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What's Ahead for Housing?

2023 HOUSING OUTLOOK

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Housing Continues to Seemingly Defy Gravity



Home Buyers Adjust to Higher Mortgage Rates

The housing market appears to have defied gravity during the first half of 2023. New and existing home sales rebounded at the start of the year, as mortgage rates abruptly retreated from last fall's highs. Rates briefly fell to 6%, bringing buyers back out, many of which had canceled purchases when rates spiked in November. Home prices also made a U-turn, as higher mortgage rates led to a sharp decline in new listings. Mortgage rates are currently hovering around 6.7%. Inventories are likely to remain lean. Just over 60% of outstanding first lien mortgages have fixed rates of 4% or less and more than 80% are below 5%.

Low Existing Home Inventories Have Boosted Demand for New Homes

The paucity of existing homes available for sale has boosted new home sales. The inventory of new homes that are either completed or under construction account for 23.7% of overall for-sale inventory in April. New home buyer traffic has risen 13 points from its November low, although it remains relatively low at 33. New homes tend to sell at a premium to existing homes, with the median new home selling for nearly 16% more (\$71,200) than the median existing home in April. The large premium limits the number of potential buyers that can switch from existing to new homes.

Housing Affordability Remains Stretched

Housing affordability remains extraordinarily stretched, which puts a low ceiling on sales. A family purchasing the median-priced home, with a 20% down payment, would need to devote 26% of median family income to make monthly interest & principal payments, which is above to the highs hit during the 2005-2007 housing bubble. The long-run average is 19%. With affordability stretched, fewer people report they can easily qualify for a mortgage and 80% of consumers say now is a 'bad' time to buy a home versus just 19% that say now is a 'good' to buy.

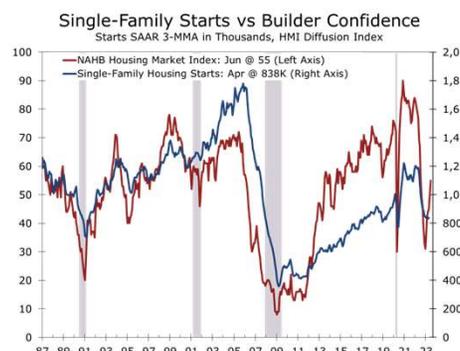
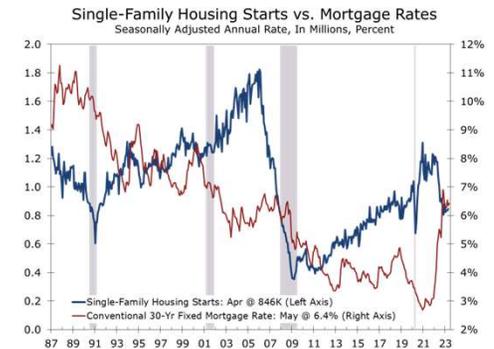
Gravity Almost Always Eventually Wins

Home builders are benefitting from the current environment. Home builders had initially adjusted to higher interest rates by diverting some of their work-in-process inventory to the rental market. The number homes built for rent in the first quarter slightly exceeded the number built for sale. With demand for new homes reviving, however, sales have ramped back up. We expect sales to gradually lose momentum over the balance of this year. With the Fed to hike interest rates at least one more time this summer, we still see a better than even chance the economy enters a moderate recession later this year.

Single-Family Home Building

Home building edged higher in April, as lower mortgage rates brought buyers back out early this spring. Home builder confidence is now back to 50, thanks to stronger demand and improving pricing power.

- Single-family starts edged 1.6% higher in April, marking the 2nd increase in the past 3 months. After slumping following last fall's spike in mortgage rates, home building appears to have found its footing.
- We look for starts to hold near their current pace for the next few months. Single-family permits rose a larger 3.1% but are running roughly in line with starts through the first 3 months of 2023.
- New home sales revived earlier this year amidst slightly lower mortgage rates. Inventories of existing homes remain exceptionally thin, and prices have firmed, shifting buyer traffic toward new homes.

