

## In Focus

May 2006

### **In Focus: PIMCO's "Housing Project" Tracks the Real Estate Market**

The strong housing market has been one of the primary drivers of the U.S. economy for the last several years, influencing financial markets in the process. Predicting the future path of housing prices is challenging but critically important when trying to forecast consumer spending, predict Federal Reserve policy and manage fixed income portfolios.

In 2005, PIMCO addressed the challenge of forecasting the future path of the housing market by engaging our 11-person team of mortgage experts in a special research project, dubbed simply "The Housing Project". Our research focuses on three primary areas: 1) gathering local housing market data and insights through "ride-alongs" with real estate and mortgage brokers in 20 different cities, 2) analyzing high frequency economic and housing data, and 3) tracking mortgage lending trends and market data for changes in the market's posture on mortgage lending and credit risk.

In this article, we describe the Housing Project's methodology, including the key indicators the team looks at and the group of experts conducting the research. For the Housing Project's latest findings, or background on the housing boom and its role in the economy, see ["In Focus: The Outlook for Housing"](#) on [www.pimco.com](http://www.pimco.com).

#### **Ride-Alongs: Hitting the Streets to Gather Local Data in Key Markets**

Data on the housing market arrives on a lagged basis, anywhere from one month to four months after the fact. To get better real time information from key markets, we sent members of the Housing Project research team to 20 U.S. cities. In each of these key markets, we looked at properties for sale and developed relationships with real estate brokers, appraisers, and mortgage brokers.

Each month, we call our contacts on the ground to determine changes in housing prices, the number of days houses are staying on the market, trends in sales volume and buyer traffic, and the use of products that make monthly mortgage payments more affordable (see below for more on these products). Maintaining contact with industry professionals helps our team of analysts bridge the gap in housing data between real-time market changes and lagged reports.

#### **High Frequency Economic and Housing Data**

In addition to the real-time data we gather from our network of realtor/broker contacts, the Housing Project also collects and analyzes the timeliest public data available on the economy and housing market (known as "high frequency" data). While we look at many of the same "high frequency" data that other industry analysts monitor, we have focused on two specific goals: understanding the seasonal factors that influence data and identifying the key data that lead consumer behavior.

#### **Mortgage Lending: Critical Barometers of the Housing Market**

The finance industry contributed significantly to the growth in home prices over the last three years, particularly in expensive areas. Mortgage lenders have been able to offer new types of mortgages that made home prices more affordable, such as interest-only

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loans and negatively amortizing loans (loans that get bigger as time goes by). These loans are then packaged as securities and sold to institutional investors willing to accept the credit risk in exchange for higher return potential.

Future price growth will largely depend on institutional investors' continued appetite for credit risk and mortgage lenders' ability to continue offering these affordability products. Every week, we analyze a wide range of prices, rates and volumes for indications of changes in demand for credit risk or mortgage lending. For example, we track data on consumer creditworthiness and demand for adjustable-rate and exotic mortgages. We also track bond spreads at various rating levels, international demand for mortgage-related securities, home equity loan issuance data and a wide range of additional, proprietary indicators.

### **PIMCO's Housing Project Research Team**

Conducting thorough and frequent analysis of the wide range of factors influencing the outlook for housing requires expertise as well as resources. PIMCO is well positioned for this task, with in-house experts on the mortgage-backed securities market, the ABS and CDO market, economic analysis and credit analysis, as well as the resources to send our experts into the field to establish local contacts and conduct ground-level research. Members of the Housing Project include:

- **Scott Simon**, a Managing Director and PIMCO's mortgage guru, leads the Housing Project research team. Mr. Simon has 22 years investment experience and has been named seven times to positions on the *Institutional Investor* All-America Fixed-Income Research Team, including first place honors in MBS pass-throughs and overall MBS strategies.
- **Dan Ivascyn** is a portfolio manager with PIMCO's mortgage and ABS team. He has 14 years of investment experience and an MBA in analytic finance from the University of Chicago Graduate School of Business.
- **Josh Anderson** is a portfolio manager in our ABS/MBS group who also manages the ABS research team. He has 10 years of investment experience and holds an MBA in both accounting and finance from the State University of New York, Buffalo and the CPA certification. In addition, he is a CFA charterholder and Series 7, 63 and 65 certified.
- **Saumil Parikh** is a portfolio manager in our MBS team. He has seven years of investment experience graduated Phi Beta Kappa with bachelor's degrees in Economics and Biology from Grinnell College, and is a CFA charterholder.
- **Alfred Murata** is a Vice President, portfolio manager and a member of PIMCO's mortgage team. He joined PIMCO in 2001. Previously, Mr. Murata was associated with Nikko Financial Technologies, where he researched and implemented algorithms to price exotic equity and interest rate derivatives. He is a Ph.D. candidate in engineering-economic systems and operations research at Stanford University, and a J.D. candidate at Stanford Law School. Mr. Murata holds a bachelor's degree in computer science from McGill University and a master's degree in engineering-economic systems and operations research from Stanford University. Mr. Murata has completed the Level I, II and III exams in the CFA program.

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- **Giang Bui** is a member of our ABS team, providing credit research, trade ideas and back-end surveillance of sector-specific ABS assets. She holds a bachelor's degree in Management Science and Bio-Engineering from the University of California, San Diego.
- **Rosa Yi, CFA**, is a member of our ABS/MBS group with six years of investment experience. She focuses primarily on credit research across various ABS sectors and obtained her bachelor's degree in economics from the University of California at Berkeley.
- **Stefanie Evans** is a mortgage credit analyst. She has twelve years of investment experience and holds a bachelor's degree with a concentration in finance from the California State University, Long Beach.
- **Alfonso Portillo** is a Vice President and a mortgage- and asset-backed specialist in our structured products group. He rejoined PIMCO in 2001 after working as a corporate trader on the High Grade desk of Payden and Rygel. Prior to that he was senior portfolio associate on the PIMCO mortgage hub. He has ten years of investment experience, holds a bachelor's degree in Finance and Economics from the University of Southern California and masters in business degrees from Columbia University and the University of California at Berkeley.
- **Hansford Warner** is a CDO structure analyst and ABS specialist with our ABS/MBS group. He joined the firm in 2001, having previously been associated with Jennison Associates, LLC in New York. He has seven years of investment experience, holds a bachelor's degree in Finance from the University of Connecticut, and is a CFA charterholder.
- **Jennifer Bridwell** is PIMCO's product manager for ABS/MBS and has 17 years of experience in mortgage finance, including positions at Fannie Mae and Freddie Mac. She holds bachelors degrees in economics with finance concentration as well as Russian area studies from Southern Methodist University.

### Conclusion

The housing sector has contributed significantly to U.S. economic growth in recent years, perhaps more than ever before. Because of the role housing has played in the economy, a slowdown in home price appreciation could have a significant impact on bonds and other asset classes. PIMCO, in an effort to pinpoint the timing and severity of a potential turn in the housing market, has dedicated the firm's full resources and a team of mortgage experts to analyzing the outlook for housing. For regular updates on the team's findings and PIMCO's latest outlook for the housing market, see [www.pimco.com](http://www.pimco.com).

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