

# State of the Housing Market



**Ali Wolf**

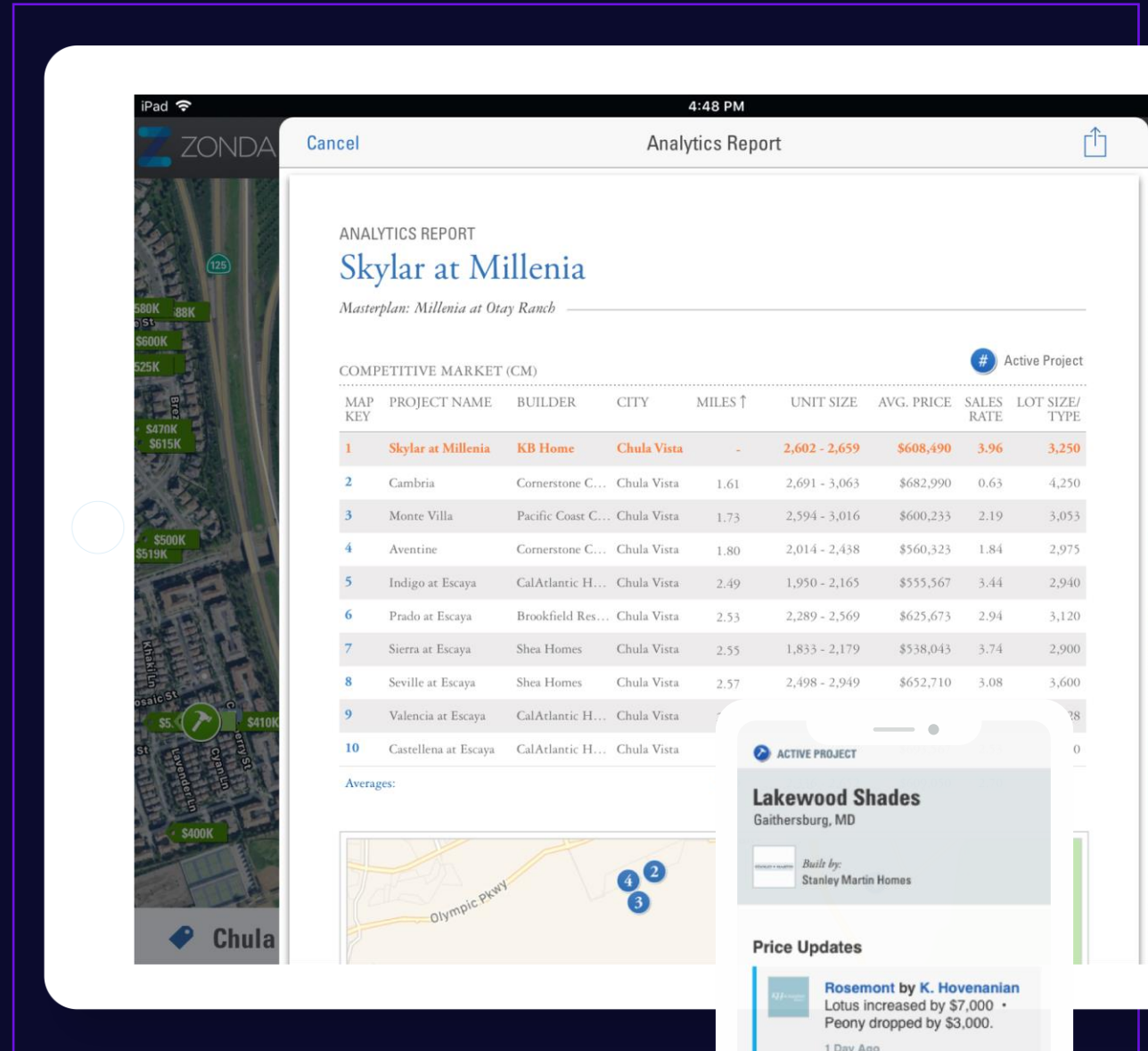
Chief Economist

# Stay Ahead

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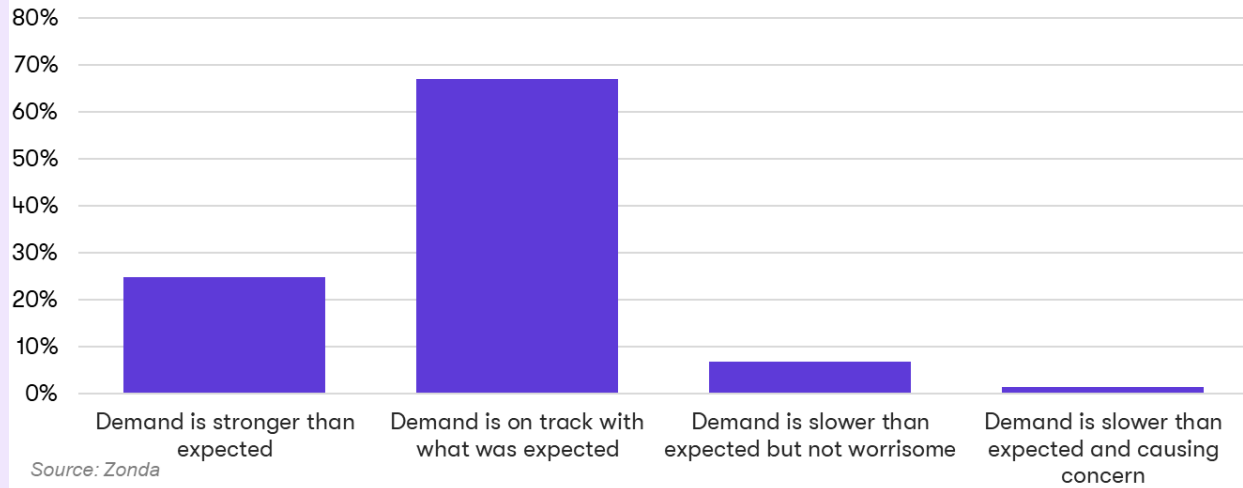
# Today's Agenda

1. Home sales, supply, and price
2. Demand drivers
3. Forecasts and final thoughts

# Home sales, supply, and price

# Enthusiasm meets panic

How is February shaping up so far for your local operation in comparison to your expectations?



Great start to February. Ahead of goal

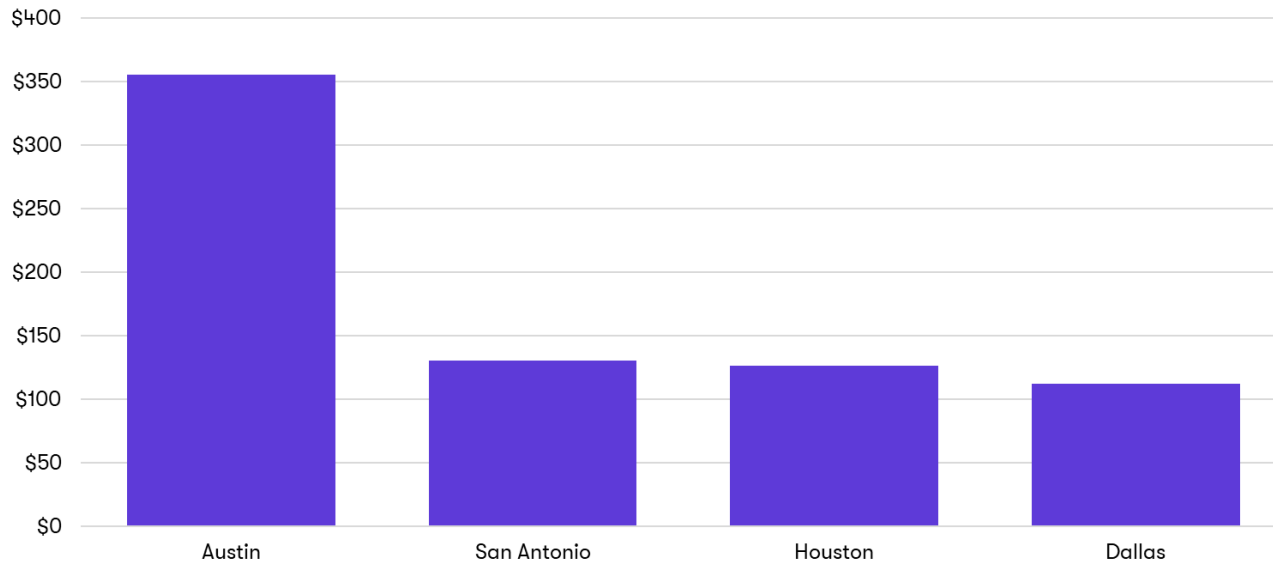
Stronger than expected traffic given high interest rates and high pricing

