



Campbell/Inside Mortgage Finance

Housing*Pulse*

| Tracking Survey |

Tracking Real Estate Market Conditions Using the *HousingPulse* Survey

May 2011

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Introduction

Campbell Surveys and Inside Mortgage Finance conduct a unique survey series to track both home sales and mortgage usage patterns. Survey respondents are real estate agents and brokers—a group with unparalleled insight into rapidly changing local real estate markets and homebuyer mortgage preferences.

Inside Mortgage Finance is a leading publication in the mortgage industry and a data source recognized for its accuracy by major industry players. Campbell Surveys has conducted syndicated research for the mortgage and real estate industries since 2001. The research products resulting from their continuing survey collaboration have been purchased by nearly every major financial institution, including mortgage originators accounting for more than half of current United States mortgage production.

Metrics covered in this white paper of past survey results include:

- The proportions of homebuyers, including first-time homebuyers, investors, and current homeowners
- The proportions of property transactions, including damaged REO, move-in ready REO, short sales, and non-distressed properties
- Financing methods used by homebuyers, including cash, FHA, VA, Fannie Mae/Freddie Mac, and non-agency loans
- Average prices for various property types
- Average time on market for various property types
- Average number of offers for various property types
- Diffusion indexes for homebuyer traffic
- Textual comments from real estate agents on local market conditions
- Data at both the national and regional levels

Inquiries regarding subscriptions to the full survey results should be addressed to:

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Survey Methodology

During the first week of each month, Campbell Surveys solicits real estate agents by email, asking them to complete an online survey instrument. The period surveyed is the previous calendar month. The online survey instrument consists of five discrete sections, each covered by a separate data acquisition page:

- Respondent Information—respondent name, email, location, specialty, and number of buyer-side and listing side transactions
- Listing Agent Transactions—a detail of transactions for the previous month
- Buyer’s Agent Transactions— a detail of transactions for the previous month
- Changes in Your Local Housing Market—diffusion index questions regarding month-to-month changes in number of transactions, prices, time on market, and inventory
- Bonus Question—a question that may vary month-to-month, designed to highlight current issues in the market

The email solicitation database has been developed over the course of eight years of real estate agent surveys. Typically one-third of respondents have responded to a previous Campbell Survey; the remaining two-thirds are new respondents.

The following validation criteria are used for respondents:

- Only real estate agents and brokers actively showing or listing residential properties are allowed to respond to the survey
- Each respondent must identify themselves by name and email address
- Respondents can respond to the survey only once per month

The survey typically obtains respondents in excess of 2,500, representing all major regions of the country. Due to natural variations in response rates, not every region or state will achieve the same response rate. Accordingly, survey results are weighted by the number of transactions in individual states, using the most recent quarterly data available.

Monthly Survey Deliverables

The survey and associated deliverables were designed with the needs of the sophisticated economic researcher or financial analyst in mind. Monthly deliverables include:

- A database of buyer-side transactions with data elements for location of respondent, time period, property category, homebuyer type, financing method, sales price and buyer-side commission
- A database of listing-side transactions with data elements for location of respondent, time period, property category, homebuyer type, sales price, listing price, time on market, number of offers and listing-side commission
- Individual index responses on monthly changes in home prices, number of closed transactions, REO inventory, short sale inventory, and non-distressed inventory, with each response coded by location of respondent and time period
- Textual comments from survey respondents on local market conditions that can be sorted by both time period and location of the respondent

To aid in analysis without the need for custom-programming, all data is delivered in an Excel spreadsheet format. Additionally, more than 20 pre-programmed pivot tables are included to speed initial analysis of the data.

Pivot tables may be used to compare trends across 10 pre-formatted regions. These regions were designed to include states that are geographically adjacent and share similar drivers of economic performance. Pivot table data is geographically weighted to account for any monthly variation in response rates.

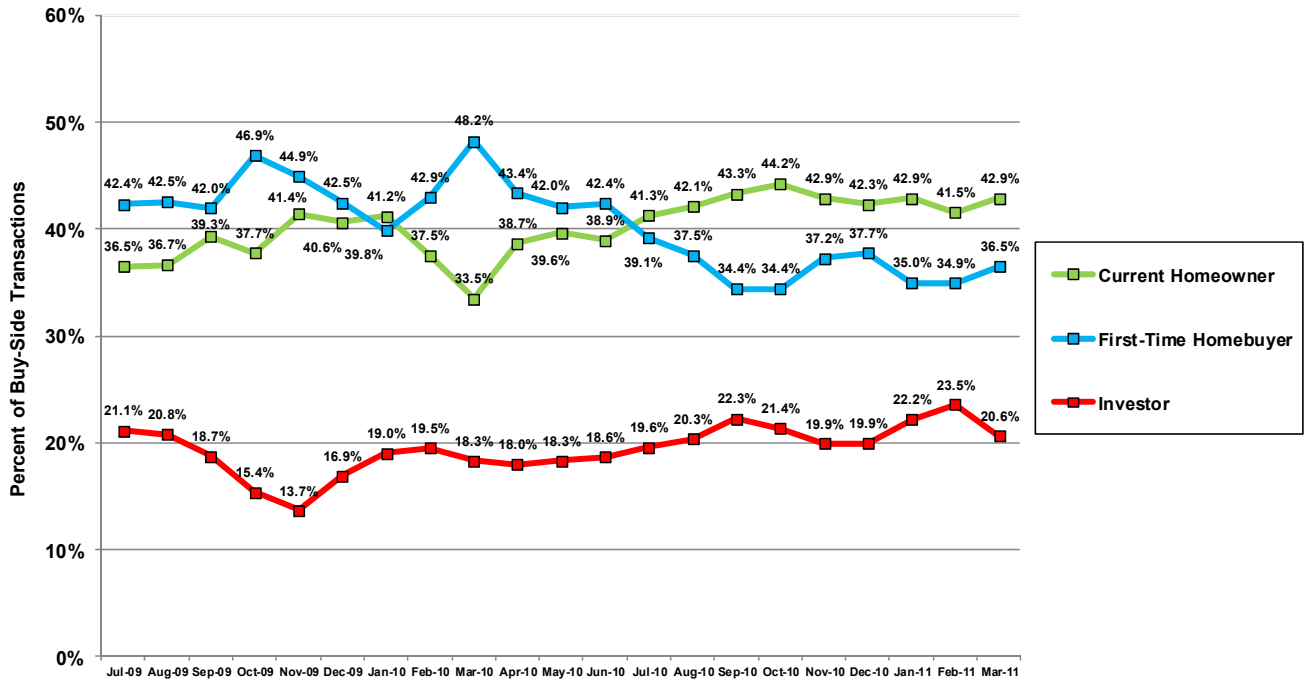
Compiled survey data is released to subscribers by the 15th calendar day of each month, or by the first business day following the 15th if that day falls on a weekend or federal holiday.

