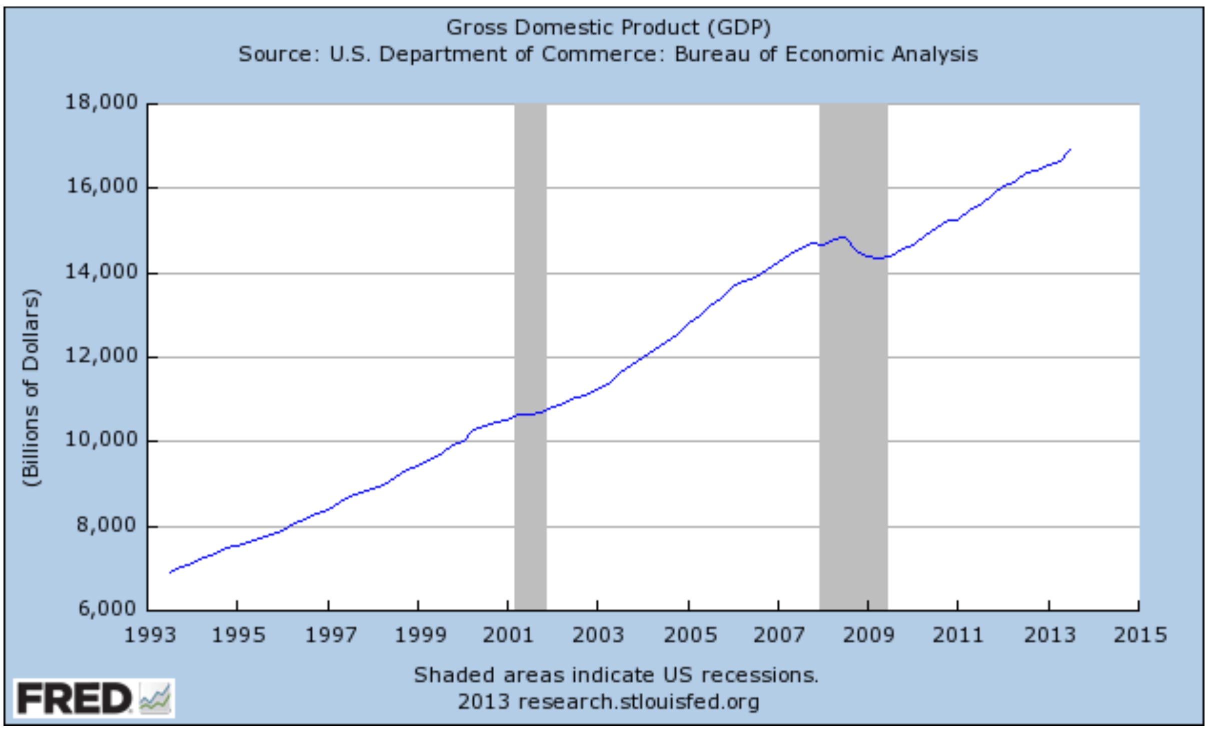
HORIZON REALTY
Austin

OVERVIEW: 2014 ABOR & HBA HOUSING FORECAST

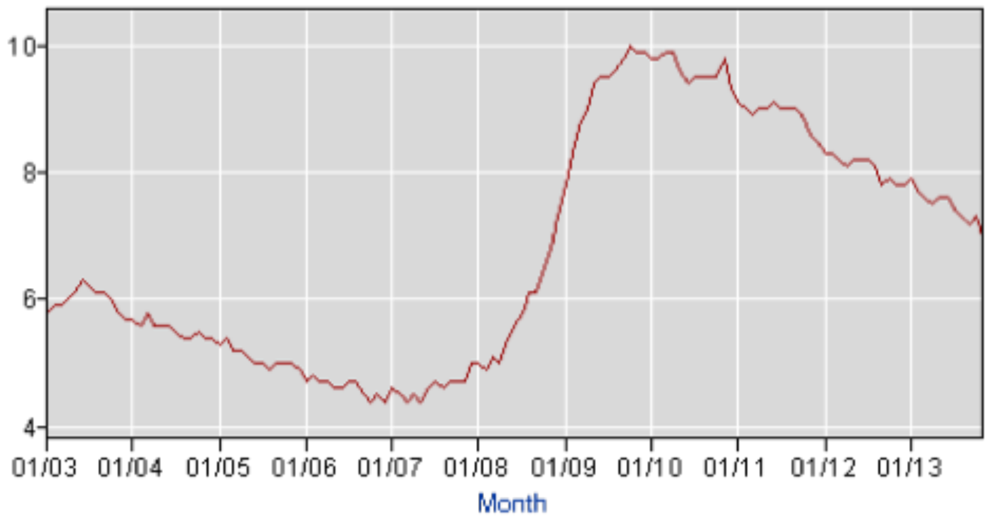
Dr. Greg Hallman, Principal of McCombs School of Business, University of Texas, spoke about the US and global economy.

