

How to handle a housing bubble

AUGUST 8, 2018

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**National
Mortgage News**

How to handle a housing bubble



Bonnie Sinnock is the capital markets editor of National Mortgage News. She has been writing for National Mortgage News since 1995. She also has worked on other SourceMedia publications as an editor and a reporter. Previous to joining SourceMedia, her work appeared in publications that included the Los Angeles Times and the The Courier-News in Bridgewater, N.J.

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David Akre is a principal at Whole Loan Capital LLC and has 30 years of experience in mortgage capital markets. His areas of expertise include loan acquisition, portfolio management, loan operations and securitization. Akre previously was a managing director at mortgage real estate investment trust Five Oaks Investment Corp. He also was the co-founder, co-CEO and vice chairman of New York Mortgage Trust, and guided the REIT through the credit crisis. Prior to joining NYMT, Akre served as vice president of capital markets, bulk acquisitions and secondary marketing at Thornburg Mortgage, was a whole loan trader at Principal Life, and was a vice president at GE Capital Mortgage.

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Tim Rood is a managing director at Situs and the chairman of The Collingwood Group, a consulting and advisory services firm he co-founded in 2009. He also was the co-founder and managing director of the firm's predecessor company, Capital Financial Solutions. The Collingwood Group's primary focus is on the financial services sector, and Rood brings more than two decades of mortgage industry and entrepreneurial experience to the business as it helps organizations optimize business opportunities and manage risks in and around Washington, D.C. Rood is a regular contributor to various national media outlets including CNBC, Bloomberg Television, FOX Business News, Washington Post, New York Times, Wall Street Journal, and the American Banker.

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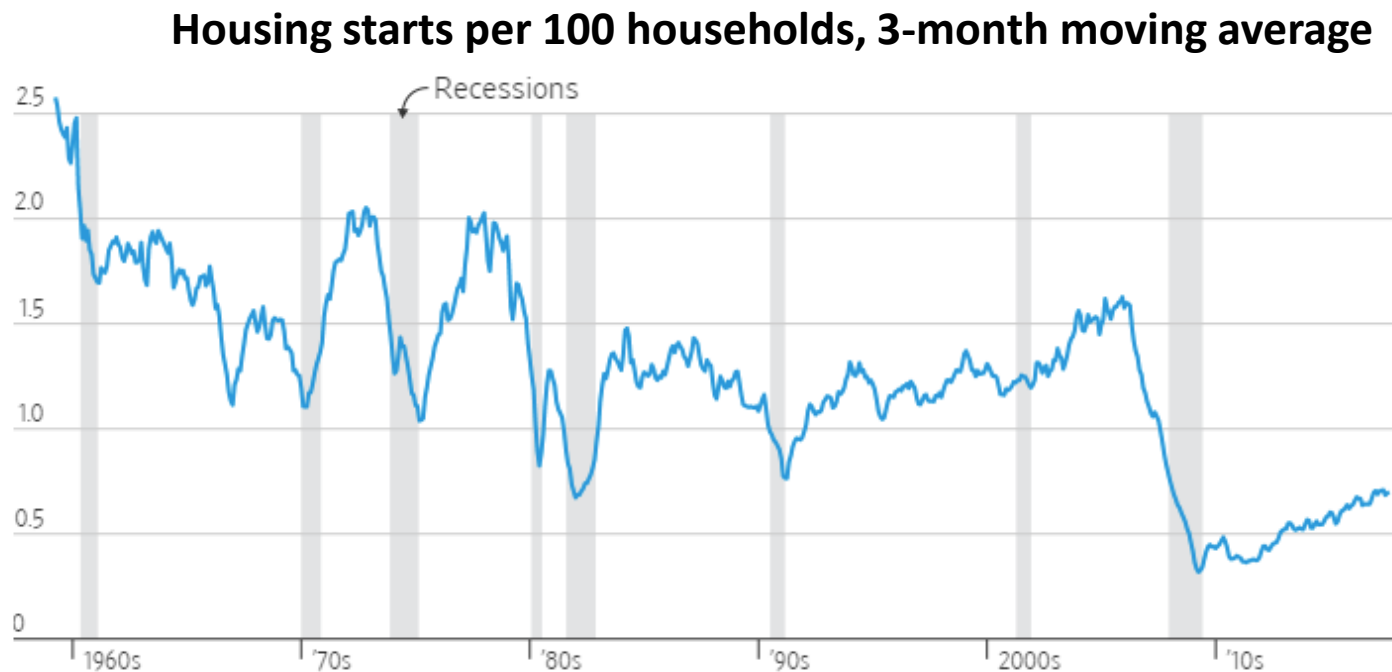


