



Analyzing the 2012 Economic Environment: Homebuilder Perspective

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Check Out The Center's Blog

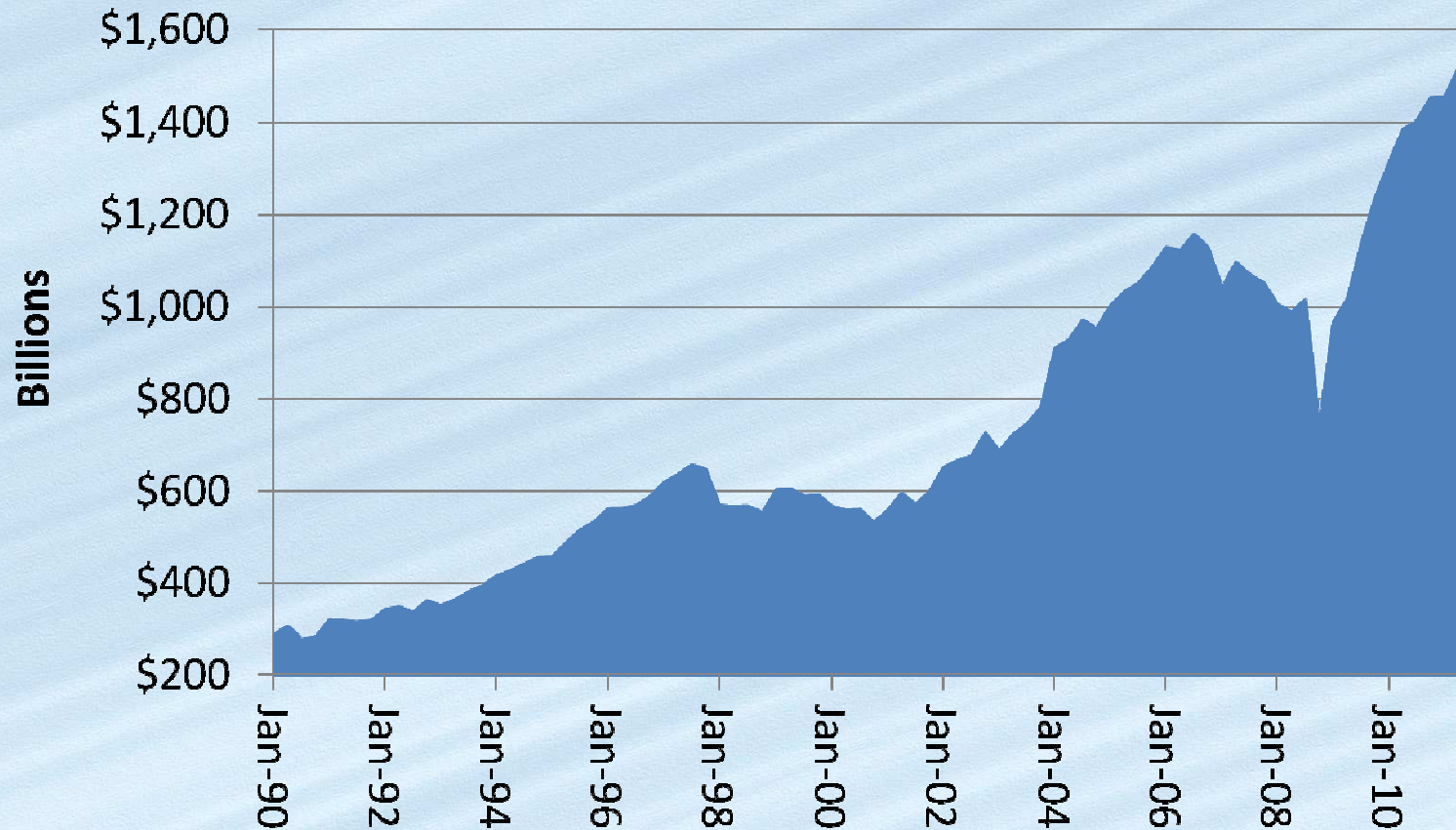
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Dotzour comments weekly on the following topics of interest to the real estate and related industries:

- Global and U.S. economic trends
- Federal reserve monetary policy
- Commercial and residential real estate trends
- Government policies impacting real estate

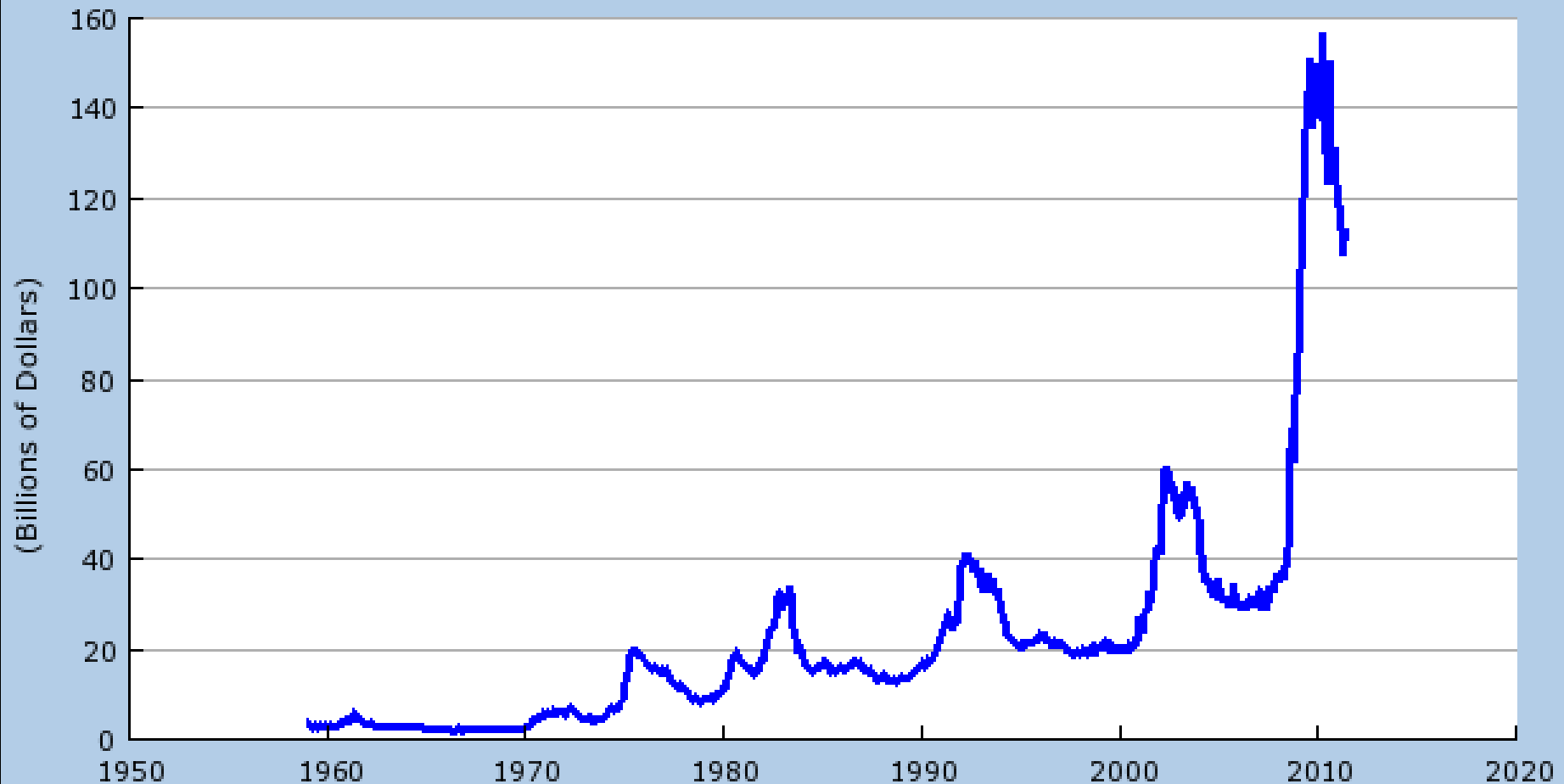
Corporate Profits

(With Inventory Valuation Adjustment & Capital Consumption Adjustment)



The Economy: Massive Unemployment Benefits Decline

Government unemployment insurance benefits (B223RC1)
Source: U.S. Department of Commerce: Bureau of Economic Analysis



Manufacturers' New Orders:

Nondefense Capital Goods Excluding Aircraft

Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft (NEWORDER)
Source: U.S. Department of Commerce: Census Bureau



