

HOUSING RECOVERY



2017: Strongest Year for Housing Recovery



Presented by:

Charles C. Shinn, Jr., Ph.D.
President, The Shinn Group /
Builder Partnerships

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U. S. Economy

➤ Recession ended 3rd quarter 2009

✔ Entering 9th year of economic recovery

- ❑ 2nd longest recovery on record behind 1990 -2000

✔ GDP only growing at an average of 2.3% annually during recovery

- ❑ 2014 GDP growth of 2.4%

- ❑ 2015 GDP growth of 2.6%

- ❑ 2016 GDP growth was only 1.5%

- ❑ 2017 estimate GDP growth of 2.3% (based on 1st estimate of 4th quarter)

✔ 2017 Quarterly GDP Growth expected to register 2.5% GDP growth

- ❑ 1st Quarter only grew 1.2%

- ❑ 2nd Quarter grew 3.1%

- ❑ 3rd Quarter grew 3.2% (3rd estimate)

- ❑ 4th Quarter eased to 2.6% growth (1st estimate) because of softening of private inventories

U. S. Economy

- A major concern has been the strength of the overall economy for 2017
- Employment Growth (Effectively Full Employment)
 - ✔ Pace of job growth had been slowing since November 2014
 - ✔ 2014 Average Monthly Employment Growth = 260,000
 - ✔ 2015 Average Monthly Employment Growth = 228,000
 - ✔ 2016 Average Monthly Employment Growth = 187,000
 - ✔ 2017 Average Monthly Growth (1st 11 Months) = 182,000
 - ❑ Need increase in participation rate
 - ✔ January 2018 Monthly Employment Growth
 - ❑ January = 200,000
 - ❑ December = 160,000
 - ❑ November = 216,000
 - ❑ October = 271,000

U. S. Economy

- Unemployment in October 2009 was 10.0%
- During 2015, unemployment dropped from 5.7% to 5.0%
- During 2016, unemployment dropped to 4.7% in December
- 2017 currently at effective full employment with unemployment at 4.1% for the last four months
- Anticipated to drop to about 3.5% during 2018
 - ✔ Wages beginning to increase
 - ✔ Increasing unfilled jobs

U. S. Economy

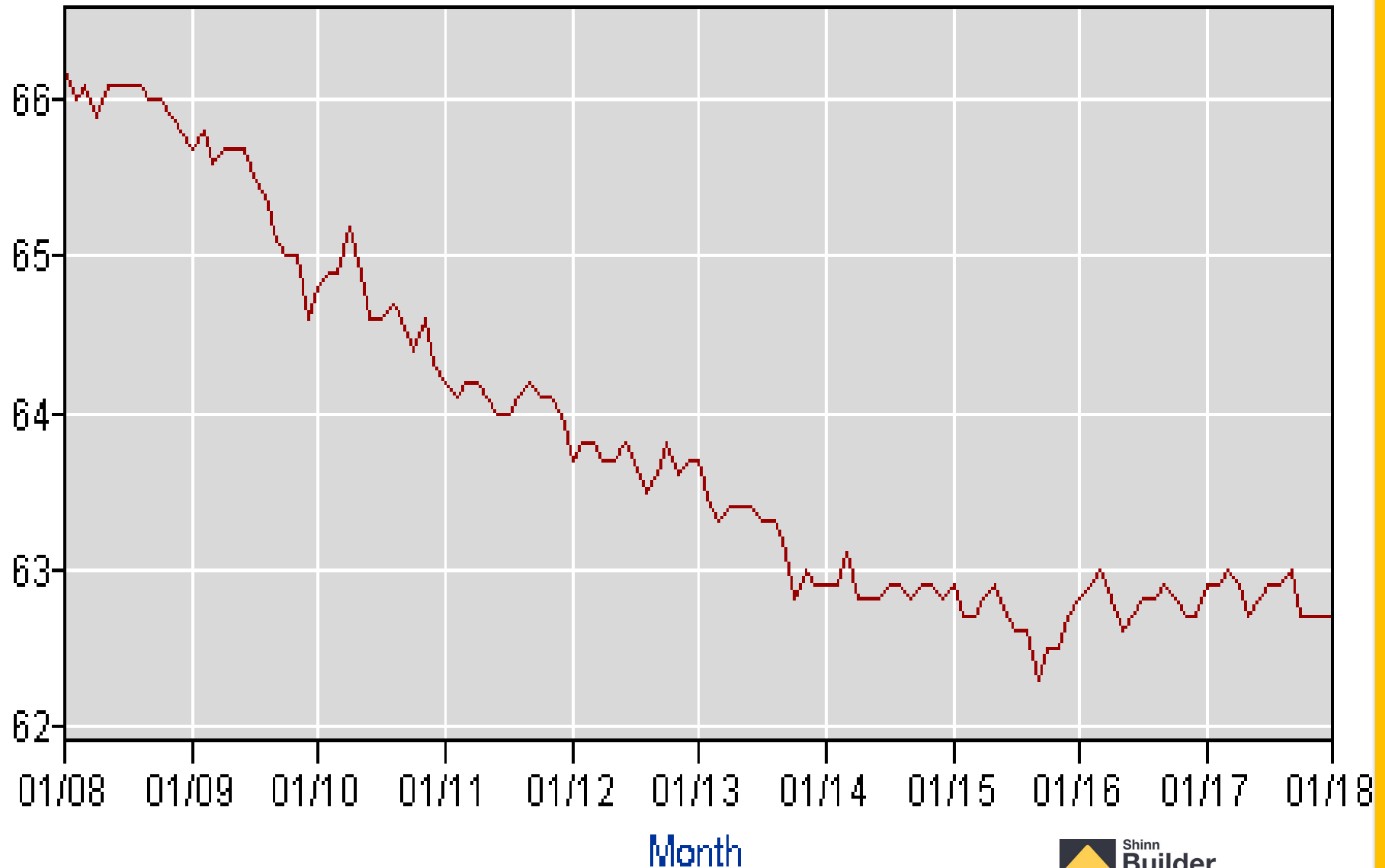
- Labor participation has shown no clear trend over last year
 - ✔ Labor participation rate has been hovering at about 63%
 - ✔ January labor participation rate was 62.7% (constant since September)
 - ✔ Need to increase labor participation rate

- Labor productivity has remained consistent during the year

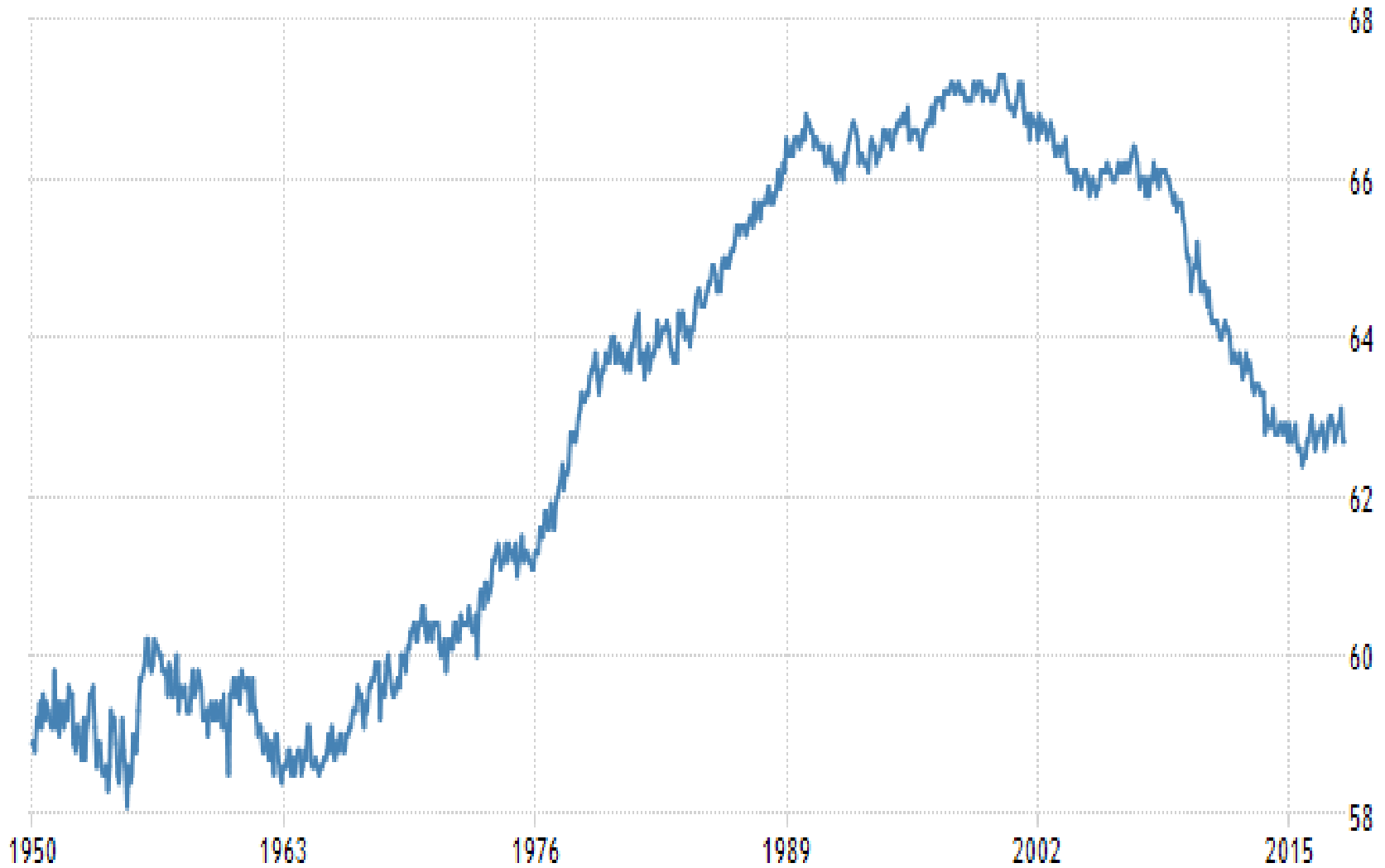
- Average work week is hovering around 34.5 hours
 - ✔ Declined to 34.2 hours in January

- Average hourly earnings increased in January rose 9 cents to \$26.74
 - ✔ December increased 11 cents to \$26.65/hour from \$26.54 in November

Labor Participation Rate 2007 - 2018



US LABOR FORCE PARTICIPATION RATE



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

U. S. Economy

- Manufacturing sector has been strengthening this year
 - ✔ Began showing weakness in August of 2014
 - ✔ Poor performance through 2015 & much of 2016
 - ✔ 2017 has shown good strengthening in the manufacturing sector
 - ☐ Factory orders in December increased 1.7% which is 5th straight monthly increase

- Manufacturing Index was at a cycle high at 60.8 in October
 - ✔ January registered an index of 59.1
 - ✔ December index was 59.3

- Non-Manufacturing Index rose 3.9% to 59.9% in January
 - ✔ Still shows broad economic strength with all sub-indexes continuing to expand

U. S. Economy

- Consumer Confidence Index recovered in January continued to improve 2.3 points to 125.4 to 3rd highest in cycle behind November & October 2017
 - ✔ January = 125.4
 - ✔ December = 123.1
 - ✔ November = 129.5
 - ✔ October = 126.2
 - ✔ *November was at a 17-year high since November 2000 (132.6)*
- Present Situation Index in January slipped 1.2 points to 155.3 from December (154.1)
- Future Expectation Index rose in January 4.7 points to 105.5

U. S. Economy

➤ Consumer spending was weak to start 2017

- ✔ Weak consumer spending in 4th quarter of 2016

 - ❑ Disappointing holiday season

- ✔ 1st quarter 2017 disappointing at only 0.6% growth

- ✔ 2nd quarter bounced back with a 3.3% increase

- ✔ 3rd quarter increased by 2.4%

- ✔ Conditions are positive for a strong 4th quarter

 - ❑ Holiday spending this year has been robust

 - Expected to increase by 4.0% from last year



Housing Industry Recovery

- Bottomed out in January 2009
 - ✔ Now entering 9th year of recovery
- Very weak recovery
 - ✔ Scraped bottom for three years
 - ✔ 2011 worst year in history for new home sales (only 306,000 sales)
- Recovery strengthened in 2012
 - ✔ Stalled in 2nd half of 2013, 2014, 2015
 - ✔ 2016 began weak but strengthened in March with builders realizing strong traffic and sales
 - ✔ 2017 has been strong for single family but down for multifamily



Housing Industry Recovery

➤ 30-year mortgage interest rates

✔ Increased 58 basis points since the cycle low rate

❑ December 2012 = 3.34%

❑ December 2017 = 3.95% (3rd straight increase)

❑ Average for all 2017 = 3.99%

✔ FED raised interest rates 0.25% for 3rd time last year on December 13th

❑ Anticipated to raise interest rates 3 more time this year

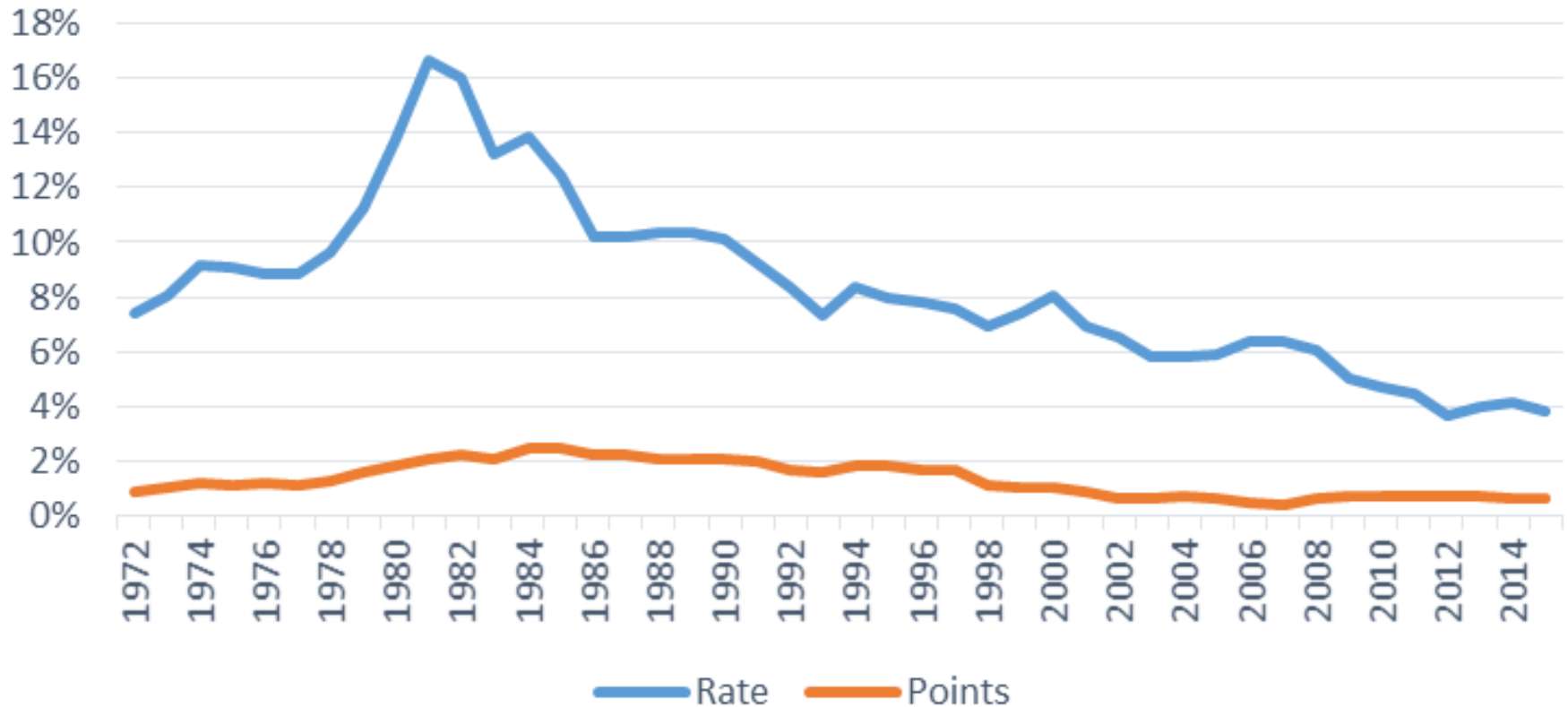
✔ Mortgage rates to average 4.4% for 2018

