

# A Survey of Real Estate Conditions

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**The views and opinions expressed in this presentation are solely those of the author and do not necessarily represent those of the Federal Reserve Bank of Richmond or the Federal Reserve System.**





# The Story...

- Where are we?
  - The housing market – still under stress
- How did we get here?
  - One underlying theme
- Where are we headed?
  - Further deterioration in housing and mortgage credit quality likely, with evidence of spillover into other forms of lending

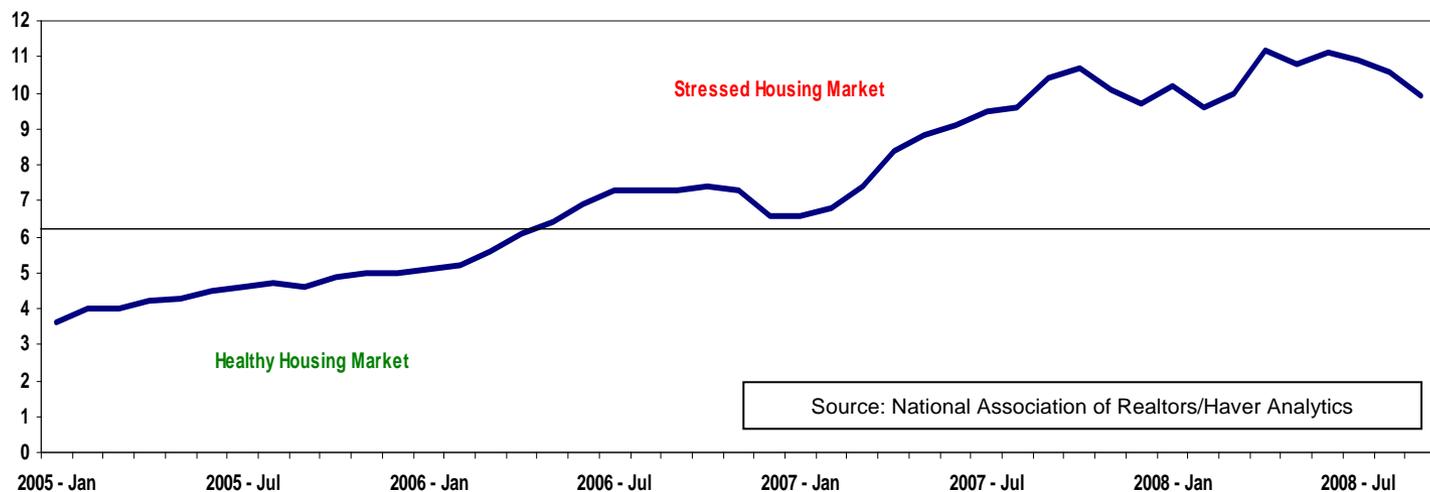




# The U.S. Housing Market – Months Supply

## Months Supply of Existing Homes

January 2005 - September 2008

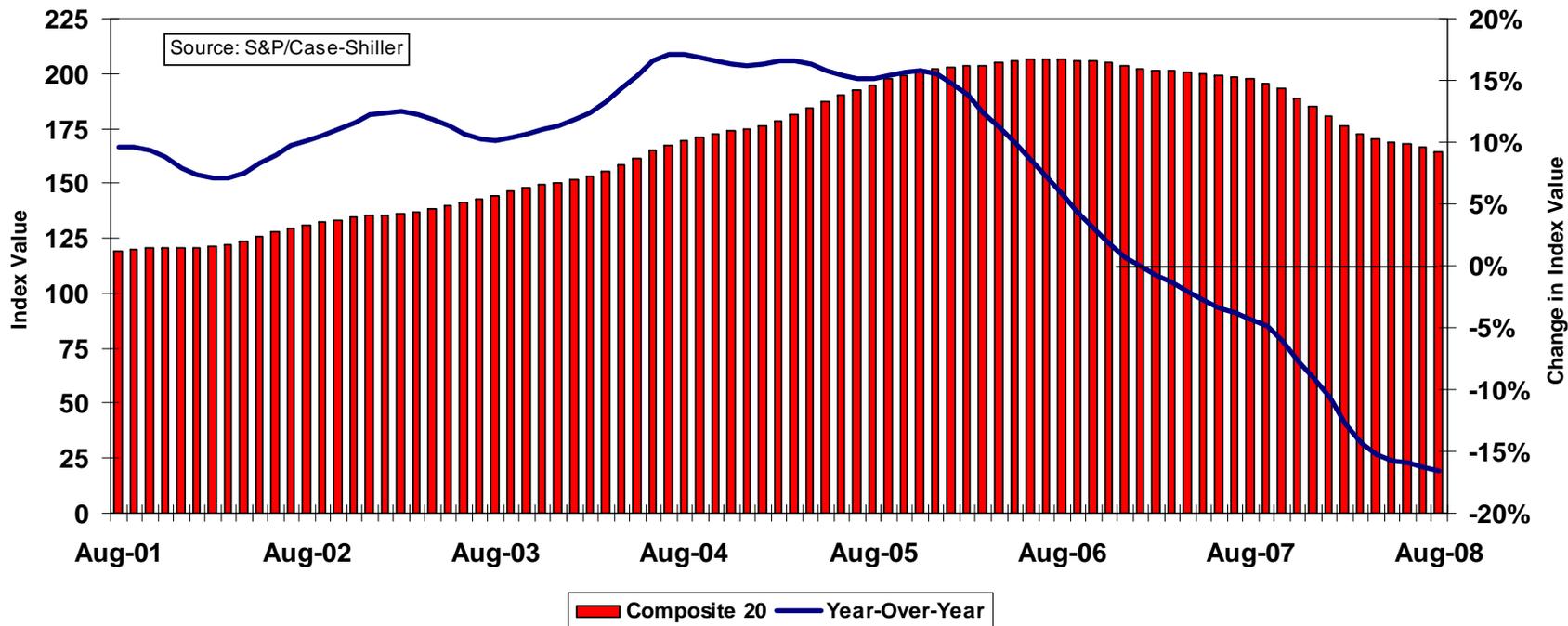


Inventories have improved recently, but still remain high.



