RealtyTrac | inman SELECT

HOUSING NEWS REPORT

Named the Nation's Best Newsletter in 2015 by the National Association of Real Estate Editors NAREE

Six Economists Forecast the 2016 Housing Market

By Housing News Report Staff

QUICK TAKES

Alex Villacorta

Chief Economist
Clear Capital

The two most important housing market trends to watch in 2016 will be the continued growth of rental rates and the moderating trend in home prices. The pattern seen in 2015 was largely characterized by a white-hot rental market, and if this continues, more households will likely choose to rent over buy in 2016.

Jonathan Smoke

Chief Economist
Realtor.com

Demand for for-sale housing will grow and will continue to be dominated by older millennials, aged 25 to 34. This demographic has the potential to claim a third of home sales in 2016 and represent 2 million home purchases.

Douglas G. Duncan

Chief Economist
Fannie Mae

Lots of discussion of the need for subsidy but the real problem is lack of income growth for low and moderate income households.

Matthew Gardner

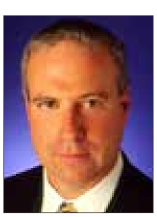
Chief Economist
Windermere Real Estate

I expect that we will see more homes for sale. Homeowner equity started to recover in 2013 and has been steadily improving since that time. As such, I expect that it will increase their likelihood of selling.

Mark Zandi

Chief Economist
Moody's Analytics

The most important housing market trend in 2016 will be the developing housing shortage. New housing construction has picked up in recent years, but remains well below that needed to meet demand from newly formed households.



Peter Muoio

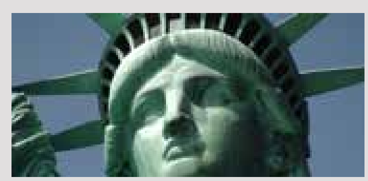
Chief Economist
Auction.com

Wage growth will be the key new ingredient for the housing recovery. We have been watching signs of accelerating wage growth percolate through different data sources but 2016 will see clear and convincing evidence of rising wages. This will help with housing affordability and be the final ingredient for higher household formations and housing demand.

Read Full Q&A Starting on Page 2

JANUARY 2016
volume 10 issue 1

CONTENTS



As we ring in a New Year, *Housing News Report* asked six prominent economists to forecast what 2016 will bring for the U.S. housing market.

For housing, 2015 was a strong year, with home sales high and home prices continuing to rise.

Overall, the economists surveyed were cautiously optimistic about 2016 when it comes to home prices, home sales, interest rates and the impact of loosening lending standards that have recently been introduced by government agencies. Since 2016 is a presidential election year, the economists were cagey when it comes to regulatory changes to Fannie Mae and Freddie Mac.

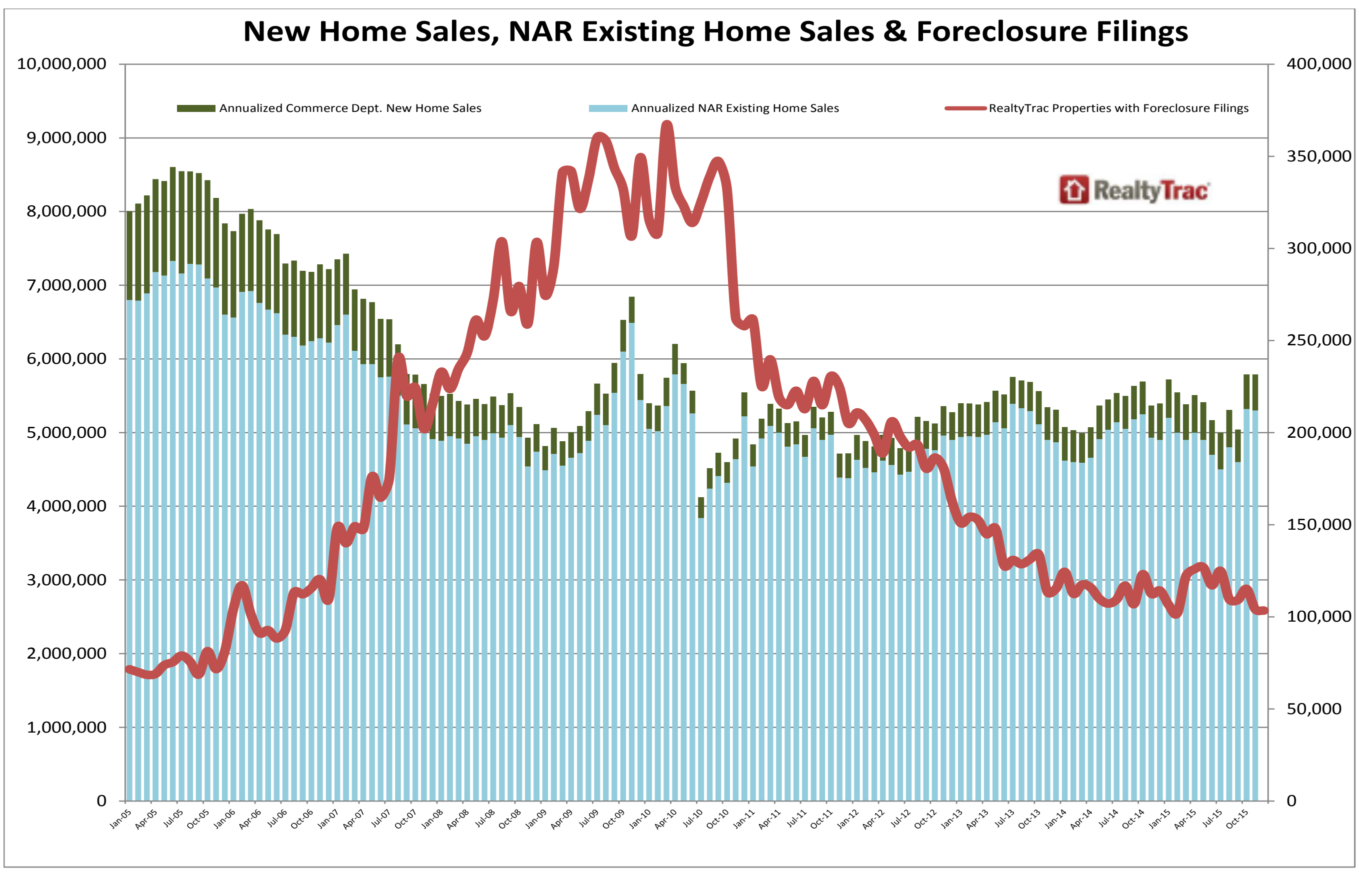
Here's what they are forecasting for 2016:

What will be the most important housing market trend(s) in 2016 and why?

Villacorta: The two most important housing market trends to watch in 2016 will be the continued growth of rental rates and the moderating trend in home prices. The pattern seen in 2015 was largely characterized by a white-hot rental market, and if this continues, more households will likely choose to rent over buy in 2016. In addition to driving rental prices up and vacancy rates down, this trend disengages an increasing proportion of potential home buyers — evidenced by the lowest homeownership rate in almost 50 years. Adding insult to injury for the purchase market, increasing rental rates continue to make it more difficult for potential buyers to save up for a down payment.

In 2016 we'll use data from Clear Capital's Home Data Index™ (HDI™) to see, at a local level, when the tide turns from rental to purchase demand. Many markets are already hospitable for buyers, but we have yet to see the demand. This implies that consumer confidence and the inability to overcome the barriers to purchase are a real headwind to a fully engaged housing market, especially for first-time home buyers. As the year evolves we'll be watching both rent and purchase trends closely, as a waning pattern in rental prices will suggest that

Continued Next Page



SOURCES: Census Bureau, National Association of Realtors, RealtyTrac momentum is shifting to the broader housing market, which should result in a more robust price growth in 2016.

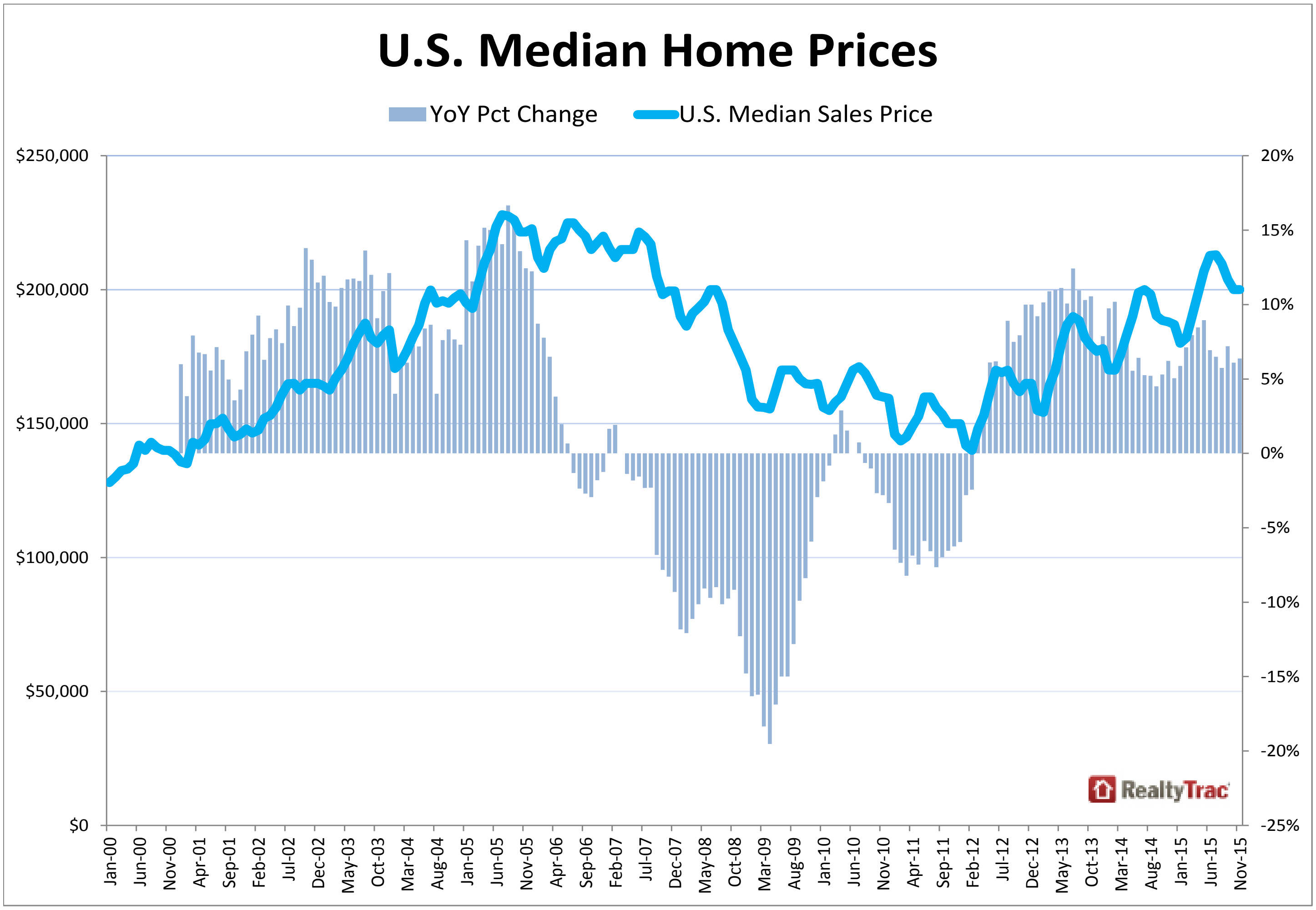
Smoke: Demand for for-sale housing will grow and will continue to be dominated by older millennials, aged 25 to 34. This demographic has the potential to claim a third of home sales in 2016 and represent 2 million home purchases.

