

Real Estate and Economic Outlook

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NATIONAL ASSOCIATION OF REALTORS®**

Presentation at Santa Fe Association of REALTORS®

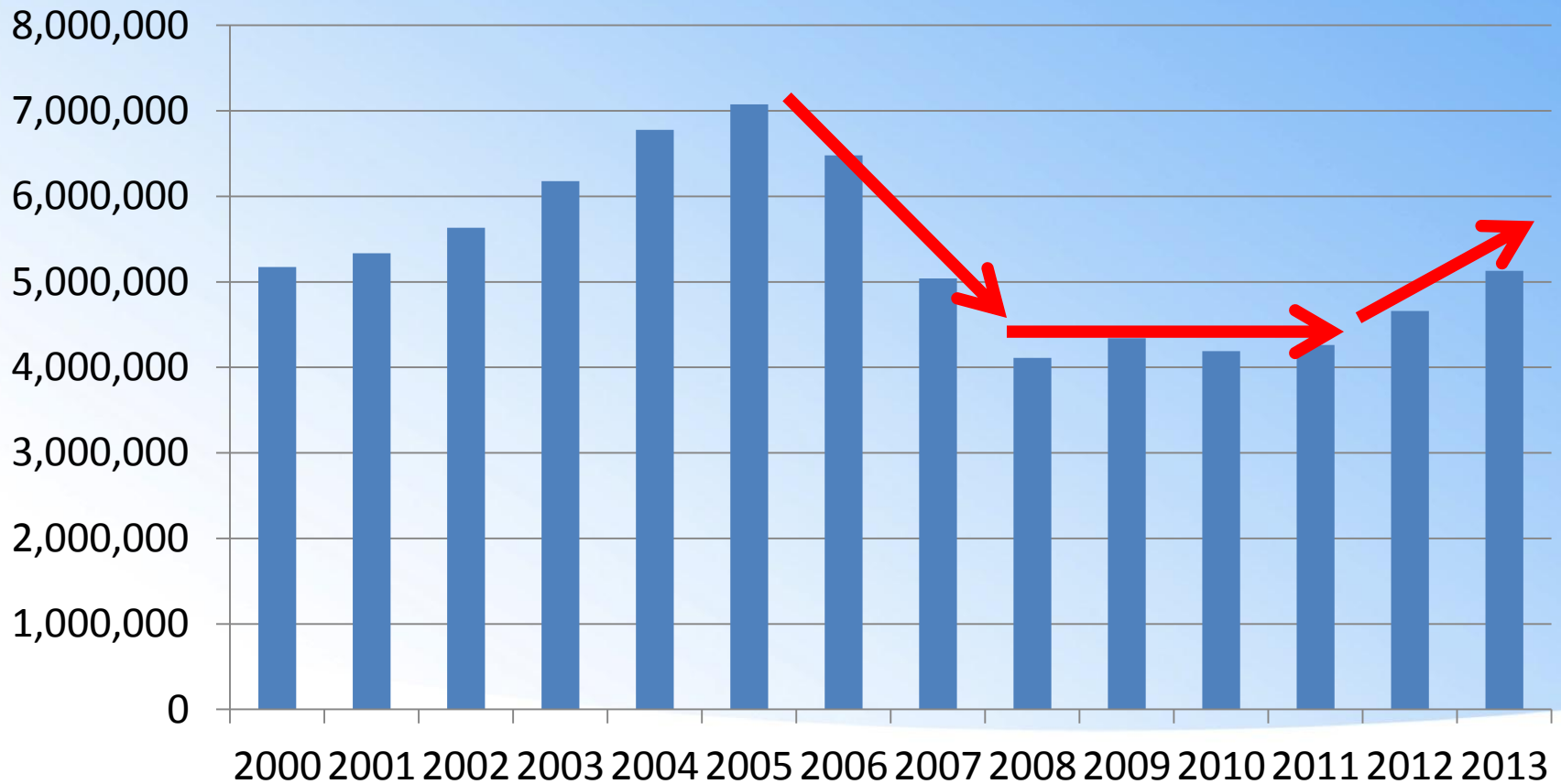
Santa Fe, NM

December 4, 2013



Existing Home Sales

20% cumulative increase over 2 years



Median Home Price



Albuquerque Housing Statistics

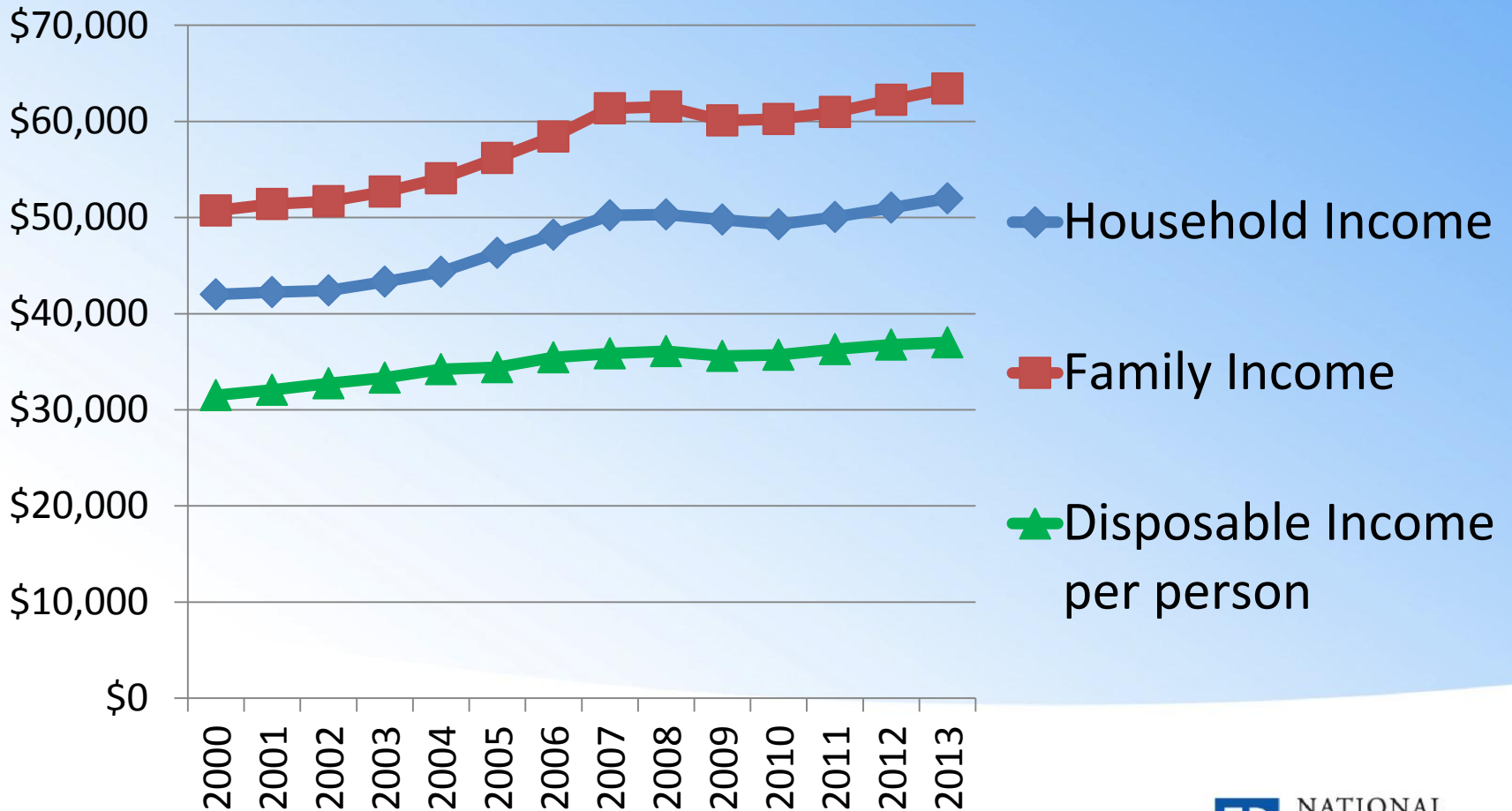
- Closed Sales through October
Up +19% year-to-date from 1 year ago
- Median Prices
Up +3 to 5% from 1 year ago
- Dollar Volume ... up +23% from a year ago
- Inventory ... +9% from a year ago

Santa Fe Housing Statistics

- Closed Sales through Q3
Up +12% year-to-date from 1 year ago
- Median Prices
Up +16% from 1 year ago
- Dollar Volume ... up +18% from a year ago
- Inventory ... +9% from a year ago

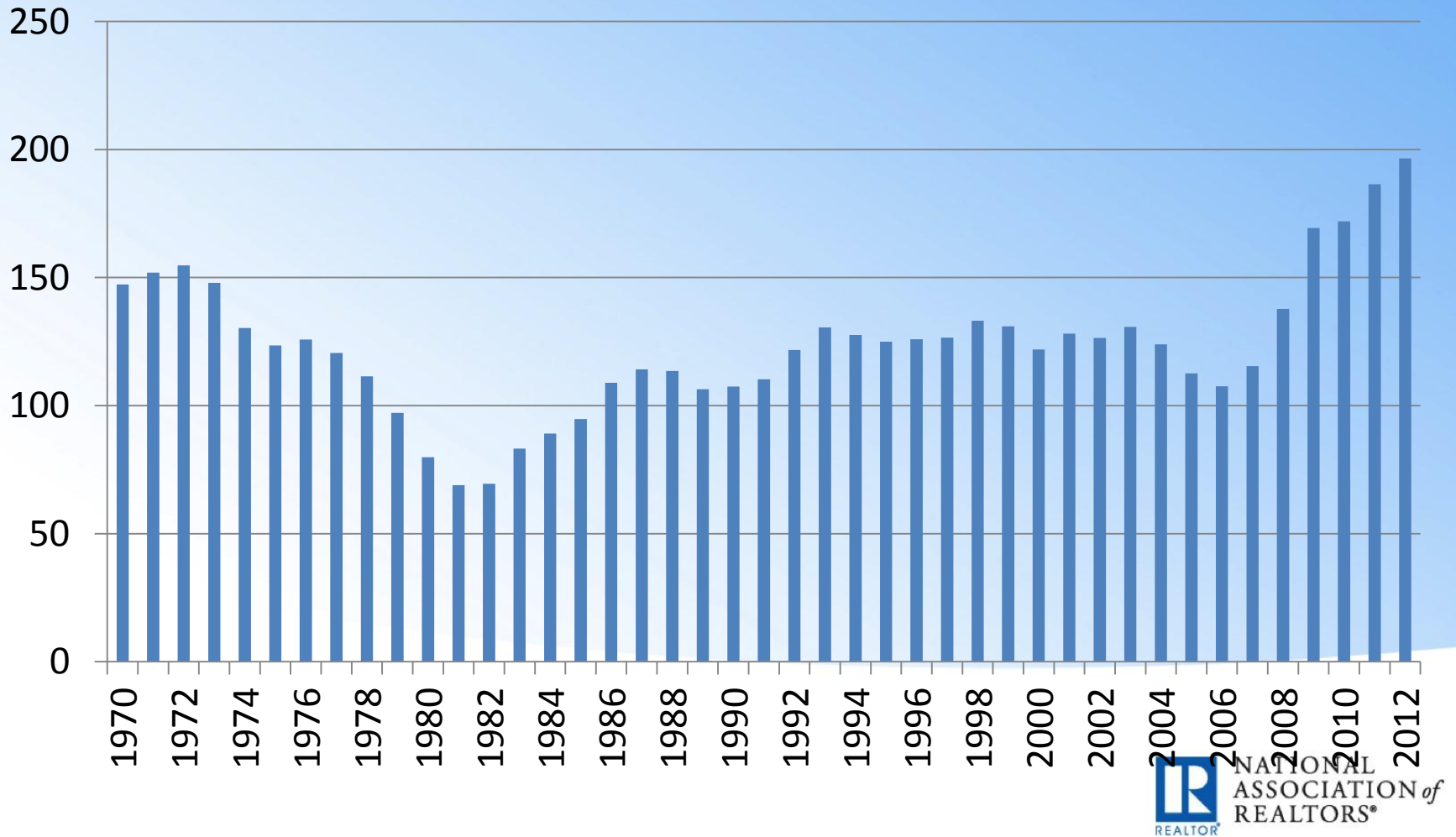
Income Trends

2% to 4% cumulative increase over 2 years



Housing Affordability Index

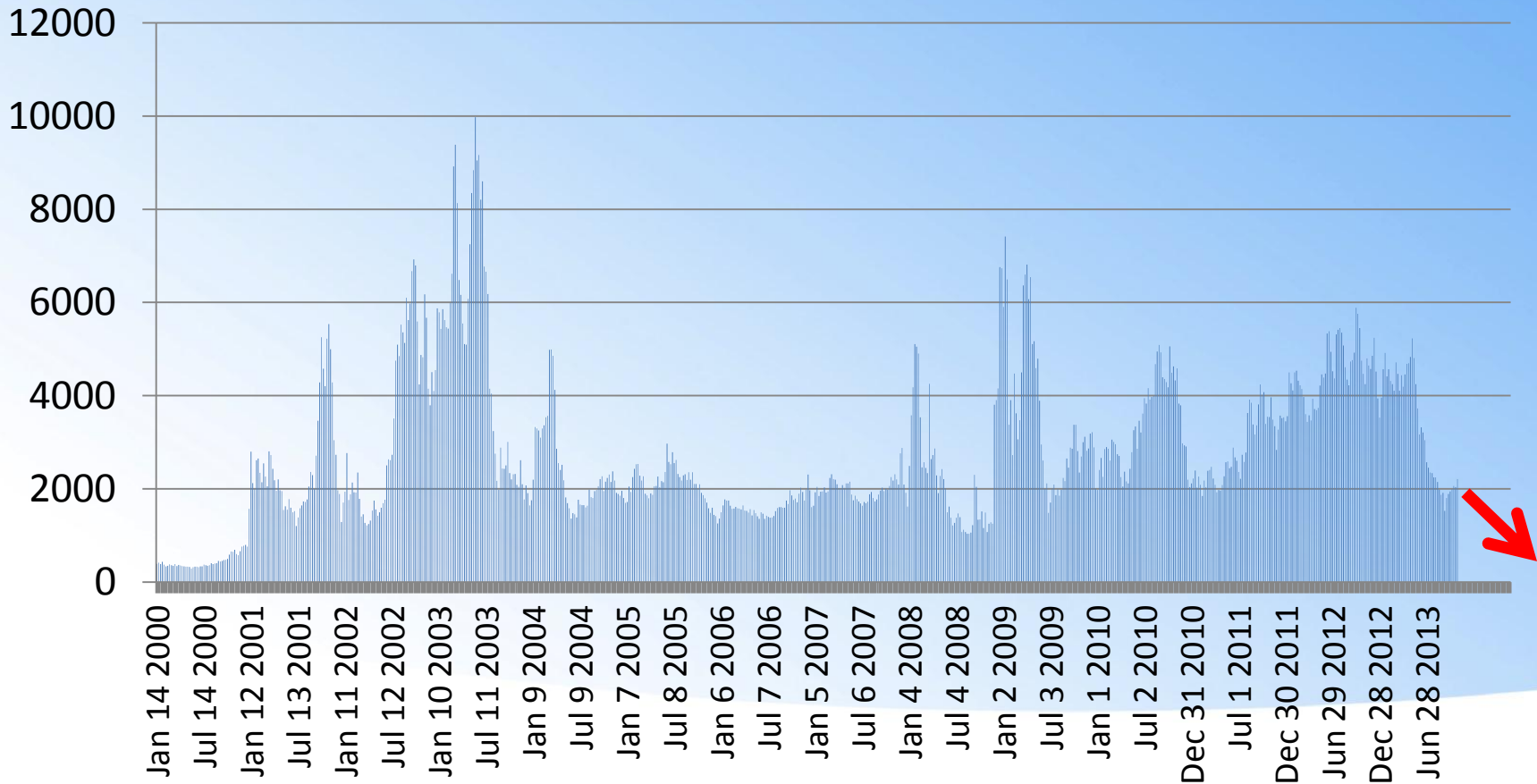
(Record High in 2012)



