

US Housing Market Update and Outlook

April 14, 2023

Presented by:



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HOUSING AFFORDABILITY

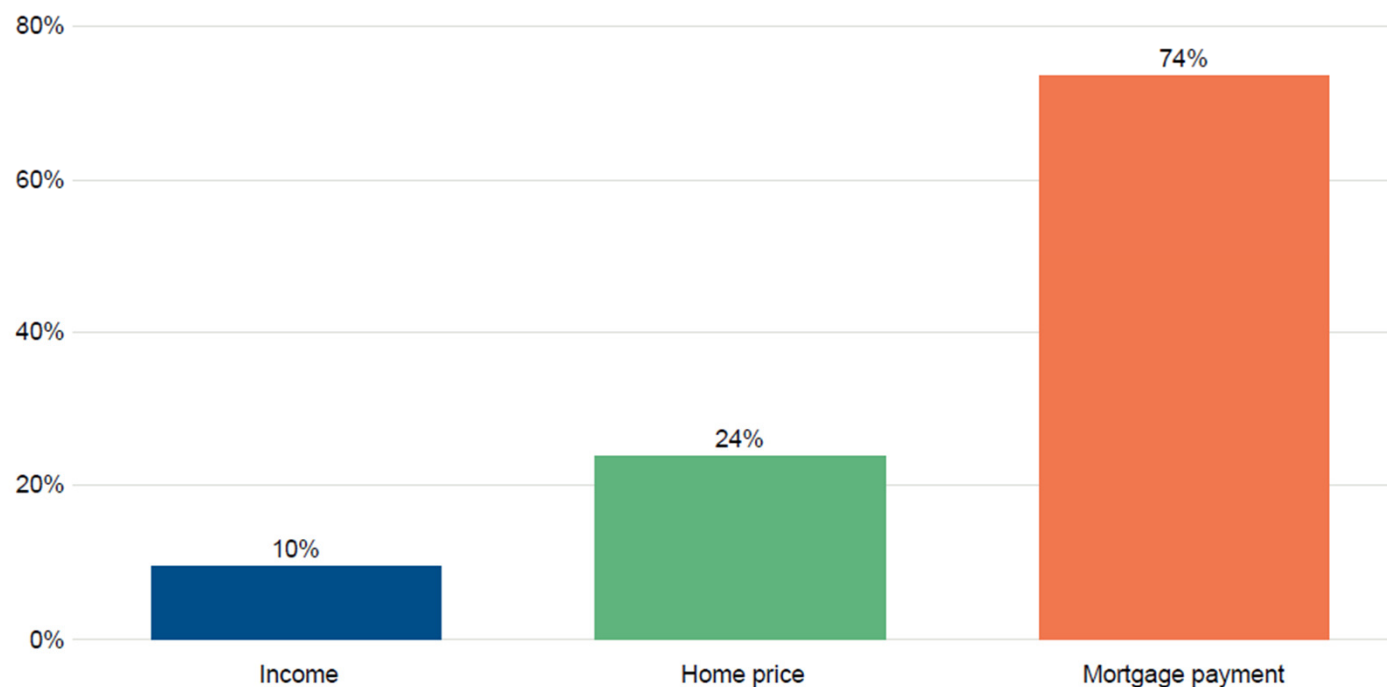


Income, Price, and Mortgage Payment Growth from 2020 Lows

Mortgage payments have increased 74% since the 2020 lows, while median incomes only gained 10%. The disparity between home price and income growth has contributed to worsening affordability since 2020.

Income, Home Price, and Mortgage Payment Growth

From 2020 lows ■ Income ■ Home price ■ Mortgage payment



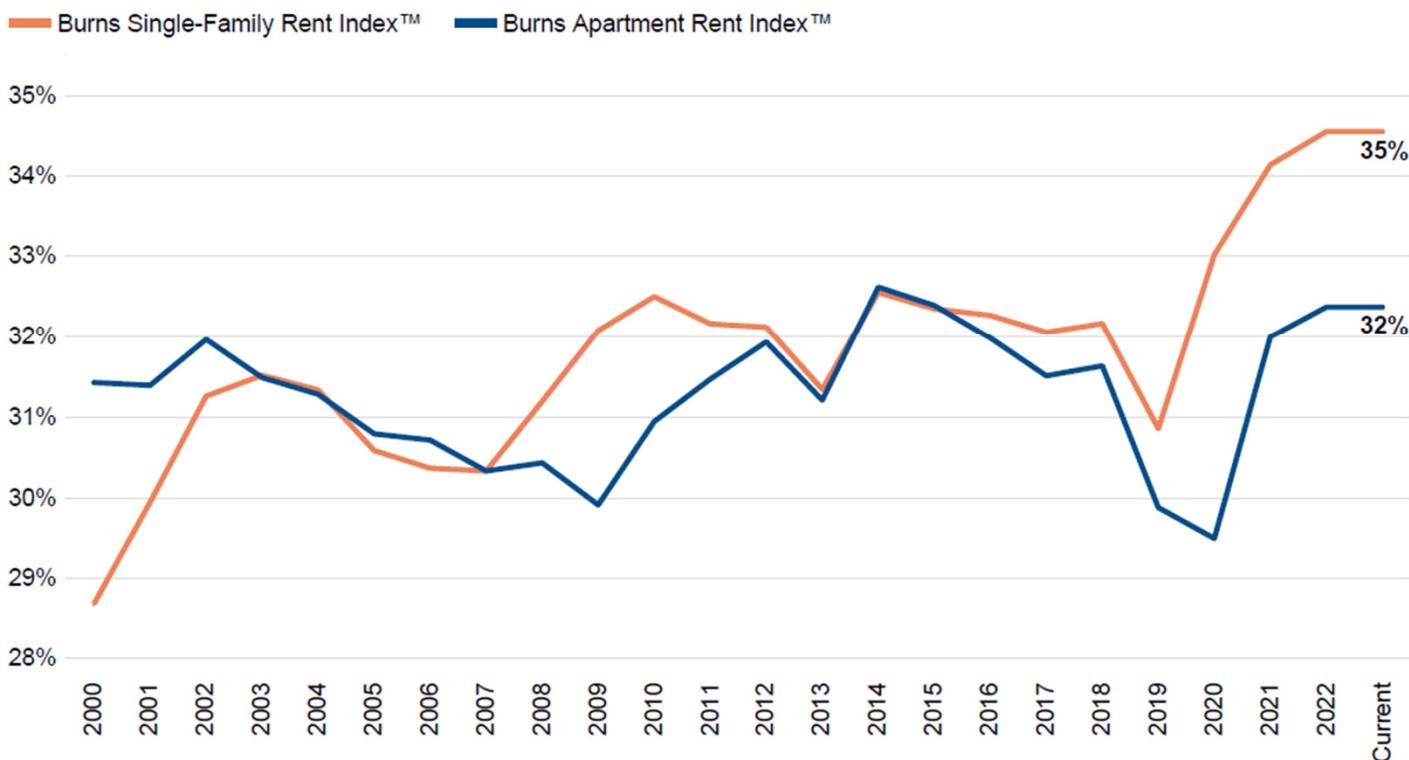
Our definition of median housing payment assumes the purchase of a home at 80% of the market's median-priced resale home, 5% down payment, and a 30-year, fixed-rate mortgage. Payment is PITI and includes mortgage insurance. We divide the median housing payment by the median income to calculate the ratio.

Source: John Burns Real Estate Consulting, LLC (Data: Feb-23, Pub: Mar-23)

Effective Rents as Percentage of Median Income

Typical single-family rents are 35% of median income (versus 32% for apartments).

Effective Rents as % of Median Income



Note: The Burns Single-Family Rent Index models historical and current single-family rent trends. The index tracks the median single-family home listed for rent on the open market and represents new leases, not renewals. We've enhanced our Burns Single-Family Rent Index™ with more listings data via adding a new source. Please see the "US Single-Family Rent Growth" page in our Forecasts section for more information.

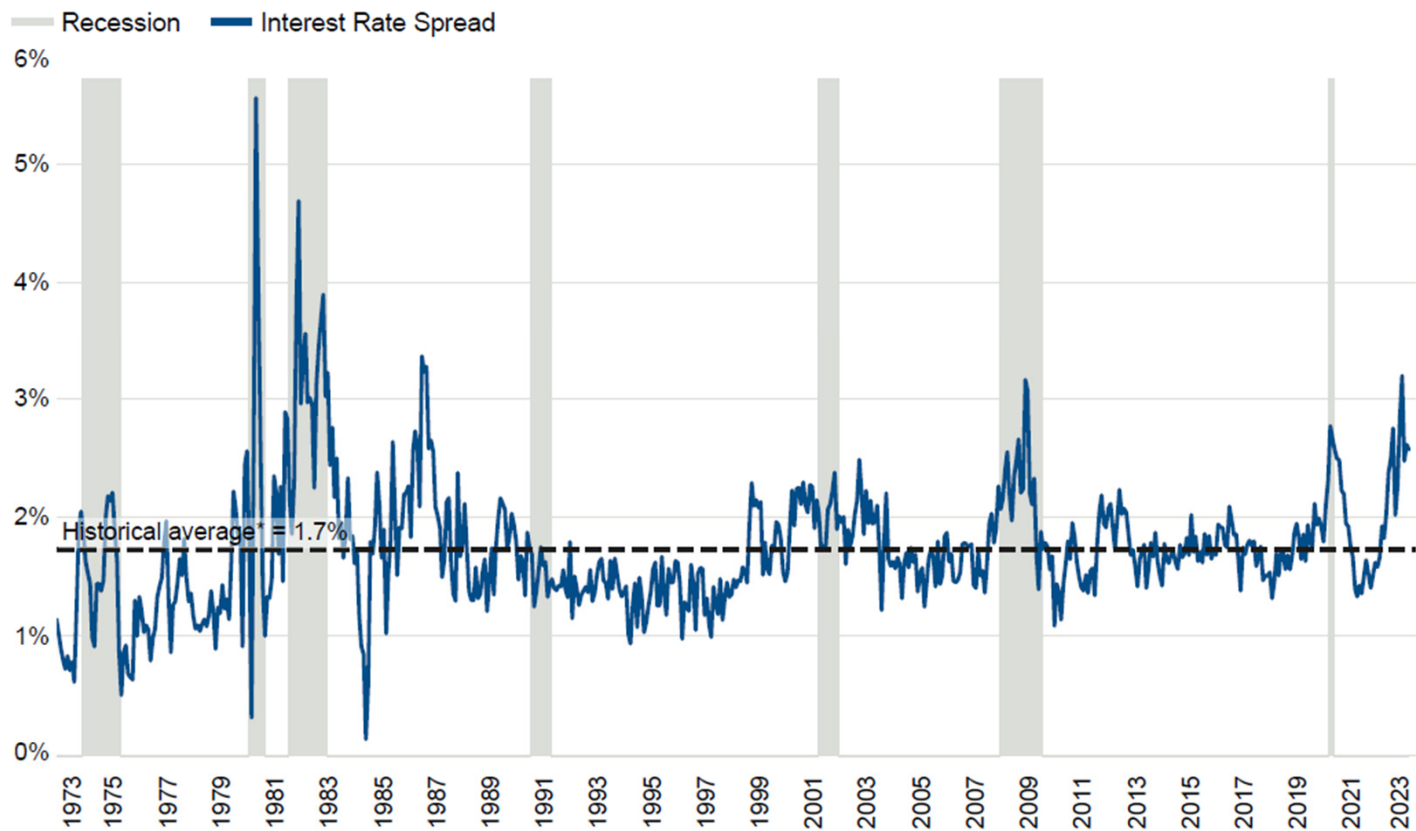
Source: John Burns Real Estate Consulting based on aggregated data from RealPage, Inc. (Data: Jan-23, Pub: Mar-23)

Note: Data is for 99 markets.