In order that survey subscribers retain a significant competitive advantage, distribution and dissemination of survey data is carefully controlled and sequenced. Survey subscribers are given access to the complete set of survey deliverables before release of selected data to media outlets. Any release of data to the media is limited to a small set of top-line statistics, augmented by incomplete regional data and qualitative, not quantitative, analysis. And a private teleconference with subscribers to discuss survey results is always conducted before any news conferences or press releases.

Survey Segmentation Scheme

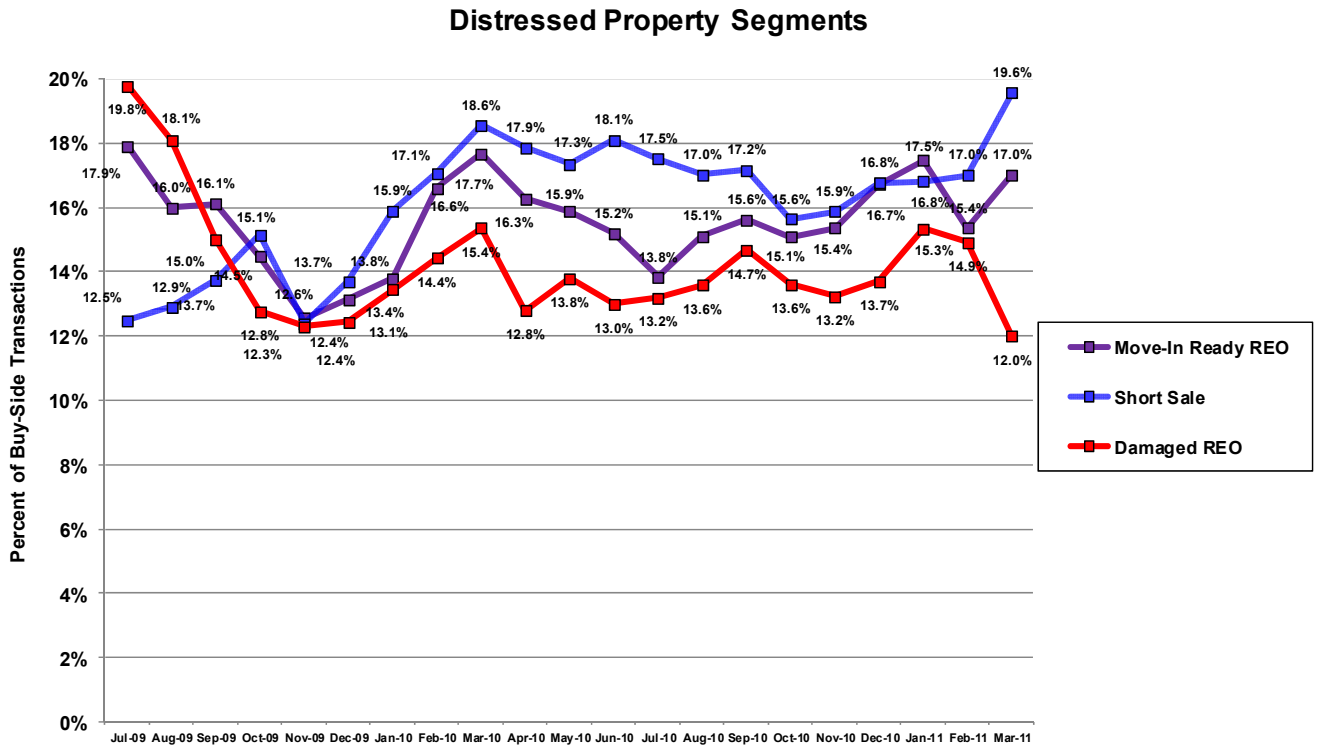
The survey uses an innovative segmentation scheme to divide the housing market into three components of demand and four components of supply. The three surveyed components of demand are first-time homebuyers, investors, and current homeowners. The four surveyed components of supply are damaged REO, move-in ready REO, short sales, and non-distressed properties.

Homebuyer Participation



Survey results show that first-time homebuyers, motivated by first-time homebuyer tax credit, made up the largest component of demand through the spring of 2010. After the end of the tax credit, current homeowners became the No. 1 source of demand.

