Urban Land Institute
Chicago

"Riding the Recovering Housing Sector – Fundamentals and Opportunities"

Moderator:

Theresa Frankiewicz

Vice President Community Development, Crown Community Development

Panelists:

Stephen Malpezzi

Professor – Real Estate & Urban Land Economics, Lorin & Marjorie Tiefenthaler Chair of Real Estate, University of Wisconsin

Peter Tremulis

Vice President Land – Illinois Division, Pulte Group, Inc.

Charles Young

Regional Director, Waypoint Homes

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December 6, 2012

Annual Lifetime Achievement Award Dinner



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Eugene Golub

***Founder & Chairman*, Golub & Company LLC**

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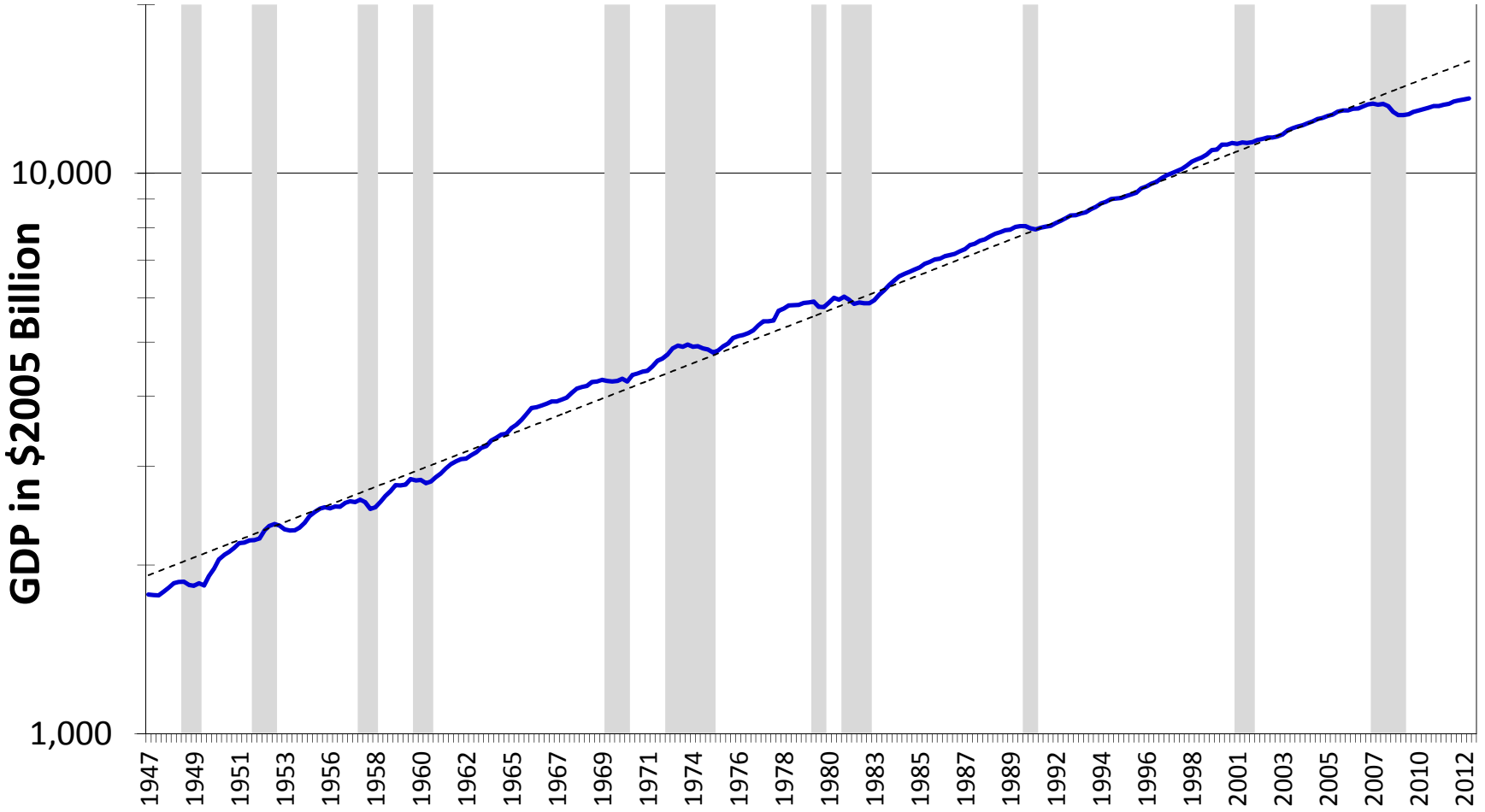
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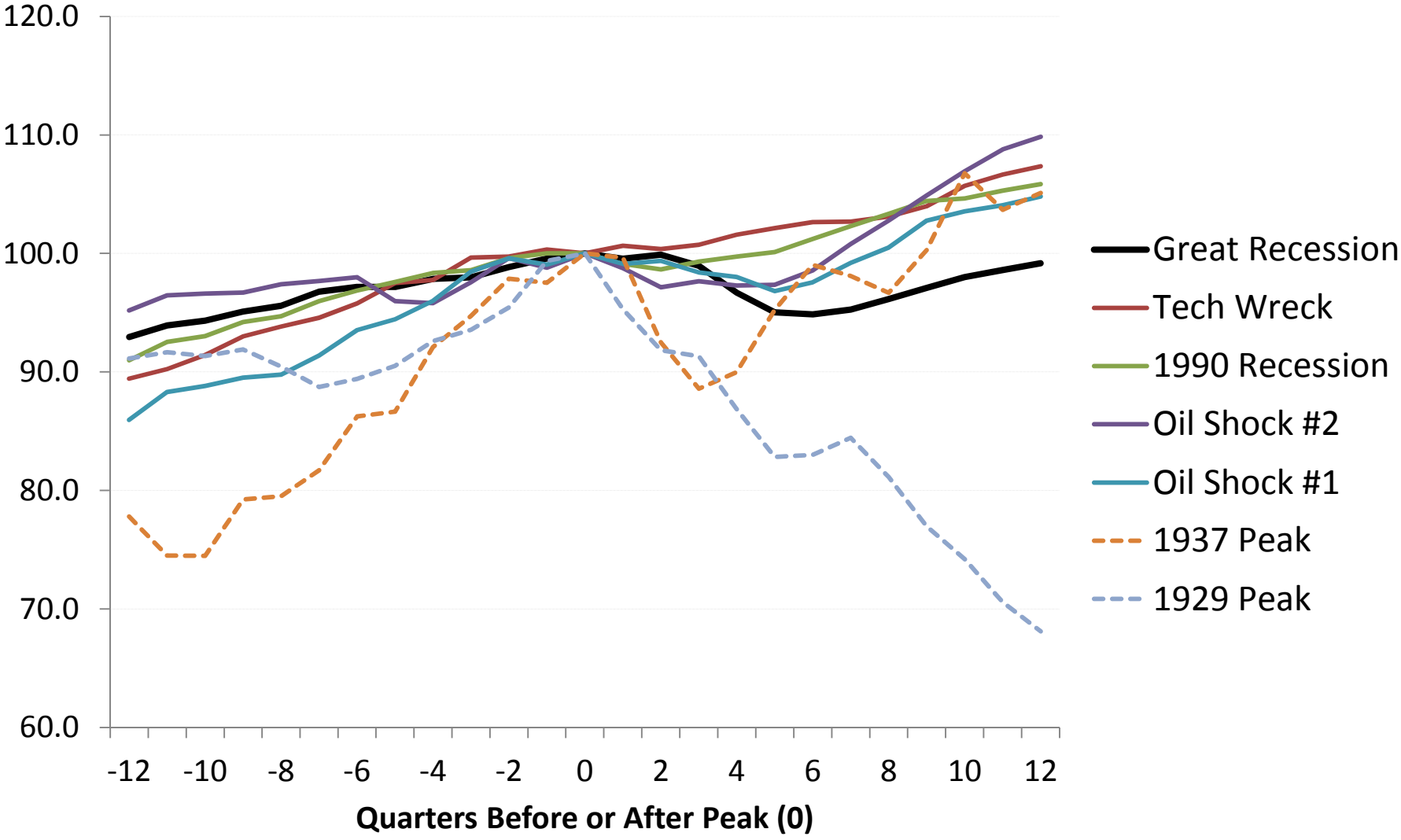
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Real GDP

