March 2012 Housing Notes

Delton Alderman
USDA Forest Service – NRS 01
Forestry Sciences Laboratory
Princeton, WV

304.431.2734
dalderman@fs.fed.us

Urs Buehlmann
Department of Sustainable Biomaterials
Virginia Tech
Blacksburg, VA

540.231.9759
buehlmann@gmail.com

TOC

March 2012 Housing Notes

Table of Contents

Executive Summary

This commentary reports on March's housing data and the intent is to provide an assessment of the current conditions in the United States housing market. This report includes data for new home starts and sales, building permits, housing completions, and construction spending – including remodeling. Also included are comments concerning existing home sales, foreclosures and distressed homes, economy and employment, housing demographics and trends, the Eurozone, and conclusions.

March's data: another decrease in housing starts, including multi-family housing, which typically is volatile. New home sales dropped sharply from February, building permits increased – which is a welcome relief, housing completions also increased, and residential construction spending increased – barely. Remodeling still appears to be an attractive construction sector.

"Bottom-bouncing" still remains the descriptor for existing home sales and the number of available existing homes indicated no change from February and remain the least since 2005. Existing home prices are still declining year-over-year. Private investors remain key purchasers of foreclosures, bank REO homes, existing and new home sales – but their purchases declined in March.

The Eurozone sovereign debt and bank solvency crisis is rearing its ugly head again – with Spain being this month's focus. Greece also is garnering attention – again. This particular crisis may be a harbinger of a systemic monetary crisis – and a rocky financial summer – both abroad and here in the U.S.

Lastly, the intent of this month's report was to include coverage of China and Japan; but conditions in Europe merit more attention at this point in time.

Commentary on Housing

Opening Comments

Economic deterrents to a meaningful recovery are unchanged

- Federal and some State governments' debt → still increasing
- Personal debt → Americans continue to deleverage
- Student loan debt → US $1 trillion and increasing
- European sovereign debt crisis → heating up

The Good News:

- The U.S. is the Number 1 manufacturing country in the world

Source: U.S. Department of Commerce-NAICS 23, Construction

New Housing Starts

Commentary

March 2012: Total starts remain distressed

<u>654,000</u> starts SAAR: down 5.8% from a downwardly revised February estimate of 694,000

From March 2011 to March 2012 – an increase of 10.4%

Overall Starts:

Single-family starts 70.6% of overall housing starts - - with multi-family housing still being a “prime time” player

Source: U.S. Department of Commerce-NAICS 23, Construction

New Housing Starts

Commentary

March 2012: Single-family (SF) starts → declining:

462,000 starts (SAAR): decreased 0.2% from a revised February estimate of 463,000

From March 2011 to March 2012 – an increase of 10.5%

SF Starts:

Still no relief in sight for hardwood and softwood sales →

Fourth consecutive year of historically low-start levels

Source: U.S. Department of Commerce-NAICS 23, Construction

New Housing Starts

Commentary

March 2012 Multi-family (MF) starts – volatile and decreased:

178,000 starts SAAR: 5+ MF units: decreased 19.8% from a revised February estimate of 222,000

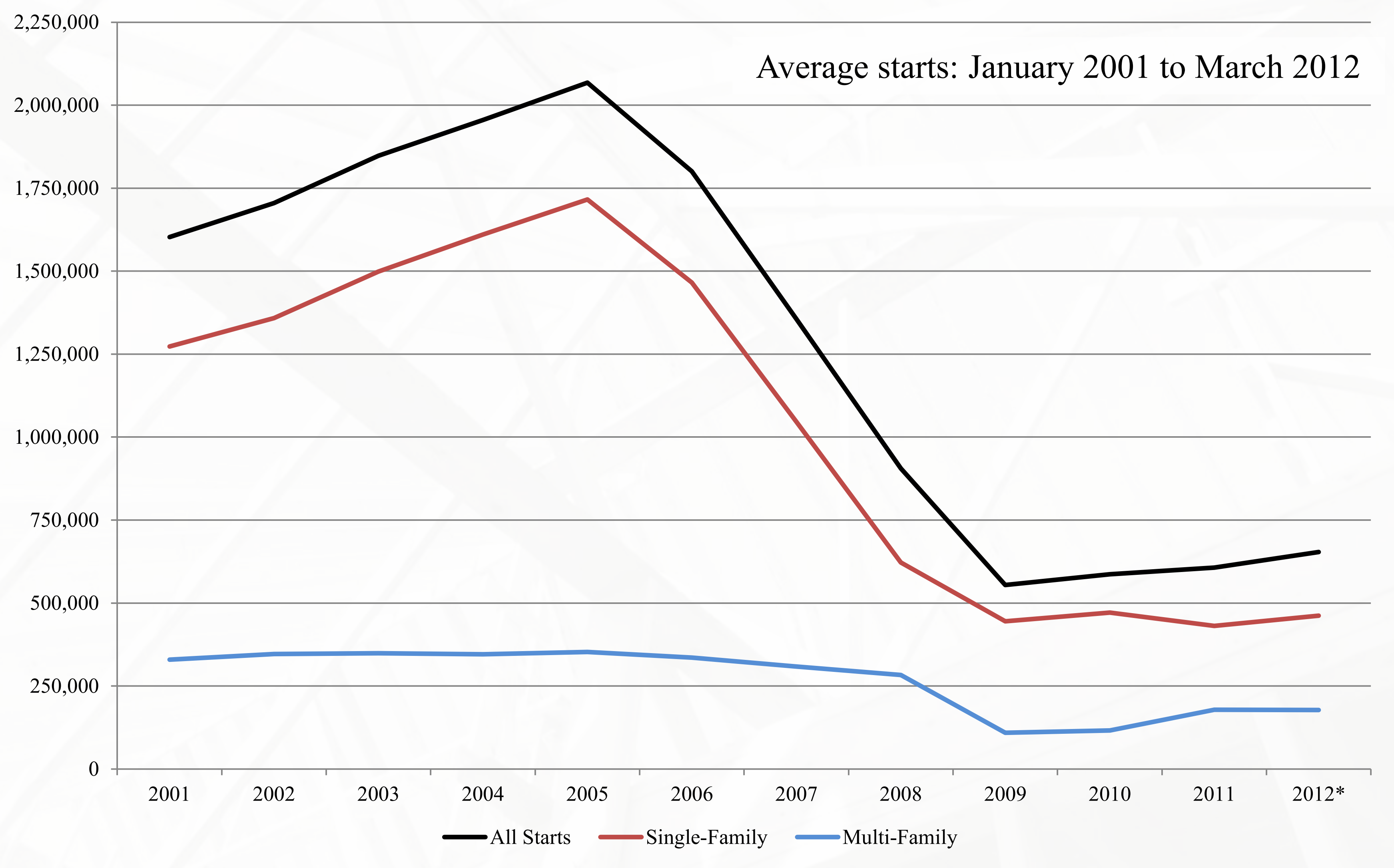
From March 2011 to March 2012 – an increase of 8.5%

14,000 starts SAAR: 2-4 MF unit estimate for March

Currently, MF housing is critical for overall housing starts

Source: U.S. Department of Commerce-NAICS 23, Construction

New Housing Starts



TOC

*2012 is an estimate from U.S. DOC-NAICS 23, Construction data

Source: U.S. Department of Commerce-NAICS 23, Construction

Housing Permits

Good News

March building permits – privately-owned housing:
747,000 units (SAAR)

4.5% above the revised February rate of 715,000
30.1% above the March 2011 estimate of 574,000

SF authorizations

462,000 SAAR: -3.5% below the revised February figure of 479,000

MF authorizations

5 units or more: 262,000 SAAR in March; 24.2% above February
2-4 units: 23,000 SAAR in March; -8.0% below February

Source: U.S. Department of Commerce-NAICS 23, Construction

Housing Completions

March completions – privately-owned:
600,000 units (SAAR)

4.2% above the revised February rate of 576,000

0.5% above the February 2011 estimate of 597,000

SF completions

440,000: 1.4% above the revised February figure of 434,000

MF completions

146,000: 5.8% above the revised February figure of 138,000

Source: U.S. Department of Commerce-NAICS 23, Construction

New Single-Family Home Sales

March 2012 new SF home sales: 328,000 (SAAR)

-7.1% below the revised February rate of 353,000

7.5% above the March 2011 estimate of 305,000

New home sales: Still fragile, no increase, and historically weak

"…revisions will lift Census's…new SF home sales…to 350,000 (SAAR)."[1] - - Tom Lawler, Housing Economist

Source: U.S. Department of Commerce-NAICS 23, Construction; [1]www.calculatedriskblog.com/2012/05/lawler-update-on-home-builder-sales.html, May 2 2012

New Single-Family Home Sales

Median new house sale price in March : $234,500

Average March house sale price: $291,200

The average sales price increased 7.9% month-over-month

Estimate of new homes for sale at March's end:

144,000 (SAAR)

5.3 months inventory (median) at current sales rate

The least number of new homes on the market in decades

Source: U.S. Department of Commerce-NAICS 23, Construction

Major Home Builder Data

	Settlements			Net Orders			Backlog		
	3/1/12	3/1/11	3/1/10	3/1/12	3/1/11	3/1/10	3/1/12	3/1/11	3/1/10
D.R. Horton	4,240	3,516	4,260	5,899	4,943	6,438	6,189	5,281	6,314
NVR	1,924	1,634	1,919	3,157	2,403	2,940	4,909	3,685	4,552
Pulte Group	3,117	3,141	3,795	4,991	4,345	4,320	5,798	5,188	6,456
Ryland Group	848	688	984	1,357	966	1,167	2,023	1,465	1,915
Meritage Homes	759	678	808	1,144	840	1,064	1,300	940	1,351
M/I Homes	507	439	475	764	654	765	933	747	936
Beazer Homes	854	583	852	1,511	1,199	1,673	1,975	1,416	1,781
Standard Pacific	642	439	537	934	652	759	973	627	821
Total	12,891	11,118	13,630	19,757	16,002	19,126	24,100	19,349	24,126
YOY % change	15.9%	-18.4%		23.5%	-16.3%		24.6%	-19.8%	

Major home builder sales, net orders, and backlogged orders appear to be improving – this is a positive sign.

"…Census new SF home sales appear to be "correlated" to builder sales reported both in the current quarter and one quarter lagged. …I estimate that revisions will lift Census's estimates of new SF home sales last quarter from a SAAR of 337,000 to a SAAR of 350,000."[1] - - Tom Lawler, Housing Economist

Source: [1]www.calculatedriskblog.com/2012/05/lawler-update-on-home-builder-sales.html, May 2 2012

Existing House Sales

March Existing Sales

National Association of Realtors (NAR) March 2012 sales data:

4.48 million (SAAR): A decrease of 2.6% from an upwardly revised 4.60 million in February

Existing housing inventory declined 1.3% to 2.37 million homes → a 6.3-month supply at the current sales pace (6.3 in February)

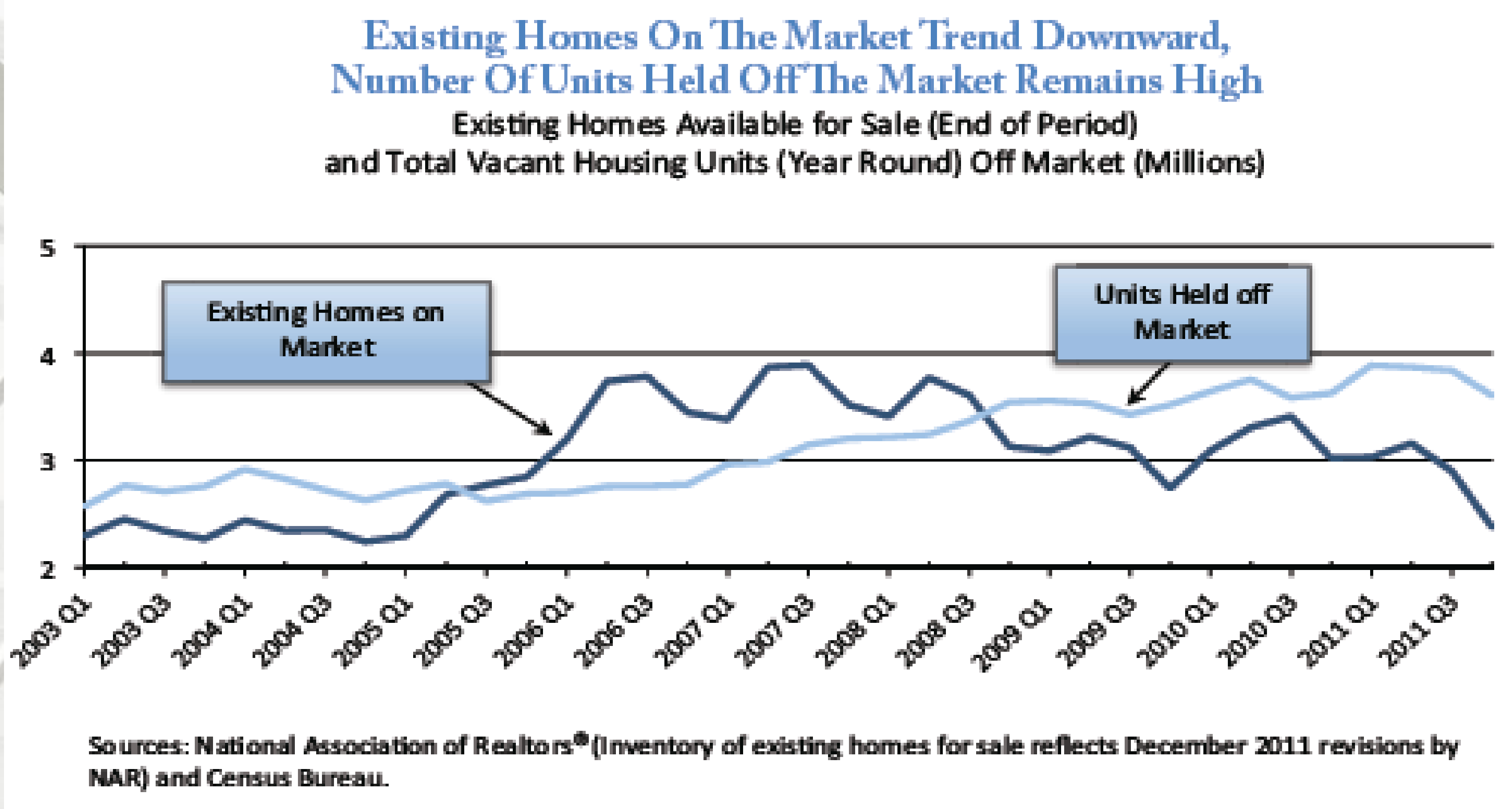
Listed inventory is -21.8% below March 2011

$163,800 median existing-house price, up 2.5% from March 2011[2]

While the NAR reported a price increase, others do not share that view: "The deflation in housing is going to continue. Housing is only about 40% through its reversion process. In fact, along with housing, the entire household debt deleveraging process is still in progress and still has a tremendous way to go. This deleveraging cycle will remain a dead-weight drag on the economy for quite a long time."[3] - - David Rosenberg, Chief Economist and Investment Strategist at Gluskin-Sheff.

Source: [2] NAR®, April 21 2012; [3] http://pragcap.com/strategic-investment-conference-notes-from-david-rosenberg; May 8 2012

Existing House Sales



Existing homes are trending downwards – the number homes held off the market are increasing[4]. One projection is that when home prices do rise, many of these "held-off-the-market" homes and "no-longer-underwater homes" will be placed on the market - - which possibly will place negative pressure on home prices.

Source: [4] http://portal.hud.gov/hudportal/documents/huddoc?id=MarchNat2012_SC_Fin.pdf, April 21 2012

Existing House Sales

March Existing Sales

Distressed houses: 29% of sales - -

(18% foreclosures and 11% short-sales)

Distressed house sales: down from 34% in February and 40% in March 2011

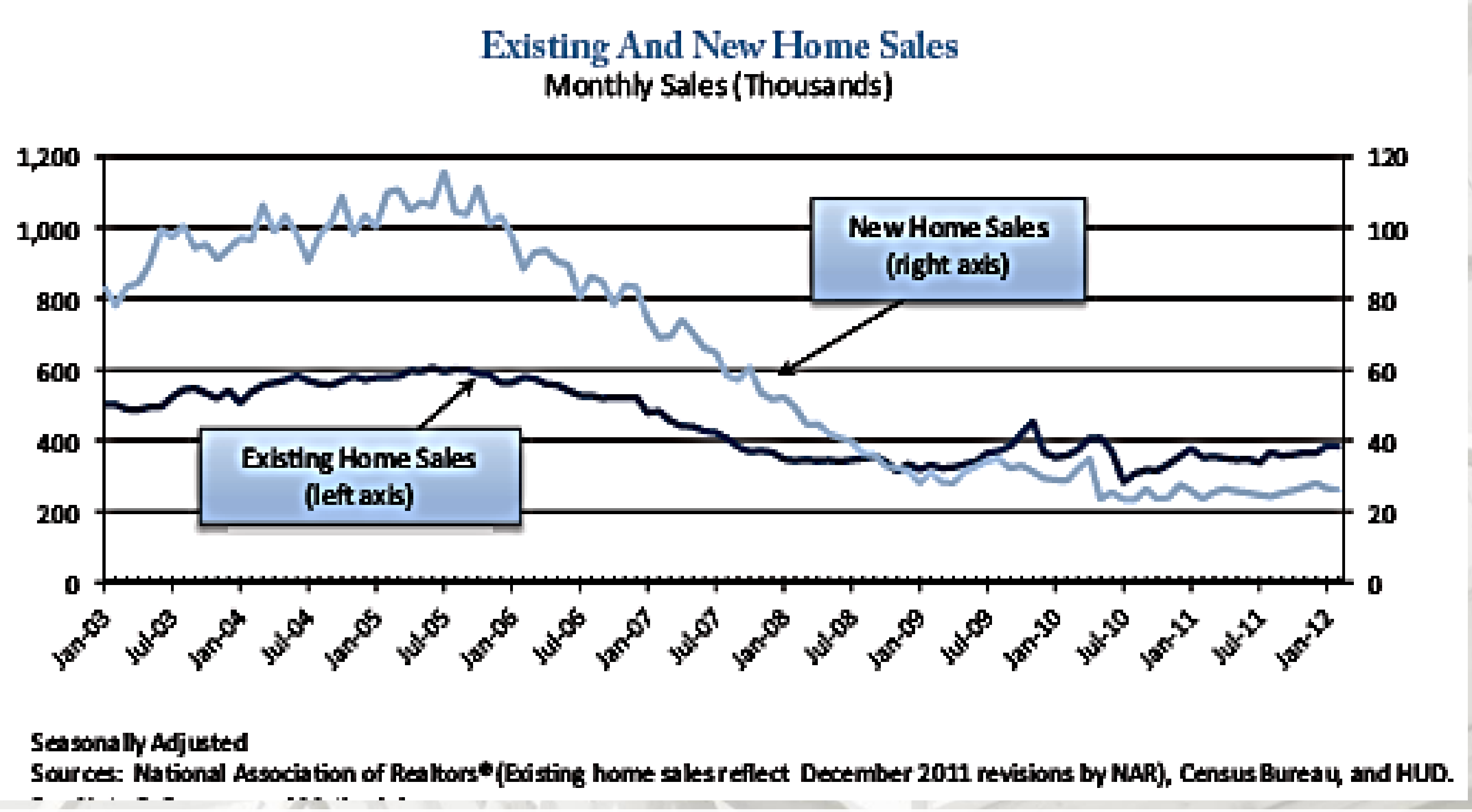
All-cash sales: decreased to 32% (33% in February)

