

# What to Expect in the 2015 Housing Market

Freddie Mac Update Call

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Vice President and Chief Economist

January 22, 2015

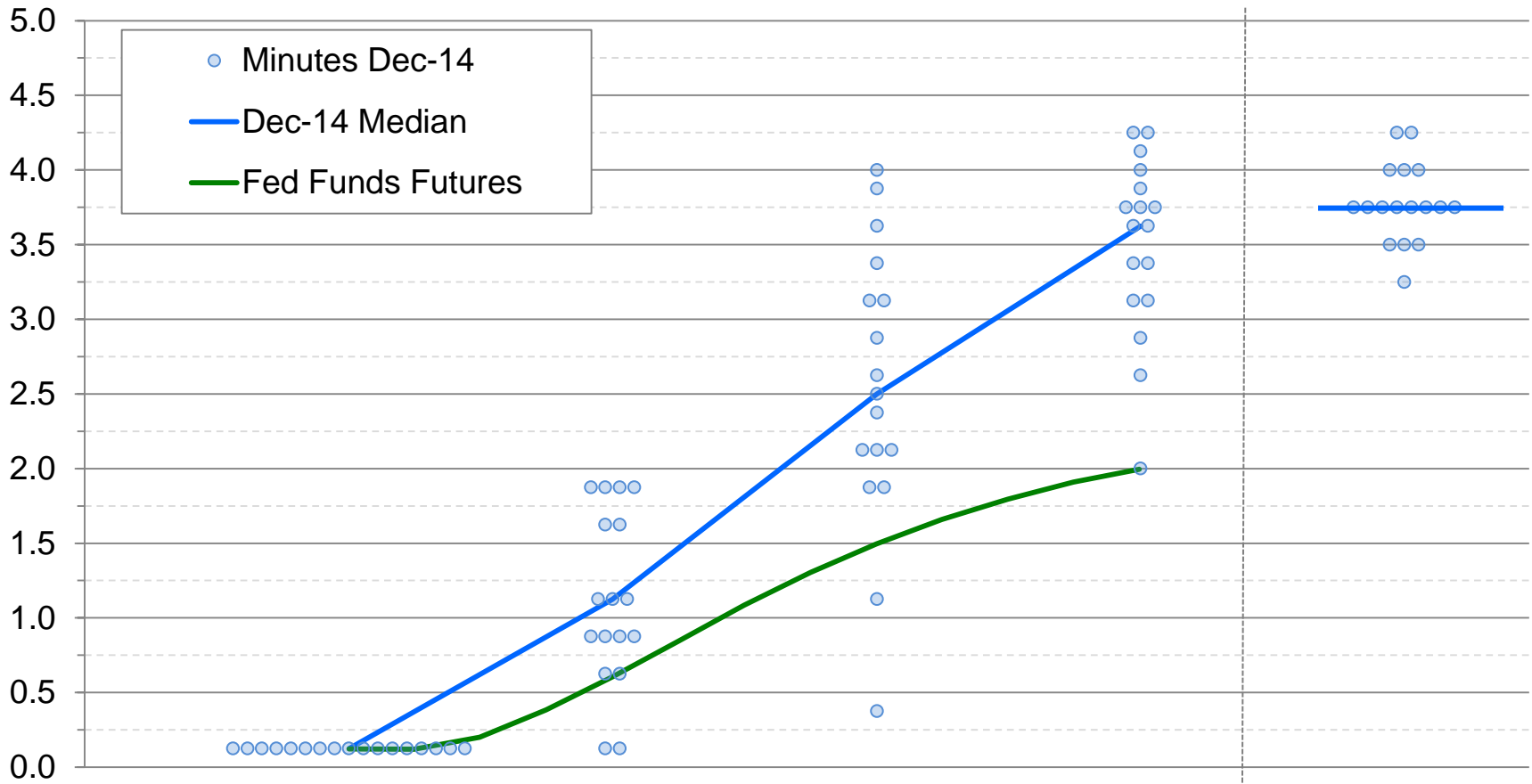
# Summary: Housing & Mortgage Market Outlook for 2015

- Interest rates expected to rise.
  - » 30-year FRM projected to rise slowly to 4.5% by end of 2015.
  - » Economic growth (3.0%) in 2015 drives borrower income gains.
- Buyer affordability will remain strong in most metro areas.
- Home sales: 2015 expected to be best since 2007.
  - » New home sales expected up 15%
- Home values projected to rise in most metro areas.
  - » U.S. house-price index projected to be up 3-4% in 2015.
- Originations: More Single-family Purchase, less Refi



Our Multi-Indicator Market Index (MiMi) can be a local market gauge.

# Federal Funds Target Expected to Rise



	2014	2015	2016	2017	Longer Run
<b>Dec – 14 Median</b>	0.13	1.13	2.50	3.63	3.75
<b>Fed Funds Futures</b>	0.12	0.61	1.50	2.00	

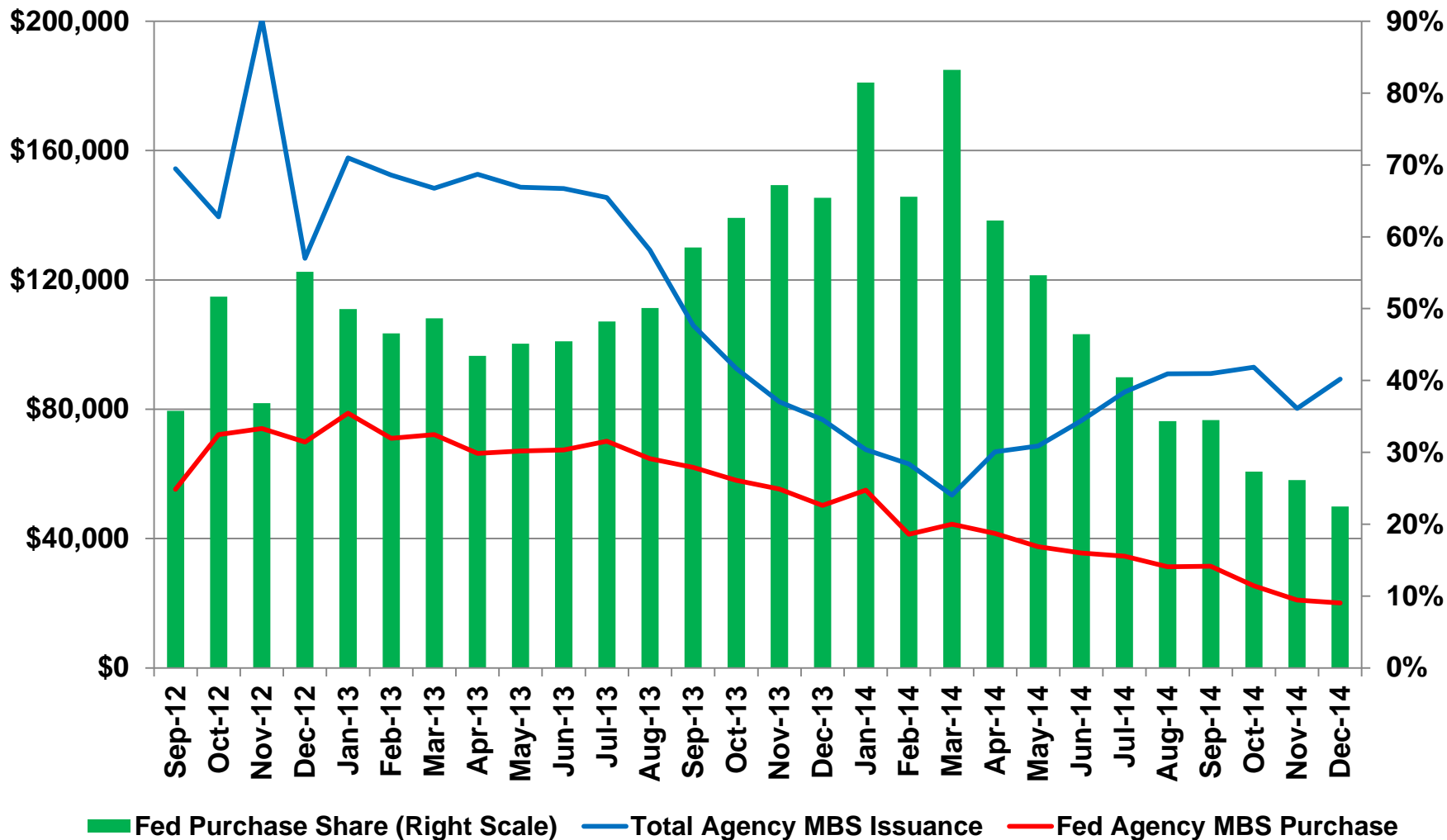
Source: Fed Futures from Bloomberg on 12/17/2014. In the bottom plot each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual FOMC participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