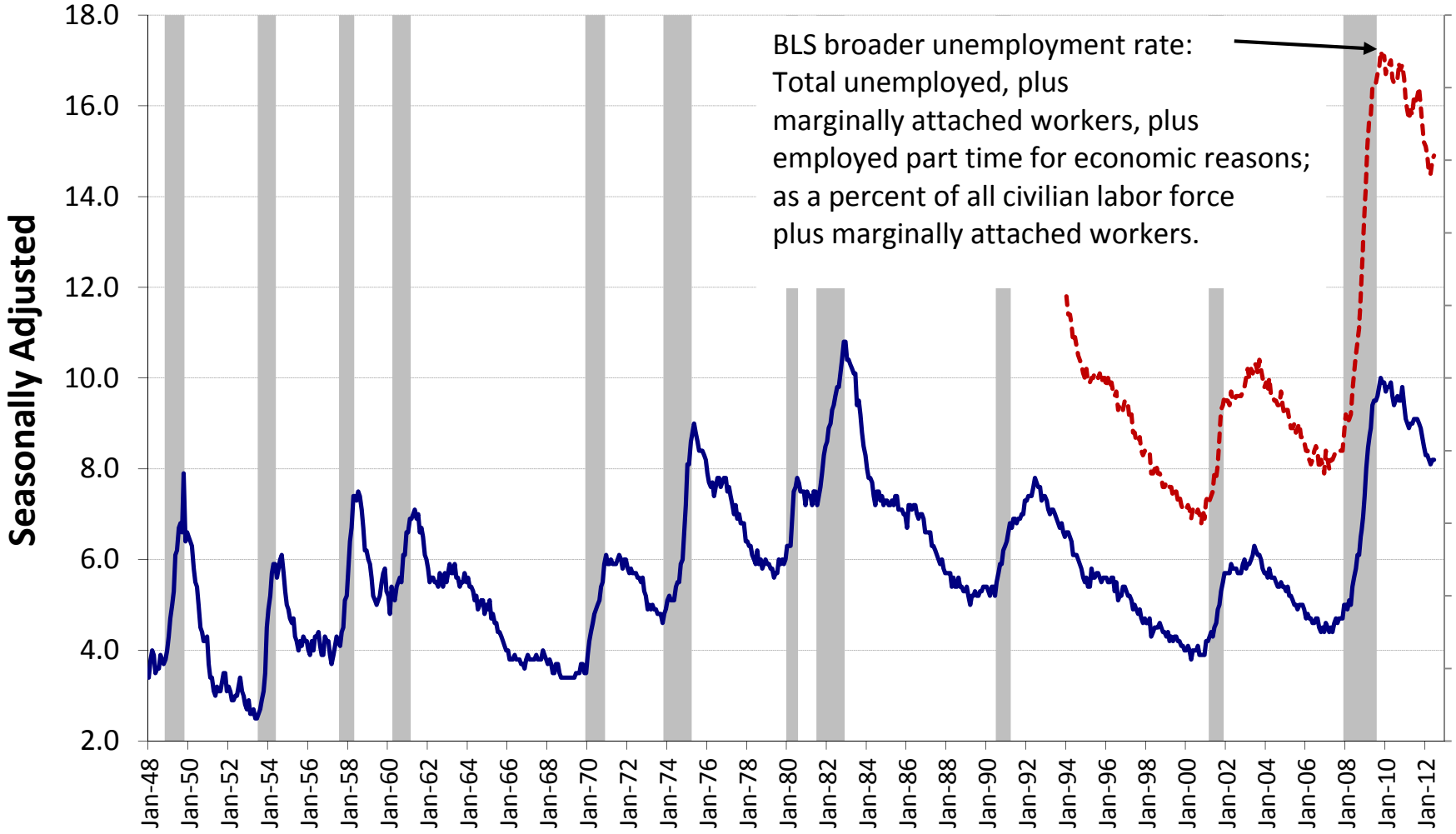
Log Scale



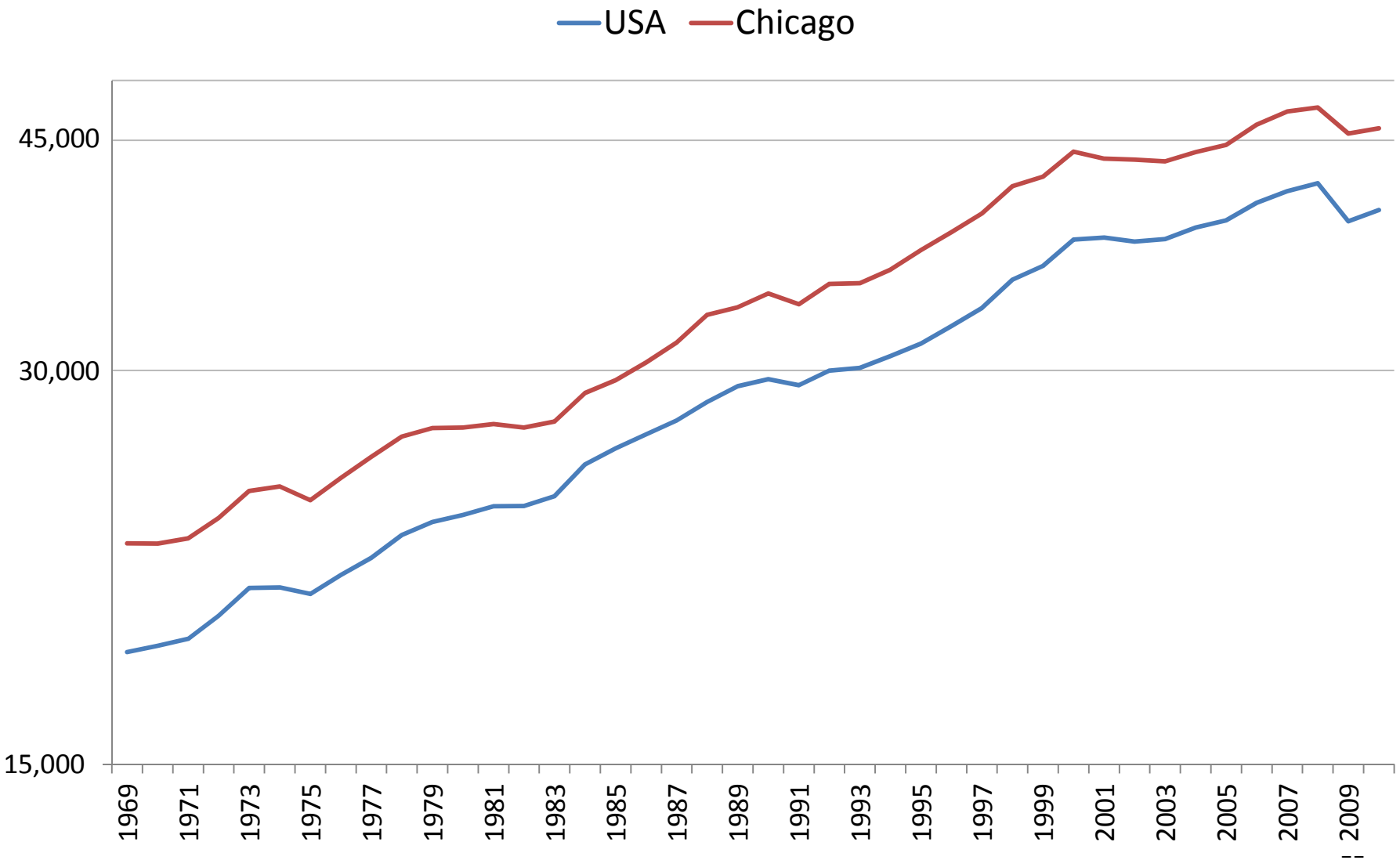
Index of Real GDP
Before and After Business Cycle Peak



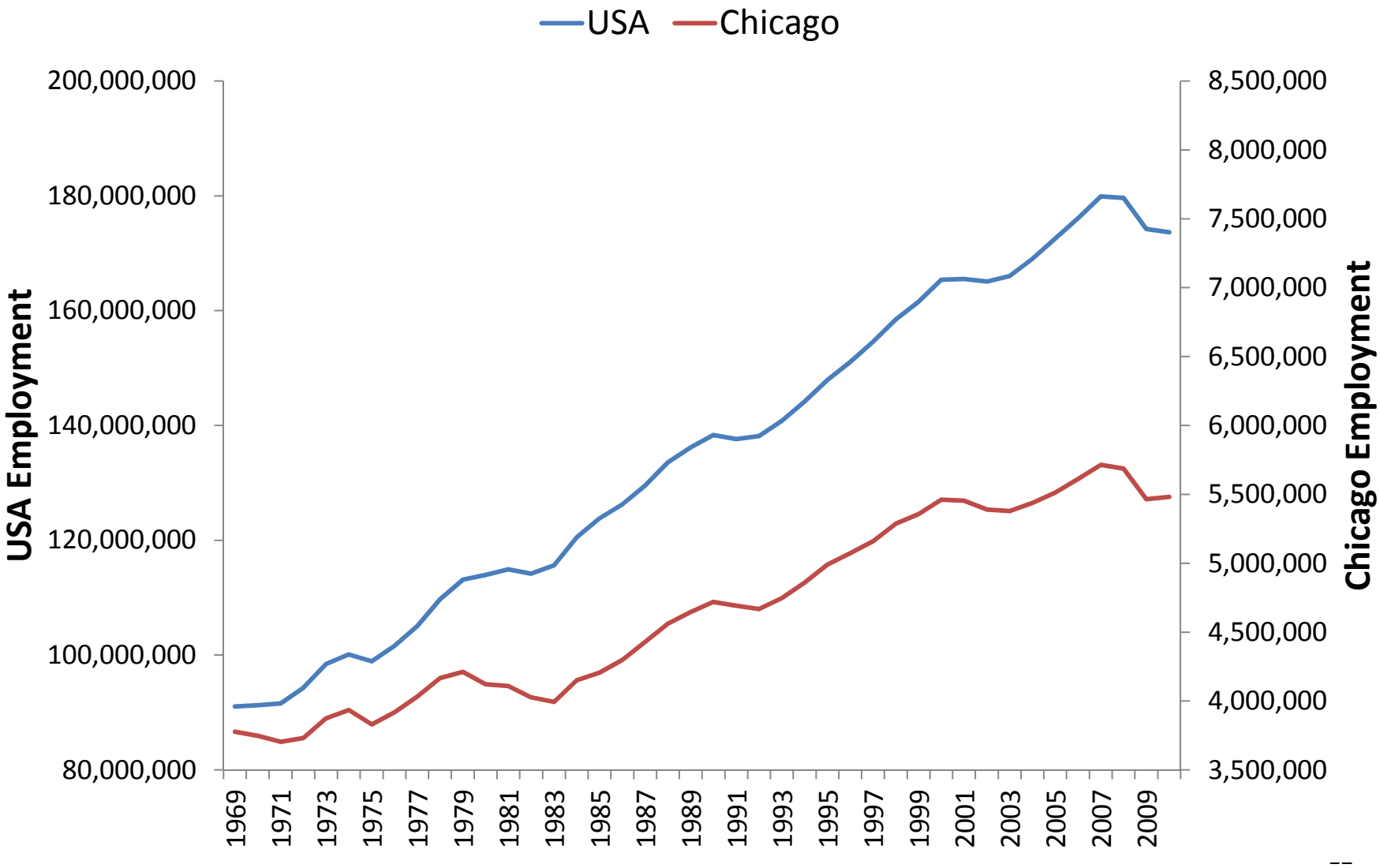
Unemployment Rate



Annual Per Capita Income, USA and Chicago, 1969 to 2010, in $2010, Log Scale

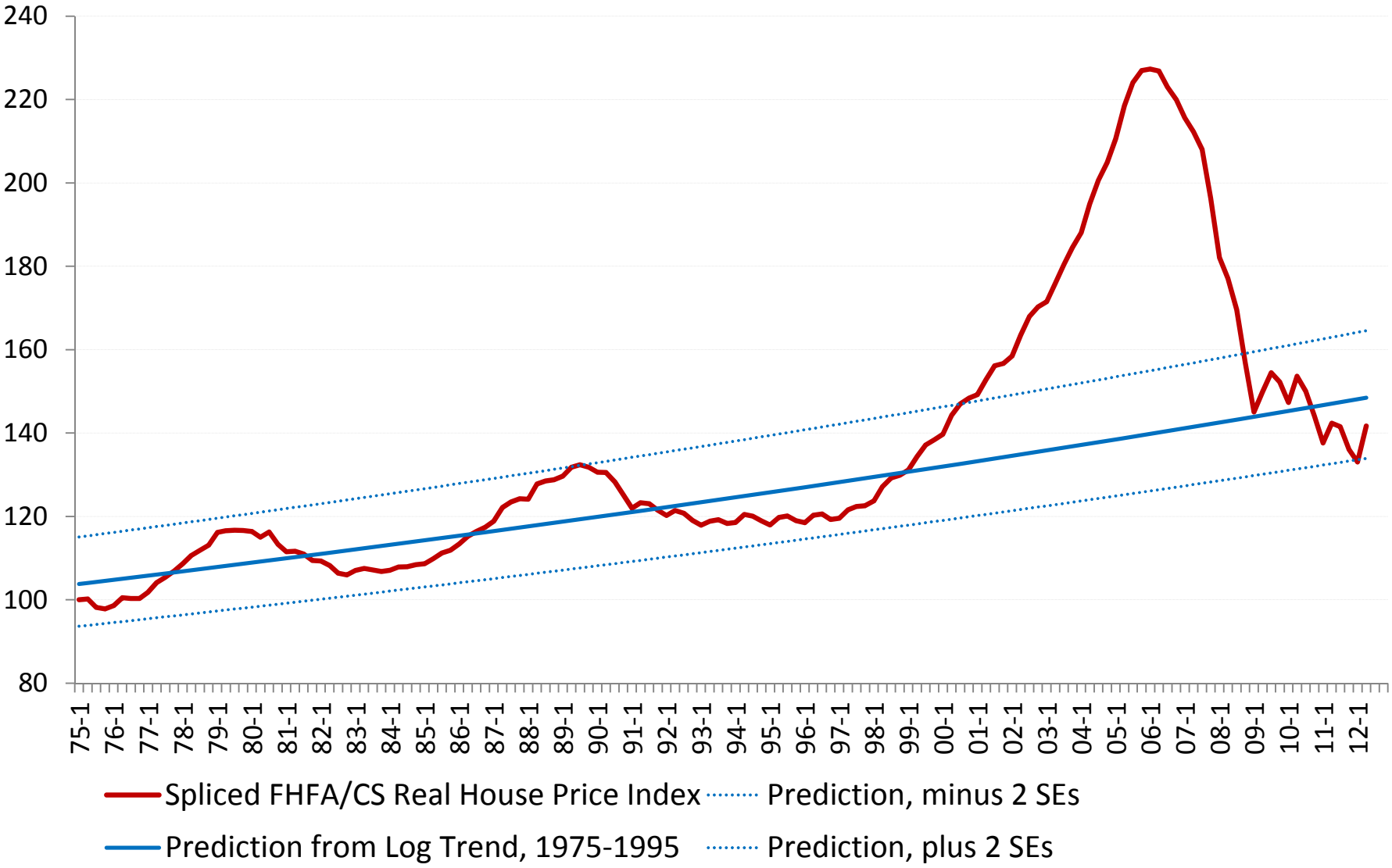


Annual Employment, USA and Metro Chicago, 1969 to 2010



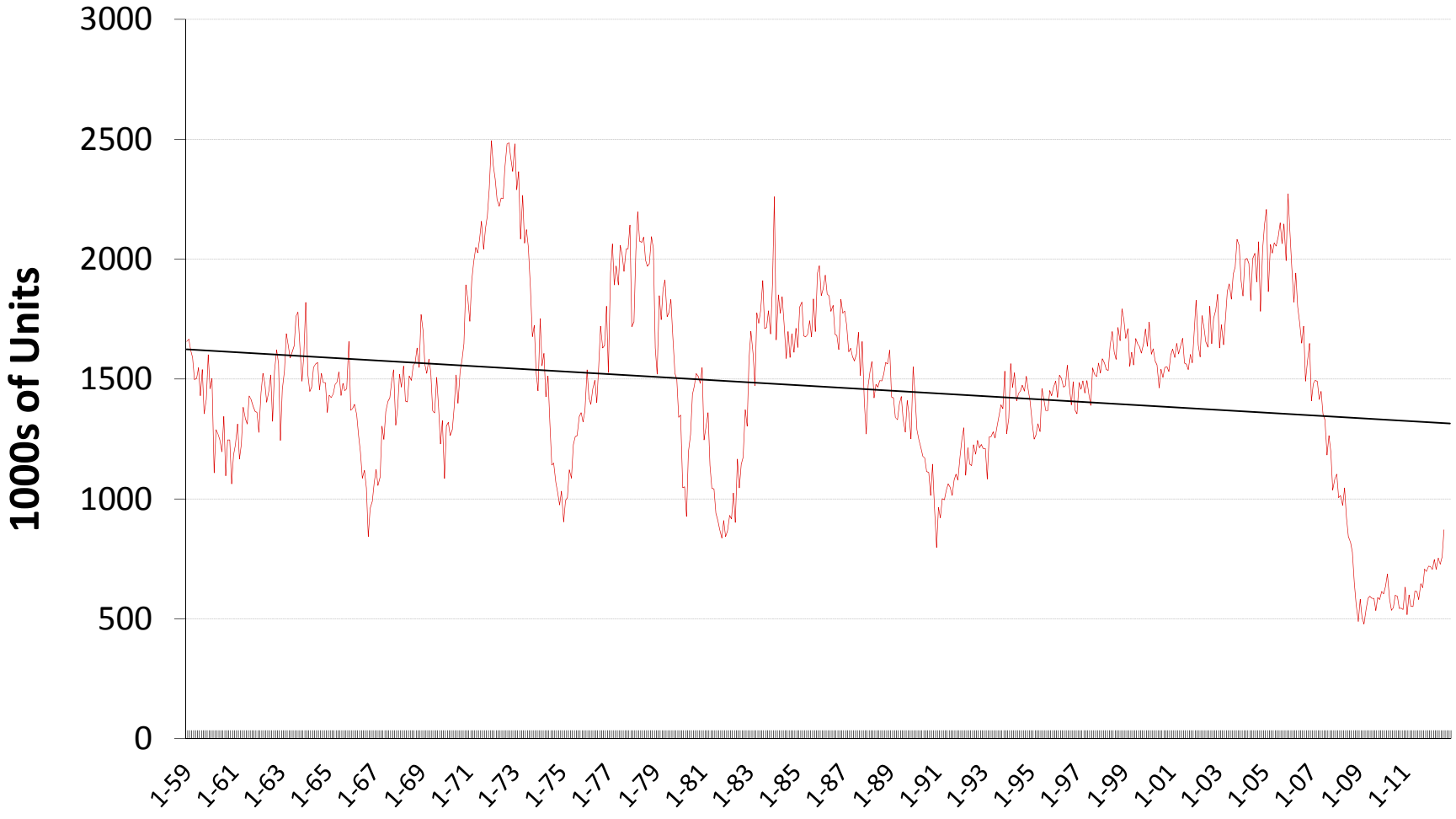
Spliced Quarterly Real House Price Index

