

State of the housing market and wider economy



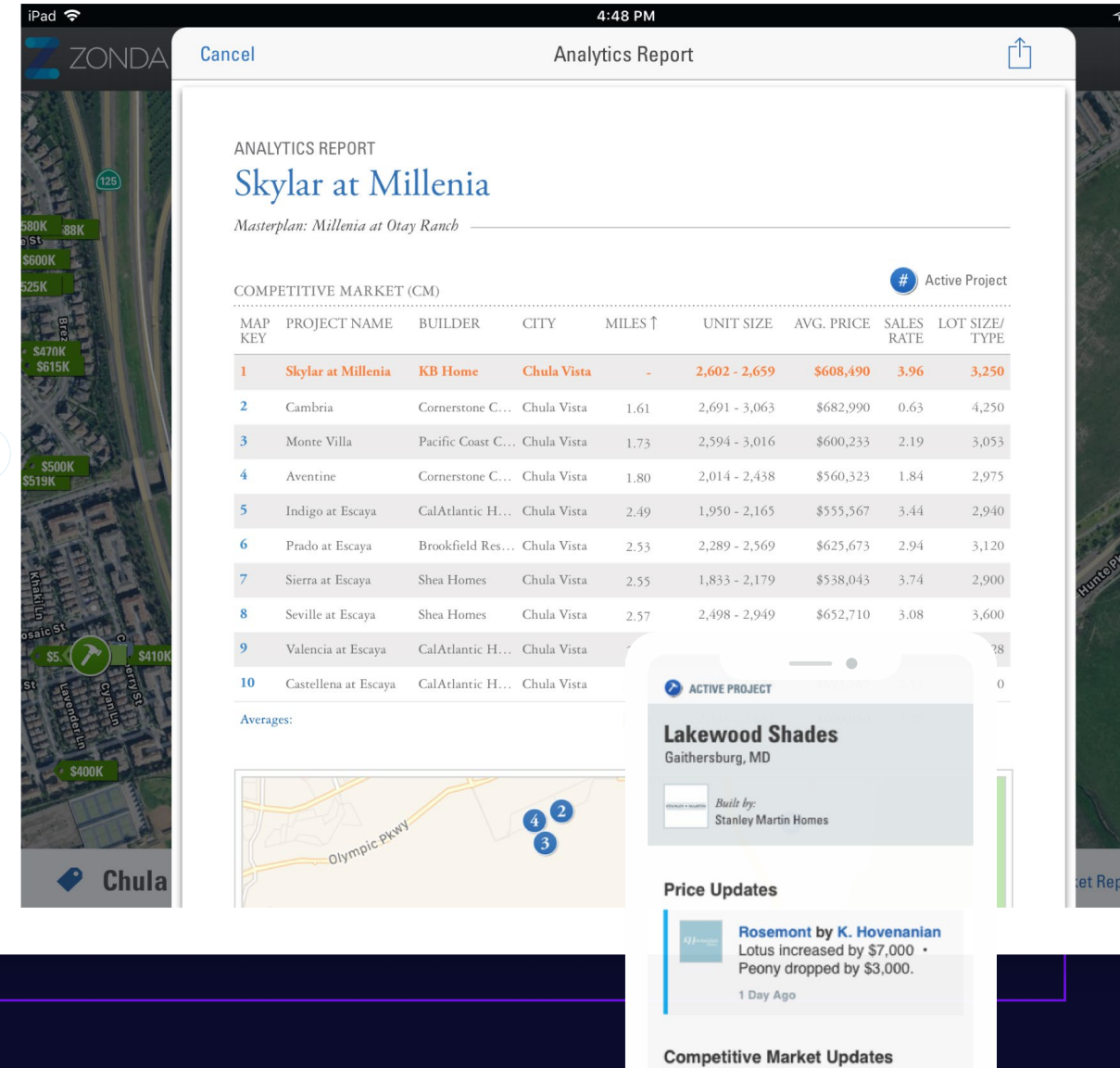
Ali Wolf

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. Economic backdrop
2. Housing trends
3. Buyers and demographics
4. Forecasts and final thoughts

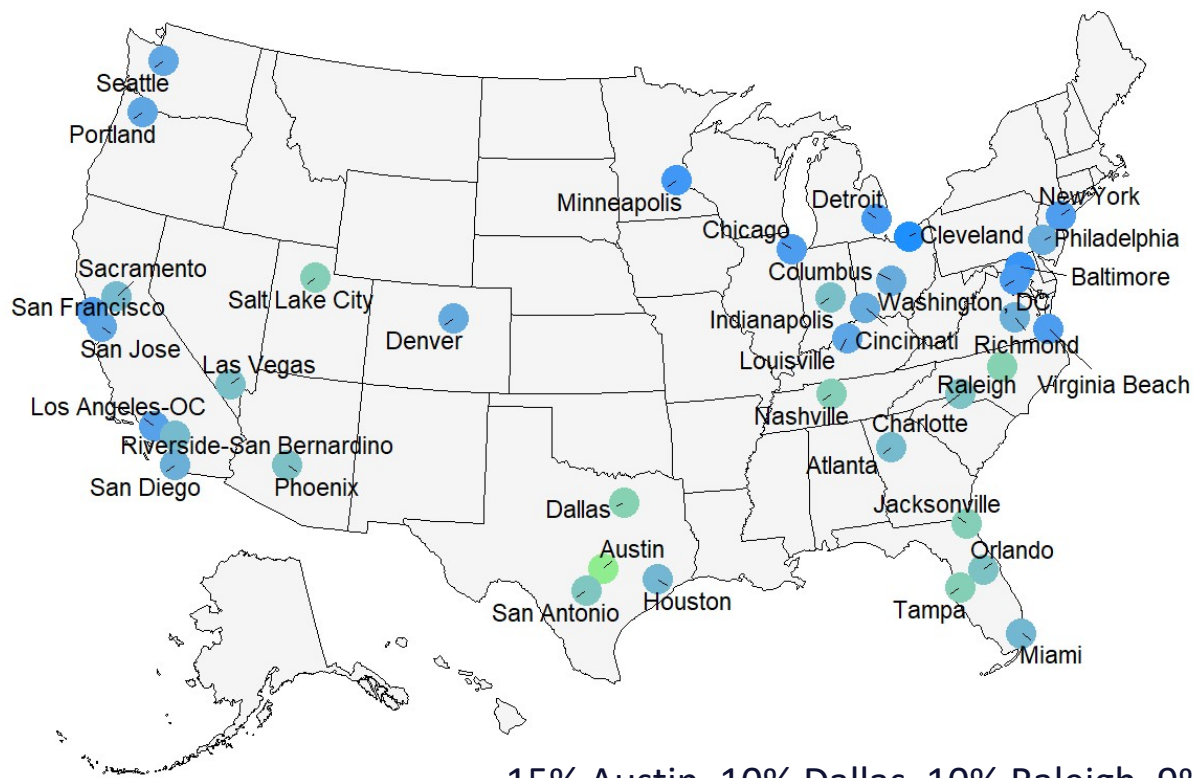
Economic backdrop

11 short-term increases so far

How to measure their success? Many ways!

- Avg 239K jobs each month this year vs 426K YTD 2022 (164K in '19)
- 3.9% unemployment (strike + more people in labor force + layoffs) – up from 3.6% last March
- Job openings at 9.5M compared to 11M and 7M
- Employment cost index 4.5% vs 5.7% at peak and 3.0% in '19
- Total employment: 3% above pre-pandemic levels nationally

Total Job Growth Relative to February 2020



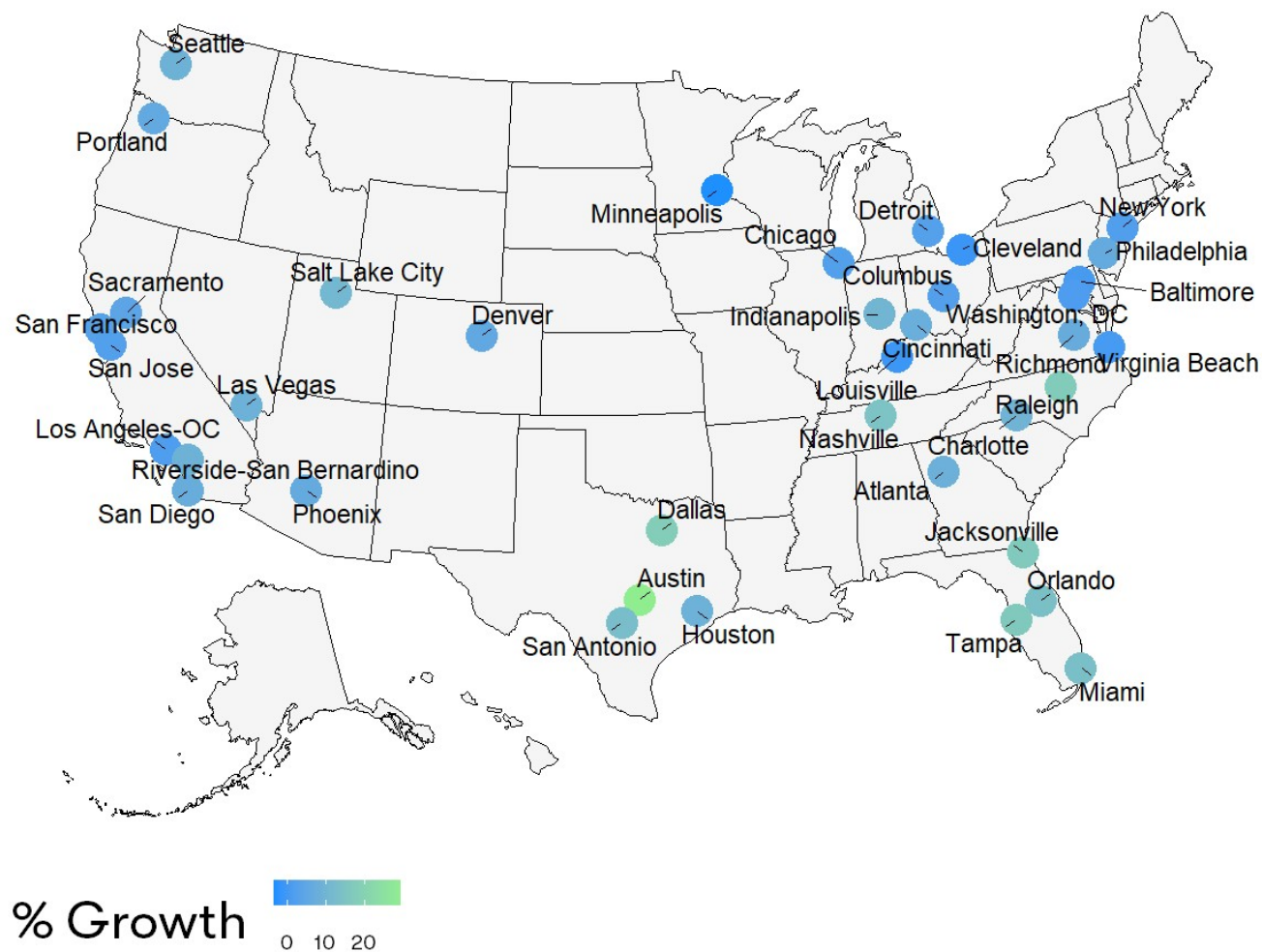
15% Austin, 10% Dallas, 10% Raleigh, 9% Tampa, 9% Nashville

% Growth
0 5 10

Source: Moody's; BLS; Zonda

High-income
jobs 6% above
pre-pandemic

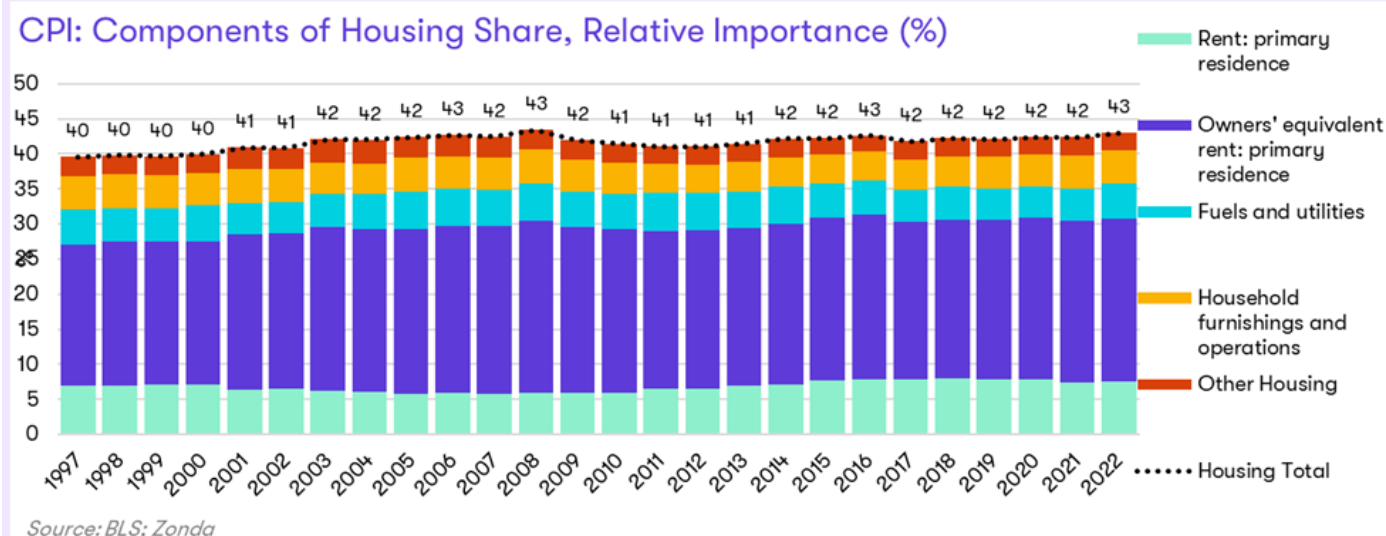
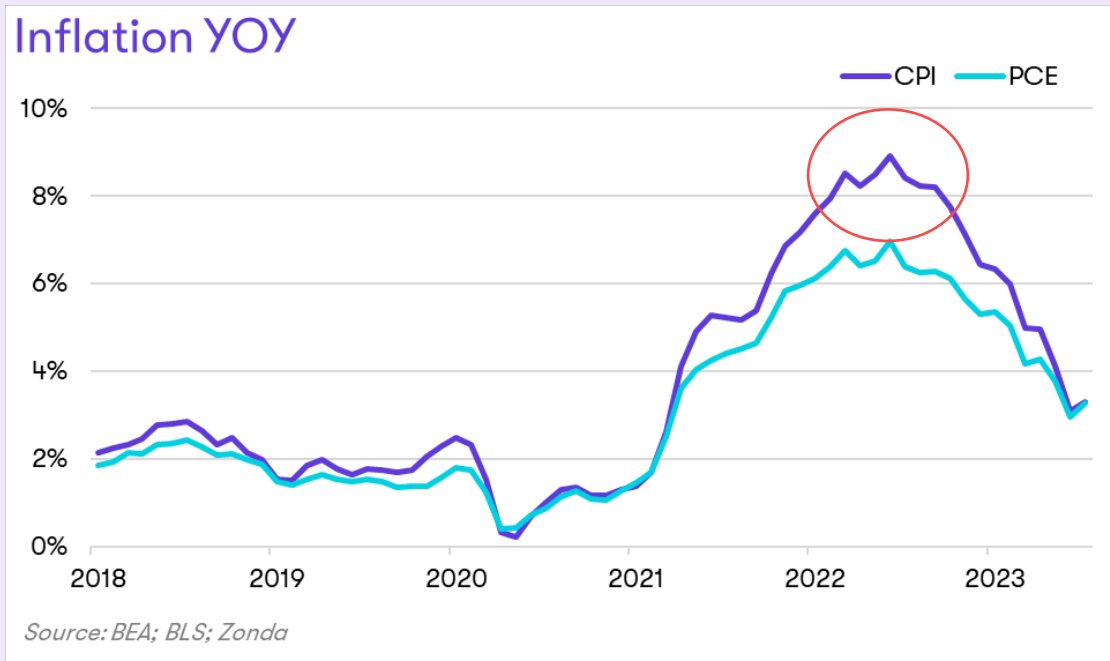
30% Austin, 20% Dallas, 17% Jacksonville, 17% Raleigh, 16% Tampa



Source: Moody's; BLS; Zonda

Inflation data is still running hot, but generally improving (!)

