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Real Estate and Economic Outlook

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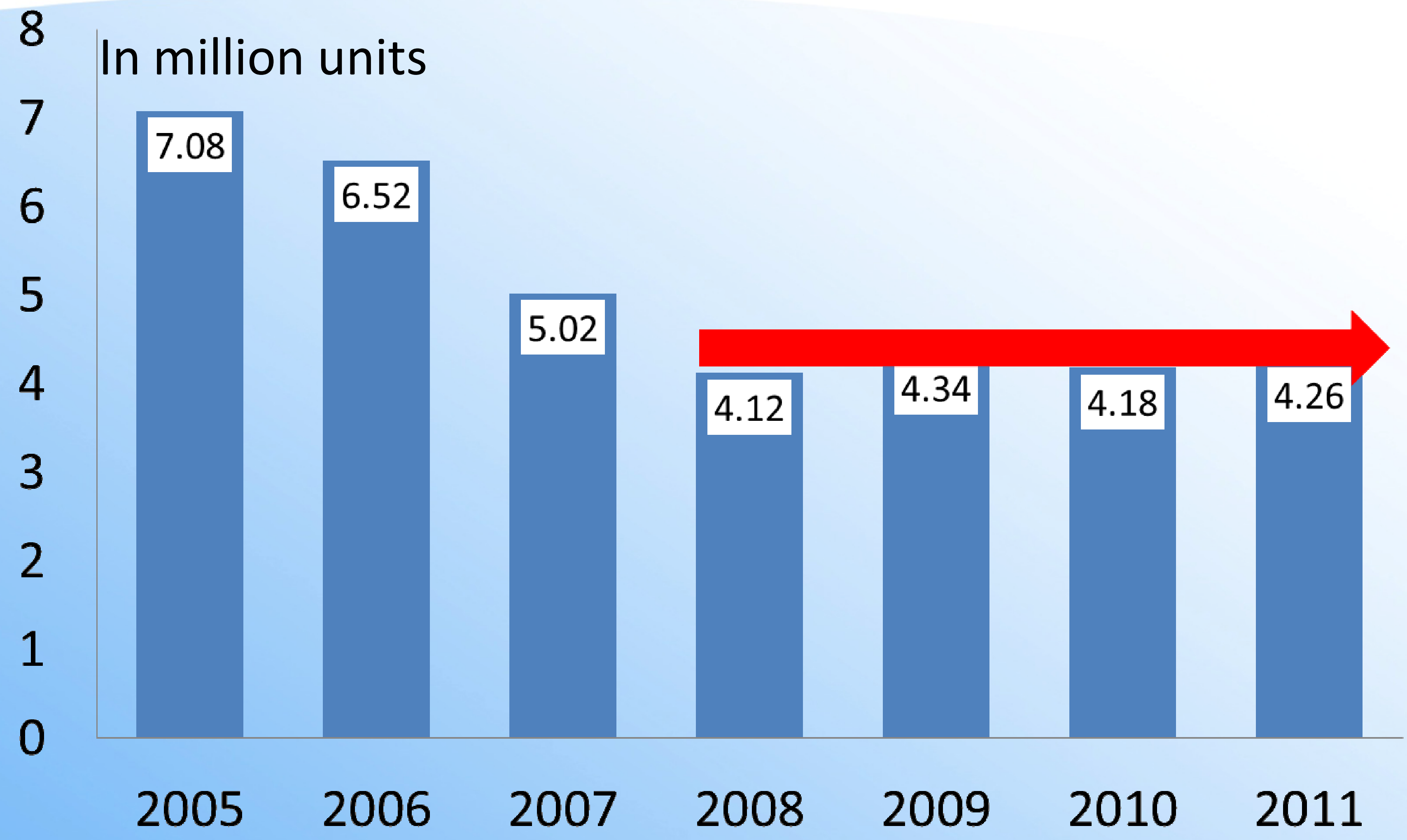
NATIONAL ASSOCIATION OF REALTORS®

Presentation at CRE Finance Council Annual Conference

Washington, D.C.

June 12, 2012

Annual Existing Home Sales: A Tough, Flat 4 years



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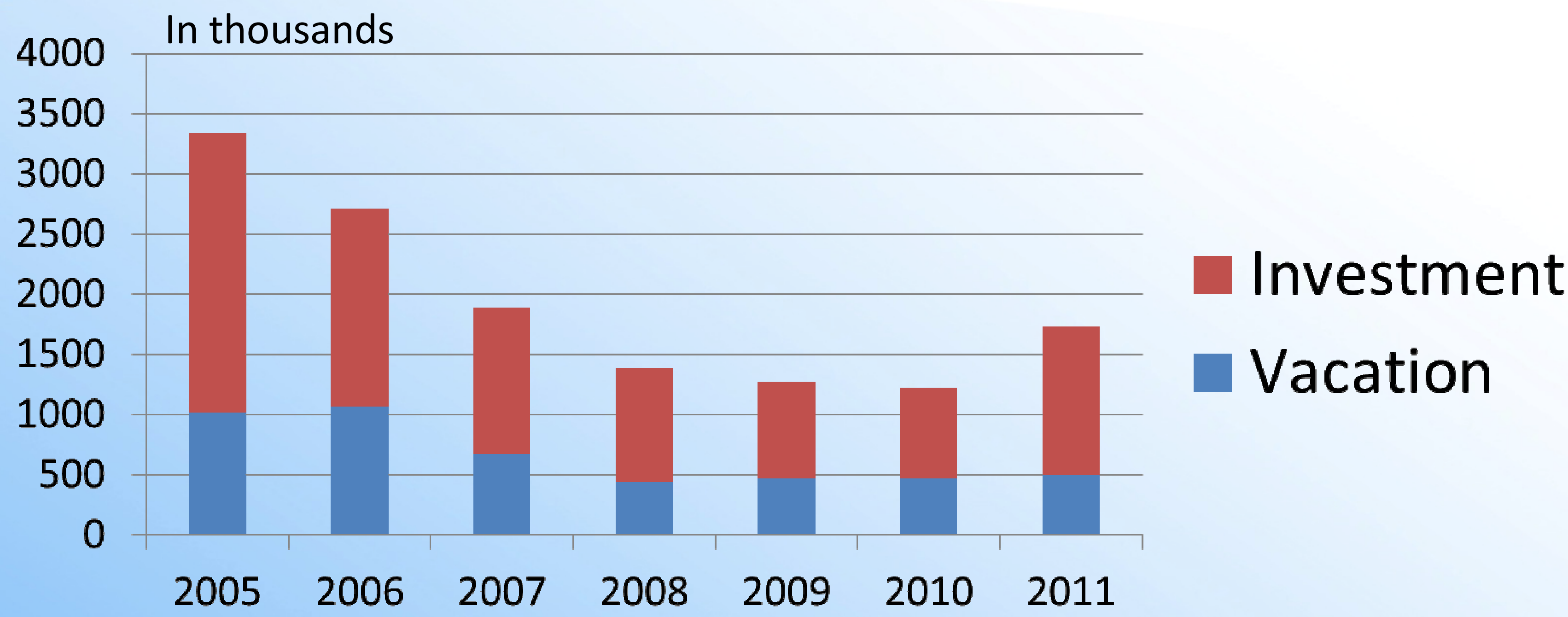
Despite Second Home Sales Recovery



Buy a condo for your college student

53% of REALTOR® members own a residential investment property
29% own a commercial property
19% own a vacation home

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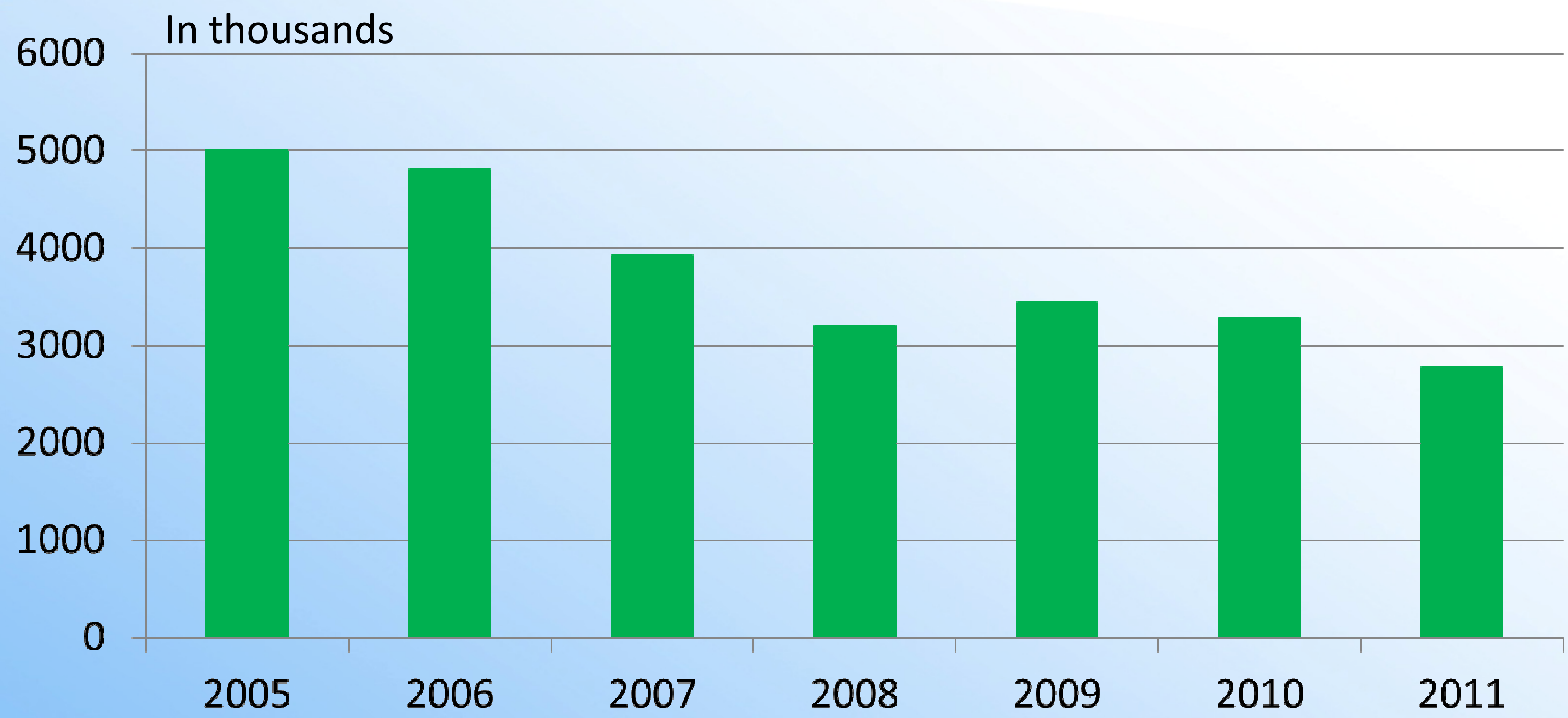
Owner-Occupancy Sales Falling

(All-Cash deals hiding the current dysfunctional mortgage market)

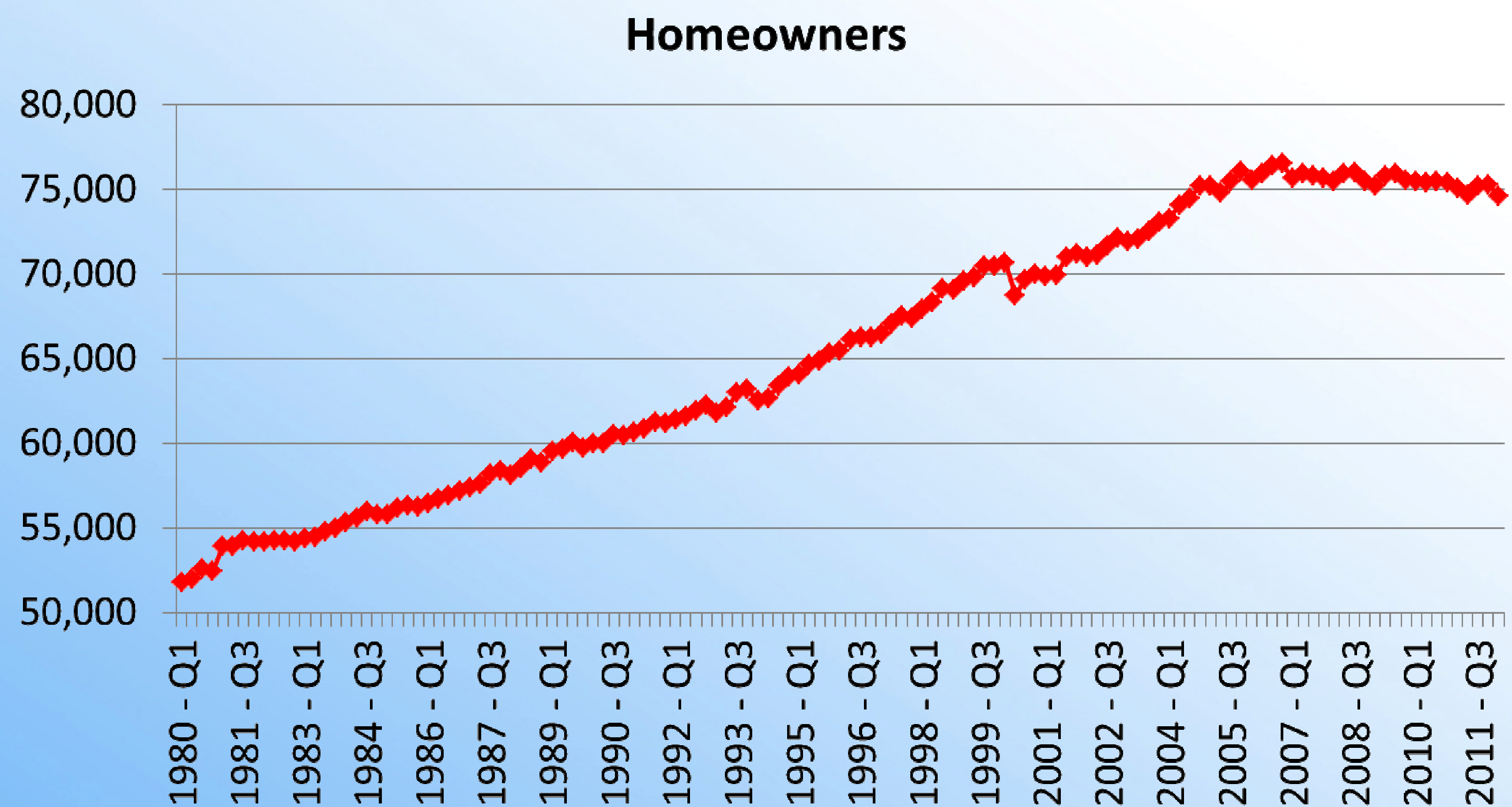


QRM rules

Raising g-fees to fund non-housing issues

Banks hoarding cash! … from regulatory uncertainties and lawsuits?