# The U.S. Housing Market – Falling Prices

## S&P/Case-Shiller Composite 20 Index



Significant declines nationally. Prices may fall further until inventories ease.



# Virginia House Prices – Mixed Performance

Source: [www.oftheo.gov](http://www.oftheo.gov)

	June 2008	March 2008	December 2007	June 2007
Virginia	-2.60	-0.17	0.68	3.53
Blacksburg/Christiansburg/Radford	1.71	4.55	2.86	5.33
Charlottesville	-0.43	1.13	4.83	4.34
Lynchburg	3.26	3.72	6.17	10.00
Richmond	-0.39	2.25	3.68	6.83
Roanoke	2.52	4.45	4.08	7.68
Va. Beach/Norfolk/Newport News	-0.70	1.48	2.59	5.40
Washington, D.C./Arlington/Alexan.	-9.14	-5.35	-3.42	0.88
Winchester	-9.80	-4.49	-4.56	-2.48

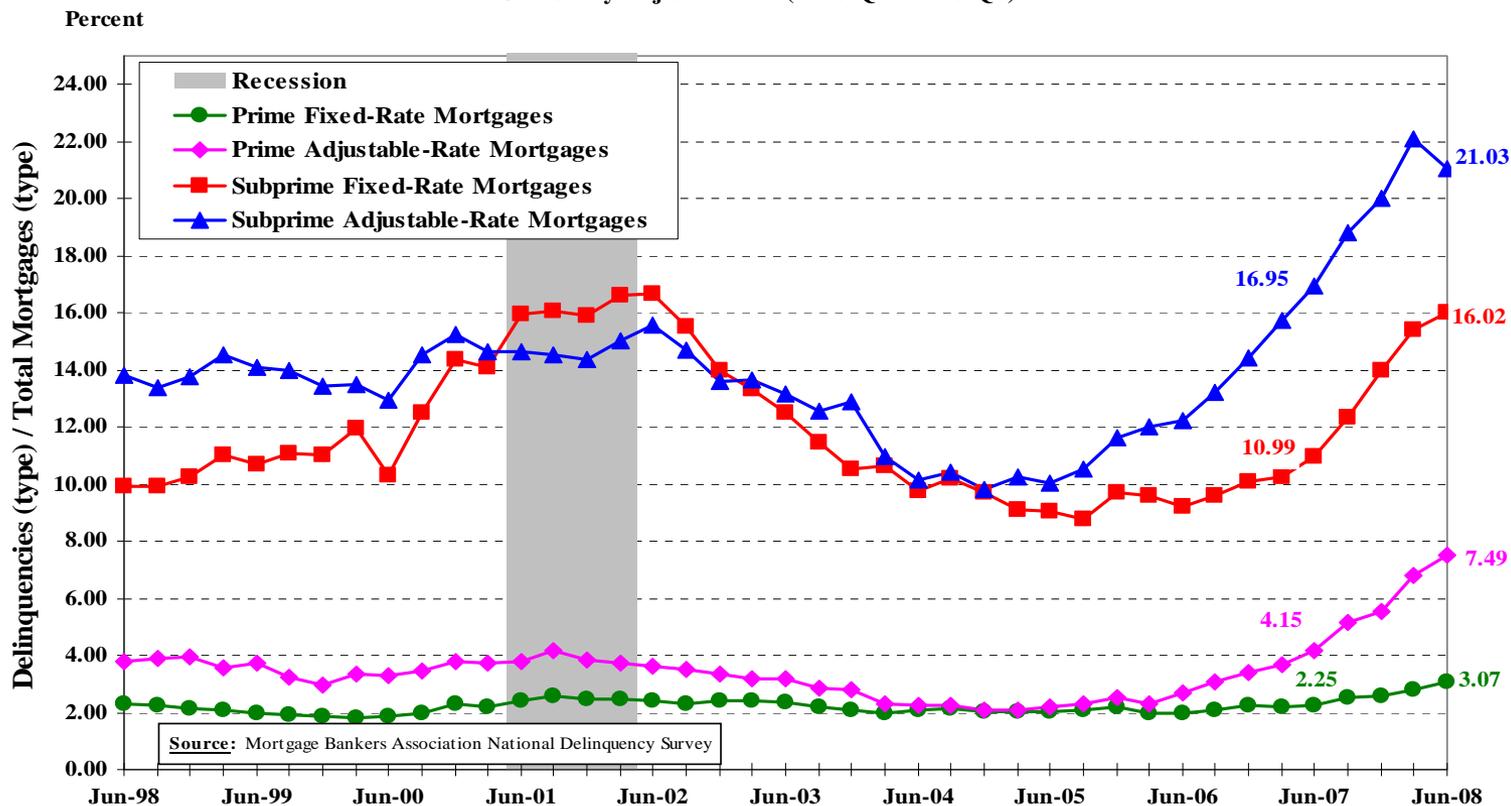
Not all Virginia MSAs are experiencing declining house prices.



