

PLEASE NOTE!!

We have a new phone number and passcode to access the audio portion of our webinar, see below:

Phone Number: 1-800-619-3315

Passcode: 4597908

stewart



New Business Model For the 2010 Economy
Adapt, Mutate, Migrate or Die
An Economic and Real Estate Forecast
Ted C. Jones, PhD Chief Economist Stewart Title Guaranty Co.

stewart

HOUSEKEEPING

- Your phones will be muted. This will allow for less disruption and noise, and an improved recording of the webinar.
- If you have any questions for the speaker, please use the online chat feature.
- If you have a more complicated question, please feel free to call the speaker, Fred Schraub at 800-292-5712 or e-mail: fred.schraub@stewart.com



stewart

- Note: PowerPoint and audio for the March 18, 2010 "TDI Procedural Rule Changes 2009" webinar is now available at www.stewarttexas.com
- For Escrow Officer Credit please email password and attendees names to ken.wrider@stewart.com for certificate (Please do this as soon as possible. Certificates will not be produced after the start of our next webinar)
- Attorneys e-mail bar card number to Ken Wrider for CLE credit
- Send to your training administrator if applicable
- We are now recording!



stewart

The New Business Model

$$\frac{\partial u}{\partial t} - \alpha \left(\frac{\partial^2 u}{\partial x^2} + \frac{\partial^2 u}{\partial y^2} + \frac{\partial^2 u}{\partial z^2} \right) = 0$$

$$u(x, \tau) = \frac{1}{\sigma \sqrt{2\pi\tau}} \int_{-\infty}^{\infty} u_0(y) e^{-(x-y)^2/(2\sigma^2\tau)} dy.$$

$$r = R_f + \beta_3(K_m - R_f) + bs \cdot SMB + bv \cdot HML + \alpha$$

i.e. Things are different today.....

The New Business Model

1. Cost Control is Essential
2. Consumers Have Changed Expectations
3. Less is More



- Business Cycles Have Been Repealed
- Proceeded by Deregulation
- Followed by 6 Years Rising Unemployment and 5 Years Declining Home Prices
- Gov't Debt Grows 86%

THIS TIME IS DIFFERENT
Eight Centuries of Financial Folly
CARMEN M. REINHART & KENNETH S. ROGOFF

"This is quite simply the best-compiled investigation of financial crises ever published."
—MICK HADFIELD, author of *The Money of Money*
A Financial History & Guide

stewart

Axiom #1

There is No Such Thing as a National Real Estate Market

Nor is there even a generalized Austin, Houston, San Antonio.....Market

stewart

Travis Jones, Sheep Rancher, Fredericksburg

Axiom #1

**If you own a 4-wheel
drive pickup, you will
be stuck 200 yards
FURTHER from the
road...**

stewart

Recession Recovery

**The recovery in every
recession since 1949
has been led by a
recovery in the
housing market**

stewart

Analysis: Tax Credit Adds 357,000 Buyers

A study estimates that 357,000
buyers have been motivated so
far by the \$8,000 First-Time
Homebuyer Tax Credit.

Campbell Surveys, a division of Campbell Communications

610,000 Annualized

stewart

2009 Sales Up 10 Percent Due to Homebuyer Tax Credit

That goes away after June 30, 2010

...and it will not be renewed



stewart

Residential Refinance Lending

\$ Billions

	Q1	Q2	Q3	Q4	
2009	\$ 325	\$ 404	\$ 247	\$ 351	
2010	\$ 215	\$ 145	\$ 116	\$ 108	
	-33.8%	-64.1%	-53.0%	-69.2%	Percent Change

	Percent Change	30-Year Rates
2008	\$ 815	6.04%
2009	\$ 1,327	5.04%
2010	\$ 584	5.22%
2011	\$ 562	5.70%

