

N.C. Coastal Conference

Predicting the Coast's Future
in the Eye of a Housing Boom to Bust

Cameron Moore, Executive Officer Wilmington-Cape Fear Home
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The Housing Boom



Real estate: busts don't follow booms

A new report shows modest connection between housing booms and later busts.

May 4, 2005: 3:29 PM EDT

By Les Christie, CNN/Money staff writer

NEW YORK (CNN/Money) - The number of U.S. metropolitan areas experiencing booms in real estate prices spiked 72 percent in 2004, according to a report from the Federal Deposit Insurance Corporation (FDIC).

Still, that represented just 15 percent -- a total of 55 -- of the country's 362 metro areas, leading some to question whether the reports of a real estate bubble have been greatly exaggerated.

Does that 15 percent exposure threaten to infect regions beyond the already feverish markets of the Northeast, California, and Florida? Or does the 15 percent represent a modest number of homeowners who could be hurt by a market turnaround?

Before last year, Richard Brown, the FDIC's chief economist, would have told you that real estate prices had stayed relatively in check. "Prices had been growing faster, but not that much faster," he said. By the end of 2004, though, prices were rising at an accelerated pace. "

The biggest change the FDIC found was that only 33 of the 55 booms can be explained by local factors, such as supply constraints.

Instead, national factors -- notably more relaxed financing options -- are growing in importance. Sub-prime lending, zero-interest loans, zero-down payment, and low-interest ARMs all make home buying more affordable. That means more buyers pursuing the limited supply of houses for sale, boosting those home prices. These lending vehicles also leave homebuyers more leveraged than in the past, which can eventually add to market volatility.

In addition, swiftly appreciating markets attract real estate investors and speculators, who are much more likely to bail in a downturn than buyers who are living in their homes.

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Bernanke: There's No Housing Bubble to Go Bust

By Nell Henderson
Washington Post Staff Writer
Thursday, October 27, 2005

Ben S. Bernanke does not think the national housing boom is a bubble that is about to burst, he indicated to Congress last week, just a few days before President Bush nominated him to become the next chairman of the Federal Reserve.

U.S. house prices have risen by nearly 25 percent over the past two years, noted Bernanke, currently chairman of the president's Council of Economic Advisers, in testimony to Congress's Joint Economic Committee. But these increases, he said, "largely reflect strong economic fundamentals," such as strong growth in jobs, incomes and the number of new households.



Ben S. Bernanke testified on Capitol Hill just before being nominated to succeed Fed Chairman Alan Greenspan. (By Ron Edmonds -- Associated Press)

