

"Stuck in First Gear": Impediments to Residential Real Estate

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The opinions expressed are those of the presenter and are not those of the Federal Reserve Bank of Atlanta, the Federal Reserve System, or its Board of Governors.

Agenda

Why does the housing market feel as if it's stuck in first gear?

*Overview of Current Housing Market Conditions

*Economic Factors

*Demographic Factors

*Trends in Home Price Appreciation

*Trends in Housing Affordability

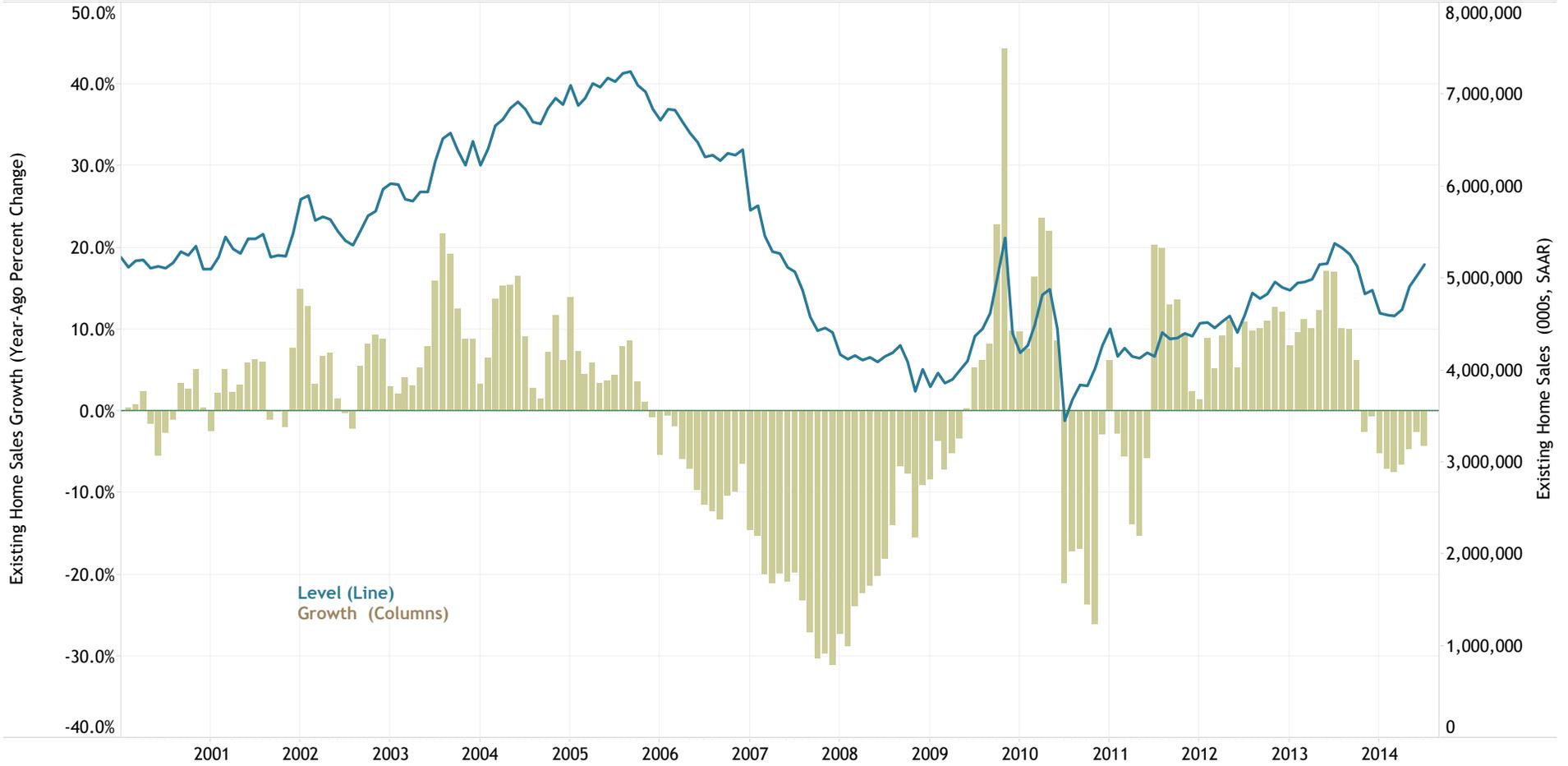
*Capacity within the Housing Sector

*Credit Factors

****(Student Loans Debt)***

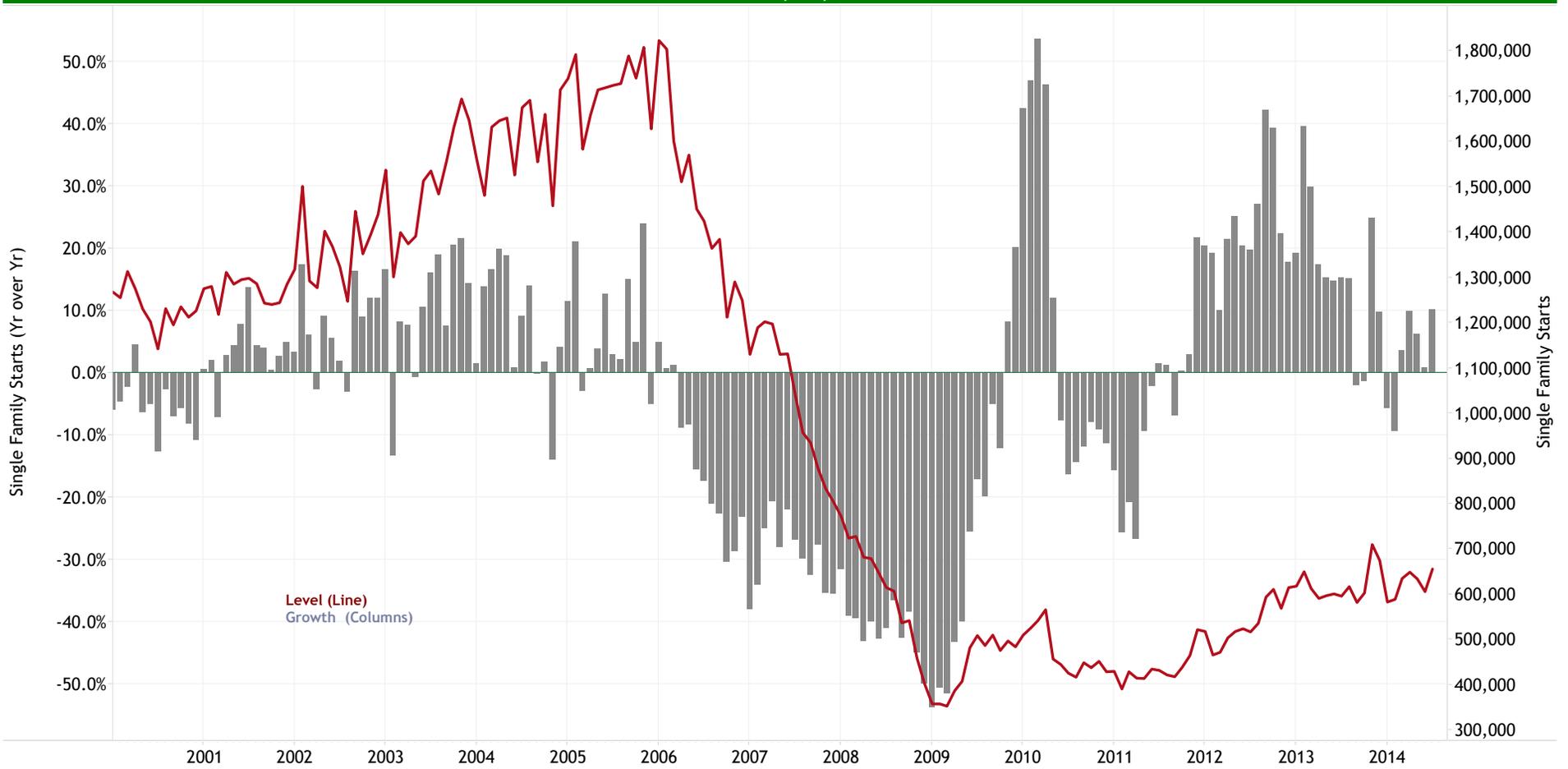
U.S. Existing Homes Sales

Source: National Association of Realtors



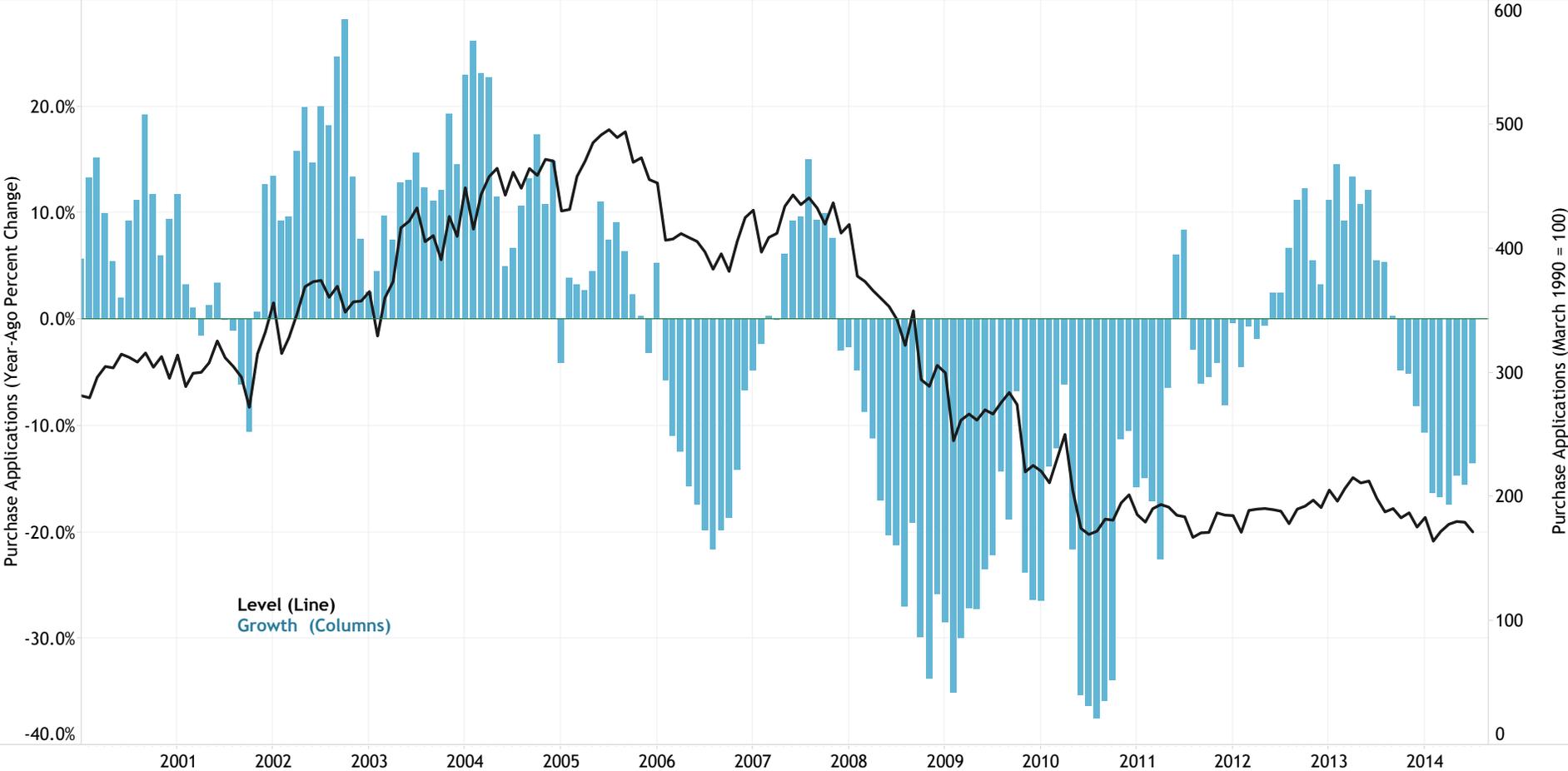
U.S. Single Family Housing Starts

Source: Moody's Analytics



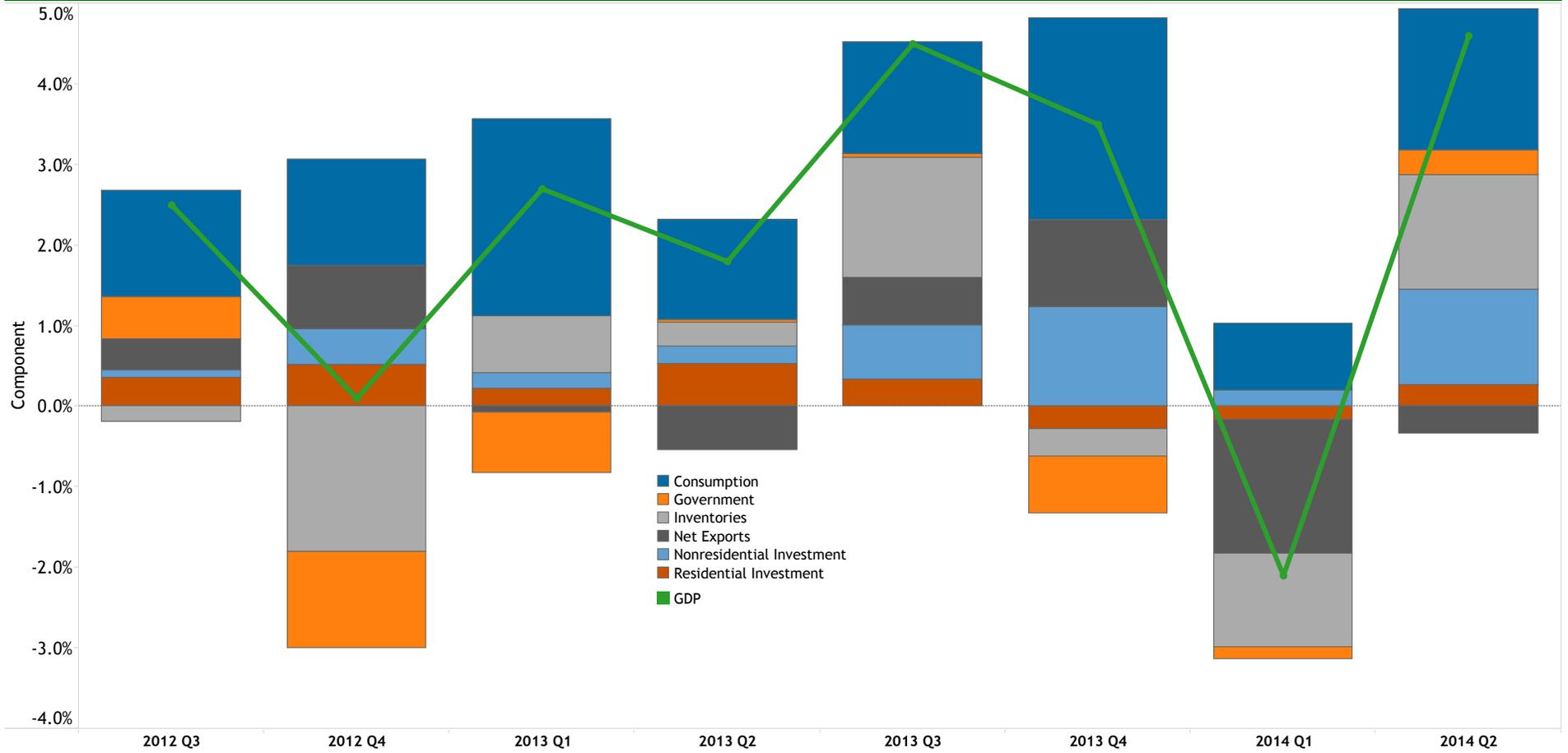
U.S. Purchase Applications

Source: Moody's Analytics



Contributions to Real GDP

Source: Bureau of Economic Analysis

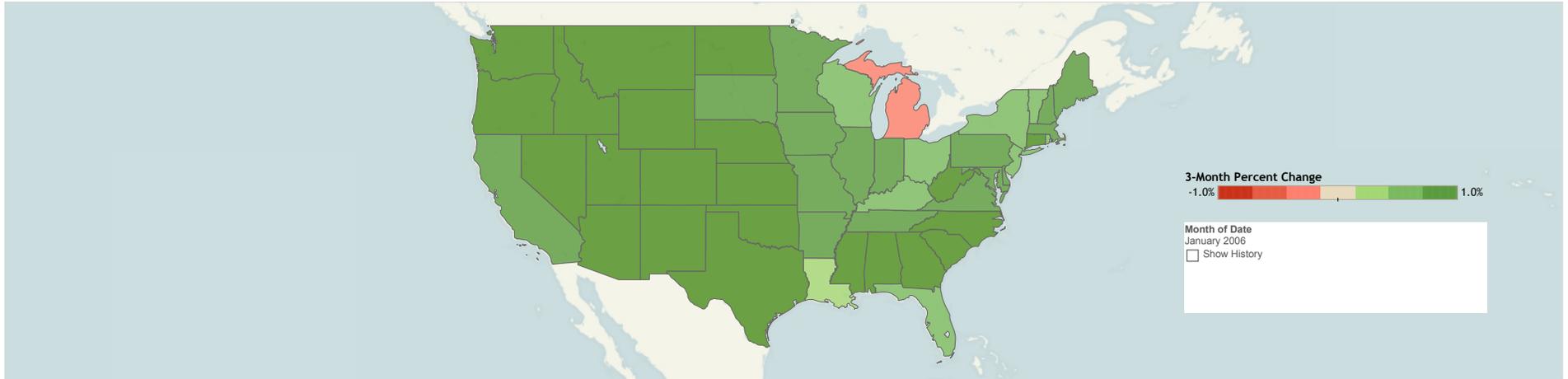


U.S. Coincident Indicator - January 2006

Source: Federal Reserve Bank of Philadelphia



State Coincident Indicators - January 2006

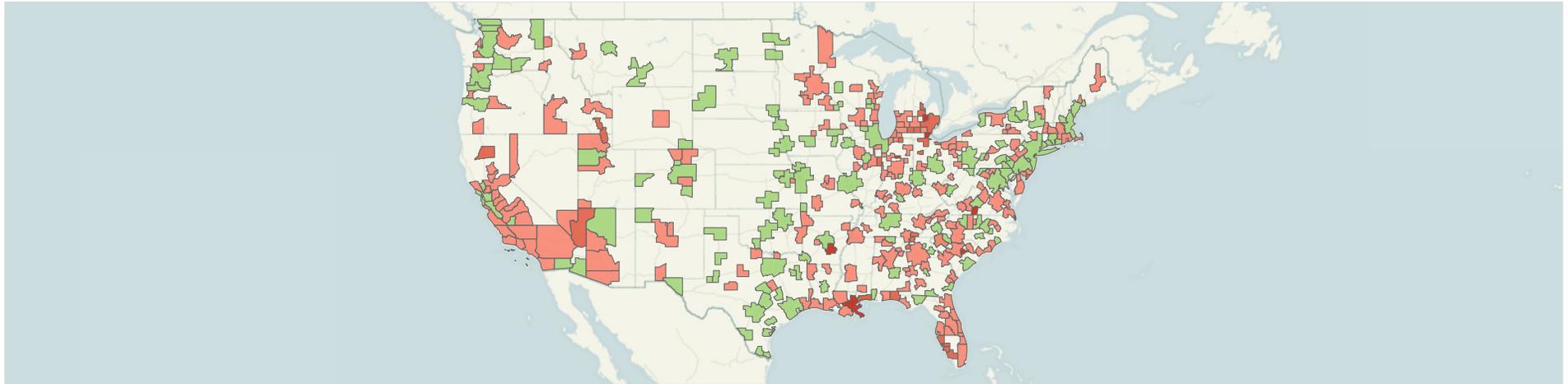


U.S. Employment: Percent Change From Peak - January 2008

Source: Bureau of Labor Statistics



Percent Change From Peak: By Metro - January 2008



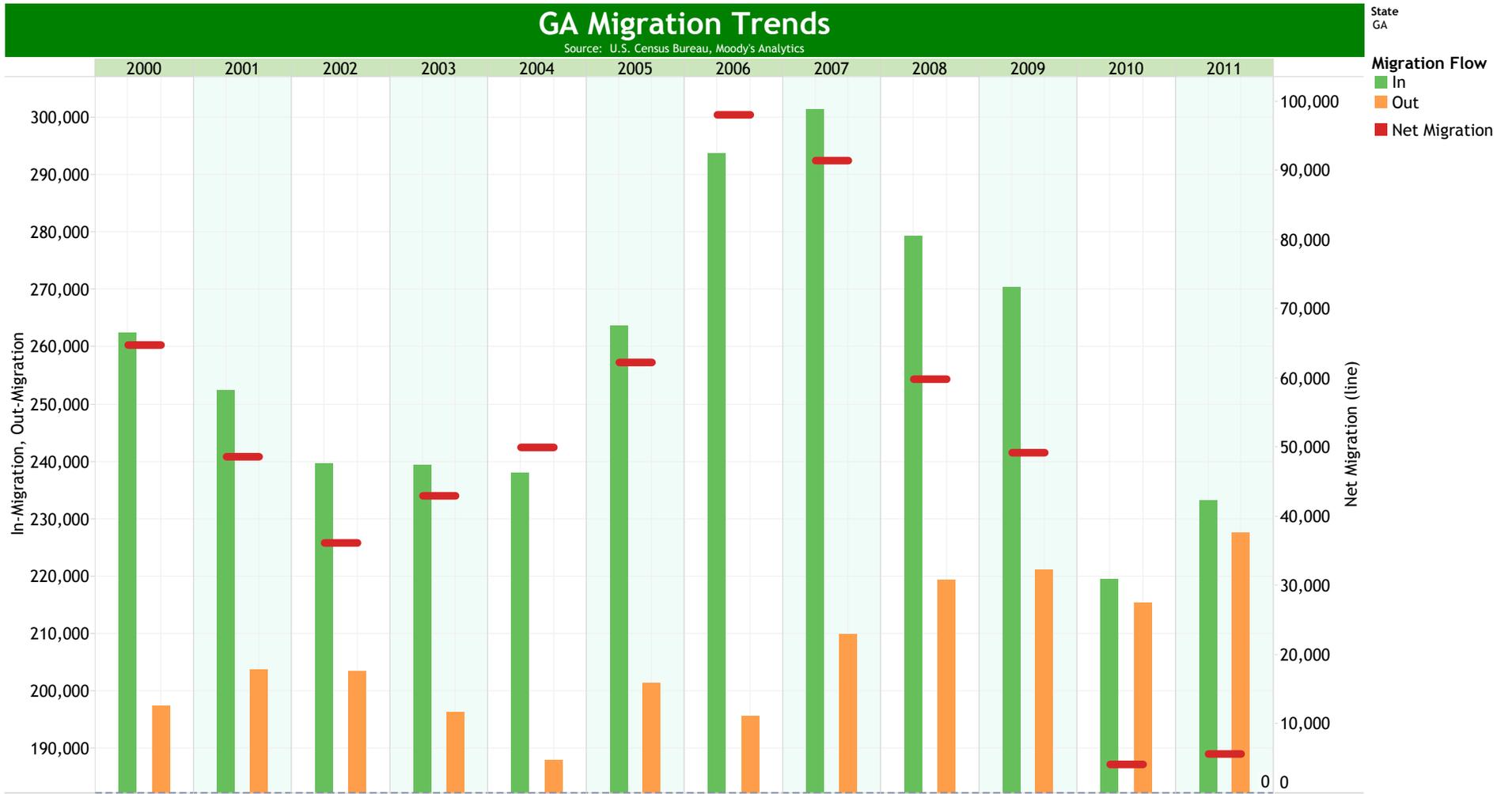
U.S. Sector Employment Growth

Sector	Year-Ago Difference (000s)							Total Difference 2007-2014	Average Annual Wage	