Two other demographics will also be dominant forces on the buy side but will also be a key part of providing the necessary inventory on the sell side. Gen-X is in prime earning years and thus is also experiencing improvements in their economic circumstances, which include more relocations and seeking better neighborhoods for their families. Older boomers are approaching — or already in — retirement and seeking to downsize or lock in a lower cost of living. Together these two generations will provide much of the suburban inventory that millennials desire to start their own families.

Supply will also improve as a result of additional growth in new construction and particularly in more single-family construction. The growth will be in more affordable price points, which will help bring down the average new home prices and average size of new homes, which have grown dramatically so far in the recovery as builders principally focused on the move-up, luxury, and active adult segments.

Mortgage rates should also begin their long-anticipated ascent as the Federal Reserve attempts to "thread the needle" on influencing rates up without negatively impacting economic growth. The increases in mortgage rates will likely be lower than the increases in short-term

Continued Next Page



SOURCE: RealtyTrac

interest rates created by Fed policy as global weakness and a strong dollar limit more pronounced movement in long bonds. Mortgage rates will also be volatile, moving up and down by day and week, similar to how we've seen the market in 2015, but the key difference will be a more pronounced longer trend towards higher rates.

The move up in mortgage rates should be a net positive to the market as fence-sitting sellers and buyers begin to understand that rates are moving higher and decide to jump into the market while they remain at such historically low levels.

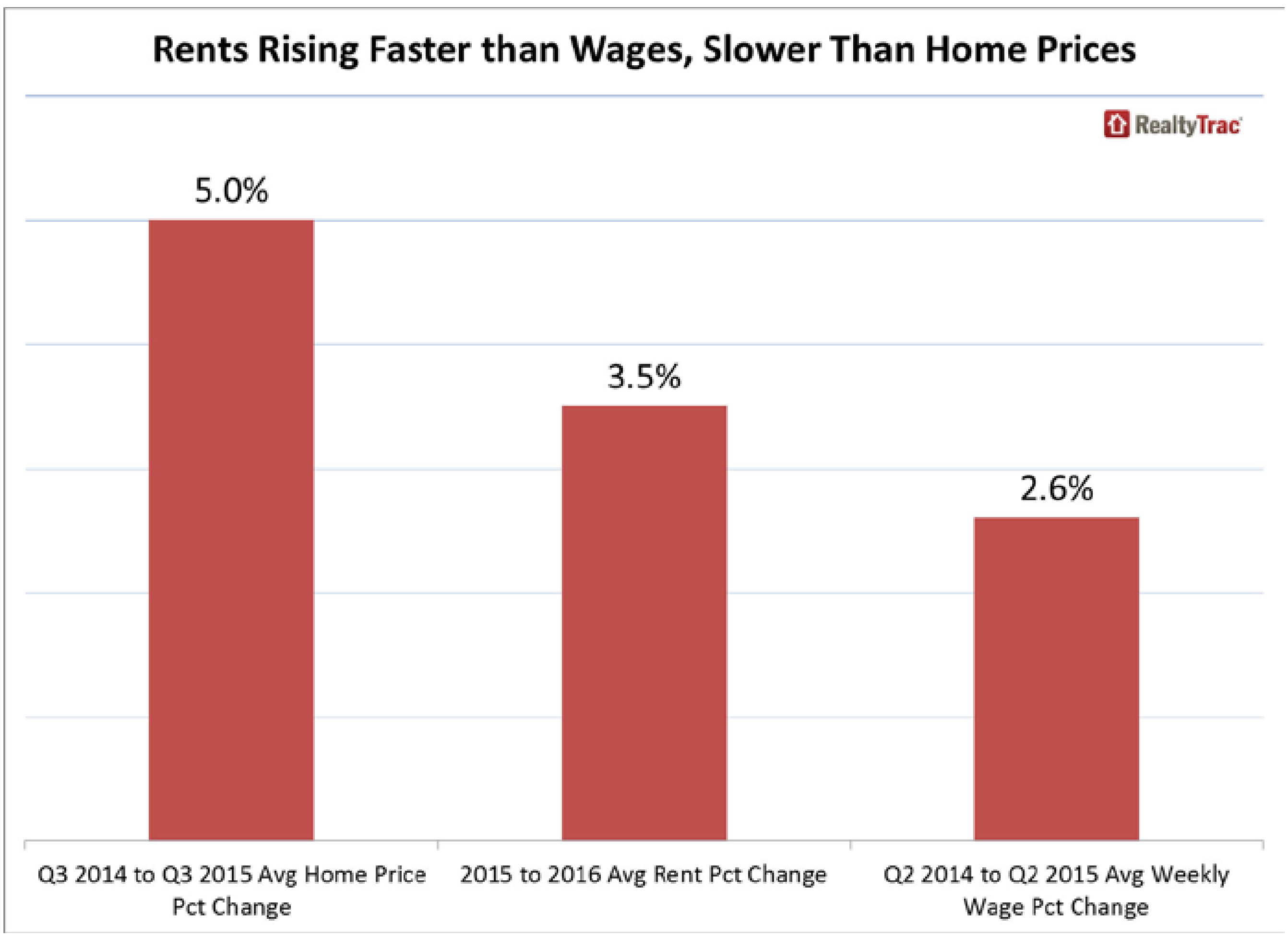
The final key trend is that rents will rise more rapidly than prices, adding to the already burdensome level of rents that exist in more than 85 percent of the markets in the country. In the near term, this reinforces the consumer's decision to buy, but higher rents also start to negatively impact the pipeline for future purchases by keeping renting households from saving towards a down payment.

Duncan: Lots of discussion of the need for subsidy but the real problem is lack of income growth for low and moderate income households. There will be a discussion of the regulatory cost of land development which is an inhibitor to production of low to moderate income affordable housing. Rents will remain strong as a result.

Gardner: I expect that we will see more homes for sale. Homeowner equity started to recover in 2013 and has been steadily improving since that time. As such, I expect that it will increase their likelihood of selling. At last — more inventory! But I fear that it will still fall short of the supply needed to match demand.

Zandi: The most important housing market trend in 2016 will be the developing housing shortage. New

Continued Next Page



SOURCE: RealtyTrac

housing construction has picked up in recent years, but remains well below that needed to meet demand from newly formed households, second home buyers, and obsolescence of the existing stock of homes. Rental and homeowner vacancy rates, which are already very low, will continue to decline. This will continue to push house prices and rents up quickly. The housing shortage will be most acute for lower-prices, and affordable housing.

Muoio: Wage growth will be the key new ingredient for the housing recovery. We have been watching signs of accelerating wage growth percolate through different data sources, but 2016 will see clear and convincing evidence of rising wages. This will help with housing affordability and be the final ingredient for higher household formations and housing demand.

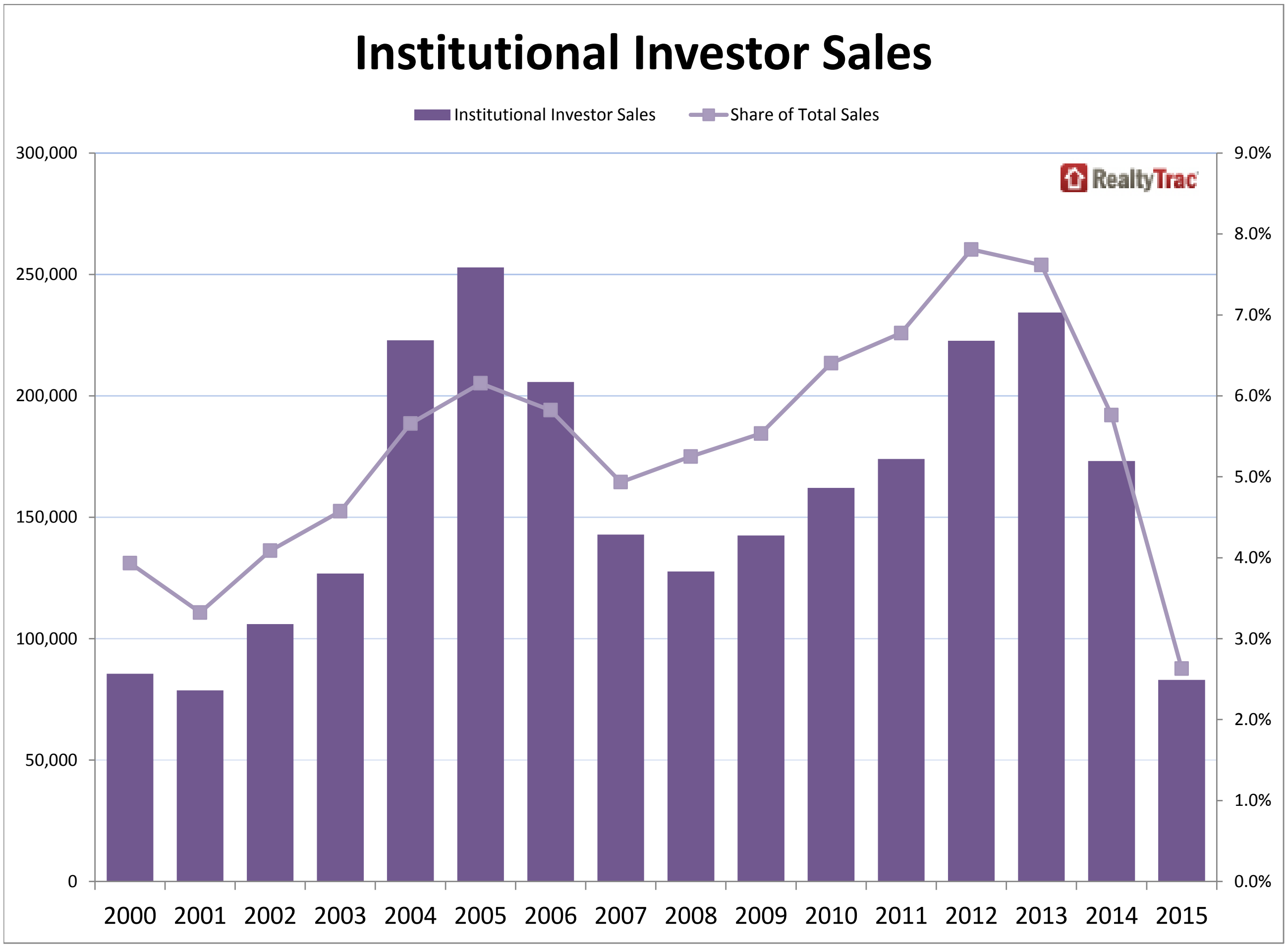
The other key 2016 trend will be the pace of interest rate increases. We know the Fed will pull the trigger but the key question is how fast and strongly they continue to tighten in 2016, as that will affect mortgage rates.

What is your outlook for existing home sales and prices in 2016 (up, flat, or negative)?

Villacorta: Existing sales are likely to be mostly flat in 2016. As opposed to new home sales, the existing segment is further along in its post-crash recovery, and is already showing signs of moderation. The key with this segment is opening the opportunity for new and existing homeowners to enter the market. From this perspective, there are two main metrics to watch.

