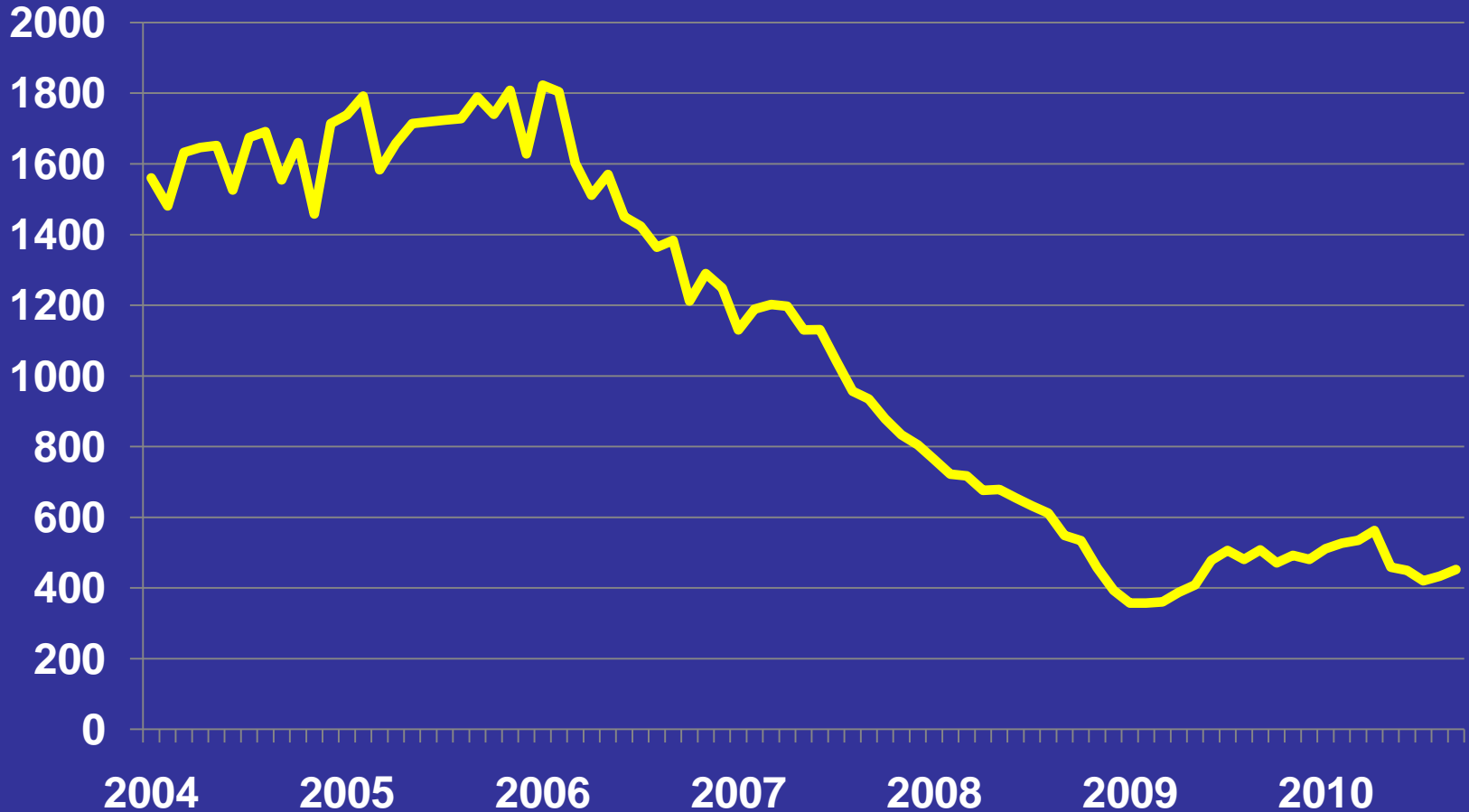


Housing Market Comments – October 20, 2010

- **The September housing numbers were a bit better than expected with total starts up 0.3% to 610,000 (SAAR), driven by the 4.4% increase in the all important single family activity (452,000 SAAR). Multi family activity was down almost 10%. Permits also reflected the divergence with multi family permits down 20% while single family was up 0.5%. Regionally, there was an even split: the NE and South ere up 2.9% and 4.8% respectively, while the MW and West were off 8.2% and 3.6% respectively.**
- **Following are some slides showing recent trends.**

Good news bad news: Good news - the tax credit stabilized single family starts. Bad news – still languishing below 500,000

