Home Price Analysis for Charlotte-Gastonia-Concord

By the Research Division of the National Association of REALTORS®

Executive Summary

With home prices rising strongly in most parts of the country, there has been widespread media coverage on the possibility of a housing market bust. A thorough analysis of the Charlotte-Gastonia-Concord metro market, as detailed below, reveals that there is very little danger of this. In fact, the local housing market is in excellent shape with a potential for significant housing equity gains, particularly for homebuyers who plan to remain in their house for the long run.

Because prices have risen faster than income in many market, the ratio of price-to-income is currently above the historical norm. This measure is frequently cited to imply that there is a housing market bubble. But this ratio is a misleading measure in assessing bubble prospects. A more relevant measure is the mortgage servicing cost relative to income. This ratio is at a very favorable level. It implies no widespread financial overstretching to purchase a home in the region. Furthermore, the current price is slightly below the national average, suggesting the possibility of a strong price growth particularly given the strong in-migration trends.

	Charlotte	Top 20 Metros	National Average	Comment
Price Activity				
Current Appreciation	4%	25%	13%	Modest
3-year Appreciation	17%	79%	32%	Modest
Affordability				
Home Price to Income Ratio*	1.8	3.8	2.3	Favorable
Mortgage Debt Servicing Cost to Income Ratio **	13%	30%	16%	Very Favorable
Local Fundamentals				
3-year Job Growth	0.4%	7.2%	2.4%	Neutral
Housing Starts to Total Employment	2.8%	1.0%	1.5%	Neutral
Net Migration	17,700	19,100	0	Very Favorable
Risk Factor	A high usage of interest only loans and ARMS places a greater exposure risk to interest rate changes. But the risks are mitigated from recent job additions of over 28,000 in the past 12 months. Furthermore, very few loans have loan-to-value ratio exceeding 90%, thereby minimzing foreclosure risk. In addition, the region attracted 17,700 new residents arriving from other U.S. states in the past year.			

** Income is per capita income times average number of person per household*
*** Servicing cost is the mortgage obligation relative to income at the prevailing mortgage rate*

Price Activity

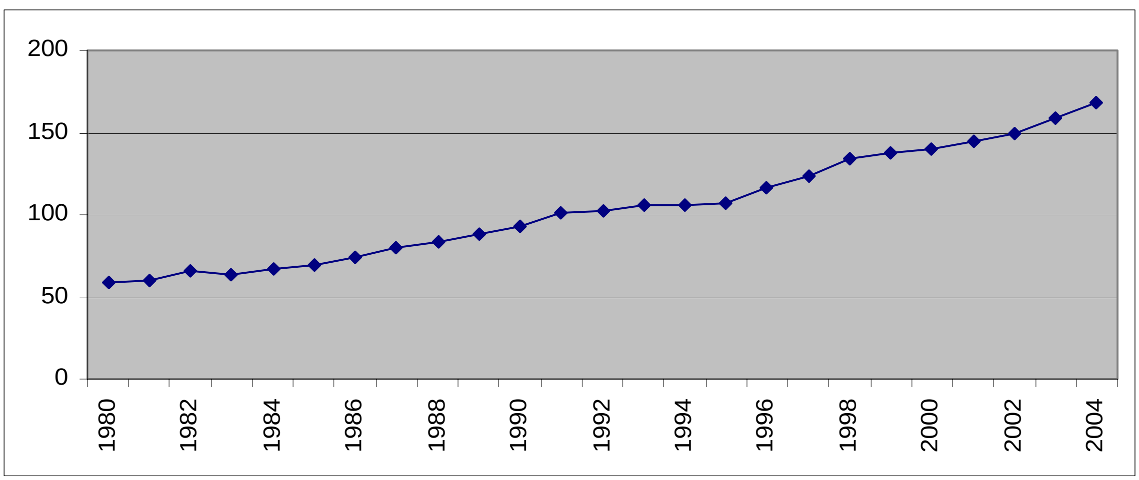
- The current price of $174,700 is 20% below the national average.
- The median home price rose 5.5% in 2004 and 17% in the past three years.
- Home price is very affordable in light of good job market conditions and from strong in-migration trend into the region.

