September 2012 Housing Commentary

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Return TOC

Executive Summary

September was an interesting month, with most housing related data increasing - - indicating a healing housing market. Yet, concerns about the sustainability of this "healing" remain due to several macro factors that could derail housing's recuperation process.

September 2012's 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, the report contains comments concerning delinquencies, foreclosures, shadow inventory, and underwater homes; housing prices; demographics and economics.

September's housing data indicated an increase in total starts, single-family starts and multi-family starts. Total building permits increased and housing completions increased month-over-month. Private construction spending also increased month-over-month.

Existing house sales and prices declined; new house sales increased but prices declined. The number of available existing and new houses for sale decreased. Private investors remained key purchasers of existing, foreclosed, and bank-owned (REO) homes. The Case-Shiller® indices, and other indices, reported house values increased as well.

Lastly, several financial and banking regulations are to be implemented in the near future. Many suspect that these regulations could possibly have a negative influence on the housing market.

Return TOC

Table of Contents

September 2012 Housing Commentary

Opening Comments

United States and European economic conditions are unchanged

- Personal debt → Americans are starting to "leverage" up again:

  Revolving debt up 5.9% and non-revolving debt up 9.0% in August (both at a seasonally adjusted annual rate).[1]

- Government debt: Federal, state, and local → still problematic

- Europe → All is quiet on the news front for now; however, Greece and Spain still are in dire straits. Obviously, what happens to these countries will impact world finances.

"It's [housing] starting to recover, but we're a long way away from true recovery. This housing market's been very, very bad and it's going to take some time to recover. The way we look at it is there's going to be a period of a workout, a fine period of one to two years and then you're going to get a more robust recovery. We've had head fakes on the housing market coming back, so you always worry that this is a little bit of a head fake."[2]

- - Frank Blake, Chief Executive Officer, Home Depot

Source: [1]www.federalreserve.gov/releases/g19/Current; 10/5/12; [2]http://finance.yahoo.com/news/u-long-way-true-housing-214421323.html; 10/11/12

Return TOC

September 2012 Housing Scorecard

	M/M	Y/Y
Housing Starts[A]	∆15.0%	∆34.8%
Housing Permits[A]	∆11.6%	∆45.1%
Housing Completions[A]	∆0.4%	∆13.8%
New Single-Family House Sales[A]	∆5.7%	∆27.1%
Existing House Sales[B]	∇1.7%	∆11.0%
Remodeling Permits[C]	∆3.0%	∆5.0%
Private Construction Spending[A]	∆1.3%	∆20.9%

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

Source: [A]U.S. Department of Commerce-Construction ; [B] National Association of Realtors®; [C] BuildFax

Return TOC

New Housing Starts

	Total Starts*	Single-Family Starts	Multi-Family 2-4 unit Starts	Multi-Family 5 or more unit Starts
September	872,000	603,000	9,000	260,000
August	758,000	543,000	7,000	208,000
2011	647,000	422,000	6,000	219,000
M/M change	+15.0%	+11.0%	+28.6%	+25.0%
Y/Y change	+34.8%	+42.9%	+50.0%	+18.7%

* All start data are presented at a seasonally adjusted annual rate (SAAR)

September 2012: Total starts → Spiked upward

Sustainability is a frequently used term in several spheres today; our question and concern - - is September's spike sustainable? We would like to believe that it will be; but, and it is a BIG but, we are apprehensive because of the wall of potential macro factors that can halt or delay the healing process underway in housing.

"While we have seen many dramatic headlines touting the housing recovery over the past 3.5 years, these headlines and the analysts who author them have been over predicting changes in the housing market"[3]

- - Laurie Goodman, Analyst, Amherst Securities

Source: U.S. Department of Commerce-Construction, [3]http://finance.yahoo.com/news/u-long-way-true-housing-214421323.html; 10/11/2012

Return TOC

New Housing Starts

September 2012's starts → Muddling along at a higher level

Average total non-farm housing starts from 1946: 1,493,945 units

September's starts: **58%** of the long-term average

Average total non-farm single-family starts from 1946: 1,116,006 units

September's starts: **54%** of the long-term average

Average total multi-family starts from 1946: 377,971 units

September's starts: **71%** of the long-term average

"… though it's improving, the housing market is far from healthy. This recovery doesn't look like 2006, because 2006 was a bubble. Recovery looks like 2002 or 2003. People think recovery is when we get back to our high water mark, but that will be another decade."[3]

- - Ron Florance, Managing Director of Investment Strategy, Wells Fargo Private Bank

Source: U.S. Department of Commerce-Construction, [3] www.usnews.com/news/blogs/home-front/2012/10/10/is-the-housing-recovery-for-real;%20October%2010; 10/20/2012

Return TOC

New Housing Permits

	Total Permits*	Single-Family Permits	Multi-Family 2-4 unit Permits	Multi-Family 5 or more unit Permits
September	894,000	545,000	26,000	323,000
August	801,000	511,000	27,000	263,000
2011	616,000	422,000	21,000	167,000
M/M change	+11.6%	+6.7%	-3.7%	+22.8%
Y/Y change	+45.1%	+27.3%	+23.8%	+93.4%

* All permit data are SAAR

Commentary on Permits

On a Y/Y basis, in all permit categories, permit activity is rebounding.

The biggest gainer and the principal driver for the healing housing market, is multi-family housing. Here, permits have increased more than 93% since September of 2011.

Single-family permits are improving too, and for the wood products industry this is crucial.

"Single-family permit growth has generally been highest in metros that have experienced the strongest job growth… ."[4]

- - Adam Artunian, Senior Research Analyst, John Burns Real Estate Consulting, LLC

Source: U.S. Department of Commerce-Construction; [4]www.realestateconsulting.com; 11/18/2012

Return TOC

New Housing Completions

	Total Completions*	Single-Family Completions	Multi-Family 2-4 unit Completions	Multi-Family 5 or more unit Completions
September	872,000	603,000	9,000	260,000
August	758,000	543,000	7,000	208,000
2011	647,000	422,000	6,000	219,000
M/M change	+15.0%	+11.0%	+28.6%	+25.0%
Y/Y change	+18.2%	+42.9%	+50.0%	+18.7%

* All completion data are SAAR

Commentary on Completions

Completions, similar to permits and starts, have registered clear improvement on a Y/Y basis. Single-family and 2-4 unit multi-family completions are the drivers in the completion category.

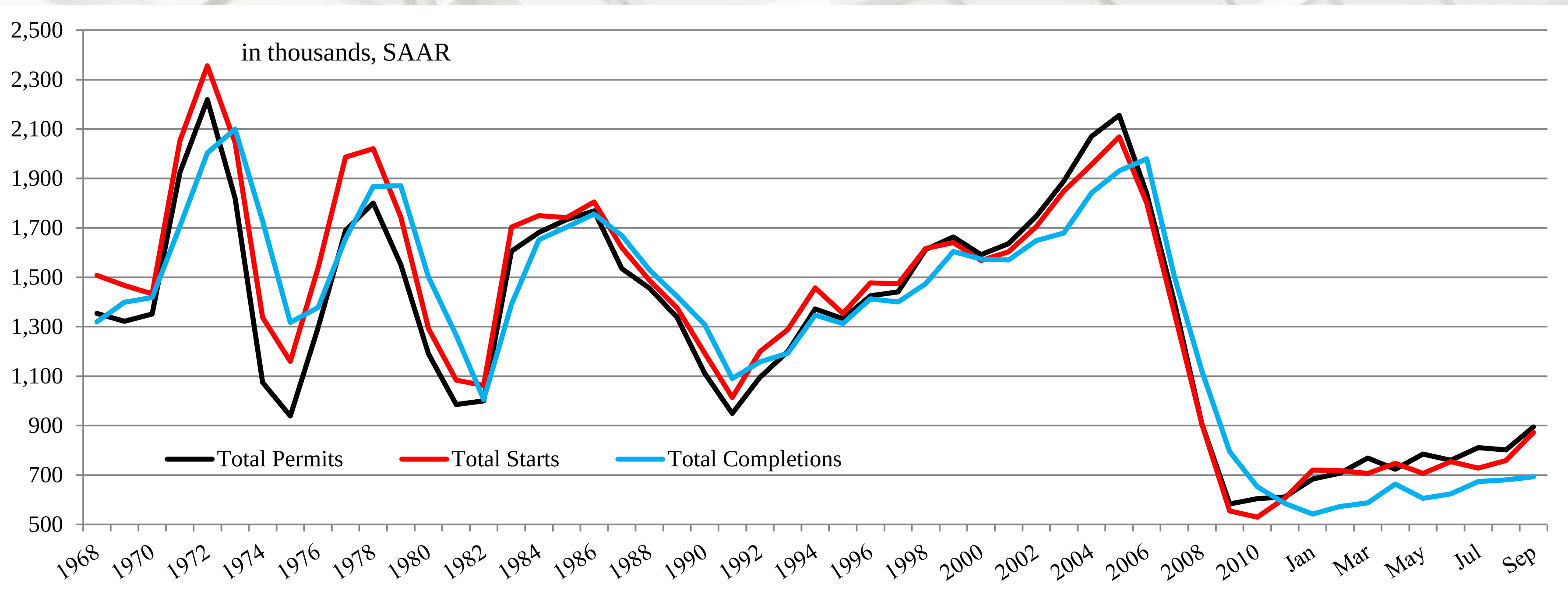
"Going back to the third quarter of 2011, the multi-family residential sector has been the best performing segment of the construction field. With high foreclosure levels in recent years, more stringent mortgage approvals and fewer people in the market to buy homes there has been a surge in demand for rental housing. The upturn in residential activity will hopefully spur more nonresidential construction."[5]

