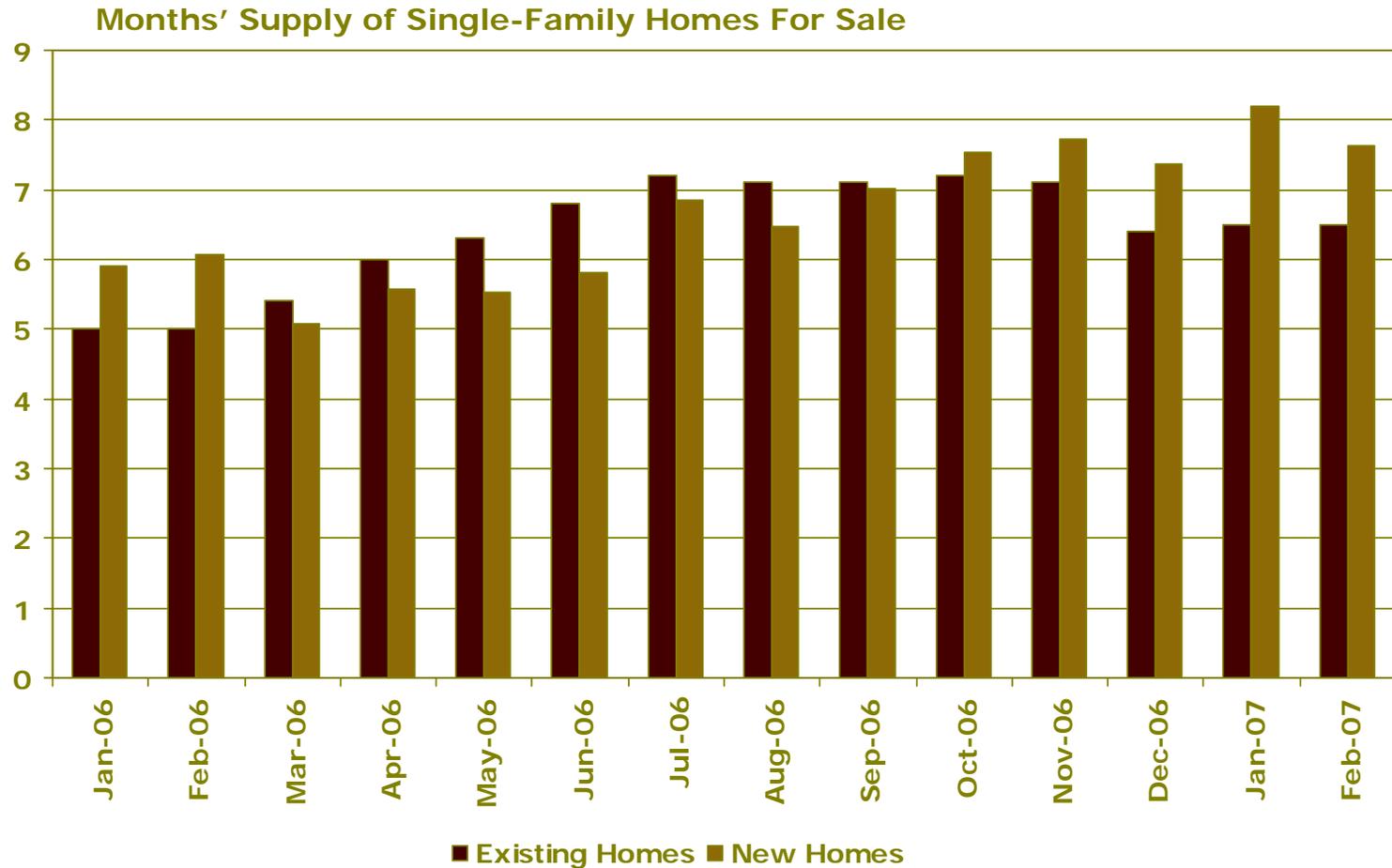


Note: Home sales include total existing home sales plus new single family home sales.

Sources: US Census Bureau, New Residential Construction and Economy.com.



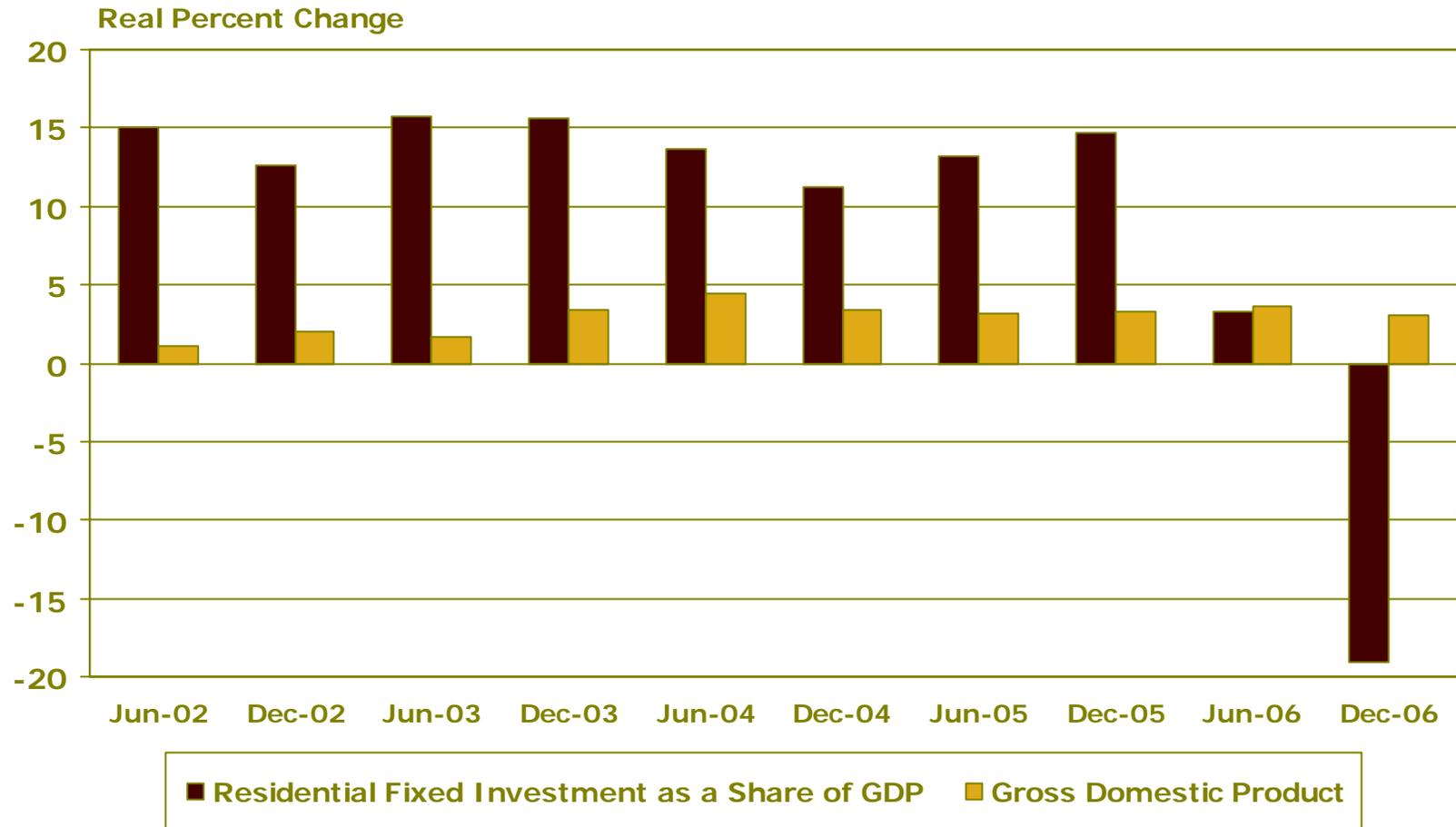
...Unsold Inventory Rose Significantly



Source: US Census Bureau and the National Association of Realtors®.



After Contributing Significantly to the Economy, Housing Investment Became a Drag on Growth in 2006

