July 2012 Housing Commentary

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Executive Summary

This commentary concerns July 2012s housing data, demographics, and macro factors influencing the United States housing market. This report also includes data for new house starts, new and existing sales, building permits, housing completions, and construction spending. Comments concerning delinquencies, foreclosures, shadow inventory, and underwater homes; housing prices; demographics and economics; trends in housing; and an economic outlook for housing.

July's housing data indicated a sharp decrease in single-family starts and an increase in multi-family starts. Building permits and housing completions increased month-over-month. Residential construction improvement spending indicated a sharp decline.

Existing and new home sales are still "bottom-bouncing" – albeit at a higher level in the past four months. The number of available existing houses for sale increased, while new houses for sale decreased somewhat slightly from June. Existing house sale prices in July decreased; yet the Case-Shiller® indices reported house values increased for the second month in a row. Private investors remained key purchasers of existing, foreclosed, and bank-owned (REO) homes.

Lastly, while the financial and mainstream media persistently tout a housing "recovery", we prefer to categorize it as "healing." Recovery, by definition, means that an entity returns near to or to its long-term average – other than multi-family housing, the overall housing market is not remotely close to its historic averages for new home starts and existing sales.

Return TOC

Table of Contents

Slide 3: Executive Summary

Slide 4: Opening Comments

Slide 5: Housing Starts

Slide 6: Single-Family Starts

Slide 7: Multi-Family Starts

Slide 8: Housing Permits

Slide 9: Housing Completions

Slide 10: New Single-Family House Sales

Slide 12: Existing House Sales

Slide 16: Construction Spending

Slide 18: Residential Remodeling

Slide 21: Architectural Building Index

Slide 22: Housing Barometer

Slide 24: Housing Prices and Indices

Slide 29: Underwater Houses

Slide 30: Delinquencies, Foreclosures, and Shadow Inventory

Slide 35: U.S. Home Ownership

Slide 37: Demographics and Economics

Slide 42: Future Trends?

Slide 47: Assessment of U.S. Housing

Slide 52: Conclusions

July 2012 Housing Commentary

Opening Comments

United States and Global Economic Concerns Still Pose Threats To A Robust Housing Recovery

- Government debt: federal, state, and local → still problematic
- Personal debt → Americans continue to deleverage
- European sovereign debt and banking crisis still looms as challenging even with the latest proposed "solution"

"…it is clear that many individuals and households continue to struggle with difficult economic and financial conditions. Exclusive attention to aggregate numbers (e.g., GDP and personal consumption expenditures) is likely to paint an incomplete picture of what many individuals are experiencing."

- - Dr. Ben Bernanke, Chairman, U.S. Federal Reserve; address to the International Association for Research in Income and Wealth, August 6, 2012

Return TOC

New Housing Starts

Commentary on Starts

July 2012: Total starts → Stagnation

746,000 starts, a seasonally adjusted annual rate (SAAR):
1.1% below the revised June estimate of 754,000

From July 2011 to July 2012 – an increase of 21.5%

Total starts are 49.6% of the long-term average:
1,502,723 units (since 1963)

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

Return TOC

New Housing Starts

July 2012: Single-Family (SF) Starts

502,000 starts (SAAR): a decrease of 6.5% from the revised June estimate of 537,000

From July 2011 to July 2012 – an increase of 17.0%

SF Starts:

The decrease: A bump in the road or is it due to the unseasonal winter weather pushing construction forward?

New Housing Starts

July 2012 Multi-Family (MF) Starts:

229,000 starts (SAAR): 5+ MF units: increased 9.6% from a revised June estimate of 209,000

The three-month moving range:
205,000 to 210,000 units

From July 2011 to July 2012 – an increase of 30.1%

15,000 starts (SAAR): 2-4 MF unit estimate for July

MF Starts:

Increasing, important, and volatile - -

and a key indicator for the overall housing market's health

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

Return TOC

New Housing Permits

July Building Permits: Privately-Owned Housing:

812,000 units (SAAR)

6.8% above the revised June rate of 760,000 (SAAR)

29.5% above the July 2011 estimate of 627,000 (SAAR)

SF authorizations

513,000 (SAAR): 4.5% above the revised June figure of 491,000

MF authorizations

5 units or more: 274,000 (SAAR) in July

2-4 units: 25,000 (SAAR) in July

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

Housing Completions

July Completions – Privately-Owned Housing: 668,000 units (SAAR)

7.1% above the revised June rate of 624,000 (SAAR)

5.4% above the July 2011 estimate of 634,000 (SAAR)

SF completions

448,000: 5.9% below the June estimate of 476,000 (SAAR)

MF completions

209,000: 58.3% above the June estimate of 132,000 (SAAR)

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

Return TOC

New Single-Family House Sales

July 2012 – New SF House Sales:
372,000 units (SAAR)

3.6% above the revised June rate of 359,000 (SAAR)
25.3% above the July 2011 estimate of 297,000 (SAAR)

Median new house sale price in July: $224,200

Average July house sale price: $263,200

- Median sales price decreased 3.7% month-over-month

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

Return TOC

New Single-Family House Sales

Estimate of new homes available for sale at July's end: 142,000 (SAAR)

This represents a supply of 4.6 months at the current sales rate

"The pace of our contract growth has far exceeded the national housing data as we are gaining market share. …We believe the housing recovery is being driven by pent-up demand, very low interest rates, and attractively priced homes. Customers who have postponed buying for a number of years are moving into the market. With an industry-wide shortage of inventory in many markets, we are enjoying some pricing power."[1]

- - Douglas Yearley, CEO, Toll Brothers
(luxury home developer)

Source: U.S. Department of Commerce-NAICS 23, Construction; [1]www.globenewswire.com/newsroom/news.html?ref=rss&d=10002702; August 22, 2012

Return TOC

July Existing House Sales

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

4.47 million (SAAR): An increase of 2.3% from June's 4.37 million

Existing inventory increased 1.3% to 2.40 million homes → a 6.4-month supply at the current sales pace

Listed inventory is 23.8% below June 2011

$187,300 median existing-house price:

a decrease of 0.8% from June 2012
an increase of 9.4% from July 2011[2]

"The absence of real price appreciation when distressed sales are excluded from the analysis suggests that traditional home buyers remain hesitant to return to the market in strength. We continue to be concerned that this negative psychology could be the biggest risk threatening any real recovery in housing values. If it continues, the resultant imbalance between supply and demand could trigger another decline in home values."[3]

- - Michael Feder, CEO, Radar Logic

Source: [2]NAR®, August 22 2012; [3]www.radarlogic.com; June 2012

Return TOC

July Existing House Sales

July 2012 Existing Sales Data:

Distressed houses: 24% of sales - -

(12% foreclosures and 12% short-sales)

Distressed house sales: a decrease from 25% in June and 29% in July 2011

All-cash sales: decreased to 27% (29% in June)

Investors are still purchasing a substantial portion of houses: 16%; 19% in June 2012 and 18% in June 2011

First-time buyers: increased to 34% from 32% in June 2012 and increased year-over-year by 32% from July 2011[2]

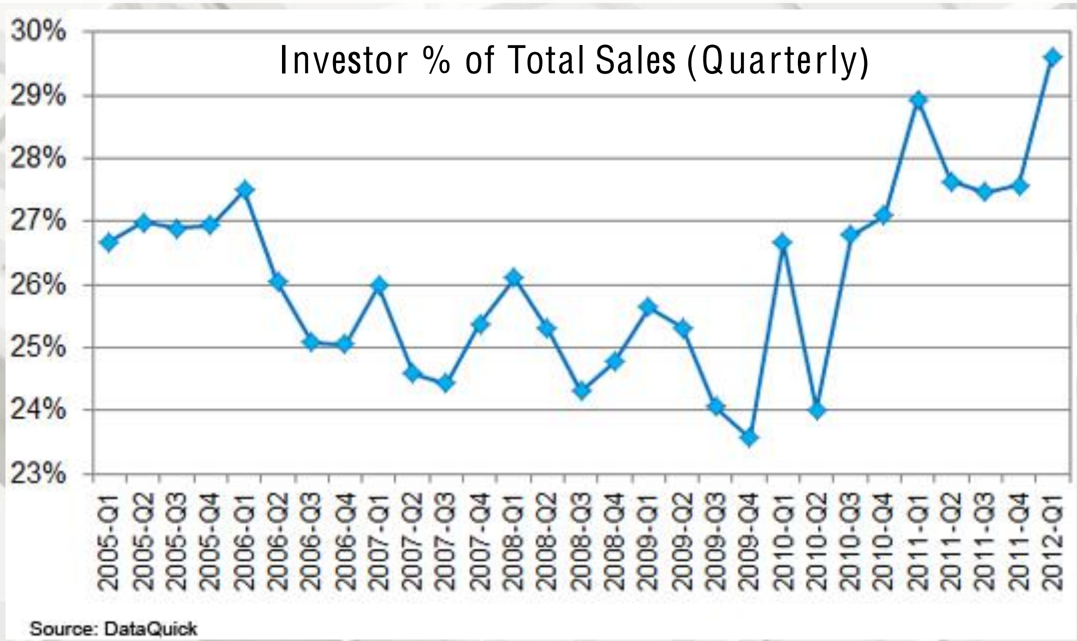
"In April, the NAR reported that the number of owner-occupied homes fell 15.5% last year, while the number of investor-owned homes surged 64.5%. That situation has continued, with sales reports this year showing that 20% to 25% of reported monthly sales of both new and existing homes have been to bottom-fishing investors, swooping in to buy at what they expect to be low prices. The NAR reports that 41% of investment buyers bought more than one property; nearly half say they intend to buy another property within two-years, and they intend to hold the properties for an average of five-years."[4]

- - Sy Harding, Independent Research Analyst

Source: [2]NAR®, August 22, 2012; [4]http://seekingalpha.com/article/799101-will-speculators-rescue-the-housing-market; August 10, 2012

Return TOC

July Existing House Sales



An Investor-Driven Recovery

"Investors are buying homes at a more rapid pace than ever before…Across the 167 metro areas we analyzed, investor activity rose to 29.6% of all transactions in the first quarter of this year, up from the trough of 23.6% in Q4 2009.

The naysayers will surely point to these facts as a false recovery. While they are technically correct, we are not concerned at all, and are embracing the return of private capital. Most of these investors are paying all cash and buying homes below replacement cost. They are helping the market recover by removing supply at the low end of the market and driving real buyers to higher price points, including new homes. We don't see a scenario where they dump their homes en masse on the market unless it becomes crystal clear that home prices are headed down again."[5]

-- Erik Franks, Senior Research Analyst, John Burns Real Estate Consulting, U.S. Building Market Intelligence™

Source: [5]http://campaign.r20.constantcontact.com; August 21 2012

Return TOC

July 2012 Construction Spending

Private Construction: $264.6 billion (SAAR)

1.6% below the revised June estimate of $268.85 billion (SAAR)

July SF construction: $127.4 billion (SAAR)
July 2011 SF construction: $106.9 billion (SAAR)
A year-over-year increase of 19.1%

July MF construction: $21.9 billion (SAAR)
July 2011 MF construction: $15.2 billion (SAAR)
A year-over-year increase of 44.1%

July Improvement[A] construction: $115.2 billion (SAAR)
July 2011 Improvement[A] construction: $122.2 billion (SAAR)
A year-over-year decrease of 5.7%

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

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

July 2012 Construction Spending

July Construction Declines 6 Percent

"Residential building in July slipped 6% to $154.0 billion (SAAR). The decline was due to a 25% pullback for multifamily housing, following strengthening activity in May (up 32%) and June (up 7%). The July pace for multifamily housing, while down 6% from the first six months of 2012, was still 10% above the average pace for this project type during 2011. Single-family housing in July edged up 1%, not as strong as some of the gains shown earlier in 2012, but essentially maintaining the improved amount reported in May and June. The July pace for single-family housing was up 6% from the first six months of 2012, and up 27% from the average pace for this project type during 2011.

Residential building climbed 25% year-to-date, with similar gains for single-family housing, up 24%; and multifamily housing, up 26%. Nonbuilding construction grew 7% year-to-date, reflecting a 19% jump for electric utilities and a 1% pickup for public works. Nonresidential building continued to be the one major sector to report a year-to-date decline, falling 15%, as the result of this pattern by segment – commercial building down 1%; institutional building down 18%; and manufacturing building down 35%."[6]

- - Robert Murray, VP-Economic Affairs,
McGraw-Hill Construction

July 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

	July 2012	June 2012	% Change
Nonresidential Building	$138,135	$147,799	-7
Residential Building	154,032	163,728	-6
Nonbuilding Construction	109,079	133,569	-18
TOTAL Construction	$401,246	$445,096	-10

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

July 2012...........85
June 2012...........94

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

	7 Mos. 2012	7 Mos. 2011	% Change
Nonresidential Building	$82,521	$96,582	-15
Residential Building	88,777	71,262	+25
Nonbuilding Construction	91,607	85,944	+7
TOTAL Construction	$262,905	$253,788	+4

Source: [6]http://app.marketing.construction.com; August 21, 2012

Return TOC

Commercial Construction Spending

Construction Backlog Bounces Back in Second Quarter of 2012

Construction Backlog Indicator (CBI) rose 4.3% in the second quarter of 2012

The CBI is 0.3 months or 4.2% below the second quarter of 2011

"The CBI accurately predicted both the broader economic softness experienced during the first half of 2012, as well as a flattening of the nation's nonresidential construction recovery. The latest CBI data is now projecting gradual acceleration in nonresidential construction spending, and perhaps a slight increase in the overall pace of construction activity going forward.