Communities that are open and have homes available for sale are selling very well with continued price increases.

*Panic at not getting a house against the backdrop of rising IR*

# Mortgage rate urgency meets home price urgency

SFD Resale Payment Change Over Last Year



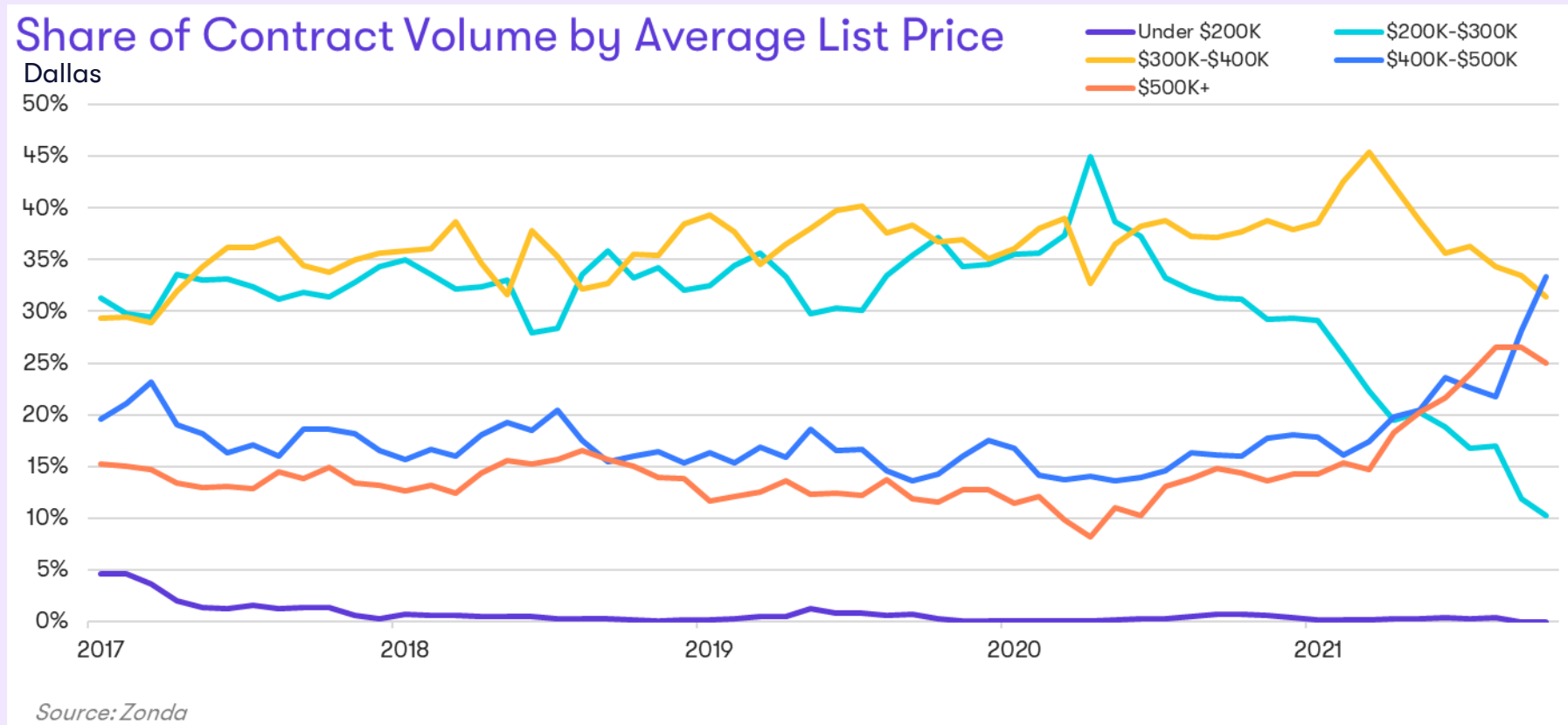
Source: Public Record Data; Zonda \*over the past year