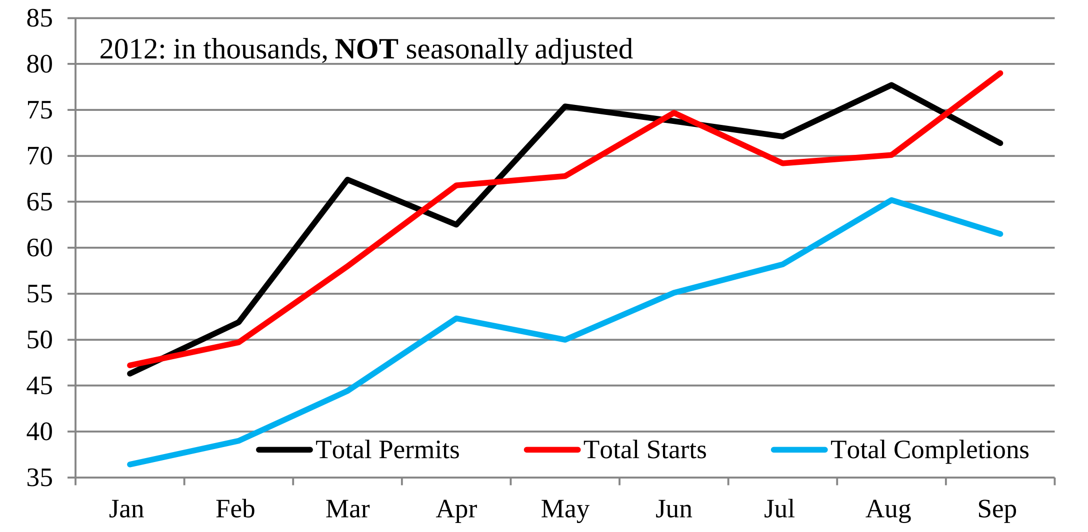
- - Kermit Baker, Director of the Remodeling Futures Program, Joint Center for Housing Studies at Harvard University

Source: U.S. Department of Commerce-Construction; [5] www.jchs.harvard.edu/lira-home-remodeling-spending-set-accelerate; 10/18/2012

Return TOC

Total Permits, Starts, and Completions





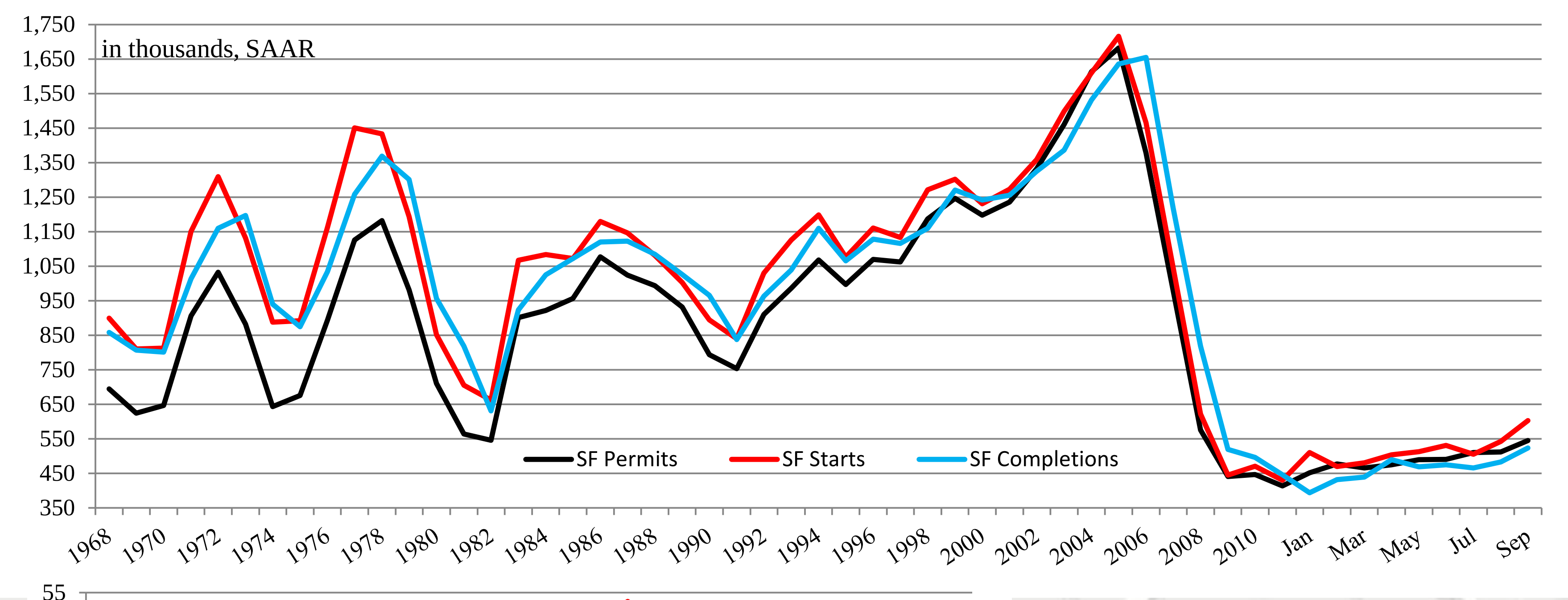
Clearly, aggregate numbers have registered nice gains in 2012.

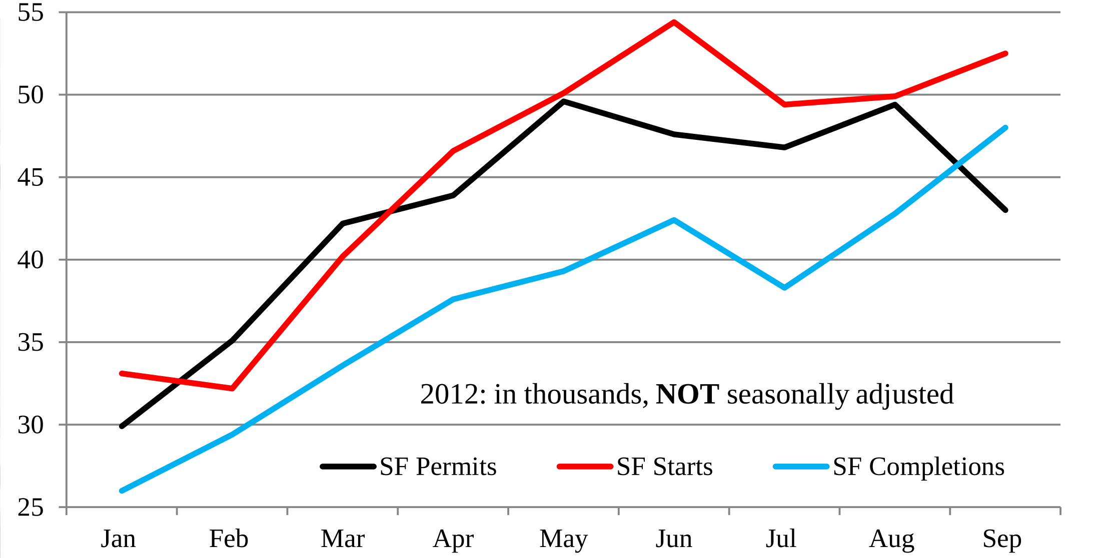
Yet, viewing unadjusted monthly data, both permits and completions are declining. While the last quarter of the year traditionally exhibits this behavior - - this decline is somewhat early for these two segments.

