

# August 2012 Housing Commentary



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# Executive Summary

Much of the current housing news is welcomed. The housing market is healing and has yet to fully recover. We need to keep this in perspective. In many categories, it is 50% or more below where housing would be in a moderate to robust economy. So, in our view it's not yet the time to twist the cork off a vintage champagne for a "recovery" celebration; rather, a tall, cool glass of apple cider seems more appropriate. On to the commentary.

August 2012s report covers housing data, demographics, and macro factors influencing the United States housing market. This report also includes data for new housing starts, new and existing sales, building permits, housing completions, and construction spending. Also, comments concerning delinquencies, foreclosures, shadow inventory, and underwater homes; housing prices; demographics and economics; future trends in housing; and a contrarian perspective of the current housing market are presented.

August's housing data indicated an increase in single-family starts and a decrease in multi-family starts. Building permits decreased and housing completions increased month-over-month. Private construction spending also indicated an increase month-over-month.

Lastly, existing house sales spiked sharply upward and new house sales declined. The number of available existing houses for sale increased, while new houses for sale were unchanged from July. Private investors remained key purchasers of existing, foreclosed, and bank-owned (REO) homes. Existing house sale prices in August increased and the Case-Shiller® indices reported house values increased for the third month in a row.

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# August 2012 Housing Commentary

## Opening Comments

A Robust Housing Recovery is directly linked to the United States and Global Economic Conditions

- Government debt: federal, state, and local → still problematic
- Personal debt → Americans continue to deleverage
- European sovereign debt and banking crisis still looms – watch for financial events involving Spain after Galicia's (Spanish autonomous region) October 21 election and Germany's parliament vote on Spanish aid in November
- The United States Federal Reserve Bank, The Peoples Bank of China, Bank of Japan, Bank of England, and the European Central Bank all are buying bonds/treasuries/debt and providing ample liquidity to their respective markets. Yet, these various forms of intervention may not be a panacea:

“Nobody really knows what will work to get the economy back on course. And nobody – in fact, no central bank anywhere on the planet – has the experience of successfully navigating a return home from the place in which we now find ourselves.”<sup>1</sup>

- - Richard Fisher, President, The Dallas Federal Reserve Bank

# August 2012 Housing Scorecard

	M/M	Y/Y
Housing Starts <sup>A</sup>	Δ2.3%	Δ29.1%
Housing Permits <sup>A</sup>	▽1.0%	Δ24.5%
Housing Completions <sup>A</sup>	Δ0.7%	Δ11.7%
New Single-Family House Sales <sup>A</sup>	▽0.3%	Δ11.7%
Existing House Sales <sup>B</sup>	Δ7.8%	Δ27.7%
Remodeling Permits <sup>C</sup>	Δ6.0%	Δ15.0%
Private Construction Spending <sup>A</sup>	Δ0.9%	Δ17.8%

M/M = month over month; Y/Y = year over year

# New Housing Starts

## Commentary on Starts

August 2012: Total starts → Muddling along

750,000 starts, a seasonally adjusted annual rate (SAAR): 2.3% greater than the revised July estimate of 733,000

From August 2011 to August 2012 – an increase of 29.1%

Total starts are still about 50% of the long-term average:  
1,502,723 units (SAAR since 1963)

“We’re at a bottom but I don’t think we’ll come roaring out of here. You’ve got problems in the economy, problems abroad, and got the demographics to worry about.”<sup>2</sup>

- - Karl Case, Case-Shiller Indices® and Professor Emeritus,  
Wellesley College

# New Housing Starts

## August 2012: Single-Family (SF) Starts

535,000 starts (SAAR): an increase of 5.5% from the downwardly revised July estimate of 507,000

From August 2011 to August 2012 –  
an increase of 26.8%

### SF Starts:

The increase is welcomed as wood products used in new SF starts are greater than any other category (excluding industrial products)



# New Housing Starts

## August 2012 Multi-Family (MF) Starts:

208,000 starts (SAAR): 5+ MF units: decreased 2.8%  
from a revised July estimate of 214,000

From August 2011 to August 2012 – an increase of 36.8%

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

## MF Starts:

Again, MF starts are volatile - - but still are an important indicator of the overall housing market's condition



# New Housing Permits

August Building Permits: Privately-Owned Housing:  
803,000 units (SAAR)

1.0% below the revised July rate of 811,000 (SAAR)

24.5% above the August 2011 estimate of 645,000 (SAAR)

## SF authorizations

512,000 (SAAR): 0.2% above the revised July figure of 511,000

## MF authorizations

5 units or more: 263,000 (SAAR) in August

2-4 units: 28,000 (SAAR) in August

# Housing Completions

August Completions – Privately-Owned Housing:  
689,000 units (SAAR)

0.7% above the revised July rate of 684,000 (SAAR)

11.7% above the August 2011 estimate of 617,000 (SAAR)

## SF completions

489,000: 5.4% above the July estimate of 464,000 (SAAR)

## MF completions

193,000: 8.5% below the July estimate of 211,000 (SAAR)

# New Single-Family House Sales

August 2012 – New SF House Sales:  
373,000 units (SAAR)

0.3% below the revised July rate of 374,000 (SAAR)  
27.7% above the August 2011 estimate of 292,000 (SAAR)

Median new house sale price in August: \$256,900

Average August house sale price: \$295,300

- Median sales price increased 11.2% month-over-month

New homes available for sale at August's end: 141,000 (SAAR)

This represents a supply of 4.5 months at the current sales rate

“... the impact of lower mortgage rates on housing is probably less powerful than normal...the difficulties of households with lower credit scores in obtaining mortgage credit warrants ongoing attention.”<sup>3</sup>

-- William Dudley, President, The Federal Reserve Bank of New York

# August Existing House Sales

National Association of Realtors (NAR)

August 2012 sales data:

4.82 million (SAAR): An increase of 7.8% from July's 4.47 million

9.3% above the August 2011 estimate of 4.41 million (SAAR)

Existing inventory increased 2.9% to 2.47 million homes →  
a 6.1-month supply at the current sales pace

Listed inventory is 18.2% below August 2011

\$187,400 median existing-house price:

an increase of 0.05% from July 2012

an increase of 9.5% from August 2011<sup>2</sup>



# August Existing House Sales

## August 2012 Existing Sales Data:

Distressed houses: 22% of sales - -

(12% foreclosures and 10% short-sales)

Distressed house sales: a decrease from 24% in July  
and 31% in August 2011

All-cash sales: remained at 27%

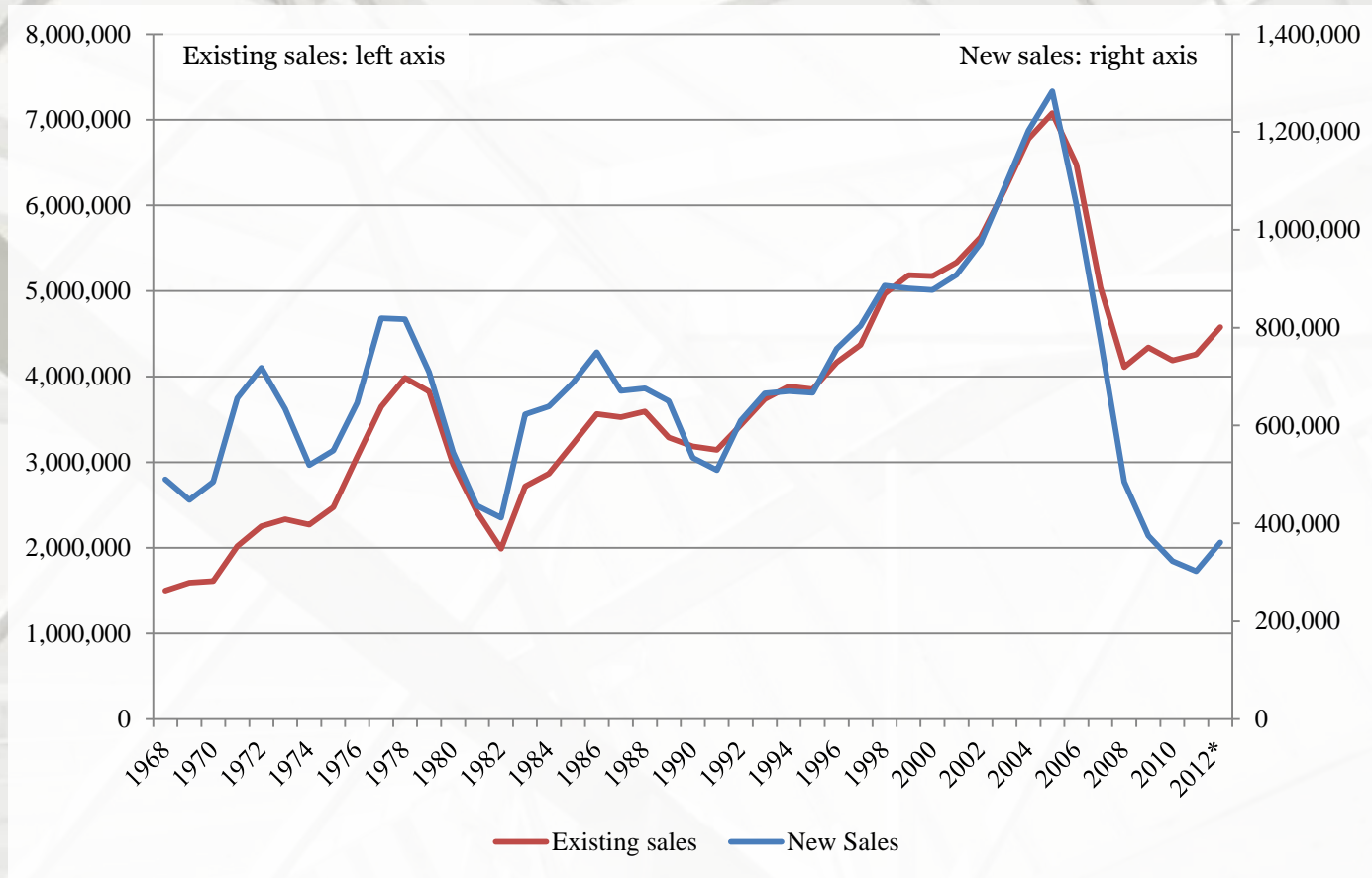
Investors are still purchasing a substantial portion of houses – 18%;  
16% in July 2012 and 22% in August 2011