Single family, Thousand units, SAAR



Source: Census

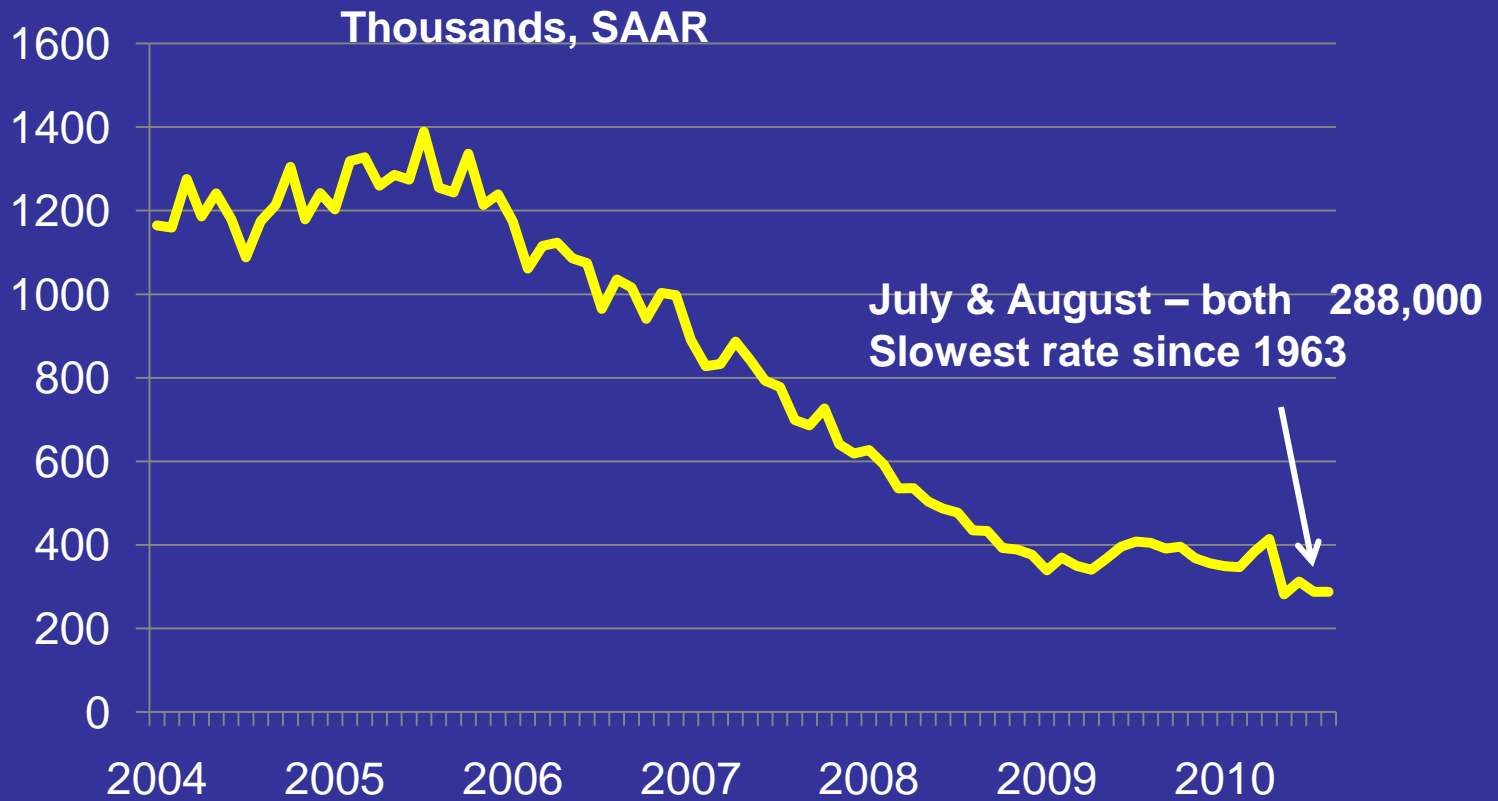
Resale market still very weak -

Single family, Monthly, Thousand units, SAAR



Source: NAR (<http://www.realtor.org/research>)

New Home sales continue to languish below 400,000 – can't compete with distressed resale prices – this trend will continue until foreclosures are brought under control – that won't happen until the job market improves



