

The Housing Market: Boom and Bust

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Presentation for Lambda Alpha
Meeting 2/25/08

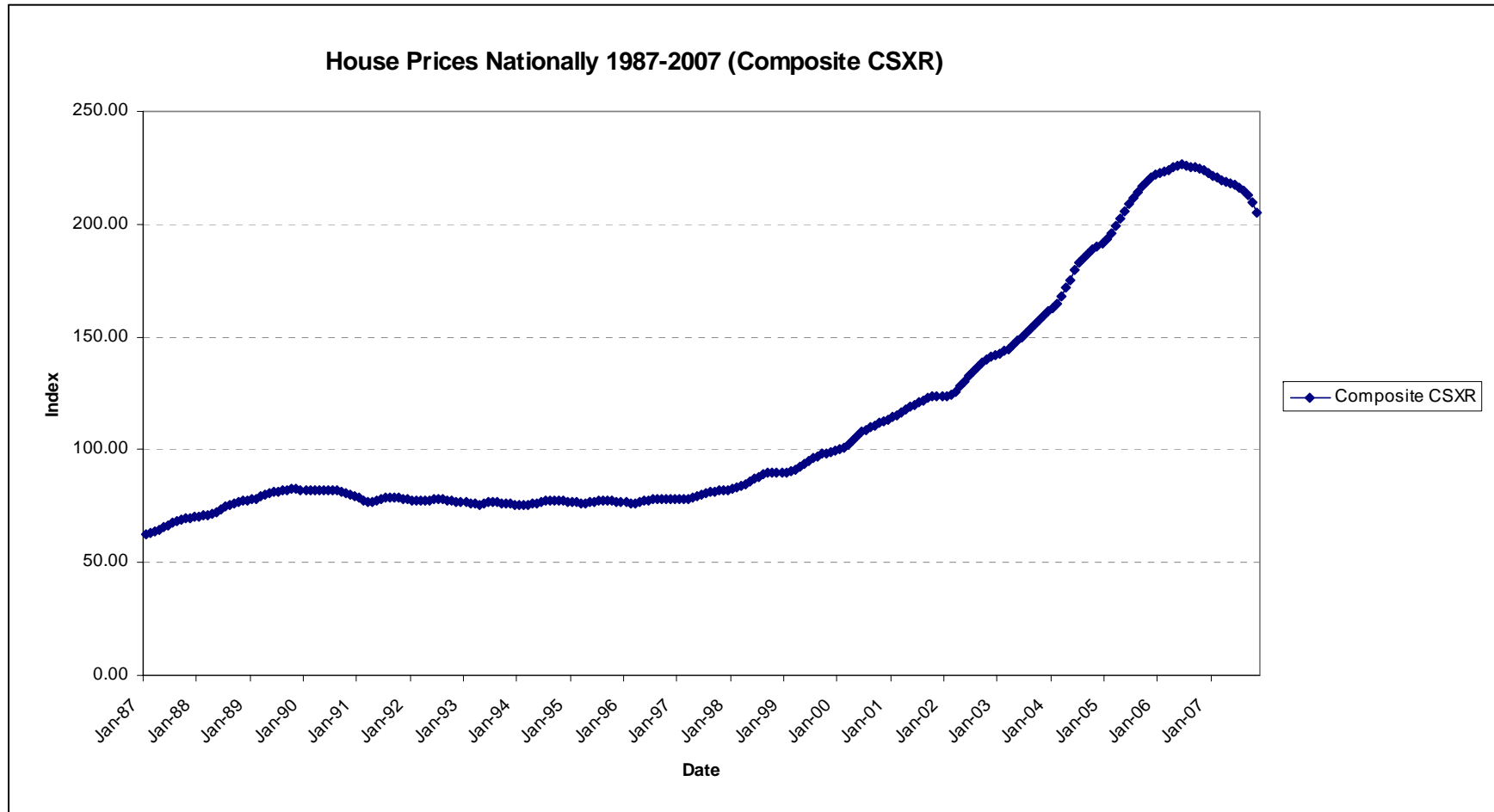
Agenda for Today

- The housing market nationally
- California overall
- Southern California (LA/OC combined)
- The O.C. in closer detail
- Perspective on the subprime problem
- Likely winners and losers

