

Higher Rates for Longer

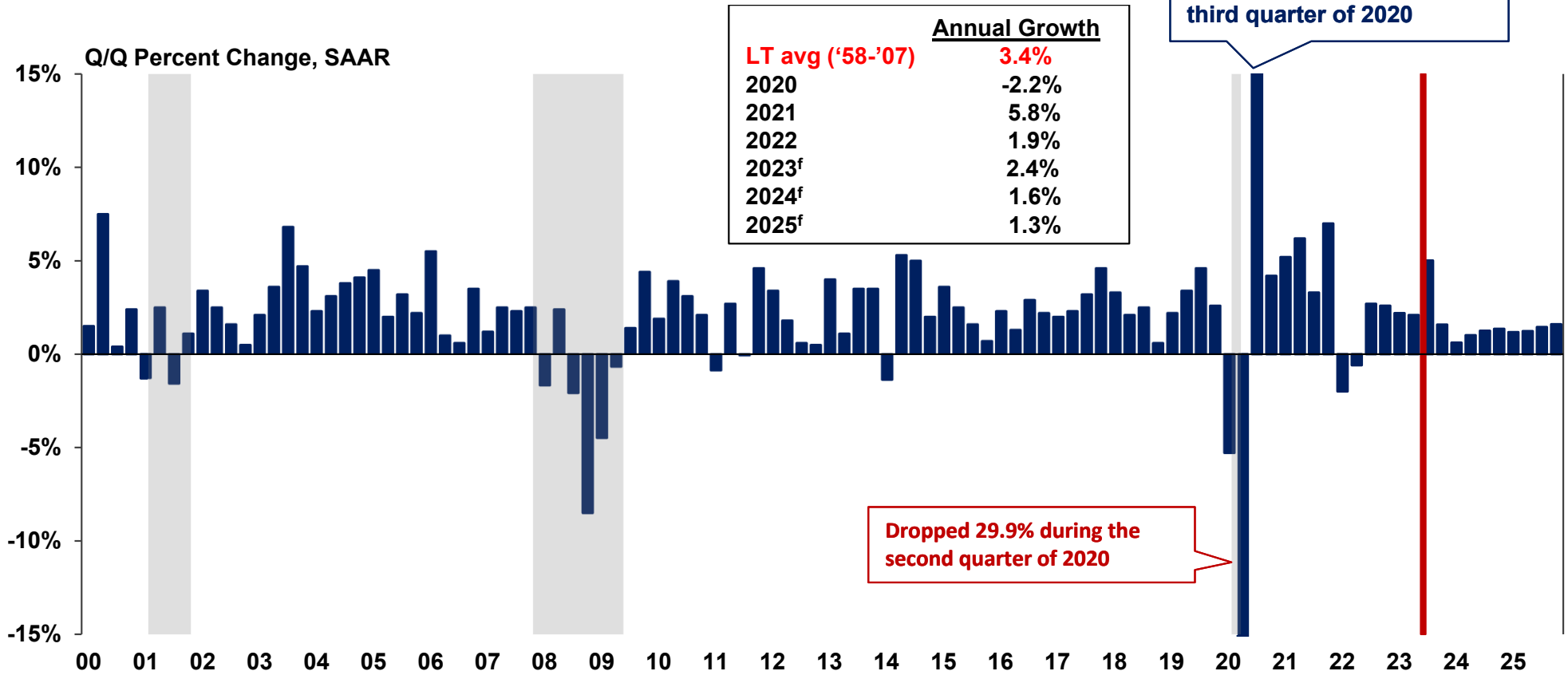
Building Systems Housing Summit
October 17, 2023

Danushka Nanayakkara,
NAHB AVP, Forecasting and Analysis



GDP – Moderate Growth in 2023

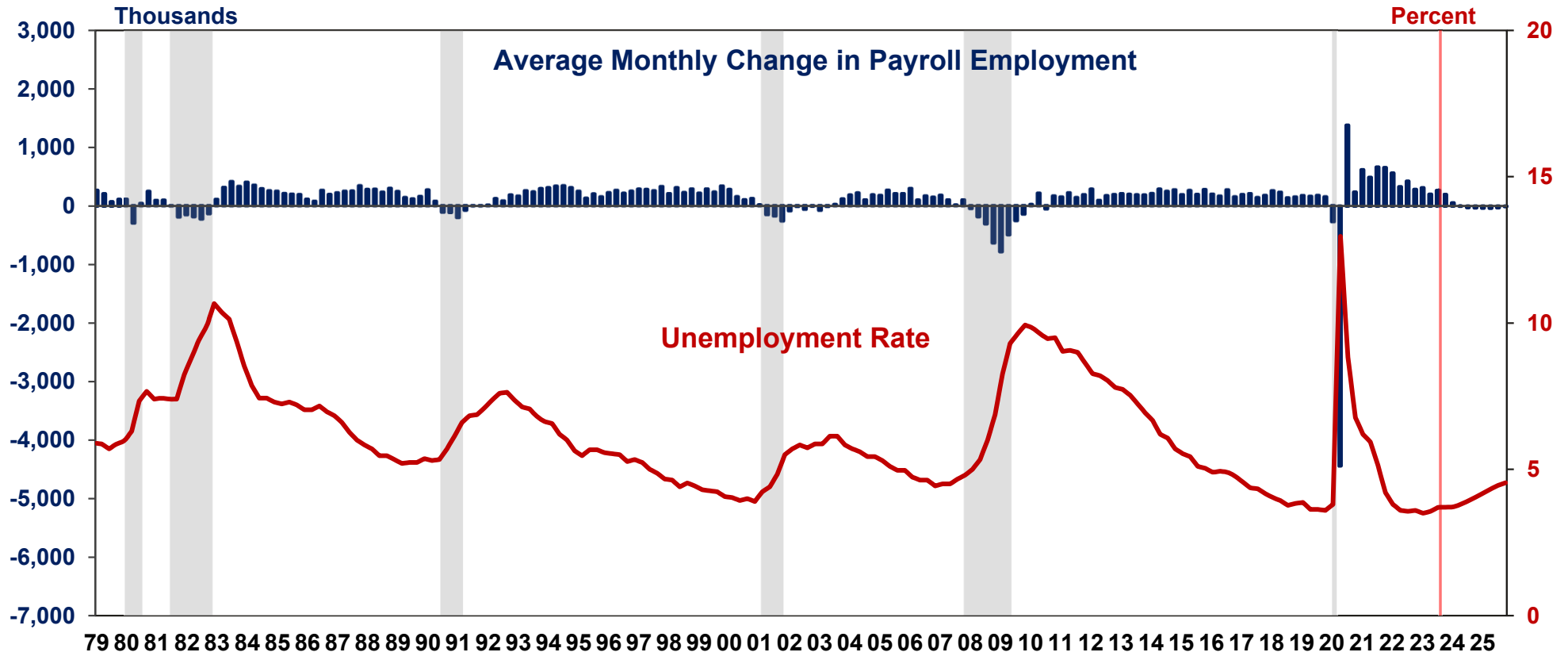
Soft landing?



Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.

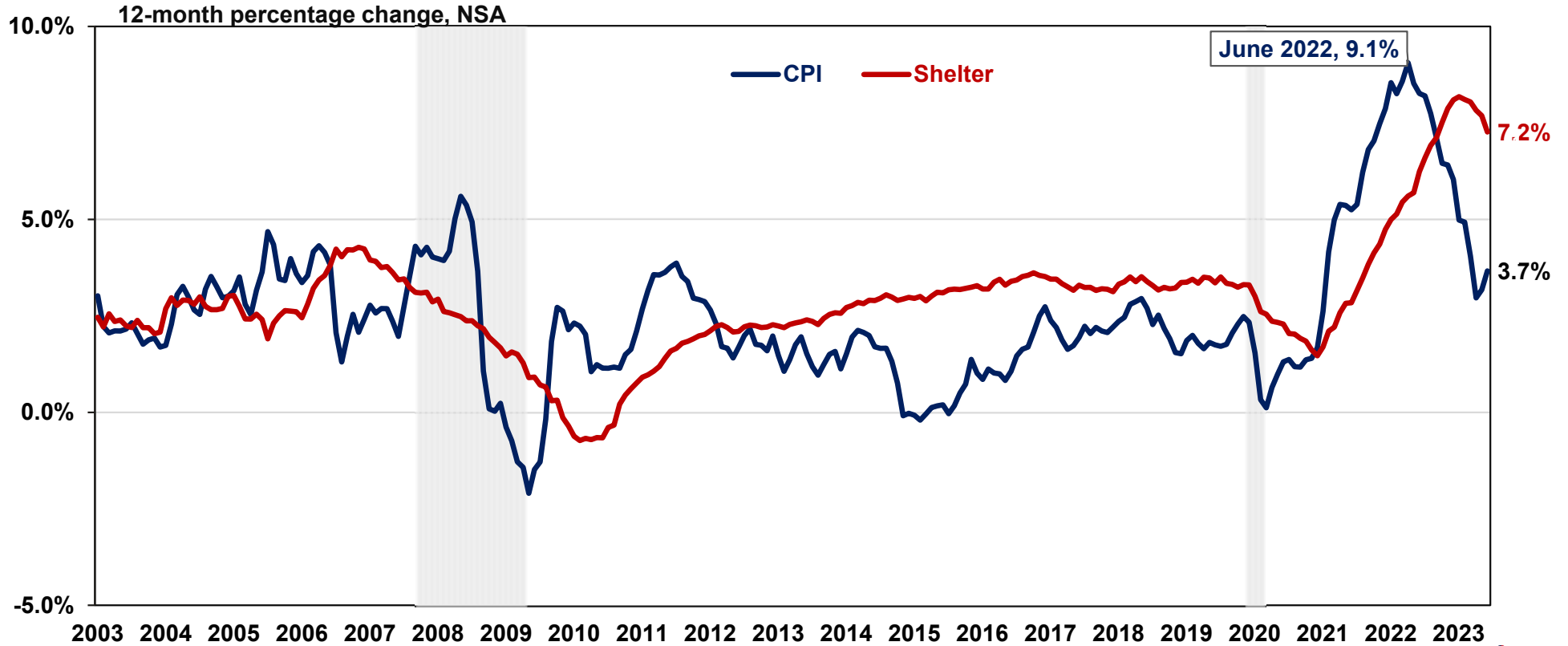
Unemployment Bottoming Out and Will Rise

Job growth will slow as we head to 2024



Consumer Inflation – Headline Rate and Shelter

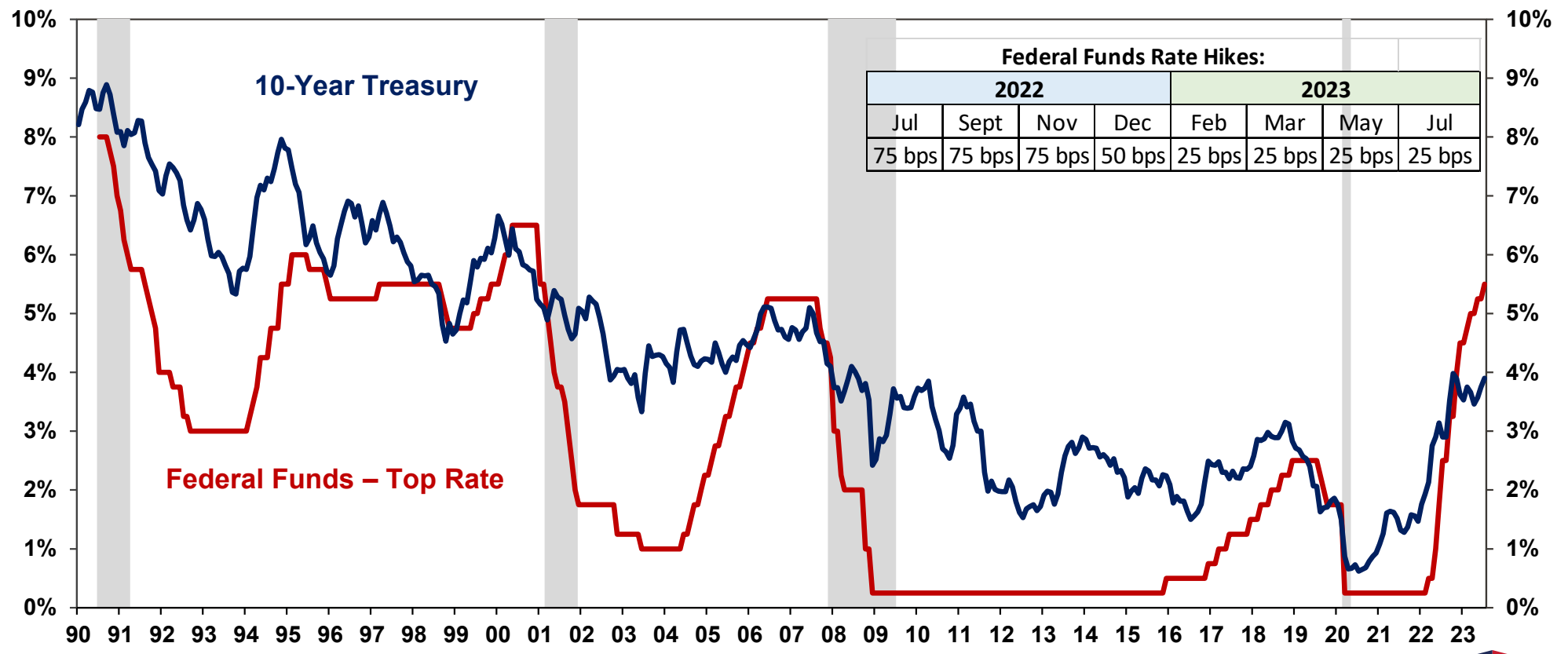
Shelter costs continue to rise despite Fed policy tightening --- “Gimmie Shelter”



Source: U.S. Bureau of Labor Statistics (BLS)

Monetary Policy Tightening in Response to Inflation

The Fed should pause now...