FHFA Index 1975 to 1986; Case-Shiller 1987-2012(Q2)

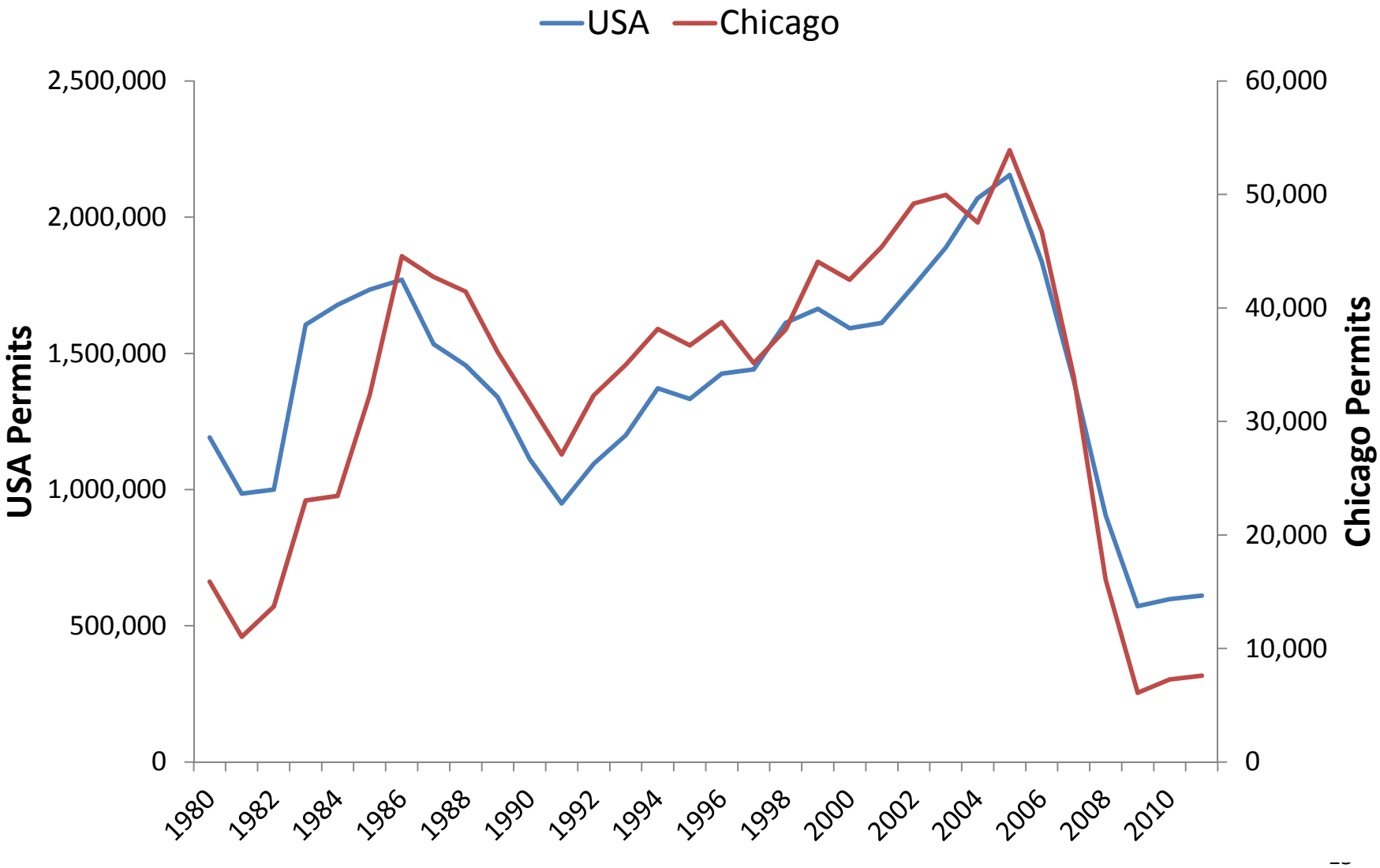


Monthly Housing Starts

Seasonally Adjusted at Annual Rates



Annual Housing Permits, Chicago and USA, 1980 to 2011



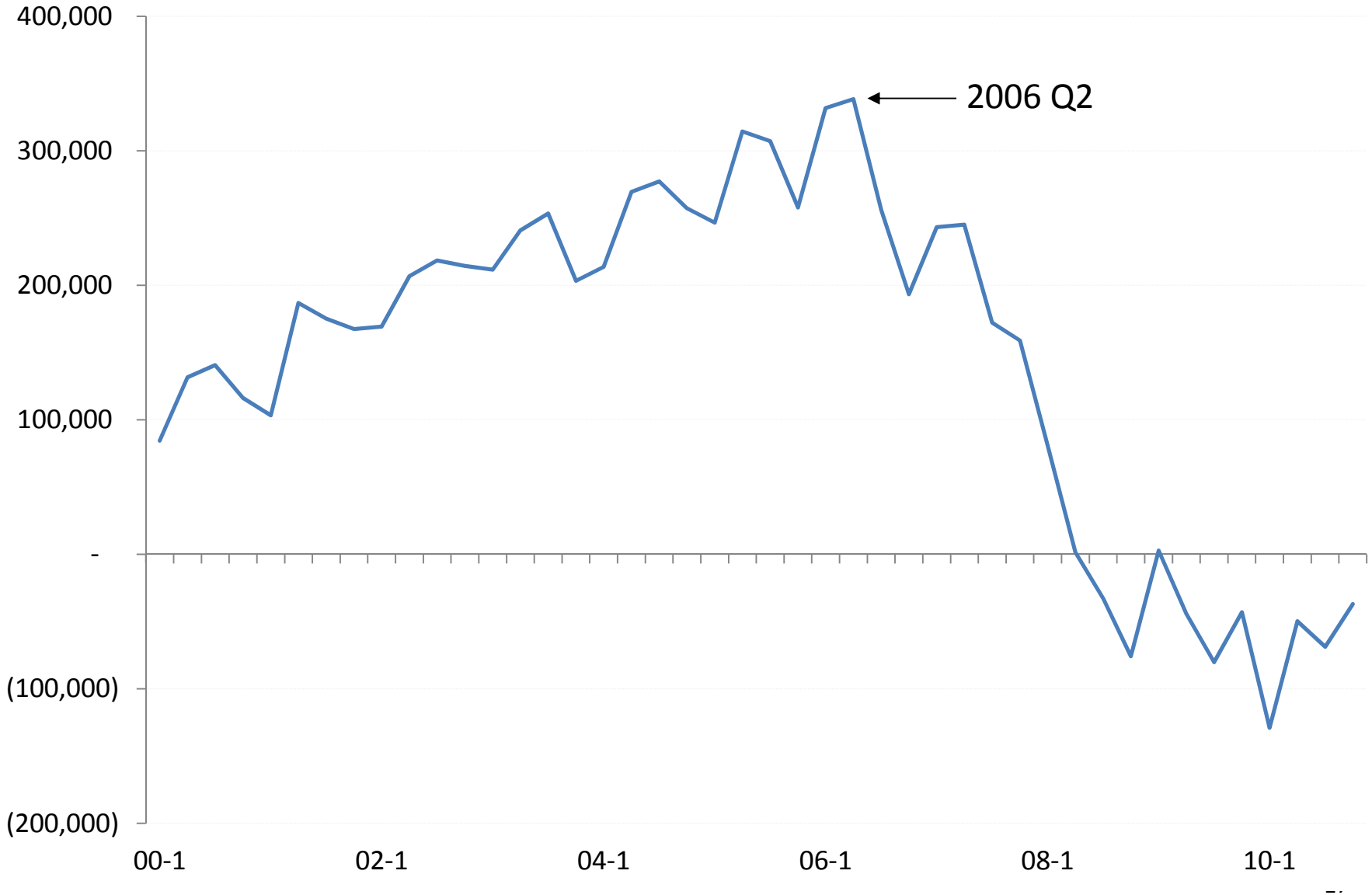
Fixed Rate Mortgage Interest Rates

(Monthly Freddie Mac Data)



Quarterly Change in Mortgage Loans Outstanding

Milllions of $2011, All Sources, Fed Flow of Funds



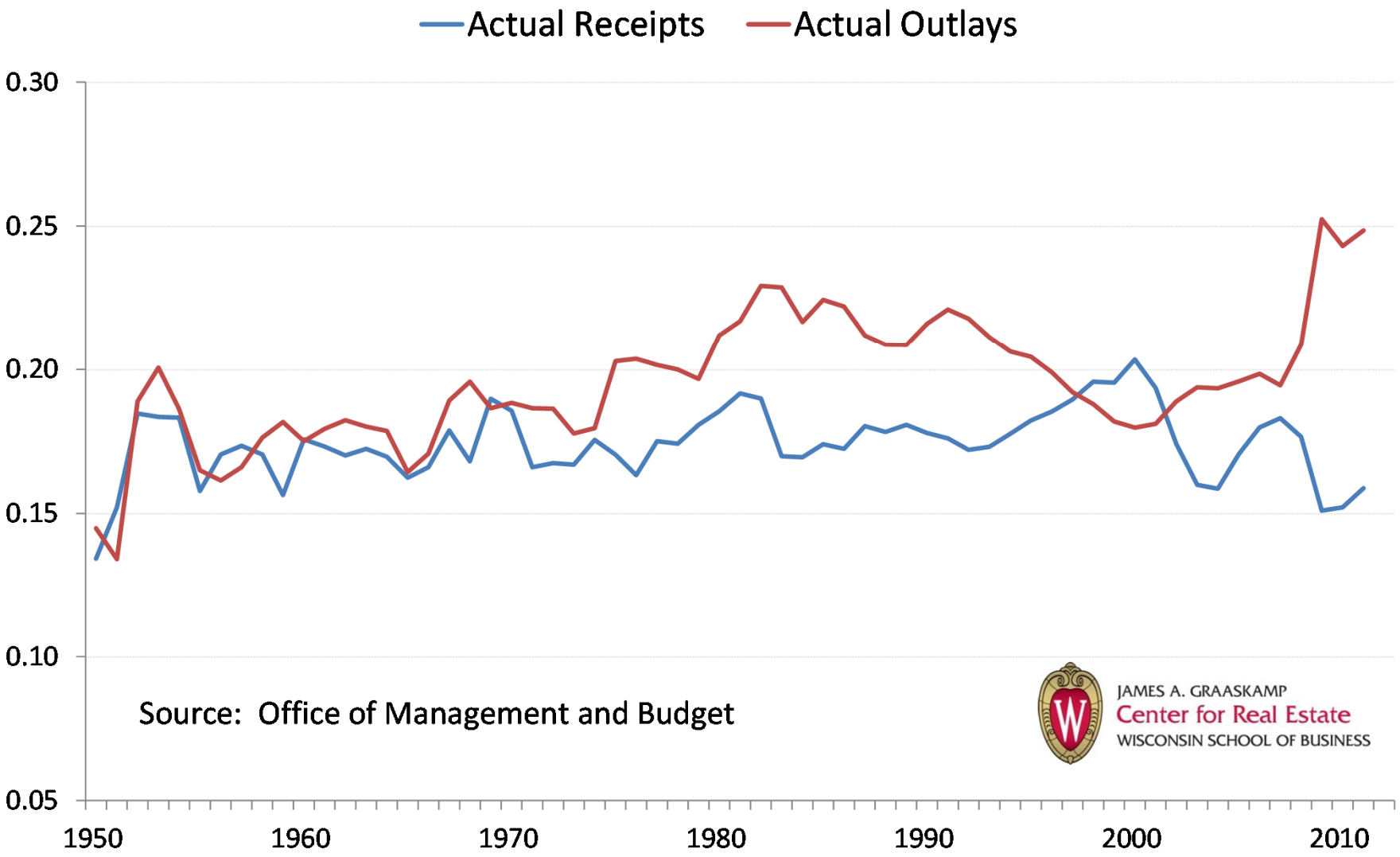
Tailwinds

- GDP is growing, employment is slowly improving
- Housing prices have apparently stabilized in most markets.
- Starts are recovering slowly, sales are up, shadow inventory is shrinking (though still uncomfortably large).
- Mortgage rates are low, Fannie and Freddie and FHA have kept the mortgage market going (for both SF and MF).
- Election is behind us. Sort of.

