



# Housing Market Update

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March 2024

Ivy Zelman, Executive Vice President

Please refer to the end of the slide presentation for disclosure information



## ■ Agenda

New Home Outlook 2024-25

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Single-Family Rental Data Slowly Decelerating

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Mortgage and Real Estate Services Outlook 2024-25

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Multifamily Trends Troubling

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Building Products Outlook

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Zelman & Associates' Macro Forecasts

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# New Home Outlook 2024-25

# New Home Outlook Key Takeaways

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- **Low-to-Mid Single-Digit Volume Growth Expected in 2024-25:**
  - Growth to be driven by community count expansion with absorptions (sales per community) holding steady.
  
- **Public Builders to Continue Taking Share:**
  - Public market share currently stands at 50% of national new home sales, up from 42% before the pandemic.
  
  - We expect this share to rise further to 53% in 2024. DHI, LEN, PHM and MTH have been the most-consistent share consolidators of late.
  
- **Net Pricing Expected to Inch Higher:**
  - Aided by the recent pullback in rates, we expect net new home prices to inch 1-2% higher per year through 2025.
  
  - Still, with absolute affordability constrained and roughly 10-15% above trendline, meaningful price growth is unlikely.

# New Home Outlook Key Takeaways

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- **Land a Likely Constraint on Stronger Growth:**

- If demand proves stronger than expected, land constraints will likely keep a lid on growth in the high single-digit to low double-digit range annually. From 2Q22 through 1Q23, public builders reduced lot count by 16%, which could have an impact on community count growth beginning in 2025.

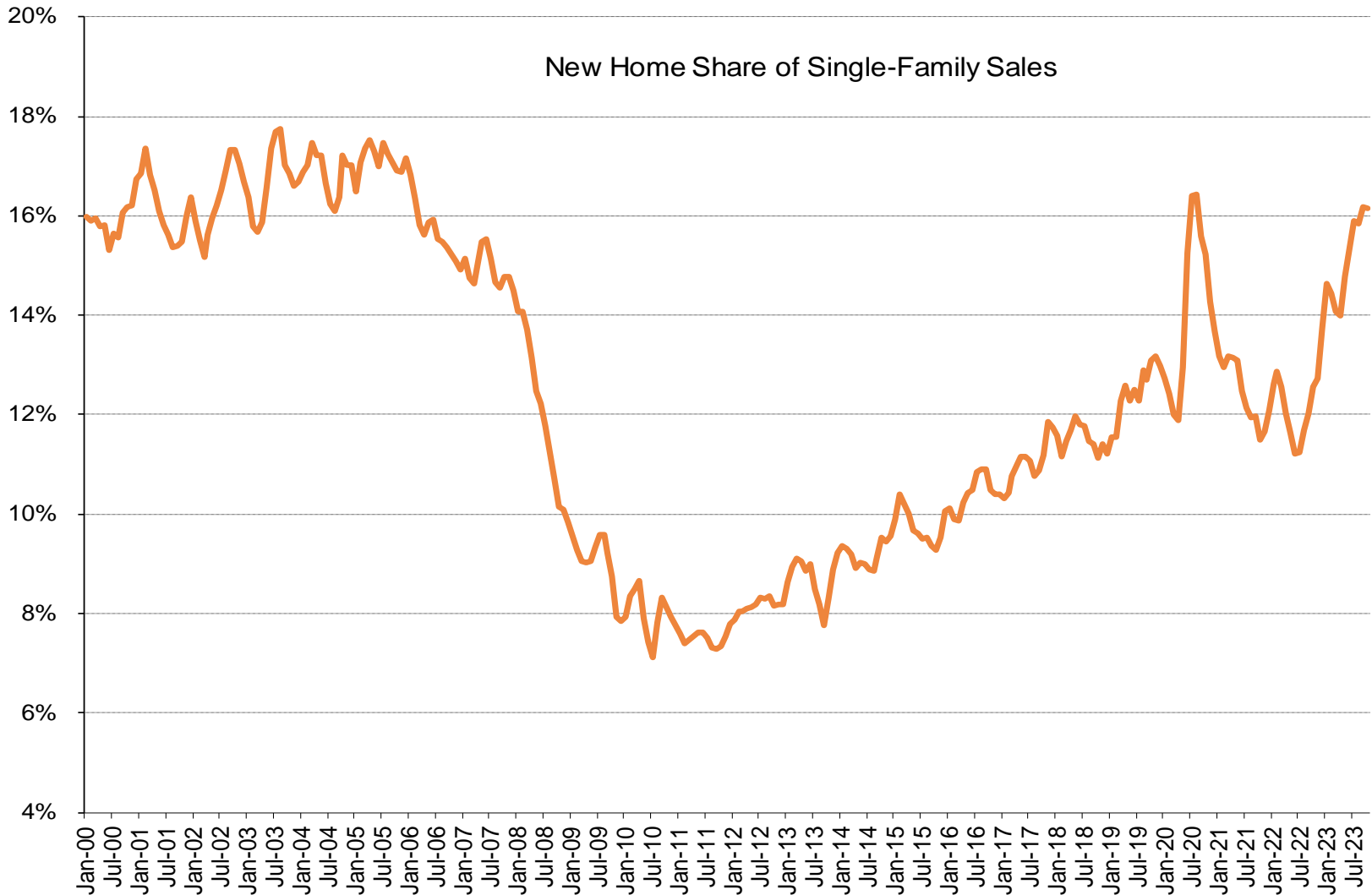
- **Higher Land Costs to Pressure Margins:**

- We estimate land prices and development costs inflated at a 20%-plus rate from early-2021 through mid-2022.
- As these higher land costs begin to flow through the P&L, we expect gross margins to continue to normalize to the 21-22% range from 24-25% currently, even if net home prices inch higher.

