December 2012 Housing Commentary

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Executive Summary

December's housing data was truly a mixed bag – permits, starts, and completions increased and new and existing home sales decreased – indicating a healing housing market with several impediments to overcome.

December 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; homeownership and vacancies; and demographics and economics. Furthermore, we present three slides on mortgage originations, the prospects for easing of mortgage requirements, and mortgage defaults.

Lastly, existing house sales and prices edged up and the number of available existing houses available for sale decreased and the number of new houses for sale increased. Private investors remain key purchasers of existing, foreclosed, and bank-owned (REO) homes and the numbers of first-time buyers remain bless than historic averages. According to the Case-Shiller® indices, and other indices, reported house values increased year-over-year but several monthly measure indicated declining prices month-over-month.

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Opening Comments

Western world economic conditions are still muddled

- Americans: Decreasing personal debt and increasing student debt continues
- Government debt: Federal, several states, and local → still problematic and increasing
- Europe: Financial noise concerning Spain, Italy, Portugal, Greece, and France are increasing

"The conventional view is that by lowering interest rates, monetary policy lowers the price of consuming today relative to consuming in the future, thereby encouraging households to reduce savings and bring consumption forward. However, as I've noted, in the current circumstances, consumers have strong incentives to save. They are trying to restore the health of their balance sheets so they will be able to retire or put their children through college. They are behaving wisely and in a perfectly rational and prudent way in the face of the reduction in wealth. In fact, low interest rates and large budget deficits can frustrate those efforts to save.

For example, low interest rates encourage households to save even more because the return on their savings is very small. And large budget deficits suggest that they are likely to face higher taxes in the future, which also encourages more saving. Thus, efforts to drive real rates more negative or promises to keep rates low for a long time may have frustrated households' efforts to rebuild their balance sheets without stimulating aggregate demand or consumption.

In my view, until household balance sheets are restored to a level that consumers and households find comfortable, consumption will remain sluggish. This is likely to take some time, and attempts to increase economic "stimulus" may not help speed up the process and may actually prolong it."[1]

-- Charles Plosser, President and Chief Executive Officer, The Federal Reserve Bank of Philadelphia

Source: [1] www.philadelphiafed.org/publications/speeches/plosser/2013/01-11-13_new_jersey_economic_leadership_forum.cfm; 1/13/13

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December 2012 Housing Scorecard

	M/M	Y/Y
Housing Starts[A]	∆12.1%	∆36.9%
Single-Family Starts[A]	∆8.1%	∆18.5%
Housing Permits[A]	∆0.3%	∆28.8%
Housing Completions[A]	∆1.6%	∆13.2%
New Single-Family House Sales[A]	∇7.3%	∆8.8%
Existing House Sales[B]	∇1.0%	∆12.8%
Remodeling Permits[C]	∇6.0%	∆2.0%
Private Construction Spending[A]	∆0.4%	∆19.0%

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

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New Housing Starts

	Total Starts*	Single-Family Starts	Multi-Family 2-4 unit Starts	Multi-Family 5 or more unit Starts
December	954,000	616,000	8,000	330,000
November	851,000	570,000	13,000	268,000
2011	697,000	520,000	24,000	153,000
M/M change	+12.1%	+8.1%	-38.5%	+23.1%
Y/Y change	+36.9%	+18.5%	-66.7%	+115.7%

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

December 2012: Total, SF, and 5+ MF starts → Increased

Thirty percent of all housing starts in 2012 were MF -- the greatest share since 1986. Yet, this volume of MF housing starts was less than any year between 1995 and 2008 for this series.

"Single-family construction may, in fact, be slowing. Housing starts usually calm down in the fourth quarter. When you take out that seasonal adjustment, they fell 24% from October to December of 2012, compared to just a 10% pause in the fourth quarter of 2011."[2]

-- Mark Hanson, Independent Housing Analyst, MHanson Advisers

Source: U.S. Department of Commerce-Construction, [2] www.cnbc.com/id/100388194l; 1/17/13

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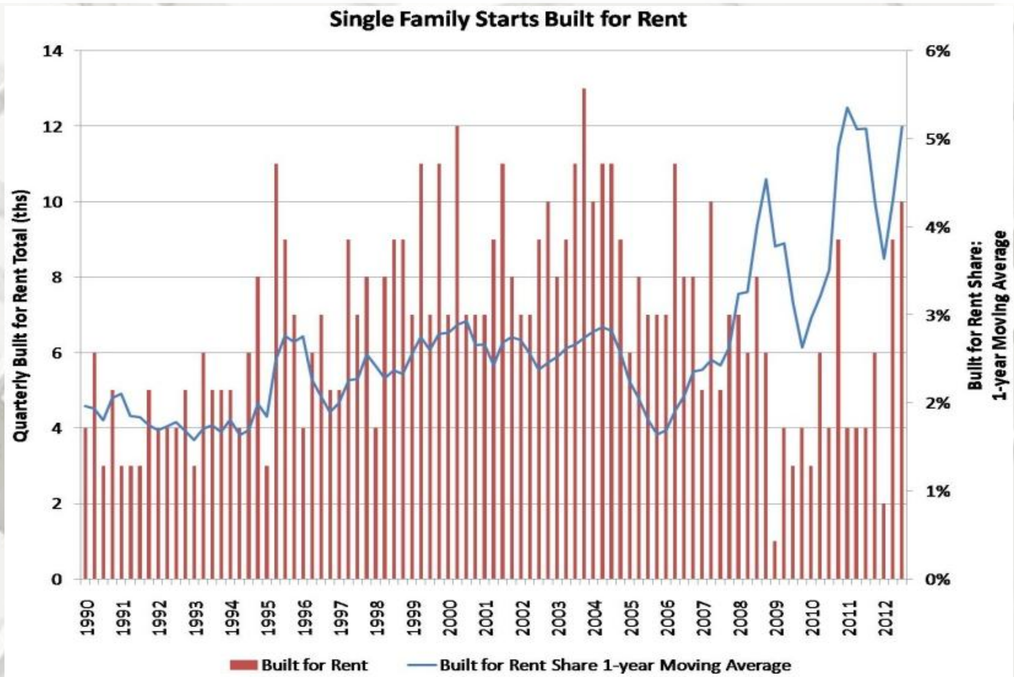
New Housing Starts



Single-Family Built-for-Rent Market Share Remains Elevated

"In general, with the onset of the Great Recession, the share of built-for-rent homes rose, with a dip in the share during the homebuyer tax credit period. Despite the elevated market share, the total number of single-family starts built for rental purposes remains fairly low – only 27,000 homes started over the past year, but this total has been increasing with the overall growth for housing starts. With housing starts currently at 861,000 a year, the number of new built-for-rental properties is about 43,911 annually at the current market share. Of course, the built-for-rent share of single-family homes is considerably smaller than the single-family home portion of the rental housing stock, which is 27% according to the 2010 American Community Survey. The reason for this is that as single-family homes age, they are more likely to transition from the owner-occupied to the rental housing stock."[3]

-- Robert Dietz, Assistant Vice President for Tax and Policy Issues, NAHB

Source:: [3]http://eyeonhousing.wordpress.com/2013/01/08/single-family-built-for-rent-construction/; 1/8/13

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New Housing Permits and Completions

	Total Permits*	Single-Family Permits	Multi-Family 2-4 unit Permits	Multi-Family 5 or more unit Permits
December	903,000	578,000	24,000	301,000
November	868,000	568,000	28,000	304,000
2011	701,000	454,000	24,000	223,000
M/M change	+0.3%	+1.8%	-14.3%	-1.0%
Y/Y change	+28.8%	+27.3%	0.0%	+35.0%

	Total Completions*	Single-Family Completions	Multi-Family 2-4 unit Completions	Multi-Family 5 or more unit Completions
December	686,000	535,000	7,000	144,000
November	675,000	516,000	9,000	150,000
2011	606,000	460,000	9,000	137,000
M/M change	+1.6%	+3.7%	-23.3%	-4.0%
Y/Y change	+13.2%	+16.3%	-23.3%	+5.1%

Source: U.S. Department of Commerce-Construction

* All data are SAAR

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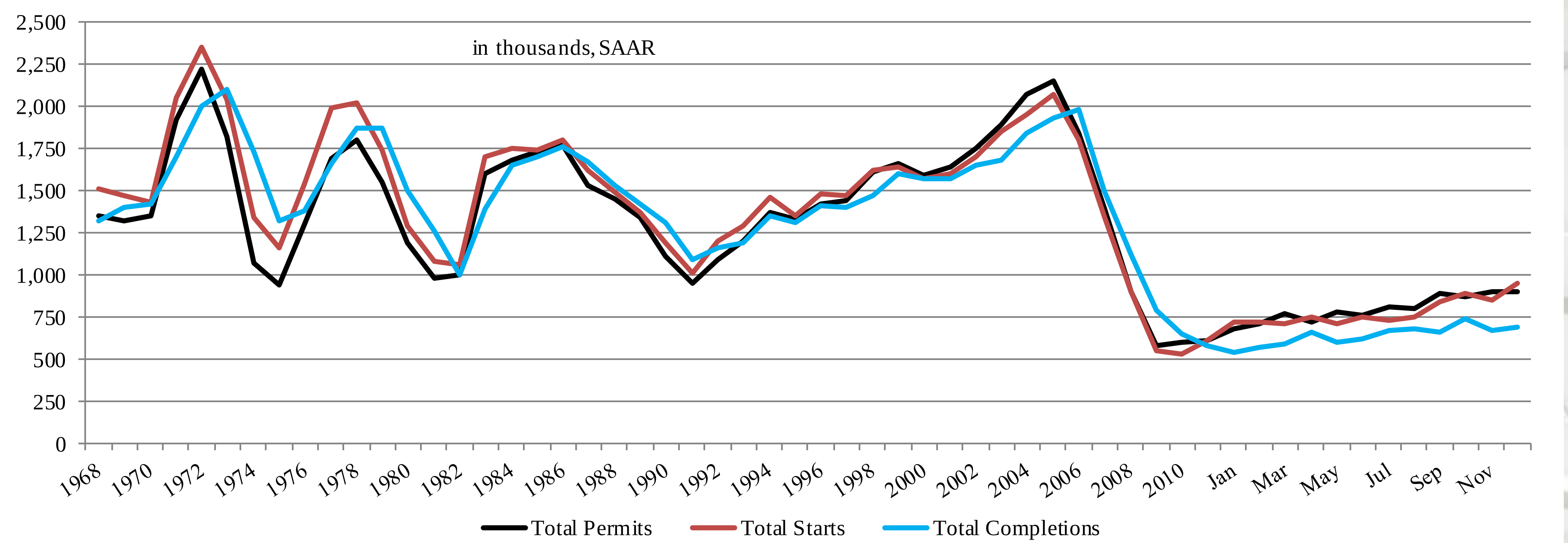
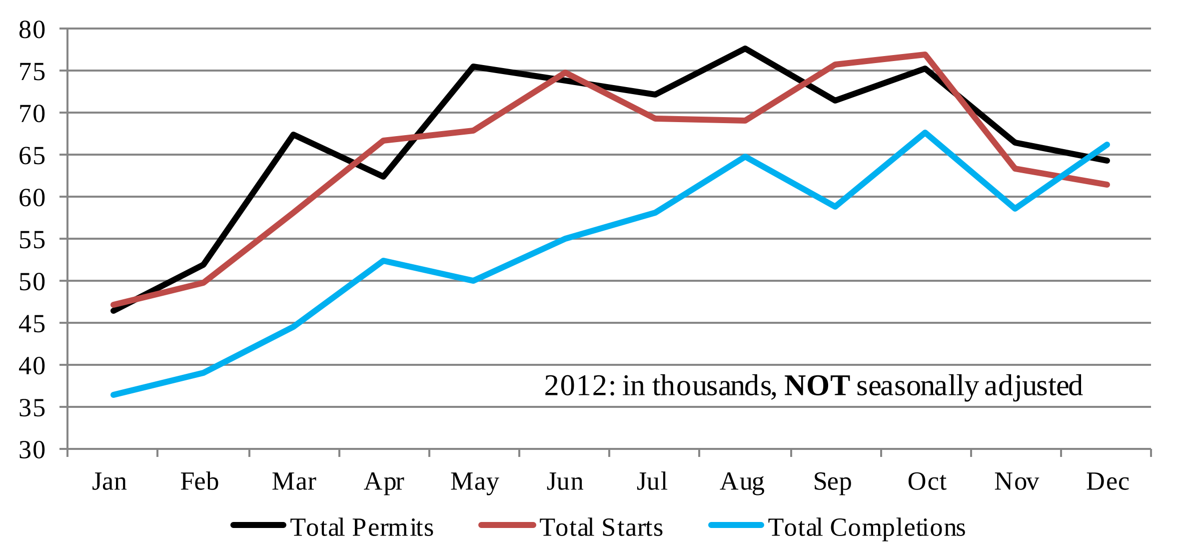
Total Permits, Starts, and Completions





Total permits, starts, and completion data registered nice gains in 2012. From a historical perspective, starts need to in increase about 55% to reach historical norms – 1.5 to 1.6 million starts.