# U.S. Mortgage Credit Quality – Rapidly Rising Delinquencies

## Residential Mortgage Delinquency Rates

Seasonally Adjusted Data (1998:Q2 - 2008:Q2)

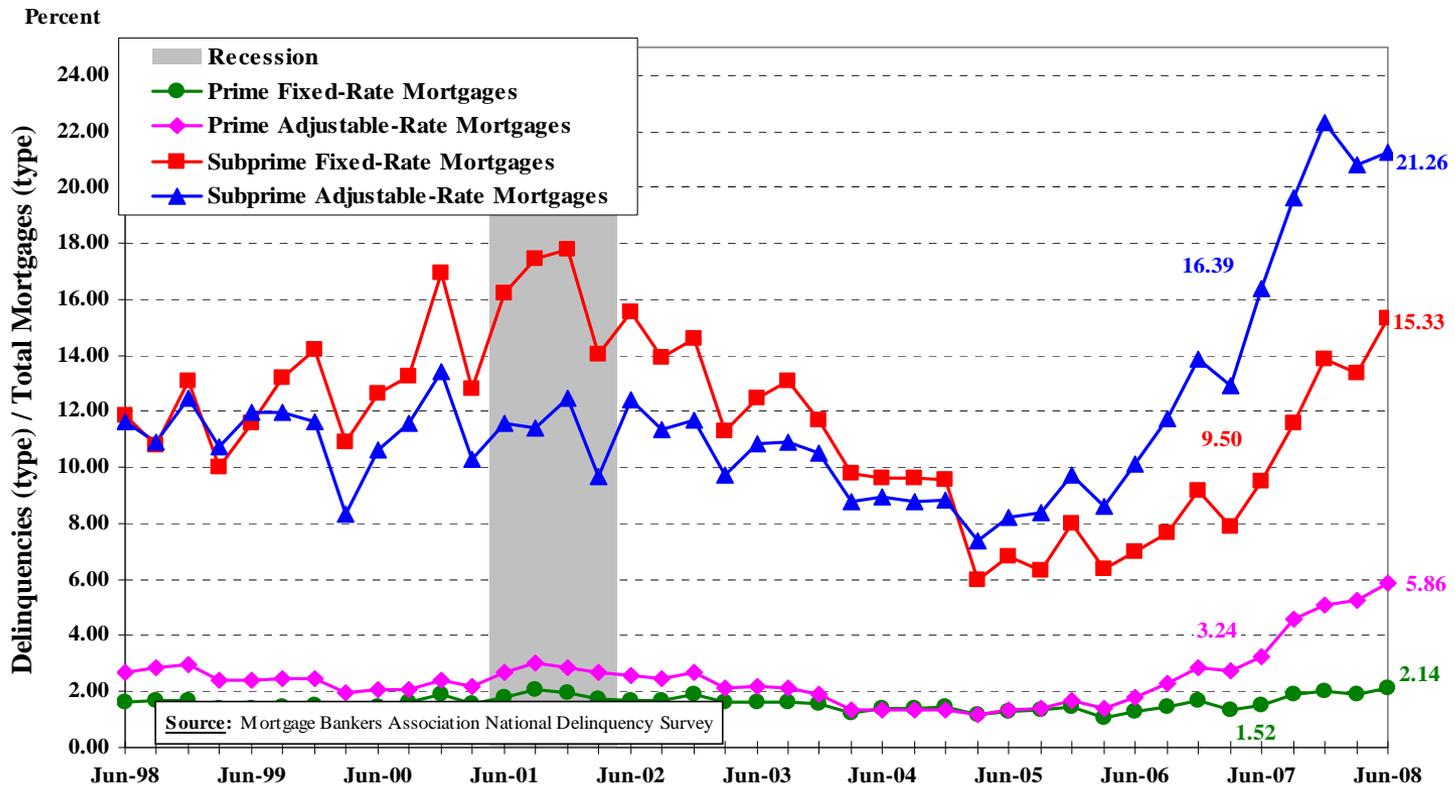


Major subprime problems, but prime loan quality also deteriorating.