30-Yr FRM

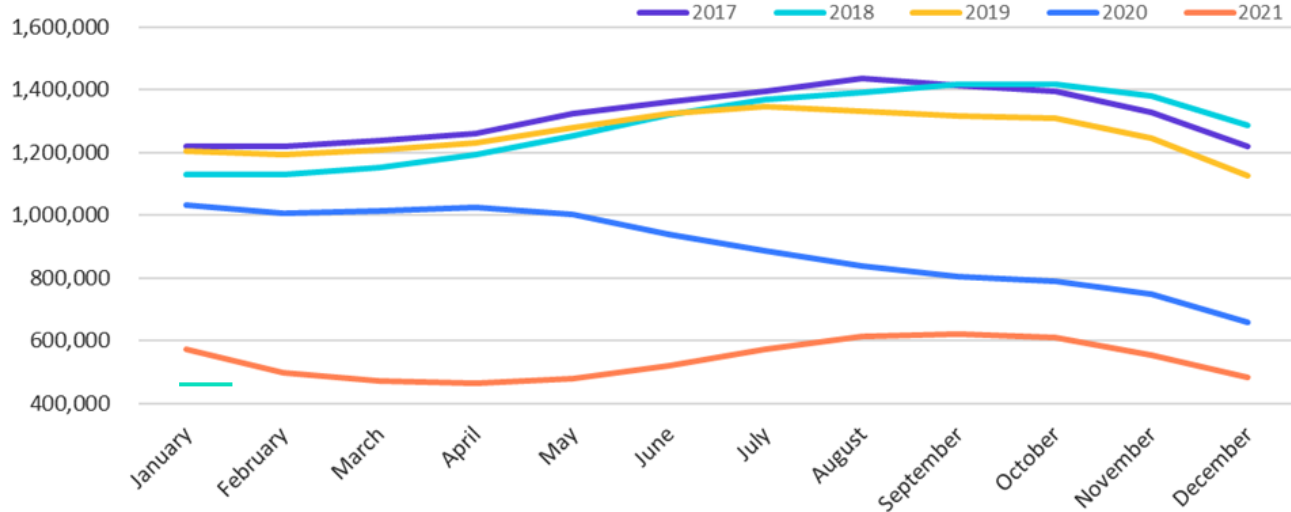
**3.92%** | ^ 0.23 1-Wk  
^ 1.11 1-Yr

**0.8 Fees/Points**

# An evolving market: prices up 25%



### Active Listings



Source: Realtor; Zonda

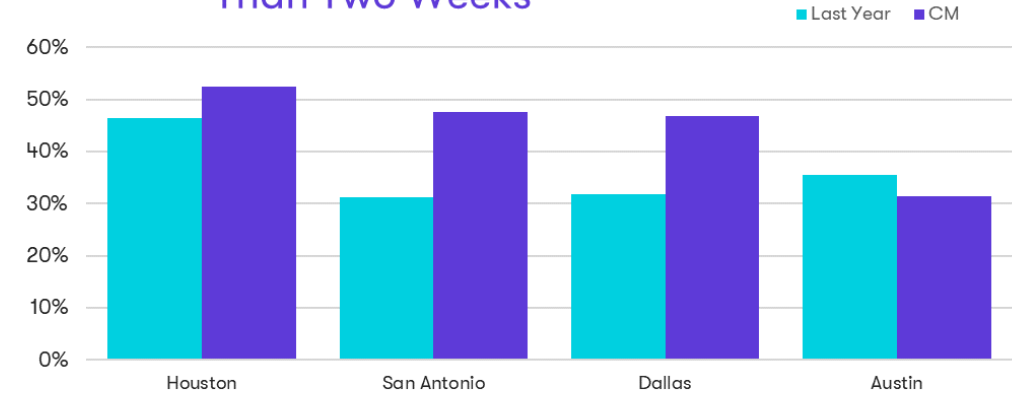
Houston: -24%

Dallas: -39%

San Antonio: -18%

## Resale market in a stalemate

### Percentage of Homes Pending in Less Than Two Weeks



Source: Redfin; Zonda

- Refinanced
- Investors
- Holding a home and buying another
- Where else to move?





# Demand drivers

# What is driving the strength?

Top Motivations For Buying A Home Today

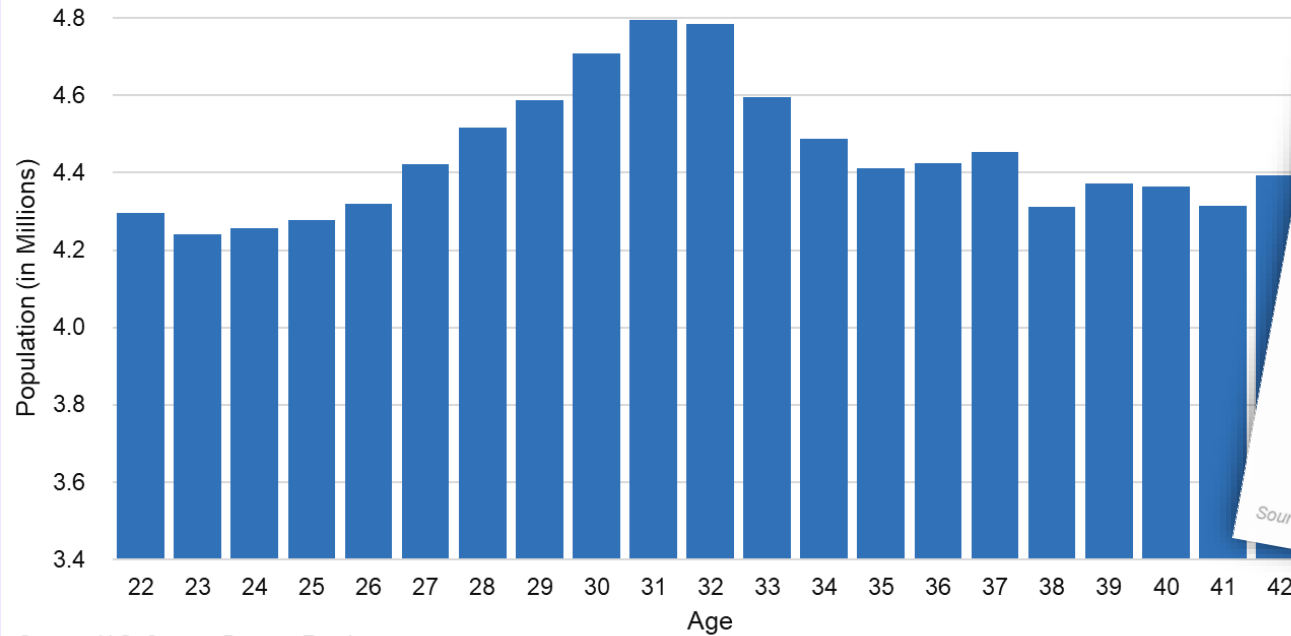
Buyer	COVID related lifestyle change (including WFH)	Non-COVID lifestyle change	Great home equity	Stock market strength	Search for yield	Rising prices	FOMO	Low interest rates	Increased savings
First-time	X	X				X	X	X	X
Move-up	X	X	X	X		X	X	X	X
Luxury	X	X	X	X		X	X	X	X
Retiree/55+	X	X	X	X		X	X	X	X
Investor	X			X	X	X	X	X	X
Second home	X		X	X	X	X	X	X	X
Relocation	X	X	X			X	X	X	X
Foreign					X	X	X		X

Source: Zonda

# About as good as it gets for demographics

## Millennials Population By Age

2022 Estimate



Source: U.S. Census Bureau; Zonda

## Did you save more money this year than last?



## The Student Loan Deferral Savings Through December



Source: Zonda \*two individuals with 21 months of deferral of the average student loan amount

# Gen X + Boomers: equities, equity, and lifestyle changes

Market Summary > S&P 500

4,299.06

+1,931.72 (81.60%) ↑ past 5 years

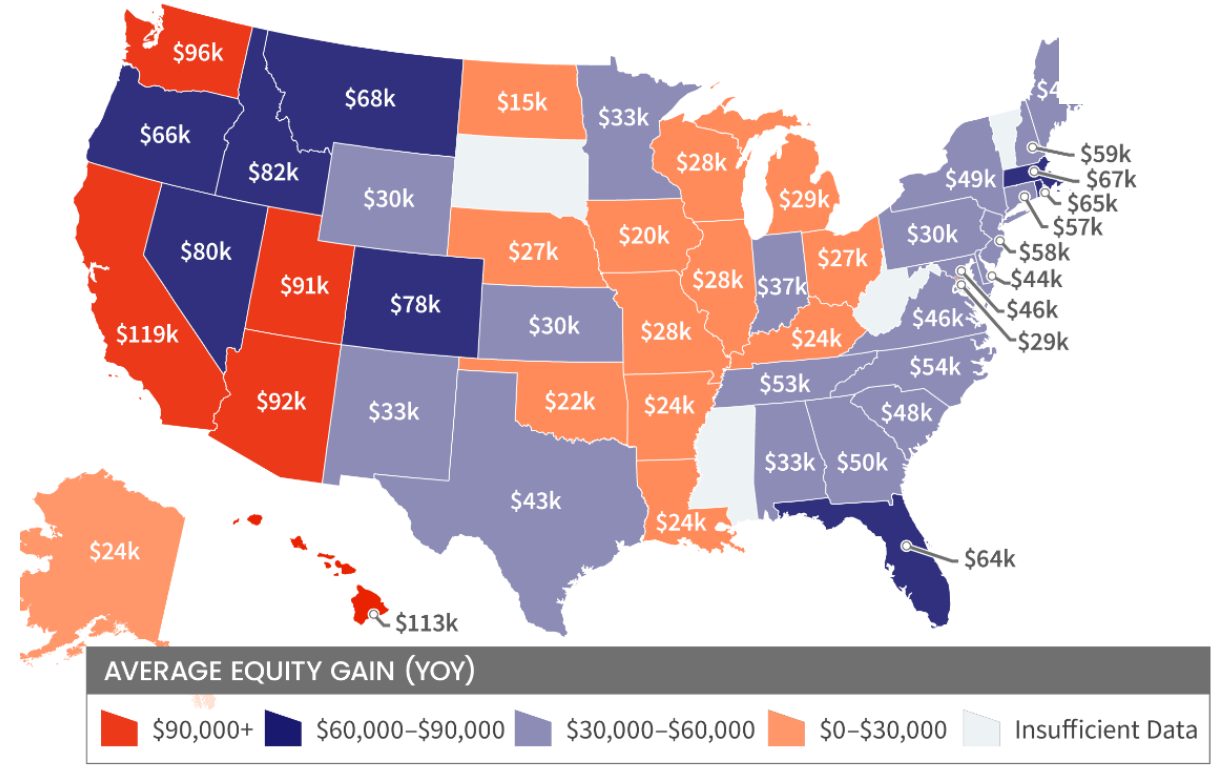
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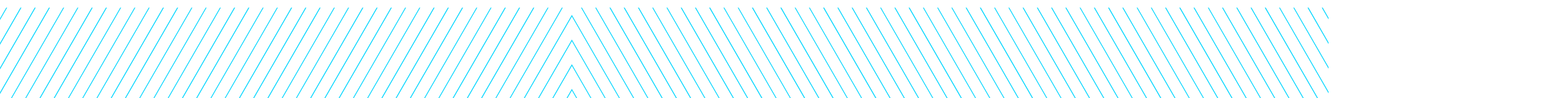
1D | 5D | 1M | 6M | YTD | 1Y | **5Y** | Max