Interest Rate Spread: 30-Year Fixed vs. 10-year Treasury

The spread between the 30-year fixed rate and 10-year Treasury rose 64bps YOY to 2.58%.

Interest Rate Spread: 30-Yr. Fixed vs. 10-Yr. Treasury



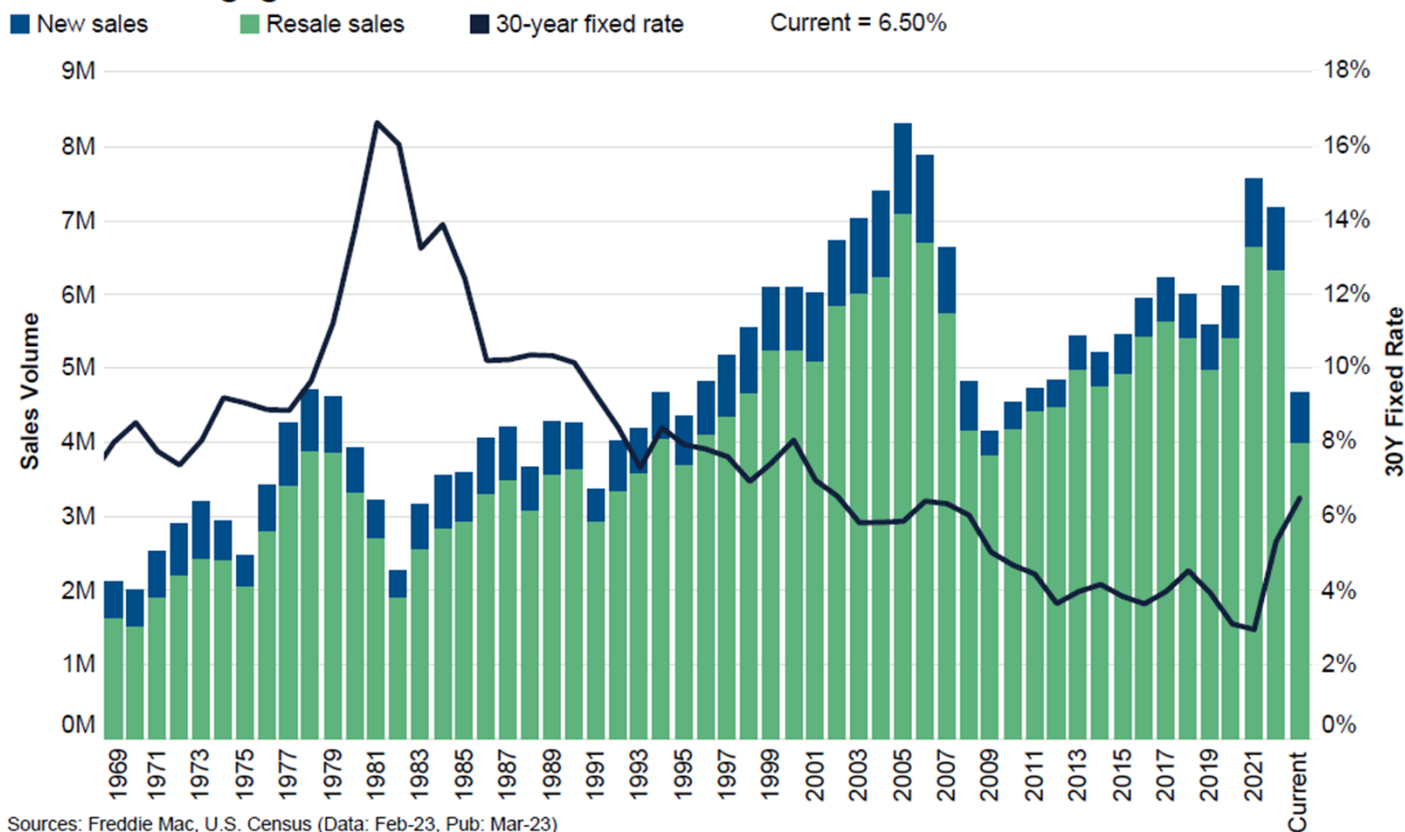
Source: Freddie Mac, Federal Reserve (Data: Feb-23, Pub: Mar-23)

*Historical average Apr-71 through current

Impact of Mortgage Rates on Home Sales

Steadily declining mortgage rates have boosted home sales over the last several decades, but homes have historically continued to transact even in much higher mortgage rate environments.

30-Year Mortgage Rate and Home Transactions



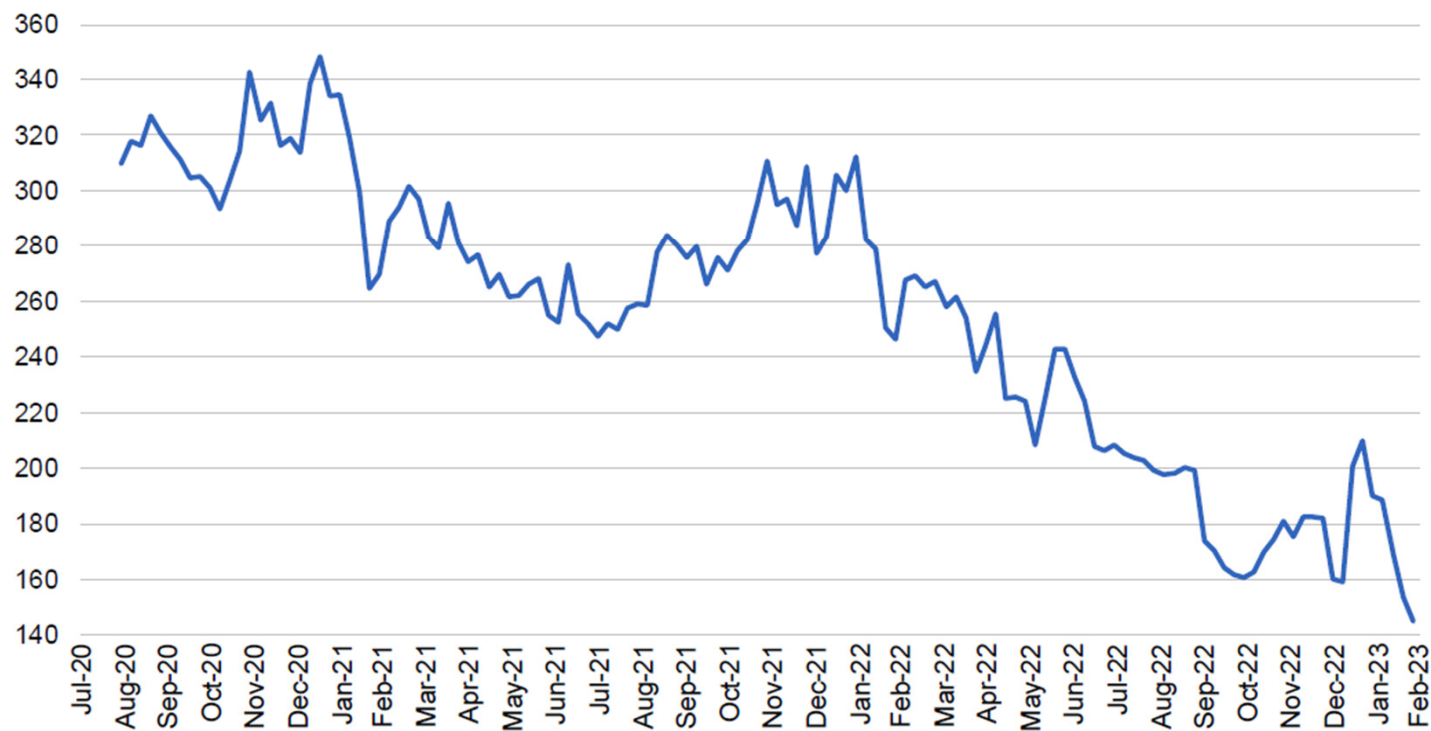
Purchase Mortgage Application Index

The Purchase Mortgage Applications Index fell -42% YOY.

Purchase Mortgage Application Index

Seasonally adjusted weekly values

Note: The index does not capture cash transactions and thus understates activity.

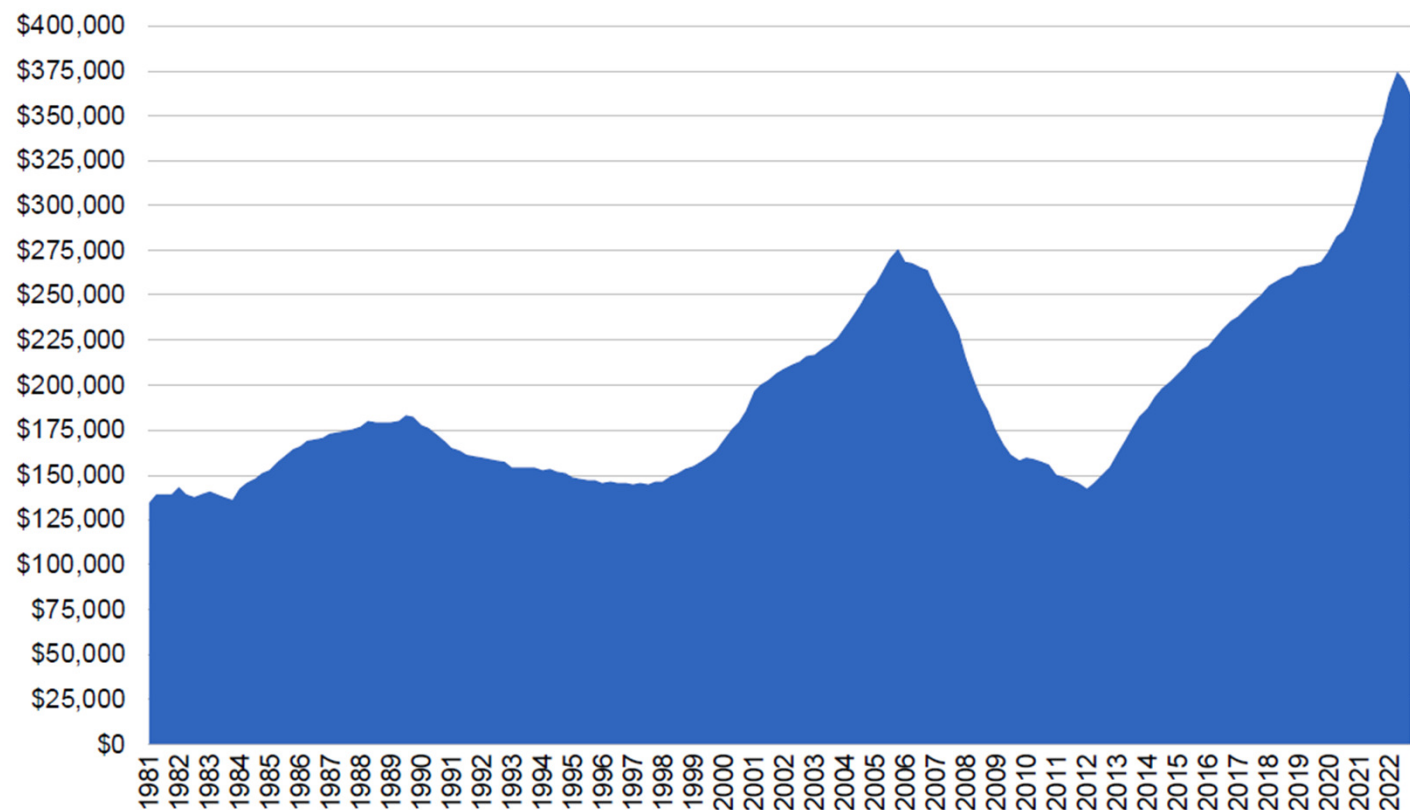


Source: MBA (Data: Feb-23. Pub: Mar-23)