Owner Occupied Housing Units



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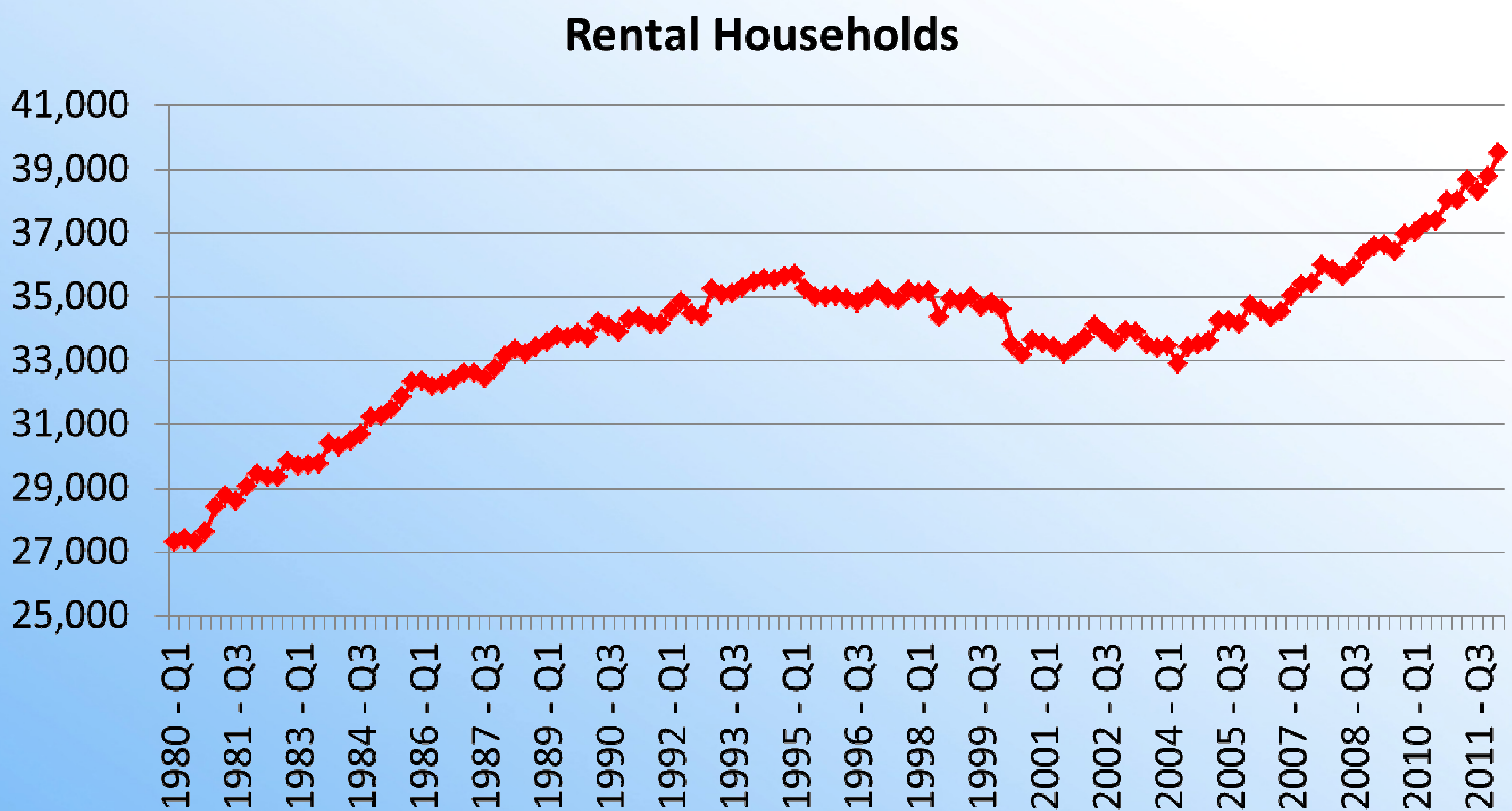
Rental Occupied Housing Units



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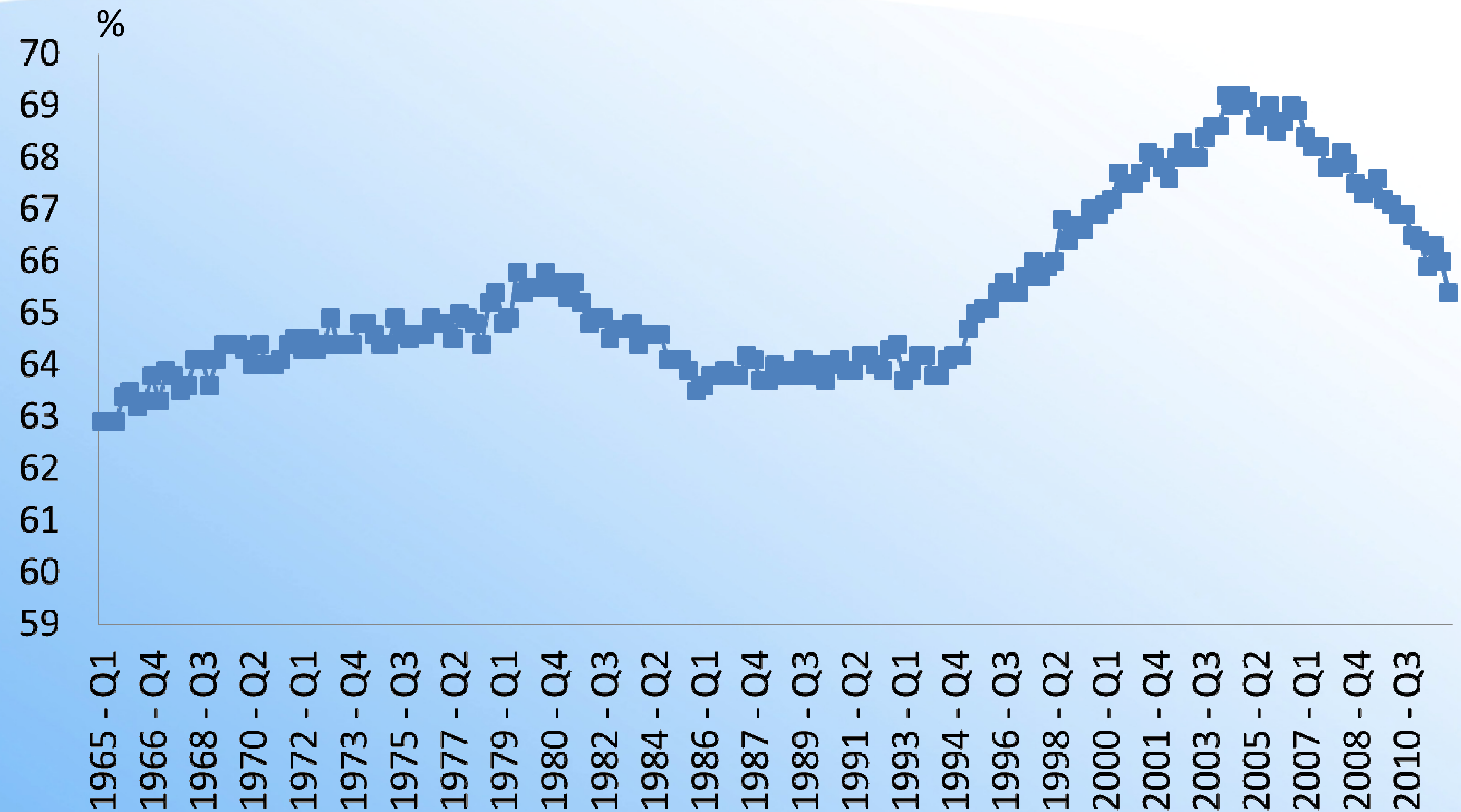
Homeownership Rate at 65.4%

(Lowest in 15 years)



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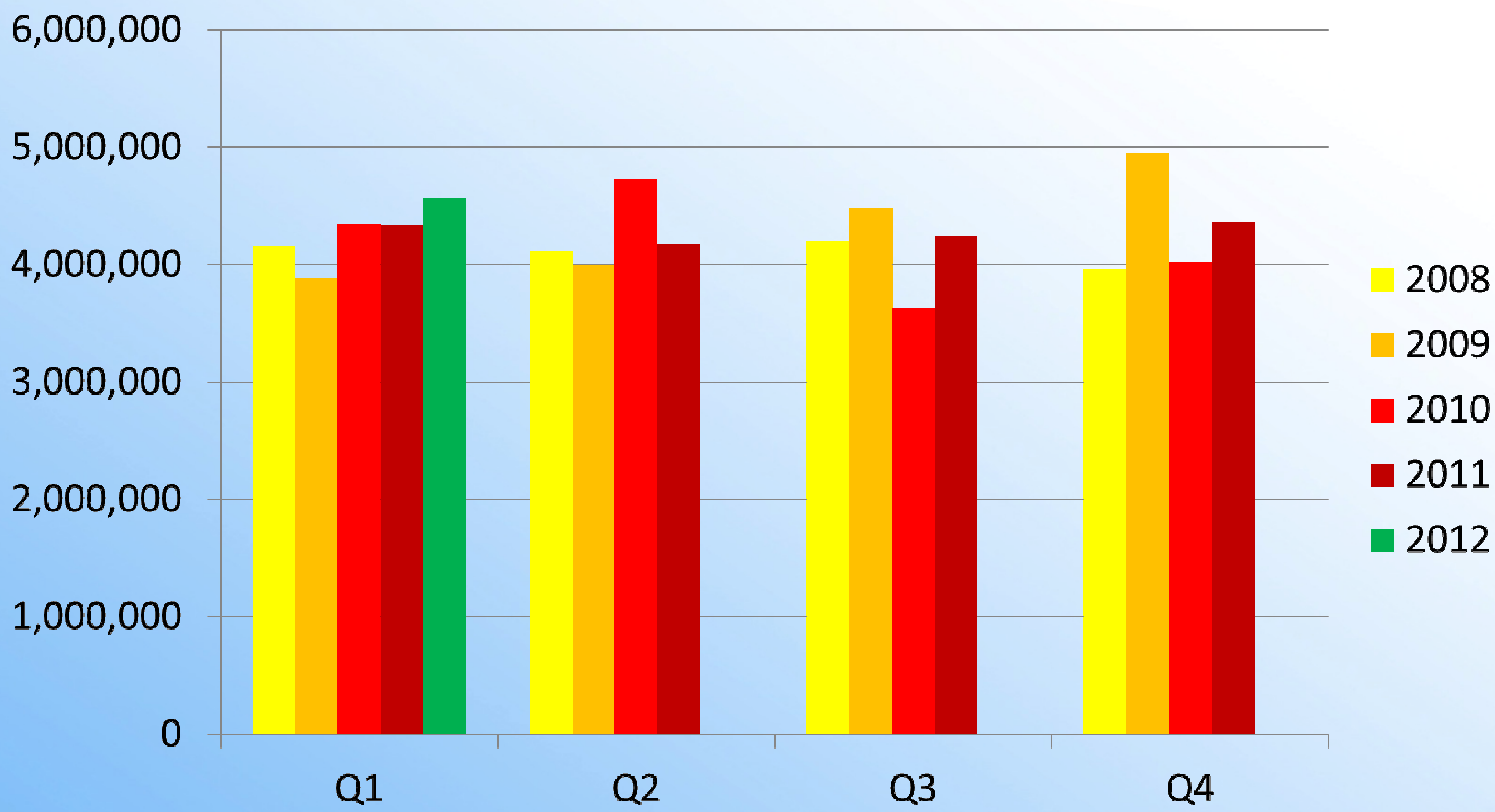
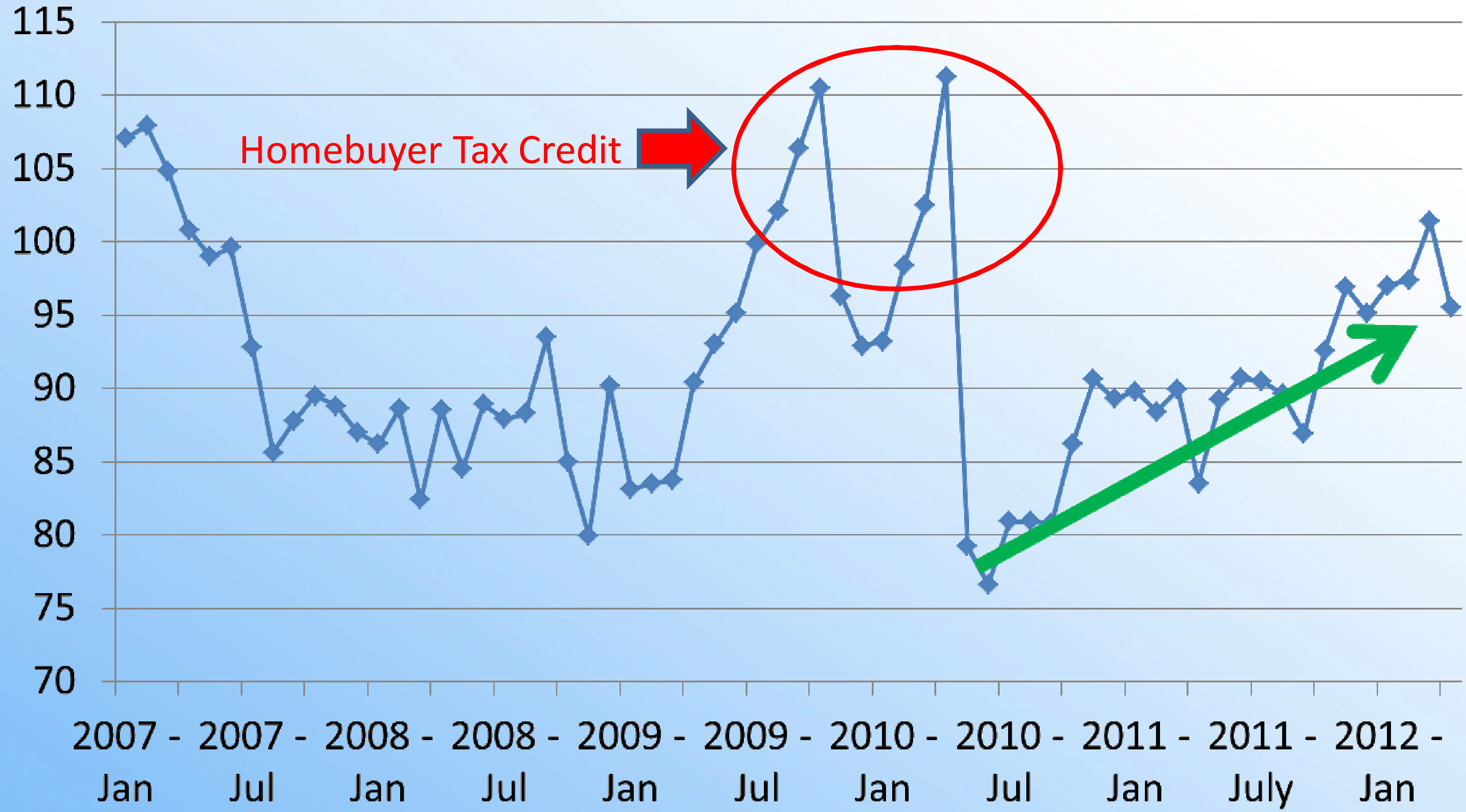
2012 First Quarter Sales: Strongest in 5 years



Monthly Pending Home Sales Index

Point to Strongest Second Quarter in 5 years



Source: NAR

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Improving Factors for Higher Sales in 2012:

1. High Affordability
2. Growing Economy and Job Creation
3. Solid stock market recovery from 2008
4. Rising rents and a larger pool of qualified renters
5. Pent-up release of Household Formation
    - Rising demand for ownership and rentals as young-adults move out of parent’s basement
6. Smart money chasing real estate (i.e., investors)
7. Consumer confidence in buying an appreciating asset

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Best Affordability Conditions

