

# State of the Nation's Housing 2008: A Preview

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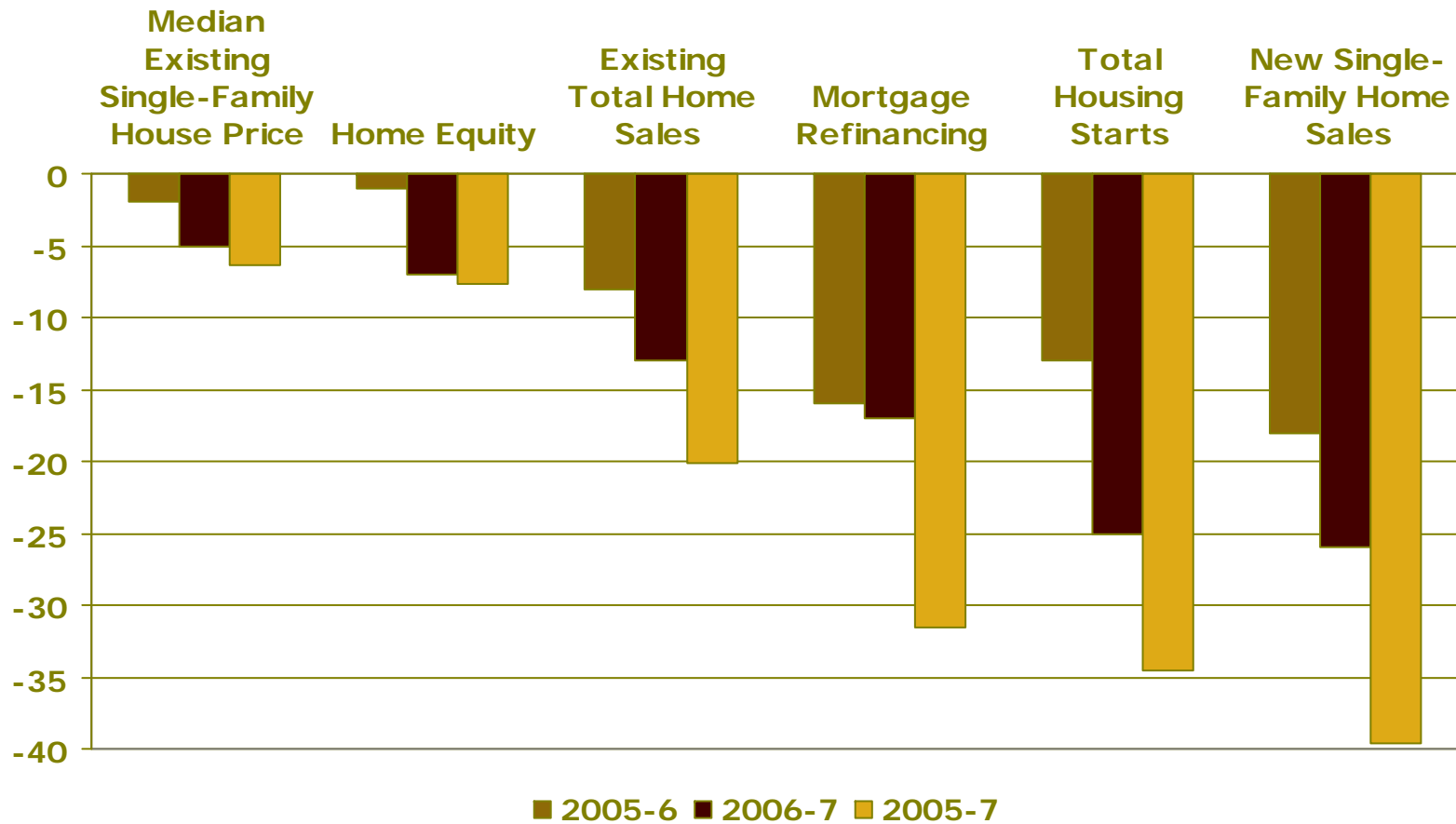


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# The Housing Market Has Suffered Steep Declines

Percent Change



Note: Changes in dollar values are adjusted for inflation by the CPI-UX for All Items.

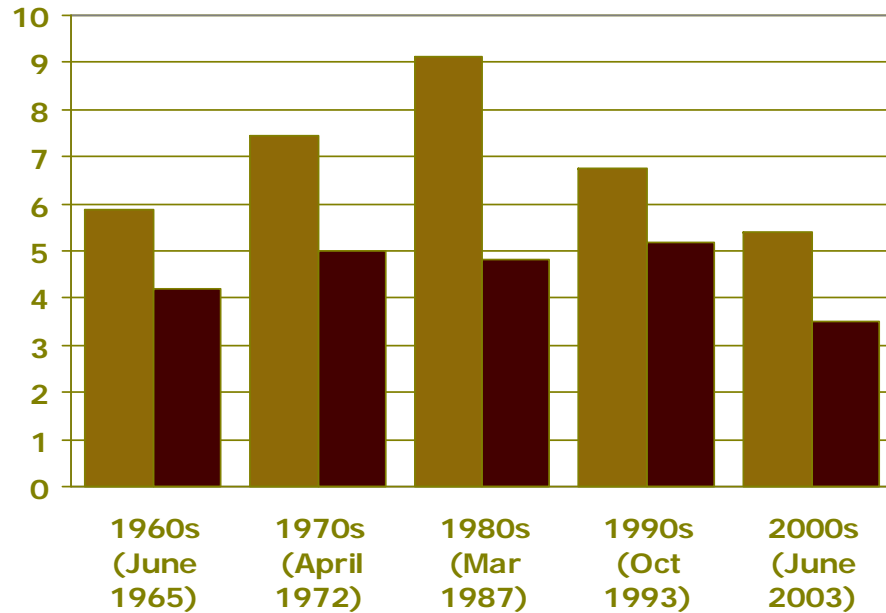
Sources: US Census Bureau, New Residential Construction; National Association of Realtors®, Existing Single Family House Prices; Freddie Mac; Federal Reserve Board, Flow of Funds Accounts.

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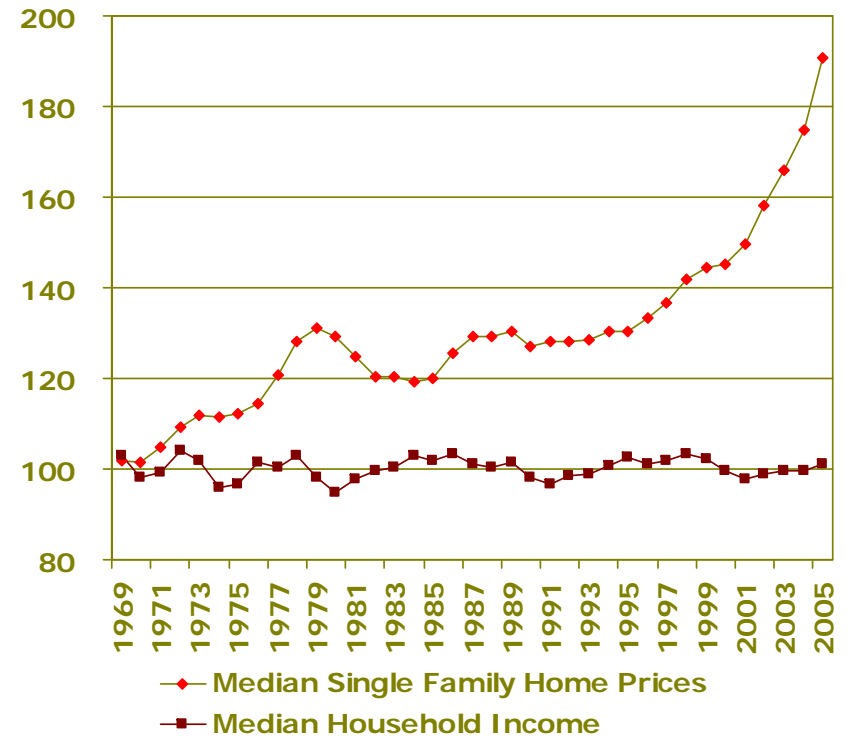
# The Housing Boom Was Rooted in Unusually Low Mortgage Rates and Tight Markets That Sparked An Unprecedented Run-Up in Home Prices



Month of Lowest Interest Rate by Decade

■ Mortgage Interest Rate (Percent) ■ Months Supply

Real Income and House Prices (Indexed 1968=100)



Notes: Mortgage interest rate is the Federal Housing Finance Board's Effective Composite Interest Rate for All Mortgages. Months supply is the number of months needed to sell current inventory at current sales rate. Household income and house prices are adjust for inflation using the monthly CPI-UX for All Items.

Sources: Federal Housing Finance Board, Monthly Interest Rate Survey; US Census Bureau, New Residential Construction; National Association of Realtors®, Median Existing Single Family House Price; Moody's Economy.com; Bureau of Labor Statistics, Consumer Price Index.