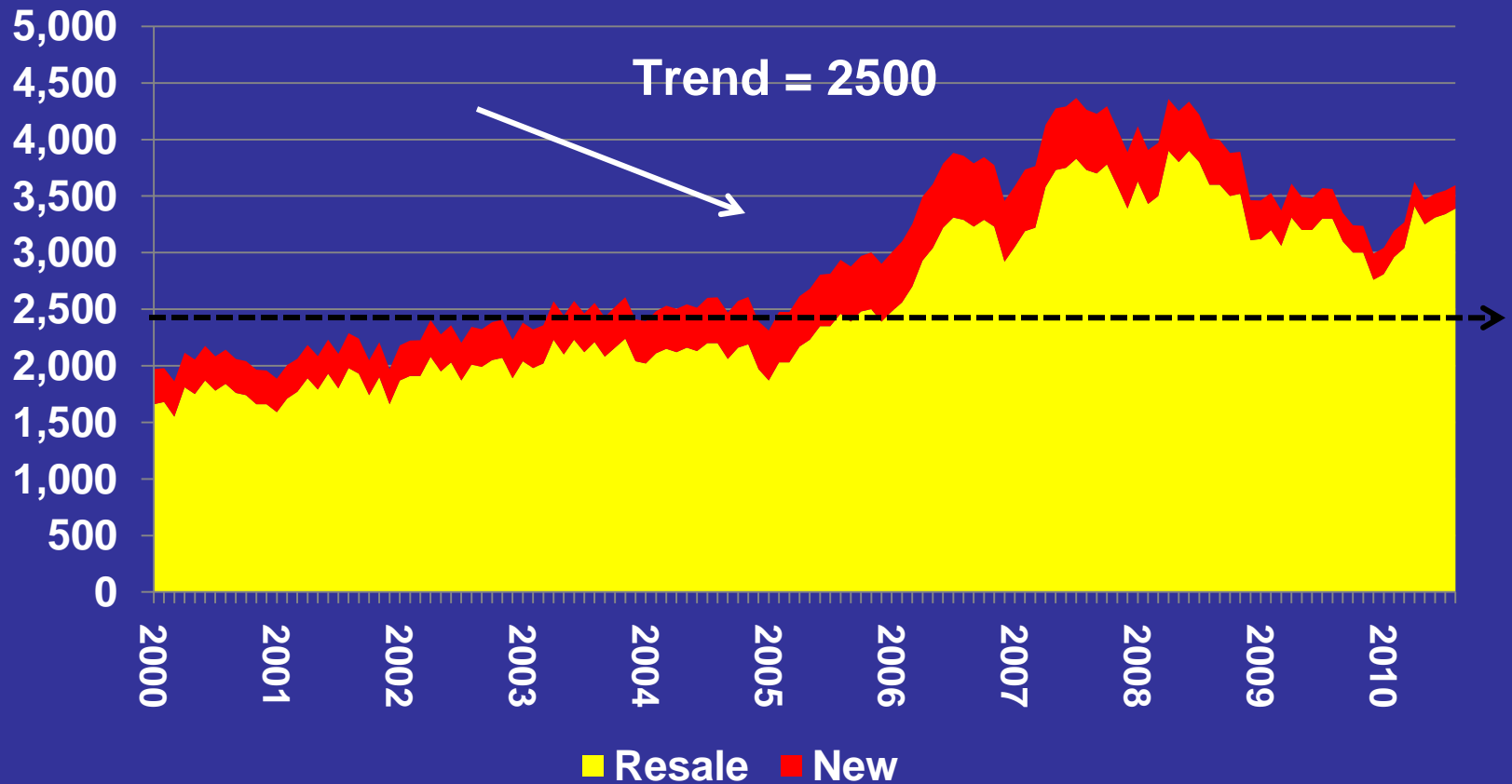
Source: Census

- A few comments on the housing market.
1st, just when you thought things were starting to stabilize, the “robo signing” issue crops up. This is where some of the banks didn’t review the paperwork before signing the foreclosure documents. I don’t think we know how prevalent this problem is, but you can be sure it will delay the recovery in housing as it introduces more uncertainty, confusion, etc. in to the entire foreclosure process. And, no matter what anyone tells you, housing won’t return to normal until the foreclosure backlog is reduced significantly. Foreclosures exert downward pressure on house prices by increasing supply. Who wants to buy a house when prices are falling – if I wait, I can buy cheaper. Also, banks don’t want to issue mortgages when prices are falling because their collateral is shrinking.
- The robo signing issues could also interfere with the MBS (mortgage backed security) market. Without MBS, mortgage money available would shrink dramatically. Think of the legal issues involved – some people wrongfully foreclosed upon; what about people who bought those homes; lots of potential for lawsuits – with this backdrop, who would want to buy MBS? More problems for the banks and that means continuing problems in the financial/credit sector.
- **When will we smarten up?**

- **Consequently, the inventory situation will take longer to fix**
- **Another issue - the vacant housing inventory, both year round vacant, plus seasonal vacant keeps growing. Today, there are 14 million year round vacant units and another 5 million seasonal units that are vacant. That's almost 20 million vacant units, or 15% of the housing stock – the highest in history I believe.**

Single family Housing Inventory

Resale inventory is the big problem thanks to foreclosures



Source: U.S. Census (<http://www.census.gov/hhes/www/housing/hvs/hvs.html>)