Annual Data	2005*	2004	2003	2002	2001	2000
Existing Home Price (in $thousand)	174.7	168.0	159.2	149.0	144.8	140.6
% change	4.0%	5.5%	6.9%	2.9%	3.0%	2.4%

Quick Glance	3-year Price Appreciation	Home Price-to-Income Ratio	Mortgage Servicing Cost to Income	Historic Local Average on Mortgage Servicing Cost	12-month job gain	Local price vs national
	17%	1.8	13%	20%	28,500	0.8

* 2005 price is as of second quarter and is usually a good estimate of the annual average price.

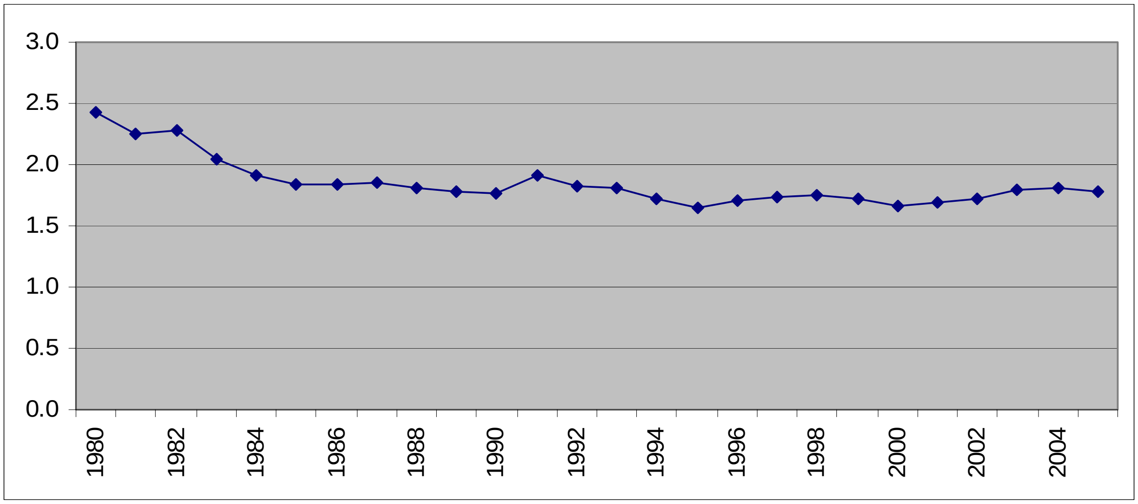
Home Price (in $thousand)