Homeowner Equity

Homeowners have an average of \$361K in equity in their homes as of 4Q22, near an all-time high.

Inflation-Adjusted Homeowner Equity per Owned Household



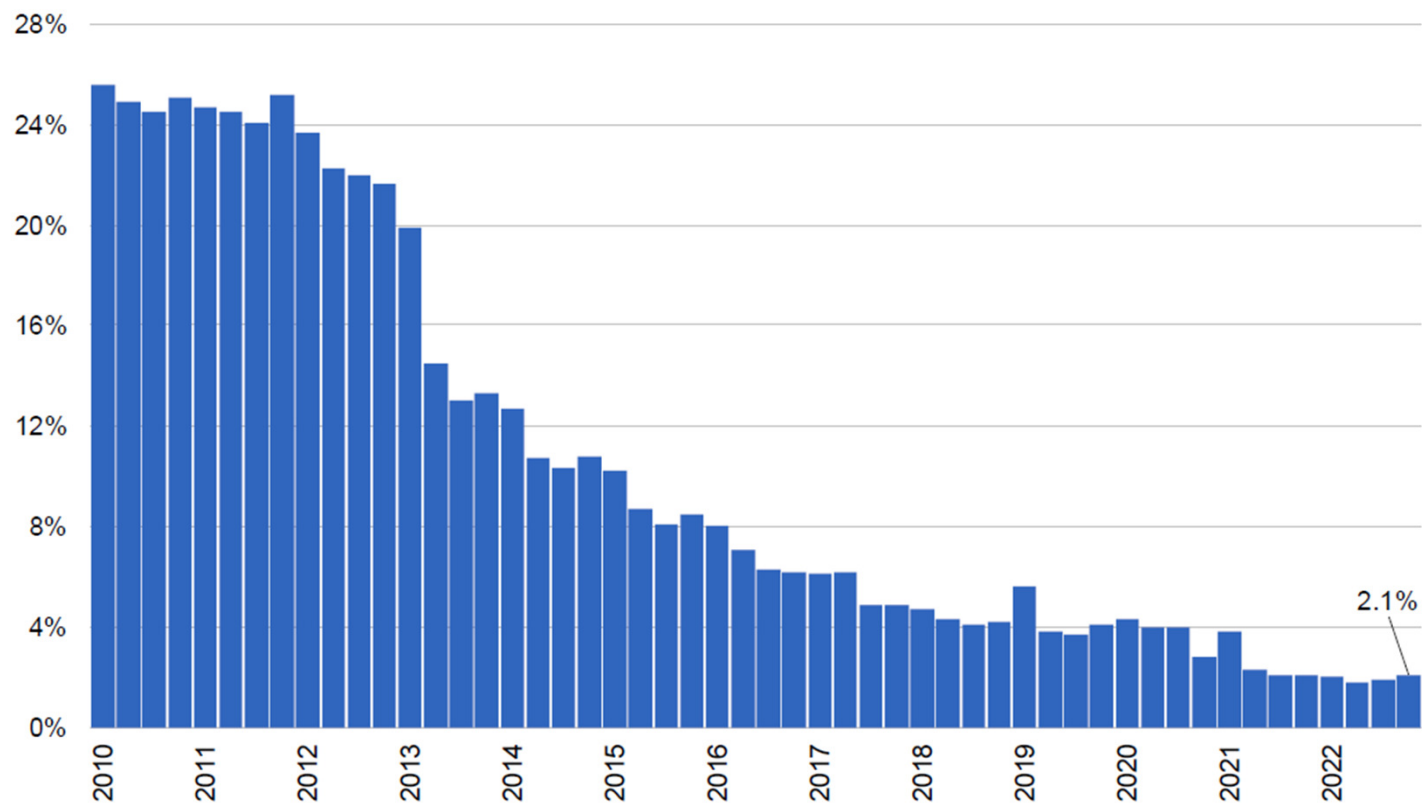
Sources: Federal Reserve; Census Bureau; John Burns Real Estate Consulting, LLC (Data: 4Q22, updated quarterly†)

Pub: Mar-23

Percentage of Negative Equity Homes

Nationally, the number of negative equity mortgages decreased YOY to 2% of total mortgages.

Percentage of Negative Equity Homes



Source: CoreLogic (Data: 4Q22, updated quarterly)

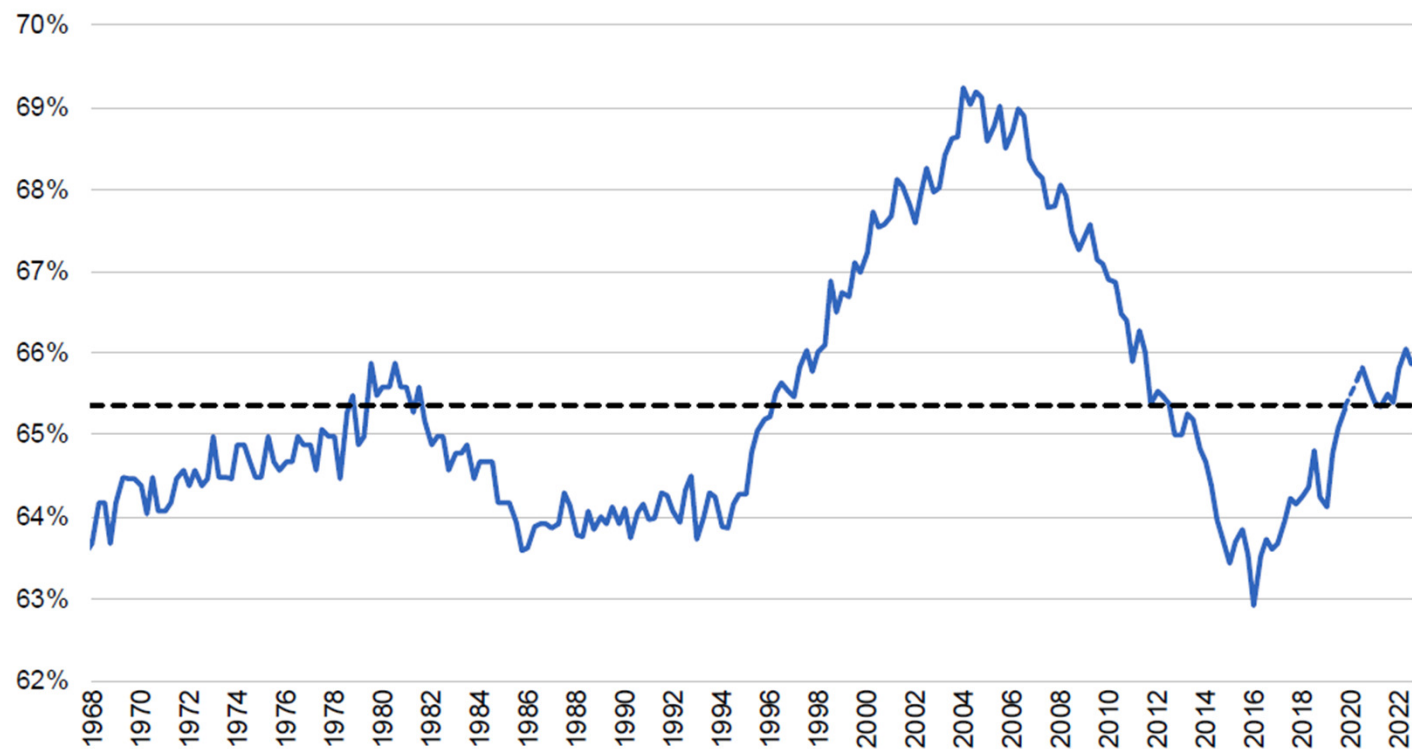
Pub: Mar-23

Homeownership

At 65.9% in 4Q22, the homeownership rate is slightly above its historical average.

Census Headline Homeownership Rate

— Homeownership rate = 65.9% - - - Historical average* = 65.4%



Note: The pandemic complicated the Census Bureau's collection process in 2020. We have removed the data for this period.

Sources: U.S. Census Bureau; John Burns Real Estate Consulting, LLC (Data: 4Q22, updated quarterly†) *Historical average: 2Q68 through current

Pub: Mar-23

INVESTOR ACTIVITY



Share of Existing Home Sale Closings to Cash Buyers

All-cash sales are 28% of existing home transactions.

Share of Existing Home Sale Closings to All-Cash Buyers

3-month average — Percentage of all-cash buyers = 28%



Note: NAR began tracking this data point in November 2009.

