

REALTORS® CONFIDENCE INDEX

December 2011

Data gathered December 27– January 5, 2012



REALTORS® CONFIDENCE INDEX

December 2011

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REALTORS® Confidence Index Highlights

The REALTORS® Confidence Index measures the strength of the current housing market and expectations about the future. The index is based on information received from a random survey of Realtors®. The questions are designed to capture the effects of existing economic conditions and trends on the real estate business. This index provides Realtors® a snapshot of the experiences, sentiments and expectations of their counterparts.

Each month participants respond to questions regarding the current and expected demand for homes, price trends, and economic conditions. The answers are then quantified and used to create the confidence index. Responses are assigned weights of 0, 50 or 100. A response of “strong” gets 100 points, while “moderate” is given 50 points, and “weak” is assigned 0 points. The index provides the average score for each question.

The results below reflect respondents’ confidence level as of **December 2011** and their future expectations, compared with both the previous month and the same month last year. The sample size for the monthly reports varies depending upon the number of responses, but the sample is always well in excess of the number of responses needed for a plus or minus 1 percent precision. The current month’s report is based on **3,067** Realtor® responses.

Current Month’s Reading: The REALTORS® Confidence Index for single-family home sales as reported in the December report increased to 31.6 from last month’s level 30.4. The index was higher compared to last year’s conditions, when it registered at 24.5. The Index for town-houses was 18.5 in December slightly down from last month’s 18.7. The index for condo also decreased to 14.3 from November’s 15.3. Both of Town-house index and condo index registered at higher values compared to last year’s 12.6 and 10.3, respectively.

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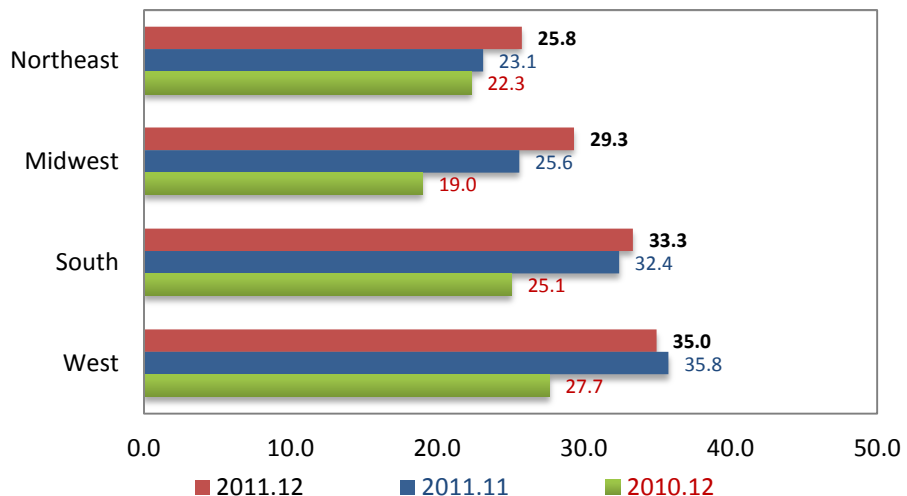
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PART I – Survey Results

Realtor® Confidence Index



REALTORS® Confidence Index by Region

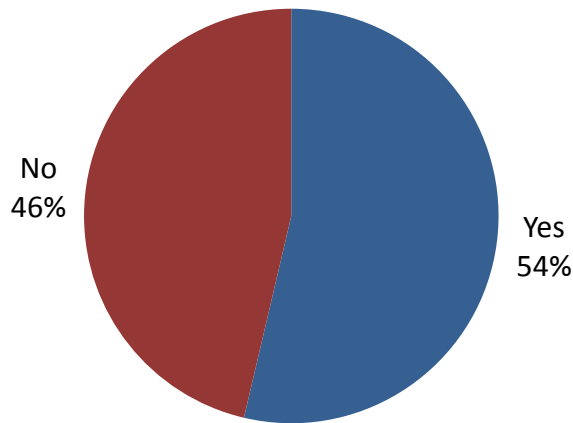


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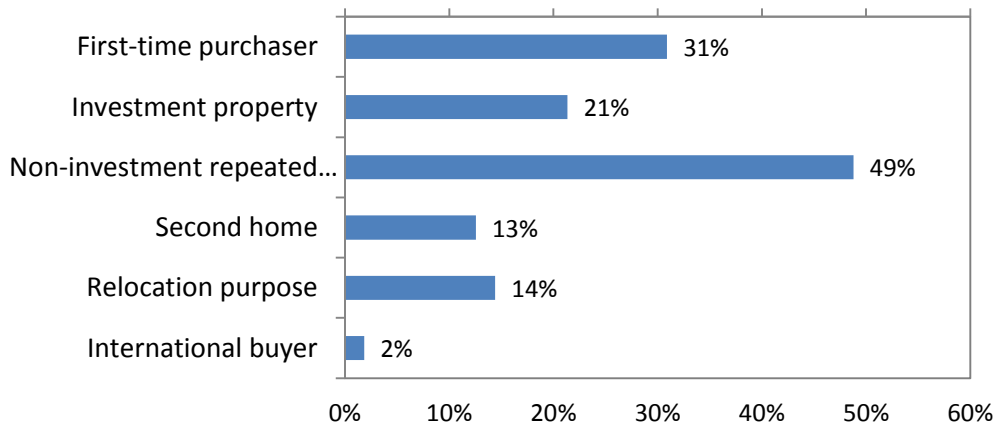
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PART I – Survey Results