	2008	2009	2010	2011	2012	2013	Aug-14		2013	% Change
Total	-766	-5,937	-958	1,567	2,262	2,264	2,512	1,053	\$52,131	1.4%
Health Care	445	343	274	245	378	396	347	2,454	\$46,073	1.8%
Leisure/Hospitality	9	-304	-26	298	366	409	302	1,488	\$20,684	1.3%
Professional/Tech. Services	140	-291	-67	225	226	234	241	709	\$86,461	1.3%
Administrative/Temp Agy	-385	-828	211	318	284	326	365	506	\$36,288	0.4%
Entertainment & Recreation	1	-55	-2	6	49	65	51	383	\$37,702	0.5%
Management	38	-38	5	61	90	69	46	286	\$113,406	3.8%
Nat. Resources & Mining	43	-73	11	83	60	20	49	212	\$92,993	2.5%
Education	98	51	65	94	91	8	24	146	\$39,154	2.2%
Other Services	21	-149	-36	30	70	34	47	60	\$40,776	2.7%
Trans./Warehousing	-33	-272	-46	111	114	79	148	48	\$50,407	1.5%
Utilities	6	1	-7	0	0	-1	4	5	\$101,143	6.1%
Federal Civilian Gov't	28	70	145	-118	-38	-54	-32	-6	\$74,782	-0.6%
Real Estate	-39	-136	-60	-6	28	47	43	-75	\$51,302	2.2%
Wholesale	-72	-356	-134	91	123	80	125	-108	\$70,889	2.0%
Retail	-237	-761	-82	227	173	236	246	-151	\$29,020	0.6%
Finance & Insurance	-103	-232	-83	8	59	49	29	-251	\$94,175	1.9%
State Government	55	-8	-32	-60	-23	-7	12	-345	\$49,202	1.3%
Information	-48	-180	-96	-34	2	9	0	-349	\$87,705	4.4%
Nondurable Goods Mfg.	-128	-379	-100	-10	4	6	11	-549	\$56,284	1.5%
Local Government	208	-17	-177	-226	-106	6	62	-1,057	\$44,379	-0.1%
Durable Goods Mfg.	-345	-1,179	-219	209	197	73	155	-1,076	\$65,842	0.7%
Construction	-468	-1,146	-498	15	112	181	238	-1,278	\$55,642	2.4%