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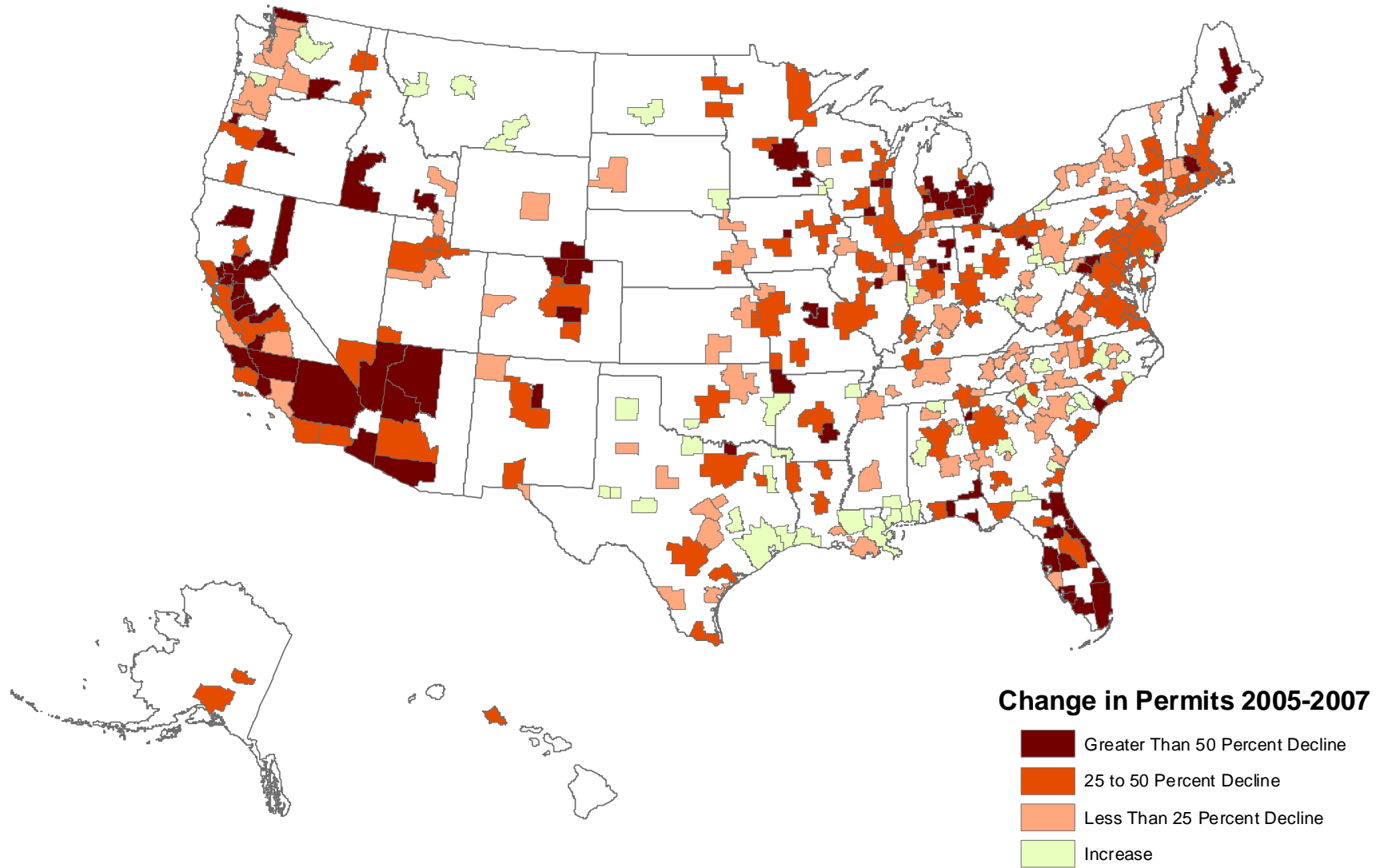
# With Demand Dropping Off Faster than Production, the Number of Vacant Units Ballooned



Note: New home sales and housing completions are for single-family homes only.

Sources: US Census Bureau, New Residential Construction and Housing Vacancy Survey.

# Drops in Permits Have Been Dramatic in Many Metros



Source: US Census Bureau, New Residential Construction.

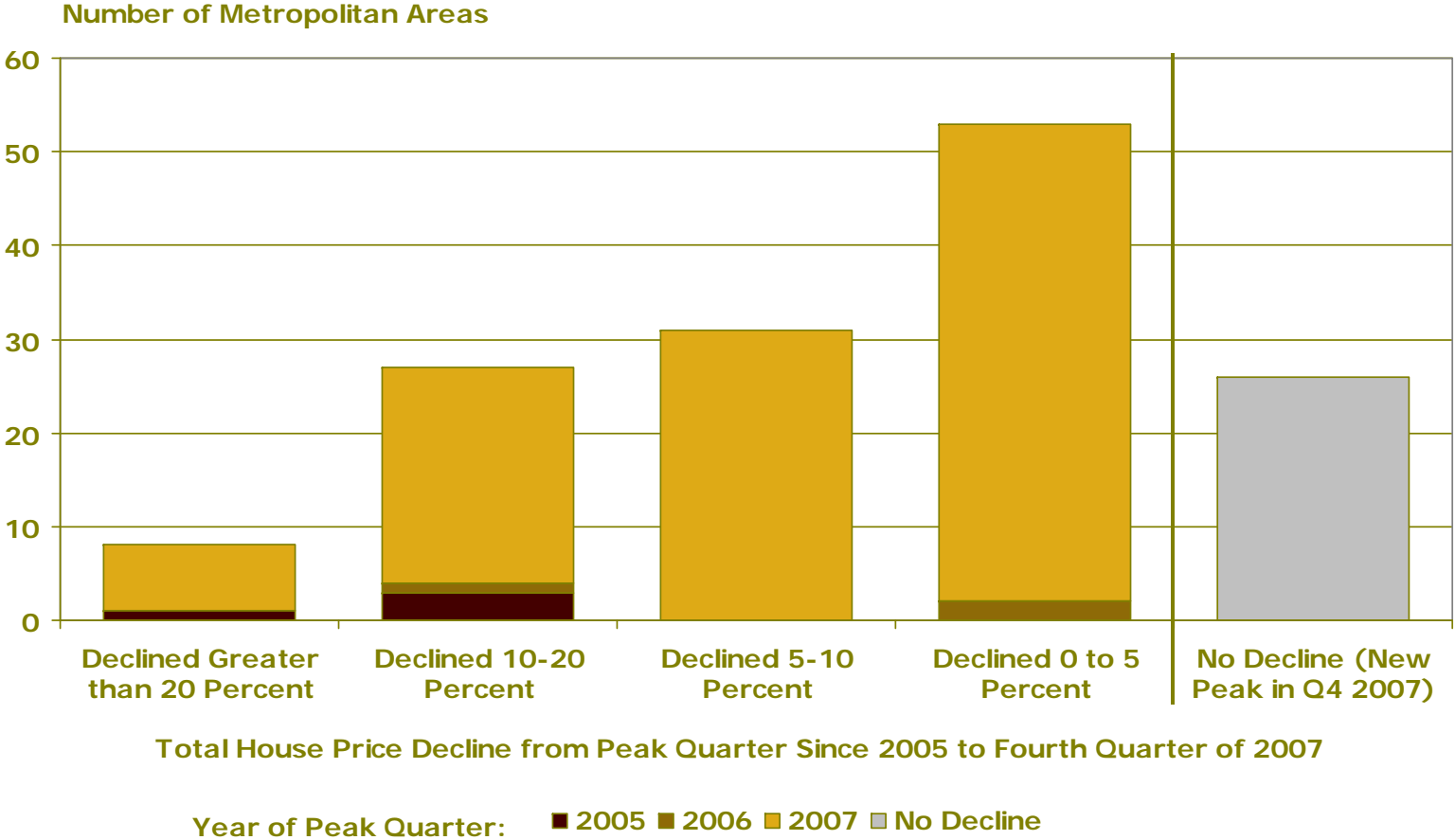
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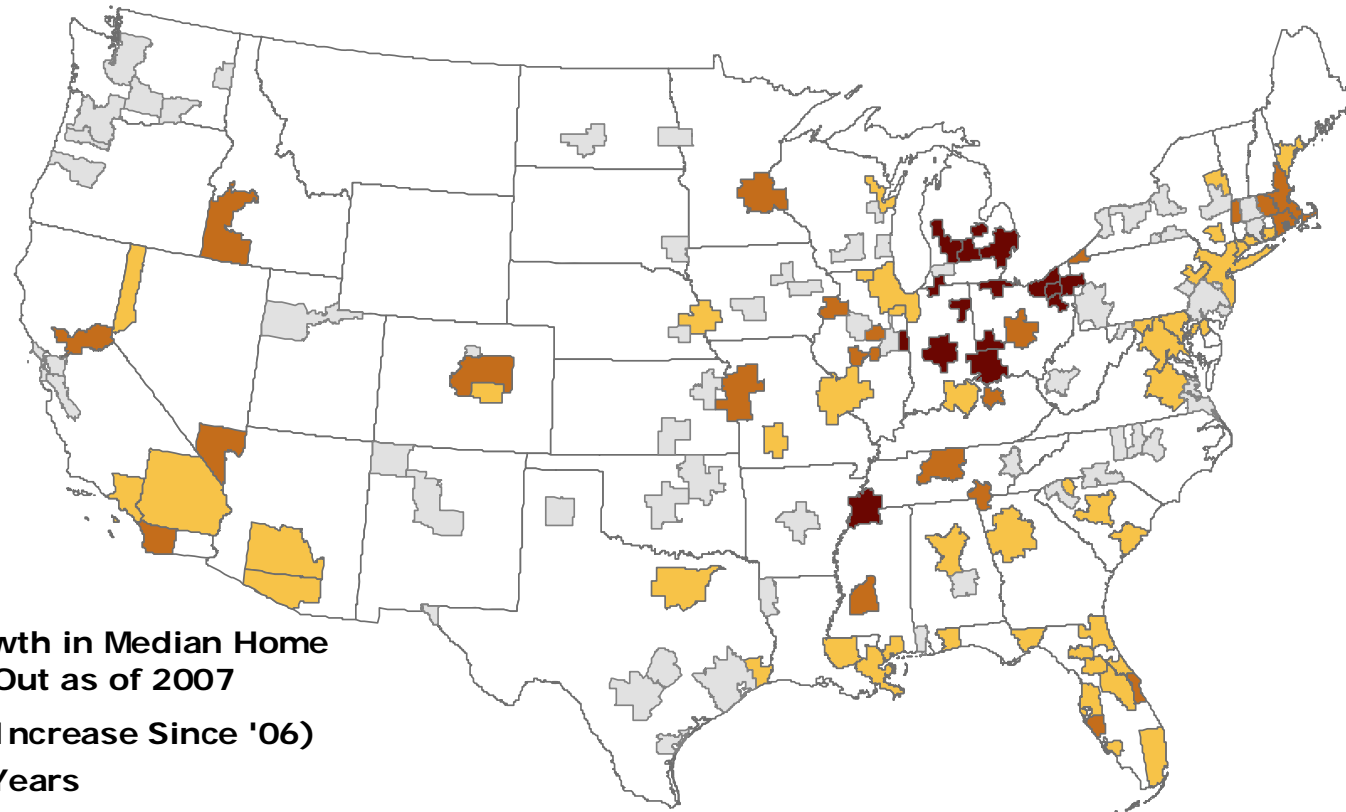
# While a Handful of Metros were Still Gaining, Most Started to See Price Declines in 2007