Viewing unadjusted monthly data, both permits and starts declined - - the last quarter of the year traditionally exhibits this behavior.

Source: U.S. Department of Commerce-Construction

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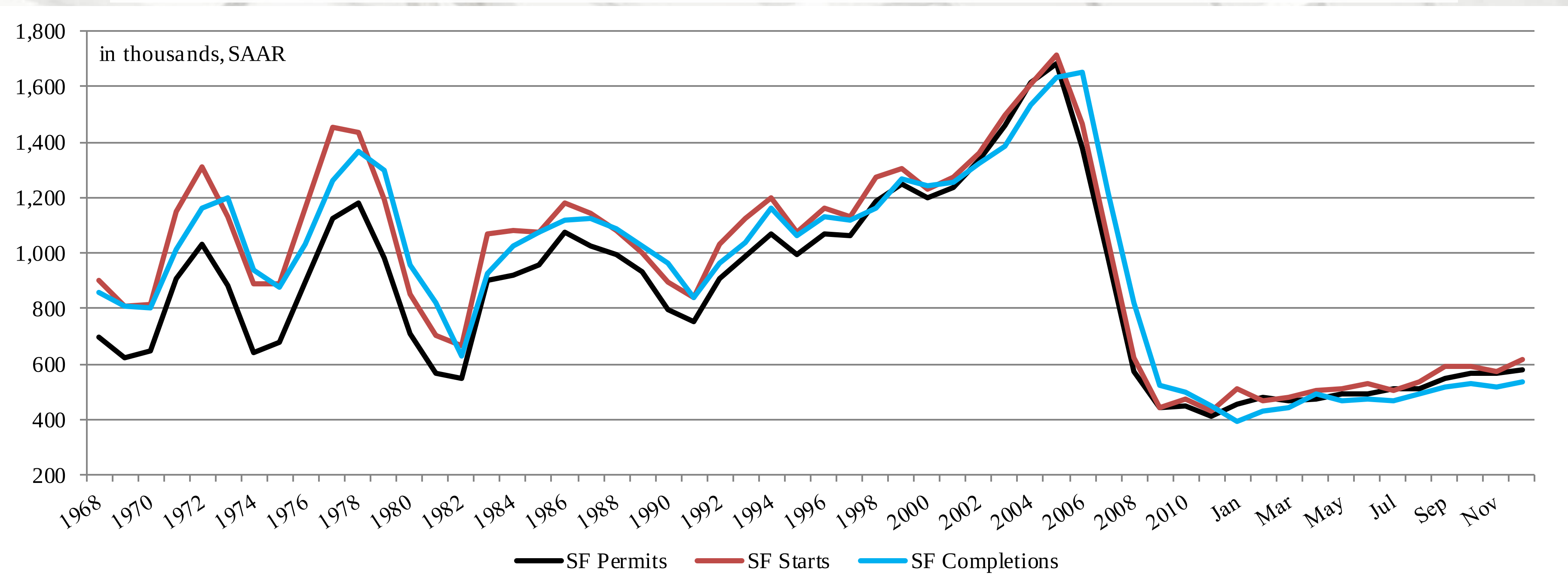
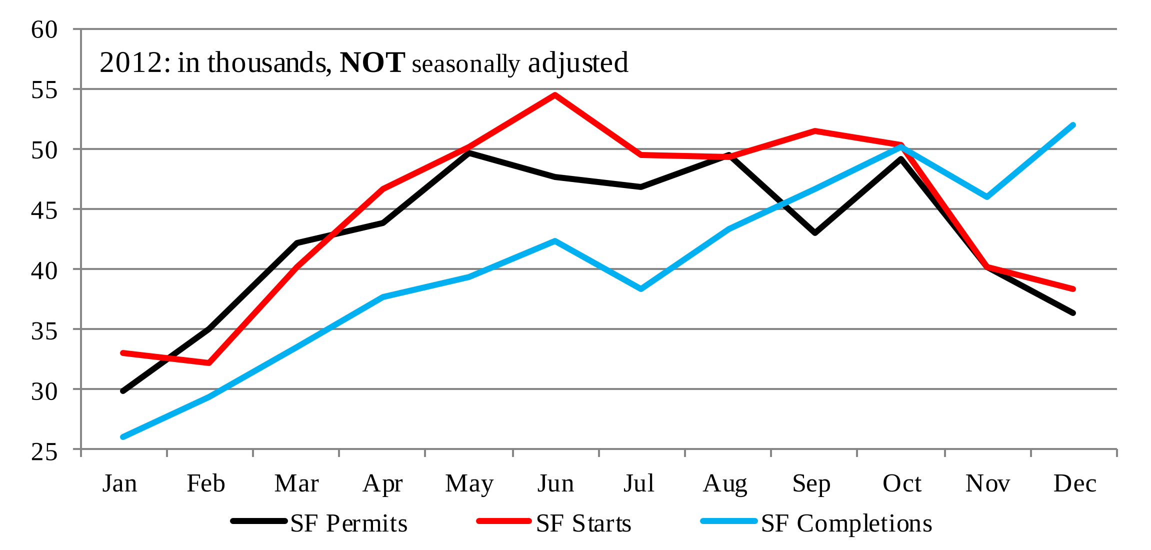
Total SF Permits, Starts, and Completions





In 2012, single-family aggregate data registered nice gains.

However, looking at unadjusted monthly data, the steep drop in SF permits and starts in the last quarter of 2012 bears watching.

December's seasonal adjustment value for SF starts was about 16 – it will be interesting to see if there are revisions made to December start numbers.

Source: U.S. Department of Commerce-Construction

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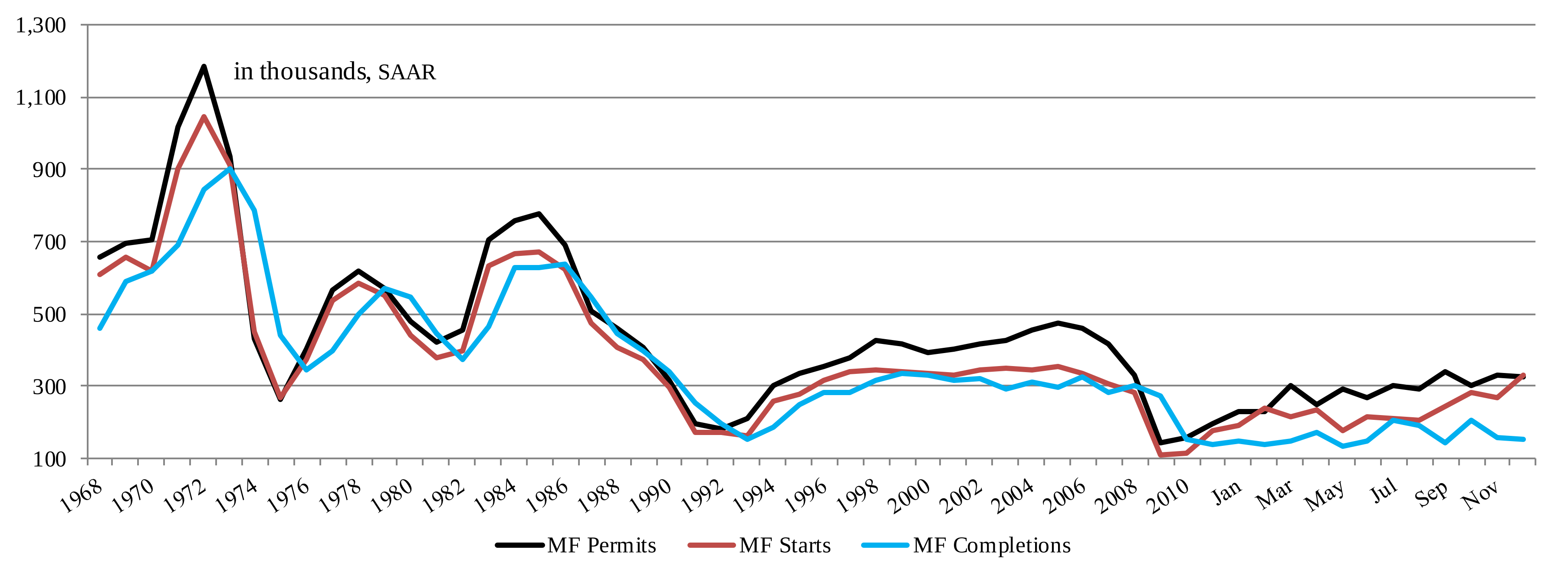
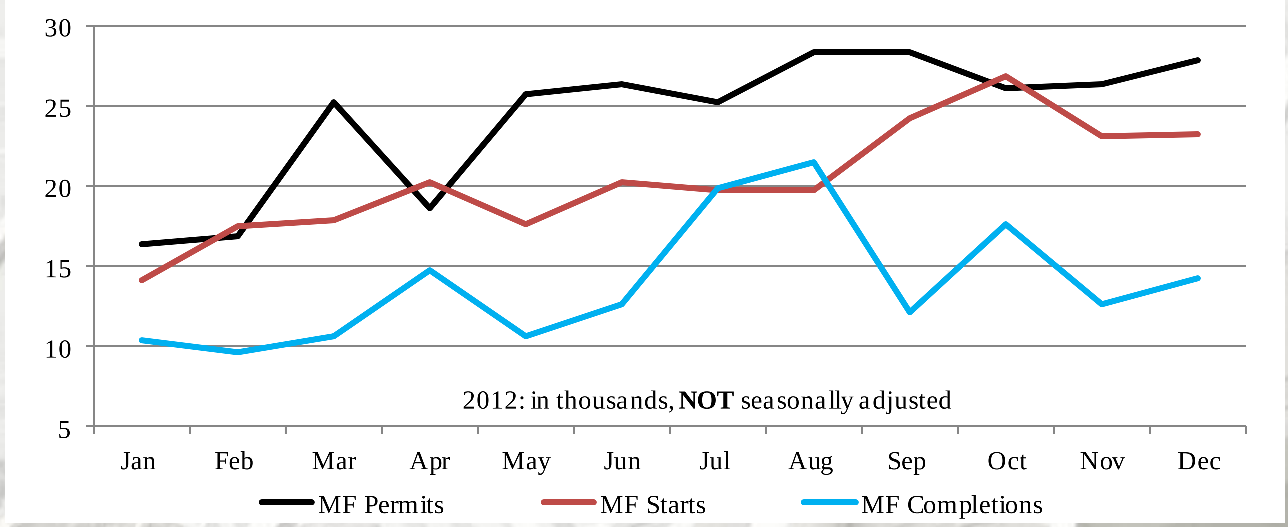
Total MF Permits, Starts, and Completions





Multi-family aggregate data has been relatively stable and has increased in 2012. Many credit MF housing along with investors buying SF homes for rental use as another factor as drivers in the housing market.

Viewing unadjusted monthly data, permits and starts are steady – with completions lagging.

