Annual Economic Update Luncheon

presented by

HOME BUILDERS ASSOCIATION Of Greater Chattanooga

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Real Estate Trends and Outlook

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NATIONAL ASSOCIATION OF REALTORS®

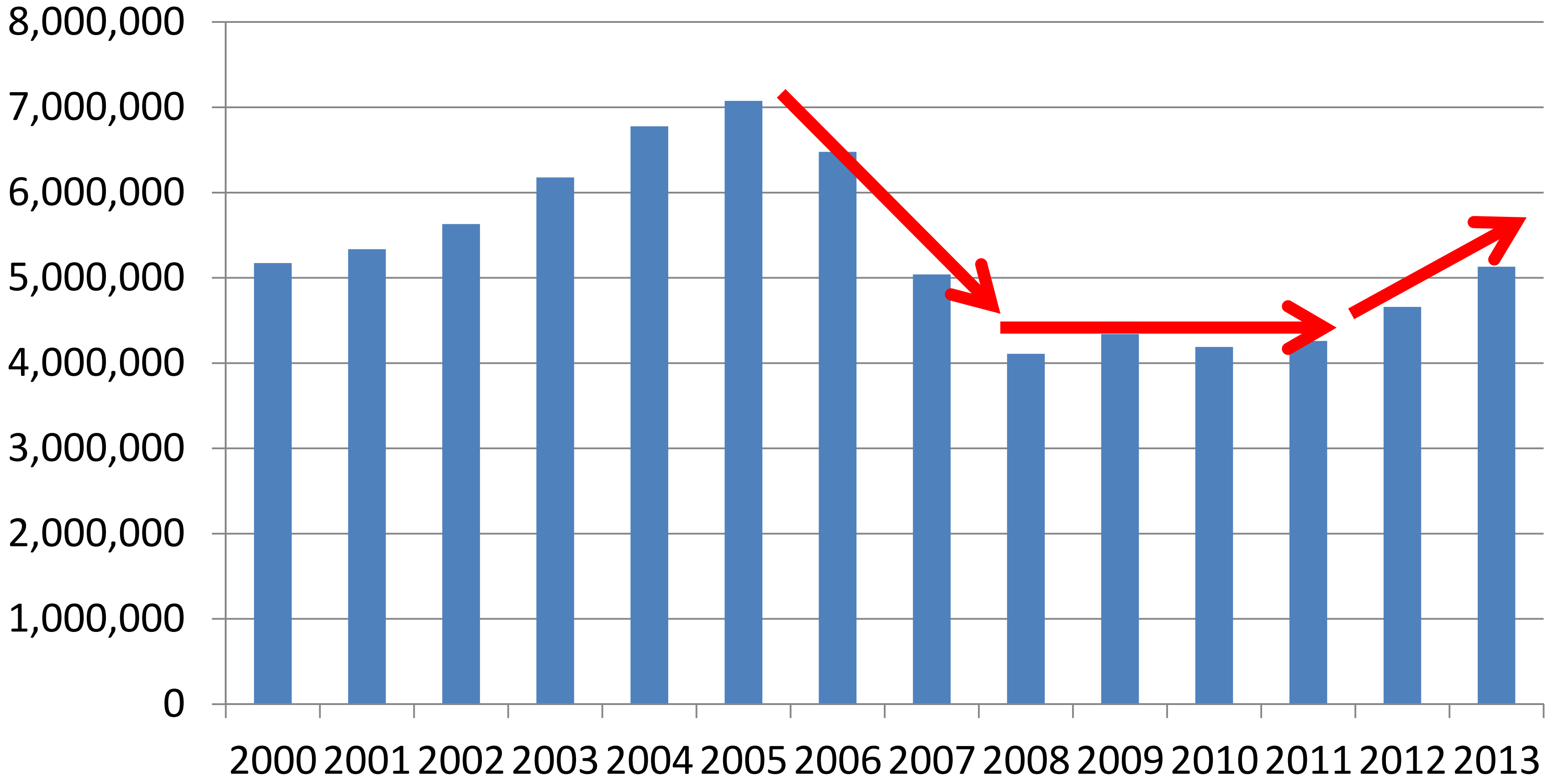
Presentation at Greater Chattanooga Association of REALTORS®

Chattanooga, TN

August 12, 2014

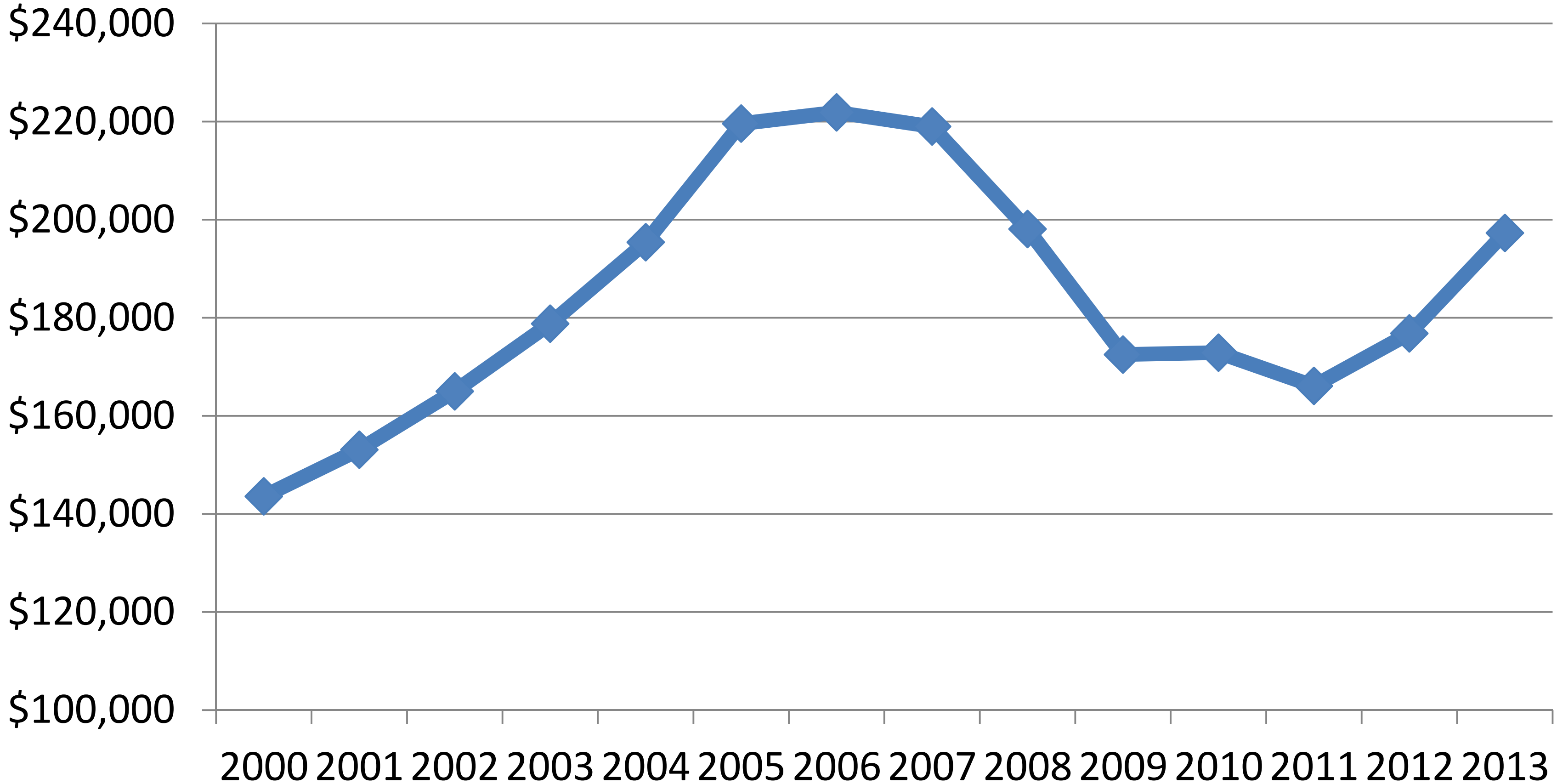
Existing Home Sales

20% cumulative increase over 2 years



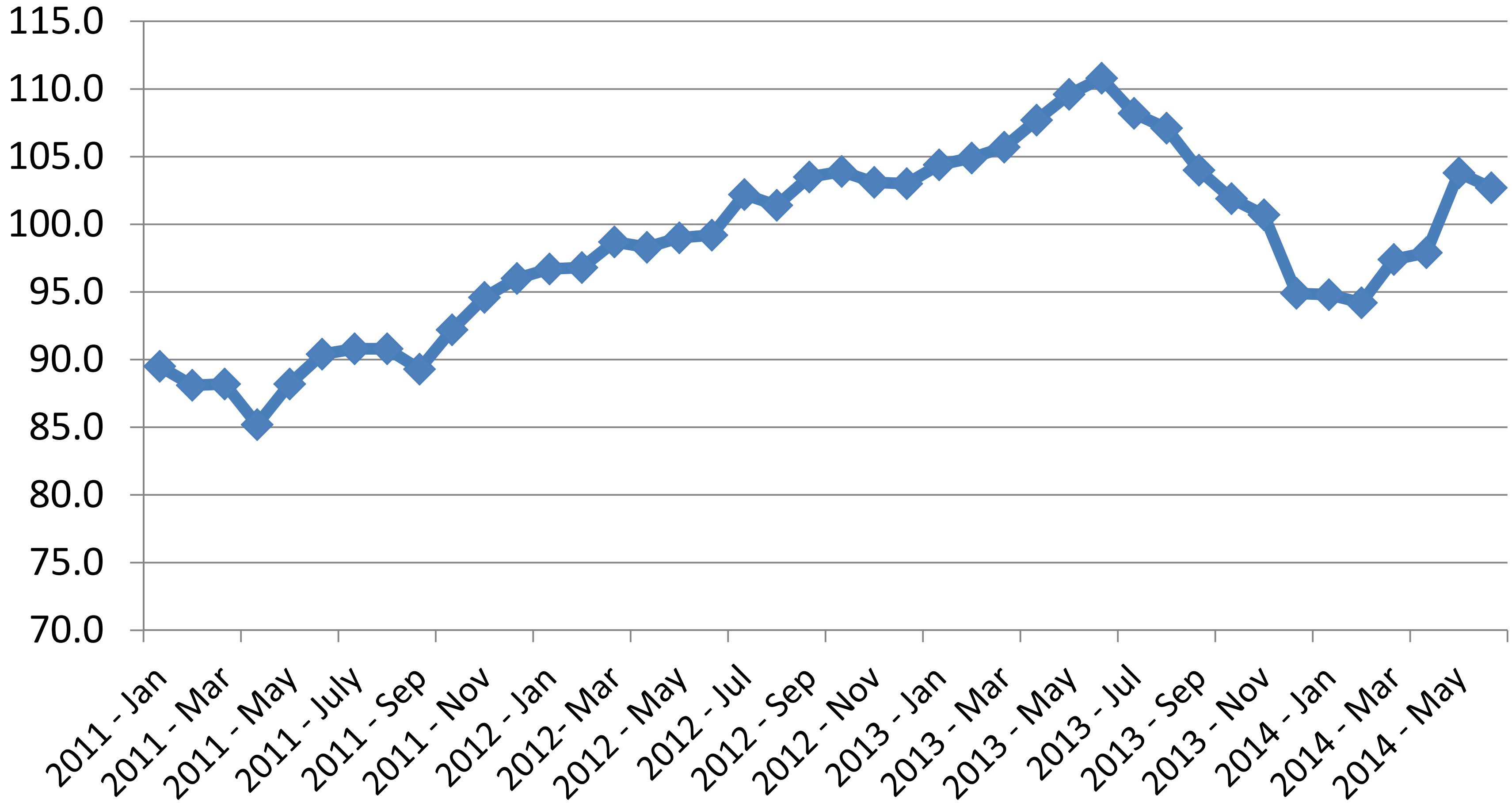
Median Home Price

(Near 20% gain in 2 years)



Monthly Pending Sales Index

(Seasonally Adjusted)