# Virginia Mortgage Credit Quality – Delinquencies

**Virginia Residential Mortgage Delinquency Rates**  
Data Not Seasonally Adjusted (1998:Q2 - 2008:Q2)

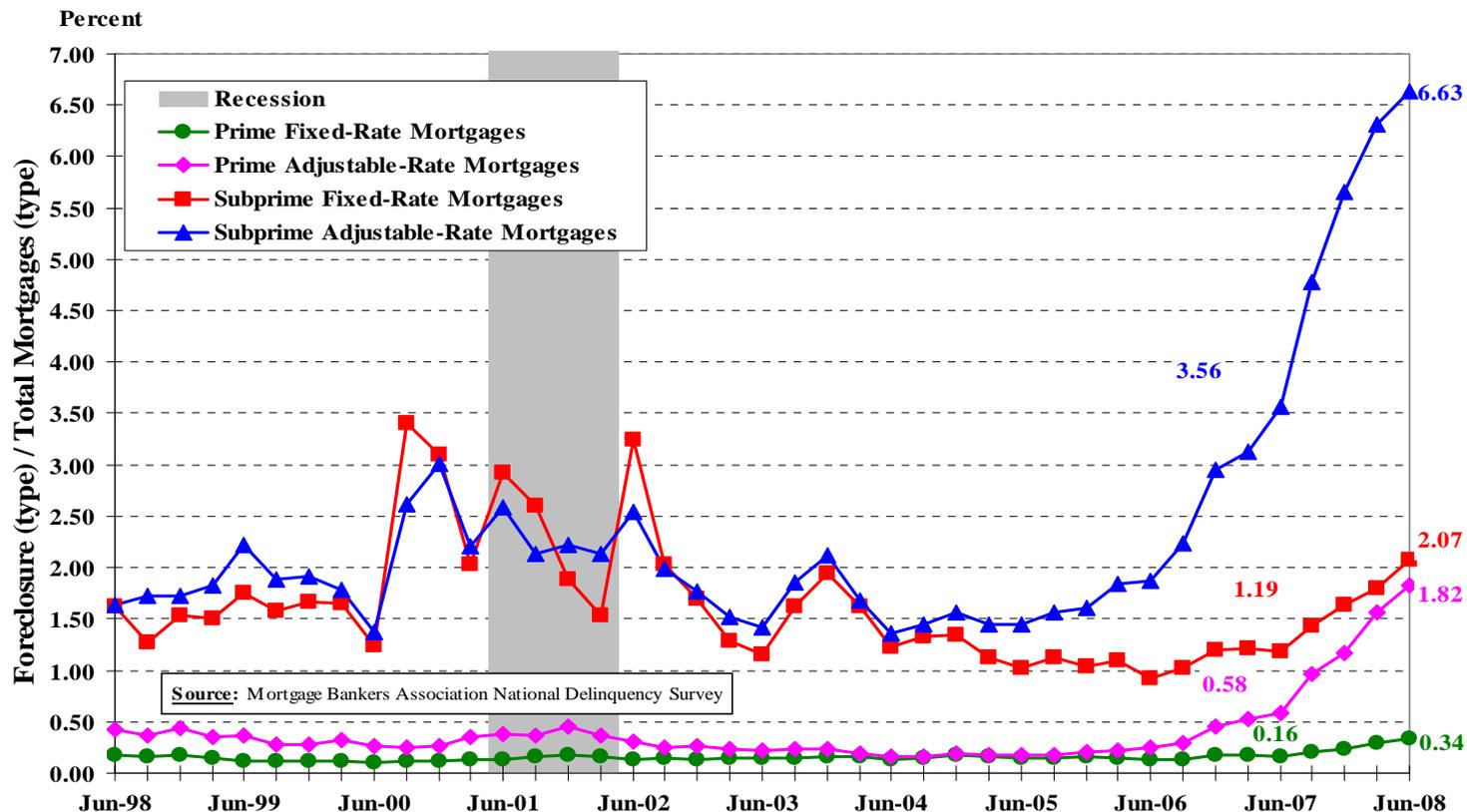


Deteriorating trends, but levels are generally lower than the nation.

# U.S. Mortgage Credit Quality – Unprecedented Foreclosures

## Residential Mortgage Foreclosure Rates

Data Not Seasonally Adjusted (1998:Q2 - 2008:Q2)



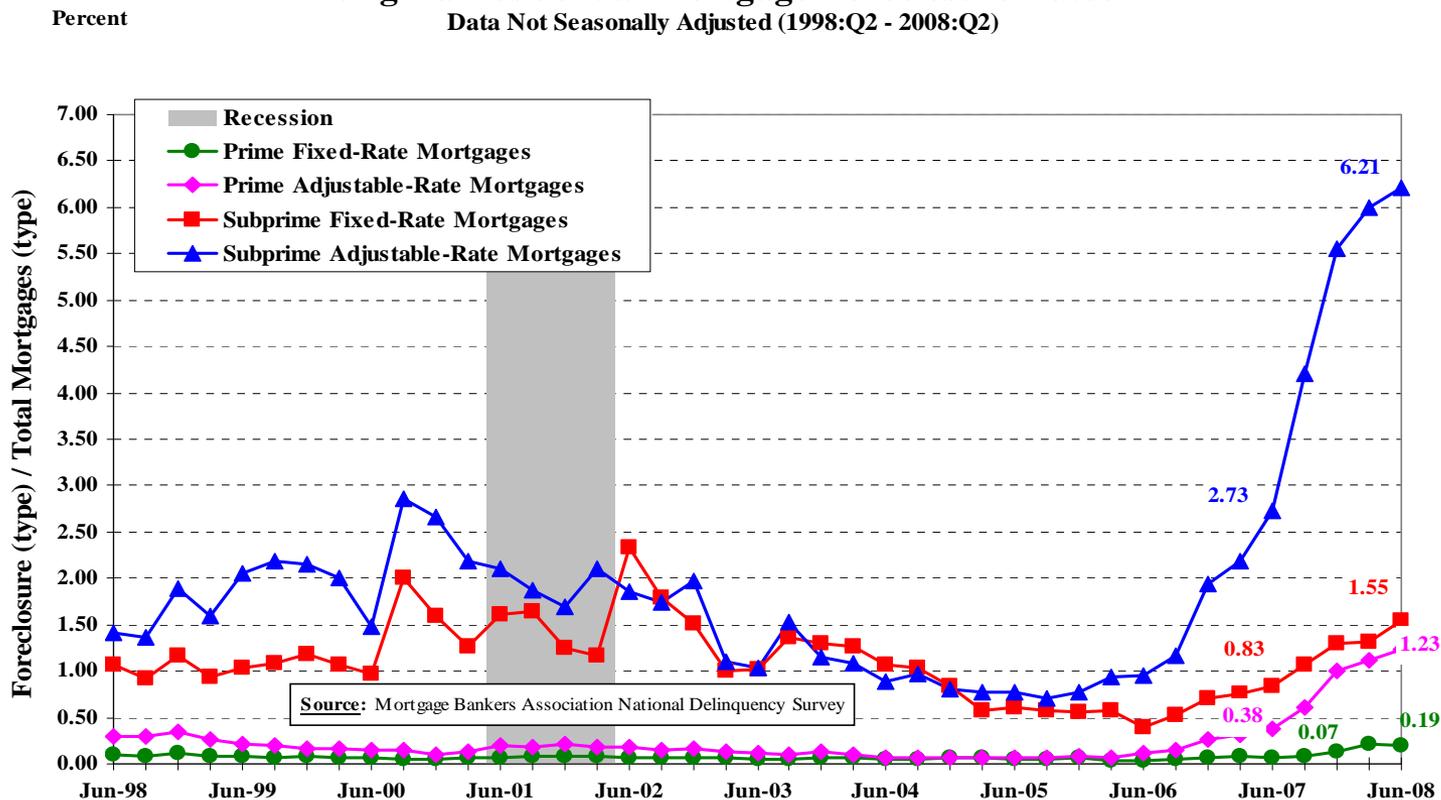
Record foreclosures with subprime leading the way.