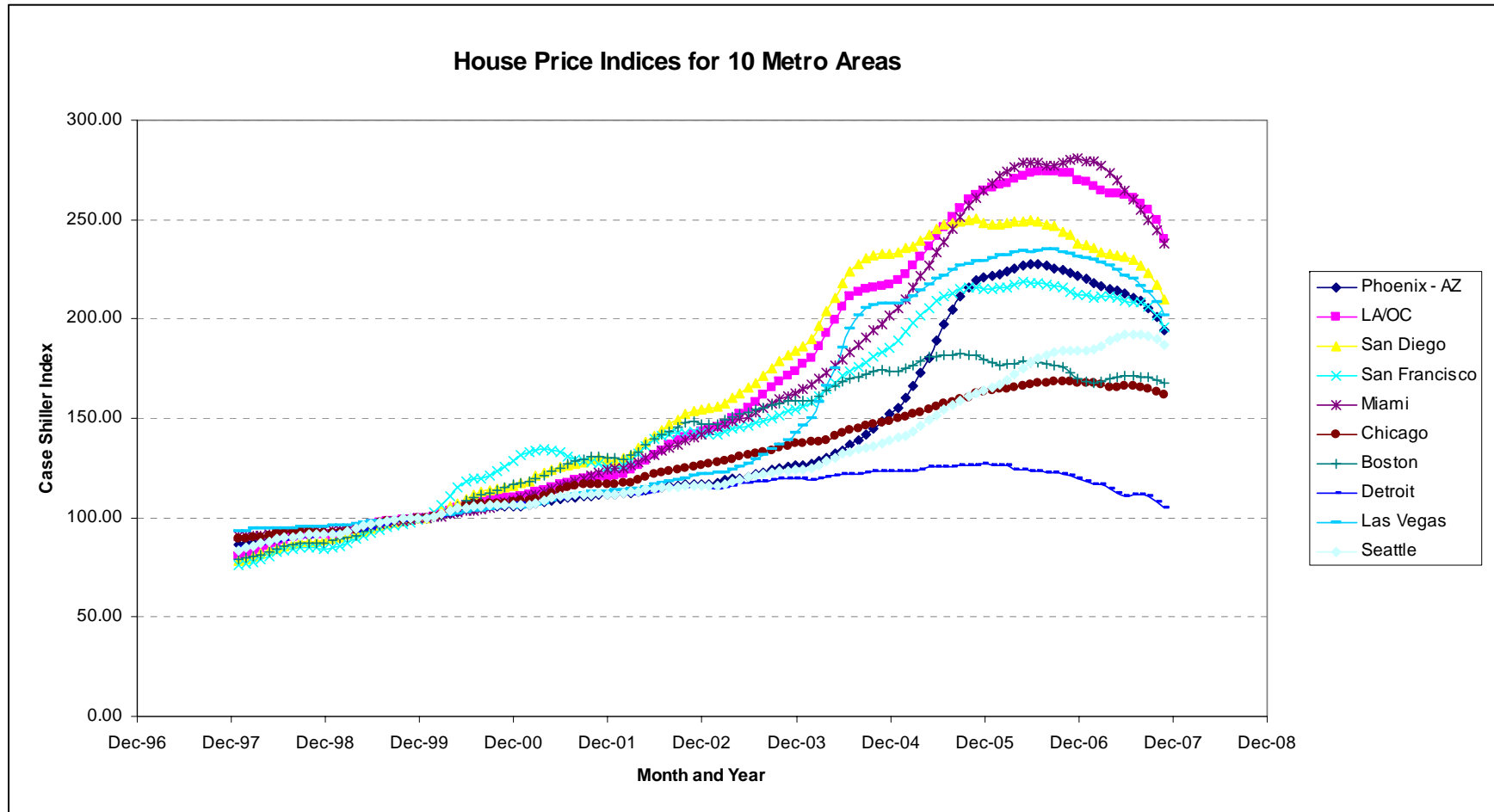
Housing Market

- Best measures available suggest house prices are declining in virtually all markets
- Median price reported NAR not a good guide due to changing mix
- Better: CS repeat sales indices, publicly available from S&P for 20 major markets
- Also available at zip level from First American / LoanPerformance

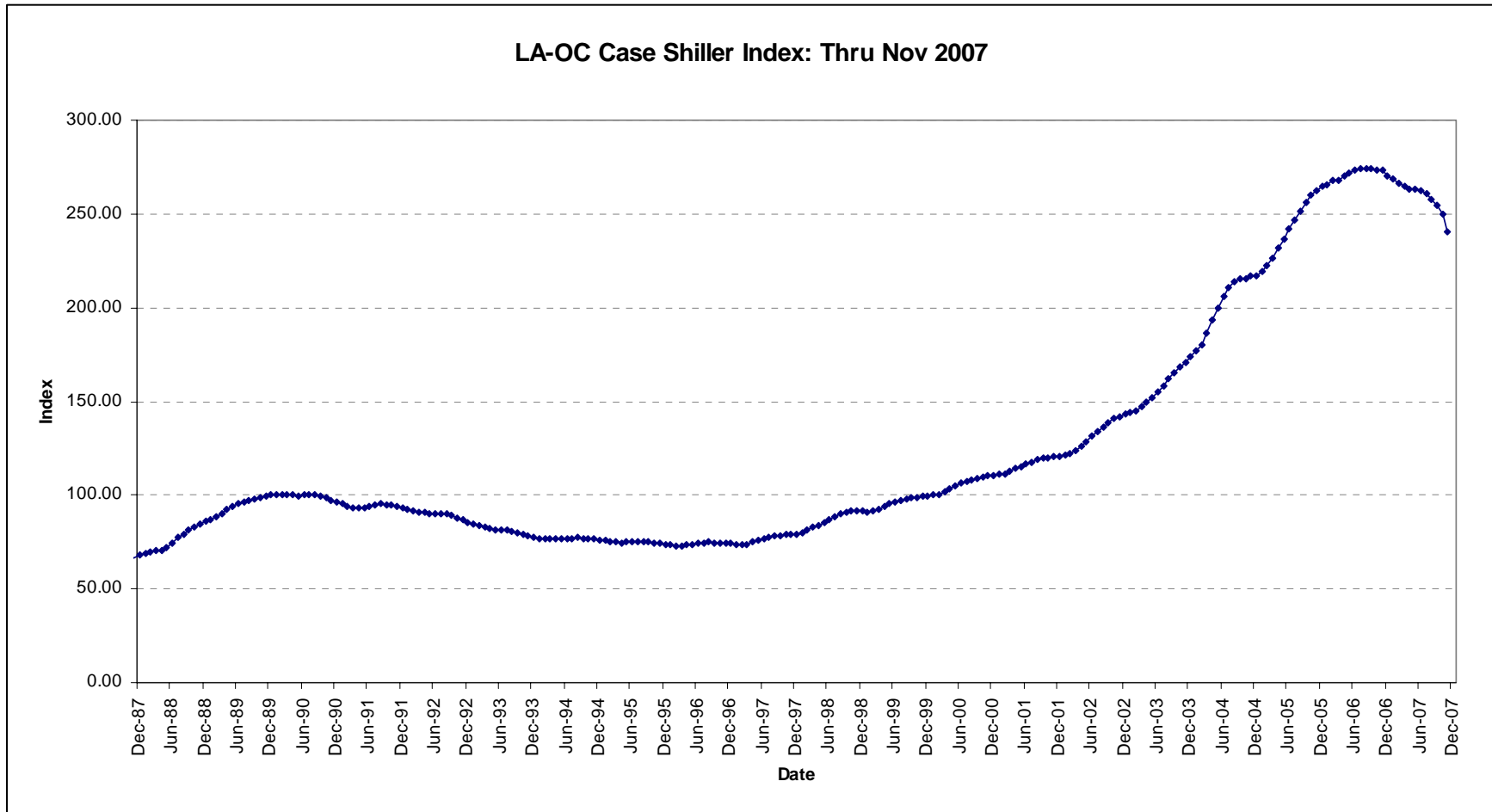
Housing Market: Case-Shiller Index Composite National