Open	4,324.93	Low	4,274.51	52-wk high	4,818.62
High	4,341.51	Prev close	4,304.76	52-wk low	3,723.34



Source: CoreLogic; Zonda

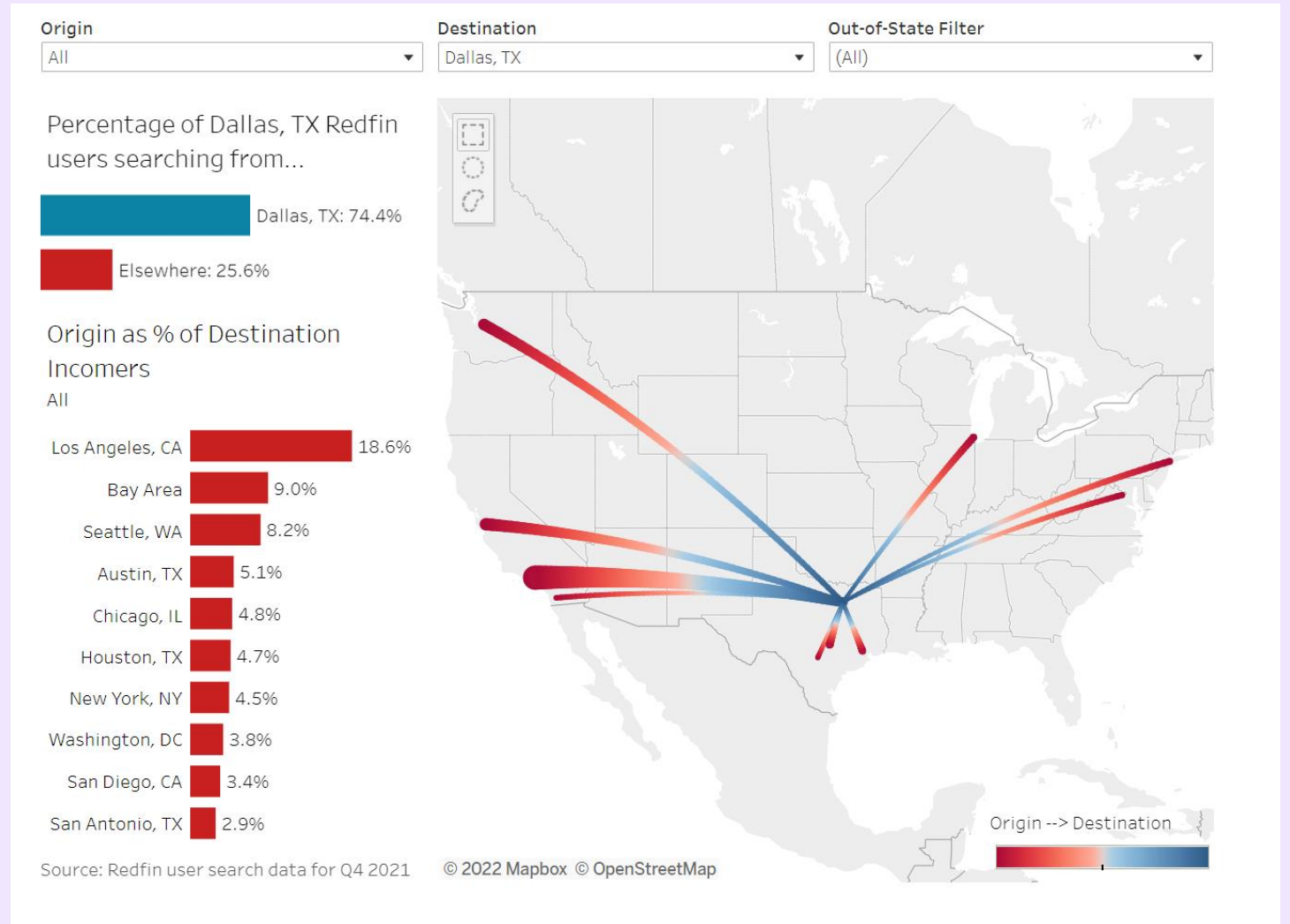


Like-for-like home is \$510,000 in Dallas and \$1.3M in Los Angeles

# Texas #1 for relocation (U-Haul)

“Elsewhere” percent

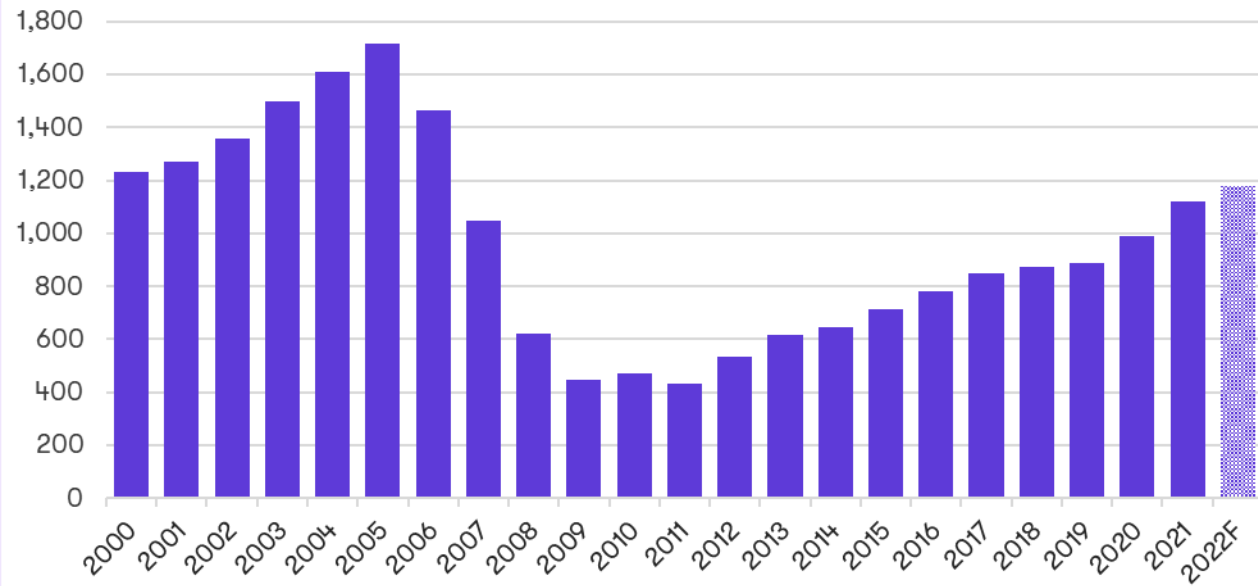
- Austin: 31.1%
- Houston: 31.5%
- San Antonio: 43.1%



