

Recovery to Normalcy

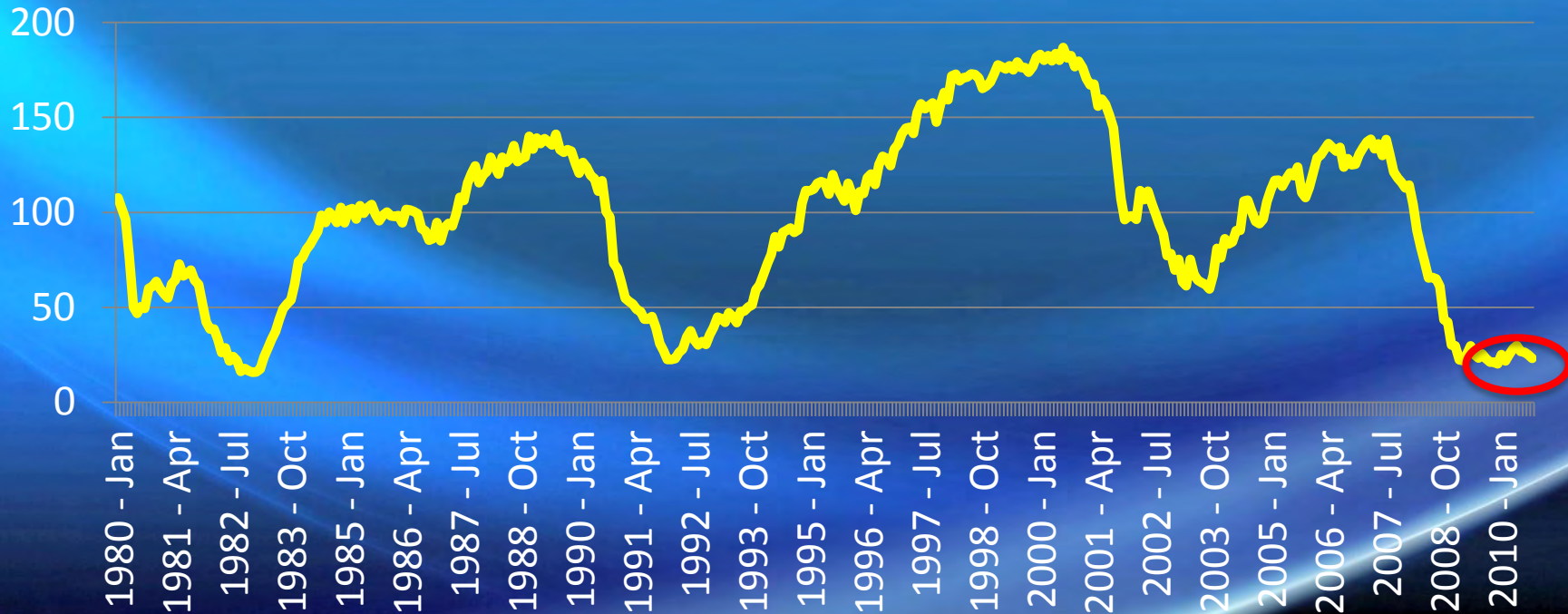
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NATIONAL ASSOCIATION OF REALTORS®

Presentation to Metro Denver REALTORS®
Denver, CO
November 17, 2010

Federal Reserve FOMC

- Ben Bernanke (Chairman):
 - “Outlook remains unusually uncertain”
- Alan Greenspan (former Chairman):
 - “If home prices start falling again, we could be facing a double-dip recession”
- James Bullard (St. Louis Fed):
 - “The U.S. is closer to a Japanese-style deflationary outcome”
- Thomas Hoenig (Kansas City Fed):
 - “Too rapid money creation results in eventual high inflation”

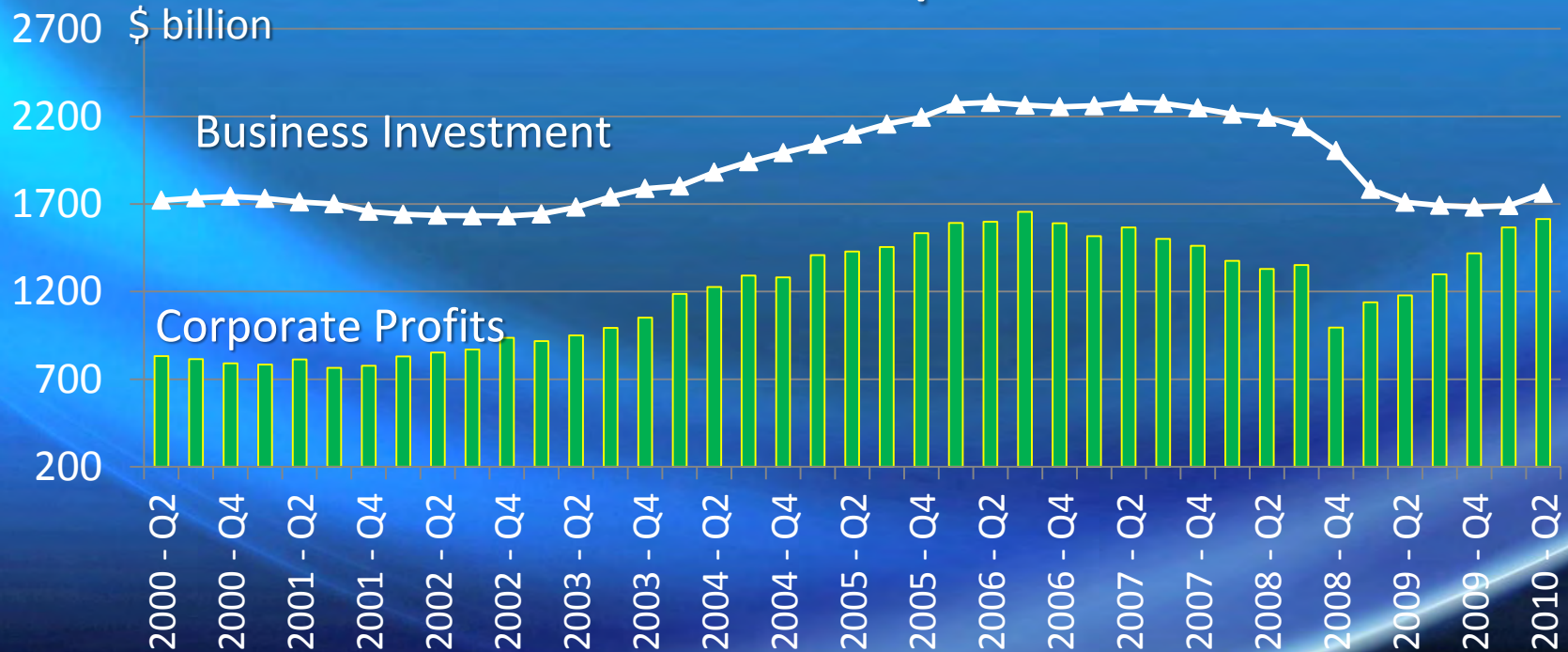
Consumer Confidence about Present Conditions: Awful



Consumer Confidence about Future Conditions – Not good but not as bad



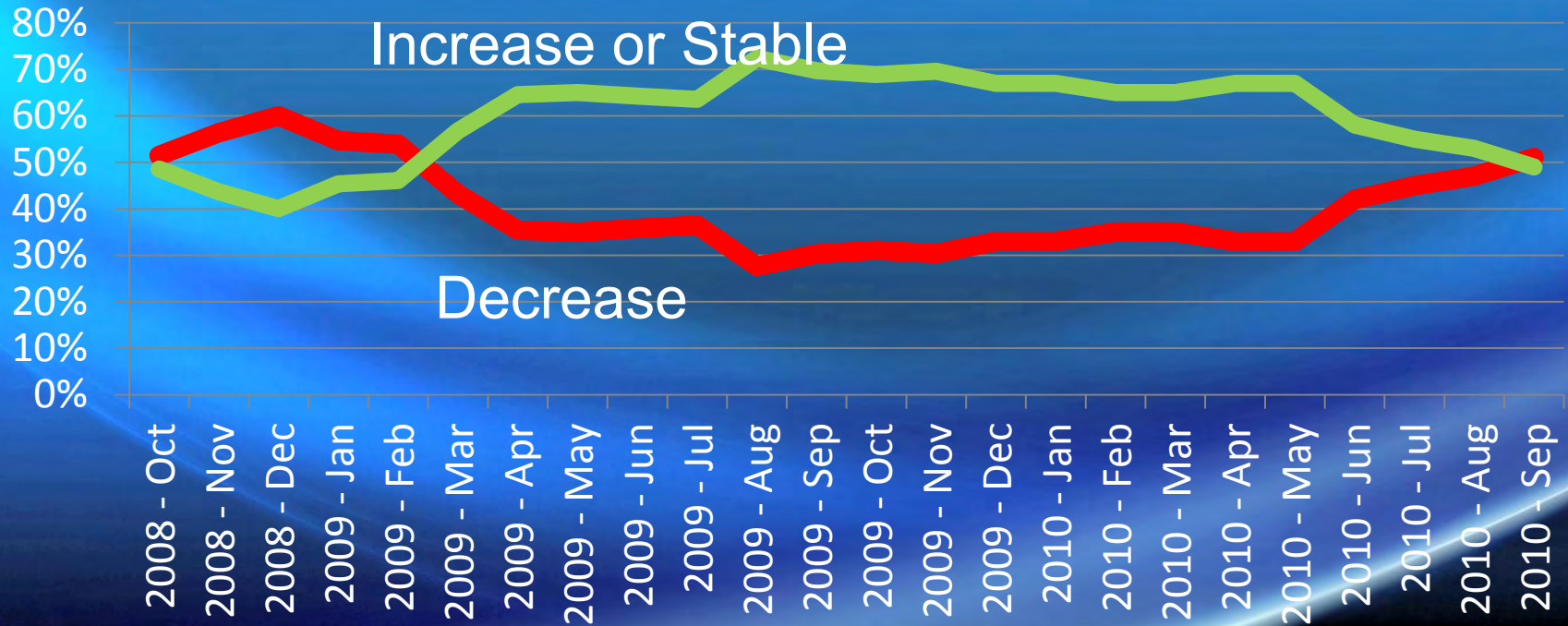
Business Spending shows weak confidence in relation to profits



Business Investment = private fixed investment in GDP accounting

REALTORS' Home Value Expectation:

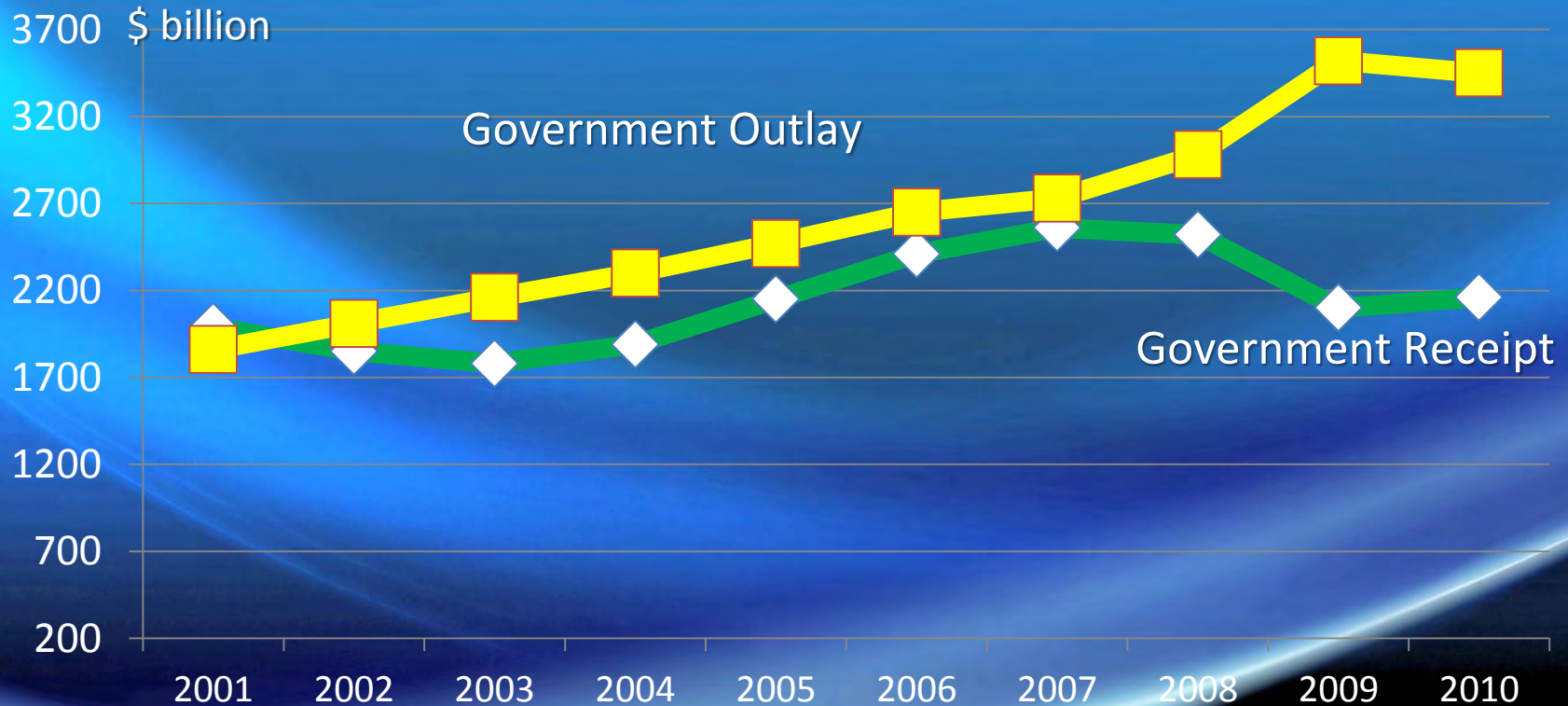
over the next 12 months



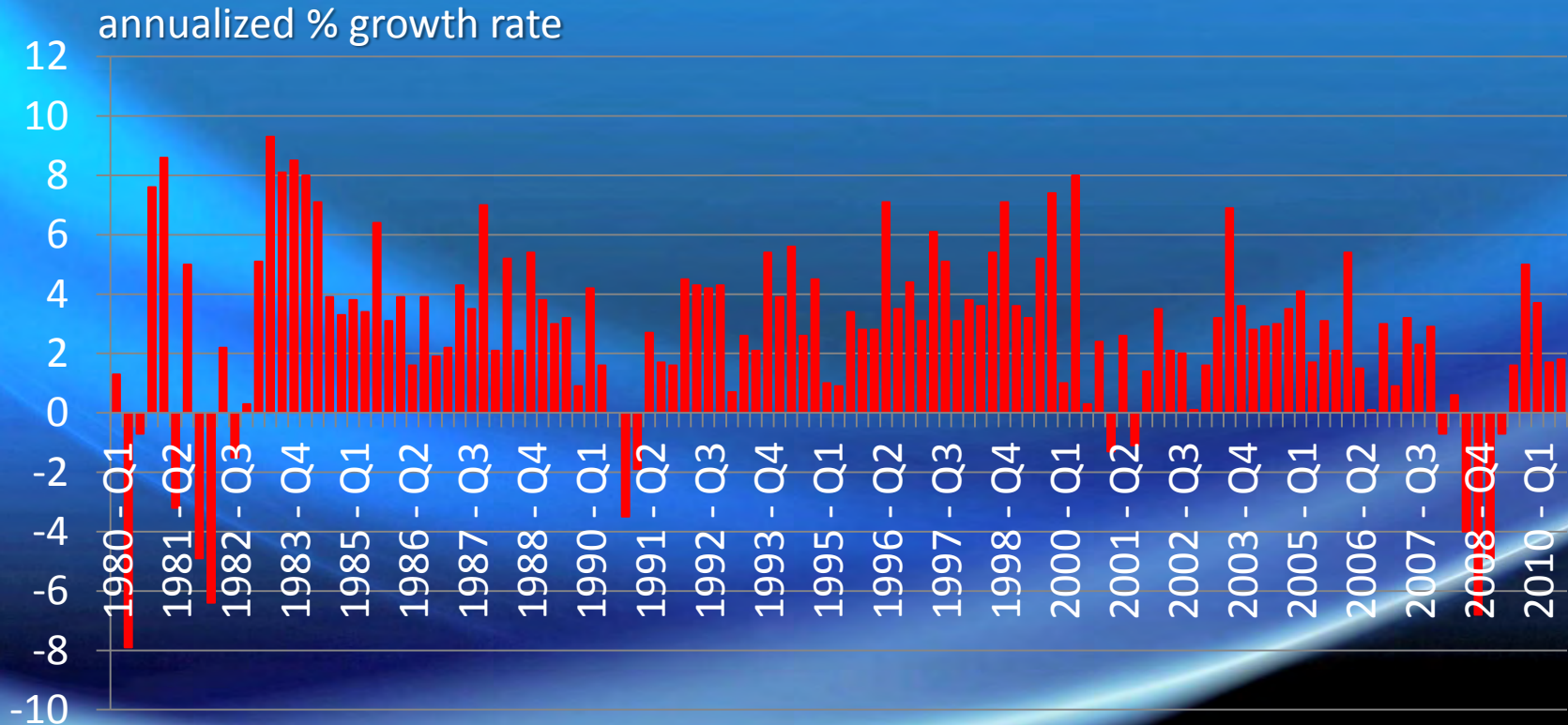
REALTOR Expectation vs Reality

Date	% respondents saying prices will have fallen at this time from 12 month prior	Case-Shiller price change
2009.10	51%	-7.3
2009.11	56%	-5.4
2009.12	60%	-3.1
2010.01	55%	-0.7
2010.02	54%	+0.7
2010.03	43% (minority say falling price)	+2.3 (price did not fall)
2010.04	35%	+3.8
2010.05	35%	+4.6
2010.06	36%	+4.2
2010.07	36%	+3.2

Government Spending (Confidence)

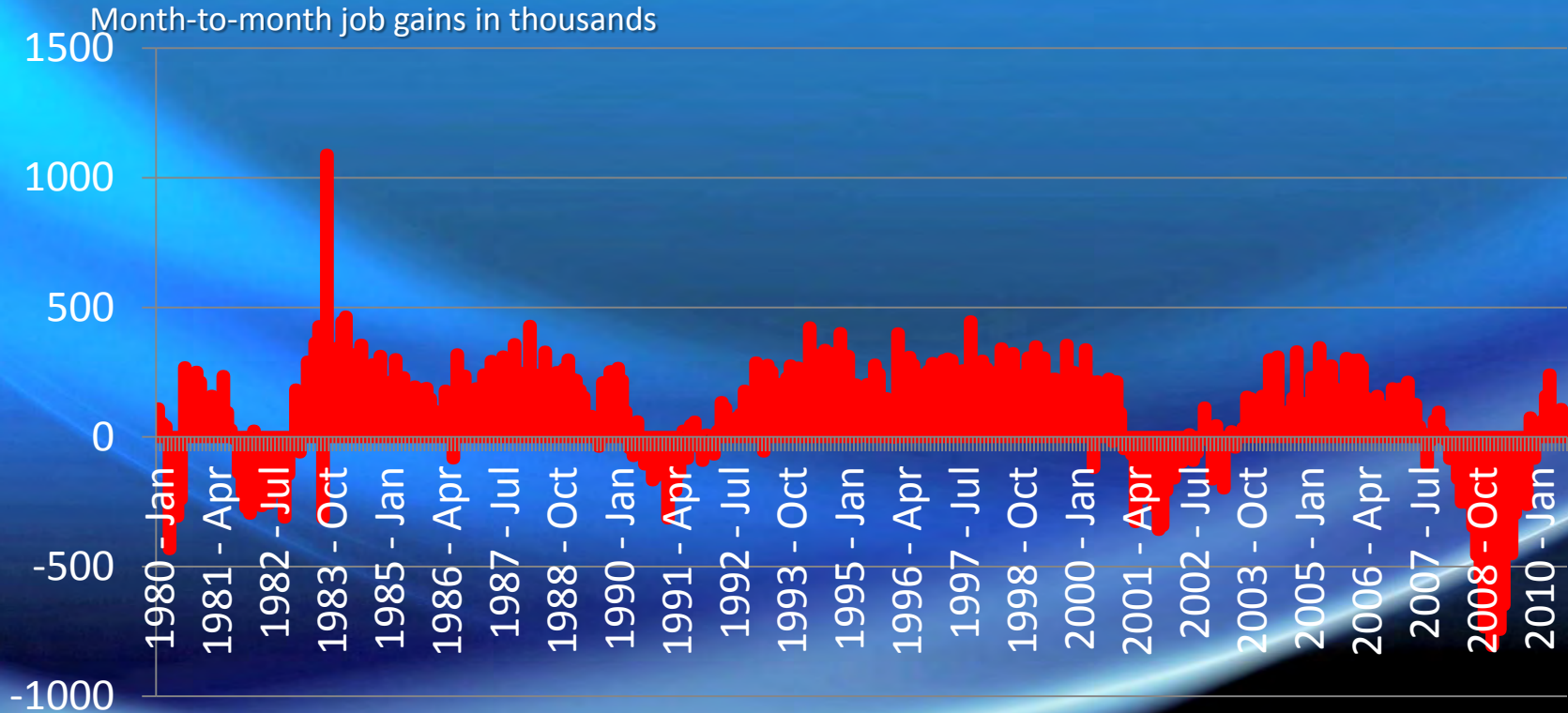


GDP Growing, but without vigor



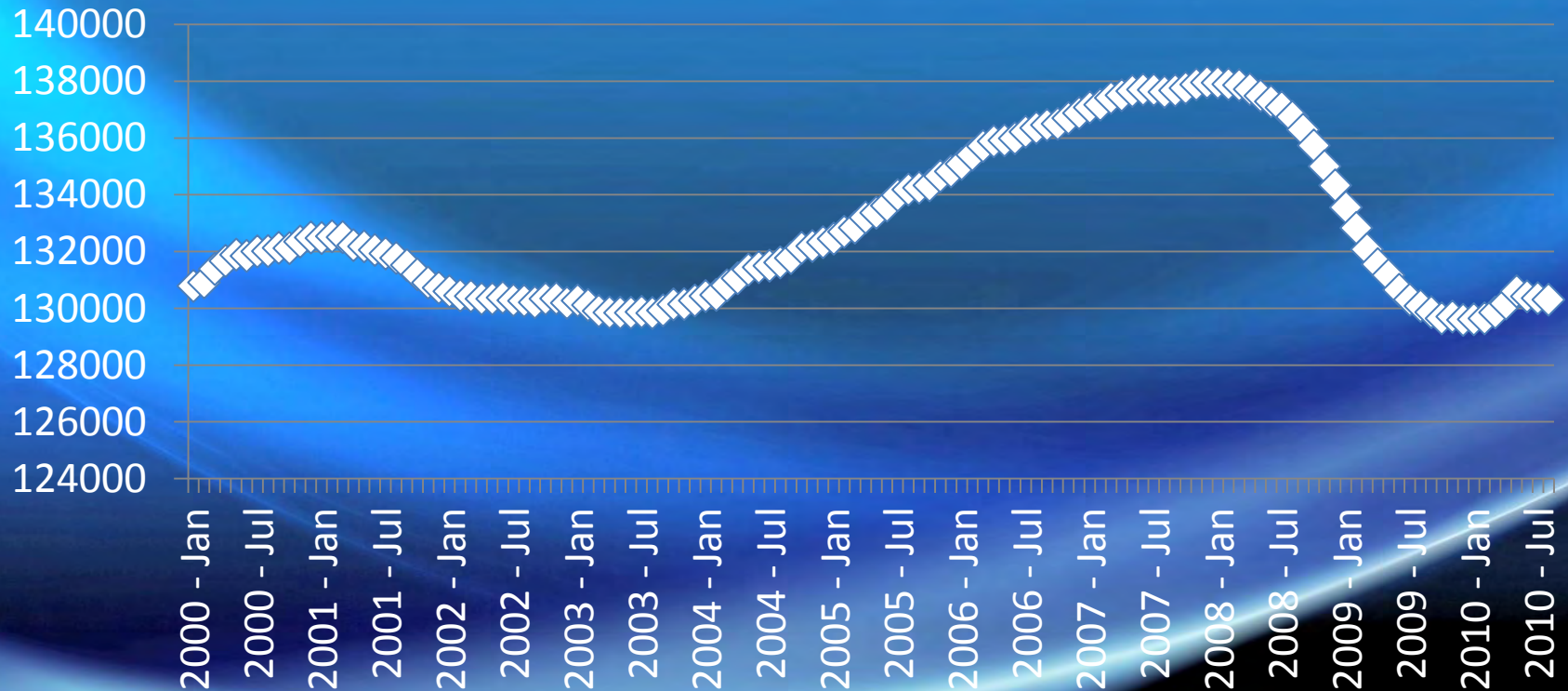
U.S. Private Sector Job Gains

(863,000 from Jan. to Sep. 2010)



Total Payroll Jobs in the U.S.

