FEDERAL RESERVE BANK of ATLANTA

Residential Real Estate Market Spotlight (R-REMS)—Spring 2011 SNAPSHOT

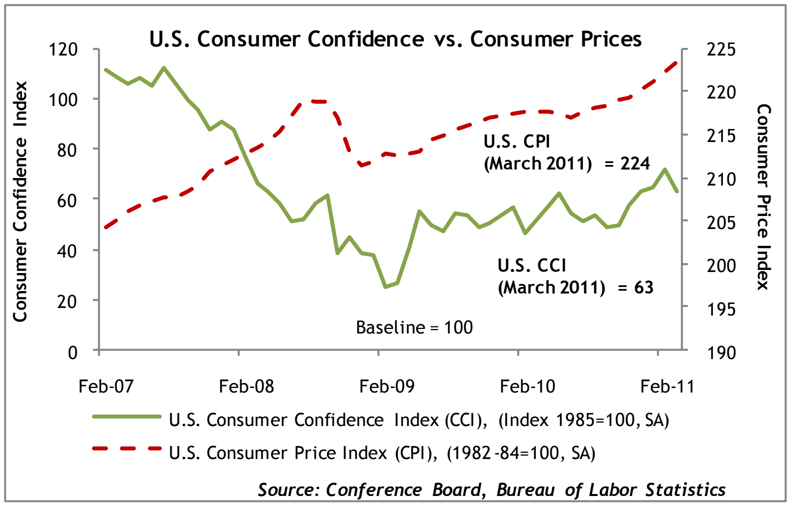
Note: BLUE = Reference to Sixth District

May 2011

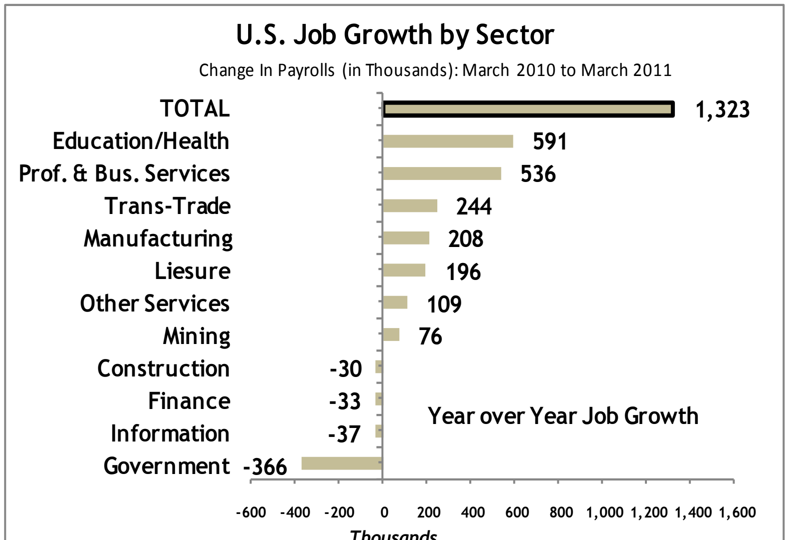
Policy & Supervisory Studies Group

Economic Overview: Despite recent signs of strength, the pace of the economic expansion moderated during the first quarter of 2011, with real GDP falling to 1.8 percent. A reduction in government spending at national, state, and local levels as well as a deceleration in consumer spending were the primary contributors to a more moderate rate of growth. In addition, import levels experienced a moderate increase while exports weakened, resulting in a rise in the national trade deficit. Uncertainty surrounding global events, particularly in oil-producing regions, continues to create upward pressure on food and energy prices and American consumers are beginning to feel the impacts. As a result, consumer spending increased by only 2.7 percent during first-quarter 2011, below the strong 4 percent increase seen in fourth-quarter 2010. As prices rise, consumer confidence may continue to weaken, posing a drag on economic growth moving forward.