❑ By end of 2018 it could reach 5.0%

❑ Major concern for housing industry

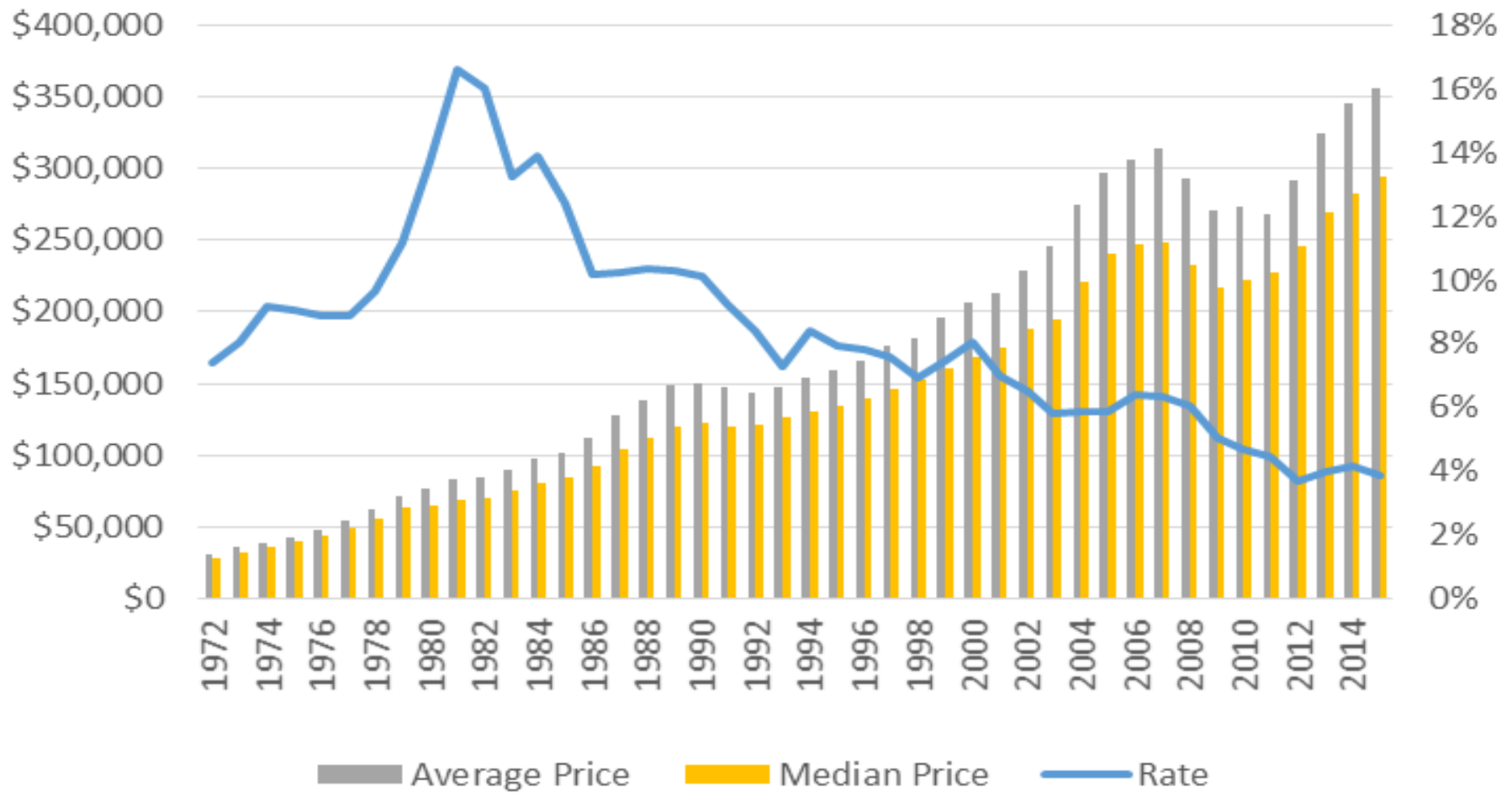
30-Year Fixed Rate Mortgages

1972 - 2015



House Prices / Interest Rates

1972 - 2015



Stars Should Be Perfectly Aligned

- Significant pent-up demand
- Increasing household formations (millennials)
- New & existing home inventory have been extremely low
 - ✔ Both at or below 6 month supply
- Mortgage rates
 - ✔ Remain Relatively low
 - ✔ Beginning to Rise
- Credit availability easing
- Foreclosures & short sales effectively gone



Pent-Up Demand

- Population growing at 2.7 million annually
- One million households annually
- Demand outpacing the housing supply
- Issues impacting home sales
 - ✔ Lack of inventory
 - ✔ Economic concerns
 - ✔ Mobility
 - ✔ Younger & Older Population



Pent-Up Demand

➤ BUT:

- ✔ Consumer confidence is increasing
- ✔ Employment has been increasing
- ✔ Unemployment has been decreasing
- ✔ Home prices continue to increase
 - ❑ 5.8% annual increase in median existing home sales price in December
 - 70th straight year-over-year monthly increase
 - ❑ 2.6% annual increase in median new home sales price in December
- ✔ Mortgage rates on a 30-year fixed rate loan rose to 3.95% from 3.92% in November but still below 4.0%
 - ❑ Average commitment rate for 2017 was 3.99%

Housing Affordability

➤ Housing Affordability Index

✔ Record high in January 2013 = 213.6

✔ November = 159.7 (composite)

– Down from record high of 53.9 points (25.2% drop)

❑ Median Price = \$248,800

❑ Mortgage Rate = 4.19%

❑ Median Family Income = \$74,502

❑ Qualifying Income = \$46,656

❑ Payment as a % of Income = 15.7%

– Down from 16.9% in June



Housing Affordability

➤ Median existing single family sales price

✔ Bottomed in January 2012 at \$154,600

✔ November 2017 = \$248,800

☐ Up \$94,200 (60.9%)

➤ 30-Year mortgage interest rate

✔ Record low in December 2012 = 3.34%

✔ November 2017 = 4.19%

☐ Up 0.85% (25.44% increase)



Housing Affordability

➤ Median household income in November

✔ Median Family Income = \$74,502

☐ Up 4.0% since last November (\$71,610)

➤ Qualifying income = \$46,656

✔ Up 10.2% since last November (\$42,336)

✔ 62.6% of median family income

☐ Was 59.1% last November



Foreclosures and Short Sales

- Distressed sales in November were 5% of sales
 - ❑ Up 1% after four straight months at 4%
 - ❑ Down from 7% a year ago
- ✔ Foreclosures were 4% of November sales
- ✔ Short sales were only 1% of November sales



Existing Home Sales

➤ Historic Existing Home Sales:

✔ 2009	4.34 million		
✔ 2010	4.19 million	Down	3.46%
✔ 2011	4.26 million	Up	1.67%
✔ 2012	4.66 million	Up	11.22%
✔ 2013	5.09 million	Up	9.23%
✔ 2014	4.94 million	Down	6.40%
✔ 2015	5.25 million	Up	6.28%
✔ 2016	5.45 million	Up	3.81%
✔ 2017	5.51 million	Up	1.1%
✔ 2018 ^f	5.68 million	Up	2.9%



Existing Home Market

- December Annual rate of Sales = 5,570,000
 - ✔ Year over year increase of 1.1% (5.10 million)
 - ✔ Down 3.6% from November
- Demand continues to outpace supply
 - ✔ Terribly low housing supply
 - ✔ Rapidly rising home prices
- 2017 annual sales = 5,510,000 (up from NAR forecast)
 - ✔ 1.1% over 2016's 5.45 million
 - ✔ Supply problems hurting sales
 - ✔ Demand outpacing supply

Existing Home Sales

➤ Inventories of existing unsold homes tight

- ✔ 1.48 million homes in December
 - ❑ 3.2 months of supply
 - ❑ **Down** 10.3% from last year
 - ❑ 31st consecutive year over year decline

➤ Median time on the market

- ✔ Typically 40 days in December
 - Down from 52 days last year
- ✔ 44% of December sales on market less than a month

➤ First-time buyers represented 32% of sales in December

- ✔ Up from 29% in November
- ✔ Annual share of first-time buyers was 34%



Existing Home Market

➤ Rising Home Prices

- ✔ Bottomed in Jan. 2012 = \$154,600
- ✔ Median existing home price in December was \$246,800
 - ☐ 70th straight month of year over year increase
 - ☐ Up 5.8% from December 2016 (\$233,300)
- ✔ Median price increase of \$92,200
 - ☐ 59.6% increase

Existing Home Market

➤ Pending home sales rose 0.5% in December

- ✔ Third consecutive gain
- ✔ Highest level since March
- ✔ Will have solid momentum for January & February 2018
- ✔ Very low inventory issues
 - ❑ 10.3% below last year
 - ❑ Very tight inventory
 - 3.2 months of supply
 - ❑ Rising prices
 - Up 5.8% year over year
- ✔ Raising mortgage rates to continue through 2018

➤ Demand continues to outpace supply

New Housing Permits

➤ December New Housing Permits

✔ Total permits

- ❑ **Down 0.1%** (1.302 million) from November (1.303 million)
- ❑ Year over year increase of 2.8%
- ❑ Annual increase of 4.7% above 2016 (2017 = 1,263,400)

✔ Single family permits

- ❑ Increased 1.8% (881,000) from November (865,000)
- ❑ Year over year increase of 6.1%
- ❑ Annual increase of 8.9% to 817,700 for 2017

✔ Multifamily permits

- ❑ **Decreased 3.9%** (421,000) from November (438,000)
- ❑ Year over year **decrease** of 3.4%
- ❑ Annual **decrease** of 2.2% to 445,700 for 2017

New Housing Starts

➤ December Starts

✔ Total housing starts

- ❑ Decreased 8.2% from 1,299,000 to 1,192,000 annual rate
- ❑ Year over year decreased 6.0% from last December
- ❑ Annual increase of 2.4% at 1,202,100 from 1,173,800 in 2016

✔ Single family housing starts

- ❑ Decreased 11.8% to 836,000 from November's 948,000 annual rate
- ❑ Year over year increase of 3.5% from last December
- ❑ Annual increase of 8.5% to 848,300 from 781,500 in 2016

✔ Multifamily housing starts

- ❑ Increased 1.4% to 356,000 from November's 351,000 annual rate
- ❑ Year over year **decline** of **16.8%** in December from 428,000 last year
- ❑ Annual **decrease** of **9.8%** for 2017 to 353,800 from 393,300 in 2016

Housing Starts

➤ Housing starts bottomed in 2009

✓ 2009	553,900	
✓ 2010	586,900	5.9% increase
✓ 2011	608,800	3.7% increase
✓ 2012	780,600	28.1% increase
✓ 2013	924,900	18.5% increase
✓ 2014	1,003,300	8.5% increase
✓ 2015	1,111,800	10.8% increase
✓ 2016	1,173,800	5.6% increase
✓ 2017e	1,202,100	2.4% increase



Single Family Housing Market

➤ New home sales at record low in 2011 (306,000)

✔ 2012 sales = 368,000 = 20.3% increase

✔ 2013 sales = 429,000 = 16.6% increase

✔ 2014 sales = 437,000 = 1.9% increase

✔ 2015 sales = 501,000 = 14.6% increase

✔ 2016 sales = 561,000 = 12.0% increase

✔ 2017 sales = 608,000 = 8.4% increase



New Home Inventory

➤ Expanding new home inventory

✔ 295,000 homes in December 2017

❑ The historic low was 142,000 in July 2012

❑ Has increased 107.7% or by 153,000 homes

✔ 5.7 months of supply

✔ Completed inventory low

❑ Only 64,000 homes completed for sale

❑ Has been gradually increasing since June 2013 = 35,000

– All Time Low

– Increased 82.9% since historic low (+29,000)

– Appears to be stabilizing between 60,000 & 65,000



➤ Inventory is close to balance at current sales rate

New Home Inventory

➤ New homes for sale at the end of December 2017

- ✔ Northeast 25,000 new homes
- ✔ Midwest 41,000 new homes
- ✔ South 154,000 new homes
- ✔ West 74,000 new homes



Housing Prices

➤ Have been increasing

✔ Median Prices:

☐ New homes:

- Bottomed in Nov. 2011 = \$214,300
- December median price = \$335,400
- Median price increase of \$121,100
- 56.5% increase

☐ Existing Homes:

- Bottomed in Jan. 2012 = \$154,600
- December median Price = \$246,800
- Median price increase of \$92,200
- 59.6% increase



Gap Between Existing & New Home Sales Prices

➤ Median December new home sales price

✔ Median new home price = \$335,400

➤ Median December existing home sales price

✔ Median existing home price = \$246,800

☐ 70th consecutive month of year-over-year gains

➤ Gap in December median sales prices

✔ December Gap in median sales price = \$88,600

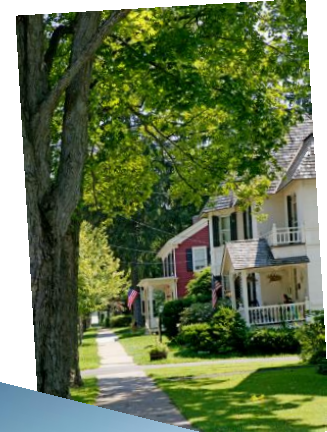
☐ 35.9% Gap in median sales price

☐ Has been decreasing

➤ Year-over-year median sales price

✔ New Homes = increase \$8,400 or 2.6%

✔ Existing Homes = increased \$13,500 or 5.8%



Strength of Multi-Family Activity

➤ Multi-family starts

✔ 2009	108,900	
✔ 2010	115,700	6.2% increase
✔ 2011	178,200	54.0% increase
✔ 2012	245,300	37.7% increase
✔ 2013	307,300	25.3% increase
✔ 2014	355,400	15.7% increase
✔ 2015	397,300	11.8% increase
✔ 2016	392,200	1.3% decline
✔ 2017	353,800	9.8% decline



