Economic Conditions for Real Estate in Nebraska

Nebraska REALTORS Association Fall Meetings

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Summary

Prevailing economic conditions suggest a favorable environment for the Nebraska housing market due to:
- above-median and growing incomes
- low interest rates
- moderate home prices

The housing market offers high affordability throughout Nebraska.
Outline

The environment for interest rates

Economic conditions in Nebraska and implications for jobs and income
   6-month leading indicator
   longer-run economic outlook

Housing market performance and affordability
The Environment for Interest Rates

Rates to Stay Low: Example of 10-Year Treasury Bond

Interest Rate on 10-year Treasury Bonds

![Graph showing the interest rate on 10-year Treasury Bonds from 2014.2 to 2016.2. The rates start at around 2.5% in 2014 and increase gradually to around 3.5% in 2016.2.]
The Environment for Interest Rates

“There has been a change in the natural balance of between savings and investment, leading to a decline in normal real rate of interest.”

- Laurence Summers

Reasons for this:
1) Reduction in demand for debt financed investment – large ventures (by market value) can be started at little cost
The Environment for Interest Rates

2) Declining population growth – older population which borrows less

3) Rising income inequality- greater concentration of income for top earners raises the propensity to save

4) Decline in the relative price of capital goods – less borrowing
5) Due to taxes, lower pre-tax interest rate in low inflation environment

6) Central banks building reserves, especially in safe dollars – willing to accept low interest rates.

I’ll add 7) – higher share of income growth in “saving” nations (China, etc.) – also raises the propensity to save
Economic Conditions in Nebraska
Next 6 Months

The Nebraska economy is expected to be strong during the 2nd half of 2014.

The question is: will the Nebraska economy stay strong as 2015 begins?

- The Survey of Nebraska business says “yes”
- The Leading Economic Indicator – Nebraska says “maybe”
Economic Conditions in Nebraska
Survey of Nebraska Business from UNL Bureau of Business Research

A survey of 500 businesses each month

In most months, a 25% to 35% response rate

A random selection of businesses
Economic Conditions in Nebraska
Survey of Nebraska Business

Business Expectations
Results from Last 6 Months

Mar 14: 0.45%
Apr 14: 0.41%
May 14: 0.26%
Jun 14: 0.64%
Jul 14: 0.34%
Aug 14: 0.31%
Economic Conditions in Nebraska
Leading Economic Indicator – Nebraska from the UNL Bureau of Business Research

Six components:
Business expectation
Value of U.S. dollar
Single-family home building permits
Airline passenger counts
Initial claims for unemployment insurance
Manufacturing hours
Economic Conditions in Nebraska
Leading Economic Indicator - Nebraska

Figure 2: Change in LEI - N
Last 6 Months

Feb 14: 0.95%
Mar 14: 0.14%
Apr 14: 1.24%
May 14: 0.11%
Jun 14: 2.15%
Jul 14: -0.75%
Economic Conditions in Nebraska
Leading Economic Indicator - Nebraska

6-Month Forecast of Nebraska Economy
Economic Conditions in Nebraska
Longer-Run Forecast

Supportive local conditions for the real estate market:
Solid or strong job growth outlook in key industries yields solid income and population growth in Nebraska

Strong growth: construction and services

Solid growth: retail, manufacturing, transportation
Economic Conditions in Nebraska
Longer-Run Forecast for Construction (2% - 2.5%)
Economic Conditions in Nebraska
Longer-Run Forecast for Services (1.5% - 1.8%)
Economic Conditions in Nebraska
Longer-Run Forecast for Retail Trade in 2014 (1%)
Economic Conditions in Nebraska
Longer-Run Forecast for Transportation (0.5% - 1.5%)
Economic Conditions in Nebraska
Longer-Run Forecast for Manufacturing (0.3% - 0.7%)
Economic Conditions in Nebraska
Longer-Run Forecast for total non-farm jobs

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>Nebraska</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2015</td>
<td>1.5%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2016</td>
<td>1.4%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>
## Economic Conditions in Nebraska