(same as in 2000, but with 30 million more people)

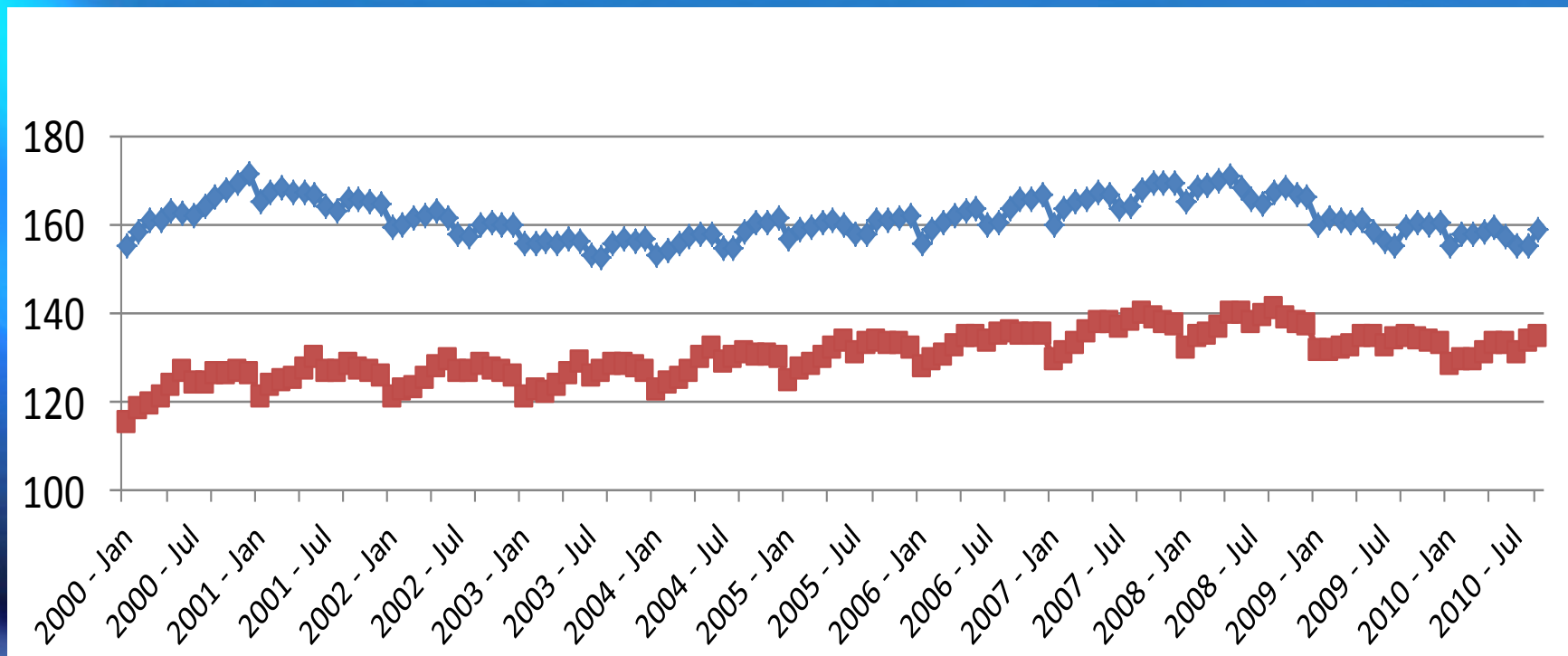


How Many Years to Get Job Market Back to Normal?

Jobs added per month	Assumed new jobs needed for growing population per month	How many years?
100,000	100,000	Treading water and never back to normal
200,000	100,000	6.3 years
300,000	100,000	3.2 years
400,000	100,000	2.1 years

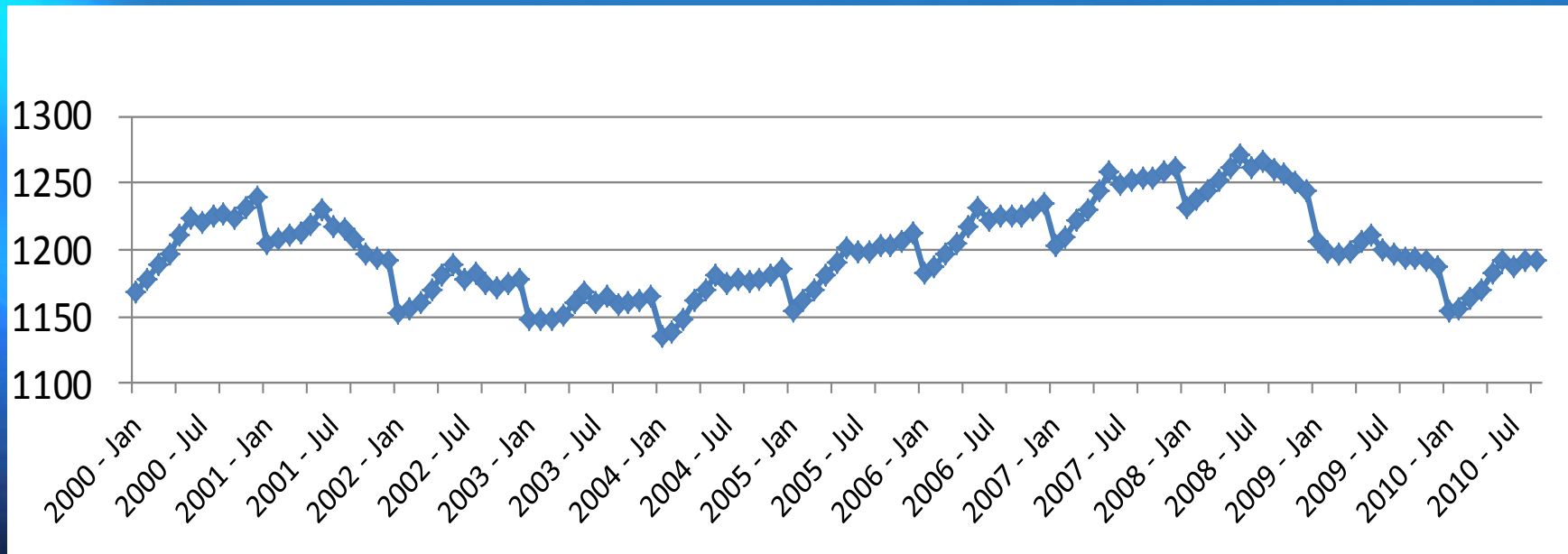
Total Payroll Jobs in Boulder and Ft. Collins