Sales Completion



Buyer Characteristics

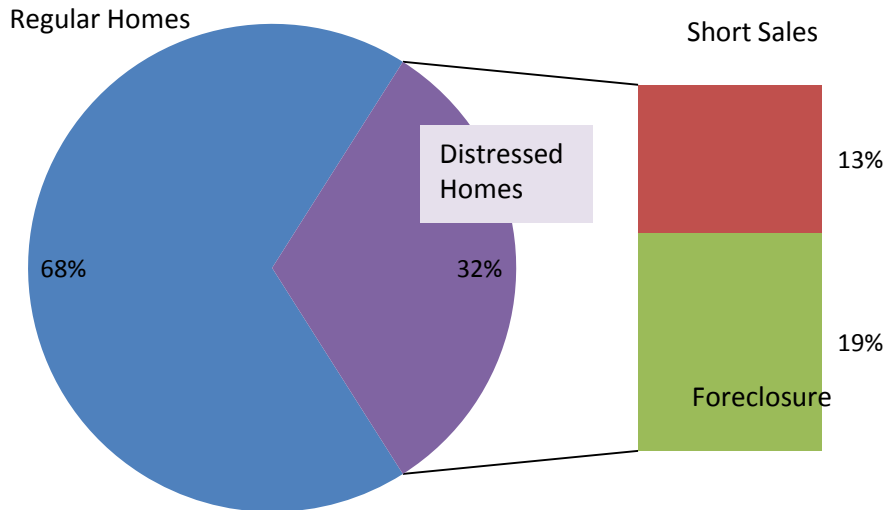


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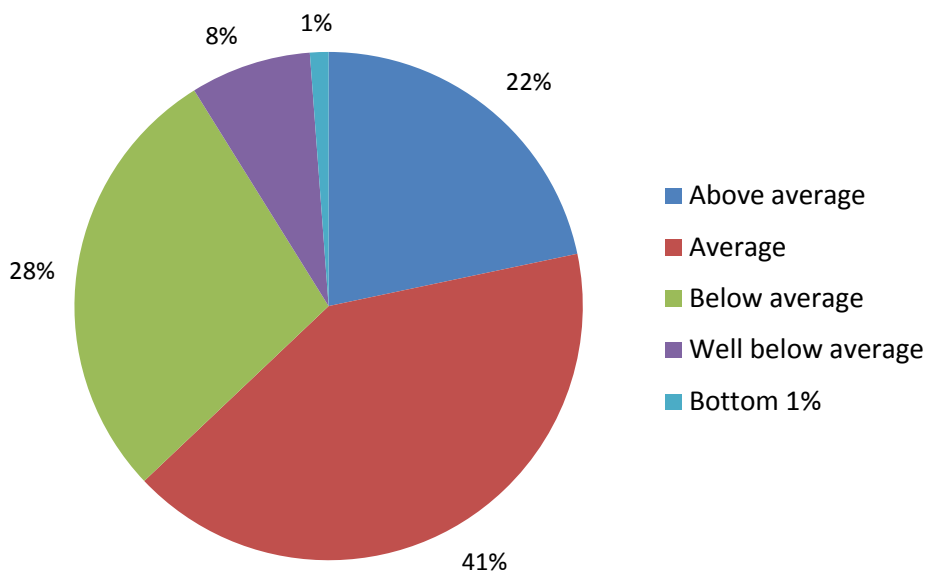
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PART I – Survey Results

Distressed Home Sales



House Condition of Distressed Sales

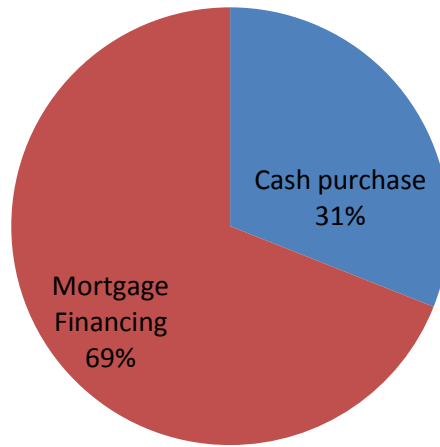


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PART I – Survey Results

Financing



If the buyer obtained a loan, what percent was the down payment?