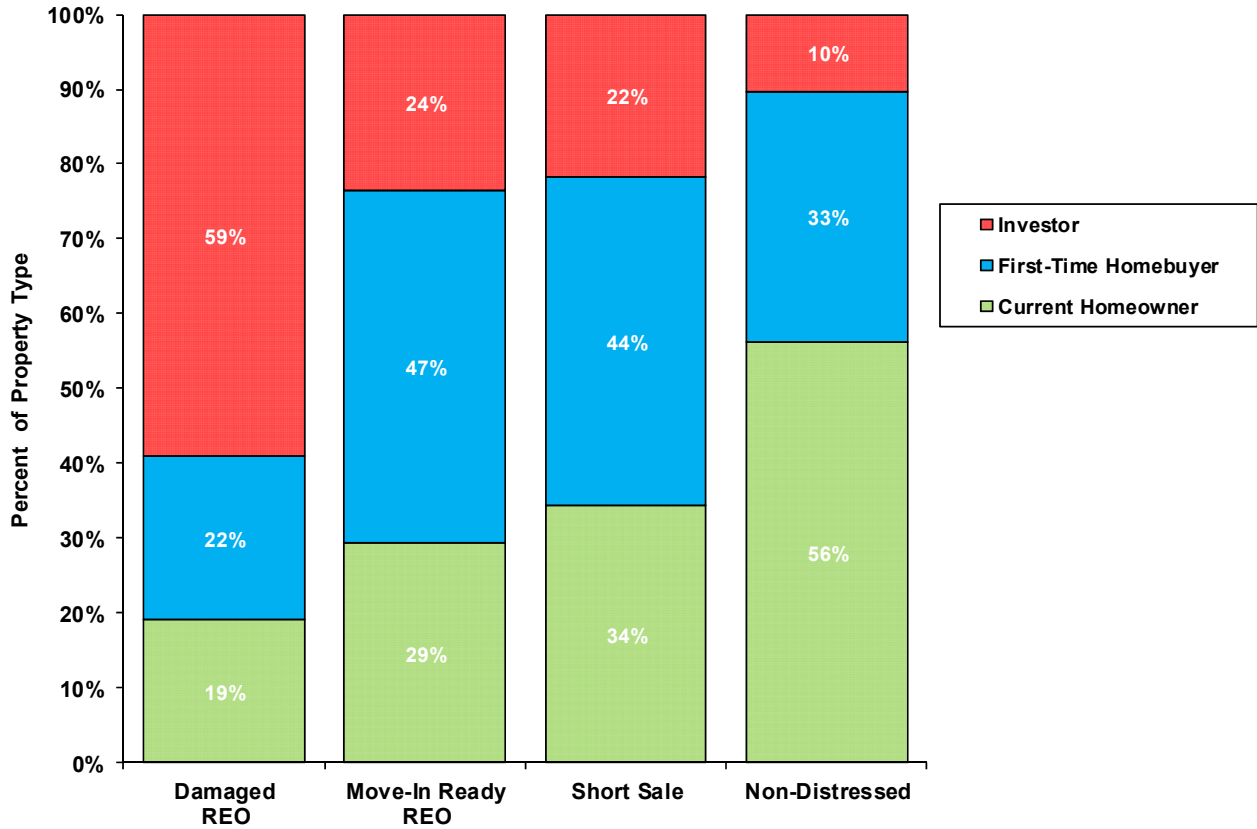
Property Supply Segmentation



Surveyed transactions can be segmented by property type. In August 2009, damaged REO were the No. 1 segment of distressed property. (For graphical clarity, the non-distressed portion of the market is not shown in the above chart.) By March 2011, mortgage servicer programs had made short sales the No. 1 segment. Because damaged REO has an extremely negative effect on housing markets, these servicer programs had substantially stabilized the housing market.

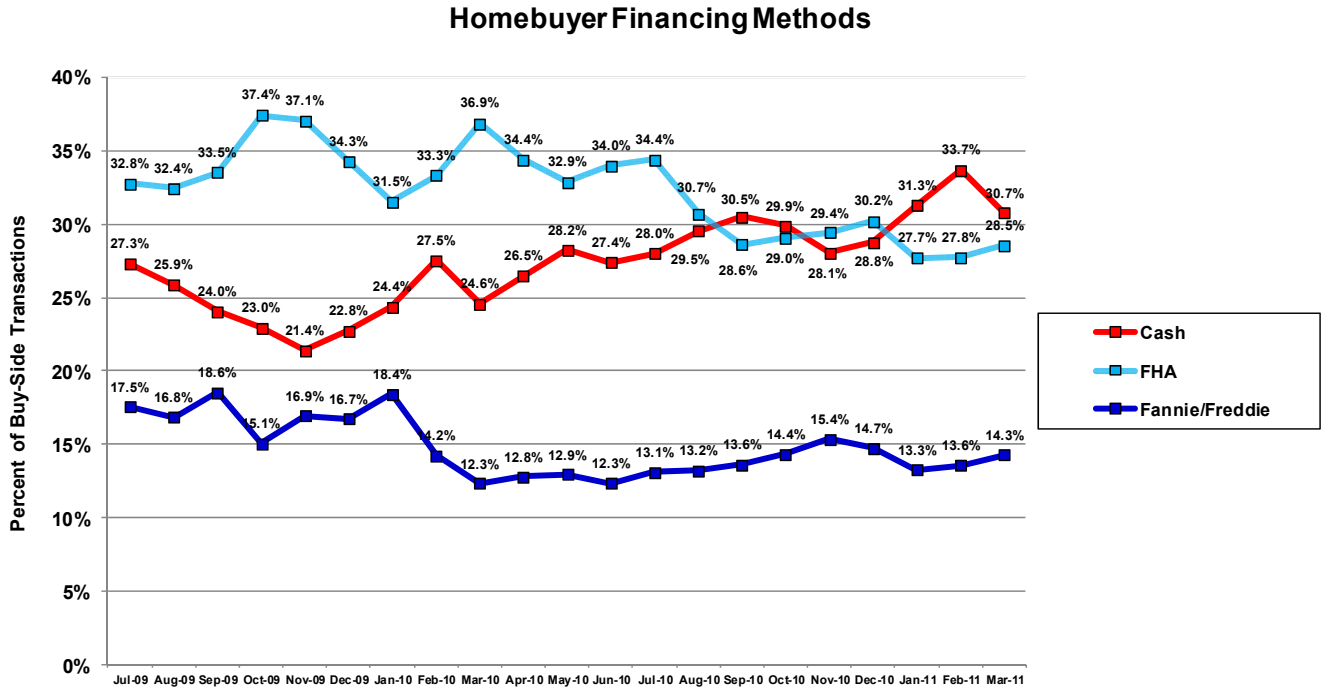
Matrixed Segmentations

Who Is Buying Properties?—March 2011



Because the survey data is collected on a per-transaction basis, it can easily be aggregated to produce matrixed segmentations. For example, it is possible to calculate breakdowns of the purchasers of damaged REO, move-in ready REO, short sales, and non-distressed properties. The market for damaged REO consists mostly of investors, while current homeowners make up the majority of non-distressed property purchasers.