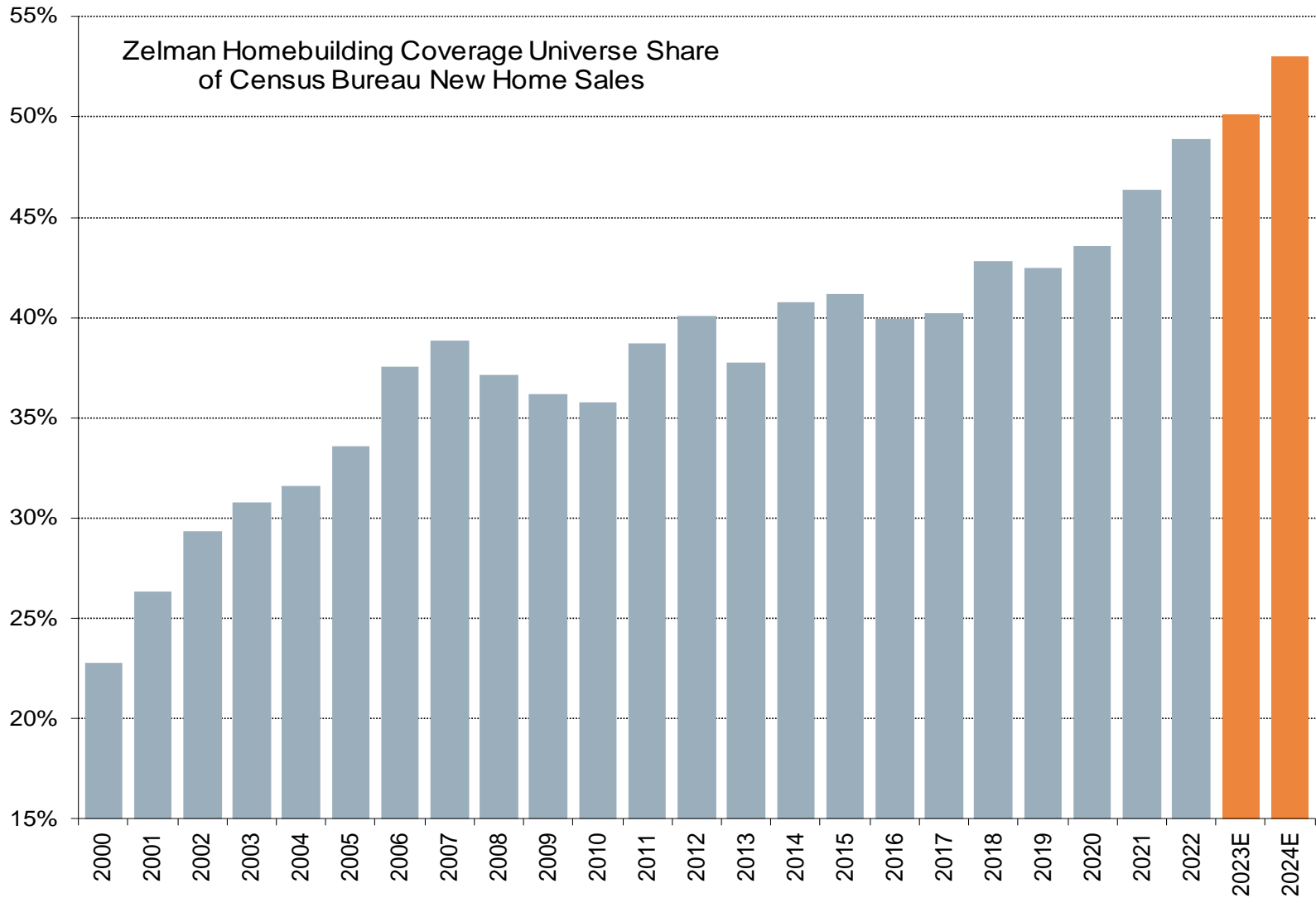
- **BFR Demand Has Waned, But Starts Activity Still Elevated:**

- BFR starts reaccelerated as a share of *total* SF starts in 4Q23 and the 22,000 units was highest in history. We believe this reflects deals inked in 2021-22, while demand for *new* deals has since waned significantly.