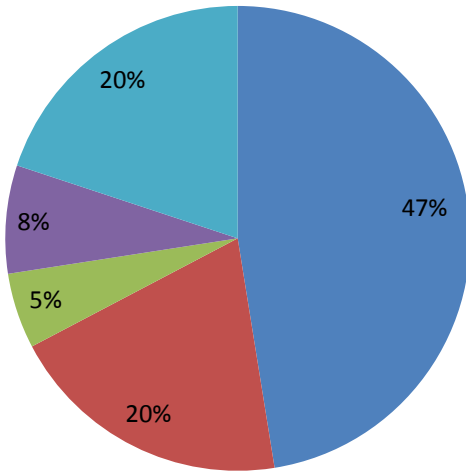
Buyer did not make a downpayment	19%
Buyer made a downpayment of 1% to 2%	3%
Buyer made a downpayment of 3% to 6%	30%
Buyer made a downpayment of 7% to 10%	8%
Buyer made a downpayment of 11% to 19%	5%
Buyer made a downpayment of 20% to 99%	36%

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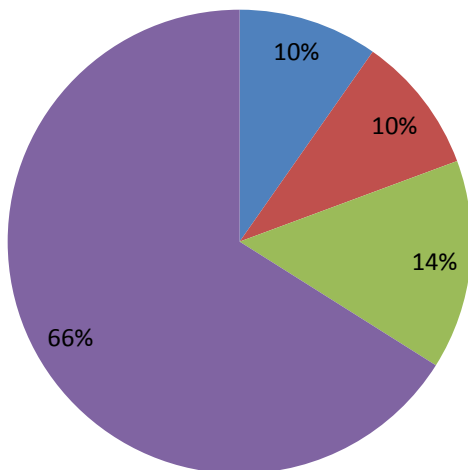
PART I – Survey Results

Did you have any problems in your last sales contract?



- Contract went through to settlement on time
- Contract was delayed a month or more but eventually went to settlement
- Contract did not go to settlement due to HVCC/home valuation problems
- Contract did not go to settlement due to proposed buyer's financial inability to get a mortgage
- Contract did not go to settlement due to other problems

Did you have any problems in your pending contracts related to the appraisal?



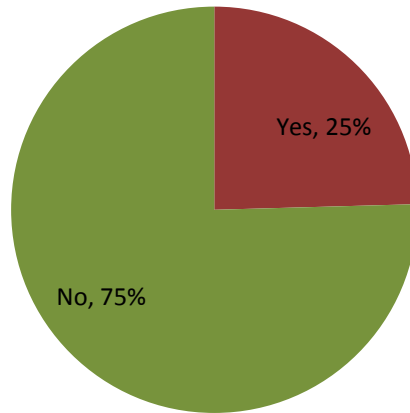
- Had a contract cancelled as a result of a low appraisal
- Had a contract delayed as a result of a low appraisal
- Had a contract negotiated to a lower sales price as a result of a low appraisal
- Did not have an appraisal problem

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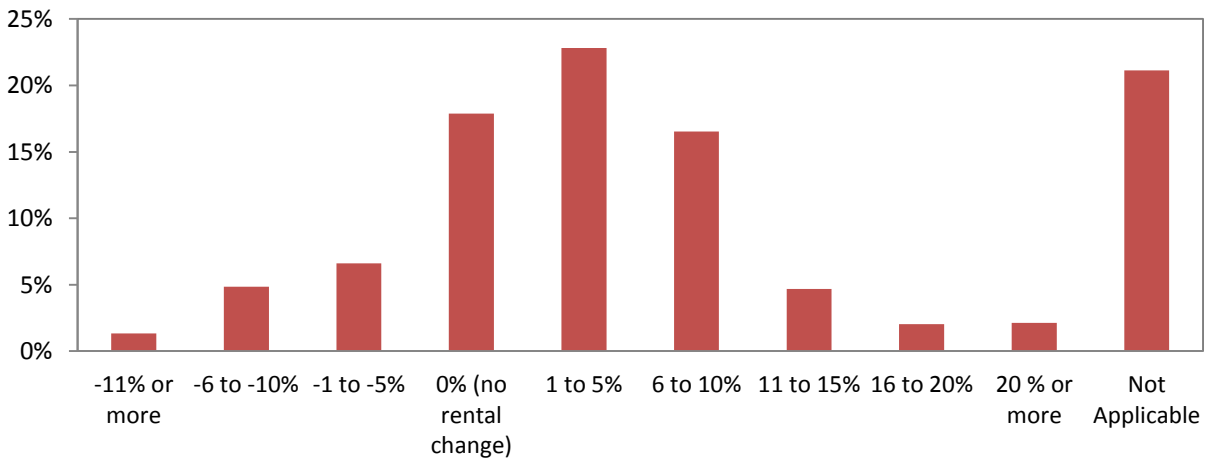
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PART I – Survey Results

Did you conduct a home/apartment rental this month?



