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FEBRUARY 24-26, 2020 | MIAMI, FL
Housing Opportunity Conference
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Housing Opportunity Conference
Welcome

Ron Terwilliger
Terwilliger Pappas Multifamily Properties
Welcome

Ed Walter
Global Chief Executive Officer,
Urban Land Institute
Opening Keynote: The State of the U.S. Housing Market

Tim Sullivan
Meyers Research
The State of US Housing Markets: 
*Crash Landing or Clear Skies Ahead?*

2020 ULI Housing Opportunity Conference

Tim Sullivan
Senior Managing Principal
Meyers Research/Metrostudy
February 24, 2020
**Tracking:**
- 18,000 Active New home subdivisions
- 825 Masterplans (and 125 upcoming ones)
- 7.6 million future lots in 28,000 locations
- Permits, starts, contracts and closings
Our Team: Advisory Leadership

**Tim Sullivan**: Residential and Mixed Use Strategic Solutions

**Kimberly Byrum**: Multifamily Focus

**Mollie Carmichael**: National Consumer & Product Specialty
Agenda

1. The Big Picture
2. Housing Trends
3. Today’s Buyers Meet Some Challenges
4. Considerations About Future Demand
5. Recession Talk And Conclusions
The Big Picture
The Two Largest Parts of the Economy Are Working Against Each Other

Consumer Sentiment vs CEO Confidence

Source: University of Michigan; Conference Board; Meyers Research
CEOs Are Carrying the Weight of the World

1. Recession Risk
2. More Intense Competition
3. Tight Labor Market
4. Uncertainty About Global Trade
5. Global Political Uncertainty
Housing Trends
U.S. Housing Permits: 1995 to 2019

United States Housing Permits*

Note the Increasing % Of MF Permits

Source: US Census Bureau; Meyers Research *percents represent single-family market share
U.S. Housing Starts: 1995 to 2019

United States Housing Starts*

Source: US Census Bureau; Meyers Research *percents represent single-family market share

Not even back to ‘95 Levels
New Home Market Was ~12% of Total 2019 Sales

United States New Home Share of Total Home Sales

Source: US Census Bureau; NAR; Meyers Research
New Homes Have Lost Market Share, But Still a Vital Part of the Economy

1. Austin
2. Raleigh
3. San Antonio
4. Houston
5. Orlando
6. Jacksonville
7. Dallas
8. Las Vegas
9. Charlotte
10. Nashville

**US New Home Share Of Total Sales**

- 2000: 16%
- 2006: 16%
- 2019YTD: 12%

Source: Public Record Data; Meyers Research
New Home Market is a Big Contributor to Economy

**New home buyers** are estimated to spend **10%** more on:

- Appliances,
- furnishings,
- and **property repairs and alterations**

*(compared to those purchasing an existing home)*

It is calculated that for **every 1,000 average single-family homes built**, **2,975 jobs are created** *(3-1 Ratio)*

This is considerably higher than the **500 jobs attributed to 1,000 existing home sales** *(.5-1 Ratio)*
Pending Home Sales Up 13% YOY; 3% Higher Than 2 Years Ago

New Home Pending Sales Index

Source: Zonda and Metrostudy; Data is seasonally adjusted and as of December 2019
Sales Growth Rates Pulled Up From Solid Markets; 2-Year Change Shows Different Story

Source: Zonda and Metrostudy
Top Builder Share of Closings: The Big Get Bigger

Will consolidation continue?

2019 Annualized through June
Top-Selling Master Plans in 2019: FL and TX Dominate

<table>
<thead>
<tr>
<th>Master Plan Community</th>
<th>Market</th>
<th>2019 Sales</th>
<th>Subdivision Count</th>
<th>Avg List Price</th>
<th>Avg Project Sales Rate</th>
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<tr>
<td>The Villages</td>
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*Sales and pricing data as reported by builders’ sales agents in ‘bottom-up’ Project-level monthly survey conducted by Zonda*
Today’s Buyers Meet Some Challenges
Millennials Are Still Looking For Homes

Planning To Buy In The Next 12 Months By Generation

- Gen Z: 11%
- Millennials: 20%
- Gen X: 12%
- Boomers: 6%

Source: NAHB; Meyers Research
Large Share of Unmarried Home Shoppers: Housing Implications

Single women are buying homes at record rates, are the largest growth segment, and purchase homes alone two times their single male counterparts.
Markets With The Highest Homeownership Rates For Single Women

**Millennials**
- Riverside: 54%
- Salt Lake City: 53%
- Detroit: 49%
- Baltimore: 49%
- Philadelphia: 47%

**Generation X**
- Salt Lake City: 62%
- Minneapolis: 62%
- Denver: 58%
- Richmond: 57%
- Baltimore: 57%

**Baby Boomers**
- Salt Lake City: 72%
- Denver: 70%
- Jacksonville: 70%
- Charlotte: 70%
- Orlando: 70%

Source: U.S. Census Bureau; Meyers Research
Over 2.5M Units Shy of Matching Long-Term Housing Demand

Months of Supply by MSA

Source: Zillow; Public Record Data; Zonda by Meyers Research
U.S. New Home Activity Concentrated in the $300K-$400K Range
Dallas, Houston, and Central Florida Leading For Starts & Closings