Notes: Peaks and declines are based on quarterly median house price data, seasonally adjusted. 'No Decline' means median house prices reached a new peak in the fourth quarter of 2007.

Source: National Association of Realtors®; Moody's Economy.com.

# Recent Declines Have Wiped Out Several Years of House Price Appreciation in Several Metros



## Years of Growth in Median Home Price Wiped Out as of 2007

- None (Increase Since '06)
- 1 to 2 Years
- 3 to 4 Years
- 5 or More Years

Notes: Annual declines based on fourth quarter to fourth quarter median sales price changes. 'One Year' of appreciation wiped out means the Q4 2007 median is lower than Q4 2006 level but higher than Q4 of 2005. 'None' means Q4 of 2007 was higher than Q4 of 2006, but may be lower than an earlier quarter in 2007.

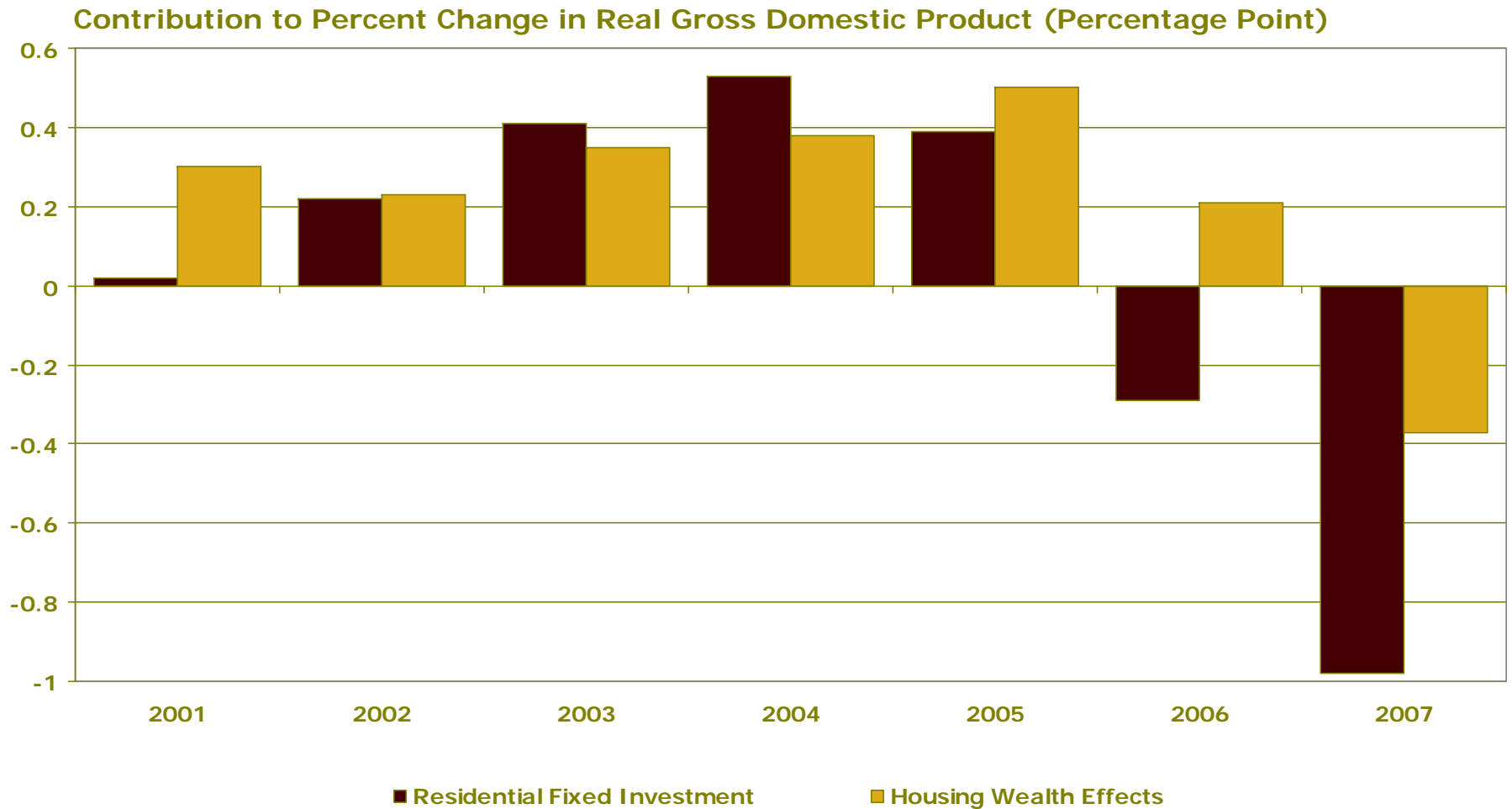
Source: National Association of Realtors®, Median Existing Metro Area Single Family Home Prices.

