

# ***Real Estate 2009, The Economy, and The Outlook***

**Jed Smith**

**Managing Director, Quantitative Research  
NATIONAL ASSOCIATION OF REALTORS®**

**Bluegrass Region's Annual Washington Fly-In  
Capitol Visitors Center Senate Visitors Center  
Room 210/212  
Thursday, July 9<sup>th</sup>  
9:00-9:45**

# Section 1: The Economy

How it Began: Financial Sectors AND Manufacturing/Services Sectors

AIG



BEAR  
STEARNS



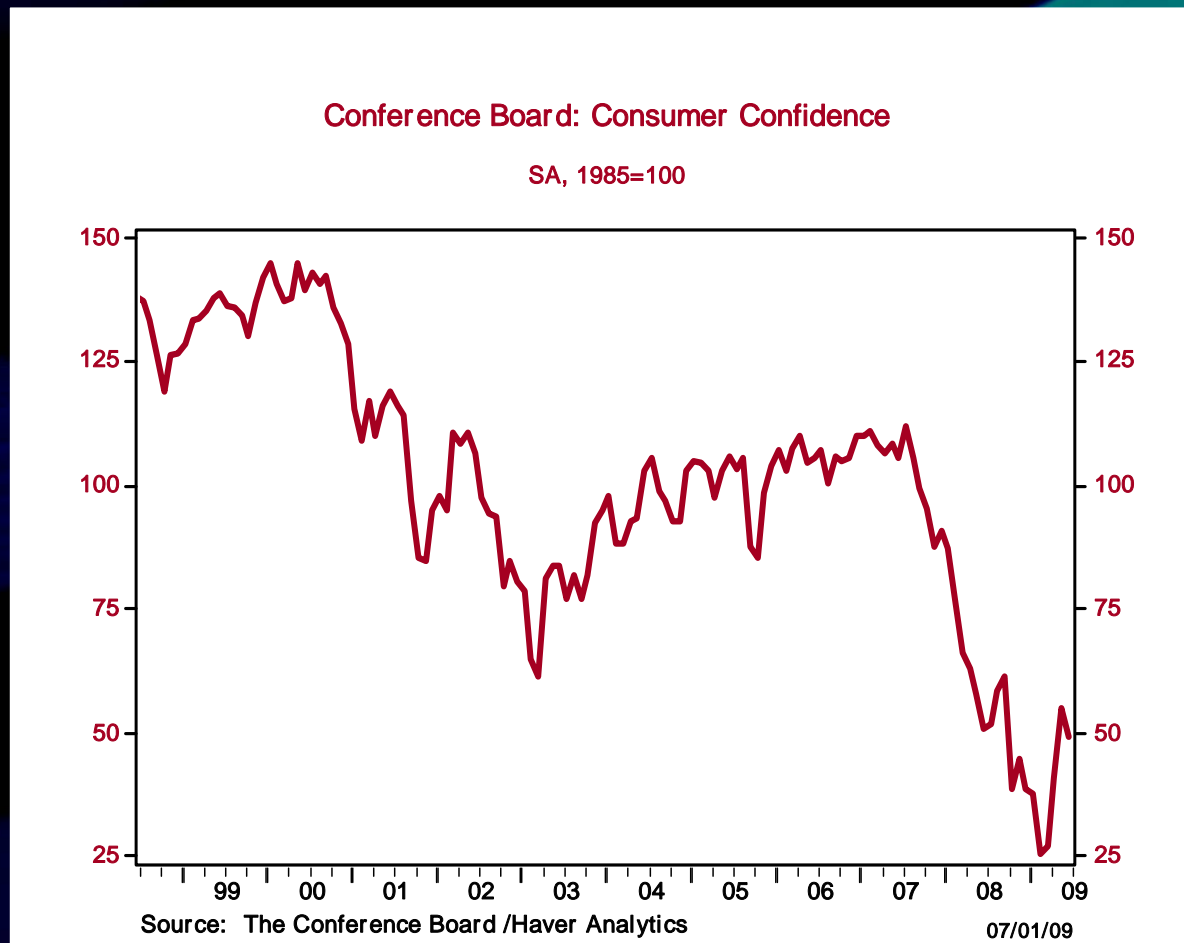
# What Happened?

Leverage, Consumer, Financial and Goods Sectors Out of Sync

- **Permissive Financial Behavior**
  - **Excessive Risk:** Leveraged Buyouts, Speculation, subprime loans, credit cards, auto loans, student loans, home equity loans, Subprime, Alt-A, Mortgage Backed Securities.
  - **Consumers:** Wants as needs Home as piggy-bank; weakened consumer balance sheets!
- **Weakened Financial Institutions**
  - Impact on credit availability.
  - Deleveraging/Residential & Commercial real estate.
- **Production Sectors—weak/uncompetitive/obsolete.**
  - Automobiles, housing, manufacturing, financial sectors.
  - Stock market sends a message.

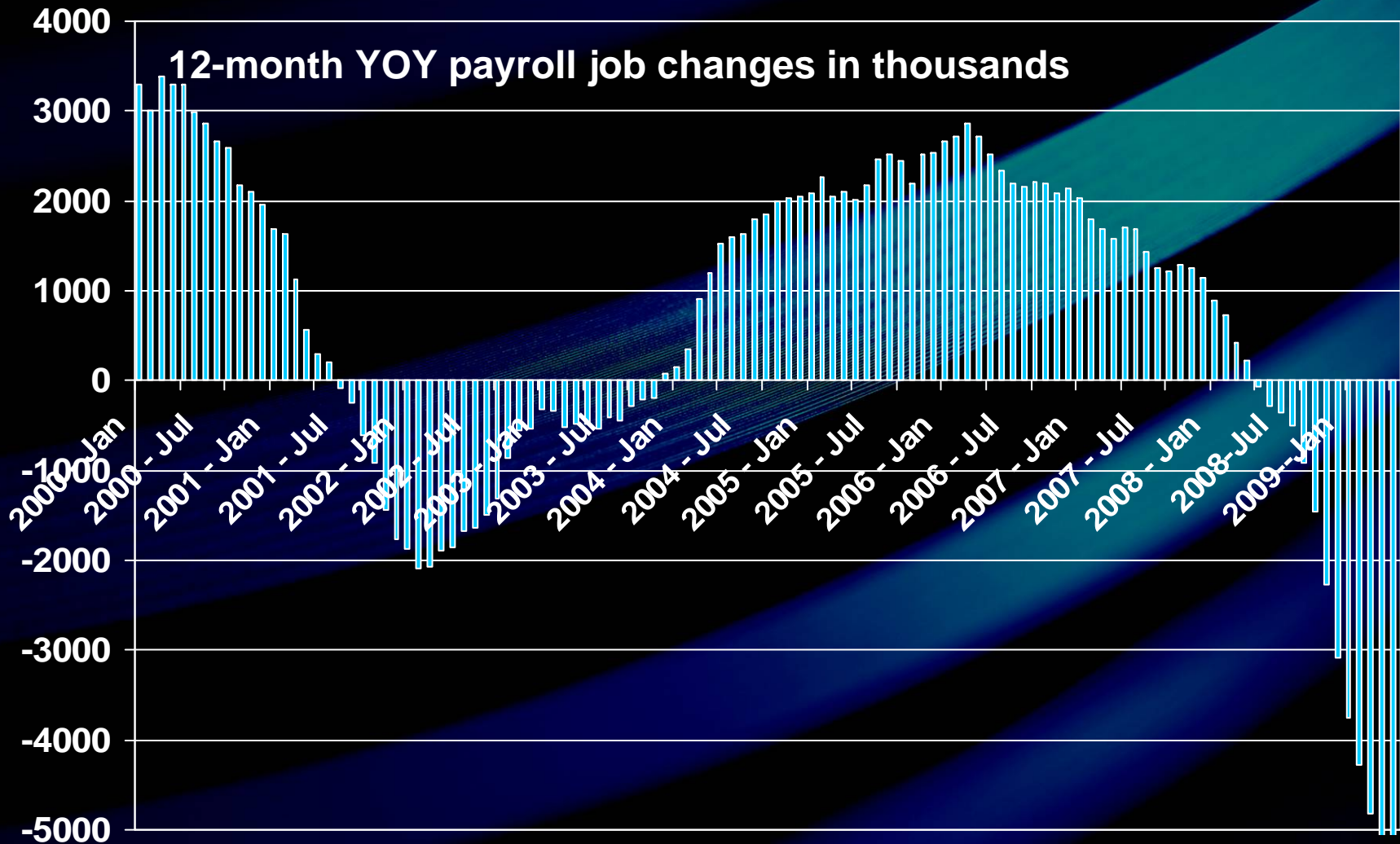
# Consumer Confidence

## Impact of the Cyber Cracker Barrel



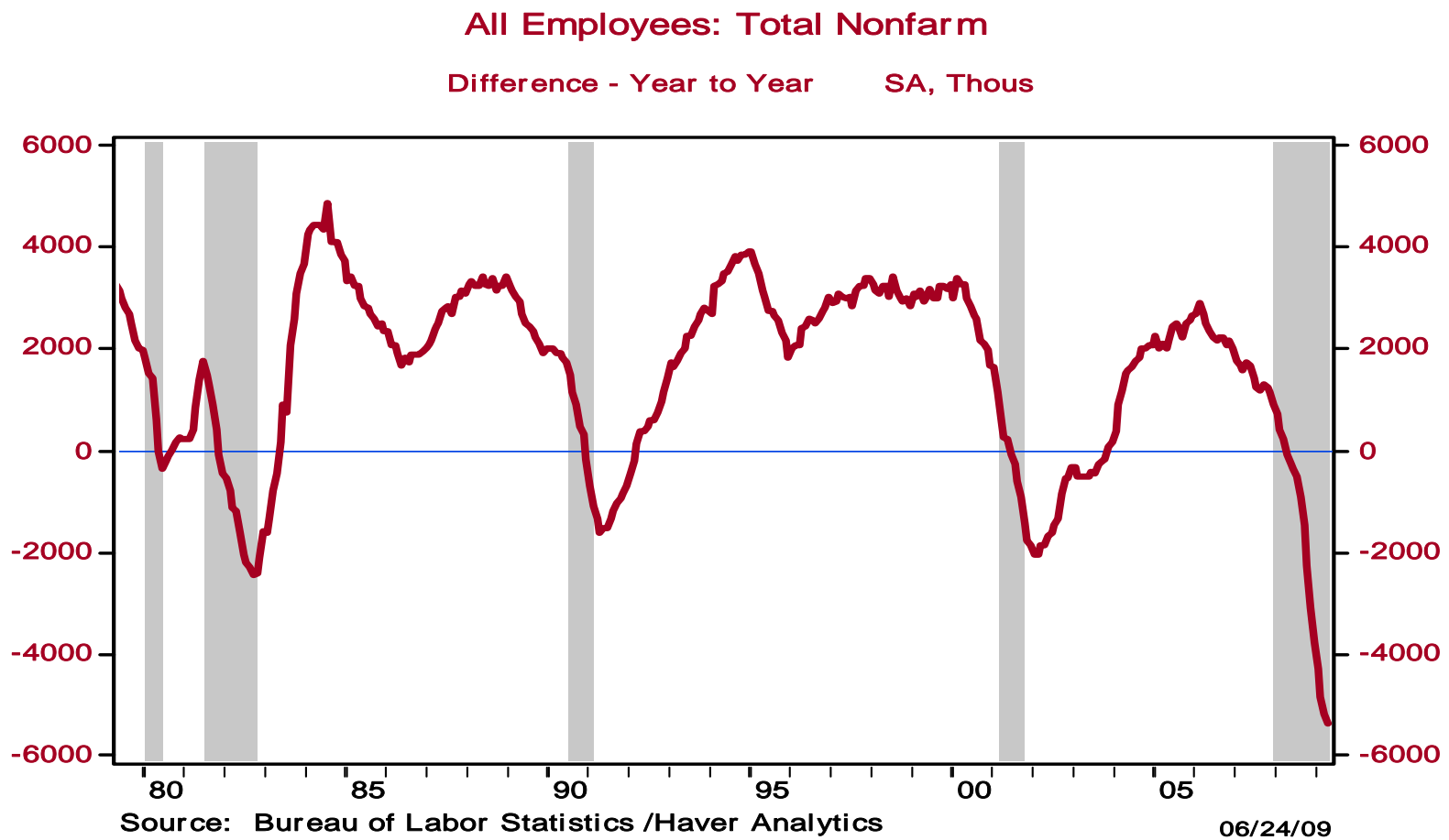
# U.S. Job Gains – Now Negative

## Establishment Data, YOY/12 Month Change



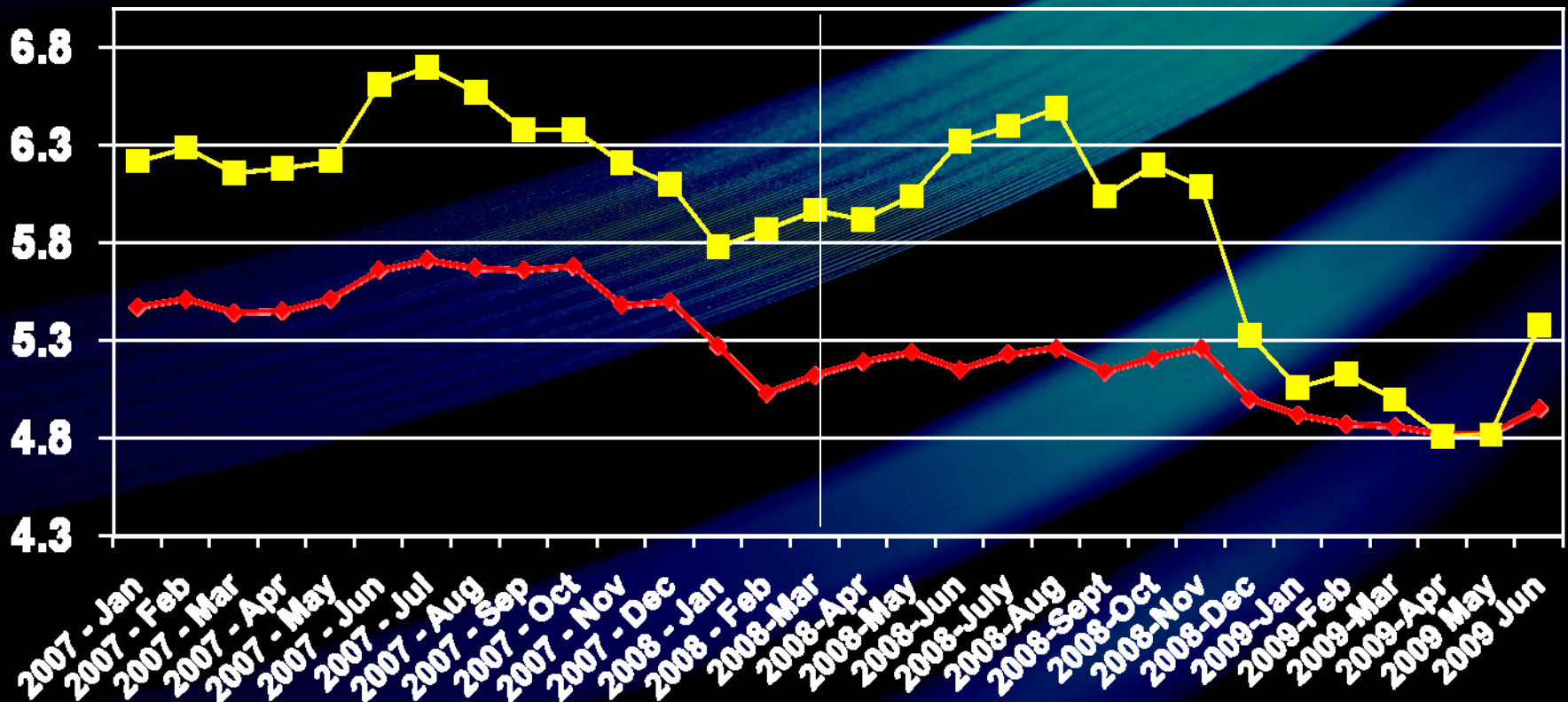
Source: BLS

# Jobs and Recessions—A Closer Look



# Interest Rates

◆ 1 Yr. Arm    ■ 30 Yr Fixed



Source: Freddie Mac

# Federal Initiatives

- **Troubled Assets Relief Program (TARP).**
  - Providing capital to banks.
- **Stimulus Bill: The \$787 billion dollar American Recovery and Reinvestment Act of 2009.**
  - Home buyer tax credit: \$8000; Conforming loan limits at \$729,750.
- **Home Refinancing Programs.**
  - **The Home Affordable Refinance Program:** Refinance current conforming loans, LTVs above 80 percent, Upside down less than 105 percent. Potential Impact: 4-5 million homeowners.
  - **Home Affordable Modification Program:** Focus on homeowners at risk/in default: Impact: 3-4 million homeowners.
- **Term Asset Backed Securities Loan Facility (TALF)**
  - Liquidity for autos, credit cards, and support for commercial mortgage-backed securities.