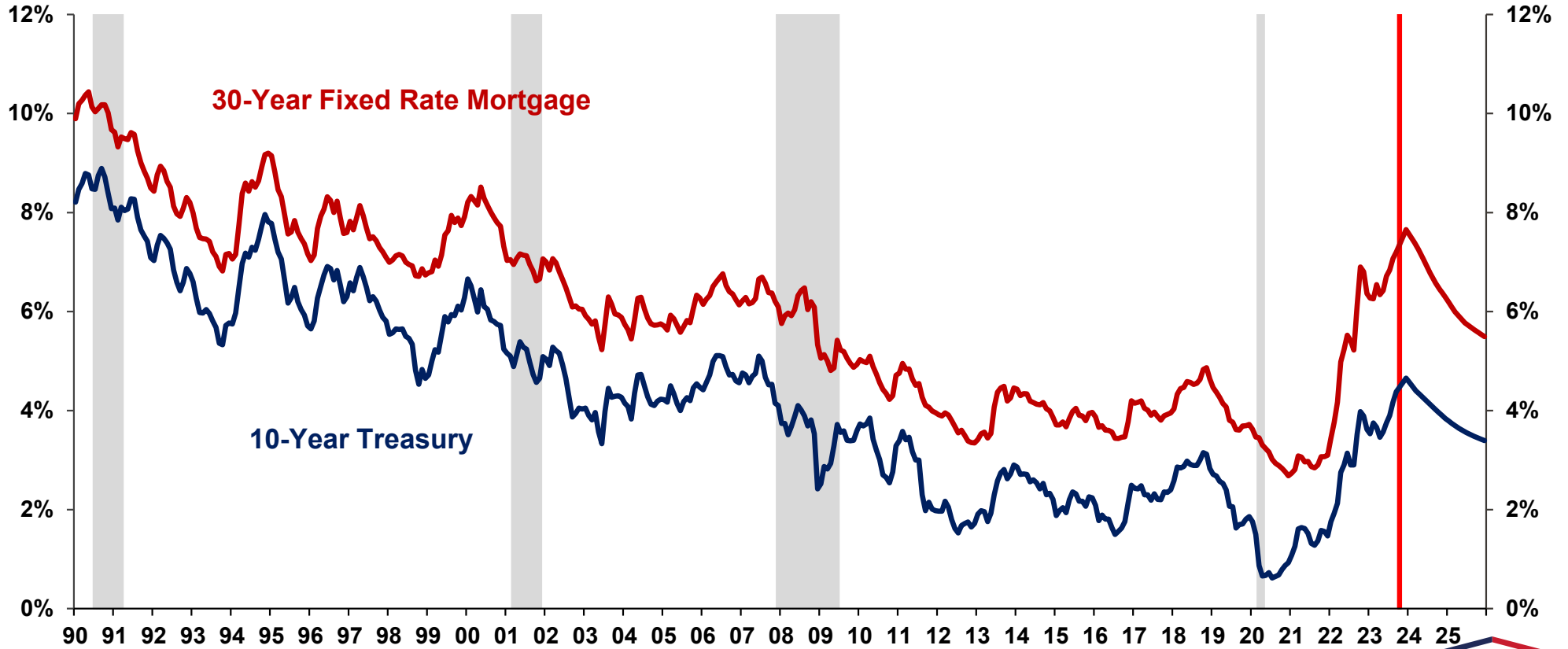


Source: U.S. Board of Governors of the Federal Reserve System (FRB).



Mortgage Rates Near Cycle Peak

Housing affordability at more than decade low



Source: Federal Reserve and Freddie Mac data and NAHB forecast.

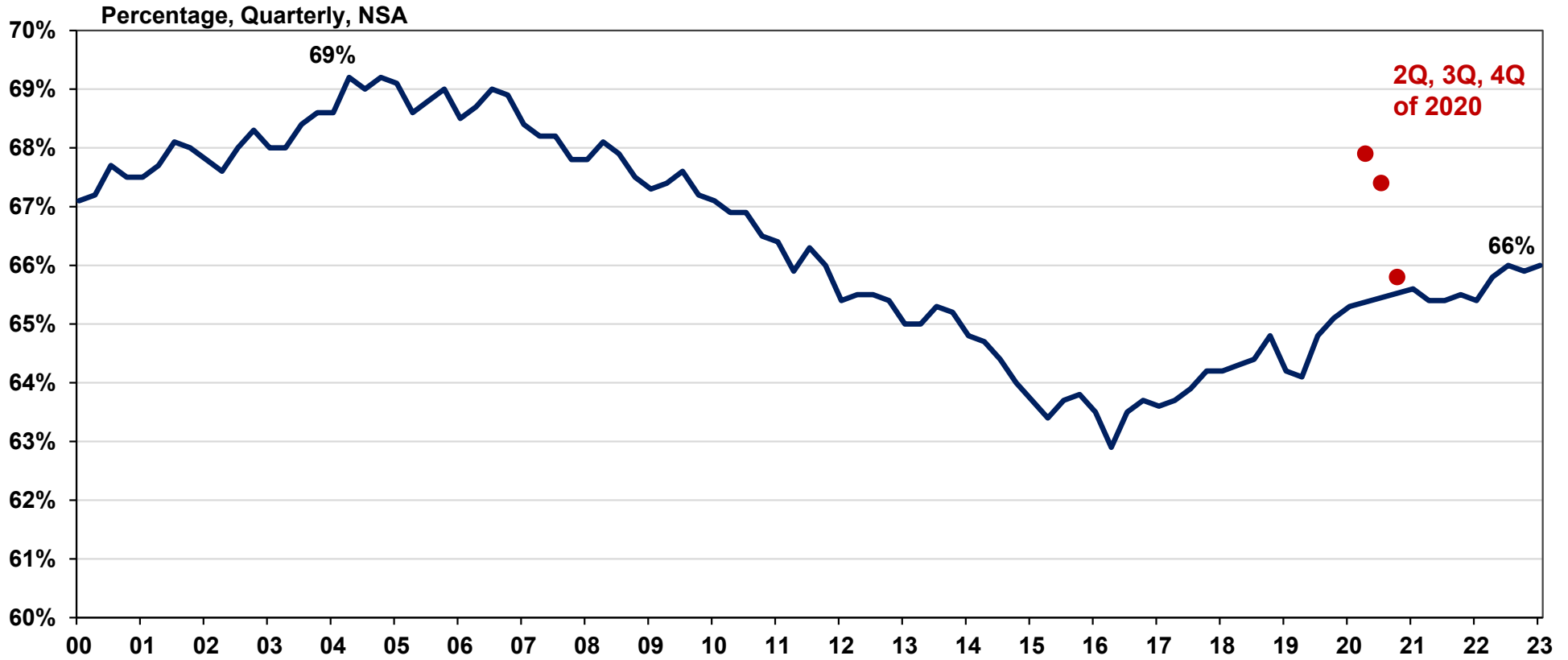


Demand-Side Economic Factors



Homeownership Rate

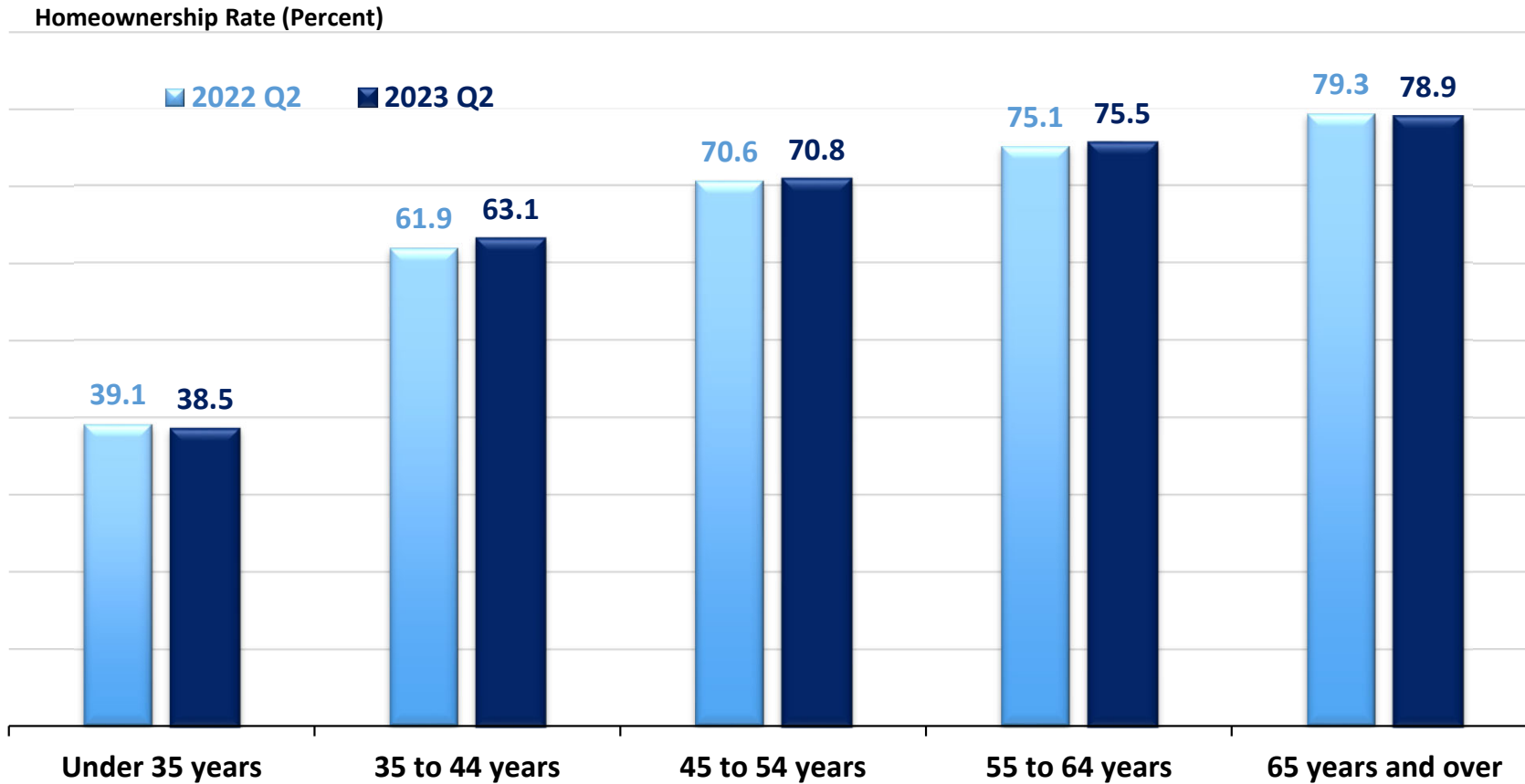
Homeownership will decline in 2023 and 2024



Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership

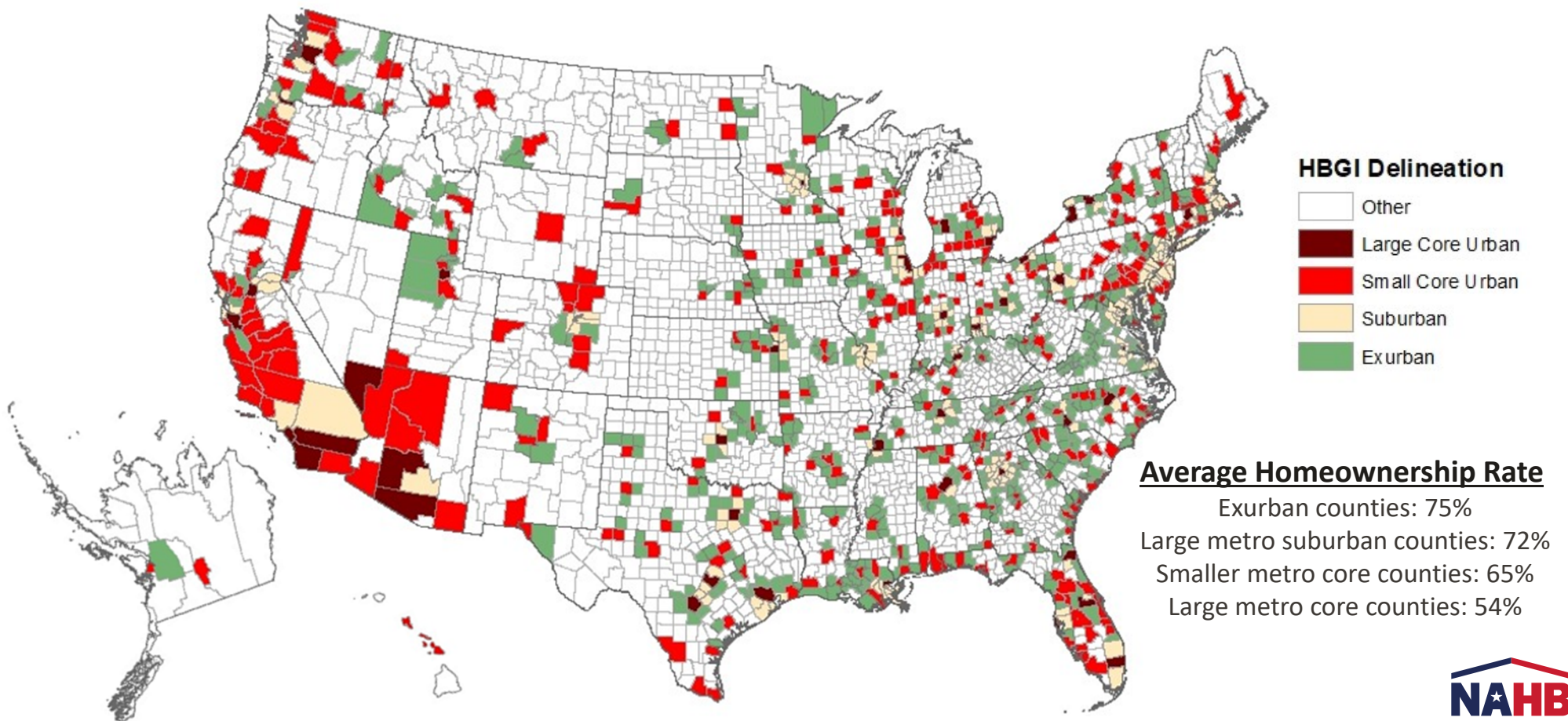
Note: Red dots denote technical issues for the last four quarters.