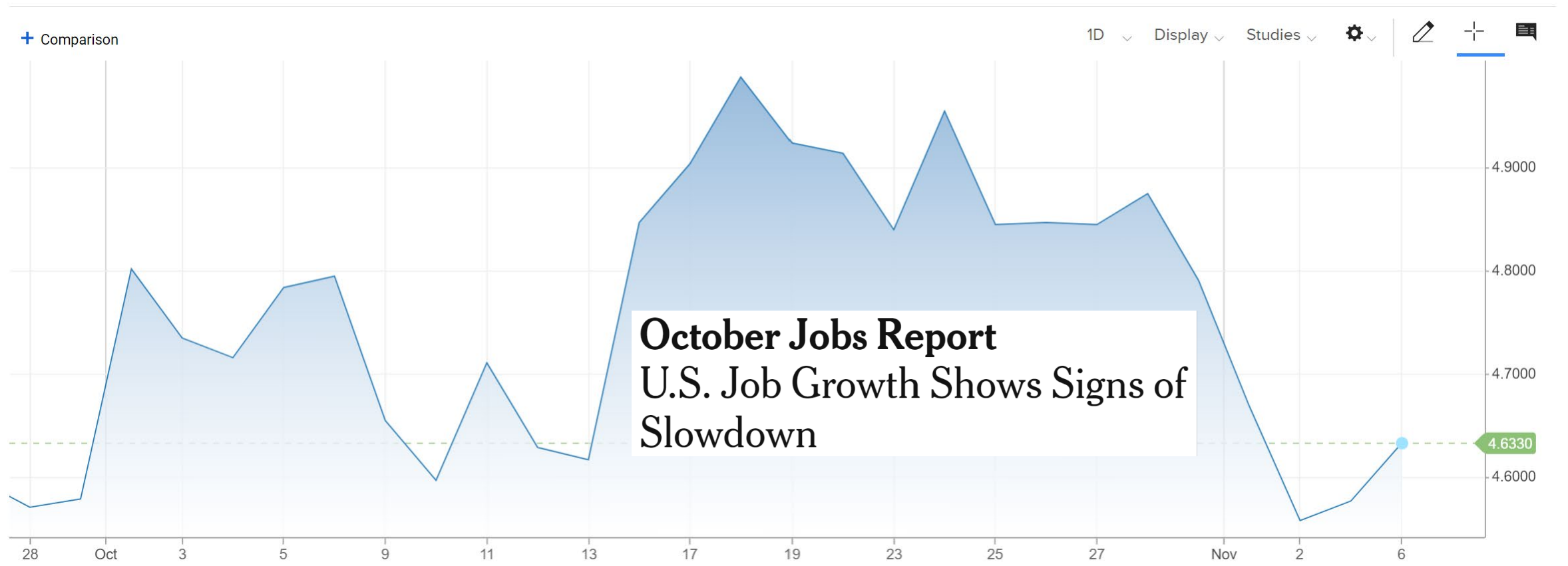
CPI (core and headline) and PCE (core and headline): 3%-5%



Still up 7.3% YOY

When **good** news is **bad**
news for our industry with rates

And **bad** news is **good**
news





Change in Monthly Mortgage Payment

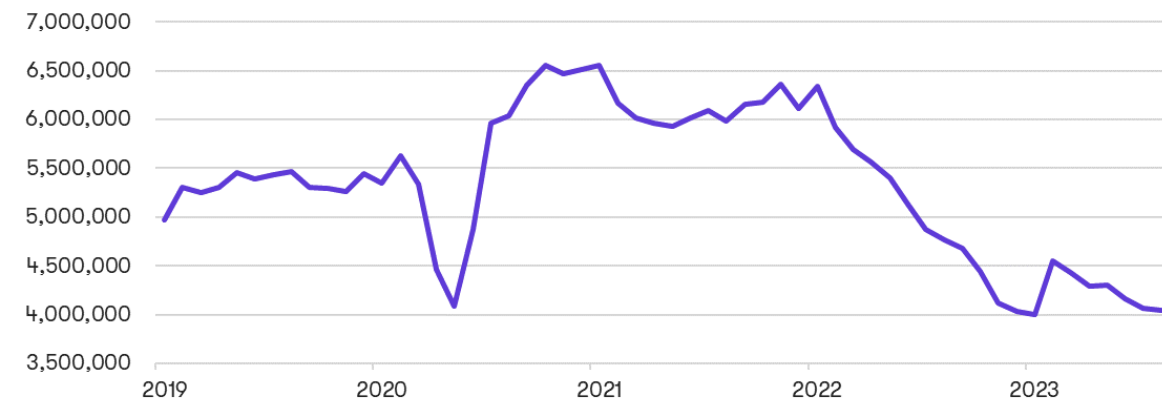
Metro	Jan-22	CM Payment	Percent Change
Orlando	\$1,132	\$2,280	101%
Tampa	\$1,110	\$2,206	99%
Jacksonville	\$1,078	\$2,085	93%
Atlanta	\$1,140	\$2,197	93%
Charlotte	\$1,136	\$2,177	92%
Indianapolis	\$834	\$1,591	91%
Dallas	\$1,142	\$2,173	90%
Raleigh	\$1,345	\$2,552	90%
Houston	\$947	\$1,783	88%
Los Angeles / OC	\$2,867	\$5,294	85%
Las Vegas	\$1,323	\$2,379	80%
Denver	\$1,878	\$3,368	79%
Denver	\$1,878	\$3,368	79%
Seattle	\$2,317	\$4,122	78%
Portland	\$1,790	\$3,159	76%
Phoenix	\$1,501	\$2,639	76%
Sacramento	\$1,922	\$3,307	72%
San Francisco	\$3,915	\$6,584	68%
Austin	\$1,672	\$2,749	64%

Source: Zillow; Zonda *assumes 20% down, January-22 rate was 3.45%, current rate is 8.0%

Interconnectivity
between the economy
and housing market

Housing trends

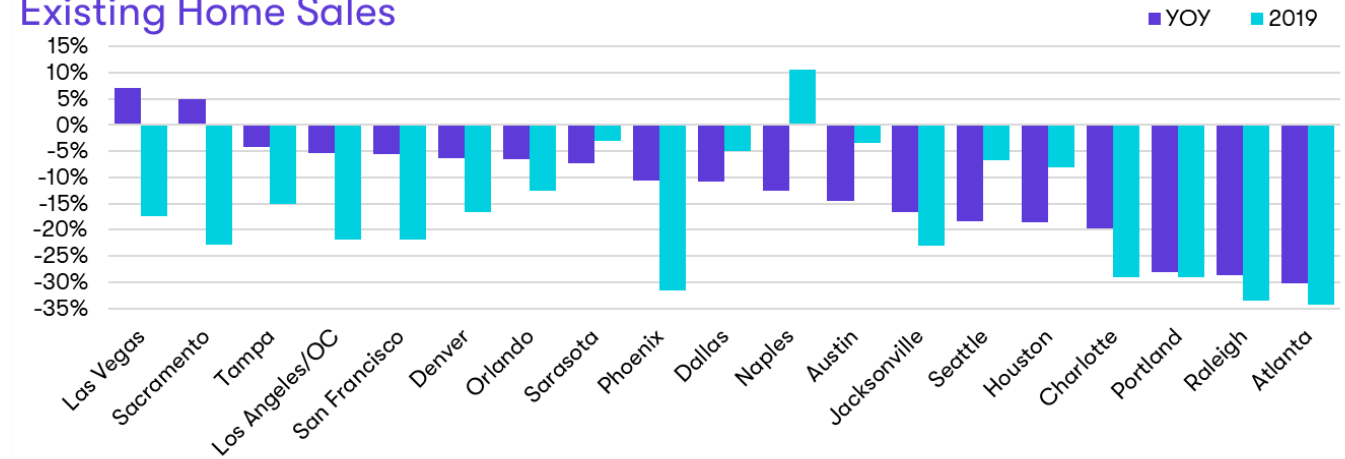
Total Existing Home Sales (SAAR)



Source: NAR; Zonda

-0.7% MOM, -15.3% YOY

Existing Home Sales

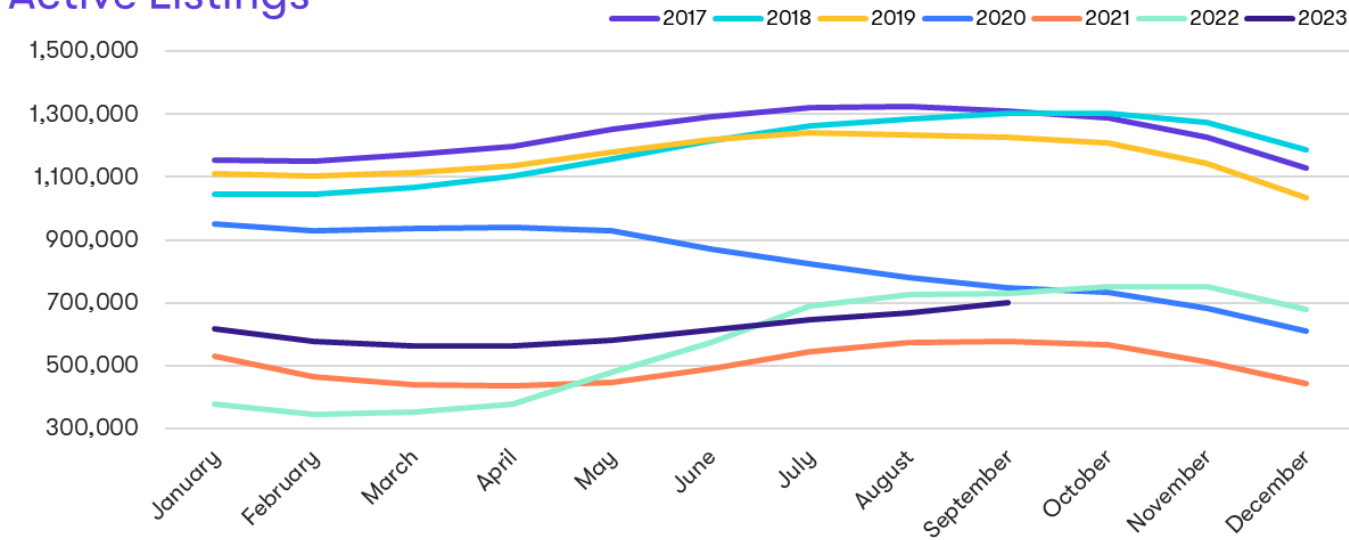


Source: NAR, Moody's; Zonda

Sales down on rates, confidence, and inventory

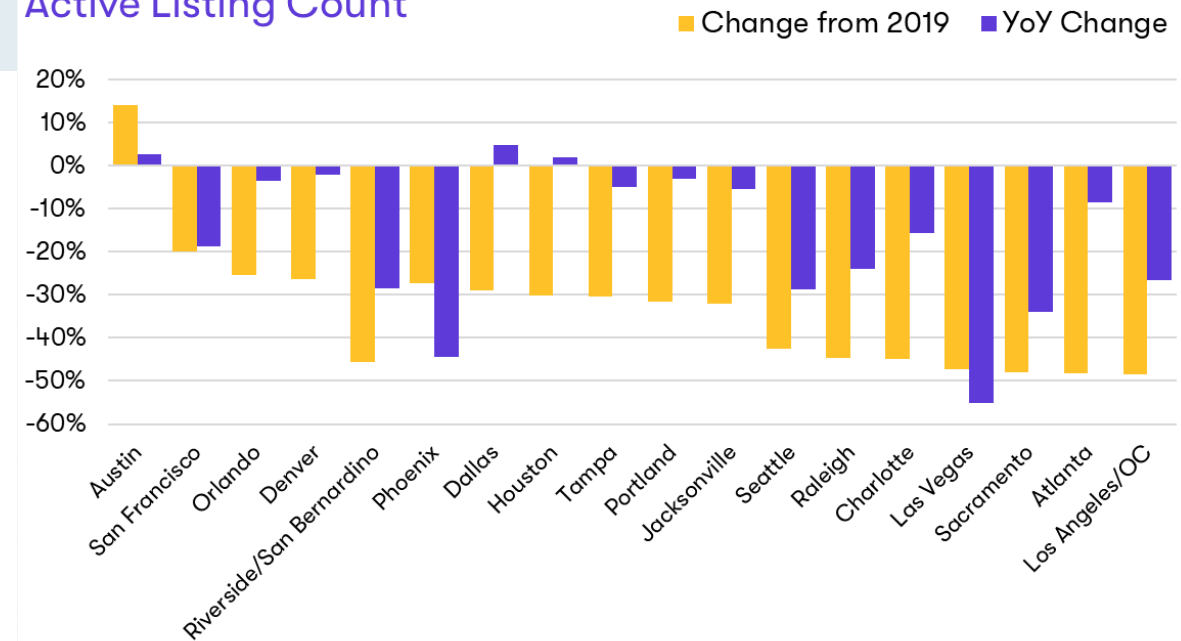
Listings still constrained but following seasonal pattern