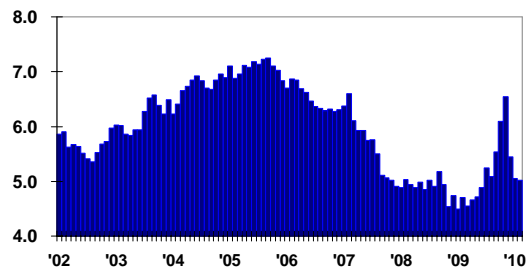
Source: Fannie Mae March 2010

Current Projected Change in Refi Volume

stewart

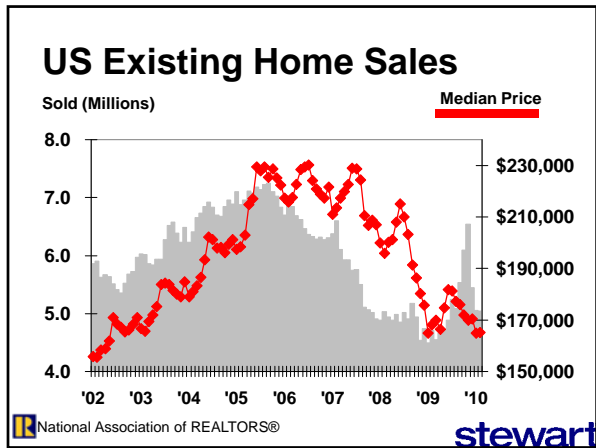
US Existing Home Sales

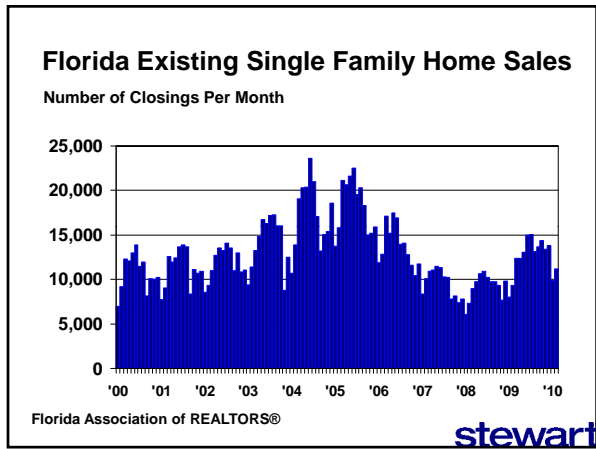
Sold (Millions)