**Monthly foreclosure filings – adds to inventory
And downward price pressure**

House of Pain

Total U.S. foreclosure filings



Source: RealtyTrac

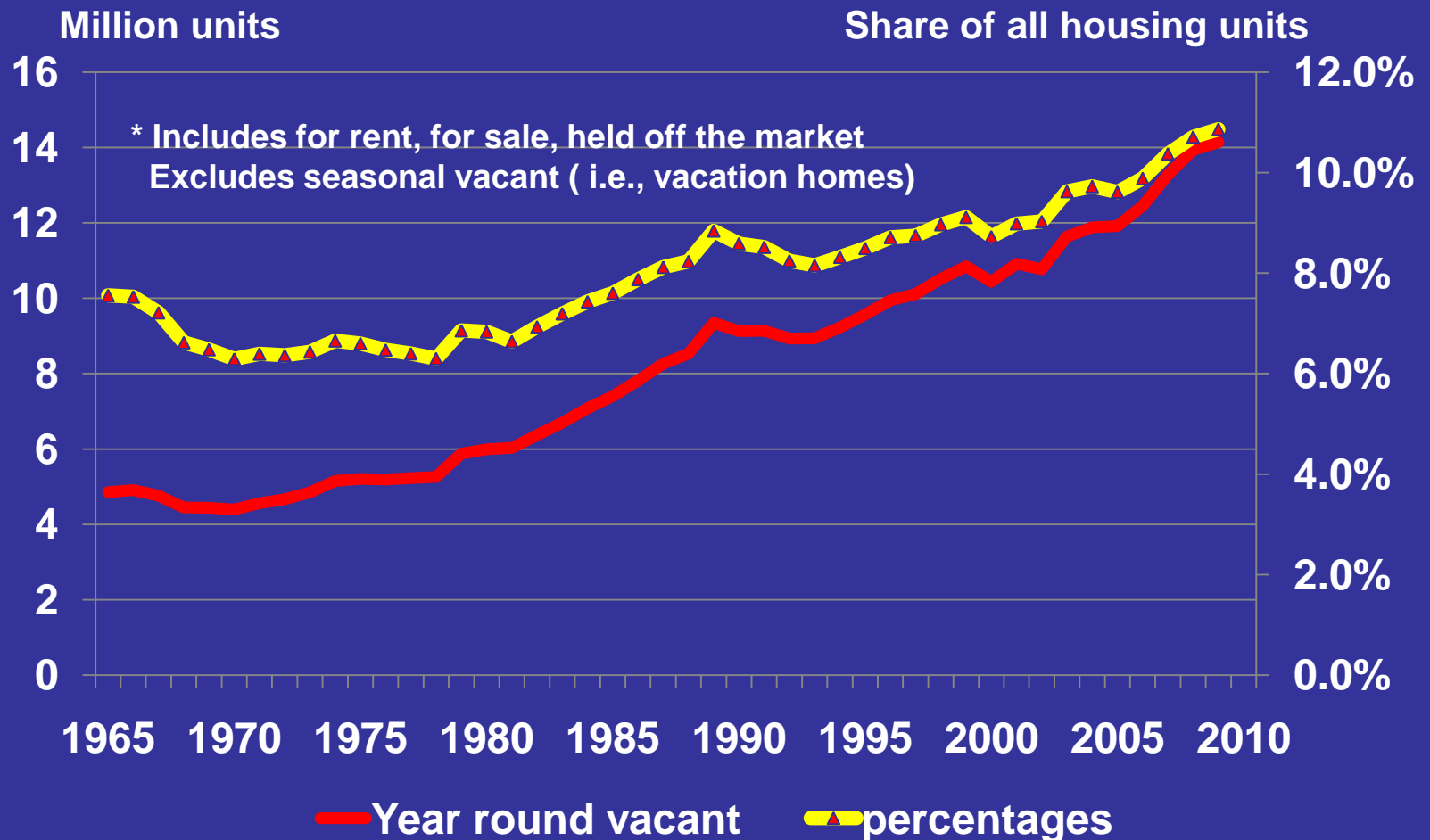
Vacant housing inventory – year round*

10% (14 million) of all housing units are vacant year round

There are another 4.7 million seasonal vacant units

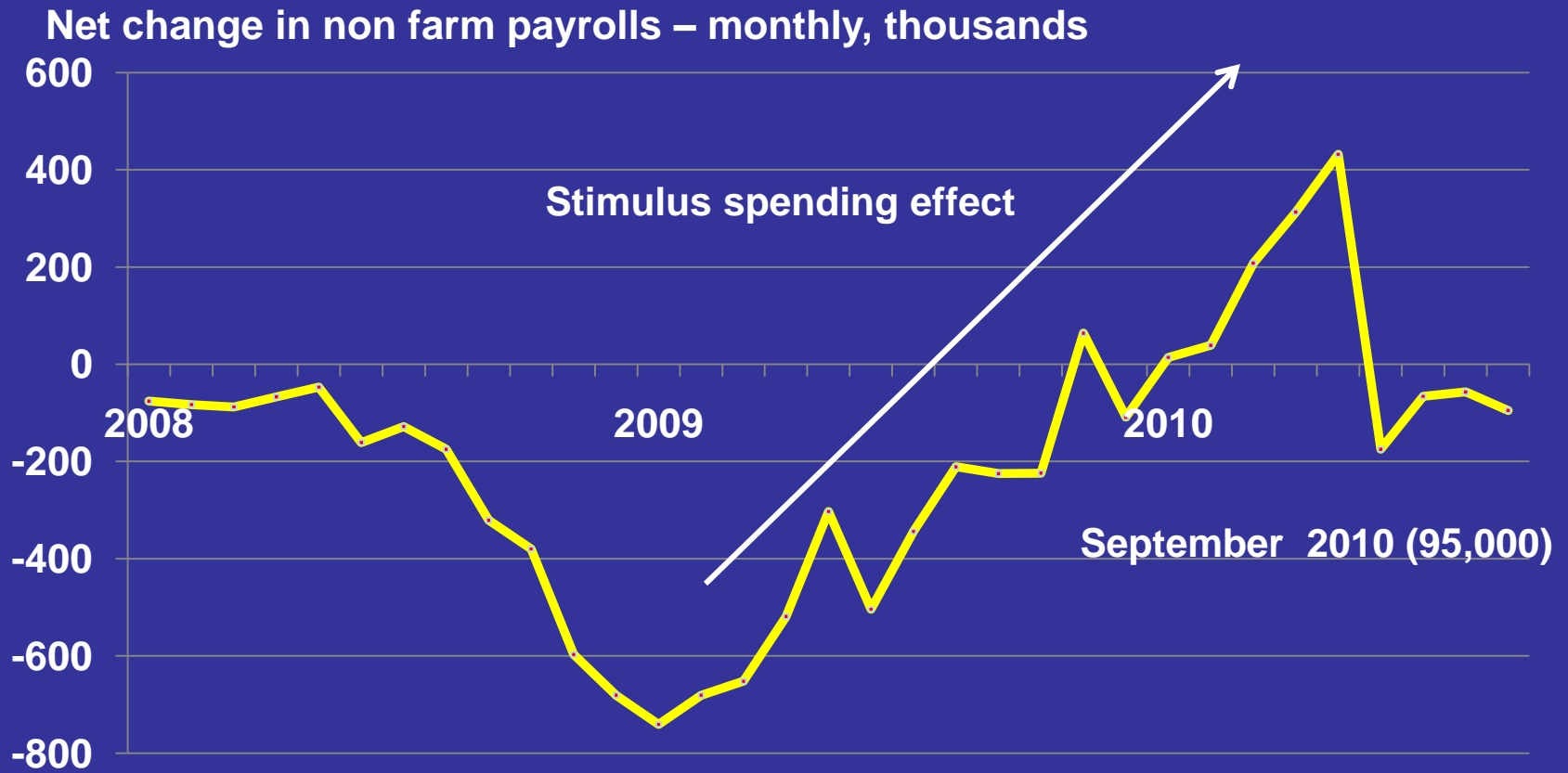
total vacant in 2009 = 18.8 million or 14.5% of existing housing units are vacant

That's why there is so much downward price pressure on houses



- **Another issue is the economy – we know housing will not/can't recover until the economy and the all important job market recover. We have talked before about the importance of the consumer to the economy – he/she is 70% and until he/she resumes spending, demand will remain relatively weak , and business will refrain from investing, rehiring, etc.**

