

The background features several large, overlapping, semi-transparent swirls in shades of light green, light blue, and light purple. Scattered throughout the background are numerous small, yellow, triangular shapes, some pointing upwards and others downwards, creating a festive or celebratory feel.

DFW Real Estate

Forecast 2008

David Fair & Britt Fair
Hexter-Fair Title Company
February 4, 2008




Fed's Recent Monetary Stimulus

- ❑ 1/22/08 – emergency cut Fed Funds Rate and Discount Rate by 75 basis points
 - ❑ FOMC rarely adjusts rates between their formal meetings
 - ❑ Rationale: “...incoming information indicates a deepening of the housing contraction as well as some softening in labor markets.”
- ❑ 1/30/08 - cut Fed Funds Rate and Discount Rate by another 50 basis points at their regular meeting
- ❑ Fed Funds futures data point to additional cuts moving forward





The “R-Word”

- ☐ Difference between a “recession” and a “depression”
 - ☐ A “recession” is commonly defined as a decline in GDP for 2 or more consecutive quarters
 - ☐ Others factor in payrolls, income growth, industrial production, and business sales data
 - ☐ Are we heading into a recession?
 - ☐ 50/50 chance
 - ☐ Does it matter?
 - ☐ No - it is irrelevant whether it technically happens or not
 - ☐ Focus for real estate professionals should be on local economic drivers
- 



Current Mortgage Environment

- ❑ Fifteen years ago, borrowers needed 3 things to obtain a mortgage: (1) a job, (2) good credit, and (3) a down payment
- ❑ Over time, the overly competitive lending environment eroded each of these requirements in the guise of “progress”, and in the process, added 100% financing, “interest only”, and negative amortization
- ❑ Current market is simply correcting itself to look more like it did fifteen years ago
 - ❑ Reduces the number of qualified borrowers, especially in the Entry Level category



Mortgage Rate History

☐ Rate data from Mortgage Bankers Association

	<u>1-Yr ARM</u>	<u>30-Yr Fixed</u>	<u>Spread</u>
☐ 12/31/03:	3.40%	5.73%	233 b.p.
☐ 12/31/04:	4.05%	5.72%	167 b.p.
☐ 12/31/05:	5.36%	6.21%	85 b.p.
☐ 12/31/06:	5.87%	6.12%	25 b.p.
☐ 12/31/07:	6.03%	6.10%	7 b.p.
☐ 1/30/08:	5.70%	5.60%	-10 b.p.



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Current Treasury Bond Yields

❑ Treasury yield data from www.USTreas.gov:

1/30/08

❑ 1-year: **2.30%**

❑ 5-year: **2.96%**

❑ 10-year: **3.78%**

❑ 30-year: **4.44%**

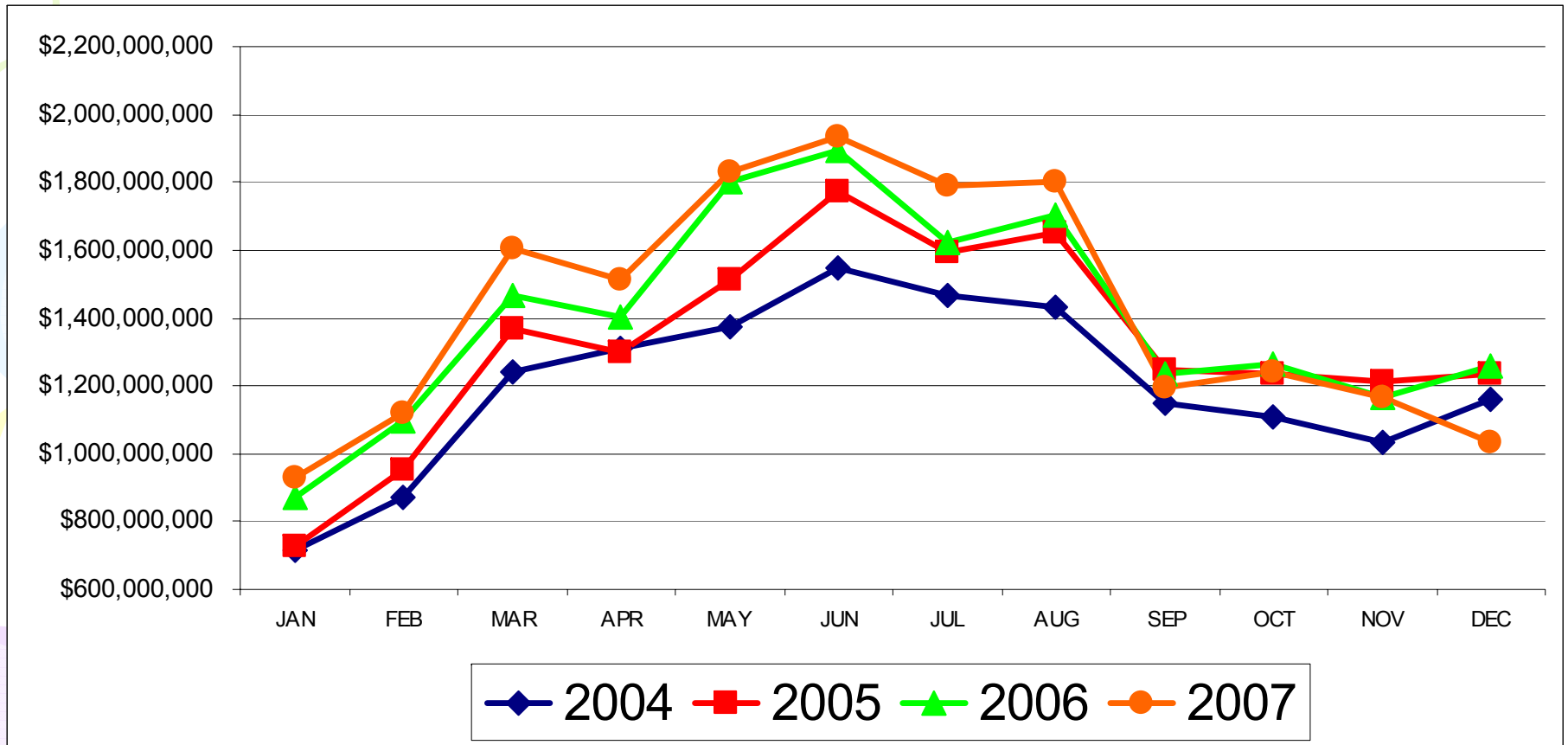
❑ Inverted mortgage yield curves in 9/07, 12/07 and 1/08 are basically a mortgage phenomenon