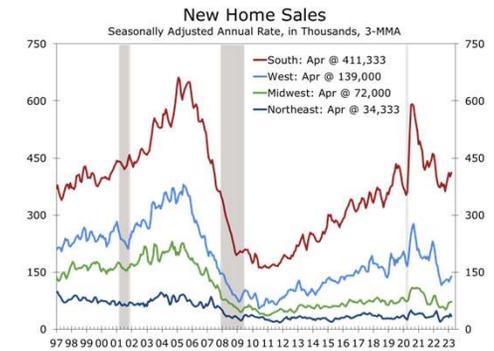
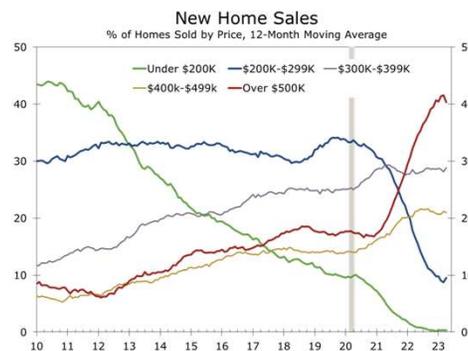
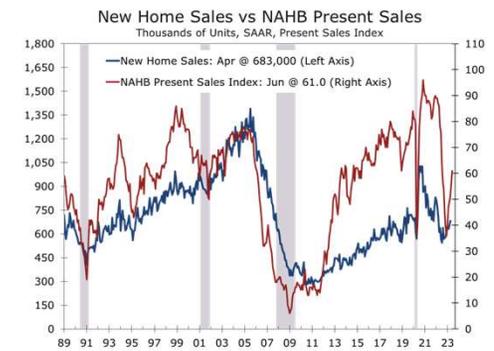
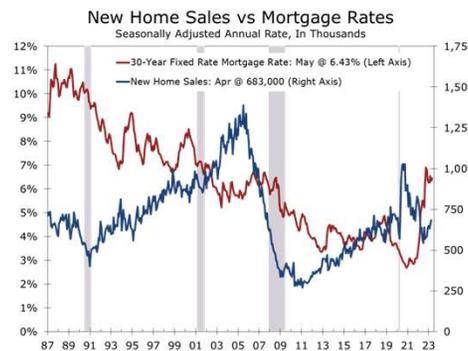


Source: Census Bureau, Freddie Mac, and National Association of Home Builders

New Single-Family Home Sales

New home sales showed surprising strength at the start of the year. The rebound was driven by a partial reversal of last fall's spike in mortgage rates, buyer incentives, and unseasonably mild weather.

- The pullback in mortgage rates from last fall's highs brought buyers back into the market early this spring. While sales have risen off last year's low, they remain below their pre-pandemic level in much of the country.
- Demand has revived most in the South, which has enjoyed strong in-migration since the pandemic and is much more affordable for folks relocating from the West Coast and Northeast.
- Home prices clearly rolled over around the middle of last year, but overall declines were exaggerated by the sharp pullback in prices in the West. Prices have firmed more recently.