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Risk Analysis Unit/Federal Reserve Bank of Atlanta

GA Migration Trends

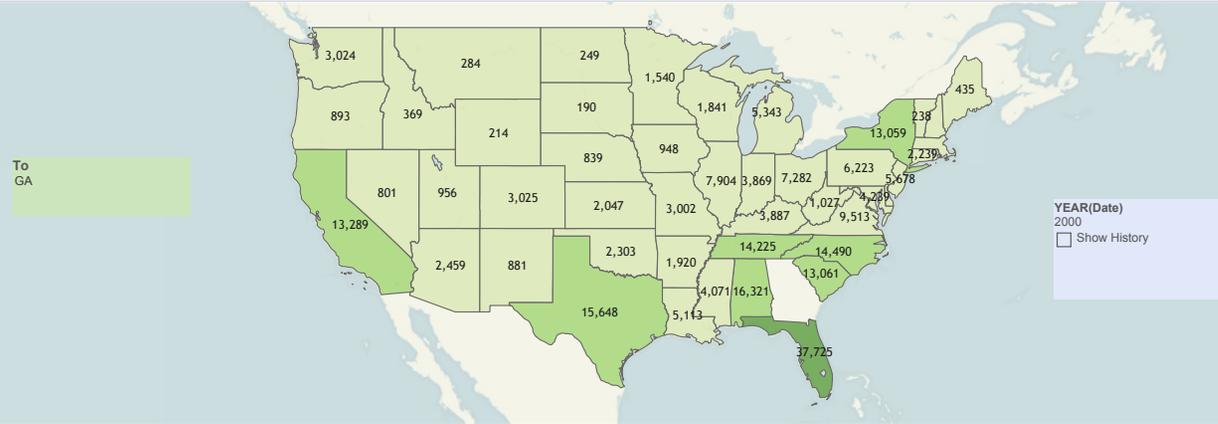
Source: U.S. Census Bureau, Moody's Analytics



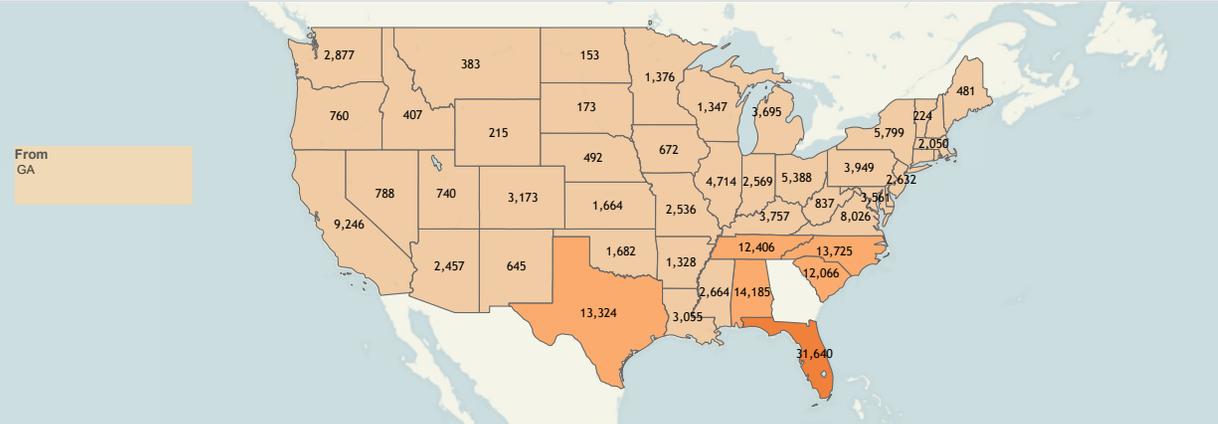
State Net Migration

Source: Internal Revenue Service

GA In Migration - 2000

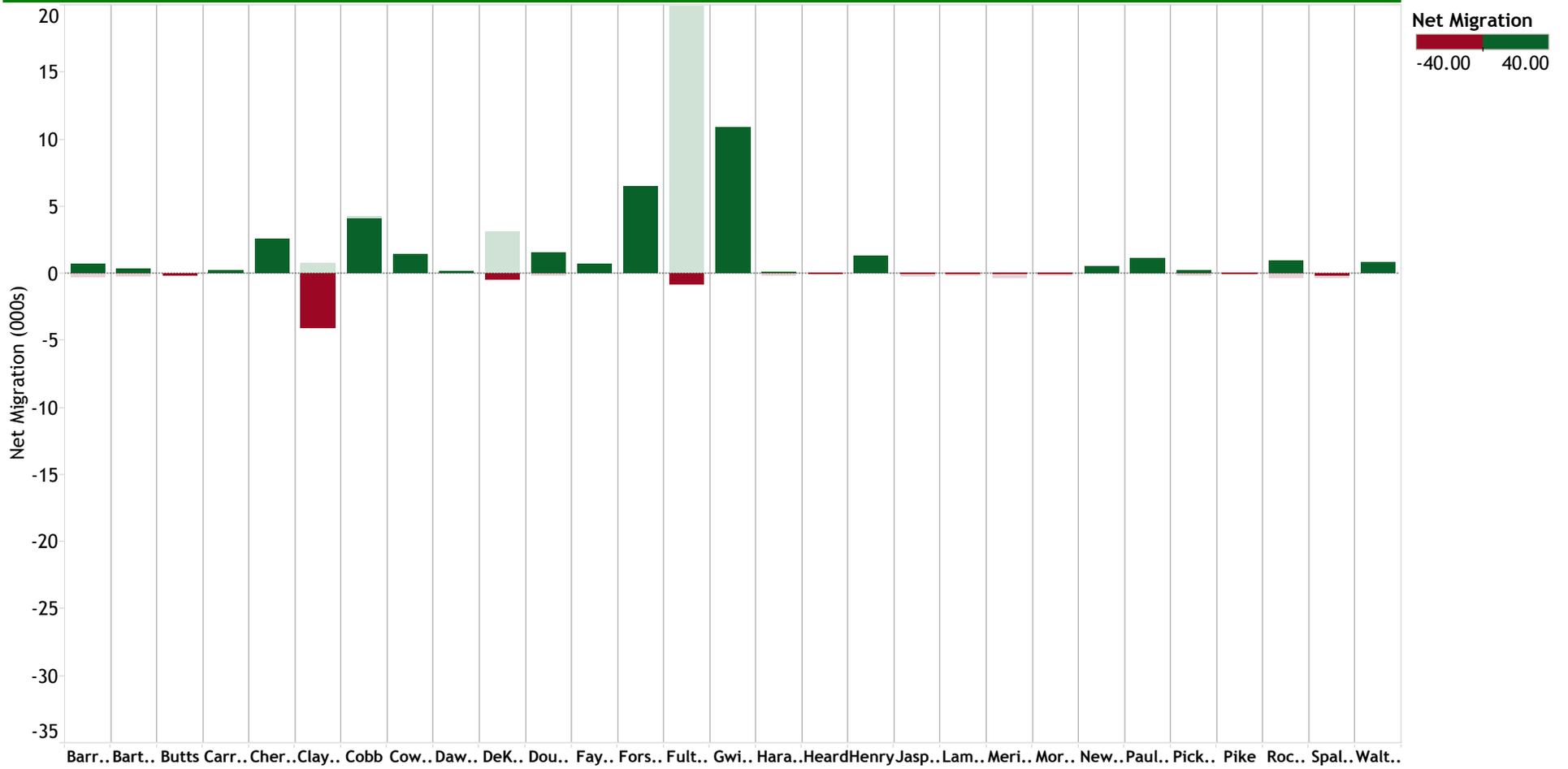


GA Out Migration - 2000



Atlanta Net Migration by County - 2013

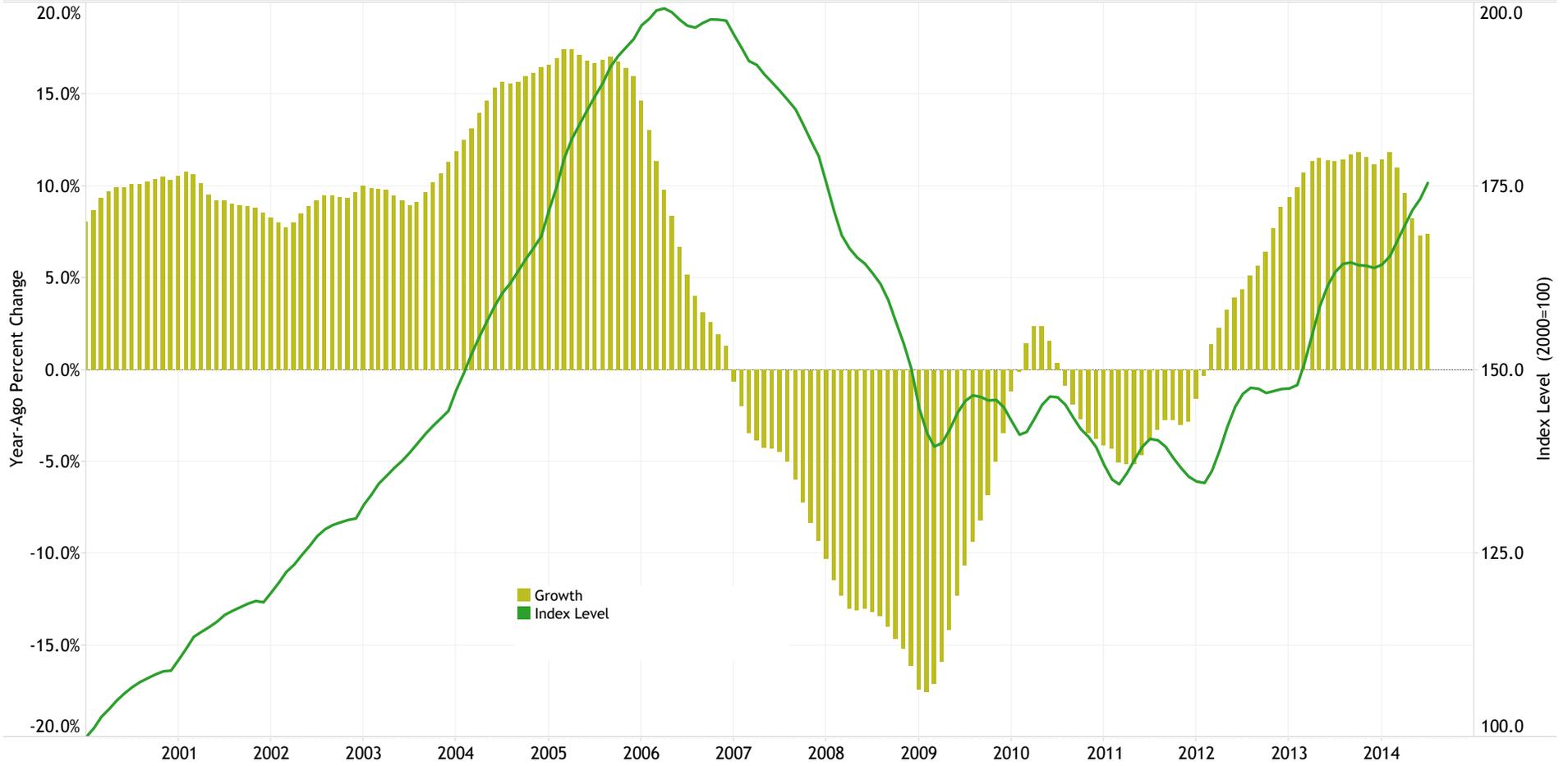
Source: U.S. Census Bureau (BOC): Population Estimates; Moody's Analytics Estimates



Net Migration for each County. Color shows details about Net Migration.