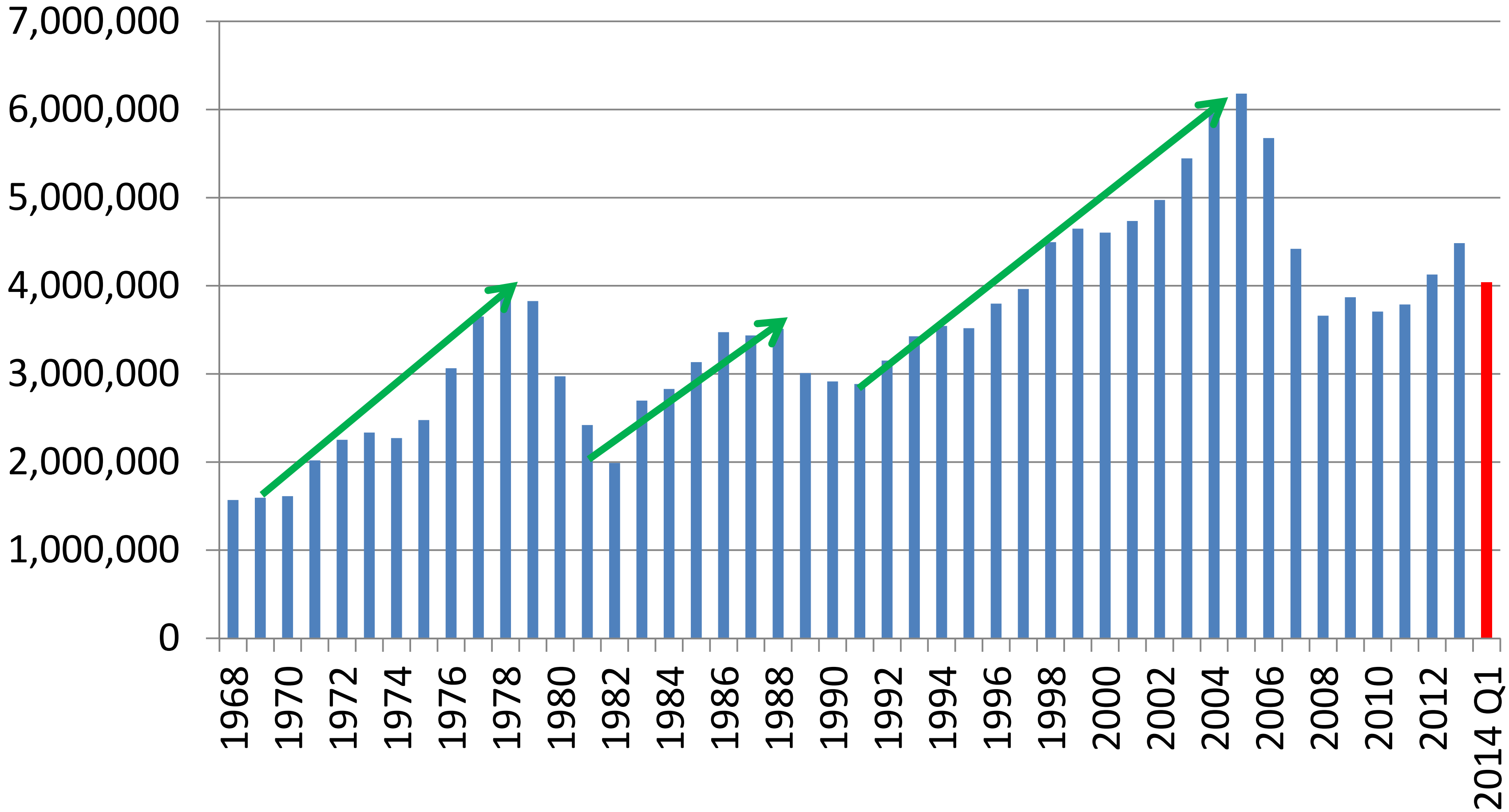
Source: NAR

Local Area Housing Statistics

- Home Sales
    - Down 4.5% in 2014 year-to-date
    - Up 11.2% in June
- Home Price (average price)
    - Up 6.8% in 2014 year-to-date
    - Up 1.5% in June
- Dollar Volume
    - Up 2% in 2014 year-to-date

Two and Out?
Or Multi-year Expansion?

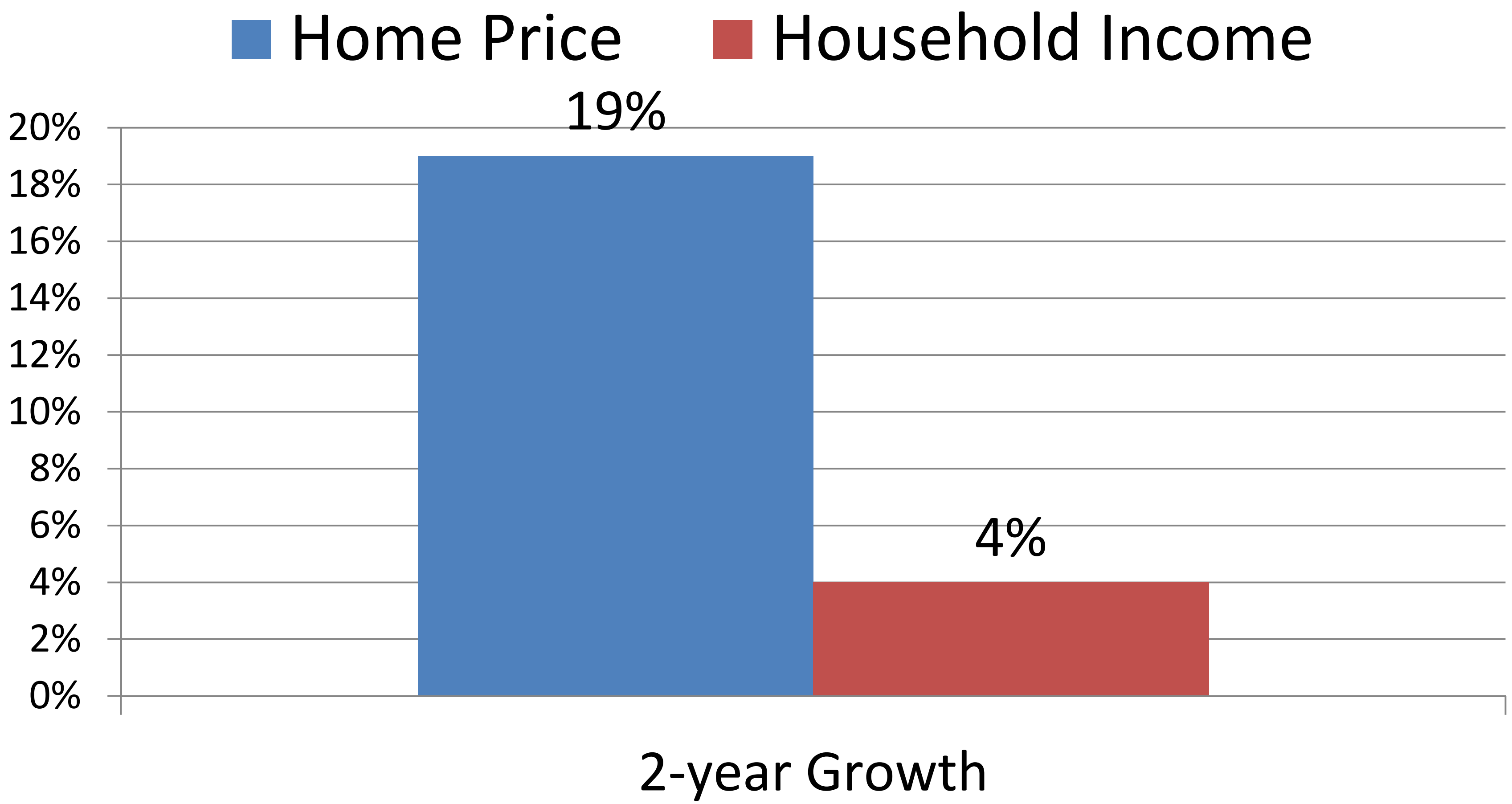
(Single-Family Existing Home Sales Only)



Causes of Recent Sales Slowdown

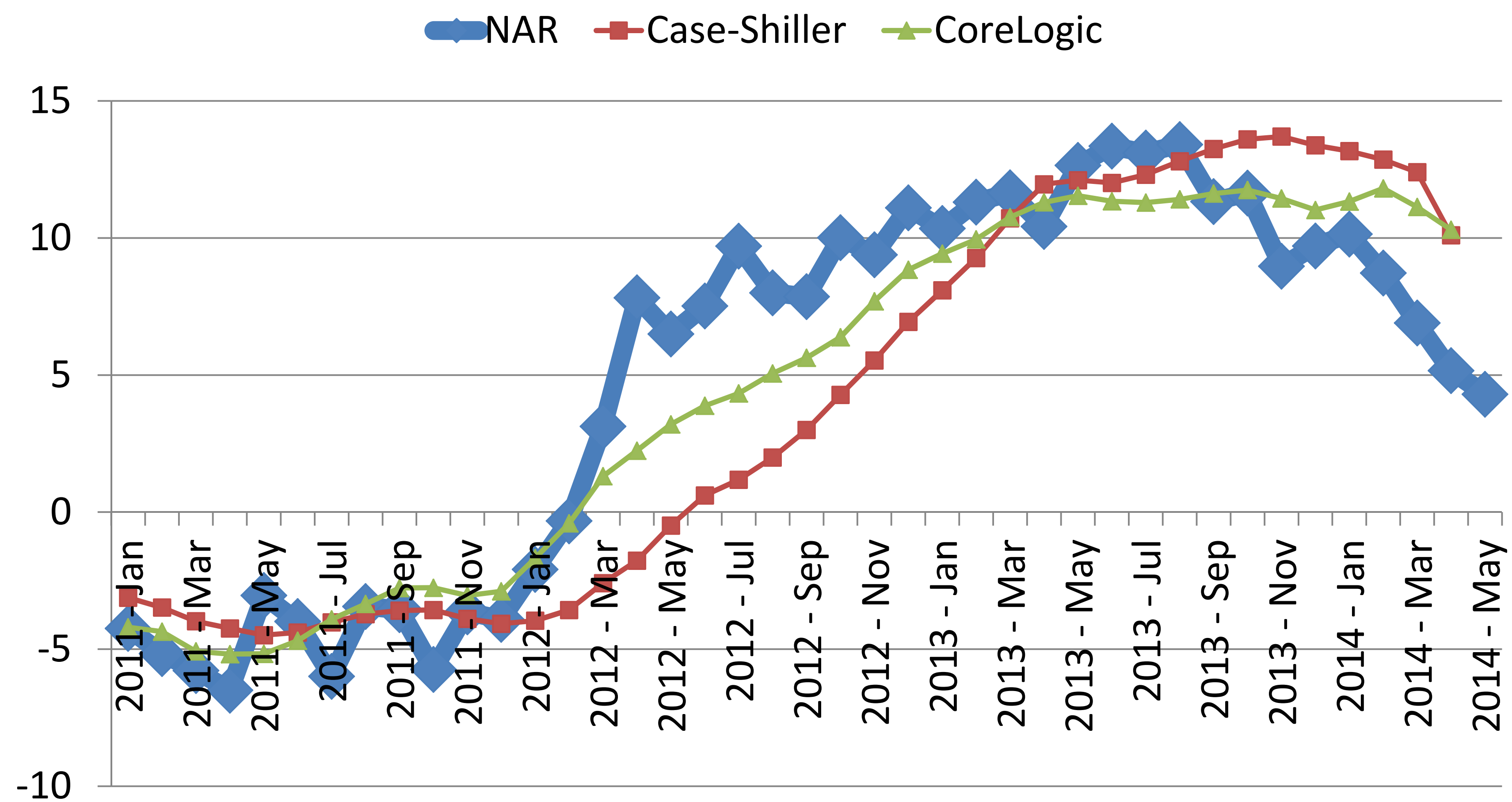
- Bad winter
  - Only delayed sales not cancellation
- Home prices rose too fast in relation to income
  - Showing signs of slowing
- Lack of inventory
  - Steadily more inventory coming to market
- Mortgage rates jumped … then declined
  - Trouble ?
- Mortgage credit difficulties
  - New Qualified Mortgage Rules
  - Surely cannot get worse!

