

# Economic and Housing Market **OUTLOOK**

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# Strange World

## Great!

## What the Heck?

Best Affordability Conditions

No Pick-up in Home Sales

National home prices have stabilized for 2 years

Everyone believes home values have been falling throughout ... Why?

Lowest newly constructed inventory

Housing Starts still Dead

Huge Cash Reserves at Banks

Cash not circulating into the economy

Record High Profits in Financial Industry in 2010 and just as good in 2011

Bank stock prices in the tanks

Federal Reserve Monetary Stimulus to encourage more lending

Regulation to discourage lending

Consumers work hard to demonstrate financial responsibility

Some must pay higher borrowing cost ... because they are "jumbo"

# Banks/Regulators Restricting Credit

(Average Credit Scores of Approved Loans)

	Normal	2009	2010	If Normal
Fannie	720	761	762	720
Freddie	720	757	758	720
FHA	650	682	698	660



15% to 20% Higher Sales



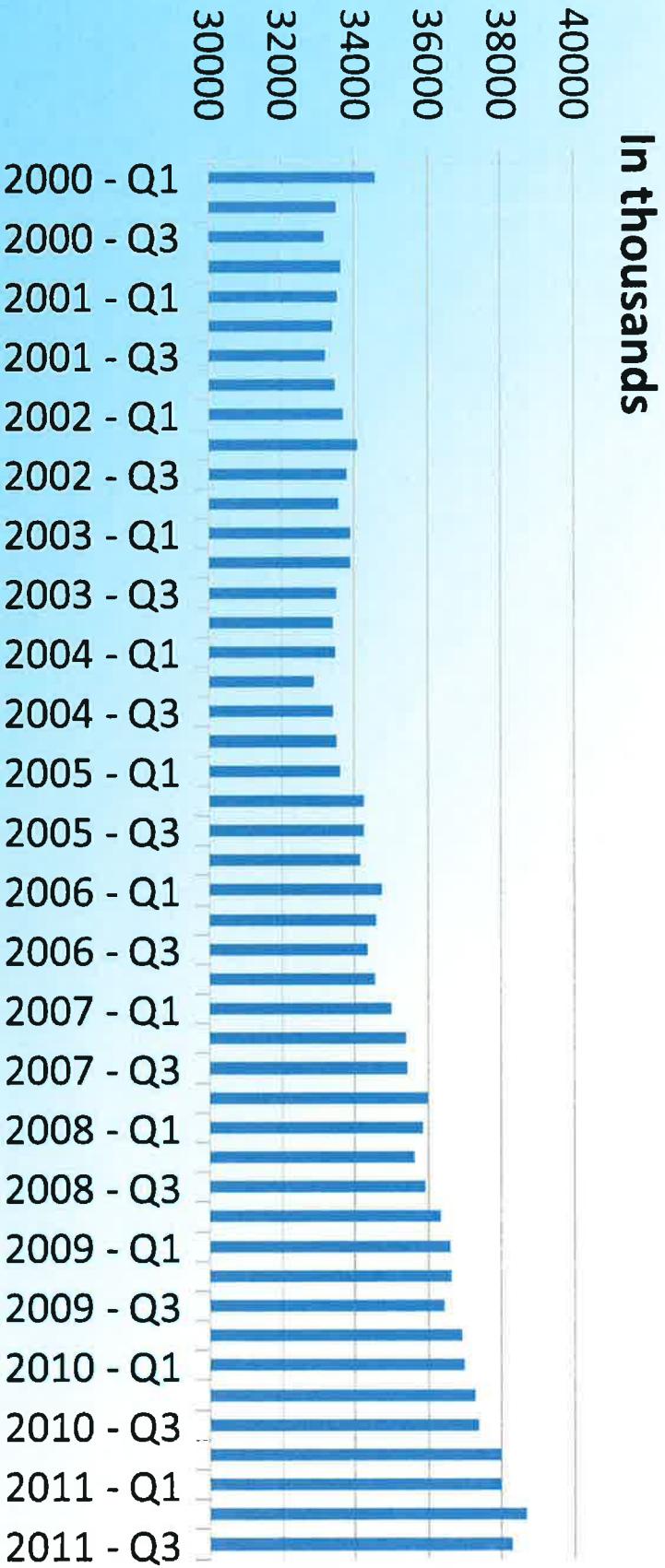
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Research

# Demographics of Recent Buyers

	2011 Profile	2010 Profile
Median Age	43	39
Gross Household Income	\$80,900	\$72,200
Household Composition	64% married couples 18% single females 10% single males 7% unmarried couples	58% married couples 20% single females 12% single males 8% unmarried couples
Own a 2 <sup>nd</sup> Home	19%	14%