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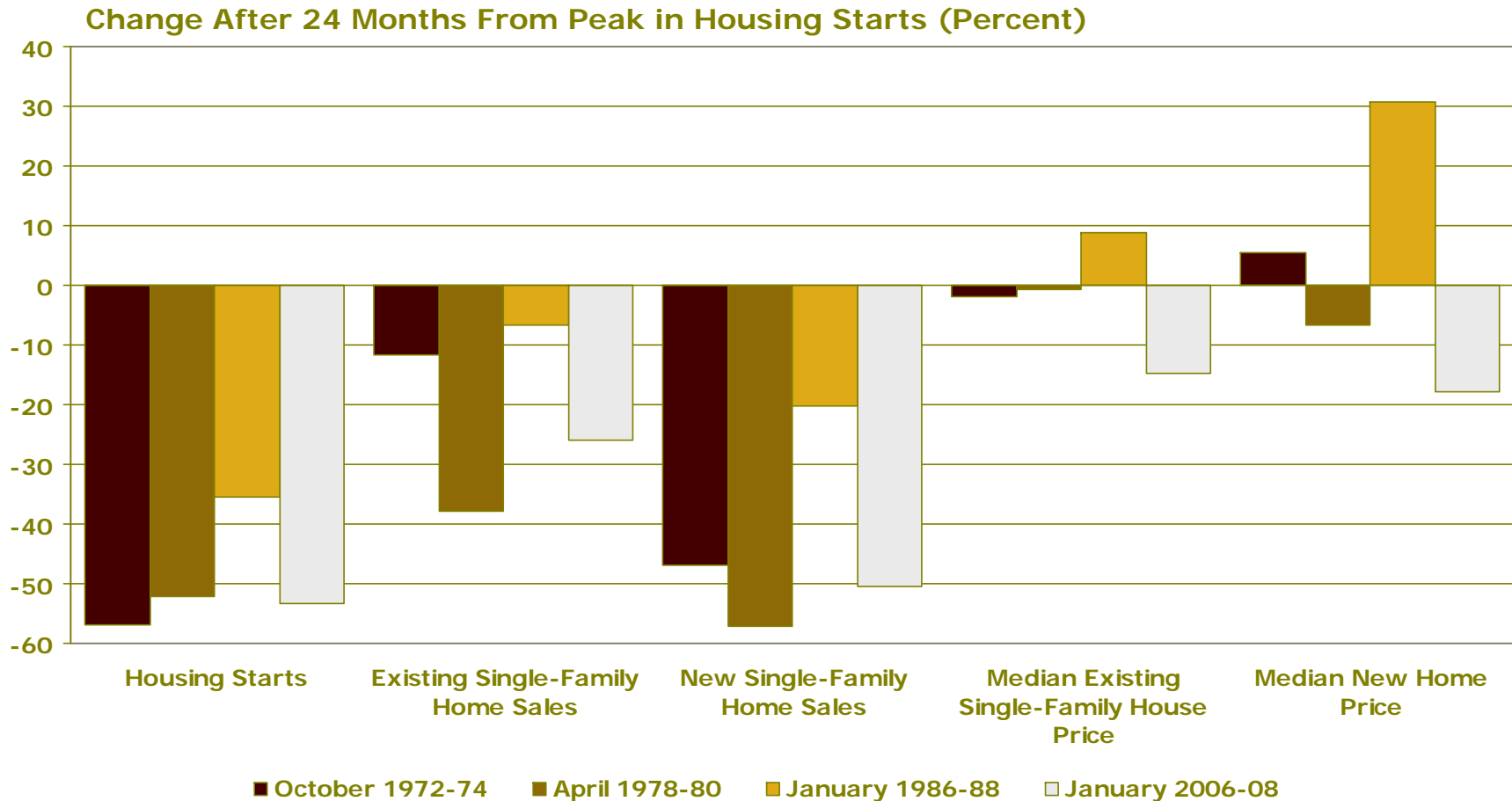
# Both Declining Housing Wealth Effects and Declines in Production Were a Major Drag on the Economy



Sources: Moody's Economy.com; Bureau of Economic Analysis.



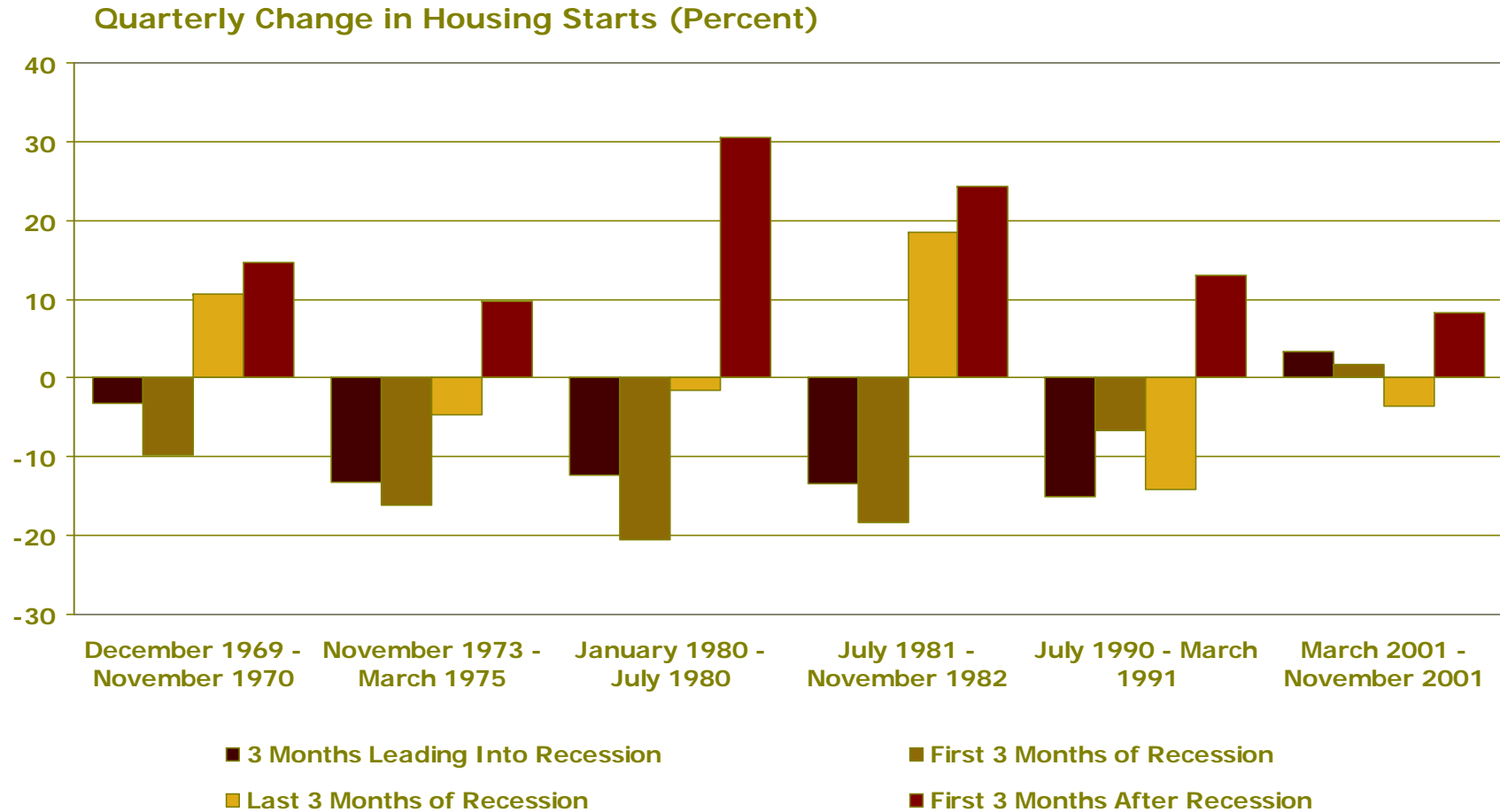
# This Downturn is Shaping Up to Be the Worst in a Generation



Note: Downturns are based on cyclical peak months in starts. Outlier peaks such as January 1972 and February 1984 are not used. All data is monthly data seasonally adjusted by Moody's Economy.com. House price changes are adjusted for inflation by the CPI-UX for All Items.

Sources: US Census Bureau, New Residential Construction; National Association of Realtors®, Median Existing Single Family House Price.

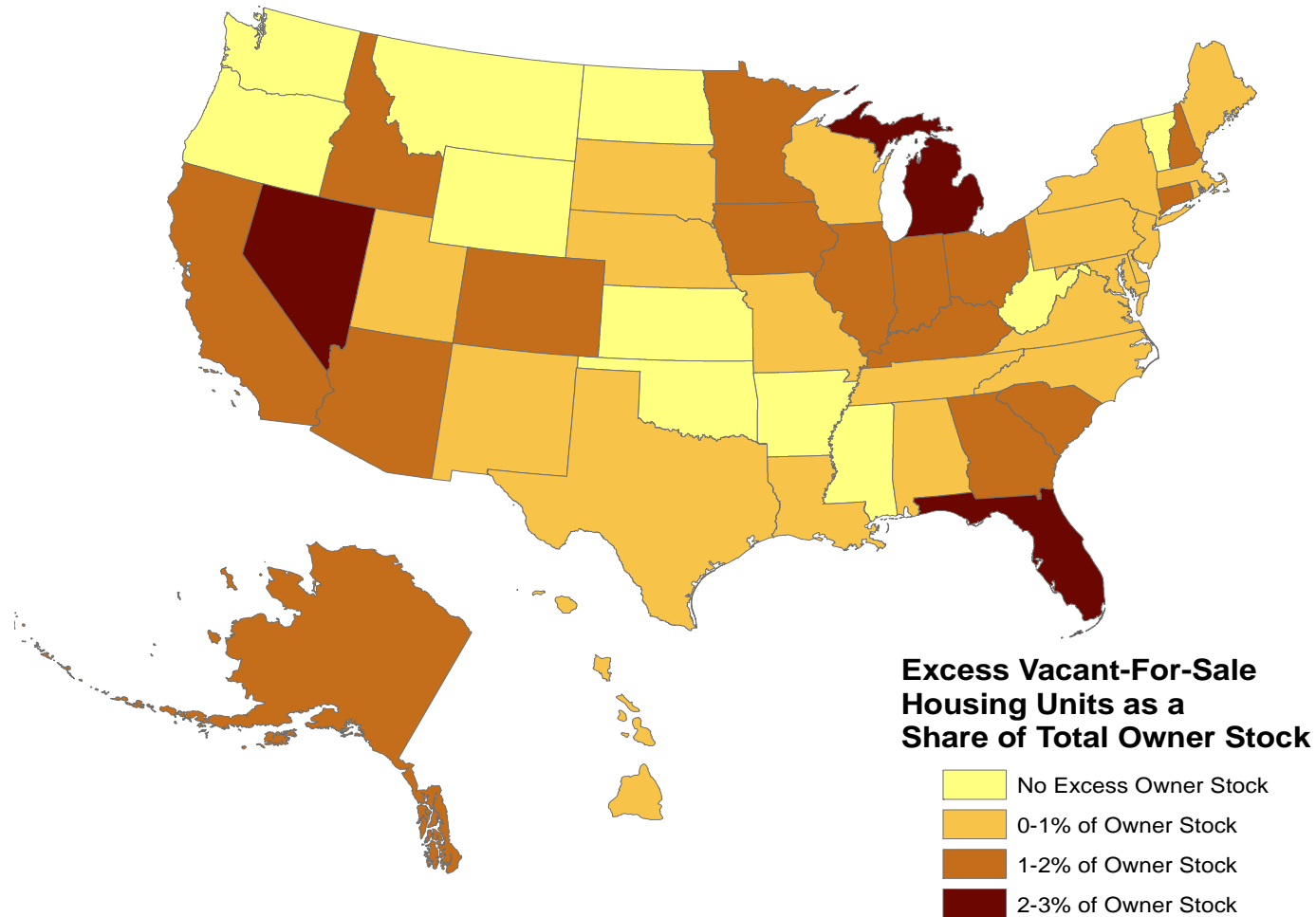
# Recessions Usually Exacerbate Housing Downturns, but Afterward Housing Is Quick to Recover