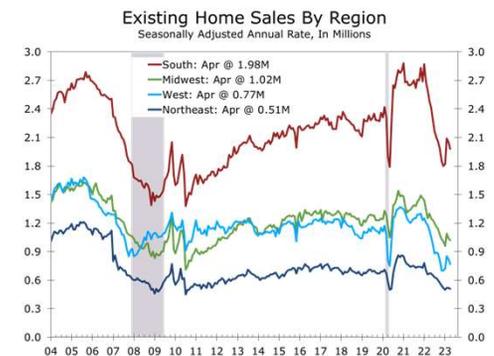
Source: Census Bureau

Existing Single-Family Home Sales



Rising Mortgage Rates and Higher Home Prices Combined to Crush Affordability

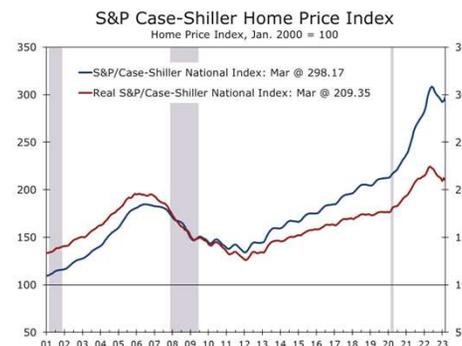
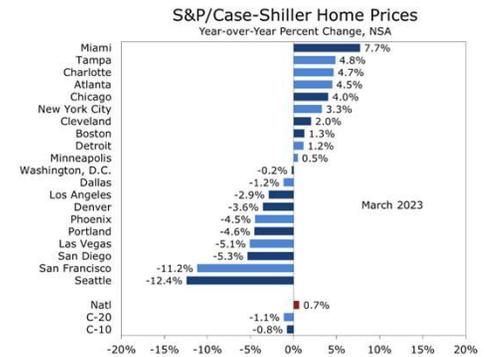
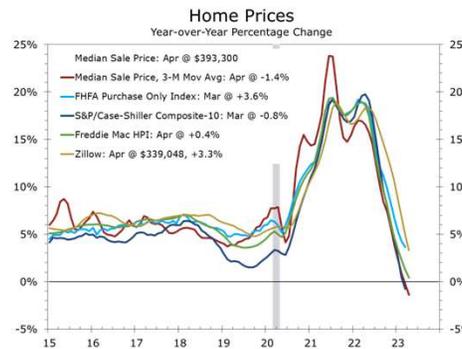
- After surging 8.1% in January, pending home sales have given back about half that gain in the past three months. January's surge followed a sharp pullback in mortgage rates, which has also reversed.
- Another meaningful constraint is that fewer homeowners are putting their homes on the market. Many are understandably reluctant to give up their current low-rate mortgage rate.
- Low inventories are limiting price declines. The median price of an existing home fell roughly 10% from June 2022 to February 2023 but has firmed modestly since then.



Source: National Association of Realtors

Last fall's spike in mortgage rates sparked a surge in cancellations and pulled home prices lower. Many of those cancellations were reversed early this year, when rates briefly fell back to 6%.

- The National Association of Realtors measure of existing home prices rose 3.6% in April NSA, marking the third consecutive monthly increase. The series has led other prices measures.
- While prices are now firming, the median price of an existing home is 2.1% below its year ago level and most price measures appear to be on course to post year-to-year declines this summer.
- The greatest price declines have been in the West, while prices have held up best in the Midwest and rapidly growing parts of Florida and the Southeast.

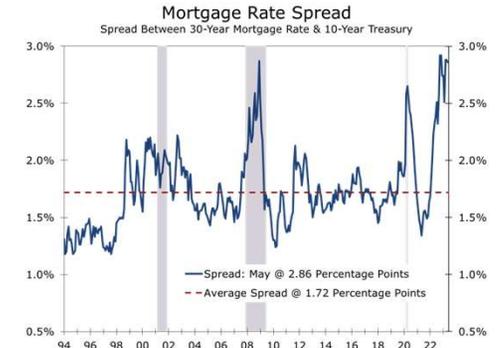
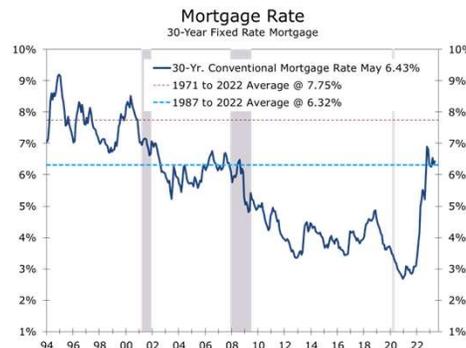


Source: National Association of Realtors, S&P Global, Census Bureau

Buying Conditions

Exceptionally low inventories, higher prices and higher mortgage rates continue to make this a difficult time to buy a house. The spread between mortgage rates and the 10-Year Treasury remains unusually wide.

- The proportion of consumers that feel now is a good time to buy a home remains near a record low in both the Fannie Mae and University of Michigan surveys.
- The NAHB's buyer traffic measure bounced much less than present sales, suggesting the recent bump in sales likely reflects some reversal of the surge in contract cancellations seen late last year.
- The spread between mortgage rates and the 10-Yr Treasury remains exceptionally wide.