First-time buyers: decreased to 31% from 34% in July 2012  
and decreased year-over-year by 1% from August 2011<sup>2</sup>

“There are obstacles in the way of home buying. The overcorrection in the mortgage market is a drag on the process. We’ve gone from one extreme to the other and it’s stalling the housing market and therefore the economy.”<sup>4</sup>

-- Kent Colton, President, The Colton Housing Group and Senior Fellow  
at Harvard’s Joint Center for Housing Studies

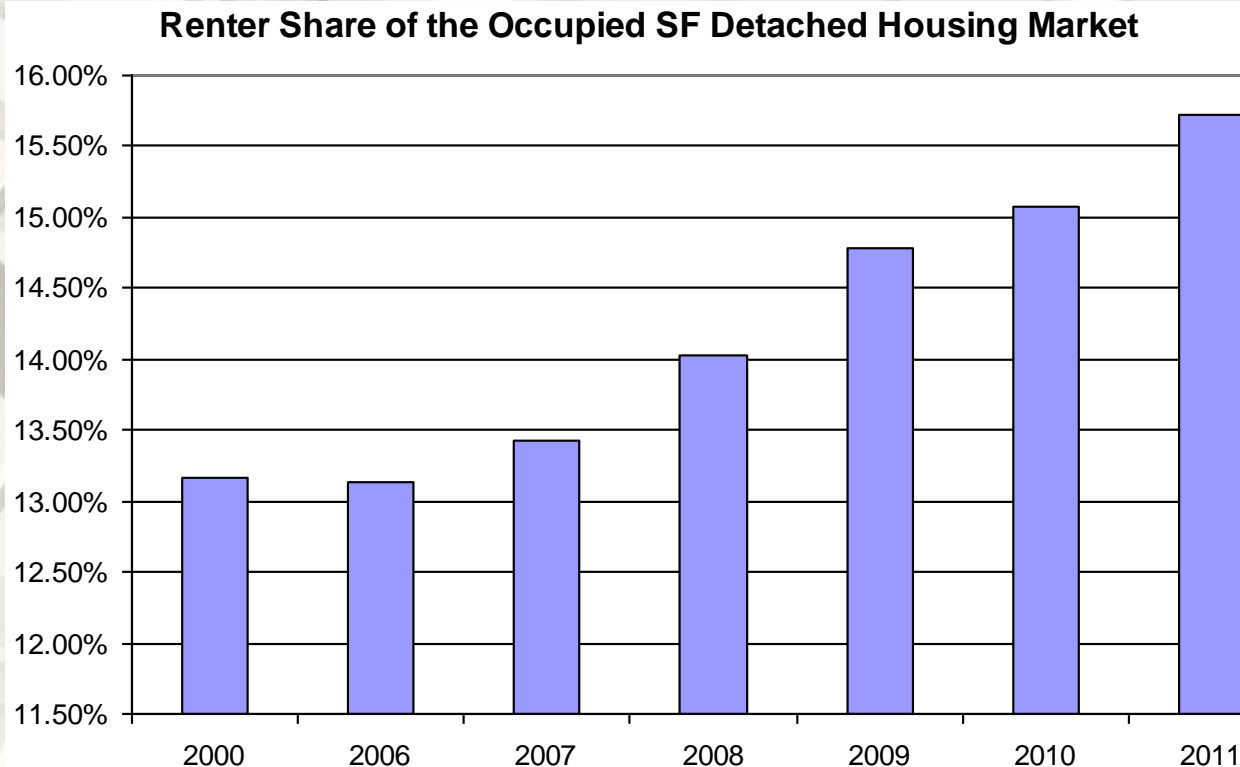
# New and Existing House Sales



## August 2012 New and Existing Sales

Historically, new and existing house sales tend to track each other. However, since the onset of the housing crash this correlation has not held. The most espoused reason is the problematic inventory (distressed sales<sup>5</sup>, etc.). However, the divergence presented above may not be so stark. The divergence also may be due to some builders or their clients building homes for personal use, rent, or sale. These latter types of houses are not included in US DOC housing sales data (only houses “built for sale” can have a sale date).

# Single-Family Housing Rentals



## American Community Survey 2011: Big Shift to Rental Market

“The US DOC-American Community Survey estimates that the percent of the occupied SF detached home market occupied by renters in 2011 was 15.7%, increasing from 15.1% in 2010, and 13.1% in 2006.”<sup>6</sup>

- - Tom Lawler, Lawler Housing and Economic Consulting

Using ‘09 data (82,742,000 detached SF units), this was about 13 million SF rental homes in 2011

# August 2012 Construction Spending

Private Construction: \$273.47 billion (SAAR)

0.9% above the revised August estimate of \$271.11 billion (SAAR)

17.8% above the August 2011 estimate of \$235.22 billion (SAAR)

August SF construction: \$131.2 billion (SAAR)

20.8% above August 2011: \$108.6 billion (SAAR)

August MF construction: \$23.1 billion (SAAR)

44.8% above August 2011: \$15.9 billion (SAAR)

August Improvement<sup>A</sup> construction: \$119.2 billion (SAAR)

10.7% above August 2011: \$107.7 billion (SAAR)

Private residential spending has increased 23% from 2010  
and is 60% less than early 2006's peak.

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



# August 2012 Construction Spending

## August Construction Advances 8 Percent

“At a seasonally adjusted annual rate of \$433.9 billion, new construction starts in August climbed 8% relative to July...After declines in the previous three months, the August pickup was the result of greater activity for each of construction's three main groups – nonresidential building, residential building, and non-building construction. During the first 8 months of 2012, total construction starts on an unadjusted basis came in at \$304.5 billion, up 3% from the same period a year ago.

The pattern of construction starts continues to exhibit an “up-and-down” pattern, with the end result being that overall construction activity has yet to show much in the way of sustained growth. Gains for some project types continue to be offset by declines for other project types. So far in 2012, housing has been one of the brighter areas for construction – multifamily housing is strengthening, and single family housing is finally registering steady growth, although in a very gradual manner. If overall construction activity is to establish a more solid upward trend, the degree of uncertainty surrounding the U.S. economy needs to recede, which may prove difficult to achieve in the near term given the impending 'fiscal cliff' at the end of 2012.”<sup>7</sup>

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

# August 2012 Construction Spending

**Residential building**, at \$168.9 billion (SAAR), climbed 9% in August. Multifamily housing bounced back 35% after pausing in July, matching its strong June pace...Single family housing in August grew 3%, and has shown small yet steady gains during the first eight months of 2012, such that the amount in August was 22% higher than at the end of last year.

The August gain for single family housing included increases for four major regions – the Midwest, up 5%; the West, up 4%; the South Central, up 2%; and the South Atlantic, up 1%; while the Northeast settled back 2%.<sup>7</sup>

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

## August 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

	<b>August 2012</b>	<b>July 2012</b>	<b>% Change</b>
<b>Nonresidential Building</b>	\$147,682	\$138,450	+7
<b>Residential Building</b>	168,885	155,128	+9
<b>Nonbuilding Construction</b>	117,329	108,692	+8
<b>TOTAL Construction</b>	\$433,896	\$402,270	+8

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


August 2012.....92

July 2012.....85

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

	<b>8 Mos. 2012</b>	<b>8 Mos. 2011</b>	<b>% Change</b>
<b>Nonresidential Building</b>	\$96,626	\$111,696	-13
<b>Residential Building</b>	104,529	83,367	+25
<b>Nonbuilding Construction</b>	103,367	100,010	+3
<b>TOTAL Construction</b>	\$304,522	\$295,073	+3

# Residential Fixed Investment & GDP

	Latest Quarter	Previous Quarter	Same Quarter Previous Year	% Change From Previous Quarter	% Change From Last Year
GDP	15,595.9	15,478.3	15,003.6	+ 1	+ 4
RFI	373.8	364.2	336.2	+ 3	+ 11
RFI/GDP (%)	2.4	2.4	2.2	—	+ 9

\*Billions of dollars.

