2014 HOUSING MARKET FORECAST

Spokane AOR

February 27, 2014

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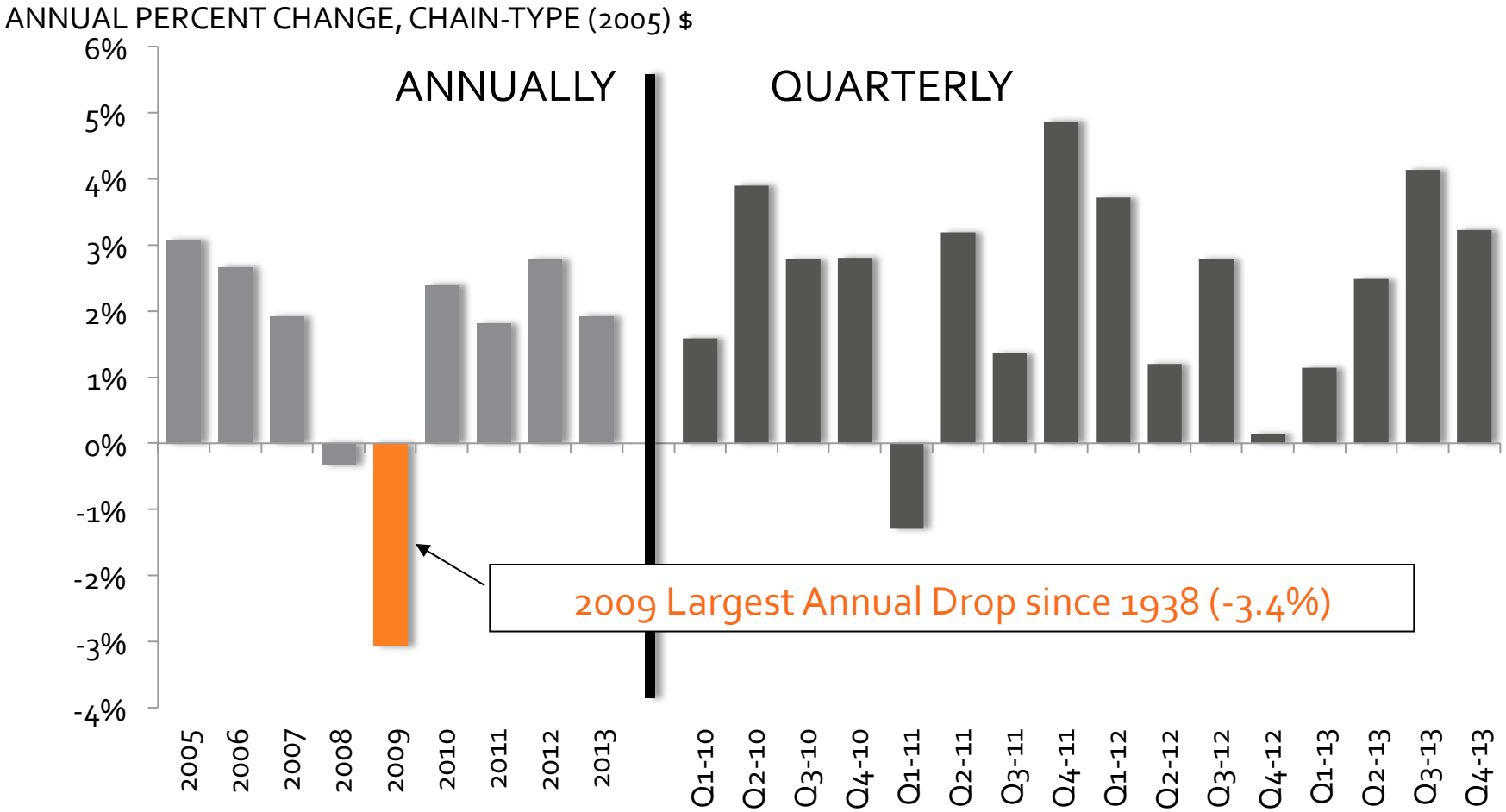
THE ECONOMY

So….what's happening?

- Economy appears to be gaining strength
- Unemployment rate at 5 year low
- "Tapering" has begun : $85B /month bond-buying reduced by $10B/month
- Rates headed higher in 2014
- Tax Reform: Mortgage Interest Deduction is on the table
- Future of Fannie and Freddie? Highly profitable today

Gross Domestic Product

- 2013: 1.9%; 2013 Q4: 3.2%

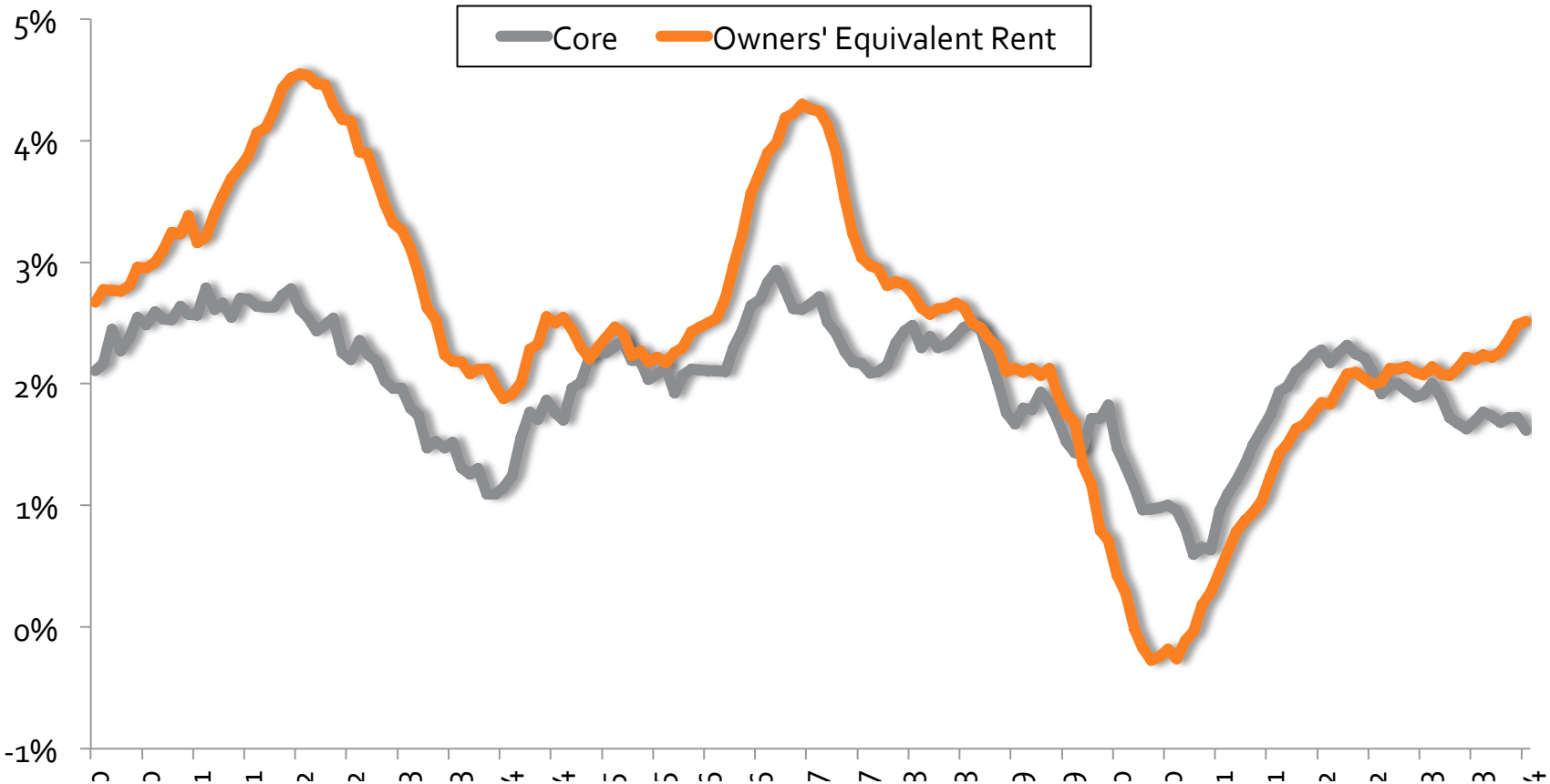


SERIES: GDP
SOURCE: US Dept. of Commerce, Bureau of Economic Analysis

Consumer Price Index

- Jan. 2014: Core +1.6% YTY, Owners' Equivalent Rent +2.5% YTY

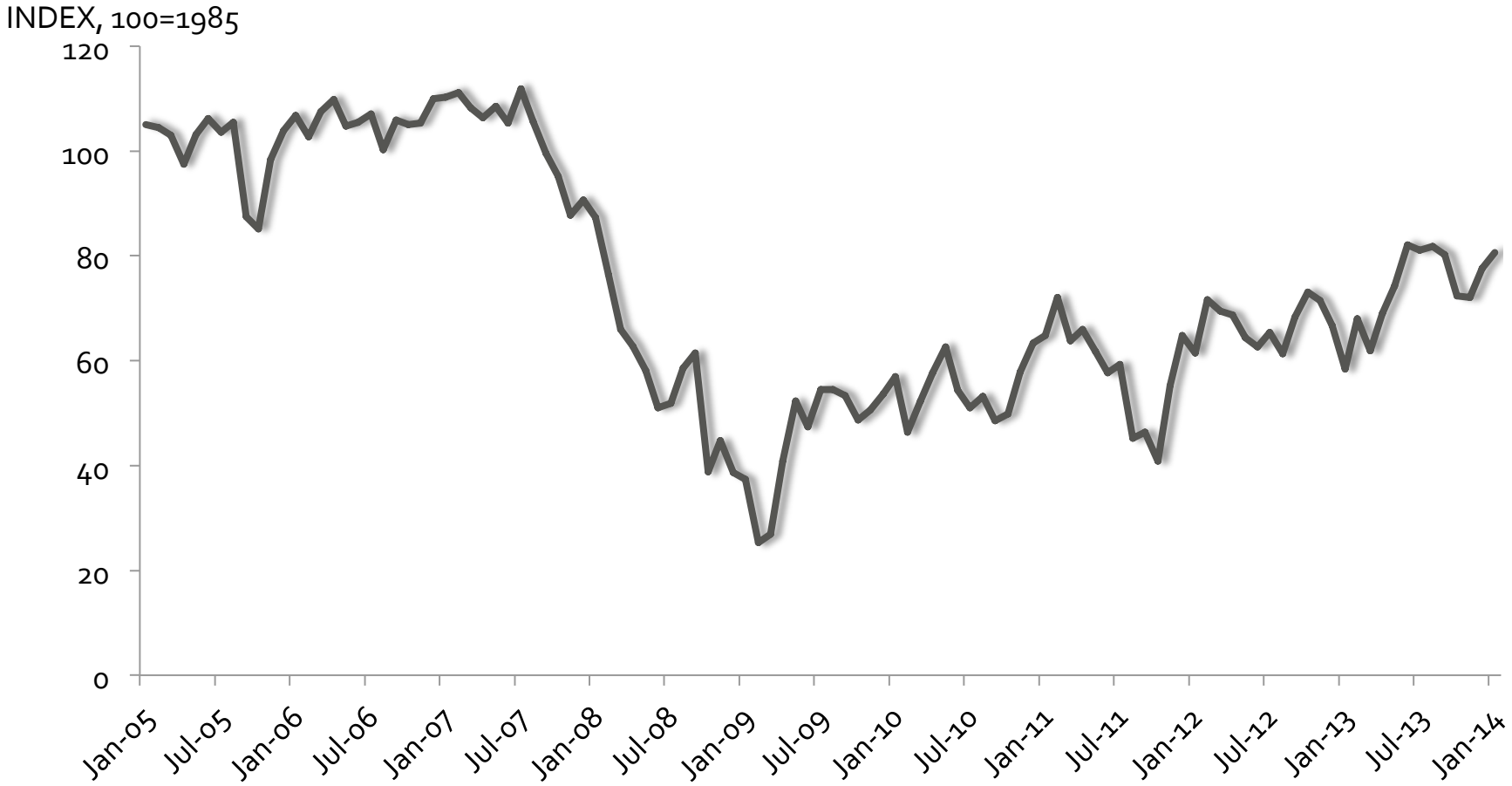
ANNUAL PERCENT CHANGE



SERIES: Consumer Price Index
SOURCE: US Bureau of Labor Statistics

Consumer Confidence Index

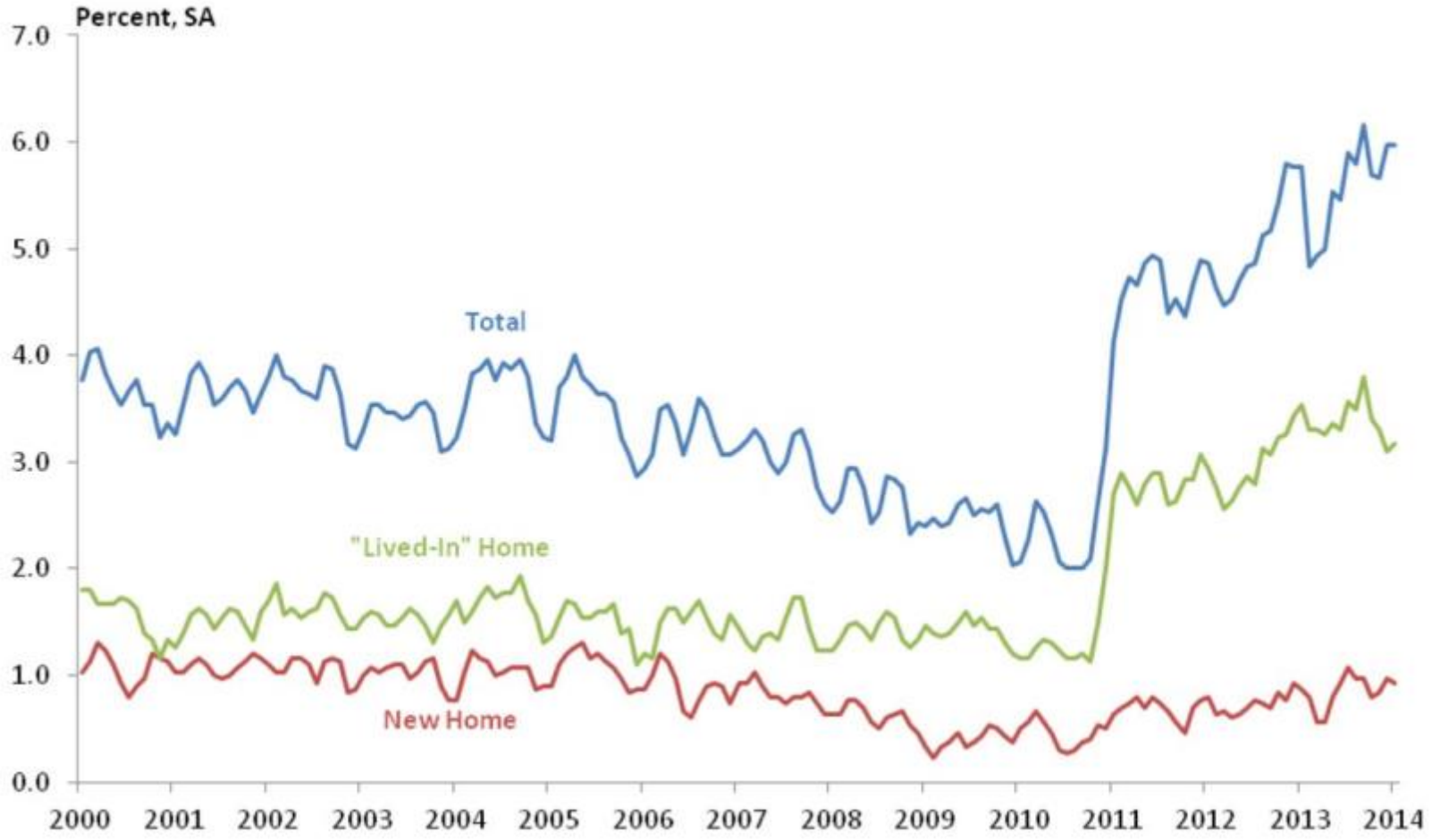
- January 2014: 80.7



SERIES: Consumer Confidence
SOURCE: The Conference Board

Share of Consumers Planning to Buy a Home

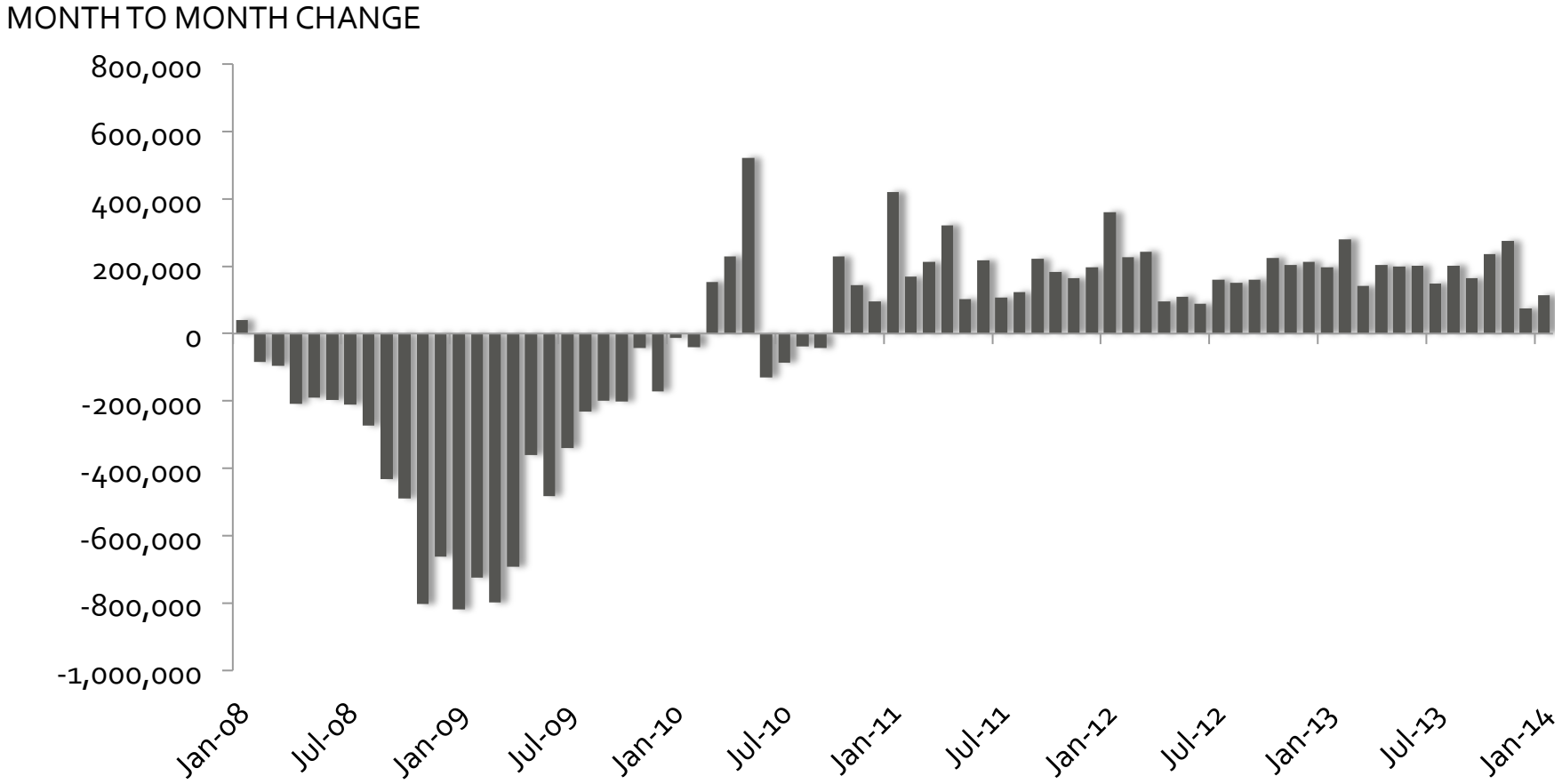
- % Answering Yes, Jan 2000-Jan 2013, 3 Month Average, SA