Active Listings



Source: Realtor; Zonda

Active Listing Count

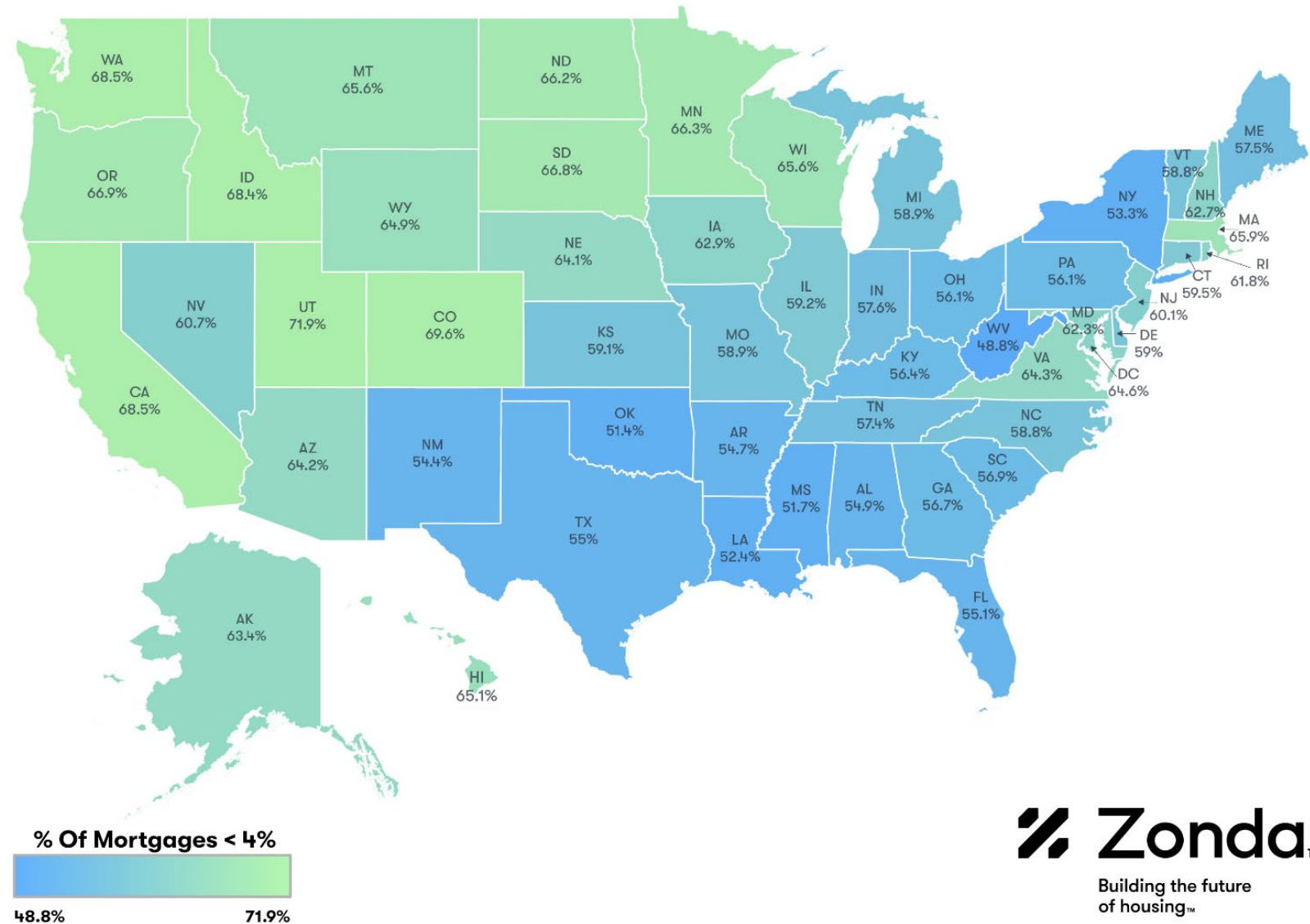


Source: Realtor.com; Zonda

Still that disincentive to sell

2Q 2023: Outstanding Mortgages with Less Than 4% Interest Rate

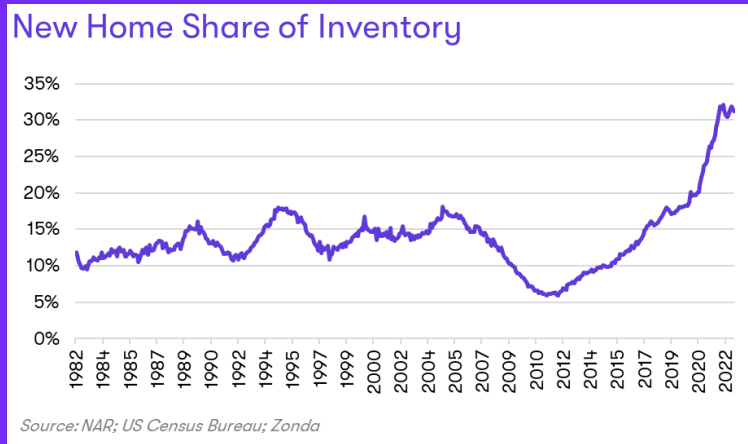
Lock-in effect
more severe in
the West



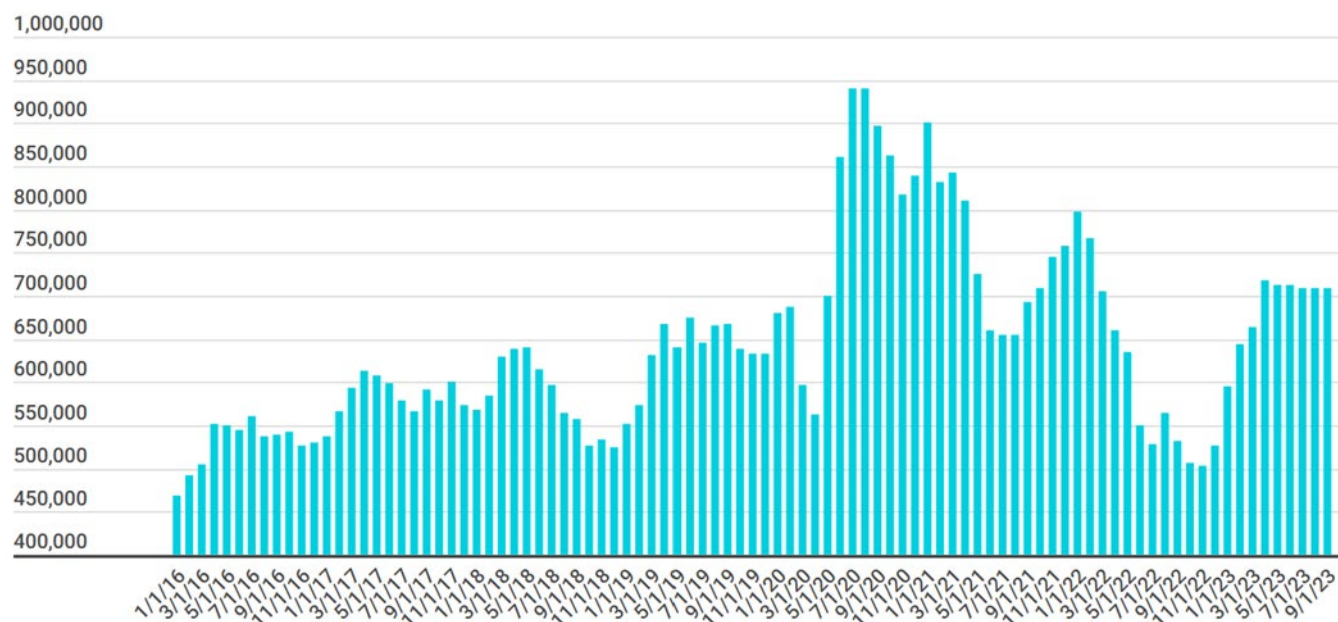
Tale of two housing markets was the story for 2023

Demand dropped as expected with higher rates (the point of rate increases!)

But the unintended consequence of higher rates is that supply came down even more benefitting those that still have inventory



New Home Sales (SAAR)



Source: Zonda

A unique period of
time funneling
people into the new
home market

Working in the favor of builders:

- Low resale supply
- Old and expensive resale supply
- A narrower price spread between new and existing homes
- QMI inventory to address those looking to move now
- Brand new product to help consumers justify paying today's prices
- Incentives, including buydowns and funds towards closing costs

Affordability is worse today,
but there was a greater *shock*
last year

End of '21 to end of '22: 60% payment shock

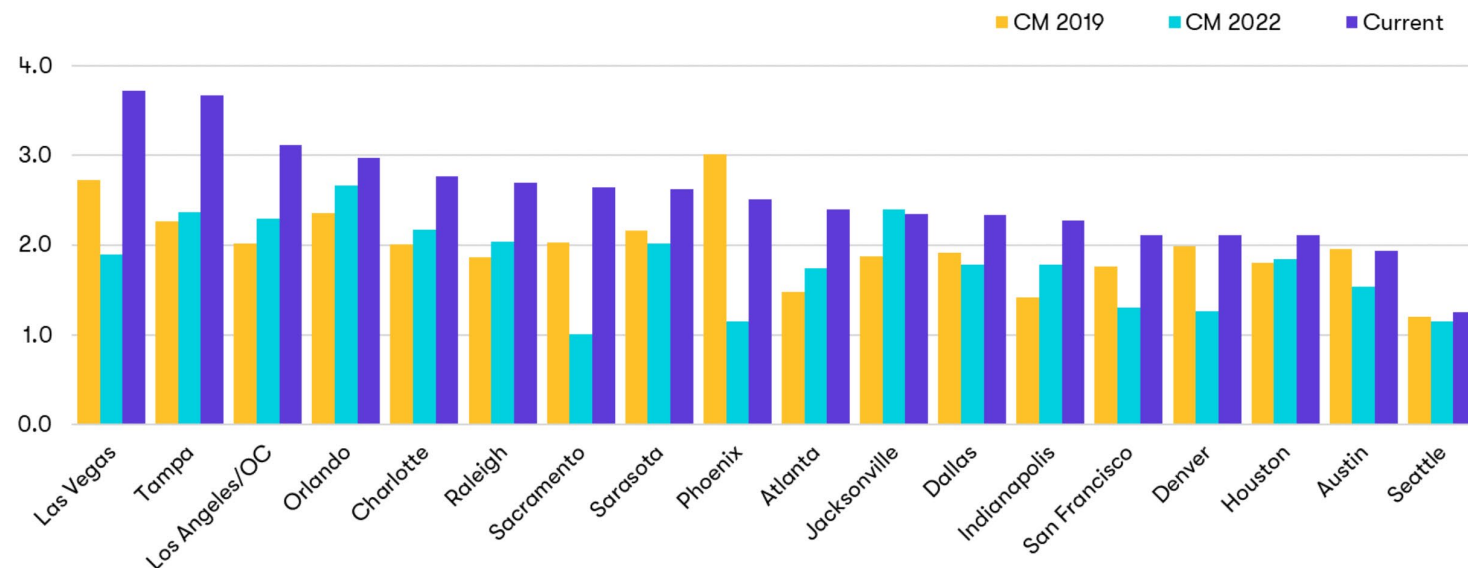
If someone could afford \$500K in 2021, then could
only afford \$341K by late 2022