Unfortunately, any improvement in nonresidential construction activity is likely to remain modest given the ongoing uncertainty regarding America's fiscal cliff — a number of tax increases and spending cuts that take effect at the end of the year — as well as European sovereign debt issues and increasingly volatile energy prices. While there is pent-up demand for new construction in the power, manufacturing and infrastructure segments, the level of economic and political uncertainty remains far too elevated to permit more aggressive nonresidential construction spending recovery in the near term."[7]

- - Anirban Basu, Chief Economist, Associated Builders and Contractors

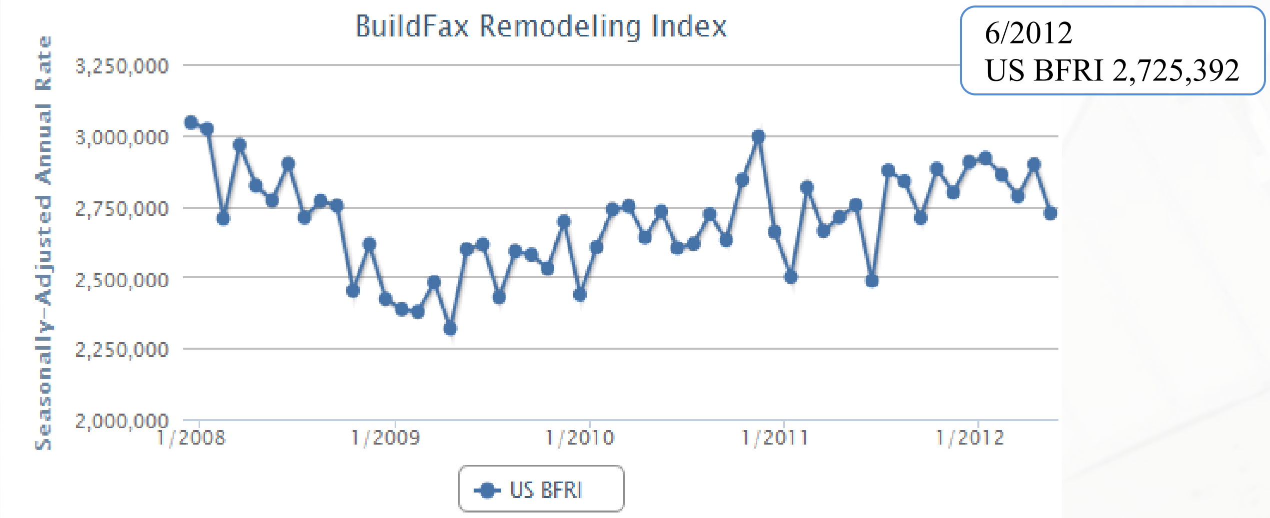
Source: [7]www.amerisurv.com/content/view/10370/2; August 14, 2012

Return TOC

Residential Remodeling June 2012

June's Residential Remodeling Permits: 2,725,392 (SAAR)

6% below the revised May estimate of 2,896,000 and
1% below June 2011's 2,753,000 permits



"Remodeling growth is slowing down, but we still estimate that more residential remodeling projects will be permitted in 2012 than in 2011."[8]

- - Joe Emison, VP-R&D, BuildFax

Source: [8]www.buildfax.com/public/remodeling/index.html; August 16 2012

Return TOC

Remodeling and Home Buying

Home Improvement Sector Trails Overall Housing Turnaround

"Barclays Capital moderated its near-term outlook on home improvement stocks despite mounting evidence that increased home buying is driving a positive feedback to housing markets across nation.

"This strength has not extended to the remodeling sector to the degree we had expected" - -Stephen Kim, Housing Analyst, Barclays Capital

The divergence is rooted in the housing market's significant over-correction throughout the past five years, resulting in pent-up demand for housing purchases, Kim said, while most remodeling activity is discretionary. A minority of building product company sales is connected to new residential construction. The bulk of their exposure is tied to remodeling demand, commercial construction, and international markets.."[9]

- - Justin Hilley, Staff Writer, *Housing Wire*

Source: [9]www.housingwire.com/news/home-improvement-sector-trails-overall-housing-turnaround; August 20, 2012

Return TOC

Remodeling and Home Buying

Home Improvement Sector Trails Overall Housing Turnaround

“Remodeling demand normally tracks well with housing starts, but the strength in the housing market has so far not carried over into such demand. A consistent message throughout the most recent round of second-quarter earnings reports, Kim points out, was that discretionary remodeling expenditures began to moderate over the past few months — echoing indications of flagging confidence in other consumer sectors as well.

Home buying demand is exhibiting a greater sensitivity to home price increases than remodeling. That’s because prospective homebuyers closely monitor the prices of homes in real time, whereas homeowners typically receive infrequent updates on their home values.

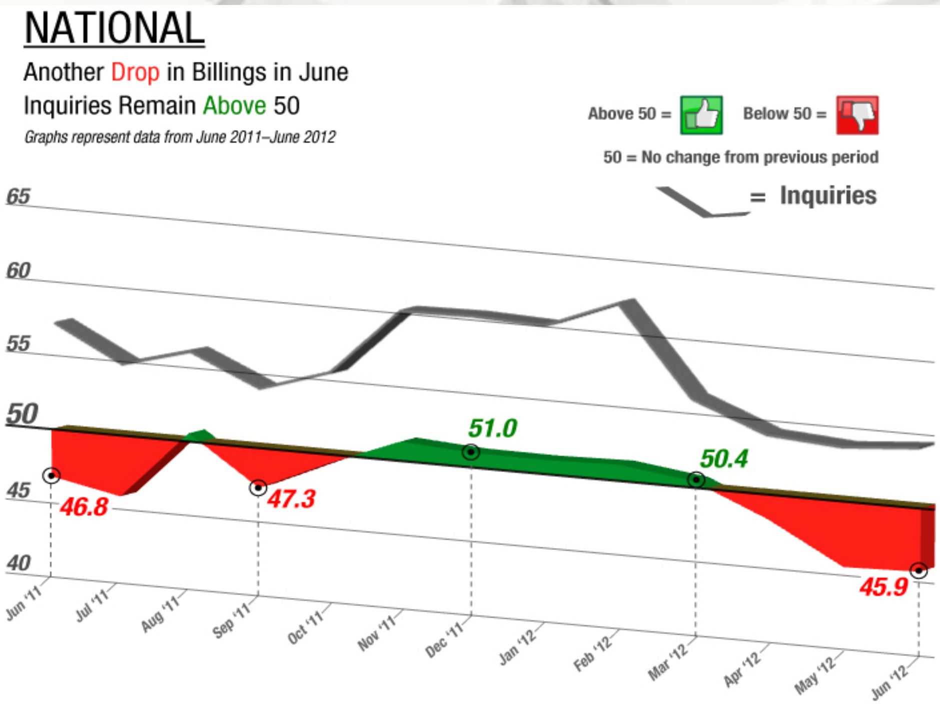
Drastically reduced home equity and the recent weakening of consumer confidence is constraining remodeling demand. Longer term, we expect a recovery in home prices to eventually restore confidence to the discretionary remodeling market. However, in the meantime, remodeling expenditures are likely to be constrained by the recent downtick in the broader economy.”[9]

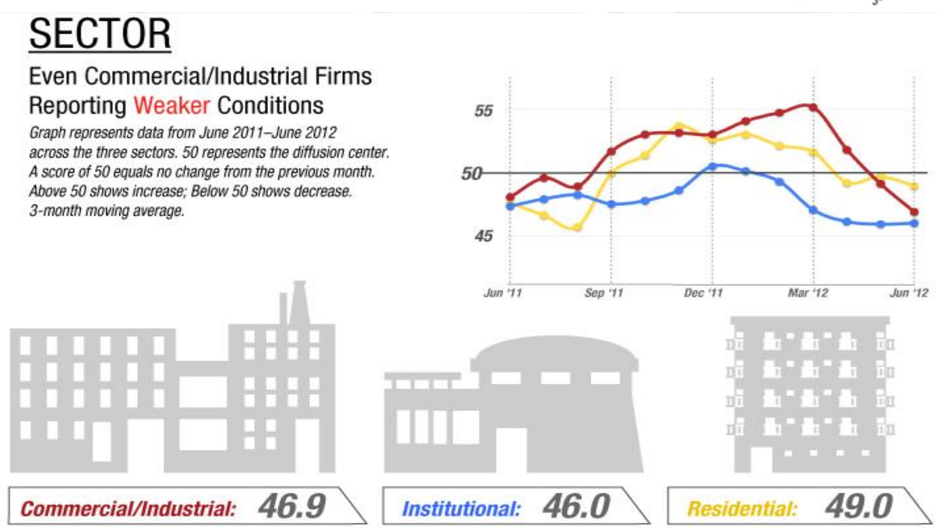
- - Justin Hilley, Staff Writer, *Housing Wire*

Source: [9]www.housingwire.com/news/home-improvement-sector-trails-overall-housing-turnaround; August 20, 2012

Return TOC

Architectural Billing Indicators





"Architecture firms reported that the downward slide in billings that began this spring has continued into June. The national Architecture Billings Index (ABI) score was 45.9 for the month, not straying far from the 45.8 rating reported for May. These two steep declines follow a modest drop in April, so the ABI has now seen three consecutive monthly declines after recording five straight monthly increases. Though inquiries for new projects continue to be positive, they remain well below the levels seen earlier this year and in late 2011, so a quick recovery in billings seems unlikely.

Residential firms reported only a modest pullback in June, and therefore could be expected to return to growth with even a slight improvement in market conditions in coming months."[10]

- - Kermit Baker, Chief Economist,
The American Institute of Architects

Source: [10]http://info.aia.org/aiarchitect/2012/0727/newsletter/ABI-jun12.html; July 27, 2012

Return TOC

Housing Market 34% Back to "Normal"[12]

Latest Trulia Housing Barometer Reveals Market Back On Track to Hit Normal in 2016

"We summarize three key housing market indicators: construction starts (Census), existing-home sales (NAR) and the delinquency-plus-foreclosure rate (LPS First Look). For each indicator, we compare this month's data to (1) how bad the numbers got at their worst and (2) their pre-bubble "normal" levels.

In July 2012, construction starts held more or less steady, while home sales rose and the delinquency + foreclosure rate fell:

Construction starts held roughly steady. Starts in July were at a 746,000 annualized rate, down 1.1% month over month but up 21.5% year over year. Nationally, construction starts are 26% of the way back to normal.

Existing home sales rebounded somewhat. Although home sales rose from 4.37 million in June to 4.47 million in July, they're still at the second-lowest level of the year with tighter inventory and lower vacancy rates holding back sales. Right now, home sales are 40% back to normal to from their worst point during the bust.

The delinquency + foreclosure rate went down. In July, 11.11% of mortgages were delinquent or in foreclosure, after jumping up to 11.23% in June. …the delinquency + foreclosure rate nationally is 36% back to normal.

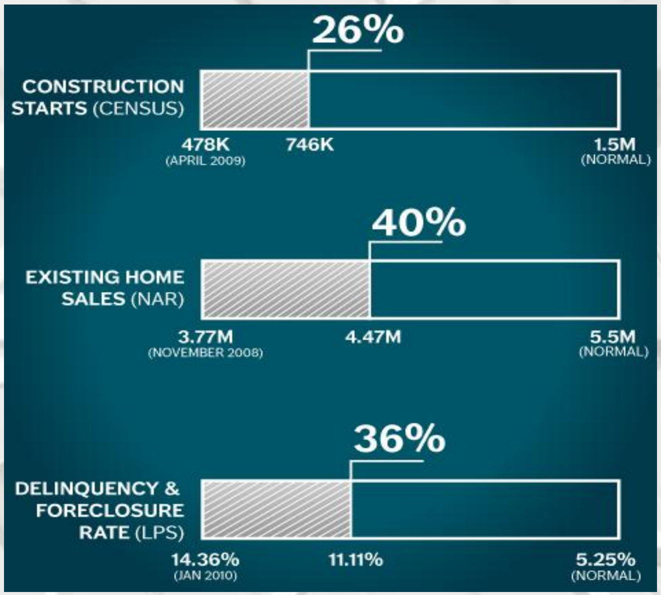
Averaging these three back-to-normal percentages together, the market is now 34% of the way back to normal – up a bit from 32% in June, and well up from 18% in July 2011. If the housing market continues to move back to normal at the rate we've seen over the past year, we'll be back to normal in late 2016." [11]

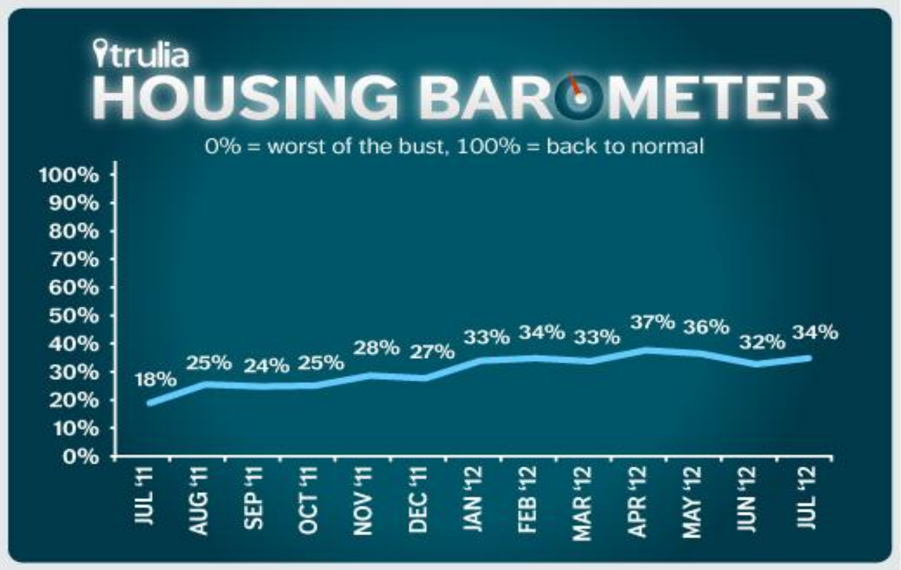
- - Jeff Kolko, Chief Economist, Trulia

Source: [11]http://corp.truliablog.com/category/real-estate-news; August 20, 2012