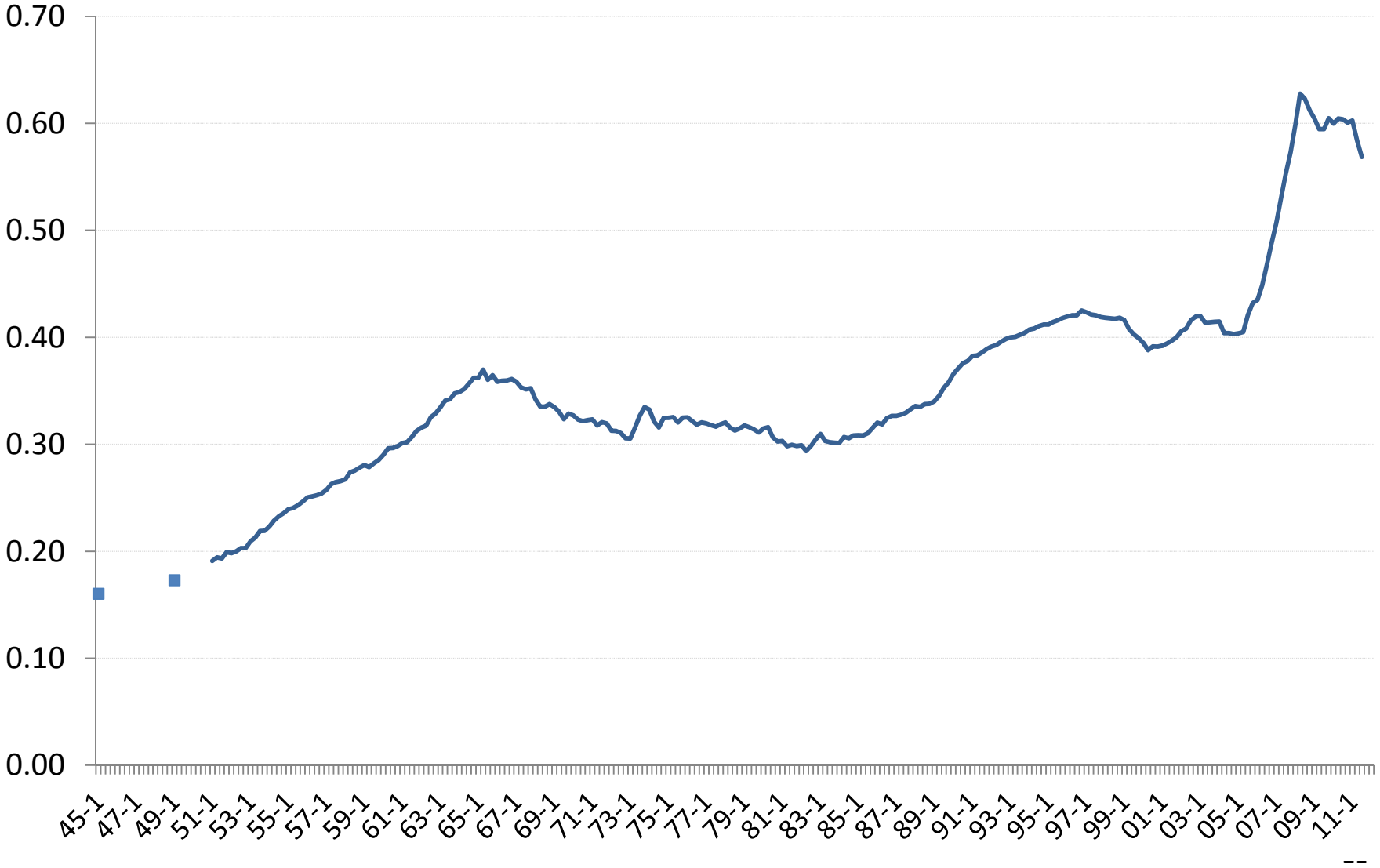
Headwinds

- European crisis.
- Possible China slowdown.
- Shadow inventory, continued deleveraging.
- Continued high unemployment, slow GDP growth for a recovery.
- Mortgage lending is constrained, especially outside conforming limits.
- What do we do about Fannie and Freddie?
- Continued gridlock in Washington?

Federal Receipts and Outlays as Share of GDP, 1950 to 2011

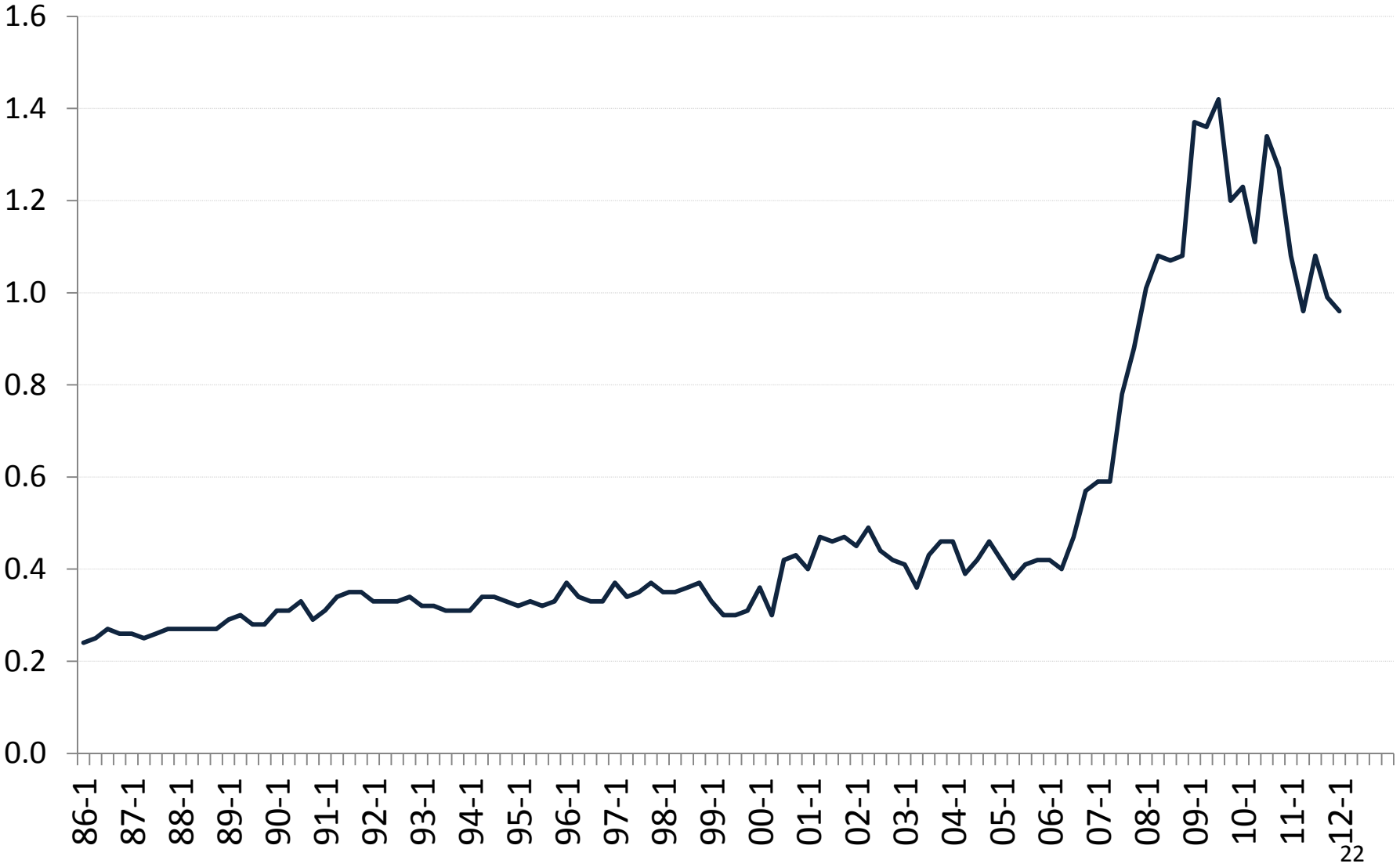


Aggregate Mortgage Loans to Homeowners House Value, 1945 to 2012 Q2



MBA Rate of Forelosures Started

Percent of All Loans, Not Seasonally Adjusted

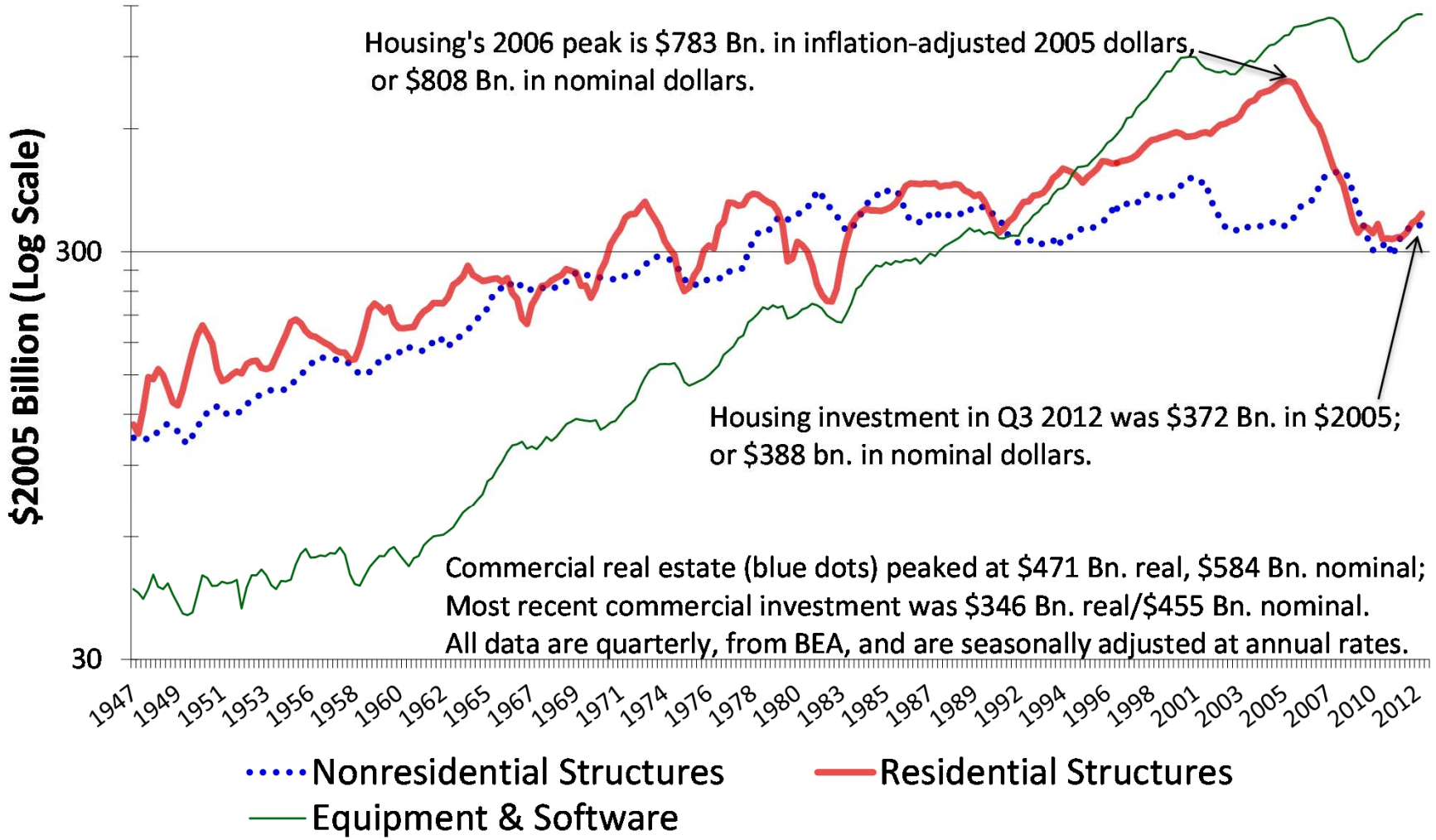


Rough estimate of U.S. shadow inventory, circa January 2012

Seriously delinquent (> 90 days):	800,000
In foreclosure:	410,000
Other Real Estate Owned:	400,000
Estimated shadow inventory:	**1,610,000**
Underwater loans with Loan > 2·Value:	2,400,000
Estimated *potential* shadow inventory:	**4,010,000**
Notes: Existing homes for sale inventory:	2,330,000
2011 avg. monthly sales of existing houses:	356,000