The big picture items for the U.S. – GDP, unemployment and payrolls, consumer confidence, consumer and business spending,

US GDP: 1993-2013 Growing steadily at 2-3% since 2010



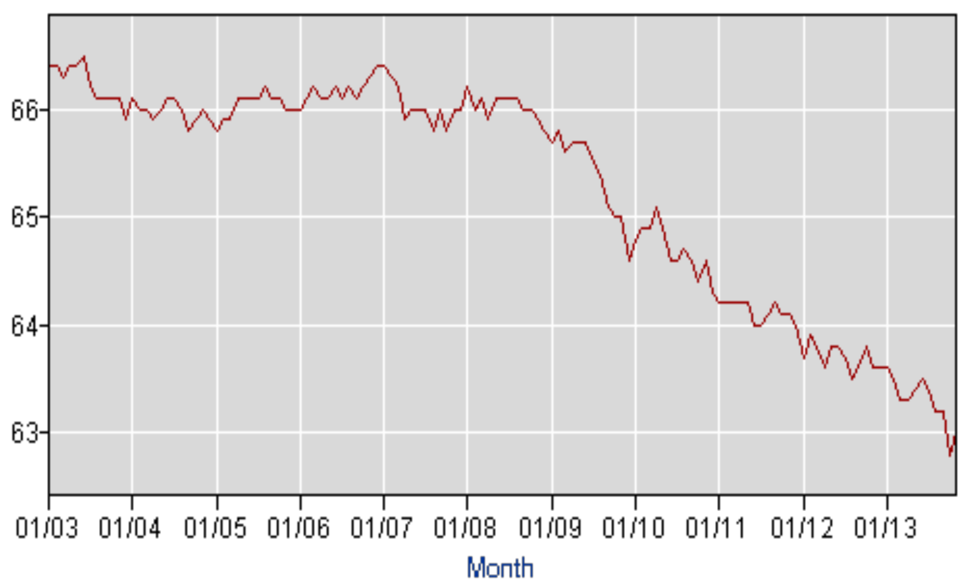
The unemployment rate peaked in 2010 at 10.1% and is now at 7%, which is good news on the labor market:



The under-employment rate is still uncomfortably high.

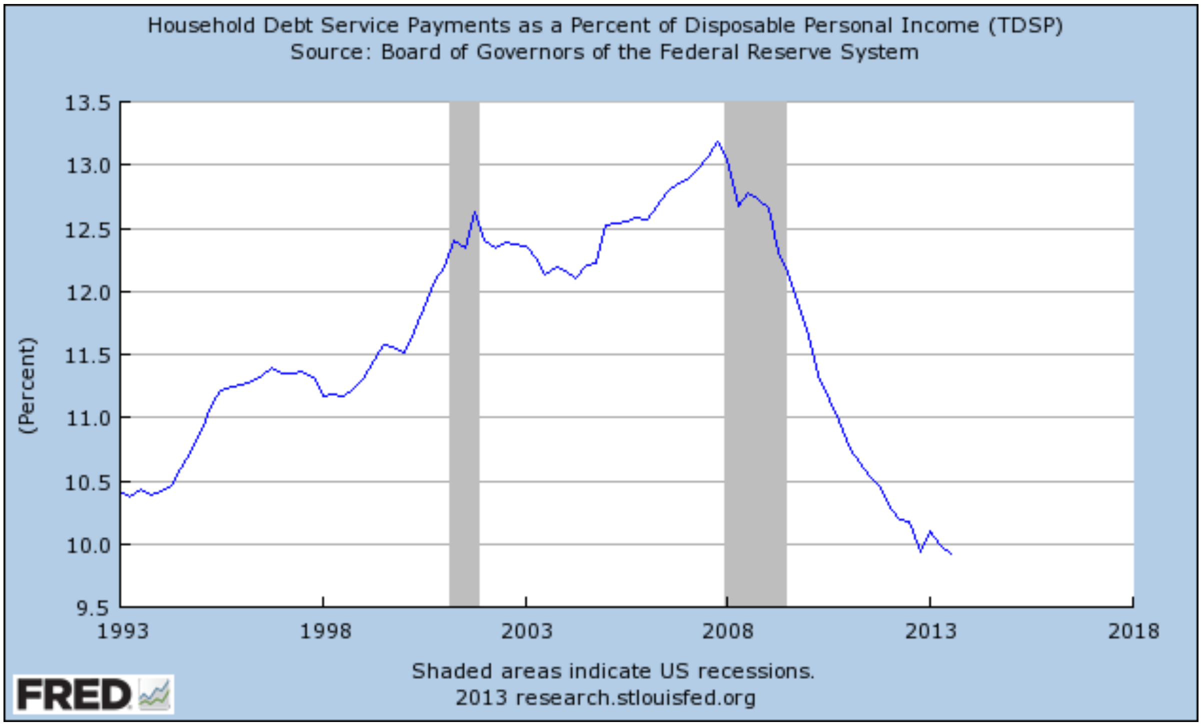
There has been some improvement in the long-term unemployed, but they may be dropping out faster, which would also show a declining rate.

Unfortunately, the population has been growing, and labor force participation is still too low :