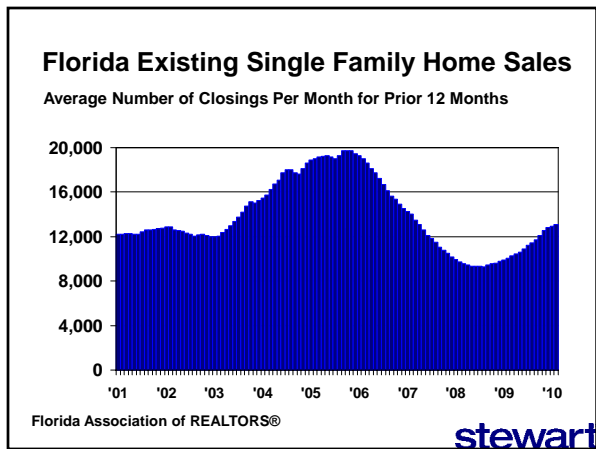


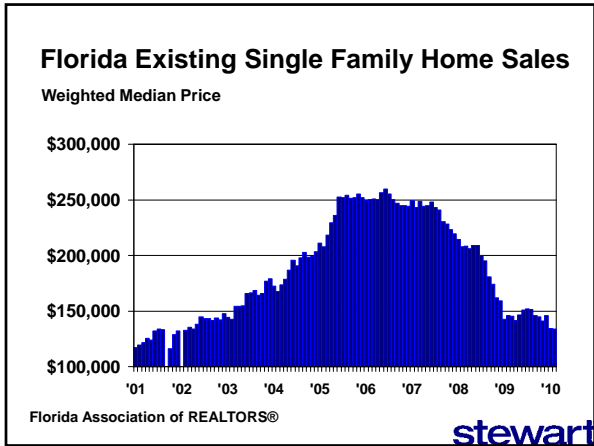
National Association of REALTORS®

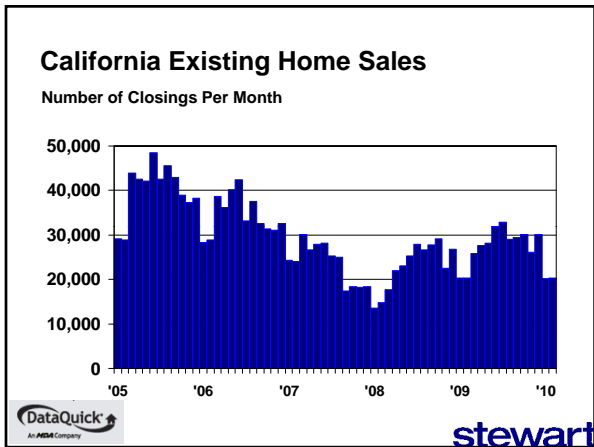
stewart

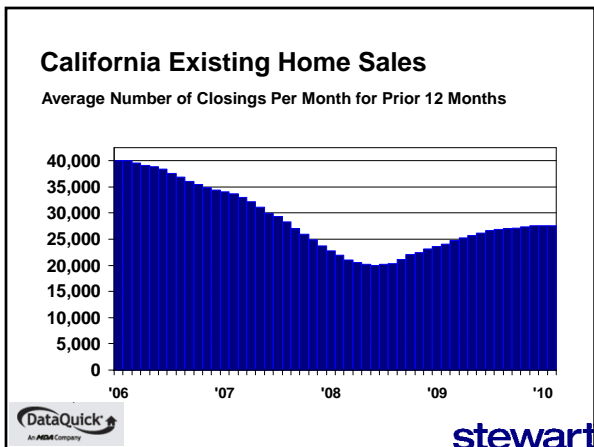


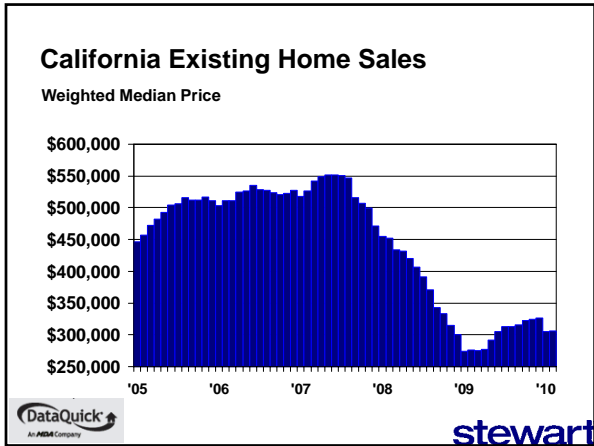


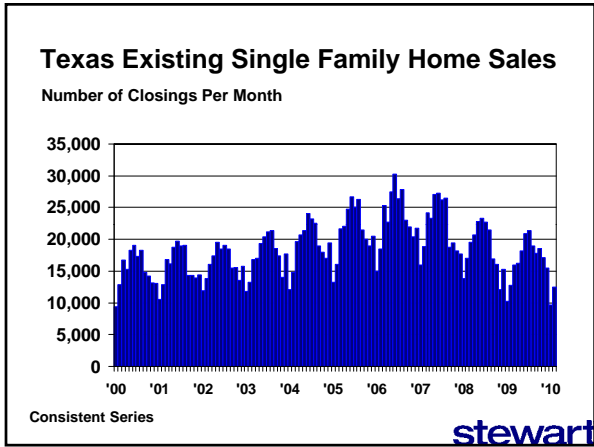


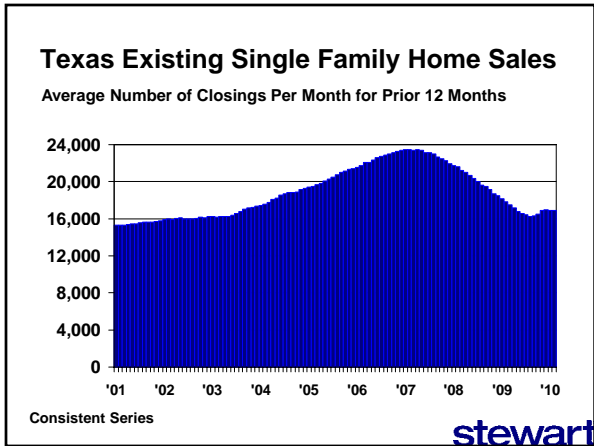






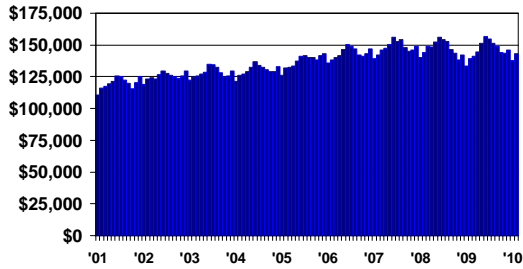






Texas Existing Single Family Home Sales

Weighted Median Price

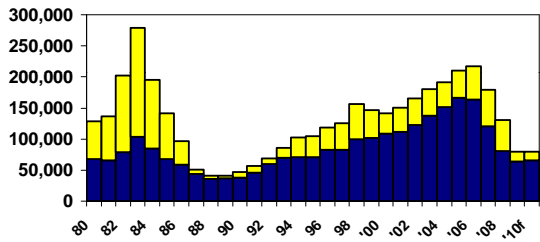


Consistent Series

stewart

Texas Residential Building Permits

Number of Dwelling Units



Single Family Multi

stewart

US Employment

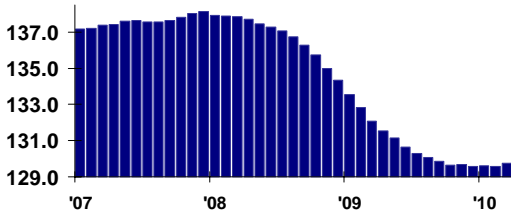
March

Year	Millions
2000	129.9
2010	129.8

stewart

US Civilian Employment

Millions of Jobs

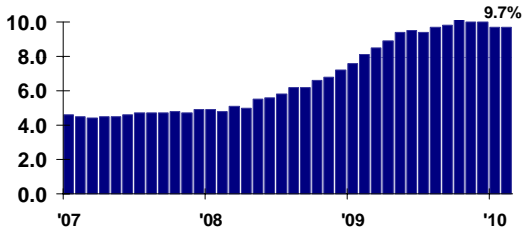


162 Thousand Jobs Gained in 2010
8.4 Million Jobs Lost Since January 1, 2008

stewart

U.S. Civilian Unemployment Rate

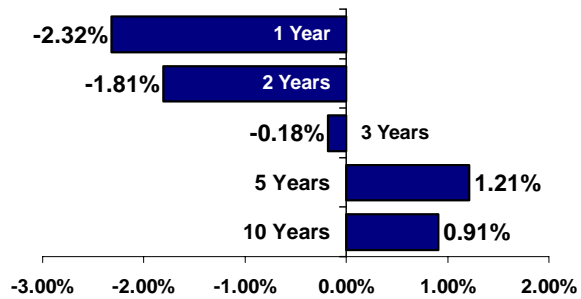
Percent Unemployment – Not Seasonally Adjusted