Investors account for the majority of cash purchases: 21%; 23% in February and 22% in March 2011

First-time buyers: an increase to 33% from 32% in February; 33% March 2011[2]

Source: [2] NAR®, April 21 2012

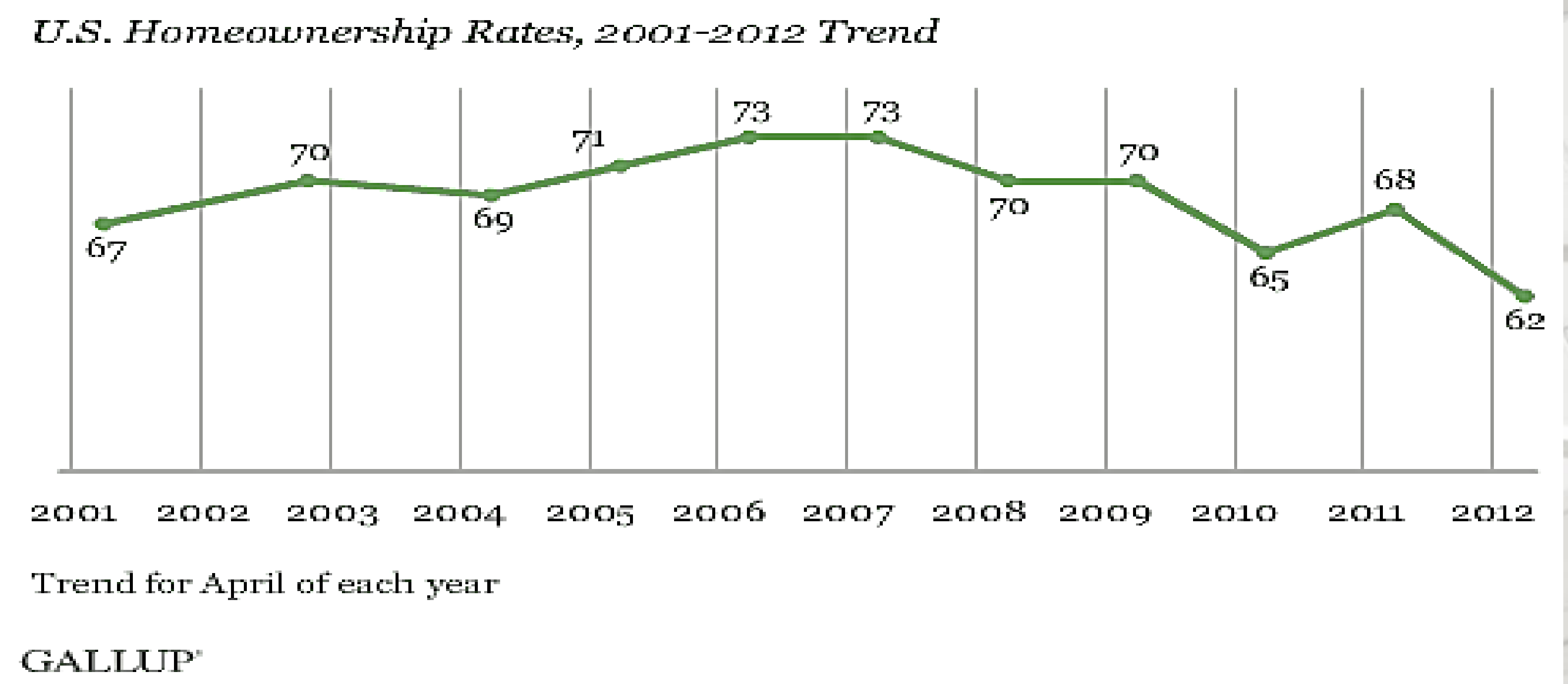
Existing and New House Sales



"…more Americans are renting their homes, signaling a new epoch in the U.S. The owner occupancy rate is very, very low. We've added seven million households in the last seven years and six million of those are rentals. The recent trend underscores the possibility that the "American dream is just gone." "[5] - - Karl Case, S&P Case-Shiller Indices

Source: [5]http://finance.yahoo.com/blogs/daily-ticker/american-dream-buying-home-may-over-karl-case-171524035.html, April 24 2012

Homeownership Rates



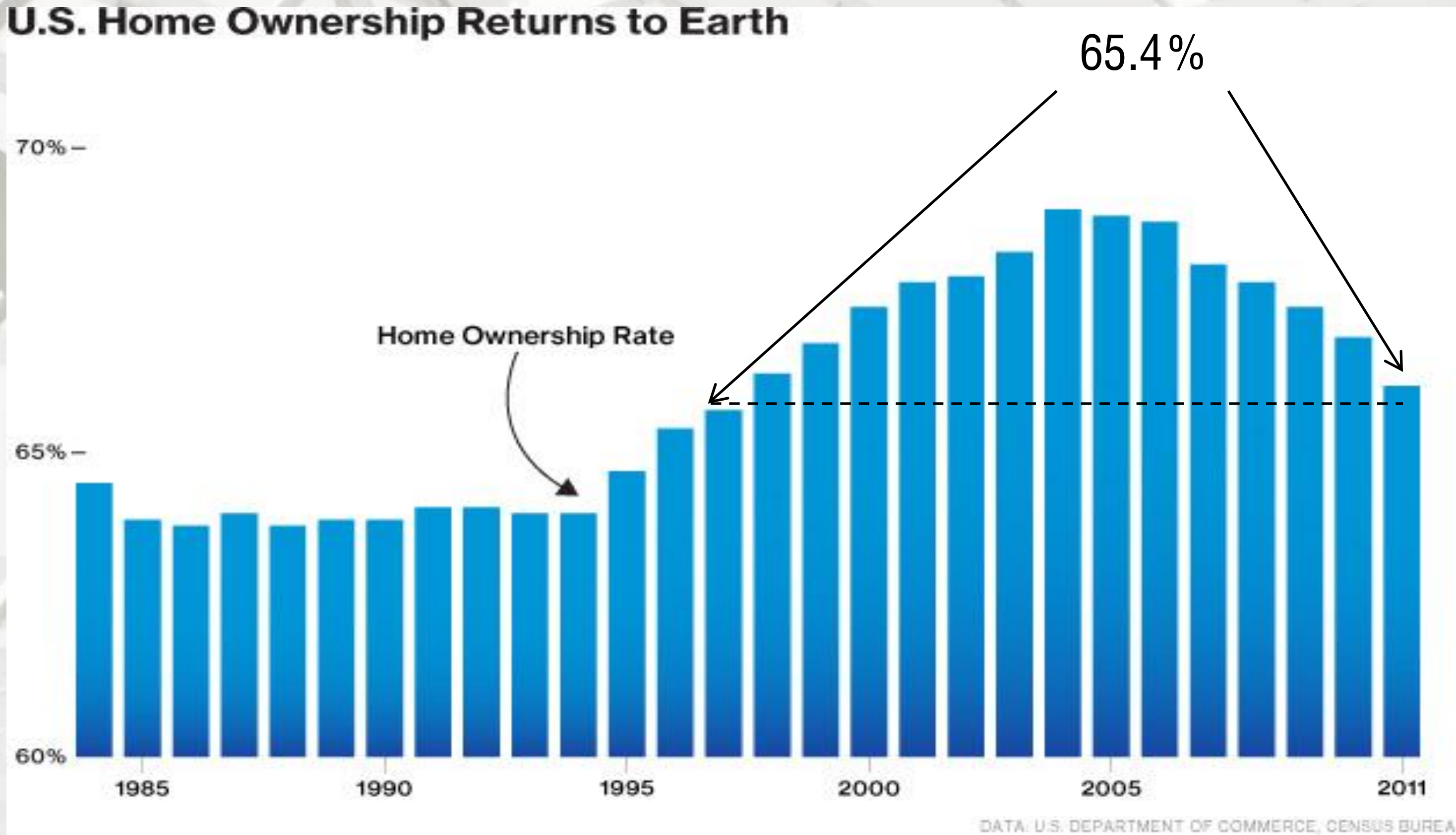
Gallup: 62% of Americans now own a home -- the least in more than a decade. A decrease from the home ownership rates of 73% in 2006 and 2007, at the peak of the housing boom.

"Declining homeownership rates suggest some Americans are beginning to doubt that homeownership remains part of the American dream -- or at least, an attainable part of it."[6] - - Dennis Jacobe, Chief Economist, Gallup

TOC

Source: [6] www.gallup.com/poll/154124/U.S.-Homeownership-Hits-Decade-Low.aspx, April 21 2012

Homeownership Rates

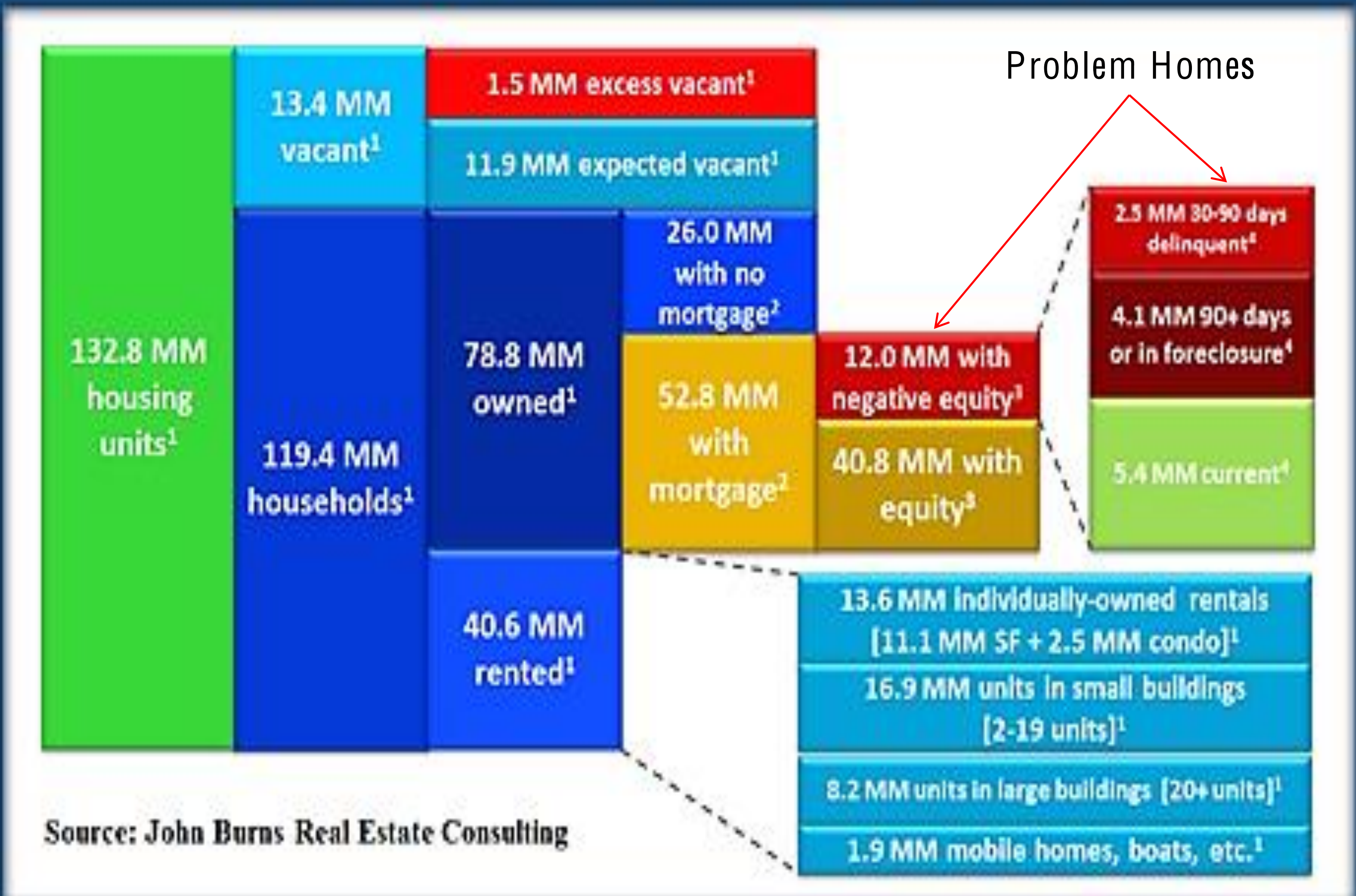


Homeownership rate: 1st Qtr 2012 declined to 65.4% - - now near 1997 levels, 3.6 percentage points below the peak reached of the housing bubble years

"In the end, a 64% to 65% homeownership rate is likely where we will be for some time to come."[7] - - Richard Green, Director, Lusk Center for Real Estate at the University of Southern California

Source: [7] http://www.businessweek.com/articles/2012-05-04/tumbling-home-ownership-marks-a-return-to-normal, May 4 2012

U.S. Housing Summary 2012



Source: [8]http://web.realestateconsulting.com/us-housing-summary-2012; May 3 2012

U.S Housing Summary 2012

"Overwhelming positives:

- 22% of American households own their home free and clear of any mortgage
- 34% of American households own their home and have equity in it
- 34% of American households rent

That totals 90% of American households.

Of the 40.6 million who rent:

- 42% rent in a small apartment building
- 27% rent a single-family home
- 20% rent in a large apartment building
- 6% rent a condo
- 5% rent a mobile home, boat, etc.

So I have a few questions:

- Why are some of our leaders asking 90% of Americans to bail out the 10% who have no equity in their home?
- What happens when the 1.5 million excess vacant homes are filled, which is already occurring in many neighborhoods across the country?
- Why is the apartment REIT market so popular with institutional investors, when it is less than 20% of rental units?
- What happens when the family renting a home for $1100/month cleans up their credit and buys the same home with a mortgage payment of $800?

Americans make astute financial decisions, at least in the short-term (our addiction to debt will hurt us in the long-term). We will bailout very few homeowners. We will increase construction by building in the ever-increasing number of areas that need homes and builders can make a profit. We will figure out how to make portfolio investments in the massive single-family rental market. We will buy homes if it makes financial sense for us to do so."[8] - - John Burns, CEO, John Burns Real Estate Consulting

Source: [8] web.realestateconsulting.com/us-housing-summary-2012; May 3 2012

Construction Spending

March Private Construction: $244.1 billion (SAAR)

0.07% above the revised February estimate of $242.5 billion (SAAR)

March SF construction: $116.884 billion (SAAR)
February 2011 SF construction: $112.598 billion (SAAR)

March MF construction: $16.594 billion (SAAR)
February 2011 MF construction: $17.117 billion (SAAR)

March Improvement [A] construction: $110.632 billion (SAAR)
February Improvement [A] construction: $112.746 billion (SAAR)

We should note two-items: 1) In the past two housing notes, SF, MF, and Improvement construction data did not include the notation that they were at a seasonally adjusted annual rate and 2) the US DOC reports Construction Spending data in nominal terms – not adjusted for inflation. The US DOCs annual benchmark revision for Construction Spending is due for release on July 2 2012.

[A] The US DOC does not report improvements directly, this is an estimation.

Source: U.S. Department of Commerce-C30 Construction

Construction Spending

"Residential building rose 2% in March to $146.7 billion (SAAR), maintaining the gradual if hesitant upward trend that's been present since the second half of 2011.

Single-family housing in March edged up 1%, regaining some strength after slipping back in the previous two months. Multi-family housing in March increased 5%, continuing to regain upward momentum after its pause at the start of 2012.