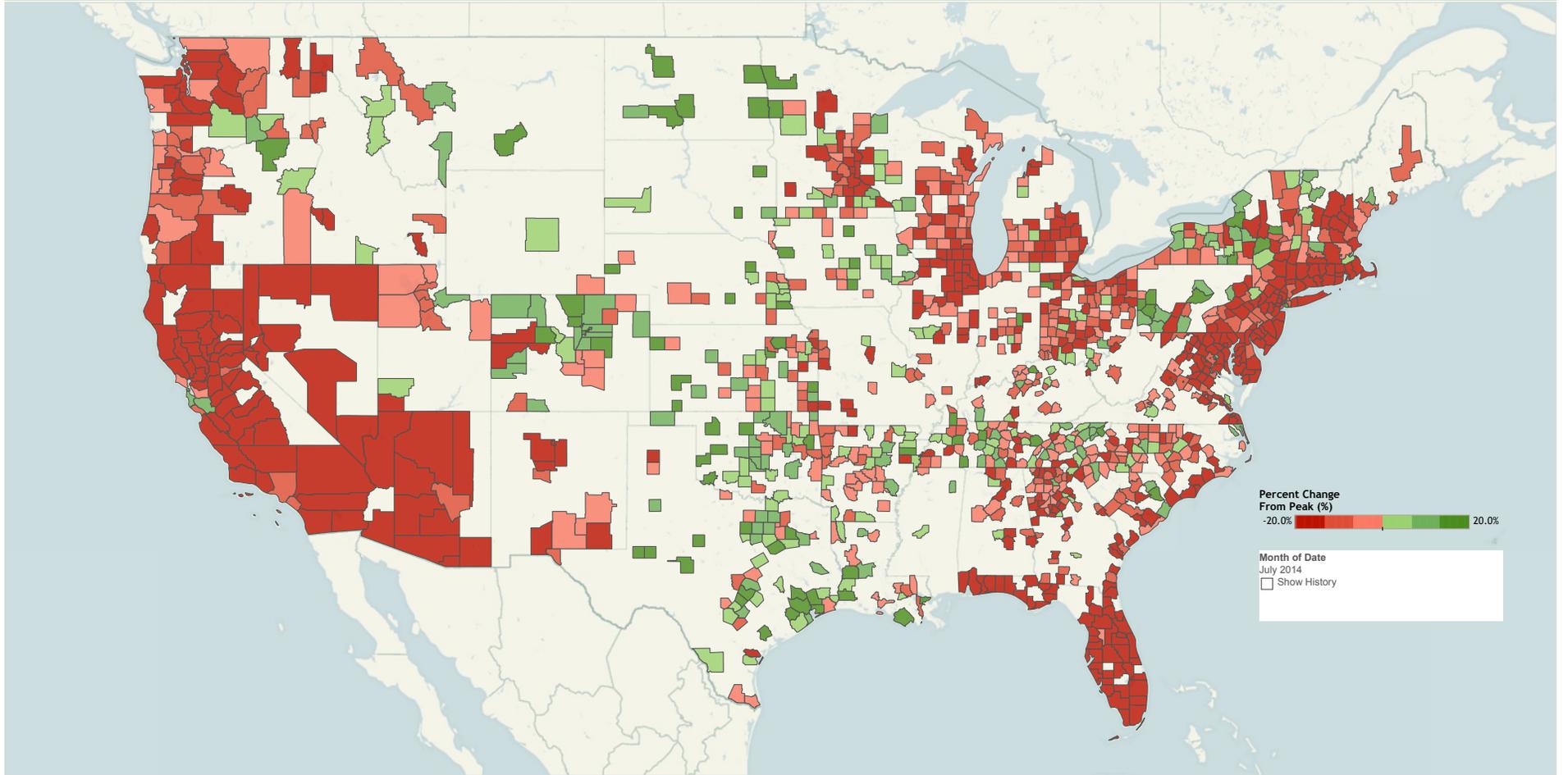
U.S. Existing Home Prices

Source: CoreLogic



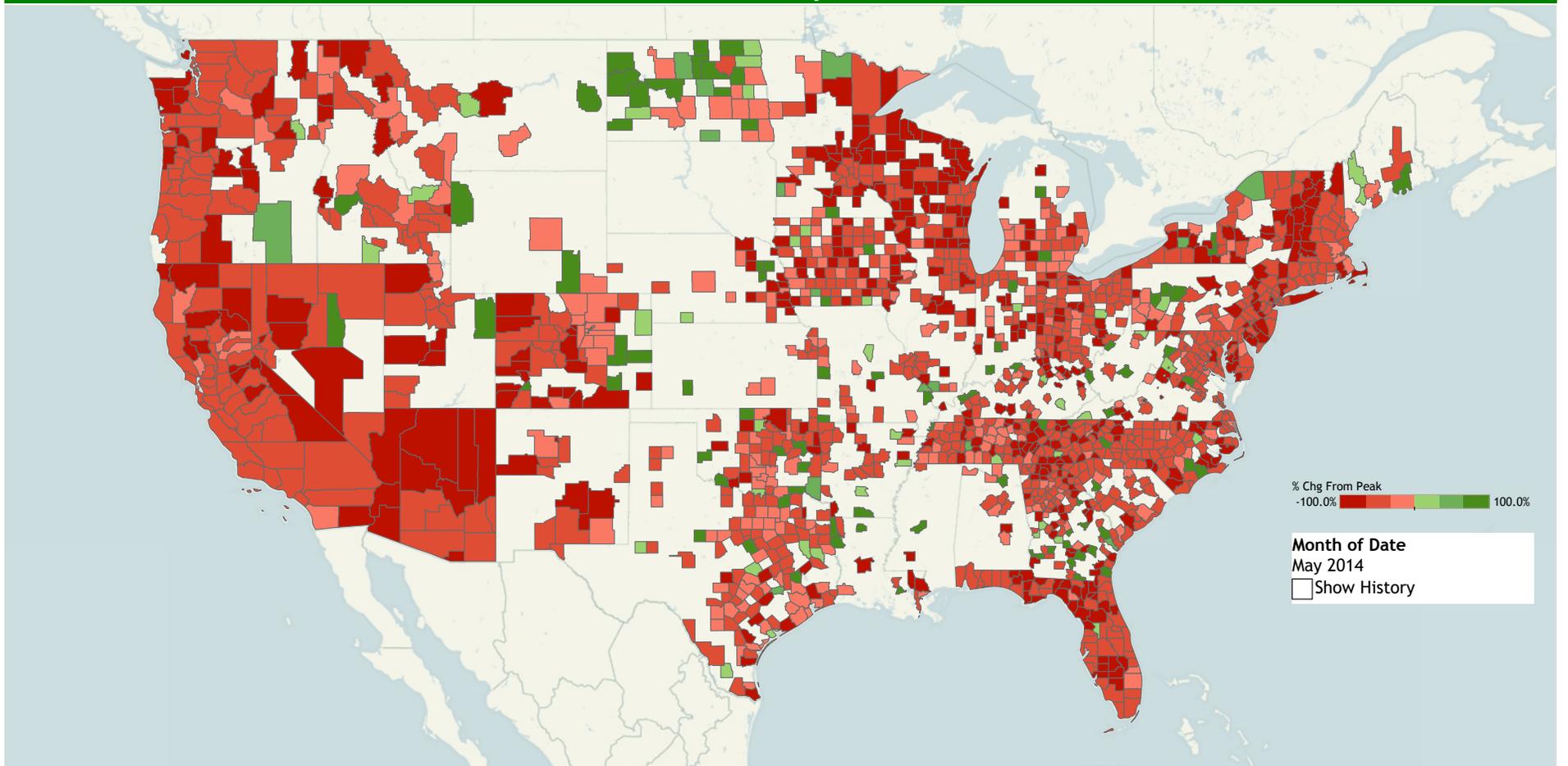
Price Appreciation from Peak - July 2014