Economy out of Recession and Growing

GDP growth for 11 straight quarters

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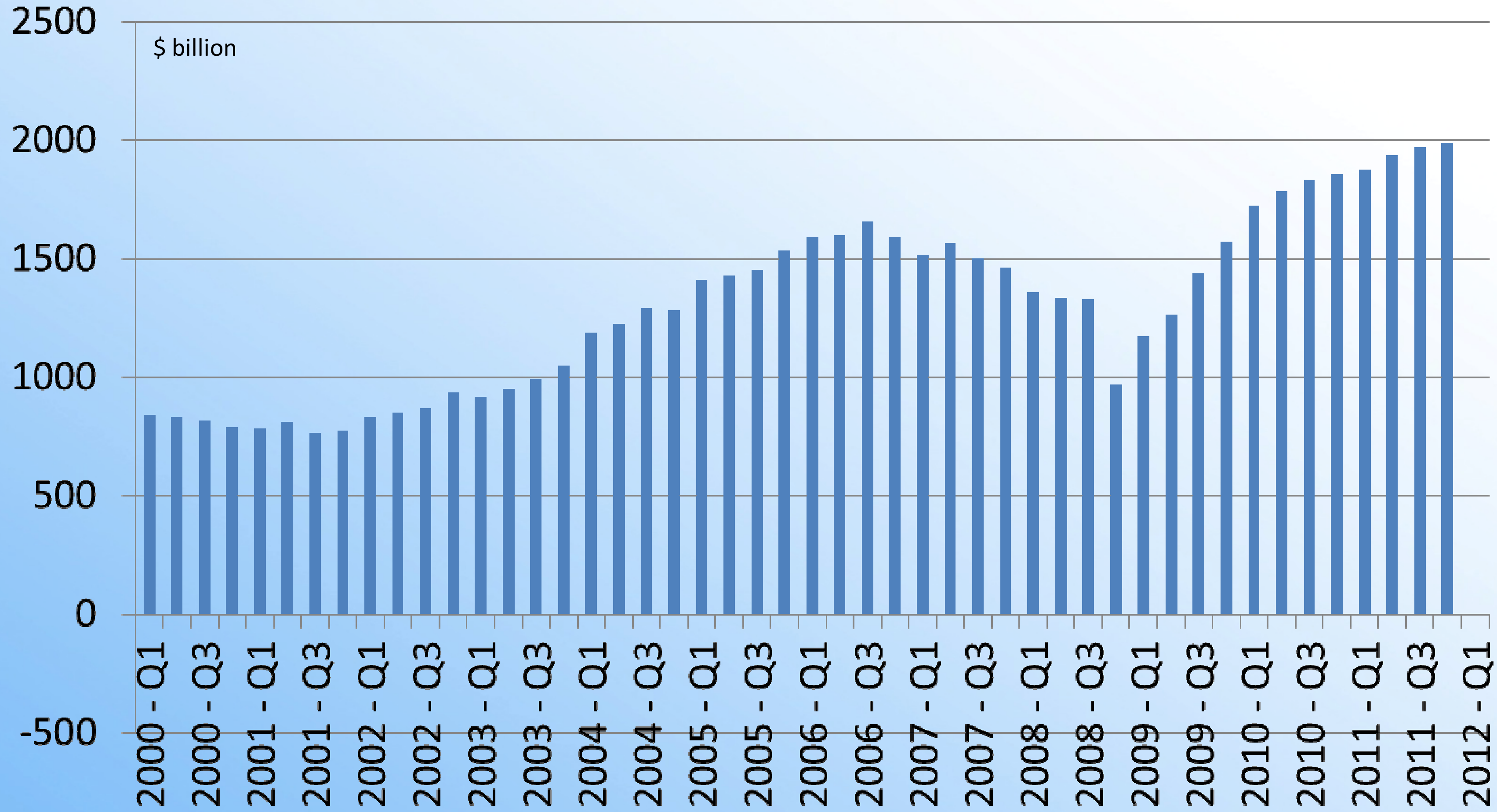
Corporate Profits … Sky High



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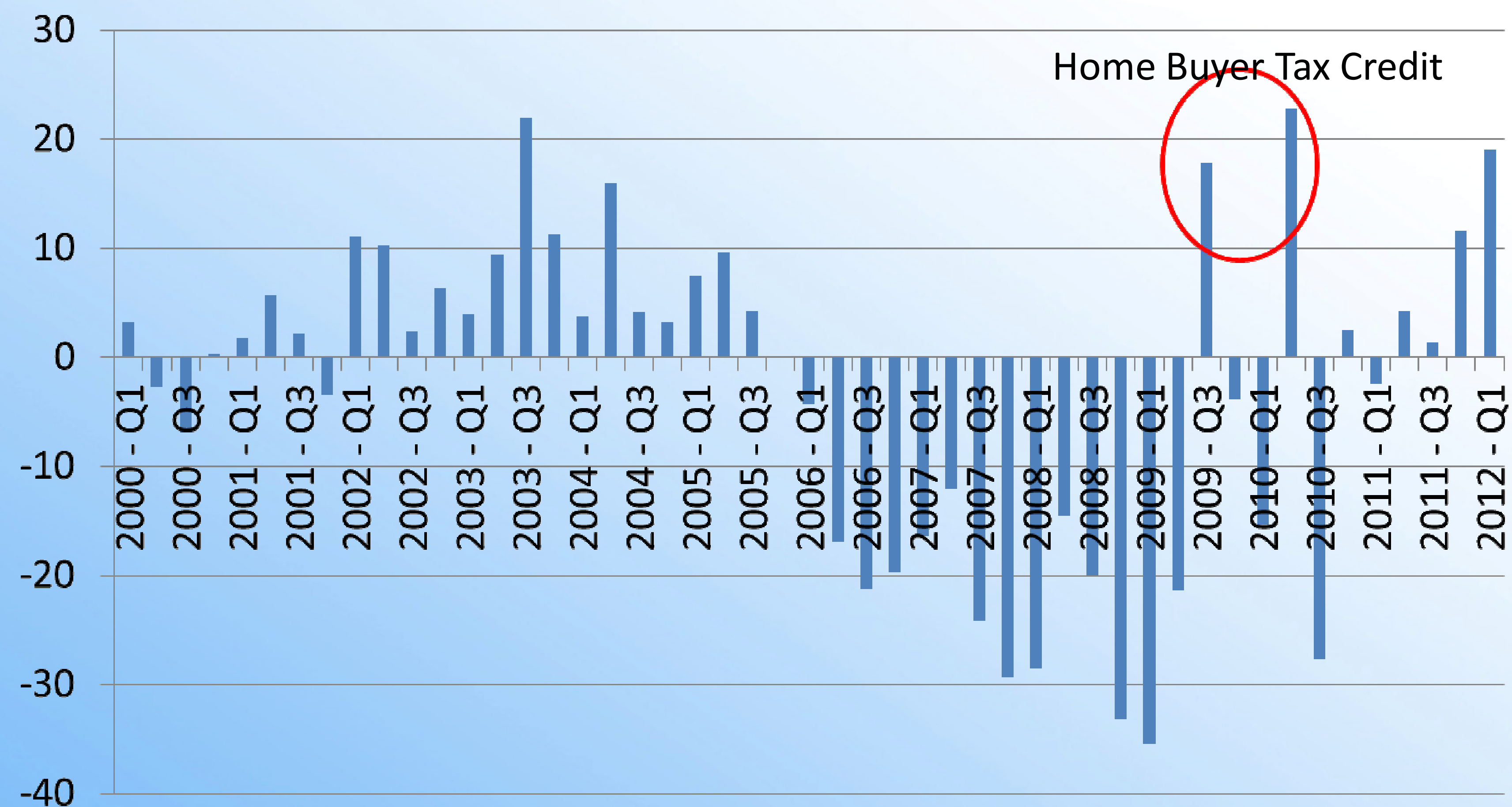
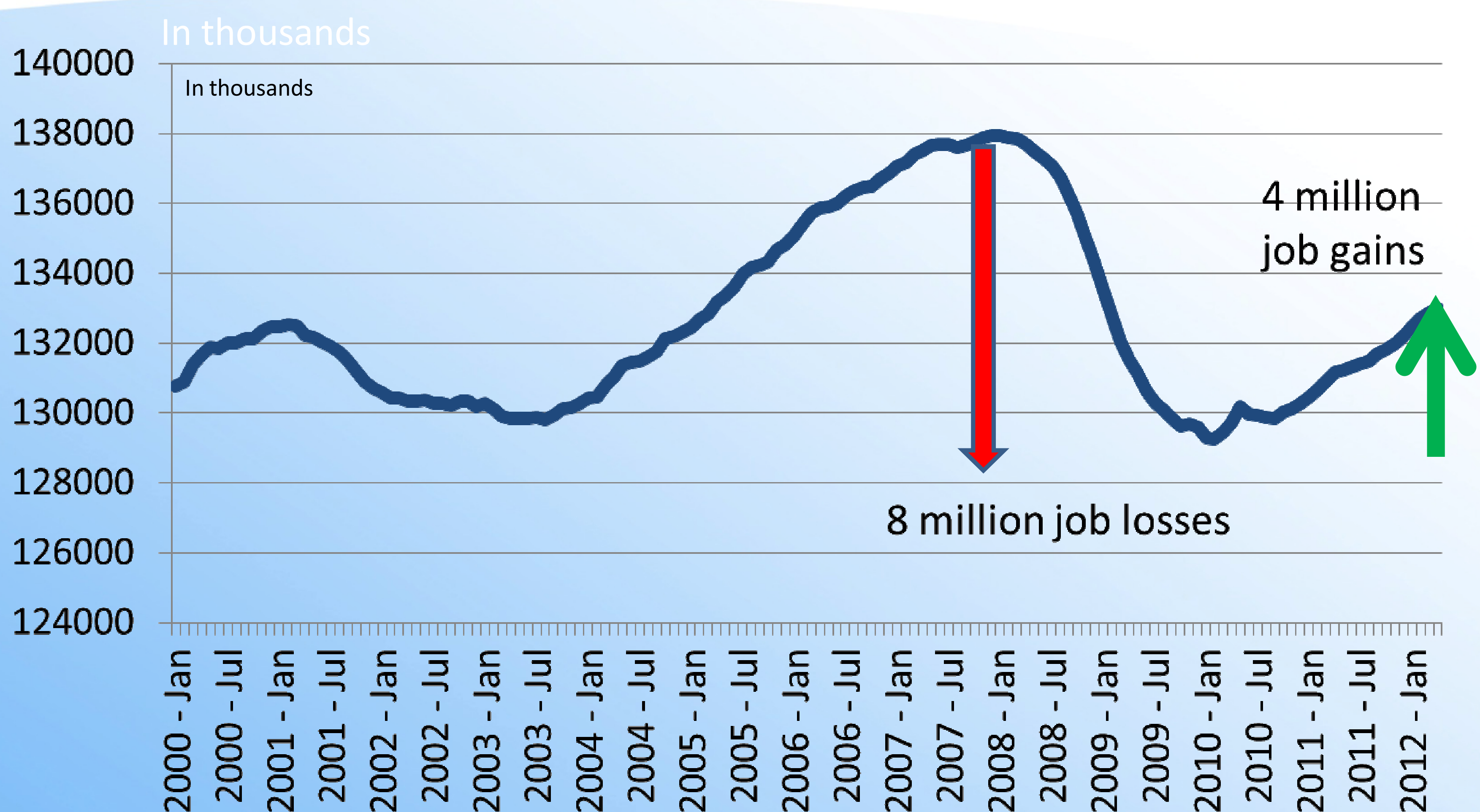
Residential Investment Spending Growth

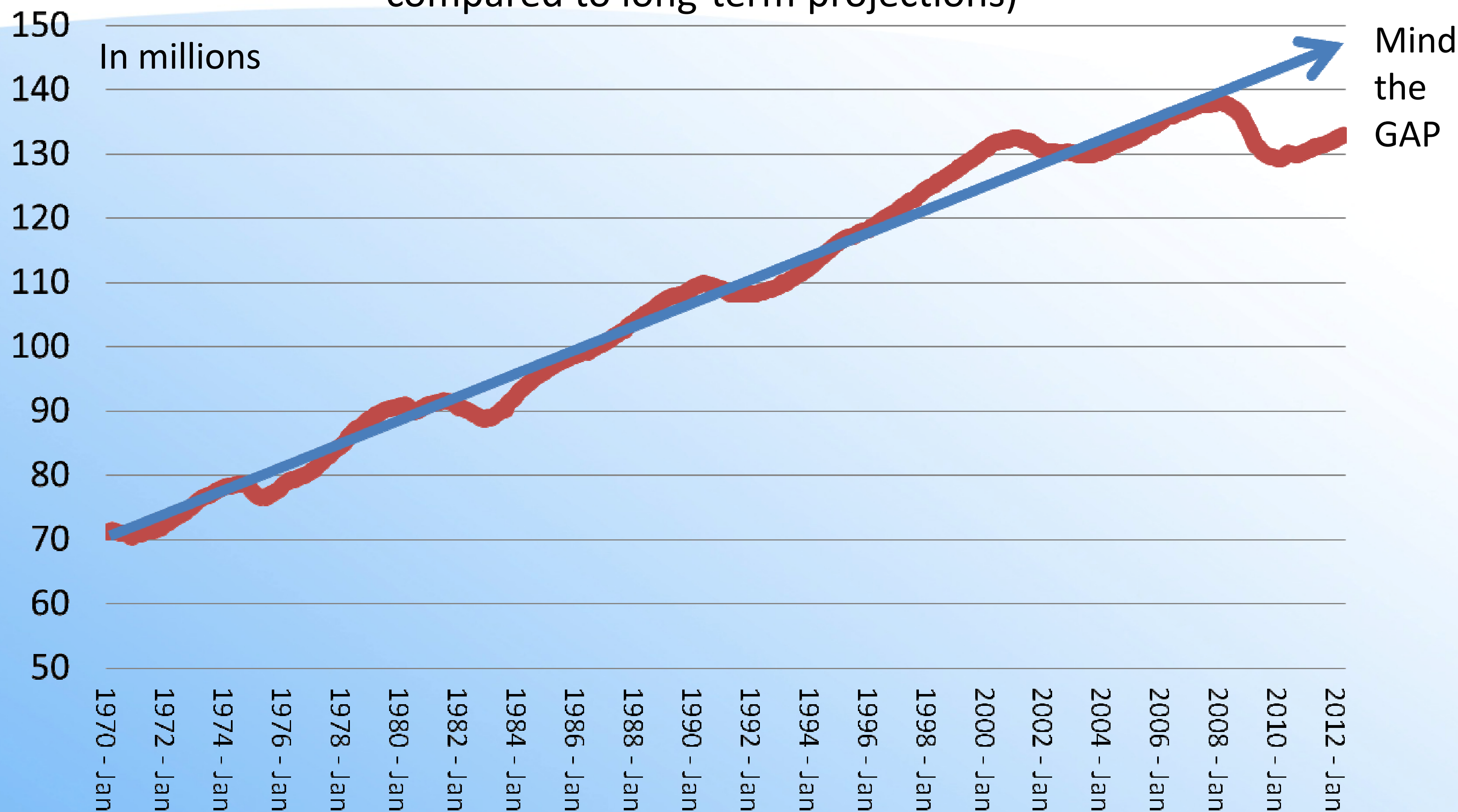


Total U.S. Payroll Jobs Increasing



Total Payroll Jobs

(Recovered half of jobs lost a few years ago, but still down by 10 million compared to long-term projections)