# Virginia Mortgage Credit Quality – Foreclosures

## Virginia Residential Mortgage Foreclosure Rates

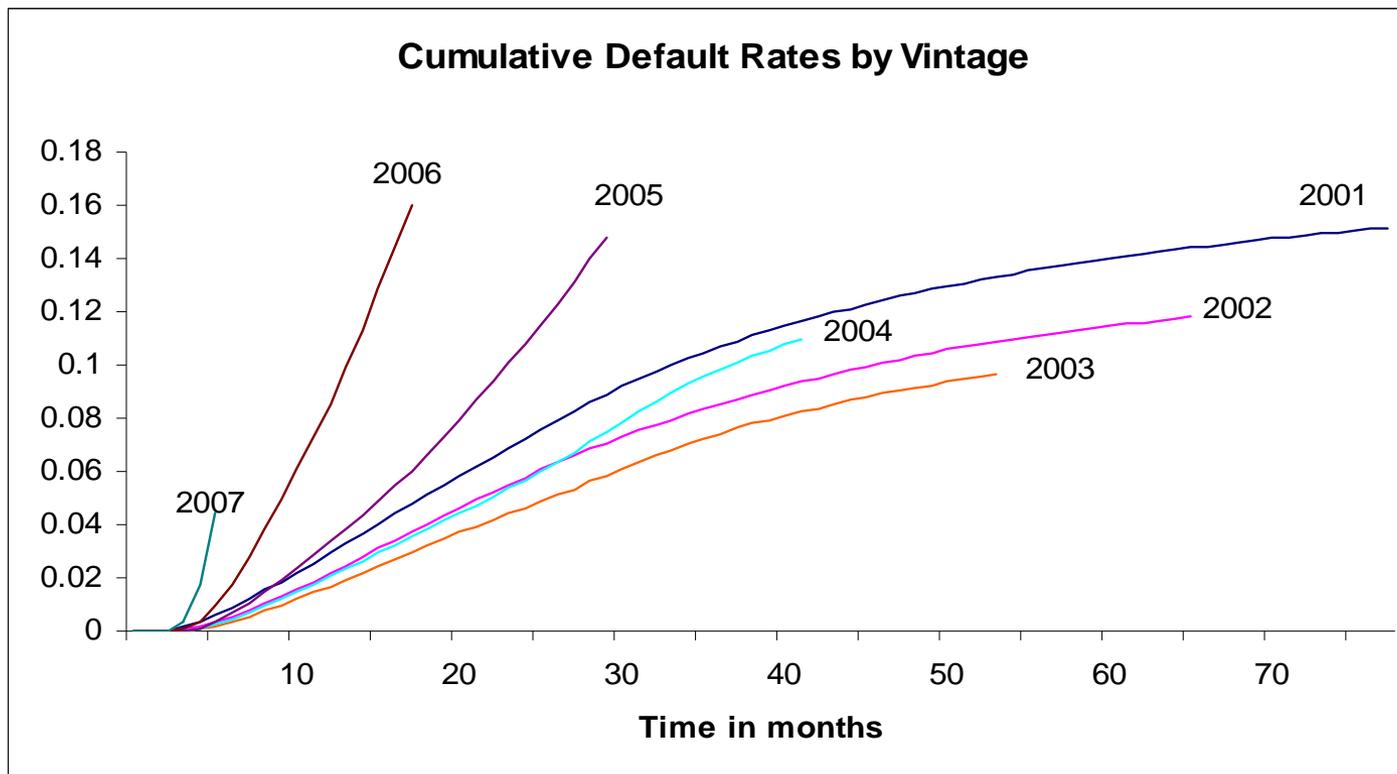
Data Not Seasonally Adjusted (1998:Q2 - 2008:Q2)



Rapidly rising foreclosures, but still better than the nation as a whole.



# How Did We Get Into This Mess?



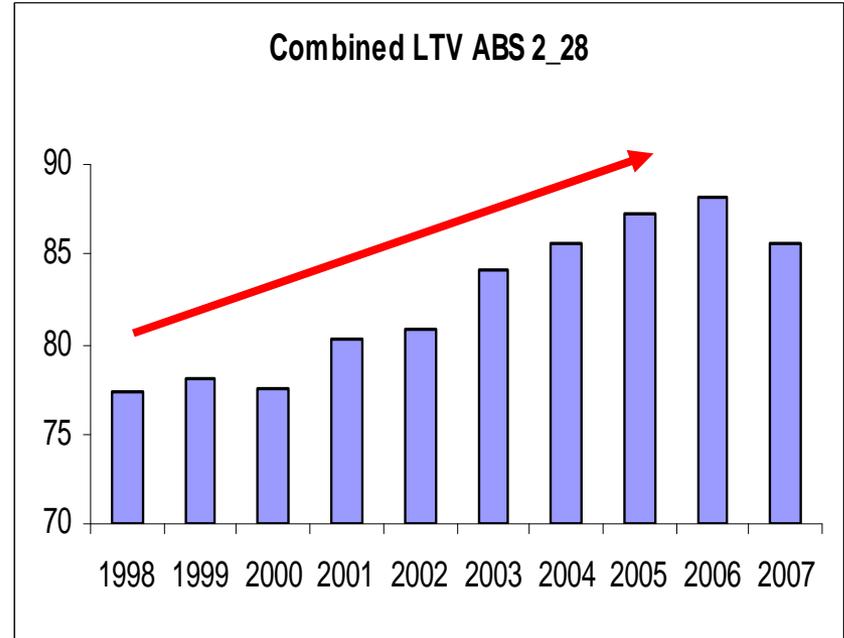
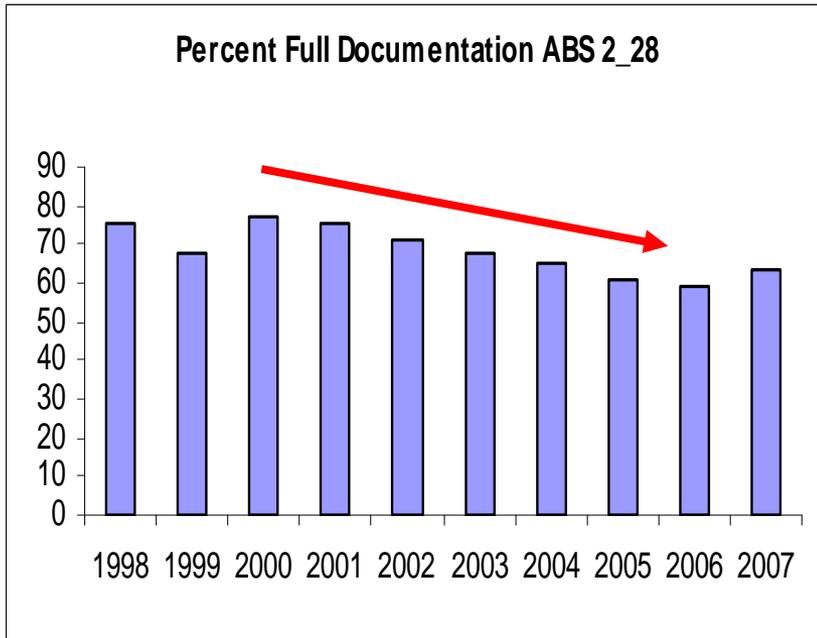
Source: Federal Reserve Board calculations using Loan Performance data