Housing Market: Case-Shiller Index 10 Major Metro Areas

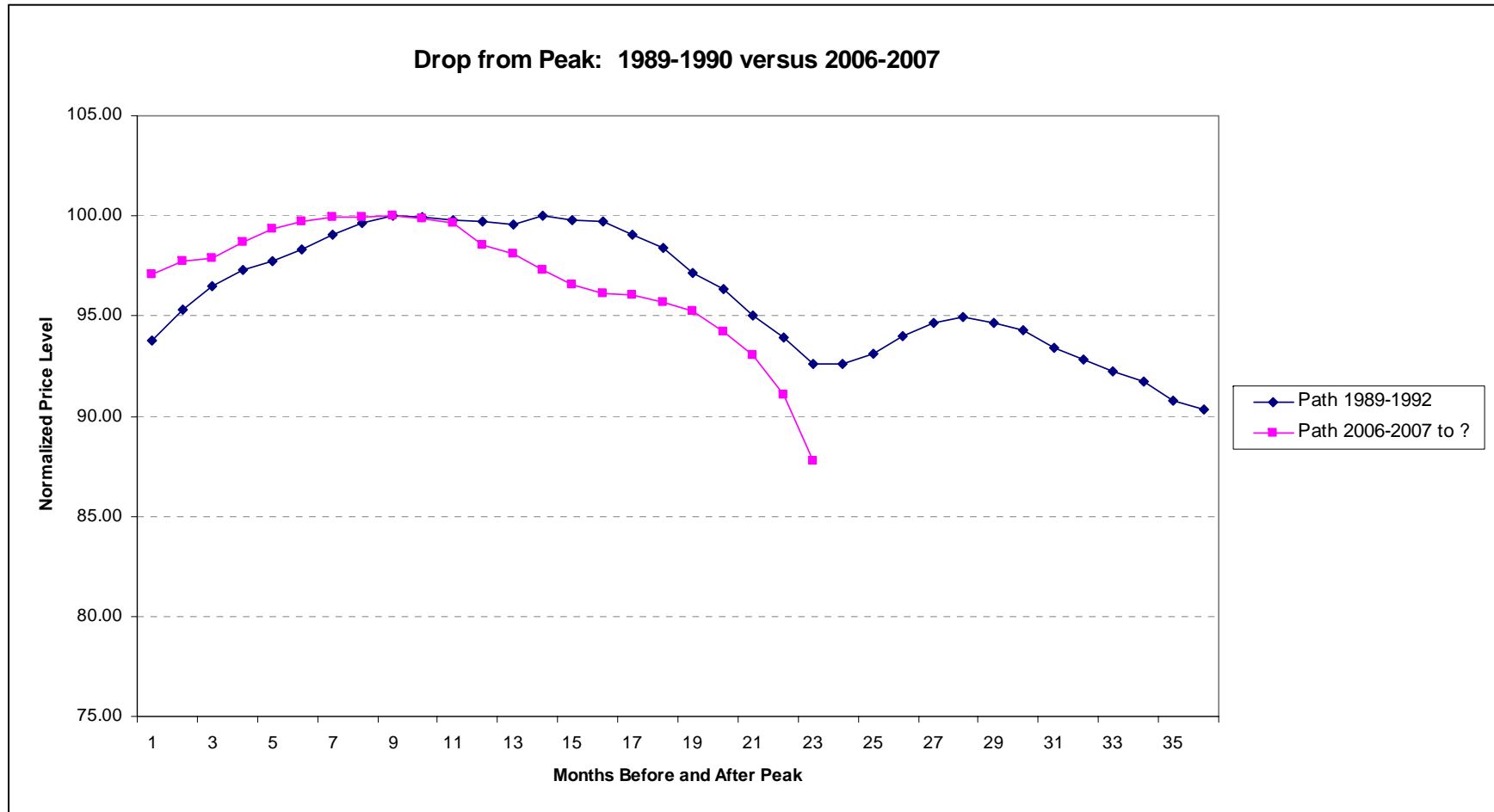


Housing Market: Case-Shiller Index LA-OC Metro Area



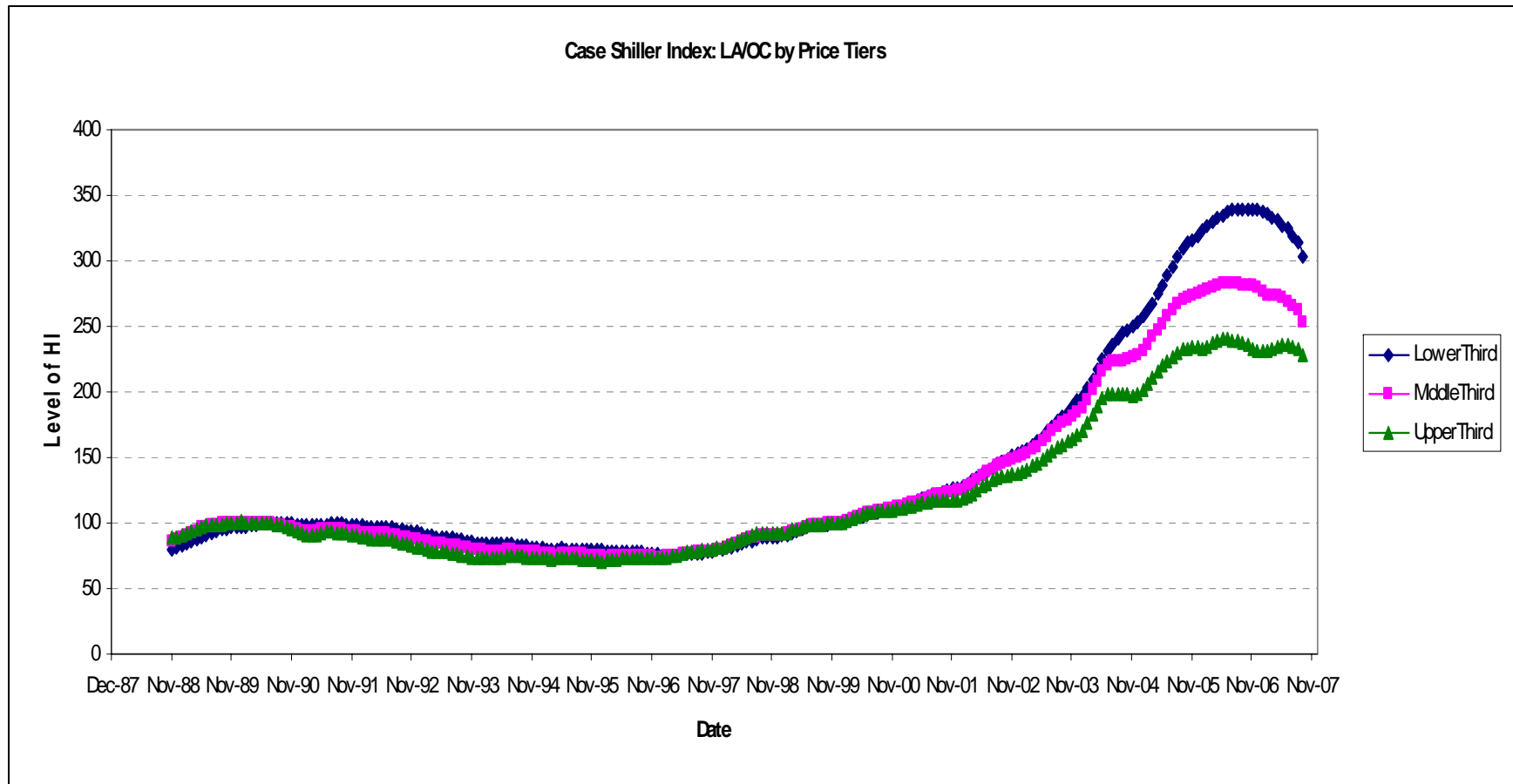
Housing Market: Case-Shiller Index