➤ Vacancy rate rising in major metro markets

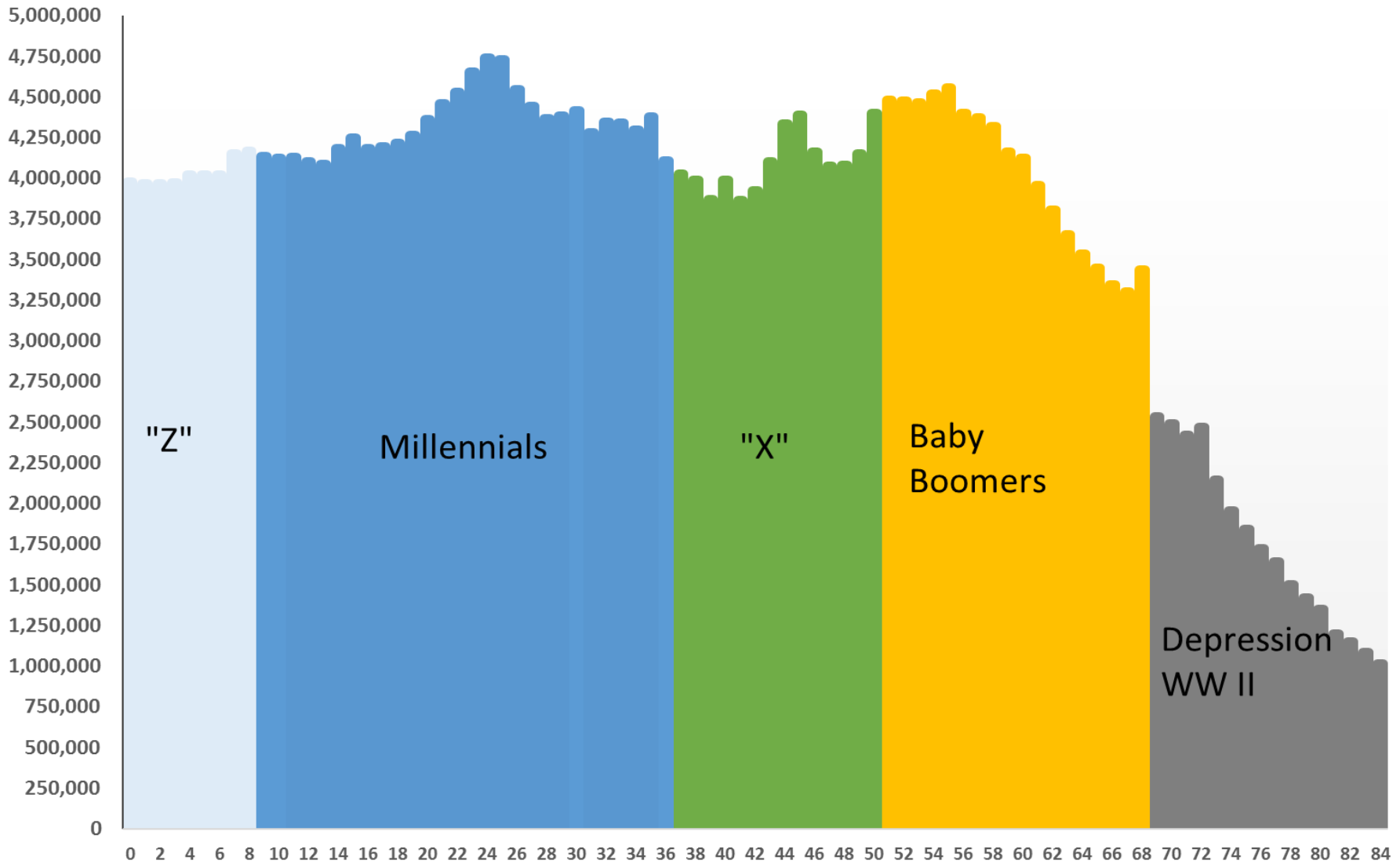
➤ Rental rates still strong for newer units

Multi-Family Housing

- Should maintain strong multi-family activity
 - ✔ Should retain strength for next several years
 - ❑ Should grow to between 375,000 & 400,000 units annually
 - ✔ Increase in for sale condominium & townhouses
 - ✔ Reduction in rental apartments

- Millennials entering housing market
 - ✔ Strong multi-family demand
 - ✔ Entering the homeownership stage of life
 - ✔ The peak is just turning 25 years old
 - ❑ 4.7 Million from only about 3.8 million at age 39
 - ✔ Following housing path of baby boomers, only later in life
 - ❑ Forecasters haven't been looking back far enough

2015 Population by Age



Population By Age

- WWII/Depression babies (born 1946 or earlier)
 - ✔ Currently 70 year old or older
- Baby Boomers (born from 1947 to 1965)
 - ✔ Currently 52 to 69 years old
 - ✔ Peak of Baby Boomers is currently 55 years old
 - 4.5 million

Population By Age

➤ Generation X (born from 1966 to 1979)

- ✔ Currently 37 to 50 years old

- ✔ Peak population is currently 50 years old

 - ☐ 4.7 million

- ✔ Low population is currently 39 and 41 years old

 - ☐ 3.8 million each

➤ Millennials (born 1980 or later)

- ✔ Currently 37 years old or younger

- ✔ Peak population is currently 25 years old

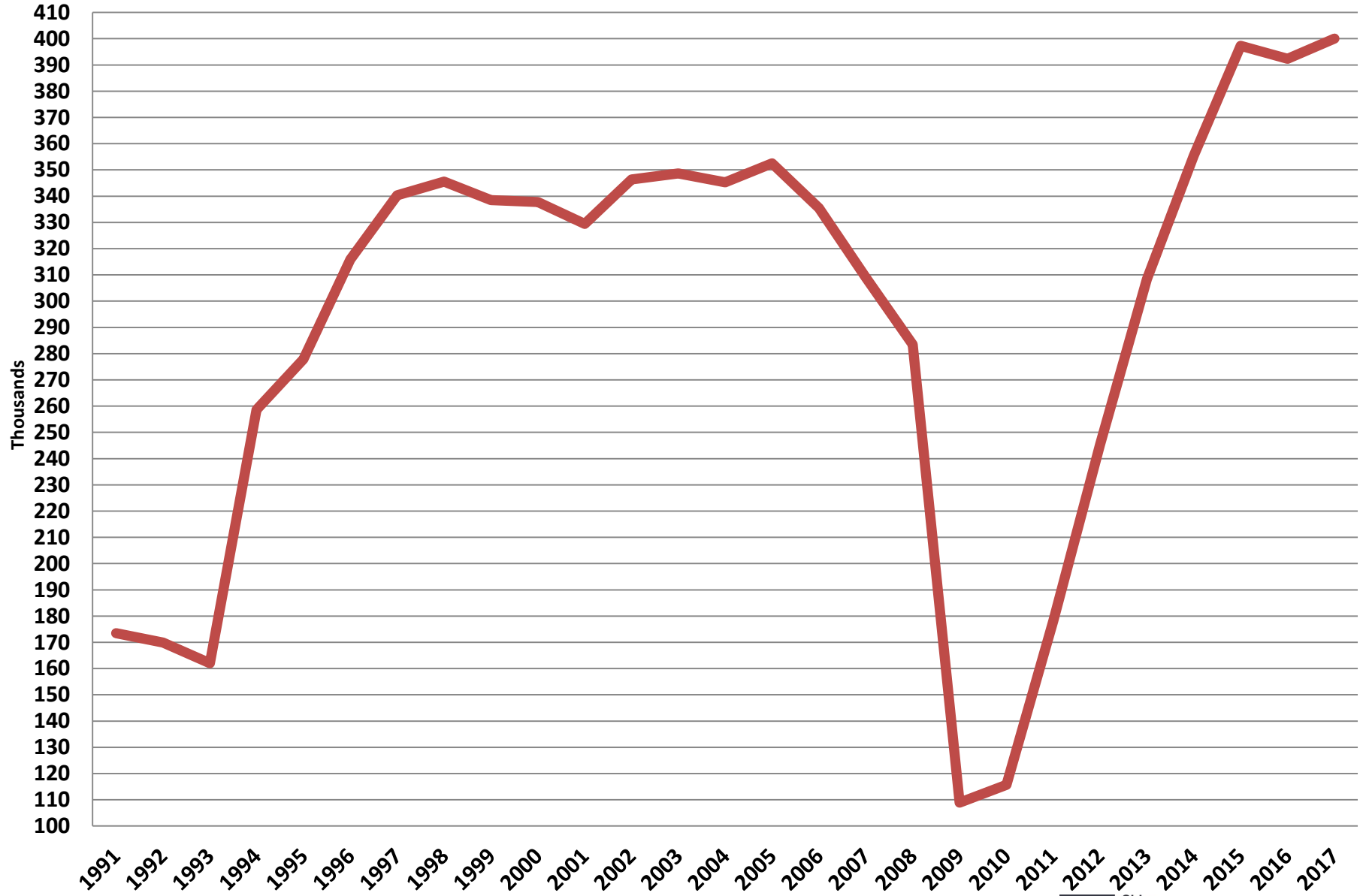
 - ☐ 4.75 million

- ✔ Low population is currently 36 years old

 - ☐ 4.1 million

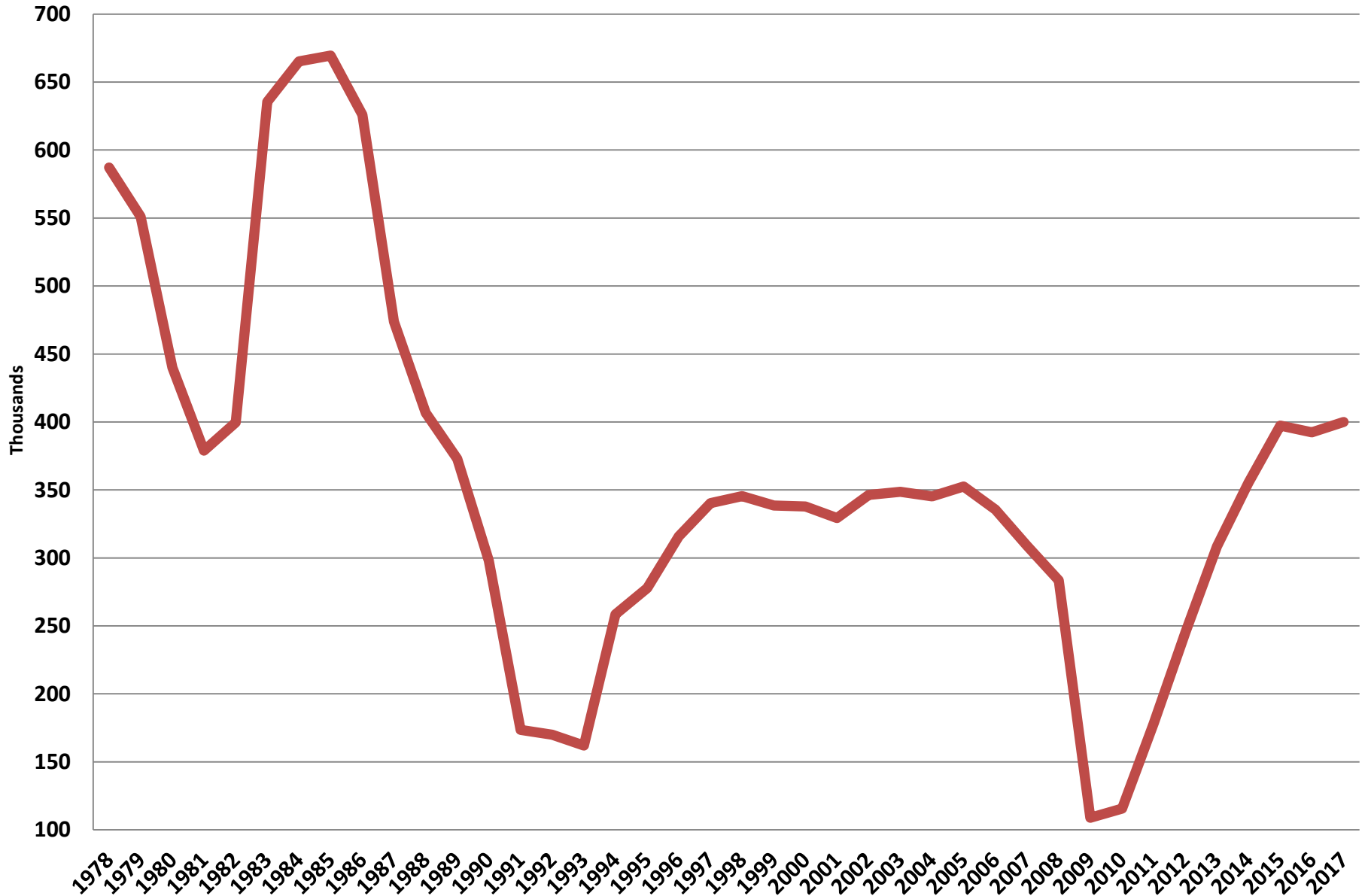
Annual Multifamily Housing Starts

1991 - 2017



Annual Multifamily Housing Starts

1978 - 2017
















NAHB Housing Forecast: 1/8/18

➤ Housing starts:

	Single	Multi	Total
✓ 2012	537,000	247,000	784,000
✓ 2013	620,000	308,000	928,000
✓ 2014	647,000	355,000	1,001,000
✓ 2015	713,000	395,000	1,108,000
✓ 2016	784,000	392,000	1,176,000
✓ 2017	854,000	360,000	1,214,000
✓ 2018	893,000	354,000	1,247,000
✓ 2019	940,000	344,000	1,284,000

NAR Housing Forecast:

11/3/17

 Home Construction:	2016	2017	2018
 Total Start	1,174.0	1,188.0	1,300.0
 Single Family	782.0	840.0	950.0
 Multifamily	392.0	348.0	350.0
 Home Sales:			
 New Single Family:	561.0	606.0	690.0
 Total Existing Sales:	5,450.0	5,470.0	5,670.0
 Total Home Sales:	6,011.0	6,076.0	6,360.0
 Home Prices:			
 Median New	\$307.8	\$315.5	\$323.5
 Median Total Existing:	\$233.8	\$246.9	\$259.0
 Mortgage Rates:			
 30-Year Fixed Rate	3.6%	4.0%	4.5%

Wells Fargo Housing Forecast: 2/7/18

➤ Home Construction:	2016	2017	2018	2019
✓ Total Starts:	1,173.7	1,202.1	1,310.0	1,370.0
✓ Single Family	781.5	848.3	940.0	1,025.0
✓ Multi-Family	392.2	353.8	370.0	375.0
➤ Home Sales:				
✓ New Home Sales	561.0	608.0	670.0	730.0
✓ Total Existing Sales	5,450.0	5,510.0	5,650.0	5,840.0
✓ Existing S. F. Sales	4,838.0	4,892.0	5,020.0	5,200.0
✓ Existing Condo & T.H.	614.0	618.0	630.0	640.0
➤ Home Prices:				
✓ Median New	\$307.8	\$321.1	\$334.5	\$348.0
✓ Median Existing	\$233.8	\$247.3	\$261.0	\$274.5

Fannie Mae Housing Forecast: 11/13/17

➤ Home Construction:	2016	2017	2018
✔ Total Start	1,174.0	1,190.0	1,250.0
✔ Single Family	782.0	838.0	905.0
✔ Multifamily	353.0	352.0	345.0
➤ Home Sales:			
✔ New Single Family:	561.0	611.0	651.0
✔ Total Existing Sales:	5,452.0	5,485.0	5,550.0
✔ Total Home Sales:	6,013.0	6,097.0	6,201.0
➤ Home Prices:			
✔ Median New	\$307.0	\$319.0	\$336.0
✔ Median Total Existing:	\$232.0	\$246.0	\$259.0
➤ Mortgage Rates:			
✔ 30-Year Fixed Rate	3.6%	4.0%	4.1%