stewart

Texas Jobs

February Comparison Compound Annual Growth Rate

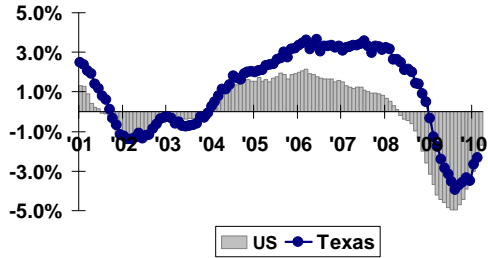


stewart

Texas Jobs

Percent Change from Same Month Prior Year

Not Seasonally Adjusted

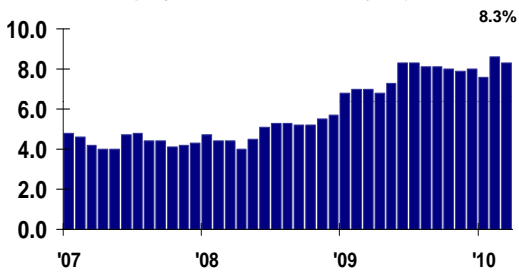


241,300 Net Jobs Lost in the Past 12 Months

stewart

Texas Unemployment Rate

Percent Unemployment – Not Seasonally Adjusted



stewart

12 Month Job Changes

February

	Net New Jobs		Compound Annual Rate
	Thousands	1 Year	10 Years
Abilene	-1.7	-2.56%	0.44%
Amarillo	-1.3	-1.18%	0.71%
Austin-Round Rock	-4.2	-0.55%	1.44%
Beaumont-Port Arthur	-9.0	-5.50%	-0.40%
Brownsville - Harlingen	-1.3	-1.04%	1.54%
College Station - Bryan	1.4	1.44%	1.77%
Corpus Christi	-5.1	-2.83%	0.64%
Dallas-Ft Worth-Arlington	-60.2	-2.09%	0.44%
Dallas-Plano-Irving Metro Div	-42.5	-2.10%	0.33%
El Paso	-5.0	-1.82%	0.60%
Ft Worth-Arlington Metro Div.	-17.7	-2.06%	0.74%
Houston-Baytown-Sugar Land	-80.0	-3.11%	1.16%
Killeen - Temple - Fort Hood	1.0	0.80%	1.54%
Laredo	-3.3	-3.70%	2.46%