End of '22 to current: 20% payment shock

If someone one could afford \$500K in 2022, that
went down to \$426K today

Market isn't easy today though

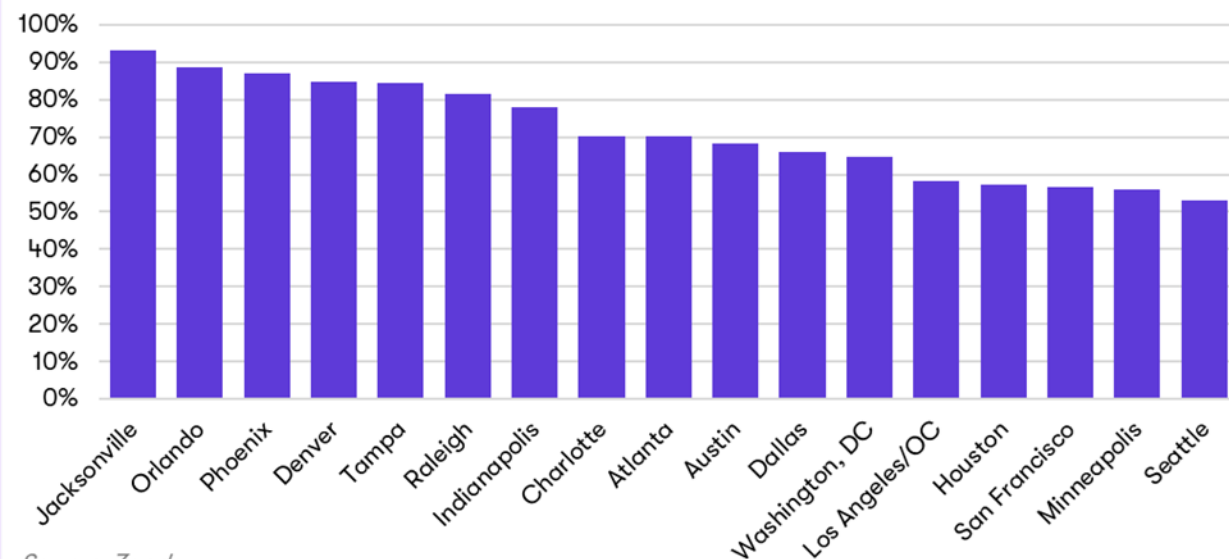
Average Sales Rate



Source: Zonda

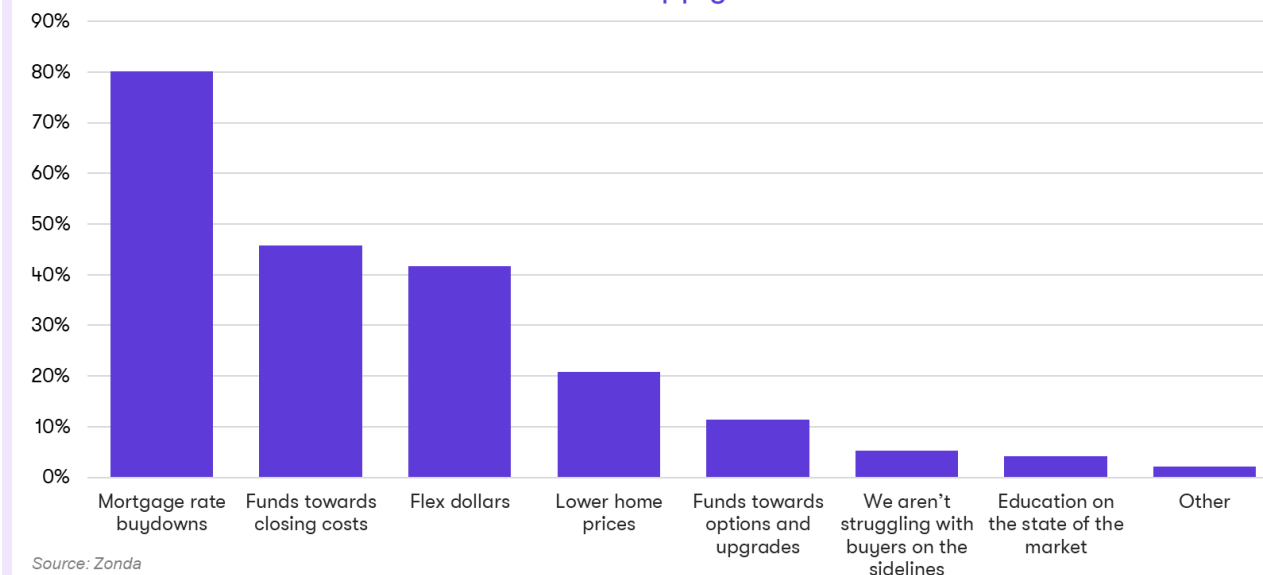
Incentives help seal the deal

Share of Projects Offering QMI Incentives



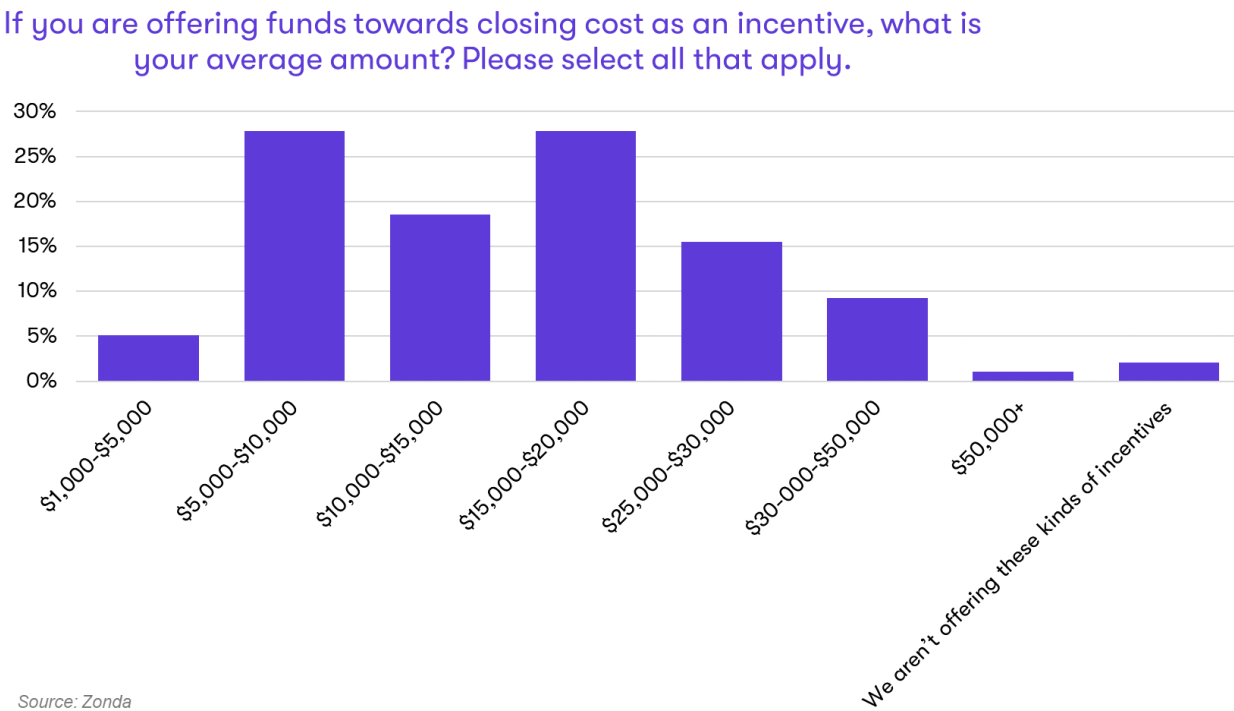
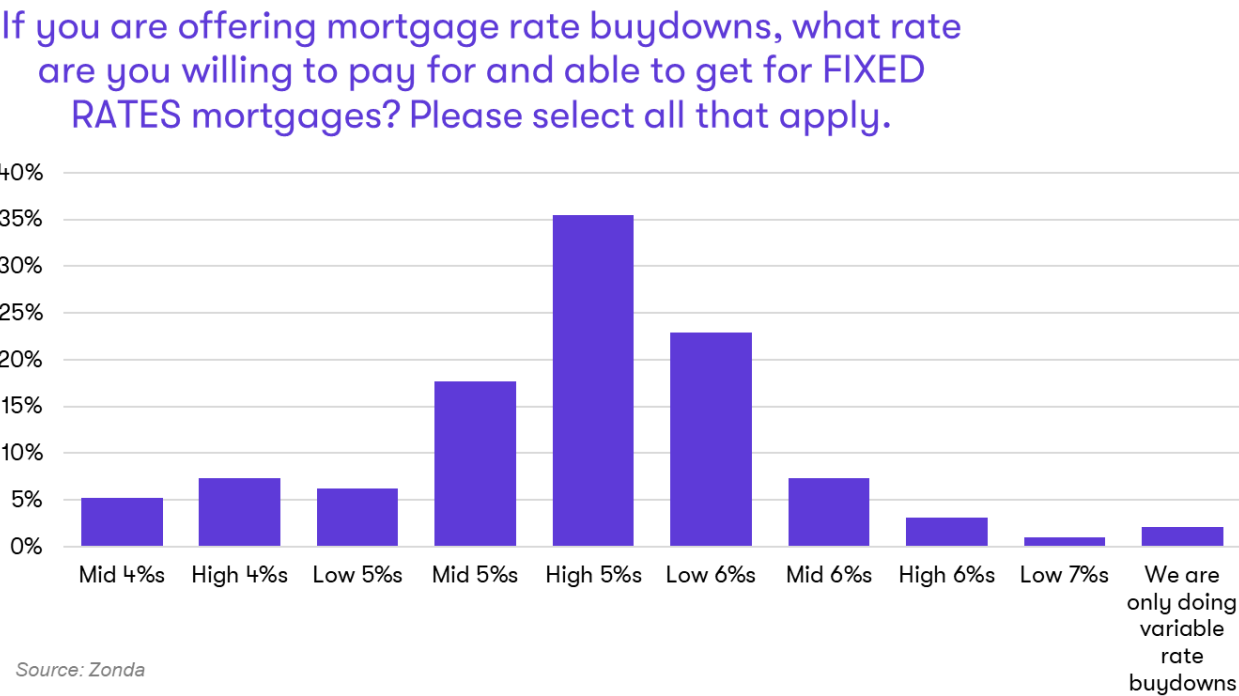
Source: Zonda

What has been the most effective way to get buyers off the sidelines? Please select all that apply.



Source: Zonda

What do these incentives look like?



New homes still
outperforming but
not immune to the
headwinds

Mortgage rate races toward 8% after hitting a high not seen since late 2000

Home prices and mortgage rates keep rising, and it might get worse still

Home prices are likely to fall in these markets

Housing market: Home prices unaffordable in 99% of U.S. counties

Housing outlook: 8% mortgage rates to trigger recession, Wells Fargo says

Sentiment shift

Velocity has all but died out, and people seem to be sitting on the sidelines

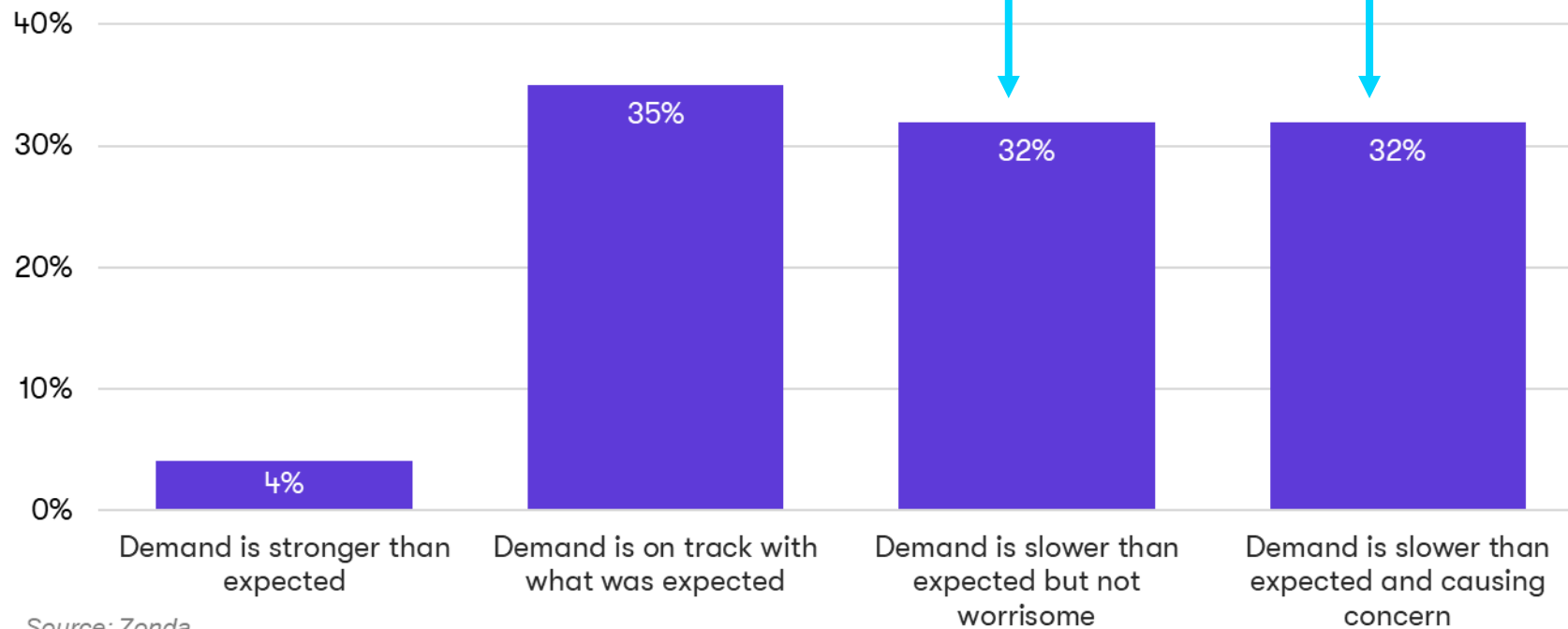
Entry level buyers are priced out.
Move-up buyers are spooked.

Concern over rates continues to increase. People are starting to put their purchase plans on hold.

Combination of rates, insurance, and inflation are now serious

Seasonality+

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

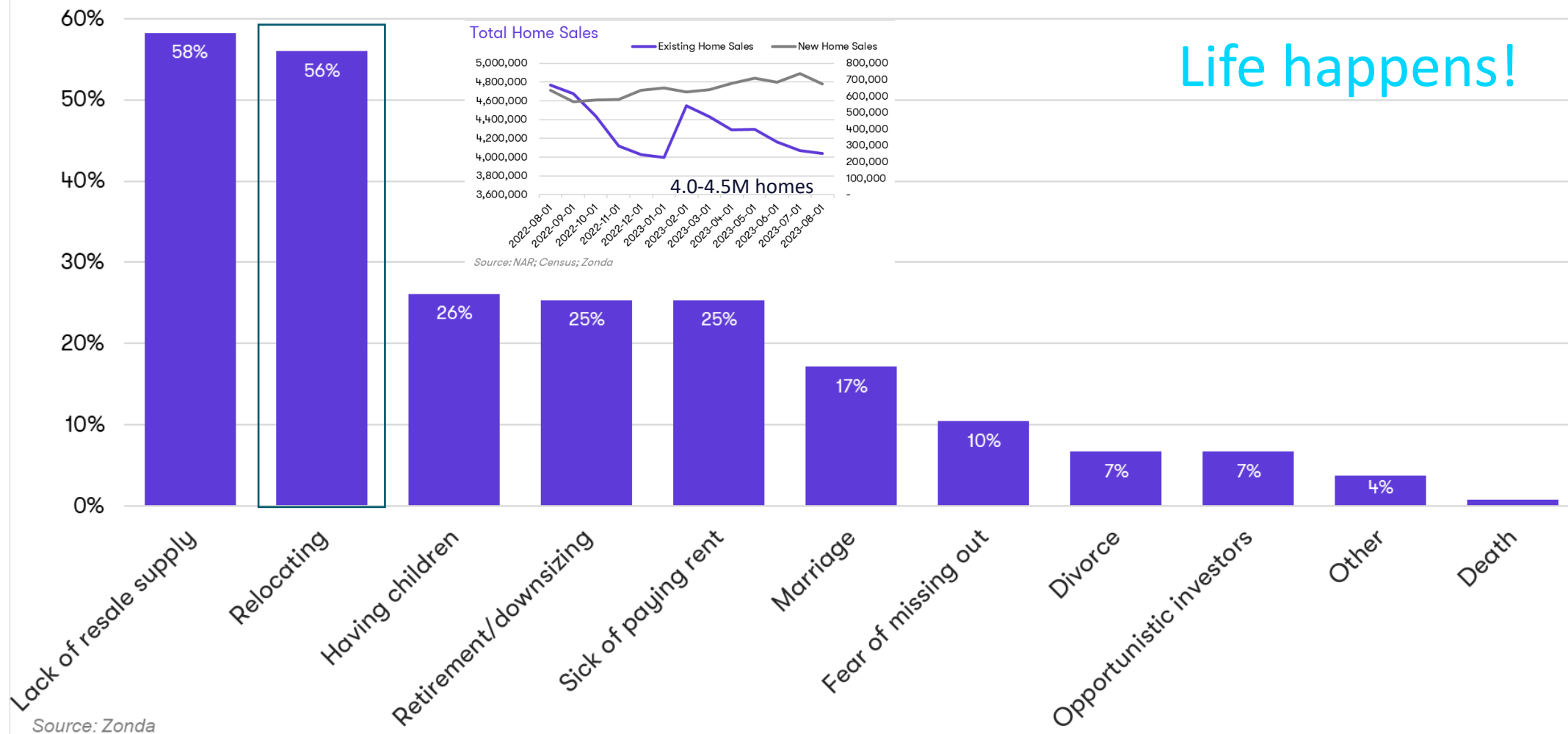


Source: Zonda

Buyers and demographics

Given the affordability backdrop, why are buyers shopping today?