Weaker performance at the peak of the housing bubble: Underwriting.





# Underwriting: Documentation and Loan-to-Value



Source: Federal Reserve Board calculations using Loan Performance data

Documentation requirements went down at the same time LTV's went up.





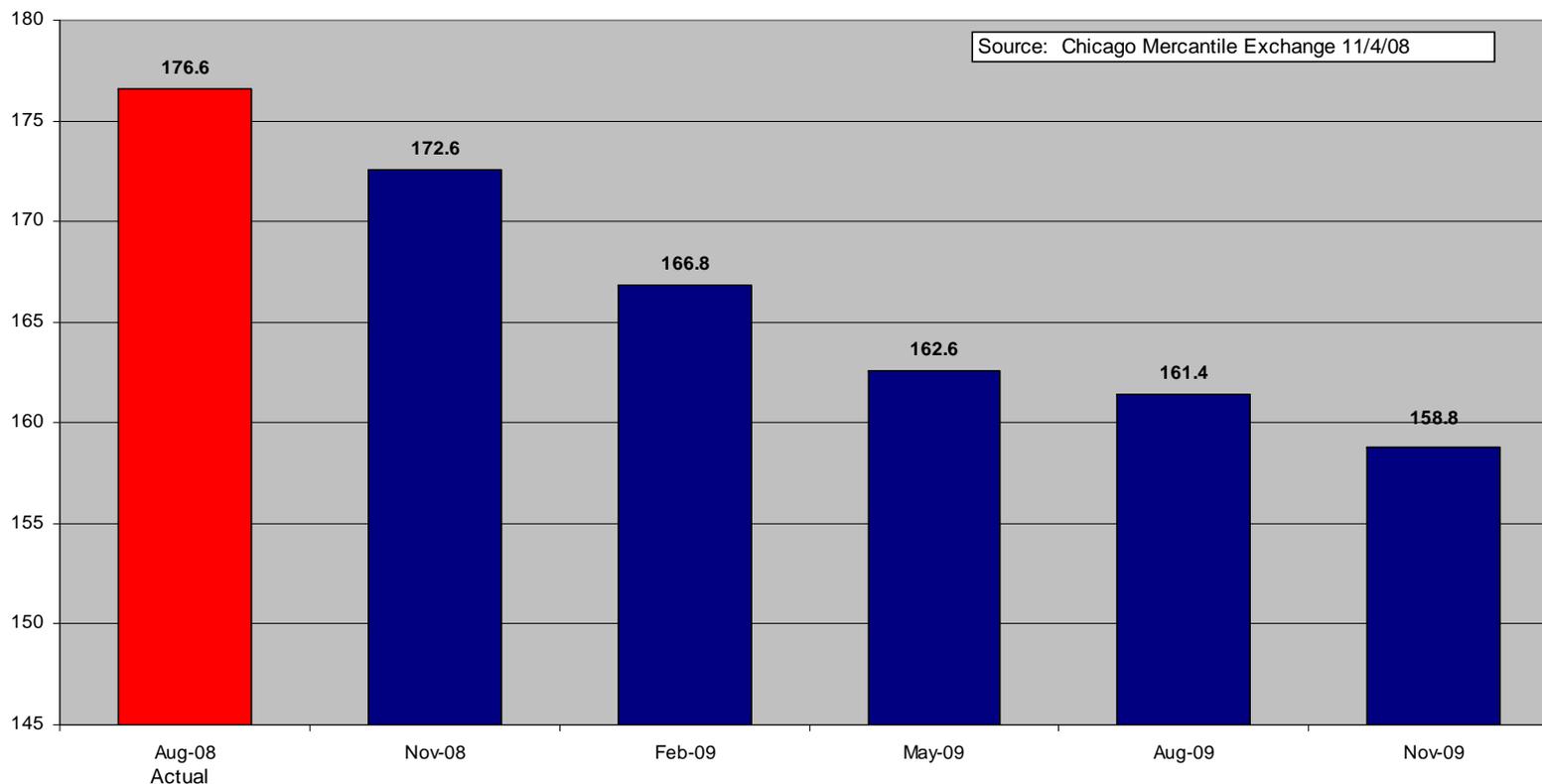
# Underwriting - Where did the “C’s” go wrong?

- Character
  - ✓ “Willingness to pay.” A strong credit history demonstrates prudent financial management.
- Capacity
  - ✓ “Ability to pay.” Income verification and monthly cash flow establish a basis for sustainable home ownership.
- Collateral
  - ✓ Honest, not aggressive, appraisals provide a foundation for home ownership.
- Capital
  - ✓ Even a small down payment helps.