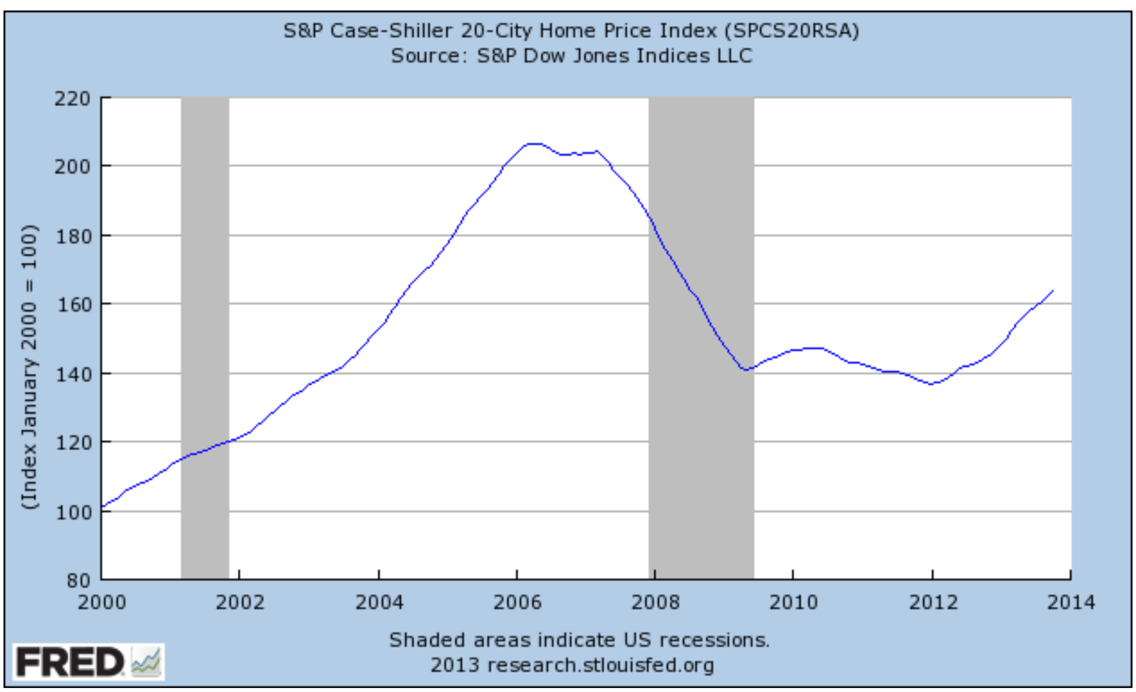


Consumer sentiment is definitely improving, but still relatively low.

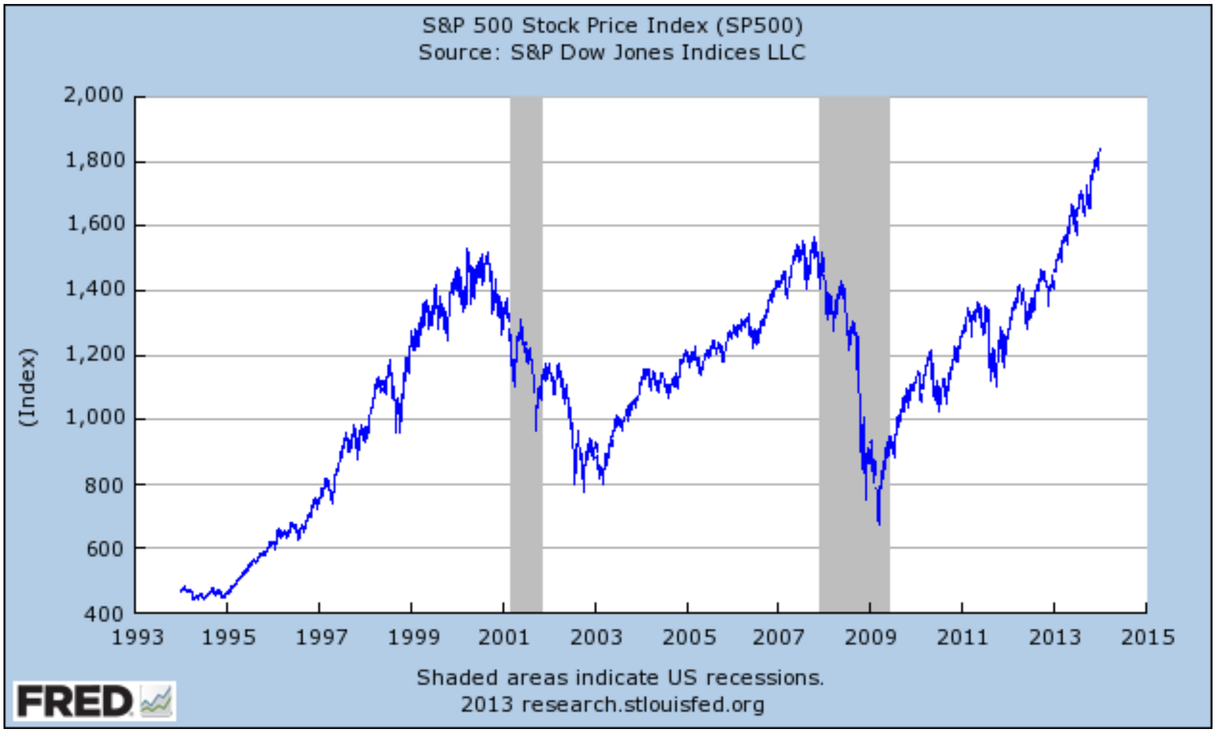
Consumers have paid down a lot of debt:



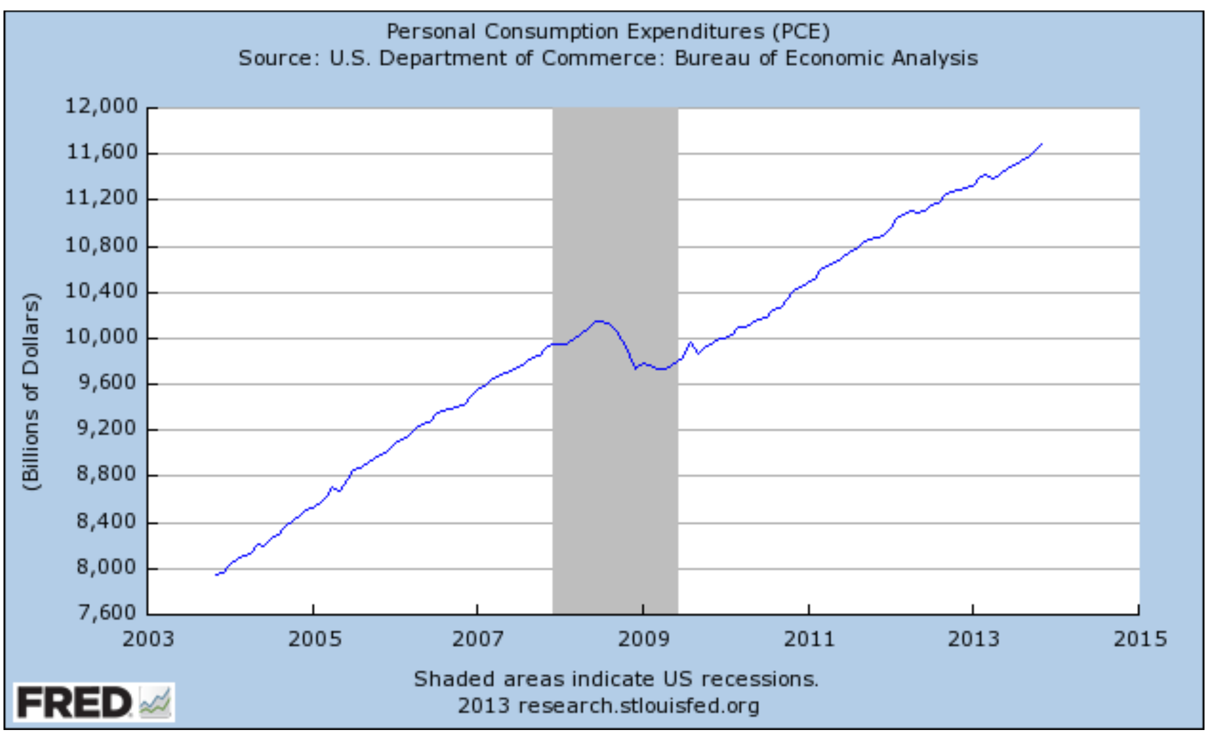
House prices are doing much better. Oct 2012 to Oct 2013 there was a 13.6% increase:



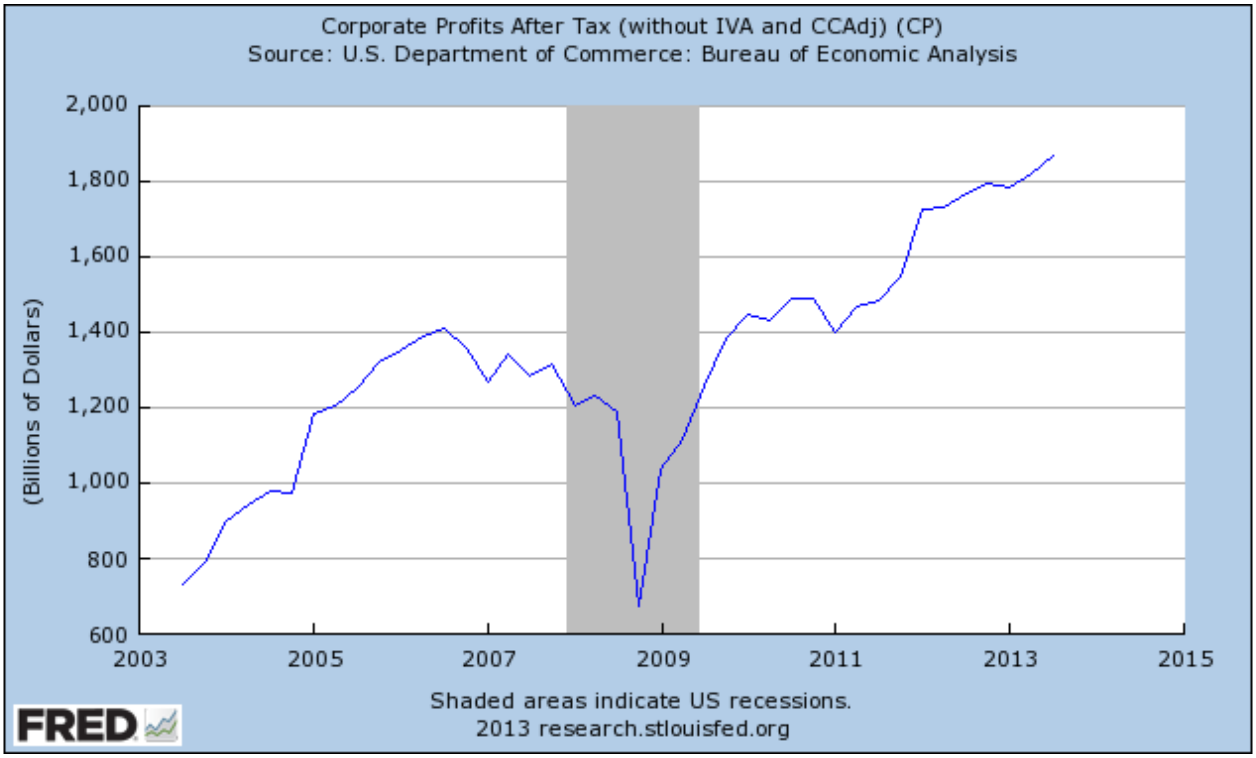
The stock market is doing great – S&P 500 up 30% in 2013:



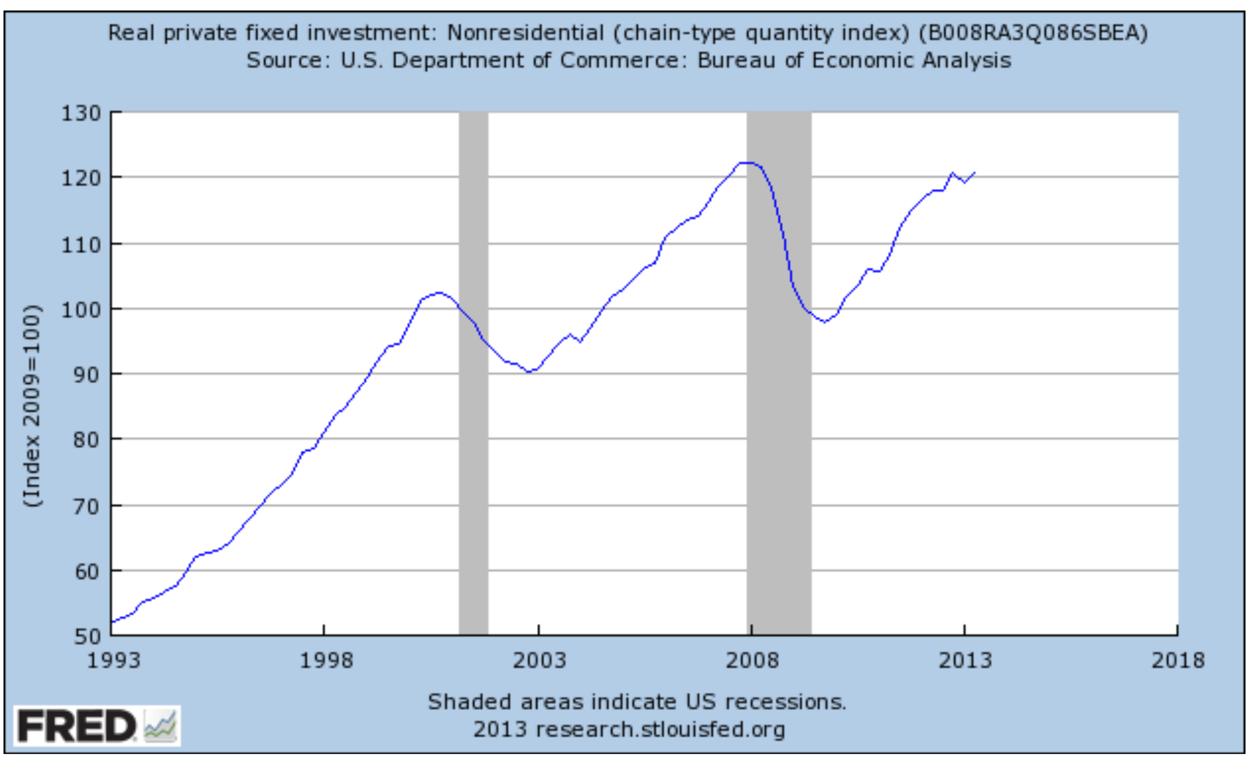
Lower unemployment + debts paid down + house prices improving + stock market booming = *consumer spending UP:*



Corporate Profits are up considerably, and much higher than pre-recession levels:

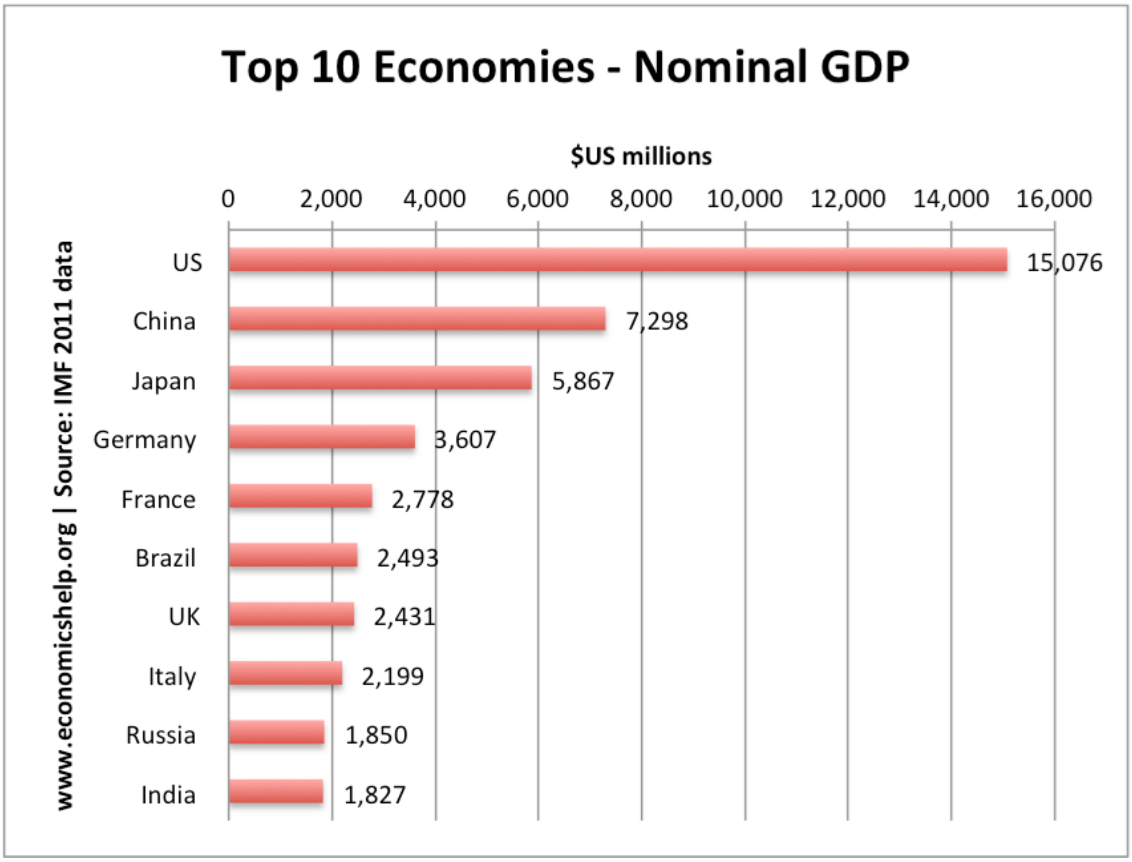


Business Spending is also up, and almost back to pre-recession levels:

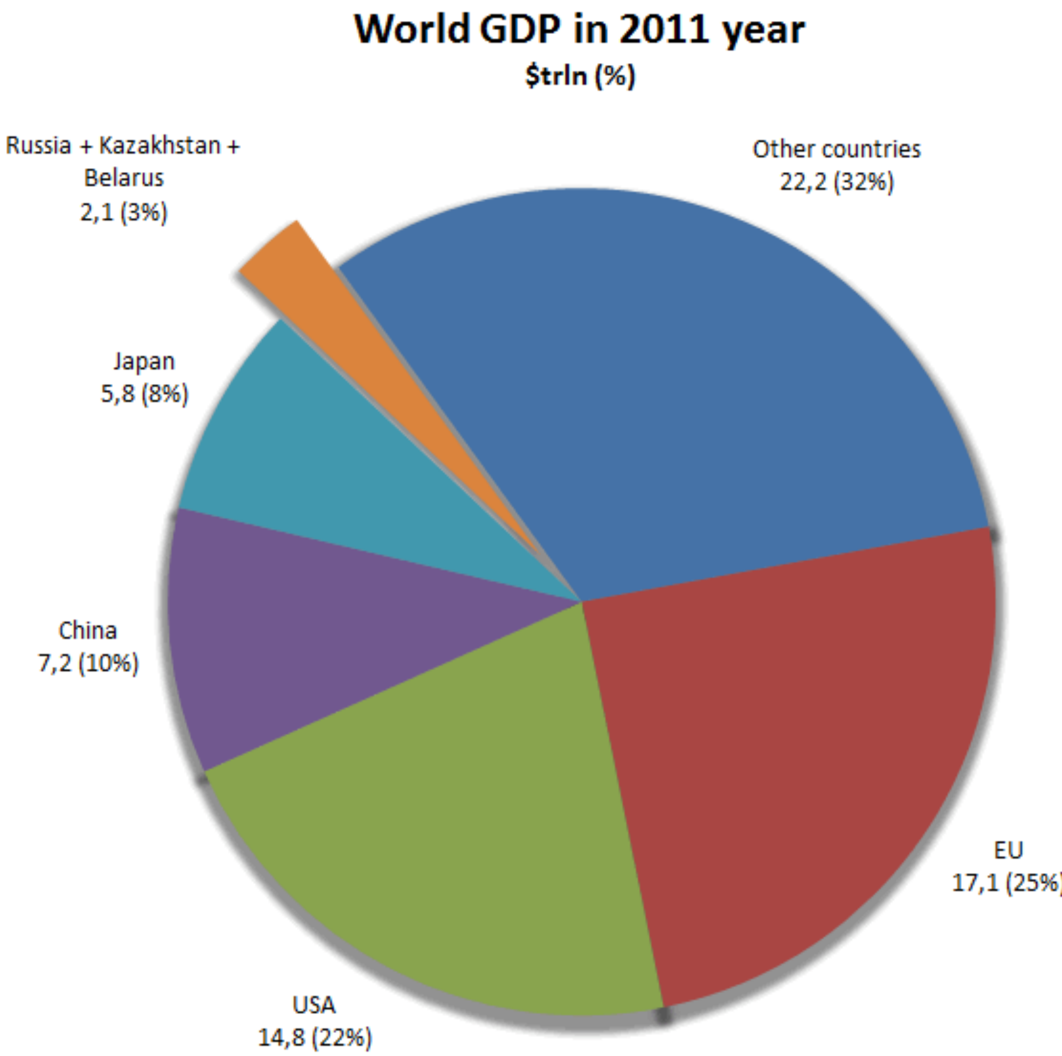


US indicators look really good:
-- Consumer – feels better, has debts paid down, is increasing their spending; consumer spending makes up 2/3 of the US economy
-- Corporations – profits are up and corporations are spending some money, but they are also apparently still a little nervous and holding cash
-- Stock Market – booming
-- House prices – much improved in many markets