Mismatch Growth

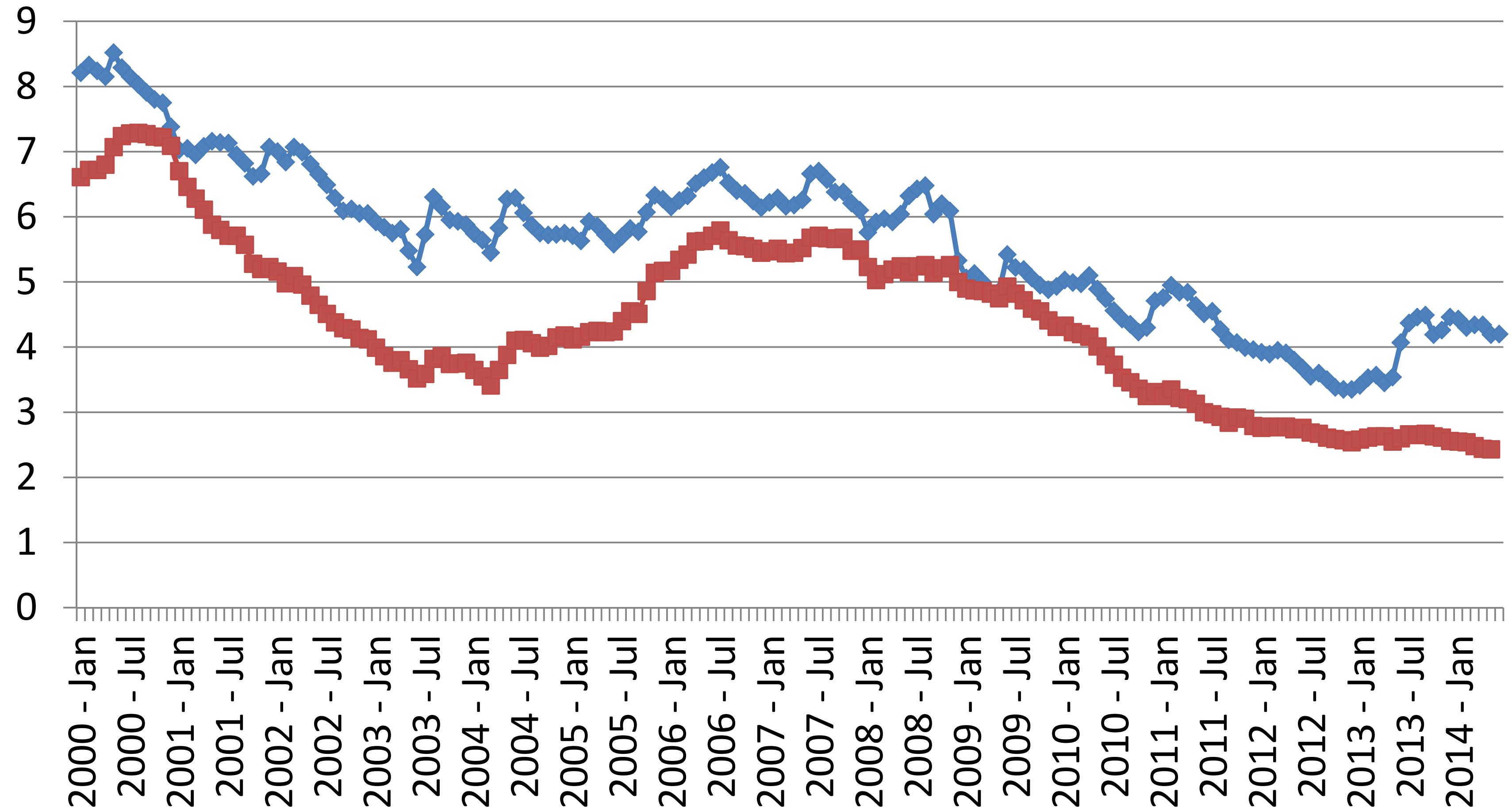


Change in Home Price

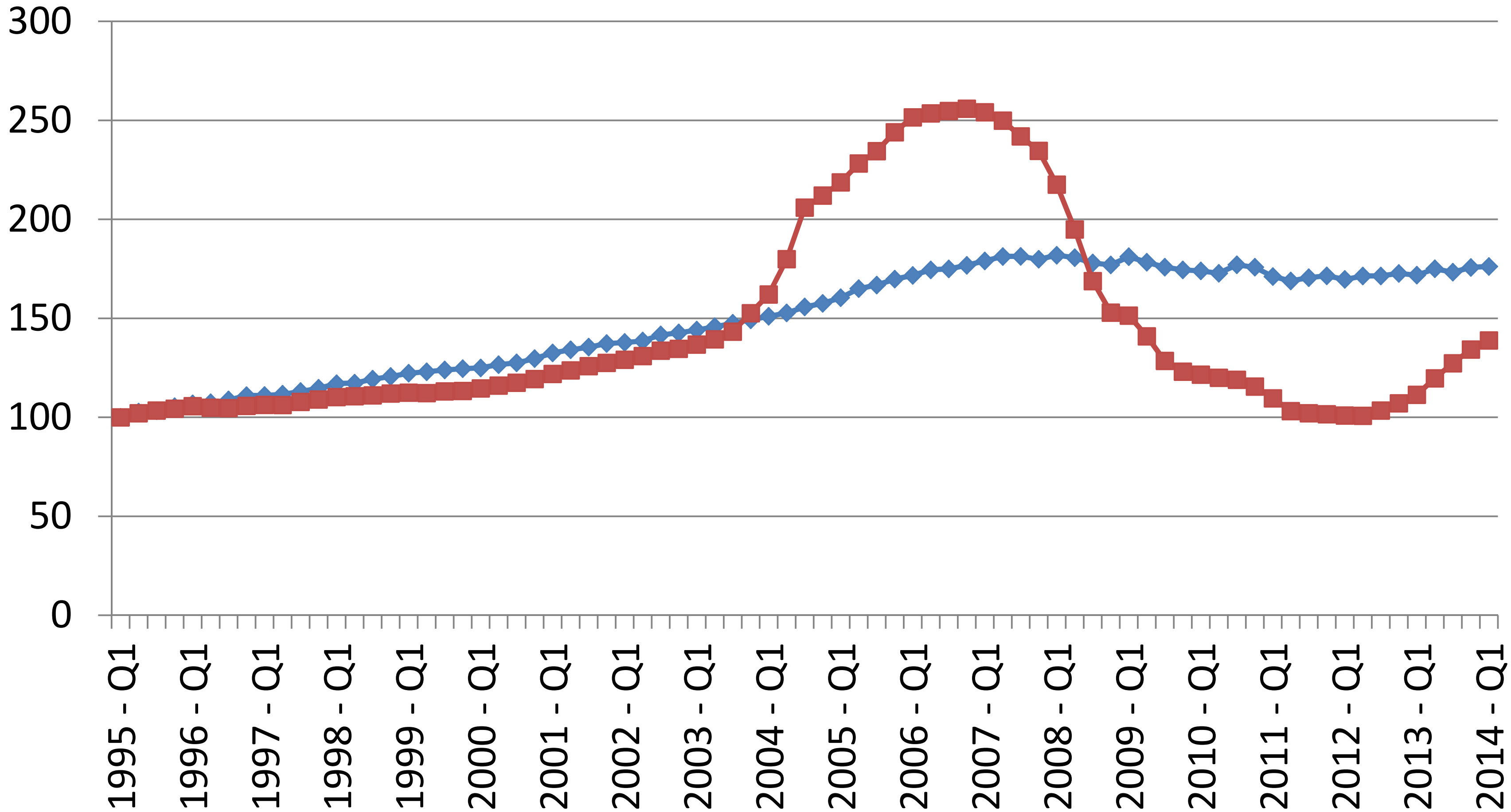
(% change from one year ago)



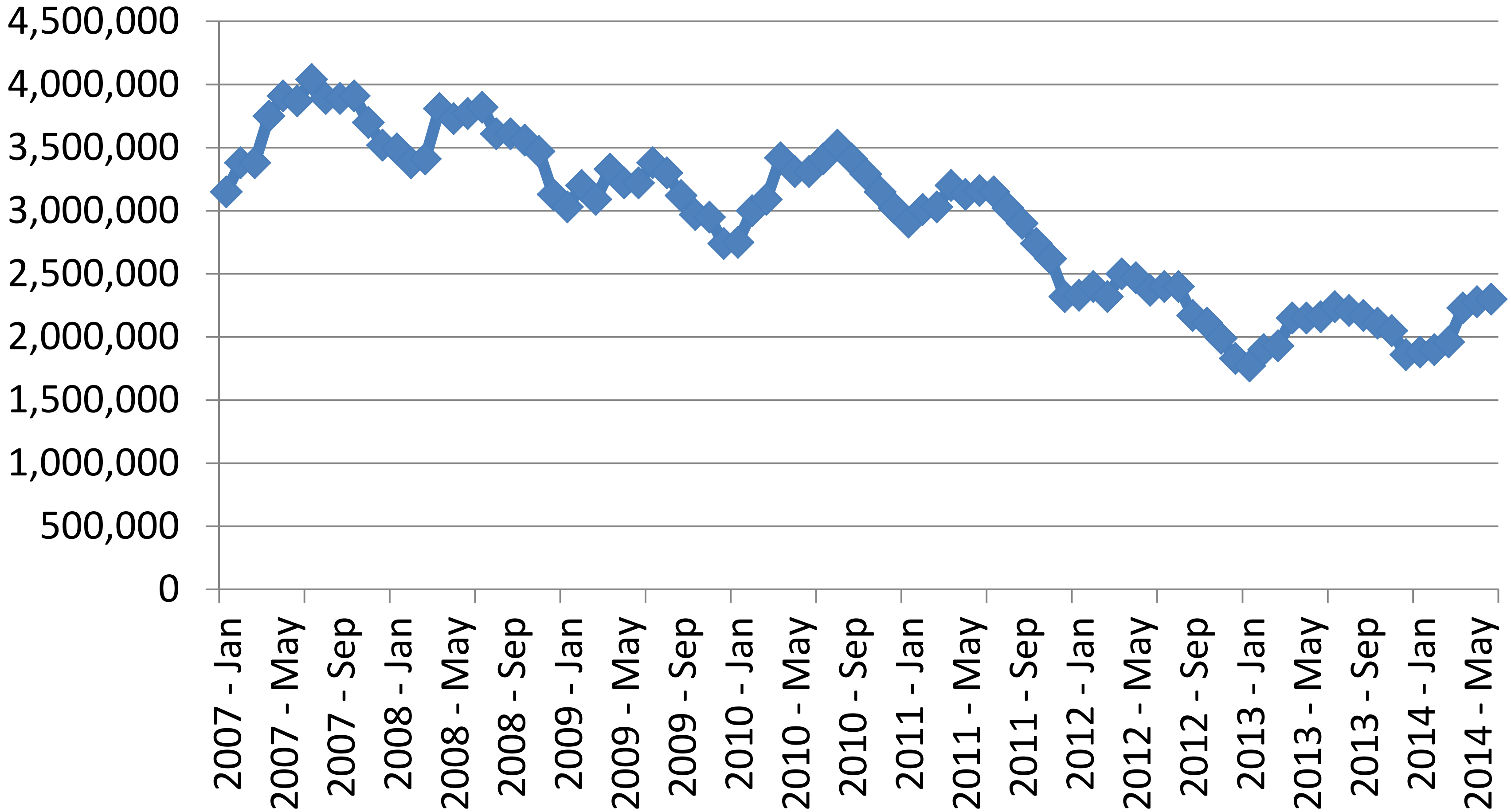
30-Year Fixed Rate Mortgage
and
1-year Adjustable Rate Mortgage



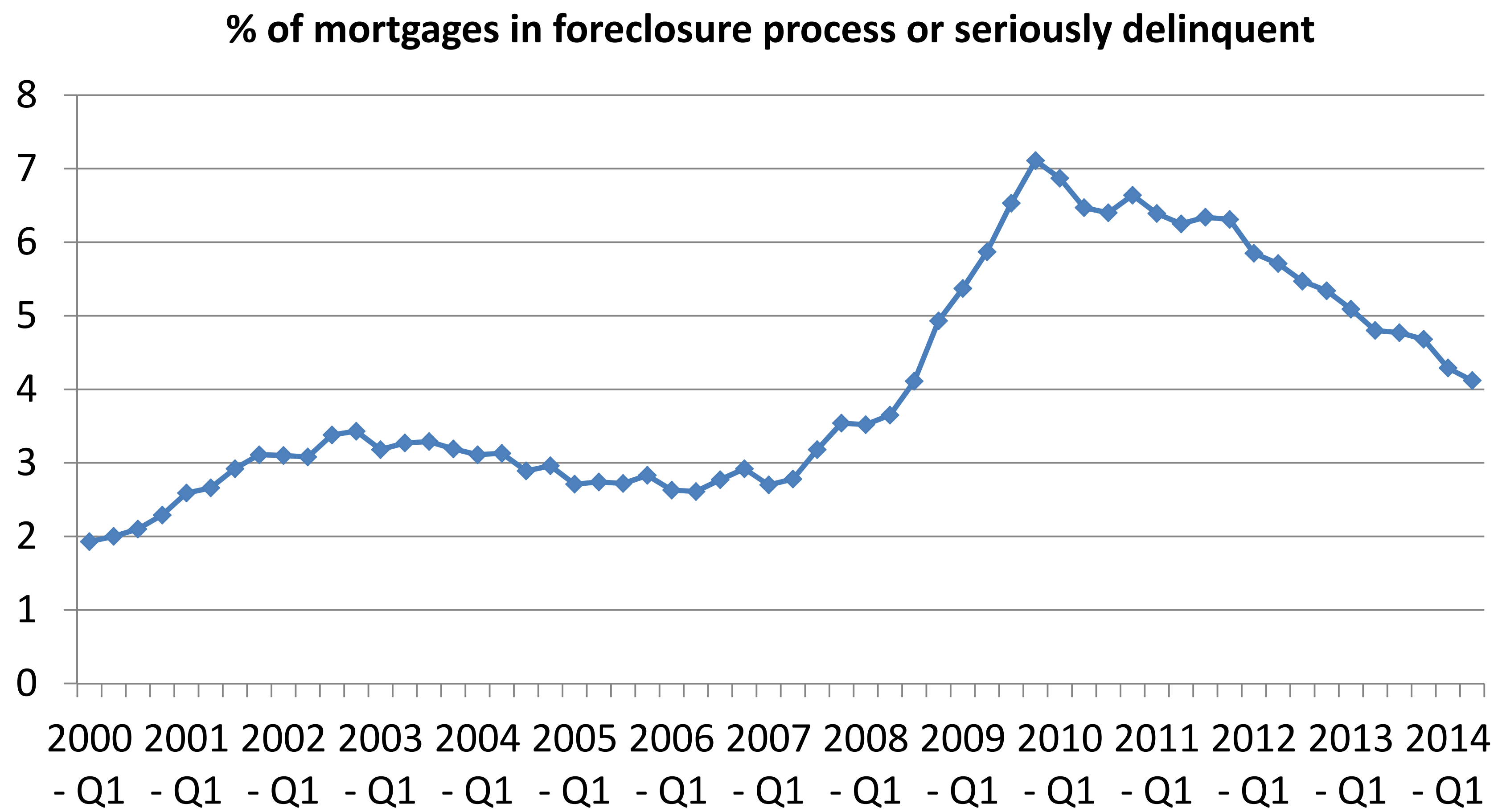
Repeat Price Index
(Chattanooga and Las Vegas)



Inventory of Homes for Sale



Shadow Inventory in Tennessee



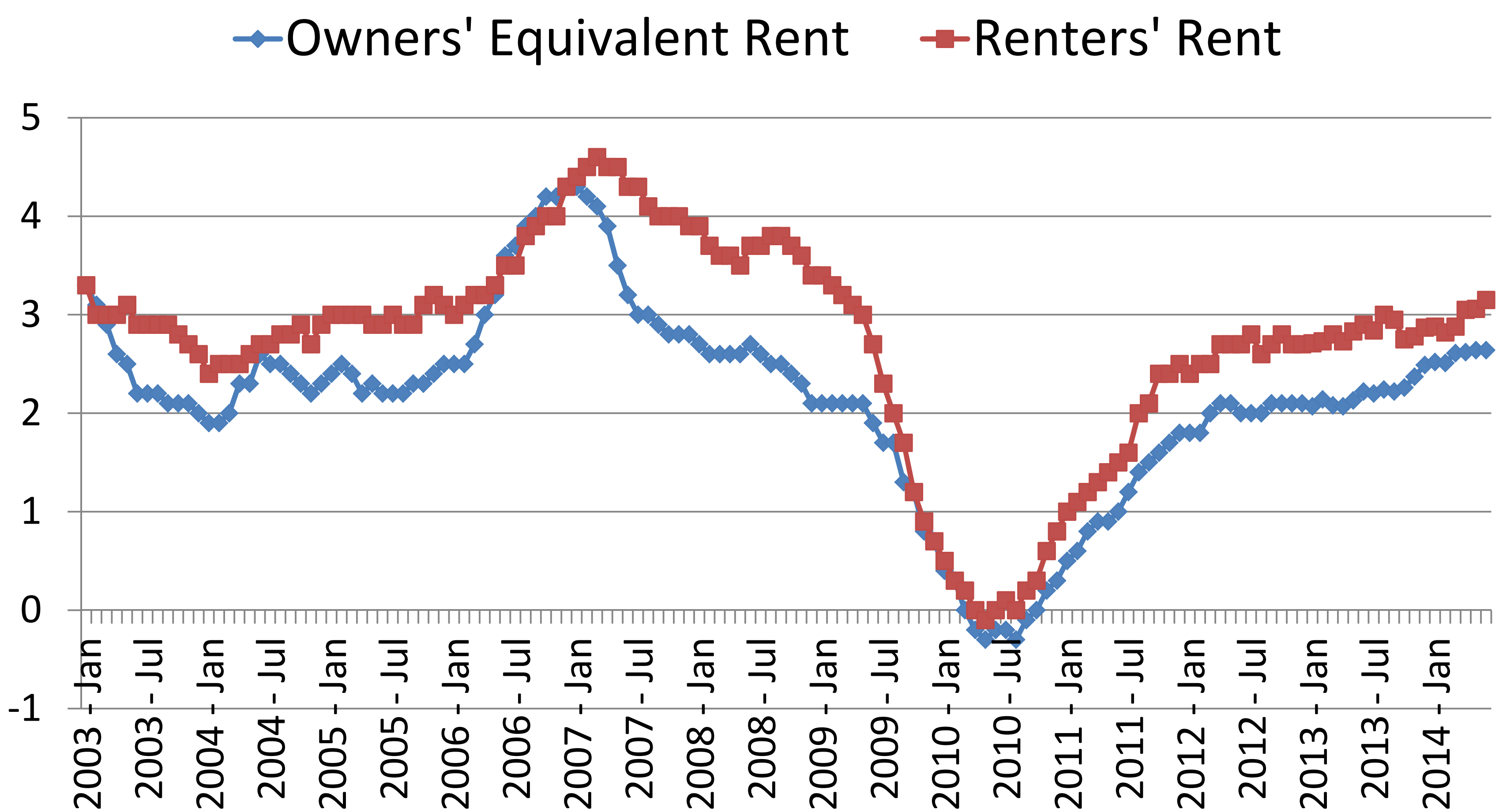
Forecast #1:

Higher Inflation … Higher Interest Rates

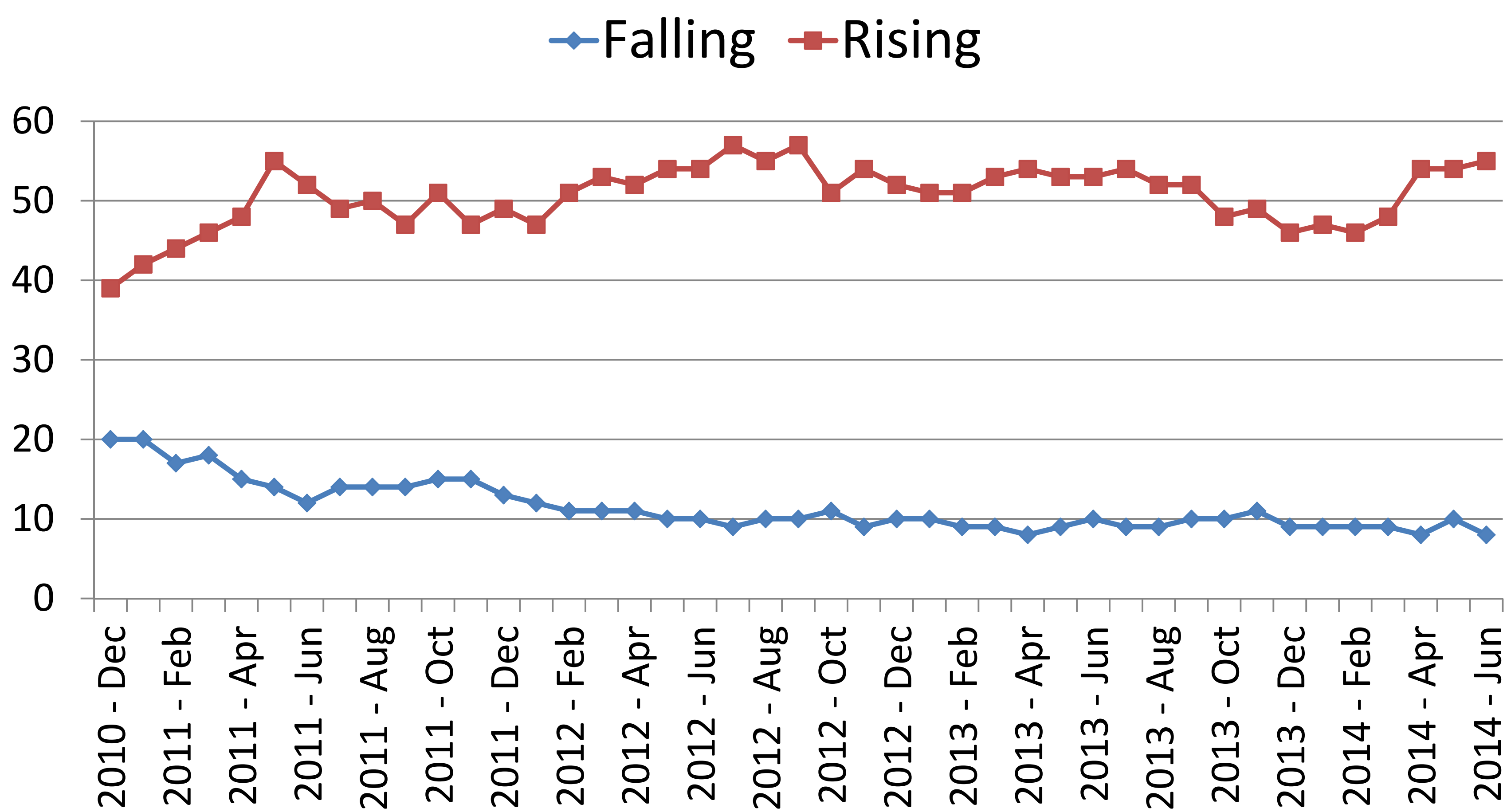
- Federal Reserve “Quantitative Easing” finishes by the year end 2014
- Fed Funds Rate … hike in 2015 Q1
- Earlier Move to Tighten because of Inflation Pressure
- Long-term Steady State Rate (2016 onwards) .. 10 year Treasury at 5.0%

Rising Renters' and Homeowners' Rent Growth

(On the Way to 3%)



REALTOR® Rent Survey – Shows Rent Pressure



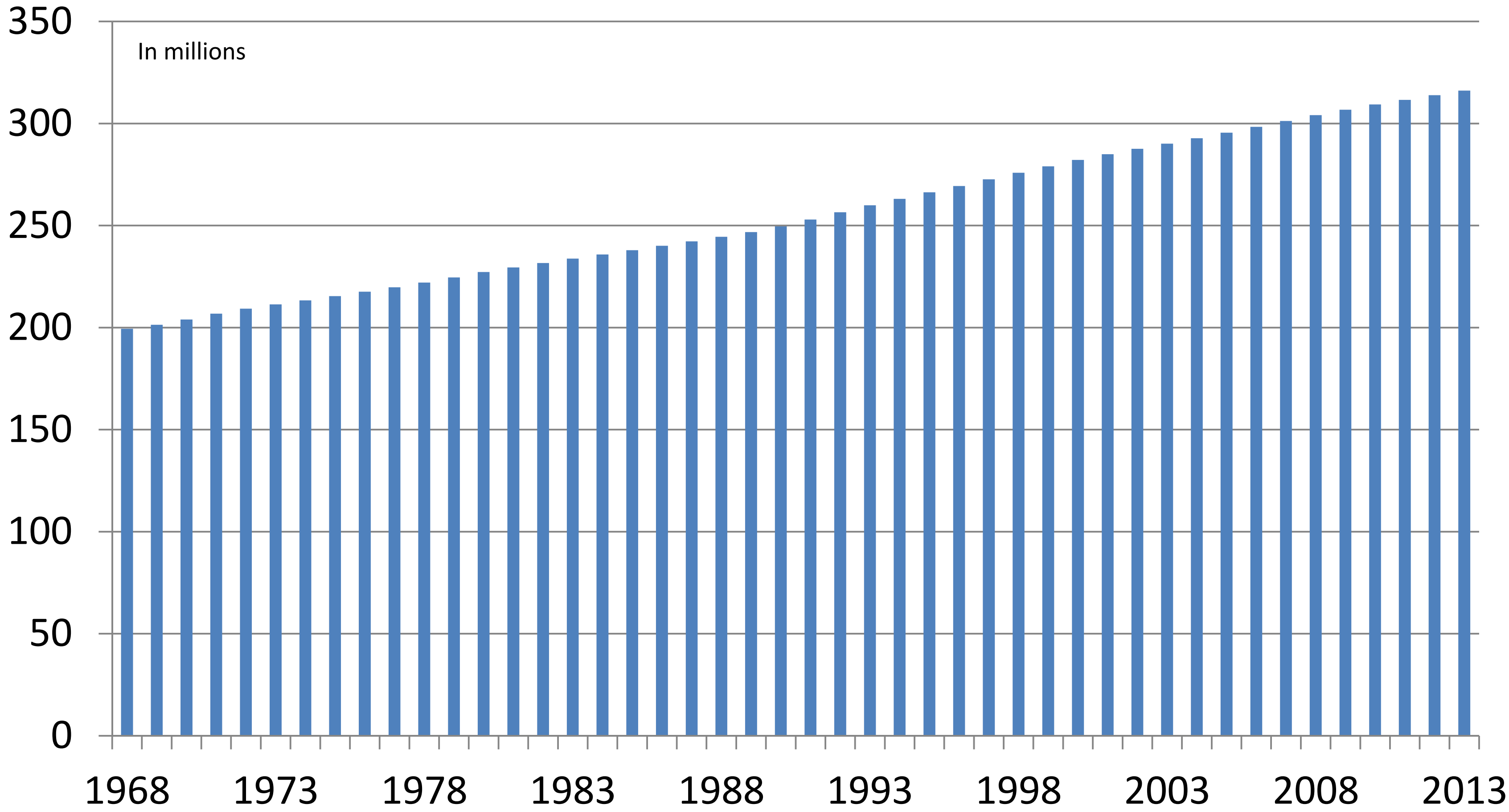
Economic Forecast

	2013	2014 forecast	2015 forecast
GDP Growth	1.9%	1.9%	2.7%
Job Growth	1.7%	1.7%	1.8%
CPI Inflation	1.4%	2.5%	3.5%
Consumer Confidence	73	82	86
10-year Treasury	2.5%	2.8%	3.6%

Forecast #2
Multi-year Housing Expansion – Broadly Speaking

- Pent-Up Demand
  - Population Growth
  - Job Growth
- Some underperformance, however, from lock-in effect
- Inevitable Growth in housing starts add inventory
- Vacation home sales growth