Financing Methods



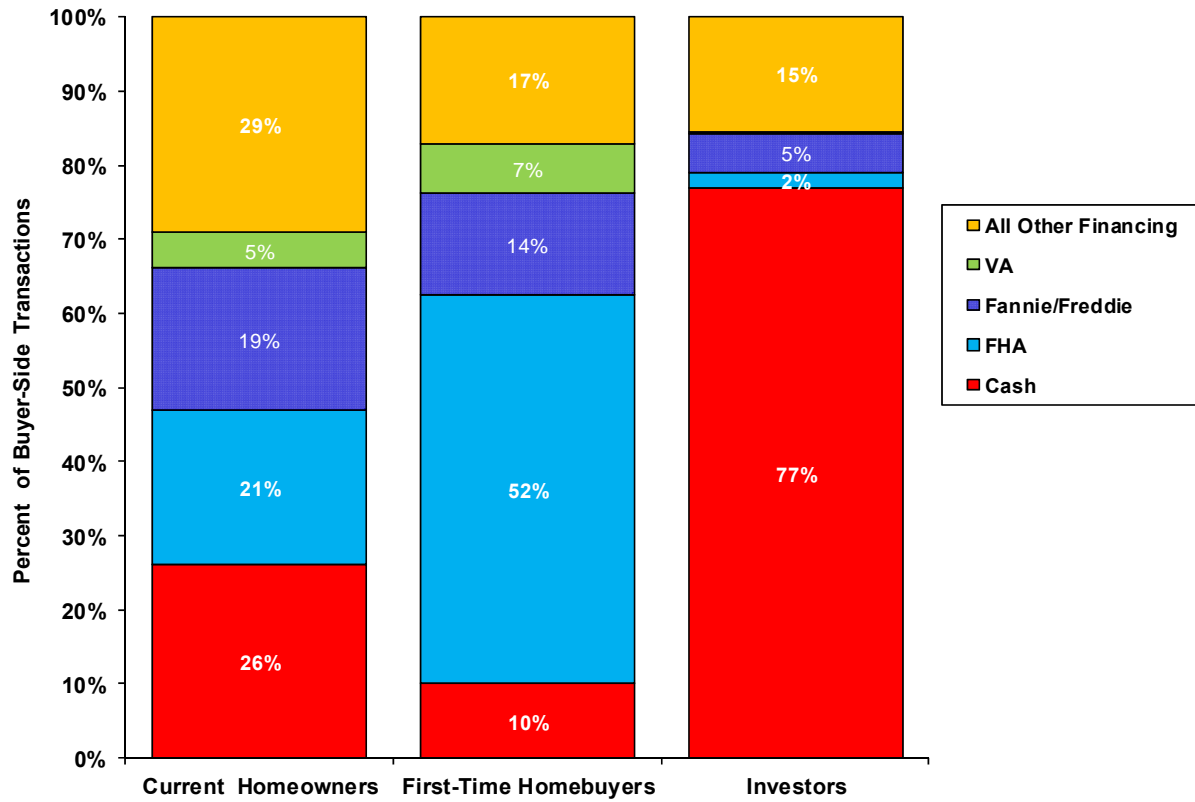
Note: Private and VA Financing Not Shown

Buyer-side transactions can be broken down by financing method; survey respondents indicate one of the following types of financing for individual transactions:

- Cash
- Fannie/Freddie
- FHA
- Non-agency lender
- VA
- Don't know
- Other financing

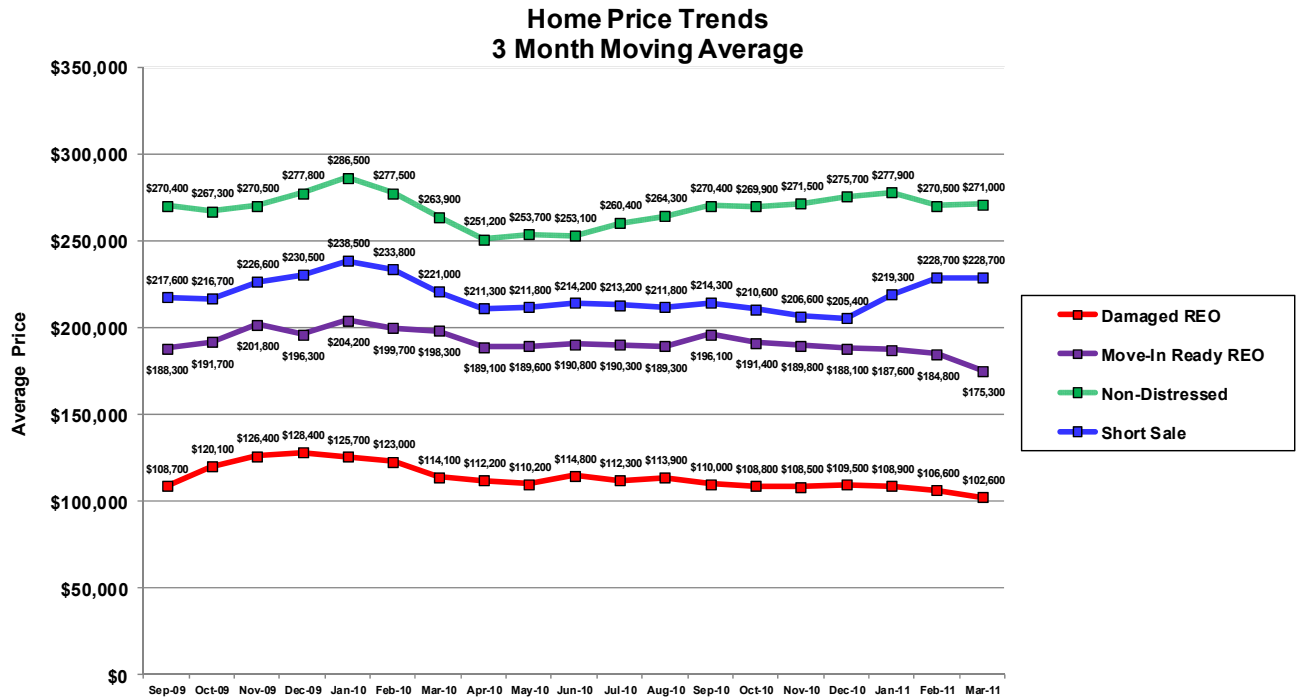
In the above example, trend data is presented for cash, FHA, and Fannie/Freddie transactions. Trends do not total to 100% on the above because other financing methods such as VA loans are not shown.