# Where Are We Headed – Housing Prices

CME Futures on S&P/Case-Shiller Index

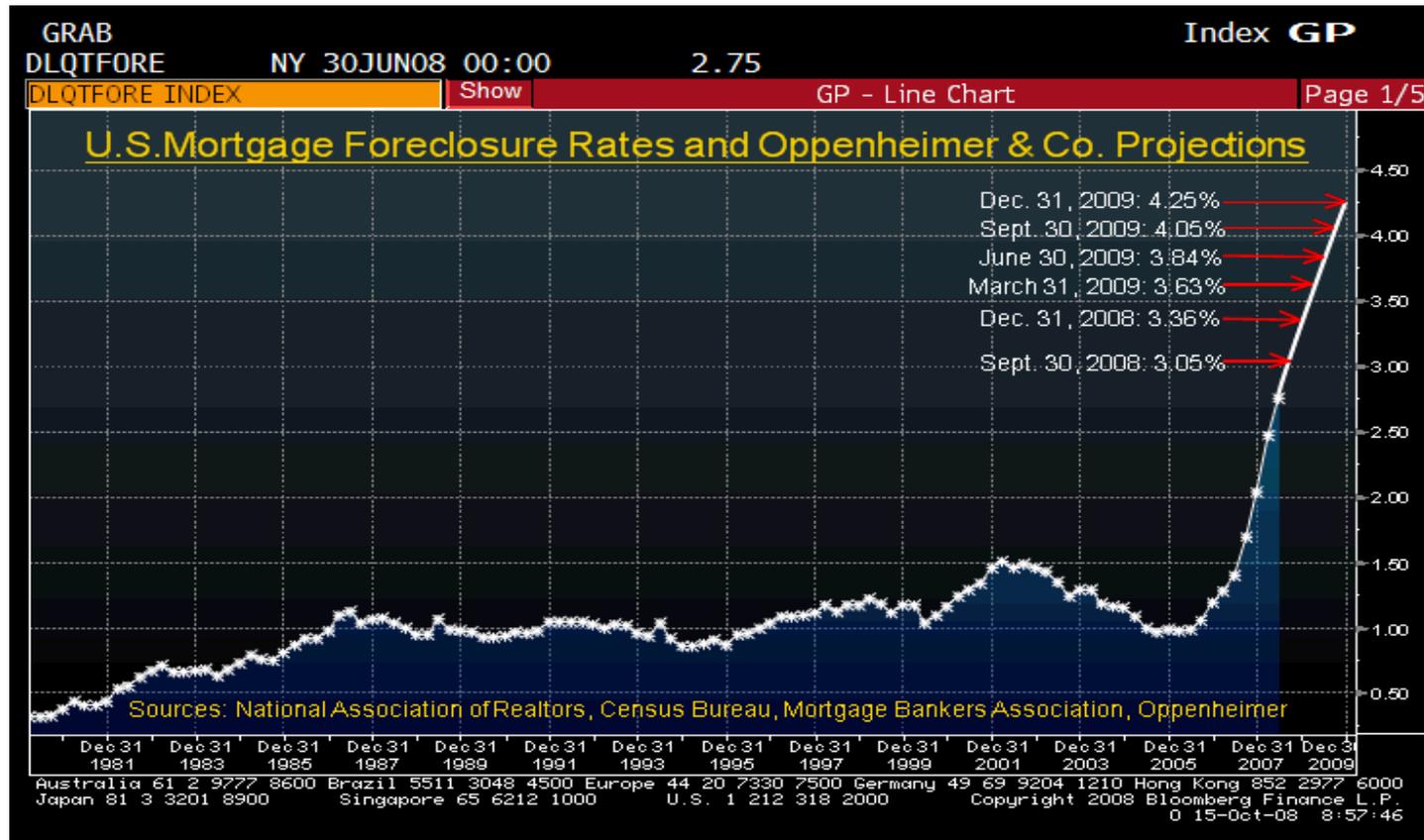


The market says it will take some time for housing prices to bottom out.