# When is the Recovery?

## Slow and Weak

- **Financial System—Crash of the Shadow Banking System;**
- **To be resolved: Derivatives and Toxic Assets.**
- **Recession—in the Manufacturing and Services Sectors of the Economy.**
- **Stimulus: Too Little and Too Late.**
- **Deleveraging: Asset Markets, Risk Concerns, Confusion.**
- **Real Estate Markets**
  - **Residential: Foreclosures, Prices, Upside Down Loans, Tighter Loan Standards, Appraisal Issues.**
  - **Commercial: Major Financing Issues.**
- **The Current Economic Recovery: Remarkably Weak.**

# Economic Outlook

## Issues: Government Actions, Timing, Uncertainties

	2007	2008	2009	2010
<i>Annual Growth Rate</i>				
Real GDP	2.0	1.1	-2.6	1.5
Nonfarm Payroll Employment	1.1	-0.4	-3.4	-0.1
Consumer Prices	2.9	3.8	-0.4	2.1
Real Disposable Income	2.8	1.3	1.5	1.5
Consumer Confidence	103	58	44	55
Unemployment Pct.	4.6	5.8	9.5	10.1
<b>Housing Indicators--000</b>				
Existing Home Sales*	5,652	4,913	4885	5,162
New Single-Family Sales	776	485	325	371
Housing Starts	1,355	904	492	605
Existing Home Prices \$--000	219.0	198.1	178.0	184.9
New Home Prices	247.9	232.1	215.6	224.8

Source: NAR

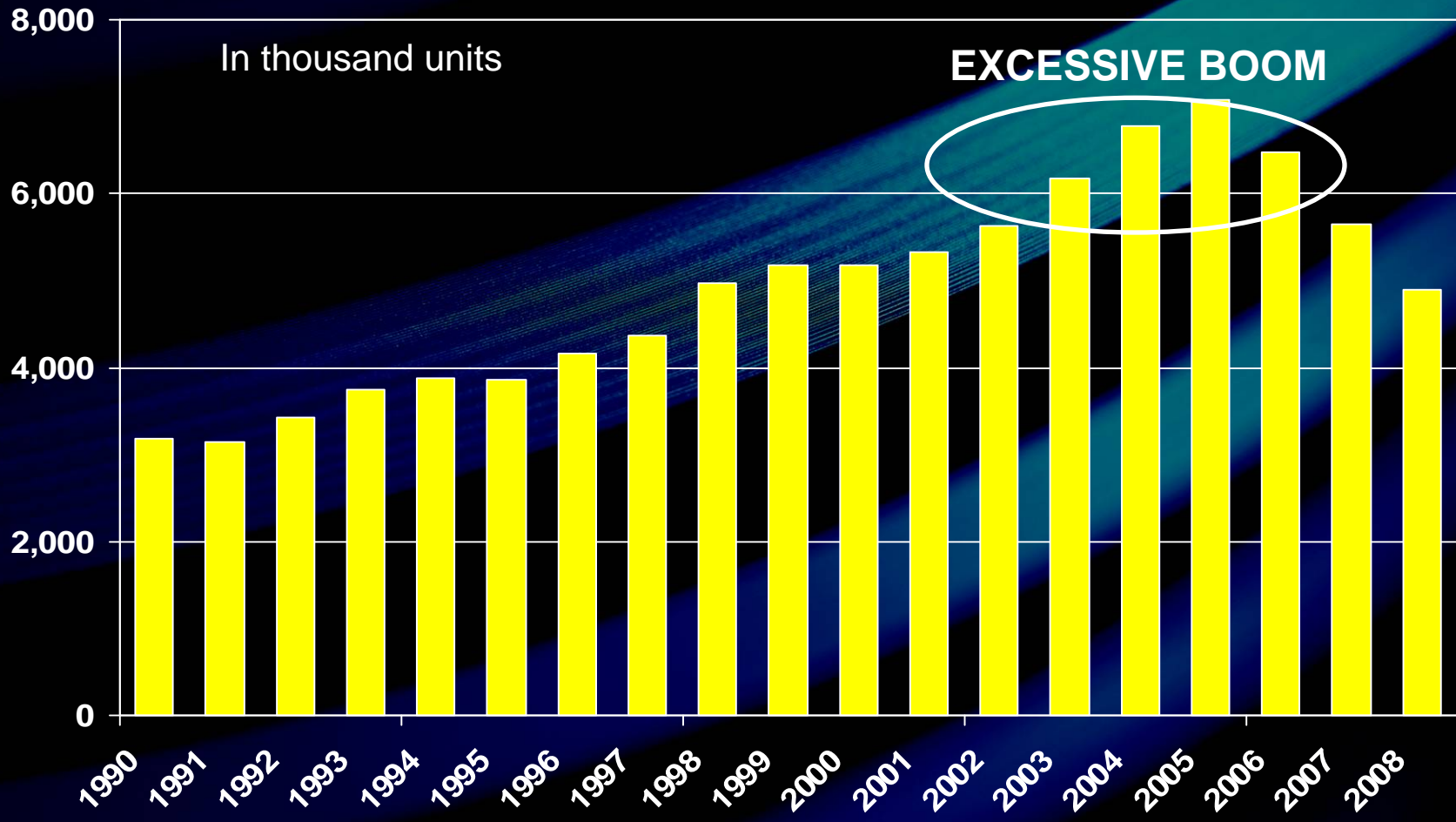
# Section 2: Real Estate Markets

## Residential: Challenging Markets

- **National Sales—Existing Homes.**
  - Down 34% as of May '09 from Sept 05 peak.
  - Down 3.6% 12 months ending May '09.
- **National Prices—Existing Homes.**
  - Median Down 25% as of May '09 from July 2006 peak.
  - Median Down 16.8% 12 months ending May '09.
- **Sales—New Single Family Homes.**
  - National Down 75 % from October 2005 peak as of May '09 .
  - National Down 33 % for 12 months ending May '09.
- **Real Estate Trends: Has Been A Weak Market.**
  - Distressed Sales: 33% of market, down from 49% in March.
  - Negative Equity: Estimated at 41% of homes bought last 5 years; 18% overall.
  - Homes Sold at loss: Estimated at 32% in past year.
  - Prospective Buyer traffic: Up; REALTOR® Confidence Index: Up.
  - REALTOR® Survey: As of May approximately 65% see prices constant or rising over next year—in comparison to 71% forecasting a price decline in January.
  - Appraisal Issues.