In thousands

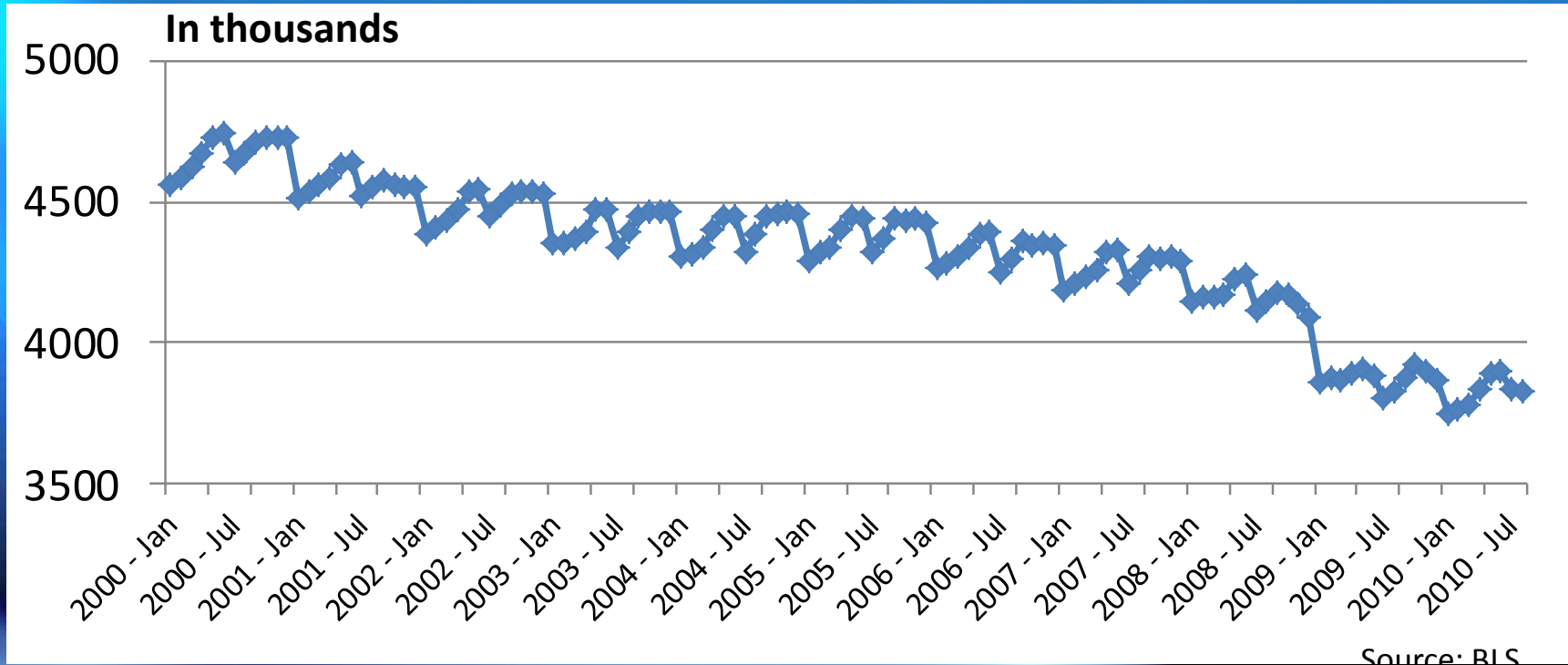


Total Payroll Jobs in Denver-Aurora

In thousands

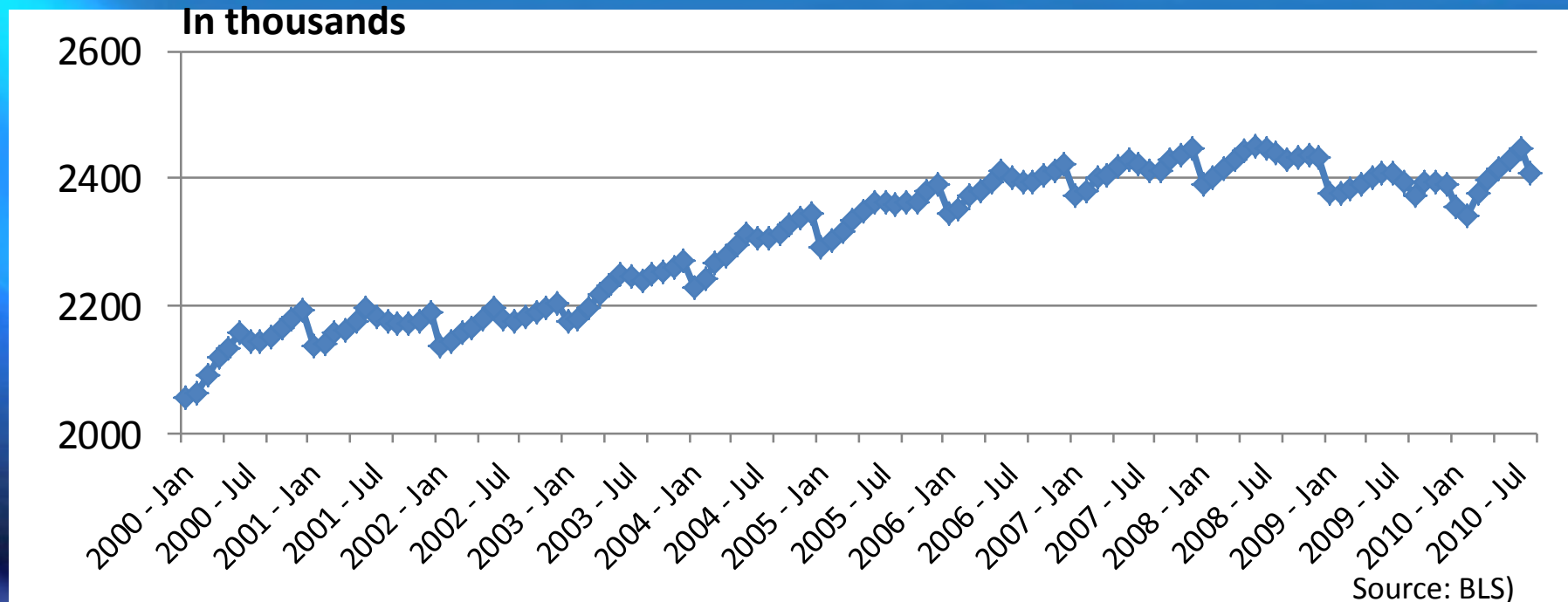


Total Payroll Jobs in Michigan



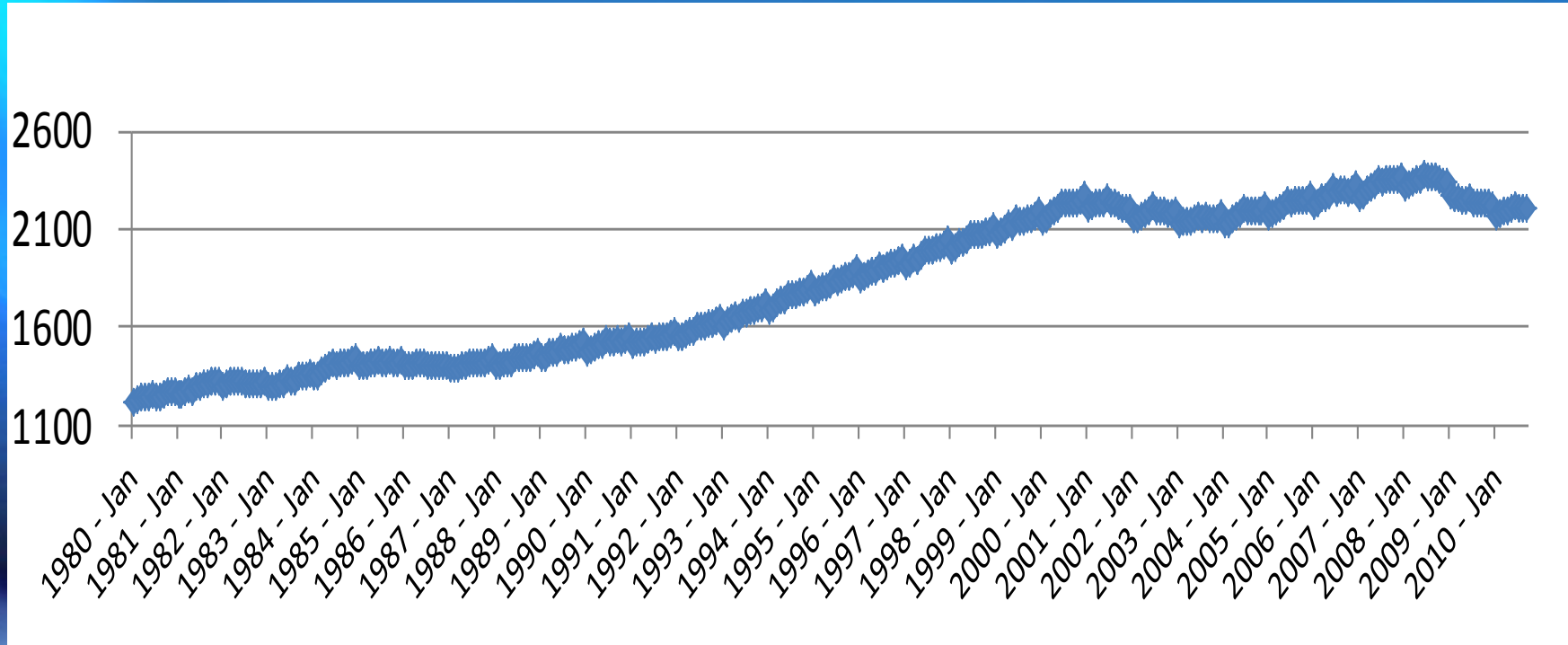
Source: BLS

Total Payroll Jobs in Washington D.C. Metro

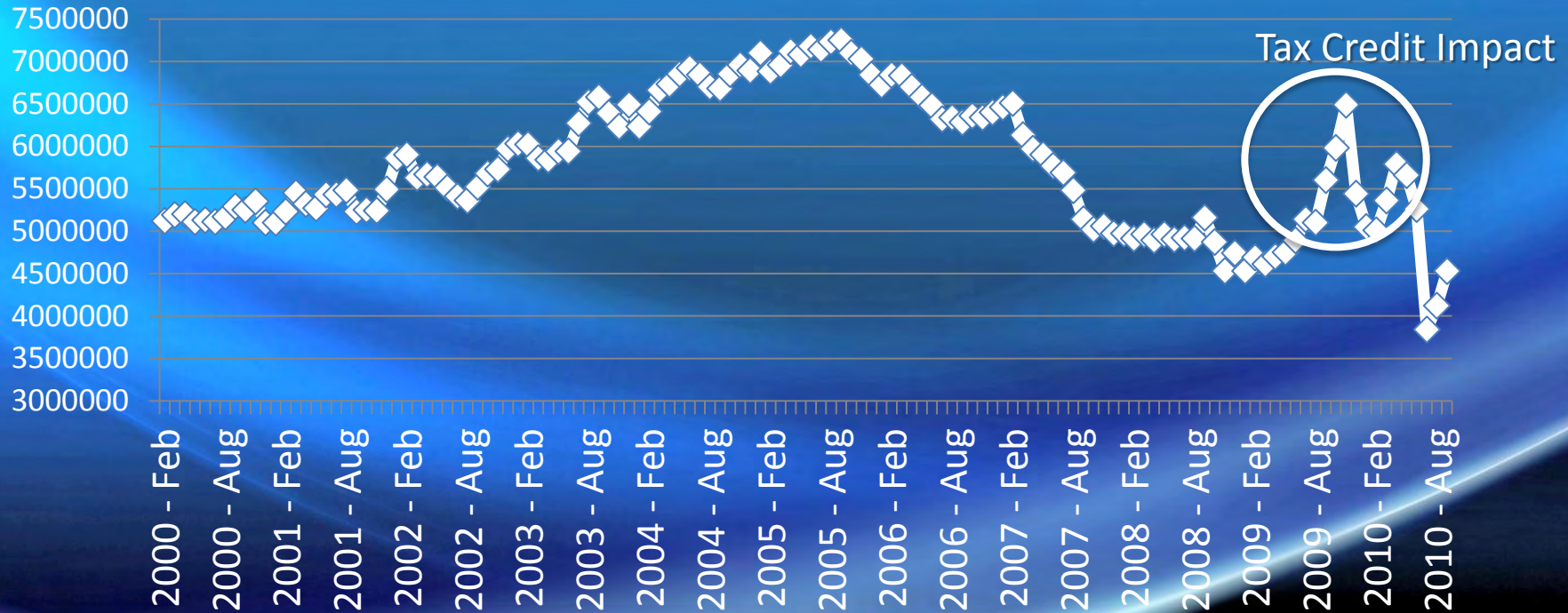


Long-term Job Growth in Colorado (30 years)

In thousands



Existing Home Sales (Closings)