Monthly Rental Rate Trend Compared to One Year Ago

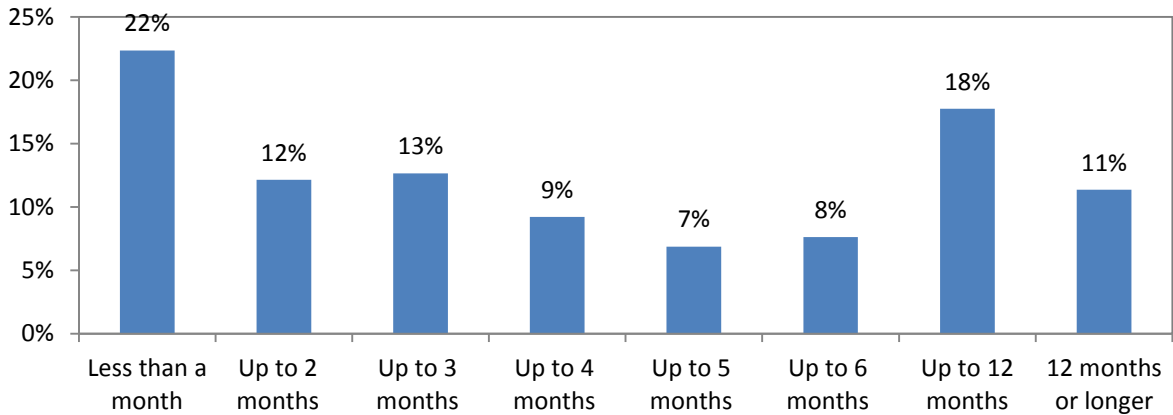


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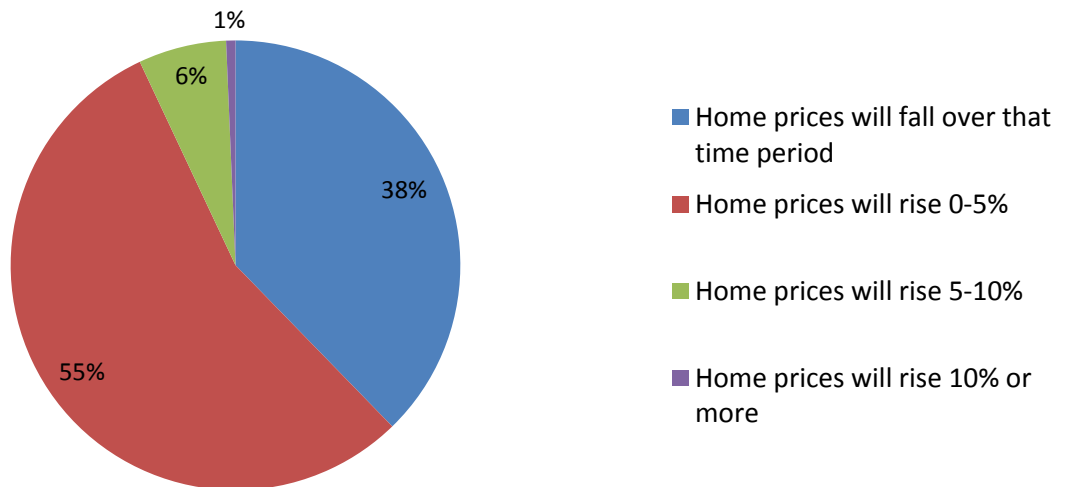
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PART I – Survey Results

Day on the market for the last sold property



Expectations of home prices over the next year



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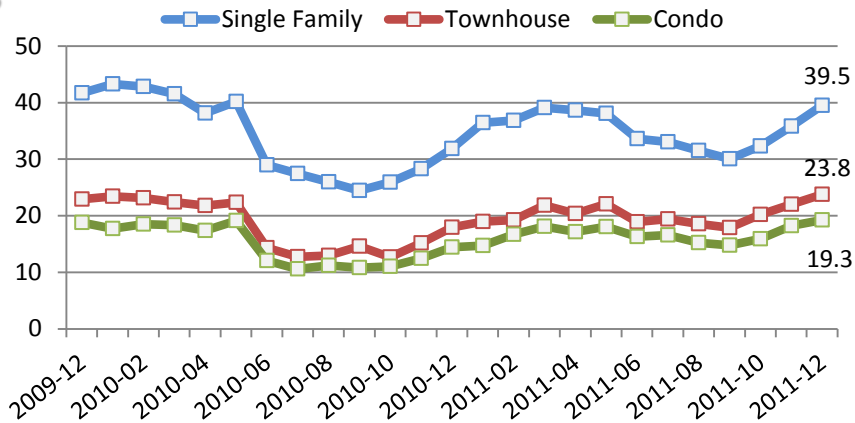
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PART II – Market Trends

Expected Market Outlook for Single Family, Townhouse, and Condo Sales

In the December survey, Realtor® market expectation for single-family homes was jumped to 39.5 from 35.8 at the last month's level. In addition, both indices for townhomes and condos registered higher at 23.8 and 19.3 respectively. All three sectors were higher than last year's levels. A level of 50 represents "moderate confidence" in the outlook. Confidence is still under the 50 midpoint level in all cases.

