State of the Housing Market and Wider Economy

Ali Wolf
Chief Economist
Tracking the entire building lifecycle

Access the housing industry’s most comprehensive research platforms

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

1. The economic backdrop
2. Housing trends
3. Buyer considerations
4. Forecasts and final thoughts
The economic backdrop
The labor market is holding up

- **Total employment 2% above pre-pandemic levels.** High-income jobs are nearly 6% above pre-pandemic levels.

- **Net positive job growth despite layoffs.** Five strong jobs reports and a 3.7% unemployment rate.

- **Labor hoarding?** Many companies slower to change staffing levels given the amount of economic whiplash recently

- **Consumers feel OK now, but** more feel pessimistic about the future of the labor market and business conditions and are trying to make sense of the fact that costs are still rising…
Inflation data is still running hot

CPI and PCE: 4%-5%

1. Transportation services +10.2%
2. Food away from home +8.3%
3. Shelter +8.0%
Why it’s ‘important’ for housing to be softer

“Super core” inflation (services minus energy and housing): 4%+
Restrictive policy still in place

Four normalizing, six restrictive

Why did the Fed raise rates in March following SVB and again in May? Because one problem is greater than the other

Banking concerns are still an economic risk

Raise, pause, cut, skip the rest of this year?
The Fed’s juggling act

Fed is trying to make sense of the "long and variable" lag (Milton Friedman 1961) between a monetary policy action and its impact on the economy and inflation, which intensifies economic risks.
Housing trends
Volatility in mortgage rates

What drives mortgage rates?

- The Federal Reserve
- Other policy (debt ceiling!)
- Inflation
- Expectations of where the economy is going
- Number of active investors
- Alternative investments opportunities
- Market dysfunction

If the spread were to normalize back to the historical average, we would be looking at mortgage rates in the 5s/low 6s

BofA mortgage specialist: 70% probability that rates finish this year at 5.65%
Sales down on confidence, rates, and inventory

-3.4% MOM, -23.2% YOY

Divergence between the resale and new home markets

Source: NAR, Moody's; Zonda *Current year 2023 is forecasted through year end
Off from recent highs but up from pre-pandemic

Average Sales Rate

"There are sales to be had as long as you adjusted to find the market"
Pricing remains dynamic

Why raise prices this year?
- Difficulty finding the market
- Seasonality
- Pricing power

For those builders that took base price increases on average how much did you raise base prices?

60% nationally

Source: Zonda
Housing supply remains tight as sellers consider options

Don’t want to reset current mortgage rates, decide to remodel, turn into a rental, etc.
60% of respondents are finding current inventory is pushing their budget.

1/3rd can’t find what they are looking for.

How Do You Feel About the Current Inventory of Homes for Sale in the Market Where You're Buying?

Respondents could select multiple answers:

- I have to stretch my budget to buy a home that I want to live in: 34%
- There are homes within my budget, but they don’t have everything I want: 34%
- There are enough homes I would buy that are within my budget: 28%
- There are no homes I would buy within my budget: 25%
- None of the above: 9%

Source: U.S. News • Survey of 1,197 Americans who plan on buying a home in 2023 using a mortgage, conducted March 23-27 through PureSpectrum.
This is where builders come in.
Buyer considerations
Higher mortgage rates impact buyers differently

The top buyers in the new home market for 2023 so far are:

1. Move up 2. entry-level 3. relocation 4. luxury 5. active adult

Some are buying purely off of salary but many of those active today have other factors:

- **Long-term savings**
  The personal savings rate averaged 7% from 2010 to early-2020

- **Gains from the stock market**
  S&P 500 up 57% in 5 years and nearly 170% in 10 years
Sponsored by

Gains from the housing market

• Home equity

Homeowners are sitting on record equity of $29.6 trillion. Avg equity gain since 2020 is $100,000, per CoreLogic. Think about the runup in homes prices since the pandemic but also all the years before

Equity becomes an important consideration for the lock-in effect, especially since 90% of homeowners have a mortgage rate under 5% and roughly 60% under 4%.

How are move up buyers #1 but the ones dealing with the lock-in effect?

Equity + buydowns do the trick
The “life happens” housing market

1. Marriage
2. Divorce
3. Death
4. Empty nester/downsizing
5. Family expansion
6. Relocating
7. Retirement

Not driven as much by FOMO, investors, or a “want” to move

Hey friends!! So Nick and I recently put our house up for sale. We are now looking for another home for our growing family.

If you or know anyone who’s looking for a great starter home in the Brooklyn area take a look!

