



HOUSING OPPORTUNITY CONFERENCE

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The State of U.S. Housing Markets

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MARCH 28, 2023

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State of US housing markets



Ali Wolf

Chief Economist

Tracking the entire building lifecycle

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- 500+ housing and economic metrics
- Satellite imagery, sales office visits, in-house research department, surveys, and driving communities
- Curated and insightful market analysis



Steven Hensley
Senior Manager, Phoenix

Analytics Report
Skylar at Millenia
Masterplan: Millenia at Otay Ranch

COMPETITIVE MARKET (CM)

MAP KEY	PROJECT NAME	BUILDER	CITY	MILES ↑	UNIT SIZE	AVG. PRICE	SALES RATE	LOT SIZE/TYPE
1	Skylar at Millenia	KB Home	Chula Vista	-	2,602 - 2,659	\$608,490	3.96	3,250
2	Cambria	Cornerstone C...	Chula Vista	1.61	2,691 - 3,063	\$682,990	0.63	4,250
3	Monte Villa	Pacific Coast C...	Chula Vista	1.73	2,594 - 3,016	\$600,233	2.19	3,053
4	Aventine	Cornerstone C...	Chula Vista	1.80	2,014 - 2,438	\$560,323	1.84	2,975
5	Indigo at Escaya	CalAtlantic H...	Chula Vista	2.49	1,950 - 2,165	\$555,567	3.44	2,940
6	Prado at Escaya	Brookfield Res...	Chula Vista	2.53	2,289 - 2,569	\$625,673	2.94	3,120
7	Sierra at Escaya	Shea Homes	Chula Vista	2.55	1,833 - 2,179	\$538,043	3.74	2,900
8	Seville at Escaya	Shea Homes	Chula Vista	2.57	2,498 - 2,949	\$652,710	3.08	3,600
9	Valencia at Escaya	CalAtlantic H...	Chula Vista					
10	Castellena at Escaya	CalAtlantic H...	Chula Vista					

Averages:

Lakewood Shades
Gaithersburg, MD
Built by: Stanley Martin Homes

Price Updates
Rosemont by K. Hovenanian
Lotus increased by \$7,000 • Peony dropped by \$3,000.
1 Day Ago

Competitive Market Updates

Today's Agenda

1. Economic backdrop
2. Housing trends
3. Buyer considerations
4. Forecasts and final thoughts

Economic backdrop

Three of the five general functions of the Fed are in question

1. conducts the nation's monetary policy to **promote maximum employment, stable prices**, and moderate long-term interest rates in the U.S. economy
2. promotes the **stability of the financial system and seeks to minimize and contain systemic risks** through active monitoring and engagement in the U.S. and abroad
3. promotes the safety and soundness of individual financial institutions and **monitors their impact on the financial system as a whole**

Let's start with the economy leading up to SVB...

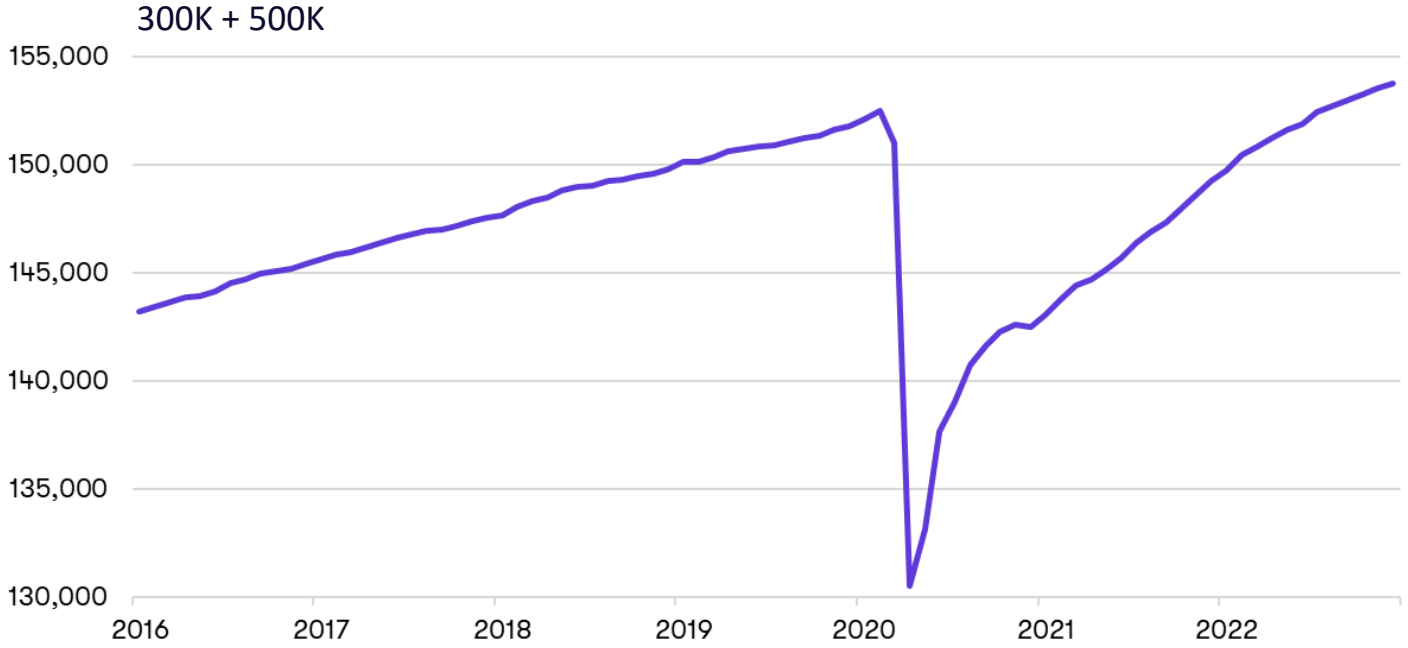
The US economy keeps rolling

Unemployment Rate

Metro	2019	Current
Las Vegas	3.9%	5.6%
Los Angeles/OC	4.0%	4.3%
Philadelphia	4.2%	3.9%
Tucson	4.6%	3.8%
Charlotte	3.5%	3.7%
Phoenix	4.2%	3.5%
Dallas	3.1%	3.5%
Seattle	3.0%	3.4%
Raleigh	3.3%	3.3%
Denver	2.5%	3.2%
Austin	2.6%	3.0%
Nashville	2.7%	2.9%
Atlanta	3.3%	2.9%
San Francisco	2.7%	2.8%
Orlando	2.9%	2.7%
Tampa	3.0%	2.5%
Jacksonville	2.9%	2.4%
Salt Lake City	2.4%	2.2%

Source: BLS; Zonda

Nonfarm Payrolls (Thousands)



Source: Bureau of Labor Statistics; Zonda

Inflation data is still running hot

PCE and CPI

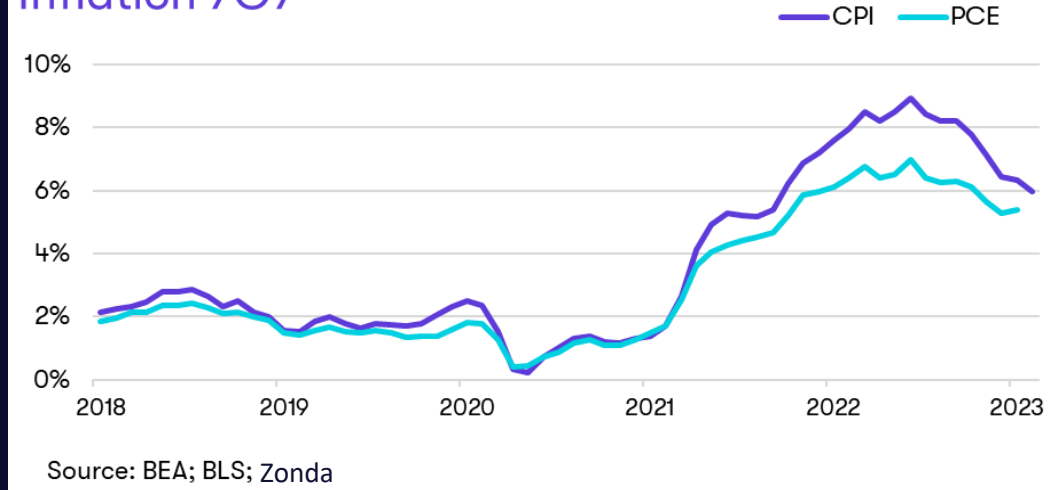
Personal Consumption Expenditure (the Fed's preferred measure that accounts for the substitution effect): +0.6% MOM and +5.4% YOY

Consumer Price Index: +0.4% MOM and +6.0% YOY

The index for shelter was the largest contributor to the monthly all items increase, accounting for over 70 percent of the increase, with the indexes for food, recreation, and household furnishings and operations also contributing. The food index increased 0.4 percent over the month with the food at home index rising 0.3 percent. The energy index decreased 0.6 percent over the month as the natural gas and fuel oil indexes both declined.

“Super core” inflation (services minus energy and housing): +~4%

Inflation YOY



An anticipation of 50 bps later this month...

“The latest economic data have come in stronger than expected, which suggests that the ultimate level of interest rates is likely to be higher than previously anticipated”

Jay Powell to lawmakers



Date	Increase	Decrease	Level (%)
March 23	25	0	4.75-5.00
February 2	25	0	4.50-4.75

Date	Increase	Decrease	Level (%)
December 15	50	0	4.25-4.50
November 3	75	0	3.75-4.00
September 22	75	0	3.00-3.25
July 28	75	0	2.25-2.50
June 16	75	0	1.50-1.75
May 5	50	0	0.75-1.00
March 17	25	0	0.25-0.50

Three hikes to get us back to pre-pandemic 2020 levels

Four to get us back to early-2019 levels

Four normalizing, five restrictive

And then this happened

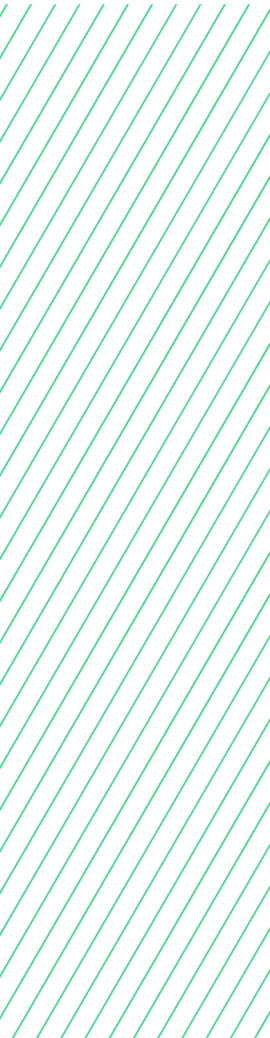
***we are not banking experts and this is a simplified version of what happened



- Had cash from the success of start ups over the past few years and wanted to invest those deposits
- Invested in long duration bonds for a modest but 'safe' return (little diversification though)
- When Fed started raising rates, that impacted the value of the investments
- Their bonds were worth less (inverse relationship between bond price and yield) as new bonds paid more in interest. "Unrealized losses"

- Silicon Valley Bank – 16th largest bank in the U.S.
- Second-largest bank failure in U.S. history (WaMu in 2008) as they failed to raise capital and were forced to sell bonds during a bank run
- Focused on start ups and their investors

- Could've been fine but bank clients started to ask for their money as startup funding was drying up and there was nervousness around the bank. Classic run on banks
- To pay the clients, SVB had to sell investments at just about the wrong time (\$2 billion loss from forced selling)
- Ultimately led to the bank failure



It's not worth the risk of not knowing for sure. Plus need to restore confidence. So:

Federal Reserve, Treasury, and FDIC designated SVB and Signature Bank as a systemic risk to the financial system, which gives regulators flexibility to guarantee uninsured deposits. All depositors (not investors) were made whole even on uninsured funds.

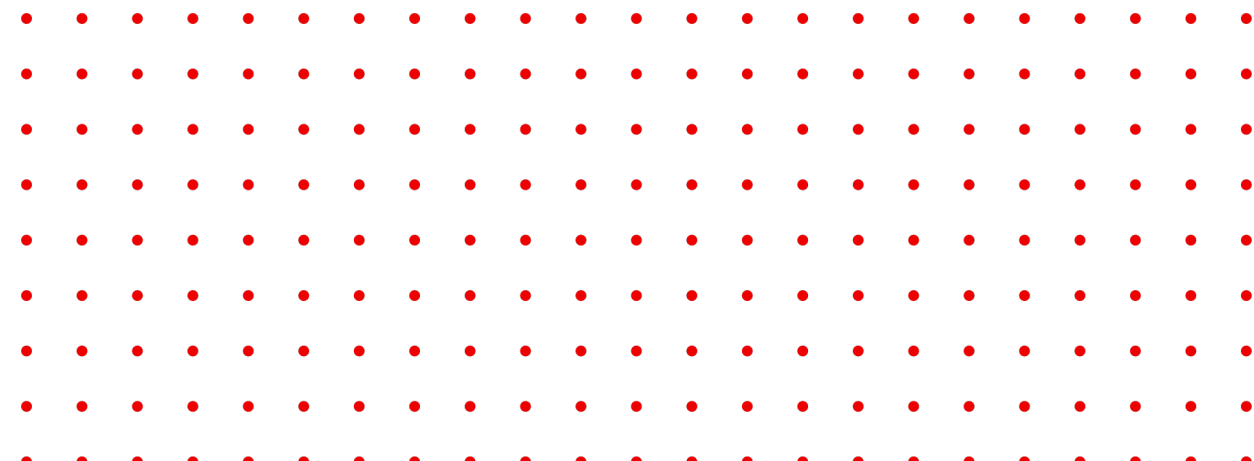
Fed added they are "closely monitoring conditions across the financial system and is prepared to use its full range of tools to support households and businesses, and will take additional steps as appropriate."