SERIES: Share of Consumers who Plan to Buy in 6 mos.
SOURCE: The Conference Board

U.S. Non-farm Job Growth

- Recession Job Losses: 8.8 million
- Since Jan'10: +8.1 million

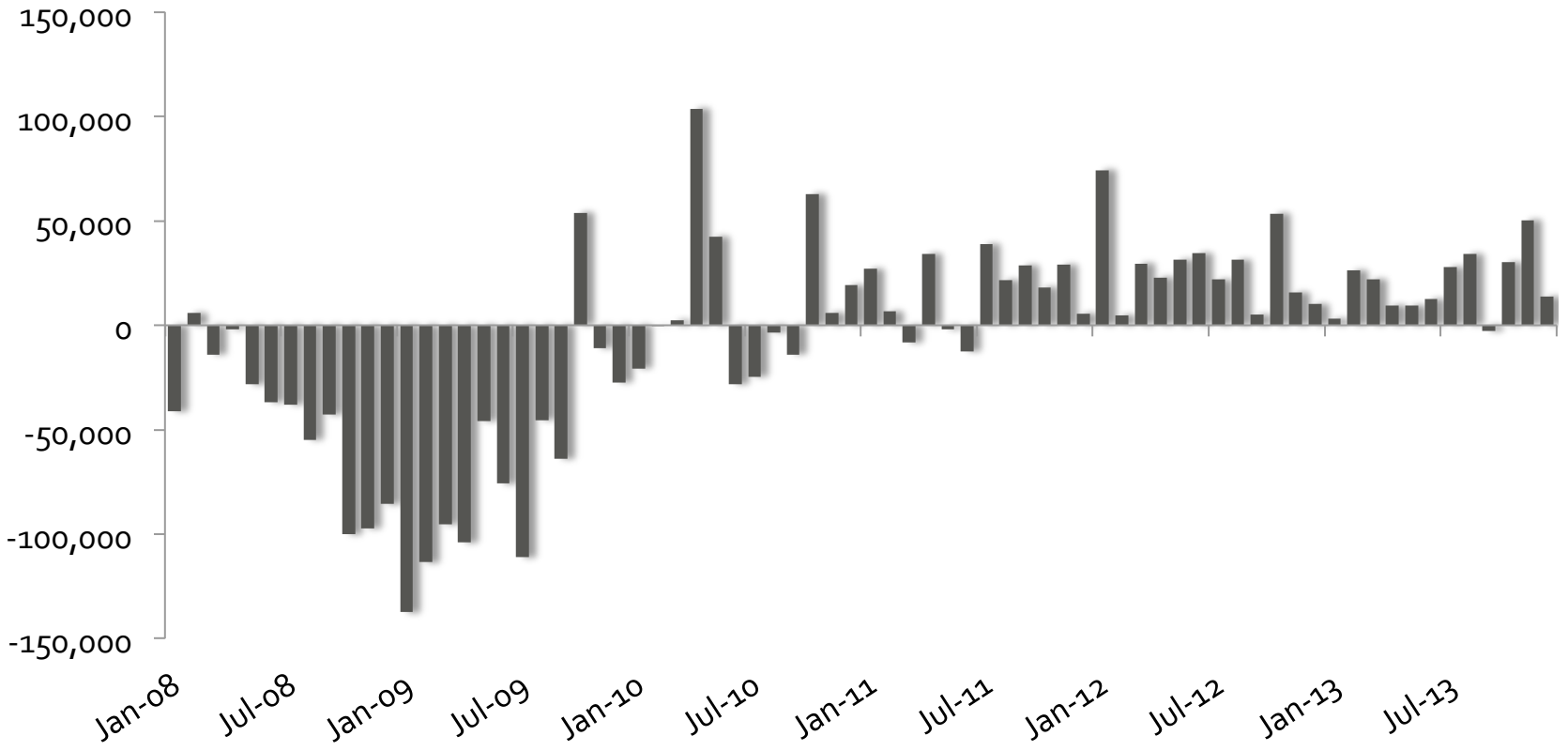


SERIES: Employment Growth
SOURCE: US Bureau of Labor Statistics

California Non-farm Job Growth

- Recession Job Losses: 1.3 million
- Since Jan'10: +901,700

MONTH TO MONTH CHANGES

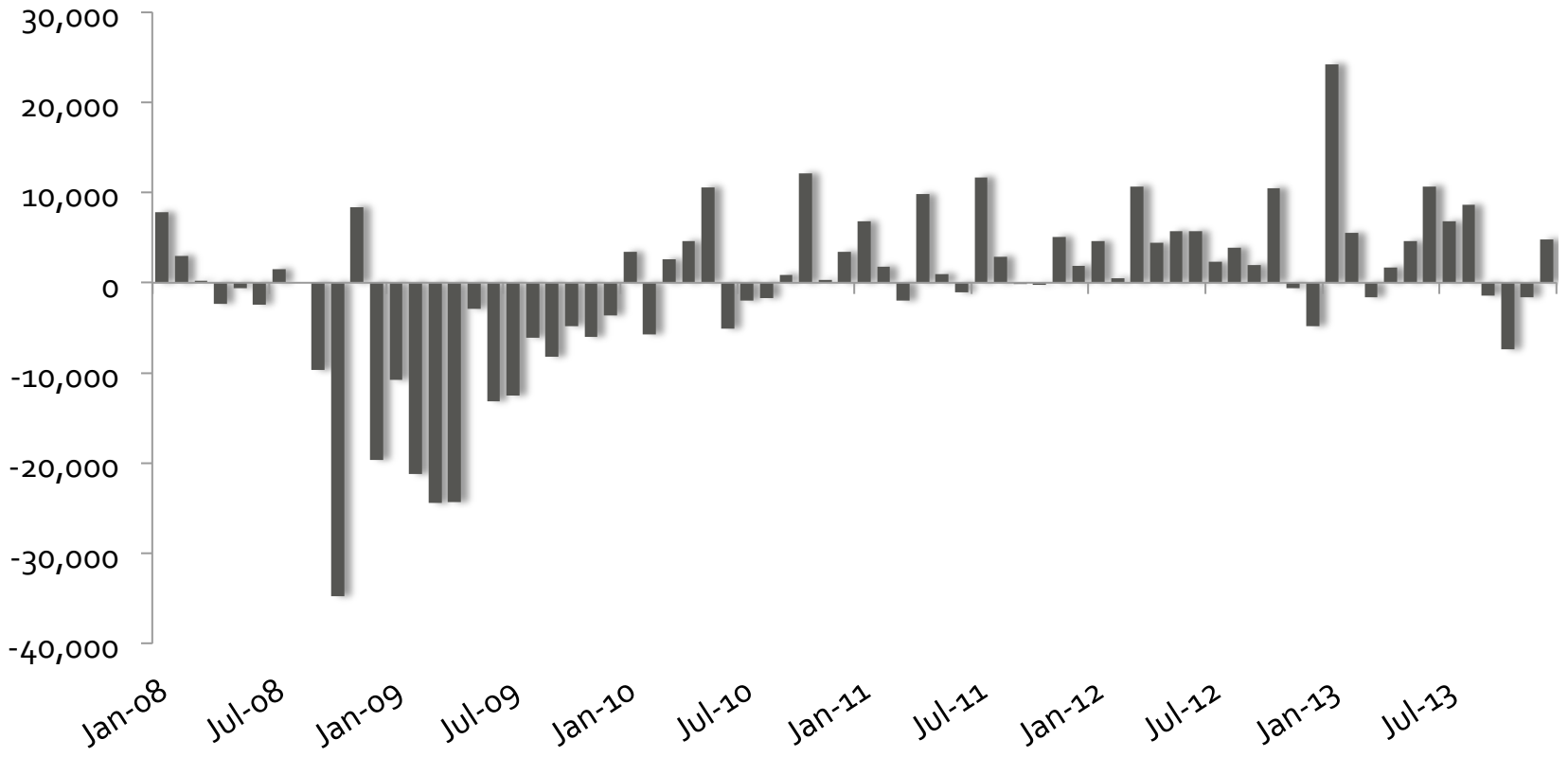


SERIES: Total Nonfarm Employment
SOURCE: CA Employment Development Division

Washington Non-farm Job Growth

- Recession Job Losses: 186,000
- Since Jan'10: +160,000

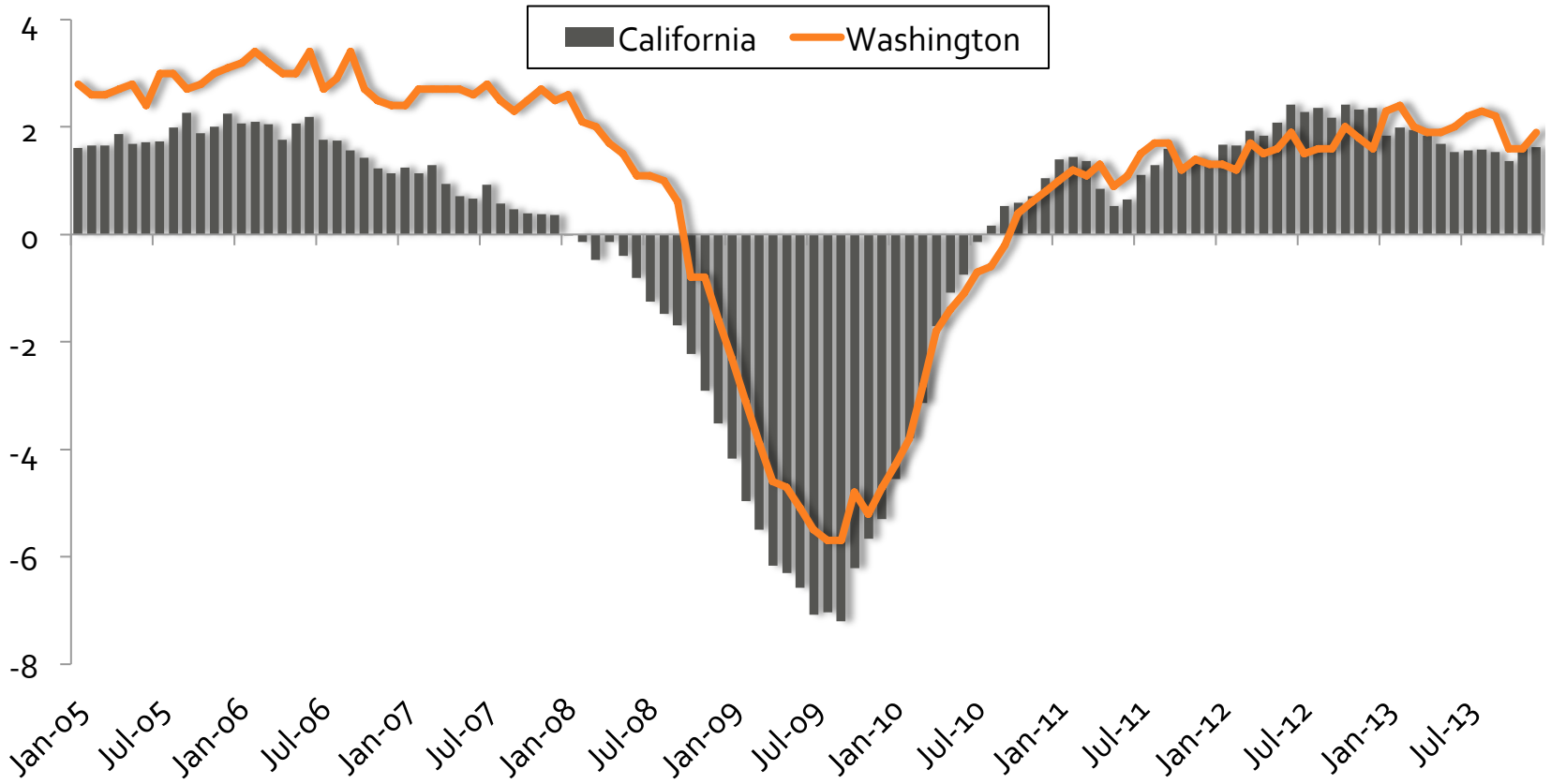
MONTH TO MONTH CHANGES



SERIES: Total Nonfarm Employment
SOURCE: US Bureau of Labor Statistics

Employment Growth, California vs. Washington

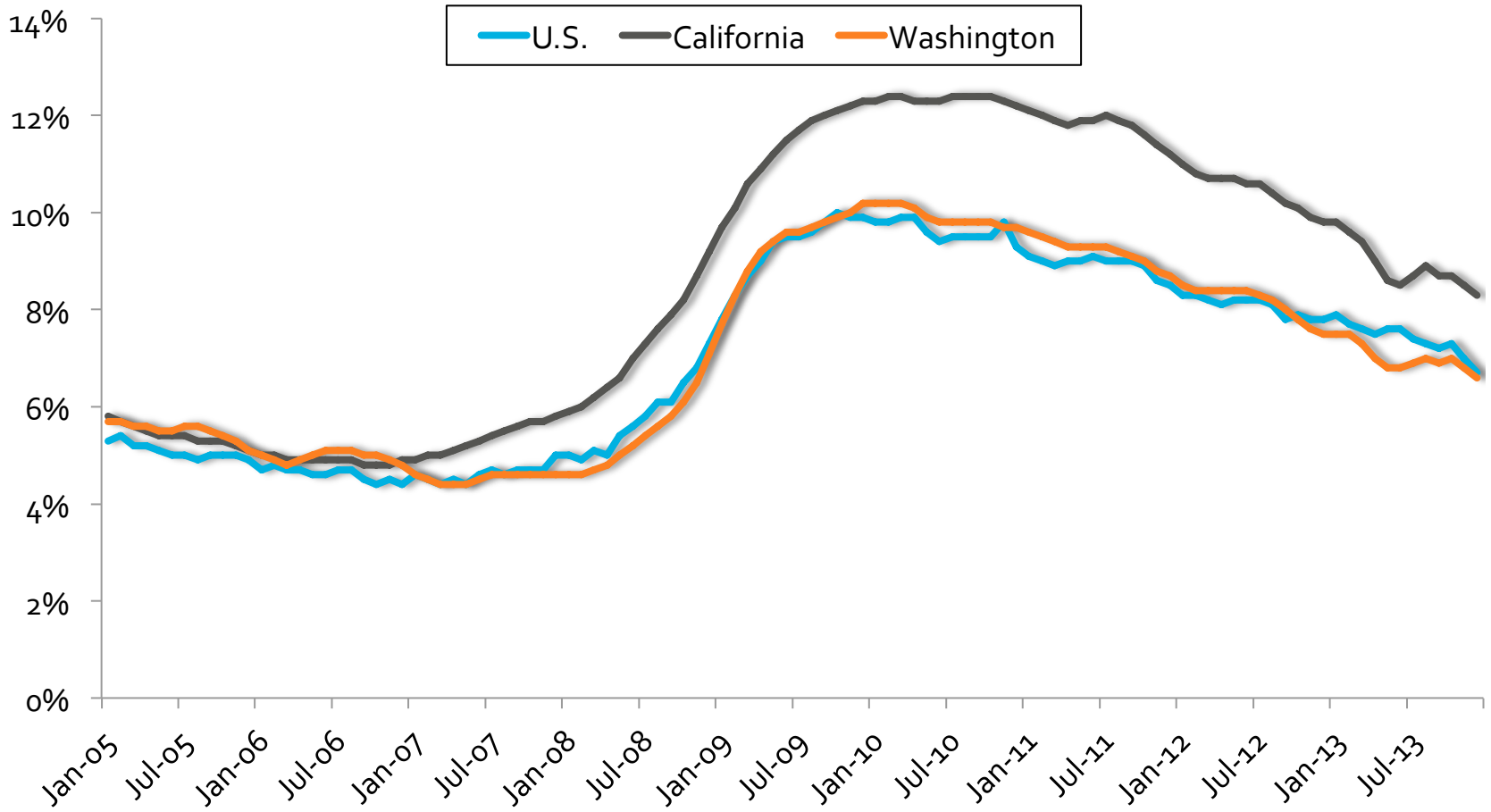
ANNUAL PERCENT CHANGE



SERIES: Total Nonfarm Employment
SOURCE: US Bureau of Labor Statistics, CA Employment Development Division

Unemployment Rates Falling (Slowly)

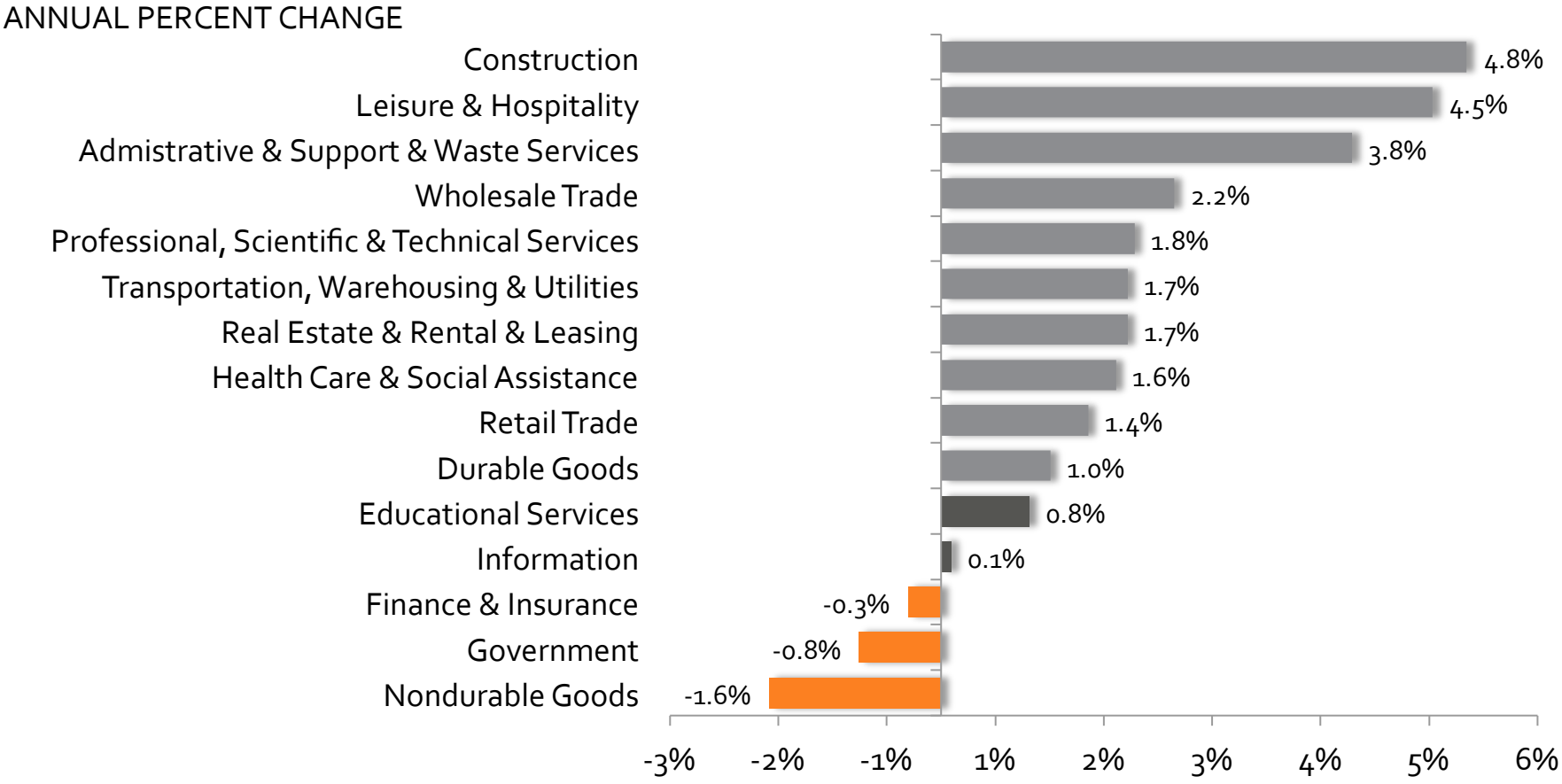
- U.S. (6.7%) •California (8.3%) • Washington (6.6%)