Realtor.com 2018 National Forecast: 12/5/17

- ✔ Home Price Appreciation: 3.2%
- ✔ Mortgage Rate: Average 4.6%; 5.0% by year end
- ✔ Existing Home Sales: 2.5% growth
- ✔ Housing Starts: 3.0% Total housing starts increase
7.0 % Single Family growth
- ✔ New Home Sales: 7% increase
- ✔ Home Ownership: Stabilize at 63.9%
- ✔ Existing Home Inventory: To increase reducing price pressure
- ✔ Millennials: Gain market share at all prices
- ✔ Southern Markets: Lead in sales growth

Shinn Consulting Housing Forecast: 12/20/17

➤ Home Construction:	2016	2017	2018	%
✔ Total Start	1,173.8	1,202.1	1,300.0	8.1%
✔ Single Family	781.5	848.3	950.0	12.0%
✔ Multifamily	392.3	353.8	350.0	-0.5%
➤ Home Sales:				
✔ New Single Family:	561.0	608.0	695.0	14.3%
✔ Total Existing Sales:	5,450.0	5,510.0	5,665.0	2.8%
✔ Total Home Sales:	6,011.0	6,080.0	6,360.0	4.6%
➤ Home Prices:				
✔ Median New	\$307.8	\$321.1	\$336.5	4.7%
✔ Median Total Existing:	\$233.8	\$246.8	\$260.0	5.3%
➤ Mortgage Rates:				
✔ 30-Year Fixed Rate	3.6%	4.0%	4.5%	

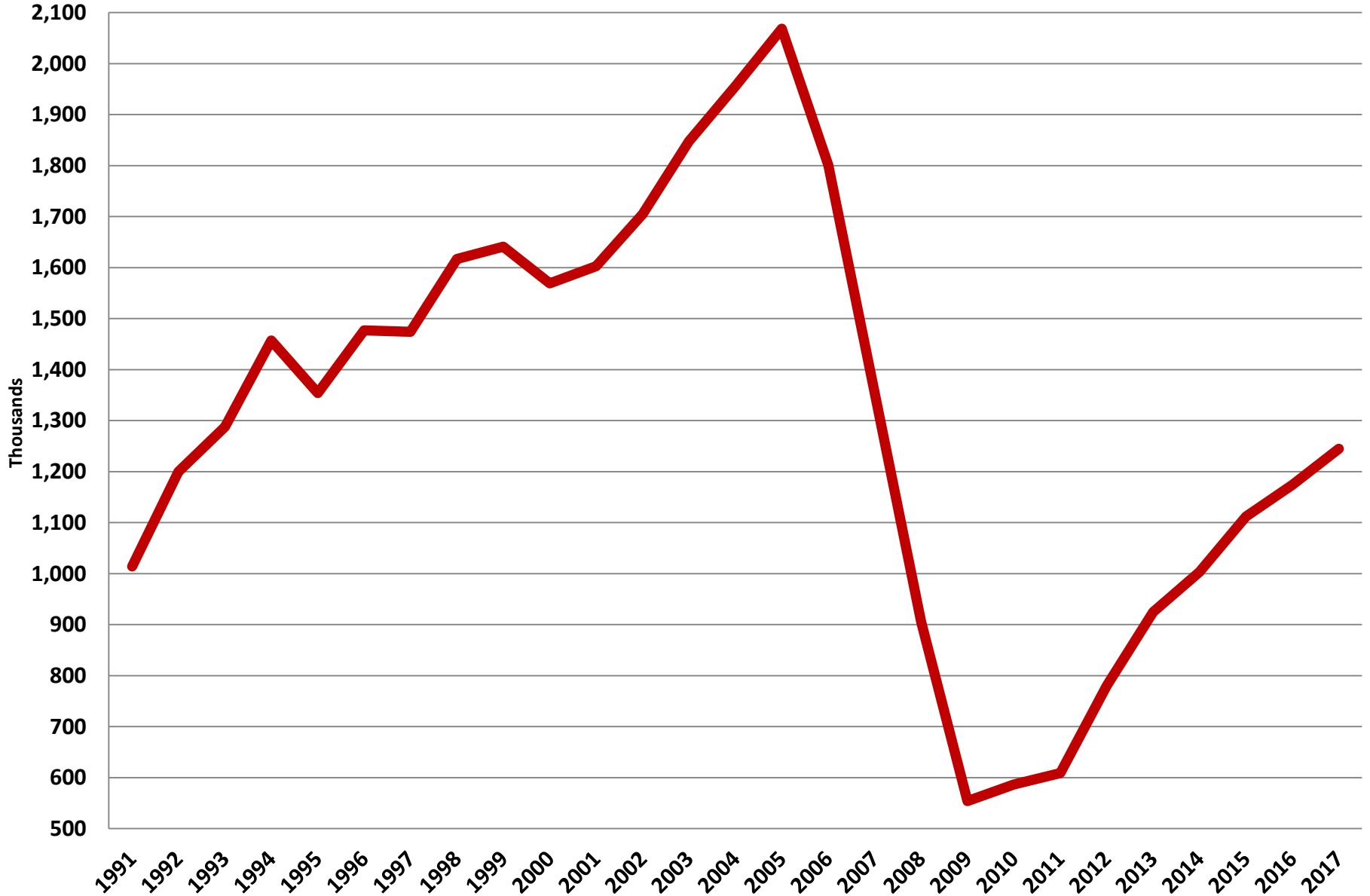
Challenges for Recovery

- Abandoned many of the management systems
 - ✔ Still trying to reestablish system and procedures
- Cost & shortage of trade contractors & crews
- Cost & shortage of developed Lots
- Lack of qualified staff
- Cost increases
- Housing affordability
 - ✔ Spread between Existing & New Homes