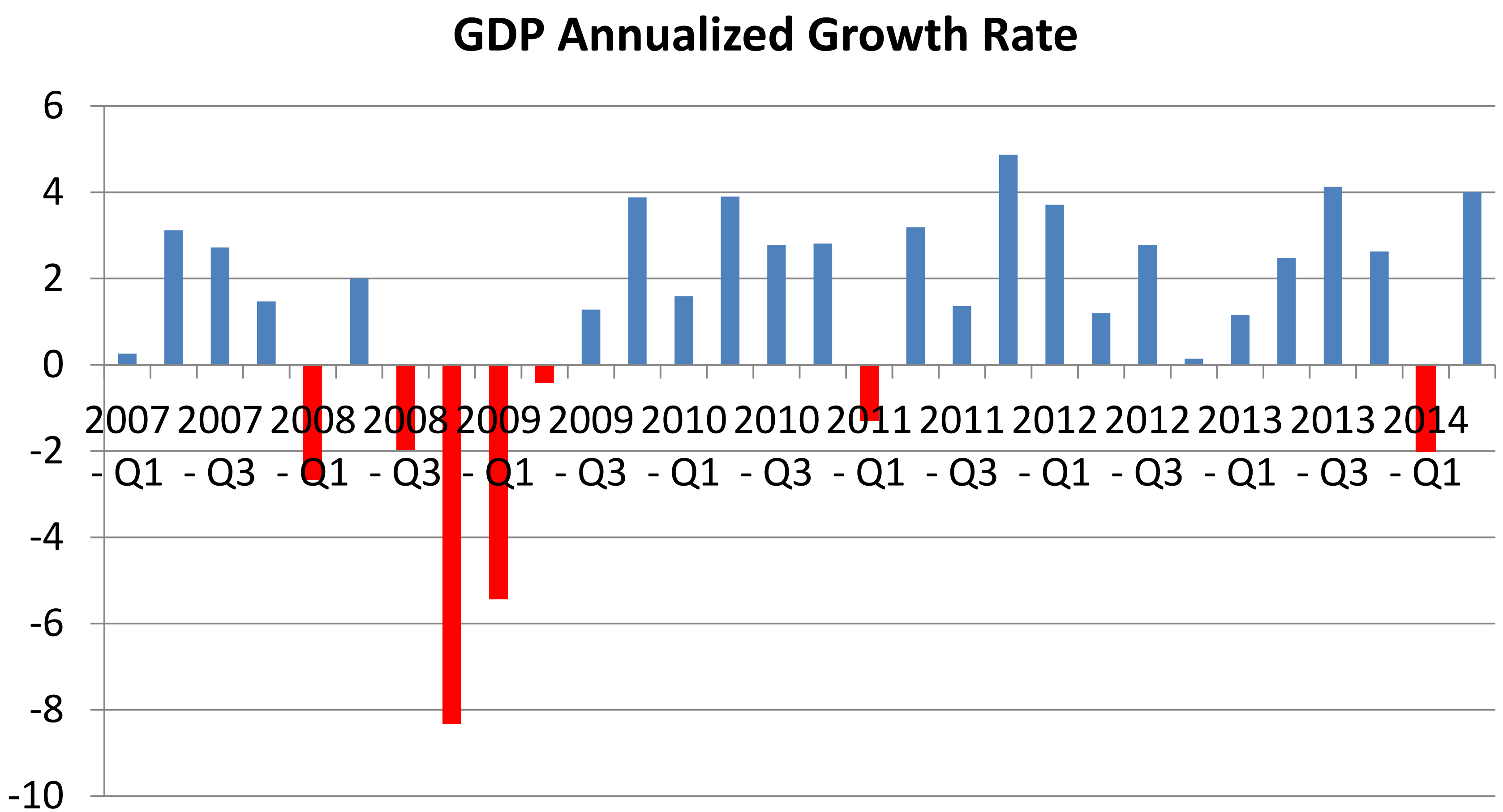
U.S. Population



Pent Up Demand

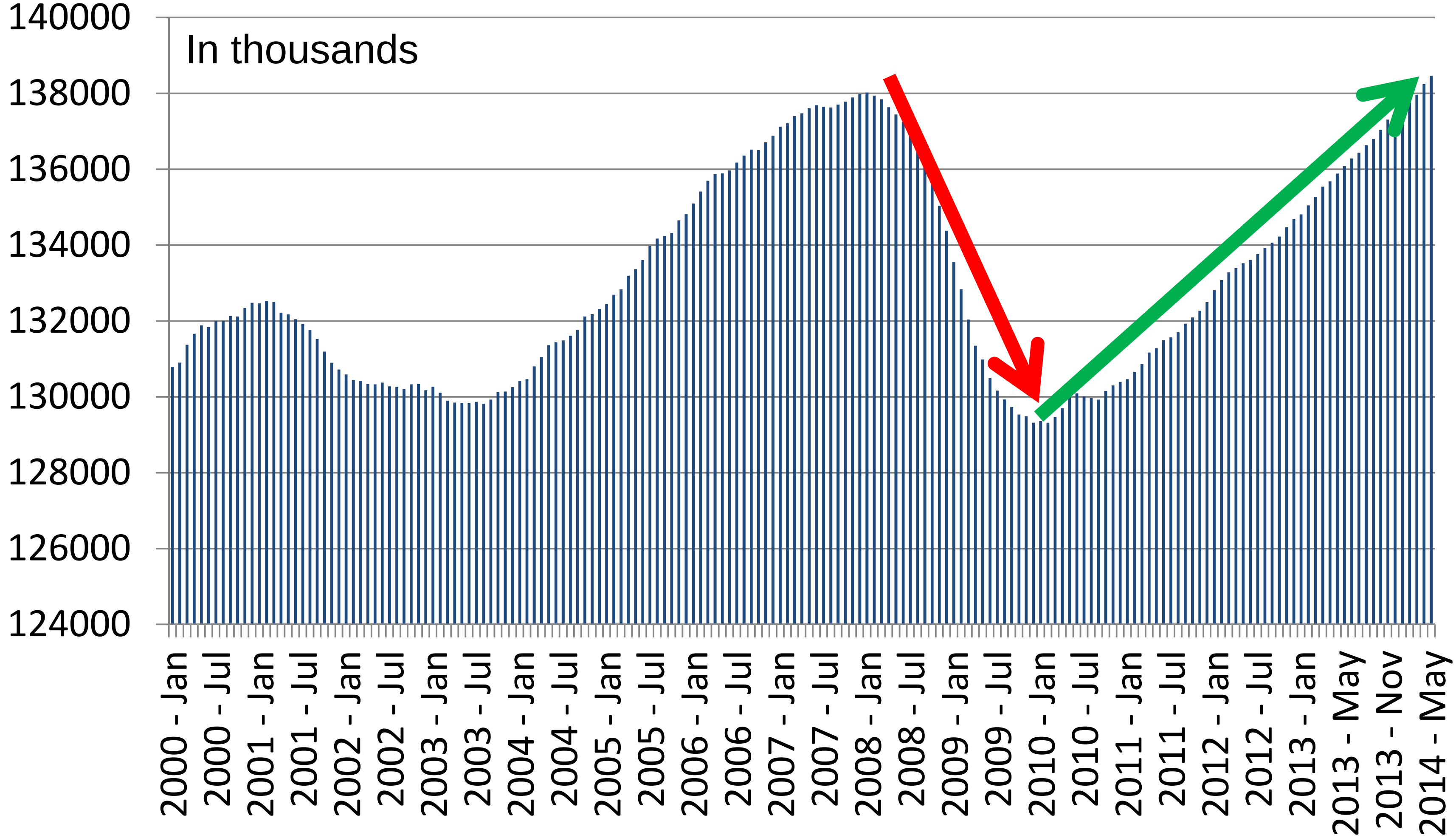
	2000	2013
Existing Home Sales	5.2 m	5.1 m
New Home Sales	880 K	430 K
Mortgage Rates	8.0%	4.0%
Payroll Jobs	132.0 m	136.4 m
Population	282 m	316 m

GDP Rebound … 4% !!!
in 2014 Q2

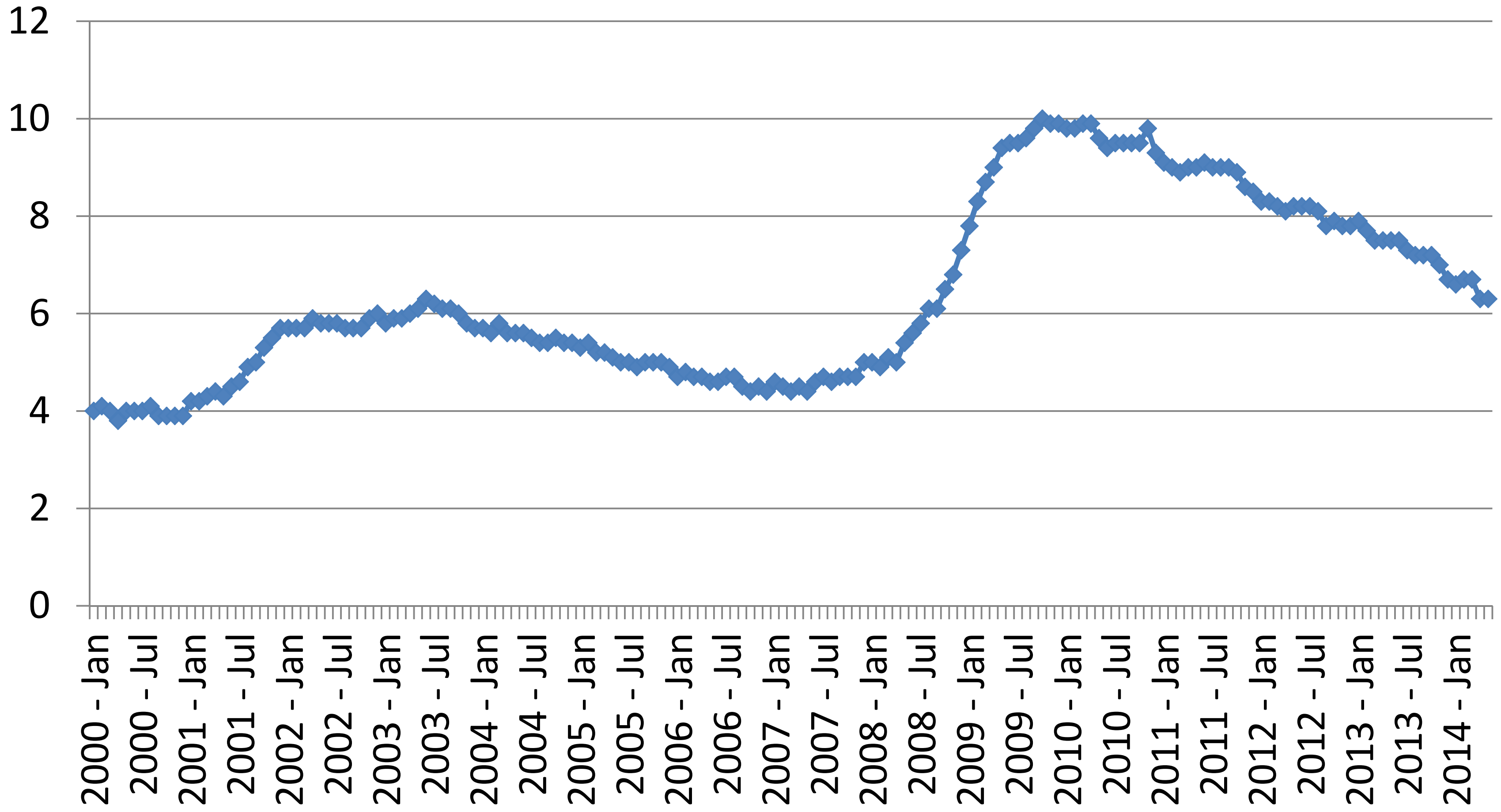


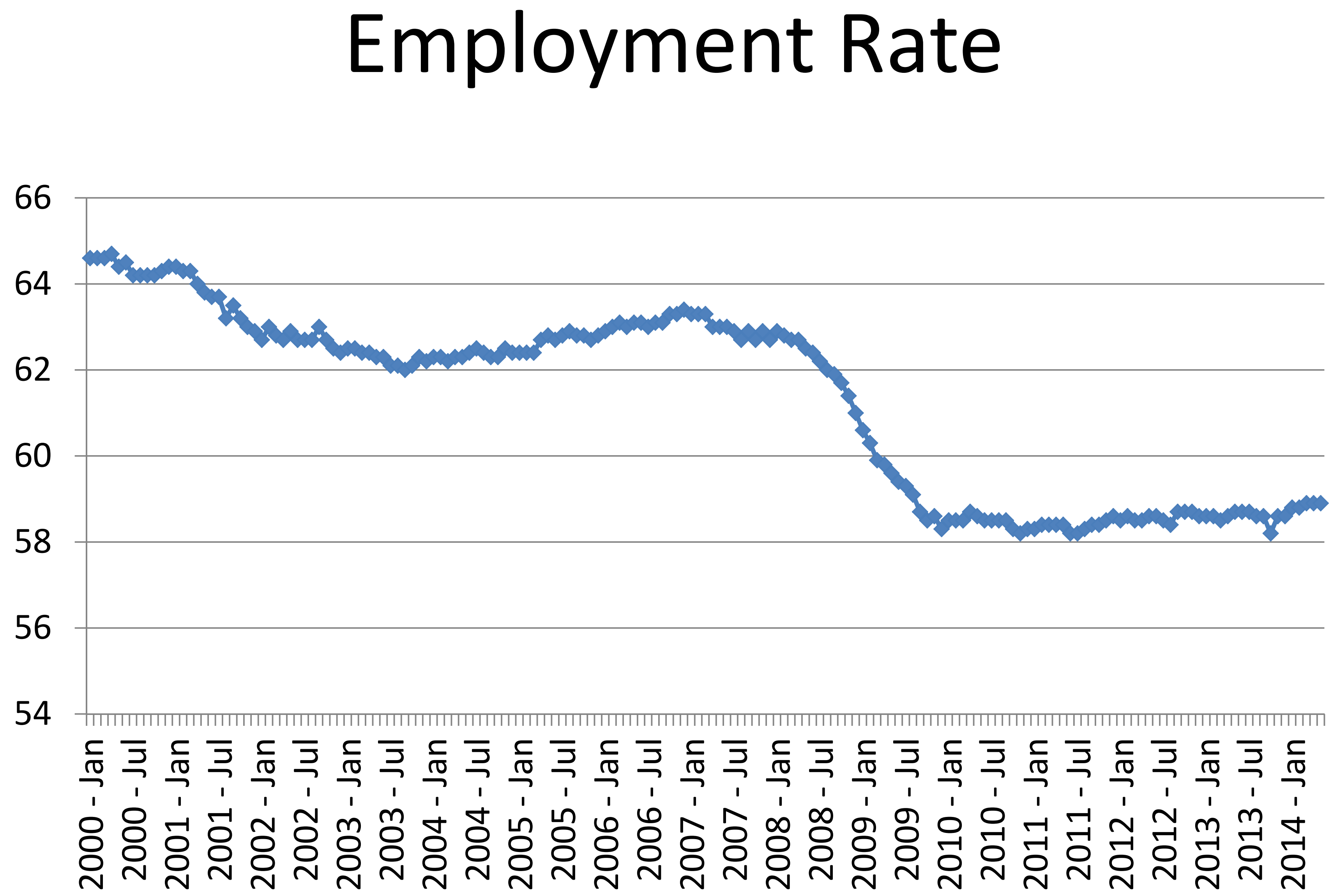
GDP Growth = Job Creations

(8 million lost … 8+ million gained)