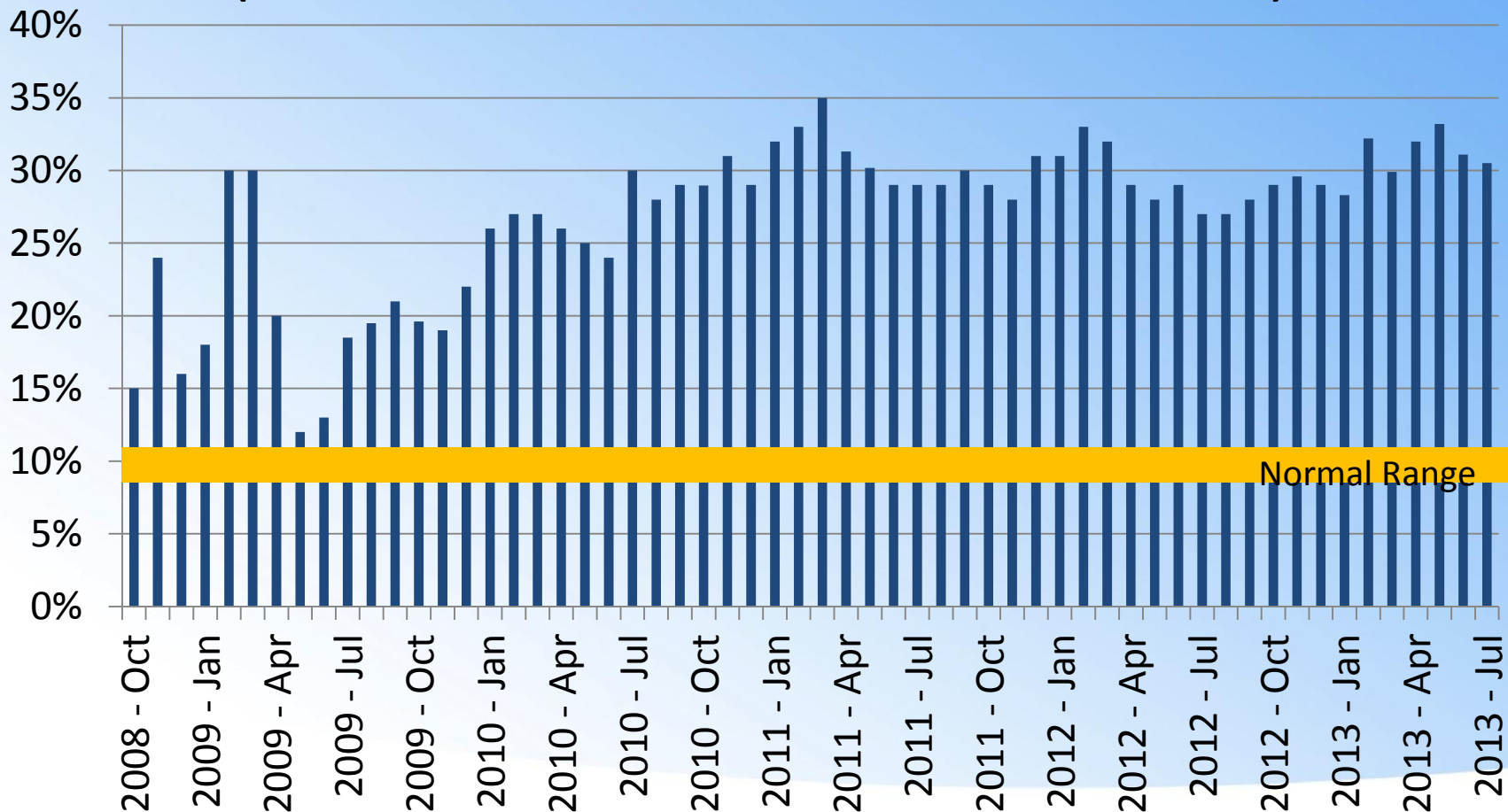
Inevitable Rise in Mortgage Rates will further hurt Affordability (30-yr rate have been below 6% for 5 years)



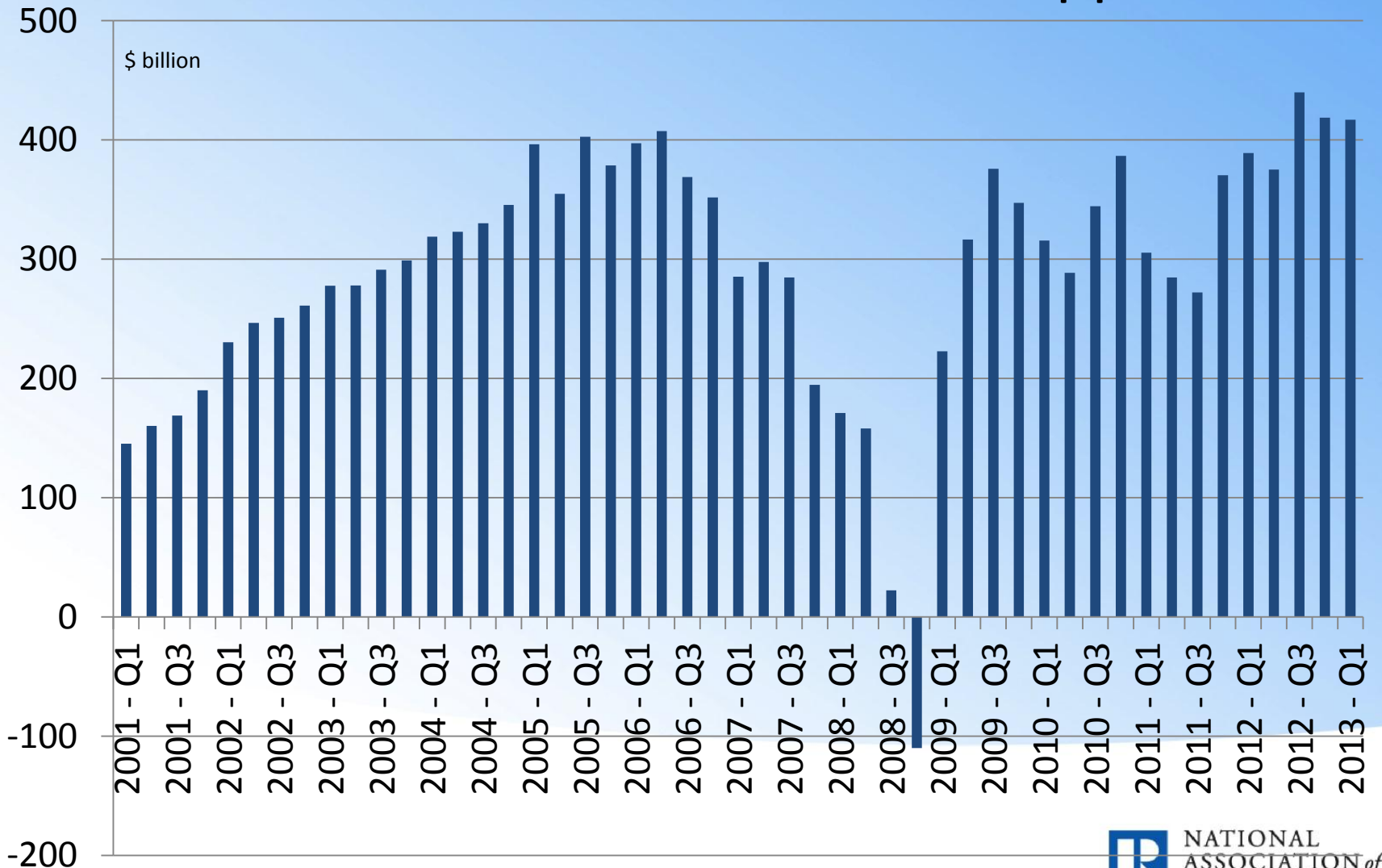
Refinances will Collapse in 2014 (to at least 15-year low)



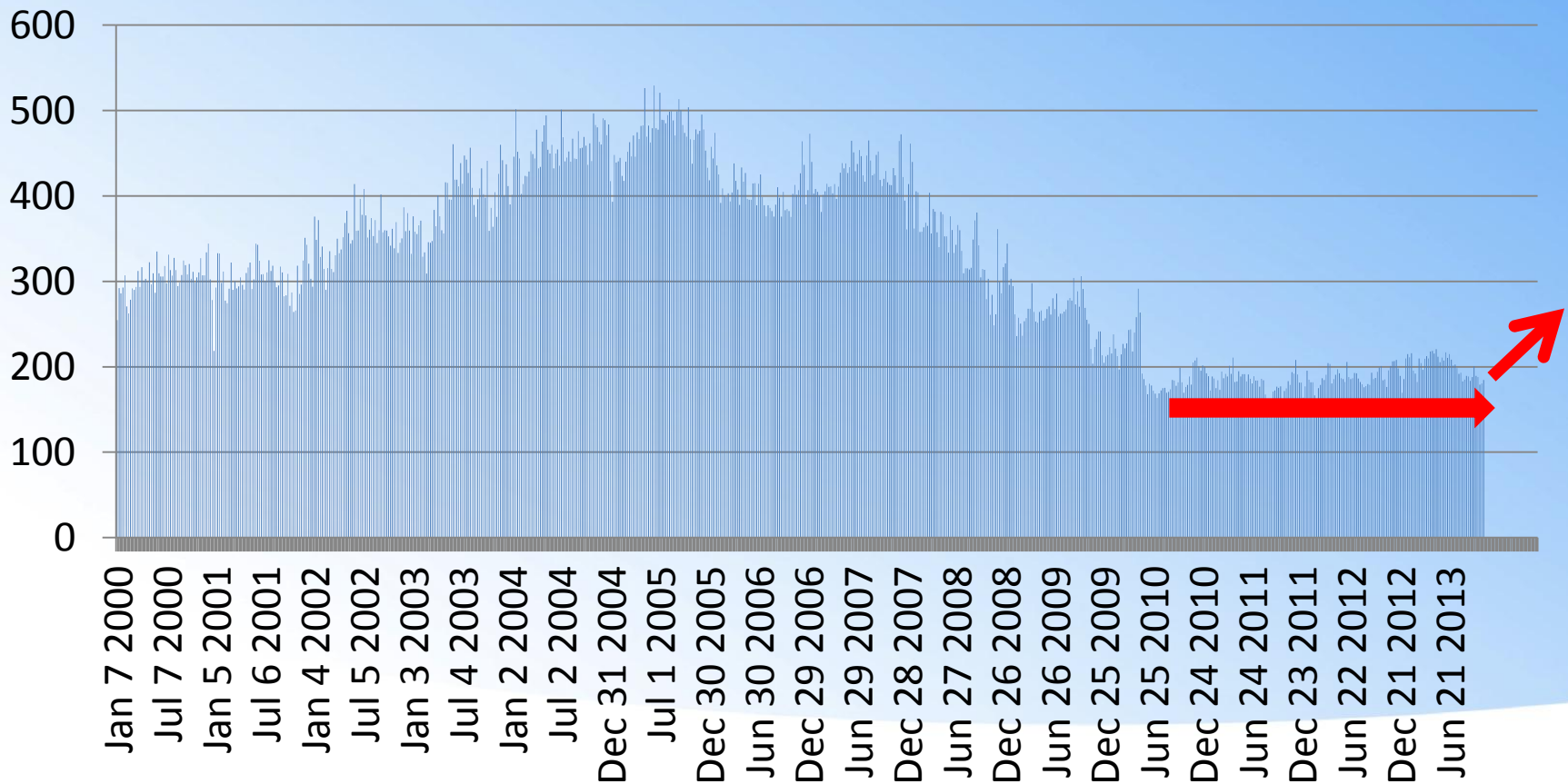
All-Cash Buyers Stayed High ... even when mortgages were cheap (Cash share as % of total home sales)



Financial Industry Profits from Low Rates and Refis Now What ... Boost Purchase Apps?



No Increase in Mortgages for Home Purchases during 2-year Recovery; Will Rise in 2014?



Ready to Open Credit?

(Average Credit Scores of Approved Loans)

	Normal	2009 to 2012	If Normal
Fannie	720	760 to 770	720
Freddie	720	760 to 770	720
FHA	650	680 to 700	660



15% to 20% Higher Sales



But Will Washington Allow It?

- Washington Policies so far ... Too Restrictive
 - Rising g-fees and FHA insurance premiums?
 - Uncertainty about QRM down payment requirement? ... Dodd-Frank?
 - Too many Lawsuits? ... Runaway DOJ?
- Mortgages Have Performed Outstandingly
 - Not because of Washington policies
 - But because of home price increases
- New Restriction with PATH?

What is PATH? ... Hensarling's Ideology (Protecting American Taxpayers and Homeowners?)