Source: US Census Bureau; Zonda
Having no mortgage helps

Boomers made up 39% of all home purchases (up from 29% in 2021), the highest share of all buyers according to the NAR. Lifestage catalyst: retirement!

**Owned Homes by Financing Type, % of Total**

- Regular mortgage(s) only: 53%
- None, owned free and clear: 42%
- At least 1 regular or home equity lump-sum mortgage(s) and at least 1 home equity line of credit: 2%
- Reverse mortgage only: 2%
- At least 1 home equity line of credit mortgage(s) only: 1%

Source: U.S. Census Bureau; Zonda

**Generational transfer of wealth**

A 2019 Merrill Lynch Wealth Management poll that asked about distribution of wealth to heirs found that 65% of those 55+ plan to give away some of their money while they are still living, 27% plan to give it away after passing away, and 8% plan to give it all away while alive.
A game changer for some

The Student Loan Deferral Savings Through May 2023

<table>
<thead>
<tr>
<th>City</th>
<th>Savings (%)</th>
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</thead>
<tbody>
<tr>
<td>San Antonio</td>
<td>9.1%</td>
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<tr>
<td>Houston</td>
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<tr>
<td>Cleveland</td>
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<tr>
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<td>Salt Lake City</td>
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<td>Sacramento</td>
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<td>Denver</td>
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<td>Seattle</td>
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<td>Los Angeles/OC</td>
<td>2.6%</td>
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Source: Zonda *two individuals with 38 months of deferral on the average student loan amount
Migration is good for some but bad for others

- Moving from a high-cost market

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<td>Riverside</td>
<td>Charlotte</td>
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<td>Nashville</td>
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<td>Oklahoma City</td>
<td>Phoenix</td>
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Source: U.S. Census Bureau looking at markets with a population of 1M+; Zonda "the Census made a methodology adjustment for the 2020-2021 data so comparisons to previous years is not recommended **2022 preliminary calculations done based on county level data while waiting for release of metro level"
Need to think about the wider buyer pool though

New home affordability ratio

National
2023: 28.8%
2019: 50.5%
How are buyers dealing with the attainability challenges?

What are buyers doing about it?

1. Looking at smaller homes
2. Stretching their budgets
3. Looking at different loan options besides 30-year fixed

What else? Resale market, buy a home that needs remodeled, rent, re-couple
New homes are nearly ~10% more expensive than resales today

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

- Yes! How fun!
- Yes, but only if I got a great deal
- Yes, but only if the repairs are minor
- Yes, but only if because I couldn’t find anything else on the market
- No thanks

Source: Zonda

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

2026-24.3MM

Prior 20 Year Avg = 20.7MM

Todd Tomalak, Zonda’s remodeling expert
Remodeling forecast: -8% 2023, +9% 2024, +11% 2025

Maint/Repair - Below $1-$2K

‘Mid’ – think of what you can do to a home for $7k-$30k. Update the finish/décor of a room, update the windows or roof, but NO STRUCTURAL REMODELS OR ADDITIONS. Imagine updating a bathroom with more modern fixtures/flooring/lighting, but not actually changing the layout of the room.

‘Major’ – major capital improvements to the home like you see on HGTV. Walls moving around or major renovations.
Slower conversion to homeownership

Effective Rent Change

Source: RealPage; Zonda

People can rent, own, or...
Forecasts and final thoughts
Starts down in top 25 markets

1. Base effect
2. Specs (liability to asset)
3. Questions over sustainability of demand

Allowing some health to return to the market: cycle times, vertical construction costs, labor availability, and...