Compared to the average monthly pace for all of 2011, multi-family housing in March was up 13% while single-family housing was up 16%."[9] - - McGraw-Hill Construction

MONTHLY SUMMARY OF CONSTRUCTION STARTS

Prepared by McGraw-Hill Construction Research & Analytics

MONTHLY CONSTRUCTION STARTS
Seasonally Adjusted Annual Rates, In Millions of Dollars

	March 2012	February 2012	% Change
Nonresidential Building	$122,785	$128,282	-4
Residential Building	146,699	143,851	+2
Nonbuilding Construction	212,896	119,219	+79
TOTAL Construction	$482,380	$391,352	+23

THE DODGE INDEX
(Year 2000=100, Seasonally Adjusted)

March 2012.........102
February 2012........83

YEAR-TO-DATE CONSTRUCTION STARTS
Unadjusted Totals, In Millions of Dollars

	3 Mos. 2012	3 Mos. 2011	% Change
Nonresidential Building	$27,609	$36,593	-25
Residential Building	31,949	26,312	+21
Nonbuilding Construction	34,616	33,920	+2
TOTAL Construction	$94,174	$96,825	-3

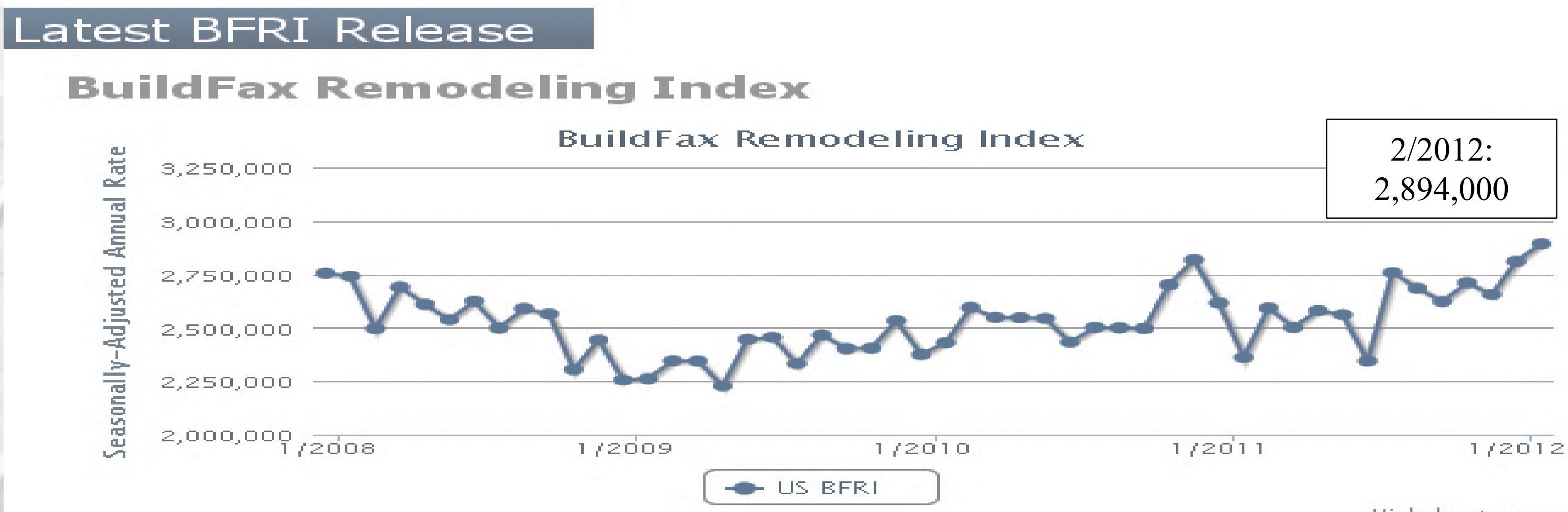
Source: [9]http://dodge.construction.com/Analytics/marketdynamics/2012/apr_forecast.asp; May 1 2012

Residential Remodeling: February 2012

February's Residential Remodeling Permits: 2,894,000 SAAR

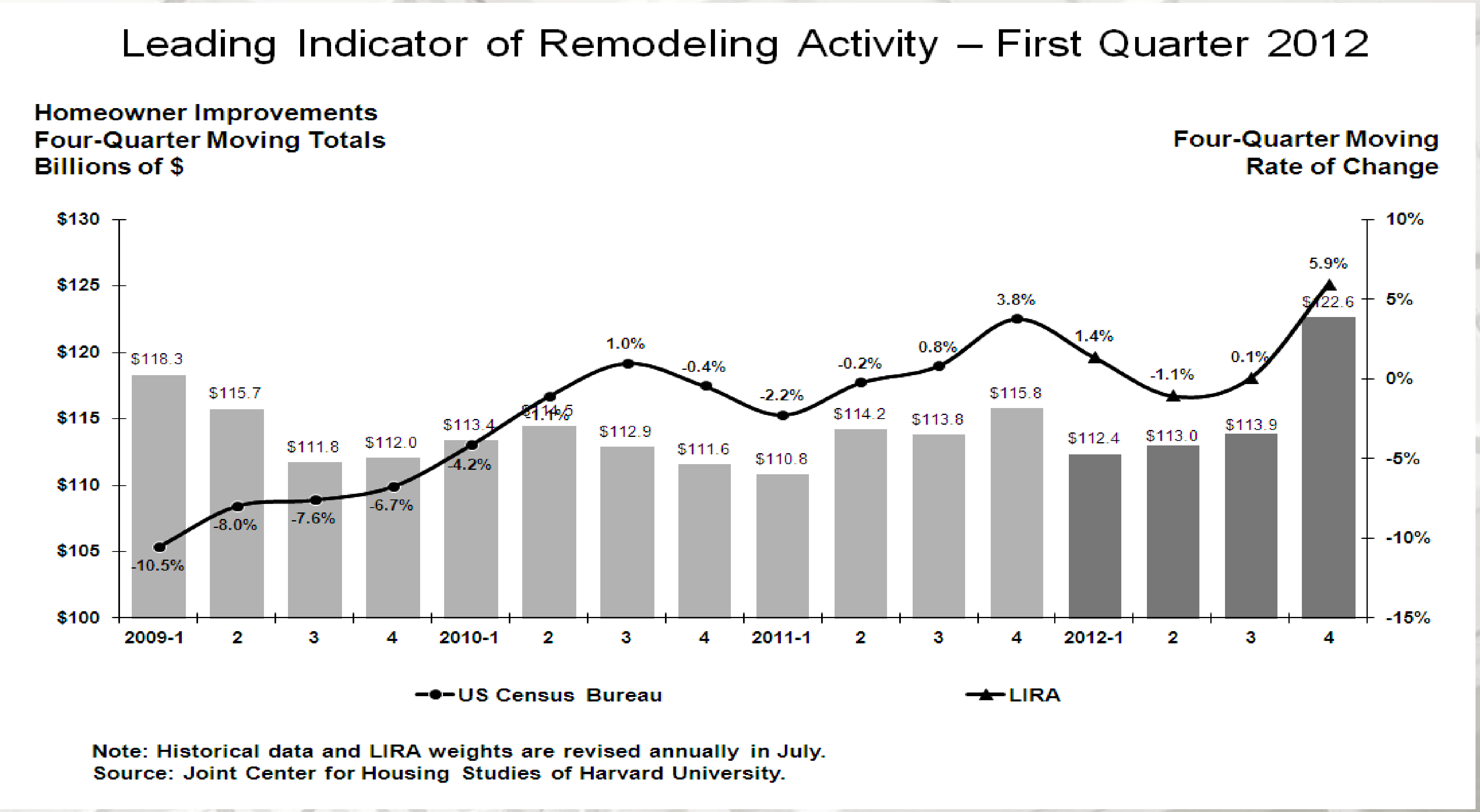
3% above January: 2,811,000 and
23% above the January 2011 estimate of 2,362,000

"February 2012 is the first month over the past twelve to show significant increases in residential remodeling activity across all U.S. regions."[10] - - Joe Emison, BuildFax, VP - R&D



Source: [10]www.buildfax.com/public/remodeling/index.html; April 2012

Residential Remodeling: February 2012



LIRA[11] projects annual spending for remodeling will increase in 2012, finishing the year up 5.9%

TOC

Source: [11]www.jchs.harvard.edu/lira-remodeling-recovery-expected-strengthen-year%E2%80%99s-end; April 2012

Residential Remodeling: March 2012

Home Improvement Market Could Increase by 5%

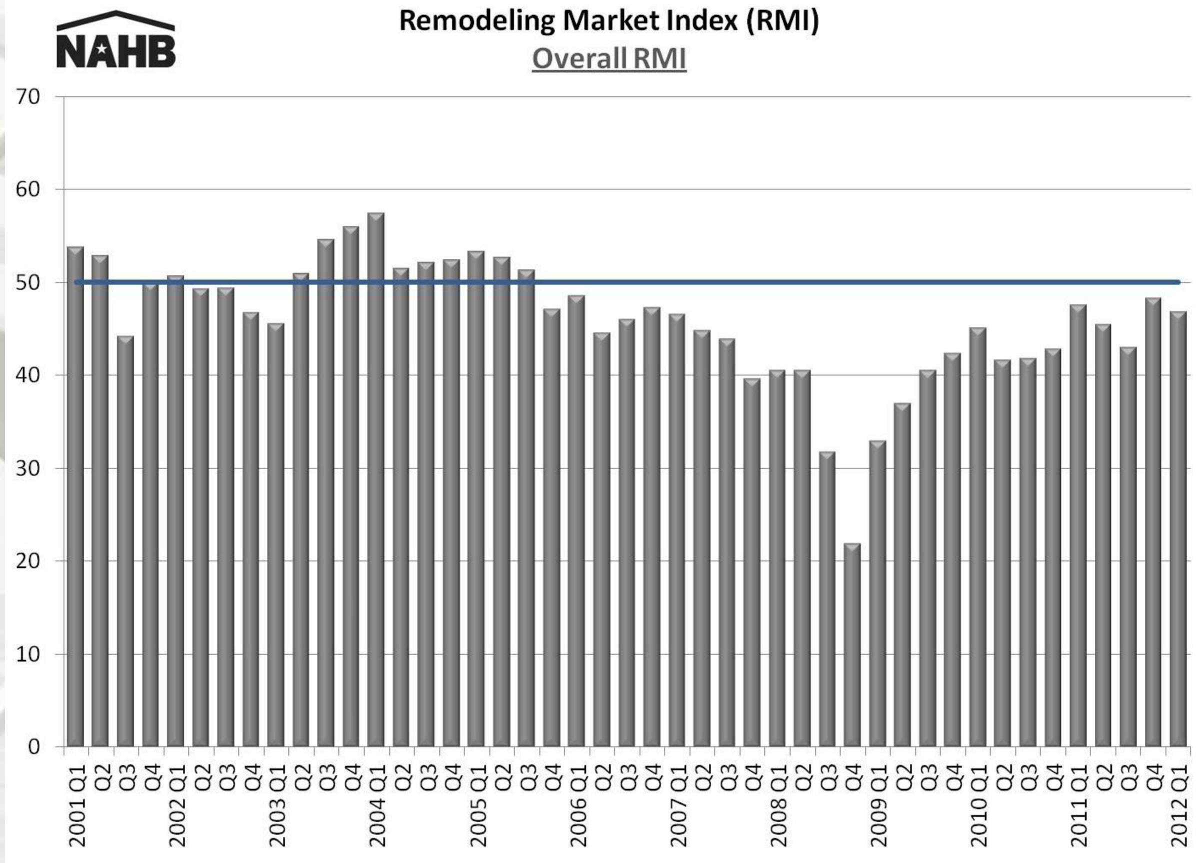
The Home Improvement Research Institute estimates the market for home improvement products is expected to be $283 billion -- a 5% increase -- in 2012

"Having a nice home remains important to American homeowners. There is evidence of pent-up demand for projects that have been postponed over the last few years. We expect some of those projects to be done giving a boost to the overall market."[12] - - Fred Miller, Managing Director, Home Improvement Research Institute

TOC

Source: [12]www.buildingonline.com/news/viewnews.pl?id=11469; April 2012

Residential Remodeling: March 2012

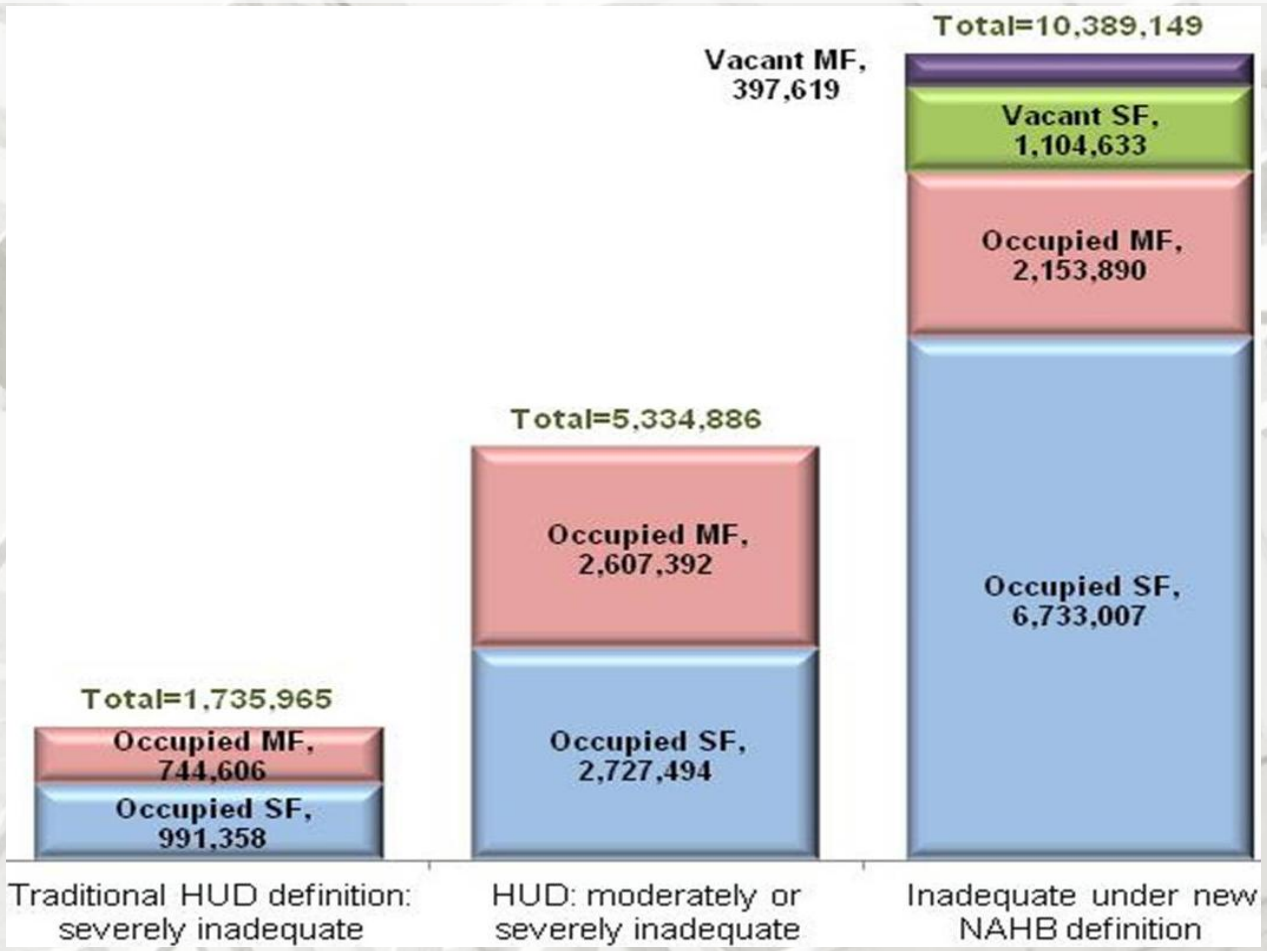


NAHBs Remodeling Market Index (RMI) declined by 1 point to 47 in the 1st Qtr of 2012. The RMI component measuring current market conditions decreased 1 point to 49 and future remodeling activity declined 2 points to 44.[13] - - NAHB: *Eye on Housing*

TOC

Source: [13]http://eyeonhousing.wordpress.com/2012/05/03/remodeling-market-index-little-changed-in-first-quarter/; May 3 2012

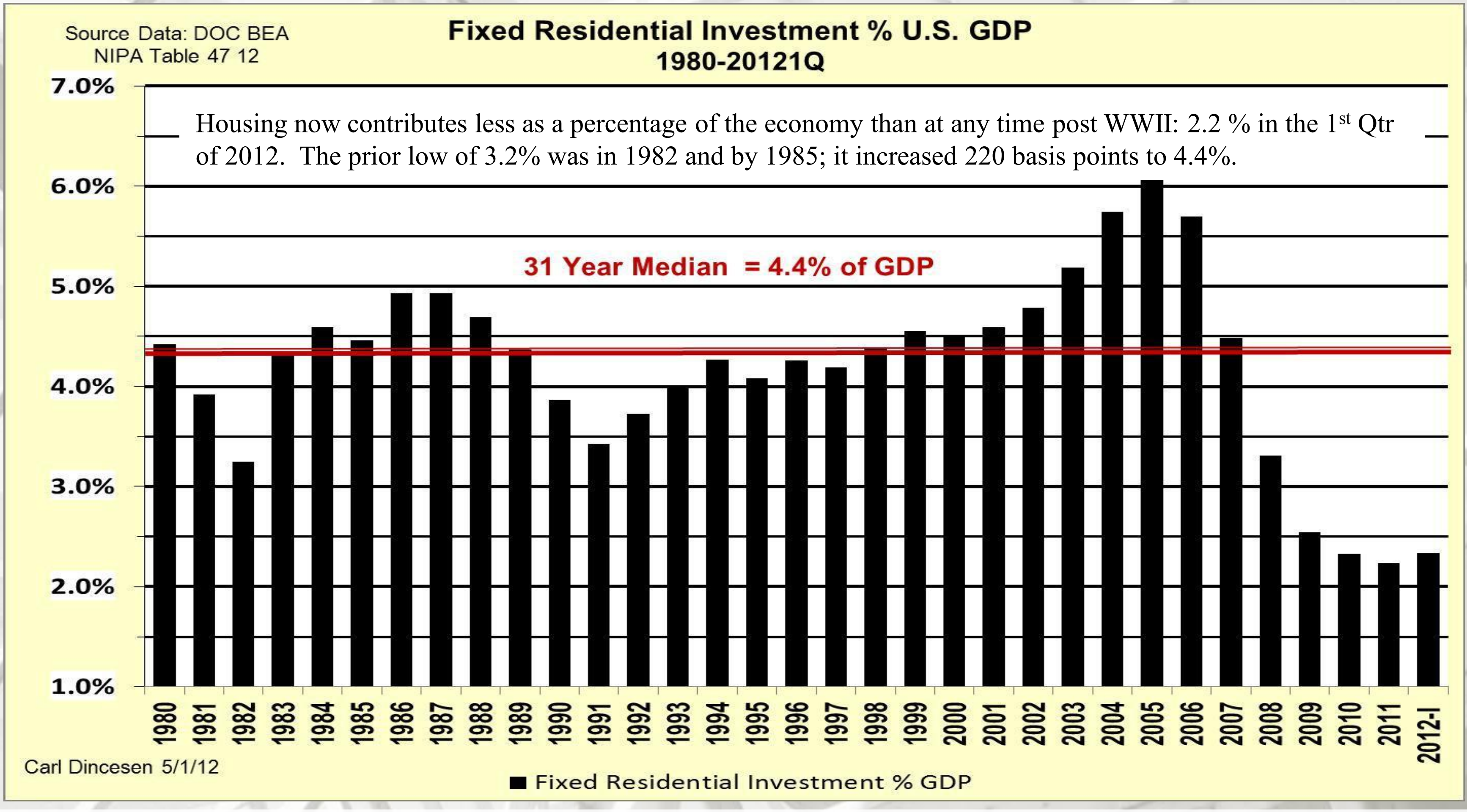
Residential Remodeling: March 2012



NAHB: "…more than 10 million homes in the U.S. are truly inadequate, about double the number usually reported as having even moderate physical problems…more than 19% of vacant SF homes are physically inadequate… . ."[14] - - NAHB: *Eye on Housing*

Source: [14]http://eyeonhousing.wordpress.com/2012/05/07/nahb-finds-problems-of-existing-housing-stock-often-understated/; May 7 2012

Housing and The U.S. Economy



"If housing had equaled its 31-year median percent of GDP, the U.S. economy would have grown an annual rate of 5.1% vs. 3.0% and 4.3% vs. 2.2% during the past two quarters, respectively. Two points of GDP is worth about 3 million jobs. Housing has underperformed contrasted to its historical median by about 50% or 200+ basis points in the past three years. Through the first quarter of 2012, housing investment is demonstrating a slight uptick."[15] - - Carl Dincesen

TOC

Source: [15]ttp://seekingalpha.com/article/554901-gdp-and-employment-growth-it-is-all-about-housing?source=email_macro_view&ifp=0, May 3 2012

Standard & Poor's/Case-Shiller Home Price Indices

"Nine Cities and Both Composites Hit New Lows in February 2012 According to the S&P/Case-Shiller Home Price Indices[8]"

Annual declines of -3.6% & -3.5% for the 10- & 20-City Composites through February 2012