Note: Quarterly data derived from sums of monthly data, seasonally adjusted by Moody's Economy.com.

Sources: US Census Bureau, New Residential Construction.

# In the Most Glutted Markets, Surpluses Exceed Two Percent of the Owner Stock



Note: Methodology adapted from Freddie Mac. Oversupply is percentage points increase in homeowner vacancy rates from state-specific average homeowner vacancy rates 1999-2001. Does not include possible oversupply that is showing up under held off market or potentially also as an increase in rental vacancy rates. Also does not divide surplus units into total stock in each state.

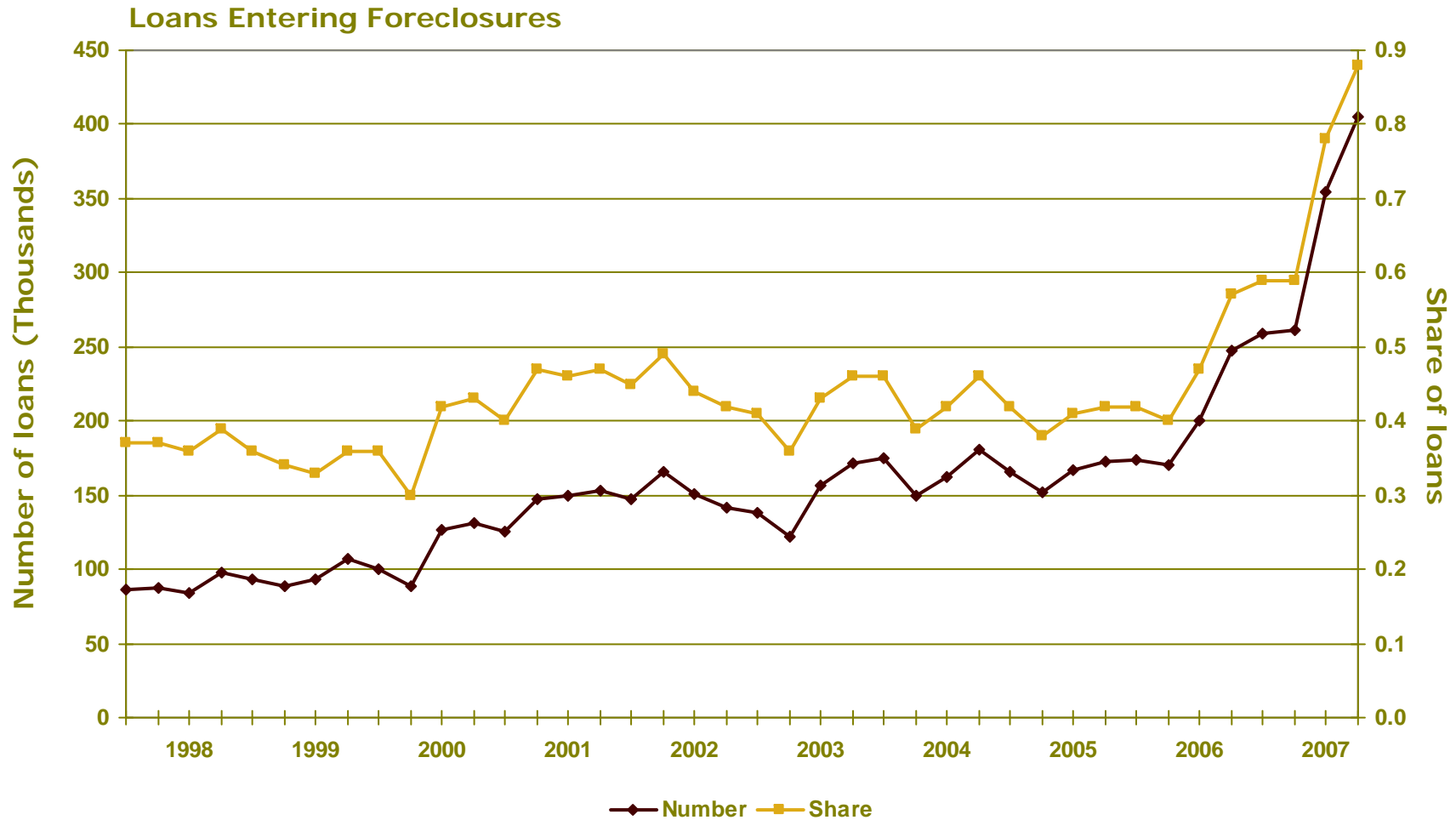
Sources: US Census Bureau, Housing Vacancy Survey and 2006 American Community Survey.

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# The Recent Spike in Loans Entering Foreclosure Will Weigh Heavily on Markets

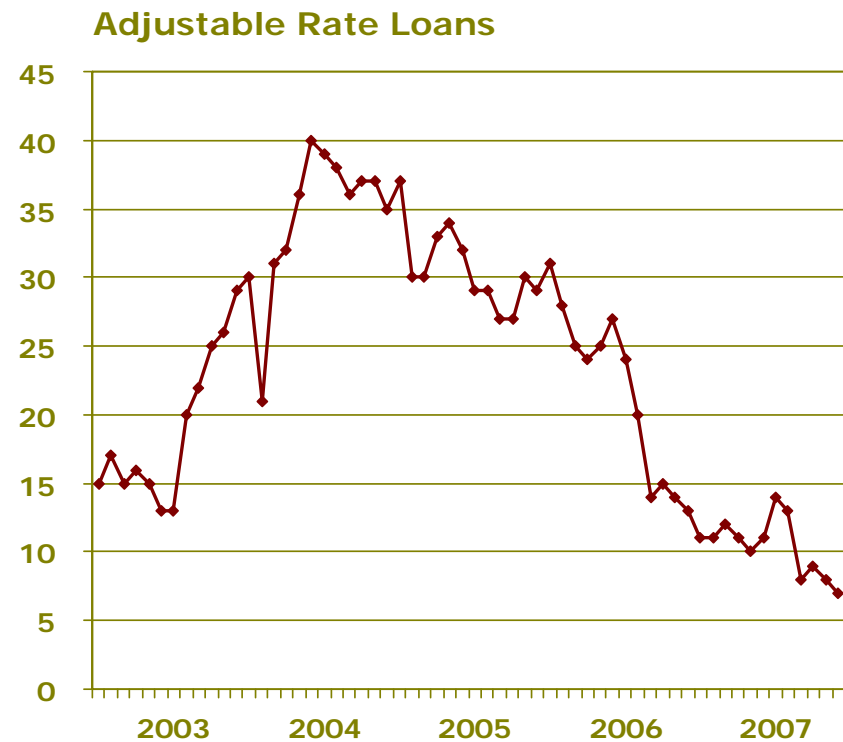
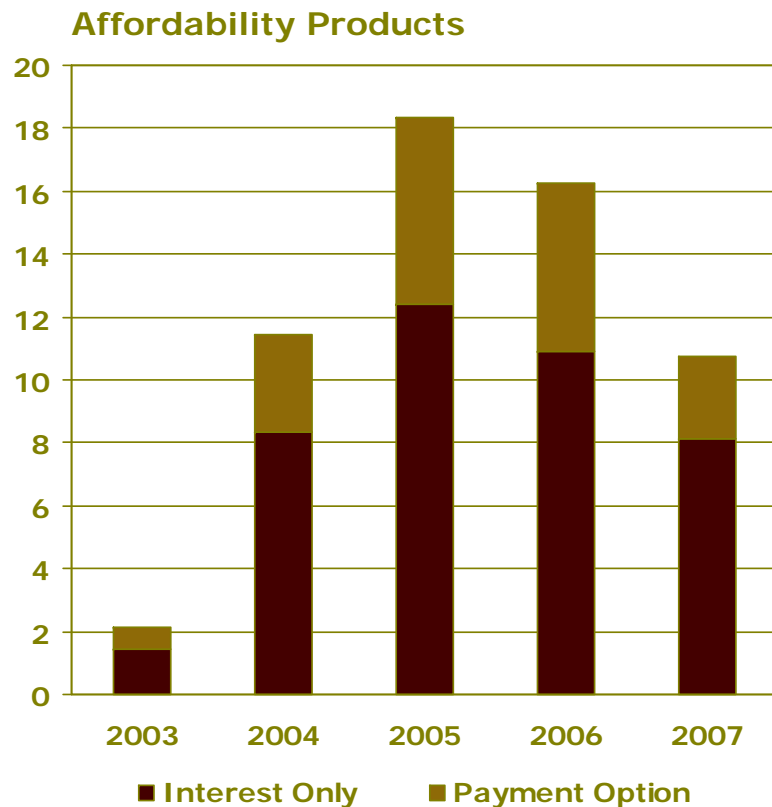


Source: Mortgage Bankers Association, National Delinquency Survey.