Source: ©2022 National Association of REALTORS® (Data: Jan-23, Pub: Mar-23)

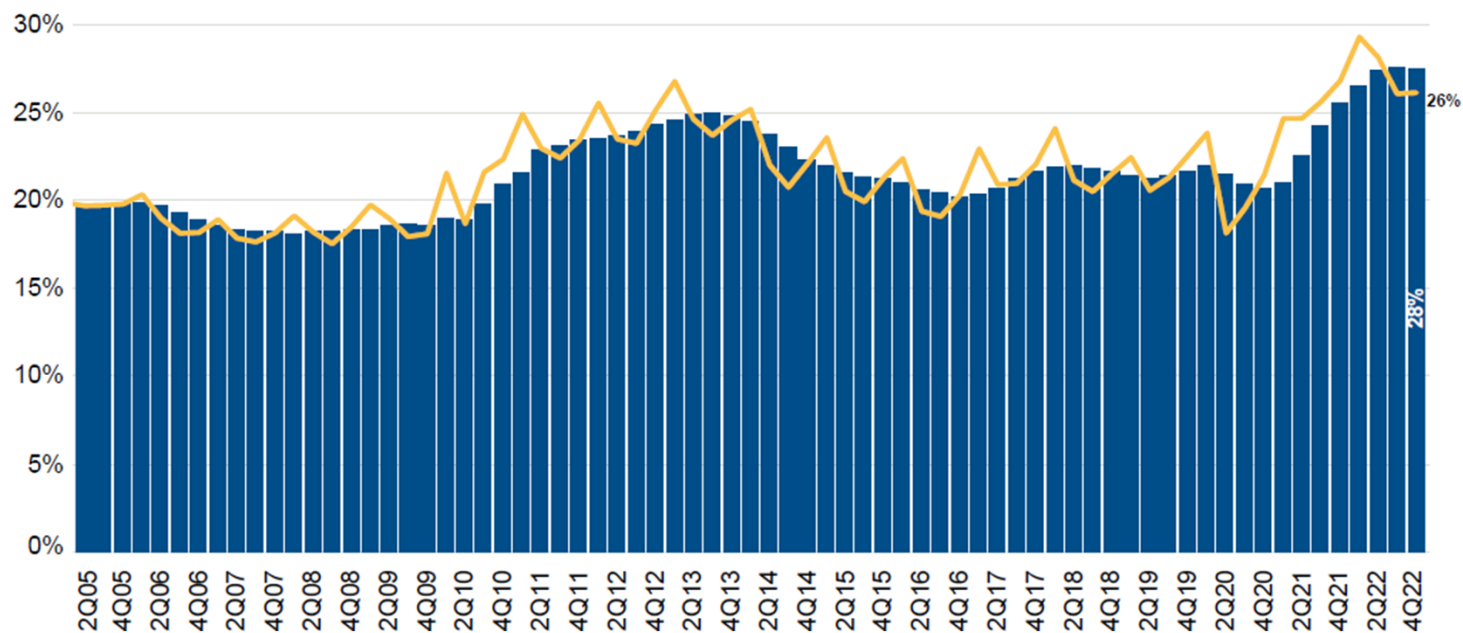
Investor Purchases

The investor share of home purchases ticked down to 26% in 4Q22 from a high of 29% in 1Q22.

Investor Percentage of Home Buying Activity

230 metro areas

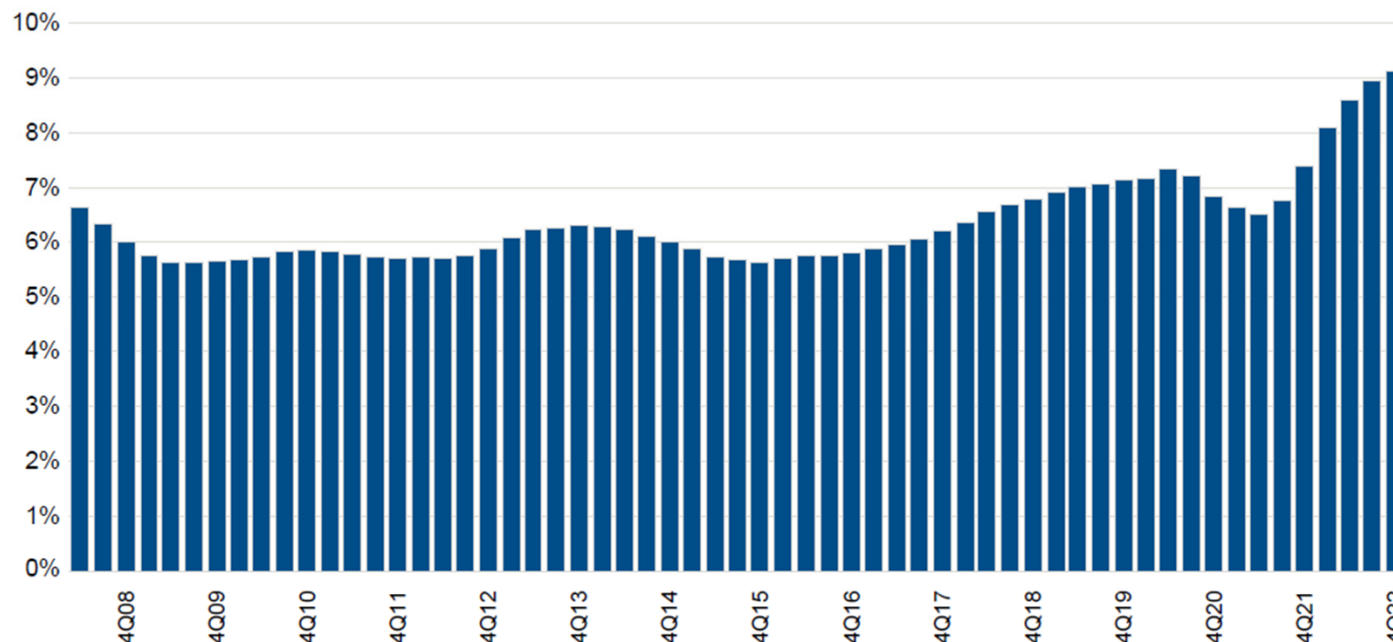
Investor % of purchases Investor % of purchases, trailing 12 months



Home Flipping Share of Total Existing Home Sale Closings

In 4Q22, home flips made up 9% of total sales.

Percentage of Home Flips to Total Existing Home Sale Closings (TTM Average)



Jan. 2023: We updated our investor purchases data series source, which led to a recast of our entire investor data series metrics.

After purchasing a new public records dataset, we undertook a deeper review of the data underlying our summary statistics. One of the key indicators of whether a home is purchased by an investor is that the mailing address of the tax statement is different than the property address. During our review, we found purchases in which the mailing address of the new owner was originally recorded to a secondary address (not the property address) but was changed to the property address shortly after recording the purchase. This indicates that purchases initially categorized as an investor purchase were being overstated in some cases. Due to this discovery, we have added an adjustment to the summary statistics that lowers the number of historical investor purchases in our updated methodology. The percentage change varies by metro. Due to the new data source and our adjustments, you may note minor to significant historical revisions to this metric.

Note: US data rollout of 99 metros. Includes existing detached single family home sales where the second sale was recorded within 12 months of the first sale ("flipped"). The non-disclosure (such as Texas) state counts seem high and may include non-arms length transactions parading as flipped homes.

Source: JBRFC analysis of public records data for transactions and ownership (Data: 4Q22; Pub: Mar-23)

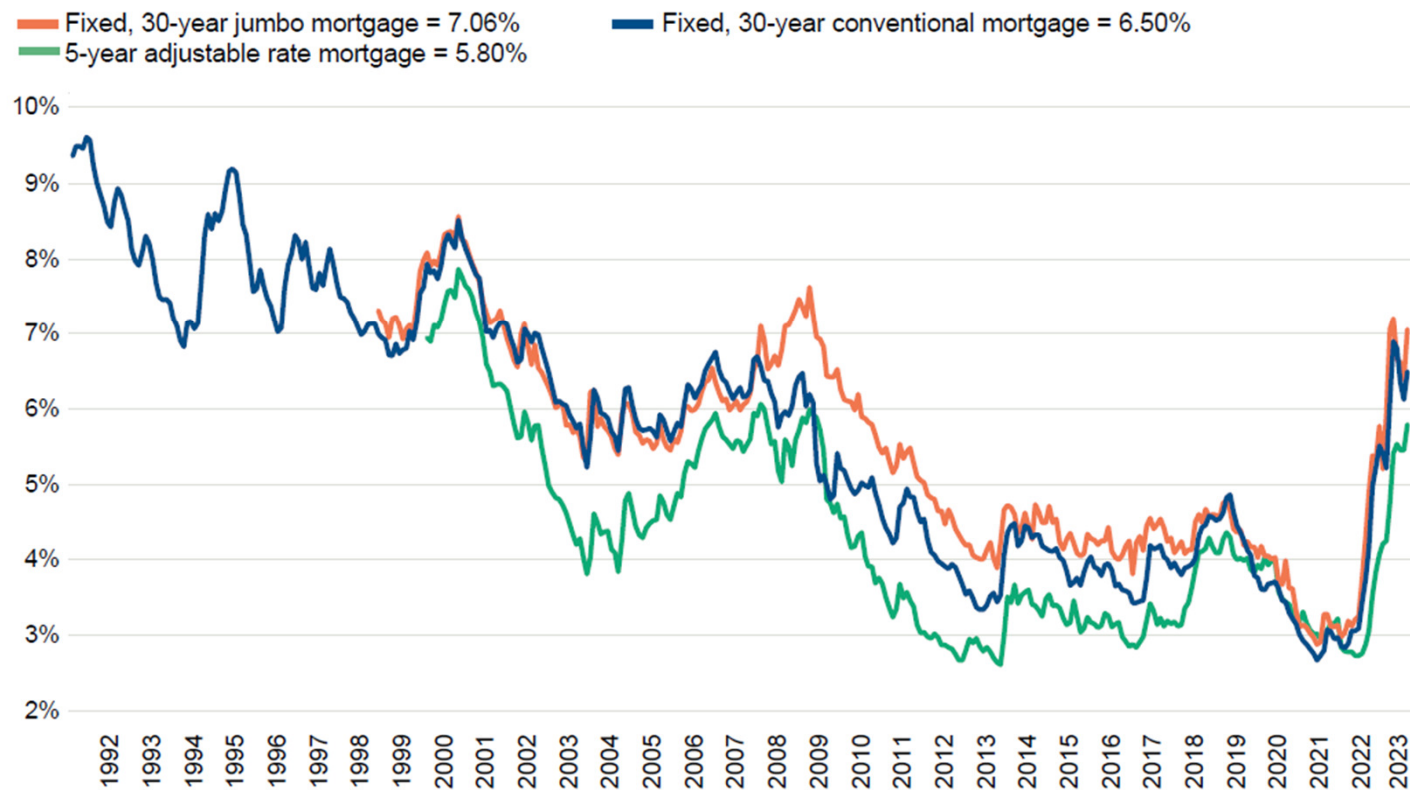
MORTGAGE RATES

A photograph of a two-story house with a grey roof and white trim. The house features three dormer windows on the roof and a large garage on the right side. The house is surrounded by trees and a lawn. The image is overlaid with a dark blue gradient, and the text 'MORTGAGE RATES' is written in large, white, bold letters across the upper portion.