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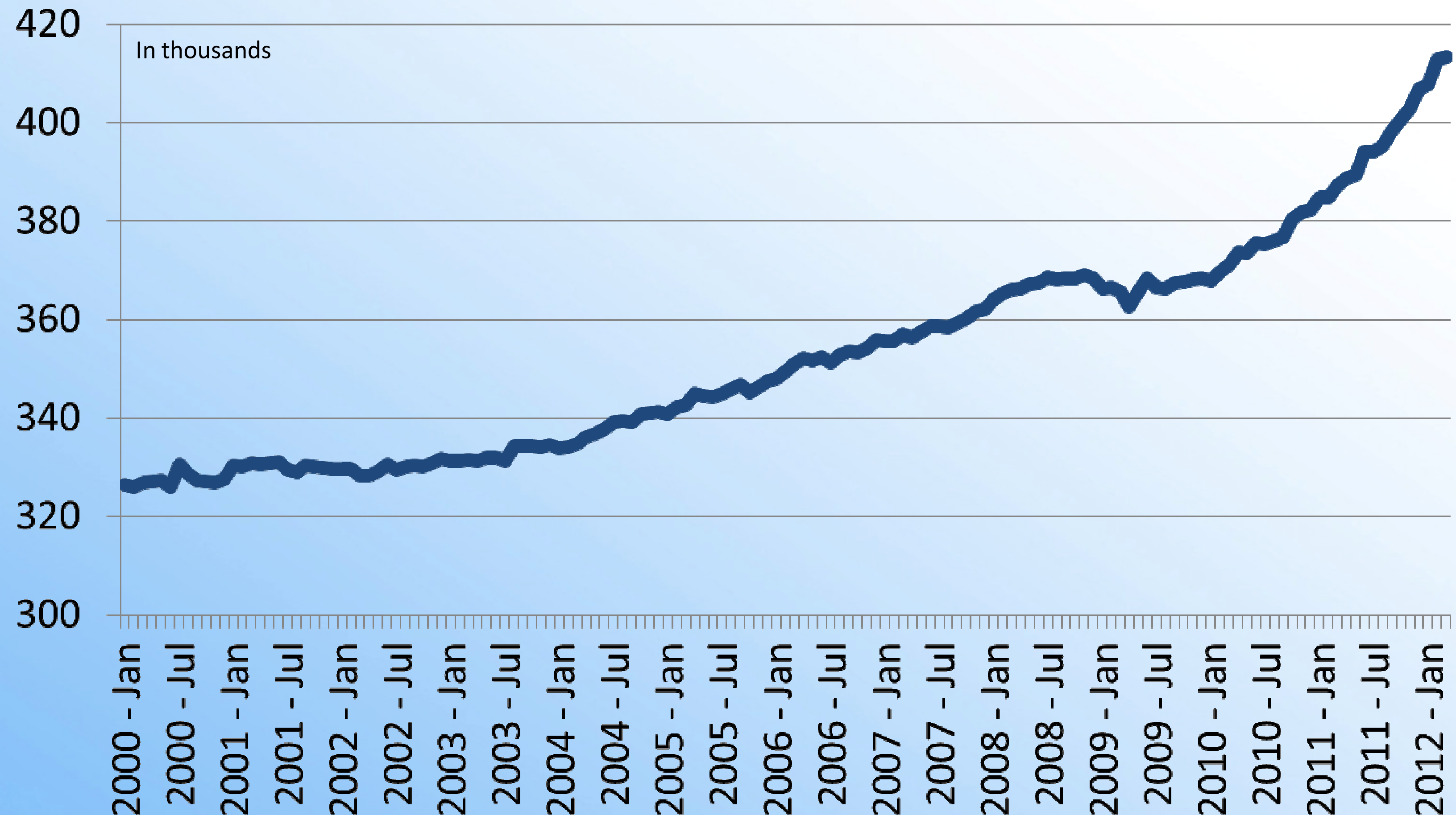
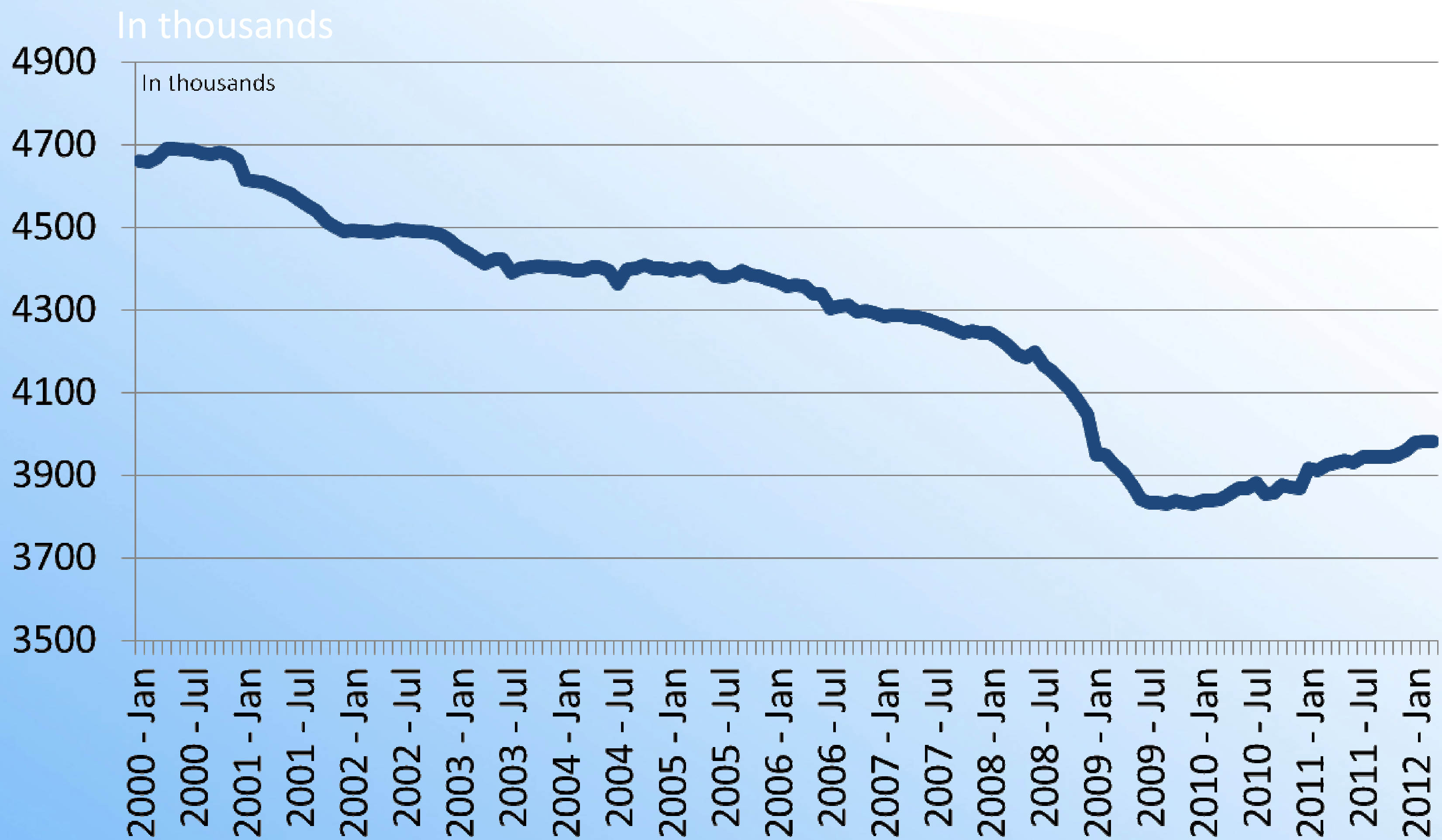
North Dakota … Jobs Everywhere

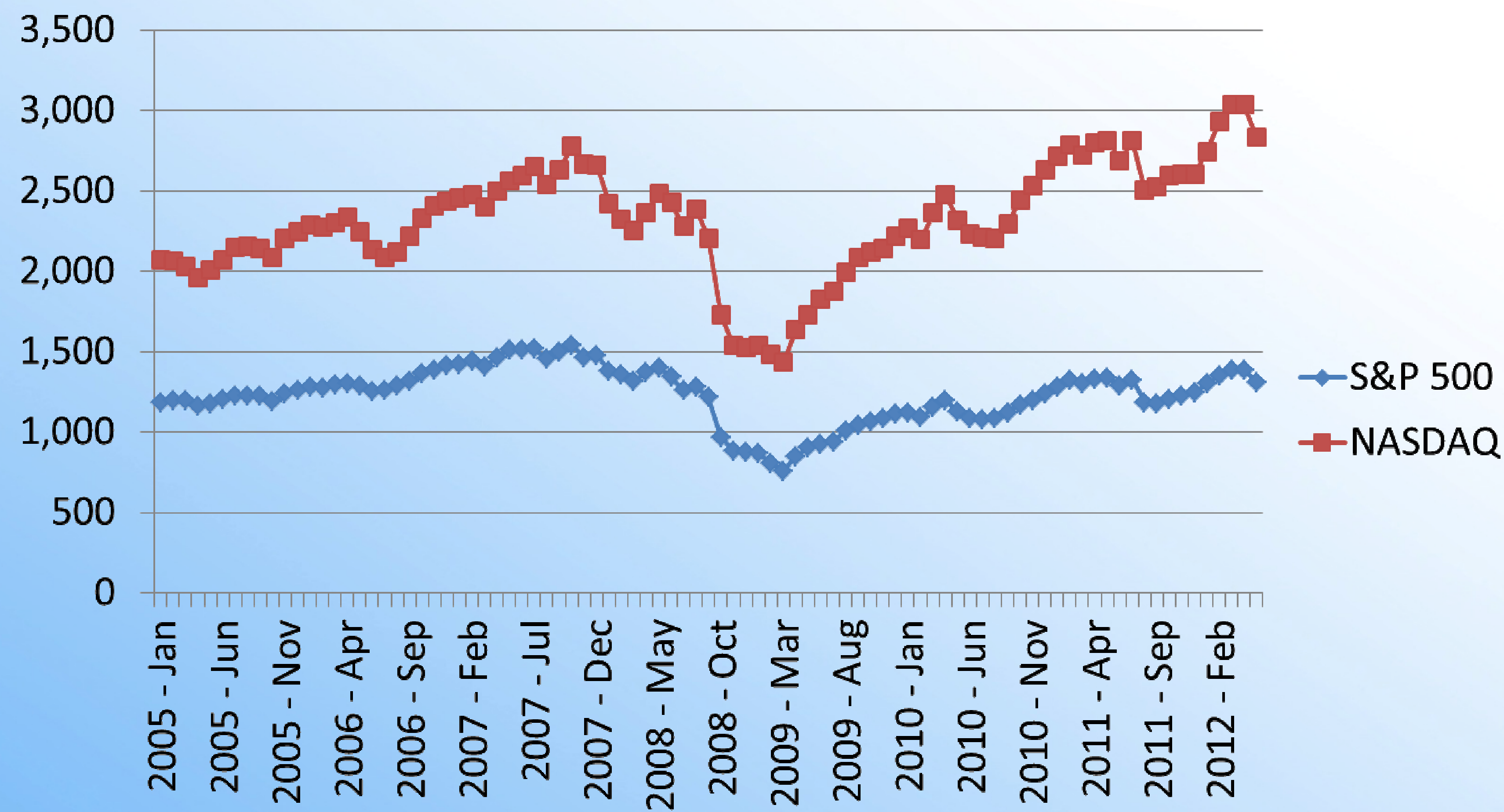


Michigan … Beginning to Smile



S&P 500 and NASDAQ

(More than 80% increase from low point)



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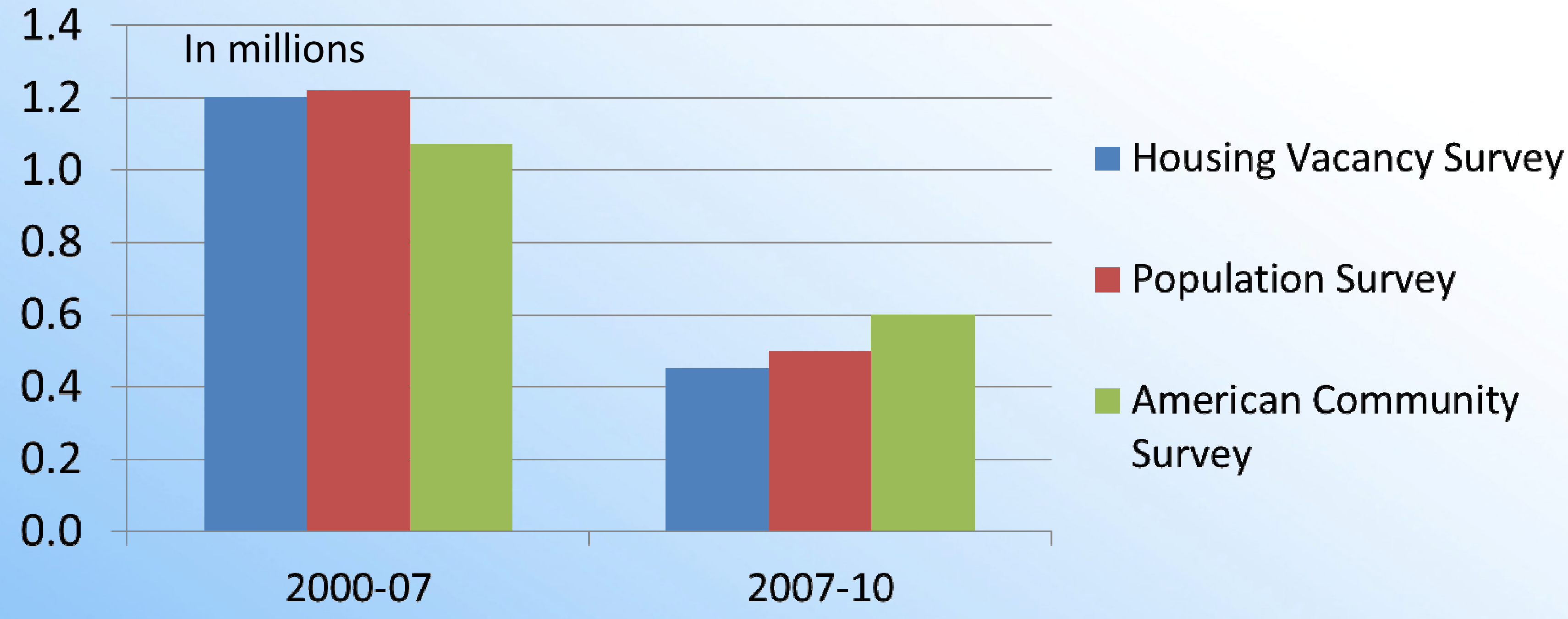
Rent Growth

(Component from Consumer Price Index)

Annual Household Formation… Future Rent Pressure?

(3 separate Census data)



Household Formation leads to increase ownership and renters;
Could begin to return to normal of at least 1 million from 2012.

