

# May 2012 Housing Notes



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# May 2012 Housing Notes

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# Executive Summary

This commentary provides information regarding May 2012s housing data and the intention is to provide a review of the current conditions in the United States housing market. This report includes data for new home starts, new and existing sales, building permits, housing completions, and construction spending. Also included are comments concerning existing home sales, delinquencies, foreclosures, and distressed homes, housing and the economy, housing demographics and trends, and conclusions.

May housing data included a decrease in overall housing starts driven by a decline in multi-family housing, while single-family starts indicated improvement. New home sales, building permits, and residential construction spending increased; yet housing completions decreased sharply.

Existing home sales are still “bottom-bouncing” and the number of available existing homes decreased slightly from April. Existing home prices posted a monthly increase of 7.9% and the Case-Shiller® indices reported increasing prices on a month-to-month basis. Private investors still remain key purchasers of foreclosures, bank REO homes, and existing and new home sales - - but their share of purchases declined in May.

Lastly, many economic indicators appear to be trending downwards in both the United States, Europe, and China. The Eurozone crisis is ongoing and China appears to be slowing. The key question about China is the severity of the economic slow-down – a soft or hard landing? Next month we hope to publish commentary on China.

# Commentary on Housing

## Opening Comments

Economic deterrents to a major housing recovery are unchanged

- Federal and some State governments' debt → still increasing
- Personal debt → Americans continue to deleverage
- European sovereign debt and banking crisis → a continuing problem and still a drag on the world's economy
- China → a soft or hard landing?



# New Housing Starts

## Commentary

May 2012: Total starts continue to be distressed

708,000 starts (SAAR): a 4.8% decrease from a revised April estimate of 744,000

From May 2011 to May 2012 – an increase of 28.5%

## Overall Starts:

May's housing starts were 69% below the pre-recession peak...

on average, starts are 74% below 2006's record level

# New Housing Starts

## May 2012: Single-family (SF) starts

516,000 starts (SAAR): increased 3.2% from the revised April estimate of 500,000

From May 2011 to May 2012 – an increase of 26.2%

SF Starts:

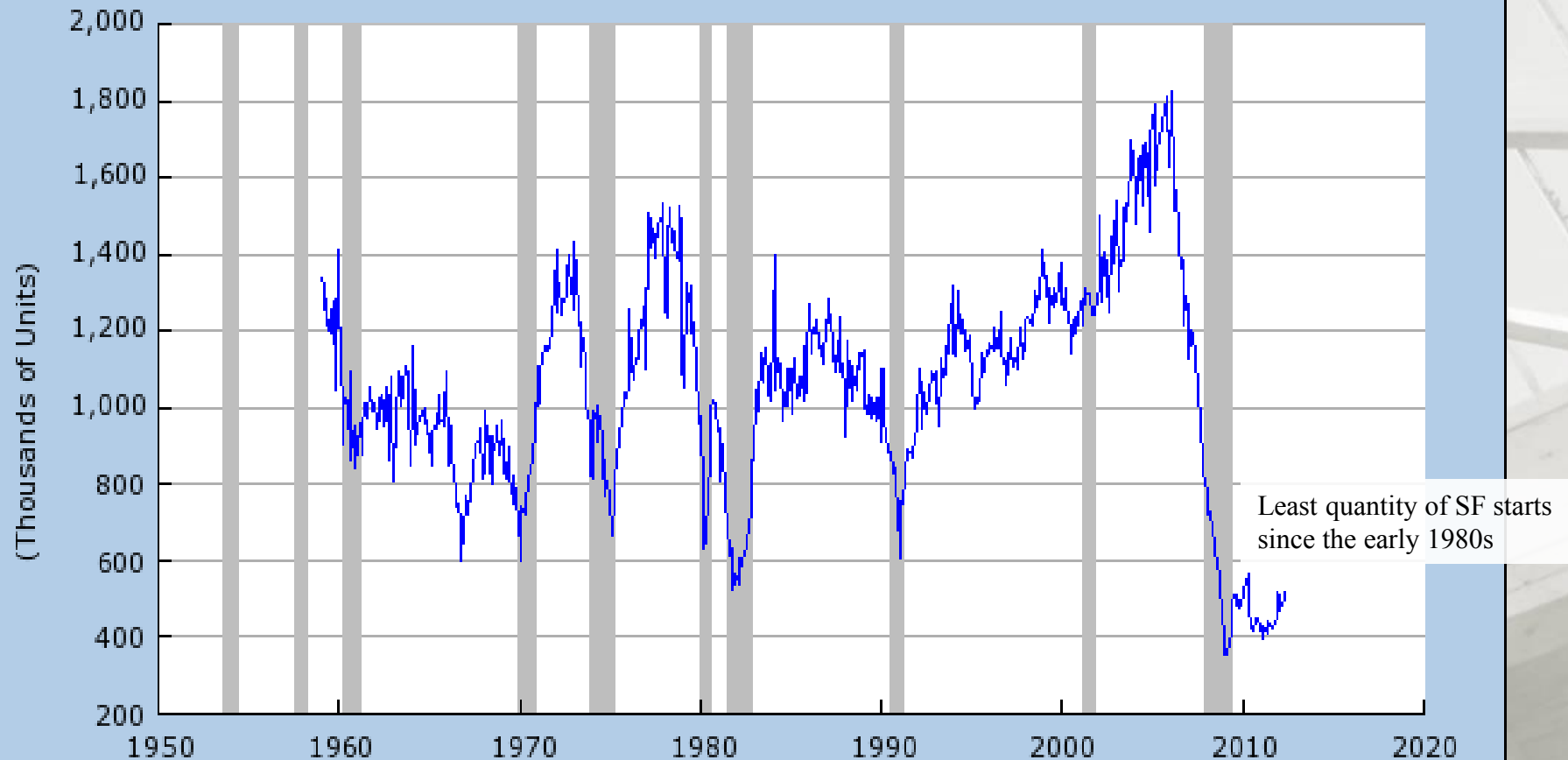
Third consecutive monthly gain

Inching forward – any increase is welcome news

# New Housing Starts

Privately Owned Housing Starts: 1-Unit Structures (HOUST1F)

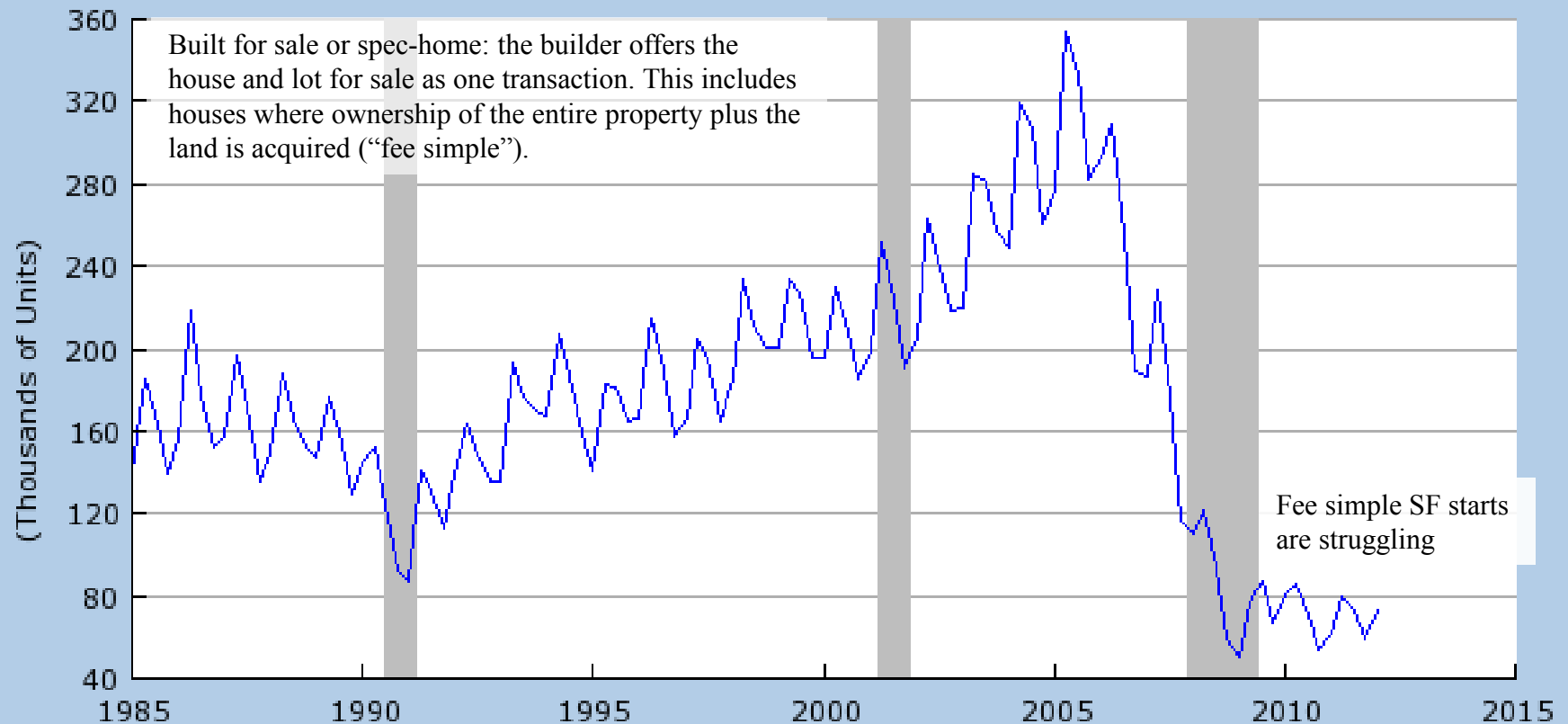
Source: U.S. Department of Commerce: Census Bureau



Shaded areas indicate US recessions.  
2012 research.stlouisfed.org

# New Housing Starts

New Privately Owned Housing Starts in the United States by Purpose of Construction, Built for Sale Fee Simple One-Family Units (HOUSTPFS1FQ)  
Source: U.S. Department of Commerce: Census Bureau

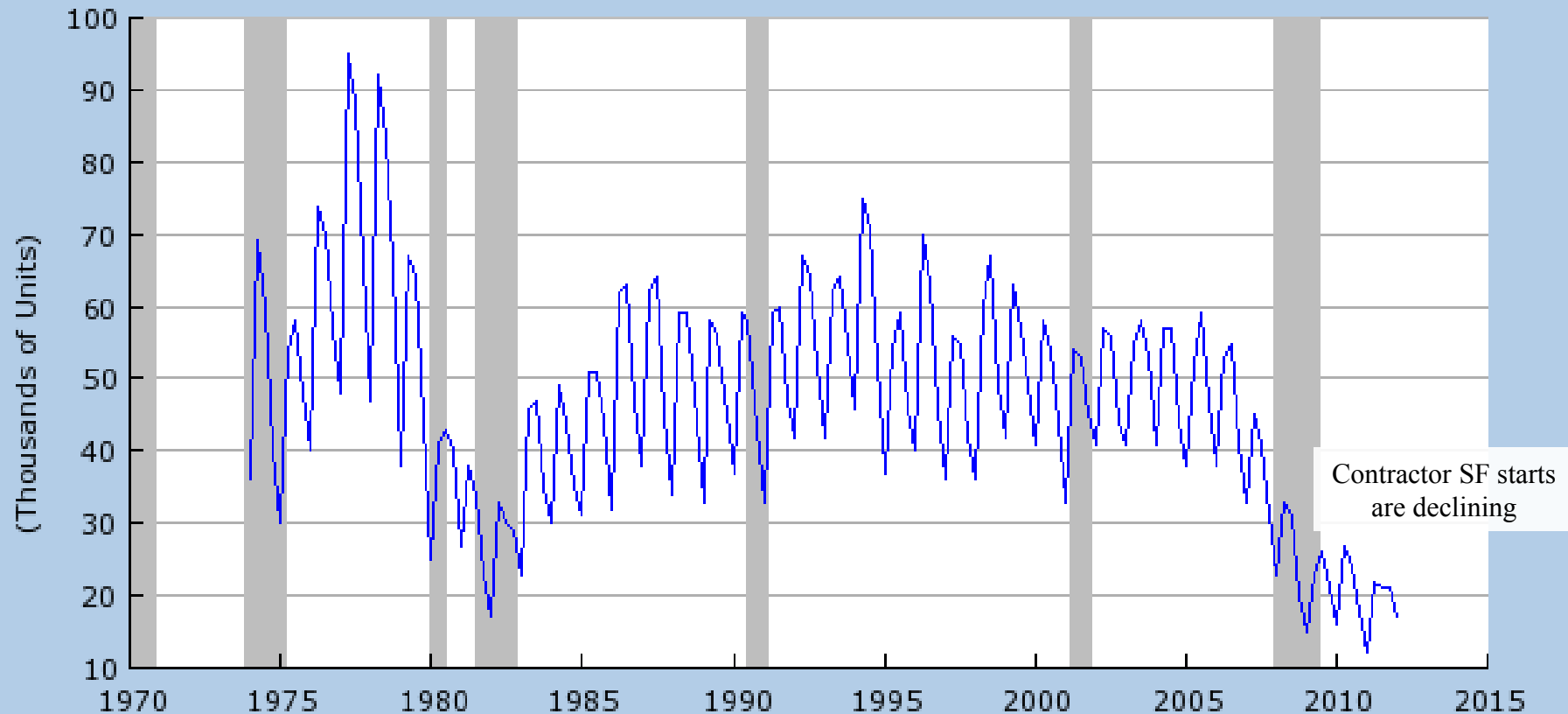


2012 research.stlouisfed.org



# New Housing Starts

New Privately Owned Housing Starts in the United States by Purpose of Construction, Contractor-Built One-Family Units (HOUSTCB1FQ)  
Source: U.S. Department of Commerce: Census Bureau



Shaded areas indicate US recessions.  
2012 research.stlouisfed.org



# New Housing Starts

## May 2012 Multi-family (MF) starts:

179,000 starts (SAAR): 5+ MF units: decreased 24.2%  
from a revised April estimate of 236,000

From May 2011 to May 2012 – an increase of 31.6%

13,000 starts (SAAR): 2-4 MF unit estimate for May

## MF Starts:

MF housing starts are still volatile

MF units remain important for overall starts

# Housing Permits

## May Building Permits – Privately-owned Housing: 780,000 units (SAAR)

7.9% above the revised April rate of 723,000 (SAAR)  
25.0% above the April 2011 estimate of 624,000 (SAAR)

### SF authorizations

494,000 (SAAR): 4.0% above the revised April figure of 475,000

### MF authorizations

5 units or more: 266,000 (SAAR) in May  
2-4 units: 20,000 (SAAR) in May

Historically, building permits lead housing starts by  
approximately one month and sales by three

# Housing Permits

## Starts versus Permits

Total Units: Starts were 2.5 percent less than Permits

Housing starts in non-permit areas	+2.5%
Permits abandoned before start	-1.5%
Design change and misclassification	-1.0%
Permit revisions not applied to starts	-1.5%
Change in inventory of authorized but not started	-1.0%

Single-family units: Starts were 2.5 percent greater than Permits

Housing starts in non-permit areas	+3.0%
Reclassification of units from multifamily	+4.0%
Permits abandoned before start	-2.0%
Design change and misclassification	-1.0%
Permit revisions not applied to starts	-1.0%
Change in inventory of authorized but not started	-0.5%

Multifamily Units: Starts were 22.5 percent less than Permits

Housing starts in non-permit areas	+0.5%
Reclassification of units to single-family	-15.5%
Permits abandoned before start	-1.5%
Design change and misclassification	-3.0%
Permit revisions not applied to starts	-2.0%
Change in inventory of authorized but not started	-1.0%

