

THE RESIDENTIAL ECONOMIC REPORT

NATIONAL EDITION

3rd Quarter 2014



<http://www.RealEstateEconomics.com>

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INTRODUCTION

Real Estate Economics is dedicated to providing reports that help you make accurate and effective judgments regarding the opportunities and risks associated with residential real estate. A clear understanding of market trends and forecasts are presented, as well as the economic, socio-economic and demographic underpinnings that create those trends and forecasts.

This report will enable you to quickly understand the direction of a given housing market and will give you insight to future price appreciation, competitive levels, housing over/under supply patterns and special opportunities relative to lending, investing and/or developing residential real estate.

Editions of The Residential Economic Report are now available for most major metropolitan areas throughout the nation. To review a list of regions we cover throughout the nation, visit our web site www.RealEstateEconomics.com, or for sales or online information, please contact:

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We are pleased to present our latest issue of the **Residential Economic Report – National Edition**. All of the information included in this report is available on our website. To learn more about REE's website tools and other products, please visit www.RealEstateEconomics.com.

Sincerely,
REAL ESTATE ECONOMICS

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Principal/Owner

THE RESIDENTIAL ECONOMIC REPORT

**National Edition
3rd Quarter 2014**

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ORDER INFORMATION FOR THE RESIDENTIAL ECONOMIC REPORT

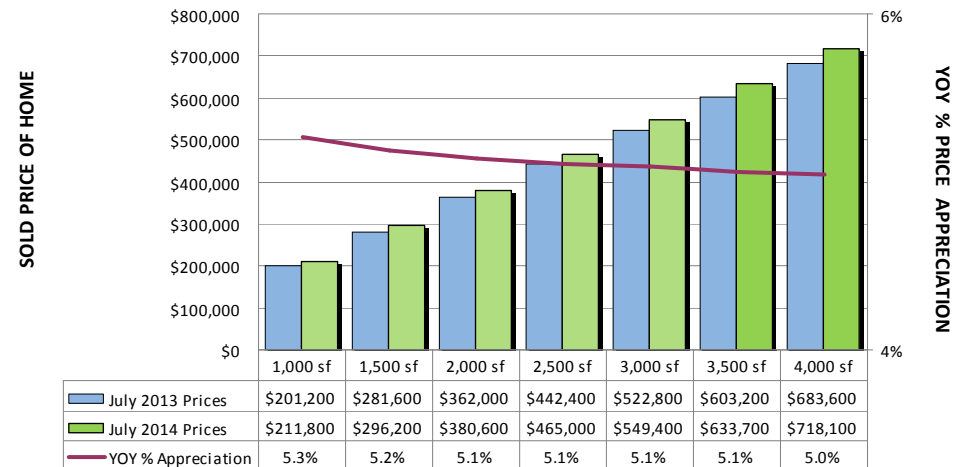
- During recessionary years, the nations' level of housing under valuation actually exceeded levels of housing over valuation recorded during the pre-recession 'bubble'.
- After strong market conditions and 'hyper' price appreciation from mid-Year 2012 through Year 2013, sales volume and price appreciation are now slowing across the nation – not because of reduced housing demand, but rather due to reduced affordability.
- Year-over-year price appreciation has averaged 5.2% in the nation, with price appreciation (in percentage terms) slightly skewed toward smaller homes.
- The rate of economic expansion in the nation slowed slightly during 1st quarter 2014, but has since resumed at a healthier rate as the construction job base and the public sector job base have begun to grow. Economic growth is likely to continue to increase at a faster rate during the next several quarters as the private sector continues to expand, as construction continues to recover and as both a public and private sector-driven economic cycle continues to mature.
- During Year 2014, the nation's housing market will rapidly head toward under supply. Between Years 2015 and 2019, the housing market will become increasingly under supplied, but housing over valuation will arise by Year 2017. Over valuation will continue from Year 2017 through Year 2019, but not at the dangerous levels associated with the pre-recession 'bubble' as laws, private practices and regulations have been put in place to avoid unsubstantiated housing demand and price appreciation. If a price correction occurs, it will be relative modest, and will likely occur sometime after the forecast period.
- Overall, the next five years will be typified by healthy housing market conditions – chronic under supply of housing and a sustained period of some over valuation during the latter half of the 5 year forecast, with diminishing levels of price appreciation as the market rides a high price plateau.

TRUE PRICE APPRECIATION MEASURES BY YEAR-OVER-YEAR PRICE LINE COMPARISONS UNITED STATES

Home Size	July 2013 Prices	July 2014 Prices	YOY % Appreciation	
			\$\$\$	%
Based on Median Home Size				
1,499 sf	\$281,400	\$296,000	\$14,600	5.2%
Based on Range of Home Size				
1,000 sf	\$201,200	\$211,800	\$10,600	5.3%
1,500 sf	\$281,600	\$296,200	\$14,600	5.2%
2,000 sf	\$362,000	\$380,600	\$18,600	5.1%
2,500 sf	\$442,400	\$465,000	\$22,600	5.1%
3,000 sf	\$522,800	\$549,400	\$26,600	5.1%
3,500 sf	\$603,200	\$633,700	\$30,500	5.1%
4,000 sf	\$683,600	\$718,100	\$34,500	5.0%

Source: Real Estate Economics; Dataquick; County Recorder

TRUE PRICE APPRECIATION MEASURES BY HOME SIZE UNITED STATES



Source: Real Estate Economics; Dataquick; County Recorder

Year-over-year price appreciation has averaged 5.2% in the nation, but price appreciation (in percentage terms) has been slightly skewed toward smaller homes. Year-over-year price appreciation averaged 5.3% for homes averaging 1,000 square feet, and has averaged 5.0% for homes averaging 4,000 square feet.

