REALTORS® CONFIDENCE INDEX

Report and Market Outlook
February 2014 Edition

NATIONAL ASSOCIATION OF REALTORS®
Research Department
Lawrence Yun, Senior Vice President and Chief Economist

Based on Data Gathered March 3 – 10, 2014

NATIONAL ASSOCIATION of REALTORS®

Table of Contents

SUMMARY

Jed Smith and Gay Cororaton

The ***REALTORS® Confidence Index (RCI)*** Report provides monthly information about market conditions and expectations, buyer/seller traffic, price trends, buyer profiles, and issues affecting real estate based on data collected in a monthly survey of REALTORS®. The current report is based on the responses of 3,758 REALTORS® about their transactions in February 2014[1]. The survey was conducted during March 3 -10, 2014. Questions about the characteristics of the buyer and the sale are based on the REALTORS'® last transaction for the month. All real estate is local: conditions in specific markets may vary from the overall national trends presented in this report.

The February data indicates that market conditions have slowed compared to the robust growth in 2012 through mid 2013. REALTORS® reported that the unusual winter conditions negatively affected sales in many states in the East Coast, the Midwest, and the West Coast.

Low levels of inventory remain a major issue across many states, especially in Florida and California. Purchasing a home continues to be difficult for some non-cash and first-time buyers. The combination of rising prices, higher interest rates, and added fees such as FHA's up front and continuing mortgage insurance premiums has eroded affordability. Modest job and income growth and difficult underwriting standards have also held off prospective buyers. Under such conditions, REALTORS® indicated strong demand for rental properties.

REALTORS® reported on issues that can potentially impact the market in 2014. These include the expiration of the tax break for forgiven debt in the case of short sales, the continuing adverse impact of the uncertainty related to the cost of obtaining flood insurance, and the sluggish economic recovery. Most REALTORS® expect prices to continue rising, albeit at a modest pace. REALTORS® expect some seasonal upswing in the coming months.[2]

---

[1] This is the total number of respondents for the entire survey. The number of responses to a specific question can be less because the question is not applicable to the respondent or because of non-response. The survey was sent to a random sample of about 50,000 REALTORS®.

[2] The responses and data are not adjusted for seasonality effects.

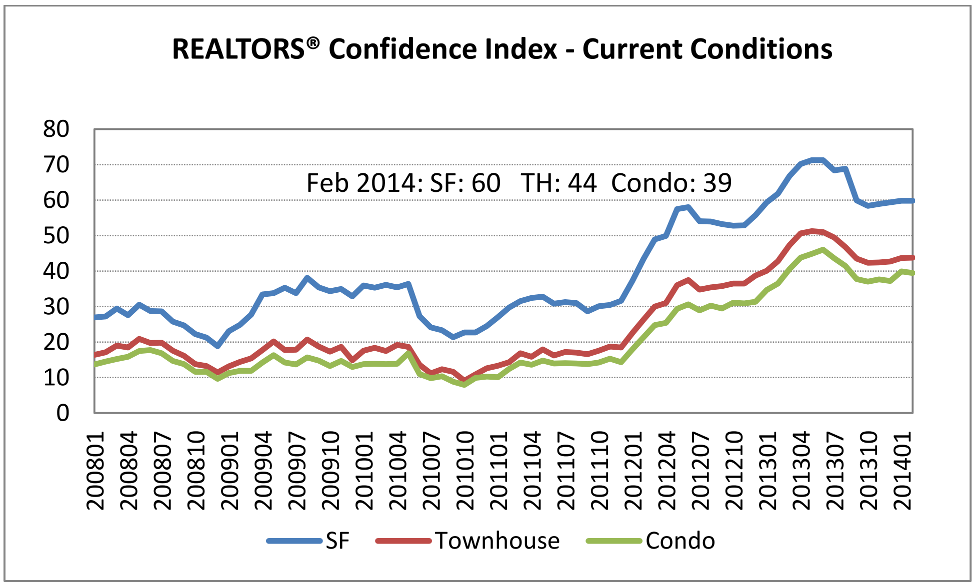
I. Market Conditions

REALTORS® Confidence Index Reflects Flat Market in February

Confidence about current market conditions was essentially unchanged in February 2014 compared to January 2014. The REALTORS® Confidence Index for single family sales stayed at 60 (same as in January) . Both the indexes for townhouses/duplexes and condominiums were below the "moderate" reading of 50 and stayed at their levels as in January.[3]

Across the Northeast, Midwest, and Southern states, the adverse wintry weather had more than the usual seasonal effect on the market[4]. Fundamental factors such as low inventory[5], the erosion in home affordability from the previous month's rapid price growth and uptick in interest rates, and tighter underwriting continued to weigh down the market recovery. Although the increase in flood insurance premiums has been postponed, the issue about flood insurance rates was reported to be depressing activity in flood zone areas.

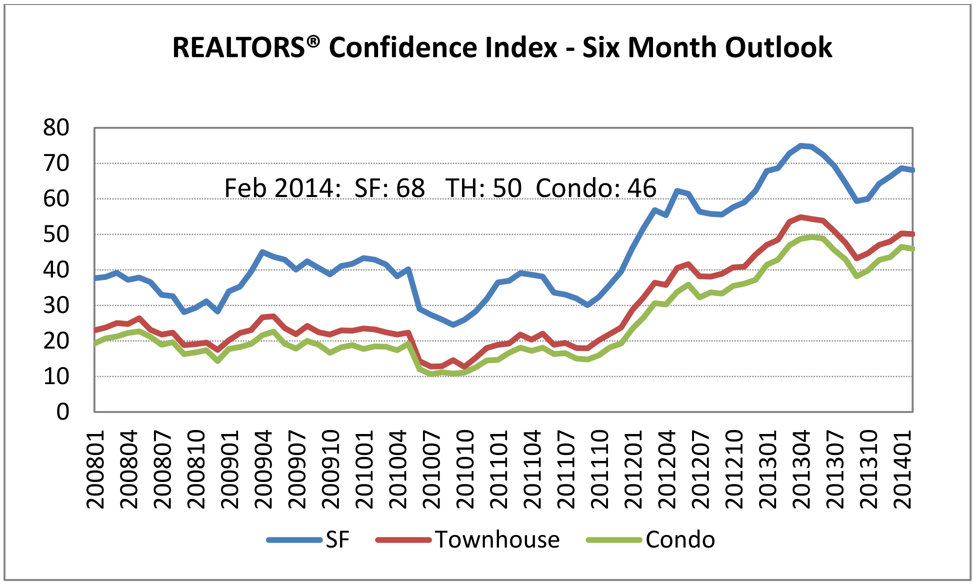
With the uptick in optimism already factored in the January index, the February 6-month Outlook Index for single family homes was essentially unchanged at 68 (69 in January). The index for townhouses stayed at 50 (same as in January), while the index for condominiums was also flat at 46 (same as in January).



3 An index of 50 delineates "moderate" conditions and indicates a balance of respondents having "weak"(index=0) and "strong" (index=100) expectations. The index is calculated as a weighted average using the share of respondents for each index as weights. The index is not adjusted for seasonality effects.

