

Notes by Zan Monroe

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Dr Lawrence Yun - Housing Market Outlook

NAR Washington DC May 12, 2011

These notes match the power point presentation you can find on my website in the downloadable library under research at

[http://www.zanmonroe.com/prod\\_library.htm](http://www.zanmonroe.com/prod_library.htm)

□ Each box represents a slide in the PowerPoint presentation....

Dr Yun

- Slide # 2 Annual existing home sales are up and we are ready to break out into higher sales??
  - The real estate Market is under the trend line. The market is under performing
  - Last 3 years are about the same sales volume...5 million
- Slide # 3 Monthly sales vary by tax credit impact
  - 2009 – August – Feb. 2011
- Slide # 4 Current market snapshot Normal market forces
  - 5 million sales in 2011 + 4% in 2011 over 2010
  - Job creation is the key
    - 90% of the US is working...with 10% unemployment
  - Robust Stock market
  - RE values stabilizing
  - Rising rents - Larger pool qualified renters
  - Buyers want distressed and deep discounts
  - International buyers cashing on weak dollar
  - Smart money chasing real estate
  - Lots of all cash transactions....nobody wants stock market
  - Hedge inflation buy REAL ESTATE
  - Huge positive - lending opens up
  - Huge negative - Washington policy change

- Slide #5 Jobs growing lost 8 million at the bottom
  - Now 6.5 million under peak
  - We have turned a corner....almost
- Slide #6 Alaska booming and so is
- Slide #7 North Dakota +++
  - Congress should visit places where things are working and take notes!
- Slide #8 Texas great
- Slide #9 Kansas, Missouri...no recovery at all
- Slide #13 Stock markets has full recovery...\$50 trillion
- Slide #14 Debt to asset value is about normal.....and debt is trending down....
  - We have stopped using our homes as ATM Machine
  - Debt has been Stable 3 years
- Slide #15 Home values stabilizing
  - Big gap between new and existing
    - Usually 15% but now greater
    - Construction Raw materials high....gap is widening
- Slide #16 Rent is rising CPI
  - DC is raising rents by 10-15% because of government spending
- Slide #17 Home values under rent....makes sense to buy now for renters...
- Slide #18 In 2005 = 20% of renters could buy
  - Today...40% of renters can afford to buy
    - THERE IS PENT UP DEMAND HERE!!
- Slide #19 Growing pool of renters who can buy
- Slide #20) 30-40 % markets are distressed sales
  - Cape coral Florida is FINALLY getting better
  - 21 Delinquent mortgages has peaked....At 10%
  - These are legacy mortgages from 2005-07

- 2009 – 2010 buyers not here....they are making their payments on loans
- Slide #22 Dollar is very weak

Dr Yun spends some time of every day studying international real estate markets

- The Swiss are very smart...no euro...trade surplus...strengthening economy...human resources are coming up with new products...work culture...they compete on innovation...
- US is beginning to rely on weak dollar to increase trade deficit which might Induce business to become lazy
- foreigners are buying US Property!!
  - Texas, California, AZ, Florida
- Slide #24 Smart money buying real estate RIGHT NOW!
  - 35% cash
  - Investors
  - Financial asset recovery helping with cash
  - Hedge against future inflation
  - Baby boomers buying house for kids...and then being the mortgage for the kids...parent financed at 6% which is much better than they are getting in the stock market!!
  - Upper end priced houses are beginning to move
  - Investors are always ahead of the market showing us what the future looks like

- Slide #25 What do you think will happen to house values?

- This time next year houses higher priced

- Slide #26 Real estate great hedge as inflation

- Germany....after WW1...hyper inflation
  - Protected with real estate and gold

- Slide #27 Housing Starts....the new home building industry has greatly under producing... ..since 2007...

○ We may find ourselves in a huge housing shortage in a few years!

- Slide #29 Mortgage underwriting very difficult last 2 years
  - Normal credit score...720....now 762
  - If revert back to 720 would increase sale by 15-20%...probably not happening
  - Banks have huge cash reserves but tight lending policies created by Federal Government
- Slide #30 Default rate of mortgages....2009....at 1.1%
  - Normal rates
  - In 2007 was 22%
- Slide #31 Downside potential
- Slide #32 Washington policy
  - Republicans want to Raise down payment to 20%
  - VA traditionally low foreclosure even in the current market...because they have always held the right standards for loans
  - Low down payment mortgages are working
  - Democrats want to go after the rich....no MORTGAGE interest deduction
    - Yacht tax...impact....Yacht industry wiped out...
    - Demos want to remove the 2<sup>nd</sup> home market Mortgage Interest Deduction...will wipe out the second home market.
  - Republicans going after the rich
    - Lower conforming loan limit
    - Income redistribution from consumers to banks
    - Class warfare...expensive home pay higher mortgage ...transfer of wealth from citizens to banks!
  - Current US savings rate 6% of income (we call it disposable income)
    - China 40% savings of income (they call it discretionary income)
    - Take the US citizen 9 years to save \$20,000 down payment

- \$2,200 per year saved
- Slide #34 Economic Hurdles
  - Inflation hitting pocketbooks
  - Gas - food
  - Huge pool unemployment...10%
  - Budget deficit....
  - Consumer confidence...another losing election for incumbents.
- Slide #35 Inflation...2.7% more than last year is what CPI says but...Gas up 30%, Food is up 20%, College is rising, Rents are rising...
  - So where is the reduced cost if inflation is only 2.7%???
  - It is in the Federal Governments calculations of inflation!
  - Home prices are not in CPI
  - What is falling?? According to the US Government...
    - Consumer electronics.....falling!! by Government calculation only
- Slide #36 Adults claiming disability is highest in history....
- Slide #38 Government spending and tax receipts.... Is huge gap....
- Slide #39 10 year government borrowing rate... is still low so we are not feeling the problem...YET!
  - Greece will default in 12 months
  - US bonds still strong....the world still thinks that the United States is a safe and good investment.
- Slide #40 10 year treasury rate...down
- Slide #41 Consumer confidence recovering
  - 65 is current grade...of 100 is the norm
  - Under 100 on election year then typically the incumbent will loses....
  
- Slide #42 Housing baseline Outlook
  - Moderate GDP Expansion 2.5% to 3% in the next 2 years
  - 1.5 to 2 million annual job additions yearly in the next 2 years

- Mortgage Rates rising to 5.5% by year-end 2011 and 6% in 2012
- Home values – no meaningful change in the national price in the next 2 years
- Home sales rise by 7% to 10% in 2011

“A nation of homeowners is unconquerable.”

Franklin Delano Roosevelt

- What do you see America look like in the future?
  - Are we owners or renters?
  - Owners will fight for their country. The country is stable politically...
- 90% of Egyptians do not have clear title....to home they live in...One reason for instability in the Middle East.

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