Source: U.S. Department of Commerce-Construction

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New and Existing House Sales

	New Single-Family Sales*	Median Price	Month's Supply	Existing House Sales[5]*	Median Price[5]	Month's Supply[5]
December	398,000	$248,900	4.9	4,940,000	$180,800	4.4
November	369,000	$245,600	4.5	4,990,000	$179,400	4.8
2011	339,000	$227,200	5.4	4,380,000	$166,100	8.2
M/M change	-7.3%	+1.3%	+8.9%	-1.0%	+2.1%	-8.5%
Y/Y change	+8.8%	+9.5%	-9.3%	+12.8%	+11.5%	-21.6%

* All sales data are SAAR

Commentary on Housing Sales

New single-family house sales – decreased
Existing house sales – decreased

"While this is still close to multi-decades low [SF sales], it must be seen in the context of demand, which is yet to move much beyond current cycle lows. The worry, though, is that with the pace of new residential building activity now approaching 1m [million] units, the impending surge in new homes supply could create a problem for this segment of the housing market, unless there is a . . . increase in demand."[5]

- - Millan Mulraine, Senior U.S. Macro Strategist, TD Securities

Source: U.S. Department of Commerce-Construction; [4]National Association of Realtors, www.realtor.org/topics/existing-home-sales; 1/22/13; [5]www.ft.com/cms/s/0/e9eb326c-66ff-11e2-a83f-00144feab49a.html#ixzz2J0YTm4qW; 1/25/13

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Existing House Sales

National Association of Realtors (NAR)[5]
December 2012 sales data:

Distressed houses: 24% of sales –

(12% foreclosures and 12% short-sales)

Distressed house sales: 22% in November
and 32% in November 2011

All-cash sales: increased to 29% – 30% in November

Investors are still purchasing a substantial portion of
“all cash” sale houses – 29%;
30% in November 2012 and 21% in December 2011

First-time buyers: **remained at** 30% (30% in November 2012)
and first-time buyers were 31% in December 2011[5]

Source: [5]www.realtor.org/topics/existing-home-sales, 1/22/13

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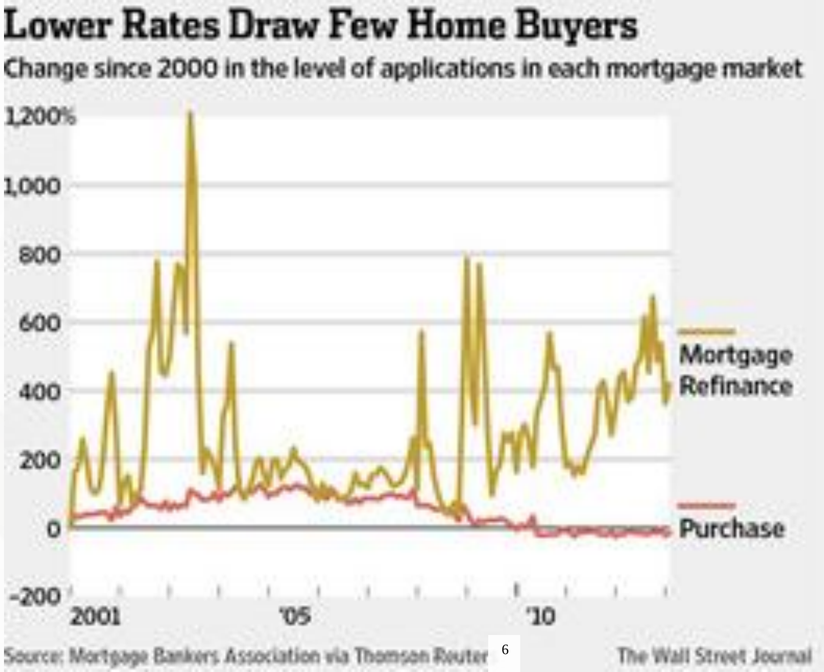
New and Existing House Sales



[6]

"WE'RE beginning to hear noises that we've reached a major turning point in the housing market — and that, with interest rates so low, this is a rare opportunity to buy. But are such observations on target? It would be comforting if they were. Yet the unfortunate truth is that the tea leaves don't clearly suggest any particular path for prices, either up or down.

I can't offer any clearer picture, and I don't see a solid basis for anyone else to do so, either."[7]

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

Source: [6]http://professional.wsj.com/article/SB10001424127887324442304578232083386220100.html?mod=WSJPRO_hpp_LEFTTopStories; 1/10/13; [7]www.nytimes.com/2013/01/27/business/housing-markets-future-still-has-many-clouds.html?ref=business&_r=2&; 1/26/13

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December 2012 Construction Spending

Private Construction: $308.15 billion (SAAR)

2.2% above the revised November estimate of $301.65 billion (SAAR)
23.6% above the December 2011 estimate of $248.18 billion (SAAR)

December SF construction: $144.82 billion (SAAR)
0.8% above November: $143.72 billion (SAAR)
28.3% above December 2011: $110.78 billion (SAAR)

December MF construction: $25.78 billion (SAAR)
6.2% above November: $24.27 billion (SAAR)
57.4% above December 2011: $16.36 billion (SAAR)

December Improvement[A] construction: $137.55 billion (SAAR)
2.9% above November: $133.65 billion (SAAR)
14.5% above December 2011: $120.13 billion (SAAR)

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

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

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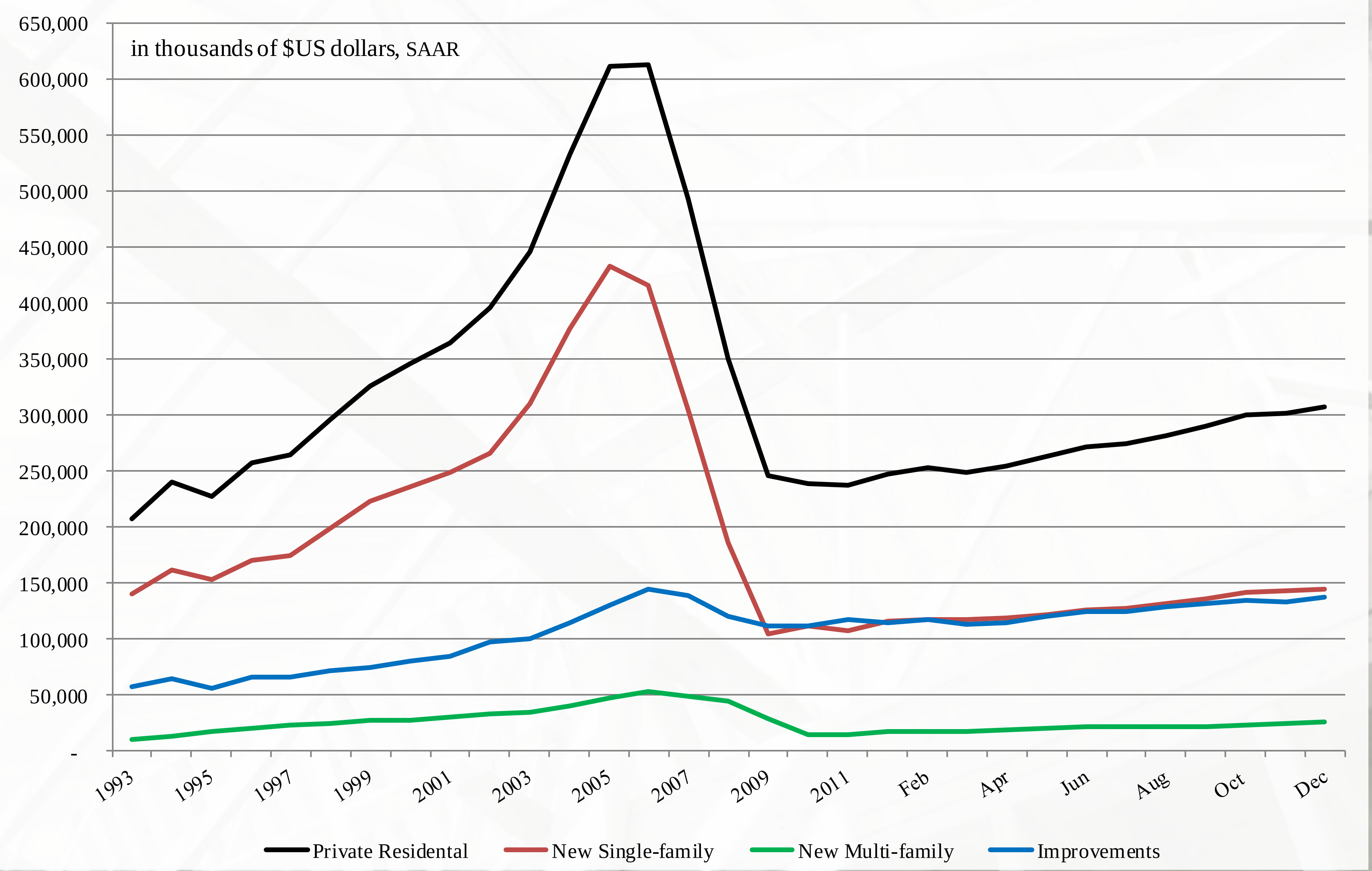
1993 to 2012 Construction Spending



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

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

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November 2012 Construction Spending

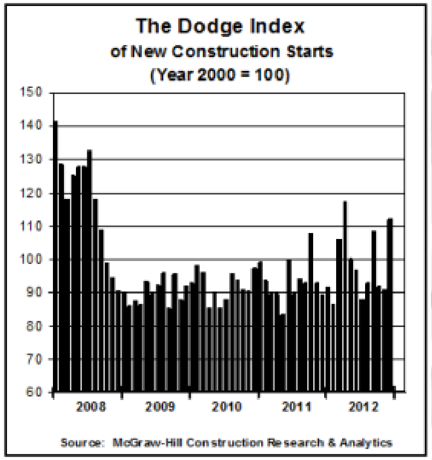
"**Residential building** in December <u>increased 6%</u> to $198.5 billion (annual rate). Single family housing advanced another 3% in December, and over the course of 2012 demonstrated remarkably steady growth, with gains reported in eleven out of the twelve months. Multifamily housing showed a more varied pattern during 2012, but ended the year with a 15% gain in December.

The 2012 amount for residential building was $163.4 billion, up 29%, which marked a noteworthy change from the modest 4% gain registered in 2011.

<u>Single family housing in 2012 climbed 29% in dollar terms</u>, versus the 3% decline that was reported for 2011. The regional pattern for single family housing in 2012 showed increases for all five major regions, as follows – the West, up 40%; the Midwest, up 32%; the South Atlantic, up 29%; the South Central, up 23%; and the Northeast, up 15%. <u>Multifamily housing in 2012 advanced 30%</u>, showing additional growth on top of increases in 2010 (up 21%) and 2011 (up 34%). By major region, multifamily housing registered this performance in 2012 – the West, up 46%; the Northeast, up 35%; the South Central and the South Atlantic, each up 27%; and the Midwest, up 10%."[8]

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

November 2012 Construction Starts



MONTHLY SUMMARY OF CONSTRUCTION STARTS
Prepared by McGraw-Hill Construction Research & Analytics

Seasonally Adjusted Annual Rates, In Millions of Dollars

	December 2012	November 2012	% Change
Nonresidential Building	$189,024	$141,805	+33
Residential Building	198,534	187,144	+6
Nonbuilding Construction	142,483	100,582	+42
TOTAL Construction	$530,041	$429,531	+23

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

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

	12 Mos. 2012	12 Mos. 2011	% Change
Nonresidential Building	$149,704	$165,048	-9
Residential Building	163,399	126,299	+29
Nonbuilding Construction	150,522	147,851	+2
TOTAL Construction	$463,625	$439,198	+6

Source: [8]www.construction.com/about-us/press/November-construction-slipls-5-percent.asp; 12/20/12

