

Kansas Housing Conference: Housing Recovery and Beyond

August 10, 2011

Dr. Stanley D. Longhofer
WSU Center for Real Estate

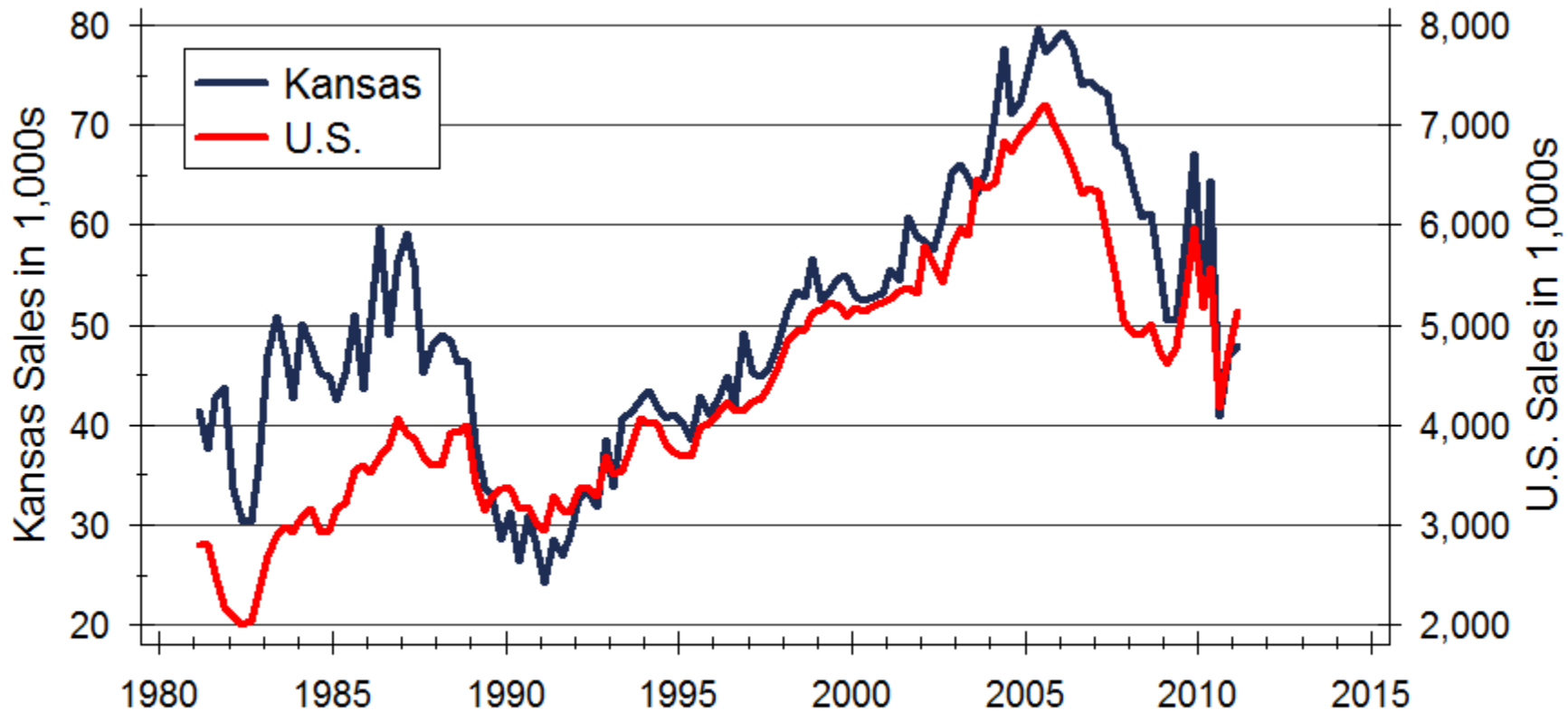


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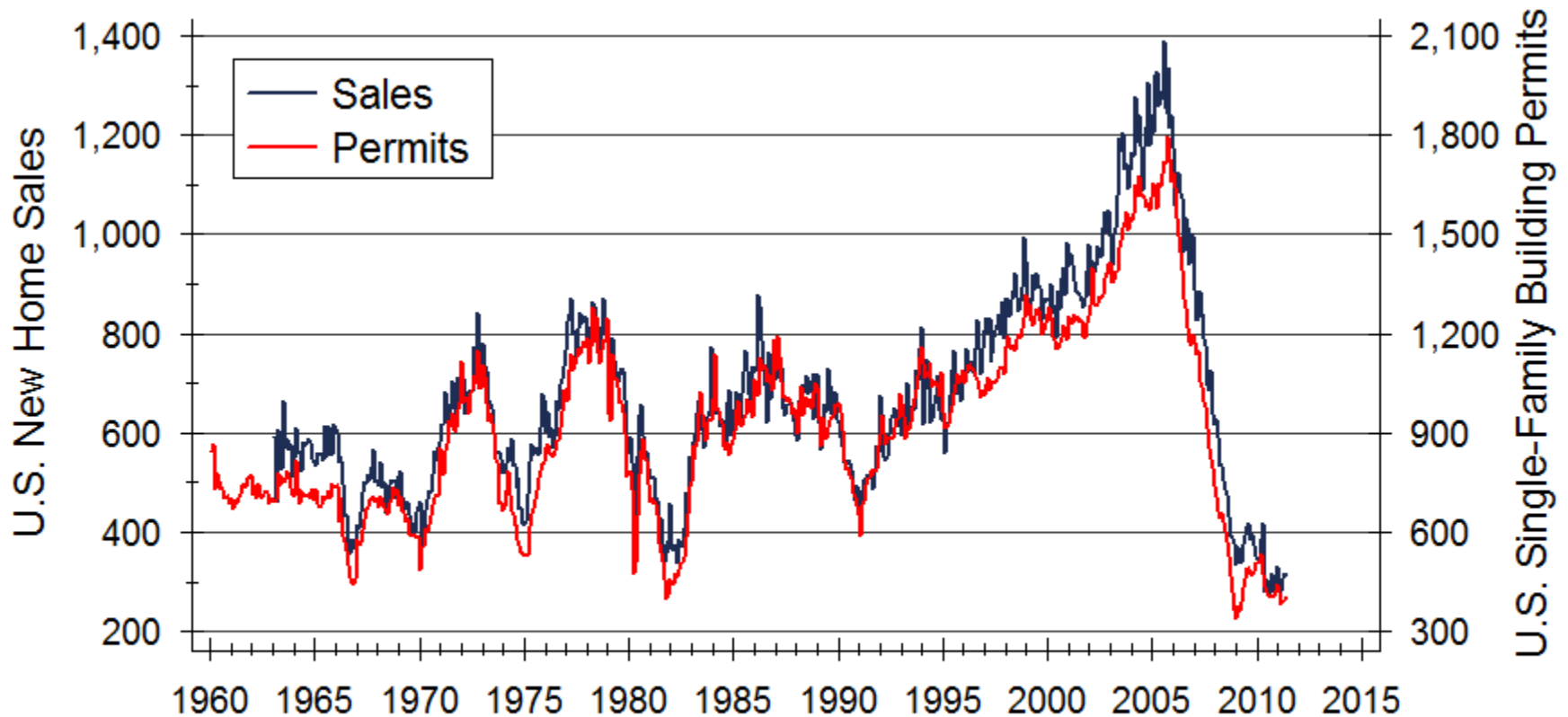
U.S. Existing Home Sales Activity: The tax credit whipsaw