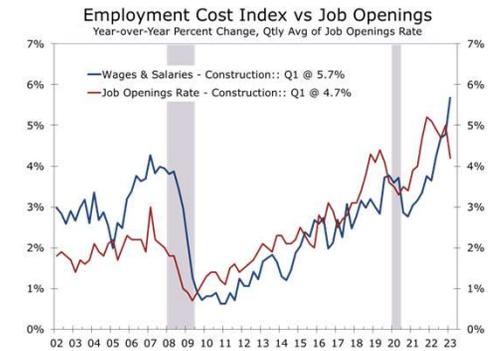
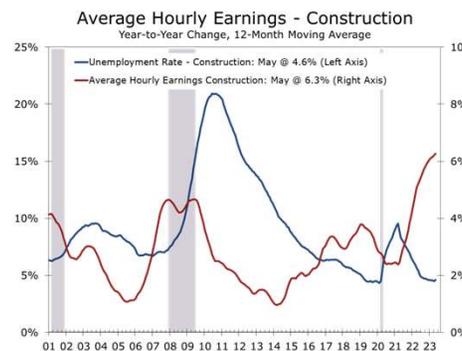
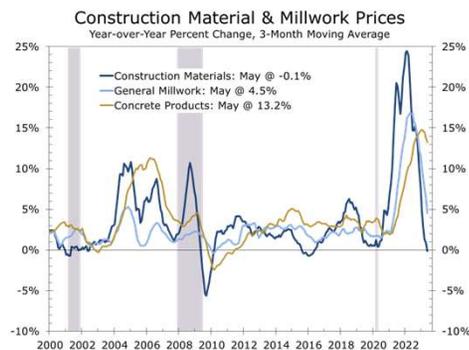
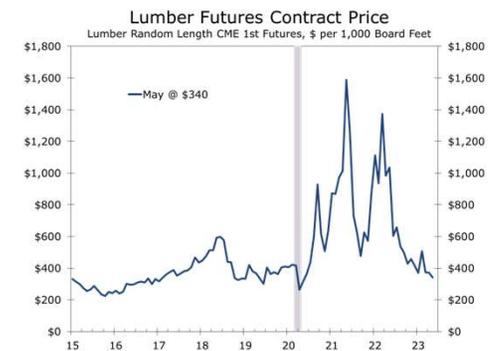
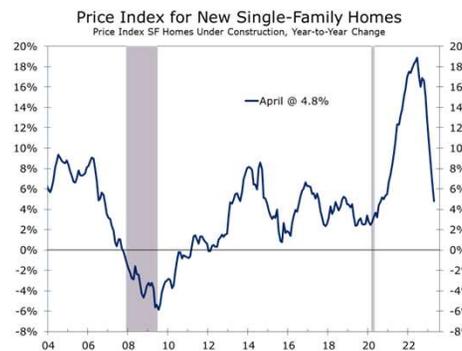


Source: Fannie Mae, National Association of Home Builders, Freddie Mac, and Federal Reserve Board

Construction Costs

Building materials prices have moderated, as supply shortages have largely moderated. Lumber prices have fallen the most. Labor shortages persist, however, and wages are up more than 6% over the past year.

- Lumber prices have fallen back below their pre-pandemic level, which has helped moderate residential construction costs.
- Canada’s horrific forest fires will likely push lumber prices higher this summer.
- Lower natural gas prices have also helped contain prices for a variety of items.
- Labor shortages remain a problem throughout much of the country, wages are up more than 6% over the past year.