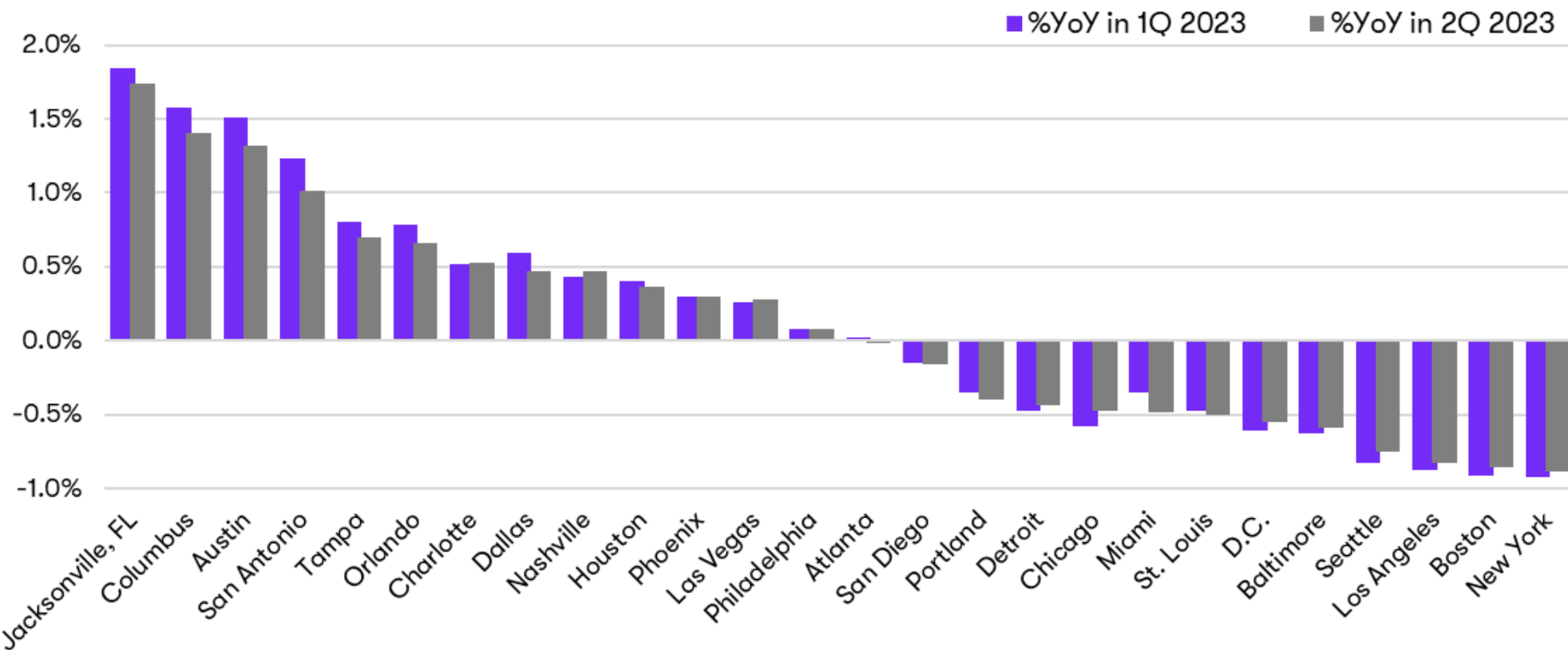
Why are buyers purchasing your homes today? Please select all that apply.



Life happens!

Real time migration data

Net population change in major MSAs

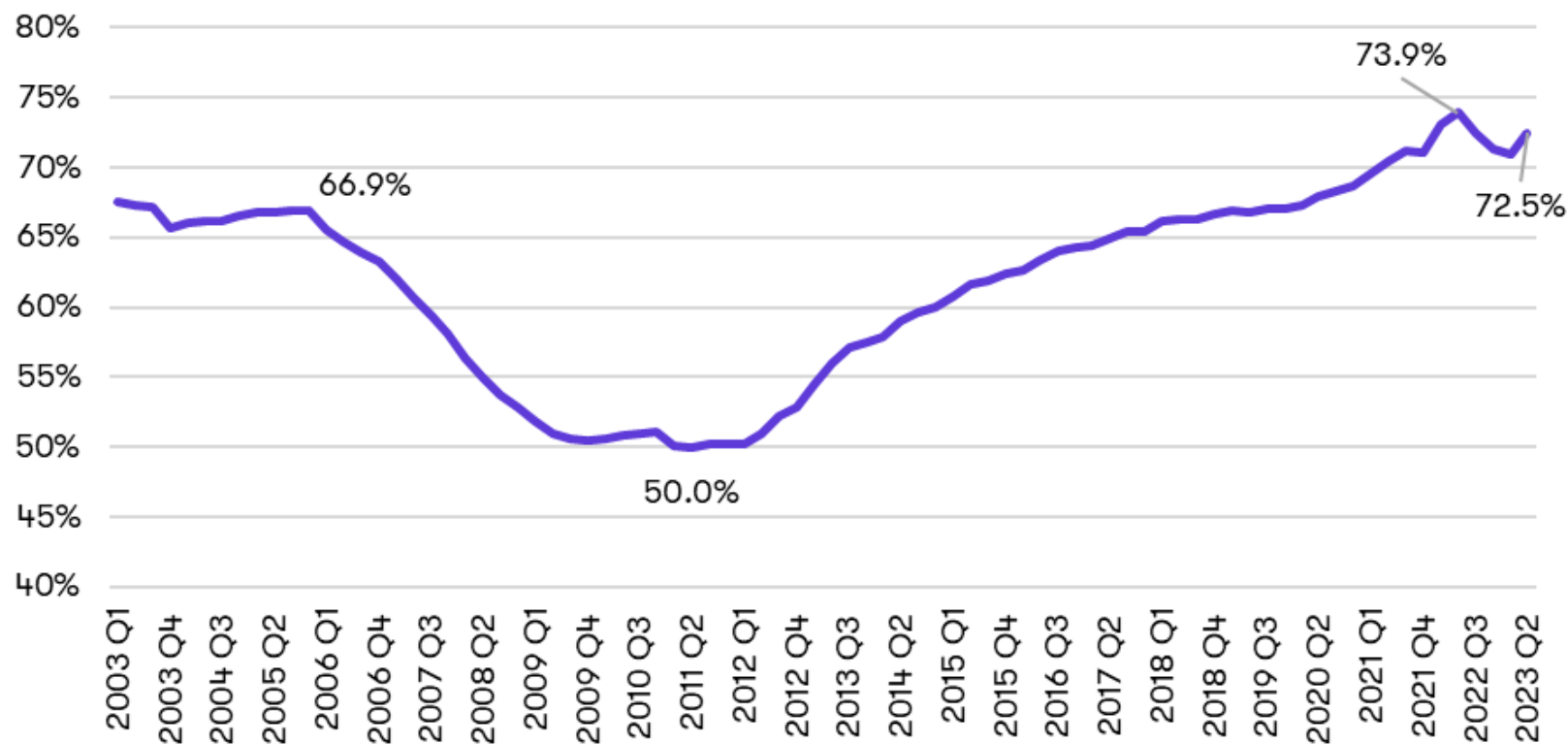


Source: Bank of America internal data, Bank of America Institute; Zonda

📈 Zonda

Those that already own homes have benefited from rising prices

Owner Equity as % of Total Value

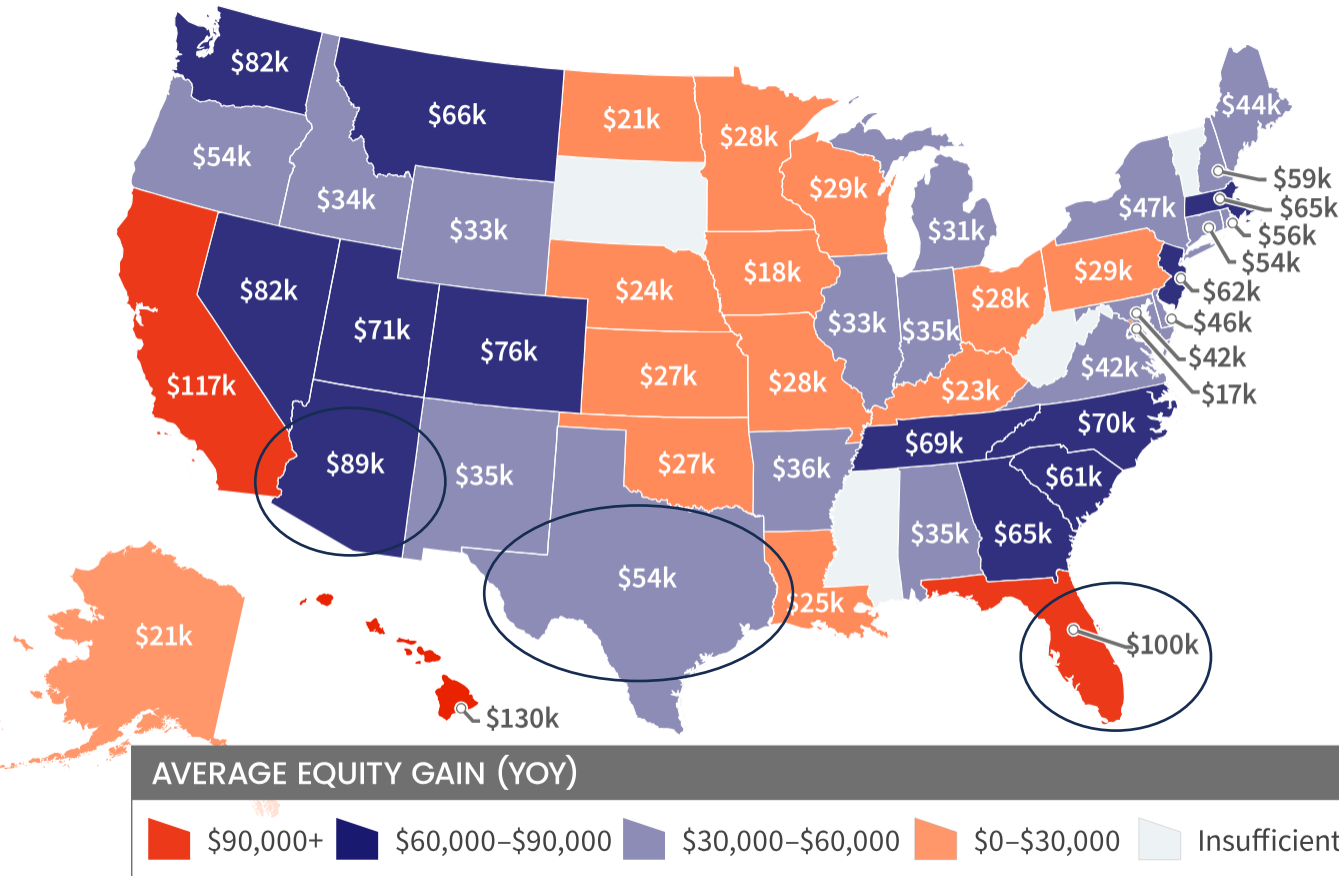


Source: FRED; New York Fed; Zonda

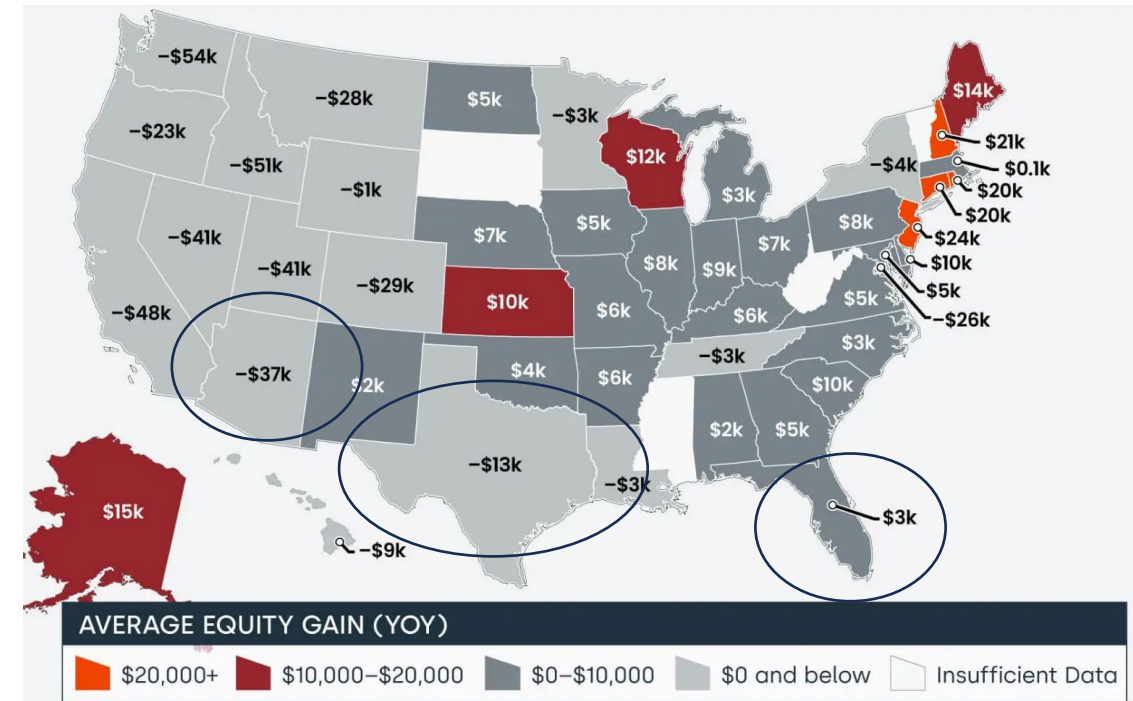
Equity / (Equity + Mortgage Debt)