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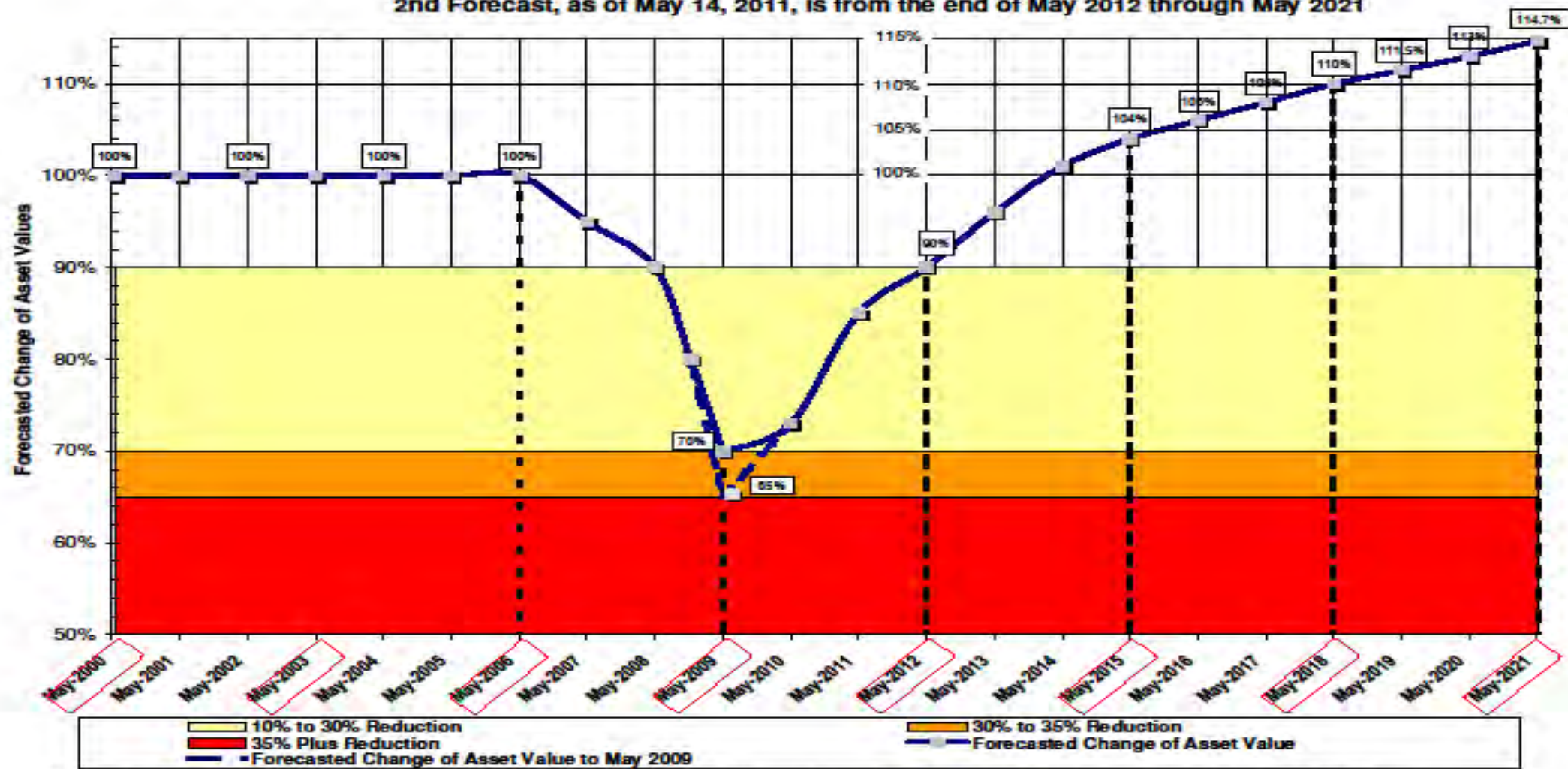
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Economic Value of Assets (as of May 14, 2000 Forecast)

Forecast 30% to 35% Reduction (Depending on City and Location)

1st Forecast to May 2012

2nd Forecast, as of May 14, 2011, is from the end of May 2012 through May 2021



Note: The 1st forecast, done on May 14, 2000, was from May 2000 to May 2012. The 2nd forecast, done on May 14, 2011, was from the end of May 2012 to the end of May 2021.

The Housing Bust

- What we know is sometime around 2006 the Housing Market Peaked.
- On December 1, 2008, the National Bureau of Economic Research announced that the economy had entered into a recession in December of 2007. We hit rock bottom May 2009.
- From 2006 to 2009, the value of real estate owned by U.S. households fell dramatically to the tune of about 6 trillion dollars.
- Mortgage underwriting standards were relaxed to the point where speculative buyers surged in the market.
- With the relaxed regulations came the unregulated “shadow banking system” (investment banks, hedge funds, structured investment vehicles, etc.)

Speculators who bought homes (often with no money down) simply walked away from the property when the home price fell. Many never made even the first monthly payment. Homeowners with adjustable rate mortgages found that they could not refinance because the decrease in home prices meant that they had negative equity in their homes. When their rates adjusted upward, their monthly payment was no longer manageable. The BUST!

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The Crash: What Went Wrong?

How did the most dynamic and sophisticated financial markets in the world come to the brink of collapse? The Washington Post examines how Wall Street innovation outpaced Washington regulation.



The Growing Foreclosure Crisis

One oft-repeated assertion no longer holds true. Those in trouble are not, primarily, lower-income borrowers. The foreclosure crisis has become a wave, afflicting neighborhoods of every stripe -- but particularly communities created by the boom itself.