ECONOMIC AND HOUSING CONSTRUCTION TRENDS AND FORECASTS





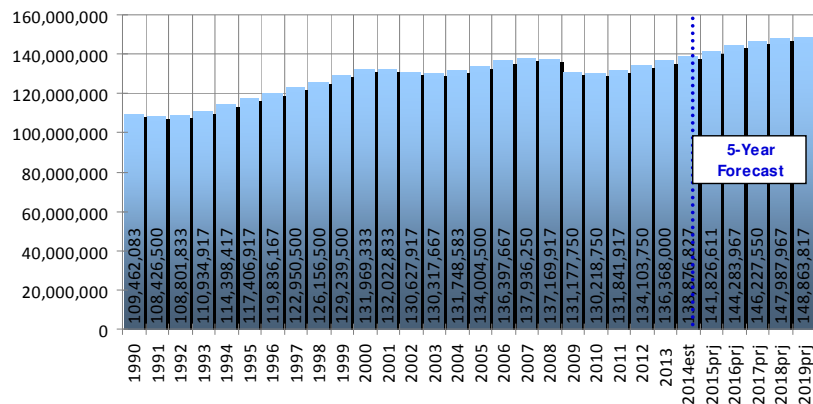
REGIONAL EMPLOYMENT TRENDS AND FORECASTS

TOTAL NONFARM JOBS UNITED STATES SEPTEMBER 2014

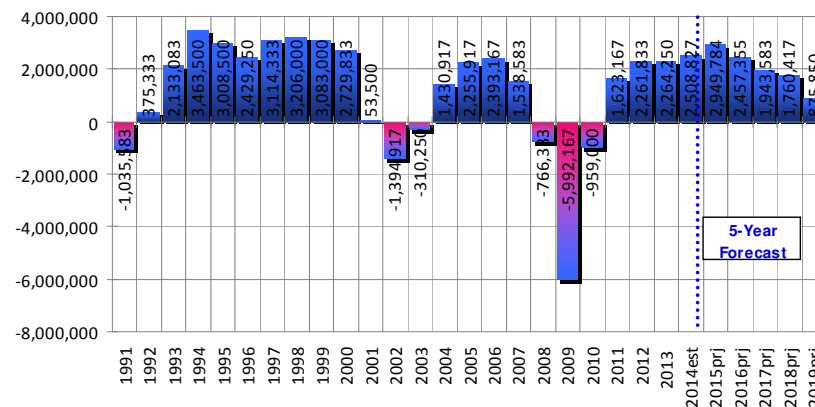
Year	Civilian Labor Force		Civilian Employment		Civilian Jobless Rate	Total Non-Farm	
	Total	12 Month Change	Total Jobs	12 Month Change		Total Jobs	12 Month Change
1990	127,051,929	-	119,840,848	-	5.7%	109,462,083	-
1991	127,843,270	791,341	119,007,266	-833,582	-0.7%	108,426,500	-1,035,583
1992	129,824,100	1,980,830	119,976,330	969,064	0.8%	108,801,833	375,333
1993	131,130,044	1,305,944	121,940,838	1,964,508	1.6%	110,934,917	2,133,083
1994	133,137,091	2,007,047	124,933,503	2,992,665	2.5%	114,398,417	3,463,500
1995	134,776,129	1,639,039	127,134,391	2,200,888	1.8%	117,406,917	3,008,500
1996	136,738,136	1,962,007	129,254,917	2,120,526	1.7%	119,836,167	2,429,250
1997	139,102,995	2,364,858	132,120,921	2,866,005	2.2%	122,950,500	3,114,333
1998	140,744,949	1,641,954	134,287,067	2,166,146	1.6%	126,156,500	3,206,000
1999	142,384,945	1,639,997	136,289,214	2,002,146	1.5%	129,239,500	3,083,000
2000	143,942,769	1,557,824	138,116,744	1,827,530	1.3%	131,969,333	2,729,833
2001	145,196,027	1,253,258	138,236,481	119,737	0.1%	132,022,833	53,500
2002	146,492,217	1,296,189	137,926,368	-310,113	-0.2%	130,627,917	-1,394,917
2003	147,267,685	775,469	138,371,208	444,840	0.3%	130,317,667	-310,250
2004	148,228,961	961,276	139,967,125	1,595,917	1.2%	131,748,583	1,430,917
2005	150,056,442	1,827,481	142,299,504	2,332,379	1.7%	134,004,500	2,255,917
2006	152,118,111	2,061,669	145,000,042	2,700,538	1.9%	136,397,667	2,393,167
2007	153,576,186	1,458,075	146,388,365	1,388,324	1.0%	137,936,250	1,538,583
2008	155,095,794	1,519,608	146,047,745	-340,621	-0.2%	137,169,917	-766,333
2009	155,126,716	30,922	140,696,561	-5,351,184	-3.7%	131,177,750	-5,992,167
2010	155,526,337	399,621	140,457,587	-238,975	-0.2%	130,218,750	-959,000
2011	155,757,449	231,112	141,727,929	1,270,342	0.9%	131,841,917	1,623,167
2012	156,254,698	497,249	143,566,678	1,838,750	1.3%	134,103,750	2,261,833
2013	156,580,253	325,555	144,950,663	1,383,984	1.0%	136,368,000	2,264,250
2014est	157,890,026	1,309,773	148,049,237	3,098,575	2.1%	138,876,827	2,508,827
2015prj	159,484,983	1,594,957	151,625,758	3,576,521	2.4%	141,826,611	2,949,784
2016prj	160,382,600	897,617	154,252,883	2,627,125	1.7%	144,283,967	2,457,355
2017prj	161,356,765	974,165	156,330,767	2,077,883	1.3%	146,227,550	1,943,583
2018prj	163,240,259	1,883,494	158,212,808	1,882,042	1.2%	147,987,967	1,760,417
2019prj	164,606,821	1,366,562	159,149,158	936,350	0.6%	148,863,817	875,850

After two strong years of recovery, job growth slowed during 1st quarter 2014, but has since resumed at a healthy rate. Job growth should continue at a healthy pace as construction grows, and as both the public sector and the private sector continue to recover.