Gagan Sharma is the president and CEO of BSI Financial Services, a provider of specialty loan servicing and subservicing, servicing quality control and technology, loss mitigation, outsourcing, and REO and asset management. Prior to acquiring BSI, Sharma founded a global outsourcing company serving the financial services and technology industries. Sharma also previously was a consultant with Deloitte who advised clients on strategic and operations in the financial services and technology industries.

HOUSING BUBBLE?

Some Facts:

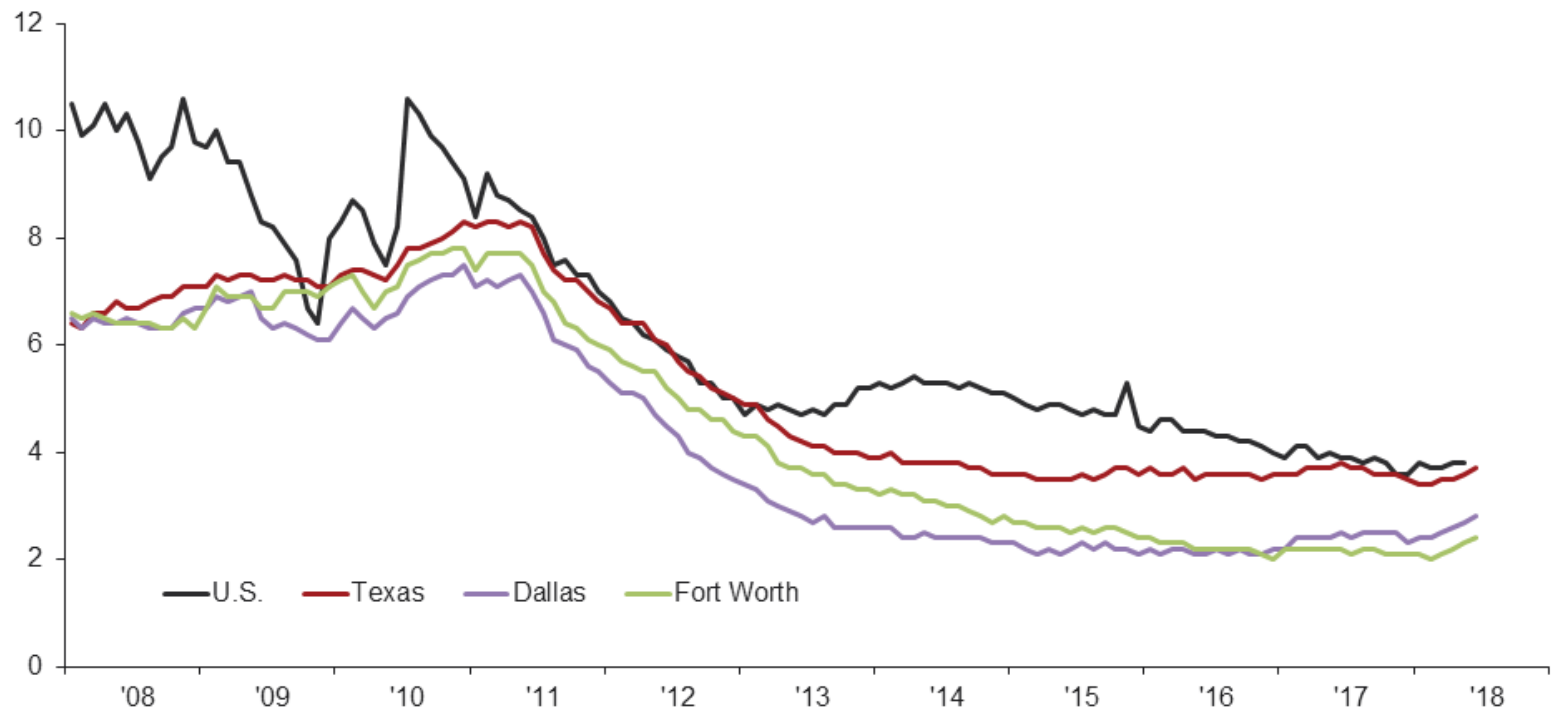
- The National Association of Home Builders estimates builders will start fewer than 900,000 new homes in 2018, less than the roughly 1.3 million homes needed to keep up with population growth.
- Factors: Labor shortage, material costs, regulations. Result:



Source: Federal Reserve Bank of Kansas City

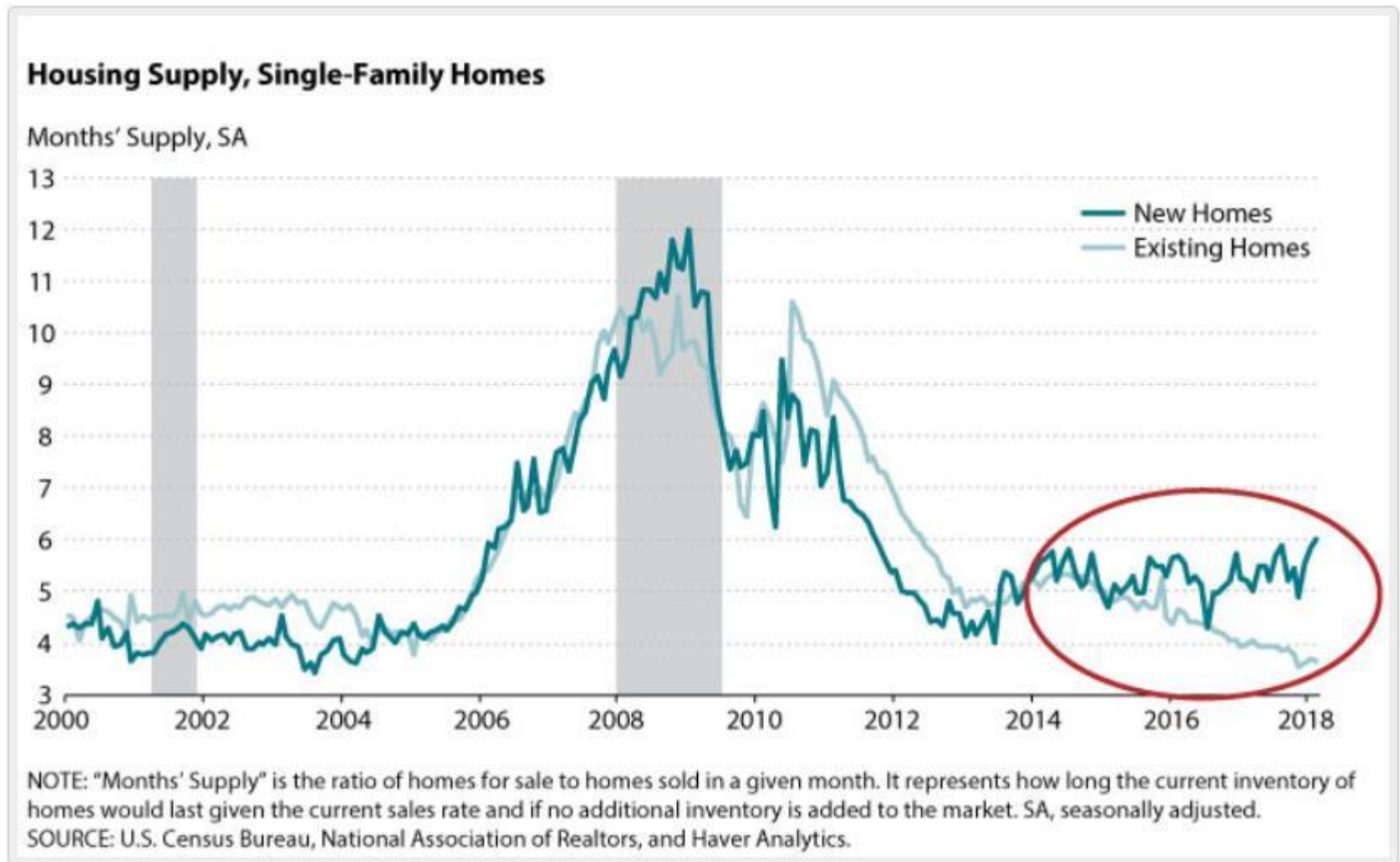
Ten Year Chart US Home Inventories

Months of inventory, seasonally adjusted



SOURCES: Real Estate Center at TexasA&M University; Multiple Listing Service; seasonal adjustments by the Dallas Fed.

Home Supply – New versus Existing





- Despite interest rate increases which elevate mortgage payments, the market as a whole remains undeterred
 - A survey conducted by Redfin recently showed that only 6 percent of those surveyed would cancel their search for a home altogether because of rising rates
- Homeownership remains very affordable by historical standards
- The main reason that the typical mortgage payment remains significantly below record levels in most of the nation is that the average mortgage rate back in June 2006 was about 6.7 percent, compared with an average mortgage rate of 4.4 percent in March 2018
- Currently, the median household can afford a house that is \$70,000 more expensive than the price of the median house sold
- Home prices have reached 2006 levels in many markets across, but this should not be a cause for concern
 - Home prices should be much higher based on inflation alone
 - CoreLogic reported last week that the inflation-adjusted median sale price in June 2006 was \$247,110 compared with \$213,400 in March 2018
- The inflation-adjusted, principal and interest mortgage payments that homebuyers have committed to this year remain much less than their pre-crisis peaks