SERIES: Unemployment Rate
SOURCE: US Bureau of Labor Statistics, CA Employment Development Division

California Job Changes by Industry

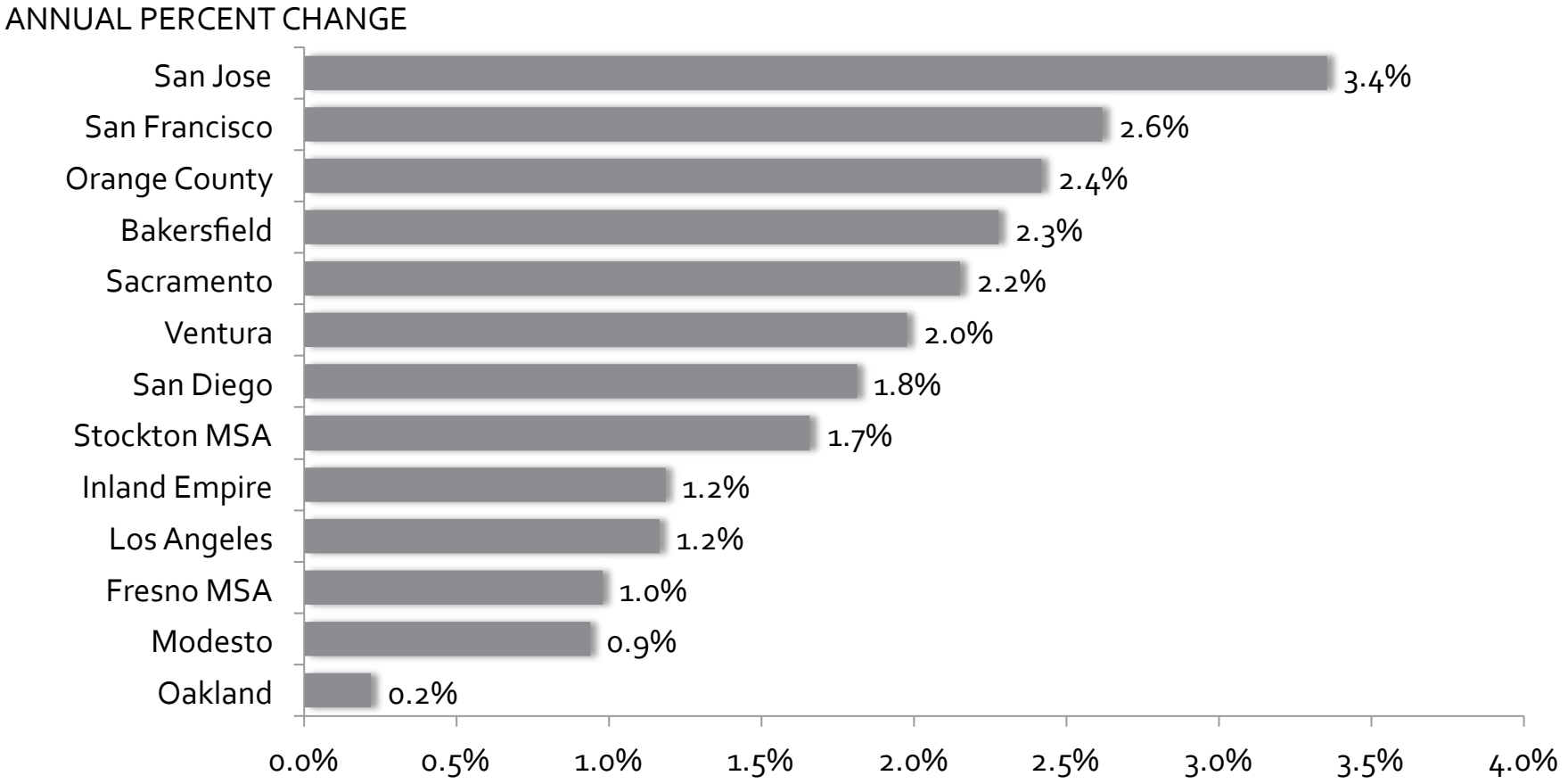
- December 2013: CA +1.6%, +235,700



SERIES: Total Nonfarm Employment By Industry
SOURCE: US Bureau of Labor Statistics, CA Employment Development Division

Job Trends by California Metro Area

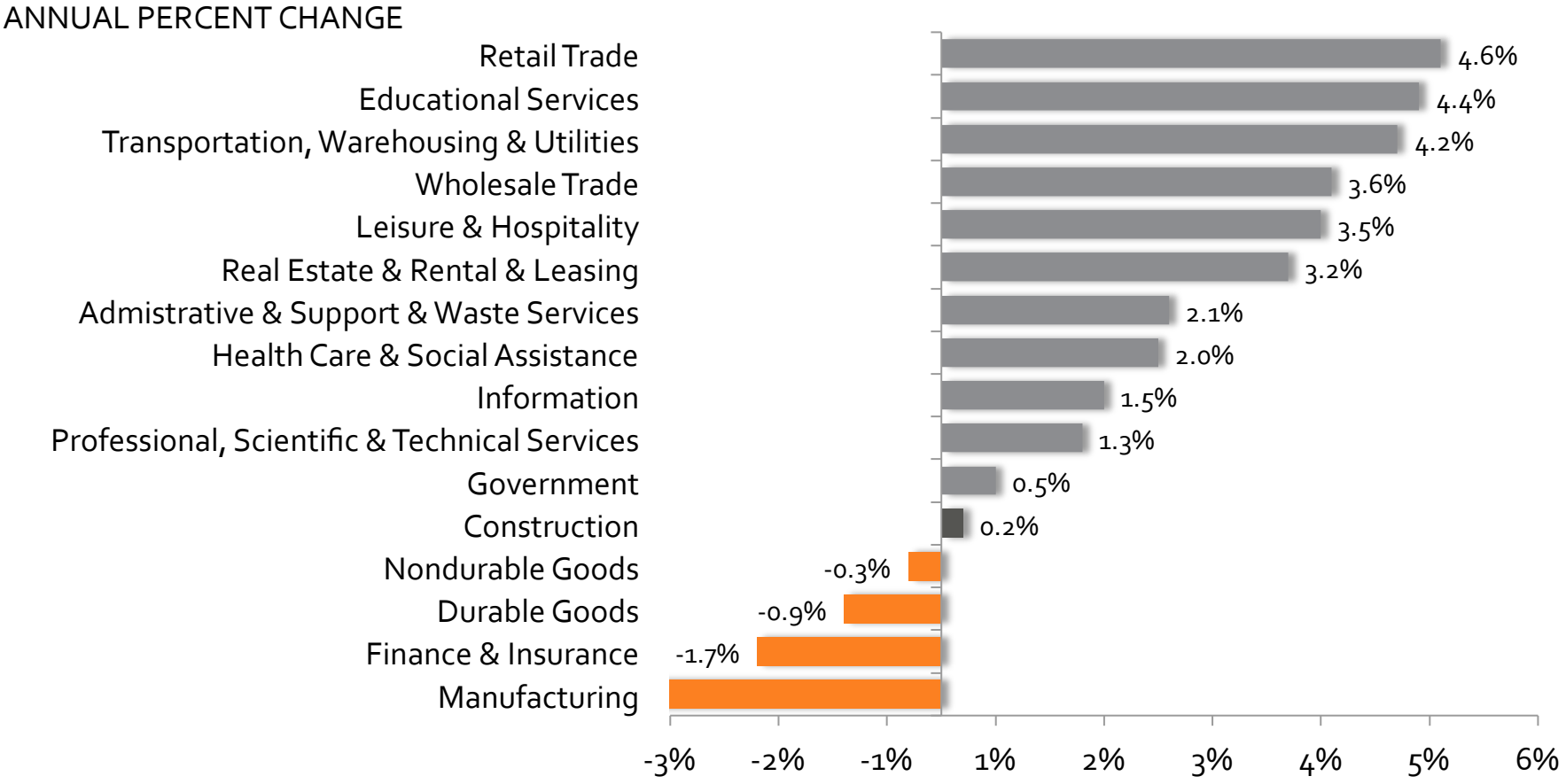
- December 2013: CA +1.6%, +235,700



SERIES: Total Nonfarm Employment
SOURCE: CA Employment Development Division

Washington Job Changes by Industry

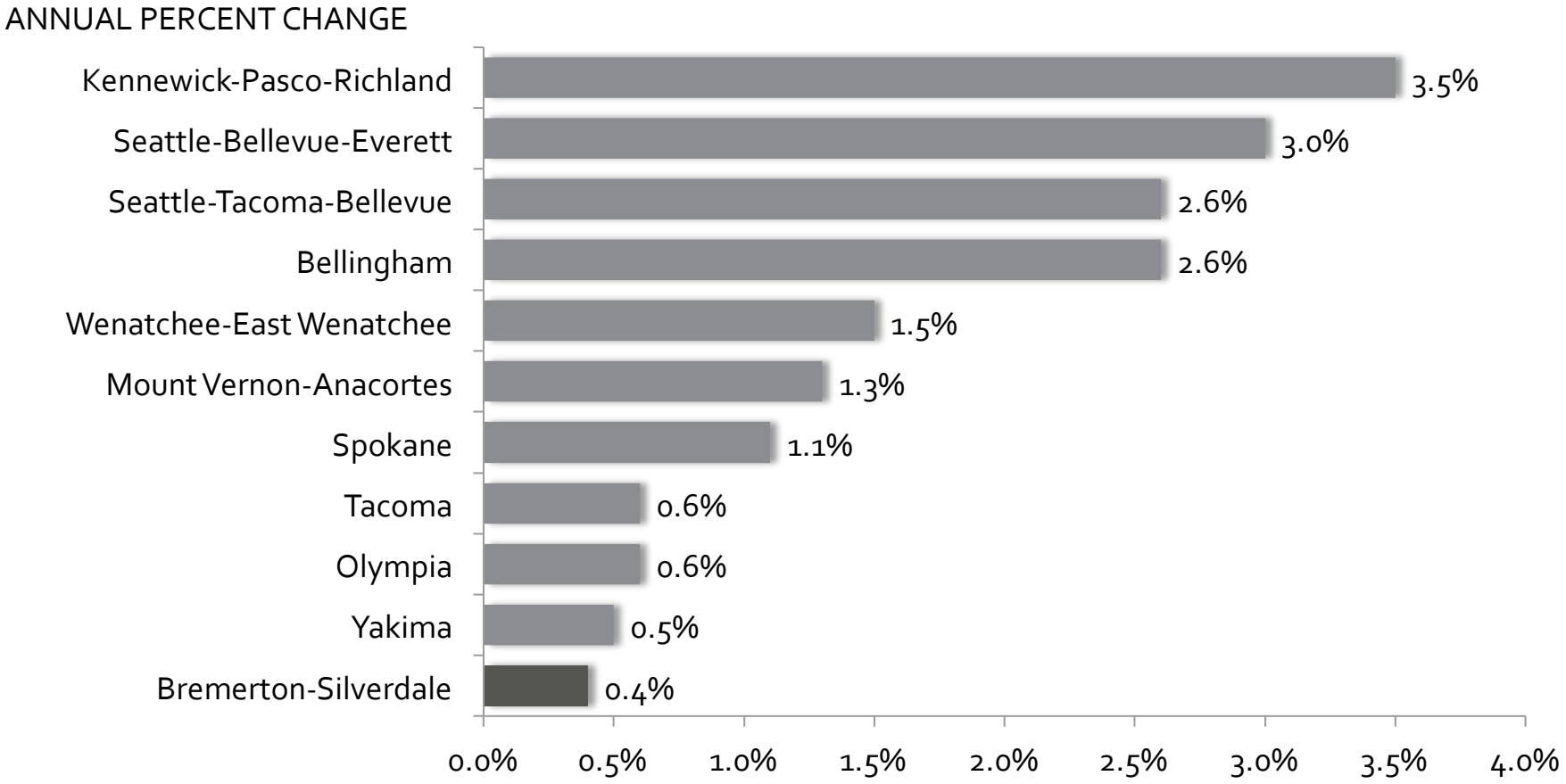
- December 2013: WA +1.6%, +54,900



SERIES: Total Nonfarm Employment By Industry
SOURCE: US Bureau of Labor Statistics