stewart

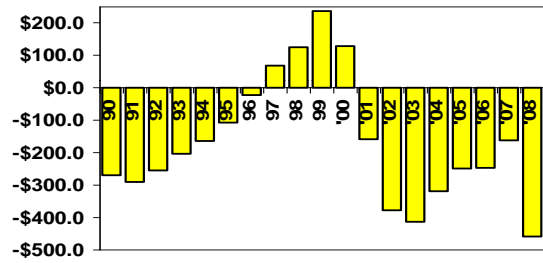
**12 Month Job Changes
February**

	Net New Jobs		Compound Annual Rate	
	Thousands	1 Year	10 Years	
Longview	-3.5	-3.64%	1.24%	
Lubbock	-1.8	-1.38%	0.62%	
McAllen Edinburg-Mission	0.1	0.05%	3.46%	
Midland	-3.9	-5.69%	2.09%	
Odessa	-5.6	-8.99%	1.62%	
San Angelo	-1.1	-2.47%	-0.18%	
San Antonio	-16.5	-1.97%	1.11%	
Sherman-Denison	-0.6	-1.41%	-0.78%	
Texarkana	-1.3	-2.28%	0.44%	
Tyler	-1.0	-1.07%	1.11%	
Victoria	-2.5	-5.01%	-0.37%	
Waco	0.2	0.19%	0.16%	
Wichita Falls	-2.8	-4.70%	-0.58%	

stewart

Federal Budget Surplus (Deficit)

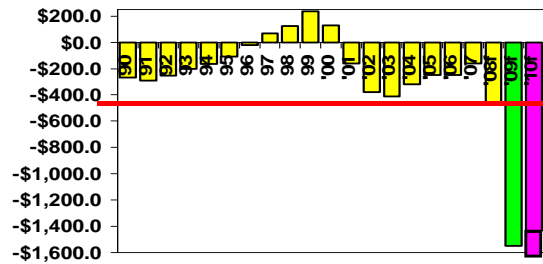
\$ Billions



stewart

Federal Budget Surplus (Deficit)

\$ Billions



CONGRESSIONAL BUDGET OFFICE

Federal Deficit Projections

- 2009 -- \$1.551 Trillion
- 2010 -- \$1.434 + 0.2 = \$1.634 Trillion
- \$10 Trillion Minimum for Next 10 Years
2010-2019 – *Without Passing
Health Care or Cap and Trade*

© CONGRESSIONAL BUDGET OFFICE

\$100,000 Income Per Year

- Married Filing Jointly
- 2 Children
- Standard Deductions
- \$74,000 Taxable Income
- \$10,074 Per Year
Federal Income Taxes



stewart

Obama Stimulus Plan

\$787 Billion Cost

Save or Create 3.5 Million Jobs

Spending	<u>\$ 787,000,000,000</u>
Jobs	3,500,000

Cost Per Job	\$ 224,857
--------------	------------

47 Years @ 3.59 Percent

stewart

Ted's No-Tax Solution Stimulus

Allow every homeowner that is current on their loan to refinance at 5 percent

Include all jumbos -- No cash out

Make Fannie and Freddie buy all and guaranty repayment of principal after three years

stewart

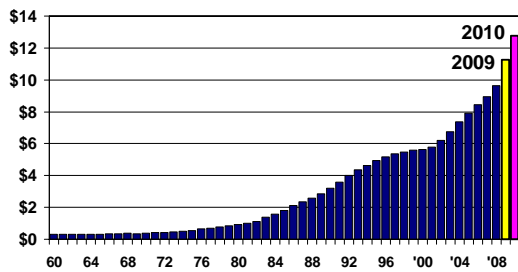
Impact of Refinance on US Economy

40 Million Households
\$ 175,000 Loan Amount
6.75% Percent Existing Rate
4.75% Percent Current Rate
\$ 291.67 Monthly Savings Per Household
\$ 3,500.00 Annual Savings Per Household
\$ 140 Billion Total Annual Savings US
\$ 20 Billion Estimated Increased Income Tax Collection at 20 Percent Marginal Tax Rate