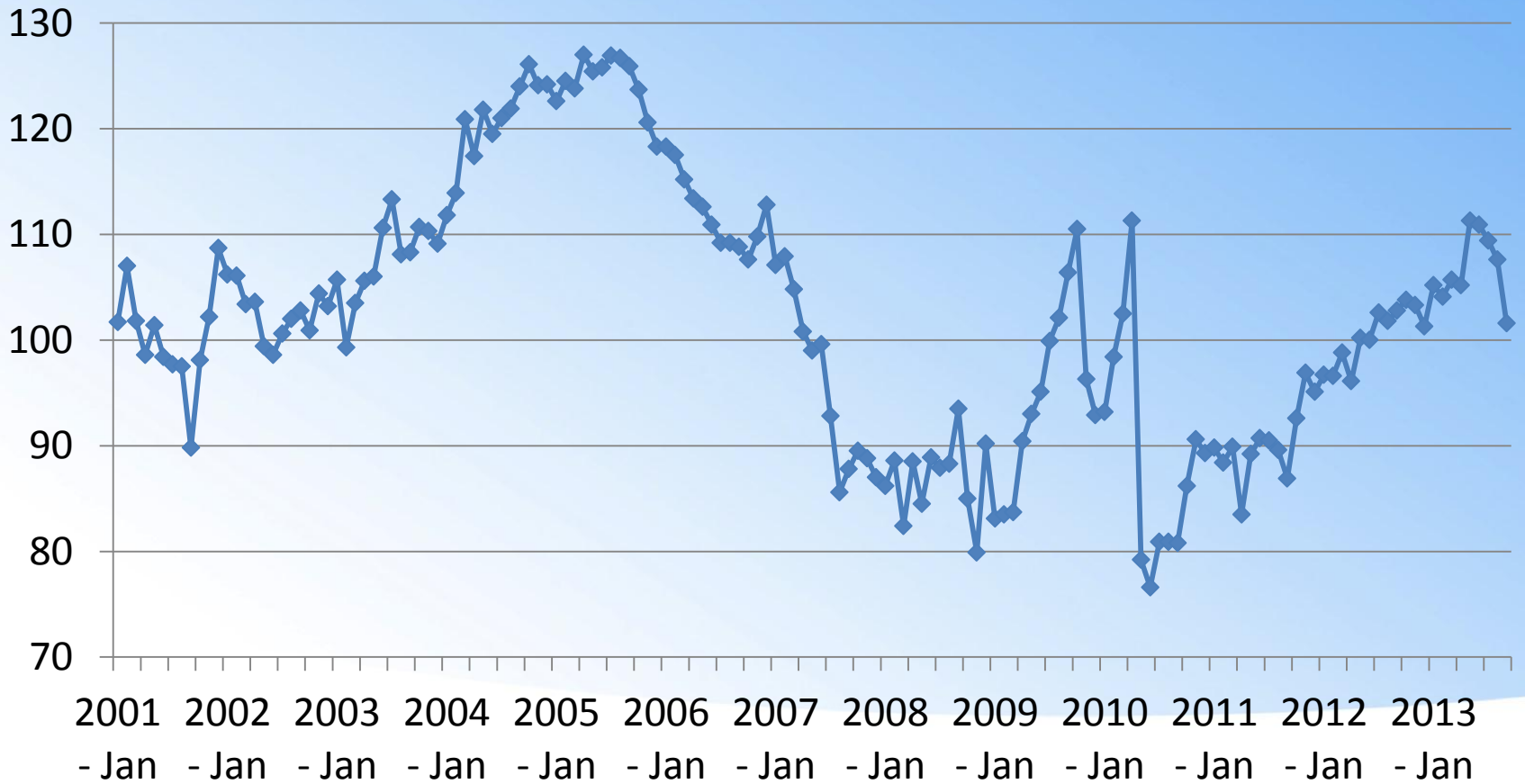
- For-profit Fannie and Freddie were Arrogant
- Today's Fannie and Freddie have had reforms under government control
- Remove Government Guarantee on Mortgages
- 30-yr Fixed Rate Mortgages ... Hard to get and higher rates
- Large Banks will do Securitization ... Small Banks at Risk
- Market becomes excessively pro-cyclical
- Large Banks have FDIC ... taxpayer risk ... vulnerable to nationalization and, if so, government credit allocation

- Global capital could decide to go elsewhere rather than the U.S. Other countries grow faster than the U.S.

Latest Market Trends

Pending Sales (Contracts, not Closings)

(Seasonally Adjusted)

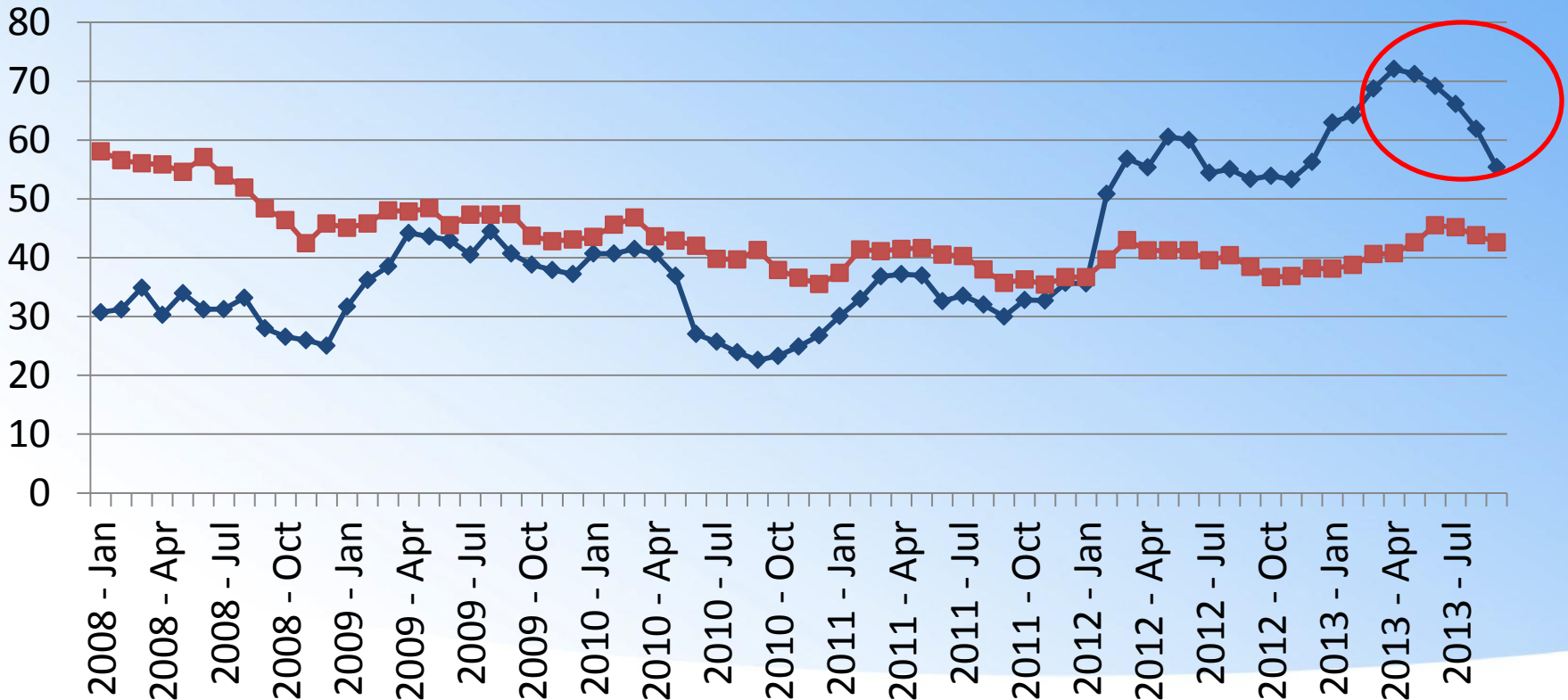


Source: NAR

Buyer and Seller Traffic

How Much from Gov't Shutdown and Dysfunction?

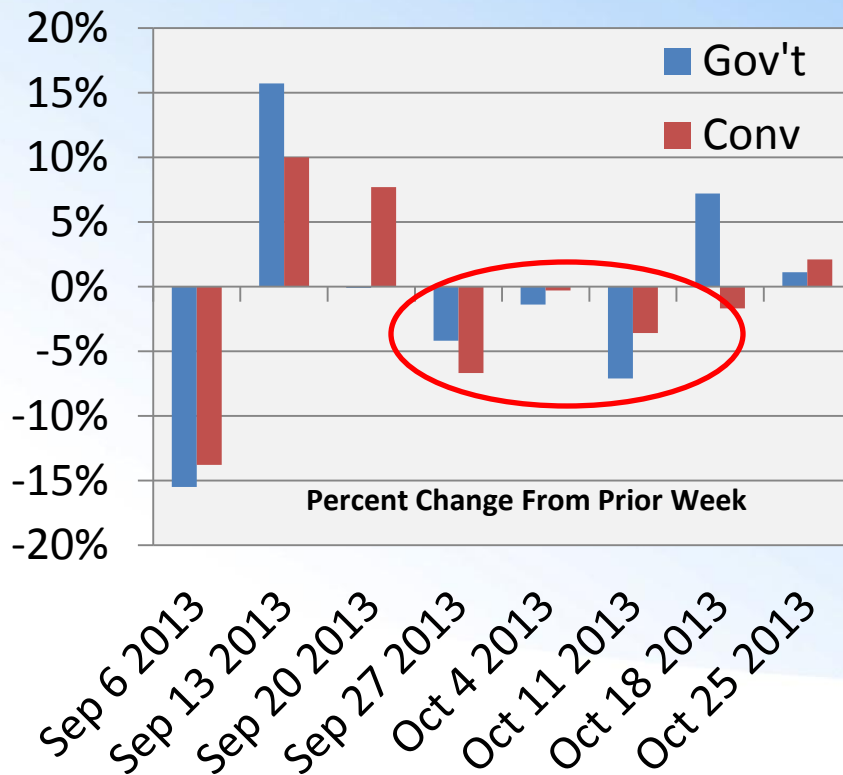
—◆— Buyer —■— Seller



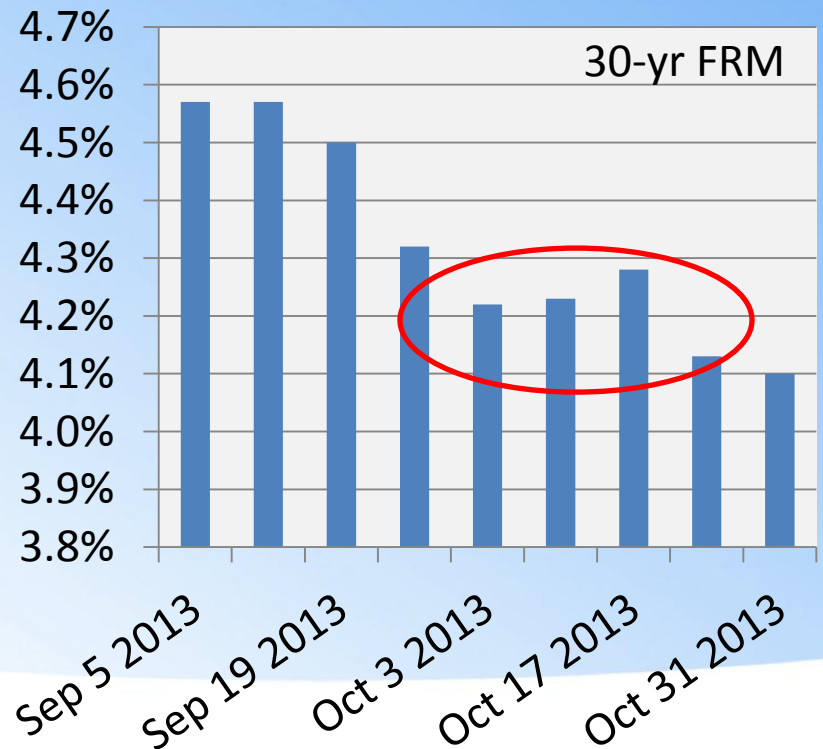
Government Shutdown Did Not Help

IRS Forms Along with FHA and USDA Closures

Purchase Apps Fell with Closures



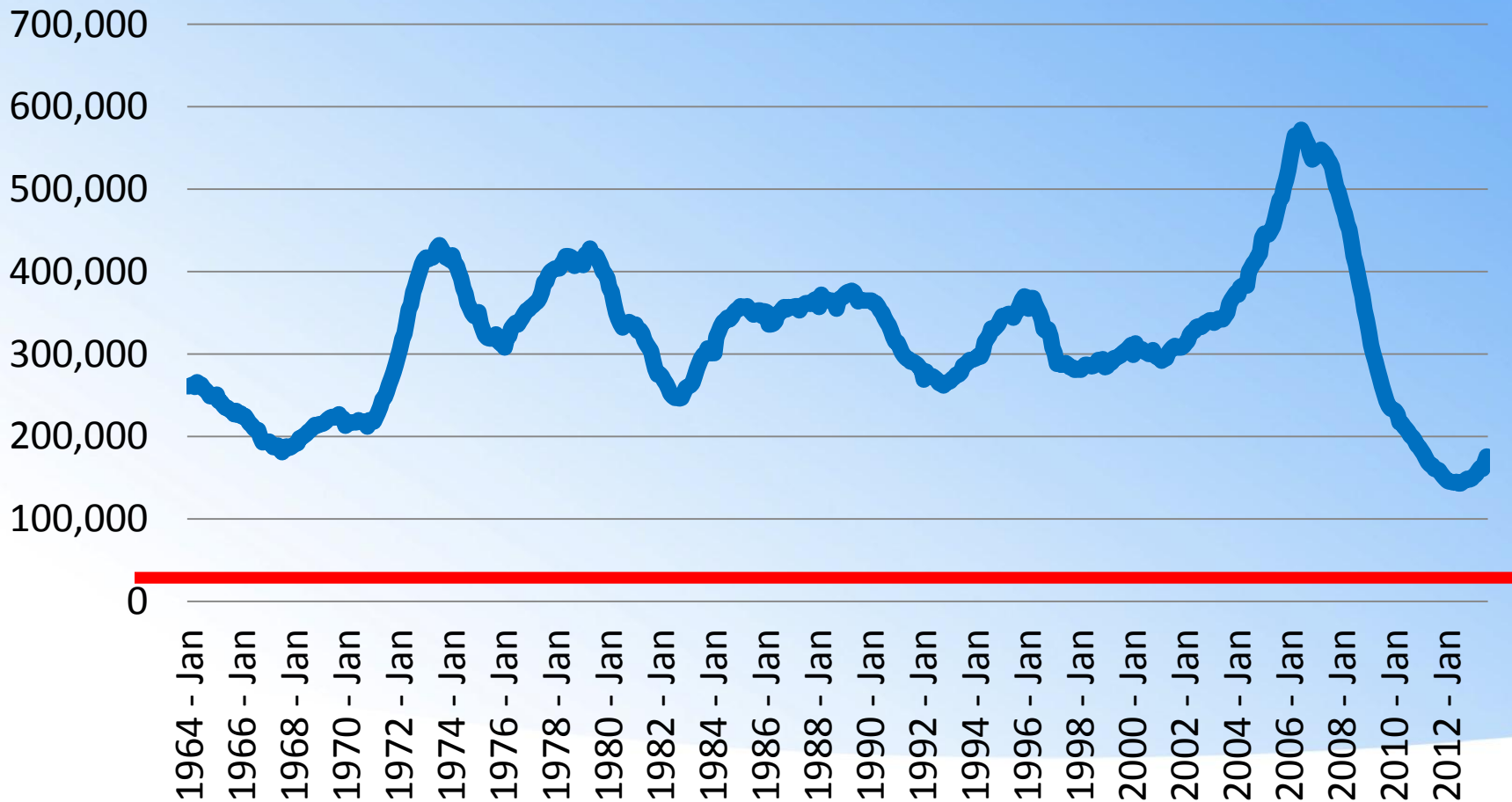
Rates Rose with Treasuries



Déjà vu in January?.....February?