Employment Market: At 1 percent, U.S. job growth remains positive with the economy adding over 1.3 million net new jobs over the last year. As companies begin to expand, temporary jobs and technical support services in the professional and business sector are experiencing the highest rate of growth. In addition, the education and health industries, which remained among the few sectors of the economy to add jobs during the recession, continues to expand. Job growth has been concentrated in markets with strong technology, trade, or energy sectors (Dallas and Houston), as well as in the nation's largest and most economically diverse markets (Chicago, New York, and Los Angeles). Additionally, a healthy rebound in auto sales, driven primarily by demand for fuel-efficient vehicles, has lead to stabilization in auto manufacturing markets (Detroit). However, as the federal government begins to cut spending and as state and local governments face severe budget restraints without the help of federal stimulus, public sector employment is expected to continue to decline. For example, Sixth District markets like Atlanta and Montgomery, Ala., rank among the U.S. metro areas with the largest job losses mostly as a result of job cuts within the government sector. Although the overall economy appears to be recovering, elevated energy and food costs, uncertainty surrounding major global conflicts, and a continued reduction in government spending pose major potential threats to continued improvement.



Source: Conference Board, Bureau of Labor Statistics



Source: Bureau of Labor Statistics

Job Growth Direction	Rank	Metro Areas	Year over Year Job Growth: Number	Percentage
Top Job Growth Metro Areas (March 2011)				
	1	Dallas-Fort Worth	69,000	2.4%
	2	Houston	51,800	2.1%
	3	Chicago	47,700	1.1%
	4	New York	47,300	0.6%
	5	Los Angeles	39,500	0.8%
	6	Washington D.C.	39,400	1.3%
	7	San Diego	24,700	2.0%
	8	Seattle	22,800	1.4%
	9	Detroit	22,600	1.3%
	10	Milwaukee	22,500	2.8%
Top Job Loss Metro Areas (March 2011)				
	1	Sacramento	-14,600	-1.8%
	2	Memphis	-7,500	-1.3%
	3	Baltimore	-5,300	-0.4%
	4	Atlanta	-4,900	-0.2%
	5	Trenton, NJ	-3,900	-1.6%
	6	Albuquerque	-3,000	-0.8%
	7	Cape Coral	-3,000	-1.5%
	8	Montgomery, AL	-2,600	-1.5%
	9	Riverside, CA	-2,100	-0.2%
	10	Tucson, AZ	-1,500	-0.4%

Blue = Sixth District Markets

Source: Bureau of Labor Statistics

Housing Demand: Despite some positive economic trends, it is clear that the current level of job growth is not strong enough to spur robust demand for housing, nor to overcome systemic challenges in the housing market like tighter lending standards, an elevated percentage of U.S. homes in foreclosure (3.7 percent), and a high percentage U.S. homeowners with negative equity (23 percent). All of these factors are suppressing housing demand and creating continual downward pressure on home prices.

Distressed Sales: Though still elevated, the percentage of mortgages either delinquent or in foreclosure is beginning to decline. However, distressed properties (including bank-owned and short sales) still make up an increasing share of home sales, up to a high of 40 percent in March 2011. Of these, short sales account for the largest share (17 percent).

Home Prices: According to CoreLogic, the price discount for distressed properties rose from 26 percent in 2008 to a high of 37 percent in 2010. A higher percentage of distressed property sales, in addition to sharper price discounts for these properties, has increased the impact that distressed sales have had on overall home prices. Prices declined nationally by 5.9 percent from March 2010 to March 2011 and potential homebuyers, anticipating further price declines, have little motivation to buy. However, home price declines are not universal as prices for nondistressed properties in healthier submarkets have experienced some stabilization. Submarkets that are more desirable to homebuyers (i.e., those with better school districts and closer to employment corridors) typically have fewer foreclosures and, therefore, have less distressed sales and more stable home prices.