Factors making true affordability hard to quantify

# Forecasts and final thoughts

## Single-Family Starts



Source: US Census Bureau; Zonda

We are calling for additional growth but with a little bit more caution

+5.1% in 2022



# Limiting factors

Texas

**73% Yes**

**Government Services**

(64% yes national)

**95% Yes**

**Supply Disruptions**

(91% yes national)

**85% Yes**

**Labor Shortages**

(79% yes national)

**71% Yes**

**Land Disruptions**

(66% yes national)

# More production capacity anticipated over time

## Siding

- James Hardie has additional lines and plants coming online gradually over 2022
- LP is converting 2 mills over to production of SmartSide and should have additional capacity in the second half of 2022

## Decking

- Trex announced a third production site to open in Little Rock, Arkansas that will be operational in 2024, to take on additional demand.
- Azek TimberTech will have a new manufacturing facility in Boise, Idaho, that will be fully operational in 2022. This facility will produce decking, railing, trim and accessories.

## Trusses

- MiTek is putting in \$35M in CapEx in the form of new lines to increase production at those facilities throughout 2022-23.
- BFS is also in the process of adding additional truss capacity in certain markets to help grow floor and roof truss capacity as well as wall panels. BFS is also investing in some robotic lines which could help with the labor shortages

## EWP

- Boise is running at effective capacity of over 90% and continues to work on increasing their productivity with operational efficiencies.
- Weyerhaeuser – probably operating around the 85% range.
- LP – converted their LSL mill to produce SmartSide, so while it will help the siding category, it will hurt the overall beam and header production in the short term.
  - They are pumping in some CapEx to improve their LVL production to offset the LSL volume loss.
  - They have committed to keep the EWP business up and running while they explore strategic options for this business.

## Gypsum

- No new additional production coming on board in 2022.

## Roofing

- No new additional production coming on board in 2022.
- Owens Corning just announced mill upgrades that will help in 2023.

## Insulation

- With only a slight increase in Fiberglass Insulation capacity, supply will remain tight for most of 2022.

## Millwork

- Fiberglass doors & Attic Stairways will remain difficult through Q2 2022. It will gradually improve through the balance of next year.

## Windows

- Window suppliers are receiving partial orders from component suppliers like glass, hardware and extrusions. With production already hand to mouth, this has caused last minute manufacturing delays in window orders.
- Window manufacturing will continue with lead time challenges through Q2 of 2022. Additional industry capacity will support builder growth forecasts, but order file backlogs will take a considerable time to work through.

## Adhesives

- With the tightness on resin predicted to remain the same, expect shortages on caulking and adhesives

## Fasteners

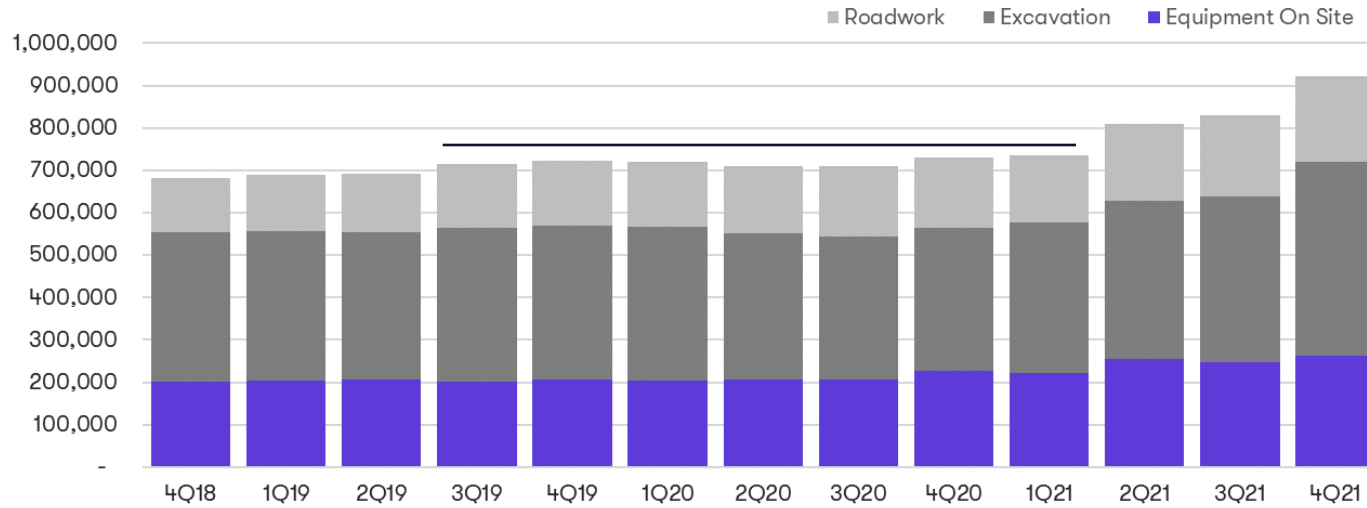
- While steel pricing continues to stabilize, overseas freight continues to provide challenges

## MDF mouldings/shelving

- On allocation and will remain difficult through the balance of this year as additional production is added in 2023

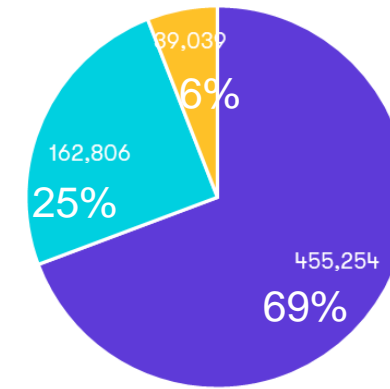
# Total upcoming lots +26% YOY

## Total Upcoming Lots - United States



Source: Zonda

## Expected Vacant Developed Lot Delivery Based on Stage of Construction



■ Excavation (3Q/4Q 2022) ■ Streets Paved (2Q22) ■ Streets In (1Q21)