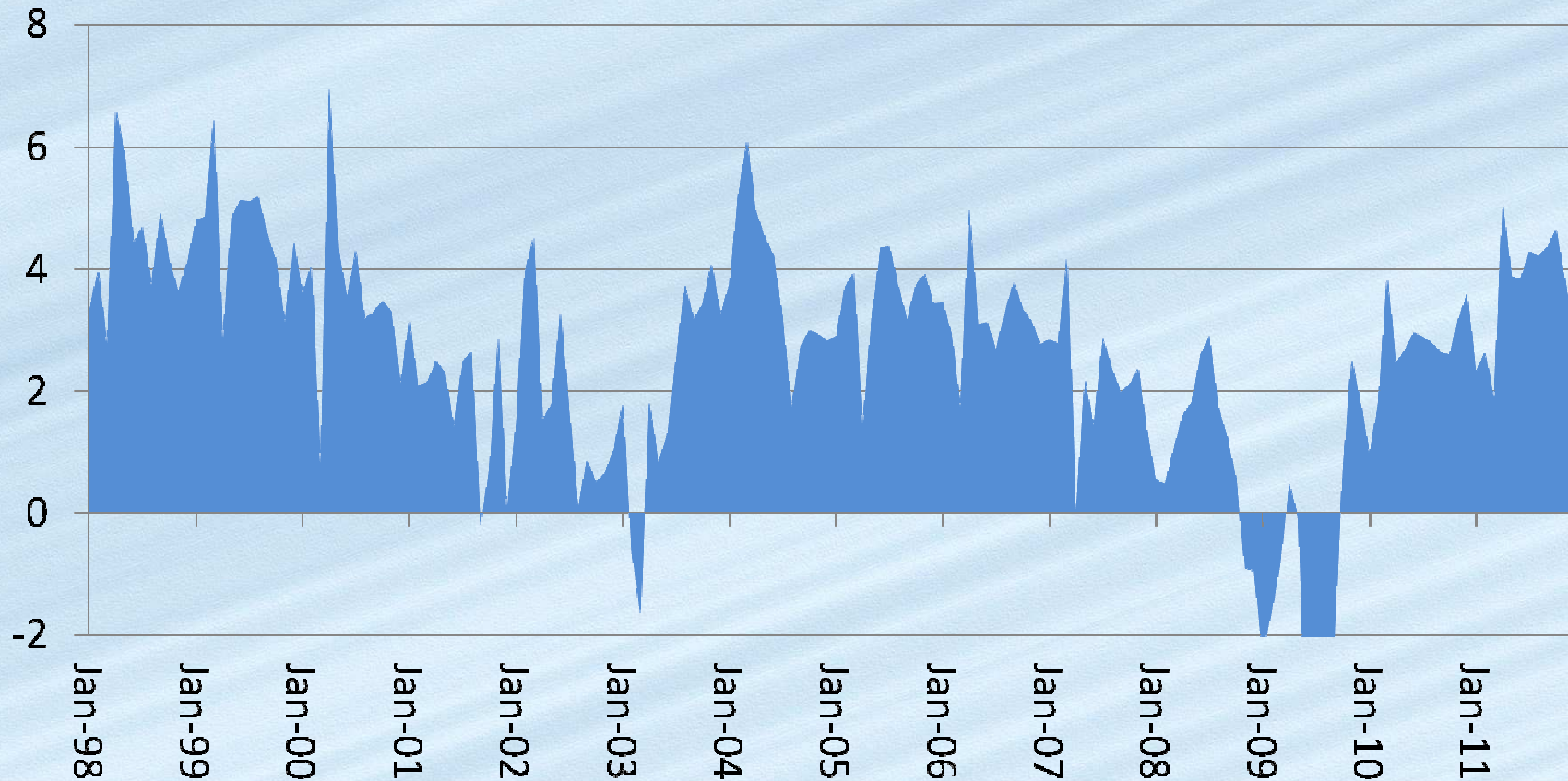
Trade Weighted Exchange Index: Major Currencies

Trade Weighted Exchange Index: Major Currencies (TWEXMMTH)
Source: Board of Governors of the Federal Reserve System