Return TOC

Housing Market 34% Back to "Normal"[12]

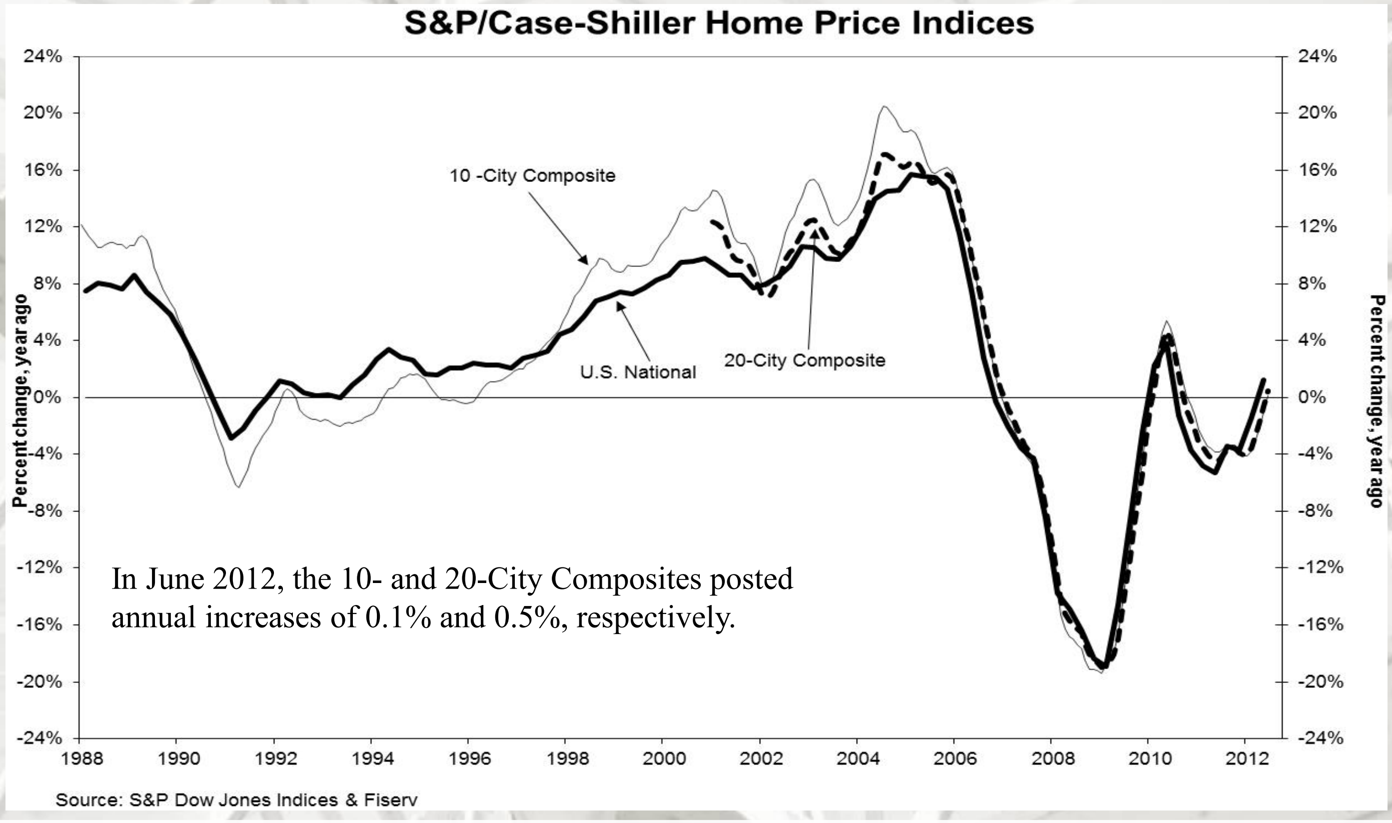




Source: [11]http://corp.truliablog.com/category/real-estate-news; August 20, 2012

Return TOC

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



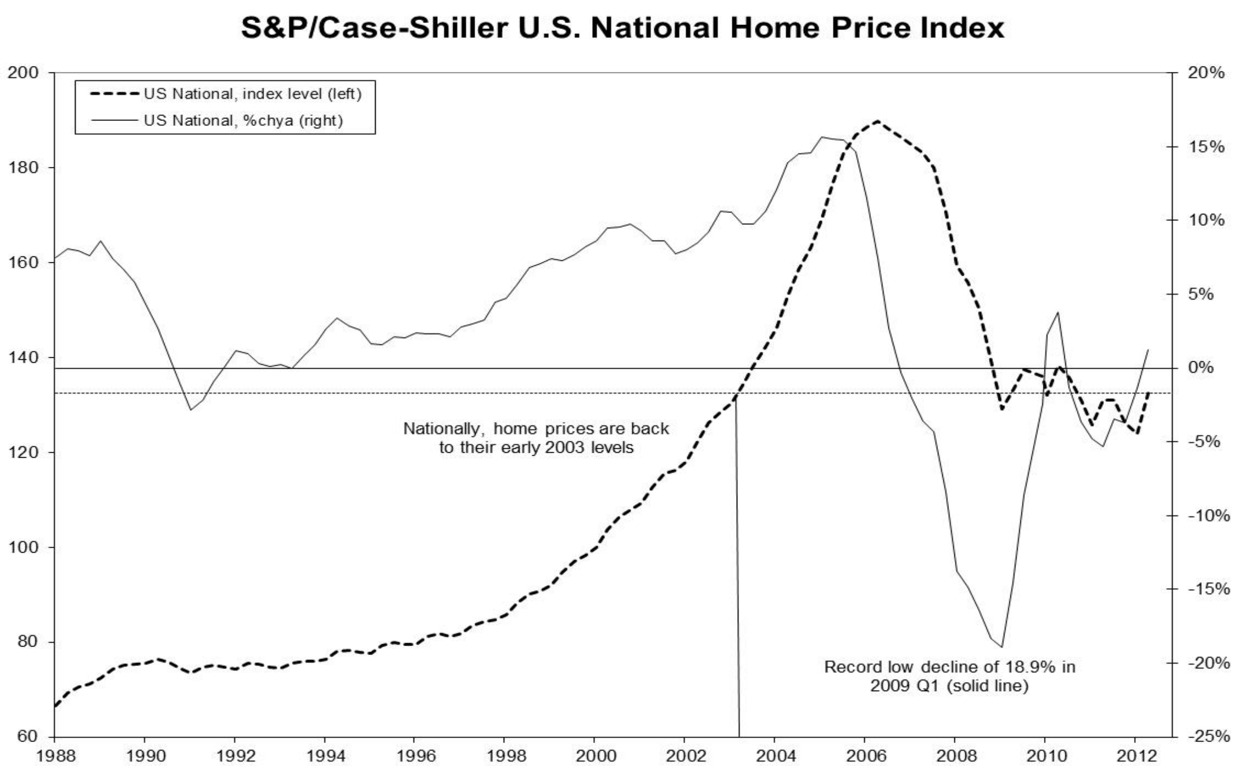
"The National Composite rose by 6.9% in the second quarter alone, and is up 1.2% from the same quarter of 2011. The 10- and 20-City Composites closely mimic these results; the 10-City was up 5.8% over the quarter and the 20-City was up 6.0%. The two Composites also entered positive territory on an annual basis, up 0.1% and 0.5%, respectively. We seem to be witnessing exactly what we needed for a sustained recovery; monthly increases coupled with improving annual rates of change. The market may have finally turned around. "[12]

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

Source: [12]Case-Shiller® and Case-Shiller Indexes® and Fiserv, August 28 2012

Return TOC

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



"As of the second quarter of 2012, average home prices across the United States are back at their early 2003 levels. At the end of the second quarter of 2012, the National Index was up 6.9% over the first quarter of 2012 and 1.2% above the second quarter of 2011."[12]

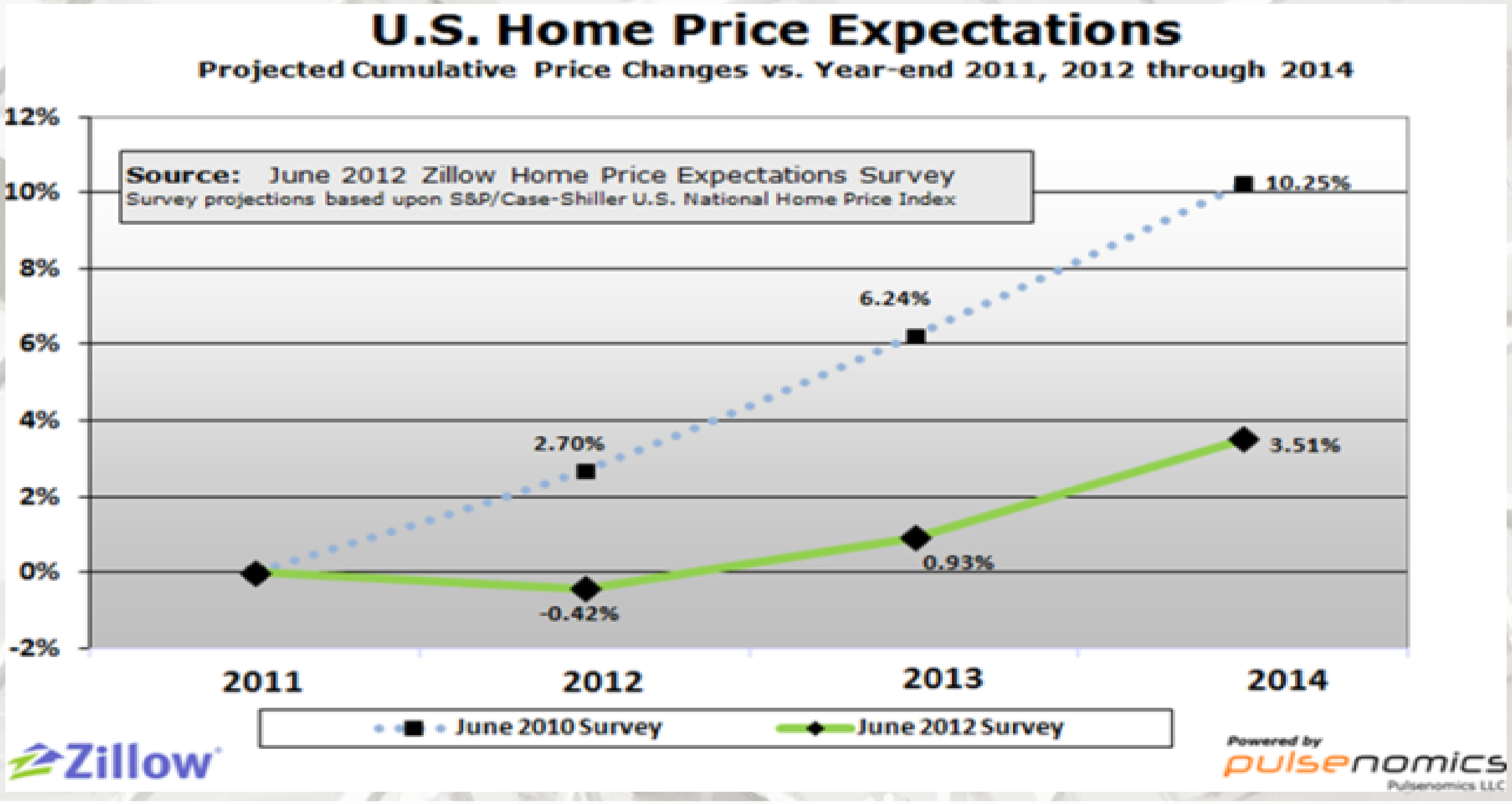
"Case-Shiller's June numbers further affirm what other indices have already been showing, namely that the overall market is healing, albeit at a frustratingly slow pace. While we have seen healthy appreciation for the past few months, we do expect declines in the Case-Shiller indices in the back half of this year, particularly as the overall monthly sales volume declines, thereby increasing the percentage of foreclosure re-sales in the transactional mix being tracked by Case-Shiller. Overall, the period of sustained home values declines are behind us, however, due to high levels of negative equity and the associated scourge of foreclosures we're still a few years away from a normal housing market."[13]

- - Stan Humphries, Chief Economist, Zillow Real Estate Research

Source: [12]Case-Shiller® and Case-Shiller Indexes® and Fiserv, August 28 2012; [13]www.zillow.com/blog/research/2012/08/28; August 28 2012

Return TOC

Housing Prices



Most Economists Agree Home Prices Will Bottom by 2013, But Majority Surveyed Expect Homeownership Rate To Dip Further

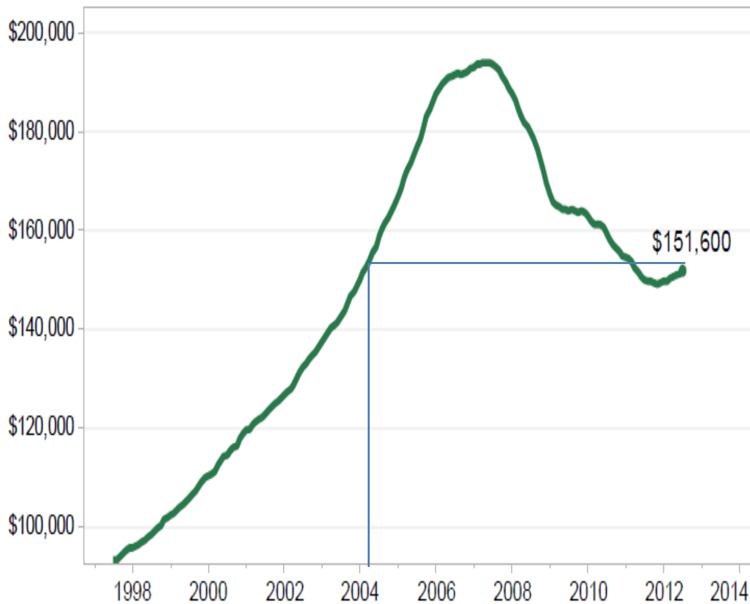
"The June 2012 Zillow Home Price Expectations Survey reveals that economists agree that home prices will decline only slightly in 2012 and expect to see a bottom in home prices by 2013. This is the first time the individual economists surveyed were largely in agreement on the trajectory of home prices nationally, signaling that a true bottom may be imminent."[14] - - Stan Humphries, Chief Economist, Zillow Real Estate Research

Source: [14]www.zillow.com/blog/research; June 24 2012

Return TOC

Housing Prices

Figure 1: U.S. Zillow Home Value Index
July 2012



"Zillow's July Real Estate Market Reports stated that home values increased 0.5% to $151,600 from June to July. Compared to July 2011, home values are up by 1.2%, supported in many places by low for-sale inventory.