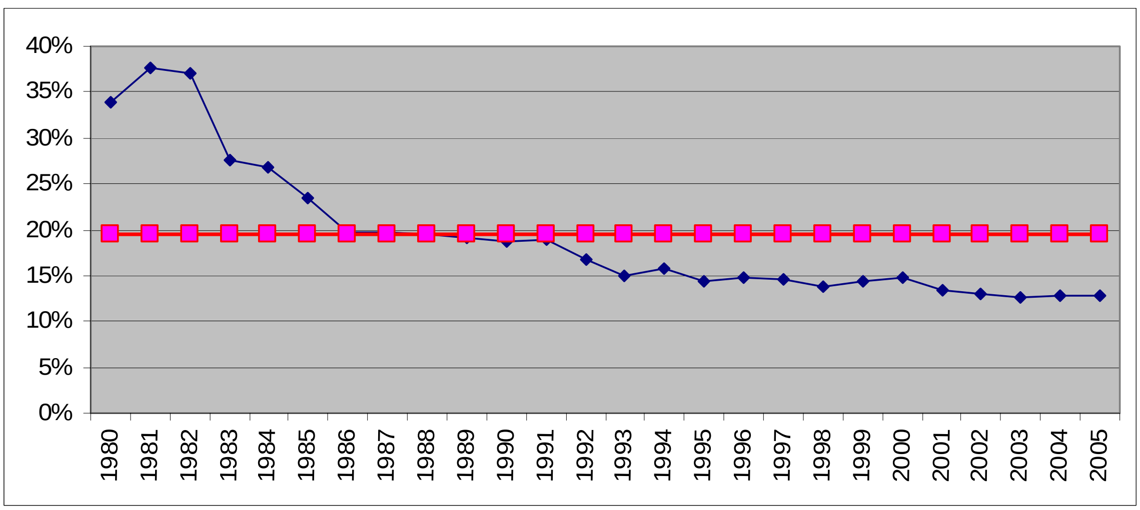
Affordability

- The ratio of price-to-income has been remarkably stable in the past 15 years. By this measure, there is certainly no price bubble.
- Mortgage rates declining to 45-year lows have been a major force in boosting home prices in recent years. Lower rates allow homebuyers obtain a larger loan without necessarily increasing monthly mortgage payments.
- A more relevant measure for assessing the risk of a home price bubble is the median mortgage servicing cost relative to the median income. This ratio is currently well below the local historical average. It implies no widespread financial overstretching to purchase a home in the region and a huge potential for a significant price gains.

Price to Income Ratio



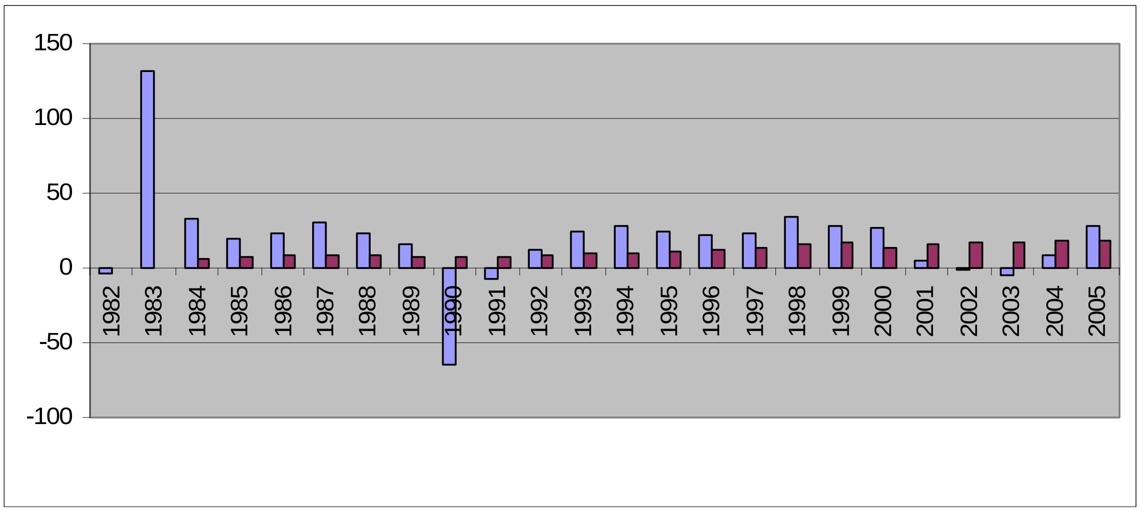
Mortgage Servicing Cost to Income Ratio
(Historical average shown as square boxes)