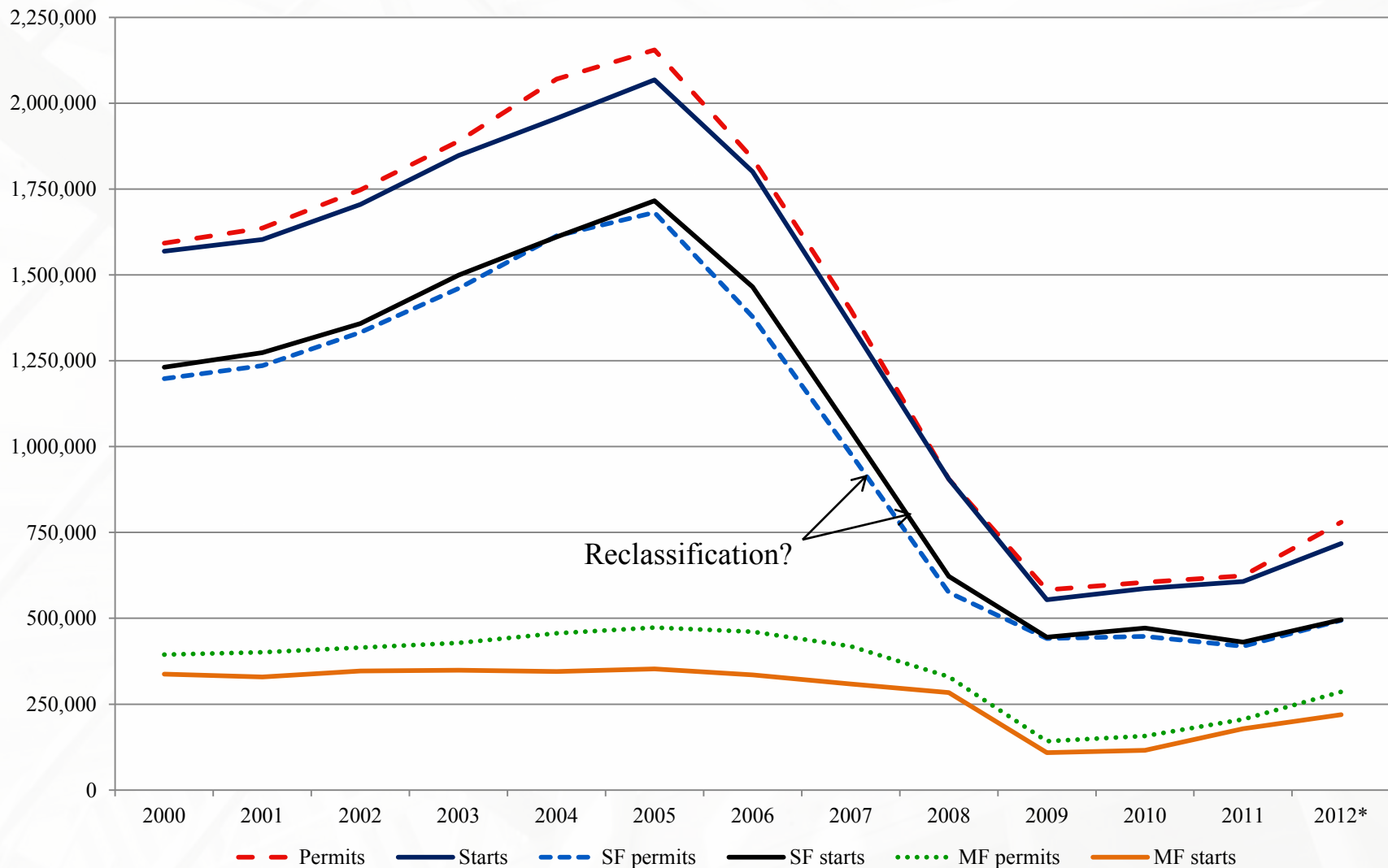
“What troubles me about this data is the permit abandonment and the reclassification from MF to SF.

Abandonment means that something has fallen apart in the process, which is not a good sign (there have been signs of reduced lending and tighter credit by banks).

Permits are valid for one year after they have been pulled. They can also be extended as long as there has been progress in construction.

However, abandonment may be accounted for by delays in construction for various reasons.”<sup>1</sup> – Michael Terry

# Housing Permits vs. Starts





# Housing Completions

**May Completions – privately-owned:**  
598,000 units (SAAR)

10.3% below the revised April rate of 667,000 (SAAR)

10.1% above the April 2011 estimate of 543,000 (SAAR)

**SF completions**

458,000: 6.3% below the April estimate of 489,000 (SAAR)

**M F completions**

130,000: 25.7% below the April estimate of 175,000 (SAAR)

# New Single-Family House Sales

**May 2012 New SF House Sales: 369,000 (SAAR)**

7.6% above the revised April rate of 343,000 (SAAR)

19.8% above the April 2011 estimate of 308,000 (SAAR)

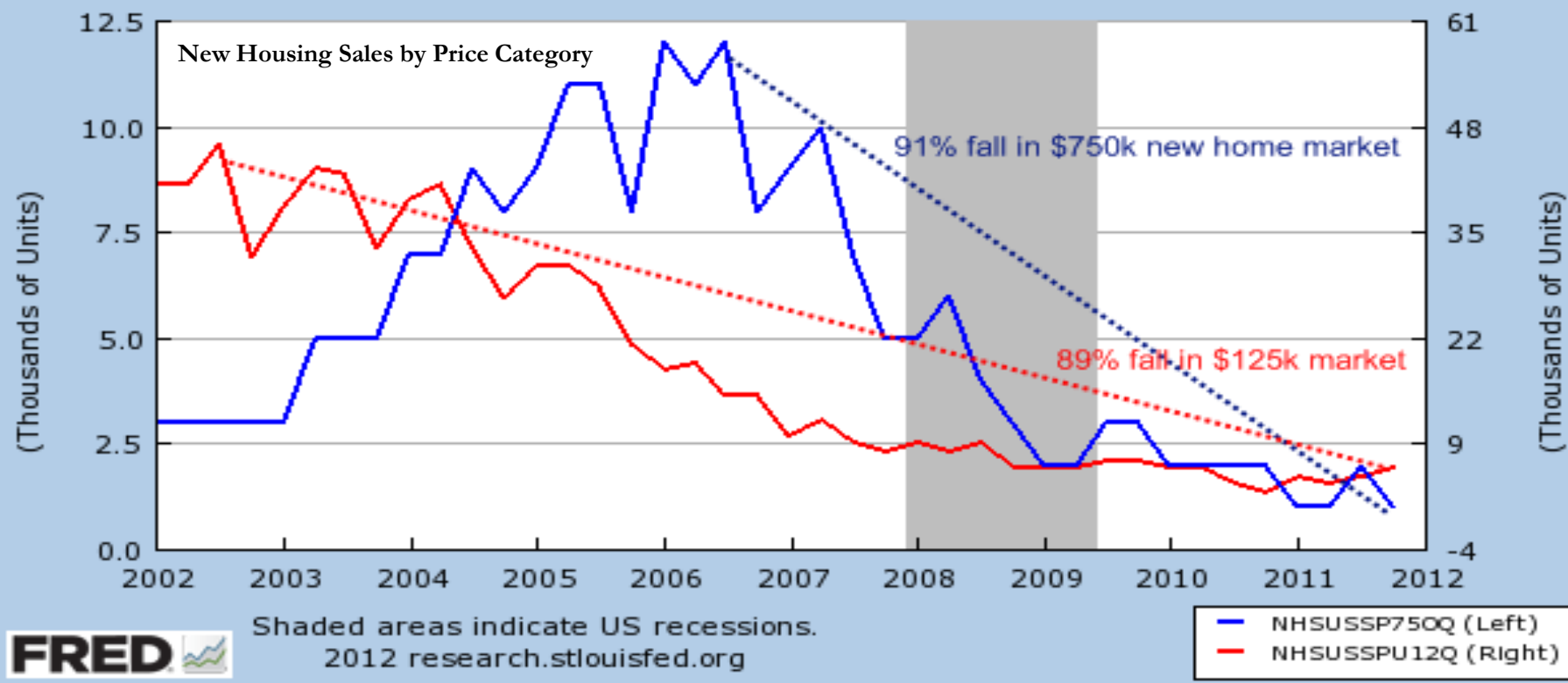
May's new home sales increased,  
but by most measures they are still depressed.

The size of the increase was primarily due to April sales  
being downwardly revised - - thus,

... sales are still bottom-bouncing,  
similar to May's housing starts

# New Houses Sold by Sales Price in the United States, Between \$750,000 and Over (NHSUSSP750Q)

## New Houses Sold by Sales Price in the United States, Under \$125,000 (NHSUSSPU12Q)



“The leaking out of shadow inventory also has other unintended consequences. Since we have years of inventory to work through, there is little need for construction or the creation of new homes. In fact, the low-range and the high-range of new home sales continues to be crushed.

More new homes priced above \$750,000 were sold in 2002 than in 2012 and that also applies to homes under the \$125,000 range. Both of these markets are down by roughly 90% from their peaks and are both near their nadir. You notice that tiny little uptick in the red line? That means whatever new homes sales are occurring are coming from the sub-\$125,000 market. Builders that are low-cost are seeing a mini-boost but definitely not in the more expensive segment of new home sales.”<sup>2</sup> - - Dr. Housing Bubble

# New Single-Family House Sales

Median new house sale price in May: \$234,500

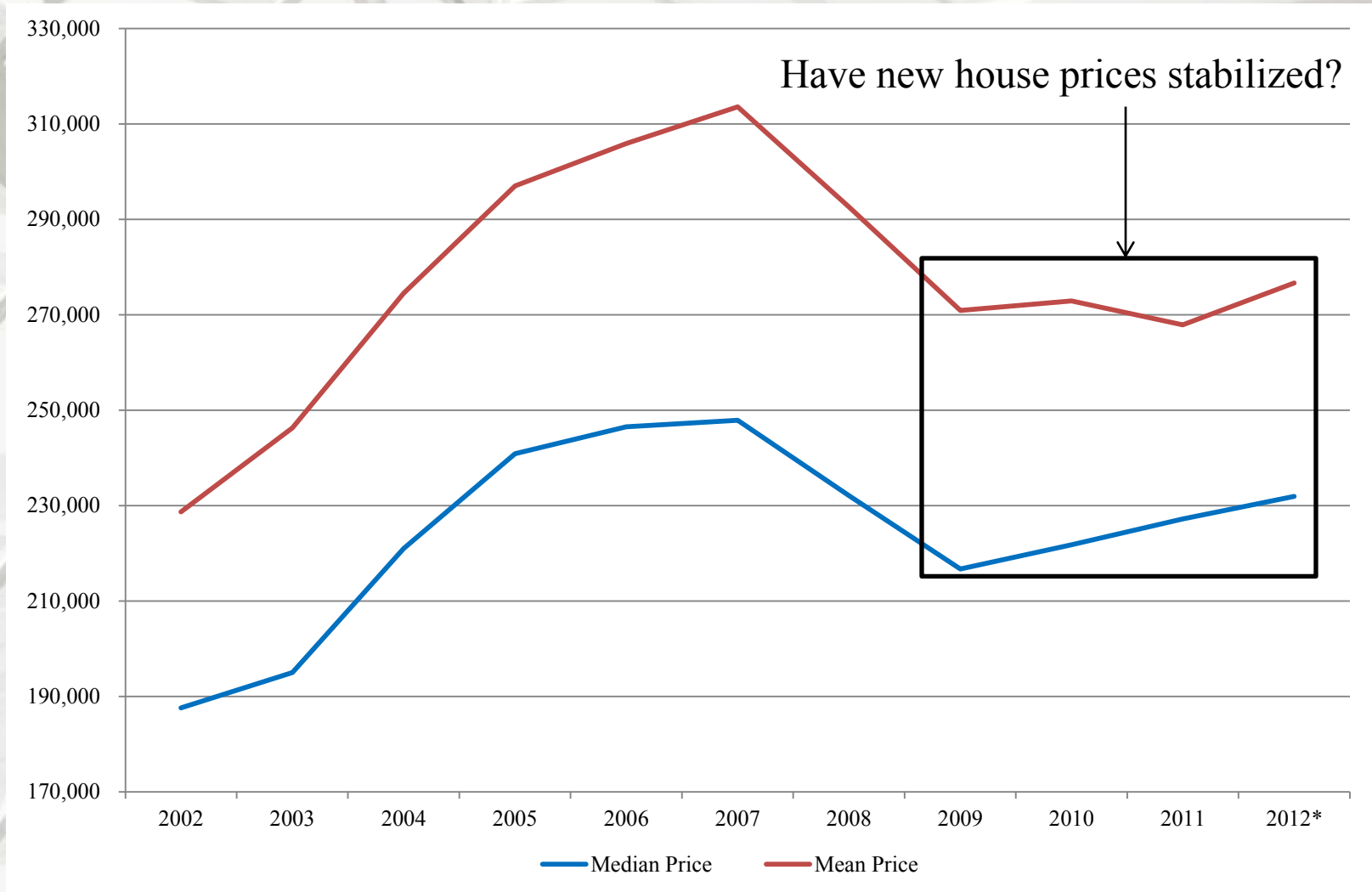
Average May house sale price: \$273,900

- Average sales price decreased 3.5% month-over-month

Estimate of new homes available for sale at May's end:  
145,000 (SAAR)

This represents a supply of 4.7 months at  
the current sales rate

# New SF House Prices





# May Existing House Sales

## National Association of Realtors (NAR) May 2012 sales data:

4.55 million (SAAR): A decrease of 1.5% from an upwardly revised 4.62 million in April

Existing housing inventory increased 0.4% to 2.49 million homes → a 6.6-month supply at the current sales pace

Listed inventory is 20.4% below May 2011

\$182,600 median existing-house price, an increase of 7.9% from May 2011<sup>3</sup>

“The key number in the existing home sales report is not sales, but inventory. It is visible inventory that impacts prices (although the “shadow” inventory will keep prices from rising). When we look at sales for existing homes, the focus should be on the composition between conventional and distressed. Total sales are probably close to the normal level of turnover, but the composition of sales is far from normal -- sales are still heavily distressed sales. Over time, existing home sales will probably settle around 5 million per year, but the percentage of distressed sales will eventually decline. Those looking at the number of existing home sales for a recovery in housing are looking at the wrong number. Look at inventory and the percent of conventional sales.”<sup>4</sup> - - Bill McBride, Calculated Risk

# Existing House Sales

## May Existing Sales

Distressed houses: 25% of sales - -  
(15% foreclosures and 10% short-sales)

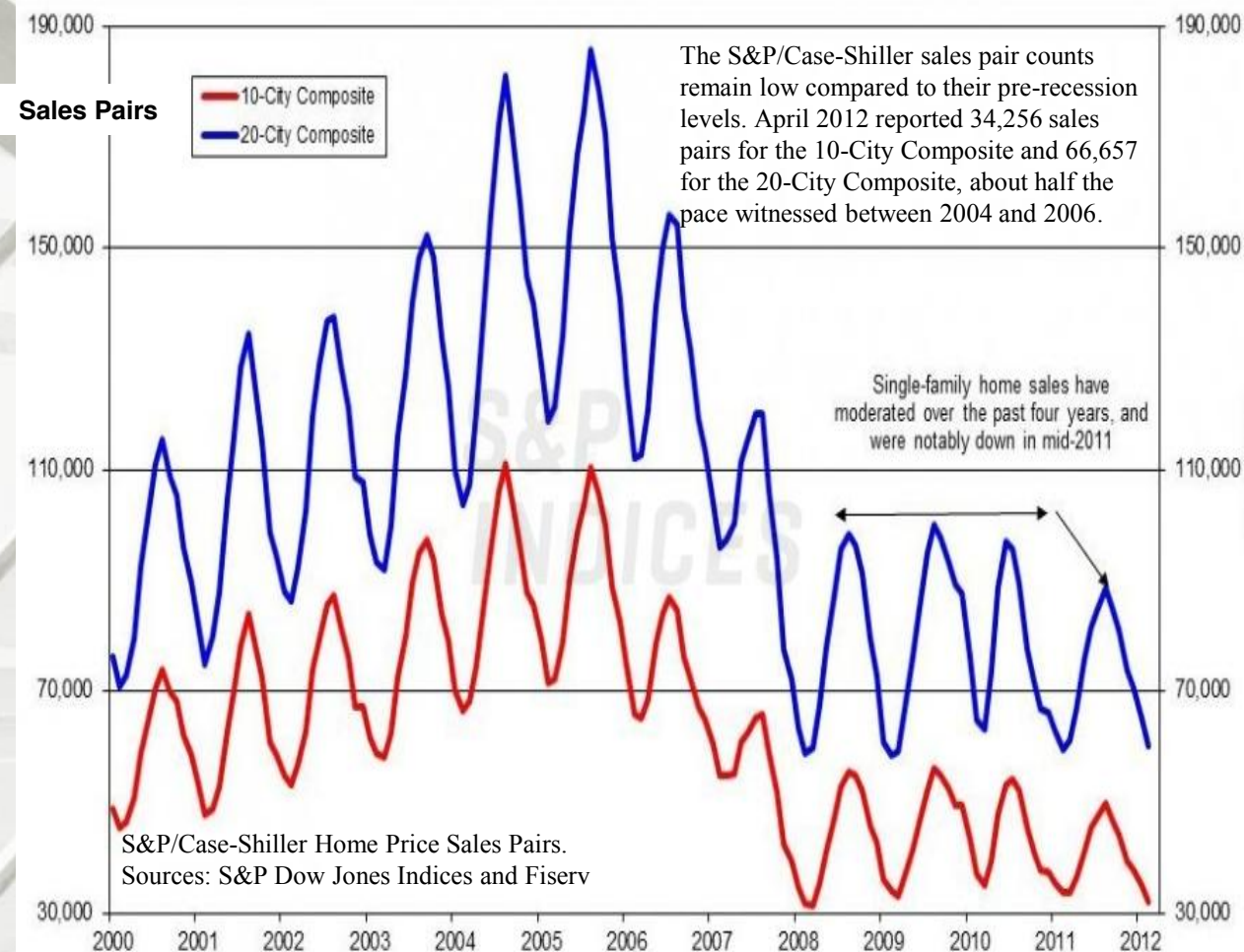
Distressed house sales: a decrease from 28% in April  
and 31% in May 2011

All-cash sales: decreased to 28% (29% in April)

Investors account for the majority of cash purchases: 17%;  
20% in April and 19% in April 2011

First-time buyers: decreased to 34% from 35% in April;  
decreased year-over-year: 36% in May 2011<sup>3</sup>

# Existing House Sales



For each home sale transaction, a search is conducted to find information regarding any previous sale for the same home. If an earlier transaction is found, the two transactions are paired and are considered a “repeat sale.” S&P sales pairs are designed to yield the price change for the same house, while holding the quality and size of each house constant.