# Builders Have Capitalized on Tight Resale Market



# Share Gains Likely to Continue for Publics



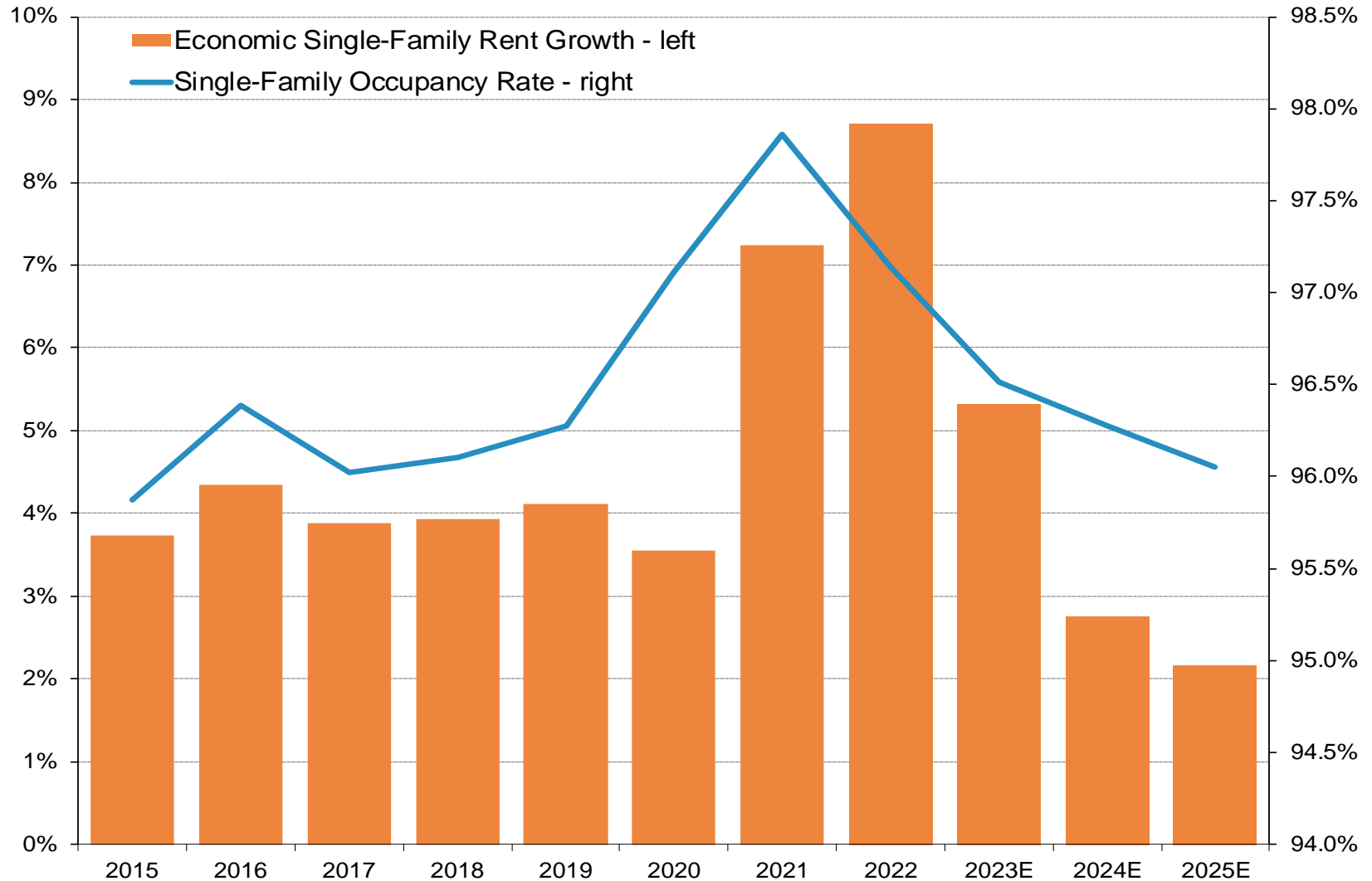


A row of modern houses with stone and blue siding under a clear blue sky. The houses feature gabled roofs with white trim and multiple windows. A large garage is visible on the left. The foreground shows a paved driveway and a sidewalk. The text "SFR Data Slowly Decelerating" is overlaid in white.

**SFR Data Slowly Decelerating**



# Expecting Multi-Year “Giveback” Period





# Mortgage & Real Estate Services Outlook 2024-25

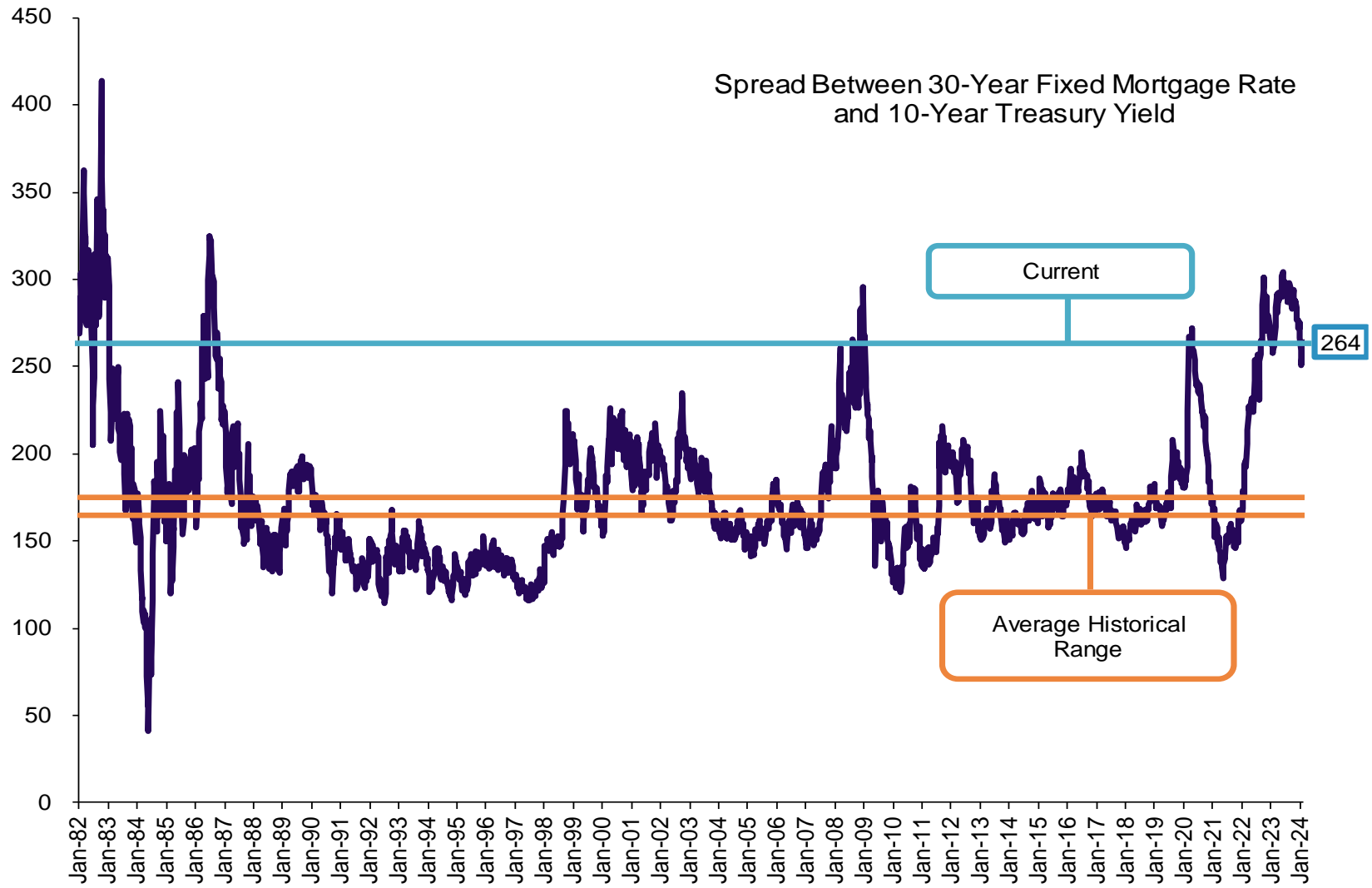
# Mortgage & Real Estate Services Outlook