UNITED STATES
Total Non-Farm

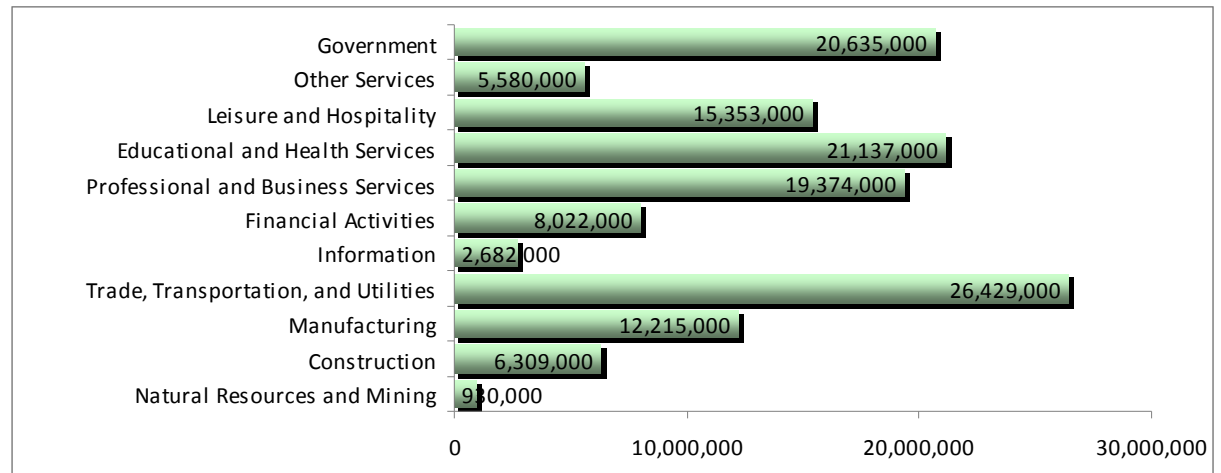


UNITED STATES
Total Non-Farm 12-Month Change

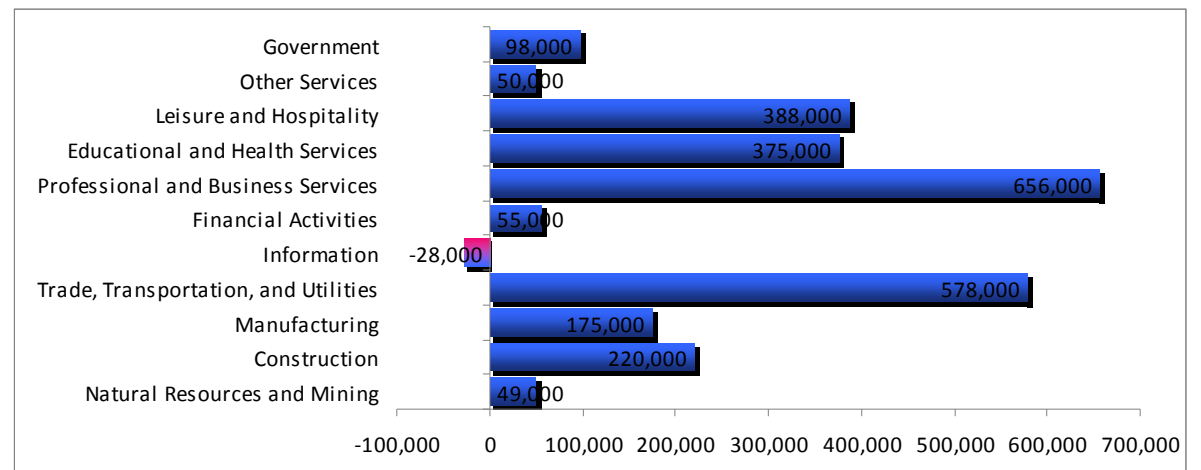


The Trade sector is performing especially strong – a strong precursor for economic growth in other industries. Professional and Business Services, Leisure and Hospitality, and Educational/Health services are showing the most dramatic job growth. Manufacturing is positive, and Construction is increasingly positive. After years of trimming, even Government added jobs during the past 12 months. All sectors but Information showed growth during the past 12 months.

UNITED STATES
MSA Employment by Super Sector
July 2014



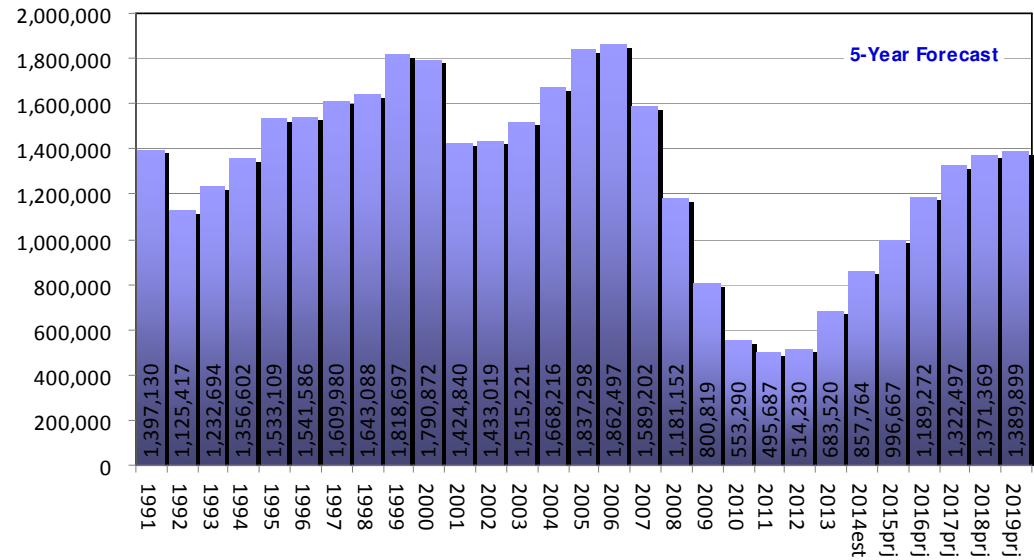
UNITED STATES
MSA 12-Month Employment Change by Super Sector
July 2013 to July 2014



Residential permit activity and housing construction are rising from recessionary lows. By Year 2015, over \$1.0mm new homes and apartments will be constructed annually, and will thereafter begin to form a plateau by Year 2017. Despite increases in supply, job increases will outpace housing construction, causing an increasing level of housing shortages during the next five years.