Systemic or idiosyncratic?

Idiosyncratic reasons (e.g. clients from the slowing tech sector, Twitter and whatsapp conversations altering confidence, and little diversification of their portfolio) + higher interest rates (market wide)

- 10-year *should have* risen in response to jobs report and 50 bps hike would've been almost guaranteed.
- 10-year dropped in response to SVB and the broader risks to the economy. The Fed raised rates 25 bps suggesting inflation is still issue #1.

Rates were flirting with 7% but now back down on SVB



Current housing trends

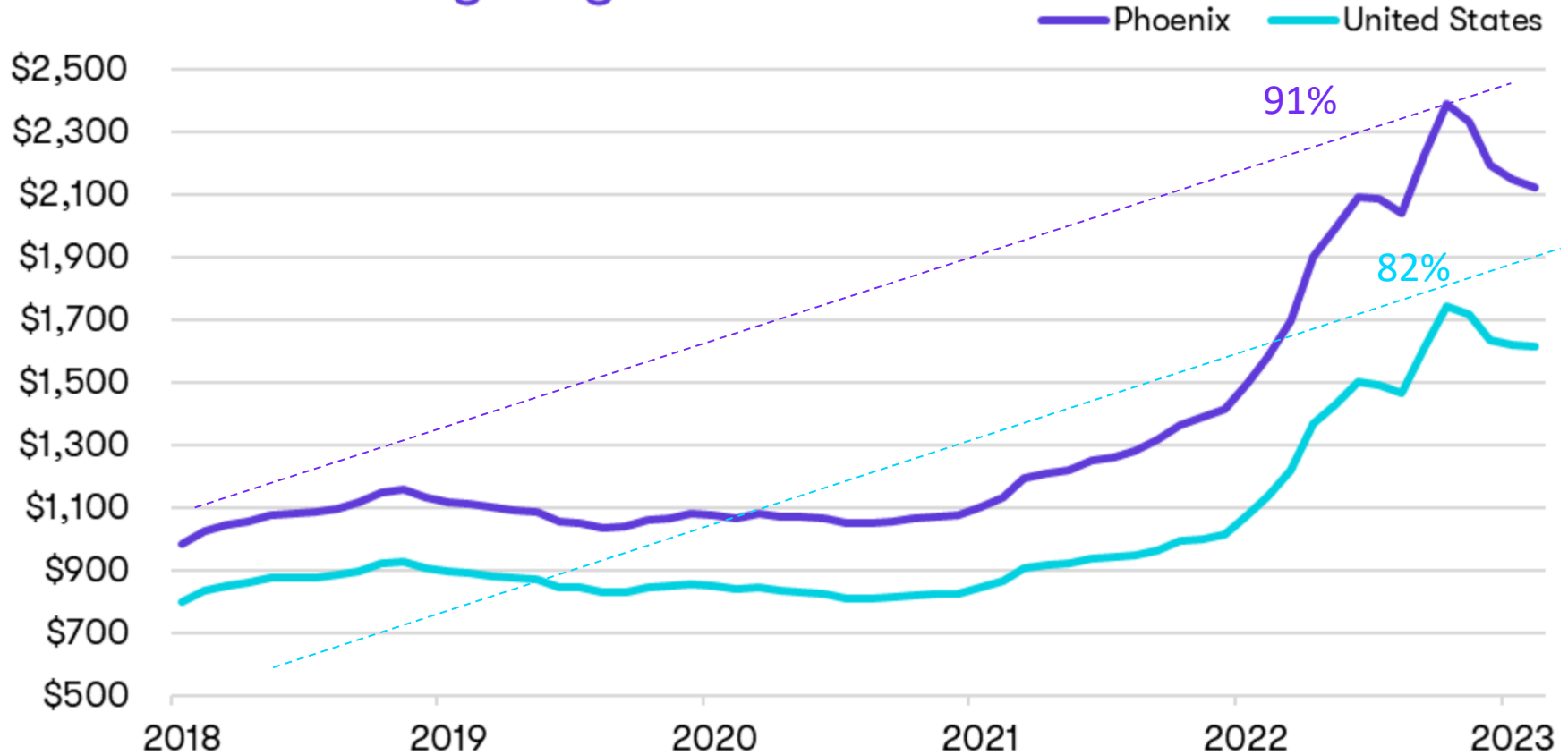
Affordability challenges aren't as bad as they were, but...

Median Monthly Payment

New home affordability ratio

National
Jan 2023: 28.8%
Jan 2019: 50.5%

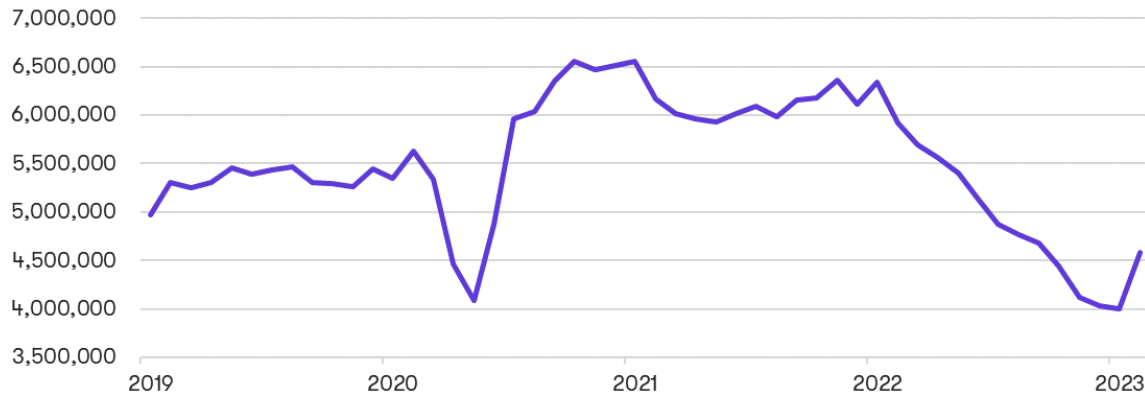
Phoenix
Jan 2023: 17.6%
Jan 2019: 49.2%



Source: Zillow; Freddie Mac; Zonda Assumes a 6.3% interest rate as current

In March, ~30% of builders said sales were better than Feb, ~50% said flat, and ~20% said sales were down

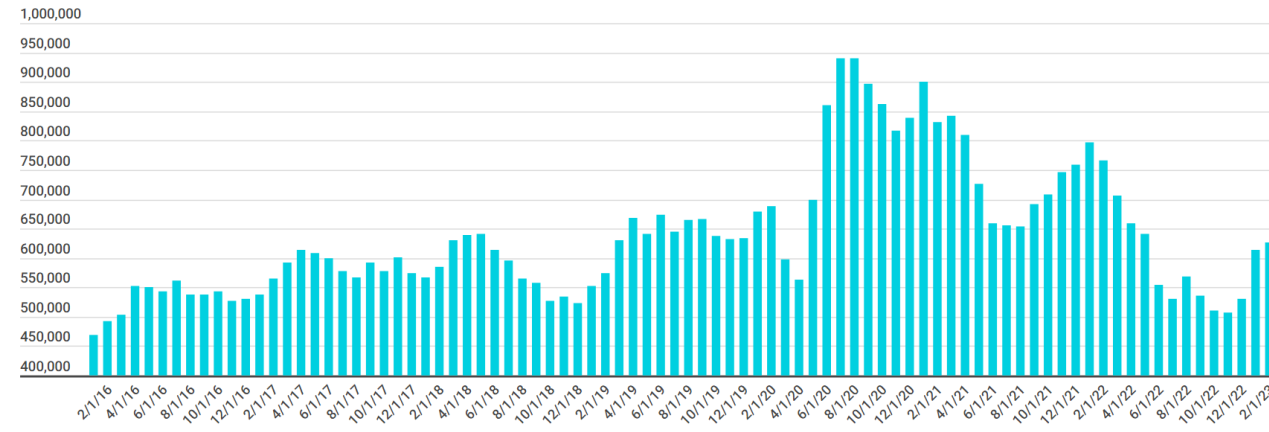
Total Existing Home Sales (SAAR)



Source: NAR; Zonda

+14.5% MOM, -22.6% YOY

New Home Sales (SAAR)

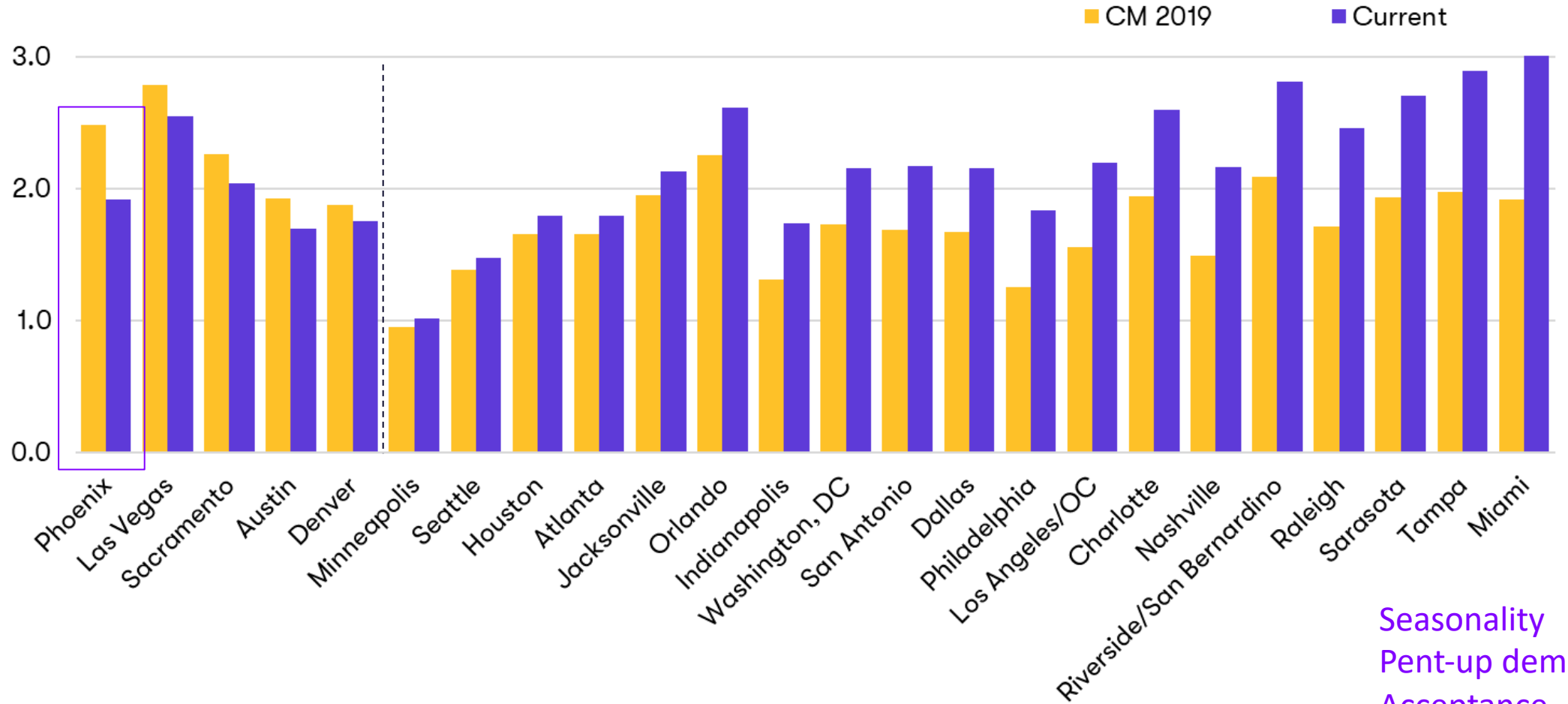


Source: Zonda

+2.2% MOM, -18.3% YOY

SSS is starting stronger than expected

Average Sales Rate



Source: Zonda

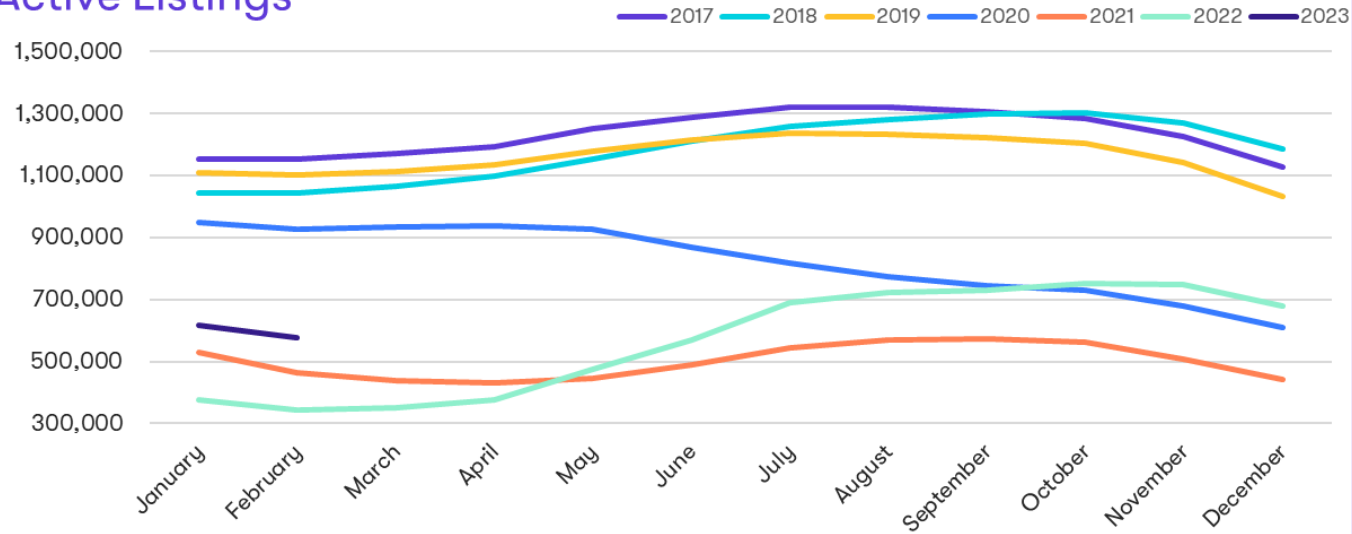
Seasonality
 Pent-up demand
 Acceptance
 Deals