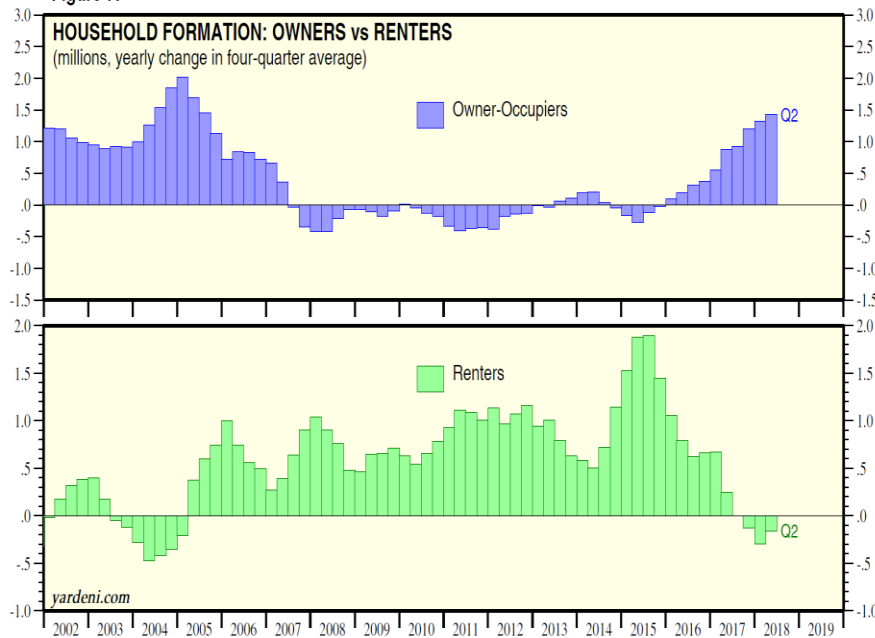


- In a healthy market there is very little relationship between mortgage rates and home sales and prices because buying a home is as much of an emotional decision as it is a financial decision
- Locally, there are areas of concern
 - Lack of building has constrained supply in a number of areas, causing prices to increase drastically
 - Some metros are rebounding from “overshooting” in the downturn of the 2008 crisis
 - International investors are buying homes in certain MSAs
 - California, Florida and Texas in particular are top destinations
 - New nontraditional investors are buying houses to rent now, altering the market
 - Particular regions which are most at risk include: California (the Bay Area in particular), Florida, Texas, Nevada (Las Vegas area), and the Pacific Northwest
 - “frothy markets”



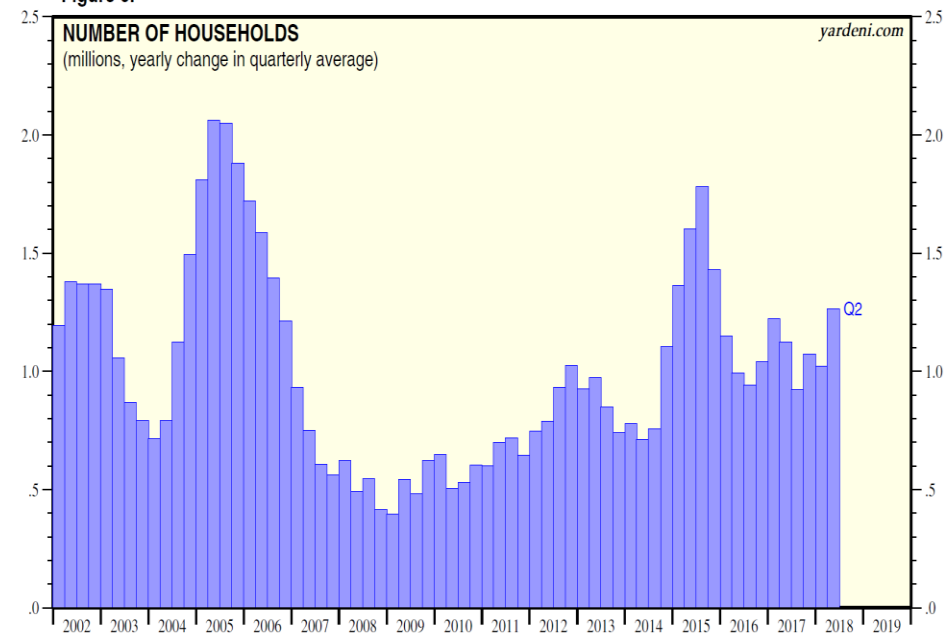
DON'T FIGHT THE TREND: 25M HOUSEHOLDS TO BE FORMED IN THE NEXT 5-8 YEARS

Figure 7.