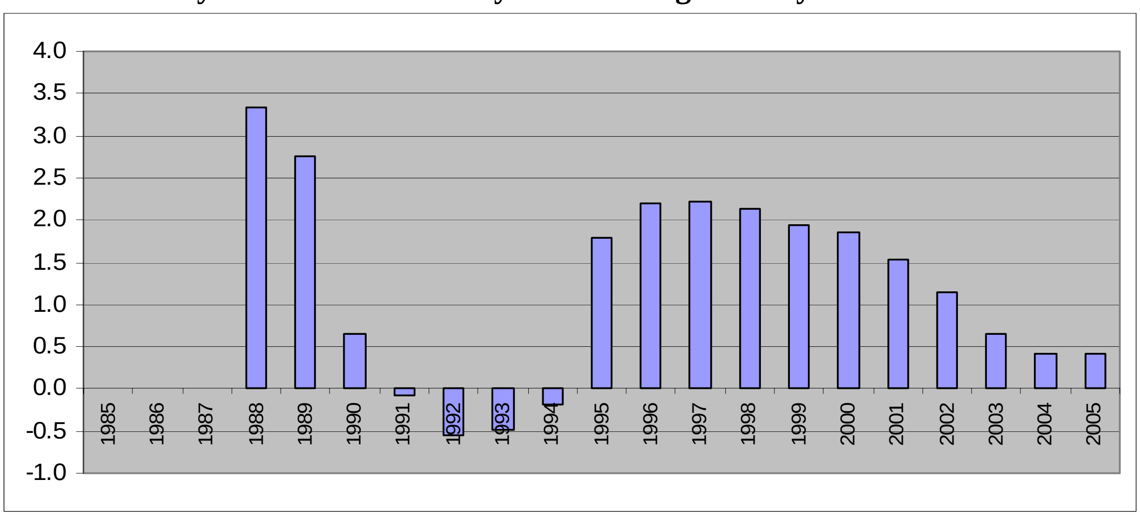
Local Fundamentals

- The job market has been exceptionally strong. There have been 28,500 payroll job additions in the past 12 months. Many new job holders seek their own housing units.
- The region added in the past five years an estimated 105,000 new housing units of which about 85,000 were single-family units.
- The ratio of five-year job gains to five-year new home construction shows the "hangover" impact of the housing shortage, or housing surplus. In our case, the local market is slightly oversupplied as the ratio is well below one. With recent job gains and the expected continued economic expansion, the jobs-to-new home ratio will likely increase.

Job Gains (light/blue) versus New Single-family Housing Starts (dark/red)