Mortgage Rates

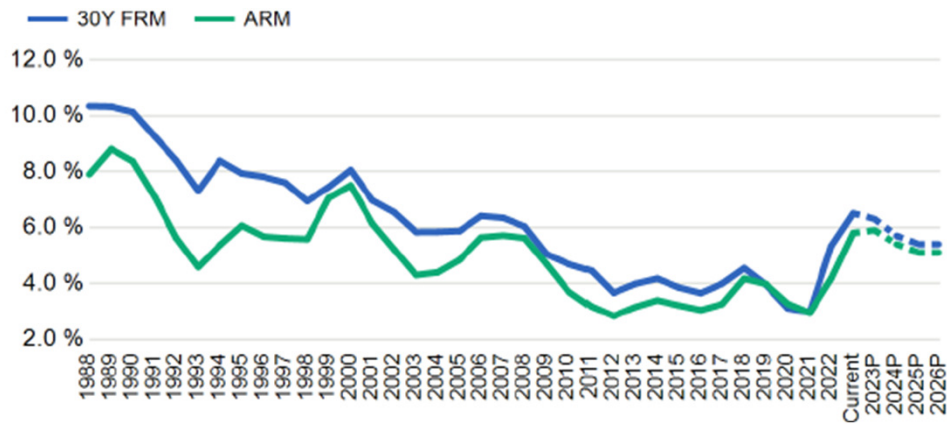
The 30-year fixed conventional mortgage rate rose to 6.5% in February.

Mortgage Rates



Note: the 5-year adjustable rate mortgage is the 5/1 rate, which is a 5 year fixed rate that adjusts annually.

ANNUAL AVERAGE MORTGAGE RATE

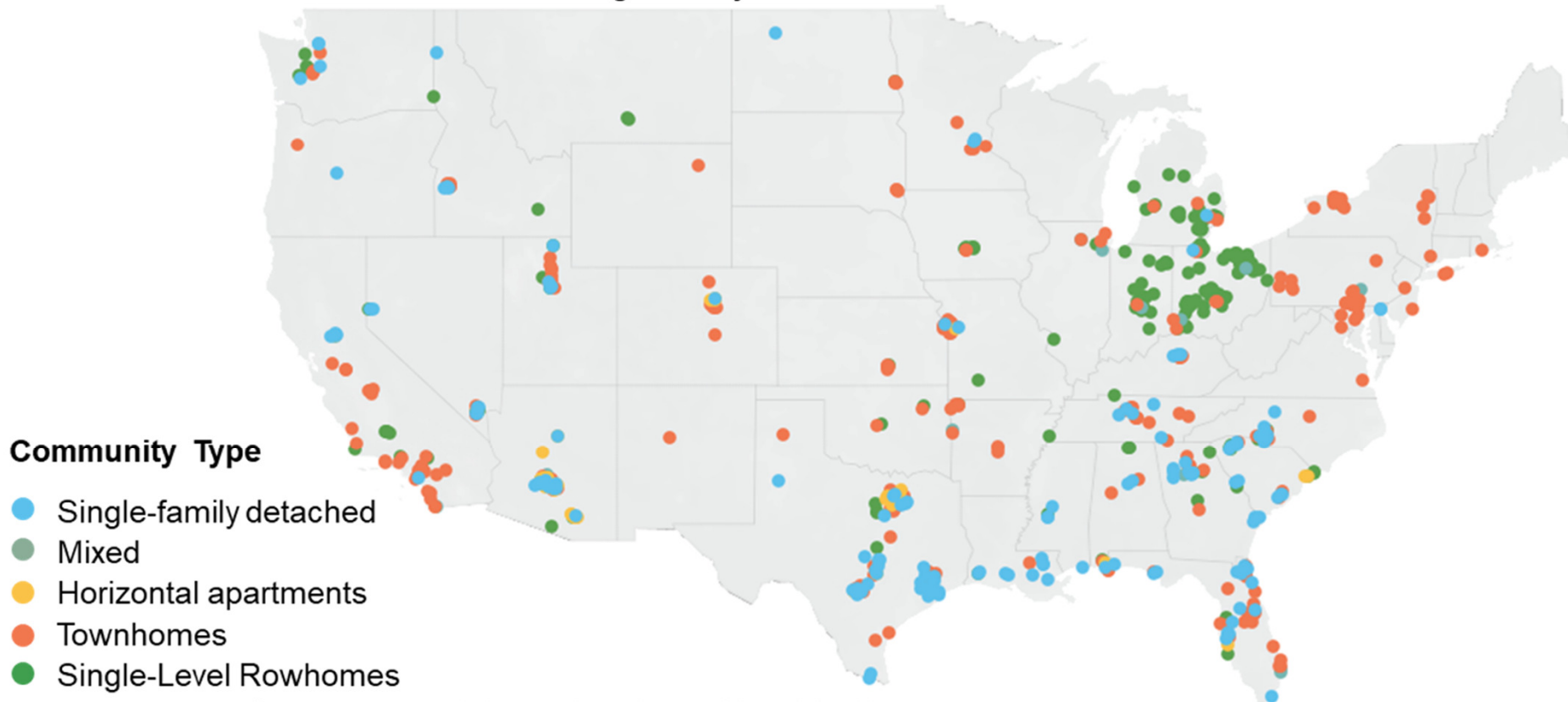


	Annual Averages	
	Fixed	ARM
2023P	6.3%	5.9%
2024P	5.7%	5.4%
2025P	5.4%	5.1%
2026P	5.4%	5.1%

Build To Rent

Our database of BTR communities continues to grow – now +/-1,000 active projects plan another 700+ in the planning stages

Active Dedicated Single-Family Build-to-Rent Communities in the US with 25+ Units



* that we have been able to identify

Please don't share. If you know others who would like these slides, please have them email Colby Fitschen at cfitschen@realestateconsulting.com.

44% of the SFR sector stopped buying in 4Q22.

We surveyed the owners of 272K professionally managed single-family rental homes across 71 markets from February 21–March 13 and learned:

Operators are acquiring far fewer homes as their cost of capital jumps and market conditions soften compared to 2Q22 (both asset values and rent growth).

- 44% reported not making any acquisitions at all during 4Q22.
- For the 56% who were acquiring homes, their acquisition breakdown is as follows:
 - 46% of homes acquired via one-off resale homes, down from 65% in 4Q21
 - 20% of acquisitions from building new homes to rent, up from 13% in 4Q21
 - 14% of acquisitions from portfolios, up from 2% in 4Q21
 - 12% of acquisitions from iBuyers, jumping from 2% in 4Q21
 - This percentage likely jumped at the end of 2022 due to some iBuyers exiting the business and many offloading inventory at more discounted prices than other sellers.
 - 7% of acquisitions from home builders, falling from 17% in 4Q21
 - SFR operators purchased homes from builders at an average -7% discount in 4Q22.

Build-to-rent feasibility hasn't gotten any easier.



Mark Wolf
CEO
AHV Communities

“You’re seeing a lot more fiction written in MS Excel than in MS Word.”

Source: Globe Street

Who Rents Newer SFR or BTR Homes?

Renter profiles will vary based on the type of home being rented and the price of the rent. Based on JBREC's research, discussion with BTR operators, and published information on the demographic profiles of renters who rent newer Single-Family Rental homes, the typical renter(1) is generally:

- ❖ Affluent, with average household incomes ranging from about \$70,000 well over \$150,000 or an **average above \$100,000** per year.
- ❖ Educated, with the **majority having college degrees**.
- ❖ Married; approximately **38% to 59% are married, really varies by product**.
- ❖ Multi-person; average is **3.2 people per household**.
- ❖ Older, with the **average age of about 40** years old. Around 78% are 24 to 54 years old.



- ❖ 60% to 70% of traditional detached rental homes are occupied by families with children (smaller villa-style homes have far fewer kids, 15% or less)
- ❖ **50% or more have pets**
- ❖ Single-Family Rental tenants work in industries similar to homeowners. Jobs are diverse, including teachers, government workers, medical related, service/sale industries, professionals, self employed, and retirees

1) This profile was based on a review of demographic profiles of select active BTR communities, discussions with BTR operators, and profiles disclosed by SFR REITs. It is not a comprehensive view of all single-family renters in BTR communities.

Are these For-Sale Homes or For-Rent Homes?

Both of these model homes are in the same master planned community. One is a model for a dedicated single-family rental neighborhood and one is a model for a for-sale neighborhood.



For-Sale Home



For-Rent Home

Are these For-Sale Homes or For-Rent Homes?

Similar to the prior slide, these model homes are in the same master planned community. One is a model for a dedicated single-family rental neighborhood, and one is a model for a for-sale neighborhood. Can you tell the difference?



For-Rent Home



For-Sale Home

Locations – Better than Most Expect

BTR Submarket Distribution

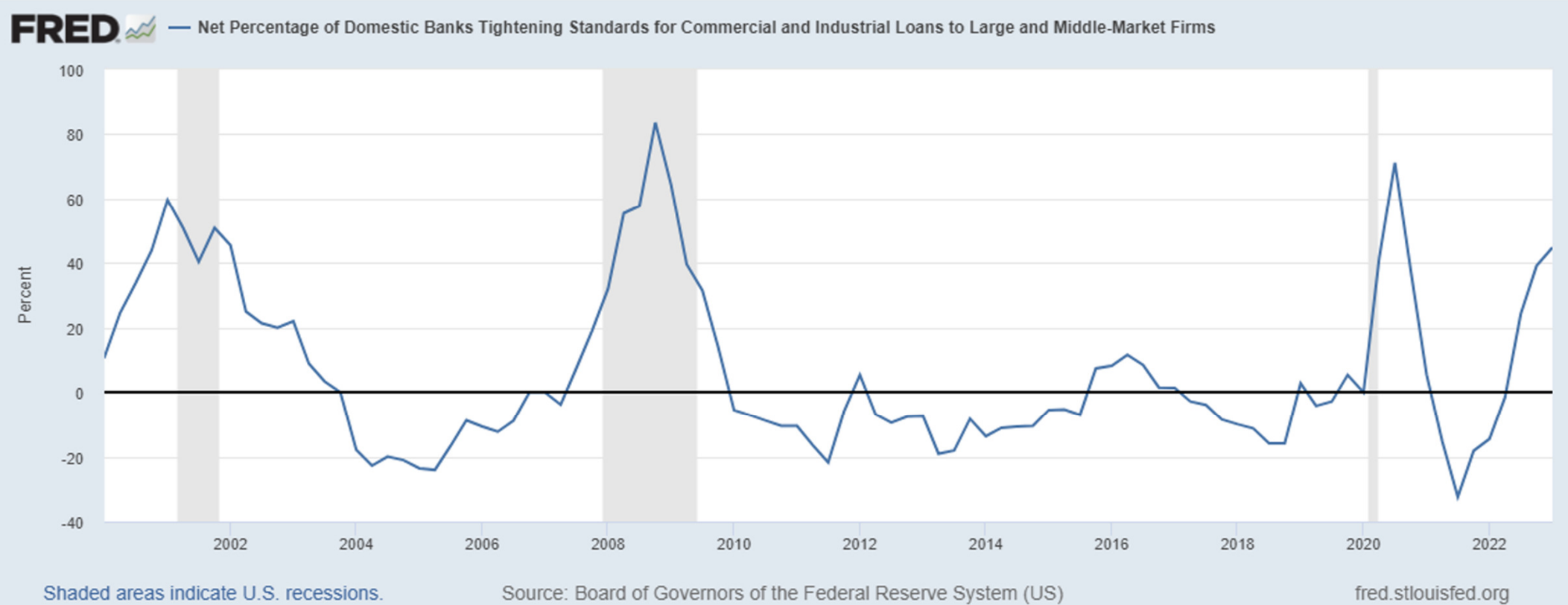
Of the active BTR projects in our database, 49% are in submarkets we rank as Most Desirable / More Desirable, while 27% would be rated Less Desirable / Least Desirable. Note: Less Desirable / Least Desirable markets can support successful projects, they just need to be more affordable.