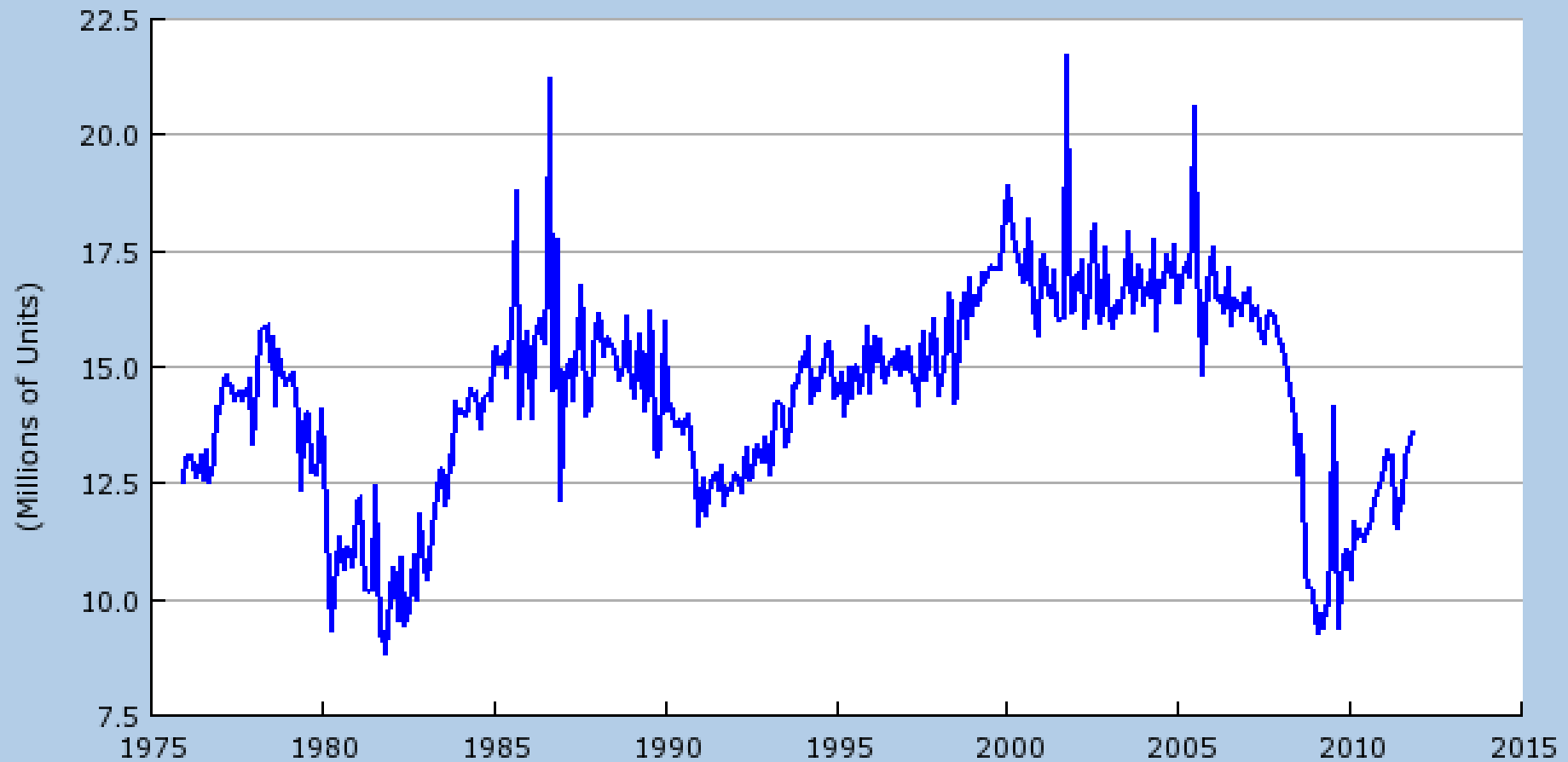
General Merchandise Retail Sales

Same Store Sales % Change from Year Earlier

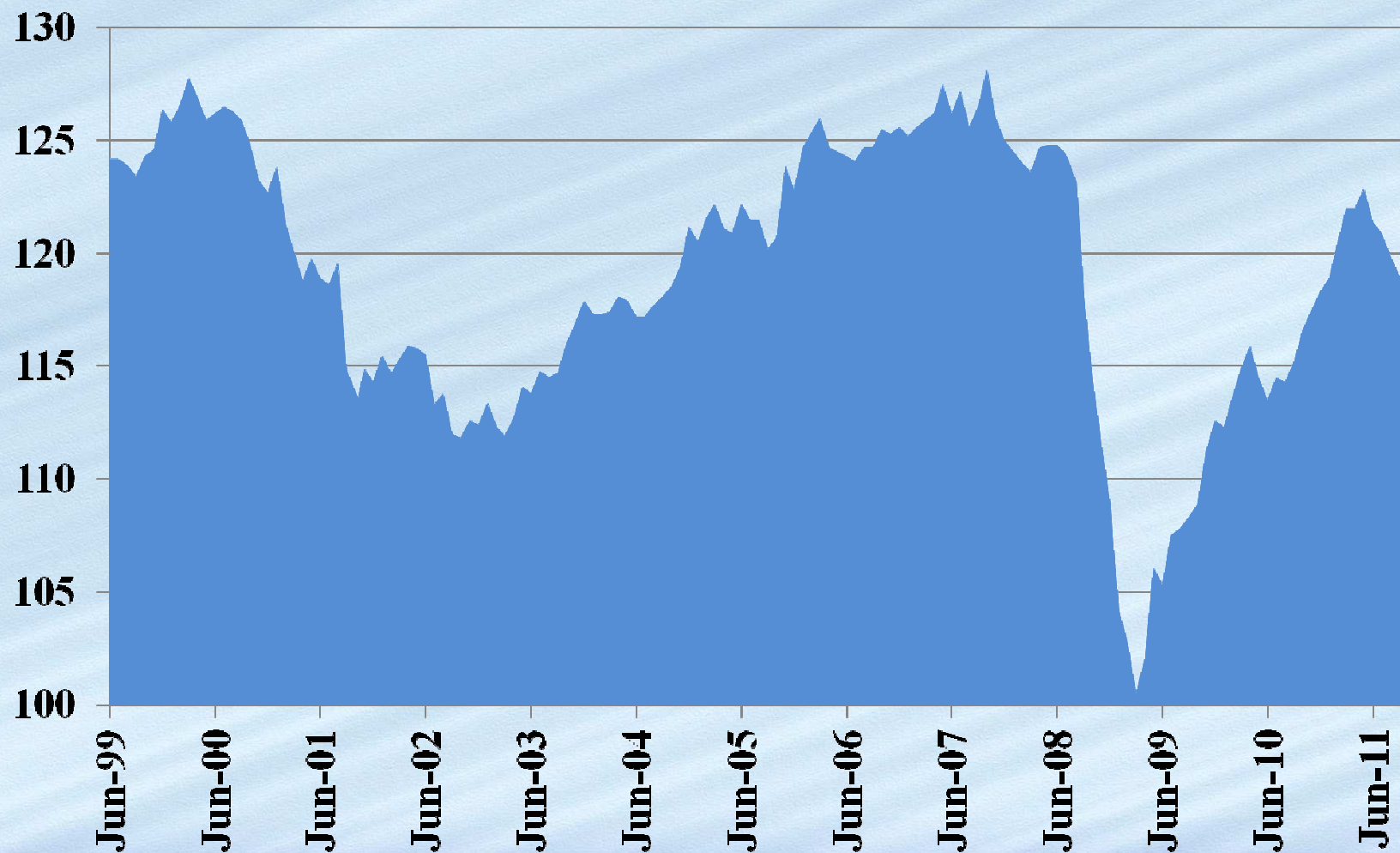


Light Weight Vehicle Sales: Autos & Light Trucks

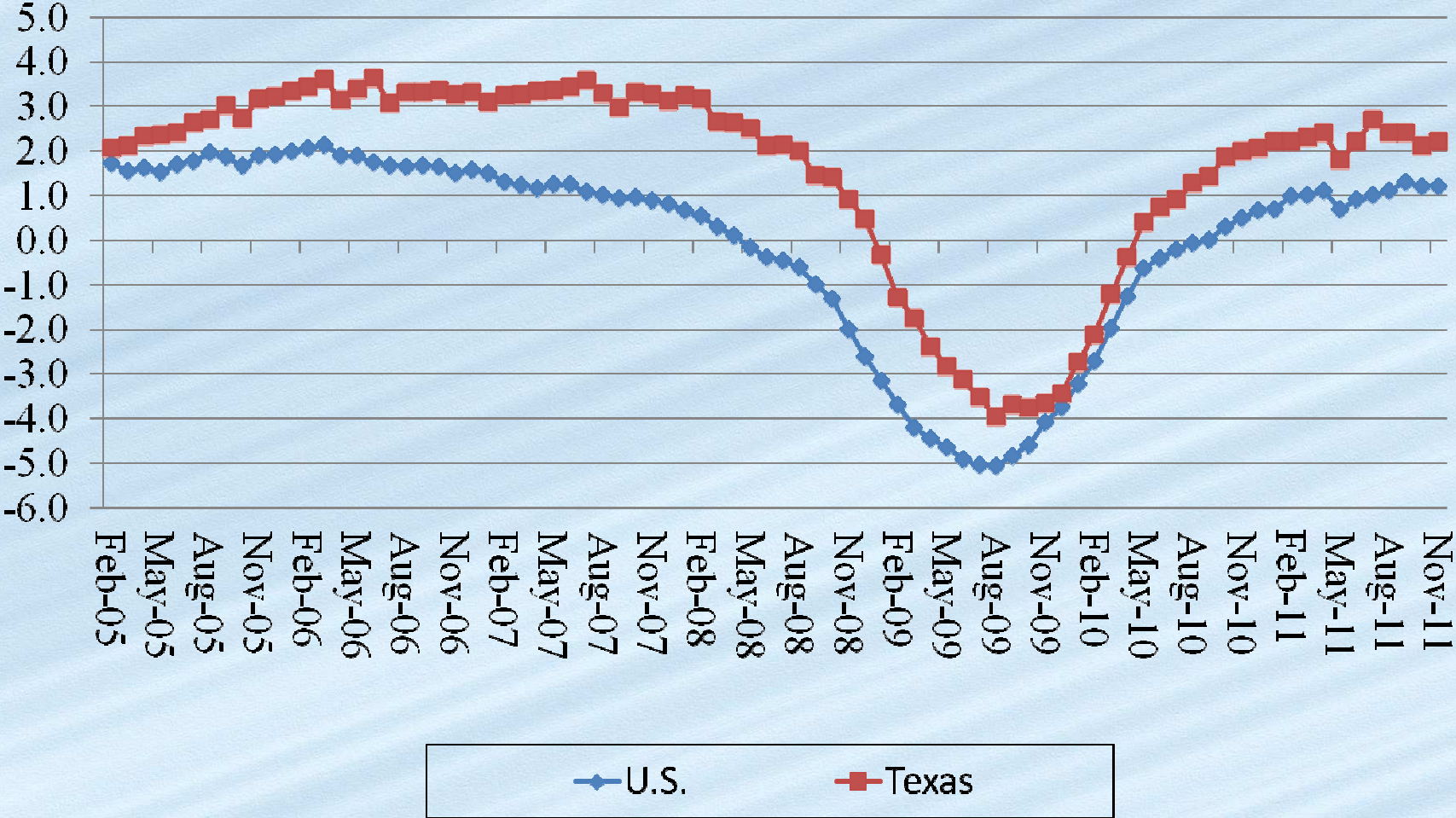
Light Weight Vehicle Sales: Autos & Light Trucks (ALTSALES)
Source: U.S. Department of Commerce: Bureau of Economic Analysis