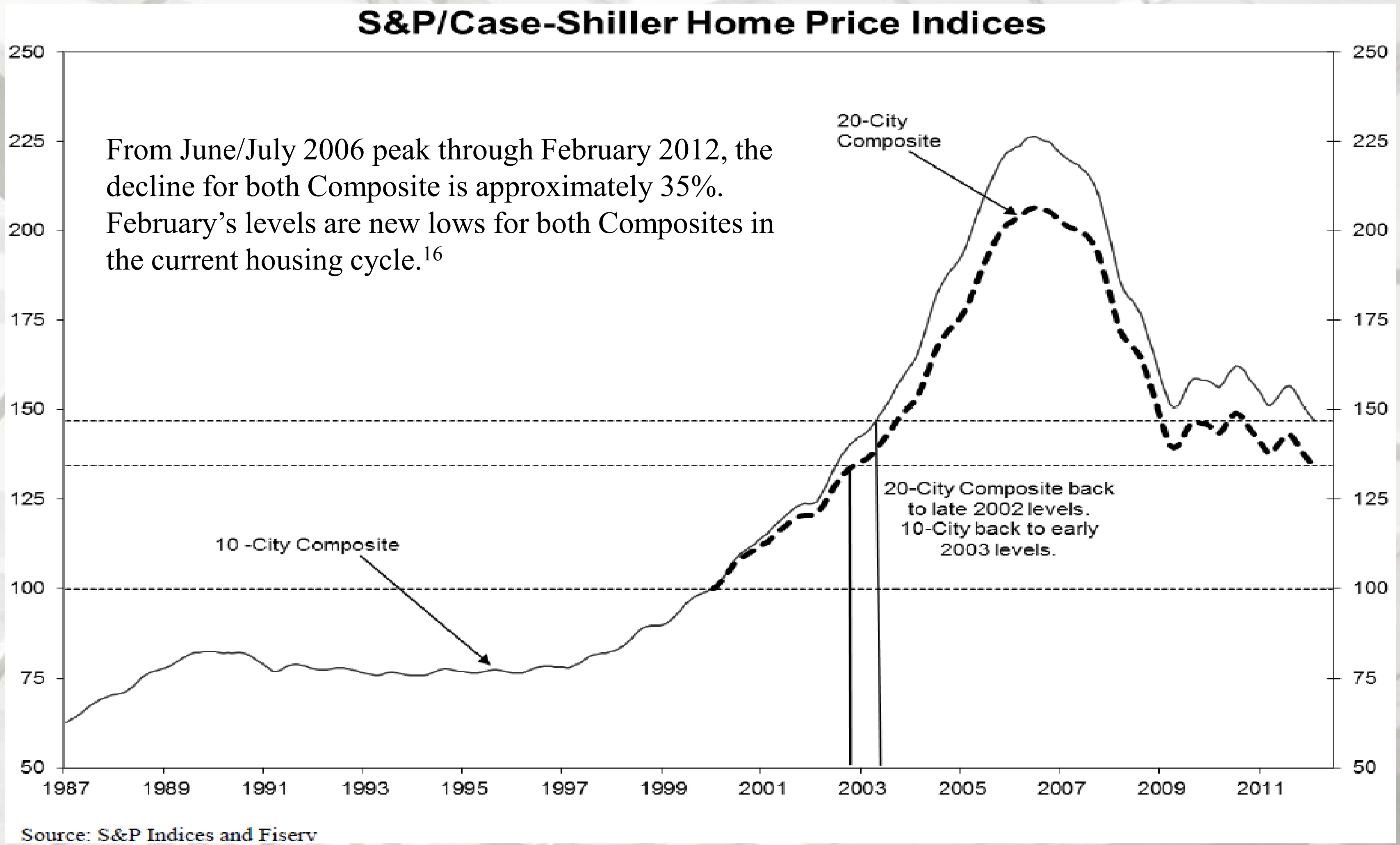
Even though declining, an improvement over the annual rates for the month of January, -4.1% and -3.9%, respectively

"*While there might be pieces of good news in this report, such as some improvement in many annual rates of return, February 2012 data confirm that, broadly-speaking, home prices continued to decline in the early months of the year*"[16] -- David Blitzer, Chairman of the Index Committee at S&P Indices

TOC

Source: [16]Case-Shiller® and Case-Shiller Indexes® and Fiserv, April 27 2012

Standard & Poor's/Case-Shiller

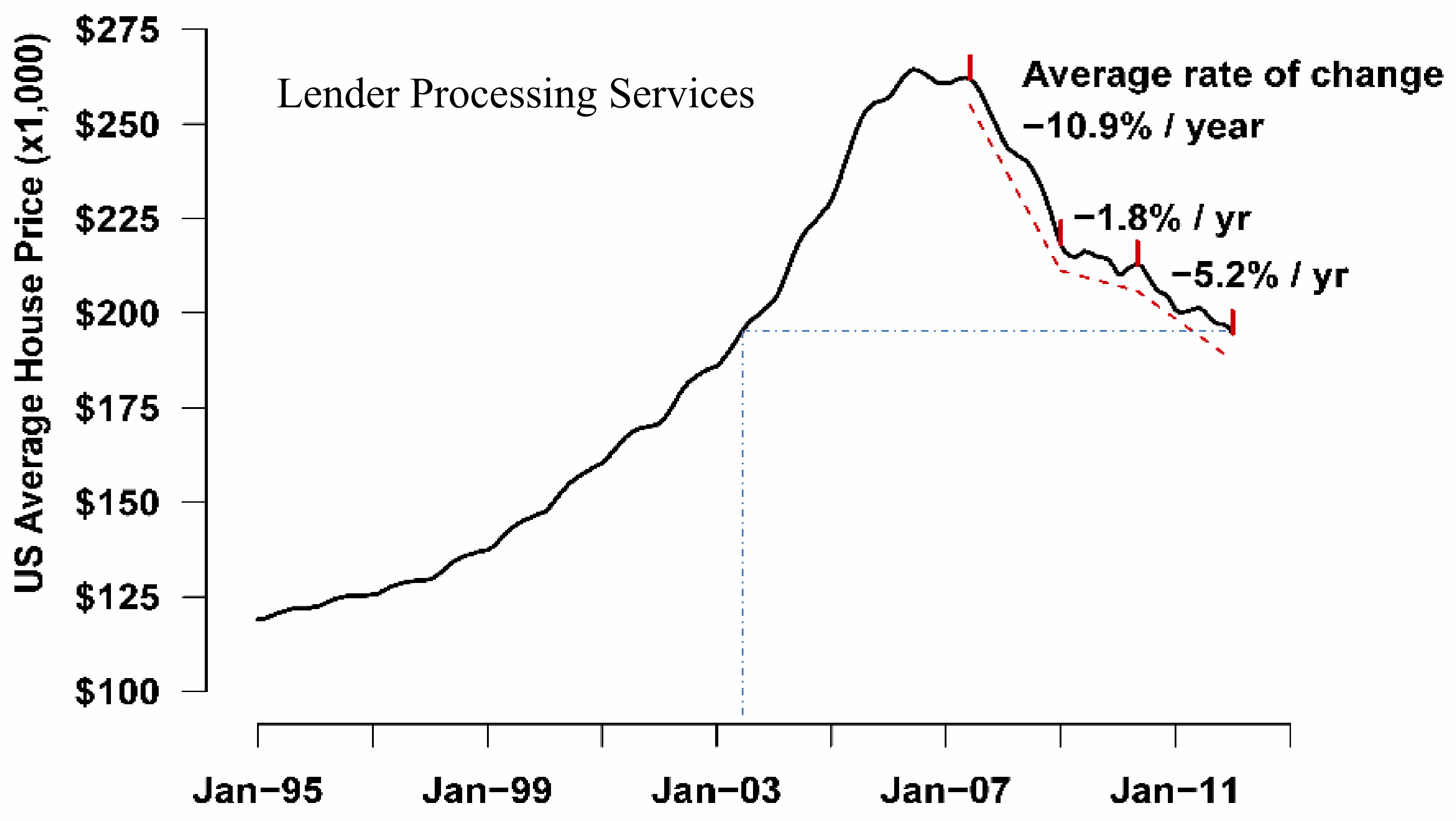


February 2012, average home prices across the U.S. late 2002 levels for the 20-City Composite and early 2003 levels for the 10-City Composite[16].

TOC

Source: [16]Case-Shiller® and Case-Shiller Indexes® and Fiserv, April 27 2012

Rate of House Price Declines



House prices have declined since January 2009, slowed in 2010 primarily due to tax incentives, and are at March 2003 levels[17]. It should be noted that this index does not include short-sales; if short-sales were included, then the rate would be greater.

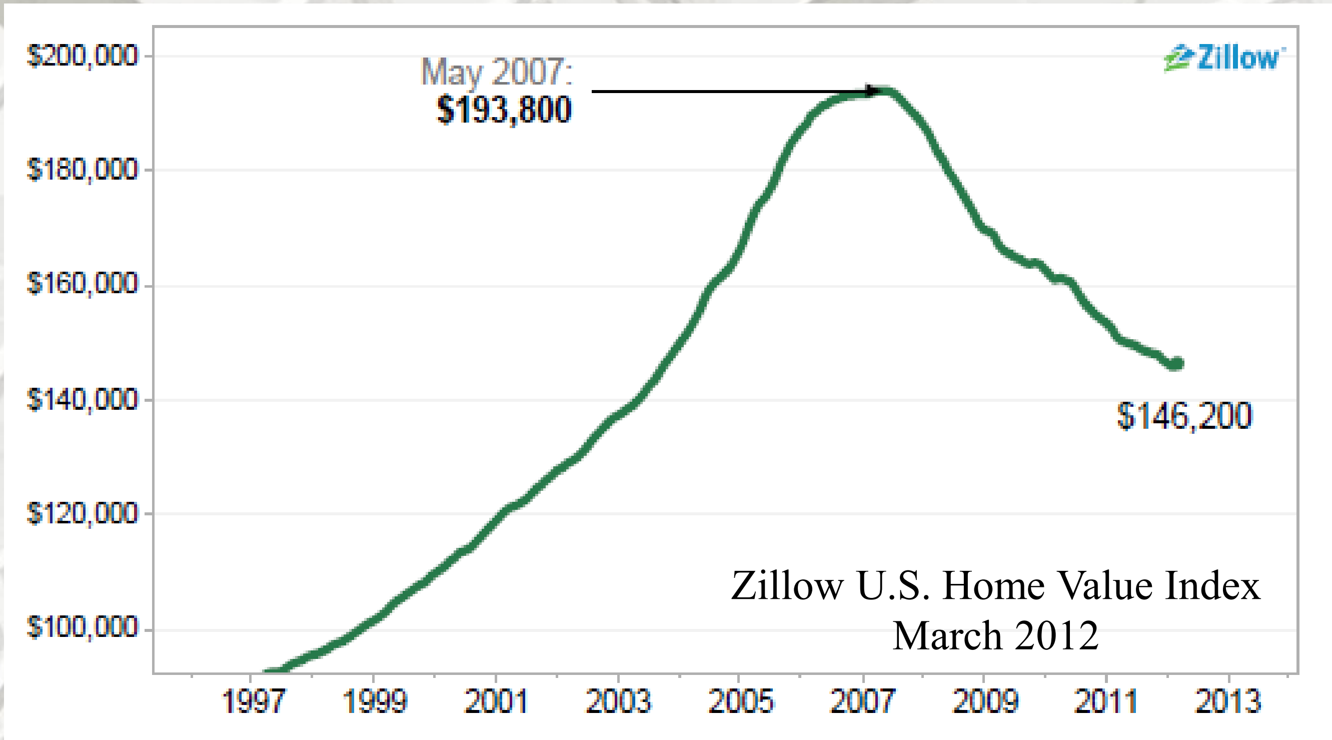
Source: [17]www.lpsvcs.com/LPSCorporateInformation/NewsRoom/Pages/20120403.aspx, April 27 2012

Zillow Home Price Index

Home values decreased 0.5% from the 4th Qtr of 2011 to the 1st Qtr of 2012 to $146,200
Home values declined 3.1% (annual basis) from March 2011

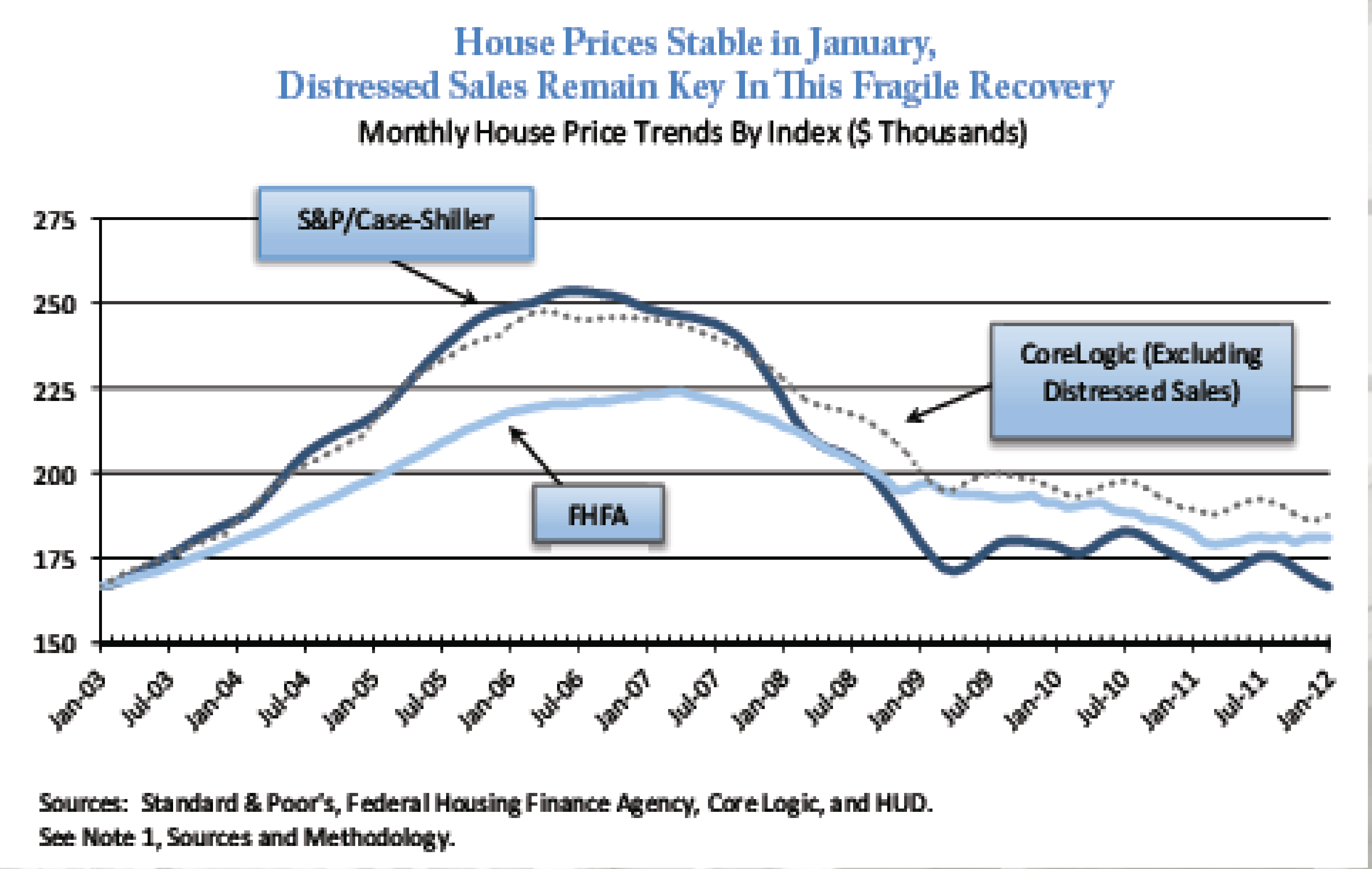
National home values are at late 2003 levels, decreasing 24.6% since May 2007s peak

National home values will decrease an additional 0.4% during 2012, with a bottom later this year or in early 2013 - - Zillow Home Value Forecast[18]



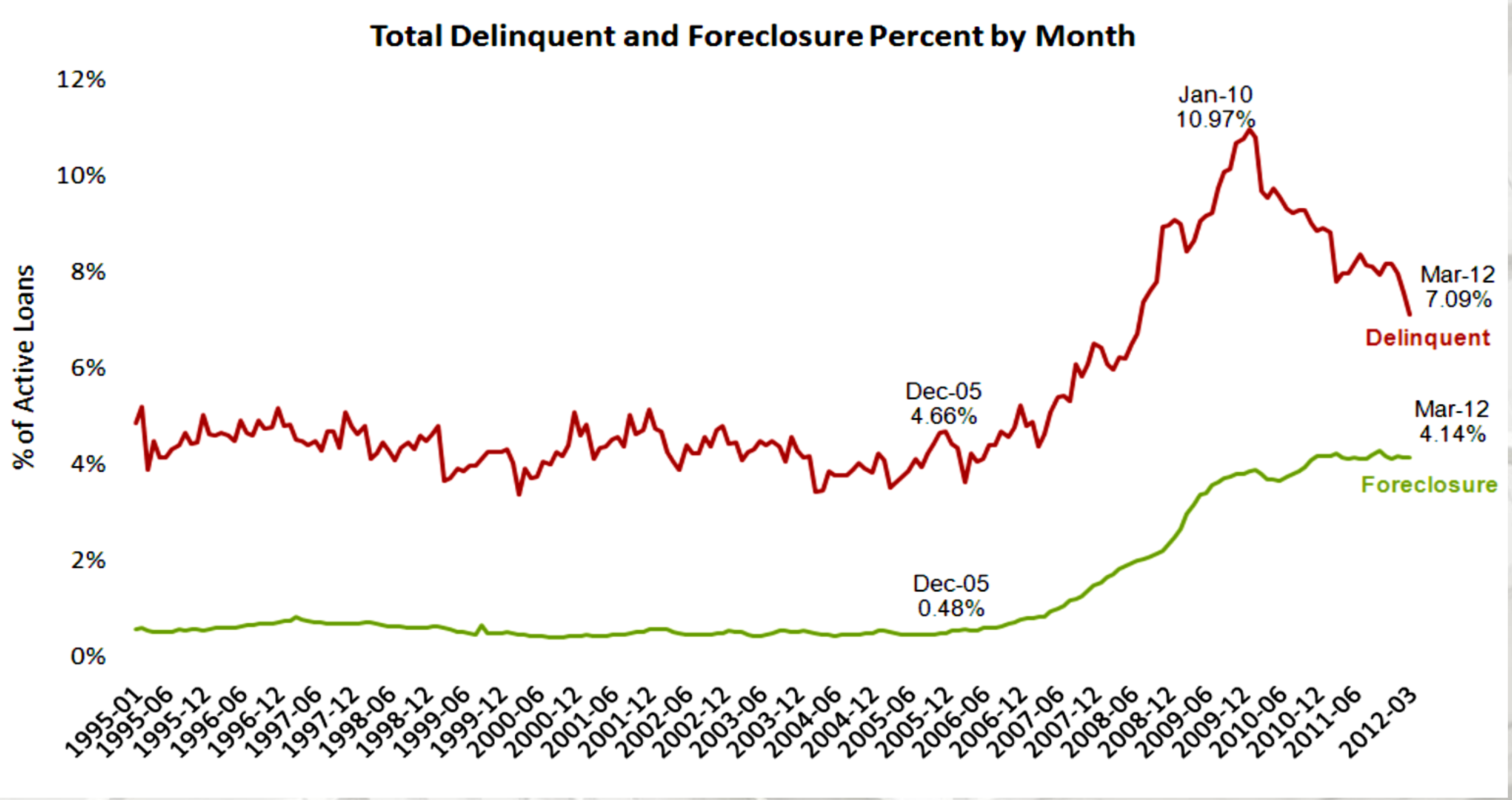
Source:[18]Zillow Real Estate Research, www.zillow.com/research, April 12 2012