“Existing home sales rose from about 4.5 million (MM) in early 2000 to their late-2005 peak of 6.34 MM (SAAR). Once the market turned, sales volume fell back to a level of about 4.0 MM in late 2008. From there, sales rose through 2009, largely due to the homebuyers’ tax credit.

As of May 2012, existing home sales are just above 4.0 MM, slightly more than their average of the prior two years. This is about the same rate seen in 1997, and far below what the housing market experienced during its 2000-2006 run-up. Since 1984, however, average existing home sales are only about 4.0 MM, about the current pace.

Looking at the graph, existing home sales generally rose from about 1991 through 2005 – that’s 15 consecutive years. So, it is no wonder that there is confusion about the level of sales that is “right” for the economy. So, the question remains: What is the level of existing home sales where most people start to believe the housing market is on the right track?”<sup>5</sup> - - Maureen Maitland, VP, S&P Dow Jones Indices

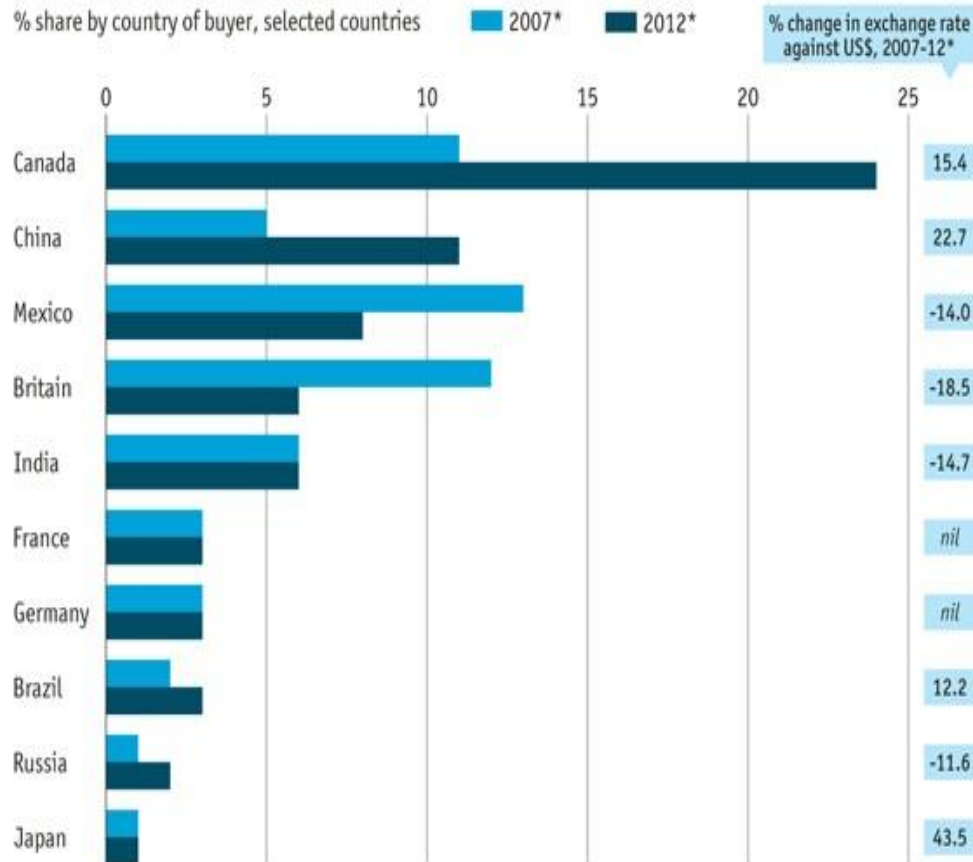


# Existing House Sales

## Foreigners Are Buying More and More American Homes

### US home sales to foreigners

% share by country of buyer, selected countries



Source: National Association of Realtors

\*Year to March 31st

“International clients were divided into two groups: foreign buyers with permanent residences outside the U.S., and buyers who are recent immigrants of less than two years or temporary visa holders residing in the U.S. for more than six months.

Foreigners spent \$82.5 billion, comprising almost 9% of the US\$ 930 billion house sales market in 2011. According to the NAR, that is a 25% increase from 2010. The sunny states of AZ, CA, FL, and TX attracted just over half of these sales, but a state’s proximity to foreign markets also makes a difference: Europeans tend to purchase homes on the east coast, Asians on the west coast, and South Americans in FL.

In the year through March 2012, each group accounted for an equal number of international sales, a total of 206,192, or 4.7% of overall home sales in that year. That total is down 2.2% from 2011, when international sales made up nearly 4.9% of overall sales. The median sales price of homes preferred by global buyers rose to \$400,000, compared with \$315,000 the year before. By contrast, the median sales price for home sales overall -- both international and domestic buyers -- declined 2.6% to \$212,183.”<sup>6</sup>

Return TOC

# Existing & New House Sales



“Following the housing bubble and bust, the “distressing gap” appeared mostly because of distressed sales. The flood of distressed sales has kept existing home sales elevated, and depressed new home sales since builders haven’t been able to compete with the low prices of all the foreclosed properties. This gap will eventually close, but it will probably take a number of years.”<sup>7</sup> - - Bill McBride, Calculated Risk



# Construction Spending

**May Private Construction: \$261.3 billion (SAAR)**

3.2% above the revised April estimate of \$253.8 billion (SAAR)

2.0% above the initial April estimate of \$256.1 billion (SAAR)

May SF construction: \$121.3 billion (SAAR)

April 2011 revised SF construction: \$119.1 billion (SAAR)

May MF construction: \$20.5 billion (SAAR)

April 2011 revised MF construction: \$19.3 billion (SAAR)

May Improvement <sup>A</sup> construction: \$119.5 billion (SAAR)

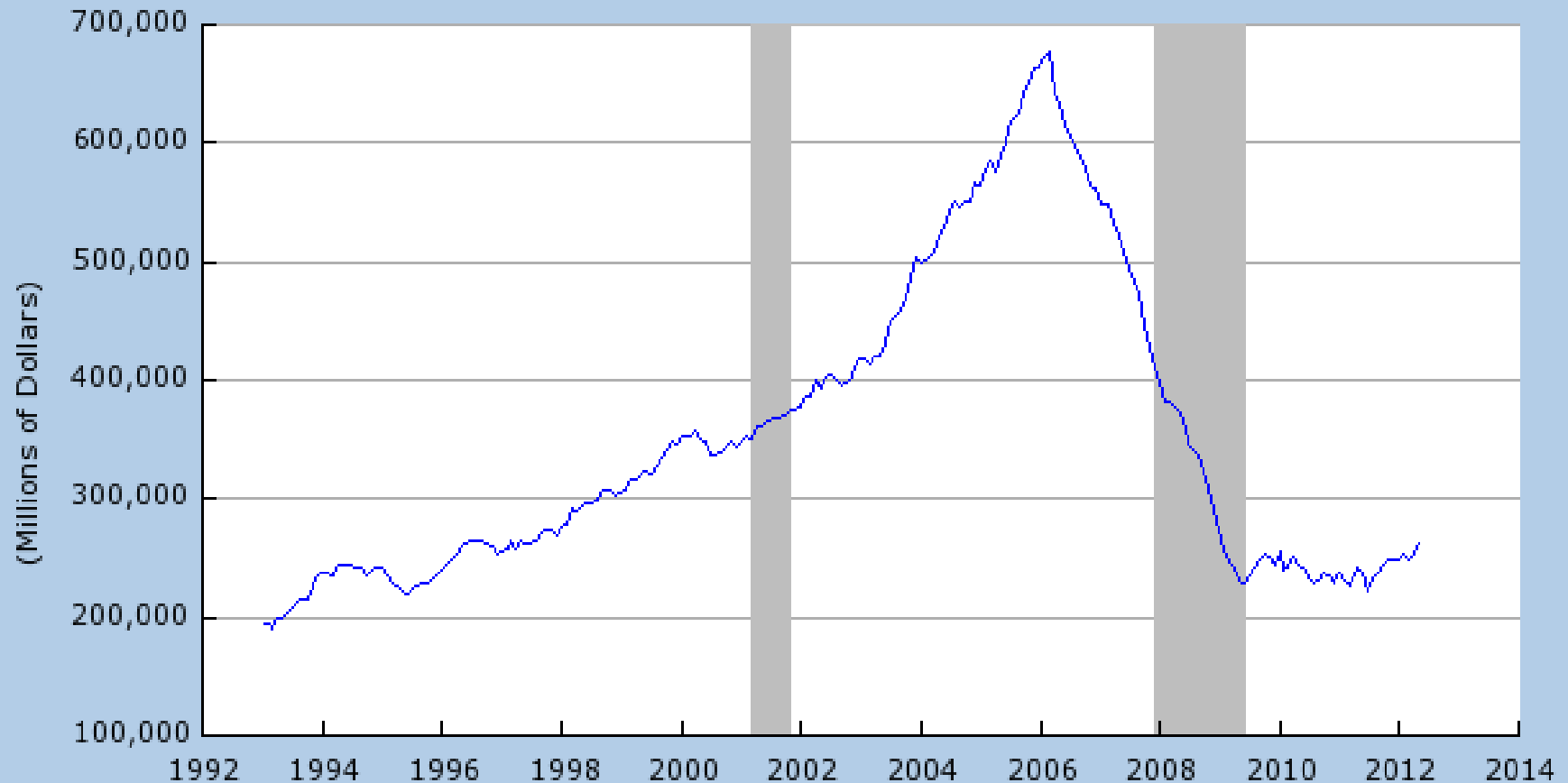
April Improvement <sup>A</sup> construction revised: \$115.4 billion (SAAR)

Private residential spending: 17% above the 2010 low and  
61% below the 2006 high

<sup>A</sup> The US DOC does not report improvements directly, this is an estimation.

# Construction Spending

Total Private Construction Spending: Residential (PRRESCONS)  
Source: U.S. Department of Commerce: Census Bureau



Shaded areas indicate US recessions.  
2012 research.stlouisfed.org



# Construction Spending

Residential building in May increased 8% to \$158.9 billion (annual rate). MF housing showed renewed strength after pausing in April, rising 33%, with May coming in 35% above this category's average monthly pace during 2011. SF housing in May grew 2%, and since February 2011 the dollar amount for single family housing has shown slight gains in twelve out of fifteen months. The May volume for SF housing was 24% above its average monthly pace during 2011. The 6% increase for total construction starts on an unadjusted basis during the first five months of 2012 was the result of greater activity for two of the three main construction sectors. Residential building year-to-date advanced 24%, with similar growth for single family housing, up 23%, and multifamily housing, up 26%.

“While SF housing still remains at an extremely low level, it has been showing small yet steady gains for more than a year now, indicating that its modest upward trend is beginning to acquire some traction. The 6% increase for total construction starts on an unadjusted basis during the first five months of 2012 was the result of greater activity for two of the three main construction sectors. Residential building year-to-date advanced 24%, with similar growth for SF housing, up 23%, and MF housing, up 26%.”<sup>9</sup> - Robert Murray, V-P of Economic Affairs, McGraw-Hill Construction

## MAY 2012 CONSTRUCTION STARTS

### MONTHLY SUMMARY OF CONSTRUCTION STARTS

Prepared by McGraw-Hill Construction Research & Analytics

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

	<u>May 2012</u>	<u>April 2012</u>	<u>% Change</u>
Nonresidential Building	\$153,914	\$137,550	+12
Residential Building	158,861	147,131	+8
<u>Nonbuilding Construction</u>	<u>132,084</u>	<u>247,048</u>	<u>-47</u>
TOTAL Construction	\$444,859	\$531,729	-16

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

May 2012..... 94

April 2012.....112

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

	<u>5 Mos. 2012</u>	<u>5 Mos. 2011</u>	<u>% Change</u>
Nonresidential Building	\$53,680	\$65,318	-18
Residential Building	59,260	47,855	+24
<u>Nonbuilding Construction</u>	<u>67,366</u>	<u>56,305</u>	<u>+20</u>
TOTAL Construction	\$180,306	\$169,478	+6

###

Source: <sup>9</sup><http://app.marketing.construction.com>; June 29, 2012

# Residential Remodeling April 2012

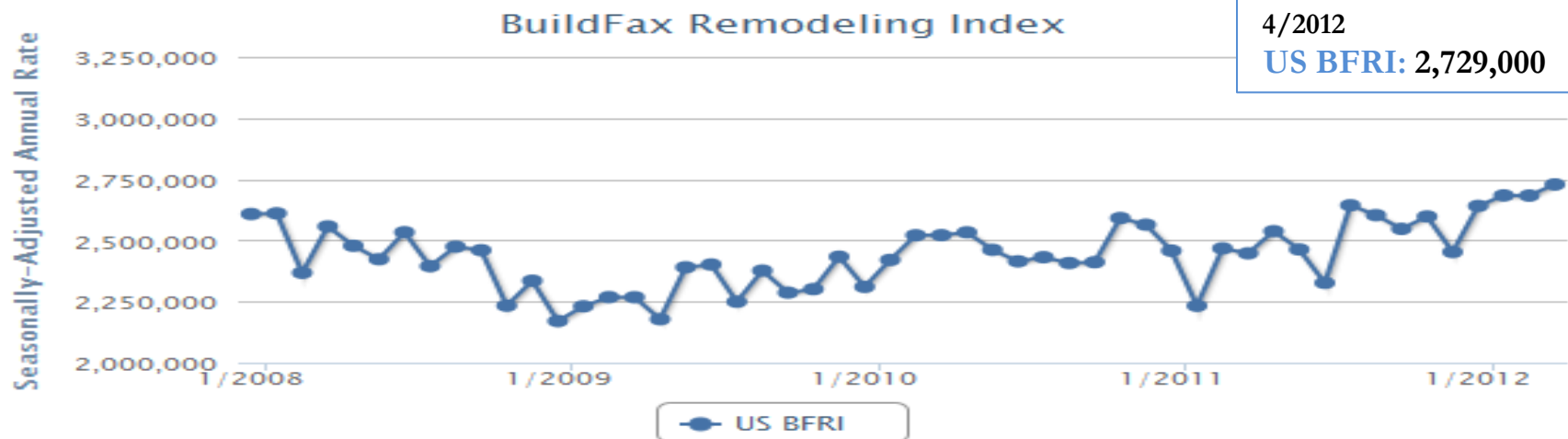
**April's Residential Remodeling Permits: 2,729,000 (SAAR)**

2% above the revised March estimate: 2,683,000 and is  
12% above April 2011's 2,447,000 permits

“Remodeling continues to grow steadily in the U.S. on a SAAR basis; more residential remodeling projects were started in April 2012 than in any of the prior six Aprils.”<sup>10</sup> - - Joe Emison, BuildFax, VP-R&D

## Latest BFRI Release

### BuildFax Remodeling Index





# Residential Remodeling 2012

## Another Down Year for Housing, But Signs of a Turnaround Are Appearing

	2010	2011	2011:1	2012:1	Percent Change	
					2010–2011	2011:1–2012:1
Construction Spending						
Residential Fixed Investment (Billions of dollars)	348.8	337.5	335.5	356.0	-3.2	6.1
Homeowner Improvements (Billions of dollars)	115.1	115.8	113.9	112.1	0.6	-1.6

Note: All dollar values are in 2011 dollars, adjusted for inflation by the CPI-U for All Items.