Texas Index of Leading Indicators



Employment Growth Rates



Houston Employment Changes

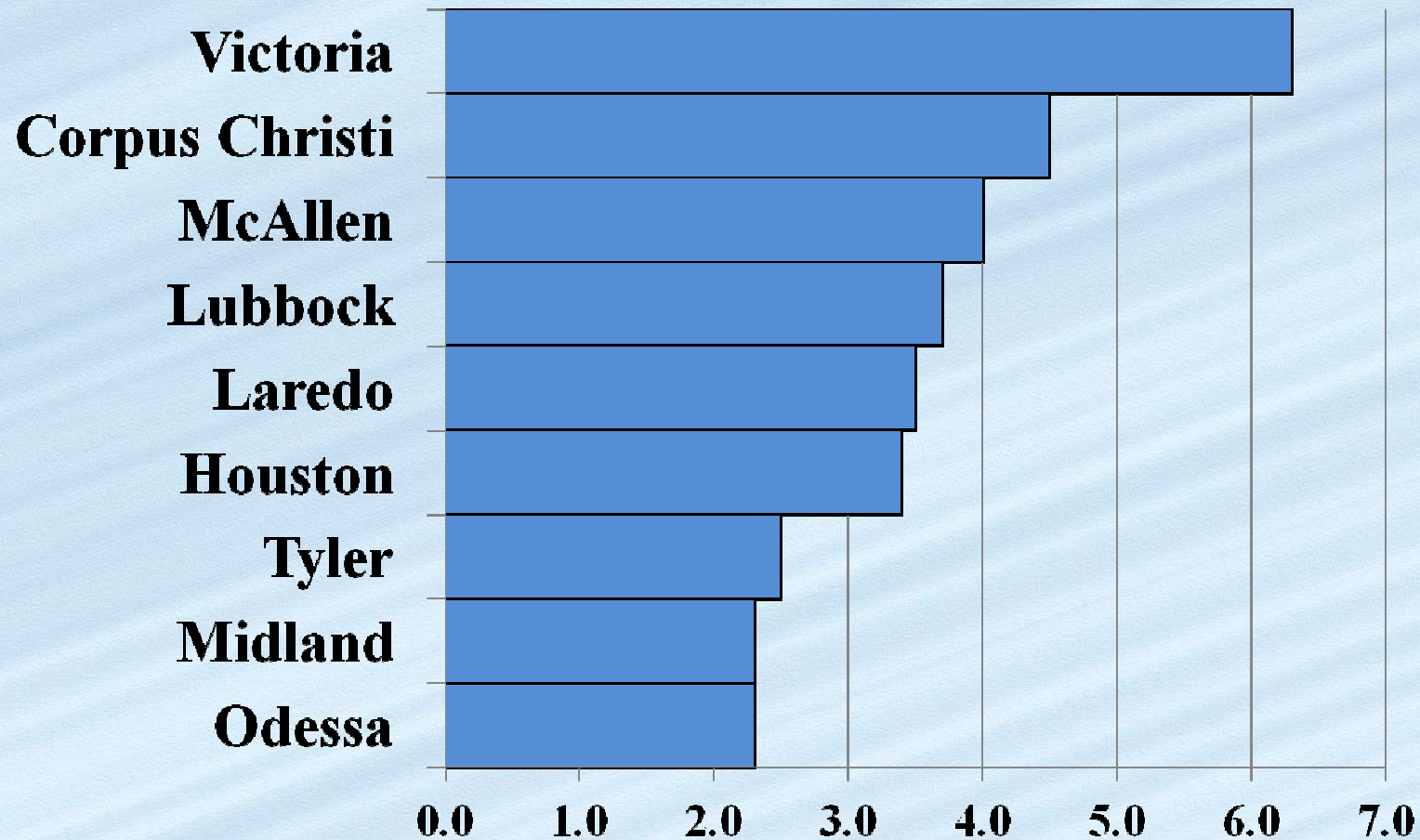
Nov 2010 to Nov 2011

<u>Industry</u>	<u>Nov-11</u>	<u>Nov-10</u>	<u>Annual Change</u>	<u>Percent Change</u>
Total Nonfarm	2,646,200	2,558,300	87,900	3.40
Mining and Logging	93,000	82,700	10,300	12.50
Construction	177,800	172,600	5,200	3.00
Manufacturing	230,800	218,200	12,600	5.80
Trade, Transportation, and Utilities	540,400	525,400	15,000	2.90
Information	29,600	31,300	-1,700	-5.40
Financial Activities	137,500	135,100	2,400	1.80
Professional and Business Services	387,700	366,800	20,900	5.70
Education and Health Services	324,200	312,500	11,700	3.70
Leisure and Hospitality	245,200	234,200	11,000	4.70
Other Services	97,900	91,900	6,000	6.50
Government	382,100	387,600	-5,500	-1.40

Source: Texas Workforce Commission

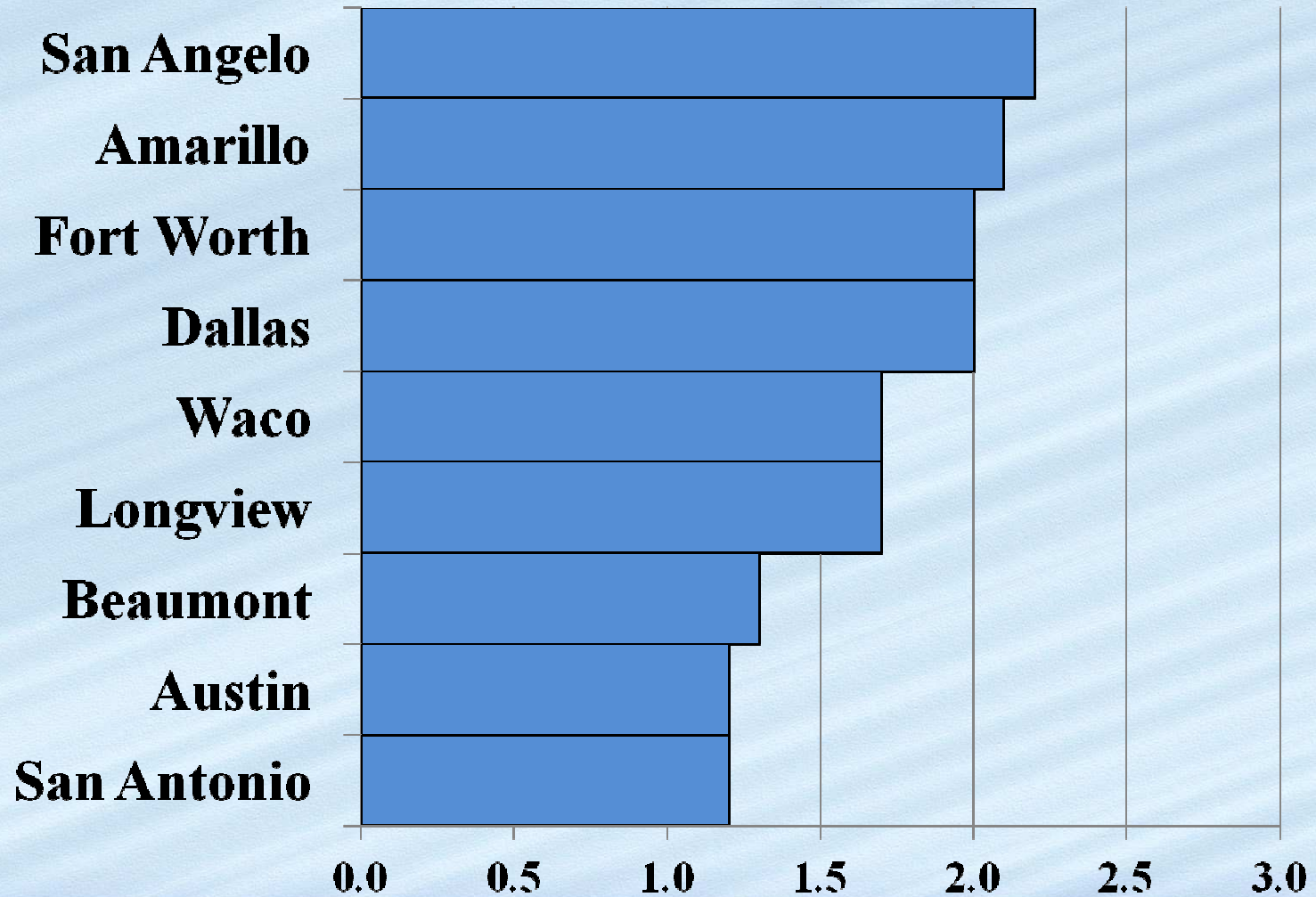
Job Growth Past 12 Months

Ending November, 2011



Job Growth Past 12 Months

Ending November, 2011



With All of This Positive Energy, Why Aren't
We Growing Faster?

“Making Business and Investment
Decisions in a World of Continuous
Exogenous Shocks”

The Economic Model



“Keep your
right elbow in.”

The Exogenous Shock

You get
struck
by lightning
walking off
the first tee.



Under Stable Conditions You Can Plan, Execute and Profit



Conditions From An Investor's Perspective



Conditions From A Business Owner's Perspective



Conditions From A Retiree's Perspective



Nobody Knows

- What will employee health care cost?
- What will corporate and individual tax rates be?
- What will the capital gains tax be?
- When will Congress turn loose of FRANNIE?
- How long will it take to foreclose and sell 4.5 to 6 million houses with delinquent loans?
- Why not give incentives to buy foreclosed homes?
- Will large European banks fail this year?
- When will US regulators allow banks to lend for real estate again?
- How to comply with Dodd-Frank rules?