LA-OC Metro Area: 2007 versus 1990



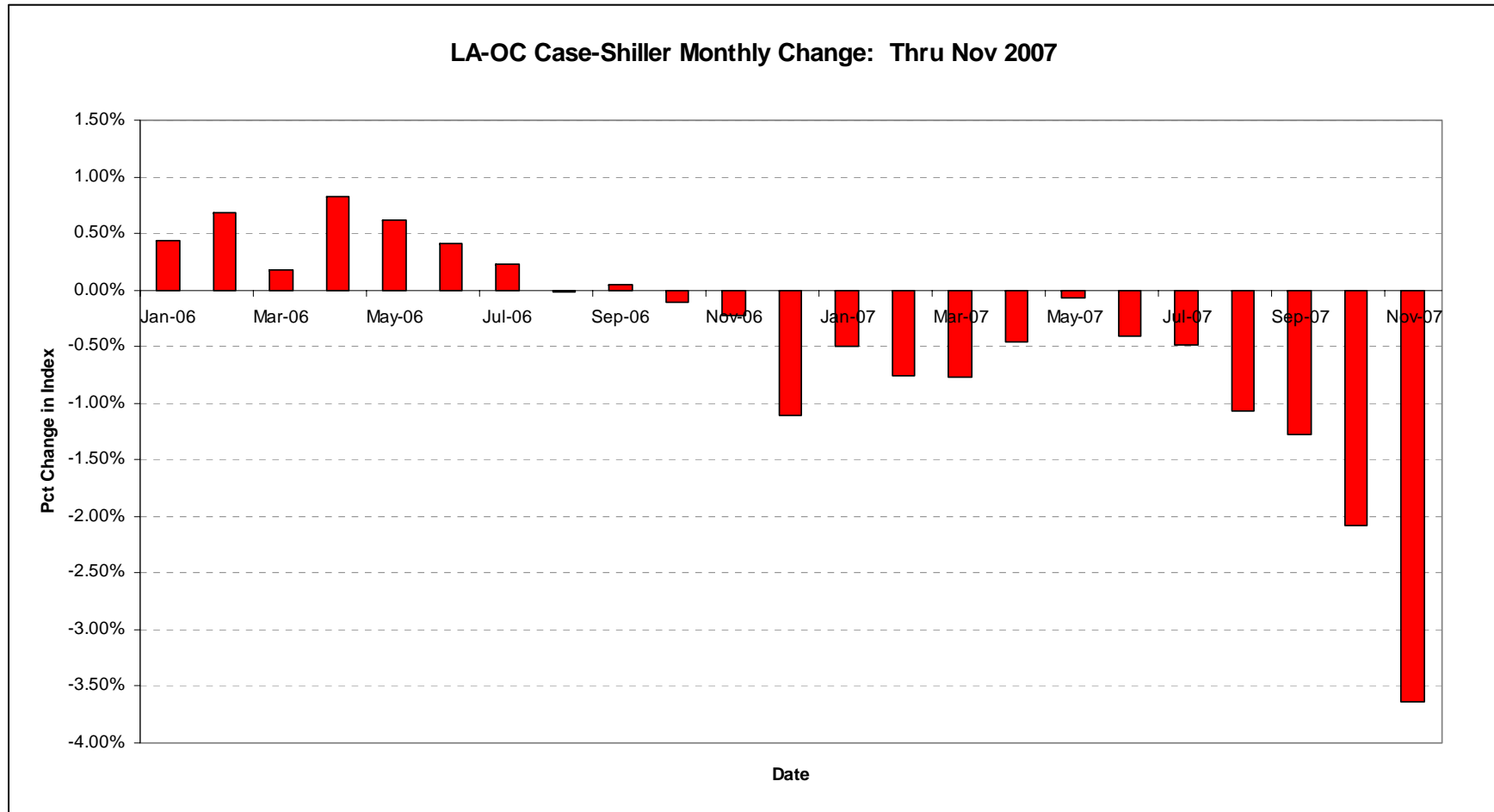
Housing Market: Case-Shiller Index

LA-OC Metro Area: By Price Tier

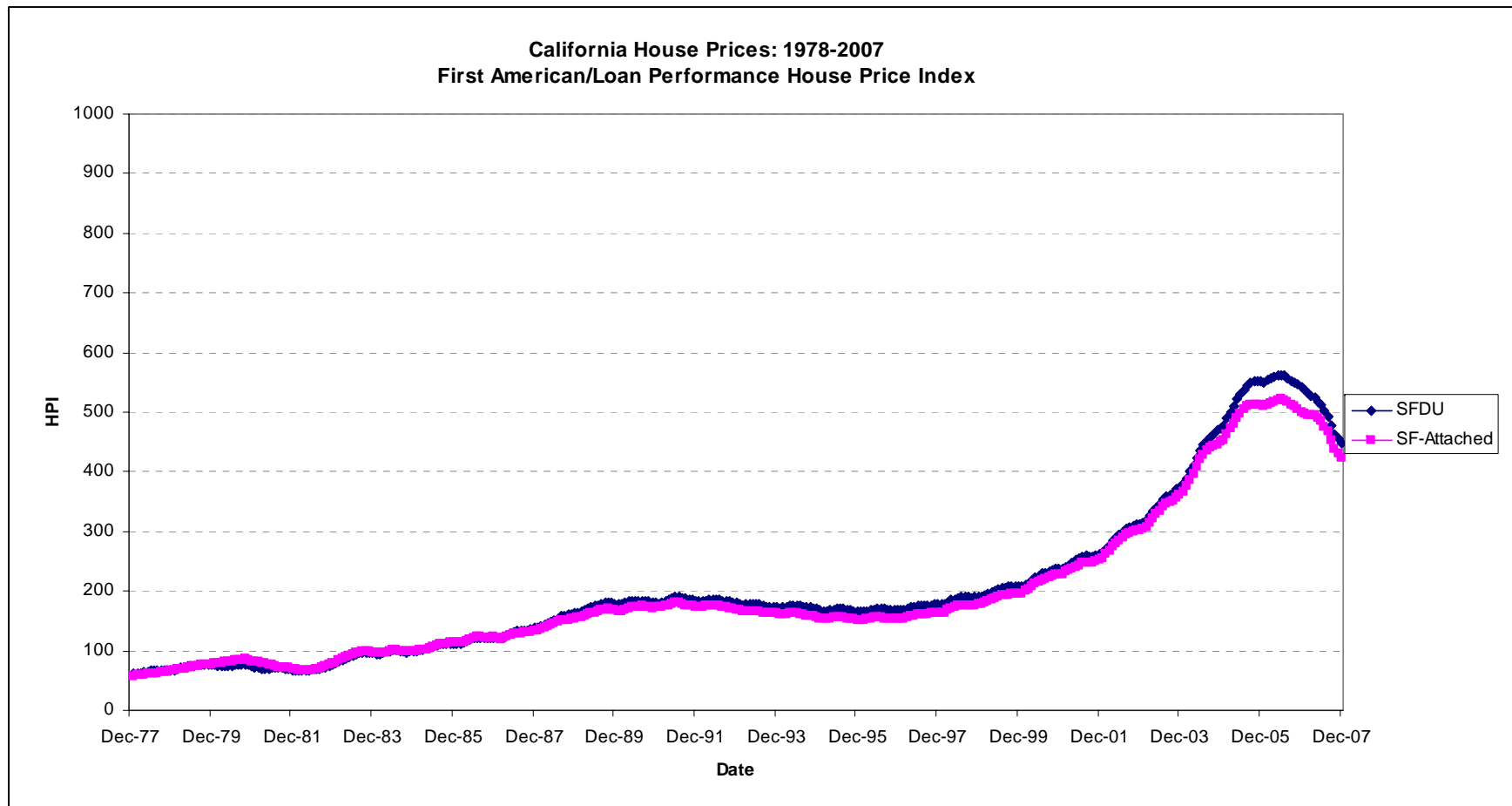