First, the overall health of the economy must improve, and this generally can be captured via consumer sentiment. The better consumers feel about their future prospects, the more likely they will be to take on a new mortgage. Second, if affordability continues to worsen —

Continued Next Page



SOURCE: RealtyTrac

either due to increasing home prices or higher interest rates — then there is a real possibility that existing homeowners may be priced out of their own markets, thereby making their present home the best option. On the other hand, increasing home prices could also unlock some homeowners with negative equity, thereby adding another pool of potential move-up buyers. Clearly there are no direct causal relationships, but rest assured affordability will be a key metric in how existing home sales and prices perform in 2016.

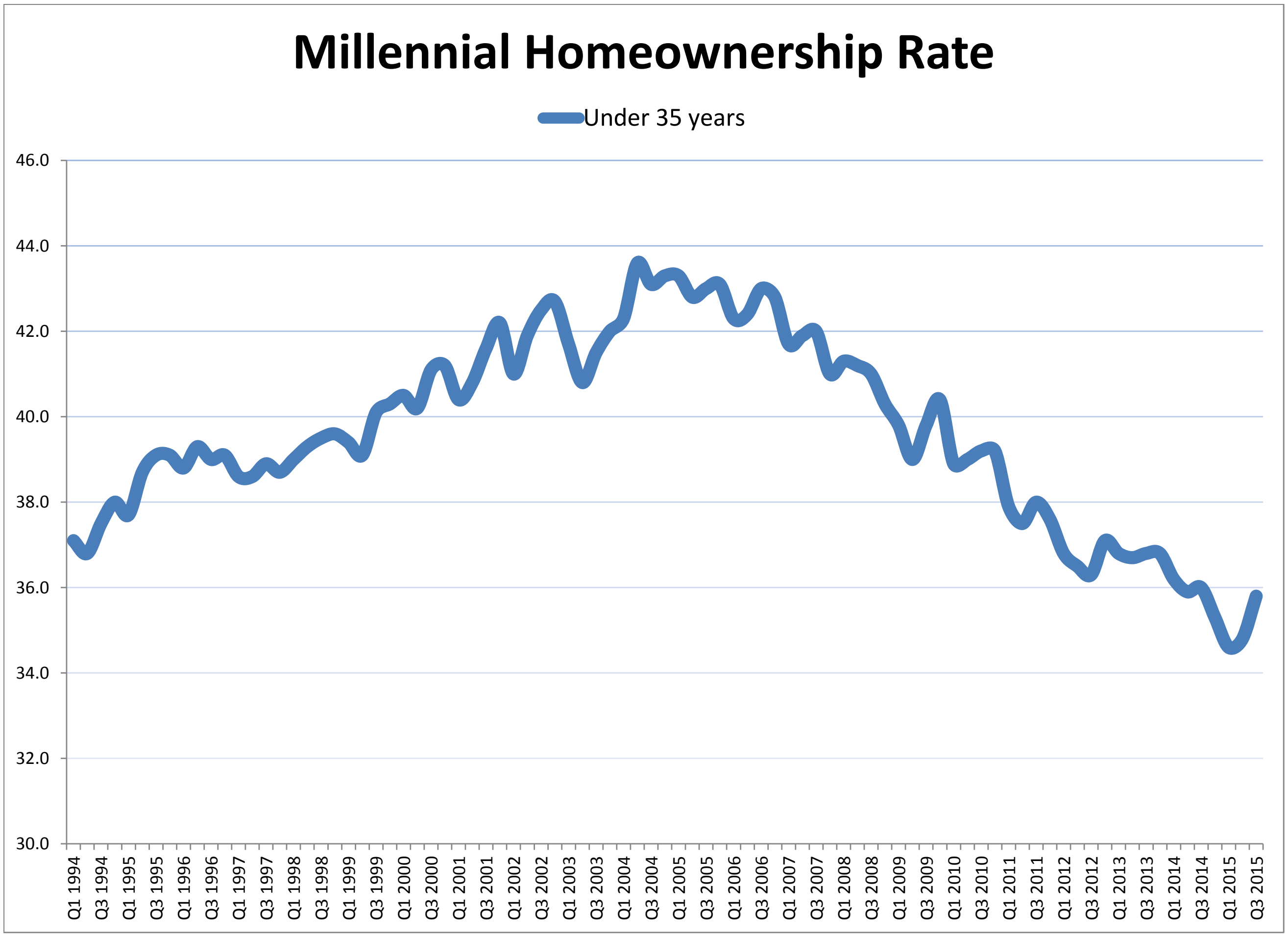
As for prices, 2016 will likely stay the course for how 2015 is ending, with prices projected to be up 2 to 5 percent. As with everything related to the housing market, these rates of growth are highly dependent on the local markets, so it's quite possible to see several metros dip into negative territory.

Smoke: 2016 will see another year of growth in sales and prices, but the pace of growth will be more moderate. Existing home prices are expected to increase 3 percent, while existing home sales also increase 3 percent. This deceleration is a return to normalcy, so 2016 will be our best year since 2006, but also our most normal year since 2000. We've lived through 15 years of abnormal trends, and after working off the negative effects of the housing bust, we're finally seeing signs of more normal conditions.

Duncan: Existing home sales will be up 3 to 5 percent and prices will rise between 4 and 5 percent.

Gardner: Inventory levels will improve; however, they will remain well below historic averages. Sales will grow as inventory levels increase and I expect to see sales at their highest level in 9 years with 5.53 million transactions. U.S. home prices should increase by 4.7 percent which, if correct, will place existing home prices at an all-time high.

Continued Next Page



SOURCE: Census Bureau

Zandi: Existing home sales and prices will continue to improve in 2016. An improving job market, characterized by stronger wage growth, will trump the ill-effects of any increase in mortgage rates on housing demand. Credit availability should also increase, further supporting demand.

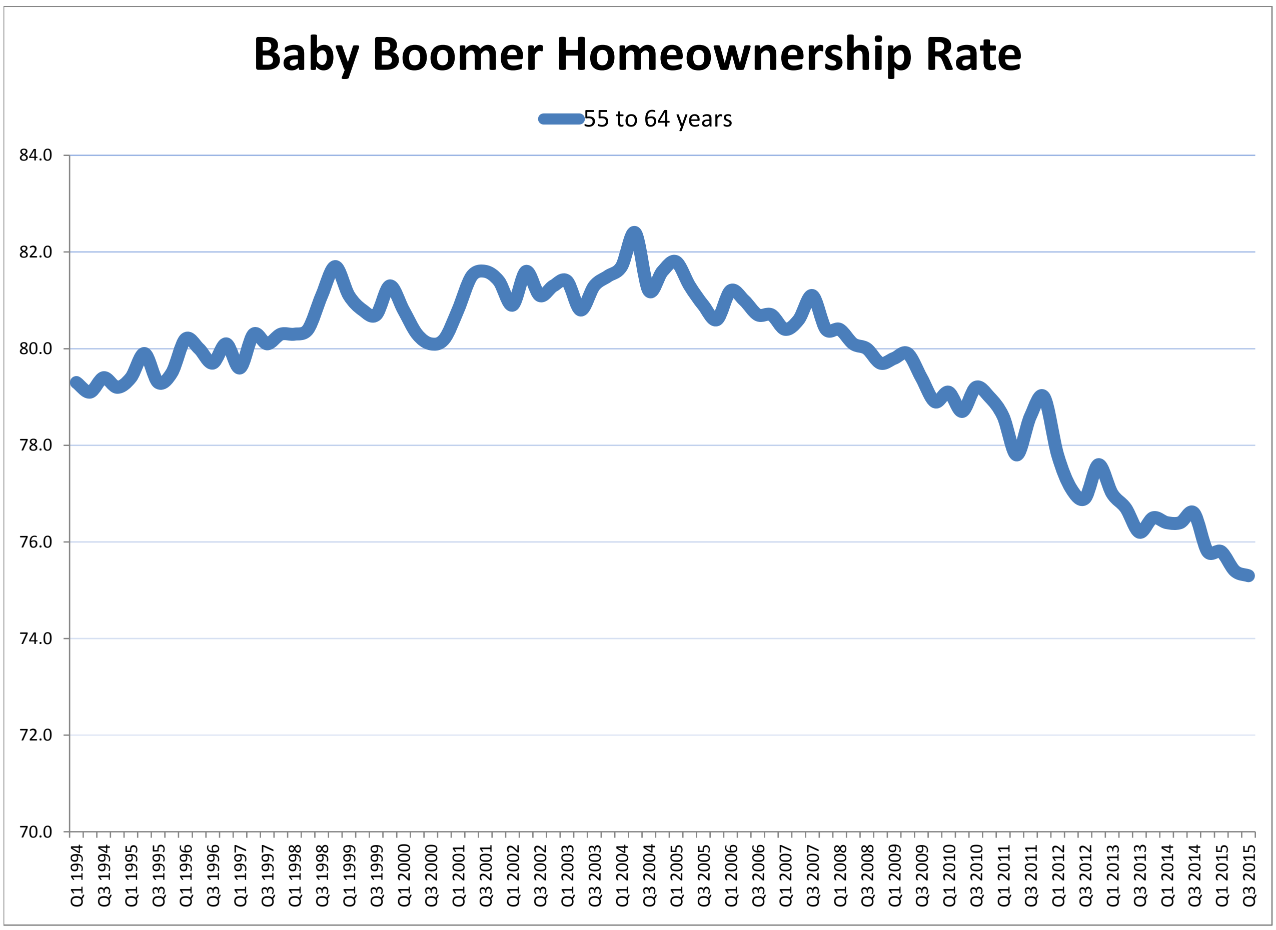
Muoio: We expect both existing home sales and prices to rise. The strength of the labor market is key: sustained job gains, low unemployment, normalized level of voluntary job changes and increasingly wage growth provide a healthy backdrop for demand. Consumer confidence has finally emerged from its extreme lows and is at a normal, healthy level. Household wealth is strong. Finally the recovery has now lifted the equity of many existing owners and along with the increased pace of sales will likely increase listings, enabling sales to lift further.

What is your outlook for new home sales and prices in 2016 (up, flat, or negative)?

Villacorta: New home sales are likely to be up in 2016 as more inventory hits the market driven by the years-long increasing trend in housing starts. Though the growth in 2016 could match the double-digit growth of 2015, it is important to note that new home sales are still climbing out of record-low levels of production. With both new and existing homes likely to see increases in inventory levels, it'll be interesting to see where consumers invest, as demographic shifts have changed housing preferences. Lastly, the demand for this new inventory will likely vary by geography, as markets are in different points in their recovery cycle. Given all this, new home prices will likely be up in 2016, but only barely. Like the rest of the market, the rate of price growth of new sales is waning and is likely to come in alongside the broader market in the 2 to 5 percent yearly growth range.

Smoke: We expect new home sales to grow 16 percent in 2016, as a stronger recovery in homebuilding begins to kick in. To date, builders have chosen not to offer product at the

Continued Next Page



SOURCE: Census Bureau

entry level, as they worried about the depth of demand needed to make the once-key segment profitable. Some builders are already moving into more affordable price points to tap more demand, so there should be more supply to reinforce the demand in 2016. In addition, credit access is improving enough to make the first-time buyer segment more attractive and viable. We're looking for the strong growth in new home sales and single-family construction to support this. The growth would be higher if the supply chain could handle even more, but given limited lots and limited labor, this is likely the most growth we can expect. With more offerings at lower price points, new home prices should be lower in 2016.