PHOTO GALLERY
Hitting the Community They Built
Some residents of California's Riverside County face uncertain futures as the area, home to many real estate agents and those in the home industry, suffers from high unemployment rates and plummeting home prices.

What Went Wrong?
PART I

MILESTONES
Risk and Regulation

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What Did it do – Profound Affects

- Profound affect on Development projects. Many either stalled dead in their tracks or simply never even got started due to financing drying up. - Planning Term was coined – “Zombie Subdivisions”
- Every Coastal County felt the impact – However Brunswick and Dare County seemed to feel the worst brunt of it.
- Local Governments also felt the impact – Diminishing Permit Numbers = Reduced Funding = Staff Layoffs
- Layoffs in the construction sector created a labor force vacuum. People had to re-invent themselves.

In the boom 4 out of every 5 jobs was touched in some way by Real Estate

In the bust 1 out of every 9 to 11 jobs

- Tax Base also decreased as prices fell – Counties particularly felt these affects as they went through their property tax re-valuations.

Positive News – We are getting back to normal – albeit it is a new normal
Permit Numbers are up and unemployment has dropped
Construction of New Homes is on the rise
Banks are lending again

Construction & Development Trends

Homeowners Insurance

HB 151: Property Insurance Ratemaking Reform-The bill requires the Rate Bureau to use more than one forecasting model with property insurance rate filing. In addition, there would be a requirement for the filing rate and final rate for each territory in the State to be posted on the Department of Insurance's website.

HB 182 (=SB 208): Property Insurance Fairness-This proposed legislation creates a catastrophe fund called the "Recovery Finance Authority." The bill would require insurers to disclose detailed information on their costs and revenues, require them to use state-specific modeling to forecast risk for wind and other liabilities and require the consent to rate process to be based on sound actuarial principles.

SB 691: Study Insurance Rate Making-This would create a Joint Study Committee on Insurance Reform. The committee would study the structure, function and operation of the Rate Bureau, the purpose of "Consent to Rate" and any other subject the committee finds germane to help understand and provide basis for legislative proposals to revise the insurance rate-making process.

SB 683: Abolish Consent to Rate for Property Ins.-The proposed bill would exclude residential property insurance from "consent to rate" provisions. That provision allows insurance companies to increase rates more than allowed under state law if they get permission from the rate payer. If the homeowner refuses, they risk losing their coverage.



Construction Side of things -- Fortified Homes Standards

NFIP – Flood Insurance Reform

Biggert Waters & Homeowner Flood Insurance Affordability Act of 2014 (HFIAA)

- Repeals the Property sales trigger requiring that buyers immediately pay the full-risk premium rate at the time of purchase
- Restores "grandfathering" of rates under flood zones when properties were built to code
- Limits future increase to 18% annually for most properties built generally after 1975 and 25% for the older properties until they are paying full cost for flood insurance
- Refunds any premiums paid by property owners in excess of 18-25% increases.

CRS Communities and Consumer Sentiment – Driving Factors in Coastal Construction



HB 1305 – Created Voluntary Industry/Area specific Mitigation Credits

Homeowners who live in one of North Carolina's 18 coastal counties are eligible for a new Voluntary insurance credit.

Homeowners who retrofit or build a home using the [Insurance Institute for Business & Home Safety's](#) (IBHS) [FORTIFIED](#) building standards will be eligible to receive wind mitigation credits on the wind and hail premium portion of property insurance premiums.

Counties covered: Beaufort, Brunswick, Camden, Carteret, Chowan, Craven, Currituck, Dare, Hyde, Jones, New Hanover, Onslow, Pamlico, Pasquotank, Pender, Perquimans, Tyrell and Washington.

The rigorous FORTIFIED standards are based on building science research conducted by IBHS.

FORTIFIED for Existing Homes™ is a retrofit program that offers three levels of designation (gold, silver and bronze), providing a series of incremental steps. Each level builds on the previous one with the degree of disaster resistance increasing with each successive level.