Existing House Sales



Source: [8] http://portal.hud.gov/hudportal/documents/huddoc?id=MarchNat2012_SC_Fin.pdf, April 21 2012

Delinquencies & Foreclosures



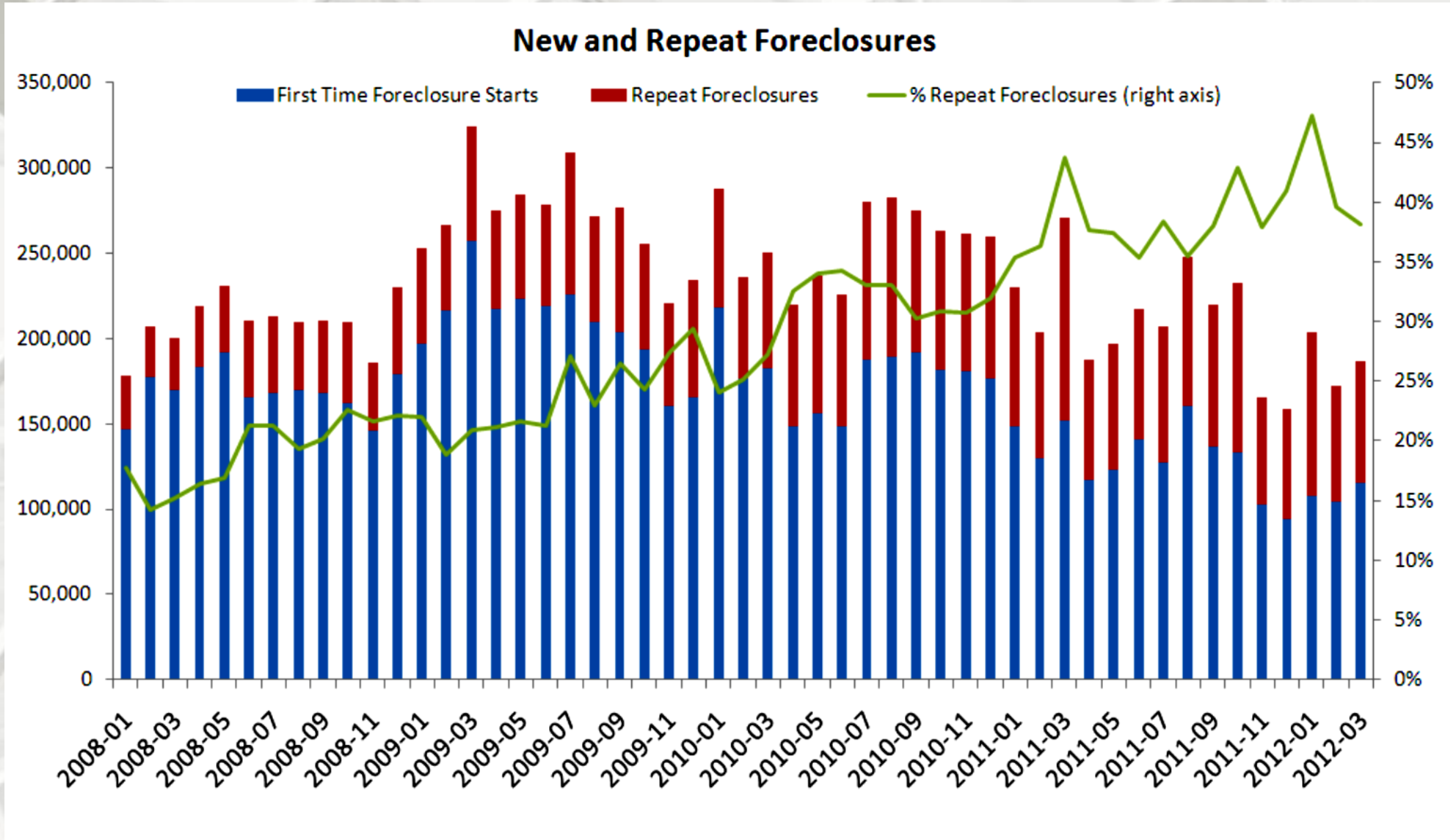
Lender Processing Services: 1,888,000 loans < 90 days delinquent.
1,643,000 loans 90+ days delinquent.

"The total delinquency rate has fallen to 7.09% from the peak in January 2010 of 10.97%. A normal rate is probably in the 4% to 5% range, so there is a long ways to go."[17]

Source: [17]http://www.lpsvcs.com/LPSCorporateInformation/CommunicationCenter/DataReports/MortgageMonitor/201203MortgageMonitor/Mortgage_Monitor_March_2012.pdf; May 1 2012

Delinquencies & Foreclosures

Lender Processing Services: March foreclosure starts decreased 15% from February; 4.14% of mortgages were in the foreclosure process



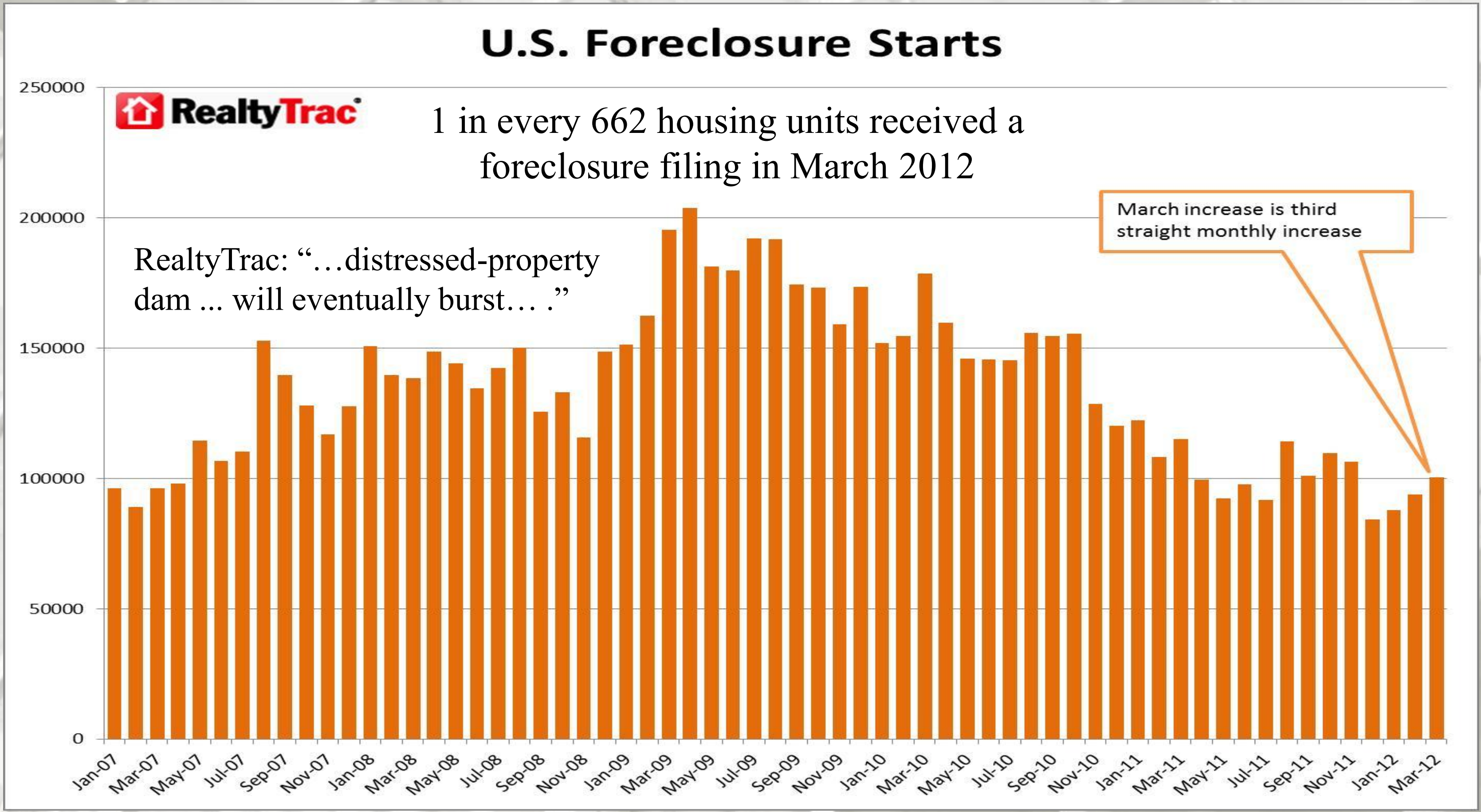
Foreclosure starts: First-time foreclosures at five month high[17]

TOC

Source:[17]www.lpsvcs.com/LPSCorporateInformation/CommunicationCenter/DataReports/MortgageMonitor/201203MortgageMonitor/Mortgage_Monitor_March_2012.pdf; May 1 2012

Delinquencies & Foreclosures

RealtyTrac®: Foreclosure starts increased 7% from February to March, the third straight monthly increase[19]



Source: [19]www.realtytrac.com/content/foreclosure-market-report/foreclosure-trends--q1-2012-and-march-2012-foreclosure-report-----realtytrac-7111; April 12 2012

Delinquencies & Foreclosures

CoreLogic® reports 69,000 completed foreclosures nationally in March

…compared to 85,000 in March 2011 and 66,000 in February 2012

+/- 1.4 million homes (3.4% of mortgaged homes) were in the national foreclosure inventory as of March 2012

…1.5 million (3.5%) in March 2011 and 1.4 million (3.4%) in February 2012.

The number of loans in the foreclosure inventory decreased by nearly 100,000 (6.0%) in March 2012 vs. March 2011[20]

Source: [20]www.corelogic.com/about-us/researchtrends/asset_upload_file347_14980.pdf; May 2 2012

Delinquencies & Foreclosures

"Mortgage Bankers Association: 2.0% of mortgages serviced (900,000) may enter foreclosure or need mortgage modification.

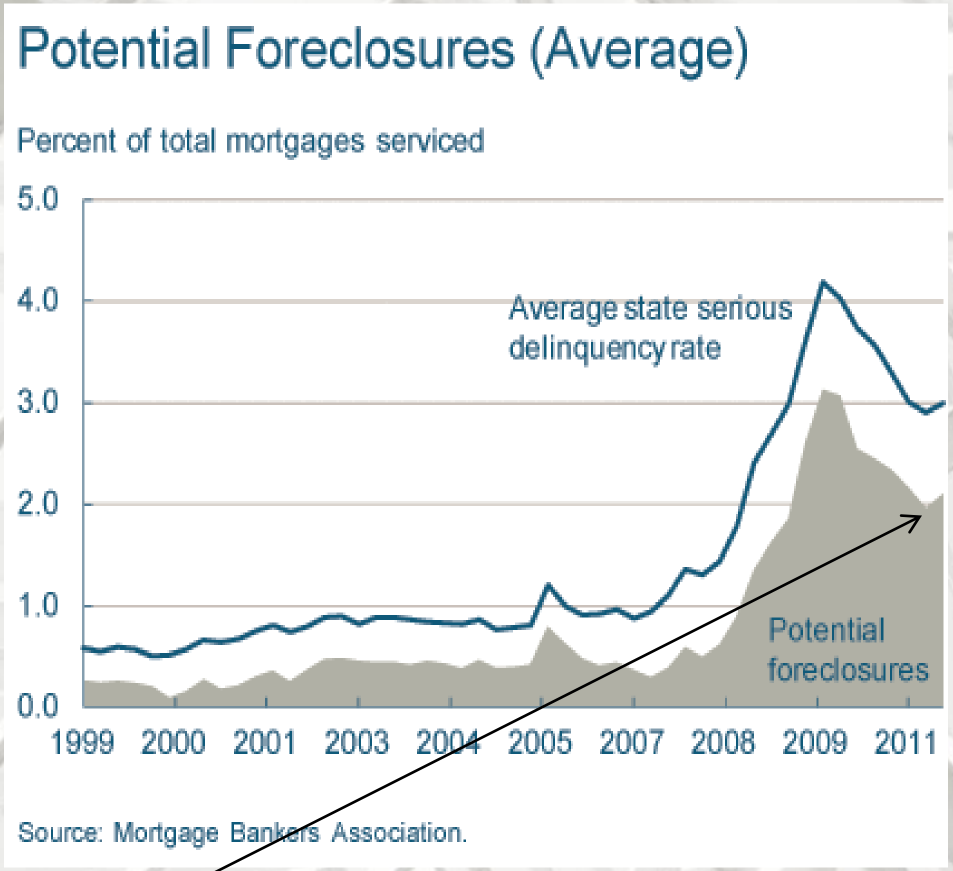
FICO: 45.5% of risk professionals expect strategic defaults to be greater in 2012 compared to 2011.

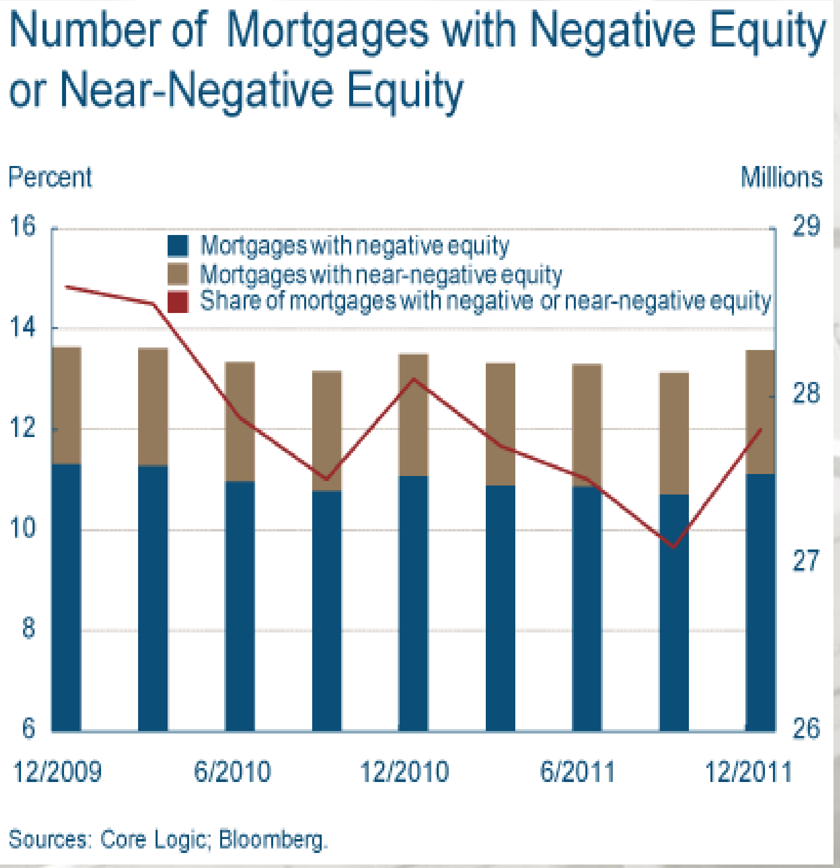
…nearly 1/2 of risk professionals believe that the current generation of home-owners does not consider their mortgage to be their most important credit obligation… . If correct, this attitude would have negative implications for the housing market.

…after declining for 3-consecutive quarters, the share of mortgages with negative or near negative equity rose to 27.8%, the highest level since December 2010."[21] - - Dr. Yuliya Demyanyk, Senior Research Economist and Matthew Koepke, Research Analyst; The Federal Reserve Bank of Cleveland

Source: [21]www.clevelandfed.org/research/trends/2012/0512/01houcon.cfm; May 1 2012

Delinquencies & Foreclosures





2.0% or 900,000 of all mortgages: Potential foreclosures[21]

Source: [21]www.clevelandfed.org/research/trends/2012/0512/01houcon.cfm; May 1 2012

For three consecutive quarters the share of mortgages with negative/near negative equity rose to 27.8%, the highest level since December 2010[21]

Economy

"The standard of living of the average American continues to fall. Real median household income today is near the same level as it was 15 years ago (see next slide), a remarkable statistic since the debt to GDP ratio is 100 points higher.