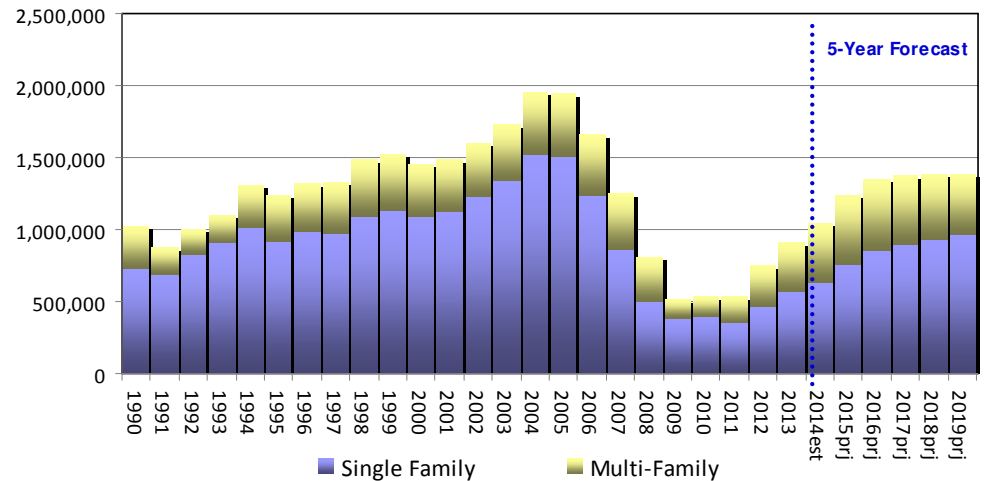
12-MONTH CHANGE IN TOTAL HOUSING SUPPLY

UNITED STATES
SEPTEMBER 2014



ANNUAL RESIDENTIAL PERMIT ACTIVITY

UNITED STATES
SEPTEMBER 2014

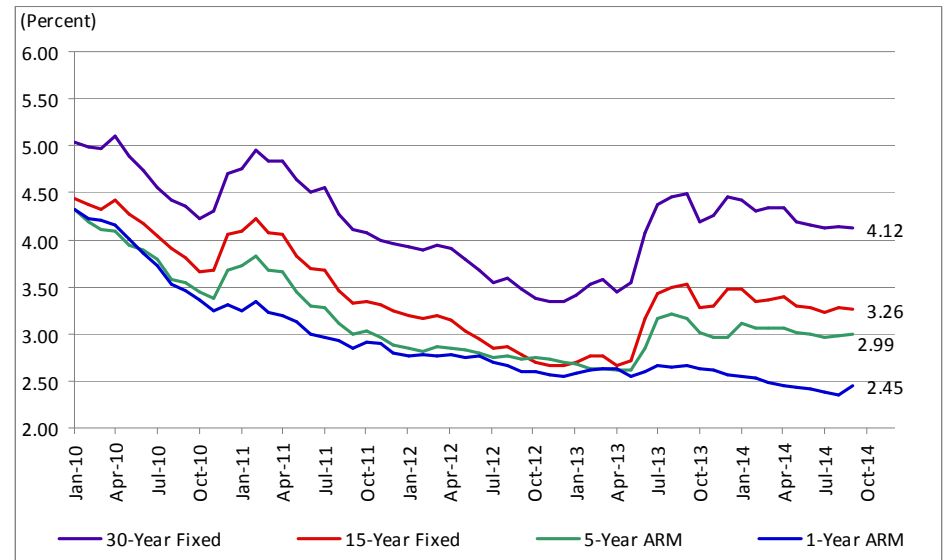


Years 2011 to 2013 were the lowest years in mortgage rates in over two decades. Mortgage rates have begun to rise slowly but erratically, with most recent trends generally being downward.

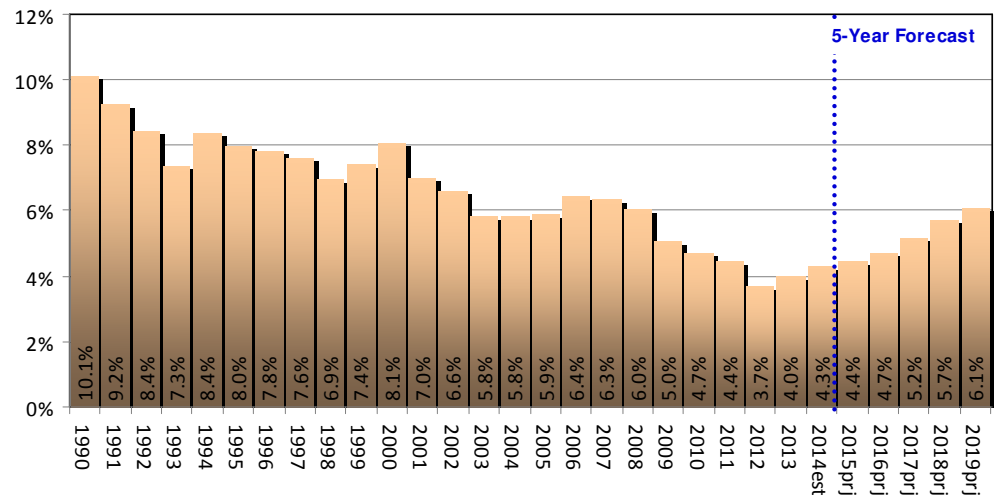
Mortgage rates are expected to rise slowly as the Federal Reserve continues to effectively manage monetary policy, and as market forces gradually allowed to more fully impact rates as the national economy continues to improve.

Lending practices are loosening, but regulations will remain in place that prevent the loose lending standards that contributed to the past housing bubble and subsequent recession.