Sources: CoreLogic, MBA, Zillow, NAR

Real Investment

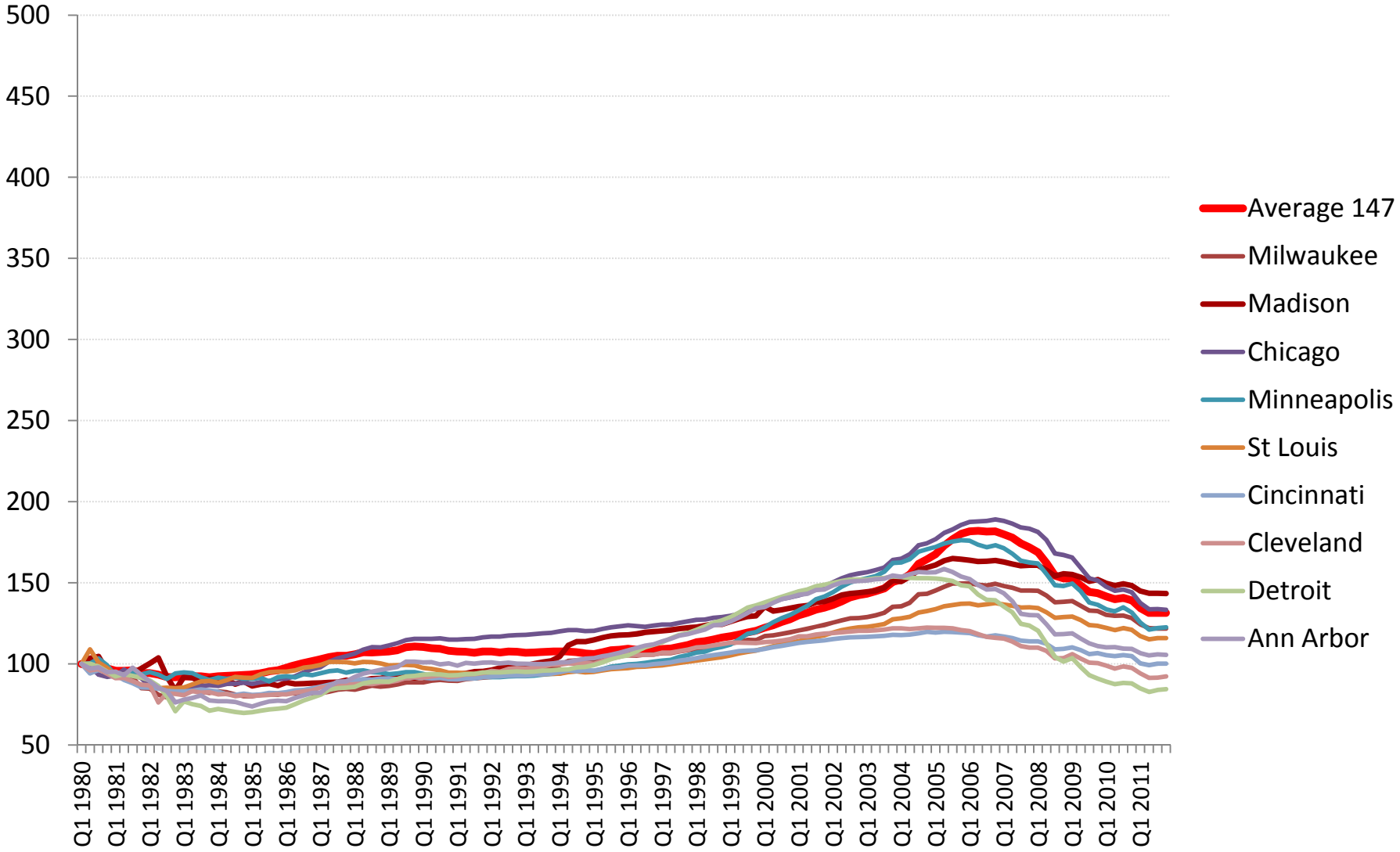


Nobody buys a house in the United States…

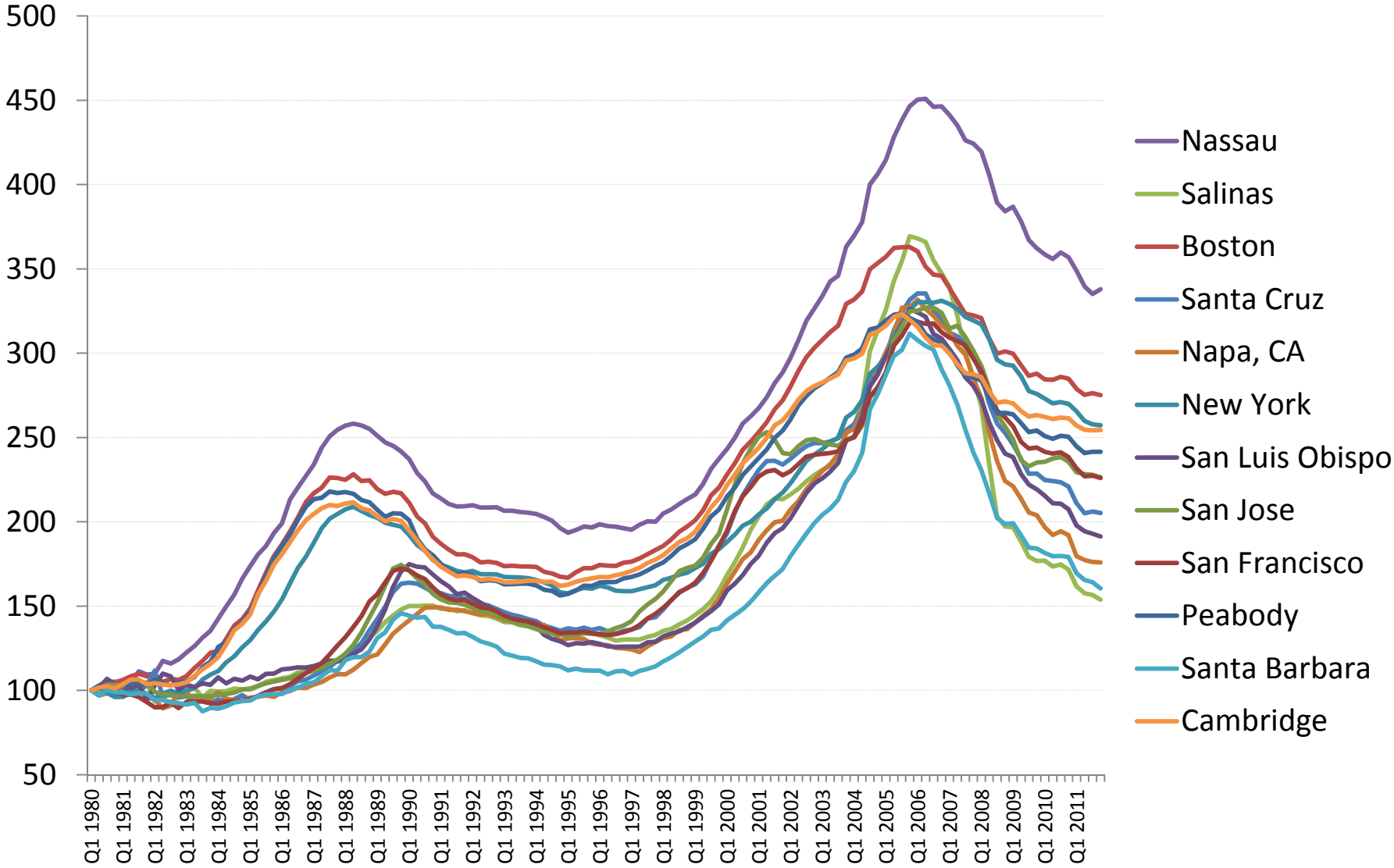


You buy a house in a metropolitan area.

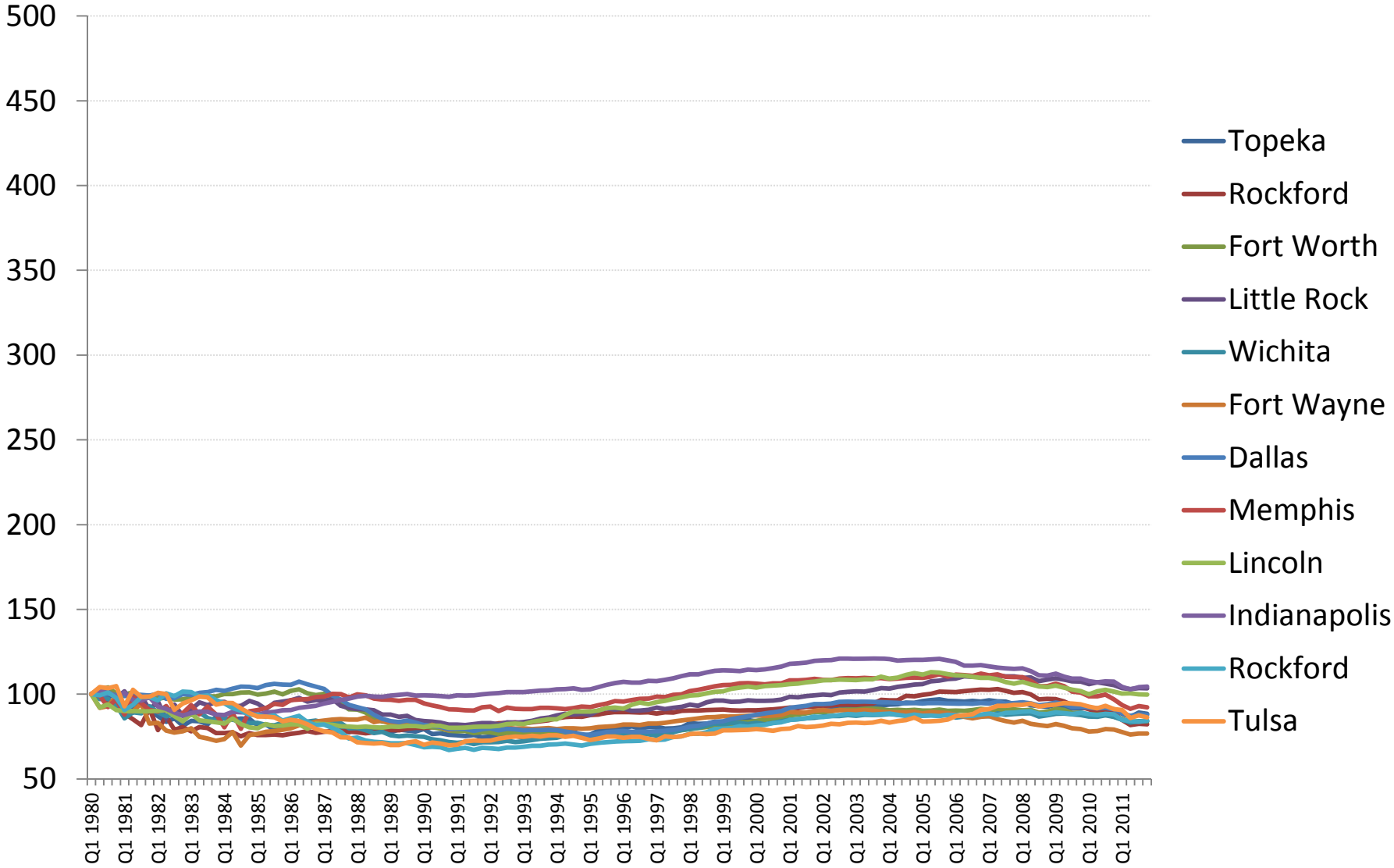
Inflation-Adjusted FHFA House Price Indexes
Selected Midwest Markets