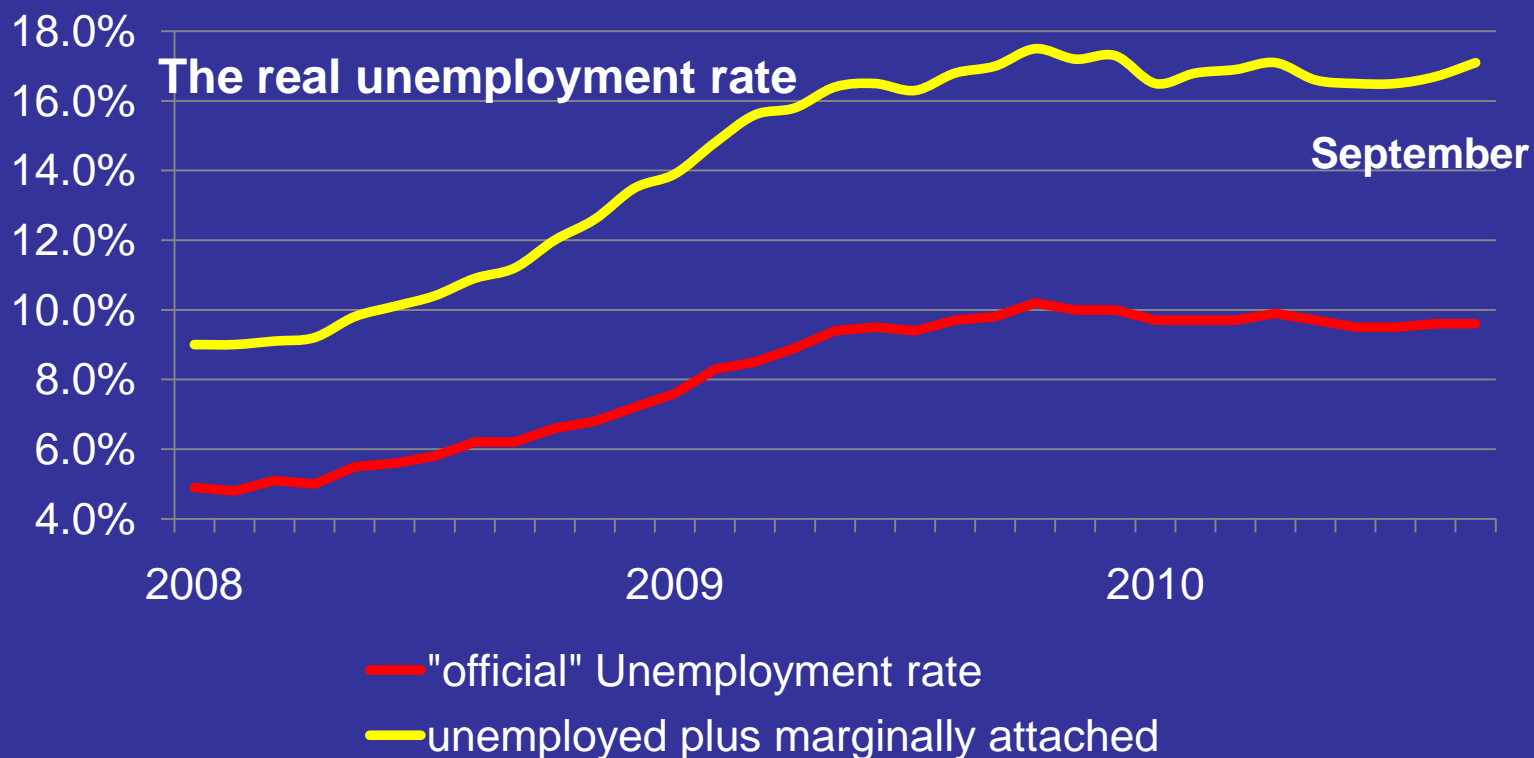
Unemployment situation has been flat since the government stimulus (Census jobs) finished – still our biggest problem!!



Source: U.S. BLS (www.bls.gov)

Unemployment remains high and it may remain high for several years – when you include marginally attached workers** plus those working part time, but looking for full time work, we're past 17%

** Marginally attached to the workforce:
Not Looking for work + discouraged workers who are not looking



**Unemployed plus part time for economic reasons
Plus people who have stopped looking = 26,787,000**



Source: BLS

- Here are some interesting slides showing some issues that will/are impacting consumer spending. We've talked about debt before – the consumer is and will remain heavily indebted for several more years at least.

But, in this issue of housing notes, I want to take a longer term outlook at the situation.