Source: CoreLogic



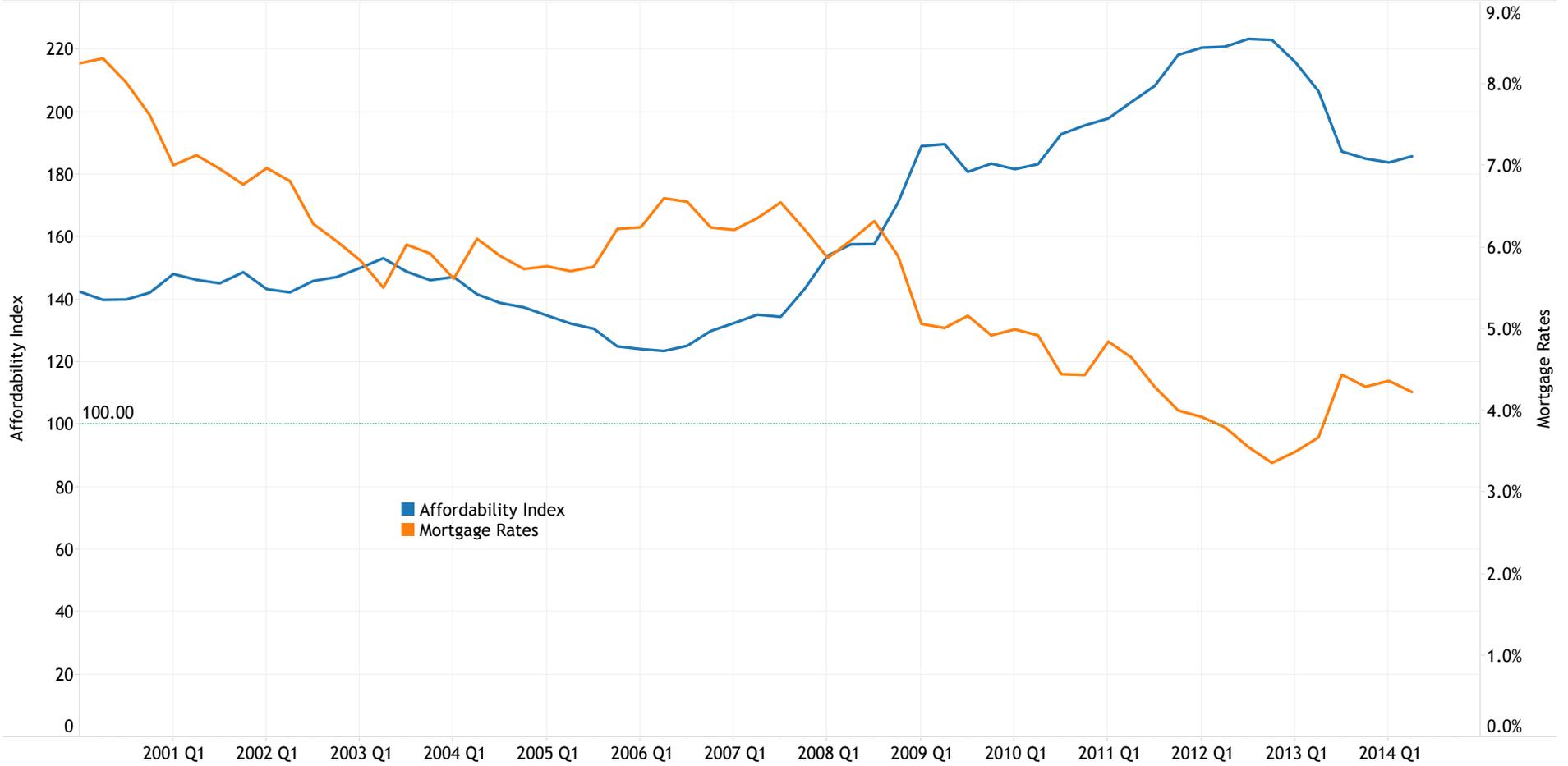
Existing Home Sales - May 2014

Source: CoreLogic



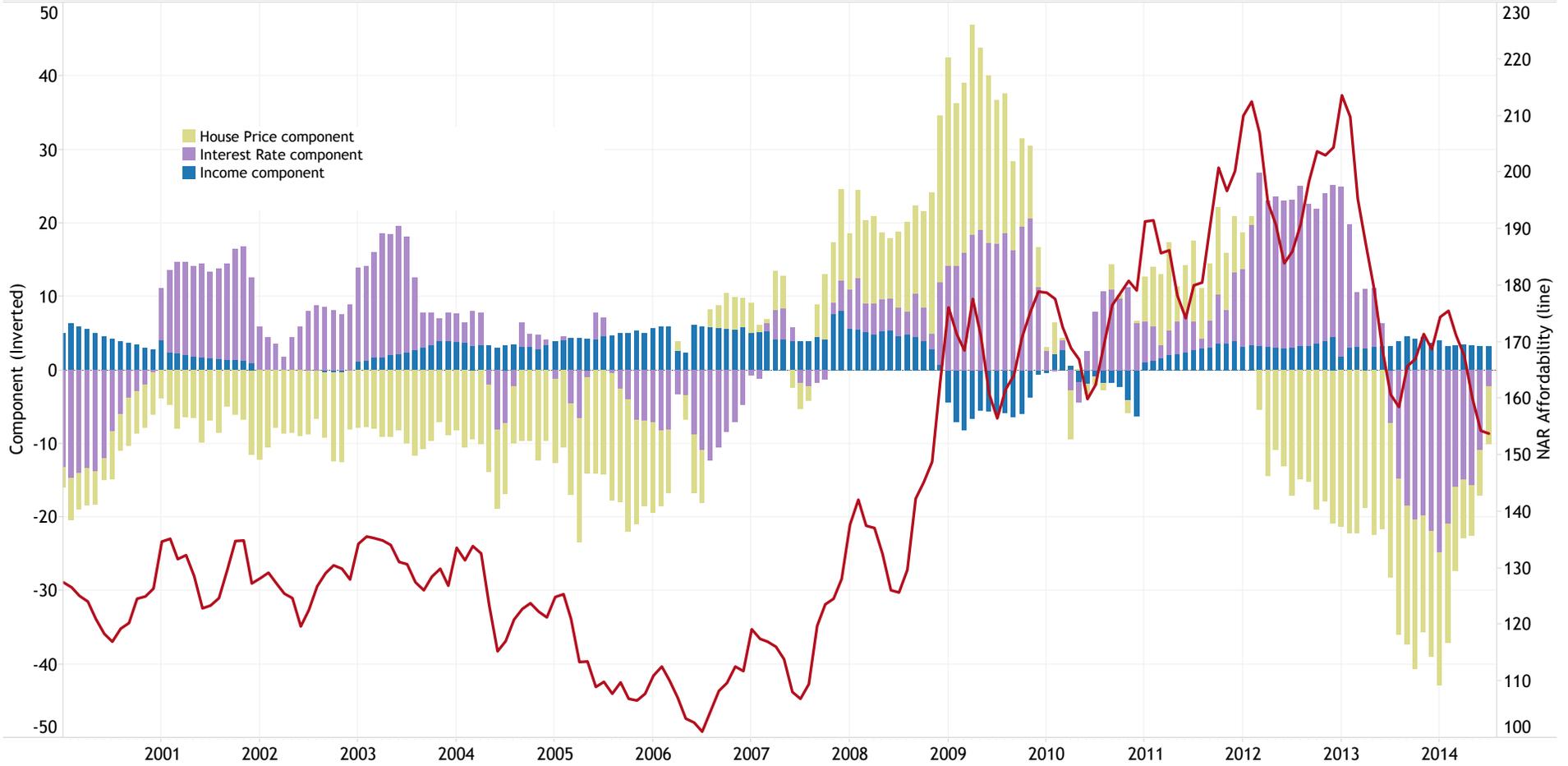
U.S. Housing Affordability Trends

Source: National Association of Realtors, Freddie Mac Primary Market Mortgage Survey



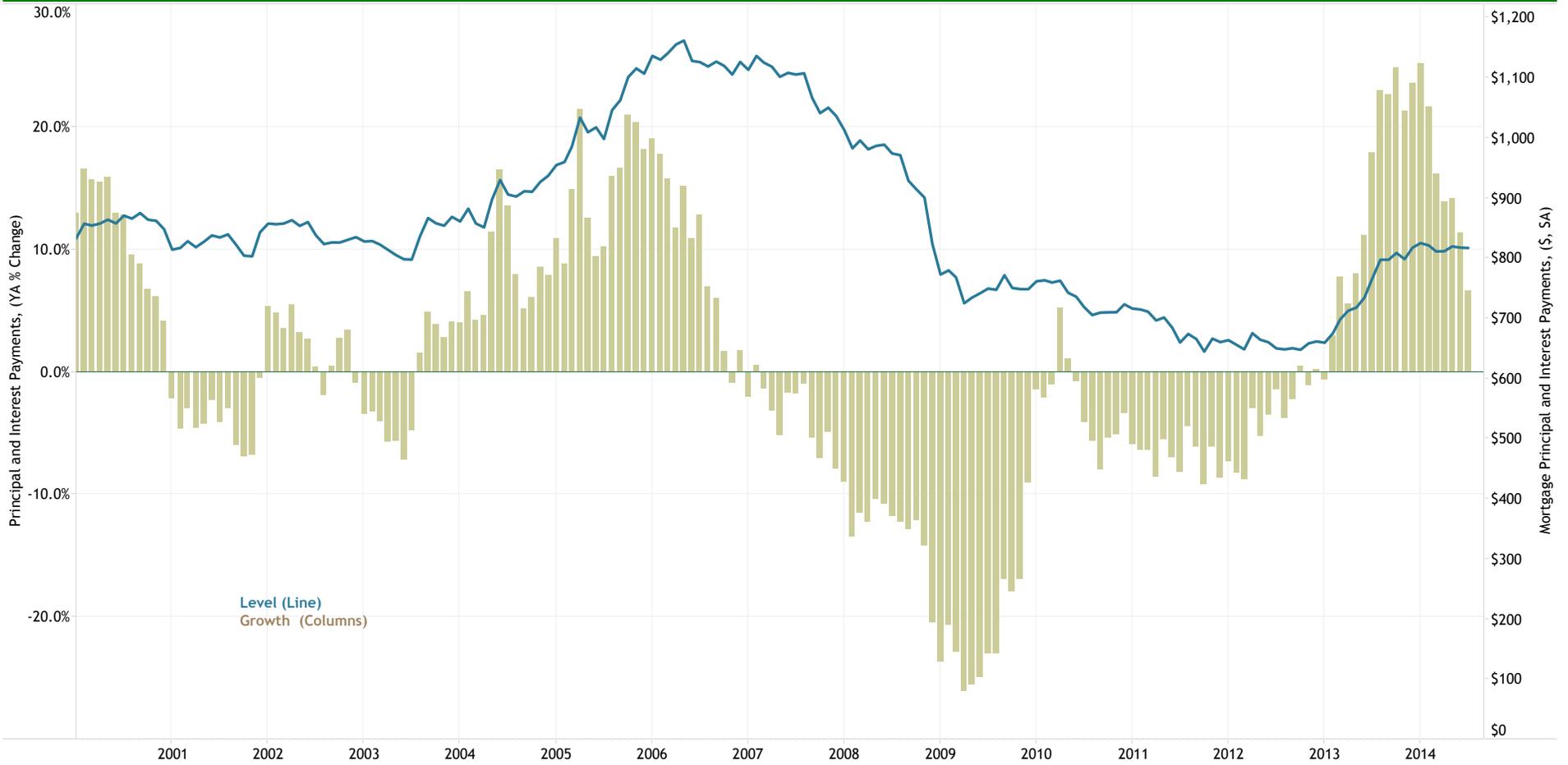
Year-Over-Year Decomposition of Housing Affordability

