



DFW Real Estate

Forecast 2008

Team Hodnett

Hexter-Fair Title Company

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1/22: Fed's Emergency Rate Cut

- ❑ Cut Fed Funds Rate and Discount Rate by 75 basis points, hoping to prevent a market meltdown and prevent a recession
 - ❑ The FOMC rarely adjusts rates between their formal meeting dates
- ❑ Rationale: "...incoming information indicates a deepening of the housing contraction as well as some softening in labor markets."
- ❑ Does not mean the Fed won't cut rates further at their formal meeting on 1/30/08
- ❑ Fed Funds futures data point to additional cuts moving forward



The “R-Word”

- Difference between a “recession” and a “depression”
 - A “recession” is commonly defined as a decline in GDP for 2 or more consecutive quarters
 - Others factor in payrolls, income growth, industrial production, and business sales data
 - Are we heading into a recession?
 - 50/50 chance
 - Does it matter?
 - No - it is irrelevant whether it technically happens or not
 - Focus for real estate professionals should be on local economic drivers
- 



Current Mortgage Environment

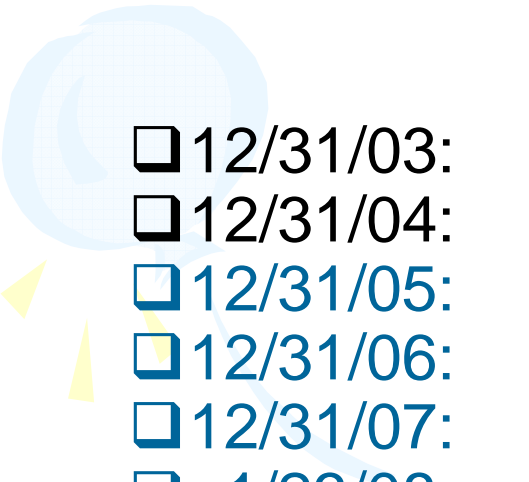
- ❑ Fifteen years ago, borrowers needed 3 things to obtain a mortgage: (1) a job, (2) good credit, and (3) a down payment
- ❑ Over time, the overly competitive lending environment eroded each of these requirements in the guise of “progress”, and in the process, added 100% financing, “interest only”, and negative amortization
- ❑ Current market is simply correcting itself to look more like it did fifteen years ago
 - ❑ Reduces the number of qualified borrowers, especially in the Entry Level category





Mortgage Rate History

☐ Rate data from Mortgage Bankers Association



	<u>1-Yr ARM</u>	<u>30-Yr Fixed</u>	<u>Spread</u>
☐ 12/31/03:	3.40%	5.73%	233 b.p.
☐ 12/31/04:	4.05%	5.72%	167 b.p.
☐ 12/31/05:	5.36%	6.21%	85 b.p.
☐ 12/31/06:	5.87%	6.12%	25 b.p.
☐ 12/31/07:	6.03%	6.10%	7 b.p.
☐ 1/23/08:	5.51%	5.49%	-2 b.p.



Current Treasury Bond Yields

☐ Treasury yield data from www.USTreas.gov:

1/25/08

☐ 1-year: **2.34%**

☐ 5-year: **2.81%**

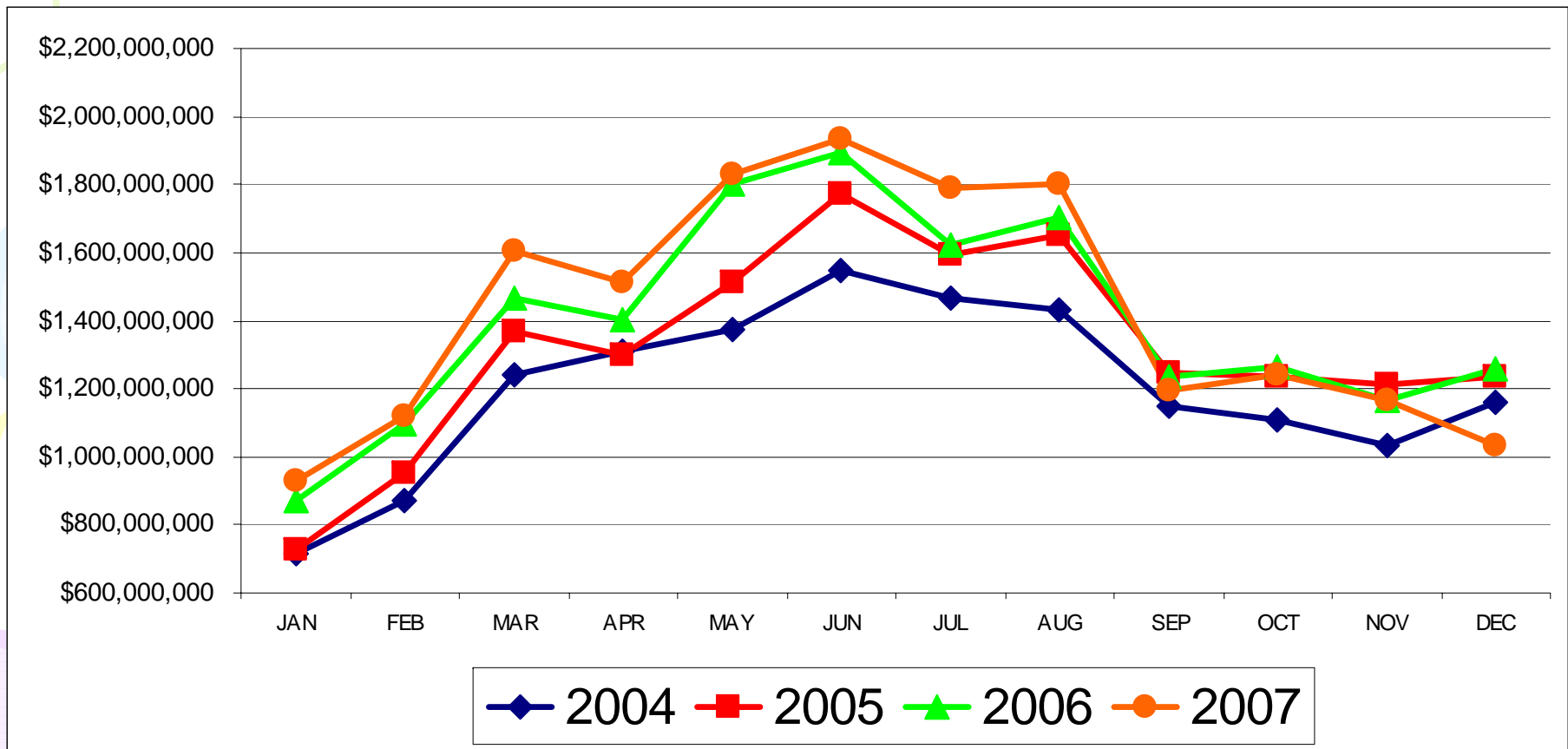
☐ 10-year: **3.61%**

☐ 30-year: **4.28%**

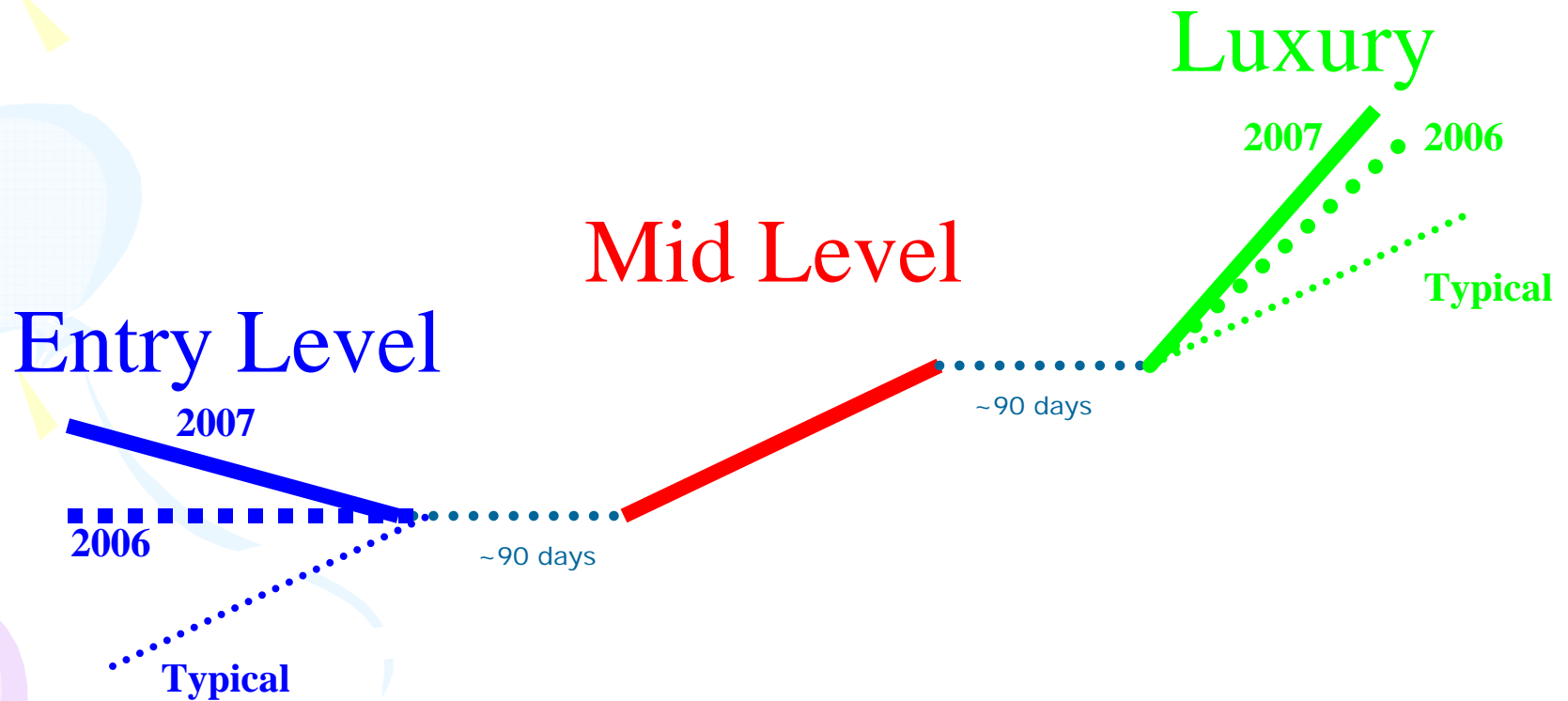
☐ Inverted mortgage yield curves in 9/07, 12/07 and 1/08 are basically a mortgage phenomenon

☐ Unlikely to be an indicator of looming recession

NTREIS Dollar Volume Since 2004



Overall Market Status – 2007



Relative Strength in High End: DFW Data YTD Dec'07 (page 1)

Sale Price Range	# Sales (12 mos 2007)	% Change vs. Prior Year
\$1 to \$19,999	498	25%
\$20,000 to \$29,999	847	-6%
\$30,000 to \$39,999	1,232	-6%
\$40,000 to \$49,999	1,729	4%
\$50,000 to \$59,999	1,988	6%
\$60,000 to \$69,999	2,396	-2%
\$70,000 to \$79,999	3,077	1%
\$80,000 to \$89,999	3,841	-6%
\$90,000 to \$99,999	4,016	-10%
\$100,000 to \$109,999	4,205	-9%
\$110,000 to \$119,999	4,976	-13%
\$120,000 to \$129,999	5,343	-15%
\$130,000 to \$139,999	4,959	-18%
\$140,000 to \$149,999	4,361	-17%



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Relative Strength in High End: DFW Data YTD Dec'07 (page 2)

Sale Price Range	# Sales (12 mos 2007)	% Change vs. Prior Year
\$150,000 to \$159,999	4,101	-12%
\$160,000 to \$169,999	3,863	-13%
\$170,000 to \$179,999	3,379	-16%
\$180,000 to \$189,999	2,795	-15%
\$190,000 to \$199,999	2,345	-11%
\$200,000 to \$249,999	8,477	-7%
\$250,000 to \$299,999	5,375	-6%
\$300,000 to \$399,999	5,896	2%
\$400,000 to \$499,999	2,605	3%
\$500,000 to \$599,999	1,217	6%
\$600,000 to \$699,999	789	5%
\$700,000 to \$799,999	546	14%
\$800,000 to \$899,999	353	2%
\$900,000 to \$999,999	229	8%
\$1,000,000 and more	919	16%
Total	86,356	-8%





Strong DFW economy boosts high end

- ❑ Strong diversified local economy
 - ❑ Advanced services, technology, transportation and trade
- ❑ Continuing corporate relocations (Comerica, Research in Motion, etc.)
- ❑ More individuals moving to DFW
- ❑ Oil and gas industry, especially in the Barnett Shale!