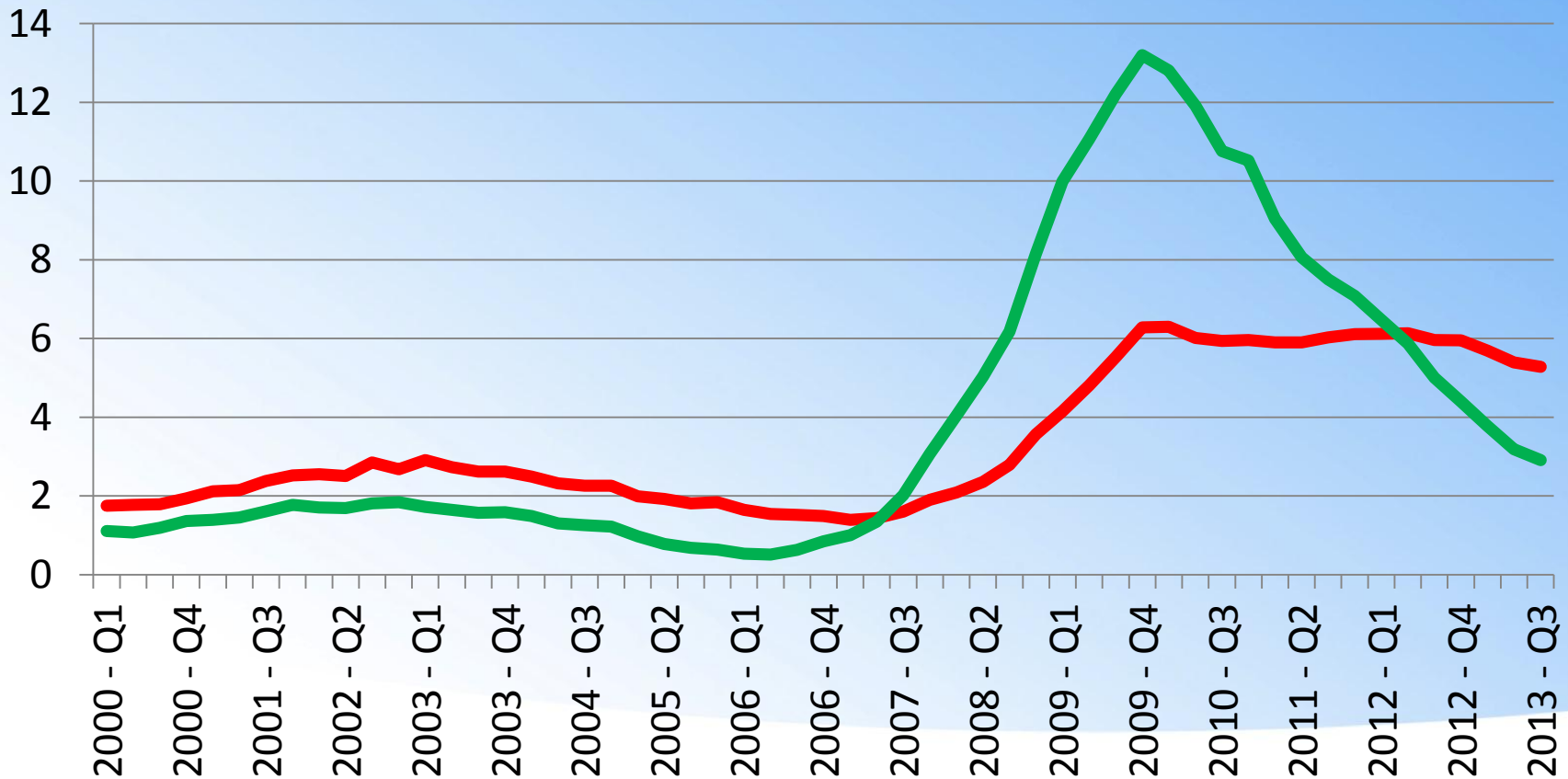
New Home Inventory

(Newly Constructed Homes Inventory at near 50-year low)

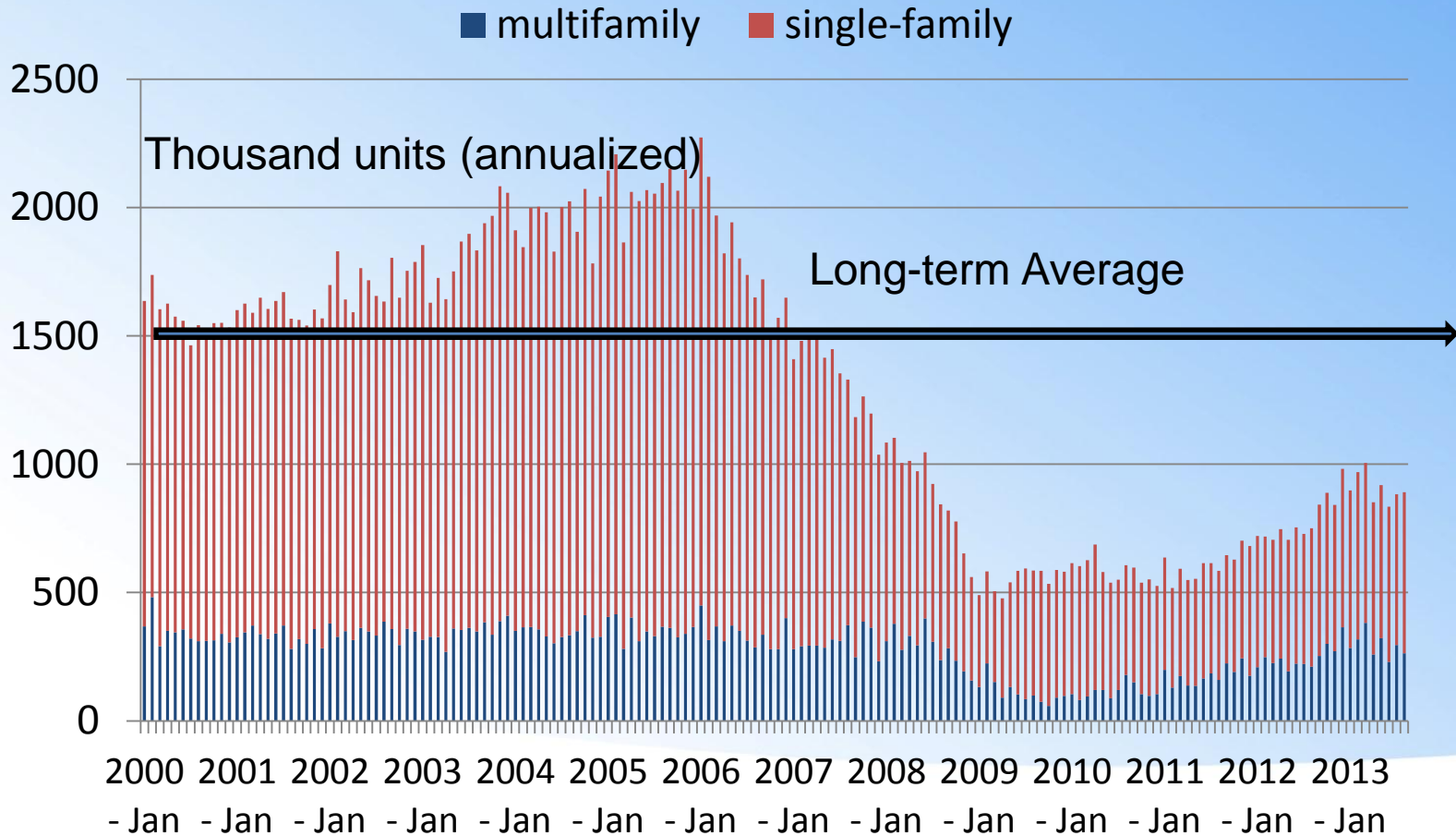


Shadow Inventory in NM and AZ

(Mortgages Late 90+ day or in foreclosure process)