Source: National Association of Realtors, Atlanta Fed calculations



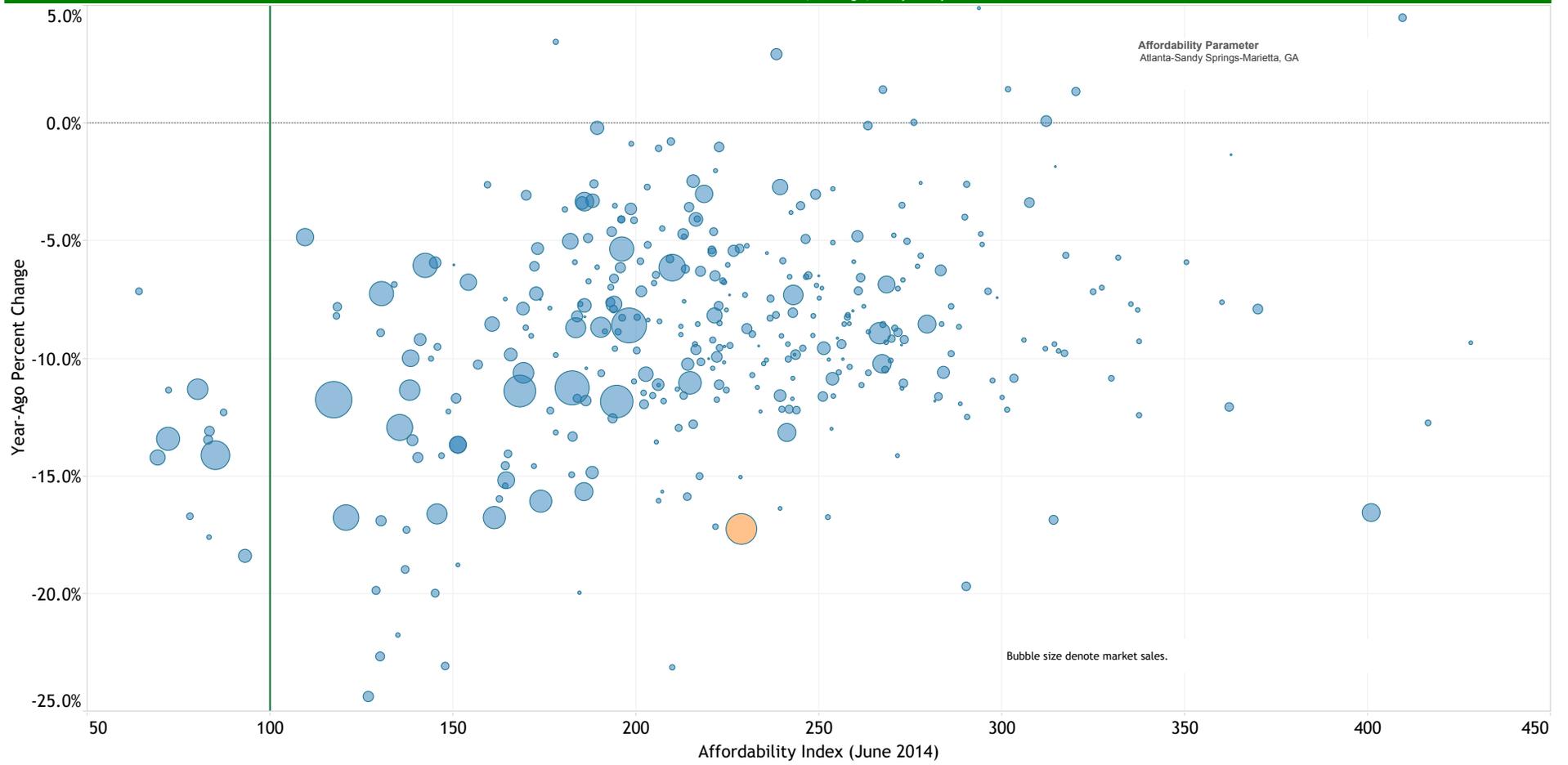
U.S. Mortgage Payments

Source: Moody's Analytics



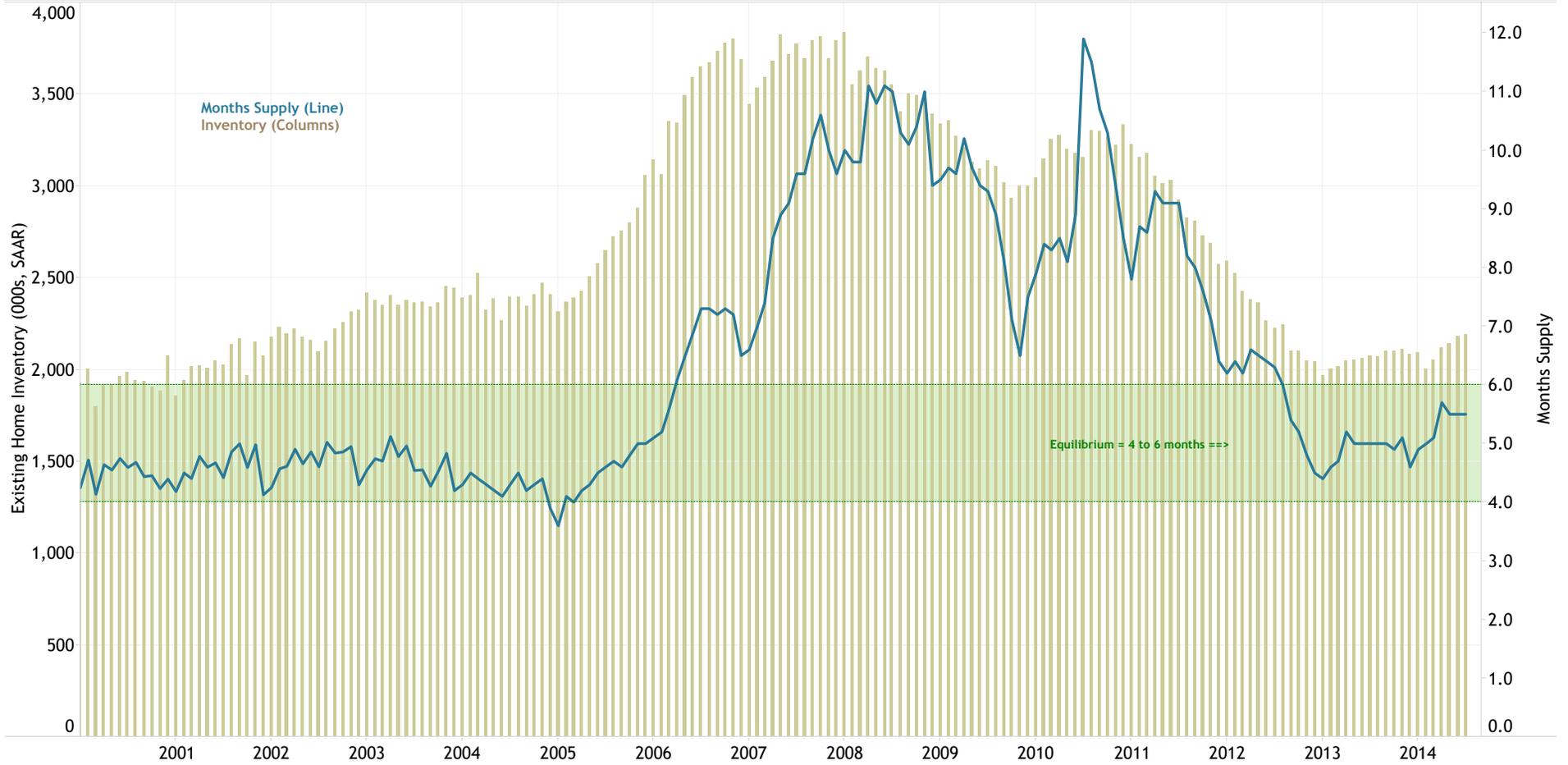
Market Affordability

Source: National Association of Realtors, CoreLogic, Moody's Analytics



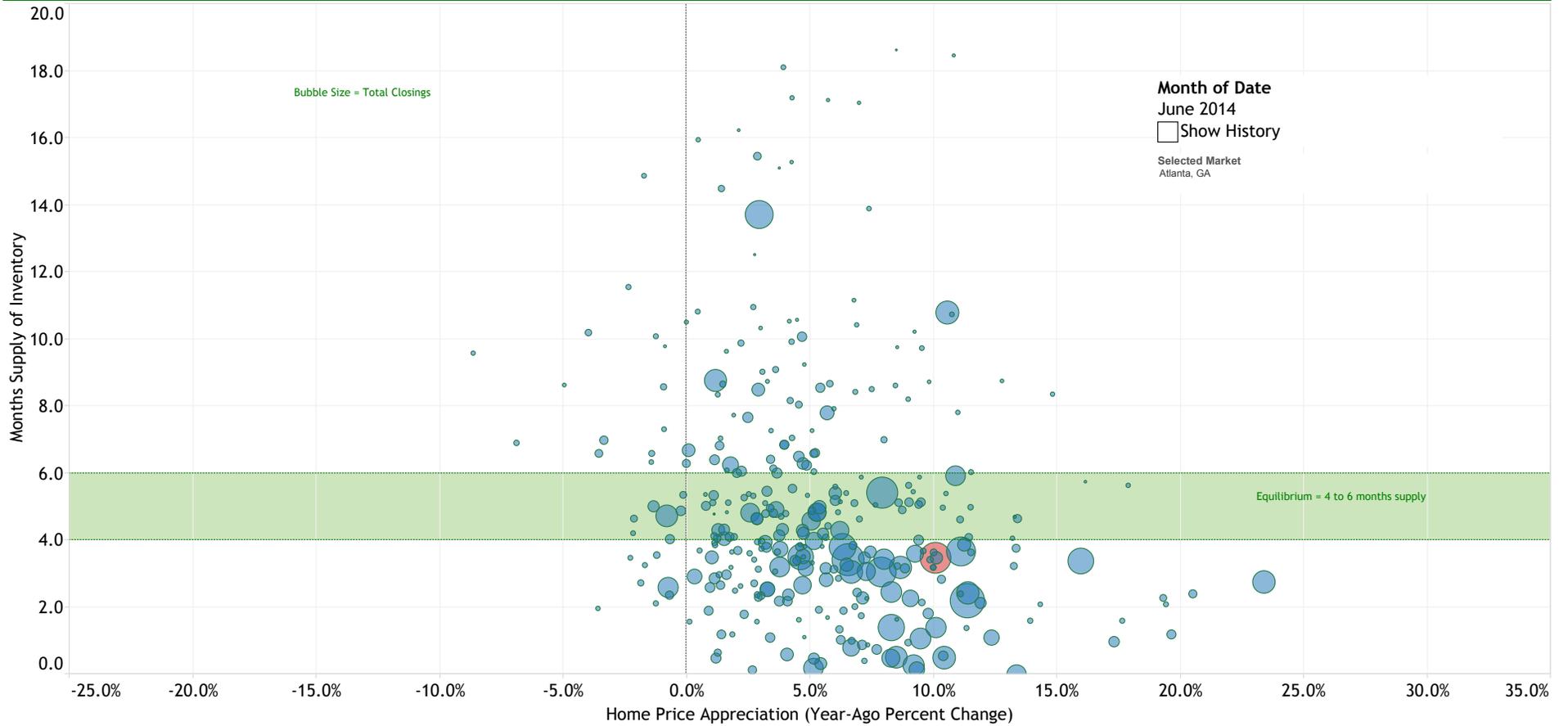
U.S. Inventory

Source: National Association of Realtors



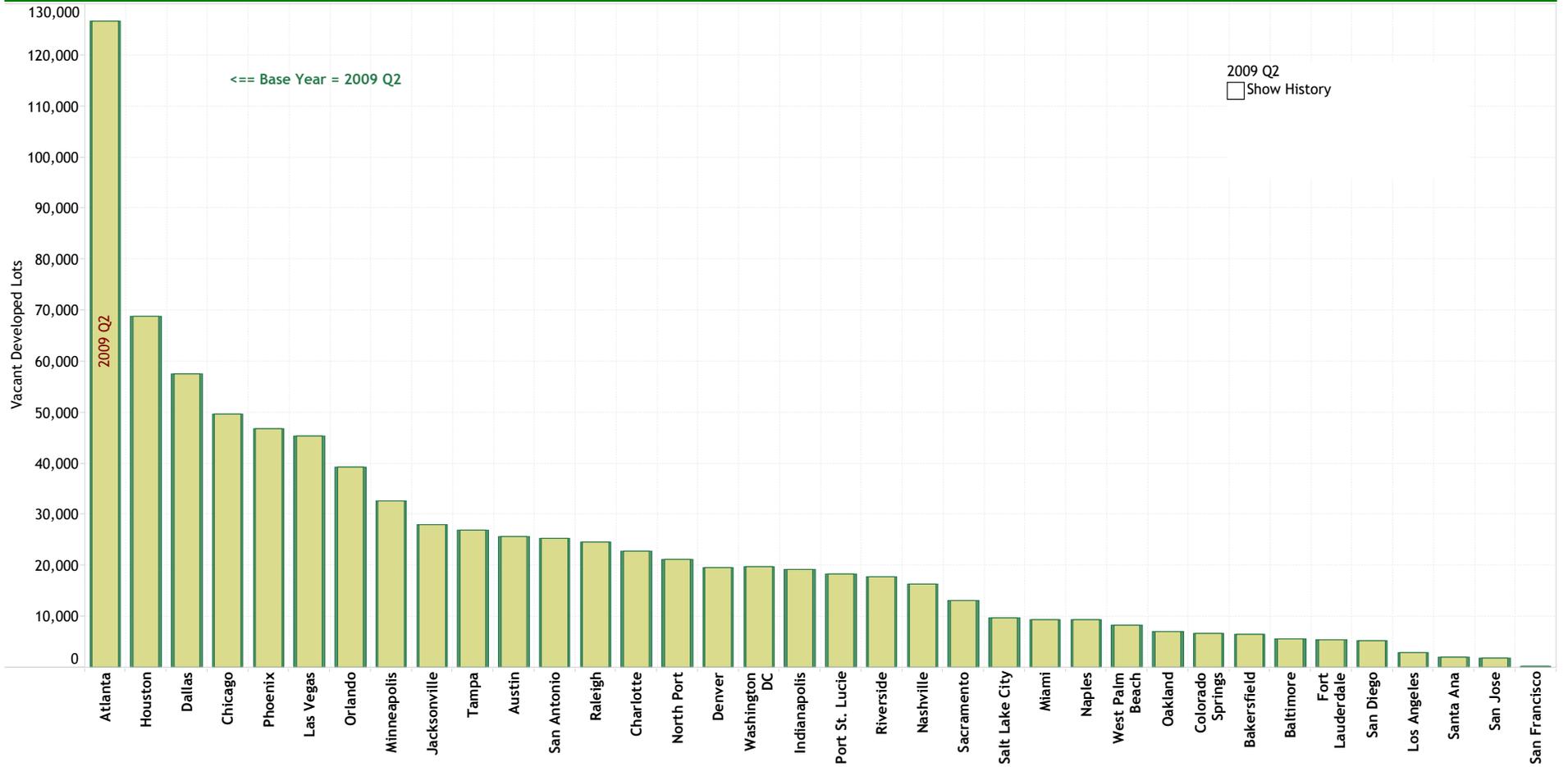
Major Market - Inventory vs. Price Appreciation (June 2014)