# Fed's Purchase Share of New MBS During 'QE3'



MBS Volume (Billions of Dollars)

Share (%)

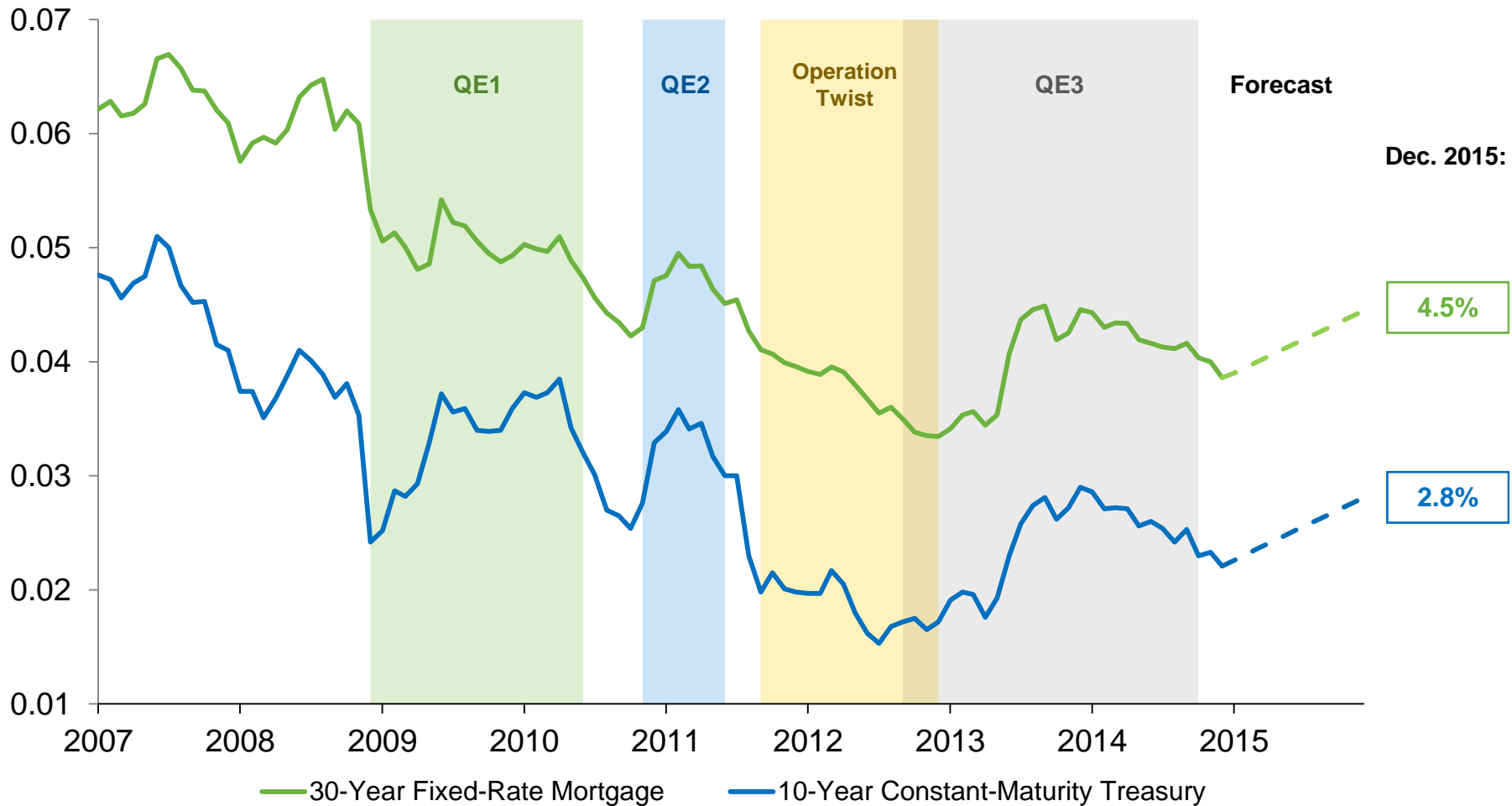


Sources: Freddie Mac, Fannie Mae, Ginnie Mae, Federal Reserve Bank of New York.