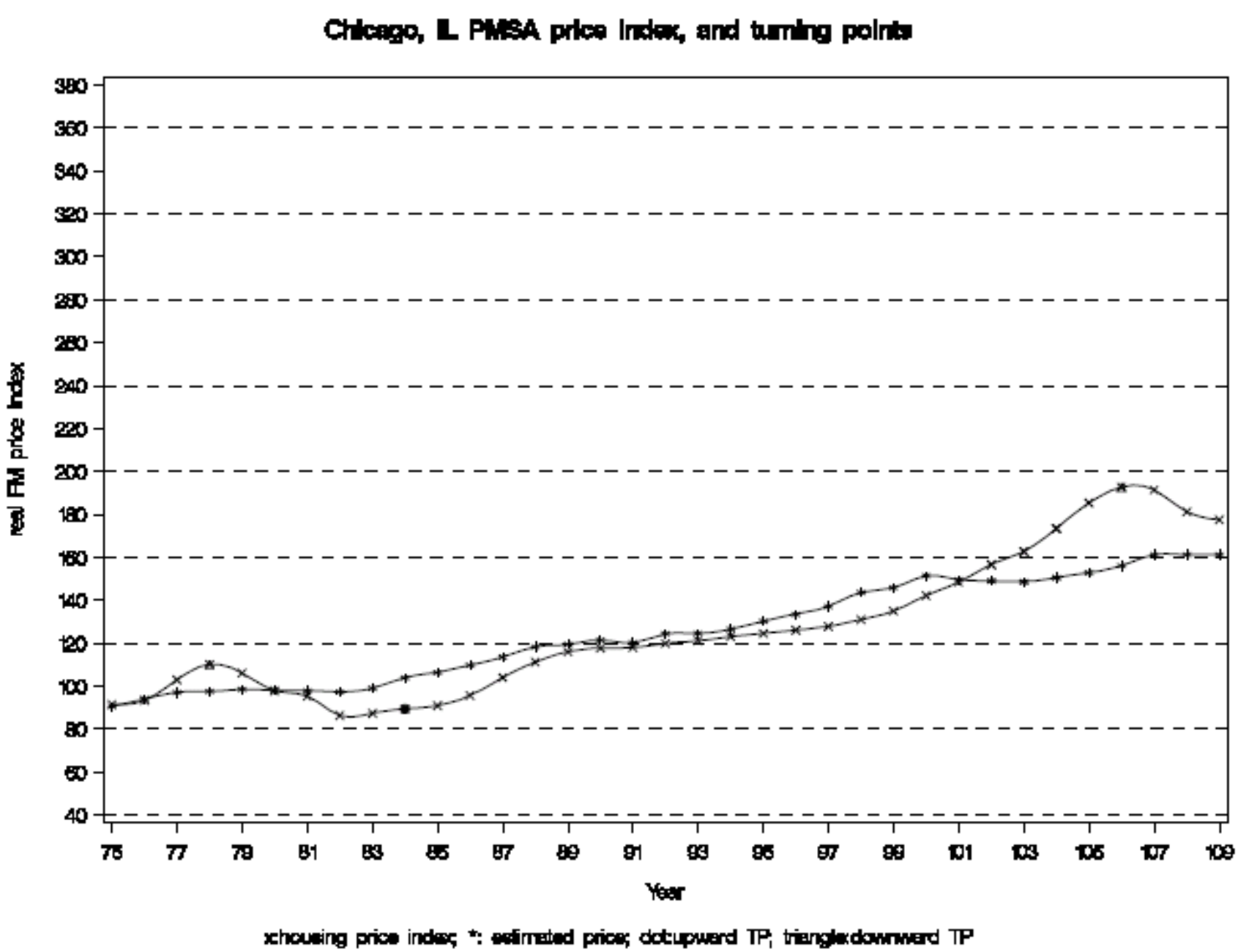


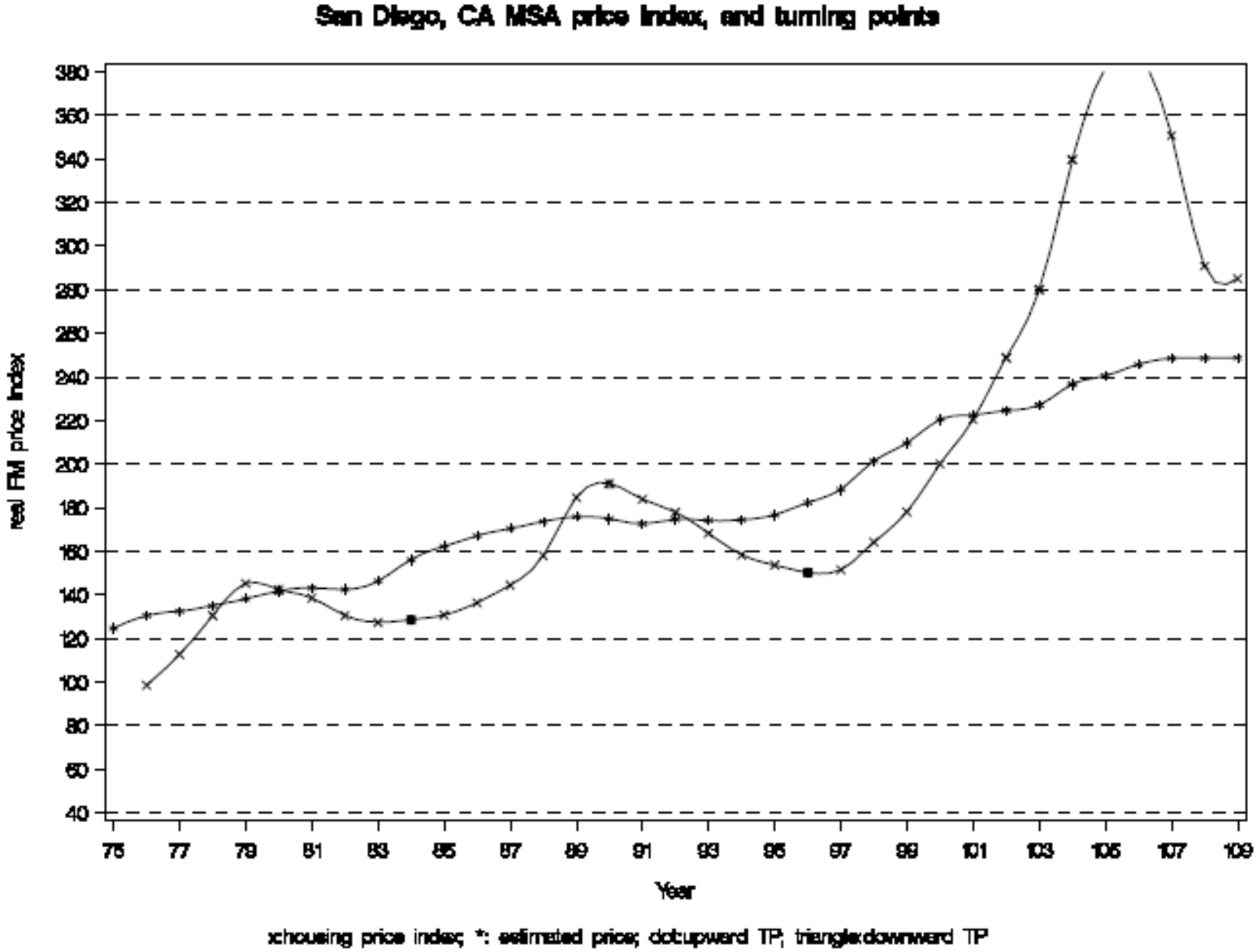
Inflation-Adjusted FHFA Housing Price Indexes
Twelve Most Volatile Markets (thru Q4 2011)



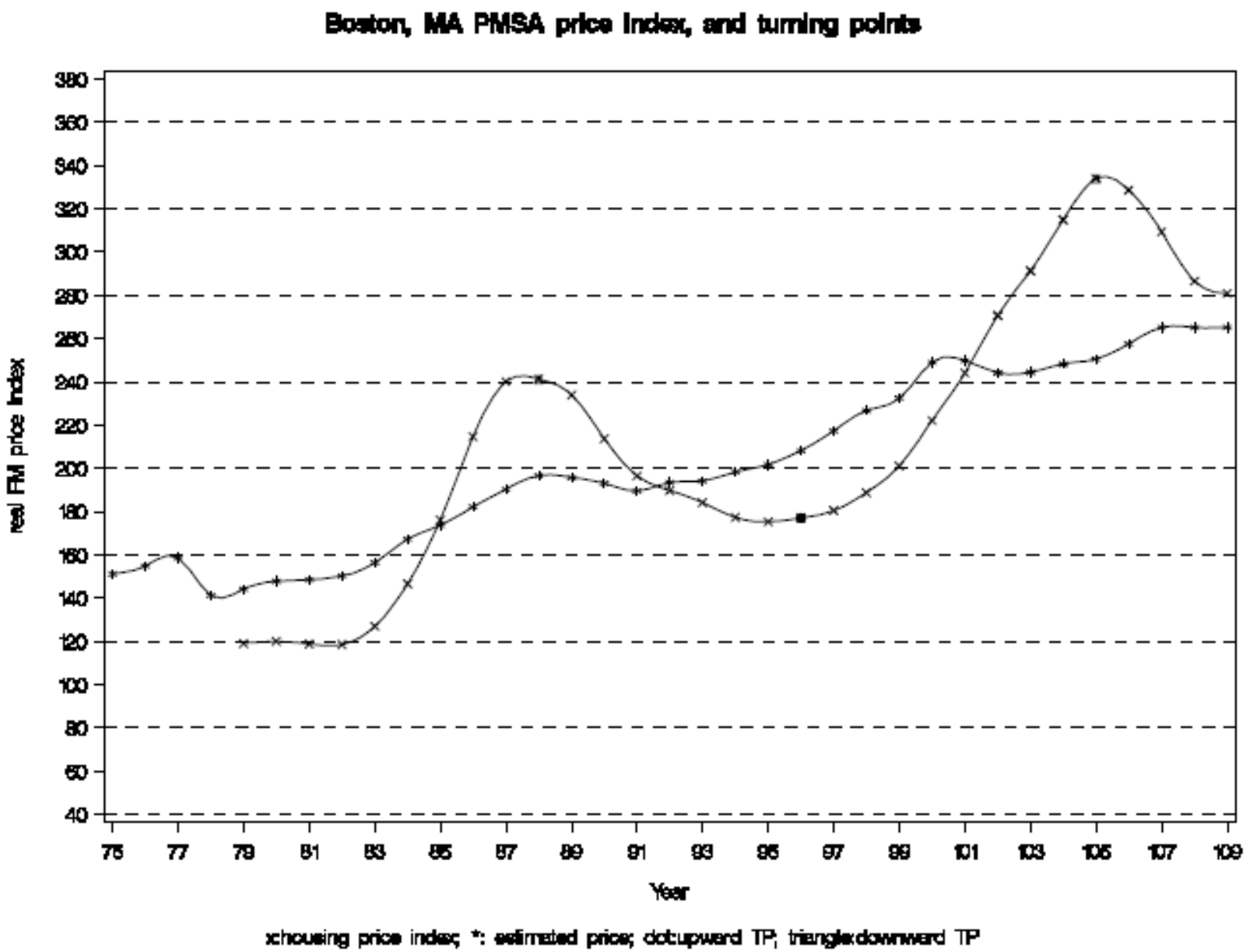
Inflation-Adjusted OFHEO House Price Indexes
Twelve Least Volatile Markets (through Q4 2011)




Chicago, IL PMSA price index, and turning points
real FM price index
380
360
340
320
300
280
260
240
220
200
180
160
140
120
100
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Year
xchousing price index; *: estimated price; dot:upward TP; triangle:downward TP

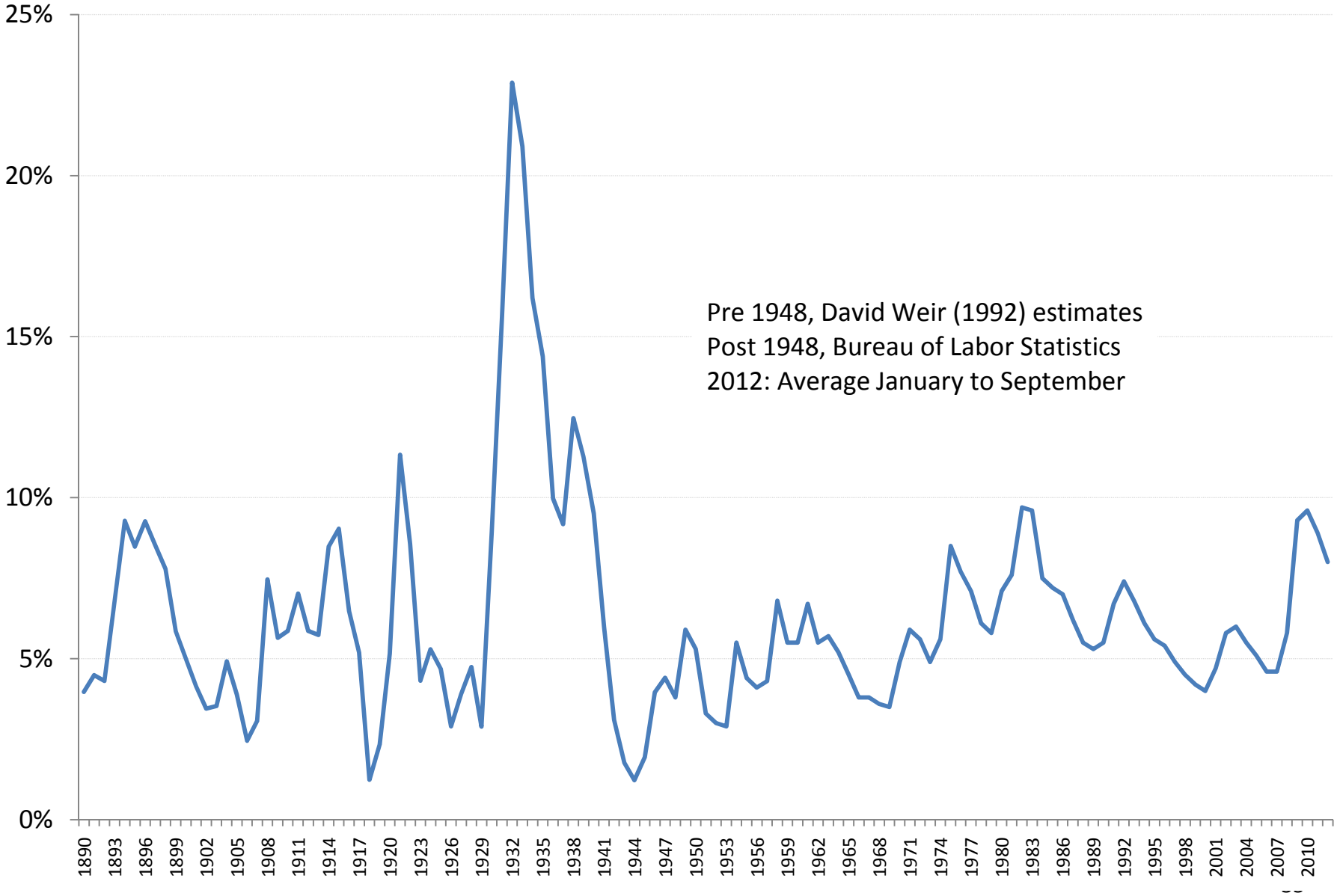

San Diego, CA MSA price index, and turning points
real FM price index
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Year
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Extra slides