Homeownership Rates by Age of Householder



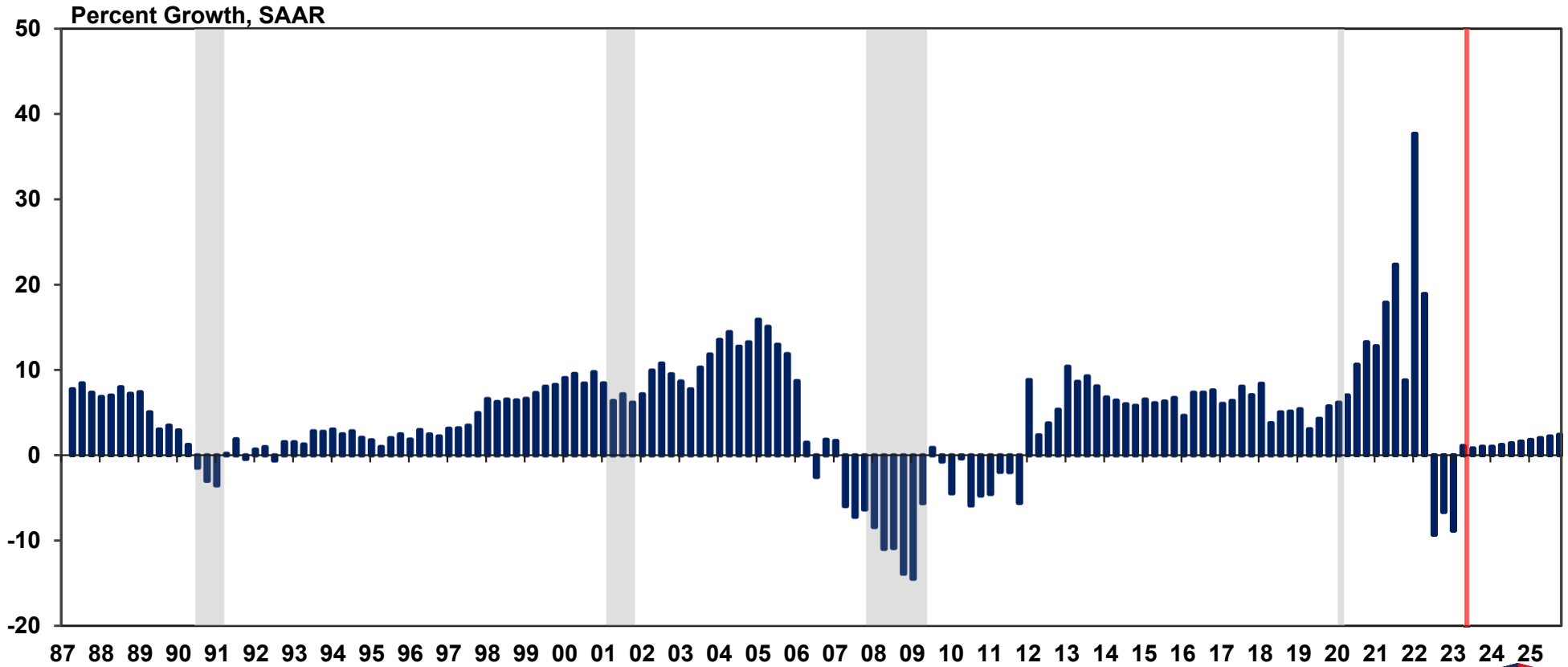
Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey

Homeownership Rate Across U.S. Counties



S&P CoreLogic Case-Shiller National US Home Price Index

Home prices dropped 6%, expected to grow at a relatively slow pace in the coming year

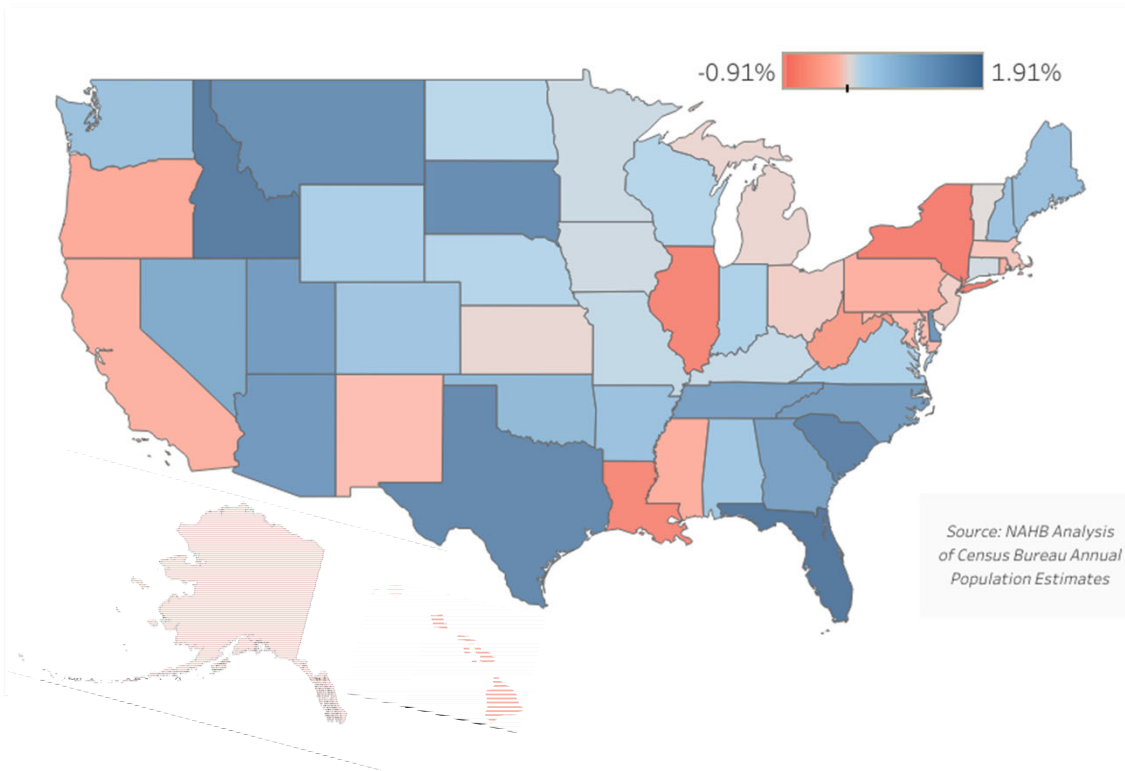


Source: NAHB forecast and S&P Dow Jones Indices LLC; CoreLogic, Inc..

/ 2021-2022 Population Changes

Idaho, Florida and Texas lead population gains

State 2021-2022 Population Changes (%)



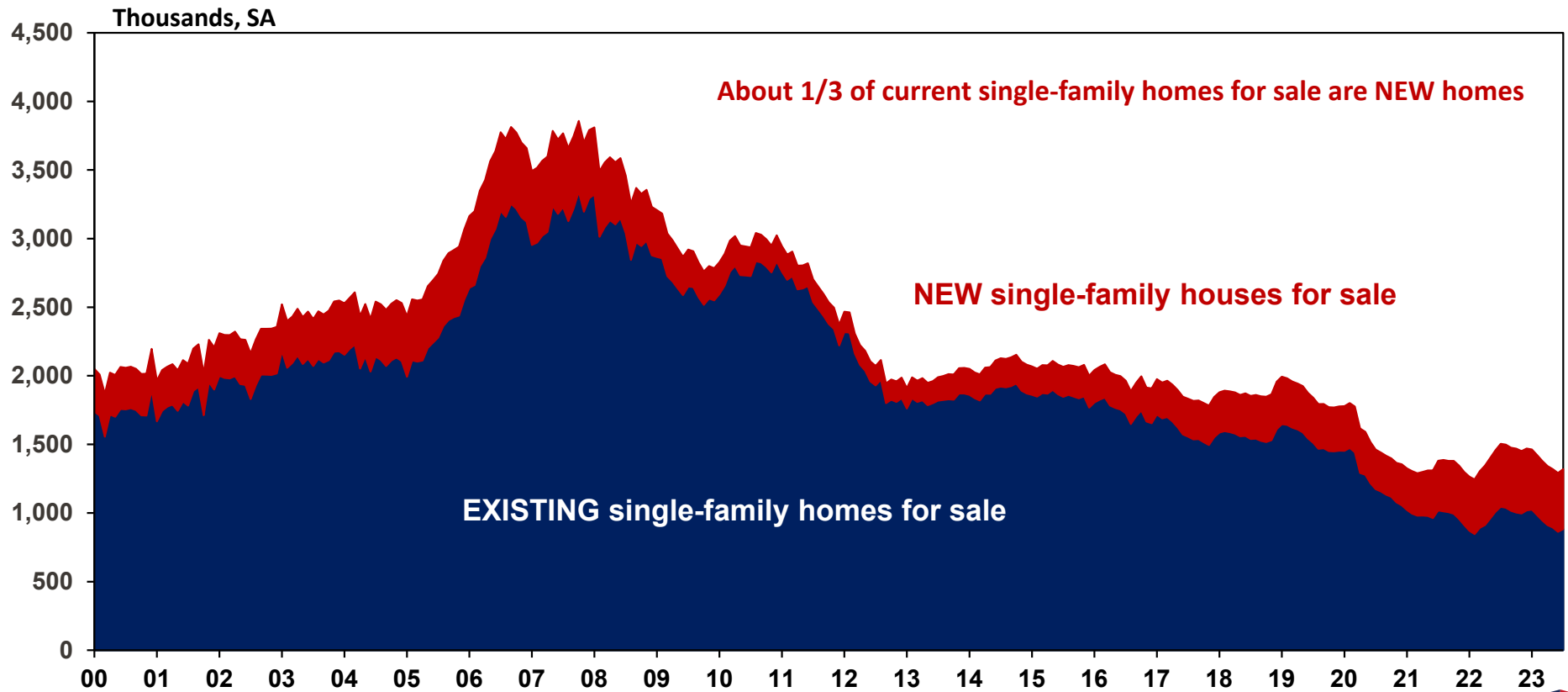
Population growth strongest in West and South

Smaller metro areas growing faster than larger

Some of the 2020 trends slowed in 2021

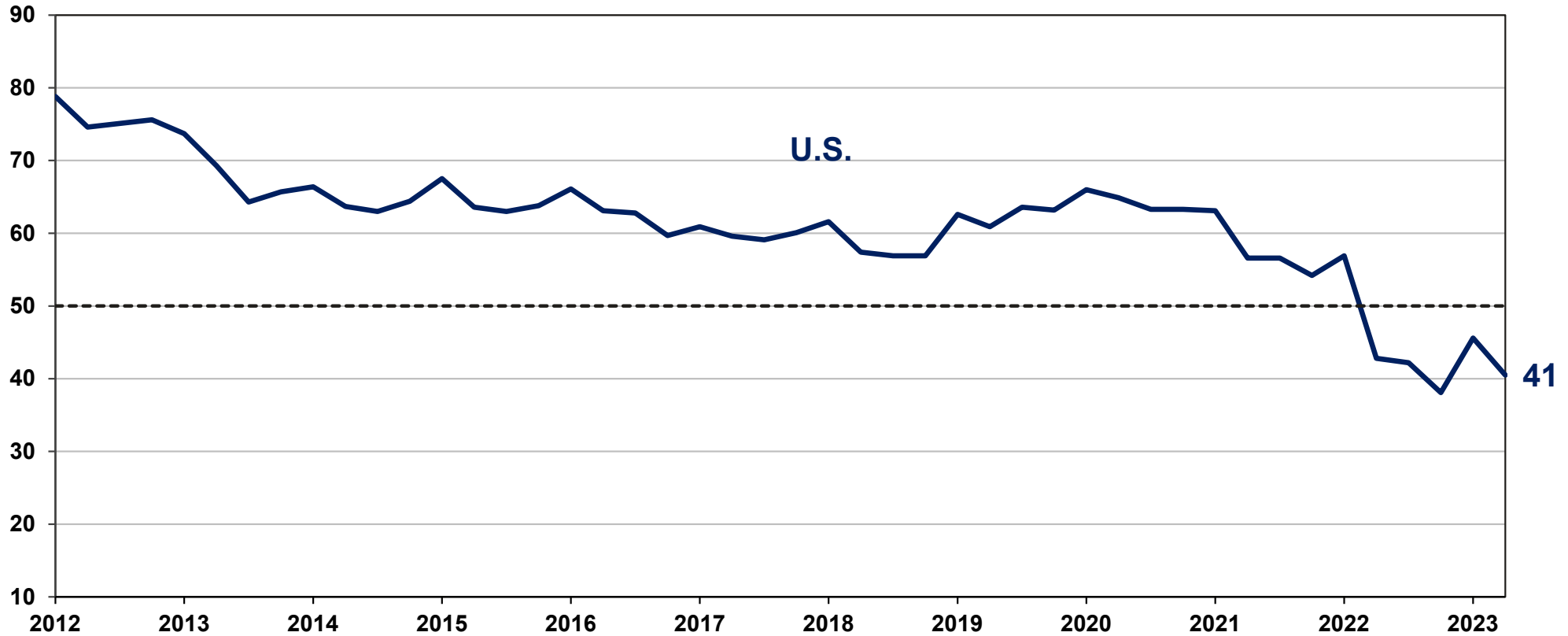
Total Housing Inventory

Insufficient resale inventory is supporting demand for new construction



Source: U.S. Census Bureau (BOC) and National Association of Realtors (NAR)

Housing Affordability Declines? NAHB/Wells Fargo HOI Lower



Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).