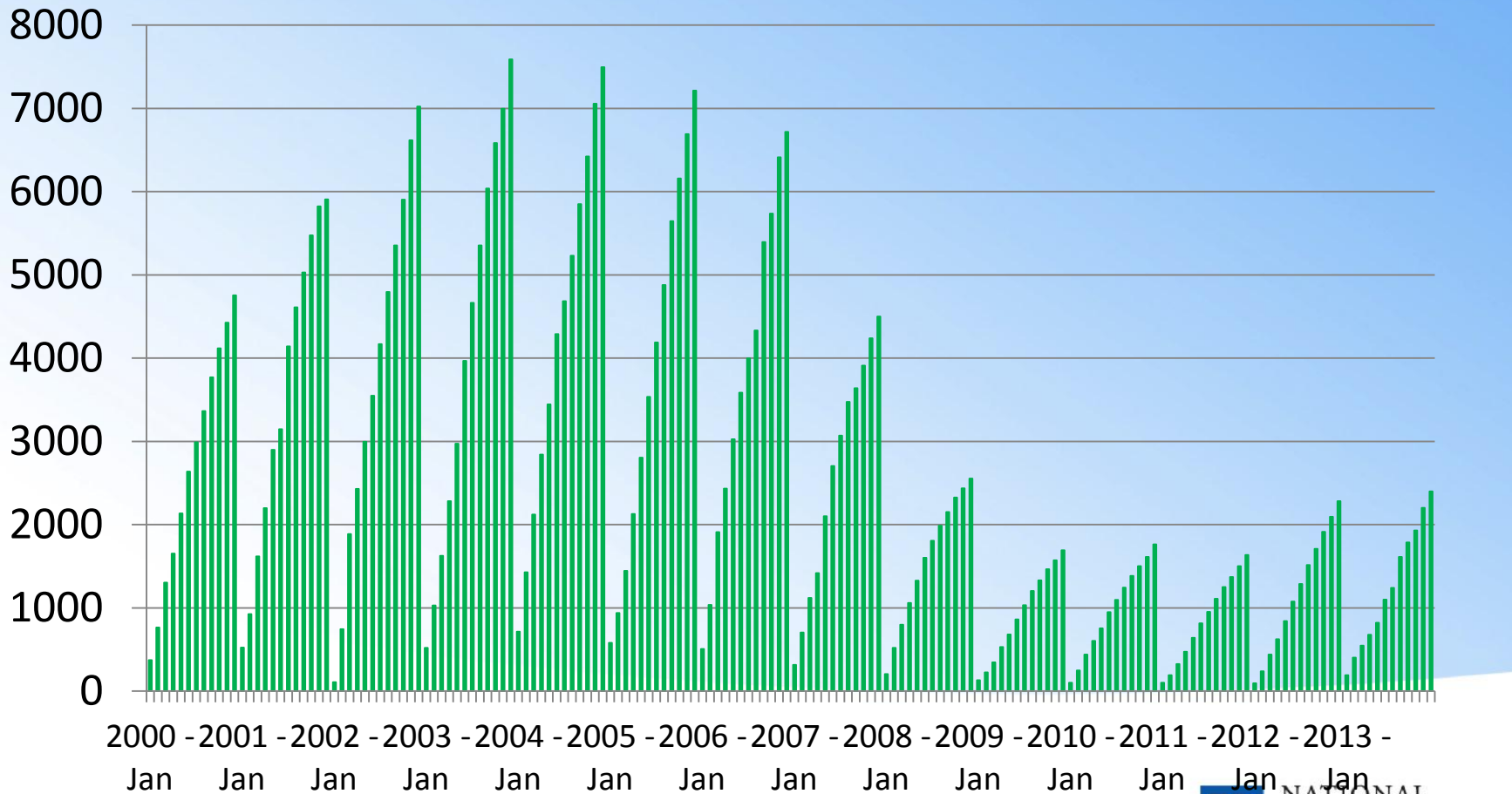


Housing Starts ... Need to Reach 1.5 million soon or persistent housing shortage



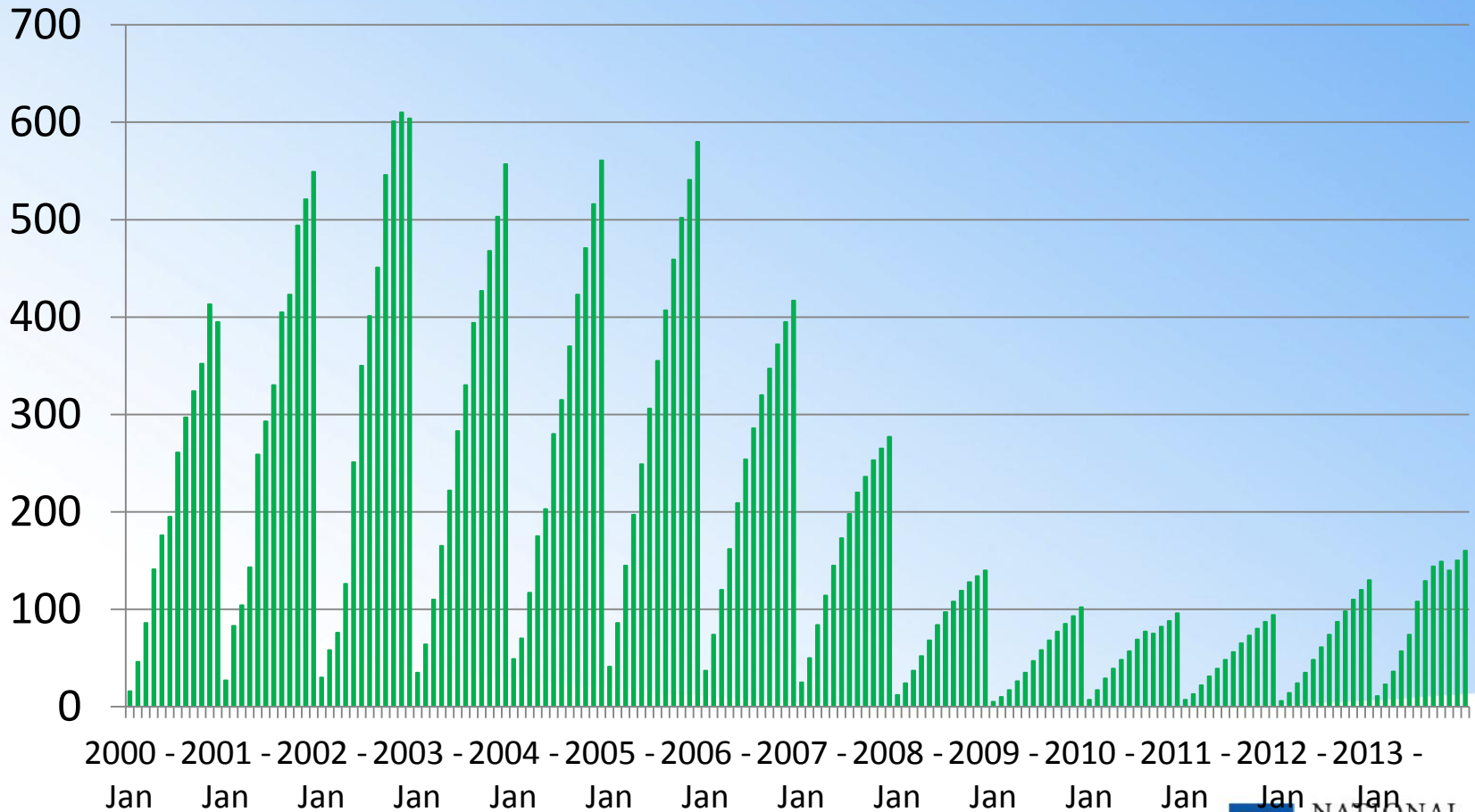
Albuquerque Area Housing Permits

(year-to-date)



Santa Fe County Housing Permits

(year-to-date)

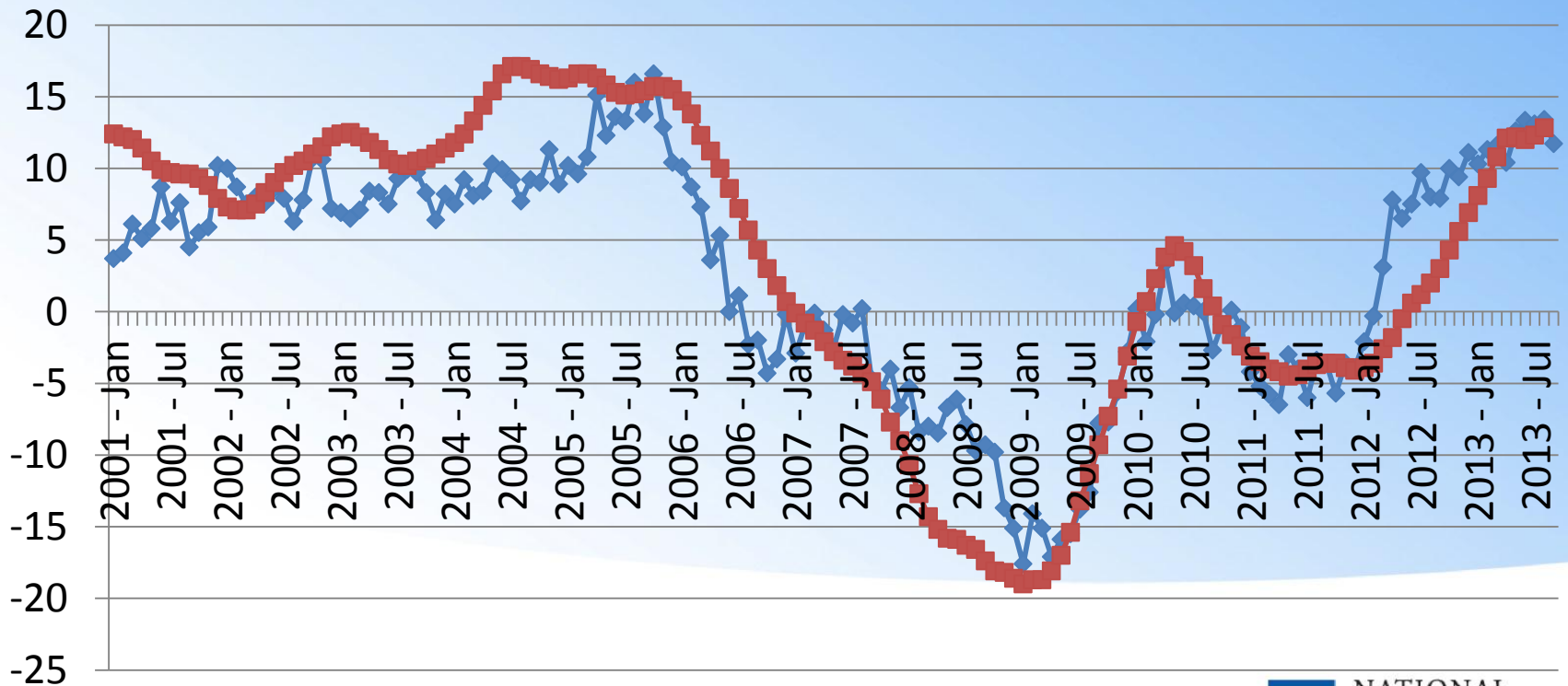


Rising Home Prices Because of Lack of Inventory

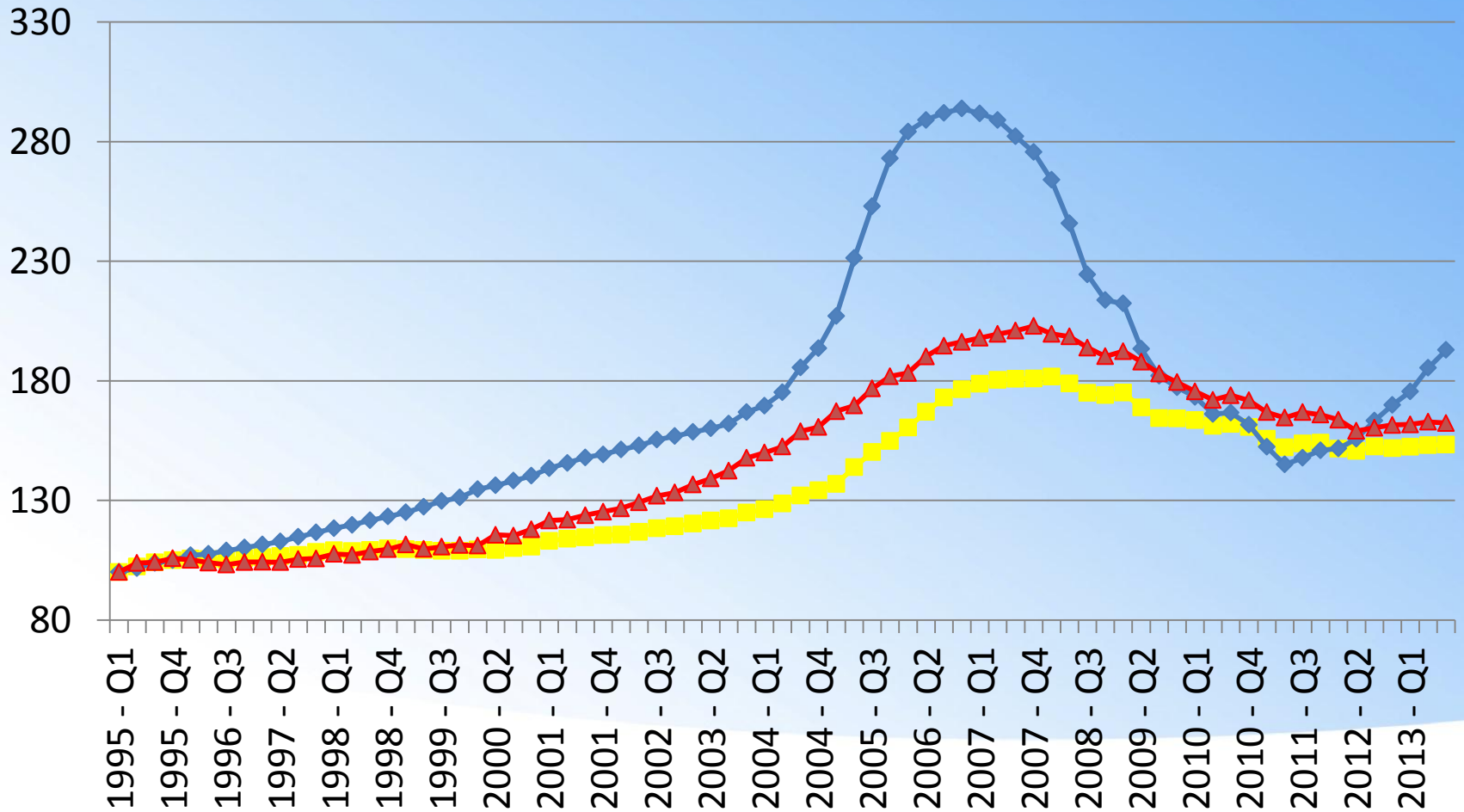
(% change from one year ago)

Blue = NAR Median Price

Red = Case-Shiller Index



Phoenix, Albuquerque, Santa Fe Home Price Index



GDP Growth ... Unimpressive but no Fresh Recession

(Could be on the verge of recession if not for housing recovery)