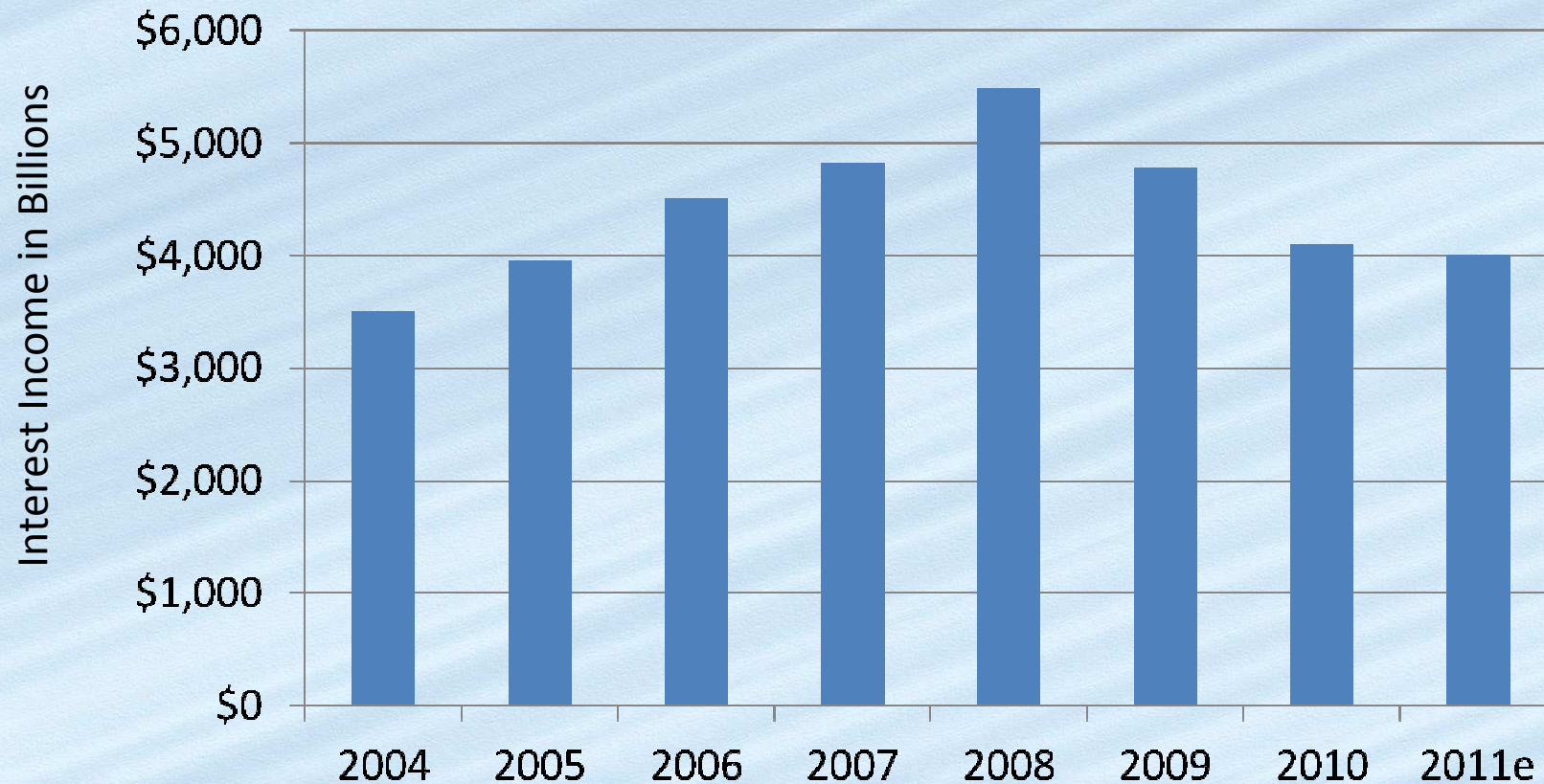
Wage and Salary Compensation as Percent of National Income



Transfer Payments as a Percent of National Income

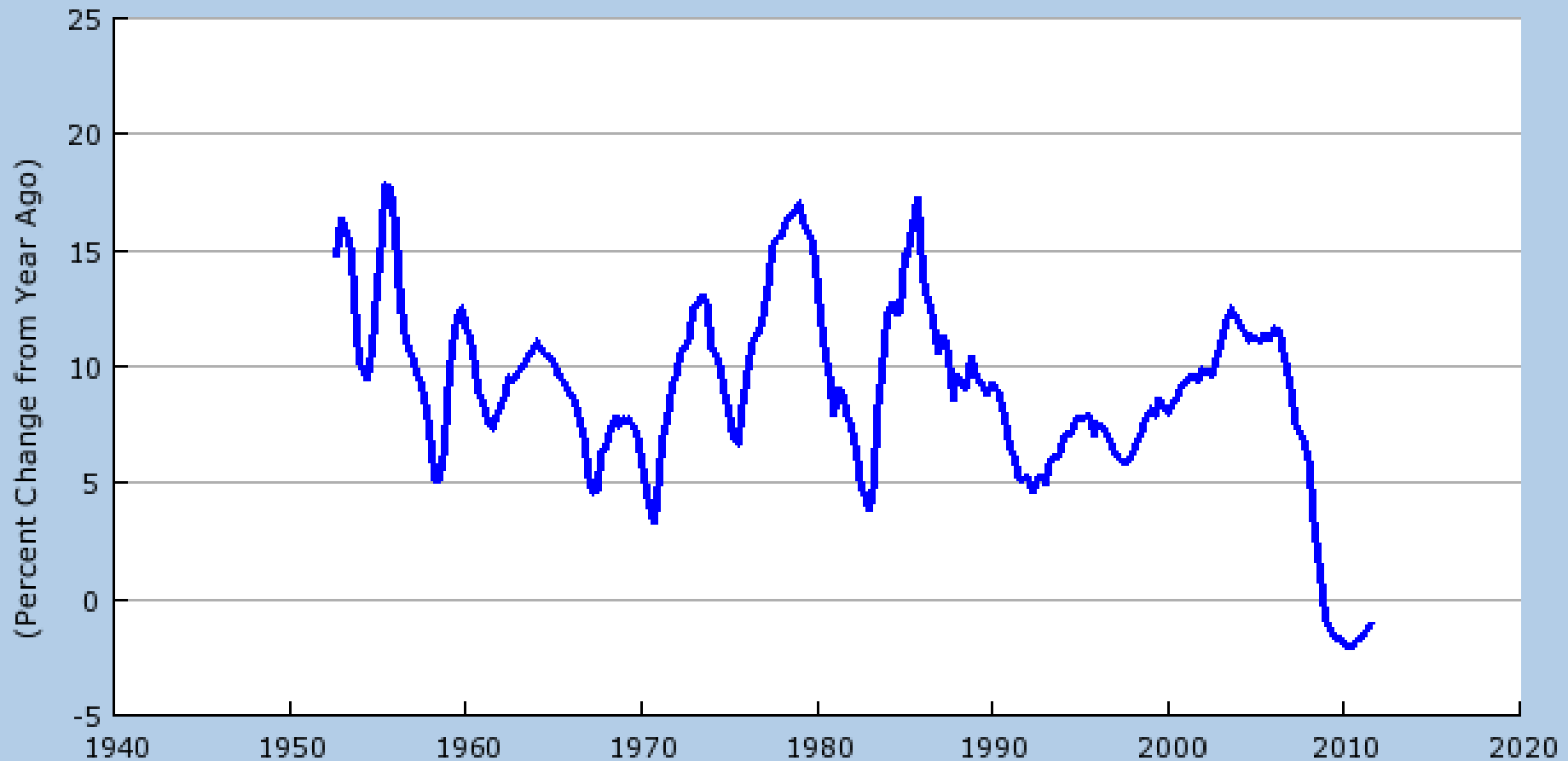


Zero-interest Fed Policy Has Reduced Annual Interest Income to Americans by Almost \$1.5 Trillion Since 2008



Consumers Paying Down Debt for First Time in 50 Years

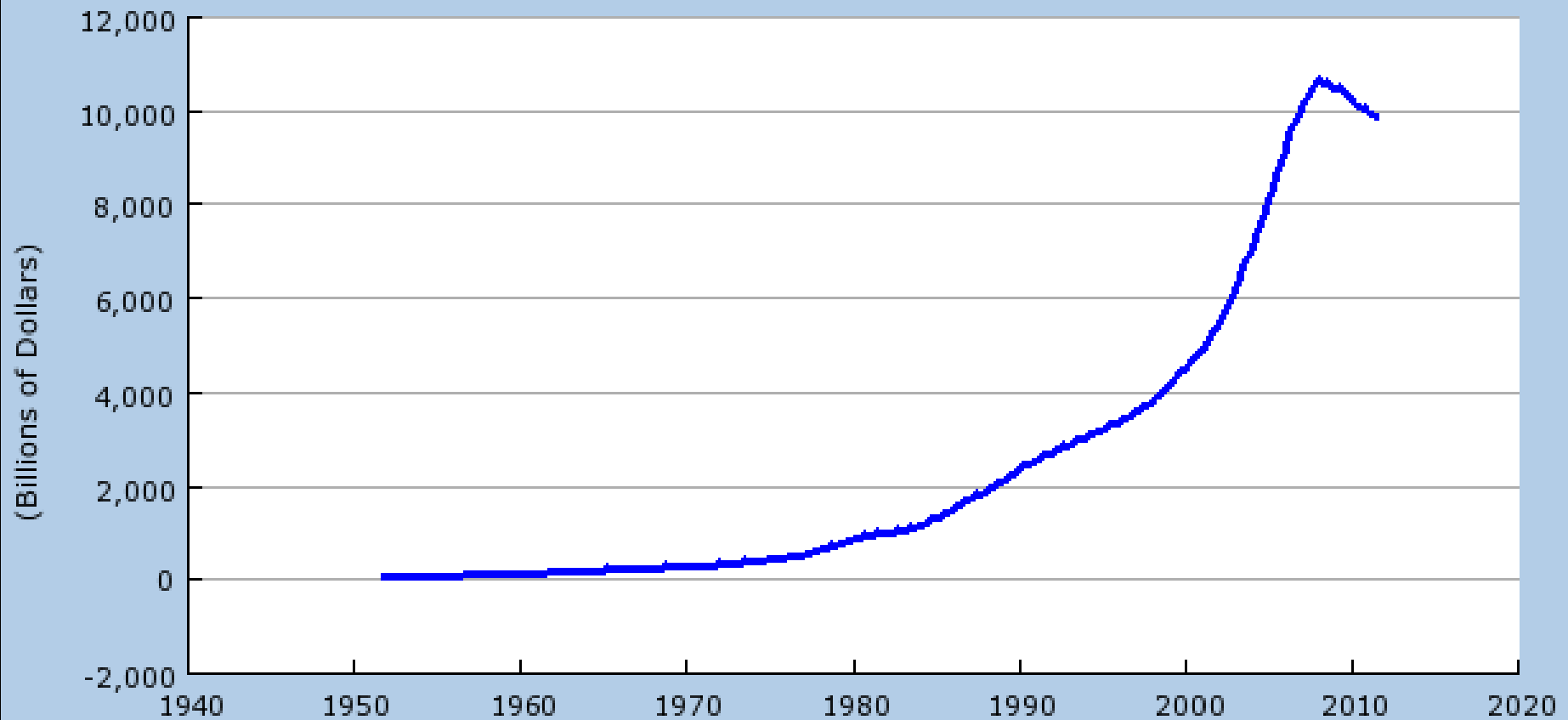
Household Sector: Liabilities: Household Credit Market Debt Outstanding (CMDEBT)
Source: Board of Governors of the Federal Reserve System