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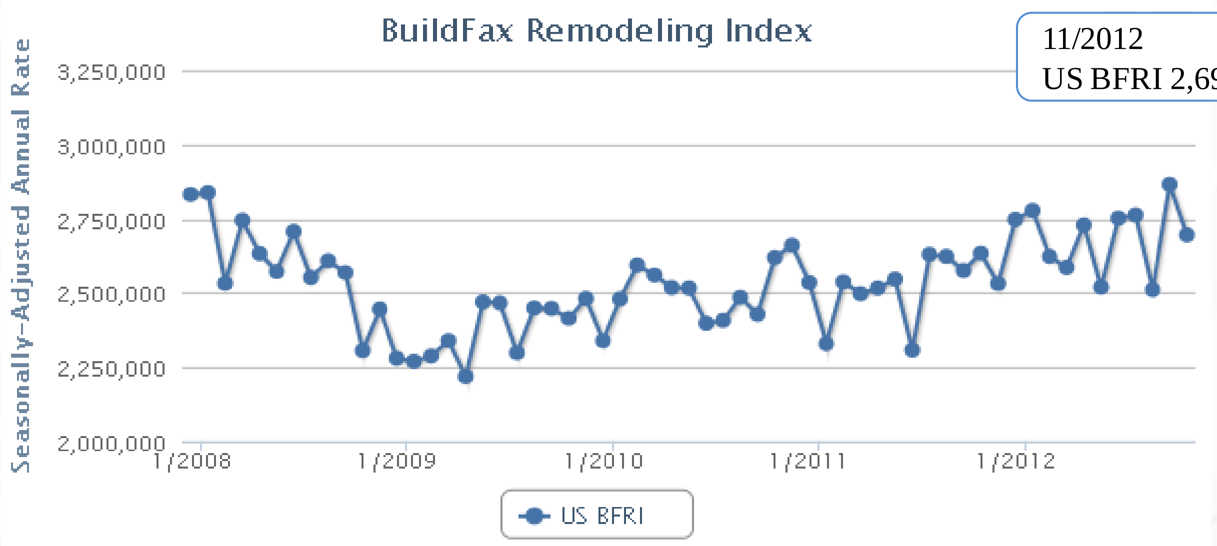
Residential Remodeling August 2012

November Residential Remodeling Permits: 2,695,000 (SAAR)

-6.0% **below** the revised October estimate of 2,865,000 and
2% **above** November 2011's 2,633,000 permits



"Seasonally-adjusted annual rates of remodeling across the country in November 2012 are estimated as follows: Northeast, 400,000 (down 6% from October and equal to November 2011); South, 1,081,000 (down 18% from October and up 2% from November 2011); Midwest, 565,000 (up 10% from October and up 2% from November 2011); West, 739,000 (down 1% from October and up 3% from November 2011) (SAAR).

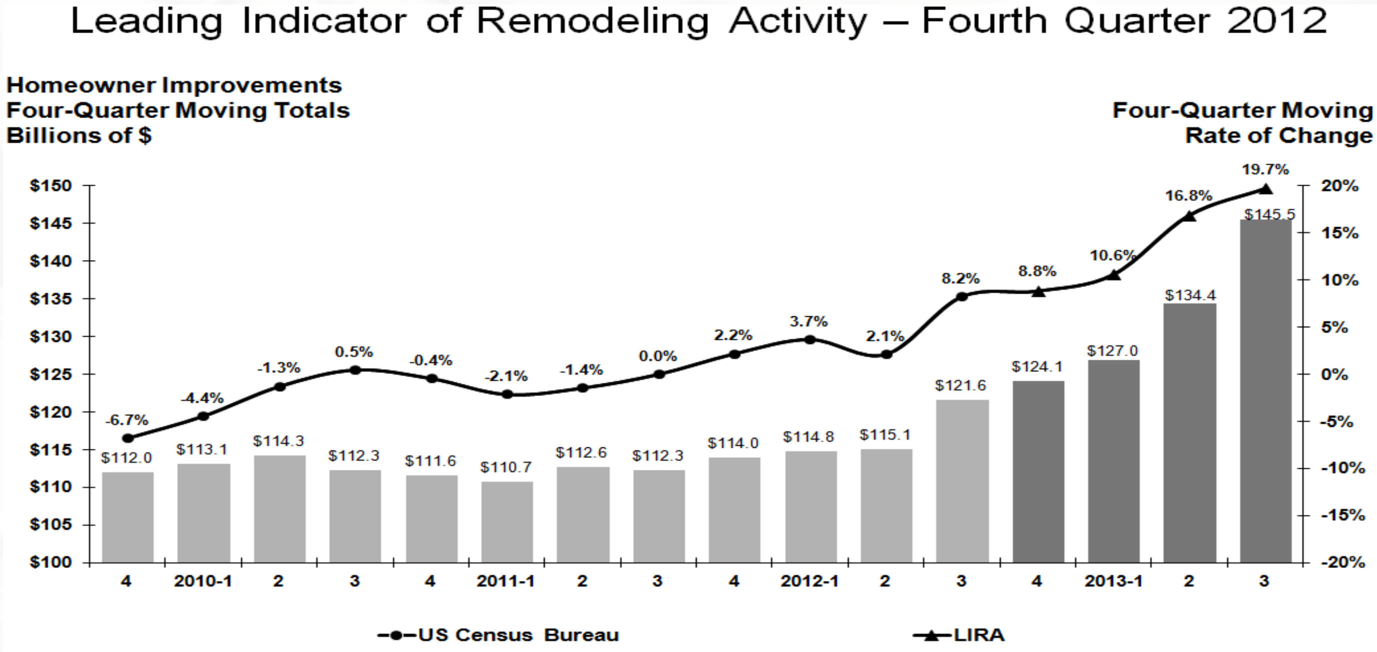
In November, remodeling activity for the nation showed signs of settling down for the winter, with 2012 as the fourth year in a row that residential remodeling activity has increased."[9]

- - Joe Emison, Chief Technology Officer, BuildFax

Source: [9]www.buildfax.com/public/remodeling/index.html; 1/16/13

Residential Remodeling 2013

LIRA: Remodeling Recovery Underway and Picking Up Steam



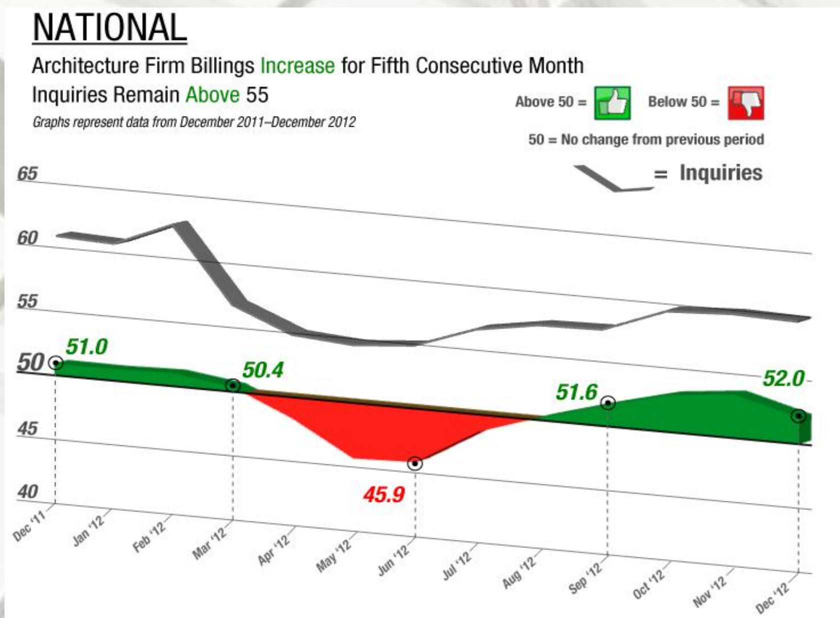
"It's encouraging to see the residential sector finally contribute to growth in our economy. Through the first three quarters of 2012, investment in the residential sector was responsible for 1 of every 6 dollars added to our GDP. Moving forward, home improvement spending is expected to make an even larger contribution to GDP growth.

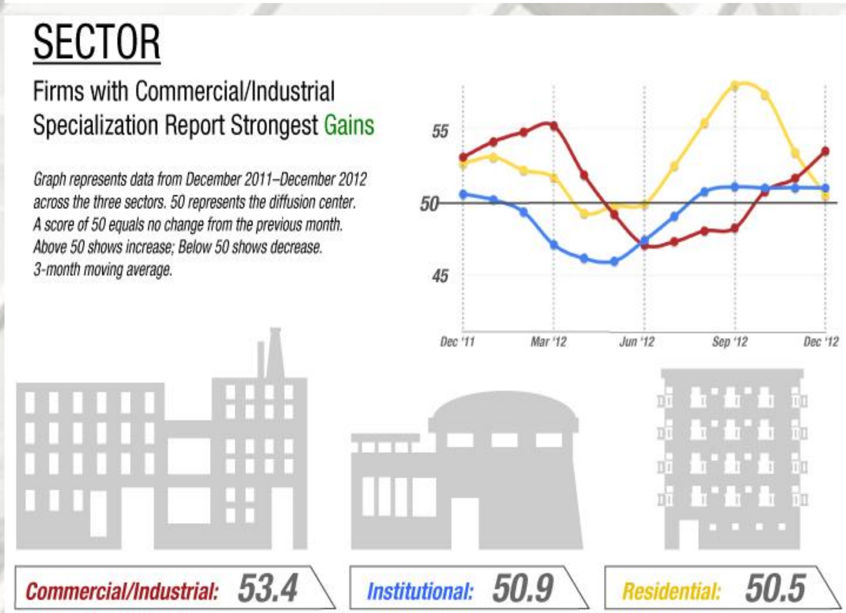
There are many external economic and political risks that could derail this remodeling recovery. However, the solid momentum behind home building activity, existing home sales, low financing costs, and remodeling contractor sentiment all point to a solid start to the new year for home improvement spending."[10]

-- Kermit Baker, Director of the Remodeling Futures Program and Eric Belsky, Managing Director of the Joint Center for Housing Studies of Harvard University

Source: [10]www.jchs.harvard.edu/lira-remodeling-recovery-underway-and-picking-steam; 1/17/13

Architectural Billing Indicators





Final ABI for 2012 Caps Strongest Year Since 2007

"Architecture firms continued to report improving business conditions in December, with an Architecture Billings Index score of 52.0. While the pace of billings growth slowed slightly from November, it is still the 5th consecutive month of growth, which means eight months of 2012 showed improving business conditions, the most in one calendar year since 2007. Inquiries into new projects remained strong, and firm backlogs for the 4th quarter inched up slightly from the 3rd quarter to an average of 4.5 months.

Existing residential real estate activity also increased in all districts, and those districts that had unused housing inventory reported it to be declining. However, nonresidential construction is slightly weaker than residential construction… .

Business conditions continued to improve at firms in all regions of the country in December with the exception of firms in the West, which continued to struggle to recover from nearly five years of declining billings. Firms located in the Midwest reported particularly strong firm billings last month after suffering a period of softness in the middle of the year. And for the third consecutive month, firms of all specializations reported experiencing increasing firm billings. The pace of growth has slowed significantly from the middle of the year for firms with a residential specialization, but continues to improve for firms with a commercial/industrial specialization."[11]

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

Source: [11]www.aia.org/practicing/AIAB097350; 1/25/13

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Housing Recovery Kept Up Steady Pace in December

"In December 2012, construction starts jumped dramatically, while home sales and the delinquency + foreclosure rate remained near their strong November levels:

- **Construction starts leapt to a 54-month high in December**. Starts were at a 954,000 annualized rate, up 12% month-over-month and up 37% year-over-year. That's the highest level since June 2008. Looking at all of 2012, starts were up 28% compared with 2011, led by construction in Texas and the Carolinas and by a rebound in multi-unit building construction. Construction starts are now 47% of the way back to normal.
- **Existing home sales slipped slightly in December**. Sales dropped 1% to 4.94 million–still the second-highest level since November 2009. That puts sales 68% back to normal. Year-over-year, sales were up 13%. The better news is that "distressed" sales (foreclosures and short sales) represent a declining share of overall sales. Excluding distressed sales, "conventional" home sales were up 26% year-over-year in December.
- **The delinquency + foreclosure rate held steady**. In December, 10.61% of mortgages were delinquent or in foreclosure, down a hair from 10.63% in November. The combined delinquency + foreclosure rate is at its lowest level in four years and is 41% back to normal.