Unemployment Rate




Employment Rate
66
64
62
60
58
56
54
2000 - Jan
2000 - Jul
2001 - Jan
2001 - Jul
2002 - Jan
2002 - Jul
2003 - Jan
2003 - Jul
2004 - Jan
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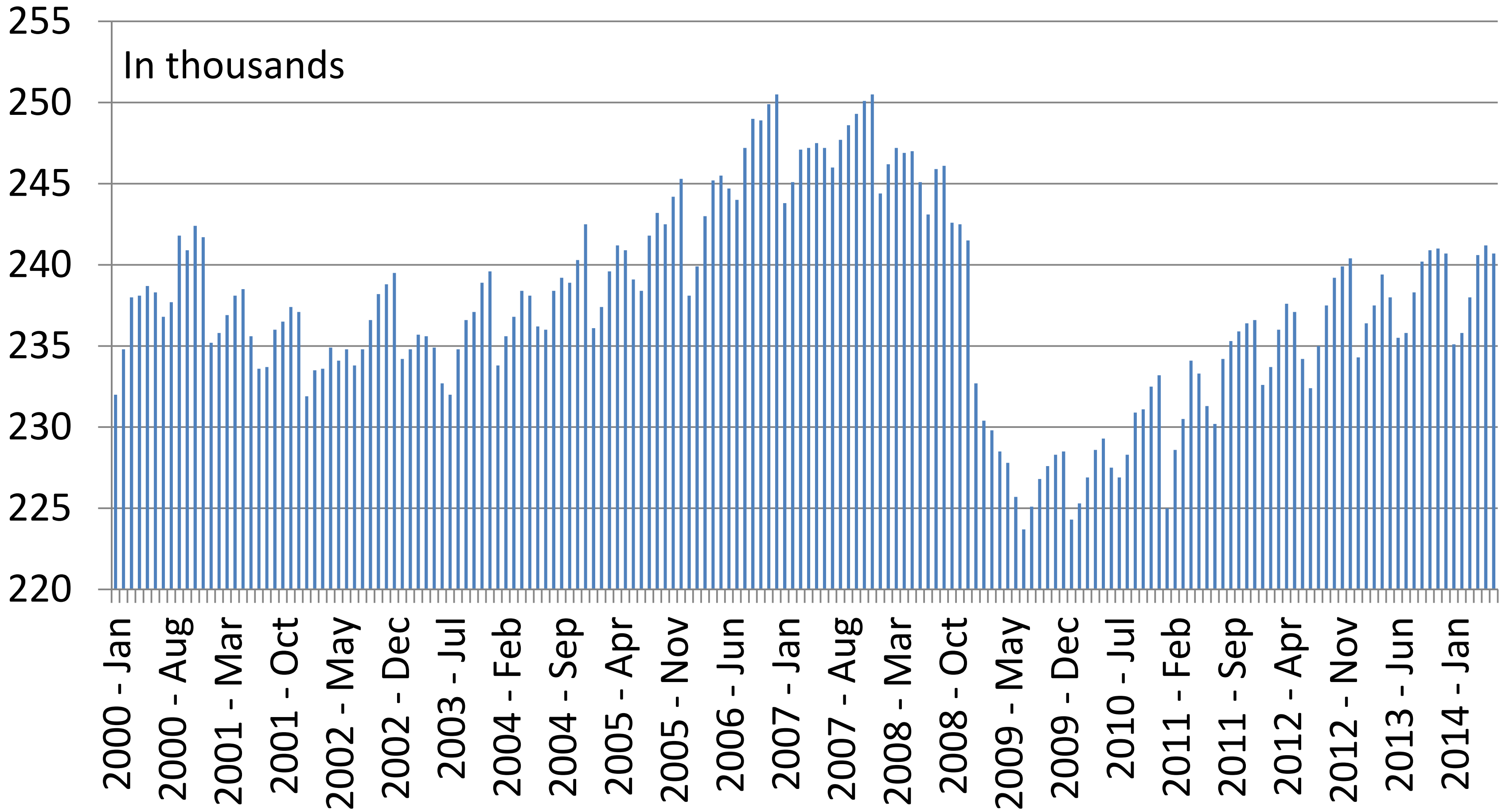
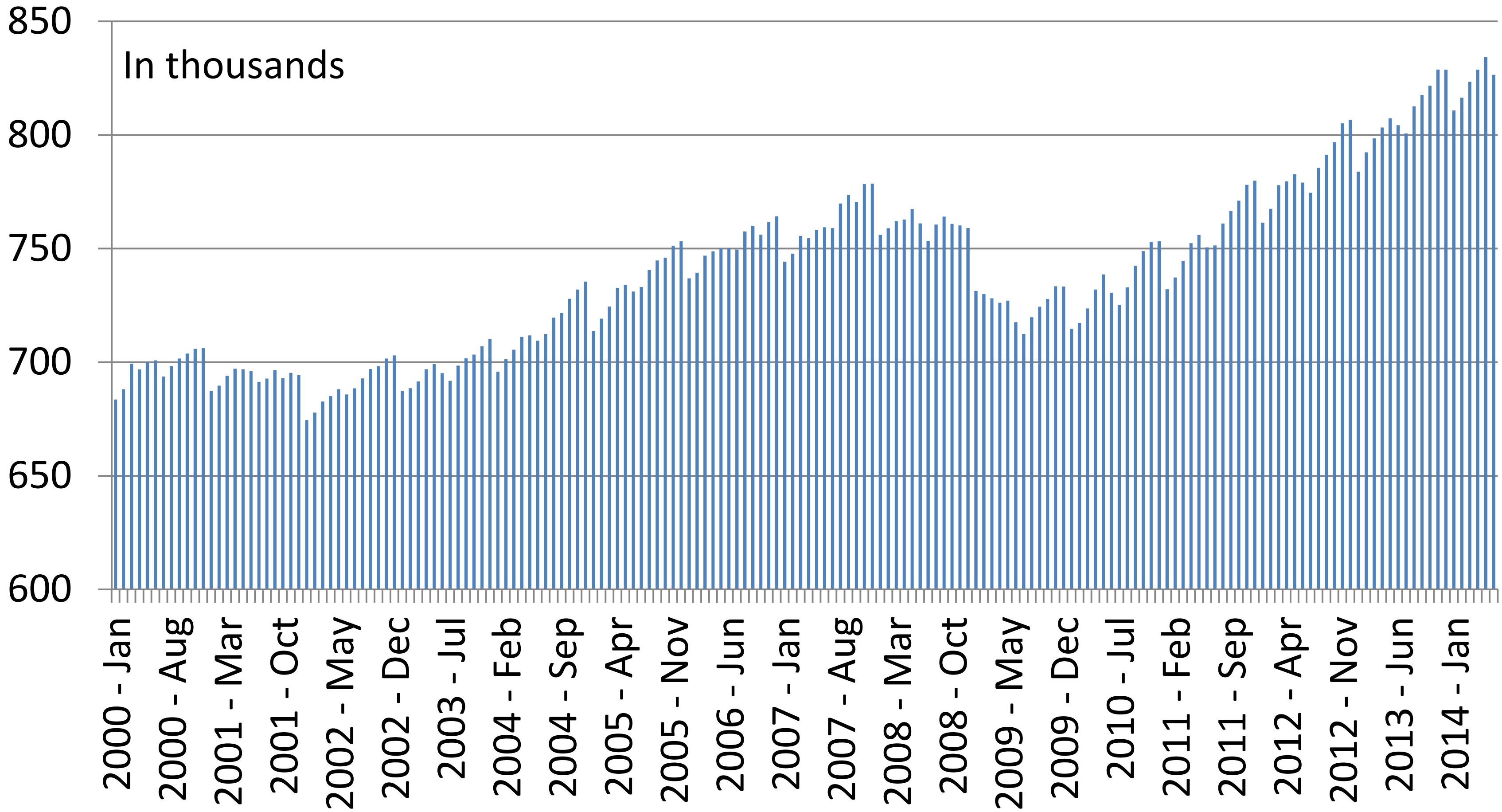
2012 - Jan
2012 - Jul
2013 - Jan
2013 - Jul
2014 - Jan

Jobs in Chattanooga



Jobs in Nashville



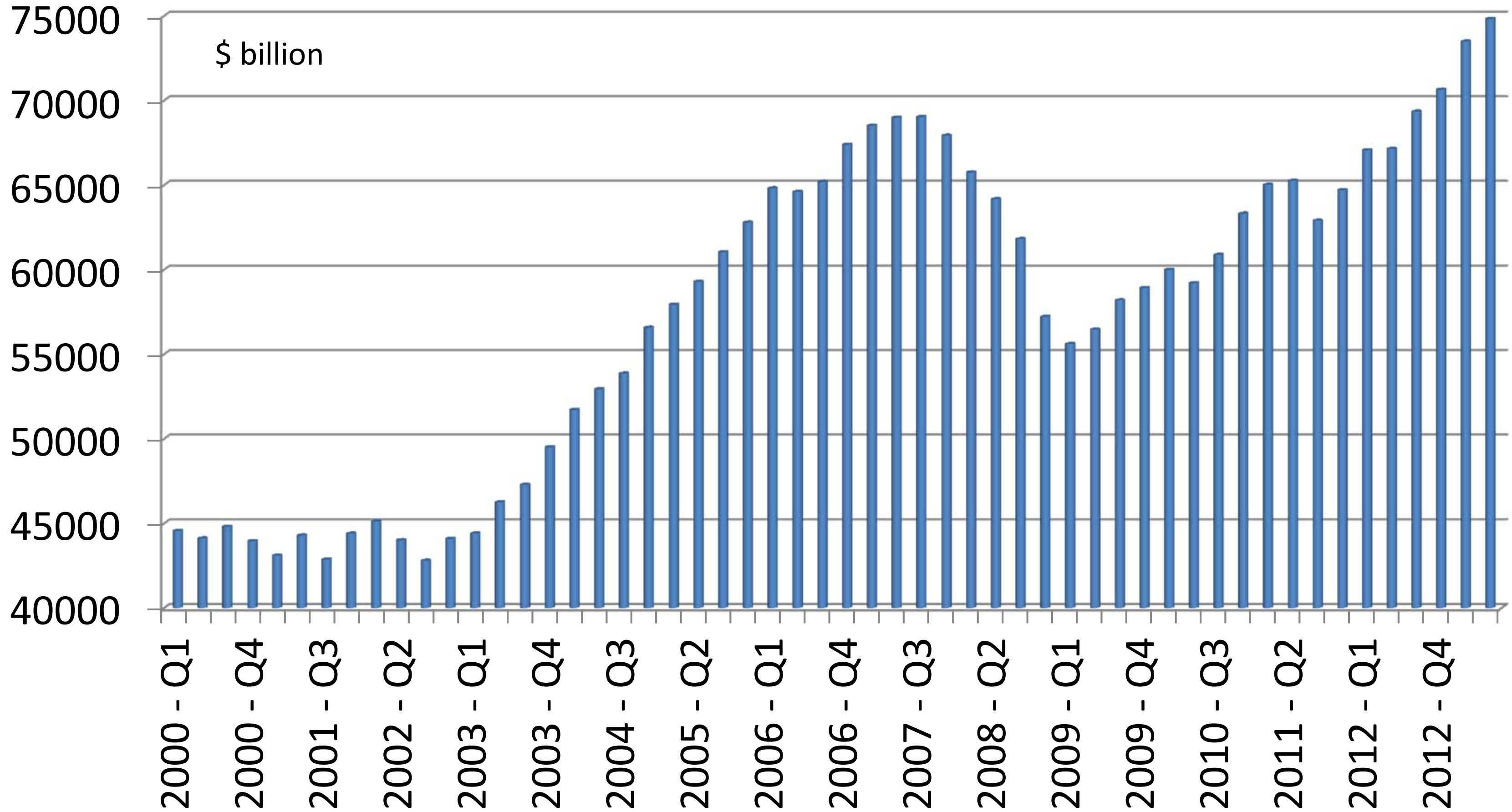
Locked-in Effect of Low Rates?

- Housing cannot get back to normal in a hurry
- People move even in high interest rate environment
- Many unplanned landlords
  - Take advantage of rising rents while rates are low and fixed
- Potential future lock from longer holding period for capital gains tax exclusion

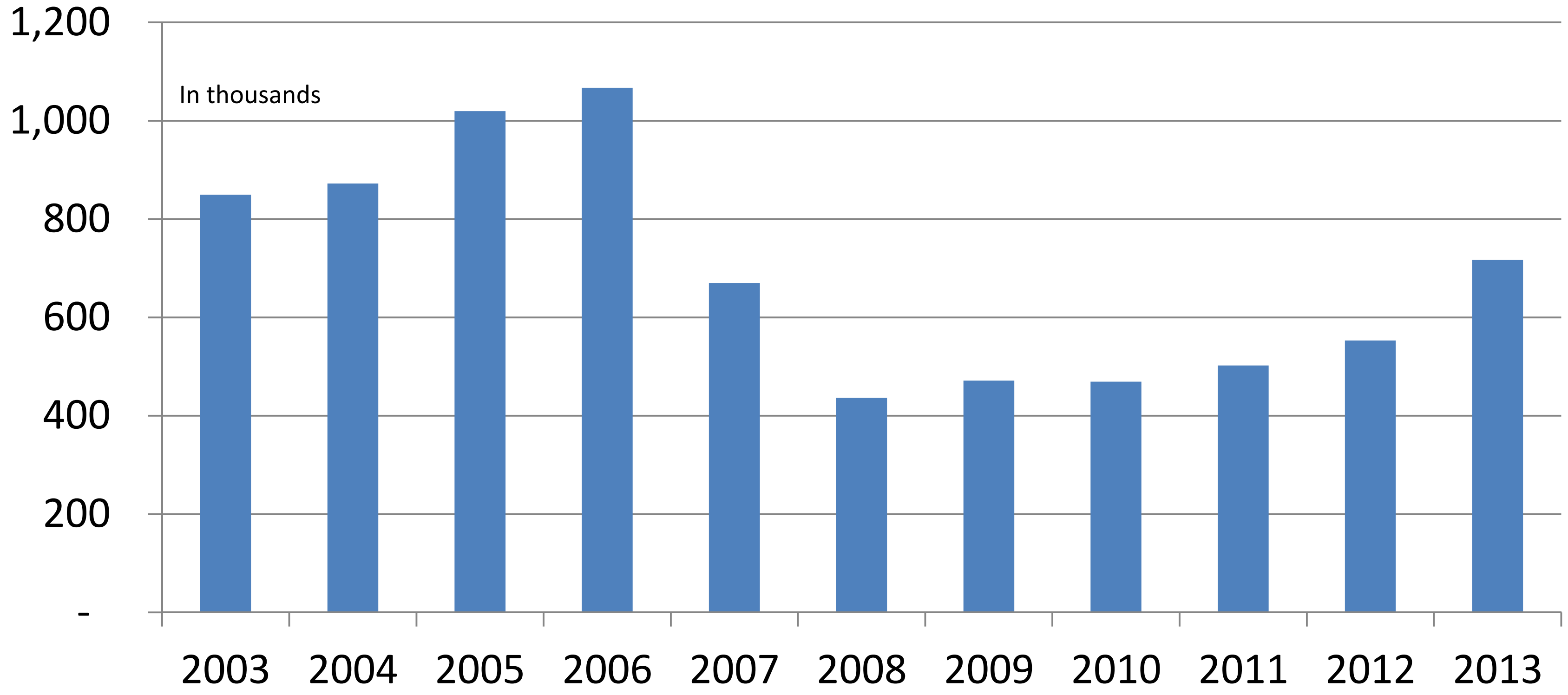
Reasons Why Sellers Move

Reason	Percentage
Home is too small or large	29%
Job relocation or closer to current job	20%
Want to move closer to friends .. Better neighborhood	13%
Neighborhood has become less desirable	10%
Marriage, Divorce, Birth	8%
Moving due to retirement	6%
Upkeep is too difficult	4%
Cannot afford the mortgage and other expenses of owning	3%