# Fixed-Rate Mortgage Rates To Slowly Rise

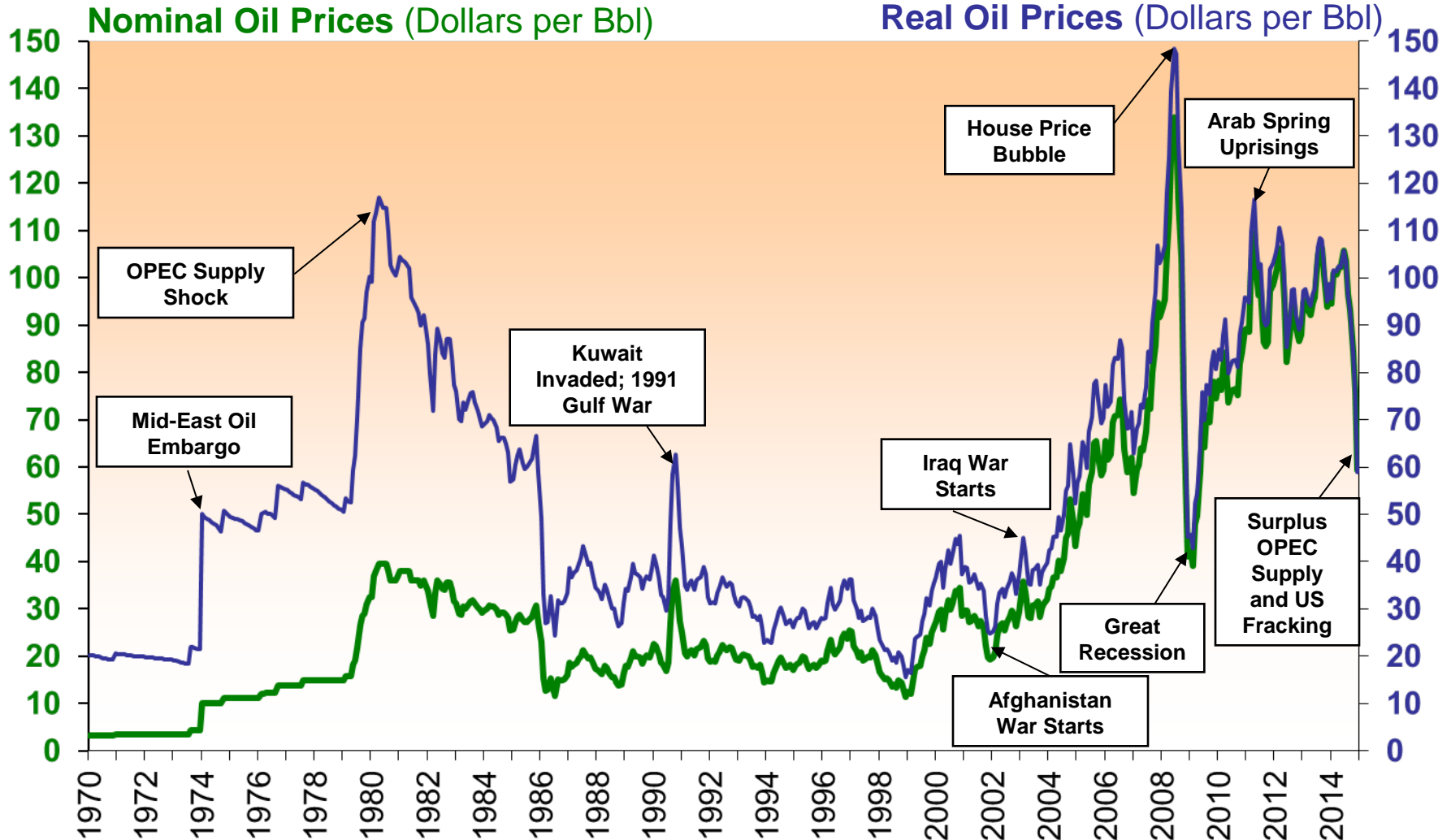


Interest Rate on 30-Year Fixed-Rate Mortgages and 10-Year Constant Maturity Treasury (Percentage)



Source: Freddie Mac Primary Mortgage Market Survey®, U.S. Board of Governors of the Federal Reserve System (H.15)

# Recent Oil Price Drop Expected to Be a Net Plus for U.S. Economic Growth



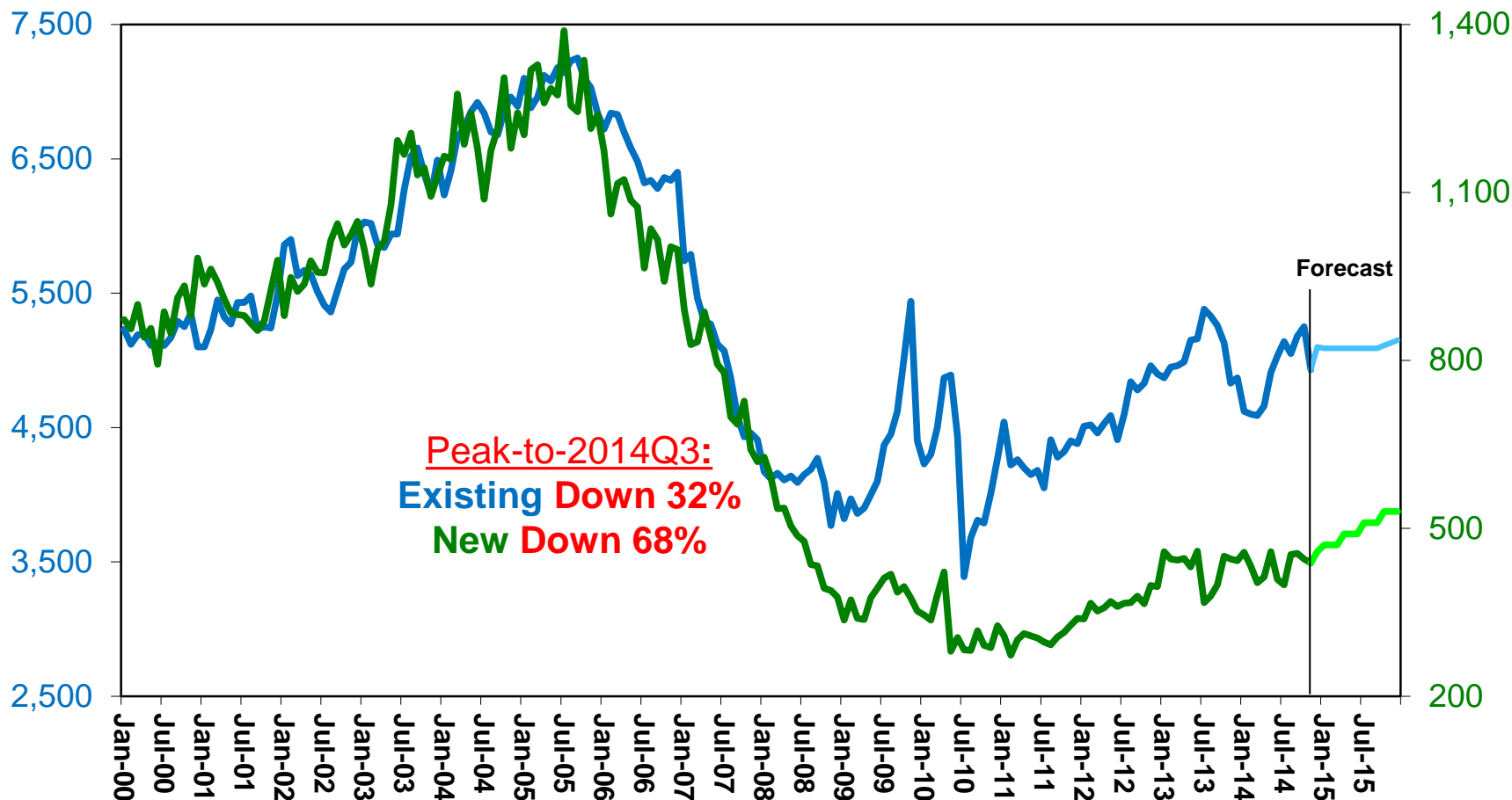
Source: U.S. Bureau of Labor Statistics (CPI Less Energy, 2014=100), Federal Reserve Bank of St. Louis

