State of the Nation’s Housing 2011: A Preview

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Remodeling Futures Conference
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# No Signs of a Recovery Yet

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>% Change 2008-9</th>
<th>% Change 2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>New SF Home Sales (000s)</td>
<td>485</td>
<td>375</td>
<td>322</td>
<td>-22.7</td>
<td>-14.1</td>
</tr>
<tr>
<td>Existing SF Home Sales (Millions)</td>
<td>4.35</td>
<td>4.57</td>
<td>4.31</td>
<td>5.0</td>
<td>-5.7</td>
</tr>
<tr>
<td>Housing Starts, Total (000s)</td>
<td>906</td>
<td>554</td>
<td>587</td>
<td>-38.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Housing Completions, Total (000s)</td>
<td>1,120</td>
<td>794</td>
<td>652</td>
<td>-29.1</td>
<td>-18.0</td>
</tr>
<tr>
<td>Median Sales Price of New SF Homes, ($000s)</td>
<td>235.1</td>
<td>220.3</td>
<td>222.6</td>
<td>-6.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Median Sales Price of Existing SF Homes, ($000s)</td>
<td>199.1</td>
<td>174.9</td>
<td>173.1</td>
<td>-12.5</td>
<td>-1.0</td>
</tr>
<tr>
<td>Owners' equity in household real estate, ($Bil)</td>
<td>7.1</td>
<td>6.9</td>
<td>6.3</td>
<td>-3.4</td>
<td>-6.5</td>
</tr>
<tr>
<td>Owners' total mortgage debt ($Bil)</td>
<td>10.6</td>
<td>10.5</td>
<td>10.1</td>
<td>-1.5</td>
<td>-2.6</td>
</tr>
<tr>
<td>Residential Investment ($Bil)</td>
<td>478.5</td>
<td>357.9</td>
<td>340.4</td>
<td>-25.5</td>
<td>-3.3</td>
</tr>
<tr>
<td>Owner Residential Improvements ($Bil)</td>
<td>121.7</td>
<td>113.9</td>
<td>115.2</td>
<td>-6.7</td>
<td>2.8</td>
</tr>
</tbody>
</table>

Note: All dollar values adjusted for inflation by the CPI-U for All Items. Sources: US Census Bureau, National Association of Realtors®, Federal Reserve Board, Bureau of Labor Statistics.
But After Three Years of Record Low Levels of New Construction the Last 10 Years Don’t Look So Overbuilt

Note: Data go back to 1974.
Source: JCHS calculations of US Census Bureau data
Falloff in Demand the Bigger Concern, Particularly Homeowner Demand

Source: US Census, Housing Vacancy Rate Survey
High Foreclosure Rates Are an Important Factor in Shrinking Homeowner Growth

Foreclosures Completed 2008-10 (As a Percent of Households)

- Greater than 3 Percentage Points
- 2-3 Percentage Points
- Less than 2 Percentage Points

Magnitude of Peak to Trough Drop in State Homeownership Rate

Source: First American CoreLogic; US Census, Housing Vacancy Rate Survey

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Delinquencies May Finally Be Ebbing, But Foreclosure Pipeline Remains Near Record Levels

[Graph showing share of mortgages in service (percent) for 60-89 Days, 90+ Days in Foreclosure, and In Foreclosure over years 2009:4 and 2010:4, with comparison to average 2000:4 to 2005:4.]

Source: Mortgage Bankers Association of America
Vacancy Rates Are Finally Coming Down, But By One Measure Shadow Inventory Remains High

Excess Vacant Units (000s)

For rent
- 2006: -200
- 2007: -100
- 2008: 0
- 2009: 100
- 2010: 200

For sale only
- 2006: 0
- 2007: 100
- 2008: 300
- 2009: 500
- 2010: 700

Held off market
- 2006: -200
- 2007: -100
- 2008: 0
- 2009: 100
- 2010: 300

Note: Excess vacancies of for-sale units and units held off the market are estimated against levels under constant 1999-2001 rates; those for rental units are measured against levels under 2003-7 rates. Held off market / other units comprises occasional use, URE, and all other units.