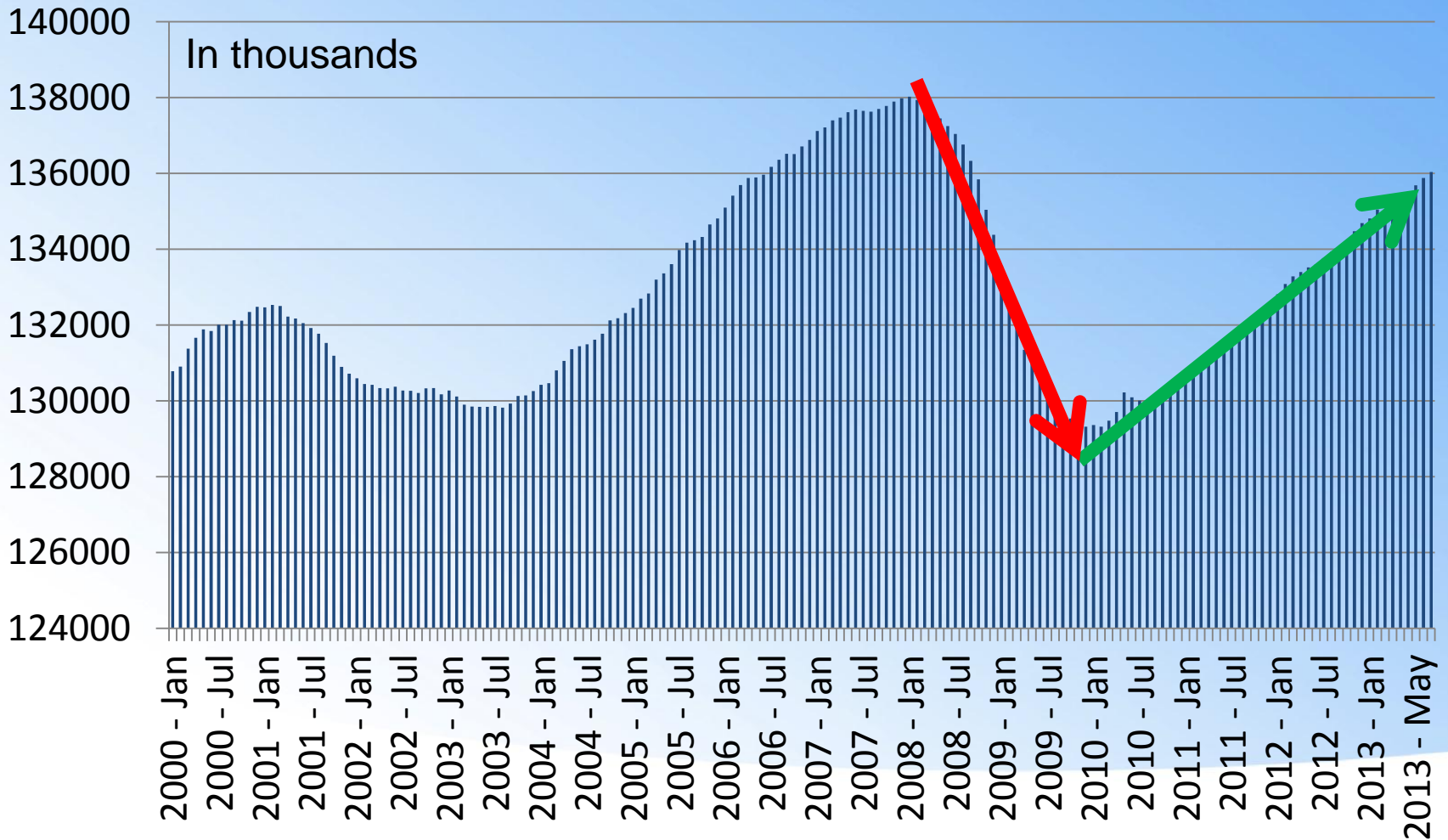
% growth from one year ago

◆ % growth from one year ago

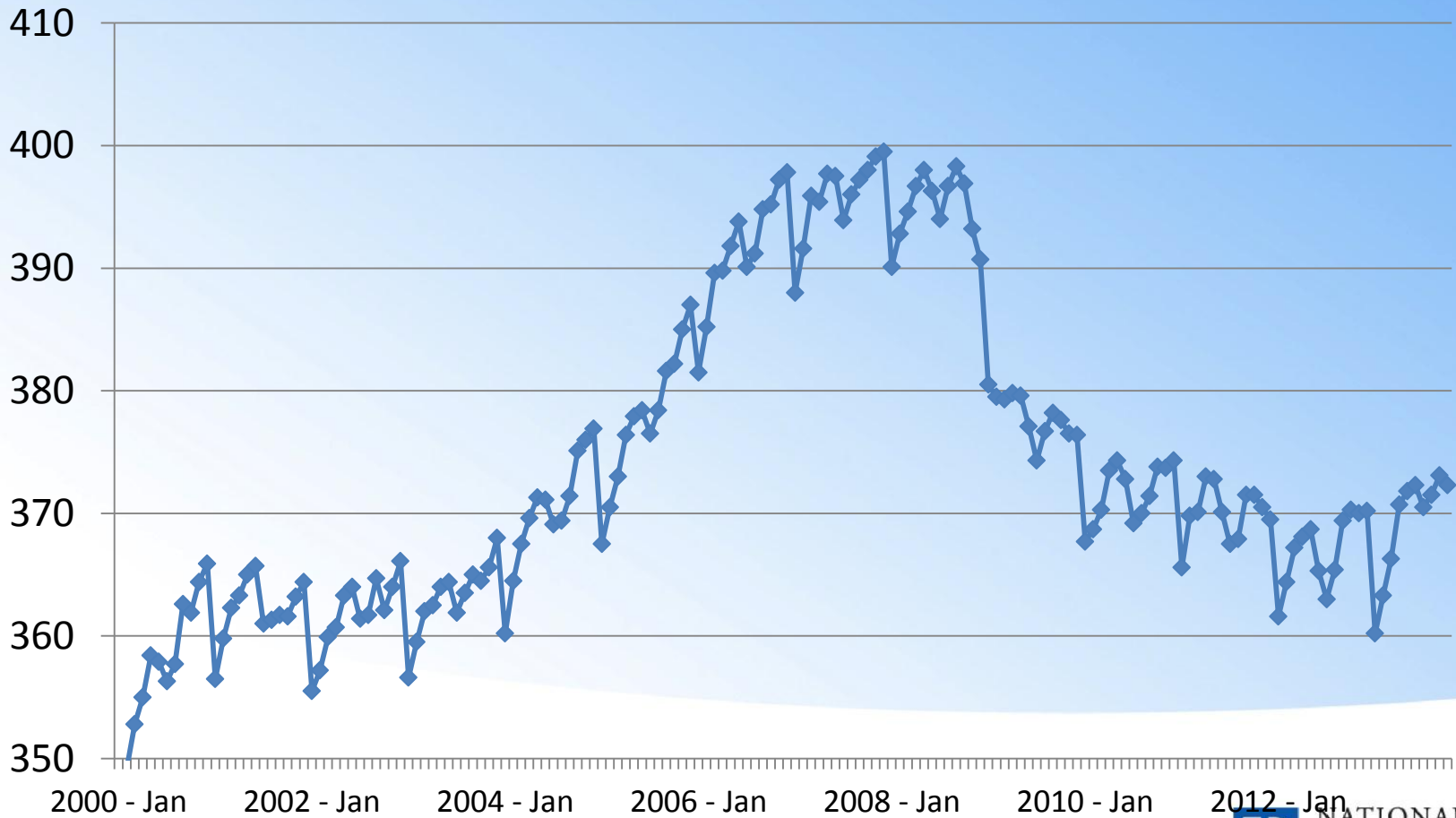


U.S. Total Payroll Jobs

(8 million lost ... 7 million gained)



Albuquerque Area Total Jobs



Santa Fe Area Total Jobs



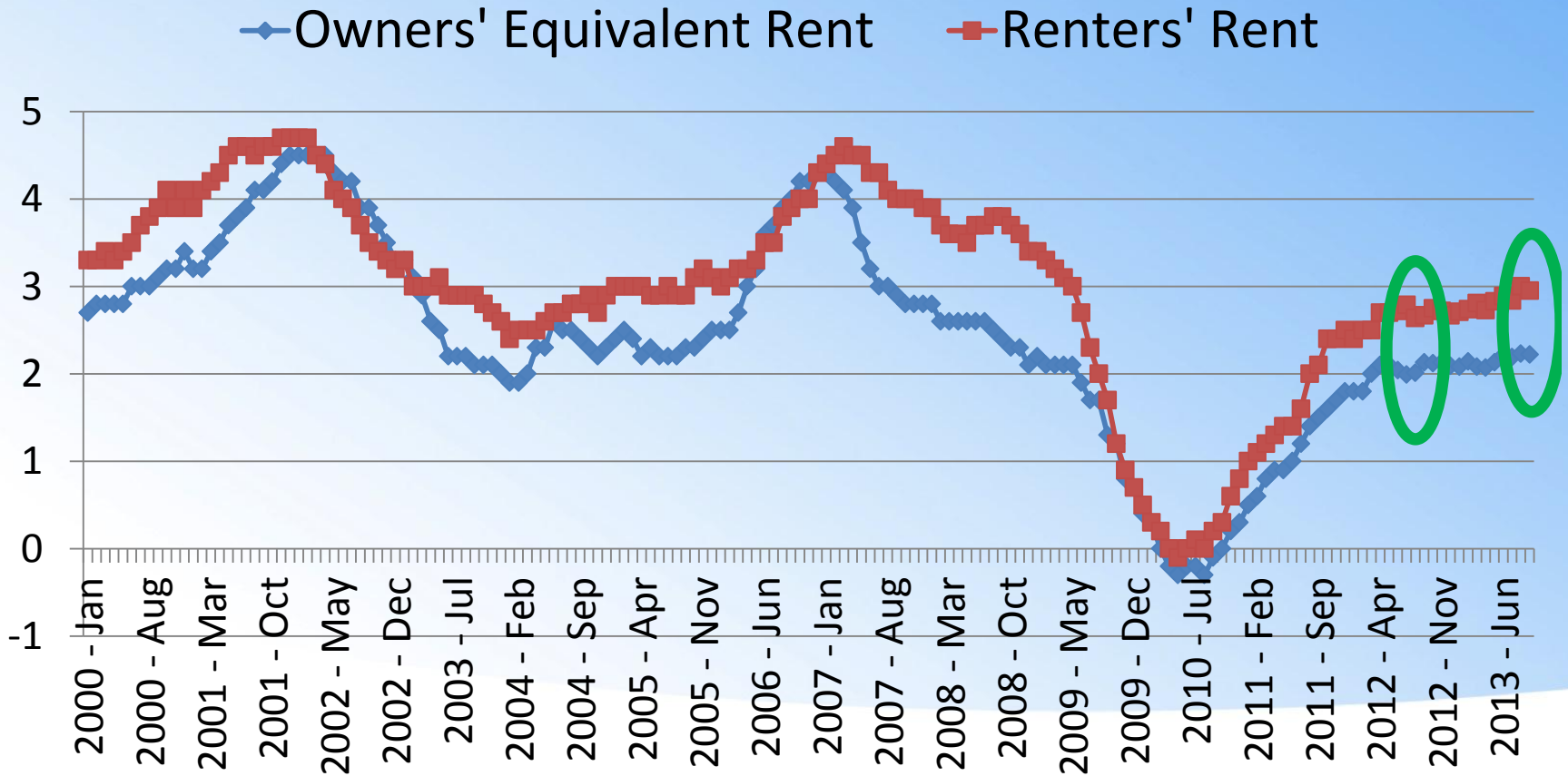
Forecast

Essentially Same as the one made
last year in November 2012

Forecast #1 (in 2012): Inflation will be Notably Higher by 2015

- No Threatening Inflation Signs for 2013
- But Inflation rises to 4% to 6% in 2015
- Well above Fed's preferred rate of 2%
- But not in double-digits as in 1970s

Rising Renters' and Homeowners' Rent Growth (the biggest weight to Consumer Price Index)



Forecast #2

(Rising Mortgage Rates to 5.3% by end of 2014)

	2013 forecast	2014 forecast
Existing Home Sales	11%	0%
Median Price	11%	6%
Dollar Volume Estimate	+22%	+6%

Home Price Forecast by Wall Street Journal Economists Panel

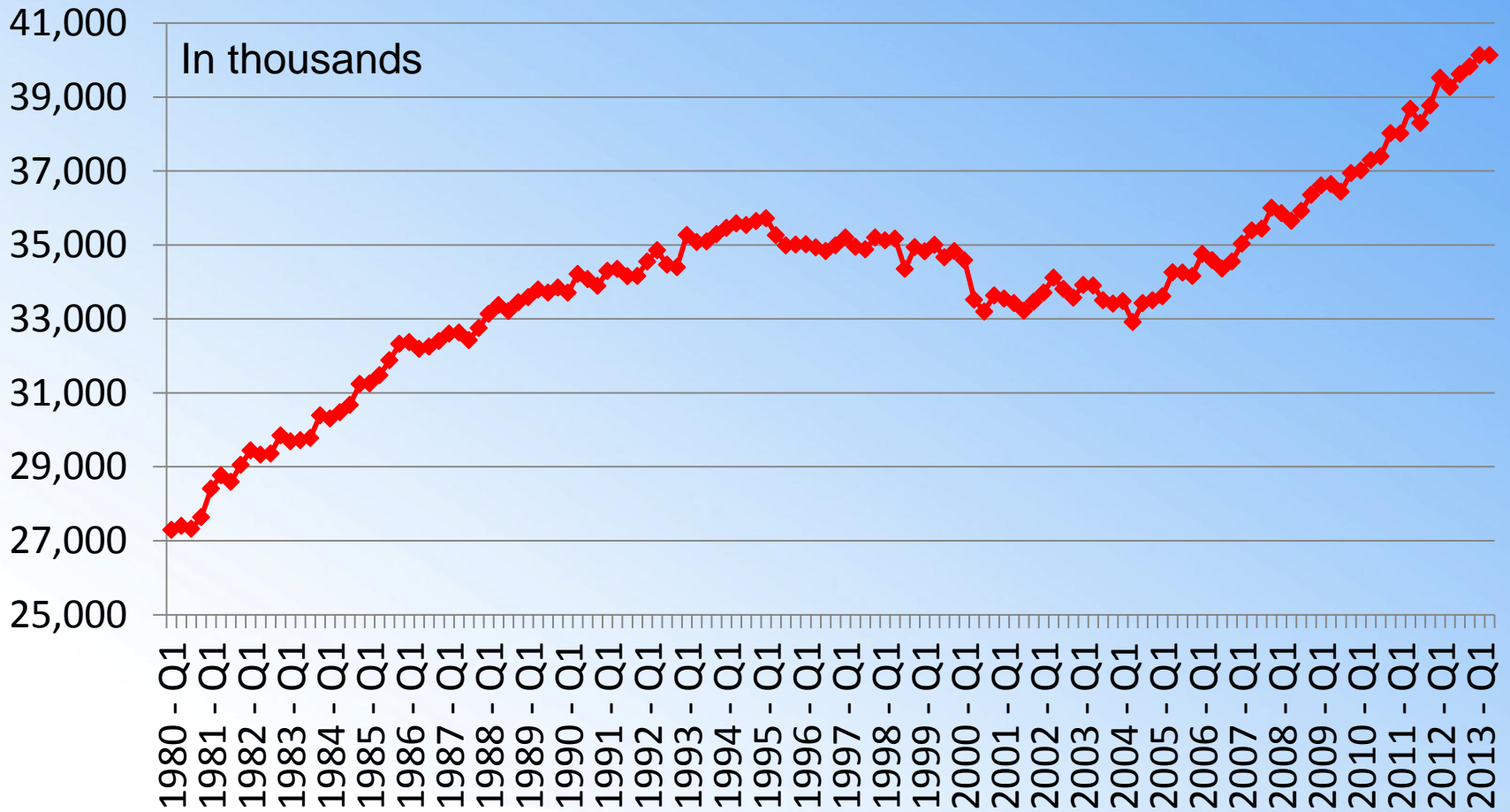
Year	WSJ Home Price Forecast
2014	5%

Robert Shiller : “Homes are still affordable ...
we do not have extravagant mindset today”

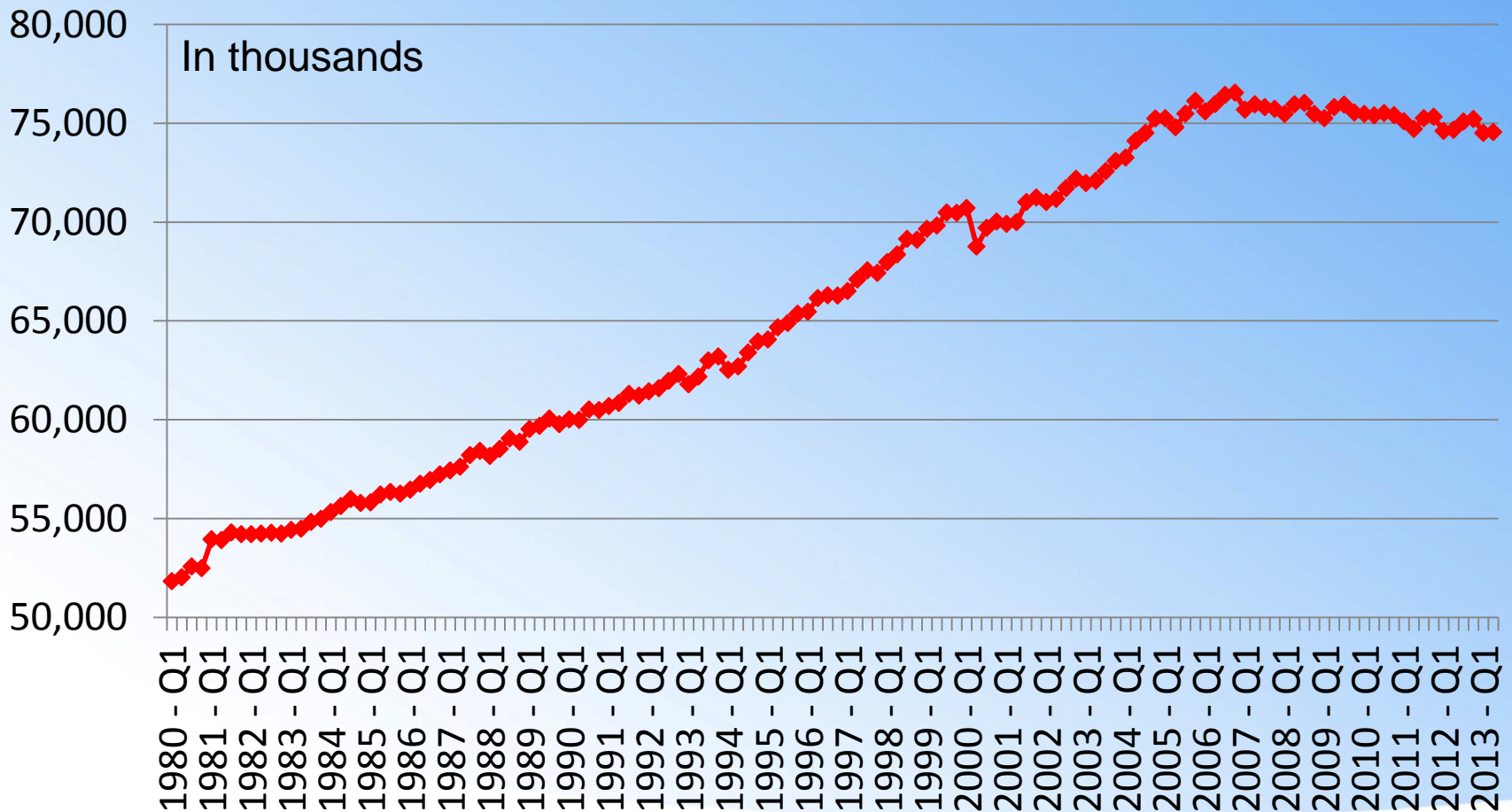
Forecast #3: More Unequal Wealth Distribution