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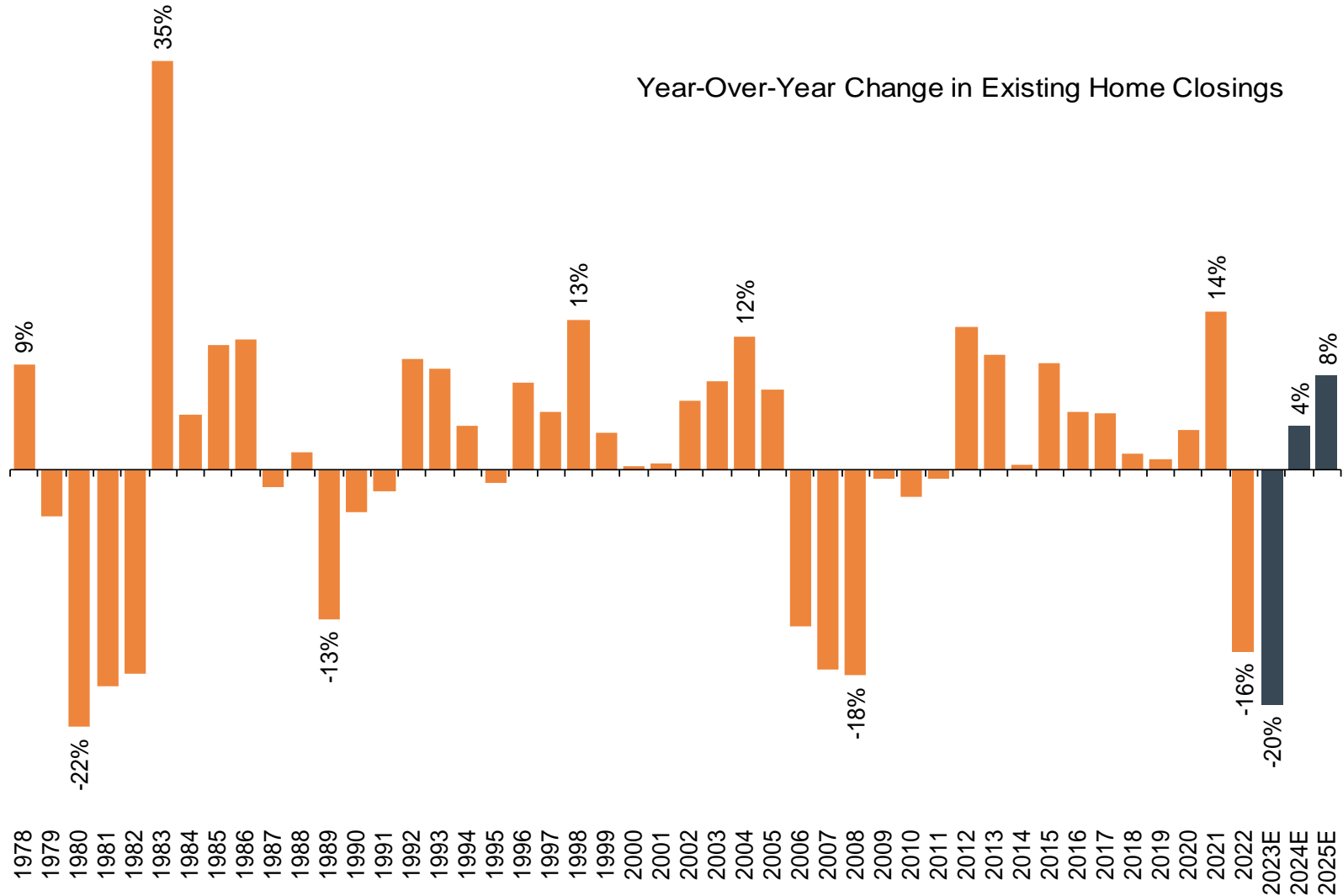
- **Mortgage Rates to Remain Critical Driver of Activity:**
  - In addition to the decline in the 10-year Treasury yield from its peak, mortgage spreads down 40-50 basis points from 2023's high.
  - Spread between prevailing and outstanding mortgage rates peaked in 4Q23; still historically wide, but likely continues to compress – supporting growth from depressed levels in 2024-25 existing home sales and originations.
- **Forecasting Mid-to-High Single-Digit Growth in 2024-25 EHS:**
  - Recovery in existing home sales as a % of households (turnover) likely to resemble 2012-13 recovery.
- **Low Inventory Has Benefited Pricing, But Inflecting Higher:**
  - Inventory still historically depressed but starting to rise year over year.
- **Affordability Still Stretched, Limiting Future Price Growth:**
  - Forecasting positive but below-average home price growth in 2024-25 as inventory drifts higher and affordability remains a challenge.



