The Economy Drags Housing Upward

Doug Duncan
Chief Economist, Fannie Mae

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Strong April Job Gains Leave Disappointing March Behind

Source: Bureau of Labor Statistics
Income Growth Expectations Continue to Improve

Source: The Conference Board, NBER
State Level Payroll Growth is More Geographically Concentrated Than in Most Prior Recoveries

Source: Bureau of Labor Statistics, Fannie Mae Economic & Strategic Research projections
The Sharp Rise in Interest Rates in 2013 Sparked by Fed “Tapering” has Reversed

Source: Federal Reserve Board, Freddie Mac, Bloomberg
The Fed Ended the QE Program With Its Balance Sheet Near a Landmark $4.5 Trillion

Source: Federal Reserve Board
Household Growth Has Been Severely Depressed, However, Racial and Ethnic Minorities Continue to Account for the Bulk of Household Growth

![Graph showing household growth from 1970s to 2015-2020](image)

Sources: Census Bureau, Decennial Census; Fannie Mae Economic & Strategic Research projections
Baby Boomers Have an Enormous Housing Market "Footprint"

Population
- Boomers: 25%
- Millennials: 28%
- GenXers: 19%
- All Others: 28%

Occupied Housing Units
- Boomers: 39%
- Millennials: 14%
- GenXers: 27%
- All Others: 20%

Primary Residence Home Equity
- Boomers: 50%
- Millennials: 3%
- GenXers: 17%
- All Others: 30%

Owner-Occupied Housing Units
- Boomers: 46%
- Millennials: 6%
- GenXers: 34%
- All Others: 24%

Source: U.S. Census Bureau: Population Estimates, American Community Survey; Federal Reserve Board: Survey of Consumer Finances
Despite Slow Household Growth, GenXers Are Large Source of Purchase Money and Refi Demand

Fannie Mae Single-Family Mortgage Acquisitions in 2013

First number in data label is the unpaid principal balance of Fannie Mae conventional single-family acquisitions in billions of dollars. Excludes loans for which borrower age was missing.
But Millennial Housing Demand Has Been Suppressed Compared with Previous Generations

Millennials Are Less Likely to Form Households Than Their Predecessors

When They Do Form Households, They Are More Likely to Rent, Particularly SF Homes

The headship rate, a commonly used metric of household formation, is the proportion of the population in a given age group that is a householder, i.e., the person, or one of the persons, in whose name a housing unit is owned, being bought, or rented. “Single-family” (SF) is 1 to 4 units in structure, “multifamily” (MF) is 5+ units in structure, and “Other” is predominantly manufactured/mobile homes.

Source: U.S. Census Bureau, Decennial Census and American Community Survey
We Have Not Seen an Increase in Annual Housing Starts Greater than 200K Since the Early 1980s

Annual Change in Total Housing Starts (Thousands of Units)

Source: Census Bureau
Multifamily Housing Starts Growth Outpaces Single-Family Sector

Source: Census Bureau

Graph showing the comparison of multifamily and single-family housing starts from 1990 to 2015. The multifamily housing starts (green line) have consistently outpaced the single-family housing starts (blue line) since the mid-2000s.
Home Sales Diverge, but Overall Trend is Upward

Source: National Association of REALTORS®, Census Bureau
Home Price Growth Moderates...

Year-over-Year % Change

FHFA House Price Index (Purchase Only, United States)
CoreLogic National House Price Index
S&P/Case-Shiller Home Price Index: Composite 20

Source: S&P/Case-Shiller, CoreLogic, Federal Housing Finance Agency
…as Tight Supply Continues to Support Growth

Source: CoreLogic, National Association of REALTORS®
Homeownership Rates Have Declined the Most for the Younger Age Cohorts

Source: Census Bureau
The Vast Majority of Younger Renters Plan to Buy a Home at Some Point in the Future

Q31. If you were going to move, would you be more likely to: Rent / Buy
Q50. [IF Q31=RENT] In the future, are you more likely to: Always rent / Buy at some point in the future

Younger renters likely to buy at some point: Q31= Buy or Q50 = Buy at some point in the future
Younger renters likely to always rent: Q50 = Always Rent

Ages 25-39
Q4 2014: Younger Renters – n=351; MOE +/- 5.23%

Source: Fannie Mae National Housing Survey™
Younger Renters With Student Loans Cite Affording the Down Payment as Their Biggest Obstacle to Getting a Mortgage, While Those Without Student Loans Cite Insufficient Credit

What would be your biggest obstacle to getting a mortgage to purchase or refinance a home today? SELECT UP TO 3 – Q3 – 2014