Nationally, we continue on the road to recovery with our forecast calling for U.S. home values to increase annually by 1.1% by June 2013."[15]

- - Stan Humphries, Chief Economist, Zillow

July 2012 Figures Marks The Fifth Consecutive Increase In Home Prices Nationally

"The CoreLogic Home Price Index (HPI) showed that home prices nationwide, including distressed sales, increased on a year-over-year basis by 3.8% in July 2012 compared to July 2011. This was the biggest year-over-year (y-o-y) increase since August 2006. On a month-over-month (m-o-m) basis, including distressed sales, home prices increased by 1.3% in July 2012 compared to June 2012.

"The housing market continues its positive trajectory with significant price gains in July and our expectation of a further increase in August. While the pace of growth is moderating as we transition to the off-season for home buying, we expect a positive gain in price levels for the full year." [16]

- - Mark Fleming, Chief Economist, CoreLogic

Source: [15]www.zillow.com/blog/research; August 20, 2012; [16]www.corelogic.com; September 4, 2012

Return TOC

Shiller, Sarajin, Habib, and Blitzer Speak on Housing

Robert Shiller
Case-Shiller Indices® and Professor of Economics, Yale University
July Home Prices

Lisa Sarajian
Managing Director, Real Estate Finance Group, S&P Ratings Services
U.S. Home Buyers Return To The Market, But Can Builders Deliver?

Barry Habib
Vice President, Residential Finance Corporation
Navigating the Housing Market

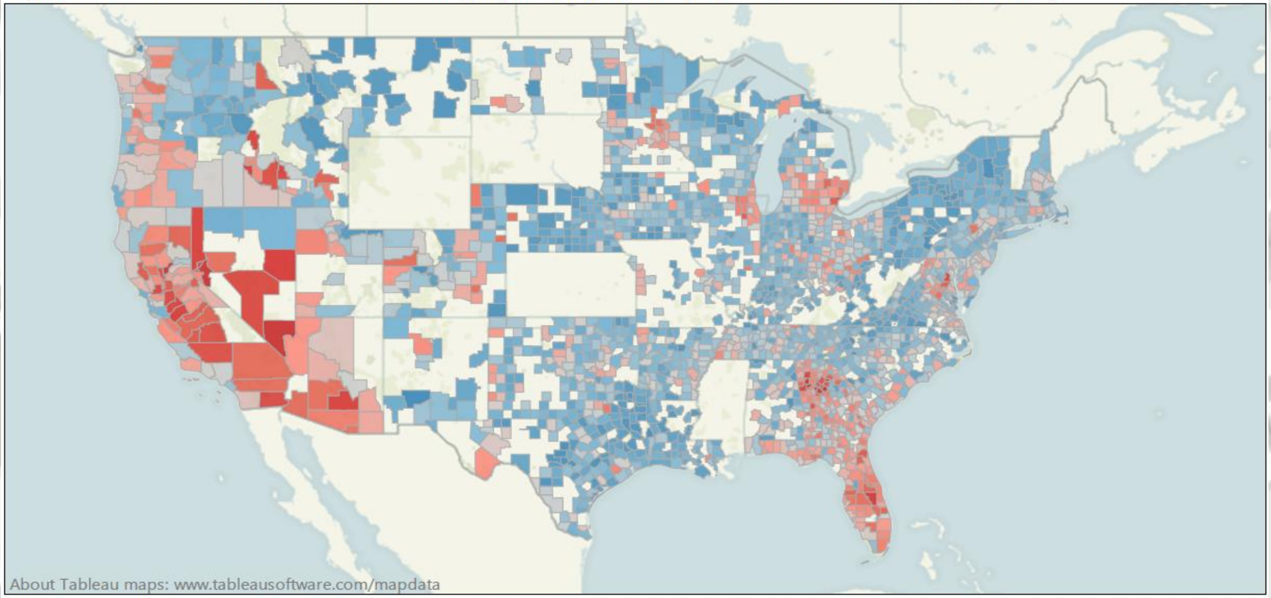
David Blitzer
Managing Director, S&P Index Committee
Housing Market Showing Signs of Hope?

Click on the photo for video/audio link

Return TOC

Underwater Houses

Figure 1: Percent of Homes with a Mortgage in Negative Equity across the Nation by County



Percent of Homes with Mortgages in Negative Equity. Color scale is centered at 30.9%, the national average. Blue counties have fewer underwater homes than the national average, while red counties have more underwater homes.

2.0% 83.4%

Underwater Homeowners Owe $1.15 Trillion More than Homes' Worth

"On average, U.S. homeowners owe $75,235 more than what their house is worth, or 43.9% more. 14.9 million people or 30.9% of underwater homeowners (12.5% of all homeowners with a mortgage), owe between 1 and 20% more than their home is worth. Almost 4.5% of homeowners with a mortgage in the nation owe more than twice what their house is worth.

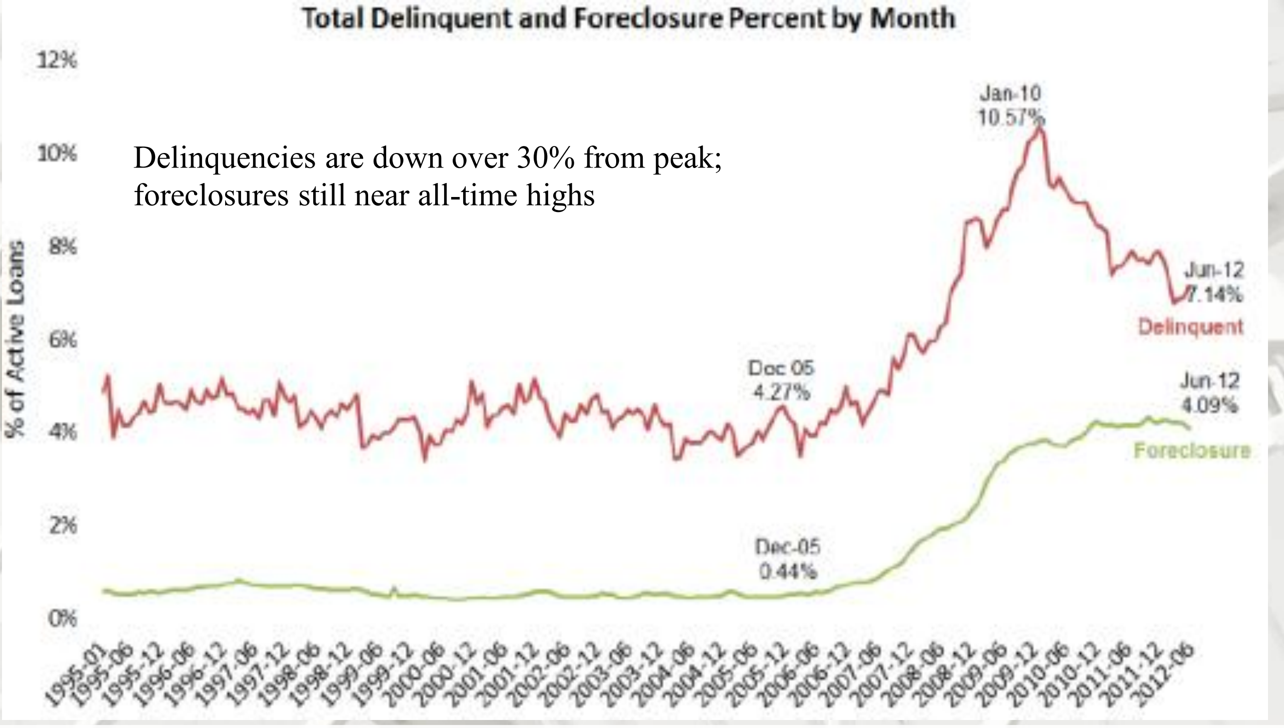
Negative equity remains a major factor in the housing market and one that will cast a long shadow over the recovery. With nearly 30% of the nation's mortgaged homeowners in negative equity and the average underwater homeowner having a home value that is 30% lower than their mortgage balance, negative equity will prove both to be difficult to fully eradicate near-term and to have pernicious effects longer term as some households continue to encounter short-term financial trouble even with a slowly improving broader economy. Should economic growth slow, more homeowners will not be able to make timely mortgage payments, thereby increasing delinquency rates and eventually foreclosures."[17]

- - Stan Humphries, Chief Economist, Zillow Real Estate Research

Source: [17]www.zillow.com/blog/research/2012/08/22/negative-equity-declines-slightly-on-the-back-of-modest-home-value-gains; August 22, 2012

Return TOC

Delinquencies, Foreclosures, and Shadow Inventory



Delinquencies

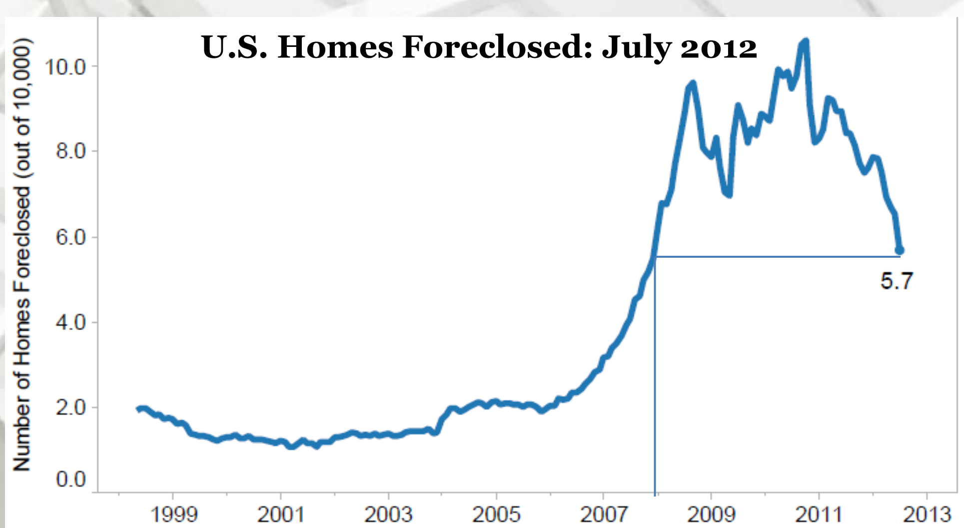
"The total delinquency rate has fallen to 7.14% from the peak in January 2010 of 10.97%. A normal rate is probably in the 4% to 5% range, so there is a long ways to go. The in-foreclosure rate was at 4.09%. There are still a large number of loans in this category (about 2.06 million)."[18]

- - Herb Belcher, Senior VP, LPS Applied Analytics

Source: [18]www.lpsvcs.com/LPSCorporateInformation/CommunicationCenter/DataReports/MortgageMonitor/201206MortgageMonitor/MortgageMonitorJune2012.pdf; July 16, 2012

Return TOC

Delinquencies, Foreclosures, and Shadow Inventory



Foreclosures

"The rate of homes foreclosed continues to decline in July with 5.7 out of every 10,000 homes in the country being liquidated. Nationally, foreclosure re-sales slowed a bit, making up 14.9% of all sales in July. The slowing of foreclosure re-sales is also contributing to home value appreciation, as these are usually sold at a discount and influence surrounding non-distressed sales.

In general, we believe that high-levels of negative equity paired with relatively high-unemployment will keep foreclosure rates higher than normal for at least the next 2-3 years. We expect that most markets will have reached their bottom by the end of this year and will start to show modest home value appreciation."[15]

- - Stan Humphries, Chief Economist, Zillow Real Estate Research

Source: [15]www.realtytrac.com/content/foreclosure-market-report; August 20, 2012

Return TOC

Delinquencies, Foreclosures, and Shadow Inventory

Foreclosures

"CoreLogic® reports there were 58,000 completed foreclosures in July 2012, down from 69,000 in July 2011 and 62,000 in June 2012.

Since the financial crisis began in September 2008, there have been approximately 3.8 million completed foreclosures across the country.

+/- 1.3 million homes or 3.2% of all mortgaged homes were in the U.S. foreclosure inventory as of July 2012, compared to 1.5 million (3.5% in July 2011).