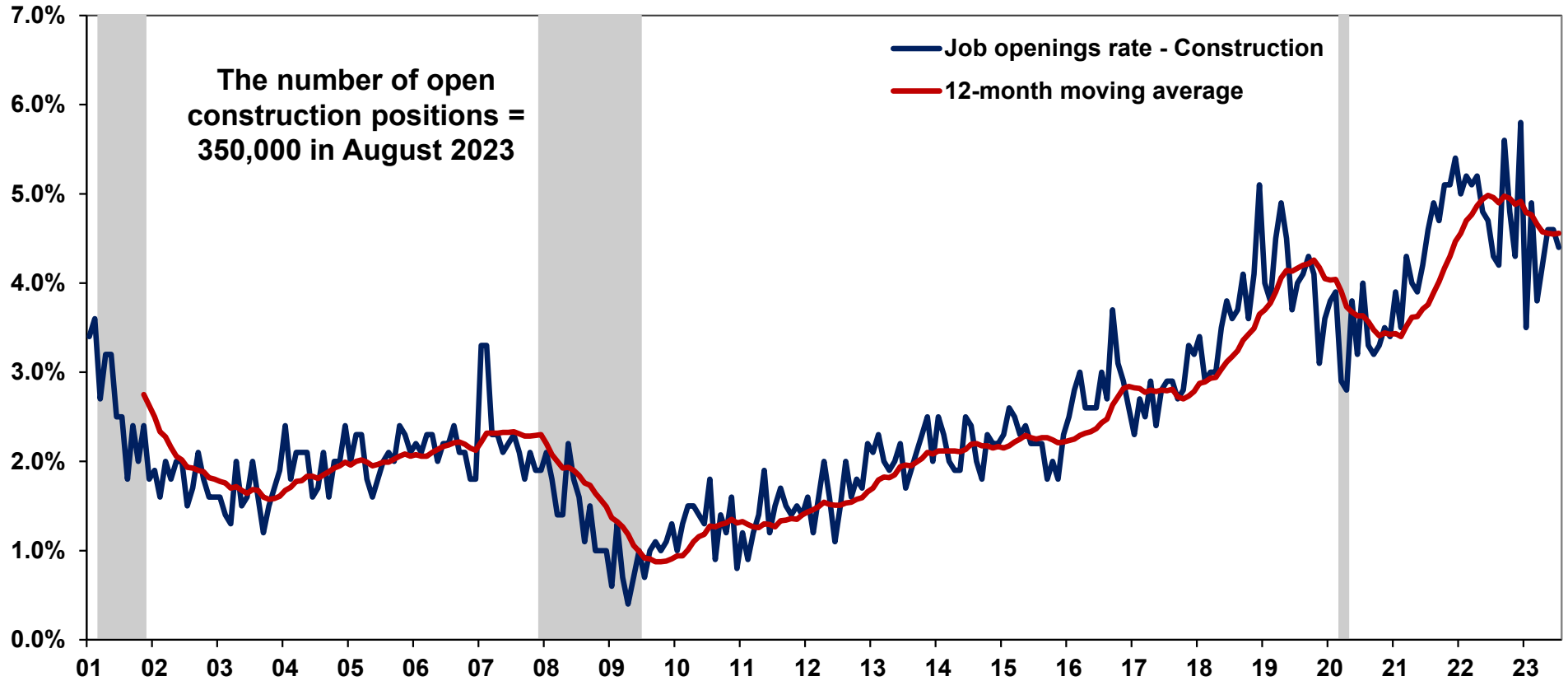


Supply-Side Factors



Labor – Construction Job Openings Peaked for Cycle?

Skilled labor shortage persists; 331,400 net gain for residential construction since Jan 2020



Source: U.S. Bureau of Labor Statistics (BLS).

Lumber Prices Edged Down

Current September price is \$431; down 0.2% for the first time in four weeks

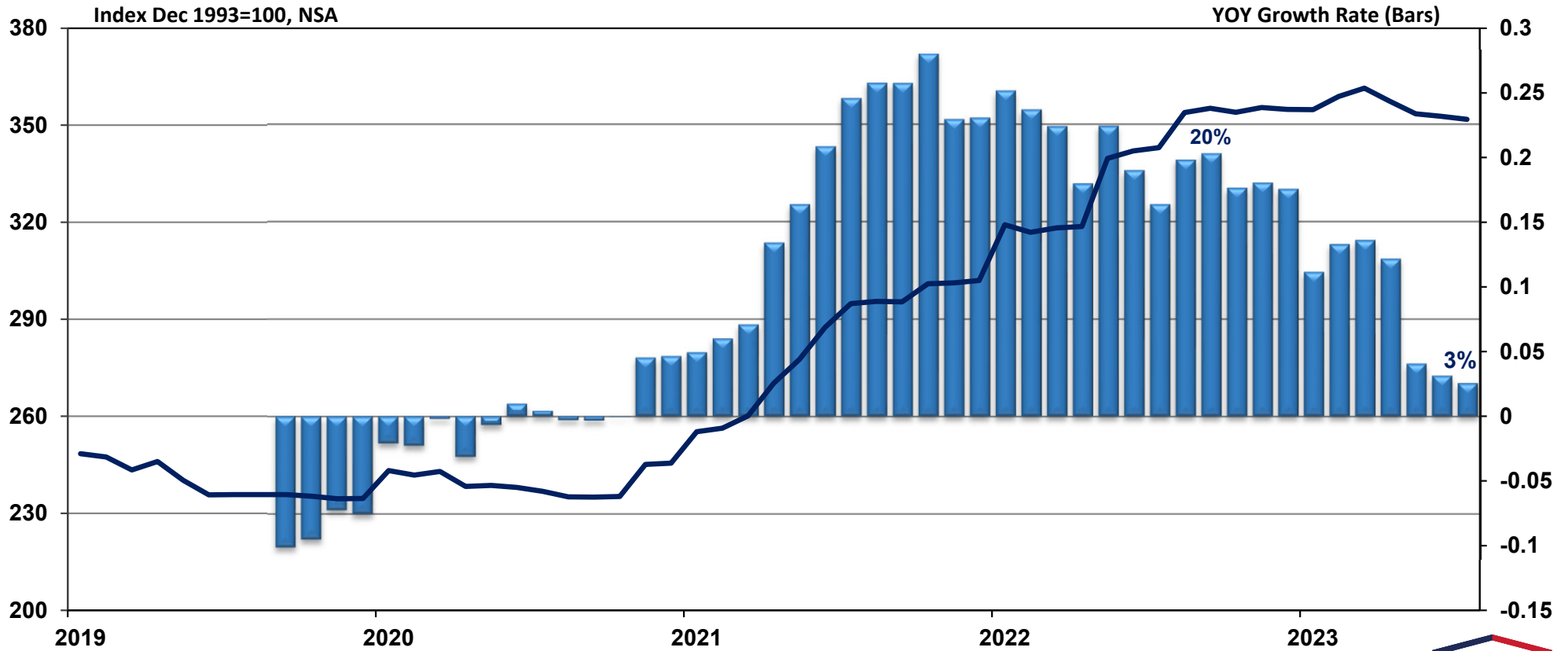


Source: NAHB Analysis; Random Lengths Composite Index



Building Materials Prices - Gypsum

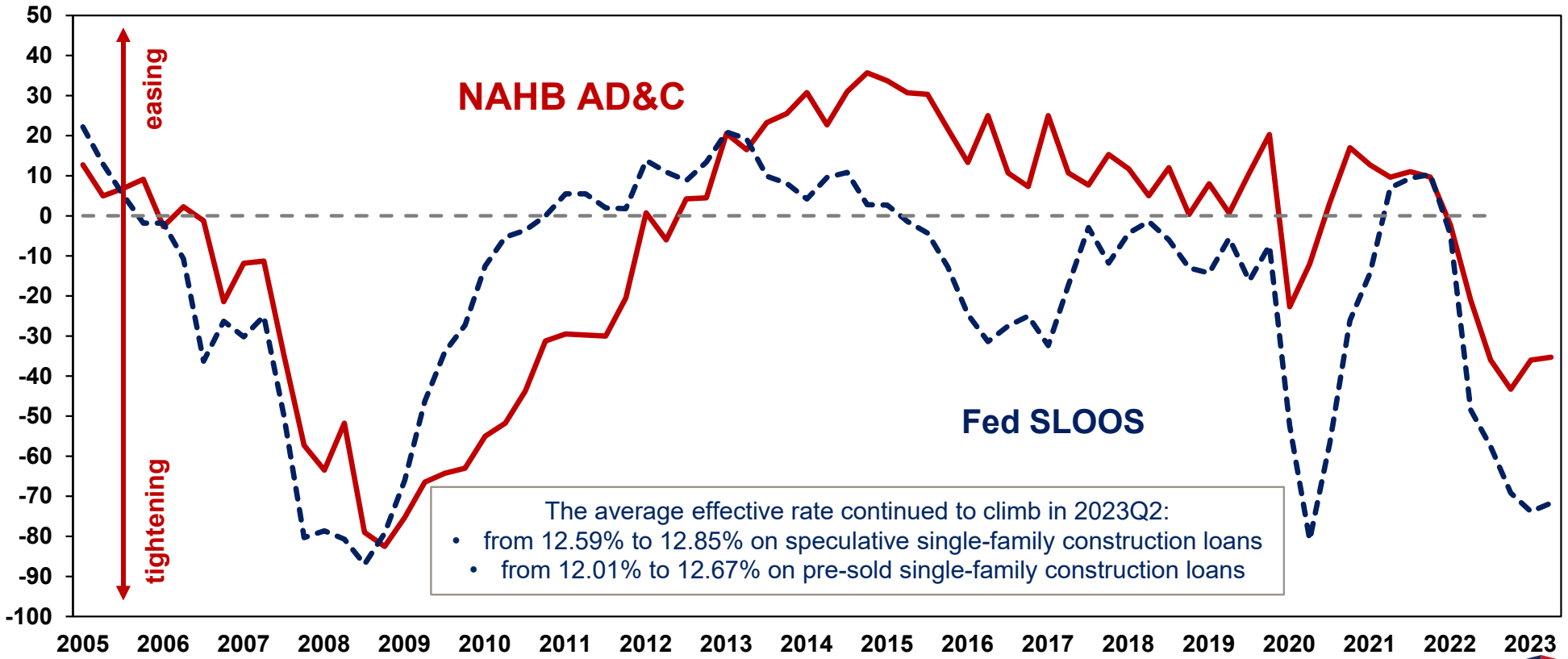
Gypsum YOY growth rate have slowed from 20% to 3% over the past ten months



Source: NAHB Analysis; U.S. Bureau of Labor Statistics (BLS)

/ Lending – AD&C Loan Conditions

Credit for builders tightens as rates climb

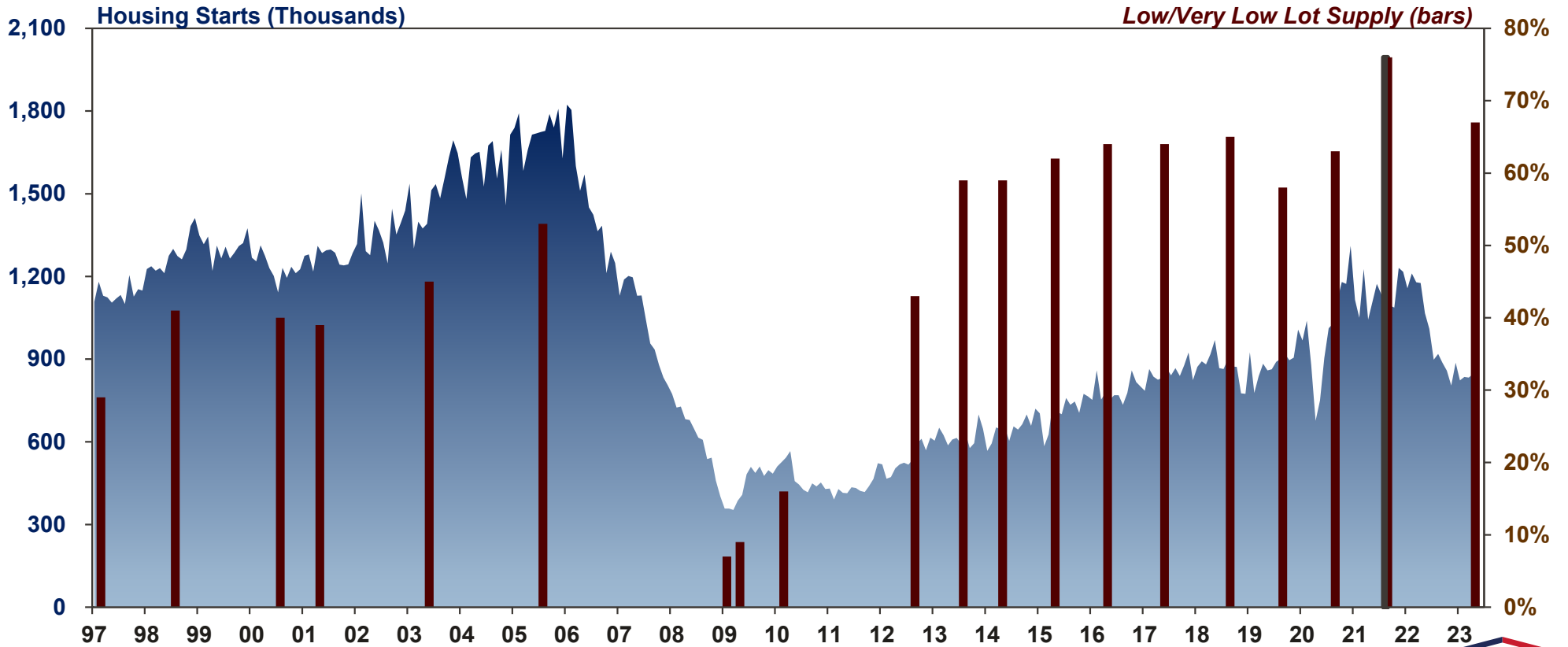


Source: NAHB survey; Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS)