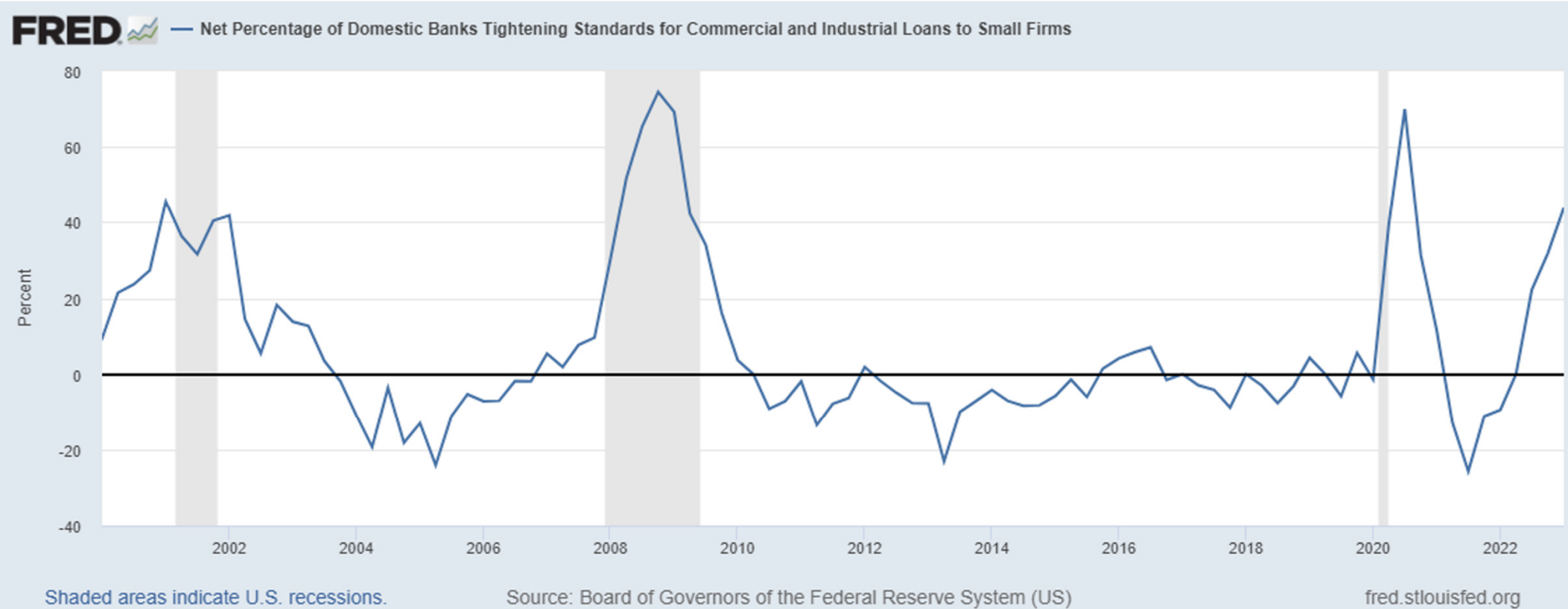
Submarket Grading	
Description	BTR Submarket Distribution
Most Desirable	24%
More Desirable	25%
Median Desirability	24%
Less Desirable/More Affordable	20%
Least Desirable/Most Affordable	7%

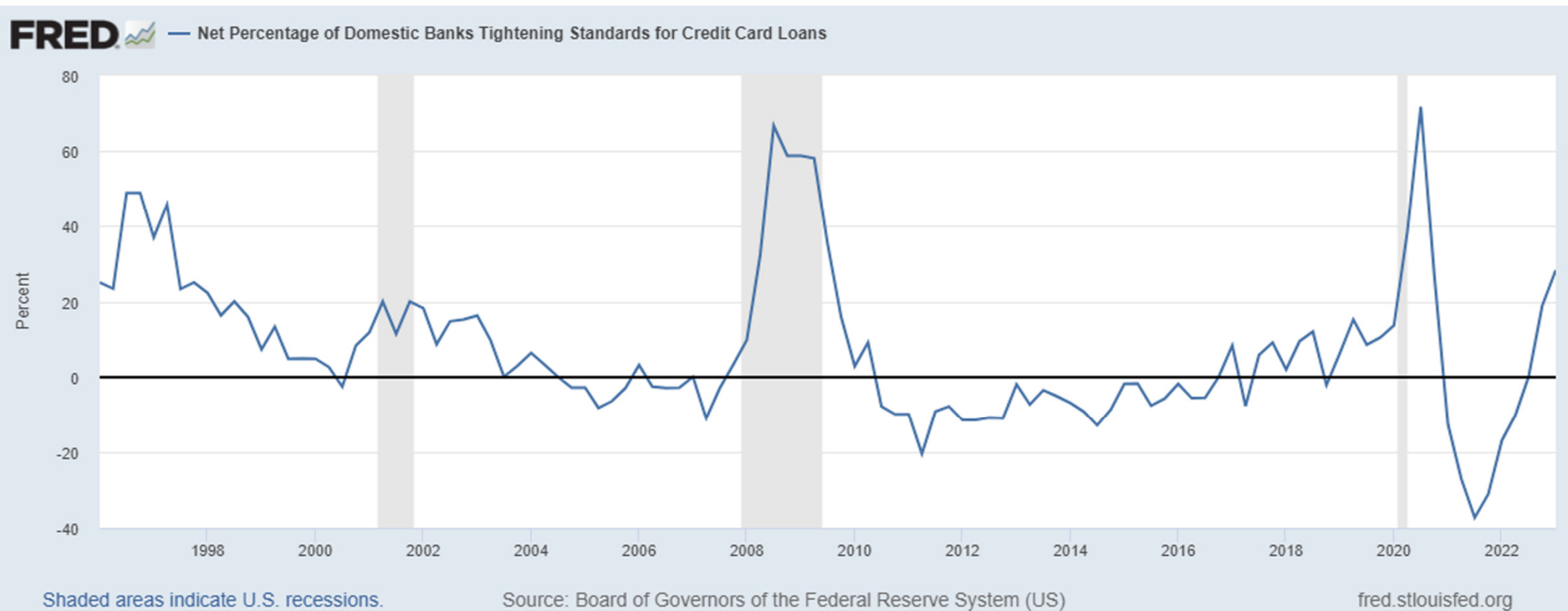
1) This excludes Redwood. Vast majority of its 125 projects do not offer pools, gated entrances, clubhouse, and/or fitness centers

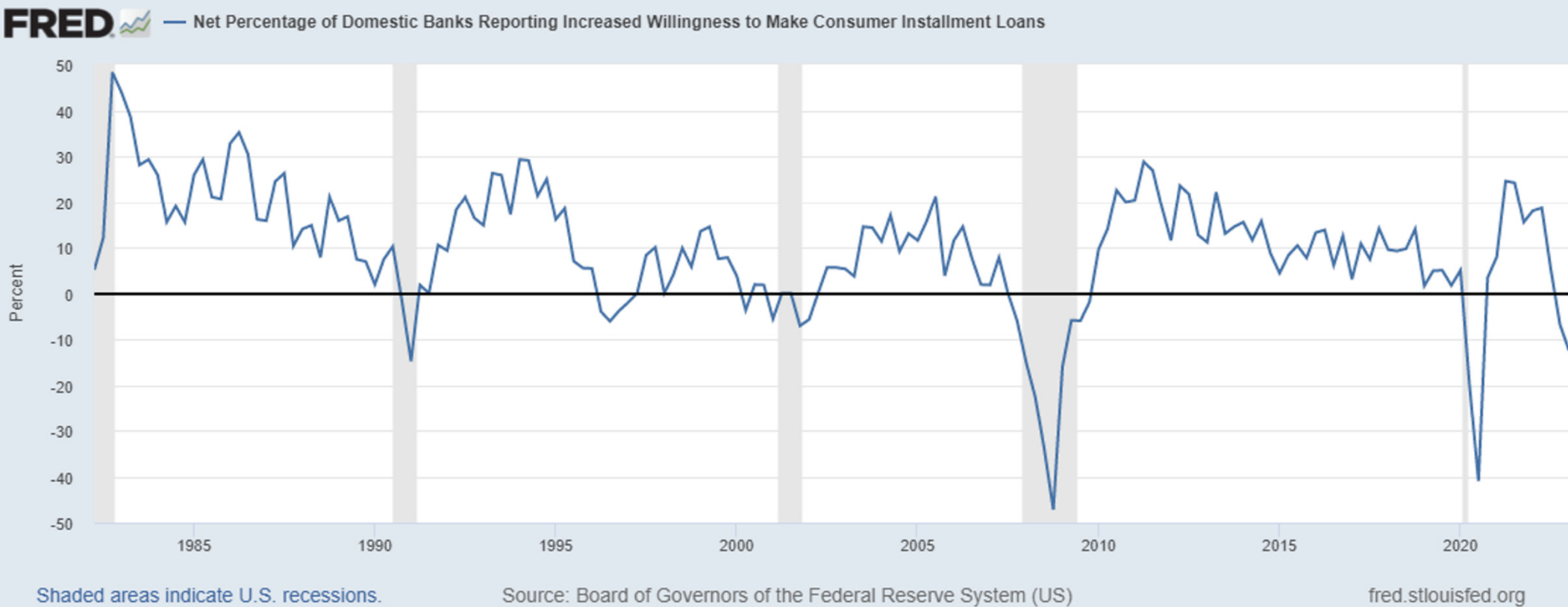
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National Economic Outlook Recession Watch

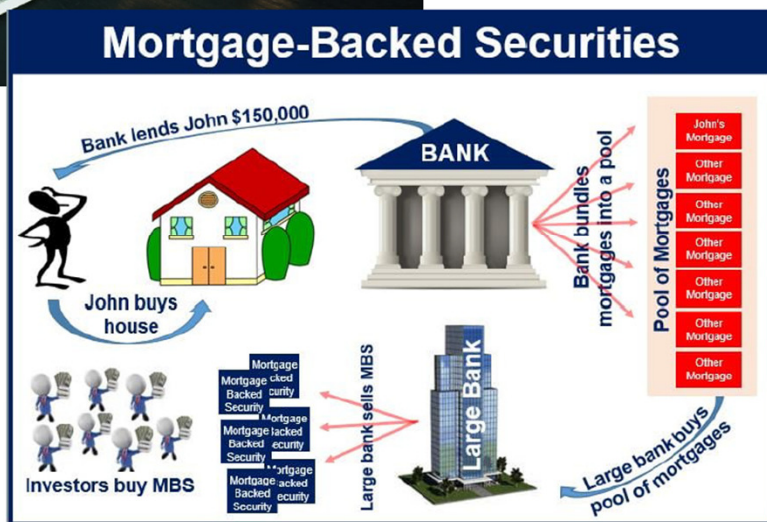








Due to rising rates, all fixed cash flow streams are worth much less than they used to be.