Job Trends by Washington Metro Area

- December 2013: WA +1.6%, +54,900

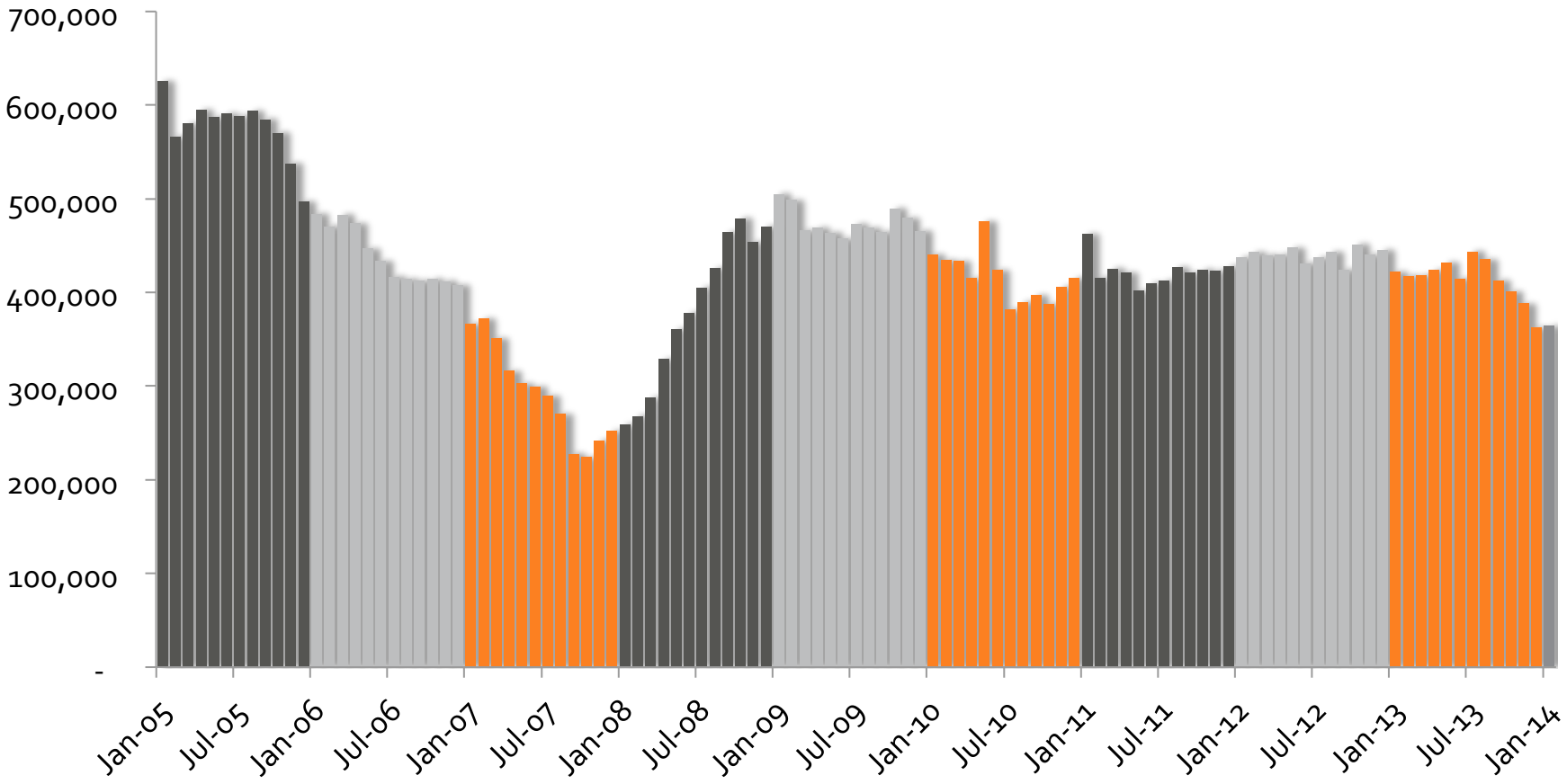


SERIES: Total Nonfarm Employment
SOURCE: US Bureau of Labor Statistics

THE CALIFORNIA RESIDENTIAL REAL ESTATE MARKET

Sales of Existing Detached Homes

- California, Jan. 2014 Sales: 363,640 Units, -13.8% YTD, -13.8% YTY

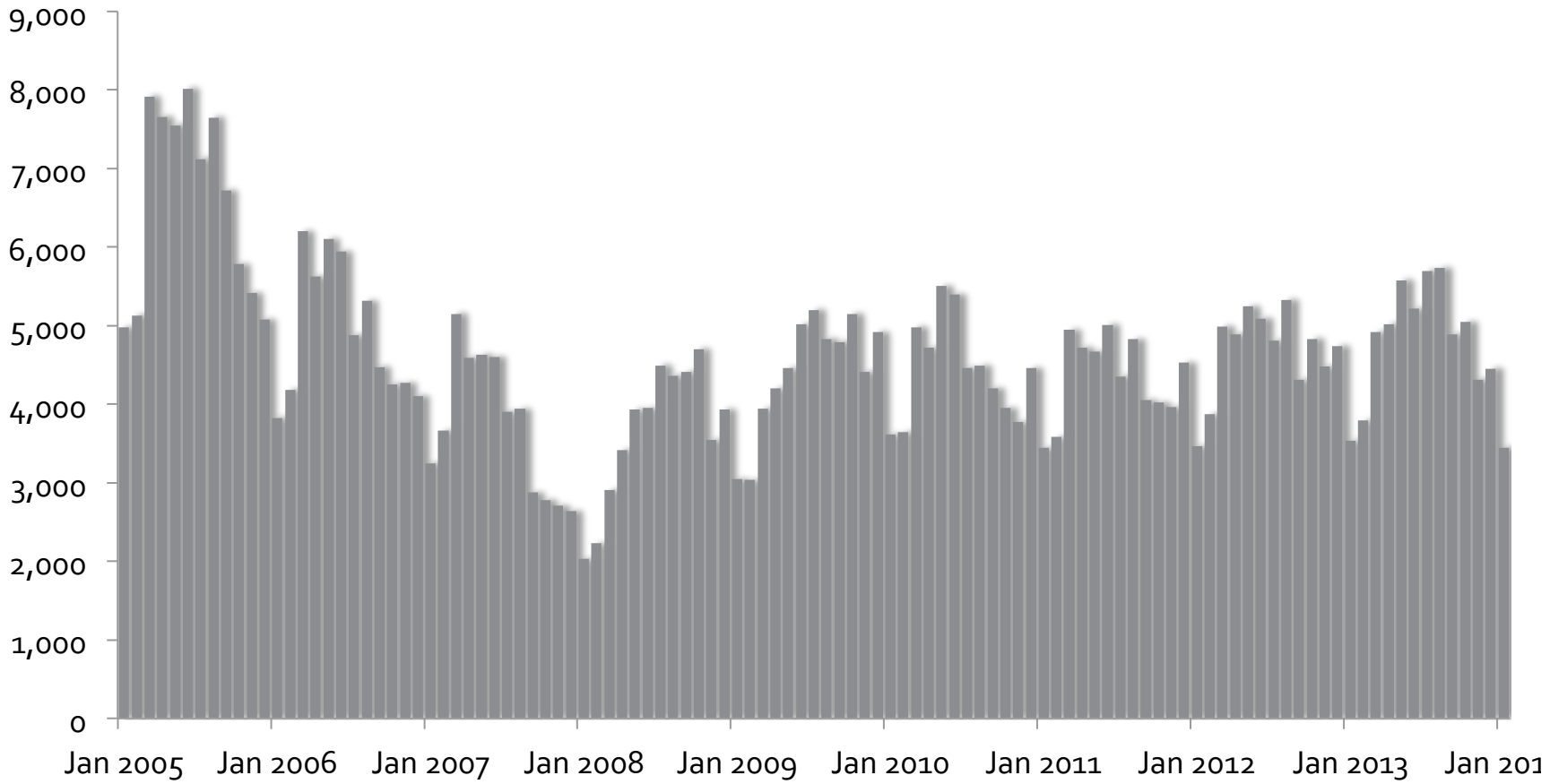


SERIES: Sales of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

*Sales are seasonally adjusted and annualized

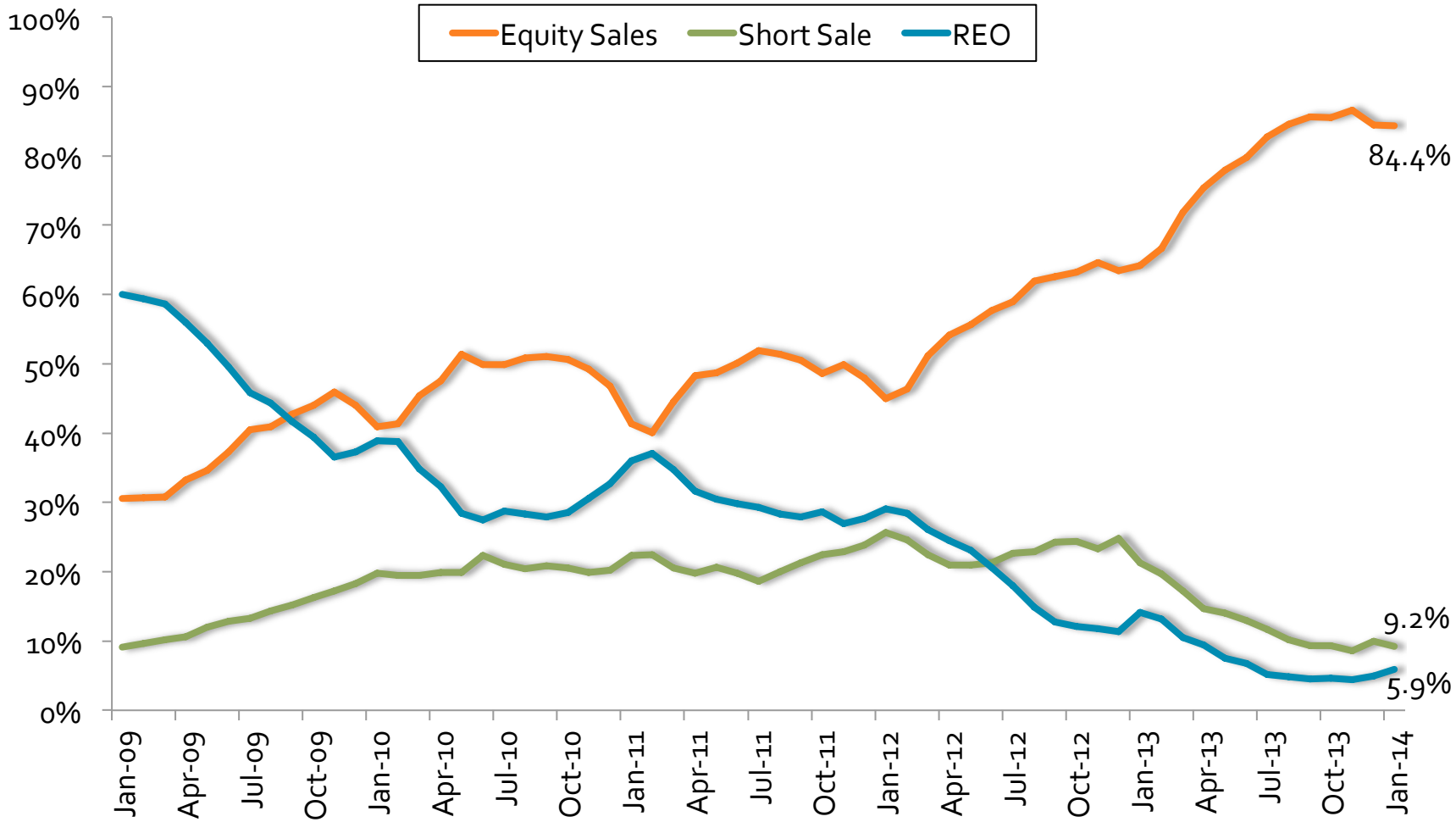
Sales of Condo Units

- California, Jan 2013: 3,448 Units, -2.4% YTD, -2.4% YTY



SERIES: Sales of Condo Units
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

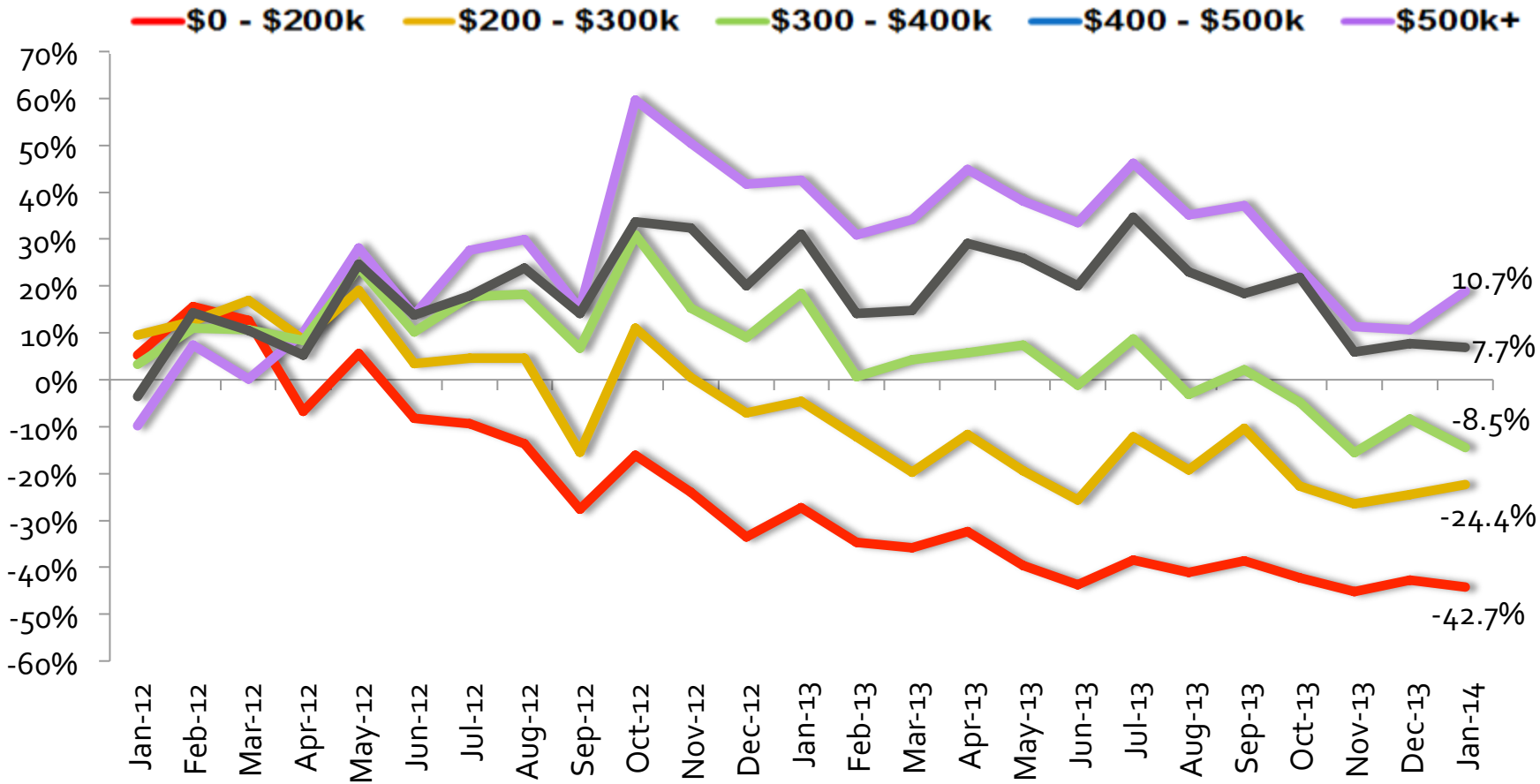
Share of Equity Sales Remained near the Recent Peak Level



SERIES: Distressed Sales, Not Seasonally Adjusted
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Change in Sales by Price Range

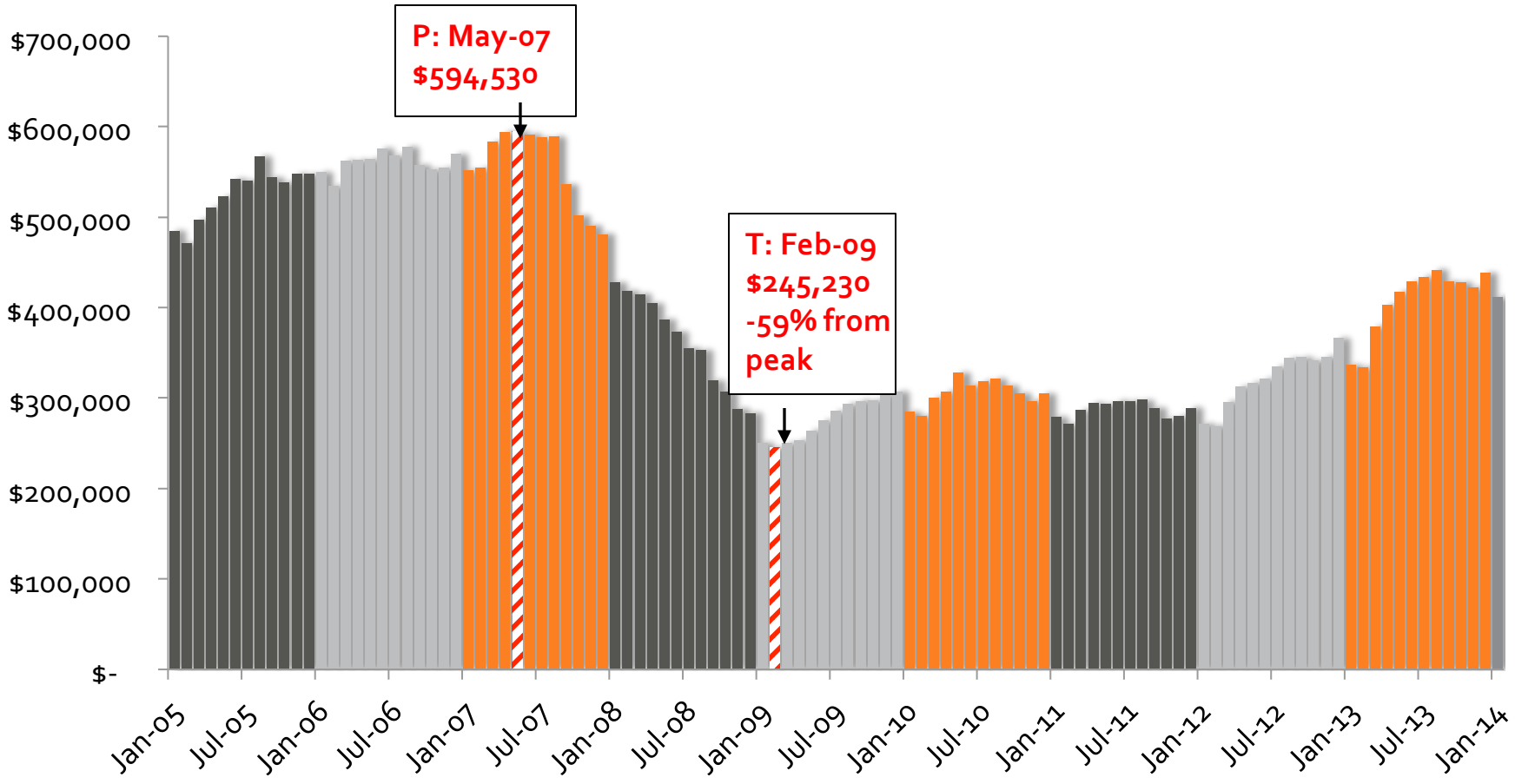
- (Year-to-Year)



SERIES: Sales of Existing Detached Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

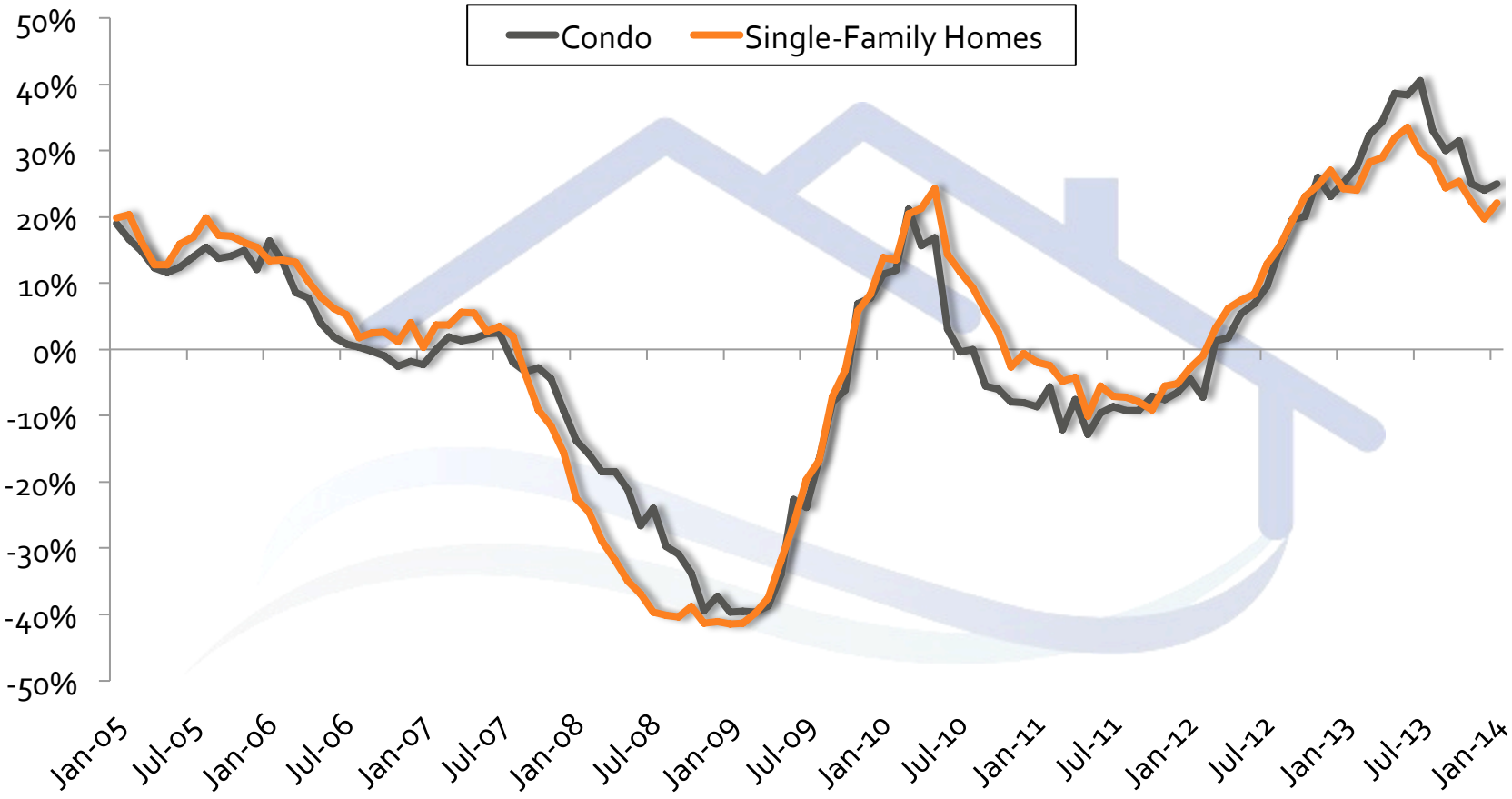
Median Price of Existing Detached Homes

- California, January 2014: $410,990, Up 22.1% YTY



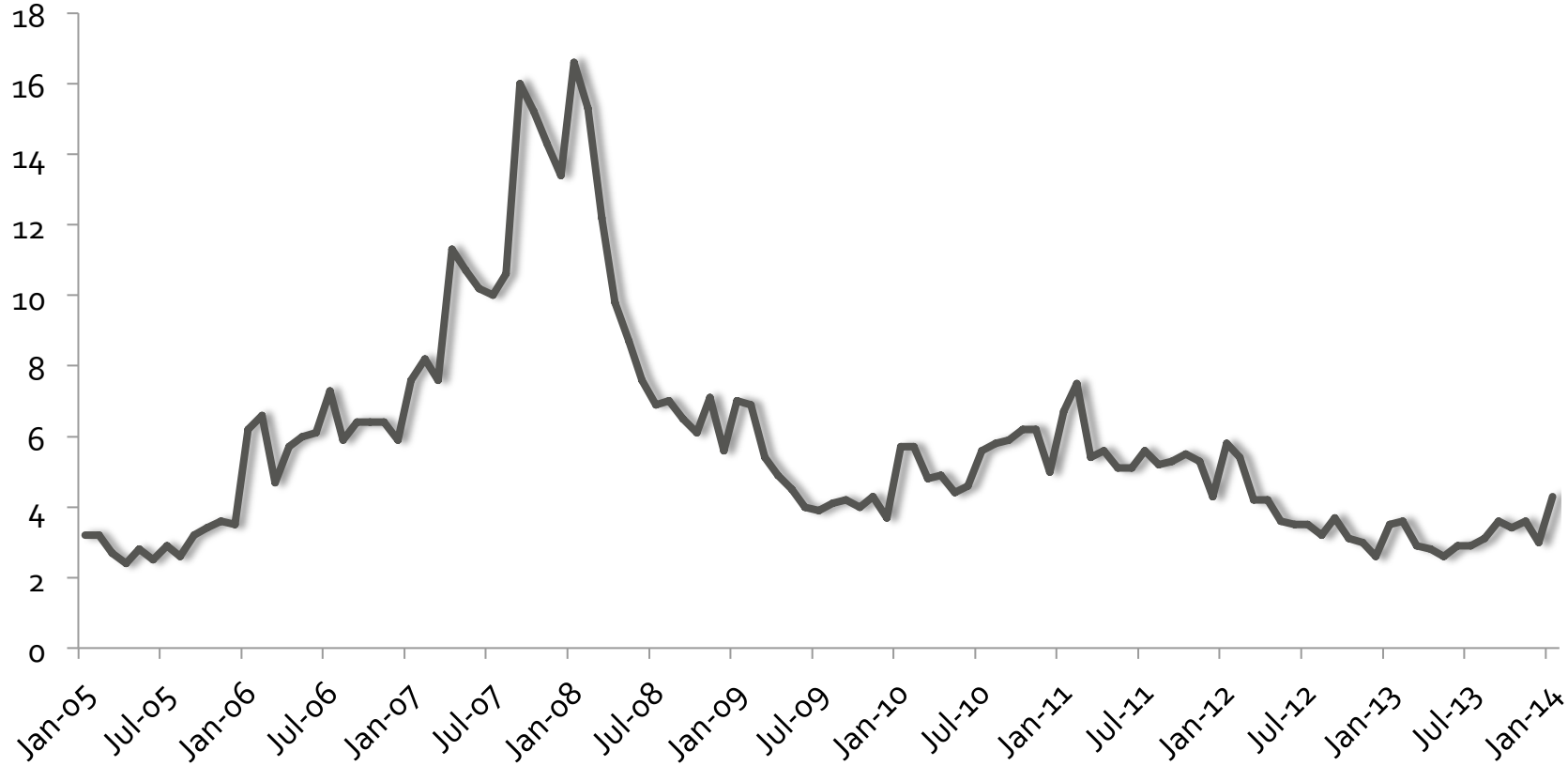
SERIES: Median Price of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Condo/Townhome Prices Growing Faster than Single-Family Homes for the Last 13 Months