/ Lot Shortages Reported by Single-family Builders

Shortage of lots reached a new record in 2021



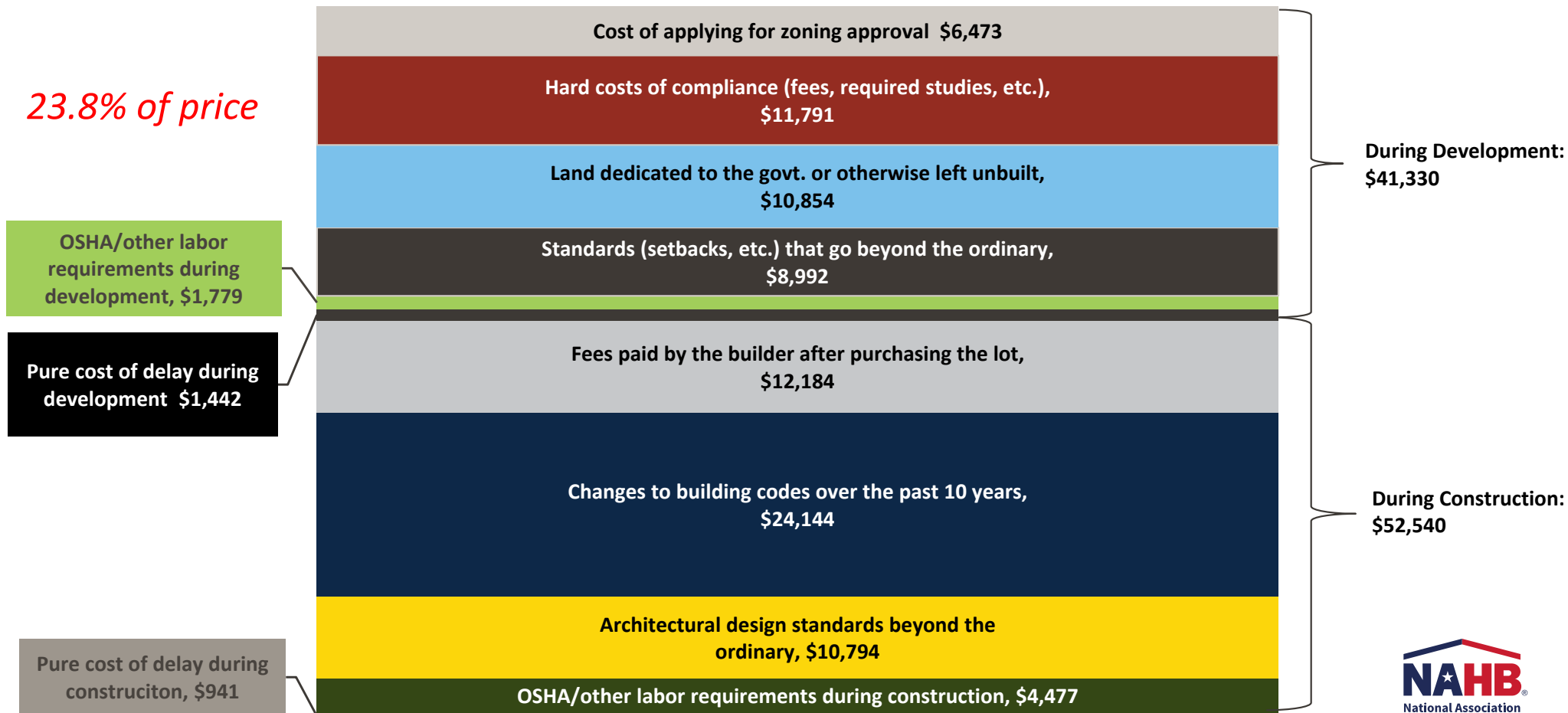
Source: Census Bureau and NAHB/Wells Fargo HMI survey



Regulatory Costs \$93,870 Per New Home (11% Gain 2016 to 2021)

Total effect of building codes, land use, environmental and other rules

23.8% of price



Source: NAHB/Wells Fargo Housing Market Index (HMI)

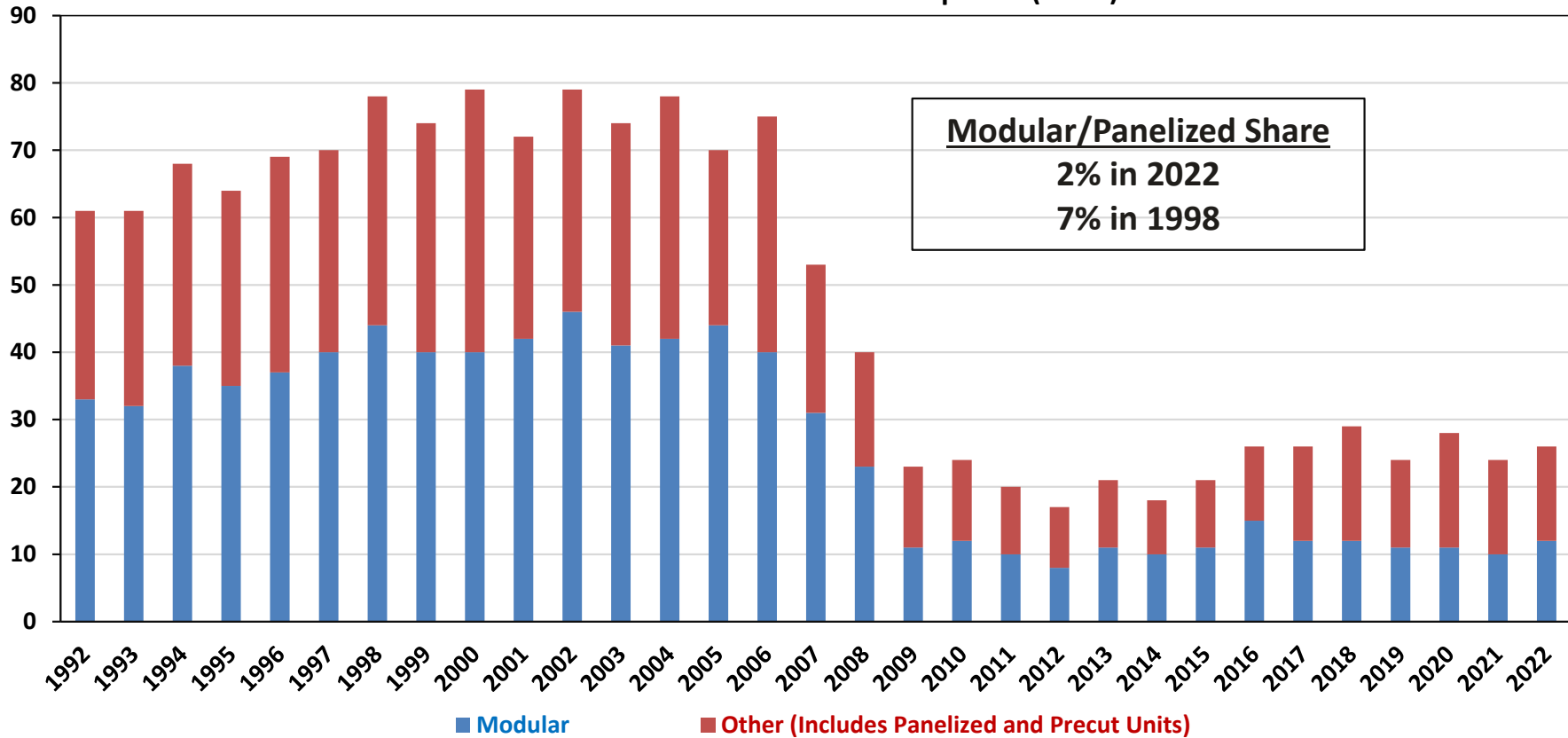




... / Building Systems Data

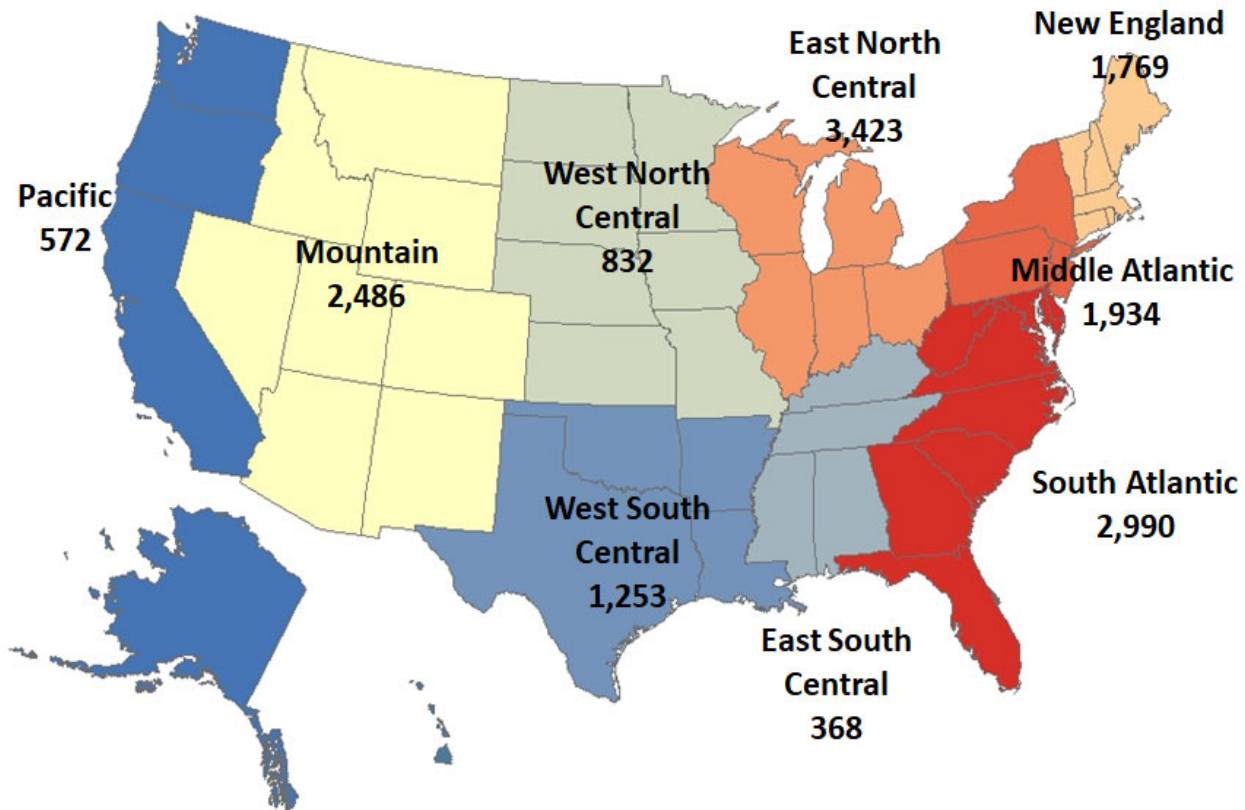
Modular/Panelized Production

Number of Modular and Panelized Houses Completed (Ths.#)



Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.

Modular Homes Started in 2022



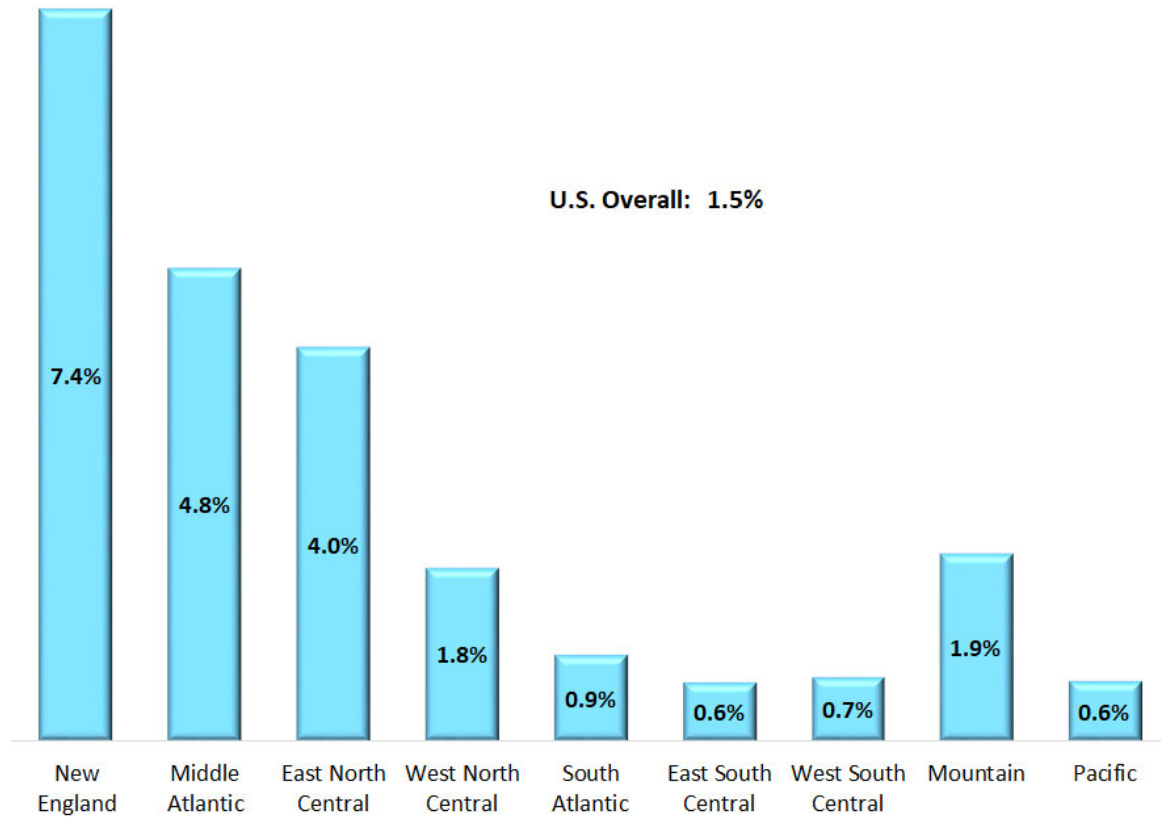
U.S. Total: 15,627

**More than 70%
East of the
Mississippi**

Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.