Different sales environment compared to a few months ago

Housing supply remains tight as sellers consider options

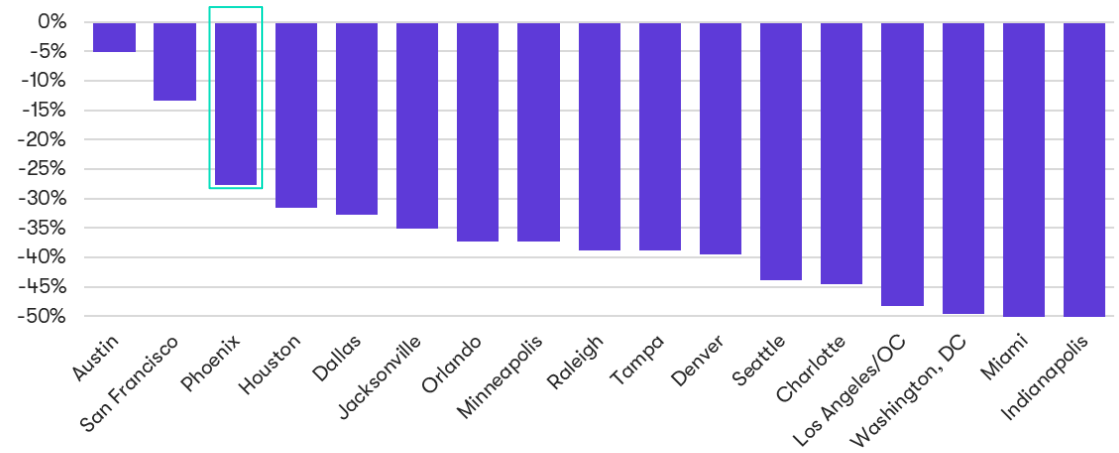
Don't want to reset current mortgage rates, decide to remodel, turn into a rental, etc.

Active Listings



Source: Realtor; Zonda

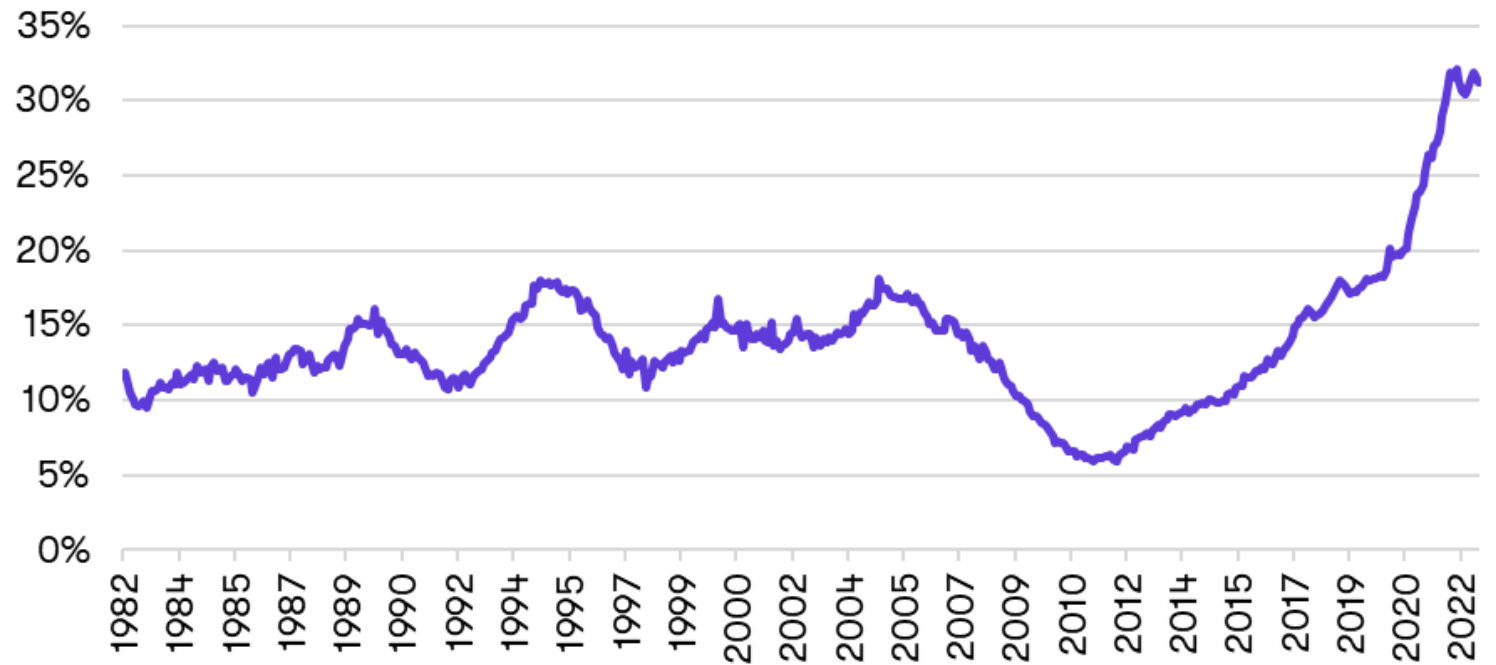
Active Listing Count Change from 2019



Source: Realtor.com; Zonda

Builders are benefitting from people staying put

New Home Share of Inventory

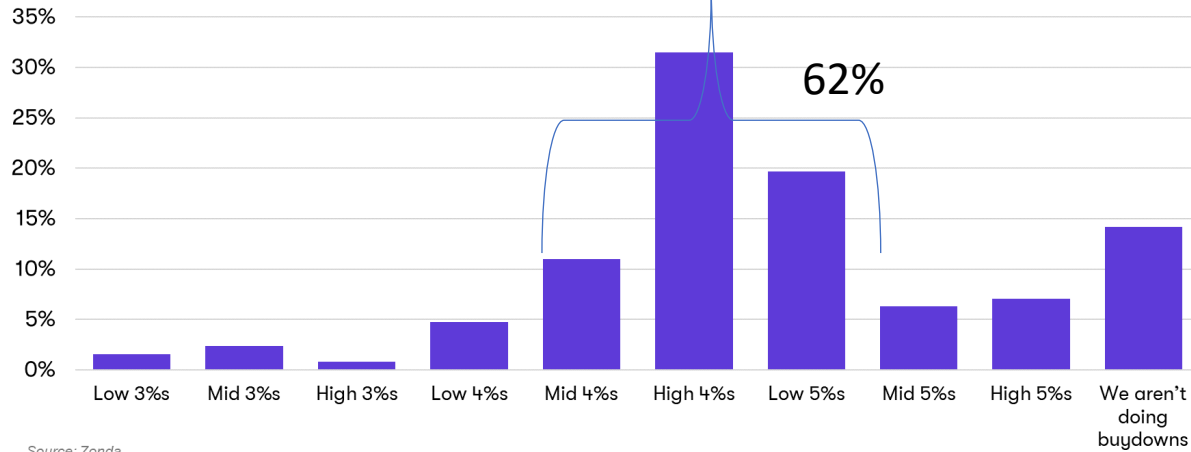


Source: NAR; US Census Bureau; Zonda

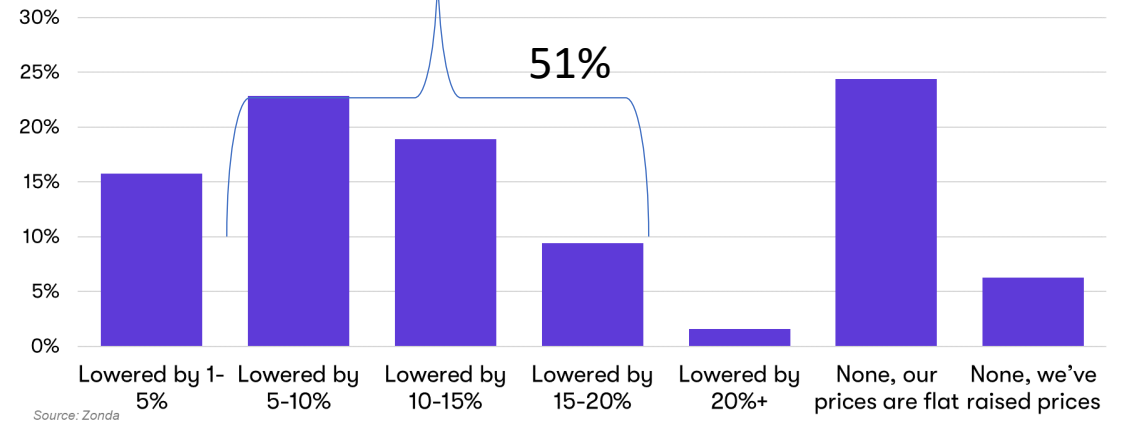
Price discovery is well underway

Incentives and price cuts

What rate are you willing to pay for and able to get with fixed rate buydowns?



On average, how much would you estimate you've lowered prices so far?



Helps people overcome FOBATT

But how sustainable is this?

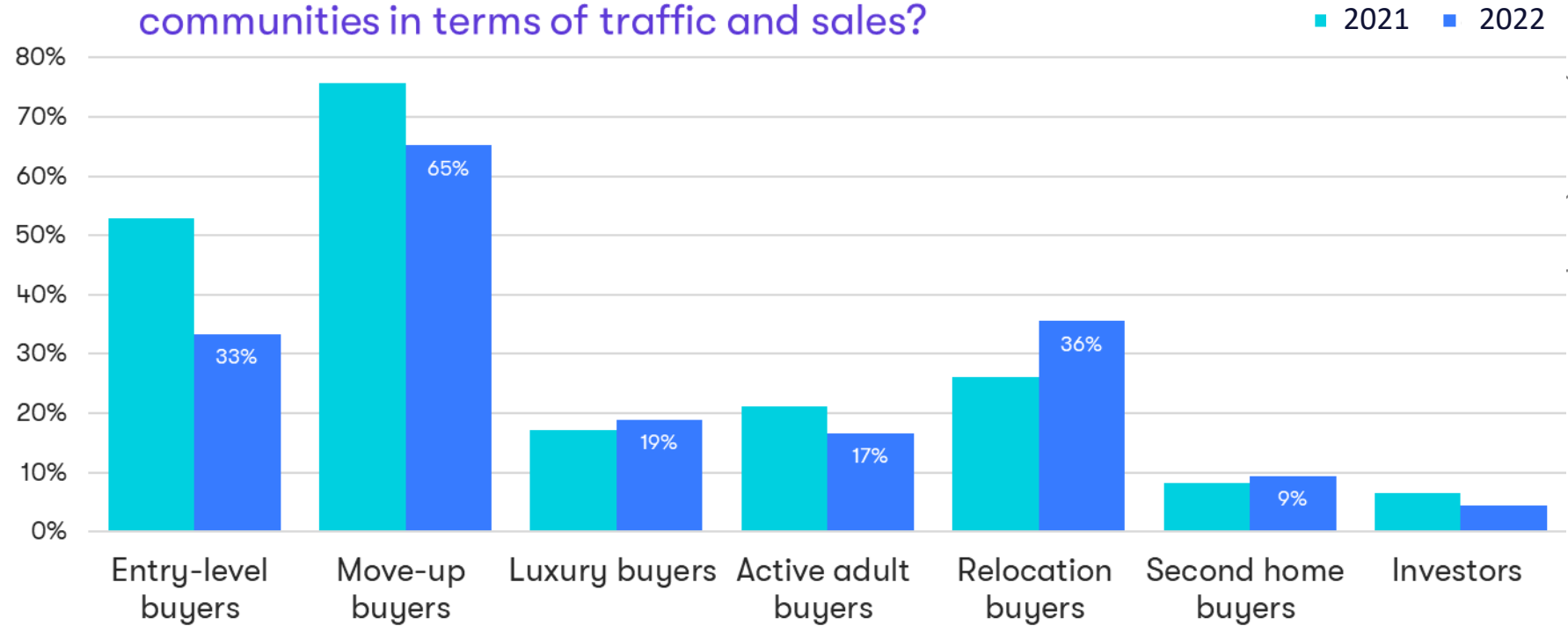
Buyer considerations

Need to think about longer term viability

Not everyone can rely on:

- Cashing in on stocks
- Home equity
- Bank of mom and dad
- Relative affordability of moving from a higher cost market to lower
- Etc.