Sources: US Census Bureau, New Residential Construction; National Association of Realtors®, Existing Home Sales; Federal Reserve Board, Flow of Funds.

“Remodeling downturn -- sharp and prolonged, though not nearly as severe as in homebuilding. After a peak-to-trough drop of 28.4% (> 75% in new construction spending), home improvement spending increased to 49% of residential construction expenditures in 2011. This is the largest share in records dating back to 1993 and well above the 25% average from 1993 to 2008.

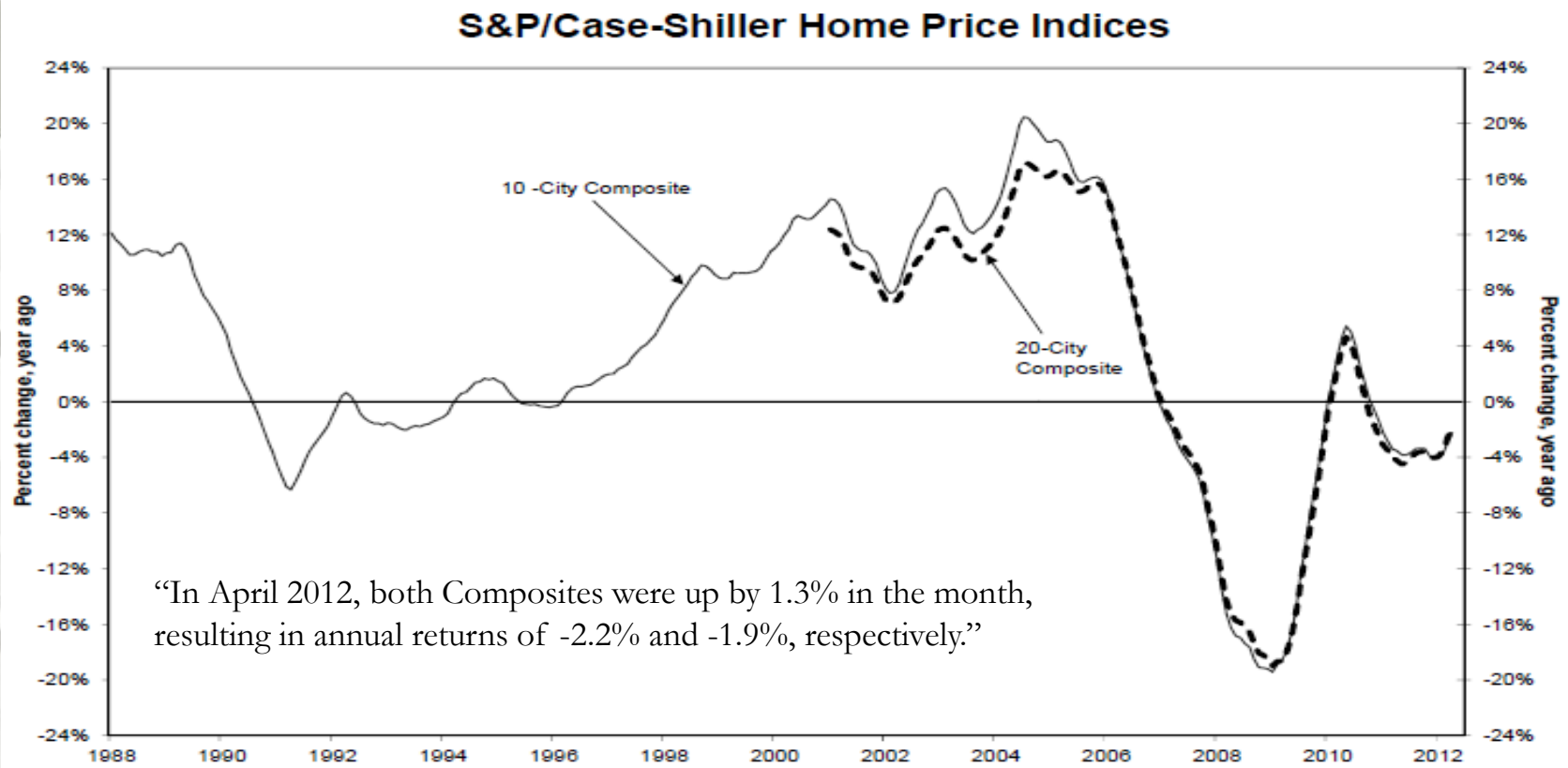
Real improvement expenditures decreased 1.6% in the 1<sup>st</sup> quarter of 2012 from year-earlier levels -- the Leading Indicator of Remodeling Activity points to a resumption of spending growth in 2012s 2<sup>nd</sup> half.

Investment in lender-owned properties should also help to prop up remodeling expenditures in the coming year as banks and other institutions prepare foreclosed units for the market. For example, last year Fannie Mae alone spent US \$557 million on repairs to about 89,800 of its foreclosed properties.”<sup>11</sup>

- - The Joint Center for Housing Studies of Harvard University



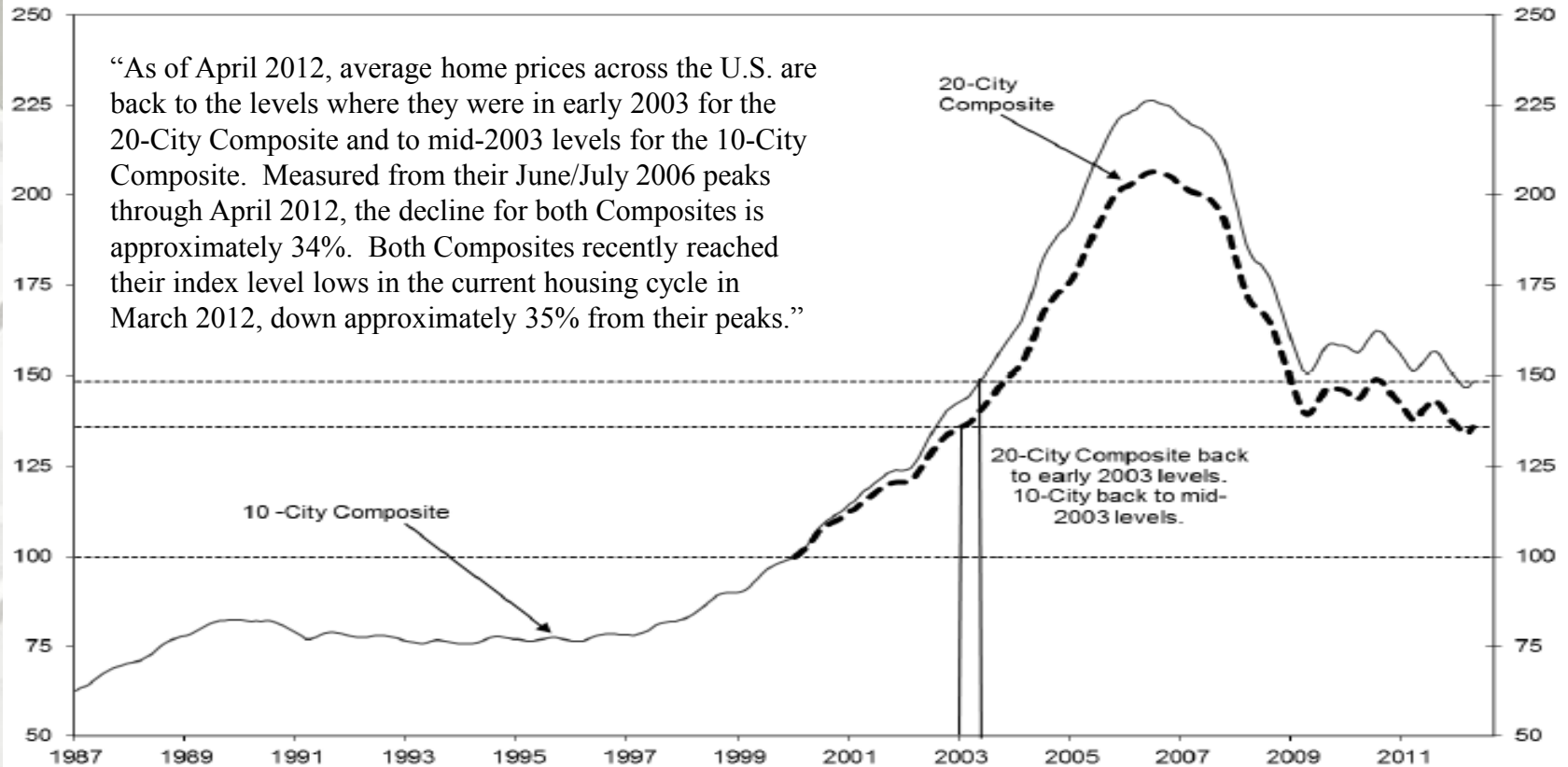
# Standard & Poor's/Case-Shiller April Home Price Indices



“With April 2012 data, we finally saw some rising home prices. On a monthly basis, 19 of the 20 MSAs and both Composites rose in April over March. In addition, 18 of the 20 MSAs and both Composites saw better annual rates of return. It has been a long time since we enjoyed such broad based gains. While one month does not make a trend, particularly during seasonally strong buying months, the combination of rising positive monthly index levels and improving annual returns is a good sign.”<sup>12</sup> - - David Blitzer, Chairman of the Index Committee at S&P Indices

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

S&P/Case-Shiller Home Price Indices



“We were hoping to see some improvement in April. First, changes in home prices are very seasonal, with the spring and early summer being the most active buying months. Second, while not as strong and we believe less reliable, the seasonally adjusted data were also largely positive, a possible sign that the increase in prices may be due to more than just the expected surge in spring sales. Additionally, the last few months have seen increased sales and housing starts amidst a lot of talk of better housing markets, so some price gains were anticipated.”<sup>12</sup>

- - David Blitzer, Chairman of the Index Committee at S&P Indices

# Blitzer, Bovino, and Shiller Speak on May Housing Data



**David Blitzer**



**Beth Ann Bovino**

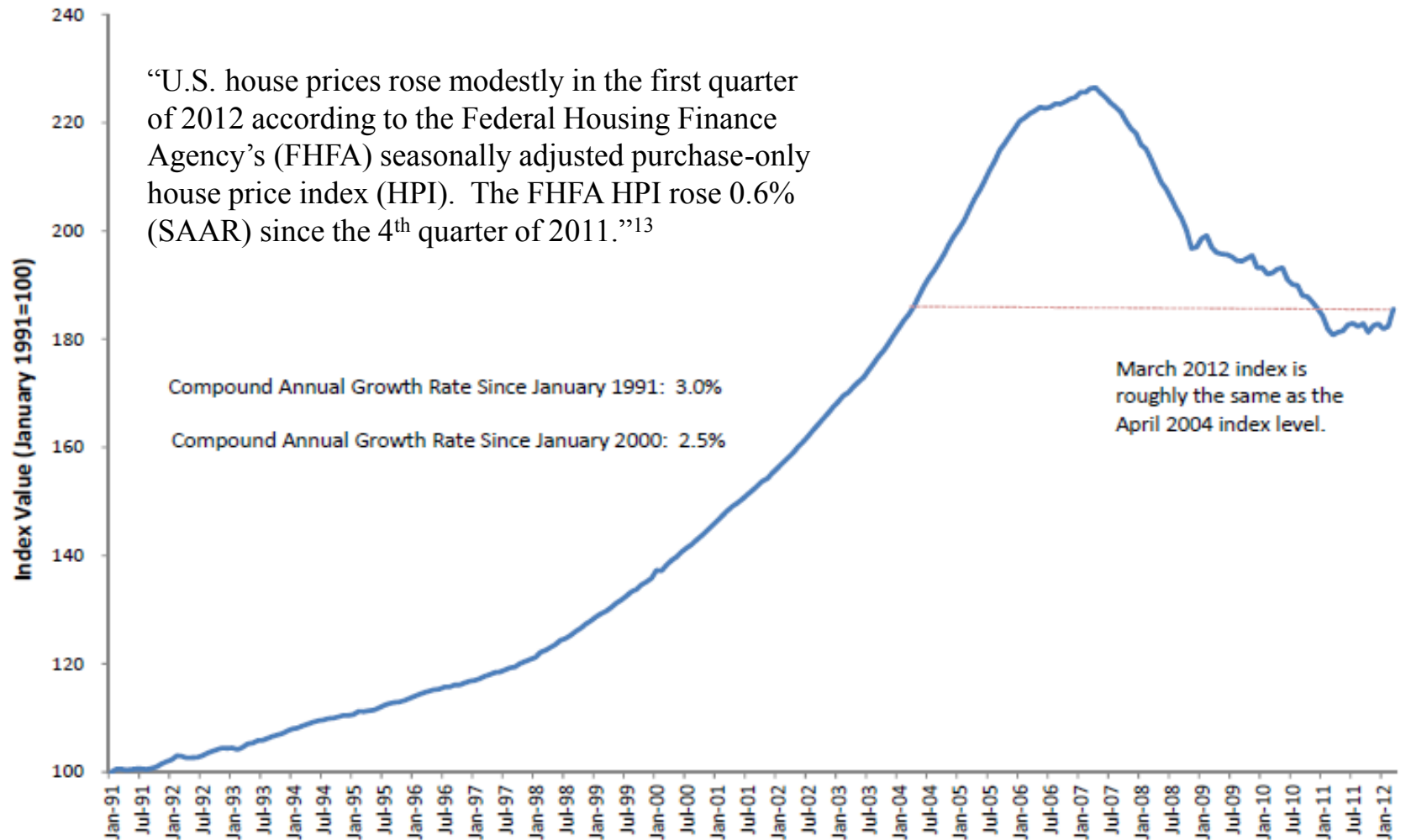


**Robert Shiller**

Click on the photo for video/audio link

# FHFA Home Price Index

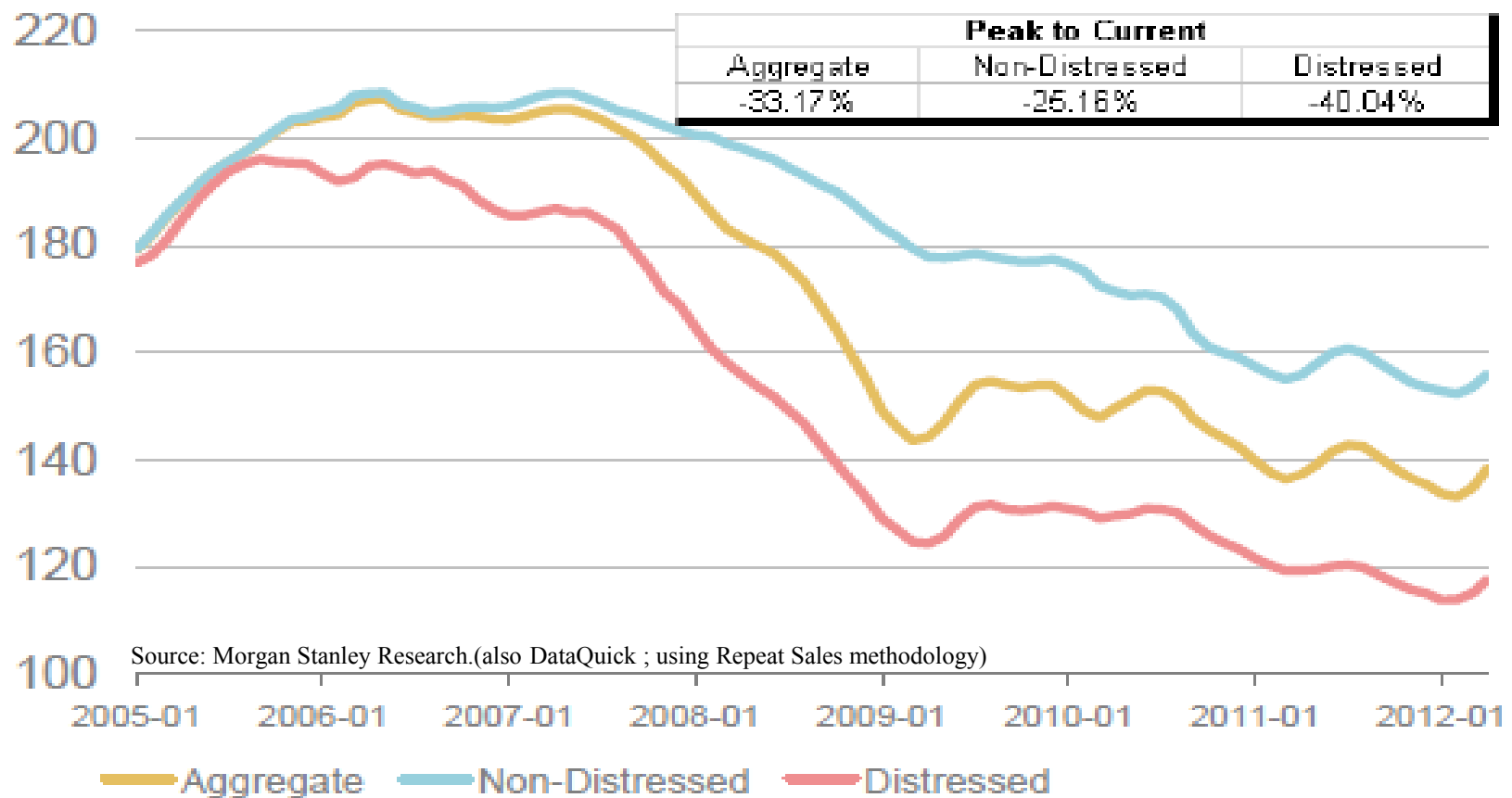
Monthly House Price Index for USA  
Purchase-Only, Seasonally Adjusted Index, January 1991 - Present