- Gold: includes the requirements for FORTIFIED bronze and silver, as well as requirements to ensure the home has a well-engineered, continuous load path – connecting the roof through the home's structural members to the foundation.
- Silver: includes the standards for FORTIFIED bronze and adds additional requirements aimed at protecting window and door openings, strengthening gables over four feet high, and improving the attachment of accessory structures such as carports.
- Bronze: addresses keeping water out of the home through improvements to the roof covering, roof sheathing attachment and attic ventilations systems.

NC-Sea Grant has been one of the educational leaders for this program.
Home Builders Association along the coast serve as a good educational portal.

Flood Insurance Reform Ushers in New Construction Concerns

Building Height – Dictates the Pitch of the Roof

Industry Concerns

Homeowners are asking to build higher to help with insurance cost

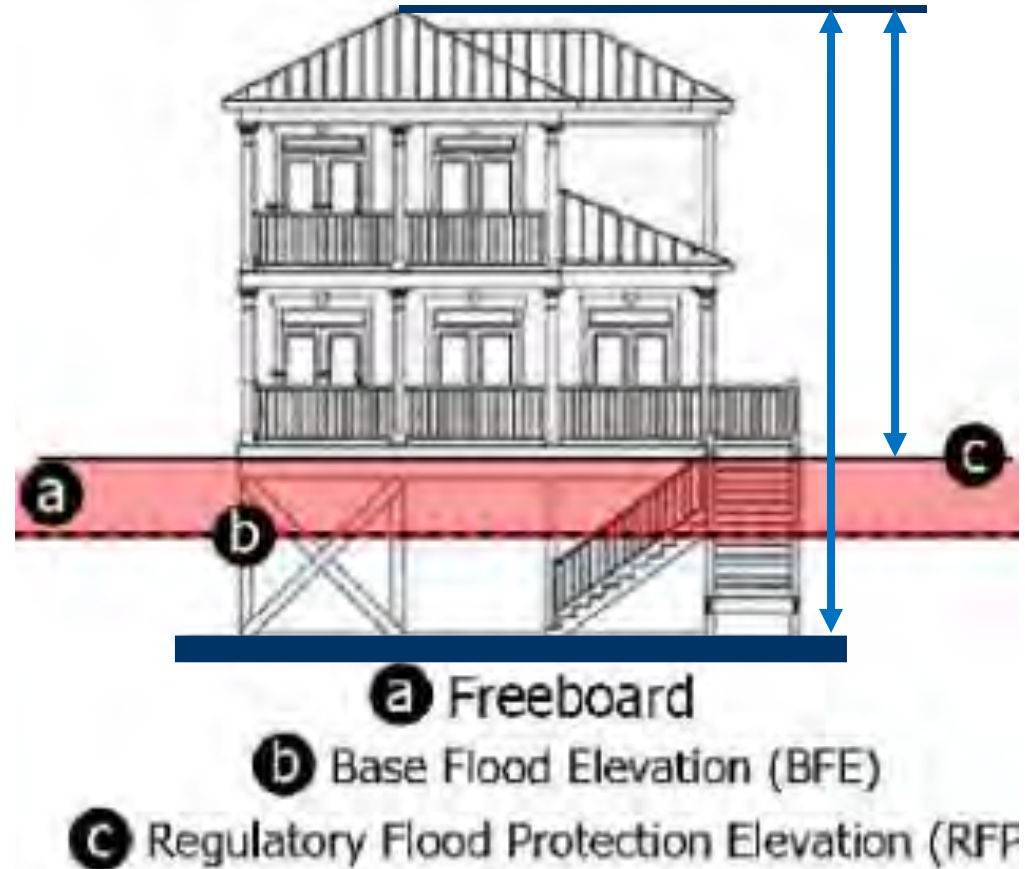
Typ. 35'-38' Bldg. Height not enough.

How Is it measured? – Through Zoning

Bldg. height should be tied to the freeboard and not to ground elevations.