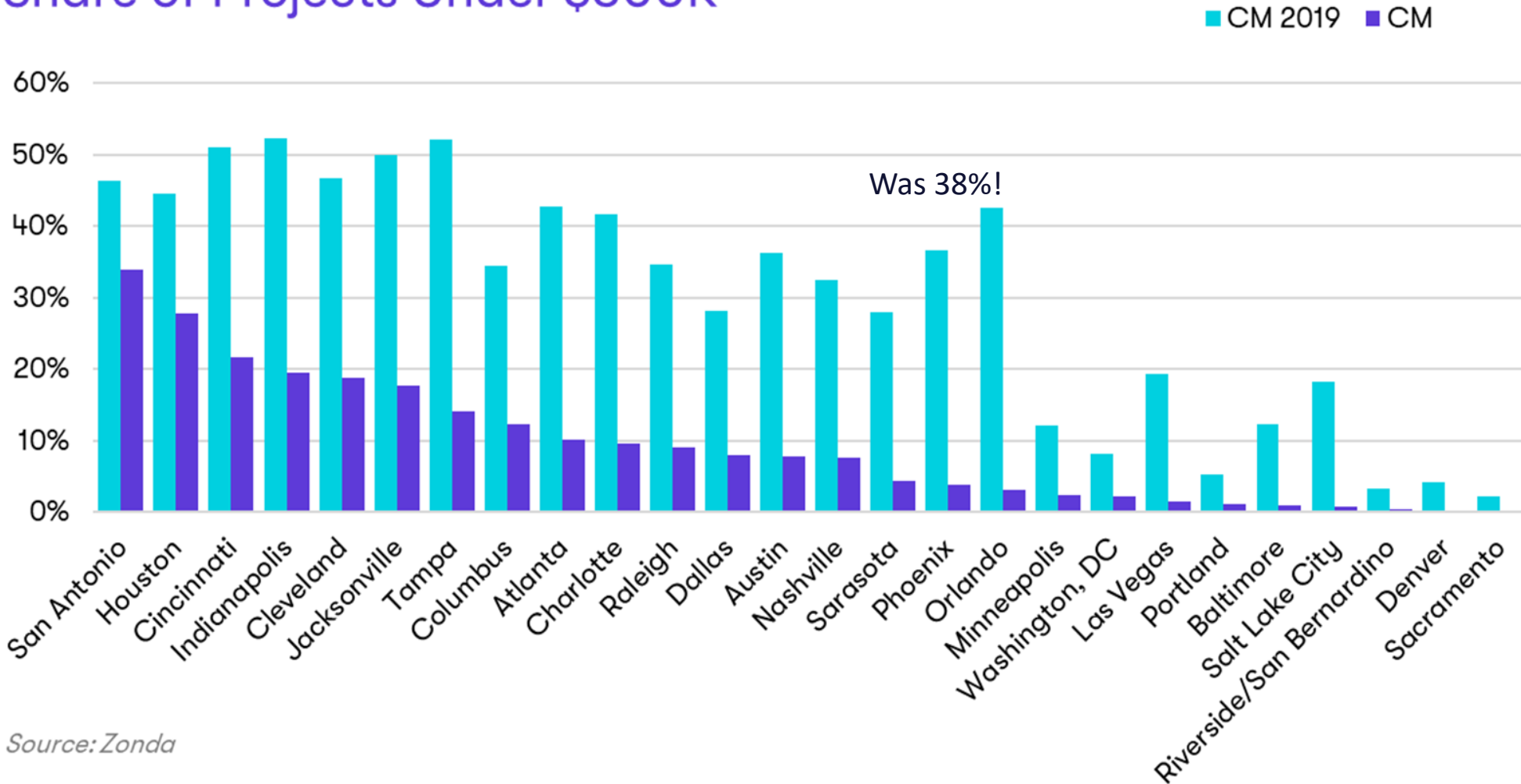
Which of the following are currently most active at your communities in terms of traffic and sales?



Source: Zonda

The market isn't easy to navigate for many shoppers

Share of Projects Under \$300K



Source: Zonda

What can be done for: entry-level, lower income, and local buyers?

Need changes to some combination of the factors below to help with home prices and affordability

What builders can't necessarily control:

- Lower land prices
- Lower material costs
- Lower regulation fees
- Lower labor costs

What is largely within the control of builders

- Size
- Finishes
- Options
- Location
- Other product changes





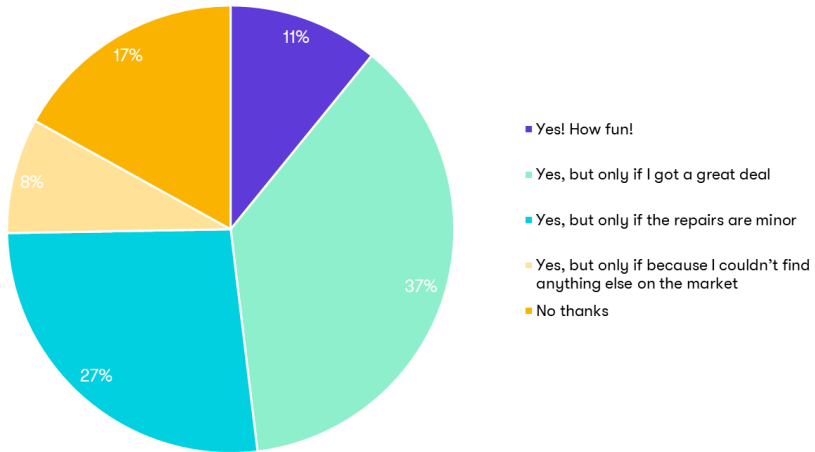
Alternative building processes

- Container homes
- Mobile homes
- Modular housing
- Manufactured housing
- 3D printed homes



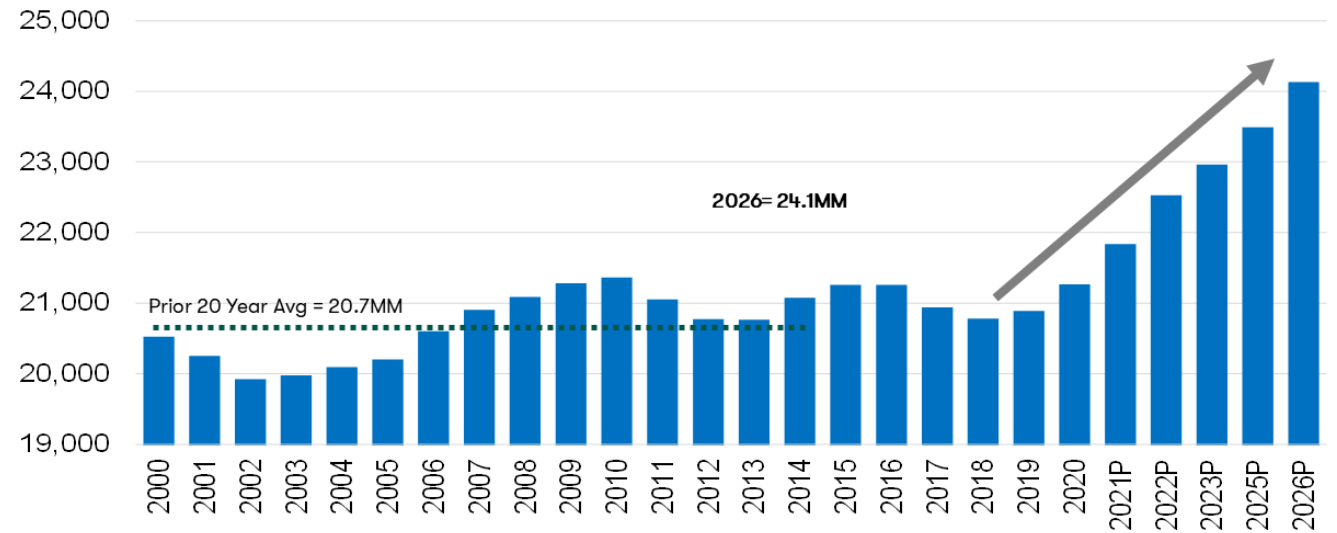
New homes are nearly 30%+ more expensive than resales today

For your first (or next) home, would you be willing to buy a home that needed renovations?



Source: Zonda

Single Family Homes in 'Prime Remodel Years'
(Between 20-39 Yrs Old) - '000's of Units

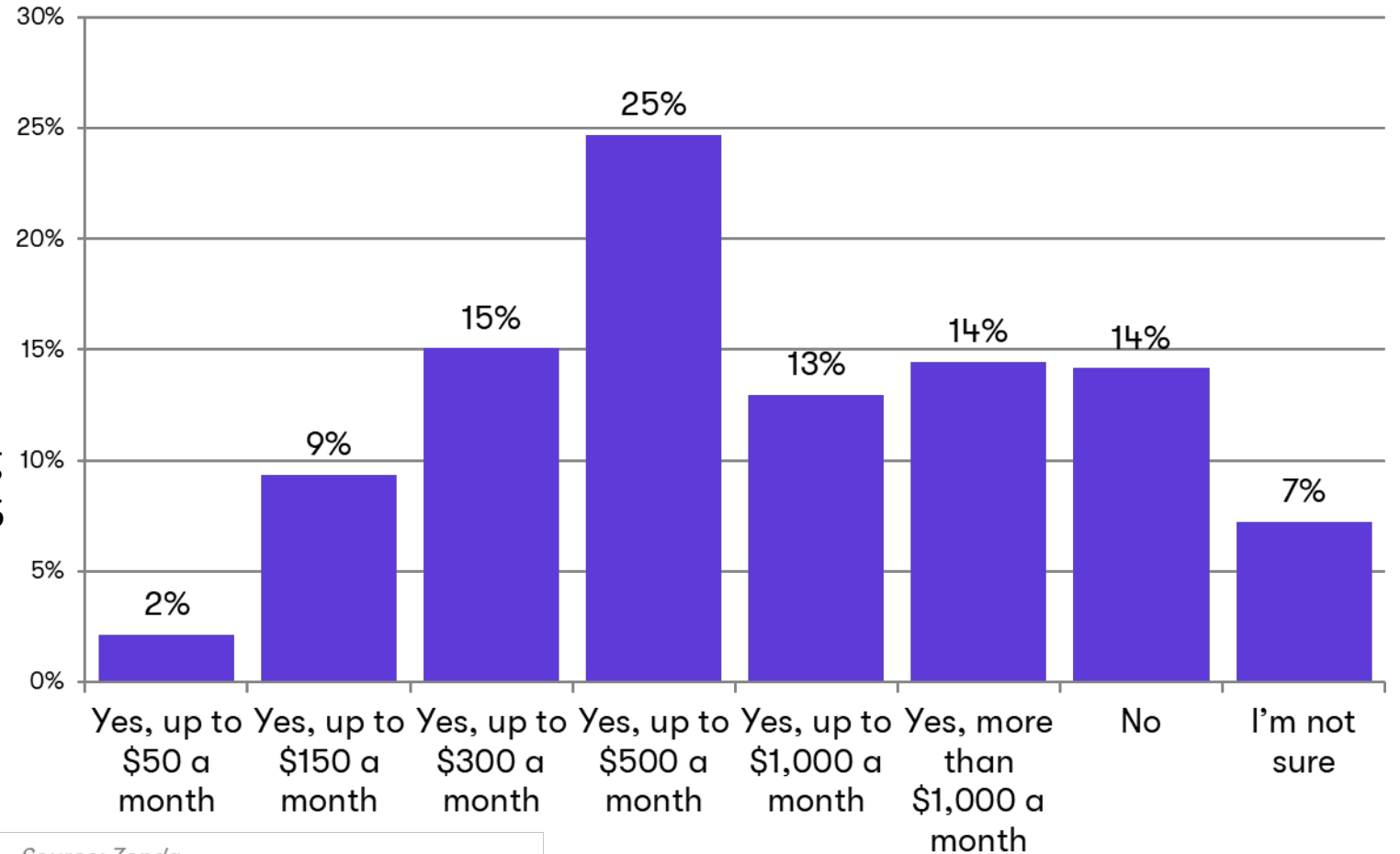


Todd Tomalak, Zonda's remodeling expert

Turn to rental?

ATTOM data shows the average three-bedroom rent is more affordable than owning a comparably sized median-priced home in 95 percent of the U.S. counties analyzed.

Would you be willing to pay more per month for a mortgage payment than your current monthly rent? If yes, how much?



Source: Zonda

We don't believe rental is totally recession proof though...

Willing versus able

Forecasts and final thoughts

Is housing
back for good
this cycle?