Unsold Inventory Index

- California, January 2014: 4.3 Months

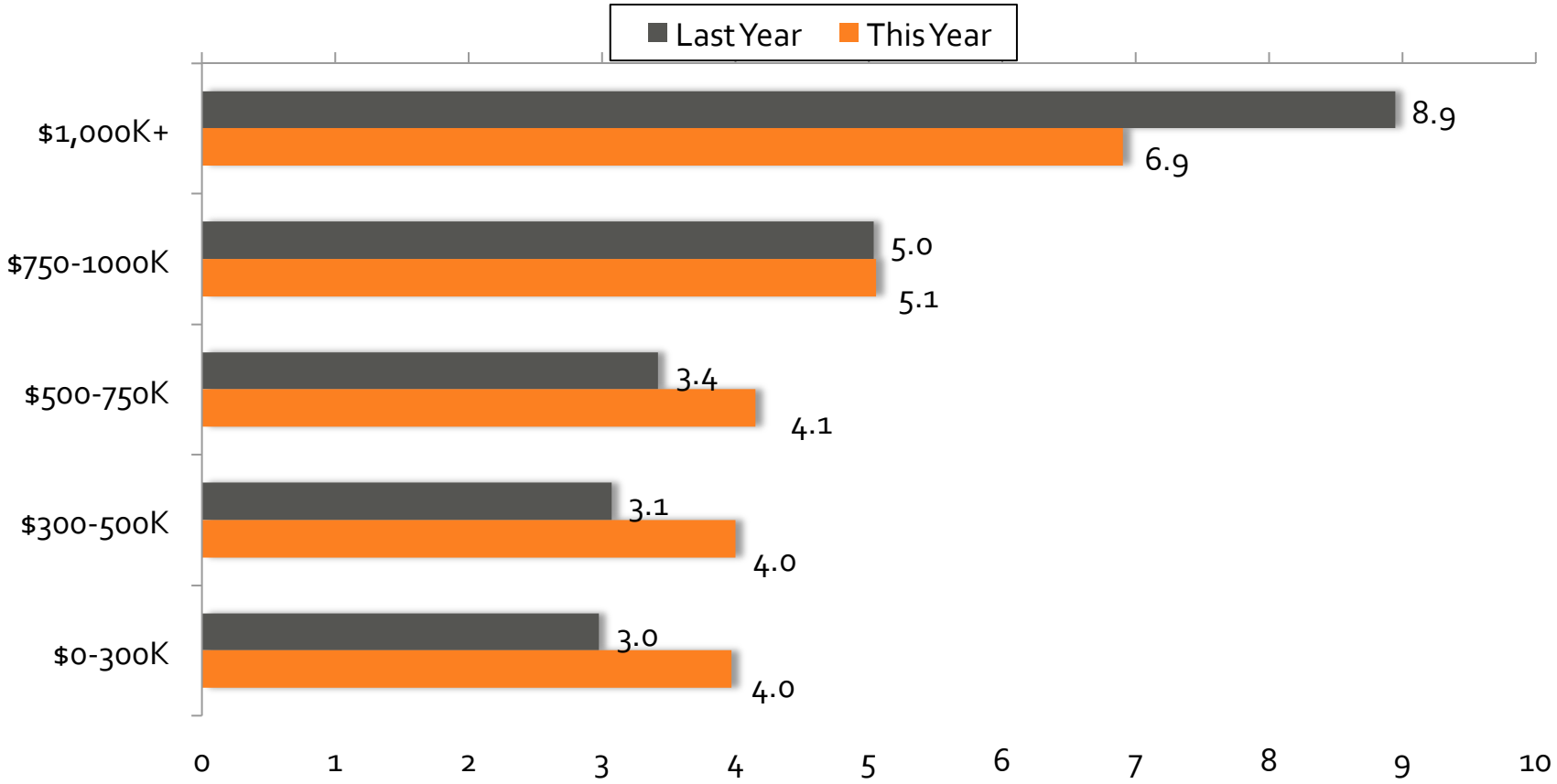


Note: "Unsold Inventory Index" represents the number of months it would take to sell the remaining inventory for the month in question. The remaining inventory for the month is defined as the number of properties that were "Active", "Pending", and "Contingent" (when available) and divide the sum by the number of "Sold" properties for the month in question.

SERIES: Unsold Inventory Index of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Unsold Inventory Index By Price Range

- California , January 2013 vs. January 2014



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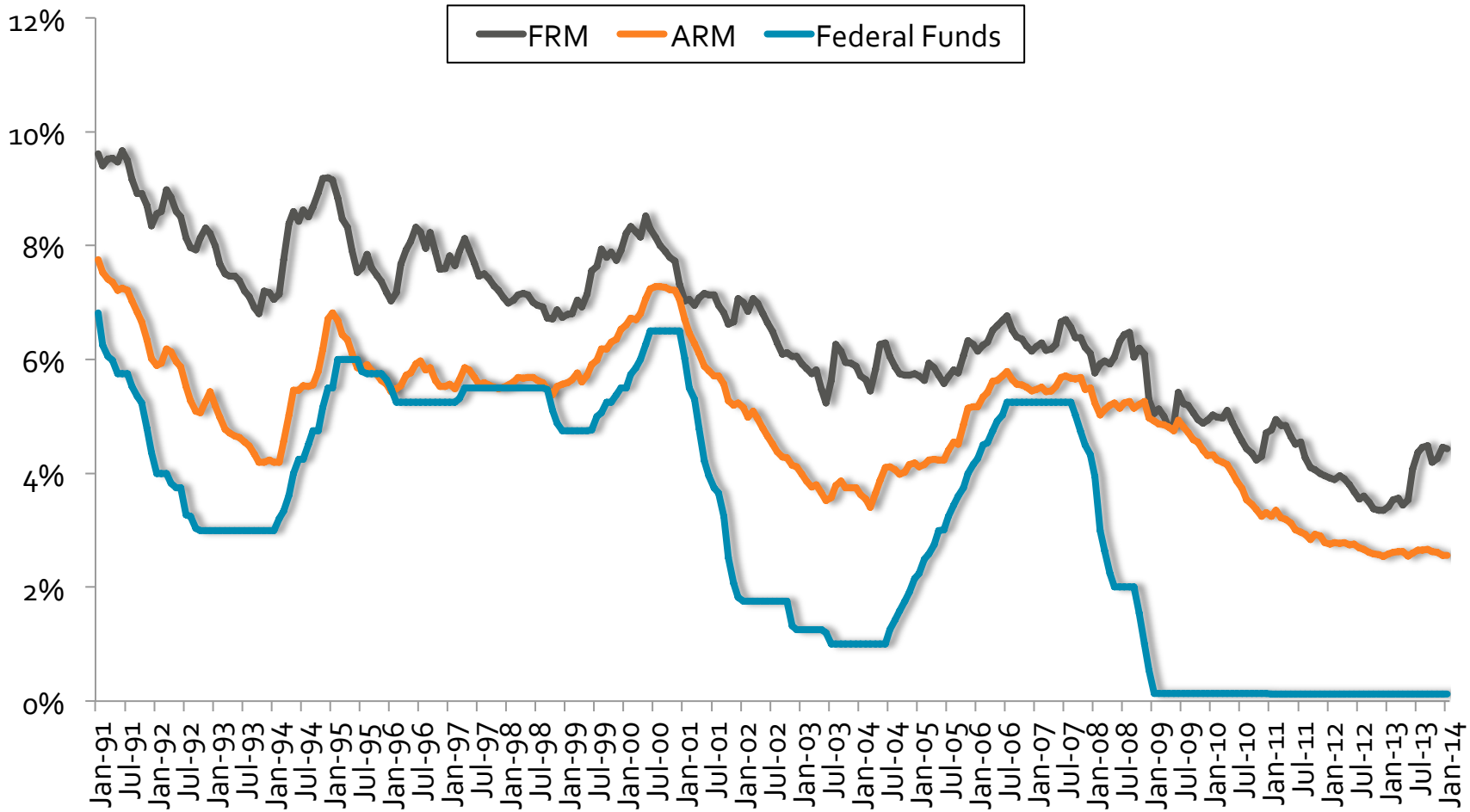
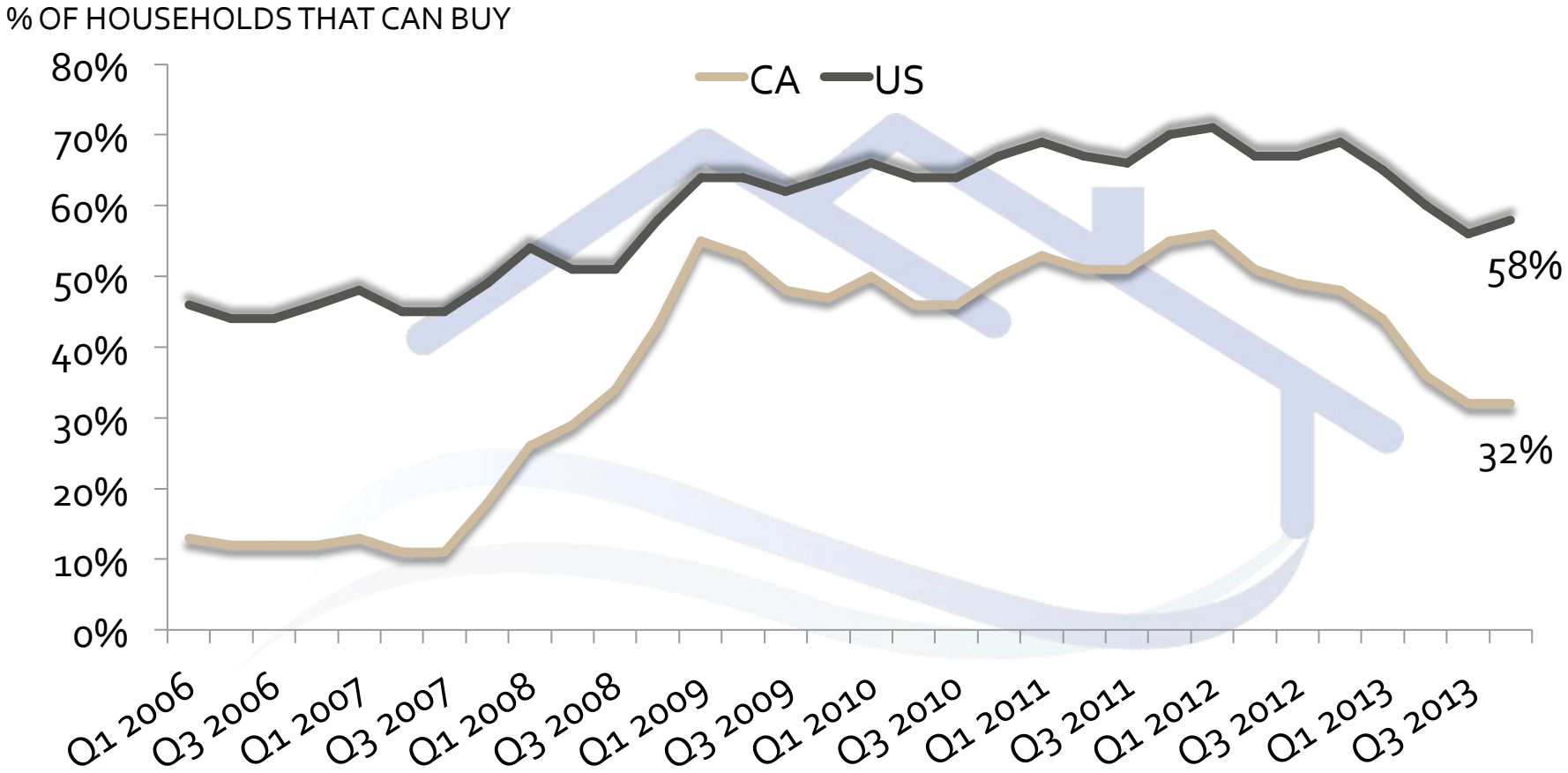
SERIES: Unsold Inventory Index of Existing Single Family Homes
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Mortgage Rates: "Tapering" has begun…



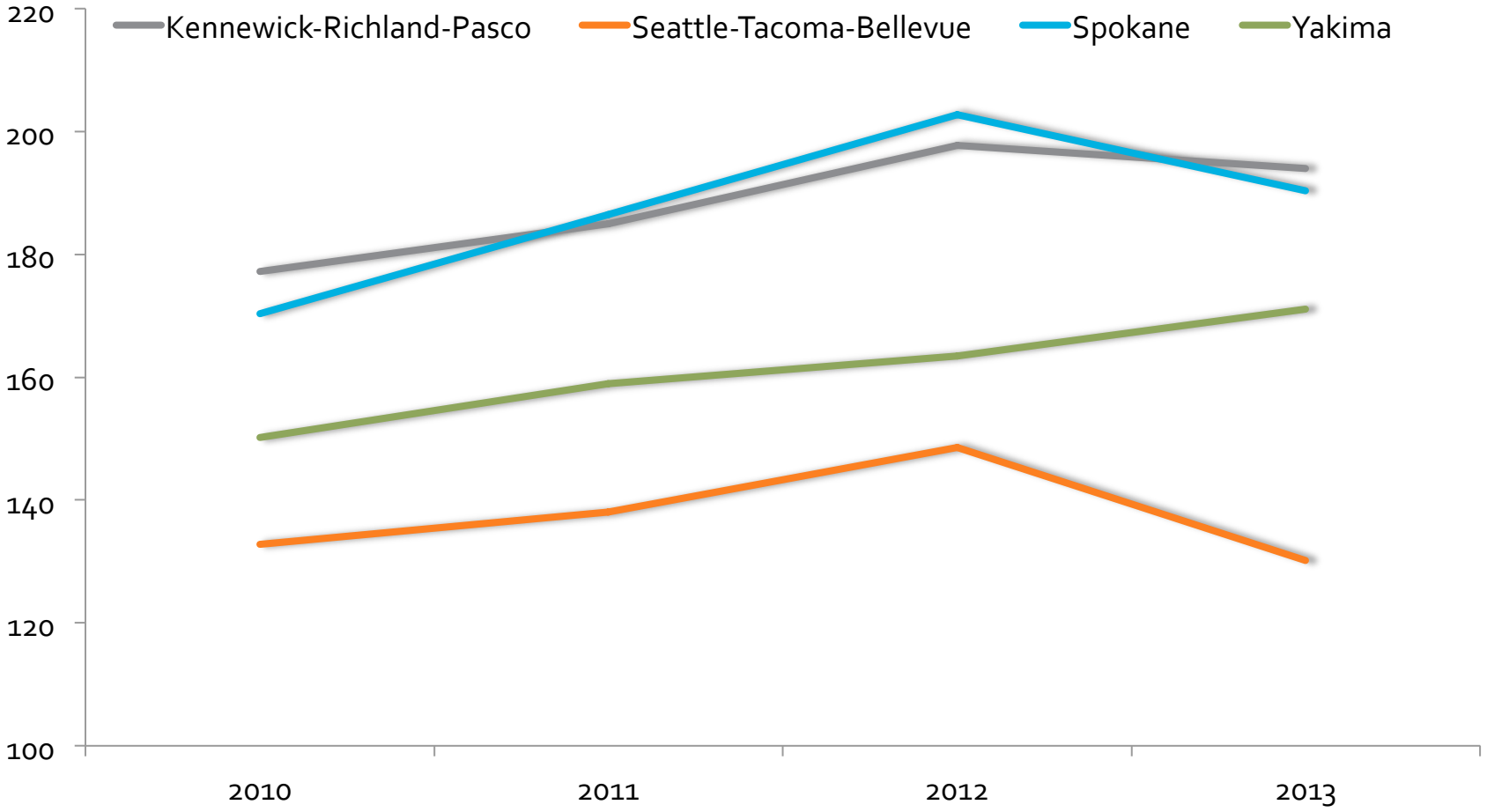
SERIES: 30Yr FRM, 1Yr ARM, Federal Funds
SOURCE: Federal Home Loan Mortgage Corporation

Housing Affordability Hit by Mortgage Rate and Price Gains But Still Attractive



SERIES: Housing Affordability Index of Traditional Buyers
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Housing Affordability Index, NAR Index



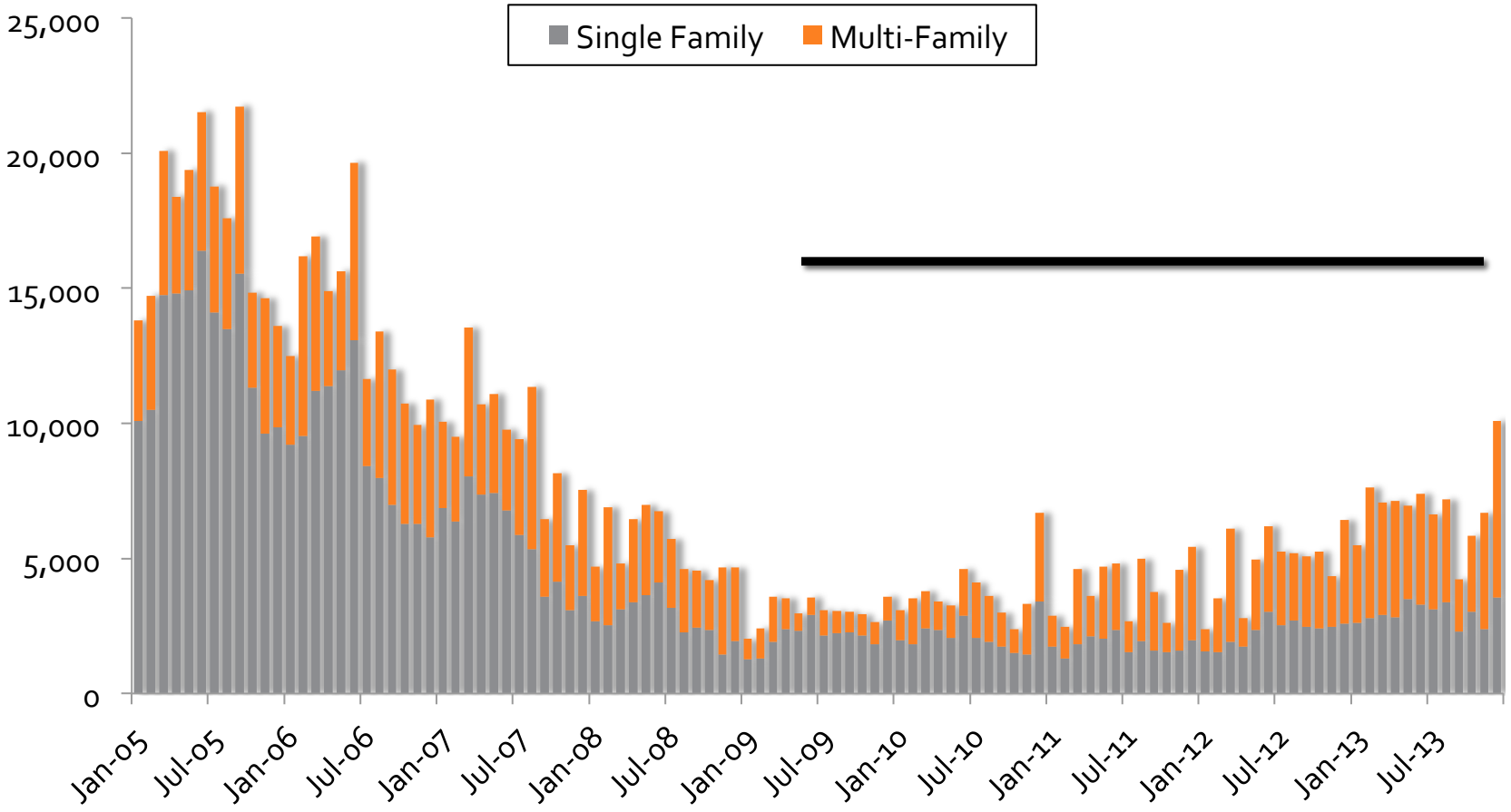
SERIES: Affordability Index of Existing Single-Family Homes for Metropolitan Areas
SOURCE: National Association of REALTORS®

Why is Inventory so Low?