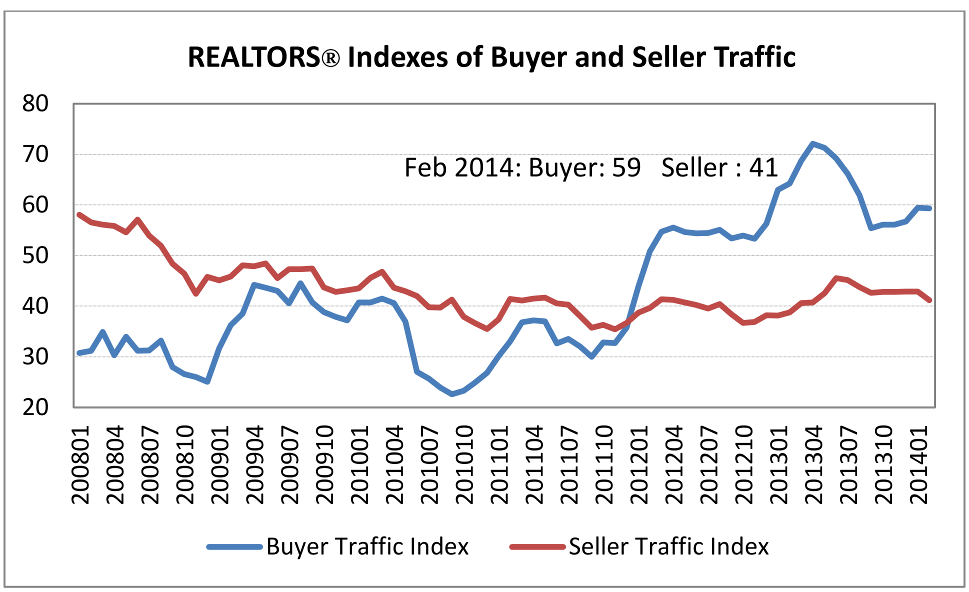
4 Comments from REALTORS® in NJ, NY, CT, ME, MA, PA, DE, MD, MI, OH, IL

5 Comments from REALTORS® in CA, NV, WA, OR, AZ, TN, MO, IL, WI, MN, ID, NJ, MA, ME, PA, MD, VA, SC, and TN.



Buyer and Seller Traffic Index Reflects Unchanged Market Activity in February

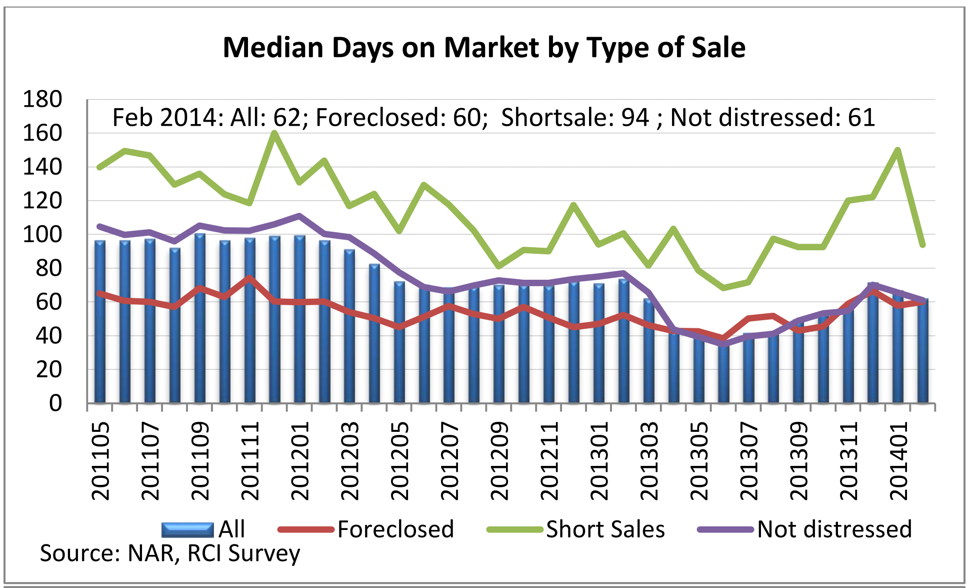
Market activity was essentially unchanged in February compared to January. The Buyer Traffic Index stayed at 59 (same as in January), while the Seller Traffic Index dipped to 41 (43 in January). In many states, REALTORS® reported tight inventory relative to demand across the Western region (CA, NV, WA, OR, AZ), the Midwest (MO, IL, WI, MN, ID), the Northeast (NJ, MA, ME, PA) and the Southern states (MD, VA, SC, and TN). Demand has also been dampened by the erosion in home affordability due eto price increases and higher interest rates, which have kept first–time homebuyers out of the market.

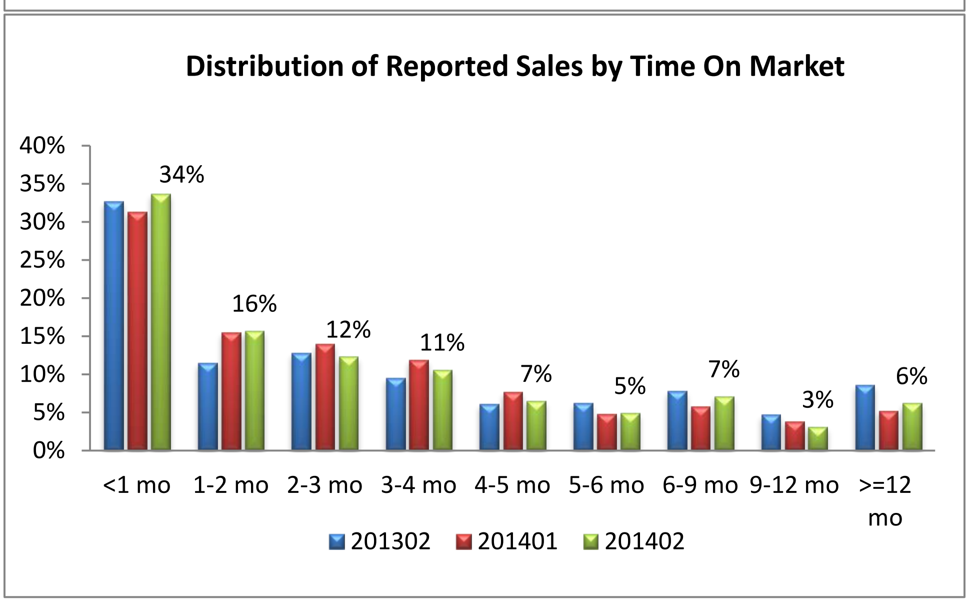


Median Days on the Market Falls to 62 Days

With little inventory relative to demand, properties sold faster for the third straight month. The median days on the market reported by REALTOR® respondents shortened to 62 days (67 days in January)[6]. The median days on market hit its lowest level of 35 days in June 2013. Short sales were on the market for the longest, at 94 days (150 in January), and foreclosed properties were on market at 60 days (58 days in January) . Non-distressed properties were on the market at 61 days (66 days in January). Conditions varied across areas.

Approximately 34 percent of respondents reported that properties were on the market for less than a month when sold (31 percent in January) .