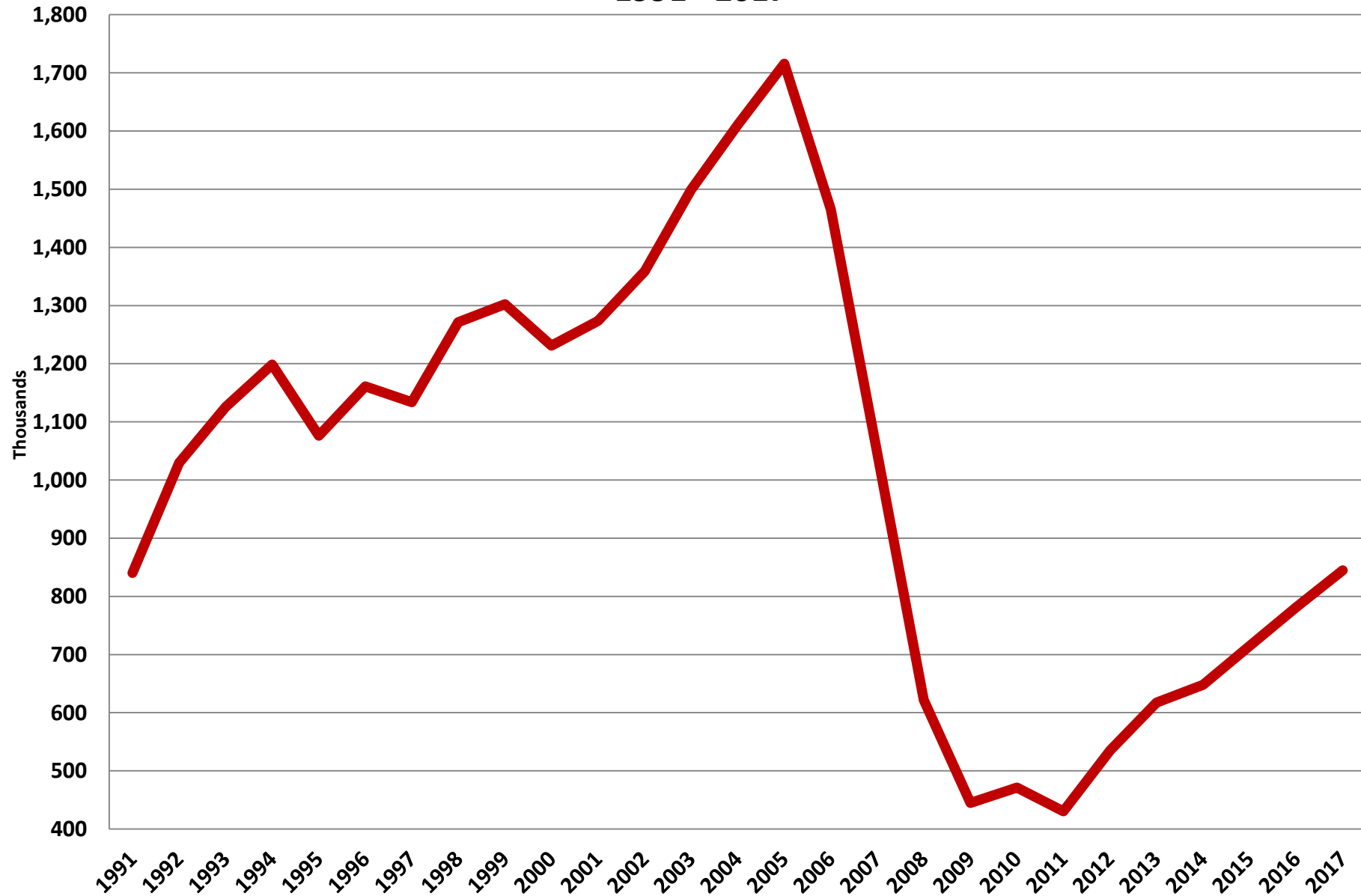
Annual Housing Starts

1991 - 2017



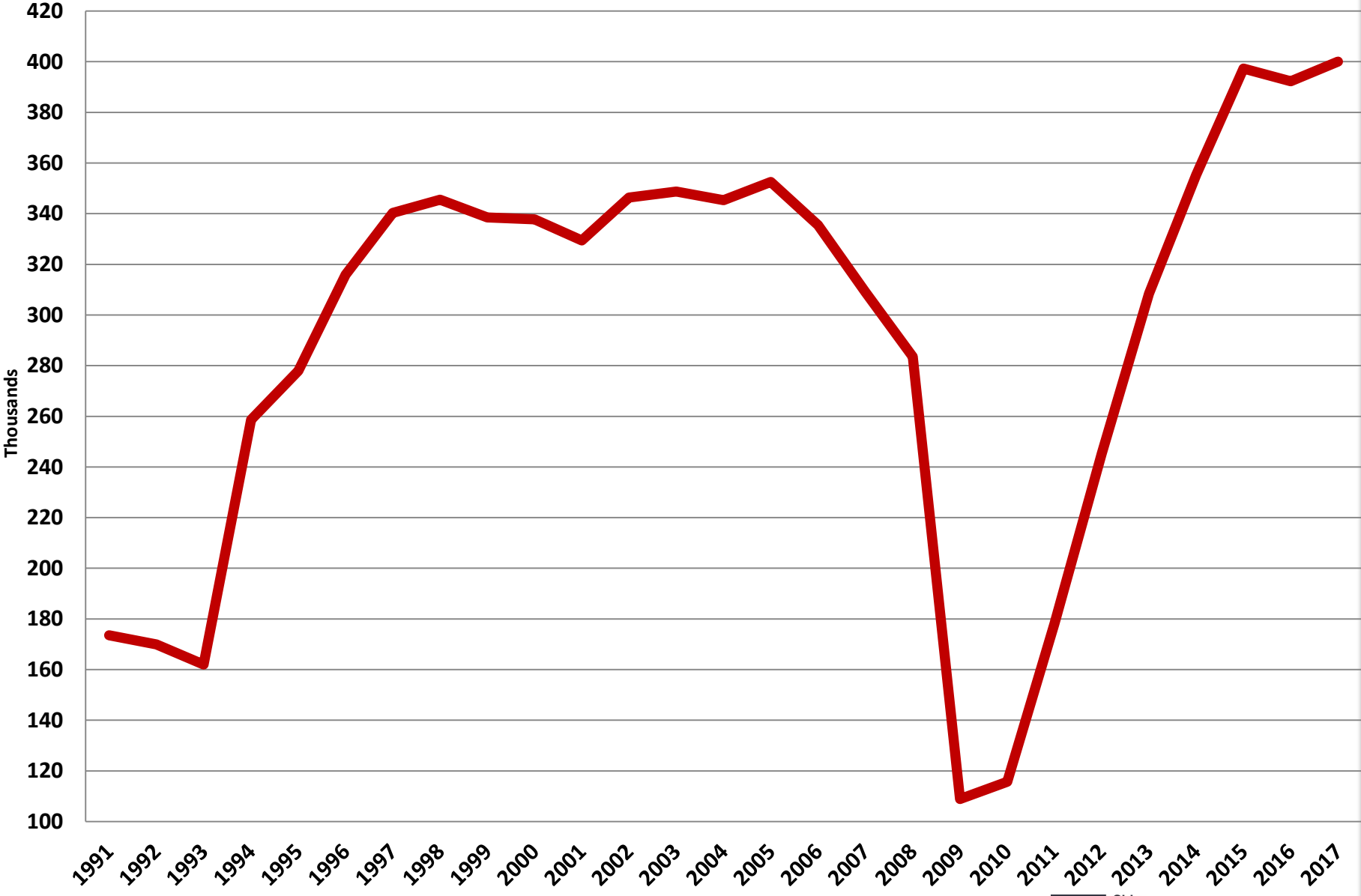
Annual Single Family Starts

1991 - 2017



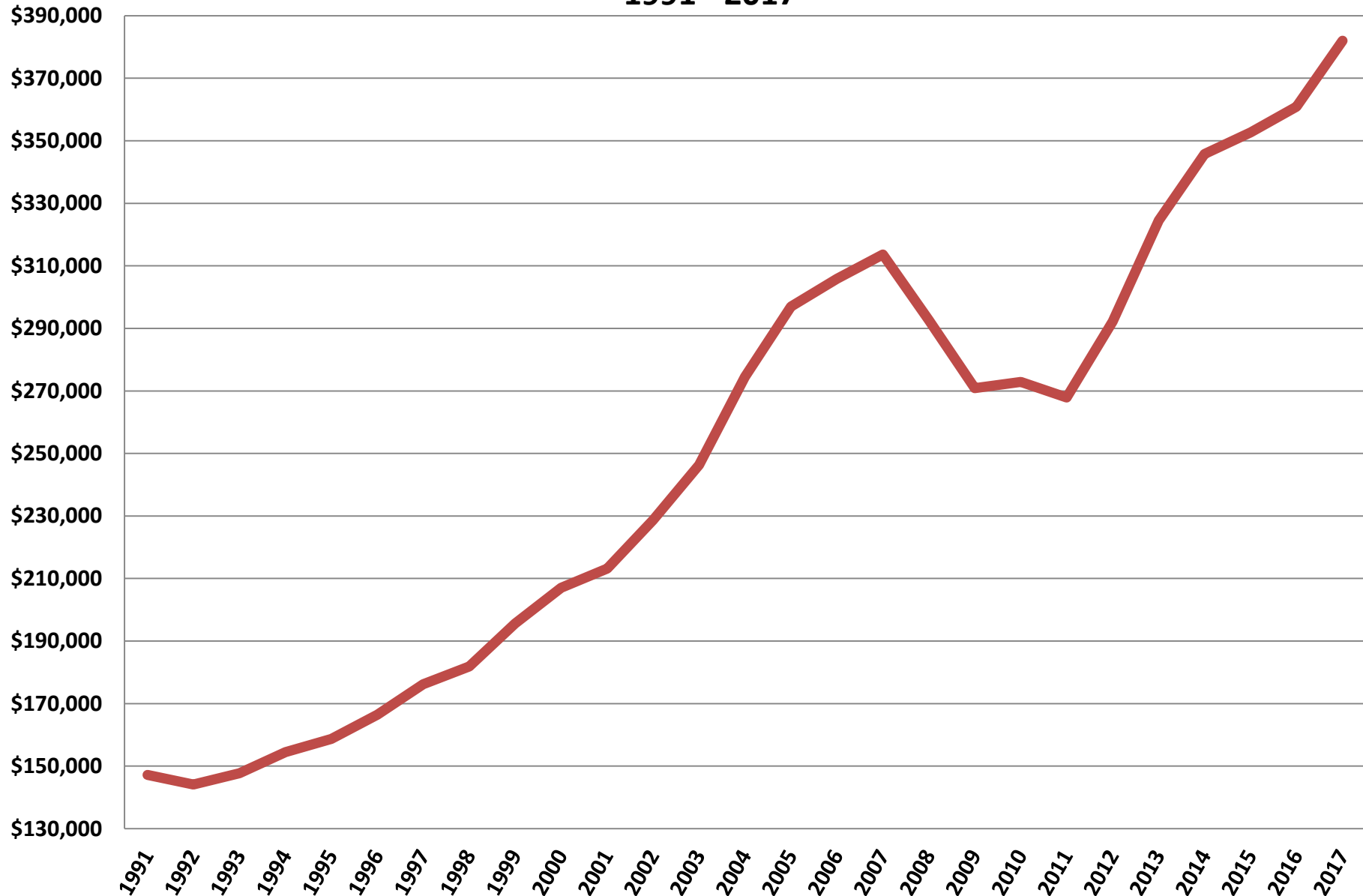
Annual Multi Family Housing Starts

1991 - 2017



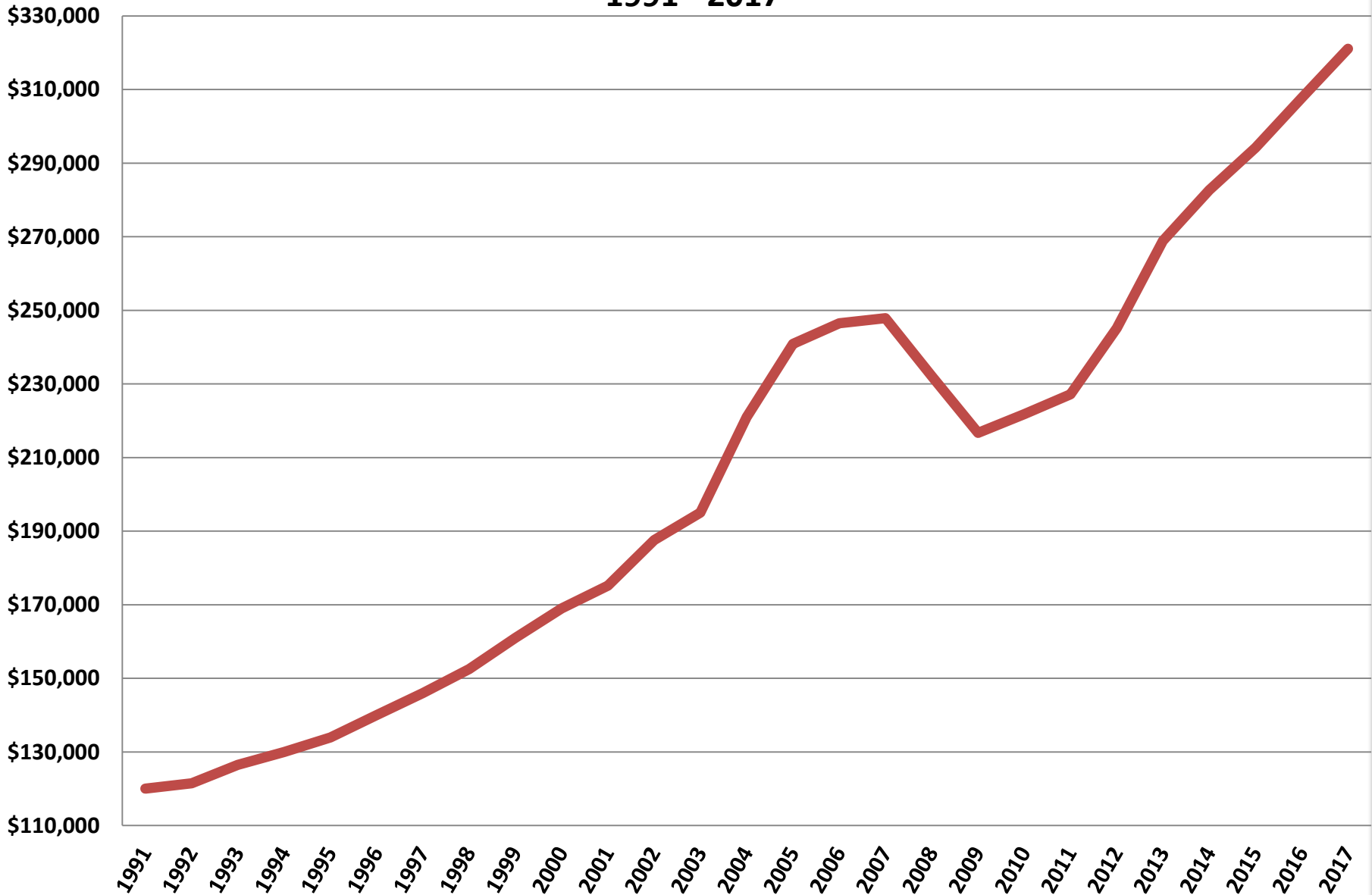
Average New Home Sales Price

1991 - 2017



Median New Home Sales Price

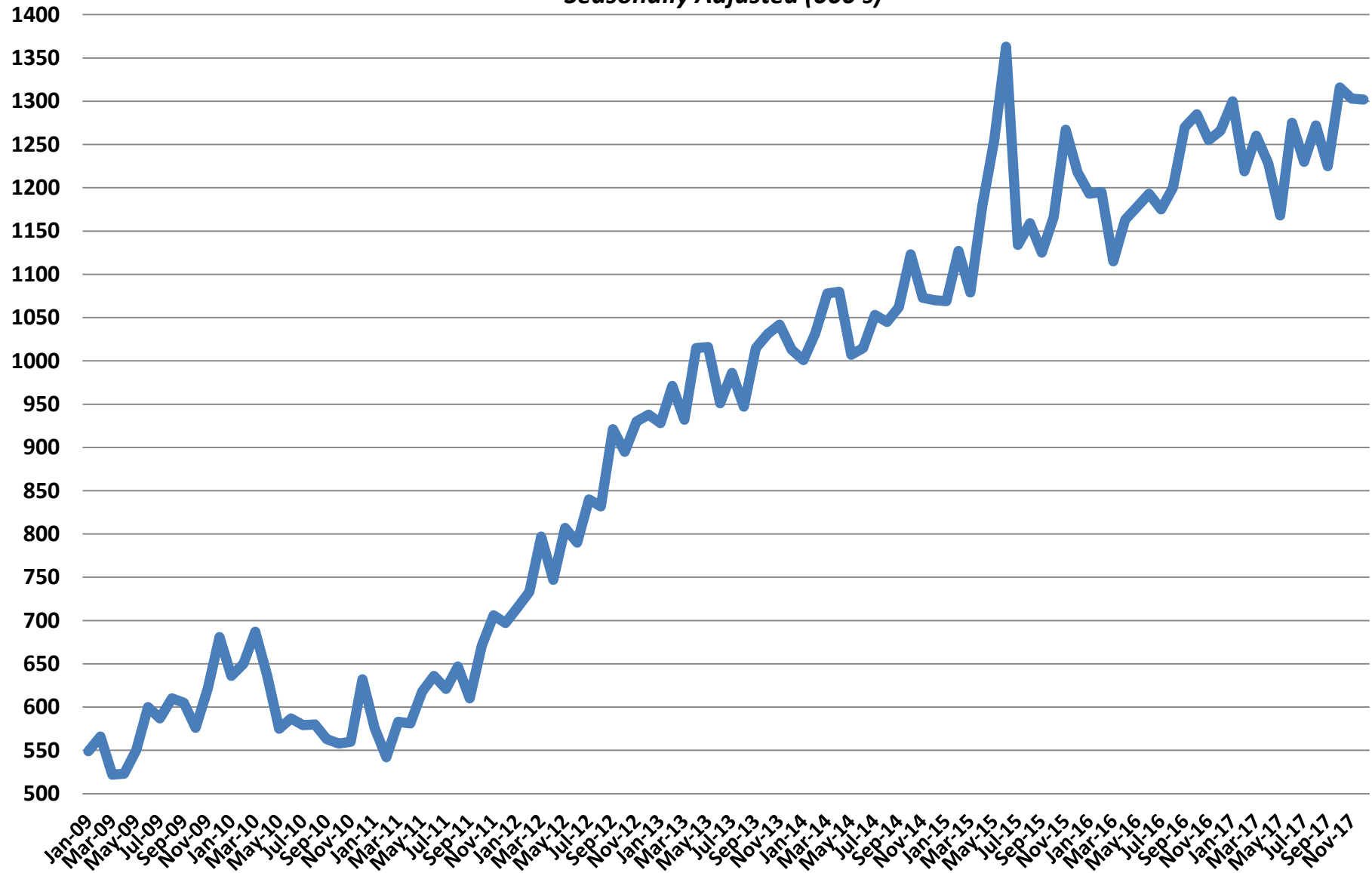
1991 - 2017



Total New Housing Permits

January 2009 - December 2017

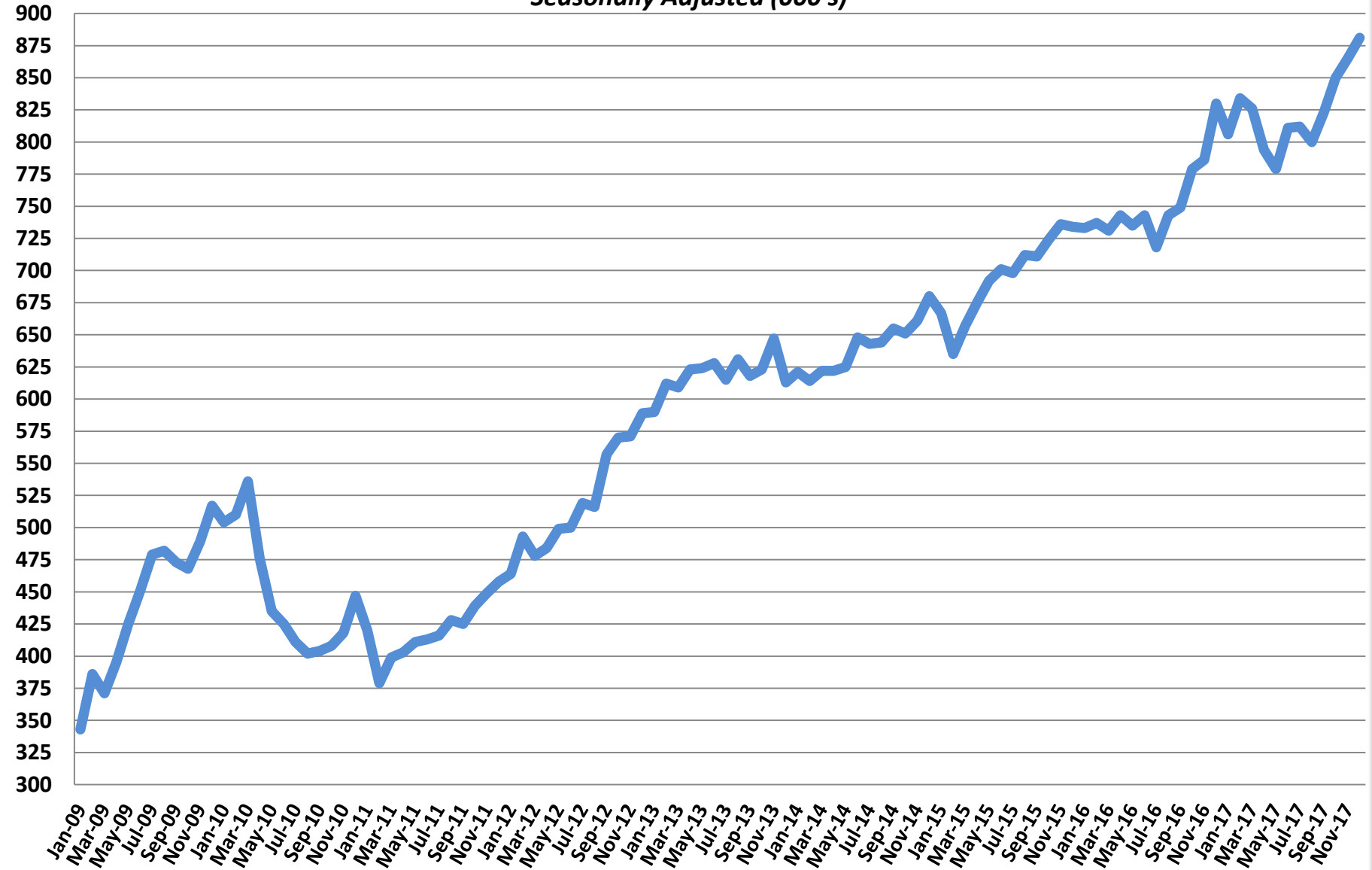
Seasonally Adjusted (000's)