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Banks/Regulators Restricting Credit

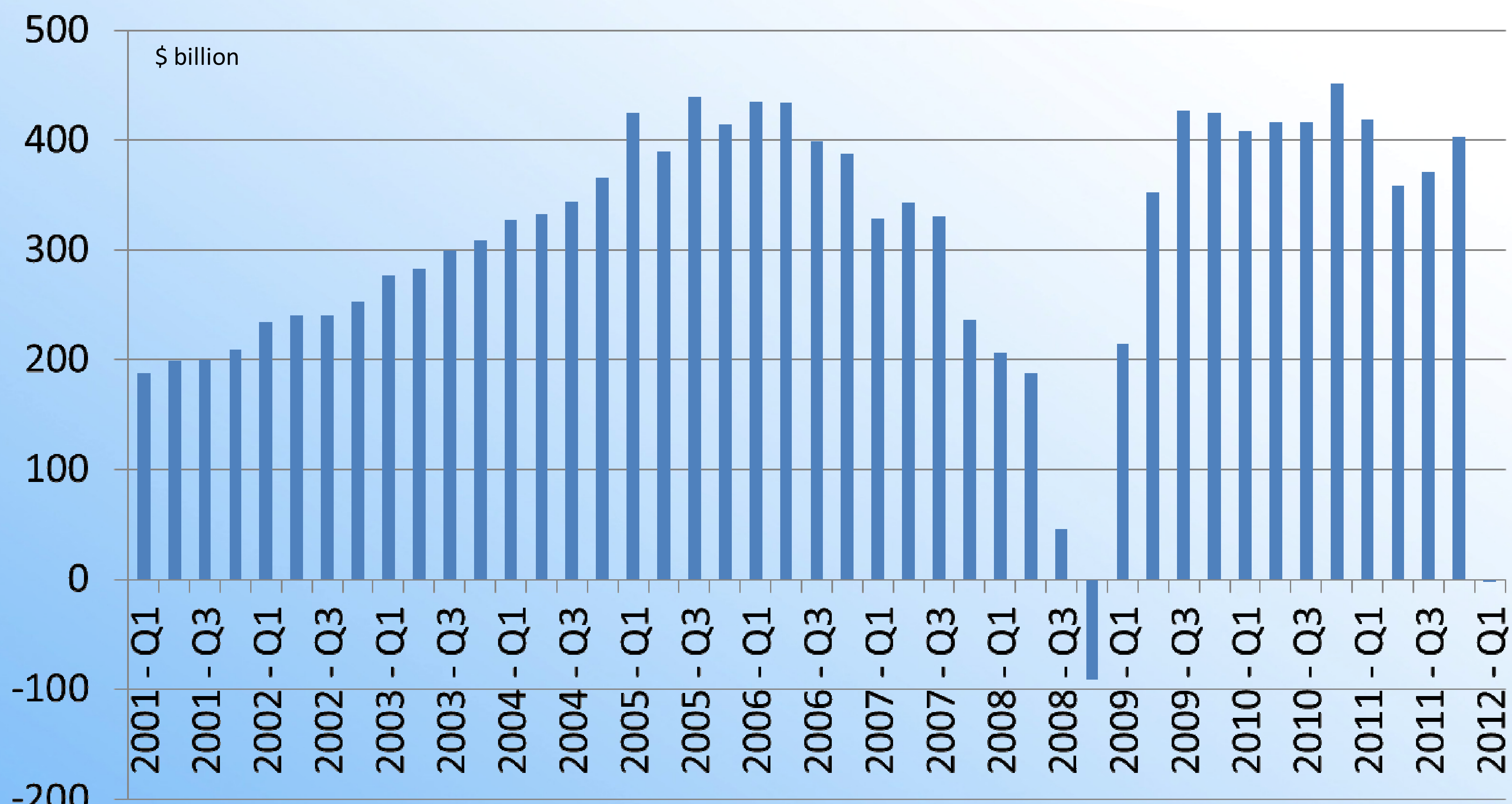
(Average Credit Scores of Approved Loans)

	Normal	2009	2010	If Normal
Fannie	720	761	762	720
Freddie	720	757	758	720
FHA	650	682	698	660

15% to 20% Higher Sales

Financial Industry Profits

(excluding Federal Reserve)



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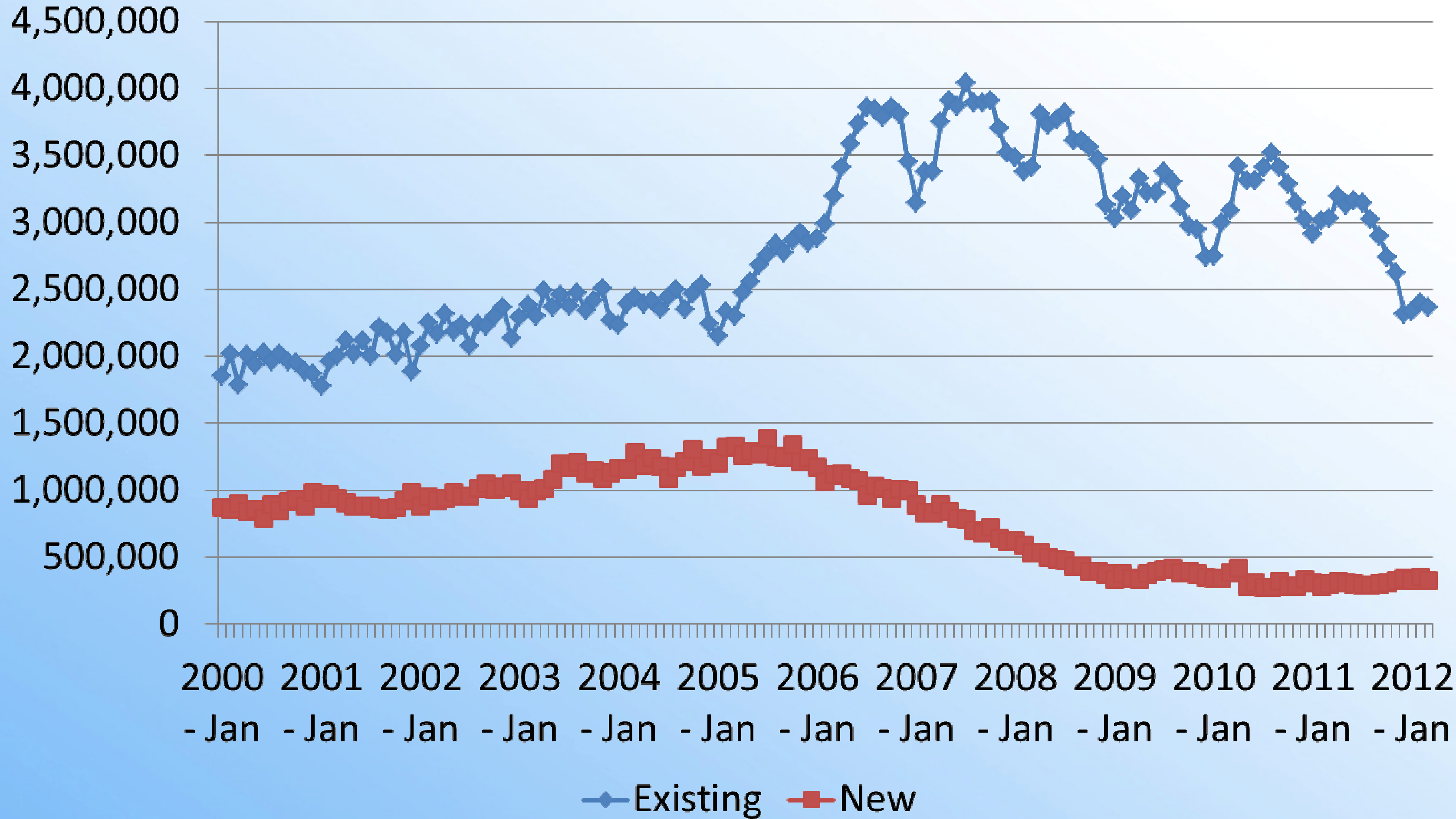
Visible Inventory of Homes

(6-year low for Existing Homes and 50-year low for New Homes)



Source: NAR, Census

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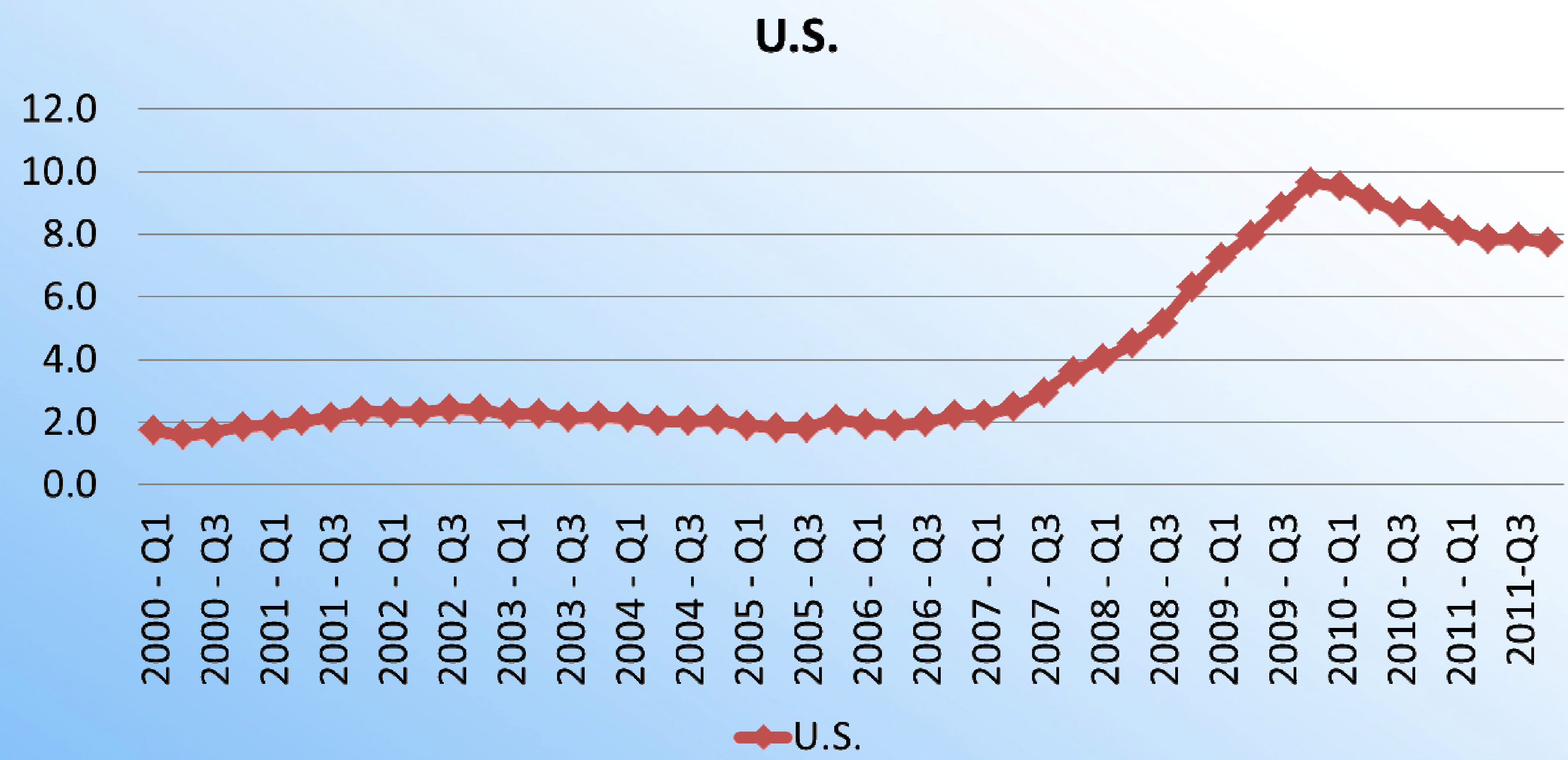
Shadow Inventory

(Seriously Delinquent: 90+ days late or in foreclosure process)



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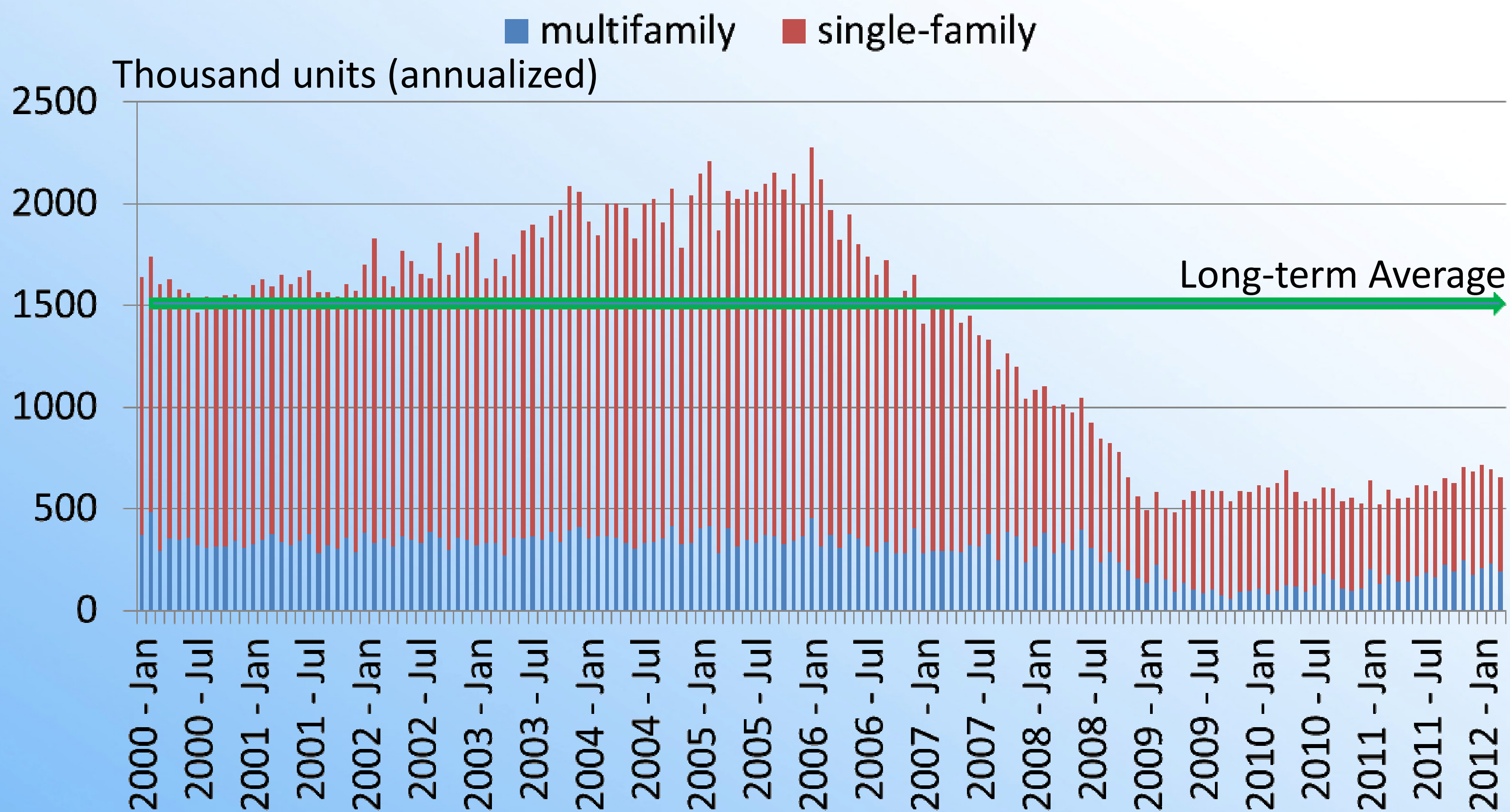
Housing Starts

(Well Below 50-year average of 1.5 million each year)