Source: NAR

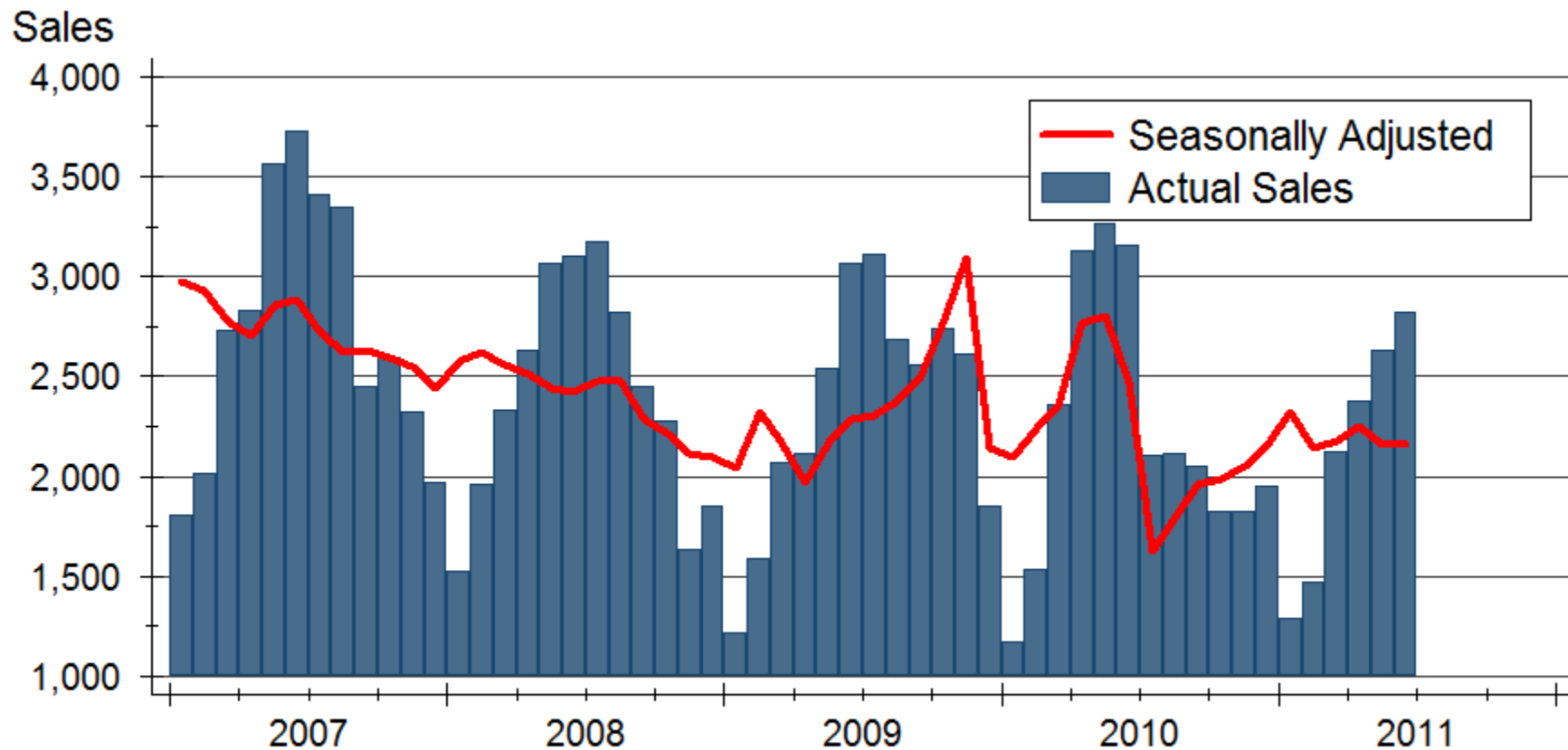
Data are seasonally adjusted

U.S. New Sales and Construction: Unprecedented declines



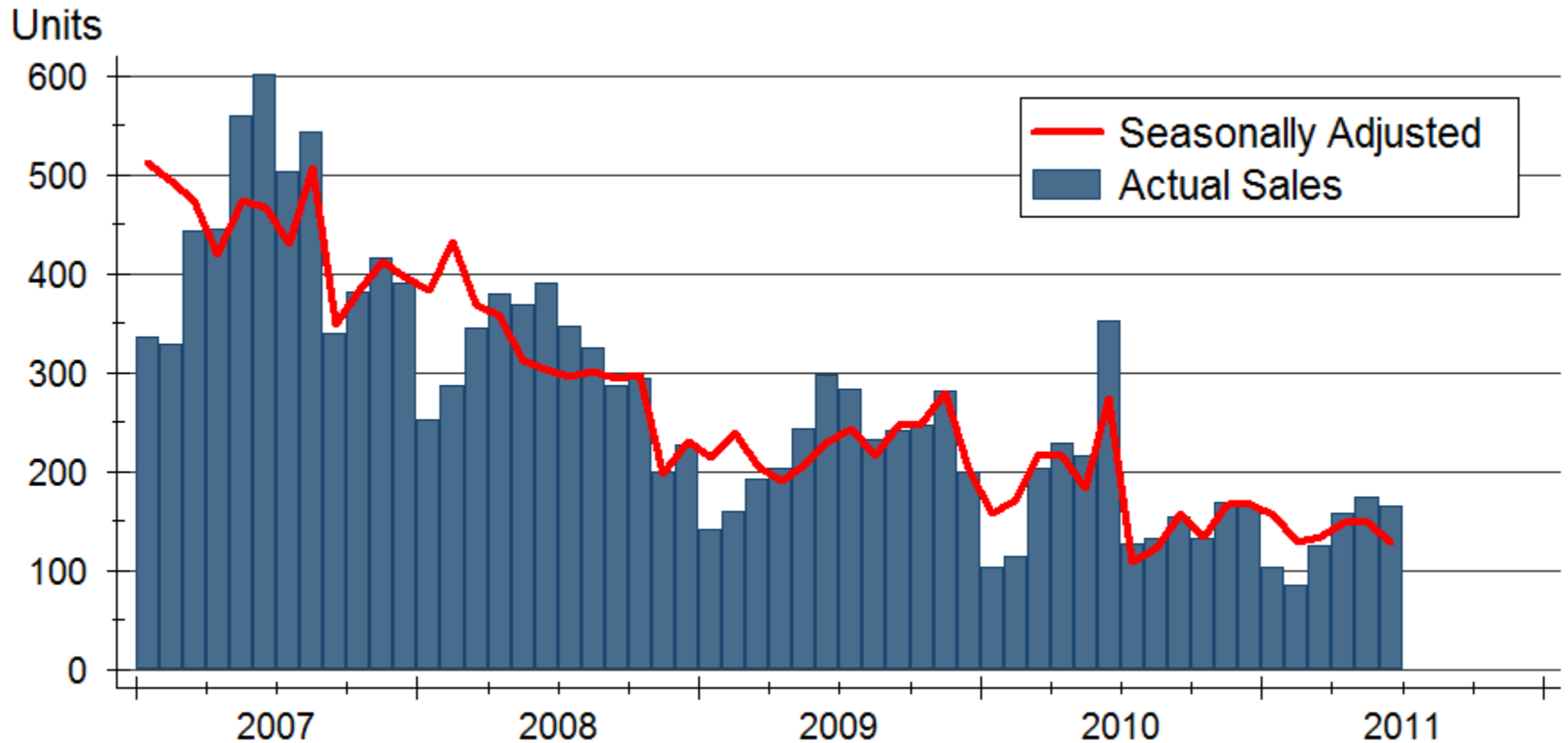
Source: U.S. Bureau of the Census
Data are seasonally-adjusted annual rates