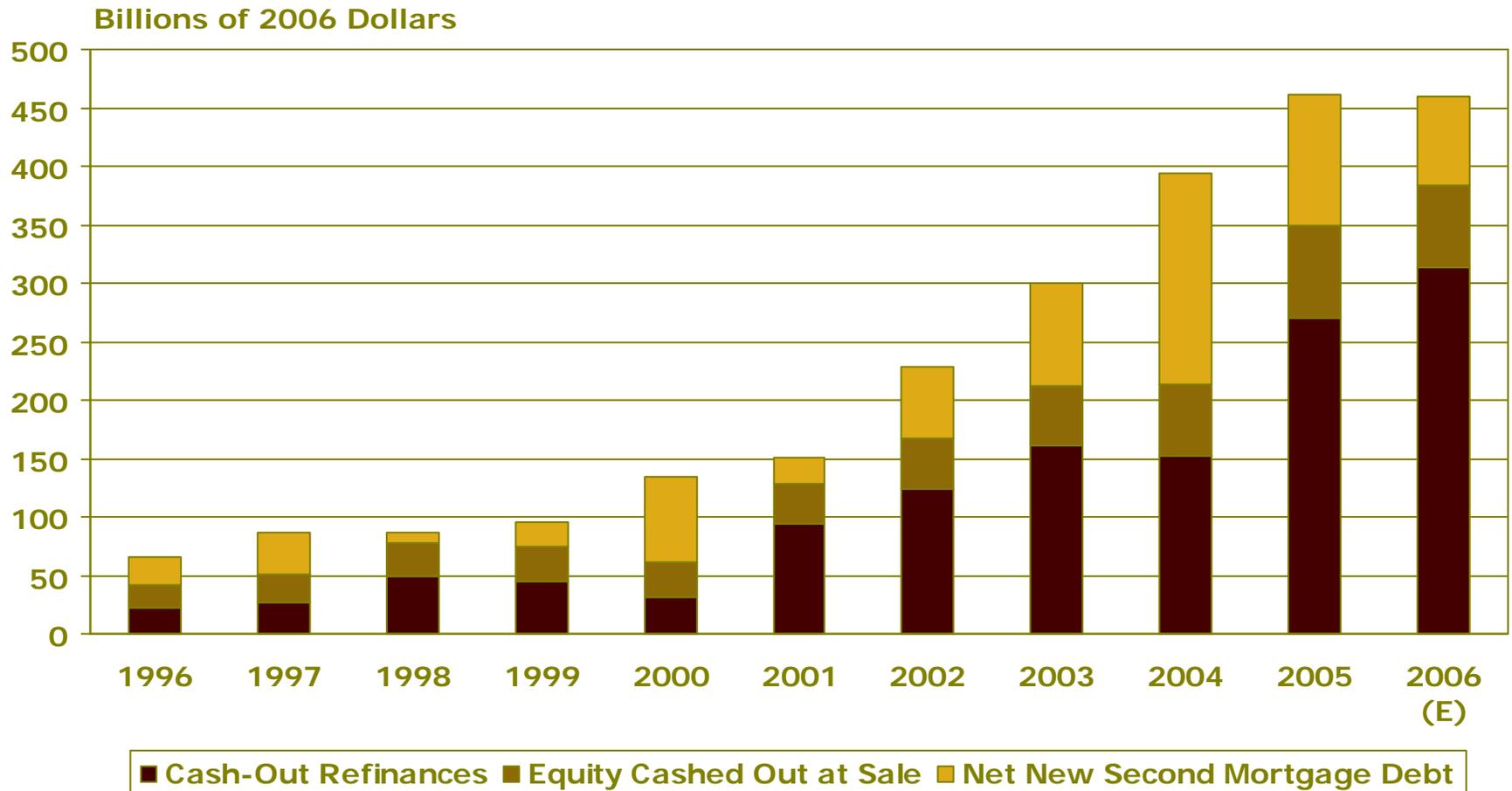


Note: Periods are half years and changes are compared to same six-month period in prior year.

Sources: Bureau of Economic Analysis, National Income and Product Accounts, Table 1.1.6, and US Census Bureau.



Despite the Housing Downturn, Home Equity Cashed Out Remained at Peak Levels

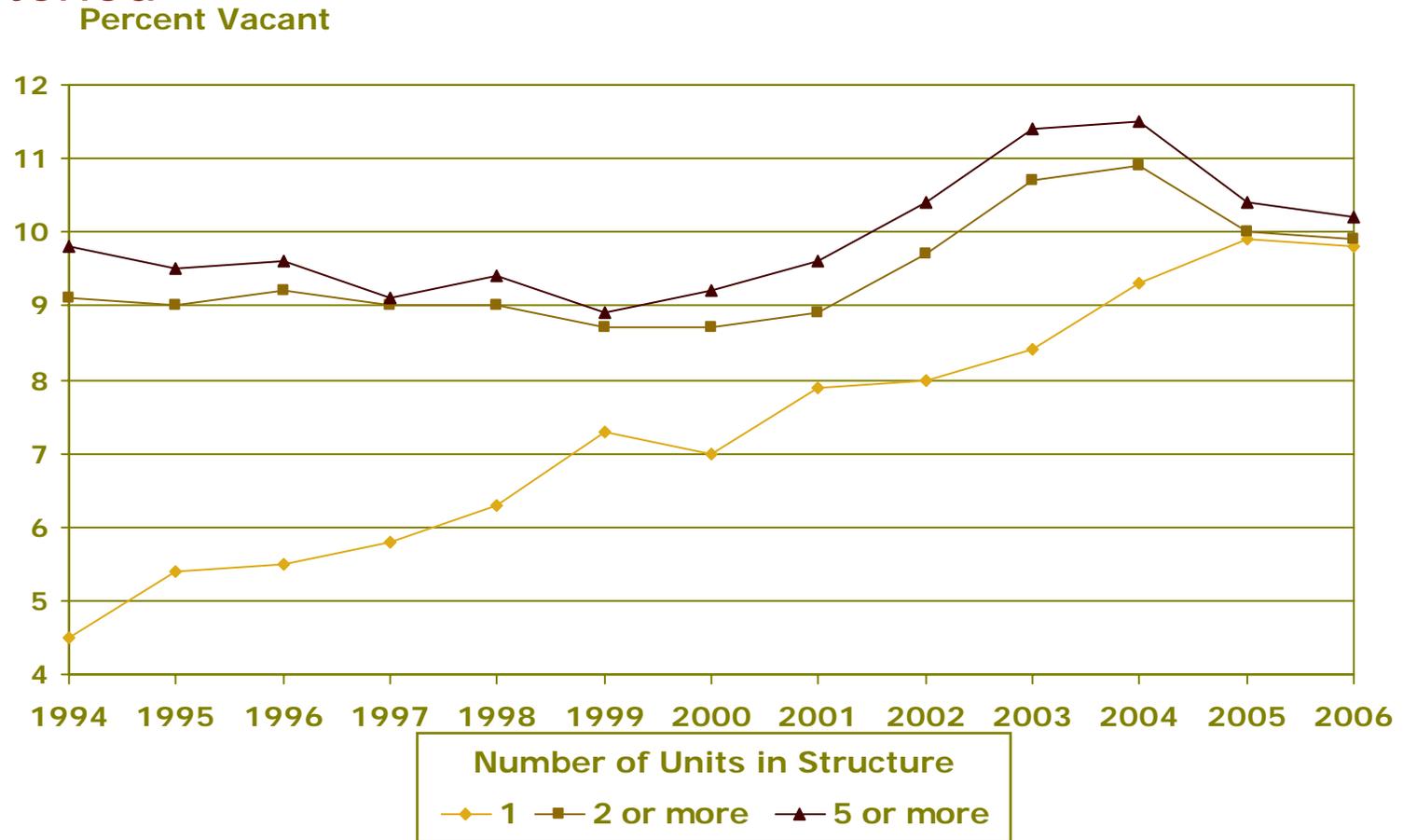


Sources: National Association of Realtors®, Freddie Mac and Federal Reserve Board.

Note: Adjusted for inflation by the Bureau of Labor Statistics' CPI-UX for All Items.



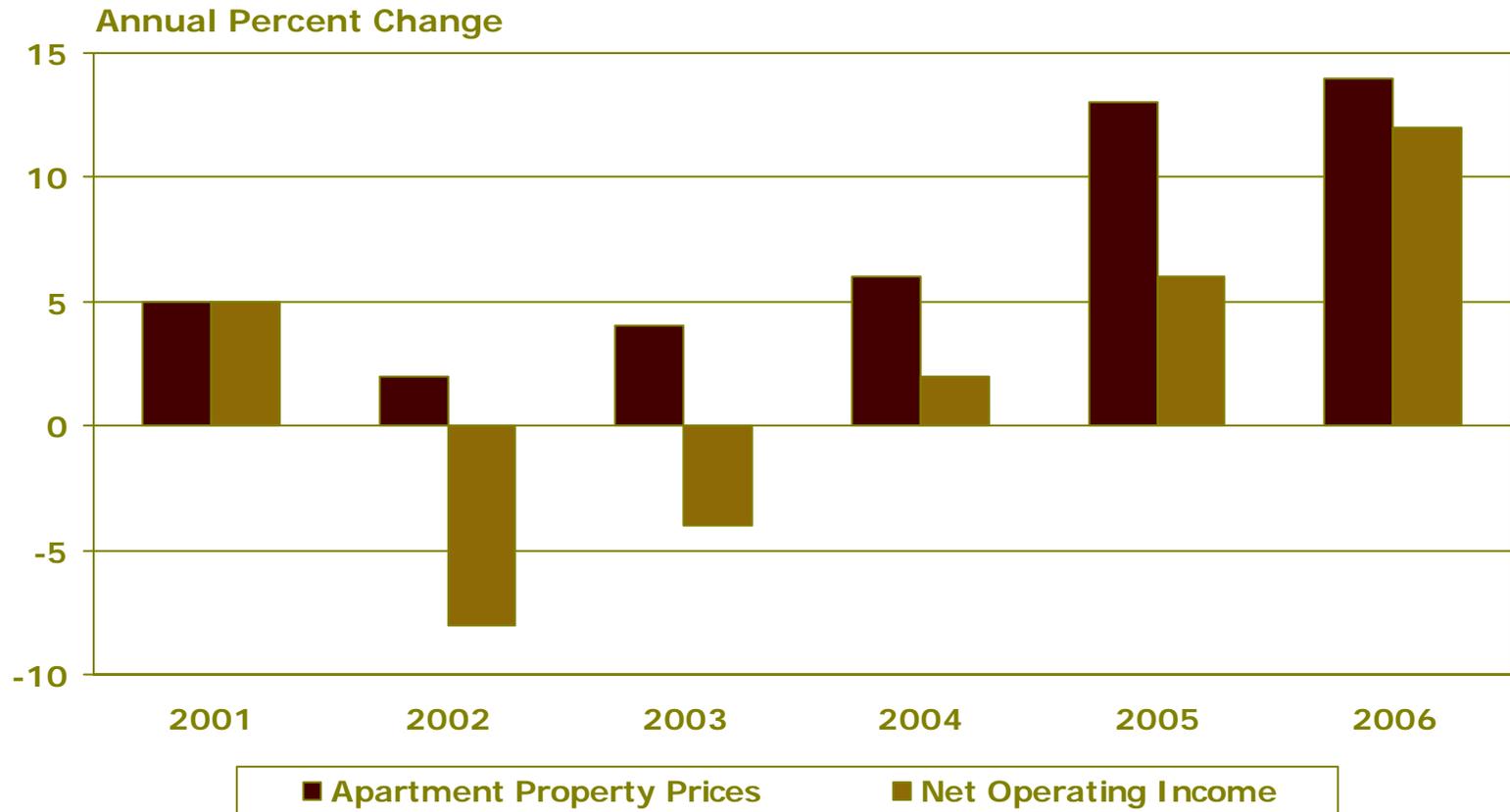
And After Years of Climbing, the Single-Family Vacancy Rate Has Levelled Off and Multifamily Markets Have Tightened