# Housing Prices

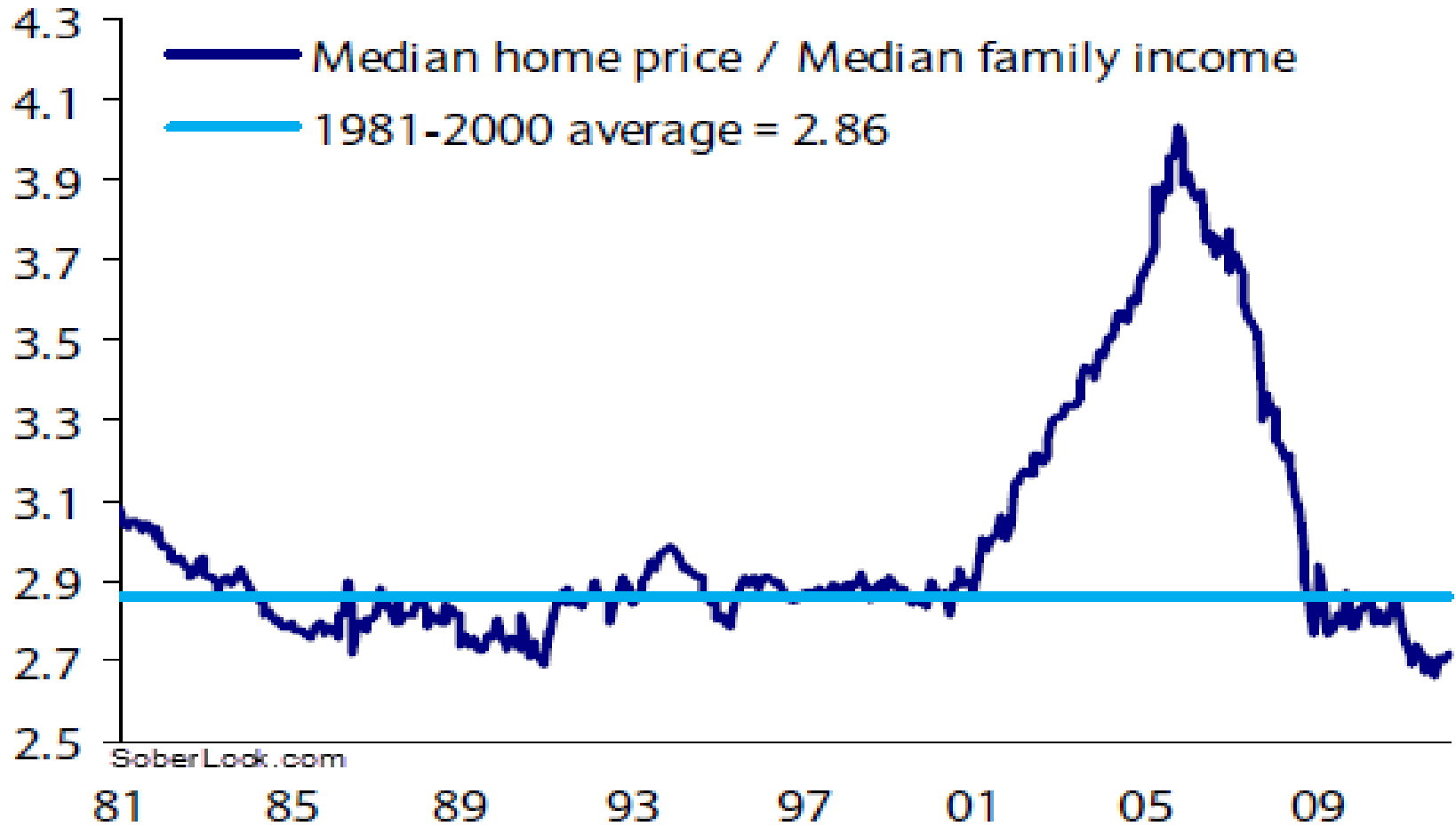
## Housing Prices: Distressed v. Non-Distressed



“Non-distressed properties are down on average 25% from the peak while the distressed property market is down 40%. As the chart shows, the non-distressed segment has shown far more (relative) price stability than the overall market.”<sup>14</sup> - - Sober Look

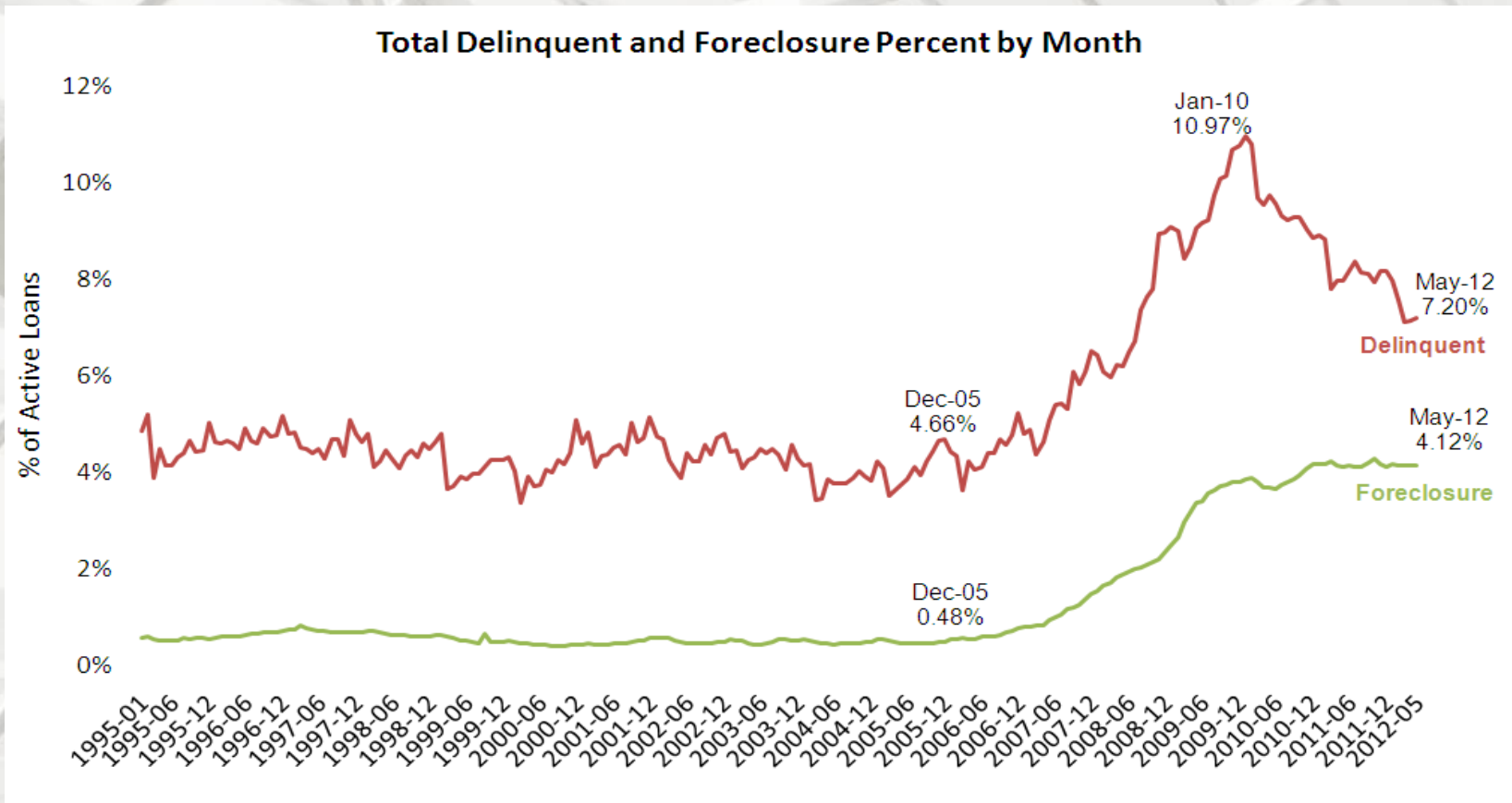
Source: <sup>14</sup><http://soberlook.com/2012/06/distressed-vs-non-distressed-housing.html>; June 27, 2012

# Housing Affordability



“Barclays Capital measure of US housing affordability: a ratio of median home price to median family income that is contrasted to the pre-bubble data. Barclays estimates that affordability is at the levels of the early 1990s housing recession.”<sup>15</sup> - - Sober Look      Source: <sup>15</sup><http://soberlook.com/2012/06/housing-affordability.html>; June 29 2012

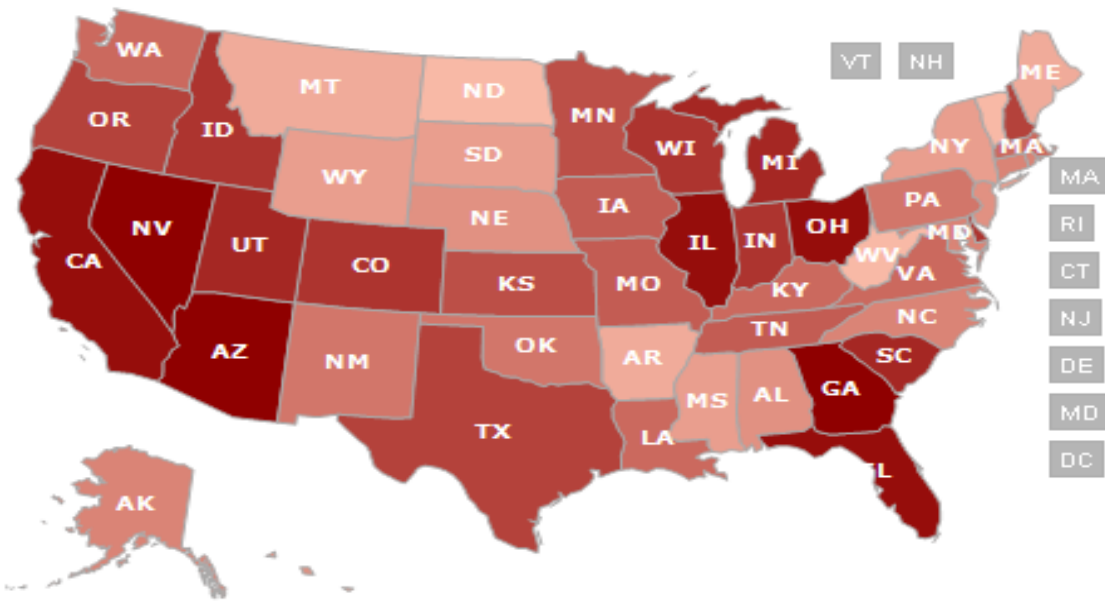
# Delinquencies, Foreclosures, and Shadow Inventory



“...the nation’s foreclosure inventory remains near all-time highs, with 4.12% of all active mortgages in the foreclosure pipeline in addition to the 3.2% that are 90 days or more delinquent but have not yet begun the foreclosure process. The May data also shows that after a sharp seasonal decline, delinquencies stabilized, up just 1.1% for the month to 7.2%, but still down almost 12% year to date. In addition, new problem loan rates continue to improve, with rates dropping for the eighth consecutive month – reaching a point (1.06%) not seen since July 2007, and well off their January 2009 peak of 2.92%. Finally, foreclosure starts were up for the month, rising 11.6% from April, though still low by historical standards and more than 40% off their September 2010 peak.”<sup>16</sup> - - Herb Blecher, Senior VP, LPS Applied Analytics

# Delinquencies, Foreclosures, and Shadow Inventory

May 2012 Foreclosure Rate Heat Map



1 in every 639 U.S. housing units received a foreclosure filing during May 2012

Foreclosure Actions to Housing Units

1 in 300 Housing Units

1 in 29,672 Housing Units

High

Med

Low

“Default notices, scheduled auctions and bank repossessions – were reported on 205,990 U.S. properties in May, an increase of 9% from April but still down 4% from May 2011.

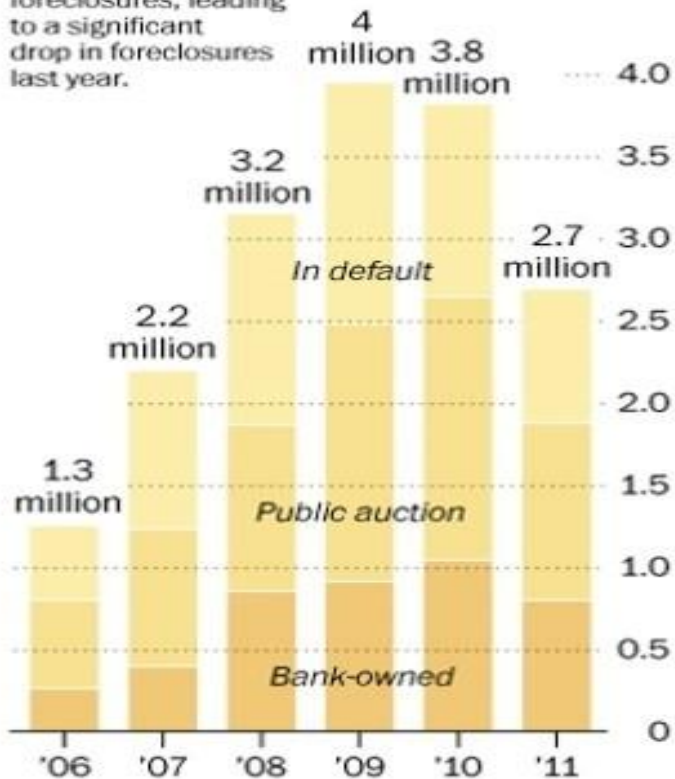
U.S. foreclosure activity has now decreased on a year-over-basis for 20 straight months including May, but the jump in May foreclosure starts shows that it’s going to be a bumpy ride down to the bottom of this foreclosure cycle. Based on the rise in pre-foreclosure sales we’ve seen so far this year, a higher percentage of these new foreclosure starts will likely end up as short sales or auction sales to third parties rather than bank repossessions going forward. While pre-foreclosure sales have less of a negative impact on home values than bank-owned sales, they still represent a discounted sale where a distressed homeowner is losing his or her home.”<sup>17</sup> - - Brandon Moore, CEO of RealtyTrac



# Delinquencies, Foreclosures, and Shadow Inventory

## Foreclosures

Bank foreclosures climbed after the housing bubble burst. When the robo-signing scandal was uncovered in 2010, banks halted their foreclosures, leading to a significant drop in foreclosures last year.