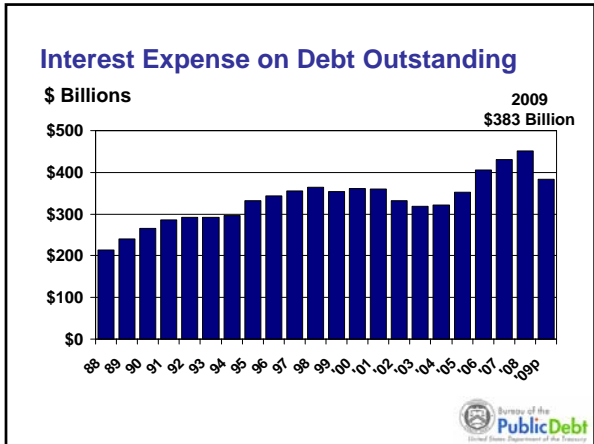
stewart

Federal Debt

\$ Trillions



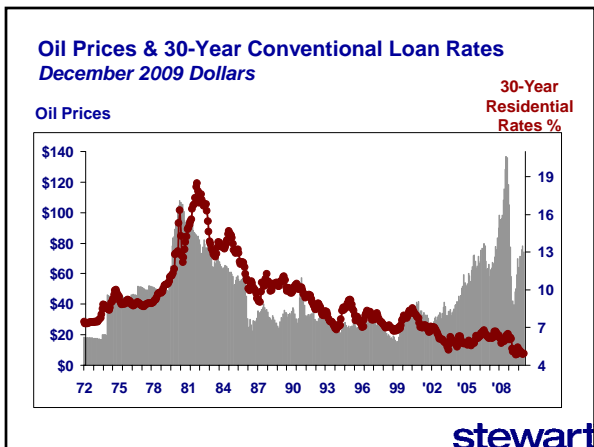
OFFICE OF MANAGEMENT AND BUDGET

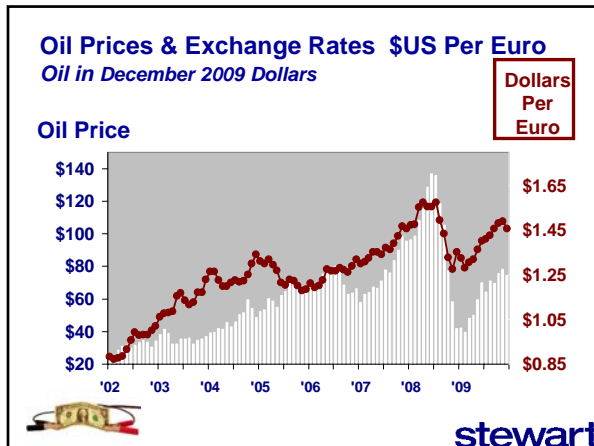


2010 Budget

Department	\$ Billions
Agriculture	25.7
Education	46.7
Energy	26.4
Homeland Security	42.7
Housing and Urban Development	43.7
Interior	12.0
NASA	18.7
Labor	13.3
State	53.9
Transportation	73.3
Treasury	13.4
Environmental Protection Agency	10.5
Total	380.2

OFFICE OF MANAGEMENT AND BUDGET





Ted's Forecast
12-31-10

Rates Up 200 Basis Points '10

Big 2010 Upside...

\$3.5 Trillion in Total Commercial Loans

\$400 Billion to Refinance Per Year for Next 10 Years

stewart

December 7 2009

Commercial real estate equity holders **lost nearly \$1 trillion since fall 2007 after property values dropped 40 percent** from peak-to-trough, which will take some time to recoup, industry analysts said.

In its **Commercial Mortgage REIT Overview**, Keefe, Bruyette & Woods Inc., New York, **forecast 6 percent to 8 percent** more in eventual commercial real estate losses.



**Mortgage Bankers Association
Office Building
Washington, DC**

Purchased 2007	\$79.0 Million
Sold Feb 2010	\$41.3 Million
Loss	\$37.7 Million 47.7 Percent