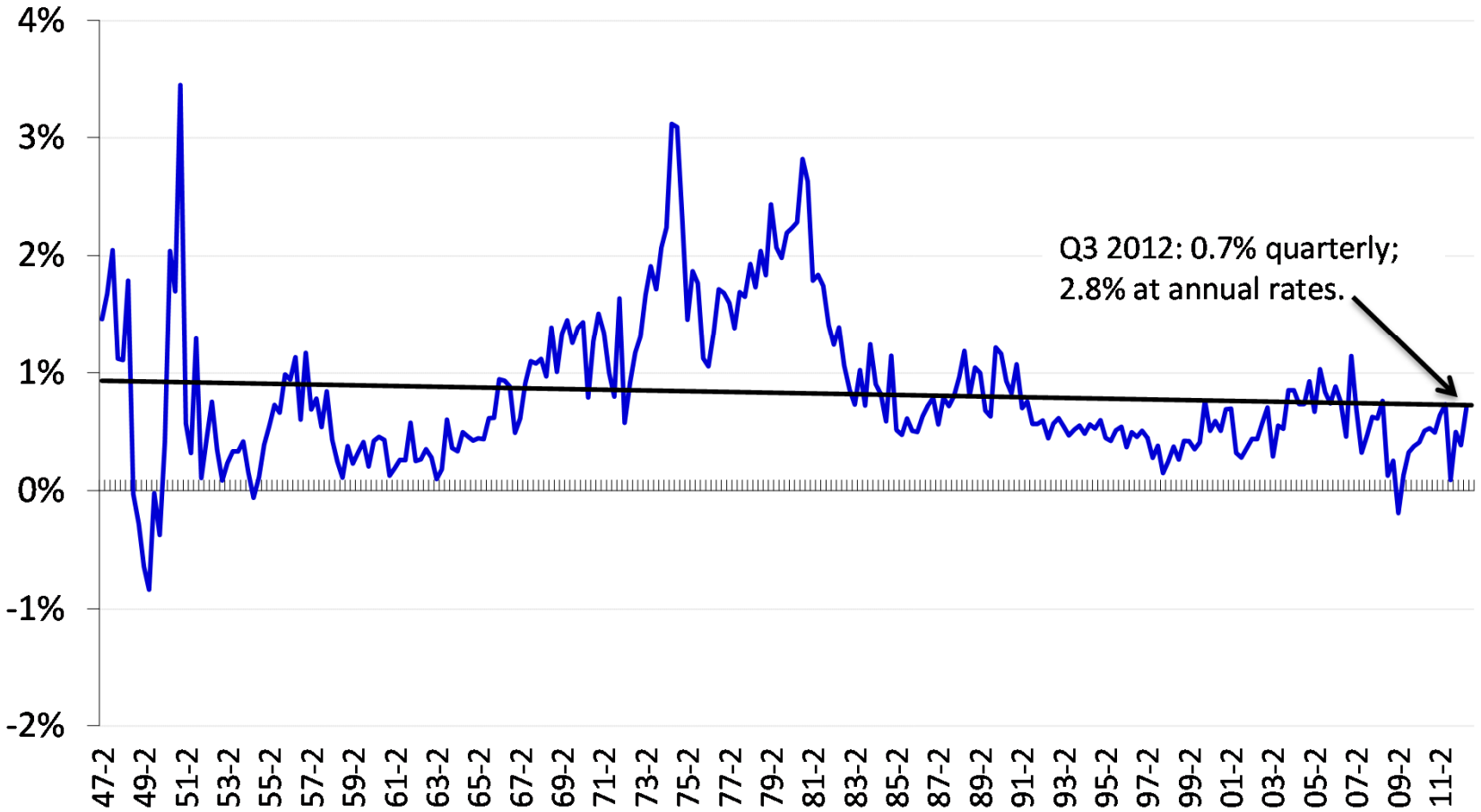

Boston, MA PMSA price index, and turning points
real FM price index
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State of the economy

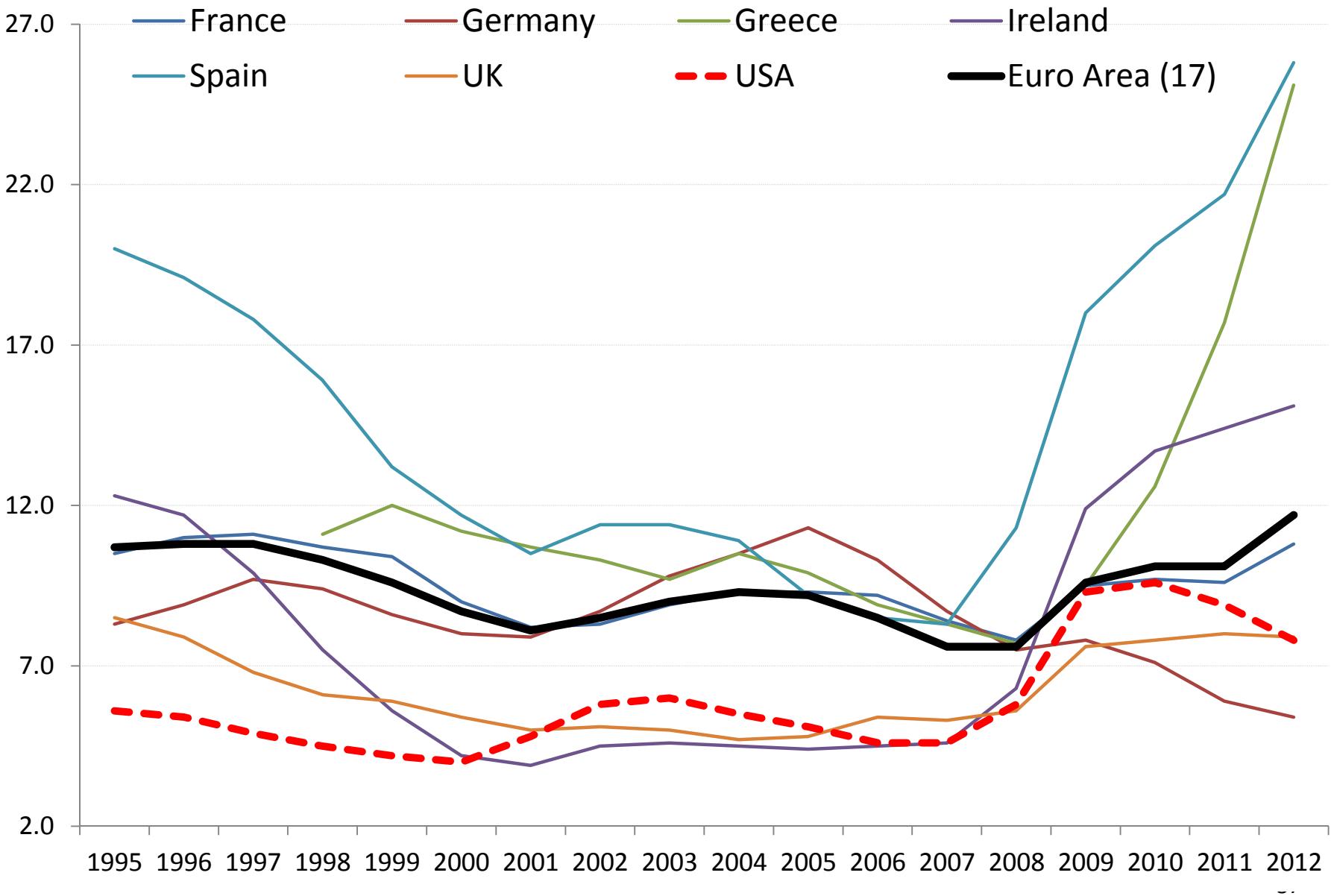
Annual Unemployment Rates, 1890 to 2012



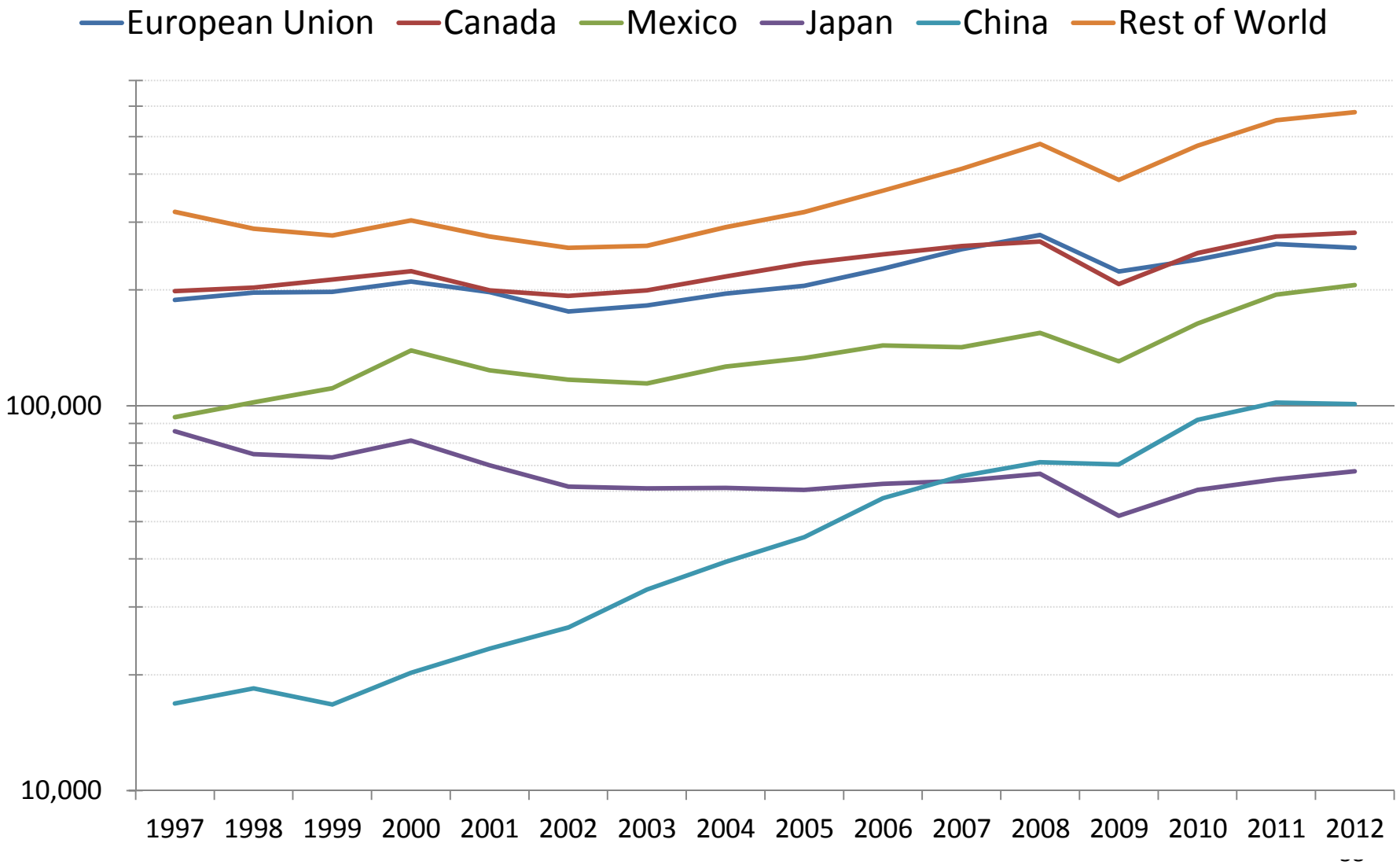
Inflation:
Quarterly Change in GDP Deflator



Unemployment Rates, USA and Selected Europe



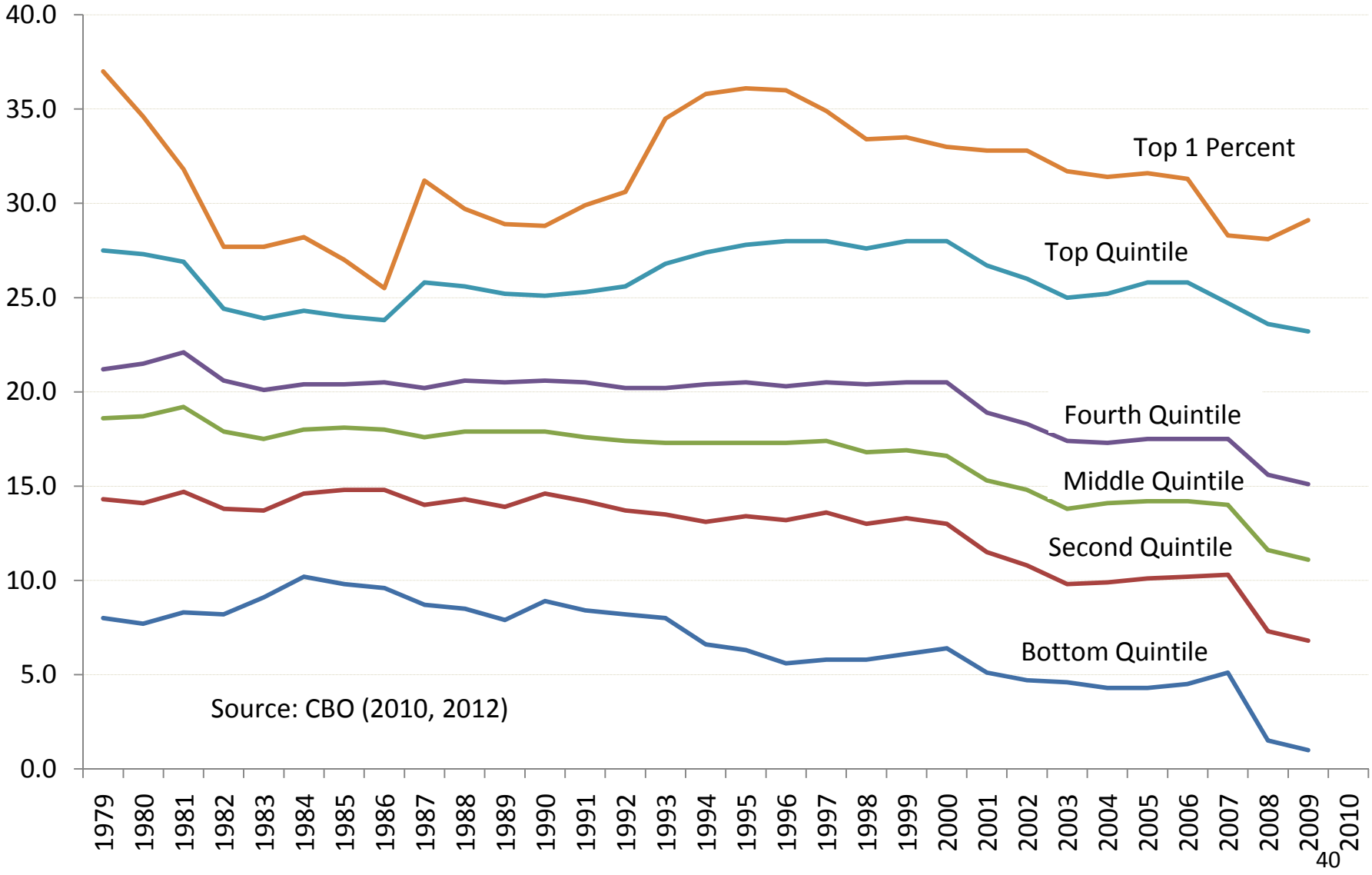
U.S. Exports to Selected Countries and EU, $2010 Million, Log Scale



The fiscal cliff?