- Demand Side
  - Housing affordability is at historic highs
  - Low rates impacting other investment alternatives
- Supply Side
  - Little new construction for last 5 years
  - Underwater homeowners are stuck
  - Foreclosure pipeline drying up in non-judicial states
  - Investors are renting instead of flipping
  - Off-market (aka "pocket') listings growing

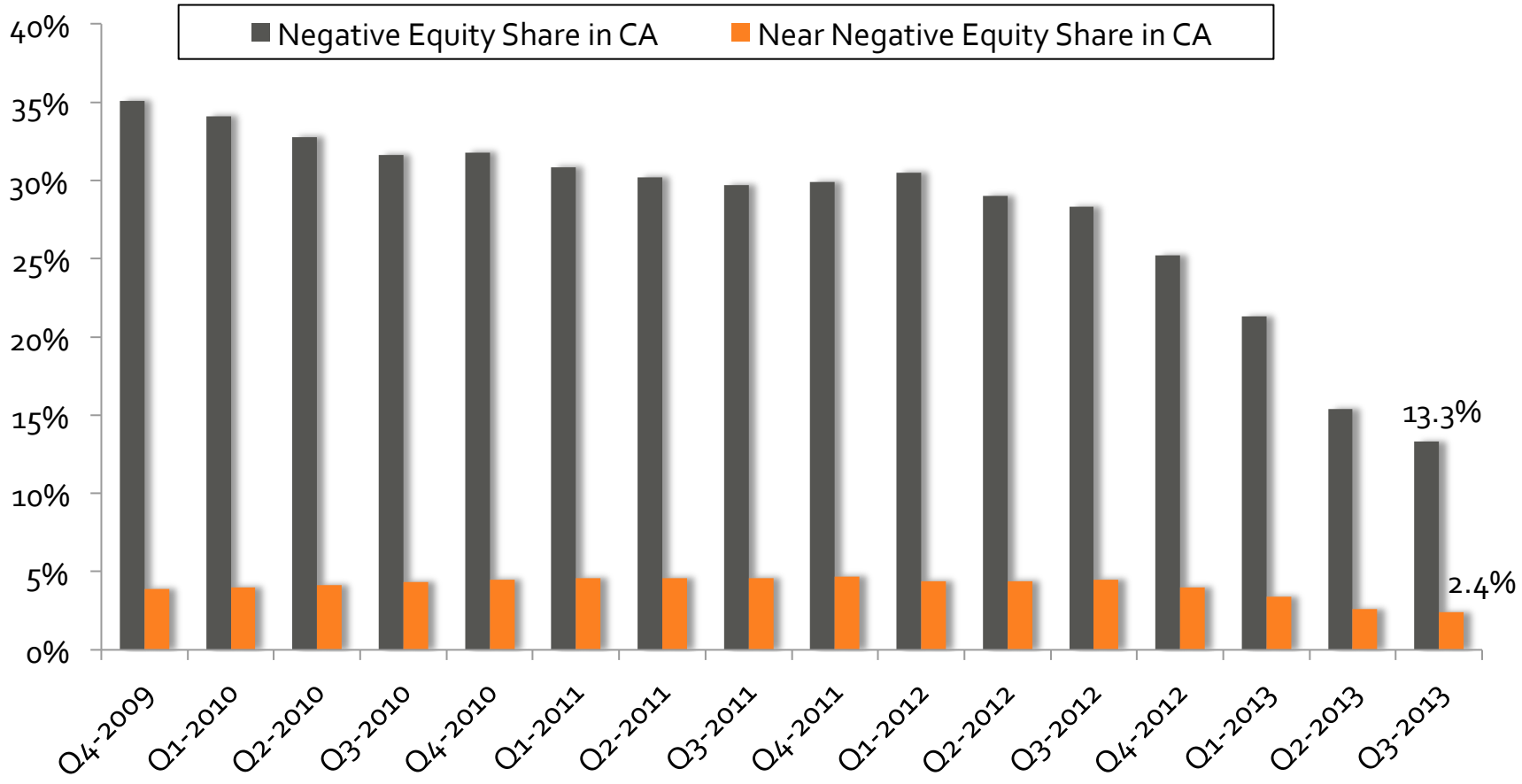
New Housing Permits

- California, Dec. 2013: 10,077 Units, Up 43.0% YTD



SERIES: New Housing Permits
SOURCE: Construction Industry Research Board

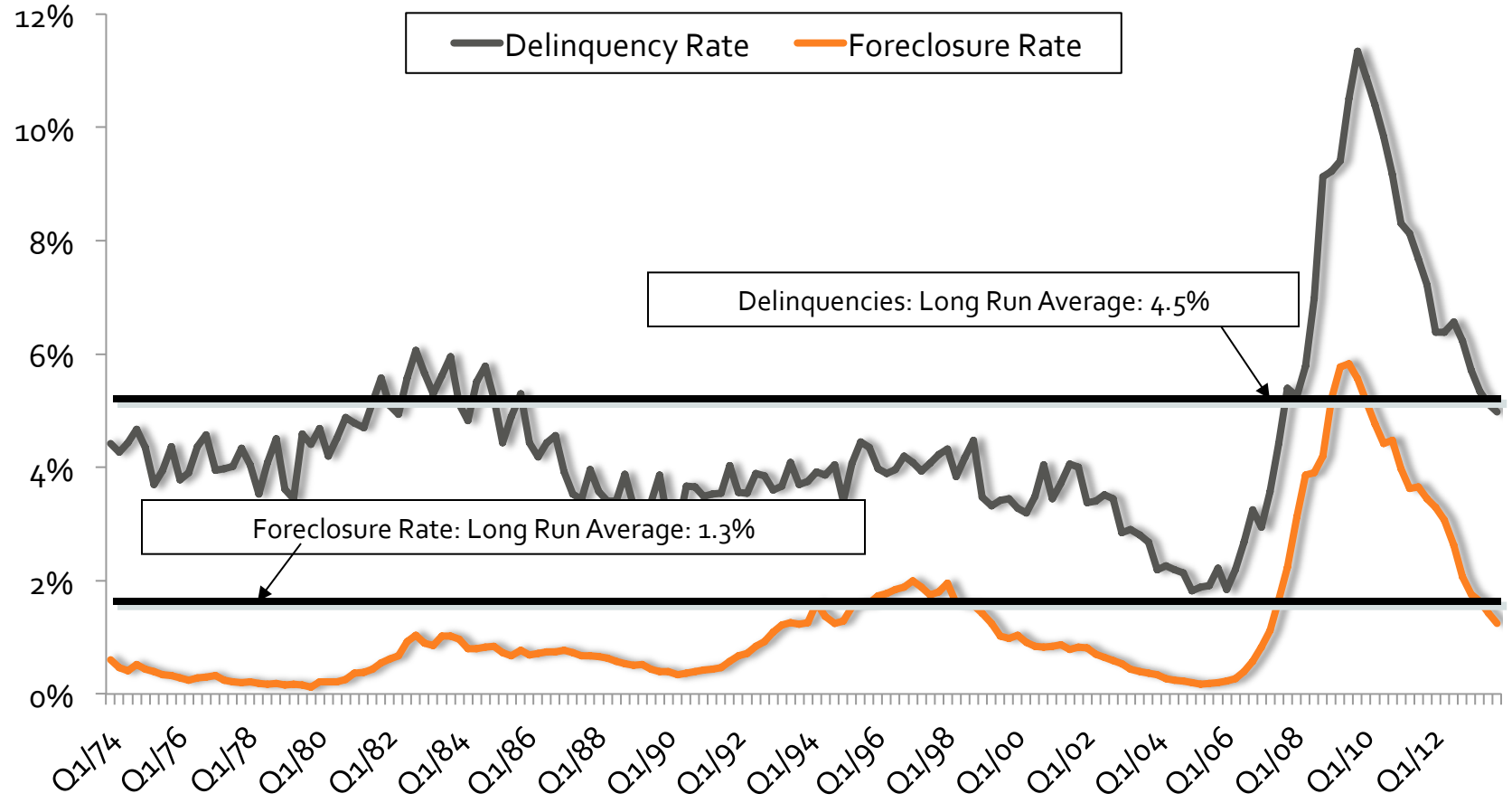
CA Underwater Mortgages
Reverse Wealth Effect v. Squatter Economy



SERIES: Underwater Mortgages
SOURCE: CoreLogic

Mortgage Foreclosure & Delinquency Rates – Back to Long Term Trend Line

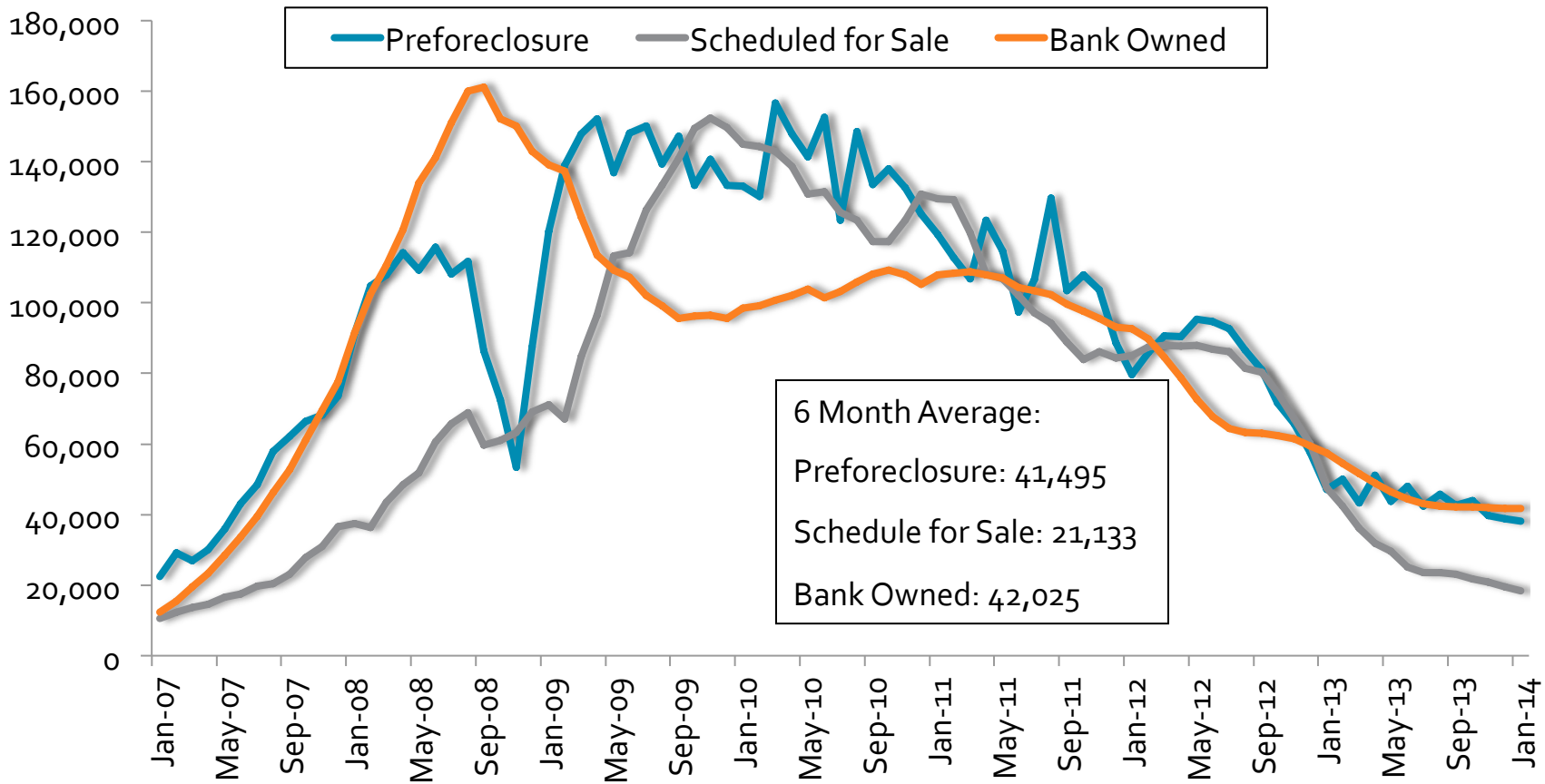
- California: Q4-2013



SERIES: Mortgage Foreclosure & Delinquency Rates
SOURCE: Mortgage Bankers Association

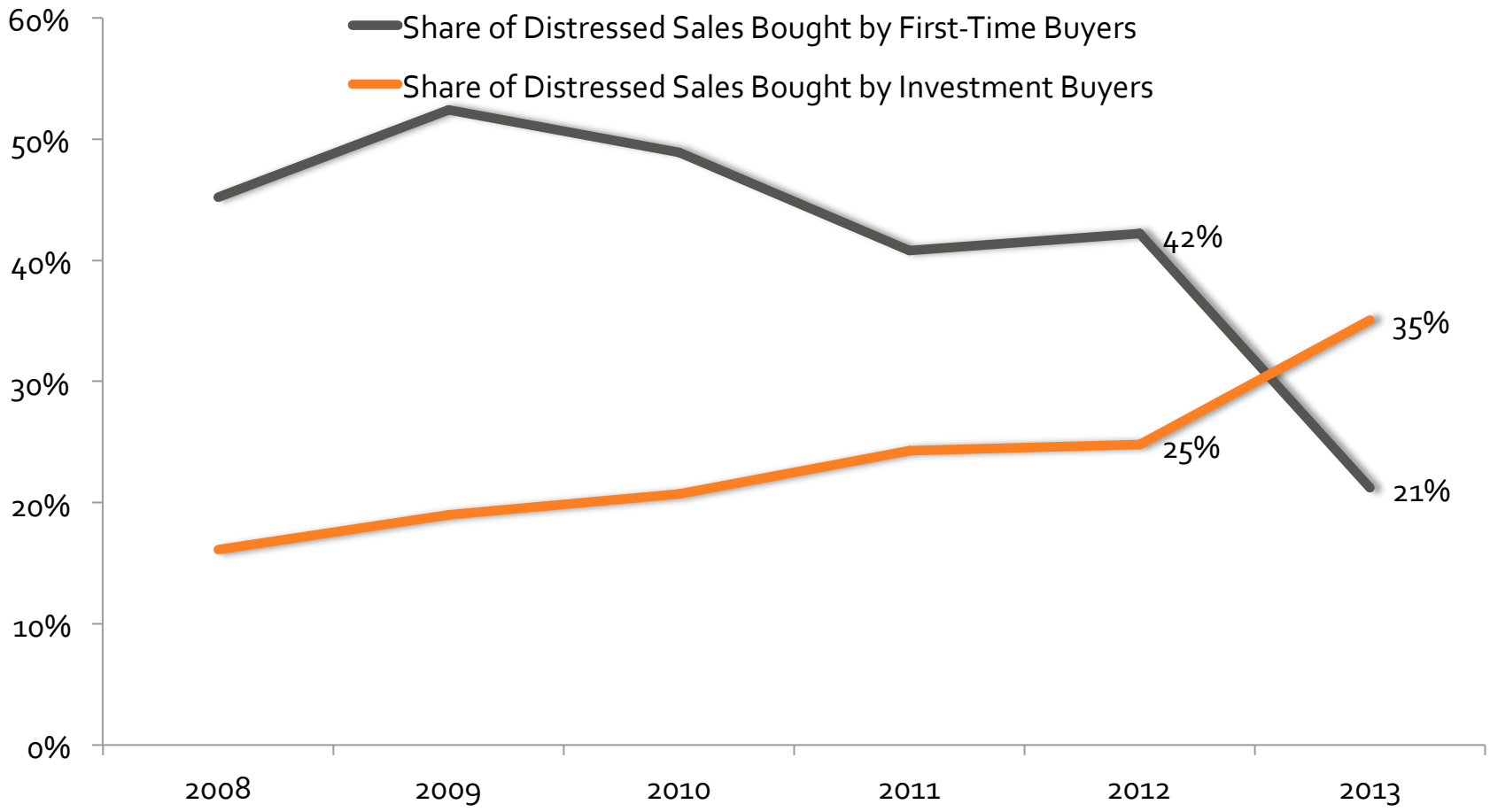
California Foreclosure Inventories, Jan. 2014

- Preforeclosure: -19% YTD • Schedule for Sale: -61% YTD • Bank Owned: -27% YTD



SERIES: Foreclosure Inventories
SOURCE: ForeclosureRadar.com

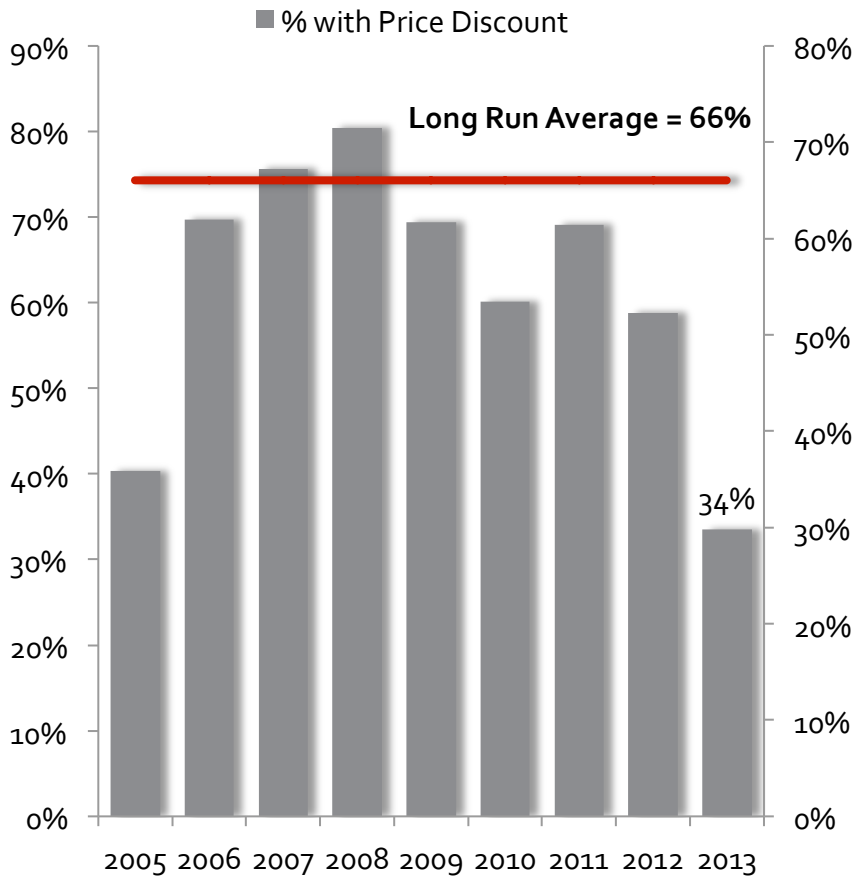
More Distressed Sales Are Being Absorbed by Investors Overtime