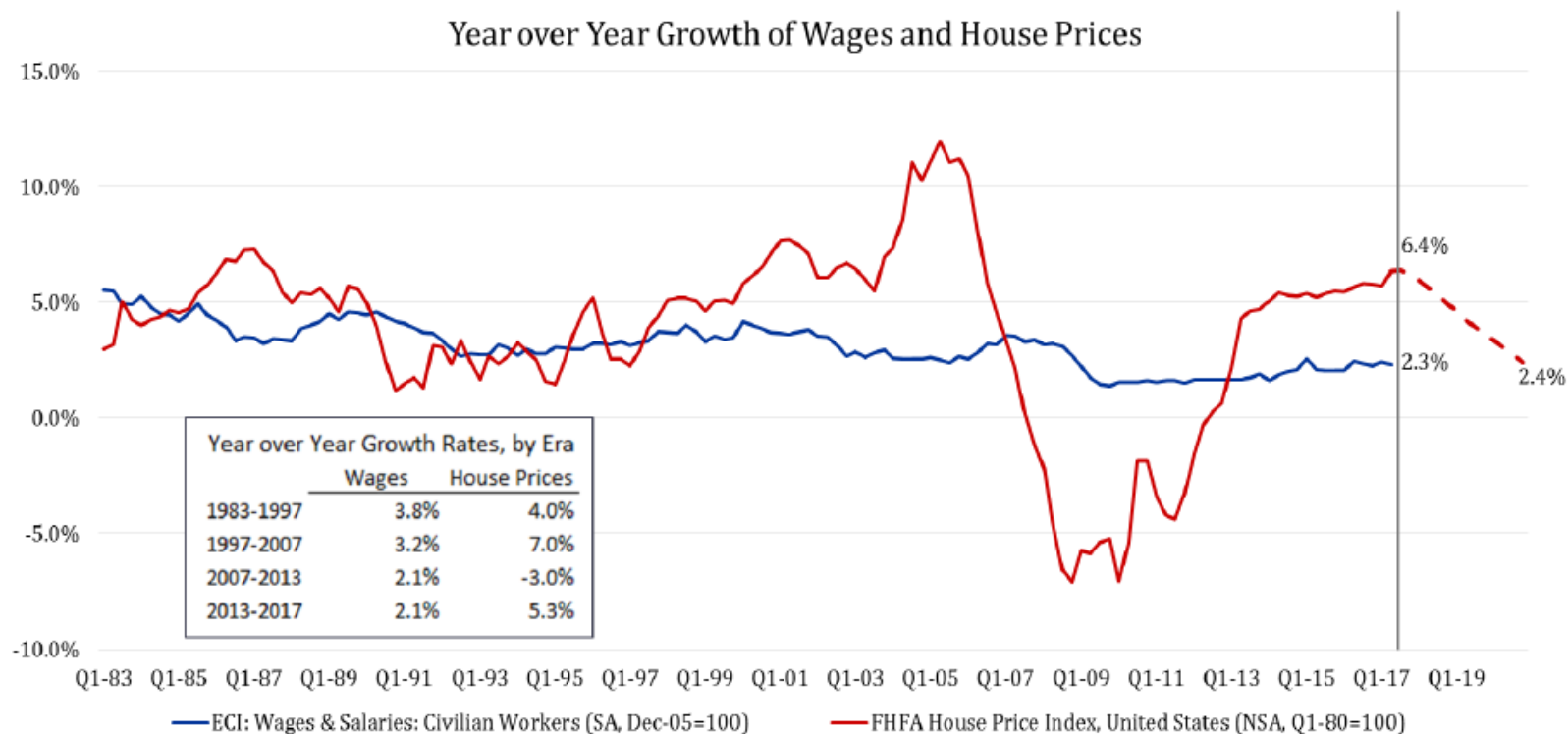
Source: Census Bureau and Haver Analytics.

Figure 6.



Source: Census Bureau.

House Price Growth Outpacing Income Growth; Price Gains to Slow





CoreLogic
HPI –
unrivalled data assets,
analytics, and model
performance

August 2018



Focused on Delivering Unique Insights

OUR VISION

Powering housing through data, analytics and connectivity.

OUR MISSION

Empower our clients to make smarter decisions through data-driven insights.