❑ Unlikely to be an indicator of looming recession

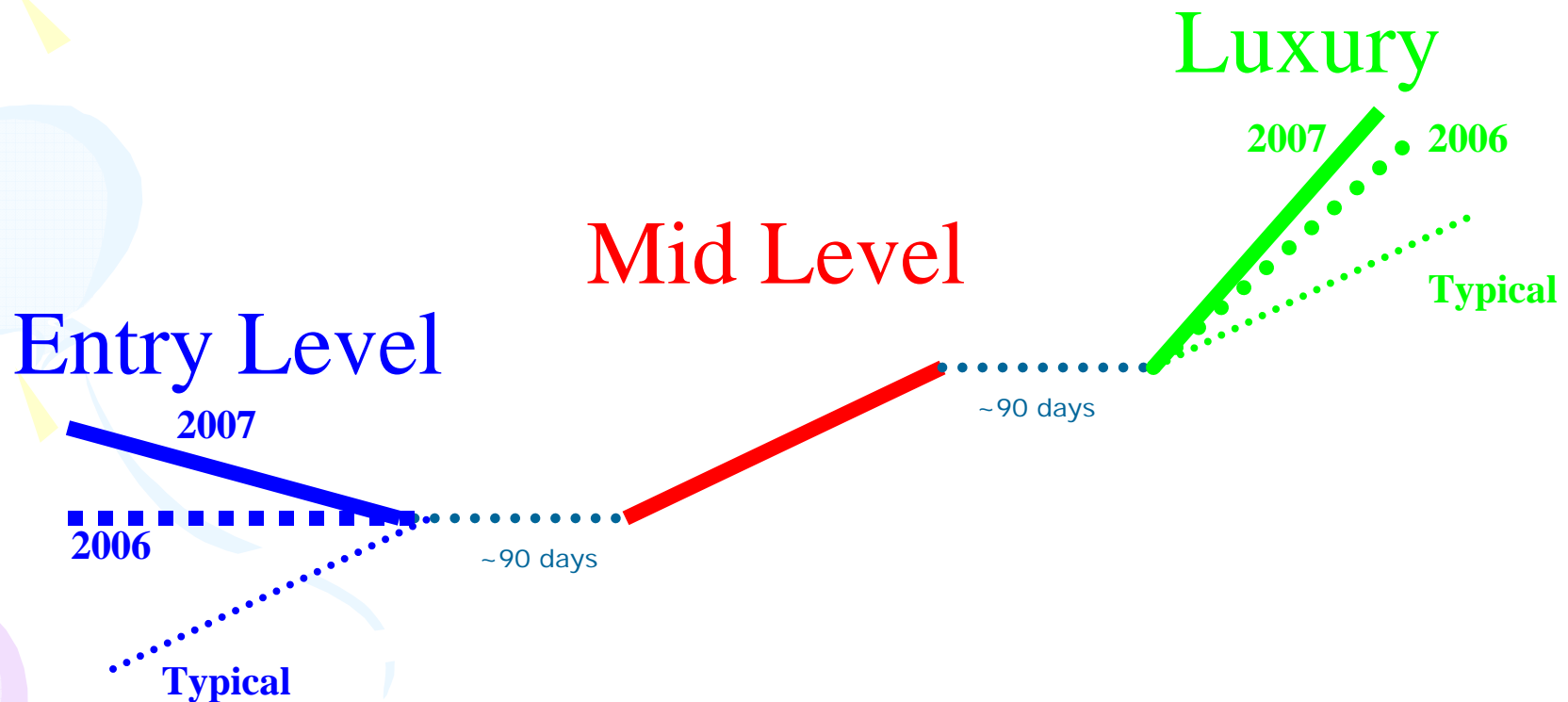


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NTREIS Dollar Volume Since 2004



Overall Market Status – 2007



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Relative Strength in High End: DFW Data YTD Dec'07 (page 1)

Sale Price Range	# Sales (12 mos 2007)	% Change vs. Prior Year
\$1 to \$19,999	498	25%
\$20,000 to \$29,999	847	-6%
\$30,000 to \$39,999	1,232	-6%
\$40,000 to \$49,999	1,729	4%
\$50,000 to \$59,999	1,988	6%
\$60,000 to \$69,999	2,396	-2%
\$70,000 to \$79,999	3,077	1%
\$80,000 to \$89,999	3,841	-6%
\$90,000 to \$99,999	4,016	-10%
\$100,000 to \$109,999	4,205	-9%
\$110,000 to \$119,999	4,976	-13%
\$120,000 to \$129,999	5,343	-15%
\$130,000 to \$139,999	4,959	-18%
\$140,000 to \$149,999	4,361	-17%



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Relative Strength in High End: DFW Data YTD Dec'07 (page 2)

Sale Price Range	# Sales (12 mos 2007)	% Change vs. Prior Year
\$150,000 to \$159,999	4,101	-12%
\$160,000 to \$169,999	3,863	-13%
\$170,000 to \$179,999	3,379	-16%
\$180,000 to \$189,999	2,795	-15%
\$190,000 to \$199,999	2,345	-11%
\$200,000 to \$249,999	8,477	-7%
\$250,000 to \$299,999	5,375	-6%
\$300,000 to \$399,999	5,896	2%
\$400,000 to \$499,999	2,605	3%
\$500,000 to \$599,999	1,217	6%
\$600,000 to \$699,999	789	5%
\$700,000 to \$799,999	546	14%
\$800,000 to \$899,999	353	2%
\$900,000 to \$999,999	229	8%
\$1,000,000 and more	919	16%
Total	86,356	-8%



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Strong DFW economy boosts high end

- ❑ Strong job creation
- ❑ Continuing corporate and individual relocations
- ❑ Oil and gas industry, especially in the Barnett Shale!

Higher-priced neighborhoods outperforming YTD 2007

NTREIS YTD Data: December '07

	# of Sales	% Change vs. Prior Year	Average Sale Price	% Change vs. Prior	Average Days on Market	% Change vs. Prior
Plano	4,028	-11%	\$276,669	4%	55	8%
Frisco	3,046	-1%	\$294,089	4%	77	18%
Allen	1,507	-16%	\$233,308	4%	68	17%
McKinney	2,497	-17%	\$225,948	1%	72	16%
Fairview/Lucas	282	-5%	\$340,602	-1%	79	27%
Wylie	919	-10%	\$176,107	2%	75	15%
Richardson	1,263	-7%	\$176,750	2%	56	4%
Carrollton/F.Branch	1,843	-17%	\$180,321	1%	55	2%
Far North Dallas	1,264	-7%	\$340,410	-1%	56	-7%
North Dallas	712	-7%	\$932,687	20%	71	11%
Northeast Dallas	709	0%	\$247,030	9%	50	-2%
Northwest Dallas	689	-1%	\$226,843	5%	61	-5%
Park Cities	777	-8%	\$1,221,130	13%	68	11%
Uptown (condos)	1,224	1%	\$300,416	18%	98	18%



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NTREIS Data – “Reporting” Flaw?