- Or more like a fiscal rollercoaster?
- December 2012: Hit the debt ceiling.
- January 2013, taxes up $413 bn. for the year:
  - Bush tax cuts expire, marginal rates and K gain rates back to 200x levels
  - AMT back to 2000 thresholds
  - Payroll tax back to normal (+2%)
  - Additional health care taxes kick in
  - Dividends taxed as ordinary income
  - Section 179 depreciation limits back to 2003 levels ($25K)
- “Sequestration” =. Federal spending decreases by $110 bn. in 2013

Total Effective Federal Tax Rate, By Income Quintile, 1979-2009

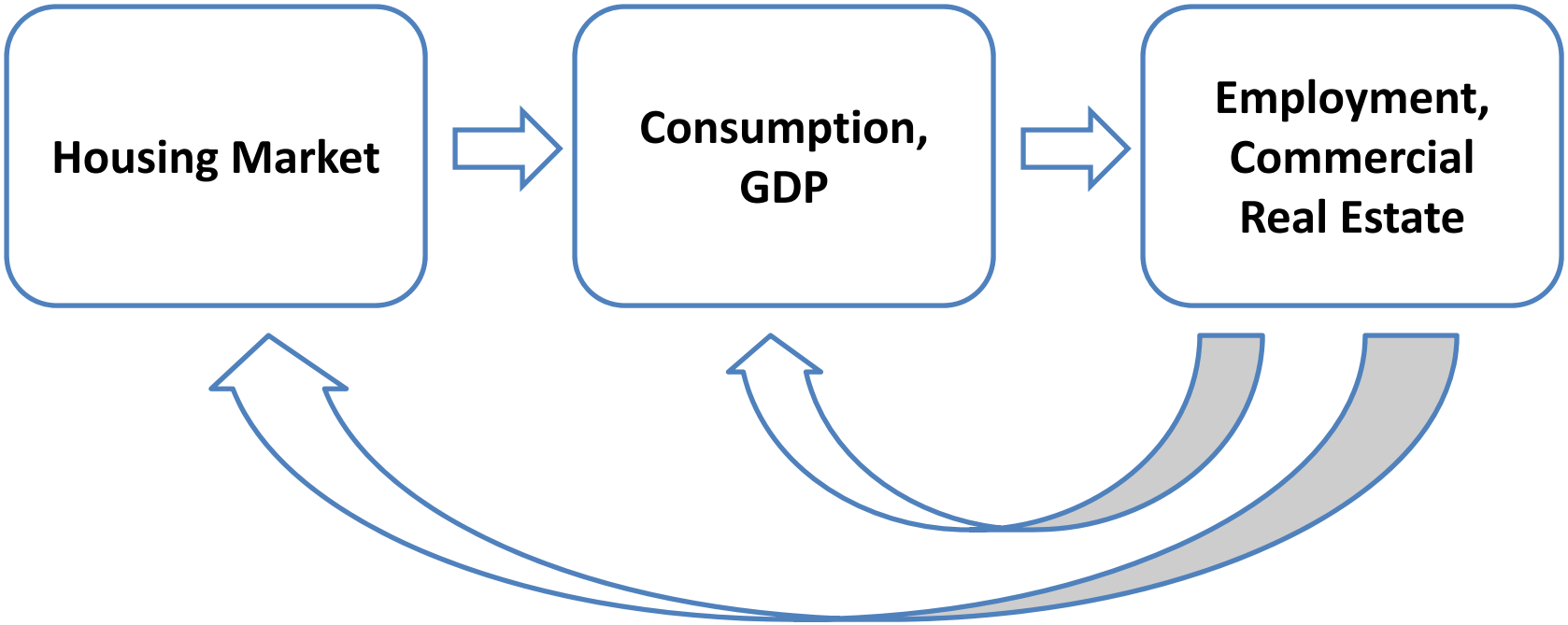


How does recovery in housing affect the U.S. economy and CRE?

A simple view of real estate in the business cycle

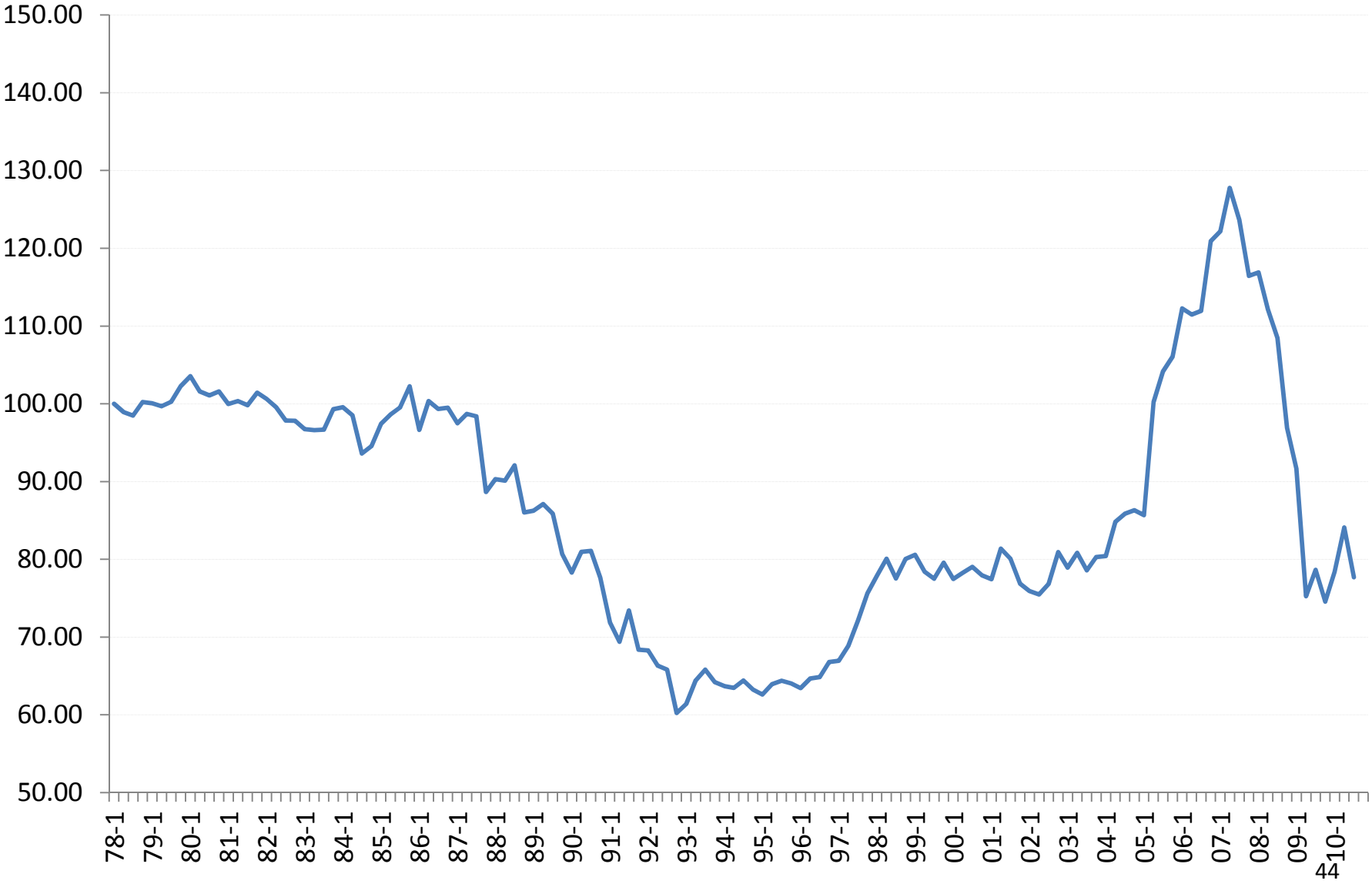


Employment and CRE feed back into the rest of the economy



Real Commercial Real Estate Price Index

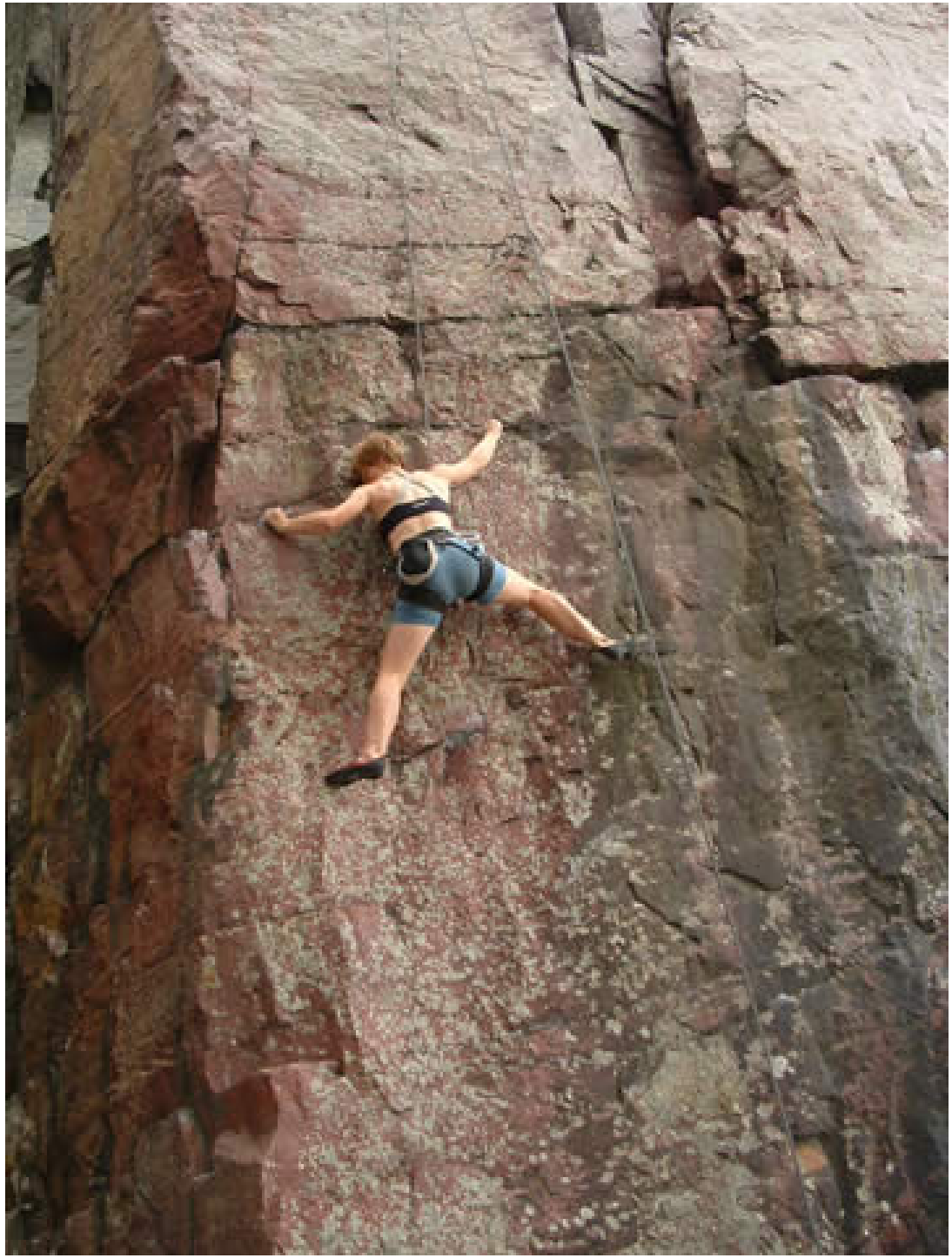
Original NCREIF Capital Index 1978-1983; MIT Transaction Index 1984-2010



State of the housing market

How and why do individual markets differ?






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