Month-over-month, the national foreclosure inventory was unchanged from June 2012 to July 2012. The foreclosure inventory is the share of all mortgaged homes in any stage of the foreclosure process.

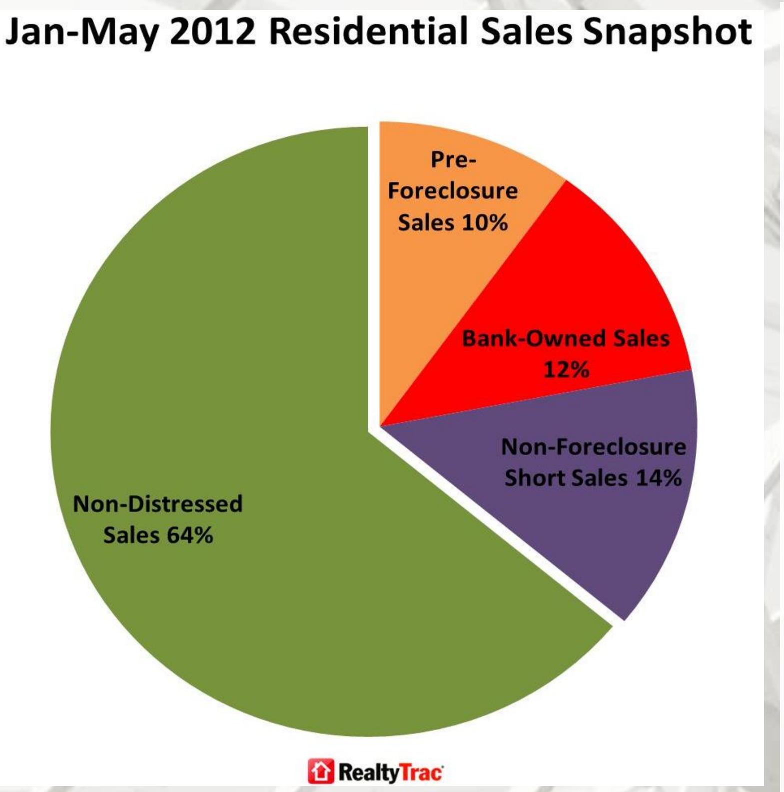
"The decline in completed foreclosures is yet another positive signal that the housing market is continuing on a progressive path of stabilization and recovery. Alternative resolutions are helping to reduce foreclosures and often result in a more positive transition for the borrower and lower losses for investors and lenders.""[19]

- - Anand Nallathambi, President and CEO, CoreLogic®

Source: [19]www.corelogic.com/about-us/researchtrends/asset_upload_file390_16338.pdf; August 28, 2012

Return TOC

Delinquencies, Foreclosures, and Shadow Inventory



Foreclosures

RealtyTrac®'s Q2 2012 U.S. Foreclosure Sales Report™ indicated that foreclosure or bank-owned (REO) homes accounted for 23% of all U.S. residential sales during the 2nd quarter – up from 22% of all sales in the 1st quarter and up from 19% of all sales in the 2nd quarter of 2011.

Although foreclosure-related sales as a percentage of total sales increased, the raw number of foreclosure-related sales in the 2nd quarter (224,429) decreased 12% from the previous quarter and was down 22% from the 2nd quarter of 2011 – the first annual decrease in foreclosure-related sales after five quarters of increases.

Short-sales increased 18% on a year-over-year basis and non-foreclosure short-sales accounted for 14% of all sales during this time period, a larger percentage than either pre-foreclosure sales or bank-owned sales.[20]

- - RealtyTrac® Staff

Low Foreclosure Supply Pushes Sales Lower, Prices Higher

"The second quarter sales numbers provide solid statistical evidence of what we've been hearing anecdotally from real estate agents, buyers and investors over the past few months: There is a limited supply of available foreclosure inventory to choose from in many markets. Given this shortage of supply and the seasonally strong buyer demand in the second quarter, it's no surprise that the average foreclosure-related sales price increased both on a quarterly and annual basis.""[20]

- - Daren Blomquist, Vice President, RealtyTrac®

Source: [20]www2.marketwire.com/mw/frame_multimedia?prid=641471&attachid=1307869; August 28, 2012

Return TOC

Delinquencies, Foreclosures, and Shadow Inventory

Shadow Inventory

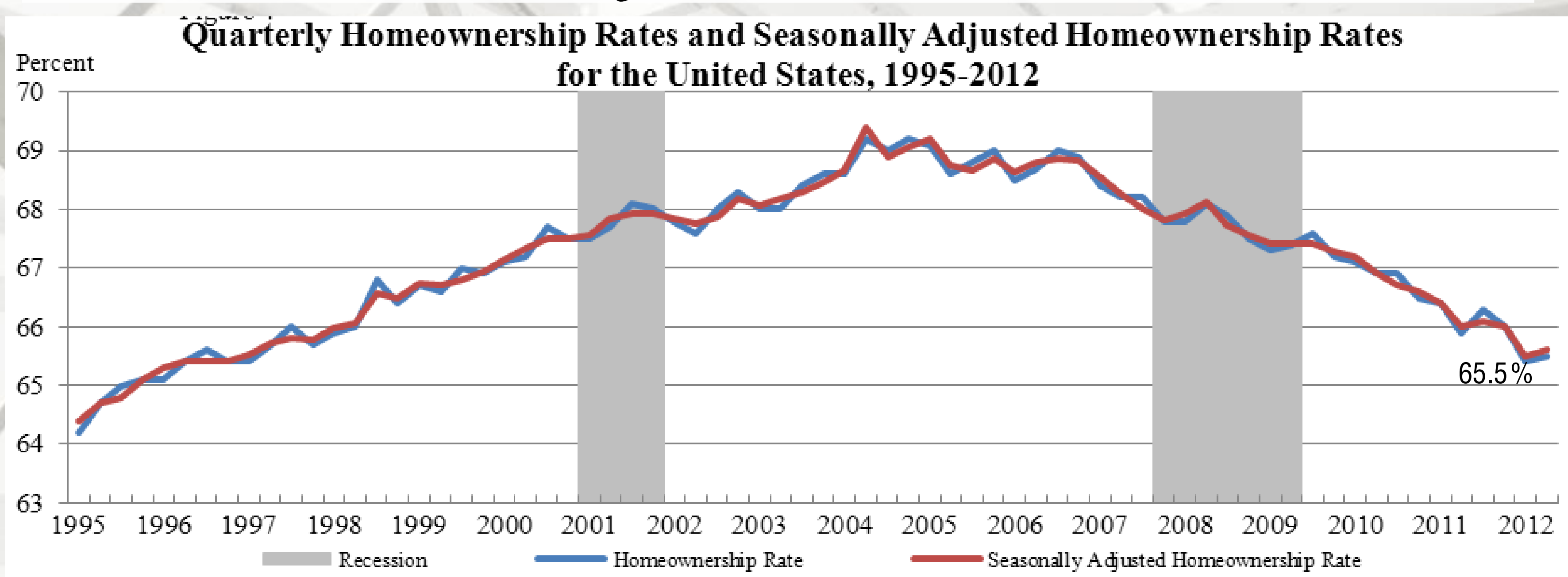
"We continue to see conditions in the existing home market as putting downward pressure on inventories and as supportive of a gradual cleansing of shadow inventory. Our view is that housing is in a recovery phase, but one that will be restrained by the availability of credit, pace of improvement in labor market conditions, and overhang from distressed and foreclosed properties."[21]

- - Barclays Capital via SoberLook

Source: [21]http://soberlook.com/2012/08/us-housing-inventory-at-post-crisis-lows.html; August 22, 2012

Return TOC

U.S. Homeownership and Vacancy Rates: June 2012



Residential Vacancies and Homeownership In the Second Quarter 2012

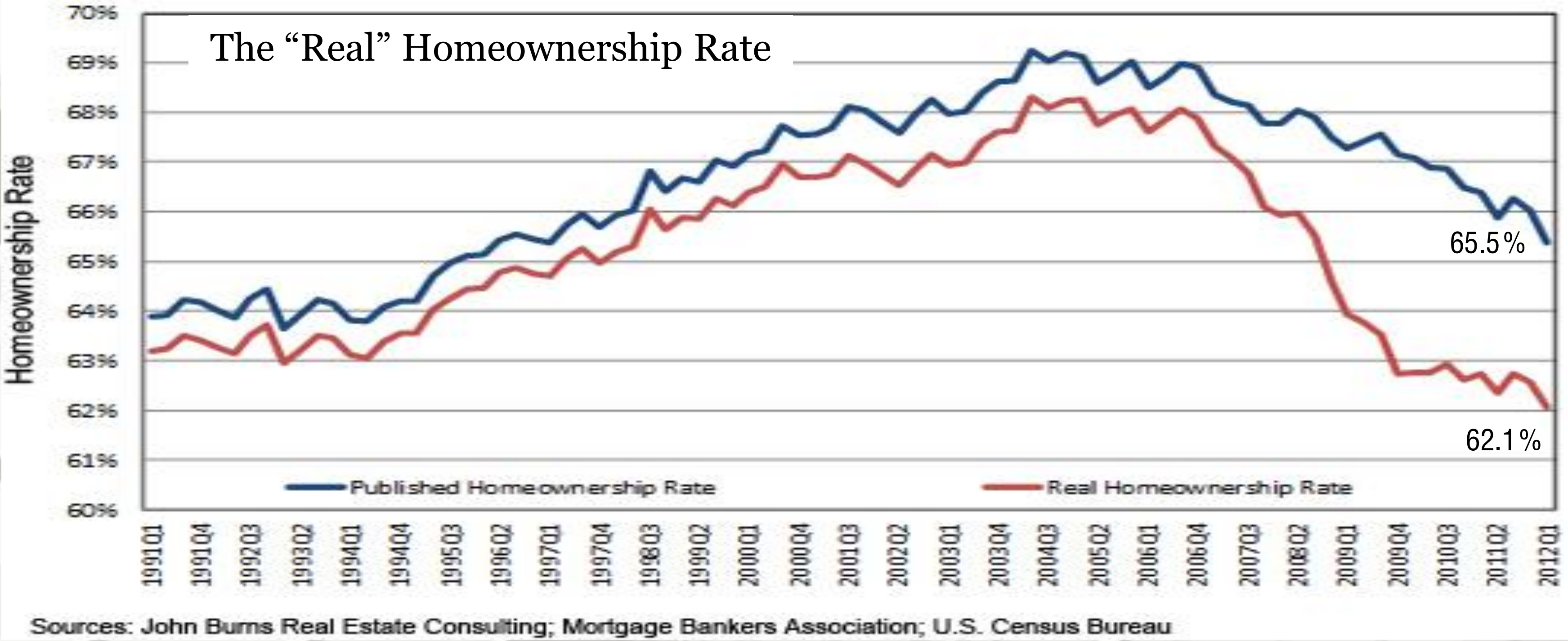
Homeownership rate: 65.5%; 0.4 percentage points less than the second quarter 2011 rate (65.9%) and 0.1 percentage point greater than the rate last quarter (65.4%).

Homeowner vacancy rate: 2.1%; 0.4 percentage points lower than the second quarter 2011 rate and 0.1 percentage point less than the rate last quarter (2.2 %).

Rental vacancy rate: 8.6%; 0.6 percentage points less than the rate recorded in the second quarter 2011 and 0.2 percentage points less than last quarter.

Source: ww.census.gov; July 27 2012

U.S. Homeownership Rate



Homeownership Plunges to Lowest Rate in Almost 50 Years

"The "real" homeownership rate, which we define to be the percentage of households who own a home and are not 90 days or more delinquent on their mortgage, has fallen to 62.1%, which is the lowest level in almost 50 years.

The 65.5% homeownership rate published by the U.S. Census Bureau greatly overstates the real level of homeownership in the country, as the Census Bureau counts all 3.8 million homeowners who are 90+ days delinquent on their mortgage as homeowners. Despite herculean efforts by the Administration to save homeownership for these people, most of them are really just renters in waiting.

… let's stop pretending that 65.5% of Americans own their home, recognize that the real number is 62.1%, and move forward with responsible mortgage programs that allow responsible Americans to achieve the American dream. That dream needs to start with households cleaning up their credit, paying down their debts, saving a down payment, and taking advantage of the lowest mortgage rates in history to buy the home of their dreams. "[22]

-- Sean Fergus. Manager, John Burns Real Estate Consulting, LLC, U.S. Building Market Intelligence™

Source: [22]http://realestateconsulting.com/content/USBMI-201208_2; August 27 2012

Return TOC

Demographics and the Housing Market

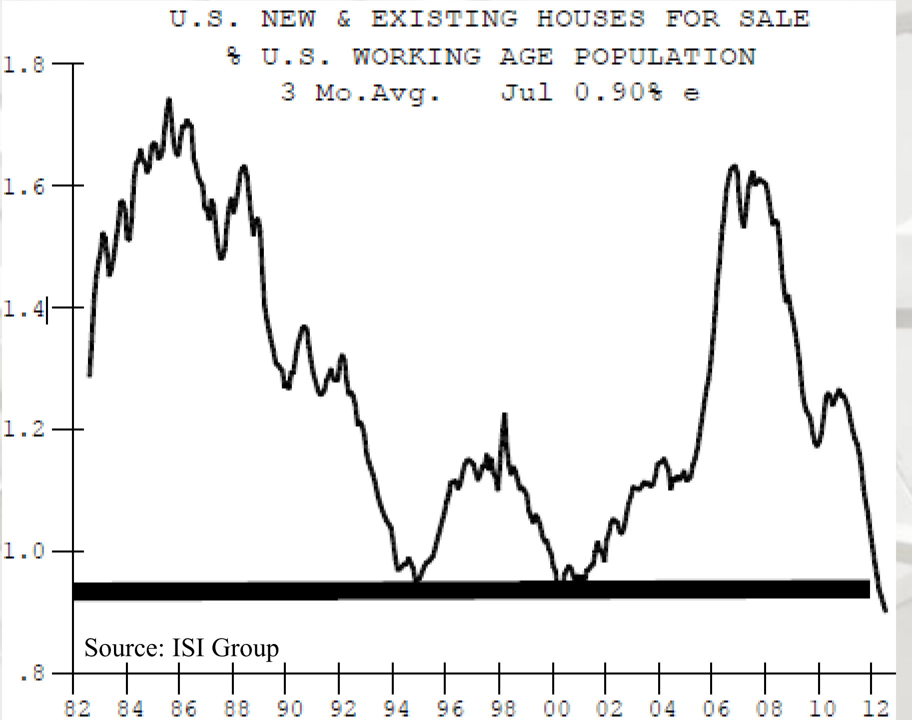
The US Housing Market Is Not "A Chicken-and-Egg Problem"

"NY Times: The economy will not recover until the housing market recovers, and the housing market will not recover until the broader economy recovers – a chicken-and-egg problem reflected, once again, in national housing figures."