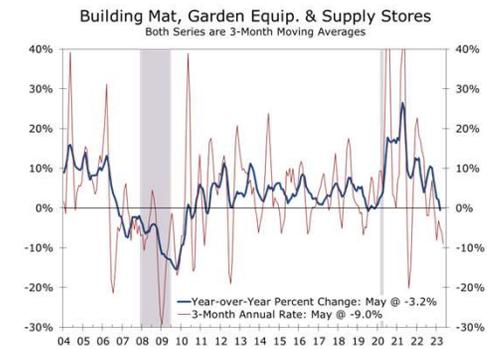
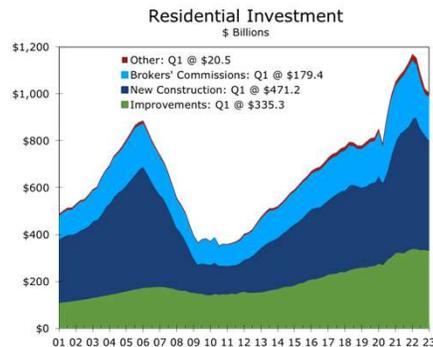
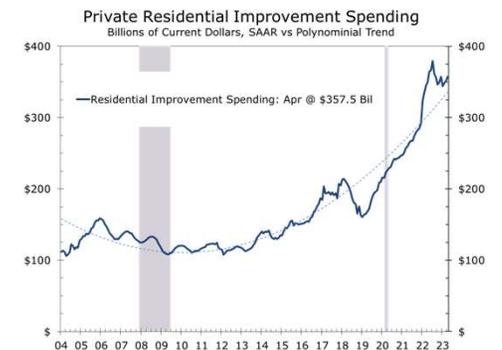
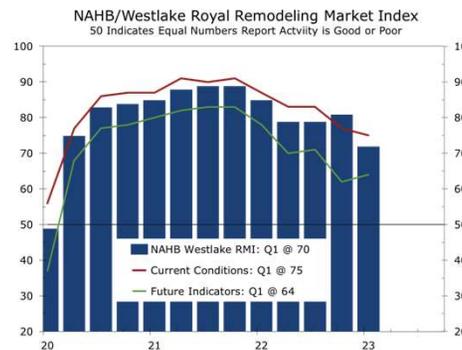


Source: Census Bureau, Chicago Mercantile Exchange, Bureau of Labor Statistics

Renovation & Remodeling

Record backlogs have kept renovation and remodeling spending well above its long-run trend. Spending is slowing, reflecting lower lumber prices and a diminishing backlog of projects.

- Renovation and remodeling spending is decelerating back to its pre-pandemic trend.
- While falling lumber prices exaggerate the decline in home improvement store sales, consumers are clearly scaling back as they travel more and spend more time at work.
- The ongoing decline in new listings of existing homes is also slowing renovations.
- Long-run home improvement trends (aging housing stock, rising homeownership, development restrictions) remain positive.

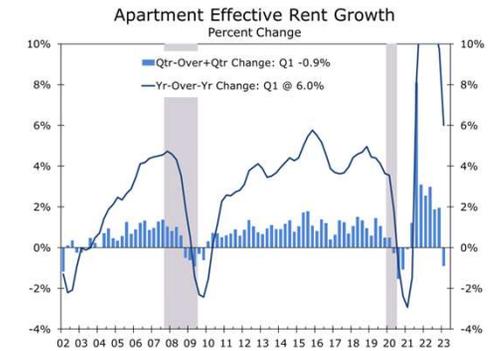
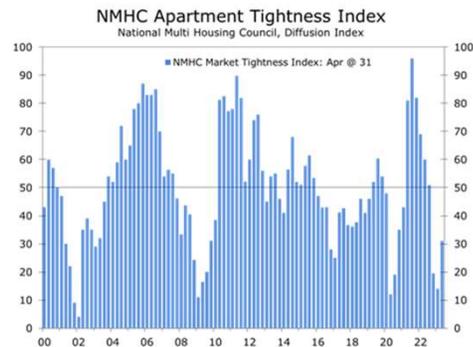
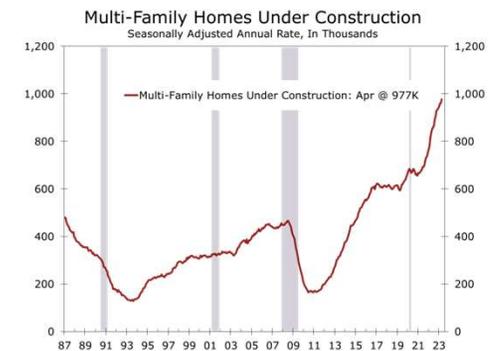
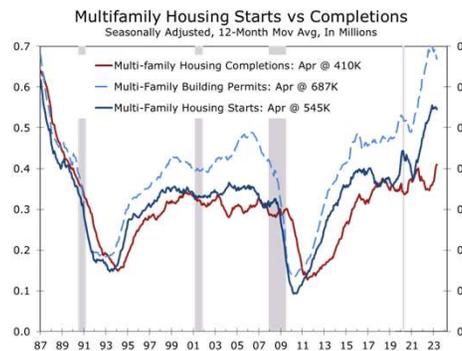


Source: NAHB, Census Bureau, and Federal Reserve Board

Multifamily Housing

Strong job growth continues to drive demand for apartments, which has bolstered occupancy rates and supported rent growth. A wave of completions will hit many Sun Belt markets this summer and fall.