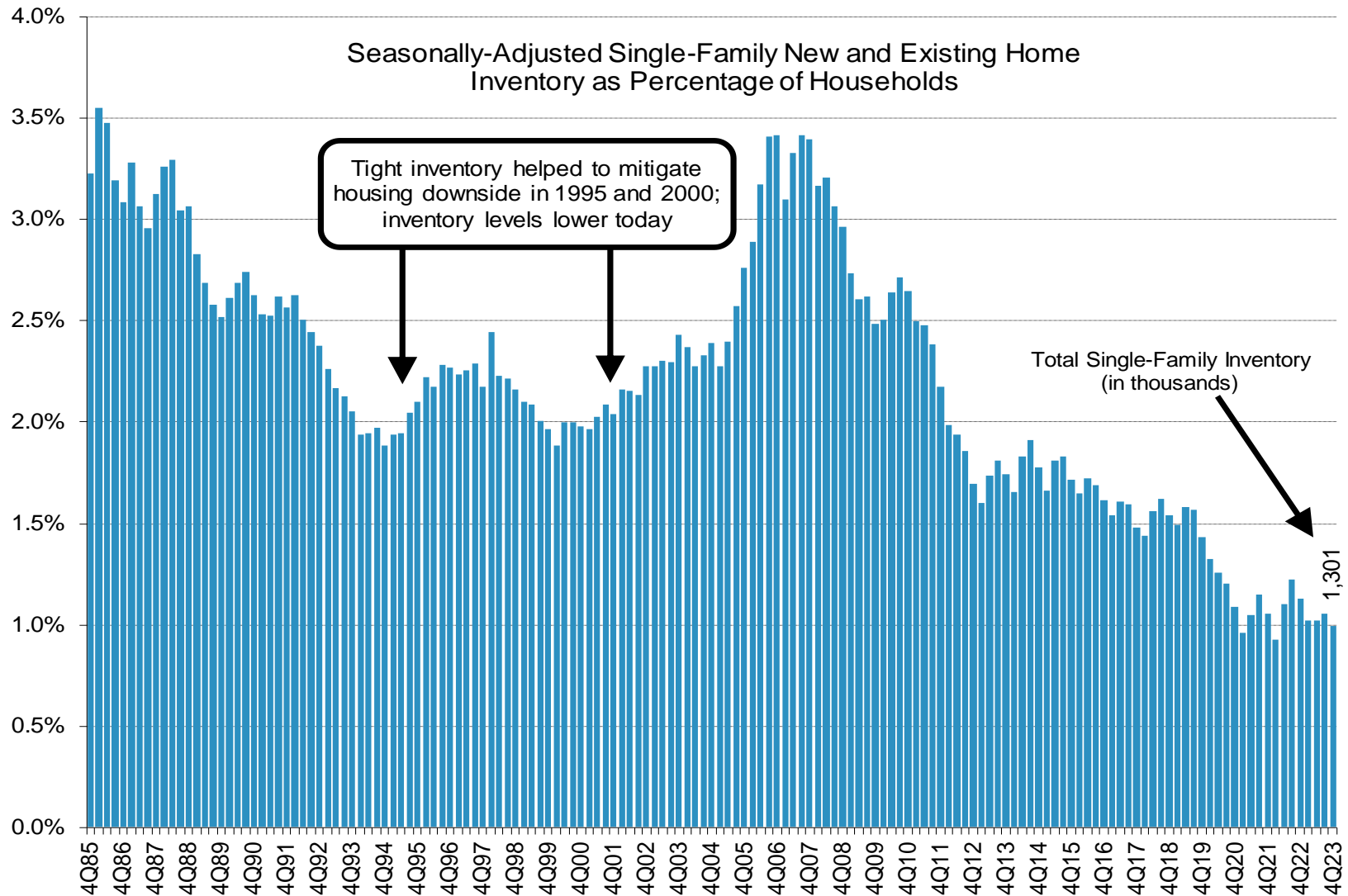
# Mortgage Spreads Down ~45 Bps From 2023 Highs



# Expecting Slow Rebound in Existing Home Sales

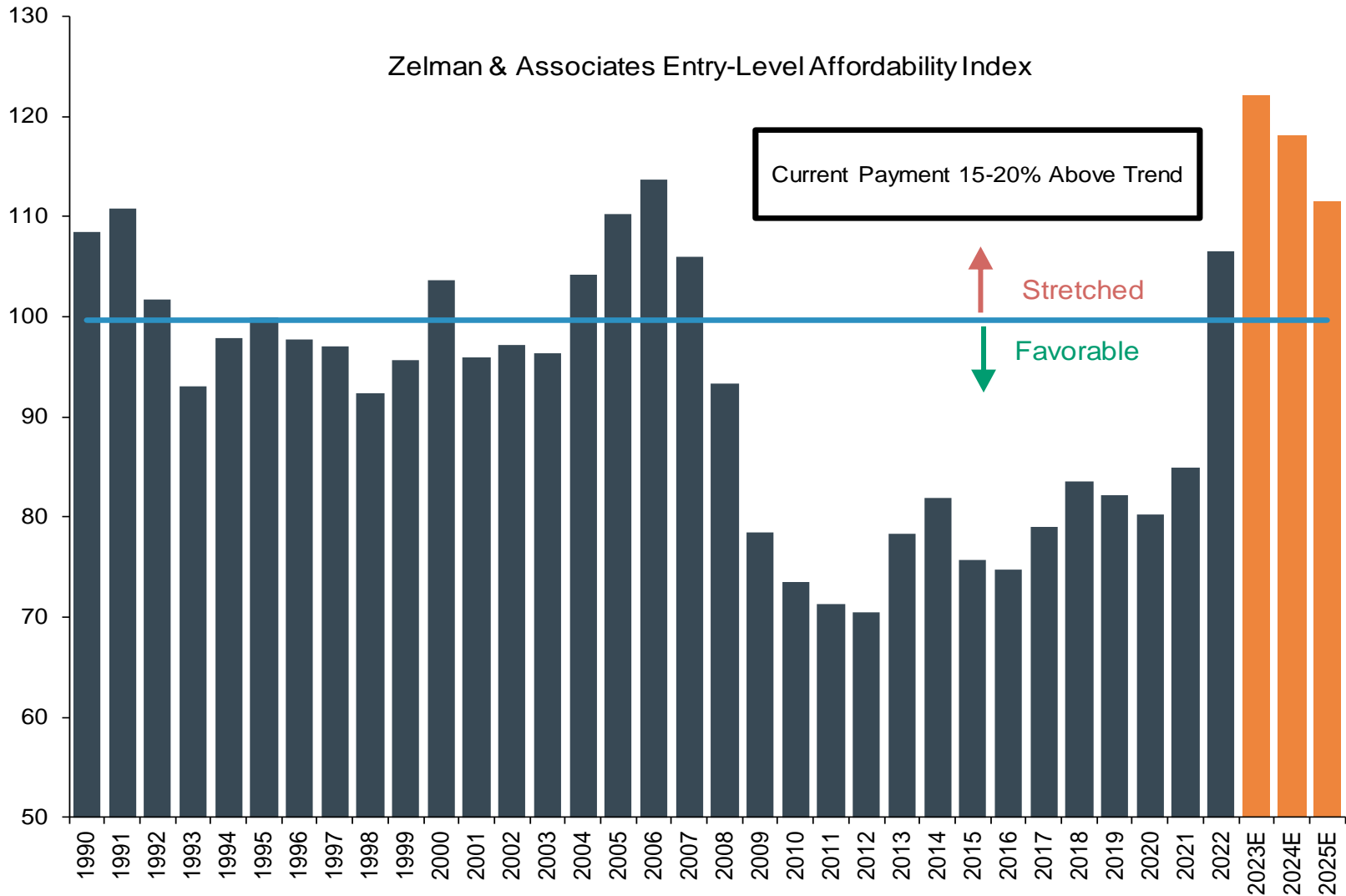


# Tight Inventory Has Benefitted Home Prices...





# High Rates, High Prices = Stretched Affordability





# Multifamily Trends Troubling

# Multifamily Outlook Key Takeaways

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- **Rent Growth Weak in 2024 and Possibly 2025:**
  - New move-in growth is markedly negative, and renewals remain relatively better, though they are decelerating as well. Given backlog, we don't foresee much rent relief until next year at the earliest.
  