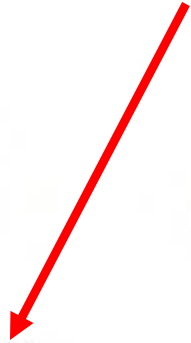
Higher-priced neighborhoods outperforming YTD 2007 NTREIS YTD Data: December '07

	# of Sales	% Change vs. Prior Year	Average Sale Price	% Change vs. Prior Year	Average Days on Market	% Change vs. Prior Year
Denton County S	4425	-10%	\$249,642	7%	59	2%
Denton County N	2921	-8%	\$159,054	4%	77	5%
Carrollton/F.Branch	1843	-17%	\$180,321	1%	55	2%
Colleyville	461	-6%	\$532,121	10%	60	0%
Southlake	598	-4%	\$617,127	7%	71	-6%
Coppell	657	-36%	\$293,038	9%	48	0%
Irving	1394	1%	\$192,202	3%	69	-5%
Grapevine	570	-14%	\$240,200	5%	45	0%
Bedford	570	-7%	\$166,403	2%	50	-11%
Euless	524	-18%	\$154,325	0%	55	0%
Hurst	600	-16%	\$154,042	4%	59	-11%
Keller	921	-13%	\$324,883	9%	64	5%
N.Richland Hills	903	-11%	\$166,093	0%	65	15%



NTREIS Data – “Reporting” Flaw?

Is this stat
correct?



dallasnews.com
The Dallas Morning News



Dallas-Fort Worth home sales down 25 percent

Median prices in area also declined in December



02:57 PM CST on Monday, January 7, 2008

A decorative graphic on the left side of the slide features a green sun at the top, a blue balloon in the middle, and a purple balloon at the bottom, all with yellow streamers and rays.

NTREIS Data – “Reporting” Flaw?

- Local media are making the mistake of comparing “preliminary” reported sales of current month to “revised” sales figures from a year earlier
 - Dec’07 sales as originally reported: 5,257
 - Dec’06 sales as originally reported: **6,333**
 - Dec’07 declined 17% in volume when compared apples-to-apples with Dec’06
 - Dec’06 sales when revised to include late reporting: **6,990**
 - Comparing this 6,990 to 5,257, you can calculate 25% decline



PMI U.S. Market Risk Index: DFW steady despite US uncertainty

- ❑ On 1/15/08, The PMI Group released a study which measures the riskiness of the 50 largest MSAs in the US
 - ❑ Risk measured as the % chance that home prices will be lower in 2 years
 - ❑ The four markets with the **highest risk**:
 1. Riverside, CA: 94% chance of price decline
 2. Las Vegas, NV: 89% chance of price decline
 3. Phoenix, AZ : 83% chance of price decline
 4. Santa Ana, CA: 81% chance of price decline



PMI U.S. Market Risk Index, continued: DFW steady despite US uncertainty

- ❑ The four MSAs with the **lowest risk** of a price decline in the next two years:
 - 47. Houston-Sugar Land-Baytown: <1% chance
 - 48. Pittsburgh, PA: <1% chance
 - 49. Fort Worth-Arlington: <1% chance**
 - 50. Dallas-Plano-Irving: <1% chance**



Moody's Economy.com forecast Sep'07

Metroplex housing to fare much better than rest of US

- ❑ Forecast predicts over three-fourths of US housing markets to suffer drops in prices, with an aggregate decline of 8% expected in home prices
- ❑ Dallas area is forecast to buck the trend, with continued increases of 3% price appreciation expected
- ❑ Fort Worth predicted to see about a 2% drop in prices
- ❑ Two primary reasons for Metroplex outperformance:
 - ❑ Local economy is doing much better than national economy
 - ❑ Did not see a big run up in home prices, so only negatives are in sub-prime (mostly below \$200,000)