Who owns all these fixed cash flows, and what happens if they need to sell or refinance?



Pension Funds
Retirees



Federal, State & Local Governments



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A multi-year commercial real estate downturn is likely just getting started, led by office buildings.

Blackstone's \$270 Million Loan Goes To Special Servicing As Some Big Owners Struggle

Debt Is Backed by 11 Manhattan Apartment Rental Properties Amid Higher Interest Rates



THE WALL STREET JOURNAL.

JOHN BURNS

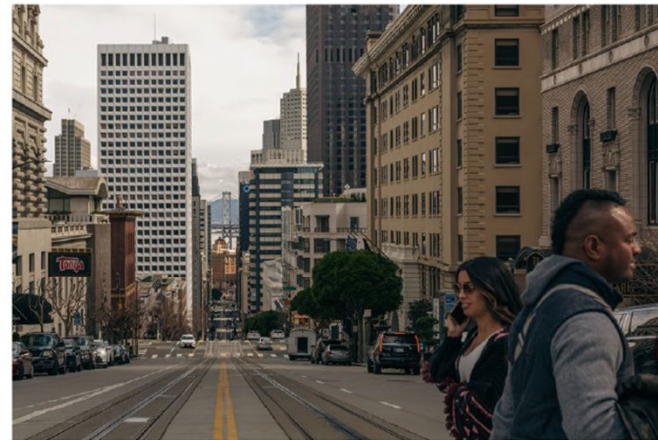
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REAL ESTATE | PROPERTY REPORT

Pimco Is Saddled With a \$1.7 Billion Default in Office-Market Meltdown

Columbia Property Trust feels the fallout of rising interest rates



Columbia Property Trust's portfolio of office buildings includes properties in San Francisco.
PHOTO: SHELBY KNOWLES FOR THE WALL STREET JOURNAL

By [Peter Grant](#) and [Konrad Putzier](#)
Feb. 20, 2023 7:00 am ET

We expect the banks to severely curtail development and real estate lending this year, which will slow the economy.



This is what Jay Powell wants, in order to slow inflation.



We expect pension funds and insurance companies to slow their investments in real estate too.



This is also what Jay Powell wants – to slow the constructing industry to increase unemployment and reduce inflation.



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But he does not want these institutions to fail and cause an economic collapse.



Board of Governors of the Federal Reserve System

The Federal Reserve, the central bank of the United States, provides the nation with a safe, flexible, and stable monetary and financial system.

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Press Release

March 12, 2023

Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors

For release at 6:15 p.m. EDT

Yellen Says US Will Intervene If Needed to Protect Smaller Banks

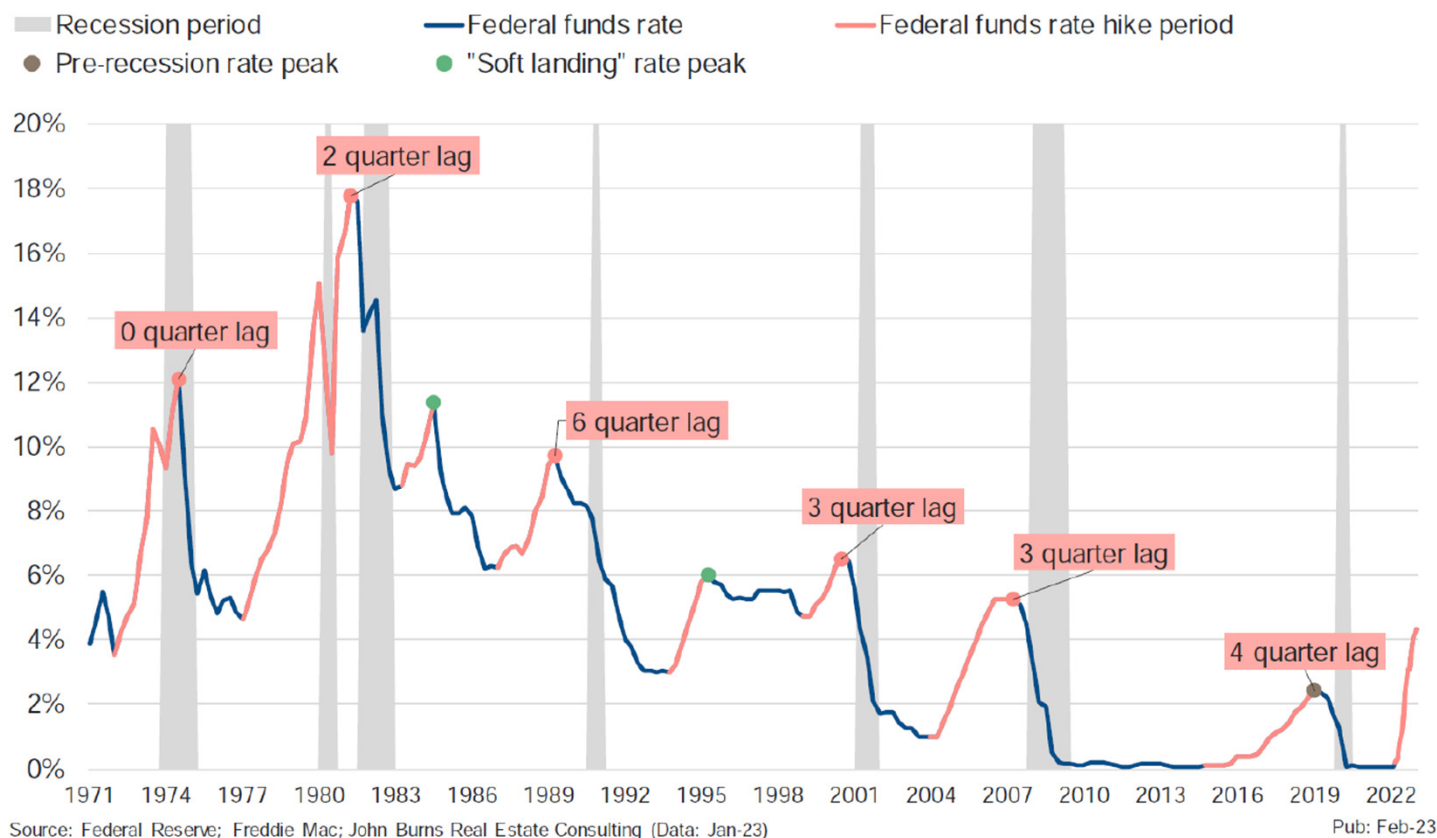


Bloomberg

March 21, 2023 at 6:00 AM CDT *Updated on March 21, 2023 at 9:47*

Reminder: Fed interest rate hikes usually take 6-18 months to have significant impact. We are at 12 months.

Rate Hikes and Recessions



"So, of course, **monetary policy does, famously, work with long and variable lags**.... changes in financial conditions begin to affect economic activity fairly quickly, within a few months."

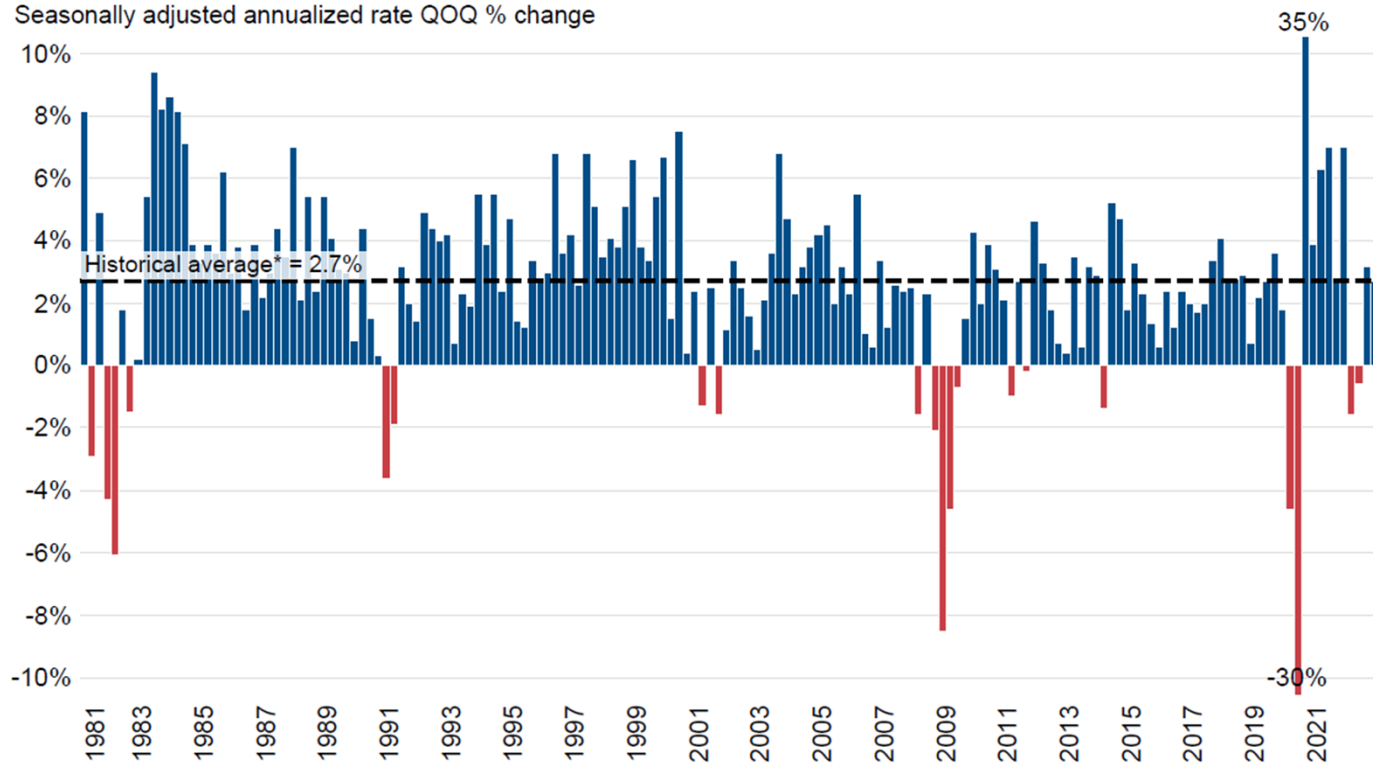
- Fed Chair Jerome Powell, September 2022

Real GDP

Real GDP rose 2.7% in 4Q22 on an annualized basis, right at the 2.7% historical average.