# Sales—Existing Homes

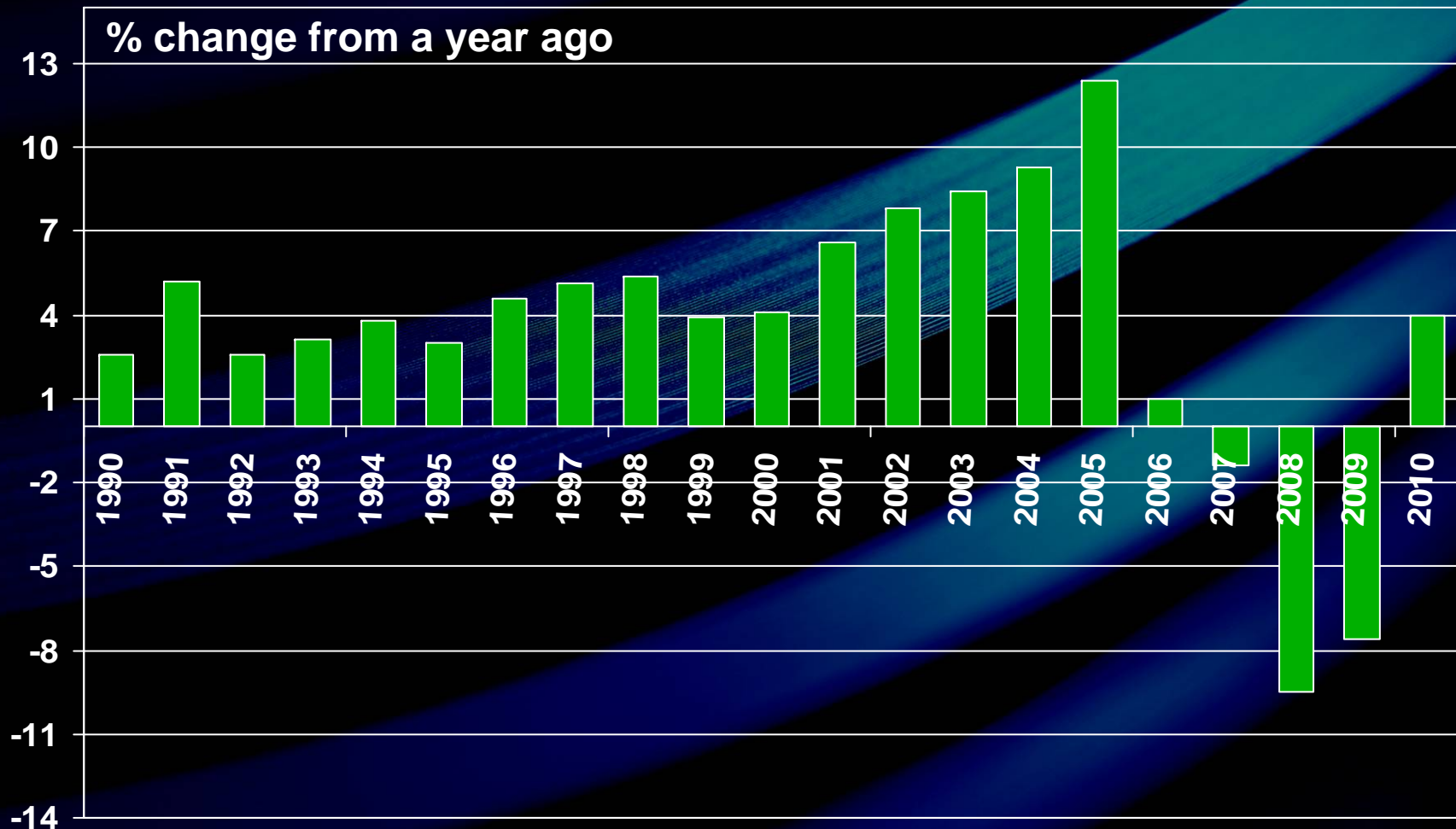
Includes Single Family, Condos, Coops



Source: NAR

# National Home Price Growth

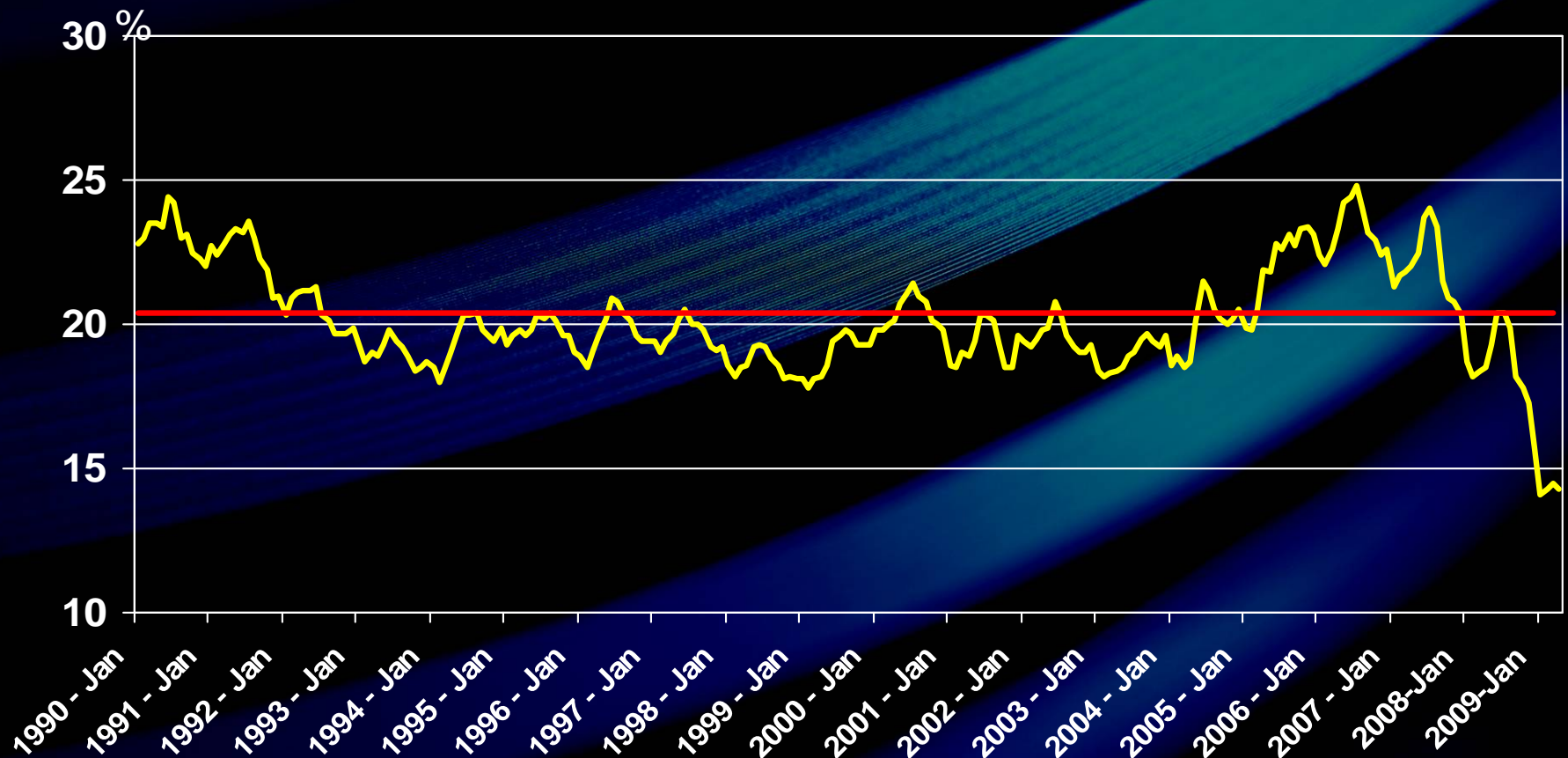
Total Homes, Median Sales Price



Source: NAR

# Good News--Affordability: U.S. Median Mortgage Payment (Principle and Interest) as Percent of Income

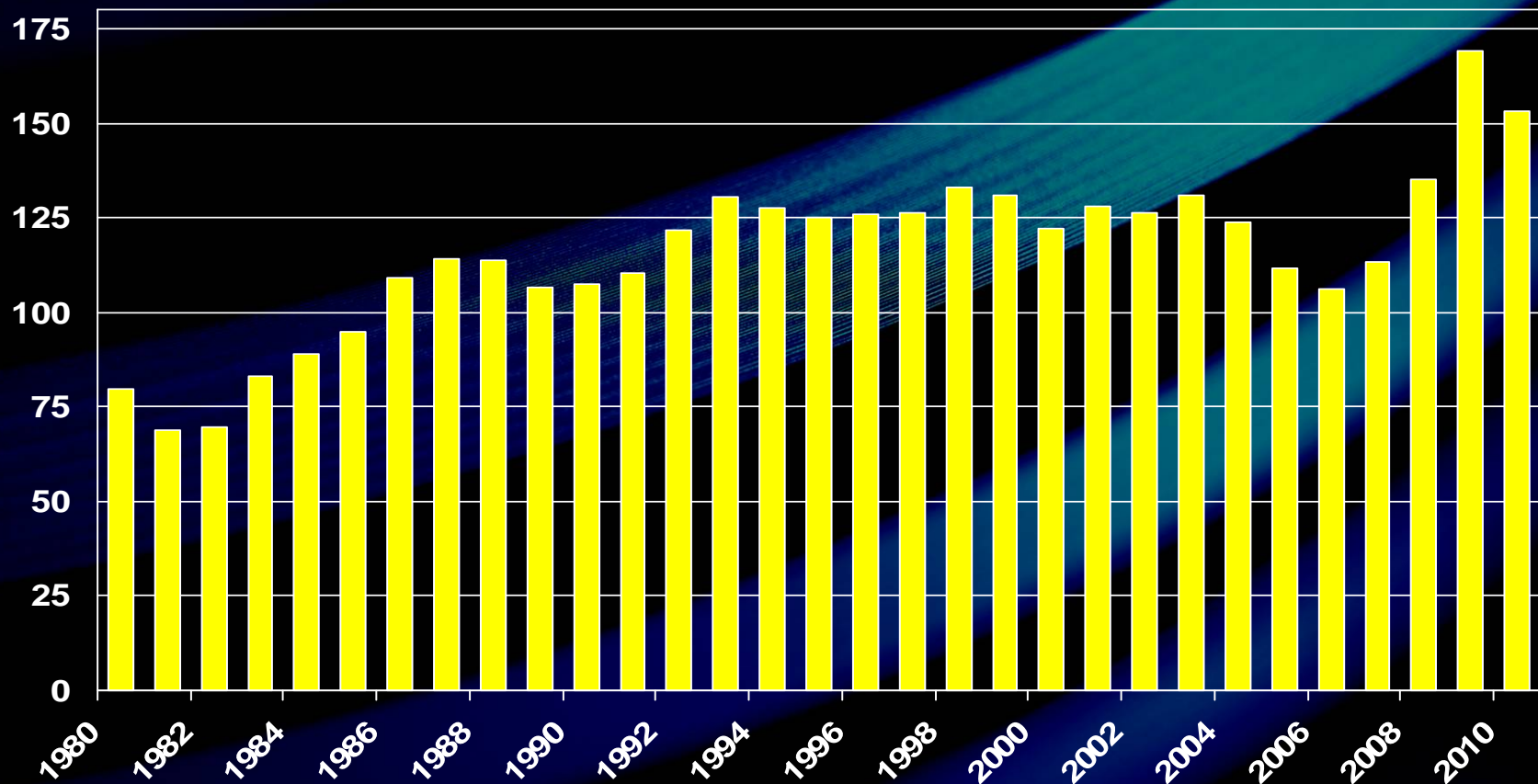
— Current — Average



Source: NAR

# Housing Affordability Index

(Median Income/Qualifying Income) \* 100



Source: NAR

# Existing Home Sales—Outlook

- **Existing Home Sales at rate of 11 years ago. From 1998 to 2009.**
  - Approximately 29 million more people, over 6 million additional employed workers.
  - Lower interest rates, improved affordability, higher GSE Loan Limits, Lower Inventories of New Homes.
  - GDP that is approximately 25% higher in real terms.
- **Recovery—Depends on several important issues:**
  - Demand—confidence, credit, mortgage rates.
  - The economy, response to government stimulus.
  - Inventory of unsold homes.
  - Foreclosures.

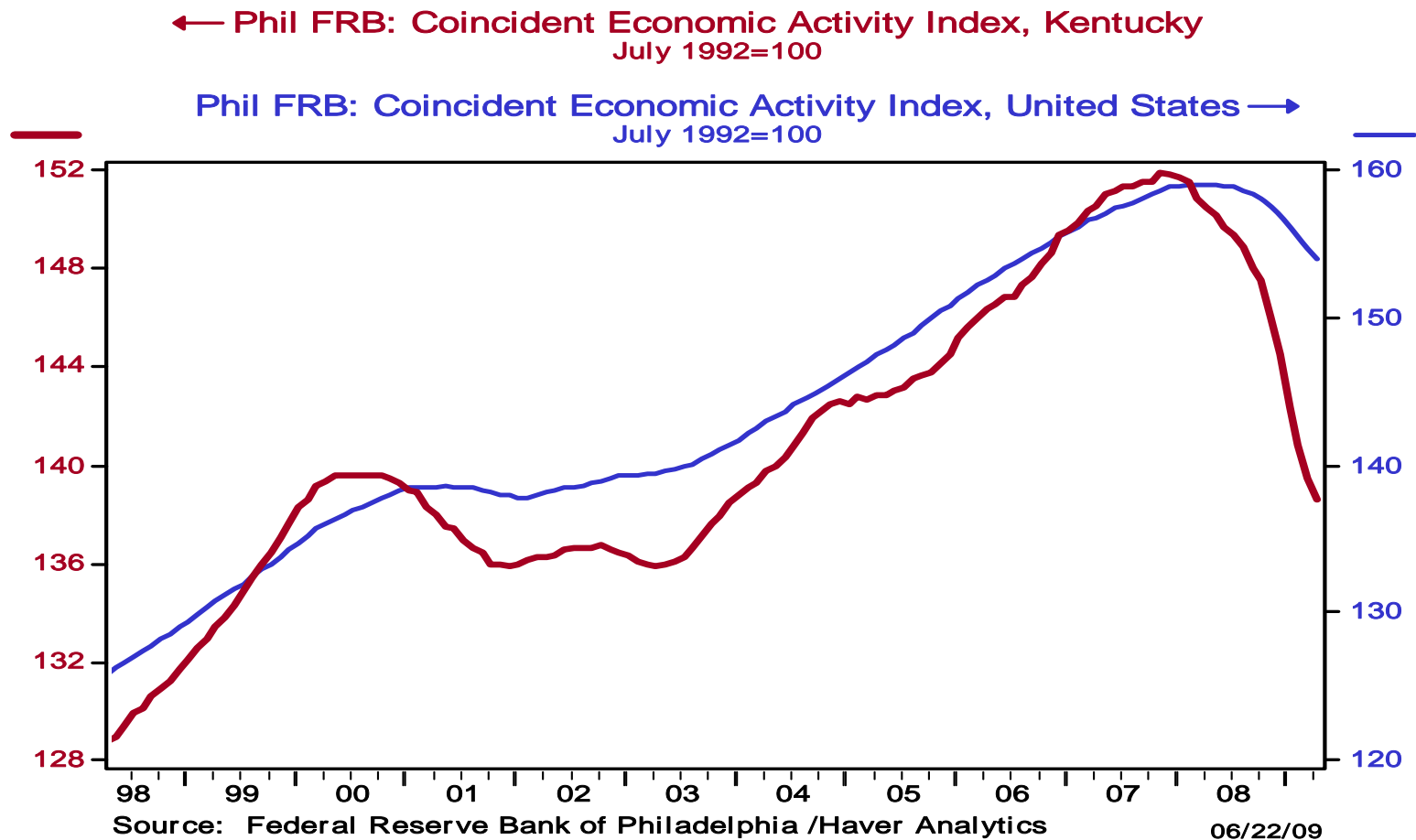
# Conclusions

- **Housing Outlook 2009: Mediocre—at essentially 2008 levels.**
  - Continued uncertainties/mixed economic news.
  - Economic horror stories told around the cyber cracker barrel have confused potential buyers: Confidence Issues.
  - As the economy gains starts to recover in the second part of the year, real estate should start to stabilize/pick up.
- **Addressing Consumer Confidence**
  - Changes in buyer perceptions and attitudes/long term investment.
  - Focus on value: home--not a house, lifestyle not a “flip”, realistic prices and expectations—not a speculation.
  - The **ECONOMY** does not determine whether you should buy a home—that’s up to your personal circumstances, which may be different/better from the national news.

# Section 3—The Lexington Outlook

- **A Diversified Economy.**
  - Agricultural, manufacturing, education, research and development.
  - A variety of products: Paper products, air conditioning heating equipment, computer printers, metal products, bourbon whiskey, industrial valves, peanut butter, furniture, feed, tobacco products, equine-related products, automobiles, construction equipment.
  - Good transportation.
  - Lexington area--noted as a desirable business location.
- **Subject to Current Recession.**
- **Positioned for the forthcoming recovery.**

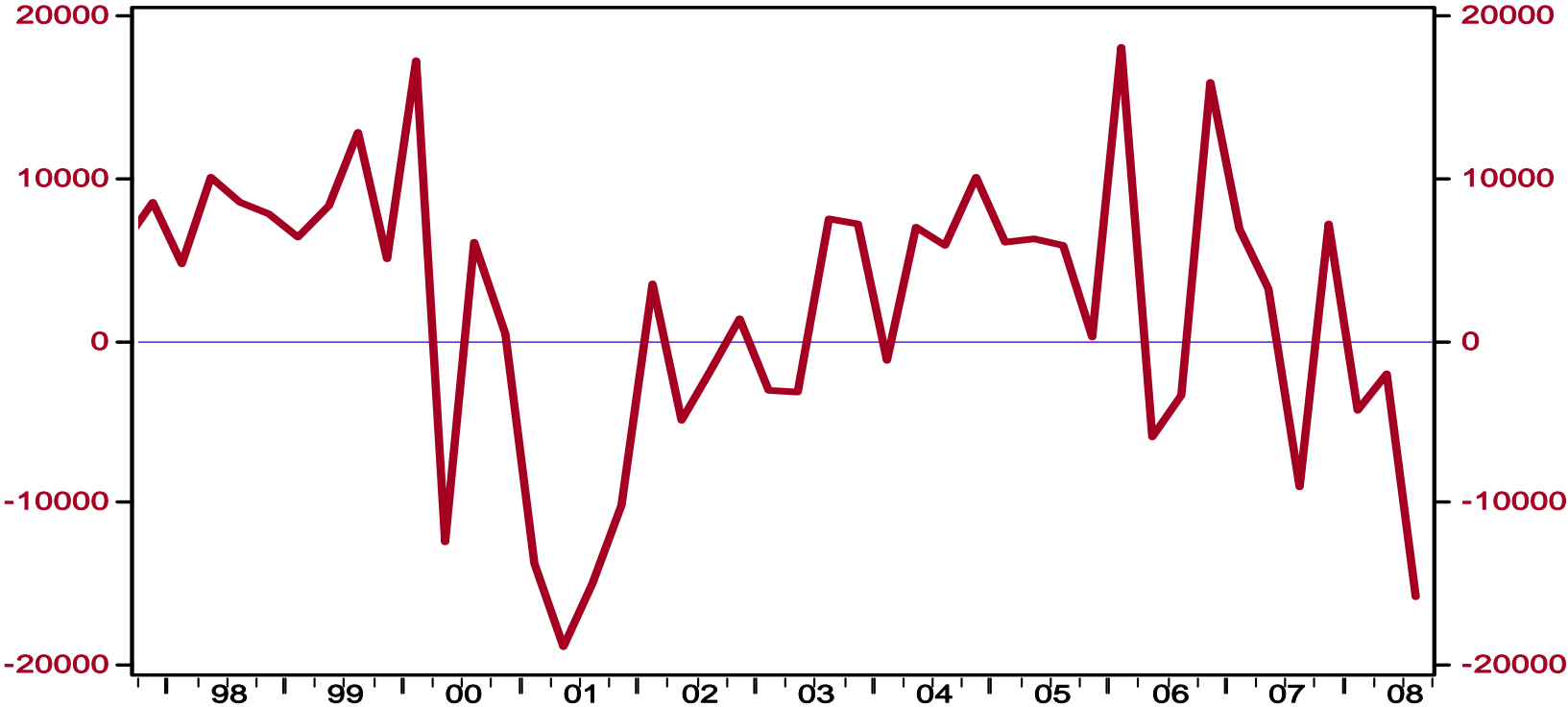
# Kentucky and the Recession



# Employment: Net Change in Kentucky Jobs

Private Sector Net Change in Jobs, Kentucky

SA, Thous



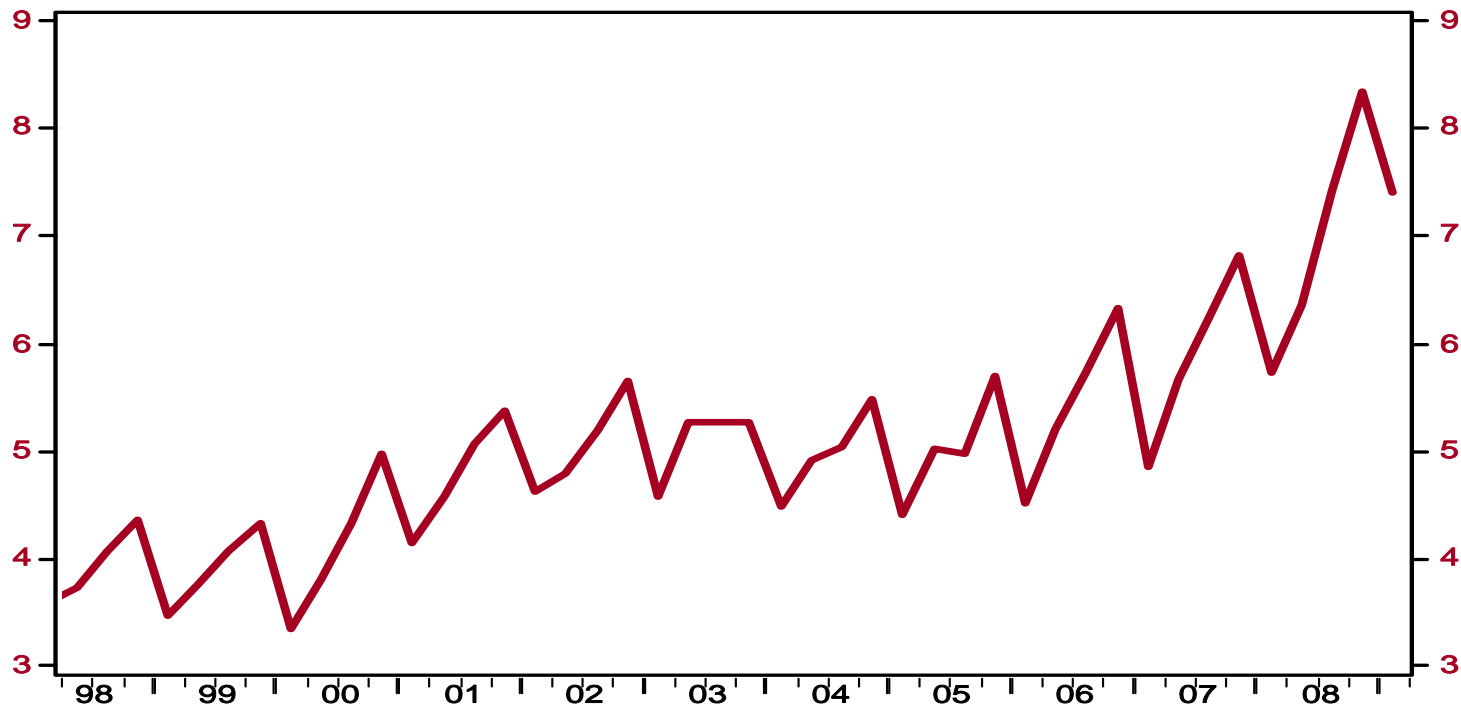
Source: Bureau of Labor Statistics /Haver Analytics