Single Family Permits

January 2009 - December 2017

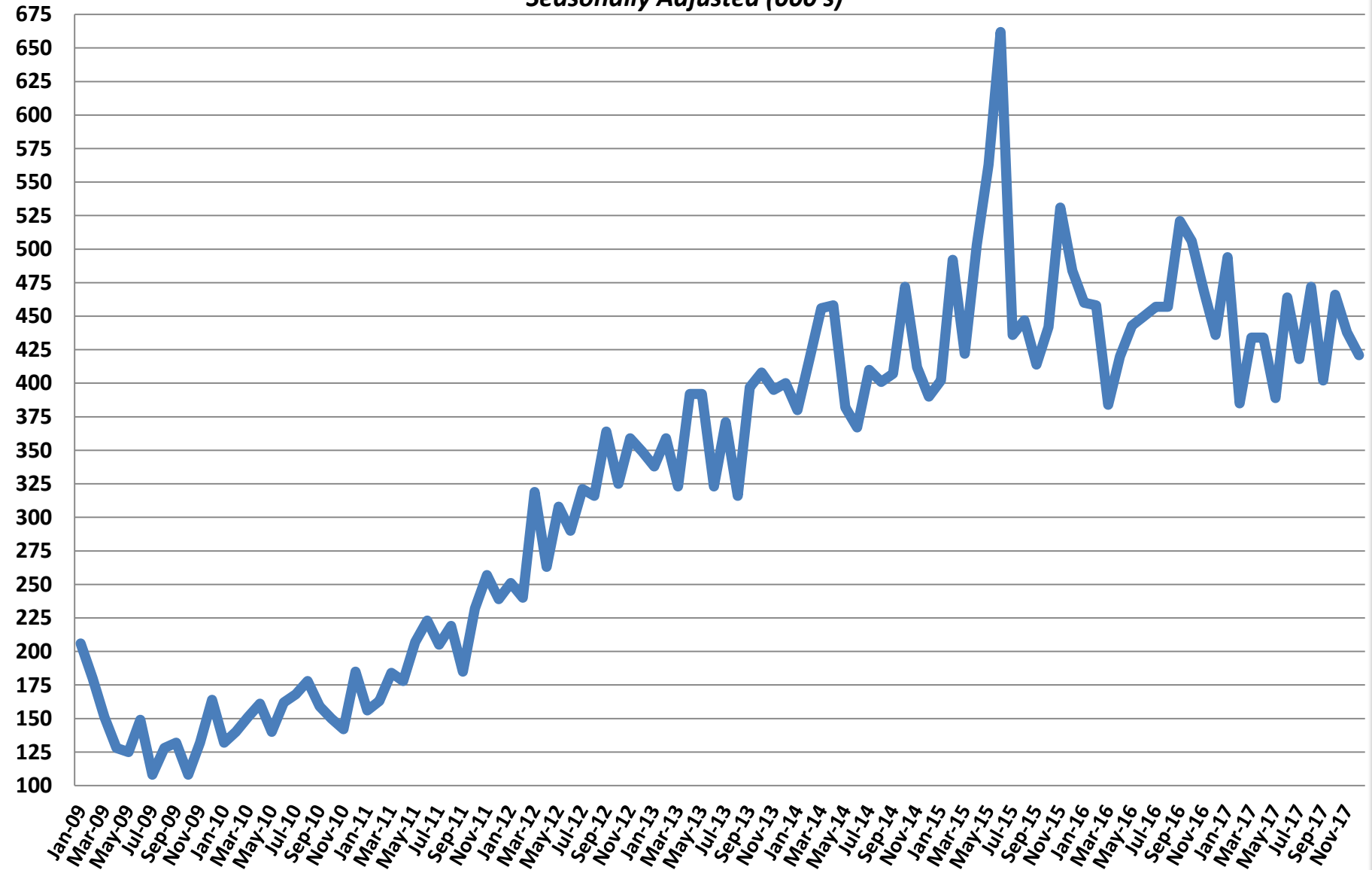
Seasonally Adjusted (000's)



Multi Family Permits

January 2009 - December 2017

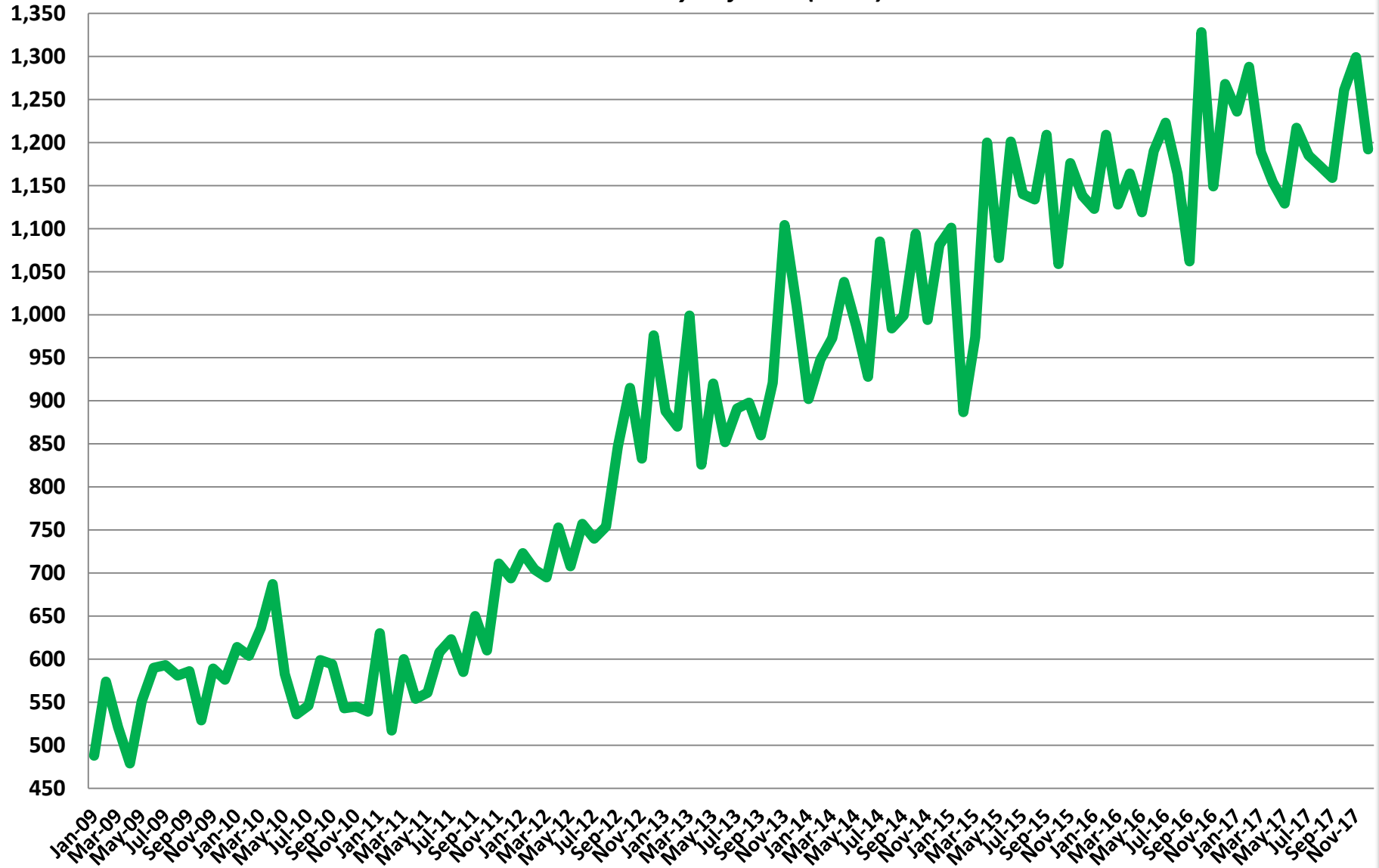
Seasonally Adjusted (000's)



Total New Housing Starts

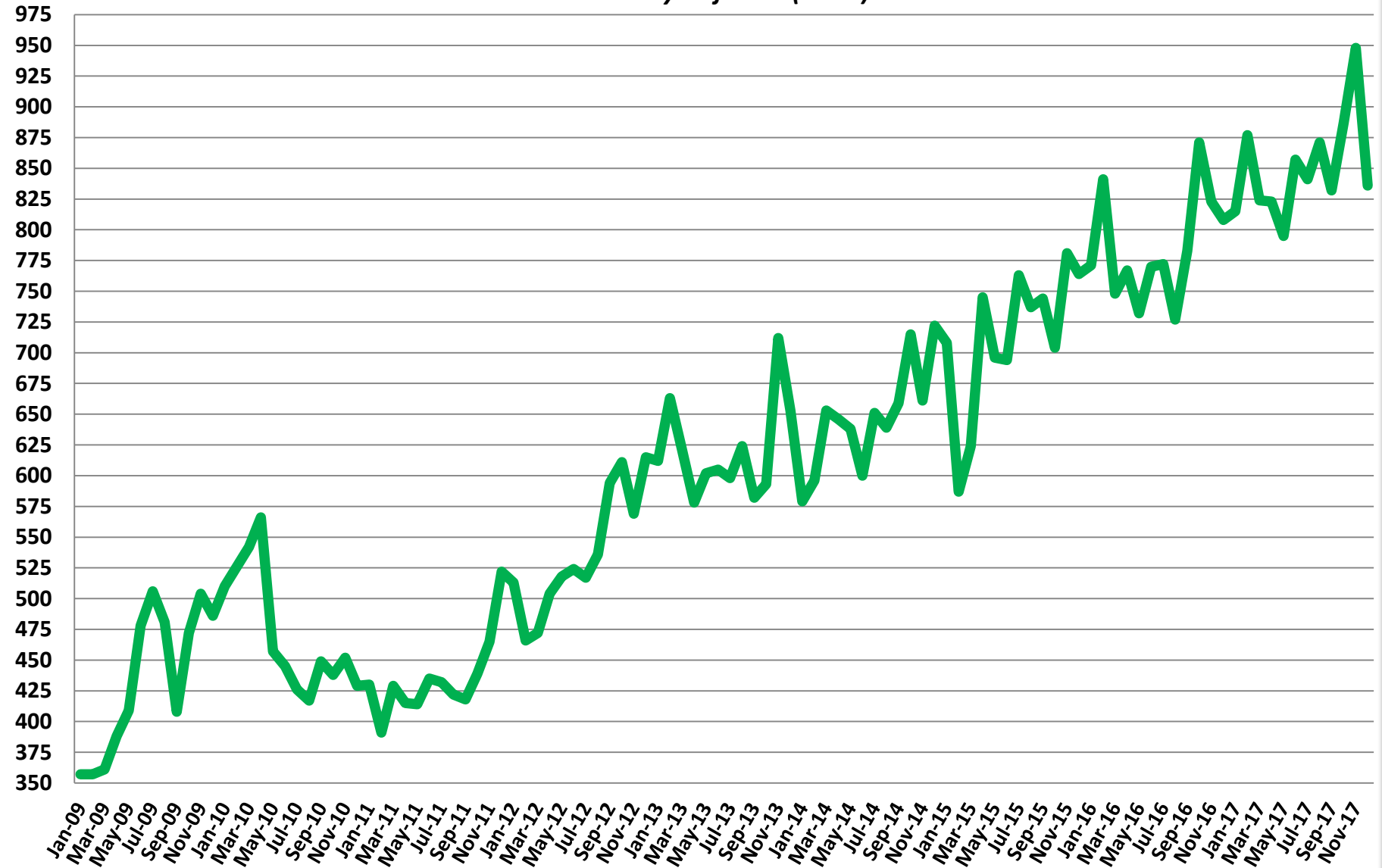
January 2009 - December 2017

Seasonally Adjusted (000's)



Single Family Starts

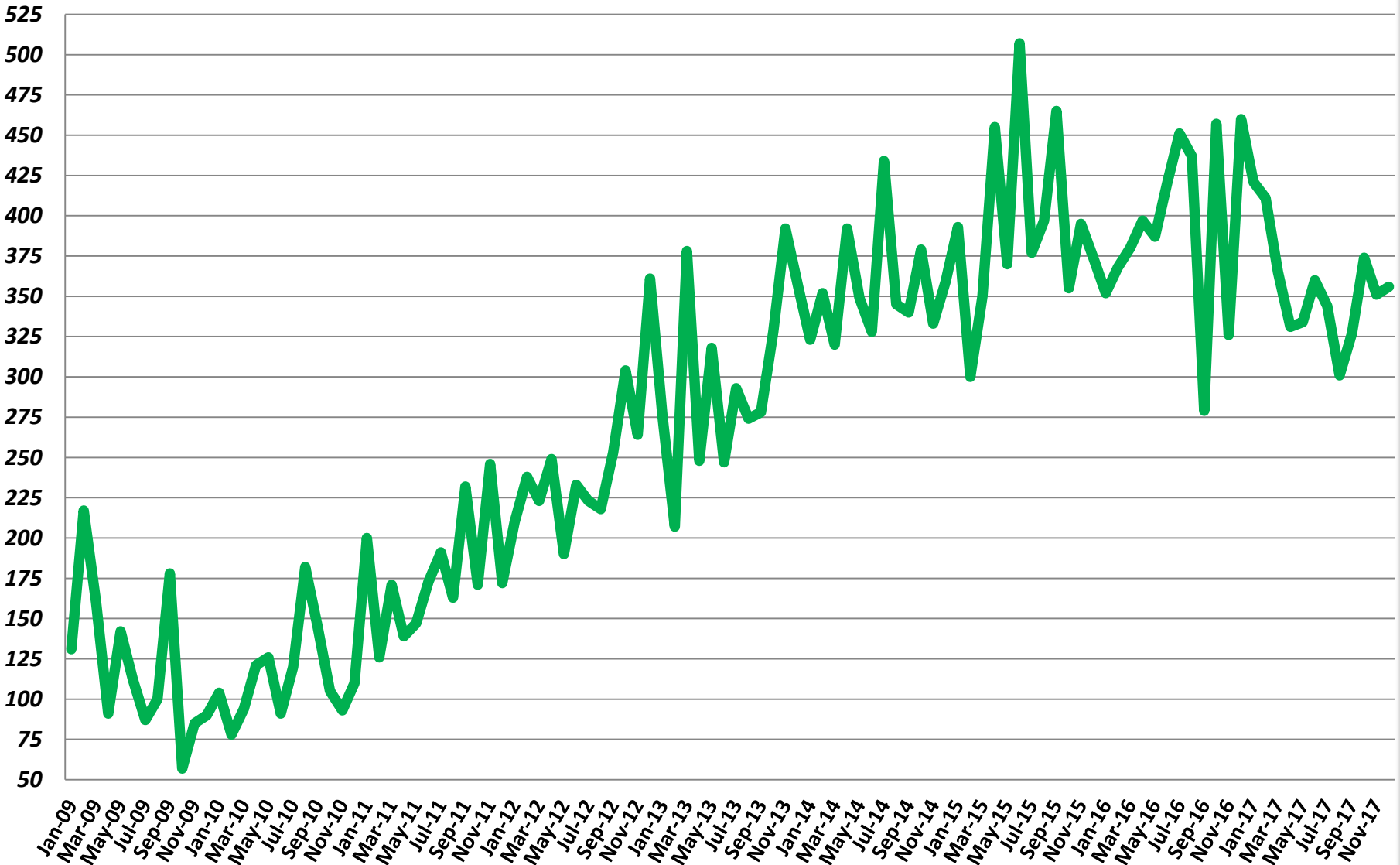
January 2009 - December 2017
Seasonally Adjusted (000's)