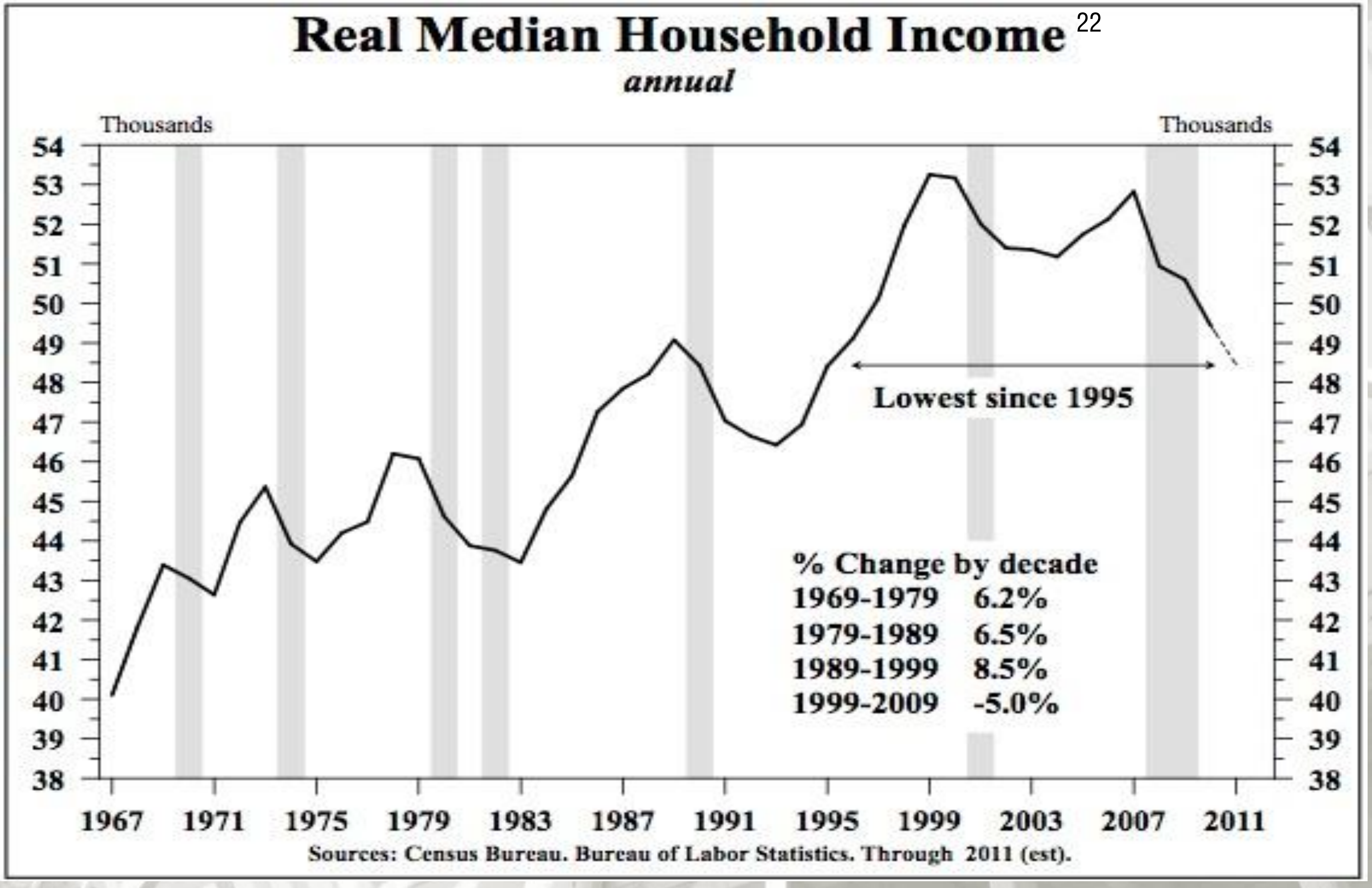
The cause of this deterioration in living standards can be traced to the excessive accumulation of debt, as well as the debt proportion that has turned increasingly unproductive, or even counterproductive. When debt is utilized to finance nonproductive assets, an economic process is initiated that undermines prosperity.

Productivity gains must be generated in order to boost income, and thereby the standard of living. If debt enhances productivity, incomes will expand and the economic pie will be enlarged. Otherwise, the debt increase exercise is debilitating to economic growth."[22] - - Lacy Hunt and Van Hoisington, Hoisington Investment Management Company

This has huge implications for the housing market and the wood products industry – if one's standard of living is decreasing – this bodes ill for the current and near-term housing market. Two projections are that homes will be smaller for affordability and homeownership will be further delayed.

Source: [22]www.hoisingtonmgt.com/pdf/HIM2012Q1NP.pdf

Economy



TOC

Source: [22]www.hoisingtonmgt.com/pdf/HIM2012Q1NP.pdf

Employment

Unemployment May Be Down, But So Are Wages and Benefits

February: actual labor participation rate, 63.9%, a decrease from 64.2% in February 2011, and notably below the 66% levels of 2006 and 2007.

"We do know that more jobs are being created, the problem is that the actual labor participation rate, the ratio of people who are in the labor force relative to the people who are eligible to work, it's down to almost the lowest point it was during the great recession. We haven't seen much pickup in that."[23] - - Dr. Robert Reich, Professor of Public Policy, University of California-Berkeley and former Labor Secretary for President Clinton.

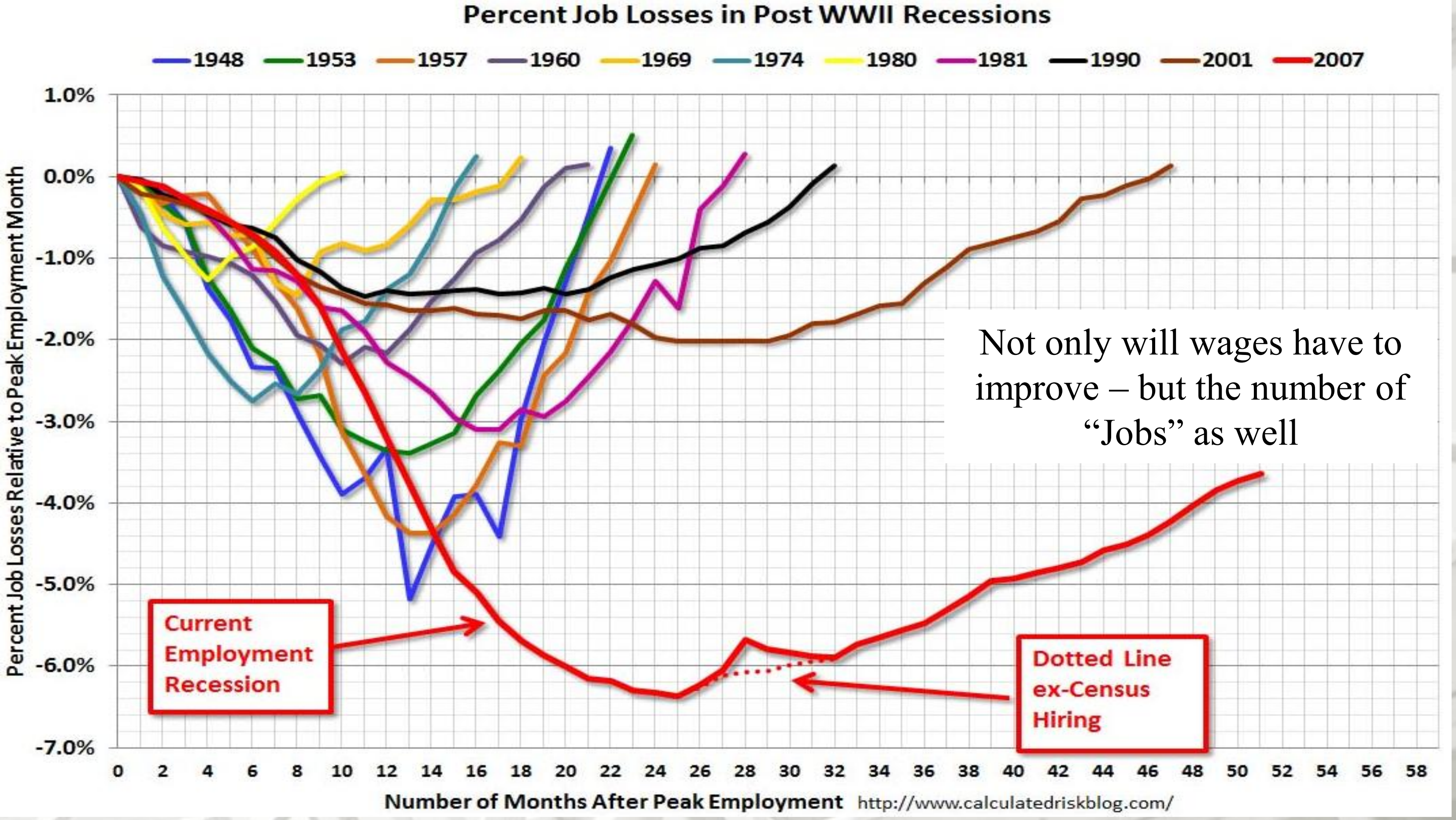
A consequence:

"…the quality of jobs driving this improvement is weak and confined to low-paying areas of the economy." [24] - - Barry Ritholtz

Again, this does not bode well for the housing market or the wood products industry. The employment ratio and wages will have to increase before we witness substantial improvement in the wood products markets.

Source: [23]http://finance.yahoo.com/blogs/daily-ticker/reich-superficial-labor-market-improvements-masks-erosion-wages-133111886.html; [24]www.ritholtz.com/blog/2012/04/us-labor-market-increasingly-low-wage-driven/

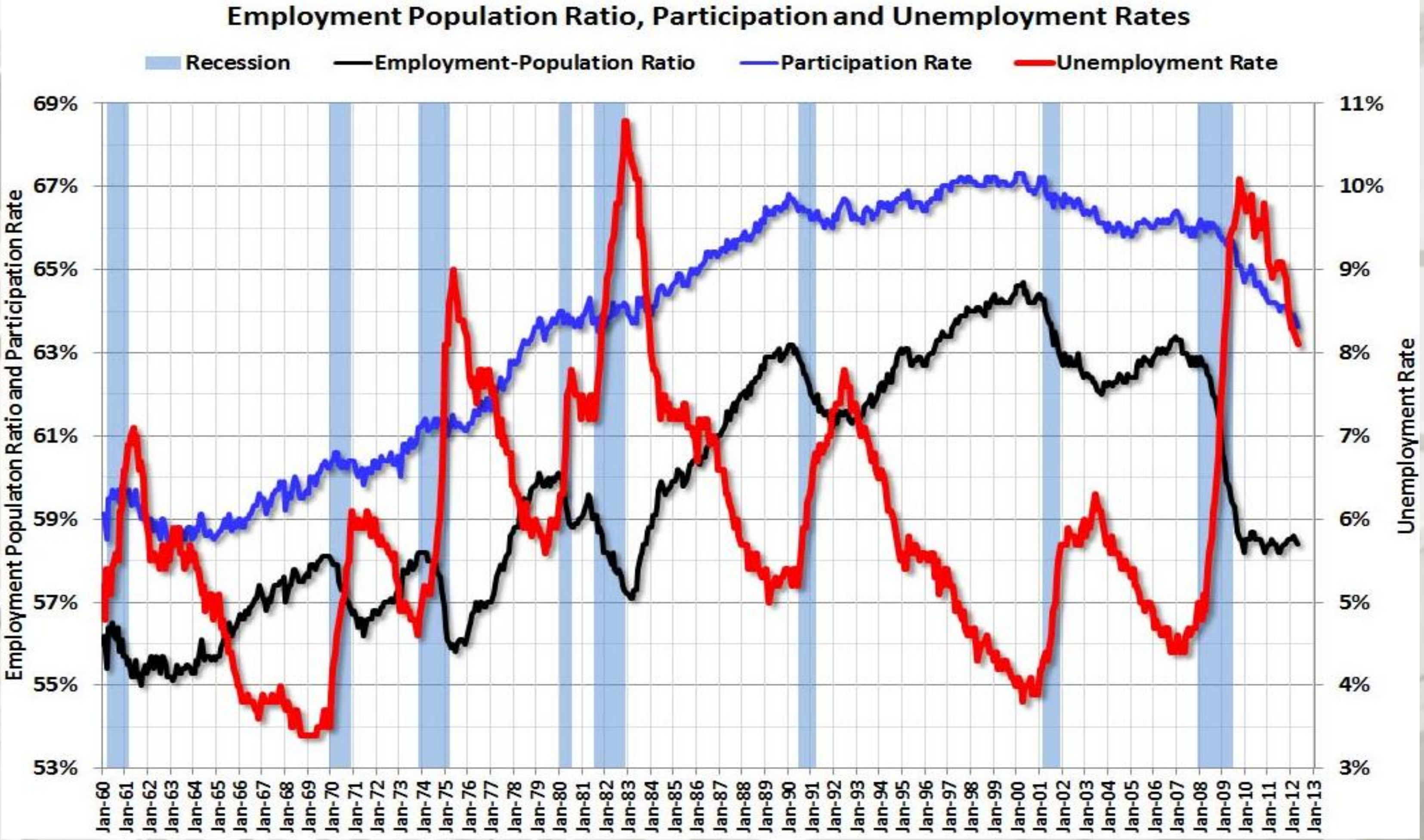
Employment



The latest headline unemployment rate (U3) decreased slightly to 8.1% - - primarily due to 169,000 dropping out of the labor force. U6, a measure of labor underutilization that includes part-time workers and marginally attached workers, was unchanged at 14.5%.[25]

Source: [25]www.calculatedriskblog.com/2012/05/april-employment-report-115000-jobs-81.html; [23]US DOC May 4 2012

Employment



Labor Force Participation Rate: decreased to 63.6% in April (blue line); the participation rate is well below the 66% to 67% rate that was normal during the past 20 years. The Employment-Population ratio also declined in April to 58.4% (black line).[25]

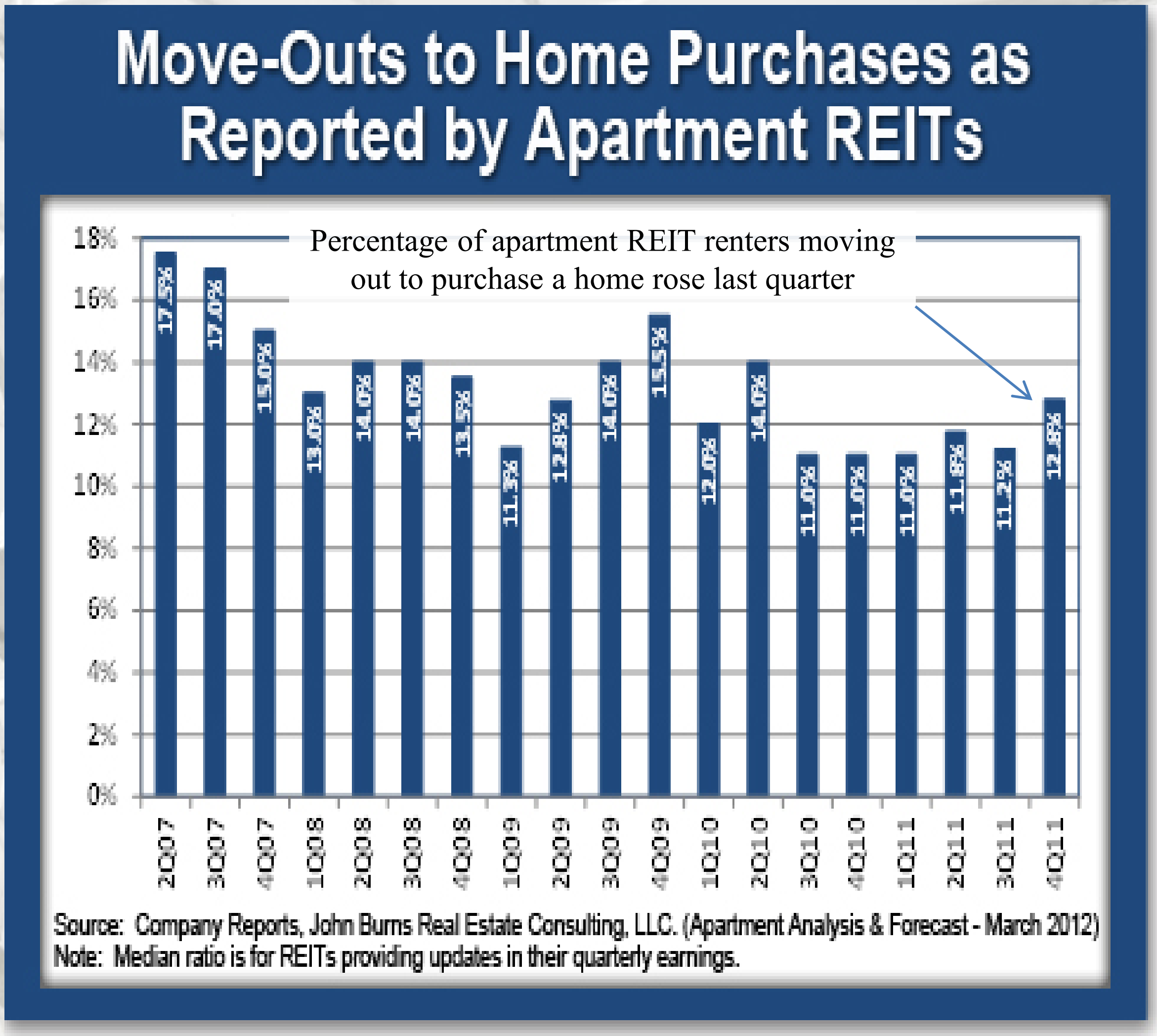
Source: [25]www.calculatedriskblog.com/2012/05/april-employment-report-115000-jobs-81.html. May 4 2012

Housing Demographics

"The housing market is carving out a bottom and renters are slowly starting to purchase homes

First-time home buyers (most < 35 years old) account for about 30% of home sales, down from 50% in 2009.