Financing for Homebuyers—March 2011



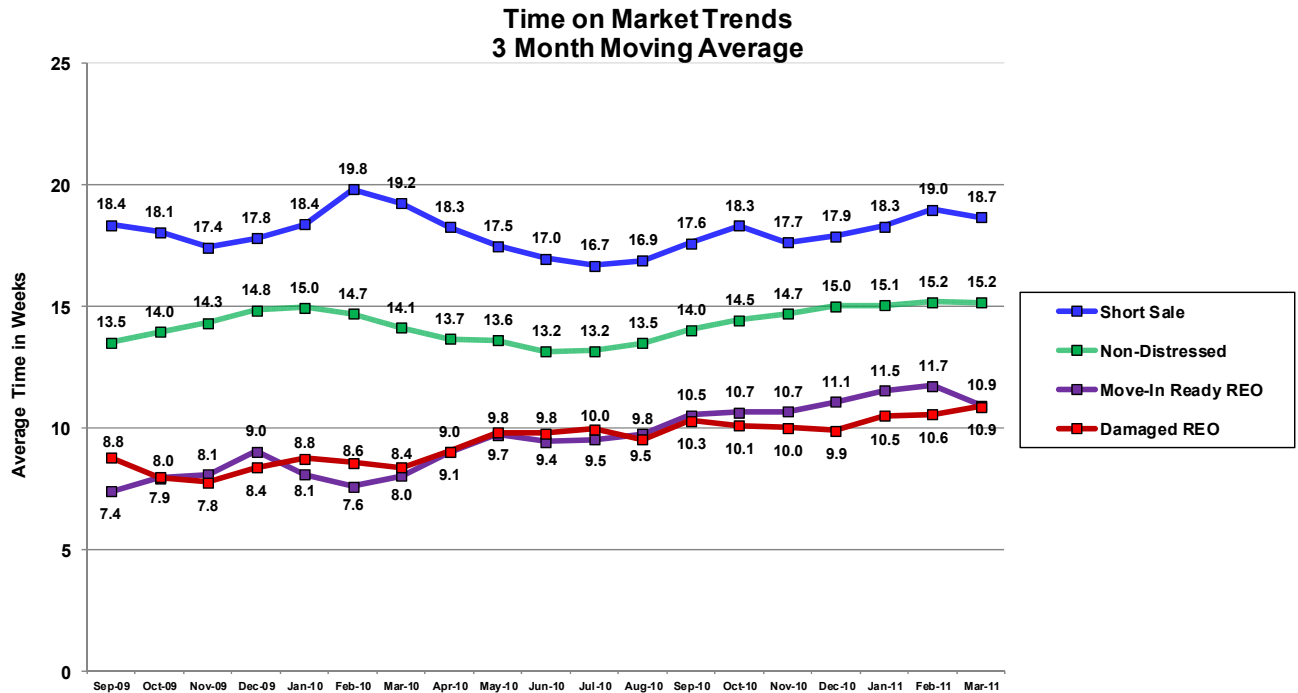
Surveyed transaction data can be further broken down to determine the type of financing used by different types of homebuyers. This data from March 2011 reveals that investors predominantly use cash financing while first-time homebuyers predominantly use FHA financing.

Sales Prices



For volatile data series, the *HousingPulse* aggregations employ a three month rolling average, as shown above. Survey results reveal that sales prices vary significantly by property type. Damaged REO is typically sold at extreme discounts compared to other property types, with move-in ready REO and short sales sold at more moderate discounts.

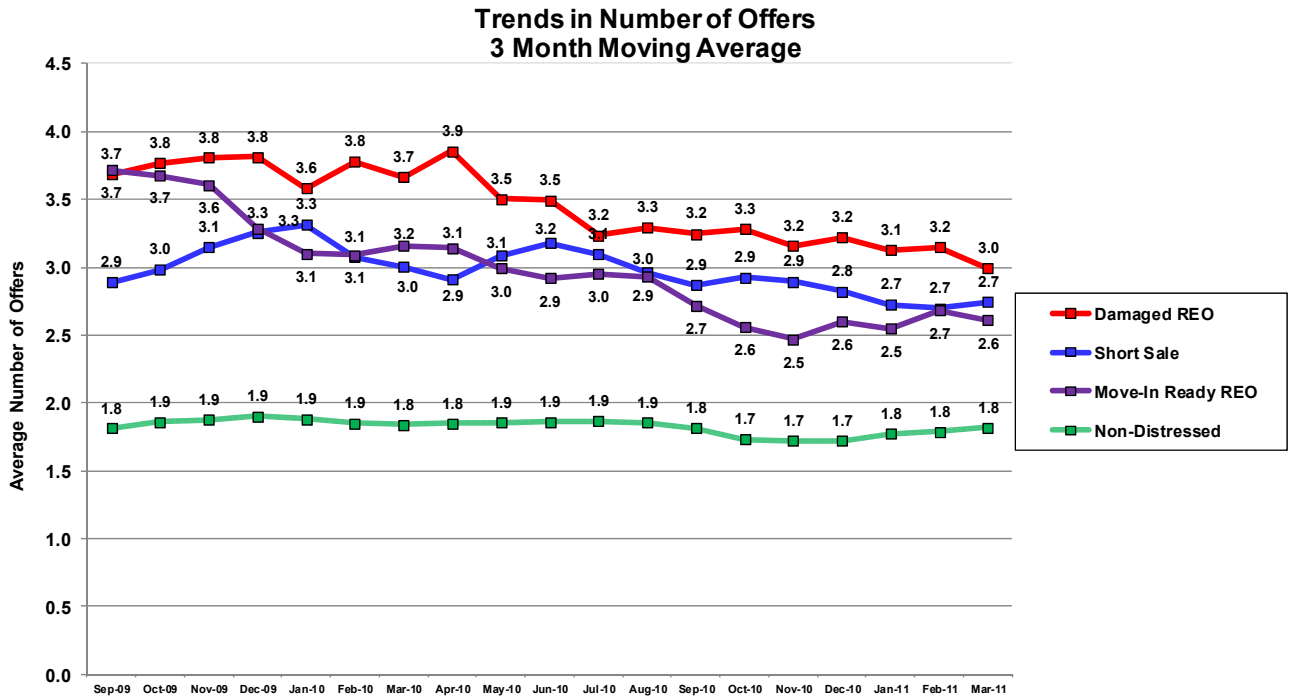
Time on Market



Survey results show that damaged REO and move-in ready REO are in high demand and stay on the market for relatively short periods. Non-distressed properties, often priced higher, stay on the market much longer.