Market Penetration of Modular Construction by Division

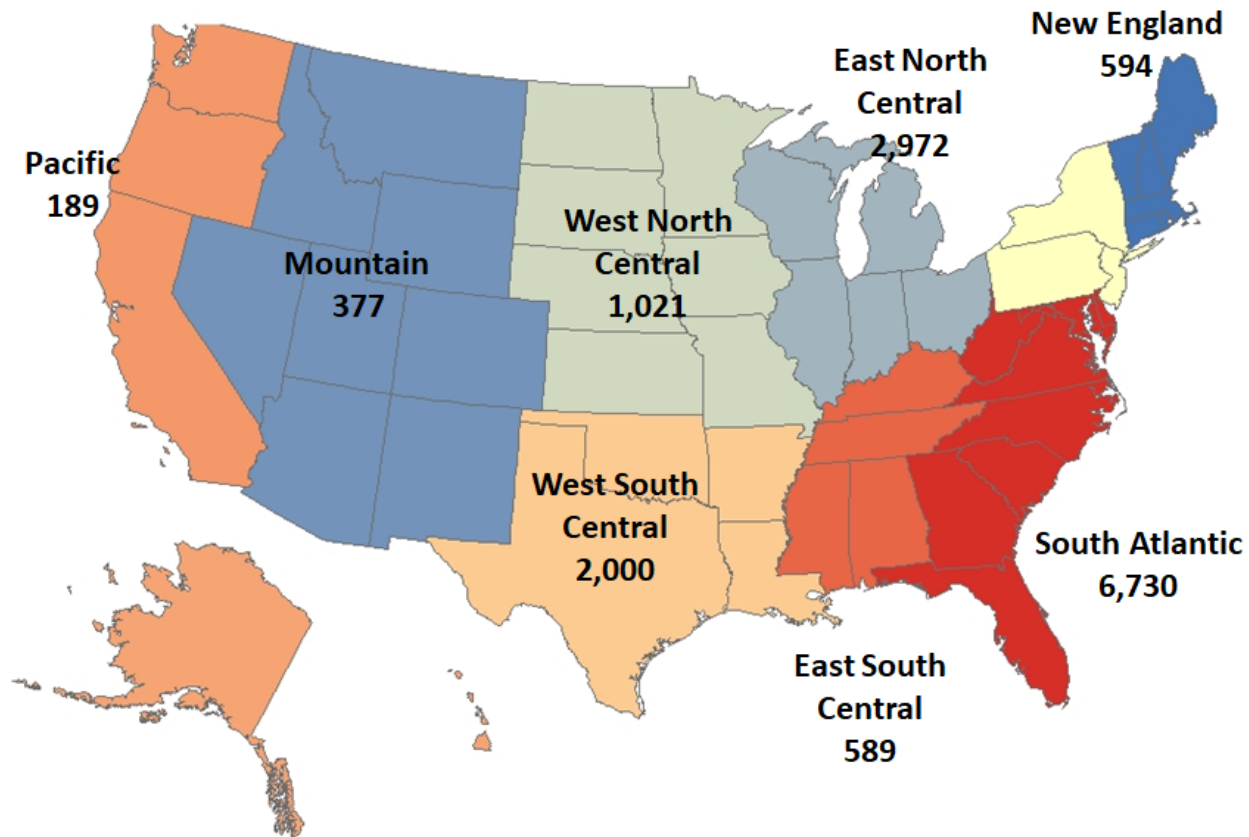
Modular Share of All Single-family Homes Started in 2022



Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.



Panelized/Precut Homes Started in 2022



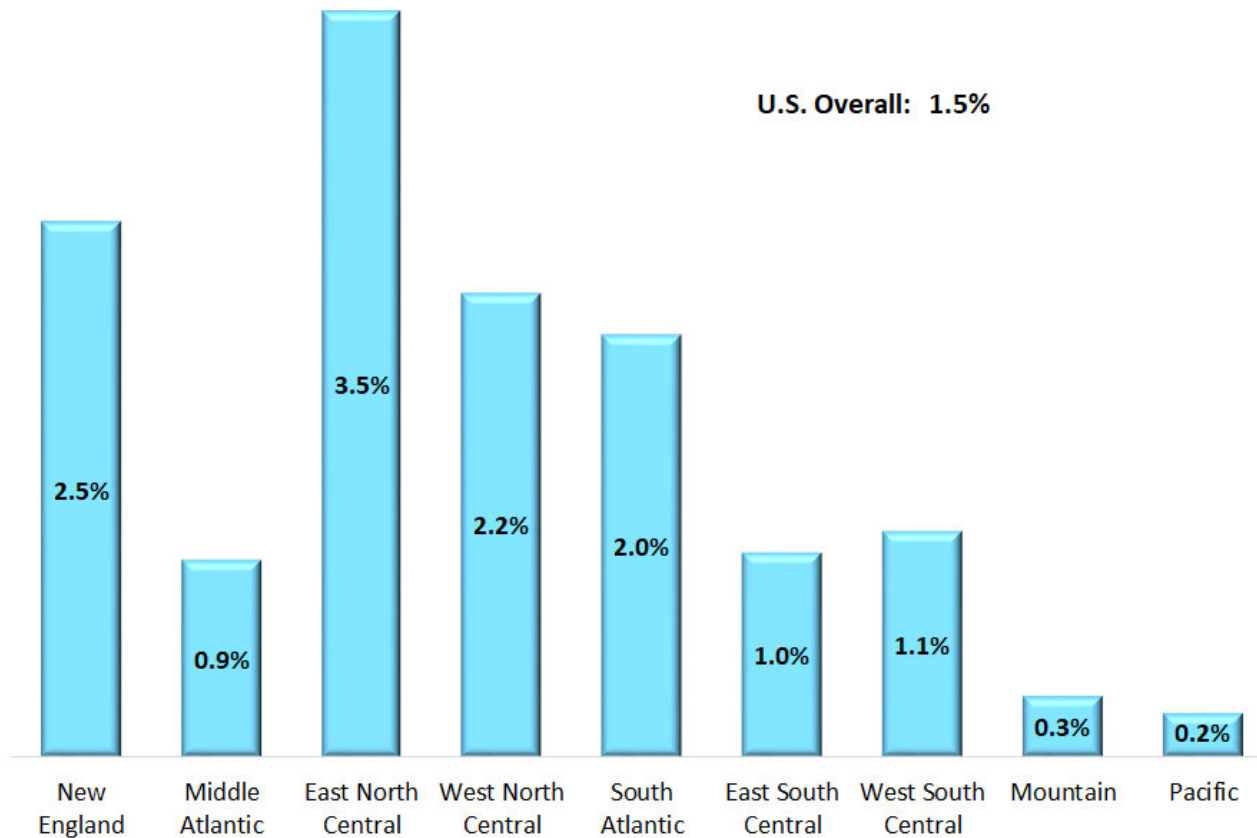
U.S. Total: 14,843
45% in South Atlantic

Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.



Market Penetration of Panelized Construction by Division

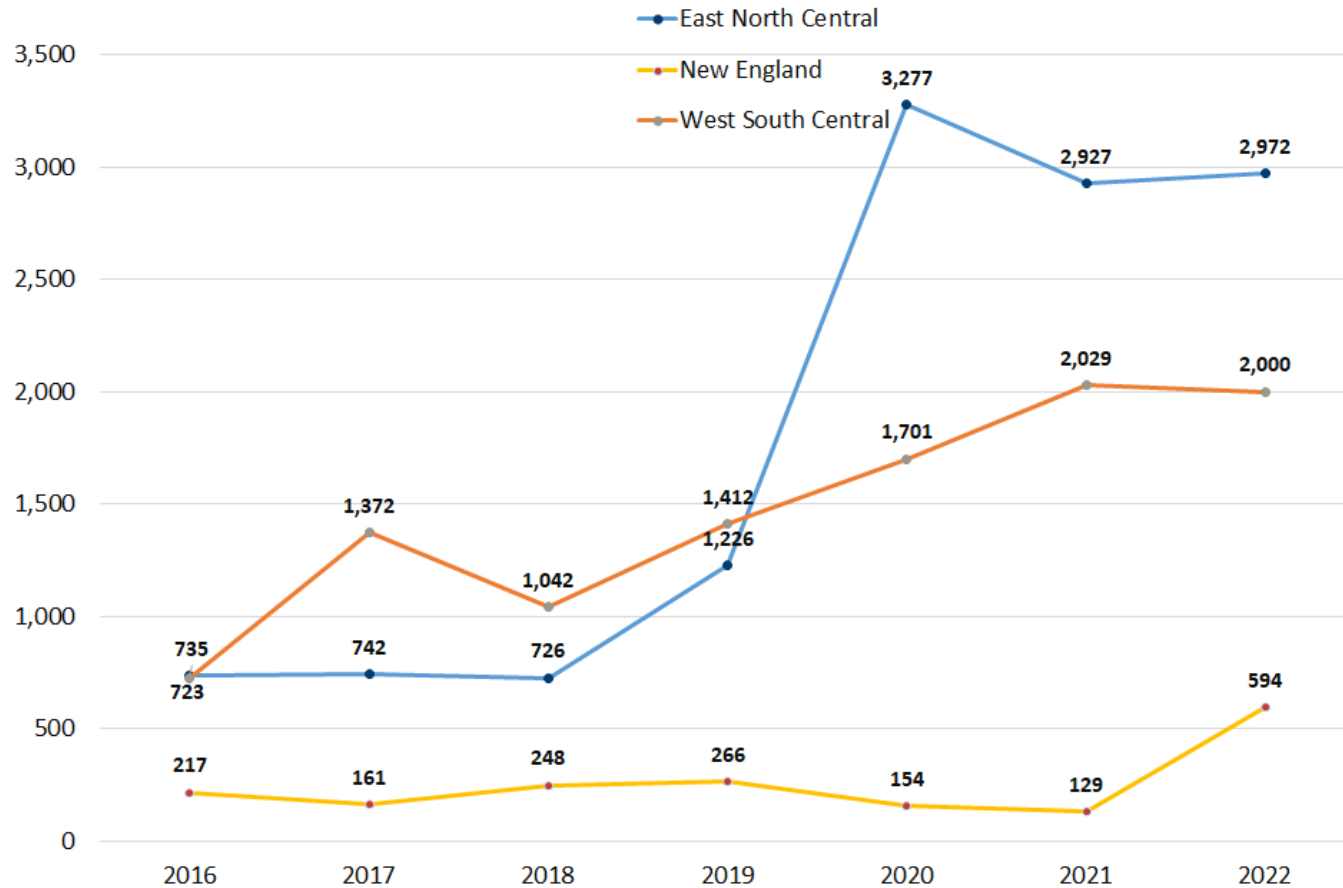
Panelized/Precut Share of All Single-family Homes Started in 2022



Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.

Number of Panelized Single-Family Starts

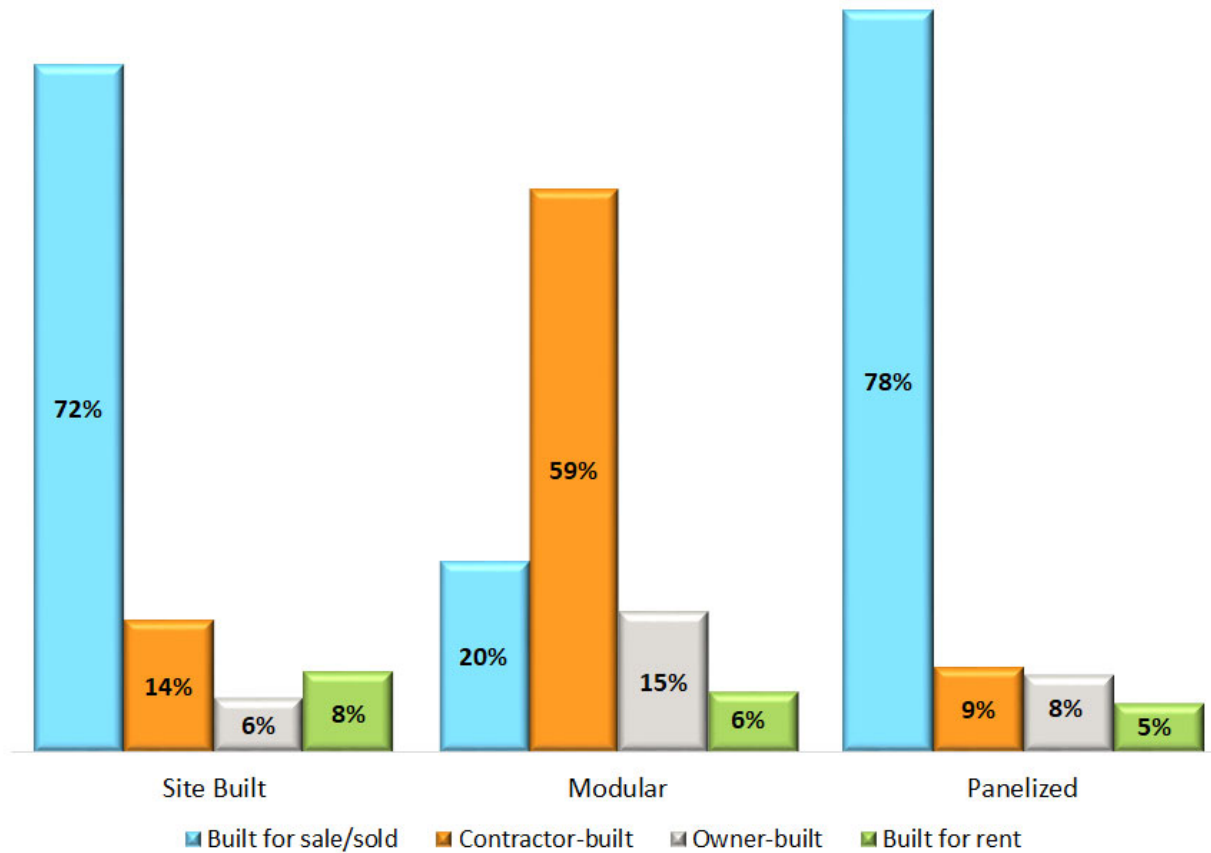
Panelized/Precut Share has substantially increased in three division since 2016



Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.