Price correction last year took away some of the gains

2Q22



2Q23



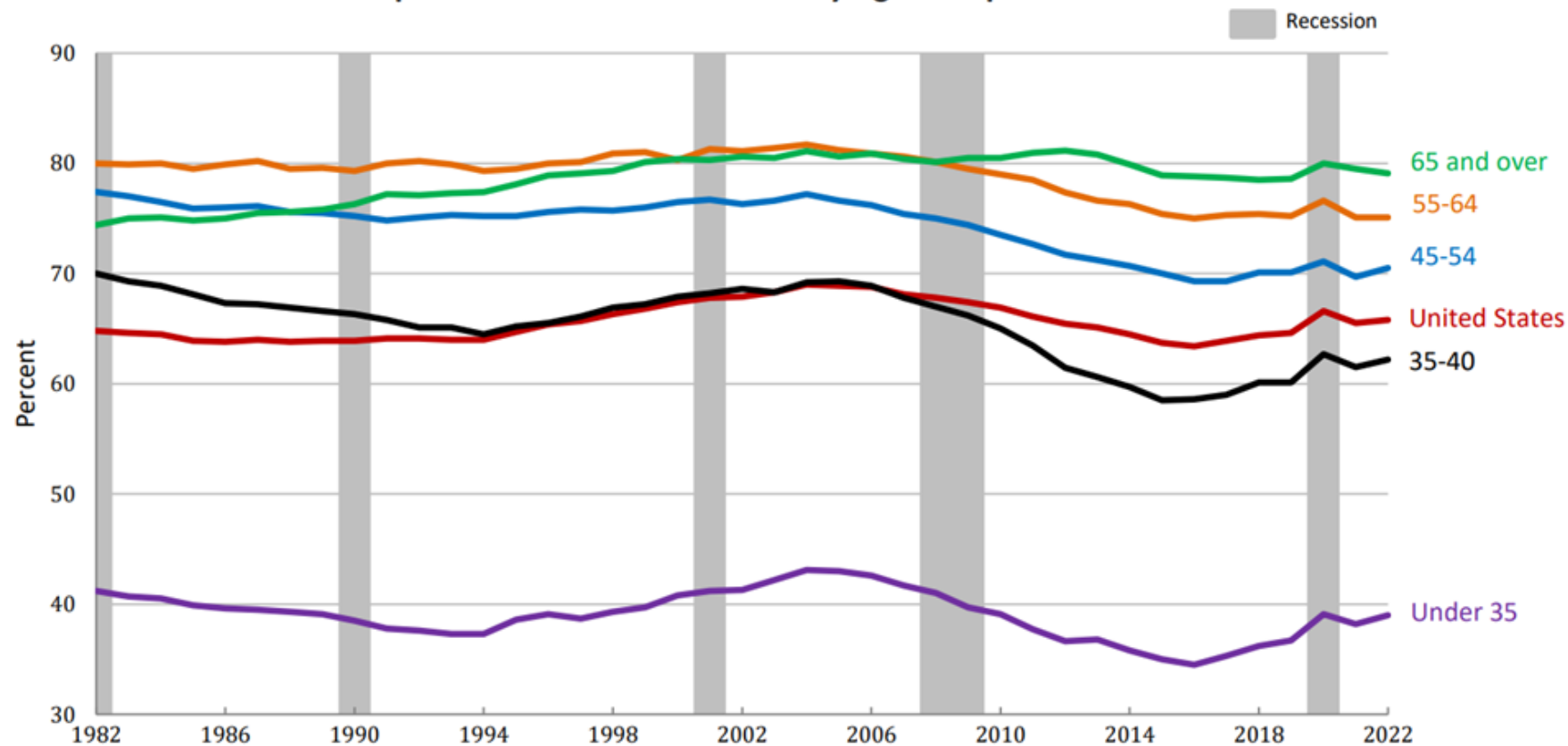
Texas \$54K-\$13K=\$41K

AZ \$89K-\$37K=\$52K

FL \$100K+\$3K=\$103K

Propensity to
own goes up with
age

Annual Homeownership Rates for the United States by Age Group: 1982-2022

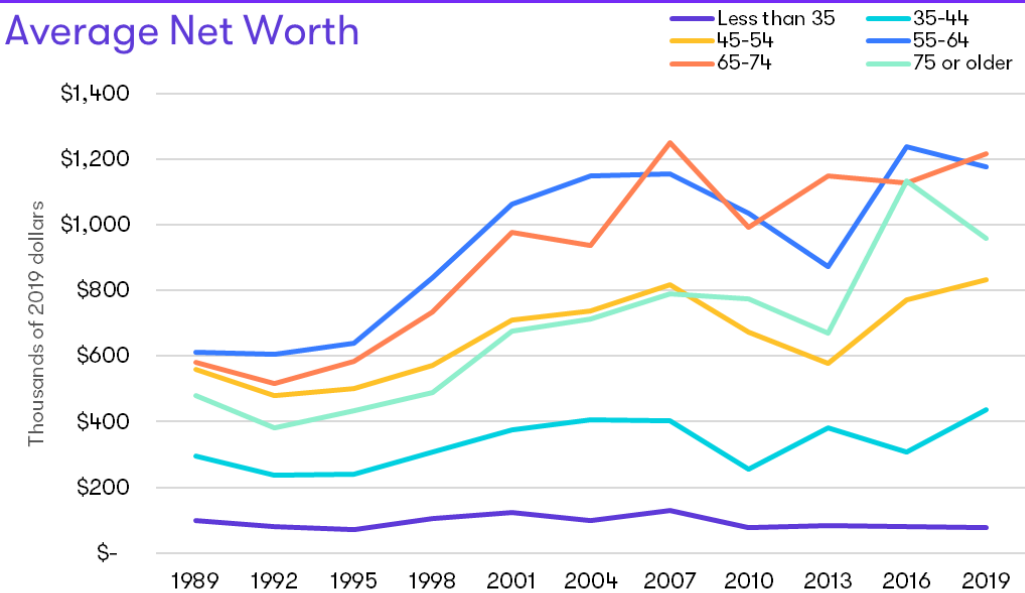


Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey, March 15, 2023
Recession data: National Bureau of Economic Research, <www.nber.org>

Boomers: A vital part of the economy

- Control roughly 50% of the nation's wealth despite being ~24% of the population (Zonda). The growth in wealth can be attributed to many things, including decades-long economic expansion, rising stock prices, and home price appreciation.
- They also have the most assets, with the top three categories being real estate, corporate bonds, and other assets
- Unequal distribution of wealth, though, with ¼ don't have any money saved for retirement

Average Net Worth



Source: Federal Reserve Survey of Consumer Finances; Zonda

Many are on the move

Boomers made up 39% of all home purchases (up from 29% in 2021), the highest share of all buyers. They also represent the largest sellers at 52%.

Source: NAR

Baby boomers moved more than any other age group in 2022. Those 55+ accounted for more than 55% of all inbound United Van Lines moves in 2022. Why?

UVL survey shows the top motivations for inbound moves include:

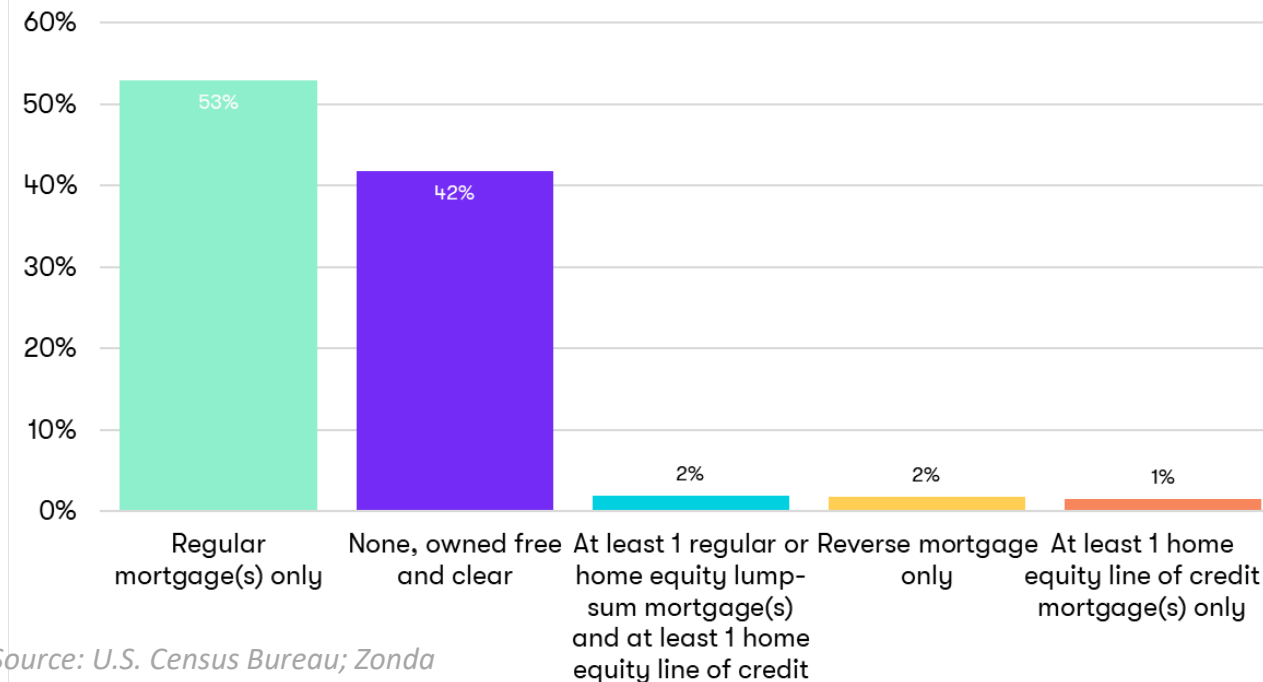
1. A desire to be closer to family (35%, and continues to be a primary driver post-COVID),
2. A new job/company transfer (33%, which continues to decrease as a driver post-COVID)
3. Retirement (20%)

Source: United Van Lines



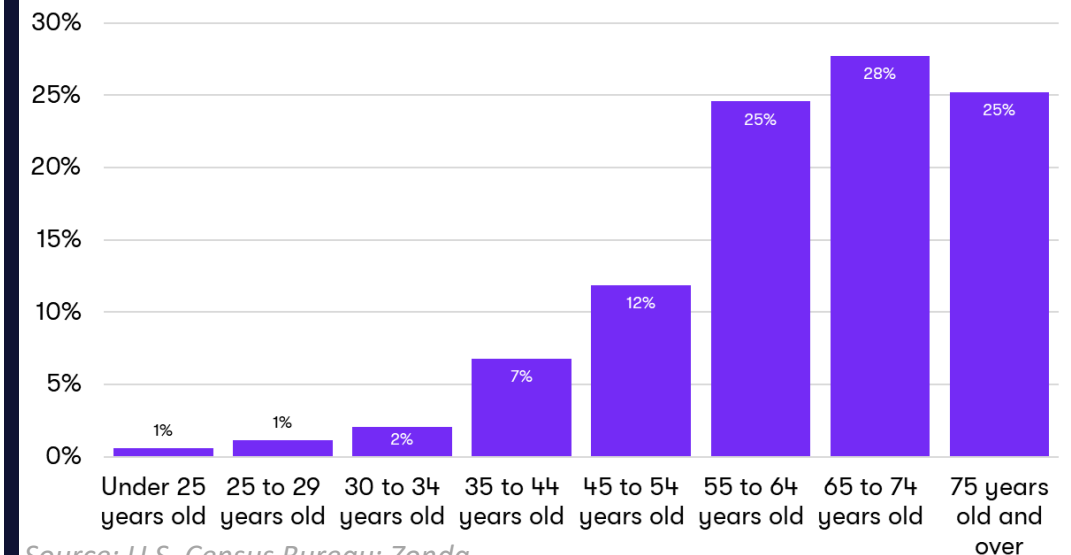
Partly because interest rate sensitivity isn't as much of a thing

Owned Homes by Financing Type, % of Total



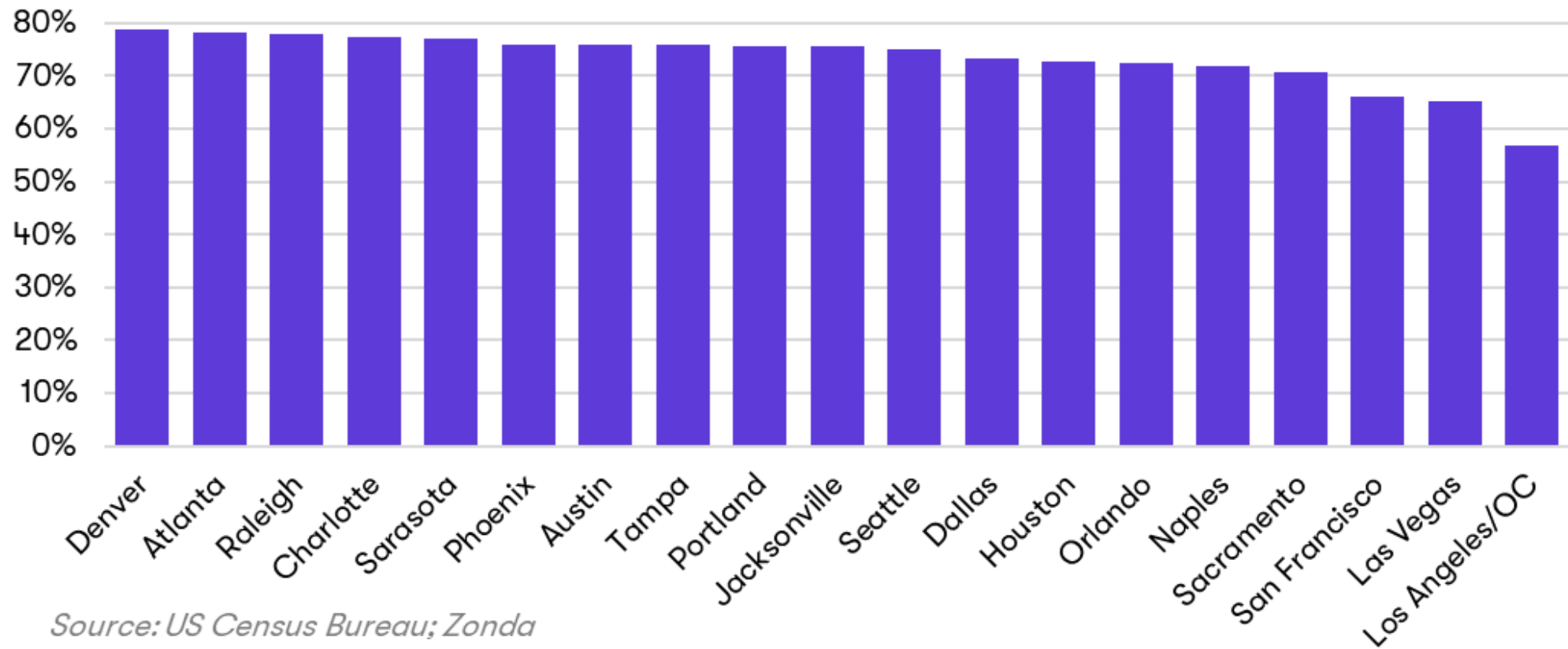
Boomers and Gen Xers have outsized benefit of home equity with Gen Xers more of the move up vs the Boomers more of the move down