Kansas Existing Home Sales: Flat through the first part of 2011



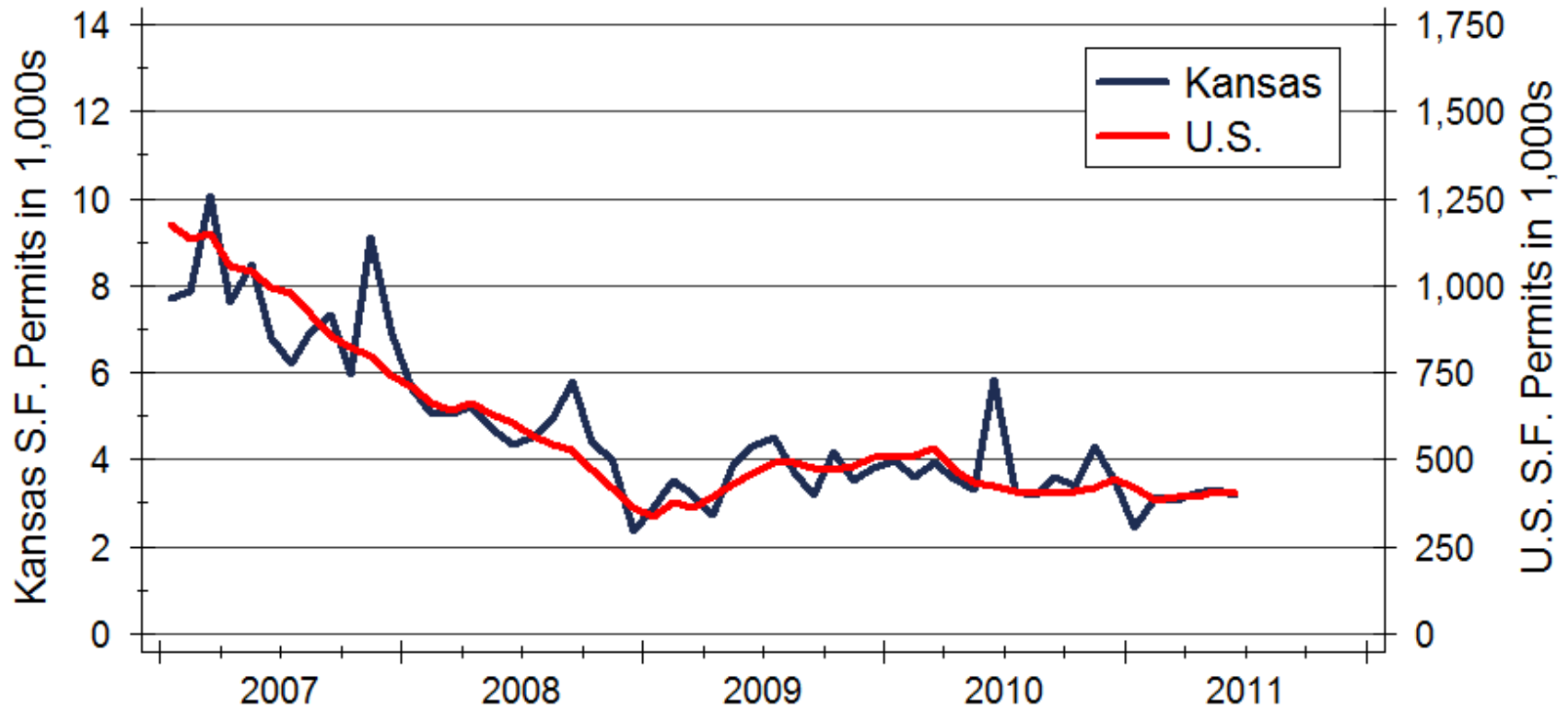
Source: Participating Kansas REALTOR® MLS systems

Kansas New Home Sales: Stuck in low gear



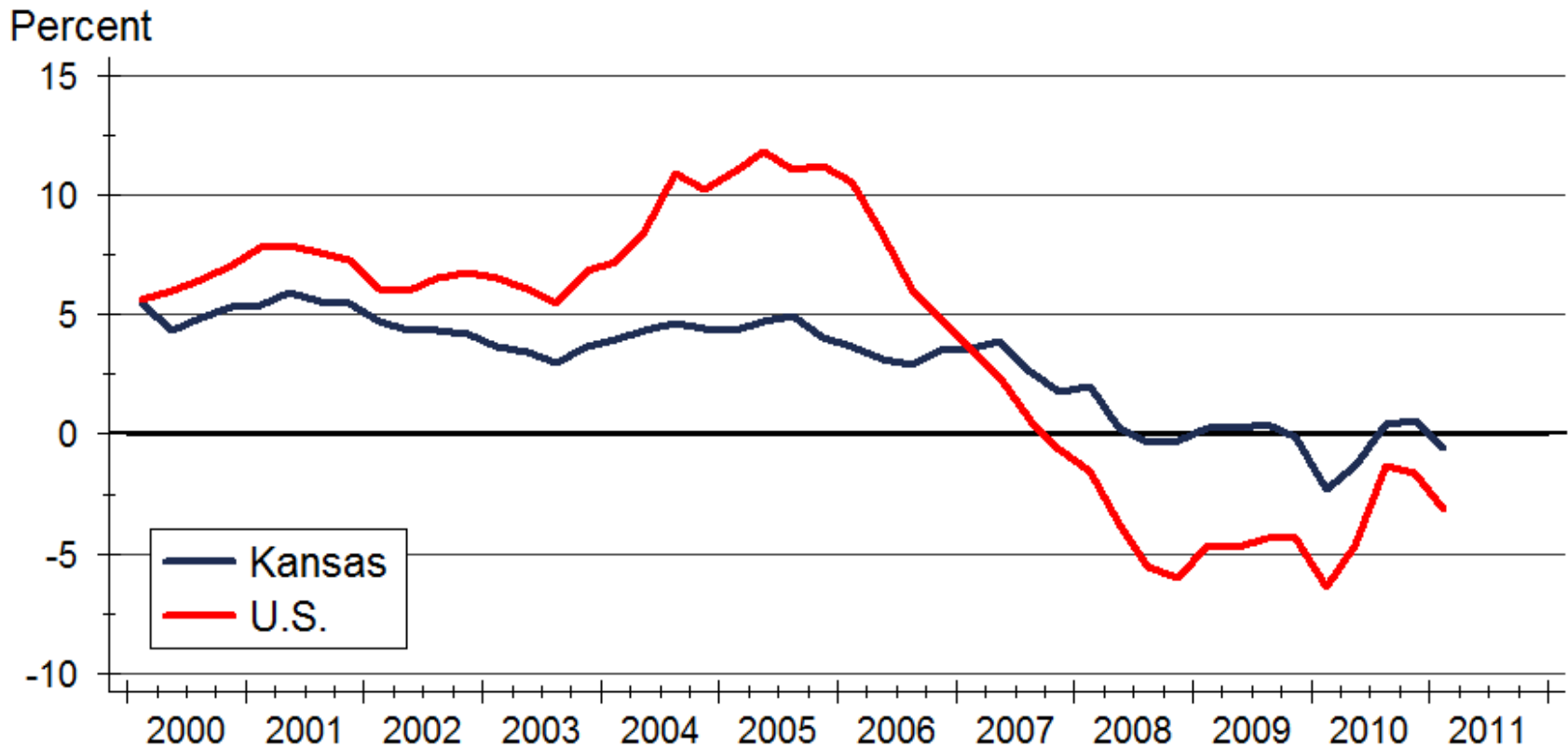
Source: Participating Kansas REALTOR® MLS systems