**TRENDS IN FIXED RATE AND ADJUSTIBLE RATE MORTGAGES
NATIONAL AVERAGES**

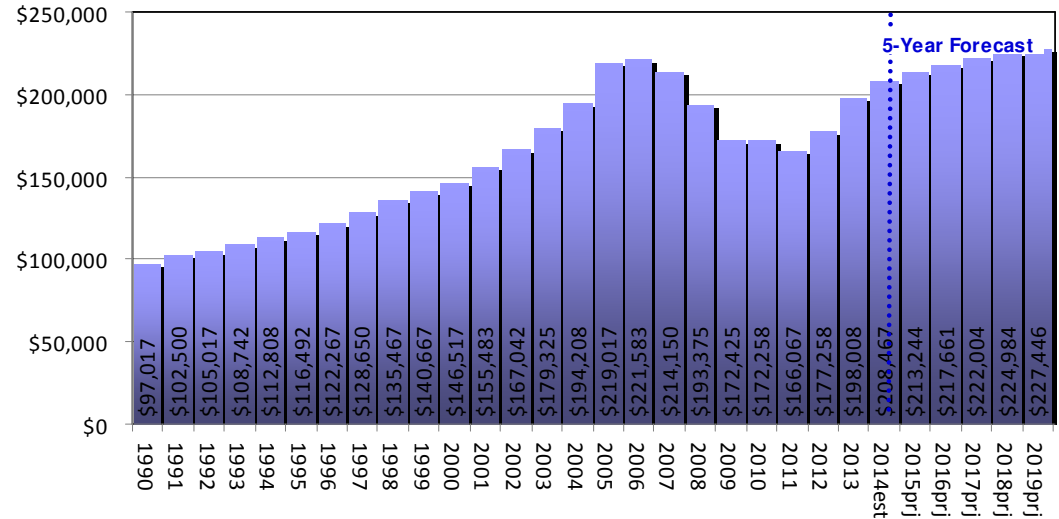


**30-YEAR FIXED RATE MORTGAGES
NATIONAL AVERAGES
SEPTEMBER 2014**

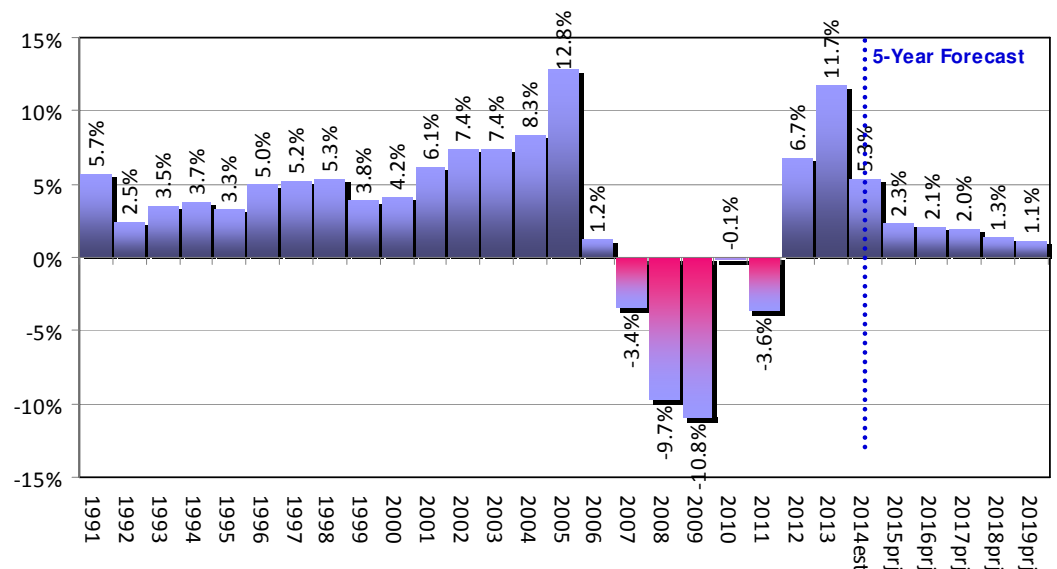


Housing price appreciation has been at 'hyper' levels during Year 2013, being caused by unprecedented levels of under valuation and the beginnings of normalized mortgage lending as the economy has continued to recover. Price appreciation will remain healthy during Year 2014, but will continue to moderate substantially from hyper levels reached during Year 2013 - not because the market is worsening, but rather due to reduced affordability during and after Year 2014 relative to early Year 2013.

**MEDIAN HOME PRICES
UNITED STATES**



**CHANGES IN MEDIAN HOME PRICES
UNITED STATES**



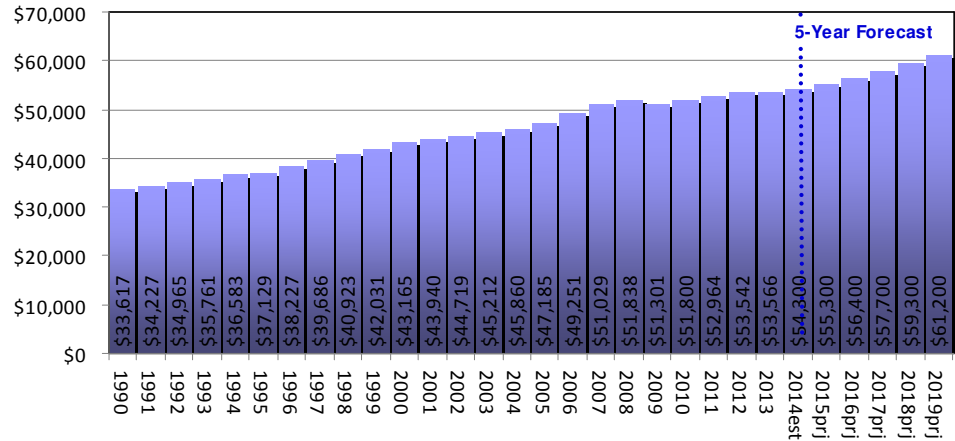
HOUSEHOLD INCOME TRENDS & FORECASTS

MEDIAN HOUSEHOLD INCOME
UNITED STATES
SEPTEMBER 2014

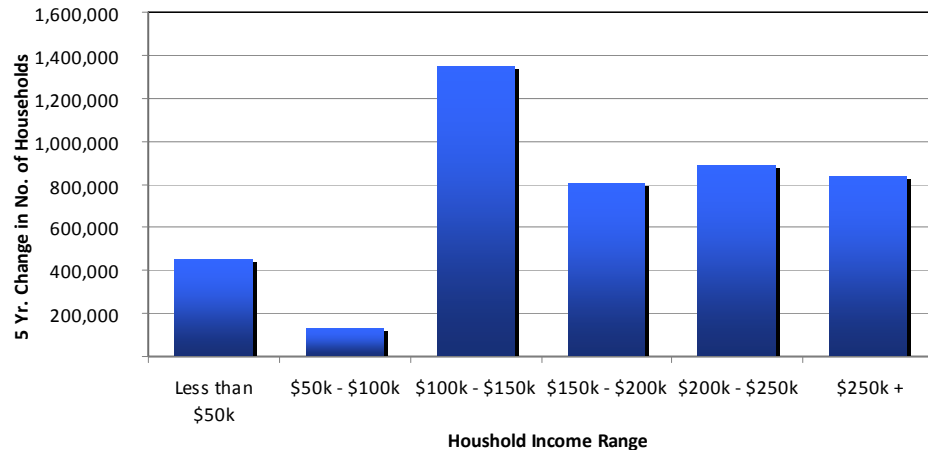
Household incomes are rising, and will continue to rise at a faster rate during the next few years as labor shortages begin to emerge – especially in coastal markets.

Time Period	Median Household Income	12-Month Change	
		#	%
1990	\$33,617	-	-
1991	\$34,227	\$610	1.8%
1992	\$34,965	\$738	2.2%
1993	\$35,761	\$796	2.3%
1994	\$36,583	\$822	2.3%
1995	\$37,129	\$546	
1996	\$38,227	\$1,098	3.0%
1997	\$39,686	\$1,459	3.8%
1998	\$40,923	\$1,237	3.1%
1999	\$42,031	\$1,108	2.7%
2000	\$43,165	\$1,134	2.7%
2001	\$43,940	\$775	1.8%
2002	\$44,719	\$779	1.8%
2003	\$45,212	\$493	1.1%
2004	\$45,860	\$648	1.4%
2005	\$47,185	\$1,325	2.9%
2006	\$49,251	\$2,066	4.4%
2007	\$51,029	\$1,778	3.6%
2008	\$51,838	\$810	1.6%
2009	\$51,301	(\$537)	-1.0%
2010	\$51,800	\$499	1.0%
2011	\$52,964	\$1,164	2.2%
2012	\$53,542	\$578	1.1%
2013	\$53,566	\$24	0.0%
2014est	\$54,300	\$734	1.4%
2015prj	\$55,300	\$1,000	1.8%
2016prj	\$56,400	\$1,100	2.0%
2017prj	\$57,700	\$1,300	2.3%
2018prj	\$59,300	\$1,600	2.7%
2019prj	\$61,200	\$1,900	3.2%