Source: U.S. Department of Commerce-Construction

Return TOC

Total SF Permits, Starts, and Completions



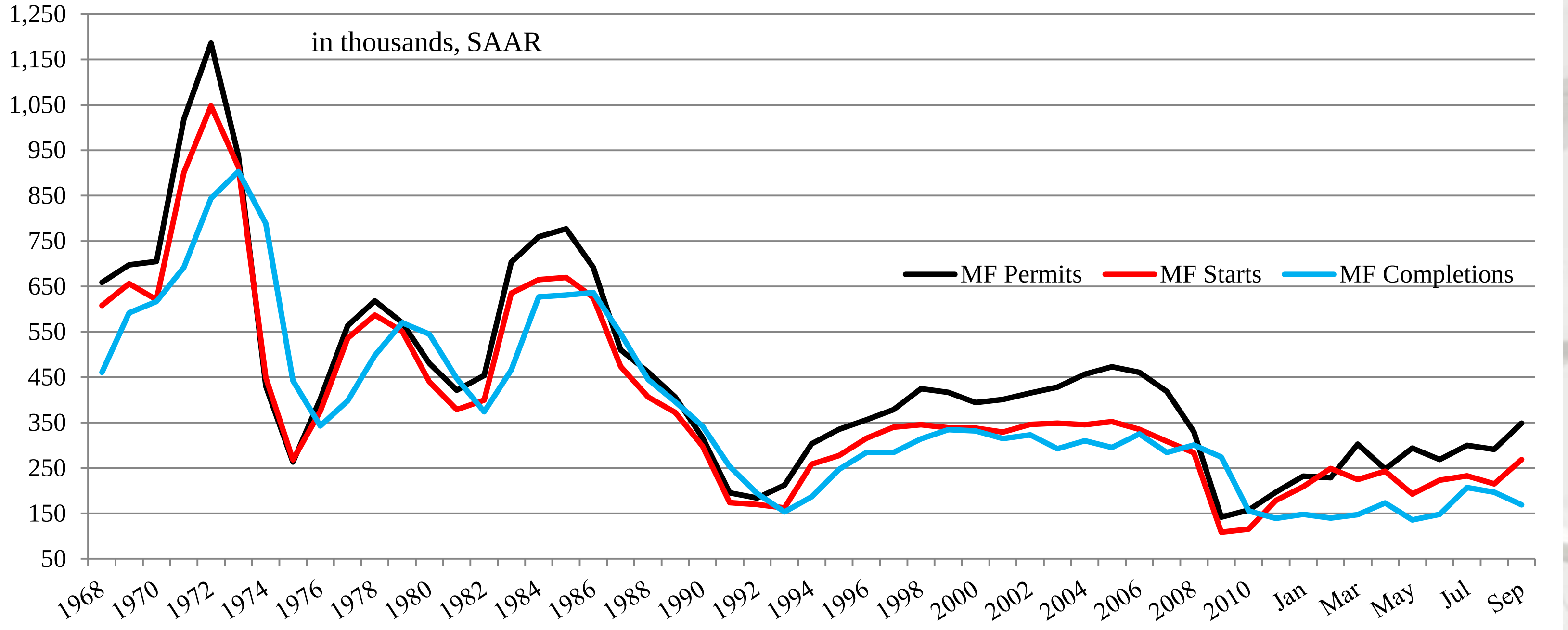


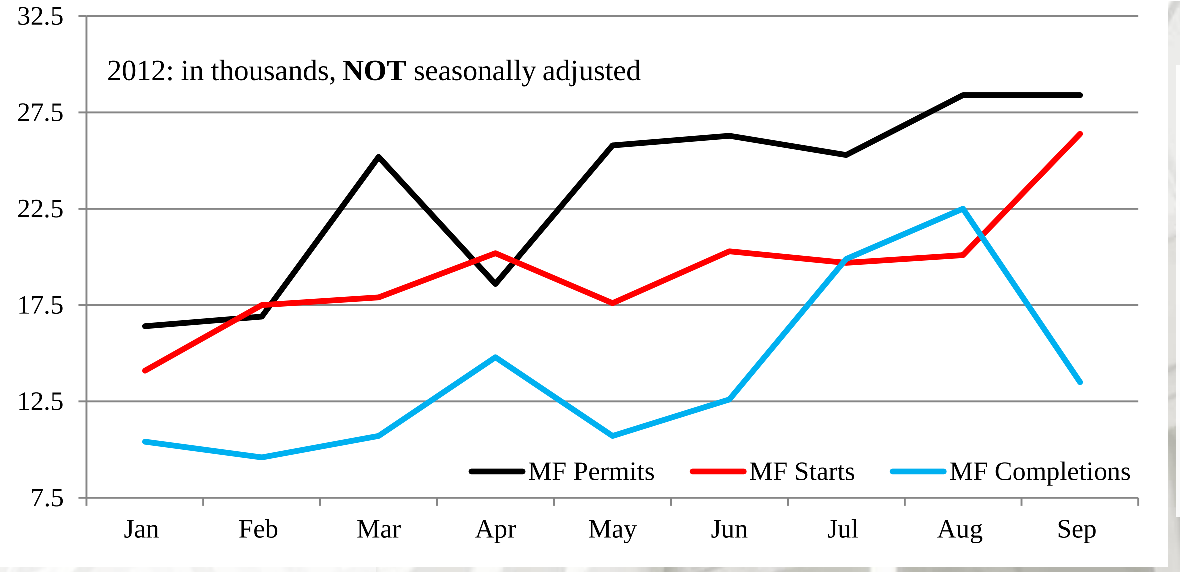
Single-family aggregate data have registered notable gains in 2012 too.

Again, viewing unadjusted monthly data, permits are declining. This bears watching during the upcoming months.

Source: U.S. Department of Commerce-Construction

Total MF Permits, Starts, and Completions





Multi-family aggregate data has been relatively stable in 2012.

Looking at unadjusted monthly data, completions declined precipitously. This may be due to a heated sector needing a brief respite, financing, or workers – we do not know.

Source: U.S. Department of Commerce-Construction

Return TOC

A Note on Housing Data Convergence

Why do these data never seem to converge?

1. Starts and completions in non-permit areas are estimated

2. Changes after the issuance of permits

Reclassification: Townhouses are classified as single-family houses according to Census definitions; however, permit offices frequently classify them as multifamily structures. This reclassification results in significantly more single-family starts and completions (and less multifamily) than are shown in the permit data.

Abandons: Construction is sometimes abandoned after permits are issued but before construction is started, affecting the permit-to-start relationship, or after construction is started, affecting the start-to-completion relationship. Abandon rates can fluctuate over time due to conditions in the economy.

Design Changes: Builders also can make design changes after the issuance of the original permits. This is more common with the construction of apartment buildings where the final number of units may be more or less than originally planned.

Misclassification: Permit offices sometimes incorrectly classify permits as new residential construction when the permits are actually for home improvements

3. Permit revisions not applied to starts and completions

4. Change in inventories between time periods

On average

Starts versus Permits

Total Units: Starts were 2.5% less than Permits

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

Multifamily Units: Starts were 22.5% less than Permits

Completions versus Starts

Total Units: Completions were 4.0% less than Starts

Single-family units: Completions were 3.5% less than Starts

Multifamily Units: Completions were 7.5% less than Starts

Source: U.S. Department of Commerce-Construction

New and Existing House Sales

	New Single-Family Sales*	Median Price	Month's Supply	Existing House Sales[8]*	Median Price[8]	Month's Supply[8]
September	389,000	$242,400	4.5	4,750,000	$183,900	5.9
August	368,000	$250,400	4.7	4,830,000	$184,900	6.0
2011	306,000	$227,200	6.3	4,280,000	$233,100	8.1
M/M change	+5.7%	-3.2%	-4.3%	-1.7%	-0.5%	-1.6%
Y/Y change	+27.1%	+6.7%	-28.6%	+11.0%	+11.3%	-20.0%

* All sales data are SAAR

Commentary on Housing Sales

New single-family house sales indicated a modest increase, while existing house sales registered a slight decrease.

"… the housing market is still coping with the large inventory overhang that remains from the prerecession boom. This sector has begun to show some encouraging signs, with home prices and construction improving this year. But housing investment is still quite low relative to historical norms, and it will continue to underperform until the demand for housing makes more progress catching up to the existing housing stock."[9]

- - Jeffrey Lacker, President, The Federal Reserve Bank of Richmond

Source: U.S. Department of Commerce-Construction; [8]National Association of Realtors, www.realtor.org/topics/existing-home-sales; 10/24/2012; [9]www.richmondfed.org/press_room/speeches/president_jeff_lacker/2012/lacker_speech_20121012.cfm; 0/12/2012

Return TOC

New and Existing House Sales

September 2012 – New SF House Sales:

Average September house sale price: $292,400 vs. $255,400 in September 2011

National Association of Realtors (NAR)[8] September 2012 sales data:

Distressed houses: 24% of sales –

(13% foreclosures and 11% short-sales)

Distressed house sales: 22% in August
and were 30% in September 2011

All-cash sales: remained at 28% – 27% in August

Investors are still purchasing a substantial portion of "all cash" sale houses – 18%;
27% in August 2012 and 30% in September 2011

First-time buyers: increased to 32% from 31% in August 2012
and were 32% in September 2011[2]

Source: U.S. Department of Commerce-Construction; [8] www.realtor.org/topics/existing-home-sales, 10/18/2012

Return TOC

Manufactured Housing*

"Manufactured Housing Grows From Industry Low Point

Manufactured home building projected to be a top-growing industry in 2013

Output for manufactured housing projected to increase16%, compared to 2012

Shipments and sales are still nowhere near pre-recession numbers:

1999: > 372,000 homes shipped
2005: > 146,000 homes shipped
2010: > 50,000 homes shipped
2011: > 51,600 homes shipped

Affordability one of the main drivers for demand

- average sales price for a manufactured home in the US is $60,600
- manufactured homes can cost 10 - 20% less per sq. ft. vs. site-built"[9]

- - Laura Huchzermeyer, Industry Editor, First Research at Hoover's and *Bizmology*

*This does not include modular housing.

Source: [9] http://bizmology.hoovers.com/2012/10/08/demand-for-manufactured-homes-on-the-rise-thanks-to-new-laws-and-low-mortgage-rates; 10/8/2012

Return TOC

September 2012
Construction Spending

Private Construction: $285.85 billion (SAAR)

2.8% above the revised August estimate of $278.04 billion (SAAR)
20.9% above the August 2011 estimate of $229.89 billion (SAAR)

September SF construction: $137.08 billion (SAAR)
25.7% above September 2011: $109.09 billion (SAAR)

September MF construction: $22.58 billion (SAAR)
48.9% above September 2011: $15.17 billion (SAAR)

September Improvement[A] construction: $126.19 billion (SAAR)
15.6% above September 2011: $109.15 billion (SAAR)

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

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

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

Return TOC

September 2012 Construction Spending

September Construction Jumps 16 Percent

“New construction starts in September climbed 16% to a SAAR of $507.2 billion. The nonbuilding construction sector (public works and electric utilities) led the way, helped in particular by a massive natural gas plant and several very large electric utility projects. Meanwhile, nonresidential building retreated after its improved performance in August, and residential building eased back slightly. Through the first nine months of 2012, total construction starts on an unadjusted basis came in at $349.6 billion, up 5% compared to the same period a year ago.