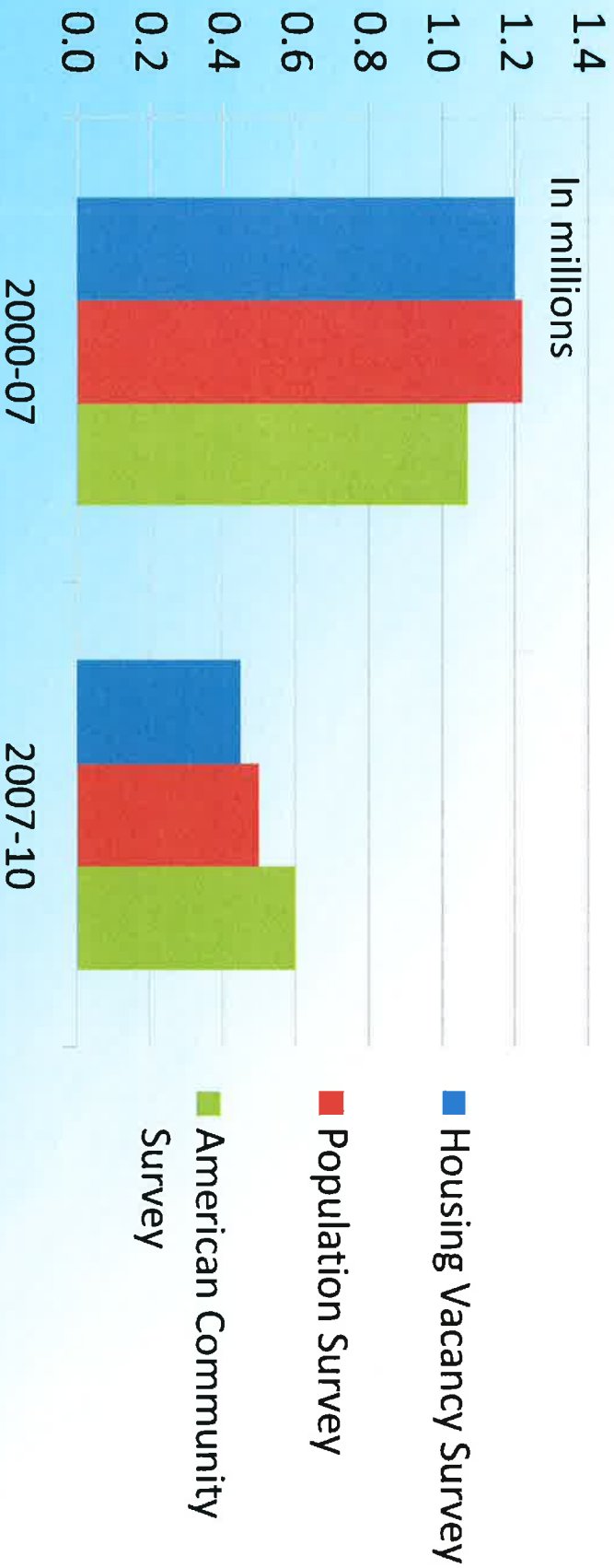
# Rental Households



Rents expected to rise 7% to 10% in the next two years  
 Home prices should therefore rise ... in the next two years



## Annual Household Formation... Future Rent Pressure? (3 separate Census data)



Household Formation leads to increase ownership and renters;  
Could begin to return to normal of at least 1 million from 2012.

# Cost Comparisons over 30 years

Item	Price Index in 1981	Price Index in 2011	% Change
Consumer price index	87.2	226.3	160%
Rent index	84.7	254.3	200%
Food price index	91.6	229.6	150%
Gasoline price index	103.6	308.4	197%
College tuition index	75.8	601.3	693%
Medical care index	78.6	401.4	410%
Monthly mortgage payment on a median priced home	\$598 (14% mortgage rate)	\$698 (4% mortgage rate)	17%

# Forecast

	2012	2013	2014
GDP Growth	2.0% to 2.5%	2.3% to 2.8%	3.0% to 3.5%
Net New Jobs	1.7 to 2.2 million	2.0 to 2.5 million	2.5 to 3.0 million
CPI Inflation	3.0 to 3.5%	3.0 to 3.5%	2.5 to 3.0%
Rent Growth	3.0%	3.5%	3.5%
Home price Growth	2.0%	3.0%	4.0%
Home Sales	4.0%	6.0%	6.0%
Mortgage Rate	4.5%	4.8%	5.5%