- **Occupancy Struggling to Keep Up:**
  - Occupancy has risen in recent months but is still below recent average levels. Operators are focusing on retention at the expense of pricing power.
  
- **Supply Pipeline Looming, Starts Decelerating but Slowly:**
  - Construction backlog stands above one million units which will deliver in the next 24 months, the two largest delivery years since the late 1980s.



# Multifamily Outlook Key Takeaways

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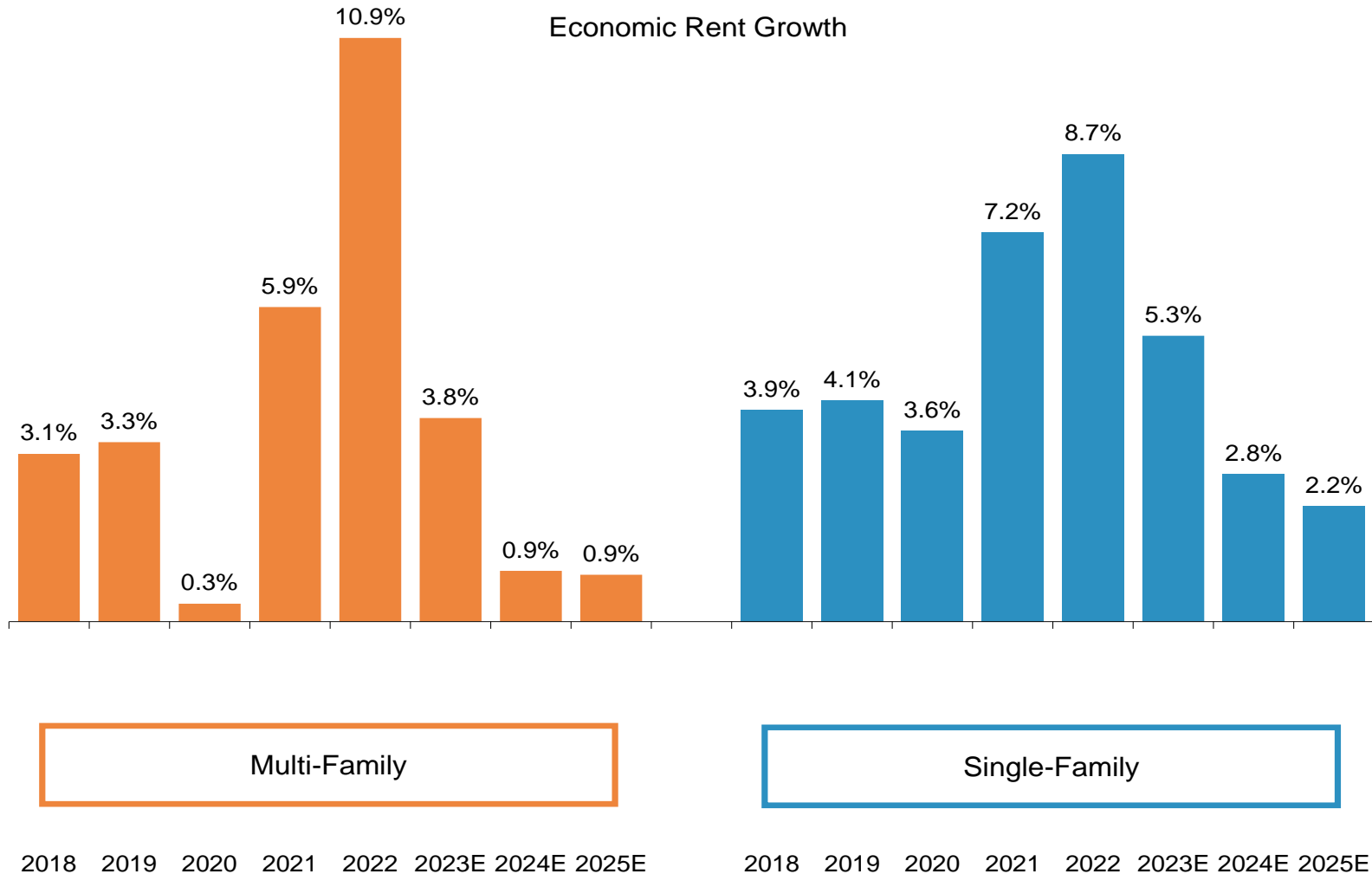
- **Demand Inflecting Higher from Recent Lows:**

- Demand has been strong, but supply has been stronger. This balance is most sensitive to market-by-market dynamics. The Sun Belt oversupply story is real, reflected in rent growth, while Midwest and Northeast are faring better.