### Longer-Run Forecast for income and population

<table>
<thead>
<tr>
<th>Measure</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income</td>
<td>3.9%</td>
<td>4.3%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.0%</td>
<td>2.4%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Population</td>
<td>0.7%</td>
<td>0.6%</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
Economic Conditions in Nebraska

Longer-Run Forecast for Agriculture

Nebraska agriculture should thrive and maintain most income and wealth gains

There will grow international demand for imports from a growing global middle class

Nebraska is a highly competitive agriculture region

Production cluster yields a cost advantage

Ogallala Aquifer yields reliable water supply

Climate change may benefit state (relatively)
Global Demand for Agricultural Imports
Source: OECD and FAO Secretariats

Annual Imports of Coarse Grains (kt)

- Blue line: OECD
- Red line: Developing Countries

Years: 2013 to 2022

Values: 3,000 to 4,000 kg
Global Demand for Agricultural Imports
Source: OECD and FAO Secretariats

Annual Imports of Pigmeat (kt)

- OECD
- Developing Countries
Economic Conditions in Nebraska
Golden Triangle

Figure 1.1
Economic Conditions in Nebraska
Able to Adapt Well To Climate Change?
## Economic Conditions in Nebraska
### Nebraska Farm Income and Farmland Prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Farm Income</th>
<th>Average Value of Farm Land Per Acre</th>
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</thead>
<tbody>
<tr>
<td>2009</td>
<td>$3.1 billion</td>
<td>$1,340</td>
</tr>
<tr>
<td>2010</td>
<td>$3.8 billion</td>
<td>$1,520</td>
</tr>
<tr>
<td>2011</td>
<td>$7.7 billion</td>
<td>$1,940</td>
</tr>
<tr>
<td>2012</td>
<td>$5.8 billion</td>
<td>$2,590</td>
</tr>
<tr>
<td>2013</td>
<td>$6.7 billion</td>
<td>$3,050</td>
</tr>
<tr>
<td>2014</td>
<td>$5.8 billion</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$5.6 billion</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$5.5 billion</td>
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</table>

Sources: USDA and UNL Department of Agricultural Economics
Housing Market Performance and Affordability

Homes sold in Nebraska
  Statewide trends

Housing affordability index
  Definition
  Statewide trends
  Local trends
Housing Market Performance and Affordability
Trends in Homes Sold in Nebraska

Source: Nebraska Realtors Association
A housing affordability index is one good way to capture conditions in housing market.

A housing affordability index reflects:
- The median price of homes
- Prevailing interest rates
- Median income
Housing Market Performance and Affordability

Housing Affordability Index

A housing affordability index takes a value of 100 when:

- a median income family can afford to make monthly mortgage payments for a median price home with 25% of their income, assuming a 20% down payment
- a 30-year fixed rate mortgage
Housing Market Performance and Affordability

Housing Affordability Index

Nebraska housing is affordable since:
1) incomes are slightly above-median but
2) homes are relatively inexpensive

2013 Median Family Income
(Source: U.S. Census)

<table>
<thead>
<tr>
<th></th>
<th>Nebraska</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$64,550</td>
<td>$63,623</td>
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</table>

2013 Median Sale Price
(Source: Nebraska Realtors Association, National Realtors Association)

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<thead>
<tr>
<th></th>
<th>Nebraska</th>
<th>U.S.</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>$135,000</td>
<td>$197,400</td>
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</table>
Housing Market Performance and Affordability
Housing Affordability Index 2010-2013

- Nebraska HAI
- U.S. HAI
Housing Market Performance and Affordability
Housing Affordability Index Nebraska Localities June 2014

HAI June 2014

- Dakota County: 272
- Grand Island: 236
- Hastings: 330
- Lincoln County: 270
- Norfolk: 307
- Omaha Area: 235
- Lincoln/Midlands: 248
- Scotts Bluff County: 240
- Tri-County: 402
- United States: 151
Housing remains affordable due to
  low interest rates
  solid and growing family income
  moderate housing prices

A relatively supportive environment for residential real estate in Nebraska in the coming years
  high housing affordability
  some population growth
THANK YOU

Any Questions?