Source: Bureau of Economic Analysis, Department of Commerce

Residential Fixed Investment (RFI) Q2 2012: \$373.8 billion (SAAR)

3% above the value of the Q1 of 2012

11% above the Q2 of 2011

As a percentage of the Gross Domestic Product:

RFI in Q2 2012 was 2.4% -- unchanged from Q1

0.2 percentage point above Q2 2011

Since 1963, RFI GDP has averaged 4.6%.<sup>8</sup>

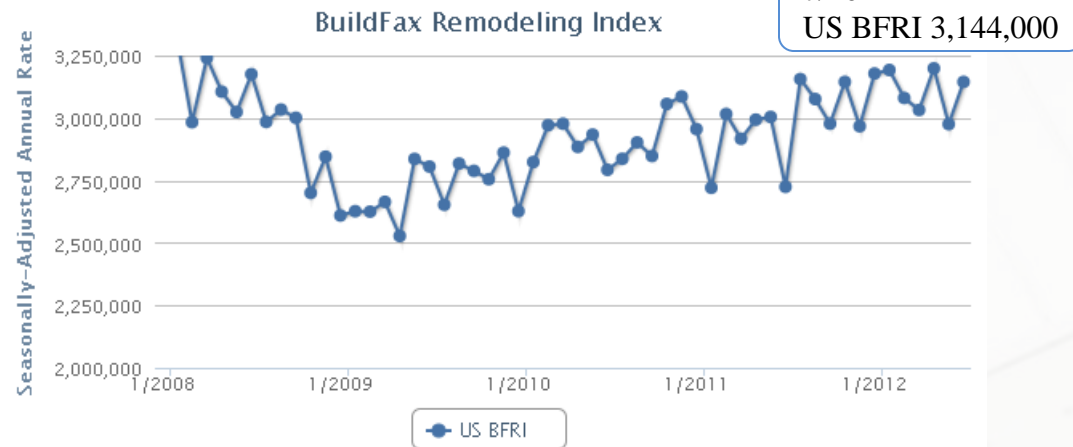


# Residential Remodeling June 2012

July's Residential Remodeling Permits: 3,144,000 (SAAR)

6% above the revised June estimate of 2,975,000 and  
15% above July 2011's 2,725,000 permits

**BuildFax Remodeling Index**



“Remodeling activity rebounded in July after a slower June, and residential remodeling activity in 2012 remains significantly above what we saw in 2011”<sup>9</sup>

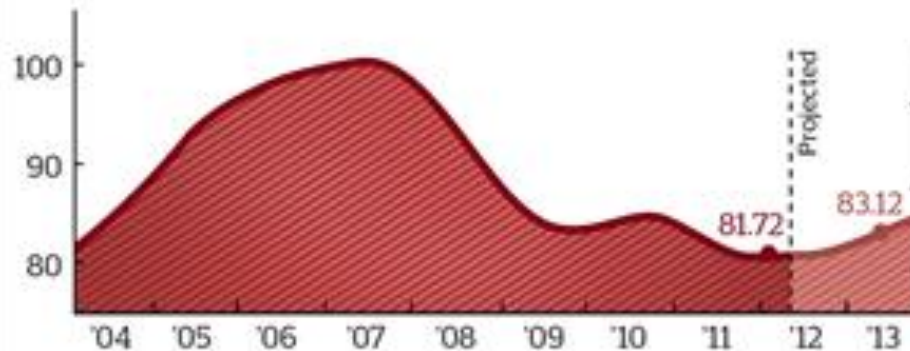
- - Joe Emison, VP-R&D, BuildFax



# Residential Remodeling 2013

## 2013 Surge in Remodeling?

**Residential Remodeling Index**



Source: Hanley Wood Market Intelligence

“The Leading Indicator of Remodeling Activity at the Joint Center for Housing Studies of Harvard University, predicts that by Q1 2013, U.S. remodeling activity will increase by 12.2% to \$128.9 billion, more than doubling the predicted Q4 2012 growth of 5.9% at \$120.7 billion.

The Residential Remodeling Index, by Hanley Wood, predicts the number of remodeling and replacement projects to reach 10.5 million in 2013, up from an estimated 10.1 million in 2012.

Improving housing conditions are clearly buoying consumers to feel confident about making improvements in their homes that they may have postponed for several years. Combine that with aging homes and aging boomers, and you get a recipe for strong growth in remodeling and replacement well into the future.”<sup>10</sup>

- - Mark Newman, Senior Editor, *Remodeling* and Jonathan Smoke, Executive Director of Research, Hanley Wood

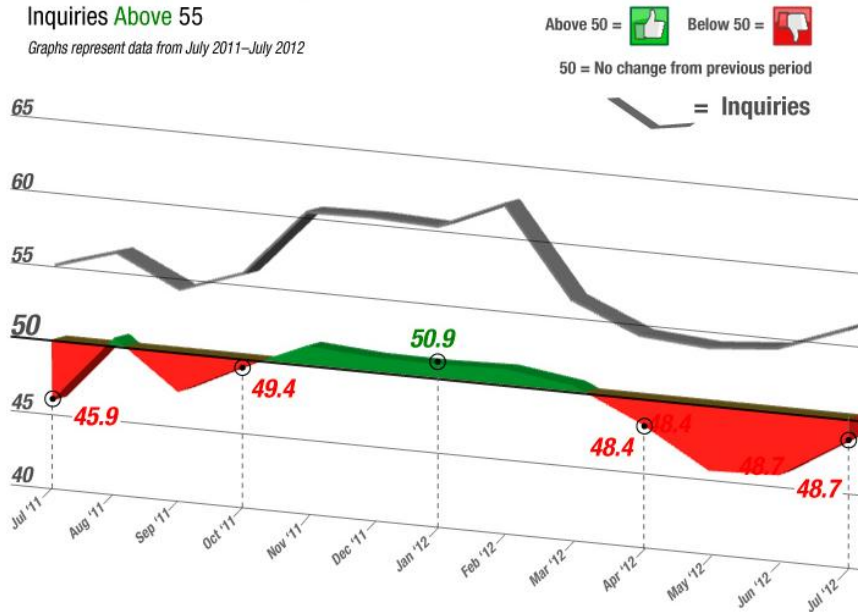
# Architectural Billing Indicators

## NATIONAL

Architecture Firm Billings **Decline** at More Moderate Rate in July

Inquiries **Above** 55

Graphs represent data from July 2011–July 2012



“Architecture firm billings declined for the 4<sup>th</sup> consecutive month in July, although the pace of decline slowed slightly from the drop seen in June. The AIA’s Architecture Billings Index score for the month rose to 48.7, indicating that fewer firms reported softening business conditions last month than during the previous month. Inquiries into new projects remained steady, although firms reported that the value of new design contracts continued to decline modestly.

Firms located in the South reported an uptick in their firm billings in July, although business conditions continued to soften in the other three regions of the country. ...Northeast region firms reported particularly weak business conditions.

Architecture firms with a residential specialization also reported a slight increase in billings in July after seeing declines for the three prior months. Throughout the economy’s nascent recovery, firms with a residential specialization have reported more months with billings growth than firms with other specializations, as residential projects continue to rebound from the downturn in many parts of the country. On the other hand, firms with a commercial/industrial new construction specialization reported their steepest monthly decline in more than two years.”<sup>11</sup>

- - Jennifer Riskus, Manager of Economic Research, The American Institute of Architects

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

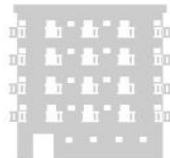
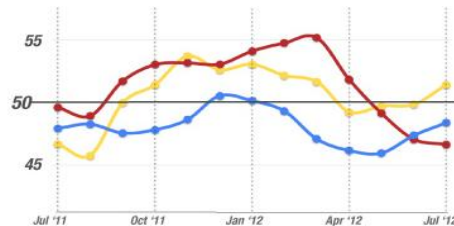
Source: <sup>11</sup><http://www.aia.org/practicing/AIAB095765>; September 24, 2012

## SECTOR

Residential Firms Sees Modest Improvement

**Improvement**

Graph represents data from July 2011–July 2012 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



**Commercial/Industrial: 46.6**

**Institutional: 48.4**

**Residential: 51.4**

# Housing Market 42% Back to “Normal”<sup>11</sup>

## Latest Trulia Housing Barometer Hits New High in August

“In August 2012, construction starts held their new high plateau, while home sales rose and the delinquency + foreclosure rate fell:

Construction starts held roughly steady. Starts in August were at a 750,000 annualized rate, up 2.3% month over month and up 29.1% year over year. Construction activity in August was at its second-highest level since October 2008. Nationally, construction starts are 27% of the way back to normal.

Existing home sales jumped to their highest level in more than two years. Home sales rose 7.8% month over month to 4.82 million in August – a 9.3% increase from one year ago.

Nationally, sales were at their highest level since May 2010, so home sales are now 61% back to normal to from their worst point during the bust. In the West region, however, sharp inventory declines prevented home sales from rising at all year over year.

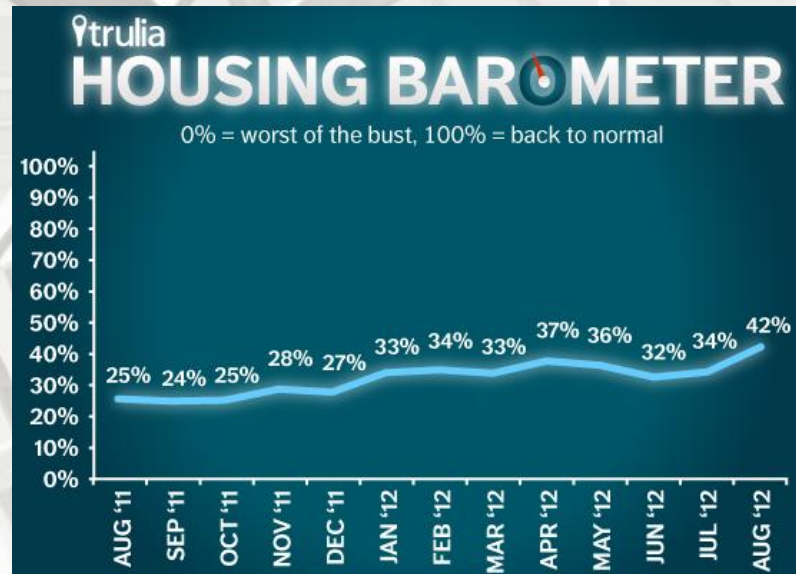
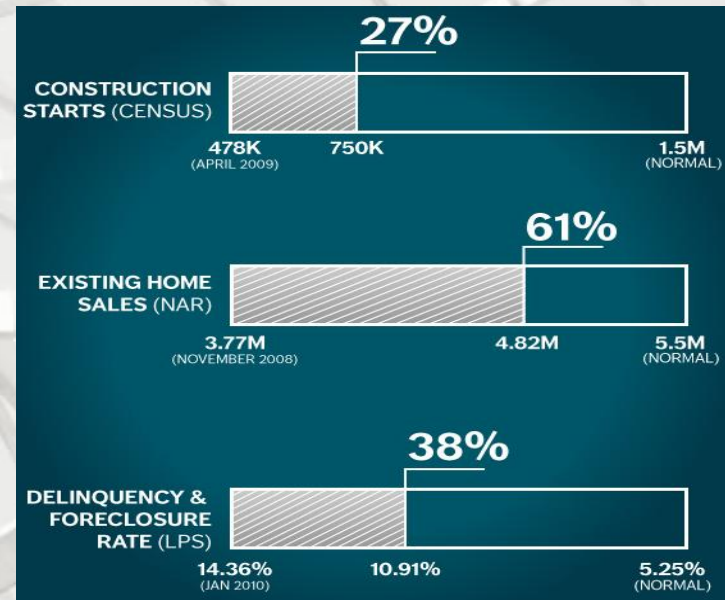
The delinquency + foreclosure rate hit a post-recession low. In August, 10.91% of mortgages were delinquent or in foreclosure, down from 11.11% in July. The combined delinquency + foreclosure rate is at its lowest level since March 2009 and is 38% back to normal.