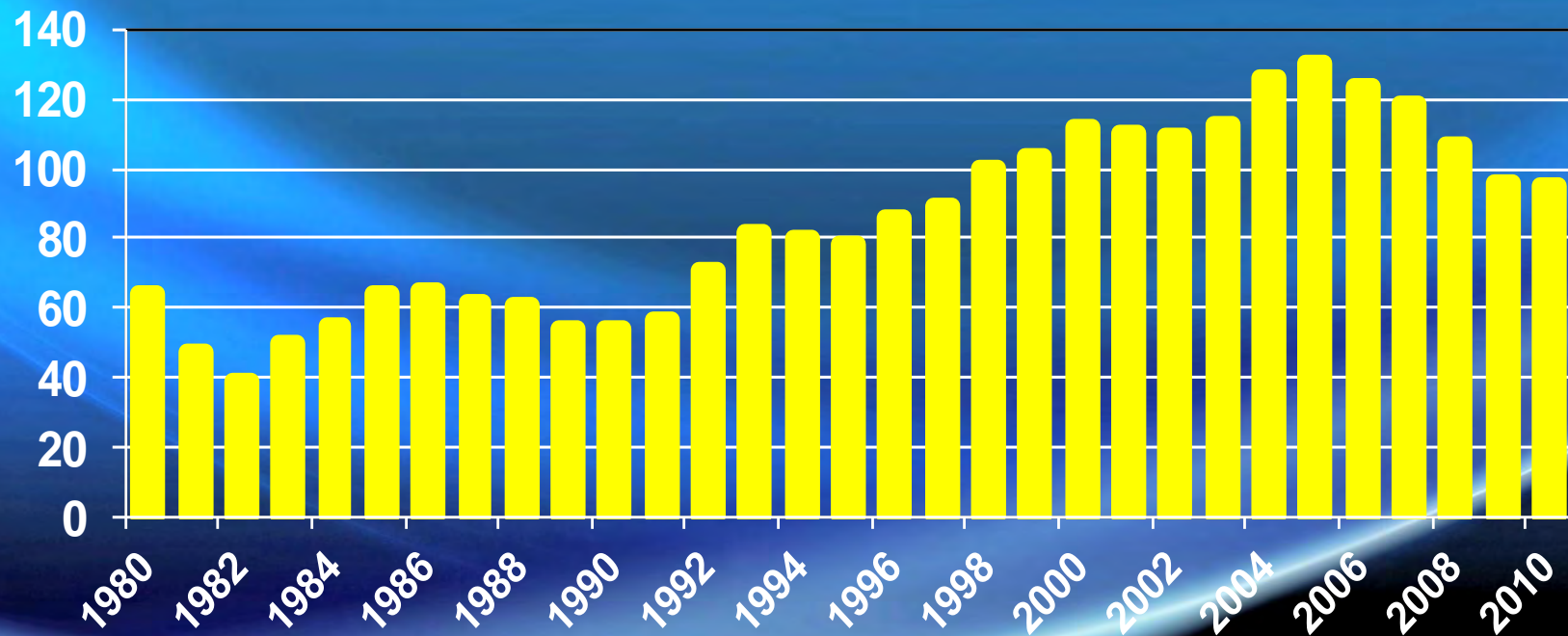


Colorado Existing Home Sales: Quarterly Change



Long-term Colorado Home Sales: 30 years

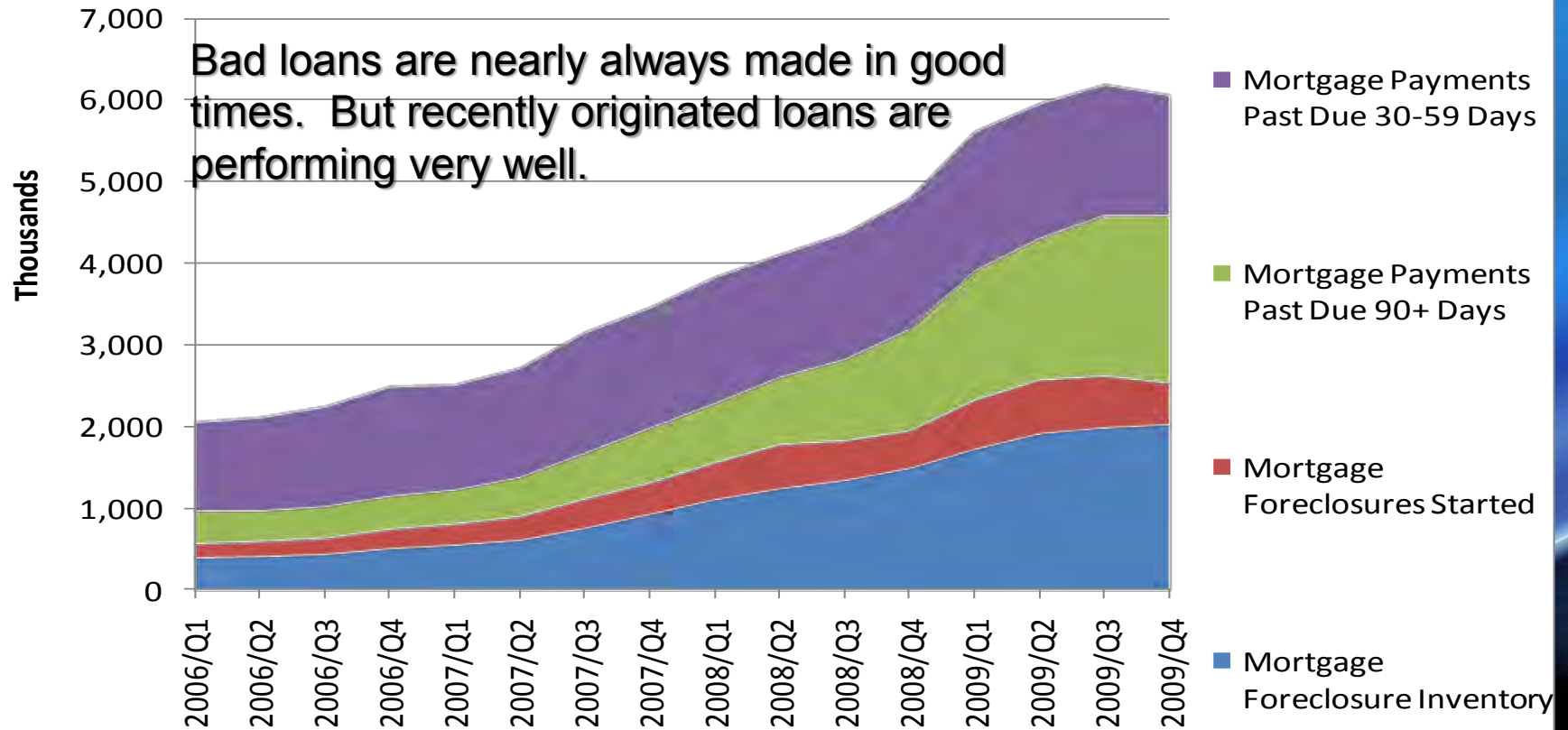
In thousands



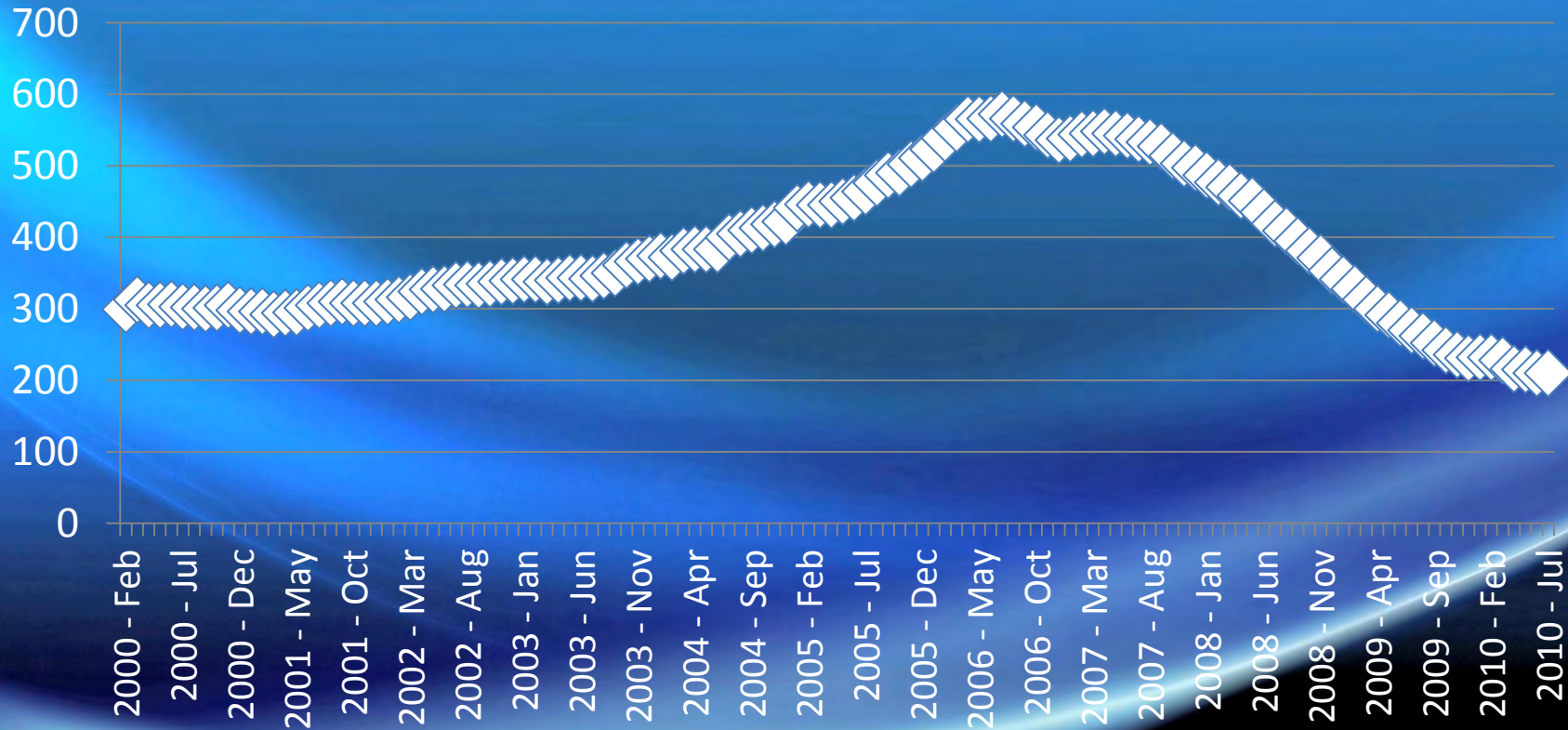
Median Home Price in Denver Area



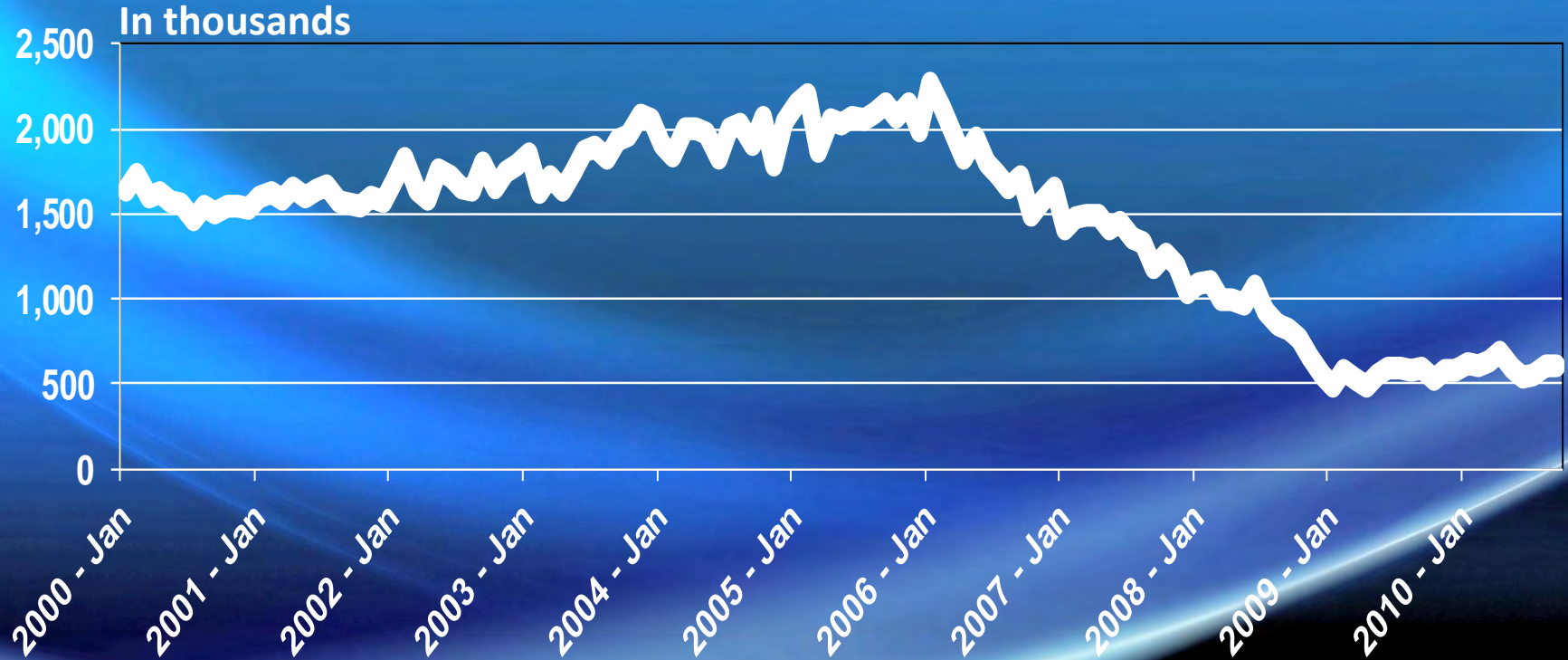
Distressed Loans and Shadow Inventory



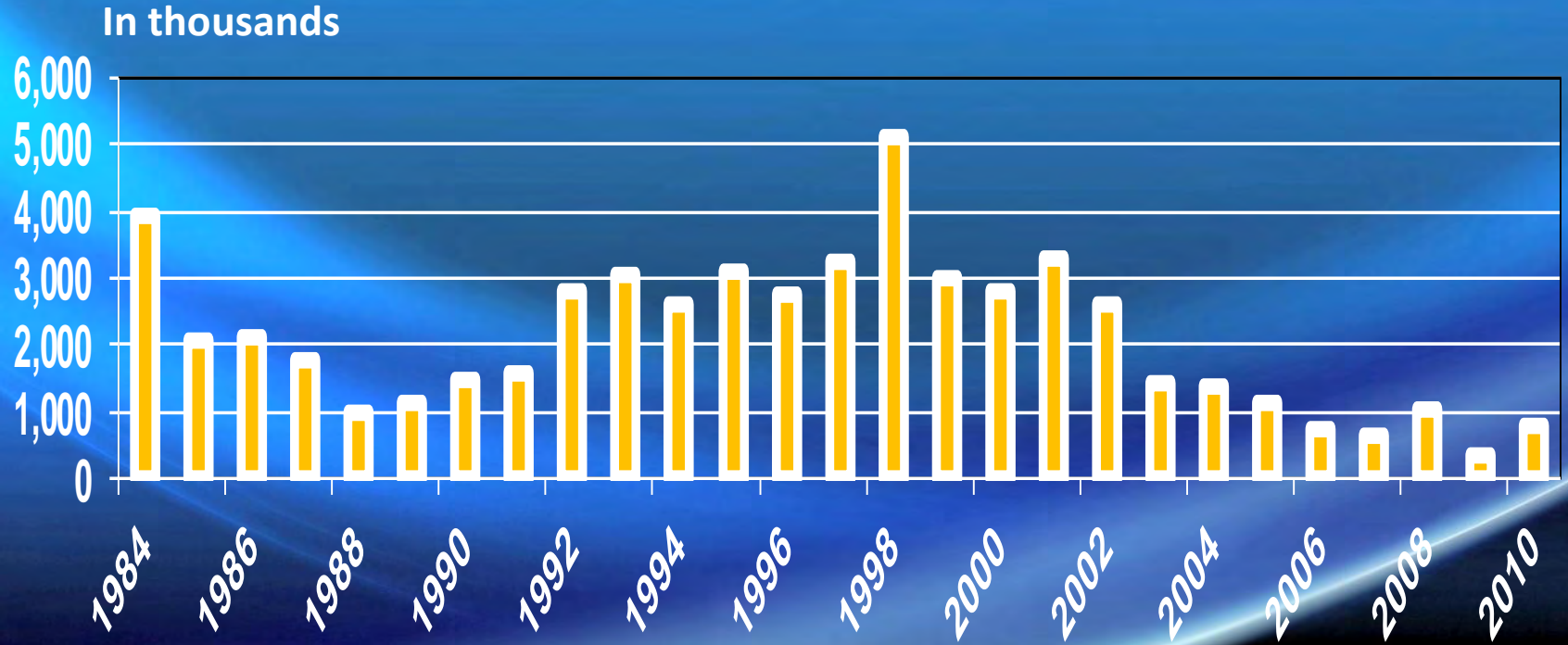
Newly Built Home Inventory and Its Shadow Inventory