Housing Market: Case-Shiller Index

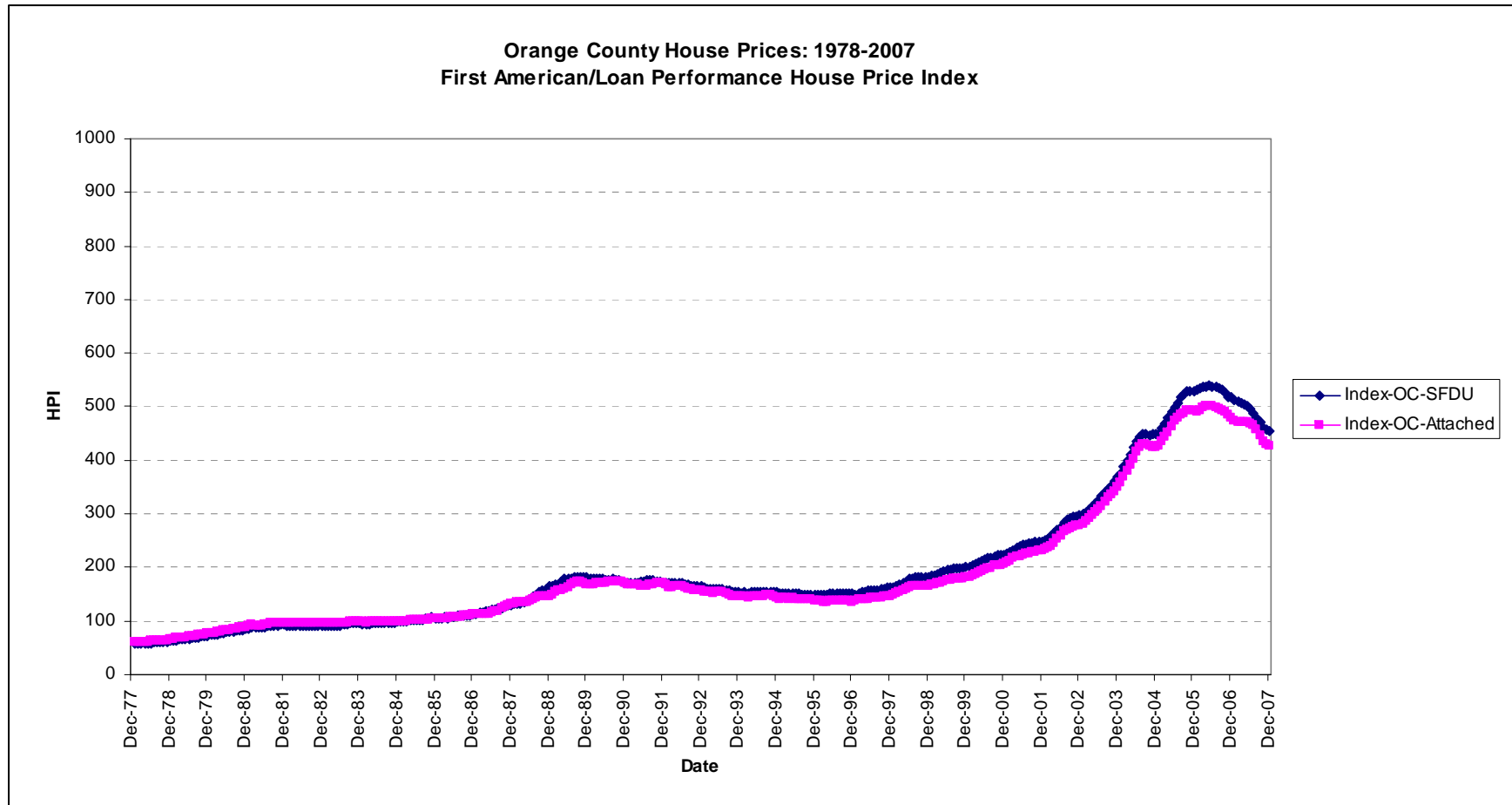
LA-OC Metro Area: Monthly Change



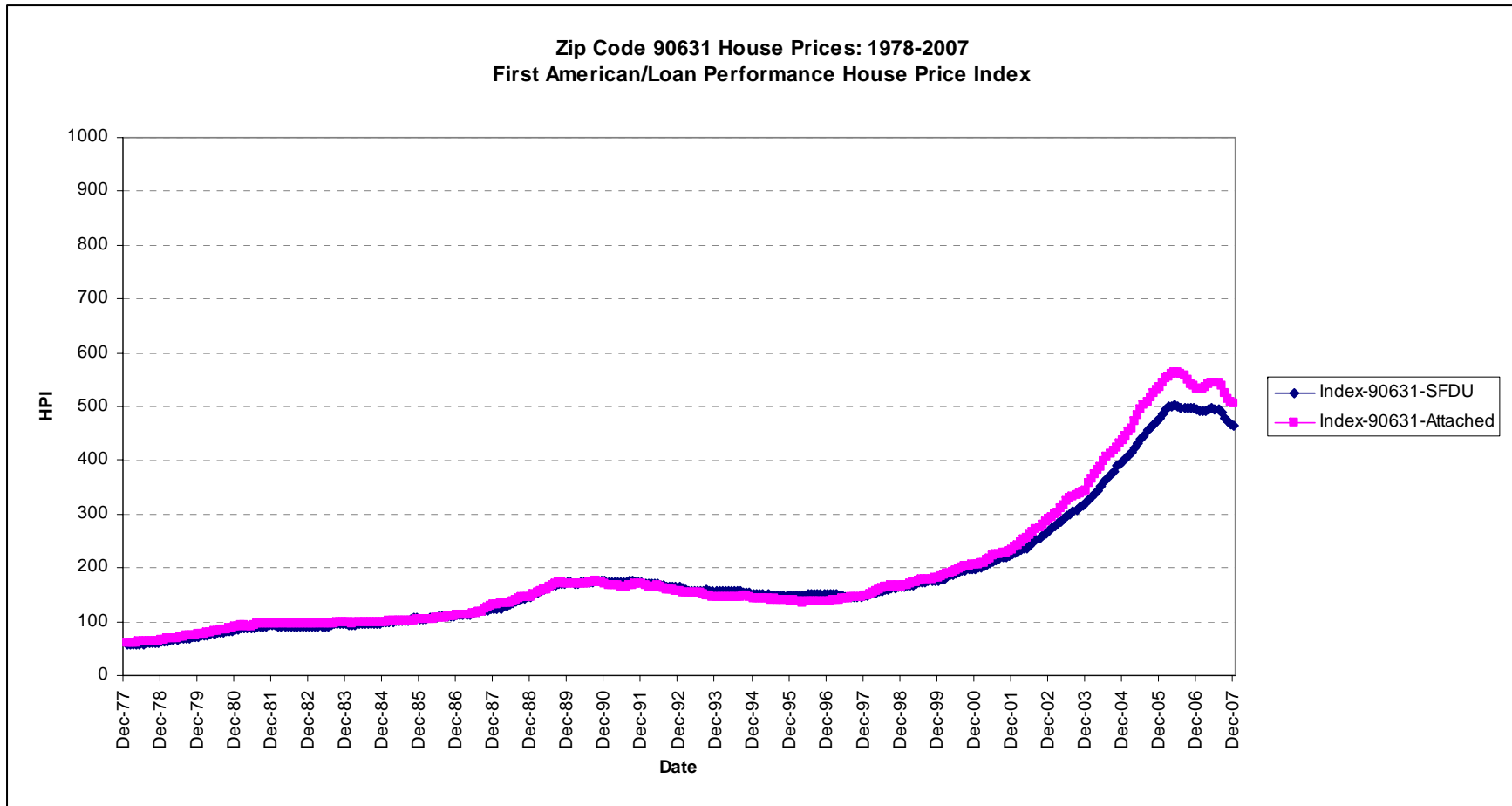
First American/Loan Performance HPI California Total By Property Type