MEDIAN HOUSEHOLD INCOME
UNITED STATES
SEPTEMBER 2014



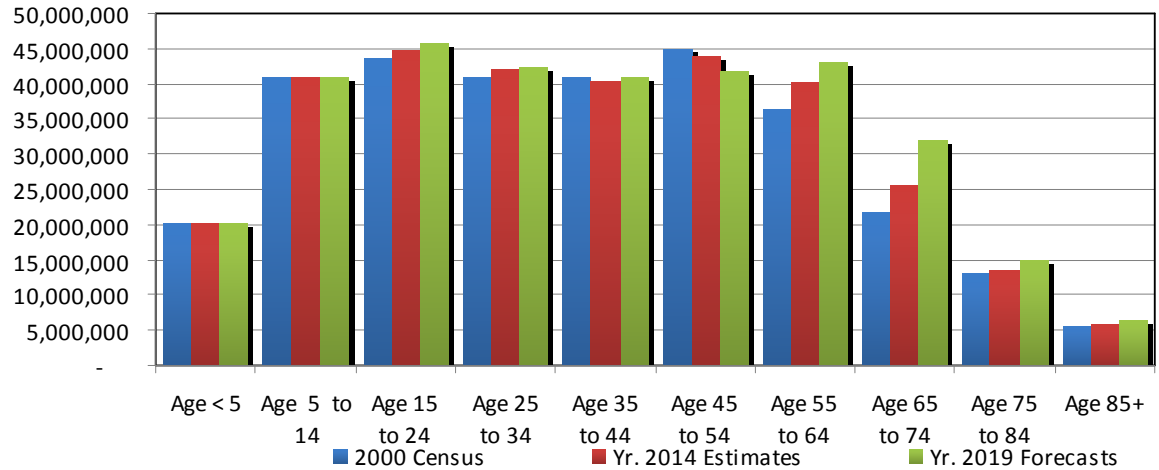
FORECAST HOUSEHOLD INCOME CHANGES FROM 2014 TO 2019
UNITED STATES



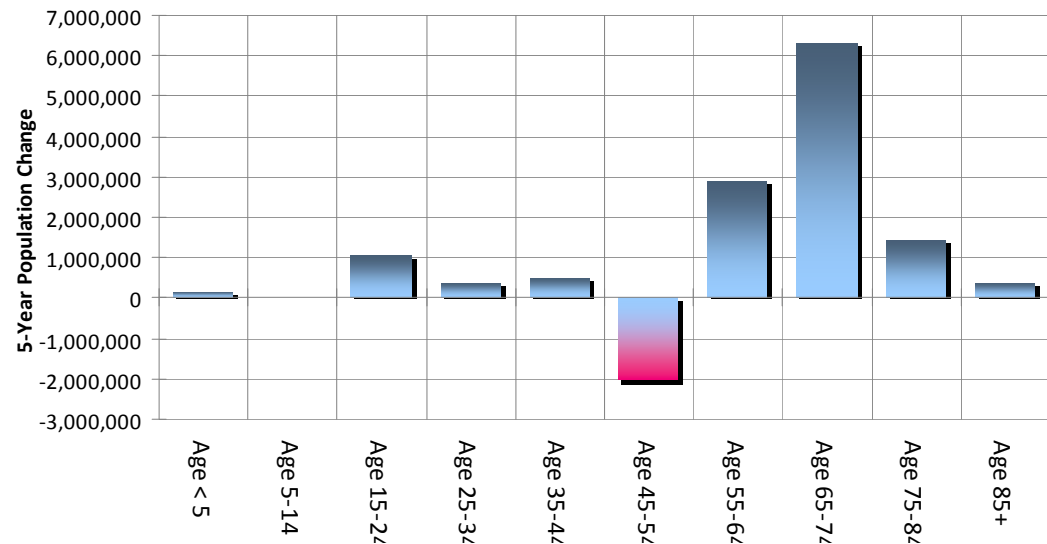
Source: Census Bureau; American Facts; Bureau of Labor Statistics; Real Estate Economics

Population gains for 15 to 45 year olds will be relatively modest. Population contraction may occur between the ages of 45 and 54. For age brackets between 55 to 74 years, population gains are especially healthy, reflecting an aging baby-boomer generation. The trends and forecast suggest that move-down and age targeted/qualified housing in various forms are likely to perform relatively well during the current cycle.