Is this stat
correct?



Dallas-Fort Worth home sales down 25 percent

Median prices in area also declined in December

02:57 PM CST on Monday, January 7, 2008



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NTREIS Data – “Reporting” Flaw?

- Local media are making the mistake of comparing “preliminary” reported sales of current month to “revised” sales figures from a year earlier
 - Dec’07 sales as originally reported: 5,257
 - Dec’06 sales as originally reported: 6,333
 - Dec’07 declined 17% in volume when compared apples-to-apples with Dec’06
 - Dec’06 sales when revised to include late reporting: 6,990
 - Comparing this 6,990 to 5,257, you can calculate 25% decline



PMI U.S. Market Risk Index:

DFW steady despite US uncertainty

- ❑ On 1/15/08, The PMI Group released a study which measures the riskiness of the 50 largest MSAs in the US
 - ❑ Risk measured as the % chance that home prices will be lower in 2 years
- ❑ The four markets with the **highest risk**:
 1. Riverside, CA: 94% chance of price decline
 2. Las Vegas, NV: 89% chance of price decline
 3. Phoenix, AZ : 83% chance of price decline
 4. Santa Ana, CA: 81% chance of price decline



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PMI U.S. Market Risk Index, continued: DFW steady despite US uncertainty

- ❑ The four MSAs with the **lowest risk** of a price decline in the next two years:
 - 47. Houston-Sugar Land-Baytown: <1% chance
 - 48. Pittsburgh, PA: <1% chance
 - 49. Fort Worth-Arlington: <1% chance**
 - 50. Dallas-Plano-Irving: <1% chance**



Moody's Economy.com forecast Sep'07

Metroplex housing to fare much better than rest of US

- ❑ Forecast predicts over three-fourths of US housing markets to suffer drops in prices, with an aggregate decline of 8% expected in home prices
- ❑ Dallas area is forecast to buck the trend, with continued increases of 3% price appreciation expected
- ❑ Fort Worth predicted to see about a 2% drop in prices
- ❑ Two primary reasons for Metroplex outperformance:
 - ❑ Local economy is doing much better than national economy
 - ❑ Did not see a big run up in home prices, so only negatives are in sub-prime (mostly below \$200,000)

Wall Street Journal Jan'08 housing indicators

<u>Metro area ↓</u>	<u>Overall Strength of Metro Area</u>	<u>Change in housing inventory*</u>	<u>Months supply**</u>	<u>Price change***</u>	<u>Employment outlook****</u>	<u>Loan payments overdue*****</u>
Atlanta	Moderate	13%	11	-0.7%	Strong	5.21%
Boston	Moderate	-8%	5	-3.6%	Weak	3.53%
Charlotte, N.C.	Moderate	19%	7.8	4.3%	Strong	3.69%
Chicago	Weak	3%	10	-3.2%	Weak	3.47%
Dallas	Strong	0%	5.9	-0.1%	Strong	4.53%
Denver	Moderate	-4%	5.7	-1.8%	Average	3.71%
Detroit	Weak	12%	19	-11.2%	Very Weak	5.30%
Houston	Strong	12%	6	N/A	Strong	4.60%
Jacksonville, Fla.	Weak	11%	12	N/A	Average	4.49%
Las Vegas	Weak	21%	18	-10.7%	Average	6.38%
Los Angeles	Weak	33%	N/A	-8.8%	Weak	4.06%
Miami-Ft. Laud.	Weak	20%	29	-12.4%	Average	7.15%
Mpls-St. Paul	Moderate	17%	8	-5.5%	Average	3.57%
Nashville	Moderate	26%	5.9	N/A	Average	3.62%



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Wall Street Journal Jan'08 housing indicators

<u>Metro area ↓</u>	<u>Overall Strength of Metro Area</u>	<u>Change in housing inventory*</u>	<u>Months supply**</u>	<u>Price change***</u>	<u>Employment outlook****</u>	<u>Loan payments overdue*****</u>
New York	Moderate	6%	N/A	-4.1%	Very Weak	3.71%
Orange County, Calif.	Weak	28%	9.2	N/A	Weak	3.26%
Orlando	Moderate	24%	17.5	N/A	Strong	5.44%
Philadelphia	Weak	4%	8.7	N/A	Weak	3.24%
Phoenix	Weak	23%	12	-10.6%	Weak	4.29%
Portland, Ore.	Moderate	36%	5.7	1.9%	Average	2.33%
Raleigh-Durham, N.C.	Moderate	24%	5.6	N/A	N/A	N/A
Sacramento	Weak	26%	10	N/A	Average	4.94%
San Diego	Weak	20%	N/A	-11.1%	Weak	3.99%
San Francisco	Moderate	42%	6.6	-6.2%	Average	2.91%
Seattle	Moderate	50%	4.9	3.3%	Average	2.13%
St. Louis	Weak	17%	7.5	N/A	Weak	3.63%
Tampa	Weak	13%	16	-11.8%	Average	5.31%
Washington, D.C.	Moderate	26%	7.5	-7.0%	Average	3.91%