Averaging these three back-to-normal percentages together, the housing market is now 52% of the way back to normal, compared with 27% in December 2011. In just the past three months, Trulia's Housing Barometer has jumped 11 points, from 41% in September 2012 to 52% in December 2012. However, the recovery is uneven: in some of the healthiest markets, like Houston, San Francisco, and Raleigh, NC, construction is above normal levels and there are few foreclosures left to come. At the same time, in Miami, Chicago, and Riverside-San Bernardino, construction remains far below normal and there are many foreclosures in the pipeline; in those markets, the recovery is still an uphill climb."[12]

- - Jed Kolko, Chief Economist, Trulia Housing Research

Source: [12] http://trends.truliablog.com/2013/01/housing-recovery-kept-up-steady-pace-in-december/; 1/23/13

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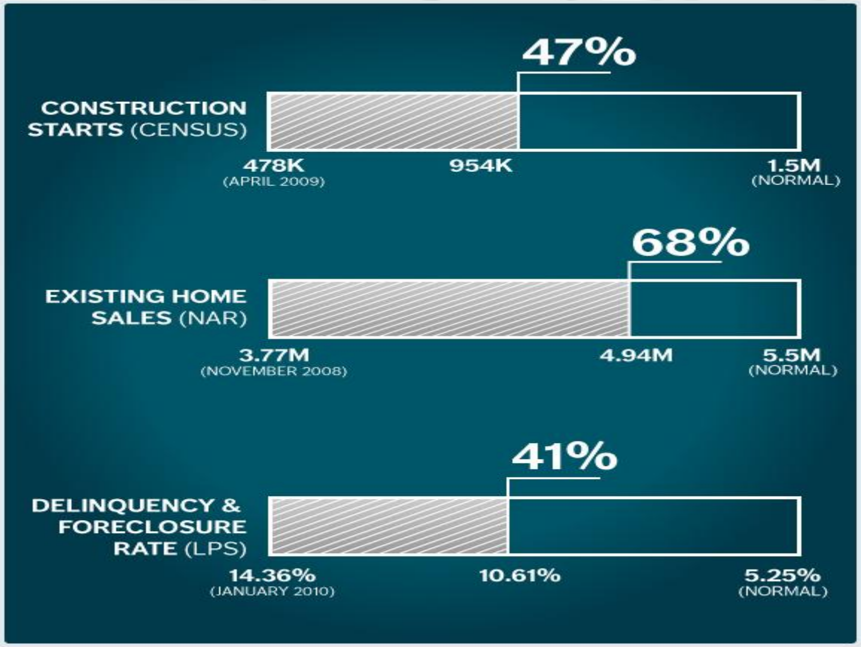
Housing is 52% Back to “Normal”



Source: [12]http://trends.truliablog.com/2013/01/housing-recovery-kept-up-steady-pace-in-december/; 1/23/13

Shiller, Fulton, and Rand Speak on Housing

Robert Shiller

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

U.S. Housing Decline Could Go On

Dan Fulton

President and Chief Executive Officer, Weyerhaeuser

Feeling Good About Housing Recovery

Greg Rand

Chief Executive Officer, OwnAmerica

Mixed Messages From The Housing Market

Double click on the photo for the link

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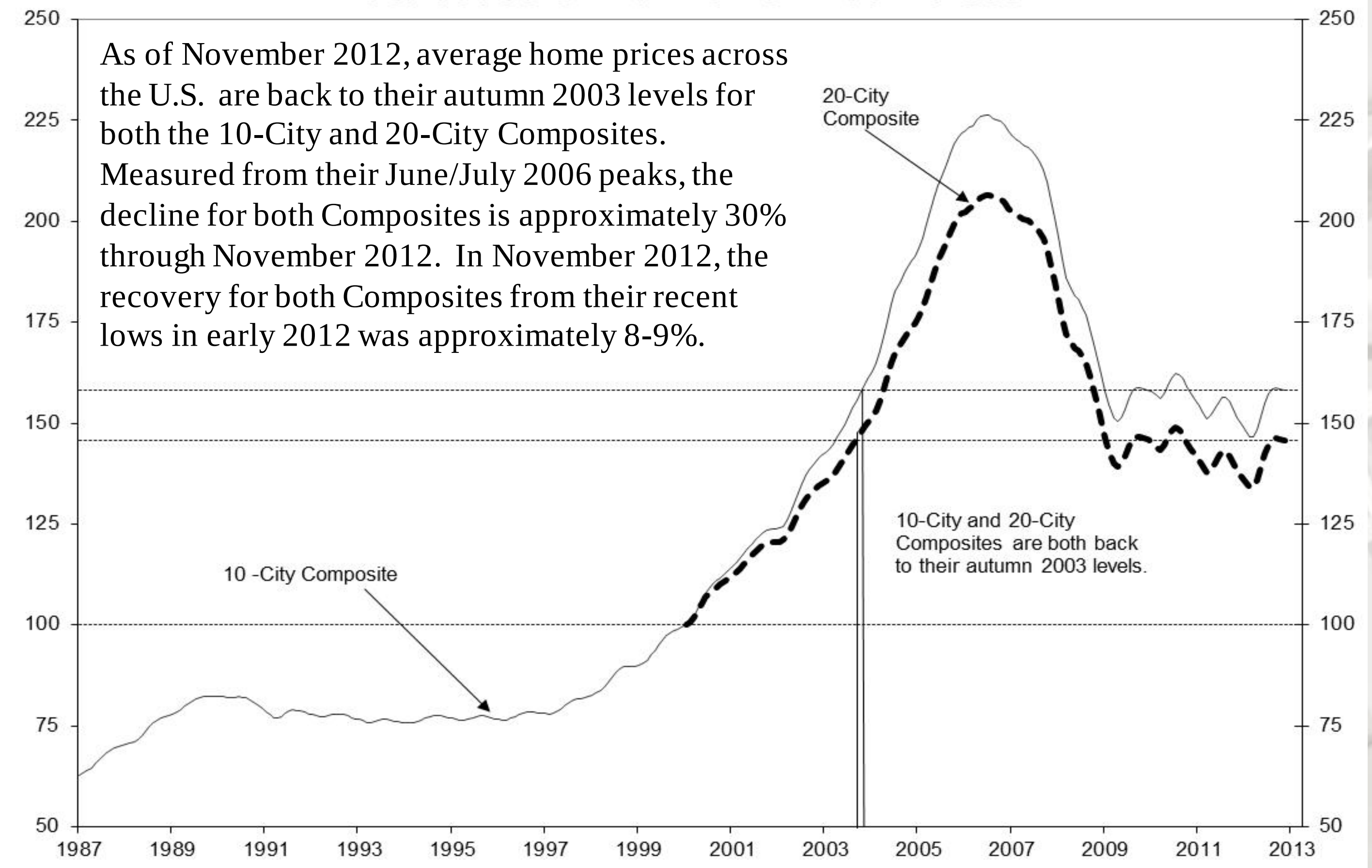
S&P/Case-Shiller November Home Price Indices



"S&P/Case-Shiller Home Price Indices showed home prices rose 4.5% for the 10-City Composite and 5.5% for the 20-City Composite in the 12 months ending in November 2012. Winter is usually a weak period for housing which explains why we now see about half the cities with falling month-to-month prices compared to 20 out of 20 seeing rising prices last summer. The better annual price changes also point to seasonal weakness rather than a reversal in the housing market. Further evidence that the weakness is seasonal is seen in the seasonally adjusted figures: only New York saw prices fall on a seasonally adjusted basis while Cleveland was flat."[13]

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

Source: [13]Case-Shiller® and Case-Shiller Indexes® and Fiserv; 1/23/13

November 2012 Home Prices

	U.S.	M/M Change
CoreLogic® HPI	146.36	+0.3%
Clear Capital HDI™	109	+0.9%
LPS®	$207	+0.5%
Federal Housing Finance Agency HPI	192.8	+0.6%
FNC RPI™	135.02	+0.3%
Zillow®	$157,400	+2.5%*

"As we close out 2012 the pending index suggests prices will remain strong. Given that the recently released Qualified Mortgage rules issued by the Consumer Financial Protection Bureau are not expected to significantly restrict credit availability relative to today, the gains made in 2012 will likely be sustained into 2013."[14]

- - Mark Fleming, Chief Economist, CoreLogic

"Overall the housing recovery still shows evidence of pushing ahead, as indicated by our December home price trends and 2013 forecasts. Quarterly home prices mostly mirrored those of last month and suggest that some buyers took pause in the initial winter months. Yet, looking back over 2012, national yearly price gains of 4.9% are still strong. The housing landscape, however, could quickly shift should the broader economy tumble back into recessionary territory. Whether by perception or actual decrease in buying power for the average consumer, residual effects of the fiscal cliff deal could cause housing to change course. But as it stands now, home prices have continued to show resiliency by posting their largest yearly gain in nearly two and a half years.[15]

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

Source: [14]www.corelogic.com/research/hpi/november-2012-home-price-index-report.pdf; 1/15/13
www.fhfa.gov/webfiles/24915/MonthlyHPI12313Final.pdf; 1/23/13
www.zillow.com/blog/research/2012/10/22/u-s-home-values-post-big-gains-but-recovery-is-uneven-among-markets, 10/22/2012 (*quarterly estimate)
[15]www.clearcapital.com/company/MarketReport.cfm?month=January&year=2013; 1/8/13
www.fncrpi.com/press_releases.aspx?pr=60; 1/15/13
www.lpsvcs.com/LPSCorporateInformation/CommunicationCenter/DataReports/HPIReport/201302_HPI/LPS_HPI_Nov2012_Press_Release_FINAL.pdf ; 1/28/13

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Delinquencies, Foreclosures, Negative Equity, and Shadow Inventory

November 2012				
	Delinquent	**Foreclosures**	**Negative Equity**	**Shadow Inventory**
CoreLogic®D	2.7 million	56,000 foreclosures Dec 12 In foreclosure: 1.2 million	10.7 million	2.3 million
LPS®E	3.66 million	136,289 starts 1.77 million	9.8 million	
RealtyTrac®F	-	In foreclosure: 1.5 million Dec 2012 Foreclosed: 2,304,941 in 2012	10.9 million	-
Zillow®G	-	5.22 per 10,000 homes	+14 million	-

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

Source: [D]www.corelogic.com: 2/1/13; [E]www.lpsvcs.com: 1/30/13; [F]www2.marketwire.com, 1/13/13; [G]www.zillow.com; 1/22/13

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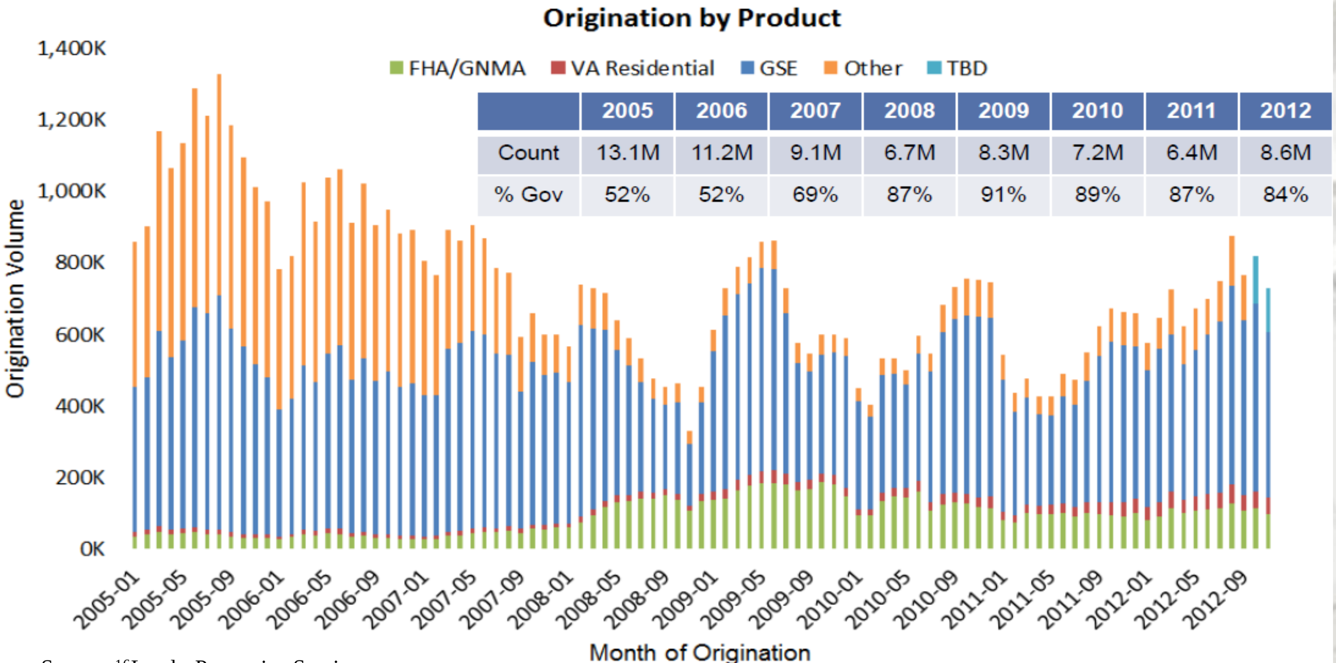
Mortgage Lending