Duncan: New home sales will be up over 10 percent and prices will be up around 5 percent. Single family housing starts should rise around 15 percent but production will still be below long run demographics implied levels.

Gardner: I expect new home sales to be up by a pretty substantial 14.7 percent in 2016. Prices will also rise, but by a fairly modest 3.4 percent. The slower rate of appreciation will be a function of the higher prices that new construction will need to achieve given cost inflation.

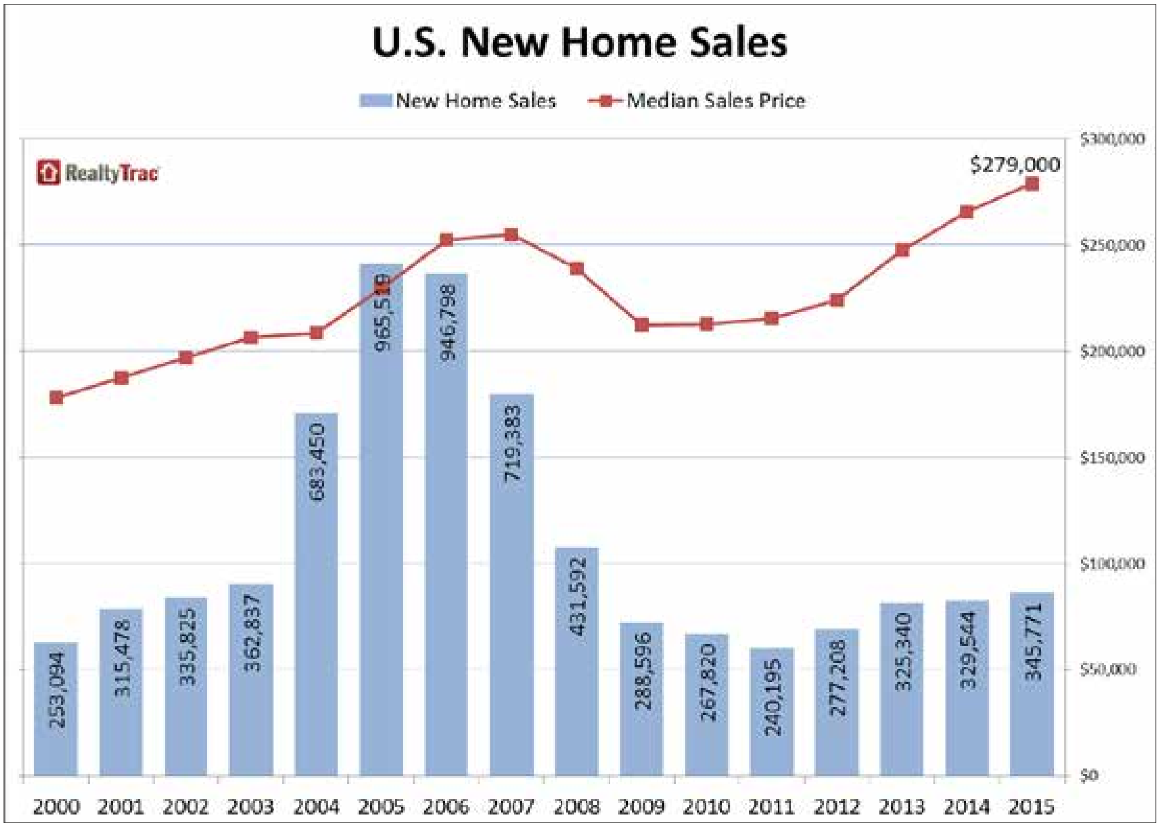
Zandi: New home sales and prices will also continue to improve in 2016. Homebuilders are expected to build more lower-priced new homes to cater to the first-time homebuyer and lower-income trade-up buyers.

Muoio: Up and up for the same reasons as existing home sales.

Where are mortgage interest rates headed in 2016 (up, stay the same, or negative)?

Villacorta: All signs are pointing to the gradual rise of mortgage interest rates throughout 2016. The tracking of general rate increases is so pervasive that any upward adjustments should not come as a shock to the market. That said, it's likely that consumers may take a gradual increase in mortgage rates as motivation to take advantage of the historically low rate environment. Yet, when combined with the general health of a specific housing market, increasing rates may also serve as yet another hit to affordability — look to local market trends to identify which markets are on what side. Of course, this will be only one of several factors that potential home buyers will be looking at before making a long-

Continued Next Page



term financial commitment to housing.

Smoke: The 30-year fixed rate should reach 4.65 percent by the end of 2016. Yes, we said mortgage rates would go up in 2015, and they did. But they also went back down. We expect similar volatility in 2016, but the move by the Federal Reserve to guide interest rates higher should result in a more reliable upward trend in mortgage rates.

The level of increase we are expecting won't negatively impact the broader market, as consumers will have multiple tactics to mitigate some of that increase. However, higher rates will drive monthly payments higher and along with that, debt-to-income ratios will also go higher. Markets with the highest prices will see that higher rates will result in fewer sales, but across the U.S., the effect will be minimal as the move to higher rates will spur more existing homeowners to sell and buy before rates go even higher. In addition, we expect consumers to consider more a broader mix of loan types including term durations like 7/1 and 10/1 hybrid ARM mortgages that will help mitigate some of the increase in the advertised rates.

Duncan: Mortgage rates up but only slightly. Thirty year fixed rate mortgages end 2016 between 4.1 or 4.2 percent.

Gardner: After having stayed lower than any economist ever expected, interest rates will rise in 2016, but rates will not jump high or fast. I anticipate that we will see a 60 bps increase in the 30-year fixed by year's end, taking the average to about 4.6 percent.

Zandi: Mortgage rates should move modestly higher in 2016, as the Federal Reserve slowly normalizes interest rates. Thirty year fixed rates should rise from just under 4 percent currently, to near 4.75 percent at year-end 2016. Fixed rates won't rise as much as adjustable mortgage rates, as fixed rates are tied to long-term rates, which will be somewhat constrained by low global long-term rates. Adjustable mortgage rates are closely tied to short-term rates and the Fed's actions.

Muoio: Mortgage rates will rise in 2016 as the Fed tightens. The key question will be what the pace of tightening will look like. At this point rate increases look to be measured, with only modest impact on sales and prices, but a more aggressive tightening would be more problematic for housing.

5) What will happen to Fannie Mae and Freddie Mac? Will they remain under government conservatorship, be recapped and released to the "free market," or something else?

Villacorta: Clearly there are many factors to consider when contemplating the future of the GSEs. Given that the housing market is still finding its footing in an economy that is only recently showing green shoots, the timing is not right for any major upheaval in the short term.

Smoke: In an election year, the safest bet is that we will see no change. Hopefully housing will merit some attention in the presidential race so GSE outlook will look a bit more certain a year from now.

Duncan: GSEs remain conserved. Possible action when the next president assumes office.

Gardner: An interesting, but complex, question. The future of these Government Sponsored Entities remains clouded by politics and litigation. That said, the Federal Housing Finance Agency's pledge of support to the GSE's suggests that nothing will change — at least in 2016.

For one, dismantling the GSEs would immediately push up interest rates, causing a dramatic, negative influence on housing activity. Secondly, the GSEs are currently providing substantial revenue to the government which they are unlikely to want to do away with.

Ultimately, the issue will be handed off to the next Congress, and the next President.

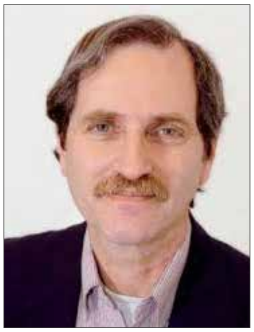
Zandi: Fannie Mae and Freddie Mac should remain under government conservatorship for the foreseeable future. It is difficult to see Congress agreeing to any changes, at least not until after next year's elections. However, the FHFA, Fannie and Freddie's regulator, will continue require the GSEs to risk-share with private markets and to continue developing their common securitization platform. These efforts are a positive move in the direction of reforming Fannie and Freddie.

Muoio: Nothing. Inertia wins out, especially during a presidential election year.

MY TAKE

Peter G. Miller
Syndicated Columnist

Will Mortgage Rates Fall In 2016?



Here we go again, another year lies ahead and with it the widespread view that mortgage rates will surely climb. After all, the Federal Reserve has started to increase the rate banks pay to borrow funds overnight and the economy seems stronger so it seems logical that mortgage rates will follow.

But — just maybe — it's wise to not jump on the higher-rates bandwagon. Faithful readers will remember our mortgage rate prediction at the start of 2015: While others were forecasting rates of 5 percent and more, we said "looking at current predictions the sense here — for what it might be worth — is that 2015 will surprise us all. It's entirely possible that rates will largely stay where they are and perhaps even fall."

And that, in a nutshell, is what happened.

Fixed-rate 30-year prime mortgages were priced at 3.87 percent at the end of 2014 and 3.96 percent for the week of December 24, 2015, according to Freddie Mac. During the year the low was 3.59 percent in February while the high was 4.09 percent in July. The February rate was not far from the all-time low, 3.31 percent in 2012.

Let's once again stir some tea leaves and suggest how the mortgage market will look in the coming year — and why. There are no guarantees, but the reasoning and facts behind the 2015 forecast tell us a lot about what may happen in 2016.

First, we made the argument last year that negative interest in Europe and Asia meant vast amounts of capital were available to underwrite U.S. mortgages. With so much supply and relatively little demand how could mortgage rates go up? This turned out to be entirely true — there is some $3.6 trillion invested worldwide with negative interest and the U.S. banking system is flooded with $2 trillion in excess capital so it's not surprising that U.S. mortgage rates remained close to historic lows for the entire year.

Second, economic contraction coupled with warm weather and more high-mileage vehicles have combined to substantially reduce oil demand. This is a huge problem for energy producers — and a delight for consumers who have watched gas prices tumble throughout much of the year. The result is more disposable spending in an economy where 70 percent of our gross domestic product depends on consumer purchases.

Changing energy production has begun to significantly — and permanently — impact oil pricing.

For instance, we may have as many as 4 million solar-powered homes by 2020 and today almost 10 percent of our energy consumption comes from renewable sources, 40 percent in California. This is good but we can do much better — Scotland already produces enough energy from wind power to electrify its entire housing stock. Once renewable energy production is in place there is no incentive to shut it down — the capital expenditure to set it up has been made and the fuel is free.

What's surprising about renewable energy is that one would logically expect solar and wind installation activity to decline when oil and coal prices are down but that has not been the case. According to *The Washington Post*, "orders for 2016 solar and wind installations are up sharply from the United States to China to the developing economies of Africa and Latin America, all in defiance of stubbornly low prices for coal and natural gas, the industry's chief competitors."

Third, in our 2015 projection we noted that the Fed was likely to raise interest rates — but if it did, the impact on mortgage pricing would be minimal. The Fed almost made it through the year without an increase and when it finally did raise bank rates not much happened on the mortgage front. While the Fed sets bank rates by committee, mortgage rates respond to market pressures — and for 2015 there was hardly any pressure to raise rates.

2016 Mortgage Rate Prediction

Continued Next Page

The Mortgage Bankers Association predicts that mortgage rates in 2016 will hit 4.8 percent while the National Association of Realtors sees mortgages reaching 4.5 percent by the end of the year.

These are conservative forecasts which suggest that mortgage rates will be nowhere near 8.6 percent, the general average going back to the Nixon presidency. That said — and for what it might be worth — as we look toward 2016 we see mortgage rates that will remain relatively flat for most of the year. Indeed, let's go out on a limb and suggest that even lower rates are possible.