Impact:

- Total number of floors
- Bedrooms
- Heated Square Footage
- Ceiling Heights
- Rise/Run-Staircases
- Total Building Height
- Roof Design*
- Insurance Rate



Important Building Factor at the Coast -- Roof Pitch

Roof Pitch - Industry Concerns

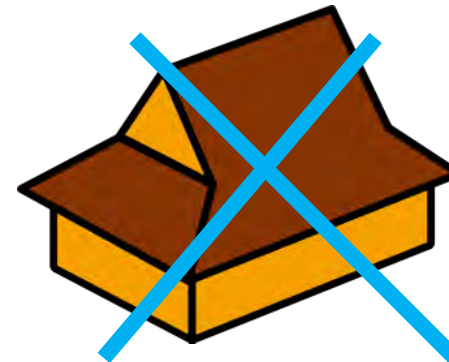
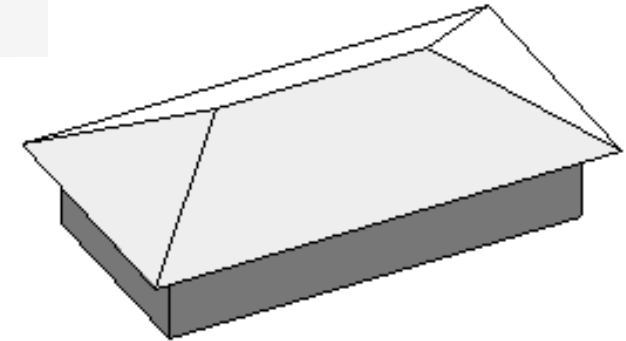
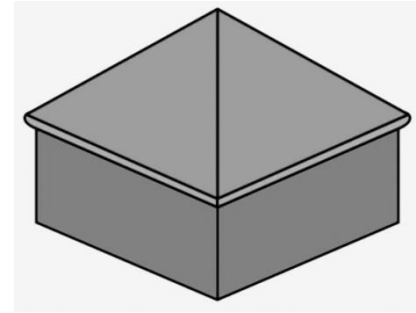
Increased Freeboard = Roof Affect?

ALL DICTATED BY BUILDING HEIGHT

A **hip roof**, or **hipped roof**, is a type of roof where all sides slope downwards to the walls, usually with a fairly gentle slope. Typically no gables or other vertical sides to the roof.

Impact:

- Appearance
- Fortified Home Credits (DOI)
 - Hip Roofs Vs. Flat Roofs
- Structural stability & wind loads
- Increased Roof and Truss costs
- Total number of floors
- Total Building Height



Staircases & Accessory Structures

Industry Concerns

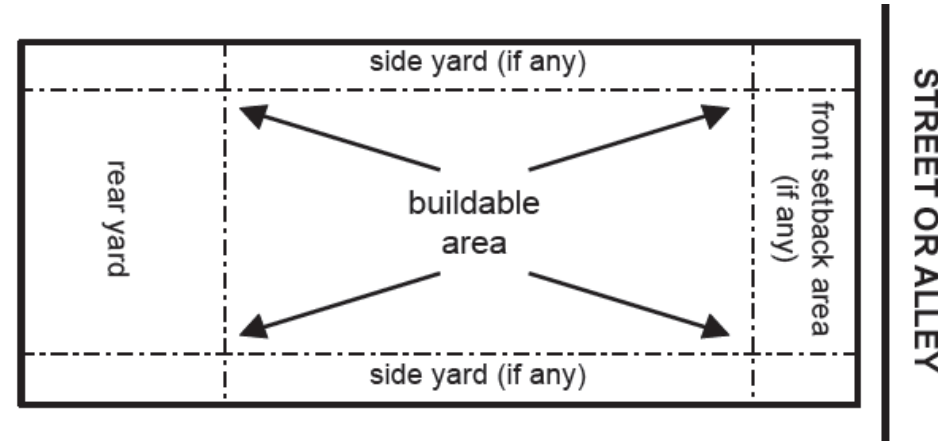
Increased Freeboard = increased rise/run.

Means more horizontal distance to reach the ground

Building Code requires a landing for every 12' in vertical elevation drop.

Impact:

- Setbacks for stairs
- Need more buildable area
- Less heated space (stairs)
- Utilities are higher in elevation



Homeowners should obtain an Elevation Certificate – Everything is dictated upon this

The view of Coastal Construction?