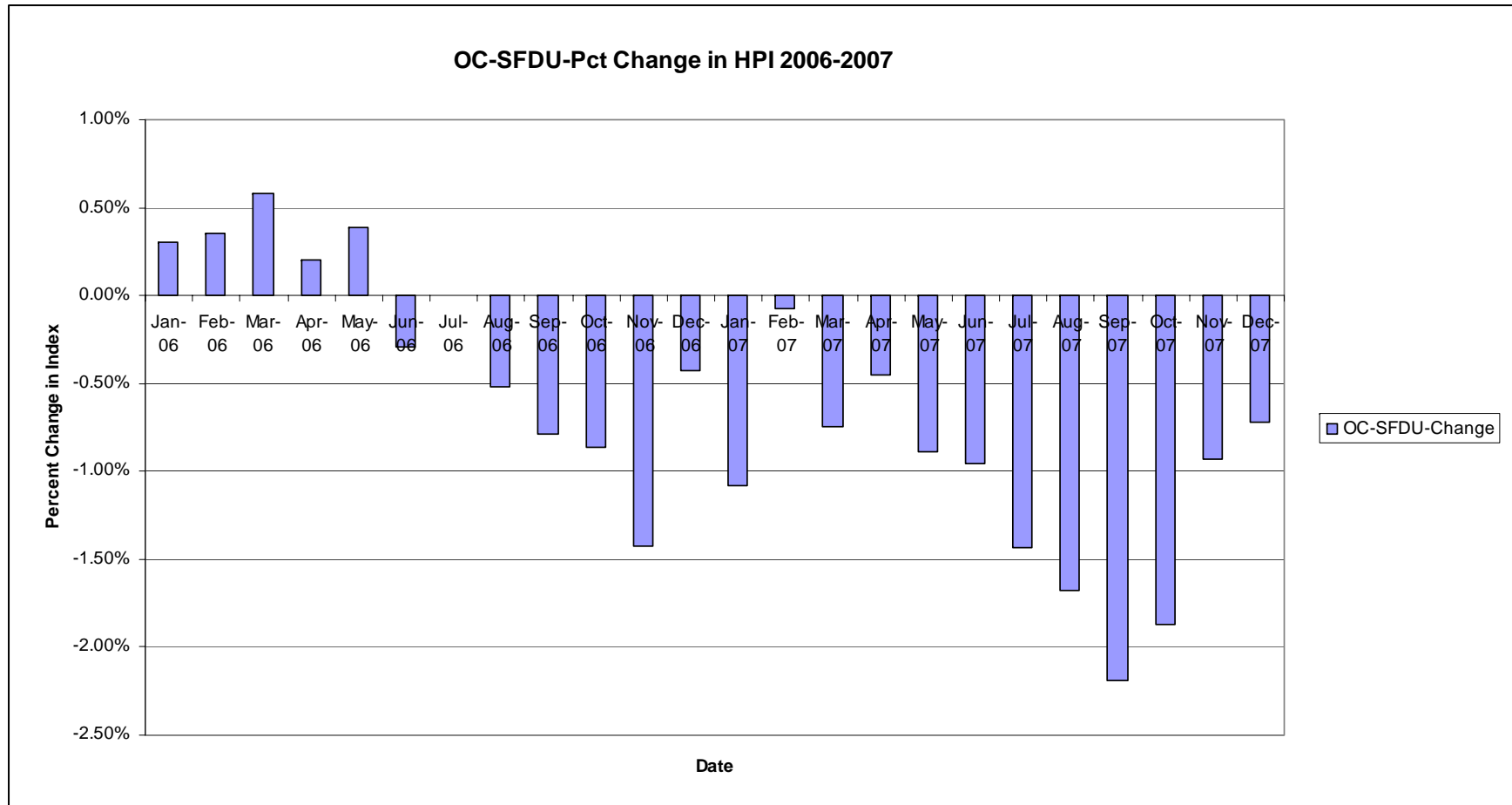
First American/Loan Performance HPI OC Separately, By Property Type