Why is it that mortgage rates are unlikely to have much zip in 2016?

In December, the European Central Bank lowered its interest level for banks to -0.3 percent and negative interest remains a fact of financial life for much of the world. And yes, lower rates — and even negative interest — are possible in the U.S. Fed Chairman Janet Yellen actually broached the idea in November, saying in congressional testimony that if the economy slowed then "potentially anything — including negative interest rates — would be on the table."

Prior to December, the Fed had been saying that it would raise overnight borrowing costs for banks and credit unions as soon as unemployment fell below 6.5 percent and inflation topped 2 percent. What actually happened is this:

In 2014, when unemployment finally dropped below 6.5 percent the federal funds rate did not go up. The Fed explained that their prior guidance — the guidance upon which Wall Street, Washington and investors depend — was simply "outdated."

In December 2015, the Fed raised bank rates even though the rate of inflation remained below 2 percent. As Yellen explained, the Fed "was reasonably confident that inflation would move back to its 2 percent objective over the medium term." In other words, the Fed raised interest costs even though inflation was not at 2 percent or above, again reneging on prior guidance.

Immediately following the Fed's December rate announcement, the major banks instantly increased prime loan rates from 3.25 percent to 3.5 percent.
What about savers?

As *USA Today* explained, "banks did not, however, increase interest rates on savings accounts or certificates of deposit, nor should consumers expect to see any increases on deposit products in the near future."

Why shouldn't savers see higher rates?

The Fed has now set in motion several huge problems for 2016.

First, 2016 is an election year. Many people feel that Washington is not responsive to them. Whether one agrees with such views or not, what better evidence could you have than a rate increase, which benefits banks but not savers? This is easy stuff for the public to see. And resent.

The prime rate will rise with any additional Fed hikes, which will occur in 2016, should any increases occur. Savvy bankers can then quote the prime rate while borrowing overseas at below-Fed costs and pocket the difference. This is an obvious way to boost bank profits, especially if savers and depositors do not benefit from rising rates. However, if this happens — and if the public finds out — there could be a substantial price to pay in terms of public opinion, an opinion that may resonate on Capitol Hill in an election year.

Second, it is widely predicted that there will be several more rate increases from the Fed in 2016, but in practice the Fed has thrown the dice, gambling that a rate increase will help the economy or at least not damage it.

Unfortunately, this gamble could be very wrong. As *The Washington Post* points out, "Europe, Japan and Sweden all did (it) in recent years, and, as a result, all of them ended up back where they started — zero — soon thereafter." (Parenthesis mine.)

Third, having raised rates for the first time since 2008, the Fed now risks the possibility of massive reputational damage.

Banks borrow money overnight at rates set by the Fed, but what if they can get cheaper money elsewhere? Think of the trillions of dollars at negative interest now looking for a better return. Why borrow from the Fed when rates are lower elsewhere, borders don't count, and funding is just an electronic blip away?
The Fed benefits from a perception of power and authority

Continued Next Page

but if banks can go elsewhere for cash at bargain rates than the Fed's power will be eroded. As Alan Binder, a former vice chairman of the Fed's Board of Governors explains, "when the Federal Reserve, or any central bank, pushes its rates close to zero, its power to boost the economy ebbs — not ends, but ebbs."

Fourth, Fed actions do not directly impact mortgage rates. The Federal Reserve Bank of New York points out that mortgage rates largely reflect Treasury yields and not the federal funds rate, arguing in effect that the Fed is already irrelevant in the mortgage marketplace. This argument should be enormously comforting to borrowers who want to finance and refinance real estate because it suggests that cheap money will keep flowing into the housing sector in 2016, especially through nonbanks which play a larger and larger role in the mortgage financing system and cannot borrow from the Fed.

If we look back at 2015 the major issues were a possible Fed move, lower energy costs and cheap financing from abroad. As we have seen, cheap money from overseas continues to be a reality. The Fed has hiked rates and the result is largely irrelevant for mortgage borrowers. Energy costs fell during 2015 and without a robust and recovering world economy they're likely to stay that way in 2016 and beyond.
Unfortunately, there are other reasons why mortgage rates are destined to stay low. The economy, while recovering, is not recovering for everyone. Much of the population is not sharing in our better times; household income remains substantially below what people earned in 1999 and with inflation are unable to keep up. As an example of distorted incomes and costs, in Massachusetts the city of Cambridge is setting aside apartments with below-market rents for impoverished local citizens — those making as much $118,200 for a family of four.

The result of contracting incomes is that housing demand is hardly robust: In November the National Association of Realtors reported that existing home sales for the year were lower than in 2014 — and home sales in 2014 were lower than in 2013.

Mortgage rates will rise with some vigor when and if the demand for capital increases significantly and the worldwide capital flood subsides, but that was not the case in 2015 — and it won't be the case in 2016. If the tea leaves are correct, and if the assorted wars and conflicts now brewing in the Middle East can be contained, we are gleefully stuck with today's mortgage rates and seem likely to remain stuck for much of the coming year.

Peter G. Miller is a real estate broker and the author of several books in the field, including Buy Your First Home Now; Successful Real Estate Investing; How to Sell Your Home in Any Market and The Common Sense Mortgage. He is also a syndicated columnist in over 140 U.S. newspapers. He blogs at www.OurBroker.com.

NEWS BRIEFS

Environmental Risks High for Housing

Many American household live in areas where they are at high risk of exposure to manmade environmental hazards, which can not only compromise their health but also drive down housing prices in their neighborhoods, according to a new study.

Nationwide, about 25 million U.S. homes are in zip codes at high risk or very high risk for manmade environmental hazards — representing 38 percent of the 64 million homes in all zip codes analyzed, according to the RealtyTrac's second annual 2015 Manmade Environmental Hazards Housing Risk Report. The combined estimated market value of the 25 million homes in high risk or very high risk zip codes was $6.9 trillion as of November 2015.

For the report, RealtyTrac analyzed 7,751 zip codes with sufficient home price and appreciation data nationwide for the prevalence of five manmade environmental hazards: air quality, superfund sites, polluters, brownfields and former drug labs. An index based on these five factors was assigned to each zip code, and index scores were divided into five categories of risk: very high, high, medium, low and very low.

SOURCE: RealtyTrac

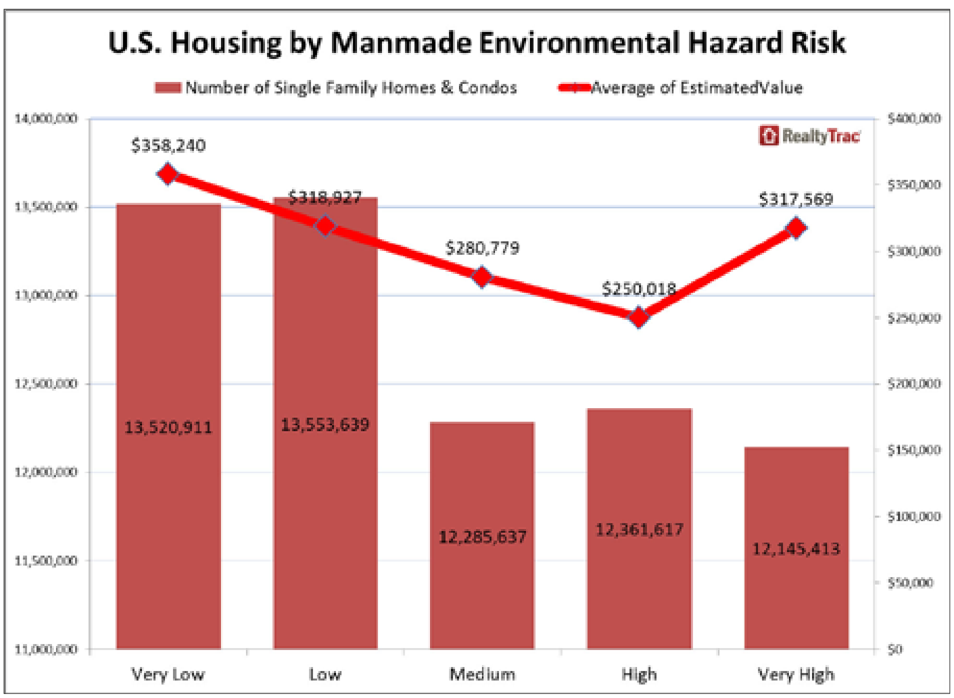
American Homes 4 Rent to Merge With Rival

Two of the nation's largest residential real estate rental companies — American Homes 4 Rent and American Residential Properties — announced plans to merge on Dec. 3 into a combined company that owns and manages 47,000 residential single-family rental homes.

Agoura Hills-based rental giant American Homes 4 Rent plans to acquire Phoenix-based rival American Residential Properties for $1.5 billion, plus assuming $800 million in American Residential debt, according to an American Homes 4 Rent statement. The two combined companies would be the second-largest single-family landlord, behind industry behemoth Invitation Homes, a subsidiary of private equity firm Blackstone Group.

The deal is part of a consolidation trend in the single-family rental industry. In September 2015, Starwood Waypoint Residential Trust and Colony American Homes announced a merger that would create a company with more than 30,000 rental homes.

SOURCE: American Homes 4 Rent



SOURCE: RealtyTrac

Quicken Loans' Lawsuit Tossed Out

A federal judge in Detroit dismissed Quicken Loans' lawsuit against the U.S. Department of Justice (DOJ) and the Department of Housing and Urban Development (HUD) that alleged the federal government unfairly targeted lenders after the 2008 mortgage crisis.

U.S. District Judge Mark A. Goldsmith on Dec. 31 granted the DOJ's motion to dismiss Quicken's initial complaint, rejecting Quicken's argument that the federal government's case was defective because it involved a small sample of loans and emails.

Quicken sued the DOJ and HUD in April 2015, alleging the company was being forced to make a big settlement over its mortgage lending and underwriting practices. The company's lawsuit was filed a few days before the Justice Department sued the mortgage lender for filing false claims on government-insured mortgages and other violations.

The case is *Quicken Loans Inc v. United States of America et al*, U.S. District Court, Eastern District of Michigan Southern Division.

SOURCE: Reuters

Miami-area Mayor Convicted of Fraud

A federal jury in Florida found a former North Miami mayor guilty of six counts of wire fraud on Dec. 16, part of an $8 million mortgage fraud scheme that used straw buyers and false mortgage applications to collect millions from lenders.

Marie Lucie Tondreau, 54, was taken into custody and will face up to 30 years in prison for conspiracy and wire fraud convictions. Sentencing is scheduled for March 2015. She was North Miami's first Haitian-American female mayor.

"Today's conviction against Marie Lucie Tondreau is a success in our continuing efforts to fight mortgage fraud that jeopardizes our nation's financial institutions," said U.S. Attorney Wifredo A. Ferrer in a prepared statement. "Tondreau abused her prominence in the community to perpetrate the $8,000,000 mortgage fraud scheme, which thanks to the efforts of my office's prosecutors and federal and state law enforcement we successfully unraveled."

Federal authorities accused Tondreau and three associates of signing up straw buyers for fraudulent loans on 20 properties, which resulted in losses to banks.

SOURCES: U.S. Attorney's Office, Reuters

FHFA Embraces Foreclosure Buyback Plan

Americans who lost their homes to foreclosure will be able to buy them back at current market value if the properties are owned by housing-finance giants Fannie Mae and Freddie Mac, the federal regulator overseeing the two firms announced.