Strongest full year originations since 2007; 84% gov't today vs. 69% in '07



	2005	2006	2007	2008	2009	2010	2011	2012
Count	13.1M	11.2M	9.1M	6.7M	8.3M	7.2M	6.4M	8.6M
% Gov	52%	52%	69%	87%	91%	89%	87%	84%

Source: [16]Lender Processing Services

"Though still a long way off from the historic level of originations that preceded the mortgage crisis, 2012 was the strongest full year of originations we've seen since 2007. Volumes were up approximately 34% year over year, with about 8.6 million new loans originated. And, while the majority of these new loans were government-backed -- 84% in 2012 as compared to just over 50% at the peak -- the trend over the last four years does suggest a slowly resurgent non-agency lending market."[16]

-- Herb Blecher, Senior Vice President, LPS Applied Analytics

Source: [16]www.lpsvcs.com/LPSCorporateInformation/CommunicationCenter/DataReports/MortgageMonitor/201212MortgageMonitor/MortgageMonitorDecember2012.pdf; 1/30/13

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Mortgage Lending

"Don't expect banks to ease their tightening lending policies until some risk is allowed back into the system. The right number isn't zero, and that's where we are right now."[17]

-- David Berson., Senior Vice President and Chief Economist, Nationwide Insurance

"The housing market has also been subject to new oversight, including that of the Consumer Financial Protection Bureau, which just this month announced new ability-to-repay standards for mortgage lenders. Those standards will make wild lending harder to do."[7]

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

"The Federal Reserve Board's Senior Loan Officer Opinion Survey indicates that while the majority of lenders have loosened mortgage lending standards slightly from the tough ones adopted in 2007, they have changed little since 2010. This partially explains the moderate increase in home sales despite record high housing affordability."[18]

-- Jann Swanson, Reporter, *Mortgage Daily News*

"I completely disagree that the Qualified Mortgage rules will ease any standards. I think on the margins, things will be a tad tighter. These changes will impact business operations and the future of mortgage access for years to come."[19]

-- David Stevens, Chairman and President, Mortgage Bankers Association

"The Dodd-Frank law limits total points and fees for qualified mortgages at 3% of the loan amount, including fees paid both by the borrower and lenders to loan officers. That could negatively impact large lenders, home builders and realty brokerages who use affiliated companies for certain loan-related services -- title, settlement, appraisal among others. Now, they'll somehow have to cram originator/ broker compensation and the affiliates' fees into deals to pass the 3% test -- if they can."[20]

-- Ken Harney, Nationally Syndicated Real Estate Columnist, Inman News

Source: [17]www.builderonline.com/economic-conditions/a-full-housing-recovery-is-still-less-than-certain.aspx; 1/23/13;
[7]www.nytimes.com/2013/01/27/business/housing-markets-future-still-has-many-clouds.html?ref=business&_r=2&; 1/26/13;
[18]www.mortgagenewsdaily.com/01242013_fannie_mae_forecast.asp; 1/24/13;
[19]www.inman.com/buyers-sellers/columnists/kenharney/new-mortgage-rules-could-crimp-lending; 1/15/13

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Mortgage Defaults

Mortgage Default Rates Continue to Rise

"Increased mortgage defaults pushed the overall consumer default rate up in December for the 3rd consecutive month.

The national S&P Experian Consumer Credit Default Index rose from 1.55% in October to 1.72% in December.

The index for first mortgage defaults showed the same pattern; from 1.36% in September to 1.68% in December."[21]

-- Jann Swanson, Reporter, *Mortgage News Daily*

"Overall, 2012 showed improvement in consumer credit quality. However, fourth quarter consumer default rates reversed some of the recent declines and pushed the composite default rate above its level of last May. The principal culprits were first and second mortgages. All five cities we cover showed increases in their default rates in December. All five cities remain below default rates they posted a year ago, in December 2011."[21]

-- David Blitzer, Managing Director and Chairman of the Index Committee, S&P Dow Jones Indices

"Canary in the coal mine? With data from the S&P/Experian Consumer Default Indices showing first mortgage default rates have been ticking upward since September 2012, is this a sign that municipalities may see the weak economic cycle extended?"[22]

--J.R. Rieger, Vice President, Fixed Income Indices, S&P Dow Jones Indices

Source: [21]www.mortgagenewsdaily.com/01152013_loan_defaults.asp; 1/15/13;
[22]www.housingviews.com/2013/01/15/with-mortgage-defaults-rising-again-is-the-underlying-health-of-municipalities-getting-weaker/?; 1/15/13

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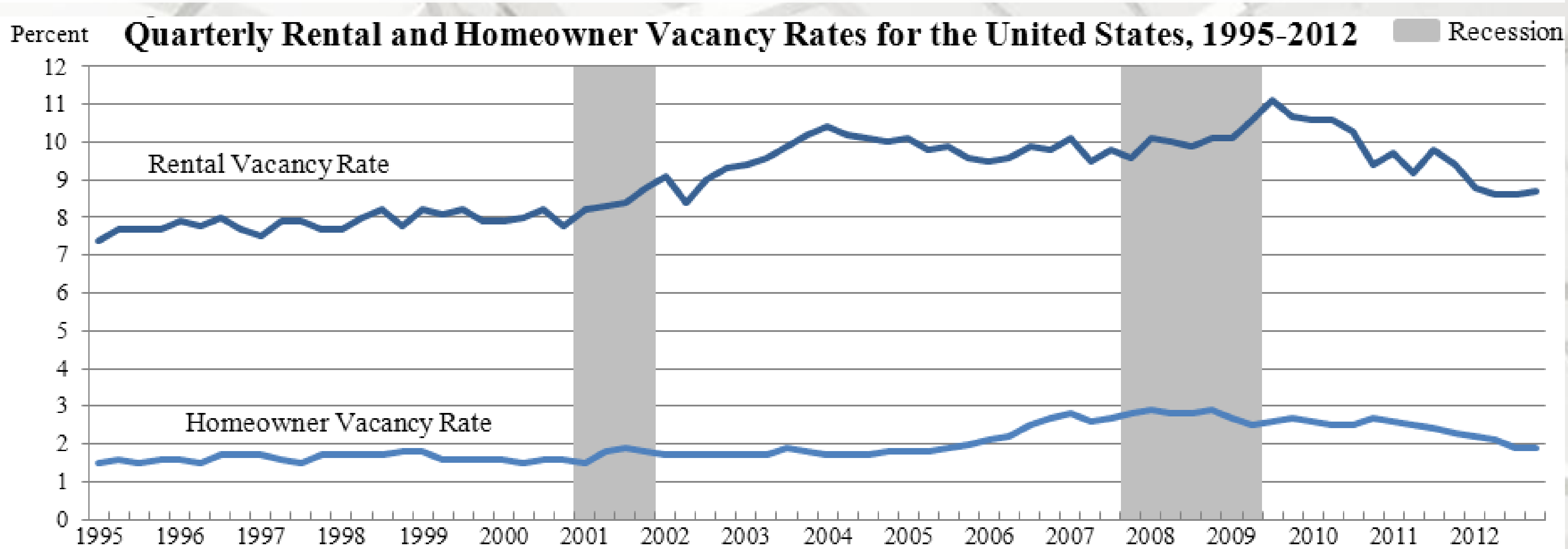
Vacancies and Homeownership



Residential and Homeowner Vacancies in the Fourth Quarter 2012

"National vacancy rates in the 4th quarter 2012 were 8.7% for rental housing and 1.9% for homeowner housing. The rental vacancy rate of 8.7% was 0.7 percentage points lower than the rate in the 4th quarter 2011 and 0.1 percentage point higher than the rate last quarter. The homeowner vacancy rate of 1.9% was 0.4 percentage points lower than the 4th quarter 2011 rate and approximately the same as the rate last quarter."[23]

- - Robert Callis and Melissa Kresin, Social, Economic, and Housing Statistics Division, USDOC Census Bureau

Source: [23]www.census.gov/housing/hvs/files/qtr412/q412press.pdf; 1/29/13

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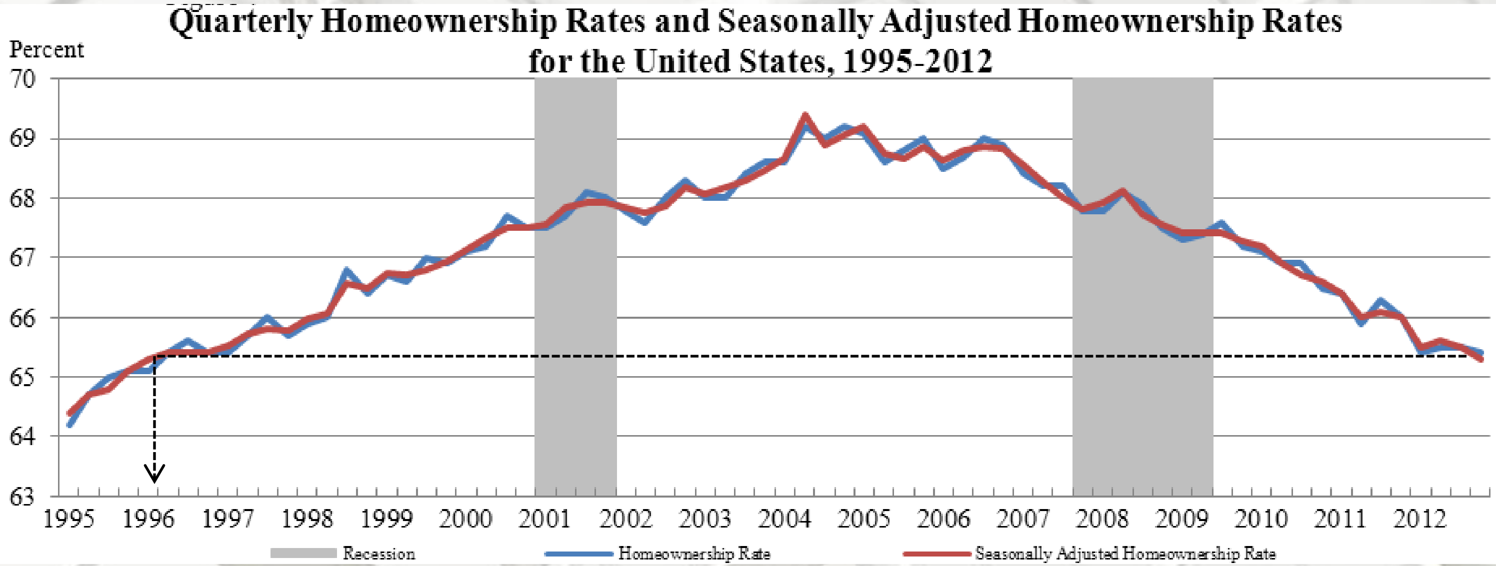
Vacancies and Homeownership



Homeownership in the Fourth Quarter 2012

"The homeownership rate of 65.4% was 0.6 percentage points lower than the 4th quarter 2011 rate (66.0%) and 0.1 percentage point lower than the rate last quarter (65.5%).