Short sales, while significantly discounted, sell slowly. Short sale properties stay on the market longer than any other property category because mortgage servicers take 2-3 months, on average, to provide “yes” or “no” responses to short sale offers. Real estate agent respondents indicate that slow answers on short sale offers are a significant impediment to potential homebuyers.

Number of Offers

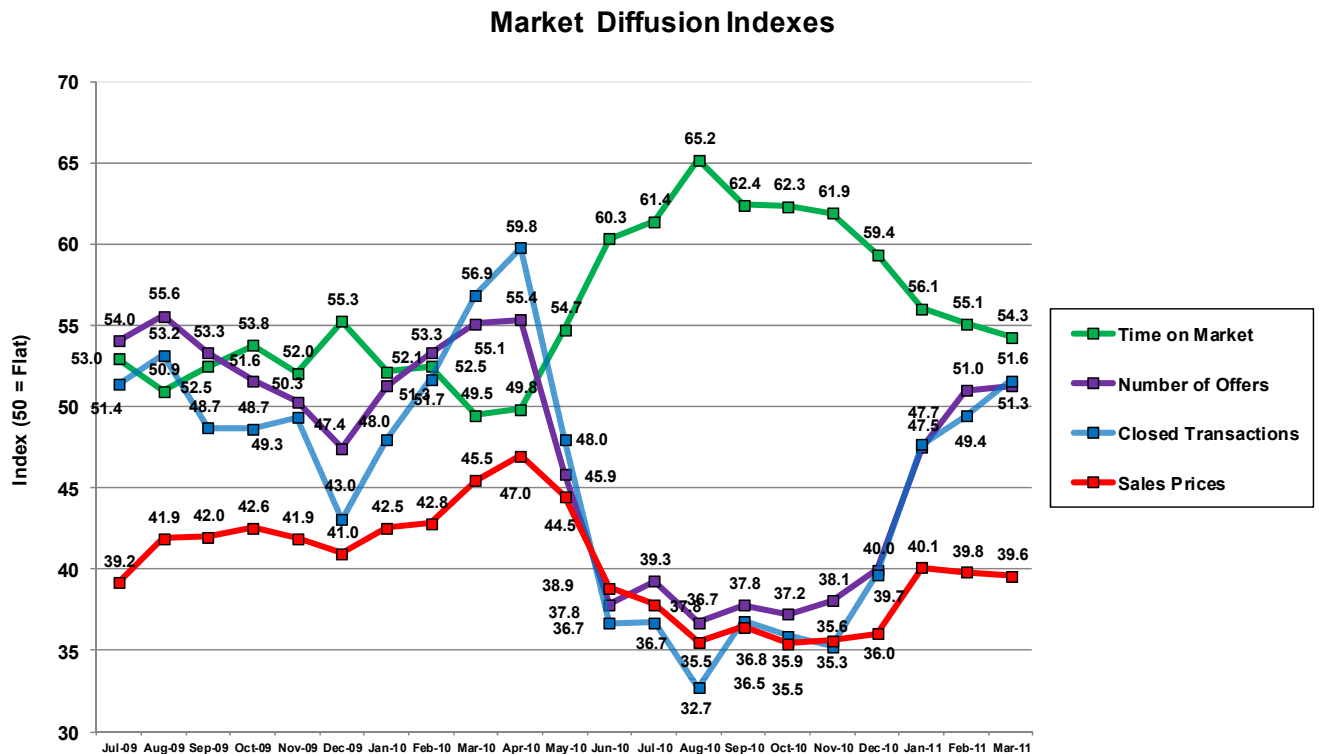


Survey results show that non-distressed properties, often priced higher, receive the fewest offers. Damaged REO and move-in ready REO receive the most offers. Over the survey period, the trend for offers on REO properties has been downward.

Diffusion Indexes

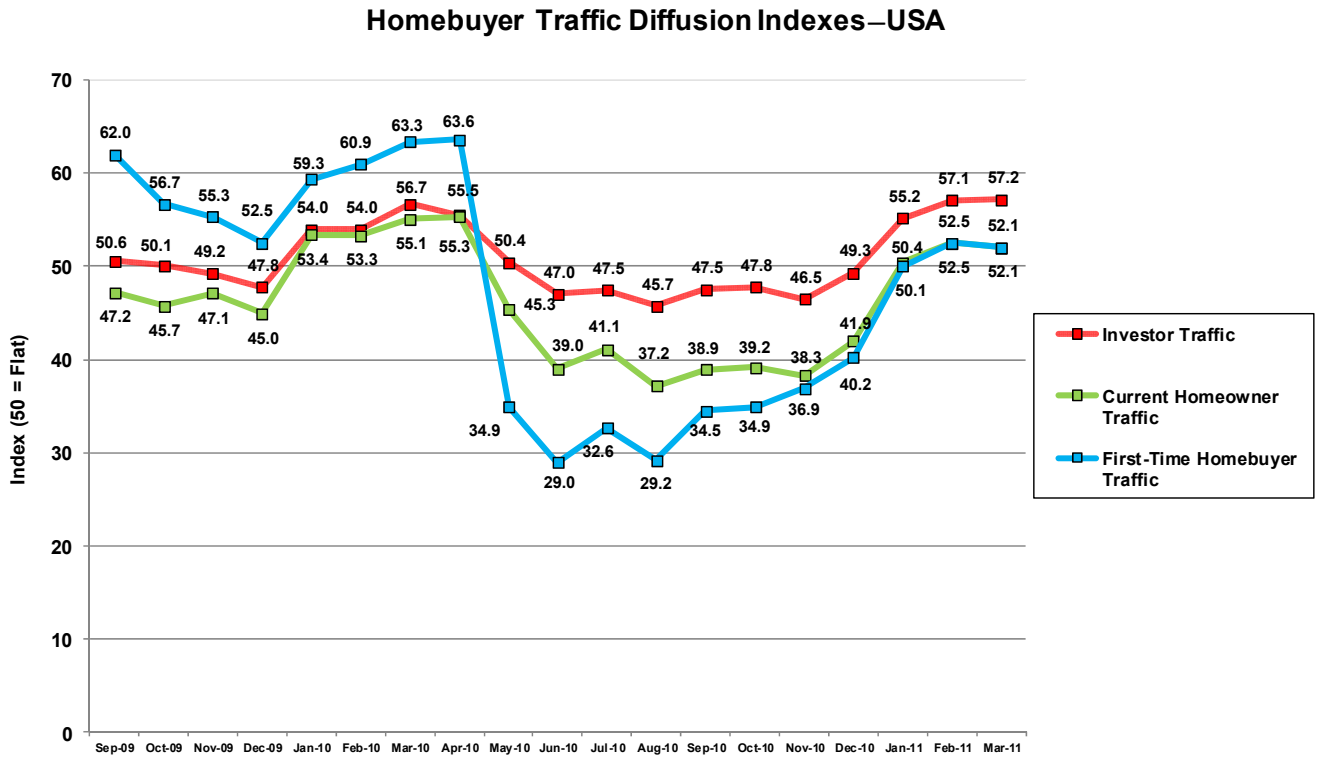
Diffusion indexes are calculated based on survey responses regarding month-to-month changes in inventory, prices, transactions, and time on market. On a scale of 0 to 100, a value of 50 indicates no change; a value of less than 50 indicates a decline, and a value of more than 50 indicates an increase.