06/22/09

# Kentucky Mortgages Past Due: Significantly Increased

## All Mortgages Past Due: Kentucky

NSA, %



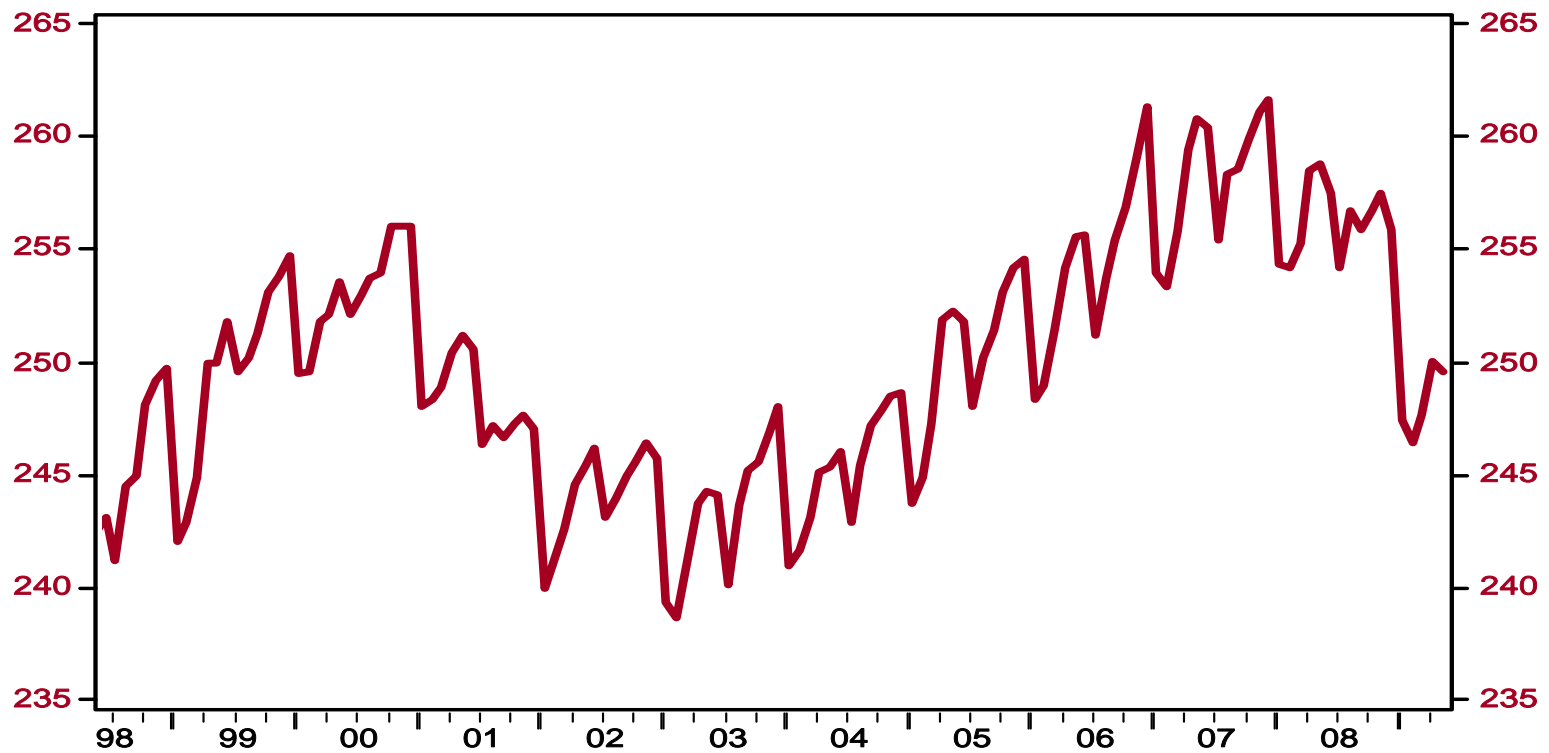
Source: Mortgage Bankers Association /Haver Analytics

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# Lexington Employment

All Employees: Total Nonfarm, Lexington-Fayette KY

Thous



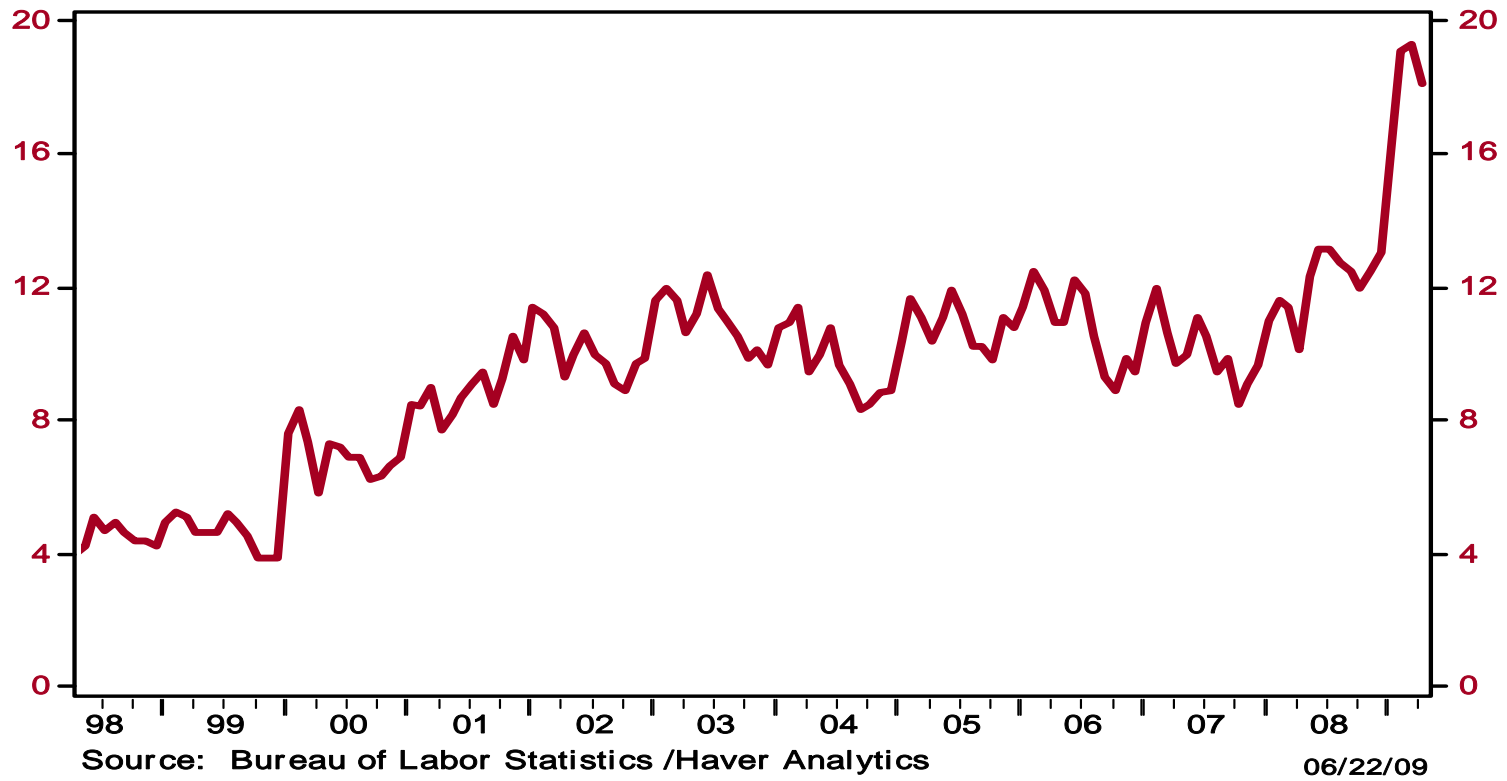
Source: Bureau of Labor Statistics /Haver Analytics

06/22/09

# Unemployment in Lexington is Up

Number Unemployed, Lexington KY

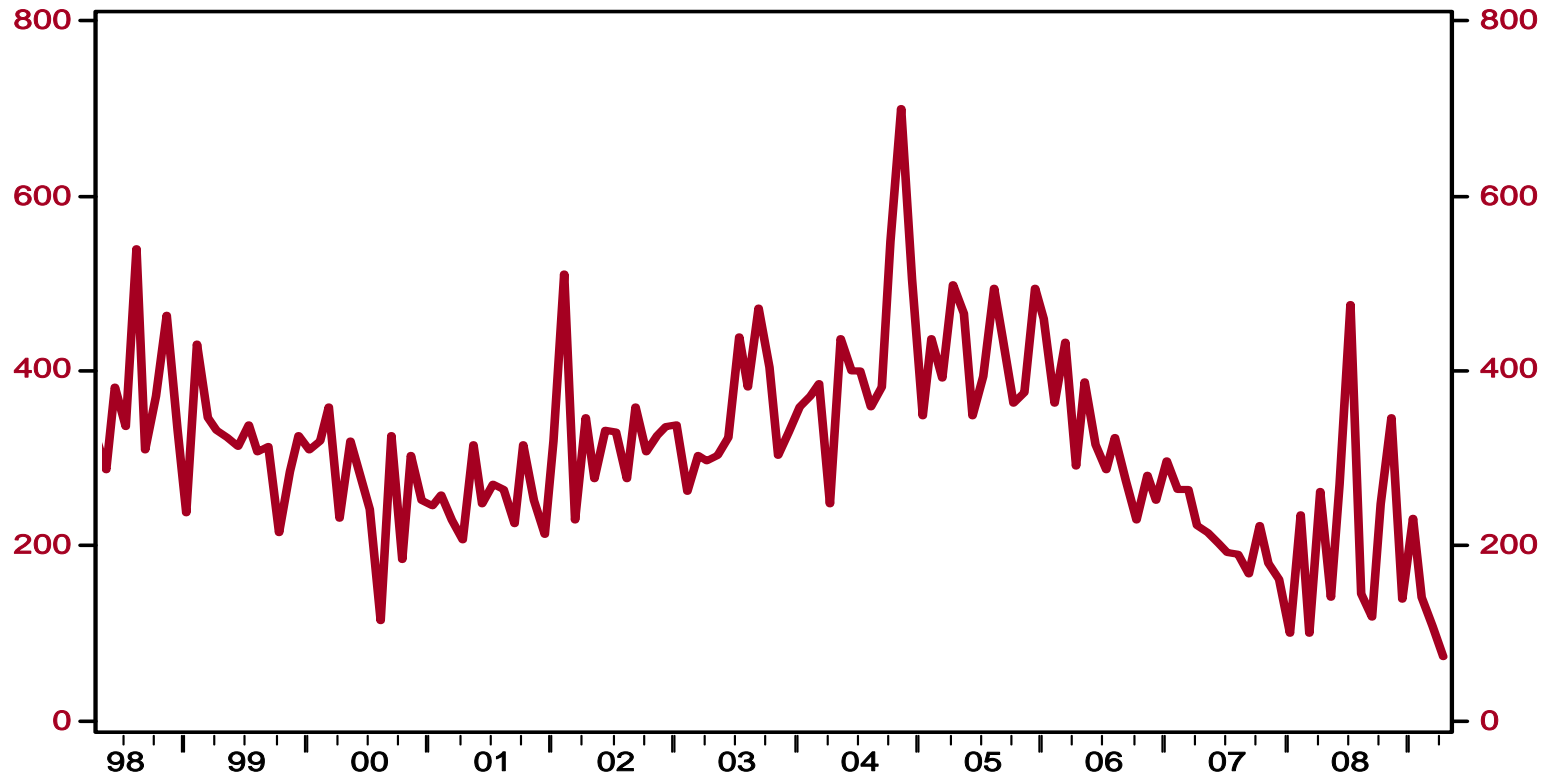
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# Lexington Kentucky—Housing Permits Down