New Single-Family Building Permits: We found the bottom



Source: U.S. Bureau of the Census
Data are seasonally adjusted annual rates

Kansas Home Price Appreciation: Flat since 2008



Source: Federal Housing Finance Agency (FHFA)

Home Prices and Foreclosures

- There is a strong connection between home prices and foreclosures
 - Do foreclosures cause price declines or do price declines cause foreclosures?
- The prevalence of distressed sales is causing price indices to overstate the true magnitude of housing price declines

How Do Distressed Sales Affect Home Price Indices?

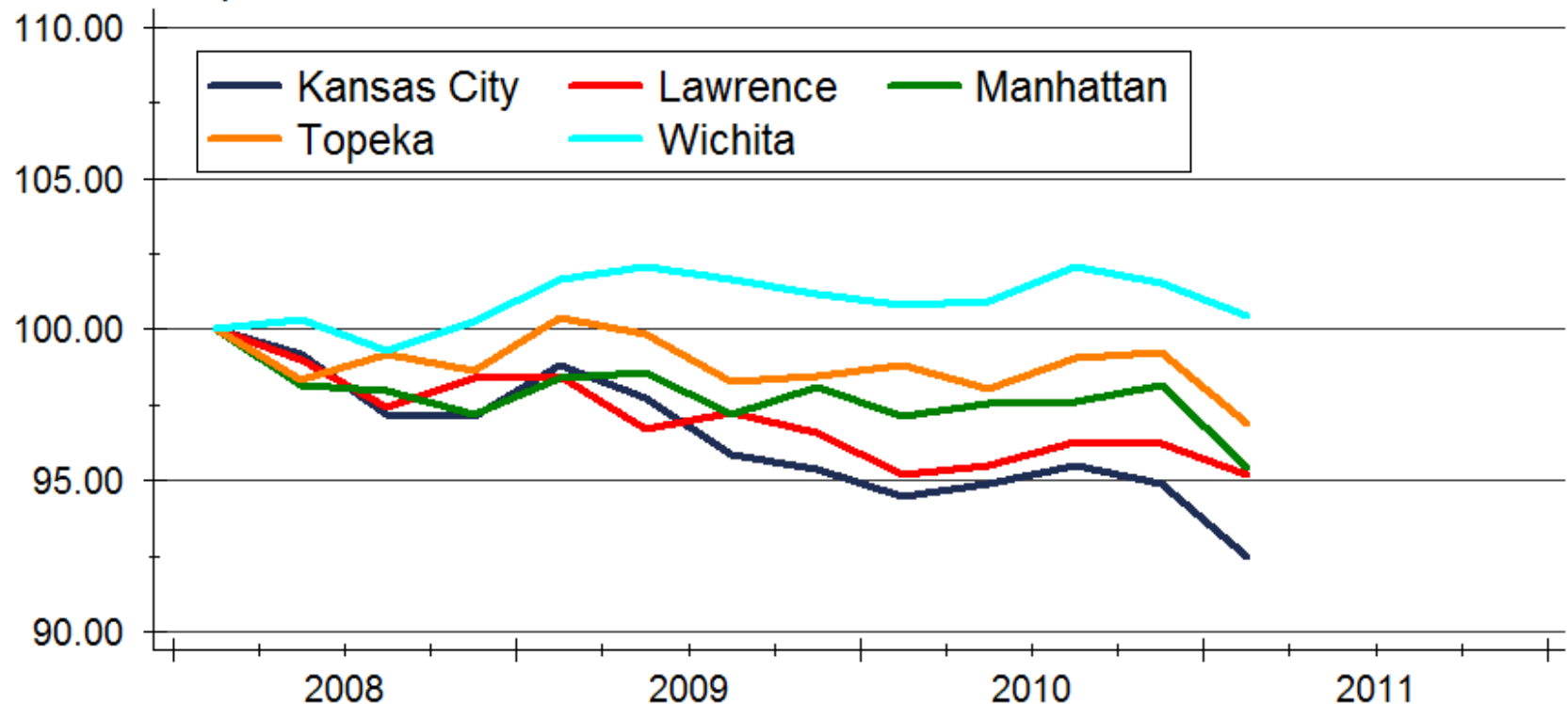
- Suppose you want to know how much your home's value has changed and there have been two recent sales in your neighborhood
 - Comparable 1: Distressed sale
 - \Rightarrow Home value has fallen by 20%
 - Comparable 2: Arm's length sale
 - \Rightarrow Home value has been flat

How Do Distressed Sales Affect Home Price Indices?

- Most price indices would count these sales equally, suggesting your home's value has fallen by 10%
 - In fact, if your home see in an arm's length transaction, your home's value has probably not fallen at all
- Until foreclosures work their way through the system, home price indices will be a biased measure of home price appreciation