We are watching:

- Fed policy (error?)
- Consumer spending (70%)
- The office market (WFH) most closely

Starts down on slower sales

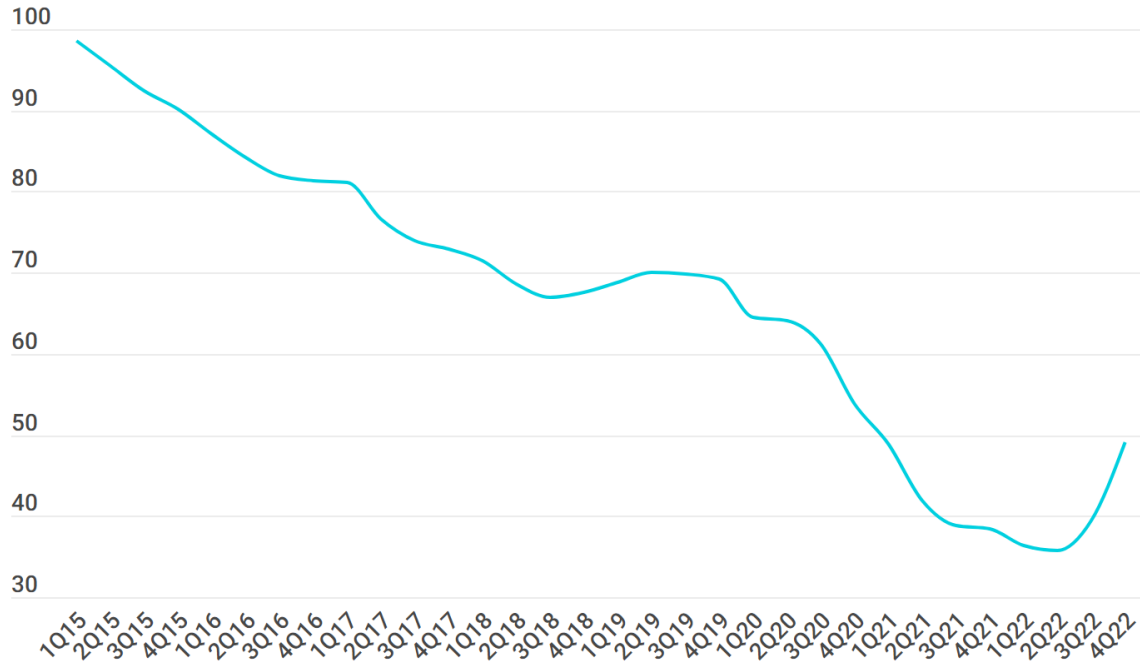
Top Markets by Housing Starts (4Q2022)

Rank	Market	Annual Starts	Annual Change	%
1	Dallas/ Ft.Worth	45,958	-8,525	-16%
2	Houston	37,797	-3,721	-9%
3	Central Florida	37,698	-116	0%
4	Phoenix/ Tucson	29,060	-5,468	-16%
5	Atlanta	22,581	-7,570	-25%
6	Austin	22,299	-4,692	-17%
7	San Antonio	19,165	-1,859	-9%
8	Denver/ Colorado Springs	17,963	-6,512	-27%
9	Southern California	17,857	-3,366	-16%
10	Salt Lake City	14,833	-3,407	-19%
11	Tampa	13,330	-2,778	-17%
12	Sarasota/ Bradenton	13,325	1,169	10%
13	Raleigh/ Durham	13,208	-2,311	-15%
14	Charlotte	12,755	-2,270	-15%
15	Northern California	12,348	-4,343	-26%
16	Philadelphia Region	12,207	-1,620	-12%
17	Jacksonville	11,527	-1,711	-13%
18	Las Vegas	11,035	-3,308	-23%
19	South Florida	10,779	-2,654	-20%
20	Central California	10,211	-3,605	-26%
21	Nashville	9,396	-2,028	-18%
22	Suburban Maryland	9,377	-1,958	-17%
23	Northern Virginia	8,466	-965	-10%
24	Seattle	7,938	-1,508	-16%
25	Twin Cities	7,929	-2,729	-26%

Source: Zonda

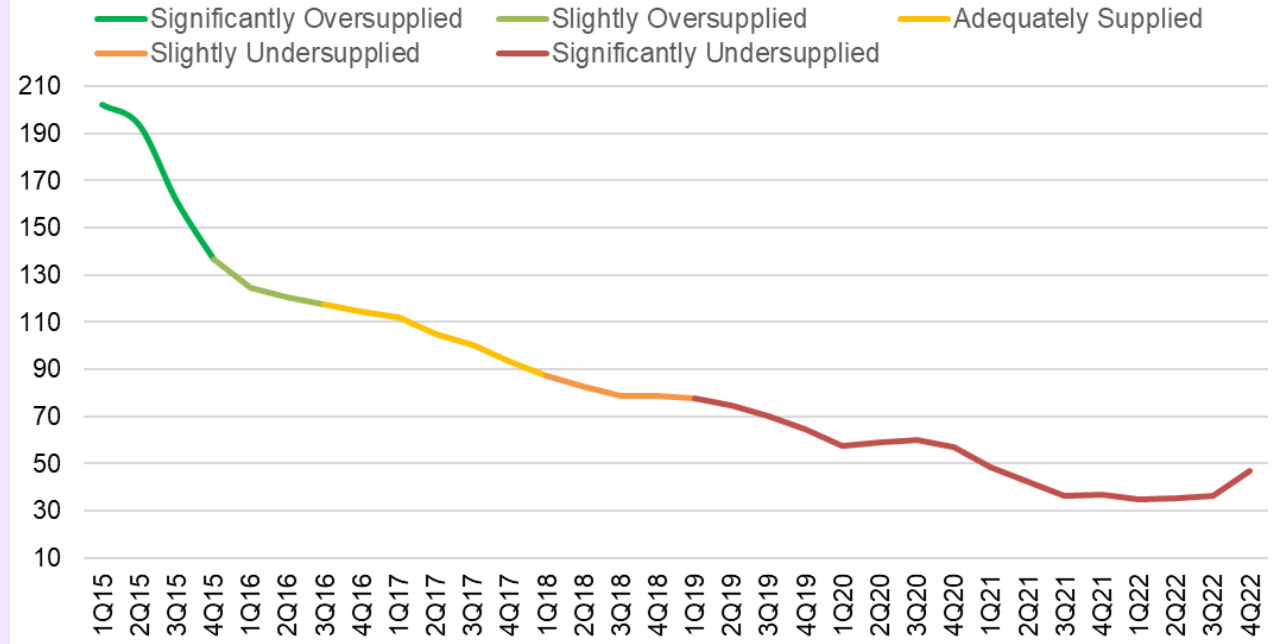
As starts and sales slow, *some* health is returning to the market

New Home Lot Supply Index



Source: Zonda; Data as of 4Q22

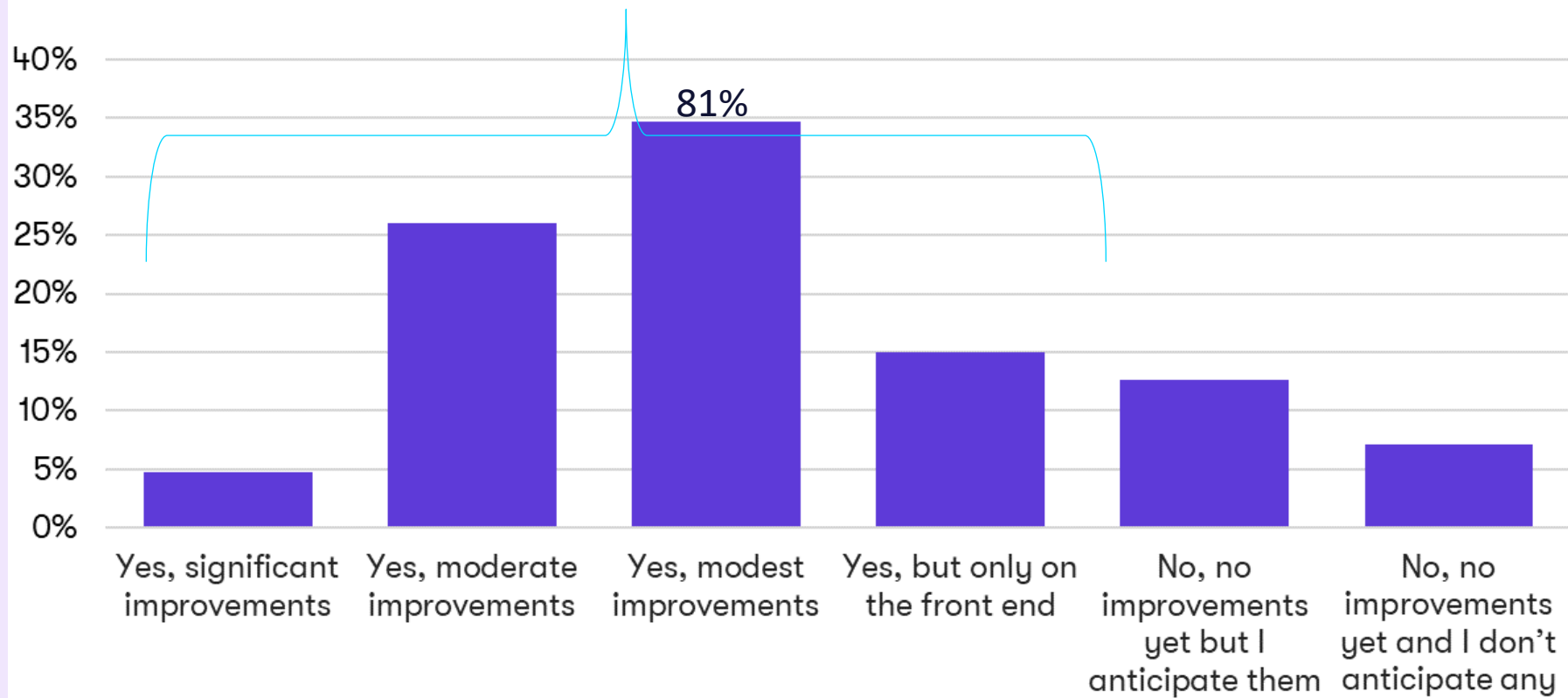
New Home LSI - Phoenix



Source: Zonda

Different between front-end and back-end trades

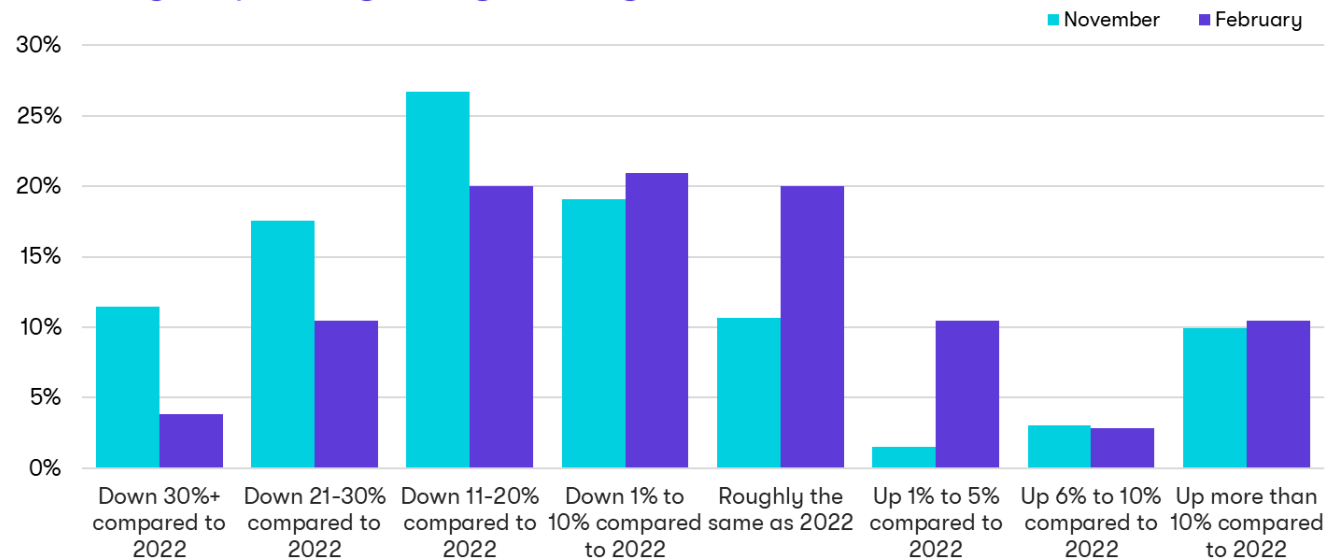
Have you seen any improvements in building material costs?



Source: Zonda

Re-aligning starts and sales works both directions

What is your plan regarding housing starts in 2023?



Source: Zonda

55% of builders now expect starts down this year. It was 75% in November.

Roughly a third of builders are concerned about tightening credit conditions following the collapse of SVB

Forecast considerations

Are we too negative?