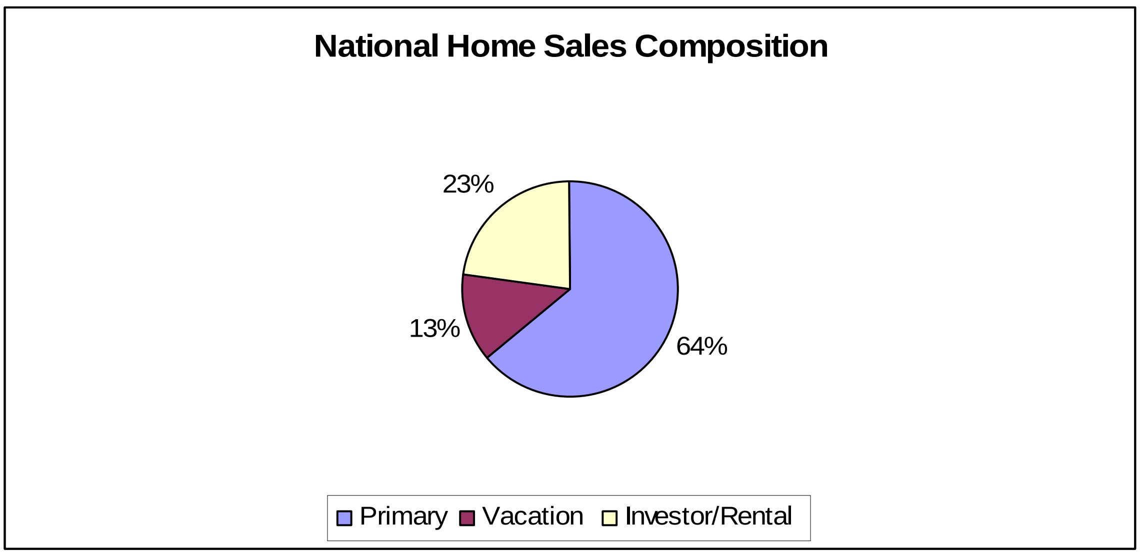


Ratio of 5-year Job Gains -to- 5-year New Single-family Home Construction



Other Factors

- Interest-only loans accounted for 29% of all loans, while ARMS accounted for 22% in 2004 in the local region. Some homeowners will feel the pinch of higher rates over time.
- But due to the fact that only 20% of the loans have loan-to-value ratios above 90%, the foreclosure risk is minimal. (That is, prices would have to decline by more than 10% to have a measurable impact on foreclosure rates.)
- The baby boomers in their peak earning years and have been active in purchasing second homes, which many consider their future retirement homes. The baby boomer impact could continue for another decade.
- With many top southern retirement destinations getting quickly unaffordable in the past five years, some retirees may turn to more affordable regions of the country. Perhaps, the local region gets a slight lift as a result.



Stress Test

- Price declines in the local market are unlikely according to our stress test.
- The local housing market will experience a price decline of 5% only under extreme unlikely scenarios of much higher mortgage rates. For example, mortgage rates rising to 17.5% in combination with 21,000 job losses could lead to a price decline. Other scenarios that could lead to a price decline of 5% are shown below.

Mortgage Rate	Job Gains/Losses
16.5%	-61,000
17.5%	-21,000
18.0%	-1,000

- Such scenarios are highly unlikely. Most credible forecasts predict the region will create at least 30,000 jobs over the next 24 months and mortgage rates will hover around 7% by the end of 2006, which bodes well for future price gains.
- Even in the unlikely event of prices declining by 5%, most homeowners will maintain sizable equity build-up in their homes. The table below shows the home equity gains if prices were to fall by 5% by homebuyers at various years of purchase.

Year of Purchase	Housing Equity after 5% price decline (home price appreciation + principal payments on mortgage)
1980	$136,280
1985	$115,589
1990	$92,421
1995	$72,192
2000	$32,161
2001	$27,729
2002	$21,882
2003	$11,039
2004	$198
2005	-$8,735

- Housing equity will most likely continue to accumulate to local homeowners. The equity gains under three price growth scenarios are presented below. One scenario assumes a historical conservative price appreciation of 1.5% above consumer price index inflation. With most credible inflation forecasts pegged at 2.5%, home prices can expect to rise by 4% per year under normal circumstances. The two other scenarios assume slightly below (1.5%) and slightly above (6.5%) the normal rate of appreciation.
- The local market is more likely to appreciate at an above-normal rate because of the low business cost conditions and the on-going strong in-migration trend.

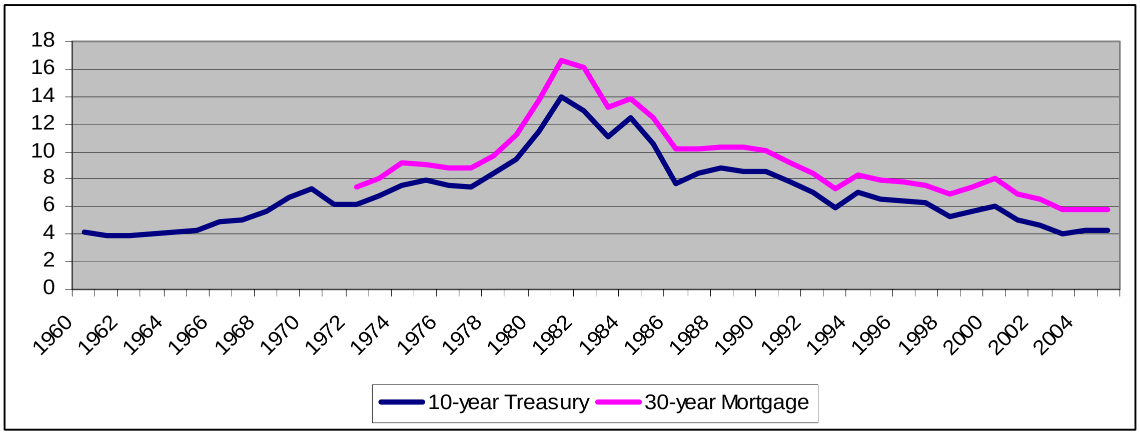
Housing Equity Gain			
Appreciation Rate	***1.5%***	***4.0%***	***6.5%***
2010	$28,875	$53,223	$80,028
2015	$56,523	$112,375	$181,712
2020	$94,379	$190,588	$325,264
2030	$199,323	$411,565	$789,242
2040	$294,174	$689,382	$1,583,176