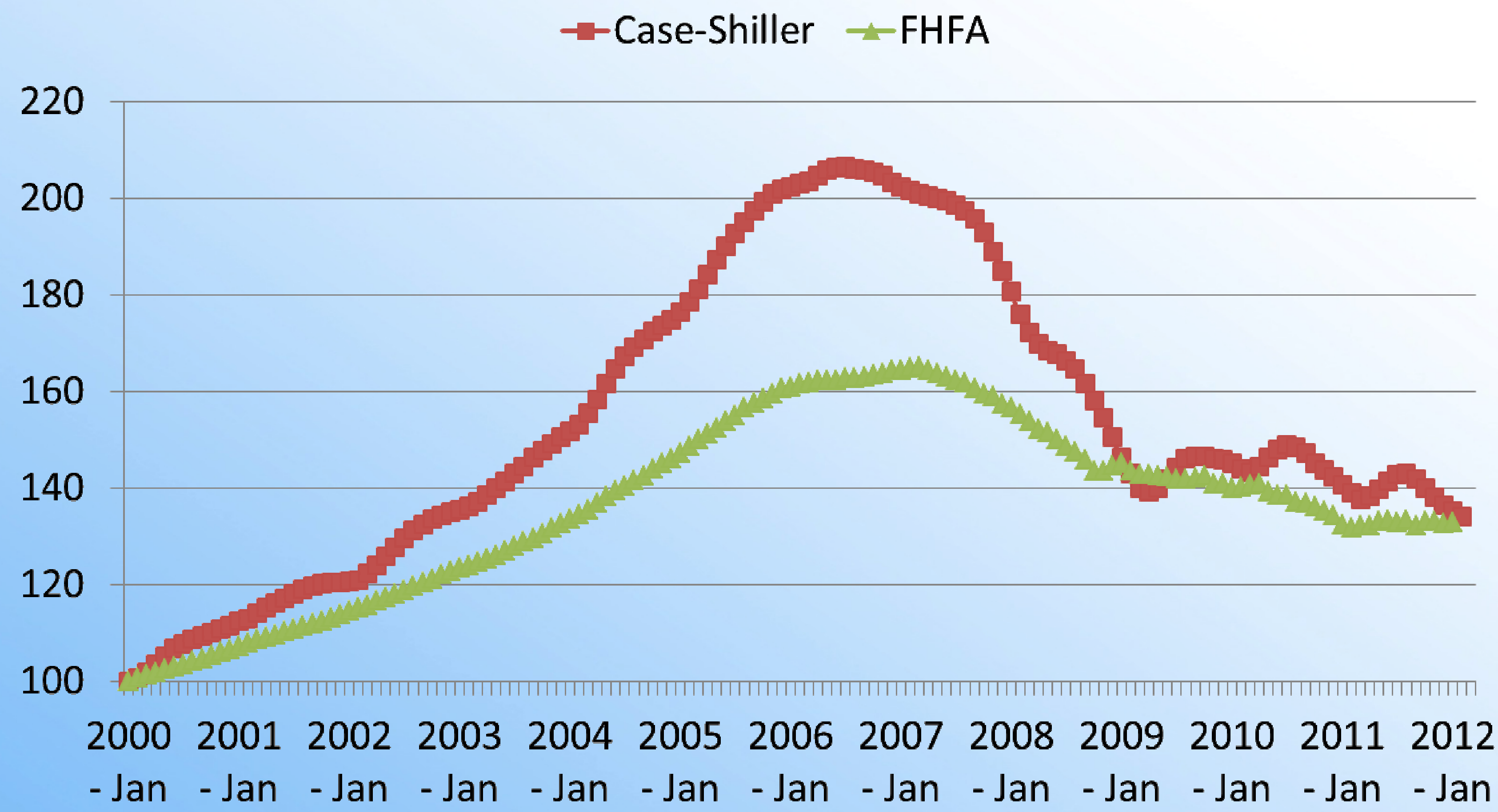


Source: Census, HUD

Home Price:

Big Declines from 2006 to 2008
Small Declines from 2009 to 2011

(index set at 100 from 2000)



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Latest Home Price Trend in early 2012

(Lagging Indicator … reflects price negotiations from late 2011)

- NAR: Up in more than half of local markets
- FHFA: Up in deep-middle America, New England, South Atlantic, Mountain states
- Case-Shiller: Up in Charlotte, Dallas, Las Vegas, Miami, Minneapolis, Phoenix, Portland, San Diego, San Francisco, Tampa, Washington D.C.
- LPS and Core Logic: many markets with price gains

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Listing Price Changes

Market	% Change from March 2011 to March 2012
Miami	Double-digit gains
Phoenix	Double-digit gains
San Antonio	Double-digit gains
Washington D.C.	Double-digit gains

Please note that a part of the price change may reflect more upper-end homes being listed and fewer lower-end homes. Therefore, not all of the price change is due to price appreciation of a particular property.

Source: Realtor.com

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Equity and Underwater Homeowners

	Positive Equity Homeowners	Negative Equity Homeowners
Early 2012	About 65 million Of which 25 million have no mortgages	11 to 12 million
After 5% price appreciation	67 million	9 million
After 10% price appreciation	69 million	7 million

Source: Census, Federal Reserve, CoreLogic, NAR estimates

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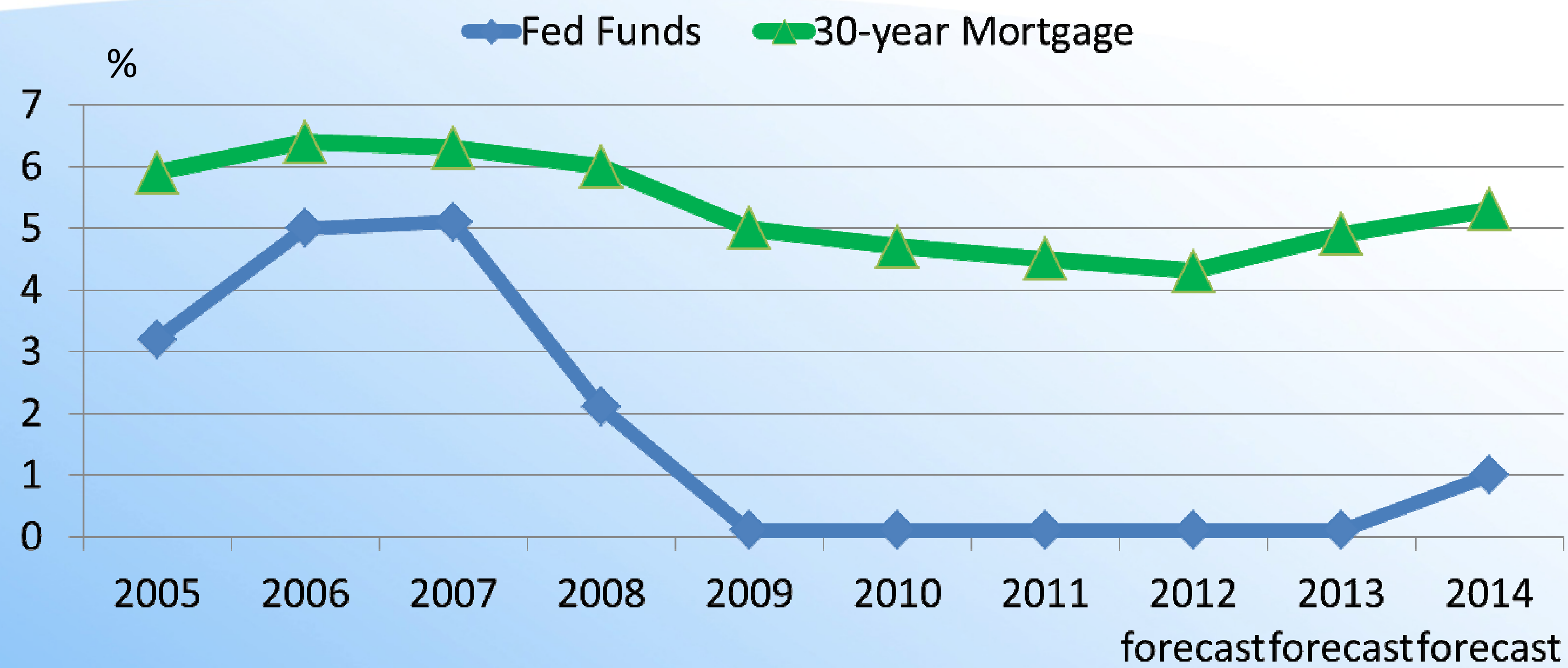
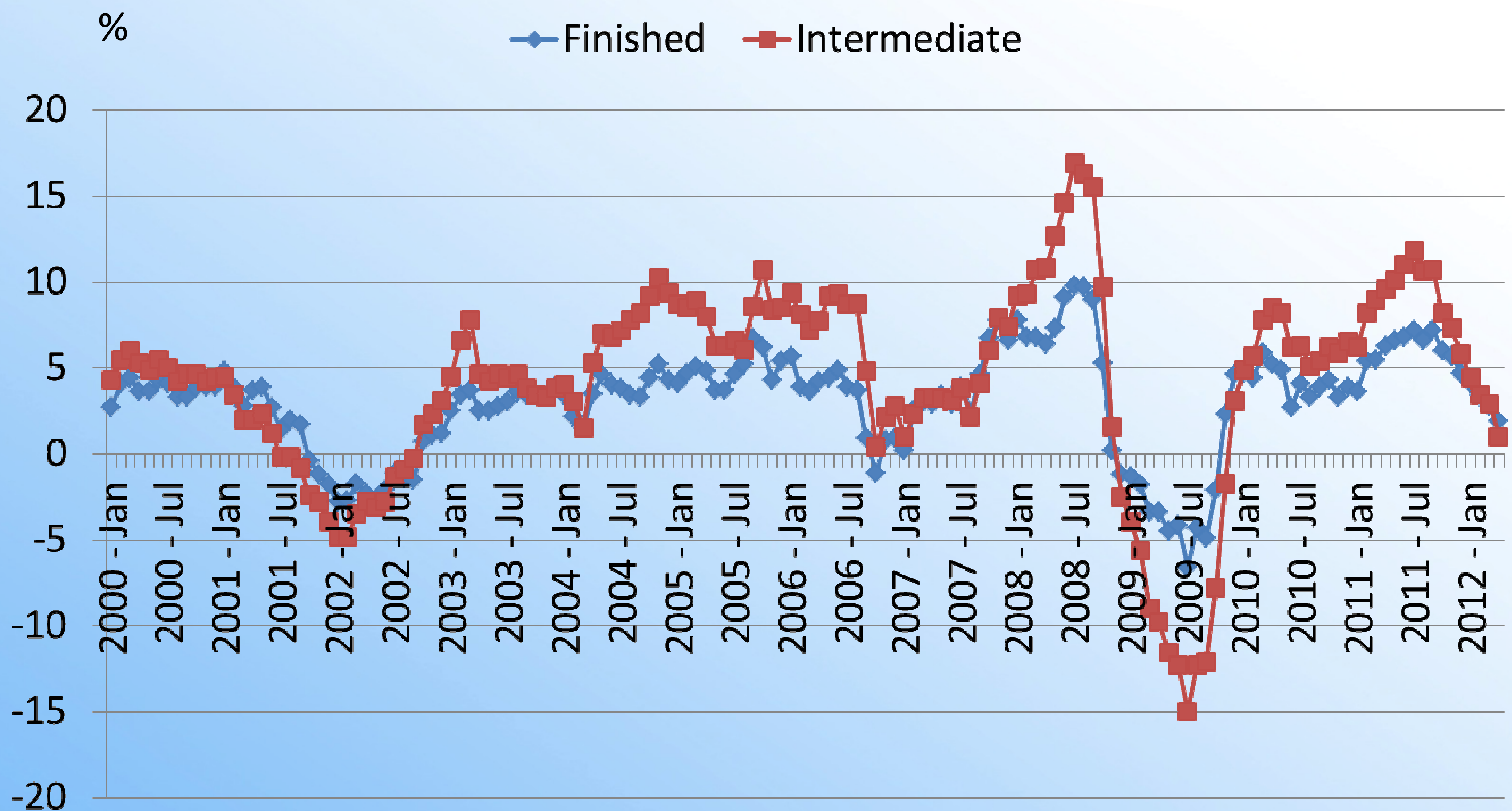
Prepare for Early Move (2014) by Federal Reserve



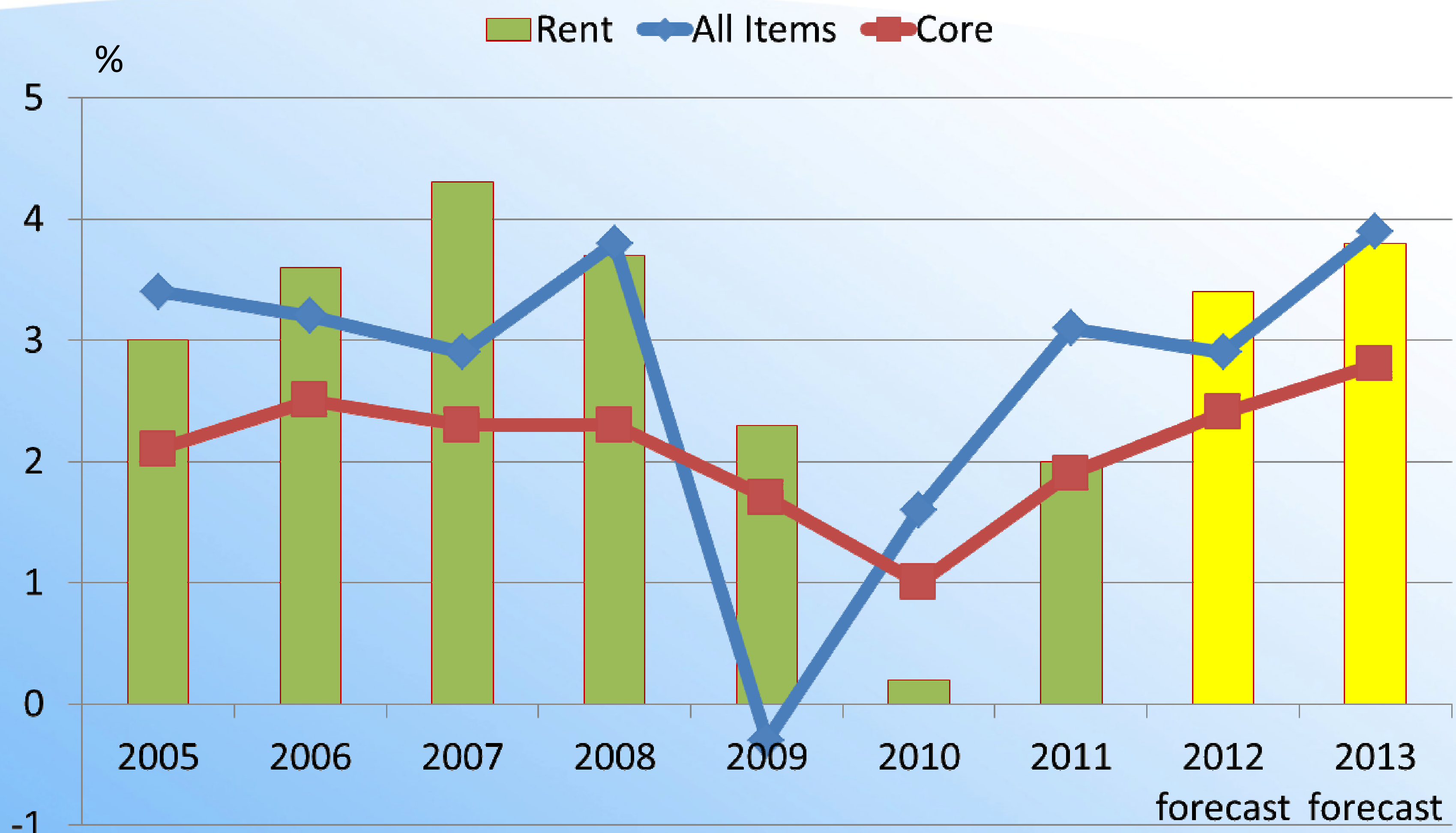
Modestly higher rates could help home sales as banks re-staff mortgage work for home purchase applications and less refinance applications.