Source: Zillow, Corelogic



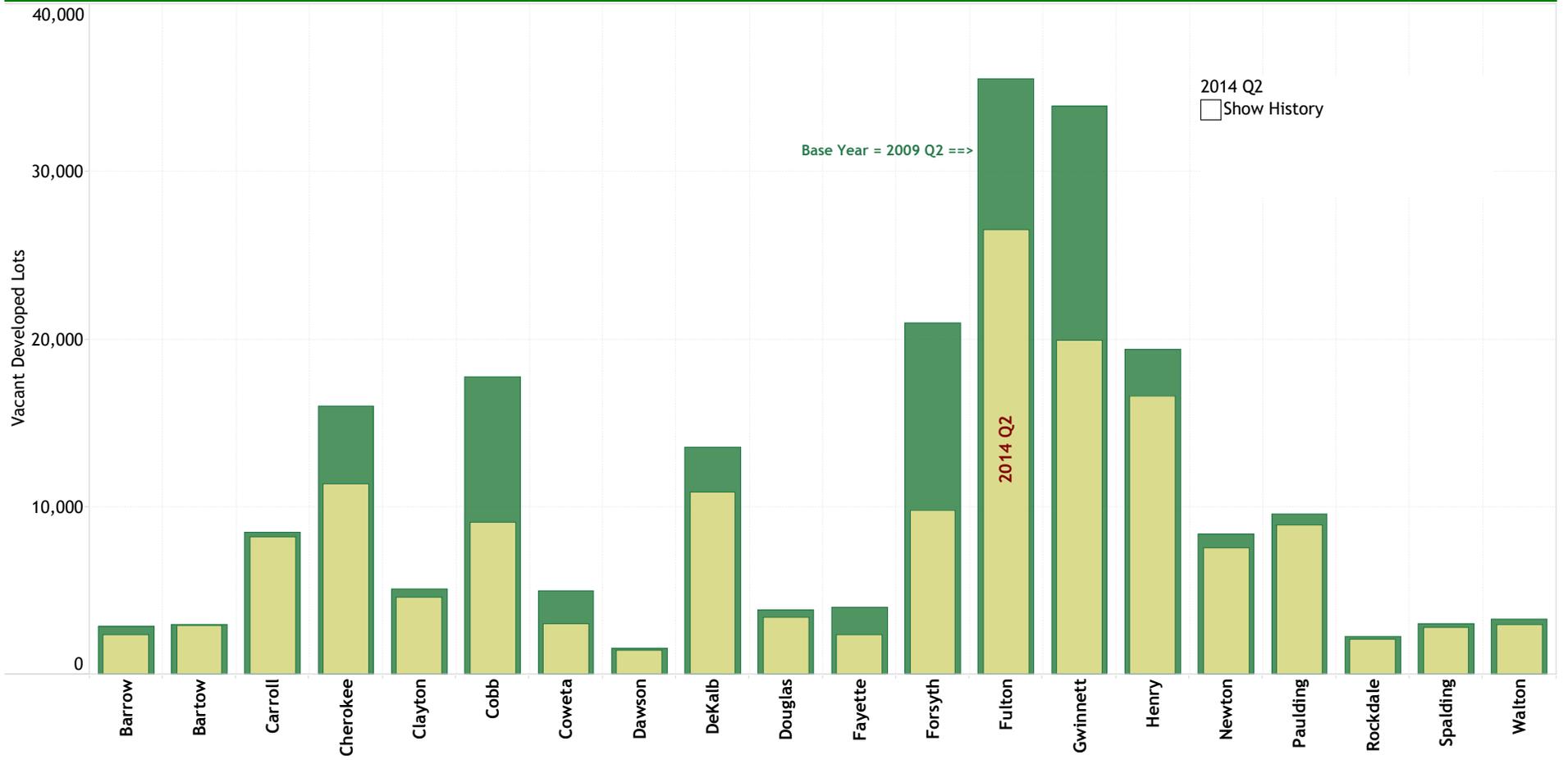
Vacant Developed Lots by Market

Source: Metrostudy



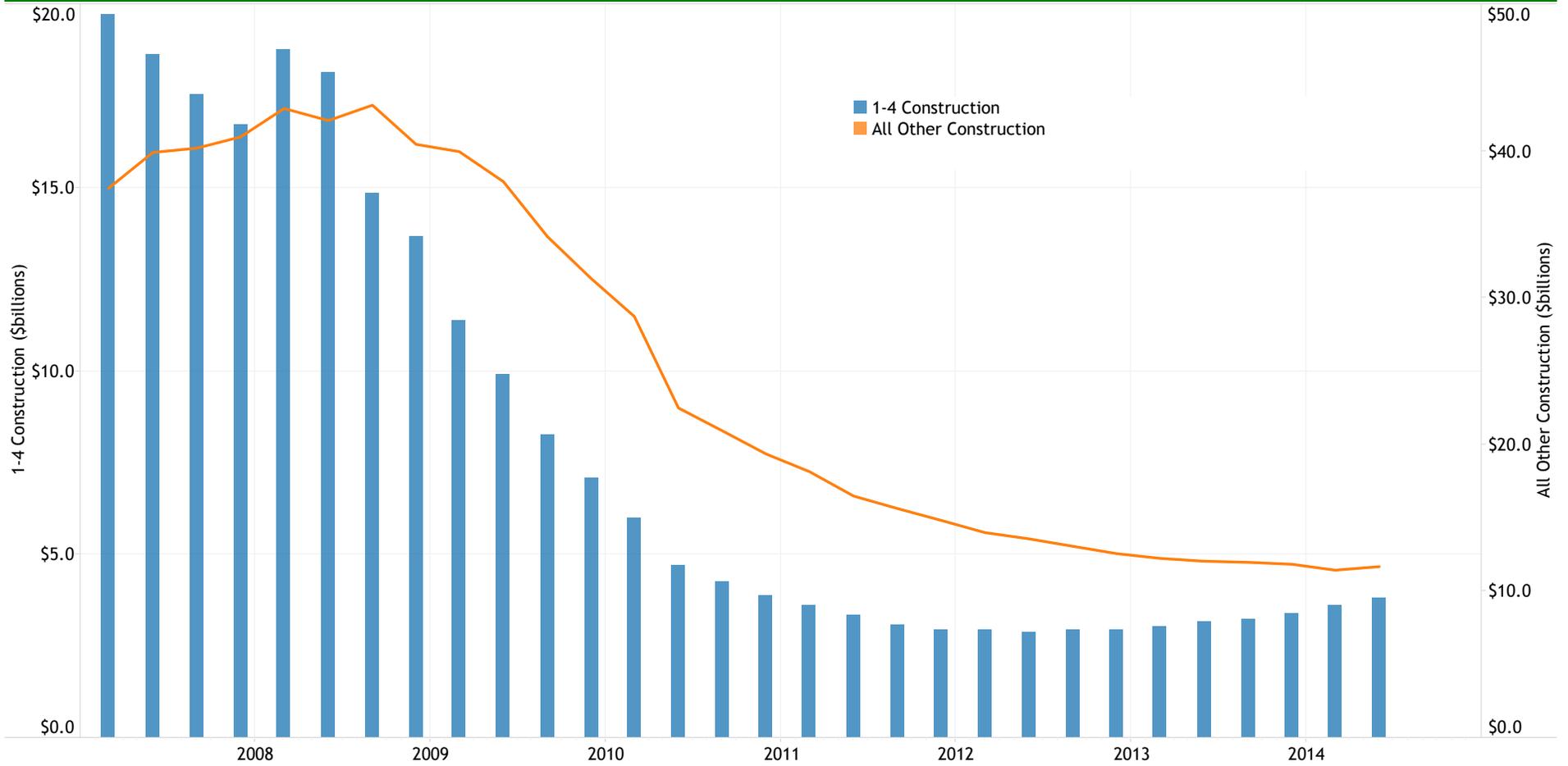
Atlanta Metro Vacant Developed Lots by County

Source: Metrostudy



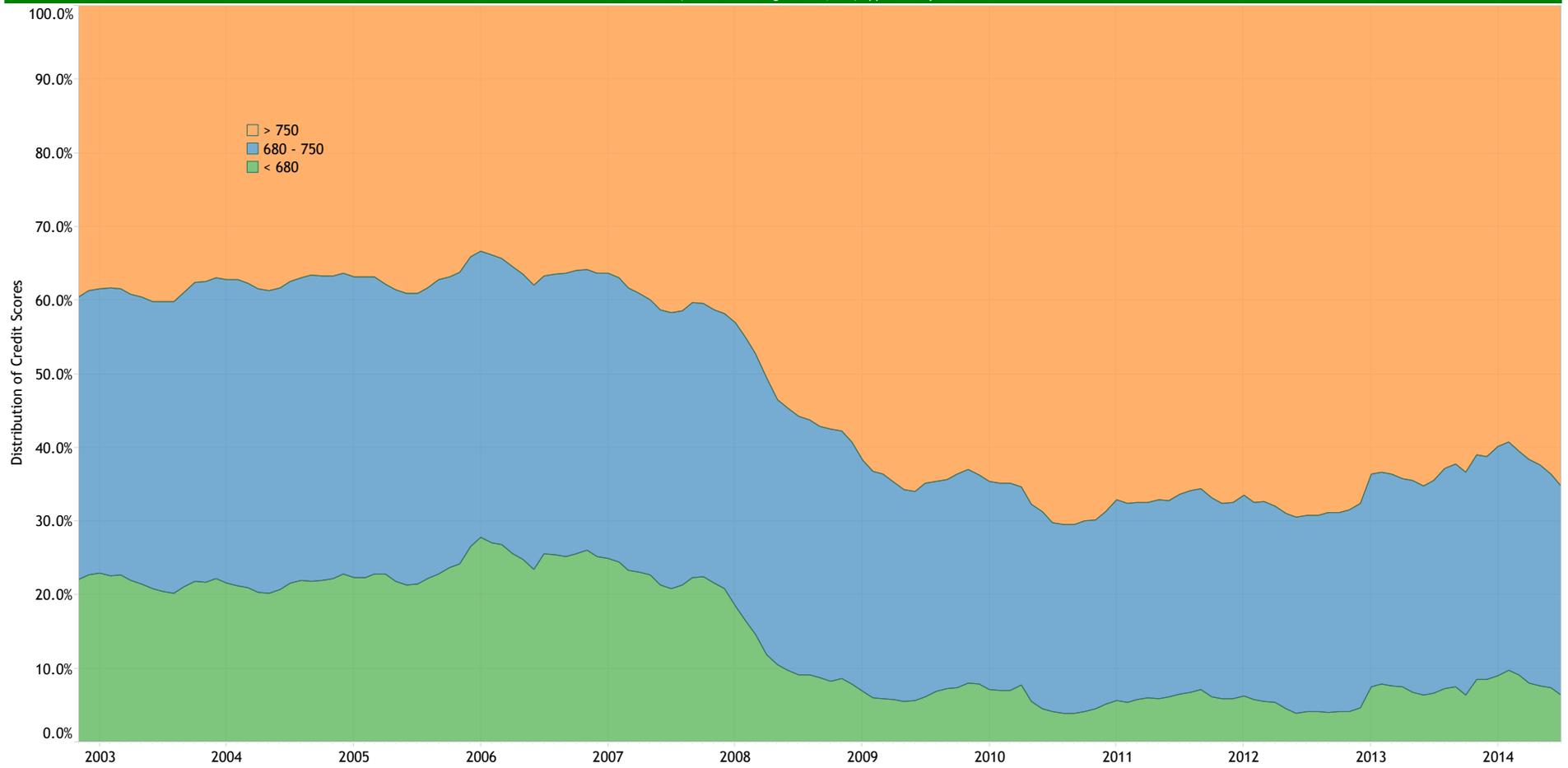
Commercial Bank Construction & Development Lending in the Sixth District

Source: Bank Call Reports



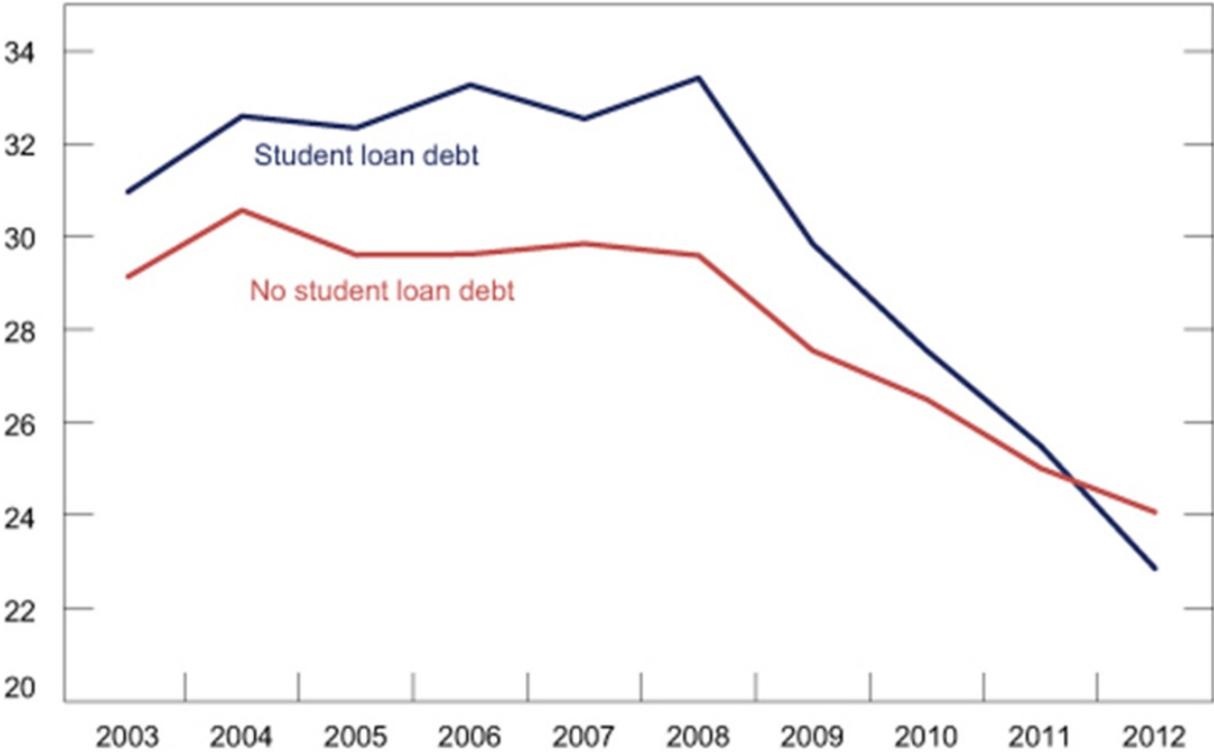
Distribution of Credit Scores on Recent Mortgage Originations: 2003-2014