Source: US Census Bureau, Housing Vacancy Survey.



Apartment Revenues Once Again Are Rising in Line with Values



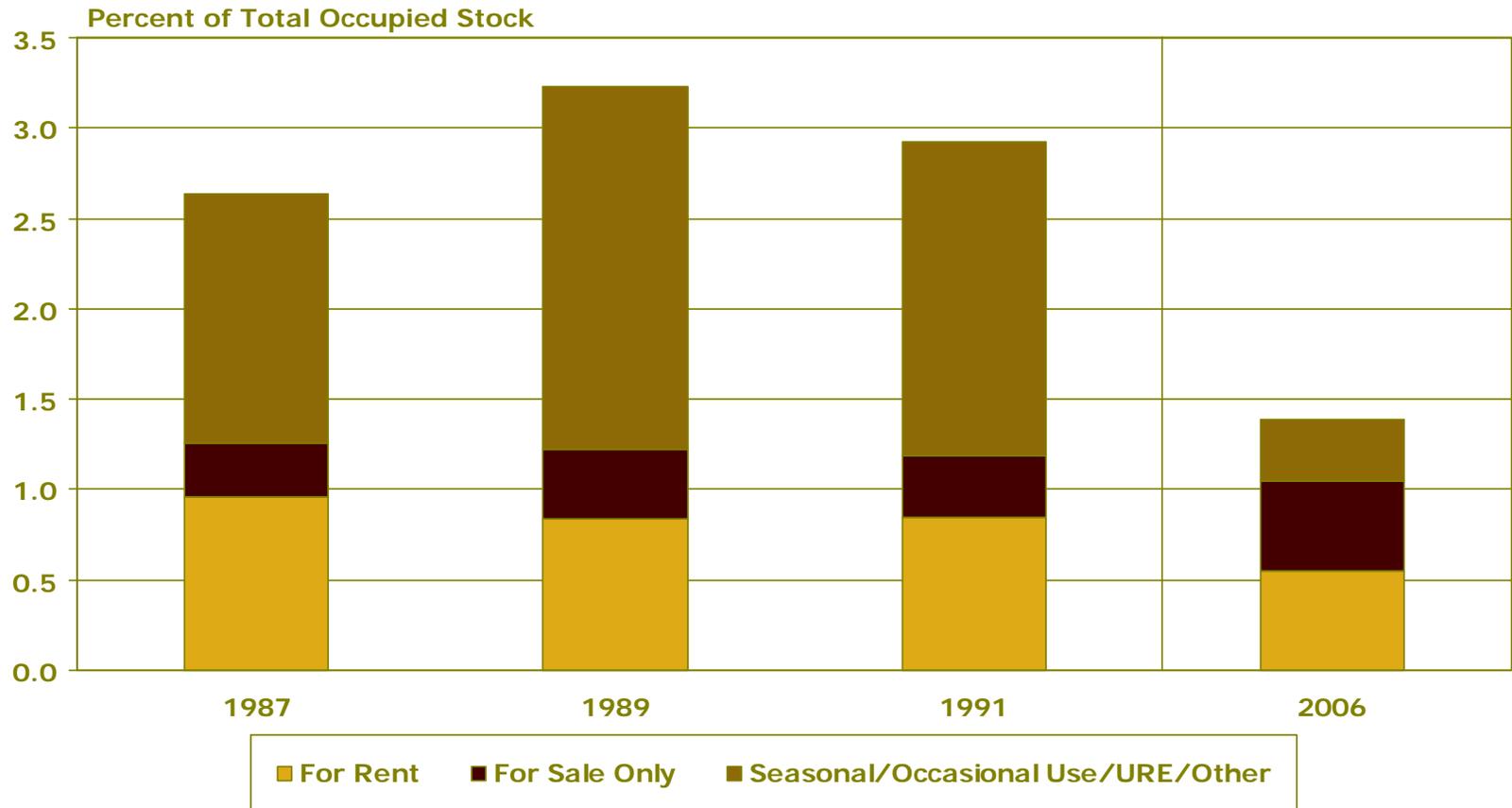
Source: National Council of Real Estate Investment Fiduciaries.



The Home Building Outlook



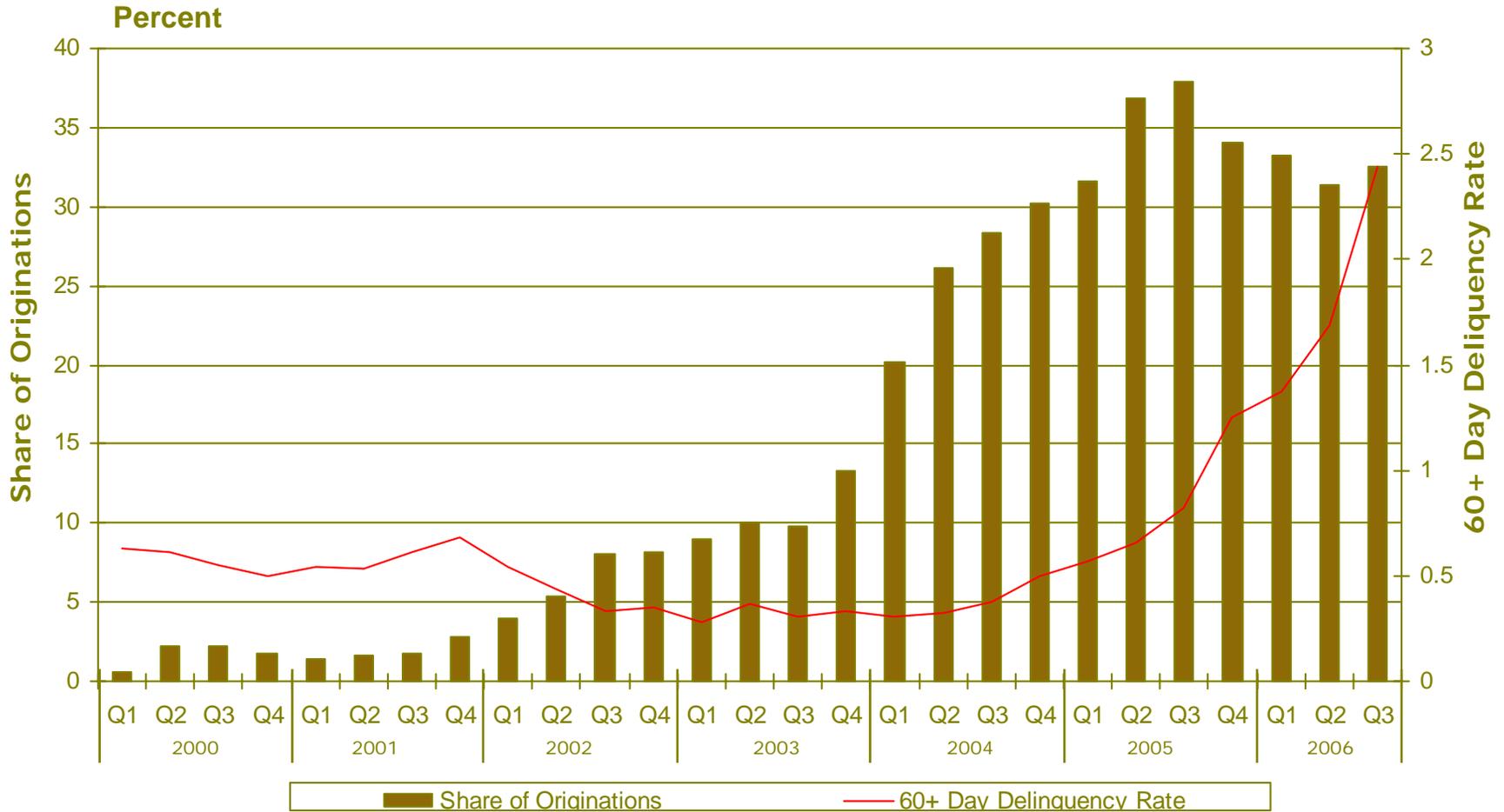
The Recent Run-up in Vacancies is More Modest than at the Beginning of the 1987-91 Downturn, But May Continue



Source: US Census Bureau, Housing Vacancy Survey.



