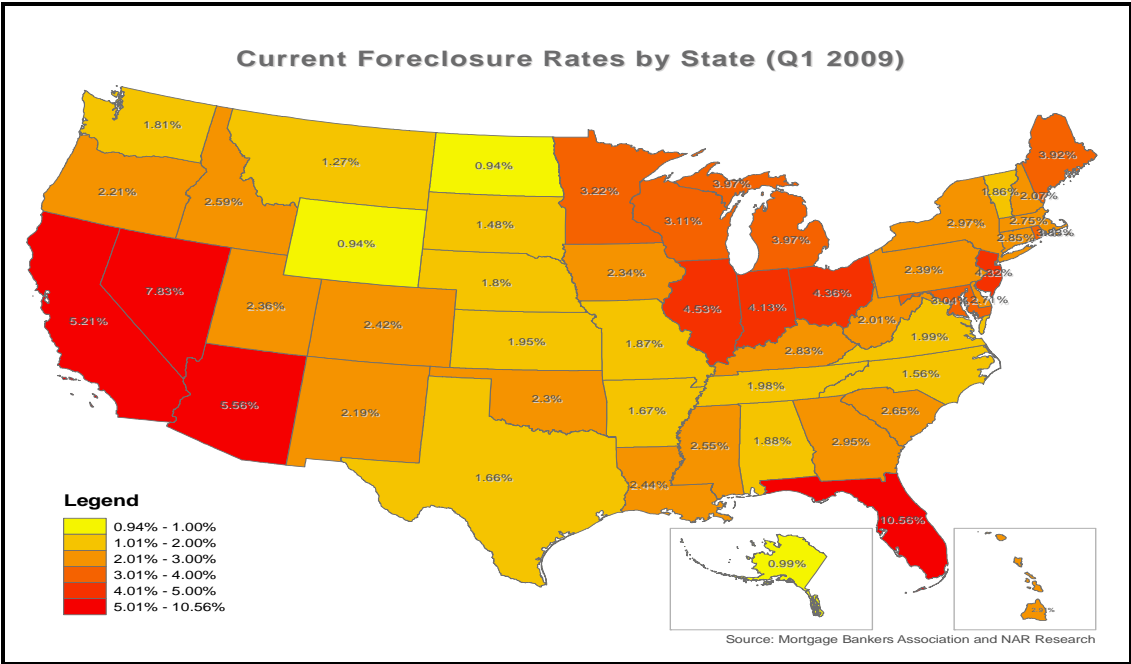


Regional Wrap-Up

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Although every market is unique they share similar demographic, economic, and migration fundamentals. Consequently, some trends repeat themselves around the country to varying degrees. Foreclosures are having a substantial impact in some markets, while unemployment is the primary concern in other locations. The most recent Market Price Reports are available for the first quarter and they highlight these trends in each market. However, this report will discuss some of the broader patterns that are making an impact on regional housing markets.