Permits: New Pvt Housing Units, Lexington-Fayette KY

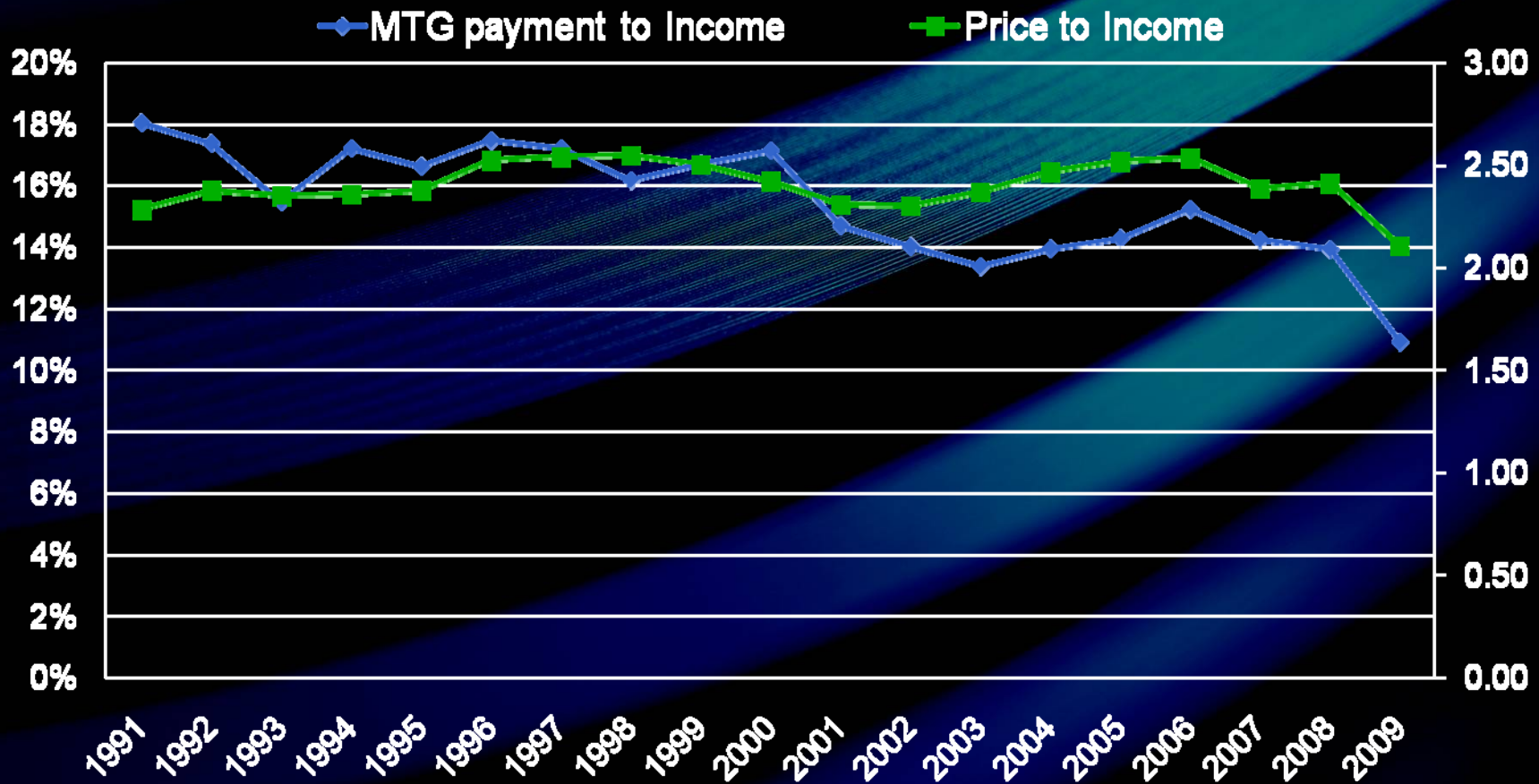
SA, Units



Source: Bureau of the Census/Haver Analytics

06/22/09

# Housing Prices in Lexington: Lower Relative to Income



# Lexington, Kentucky—Sales

- **National Level**

- Up 2.4% MoM
- Down 3.6% YoY
- Price down 16.8% YoY

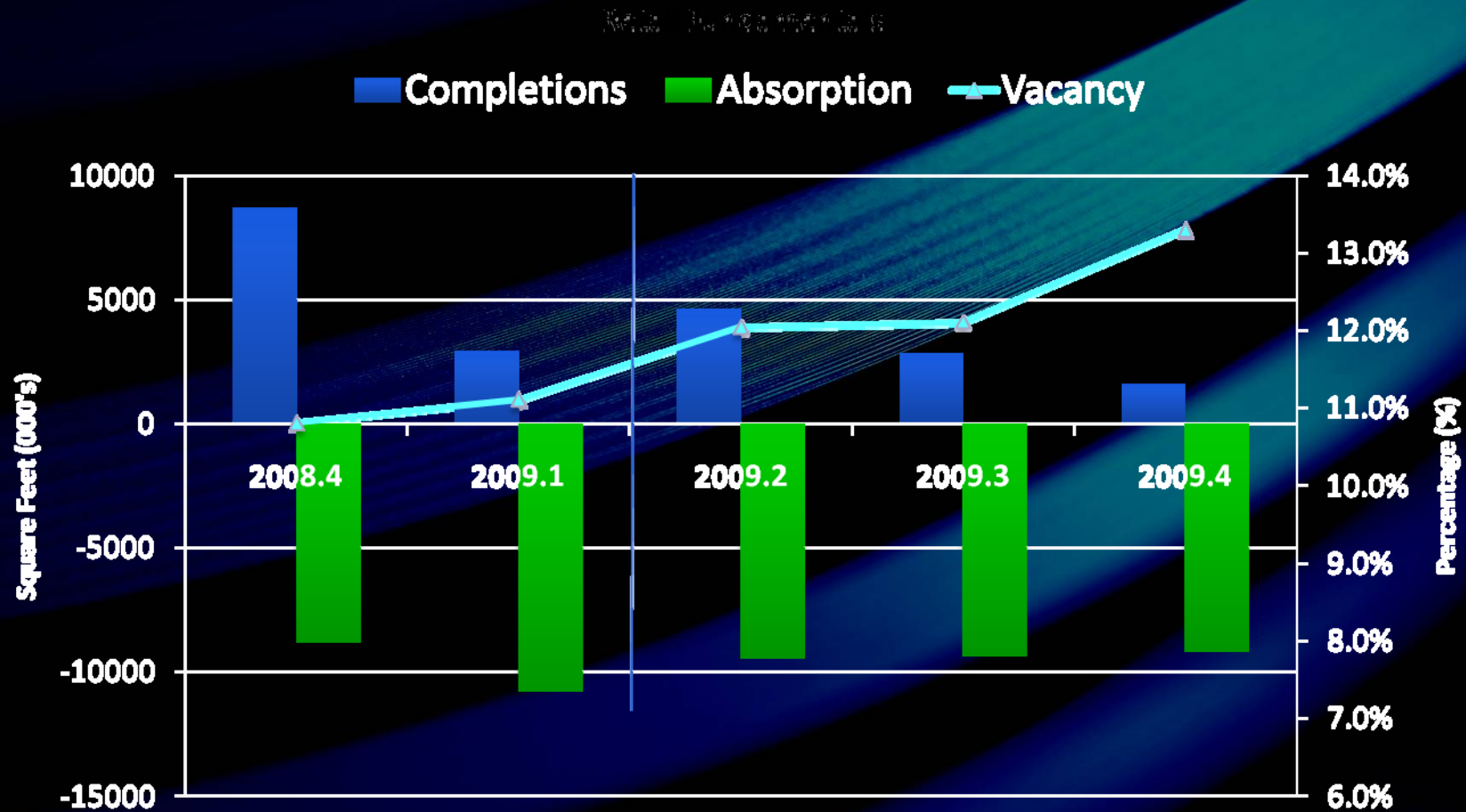
- **Lexington—As of May**

- Up 20.1% MoM
- Down 16.5% YoY
- Price down 6.3% YoY

# Commercial Real Estate

- **Commercial Real Estate – in a slowdown.**
  - Demand is decreasing – Lower level of transactions. Supply has been increasing from new construction.
  - Vacancy Rates rising across all markets. Rent Growth slowing, still positive in most markets and most property types.
  - Financing a major issue.
  - Seller financing of increased importance.
  - Wall Street financing ended.
  - Limited and expensive financing options.
  - Project Refinancing an issue.
  - Investment in new properties – remains well below levels of last two years.