Free and Clear Households by Age, %



Gen X also beneficiary of rising prices

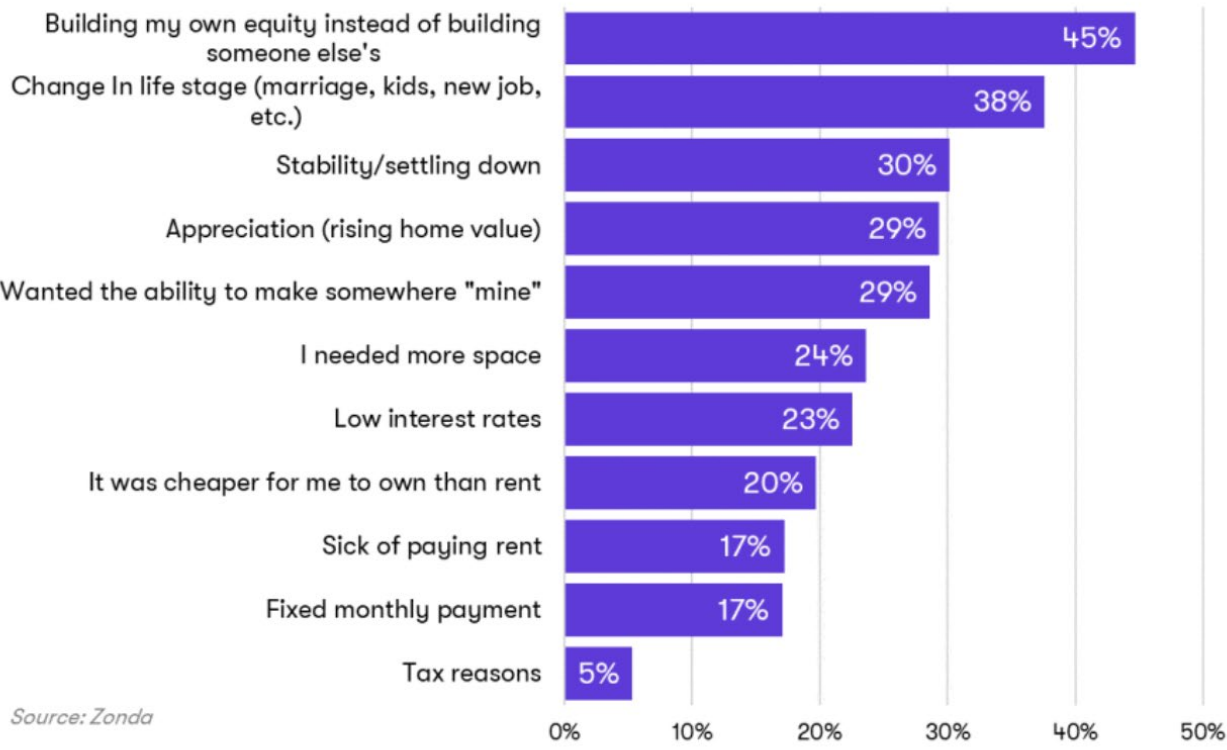
Gen X Homeownership





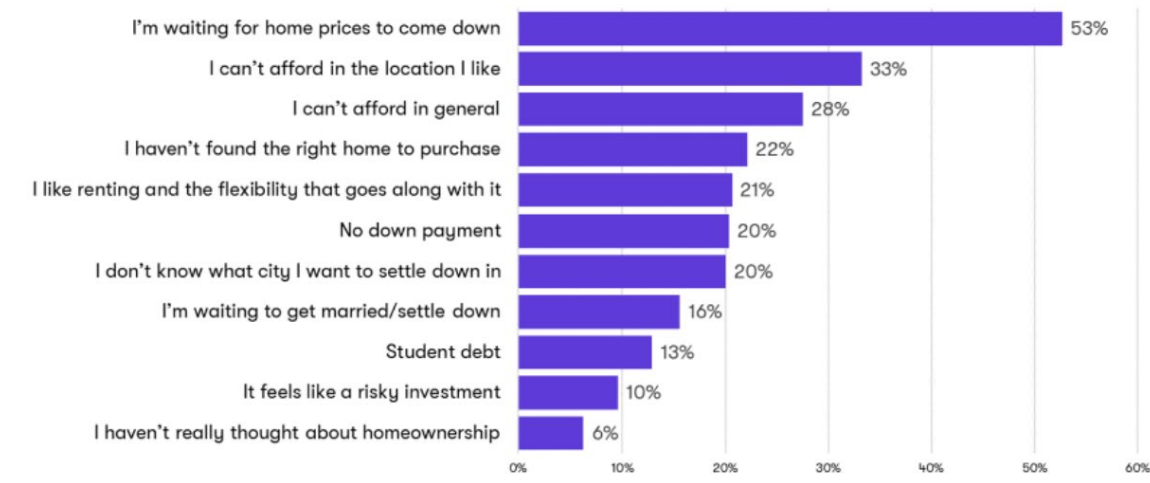
The homeownership rate is 60%+ for those 35-40!

Why did you decide to buy?



Source: Zonda

What is your main reason for renting?



Source: Zonda

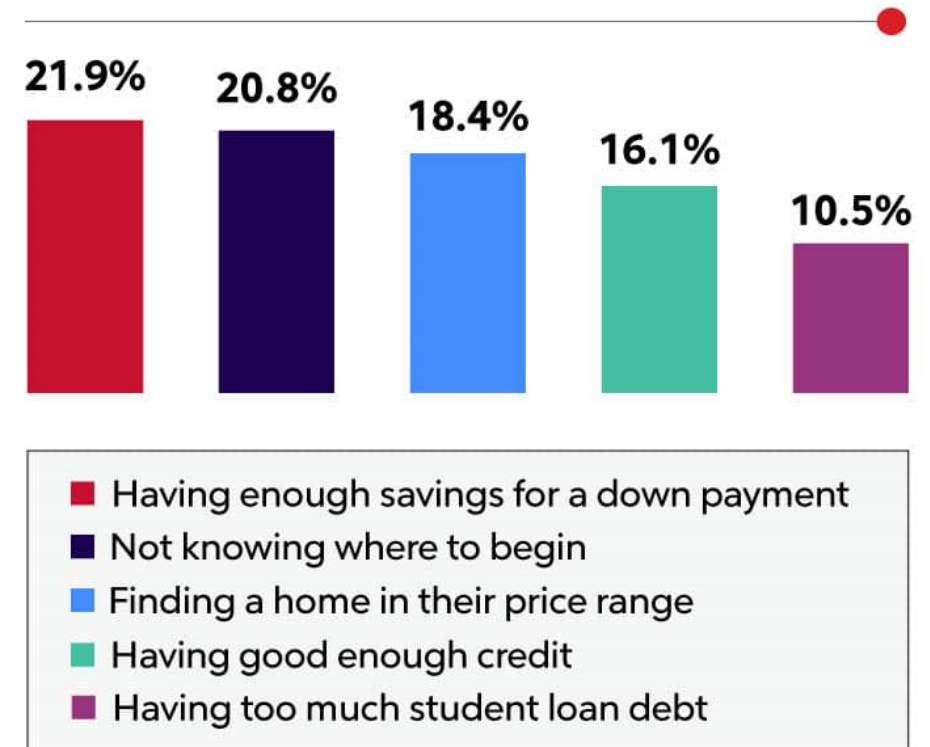
Future buyers face the same obstacles as generations before

Gen Z represent 9% of total sales

Of those surveyed, 69.1% are currently saving some amount of money. And within that group, 56.4% are putting money away for their first home (Rocket Mortgage).

Of the 86.2% of Gen Zers who want to purchase a home, *nearly 45% are looking to purchase their first home in the next 5 years* (Realtor.com).

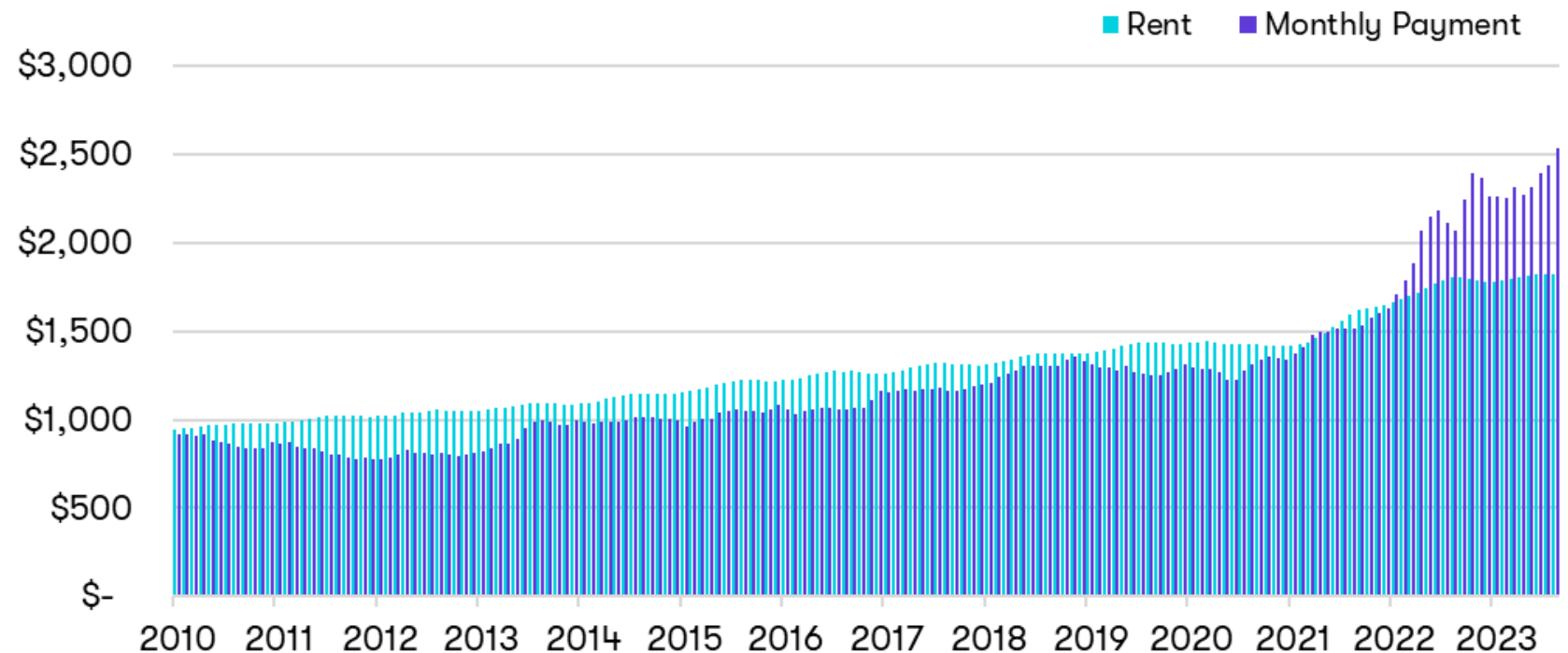
Gen Z's Top 5 Anticipated Obstacles For Home Buying



Source: Rocket Homes® Research

Sea change: the
math favors
renting today

National Rent vs Own

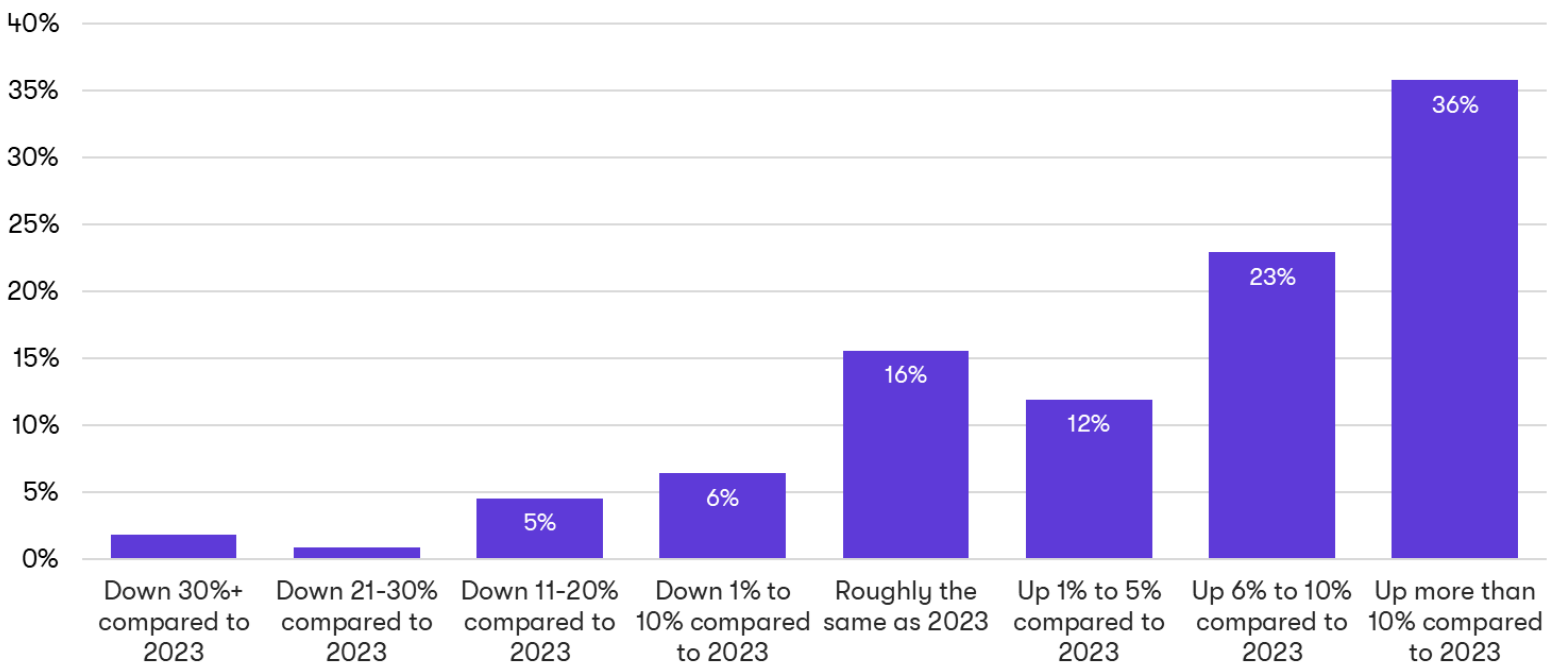


Source: Realpage; NAR, Moody's; Freddie Mac; Zonda *includes mortgage payment and property taxes, assumes 20% down

Forecasts and final thoughts

More building could help with mobility and affordability

What is your plan regarding housing starts in 2024?



Source: Zonda

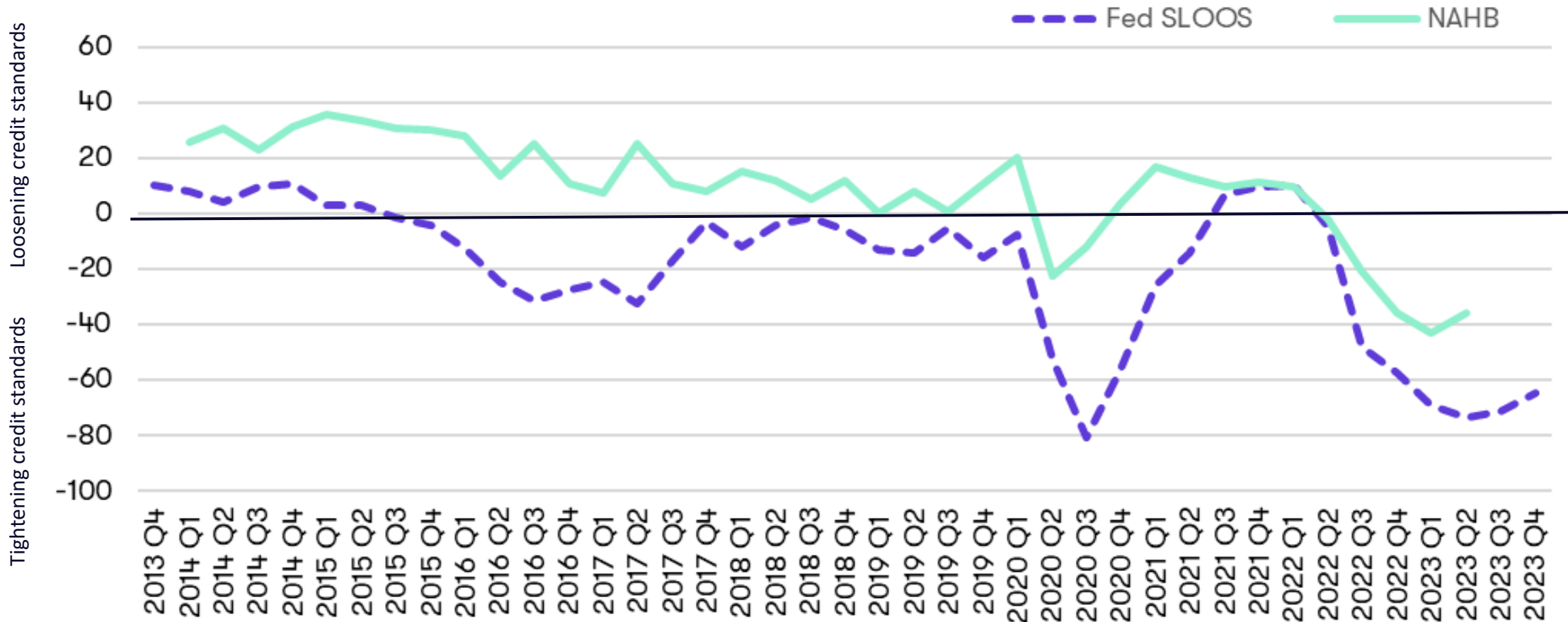
70% of builders expect starts to be up in 2024, partially due to increased lot supply

BTIG survey of smaller builders shows 40% planning to start more homes

Assuming financing remains reasonable and demand holds up, and those two are up for question right now...