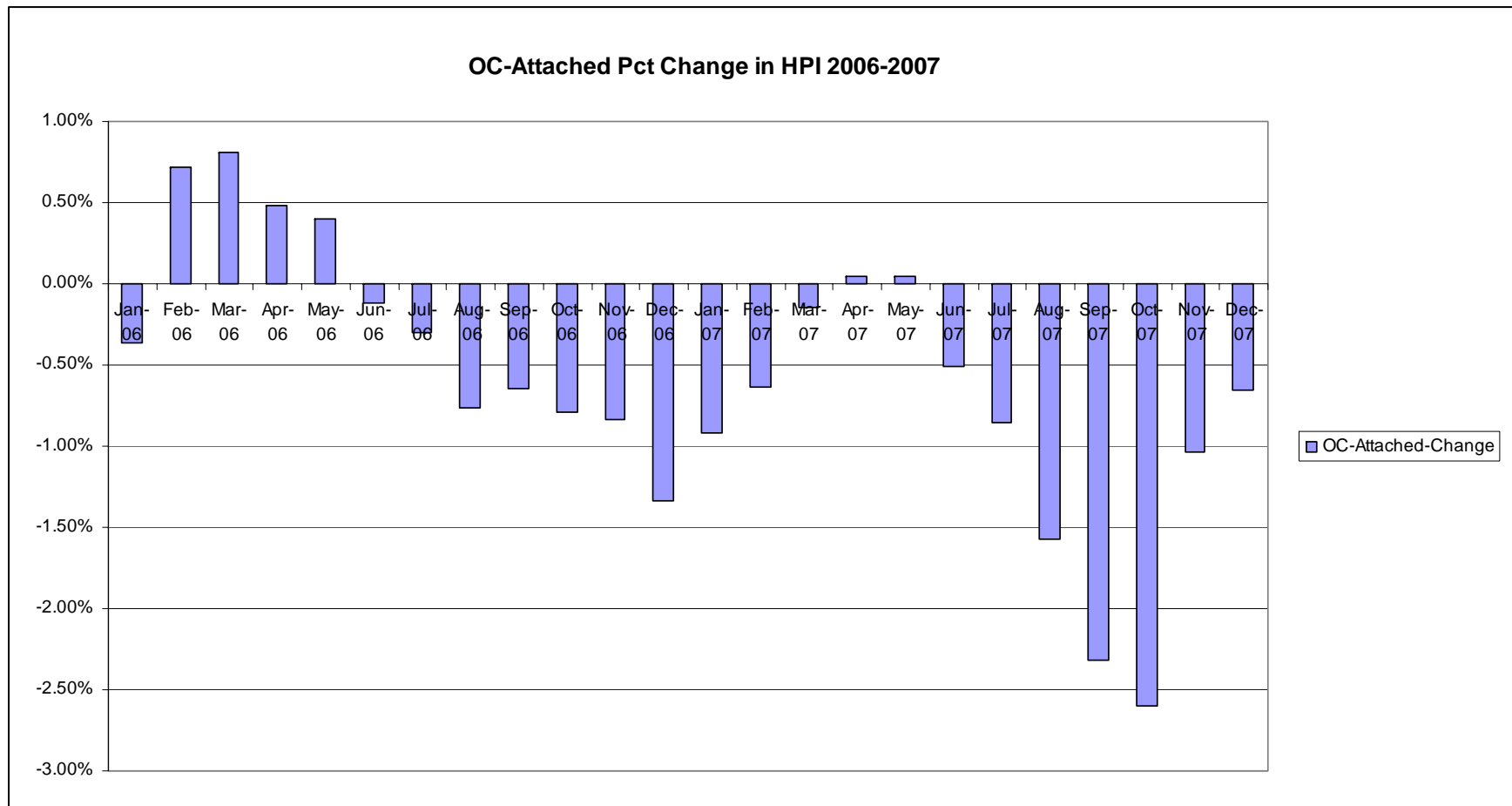
First American/Loan Performance HPI Individual Zip Code, by Property Type



First American/Loan Performance HPI OC Pct Change: Detached Units



First American/Loan Performance HPI OC Pct Change: Attached Units



Orange County Housing Market – RELUI Research

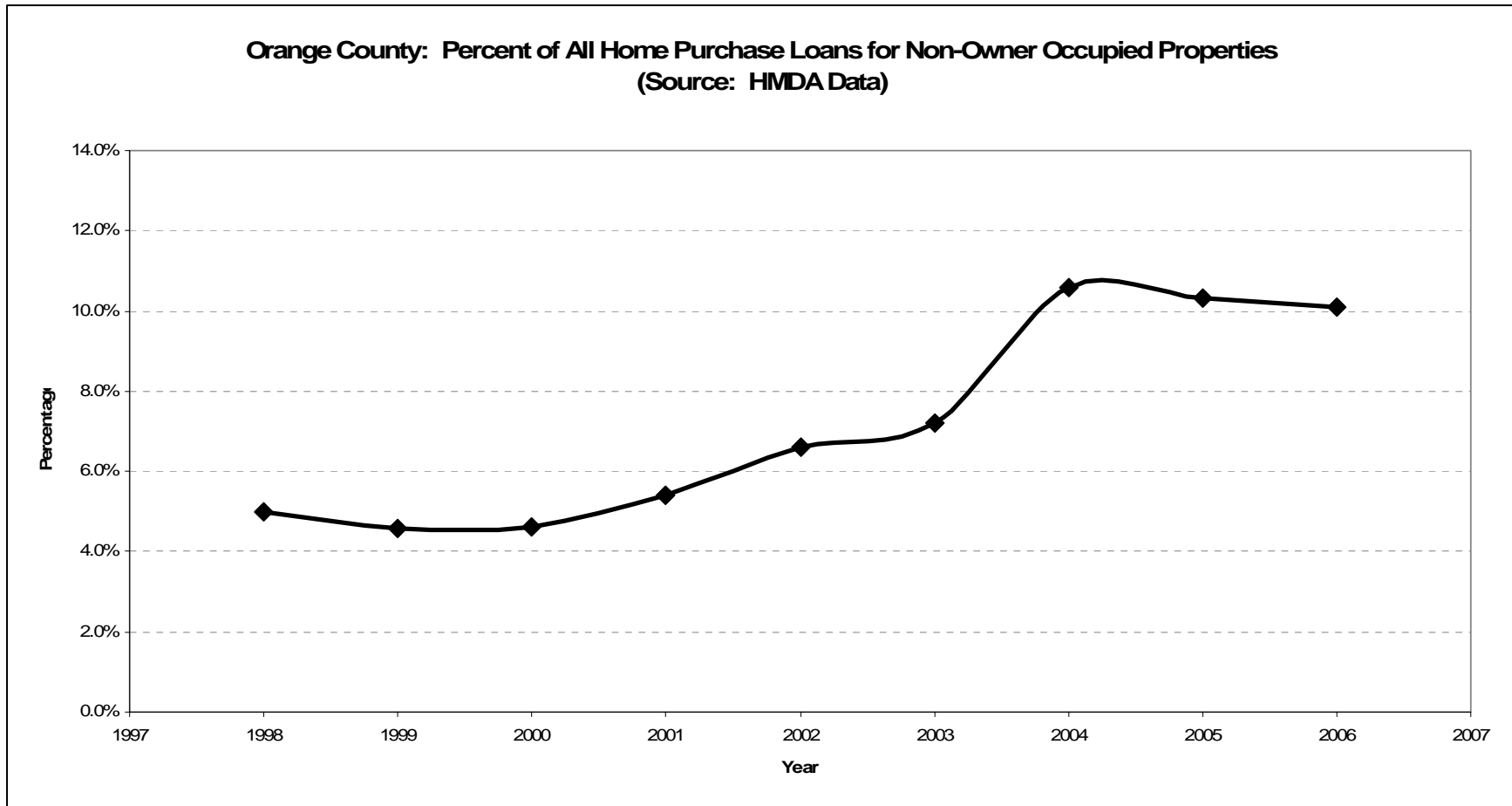
- So far we have been looking at repeat sales indices, not individual house price transactions
- Using transaction level data available from DataQuick, we have constructed a five year data set of house price sales
- Here are some highlights of that analysis focusing on 2007

Orange County Housing Market – RELUI Research

- During 2007, a significant fraction (perhaps as many as one-third) of home sales are occurring at a loss (below prior sale price before transaction costs)
- Losses are concentrated in those purchasing in 2005-2006
- Can't tell if those were flippers or simply those having to sell at a bad time, but...