# Where Are We Headed – Foreclosures

Source: Bloomberg

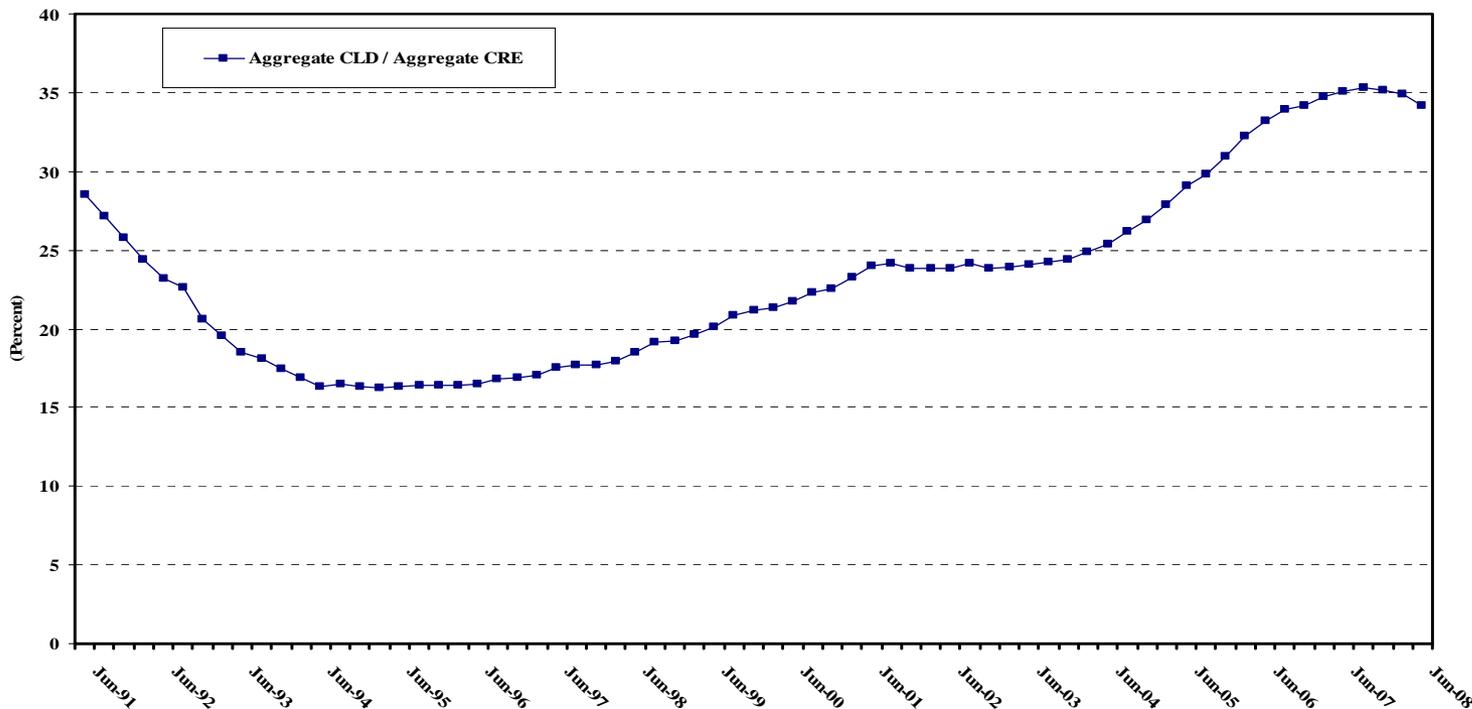


Such deterioration would likely involve more prime loans.



# Spillover - The CRE/RRE Link

Construction and Land Development (CLD) Grows as a Portion of CRE  
1991:Q2 - 2008:Q2



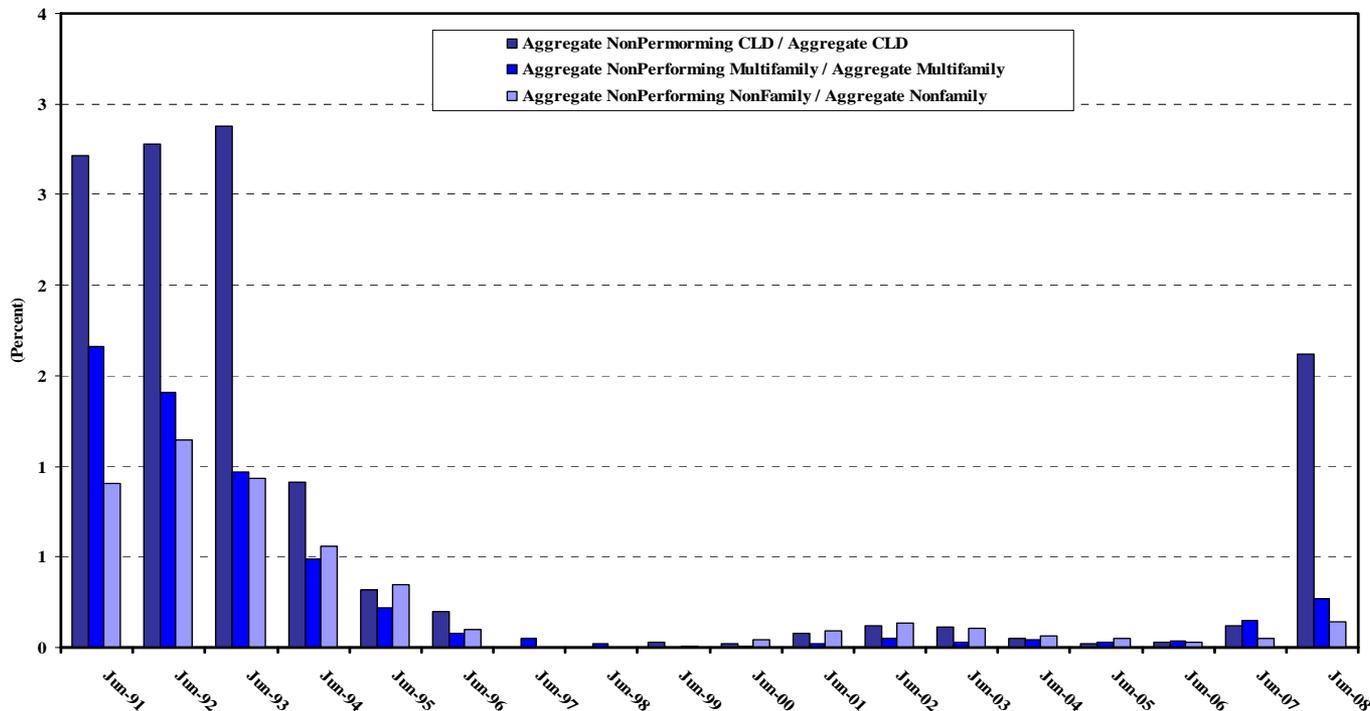
Source: Consolidated Reports of Condition and Income

Construction & Land Development higher than the early 1990's.



# Deteriorating CRE Performance

National Commercial Real Estate (CRE) Chargeoffs  
1991:Q2 - 2008:Q2



Source: Consolidated Reports of Condition and Income

CLD fared the worst previously and performance is deteriorating again.



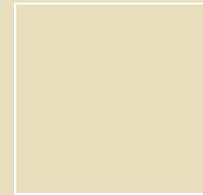


## Recap

- The housing market is characterized by oversupply and falling prices.
- U.S. mortgage loan performance has deteriorated significantly and now has surpassed levels seen at the last recession.
- Virginia's performance a mixed bag—it has deteriorated significantly, but still compares favorably to the nation.
- Weakened underwriting standards were a major factor.
- Spillover into commercial real estate (construction and land development) and home equity evident.
- Still not out of the woods yet.



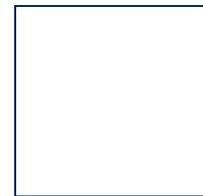
# Questions?



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