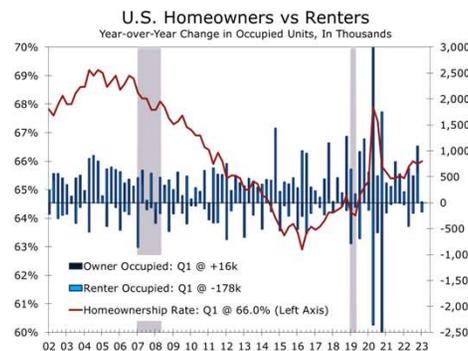
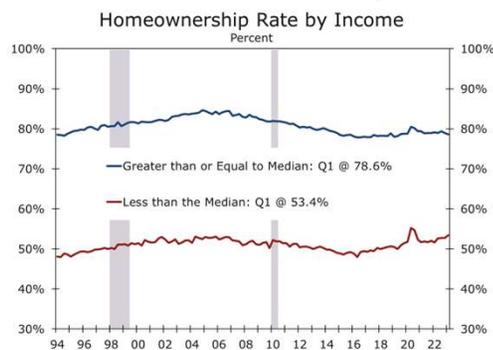
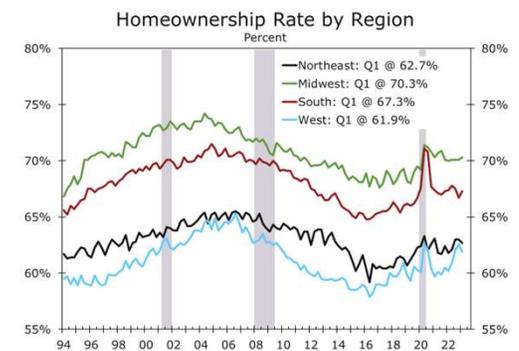
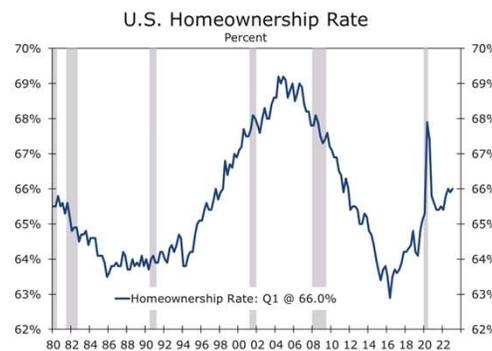
- Strong job growth continues to drive demand for apartments, particularly across the South and parts of the Mountain West.
- Many West Coast markets have seen occupancy stagnate, due to weaker job growth. Major East Coast markets continue to see strong demand for apartments.
- The lack of single-family homes for sale continues to bolster lease renewals, with rents up 6% on a year-to-year basis.



Source: Census Bureau, National Multifamily Housing Council, Moody's REIS, Refinitiv

Homeownership has gradually edged higher over the past year, even as affordability has become more challenging. Homeownership has risen most among those earning less than the median income.

- The overall homeownership rate rose 0.1 percentage point to 66% in Q1 and has risen 0.6 pp over the past year.
- The homeownership rate rose most among households earning below the median income. The number of renter-occupied units fell in both Q1 and year-to-year, while the number of owner-occupied units rose.
- The number of vacant homes for sale has fallen to a series low 662,000. The number of vacant homes for rent rose, however.



Economic Outlook



US Economic and Financial Outlook

(% change on previous period, annualized, except where noted)