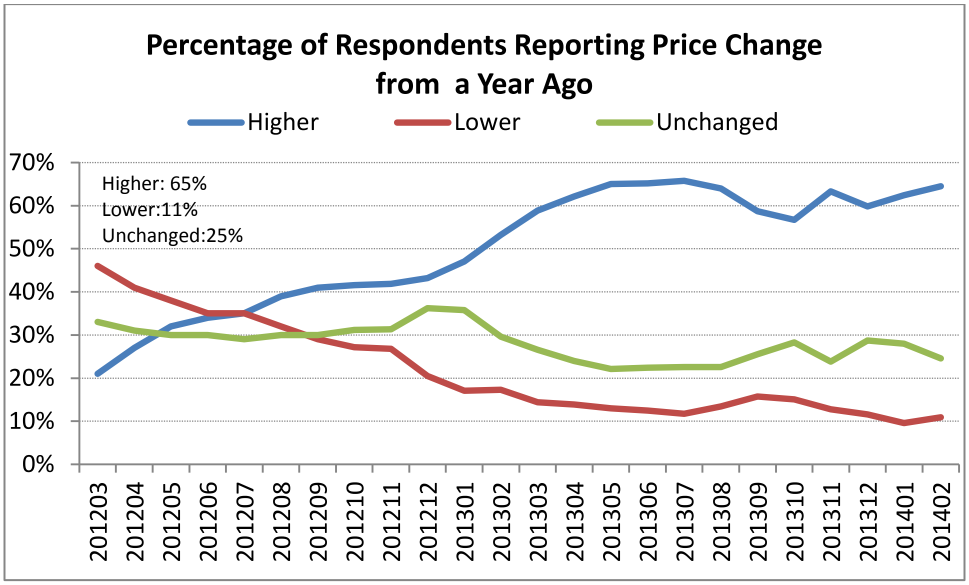




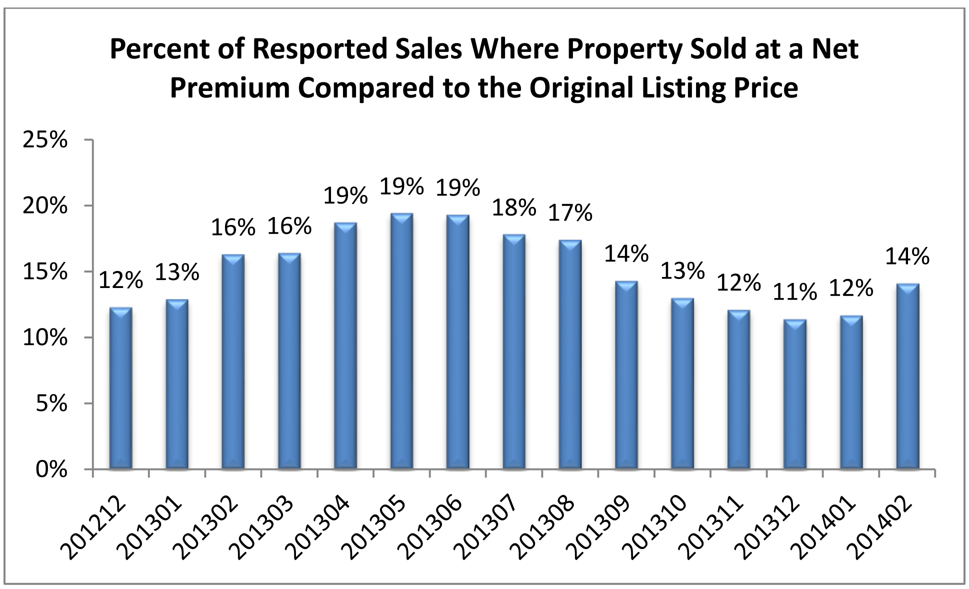
[6] A median of say 60 days means that half of the properties were on the market for less than 60 days and another half of properties were on the market for more than 60 days.

Home Prices Rising Moderately

REALTORS® continued to report that prices are generally on the uptrend. About 65 percent of respondents reported that the price of their "average home transaction" is higher today compared to a year ago (62 percent in January). About 25 percent reported constant prices and 11 percent reported lower prices.



Approximately 14 percent of reported sales were of properties that sold at a net premium to the original listing price (12 percent in January). In mid-2013, about 20 percent of REALTOR® respondents reported selling properties at a premium.

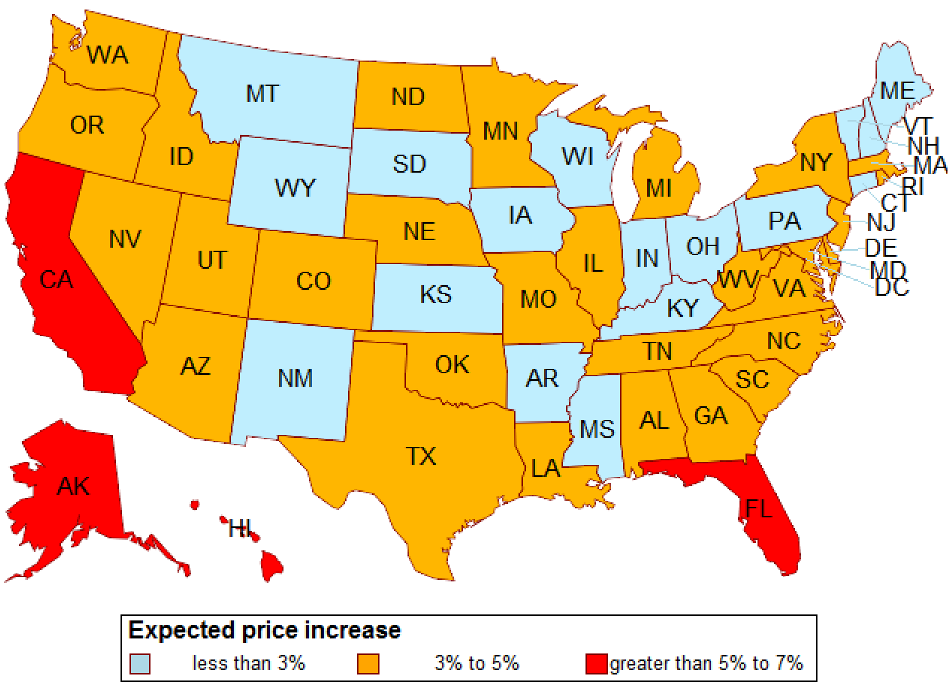


REALTORS® Expect Prices to Increase Modestly in the Next 12 Months

REALTORS® generally expect prices to increase over the next 12 months, although at a modest pace given concerns about the erosion in home affordability, tight credit standards, and new regulations impacting demand such as FHA's upfront mortgage insurance. The median expected price increase was 3.9 percent[7].

The states with the most upbeat expected price change of 5 to 7 percent are California, Florida, and Hawaii where tight inventory has boosted home values (red). In states with booming economies like Washington, North Dakota, Texas, Michigan, and the DC-Metro Area , the expected price increase is about 3 to 5 percent range (orange). In the rest of the states, the expected price growth is less than 3 percent (blue).

State Median Price Expectation for Next 12 Months (in%)
Based on REALTORS Confidence Index Survey, Dec 2013 – Feb 2014 Surveys