# Home Sales: 2015 Projected Up 4% from 2014 (2015 Expected to Have Most Sales Since 2007)



## U.S. Existing Home Sales (Thousands)

## U.S. New Home Sales (Thousands)

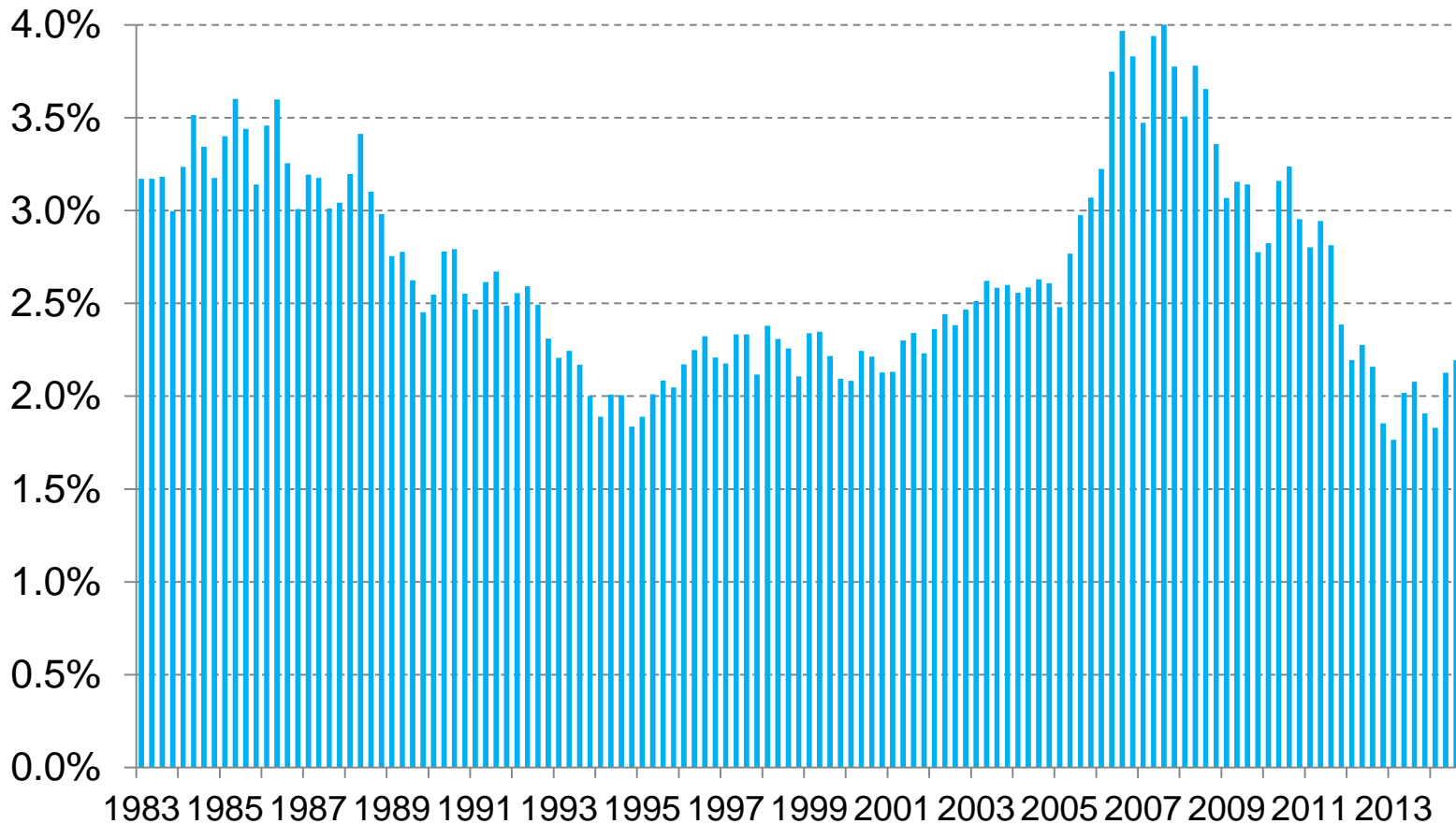


Sources: US Census Bureau, National Association of Realtors®; "Peak" is 2005Q3.

# For-Sale Inventory of Homes Has Recently Been Very Low



## Homes-For-Sale Inventory as a Percent of Households



Sources: National Association of Realtors, U.S. Census Bureau (New Residential Sales and Housing Vacancy Survey)

Note: Existing home inventory excludes Condo & Co-op Inventory before 1999.



Existing home inventory is low because....

- Many homeowners remain underwater
  - » CoreLogic estimated 5.1 million owners 'underwater' as of Sept. 2014
  - » Expiration of Mortgage Debt Forgiveness Act at end of 2013 reduced short-sale supply
- Foreclosure-to-REO flows have declined, thus REO sales down
- Many homeowners have no debt or low-rate debt
  - » About one-third of homes owned 'free and clear' of debt
  - » BEA estimated average interest rate on debt outstanding is 3.9%

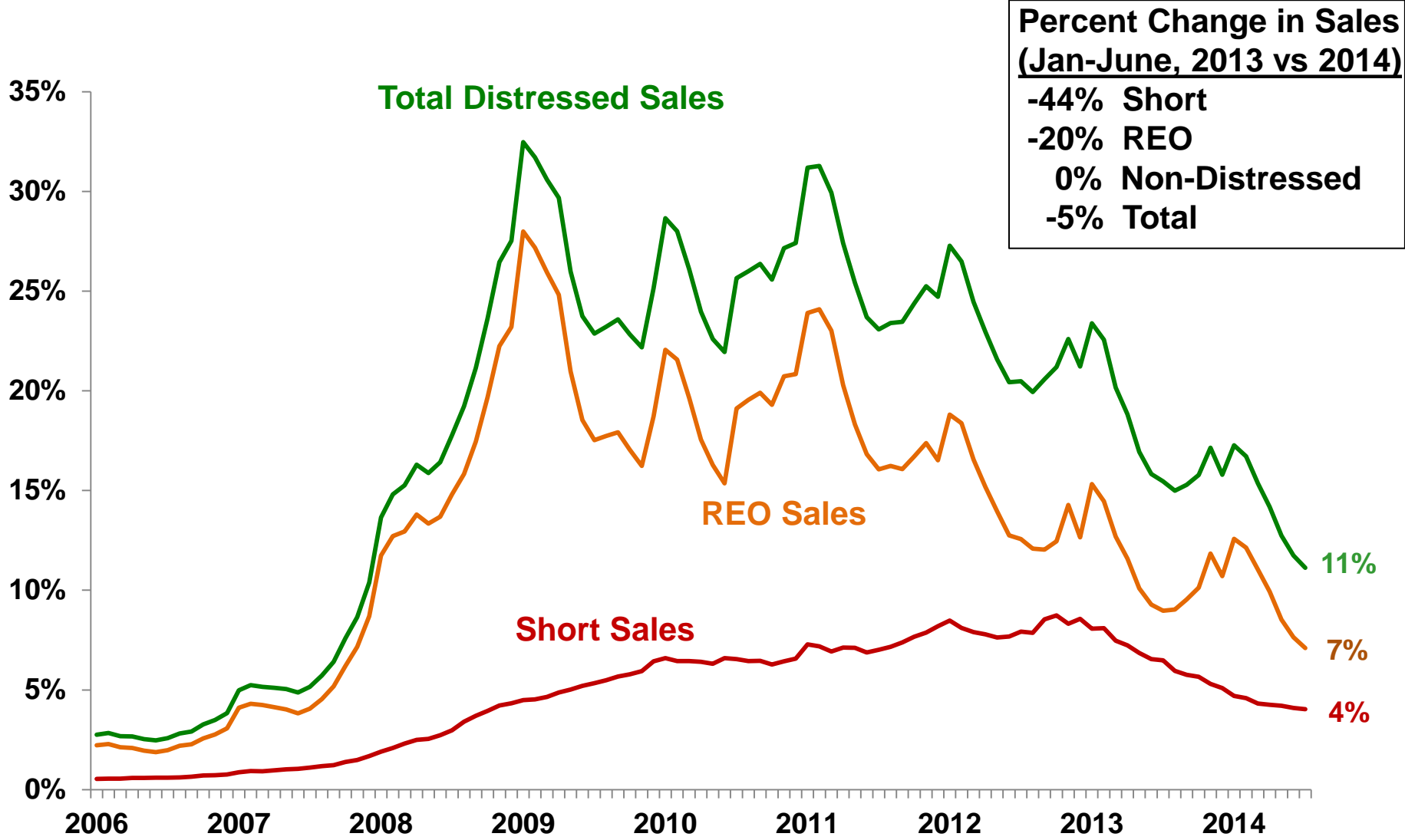
New home inventory is low because....