**POPULATION DISTRIBUTION BY AGE
UNITED STATES**



**FORECAST POPULATION CHANGES FROM 2014 TO 2019
UNITED STATES**

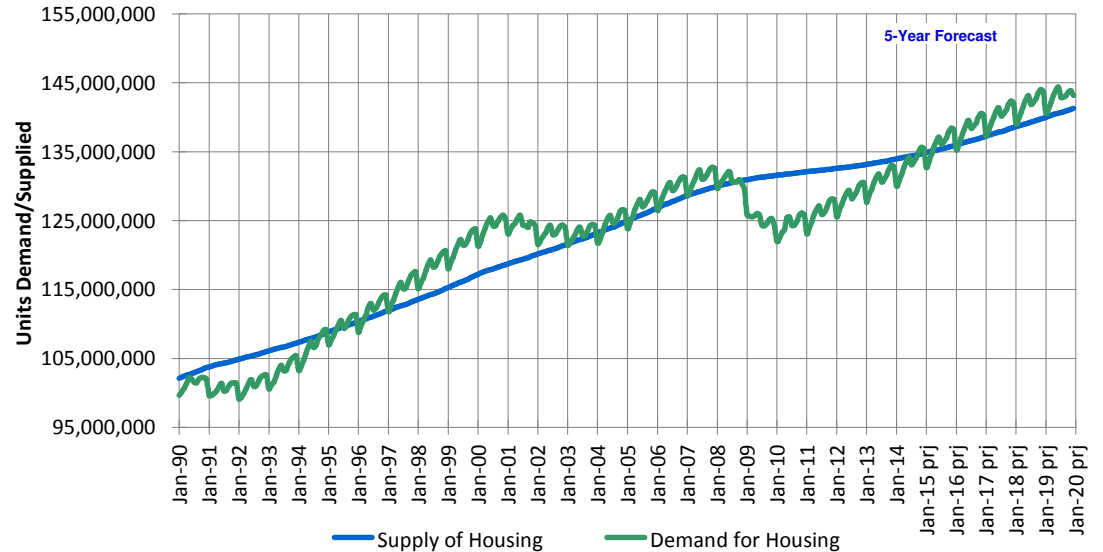


**REGIONAL HOUSING
SUPPLY/DEMAND AND
OVER/UNDER
VALUATION PATTERNS
AND FORECASTS**

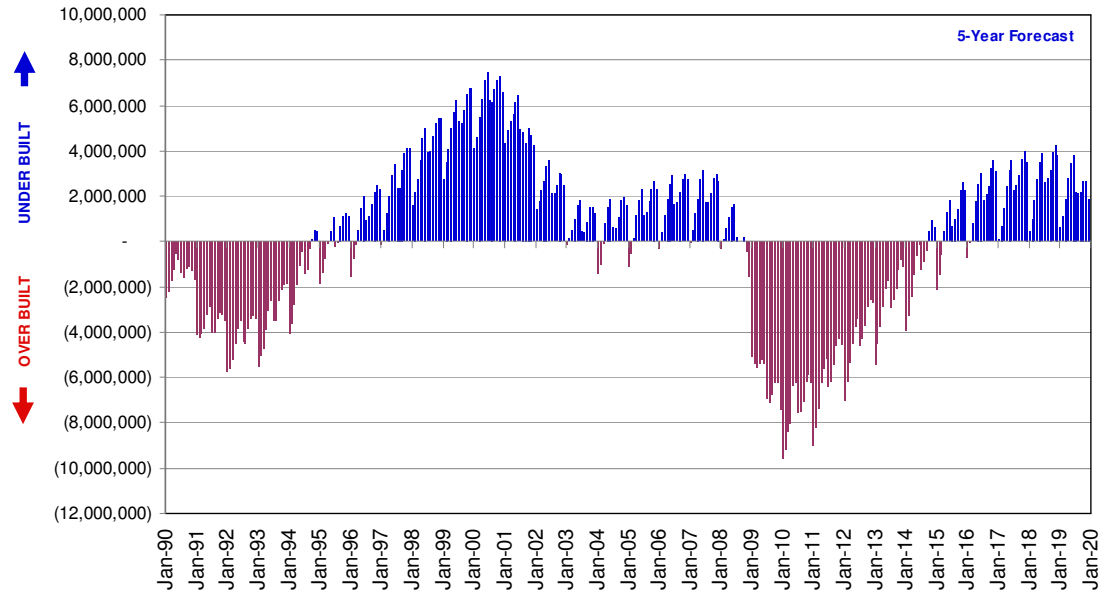


The patterns of housing over supply and under supply are based on a comparison between a given year's ratio between jobs and housing relative to the long-term trend. During recessionary years, employment losses produced a condition whereby the existing housing stock was too large in comparison to the employment base, contributing to price degradation. Employment gains since Year 2010 have caused housing demand to grow at a faster rate than housing supply, overtaking supply in Year 2014 and leading to shortages that will become increasingly apparent as the cycle matures.

**HOUSING DEMAND AND SUPPLY PATTERNS
UNITED STATES**



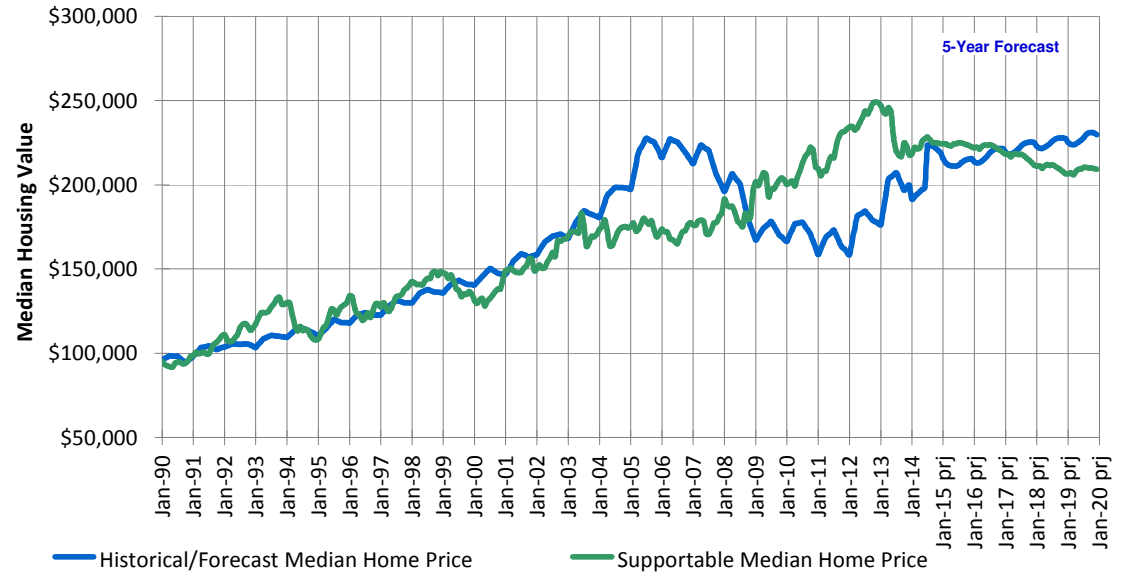
**HOUSING (OVER)/UNDER SUPPLY PATTERNS
UNITED STATES**



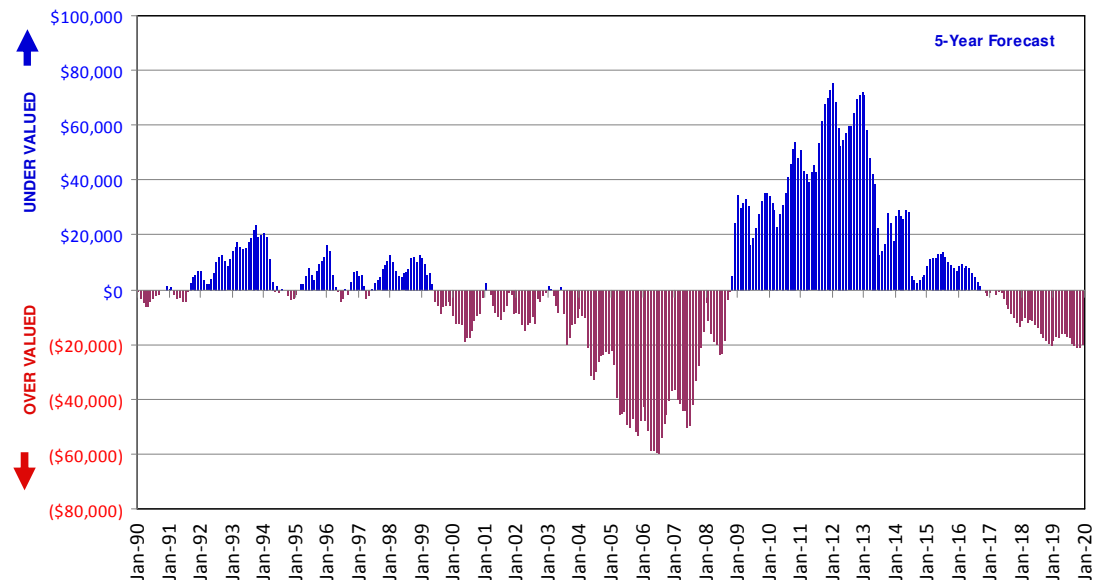
‘Supportable median home prices’ are derived from equilibrium housing costs based upon the 40-year trend line between housing values and household incomes. ‘Actual median prices’ are compared with ‘supportable median prices’ to measure the degree of over/under valuation.