“If electric utilities and gas plants are excluded, the level of construction starts in 2012 would be up 2% year-to-date, helped by this year's further growth for multifamily housing and the emerging recovery for single family housing. As for the other construction sectors, commercial building has shown some strengthening during 2012 – while its dollar amount has grown less than 1% year-to-date, square footage is up 16%. However, decreased activity continues to be reported in 2012 for institutional building, manufacturing plants, and public works. Going into 2013, it's not expected that electric utilities will be able to maintain the record pace witnessed in 2011 and 2012, and tight government budgets will restrain the institutional building and public works sectors. It will be up to housing and commercial building to provide upward momentum, and the impending ‘fiscal cliff' makes continued growth for these sectors less certain.”””[10]

- - Robert Murray, Vice President, Economic Affairs, McGraw-Hill Construction

Source: [10] http://construction.com/about-us/press/september-construction-jumps-16-percent.asp; 10/17/2012

Return TOC

September 2012 Construction Spending

"Residential building in September slipped 1% to $170.3 billion (SAAR). Multifamily housing retreated 10% after its 43% jump in August, which though down for the month still maintains the broader upward trend for this project type…Single family housing maintained its gradual upward movement that's been present throughout much of 2012, growing 2% in September. The pace for single family housing in September was 23% higher than what was reported back in January.

The 5% increase for total construction on an unadjusted basis during the January-September period of 2012 was the result of heightened activity for two of the three main construction groups. Residential building climbed 26%, with year-to-date gains of 25% for single family housing and 30% for multifamily housing."[10]

- - Robert Murray, Vice President, Economic Affairs, McGraw-Hill Construction

September 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

	September 2012	August 2012	% Change
Nonresidential Building	$139,014	$146,032	-5
Residential Building	170,310	172,221	-1
Nonbuilding Construction	197,875	118,421	+67
TOTAL Construction	$507,199	$436,674	+16

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

September 2012.........107
August 2012...............92

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

	9 Mos. 2012	9 Mos. 2011	% Change
Nonresidential Building	$109,150	$124,655	-12
Residential Building	119,328	94,393	+26
Nonbuilding Construction	121,121	114,765	+6
TOTAL Construction	$349,599	$333,813	+5

Source: [10] http://construction.com/about-us/press/september-construction-jumps-16-percent.asp; 10/17/2012

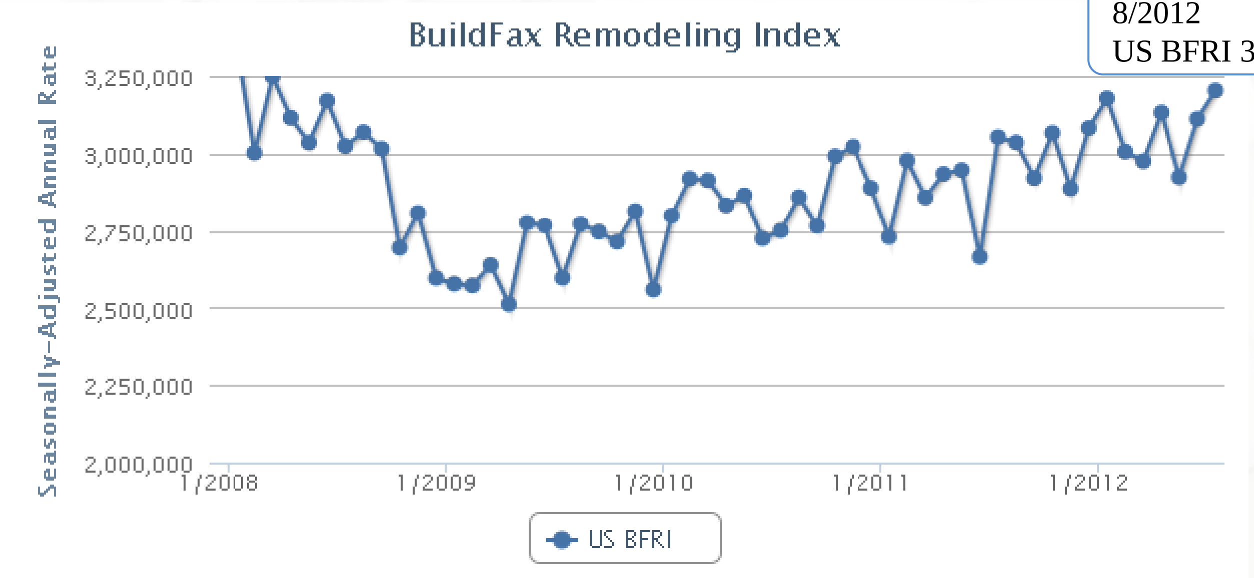
Return TOC

Residential Remodeling August 2012

August Residential Remodeling Permits: 3,204,000 (SAAR)

3% above the revised July estimate of 3,112,000 and
5% above August 2011's 3,053,000 permits

8/2012
US BFRI 3,204,000



"…remodeling across the country in August 2012: Northeast: 895,000 (-4% from July and +20% from August 2011); South, 1,302,000 (-3% from July and +21% from August 2011); Midwest, 588,000 (+5% from June and -7% from August 2011); and West, 832,000 (+3% from July and +4% from August 2011) (all SAAR). The number of residential remodeling projects in August was the most permitted since April 2008 on a seasonally-adjusted basis. "[11] - - Joe Emison, VP-R&D, BuildFax

Source: [11]www.buildfax.com/public/remodeling/index.html; 10/16//2012

Return TOC

Residential Remodeling 2013

"…**LIRA is projecting an acceleration in market activity** beginning this quarter, and strengthening as we move into the New Year. LIRA predicts a jump to more than $130 billion in home improvement spending by Q2 2013, a significant increase from Q2 2012's $115 billion. While the housing market has faced some unique challenges in recent years, this combination is expected to produce a favorable outlook for home improvement spending over the coming months." [12] - - Eric Belsky, Managing Director, Joint Center for Housing, Harvard U.

"**The Remodeling Market Index climbed five points to 50 in Q3 2012**, according to the National Association of Home Builders. It's good to be up to 50 and over 50 in current conditions... 50 is sort of a break-even point when equal numbers of remodelers report better than worse conditions."[13] - - Paul Emrath, Vice President. Survey and Housing Policy Research, National Association of Home Builders

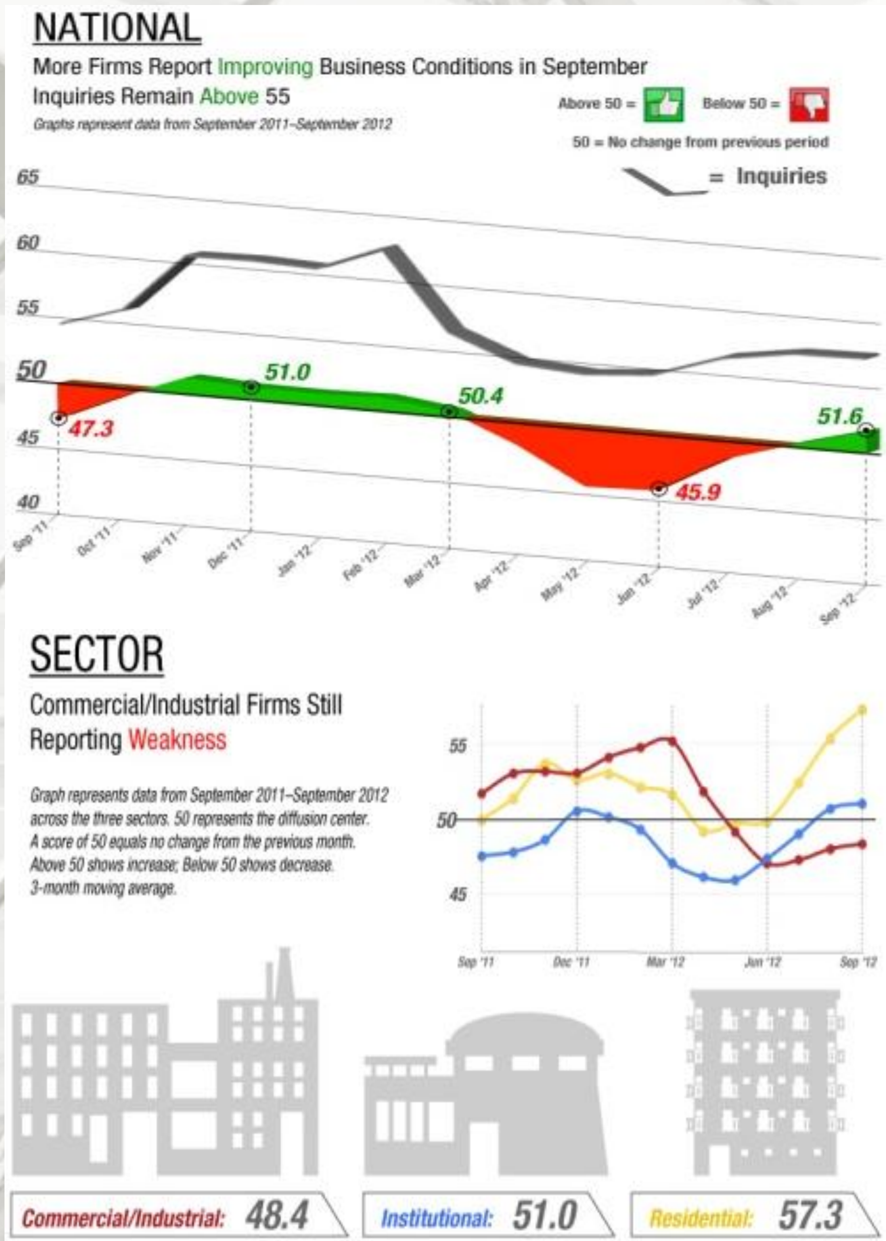
"Homeowners' growing preference for using luxury home products is a noteworthy trend, which indicates a top-down recovery for the remodeling industry, with higher-end products disproportionately increasing in use compared with the use of average-price and economy products. Other findings from the report indicating that the use of luxury products is a growing trend in home remodeling:

- Homeowners describe materials they will use in their remodels as "expensive" at the highest rate since 2008
- The scope and scale of remodeling projects is the largest since '07, with an average remodeling cost estimated to be $100,000
- 35% of respondents reported that the economy is not affecting their plans to remodel — the highest number since 2008
- 73% are planning to hire a general contractor — the highest percentage since the report started in 2006. As the scale of the projects increase, the use of a general contractor typically increases as well."[14] - - Nina Patel, Senior Editor, *Remodeling*

Source: [12]www.housingwire.com/content/home-remodeling-spending-track-accelerate-through-next-year; 10/18/2012;
[13] www.nahb.org/news_details.aspx?newsID=15575; 10/25/2012;
[14]www.remodeling.hw.net/remodeling-trends/the-return-of-luxury.aspx; 10/3/2012

Return TOC

Architectural Billing Indicators



"Architecture firms reported an improvement in business conditions for the second consecutive month in September, as the Architecture Billings Index climbed to a score of 51.6, reflecting the strongest growth in nearly two years. With the general economy continuing to show signs of improvement, there is hope for a more sustained period of recovery for the profession. Inquiries into new work remained strong this month, and fewer firms reported a decline in the value of new design contracts.

Just like last month, firms in the South and West regions are reporting growth, while firms in the Northeast and Midwest are reporting weaker firm billings. After nearly five years of declining billings, firms in the West not only reported billings growth for the second month in a row in September, but also had the highest score of all four regions.

Firms with a residential specialization recorded their highest scores in nearly seven years, as the demand for rental housing is increasing, interest rates continue to fall, and the mortgage crisis recedes further into the background. Commercial buildings are overbuilt in many areas, and firms specializing in that sector may still see some softness until they are filled."[15]

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

Source: [15]www.aia.org/practicing/AIAB095765; 10/24, 2012

Return TOC

Housing Market 43% Back to "Normal"

Latest Trulia Housing Barometer Hits New High in September

"In September 2012, construction starts surged. However, existing home sales fell slightly, and the delinquency + foreclosure rate unexpectedly jumped.

- **Construction starts held roughly steady**. Starts in September were at an 872,000 annualized rate, up 15% month over month and up 35% year over year. Construction activity in September was at its highest level since July 2008. Nationally, construction starts are 39% of the way back to normal.
- **Existing home sales slipped** a bit in September. After a big increase in August, existing home sales fell 1.7% month over month to 4.75 million in September – but that's still a respectable 11% increase from one year ago. Sales are 57% back to normal, which is more than halfway.
- **The delinquency + foreclosure rate jumped back up**. In September, 11.27% of mortgages were delinquent or in foreclosure, up from 10.91% in August due to an unexpected increase in the share of delinquent loans. The combined delinquency + foreclosure rate is at its highest level in seven months and is 34% back to normal.

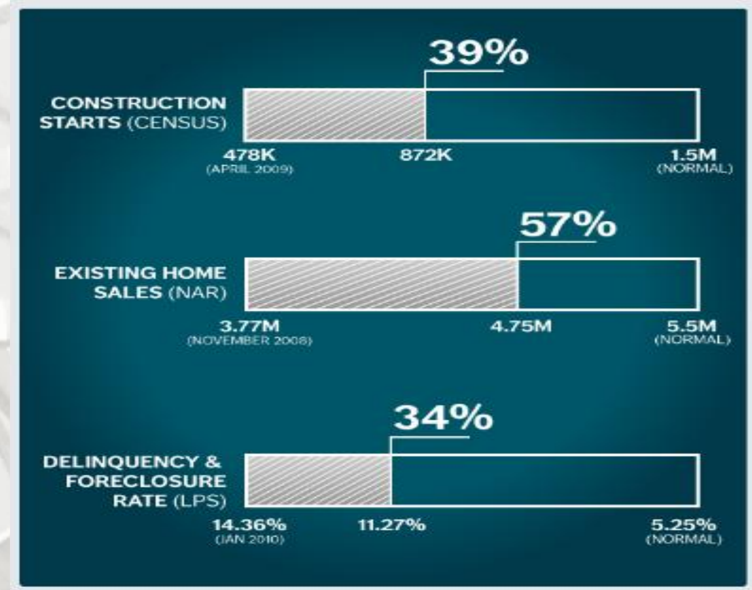
Averaging these three back-to-normal percentages together, the housing market is now 43% of the way back to normal – compared with 42% in August and 24% in September 2011. For the second month in a row, the Housing Barometer is at a post-crisis high."[16]

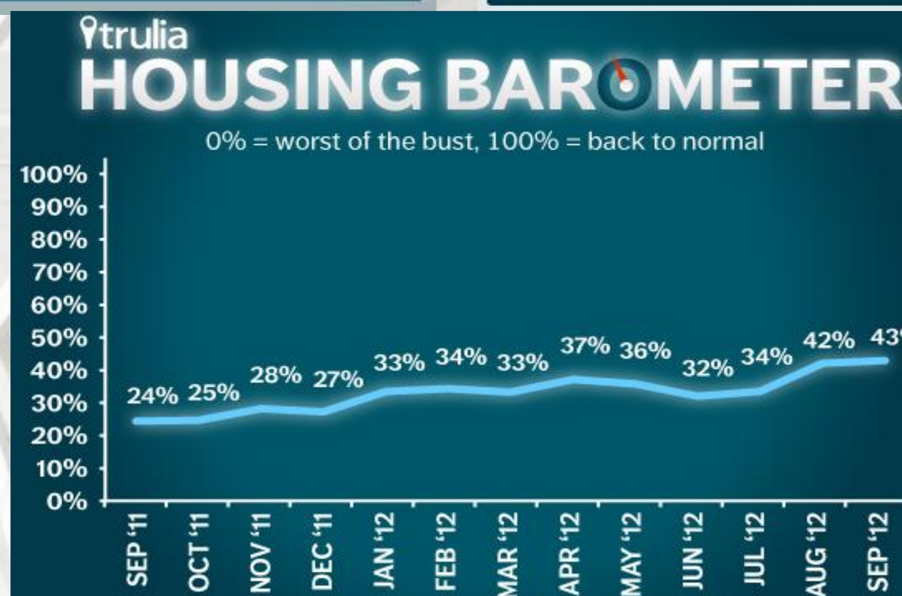
- - Jeff Kolko, Chief Economist, Trulia Housing Research

Source: [16]http://trends.truliablog.com/2012/10/housing-market-recovery-hits-new-high-in-september; 10/24/2012

Return TOC

Housing Market 43% Back to "Normal"





Source: [16]http://trends.truliablog.com/2012/10/housing-market-recovery-hits-new-high-in-september; 10/24/2012