# Loans with Affordability Features and Adjustable Rates Dramatically Lost Market Share in 2006 and 2007

Share of Loan Originations (Percent)

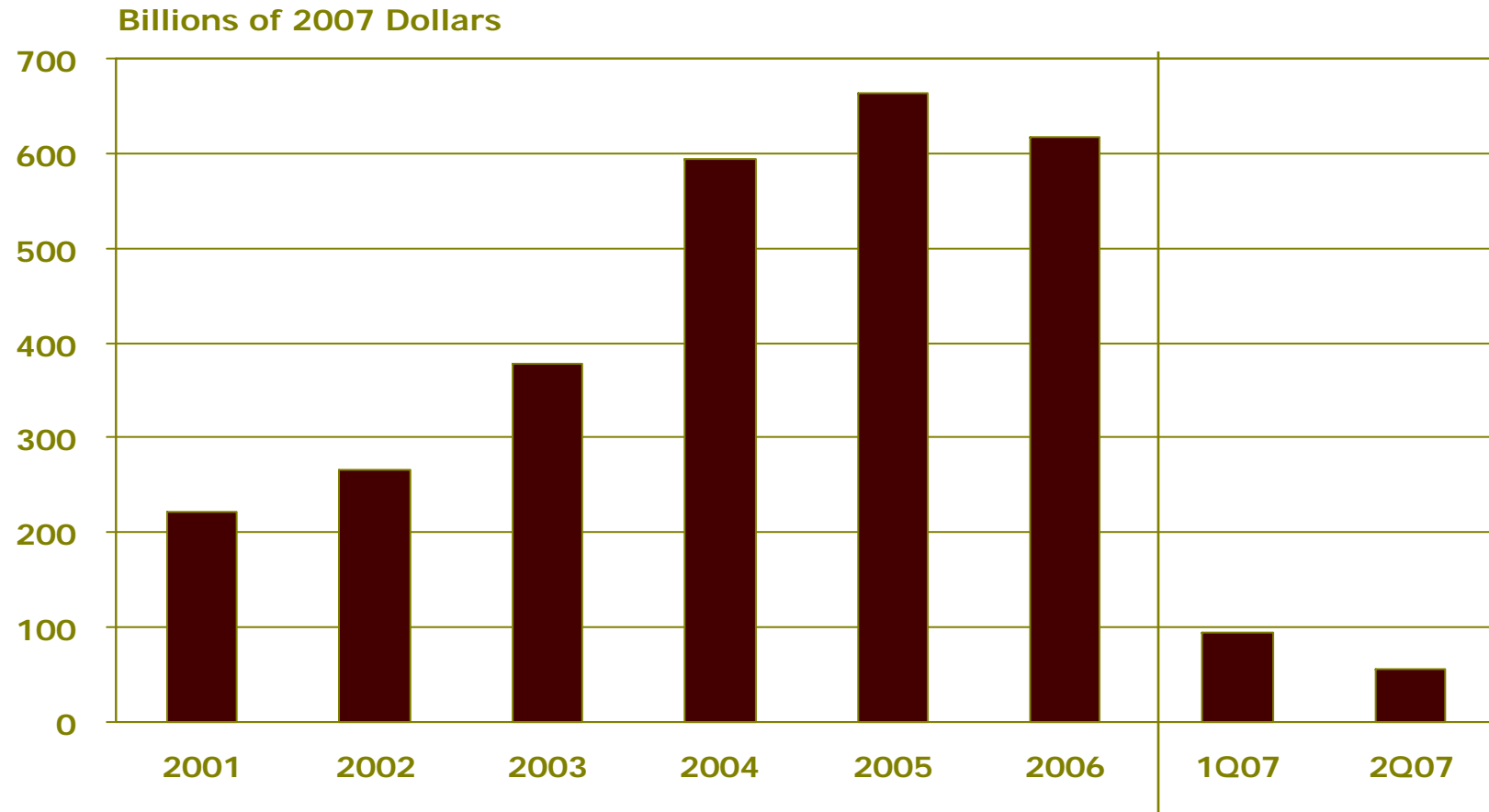


Notes: Loans with affordability features are interest only and payment-option. Shares are of the number of originations of prime and subprime loans.

Sources: First American LoanPerformance; Federal Housing Finance Board, Monthly Interest Rate Survey.

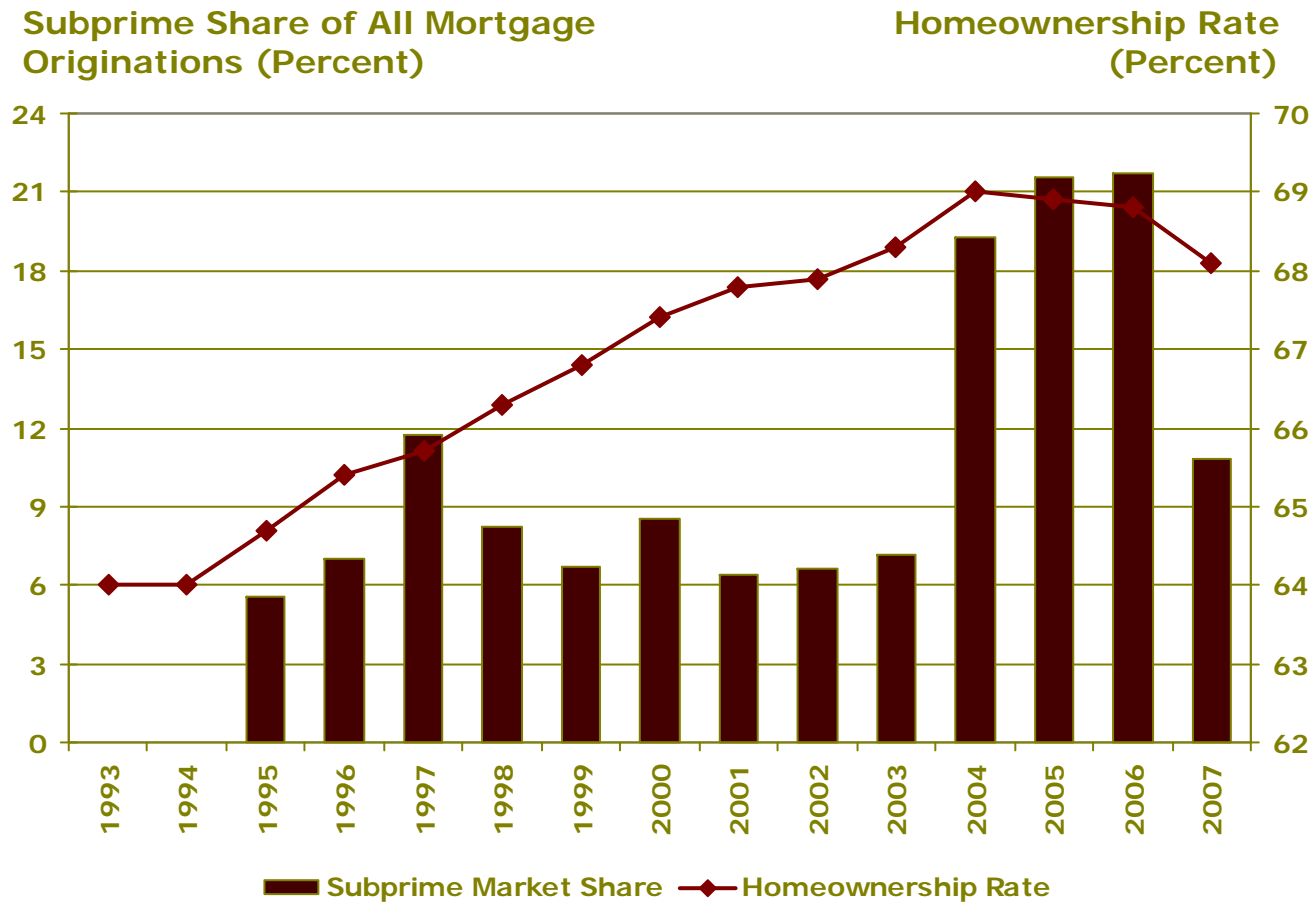


# Subprime Credit Originations Have Collapsed



Source: Inside Mortgage Finance, 2007 Mortgage Market Statistical Annual, adjusted for inflation by Bureau of Labor Statistics CPI-UX for All Items.