Source: Zonda

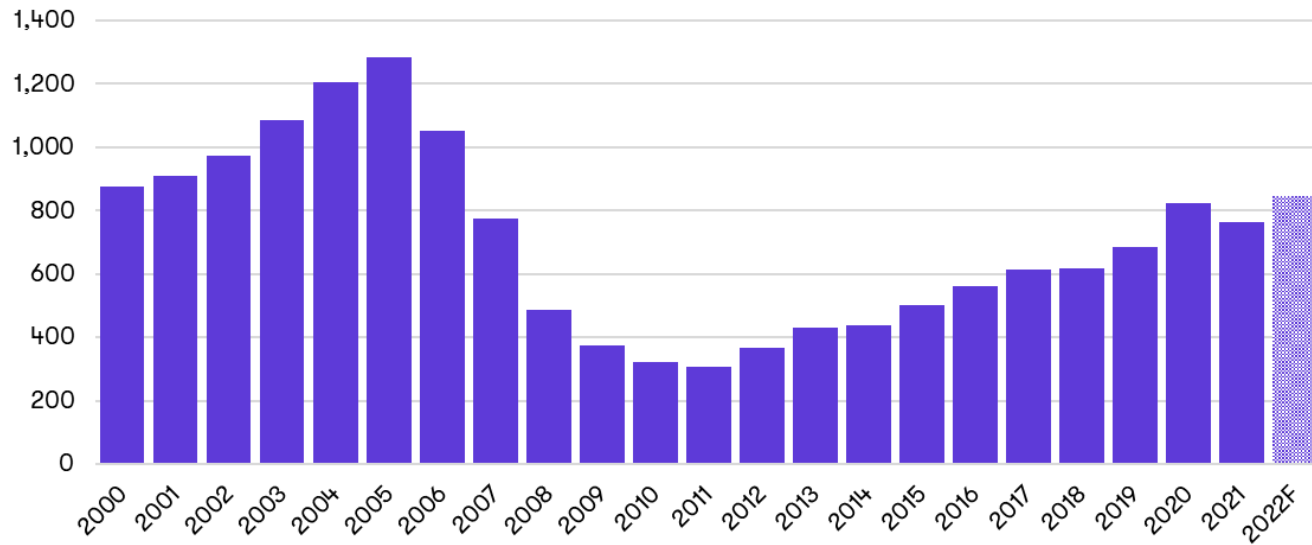
### Lots by Stage of Development and Expected Delivery (% Share)

Metro	Excavation (3Q/4Q 2022)	Streets Paved (2Q22)	Streets In (1Q21)
Dallas	39,855 (69%)	17,548 (30%)	463 (1%)
Seattle	30,016 (82%)	452 (1%)	6,101 (17%)
Phoenix	32,264 (91%)	3,065 (9%)	141 (0%)
Orlando	16,103 (61%)	7,904 (30%)	2,515 (9%)
Charlotte	12,052 (51%)	8,888 (38%)	2,497 (11%)
Sacramento	4,721 (20%)	16,901 (73%)	1,660 (7%)
Jacksonville	16,496 (76%)	4,613 (21%)	685 (3%)
Atlanta	15,878 (74%)	5,471 (25%)	203 (1%)
Washington, DC	16,578 (82%)	3,612 (18%)	9 (0%)
Raleigh	14,275 (77%)	4,320 (23%)	43 (0%)
San Francisco	8,399 (47%)	8,715 (48%)	932 (5%)
Denver	12,043 (74%)	4,169 (26%)	40 (0%)
Austin	7,873 (51%)	6,466 (42%)	1,226 (8%)
San Antonio	8,365 (67%)	4,151 (33%)	62 (0%)
Houston	8,093 (66%)	4,094 (34%)	25 (0%)
New York	6,619 (72%)	1,282 (14%)	1,325 (14%)
Tampa	5,174 (67%)	206 (3%)	2,362 (31%)
Chicago	4,486 (67%)	2,052 (31%)	140 (2%)
Las Vegas	5,215 (88%)	621 (11%)	59 (1%)
Philadelphia	3,341 (69%)	1,133 (23%)	395 (8%)
Los Angeles/OC	2,760 (62%)	642 (14%)	1,029 (23%)
Colorado Springs	2,455 (66%)	1,221 (33%)	16 (0%)
Salt Lake City	1,700 (70%)	587 (24%)	144 (6%)