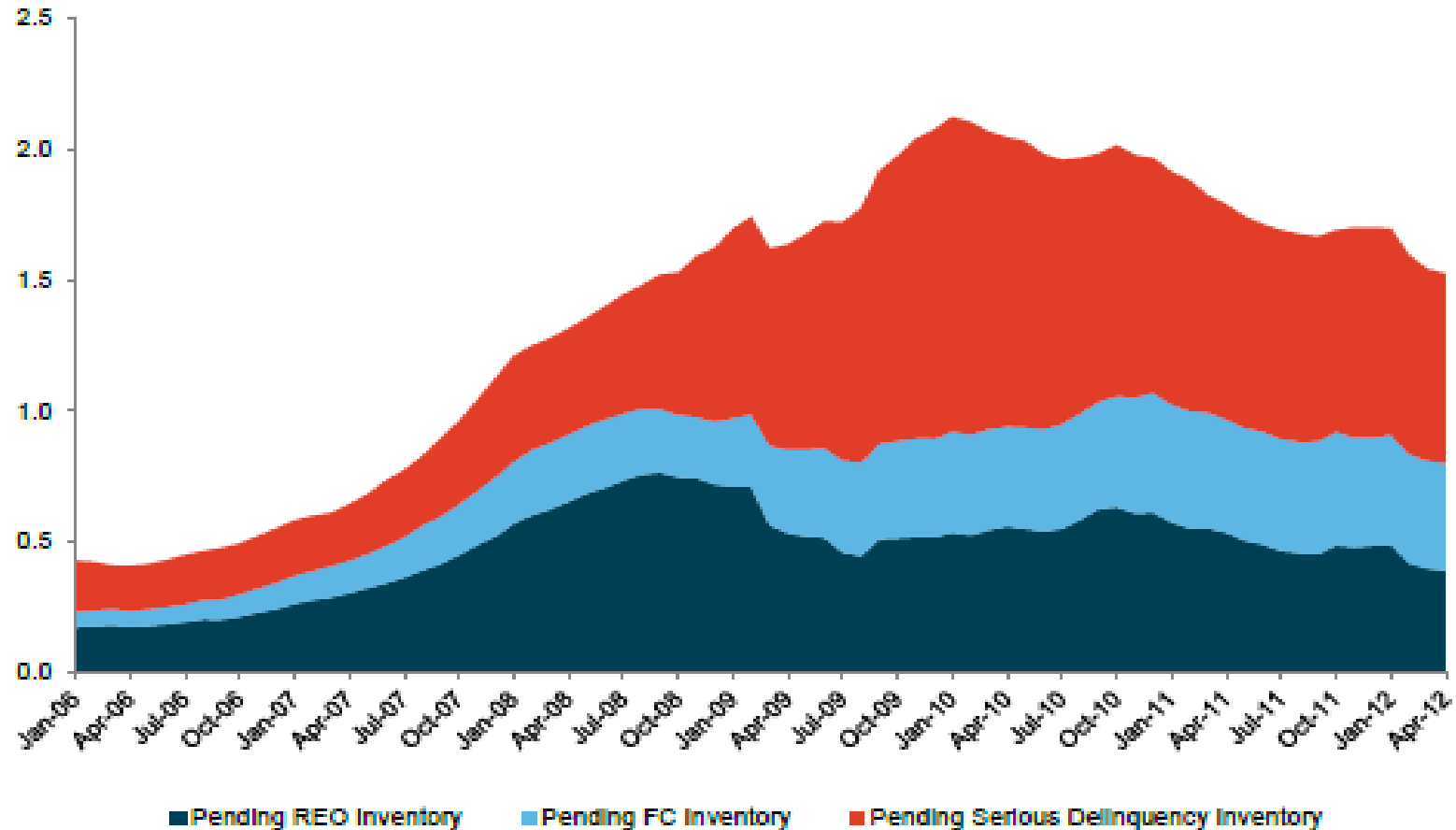


Source: RealtyTrac | The Washington Post

“... we should expect to see signs of increasing foreclosures and distressed sales any day now. The first data point supporting this was April’s existing-home sales. That gave us an early clue about what was to come. During the abatement period, distressed home sales, including foreclosures and short sales, had fallen substantially. They were down to 28% of existing-home sales for April – significantly less than the 37% a year earlier.”<sup>17</sup> - - Brandon Moore, CEO of RealtyTrac

# Delinquencies, Foreclosures, and Shadow Inventory

**Figure 1: Shadow Inventory Detail**  
Count in Millions, Not Seasonally Adjusted



Source: CoreLogic April 2012

“Current residential shadow inventory as of April 2012 was 1.5 million units (4-months’ supply). This was a 14.8% drop from April 2011, when shadow inventory stood at 1.8 million units, or a six-months’ supply, which is approximately the same level as in October 2008.”<sup>18</sup> - - Core Logic

# Rosenberg: The Housing Recovery

**David Rosenberg**  
**Chief Economist, Gluskin-Sheff**

## **Housing Data Skewed By “Upside-downers”**

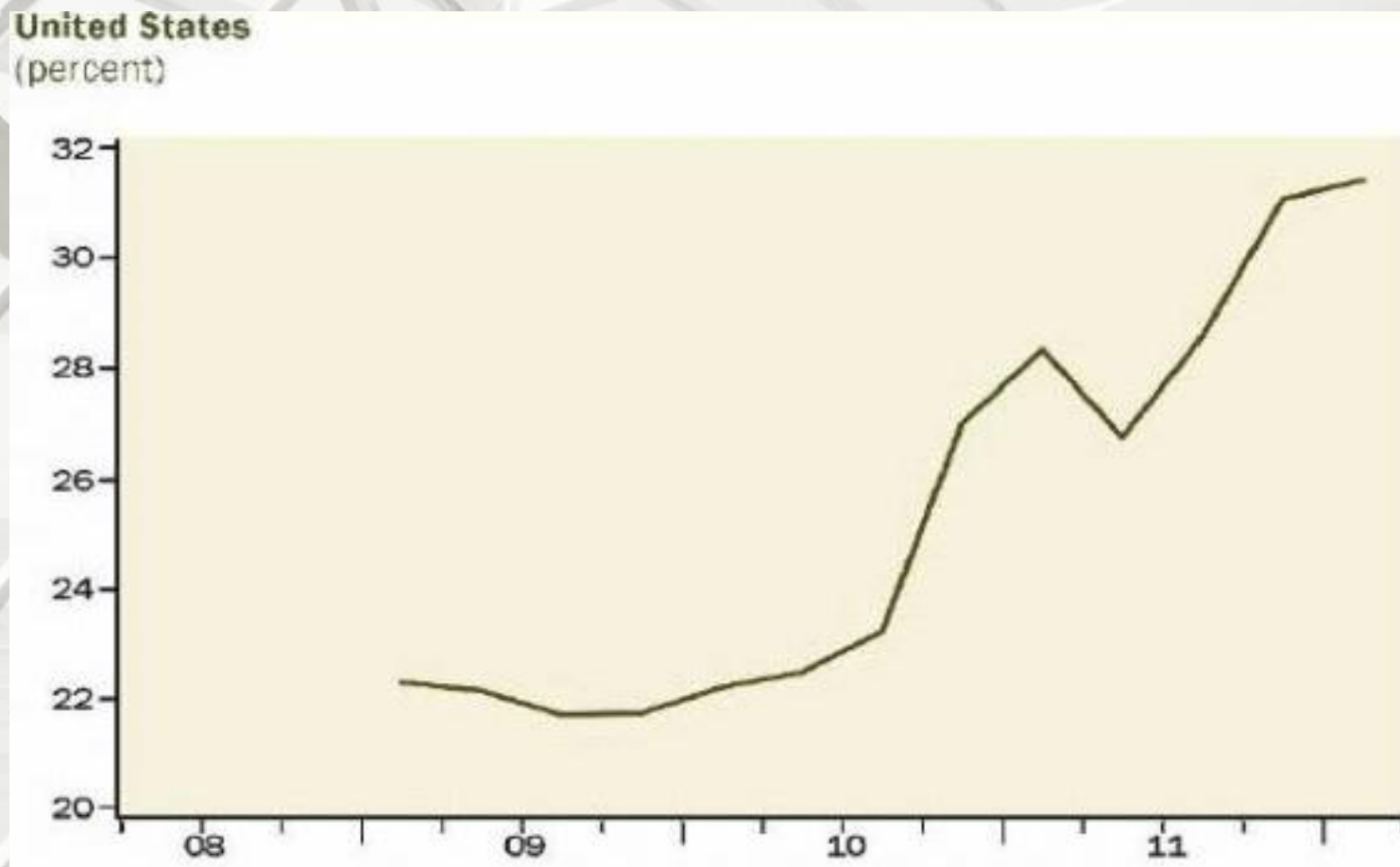
“What is really driving whatever recovery we are seeing in terms of home sales and prices are the units that are so ridiculously priced – like at less than \$125,000.

The reason is that this is the only part of the market that is truly “tight” because almost 30% of American homeowners either have no equity in their homes or less than 5% skin in the proverbial game (according to CoreLogic).

These folks have to write their lenders a cheque to make a sale, so many are holding out until they can get a better price and the all-cash deals being placed by investors are allowing for this (note too that 45% of the nation's homeowners have less than 20% of equity in their homes).

Look at these graphs and draw your own conclusions.”<sup>19</sup>

# Rosenberg: The Housing Recovery



Single-family homes with mortgages with negative equity<sup>19</sup>

Source: Haver Analytics, Gluskin-Sheff



# Rosenberg: The Housing Recovery

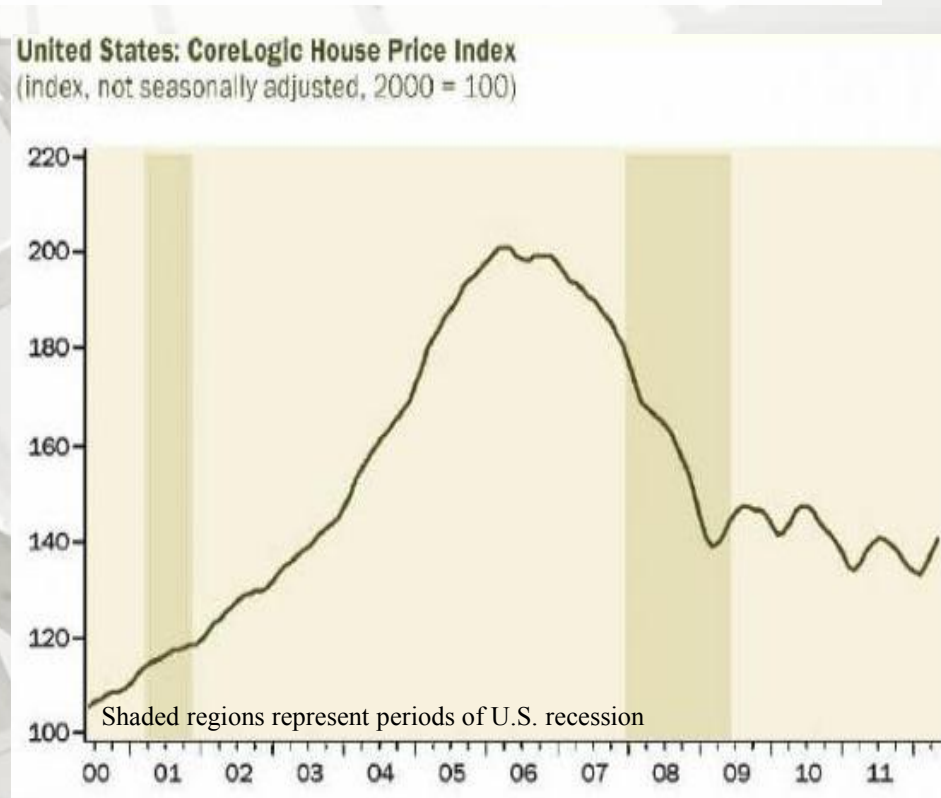
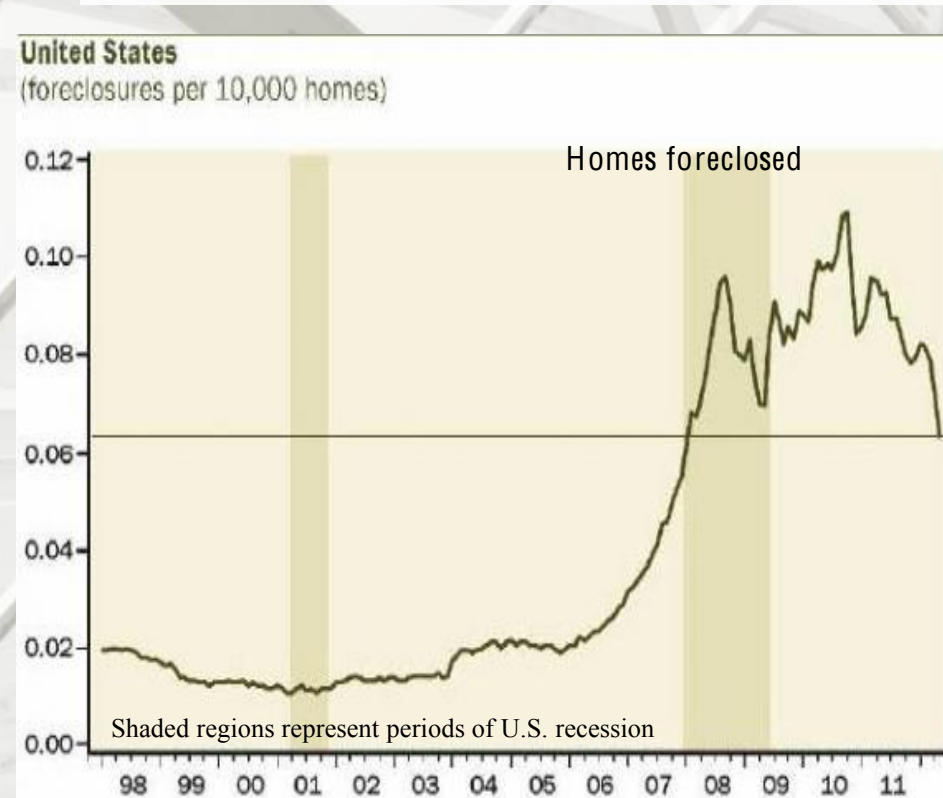


“According to data cited by the USA Today, the supply backlog where over half of homeowners are “upside down” on their mortgage is at 4.7 months’; in areas where “upside down” borrowers make up less than 10% of the market, the listed inventory is closer to 8.3 months’ supply – it is in this mid-to-high end where prices are still vulnerable to downside potential – this is not the sliver of the market where vulture funds are looking to pick up a cheap unit to then rent out to the “boomerang” crowd.”<sup>19</sup>

# Rosenberg: The Housing Recovery

“As the charts below visibly illustrate, it is probably a little early to be celebrating the recovery in the U.S. housing market, despite the exuberance in the home-building stocks which only capture a small share of the overall industry.

The market is healing to be sure, but is far from healed.”<sup>19</sup> - - David Rosenberg



Data source: Haver Analytics, Gluskin-Sheff, CoreLogic

Source: <sup>19</sup>[www.zerohedge.com/news/david-rosenberg-explains-housing-recovery](http://www.zerohedge.com/news/david-rosenberg-explains-housing-recovery)

[Return TOC](#)

# Renter Nation

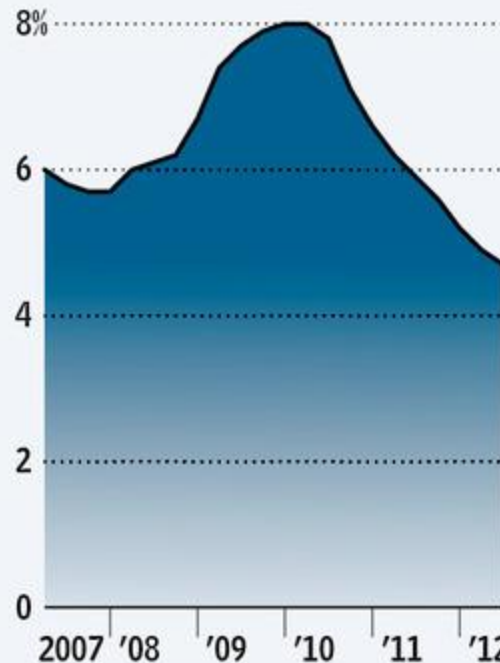
“Despite the sluggish economy, average rents increased in all 82 markets tracked by Reis, “The market is in a very tight position. There is a paucity of available units.” The nation's vacancy rate fell during the quarter to 4.7%, its lowest level since the end of 2001. That's down from 4.9% in the 1<sup>st</sup> quarter of this year and from 8% in 2009, when millions of would-be renters were doubling up or living with family.