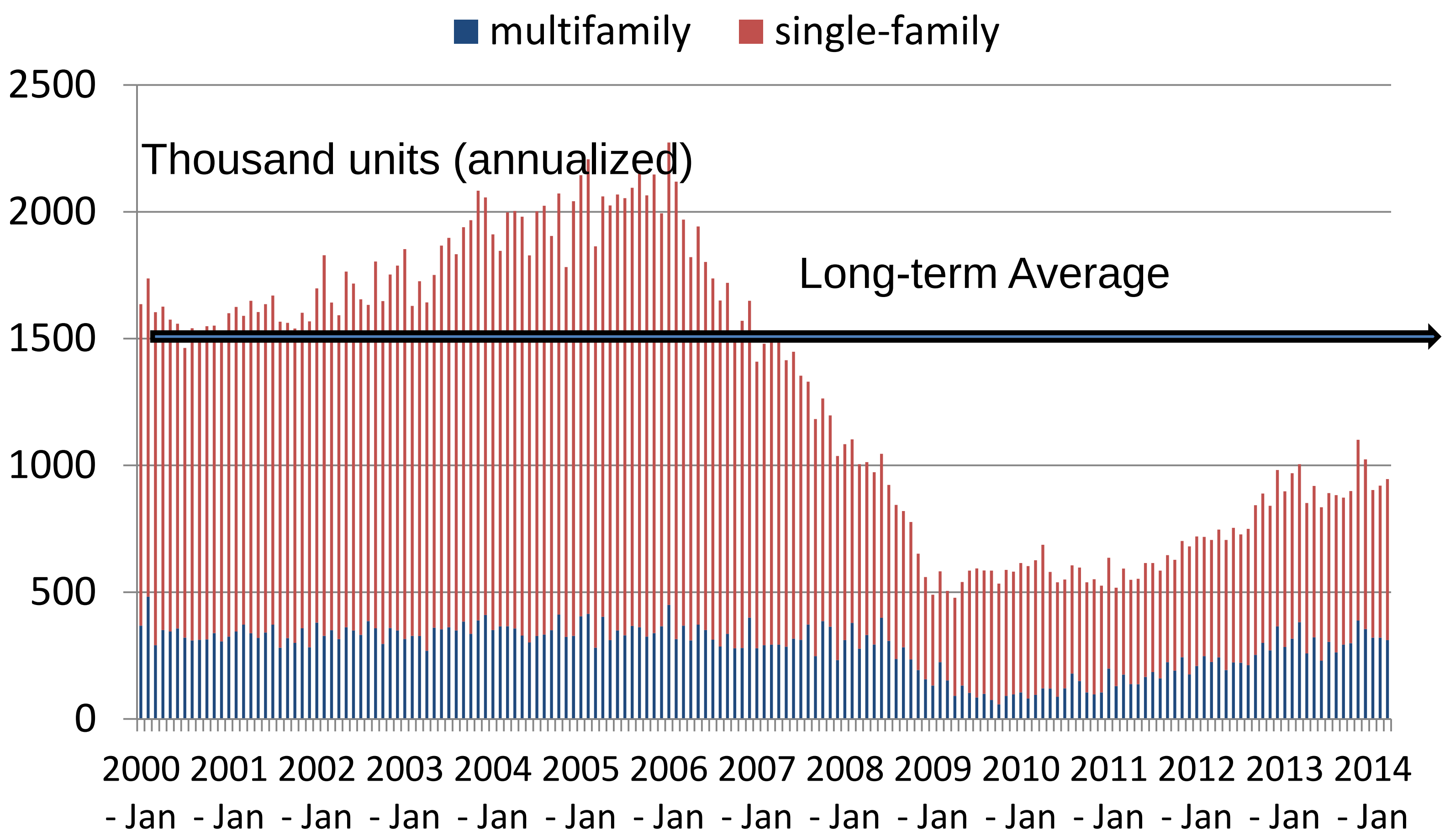
Household Net Worth



Vacation Home Sales

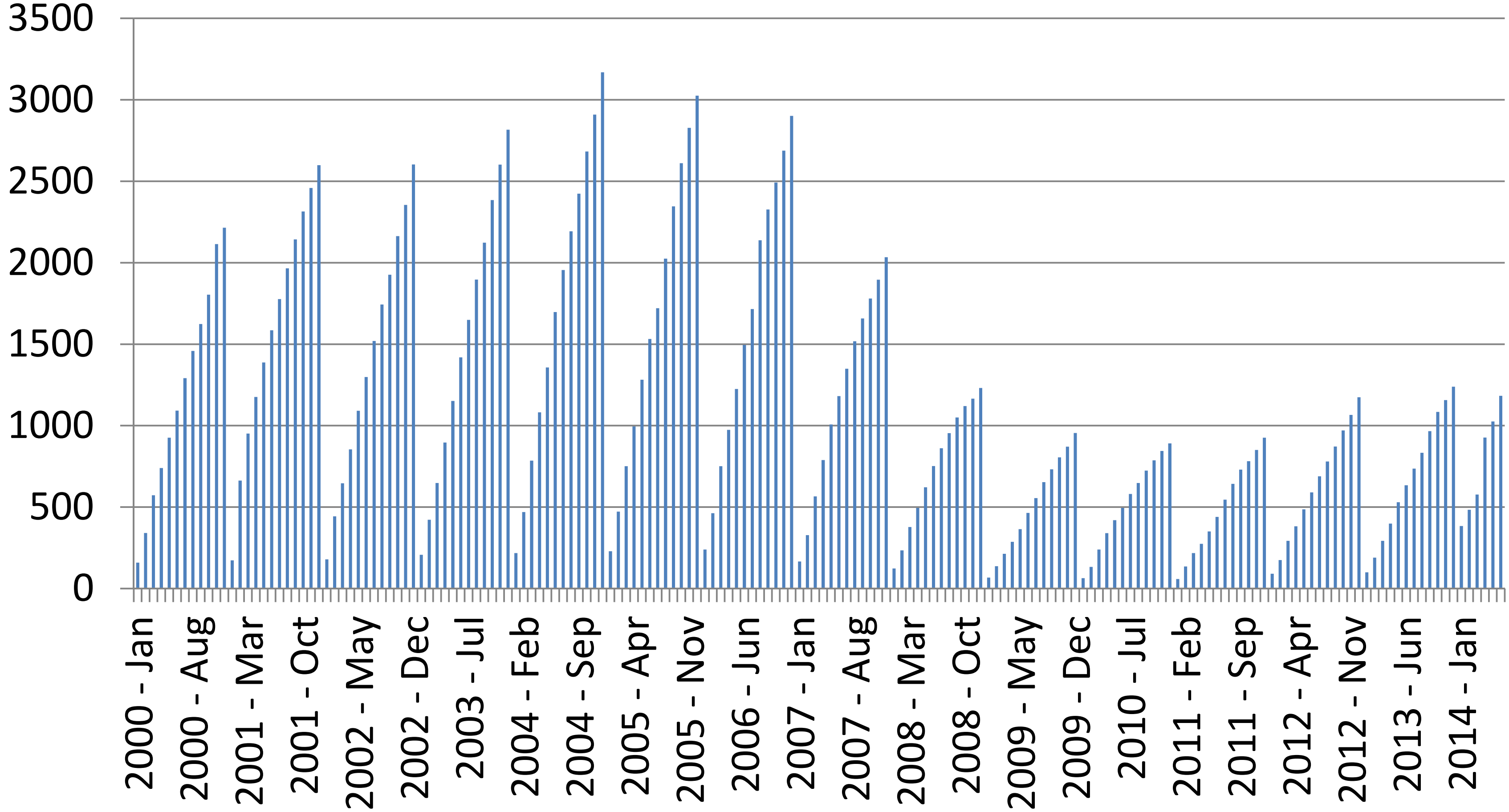


Housing Starts Rising … More Inventory But Needs to Reach 1.5 million



Chattanooga Housing Permits

(year to date)



Sluggish Recovery in Housing Starts

- Cost of Construction Rising Faster than CPI
- Labor Shortage for construction work
- Construction loan difficulty for small local homebuilders … Dodd-Frank financial regulations?

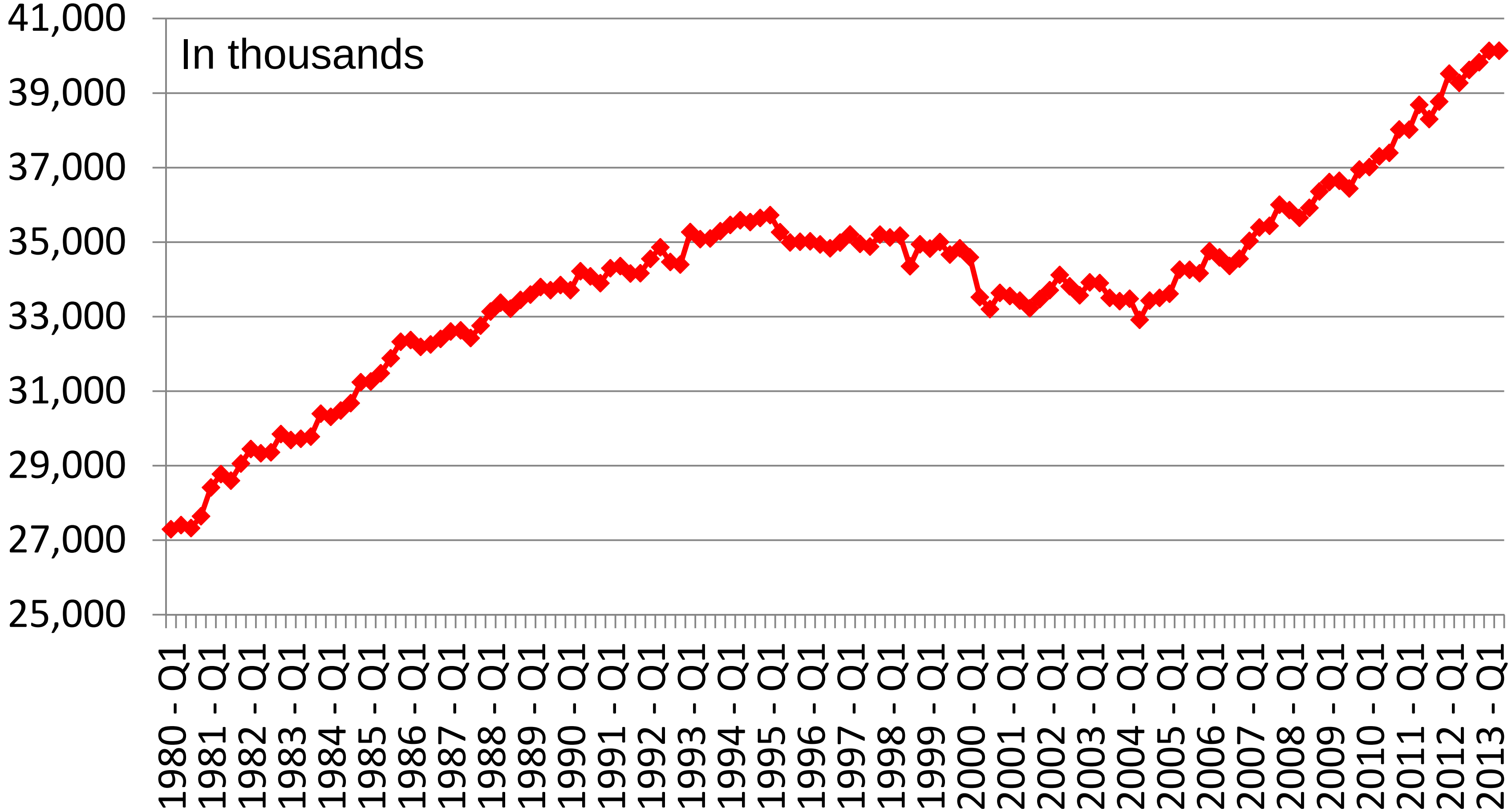
National Housing Forecast

	2013	2014 forecast	2015 forecast
Housing Starts	925,000	1.1 million	1.4 million
New Home Sales	430,000	Near 500,000	Near 700,000
Existing Home Sales	5.1 million	4.9 million	5.3 million
Median Price Growth	+ 11.5%	+ 5% to 6%	+ 3% to 5%
30-year Rate	4.0%	4.4%	5.4%