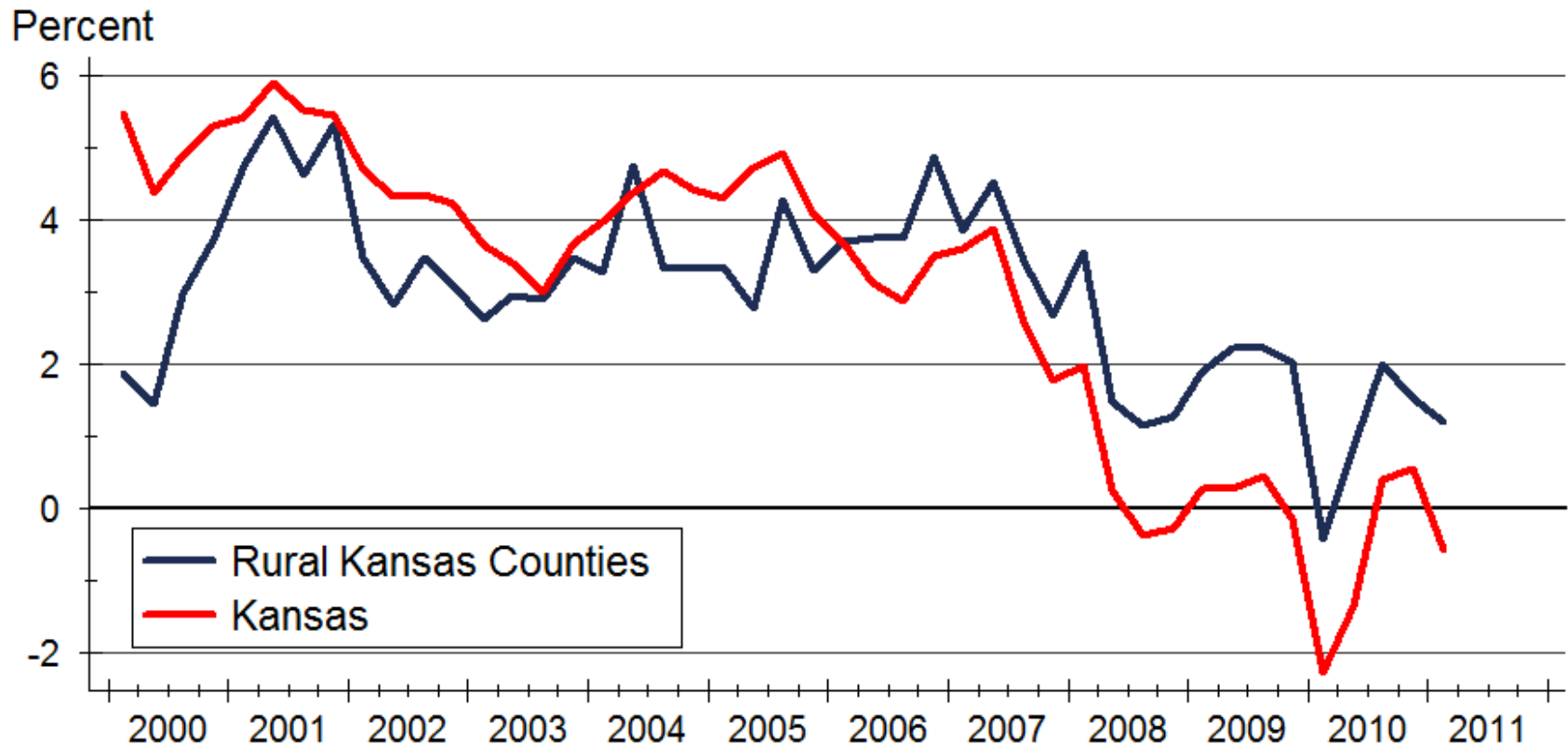
Kansas Home Price Appreciation: Northeast Kansas hit hardest

Index: 2008q1 = 100



Source: Federal Housing Finance Agency (FHFA)

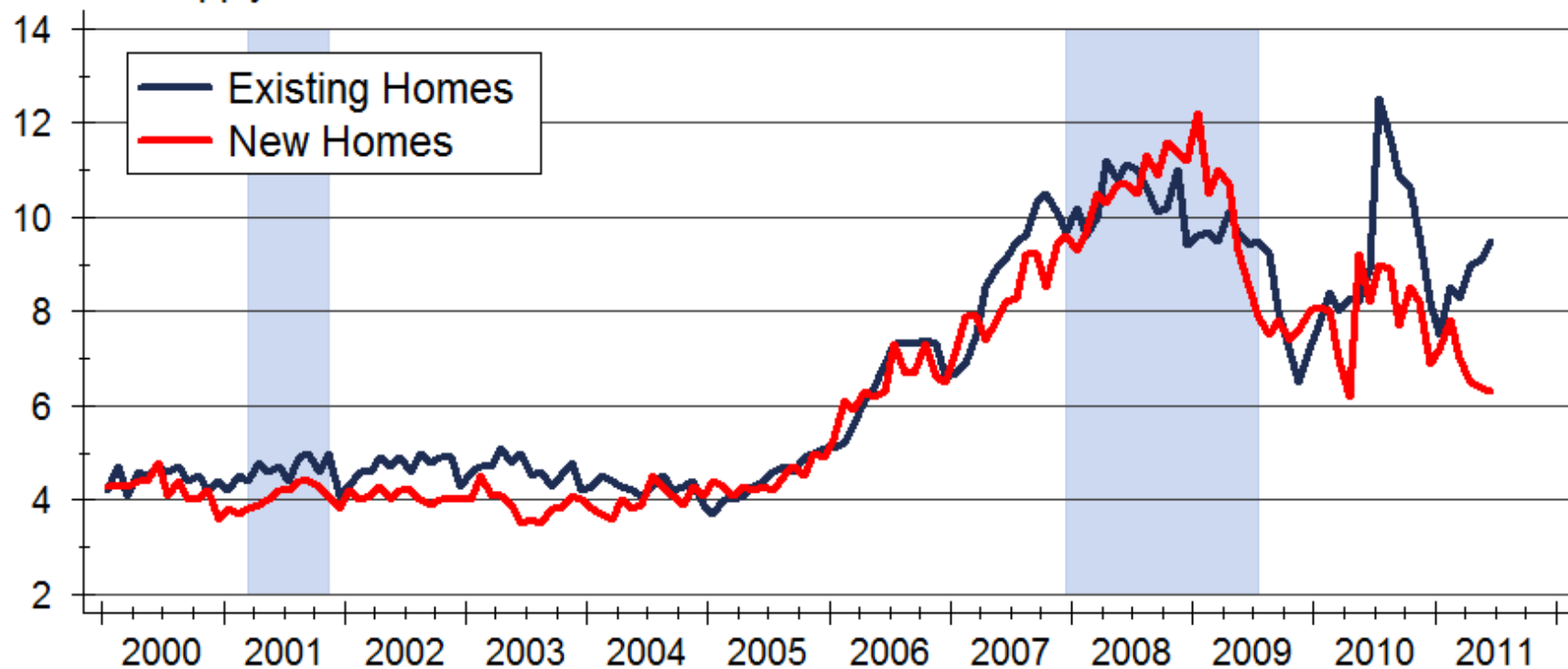
Kansas Home Price Appreciation: Rural areas holding up better



Source: Federal Housing Finance Agency (FHFA)