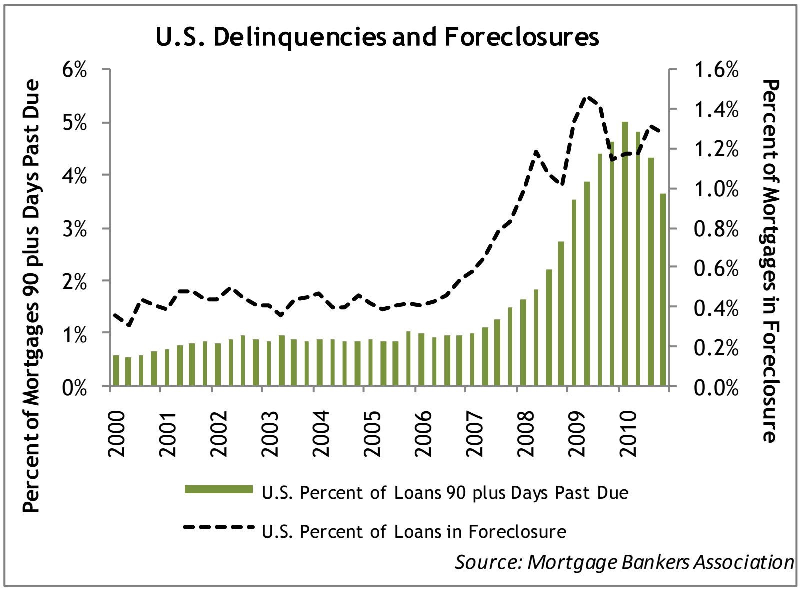
Quotes

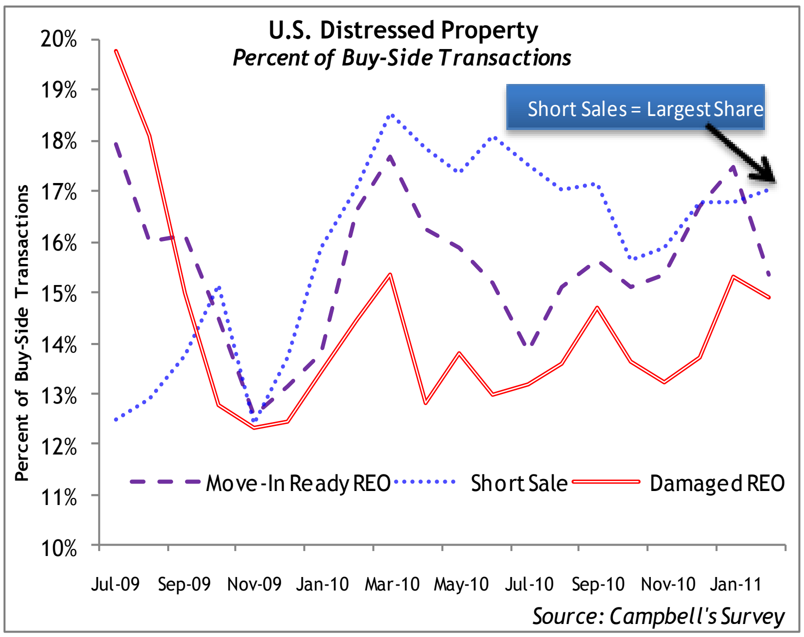
"It's scary out there. A few markets are performing well, but in the past quarter our sales weren't as we were expecting." —*Public homebuilder (multi-markets)*

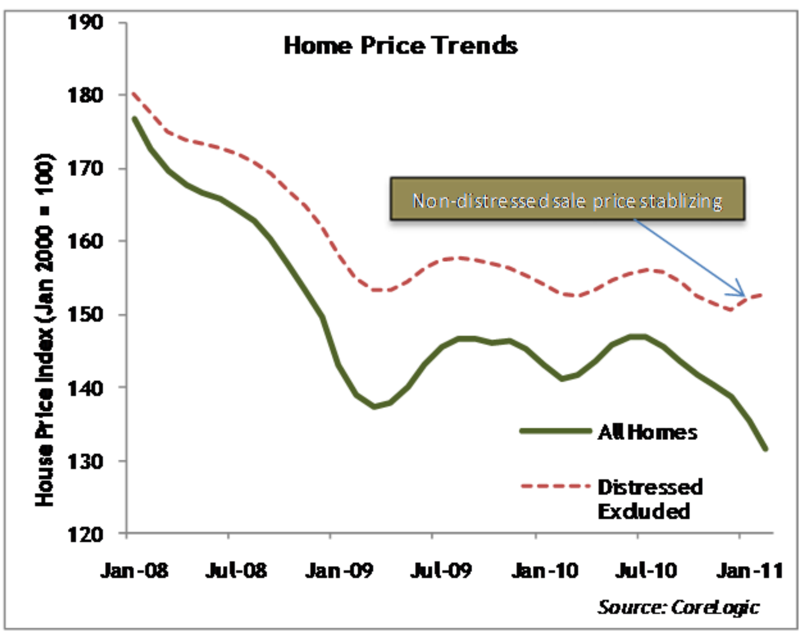
"Our biggest problem is financing for builders...there isn't any out there. Our second issue is that banks are our competition." —*Developer in Atlanta*