- Market is showing more signs of life for this year than originally thought
- Housing slows quicker than the rest of the economy and we are already at nearly 9 months of a slowdown
- Recession is avoided, preventing any vicious cycle

Our base case model shows 1.205M total housing starts in 2023, -22% YOY

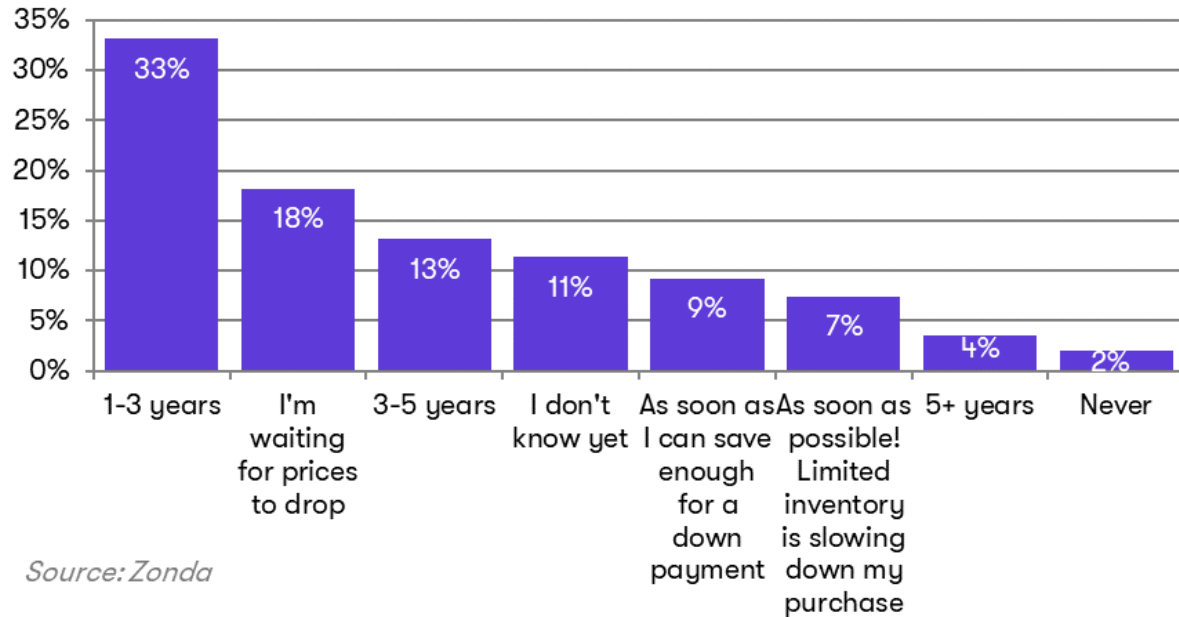
785 SF | 410 MF (we've heard from experts this could end the year at half and we will adjust down in our next forecast revision)

Are we too positive?

- Starts normally fall 50% in a recession
- Our drop in MF leaves us well above historical levels
- Some of the top SF production markets are the ones where sales have pulled back the most
- What if recession is not actually mild and short?
- Inflation doesn't slow further
- Affordability challenges persist and sales soften more.

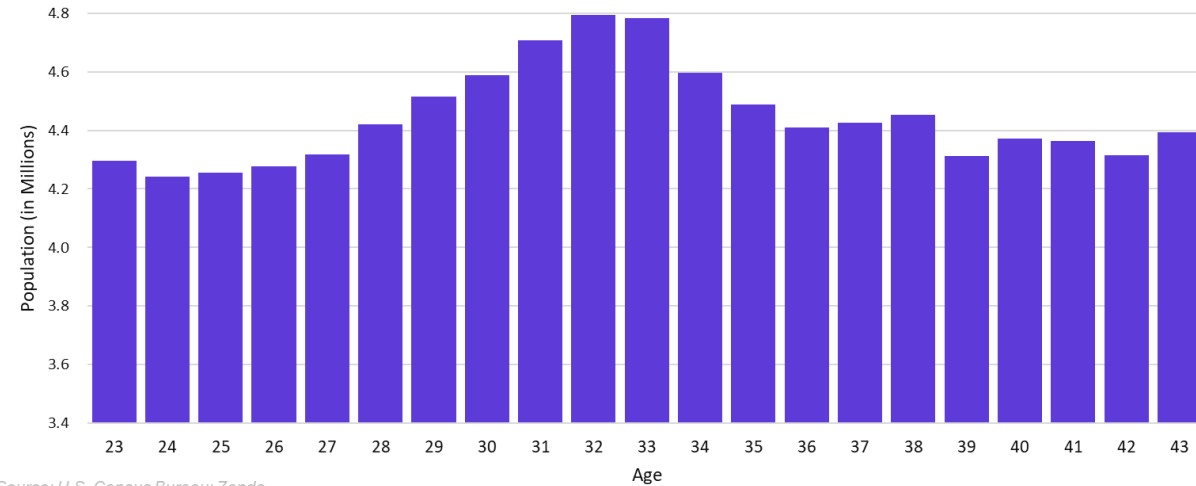
If done right, there are a lot of prospective buyers out there

When do you expect to buy?



Source: Zonda

Millennials Population By Age
2023 Estimate



Source: U.S. Census Bureau; Zonda

But we have to ask ourselves, how can we better align home prices with incomes?

Thank you

Ali Wolf

Chief Economist

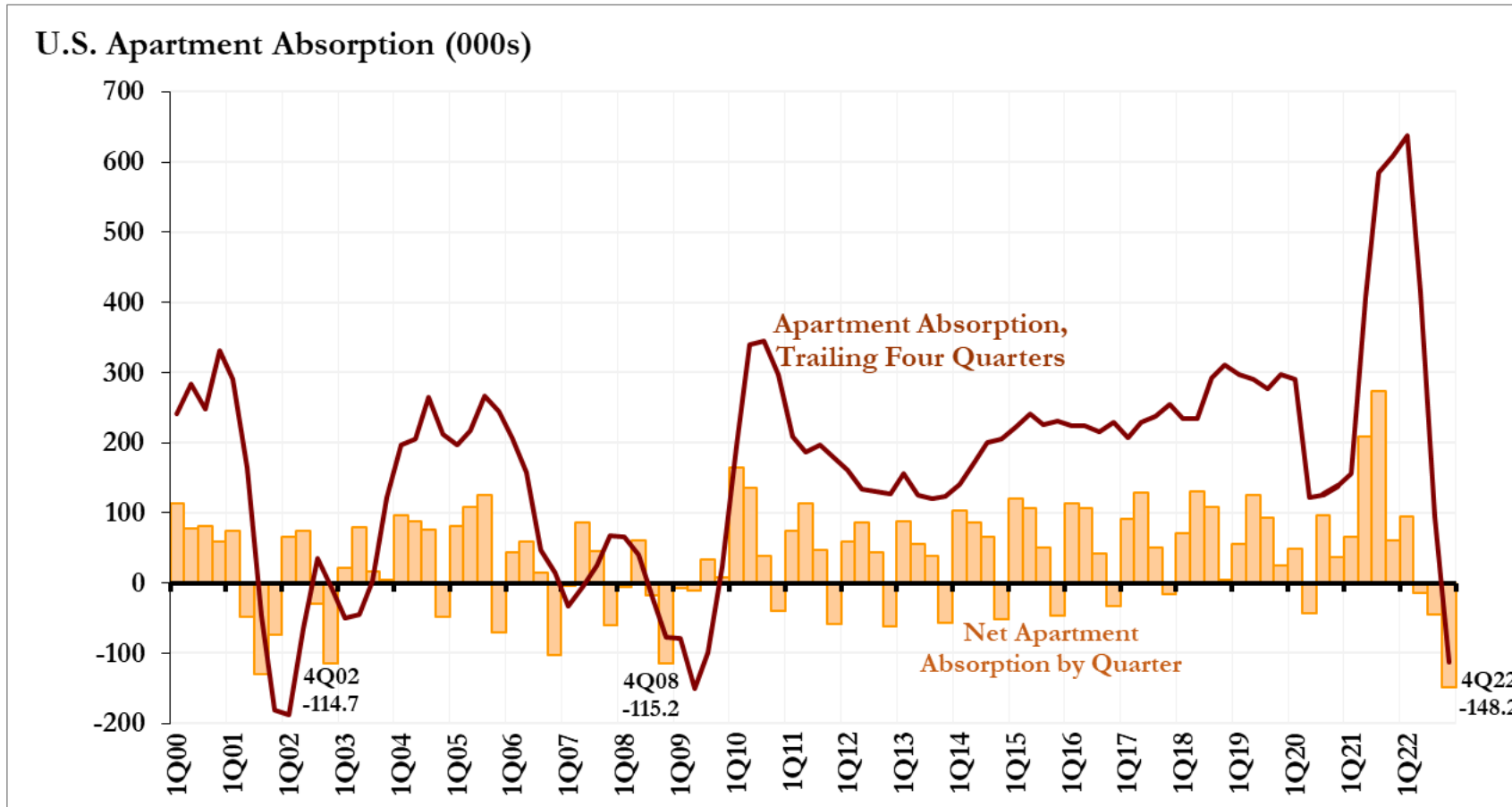
Zonda

awolf@zondahome.com

ULI Housing Opportunity Conference

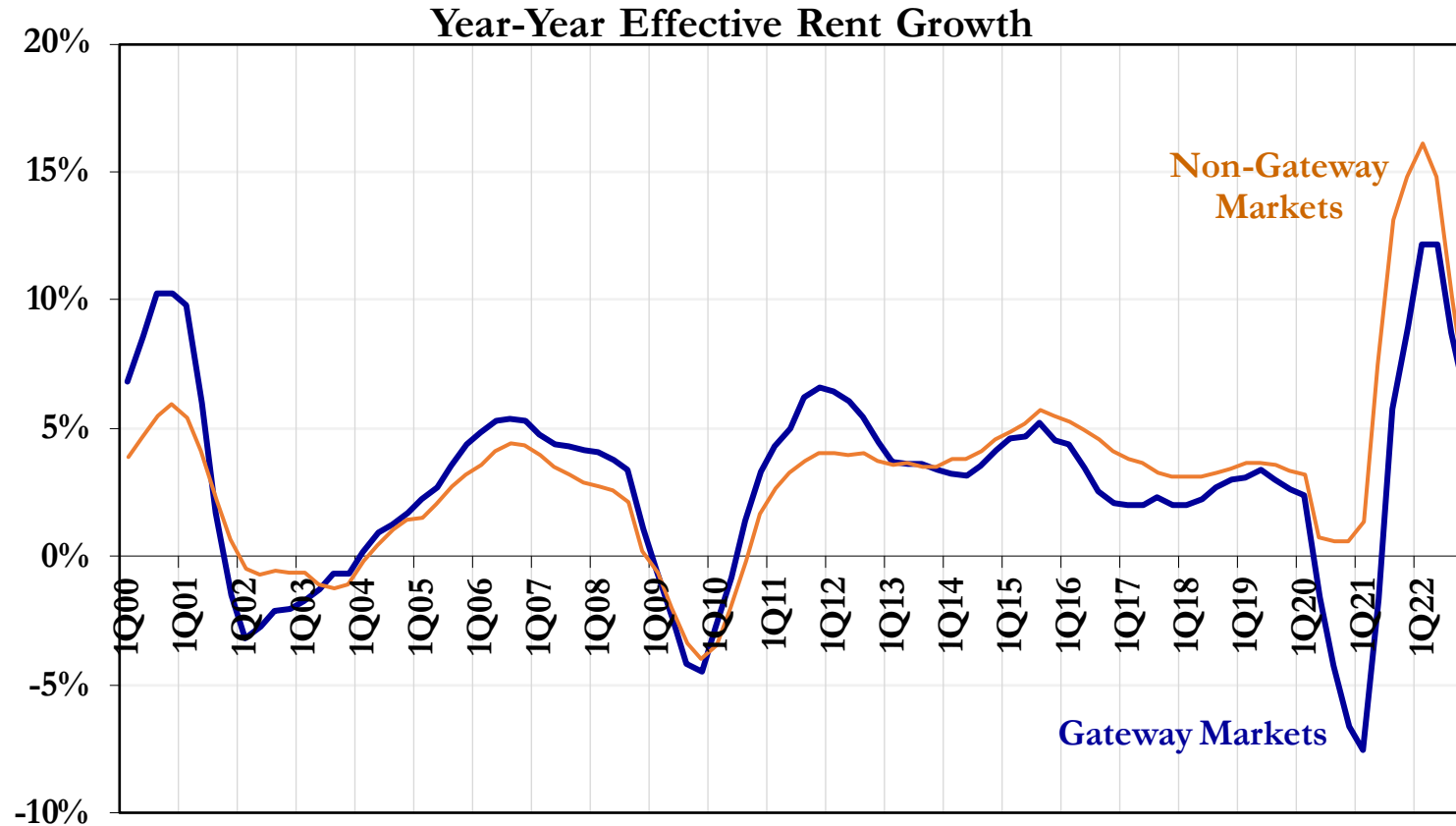
Multifamily Update and Outlook

**Move-outs accelerated in weakest Q4 on record;
Gateways soft, but move-backs help; non-Gateways and tertiary market suffer**