# The National Homeownership Rate Surged Before the Subprime Lending Boom and Then Tailed Off

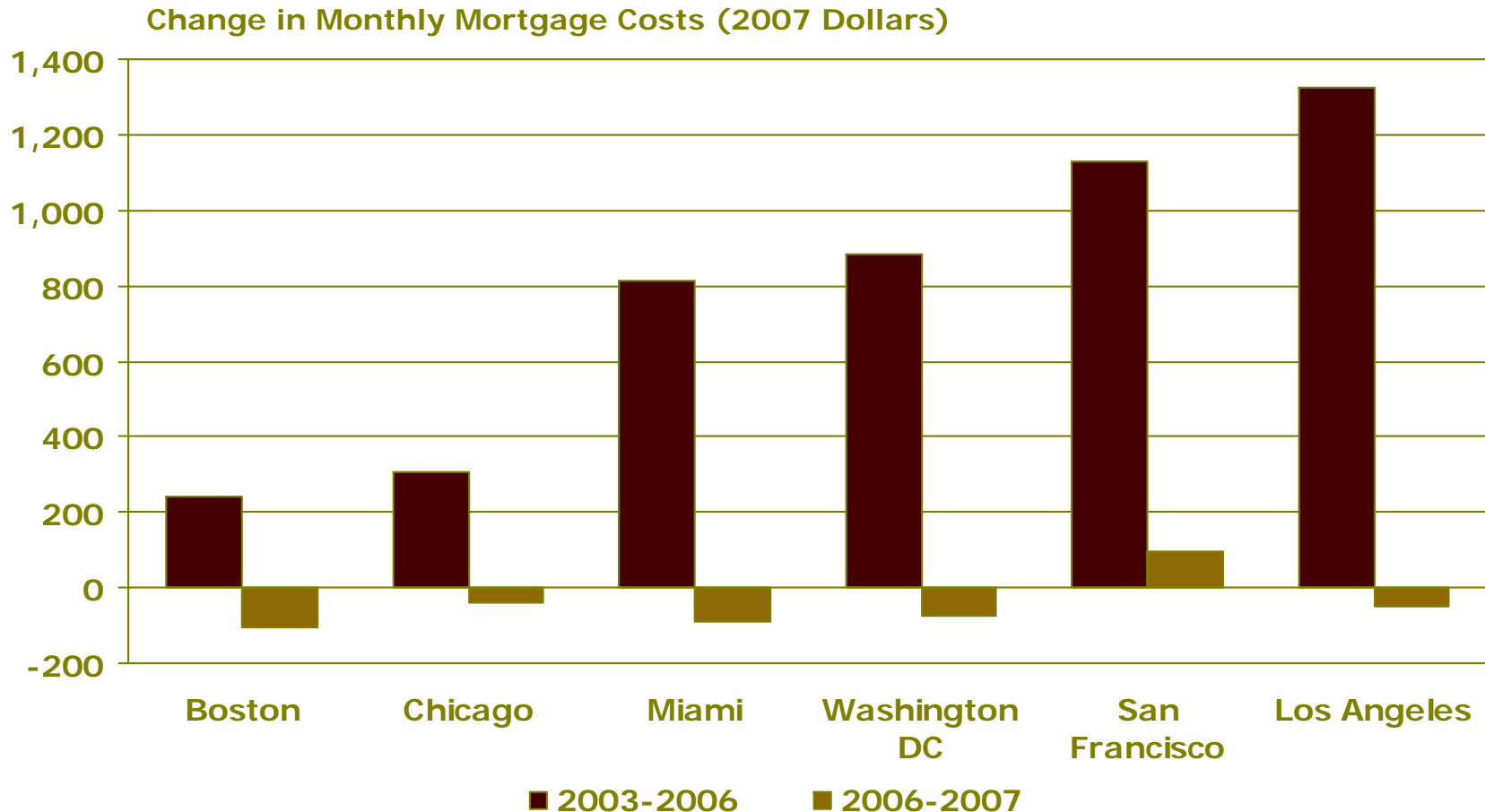


Note: Subprime share is of the dollar volume of all originations.

Source: US Census Bureau, Housing Vacancy Survey; UBS, Subprime Share of MBS Gross Issuance.



# Slightly Lower Mortgage Costs in 2007 Did Little to Ease Recent Run Up in Affordability Problems



Notes: Costs assume a median priced home purchased with a 10% down payment and 30-year fixed rate mortgage. Prices adjusted for inflation by the CPI-UX for All Items.

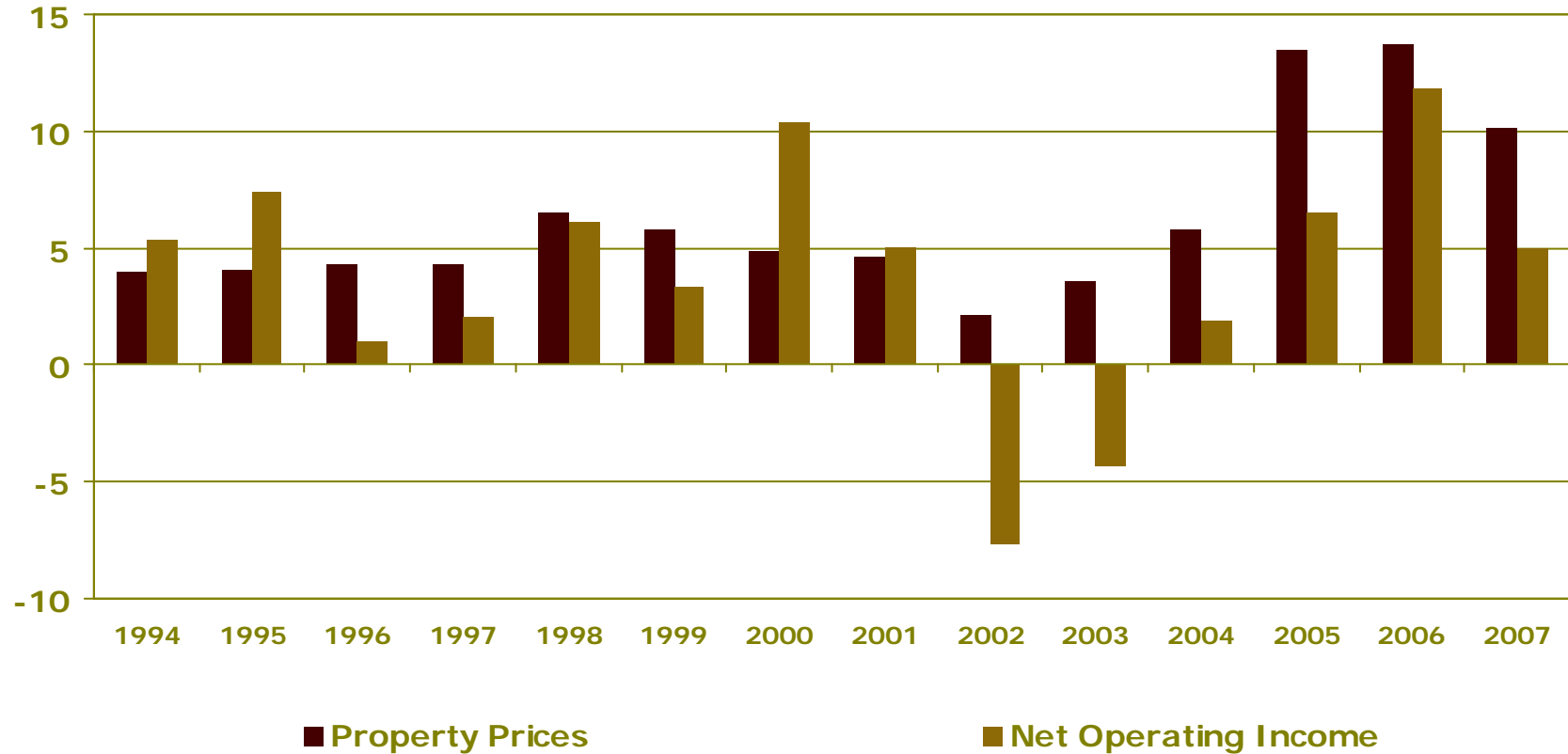
Sources: National Association of Realtors®, Median Existing Single Family House Price; Federal Home Loan Bank, Fixed Rate Contract Interest Rate for All Homes.