With the economy slowly recovering, more people are looking for their own places. But many are opting to rent rather than buy due to tighter lending standards – including higher down payments – and because of concerns about job security.

Market psychology also has shifted greatly from the boom years, when buyers were concerned that prices would rise if they didn't move fast. Today prices are stagnating – or even falling in some markets – so buyers are asking: What's the hurry?”<sup>20</sup> - - Dawn Wotapka, *Wall Street Journal*

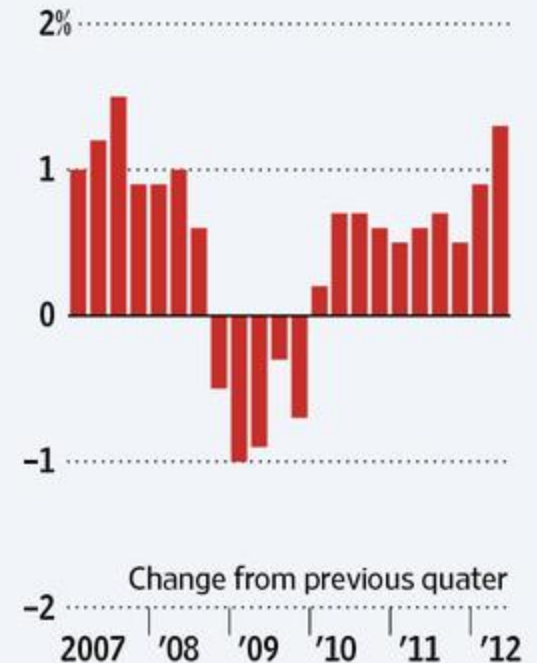
## Tight Market

U.S. apartment vacancy rates continued to fall...



Source: Reis

...as rents increased in the second quarter

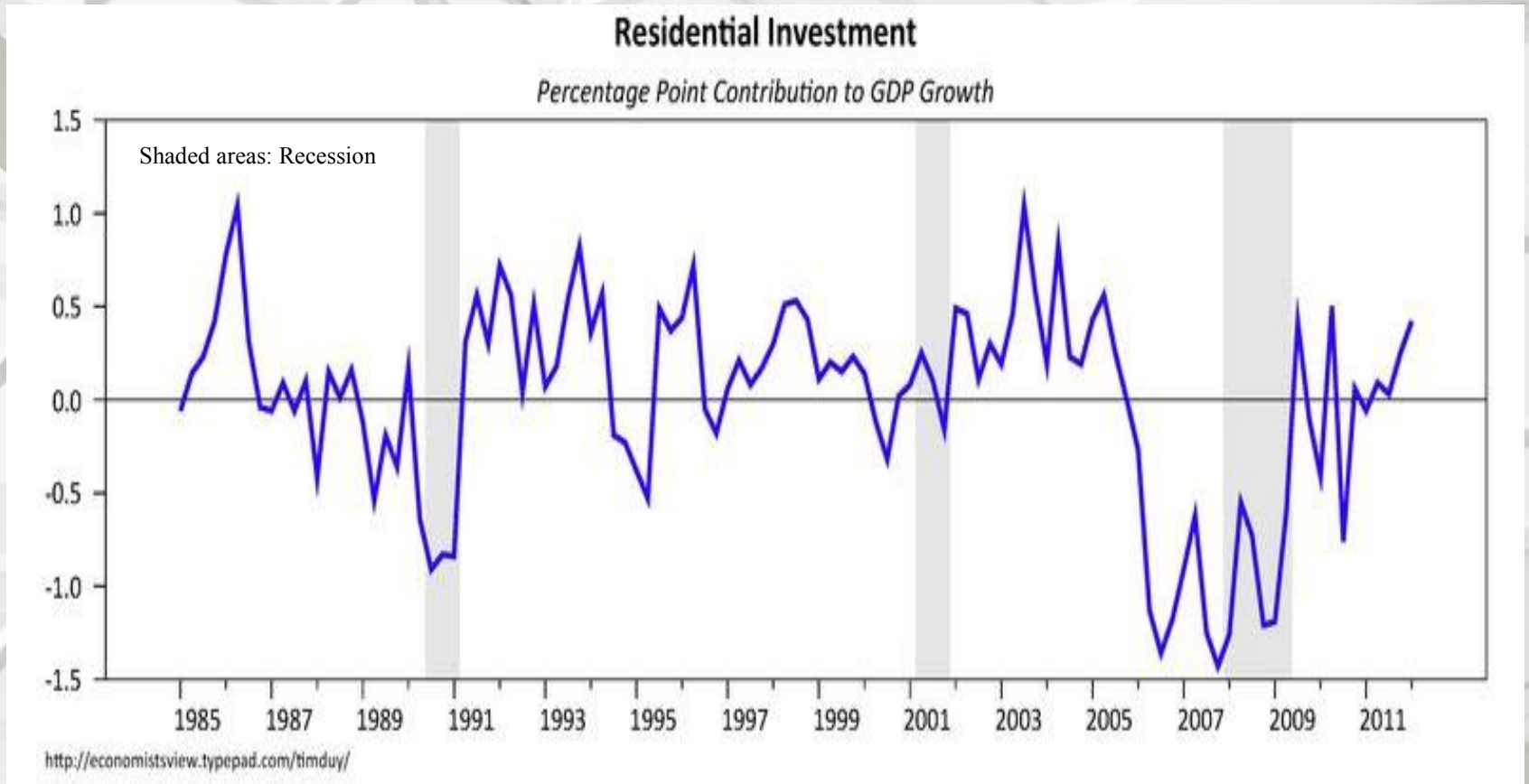


The Wall Street Journal

More multi-family starts?



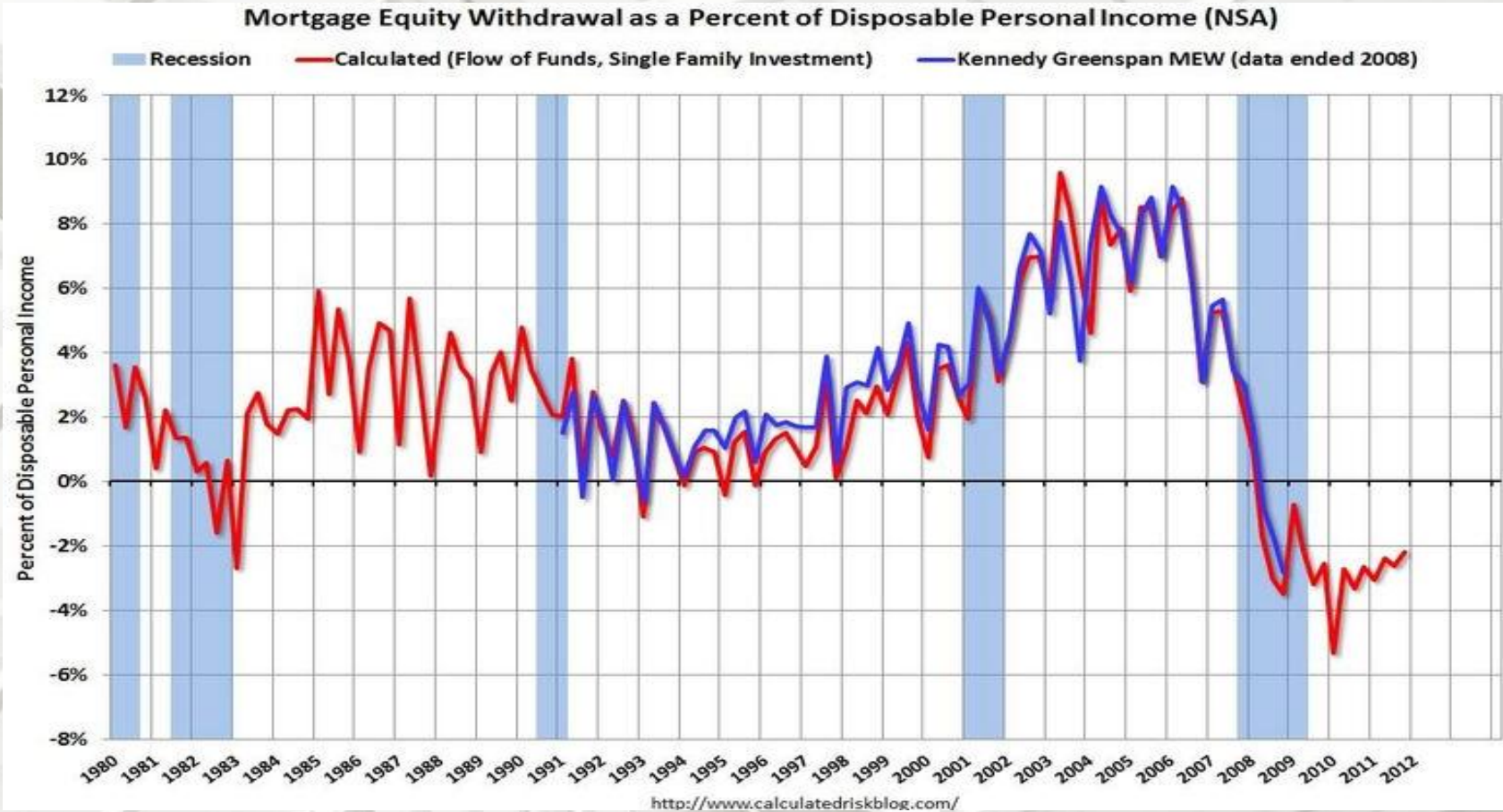
# Housing and The Economy



“During the 2002-2005 period, arguably the height of the housing bubble, residential construction contributed an average of 0.4 percentage points to GDP growth each quarter. In the 1<sup>st</sup> quarter of this year, the contribution was 0.42 percentage points. So, barring the occasional pop in the data, housing is already contributing to GDP growth about what we would expect.”<sup>21</sup> - - Tim Duy

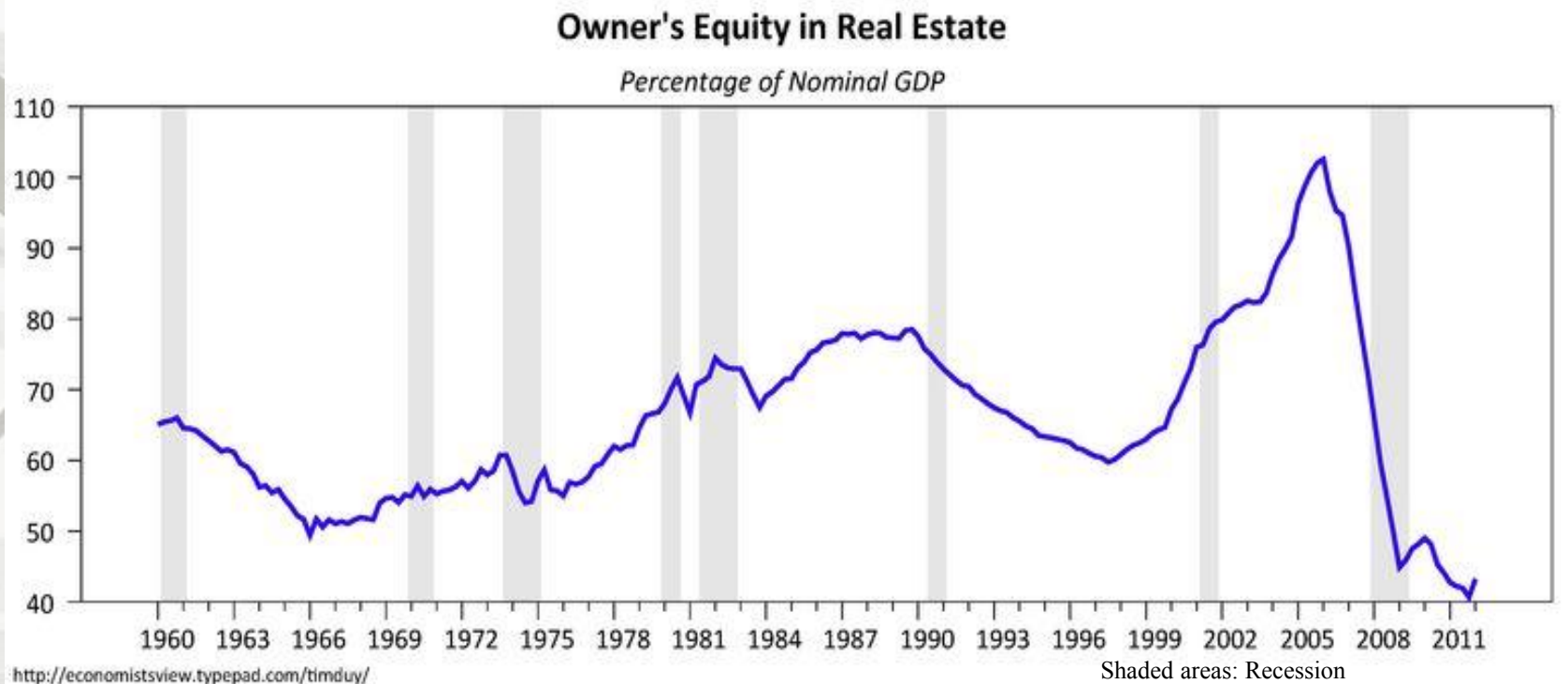


# Housing and The Economy



“Presumably, we would be hoping that as the housing rebound deepens, there will be secondary impacts. For this reason I am hesitant to embrace the “tradeoff” terminology. Certainly we can envision accelerated homebuilding triggering an increase in both manufacturing (capital equipment) and consumer (job/income growth) activity as well; these tend to be interconnected activities. That said, there is another element to the housing story - - the household balance sheet issue.”<sup>21</sup> - - Tim Duy