Averaging these three back-to-normal percentages together, the market is now 42% of the way back to normal – up from 34% in July and 25% in August 2011. Remember, the past year has shown that most steps forward in the housing recovery are followed by some steps back, so the recovery from here on out won’t be fast or smooth. Still, the Housing Barometer is at its highest level since the recovery began.”<sup>12</sup>

- - Jeff Kolko, Chief Economist, Trulia



# Housing Market 42% Back to “Normal”<sup>12</sup>





# Shiller, Marchiol, Baker, and Lykken Speak on Housing

Robert Shiller

Case-Shiller Indices® and Professor of Economics, Yale University  
The Current State of the Housing Market



Tanya Marchiol

President, Team Investments  
Housing Markets Biggest Hurdles



Kermit Baker

Chief Economist, American Institute of Architects  
Architecture Industry Gaining Momentum



David Lykken

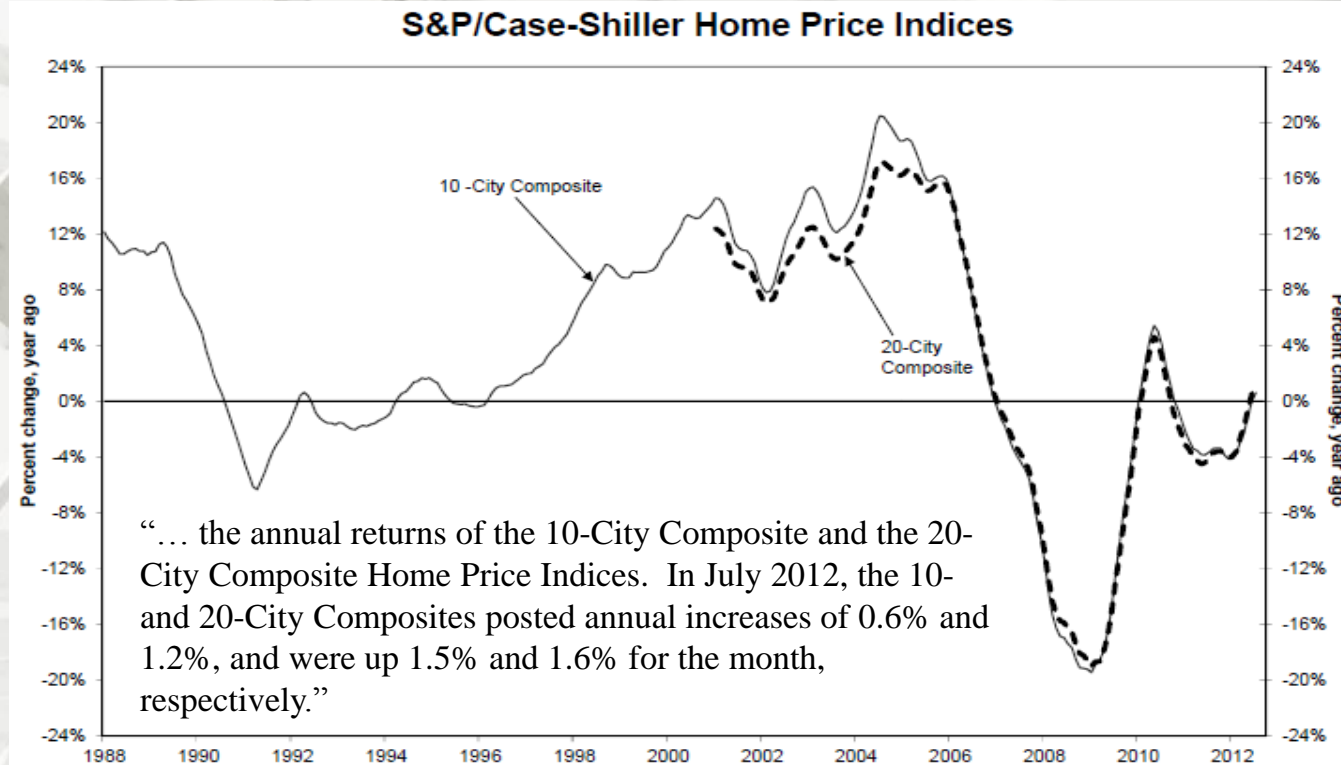
Managing Partner, Mortgage Banking Solutions  
Who's Buying Houses Now?



Double click on the photo for video/audio link

[Return TOC](#)

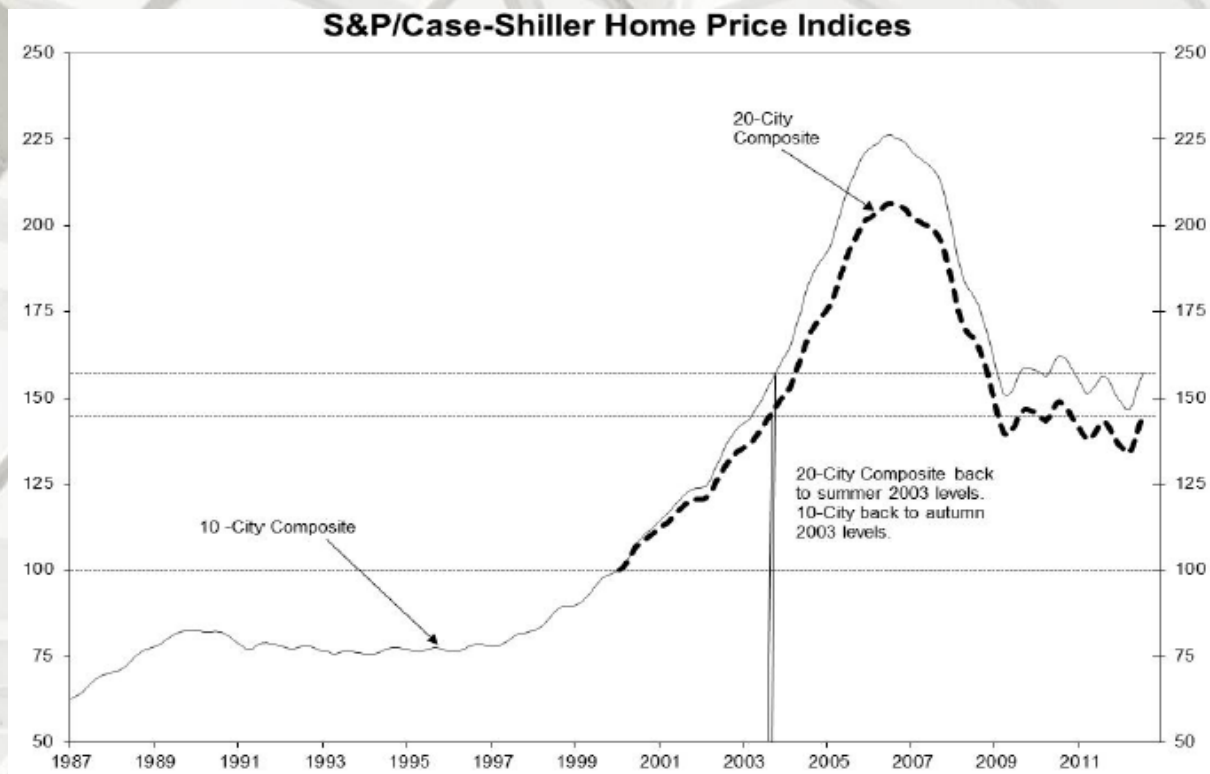
# Standard & Poor's/Case-Shiller July Home Price Indices



“Home prices increased again in July. All 20 cities and both Composites were up on the month for the third time in a row. Even better, 16 of the 20 cities and both Composites rose over the last year. ... The news on home prices in this report confirm recent good news about housing. Single family housing starts are well ahead of last year's pace, existing home sales are up, the inventory of homes for sale is down and foreclosure activity is slowing. All in all, we are more optimistic about housing. Upbeat trends continue. For the third time in a row, all 20 cities and both Composites had monthly gains. Stronger housing numbers are a positive factor for other measures including consumer confidence.”<sup>13</sup>

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

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



“As of July 2012, average home prices across the United States are back to their summer 2003 levels for the 20-City Composite and to autumn 2003 levels for the 10-City Composite. Measured from their June/July 2006 peaks, the decline for both Composites is about 30% through July 2012. For both Composites, their July 2012 levels are approximately 7.5-8.0% above their recent early 2012 lows.”<sup>13</sup>