Depressed Housing Starts

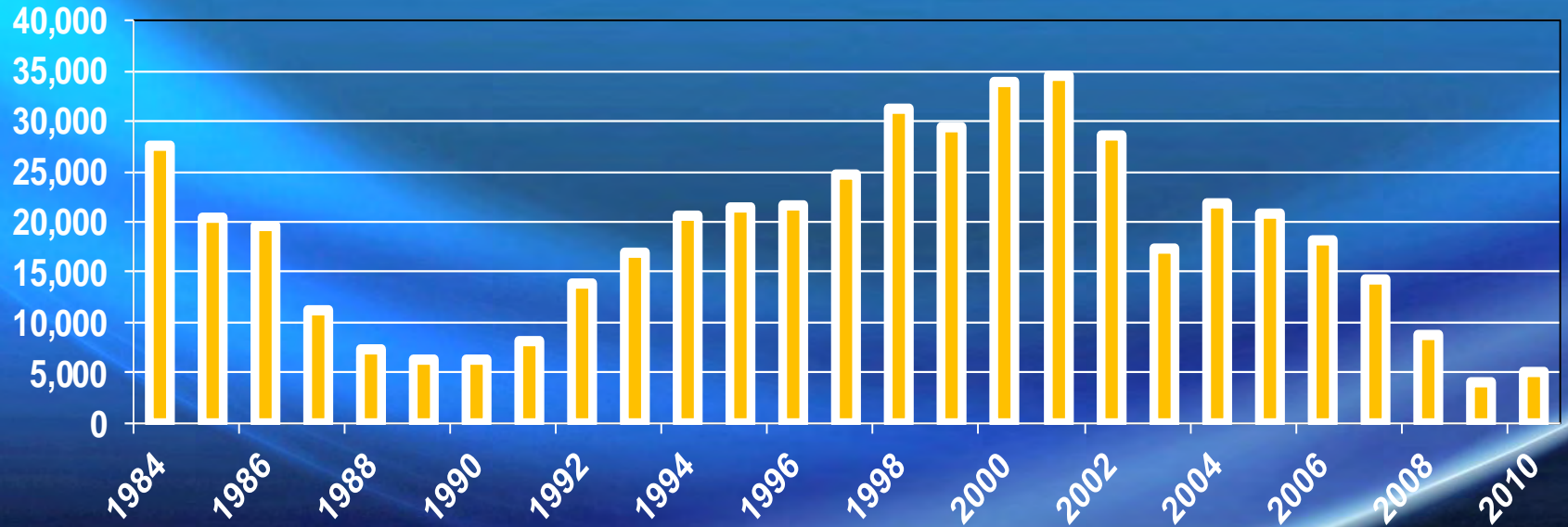


Housing Starts in Boulder

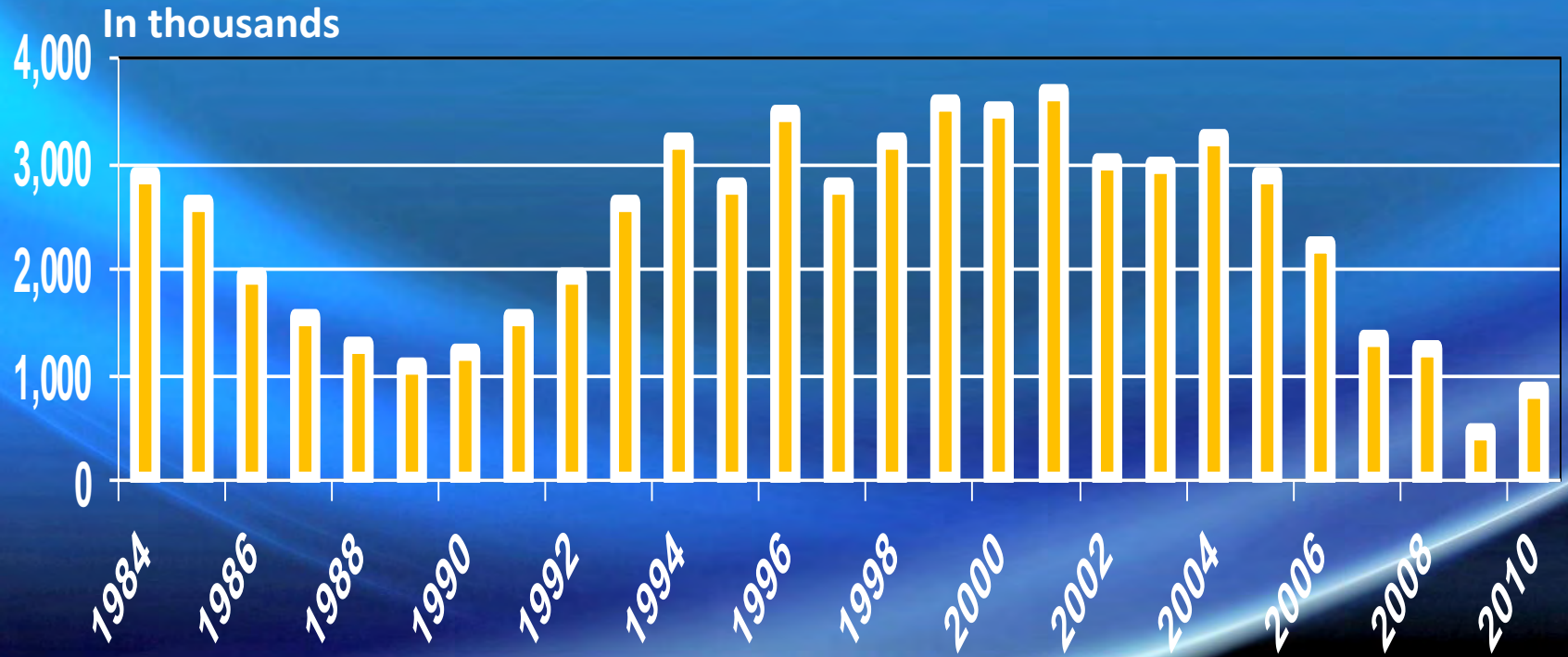


Housing Starts in Denver-Aurora

In thousands



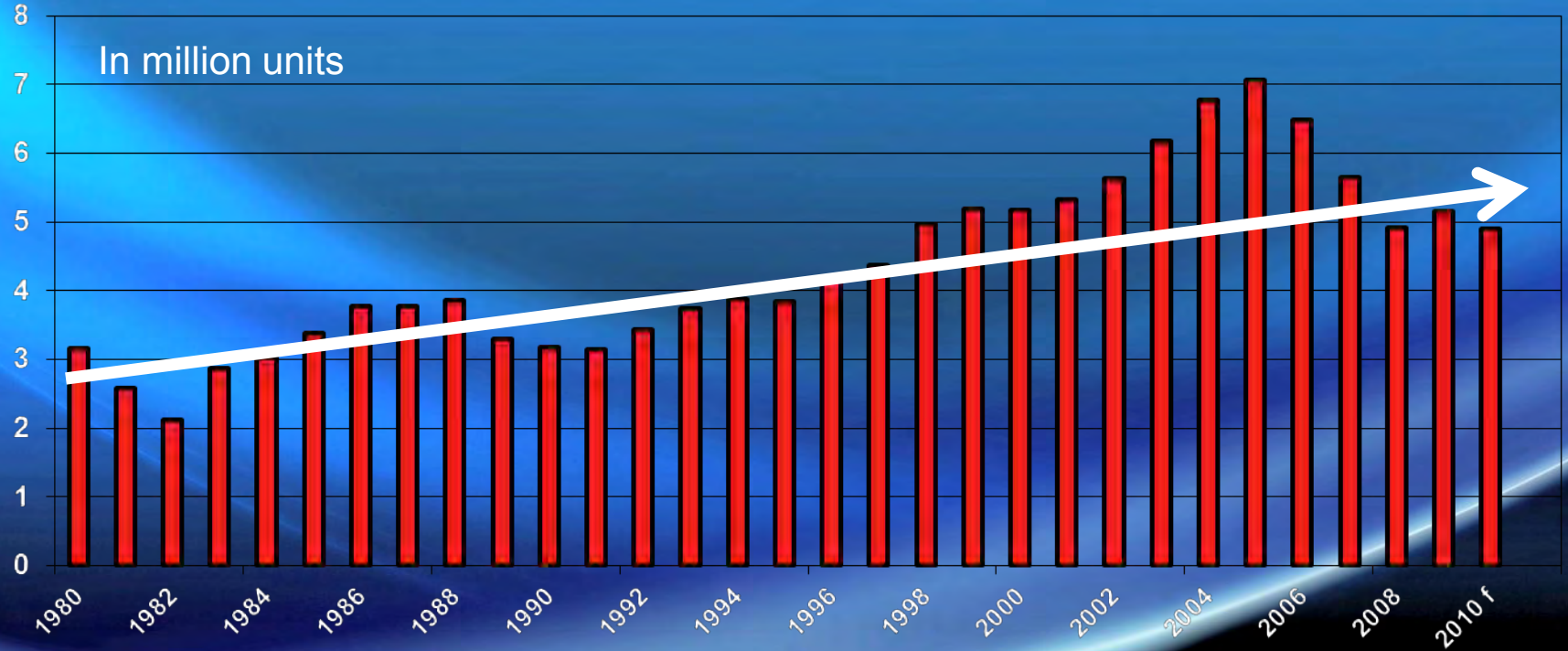
Housing Starts in Ft. Collins-Loveland



Return to Normalcy

- Unprecedented Boom and Bust: 2000 to 2010
- Sales Boomed and Retreated
- Prices Overshot and Corrected
- Fundamental Back to Justifiable Levels
- Long-standing Housing Policy still in place
- Credit Market Bubble ... out the window