The Big Drag on the Market: Home inventories

Months' Supply*

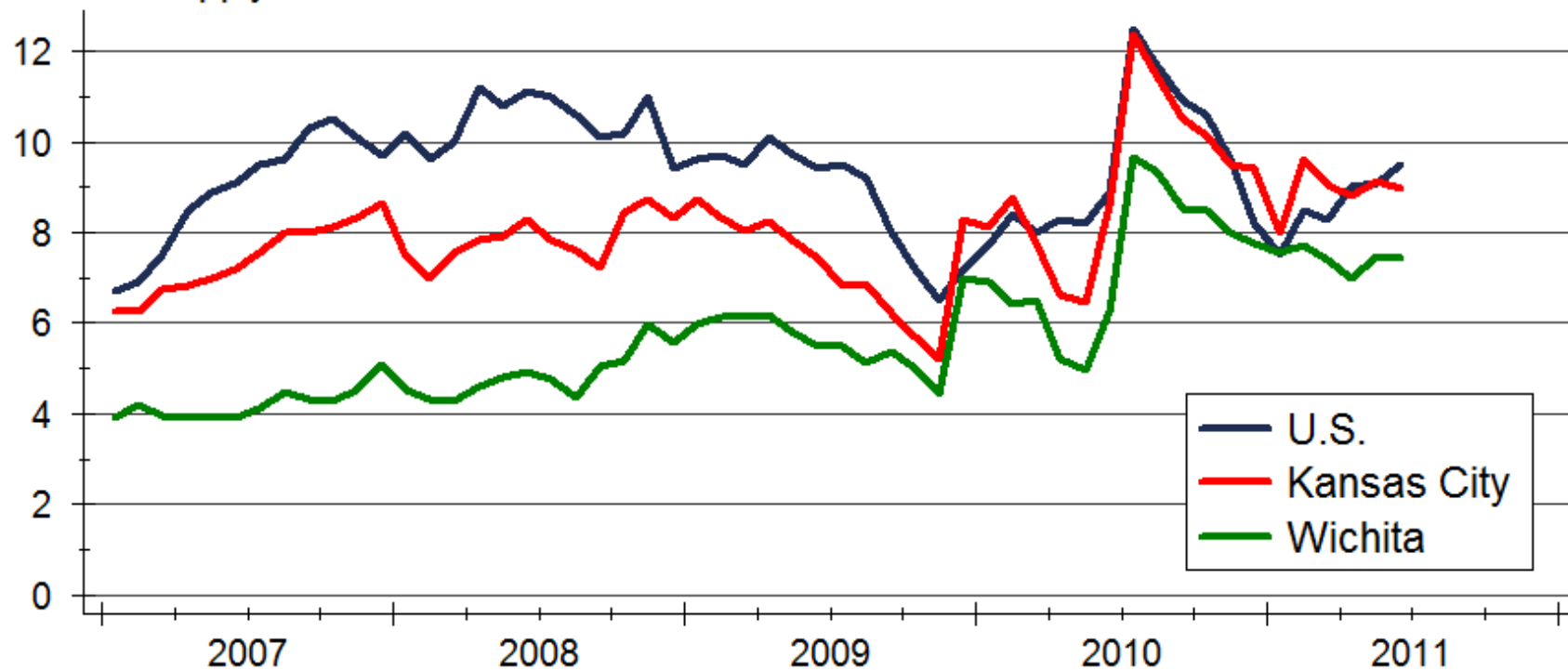


Sources: NAR and U.S. Bureau of the Census

*Active listings over monthly sales, seasonally adjusted.

