Talking about the ‘New Normal’

Implications of the Financial Crisis for Real Estate and Community Development in the Atlanta Region

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October 28, 2009
There Is No Housing Bubble in the USA
Housing Activity Will Remain At High Levels

No Housing Bubble to Pop
March 2, 2005
By Urban Land Institute

Bubble, Bubble, Where’s the Housing Bubble?
March 30, 2006
By Brookings Institution

Titles they probably wish they could take back...
Active Deregulation & Promotion of Securitization
- 1980s: groundwork for federal preemption
- 1980s-1990s: tax/regulatory policy → securitization
- 2001-2004: aggressive use of federal preemption
- 2004: lower capital requirements for inv. banks

Passive Deregulation
- Regulatory structure not adapted to nonbanks
- Little/no antidiscrimination enforcement
- 1990s+: No regulation of derivatives

Deregulated, Risk-Prone, & Fragile Capital and Mortgage Markets

Global Capital Glut
- Dot-com bust
- Global Trade Imbalances
- Higher Oil Prices

FORECLOSED
HIGH-RISE LENDING, DEREGULATION, AND THE UNDERMINING OF AMERICA'S MORTGAGE MARKET
DAN IMMERGLUCK
U.S. metropolitan vacancy rates for homeowner units, 2006-2009

*3-quarter moving average
Data source: U.S. Census Homeowner Vacancy Survey
Foreclosed homes
per 1-4 unit houses and condos, November 2008

REO per 10,000
Mortgageable Properties

Data source: LPS Applied Analytics; U.S. Census; ESRI 2007 zip code population estimates
In the large-bubble metros, foreclosed homes are often more suburbanized or exurbanized.

Data source: LPS Applied Analytics; U.S. Census; ESRI 2007 zip code population estimates
As prime and near-prime foreclosures increase, problem is becoming more suburbanized in Atlanta, too.

Data sources: EquityDepot.net; U.S. Census American Community Survey
Growing numbers of lower-end foreclosed properties being ‘dumped’ by lenders...

Data source: Fulton county property transfer records, Fulton County Tax Assessor
Subprime-inflated inner-city bubbles: Sustainable redevelopment versus speculation, flipping, & fraud

Median Price / Median Price in August 1999

City of Atlanta
Morningside
Pittsburgh
West End
Reynoldstown
Alpharetta
Kennesaw
Lawrenceville
US
Phoenix Metro

Data source: Zillow.com

*Includes prices of 3-bedroom homes only; excludes sales of foreclosed homes by lenders.
Silver linings?

Single family price-to-income ratios have returned to below 2000 levels in the Atlanta region (albeit too rapidly)

* Median incomes are HUD estimates

Data sources: 2000 Census; Case-Shiller Housing Price Index, U.S. Department of Housing and Urban Development (HUD)
But lower prices do not always translate into greater ownership opportunities, especially as debt-to-income ratios and down payment requirements increase...

Data source: LPS Analytics, fourth quarter 2008, first lien home purchase loans
The habit of building personal savings predominantly through appreciation of one’s home is one that many Americans will have to change.

– Daniel Tarullo, governor, Federal Reserve Board, October 9, 2009
Policy-contingent speculation on homeownership rates

Federal involvement in mortgage supply continues; stronger lending regulation
Federal involvement in mortgage supply curtailed; stronger lending regulation
Federal involvement in mortgage supply curtailed; existing level of regulation

Data source: U.S. Census Bureau Homeownership Survey
# Commercial property vacancies: high and rising

## 10 Metros with Largest Increases in Retail Vacancy

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Q2 2009</th>
<th>Yr-over-Yr Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Las Vegas</td>
<td>10.4%</td>
<td>3.4%</td>
</tr>
<tr>
<td>2 Fort Lauderdale</td>
<td>10.3%</td>
<td>3.4%</td>
</tr>
<tr>
<td>3 Phoenix</td>
<td>11.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>4 Tuscon</td>
<td>10.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>5 Sacramento</td>
<td>10.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td>6 West Palm Beach</td>
<td>9.6%</td>
<td>2.9%</td>
</tr>
<tr>
<td>7 Riverside, CA</td>
<td>10.6%</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>8 Atlanta</strong></td>
<td><strong>11.6%</strong></td>
<td><strong>2.7%</strong></td>
</tr>
<tr>
<td>9 Orange County</td>
<td>5.7%</td>
<td>2.5%</td>
</tr>
<tr>
<td>10 Jacksonville</td>
<td>10.1%</td>
<td>2.4%</td>
</tr>
<tr>
<td><strong>U.S. Metro Average</strong></td>
<td><strong>9.0%</strong></td>
<td><strong>15.0%</strong></td>
</tr>
</tbody>
</table>

*Note: *forecast

Risk premiums are rising; the nominal cost of capital is still low by historical standards, but likely to keep rising.