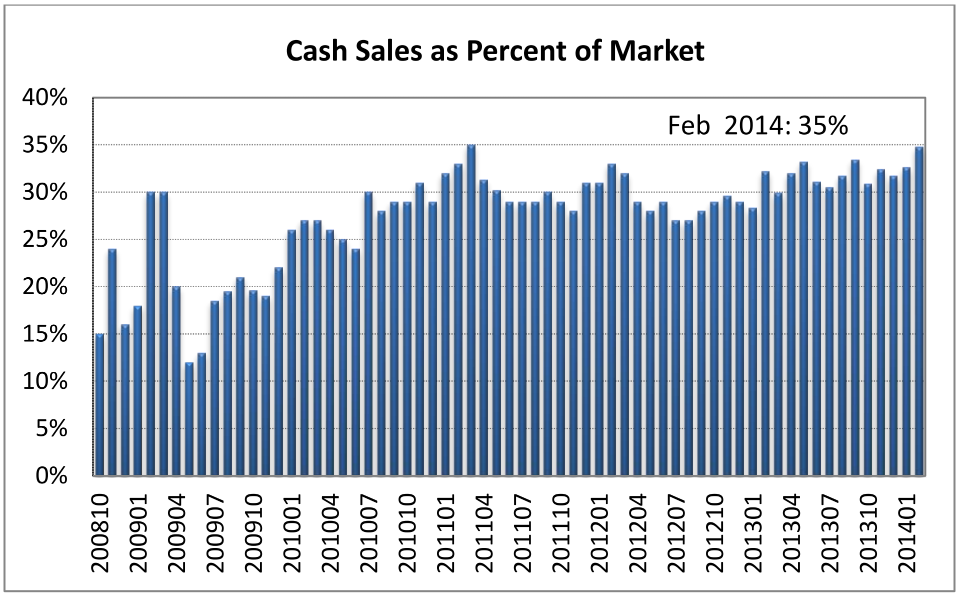


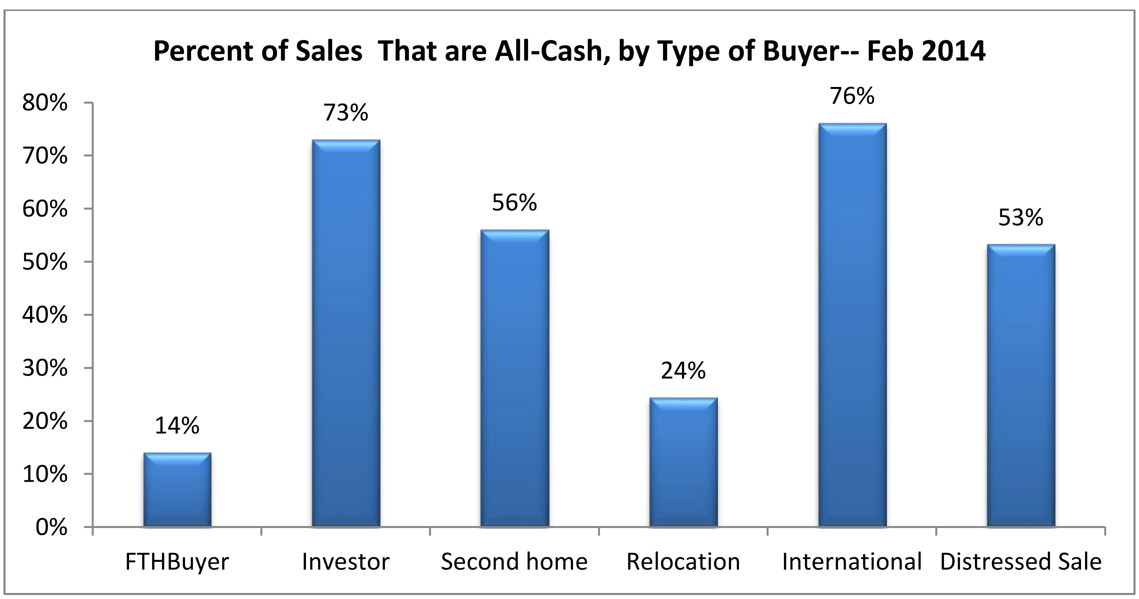
7 The median expected price change is the value such that 50 percent of respondents expect prices to change above this value and 50 percent of respondents expect prices to change below this value. A median expected price change is computed for each state based on the respondents for that state. The graph shows the range of these state median expected price change.

II. Buyer and Seller Characteristics

Cash Sales: 35 Percent of Sales

Approximately 35 percent of respondents reported cash sales (33 percent in January).[8] Cash sales are driven by investors, move-up buyers, and foreign clients. About 14 percent of reported sales to first-time buyers were cash sales compared to about 50 to 80 percent for international buyers and buyers of property for investment or second home purposes.

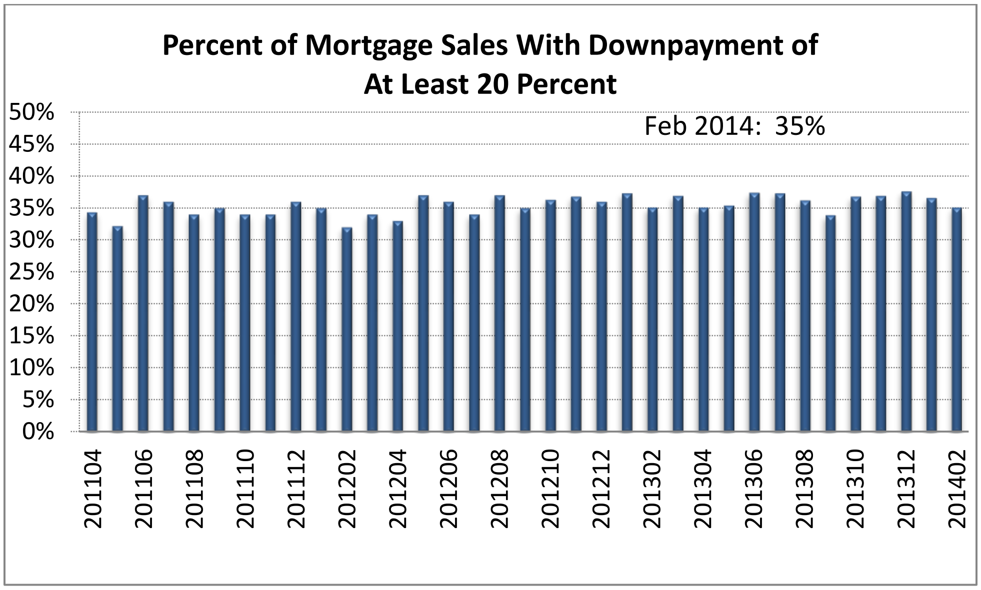




[8] The *RCI* Survey asks about the most recent sale for the month.

Mortgages With Down Payment of 20 Percent or More: 35 Percent of Mortgages

About 35 percent of respondents who reported a mortgage financing reported a down payment of 20 percent or more. In its 2013 Q3 Report, FHFA reported that the average loan-to-value ratio of Fannie Mae's new business is 75% and for Freddie Mac 74% [9]. Under tight underwriting standards, REALTORS® have reported that buyers who pay cash or put down large downpayments generally win against those offering lower downpayments.

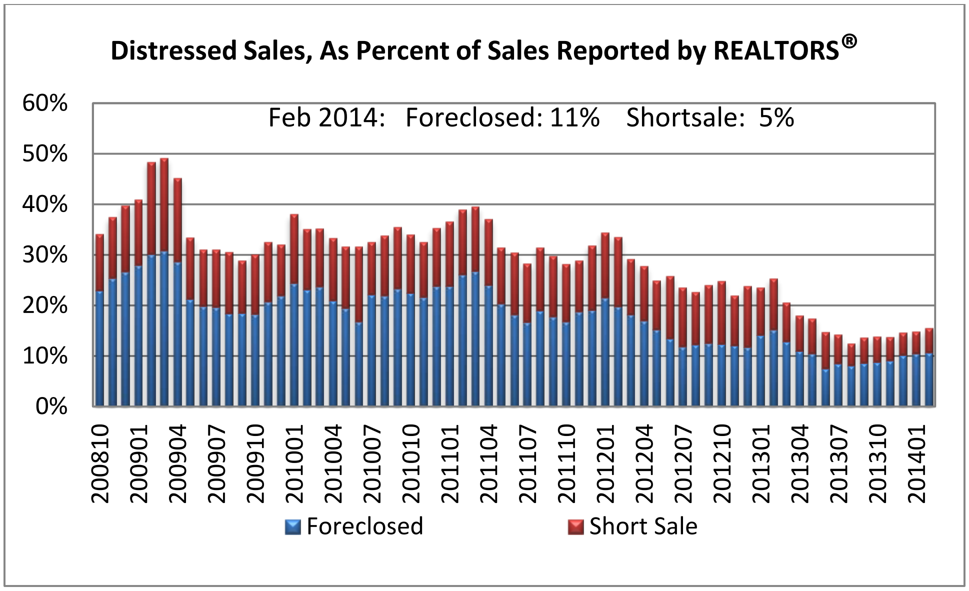


Distressed Sales: 16 Percent of Sales

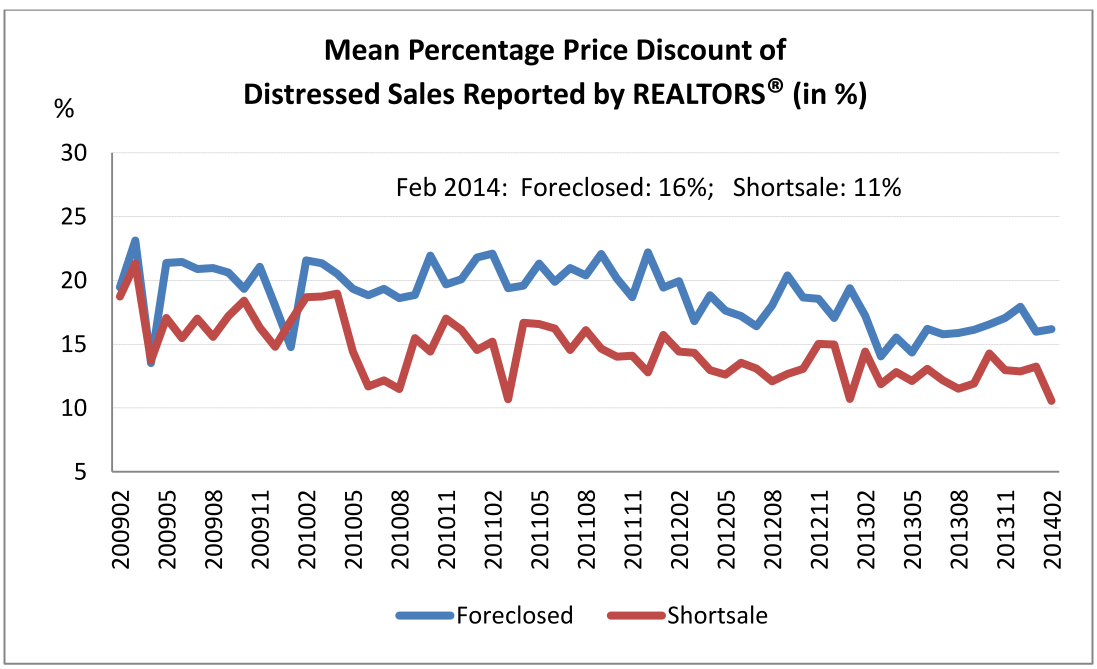
Approximately 16 percent of respondents reported a sale of a distressed property, substantially down from levels a few years ago. About 11 percent of reported sales were foreclosed properties, and about 5 percent were short sales.