Producer Price Inflationary Pressure … Diminishing

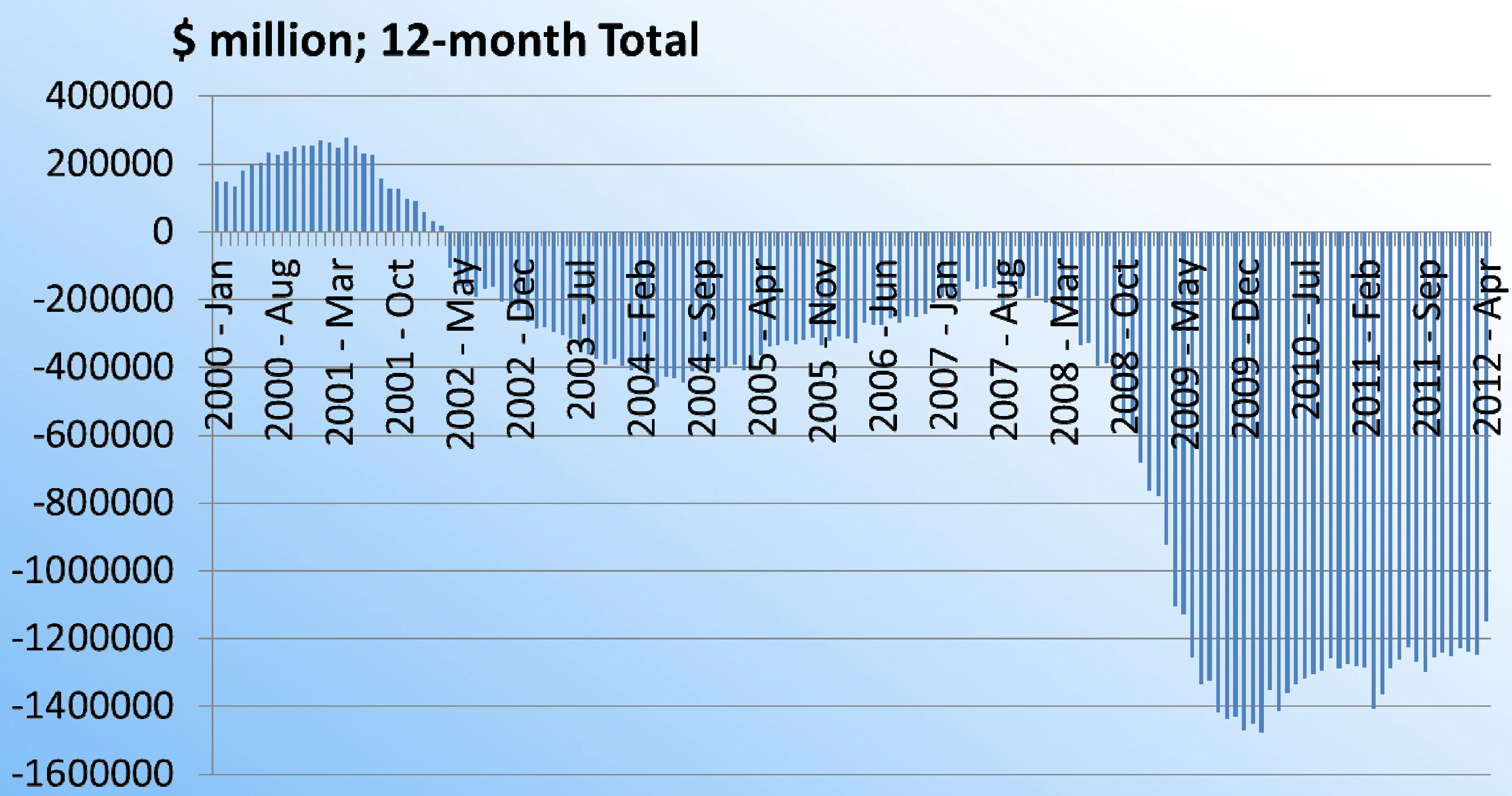


Consumer Price Inflation

(Above Fed's preferred 2% core inflation rate)



U.S. Federal Budget Deficit



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World Report Card

Country	10-Year Borrowing Rate
Germany	1.3%
Singapore	1.5%
United States	1.7%
United Kingdom	1.7%
Canada	1.8%
France	2.4%
Brazil	3.4%
Italy	5.6%
Spain	6.2%
Greece	27.3%

Source: Bloomberg as of June 6, 2012

State Report Card

State	10-year Borrowing Rate above Benchmark (% points)
Average Benchmark	Around 3.5%
Rhode Island	Benchmark + 0.5%
Michigan	Benchmark + 0.7%
Nevada	Benchmark + 0.7%
California	Benchmark + 0.9%
Illinois	Benchmark + 1.6%

Source: WSJ

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Housing Forecast

	2011 History	2012 Forecast	2013 Forecast
Existing Home Sales	4.26 million	4.6 to 4.7 million	4.8 to 5.0 million
New Home Sales	304,000	400,000	500,000 to 600,000
Housing Starts	610,000	770,000	1 million
Existing Home Price (Growth)	$166,100 (-3.9%)	$170,100 (+2.4%)	$177,300 (+4.2%)
GDP Growth	+1.8%	+2.3%	+3.1%
Payroll Job Gains	+1.7 million	+1.8 million	+2.5 million
Fed Funds Rate	0.1%	0.1%	0.1%
30-yr Mortgage	4.7%	4.0%	4.5%

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Risks to Forecast

- Washington Policy
  - QRM 20% down payment requirement?
  - Other Dodd-Frank rules? Help or Hurt?
  - Trim mortgage interest deduction?
  - Capital gains tax on home sale?

  - Fiscal Cliff on January 1, 2013 … if no new compromised budget, then:
    - Automatic deep cuts to military and domestic spending
    - Automatic higher taxes
    - 3% shaved off GDP

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Commercial Real Estate

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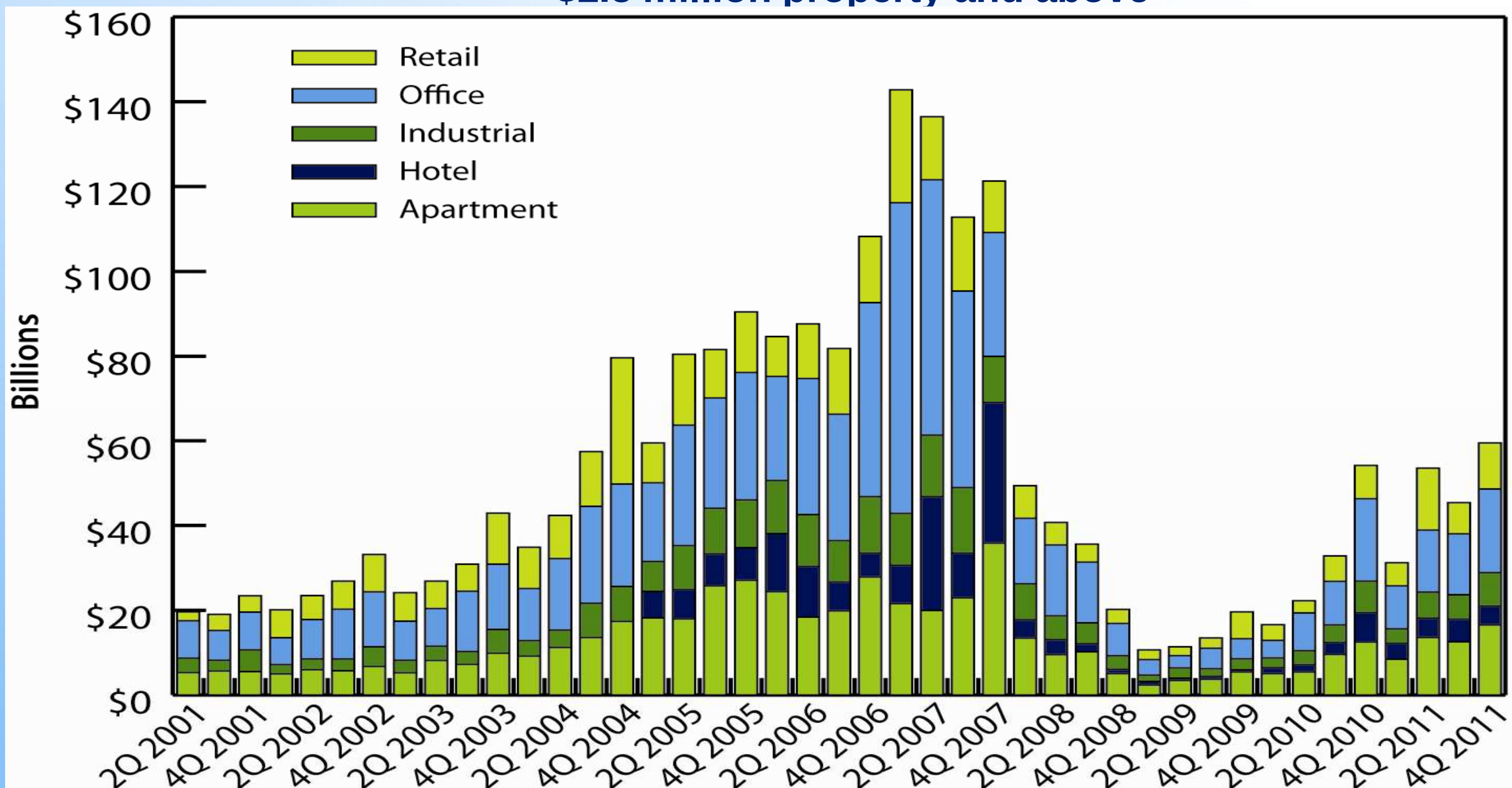
Big Transactions Coming Back

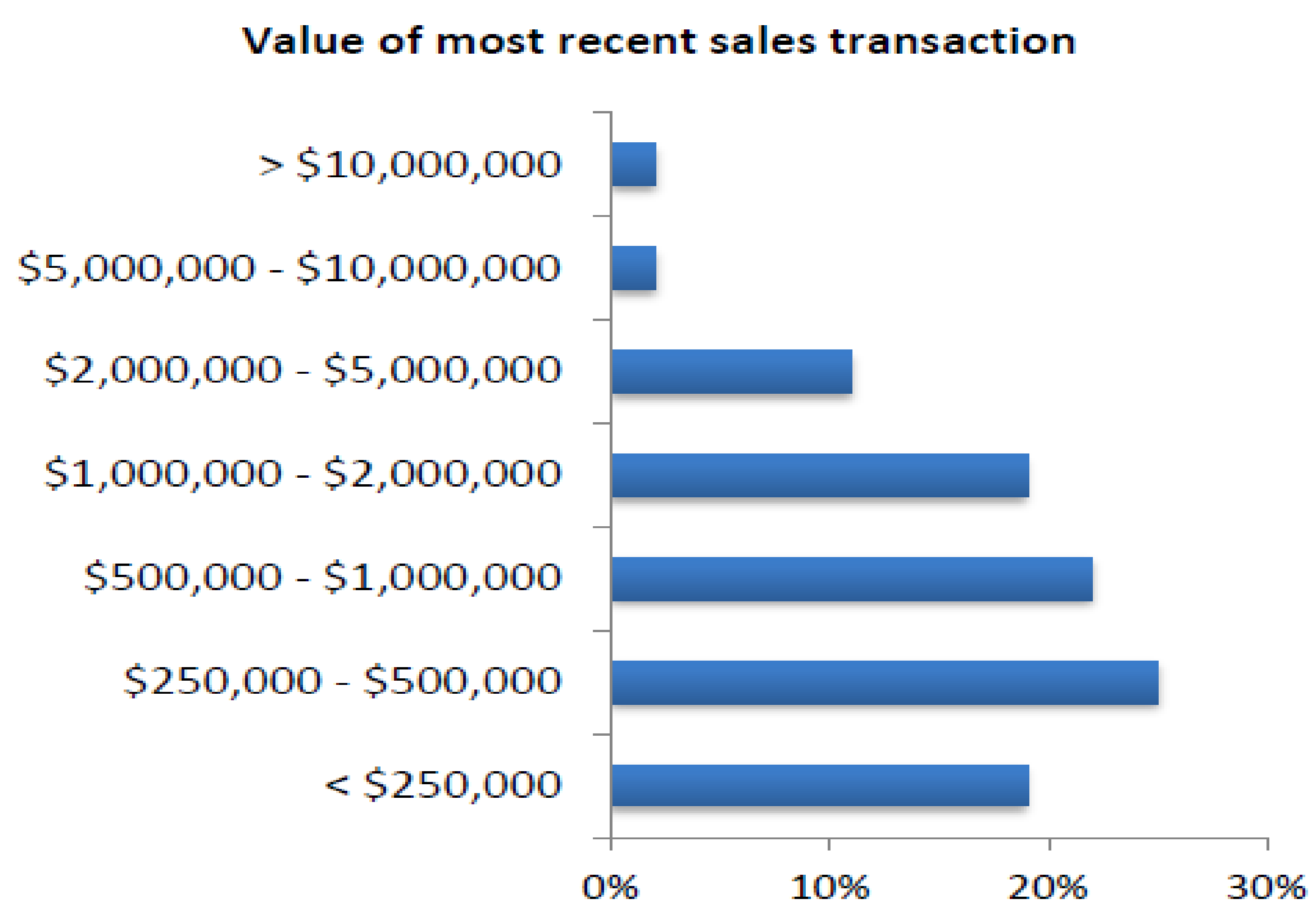
$2.5 million property and above



Source: Real Capital Analytics, 4Q 2011.