Market Diffusion Indexes



Survey results show that the Market Diffusion indexes, which are generally reflective of real estate agent sentiment, moved in adverse directions after the end of the homebuyer tax credit in spring 2010. The indexes remained negative for about six months, and then improved in late 2010 and early 2011.

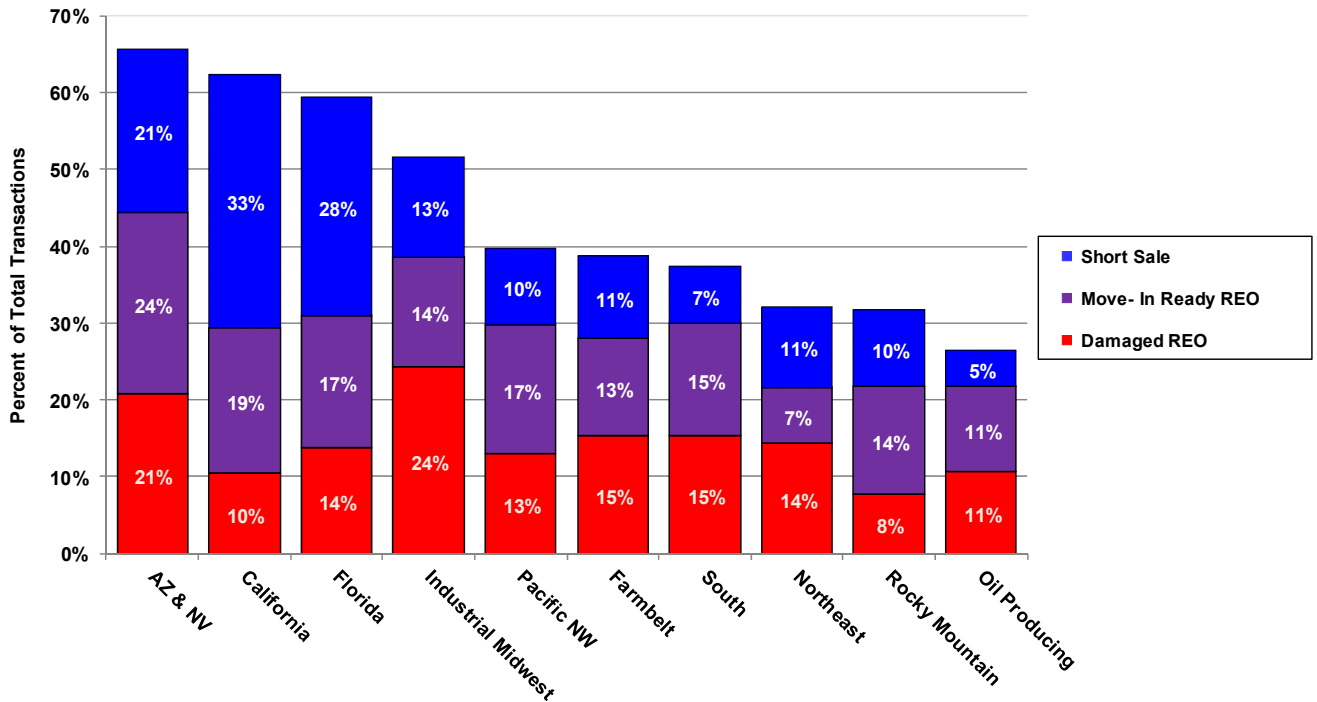
Homebuyer Traffic Indexes



Diffusion indexes produced by survey results indicate first-time homebuyer traffic exceeded current homeowner traffic during the period of the homebuyer tax credit. After the end of the tax credit, first-time homebuyer demand was depleted. By winter of 2011, first-time homebuyer and current homeowner traffic had converged, while investor traffic was slightly higher.

Regional Breakdowns

Proportion of Distressed Property Transactions—March 2011



Survey results show a wide variance in the percent of distressed properties by region. Notably, survey results confirm the conventional wisdom that the “sand states” of Arizona, California, Florida, and Nevada have the highest proportion of distressed property transactions.