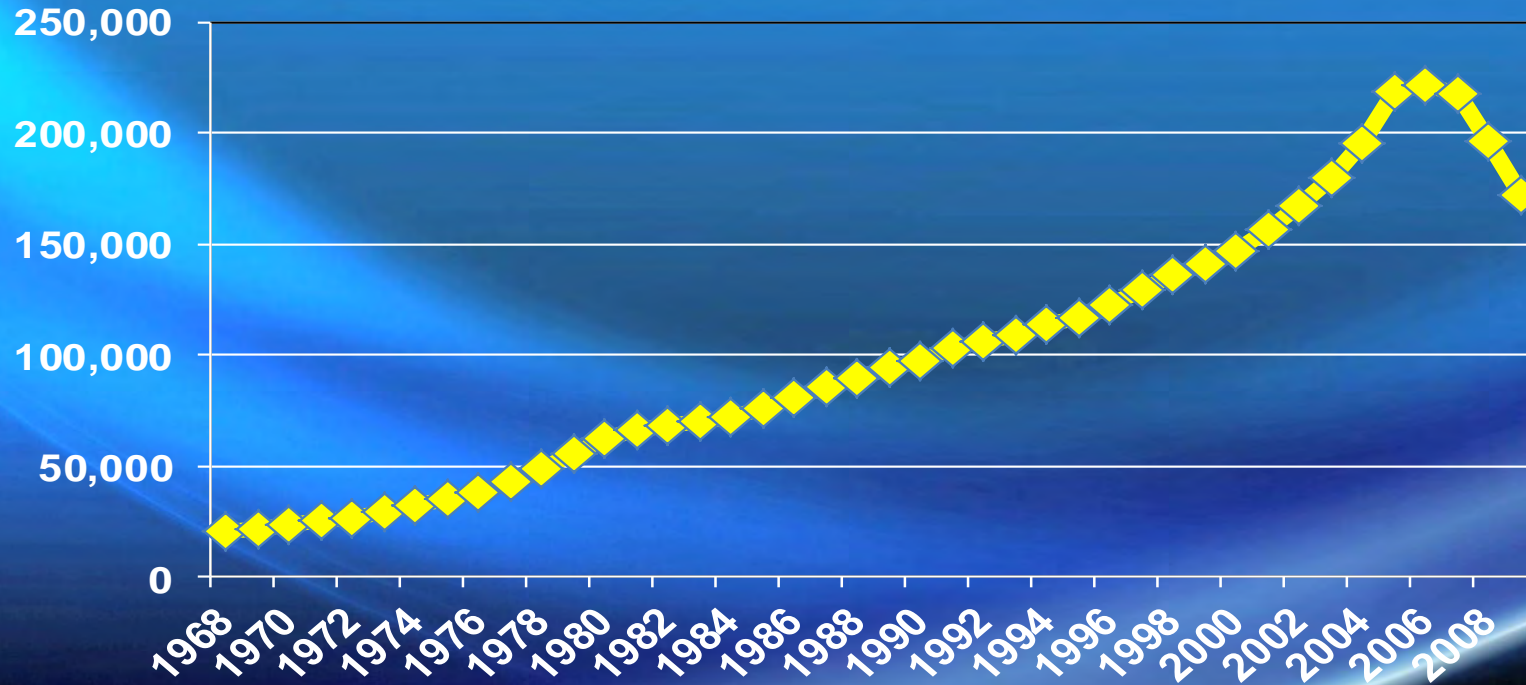
Existing-Home Sales



Home Sale to Jobs

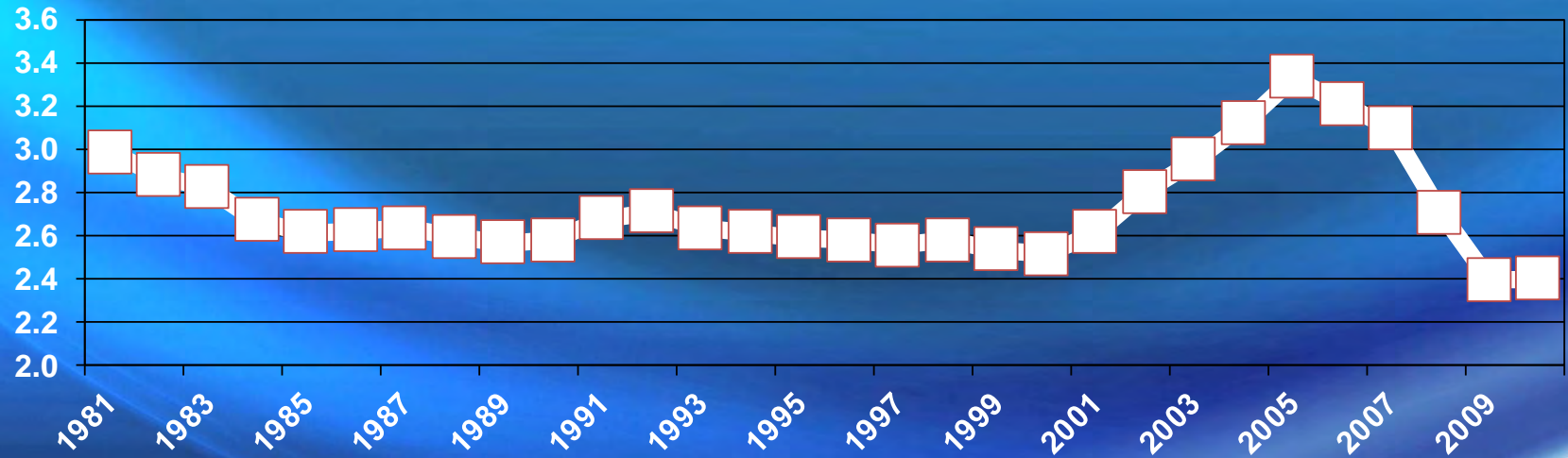


National Median Home Price

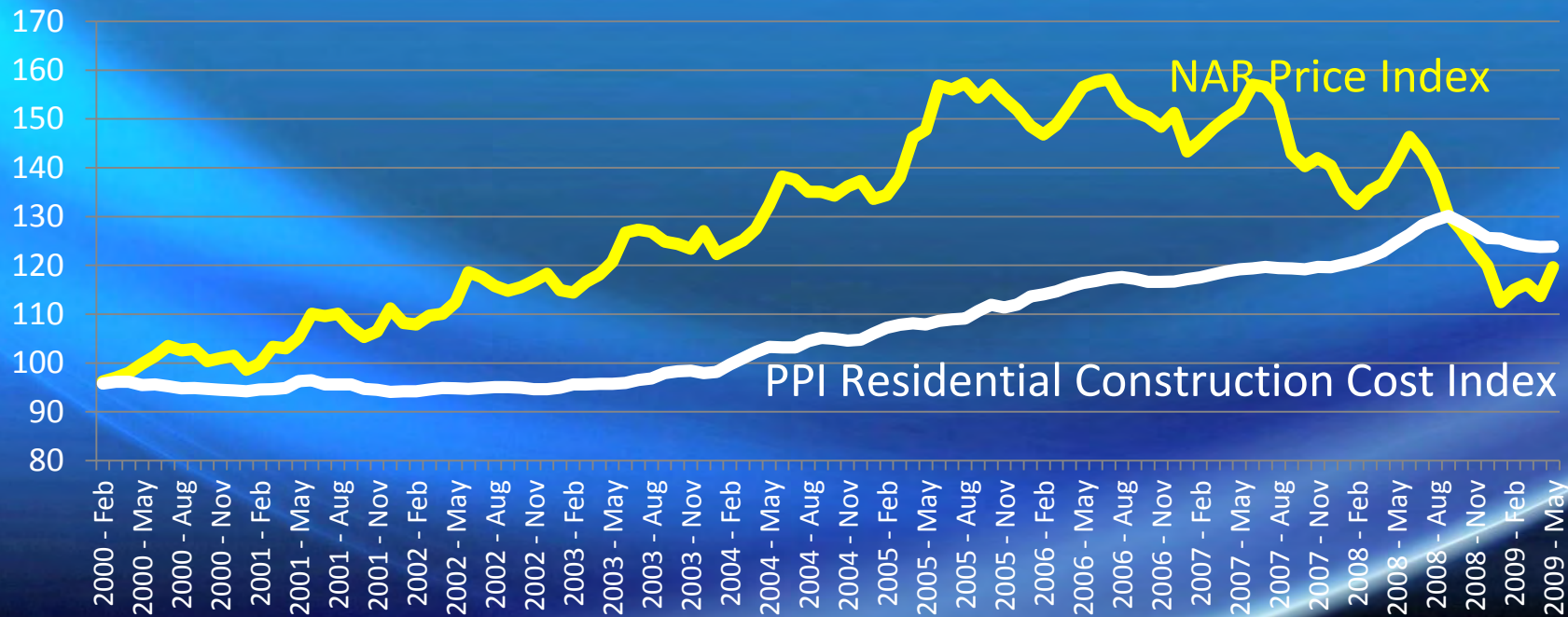


Source: NAR

Home Price-to-Income Ratio (No Bubble Now)

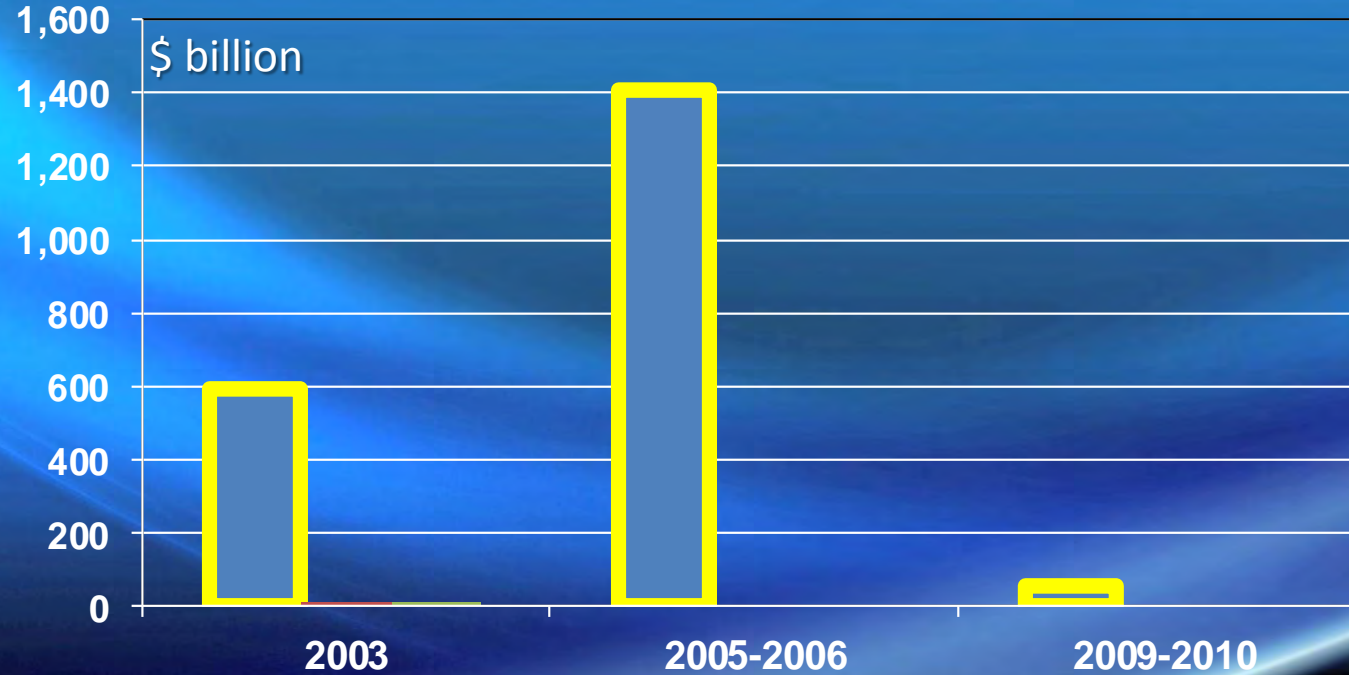


Home Price and Construction Cost (No Bubble Now)



Credit Bubble Dead

Subprime, Alt-A, Home Equity Mortgage Origination

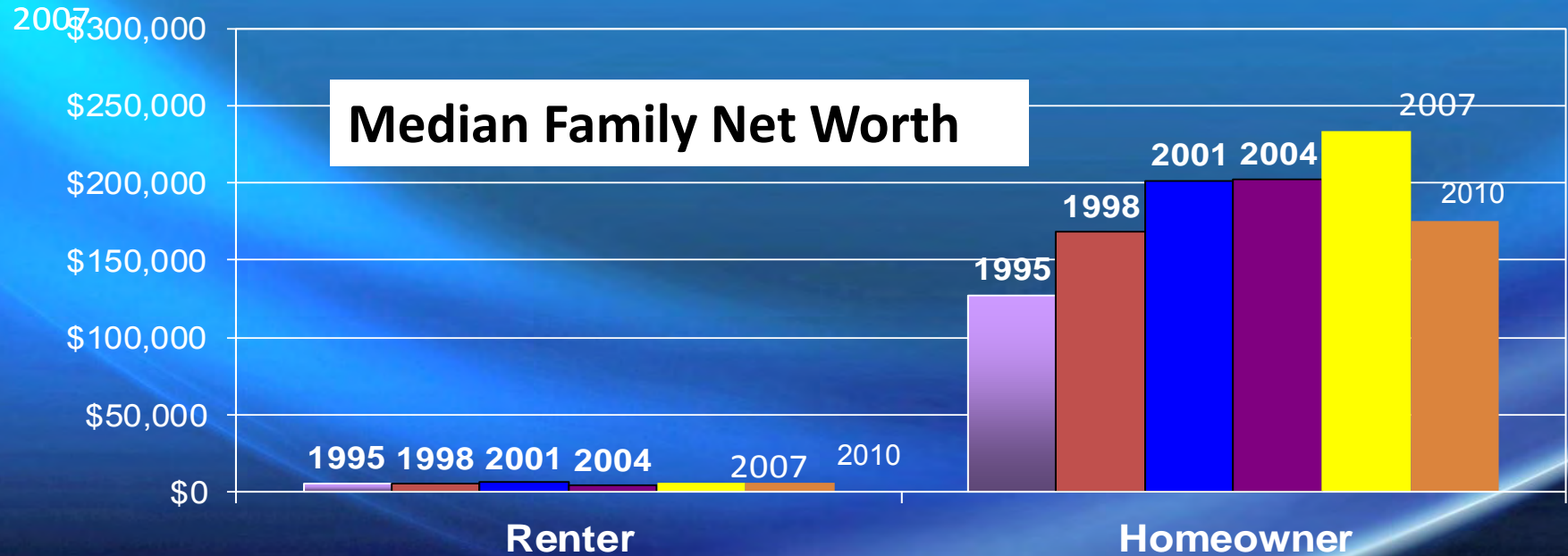


Source: NAR estimate based on Inside Mortgage Finance data

Long Standing Housing Policy

- Mortgage Interest Deduction
 - If eliminated, about 15% hit to home values
 - Massive wealth destruction on property owners who have saved and saved (in many cases to pass it on to the next generation)
- FHA
 - Self-financing without ever needing taxpayer funds (as of yet)
- Fannie and Freddie
 - Made mistakes and need to be restructured

Long-Term Path to Self Reliance may be Helped from Long-Term Housing Wealth Gains



Source: Federal Reserve, NAR estimate for 2010

Compelling Affordability

Monthly Mortgage to buy a Median Priced Home

	2005 Q2	2010 Q2
San Diego	\$ 2,833	\$ 1,564
Miami	\$ 1,726	\$ 853
Denver	\$ 1,192	\$ 935
Kansas City	\$ 735	\$ 600

Inflationary Pressure ?

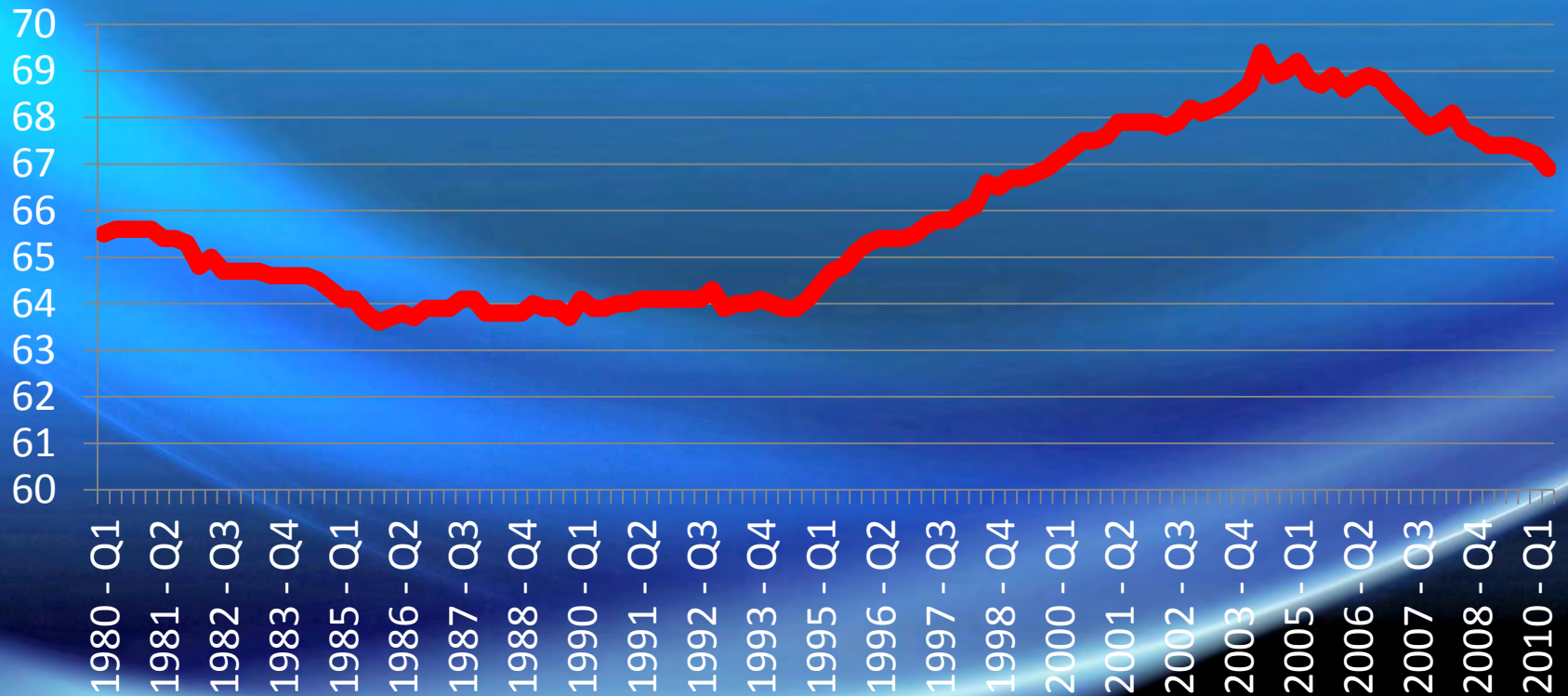
Indicator	% change from one year ago
Consumer Price Index (CPI)	1.1%
Housing Rent Component CPI	0.2% (but heading higher?)
Producer Price Index (Finished Product)	4.0%
Producer Price Index (Intermediate Product)	5.5%
Producer Price Index (Crude Product)	20.2%
Commodity: Coffee, Cotton, Wheat, Meat	Very high
Gold Price	Record High Price