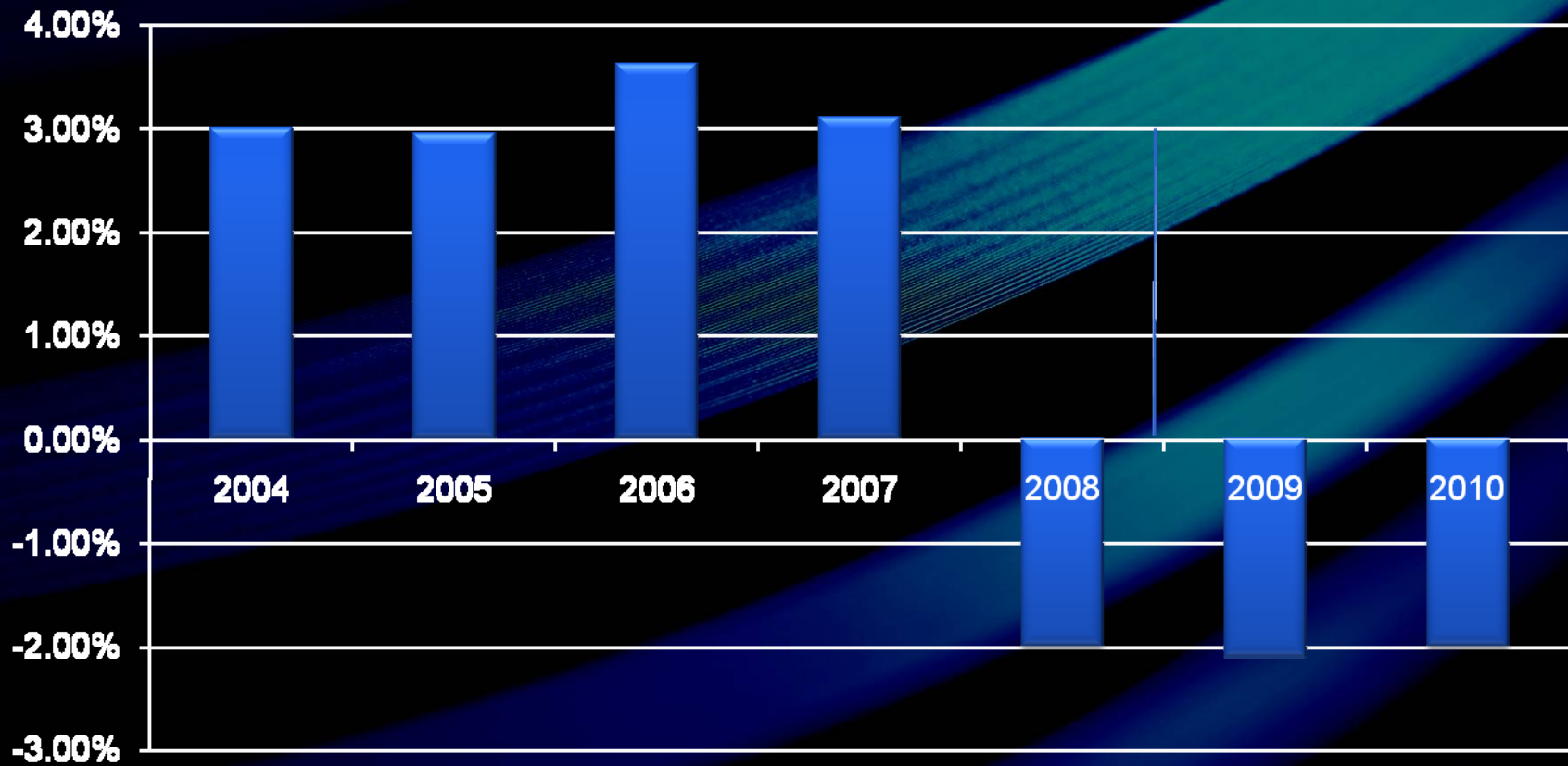
# Retail Market Fundamentals



Source: NAR/TWR

# Retail Rent Growth

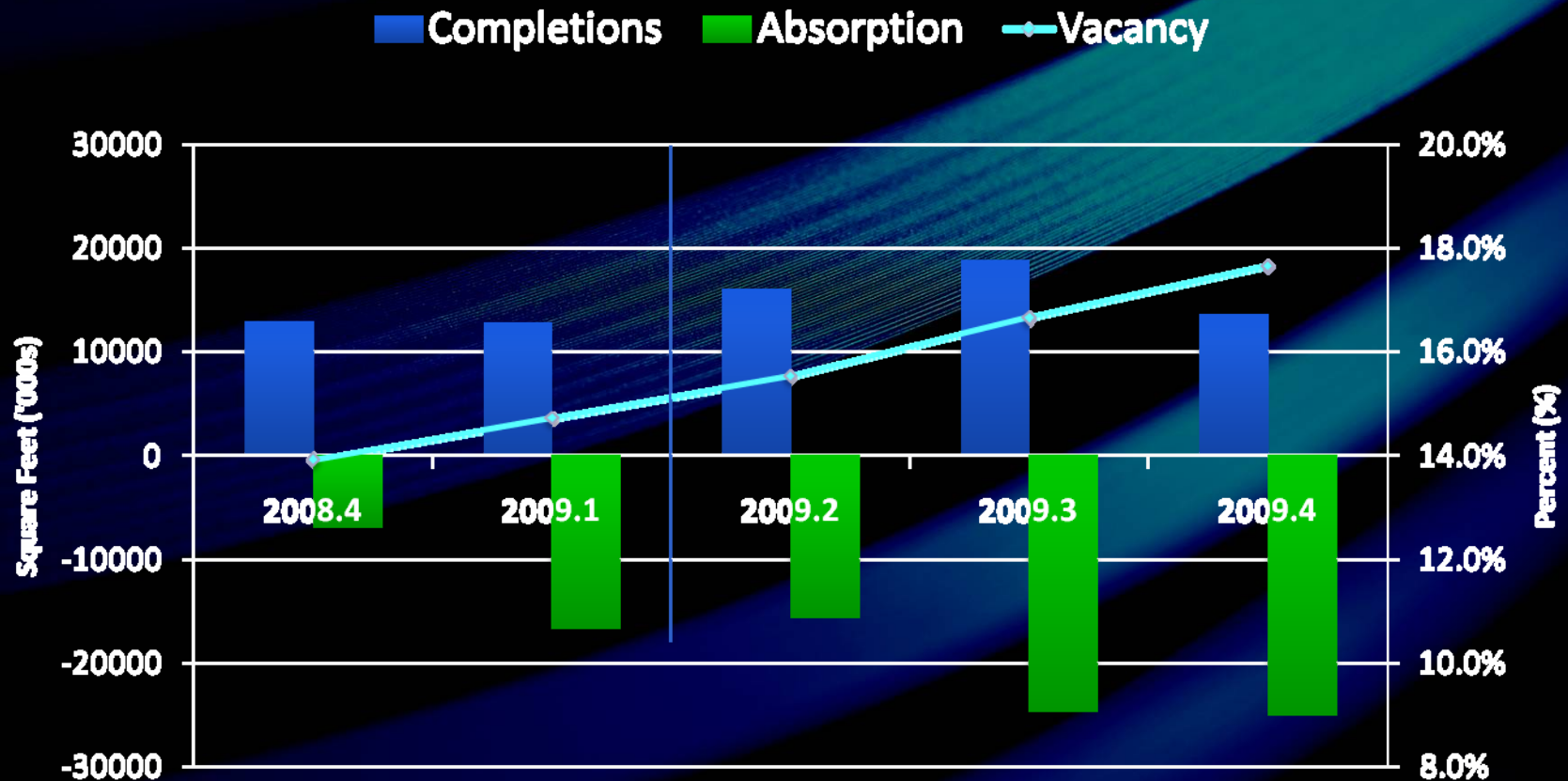
## National Rent Growth



Source: NAR/TWR

# Office Market Fundamentals

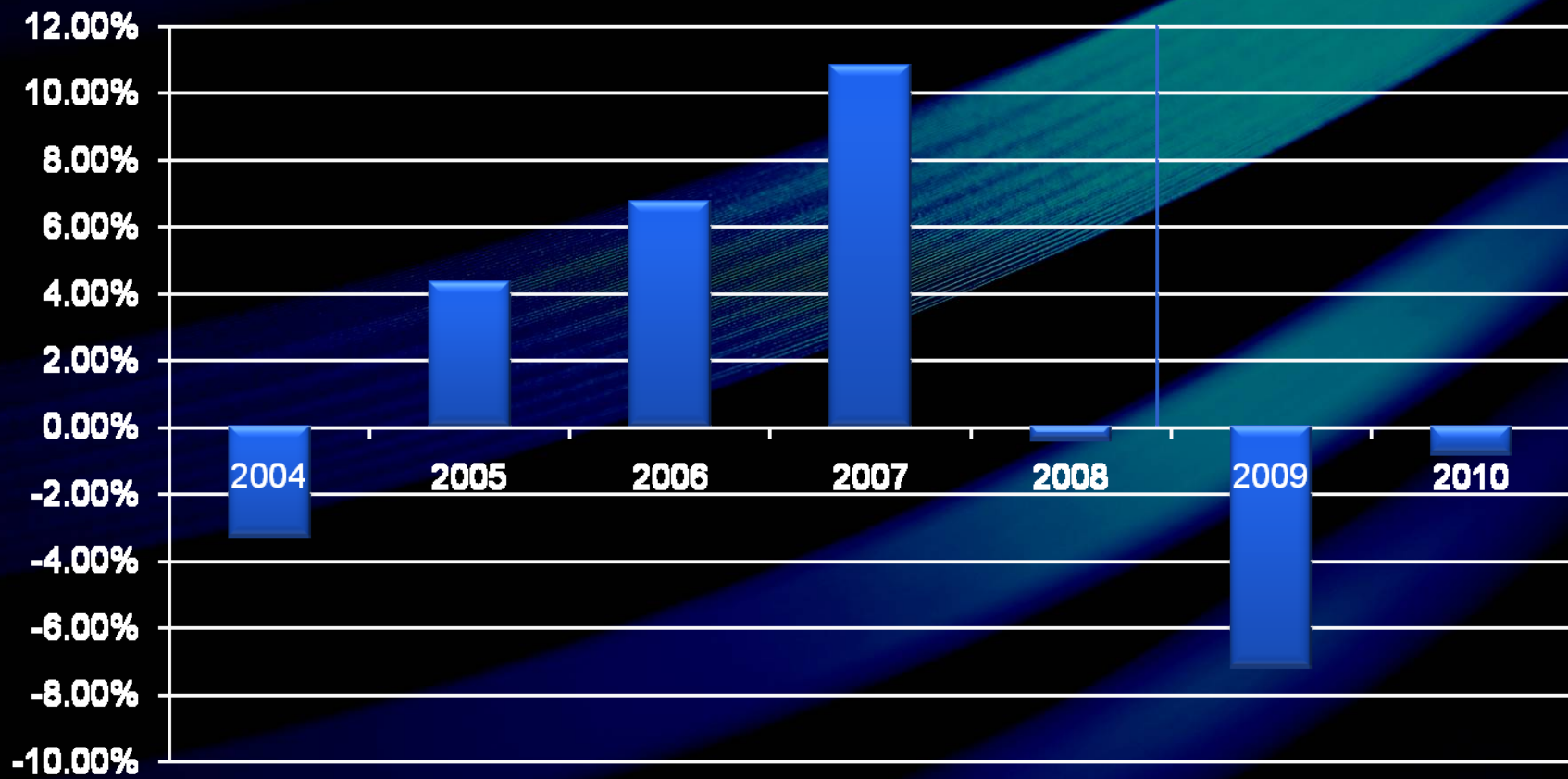
Source: NAR/TWR



Source: NAR/TWR

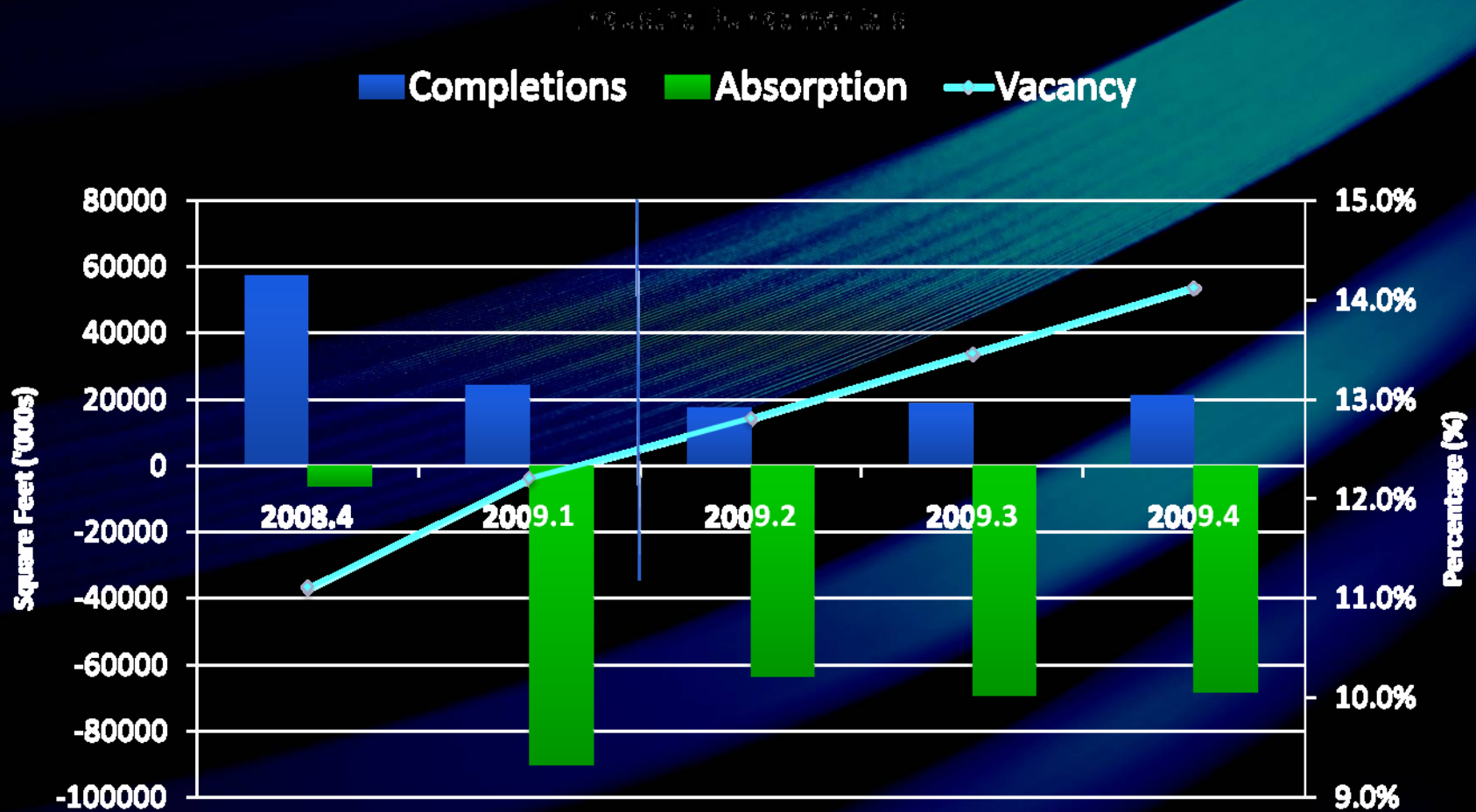
# Office Rent Growth

## National Rent Growth



Source: NAR/TWR

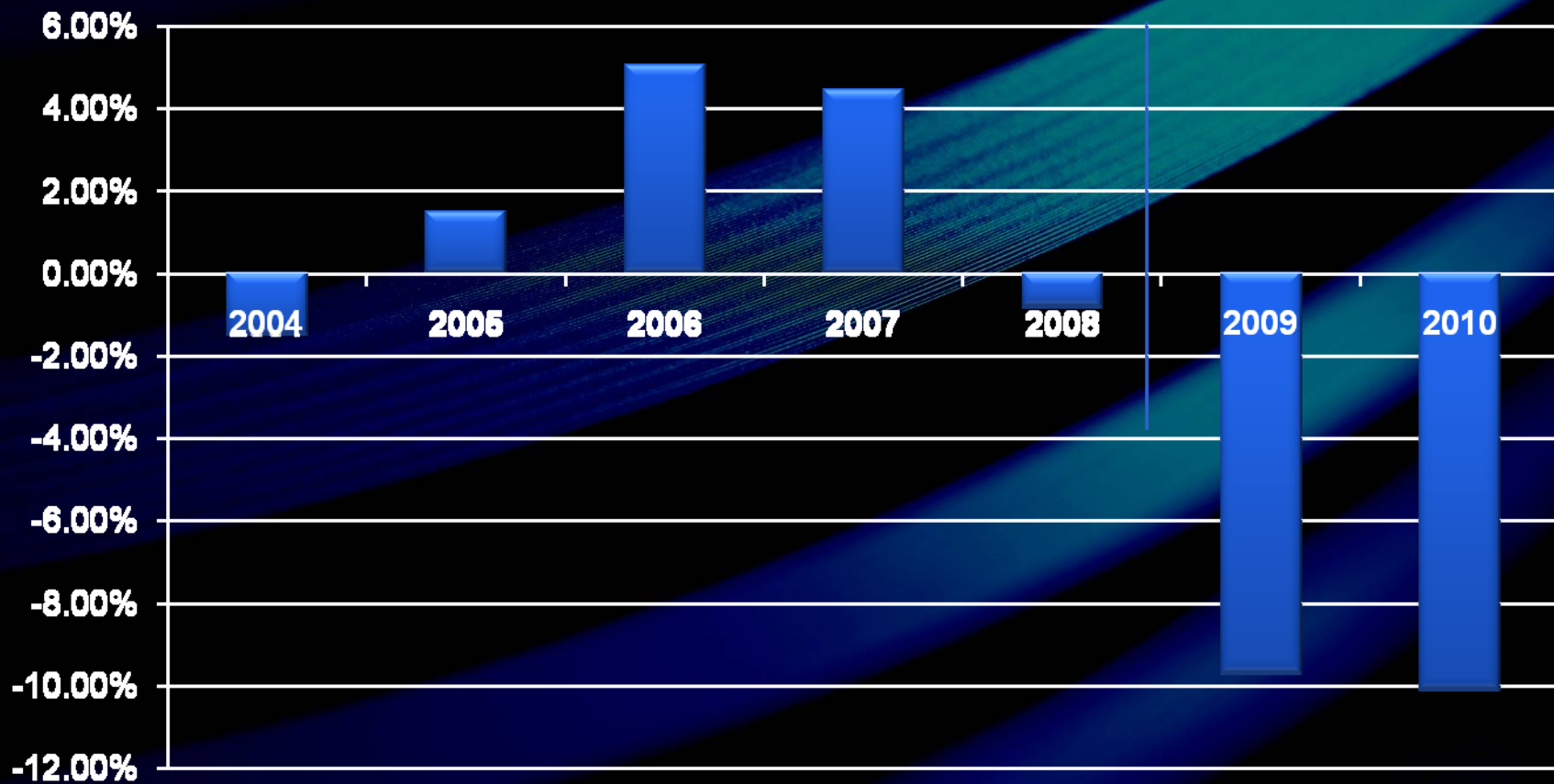
# Industrial Market Fundamentals



Source: NAR/TWR