Source: Zonda

More homes expected in the next 24 months

## New Home Sales



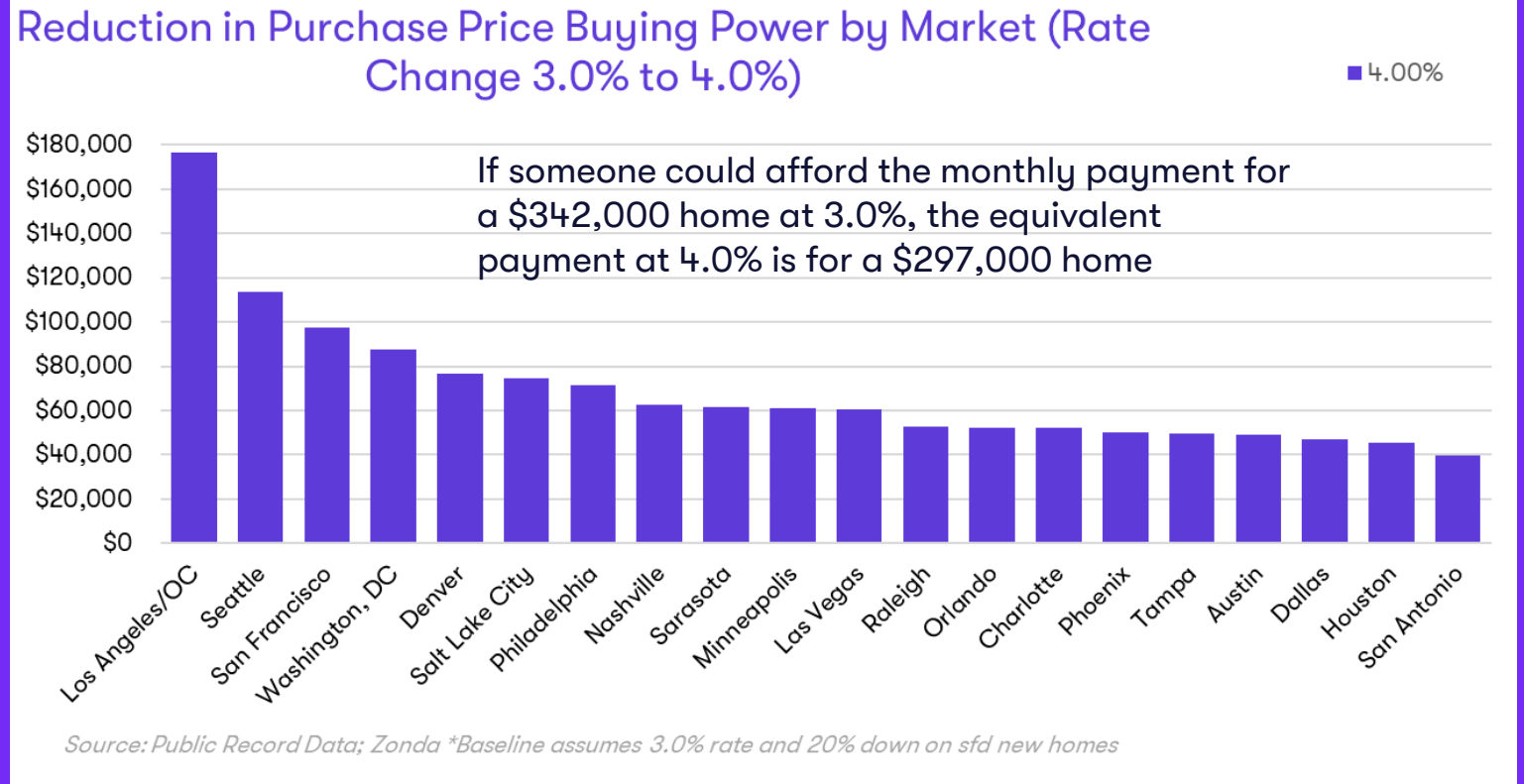
Source: U.S. Census Bureau; Zonda

Sales  
dependent on  
supply, sales  
caps, and  
affordability

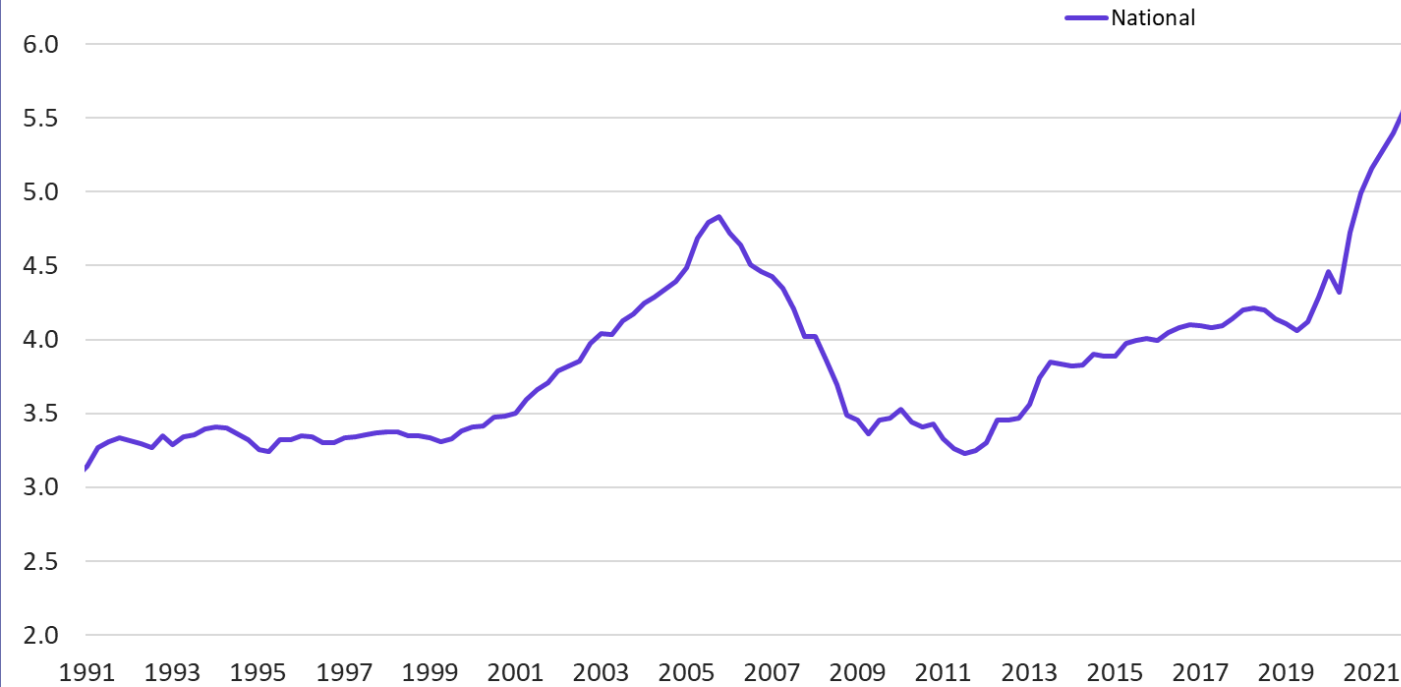
-7.3% in 2021, +10.9% in 2022

# Don't ignore the impact

- A 0.5% change in interest rate translates to 6.5% in home price
- A 1.0% change in interest rate translates to 13.2% in home price



Historical Median Resale Single-Family Price to Income Ratio

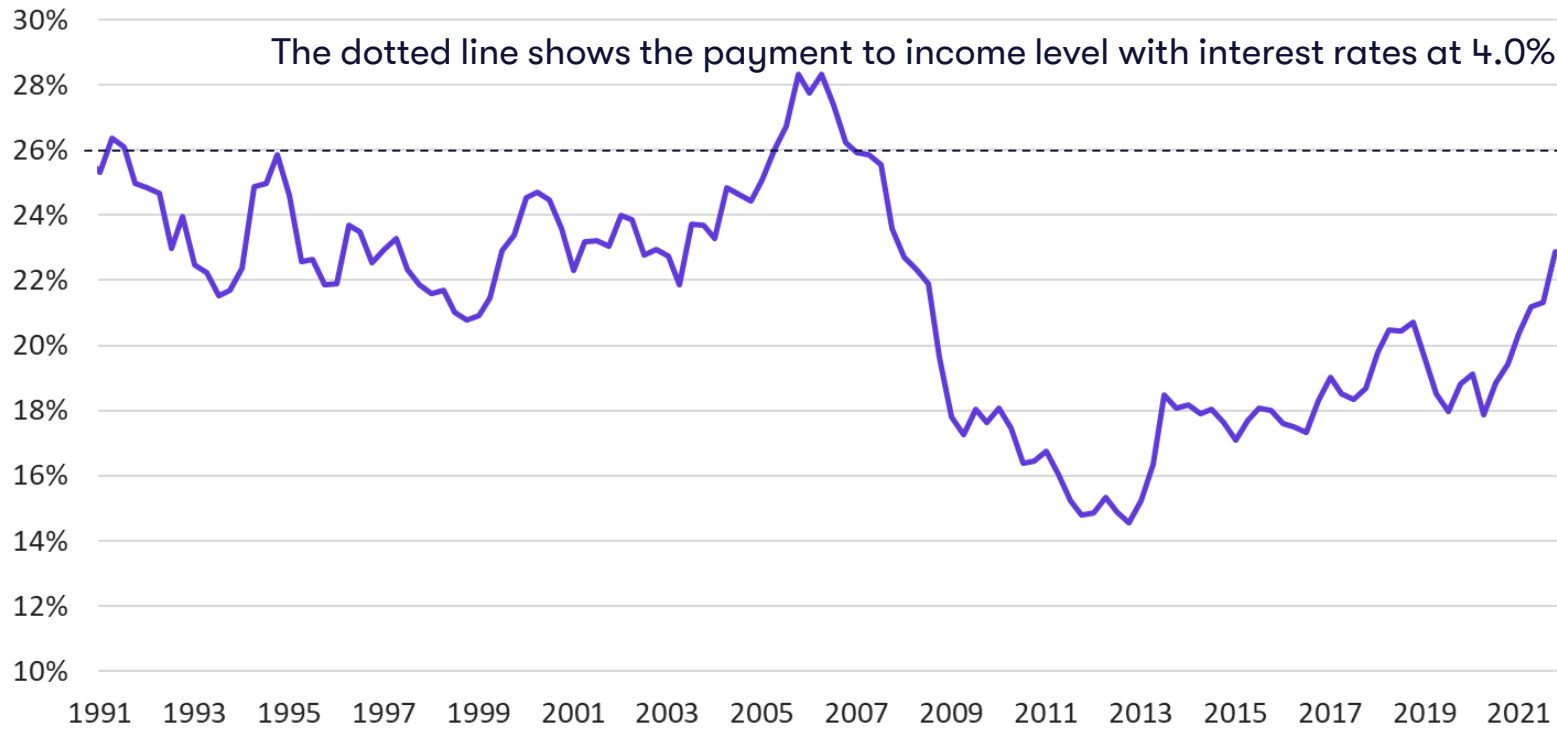


Source: NAR; US Census Bureau, Moody's Analytics; Zonda

Price to  
income ratio  
at new highs

The days of “low interest rates offsetting HPA” are behind us

Historical Median Resale Single-Family Mortgage Payment to Income Ratio



Source: NAR; US Census Bureau, Moody's Analytics; Zonda \*assumes 20% down, using quarterly average 30-year fixed