Households Reducing Mortgage Debt

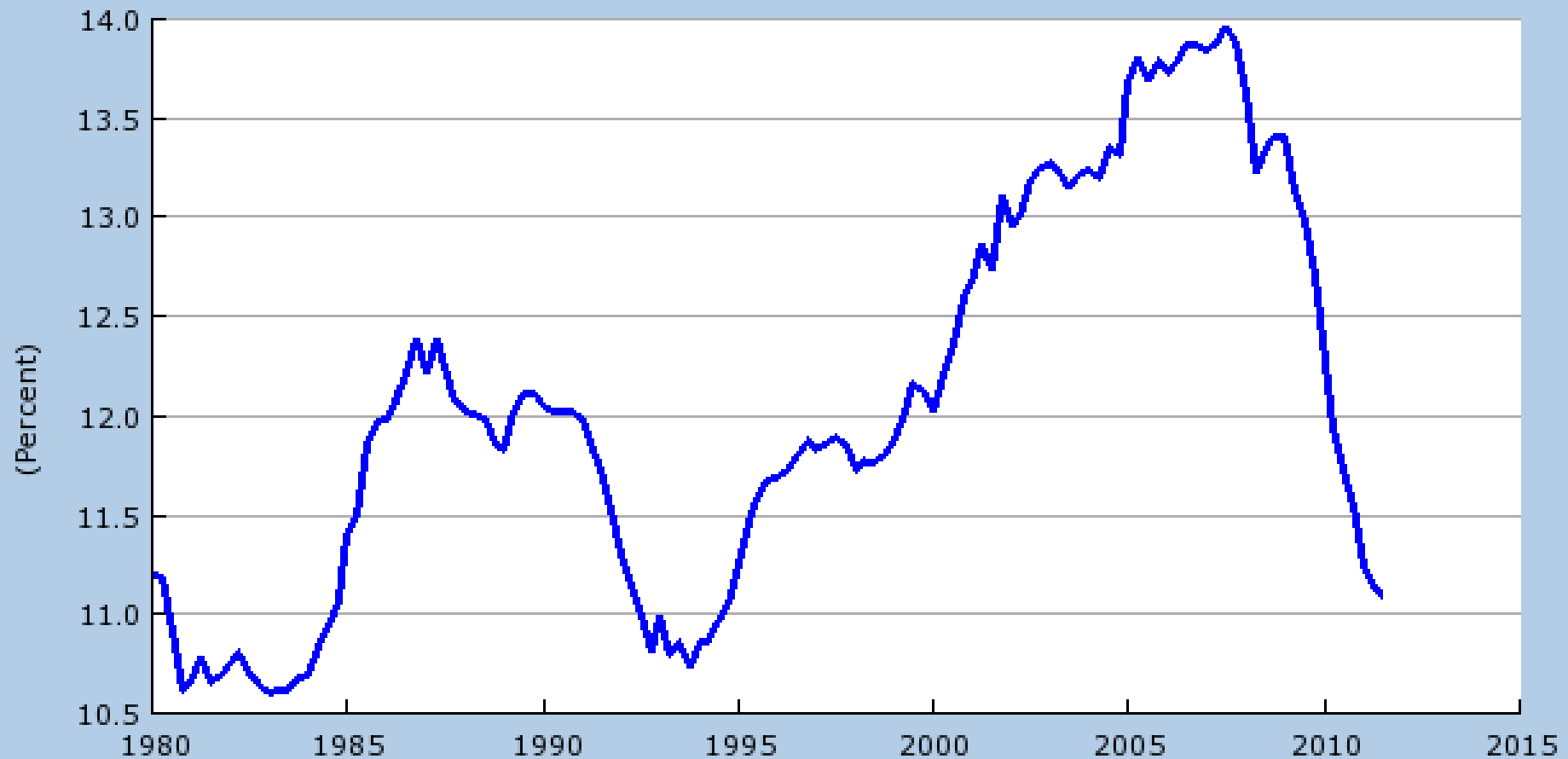
Home Mortgages - Liabilities - Balance Sheet of Households and Nonprofit Organizations (HMLBSHNO)

Source: Board of Governors of the Federal Reserve System



Household Debt Service Payments as a Percent of Disposable Personal Income

Household Debt Service Payments as a Percent of Disposable Personal Income (TDSP)
Source: Board of Governors of the Federal Reserve System



Small Business Outlook

“Now Is A Good Time To Expand”