	2022				2023				2024				2022	2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Actual	Forecast	Forecast	Forecast
Macro Environment																
Real GDP	(1.6)	(0.6)	3.2	2.6	1.3	1.6	(0.4)	(1.4)	(1.3)	0.4	1.9	2.1	2.1	0.2	0.8	2.5
Residential Investment, Ann Rate	-3.1	-17.8	-27.1	-25.1	-5.4	(3.8)	(7.5)	(9.0)	(6.4)	(2.0)	(1.0)	2.8	(10.6)	(10.5)	(9.6)	1.4
Nonfarm Employment	562.9	399.1	429.1	315.9	321.9	296.0	183.0	(70.0)	(250.0)	(306.0)	(107.0)	147.0	401	182.7	60.0	165.0
Unemployment Rate (Qtrly Avg)	3.8	3.6	3.6	3.6	3.5	3.6	3.7	3.9	4.1	4.3	4.5	4.7	3.7	3.7	5.3	4.7
Housing Market																
Housing Starts (Units, thous)	1,718	1,636	1,446	1,405	1,382	1,390	1,330	1,250	1,180	1,160	1,160	1,180	1,555	1,338	1,160	1,250
Single-Family	1,182	1,084	901	850	830	843	820	790	780	790	800	810	1,005	821	795	870
Multi-Family	536	552	545	555	552	547	510	460	410	380	360	370	550	520	365	380
New Home Sales	763	603	583	598	645	670	640	620	610	600	610	620	644	644	610	640
Existing Home Sales (Total, 000s)	5,983	5,367	4,777	4,197	4,327	4,200	4,100	4,050	3,950	4,000	4,050	4,150	5,030	4,170	4,038	4,250
Existing Single-Family Home Sales (000s)	5,317	4,783	4,267	3,753	3,893	3,760	3,650	3,610	3,520	3,570	3,610	3,700	4,480	3,730	3,600	3,760
Condominiums & Co-Ops (000s)	667	583	510	443	433	440	450	440	430	430	440	450	546	440	438	490
Renovations & Additions Outlays, Ann Rate	(10.2)	(13.2)	(4.5)	0.7	(7.9)	(2.3)	(6.7)	(7.3)	(3.4)	3.5	4.6	5.4	(9.8)	(6.2)	2.5	2.9
Home Prices (Year-to-Year Percent Change)																
Median price New Homes (\$ 000s)	431.3	447.2	465.4	479.5	444.5	431.5	432.0	426.4	421.5	419.8	418.5	421.9	457.8	433.6	433.6	444.9
Year-to-Year % Change	18.2	17.5	14.1	13.5	3.1	(3.5)	(7.2)	(11.1)	(5.2)	(2.7)	(3.1)	(1.1)	15.3	4.6	3.6	2.6
Median Existing Single-Family Home Price (\$ 000s)	372.0	412.7	398.1	378.4	371.0	392.8	394.7	389.7	386.5	386.2	386.3	390.3	392.6	387.1	387.3	398.0
Year-to-Year % Change	16.9	14.5	8.4	3.9	0.3	(4.8)	(0.8)	3.0	4.2	(1.7)	(2.1)	0.1	9.9	(1.4)	0.1	2.8
FHFA Purchase Only Index	18.8	17.7	12.3	8.3	4.4	2.1	0.6	(0.4)	(2.1)	(1.8)	(1.2)	0.6	14.1	1.7	(1.1)	2.6
S&P CoreLogic Case-Shiller National Index	20.1	19.6	13.1	7.4	2.1	(1.4)	(0.5)	(0.6)	(1.9)	(1.5)	(1.0)	0.5	14.9	(0.1)	(1.0)	2.7
S&P CoreLogic Case-Shiller 10-City Index	18.6	18.7	12.2	6.2	0.7	(2.4)	(0.3)	1.3	0.2	(2.1)	(3.7)	(3.4)	13.7	(0.2)	(2.3)	2.5
Interest Rates (Quarter End)																
Fed Funds Target Range	0.25-0.5	1.5-1.75	3-3.25	4.25-4.5	4.75-5	5-5.25	5.25-5.50	5.25-5.50	5.25-5.50	5-5.25	4.5-4.75	4.25-4.50	2.75	5.19	4.80	3.88
10-Year Treasury Note	2.32	2.98	3.83	3.88	3.65	3.90	4.10	4.00	3.90	3.90	3.80	3.80	2.95	3.19	3.85	3.90
Conventional Mortgage Rate (Freddie Mac)	4.42	5.81	6.70	6.42	6.35	6.80	6.80	6.70	6.60	6.50	6.30	6.20	5.34	6.63	6.40	6.10

Sources: BEA, Census, FHFA, Freddie Mac, Federal Reserve, S&P CoreLogic/Case Shiller

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