After forming a significant over valuation ‘bubble’ between Years 2004 and 2008, prices fell in Years 2007 through 2011 so dramatically, that an unprecedented ‘over correction’ occurred. During recessionary years of overly tight lending, under valuation of homes became more significant than over valuation was during the ‘bubble’. As the economy began to recover, an increasing number of buyers were drawn to unprecedented housing values, causing a sharp correction, with ‘hyper’ appreciation occurring from mid-Year 2012 through Year 2013. Price appreciation is now slowing considerably throughout the balance of the 5-year forecast – not because the market is worsening, but because of reduced affordability. Indeed, some over valuation of housing will be sustained from Years 2017 through 2019, leading to an eventual correction which is likely to occur after the forecast period.

**HOUSING VALUATION PATTERNS
UNITED STATES**



**HOUSING (OVER)/UNDER VALUATION PATTERNS
UNITED STATES**



UNITED STATES SEPTEMBER 2014

Year	Housing Demand	Housing Supply	Market is Over/ (Under) Built	Median Home Price	Ann. Price Change	Equilibrium Home Price	30-Yr. Mtg. Rate	Median HH Income	Market is Under/ (Over) Valued	O/R Index (100=Equil.)	Mkt. Health in 24-36 Mos.
1990	101,453,208	102,891,854	(1,438,646)	\$97,017	-	\$94,199	10.13%	\$33,617	(\$2,818)	98.1	Stable
1991	100,645,727	104,288,984	(3,643,257)	\$102,500	5.7%	\$102,706	9.25%	\$34,227	\$206	97.6	Weak
1992	101,148,060	105,414,401	(4,266,341)	\$105,017	2.5%	\$112,371	8.40%	\$34,965	\$7,355	99.3	Stable
1993	103,288,179	106,647,094	(3,358,915)	\$108,742	3.5%	\$126,339	7.33%	\$35,761	\$17,597	102.7	Stable
1994	106,675,318	108,003,697	(1,328,379)	\$112,808	3.7%	\$116,454	8.36%	\$36,583	\$3,645	100.1	Stable
1995	109,647,481	109,536,806	110,675	\$116,492	3.3%	\$121,675	7.96%	\$37,129	\$5,183	101.4	Stable
1996	112,087,687	111,078,393	1,009,295	\$122,267	5.0%	\$125,858	7.81%	\$38,227	\$3,591	101.5	Stable
1997	115,176,743	112,688,373	2,488,370	\$128,650	5.2%	\$132,223	7.60%	\$39,686	\$3,573	102.4	Stable
1998	118,361,103	114,331,460	4,029,642	\$135,467	5.3%	\$144,162	6.94%	\$40,923	\$8,696	104.4	Strong
1999	121,439,727	116,150,157	5,289,570	\$140,667	3.8%	\$140,023	7.43%	\$42,031	(\$643)	103.1	Stable
2000	124,195,650	117,941,029	6,254,621	\$146,517	4.2%	\$134,064	8.06%	\$43,165	(\$12,453)	101.2	Stable
2001	124,436,957	119,365,869	5,071,088	\$155,483	6.1%	\$150,481	6.97%	\$43,940	(\$5,003)	102.0	Stable
2002	123,312,265	120,798,888	2,513,377	\$167,042	7.4%	\$158,438	6.57%	\$44,719	(\$8,604)	99.9	Stable
2003	123,209,440	122,314,109	895,331	\$179,325	7.4%	\$171,270	5.85%	\$45,212	(\$8,055)	99.2	Stable
2004	124,755,662	123,982,325	773,337	\$194,208	8.3%	\$172,279	5.84%	\$45,860	(\$21,930)	97.0	Weak
2005	127,088,576	125,819,623	1,268,953	\$219,017	12.8%	\$175,210	5.87%	\$47,185	(\$43,807)	94.7	Weak
2006	129,558,847	127,682,121	1,876,726	\$221,583	1.2%	\$171,066	6.41%	\$49,251	(\$50,517)	94.2	Weak
2007	131,223,796	129,271,322	1,952,474	\$214,150	(3.4%)	\$176,913	6.34%	\$51,029	(\$37,237)	95.8	Weak
2008	130,697,787	130,452,475	245,313	\$193,375	(9.7%)	\$183,963	6.04%	\$51,838	(\$9,412)	98.7	Stable
2009	125,183,130	131,253,294	(6,070,164)	\$172,425	(10.8%)	\$201,279	5.04%	\$51,301	\$28,854	100.7	Stable
2010	124,462,868	131,806,584	(7,343,716)	\$172,258	(0.1%)	\$209,820	4.69%	\$51,800	\$37,561	101.3	Stable
2011	126,211,633	132,302,271	(6,090,637)	\$166,067	(3.6%)	\$218,766	4.45%	\$52,964	\$52,699	104.5	Strong
2012	128,580,310	132,816,501	(4,236,190)	\$177,258	6.7%	\$240,763	3.66%	\$53,542	\$63,505	106.6	Strong
2013	130,902,403	133,500,020	(2,597,617)	\$198,008	11.7%	\$230,754	3.98%	\$53,566	\$32,746	102.7	Stable
2014est	133,319,101	134,357,784	(1,038,683)	\$208,467	5.3%	\$224,274	4.28%	\$54,021	\$15,808	101.3	Stable
2015prj	136,150,837	135,354,451	796,386	\$213,244	2.3%	\$223,991	4.44%	\$55,043	\$10,748	101.7	Stable
2016prj	138,509,851	136,543,723	1,966,128	\$217,661	2.1%	\$222,084	4.70%	\$56,221	\$4,424	101.6	Stable
2017prj	140,375,654	137,866,220	2,509,434	\$222,004	2.0%	\$216,520	5.16%	\$57,749	(\$5,484)	100.7	Stable
2018prj	142,065,620	139,237,589	2,828,032	\$224,984	1.3%	\$210,287	5.70%	\$59,597	(\$14,697)	99.9	Stable
2019prj	142,906,420	140,627,488	2,278,931	\$227,446	1.1%	\$208,817	6.06%	\$61,504	(\$18,629)	99.2	Stable

The above table arrays historical trends and a 5-year forecast of housing over/under supply patterns and housing over/under valuation patterns. Currently, the market is very near equilibrium in terms of demand and supply, and remains slightly under valued. In Year 2015 and thereafter, under supply will become increasingly apparent, while over valuation will emerge by Year 2017. Over valuation will remain sustainable during a period of economic growth, but when job losses begin, prices may fall back toward the long-term trend line associated with household incomes. This fall in price is not anticipated to occur during the next 5 years, and the eventual market correction is likely to be much more mild than dramatic corrections occurring in the past cycle.

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