- Renters do not accumulate wealth
- Renter population rising
- Homeowners build wealth after buying at low prices
- Stagnant homeowner population
- Tight Credit hinders 'good' renters from becoming homeowners
- Investors becoming increasing share of property owners

Renter Households

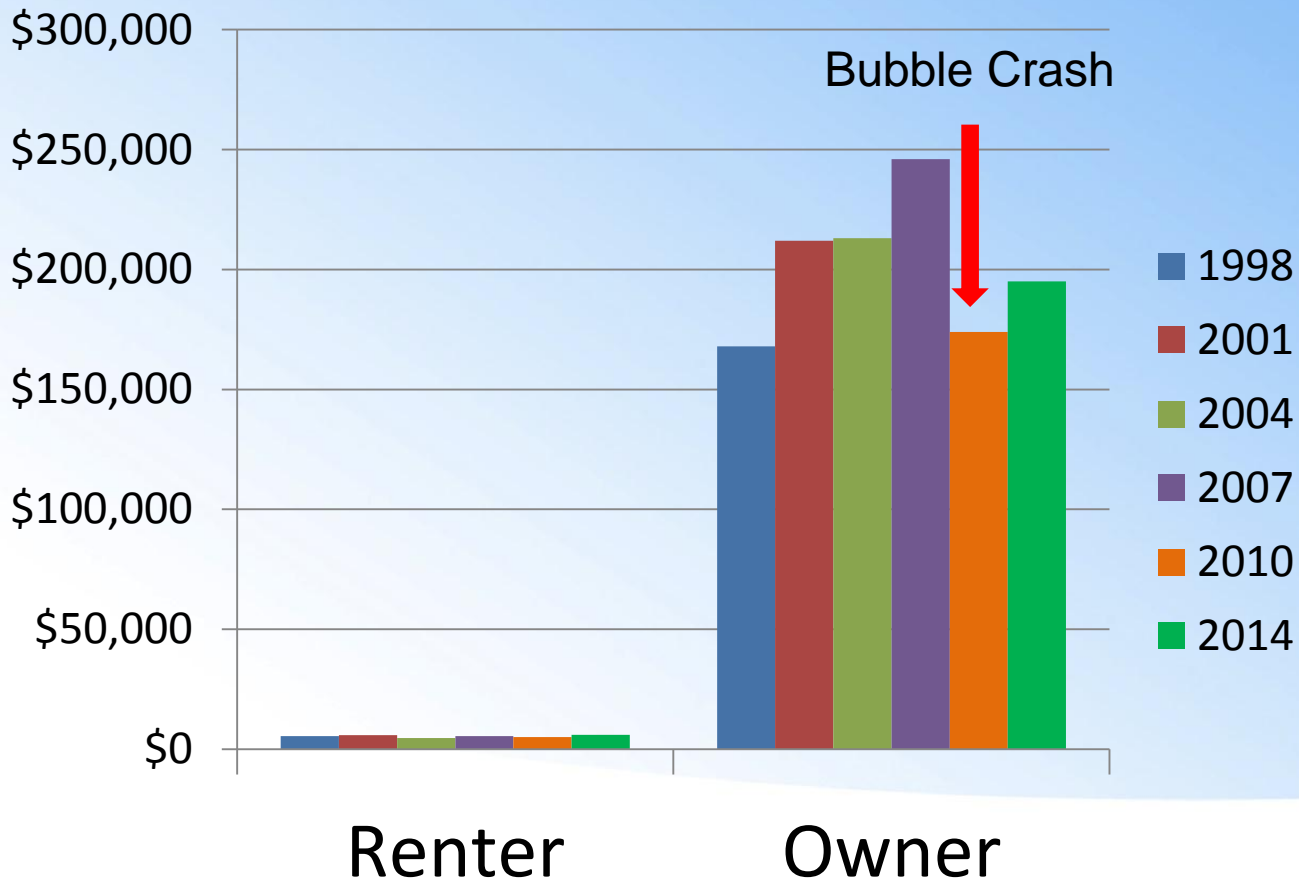


Homeowner Households has not Grown since 2006 ... but Primed to Grow



Wealth Distribution

(Federal Reserve data on median net worth)



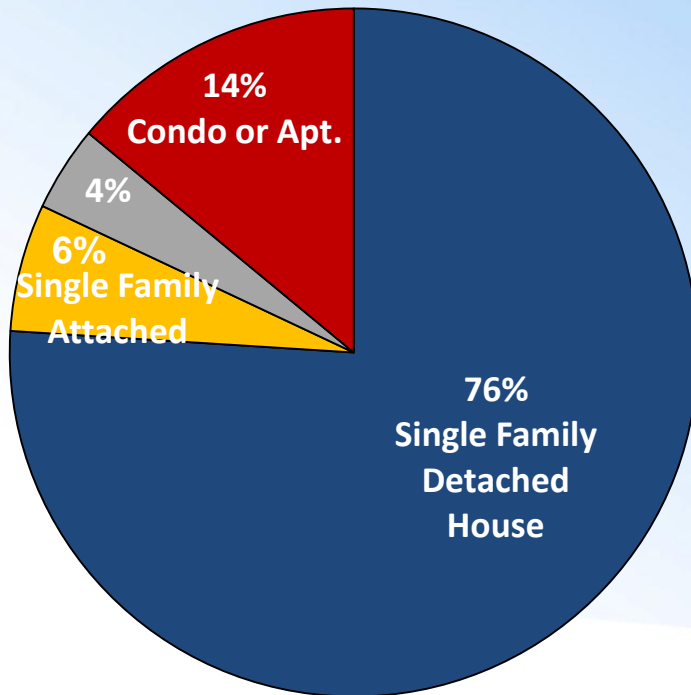
- Dodd-Frank?
- PATH?
- Lawsuits?
- Legacy?

2014 Forecast by NAR

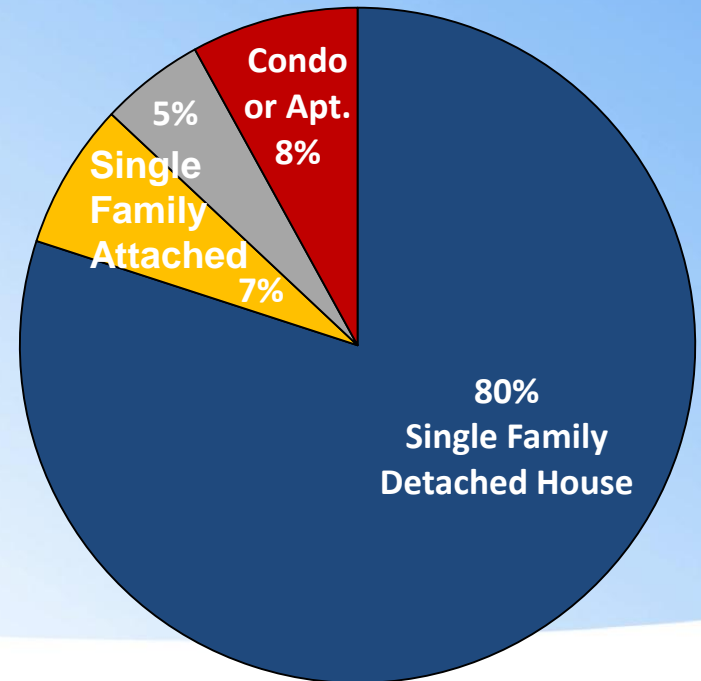
What Homebuyers Want?

Slightly More Preference For Condo or Apartment Living Than In 2011

Housing Type Preference (2013):



Housing Type Preference (2011):

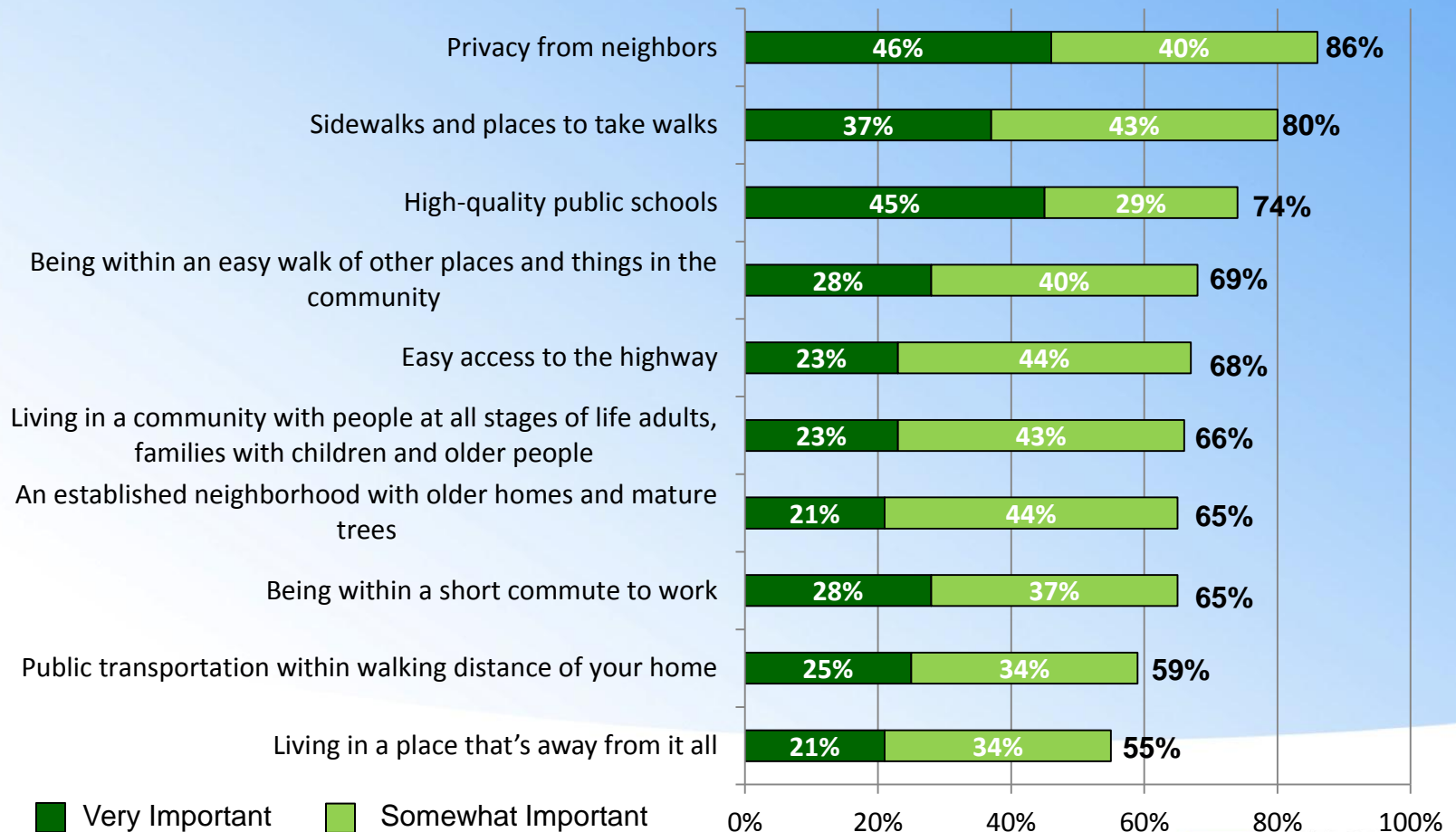


Right now, if you could choose, which of the following would you prefer to live in:



Privacy, Walkability, Schools Most Important in Deciding Where to Live

Most Important Factors in Deciding Where to Live:

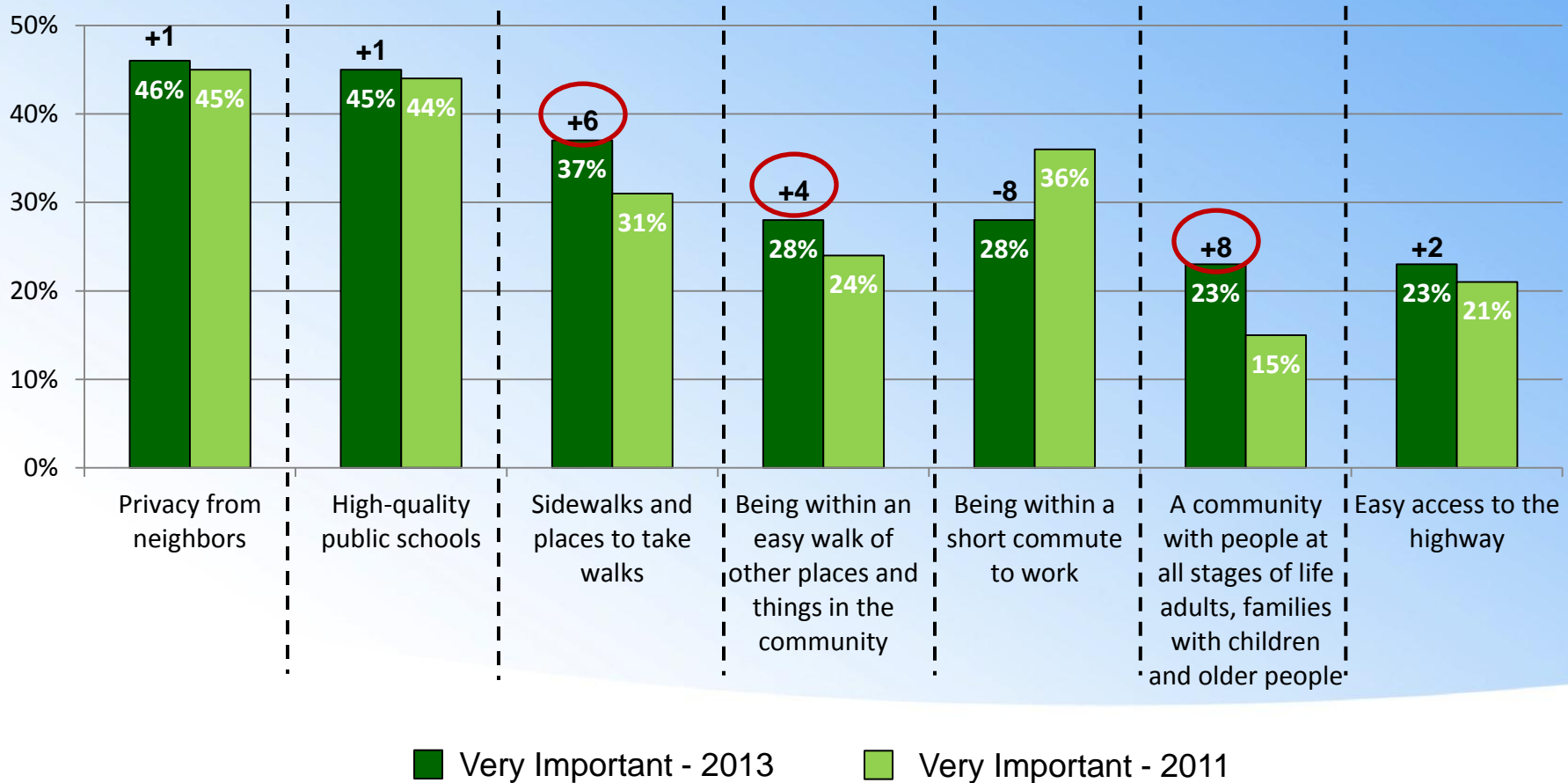


In deciding where to live, indicate how important having each of the following would be to you: very important, somewhat important, not very important, or not at all important.



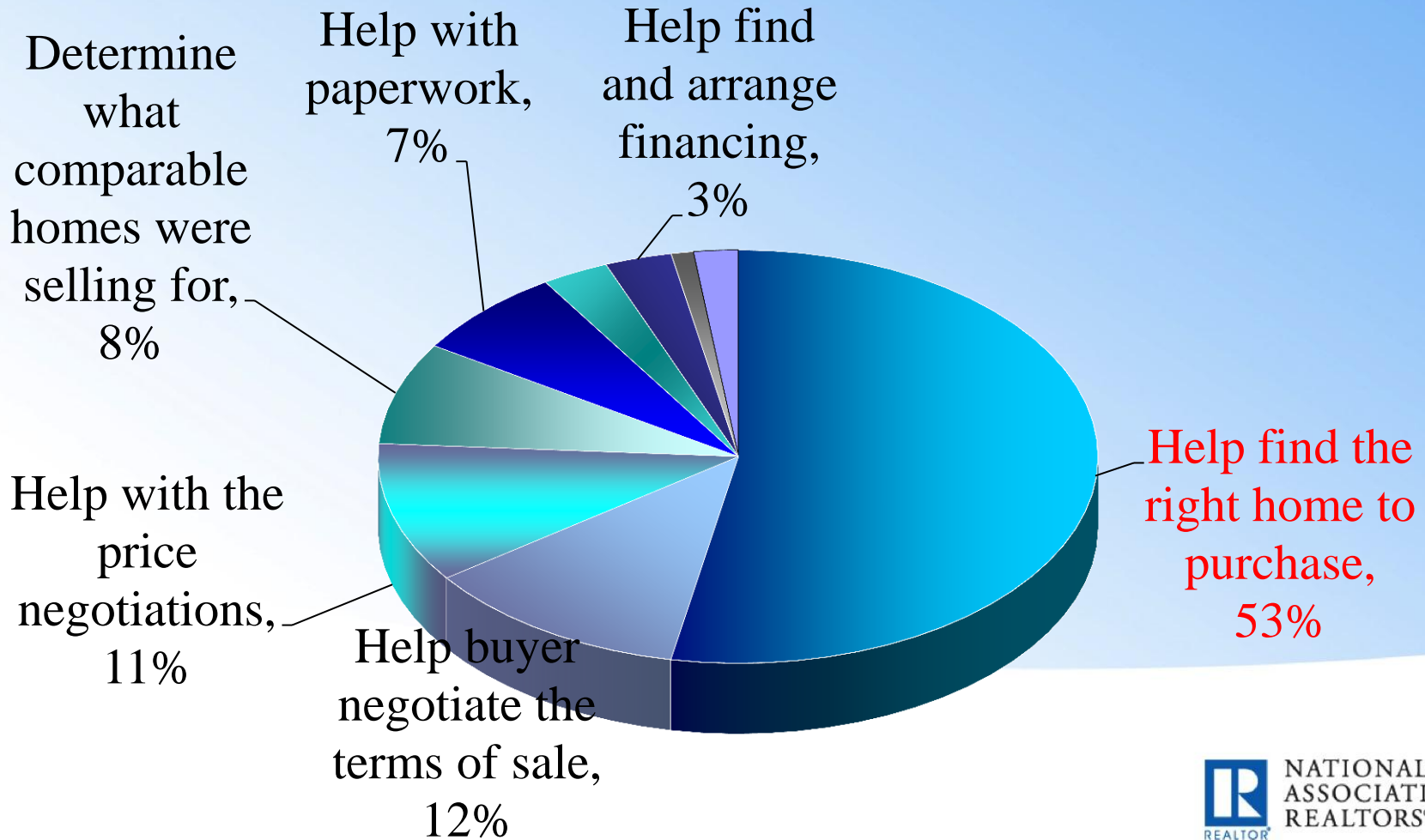
Walkability and Age-Diversity Gaining in Importance

Changes in Important Factors in Deciding Where to Live

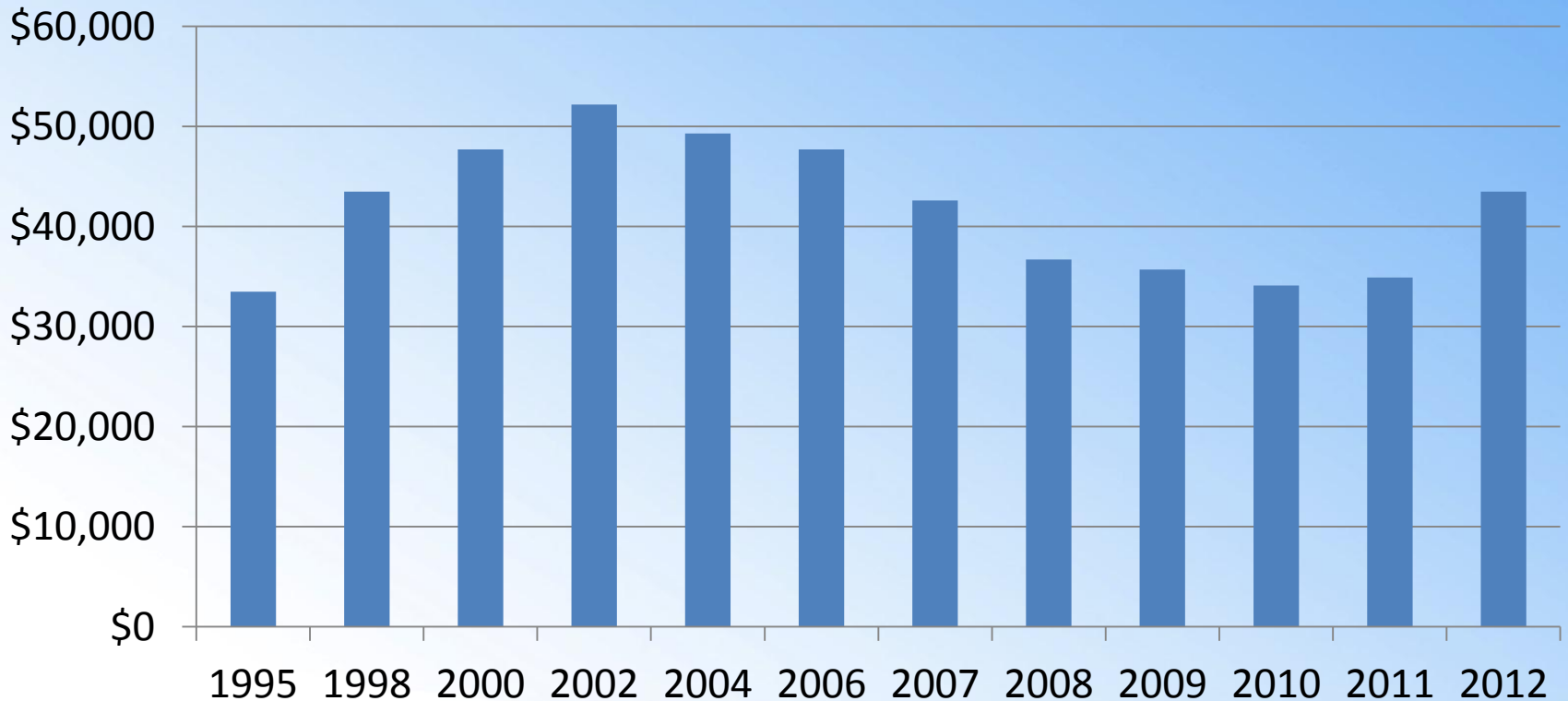


Q.47 In deciding where to live, indicate how important having each of the following would be to you: very important, somewhat important, not very important, or not at all important.

What Buyers Want Most From Their Agent



REALTOR® Median Gross Income

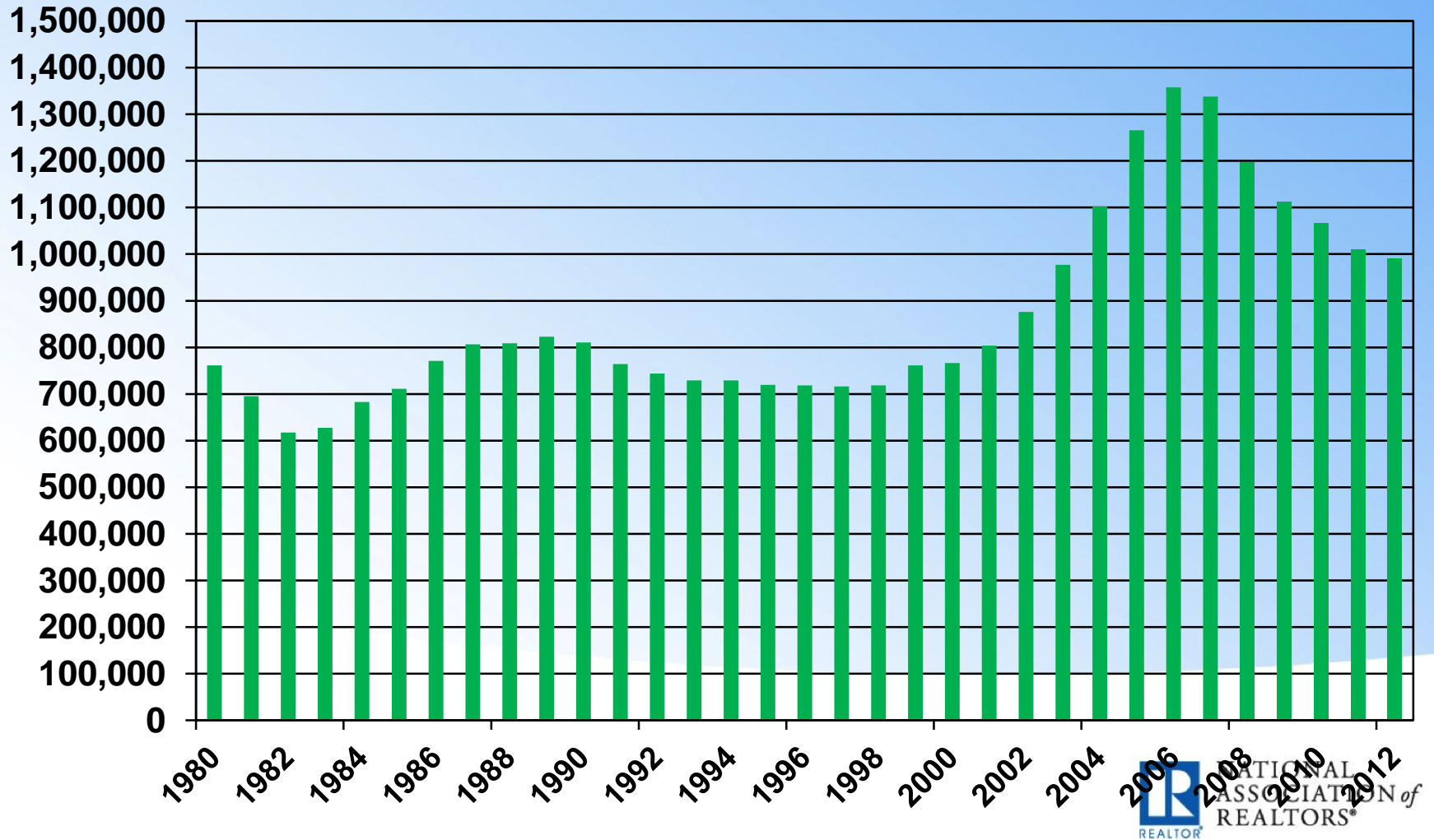


How many with more than \$100,000? ... 200,000

How many with less than \$10,000? ... 360,000

Annual Membership

(at year-end)



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