Federal Housing Finance Agency (FHFA), which regulates the government sponsored agencies, ordered Fannie Mae and Freddie Mac to start selling back foreclosed properties to their previous owners, either directly or through third-party organizations.

The new policy will apply to approximately 121,000 REO properties current owned by Fannie and Freddie, but not those foreclosed on in the future. Federal officials have expressed concerns that the policy could encourage homeowners to go through foreclosure in order to buy back their homes at the current, lower price. The new policy would benefit the housing market by increasing demand for distressed homes, according to FHFA

Previously, FHFA required the two firms to demand that former homeowners pay the entire amount owed on the mortgage.

"This is a targeted, but important policy change that should help reduce property vacancies and stabilize home values and neighborhoods," said FHFA Director Melvin L. Watt in a written statement. "It expands the number of potential buyers of REO properties and is consistent with the Enterprises' practice of requiring fair-market value for those properties."

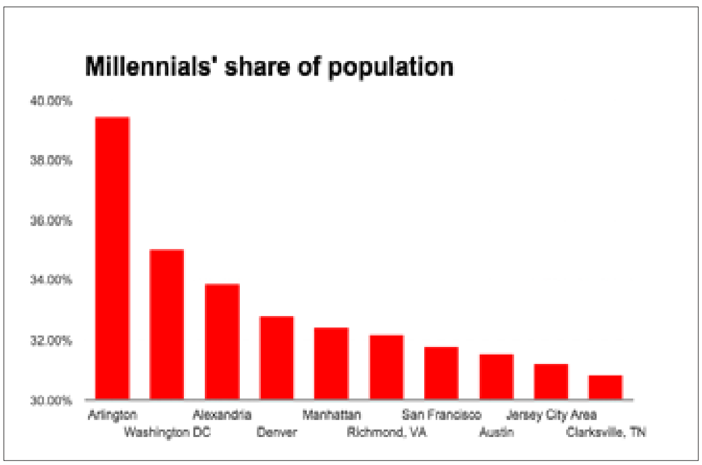
Under the changes, the former homeowners must wait at least three years after their foreclosures, as they would have to do to buy any other home using a loan guaranteed by Fannie Mae and Freddie Mac. The home must have been the buyers' primary residence; second homes and investor properties are ineligible.

SOURCE: Federal Housing Finance Agency

FINANCIAL BRIEFS

Housing: D.C., A Millennial Magnet

At 40 percent, Arlington County, Va. now has the highest percentage of millennials among all U.S. cities, according to a new report from RealtyTrac. The Washington, D.C. suburb saw the share of its residents born between 1977 and 1992 climb 82 percent from 2007 to 2013. The report found that millennials have moved to areas where home prices are almost completely out of reach, even though buying a home is cheaper than renting in many other parts of the country, and despite the fact that many millennials still say they want to own a home someday. The D.C. suburb city of Alexandria, Virginia was second, with a 34 percent millennial population, up 81 percent from 2007.



SOURCE: RealtyTrac

Rents: Rise 5 Years in A Row

For landlords, 2014 was a good year. Nationwide, the average rent increased by 3.6 percent in 2014, according to Reis, Inc., a real estate research firm. The increase pushed the average monthly lease rate to $1,124 a month, the highest number since Reis started collecting rental data in 1980. The cost to rent an apartment jumped in 2014 for the fifth year in a row as strong demand and short supply left vacancies near historic low levels. Average rents were up 9.2 percent in San Jose, Calif.; 7.9 percent in in Denver; 7.5 percent in Oakland, Calif. and 6.1 percent in Seattle.

Poll: Financial Stablity Concerns

A recent poll by the National Foundation for Credit Counseling (NFCC) found that 66 percent of respondents want financial stability but don't know how to get there. Nearly one-quarter of respondents (23 percent) said that "I don't think financial stability is attainable for me," while 8 percent said they were "confidently on their way toward financial stability." Only 3 percent responded that they were "already there" where financial stability is concerned.

New York City Real Estate: A Tale of Two Markets

By Octavio Nuiry Managing Editor

In a city consumed by luxury condominiums, New York City's residential real estate market is outrageously ostentatious, insanely expensive and riddled with contradictions.

Last year, for example, New York City's most expensive real estate transaction took place at One57, a new one thousand-foot super-tall condo tower on so-called "Billionaires' Row," (the stretch of West 57th Street where a spate of spindly towers filled with luxury condominiums is under construction), where a 10,923 square-foot penthouse on the 89th and 90th floors sold for a record $100.5 million, shattering the highest price paid for a condominium in America's largest city. Only a few insiders know the owner's identity.

At the same time, nearly 60,000 chronically homeless New Yorkers sleep in city shelters on any given night in a city stuffed with billionaires.

Indeed, the New York City's residential real estate market is comprised of two markets: the billionaires — and everyone else.

According to Jonathan J. Miller, president and CEO of Miller Samuel Inc., a prominent real estate appraiser, analyst and researcher, the New York City housing scene is a fractured tale of two markets. The condo market, driven in part by new developments favored by foreign billionaires, is booming. The co-op market, favored by U.S. buyers, is mostly older buildings.

"It's a polarized market," said Miller, referring to the bifurcation of Manhattan's residential real estate market. "At the top 10 percent, it

Continued Next Page

$100.5 MILLION: *One57 is a 75-story supertall condo tower at 157 West 57th Street in Midtown New York City (at right), where a condo sold for $100.5 million last year.*

is largely driven by wealthy buyers of new developments in super-tall condo towers. The remaining 90 percent of the market is re-sale condos and co-ops. We have constrained activity in the majority of the market due to a lack of inventory. It's hard to gauge what's going on."

From Wall Street and Tribeca in the south to the Theater District in Midtown to the Upper West Side further north, Manhattan is dotted with new developments, including some of the most expensive condominiums in the nation.

Jonathan J. Miller
President/CEO
Miller Samuel Inc.
New York, New York

"Brooklyn is now a global brand. Brooklyn is the new Manhattan."

Manhattan Prices Shatter Records

In the fourth quarter of 2015, the median sales price for real estate in Manhattan hit a record high, rising to $1.15 million, up 15.2 percent from $998,000 in the previous quarter, according to a report prepared by Miller for the brokerage firm Douglas Elliman Real Estate. Meanwhile, the average sales price hit a record $1.9 million, rising 12.1 percent from $1.7 million from the third quarter of 2015.

Miller claimed that market weakness was beginning to appear in the sales numbers, especially on the high-end.

"In 2015, the stronger U.S. dollar has cooled demand for super-luxury product," Miller said, referring to the rapid appreciation of the U.S. dollar in relation to the world's other currencies — euros, Japanese yen and British pounds. "Demand has evaporated at the high end. The global economy has weakened. Brazilians, for example, were big players. They are gone because their economy is weak."

Still, the New York City economy is strong, Miller said. "Our economy is booming," he said. "The economy is creating a lot of jobs. But we're not creating enough housing to match the job growth."

New York City's unemployment rate was 4.8 percent in November 2015, slightly better than the national rate of 5.0 percent, according to Bureau of Labor Statistics.

At the upper end of the market, which is small segment of the overall market, demand has slowed, according to Miller. He said the sharp rise in Manhattan property values is fueled by newer developments that cater to a high-end clientele and a pronounced influx of wealthy foreign buyers, mostly from Asia, Europe and the Latin America. But interest has slowed.

'Brooklyn is the New Manhattan'

Miller said New Yorkers are increasingly seeing Manhattan and Brooklyn on equal footing, with prices and full-service amenities competing for buyers. Brooklyn, once an affordable alternative to pricy Manhattan, has since been re-branded as an international brand.

"Brooklyn has changed its persona," said Miller, alluding to the rising prices in the borough. "Brooklyn is the New Manhattan. The price gap between the two boroughs is narrowing. In some Brooklyn neighborhoods, it has matched — and surpassed — Manhattan prices."

The median sales price in Brooklyn hit a record $676,250 in the third quarter of 2015, up 15 percent year-over-year, according to the Elliman Brooklyn report. In the third quarter, 74 percent of all Brooklyn sales were below the $1 million threshold. The average sales price was $856,839, up 18 percent from the same period in the third quarter of 2014.

"Brooklyn housing prices broke records this quarter as demand expanded and supply fell," according to the report. "Robust economic conditions and the rebranding of Brooklyn as a Manhattan competitor continued to play a role in the stronger market."

House prices in New York's suburbs — including Brooklyn, the Bronx and Queens — have doubled

Continued Next Page

relative to incomes since 2000. Brooklyn is one of the hottest real estate markets in the world, said Miller. The gentrification of Brooklyn and the rising costs of living in the borough is pricing out many buyers, who buy further away from Manhattan. Desirable Brooklyn neighborhoods like Park Slope and Windsor Terrace are seeing incredible price increases and demand for housing.

"Brooklyn is the only borough that has exceeded the pre-Lehman highs in home prices," said Miller, referring to the collapse of Lehman Brother in 2008.

Gabriele Sewtz, a broker with Compass who has focused on Brooklyn for many years, said Brooklyn home prices have hit seven-figures. She said good schools, spacious housing and good transit is attracting Manhattan urbanites to Brooklyn suburbs.

Gabriele Sewtz
Broker
Compass
New York, New York

"In Brooklyn, the entry price points have moved from $1 million to $1.5 million."

"In Brooklyn, the entry price points have moved from $1 million to $1.5 million," said Sewtz, who lives and works in the Park Slope neighborhood of Brooklyn. "The sweet spot for buyers has moved up to $1.5 million for a two-bedroom condo. A three-bedroom condo sells for $1.6 million to $1.7 million. A full Brooklyn brownstone, with three or four stories, fetches $3 million to $4.5 million."

Sewtz said Brooklyn offers a better value than Manhattan, especially for families with children.

"If you have a family, Brooklyn is the place to go," said Sewtz.

"Brooklyn prices actually outpace

Continued Next Page

New York, New York

THREE FOR SALE

WHAT: 1-bedroom Co-op
HOW MUCH: $999,000

This Greenwich Village, N.Y., mint convertible two-bedroom at the Albert offers all that you've been searching for, including two bathrooms, lots of closets, and a thoughtful renovation. This full-service building features a 24-hour doorman, laundry, and common landscaped roof deck. Agent: Gabriele Sewtz, Compass, (718) 360-7326, http://www.sewtz.com/.

WHAT: 2-bedroom condo
HOW MUCH: $1,525,000

Located in Park Slope, Brooklyn, this two bedroom, two-bath condo features a glorious rooftop deck showcasing stunning Manhattan views. The kitchen boasts top-of-the-line Viking appliances, including drawer microwave, three-door refrigerator and five-burner stove with self-cleaning oven. Agent: Gabriele Sewtz, Compass, (718) 360-7326, http://www.sewtz.com/.

WHAT: 4-bedroom condo
HOW MUCH: $2,095,000

This is the rarest of NYC opportunities — an expansive home in a brand-new luxury building in the hip and established South Slope section of Brooklyn. This two-level condo has three bedrooms and three bathrooms. Agent: Gabriele Sewtz, Compass, (718) 360-7326, http://www.sewtz.com/.

Manhattan in places like Williamsburg, where prices are higher than the Upper East Side," said Sewtz, referring to the staid, upscale district in northeastern New York City. "Brooklyn has become a destination."

"I was speaking at a Shanghai, China, real estate conference and I saw someone with a Brooklyn T-shirt," said Miller. "Brooklyn has become a global brand."