- Home builders are concerned about future demand, tight credit
  - » Existing 'trade-up' movers may stay put
  - » Household formations have been exceptionally low
  - » Acquisition-Development-Construction credit relatively 'tight'



Lessened inventory helps to sustain price increases

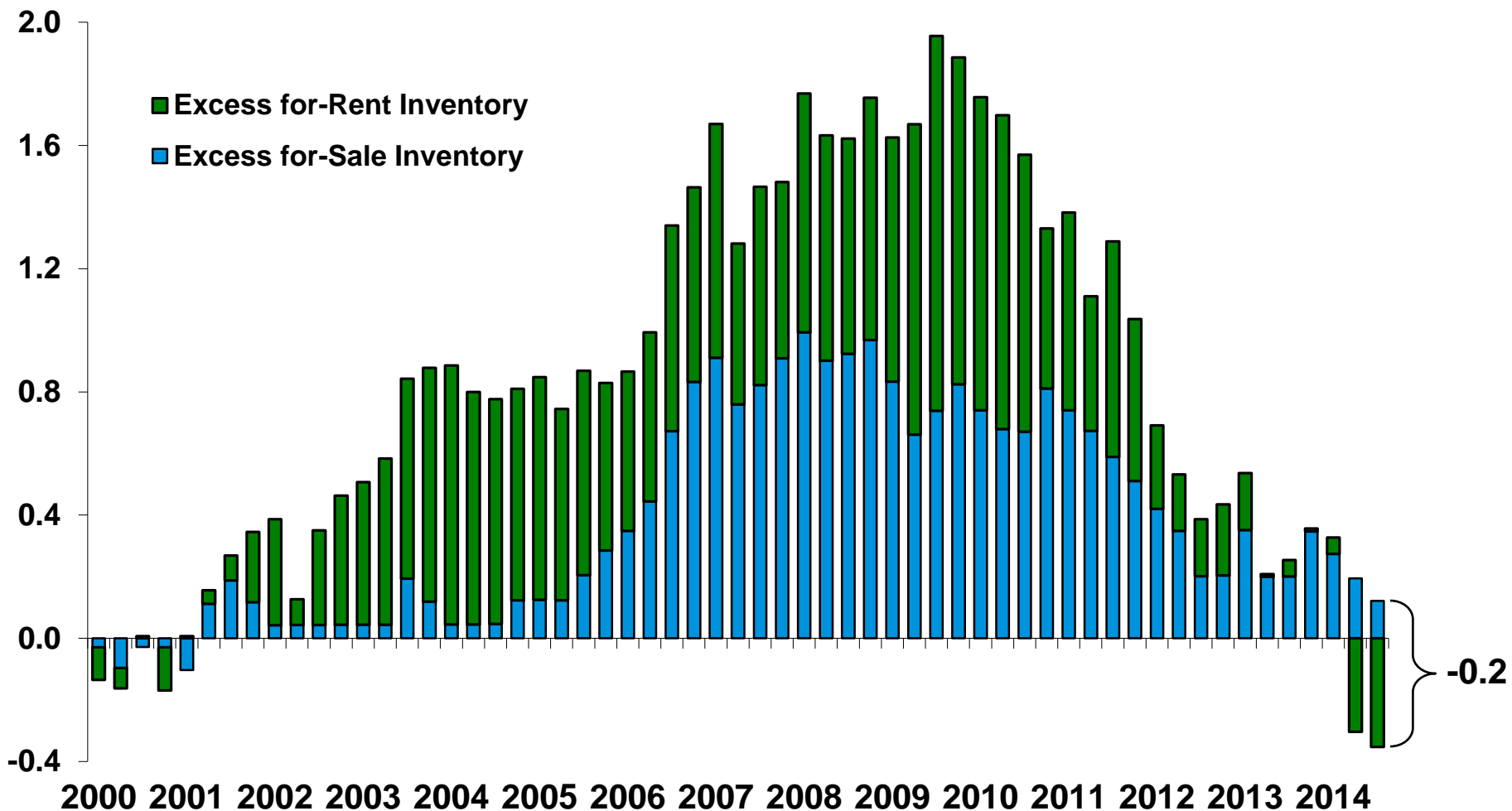
# REO and Short Sales Have Dropped over the Past Year



Source: CoreLogic Market Trends, through September 2014

# Vacancy Rate Back to 'Normal' – Rental is 'Tight', For-Sale Close to 'Average'

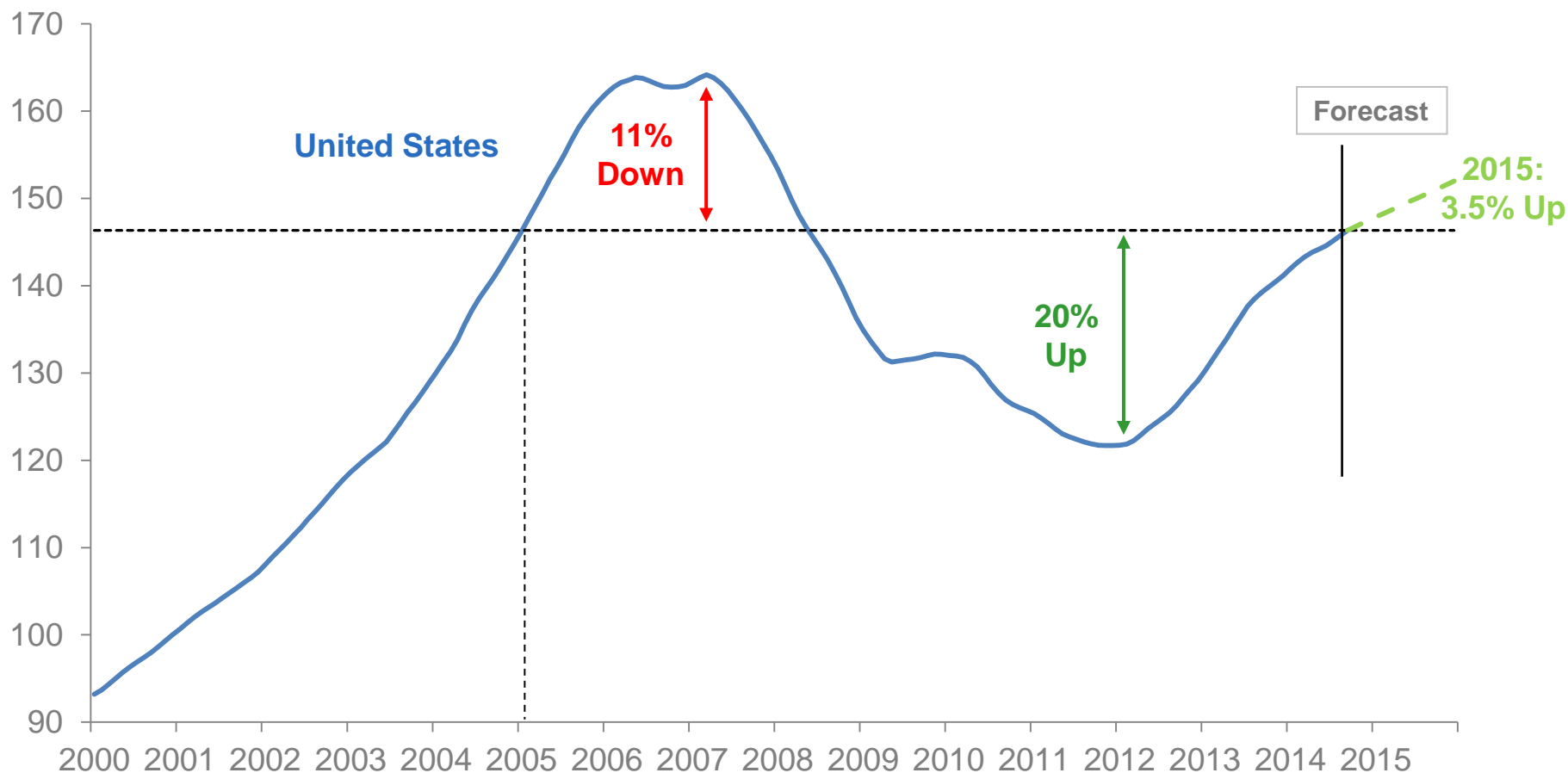
## Excess Vacant Homes (Numbers in Millions)



Source: Freddie Mac calculations using U.S. Census Bureau data. Negative values reflect undersupply. The under/oversupply of vacant housing was estimated based on the average vacancy rate from 1994Q1 to 2003Q4.