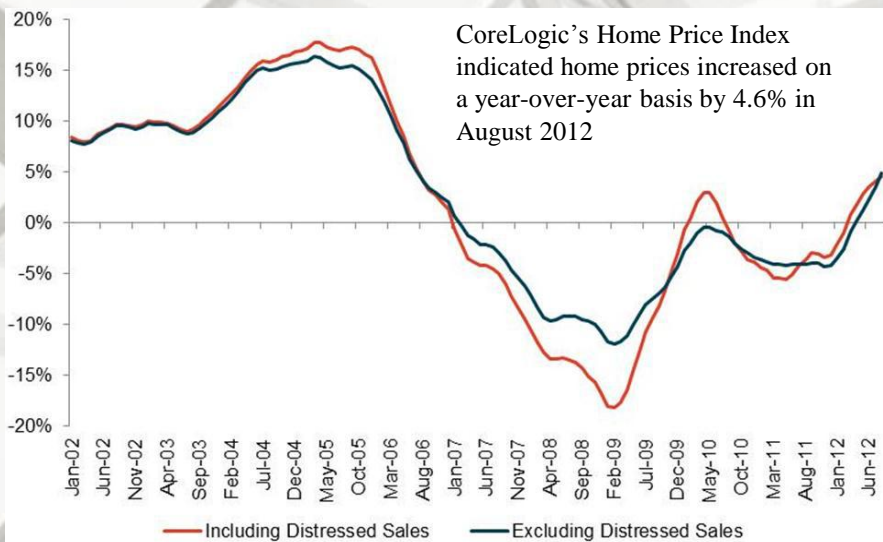
“The 10-City has increased 7.4% and the 20-City 7.8% since their recent lows. The positive news in both the monthly and annual rates of change in home prices over the past few months signals a possible recovery in the housing market.”<sup>12</sup>

“Overall, housing has come back” and Blitzer also voiced concern about current mortgage lending standards...before the housing crisis lenders would loan to just about anyone, “now it’s gone too far in the other direction.”<sup>13</sup>

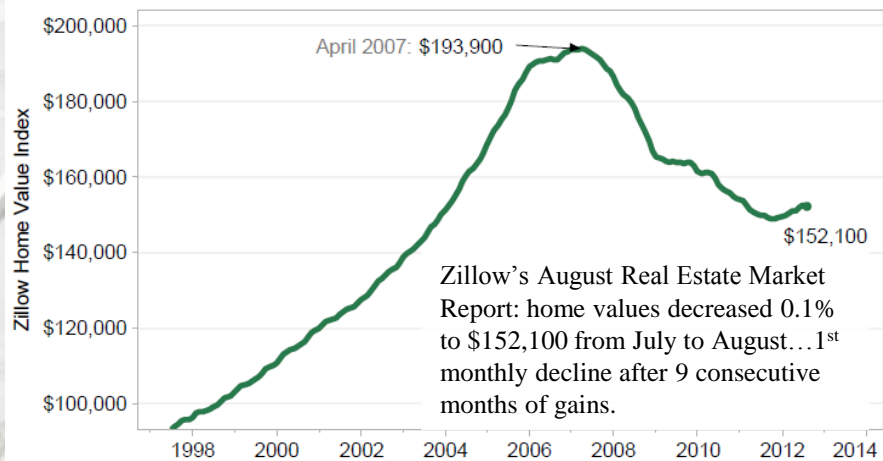
- - David Blitzer, Chairman of the Index Committee at S&P Dow Jones Indices



# August 2012 Home Prices



**Figure 1: U.S. Zillow Home Value Index**  
August 2012



Month-over-month basis (excluding distressed sales) home prices increased 1% in August 2012 compared to July 2012... the 6<sup>th</sup> consecutive month-over-month increase.

Again this month prices rose on a year-over-year basis and our expectation is for that to continue in September based on our pending HPI forecast. The housing markets gains are increasingly geographically diverse with only Alabama, Connecticut, Illinois, Kentucky, New Jersey and Rhode Island continuing to show declining prices.”<sup>14</sup> - - Mark Fleming, Chief Economist, CoreLogic

“Nationally, the slow housing recovery continues to unfold with our forecast calling for future appreciation, albeit at a slower than “normal” pace. We expect that most markets will have reached their bottom by the end of this year and will start to show home value appreciation.

While higher mortgage rates would not be particularly helpful to the nascent housing recovery, we believe there isn't much room for rates to go lower and, even if there were, we don't seem to be in a particularly rate-driven environment currently as home sales appear more sensitive at this point to employment trends and local supply constraints on for-sale inventory. This is itself often a function of negative equity which is preventing potential sellers from entering the market.”<sup>15</sup> - - Stan Humphries, Chief Economist and Svenja Gudell, Senior Economist, Zillow Real Estate Research

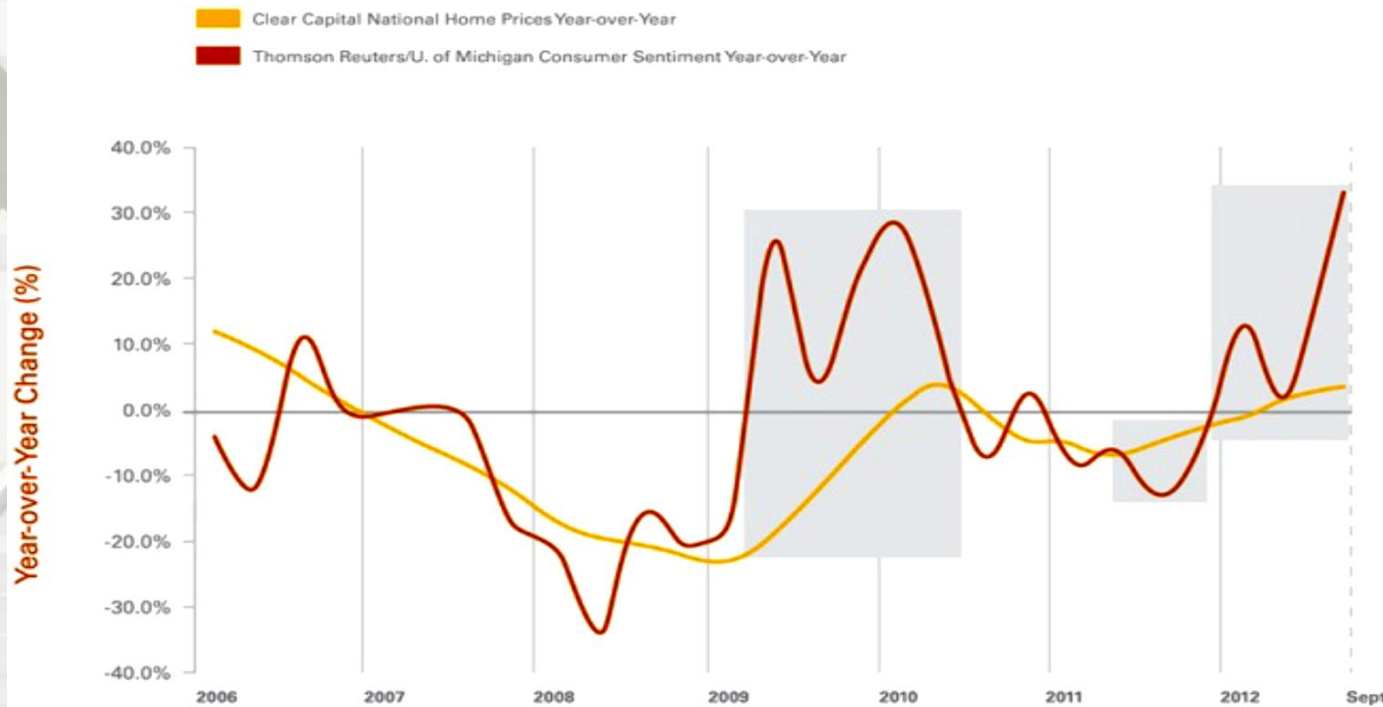
Source: <sup>14</sup>[www.corelogic.com/about-us/researchtrends/asset\\_upload\\_file817\\_16690.pdf](http://www.corelogic.com/about-us/researchtrends/asset_upload_file817_16690.pdf); October 2 2012;

<sup>15</sup>[http://filecache.drivetheweb.com/mr4enh\\_zillow/1483/download/Zillow+AUG+2012+Report\\_Final.pdf](http://filecache.drivetheweb.com/mr4enh_zillow/1483/download/Zillow+AUG+2012+Report_Final.pdf), September 18 2012



# August 2012 Home Prices

## National Home Prices and Consumer Sentiment Corresponding Improvements and Declines



“While housing continued to make progress in September, we've turned our focus to the impending fiscal cliff. With forecasted gains of 2.2% over the next 6 months, the threat of the fiscal cliff could throw a wrench into the recovery.

If the cliff is avoided, we still run the risk of damaging confidence with a resolution pushed against year-end deadlines. Confidence is key to turning the recovery's near term sprint into a marathon. The sooner businesses and consumers are reassured, the more likely they are to build, purchase, or loan on a house.”<sup>16</sup>

- - Alex Villacorta, Director of Research and Analytics, Clear Capital

# Delinquencies, Foreclosures, and Negative Equity

August 2012			
	Delinquencies	Foreclosures	Negative Equity
CoreLogic <sup>®D</sup>	1.3 million	58,000	10.8 million
LPS <sup>®E</sup>	3.5 million	93,000	
RealtyTrac <sup>®F</sup>		193,508	

Each firm has different estimating methods – thus the discrepancy in the data.