Gabby Warshawer, the director of research and communications for CityRealty, a New York residential data website, said there was a building boom going on in Brooklyn.

"Brooklyn's skyline is being transformed as developers add tens of thousands of new rental and condominium apartments to the borough," wrote Warshawer in a Brooklyn new development report. "While Brooklyn has historically been known for its single-family houses, there is a crush of buildings with 20 or more units under construction, many of them rising 10 or more stories and dramatically changing the built environment."

Demand Cooling At High-End

Meanwhile, Warshawer said prices are up in Manhattan, but the sales volume of the Manhattan condo craze is slowing down, especially in Midtown condo towers like 432 Park Avenue.

"The market is characterized by high-end deals," said Warshawer. "The median sales price is over $1 million dollars. Last year we had a rash of record-setting prices, especially in buildings like One57. This rarified segment of the market is doing really well."

But Warshawer said sales have slowed. She said a stalemate between buyers and sellers is hampering the market. Many sellers have unrealistic expectations while many buyers are unwilling to pay what they see are inflated home prices, she said. The stalemate has fueled a drop in transaction volume. And there aren't enough homes on the market to break the standoff.

"At the peak, there were 17,000 sales in 2007. Last year, there were approvimately 12,700 sales in

Continued Next Page

At 1,396 feet tall, 432 Park Avenue (at left) is officially the tallest building in New York City.

Manhattan. Sales have been growing steadily since 2009. But they are nowhere near the peak levels. We are off by 2,000 to 3,000 units."

The stall in inventory combined with increasing prices put upward pressure on prices.

"International buyers and domestic finance are the two biggest engines of the New York real estate market," said Warshawer. "If there is upheaval in the stock market it will have a bearing on sales. But it's too soon to tell."

The lack of inventory and the rising prices is creating an "affordability problem" that's holding back sales and pushing buyers further away from Manhattan.

"Inventory was down 13 percent year-over-year to 4,832 units; just the fourth time in the last 10 years that inventory was less than 5,000 units, according to the Corcoran Group.

Gabby Warshawer
Director of Research
CityRealty
New York, New York

"Brooklyn's skyline is being transformed as developers add tens of thousands of new rental and condominium apartments to the borough."

noting that the outlying suburbs ringing Manhattan are seeing price appreciation and increased sales. "And the Bronx is the new Queens. The outlying suburbs in New Jersey, Long Island are seeing significant increases in sales activity. There's a number of reasons for this; one of them is chronically low inventory. The economy here is booming. The economy is creating jobs. We have population growth."

"Everyone wrote off the suburbs a few years ago," said Miller, referring the far flung boroughs of Queen and the Bronx. "But the affordability challenge is changing everything. Now the suburbs are a real option."

The Big Chill: U.S. Will Track Secret Luxury Buyers

But luxury home developers and brokers in Manhattan were jolted in January 2016, when the U.S. government announced that it will start scrutinizing all-cash buyers, and transactions over $3 million in Manhattan and above $1 million in Miami.

Not only were foreigner buyers driving the luxury condo market, but cash transactions accounted for 51 percent of all sales, up from 43 percent in third quarter of 2015, Douglas Elliman reported. Approximately 61 percent of condo sales and 42 percent of all co-op sales were paid for with cash. Nationwide, all-cash sales jumped to 38.1 percent of U.S. single family home and condo sales in November, up from 29.8 percent in October and up from 30.9 percent a year ago, according to RealtyTrac.

Meanwhile, across the East River in Queens, prices are rising too. Though Queens is more affordable than Brooklyn, its median sales price shot up to $450,865 in the third quarter of 2015, up 14 percent from a year ago, reports Elliman.

'Queens is the New Brooklyn'

"Queens is now the new Brooklyn," said Miller,

The Treasury Department's Financial Crimes Enforcement Network (FinCen) will begin tracking sales of high-end real estate in two hotbeds of multi-million dollar purchases — Miami and New York City — to crack down on money laundering. Starting in March, title insurance companies, which are involved in virtually all sales, will be required to name the true "beneficial owner" behind all-cash sales and anonymous shell companies like limited liability corporations, or LLCs, FinCen said in a Jan. 13 statement.

The federal government's move could send shock waves through Miami and Manhattan's luxury real estate markets.

The announcement marks the first time the federal government has required title companies to disclose

Continued Next Page

the names behind all-cash transactions and shell companies like LLCs, and the new disclosure rules may discourage legitimate purchases and further dampen interest in high-end sales in the two markets, which are already bracing for a global economic slowdown.

FinCen will temporarily require certain title companies to identify individuals behind companies that buy properties exceeding $3 million in these two markets with all-cash transactions. The geographic targeting orders, or GTO, will be in effect for 180 days, starting on March 1, 2016, and will expire on Aug. 27, 2016.

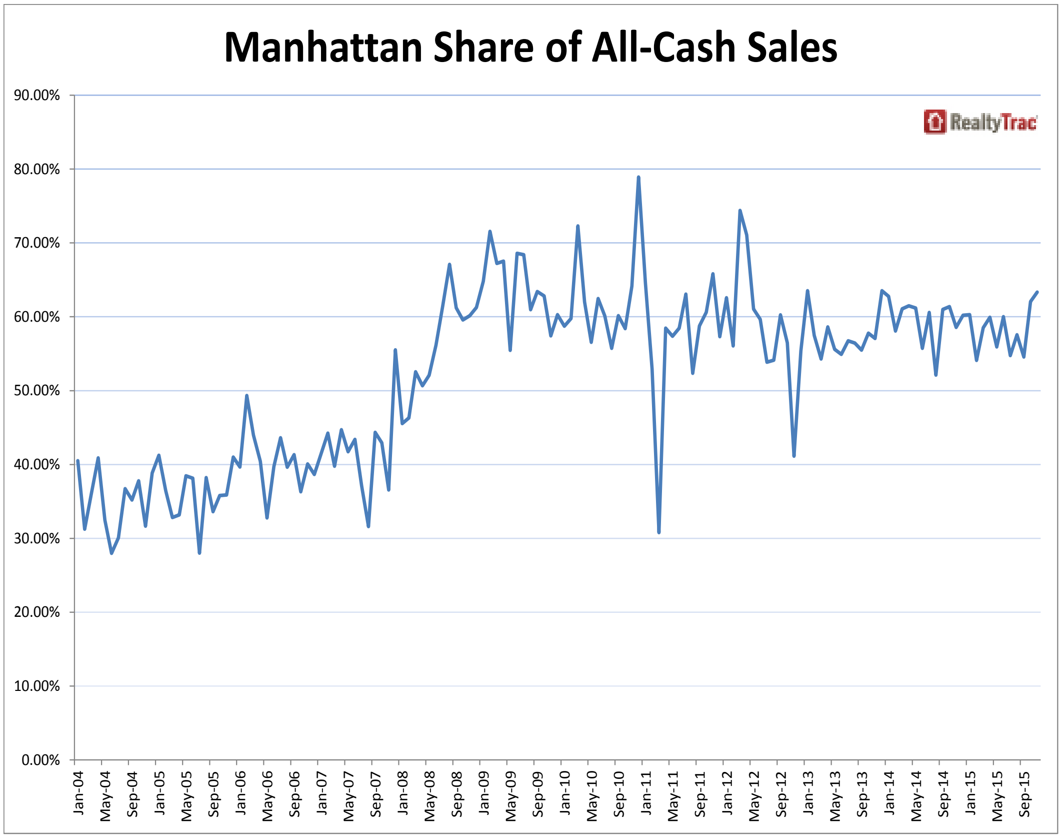
“We are seeking to understand the risk that corrupt foreign officials, or transnational criminals, may be using premium U.S. real estate to secretly invest millions in dirty money,” said Jennifer Shasky Calvery, director of FinCen in a prepared statement. “These GTOs will produce valuable data that will assist law enforcement and inform our broader efforts to combat money laundering in the real estate sector.”

Many deals at New York’s ultra-luxury towers are made by LLCs, including the most expensive sale in New York City history, the $100.5 million purchase of a penthouse One57 to a buyer known only as P89-90 LLC.

“The New York City real estate market is a great place to put your money,” said Gavin Reilly, chief executive officer of Tri-State Fine Homes in New York City. “It’s a global market that attracts buyers from around the world. During 2015, we saw for the first time ever someone pay more than $100 million for a single family property, a penthouse apartment on West 57th Street. We also saw the most expensive residential rental going for $500,000 per month located on East 61st Street. With several new high end luxury buildings in development, we could potentially see new records set in the very near future.”

Reilly, a licensed broker in Connecticut, New York and New Jersey, works with affluent home buyers and sellers in the Tri-State region. He buys distressed property for cash.

Continued Next Page



SOURCE: RealtyTrac

"When opportunities are identified, I have a very aggressive team in place to be first at the table with all-cash offers," said Reilly. "We then improve these properties and sell them for top dollar. It's a business model that works time and time again. We're currently on a buying spree in the New York City condo market."

"As for the rest of the market, we're seeing very high demand on limited supply, bringing bidding wars on the majority of properties," said Reilly. "This has been great for sellers and the market overall. In 2016, we see this easing ever so slightly, but only compared to a phenomenal 2015 market. Prices will be pushed slightly higher based on low inventory combined with high demand. We believe we'll see a surge earlier in the year rather than later due to the anticipation of rising interest rates. We're looking for buyers to rush in during the first half of 2016 in an effort to get in ahead of rising interest rates. We believe this will also be the cause for a slowdown in the second half of the year."

Gavin Reilly
CEO
Tri-State Fine Homes
New York, New York

> *"The New York City real estate market is a great place to put your money. It's a global market that attracts buyers from around the world."*

Reilly said investor activity in the New York City metro is high and varies from borough to borough.

"The Midtown section of Manhattan seems to have the highest number of investor-owned units, placing that percentage at around 45 percent, and again, this figure rises or falls depending on which part of Manhattan you are looking at," he said.

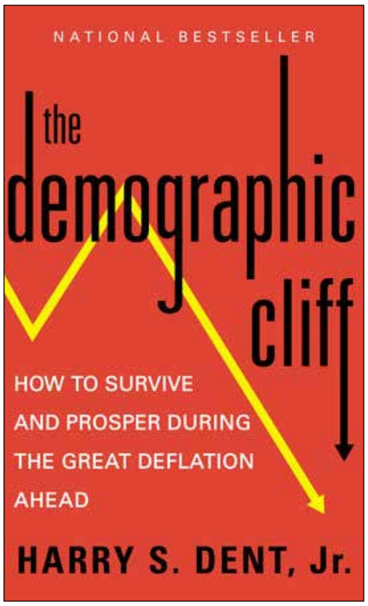
"The median sale price in NYC in 2015 was just north of $1 million. The median rental was floating at around $3,000 per month. We saw prices go up just over 6 percent in New York City in 2015, setting new records."

"As to where we see this real estate market heading in 2016, the global economies are taking a breather here; we're still expecting continued growth in 2016, but only at about half that rate of 2015, or just over 3 percent," said Reilly. "We're anticipating that there will be a lot of new money entering the New York City real estate market, especially from overseas. That being said, there are always opportunities in every real estate market, and for those savvy investors, it's a great time to buy NYC real estate."

BOOK REVIEW

Will a ‘Demographic Cliff’ Sink the Housing Market?