- Dallas/Ft.Worth
- Houston
- Central Florida
- Atlanta
- Phoenix/Tucson
- Denver/Colorado Springs
- Southern California
- Austin
- Northern California
- Salt Lake City
- Raleigh/Durham
- Charlotte
- San Antonio
- Tampa
- Suburban Maryland

Annual Closings
Annual Starts
Inventory in $800K+ Exceeds Annual Closings
Affordability Crunch Continues

Median Single-Family Home Price to Household Income Ratio

Source: NAR; US Census Bureau, Moody's Analytics; Meyers
Price Appreciation Was Slowing But Picking Back Up

Corelogic/Case-Shiller Home Price Index (YOY Change)

Source: S&P/Case-Shiller; Corelogic; Zonda by Meyers Research
Annual Appreciation Slowed For Most Markets in 2019 But Still Generally Outpacing Wage Growth

SFD Existing Price Growth (YOY Change)

Source: Zonda by Meyers Research
And December Saw Big Gains (But Remember 4Q 2018...)

SFD Existing Price Growth (YOY Change)

Source: Zonda by Meyers Research
Low Rates Particularly Help the New Home Market

Relationship Between Mortgage Rates and Bond Market

Source: Moody's Analytics; Freddie Mac Primary Mortgage Market Survey; Meyers Research
Even With Low Rates, Affordability Problems Aren’t Going Away

Source: Bureau of Labor Statistics; Moody’s Analytics; Meyers Research
Considerations About Future Demand
The Homeownership Rate Remains Below Historic Levels

Homeownership Rate By Age

Source: US Census Bureau; Meyers Research

1 Million More Households If H/O Rate Got Back To 40%

2 Million More Households If H/O Rate Got Back To 70%
Low Rates do Help With Affordability, But DP is Critical

Median Rent Payment Vs. Median SF Existing Monthly Mortgage Payment Difference*

Source: NAR; Zillow; Freddie Mac; WalletHub; Meyers Research; *Assumes the noted down payment, 3.66% mortgage rate, taxes, and insurance
Labor Market Continues to Outperform

Nonfarm Job Growth (YOY)

Source: US Census Bureau; Meyers Research
Higher Incomes Benefit the New Home Market

1-Year Professional and Business Services Job Growth Rate

Source: US Census Bureau; Meyers Research
The Compelling Case for Purpose Built to Rent

Conclusions

1. The potential for this development concept is enormous.

2. There is much nuance to the Built for Rent business and several challenges.

3. The analysis of Built to Rent is an evolving science…and art.

4. A few players are doing it well.

5. Some of the big homebuilders are getting in, but most won’t likely play in both detached apartments and more conventional single family rentals.

6. Institutional Capital is hovering.
Built to Rent Development
Two Distinct Product Options

Platted Lot Subdivisions

- Diversity in community size (8-10 DU/Acre)
- Typically single-family homes on individual legal lots
- 3-4 bedrooms, private yards, one/two-stories, garages
- Significant family renters with schools as top concern
- Owner could sell some or all units individually
- Doesn’t typically compete with for sale or apartments

Horizontal Apartments

- Typically 150-200 units per community (12 DU/Acre)
- Attached 1B units and detached 2B/3B units
- 1-3 bedrooms, smaller yards, surface parking
- Significant millennial and empty nester renters
- Built on a single legal lot (cannot sell units individually)
- Doesn’t compete with for sale, but can with apartments
- Traffic counts are important (like with apartments)
Job-Fueled Demand and Supply Will Breakeven Years Down the Road

Source: Bureau of Labor Statistics; Moody's Analytics; Meyers Research

* Over/Under supply measures based on current jobs-to-housing relationship relative to long-term relationship between jobs and housing.
Recession Talk And Conclusion
Election Years Don’t Historically Stall Out the Economy

**Change In New Home Sales From October To November During And After An Election Year**

Home Sales Go Down 15% From Oct To November In An Election Year Compared To -8% In A Non-Election Year

Source: U.S. Census Bureau; Meyers Research. The dot represents the number of elections where the change from October to November falls in the given categories.
Part of the Economy Look Overleveraged, But Housing is Different Than Last Cycle

Inflation Adjusted Debt Balance Per Capita

Source: New York Fed Consumer Credit Panel/Equifax; Meyers Research
Let’s Address the Threats to our Forecast First...

Our baseline projection is for a 20% probability the US will enter a recession next 10-12 months.

- Phase 1 of **trade talks** aren’t enough to nullify business fears or bring the manufacturing sector back to life
- **Inflation** picks up faster than anticipated and mortgage rates rise quicker than anticipated
- Normally a **pullback related to a presidential election** is short-lived. In today’s contentious environment, we could see the slowdown in the housing market or broader consumer spending last longer than anticipated
- **Political or financial risk** that’s hard to make sense of and the quickest to steer the economy off course
The Economy Entered 2020 With Some Momentum

- **Economic data** has turned positive, including the labor market, consumer confidence, and the reversal of the inverted yield curve.

- Phase 1 of trade talks point to **policy** moving in the right direction.

- **Lower mortgage rates** to stay low and buoy the housing market.

- More builders entering into the **SFR space** offering a market hedge and additional segmentation.

- Demand exceeds supply and builders are getting more creative with **design and space**.
Thank You!

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