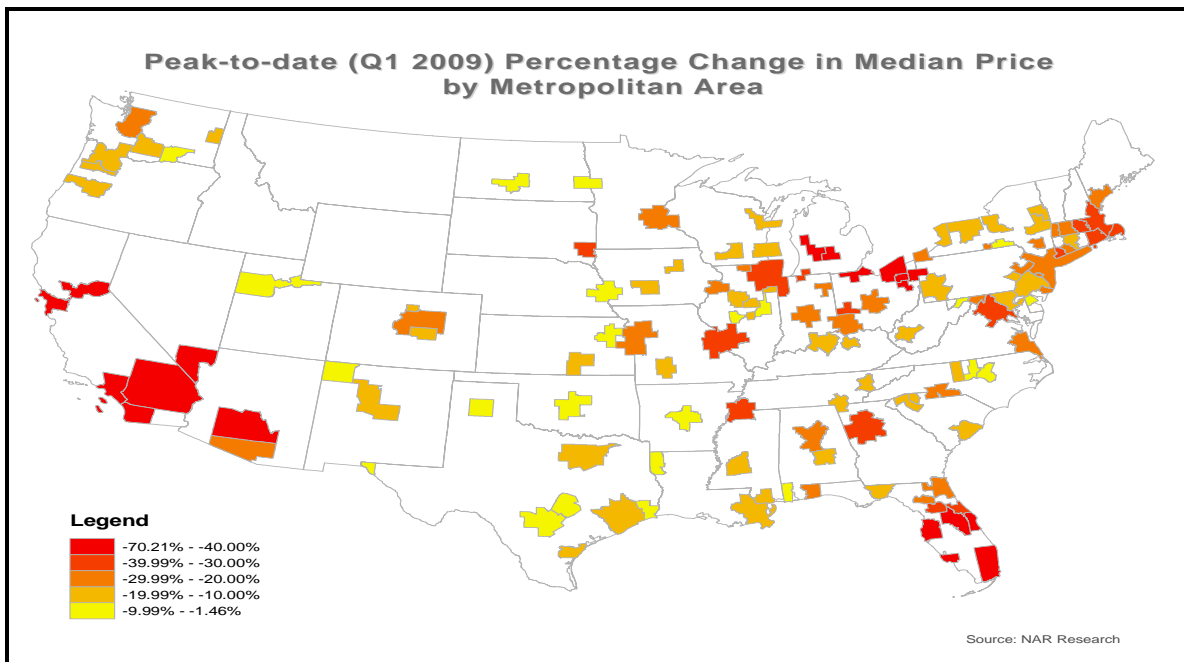
Even in the best of times a small number of homeowners fall behind on their mortgage payments, in some cases resulting in foreclosure. Since the beginning of 2007, however, the foreclosure rate has risen in every state in the country. Some states have fared better than others. The initial wave of foreclosures resulted from a confluence of financially vulnerable borrowers using risky loans to finance home purchases in areas where prices had escalated rapidly over a long period of time resulting in an environment of weak affordability. This pattern was most common in the markets of California, Arizona, Nevada, and Florida, but it occurred to an extent in any market where there was a long period of price increases that eroded affordability (this pattern could be restricted to certain neighborhoods).

Foreclosures have been a problem in parts of Michigan, Ohio, and Illinois for even longer, though. The global economic recession that started in 1999 caused a structural change in the NATIONAL ASSOCIATION OF REALTORS Research Division – July 2009

economy of this region, shifting thousands of manufacturing jobs from this area abroad. This permanent loss of jobs resulted in high unemployment and elevated foreclosure rates as well as slack housing demand even as the national economy expanded. High foreclosure rates have characterized this area since, but were exacerbated by increased access to risky loans in 2005 and 2006 followed by mass layoffs more recently.

As of the first quarter of 2009, these two areas - states which experienced the sharpest increase in home prices and areas of the Rust Belt - share the highest concentrations of foreclosures with rates in excess of 5.0 percent and as high as 10.0 percent. Foreclosures have swelled inventories and depressed demand in California, Florida, Arizona and Nevada. A recessionary economy only made matters worse. Stabilizing these foreclosures through loan workouts and higher demand is critical to stabilizing prices in these areas.

Foreclosures have also risen in other areas of the Midwest, Mid Atlantic, Northwest, Southeast, and Northeast, but not to the same extent as in the Sun Belt and Rust Belt markets. Rates in these areas currently hover in the 1.0 percent to 2.0 percent range with some states in the 4.0 percent range. Localized pockets of high foreclosures exist in each of these regions, though. While the national foreclosure rate moderated between the fourth quarter of 2008 and the first quarter of 2009, this decline may prove temporary as the Administration's moratorium on foreclosure processing by the GSEs (Fannie Mae and Freddie Mac) expired in March of 2009. The cessation of the moratorium could lead to a bulge in foreclosures over the summer.