While purchasing a home is simply out of the question for most young adults, many are still capable of renting on their own, and millions of others have reverted to shacking up with mom and dad."[26] - - Rick Palacios

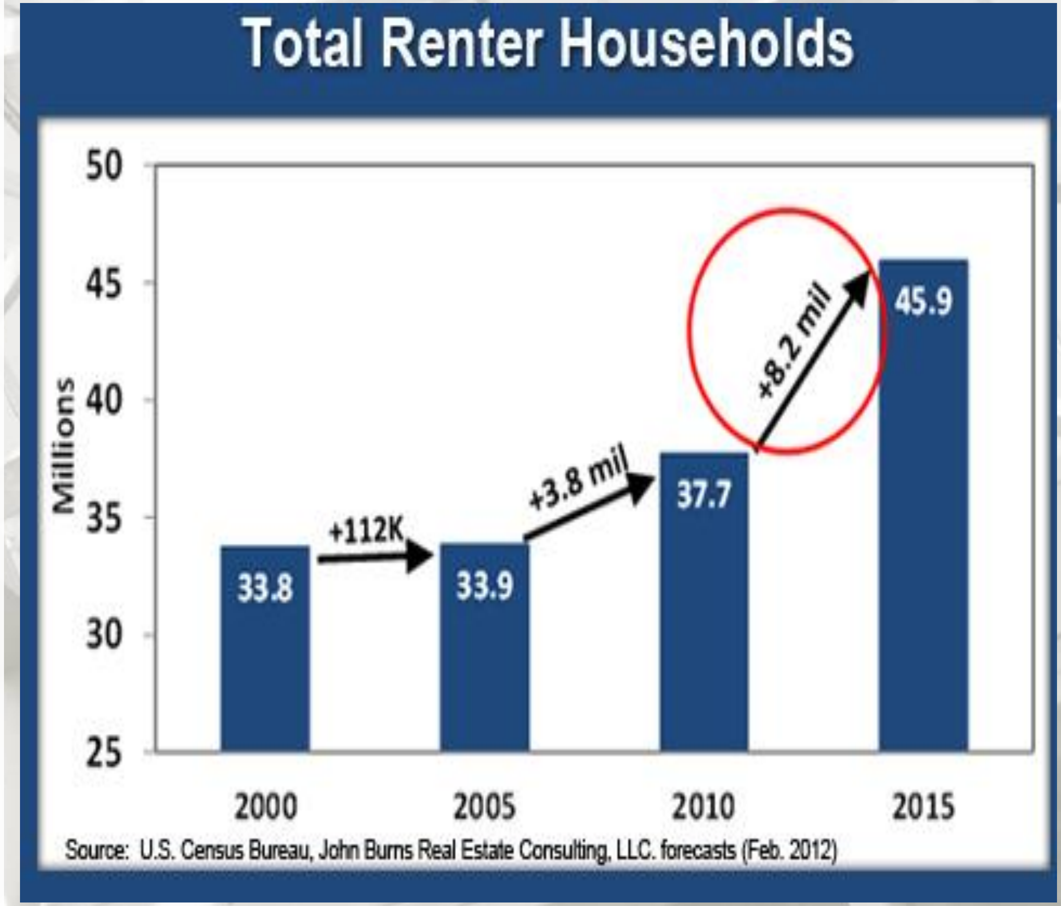


Source: [26]www.realestateconsulting.com/blog/rick-palacios-jr/generational-shift-making; May 3 2012

Housing Demographics

"…over 70% of our survey respondents are considering the possibility of accommodating extended family (multi-generational) in their next home purchase and 19% said that they certainly will -- with children 18 years of age and older the primary beneficiary of parental largesse." - - Rick Palacios[26]

"Approximately 51 million Americans live in multi-generational households; 29% of 25-34 year-moved home with Mom and Dad during the Great Recession…50% of new grads are either unemployed or under-employed." [27] - - J. Maureen Henderson



Source: [26]www.realestateconsulting.com/blog/rick-palacios-jr/generational-shift-making, May 3 2012 ;
[27]www.forbes.com/sites/jmaureenhenderson/2012/05/02/is-gen-ys-live-at-home-lifestyle-killing-the-housing-market, May 3 2012

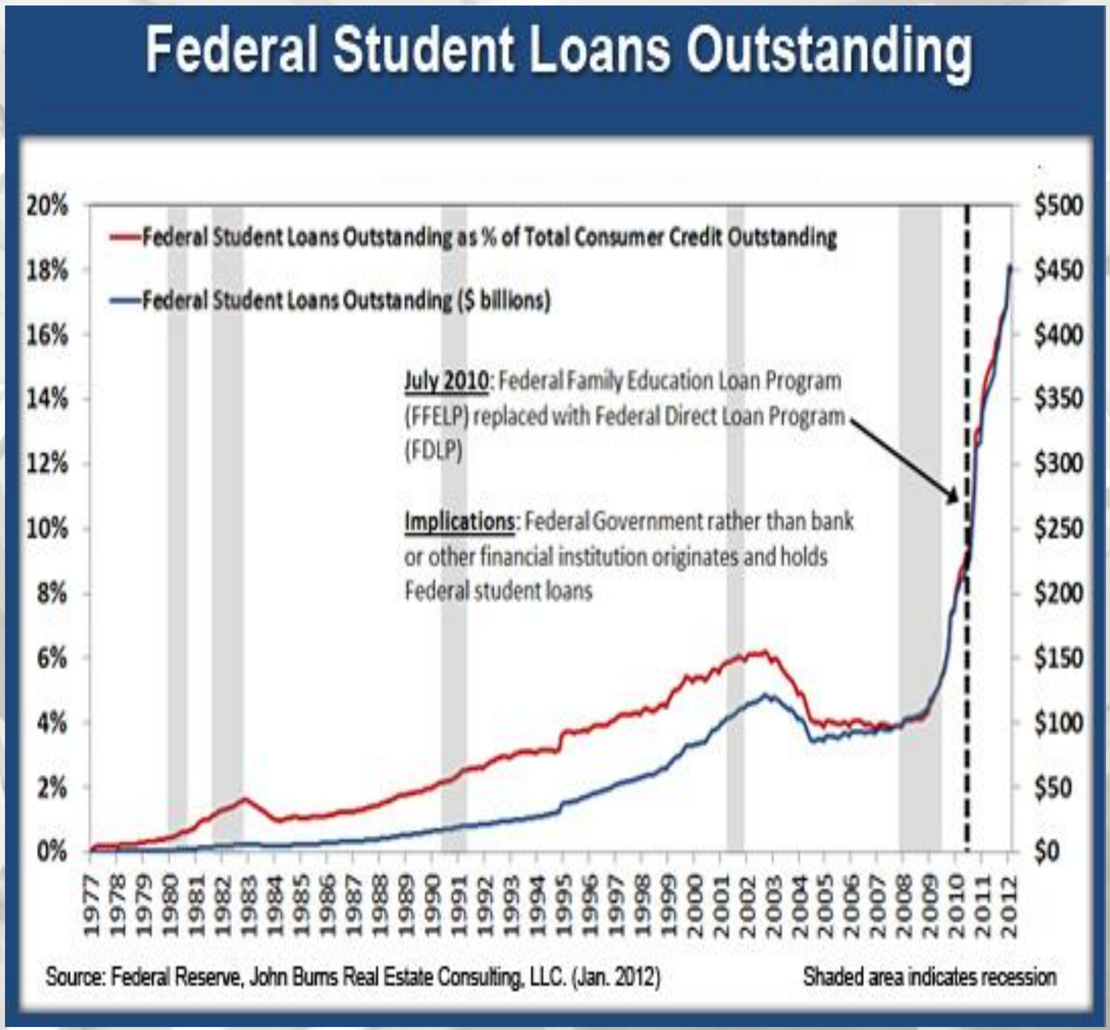
Housing Demographics

"…we believe there is a fundamental paradigm shift that is contributing to the decline in homeownership for 25 to 34 year olds -- namely the acceptance and abundance of debt that will make them unable to qualify for a mortgage.

The piling on of debt and a significant increase in monthly expenses and student loans, debt-to-income ratios get strained.

Student loans now equate to roughly 18% of all consumer credit outstanding. These eye popping numbers don't even factor in outstanding private student loans**…if** total outstanding student loans exceed **$**1 **trillion…there's $**550 billion more in private student loans outstanding.

At $1 trillion, outstanding student loans equate to roughly 6.5% of U.S. GDP. To put this in perspective, U.S. student indebtedness now exceeds the GDP for all but 15 of the 184 countries tracked by the IMF."[26] - - Rick Palacios



Source: [26]www.realestateconsulting.com/blog/rick-palacios-jr/generational-shift-making; May 3 2012

Housing Design Trends

Gen Y Forces Developers To Adapt

“**Apartments are hot.** In the wake of the housing crisis, people no longer see home ownership as the American Dream or a ticket to wealth creation.

Mixed-use has staying power. That’s because people are tired of commuting and spending their lives inside cars. They crave “walkable” environments in urban infill settings

Unit sizes are shrinking.

We expect this trend to continue as Generation Y wants to live close in, rent instead of own and walk to dinner and places to hang out.”[28] - - Greg Miller, Cooper Carry

Source: [28]www.bizjournals.com/atlanta/real_talk/2012/04/gen-y-forces-developers-to-adapt.html?page=2, April 30 2012

Housing Design Trends

Room for Grandma – Multigenerational Families

New design plans have easily accessed rooms that are perfect for an elderly relative or boomerang kid.

www.builderonline.com/design/fourplans-room-for-grandma.aspx?cid=BP:040312:FULL

Out Of Necessity, Families Turn Two Homes Into One

Once known as mother-in-law suites, the accommodations have come back in vogue as the economy sputters. Aging parents and adult children with young kids are moving in to Baby Boomers' homes, to help cope with dwindling investments, foreclosures and uncertain jobs.

www.sun-sentinel.com/business/realestate/fl-multigenerational-housing-20120413,0,2991761.story

The Population Is Aging – Now Where Will They Live?

90% of older adults want to stay in their own home as they age. Now think about where you live. Is it set up to meet the needs of a 65-year-old? What about an 85-year-old?

www.nhcopenhouse.org/2012/04/population-is-aging-now-where-will-they.html?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+nhcopenhouse%2FGIHi+%28NHC+Open+House+Blog%29

Need for affordable senior housing in Longmont expected to increase

There's a great need for senior affordable housing. The population is growing. The population is aging. And their incomes are down…

www.denverpost.com/entertainmentcolumnists/ci_20504656/need-affordable-senior-housing-longmont-expected-increase#ixzz1uCmfA0G8

Eurozone Woes - España

The Kingdom of Spain

Spain matters

Spain is a big country

Spain has the 14th largest economy in the world

Spain is in trouble – big DEBT trouble:

- Spanish national government sovereign debt
- Spanish regional government debt (autonomous regions)
- Spanish city debt
- Spanish bank debt
- Spanish corporate debt
- Spanish personal debt
- Even the two major football clubs (Real Madrid and FC Barcelona) have debts of €1.17 billion[29]
- Unemployment is increasing

Source: [29]http://sports.yahoo.com/news/big-debts-lie-behind-spanish-football-glory-010237811--soccer.html, April 12 2012

Eurozone Woes - España

A primary cause of Spain's problems -- Housing

Spain's housing crash → greater than the U.S.

Backstory:

Spain's population: 40 to 45 million between 2000-2008
Spain's employment: > 1/3 of **"all"** employment growth in the EU from 1997 to 2008
Many came seeking jobs in Spain's housing boom

Large Banks and Cajas (smaller banks)

In 1998, Spain's Mortgage Debt to GDP ratio was about 23%
By 2009, nearly 70% of GDP was mortgage debt (more than tripled)

Cajas: owned 56% of all Spanish mortgages by 2009
20% of Caja assets were loan payments
(what happens when the payments stop being made?)

New regulations in 2011 required minimal equity reserves for risk assets – mainly homes

Since September 2011, 28 of 45 cajas (60%) have failed or merged with other banking institutions[30]

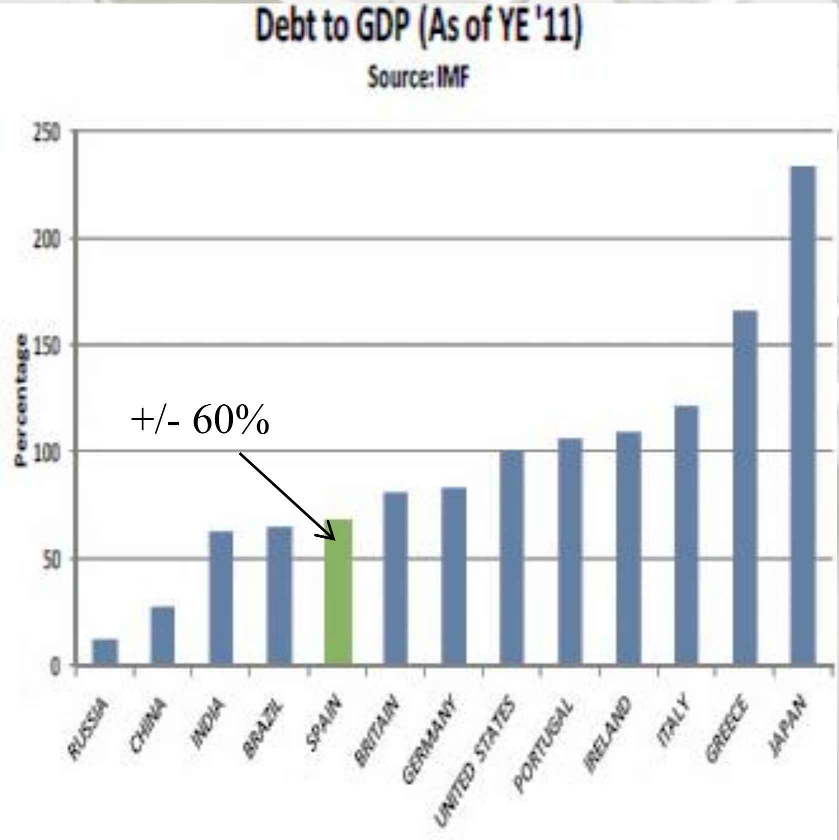
TOC

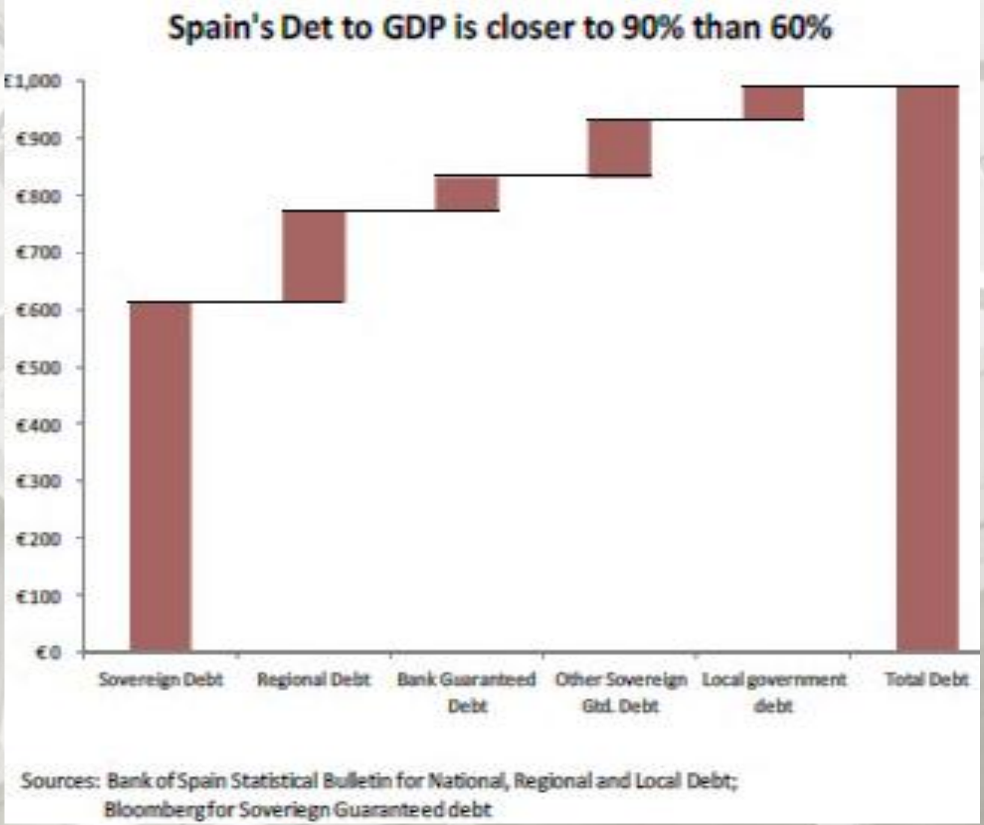
Source: [30]http://seekingalpha.com/article/541951-the-secrets-of-the-spanish-banking-system-that-99-of-analysts-fail-to-grasp?source=email_wsb&ifp=0, May 7 2012

Eurozone Woes - España

"Spain's national debt is 50% greater than the headline numbers

Spain's Debt-to-GDP balloons from 60% to 90% of GDP with regional and other debts"[31]





Regional Government Debt Is Not Counted in Spain's Overall Debt-to-GDP[31]

TOC

Source: [31]Carmel Asset Management LLC; "Investment Focus: The Pain in Spain", April 10 2012

Eurozone Woes - España

"Spain's Housing Prices Will Fall by +35%"[31]

"During the bubble years (2000-2008), one new home was built for every person Spain added to the population

In relation to the U.S., housing prices rose 30% higher and have yet to fall, to where U.S. housing was *at the peak*

Also during this time, housing prices compounded at 12%, while wages only went up 4% per annum

Should wages fall to be in line with Germany, house prices would need to fall over 50% to be back at the pre-bubble relationship

While the ratio of people to homes in the U.S. stayed basically constant, in Spain it fell

Spain now has only 1.7 people to fill each home – lowest of major developed countries

Households in Spain have an enormous 80% of their wealth in real estate – 24% own second homes

As the population ages, they will need to sell these holdings for retirement.

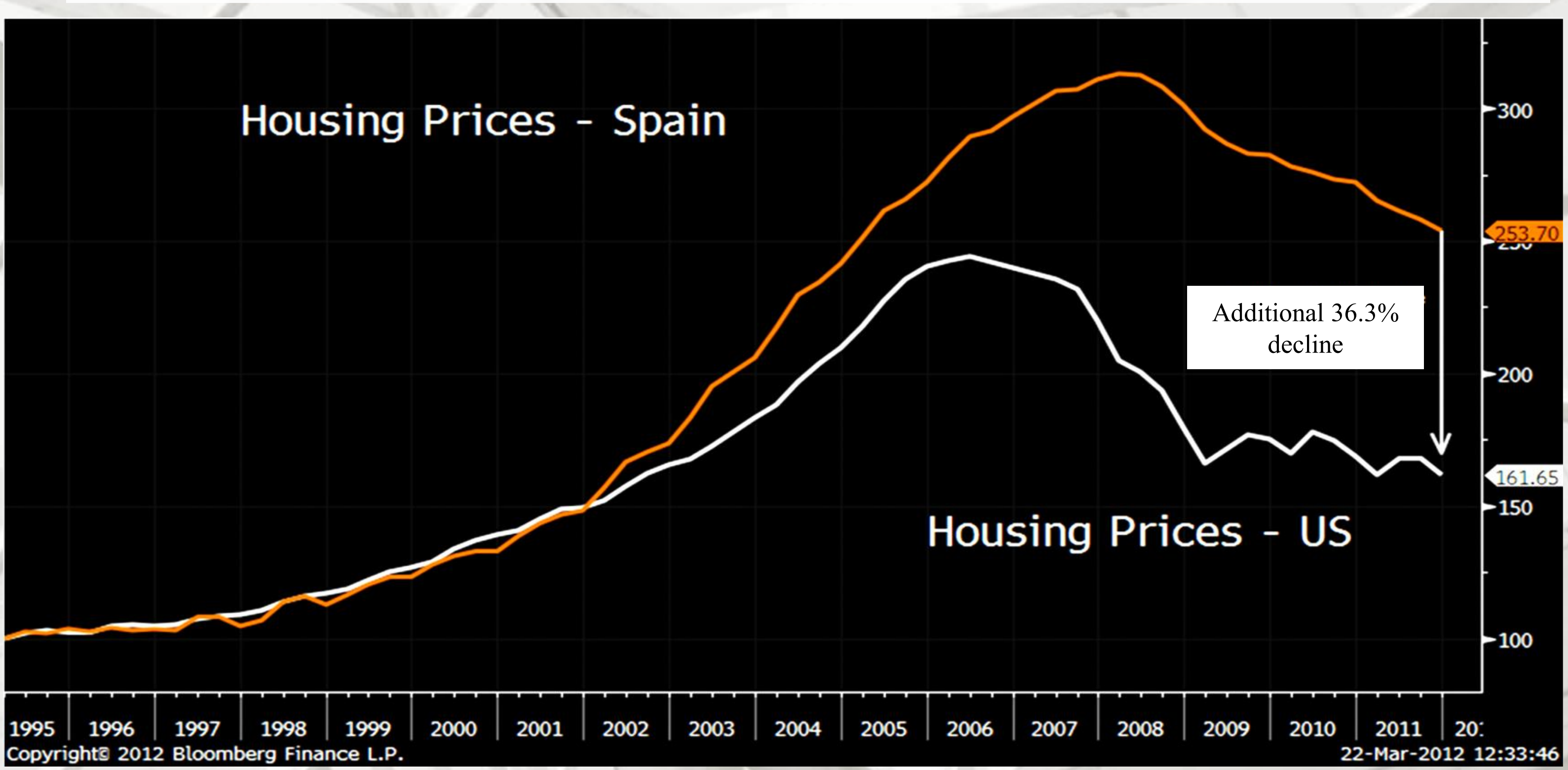
Who will be the buyer?"[31]