As Affordability Mortgage Products Gained in Popularity, Their Delinquency Rate Rose Sharply

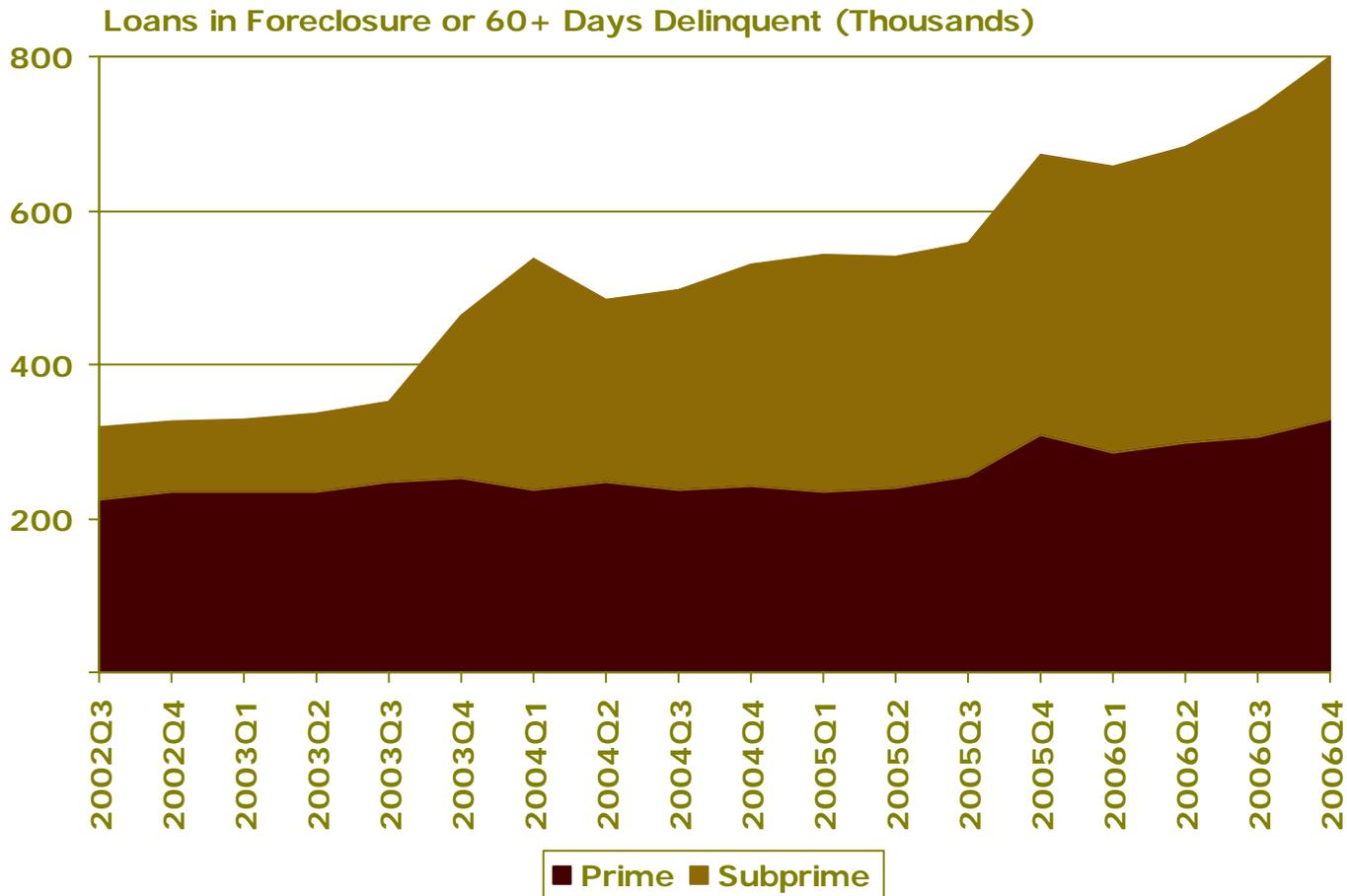


Source: First American LoanPerformance.

Note: Affordability products include interest-only and negative-amortization loans.



While Troubled Prime Loans are Holding Steady, Troubled Subprime Loans are Increasing



Source: Mortgage Bankers Association, National Delinquency Survey.

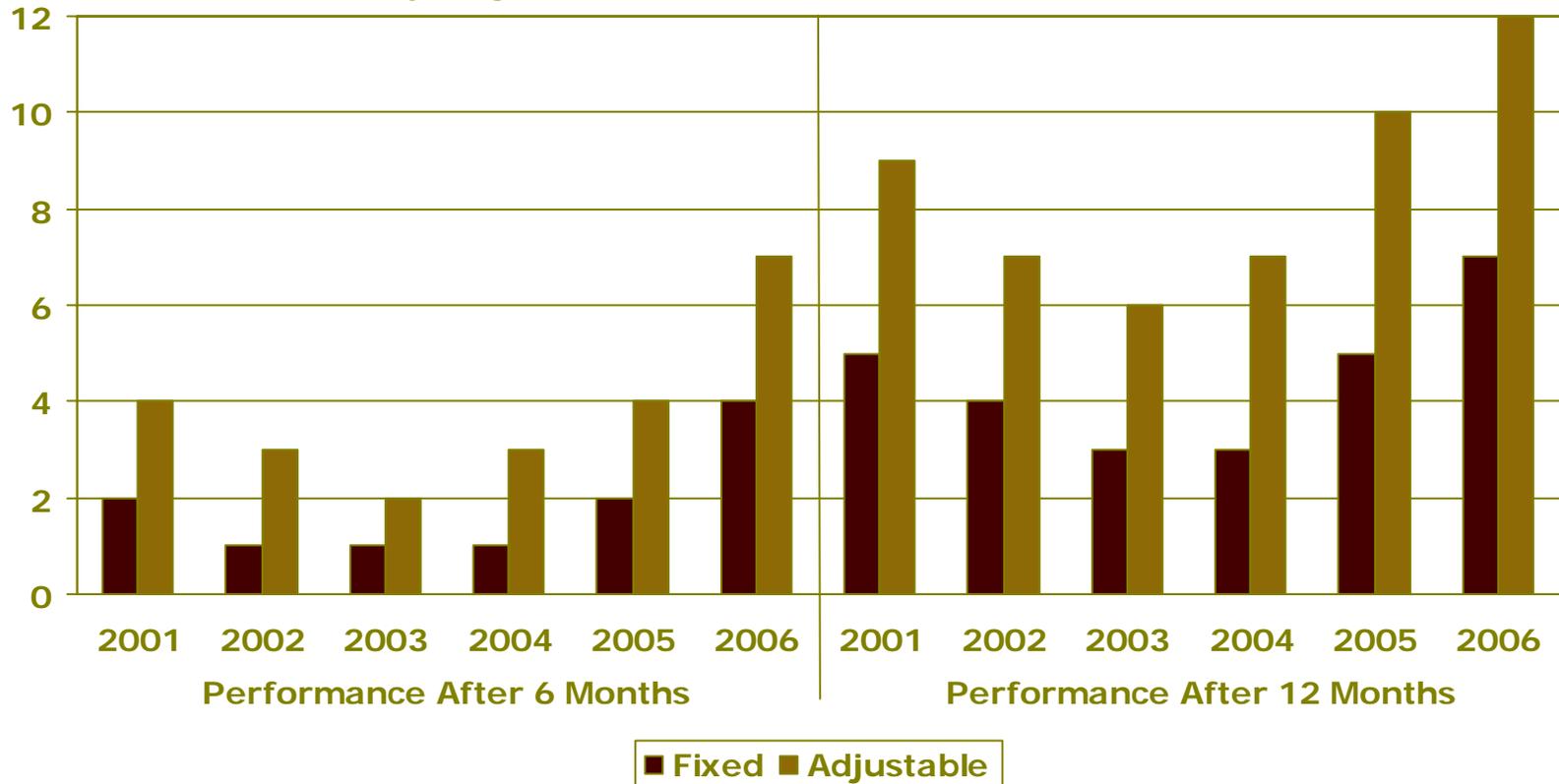
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Subprime Loans Originated in 2006 Are Off to a Very Poor Start

Share of Subprime Loans 60+ Days Delinquent or in Foreclosure by Origination Year



Source: First American LoanPerformance.