Multiple HPI/Trend Solutions to Meet Your Needs

The industry's trusted partner for Home Price Indices

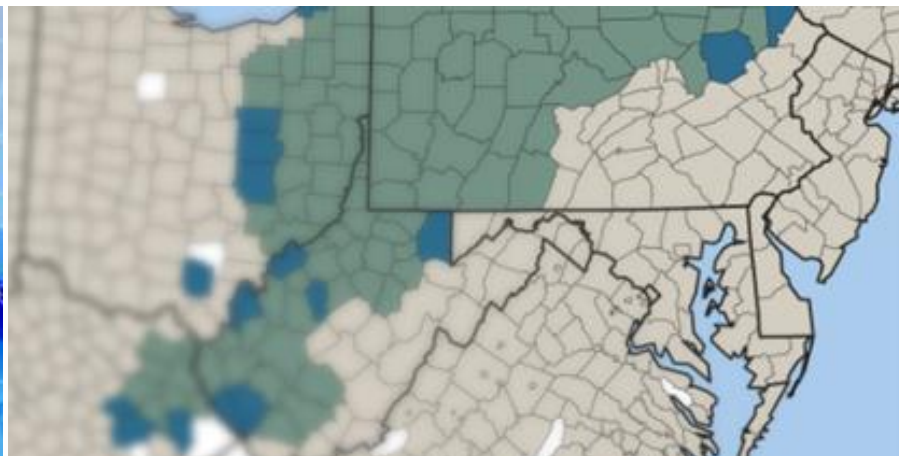
Tools that help you spot potential market downturns:

- CoreLogic HPI / HPI Forecasts
- CoreLogic Case-Shiller Indexes
- CoreLogic S&P Case-Shiller HPI
- Market Condition Indicators
- Market Trends
- Listing Trends



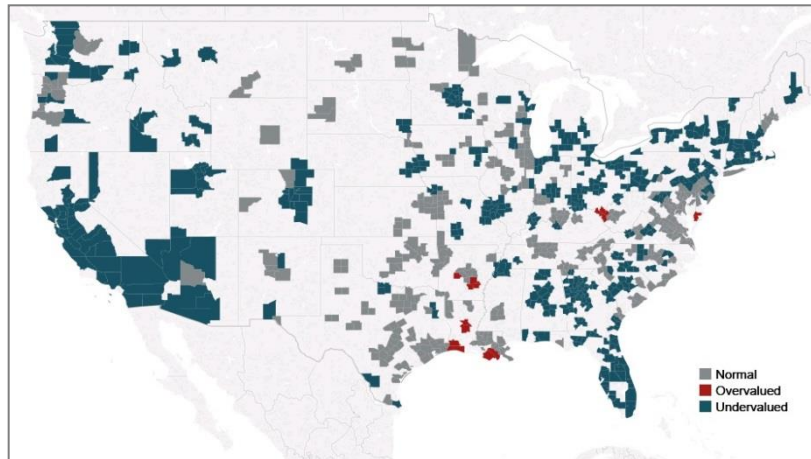
CoreLogic HPI provides

- Unrivaled data assets which provide deep, broad coverage—1,100+ counties, 937 CBSA's, non-disclosure state coverage, etc.
- Repeat sales, value weighted, econometric Index model, providing exceptional modeling performance
- *Market Condition Indicators* for understanding the health of major Metros
- Twelve tiers to analyze the data into segments such as pricing segments or attached vs. detached property types



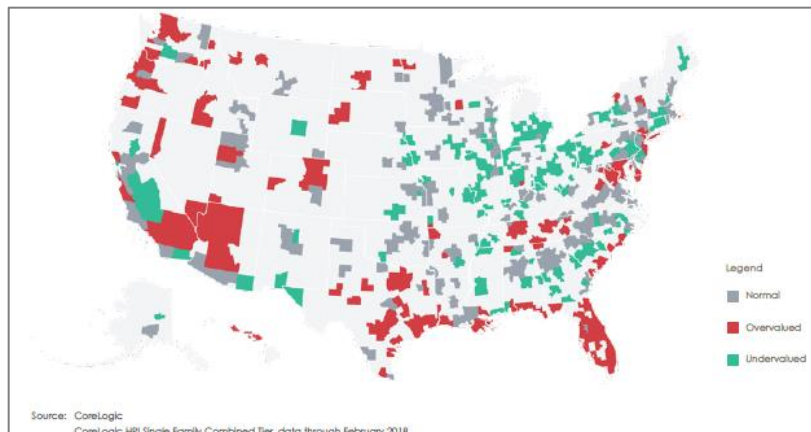
Example: Unique Market Condition Indicators provides insight into health of 390 Metros