Purpose of Construction

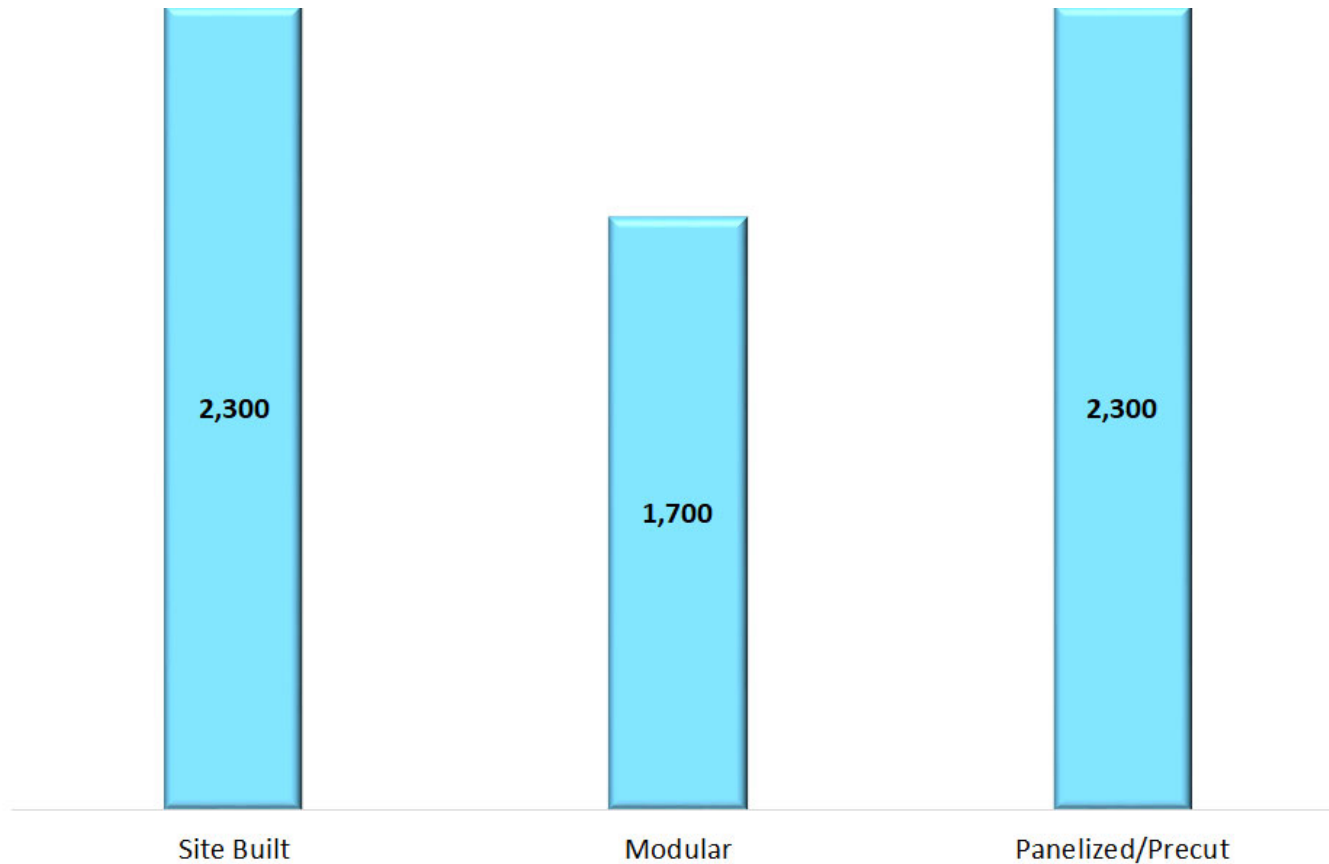
Majority of modular homes started in 2022 were custom homes



Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.

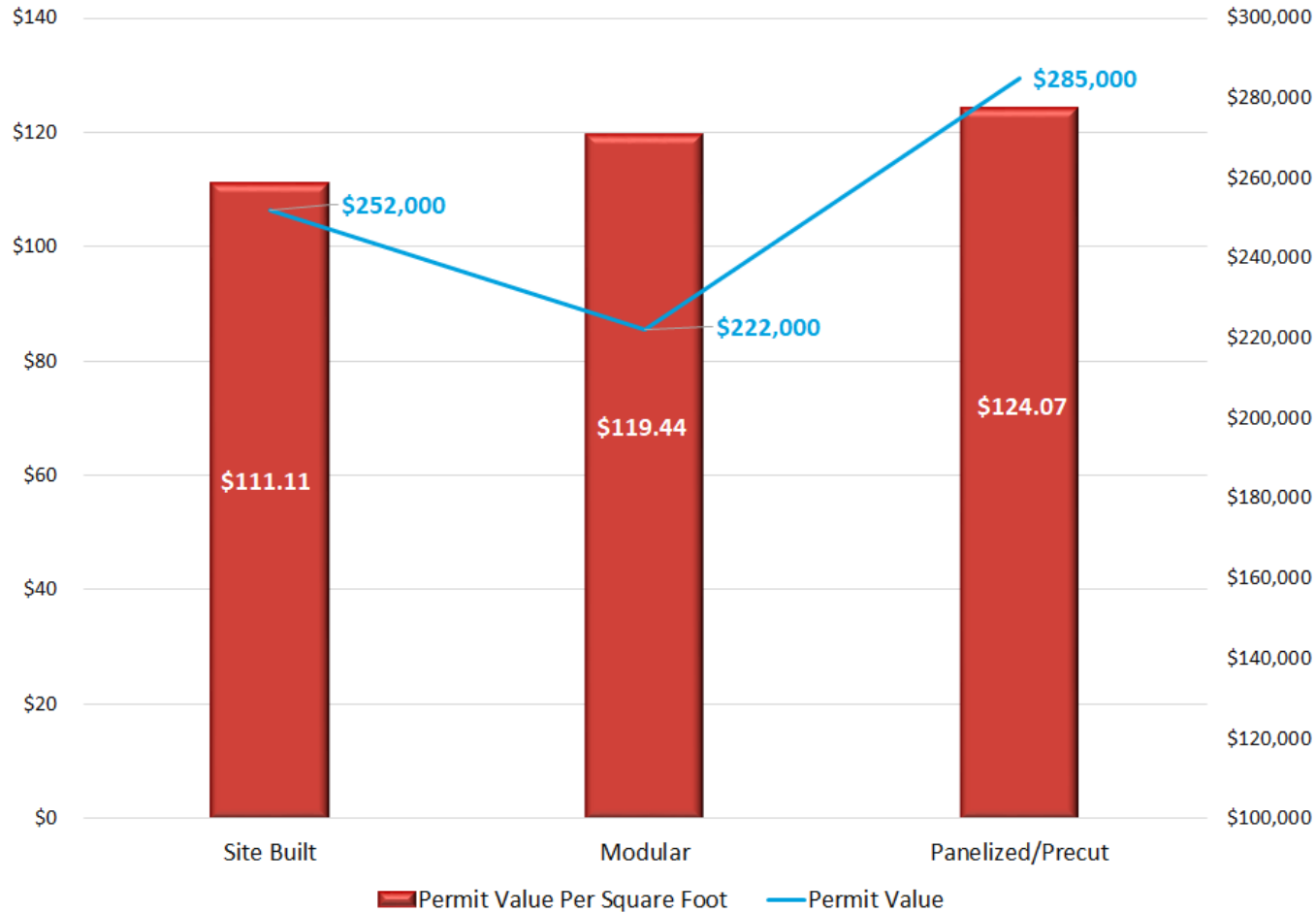
Size of New Homes Started in 2022

Median Square Footage of Finished Floor Space



Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.

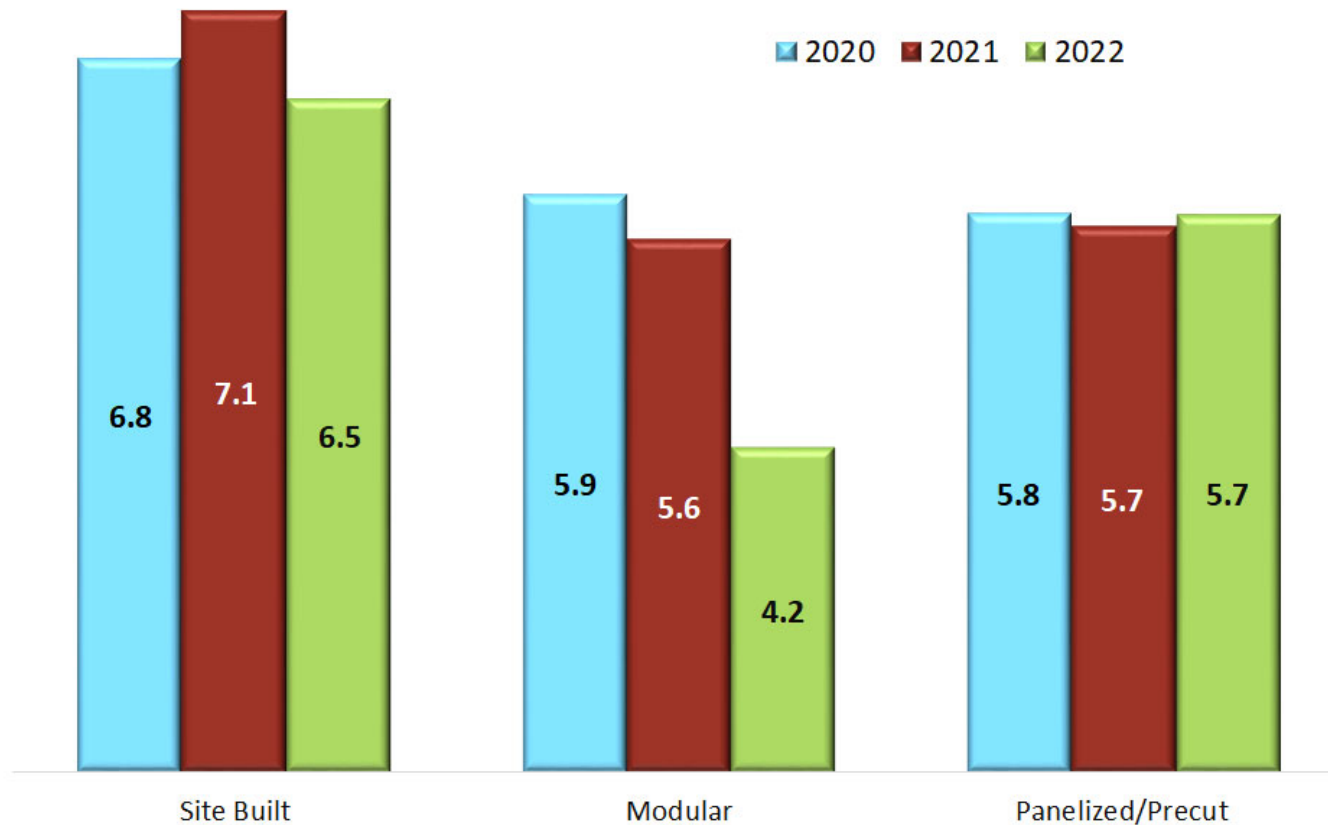
Permit Value of New Homes Started in 2022



Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.

Census Data on Construction Time

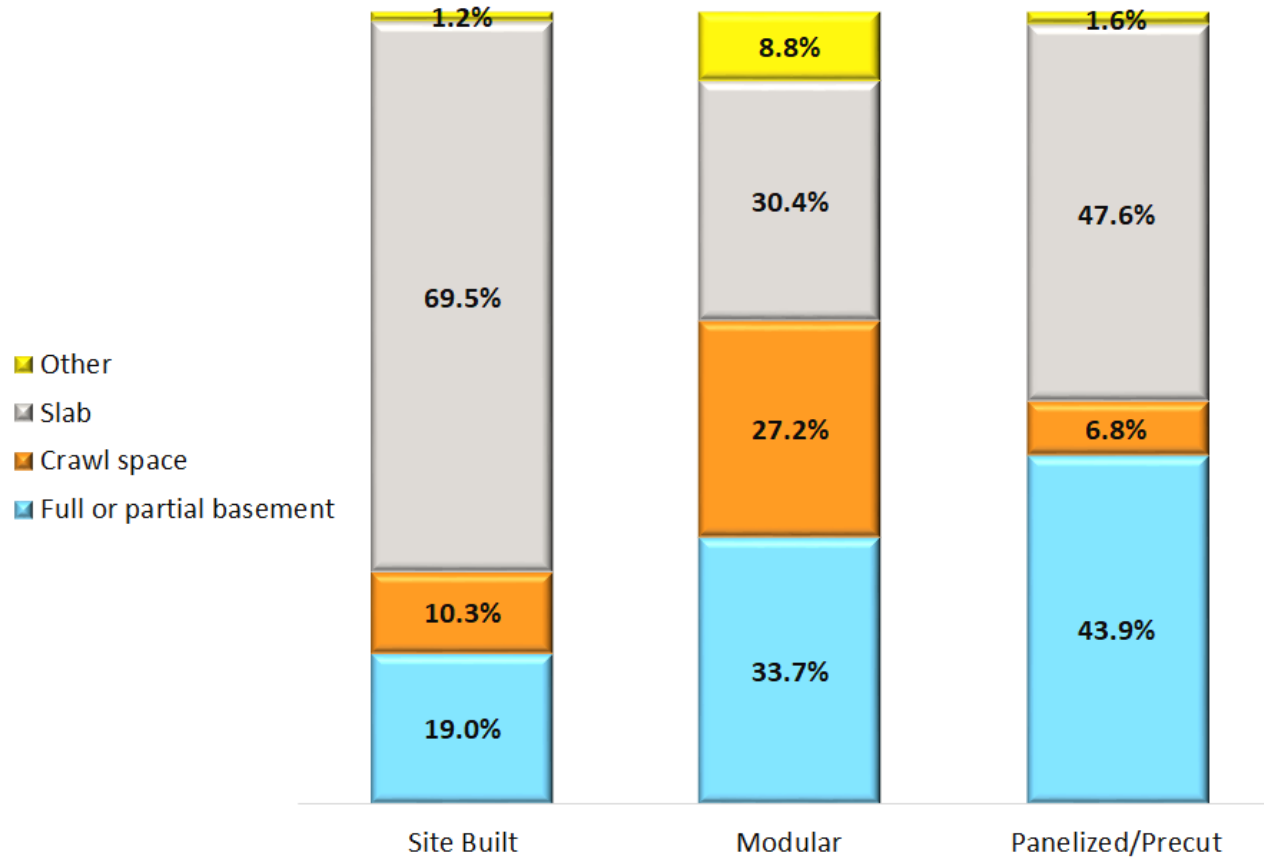
Average Time from Start to Completion for Single-family Homes Completed in 2022



Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.