Short-Term Outlook

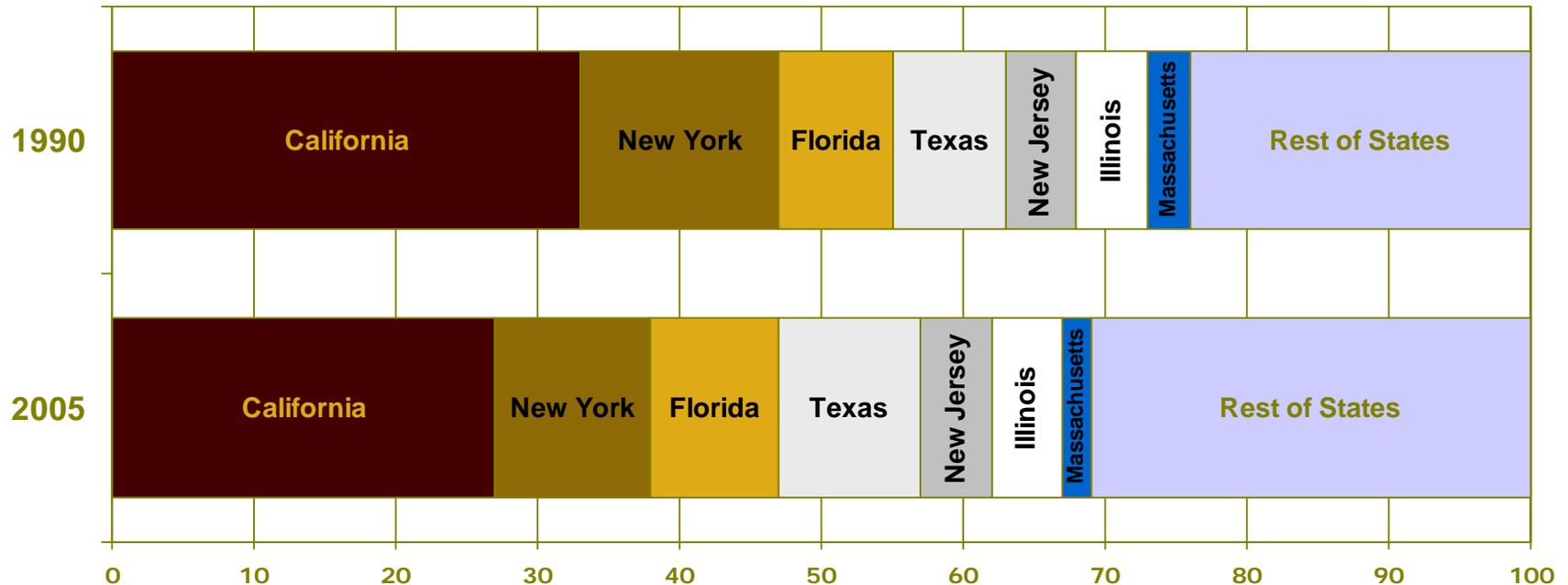
- Even if stabilize at avg. Dec-Feb run rates, total starts will be 15 percent below 2006 (1.51 mil), single-family starts 19 percent (1.20 mil), new homes sales 12 percent (925K), and existing home sales -0.2 percent (6.5 mil)
- Risks weighted to further slowing from tightening credit standards and large overhang still not worked off
- Total production would need to fall to 1.65 million and starts to 1.55 million if overbuilding is about 500,000
- Phoenix, Las Vegas, DC and Florida are bellweathers
- Dallas, Denver, and Atlanta subprime lending canaries
- California and Florida are “affordability product” canaries
- What carnage Detroit and Ohio?
- Beware a recession down the road

Demographic Drivers



Immigrants Are Moving Out Beyond Traditional Destinations

Distribution of Immigrant Population (%)

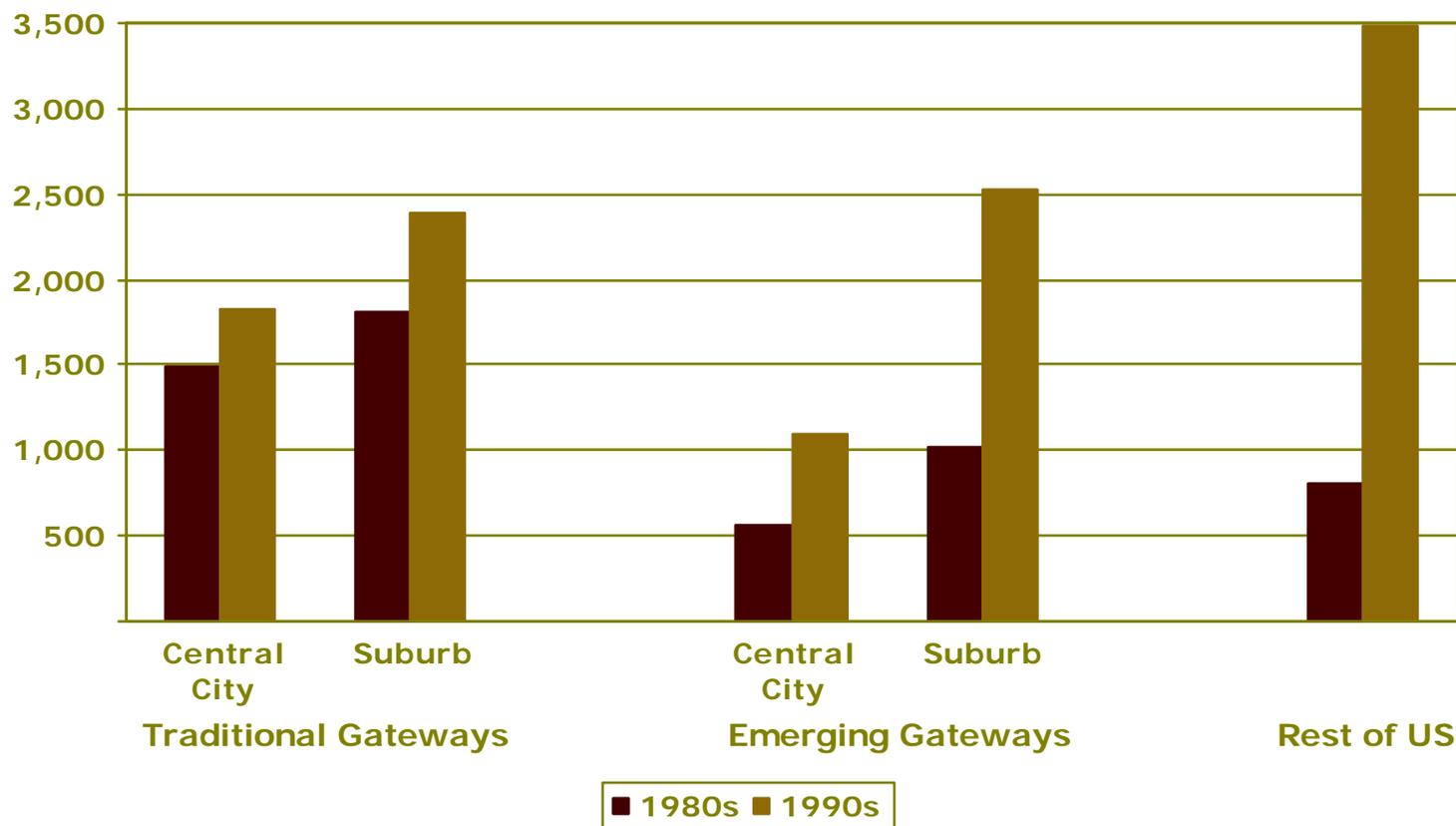


Sources: JCHS tabulations of the 1990 Decennial Census and 2005 American Community Survey.



Foreign-Born Population Growth Has Shifted Towards the Suburbs and Away from Traditional Gateways

Change in Foreign-Born Population (000s)

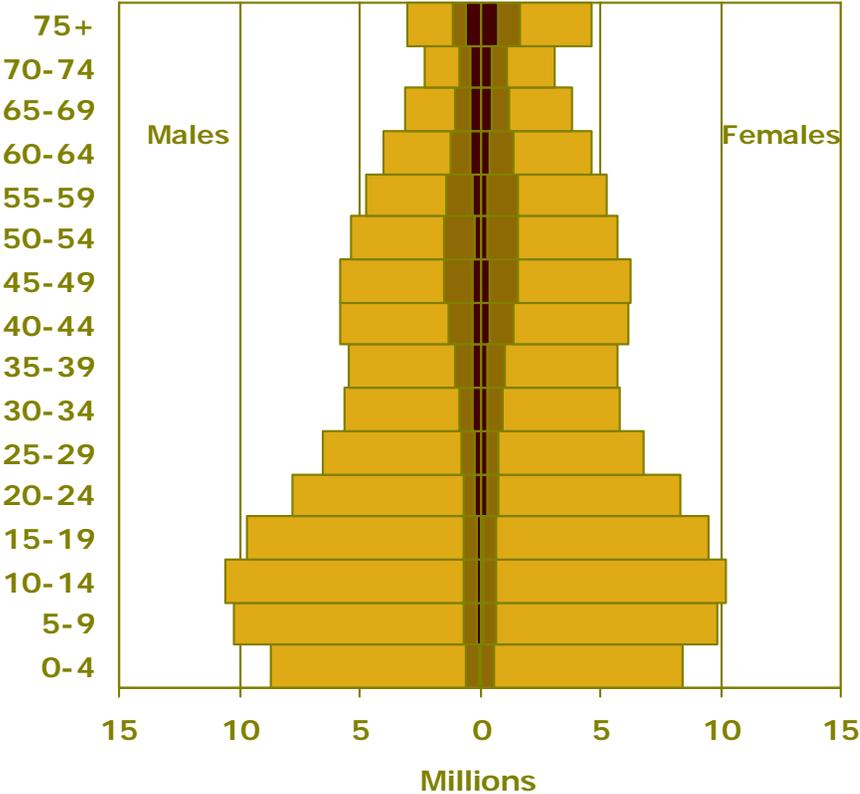


Source: Audrey Singer, "The Rise of New Immigrant Gateways," The Brookings Institution, Center on Urban and Metropolitan Policy, February 2004, Appendix A and Appendix B. http://www.brookings.edu/urban/publications/20040301_gateways.htm.