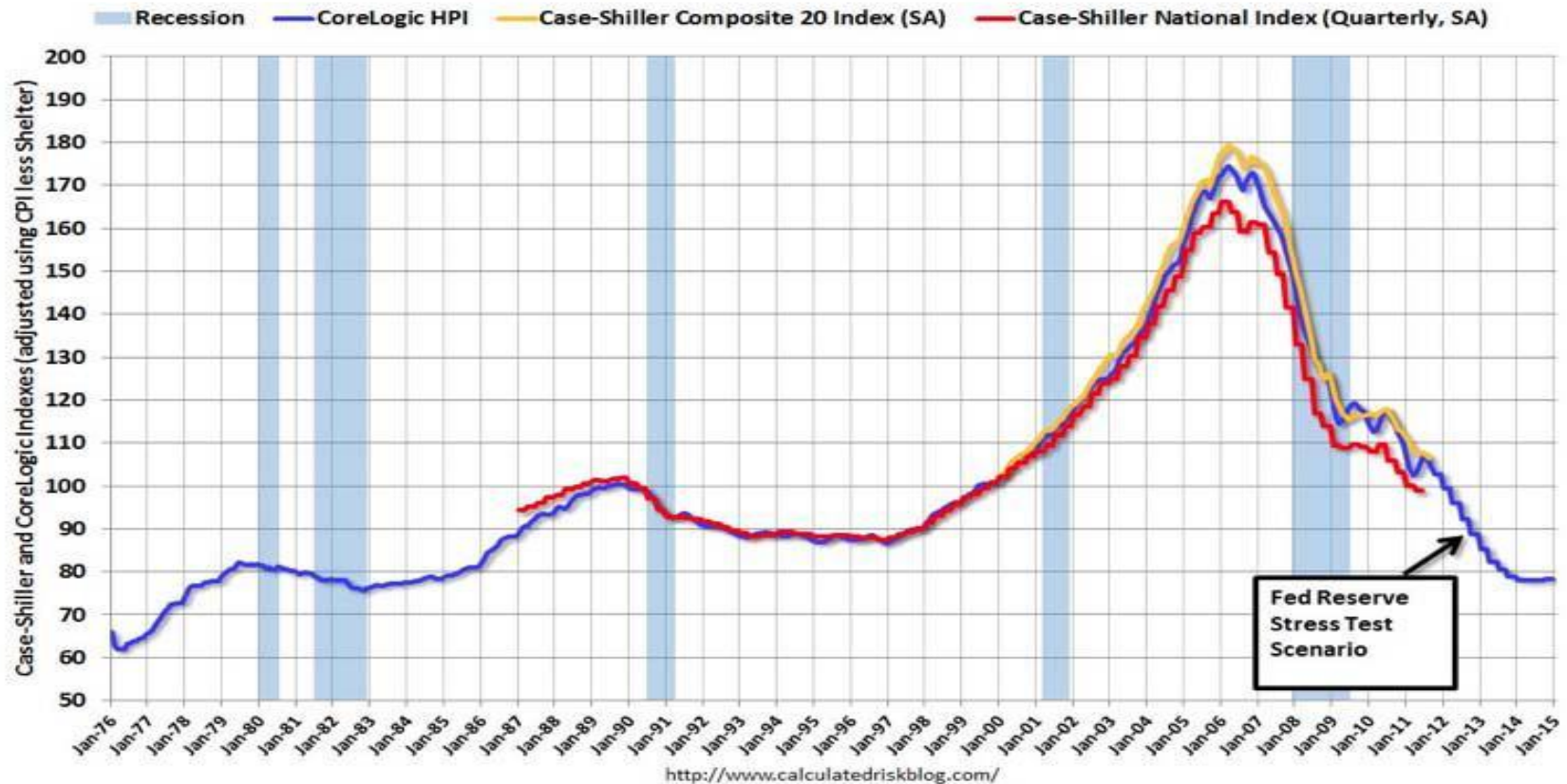
# Housing and The Economy



“Of course, equity withdrawal has collapsed because equity has collapsed. So here is the question: What was more important in holding the economy close to potential output, residential construction itself, or the housing price bubble? I tend to believe the price-driven balance sheet effects were driving dynamics over this past business cycle. Absent a healing of household balance sheets (or relatedly, monetary policy that supported such healing via somewhat higher inflation expectations to reduce debt in real terms), I would expect overall growth to remain subdued, despite a rebound in residential construction. The latter is helpful and important, but not by itself a magic bullet.”<sup>21</sup> - - Tim Duy

# Housing and The Economy

Real House Prices using Fed Stress Test Scenario HPI and CPI, Nov 2011



“The graph illustrates the Federal Reserve’s expectations should we re-enter recession. Watch for asset values of stocks and housing to diminish, accompanied by higher unemployment and damaged corporate earnings growth. The Fed would not have required a second stress-test for banks unless the Fed considered it likely that the economies of the world were going to put additional stress on the banking system. If housing continues to decay, consider the effect on banking in the US and on the Fed's own holdings of mortgage-related toxic loans.”<sup>22</sup> - -

Michael Clark

Source: <sup>22</sup><http://seekingalpha.com/instablog/428250-michael-clark/817321-where-is-housing-headed?source=kizur>; July 5 2012



# Housing Projections and Trends

## 2012 Dodge Construction Outlook Midyear Update: New Construction Starts to Rise 2% in 2012

*Forecast shows improvement in housing, with modest gains for commercial building, but institutional building and public works continue to weaken*

The Outlook Midyear Update predicts that total construction starts for the U.S. will increase 2% this year to \$445 billion, up from the \$434 billion reported for 2011. While slightly better than the flat performance for 2012 construction starts predicted last fall, the updated forecast still portrays an industry struggling to gain upward momentum.

“The construction industry has yet to move from a hesitant up-and-down pattern to more sustained expansion. After plunging 23% in 2009, new construction starts edged up only 1% in 2010 and were unchanged in 2011, so the modest 2% increase predicted for 2012 is really more of the same. The backdrop for the construction industry remains the fragile U.S. economy, which continues to see slow employment growth, diminished funding from federal and state governments, and the uncertainty related to the U.S. fiscal stalemate and the European debt crisis. On the plus side, energy costs are now receding, interest rates are very low, and lending standards are beginning to ease for commercial real estate development.”<sup>23</sup> - - Robert Murray, V-P of Economic Affairs for McGraw-Hill Construction



# Housing Projections and Trends

“Given these divergent factors, the construction market this year continues to see a mix of pluses and minuses by major sector, as follows:

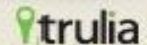
- Single-family housing in 2012 will advance 21% in dollars, corresponding to a 19% increase in the number of units to 490,000 (McGraw-Hill Construction Dodge basis). While still at a very low amount, single family housing for the past year has been able to register small yet steady gains.
- Multi-family housing in 2012 will climb 19% in dollars and 18% in units, given rising occupancies and rents, which reflect elevated demand from potential homebuyers still reluctant or unable to move ahead with purchasing a single family home.
- Commercial building in 2012 will grow 10%, following the 12% gain in 2011. Warehouses and hotels will see the largest percentage increases, joined this year by a moderate gain for stores while office construction sees more privately financed projects but less government office buildings.
- The institutional building market in 2012 will fall an additional 10%, after sliding 11% in 2011. The tough fiscal environment for states and localities continues to dampen school construction, and the uncertain economic environment is restraining healthcare facilities.
- The manufacturing building category in 2012 will retreat 20%, following the 75% jump in 2011 which featured the start of several unusually large projects.”<sup>23</sup> - -

Robert Murray, V-P of Economic Affairs for McGraw-Hill Construction

# Trulia Housing Trends & Projections

## Optimism Outpaces Reality

- Interest in supersized homes (3,200+ square feet) up to **11%**, from 6% in 2011
- **78%** of renters plan to buy someday
- **58%** think prices will return to peak within 10 years



# Trulia Housing Trends & Projections

## Supersized Homes Make Comeback



3200 square feet+



1,401 - 2,000 square feet



2,601 - 3,200 square feet



800 - 1,400 square feet



2,001 - 2,600 square feet



Source: Based on Trulia's American Dream Survey, which was conducted by Harris interactive. For more info, visit: <http://info.trulia.com/american-dream-survey>.

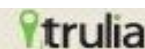


# Trulia Housing Trends & Projections

## Inventory Can't Fulfill Big Dreams

Square footage	Ideal Home Size (survey)	Current Inventory Mix (Trulia listings)
800-1,400	8%	29%
1,401-2,000	29%	29%
<b>2,001-2,600</b>	<b>25%</b>	<b>17%</b>
<b>2,601-3,200</b>	<b>16%</b>	<b>10%</b>
More than 3,200	11%	12%

“Consumers are not only dreaming of bigger prices on the horizon, but bigger homes as well, the survey found. While consumers seemed to lose some of their taste for McMansions during the housing downturn in favor of smaller homes, more than a quarter of respondents (27%) said they would prefer homes more than 2,600 square feet, including 11% whose ideal home size was more than 3,200 square feet.”





# Trulia Housing Trends & Projections

## First House Won't be Dream Home

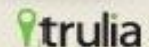
Amenity	Renter Dreams	First-Time Homeowner Realities
En-suite master bathroom	62%	26%
Walk-in closet	56%	35%
<b>Gourmet kitchen</b>	<b>50%</b>	<b>9%</b>
Outdoor deck	50%	28%
<b>Wood floors</b>	<b>47%</b>	<b>35%</b>
Pre-wired entertainment system	31%	7%
Pool	24%	10%
Hot tub	22%	6%

Good  
for  
Wood

# Trulia Housing Trends & Projections

## Most Renters Want to Buy... Later

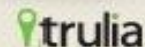
When will you buy?	2011 Survey	2012 survey
Within 6 months	4%	3%
7 to 12 months	7%	8%
<b>13 to 24 months</b>	<b>11%</b>	<b>16%</b>
More than 2 years	50%	51%
<b>Never</b>	<b>28%</b>	<b>22%</b>



# Trulia Housing Trends & Projections

## Return to Bubble Prices? C'mon!

- **61%** expect local prices to rise in next 12 months
  - Totally reasonable
- **58%** expect local prices to return to peak in next 10 years
  - Healthy markets, sure.
  - Hardest-hit markets? Don't bet on it.



# Trulia Housing Trends & Projections

## Still Far From Normal

- Each month we compare key metrics to the worst and normal
  - New Construction Starts
  - Existing Home Sales
  - Foreclosures & delinquencies
- Now **37%** back to normal





# Trulia Housing Trends & Projections

## Recovery: Slow, With Risk of Bumps

At this rate,  
normal comes in  
early 2016

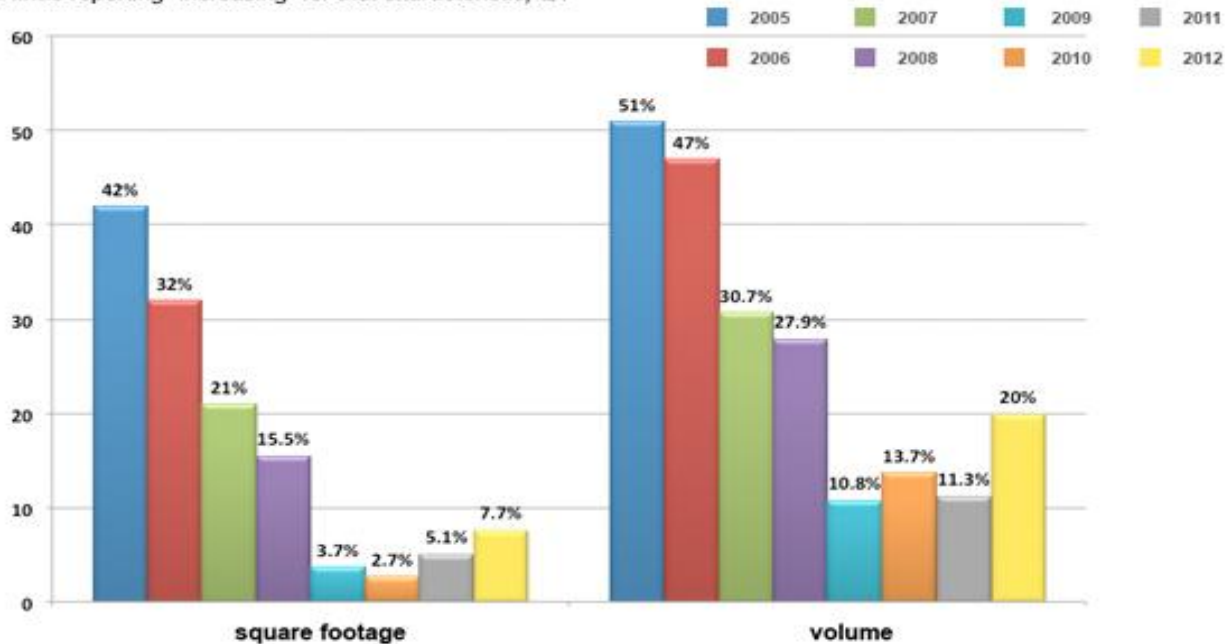
Risks from  
Europe, budget,  
foreclosures



# Housing Trends

**Figure 1. After Years of Downsizing, Trends in Homes Sizes Beginning to Reverse**

% of firms reporting "increasing" for that characteristic; Q1



Source: The American Institute of Architects Home Design Trends Survey

“According to the latest survey results (<http://www.aia.org/practicing/AIAB095115>) from the American Institute of Architects, however, bigger homes are coming back. In 2011, 5.1% of respondents (in this case, architects representing 500 firms across the country) reported increases in the square footage of the houses they were designing. In the first quarter of 2012, about 7.7% are reporting increases. That's up from the lowest point in recent years, 2.7% in 2010, but a distant height from a peak of 42% in 2005.

Bigger houses mean more work and more money. Still, it's important to keep in mind that these results are not necessarily evidence of a larger economic recovery. The graph above may merely reflect a combination of historically low interest rates and the tastes of the American population who can still afford to hire an architect to design a new home for them: the richest among us.”<sup>24</sup> - - Nate Berg

# Housing Trends

## Metropolitan Life

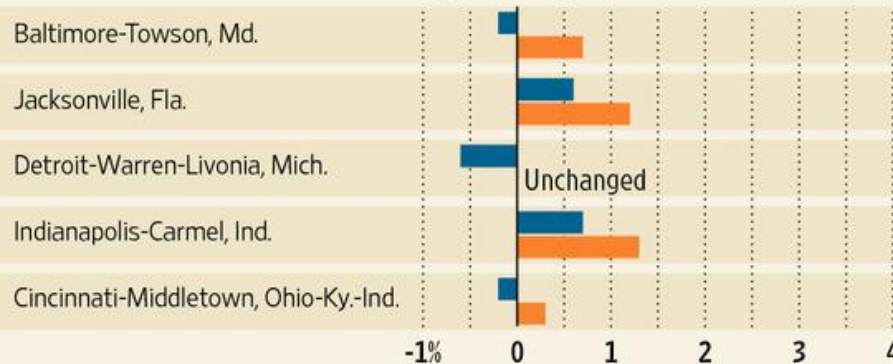
Many cities are growing faster than their suburbs for the first time in decades.

Population growth, 2010–11 ■ City ■ Suburb

### Where cities are growing faster...



### ...and where suburbs are growing faster.



Source: William H. Frey analysis of Census data

The Wall Street Journal

## Cities Outpace Suburbs in Growth

“Many U.S. cities are growing faster than their suburbs for the first time in decades, reflecting shifting attitudes about urban living as well as the effect of a housing bust that has put a damper on moving.

...in 27 of the nation's 51 largest metropolitan areas, city centers grew faster than suburbs between July 2010 and July 2011. By contrast, from 2000 to 2010 only five metro areas saw their cores grow faster than the surrounding suburbs.

The change in living patterns could in part reflect evolving preferences for cities over the space and privacy of suburbs. In the short term, however, most of this is a legacy of the recession and housing bust... Skittish about buying in the suburbs or unable to get a loan for a home there, city-dwelling renters may be staying put instead of moving.

Home builders are betting that there is a longer-term shift under way. Many builders that previously worked entirely on single-family homes in the suburbs have refocused to keep up with what they say is a change in demand. Three of the largest publicly traded U.S. home-building companies – Toll Brothers, Lennar, and Hovnanian Enterprises – have in recent years built mid-rise and high-rise condominium towers in urban areas... ”<sup>25</sup> - Conor Dougherty and Robbie Whelan



# Eurozone

We are not writing on the Eurozone this month. When we receive new and pertinent information, we will.

The next slide provides some insight into past press releases on the situation. As with all financial information and when purchasing cars, it's best “to look under the hood” and see what's actually there.



# Eurozone

## For the (financial) record...

Ministers deny contagion in the Eurozone.



SoberLook.com

"Spain is not Greece" - Elena Salgado, Spanish Finance Minister, Feb 2010.

"Portugal is not Greece" - The Economist, April 2010.

"Greece is not Ireland" - George Papaconstantinou, Greek Finance Minister, Nov 2010.

"Spain is neither Ireland nor Portugal" - Elena Salgado, Spanish Finance Minister, Nov 2010.

"Ireland is not in 'Greek Territory'" - Irish Finance Minister Brian Lenihan, Nov 2010.

"Neither Spain nor Portugal is Ireland" - Angel Gurría, Secretary-general OECD, Nov 2010.

"Italy is not Spain" - Ed Parker, Fitch MD, June 2012.

"Spain is not Uganda" - Spanish PM Mariano Rajoy, June 2012.

"Uganda does not want to be Spain" - Ugandan Foreign Minister, June 2012.

# Conclusions

Single-family home starts increased by a respectable amount, this is welcomed news. MF starts declined, but volatility is typical for this segment. New home sales increased and existing sales are still bottom bouncing. As noted previously – we have the least quantity of available new and existing homes since 2005. Remodeling, rentals, and rental construction are the attractive sub-sectors in construction.

Concerns about the developments in the Eurozone and a softening of the Chinese economy still are problematic and affect the U.S. economy.

Again, we write there are three primary factors impeding sales: 1) Consumer and business confidence, 2) a shortage of well-paying jobs, and 3) strict home loan lending standards. Also, distressed homes, foreclosures, and the Shadow Inventory are still problematic. JOBS still are still the most critical factor for a robust housing recovery.

Lastly, our position on a meaningful housing recovery is unchanged; as many experts have voiced concern that a “muddle along” housing market will continue for quite some time.



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