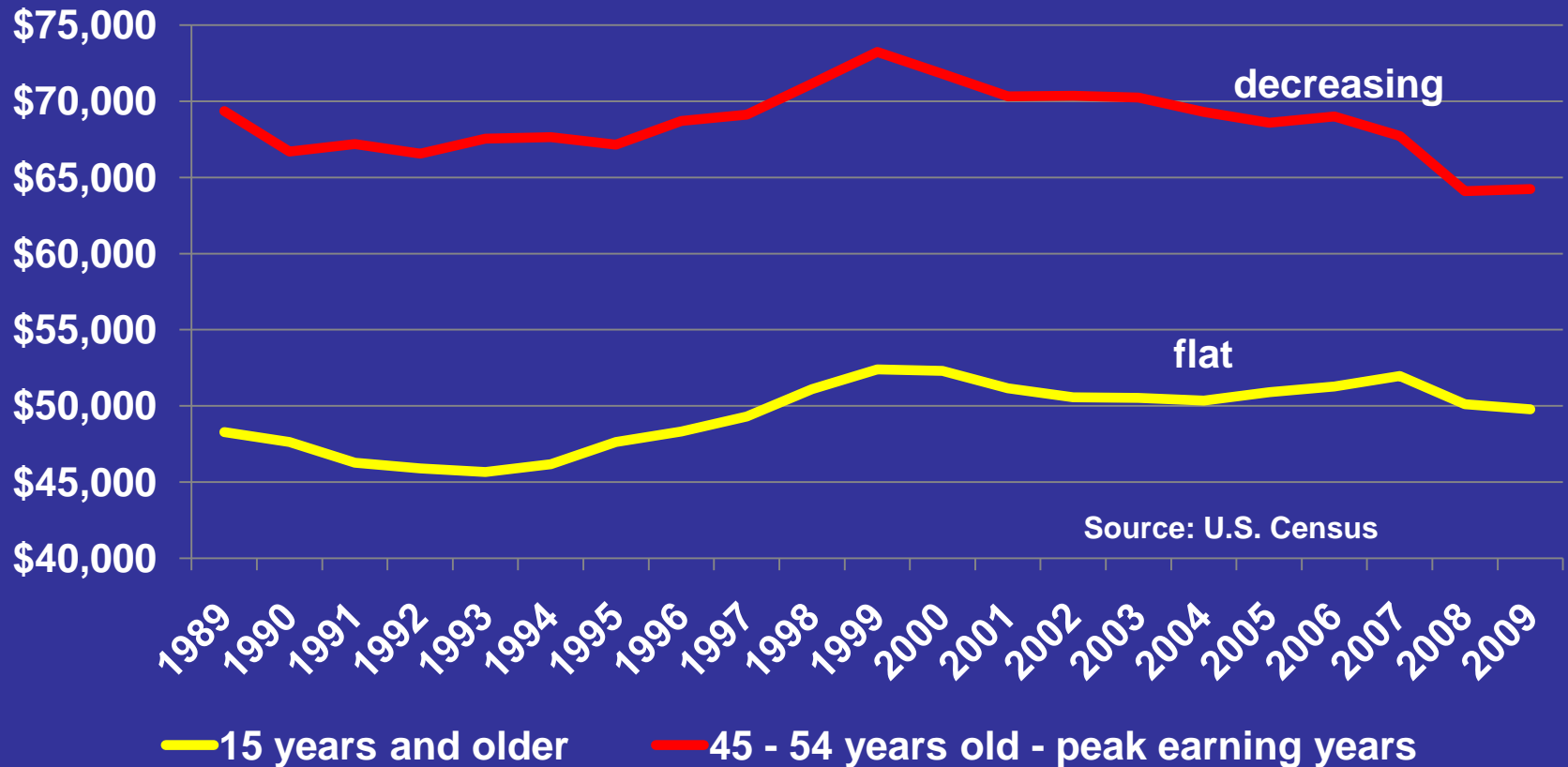
I want to show you some other trends that suggests we're going backward – i.e., our standard of living has not improved in the past two decades (using income as the criteria).

- The message is that demand for housing depends on our ability and desire to form households. Household formation accounts for about 65% of demand for shelter – e.g., when we form a household, we need a place to live – buy or rent - either way, a house/apartment is needed. Household formation depends on demographics/population (people moving into house buying age cohorts); and immigration. The poor economy has negatively impacted both over the past 3 – 5 years.
- Solution – the U.S. needs to better address our global competitiveness issues – if we don't , our standard of living will continue to suffer, and this will impact demand for shelter/housing, and wood products.

Are we better off today versus 20 years ago??? Hell no!!!!
In inflation adjusted dollars, depending on your age bracket, we're either standing still or going backwards – if we don't address this problem, housing will suffer long term demand problems.

Peak earning years are 45 – 54 years old
Today, that group's household income is 7.4% lower than 1989
i.e., their income is lower by \$5,117

Median household income (\$2009 dollars)



Between 1979 and 1994, our inflation adjusted (real) wage rate fell 10%
Between 1994 and 2008, we regained the 10%
Net change – we're at same real wage rate today as two decades ago.
Furthermore, in past half century, our real wage rate has increased a mere 5.5%
or, a buck an hour. 1/10th of one percent per year. **Something is very wrong with this picture.**

