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

Southeast Bankers Outreach Forum
September 30, 2014

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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. Single Family Housing Starts

Level (Line)
Growth (Columns)

Source: Moody's Analytics
Contributions to Real GDP

Source: Bureau of Economic Analysis

- Consumption
- Government
- Inventories
- Net Exports
- Nonresidential Investment
- Residential Investment
- GDP
U.S. Coincident Indicator - January 2006

Source: Federal Reserve Bank of Philadelphia

State Coincident Indicators - January 2006
## U.S. Sector Employment Growth

<table>
<thead>
<tr>
<th>Sector</th>
<th>Year-Ago Difference (000s)</th>
<th>Total Difference 2007-2014</th>
<th>Average Annual Wage 2013</th>
<th>% Change 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Care</td>
<td>-443</td>
<td>-5,937</td>
<td>$46,073</td>
<td>1.8%</td>
</tr>
<tr>
<td>Leisure/Hospitality</td>
<td>9</td>
<td>-304</td>
<td>$70,684</td>
<td>1.3%</td>
</tr>
<tr>
<td>Professional/Tech. Services</td>
<td>140</td>
<td>-291</td>
<td>$86,461</td>
<td>1.3%</td>
</tr>
<tr>
<td>Administrative/Temp Agy</td>
<td>-385</td>
<td>-828</td>
<td>$36,288</td>
<td>0.4%</td>
</tr>
<tr>
<td>Entertainment &amp; Recreation</td>
<td>1</td>
<td>-55</td>
<td>$37,702</td>
<td>0.5%</td>
</tr>
<tr>
<td>Management</td>
<td>38</td>
<td>-38</td>
<td>$113,406</td>
<td>3.8%</td>
</tr>
<tr>
<td>Nat. Resources &amp; Mining</td>
<td>43</td>
<td>-73</td>
<td>$92,993</td>
<td>2.5%</td>
</tr>
<tr>
<td>Education</td>
<td>98</td>
<td>51</td>
<td>$39,154</td>
<td>2.2%</td>
</tr>
<tr>
<td>Other Services</td>
<td>21</td>
<td>-149</td>
<td>$40,776</td>
<td>2.7%</td>
</tr>
<tr>
<td>Trans./Warehousing</td>
<td>-33</td>
<td>-272</td>
<td>$50,407</td>
<td>1.5%</td>
</tr>
<tr>
<td>Utilities</td>
<td>6</td>
<td>1</td>
<td>$101,143</td>
<td>6.1%</td>
</tr>
<tr>
<td>Federal Civilian Gov't</td>
<td>28</td>
<td>70</td>
<td>$74,782</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>-39</td>
<td>-136</td>
<td>$51,302</td>
<td>2.2%</td>
</tr>
<tr>
<td>Wholesale</td>
<td>-72</td>
<td>-356</td>
<td>$70,889</td>
<td>2.0%</td>
</tr>
<tr>
<td>Retail</td>
<td>-237</td>
<td>-761</td>
<td>$29,020</td>
<td>0.6%</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>-103</td>
<td>-232</td>
<td>$94,175</td>
<td>1.9%</td>
</tr>
<tr>
<td>State Government</td>
<td>55</td>
<td>-8</td>
<td>$49,202</td>
<td>1.3%</td>
</tr>
<tr>
<td>Information</td>
<td>-48</td>
<td>-180</td>
<td>$87,705</td>
<td>4.4%</td>
</tr>
<tr>
<td>Nondurable Goods Mfg.</td>
<td>-128</td>
<td>-379</td>
<td>$56,284</td>
<td>1.5%</td>
</tr>
<tr>
<td>Local Government</td>
<td>208</td>
<td>-17</td>
<td>$44,379</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Durable Goods Mfg.</td>
<td>-345</td>
<td>-1,179</td>
<td>$65,842</td>
<td>0.7%</td>
</tr>
<tr>
<td>Construction</td>
<td>-468</td>
<td>-1,146</td>
<td>$55,642</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Risk Analysis Unit/Federal Reserve Bank of Atlanta
-35 -30 -25 -20 -15 -10 -5 0 5 10 15 20

Net Migration (000s)

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

Net Migration for each County. Color shows details about Net Migration.
Existing Home Sales - May 2014
Source: CoreLogic

-100.0%
100.0%
% Chg From Peak

Month of Date
May 2014

Show History
U.S. Housing Affordability Trends
Source: National Association of Realtors, Freddie Mac Primary Market Mortgage Survey

Affordability Index
Mortgage Rates

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

- House Price component
- Interest Rate component
- Income component
Market Affordability

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

Affordability Parameter
Atlanta-Sandy Springs-Marietta, GA

Bubble size denote market sales.
U.S. Inventory
Source: National Association of Realtors

Months Supply (Line)
Inventory (Columns)

Equilibrium = 4 to 6 months →
Major Market - Inventory vs. Price Appreciation (June 2014)

Source: Zillow, Corelogic

Equilibrium = 4 to 6 months supply

Bubble Size = Total Closings

Month of Date
June 2014

Selected Market
Atlanta, GA
Atlanta Metro Vacant Developed Lots by County

Source: Metrostudy

Base Year = 2009 Q2

Show History

2014 Q2
Commercial Bank Construction & Development Lending in the Sixth District

Source: Bank Call Reports

1-4 Construction ($billions)

All Other Construction ($billions)
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

Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Average Risk Scores for Borrowers and Nonborrowers at Ages 25 and 30

Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.
Homebuyer Participation
Source: Campbell/Inside Mortgage Finance

Buyer Type
- Current Homeowner
- First-Time Homebuyer
- Investor
Senior Loan Officer Survey Results

Source: Board of Governors

- Stronger Demand - Prime Mortgages
- Stronger Demand - Nontraditional Mortgages
- Tightening Standards - Prime Mortgages
- Tightening Standards - Nontraditional Mortgages
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?