Source: Witten Advisors

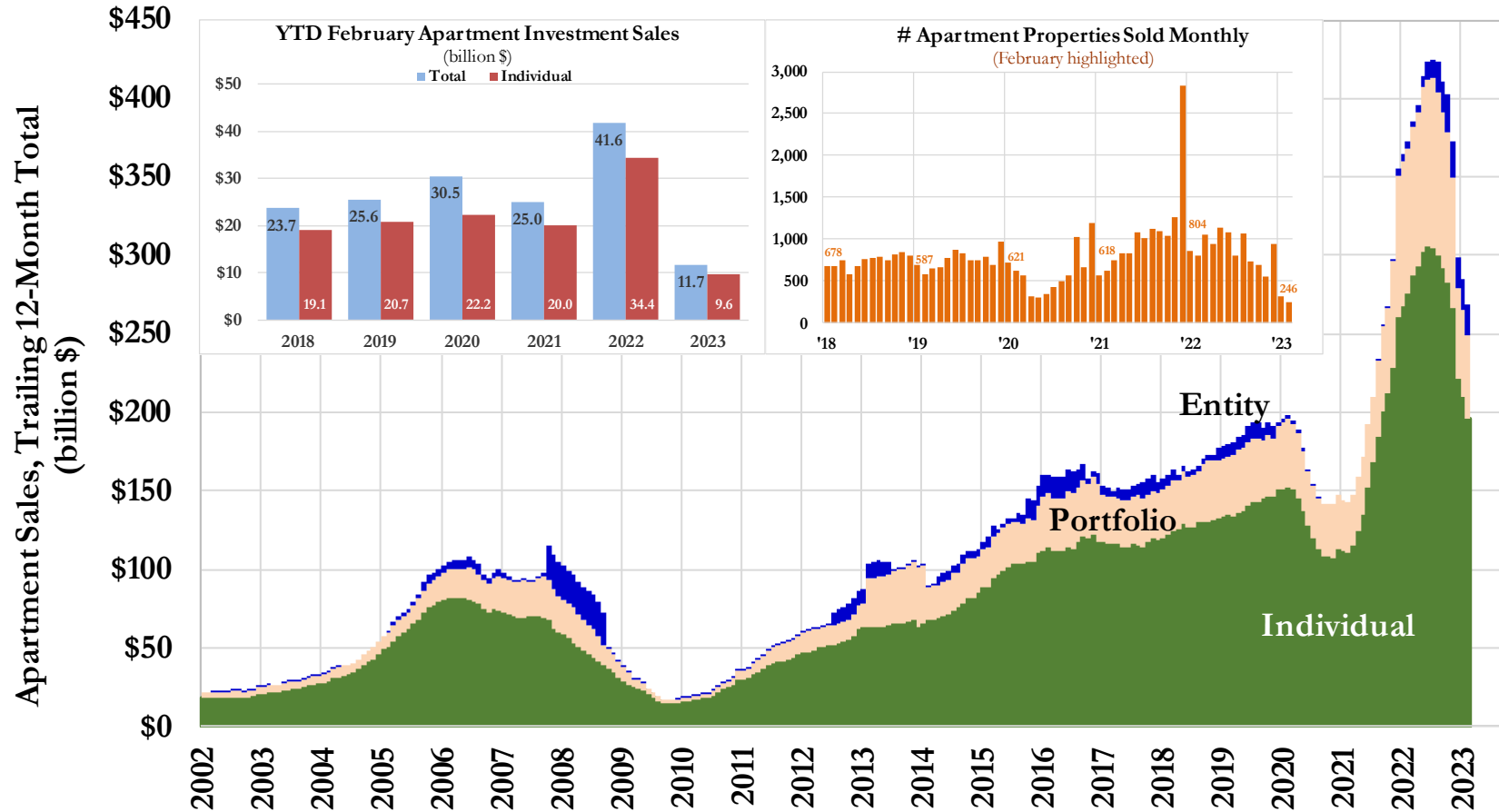
Widespread slowdown: Y-Y rent growth falls to 6% as 2022 ends



Gateway markets: metro Boston, New York, Washington DC, Chicago, San Francisco, Los Angeles

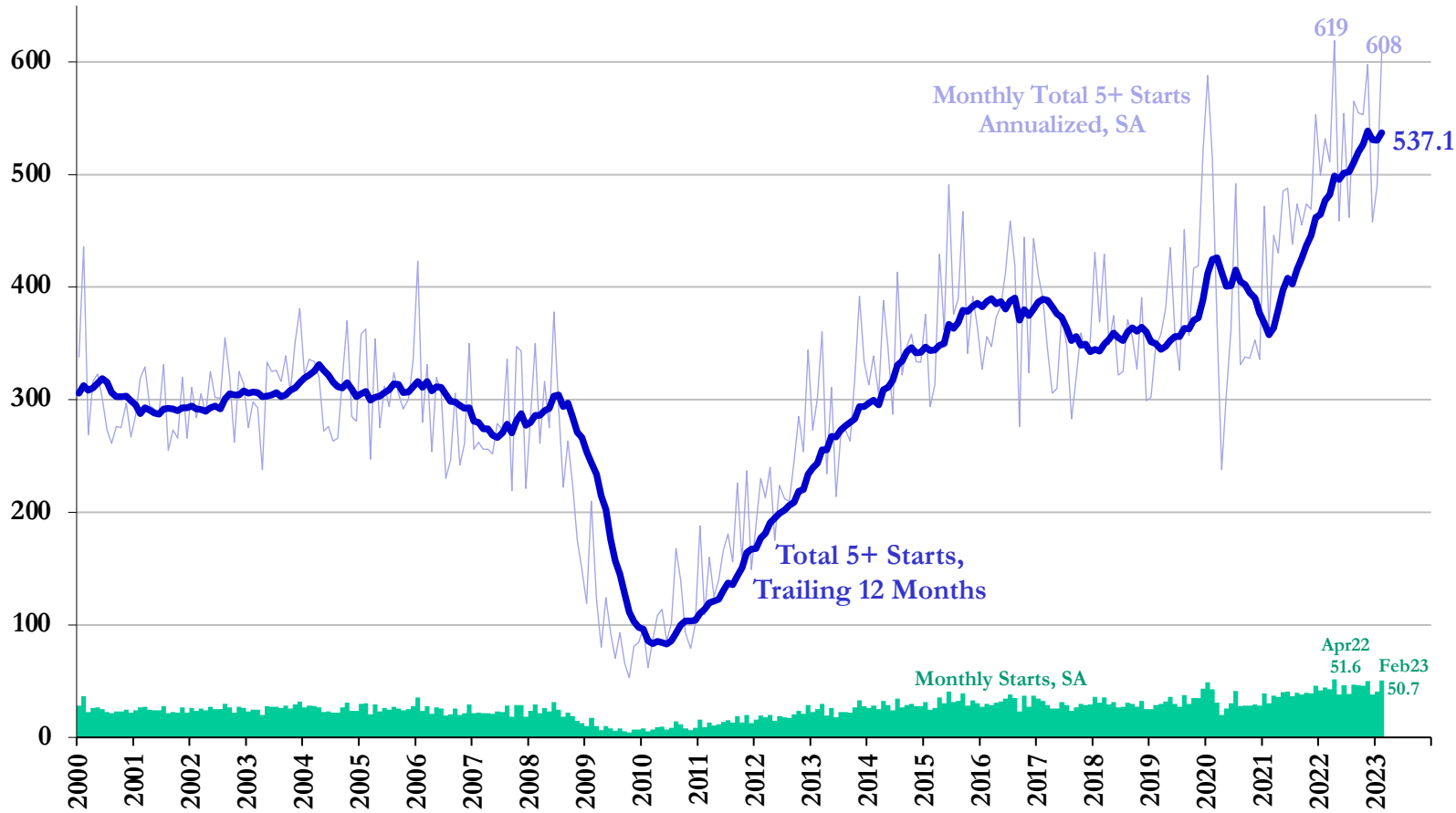
Source: Witten Advisors

Early '22 closings collapse: one-off -72% y-y; Gateways hurt less Annual MF volume near \$270b (down 36% from July peak of \$424b)



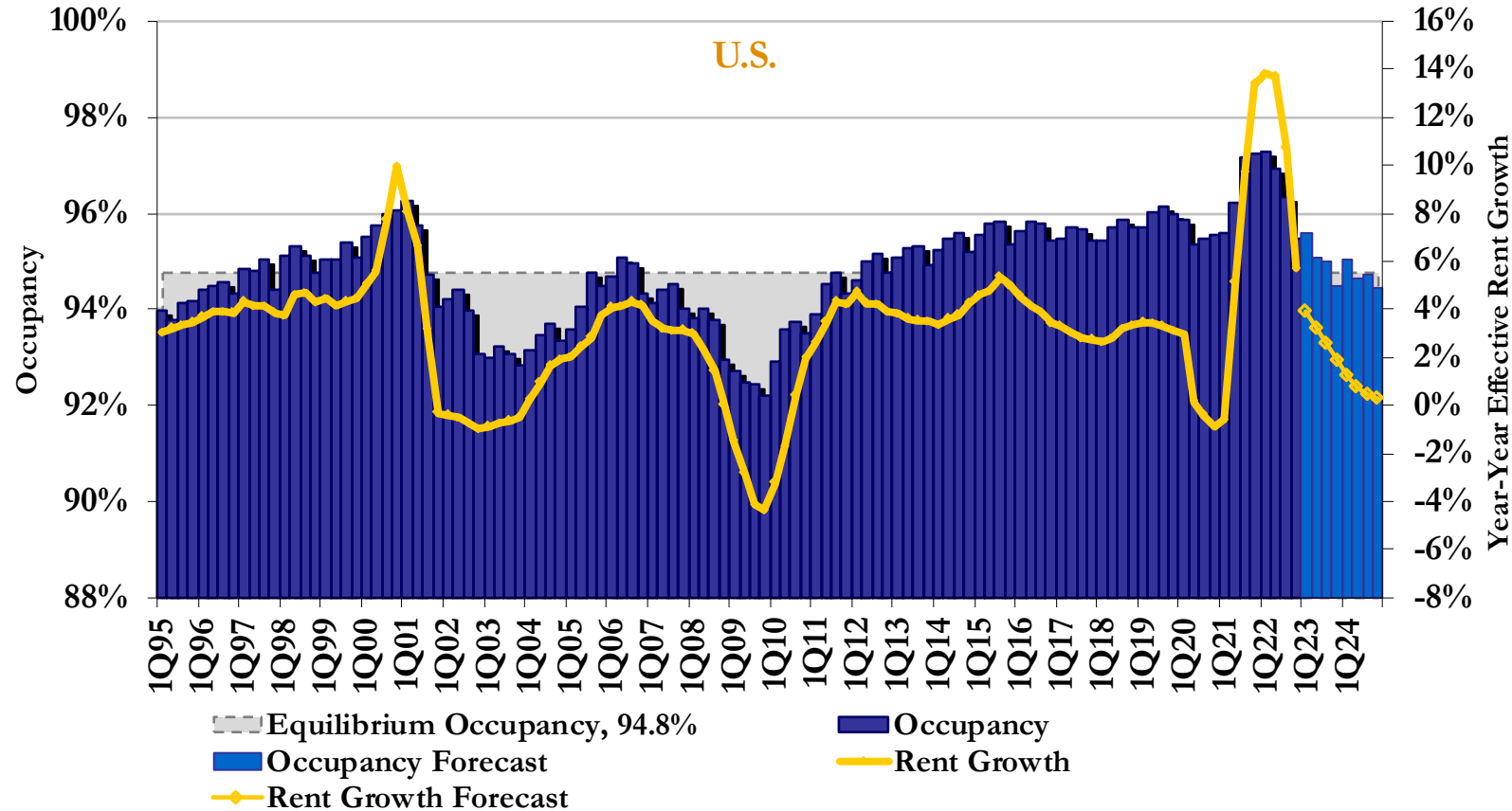
Source: Real Capital Analytics

Oops(?)...Feb23 marks second highest 5+ SA starts rate since Apr86 Annual total of 537k on par with Nov22's 37-year high



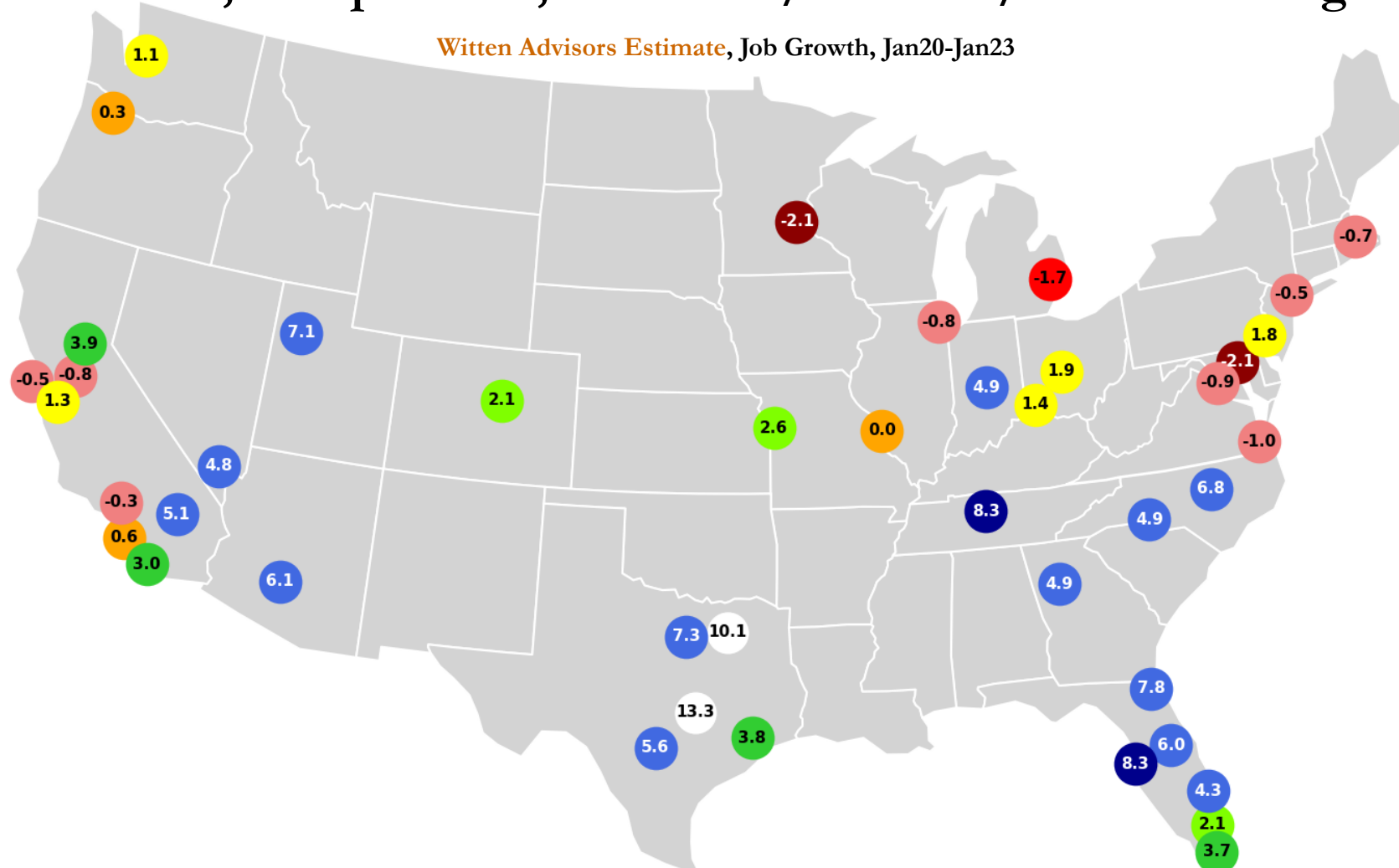
Source: U.S. Census Bureau, Witten Advisors