Multi Family Starts

January 2009 - December 2017

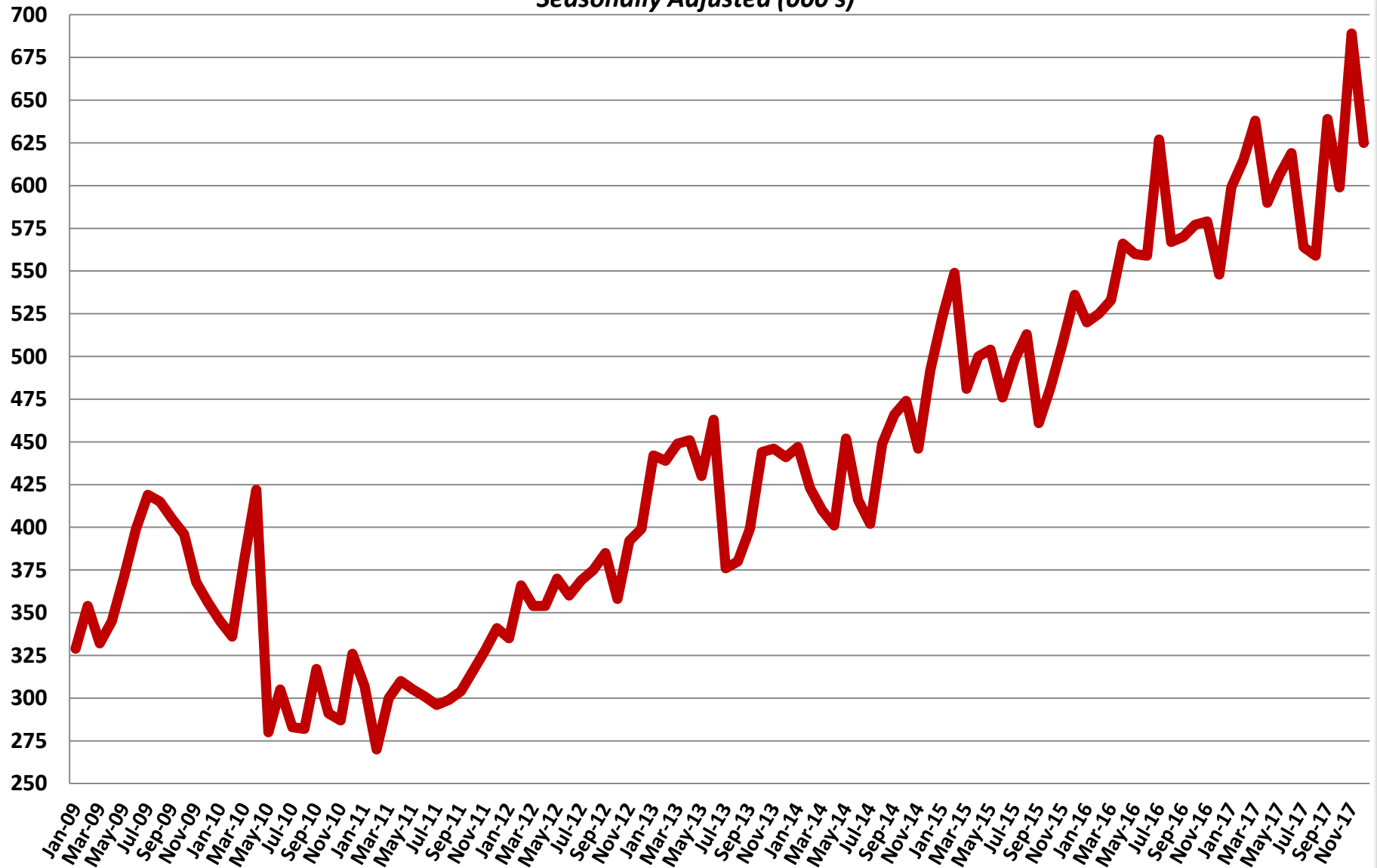
Seasonally Adjusted (000's)



New Home Sales

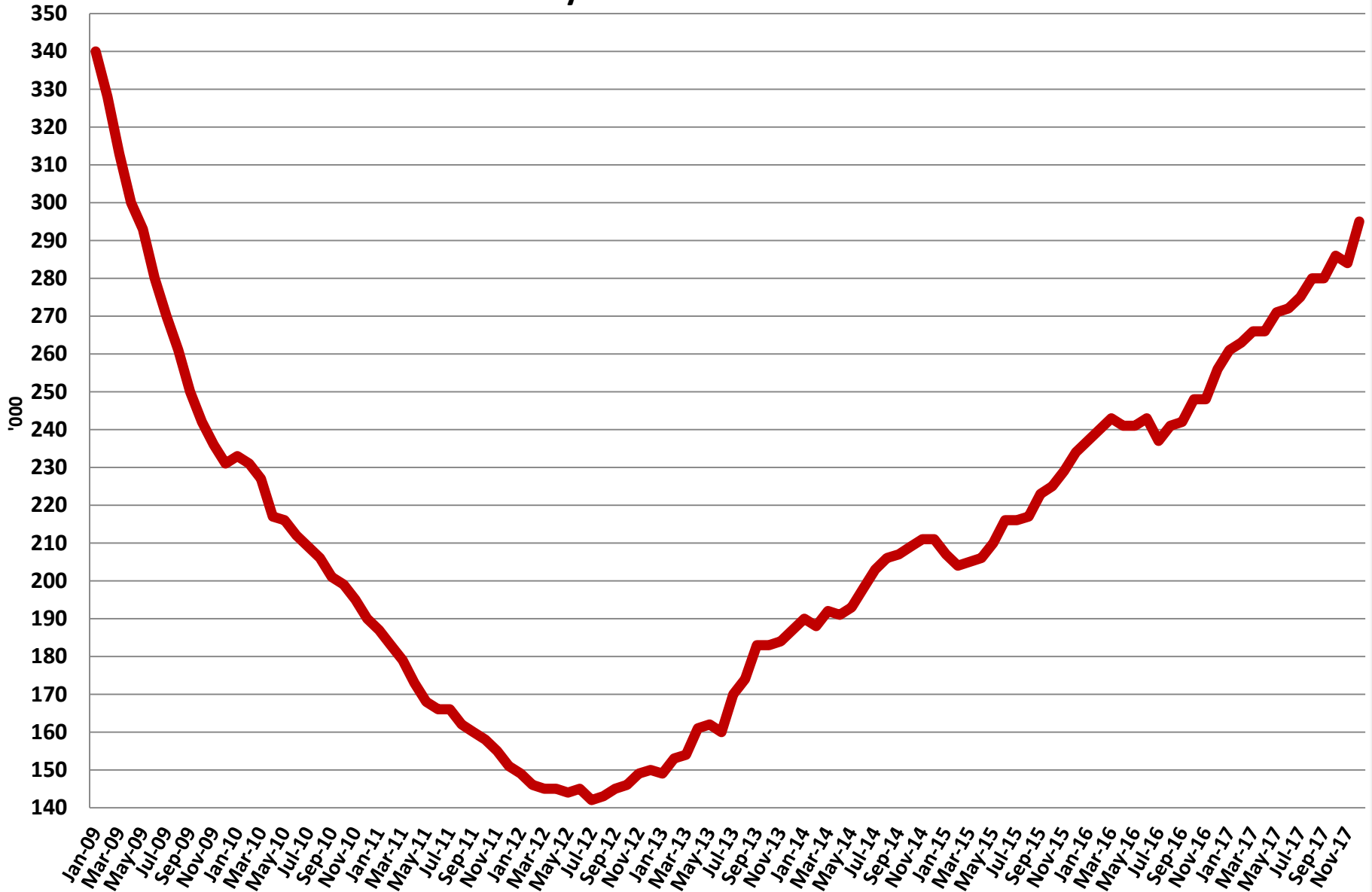
January 2009 - December 2017

Seasonally Adjusted (000's)