"And that may indeed be the case if it wasn't for the US demographics. It's hard for many to accept the fact that the US population did not stop growing after the financial crisis. At the same time new home construction has stalled, forcing inventories to shrink. The author of course argues that there is a massive number of homes yet to hit the market – people are just waiting until their equity values turn positive.

… US demographics now drive the housing market – more so than the US economic growth. It is not the closed system that the NY Times describes because the demand grows with population. With new home construction remaining weak, there are simply fewer places to live – only so many people can live in someone's basement. Available housing inventory per working-age person in the US is now at a 30-year low (at least ."[23]

- - Sober Look

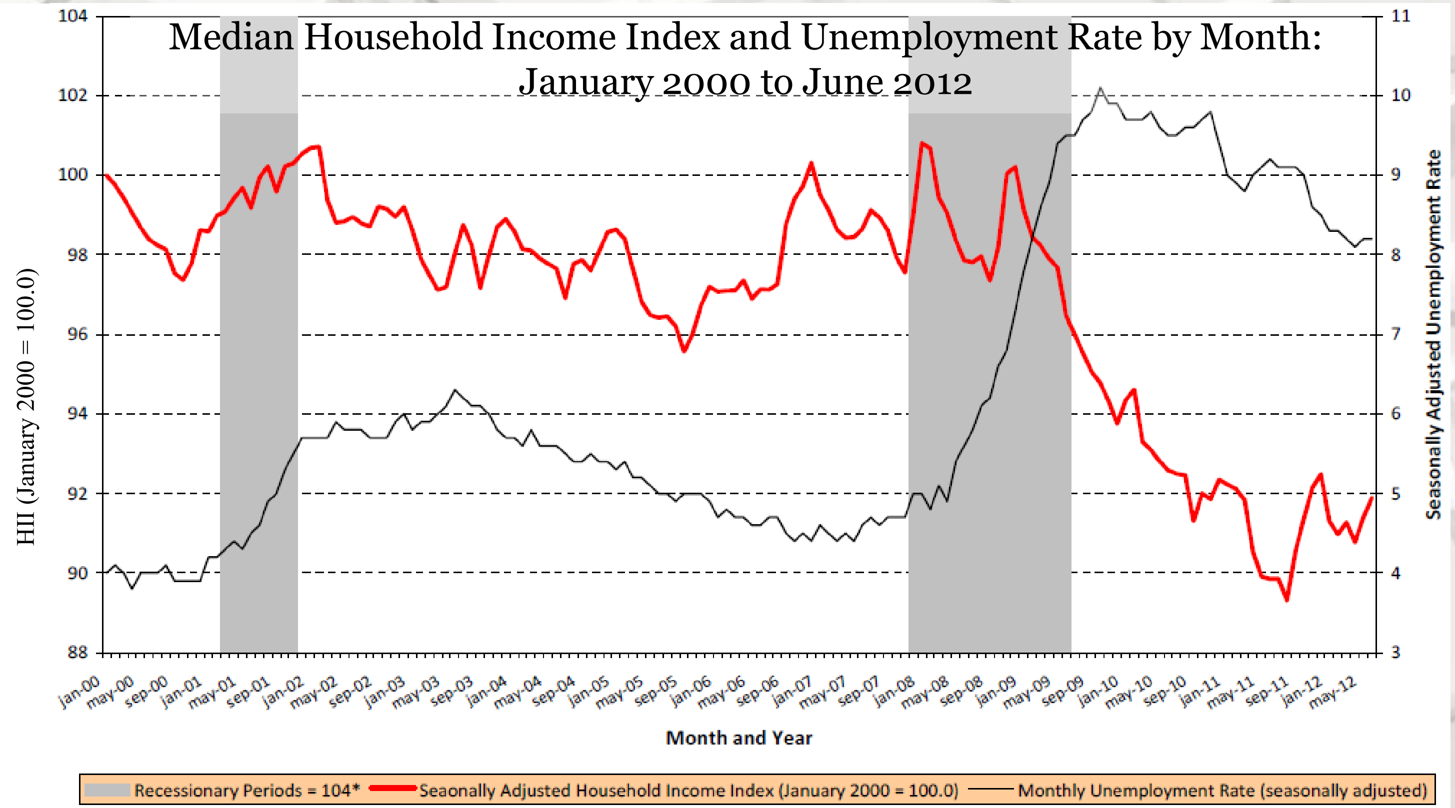


"It is not "a chicken-and-egg problem." The housing market and the US economy are now far less coupled together than in the past, when strong housing markets generated construction based growth. And just as demographics more than the economy now drive improved demand for homes, a better housing market will not have the same positive impact on the economy as it did before the financial crisis."[23]

Source: [23]http://soberlook.com/2012/08/the-us-housing-market-is-not-chicken.html; August 28 2012

Return TOC

Demographics and Economics



"June 2012 median, $50,964 → 7.2% less than the December 2007 median of $54,916, the beginning month of the recession that occurred more than four years ago.

June 2012 median was 8.1% less than the January 2000 median of $55,470, the beginning of this statistical series.

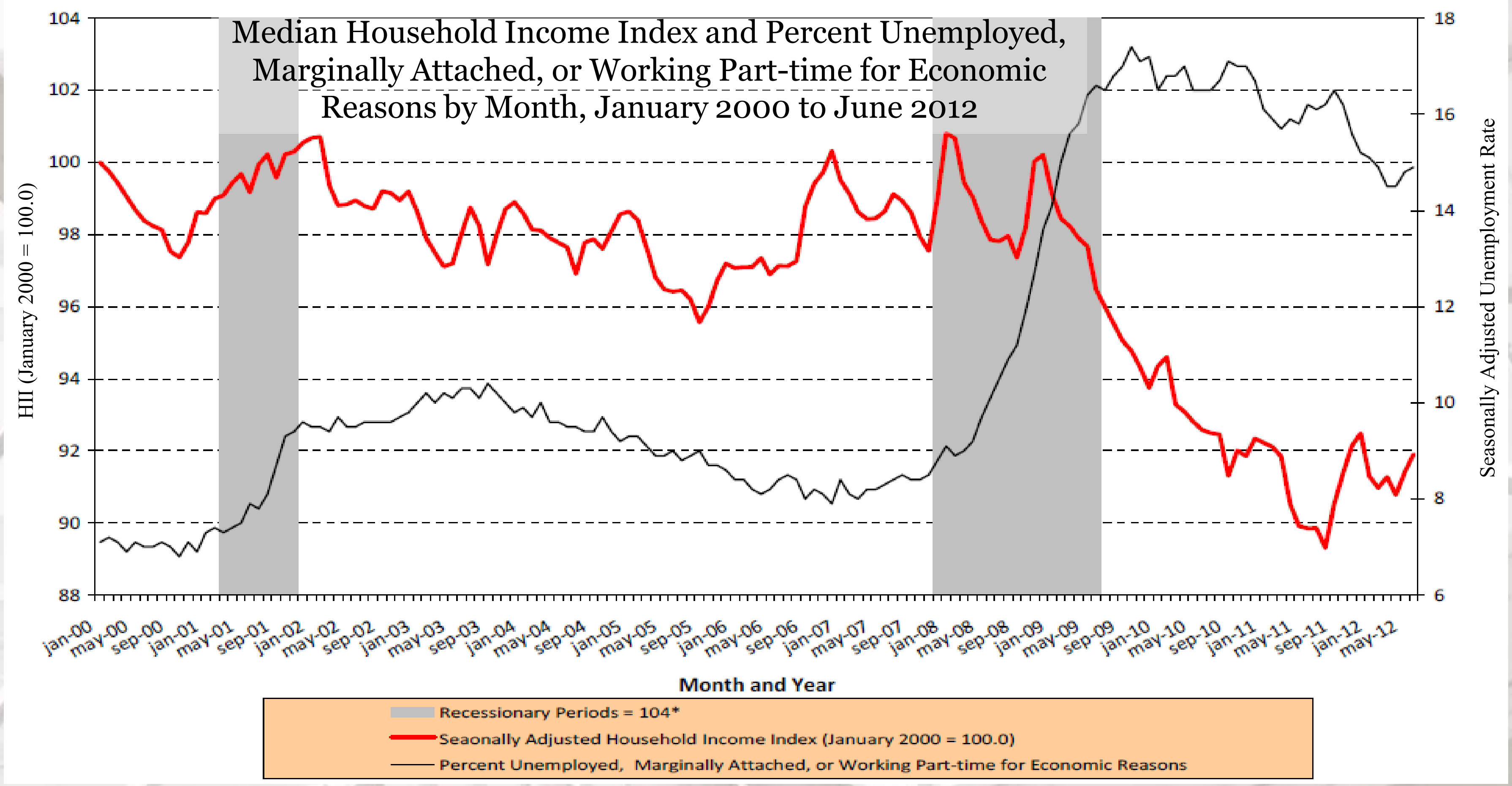
These comparisons demonstrate how significantly real median annual household income has fallen over the past decade, and how much ground needs to be recovered to return to income levels that existed more than 10 years ago."[24]

- - Sentier Research

Sources: For income data: Sentier Research, LLC estimates of annual household income derived from the monthly Current Population Survey (CPS) conducted by the U.S. Census Bureau; for the unemployment rate and the CPI-U: the U.S. Bureau of Labor Statistics. [24] www.sentierresearch.com; July24, 2012

Return TOC

Demographics and Economics



"The uneven trend in real median annual household income is consistent with a struggling economy. The broader measure of employment hardship, which includes the unemployed, marginally attached workers (of which discouraged workers are a subset), and persons working part-time for economic reasons, inched up slightly from 14.8% in May 2012 to 14.9% in June 2012."[24] - - Sentier Research

Sources: For income data: Sentier Research, LLC estimates of annual household income derived from the monthly Current Population Survey (CPS) conducted by the U.S. Census Bureau; for the unemployment rate and the CPI-U: the U.S. Bureau of Labor Statistics. [24] www.sentierresearch.com; July24, 2012

Return TOC

Demographics and Economics

Half of New Grads Are Jobless or Underemployed

"About 1.5 million, or 53.6%, of bachelor's degree-holders under the age of 25 last year were jobless or underemployed, the highest share in at least 11 years. In 2000, the share was at a low of 41%, before the dot-com bust erased job gains for college graduates in the telecommunications and IT fields.

Broken down by occupation, young college graduates were heavily represented in jobs that require a high school diploma or less.

In the last year, they were more likely to be employed as waiters, waitresses, bartenders and food-service helpers than as engineers, physicists, chemists and mathematicians combined (100,000 vs. 90,000). There were more working in office-related jobs such as receptionist or payroll clerk than in all computer professional jobs (163,000 vs. 100,000). More also were employed as cashiers, retail clerks and customer representatives than engineers (125,000 vs. 80,000).