# Industrial Rent Growth

## National Rent Growth

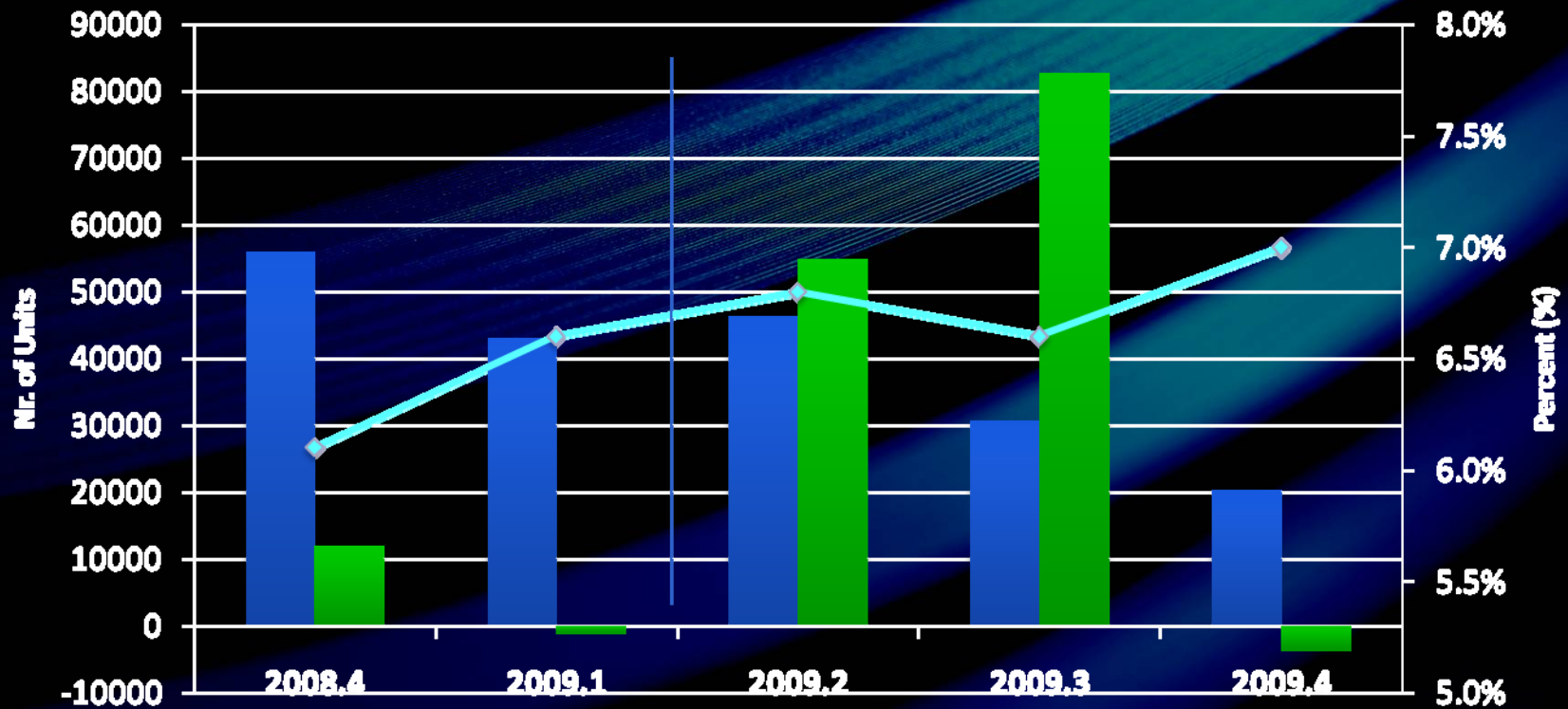


Source: NAR/TWR

# Multifamily Market Fundamentals

Multifamily Market Fundamentals

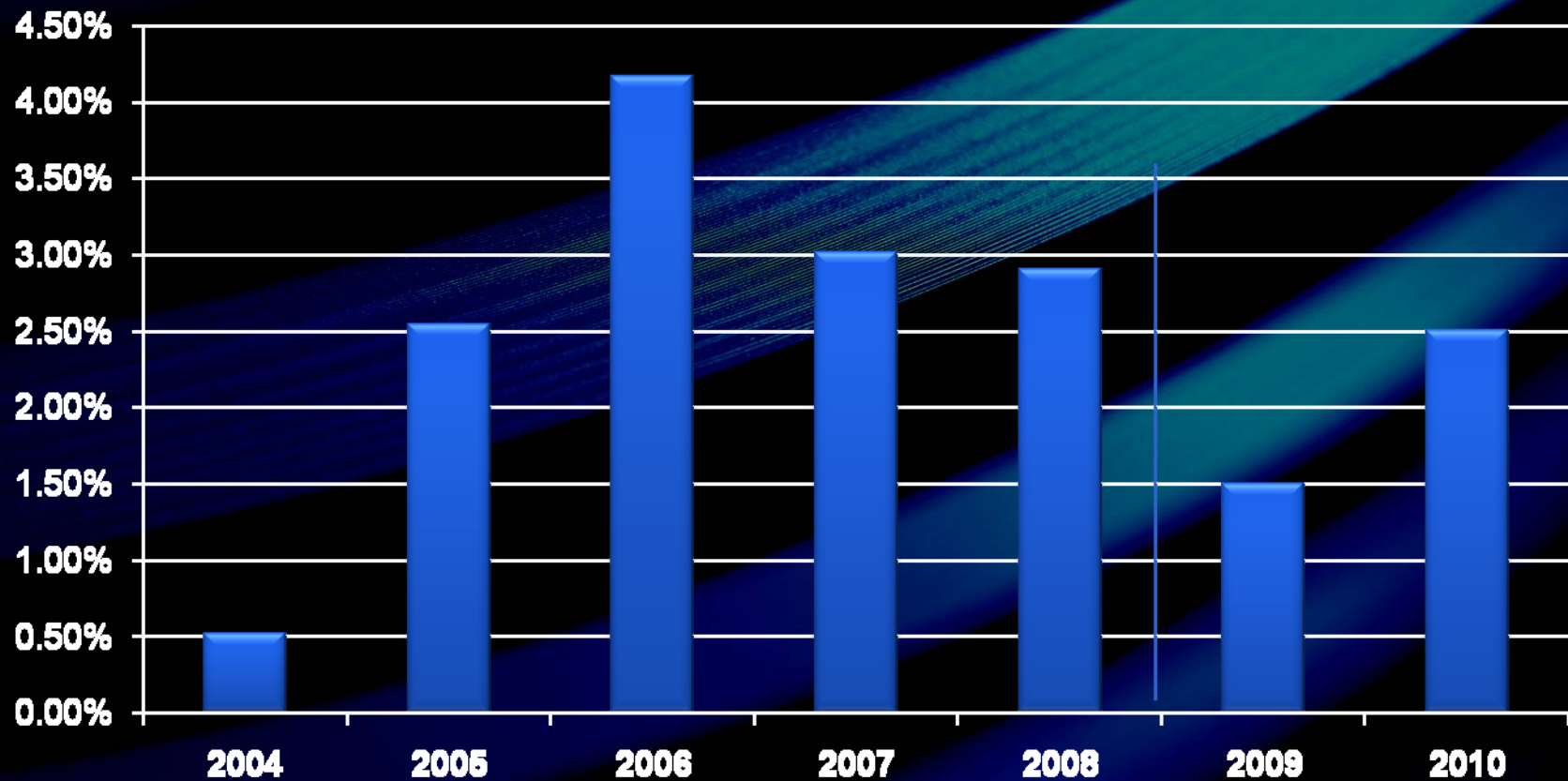
■ Completions ■ Absorption ◆ Vacancy Rate



Source: NAR/TWR

# Multifamily Rent Growth

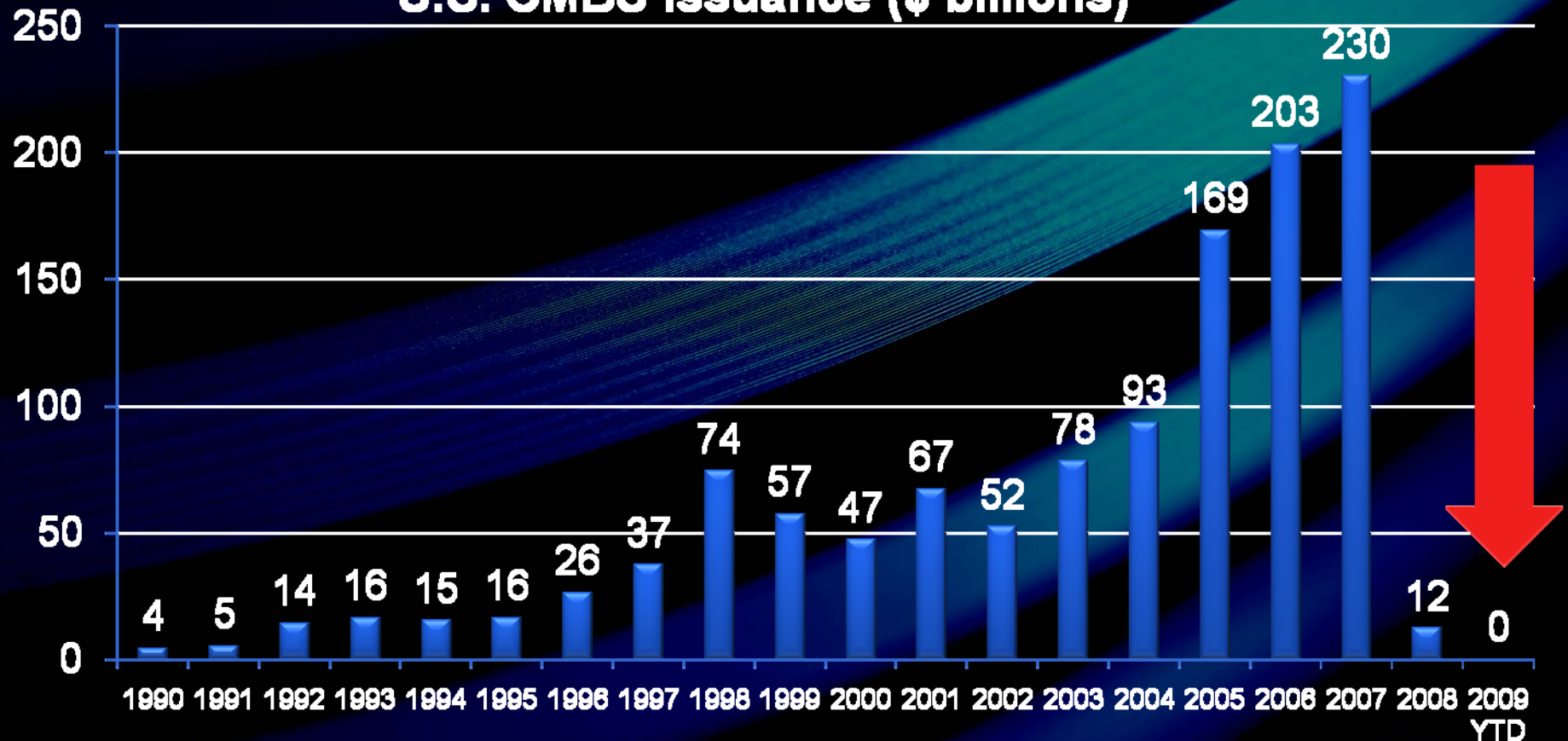
## National Rent Growth



Source: NAR/TWR

# Commercial Credit Freeze

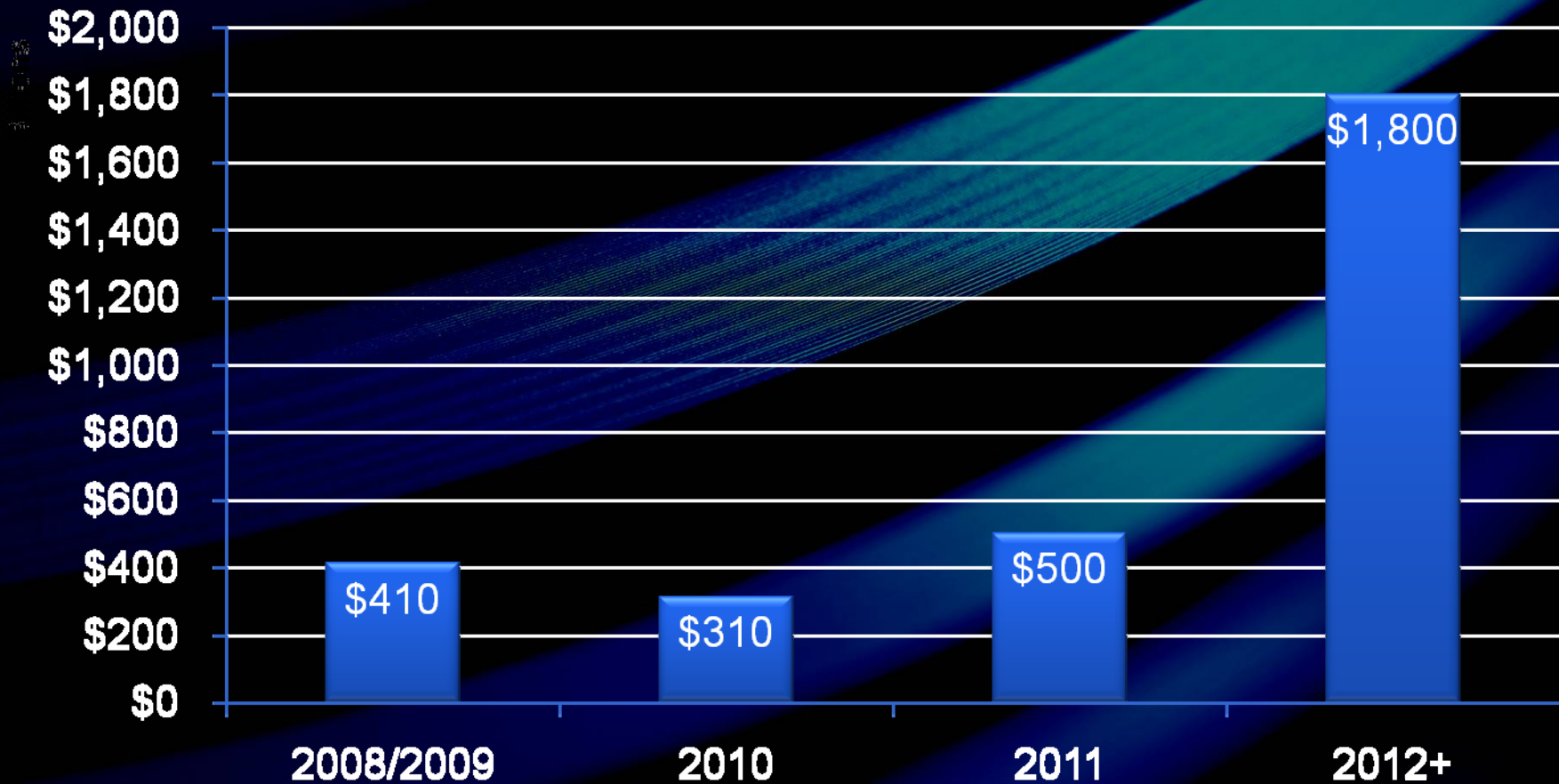
## U.S. CMBS Issuance (\$ billions)