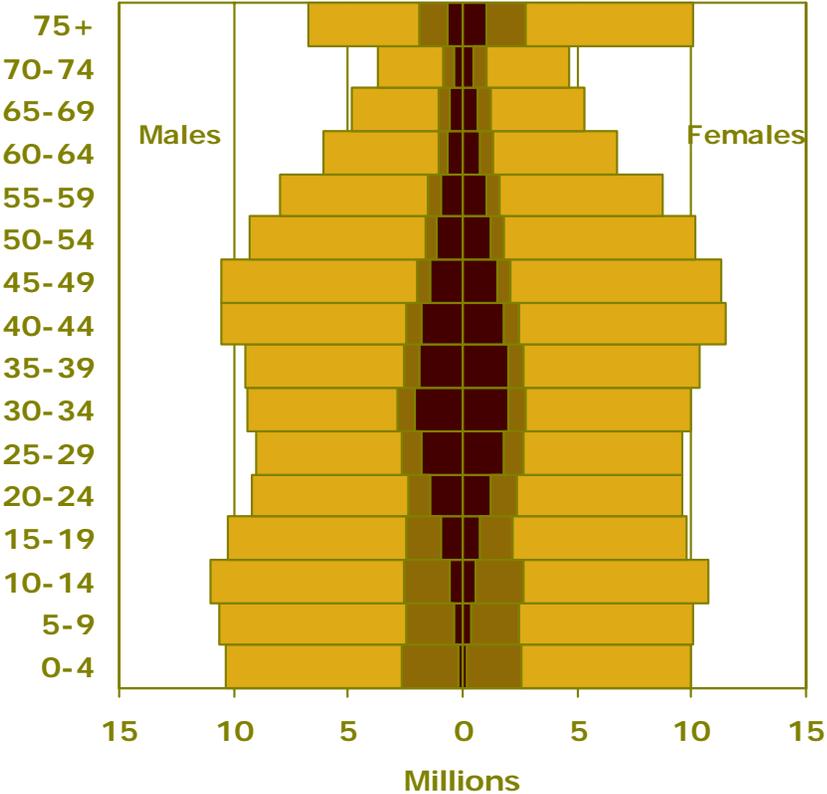


Immigrants and Their Children Are Adding Dramatically to Housing Demand

1970



2005



■ Foreign-Born ■ Second Generation ■ All Others

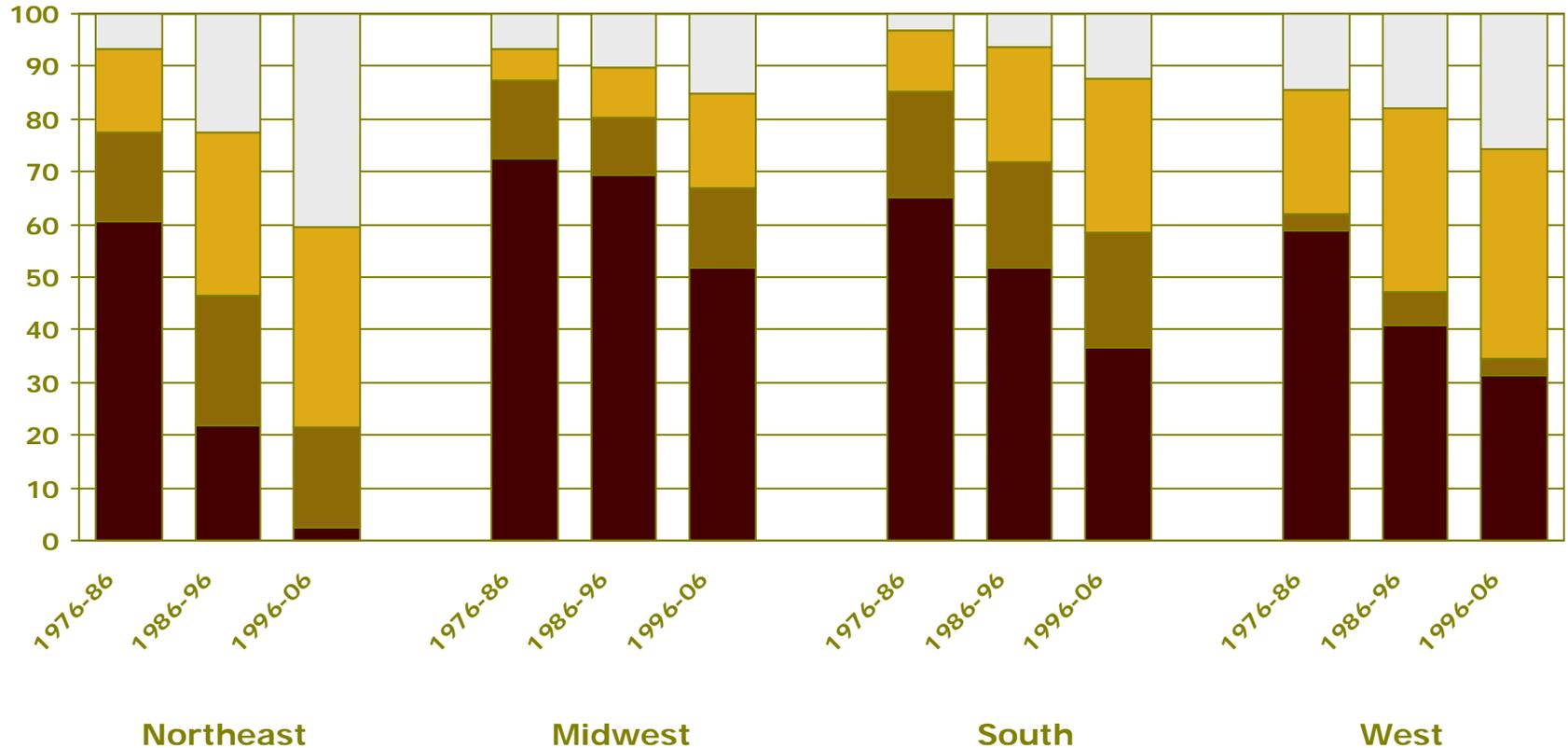
Source: JCHS tabulations of the 1970 and 2005 Current Population Surveys.

Note: Second generation refers to native-born children of immigrants.



Minorities Have Come to Dominate Household Growth

Share of Household Growth (%)



■ White ■ Black ■ Hispanic □ Asian/Others

Note: Whites, Blacks, and Asian/Others are non-Hispanic. Hispanics may be of any race. Asian/Others includes Aleuts, Native Americans and Pacific Islanders.

Source: JCHS tabulations of the 1976, 1986 and 1996 Current Population Surveys.

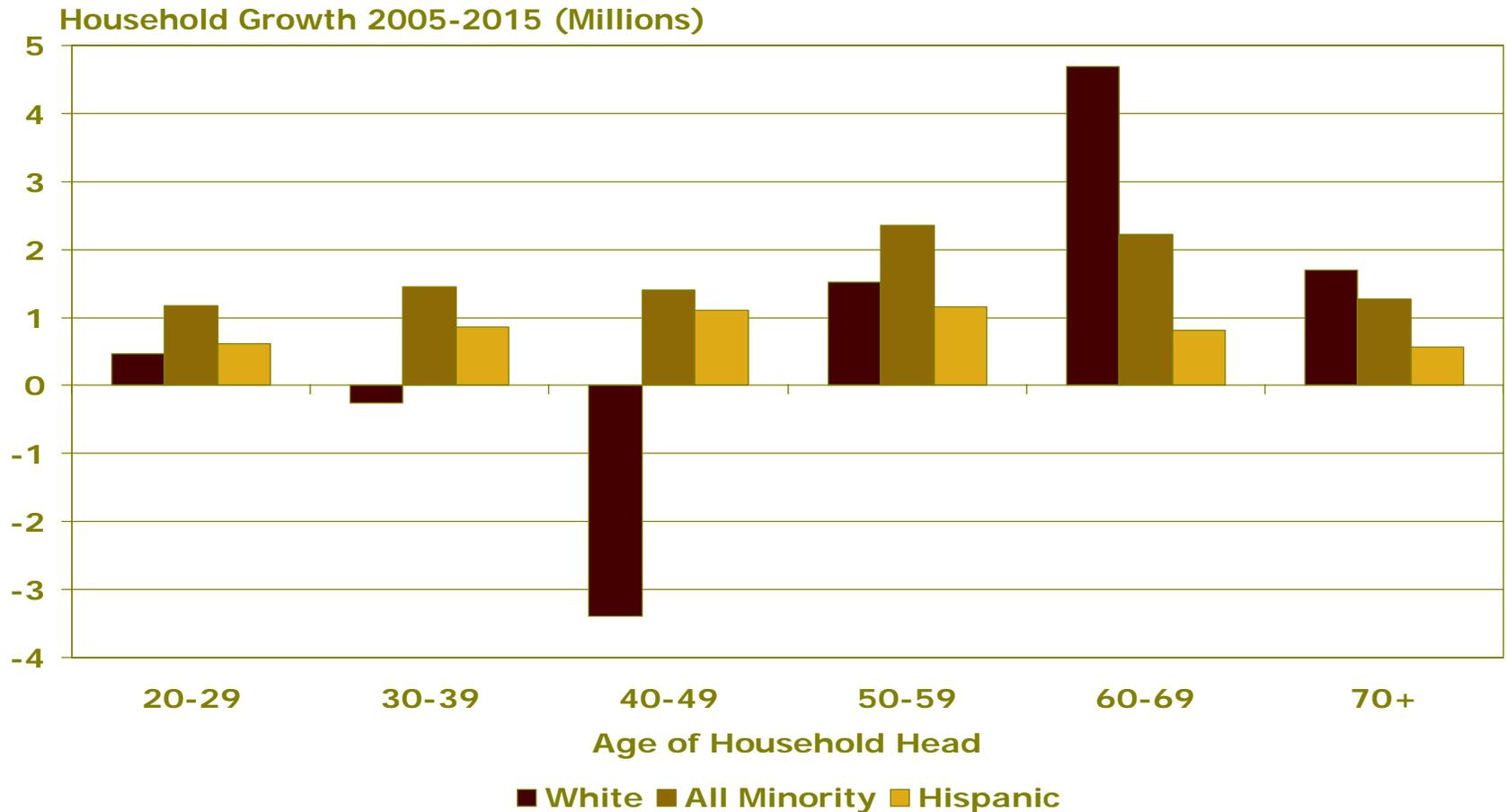
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Minorities Will Contribute Importantly to Household Growth Across Age Groups