TOC

Source: [31]Carmel Asset Management LLC; "Investment Focus: The Pain in Spain", April 10 2012

Eurozone Woes - España

"Spain's Housing Prices Will Fall by +35%"[31]



Nearly 20% of Europe's new home construction was in Spain during the housing boom

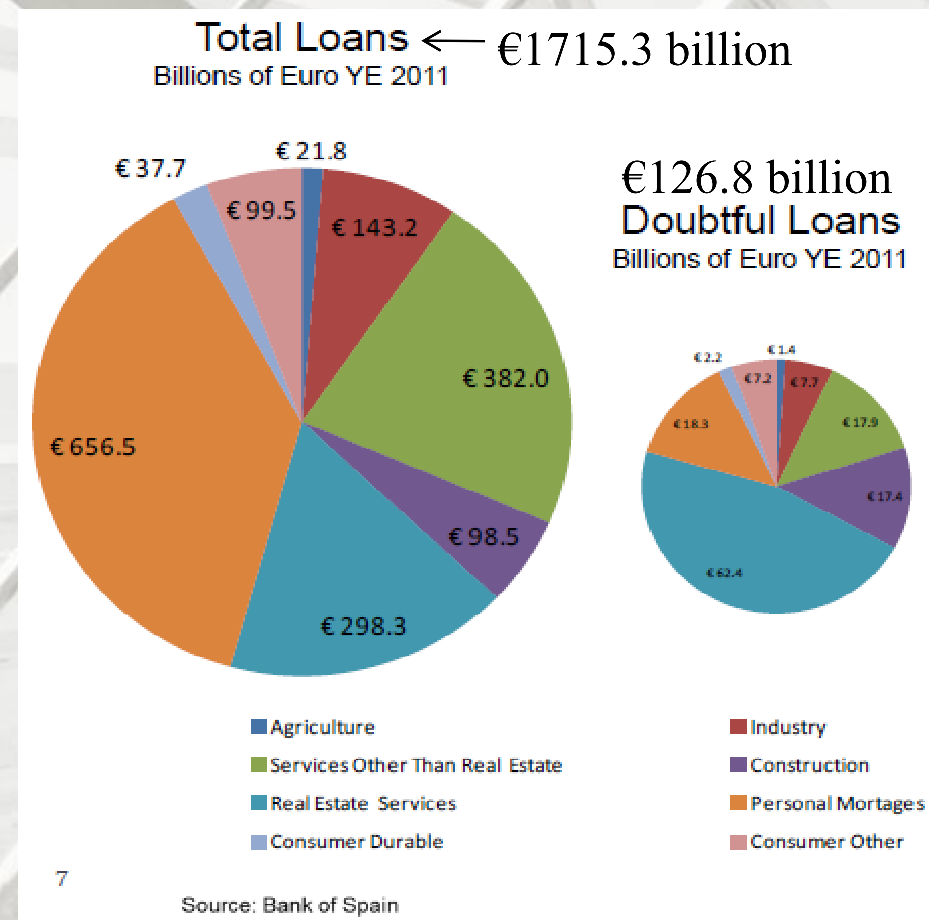
Wall Street Journal: "Some 1.5 million unfinished, unsold or unwanted residential units…"
and they're still building

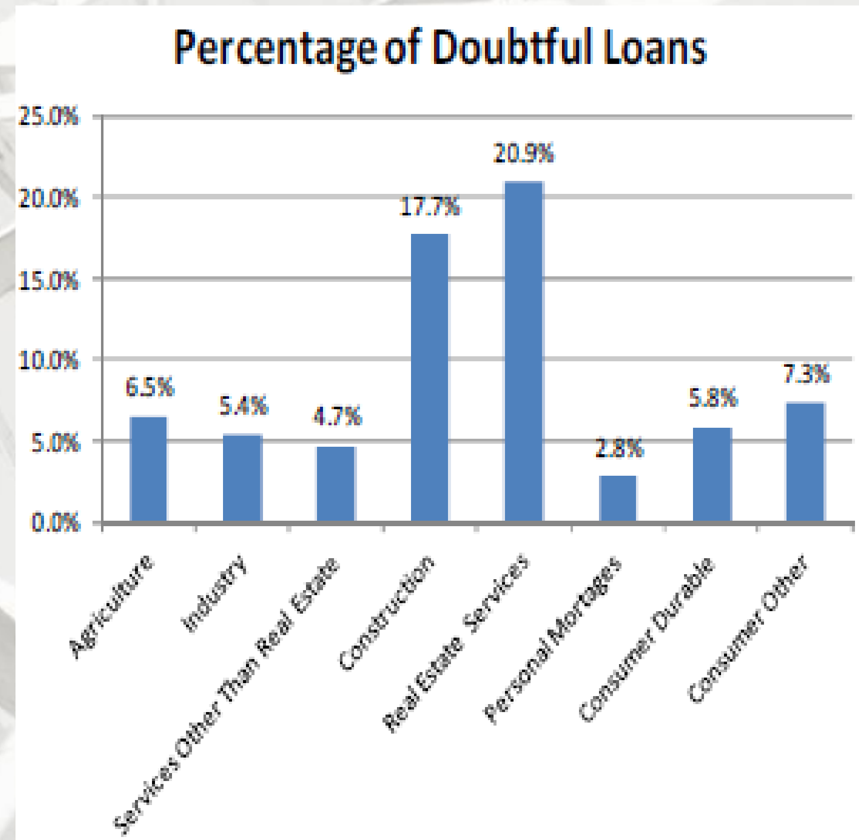
S&P: Underwater homes -- may increase to 25% from 8% in 2010[32]

Source: [31]Carmel Asset Management LLC; "Investment Focus: The Pain in Spain", April 10 2012; [32]Michael Lewitt, The Credit Strategist, April 1 2012

Eurozone Woes - España

"Spain Has "Zombie" Banks with Massive Additional Loans to Developers and to Homeowners"[31]

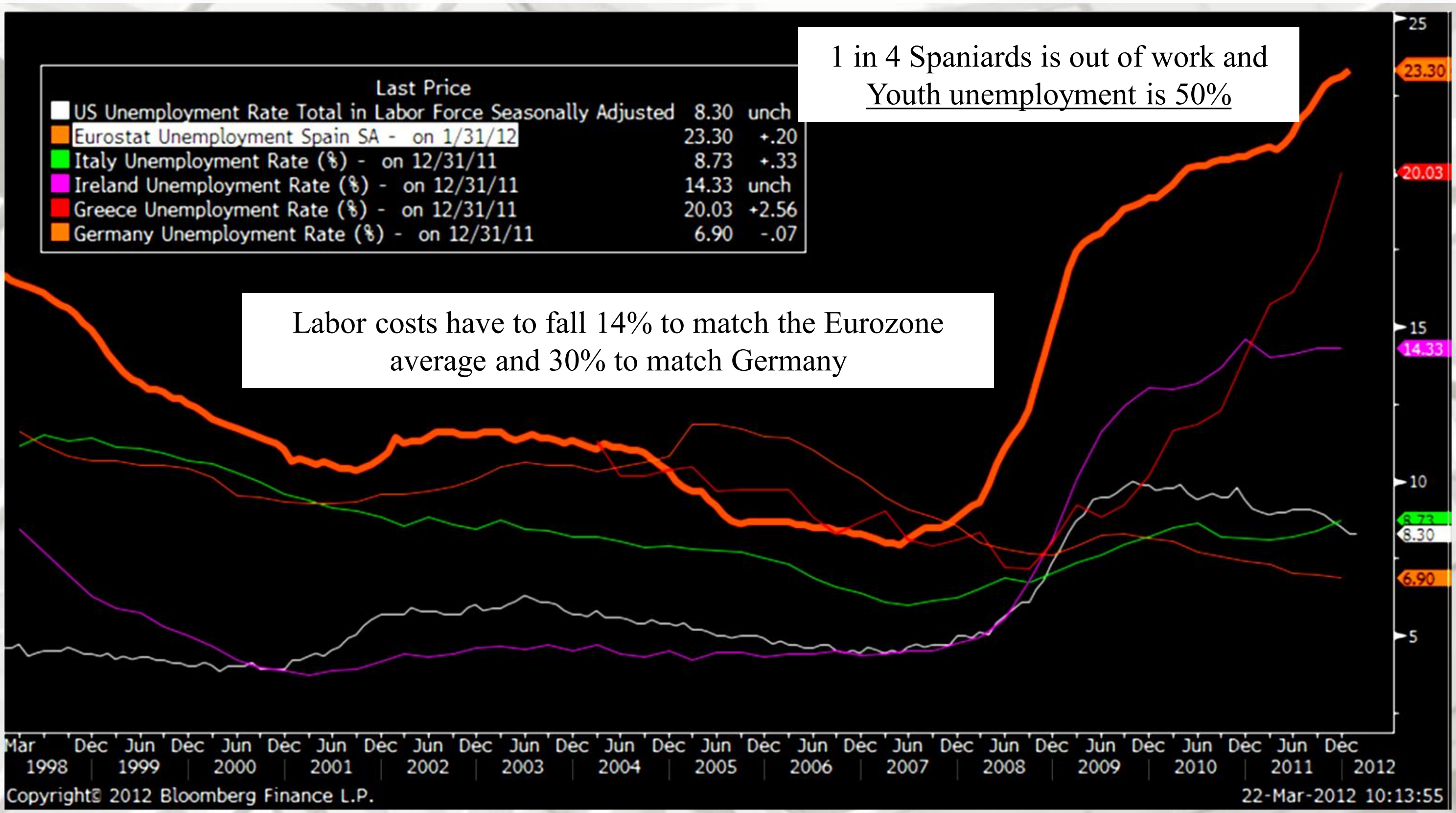




Source: [31]Carmel Asset Management LLC; "Investment Focus: The Pain in Spain", April 10 2012

Eurozone Woes - España

"Spain's Economy Has Not Stabilized and Will Continue to Deteriorate"[31]



"…Spain has clearly passed the point of no return and the crumbling of the Spanish economic and financial systems are taking place under our horrified eyes." [32] - - Charles Gave, GaveKal Research

Source: [30]Carmel Asset Management LLC; "Investment Focus: The Pain in Spain", April 10 2012; [32]Charles Gave, GaveKal Research: Debt Traps: A Refresher, April 12 2012

Eurozone Woes - España

"Europe Will Not Have the Firepower or Political Will to Bail Out Spain"[31]

"Numbers as high as €940billion have been touted for the combined European Stability Mechanism (ESM) and European Financial Stability Fund (EFSF)

- Germany would increase from €211billion to €401billion
- This has not yet been approved by the Bundestag or the Constitutional Court – both barely approved the initial allocation

The ESM relies not only on unapproved financing from Germany, but calls initial capital from Portugal, Ireland, and even Greece

The size of the bailout funds is insufficient if Spain and Italy lose access to the debt markets

- Spain alone would take 60% of the available funds"[31]

"…as Spanish government debt started to rise, the sovereign debt spreads between Germany and Spain widened, while the Spanish money supply started to collapse (transfers of money from Spain to Germany). Obviously, Spain cannot finance itself at 6% with a GDP growth rate of 1% or lower. In other words, Spain is clearly in the embrace of a debt trap." [33] - - Charles Gave, GaveKal Research

TOC

Source: [31]Carmel Asset Management LLC; "Investment Focus: The Pain in Spain", April 10 2012; [33]Charles Gave, GaveKal Research: Debt Traps: A Refresher, April 12 2012

Eurozone Woes - España

"Europe Will Not Have the Firepower or Political Will to Bail Out Spain"[31]

"The headline numbers on the combined European firewall is as large as €940 billion

- This counts €220 billion of funds already committed to Portugal, Ireland, and Spain
- Germany would owe a total of €401 billion – they currently only have approval both by the Bundestag and the Constitutional Court for €211 billion
- Greece would owe €20 billion – impressive for a country that just was bailed out
- Spain would owe €176 billion – which is 16% of GDP and 154% of the expected government tax revenues for 2012

Obviously, if Spain needs to be bailed out the size of the Fund will be much smaller than the headline"[31]

"One can look at the amount of money Spain will need to refinance in the coming year and look at their financial ability, then look at how much can possibly be raised by the European community, even under the proposed new structures, and readily come to the conclusion that there is simply not enough money to save Spain if the market goes Bang!"[34] - - John Mauldin, *Thoughts from the Frontline*

Source: [31]Carmel Asset Management LLC; "Investment Focus: The Pain in Spain", April 10 2012; [34]www.johnmauldin.com/frontlinethoughts/the-war-for-spain, April 14 2012

Eurozone Woes - España

"The European Union cannot handle a Spanish default…

As Spain goes, so goes the rest of Europe.

As Europe goes, so goes the United States and the rest of the world.

U.S. investors who fail to heed this lesson do so at their own risk.

The Euro crisis is still far from over."[32] - - Michael Lewitt

These views are similar to ones posted in December's notes:

"Europe is systemically important for at least three huge reasons: First, it is the largest economic area in the world and, as such, an important source of demand for the rest of the world. Second, with its banks holding large claims on nonresidents, their forced deleveraging will transmit waves of credit rationing well beyond the EU. Third, by fueling volatility and uncertainty, the European crisis has a material influence on the functioning of global markets."[34] - - Mohamed El-Erian, CEO and co-CIO of PIMCO

TOC

Source: [32]Michael Lewitt, The Credit Strategist, April 1 2012; [34]www.foreignpolicy.com, Downward Spiral, December 15. 2011

Eurozone Woes - Greece

Greece was in trouble before this past weekends election. For instance:

"The government has 30 days to decide whether to make today's (May 8) interest payment on $250 million of 4.5% notes maturing in 2016, or default. By May 15, officials must decide if they're going to repay the $555 million due on a floating-rate note issued a decade ago."[35] - - John Glover and Anne-Sylvaine Chassany, Bloomberg

More problematic is a brewing liquidity crisis:

"…the Greek private sector is moving liquidity out of the country, dramatically shrinking the availability of credit…corporate and foreign deposits have been declining as well. Banks have become incapacitated as the run on the banking system continues."[36] - - Sober Look

Source: [35]www.bloomberg.com/news/2012-05-08/greek-default-risk-returns-as-bond-maturity-nears.html, May 8 2012; [36]http://soberlook.com/2012/04/continuing-flow-of-capital-out-of.html, April 24 2012

Eurozone Woes - Greece

Many reports indicate that agreed upon austerity measures were not being met before the election. Now, without a functioning government, one wonders how this will play out.

The ramifications are enormous:

"It's default or pay up. There are no other options. It's too late."[35]
-- Gabriel Sterne, Economist for Exotix Holdings Ltd. in London and a former International Monetary Fund official.

We suggest keeping an eye on Greece – election chaos and/or a liquidity crisis or default can only add "fuel" to the current economic turmoil in the Eurozone.

Source: [35]www.bloomberg.com/news/2012-05-08/greek-default-risk-returns-as-bond-maturity-nears.html, May 8 2012

Conclusions

New home sales are declining and existing sales are bottom bouncing - - even with near record low interest rates. A positive – we have the least quantity of available new and existing homes since 2005.

There are three primary factors impeding sales: 1) Consumer confidence, 2) well-paying jobs, and 3) strict home loan lending standards.

And lest we forget, foreclosures, distressed homes, and the Shadow Inventory are still problematic.

New housing starts are still being bolstered by MF starts and several analysts believe this will be the trend for some years to come. With that stated:

- SF and MF permits increased - - now we must wait and see if the shovels actually break ground for construction
- Both SF and MF completions increased from February to March
- Construction spending increased very slightly

Conclusions

Student debt and lack of employment are still a looming detriment to home construction and home sales in the future.

Employment – recent US BLS data indicated that U3 decreased slightly; but there was no change in the U6 measure.

More troubling are the frequent reports of the unemployed being dropped off unemployment rolls and this is projected to increase this year as hundreds of thousands are scheduled to come off the rolls by the end of 2012.

As previously stated -- JOBS still are the most critical factor for a robust housing recovery – and again, well-paying jobs.

TOC

Conclusions

Once again Eurozone sovereign, bank, corporate, and personal debt issues are coming to the forefront of economic news. We cannot downplay the risk to the U.S. economy – from both a consumer and business psychology perspective. Obviously, trade can be negatively affected too. More worrisome is the potential for credit markets stalling or freezing.

The issues with Spain are greater than the combined problems of Greece, Ireland, and Portugal. Spain is "too big to fail" and may be "too big to save." Belgium is now on the "potential trouble" radar screen. Also, what will the change in France's leadership bring? There is one school of thought that authority will be granted to the ECB that allows for the monetization of debt – similar to the U.S. Federal Reserve. Many would argue this is "kicking the debt can" down the road – all debt will have to resolved in some way or form.

Our outlook for the U.S. housing market is unchanged – there are too many headwinds at this point in time for a robust recovery. Thus, "Muddling" along for some time is our estimate for the U.S. housing market.

TOC

Disclaimer of Non-endorsement

Reference herein to any specific commercial products, process, or service by trade name, trademark, manufacturer, or otherwise, does not necessarily constitute or imply its endorsement, recommendation, or favoring by the United States Government. The views and opinions of authors expressed herein do not necessarily state or reflect those of the United States Government, and shall not be used for advertising or product endorsement purposes.

Disclaimer of Liability

With respect to documents available from this server, neither the United States Government nor any of its employees, makes any warranty, express or implied, including the warranties of merchantability and fitness for a particular purpose, or assumes any legal liability or responsibility for the accuracy, completeness, or usefulness of any information, apparatus, product, or process disclosed, or represents that its use would not infringe privately owned rights.

Disclaimer for External Links

The appearance of external hyperlinks does not constitute endorsement by the U.S. Department of Agriculture of the linked web sites, or the information, products or services contained therein. Unless otherwise specified, the Department does not exercise any editorial control over the information you may find at these locations. All links are provided with the intent of meeting the mission of the Department and the Forest Service web site. Please let us know about existing external links you believe are inappropriate and about specific additional external links you believe ought to be included.

Nondiscrimination Notice

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or a part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). To file a complaint of discrimination write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410 or call 800.795.3272 (voice) or 202.720.6382 (TDD). USDA is an equal opportunity provider and employer.