About 11 percent of REALTORS® reported that they had experienced a case where a potential seller decided not to sell because of the tax implications resulting from the expiration of the tax break on forgiven debt as of December 2013.

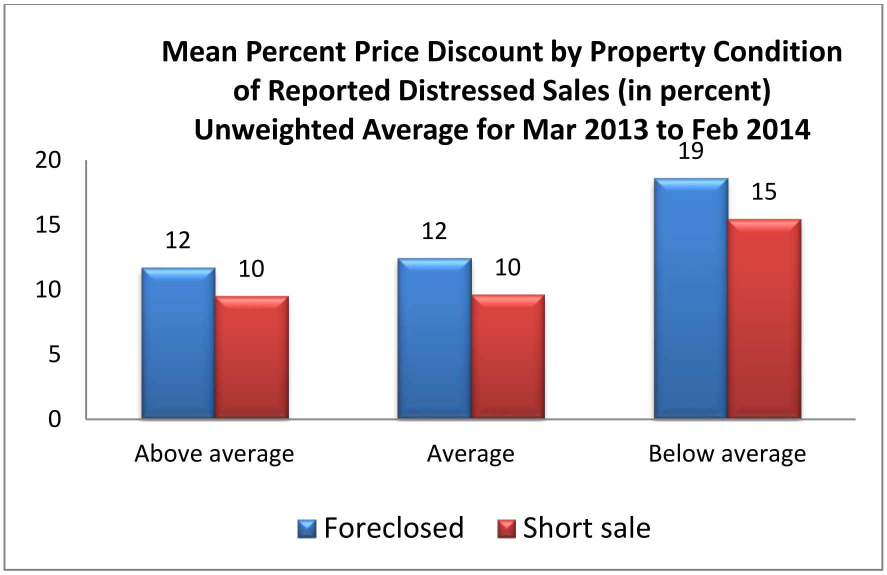
[9] http://www.fhfa.gov/webfiles/25406/ConservatorReport1Q2013F.pdf



Foreclosed property sold at a 16 percent average discount to market , while short sales sold at a 11 percent average discount.[10] The discount varied by house condition. For the past 12 months, properties in "above average" condition have been discounted by an average of 10-12 percent, while properties in "below average" condition were discounted at an average of 15-19 percent.



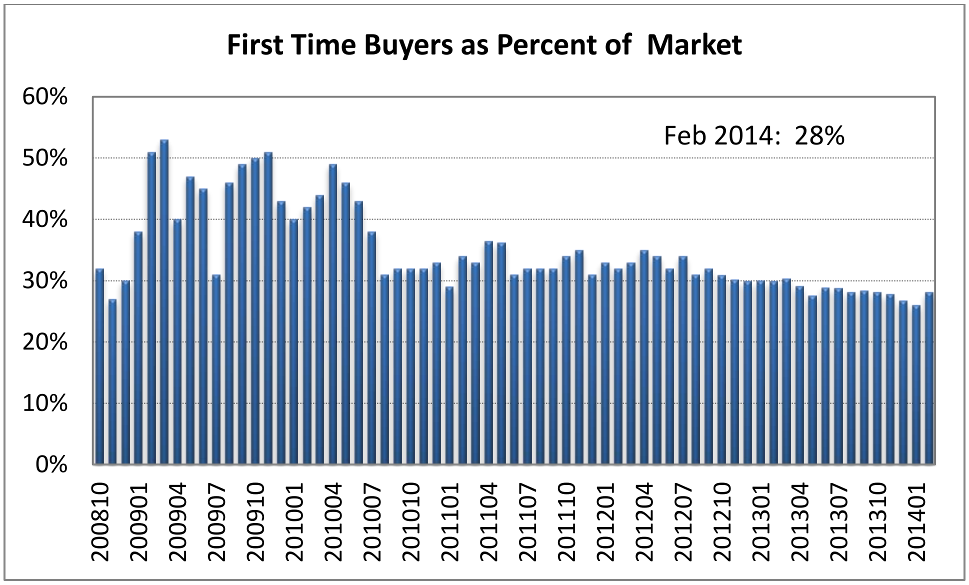
[10] The estimation of the level of discount is based on an estimate of what the property would have sold for if it had not been distressed (possibly in better condition, absent any taint of being distressed).



Sales to First Time Buyers: 28 Percent of Sales

Approximately 28 percent of respondents reported a sale to a first time home buyer[11] (26 percent in January). REALTORS® have reported that first-time buyers are finding it difficult to meet the tighter underwriting standards and to provide the higher down payment that can compensate or improve credit standing. NAR's *2013 Profile of Home Buyers and Sellers* reports that among first-time buyers who found it difficult to save for a downpayment, 54 percent reported student loans to be the expense that delayed saving for a downpayment. REALTORS® also reported that in some cases, financing is approved for a lower amount. Cash buyers typically win against first-time buyers who generally obtain a mortgage financing.

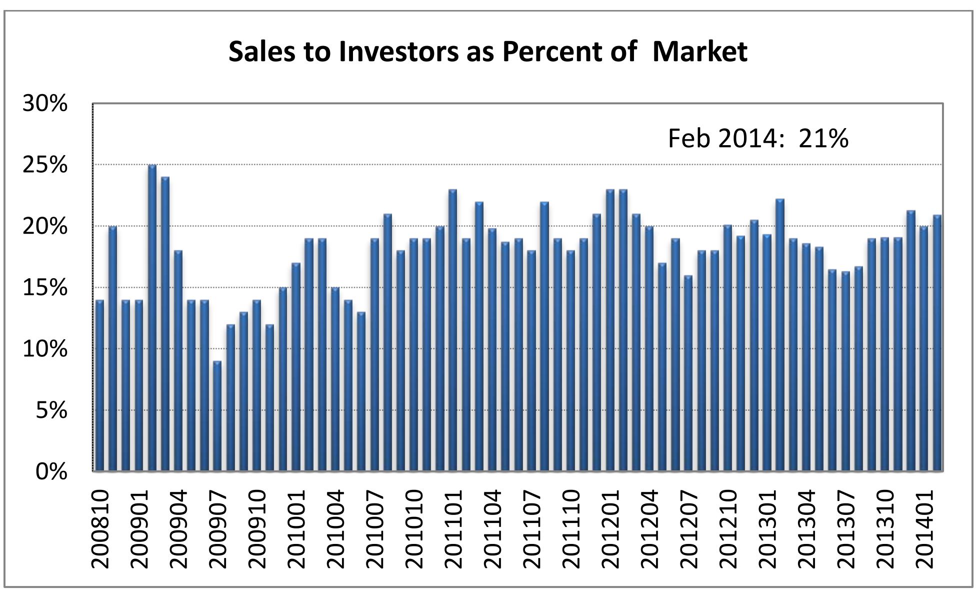
[11] First time buyers account for about 40 percent of all homebuyers based on data from NAR's *Profile of Home Buyers and Sellers.* NAR's survey of buyers and sellers captures only buyers buying for residential purposes.