CPI-Housing Rent Inflation

(Home price is not part of CPI because of asset/investment aspect)

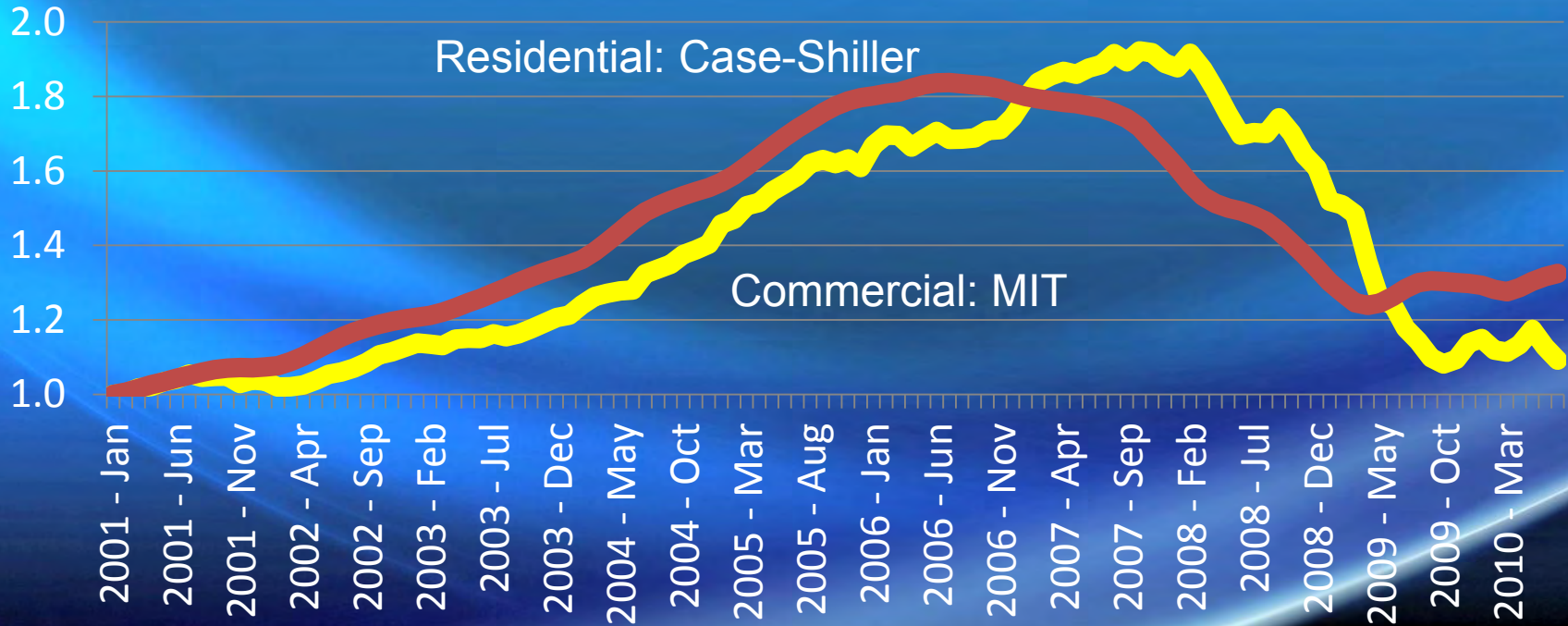


Homeownership Rate

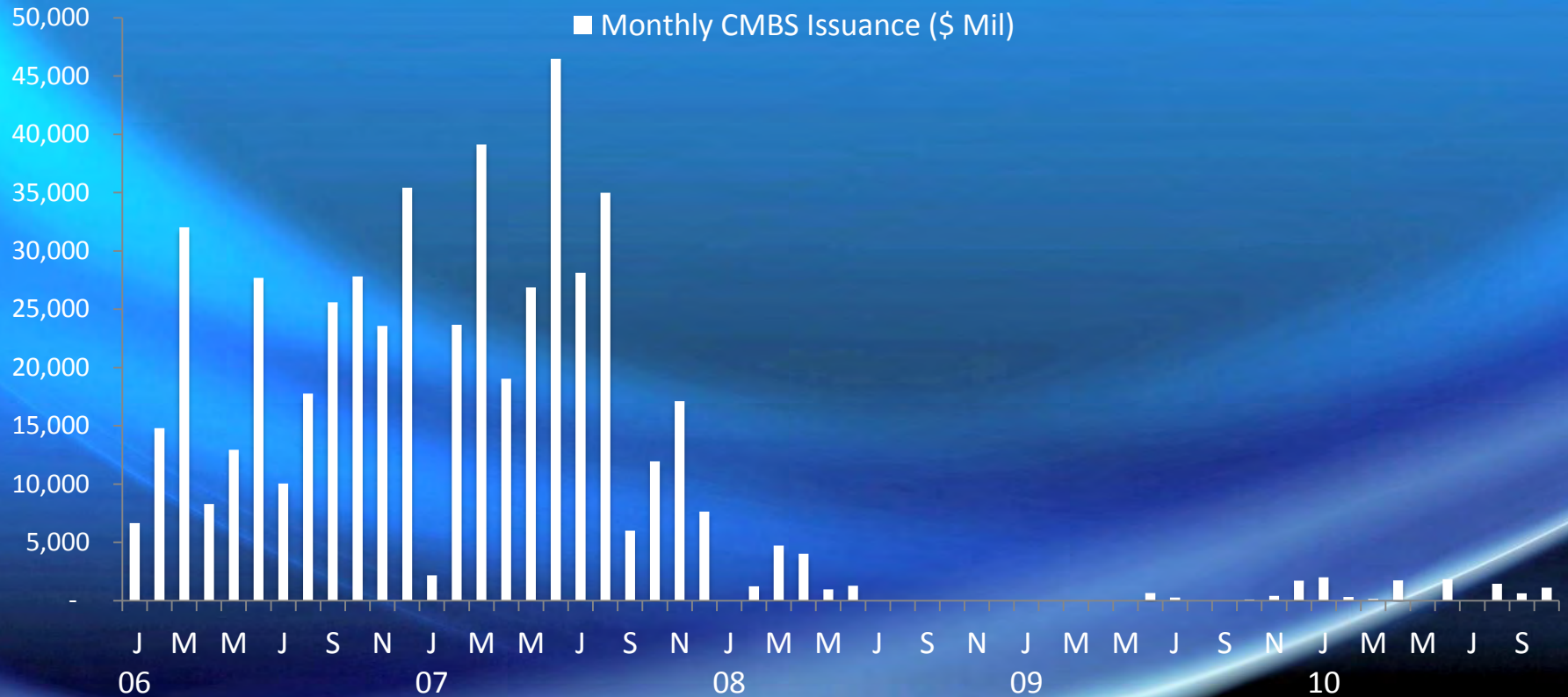


COMMERCIAL REAL ESTATE

Real Estate Price



Commercial Mortgage Backed Security Issuance

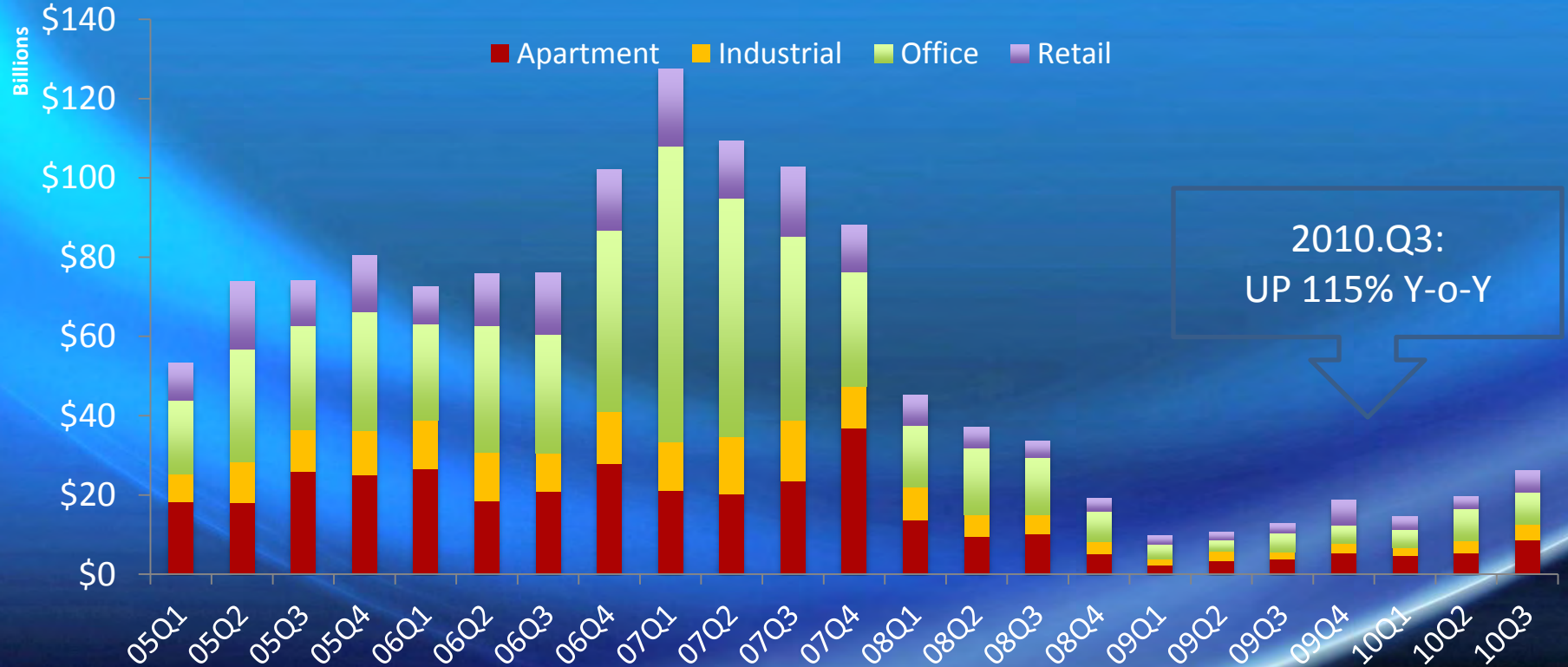


■ Origination Volume Index (2001 Qtr Avg=100)



Source Mortgage Bankers Association

U.S. Sales Volume: Properties valued over \$2.5 million



2011 OUTLOOK

Baseline Outlook

- Moderate GDP Expansion 2 to 2.5% in the next 2 years (historical average is 3%)
- 1.5 million annual job additions in the next 2 years
- Unemployment rate of 9% in 2011 ... and normal 6% in 2015

Baseline Outlook Cont.

- Mortgage Rates rising to 5.0% in 2011 and 5.9% in 2012
 - People fussing about home value could miss out on low rates
- Home values – no meaningful change in the national price in the next 2 years
- Home sales to be choppy but overall improving in line with job growth ... 5.2 million in 2011 (up from 4.8 m in 2010, but same as in 2000)
 - Affordability conditions are too compelling
 - There maybe a pent-up demand. 30 million additional people from 2000 but same home sales as in 2000.

Baseline Outlook Cont.

- Commercial lending to steadily improve ... because of record high bank profits
- Net absorption steadily improve ... because of recovering job market
- Rents stabilize (but no meaningful increase) ... because of very low newly built inventory
- Cap rate falls ... price floor established and because of improved investor confidence (to move money out of low yielding Treasuries)

Alternative Possibility

- High inflation ... people desire tangible investment like real estate, but interest rate will be higher
- Deflation ... people hold back for better price ... holds back economy
- Budget deficit tipping point ... higher interest rate and sharp cut back in standard of living
- Sharp 4% to 5% GDP growth ... release of pent-up housing demand (30 million more people today versus 2000 when home sales were similar) ... surprisingly higher home sales and home prices

Virtuous or Vicious Cycle?

- Home values stabilizing scenario
 - Foreclosures steadily fall
 - Strategic default lessens and underwater homeowners become hopeful
 - FHA and Fannie/Freddie finances improve (will need less taxpayer funds)
 - Consumer spending opens up
 - Home value stabilize further or even begin to rise ...
 - Self-sustaining normal growth rates in sales and prices
- Home values fall meaningfully ... ugly scenario