Source: Commercial Mortgage Alert

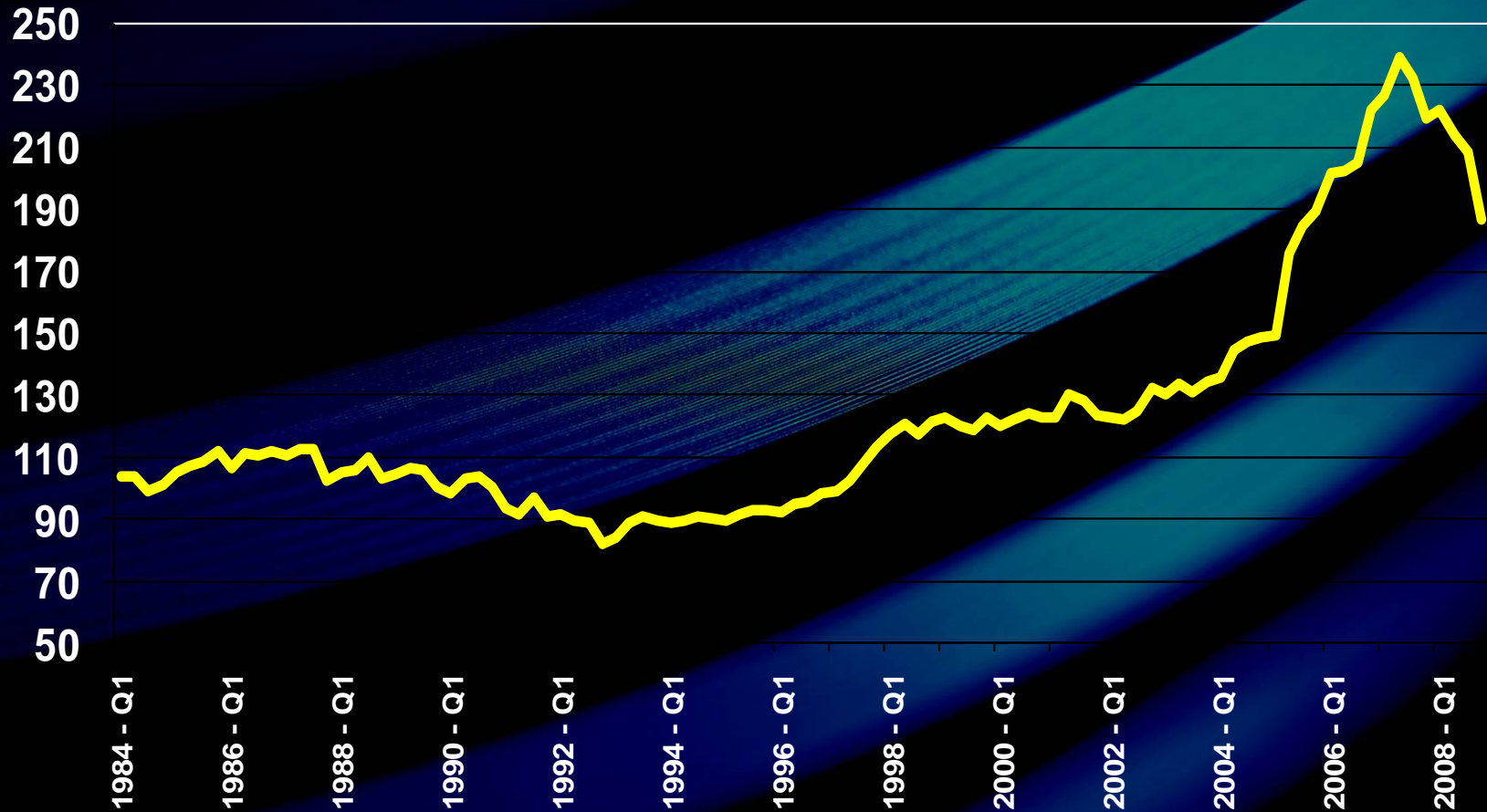
# Looming Commercial Debt

## Commercial Real Estate Debt Maturities



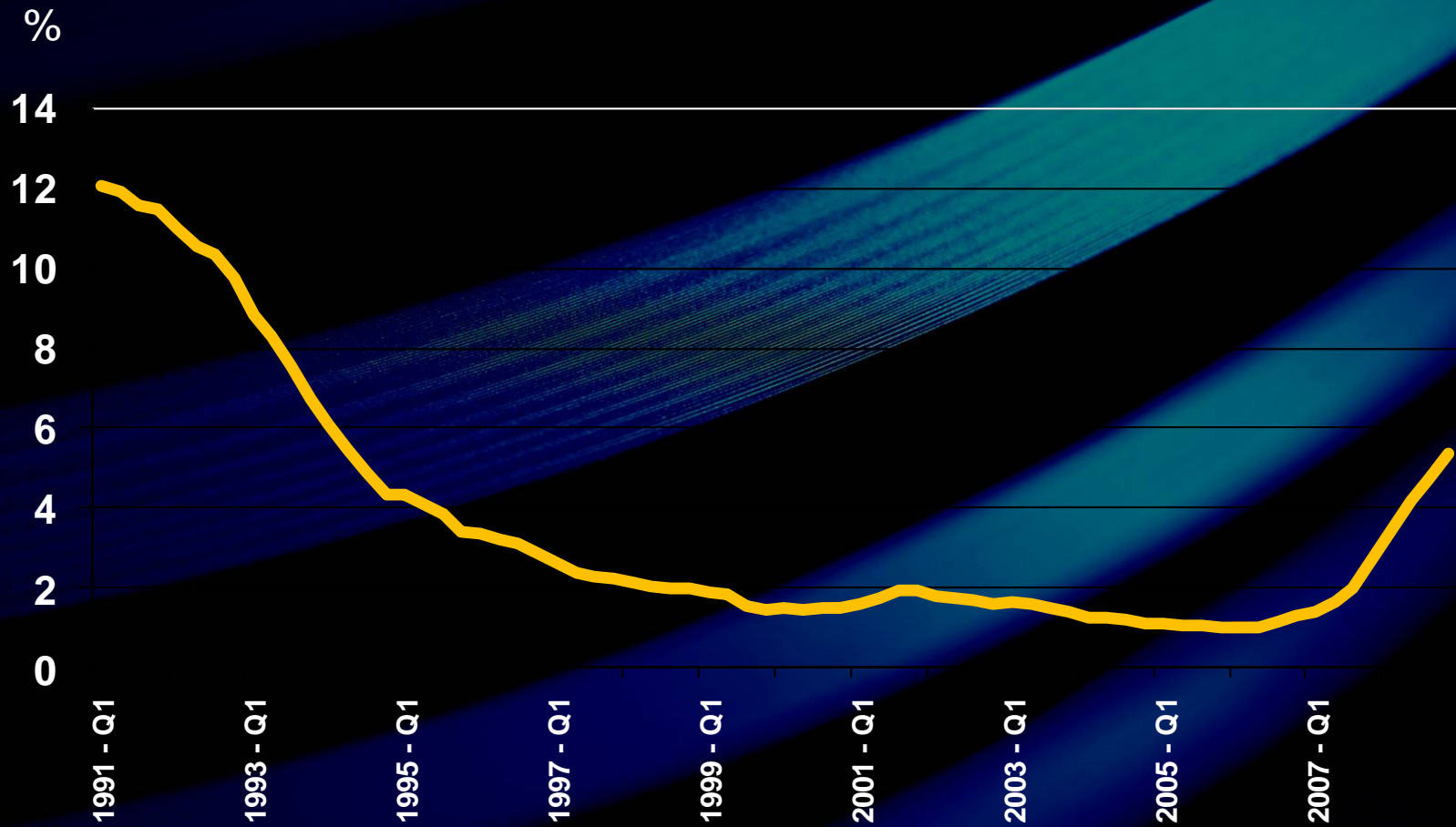
Source: Goldman Sachs and REIT filings

# Commercial Property Price Index



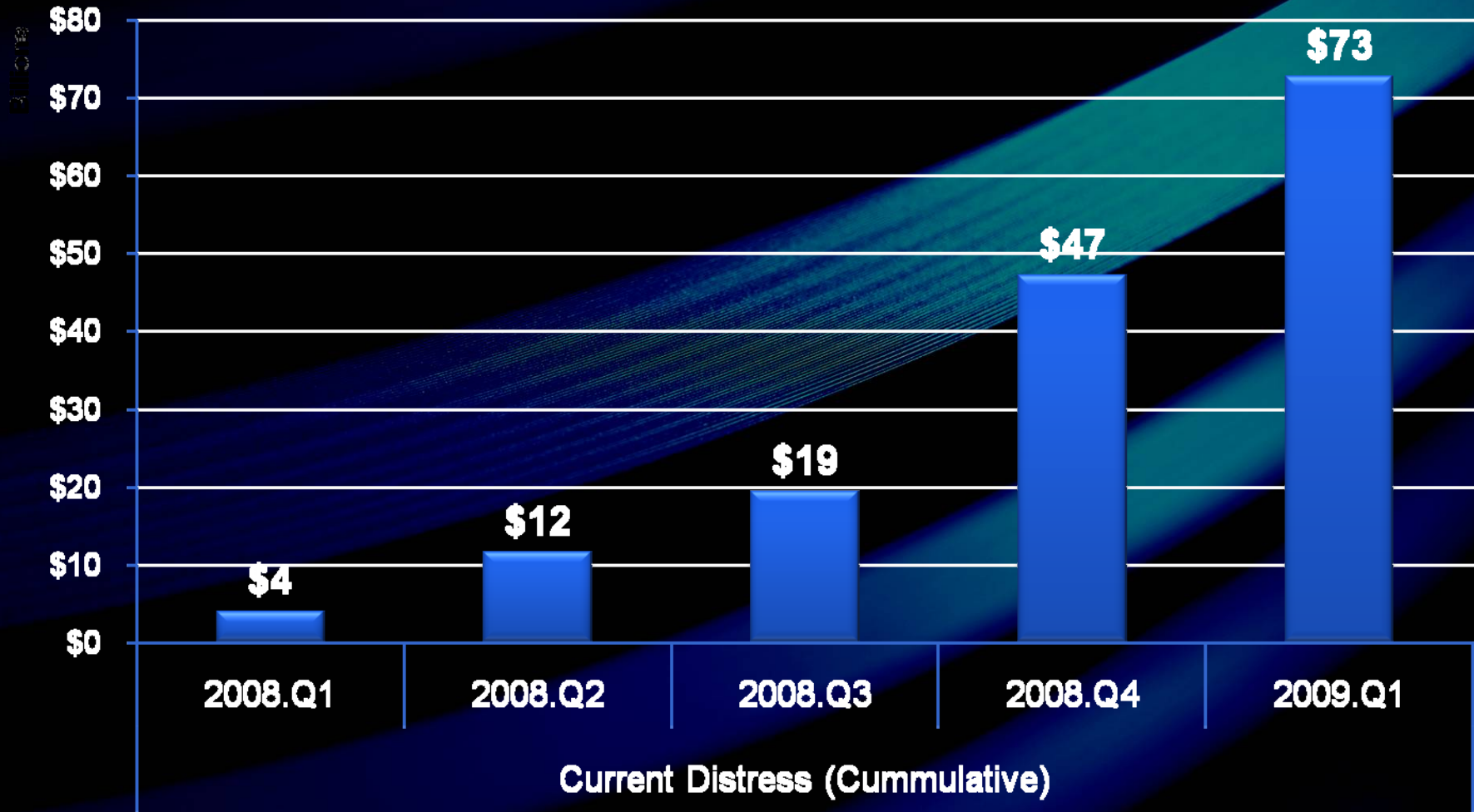
Source: MIT Center for Real Estate

# Commercial Real Estate Loan Delinquency Rate



Source: Federal Reserve

# Distressed Commercial Property Sales Rising



Source: Real Capital Analytics

# Commercial Market Outlook

- **2008 to 2009**

- Net absorption turns negative
- Rising Vacancy Rates and Stagnant Rent
- Markedly Fewer Transactions
- Property Prices Falling ... providing opportunities for parked cash
- Apartments holding up better

- **2010**

- Economic recovery
- Commercial recovery with lag time
- Pent-up and delayed transactions
- Modestly Positive net absorption and rising rents

# From the Realtor® Perspective

## Addressing Current Market Conditions

- **Trusted Resource for Real Estate Information**
  - Professional Advice.
  - Coming off of Unusual Boom Times.
  - Economy favorable, significant underlying demand.
  - A three to five year horizon is appropriate.
- **Adding Value**
  - Marketing: Realistic Pricing, targeting, segmentation, demographics, defining needs.
  - Staging—How many times do you make a first impression?
- **Innovator**
  - Implementation of Technologies.
  - Customer communications: Boomers, GEN-X, GEN-Y.

# **From the Realtor® Perspective**






## **Addressing Current Market Conditions**

- **NAR an advocate for homeownership.**
  - **Current Issues include Jumbo loans, interest rates, system liquidity.**
- **Homeownership and long-term value.**
  - **Lifestyle, long term investment.**
- **Building Community**
  - **Establishing a presence/active in community service.**
  - **Part of the backbone/establishment.**


# Information for a Competitive Edge

## Right Tools, Right Now: A Variety of Publications

### Many Are Free to Members—On Line, Right Now

NATIONAL ASSOCIATION OF REALTORS®  
Member Profile  
2009



NATIONAL ASSOCIATION OF REALTORS®  
The Voice for Real Estate



NATIONAL ASSOCIATION OF REALTORS®  
The Voice for Real Estate


The NATIONAL ASSOCIATION OF REALTORS® has carefully considered how we can best support you, our members, in these uncertain times. NAR is here to assist you and your business with the **RIGHT TOOLS, RIGHT NOW.**



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### Find Solutions By Category

<p><b>Educational Tools &amp; Publications</b> <a href="#">LEARN MORE &gt;</a></p> <p> <b>NEW Homebuyers' \$8000 Tax Credit Promotional Letter Download</b> NAR has created an "\$8000 Bill" marketing piece for our members to help promote the value of the 2009 Homebuyers Tax Credit. <b>MEMBER PRICE: \$0</b> List Price: \$0</p>	<p><b>MESSAGE FROM OUR PRESIDENT</b></p> <p> NAR is working to support you, our members right now during this challenging time. Take advantage of these valuable tools that will help you in your daily efforts – today!</p> <p>These are our June offers, check back on a monthly basis to see what is new. Take a look at my recent podcast in which I discuss this important initiative.</p>
<p><b>Online Training</b> <a href="#">LEARN MORE &gt;</a></p> <p> <b>NEW Webinar June 25th, Mortgage Finance: What's Really Available Today?</b> Representatives from Bank of America and the real estate industry discuss the lending opportunities and challenges facing buyers in this June 25th webinar. Slots are limited sign up now!</p>	<p><b>Featured Topics</b></p> <p><b>FHA Loans</b> <a href="#">VIEW &gt;</a></p> <p>Every REALTOR® who wants to sell more homes will benefit from the FHA Toolkit, and information on FHA loans.</p> <p>We will be adding new resources every month, check back often!</p>
<p><b>Convention &amp; Events</b> <a href="#">LEARN MORE &gt;</a></p> <p> <b>2009 Midyear Legislative Meetings and Trade Expo</b> We would like to thank each of you for making this year's Midyear Meetings and Trade Expo a great success! If you have any questions regarding the 2009 Midyear Legislative Meetings and Trade Expo, please email us at <a href="mailto:convinfo@realtors.org">convinfo@realtors.org</a>.</p>	<p><b>Foreclosures</b> <a href="#">VIEW &gt;</a></p> <p>Learn how to take advantage of opportunities offered in the foreclosure market.</p> <p>We will be adding new resources every month, check back often!</p>
	<p><b>Homebuyers Tax Credit</b> <a href="#">VIEW &gt;</a></p> <p>The homebuyer tax credit is one of 10 key provisions of the American Recovery and Reinvestment Act signed by President Obama into law on Feb. 17, 2009.</p>

# NAR Research

- [Existing-Home Sales](#)

<http://www.realtor.org/research/research/ehsdata>

- [Pending Home Sales Index h](#)

<http://www.realtor.org/research/research/phsdata>

- [Metropolitan Area Prices](#)

<http://www.realtor.org/research/research/metroprice>

- [State Existing-Home Sales](#)

<http://www.realtor.org/research/research/metroprice>

- [Housing Affordability Index](#)

<http://www.realtor.org/research/research/housinginx>

# Economic Research Members and Buyers

- **Homebuyer Tax Credit Information.**

- [http://www.realtor.org/wps/wcm/connect/e33e6d804ac1dd06aff1ff95ddd7a258/research\\_homebuyer\\_tax\\_credit.pdf?MOD=AJPERES&CACHEID=e33e6d804ac1dd06aff1ff95ddd7a258](http://www.realtor.org/wps/wcm/connect/e33e6d804ac1dd06aff1ff95ddd7a258/research_homebuyer_tax_credit.pdf?MOD=AJPERES&CACHEID=e33e6d804ac1dd06aff1ff95ddd7a258)

- **NAR Member Profile.**

- Economic, demographic, education, tenure, agency relationship and compensation of REALTOR® members.
- <http://www.realtor.org/wps/wcm/connect/a31fe100498f6b0d96cfbf76e9eab2eb/MPhighlights2007.pdf?MOD=AJPERES&CACHEID=a31fe100498f6b0d96cfbf76e9eab2eb>

- **Profile of Buyers' Home Feature Preferences.**

- Home features consumers value and how these features affect home purchasing decisions.
- [http://www.realtor.org/Research.nsf/files/07HBFeaturesHiLites.pdf/\\$FILE/07HBFeaturesHiLites.pdf](http://www.realtor.org/Research.nsf/files/07HBFeaturesHiLites.pdf/$FILE/07HBFeaturesHiLites.pdf)

# Data Collection and Presentation Examples

- **Realtors Confidence Index--Monthly data confidence, foreclosures, first time homebuyers.**
  - <http://www.realtor.org/research/research/rep>
- **Economists' Outlook: Economic News and Views.**
  - [http://www.realtor.org/research/economists\\_outlook/introduction](http://www.realtor.org/research/economists_outlook/introduction)
- **Housing Statistics—existing home sales, pending sales, metropolitan information, housing affordability.**
  - <http://www.realtor.org/research/research/reportsstatistics>
- **Survey Information: Profile of Home Buyers and Sellers.**
  - <http://www.realtor.org/prodser.nsf/products/E186-45-08?OpenDocument>
- **International Real Estate Research: what foreign investors are looking for in the United States.**
  - <http://www.realtor.org/research/research/reportsintl>