REALTOR® Business Deals

(Majority are less than $1 million)



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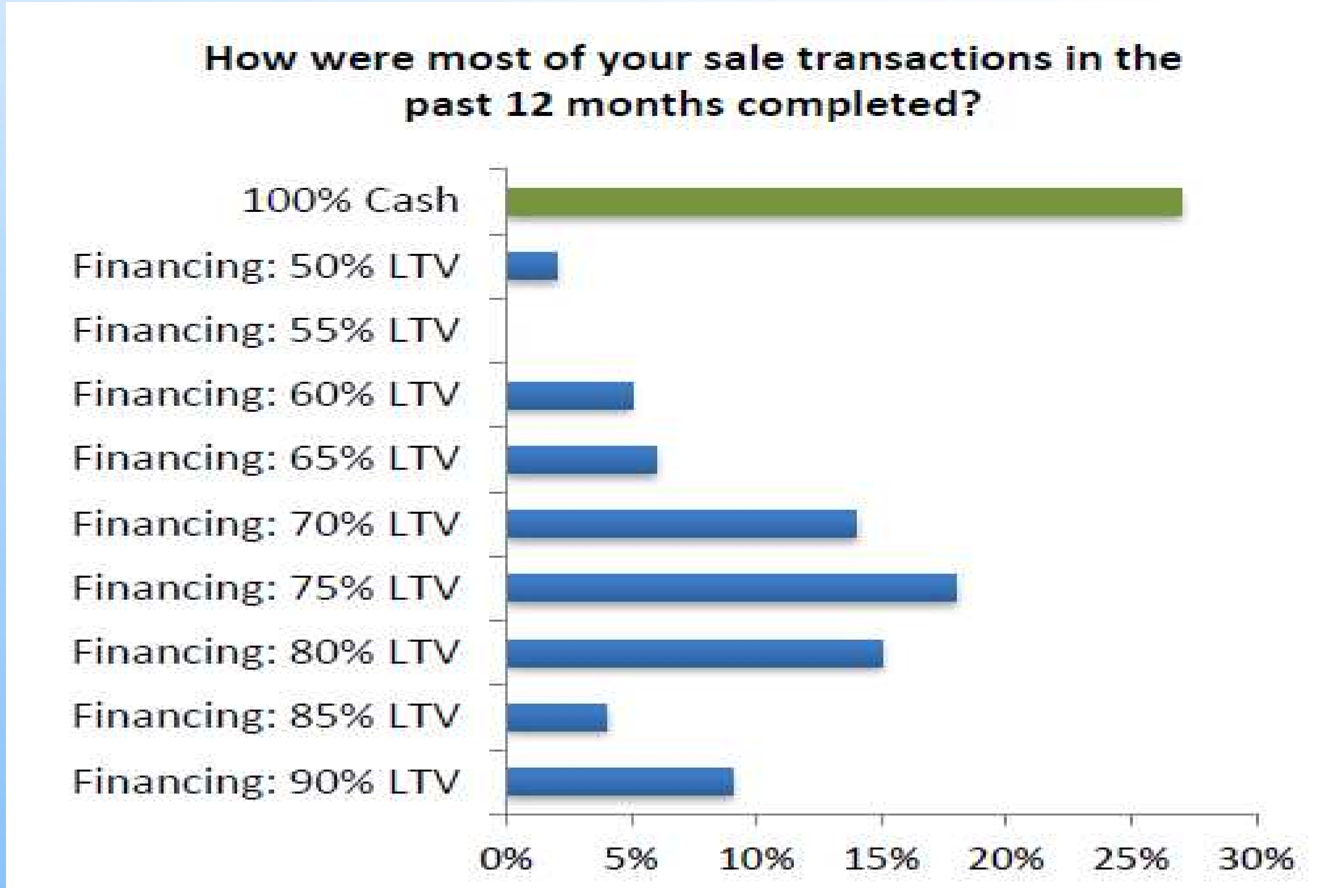
Method of Finance



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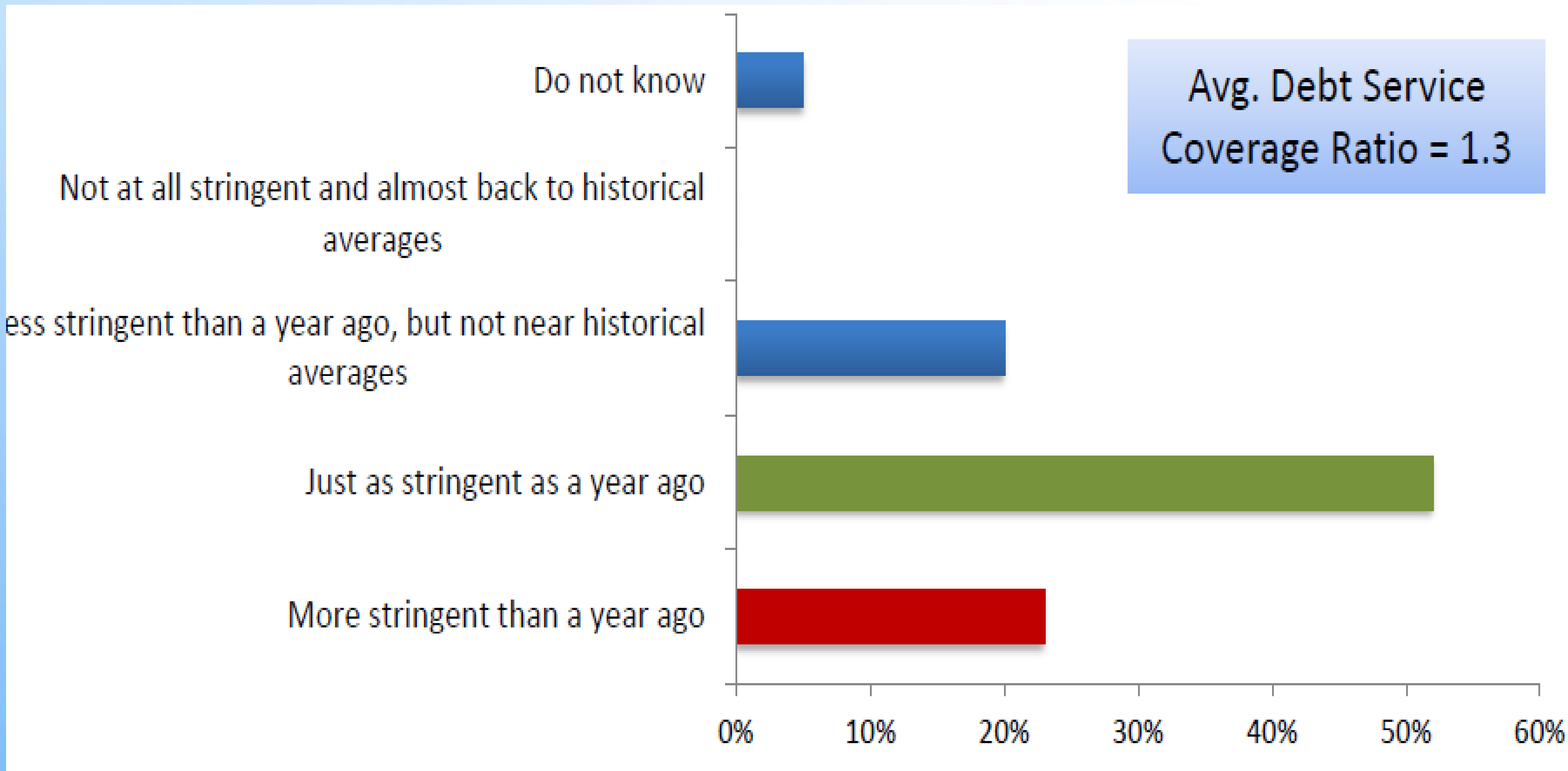
Underwriting Standards?



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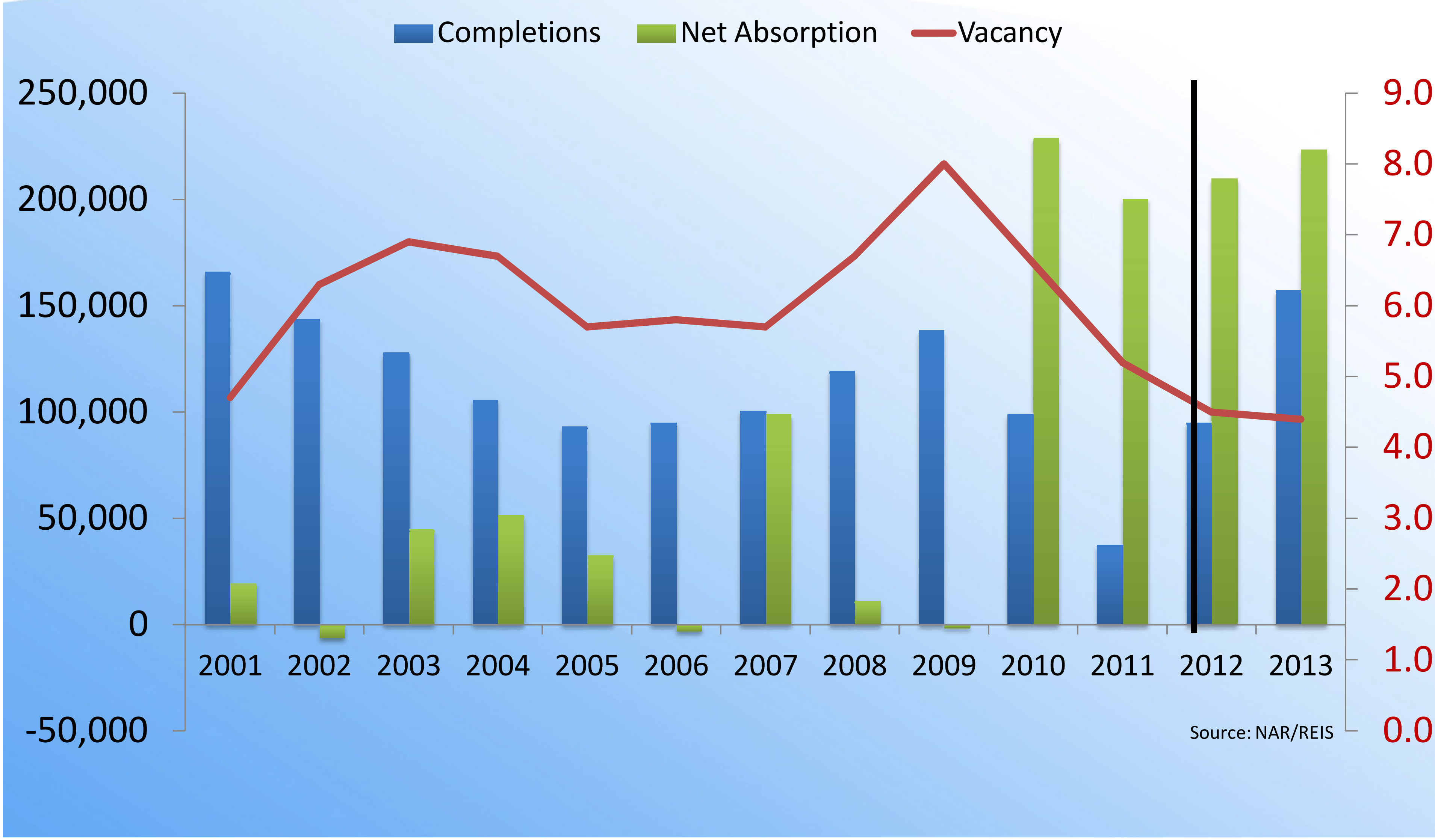
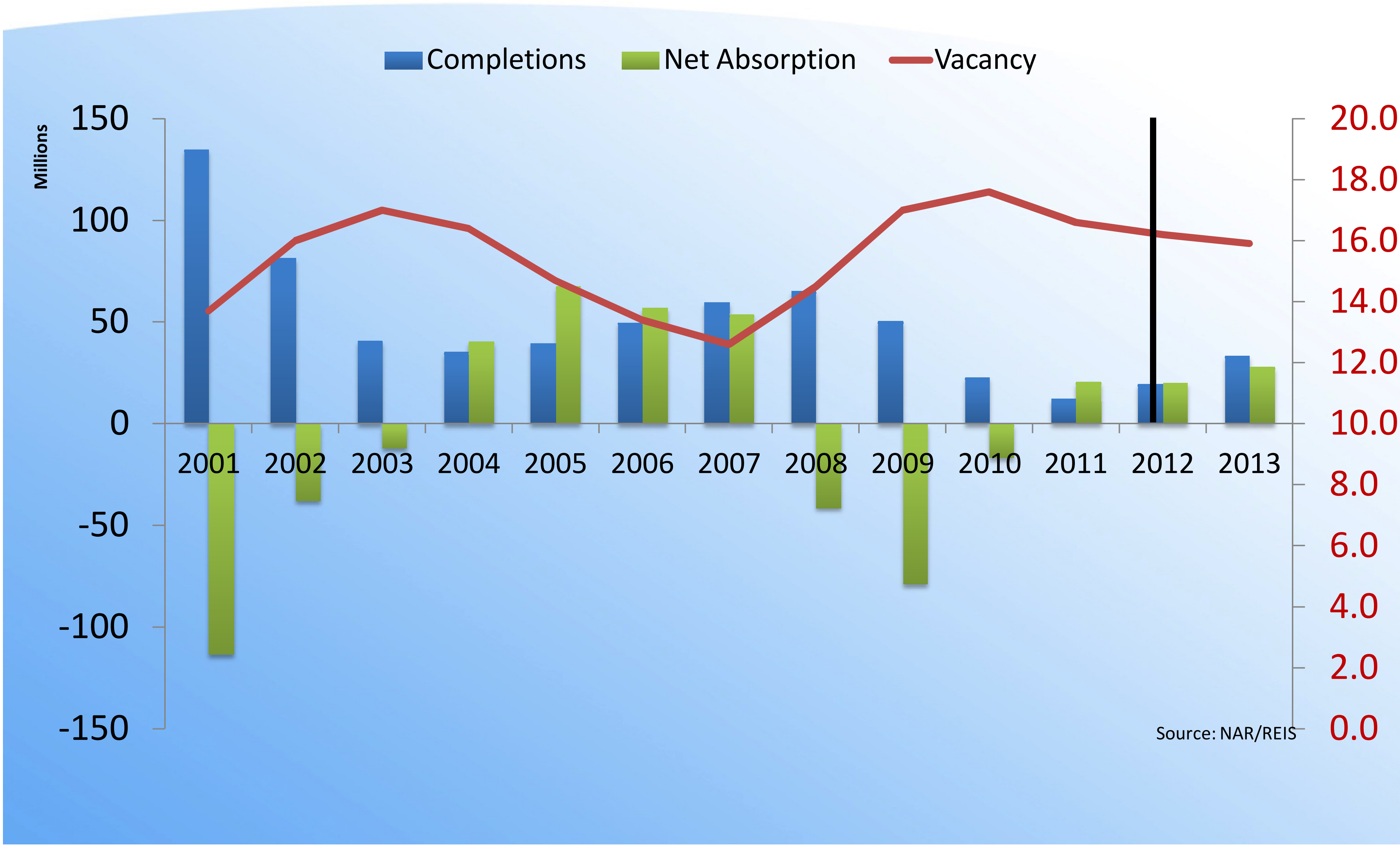
Multifamily Fundamentals



Office Fundamentals



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Commercial Market Forecast

OFFICE	2011	2012	2013
Vacancy Rate	16.6%	16.3%	15.9%
Net Absorption ('000 sq. ft.)	20,178	31,700	53,000
Completions ('000 sq. ft.)	11,659	25,474	37,847
Rent Growth	1.4%	1.7%	2.4%
INDUSTRIAL	**2011**	**2012**	**2013**
Vacancy Rate	12.4%	11.9%	11.1%
Net Absorption ('000 sq. ft.)	61,957	41,249	59,855
Completions ('000 sq. ft.)	20,462	26,947	54,881
Rent Growth	-0.5%	1.8%	2.3%
RETAIL	**2011**	**2012**	**2013**
Vacancy Rate	12.9%	12.2%	11.0%
Net Absorption ('000 sq. ft.)	1,238	13,547	23,330
Completions ('000 sq. ft.)	4,207	12,677	19,878
Rent Growth	-0.2%	0.7%	1.4%
MULTI-FAMILY	**2011**	**2012**	**2013**
Vacancy Rate	5.4%	4.6%	4.5%
Net Absorption (Units)	238,398	126,621	102,687
Completions (Units)	38,014	88,839	93,706
Rent Growth	2.5%	3.5%	3.8%

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