# Delinquencies, Foreclosures, Negative Equity, and Shadow Inventory

## August Commentary

“Bucking the national trend, deferred foreclosure activity boiled over in several states in August”<sup>17</sup>

-- Daren Blomquist, VP-RealtyTrac

"The level of negative equity continues to improve with more than 1.3 million households regaining a positive equity position since the beginning of the year“<sup>18</sup>

-- Mark Fleming, Chief Economist, CoreLogic

“...the share of foreclosures occurring among the middle and top tiers has increased – the increase in share has stabilized once again... . Currently the bottom tier accounts for 47.6% of foreclosures, the middle tier accounts for 30.5% and the top tier accounts for 21.9%. This compares to the bottom tier accounting for 59.1 % of foreclosures, while the middle and top tier accounted for 26.5% and 14.4 %, respectively, in November 2005, which is the peak in the bottom tier share of foreclosures.”<sup>19</sup>

- - Svenja Maarit Gudell, Senior Economist, Zillow Real Estate Research

Source: <sup>17</sup>[www.zillow.com/blog/research/2012/09/21/update-on-foreclosures-moving-up-market](http://www.zillow.com/blog/research/2012/09/21/update-on-foreclosures-moving-up-market); September 21, 2012;

<sup>18</sup>[www2.marketwire.com/mw/frame\\_multimedia?prid=641471&attachid=1307869](http://www2.marketwire.com/mw/frame_multimedia?prid=641471&attachid=1307869); September 13, 2012;

<sup>19</sup>[www.corelogic.com/about-us/researchtrends/the-marketpulse.aspx#](http://www.corelogic.com/about-us/researchtrends/the-marketpulse.aspx#); September 13, 2012

# Demographics and Remodeling

Population	Numbers in thousands								
	2010	2015	2020	2025	2030	2035	2040	2045	2050
<b>Both Sexes <sup>a</sup></b>	310,233	325,540	341,387	357,452	373,504	389,531	405,655	422,059	439,010
<b>65 years and over</b>	40,229	46,837	54,804	63,907	72,092	77,543	81,238	84,456	88,547
<b>85 years and over</b>	5,751	6,292	6,597	7,239	8,745	11,450	14,198	16,985	19,041
<b>100 years and over</b>	79	105	135	175	208	239	298	409	601

## Aging-in-Place Remodeling – A New Market Opportunity?

### Aging Changes

Reduced vision  
 Decreased muscle strength or endurance  
 Reduced mental processing capabilities  
 Increased risk of falls due to balance  
 Increased risk of illness  
 Reduced hearing  
 Decreased mobility

### Age-Based Home Remodeling

Ability to get in and out of your home  
 Safety  
 Ability to move around your home  
 Easy access to things you use in your daily life

“Home remodeling is often times the first exposure people have to the concept of aging in place. The challenge this number of older Americans will bring to the country is unprecedented. Given the facts surrounding the current economic problems, a failing health care system and the lack of local support systems needed to support older people, this is a serious predicament for our country. But, more importantly, it is a very big problem for millions of Americans who are aging in place (or wish to).”<sup>20</sup>



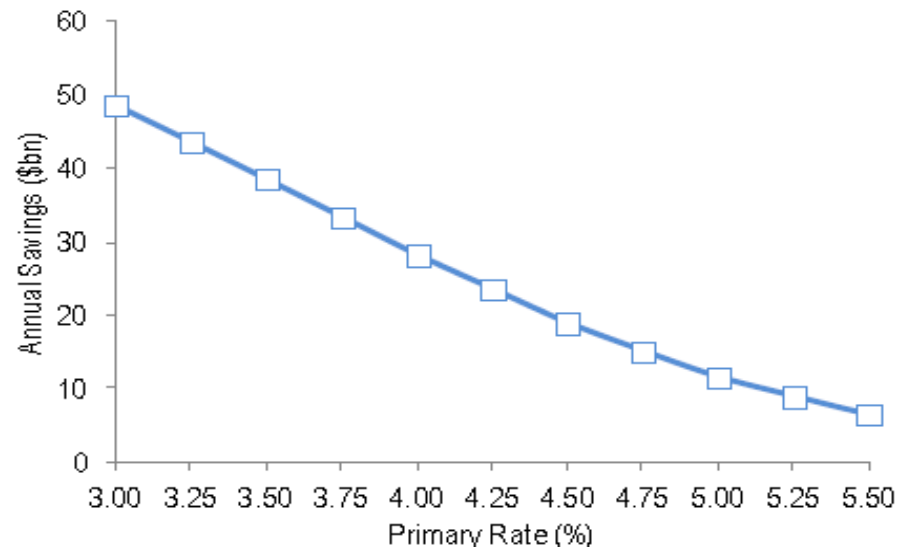
# Demographics and Economics

## The Impact on Consumer Spending Due to Lower Mortgage Rates

“Every 25 basis point (bp) improvement in primary mortgage rate is worth only about \$5 billion in the US consumers' pockets. That's in part due to limitations of borrowers' ability to refinance because of insufficient equity in their homes or poor credit history. Let's say we improve mortgage rates by 50bp (to 3%), translating into \$10 billion in savings per year. Consumers in the US spend about \$11 trillion annually. The savings from the reduced mortgage rates therefore constitute 0.09% in incremental consumer spending (assuming consumers spend it all). Sadly increased gasoline and food prices will more than offset this improvement.

It is quite clear that even though lower mortgage rates are helpful to economic growth, another 50bp (or even larger) reduction in rates will have only a marginal impact on hiring and growth.”<sup>21</sup> - - SoberLook

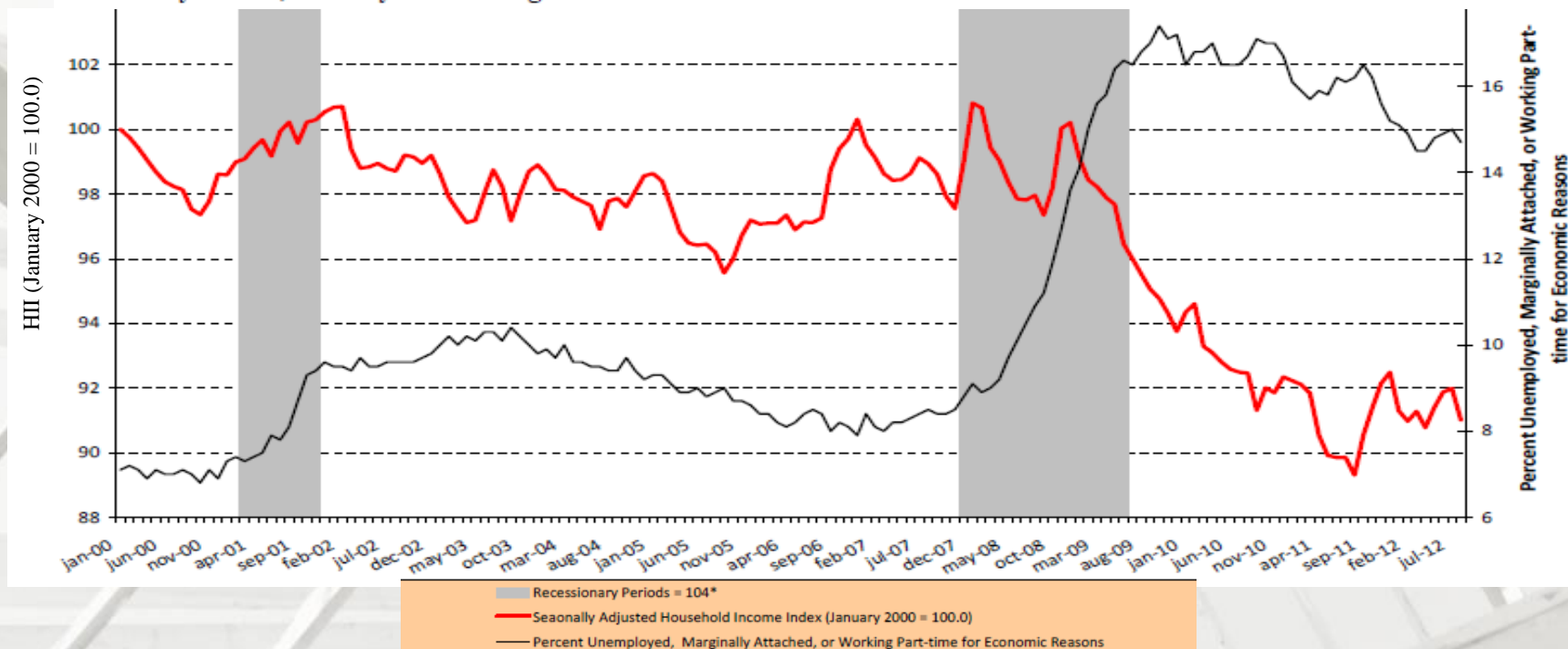
Fannie and Gold 30yr potential savings from mass refinancing at various primary 30yr rates



Source: J.P. Morgan

# Demographics and Economics

Median Household Income Index (HII) and Percent Unemployed, Marginally Attached, or Working Part-time for Economic Reasons by Month, January 2000 to August 2012



“The August decline in real median annual household income declined 1.1% between July and August 2012, from \$51,221 to \$50,678, and is indicative of a struggling economy. The August 2012 median annual household income of \$50,678 was 5.7% lower than the median of \$53,718 in June 2009, the end of the recent recession and beginning of the “economic recovery.” The August 2012 median was 8.1% lower than the median of \$55,131 in recession that occurred more than four years ago. And the August 2012 median was 9.0% lower than the median of \$55,688 in January 2000, the beginning of this statistical series. Even though we are technically in an economic recovery, real median annual household income is having a difficult time maintaining its present level, much less “recovering.”