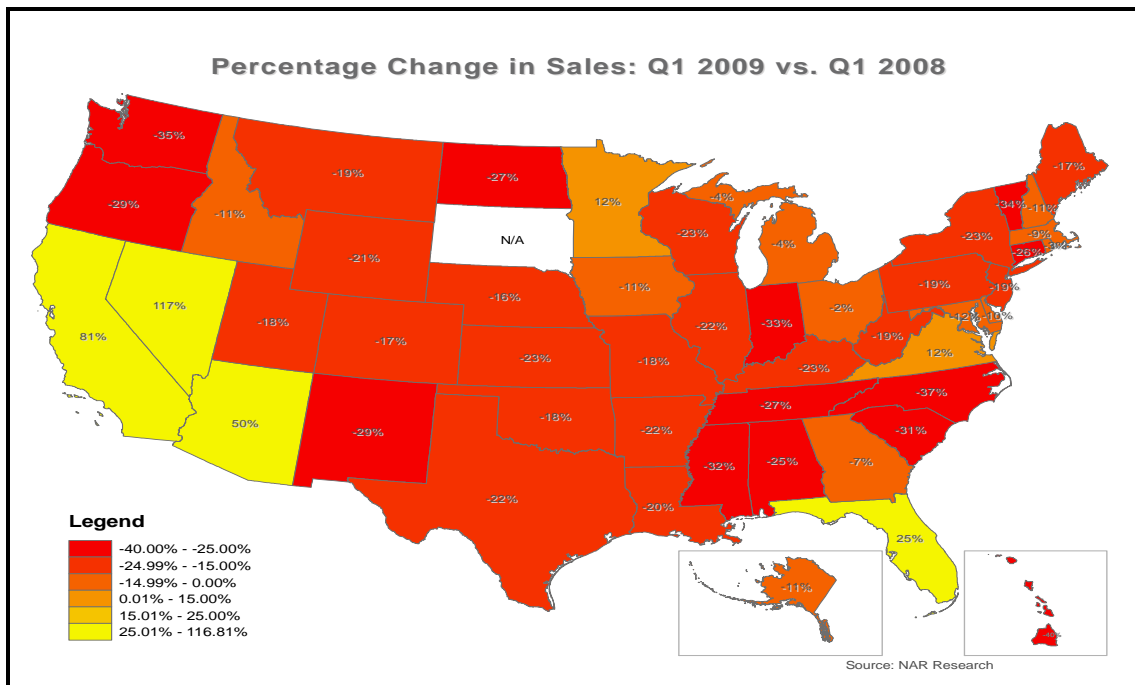


Not surprisingly, prices have fallen sharply in areas where there are large concentrations of foreclosures; notably in California, Arizona, Florida, but also in parts of Michigan and Ohio

where price declines are in excess of 40 percent from their peak levels during the housing boom to the first quarter of 2009.

Prices have been most resilient in those markets that were last to join the housing boom like those in Texas (Dallas, Austin, Houston, etc.), Utah (Salt Lake), New Mexico (Albuquerque and Farmington) and Oklahoma (Oklahoma City and Tulsa). Similarly, smaller Northeast markets such as Reading, Pittsburgh, New Haven, and Upstate and Western New York (Buffalo, Syracuse, Albany, and Binghamton) and many markets in the Midwest and upper South like Chattanooga, Waterloo/Cedar Falls, and Green Bay have seen more modest declines in the range of 10 to 20 percent. These markets did not experience the sharp, headline-making price increases that led to subsequent lending and foreclosure problems. Consequently, while they have been impacted by the shortage of financing and general buyer apprehension, prices have not fallen as much in these areas for typical properties.

The performance of high priced markets on the East coast like New York City, Providence, Boston, and Washington, DC is somewhere in the middle. They have experienced considerable declines since their respective price peaks, in the range of 20 percent to 40 percent through the first quarter of 2009, but these market corrections have not been as sharp relative to markets with high concentrations of foreclosures. The price declines in these markets tend to reflect sharp declines in peripheral areas, while more central and established neighborhoods have only witnessed modest declines, if any.