- **Transaction Market Waiting on Values:**

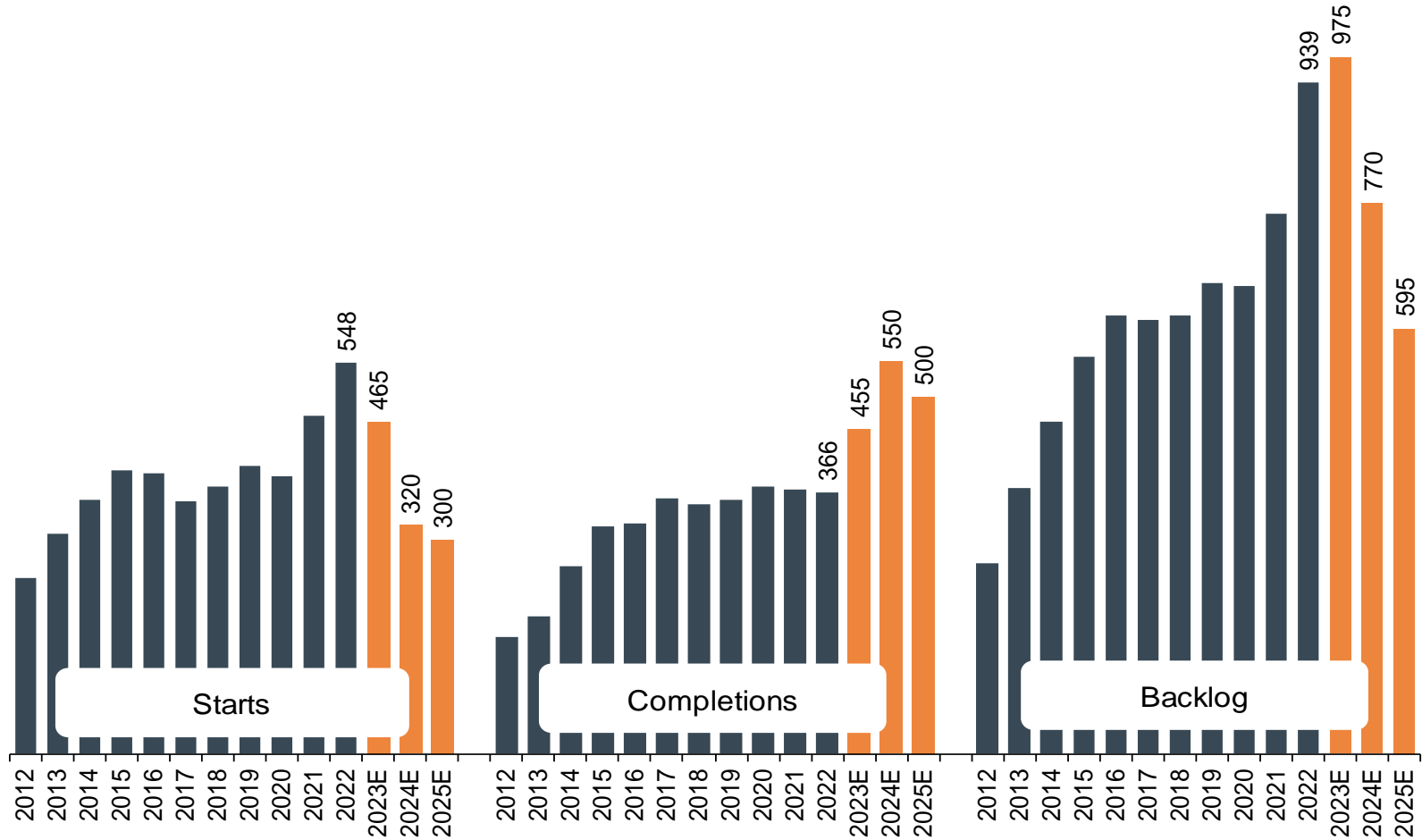
- Cap rates remain elevated as the bid-ask spread is still too wide to motivate more sellers.
- However, given an expected acceleration in debt maturities, we believe this will further pressure valuations with the increased transaction volume.

# Outsized Rent Growth to Unwind by 2024



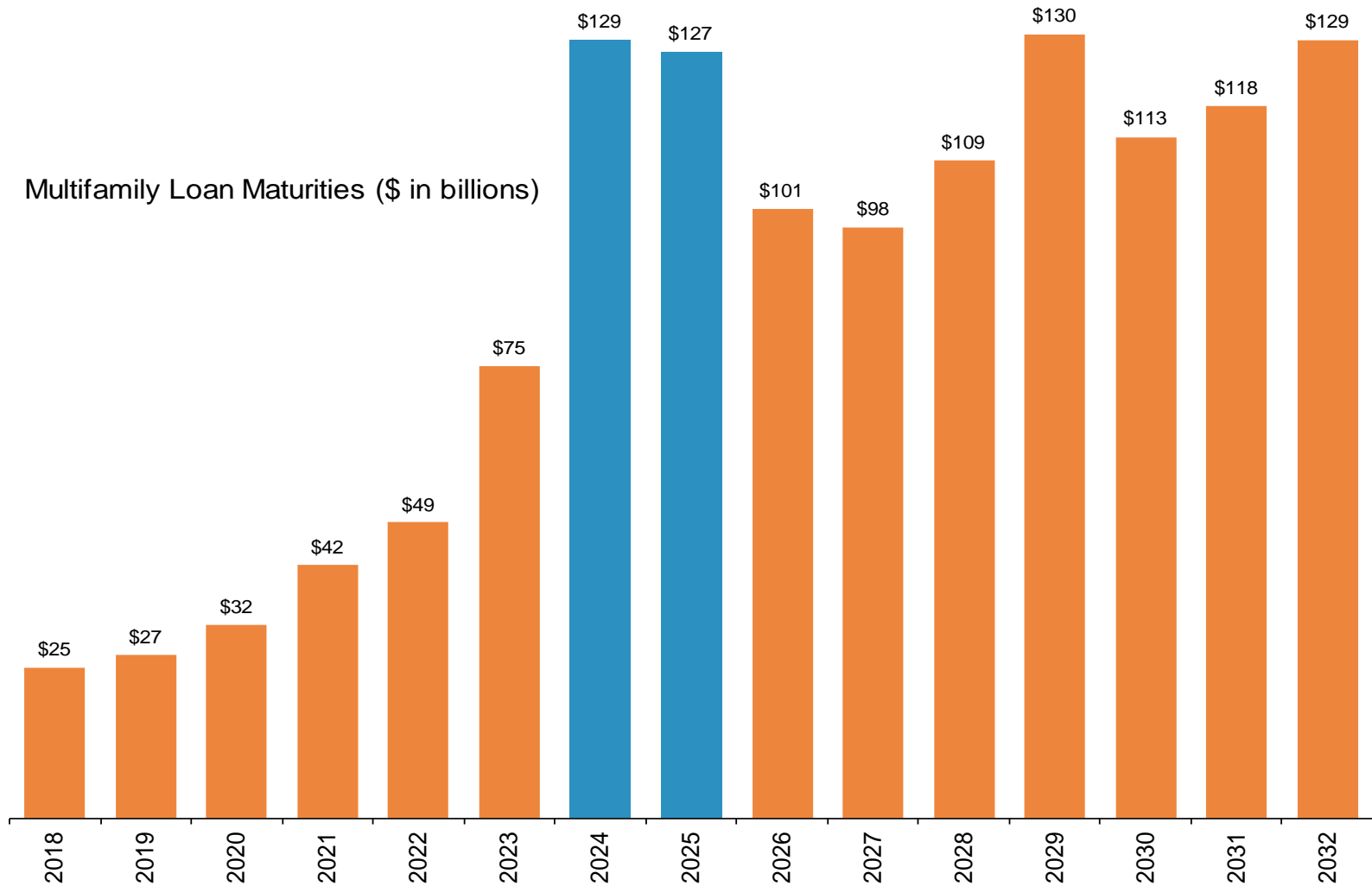
# Starts Falling to Cycle Low, Supply Remains High