By Octavio Nuiry, Managing Editor



The Demographic Cliff: How to Survive and Prosper During the Great Deflation Ahead

By Harry S. Dent, Jr.

(Portfolio/Penguin, 368 pages, $27.95)

Economic forecaster and demographer Harry S. Dent Jr. studies generational trends, and has discovered how you can predict the spending patterns of consumers through demographics.

Though the economy seems to be recovering, this is a result of “endless government stimulus,” writes Dentin in his new book “The Demographic Cliff: How to Survive and Prosper During the Great Deflation Ahead.” (Portfolio/Penguin).

According to Dent, people spend the most money at age 46 as they are completing the family cycle and buying a house — and then they save and stop spending when the kids leave the nest. Today, fewer Americans are being born, points out Dent. He argues that following the Baby Boom, which peaked in 1961, came the Baby Bust, and a long slow decline in the birthrate. He claims that aging boomers will have a significant impact on the economy and that doesn’t bode well for those stashing money into the stock market. In the book, he explains why we’re facing a “great deflation” and a “demographic cliff” with the accelerating retirement of the Baby Boomers. He predicts that senior boomers may sell their single-family homes and move into apartments or multi-family developments.

The economic cycle theories of Dent predict that we are on the verge of a massive economic downturn. He mainly focuses on demographics, and the fact that our population is rapidly getting older. Dent’s work indicates that we are going to experience a major economic crisis by the end of this decade.

Demographics, Dent argues, can tell us when your household spending will peak. Dent claims that people tend to buy houses at about the same age — age 31 or so. Overall household spending hits a high when we’re about 46, he writes. So the peak of the Baby Boom (1961) plus 46 years suggest that the high point for the U.S. economy should be around 2007, with a long, slow decline to follow.

“At Dent Research we have a not-so-secret weapon: demographics,” writes Dent. “It is the ultimate indicator that allows you to see around corners, to predict the most fundamental economic trends not just years but decades in advance.”

For Dent, the next generation (millennials) cannot fill the shoes of the Baby Boomers. The Millennial generation is smaller and they simply can’t match the spending power of their predecessors. The economic implications are profound, especially for real estate, Dente writes.

In chapter three — titled “Why Real Estate Will Never Be the Same” — Dent argues that the “housing recovery” is a big fat lie. He claims that banks stopped foreclosing on large loans in 2010. Instead, the banks targeted the smaller mortgages. He writes that the housing crisis is not behind us.

“The housing market will never be the same in this post-bubble era,” warns Dent. “We’re approaching the point when there will be more sellers from the aging of the massive baby boom generation than younger buyers from the millennial generation that peak between age 37 and 41.”

Every day, more than 10,000 Baby Boomers retire. This is going to happen day after day, month after month, year after year until 2030. It is the greatest demographic tsunami in the history of the United States, and we are woefully unprepared for it, warns Dent. This demographic shift will have an increasing

Continued Next Page

importance over the next few decades on the economy, the financial markets and housing.

"Today the buyers will be increasingly outnumbered by the dyers in most wealthy countries," he writes. "That conveys a painful truth: under such circumstances, there will be a zero net return adjusted for inflation because in developed countries, a smaller generation is following a larger one for the first time in modern history. Prices will fall, or, at best, adjusted for inflation, remain flat for a long time to come (recall that Japan's real estate market fell 60 percent in the 1990s and has yet to rebound, nearly a quarter century later)."


Harry S. Dent Jr.

When the Chinese real estate bubble bursts — like Japan's did in the late 1980s — it will trigger a similar collapse here, he argues. That could happen within the next few years.

Dent has some advice for home buyers:

"Real estate prices will fall at least 40 percent from where they are now," write Dent, a graduate of Harvard Business School. "Don't even think about buying a home (or worse an office) until at least early 2017."

On the flip side, Dent believes cash-generating businesses will do well in deflationary periods. He believes that if you can buy foreclosed real estate and turn them into rentals or apartment buildings and turn them into positive cash investors will do well in a deflationary market.

The good news, according to Dent, is that China is not likely to overwhelm the West economically, since its demographic future is even more dire than the United States.

America's Coming Demographic Disaster?

Dent, a business consultant and author of nine books, claims that Americans are not reproducing enough, and the long-term consequences are dire. Since 1973, we haven't had enough babies to keep our population steady. Even through our population continues to grow because of immigration sooner or later that's going to peter out — and American will be facing a stagnant demographic profile.

Over the last 30 years, immigration has saved us from falling over the demographic cliff.

The problem in a nutshell is that the first wave of Baby Boomers, born between the years of 1946 and 1964, officially reached retirement age in 2011. There are a whole lot of Baby Boomers — over 76 million — who will increasingly depend on Social Security and Medicare.

Today, about 40.2 million people — 13 percent of the entire U.S. population — are 65 years or older and eligible to receive government entitlements. By 2030, a full 19.3 percent of the population will be claiming Social Security and Medicare benefits. In 1900, by comparison, only 4.1 percent of the U.S. population was 65 years or older.

As the U.S. population ages, we're looking at more and more money dedicated to retirement benefits with a smaller workforce to fund the spending.

We're not the only one facing the demographic cliff, argues Dent. Japan is in worse shape than the U.S., with 23.1 percent of the population already over 65. Europe's in the same boat: 17.4 percent of the European Union population are 65 or older.

Fertility Crisis

In the 1990s, Dent predicted Japan's economic collapse. Dent believes the U.S. stock market is a bubble ready to burst — and we're seeing strong signs of weakness in the stock market today. He argues that China real estate bubble is getting ready to burst. He argues that China's real estate bubble is the biggest real estate bubble in all of the world.

"The great real estate boom from 1933 to 2005 will not be seen again anytime soon — and perhaps never — in the developed countries," he writes.

"The Demographic Cliff" is provocative reading. This is a bearish book. Dent portends tough times ahead for the U.S. economy — and especially for the U.S. housing market — because we are undergoing a historic demographic shift.

Let's hope he's wrong.

TOP 20

Foreclosure rates in the nation's 20 largest metros in December 2015

Rank	Metro	Housing Units Per Foreclo-sure Filing (Rate)
1	Tampa, FL	538
2	Baltimore, MD	615
3	Philadelphia, PA	680
4	Riverside, CA	733
5	Miami, FL	768
6	Chicago, IL	832
7	Washington, DC	1,073
8	New York, NY	1,087
9	Atlanta, GA	1,160
10	Detroit, MI	1,216
11	St. Louis, MO	1,285
12	Seattle, WA	1,384
13	Phoenix, AZ	1,437
14	Los Angeles, CA	1,508
15	Dallas, TX	1,519
16	San Diego, CA	1,568
17	Minneapolis, MN	1,737
18	Houston, TX	1,890
19	Boston, MA	1,926
20	San Francisco, CA	2,343

December 2015

State-by-State Foreclosure Activity Summary

Rank	State	Default	Auction	REO	Total	1/every X HU (rate)	%Δ from Nov15	%Δ from Dec. 14
	U.S. Total	**28,878**	**34,844**	**39,651**	**103,373**	**1,277**	**-0.71**	**-9.50**
17	Alabama	0	909	660	1,569	1,388	12.55	32.29
40	Alaska	38	23	53	114	2,690	37.35	-42.71
25	Arizona	0	959	839	1,798	1,591	5.64	7.92
42	Arkansas	0	228	260	488	2,707	22.61	72.44
14	California	4,351	3,144	2,833	10,328	1,329	8.81	-14.08
39	Colorado	0	463	368	831	2,675	-0.84	-11.03
7	Connecticut	1,057	135	311	1,503	989	19.67	8.83
6	Delaware	263	169	84	516	790	52.21	4.45
	District of Columbia	0	24	17	41	7,276	10.81	412.50
3	Florida	3,336	4,236	5,229	12,801	703	-5.92	-22.21
13	Georgia	0	1,139	2,006	3,145	1,302	-16.80	7.45
26	Hawaii	114	54	151	319	1,637	175.00	15.16
34	Idaho	135	132	91	358	1,872	14.38	37.16
8	Illinois	1,917	1,406	1,936	5,259	1,006	-14.64	-34.13
15	Indiana	789	696	607	2,092	1,339	-18.69	-22.78
21	Iowa	402	293	204	899	1,492	107.14	-4.87
43	Kansas	99	203	121	423	2,921	2.42	9.02
41	Kentucky	144	353	217	714	2,703	30.29	12.62
29	Louisiana	240	632	291	1,163	1,698	10.76	4.49
30	Maine	251	107	63	421	1,715	18.26	-11.37
2	Maryland	1,744	1,077	1,289	4,110	581	-11.25	-7.01
24	Massachusetts	917	588	309	1,814	1,548	11.02	80.50
20	Michigan	0	1,280	1,789	3,069	1,476	6.30	6.86
37	Minnesota	0	384	577	961	2,449	-28.87	-21.36
45	Mississippi	0	194	190	384	3,327	-12.33	62.03
33	Missouri	0	460	990	1,450	1,872	-0.82	45.00
48	Montana	0	14	21	35	13,809	6.06	6.06
35	Nebraska	86	126	200	412	1,942	92.52	3.78
4	Nevada	560	465	483	1,508	781	-1.31	-12.48
38	New Hampshire	0	119	132	251	2,451	13.06	2.45
1	New Jersey	2,969	1,671	1,802	6,442	553	-0.09	-48.18
9	New Mexico	485	173	188	846	1,067	56.38	31.78
28	New York	2,703	873	1,251	4,827	1,681	0.17	3.54
11	North Carolina	1,034	860	1,556	3,450	1,261	-9.64	-11.13
49	North Dakota	8	0	12	20	16,236	-9.09	81.82
5	Ohio	1,937	1,785	2,761	6,483	790	28.27	17.23
22	Oklahoma	436	251	430	1,117	1,495	-9.70	65.97
27	Oregon	214	346	449	1,009	1,662	2.64	-19.67
16	Pennsylvania	1,272	1,298	1,514	4,084	1,363	-8.57	-12.64
31	Rhode Island	0	173	96	269	1,719	13.50	-20.41
12	South Carolina	500	634	522	1,656	1,294	-32.52	-12.29
50	South Dakota	0	9	11	20	18,285	-4.76	-28.57
10	Tennessee	0	1,045	1,391	2,436	1,158	9.04	87.67
32	Texas	55	2,760	2,734	5,549	1,815	-0.47	6.20
23	Utah	202	270	181	653	1,514	12.98	-5.64
46	Vermont	0	19	43	62	5,208	55.00	138.46
36	Virginia	0	903	685	1,588	2,129	-27.52	19.13
18	Washington	21	1,131	920	2,072	1,399	1.72	9.92
47	West Virginia	0	58	96	154	5,720	92.50	52.48
19	Wisconsin	599	514	667	1,780	1,475	-7.44	-13.93
44	Wyoming	0	59	21	80	3,288	26.98	-3.61

RealtyTrac

HOUSING NEWS REPORT

Housing News Report is a monthly publication dedicated to helping investors succeed by providing them with timely and relevant information about the housing market.

EXECUTIVE EDITOR
Daren Blomquist

MANAGING EDITOR
Octavio Nuiry

WRITERS
Daren Blomquist, Octavio Nuiry, Peter Miller

ART DIRECTION
John Mairs, Eunice Seo, Octavio Nuiry

CONTACT US
Phone: 800.306.9886

LETTERS TO THE EDITOR
E-mail: editor@housingnewsreport.com
Mail: Housing News Report
1 Venture Plaza Suite 300
Irvine, CA 92691