Recession pulls occupancy from 95%+ in early '23 back to par in '24
Rents up 2% at YE23, <1% in '24



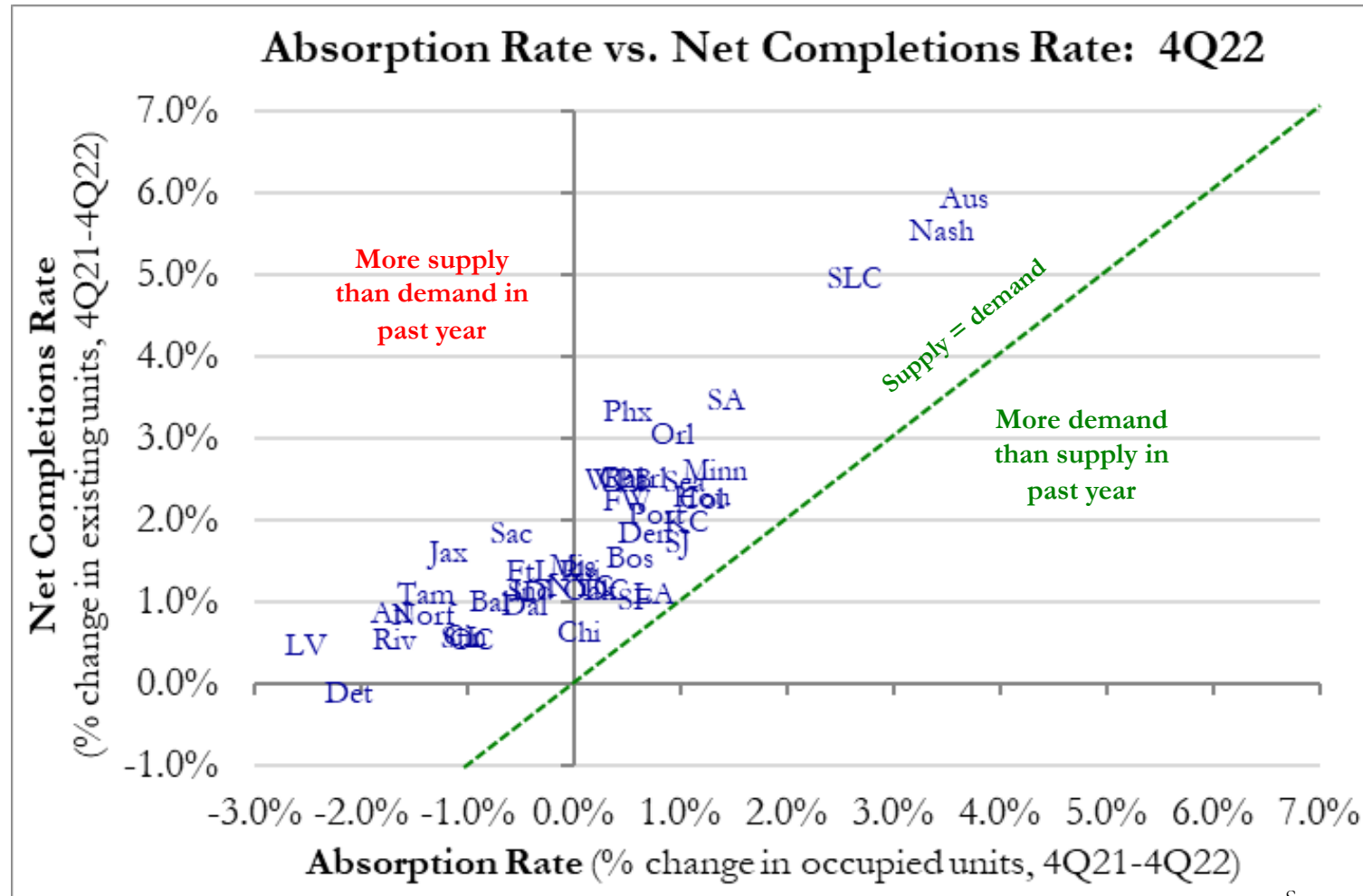
Source: Witten Advisors

Job recovery leaders: Aus 13½% ahead of pre-Covid; Dal 10% Nash, Tamp 8½%+; Northeast/Midwest/West Coast lag



Sources: Witten Advisors, U.S. Bureau of Labor Statistics

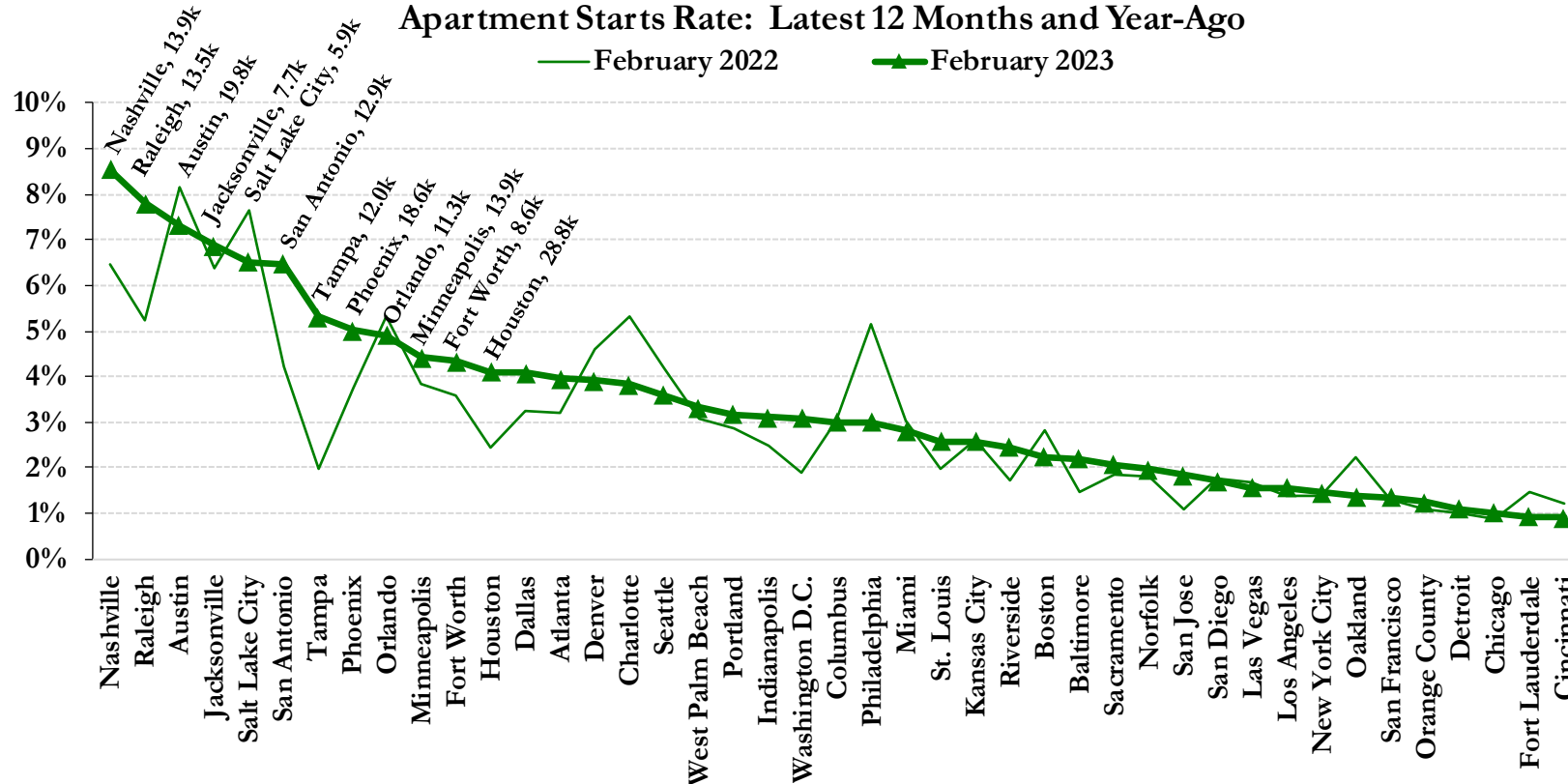
Through 4Q22, absorption trailed net supply in all markets
Largest gaps in Covid boomtowns (LV, Jax, Phx); 15 metros off 200+bps



Source: Witten Advisors

Through February, starts rate still up year-year in 27 of 43 metros

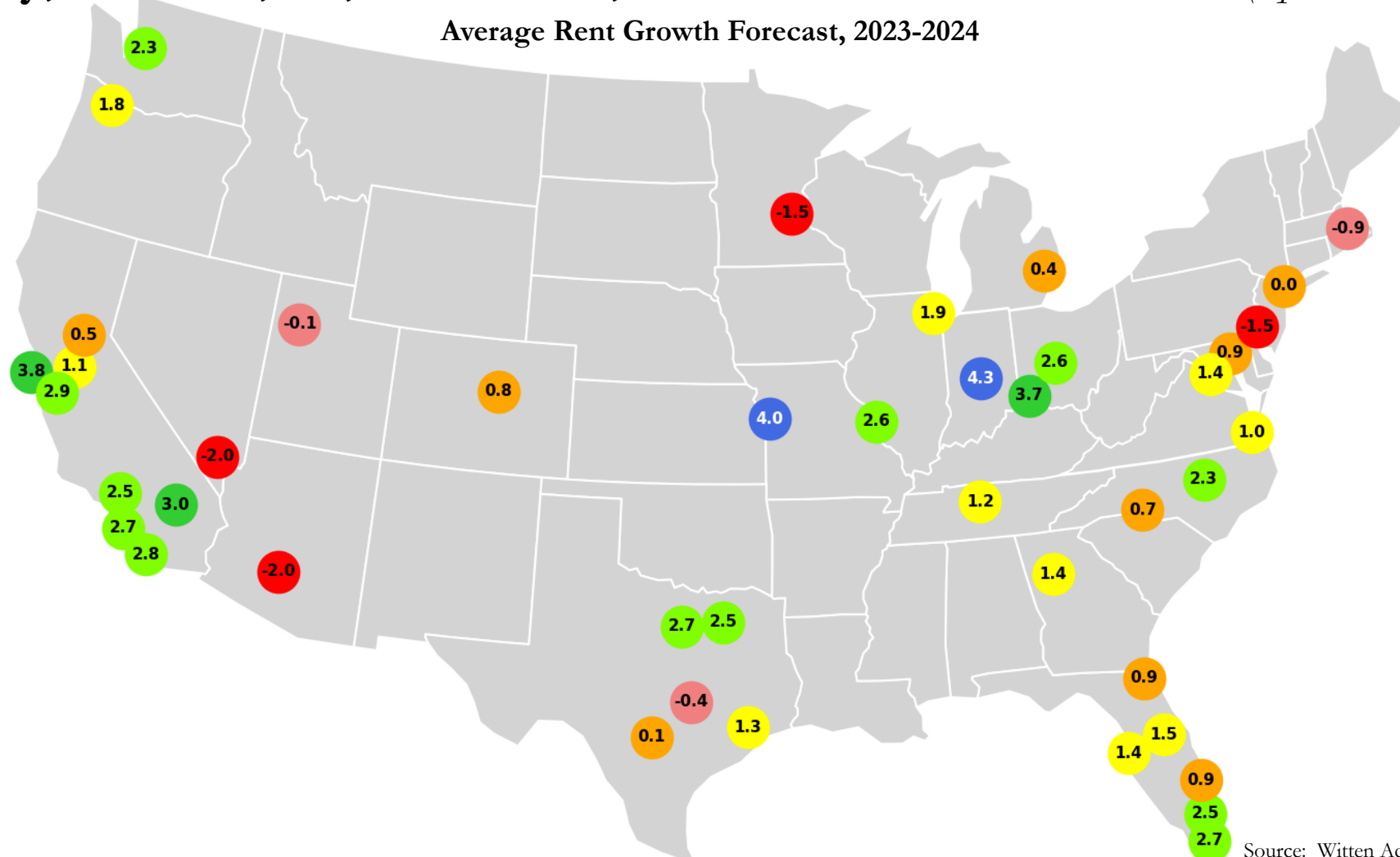
Nash, Ral pass Aus at +/-8% Tam, SA, Hou, Nash up sharply Philly, SLC, Aus, Charl off >1½ pts



Starts rate = last 12 months' starts as % of existing apartment stock

Source: Witten Advisors

In '23-'24, pricing power < historical norm in 39/43 (not Cin, Col, KC, StL)
Indy, KC 4%+; SF, Cin 3½%+; 7 markets see rents decline (esp. Phx, LV)



Source: Witten Advisors

Questions/Discussion



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