Shiller and Whalen Speak on Housing

Robert Shiller

Case-Shiller Indices® and Professor of Economics, Yale University

Why Bernanke Can't Fix the Housing Market on His Own

Chris Whalen

Senior Managing Director,
Tangent Capital Partners LLC

U.S. Housing Market is Not in a Real Recovery

Audio only

Robert Shiller

Case-Shiller Indices® and Professor of Economics, Yale University

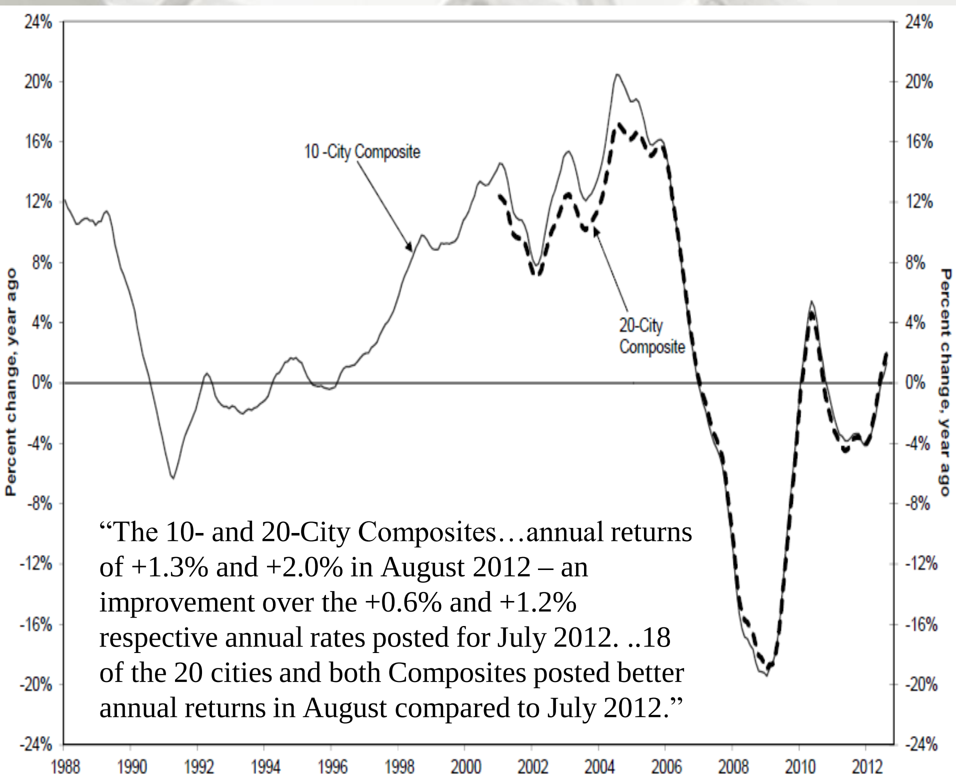
Housing Market Could Take 50 Years to Fully Recover

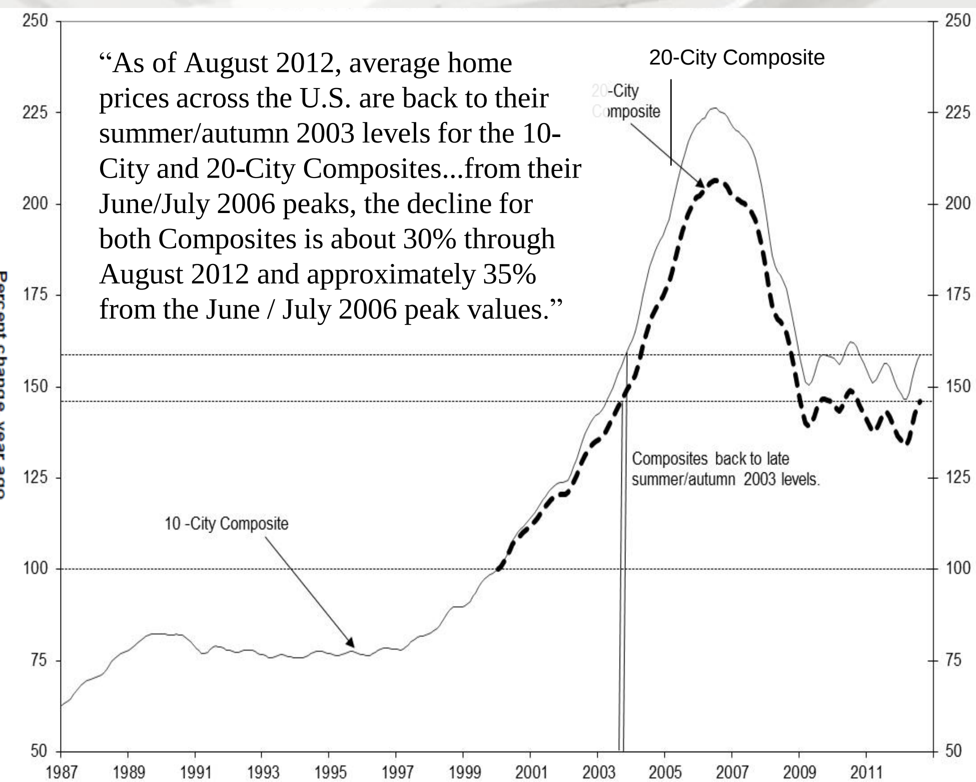
Audio only

Double click on the photo for the link

Return TOC

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





"Home prices continued climbing across the country in August …19 of the 20 cities and both Composites showed monthly gains in August. Seventeen cities and both Composites posted positive annual returns in August 2012. In 18 cities and both Composites annual rates improved in August versus July. The sustained good news in home prices over the past five months makes us optimistic for continued recovery in the housing market."[17]

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

Source: [17]Case-Shiller® and Case-Shiller Indexes® and Fiserv; 10/30/2012

Return TOC

September 2012 Home Prices

	U.S.	M/M Change
CoreLogic® HPI Index	146.85	+0.4%
LPS®	$205,000	+0.2%
NAR®	$183,900	-0.5%
RealtyTrac®	$260,350	+3.5%
Zillow®	$193,800	+0.8%

"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 six states continuing to show declining prices."[18]

- - Mark Fleming, Chief Economist, CoreLogic

"While the housing recovery has been hyper-local, we are now seeing a more bipolar market. Markets where we have seen inventory shortages and that have been extremely affordable due to steep declines in home values are seeing strong appreciation and are also forecasted to continue appreciating over the next year. "[19]

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

"Despite the recent trend in home price increases, the average price of a residential property nationwide has decreased 20% over the past four years — leaving more than 12 million homeowners owing more than their property is worth, according to RealtyTrac data."[20]

- - Daren Blomquist, Vice President, RealtyTrac

Source: [18]www.corelogic.com/about-us/researchtrends/asset_upload_file817_16690.pdf: October 2 2012;
[19]www.zillow.com/blog/research/2012/10/22/u-s-home-values-post-big-gains-but-recovery-is-uneven-among-markets, 10/22/ 2012;
[20]www2.marketwire.com/mw/frame_multimedia?prid=641471&attachid=1307869; 10/22/2012

Return TOC

Delinquencies, Foreclosures, Negative Equity, and Shadow Inventory

September 2012				
	Delinquent	Foreclosures	Negative Equity	Shadow Inventory
CoreLogic®[D]	2.7 million	57,000	10.8 million	2.3 million
LPS®[E]	3.5 million	201,173	-	-
RealtyTrac®[F]	-	180,427	+12 million	-
Zillow®[G]	-	5.7 per 10,000 homes	15.5 million	-

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

Source: [D]www.corelogic.com: 9/13/12; [E]www.lpsvcs.com: 8/2012; [F]www2.marketwire.com: 8/13/12

Return TOC

Delinquencies, Foreclosures, Negative Equity, and Shadow Inventory

September Commentary

"Underwater homeowners and unemployed homeowners represent two significant threats for another round of U.S. foreclosures — underwater homeowners are lacking in their *motivation* to keep making mortgage payments, and unemployed homeowners are lacking in their *ability* to keep making mortgage payments."[20]

-- Daren Blomquist, Vice President, RealtyTrac

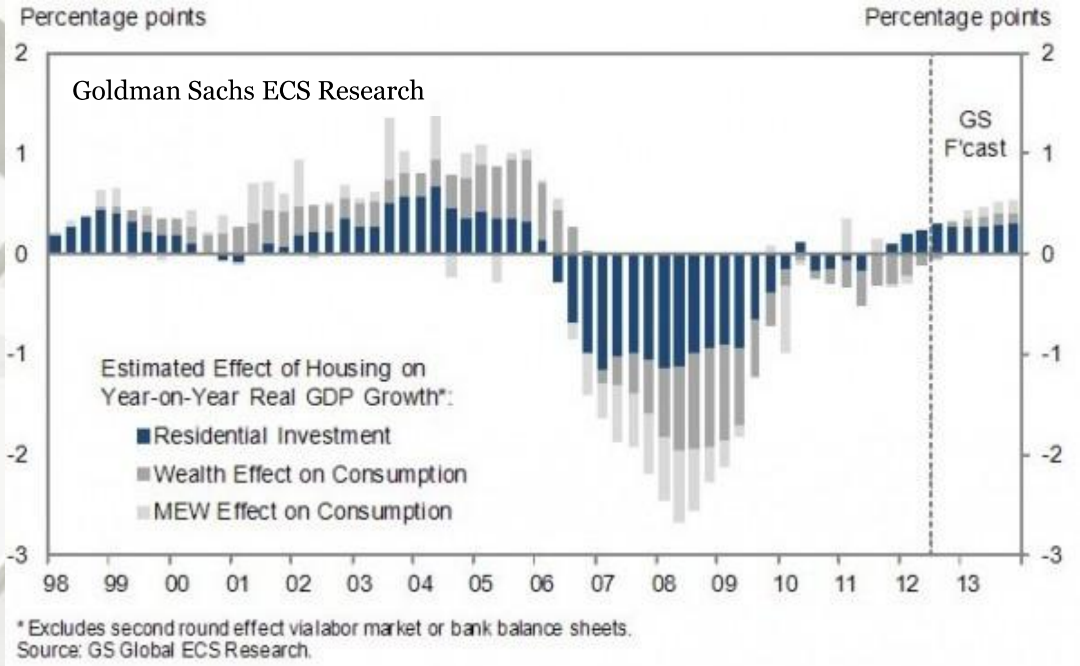
"Approximately 1.4 million homes (3.3% of all homes with a mortgage) were in the national foreclosure inventory as of September 2012 compared to 1.5 million (3.5%) in September 2011. M/M, the national foreclosure inventory was down 1.1% from August 2012 to September 2012. Homes lost to foreclosure in September 2012 are down 50% since the peak month in September 2010 and 22% less than the beginning of the year. While there is significant progress to be made before returning to pre-crisis levels, the trend is in the right direction as short-sales, up 27% year over year in August, continue to gain popularity."[18]

-- Mark Fleming, Chief Economist, CoreLogic

Source: [20]www2.marketwire.com/mw/frame_multimedia?prid=641471&attachid=1307869; 10/22/2012; [18]www.corelogic.com/research/national-foreclosure-report-september-2012.pdf; 10/31/2012

Return TOC

Housing and Economics[21]



Housing's Contribution to GDP - - 2013

"**1. The direct GDP contribution** from residential investment, which includes construction of new homes, improvements and alterations, and broker commissions on sales of new and existing homes.