Textual Comments by Real Estate Agent Respondents

About one-quarter of survey respondents typically provide textual comments on local market conditions. Below are examples of comments from the March 2011 survey:

“January and February numbers were encouraging. March saw a slow down of the market. Consumers appear to be frozen with events. Spike in gasoline prices, Japan tsunami and nuclear plant issues and the current middle east unrest. The recovery here in Arizona remains elusive as we continue an inventory of available homes from the excesses of 2005 2006 2007. Job creation remains a major issue in our area.” (AZ)

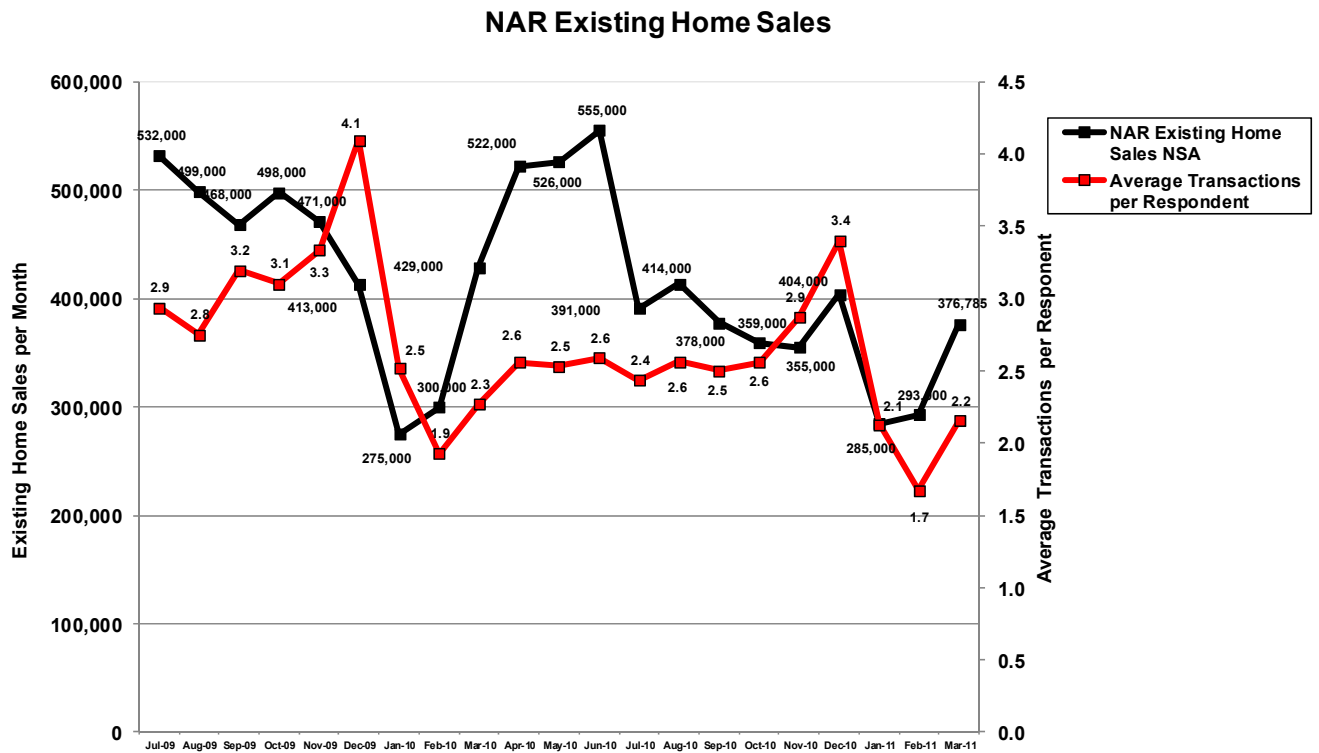
“Lack of consumer confidence, concerns about job security, inability to sell current home although necessary in order to buy a new home, snowstorms, heavy rains/flooding and cold weather have all had a negative impact. Our Spring Market used to start the Monday after Super Bowl Sunday. It is very late this year and has been moving forward in fits and starts.” (NY)

“Our market bottomed out last year and started to rise slowly. January was pretty flat with activity and inventory. February saw more buyers coming out. March has seen a sharp increase of new listings, approximately double what we had in February. It appears that we should have a marked increase in activity as we continue in this strong season of the year.” (CO)

“Very strong local housing market. An inspection company I deal with scheduled 22 inspections on one day this week. Lender says appraisal dates are backed up. Normally 2 day turnound time is now 4 due to appraiser caseloads. Good news!” (FL)

Comparison to Existing Home Sales Series Published by NAR

Survey results from the Campbell/Inside Mortgage Finance Monthly Survey of Real Estate Market Conditions can be compared to the Existing Home Sales series published by the National Association of Realtors (NAR).



In recent months, the Campbell survey statistic has reliably predicted the direction and approximate magnitude of NAR existing home sales. Campbell estimates NAR existing home sales before release by assuming that existing home sales will be proportional to average transactions per respondent.

Conclusion

The Campbell/Inside Mortgage Finance Monthly Survey of Real Estate Market Conditions has several advantages in better analyzing home sales and mortgage usage. Foremost, the survey results, released only days after the close of the observation period, are timelier than other nationally representative sources. Key indicators of housing market conditions—such as proportion of property types transacted and homebuyer categories—can be used to develop revealing

segmentations. The survey results are delivered in both aggregate and individual record formats, allowing analysts to perform their own proprietary analysis.

Regional breakdowns based on survey results show dramatically different conditions in local housing markets, including wide variances in the percent of distressed property transactions. Survey results also show that supply of certain property types, such as damaged REO, also vary dramatically by region. Notably, well-known price indexes available from private and government sources do not break down housing prices by categories such as non-distressed, short sale, damaged REO, and move-in ready REO—breakdowns that are essential for understanding changes in the housing and mortgage markets.

Compiled textual comments from real estate agent respondents provide up-to-date understanding of market nuances that are not explicitly measured by quantitative survey data.

In summary, the results of this unique tracking survey can provide an understanding of changes in the housing and mortgage markets not available from other sources.

For More Information

Technical questions about this paper should be directed to the lead author, Thomas Popik, director of research for Campbell Surveys and designer of the monthly tracking survey. Mr. Popik, who holds a BS degree in engineering from MIT and an MBA from Harvard Business School, has 18 years' experience as a researcher in the mortgage industry. tpopik@campbellsurveys.com

Questions about subscriptions to the Campbell/Inside Mortgage Finance Monthly Survey of Real Estate Market Conditions should be directed to John Campbell. jcampbell@campbellsurveys.com.