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, declined slightly from 15.0% in July 2012 to 14.7% in August 2012.”<sup>22</sup> - - Sentier Research

Source: <sup>22</sup> www.sentierresearch.com; September 25 2012

# Future Housing Trends

## Housing's Next Growth Will Feature Different Drivers

“...it will still be several years before the market returns to normal...normal is when housing starts grow at about the same pace as the rate at which households are created\*.

...the number of SF and MF starts: 608,800 (2011); 745,000 (2012); 900,000 (2013), 1.01 million (2014), and 1.26 million in 2015. I think it'll be 2015 and beyond where you'll see household production back to [what] demographics [would suggest].”<sup>23</sup> - - Tom Lawler, Lawler Housing and Economic Consulting

“...in 2000 there were roughly twice as many Americans in the biggest age group for trade-up housing (people aged 40 to 44) than there were people in the biggest age group (60 to 64 years old) for leaving trade-up homes. The 2:1 ratio helped encourage sales and construction of move-up rather than starter or custom homes. But by 2010, that ratio of trade-ups to trade-outs shrank to about 5:4, and in 2020 it will be at parity.

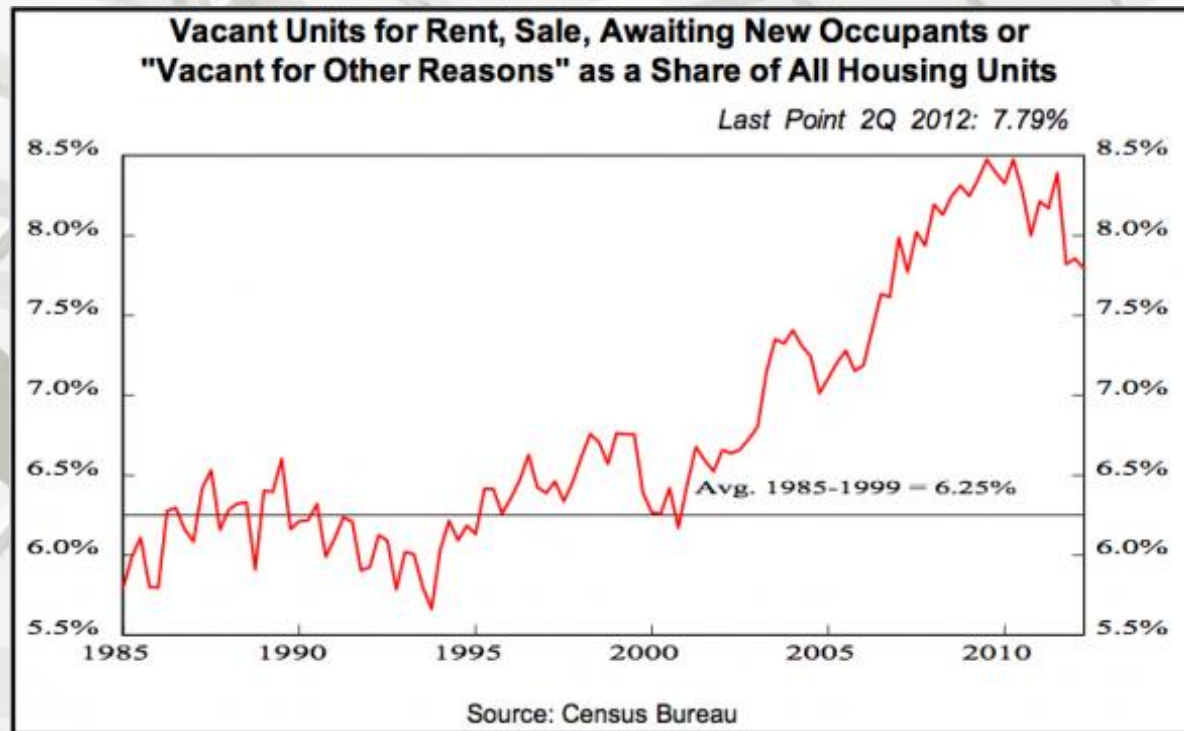
There's a big change in the works here that will affect what the demand is for and what gets built. ... there will be changes in the people who are entering their peak earning years (ages 25 to 54). Between 2010 and 2020, the number of non-Hispanic whites in this group will shrink by 7% while the Hispanic cohort will rise 26%, the number of Asians will rise 24%, and the black population will grow by 10%. That converts to a decline of \$257.5 billion in whites' aggregate earning power, an amount more than offset by the roughly \$345 billion increase in other groups' earnings.

That's why we say it's going to be lumpy. Growth is going to look different than it did before. Multifamily is a fantastic place to be, in some circumstances. I'm also worried that the next bubble is in multifamily.”<sup>23</sup> - - James Chung, President, Reach Advisors

\* Depending on the data and method, “normal” may range from 1.4 to 1.6 million starts.



# A Contrarian View of the Housing Market “Recovery”



## A. Gary Shilling: Here's Why There's No Housing Recovery and Prices Will Collapse Another 20%

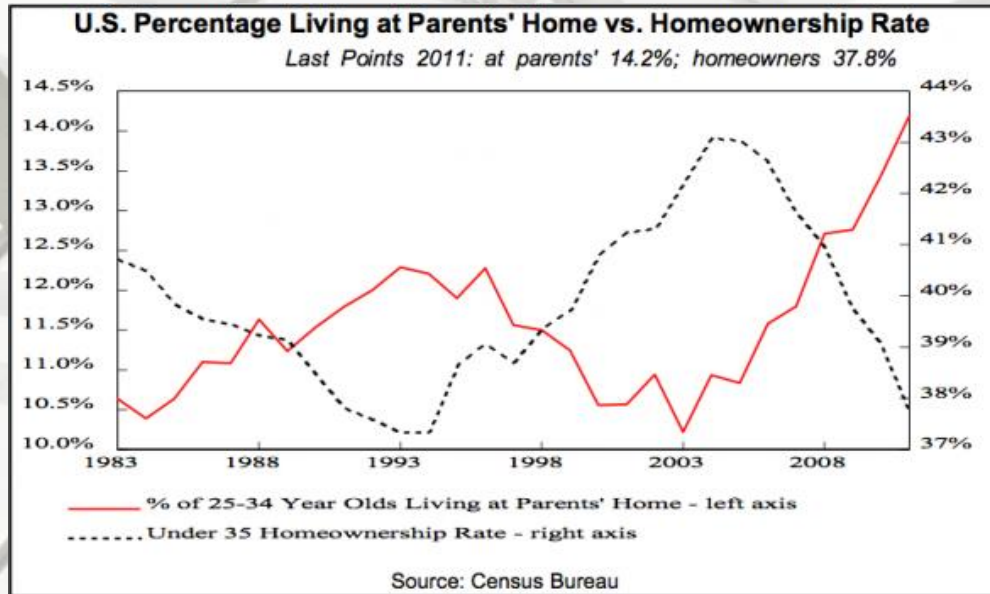
“There is a huge supply of excess inventory not being accounted for, and prices still have not fallen to anywhere near long-term historical averages.

Based on historical trends, there are still about 2 million excess housing inventory units. That's such a huge number because the number of new housing starts and completions before the collapse was only about 1.5 million per year.”<sup>24</sup>

- - Matthew Boesler, Reporter, *Business Insider*



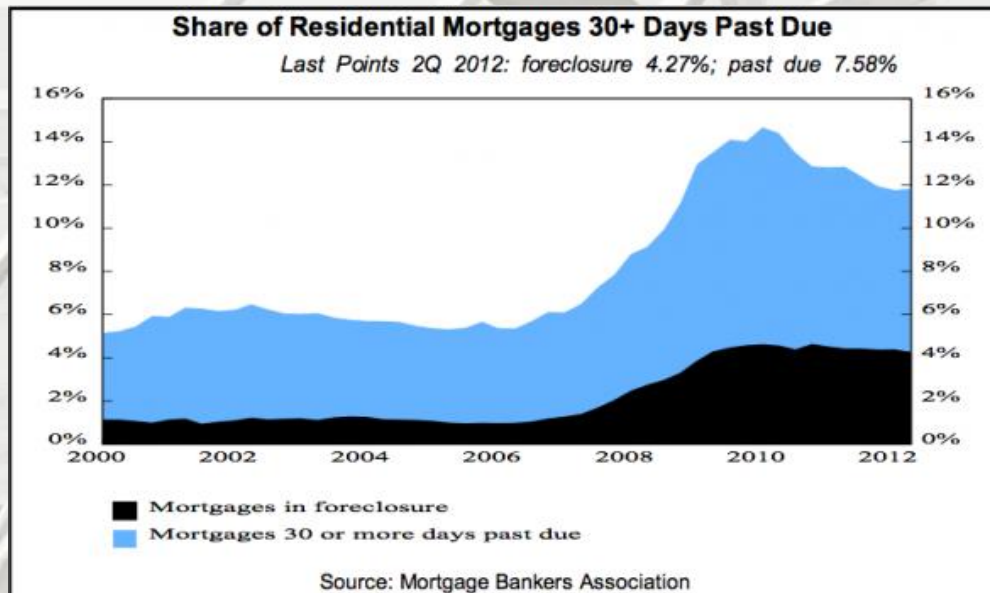
# A Contrarian View of the Housing Market “Recovery”