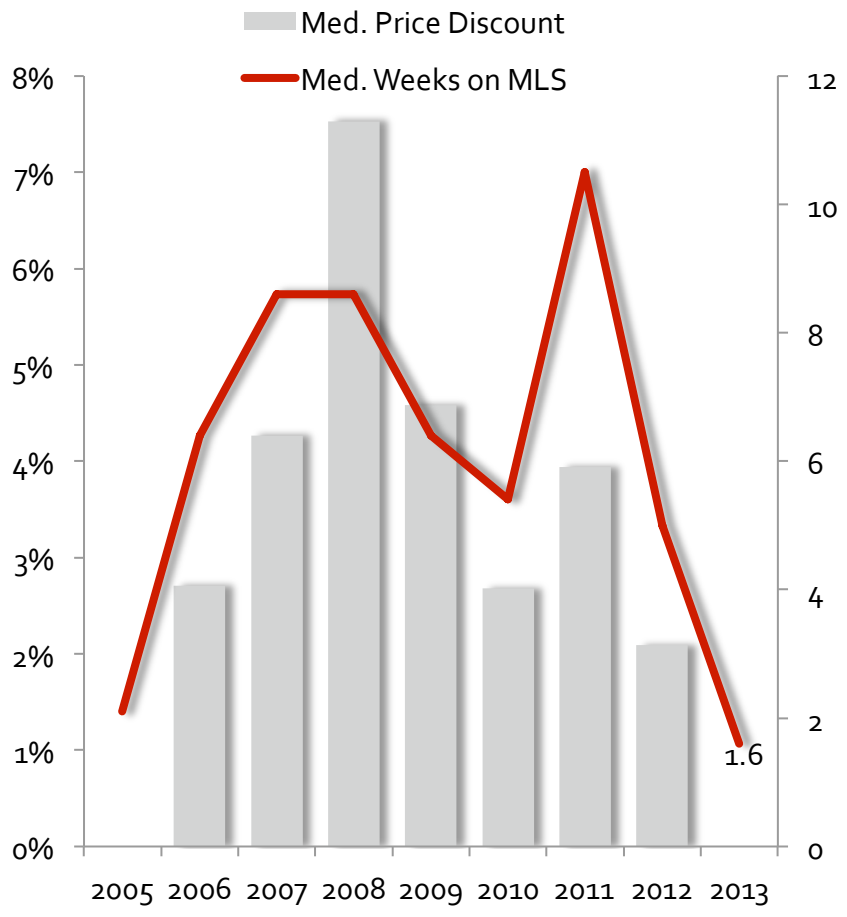


SERIES: 2013 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

2013 ANNUAL HOUSING MARKET SURVEY

Stiff Market Competition Leads to Fewer Sales with Price Discount & Less Time on the Market

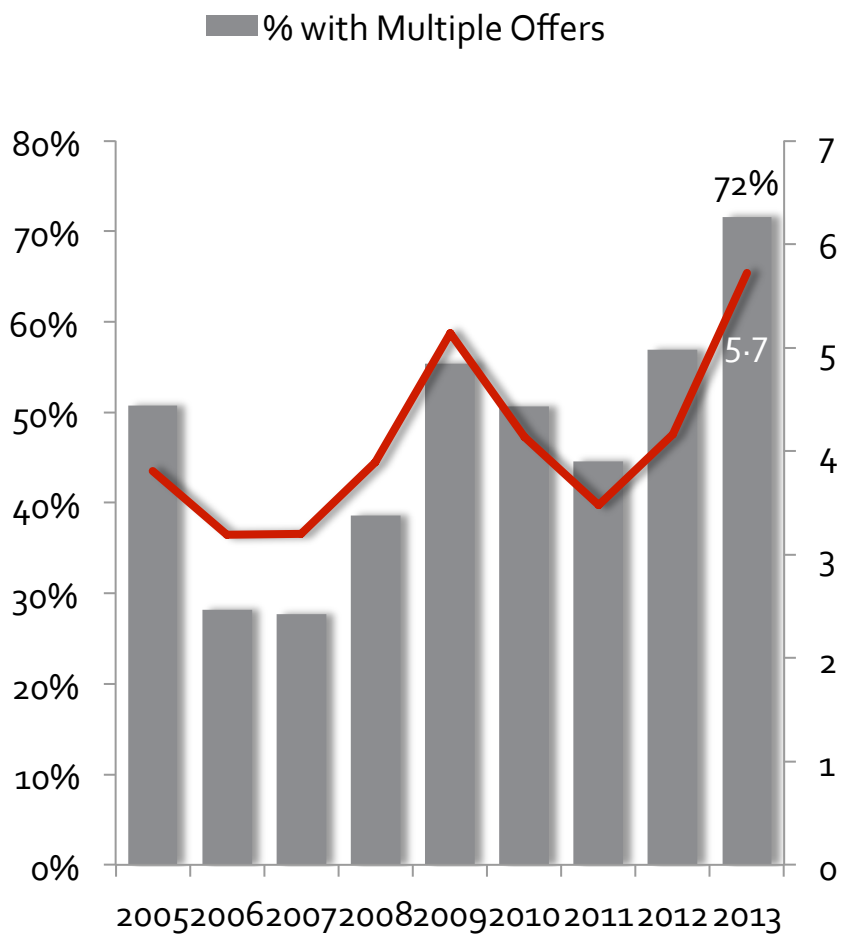




Q. What was the original list sales price of the property? What was the final sales price of the property? How many weeks did the property remain on the MLS?

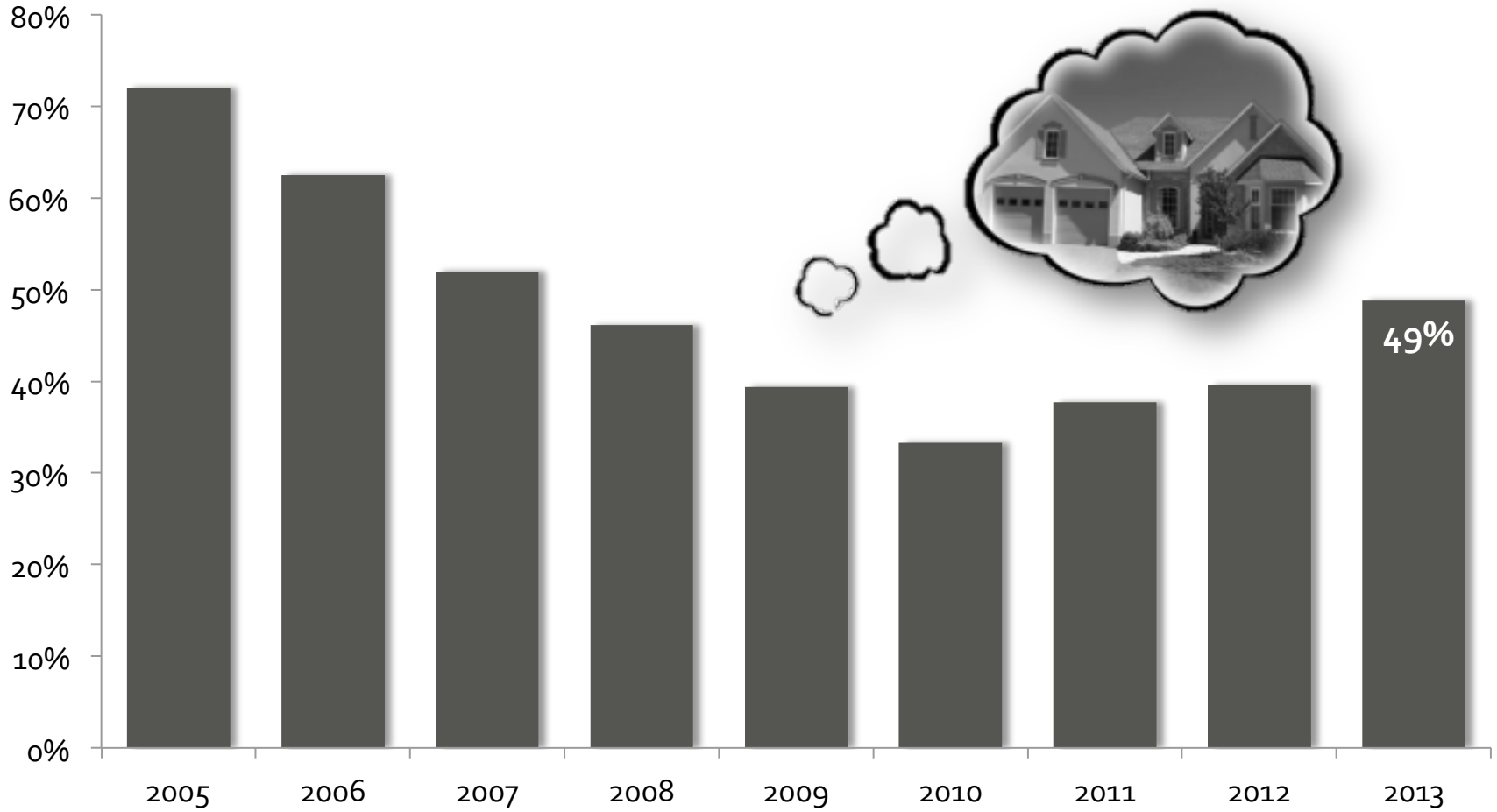
Multiple Offers at Record Highs

Share of home sales with multiple offers highest in at least the last 15 years



SERIES: 2013 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

More Sellers Planning to Repurchase Repeat Buyers are Back

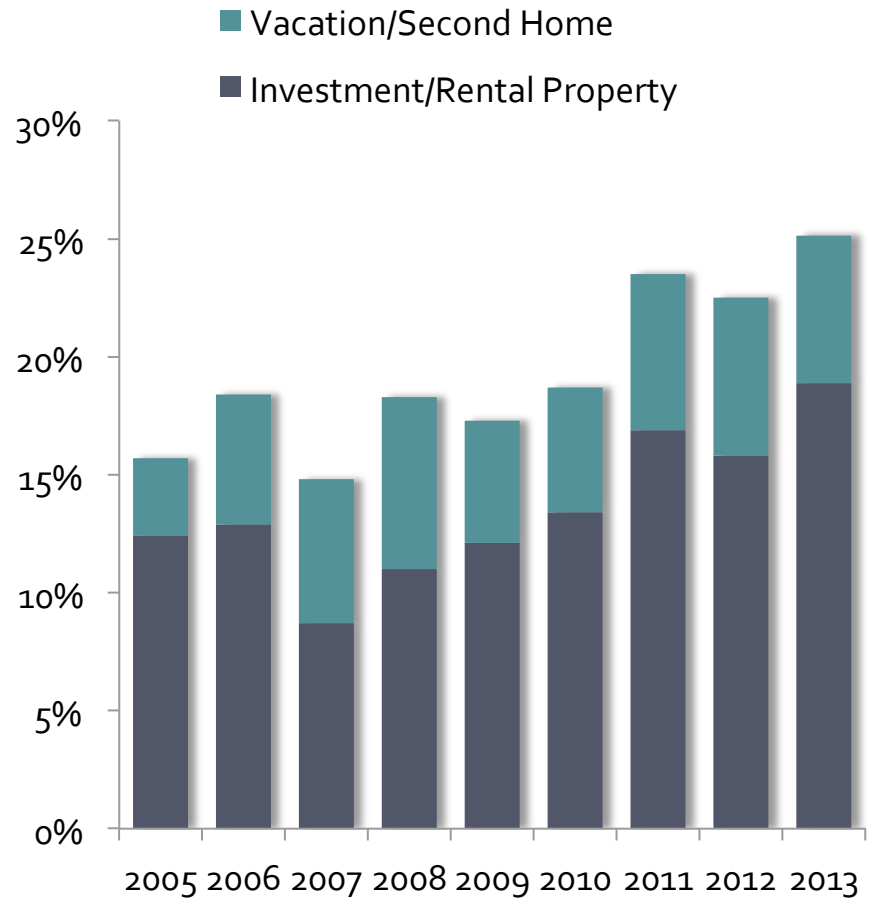


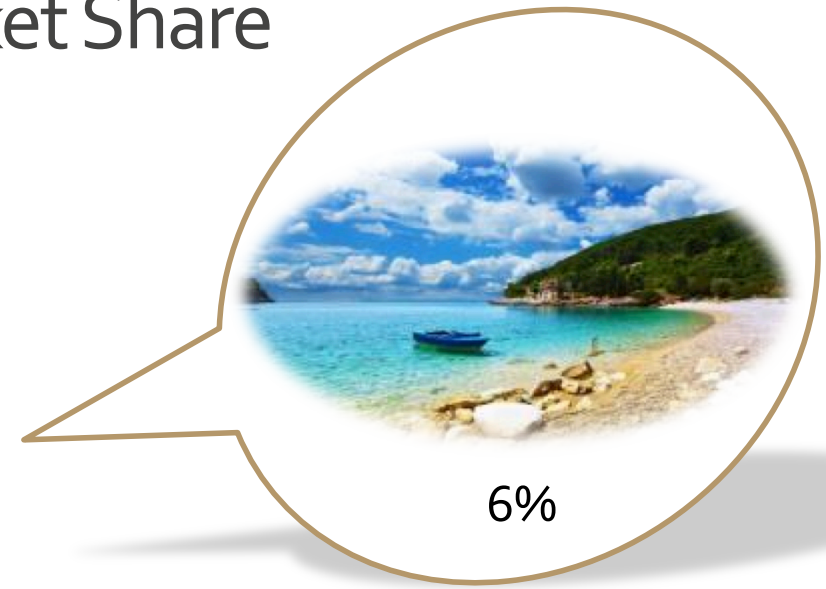
Q. Is the seller planning on purchasing another home?

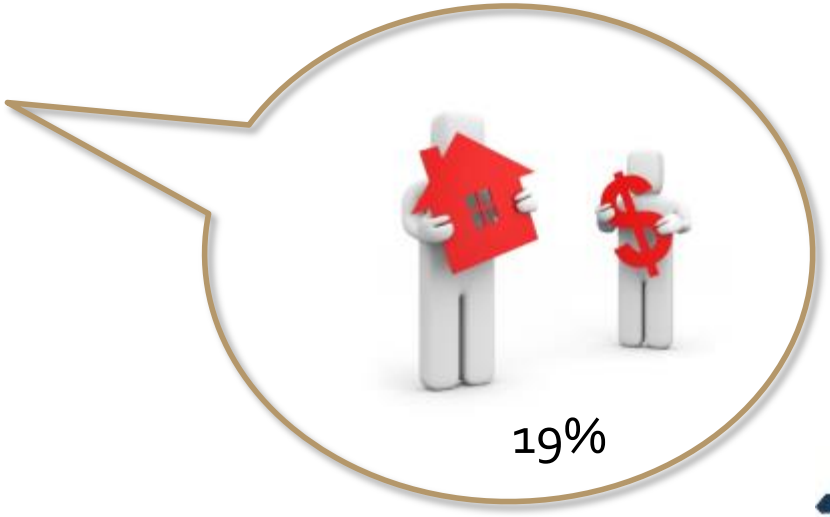
SERIES: 2013 Housing Market Survey

SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Investment & Second/Vacation Homes : 25% Market Share







SERIES: 2013 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Buying to Rent: Winning Investment Strategy

18%

Investment to Flip

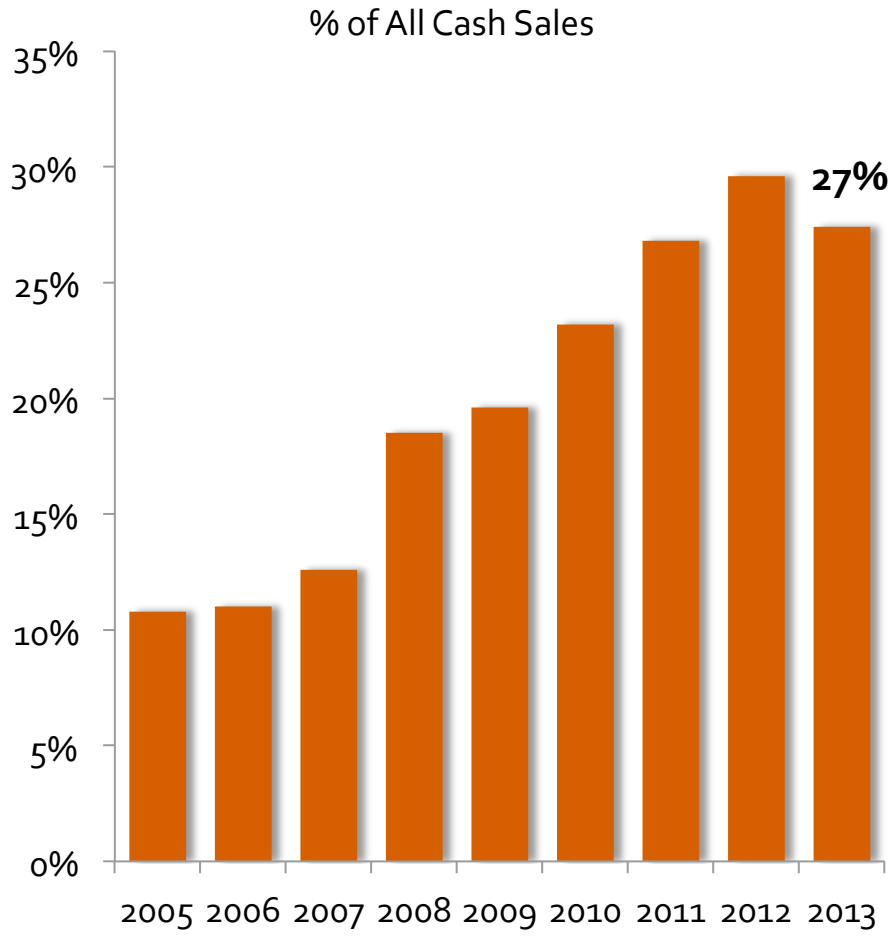
82%

Rental Property

SERIES: 2013 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

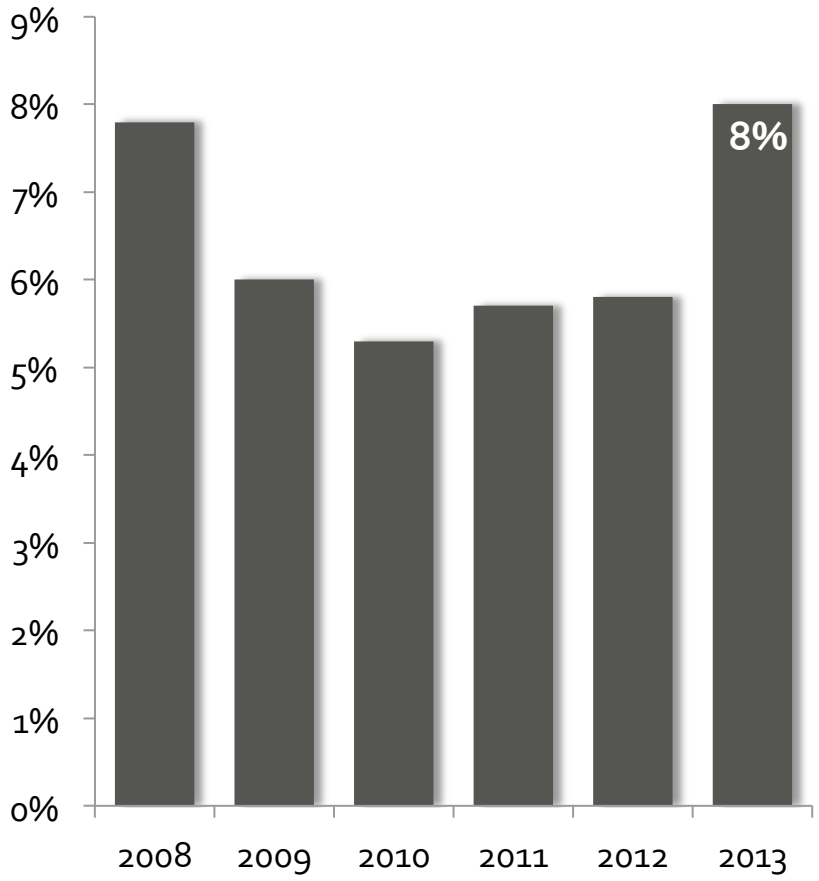
Share of Cash Buyers decreases for the first time after 7 years of continuous Increase

- Almost one-third of buyers paid with all cash
- The share of all cash buyers has been on the rise since 2006
- Why more cash buyers?
  - More market competition
  - Higher lending standards
  - More international buyers?



SERIES: 2013 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

International Buyers are Getting a Bigger Slice of the Market than Last Year.