Approximately 86.5% of the housing units in the U.S. in the 4th quarter 2012 were occupied and 13.5% were vacant. Owner-occupied housing units made up 56.6% of total housing units, while renter-occupied units made up 30% of the inventory in the 4th quarter 2012." [23]

- - Robert Callis and Melissa Kresin, Social, Economic, and Housing Statistics Division, USDOC Census Bureau

"The fact that the housing recovery is being driven principally by investor demand means that the slight decline in the homeownership rate in the fourth quarter is unlikely to be the last."[24]

- - Capital Economics

Source: [23]www.census.gov/housing/hvs/files/qtr412/q412press.pdf; 1/29/13; [24]www.housingwire.com/fastnews/2013/01/29/us-homeownership-rate-continues-slip; 1/29/13

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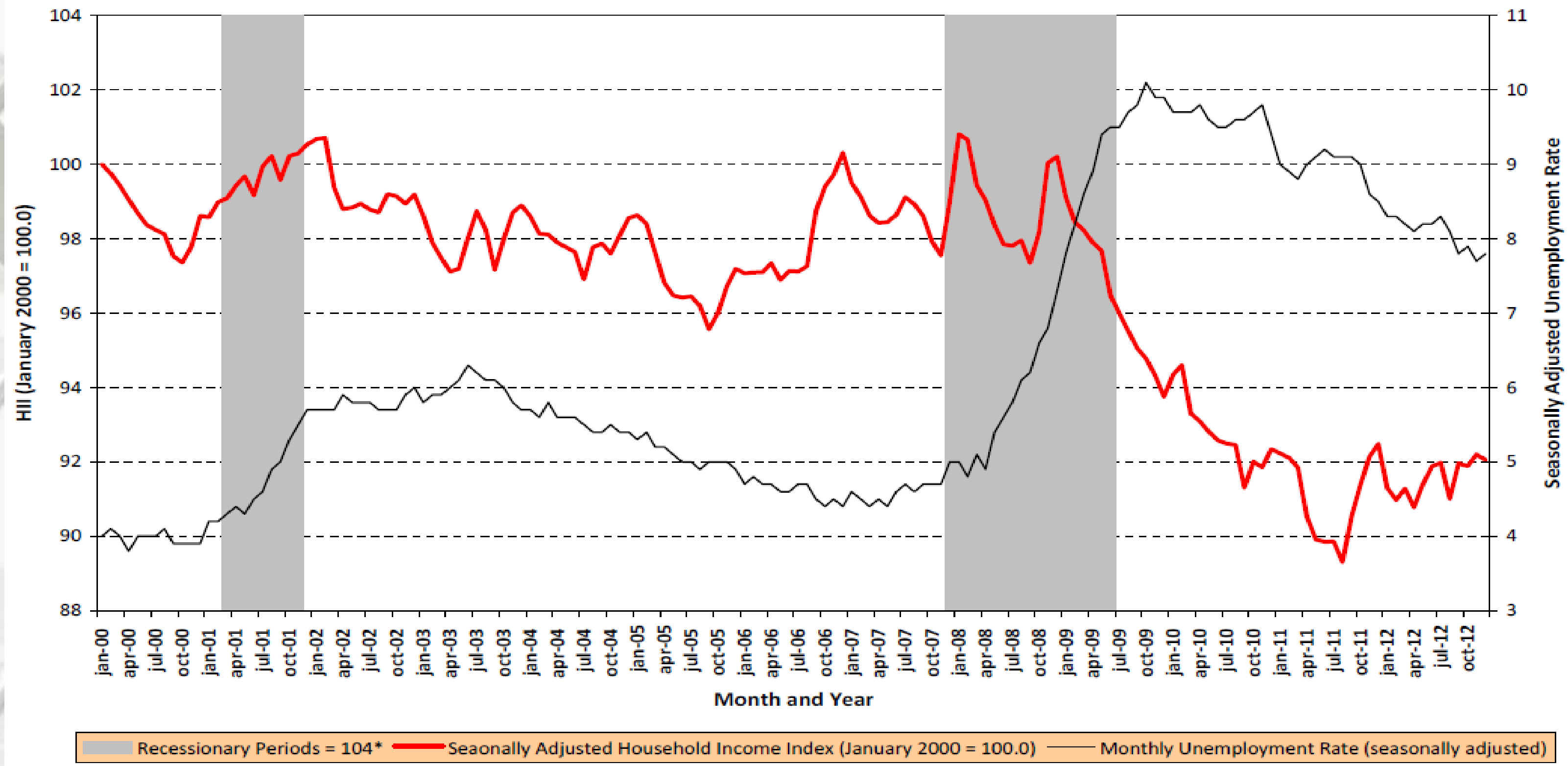
Demographics and Economics

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



"… between November 2012 and December 2012, the unemployment rate rose from 7.7 to 7.8%. The unemployment rate is significantly lower than the August 2011 level (9.1%), the month when the HII was at its lowest reading (89.3).

According to new data …, real median annual household income in December 2012 was $51,088, statistically unchanged from the November 2012 median of $51,171. The measured decrease of $83 between the two months was not statistically significant. This is the third month in a row that real median annual household income has failed to show a statistically significant change. Real median annual household income in December 2012 is not significantly different than the level that existed in December 2011."[25]

- - Dr. Gordon Green, Sentier Research

Source:. [25] www.sentierresearch.com; 1/25/13

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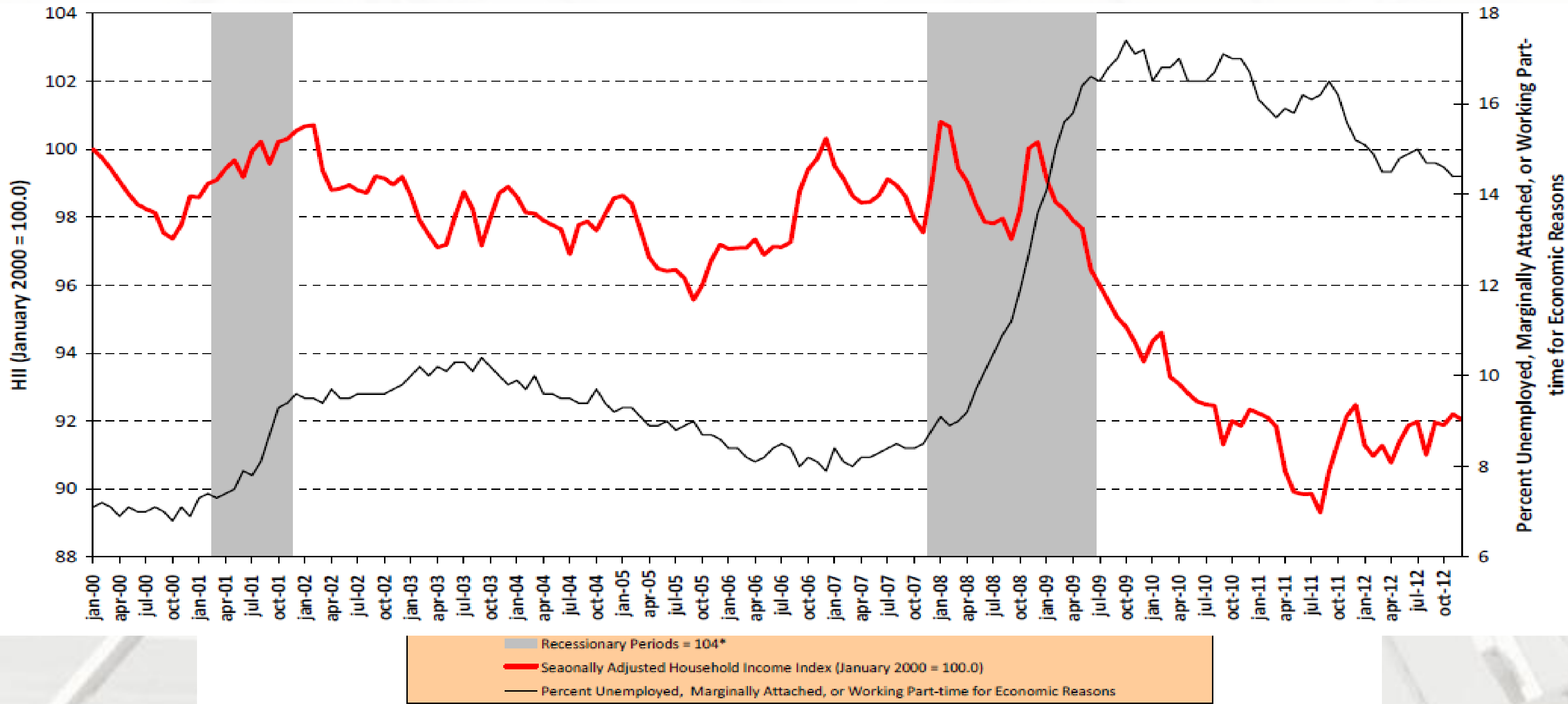
Median Household Income Index, Percent Unemployed, Marginally attached or Working Part-time for Economic Reasons: January 2000 to December 2012



"… the broad measure of employment hardship in December 2012 (14.4%) was at the same level reported in November 2012. This broad measure of employment hardship is also significantly lower than the August 2011 level (16.2%).

The December 2012 median annual household income of $51,088 was 4.6% lower than the median of $53,537 in June 2009, the end of the recent recession and beginning of the "economic recovery." The December 2012 median was 7.0% lower than the median of $54,945 in December 2007, the beginning month of the recession that occurred more than four years ago. And the December 2012 median was 7.9% lower than the median of $55,500 in January 2000, 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 ten years ago."[25]

- - Dr. Gordon Green, Sentier Research

Source:. [25]www.sentierresearch.com; 1/25/13

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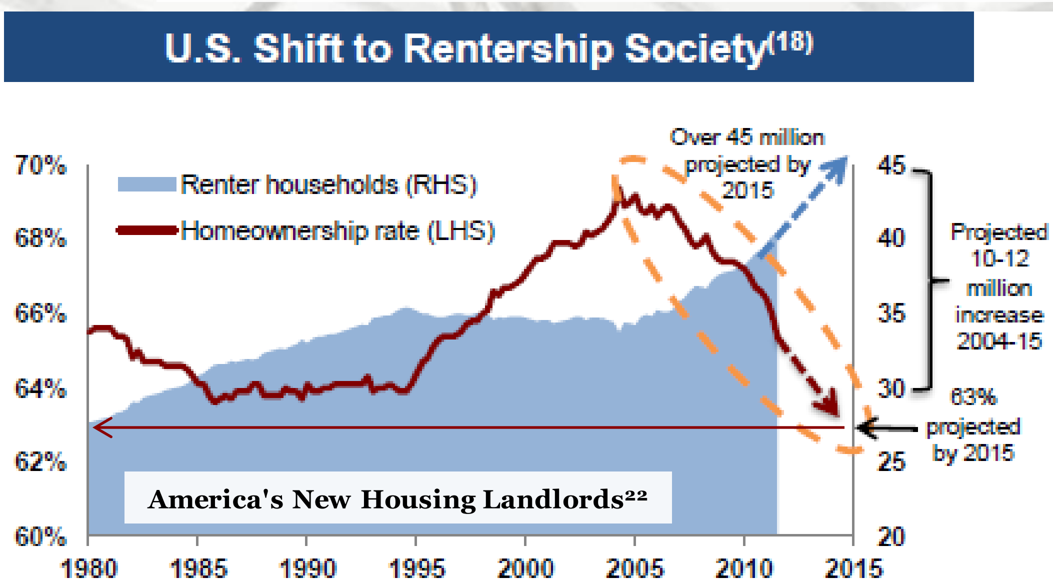
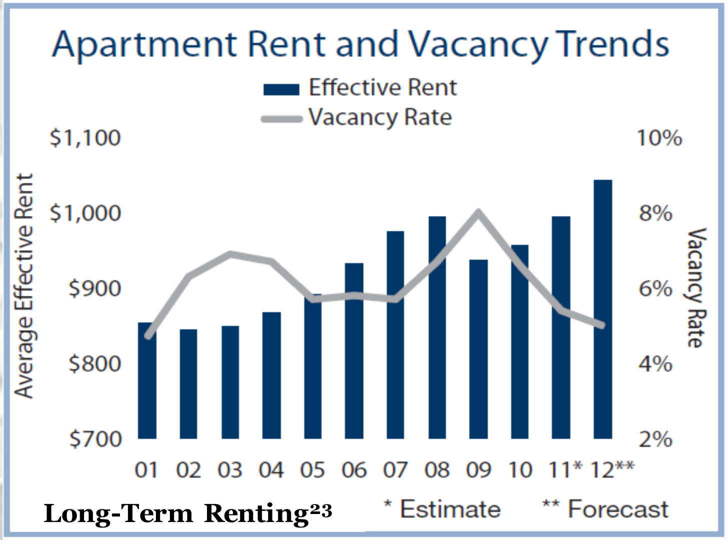
Renter Nation