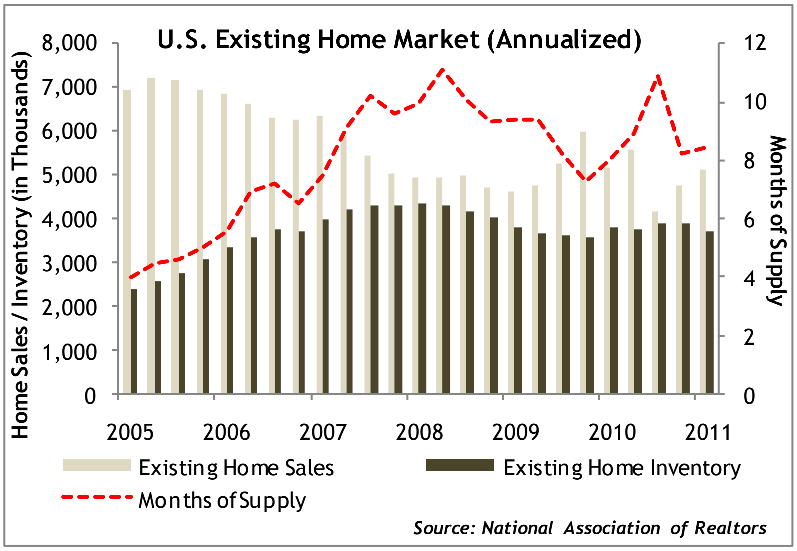
"How's the market? Not good. It depends what market or submarket you're in...down to street level or school district." —*Private Homebuilder (multi-markets)*

Source: PASS Real Estate Roundtable, April 29, 2011



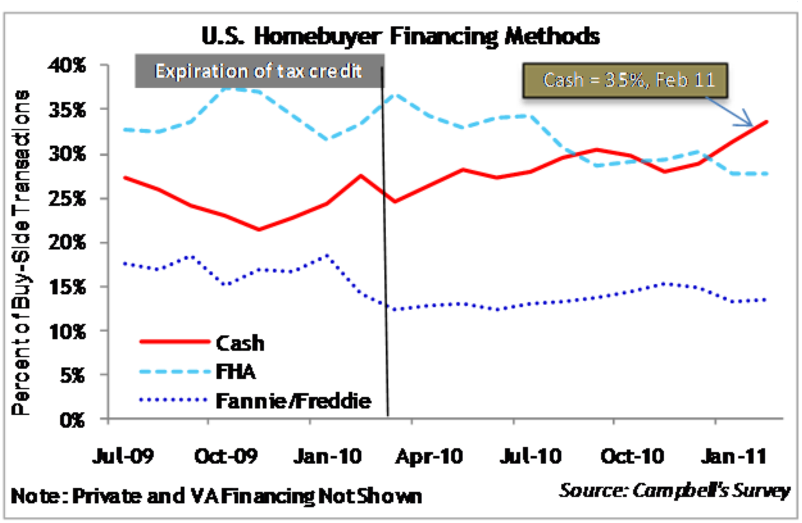






U.S. Share of Mortgages with Negative Equity = 23 percent			
Markets with LOW Negative Equity Percentage (4Q10)			
Rank	Market	Negative Equity Mortgages	Negative Equity Share
1	Pittsburgh	5,331	5.7%
2	Nassau-Suffolk NY	9,434	6.1%
3	Philadelphia	33,915	7.6%
4	San Antonio	19,503	9.4%
5	Austin	17,926	10.1%
6	San Francisco	9,495	10.2%
7	Cambridge, MA	9,716	10.8%
8	New York	34,391	11.3%
9	Houston	51,281	11.3%
10	Dallas	48,436	12.2%
Markets with HIGH Negative Equity Percentage (4Q10)			
1	Las Vegas	303,812	69.1%
2	Phoenix	535,010	56.5%
3	Orlando	280,778	55.9%
4	Fort Lauderdale	222,090	51.0%
5	Tampa	328,449	49.1%
6	Riverside, CA	417,266	48.9%
7	Miami	245,530	48.2%
8	Jacksonville	155,487	47.0%
9	West Palm Beach	147,643	44.3%
10	Sacramento	209,698	42.8%