Andrew Sum, director of the Center for Labor Market Studies at Northeastern U. who analyzed the numbers, said many people with a bachelor's degree face a double whammy of rising tuition and poor job outcomes. "Simply put, we're failing kids coming out of college," he said, emphasizing that when it comes to jobs, a college major can make all the difference. "We're going to need a lot better job growth and connections to the labor market, otherwise college debt will grow.'""[25]

- - Hope Yen, Reporter, Associated Press

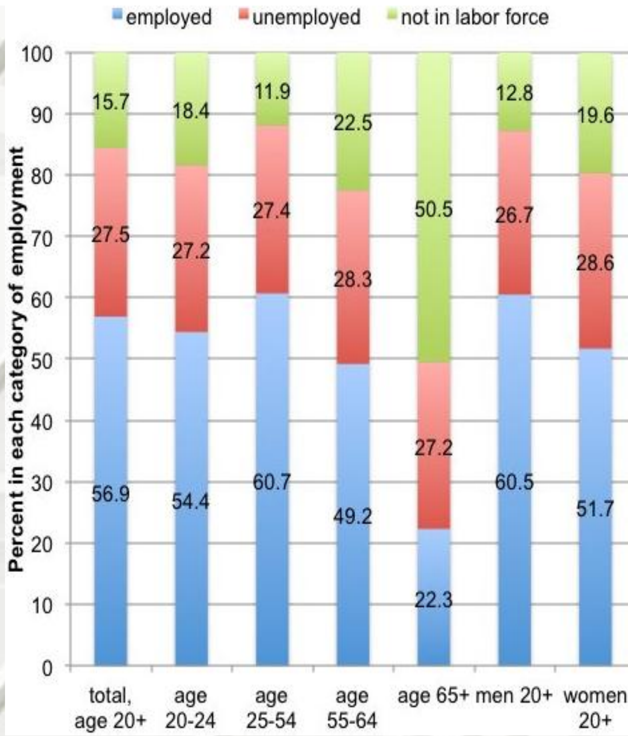
Source: [25]www.msnbc.msn.com/id/47141463/ns/business-stocks_and_economy/#.UDuLK6BywYK; August 25 2012

Return TOC

Demographics and Economics

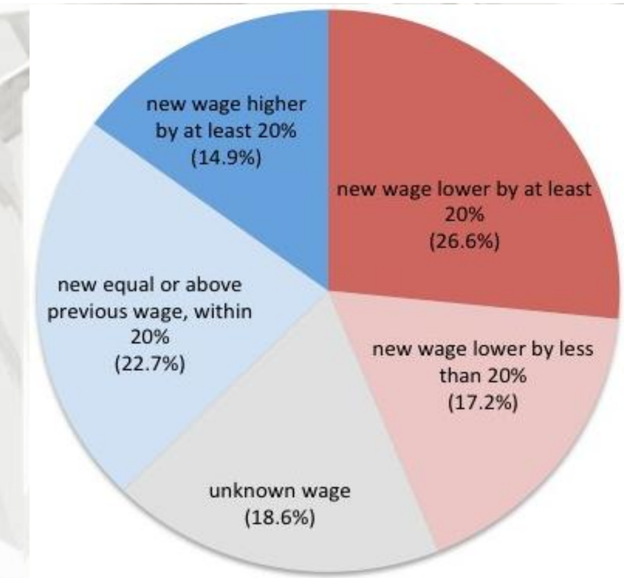
The Stranded Unemployed

Employment status in Jan. 2012 of people displaced during 2009-2011



"People who lost work, especially if they're older, often aren't finding re-employment; even when they do find new work, they're taking major pay cuts."[26]

New wages compared to old wages, for displaced, long-tenured workers who found new full-time jobs



"…26.6% of those who found new full-time jobs accepted wages that were at least 20% less than their old jobs paid. Another 17.2% also accepted wages that were less than those for their previous jobs, but the pay demotions were not quite as severe."[26]

- - Catherine Rampell, Economics Reporter, *The New York Times*

Source: [26]http://economix.blogs.nytimes.com/2012/08/24/the-stranded-unemployed; August 24, 2012

Return TOC

Future Housing Trends?

Urbanization is Destroying Single-Family Homes

"Over the last 60 years, the number of SF homes in the U.S. has grown and the size of each home has increased, growing by about 40% between 1975 and 2010.

However, the number of SF homes is now decreasing.

By 2021, the total area of SF homes in the U.S. will have contracted by nearly 4 billion sq. ft., contracting at a negative compound annual growth rate of 0.2%, according to a new Navigant Energy Practice report – "Global Building Stock Database."

… the U.S. residential building stock will grow from 264.3 billion sq. ft. in 2011 to 280.1 billion sq. ft. in 2021, expanding at a compound annual growth rate of 0.6%.

"For the first time since World War II, the U.S. is experiencing increased levels of urbanization. As more people move into cities, they tend to occupy apartments, condominiums, and other attached multi-unit housing types. By 2021, over 1/4 of the residential stock of the U.S. will be in multi-unit residential buildings," says senior research analyst Eric Bloom.'""[27]

- - Steve Cook, Real Estate Economy Watch, UPI

Source: [27]www.upi.com/Business_News/Real-Estate/2012/08/28/Urbanization-is-destroying-single-family-homes/7291346184496/#ixzz24wtdEiNw; August 28 2012

Return TOC

Future Housing Trends?

The Cheapest Generation

"...in the next decade, a group of people the size of California's population – most of them Millennials – will likely come together to form new households. The question is: Where, and in what manner?"

"Just as car sales have plummeted among their age cohort, the share of young people getting their first mortgage between 2009 and 2011 is half what it was just 10 years ago, according to a Federal Reserve study.

Since the end of World War II, new cars and suburban houses have powered the world's largest economy and propelled our most impressive recoveries. Millennials may have lost interest in both..

Millennials, of course, are sharing more than transportation: they're also sharing living quarters, albeit begrudgingly, and with less gee-whiz technology involved. According to Harvard's Joint Center for Housing Studies, between 2006 and 2011, the homeownership rate among adults younger than 35 fell by 12%, and nearly 2 million more of them – the equivalent of Houston's population – were living with their parents, as a result of the recession. The ownership society has been overrun by renters and squatters."[28]

- - Derek Thompson, Senior Editor and Jordan Weissmann, Associate Editor, *The Atlantic*

Source: [28]www.theatlantic.com/magazine/archive/2012/09/the-cheapest-generation/309060/2; September 2012

Return TOC

Future Housing Trends?

The Cheapest Generation

"Nine out of 10 Millennials say they eventually want a place they own, according to a recent Fannie Mae survey. But this generation's path to homeownership is fraught with obstacles: low pay, low savings, tighter lending standards from banks. Student debt – some $1 trillion in total – stalks many potential buyers as they seek a mortgage (or a car loan). At a minimum, homeownership rates are highly unlikely to soon return to the peaks they hit during the housing bubble.

In some respects, Millennials' residential aspirations appear to be changing just as significantly as their driving habits – indeed, the two may be related. The old cul-de-sacs ...have fallen out of favor with Generation Y. Rising instead are both city centers and what some developers call "urban light" – denser suburbs that revolve around a walkable town center. "People are very eager to create a life that blends the best features of the American suburb – schools still being the primary, although not the only, draw – and urbanity," says Adam Ducker, managing director at the real-estate consultancy RCLCO.

An RCLCO survey from 2007 found that 43% of Gen-Yers would prefer to live in a close-in suburb, where both the houses and the need for a car are smaller."[28]

- - Derek Thompson, Senior Editor and Jordan Weissmann, Associate Editor, *The Atlantic*

Source: [28]www.theatlantic.com/magazine/archive/2012/09/the-cheapest-generation/309060/2; September 2012

Return TOC

Future Housing Trends?

The Cheapest Generation

"Wholly apart from their urban sensibility, townhouses and other small houses are more affordable, all else equal, and developers know that to attract Millennials, they need to cater to tattered bank accounts. "The types of properties young people are buying now are different from what [that age group] bought five years ago," said Shannon Williams King, the vice chair of strategic planning at the NAR. "They are within walking distance of shopping centers. These buyers want bike shares and Zipcar. They like feeling connected." In short, the future of the house might look a lot like the future of the car: smaller, cheaper, built for a new economy.

If the Millennials are not quite a post-driving and post-owning generation, they'll almost certainly be a less-driving and less-owning generation. That could mean some tough adjustments for the economy over the next several years. In recent decades, the housing industry has usually led us out of recession. With the housing market moribund, the Federal Reserve has lost a key means of influencing the economy with lower interest rates. The service-led recovery we've gotten instead is not nearly as robust.

Smaller houses built in dense, mixed-use neighborhoods generally take longer to build than McMansions on green-field sites. And of course, because they require fewer fixtures and furnishings, their construction spurs less economic activity."[28]

- - Derek Thompson, Senior Editor and Jordan Weissmann, Associate Editor, *The Atlantic*

Source: [28]www.theatlantic.com/magazine/archive/2012/09/the-cheapest-generation/309060/2; September 2012

Return TOC

Future Housing Trends?

The Cheapest Generation

"Nobody is suggesting that the American consumer has bought her last house or car – only that houses and cars may lose some of the outsize importance they've had to the economy for the past 10 or 20 years or more. Simple arithmetic says that if Americans spend less money on cars and houses, they'll have more money left over to spend or save – and not all of that will go to electronic gadgets.

Perry Wong, the director of research at the Milken Institute, noted that if young people invest less in physical things like houses, they'll have more to invest in themselves. "In the past, housing was the main vehicle for investment, but education is also a vehicle." In an ideas economy, up-to-date knowledge could be a more nimble and valuable asset than a house.

What's more, the shift away from traditional suburbs toward denser, urban-light living could have major economic-growth implications on its own. …Ultimately, if the Millennial generation pushes our society toward more sharing and closer living, it may do more than simply change America's consumption culture; it may put America on firmer economic footing for decades to come."[28]

- - Derek Thompson, Senior Editor and Jordan Weissmann, Associate Editor, *The Atlantic*

Source: [28]www.theatlantic.com/magazine/archive/2012/09/the-cheapest-generation/309060/2; September 2012

Return TOC

In the Home Stretch? The US Housing Market Recovery

A Model Prediction

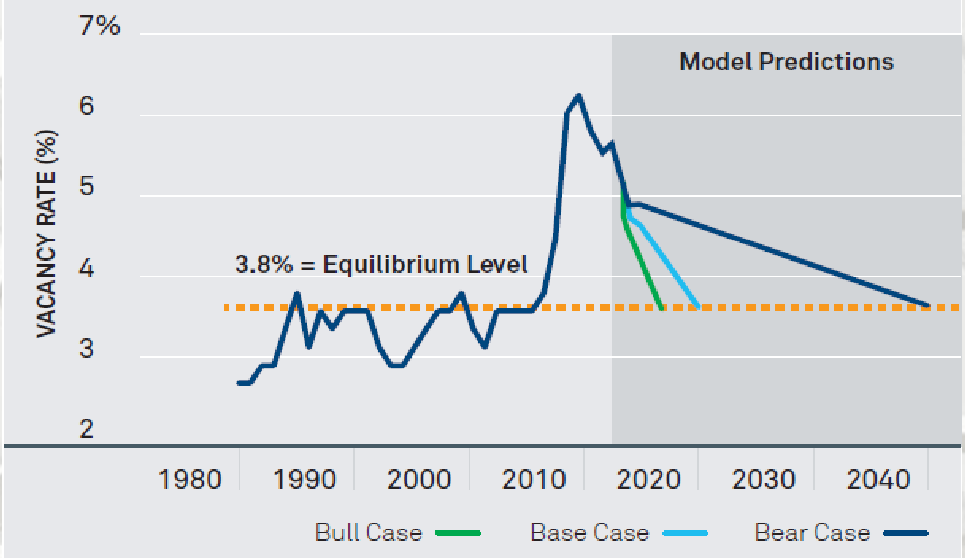
Projecting a Housing Supply-Demand Equilibrium

	Bull Case	Base Case	Bear Case
Total Housing Stock	132.4 mln	132.4 mln	132.4 mln
For Rent	2 mln	2 mln	2 mln
For Sale	1.8 mln	1.8 mln	1.8 mln
Held Off Market	2.9 mln	2.9 mln	2.9 mln
Total Currently Vacant	**6.7 mln**	**6.7 mln**	**6.7 mln**
Current Vacancy Rate	5.1%	5.1%	5.1%
Equilibrium Vacancy Rate	3.8%	3.8%	3.8%
Shadow inventory	1.6 mln	2.5 mln	4 mln
Current Excess Inventory	**3.3 mln**	**4.2 mln**	**5.7 mln**
Housing Starts	425,000	425,000	450,000
Housing Destruction	425,000	425,000	425,000
Home Ownership Rate	65%	64%	64%
Household Growth Rate	1.2%	1%	0.6%
Baby Boomers Retiring	400,000	400,000	400,000
Baby Boomers Selling	–	100,000	200,000
Net New Homeowners	896,000	635,000	241,000
Annual Home Reduction	**896,000**	**635,000**	**216,000**
Years to Reach Equilibrium	**3.7**	**6.6**	**26.4**

Sources: BlackRock, Bureau of Economic Analysis, Federal Reserve, CoreLogic, Mortgage Bankers Association, Bureau of Labor Statistics, US Census Bureau.
Note: Figures in thousands are annual.

Are We There Yet?

Housing Vacancy Rate Under Various Scenarios, 1980-2040



Sources: BlackRock, Federal Reserve, Bureau of Economic Analysis, US Census Bureau, CoreLogic and Mortgage Bankers Association.

"… the market recovery will likely take the form of a long, flat "U" rather than a "V." It may even flatline for a while. In all, we expect further national housing price declines from 3% to 5% in the Case-Shiller Index in the next year after factoring in inflation.