MIT Real Estate Group

NCREIF



Estimated Current Property Value Change Based on Acquisition Date
As of Q4 2009

Acquisition Date	Estimated Percent Change in Value Since Acquisition					
	ALL	Apartments	Industrial	Office	Retail	
2000	Q1	20.3%	30.8%	19.3%	16.0%	34.5%
	Q2	18.4%	25.7%	16.3%	13.1%	37.7%
	Q3	16.6%	20.8%	12.8%	10.5%	38.0%
	Q4	17.6%	19.7%	13.2%	10.0%	44.0%
2001	Q1	17.6%	21.0%	9.1%	10.9%	47.1%
	Q2	11.1%	12.5%	6.2%	13.6%	40.1%
	Q3	12.6%	13.1%	7.5%	17.9%	37.2%
	Q4	17.0%	13.3%	10.0%	21.4%	38.4%
2002	Q1	18.0%	12.3%	15.5%	16.1%	34.9%
	Q2	18.2%	15.7%	12.9%	20.3%	31.8%
	Q3	15.6%	15.3%	11.4%	12.6%	26.6%
	Q4	9.1%	11.5%	6.5%	14.6%	19.1%
2003	Q1	11.1%	12.5%	10.5%	13.3%	20.2%
	Q2	8.1%	13.2%	6.0%	15.0%	12.9%
	Q3	10.6%	9.9%	0.1%	11.5%	23.2%
	Q4	7.7%	9.2%	-0.9%	11.0%	15.3%
2004	Q1	6.6%	10.5%	-2.2%	10.9%	10.7%
	Q2	0.2%	6.2%	-8.1%	6.7%	5.5%
	Q3	-1.7%	0.4%	-7.4%	5.7%	-0.5%
	Q4	-2.9%	-1.7%	-7.8%	1.7%	-4.3%

Estimated Current Property Value Change Based on Acquisition Date
As of Q4 2009

Acquisition Date	Estimated Percent Change in Value Since Acquisition					
	ALL	Apartments	Industrial	Office	Retail	
2005	Q1	-3.1%	-9.5%	-4.8%	-1.1%	-3.0%
	Q2	-17.7%	-9.6%	-23.5%	-9.7%	-21.2%
	Q3	-21.6%	-23.3%	-24.4%	-15.5%	-23.9%
	Q4	-23.7%	-26.8%	-24.1%	-23.0%	-23.9%
2006	Q1	-28.4%	-29.5%	-31.4%	-26.2%	-25.0%
	Q2	-28.6%	-27.7%	-32.7%	-26.2%	-27.1%
	Q3	-29.4%	-27.0%	-31.2%	-30.9%	-28.6%
	Q4	-34.9%	-27.2%	-37.0%	-34.6%	-30.2%
2007	Q1	-36.3%	-25.6%	-38.3%	-36.7%	-31.2%
	Q2	-39.5%	-29.7%	-42.4%	-40.6%	-31.1%
	Q3	-37.7%	-33.1%	-40.5%	-41.1%	-30.1%
	Q4	-34.2%	-32.7%	-36.5%	-40.8%	-28.8%
2008	Q1	-34.8%	-32.3%	-36.7%	-39.3%	-25.1%
	Q2	-32.5%	-31.0%	-31.7%	-34.1%	-24.3%
	Q3	-30.7%	-30.1%	-30.3%	-32.8%	-24.6%
	Q4	-22.5%	-19.5%	-23.3%	-27.5%	-21.6%
2009	Q1	-18.4%	-15.1%	-3.4%	-24.3%	-18.3%
	Q2	-0.6%	-8.8%	-3.4%	-14.1%	-9.5%
	Q3	-4.9%	-8.5%	-2.1%	-8.9%	-5.3%
	Q4	0.0%	0.0%	0.0%	0.0%	0.0%

- 2010 Economic Concerns**
- Wall Street—Washington—Liquidity
 - Jobs – *Stimulus Not Working* **GDP=C+I+G**
 - Time Bomb Loans *Now Commercial*
 - Cold War II—Terrorists
 - Inflation (and Cap Rates)--*Recession*
 - Tax Cut Clock Ticking.....
 - Energy: US Imports 63 Percent of Oil
 - Real Estate-Autos-Credit Cards-Banks

**Patience
And
Wisdom**

*and cash
and luck*



stewart

THANK YOU!

- For Escrow Officer Credit please email password and attendees names to ken.wrider@stewart.com for your certificate (Please do this as soon as possible. Certificates will not be produced after the start of our next webinar)
- Attorneys email bar card number to Ken Wrider for CLE credit
- Next Texas TIPS Online May 20, 2010, "Bankruptcy" by Bill Pratt
- Questions/Comments? Email fred.schraub@stewart.com
- Visit www.stewarttexas.com for presentation materials within 5 business days of the webinar

stewart



**Ted C. Jones, PhD Chief Economist
Stewart Title Guaranty Co.**

stewart