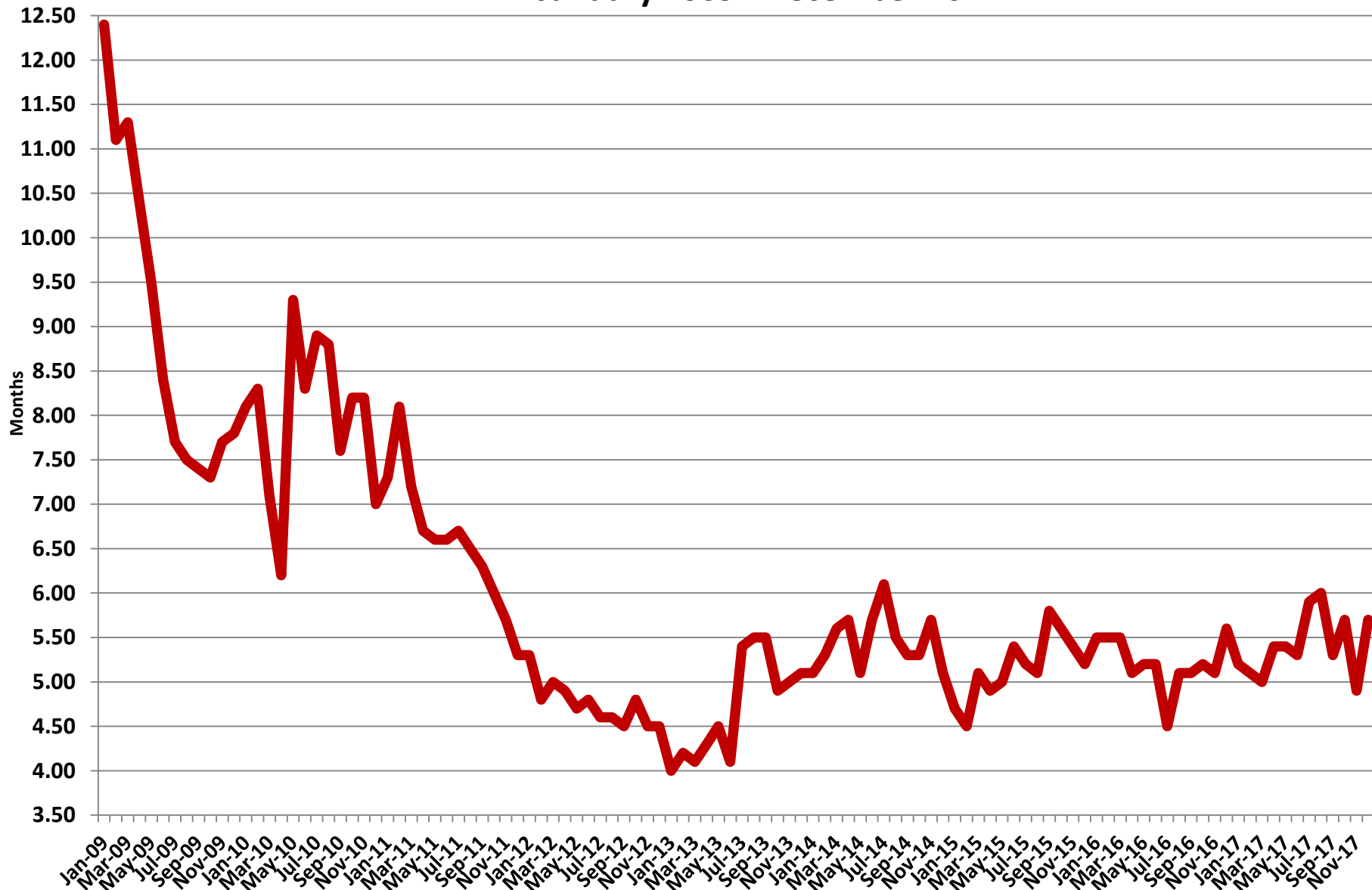
New Home Inventory

January 2009 - December 2017



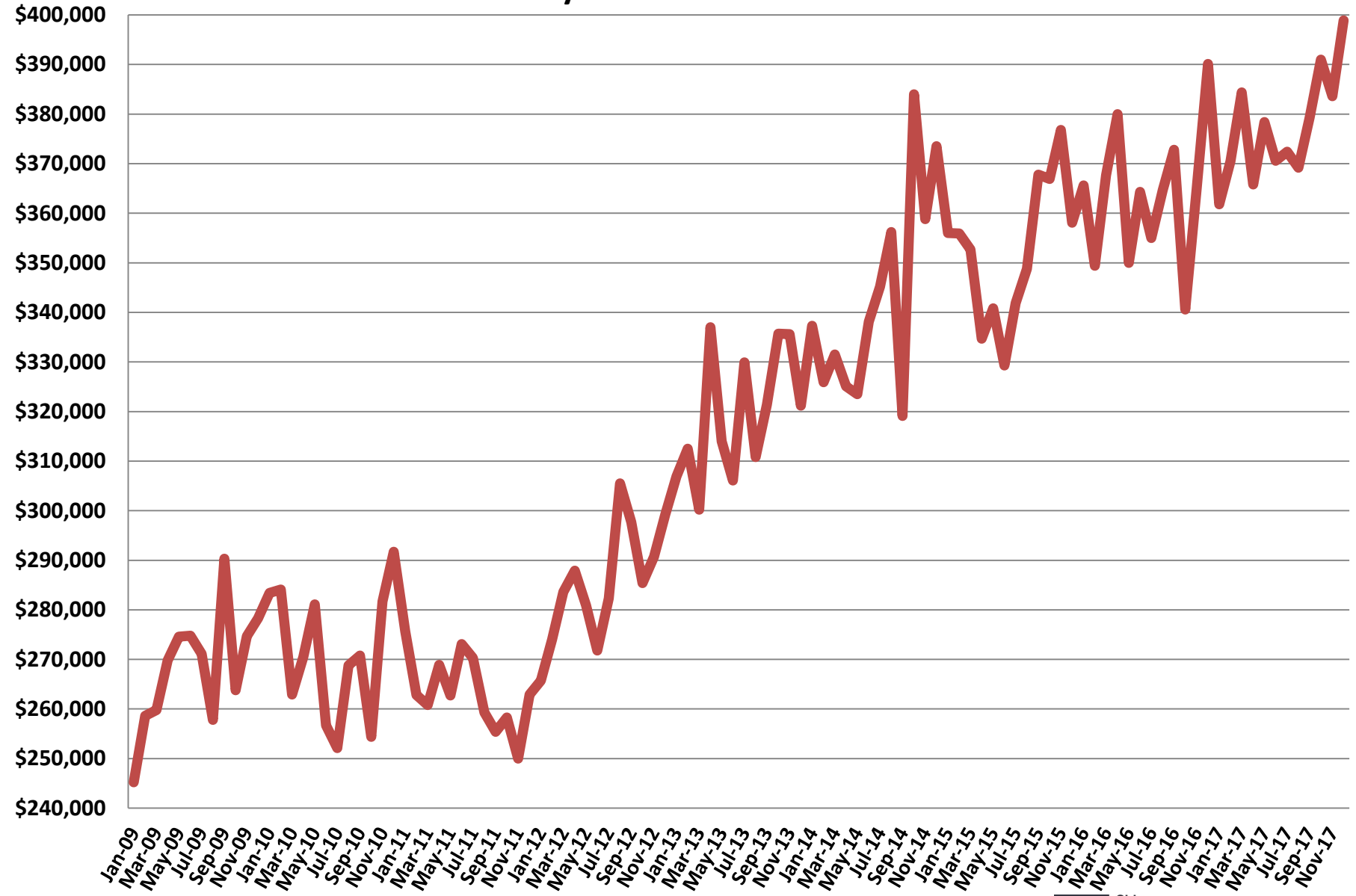
Months of New Home Supply

January 2009 - December 2017



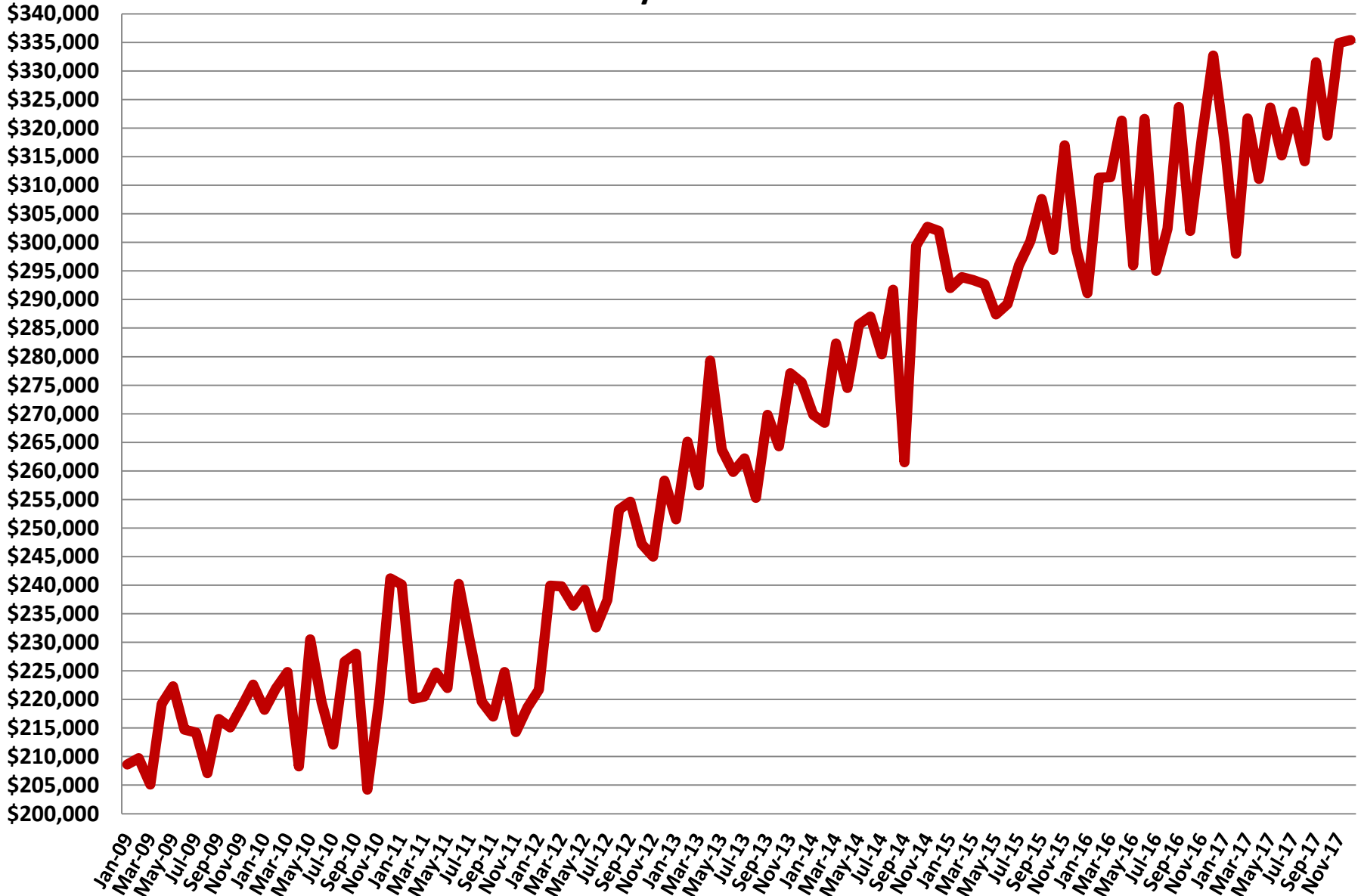
Average New Home Sales Price

January 2009 - December 2017



Median New Home Sales Price

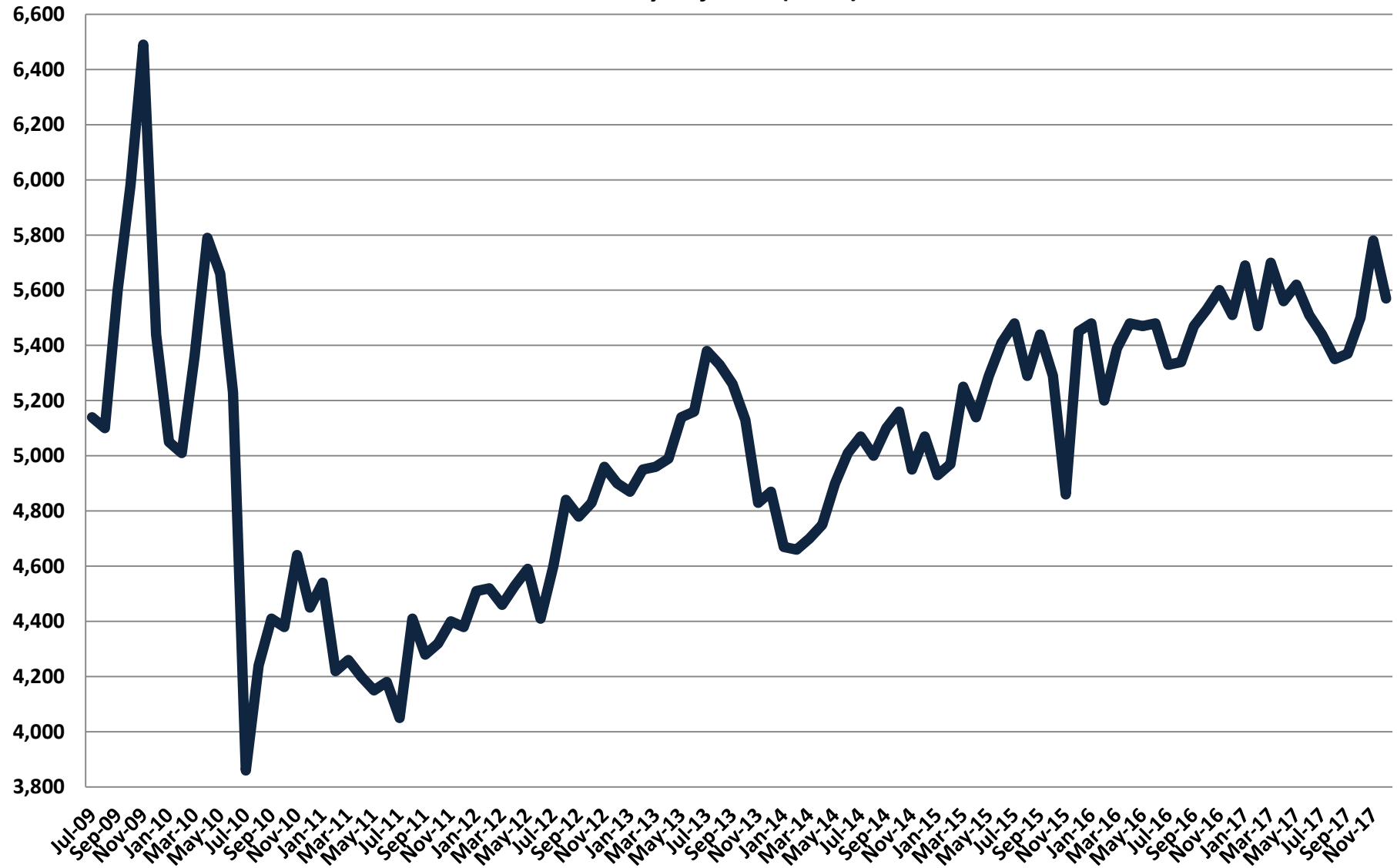
January 2009 - December 2017



Existing Homes Sales

July 2009 - December 2017

Seasonally Adjusted (000's)



Existing Home Inventory

July 2009 - December 2017



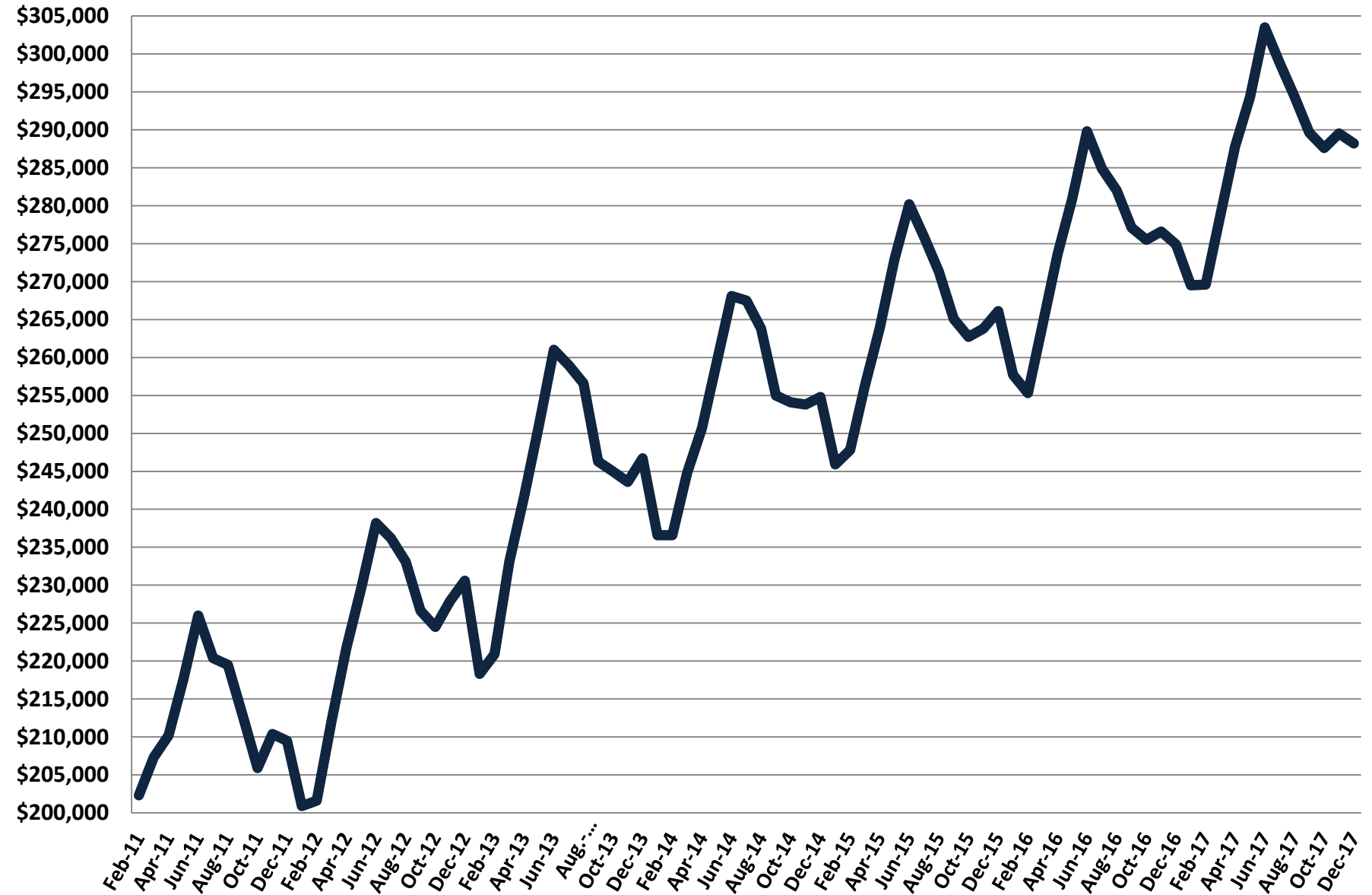
Months of Existing Home Supply

July 2009 - December 2017



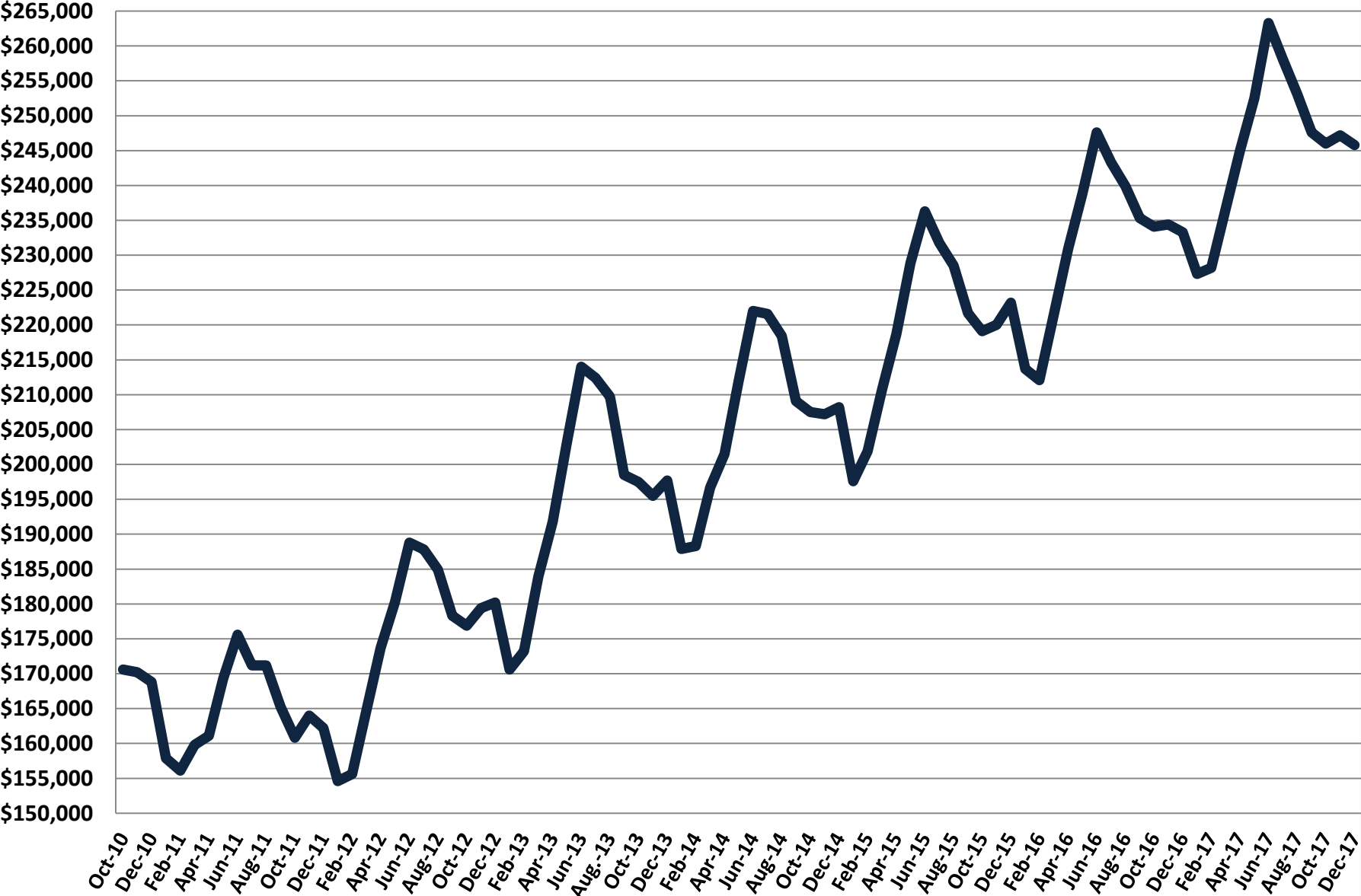
Average Existing Home Sales Price

February 2011 - December 2017



Median Existing Home Sales Price

October 2010 - December 2017



Questions and Comments



Please contact:

Charles C. Shinn, Jr., PhD

Builder Partnerships

7345 S. Pierce Street, Suite 100

Littleton, CO 80128

303.972.7666

cshinn@builderpartnerships.com

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