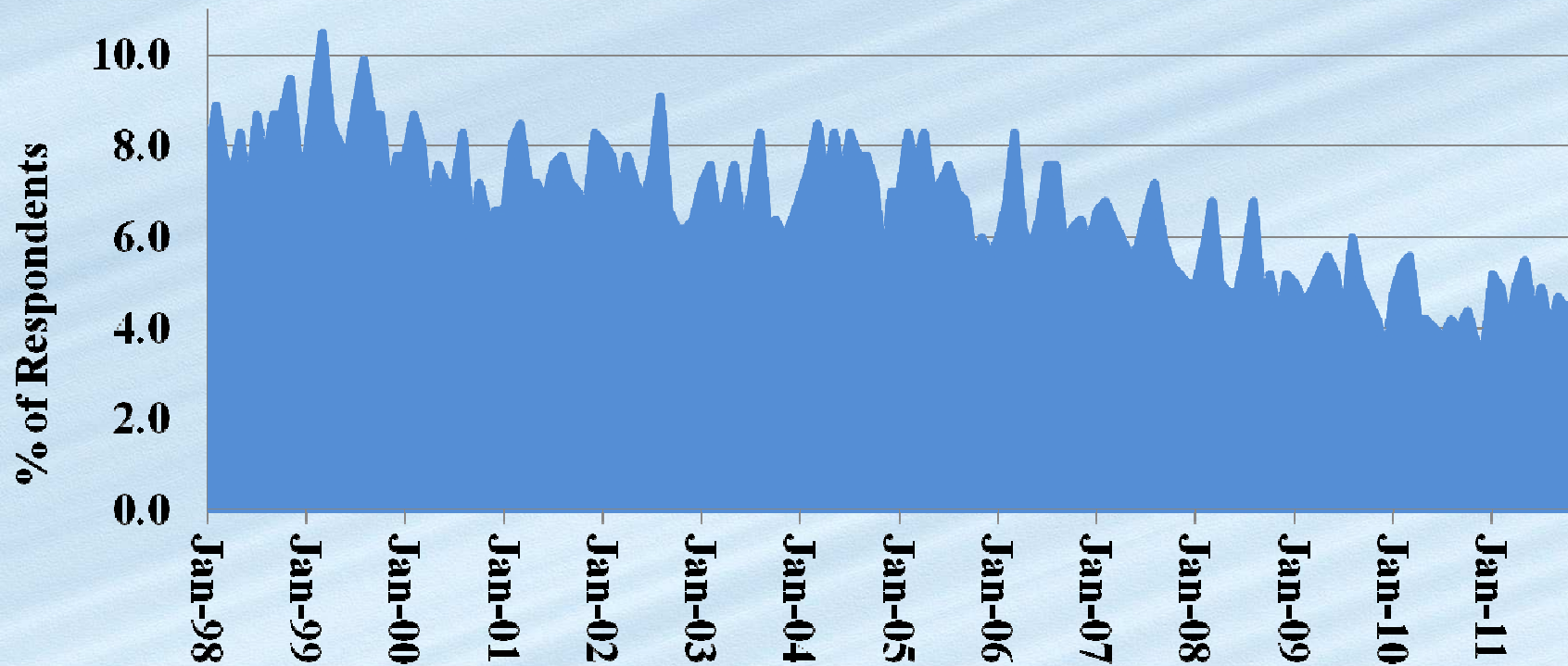


Corporate Hiring Plans: Next 6 Months

	Q3-11	Q2-11	Q1-11	Q4-10
More Jobs	36%	51%	52%	45%
Less Jobs	24%	11%	11%	18%

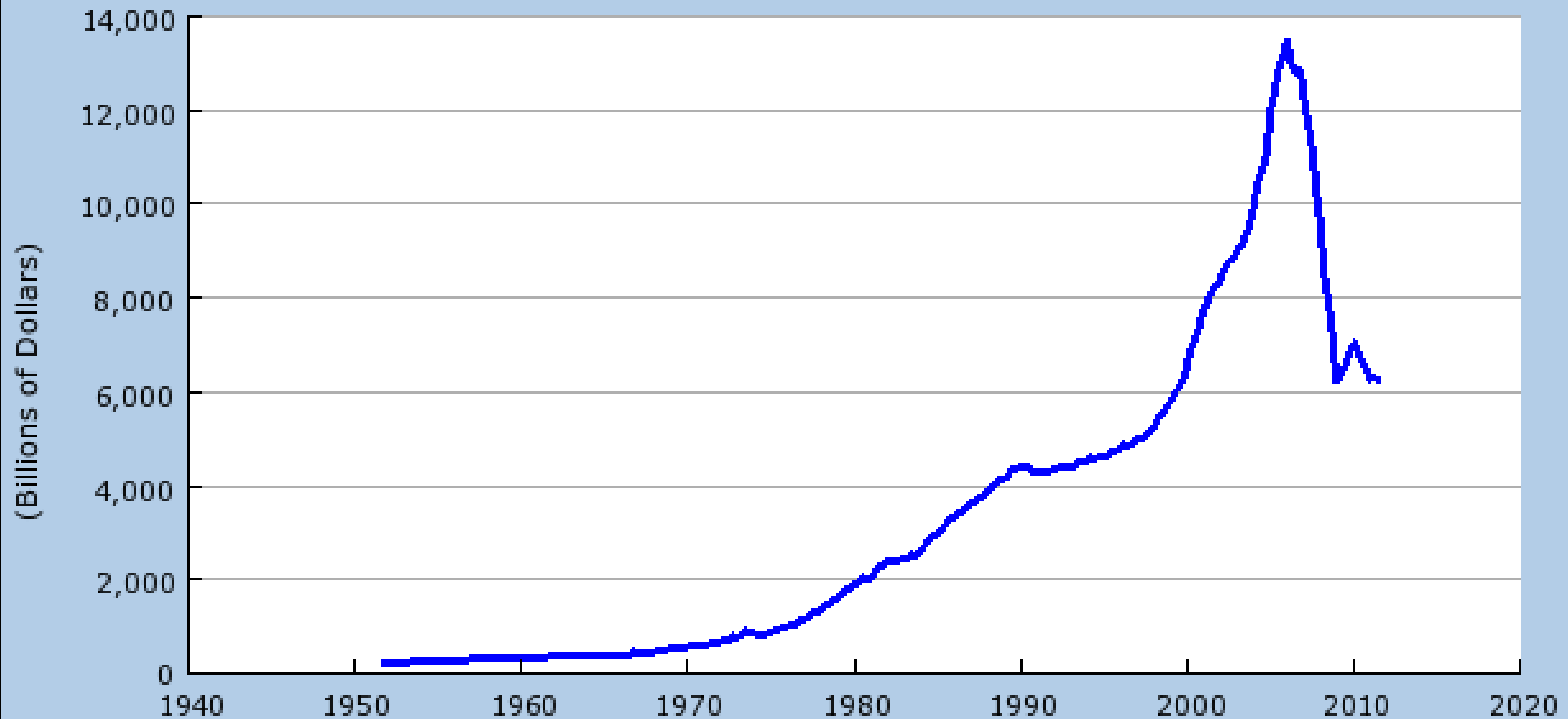
The Housing Market

People Who Plan to Buy a Home in the Next Six Months



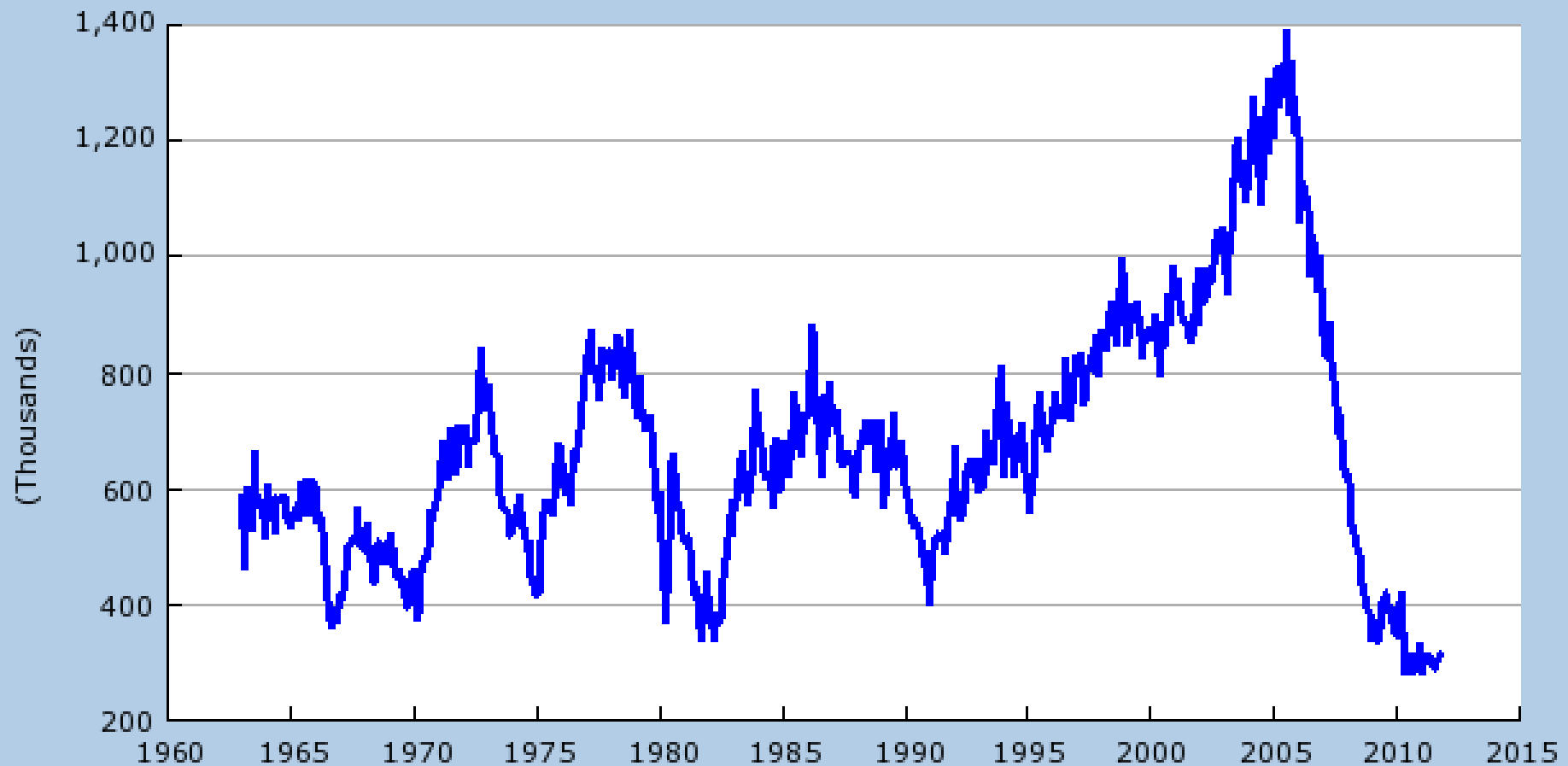
Households Have Lost Almost \$8 Trillion in Real Estate Equity

Owners' Equity in Household Real Estate - Net Worth - Balance Sheet of Households and Nonprofit Organizations (OEHRENWBSHNO)
Source: Board of Governors of the Federal Reserve System