# U.S. House Prices Up 20% from Trough (But Are Still Down 11% from Peak)

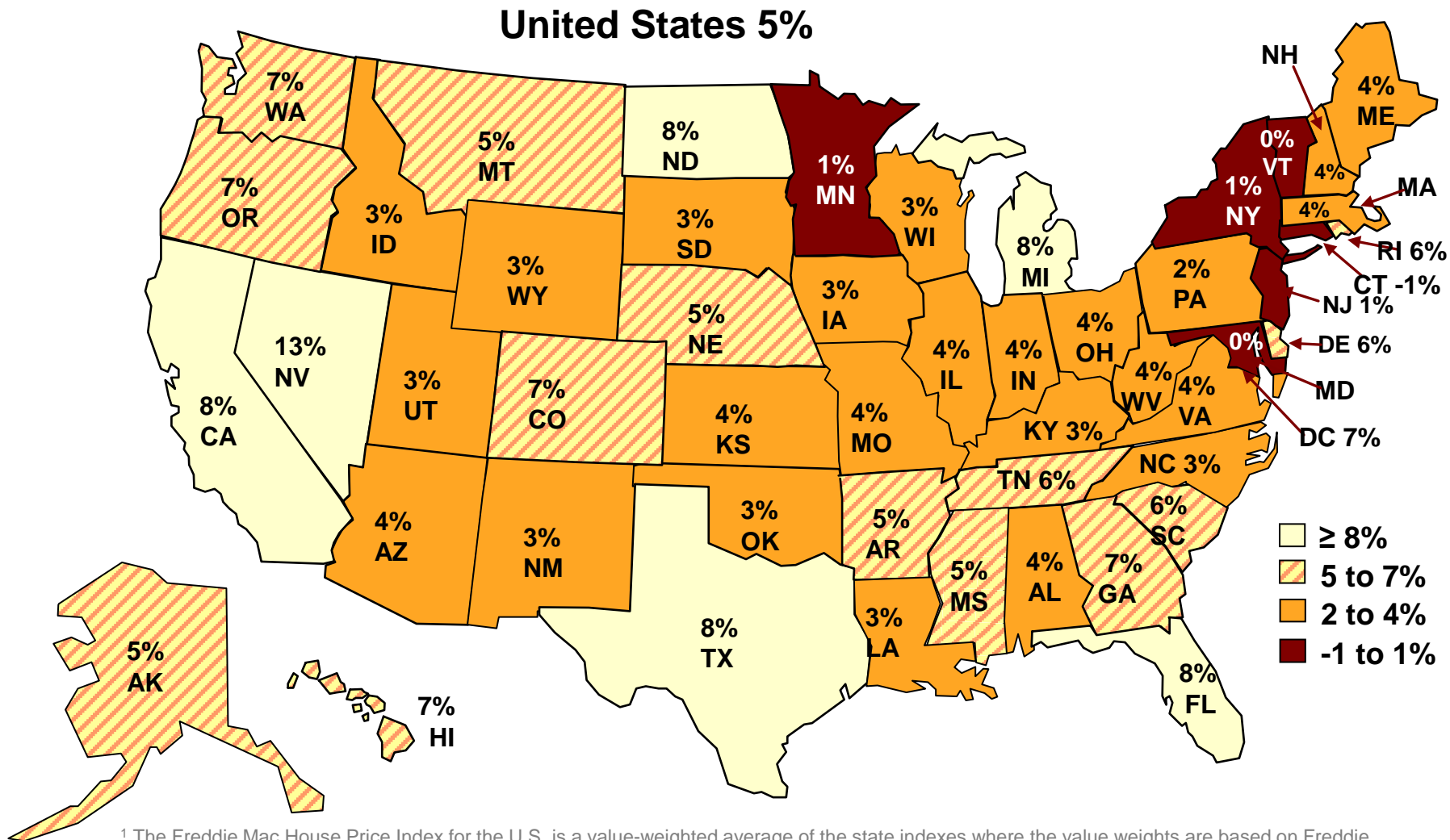
Freddie Mac House Price Index (December 2000=100)



Values Generally Back to 2005 Levels

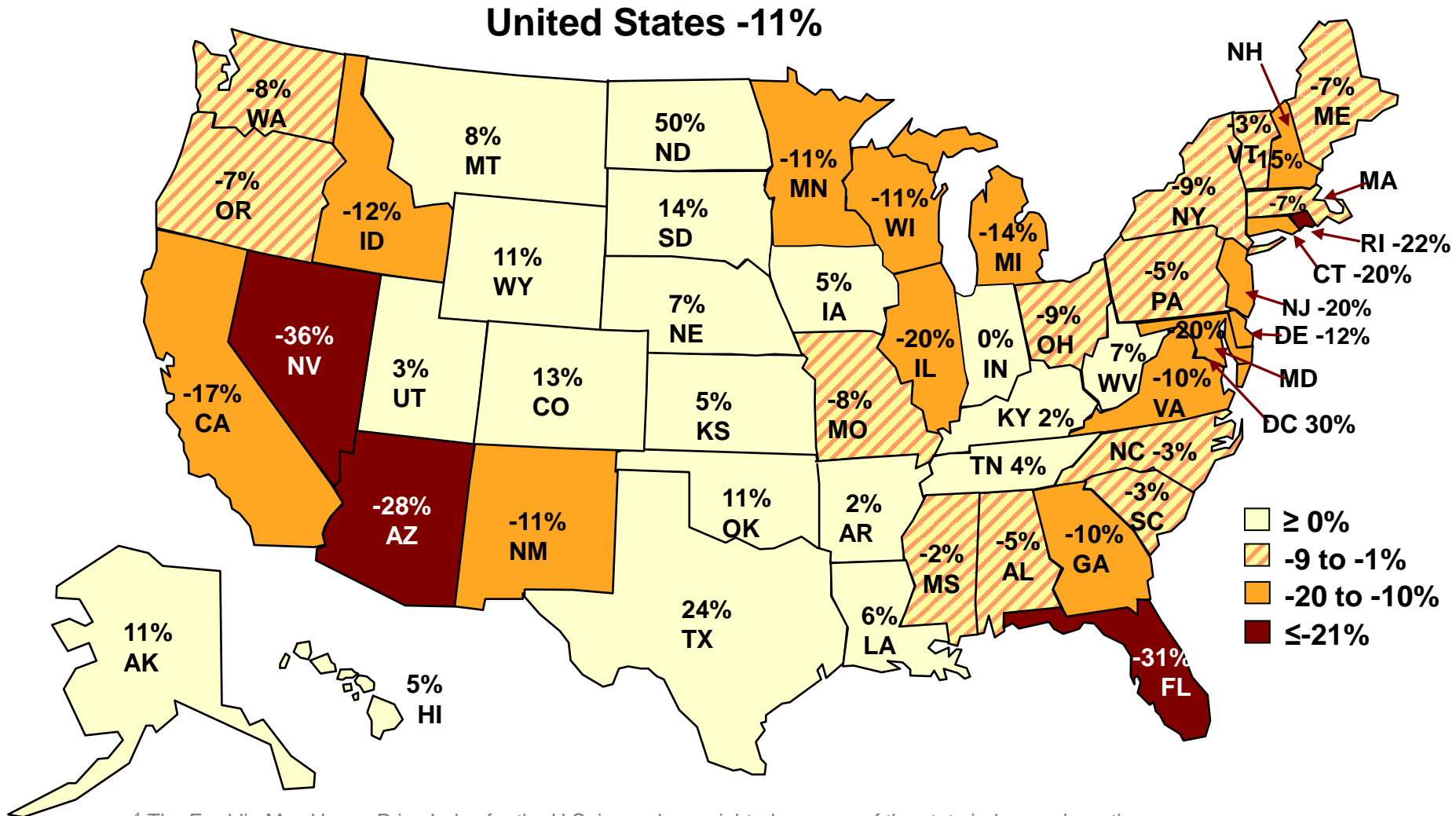
Source: Freddie Mac House Price Index (Seasonally-Adjusted; January 2000-September 2014), January 2015 Outlook