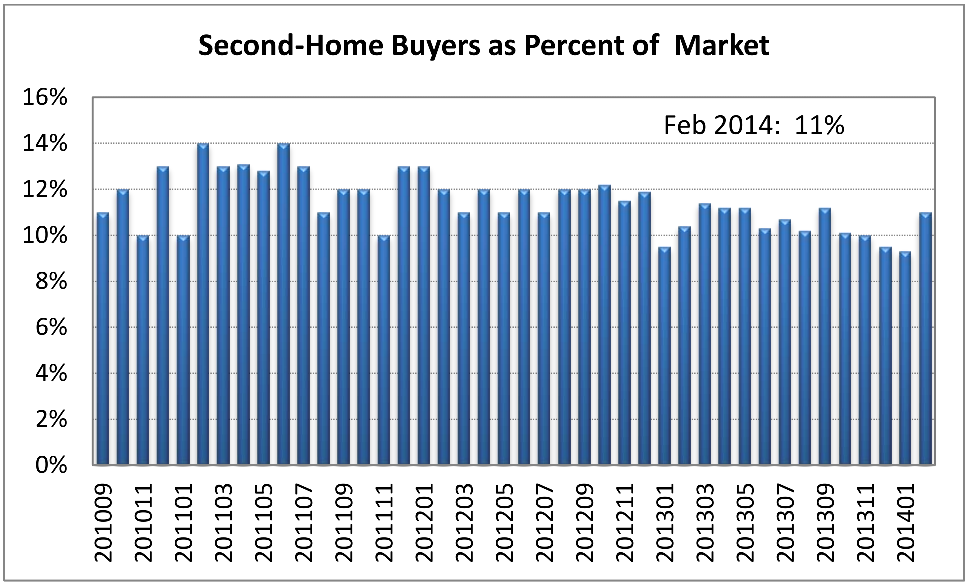


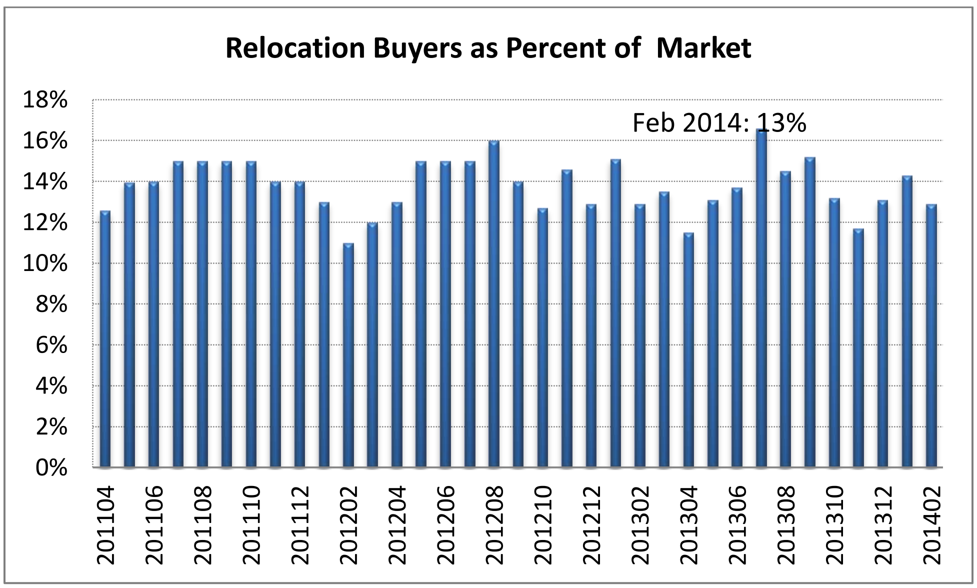
Investors, Second-home Buyers, and Relocation Buyers

About 21 percent of respondents reported a sale to an investor, 11 percent reported a sale to a second-home buyer, and 14 percent reported a sale to a relocation buyer. The share of sales to investors has remained fairly stable, an indicator of continued investor interest for rental housing.

Regarding the demand for properties for relocation purposes, there has been feedback from REALTORS® that many baby boomers would like to downsize, but there are not enough buyers for larger homes. Due to the tight inventory, sellers who want to move up or down are having trouble finding a suitable property.

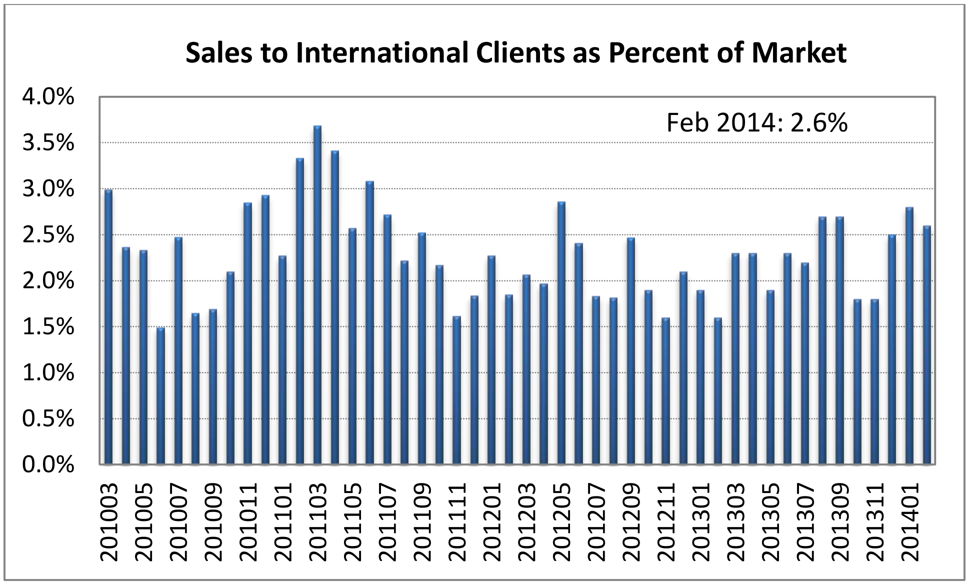






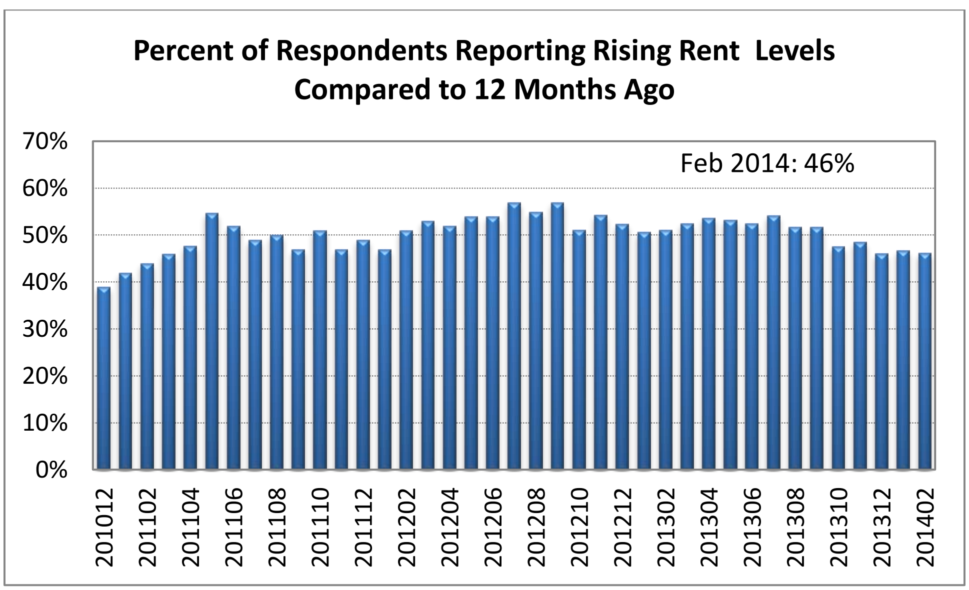
International Transactions: About 2.6 Percent of Residential Market

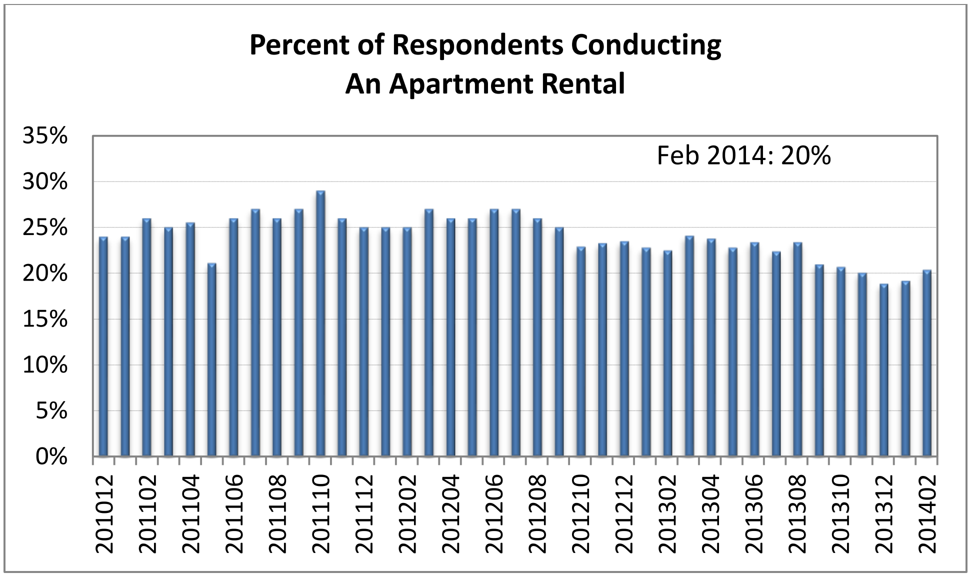
Approximately 2.6 percent of REALTOR® respondents reporting on their last sale was of a purchase by a foreigner not residing in the U.S. International buyers typically pay cash. In NAR's *2013 Profile of International Homebuying Activity*, the major buyers were reported as being from Canada, China, Mexico, India, and the United Kingdom.