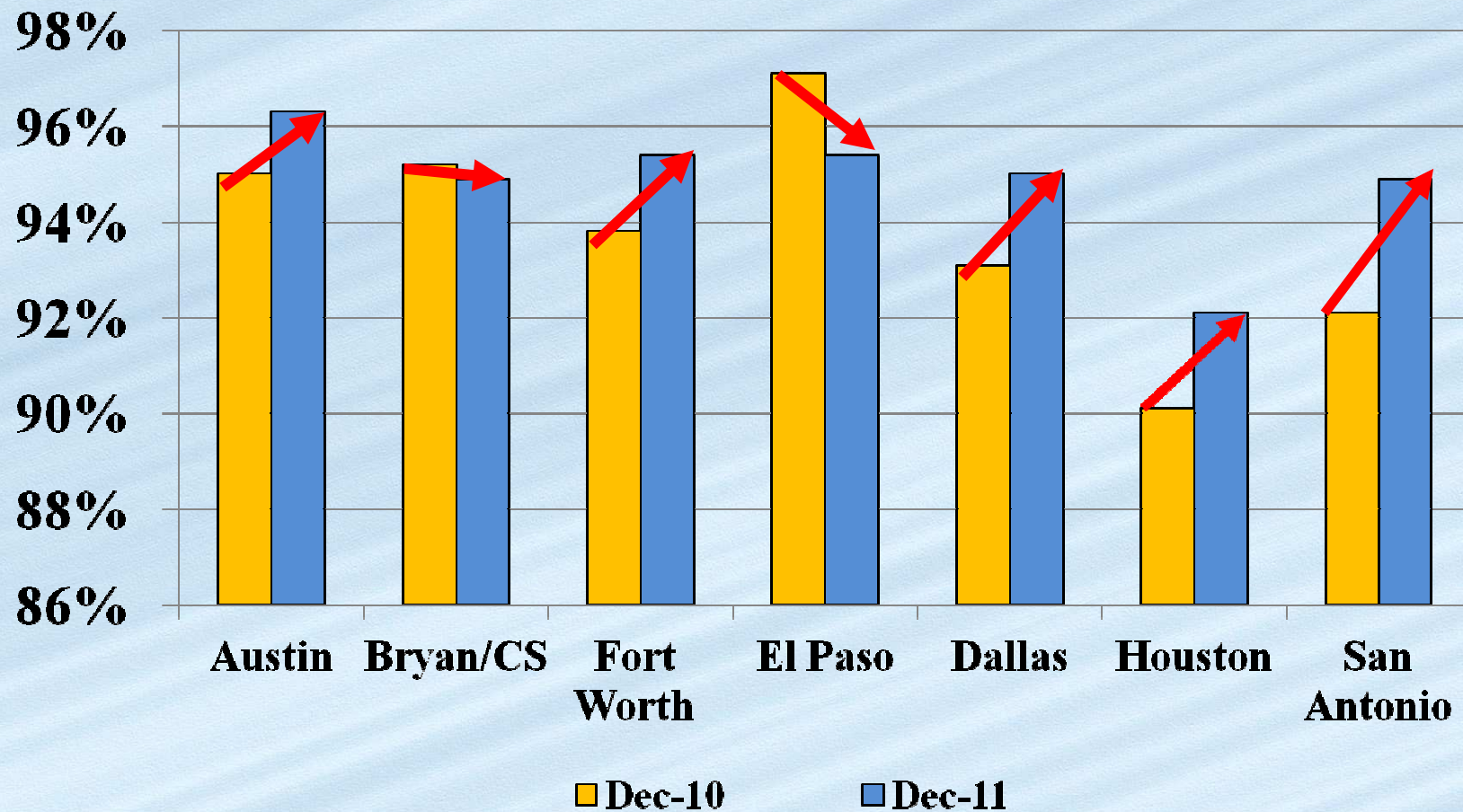


Housing Market: New Single-Family Houses Sold

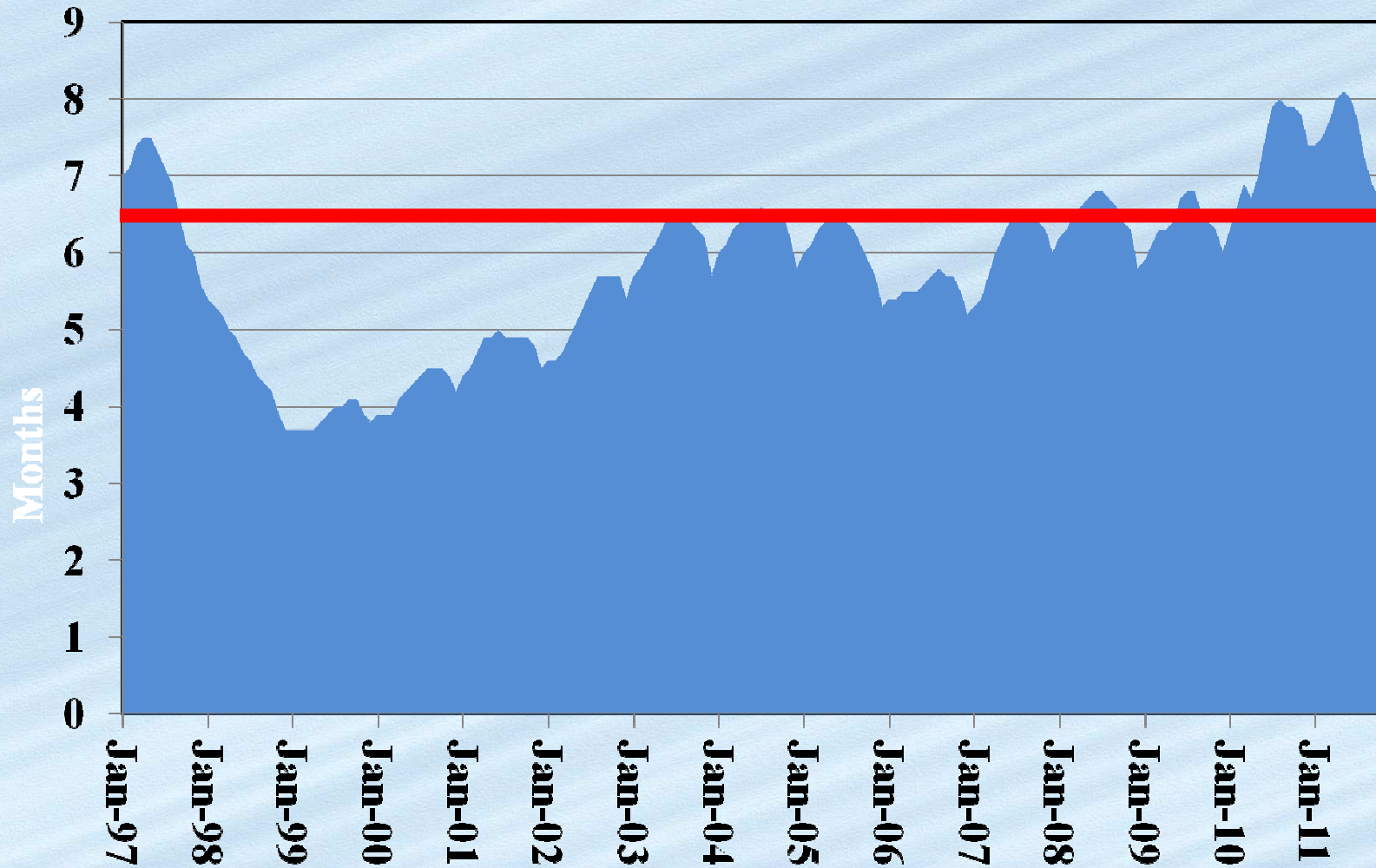
New One Family Houses Sold: United States (HSN1F)
Source: U.S. Department of Commerce: Census Bureau



Higher Apartment Occupancy Rates Will Lead to Rent Hikes



Inventory of Unsold Homes in Houston MLS



Jan. 1997 to present

Source: Real Estate Center

Single-Family Building Permits

Houston, TX



Real Estate Lending Capacity is Back

There are 587 banks in Texas.

Only 11 have CRE loans in excess of 300% of tangible common equity.

Only 41 have ADC loans in excess of 100% of tangible common equity.

Source: FBR Capital Markets & Co.
Houston, Texas

However, bank regulators still discourage banks from making real estate loans.

The Housing Market in Houston is Likely to Increase Modestly in 2012

- Quality job growth in Houston
- Low mortgage rates
- Houses very affordable at today's rates
- Sustained rent increases in apartments
- Foreign investors parking money in America

The Housing Market in Houston is Likely to Increase Modestly in 2012

- Very risk averse mortgage lenders
- Very risk averse residential appraisers
- Incredible bank uncertainties due to the Dodd-Frank nightmare
- National press about downward price pressures in housing
- The housing market won't clear until we foreclose on 4.5 to 6 million houses