January
2011



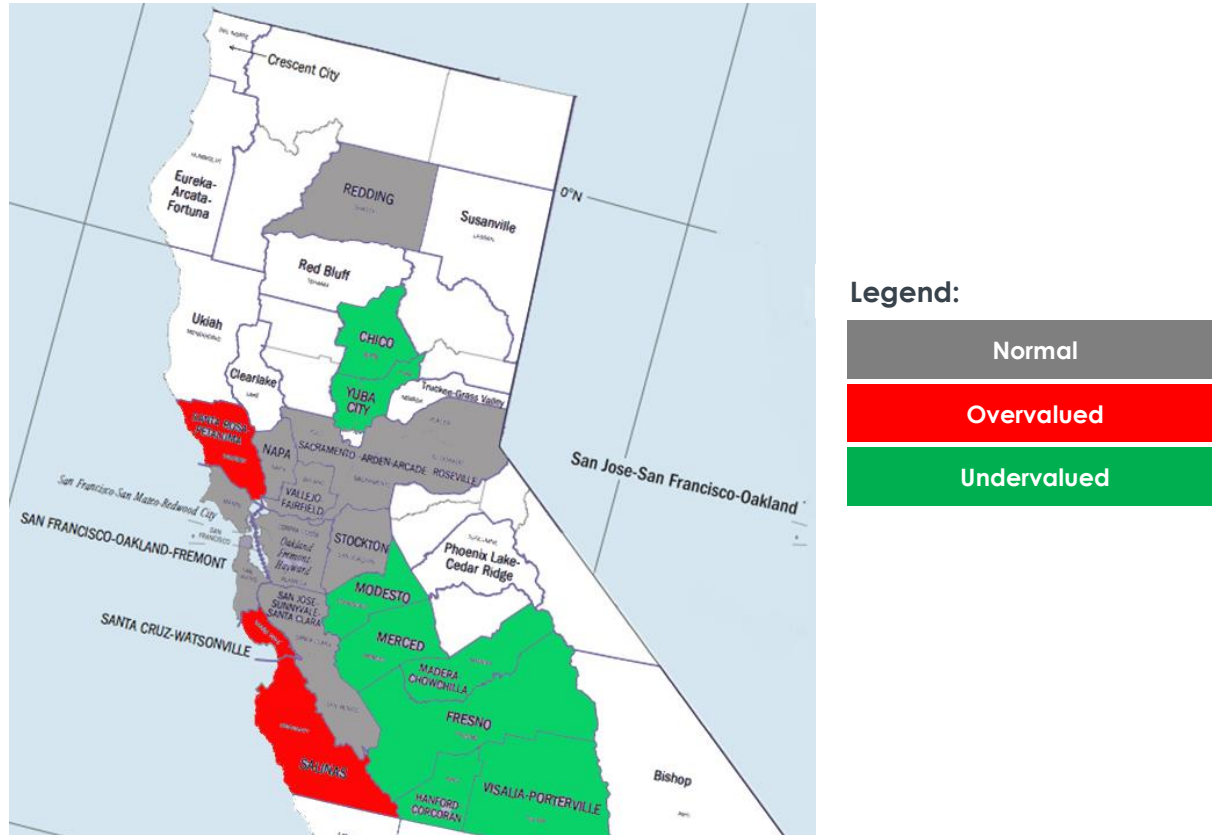
- As house prices were falling in 2011, many CBSAs became undervalued with prices more than 10% below their equilibrium levels.

January
2018



- As many markets rebounded in 2014-2018, many CBSAs have returned to normal or are now over-valued.
- At this time, 1/3 of Top 100 Metros were over-valued.

Example: Market Condition trends can be contrasted in a large region, such as Northern California



15% of Metros are Overvalued vs. 33% of the Top 100 Metros

For more
information, visit
corelogic.com/hpi

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Thank you!
Any questions?

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