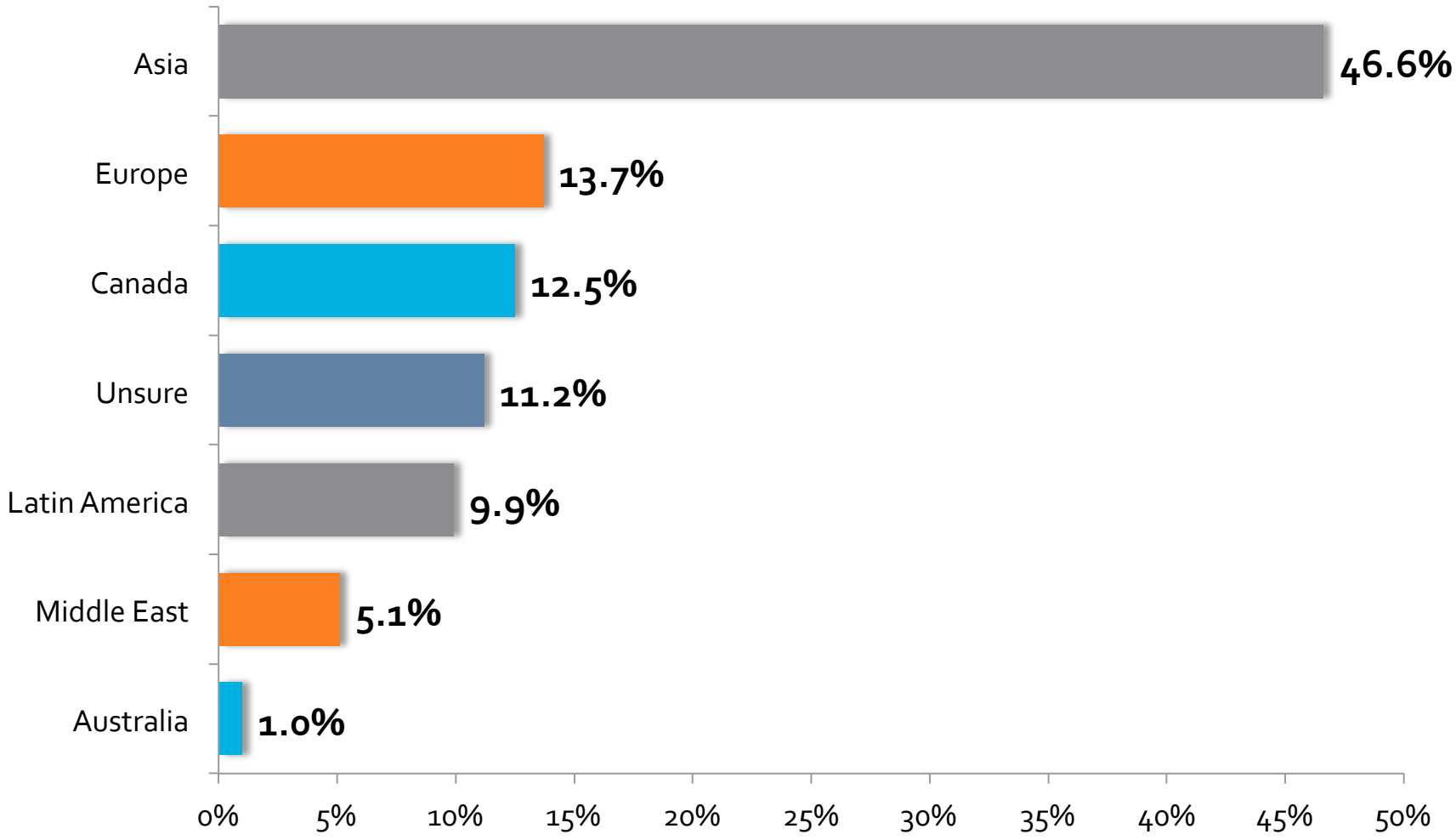


70% of all international buyers paid with all cash

Q. Was the buyer an international buyer – a person who was a citizen of another country who wished to purchase residential real estate in the U.S.?

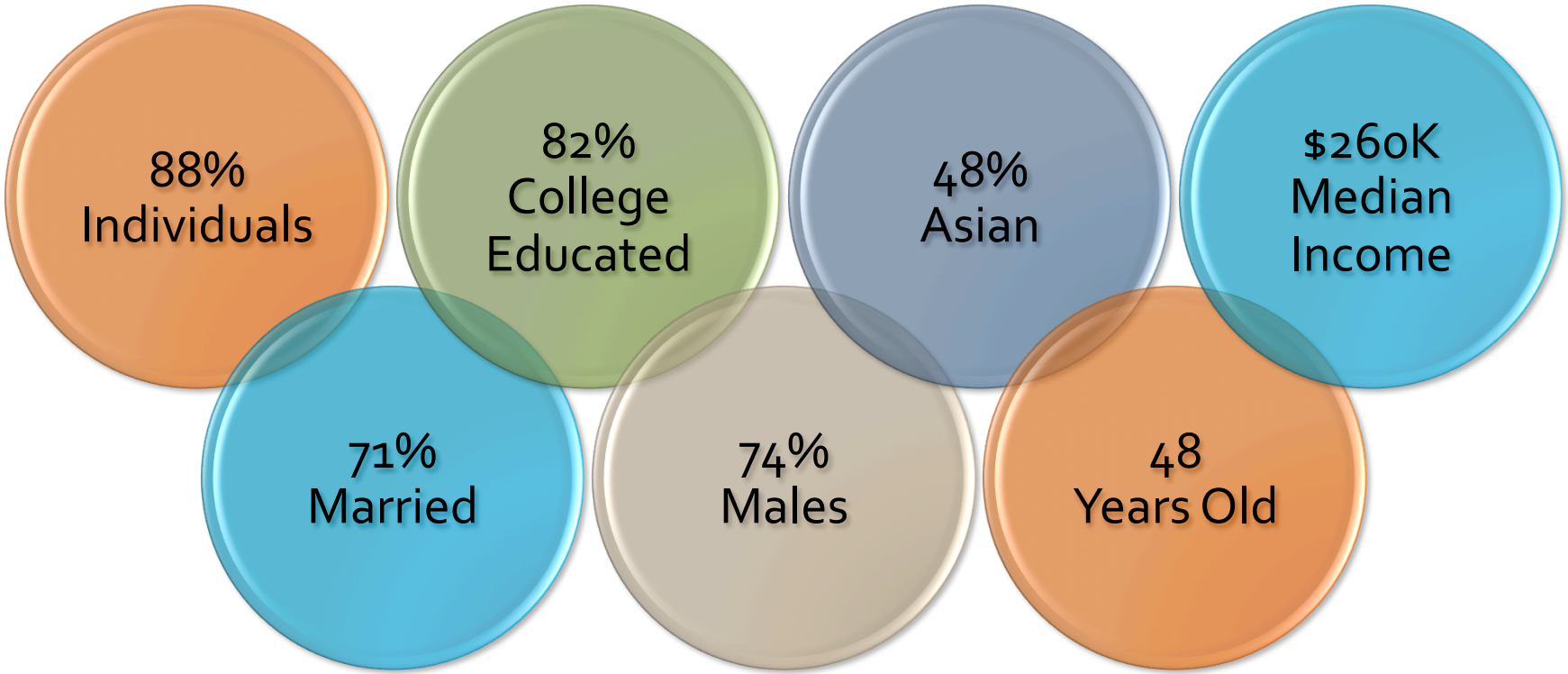
SERIES: 2013 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

Majority from Asia, Especially China

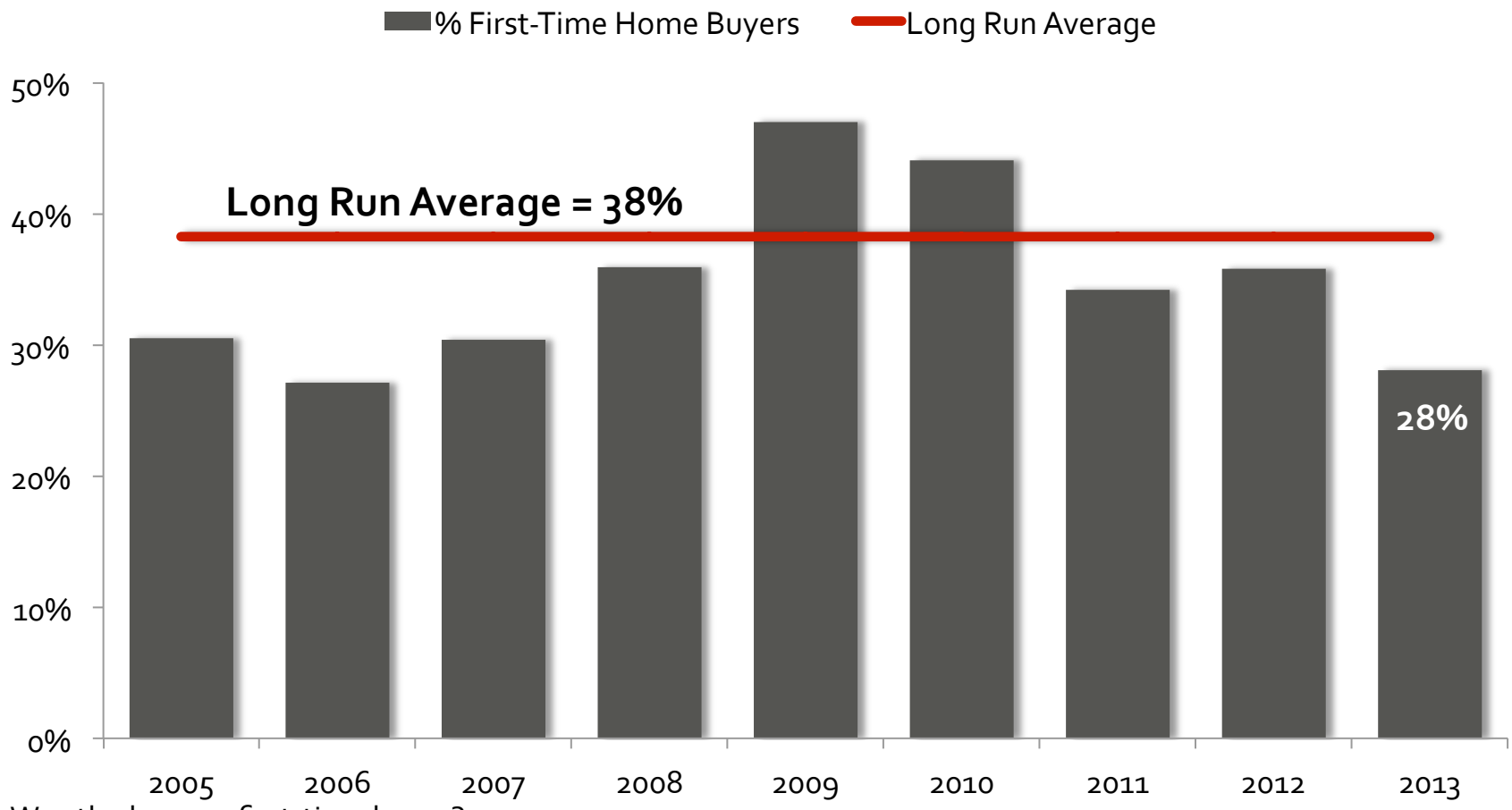


Please tell us about your last closed transaction with an international client. What is your client's country of permanent residence?

The Typical International Client



Share of First-Time Buyers is the Lowest Since 2006



Q. Was the buyer a first-time buyer?

SERIES: 2013 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

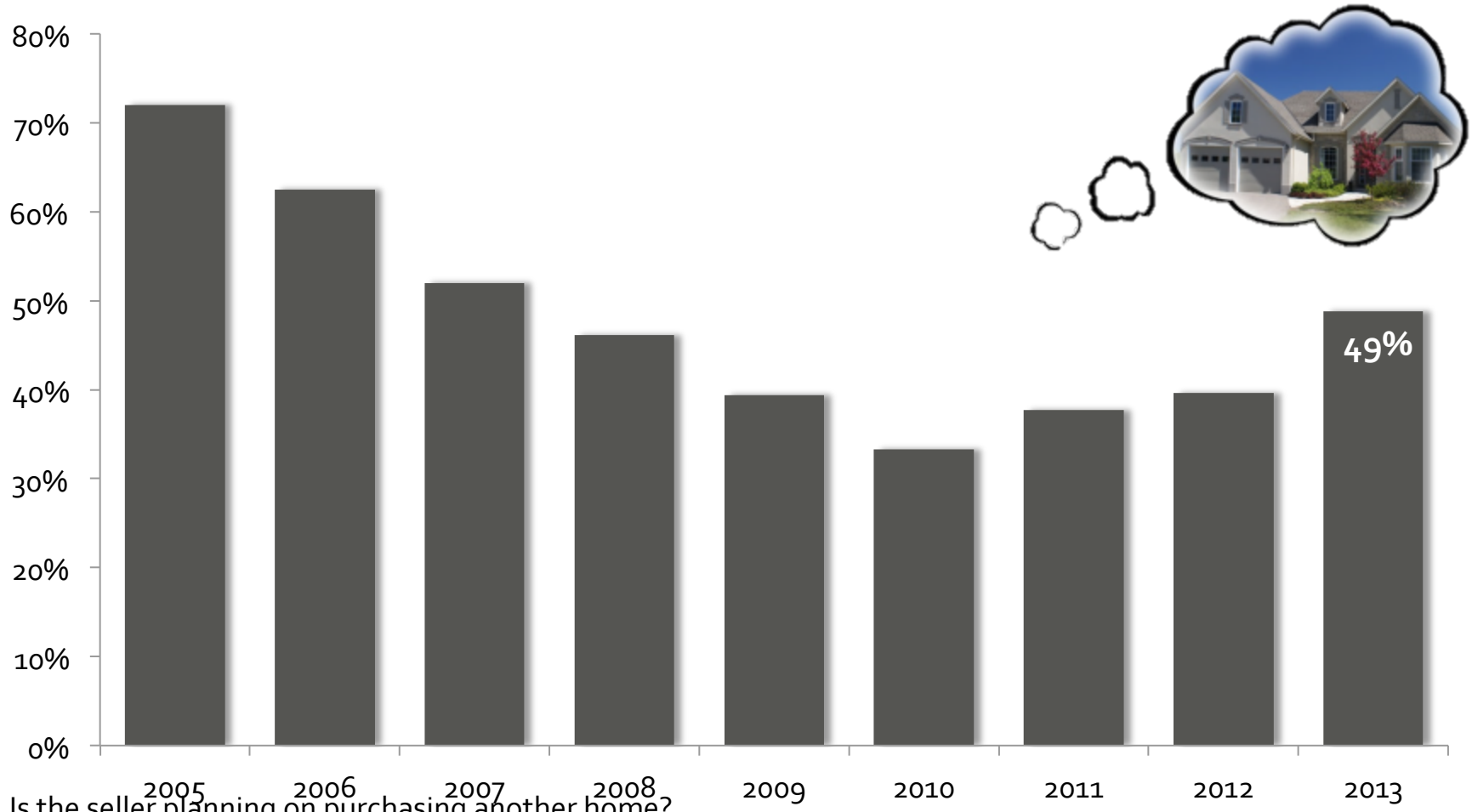
2014 FORECAST

Buyers Have More "Skin" in the Game

	2006	2012	2013
% of buyers with 20% or more down payment	43.2%	54.4%	52.2%
% of buyers with zero down payment	21.1%	4.6%	5.9%
% of cash buyers	11.0%	29.6%	27.4%
% of home buyers with a second mortgage	43.4%	1.8%	2.2%
% of buyer with ARM	32.6%	3.5%	4.0%

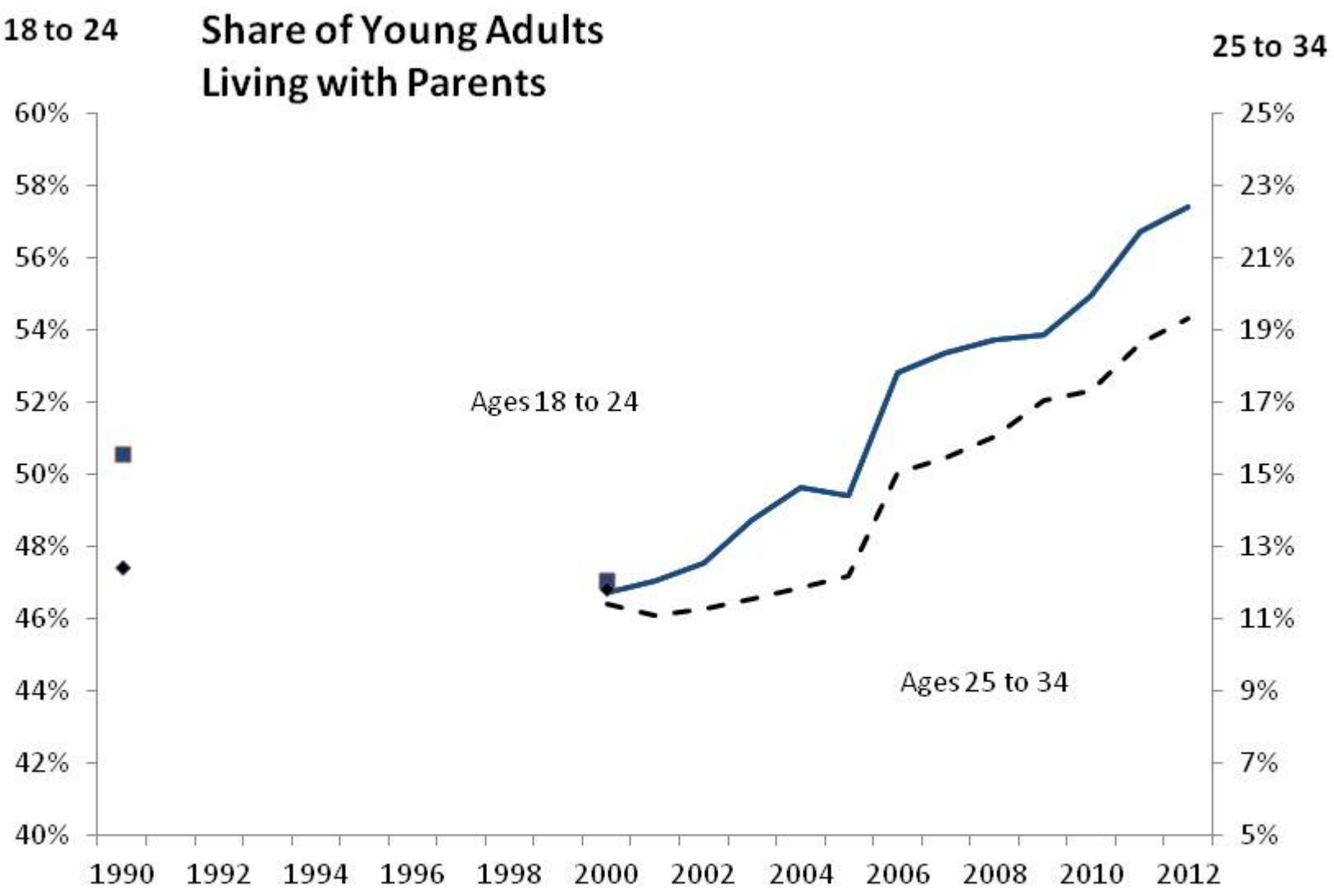
SERIES: 2013 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

More Sellers Are Planning to Repurchase Repeat Buyers are Back



Q. Is the seller planning on purchasing another home?

SERIES: 2013 Housing Market Survey
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®



Source: US Census 1990, 2000, PUMS, 2000-2012 ACS, PUMS, NAHB Estimates

California Housing Market Outlook

Indicator	2008	2009	2010	2011	2012	2013p	2014f
SFH Resales (000s)	381.4	474.9	416.5	422.6	439.4	413.6	426.8
% Change	30.4%	24.5%	-12.3%	1.4%	4.0%	-5.9%	3.2%
Median Price ($000s)	$348.5	$275.0	$305.0	$286.0	$319.3	$407.1	$431.5
% Change	-37.8%	-21.1%	10.9%	-6.2%	11.6%	27.5%	6.0%
30-Yr FRM	6.0%	5.0%	4.7%	4.5%	3.7%	4.1%	5.3%
1-Yr ARM	5.2%	4.7%	3.8%	3.0%	2.7%	2.7%	3.1%

SERIES: CA Housing Market Outlook
SOURCE: CALIFORNIA ASSOCIATION OF REALTORS®

THANK YOU!

www.car.org/marketdata

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