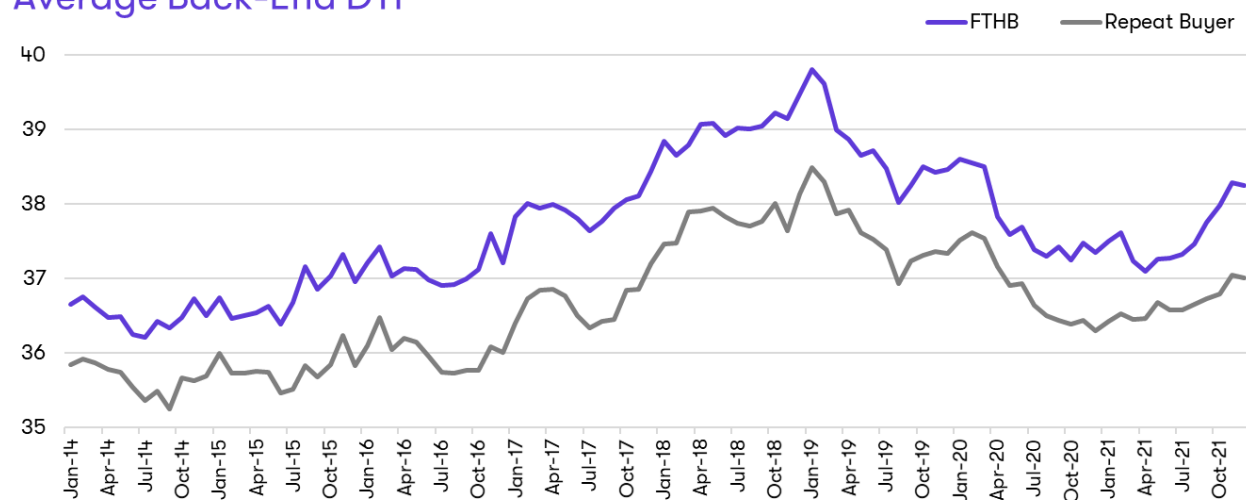
## Income vs wealth

- Relocation vs local
- First-time vs move-up
- Lower income vs higher income



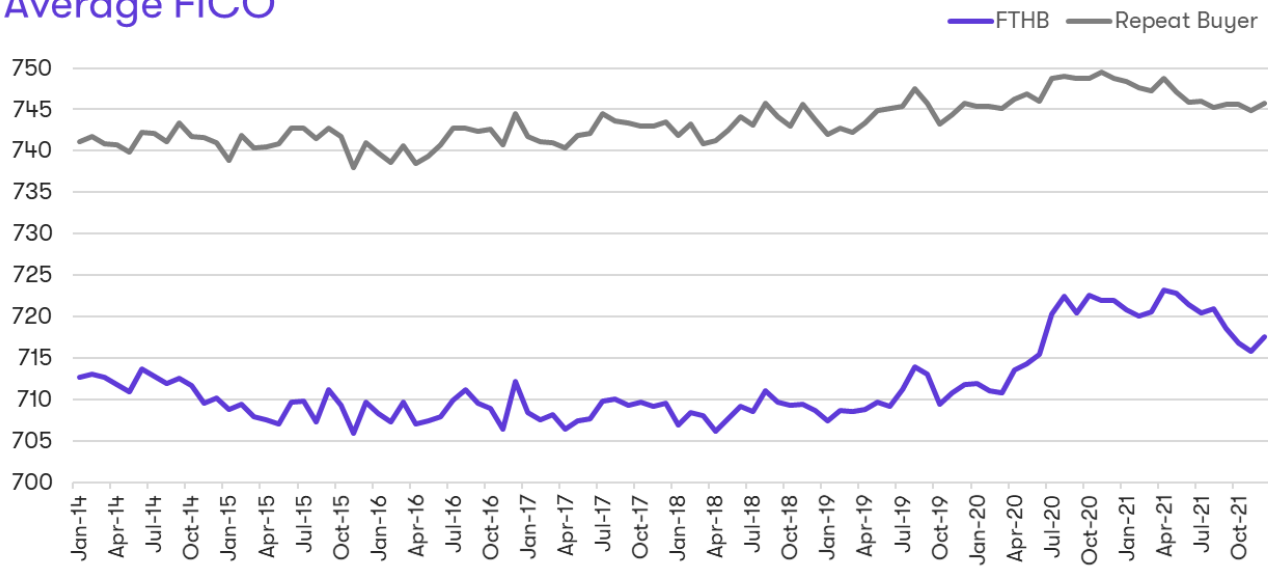
# Quality is strong but keep tracking

Average Back-End DTI



Source: Fannie Mae; Zonda

Average FICO

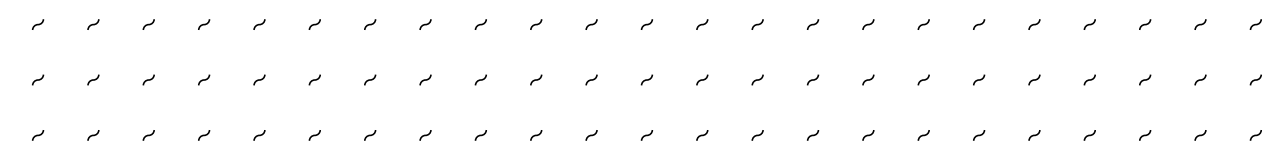


Source: Fannie Mae; Zonda

Starting to see challenges with interest rates

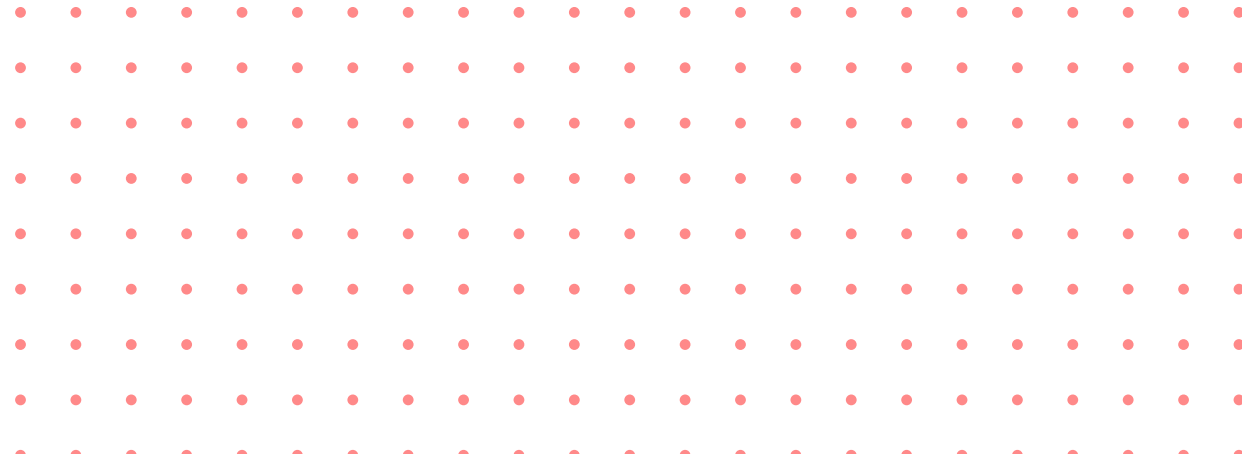
Some mortgage issues

We are starting to see buyers that can't qualify at the higher prices



# Final thoughts

- Expect a lot more for-sale and rental building in the years to come, but where will demand be at that point?
- Supply chain challenges should free up over the next 12-18 months
- Watch for sensitivity on home prices and rental rates
- Part-time WFH is here to stay
- Geopolitical risk picking up
- Are we at an inflection point?
- Watch for how the winners and losers play out
- Expect some economic volatility as consumers and businesses going through different periods of recalibration. Watch for hard or soft landing. If done right, we can get back on a healthier growth path



Thank you

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