# Apartment Property Prices are Rising Faster than Their Net Operating Income

## Annual Percent Change

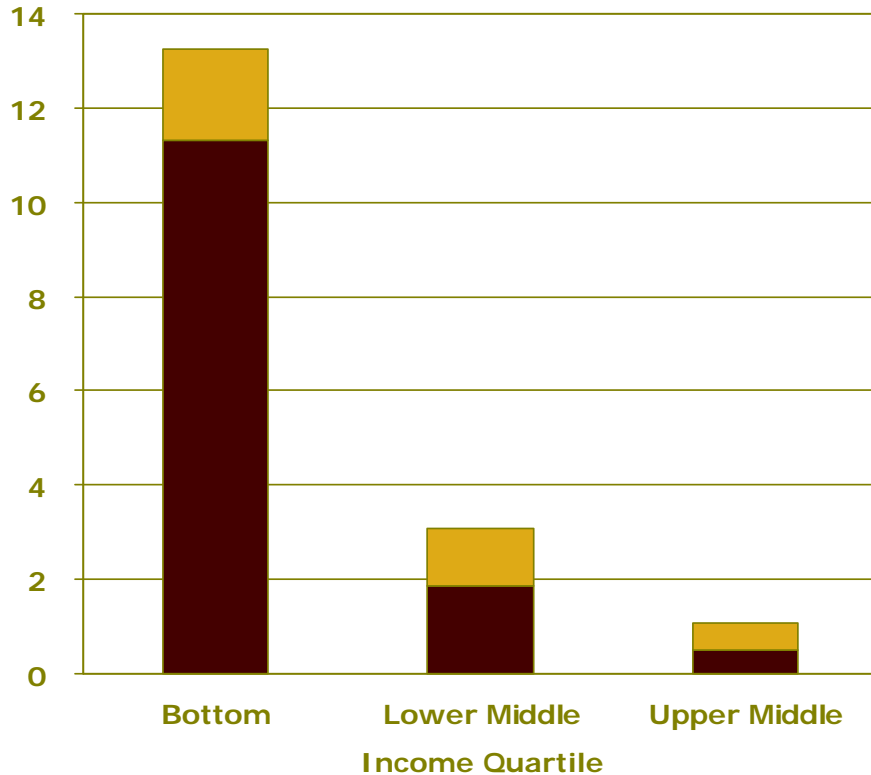


Source: National Council of Real Estate Investment Fiduciaries.

# Severe Cost Burdens Fall Sharply With Income...

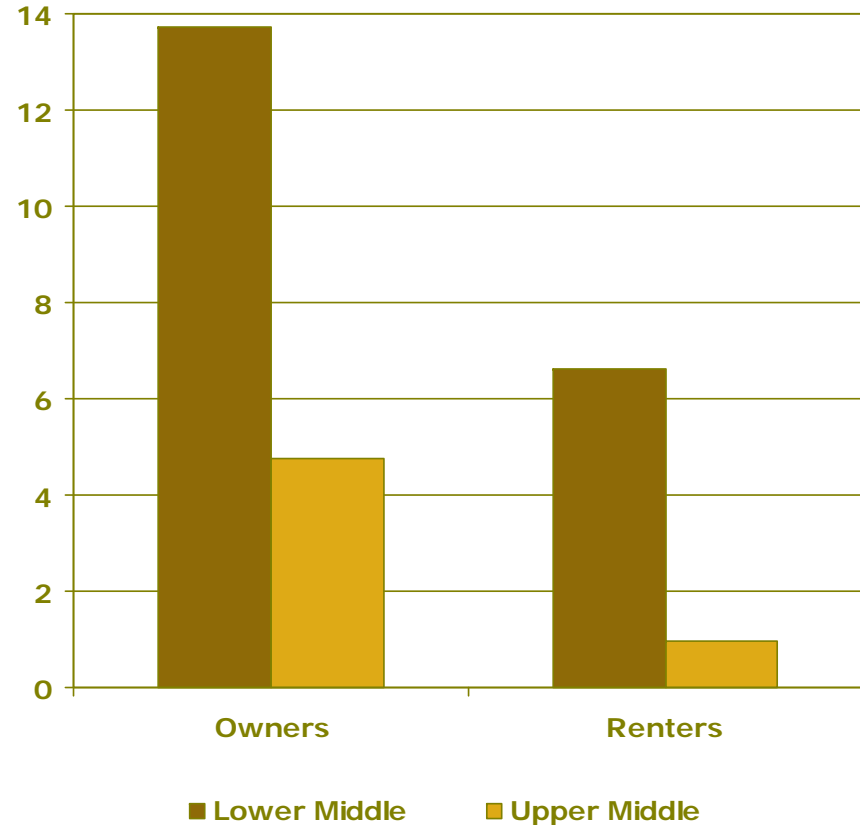
... But Are Now More Common Among Middle-Income Owners Than Renters

Households with Severe Cost Burdens in 2006 (Millions)



■ Severely Burdened in 2001   ■ Increase 2001-2006

Incidence of Severe Cost Burdens in Households 2006 (Percent)



■ Lower Middle   ■ Upper Middle

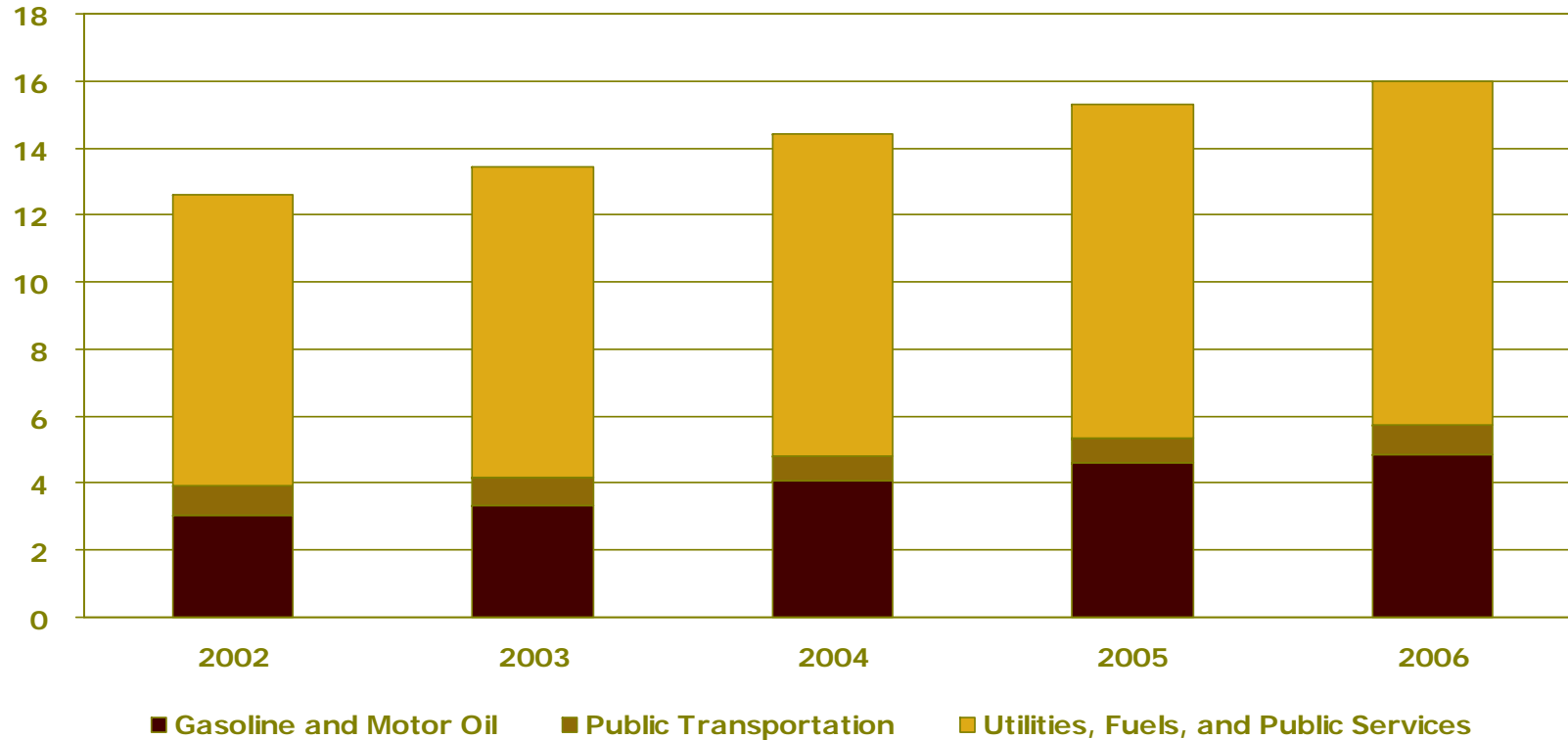
Notes: Income quartiles are equal fourths of all households sorted by pre-tax income. Severely cost-burdened households spend more than 50% of total household income on housing.

Sources: JCHS tabulations of the 2001 and 2006 American Community Surveys.



# Rising Energy Costs Are Cutting Into Other Spending of Low Income Households

Share of Average Total Annual Expenditures (Percent)



Note: Low income households are defined as those in the bottom 20 percent of all households sorted by pre-tax household incomes.

Source: Bureau of Labor Statistics, Consumer Expenditure Survey.