Blue = Sixth District Markets *Source: CoreLogic*



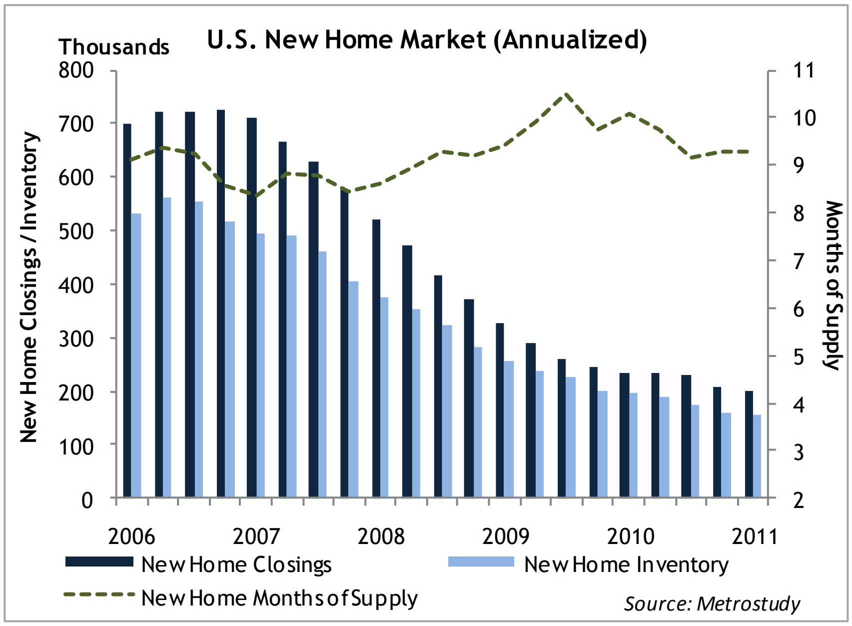
Existing Home Market: After peaking in 2008 through 2009, existing home inventory levels began to decline last year as sales increased during the federal tax credit. Once demand contracted as the credit expired, existing inventory rose, leading to a spike in the months of supply in the third-quarter 2010 to 10.9 months. Though still elevated, the slow recovery in home sales since the expiration of the tax credit has gradually reduced inventory levels, bringing the months of supply of existing homes down to 8.4 months. Still, existing home sales have failed to match levels experienced during the tax credit last year and ended first-quarter 2011 down 6.3 percent from first-quarter 2010. Existing home sales are expected to remain suppressed and inventory levels may remain elevated through 2011.

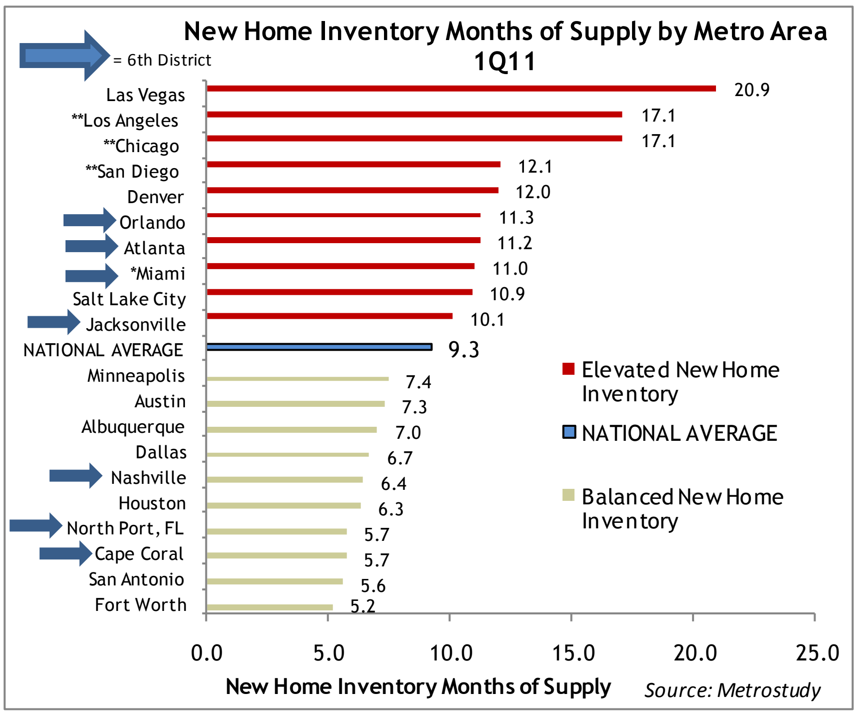
Several factors continue to limit improvement in existing home sales. Tougher lending standards, including higher interest rates, more stringent credit score requirements, and increased down payments have restricted entry-level buyers' participation in the market. Weakness in the entry-level market limits the ability of potential move-up buyers, who have homes to sell, to find viable buyers. In addition, a high percentage of homeowners who are under water in their current mortgage means that if they do find a viable buyer, they will lack the equity to put towards a down payment for a new home. Still, high negative equity rates, though an issue nationwide due to the impact on buyer mobility, remain acutely concentrated in markets that experienced high price escalation during the 2004-2006 housing boom. **This condition is especially evident in the Sixth District. Of the metro areas with the highest percentage of homeowners with negative equity in the nation, six are located in Florida. This has severely impacted homebuyer mobility and suppressed homebuyer demand within the district.**