Note: Minority householders are all non-White householders, including Hispanics.

Source: George S. Masnick and Eric S. Belsky, Addendum to Research Note N06-1: Hispanic Household Projections Including Additional Tenure Projection Detail by Age and Broad Family Type for Non-Hispanic White and Total Minority Households, JCHS Research Note N06-4, December 2006.

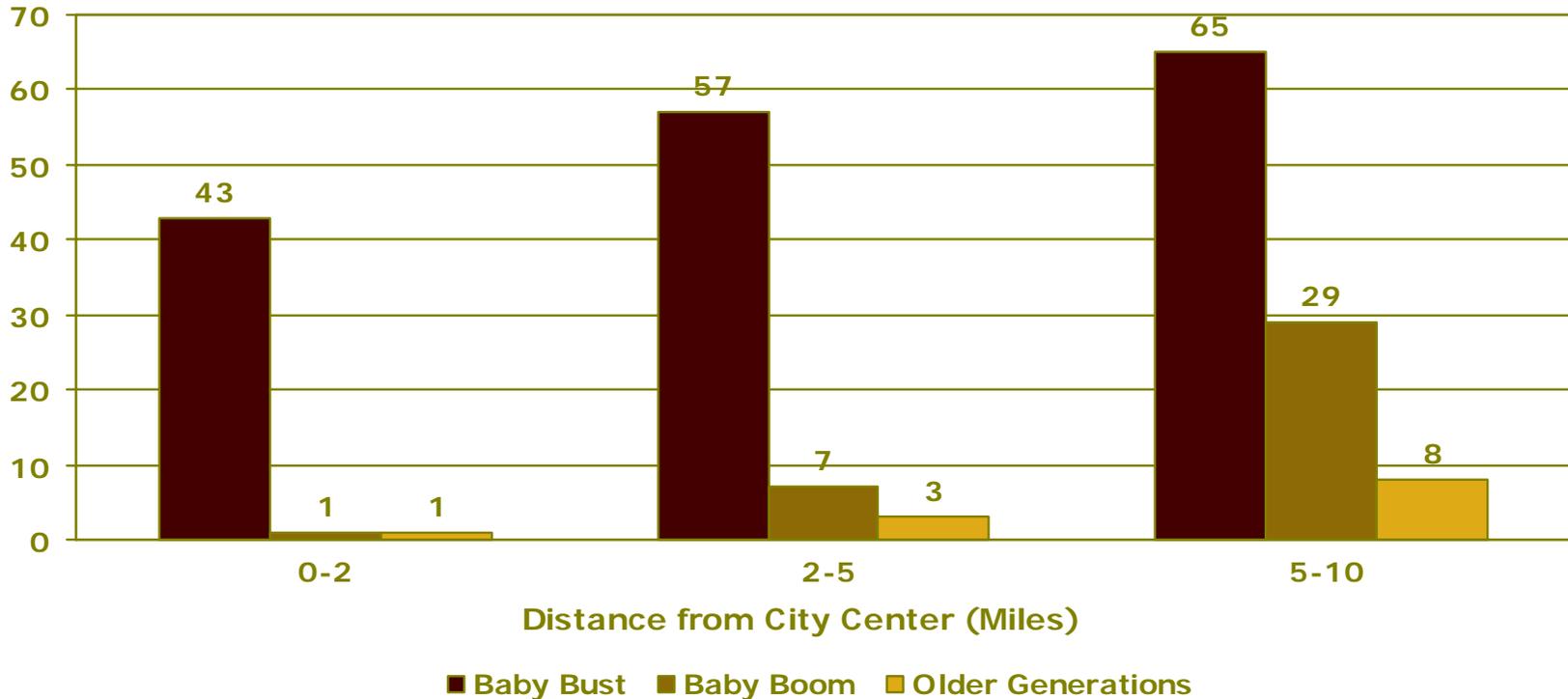
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The Baby Bust Generation Is Leading Urban Revitalization in Large Metros

Number of Metros with Generational Growth, 1990-2000

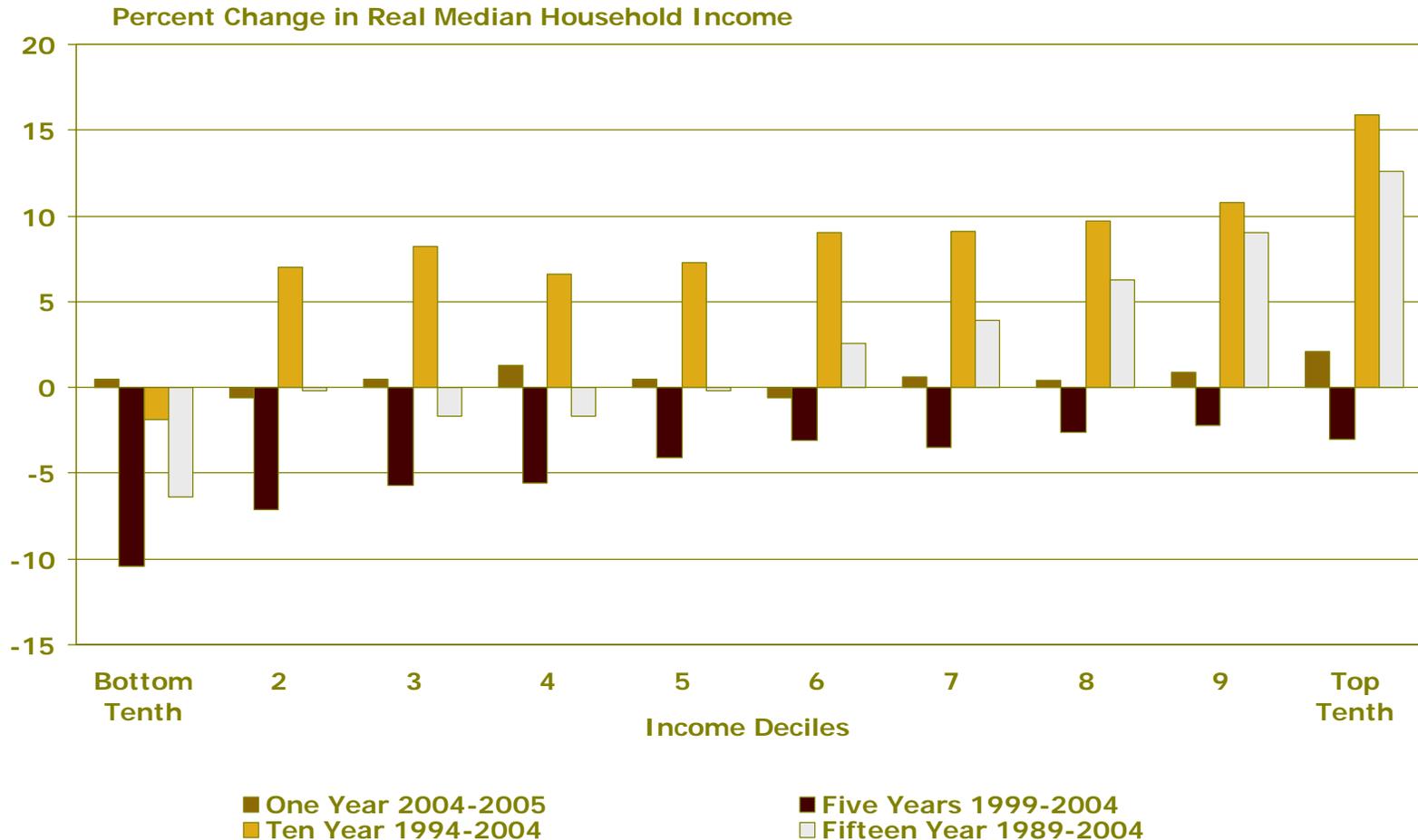


Notes: The Baby Bust generation was age 15-24 in 1990 and age 25-34 in 2000; The Baby Boom generation was age 25-44 in 1990 and age 35-54 in 2000; Older generations were age 45-64 in 1990 and 55-74 in 2000. Metros are the 100 largest metro areas by population in 2000, with aggregation of adjacent metros in the New York, Los Angeles and San Francisco areas, resulting in 91 large metro regions of at least 500,000 people. Distance calculated from central business district in the primary city of each metro region.