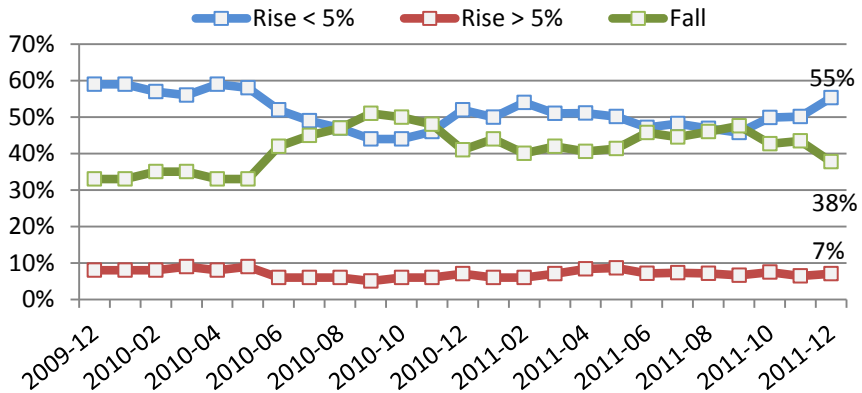
Confidence Level in Expected Outlook



Price Expectations – Next Twelve Months

In the December survey, 55 percent of Realtors® expected that home prices will rise in the next 12 months, up from 50 percent in November. 7 percent of Realtors® expected prices will rise 5 percent of more for the forthcoming year, which is slightly higher than last month's 6%. Finally, 38 percent expected the price will fall whereas 43 percent expected price fall in November.

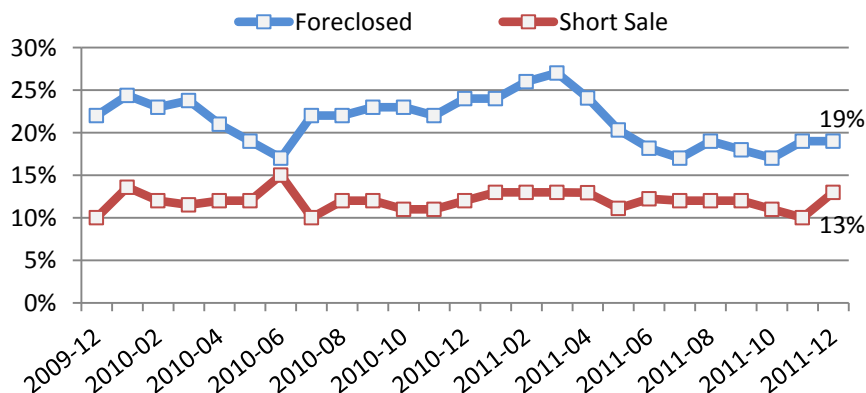
Price Expectations



Distressed Properties : Foreclosures and Short Sales

The current Survey reports that total distressed property sales (foreclosures plus short sales) trended upward to 32 percent of total sales from 29 percent in November 2011. While foreclosure property sales remain the same at 19% , short sales increased to 13% from 10%.

Distressed Sales Share



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PART III – Economic Commentary

On the Way to a Win

By Lawrence Yun, Chief Economist, NAR Research

Happy new year. My new year's greeting to you contains a significant amount of good news. Just briefly, let's look at the recent statistics for housing. Existing home sales in December were up from a year ago. Pending sales – that is, contract signings – were 5 percent ahead of a year ago. Housing inventory – the number of homes available for sale – has declined (both for existing and newly built homes). Housing affordability continues at record high levels.

There is other good news, and that has to do with home buyers who purchased homes a few years ago. Those households who purchased homes during 2009 have become one of the most successful groups of homeowners. Their mortgage default rates have been exceptionally low. I'll discuss this more later in this article.

But there is also some not so good news. Loan qualifications have become so strict since 2009 that only those borrowers with super-high credit scores and spotless credit history are able to obtain mortgages. A good chunk of middle-class borrowers have therefore been shut out of the market. Results published in NAR's latest Member Profile (2011) show that one third of REALTORS® indicated the most important factor in limiting their clients' ability to buy a home was difficulty in obtaining a mortgage. The National Association of REALTORS® is not the only organization saying that. Others agree and recently we've seen other evidence to show that lending is just way too tight.