Part of the long and variable lag

Credit Availability: AD&C



Source: FRED; NAHB; Zonda (Above 0 captures easing conditions. Below 0 captures tightening)

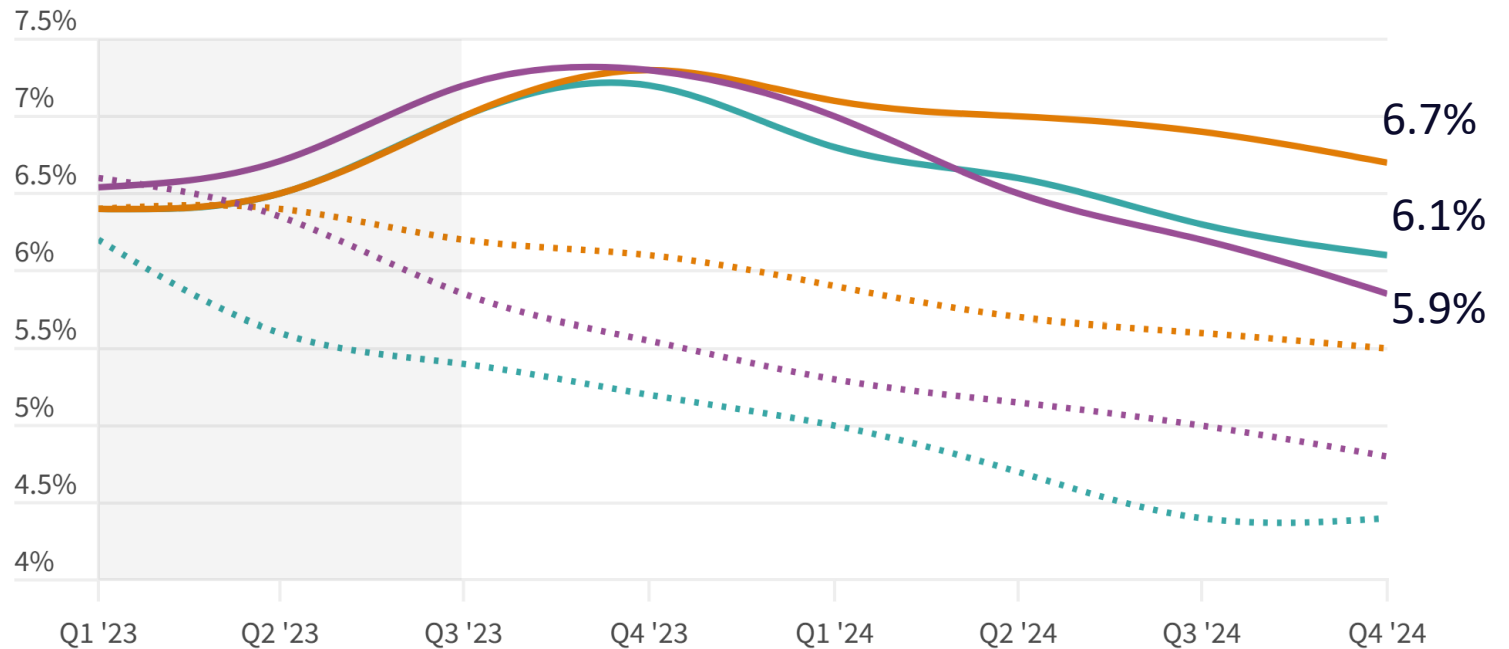
Rates will likely be tricky for a while...

Future rate cuts. Mortgage rates are historically already down ~20% from peak at the start of the cuts (with a ~6 month lead time) and then hold relatively flat for the next year

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

30-Year Fixed Mortgage Rate Forecasts

Fannie Mae, Wells Fargo, Mortgage Bankers Association



Sources: Fannie Mae, Wells Fargo, MBA

Solid lines represent current forecast (Oct); Dashed lines represent previous forecast (Jan). Shaded area represents actuals.

NAHB: 6.4% | Zonda 6.6%

Risks

We are watching:

- Fed policy (error?)
- The office market (WFH)
- Consumer spending (70%)... including the ending of the student loan forbearance

Why homeownership?

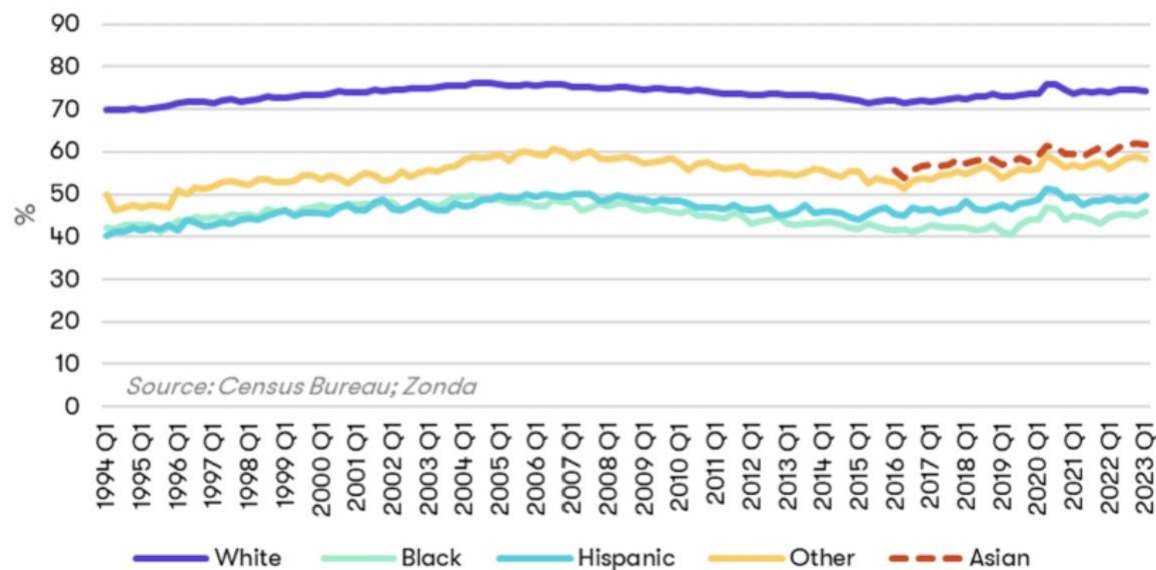
Educate on:

- Down payment options
- Mortgage rate buydowns
- Funds towards closing costs
- The value of the area you are selling. Is there something unique (school district, limited land, walkability, unique homes, etc.)

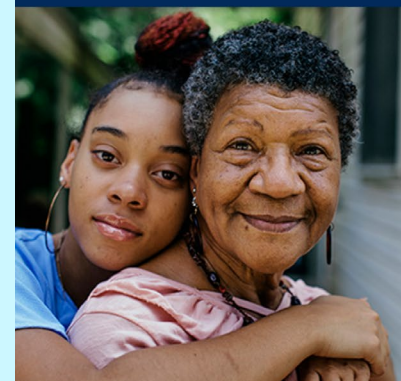
- **Housing as a long-term investment**
- **Paying to yourself**
- **Saving path for retirement**
- **Generational transfer of wealth**
- **Certainty on rates and monthly housing cost**
- **Can always refinance later**
- **How long are you planning to stay?**
- **Don't time the market**

Big opportunity

Homeownership rates by race



Access to and education around homeownership varies by race. In fact, the white homeownership rate stands at 74%. Conversely, the homeownership rate for the Asian population is 62%, 50% for Hispanics, and 46% for Black households.

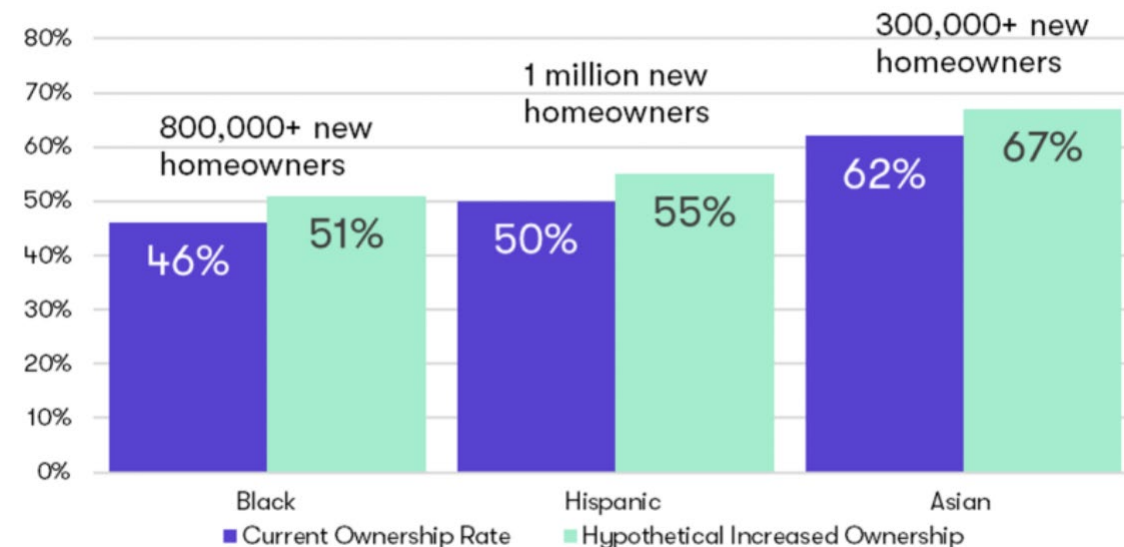


Our \$30 Billion Racial Equity Commitment

We believe our business is stronger when our economy is more inclusive, which is why in 2020, JPMorgan Chase announced its \$30 billion Racial Equity Commitment to help close the racial wealth gap and advance economic inclusion among Black, Hispanic and Latino customers and communities that are underserved in the U.S.

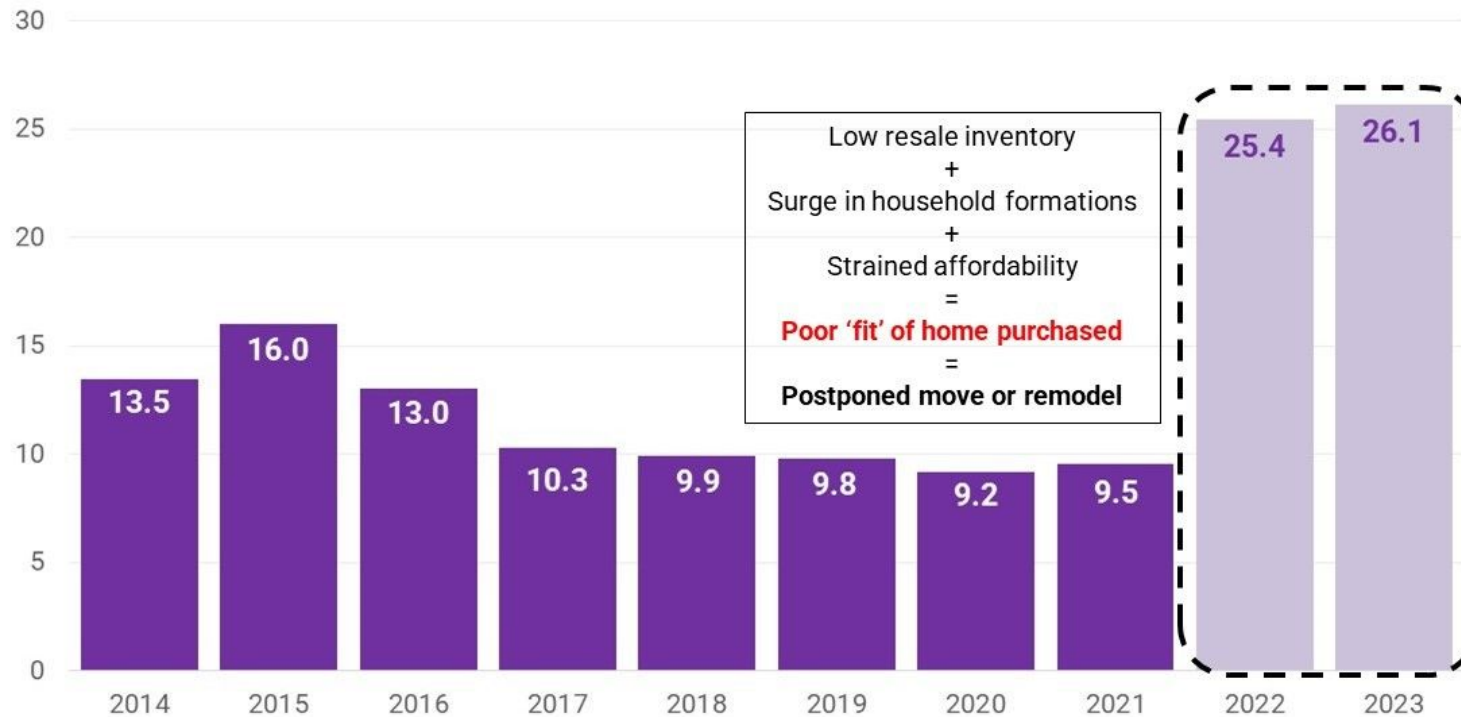
Increasing homeownership = massive boost
5% increase = 2 million more sales

Homeownership by race



Pent-up demand

% of Homeowners Under 50 Years Old Who Expect to Move Again Within < 2 Years



Source: Zonda Tabulation of NY Federal Reserve Data

Homeowners were forced to buy quickly during the height of the market while competing in bidding wars and waiving inspections. Now people are dissatisfied.

2023 will be the lowest mobility year in the history of the data but a positive jump once the market stabilizes



Thank you

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