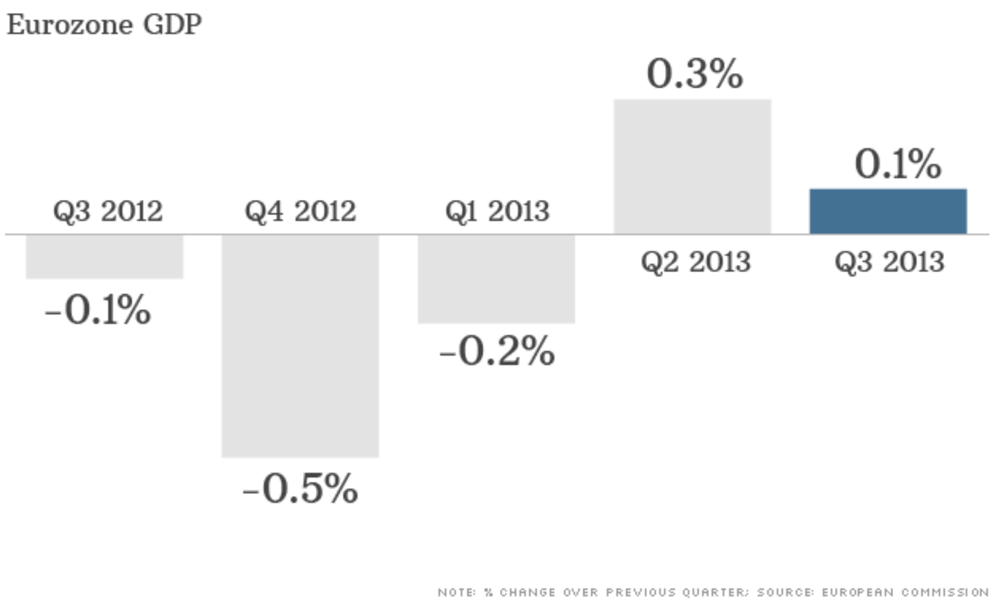
US indicators look good, but we operate in a changing world economy so we need to also consider international economies:



World Economies – 2011 GDP in trillions of dollars and percentage:



Eurozone recession may have ended with slight growth in Q2 and Q3-2013:



Although Eurozone unemployment is still high.

World Economy wrap-up:

- Eurozone still looks weak, but may be out of recession. In my view, Southern Europe will need a lot more accommodative monetary policy and more credit creation for many years to come; they've got to figure out how to grow, and they can't grow without bank credit
- China's economy slowed to ~8% growth, which is still not bad for an $8 trillion economy, and Japan's economy grew for four quarters in a row, and their stock market was up 57%
- Overall, our large world trading partners probably won't benefit us tremendously because they still look a little down from pre-recession levels, but they may be improving

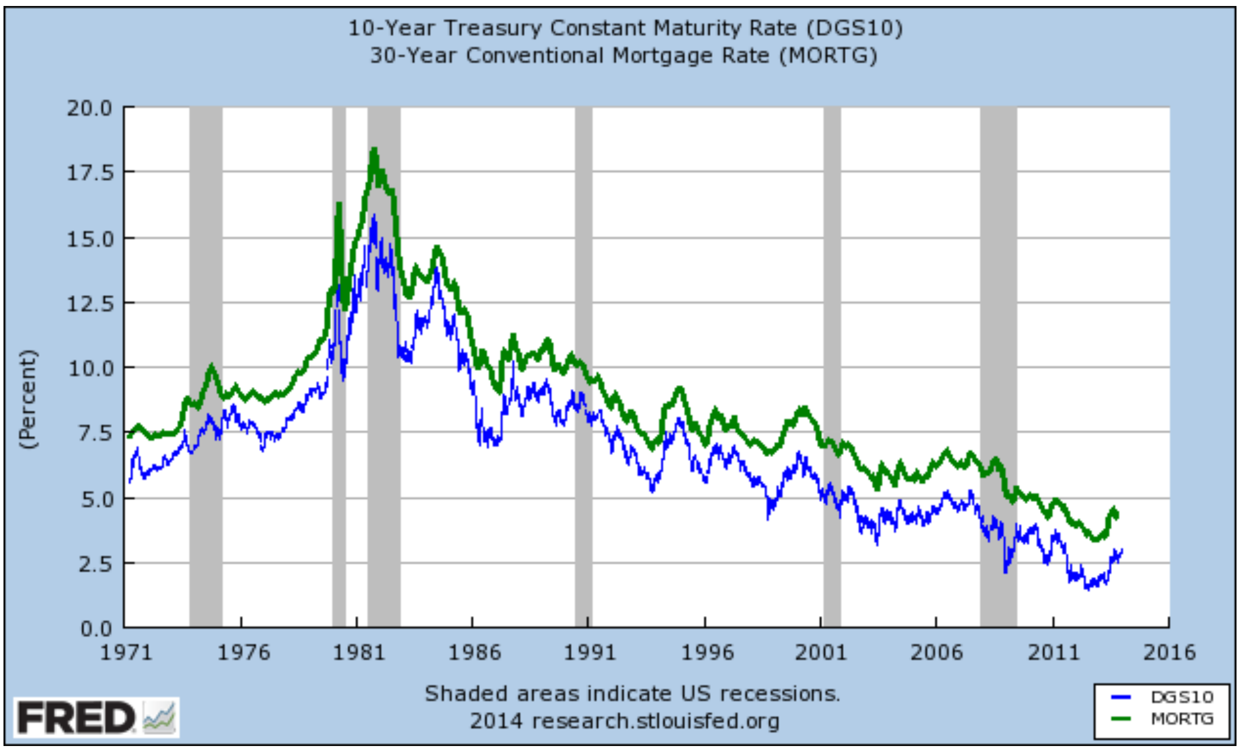
Interest rates are low across the economy, and across the world, and have been low for years.