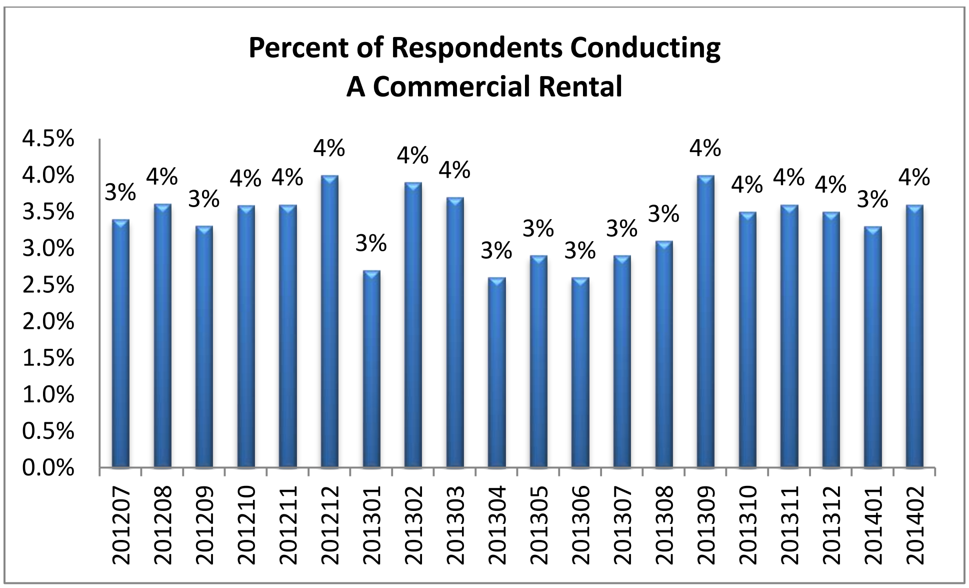
Rising Rents for Residential Properties

Among those REALTORS® involved in a rental, 46 percent reported higher residential rents compared to 12 months ago. About 20 percent of REALTORS® reported conducting an apartment rental and about 4 percent reported a commercial rental transaction.





Percent of Respondents Conducting
An Apartment Rental
Feb 2014: 20%
35%
30%
25%
20%
15%
10%
5%
0%
201012
201102
201104
201106
201108
201110
201112
201202
201204
201206
201208
201210
201212
201302
201304
201306
201308
201310
201312
201402

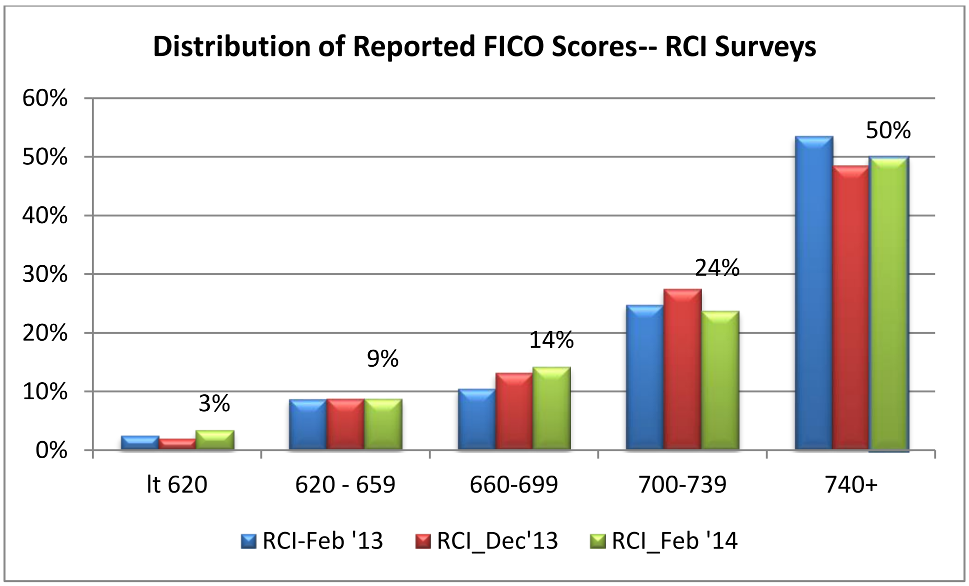


Percent of Respondents Conducting
A Commercial Rental
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
3%
4%
3%
4%
4%
4%
3%
4%
4%
3%
3%
3%
3%
3%
4%
4%
4%
4%
3%
4%
201207
201208
201209
201210
201211
201212
201301
201302
201303
201304
201305
201306
201307
201308
201309
201310
201311
201312
201401
201402

III. Current Issues

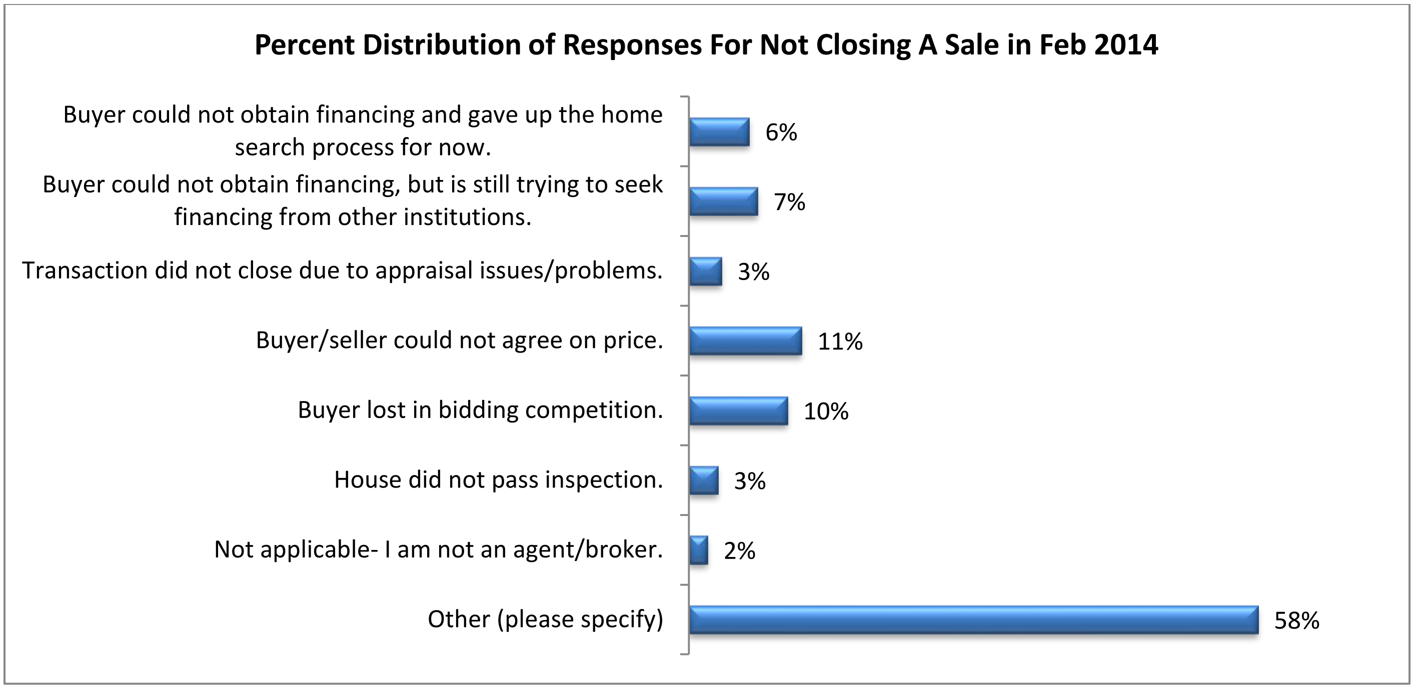
Tight Credit Conditions and Slow Lending Process

REALTORS® continued to express concern over unreasonably tight credit conditions. Mortgage lenders were reported as continuing to display an unnecessarily high level of risk aversion. In the 2001-04 time frame approximately, 40 percent of residential loans acquired by the Government Enterprises (Fannie Mae and Freddie Mac) went to applicants with credit scores above 740. Slightly more than half of survey respondents who provided credit score information reported FICO credit scores of 740 and above.