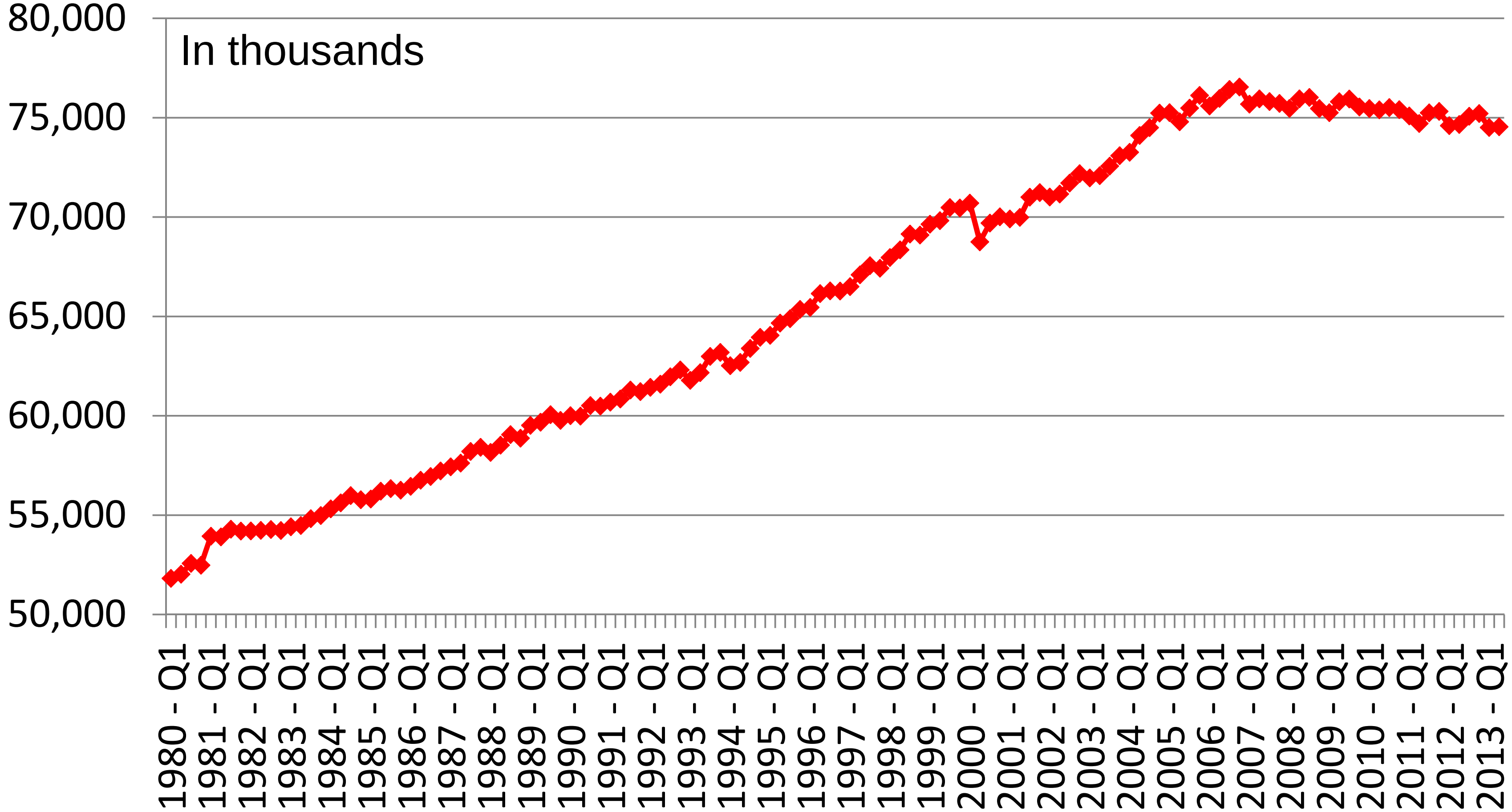
Forecast #3: More Unequal Wealth Distribution

- Renters do not accumulate wealth
- Renter population rising
- Homeowners build wealth after buying at low prices
- Stagnant homeowner population
- Tight Credit hinders ‘good’ renters from becoming homeowners
- Investors becoming increasing share of property owners

Renter Households

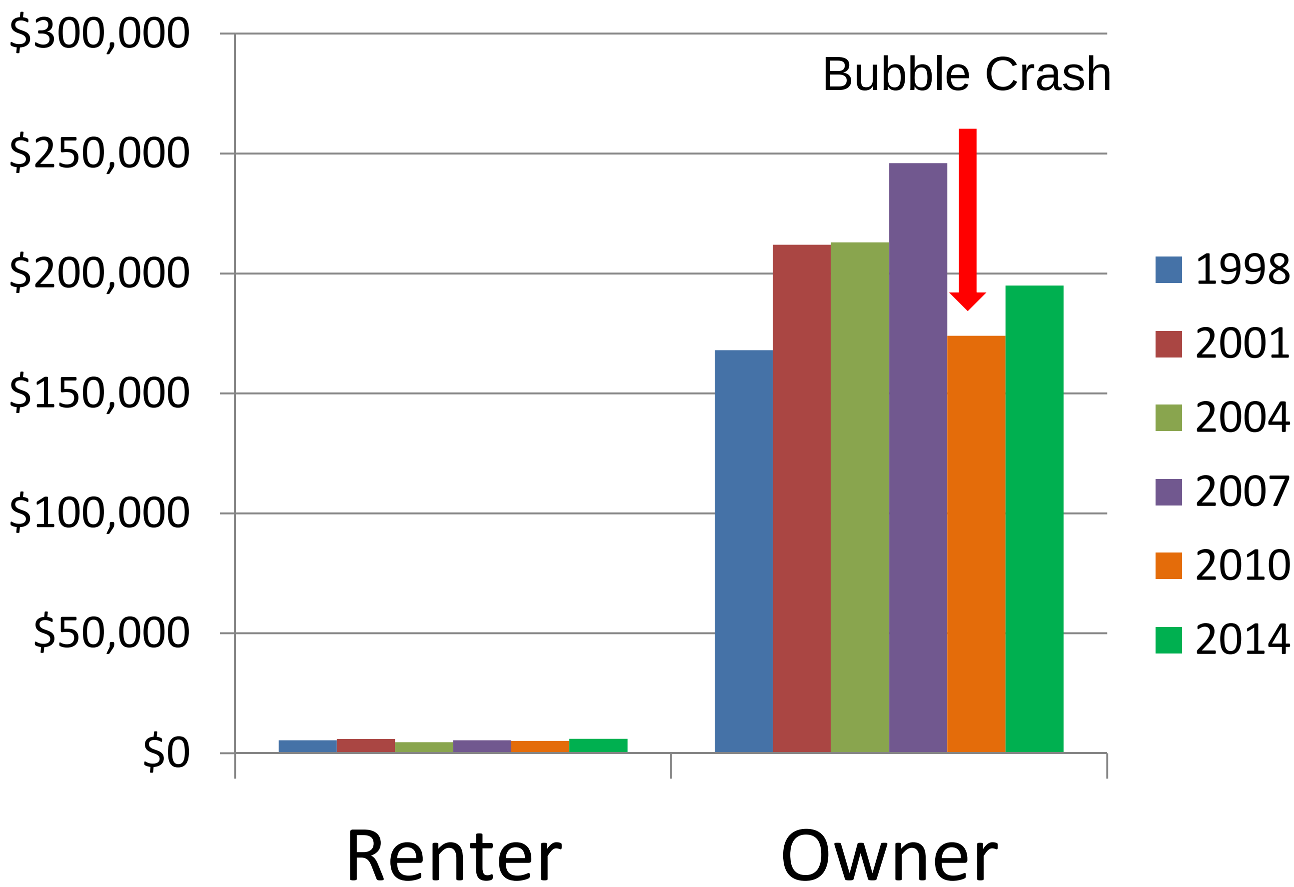


Homeowner Households has not Grown since 2006 … but Primed to Grow



Wealth Distribution

(Federal Reserve data on median net worth)

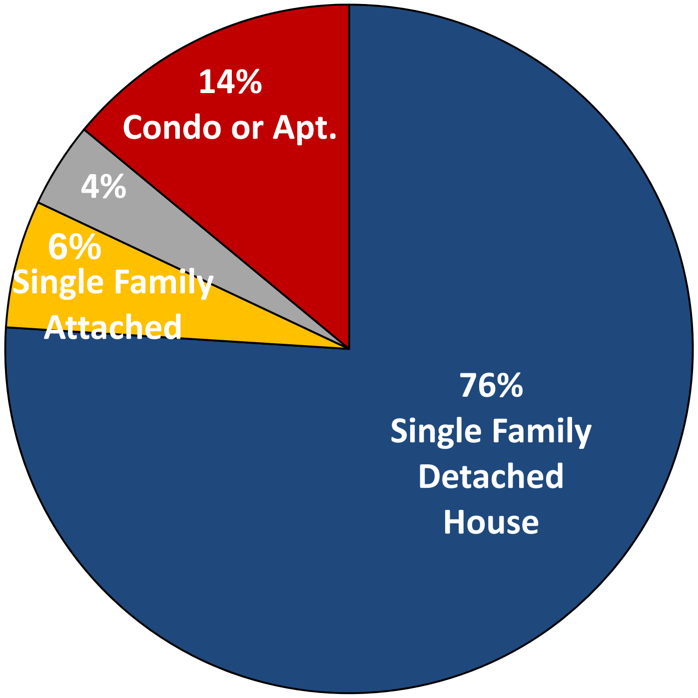


2014 Forecast by NAR

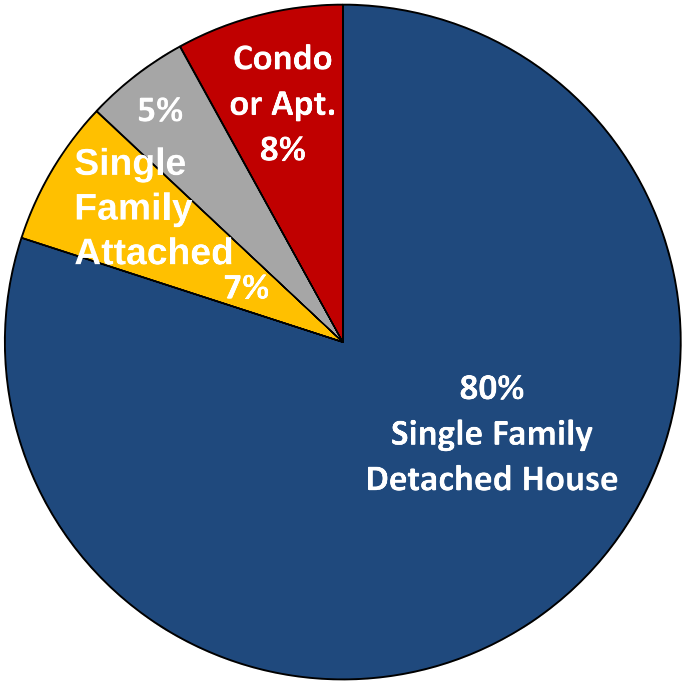
What Homebuyers Want?

Slightly More Preference For Condo or Apartment Living Than In 2011

Housing Type Preference (2013):

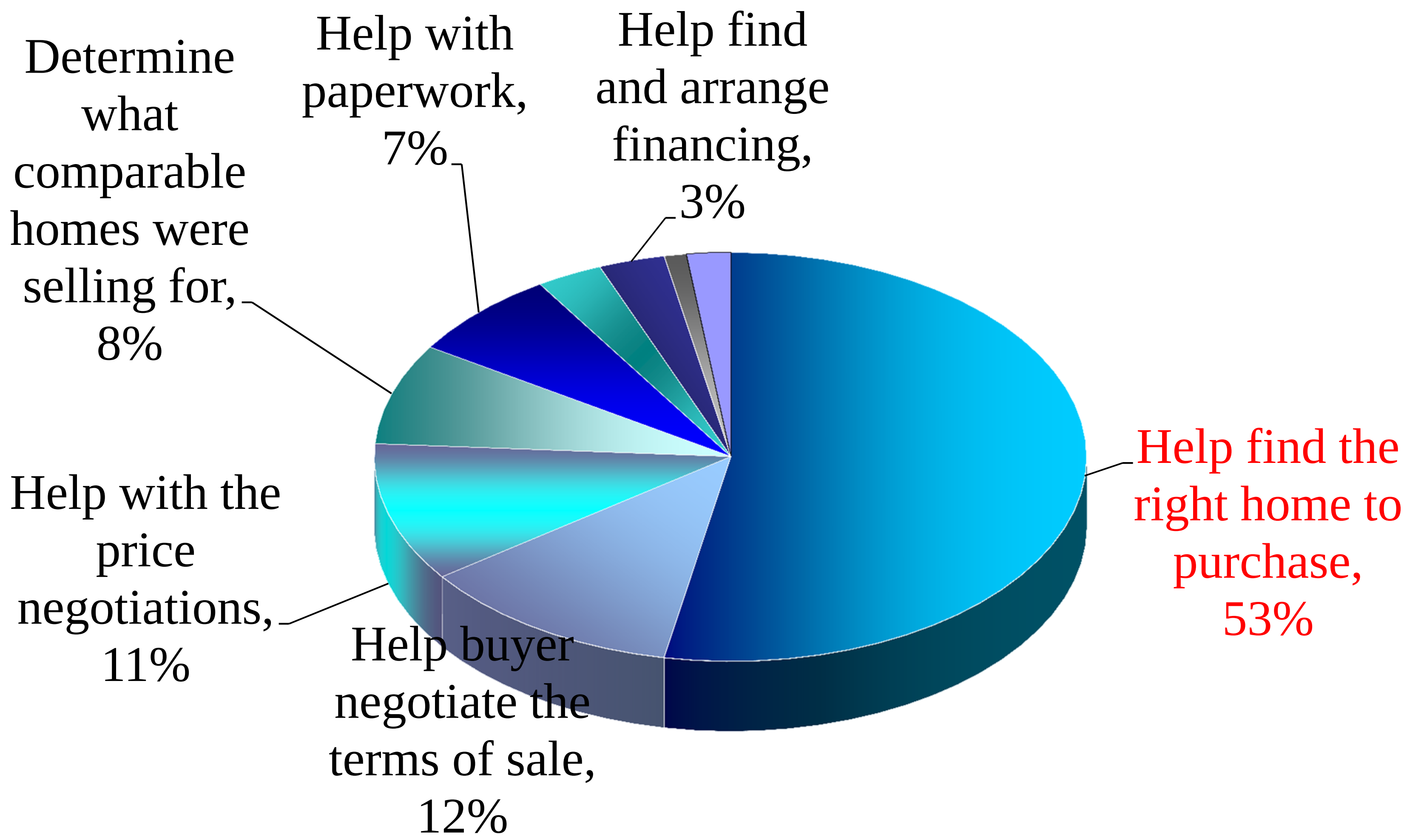


Housing Type Preference (2011):



Right now, if you could choose, which of the following would you prefer to live in:

What Buyers Want Most From Their Agent



Where Clients Come From

- From Members:
  - 21 percent repeat business from past clients
  - 21 percent referrals from past clients
  - 3 percent off member website (of those with a website)
- From Buyers:
  - 54 percent use an agent that was referred to them or they had worked with before
  - 9 percent found agent online
- From Sellers:
  - 64 percent use an agent that was referred to them or they had worked with before
  - 4 percent found agent online
- 2/3rds of buyers/sellers only contact 1 agent

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  @NAR_Research

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