Additional Discussion Points

- Home price declines are very rare. In fact, the national median home price has not declined since the Great Depression of the 1930s. Stock market collapses, the OPEC oil crunch, economic recessions, and even wars have not negatively impacted national home prices since the 1930s.
- There have been few times when local prices declined. In nearly all these cases, the price declines were accompanied by sharp prolonged job losses. It is difficult to foresee a price decline in a job creating economy.
- Homes trade far less frequently than financial assets (about one home sale every 7 to 10 years for most homeowners). There are also larger transaction costs associated with selling a home due to the lengthy careful examination demanded by home buyers and sellers. Therefore, home prices are not prone to fluctuations as in the stock market. There are neither panic sells nor margin calls associated with homes.
- Many non-quantifiable factors could be important for this metro market in determining home prices. Access to cultural life, the quality of museums, nearby local and national parks, water views, exclusive neighborhoods, weather, the international airport, city vibrancy, restaurants, and a host of other non-quantifiable factors could have an important influence on the overall pricing.
- There are immense tax benefits to owning a home. These tax considerations were not considered in the analysis. For example, the 1998 law permitting primary owner occupants to trade down without having tax consequences. Also most home sales results in no capital gains tax. In addition, long-term capital gains tax rates were reduced in 2003, thereby providing higher return for home investors. These positive benefits, if accounted for in the analysis, would have shown an even stronger case for housing fundamentals in supporting home prices.