# U.S. House Price Performance By State, September 2013 to September 2014<sup>1</sup>



<sup>1</sup> The Freddie Mac House Price Index for the U.S. is a value-weighted average of the state indexes where the value weights are based on Freddie Mac's single-family credit guaranteed portfolio. Percent changes were rounded to nearest whole percentage point. Source: Freddie Mac

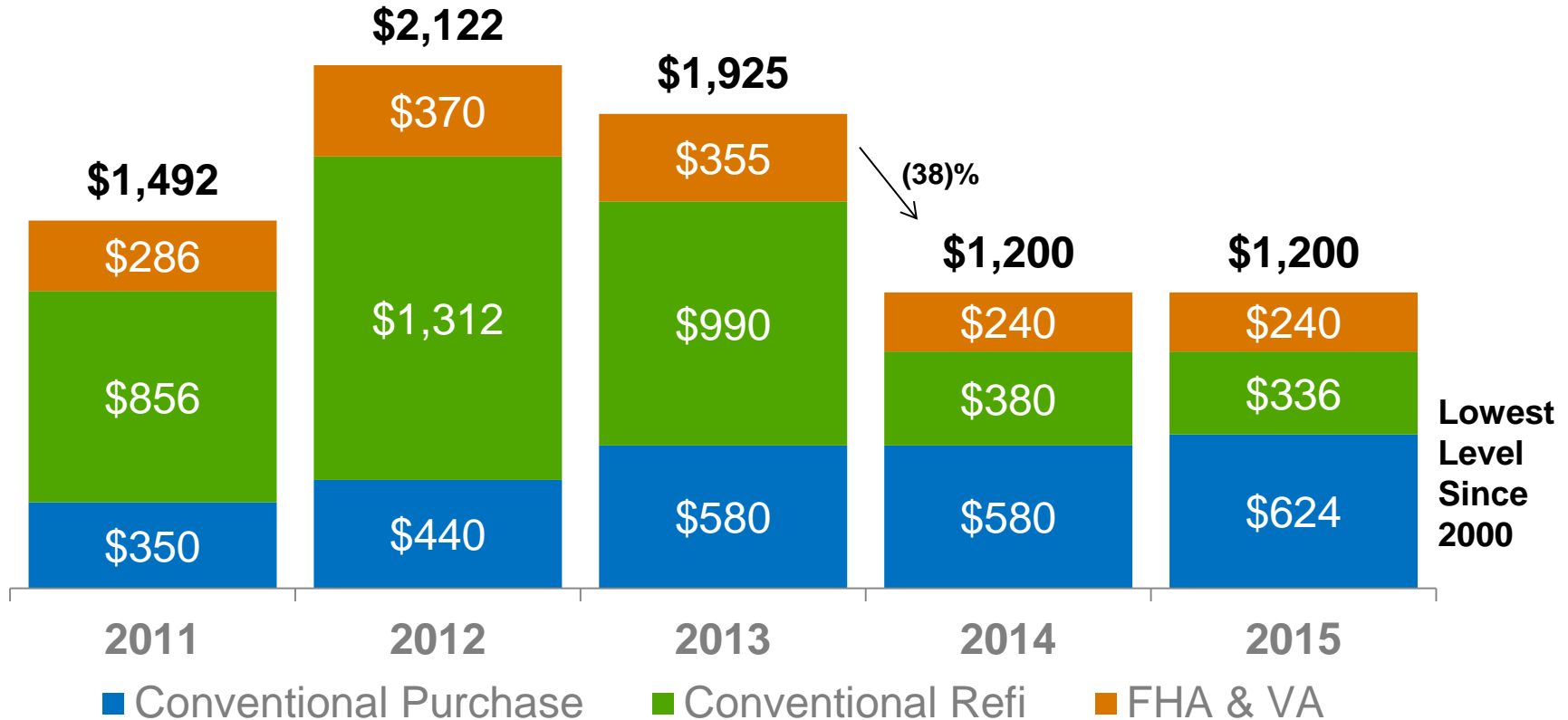
# House Price Performance By State June 2006 to September 2014<sup>1</sup>



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# Purchase-Money Will Dominate Origination Mix

Single-Family Mortgage Originations (\$ Billions)