Real GDP

Seasonally adjusted annualized rate QOQ % change



Note: Due to the impact of COVID-19, the annualized QOQ change in GDP was -31.4% in 2Q20 and +33.4% in 3Q20.
Source: BLS (Data: 4Q22, Pub: Mar-23)

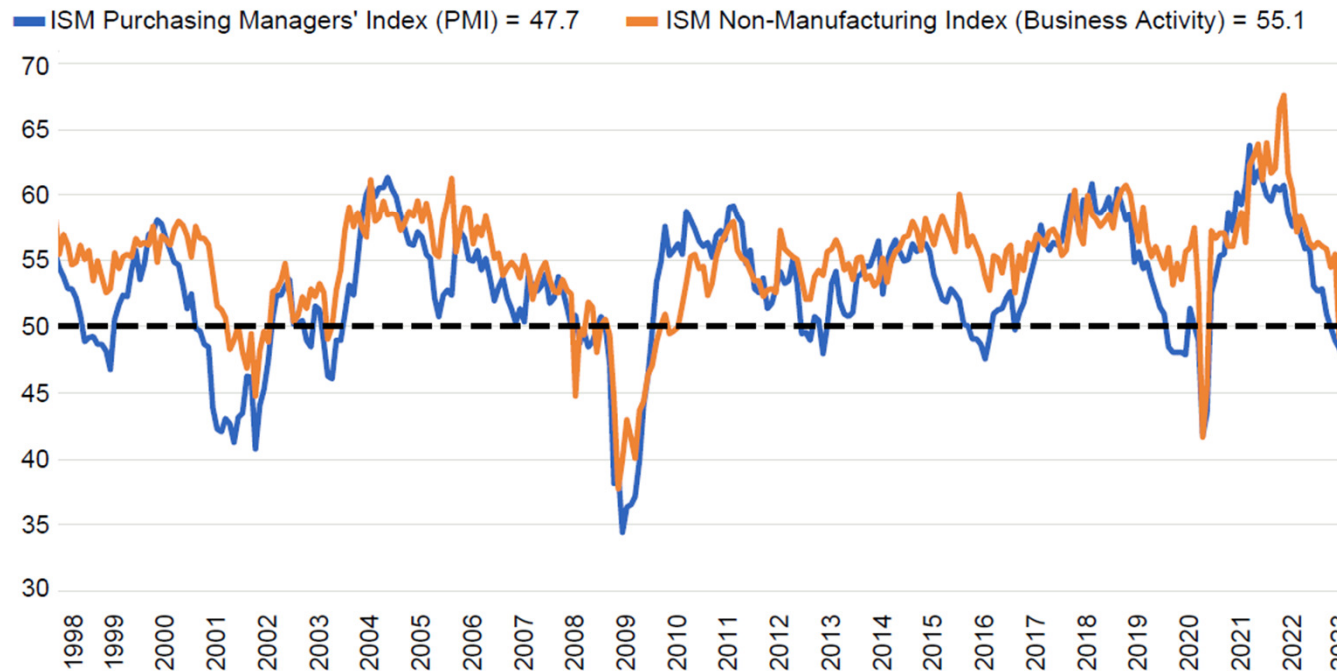
*Historical average: 1981 through current

Institute for Supply Management (ISM) Indices

The ISM Non-Manufacturing (Business Activity) Index fell in February. The Purchasing Managers' Index (a proxy for manufacturing activity) remained below 50, signaling contraction.

Institute for Supply Management (ISM) Indices

The indices, which monitor employment, production inventories, new orders, and supplier deliveries, are based on surveys of manufacturing and non-manufacturing firms. An index value greater than 50 signals growth.



Source: Institute for Supply Management (Data: Feb-23, Pub: Mar-23)

Houston Purchasing Managers Index +50 = Expansion



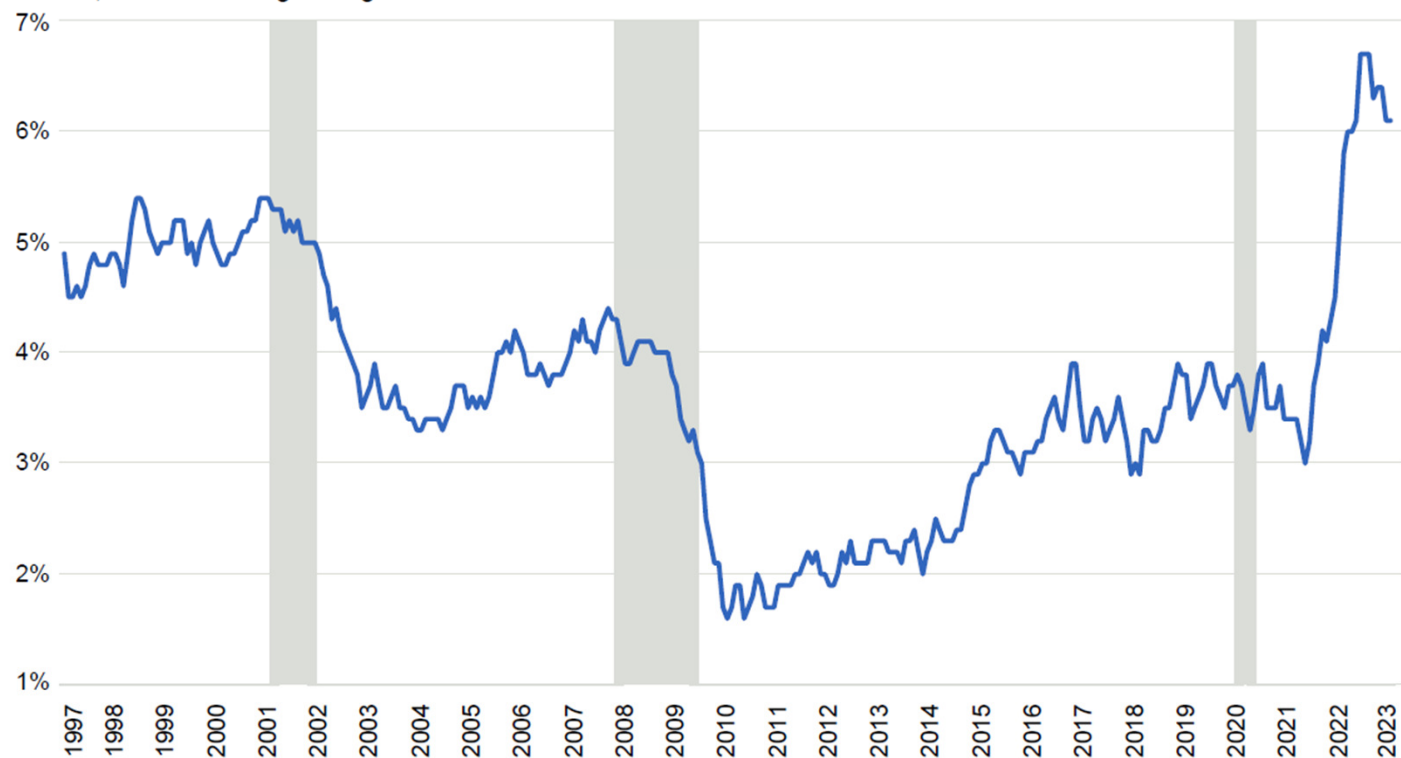
Source: Institute for Supply Management - Houston

Average Wage Growth

Wages rose 6% YOY according to the Atlanta Fed. This wage gauge strips out wage outliers on both the high and low end of earners for a more accurate measure of middle-class wage growth.

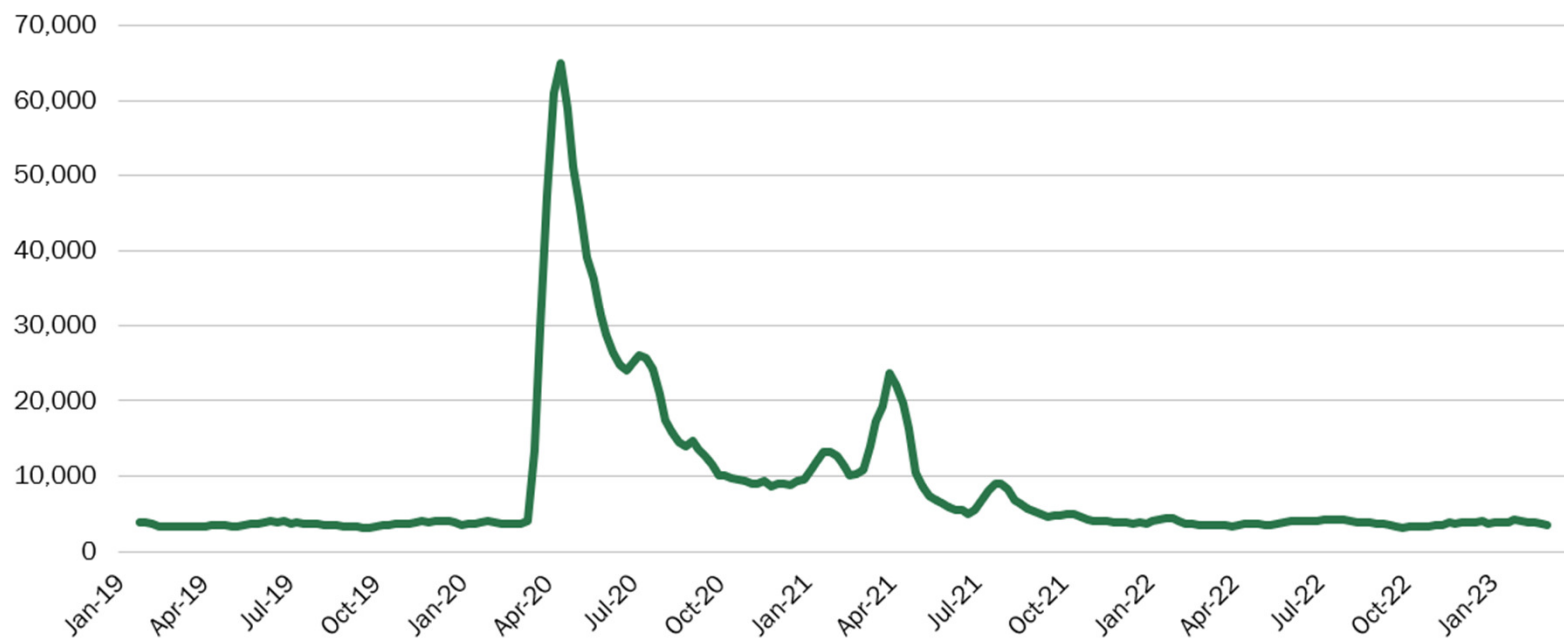
Atlanta Federal Reserve Board Wage Growth Tracker

YOY %, 3-month moving average



Source: Current Population Survey, Bureau of Labor Statistics and Federal Reserve Bank of Atlanta's calculations (Data: Jan-23, Pub: Mar-23)

Initial Claims for Unemployment Benefits



Source: Texas Workforce Commission

Indicator	November Status	March Status
GDP	Neutral to Expanding	Neutral to Expanding
Personal Income	Expanding	Expanding
Employment	Neutral to Expanding	Expanding
Manufacturing Output	Neutral to Expanding	Neutral to Contracting
Retail Sales	Expanding	Expanding
<u>Overall Economy</u>	Neutral to Expanding	Neutral to Expanding

Some good news in this: Rising likelihood of a recession should lower inflation, and cause interest rates to fall.