Kansas Existing Home Inventories: High but stable

Months' Supply

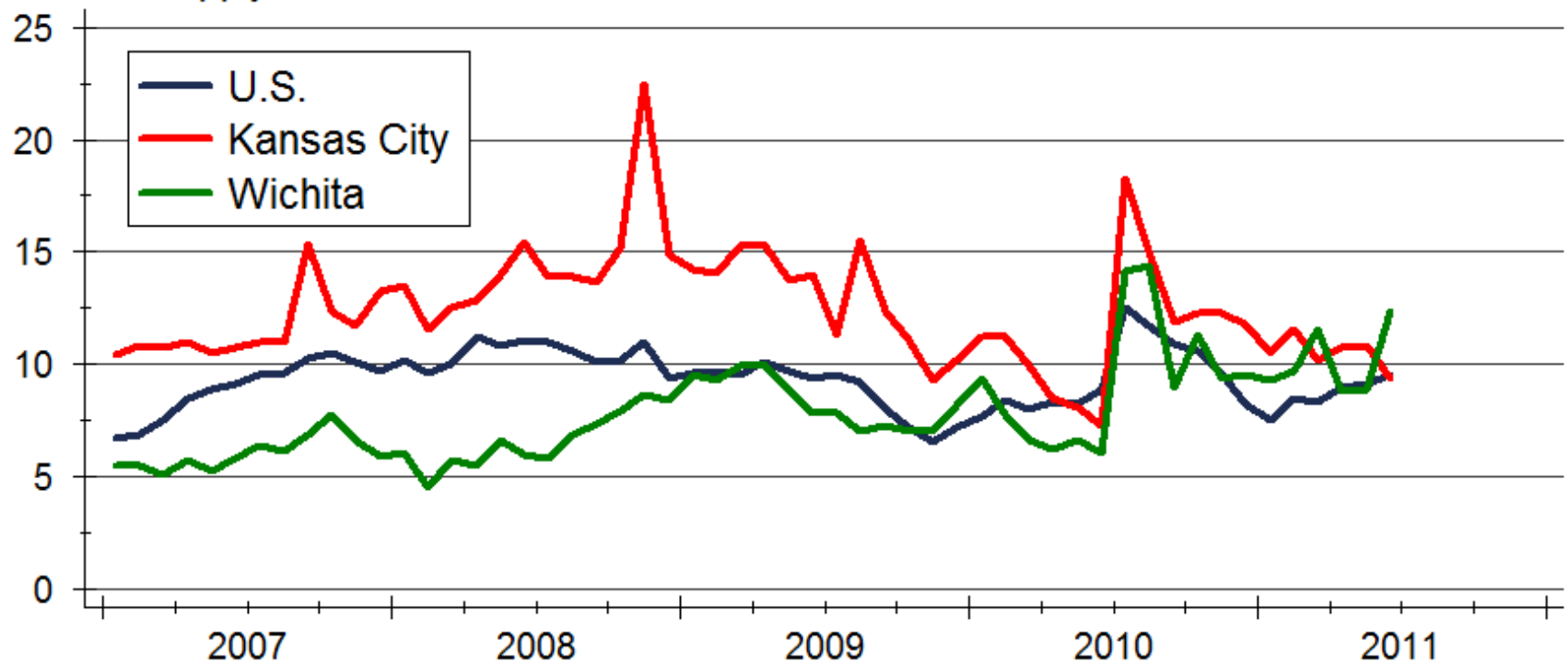


Sources: NAR, KCRAR and South Central Kansas MLS

Data are seasonally adjusted

New Home Inventories: Few listings, even fewer sales

Months' Supply

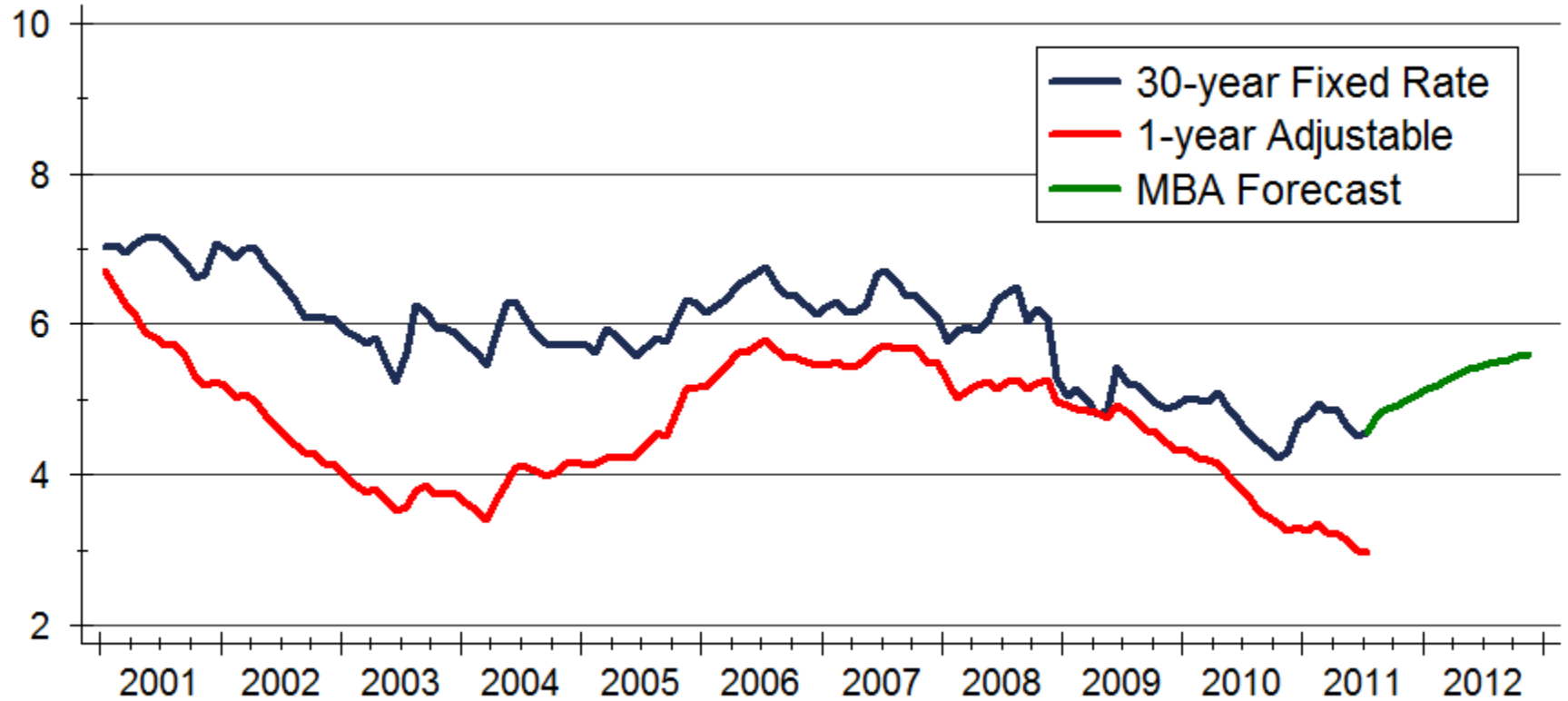


Sources: NAR, KCRAR and South Central Kansas MLS

Data are seasonally adjusted

Mortgage Rates

Percent



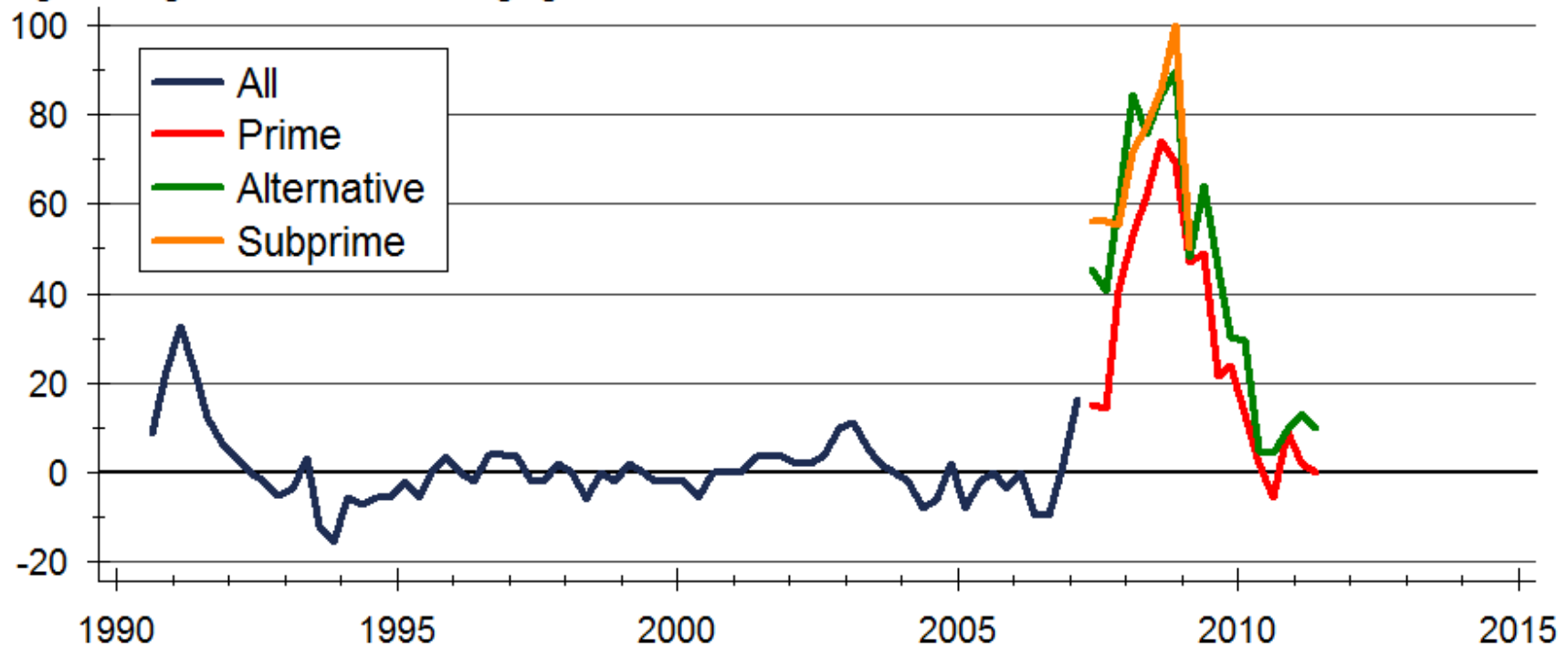
Sources: Freddie Mac; Mortgage Bankers Association

“Normal” Mortgage Rates?