Declining home prices, weak housing demand, and a low level of buyers who qualify for mortgages have all corresponded with an increase in all-cash home purchases, which now make up 35 percent of transactions. Investors, attracted by low home prices and the need to diversify and hedge against inflation, make up the largest portion of all-cash home buyers. All-cash investors have targeted primarily low priced, distressed properties as evidenced by low national average price of cash transactions ($94,000). Although some institutional investors are buying homes in bulk at a discount hoping to resell at a profit, a significant number of investors are looking for rental income. Moreover, all-cash transactions by foreign nationals investing in U.S. real estate have increased sharply over the past year. Attracted by low prices and favorable exchange rates, foreign buyers desiring a U.S. second home have been primarily drawn to popular business and tourist destinations such as New York City, California, and Phoenix. **Sixth District metro areas in South Florida have also benefited from this trend as demand for second homes from Venezuelan, Brazilian, and Canadian foreign nationals in particular has surged over the past year, leading to a strong increase in existing home sales in this market.**

New Home Market: The abundant supply of low-priced, distressed inventory in the overall housing market continues to make it difficult for new home builders to compete, leading to further stagnation in the new home industry. Overall, demand for new homes has remained suppressed as potential buyers opt more for affordably priced foreclosures and existing home inventory. Without help from the tax credit, new home sales ended the first quarter down 15 percent from last year. Despite some positive traffic and sale trends at the beginning of the quarter, a harsh winter, declining home prices, and rising energy and food prices all led to a decline in new home demand. Also, the limited availability of construction financing has led to fewer housing starts and a concentration of home-building activity within a select group of mainly public builders who have superior access to capital. Home builders have concentrated new lot acquisitions and new inventory construction within core submarkets and have stayed away from risky developments in ex-urban areas. The limited amount of housing starts over the past few years has resulted in balanced inventory levels in most markets and could lead to supply shortages once demand recovers.

Despite continued stagnation within the new home industry overall, there are several markets that are beginning to experience some positive trends. Markets in Texas, such as San Antonio, Houston, and Dallas, have maintained healthy population and job growth and, as a result, have more balanced inventory levels, comparatively less foreclosures, and fewer mortgages with negative equity. **Although Sixth District metro areas, such as Orlando, Atlanta, Miami, and Jacksonville, still have elevated new home inventory levels, areas like Nashville, North Port, and Cape Coral have better balanced levels due to continued declines in housing starts.**





** Note: Miami Months of Supply does NOT include condos*
*** Note: Months of Supply is partially elevated due to a higher percentage of condos or more expensive units*

Outlook: SWOT Analysis

Strengths: Healthy job growth, high home affordability, declining levels of foreclosures and delinquencies, balanced new home inventory levels in some markets, stabilization of nondistressed home prices.

Weaknesses: Volatile consumer confidence, increasing share of distressed sales, declining home prices, tighter lending conditions, limited mortgage accessibility, limited buyer motivation, limited new home construction financing, rising construction costs.

Opportunities: Higher job growth sparks greater demand for housing, investor/foreign housing demand continues to grow, limited supply and stable demand levels within most desirable submarkets lead to price stabilization.

Threats: Rising energy costs suppress consumer demand further, unpredictable global events lead to further market contraction, home prices experience a double dip.

For more information on R-REMS, please contact Domonic D. Purviance at domonic.purviance@atl.frb.org