Earlier this month, the Federal Reserve Board issued a white paper explicitly emphasizing the need to 'remove some of the obstacles preventing creditworthy borrowers from accessing mortgage credit' in order to upgrade the economic growth prospects.* In the paper, the Fed also calls for increased lending to creditworthy home buyers and more loan modifications, mortgage refinancing, and short sales to reduce the rising inventory of foreclosed homes and help stabilize and revitalize the housing industry. This approach has long been recommended by NAR to help spur the housing market recovery.

Let's also look at some of the recent data. Consider the following loan performance after one year from the time of origination on Fannie Mae and Freddie Mac backed mortgages. Loan default rates were 0.3 to 0.4 percent in the more "normal" housing years of 2002 and 2003 – before the housing boom, before all those exotic mortgage products (subprime, no-doc loans) and well before the developments of any housing bubble. In the immediate years after the bubble burst – 2007 and 2008 – default rates rose to 2 and 3 percent.

Now examine the performance for those loans originated in 2009 and 2010. The default rates came in at 0.1 and 0.2 percent after one year of seasoning. Those are exceptionally low figures – in fact, even lower than those for the normal housing years. The data for 2011 is not yet available, but several indications point towards possibly an even better loan performance than we saw in 2009 and 2010. While the headline mortgage default data are driven by the souring loans from the bubble years, *the default rates among recent borrowers have been at historic lows*. Banks and the regulators need to understand this important distinction and permit more loans to flow into the market.

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PART III – Economic Commentary (Continued)

My estimation based on credit scores of those who are being approved for mortgages today versus those who were approved 10 years ago suggests that home sales could easily rise by 15 to 20 percent if the underwriting standards were to go back to normal. That would be a sizable gain in home sales and would result in a commensurate decline in inventory. A decline in inventory and increased sales would help bolster home price appreciation. If underwriting standards return to normal, the housing market will approach a more normal state as well.

A normal housing market would help fuel a continuing economic recovery, help bolster household wealth, spur consumer spending, spawn more job creation (thus providing more fuel to the economy). It would, in effect, be a win-win situation. This is what we aim for. This is what we hope for. This is what NAR continues to work towards for its members and America's homeowners.

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PART IV – Selected Comments

December Realtors® Confidence Index: Comments from Realtors®

By Jed Smith, Managing Director, Quantitative Research

Introduction

The *Realtors® Confidence Index* is based on a survey of approximately 3,000 respondents on a monthly basis. The survey asks respondents for information about the state of the real estate markets, current issues, and the outlook for the next 12 months. In many cases Realtors® provide extended comments concerning issues of particular interest to them. Many of this month's comments focused on financial markets, market conditions, and the outlook:

Financial markets: Loan availability, borrower requirements, and risk concerns by lenders continue to be much tighter than appear to be justified.

Market Conditions: Realtors® noted that buyers are slow to make decisions unless properties are priced at aggressively low levels. In addition, many respondents reported major challenges in working with appraisals and loan originators.

Outlook: In general, Realtors® noted that current market conditions are very difficult. However, a few respondents noted that there has been some improvement in recent months in the market outlook.

The Confidence Index has turned up somewhat, indicating that the predicted market recovery may be on its way.

A review of the survey data and comments this month leads to the conclusion that the real estate markets appear to have started a gradual turn for the better. This is consistent with this month's Existing Home Sales information, which shows that sales are starting to turn upwards, inventories are down, and months of supply are essentially at the level where prices stabilize and start to increase. However, this month also recorded an overall 2.5 percent decrease in price at the national level—a relatively small decline relative to previous months, but still no price recovery.

Loans and Appraisals

- Lender requirements are become tougher and tougher. I had a client putting 35% down on a \$120,000 with 2 years of reserves, good credit score and still could not get approved. There was very little risk with this loan and yet no lender would approve. Are lenders now expecting no risk when they lend?
- The lenders and appraisers are very hard to work with on the foreclosed homes. They pick them to pieces. Appraisers especially flag everything they can so they can charge an extra fee to go back and check the property again. This is very hard on a young buyer to have to pay these fees.
- Appraisers are now acting like home inspectors. Appraiser comments are causing underwriters to delay loan processing. Lenders are requiring 45-60 days to process loans. Sellers are hesitant to take any contracts except for cash buyers. HUD foreclosures are using unrealistic procedures to process contracts...everything must be perfect or you have to start process over.....of course this allowed my buyer to purchase the home for \$10k less due to delays by HUD and their automated price reduction process....!