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Comparing Home Prices

DFW housing remains cheap versus the rest of US

- Avg price of 2,200 s.f., 4 bedrooms, 2.5 baths, with a family room and 2-car garage



Highest Prices

Beverly Hills, CA	\$ 2,206,883
Greenwich, CT	\$ 2,018,750
La Jolla, CA	\$ 1,800,000
Santa Monica, CA	\$ 1,785,000
Palo Alto, CA	\$ 1,677,000

Most Affordable

Killeen, TX	\$ 136,725
Minot, ND	\$ 139,033
Arlington, TX	\$ 139,175
Canton, OH	\$ 146,333
Muncie, IN	\$ 150,000

Other Texas Cities

Austin	\$ 243,250
Corpus Christi	\$ 183,625
Dallas	\$ 302,198
El Paso	\$ 229,306
Fort Worth	\$ 151,250
Houston	\$ 169,736
Plano	\$ 204,144
San Antonio	\$ 258,166



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DFW Population Growth

DFW Moves Up to 4th Largest!

<u>Rank</u>	<u>MSA</u>	<u>Jul-2006 Est</u>	<u>U.S. Census Bureau Estimates</u>		
			<u>Jul-05</u>	<u>Jul-00</u>	<u>CAGR</u>
1	New York	18,825,933	18,747,320	18,359,151	0.42%
2	Los Angeles	13,030,242	12,923,547	12,403,036	0.83%
3	Chicago	9,509,448	9,443,356	9,119,722	0.70%
4	Dallas/Fort Worth	5,952,784	5,819,475	5,196,397	2.29%
5	Philadelphia	5,849,511	5,823,233	5,693,604	0.45%

Source: Greater Dallas Chamber

Note: CAGR = Compound Annual Growth Rate calculated from July 1, 2000 through July 1, 2005.

DFW Population Growth Economy.com Near-Term Forecast

<u>Rank</u>	<u>MSA</u>	<u>Pop.Change 2006-2011</u>
1	DFW	631,400
2	Houston	592,200
3	Riverside (CA)	580,300
4	Atlanta	564,800
5	Miami	521,300

Source: Greater Dallas Chamber



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DFW Metro 2007

- ☐ Is the largest metro area in Texas & 4th largest in the US (6 million people)
- ☐ Has Texas' largest, most educated workforce (3 million workers)
- ☐ Produces one-third of all goods and services in Texas
- ☐ Leads Texas in public university & community college students (250k students)
- ☐ Approaches \$60 billion annually in direct imports and exports
- ☐ Adds 200 net new jobs and 370 residents every day

Source: Greater Dallas Chamber



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Crystal Ball: Economy's Next 6 Mos.

☐ FOMC

- ☐ Likely to have to continue cutting Fed Funds Rate – next scheduled FOMC meeting is March 18

☐ Upcoming “Freeze” on ~1 Million Resets

- ☐ Will slow foreclosures, improve liquidity, and stimulate retail spending

☐ Congress and the Bush administration likely to implement an economic stimulus package before the end of 1Q 2008

- ☐ Increasing “Jumbo” definition to as high as \$729k
- ☐ Tax rebate stimulus checks expected this summer

☐ Improving the element of “certainty” of the extent of the mortgage mess

- ☐ B of A buying Countrywide was first big private ‘vote of confidence’
- ☐ Citi and Merrill Lynch have “refinanced” themselves!



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Crystal Ball: Housing's Next 6 Mos.

☐ The “Fall Fall”

- ☐ Began on Labor Day weekend and continues for a few more days
- ☐ Uncertainty in mortgage/bond market will continue for the next few months
- ☐ Though closings are slow, now is the perfect time to be ‘sowing seeds’

☐ The Spring Thaw

- ☐ Sales activity will once again pick up in mid-February
 - ☐ Mortgage/bond market likely to rebound somewhat by late spring
- ☐ New home construction unlikely to resume until late 2008 at earliest

☐ Real Estate is Like the Weather

- ☐ People don't ask “How's the weather in the US?” - Instead, they really need to determine the weather in a given market of interest
- ☐ People should do the same with housing