OC Housing Market (cont)

Pct Non-Owner Occupied Doubled



Orange County Housing Market – Loss Magnitudes

Impact?

- Reduced state income tax revenue, fewer capital gains
- Reduced local government property tax revenues, property values re-assessed downward
- In Orange County, Santa Ana and Anaheim probably the hardest hit areas

Orange County Housing Market – Impact of Foreclosure Sales

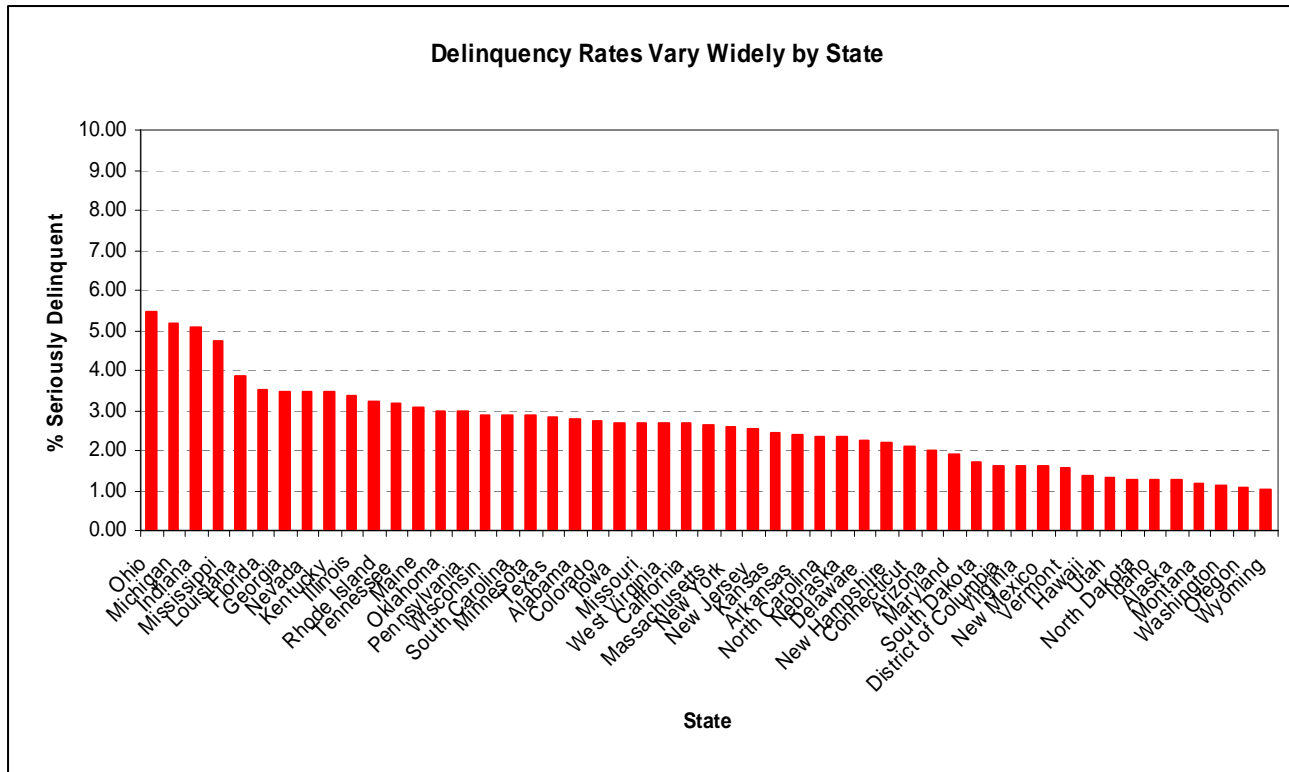
- Properties selling during 2007 at a trustee's sale sold at a discount of over 20%, after controlling for other factors
 - 24% detached
 - 22% attached
- Sept and Oct 2007 were especially bad months, due to August credit crunch
- Smart money on the sidelines?

The Mortgage Market Big Picture

- There are about 45.4 residential million mortgages in the U.S. (first liens)
- Currently, about 2.95% are seriously delinquent (defined as 90 days past due or in foreclosure process)
- Comparable value for California is 2.66%

Source: Mortgage Bankers Delinquency Survey Sept 2007

Nationally, Problems Very Widely



Source:
Mortgage Bankers Delinquency Survey Sept 2007

Housing and Mortgage Market: California Overview

- About 13.2 million housing units in California, of which around 9.0 million are 1-4 units
- About 5.8 million first lien mortgage loans
- About 4.7 million of these are prime
 - 3.1 million prime FRM have serious delinquency rate of 0.33%
 - 1.6 million prime ARM have a serious delinquency rate of about 1.83%

Source: Mortgage Bankers Association Delinquency Survey Sept 2007

Putting the Subprime Issue In California into Perspective

- About 0.8 million subprime loans in California
 - 0.3 million FRM, with serious delinquency rate of 5.4%
 - 0.5 million ARM, with serious delinquency rate of 15.6%
- That's about 13% of all California loans, so about 1.6% of all loans in California are seriously delinquent subprime loans
- This affects about 1.0% of all single family housing units in California (detached, attached, 2-4)

Current Mortgage Market Problems

What We Don't Know

- Defaults and foreclosures up
 - But concentrated in states with major job losses (e.g. Ohio, Michigan, Indiana)?
 - But concentrated in areas where investors bought houses to flip based on expected appreciation (e.g. Florida, Nevada, California)?
 - But concentrated among lower income households who couldn't really afford adjustable rate mortgages especially if short rates rose?
 - But rational response to declining house prices (exercise of implicit put option)?

Likely Winners and Losers

- **Winners:**
 - Fannie Mae and Freddie Mac
 - MI Companies (after some short term pain)
 - FHA
 - Workout specialists
- **Losers:**
 - Independent mortgage companies
 - Mortgage REITs
 - Brokers
 - Highly leveraged homeowners, house flippers

Conclusions

- Clear downward patterns in repeat sales house price indices, but we *may* be close to the bottom
- Mortgage market evolution has produced costs and benefits; probably too soon to net them out
- Winners and losers will vary; there are always some opportunities

The End

Thank you for your attention!



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