Comparing Home Prices

DFW housing remains cheap versus the rest of US

- Avg price of 2,200 s.f., 4 bedrooms, 2.5 baths, with a family room and 2-car garage

Highest Prices

Beverly Hills, CA	\$ 2,206,883
Greenwich, CT	\$ 2,018,750
La Jolla, CA	\$ 1,800,000
Santa Monica, CA	\$ 1,785,000
Palo Alto, CA	\$ 1,677,000

Most Affordable

Killeen, TX	\$ 136,725
Minot, ND	\$ 139,033
Arlington, TX	\$ 139,175
Canton, OH	\$ 146,333
Muncie, IN	\$ 150,000

Other Texas Cities

Austin	\$ 243,250
Corpus Christi	\$ 183,625
Dallas	\$ 302,198
El Paso	\$ 229,306
Fort Worth	\$ 151,250
Houston	\$ 169,736
Plano	\$ 204,144
San Antonio	\$ 258,166

DFW Population Growth

DFW Moves Up to 4th Largest!

<u>Rank</u>	<u>MSA</u>	<u>Jul-2006 Est</u>	<u>U.S. Census Bureau Estimates</u>		
			<u>Jul-05</u>	<u>Jul-00</u>	<u>CAGR</u>
1	New York	18,825,933	18,747,320	18,359,151	0.42%
2	Los Angeles	13,030,242	12,923,547	12,403,036	0.83%
3	Chicago	9,509,448	9,443,356	9,119,722	0.70%
4	Dallas/Fort Worth	5,952,784	5,819,475	5,196,397	2.29%
5	Philadelphia	5,849,511	5,823,233	5,693,604	0.45%

Source: Greater Dallas Chamber

Note: CAGR = Compound Annual Growth Rate calculated from July 1, 2000 through July 1, 2005.

DFW Population Growth Economy.com Near-Term Forecast

<u>Rank</u>	<u>MSA</u>	<u>Pop.Change 2006-2011</u>
1	DFW	631,400
2	Houston	592,200
3	Riverside (CA)	580,300
4	Atlanta	564,800
5	Miami	521,300

Source: Greater Dallas Chamber



DFW Metro 2007

- Is the largest metro area in Texas & 4th largest in the US (6 million people)
- Has Texas' largest, most educated workforce (3 million workers)
- Produces one-third of all goods and services in Texas
- Leads Texas in public university & community college students (250k students)
- Approaches \$60 billion annually in direct imports and exports
- Adds 200 net new jobs and 370 residents every day

Source: Greater Dallas Chamber

Crystal Ball: Economy's Next 6 Mos.

- ❑ FOMC
 - ❑ Likely to have to continue cutting Fed Funds Rate – next scheduled FOMC meeting is 1/30/08
- ❑ Upcoming “Freeze” on ~1 Million Resets
 - ❑ Will slow foreclosures, improve liquidity, and stimulate retail spending
- ❑ Congress and the Bush administration likely to implement an economic stimulus package before the end of 1Q 2008
 - ❑ Increasing “Jumbo” definition to as high as \$729k
 - ❑ Tax rebate stimulus checks expected this summer
- ❑ Improving the element of “certainty” of the extent of the mortgage mess
 - ❑ B of A buying Countrywide was first big private ‘vote of confidence’
 - ❑ Citi and Merrill Lynch have “refinanced” themselves!



Crystal Ball: Housing's Next 6 Mos.

The "Fall Fall"

- Began on Labor Day weekend and continues for a few more days
- Uncertainty in mortgage/bond market will continue for the next few months
- Though closings are slow, now is the perfect time to be 'sowing seeds'

The Spring Thaw

- Sales activity will once again pick up in mid-February
 - Mortgage/bond market likely to rebound somewhat by late spring
- New home construction unlikely to resume until late 2008 at earliest

Real Estate is Like the Weather

- People don't ask "How's the weather in the US?" - Instead, they really need to determine the weather in a given market of interest
- People should do the same with housing