Source: Marcus & Millichap, 2012 National Apartment Report

Recent Articles on a Renter Nation

America's New Housing Landlords

Russ Winter, Writer, Ditto Trading [26]

http://seekingalpha.com/article/1118851-america-s-new-housing-landlords?source=email_macro_view&ifp=0; 1/17/13;

Long-Term Renting - A Homeownership Alternative

Amalia Otet, Writer, Yardi Systems [27]

www.yardi.com/blog/insight/long-term-renting/4114.html; 1/7/13; 22

Multifamily Fundamentals Expected to Stay the Course in 2013

Kim Betancourt, Director of Economics, Multifamily Economics and Market Research [28]

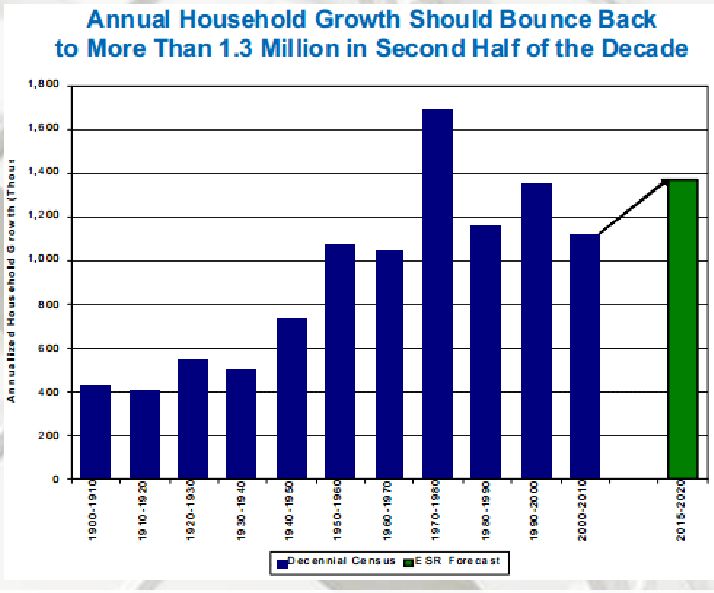
www.fanniemae.com/resources/file/research/emma/pdf/mf_mkt_commentary_012413.pdf; 1/24/13

Home Builders Turn to Rental Apartments

Diana Olick, Real Estate Reporter, CNBC[29]

www.cnbc.com/id/100407898; 1/25/13

Demographics



	2015-2020
Demand (thousands):	
Change in Households	1,370
Change in Vacancies	160
Net Removals	230
Total Demand	1,760
Supply (thousands):	
Single-Family	1,260
Multifamily	400
Manufactured	100
Total Supply	1,760

"Transition to Normal"

"Household formation, one of the main components of housing demand, continues to rebound, helping to reduce the homeowner and rental vacancy rates. Fannie Mae's projections of headship rates-the rates that population in various age cohorts will form into households-coupled with new Census Bureau data, leads to an estimate of a 1.37 million annual growth in households in the second half of the decade.

During the same period, there should be an annual increase in vacancy units of 160,000. This component of housing demand includes demand for second homes and vacant homes for sale and for rent required to facilitate the liquid operation of a healthy housing market. Vacancy rates have trended close to their long-term averages.

The third and final component of housing demand is net removals, which include houses lost to intentional demolition and disasters, and the net conversion of structures between residential and non-residential use. Fannie Mae "conservatively" estimates 230,000 net removals per year or 0.2% of the housing stock."[30]

- - Jann Swanson, Reporter, *Mortgage Daily News*

Source: [30]www.mortgagenewsdaily.com/01242013_fannie_mae_forecast.asp; 1/24/13

Future Building

Builders Bet on Housing Markets with Healthy Fundamentals

U.S. Metro		Permits per 1,000 housing units	Permits relative to metro's historical normal	% of permits in multi-unit buildings
1	Raleigh, NC	25.6	16%	50%
2	Austin, TX	24.7	33%	57%
3	Houston, TX	17.2	16%	34%
4	Charlotte, NC-SC	15.2	-22%	45%
5	Charleston, SC	15.1	-1%	34%
6	Dallas, TX	14.4	-7%	51%
7	Seattle, WA	12.3	-1%	60%
8	Jacksonville, FL	11.3	-31%	38%
9	Orlando, FL	11.3	-43%	38%
10	Oklahoma City, OK	11.0	20%	18%

"Construction is sprinting ahead in some metros and struggling in others. Based on local permit data through November, the latest available, Raleigh, NC had the highest rate of construction activity in 2012: 25.6 new building permits per 1,000 housing units. Three Texas metros – Austin, Houston, and Dallas – were also among the top 10 markets for construction activity. None of the top construction markets are in the Northeast or Midwest.

What explains these local differences in construction activity? These top markets for 2012 construction tend to have strong job growth and low vacancy rates, and they suffered relatively little during the housing bust. In contrast, construction in Phoenix and Las Vegas – the two markets with the biggest price gains in 2012 – is running at less than half the local historical normal. In 2012, builders bet on the markets with healthy market fundamentals that avoided the boom-and-bust – not the markets where prices were rebounding."[31]

- - Jed Kolko, Chief Economist, Trulia Housing Research

Source: [31] http://trends.truliablog.com/2013/01/2012-construction-rebound/; 1/17/13

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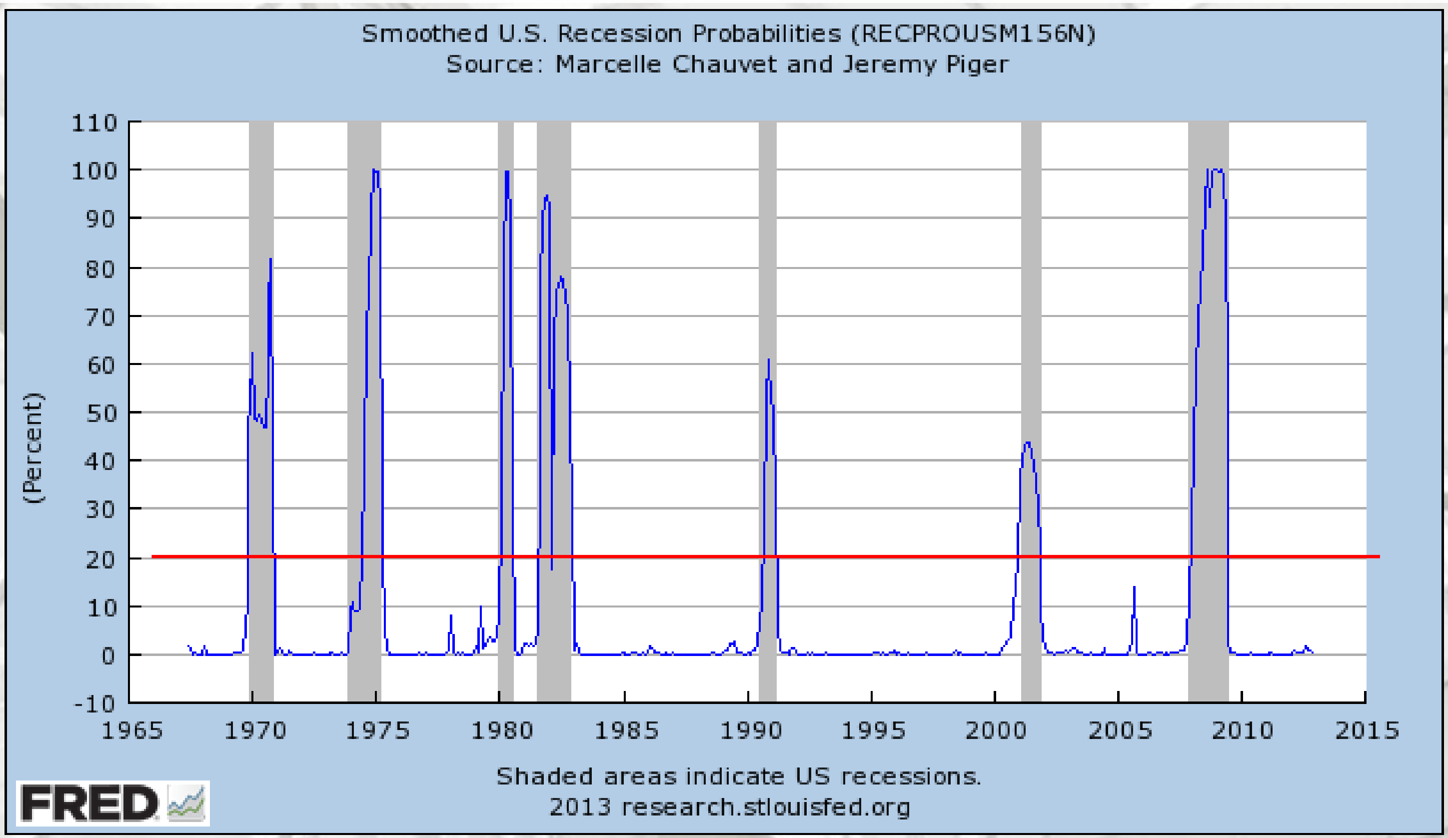
Recession Indicator: The Federal Bank of St. Louis



Smoothed U.S. Recession Probabilities

0.22 percent

Monthly, Not Seasonally Adjusted, updated: 2013-02-01

Historically, when this index reaches 20% a recession has followed (6-times in 46 years)

Source: http://research.stlouisfed.org/fred2/series/RECPROUSM156N; 2/2/13

Conclusions

December housing construction data was mixed. The primary construction indicators were up and while new and existing house sales decreasing. Reviewing the non-seasonally adjusted data, particularly single-family housing (Slide 10), we question if substantial revisions to the seasonally adjusted estimate for December will be forthcoming. Without multi-family construction, single-family houses being purchased for rentals, and single-family houses built for rent, this would be a struggling market.

Construction spending increased slightly for single-family houses in December; the big gainer was multi-family spending, an increase of 57% year-over-year. For the last two month's of 2012, single-family spending edged ahead of improvement spending. The remodeling sector continues to be reported as a promising sector; however, the estimates for remodeling permits continue to slide in December and overall for the fourth quarter of 2012.

The number of available new houses for sale increased, with existing houses continuing to decline to historically low-levels. Interest rates also are at historically low-levels but stricter lending standards inhibit some potential buyers. As such, the mortgage market appears to be stymied by these stricter lending standards and the new Qualified Mortgage rule (a vetting of a mortgagee's employment and financial history, ability to repay, and down payment requirements by the lender), according to experts, does not offer much relief at this point in time (Slide 28). This also is demonstrated in the graph found on Slide 14, where the change in the level of applications for purchase appears to be decreasing during the past few years. Also, the rise in existing and first mortgage defaults is disturbing.

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Conclusions

Household formations and the number of houses needed are expected to strongly increase in the years 2015 through 2020. Another important economic factor we did not mention is our increasing energy independence – with new sources of energy being tapped this may entice manufacturing back to the U.S. and hopefully give some relief at the ‘pump’ in the future.

The housing market appears to be healing; however, recent housing data was muddled. Thus, our near-term outlook on the U.S. housing market remains unchanged again – there remain too many potential negative and/or lackluster macro-factors at this point in time for a robust housing recovery. Why?

1) Consumer confidence – currently decreasing and most report confidence 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 banking regulations to be implemented in the future.

Until next month.

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