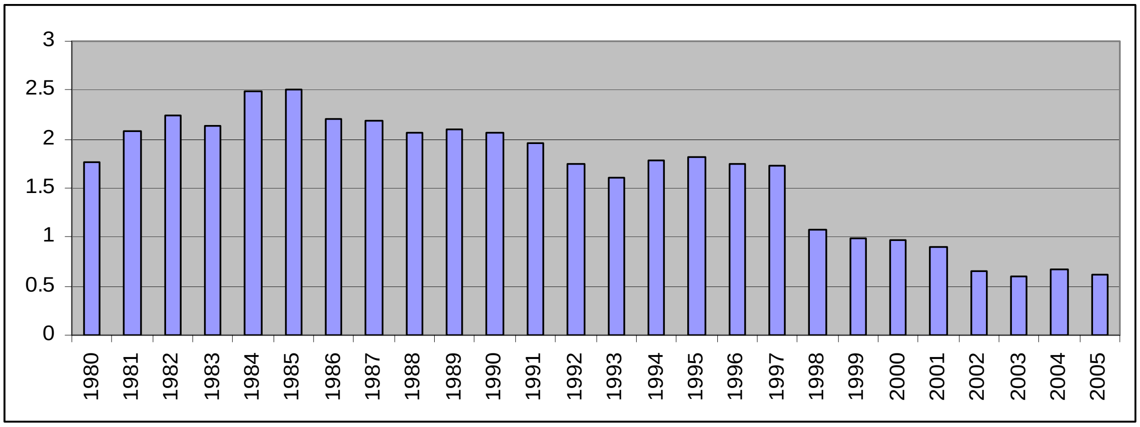
Additional Informative Charts

45-year Low Mortgage Rates



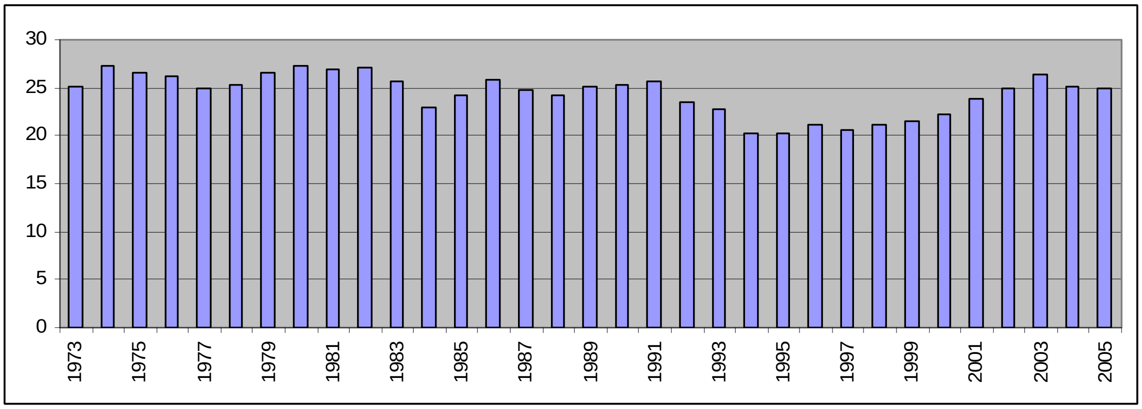
Source: Freddie Mac, Federal Reserve

Historic Low Fees and Points for Mortgage Origination



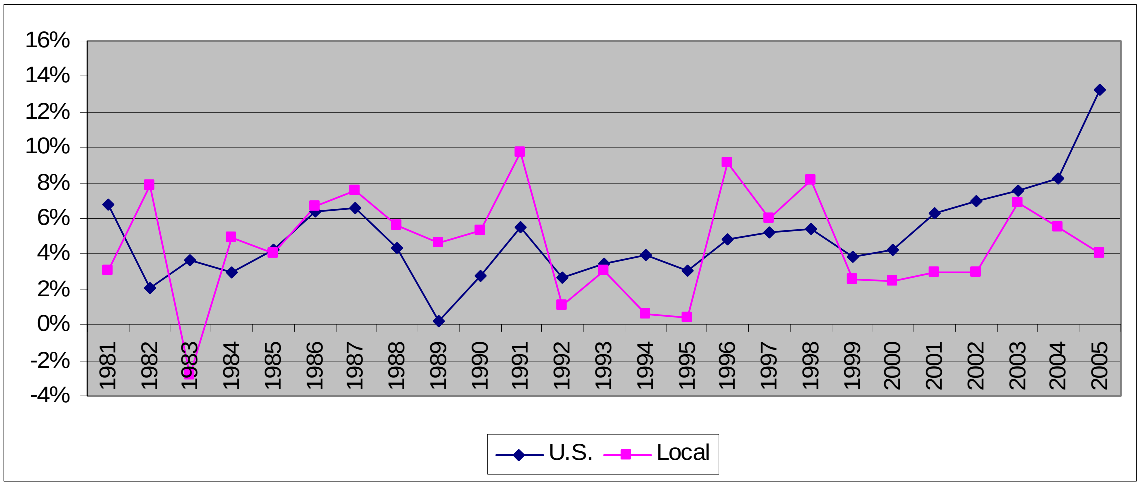
Source: Freddie Mac

Typical Down-payment Percentage Returning to Historic Norms



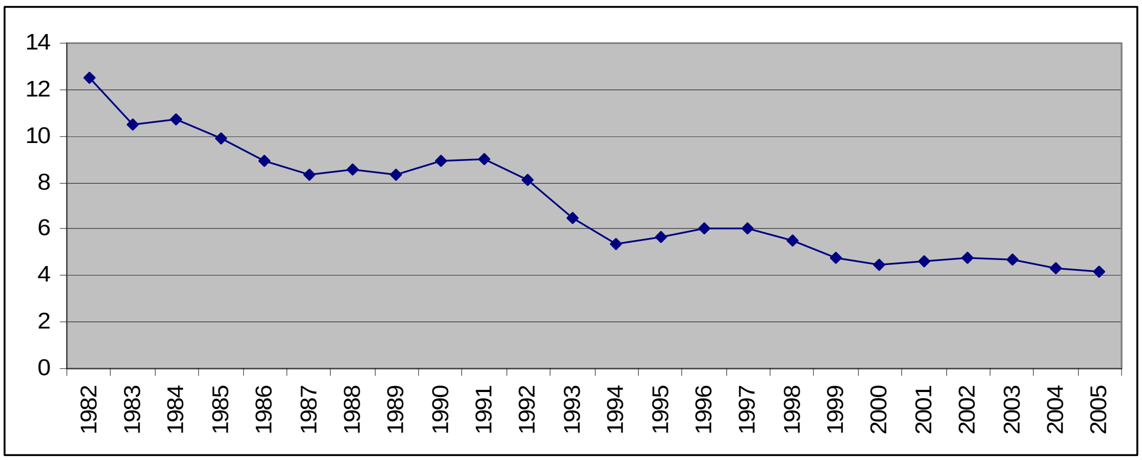
Source: Federal Housing Finance Board

Home Price Growth

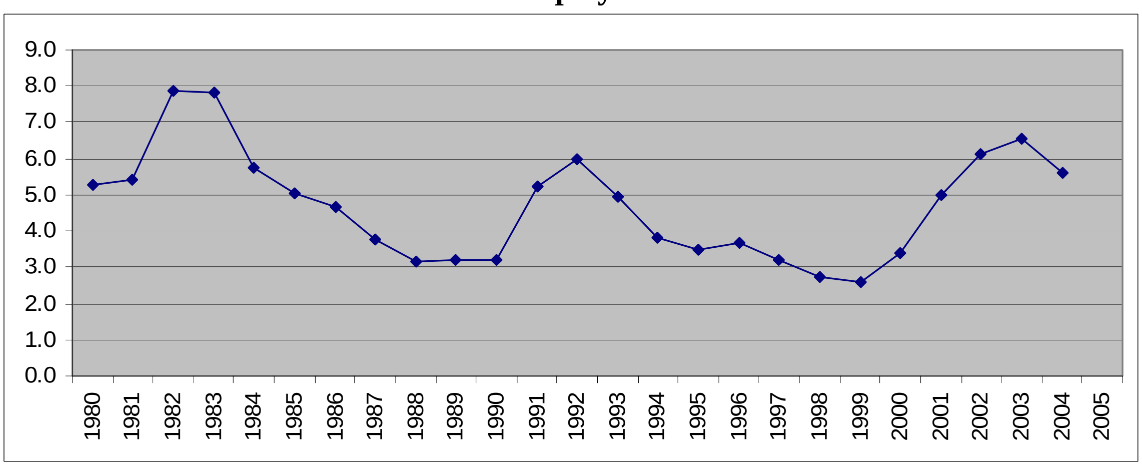


Historic Low National Months Supply of Homes on the Market

(The number of months it would take to sell all current homes on the market at the current sales pace)



Local Unemployment Rate



Source: BLS

NAR Research

NAR Research produces the premier measurement of residential real estate activity – the existing-home sales series – and analyzes how changes in the U.S. and international economies can impact the real estate business. It also examines trends in real estate practices, and how NAR members are adapting technology in their business operations. NAR Research looks at regulatory and legislative policy proposals and how those policies could affect REALTORS® and their clients, America's property owners.

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