2. The consumption impact of changes in housing wealth and active mortgage equity withdrawal (MEW), defined as cash-out refinancing and home equity borrowing.

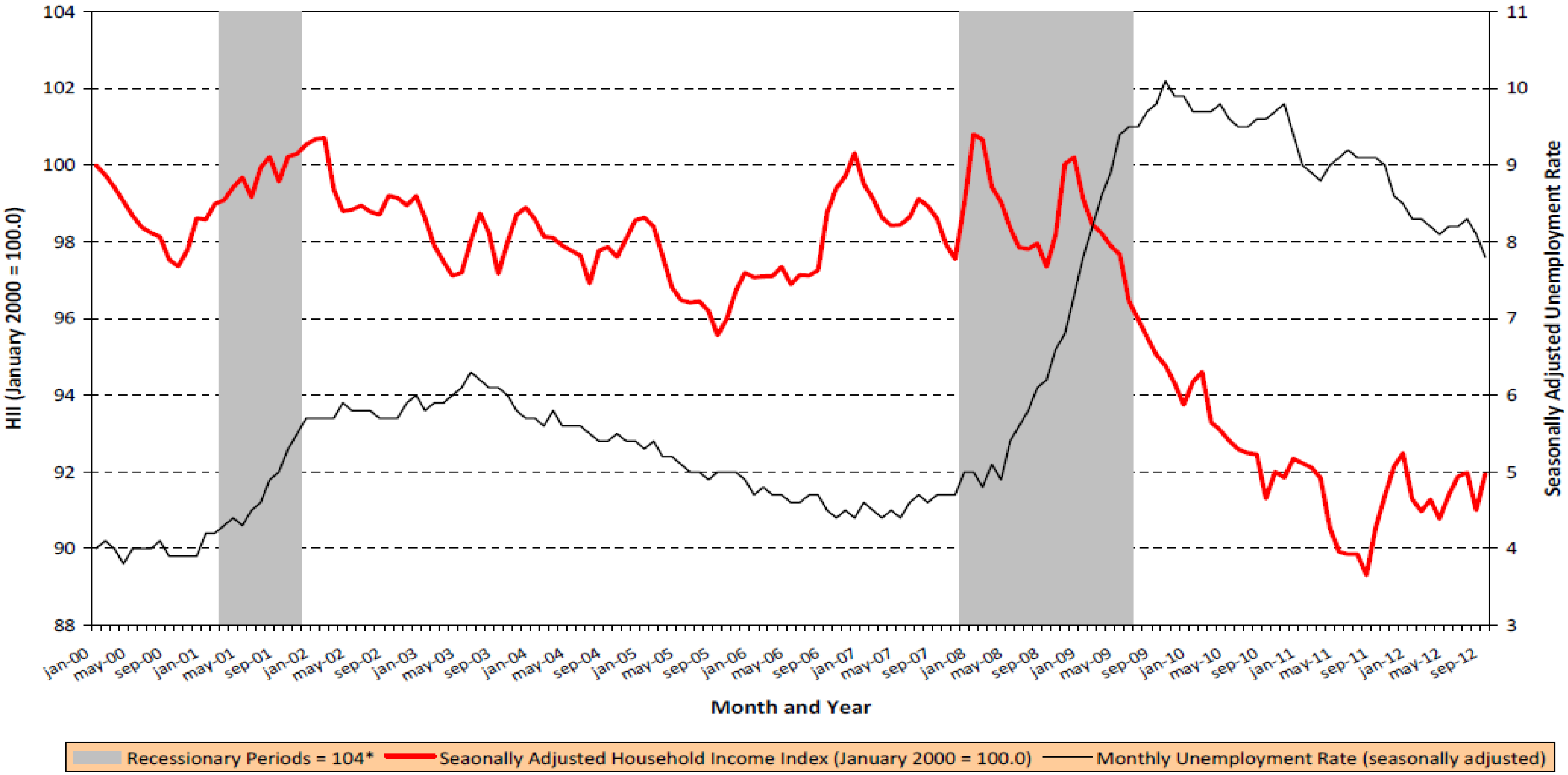
3. Multiplier effects from changes in residential investment or housing wealth/MEW via the labor market, bank balance sheets, consumer confidence, and adjacent sectors such as furniture purchases."

1. "**The impact of housing is shifting into positive territory**. The overall impact averaged around -1/4 percentage point in 2010-2011, stands at around +1/4 point now, and is likely to increase to +1/2 point in 2013. These numbers are equivalent to a move from a depressed housing market to a "normal expansion" as we defined it late last year, although they still fall well short of a "boom."
2. **Most of the positive contribution to growth** has so far come from the direct impact of residential investment, which we expect to contribute around 0.3 percentage points to growth next year.
3. **It is important to keep the improvement in perspective**. Housing is likely to remain less important from a macroeconomic perspective than in the prior cycle, when the combined impact of residential investment and the wealth/MEW effect on consumption ranged from +1 percentage point in 2003-2005 to -2.5 points in 2008."

Source: [21] http://ftalphaville.ft.com/2012/10/18/1219081/goldman-on-housing-and-the-consumer/?utm_source=dlvr.it&utm_medium=twitter; 10/18/2012

Demographics and Economics

Median Household Income Index and Unemployment Rate by Month: Jan 2000 to Sep 2012



“. …real median annual household income increased by 1.0% ($534) between Aug. 2012 and Sep. 2012, from $50,904 to $51,438.

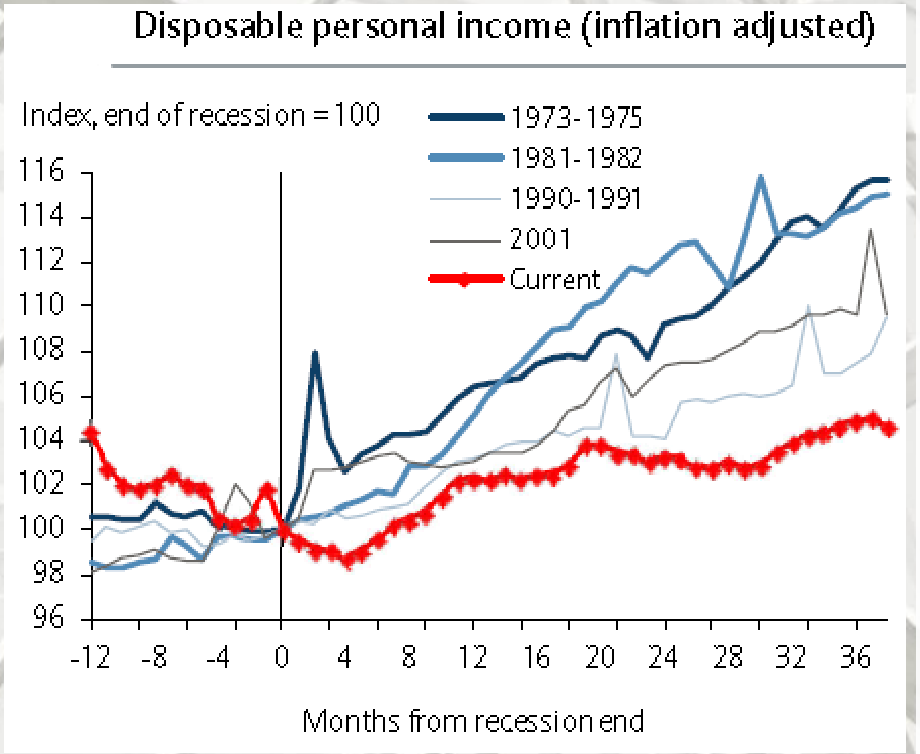
“It is noteworthy that real median annual household income showed an increase of 1.0% between August 2012 and September 2012 despite an increase in the Consumer Price Index of 0.4% during the same time period. The September level of real median annual household income is moderately higher than in January 2012 ($51,067), although there is evidence that the economy continues to struggle. Even though we are technically in an economic recovery, real median annual household income is still having a difficult time “recovering.” As we have noted in our previous reports, we are watching this household income series closely for signs of any sustained directional movement.”’”[22] - - Dr. Gordon Green, Sentier Research

Source:. [22] www.sentierresearch.com; 10/24/12

Return TOC

Economics

What Makes This Economic Recovery So Difficult For The U.S. Consumer?



"Why is it that this economic recovery feels so sluggish to US consumers relative to previous recessions?

One answer is that growth in disposable income has been horrible. It explains the relatively weak consumer sentiment and anemic growth in consumer spending. That is why this sudden increase in food and fuel prices is an unwelcome development.