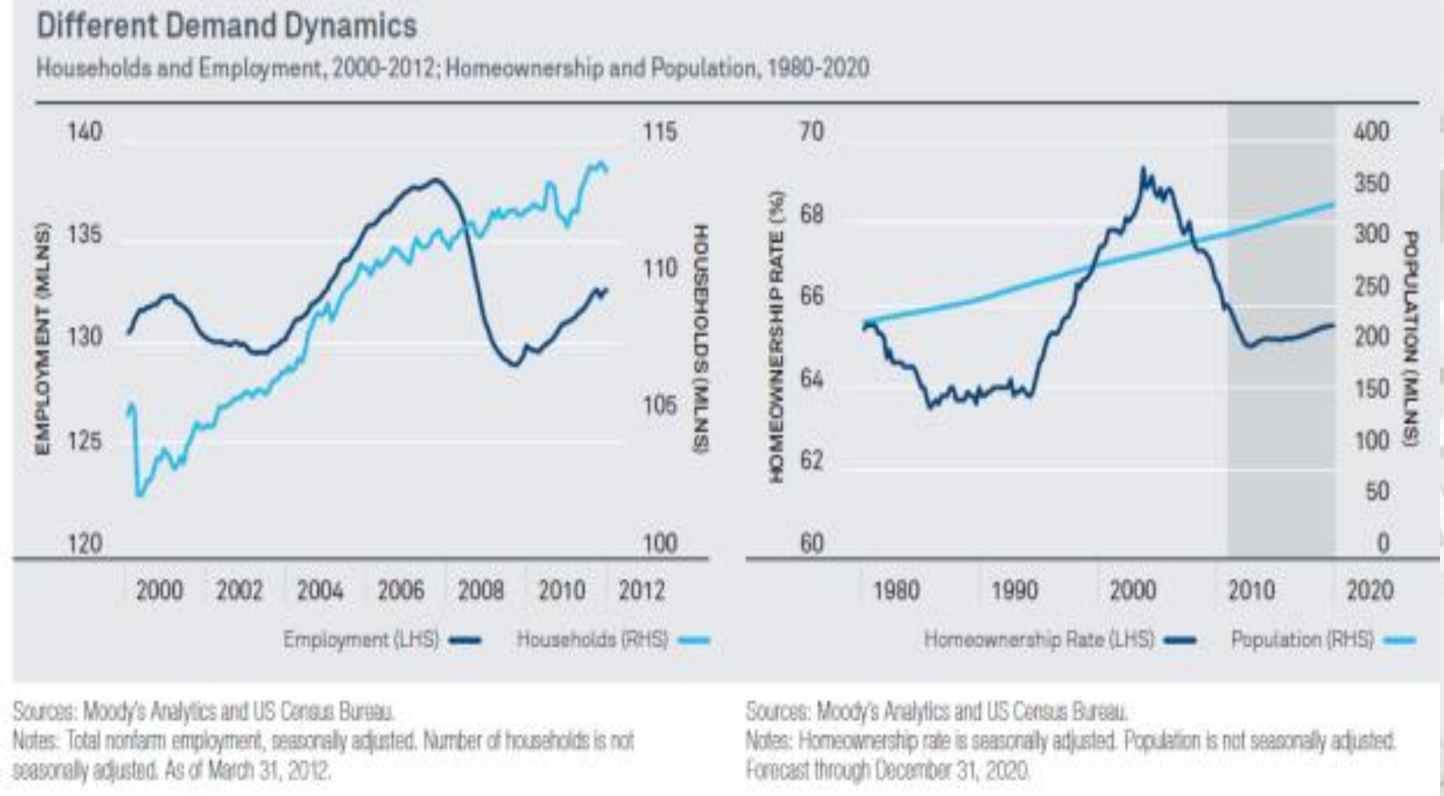
After a 36% price fall this is a relief – but not a full-blown recovery."[29]

- - Lee Kempler, Ewen Watt, and Jack Reerink,
BlackRock® Investment Institute

Source: [29]www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111166111; June 2012

Return TOC

In the Home Stretch? The US Housing Market Recovery



"The homeownership rate has fallen from a 2004 peak of 69% to a 15-year below 65%... We believe it is likely to shrink further until the market has worked off the inventory of unsold homes, credit becomes more widely available, and job and wage growth accelerate. … a small change in the homeownership rate can lead to big differences in the projected time it takes for the market to reach equilibrium.

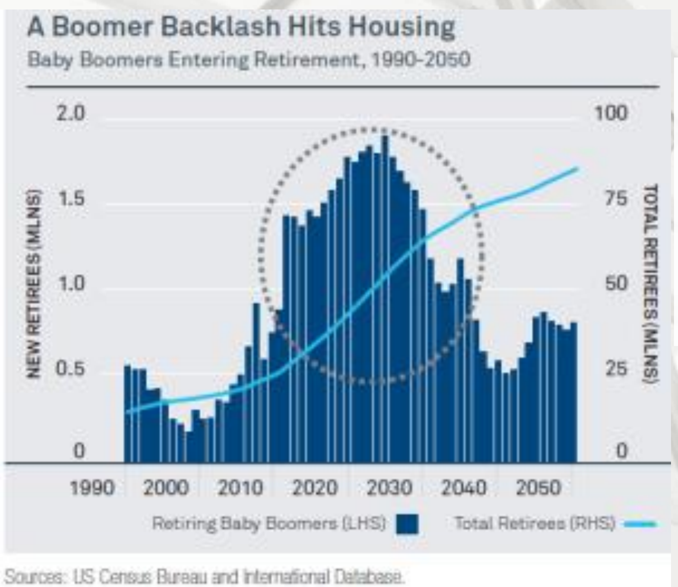
Employment is back at 2004 levels – when there were 5 million fewer households. The labor participation rate is at a three-decade low of about 64%, according to the US Labor Department. This highlights a key underlying reason for weaker housing demand."[29]

- - Lee Kempler, Ewen Watt, and Jack Reerink, BlackRock® Investment Institute

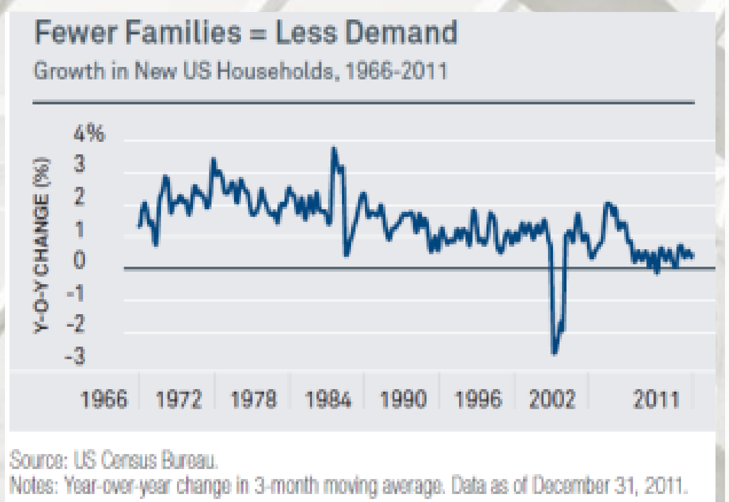
Source: [29]www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111166111; June 2012

Return TOC

In the Home Stretch? The US Housing Market Recovery



"Aging baby boomers are triggering a dramatic shift in the US population. Record numbers will reach the retirement age of 65 in the next decade. See the chart below. This graying trend is estimated to result in retirees making up 1/5 of the US population by 2050, according to the United Nations. This is bad news for sales of existing family homes: Retiring boomers often downsize to smaller homes or shift to renting."[29]



"The younger generation is not picking up the slack. The financial health of entry-level buyers between 20 and 34 years old is weak because of low employment and high debts. Overall student loan debt is about $1 trillion, more than either car or credit card debt, according to the Consumer Financial Protection Bureau. Students graduating in 2010 owed about $25,000 in debt on average, according to the nonprofit Institute for College Access & Success. Young people find it tough to come up with a down payment, and will veer toward renting.

Anecdotal evidence abounds of "boomerang kids," bright college graduates with good jobs who are perfectly happy to live at home. A parental solution to this particular housing conundrum? Do not feed them. People also marry later or not at all, making for fewer traditional households looking to buy a home to raise children. These demographic changes are powering a long-term downdraft in growth in new households, the critical lever to create demand and absorb inventory."[29]

- - Lee Kempler, Ewen Watt, and Jack Reerink,
BlackRock® Investment Institute

Source: [29]www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111166111; June 2012

Return TOC

In the Home Stretch? The US Housing Market Recovery

Sources: ISI and Federal Reserve. Data as of April 30, 2012.

Credit Is Cheap — If You Can Get It

Easy mortgages helped boost the US homeownership rate to unsustainable highs during the boom years. Tougher access to credit is bringing it back down. Credit appears to be a much bigger factor than affordability in boosting homeownership. In other words, what drives the market is not how cheap it is, but how easy it is to get a mortgage.

Banks have upped their mortgage standards: bigger down payments, tougher appraisal standards and higher FICO credit scores. And the banks have become gun shy about lending because of stringent capital standards and risk controls. The result is a drop in mortgage applications with no end in sight – even with interest rates at record lows.[29]

"Demand for residential mortgage loans had been weak, but nearly 40% of banks reported "moderately" to "substantially" stronger demand in the first quarter, according to the April 2012 Senior Loan Officer Opinion Survey by the Federal Reserve Board. Lending standards remained tight, however, with a majority of banks reporting they would be much less likely to extend loans to people with a less-than-perfect FICO credit score of 620 than during the boom – even if they provided a 20% down payment.

Tight lending standards are also reflected in the makeup of loans guaranteed by FHA. These loans typically are used by people with weak credit or by first-time homebuyers. FHA-backed loans are about the only game in town for people who can only come up with a down payment of 5% of the loan amount. The percentage of first-time homebuyers with high credit scores receiving these loans doubled to 70% in the past five years, showing lenders tightened standards. Why? Banks worry the FHA will throw back poorly underwritten loans to them. These "put backs" are costly, so lenders play it safe.

This has dampened demand for entry-level single-family houses, depriving the market of its natural influx of new buyers. This also means the easy loans (the ones to the most creditworthy borrowers) have been made, with no evidence yet of fringe buyers being able to break in."[29]

- - Lee Kempler, Ewen Watt, and Jack Reerink, BlackRock® Investment Institute

Source: [29]www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111166111; June 2012

Return TOC

In the Home Stretch? The US Housing Market Recovery

Metropolitan Area	Unemployment	Shadow Inventory	Metropolitan Area	Unemployment	Shadow Inventory
Fort Lauderdale, FL	9.3%	30.3%	El Centro, CA	29.3%	16.3%
Miami, FL	12.2%	30.3%	Nassau-Suffolk, NY	7.1%	14.1%
Orlando-Kissimmee, FL	10.3%	26.1%	New York-White Plains, NY	8.5%	14.1%
Las Vegas, NV	13.5%	26%	Memphis, TN	10.4%	14.1%
Stockton, CA	16.9%	18%	Chicago-Naperville, IL	10.3%	13.7%
Riverside-San Bernardino, CA	13.9%	18%	Santa Barbara, CA	9.2%	11%

Sources: J.P. Morgan, Case-Shiller, Mortgage Bankers Association and CoreLogic. Data as of April 30, 2012.

The US Consumer Is Still in Sickbay

A big obstacle to a housing market recovery is the wobbly health of the US consumer. Consumers have cut debt and are spending a bit more, but the headline numbers are much rosier than reality. Consumers have deleveraged since indebtedness peaked in the third quarter of 2007. Overall, total mortgage and other consumer liabilities had fallen from a record 123% of disposable income to 105% by the fourth quarter of 2011, according to the US Federal Reserve and the Institute for Housing Studies. Strip out the highest income group, however, and it becomes clear most people are much more indebted… ."[29]

"Employment, or rather lack of it, is another key driver of housing demand and prices. The US jobs market has been improving, but gains have been modest and wage growth minimal. The labor participation rate hovers near a 30-year low. High unemployment often translates into more foreclosures and distressed properties, and vice versa. The shale oil and gas boom, for example, has made North Dakota a very different place than Florida (beyond climatological variations).

Until we have sustained improvement in employment, coupled with real wage growth, it is tough to see the national housing market booming again. A slow recovery is the most likely outcome."[29]

- - Lee Kempler, Ewen Watt, and Jack Reerink, BlackRock® Investment Institute

Source: [29]www2.blackrock.com/webcore/litService/search/getDocument.seam?venue=PUB_IND&source=GLOBAL&contentId=1111166111; June 2012

Return TOC

Conclusions

New home and existing sales still are bottom bouncing albeit at higher levels. The same can be said for new housing starts and permits. The number of available new and existing homes for sale continues to decrease, and this is positive news.

In many respects we are in a "bifurcated" housing market – 1) those who can afford houses are building or buying, and 2) there are those who would like to purchase or build, but are shut out of the current market for various reasons.

We find it odd the that the "housing recovery" has not brought the housing sector stalwarts, such as new home starts and existing sales, near their historic long-term averages – even with near record low interest rates and the highest housing affordability numbers on record. Why? The answer is associated with:

1) Consumer confidence,
2) a lack of well-paying jobs,
3) declining real median annual household incomes, and
4) strict home loan lending standards.

Once again, in spite of some recent upticks in certain housing data, the outlook on the U.S. housing market remains unchanged – there are too many negative macro factors at this point in time for a robust recovery. Thus, once more, "Muddling Along" appears to be the trajectory of the U.S. housing market.

Return TOC

Conclusions

The ECB announced on 6 September the "Outright Monetary Transactions" program to purchase bonds without limit in an attempt to control interest rates in the Euro region and assure the future of the Euro. Briefly, a country must apply for assistance and then adhere to a "conditionality." A necessary condition entails countries submitting to a financial plan and if the plans are not implemented, the countries would be subject to financial management from Frankfurt – the ECB headquarters, and possibly the IMF. We wonder how this will be perceived, in say, Rome or Madrid?

Other recent ECB commentary frequently mentions "currency exchange convertibility or risk." Why mention "risk"? For convertibility purposes, the Euro is assumed to be 100% convertible; if not faith would be lost in the Euro as a monetary exchange mechanism – and by extension, the European Union concept potentially could be questioned as well.

Addressing sovereign and banking debt woes by alleviating a "convertibility risk" would allow the ECB to assist the Club Med countries without directly violating the ECB charter. This would be achieved through the purchase of short-dated bonds (< or = three year maturities) rather than direct purchase of ailing country bonds.[30] The short-term result would assuage the crisis; however, as with all debt and debt monetization, liabilities have to paid back in some manner or form. It is the "form" that is potentially very problematic.

The U.S. and world economies, as we have previously written, are affected by what happens in Europe. Until a concrete plan is developed and implemented, it will continue to be a drag on the U.S. and world economies, and consequently the U.S. housing market.

Source: [30] www.bloomberg.com/news/2012-09-03/draghi-told-lawmakers-ecb-can-buy-three-year-bonds-mep-says-1-.html; September 3 2012

Return TOC

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Return TOC