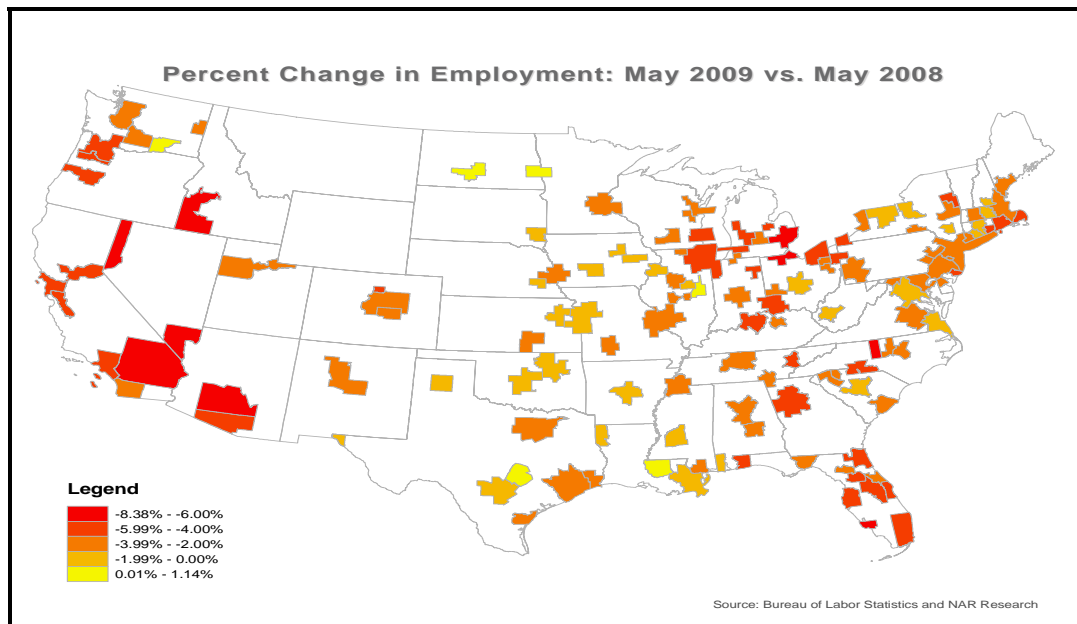
The sharp price declines in the Sun Belt have led to equally strong increases in sales in Florida, California, Nevada and Arizona. Sales in these states have jumped from 25 percent to over 100

percent in the last four quarters. These areas are still saddled with large inventories, but demand will eventually catch up, stabilizing prices. A few areas are all ready reporting multiple offers on some properties. Virginia, another state with high foreclosures concentrated in the northern part of that state, has experience a strong rebound in sales in the first quarter of 2009 compared to the same period a year earlier.

Significant price declines provide potential buyers with the confidence to get in the game and take full advantage of buying opportunities. From the perspective of a would-be buyer, since large price declines have already occurred, it is less likely that prices will continue to decline at the same pace in the future. Furthermore, over a typical ownership period (seven to nine years for the average homeowner) prices and homeowner equity are likely to rise.

Strongest Housing Sales: 4-quarter Price Change	
Nevada	116.8%
California	80.6%
Arizona	50.2%
Florida	25.0%
Virginia	12.2%
Source: NAR Research	

Conversely, large swaths of the Midwest, Northeast, South, and Southwest are experiencing stagnant sales at best or even sharp declines in the range of 15 to 40 percent over the last four quarters. In contrast to the high foreclosure states, prices have not experienced sharp corrections. Regardless of current home prices levels, , many consumers in these markets aren't sure whether the downward price movements seen so far signal a bottom in the market or whether there will be more prices declines to come. In short, many consumers in these areas are "on the fence" waiting to for clarity on the direction of prices.



But prices are not the only factor intimidating would-be buyers. The highpoint of the foreclosure wave that resulted from lending to risky borrowers has passed with the tightening of mortgage underwriting standards. Now nearly every market in the country is feeling the impact of a bigger problem; a large loss of jobs.

Steep job cuts have softened housing demand. As importantly, the recession has also resulted directly in a second wave of foreclosures as homeowners who bought a home while still on sound financial footing can no longer afford payments when faced with a loss in income due to unemployment. Just as with home prices, those areas that experienced the early and protracted economic expansion have felt the sharpest contractions in employment. The initial wave of lost jobs was largely confined to the construction and mortgage finance sectors, but following the financial market melt-down last fall, firms started cutting jobs in nearly every industry in anticipation of slack consumer demand in the future.