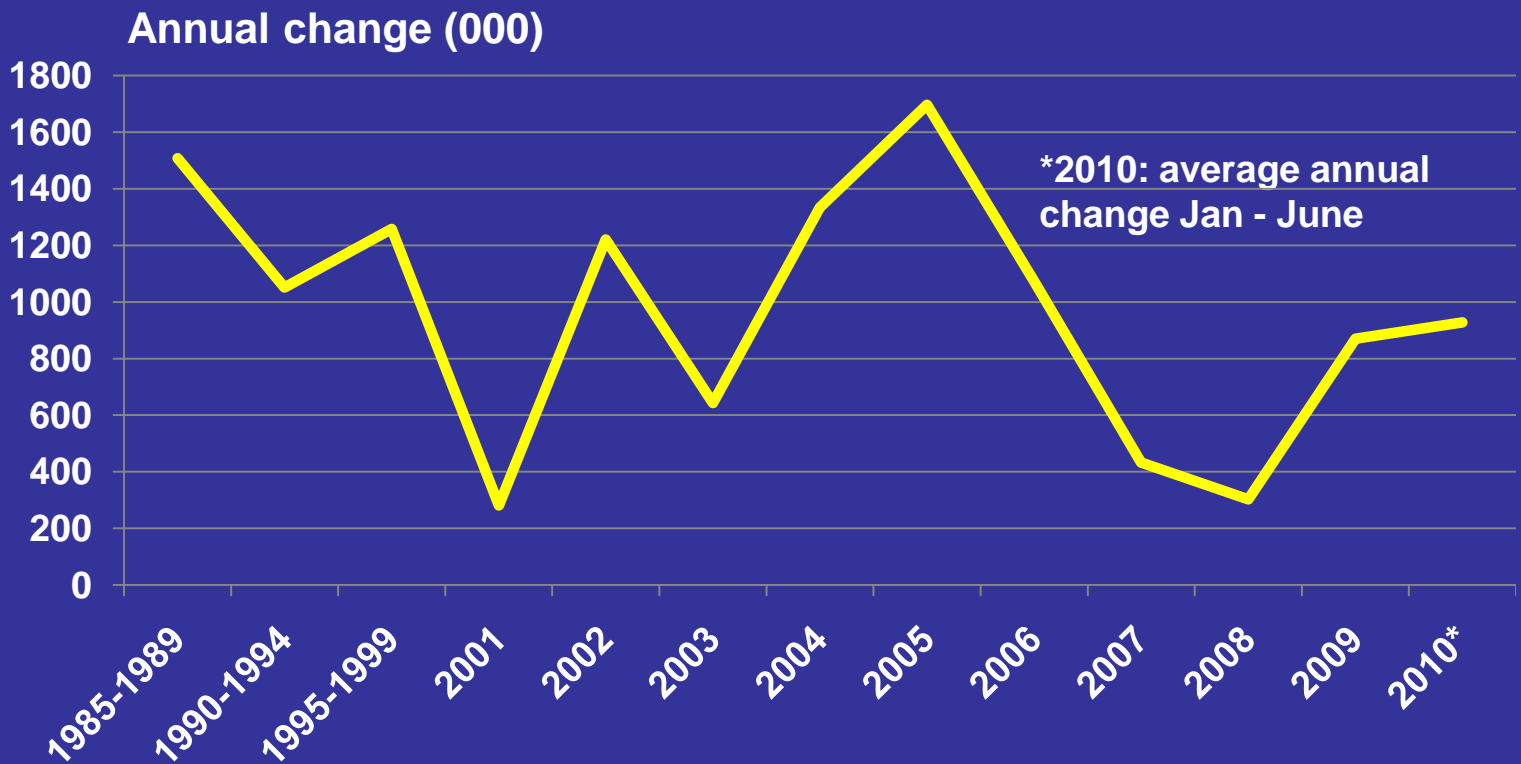


Source: Bureau of Labor Statistics, Current Employment Statistics, Average Hourly Earnings in 1982 Dollars. Converted to 2008 dollars with CPI-U.

Household growth trends affected by the economy

E.g., some people doubling up – moving in with parents, postponed getting married, and lower immigration rates. This is important as household growth accounts for about 65 – 70% of demand for housing

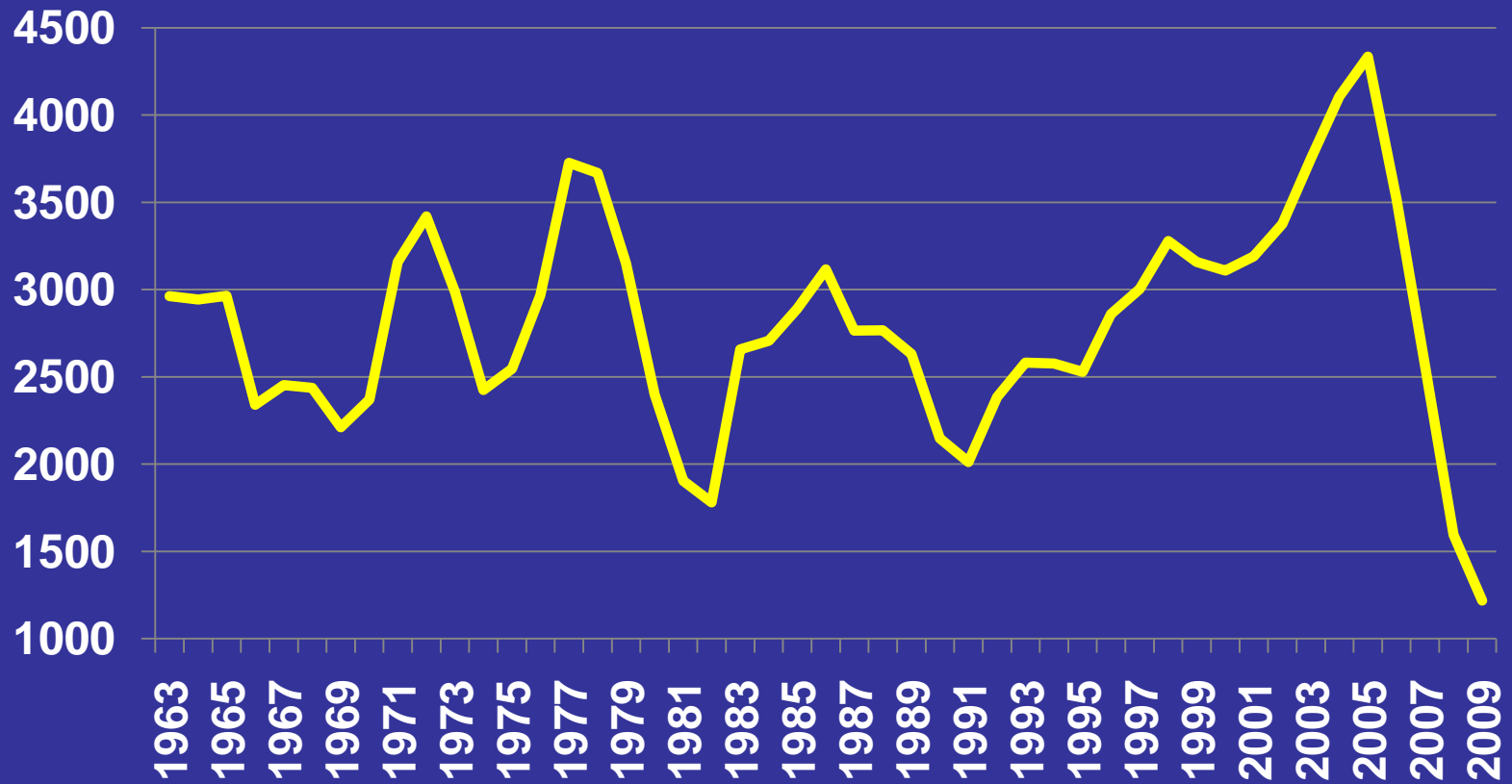
The message is simple – if we don't form households, we don't need houses – solution – stronger economy!!!!!!!