Reason For Not Closing A Sale

Access to credit was often cited as a deterrent to home buying. About 13 percent of REALTORS® who did not close a sale in February reported having clients who could not obtain financing. About 6 percent reported that the buyer gave up while 7 percent reported that the buyer continued to seek new/other financing. Lack of agreement on price accounted for 11 percent. Another 10 percent reported that the buyer lost the competition. Appraisal issues were reported as accounting for 3 percent of failures to close a sale.


Percent Distribution of Responses For Not Closing A Sale in Feb 2014
Buyer could not obtain financing and gave up the home search process for now.
6%
Buyer could not obtain financing, but is still trying to seek financing from other institutions.
7%
Transaction did not close due to appraisal issues/problems.
3%
Buyer/seller could not agree on price.
11%
Buyer lost in bidding competition.
10%
House did not pass inspection.
3%
Not applicable- I am not an agent/broker.
2%
Other (please specify)
58%

IV. Commentaries by NAR Research

Pent Up Demand
Lawrence Yun, Chief Economist

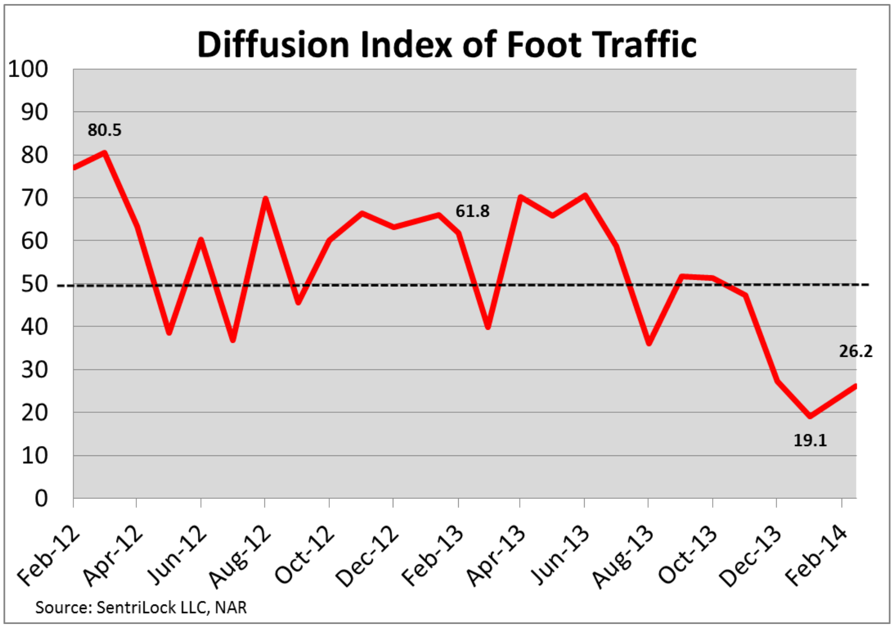
- The short-term outlook is weak, with the first quarter existing home sales figures to be down by about 5 to 8 percent from one year before. Severe winter weather, inventory shortage, higher mortgage rates, and tight credit availability are some of the reasons for the setback.
- The long-term outlook, however, is bright. Simple comparisons of very basic numbers imply current under-performance but suggest the potential for a sizable increase in home sales.
- The table below compares three time periods:
- The year 2000 can be characterized as being very normal and uneventful. There was no discussion of a housing market bubble by economists or in the media. One may say that the housing market was also uneventful or even boring.
- The year 2005 was the peak bubble year in terms of eye-popping home sales and home prices induced from essentially no underwriting standards.
- The current year 2014 clearly looks to be underperforming, but has huge upside potential. Consider: there are 5 million annualized existing home sales today, which is the same as in 2000. Yet we have 34 million additional people living in the country, 4 million more people with jobs, and much lower mortgage rates. When we'll get this upside release of pent-up demand, however, is unclear at the moment.

	2000	2005	2013
Existing Home Sales	5.2 million	7.1 million	5.1 million
New Home Sales	880,000	1.3 million	430,000
Mortgage Rates	8.0%	5.9%	4.0%
Underwriting Standards	Normal	None	Tight
Payroll Jobs	130 million	134 million	136 million
Population	282 million	296 million	316 million

Foot Traffic Increases

Ken Fears, Director, Regional Economics and Housing Finance Policy

Foot traffic as measured by NAR's Research diffusion index bounced back in February following two months of sharp decline. This improvement suggests that the year-over-year decline in existing home sales should stabilize in the months ahead, though at a level sharply lower than the spring of 2013. Slower demand will press up on inventories which are anemic, moderating price growth to a more sustainable pattern to the benefit of consumers.



Every month SentriLock, LLC. provides NAR Research with data on the number of properties shown by a REALTOR®. Lockboxes made by SentriLock, LLC. are used in roughly a third of home showings across the nation. Foot traffic has a strong correlation with future contracts and home sales, so it can be viewed as a peek ahead at sales trends two to three months into the future. For the month of February, the diffusion index for foot traffic rose 7.2 points to 26.2 after declining 32.3 points in the previous three months.

The index is well below the "50" mark which indicates that more than half of the roughly 200 markets in this panel had weaker foot traffic in February of 2014 than the same month a year earlier. This reading does not suggest how much of a decrease in traffic there was, just that the majority of markets experienced less foot traffic in February of 2014 than 12 months earlier.

This upward movement in foot traffic relative to last year is important for the spring market as it alleviates fears of a secular downward drift. Mortgage rates were more than a percentage point lower at this time last year and prices have risen to the detriment of affordability, but consumers' purchase power remains strong by historical standards. The psychological impact of this change, bidding wars and few options took a toll. A more sustainable market with slower price growth and a moderation of credit overlays would benefit the spring market.

REALTOR® Comments on Housing Market Issues
Jed Smith, Managing Director, Quantitative Research

Every month REALTORS® provide a variety of comments on the state of the market when responding to the *RCI* survey. In general, REALTORS® noted that uncertainity about economic conditions, rising prices, weather, the limited inventories of available homes, and flood insurance were negatively impacting the home sales markets.

Lack of Inventory: The lack of available homes on the market seemed to be the most pressing problem mentioned by REALTORS®. In some cases potential sellers were holding off from listing mentioned as having unrealistic expectations. The lack of new construction and the inability of potential sellers to find a more suitable home in a time of limited supply were cited as contributing to ther problem.

Uncertainties: A number of respondents essentially commented "people are waiting," in reference to the overall state of the economy, concern about home affordability and rising prices, a lack of consumer confidence, etc. Put differently, a significant number of comments basically indicated that some people are in a stall mode. REALTORS® noted continued strong demand, but potential buyers were reported as being increasingly demanding in terms of expected home condition. The importance of realistic, accurate pricing was noted.

Weather: Continued difficult weather conditions were prominently mentioned by many REALTORS®. There seemed to be general agreement that there had been a significant negative impact on sales in many parts of the country.

Flood Insurance: The availability and cost of flood insurance were citied in a number of cases as having a negative impact on home sales.

Loan Availability: REALTORS® continued to cite problems for potential buyers in getting loans. There was a continued feeling that credit is unrealistically tight.