Source: LPS (Lender Processing Services, Inc.) Applied Analytics



Proportion of Borrowers with Home-secured Debt at Age 30

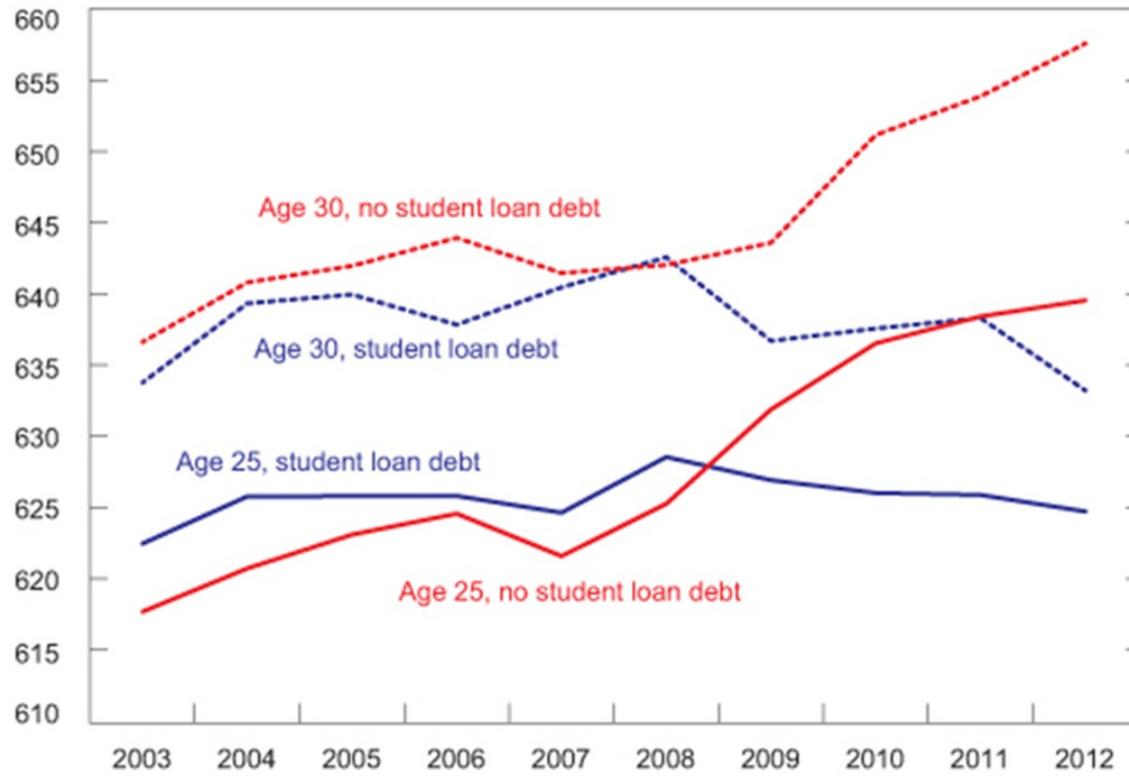
Percent



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

Average Risk Scores for Borrowers and Nonborrowers at Ages 25 and 30

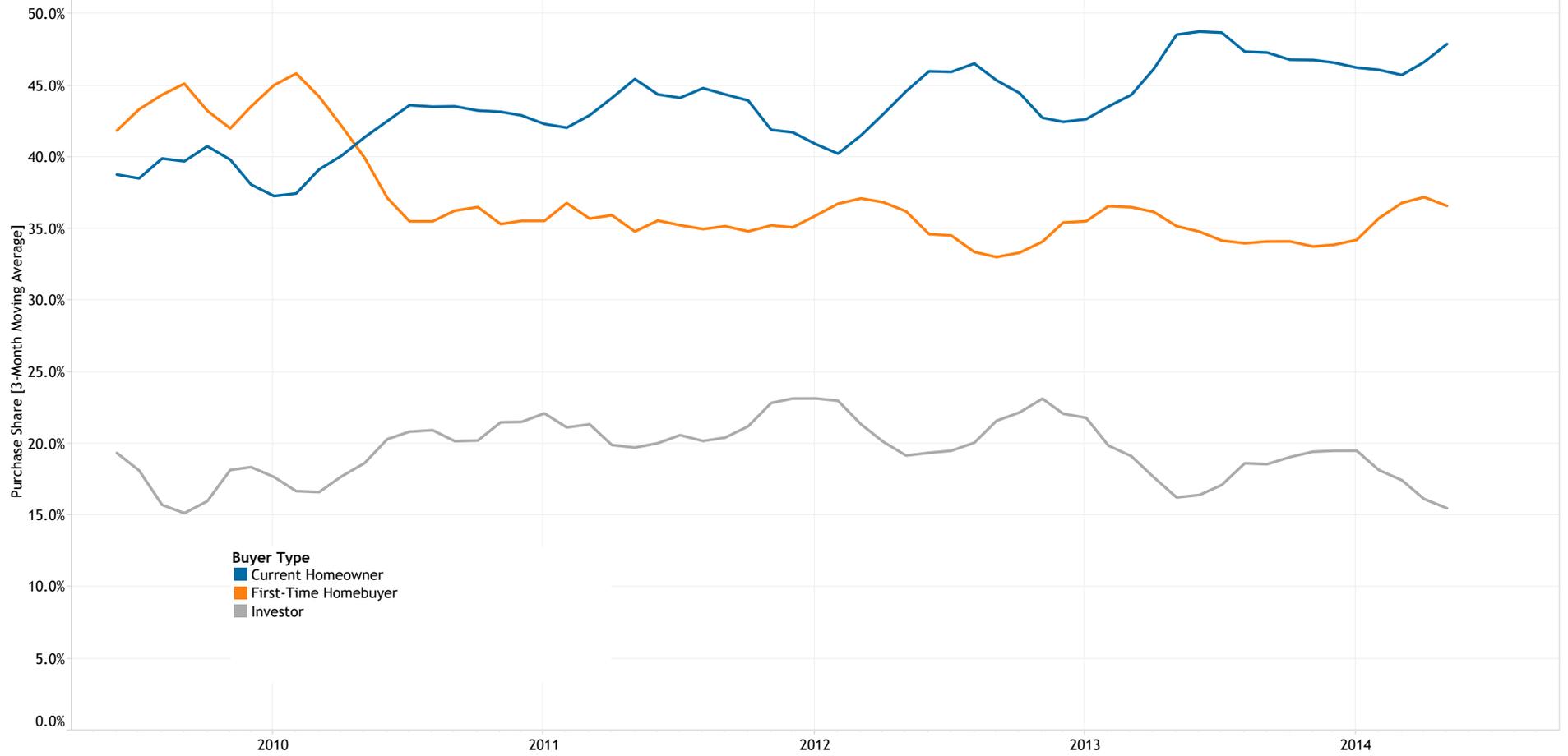
Equifax risk score



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

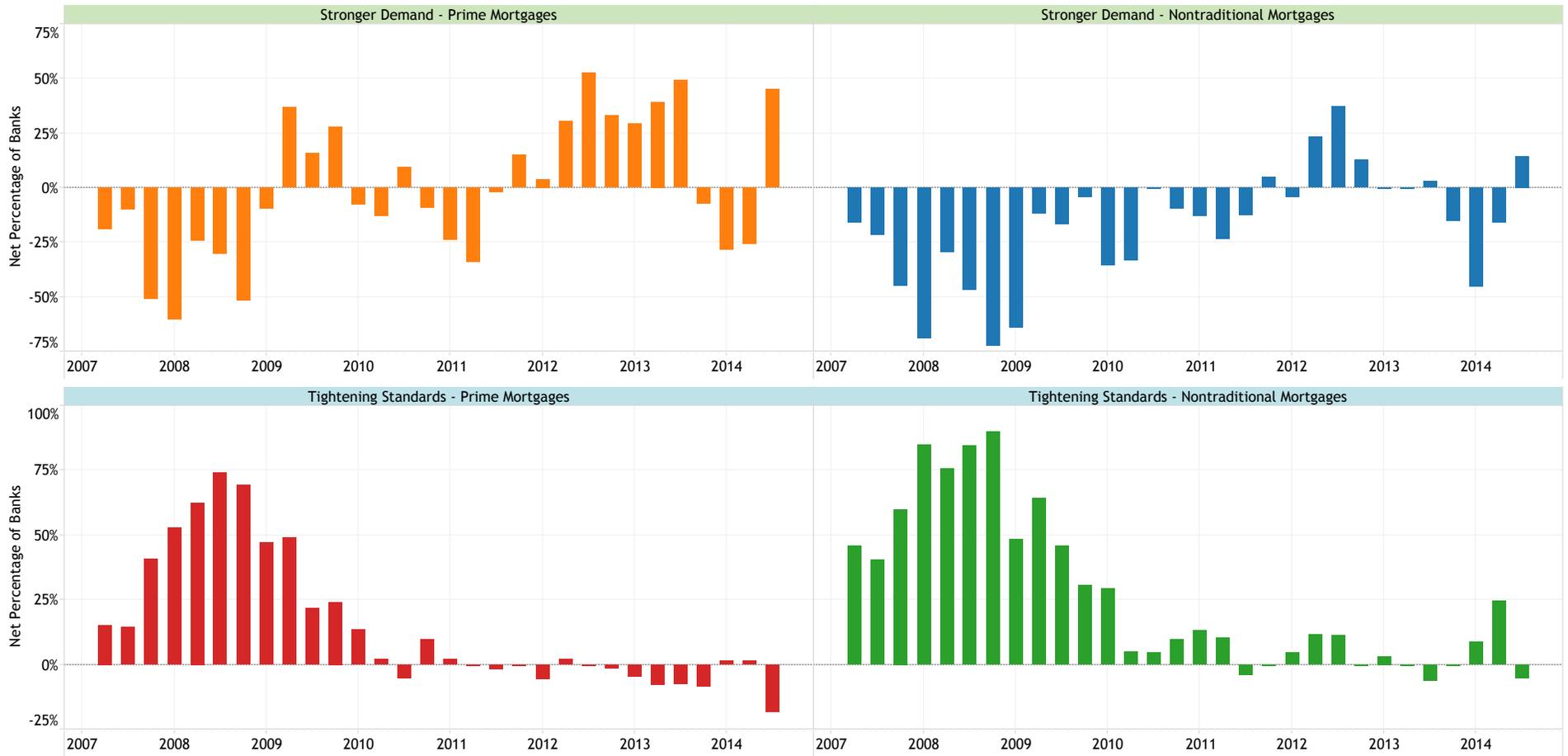
Homebuyer Participation

Source: Campbell/Inside Mortgage Finance



Senior Loan Officer Survey Results

Source: Board of Governors



Why does the housing market feel as if it's stuck in first gear?

Economic Factors:

Although the economy seems to have rebounded overall, the recovery is *not evenly distributed* across all regions and has *not been accompanied by stronger wage growth*.

Demographic Factors:

Movement within the population, which helps to stimulate housing demand, has remained stagnant.

Trends in Home Price Appreciation:

Despite strong improvement in home prices, many homeowners *remain either underwater or have limited equity*, which has resulted in less “churn” in the housing market.

Trends in Housing Affordability:

Though affordability remains high, the sudden drop in affordability driven by rising rates and home prices has created *less urgency amongst buyers*.

Capacity within the Housing Sector:

Though housing inventory is increasing, *supply levels remain tight*, especially in affordable price segments. Meanwhile, *lot supplies continue to diminish*, especially in high demand submarkets.

Credit Factors:

Although credit is slowly easing, put-back risk and the lack of clarity from the DOJ has *limited lenders willingness to expand lending* to the lower end of the credit box.

Student Loans and Housing:

Though there is some *“correlation”* between rising student loan debt and stagnant housing demand, there is little evidence of *“causation”*.

The Outlook for Housing

Strengths/Opportunities:

Though the recovery has remained moderate up to this point, the long term outlook for housing remains positive as credit continues to ease and household formation accelerates.

Weakness/Threats:

In the near term, housing demand may contract if rates rise too quickly and wage growth fails to absorb the increase in housing costs.

Questions?