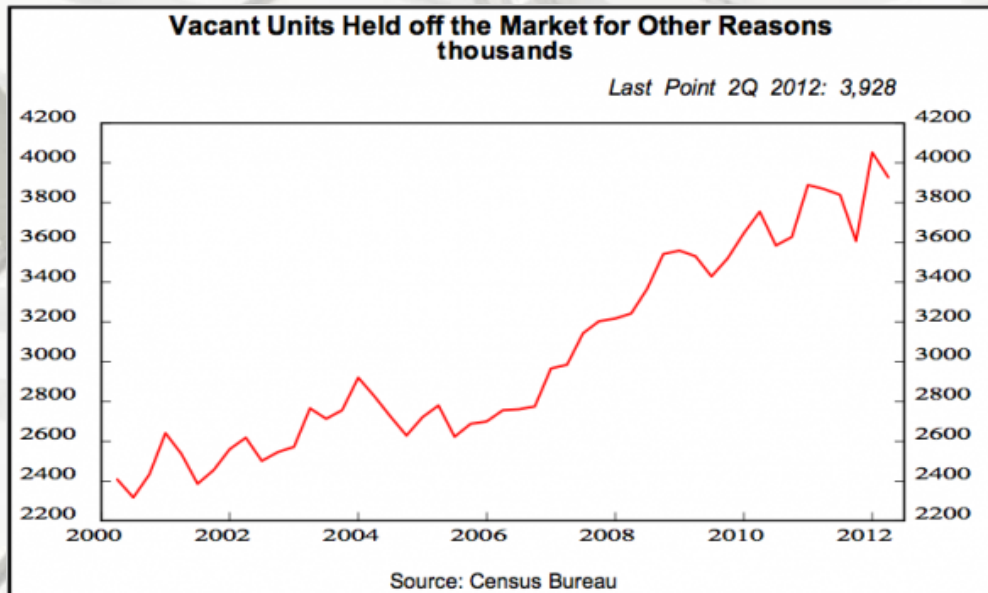
“There is a clear inverse correlation between the rate of home-ownership and the percentage of 25-34 year olds living in their parents' homes (which is still skyrocketing).

Many point to measures of decreasing supply as bullish for housing...but those numbers don't take into account around 5 million delinquent mortgages and foreclosures that add to supply... ”<sup>24</sup>

- - Matthew Boesler,  
Reporter, *Business Insider*



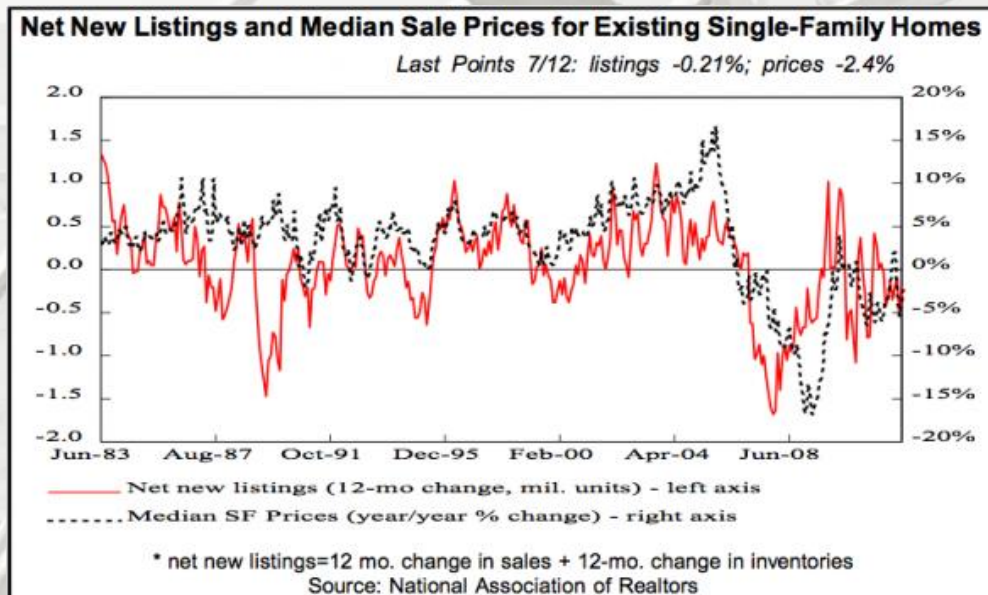
# A Contrarian View of the Housing Market “Recovery”



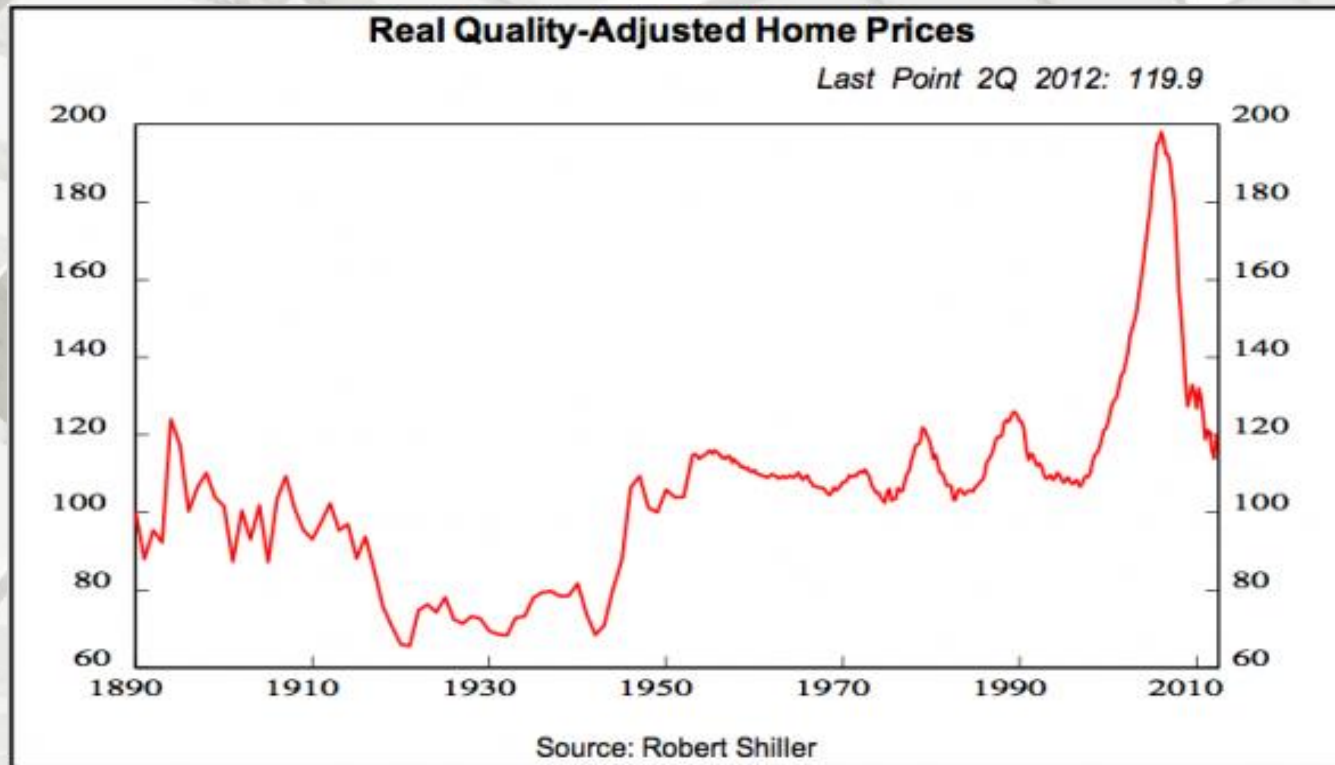
“...and they also don't include all of the vacant units that aren't currently listed for sale.

The correlation between new listings and sales price reinforces the idea that falling prices keeps sellers away from the market”<sup>24</sup>

- - Matthew Boesler,  
Reporter, *Business Insider*



# A Contrarian View of the Housing Market “Recovery”



“Mortgage modifications will only work if they include federal mortgages – the bulk of them – which the government has been reluctant to do.

The proportion of mortgages originated between 2008 and 2011 that are seriously delinquent (90+ days) is rising. Home prices need to drop another 22% to reach their 1890-2000 long-term average.”<sup>24</sup>

- - Matthew Boesler, Reporter, *Business Insider*



# Conclusions

New and existing house sales, housing starts, and permits are at somewhat higher levels. The number of available new and existing homes for sale currently are not demonstrating much change.

The number of detached single-family homes that are rented is particularly telling for the industry. It gives insight into the current U.S. economy and were a future target market may exist for home builders.

An area of promise is “aging-in-place” remodeling. As presented in Slide 32, the U.S. population is getting older and remodeling one’s home may be more economically feasible as opposed to living at some type of senior care facility.

The drivers for future growth also provided new insights. Will there be a new normal in housing starts? And how will the changing demographics affect the housing market? Obviously, these are important factors to consider.

New housing starts and sales, existing and new house sales, remain at mediocre levels contrasted to their respective historic levels. We are not forecasters but it appears this will remain the norm for several more years even with record low interest rates and housing affordability near all time highs. Why?

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



# Conclusions

Even with recent encouraging housing data, the near-term outlook on the U.S. housing market remains unchanged – there remain too many negative macro-factors at this point in time for a robust housing recovery.

This was echoed recently by Bill Emmons, Assistant Vice-President and Economist at The Federal Reserve Bank of St. Louis, who stated, “... the economy as a whole is not too broken to be fixed but the recovery is just going to look a lot different than we're used to. We're at a slower growth rate, so we're pretty much always on the verge of a slowdown or a recession. Something coming from Europe or domestic origins can knock us down. The Eurozone crisis is a “real and present danger” and could send “shock waves” through the global economy. The Fed is worried about Europe.”<sup>25</sup>

Source: <sup>25</sup> [www.inman.com/news/2012/08/2/uncertainty-temper-economic-growth](http://www.inman.com/news/2012/08/2/uncertainty-temper-economic-growth); September 8 2012

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