U.S. Bureau of Census

New Home Sales per million population

Fewer people per capita buying homes – not a good sign???

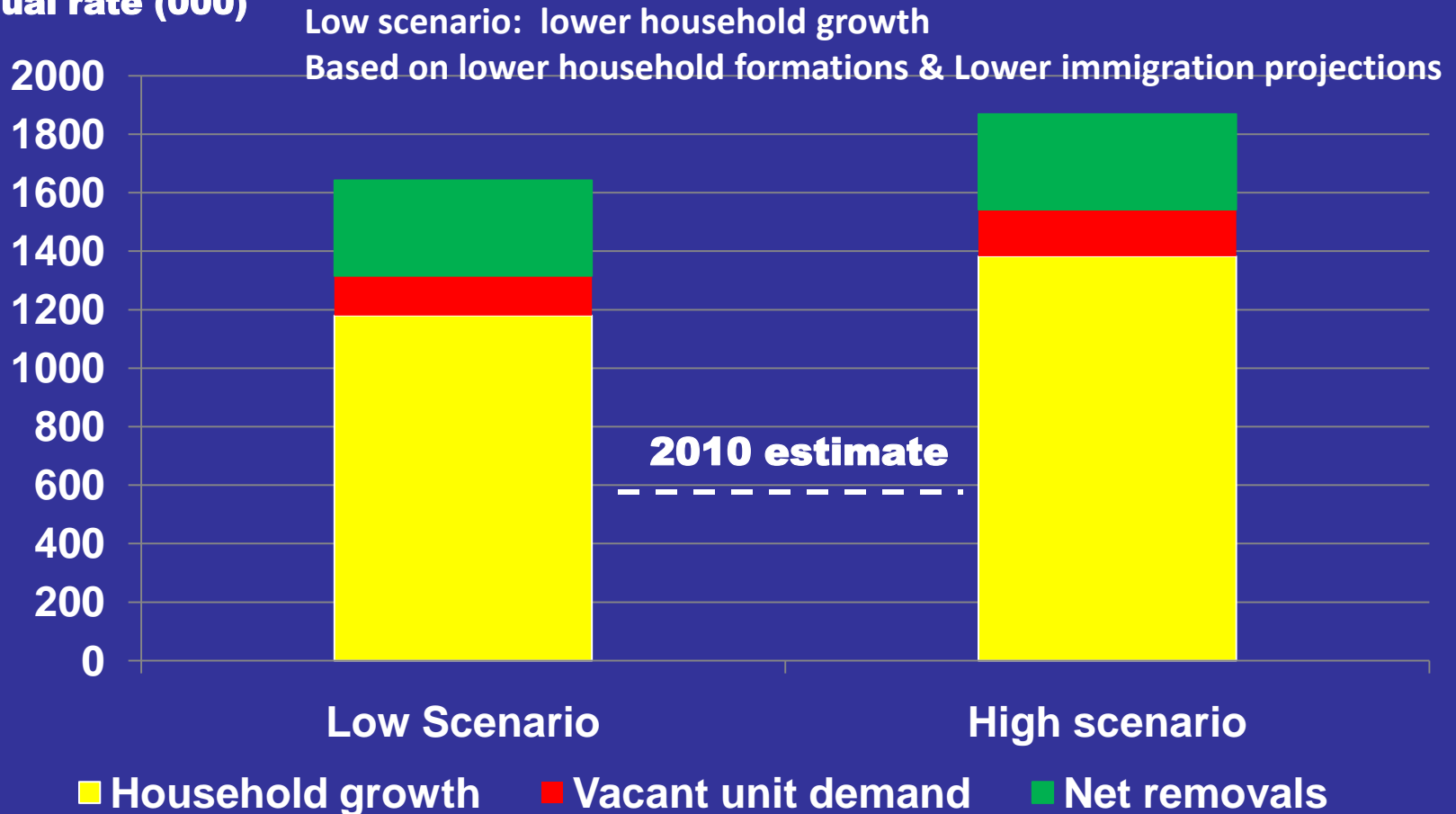


The latest Harvard forecast shows what demand could be under two assumptions re: immigration. Nice forecast, but, I'm suggesting that we (USA) needs to address some competitiveness issues. To buy a house, you need a job – a good job – and that implies we have industries selling goods/services domestically, and globally. To do that, you need to be competitive, and that means we need to invest in our future and consume less. Look at the last slide – we're not doing enough to build for our future.

Latest Harvard* Housing Demand Forecasts 2010 – 2020 (September 2010)

**Vacancy demand – 2nd homes, speculation building
Removals – net loss from existing inventory
of housing stock**

Annual rate (000)



Source: HJCHS, W010-9 , September 2010 (http://www.jchs.harvard.edu/publications/publications_by_y)

U.S. Economy 2000 – 2009

this type of economy not sustainable – insufficient investment in infrastructure, R&D, education makes us less competitive and this leads to reduced standard of living and less housing demand