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Younger Renters with Student Loans</th>
<th>Younger Renters without Student Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affording the down payment or closing cost</td>
<td>47%</td>
<td>64%*</td>
</tr>
<tr>
<td>Insufficient credit score or credit history</td>
<td>52%</td>
<td>45%</td>
</tr>
<tr>
<td>Too much existing debt</td>
<td>30%</td>
<td>24%</td>
</tr>
<tr>
<td>Insufficient income for monthly payments</td>
<td>23%</td>
<td>19%</td>
</tr>
<tr>
<td>Lack of job security or stability</td>
<td>15%</td>
<td>5%*</td>
</tr>
<tr>
<td>The process is too complicated</td>
<td>14%</td>
<td>9%</td>
</tr>
<tr>
<td>Others</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>None/No obstacles</td>
<td>6%</td>
<td>3%</td>
</tr>
</tbody>
</table>

*Denotes a statistically significant difference between younger renters with and without student loans at the 95% confidence level.
Trouble Accessing Credit is Not the Primary Consideration in the Decision to Continue Renting

What is your primary reason for renting now?

Q3 2012 Younger Renters

- You are making yourself financially ready to own: 45%*
- Renting is a more affordable option: 25%
- Renting gives you more flexibility in your future choices: 19%

Q3 2013 Younger Renters

- You cannot obtain a mortgage: 11%
- Living in a rented home is less hassle and stress: 10%

Q3 2014 Younger Renters

- Renting allows you to live in a better neighborhood: 2%
- Renting protects against declines in housing prices: 1%

Source: Fannie Mae National Housing Survey™

Ages 25-39
Younger Renters Q3 2012 – n=328; MOE +/- 5.41%
Younger Renters Q3 2013 – n=346; MOE +/- 5.27%
Younger Renters Q3 2014 – n=325; MOE +/- 5.44%

* Denotes a statistically significant difference between younger renters in Q3 2013 and Q3 2014 at the 95% confidence level
But the Problem is Not Just Student Loans

Homeownership among Young Adults who are “Prime” Buying Candidates*

*Prime homebuyers are defined as upper income households with householders in their early 30s who have college educations and are married with children.

Source: U.S. Census Bureau, American Community Survey
Housing Activity Mixed in 2014, but Measured Recovery Continues

Year-over-Year % Change

-5% 0% 5% 10% 15% 20% 25% 30%

Existing Home Sales  New Single-Family Home Sales  Single-Family Housing Starts  Multifamily Housing Starts

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015 Forecast</th>
<th>2016 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing Home Sales</td>
<td>5,090</td>
<td>4,940</td>
<td>5,092</td>
<td>5,268</td>
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<tr>
<td>New Home Sales</td>
<td>429</td>
<td>436</td>
<td>541</td>
<td>622</td>
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<tr>
<td>Single-Family Housing Starts</td>
<td>618</td>
<td>648</td>
<td>748</td>
<td>921</td>
</tr>
<tr>
<td>Multifamily Housing Starts</td>
<td>307</td>
<td>355</td>
<td>384</td>
<td>398</td>
</tr>
</tbody>
</table>

Source: National Association of REALTORS®, Census Bureau, Fannie Mae Economic & Strategic Research April 2015 Forecast
Purchase Demand Gains Momentum

Index (SA, March 16, 1990 = 100)

Source: Mortgage Bankers Association
Mortgage Production Expected to Be Little Changed in 2015 Amid Shift to Purchase Market

Source: Fannie Mae Economic & Strategic Research Forecast April 2015 Forecast
Douglas G. Duncan is Fannie Mae’s Senior Vice President and Chief Economist. He is responsible for managing Fannie Mae’s Economic & Strategic Research Group and oversees corporate strategy. In this leadership role, Duncan provides all economic, housing, and mortgage market forecasts and analyses, and serves as the company’s thought leader and spokesperson on economic and mortgage market issues.

Prior to joining Fannie Mae, Duncan was Senior Vice President and Chief Economist at the Mortgage Bankers Association. His experience also includes service as a LEGIS Fellow and staff member with the Committee on Banking, Finance, and Urban Affairs for Congressman Bill McCollum in the U.S. House of Representatives, and work on the Financial Institutions Project at the U.S. Department of Agriculture. He has been elected to the Board of Directors for the National Association of Business Economists, is a member of the American Economics Association and the American Real Estate and Urban Economics Association, and is past president of the Housing Statistics Users Group.

Named one of Bloomberg / BusinessWeek’s 50 Most Powerful People in Real Estate and one of Inman News’ 100 Most Influential Real Estate Leaders for 2013, Duncan is a frequent speaker on national and state economic, housing, and mortgage market conditions.

Duncan received his Ph. D. in Agricultural Economics from Texas A&M University and his B.S. and M.S. in Agricultural Economics from North Dakota State University.
Contact Information
fanniemae.com/portal/research-and-analysis/

Doug Duncan, Senior Vice President & Chief Economist
Fannie Mae
3900 Wisconsin Avenue, NW
Mail Stop 1H-2N/01
Washington, DC  20016

(o) 202-752-0160
(c) 202-409-5913
(fax) 202-752-4441

douglas_g_duncan@fanniemae.com