Source: JCHS Tabulations of US Census Housing Vacancy Survey data
Foreign-Born Household Growth Stalled During the Recession for the First Time in Decades

Growth in Foreign-Born Households (000s)

The Recession Has Also Lowered Rate at Which Young Adults are Forming Households

Change in Household Headship Rate, 2004-10

Age of Householder

Source: JCHS Tabulations of Census Population Estimates and CPS data
Employment Growth Key to Reviving Demand, But Improvements Have Been Modest

Few States Displayed Indicators of Housing Market Recovery in 2010

Note: FHFA Prices are Q4 to Q4 Purchase-Only; Vacancy rates are homeowner rates Q4 to Q4 percentage point change; Nonfarm employment is Q4 to Q4 change; Permits are annual percent change.
Sources: JCHS tabulations of data from the US Census Bureau; National Association of Realtors®; Bureau of Labor Statistics; Federal Housing Finance Agency
And Fewer Still Had Multiple Positive Indicators

Note: FHFA Prices are Q4 to Q4 Purchase-Only; Vacancy rates are homeowner rates Q4 to Q4 percentage point change; Nonfarm employment is Q4 to Q4 change; Permits are annual percent change.
Sources: JCHS tabulations of data from the US Census Bureau; National Association of Realtors®; Bureau of Labor Statistics; Federal Housing Finance Agency
The Rental Market Shows More Signs of Recovery

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<tbody>
<tr>
<td>Rental Vacancy Rate (%)</td>
<td>9.6</td>
<td>10.1</td>
<td>10.7</td>
<td>9.4</td>
</tr>
<tr>
<td>MPF Research Apartment Vacancy Rate (%)</td>
<td>na</td>
<td>7.8</td>
<td>8.2</td>
<td>6.5</td>
</tr>
<tr>
<td>Consumer Price Index for Rent (% change)</td>
<td>4.0</td>
<td>3.6</td>
<td>0.9</td>
<td>0.6</td>
</tr>
<tr>
<td>MPF Research Rent Index (% change)</td>
<td>na</td>
<td>-0.3</td>
<td>-4.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Moody’s Apartment Property Price Index (% change)</td>
<td>-2.9</td>
<td>-13.6</td>
<td>-20.4</td>
<td>11.8</td>
</tr>
<tr>
<td>Multifamily For-Rent Starts (Units)</td>
<td>60,000</td>
<td>43,000</td>
<td>16,000</td>
<td>21,000</td>
</tr>
<tr>
<td>Multifamily For-Rent Completions (Units)</td>
<td>42,000</td>
<td>55,000</td>
<td>51,000</td>
<td>24,000</td>
</tr>
</tbody>
</table>

Notes: MPF Research Rent Index is for a sample of large investment-grade apartment properties. Moody’s Apartment Property Price Index is based on sales of apartment properties worth at least $5 million. Median asking rent is for all vacant units.

Rental Vacancy Rates May Be Best Indicator That Market is Turning the Corner

Rental Vacancy Rate (Percent)

Source: US Census Bureau, Housing Vacancy Survey.
A Number of Markets Showing Signs of Growth in Apartment Rents

Change in Average Rent 2009:Q4-2010:Q4

Source: MPF Research.

Percentage Change
- <1%
- 1% - 3%
- 3% - 5%
- >5%

Source: MPF Research.
The Longer Term Outlook
Household Growth Should Return to Pre-Recession Levels – Immigration Key Wildcard

Average Annual Household Growth (Millions)

<table>
<thead>
<tr>
<th>Period</th>
<th>Low: Assumes Half of Census Immigration Projections</th>
<th>High: Assumes Census Immigration Projections</th>
</tr>
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<tbody>
<tr>
<td>1995-2000</td>
<td>1.15</td>
<td>1.15</td>
</tr>
<tr>
<td>2000-2005</td>
<td>1.37</td>
<td>1.37</td>
</tr>
<tr>
<td>2005-2009</td>
<td>0.7</td>
<td>1.18</td>
</tr>
<tr>
<td>2010-2020</td>
<td>1.18</td>
<td>1.38</td>
</tr>
</tbody>
</table>

Underlying New Home Demand – Even Under Low Immigration Assumptions – Should Top 16 Million

Household Growth by Age Will Reflect the Influence of Baby Boom and Echo Boom Generations

Change in Households 2010-20 (Millions)

2010 Homeownership Rate (Percent)

Age of Householder

-Projected Change in Households by Age Group [Left Axis]
-2010 CPS Homeownership Rate by Age [Right Axis]

Source: JCHS Tabulations of Census Population Estimates and CPS data
Homeowner Affordability Should Favor Renewed Demand Once Economic Growth Takes Hold

Source: JCHS tabulations of National Association of Realtors ® and Moody’s Economy.com data