Source: JCHS tabulations of 1990 and 2000 Decennial Census Microdata.



Recent Income Losses Have Not Been Enough to Wipe Out Gains from the Late 1990s

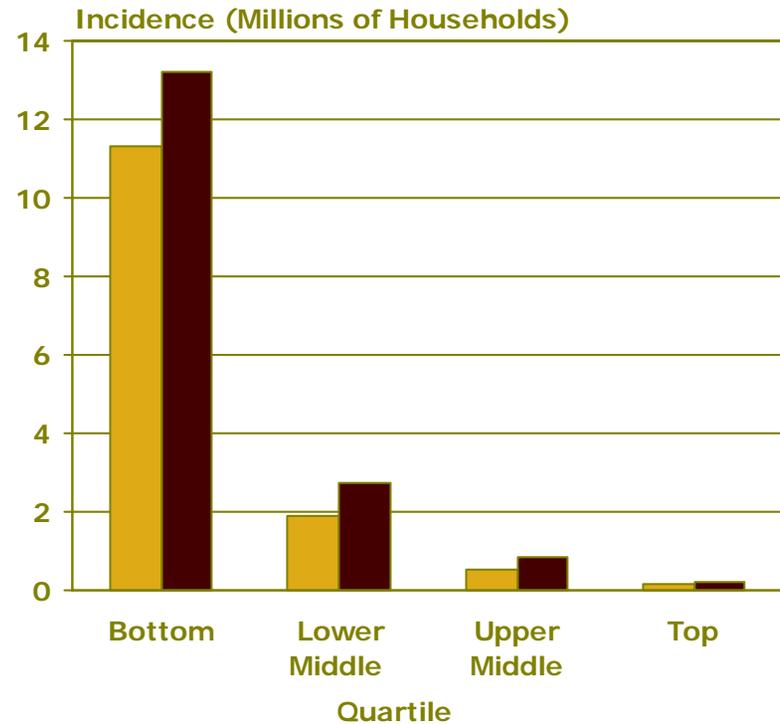
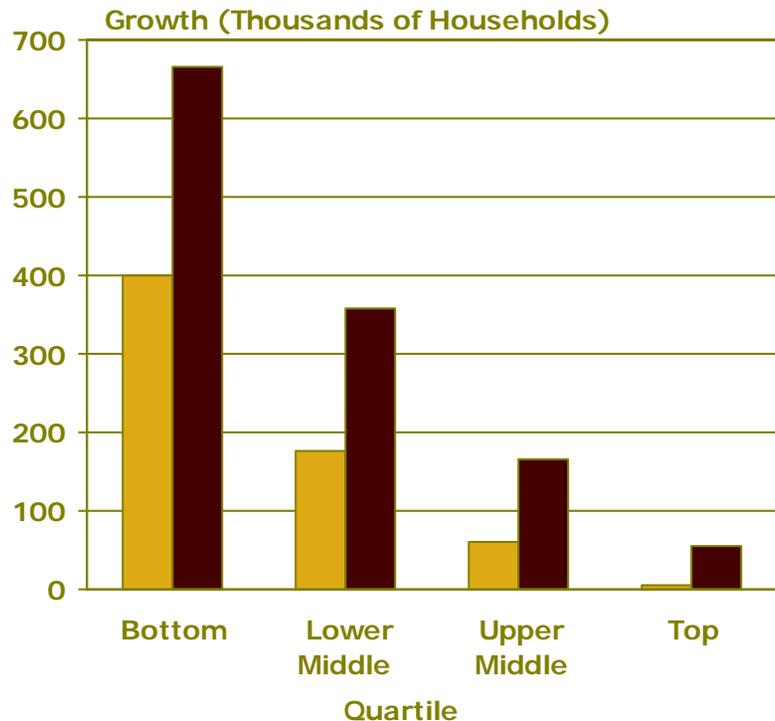


Note: Income deciles are equal tenths of households sorted by pre-tax income.

Source: JCHS tabulations of 1980, 1985, 1990, 1995, 2000, 2005 and 2006 Current Population Surveys.



But Growth in Severely Cost-Burdened Households Has Accelerated Across Incomes



■ Average Annual Growth 2001-4
■ Growth 2004-5

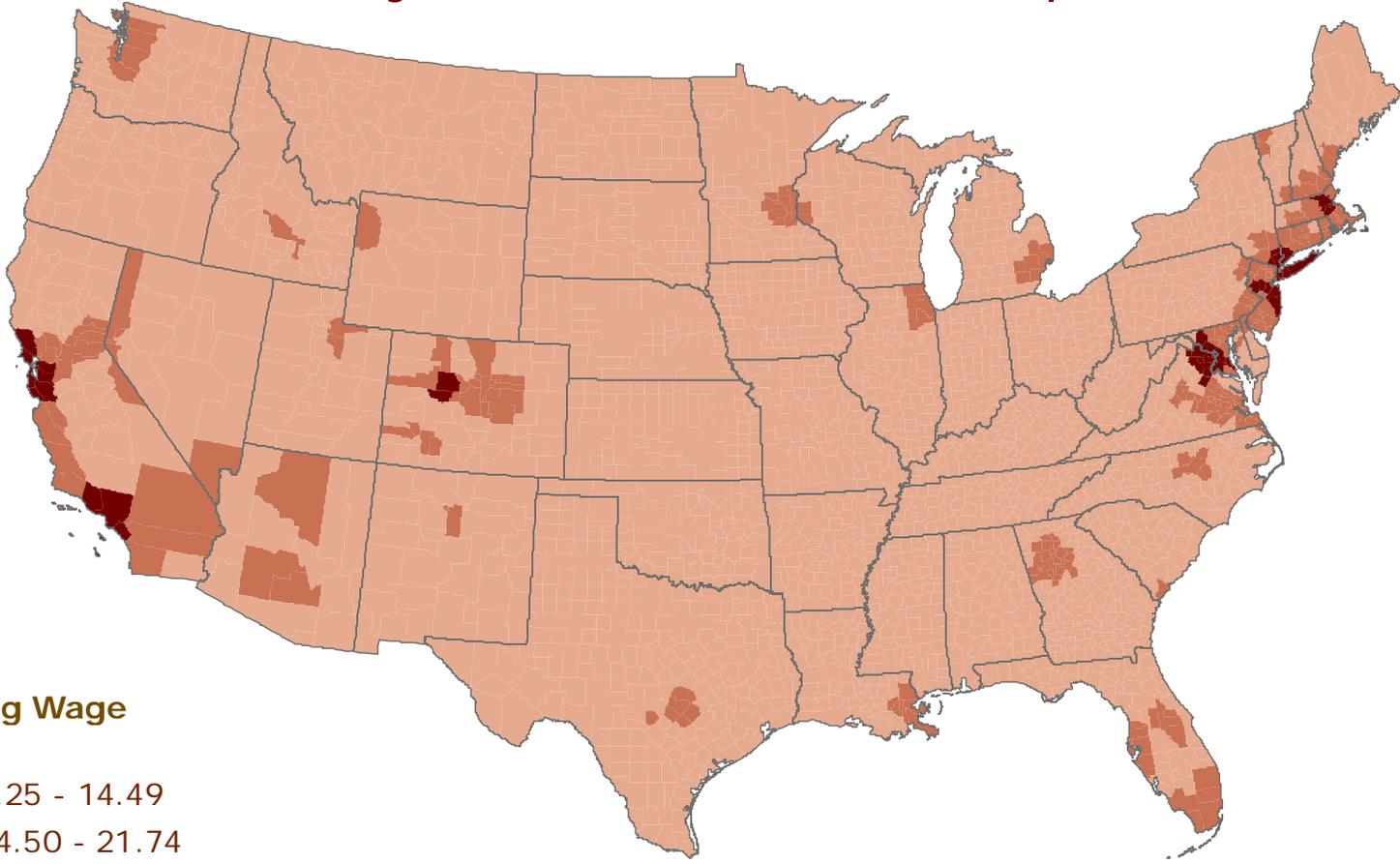
■ 2001
■ 2005

Note: Severe housing cost burden is defined as spending more than 50% of household income on housing costs. Income quartiles are equal fourths of all households sorted by pre-tax income.

Source: JCHS tabulations of the 2001, 2004 and 2005 American Community Surveys.



And Even Fully Phased In, the New Federal Minimum Wage Would Not Cover Today's Rent on A Modest Apartment



Housing Wage

\$7.25 - 14.49

\$14.50 - 21.74

\$21.75 or more

Note: Housing wage is the hourly wage required to afford a modest two-bedroom apartment renting for the Fair Market Rent at 30% of pretax income. Income ranges are multiples of the Federal Minimum Wage at full roll out, expected in 2009.

Source: US Department of Housing and Urban Development.

Long-Term Outlook

- Still see about 2 more million households formed in 05-15 than 95-05 (12.6 v. 14.6 million)
- Out past the turmoil, second home demand should strengthen – aging of boomers all else equal alone should lift second demand by 1 million 05-15
- Aging housing and more urban teardowns should lift replacement demand
- Total production should average about 1.95 of 2004 per year – perhaps less inventory that must be worked off