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PART IV – Selected Comments (continued)

Adverse Economic and Market Conditions

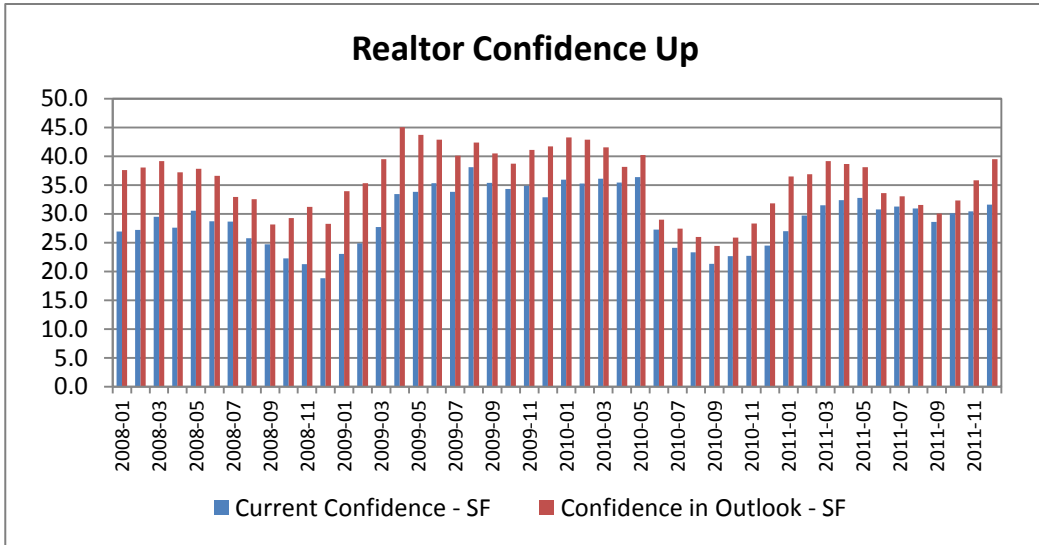
- Sellers and Buyers need to understand this is the NEW economy. Price are what they are, sellers are not going to sell their house for the price they were going to get 6-8 years ago. This economy has corrected itself. Buyers need to realize financing will never be at these rates again. Sellers need to understand when rates go up to 6-8% again the price of their house may drop again. Again, this is the NEW economy; deal with it and prosper.
- Supply continues to be much greater than demand. With weak employment opportunities, the soft RE market is likely to continue.
- There is no urgency on the part of Buyers or Sellers. It's the general lack of confidence in the economy. Buyers are concerned that they are buying a declining asset; therefore they want a deal. Sellers if they are not being forced to sell via Short Sale have to accept the reality that pricing and competition result in 30 plus % equity loss. A tough pill to swallow after believing Real Estate is the secure investment. I believe there is another 12 to 18 months of a soft market before a clear steady trend can be declared. As a Realtor. I find myself continually preparing to advise and educate Clients and potential Clients on current market conditions.
- The biggest problem I see is that the market will not change for the better until there are more jobs available and/or more stability in the job market.
- Employment fears still dominate
- Buyers are looking for perfect, updated move-in houseseven in the lowest prices ranges. Both buyers and sellers take the media reports very seriously. I'm always hearing that the real estate market is horrible and still falling.
- We must have some positive economic news. I finished my year with the lowest GCI in 20 years. We also need a fee restructure. We are bringing home a third to half what we have in the past yet our costs escalate. If we don't have the latest tools we can't compete.
- Still a lot of uncertainty in the job market that is being transferred to the housing market. People are waiting to buy. Sellers that are not upside down are still getting beat up on price. My area is showing it's true colors being frugal New Englanders, using caution when buying and not settling for less when selling.
- Buyers are terrified of economy
- Sellers are still not realistic on sells on their homes. They are still expecting large return. Tax appraisals and loan appraisals are not in the same ball park.
- There is limited inventory. Also, REO sellers are making the contract process very difficult. We have now rewritten our accepted contract three times as well as multiple other documents which the bank has redrawn because of their mistakes.

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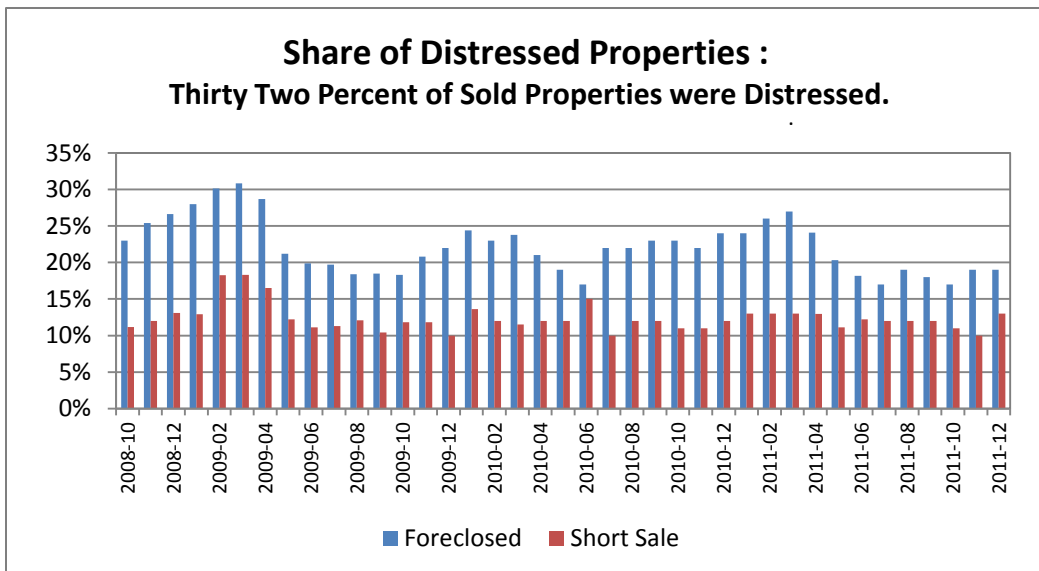
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PART IV – Selected Comments (continued)