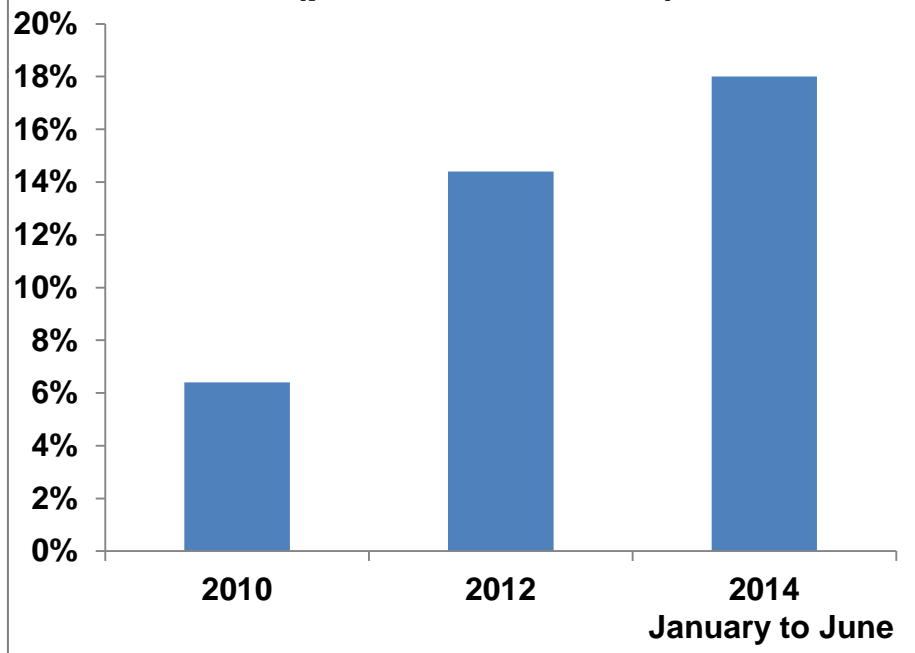


Origination Activity Projected to Decline by Almost One-Half 2012 to 2015

Sources: Freddie Mac's January 2015 Economic Outlook, HUD, VA

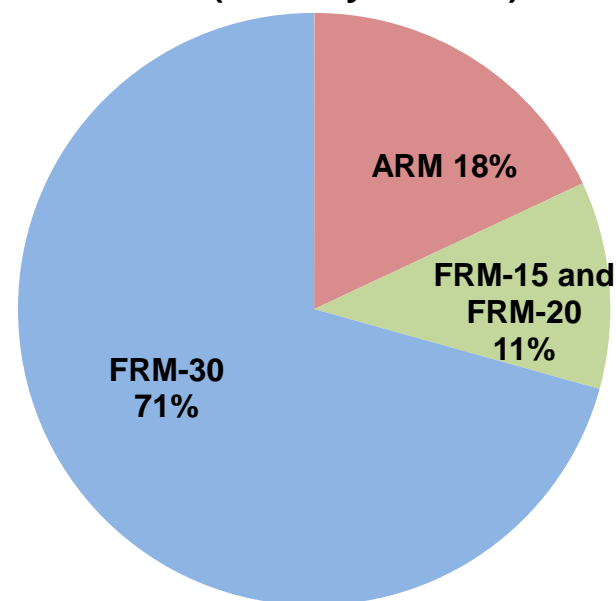
# 30-Year FRMs Dominate Purchase, but ARMs Are Growing

### ARM Share (percent of dollars)



### Product Distribution (percent of \$)

2014 (January to June)

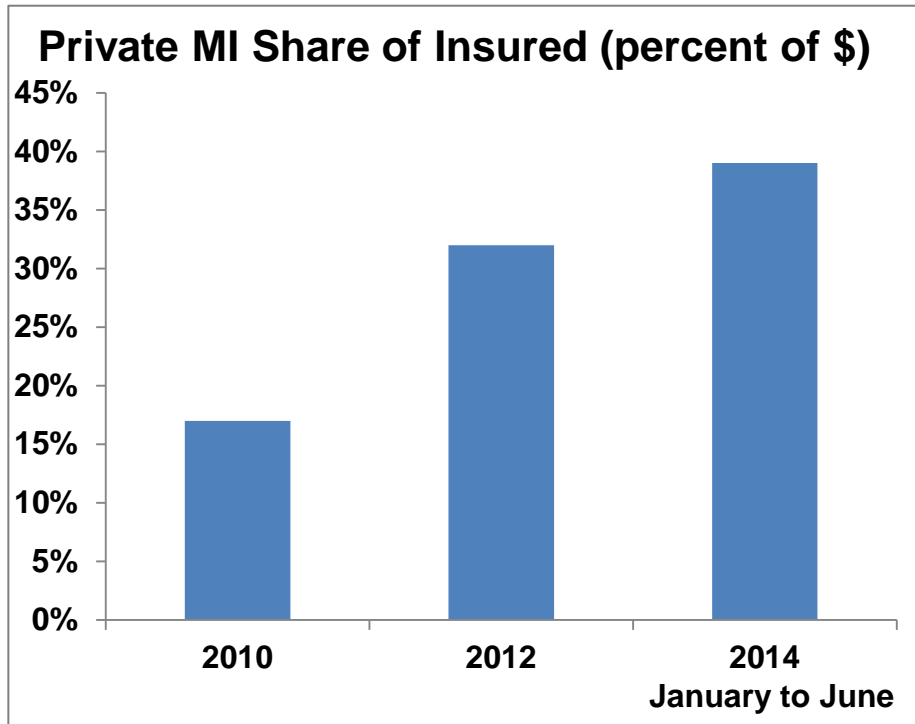


Product	Average Loan Size
ARM	\$433,000
FRM-15 and -20	\$186,000
FRM-30	\$253,000

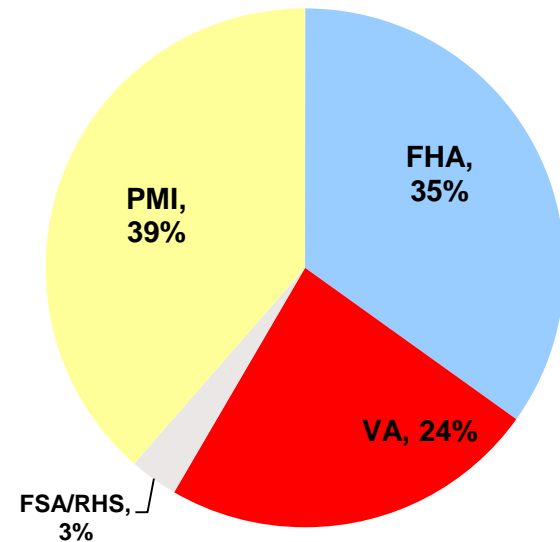
Source: FHFA Monthly Interest Rate Survey



# Private Mortgage Insurance Has Grown, Too



### Product Distribution (percent of \$) 2014 (January to June)



Source: Inside Mortgage Finance

# What is MiMi?

*The Multi-Indicator Market Index (MiMi) provides monthly insights into the stability of the housing market*

*Available at:*

[www.freddiemac.com/mimi](http://www.freddiemac.com/mimi)



Freddie Mac  
**Multi-Indicator  
Market Index**

## Purchase Applications

- Solid home sales that match demographics

1

## Current on Mortgage

- Few defaults
- Less foreclosures

3

## Payment-to-Income

- Mortgage payments in-line with income

2

## Employment

- Low unemployment
- More jobs
- Rising salaries and wages

4

# Unemployment Rate Remains Elevated

	October 2014 Unemployment Rate (%)	Average Unemployment Rate (1990-2004)	Percentage Points Above Average
<b>United States</b>	5.8	5.6	0.2
<b>Georgia</b>	7.7	4.8	2.9
<b>Atlanta</b>	6.9	4.3	2.6

Source: U.S. Bureau of Labor Statistics

# Four Indicators Drive Monthly Composite MiMi



MiMi is the average of the four indicators

“Of the MiMi indicators, zero is in range and four are weak. Atlanta is declining largely due to the 7.89% decrease in the Employment indicator over the last three months...”

# MiMi Allows Pairwise comparisons of Metros and/or States

## MiMi Freddie Mac Multi-Indicator Market Index®

Choose First State or Metro to Compare

Georgia

September, 2014

This Month

60.1

Monthly Change

▲ 0.84%

3-Month Change

▼ 1.96%

Annual Change

▲ 2.74%



Choose Second State or Metro to Compare

Atlanta (Metro)

September, 2014

This Month

54.0

Monthly Change

▲ 0.56%

3-Month Change

▼ 1.82%

Annual Change

▲ 4.85%



	Purchase Applications	Payment-to-Income	Current on Mortgage	Employment
Georgia	■ 55.2 (▼0.90%)	■ 58.2 (▲0.87%)	■ 57.8 (▲0.35%)	■ 69.1 (▲2.67%)
Atlanta	■ 35.2 (▼0.56%)	■ 60.9 (▲0.83%)	■ 53.2 (▲0.57%)	■ 66.5 (▲0.61%)

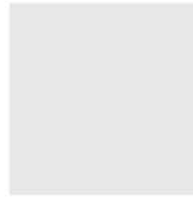
Source: Freddie Mac Multi-Indicator Market Index (MiMi) for September 2014

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# Where to Get More Information

Look for regular updates to our economic forecast, commentary and data at

[www.FreddieMac.com/news/finance](http://www.FreddieMac.com/news/finance)

Contact us at [chief\\_economist@freddiemac.com](mailto:chief_economist@freddiemac.com)

Twitter: @FreddieMac

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