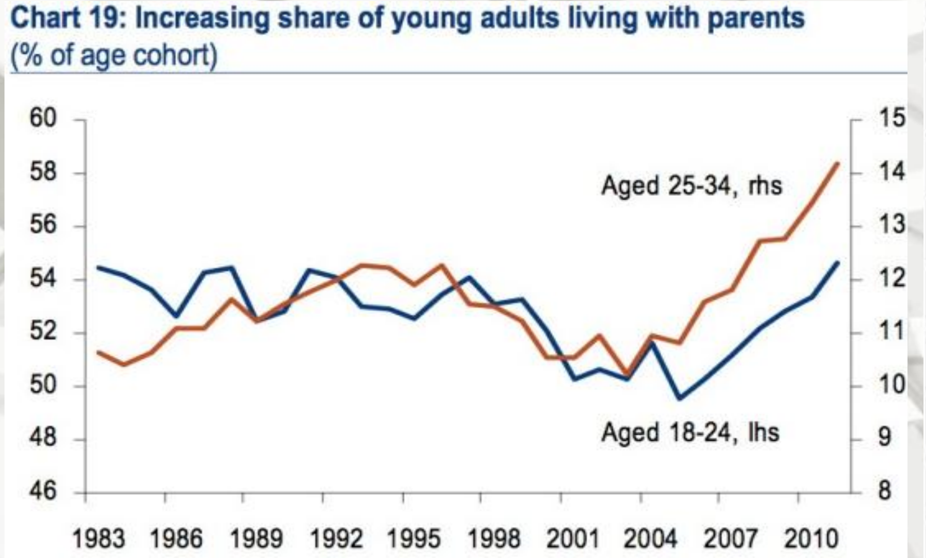
With low personal income growth, the US consumer is now far more sensitive to these shocks than during the previous recoveries."[23]

- - SoberLook

Source: [23] http://soberlook.com/2012/10/what-makes-this-recovery-so-difficult.html?safe=on; 10/9/2012

Return TOC

Demographics and Renting



"From 1997 to 2007, the country created about 1.5 million new households a year. In the three years after the Great Recession hit, that number fell to an average of 500,000…Things have turned around a bit, with 1.1 million households formed in 2011.

By many accounts the behavioral changes wrought by the Great Recession may be here to stay. That's why in recent years, demand for rental housing has left single-family homes in the dust. At Morgan Stanley, analysts expect that preference for renting, coupled with tight lending standards at banks, will keep construction of multi-family rental buildings up.

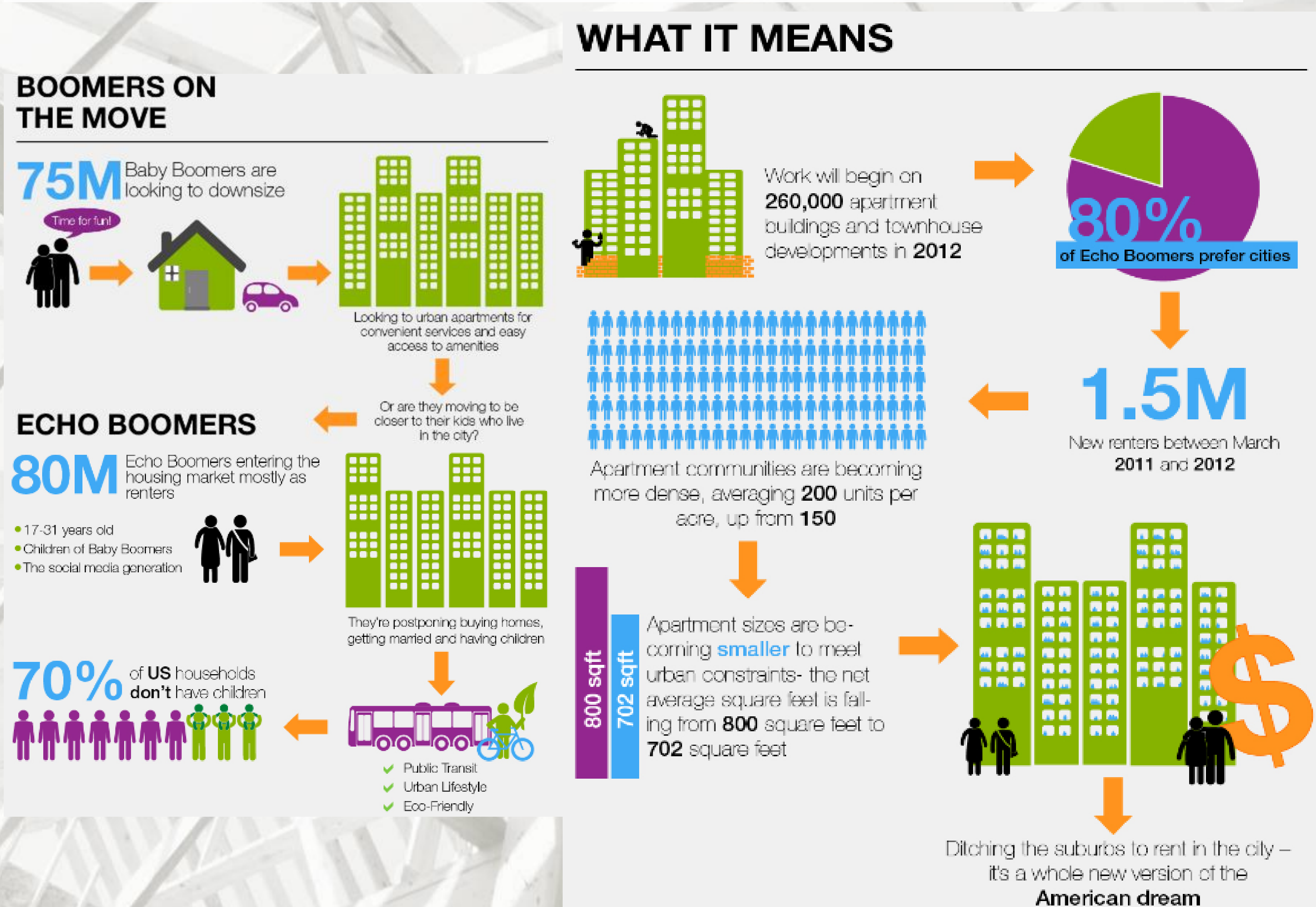
"With homeownership rates declining and with household formations beginning to see some cyclical improvement, multi-family starts could run at levels well above the historic norm in coming years and make up a higher share of total starts," wrote Morgan analysts recently.

So if you're living in a big old moth-eaten house that your grandparents left you, now is the time to max out some credit cards and convert it into apartments."""[24]

- - Matt Phillips, Freelance Reporter, *The Atlantic*

Source: [24]www.theatlanticcities.com/jobs-and-economy/2012/10/kids-are-finally-leaving-their-parents-houses/3671; 10/23/2012

Renting Trends



Source: www.rentcafe.com/blog/featured/trends-in-apartment-renting; 10/2012

Return TOC

Future Banking Regulations and The Housing Market

Mortgage Lenders of All Stripes Paralyzed by Flurry of New Rules

"The Dodd-Frank Act 'qualified residential mortgage rule' requirement that lenders ensure a borrower has the 'ability-to-repay' a loan … essentially requires higher down payments from borrowers

… Basel III capital standards -- dictates how much risk-based capital banks must hold against certain assets including residential mortgages

Banks also are facing higher guarantee fees by Fannie Mae and Freddie Mac and higher premiums for Federal Housing Administration loans

"In the current environment, all of these rules are going to restrict product and the availability of credit to the credit-impaired. The result is going to be fewer and more expensive loans to lower- and moderate-income and minority borrowers. There are better ways to ensure against predatory lending" states attorney Andy Sandler.'""[25]

-- Kate Berry, Reporter, *National Mortgage News*

Source: [25] www.nationalmortgagenews.com/nmn_features/lenders-feel-paralyzed-flurry-mortgage-rules-1032734-1.html; 10/23/2012

Return TOC

Conclusions

September housing construction data surged – will seasonal adjustment factors temper this reporting? Possibly, but it appears that starts are catching up with previous month's permit issues. The bigger concern, as written earlier, concerns the sustainability of the increases; indeed, the healing process in housing overall.

New and existing house sales, housing starts, and permits are at higher levels – however, they are significantly below long-term averages. The number of available new and existing houses for sale currently continue to decline and are at historically low-levels. This also is a positive for the construction market. Interest rates also are at historically low-levels but stricter lending standards inhibit some potential buyers.

The remodeling sector continues to be promising; nearly all analysts project a steadily increasing remodeling market. As reported in Slide 21, respondents to a private survey indicated increasing preferences for "luxury" items in remodeling and more expensive remodels.

The proposed finance and banking regulations – Dodd-Frank, Basel III, and the Federal Housing Administration bear watching. These in sum or separately, may hinder the housing market – though Basel III regulations were recently delayed. Basel III regulations were originally proposed to be implemented in 2015.

Return TOC

Conclusions

Recent housing data is heartening, but our near-term outlook on the U.S. housing market remains unchanged – there remain too many potential negative macro-factors at this point in time for a robust housing recovery. Why?

1) Consumer confidence – while rising, most report it is fragile,
2) a lack of well-paying jobs,
3) a sluggish economy
4) declining real median annual household incomes,
5) strict home loan lending standards, and
6) new financing and banking regulations to be implemented in the near future.

Until next month. For those of you in the United Sates, we wish you a Happy Thanksgiving.

Return TOC

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