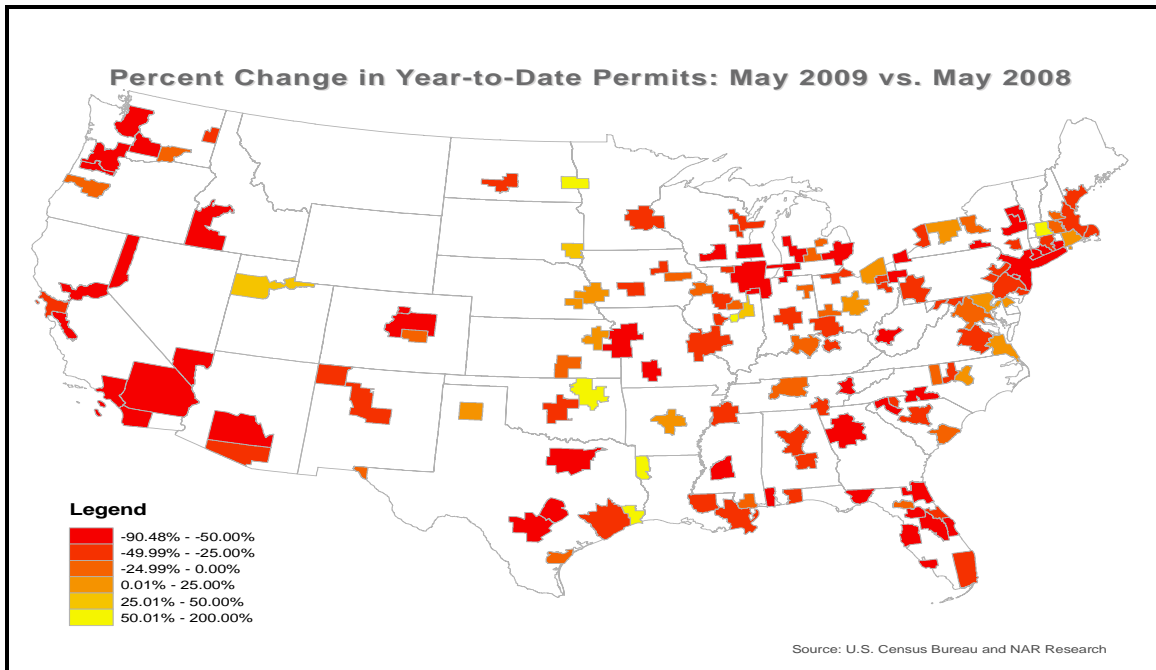
As of May's employment report, only a handful of markets spread across Texas, Washington

Hardest Hit by the Economic Slow-down: 12-month Job Change	
Cape Coral-Fort Myers	-8.4%
Reno-Sparks	-8.3%
Detroit-Warren-Livonia	-8.0%
Boise City-Nampa	-7.7%
Phoenix-Mesa-Scottsdale	-7.4%
Toledo	-6.9%
Source: BLS, NAR Research	

and North Dakota still stood on a firm job footing, while most markets in the Midwest and Southwest lost jobs at a rate of 2 percent compared with a year earlier. The Northeast has fared slightly worse with job losses averaging 2 percent to 4 percent over the 12-month period ending in May of 2009. The hardest hit markets are in Southern California, Nevada, Florida, and Oregon where sharp

contractions in the tourism and manufacturing sectors have had a strong impact. Recent restructuring of the troubled auto industry has resulted in large cuts to employment in Michigan and Ohio.

Job loss has resulted in softening home prices in areas that did not share in the housing boom. These job losses leading to slack demand for housing, but they are also swelling inventory levels, creating downward price pressure and in turn making it difficult for other homeowners to refinance.



The large volume of foreclosures is pushing up inventory levels in most markets and depressing prices. Luckily, construction is far off of its levels from during the housing boom. As of May of this year, 98 of the 150 markets covered by NAR saw a decline in year-to-date construction of 30 percent or more in the 12-month period ending in May of 2009. Of those markets, 56 have seen a decline of 50 percent or more in this same period. (NOTE: Are these YTD 2009 compared with same period in 2008?)

There are notable exceptions to this pattern. Corpus Christi is experiencing a housing boom as it rebuilds in the wake of a devastating hurricane. Oil exploration is fueling demand in Shreveport and construction continues in a handful of other markets.

Regional differences remain pronounced. The factors that caused the regional recessions in the Sun Belt and Rust Belt are different from the factors that pushed healthy regional markets into the housing recession. Consequently, different markets will exit the housing recession at different times and on unequal footing. But variations exist in markets in the same state and even within markets. Affordability and demand are driven by local prices and the local fundamentals that generate them. Prices and sales may continue to stagnate or decline in some markets, while others will define a bottom, skip along it, or even begin a modest recovery. What is certain is that the housing picture tomorrow will be vastly different from what we see today or saw over the last 10 years.