- Nominal mortgage rates include the following factors
 - Real, risk-free return on money $\approx 2.5\% - 3.5\%$ over time
 - Premium for expected inflation $\approx 1\% - 2\%$
 - Premium for risk $\approx 2\%$
- *Implies “normal” mortgage rates should be in the 5.5% to 7.5% range.*

Mortgage Underwriting Standards

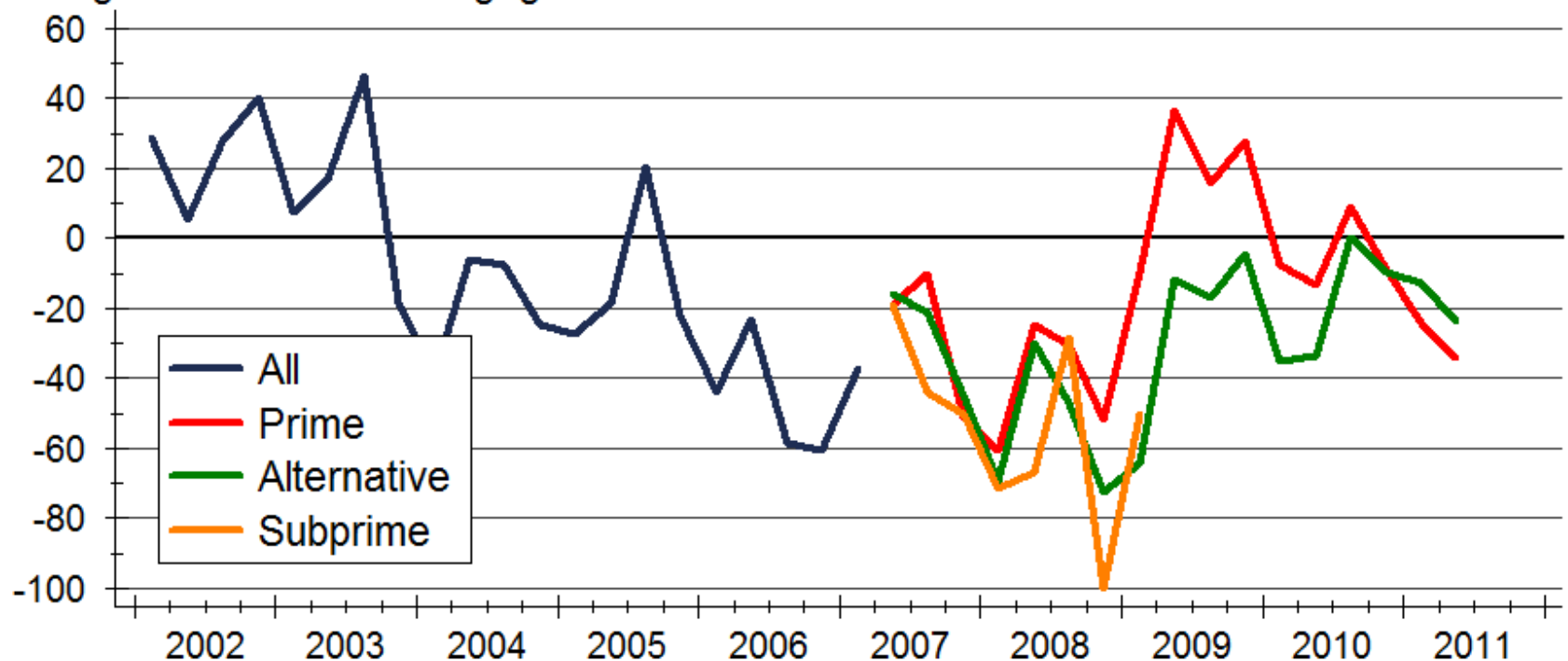
Net Percentage of Banks Reporting Tightening Standard of Mortgages



Source: Board of Governors of the Federal Reserve System

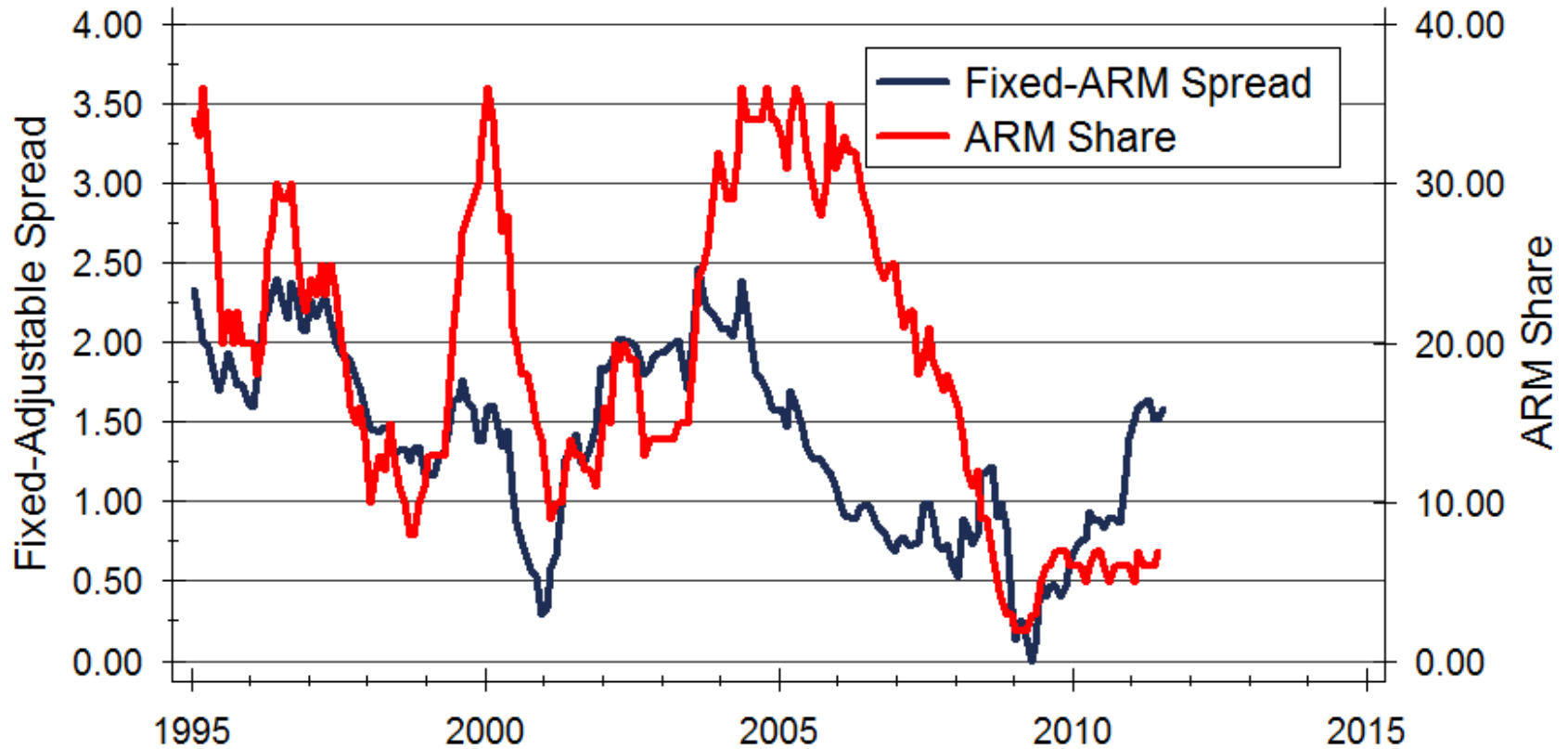
Mortgage Demand

Net Percentage of Banks Reporting Stronger Demand for Mortgages



Source: Board of Governors of the Federal Reserve System

Adjustable Rate Mortgage Share



Source: Freddie Mac

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Laying a Foundation for Real Estate in Kansas



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