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### Top Markets by Housing Starts (1Q2023)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Market</th>
<th>Annual Starts</th>
<th>Annual Change</th>
<th>%</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Dallas-Fort Worth-Arlington, TX</td>
<td>41,192</td>
<td>-12,893</td>
<td>-24%</td>
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<tr>
<td>2</td>
<td>Houston-The Woodlands-Sugar Land, TX</td>
<td>33,492</td>
<td>-9,461</td>
<td>-22%</td>
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<tr>
<td>3</td>
<td>Phoenix-Mesa-Chandler, AZ</td>
<td>19,455</td>
<td>-9,313</td>
<td>-32%</td>
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<tr>
<td>4</td>
<td>Austin-Round Rock-Georgetown, TX</td>
<td>19,367</td>
<td>-6,547</td>
<td>-25%</td>
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<tr>
<td>5</td>
<td>Atlanta-Sandy Springs-Alpharetta, GA</td>
<td>17,674</td>
<td>-8,541</td>
<td>-33%</td>
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<tr>
<td>6</td>
<td>San Antonio-New Braunfels, TX</td>
<td>16,252</td>
<td>-5,967</td>
<td>-27%</td>
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<tr>
<td>7</td>
<td>Orlando-Kissimmee-Sanford, FL</td>
<td>15,777</td>
<td>-204</td>
<td>-1%</td>
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<tr>
<td>8</td>
<td>Washington-Arlington-Alexandria, DC-VA-MD-WV</td>
<td>11,721</td>
<td>-2,225</td>
<td>+16%</td>
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<tr>
<td>9</td>
<td>Charlotte-Concord-Gastonia, NC-SC</td>
<td>11,692</td>
<td>-2,820</td>
<td>-19%</td>
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<tr>
<td>10</td>
<td>Tampa-St. Petersburg-Clearwater, FL</td>
<td>11,294</td>
<td>-4,936</td>
<td>-30%</td>
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<tr>
<td>11</td>
<td>Riverside-San Bernardino-Ontario, CA</td>
<td>10,374</td>
<td>-2,459</td>
<td>-19%</td>
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<tr>
<td>12</td>
<td>Raleigh-Cary, NC</td>
<td>9,862</td>
<td>-2,285</td>
<td>-19%</td>
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<tr>
<td>13</td>
<td>Jacksonville, FL</td>
<td>9,845</td>
<td>-3,329</td>
<td>-25%</td>
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<tr>
<td>14</td>
<td>Las Vegas-Henderson-Paradise, NV</td>
<td>9,362</td>
<td>-4,332</td>
<td>-32%</td>
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<tr>
<td>15</td>
<td>Nashville-Davidson--Murfreesboro--Franklin, TN</td>
<td>8,900</td>
<td>-2,169</td>
<td>-20%</td>
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<tr>
<td>16</td>
<td>North Port-Sarasota-Bradenton, FL</td>
<td>8,711</td>
<td>-1,996</td>
<td>-19%</td>
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<tr>
<td>17</td>
<td>Denver-Aurora-Lakewood, CO</td>
<td>8,520</td>
<td>-3,428</td>
<td>-32%</td>
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<tr>
<td>18</td>
<td>Minneapolis-St. Paul-Bloomington, MN-WI</td>
<td>6,857</td>
<td>-3,388</td>
<td>-33%</td>
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<tr>
<td>19</td>
<td>Indianapolis-Carmel-Anderson, IN</td>
<td>6,646</td>
<td>-2,291</td>
<td>-26%</td>
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<tr>
<td>20</td>
<td>Miami-Fort Lauderdale-Pompano Beach, FL</td>
<td>6,372</td>
<td>-5,695</td>
<td>-47%</td>
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<tr>
<td>21</td>
<td>Lakeland-Winter Haven, FL</td>
<td>6,290</td>
<td>-2,925</td>
<td>-32%</td>
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<tr>
<td>22</td>
<td>Philadelphia-Camden-Wilmington, PA-NJ-DE-MD</td>
<td>6,196</td>
<td>-711</td>
<td>+10%</td>
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<tr>
<td>23</td>
<td>Chicago-Naperville-Bgin, IL-IN-WI</td>
<td>6,141</td>
<td>-2,003</td>
<td>-25%</td>
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<tr>
<td>24</td>
<td>Sacramento-Roseville-Folsom, CA</td>
<td>5,942</td>
<td>-2,775</td>
<td>-32%</td>
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<tr>
<td>25</td>
<td>Los Angeles-Long Beach-Anaheim, CA</td>
<td>5,407</td>
<td>-1,114</td>
<td>-17%</td>
</tr>
</tbody>
</table>

Source: Zonda
Some improvement with lot availability

Significantly undersupplied
Re-aligning starts and sales works both directions

Moved from 25% of builders expecting starts up this year compared to last to 55% earlier this year to 68% today

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

We expect starts down 15 to 20% YOY
785 SF | 410 MF (we’ve heard from experts this could end the year at half)

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
  • Credit market conditions tighten notably

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 12 months of a slowdown
• Recession is avoided, preventing any vicious cycle
Is housing back for good this cycle?

We are watching:

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

Moving past the uncertainty, we believe the medium-term runway is solid for housing, but we have to continue to ask ourselves: how do we better align home prices and income and how do we create something compelling enough that people want to move?
Thank you

Ali Wolf
Chief Economist
Zonda
awolf@zondahome.com