Foundation Type

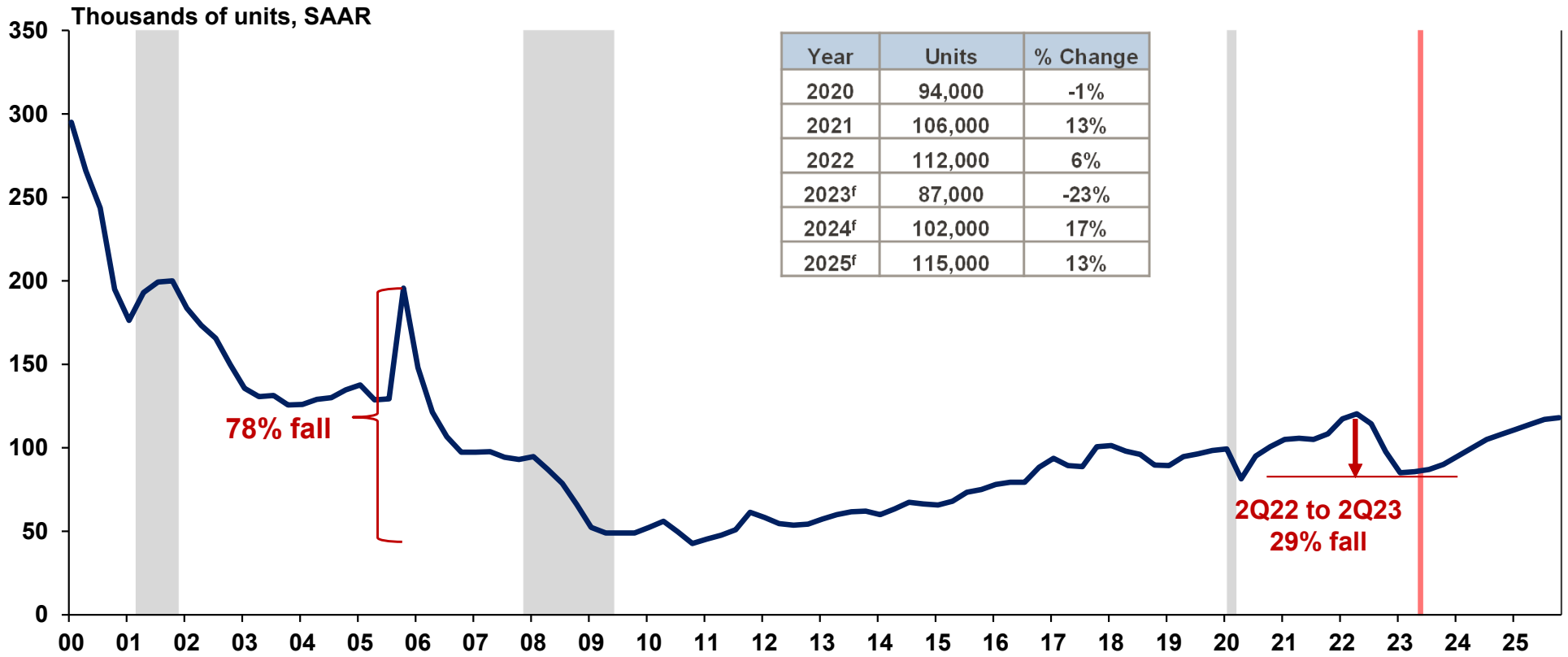
Single-family Homes Started in 2022



Source: NAHB tabulation of data from the Survey of Construction, U.S. Census Bureau.

Manufactured Home Shipments

Forecast calls for limited declines due to affordability concerns



Source: U.S. Census Bureau (BOC) and NAHB forecast

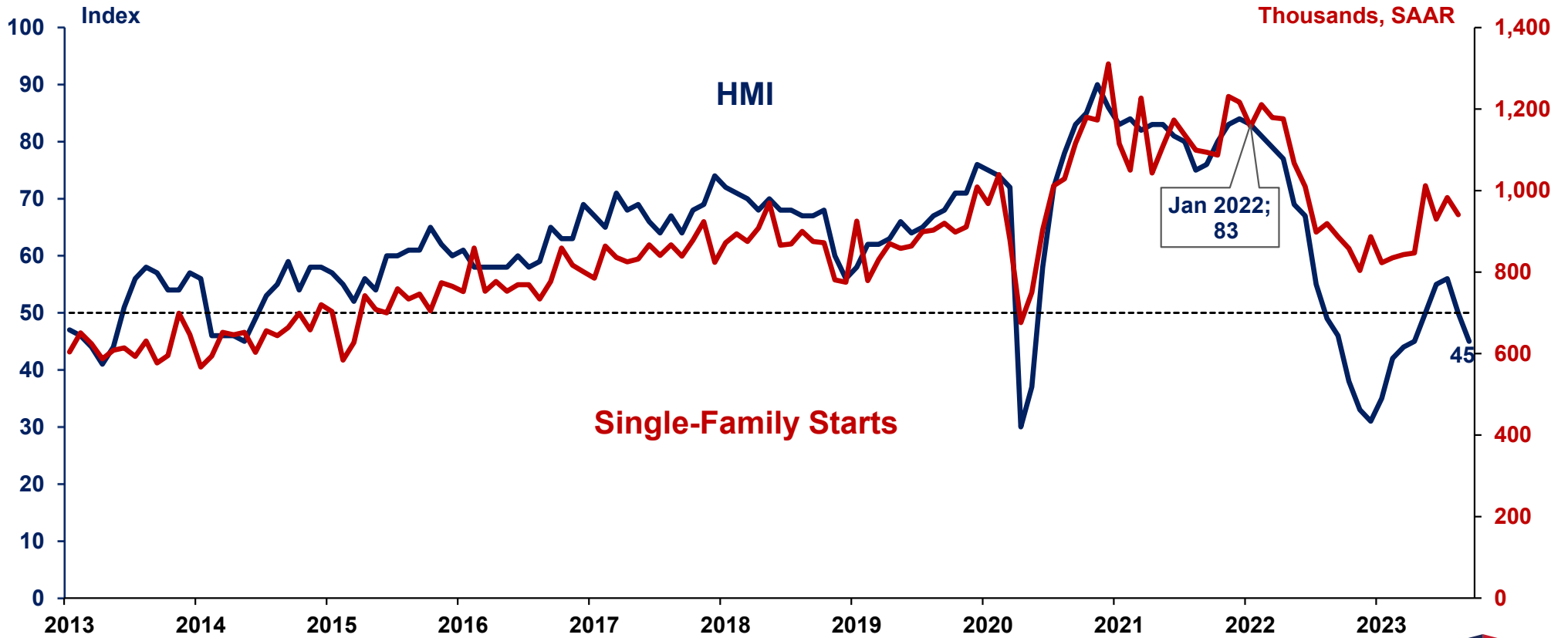


Construction Outlook



NAHB/Wells Fargo Housing Market Index (HMI)

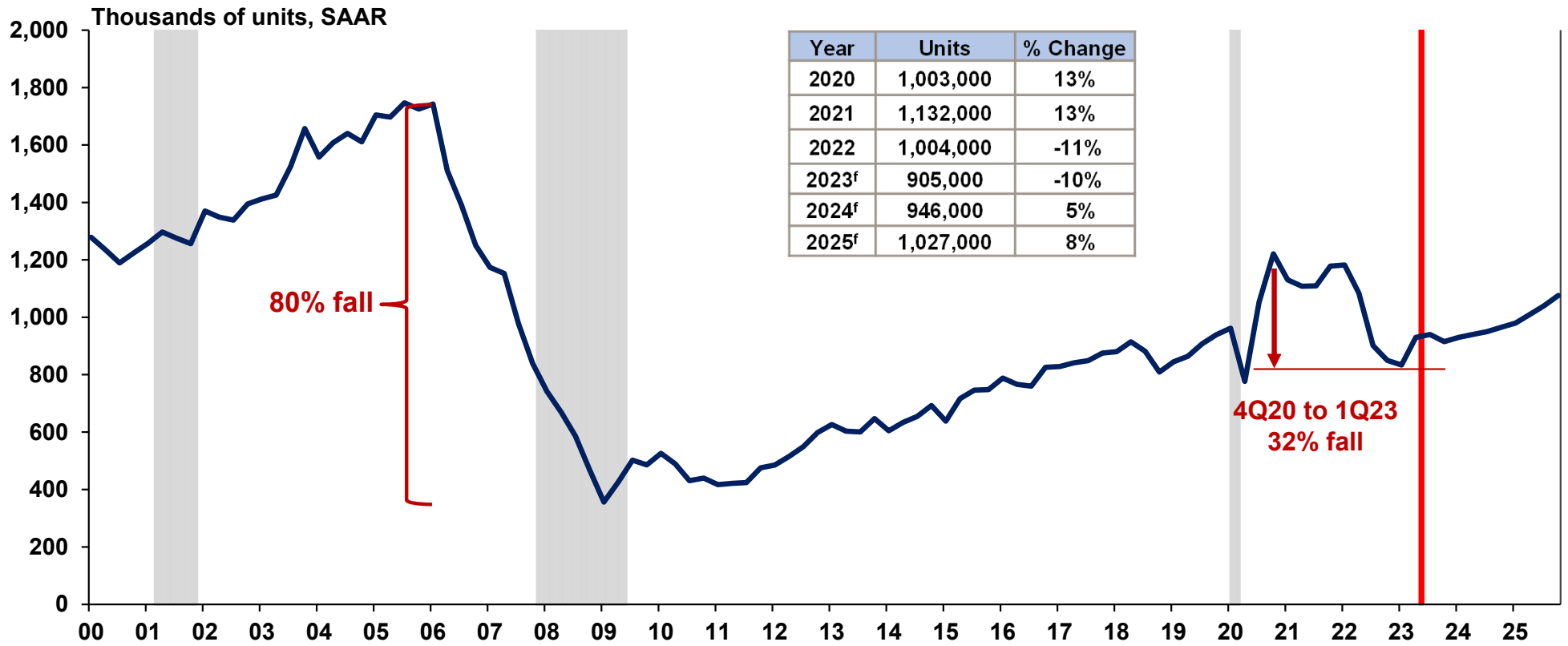
Builder confidence fell on rising mortgage rates



Source: Census Bureau and NAHB/Wells Fargo HMI survey

Single-Family Starts

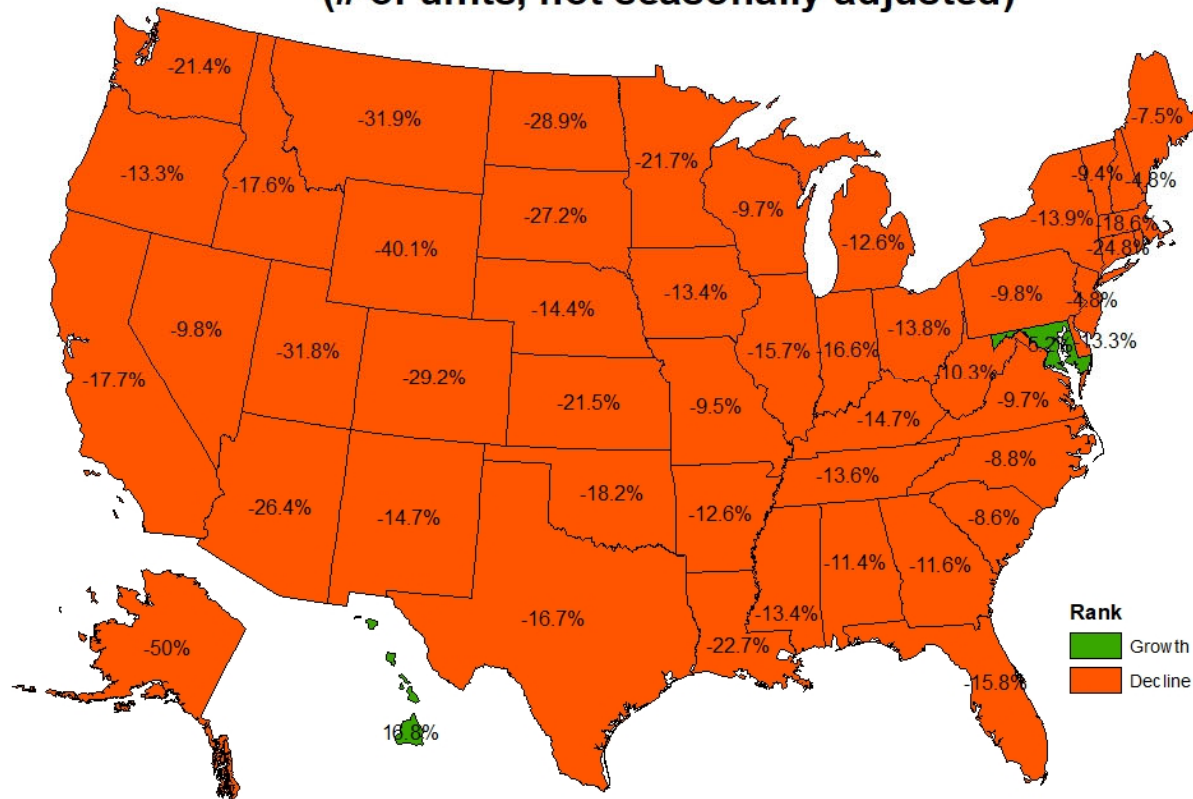
Construction to trend higher in the quarters ahead



Source: U.S. Census Bureau (BOC) and NAHB forecast

Growth in Single-Family Permits

Change in Single-Family Permits, Jan-Aug 2023 vs. Jan-Aug 2022
(# of units, not seasonally adjusted)



Source: U.S. Census Bureau (BOC).

Top 10 Largest Single-Family Markets by Permits

Top 10 Largest SF Markets	July 2023 (# of units YTD, NSA)	YTD % Change (compared to July 2022)
Houston-The Woodlands-Sugar Land, TX	29,687	-8%
Dallas-Fort Worth-Arlington, TX	24,088	-19%
Atlanta-Sandy Springs-Roswell, GA	14,417	-14%
Phoenix-Mesa-Scottsdale, AZ	13,302	-33%
Charlotte-Concord-Gastonia, NC-SC	11,174	-13%
Orlando-Kissimmee-Sanford, FL	10,020	-9%
Austin-Round Rock, TX	9,202	-39%
Nashville-Davidson--Murfreesboro--Franklin, TN	8,669	-17%
Tampa-St. Petersburg-Clearwater, FL	8,050	-22%
Raleigh, NC	7,639	-10%

Source: U.S. Census Bureau (BOC).



Medium-Term Outlook for Residential Construction

- *2024*
 - *Fed will ease, interest rates will normalize*
 - *Single-family home building will lead a recovery*
 - *Demand will return, but supply-side issues will increase*
 - *Lack of lots*
 - *AD&C availability*
 - *Building material constraints*
- *2025 through 2030*
 - *Demographics yield a good runway for home building growth*
 - *Structural housing deficit will be reduced*
 - *Single-family home building volumes near or above 1.1 million per year*
- *2030 and after*
 - *Declining demographics weaken multifamily and single-family demand*

Thank you

Questions?

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housingeconomics.com