Overall, Realtor® confidence in current market conditions was up.



Distressed sales rose to 31 percent of the market, but the level of distressed sales is somewhat lower than had been the case in earlier months.

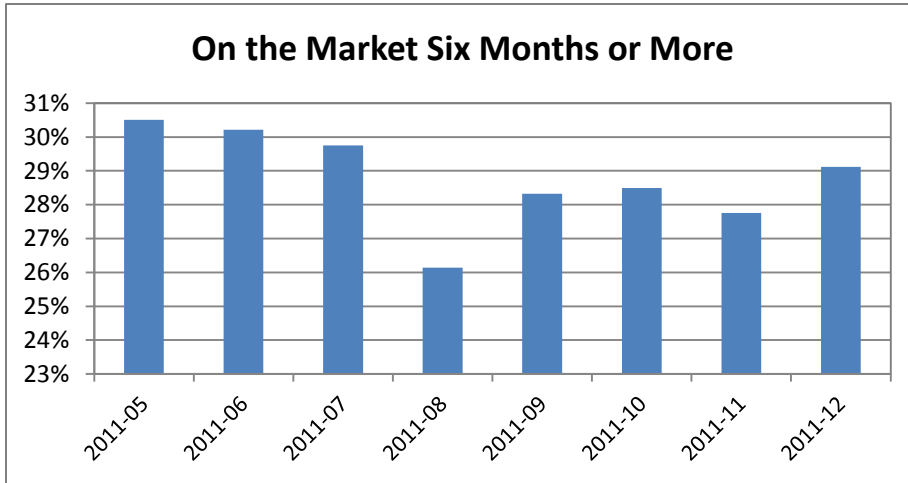


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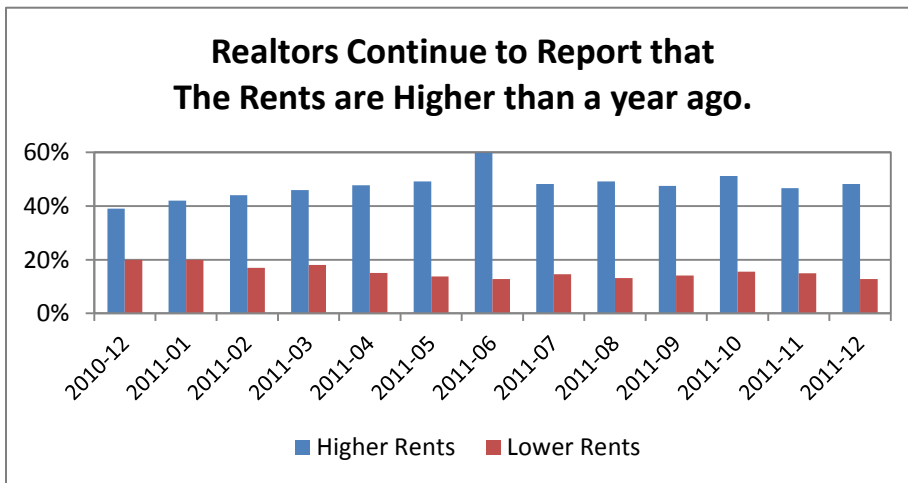
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PART IV – Selected Comments (continued)

There was a decrease in the percentage of homes on the market for 6 months or more.



Apartment rents are reported as being somewhat higher than was the case a year ago.





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NAR Research also provides analysis of monthly and quarterly economic indicators, such as GDP, Existing Home Sales, Pending Home Sales Index, Housing Affordability Index, and employment data that impact real estate markets over time. Additionally, NAR Research evaluates regulatory and legislative policy proposals for their impact on REALTORS®, their clients and America's property owners.

If you have questions or comments regarding this report, please contact Jed Smith, Managing Director, Quantitative Research at jsmith@realtors.org.

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