After exhausting monetary policy, i.e., driving the fed funds rate to 0, the Fed has embarked on a series of quantitative easing measures to keep interest rates low

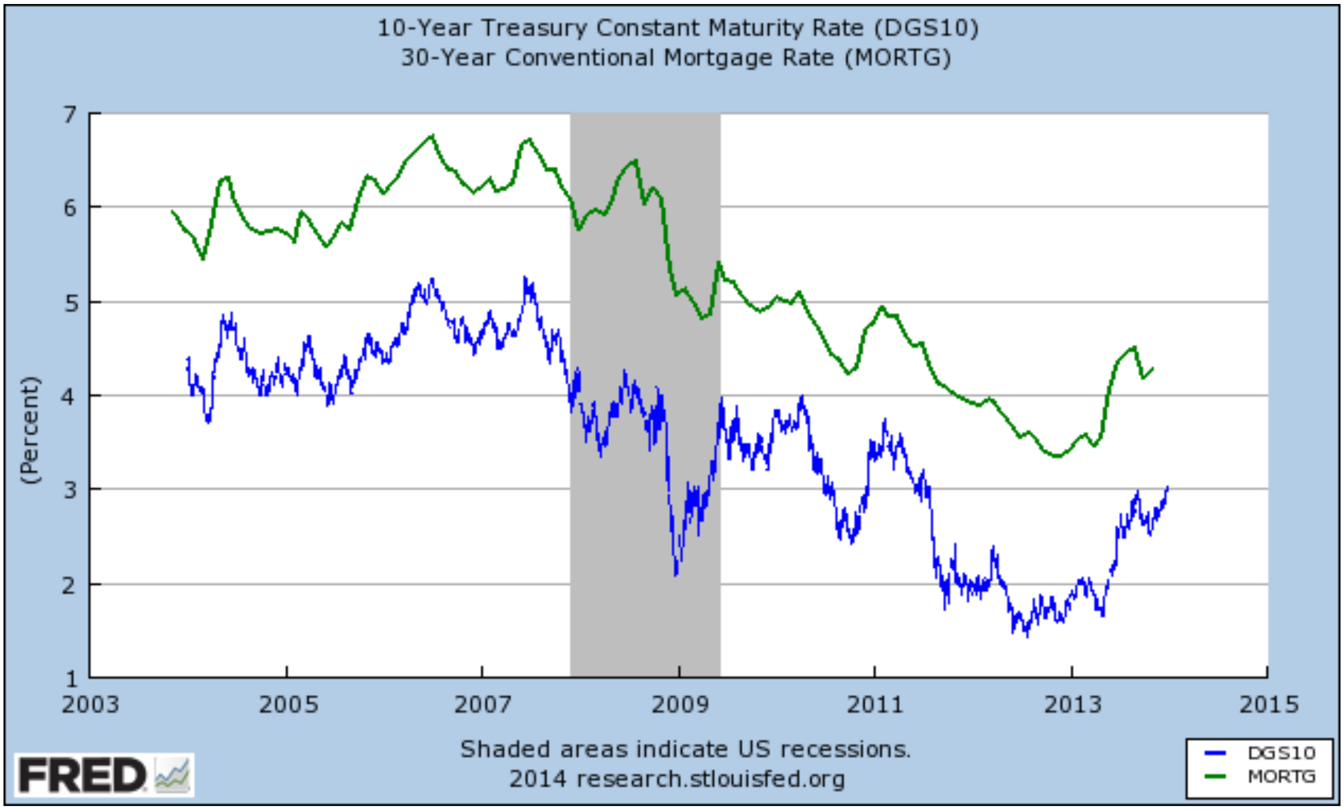
QE3 has included mortgage backed securities, and has helped to keep mortgage rates low, but QE3 may be ending

What can we expect for the future of interest rates, and mortgage rates?

10 year Treasury and 30 year mortgage rate: *1971 – today*



The last 10 years of the 10 year Treasury and Mortgage Rates:



The Fed uses Quantitative Easing, or QE, to try and keep interest rates low and credit available.

The Fed has two main tools that it uses when it wants to keep interest rates low and increase available credit at the banks:

1. Monetary Policy through the fed funds rate
2. Open market transactions where the fed purchases bonds from banks as a way to stuff the banks with money, keep rates low, encourage borrowers to borrow and banks to lend. This is what the Fed has been calling "QE"

Projections in the short run:
-- US economy seems to be gearing up for growth, although the labor market is still a bit weak, which is likely holding back both consumer spending and business investment. Let's hope for some wage growth and continued job creation and improved household income.
-- Interest rates may rise a bit more but I don't think they're going to go up very fast; the fed is still committed to low rates, and tapering is not tightening. Mortgages probably 4.% - 5.% , my guess is 5%.

Projections in the long-run:
"There appears to be a LOT of room for the world economy to grow, China and India to consume like we do, and for everyone to get rich".

Eldon Rude, Principal of 360 Real Estate Analytics, spoke about Austin Housing Economy.

The second attachment incudes the Top 10 Charts from his presentation which covers:

- Austin's Population Growth vs. Housing Units
- 2013 Migration Patterns
- The Austin Economy in regards to Annual Non-Ag Growth/Loss Trend
- Annual Home Price Change Trend
- The U.S. Economy and the 30 Year Fixed Rate Mortgage Trend
- Austin's Annual Closings & Average Sales Price Comparison
- Months of Supply of Listings & Average Sales Price Comparison
- Days on Market and Average Annual Price Change
- The Austin New Home Market – Single Family Permits Trend
- Single Family Permits Trend & Forecast

See the second attachment for the above charts.