Multi-Family Construction - Units in Thousands

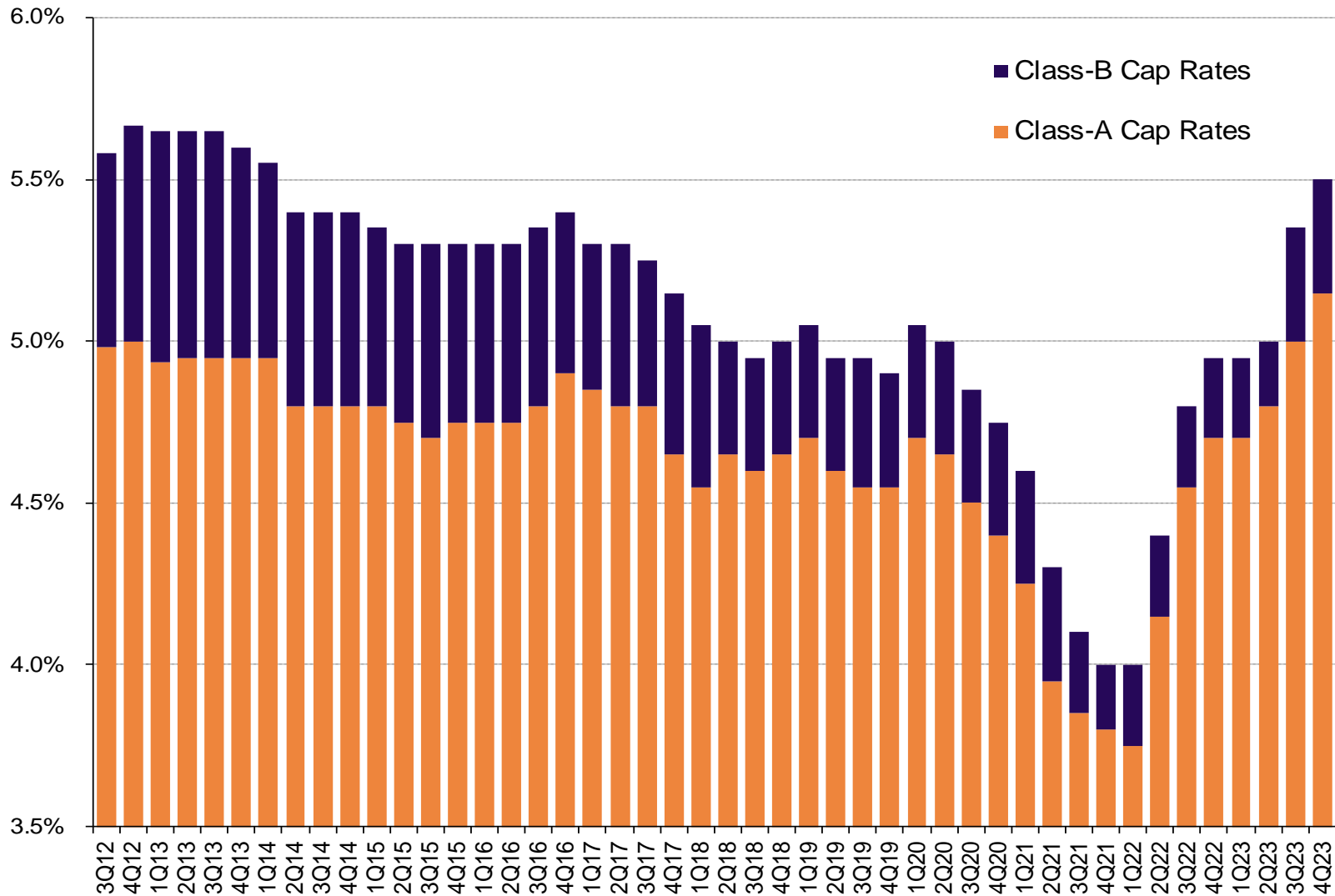




# Wall of MF Maturities a Contributing Factor



# Supply Could Push Cap Rates Higher



# Building Products Outlook



# Building Products Outlook, Key Takeaways

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## ▪ **Residential Markets to Lead the Recovery in 2024-25:**

- In 2024-25, given the lag to increased single-family starts activity in 2023 and year to date, we expect suppliers to report growth in the new residential channel after mid-single-digit declines last year.
- Home improvement demand is expected to be roughly flattish in 2024 due to still-down 1H24 volumes as share-of-wallet normalizes, with a recovery beginning in 2H24 into 2025, returning to low-single-digit growth.

## ▪ **Non-Residential Markets to Decline Over the Next Two Years:**

- Due to a slowdown in design/bidding activity in 2023 from high interest rates and tighter lending standards, which lead non-residential construction by 12 months, we forecast non-residential volume declines of 3-4% in 2024-25.

## ▪ **Pricing Has Flattened, Outlook for Increases Mixed:**

- Overall pricing for companies ended 2023 flat year over year. Going forward, while some companies may realize modest price increases in 2024, there is the risk that pricing remains flat annually for the first time since 2008-09.



# Building Products Outlook, Key Takeaways

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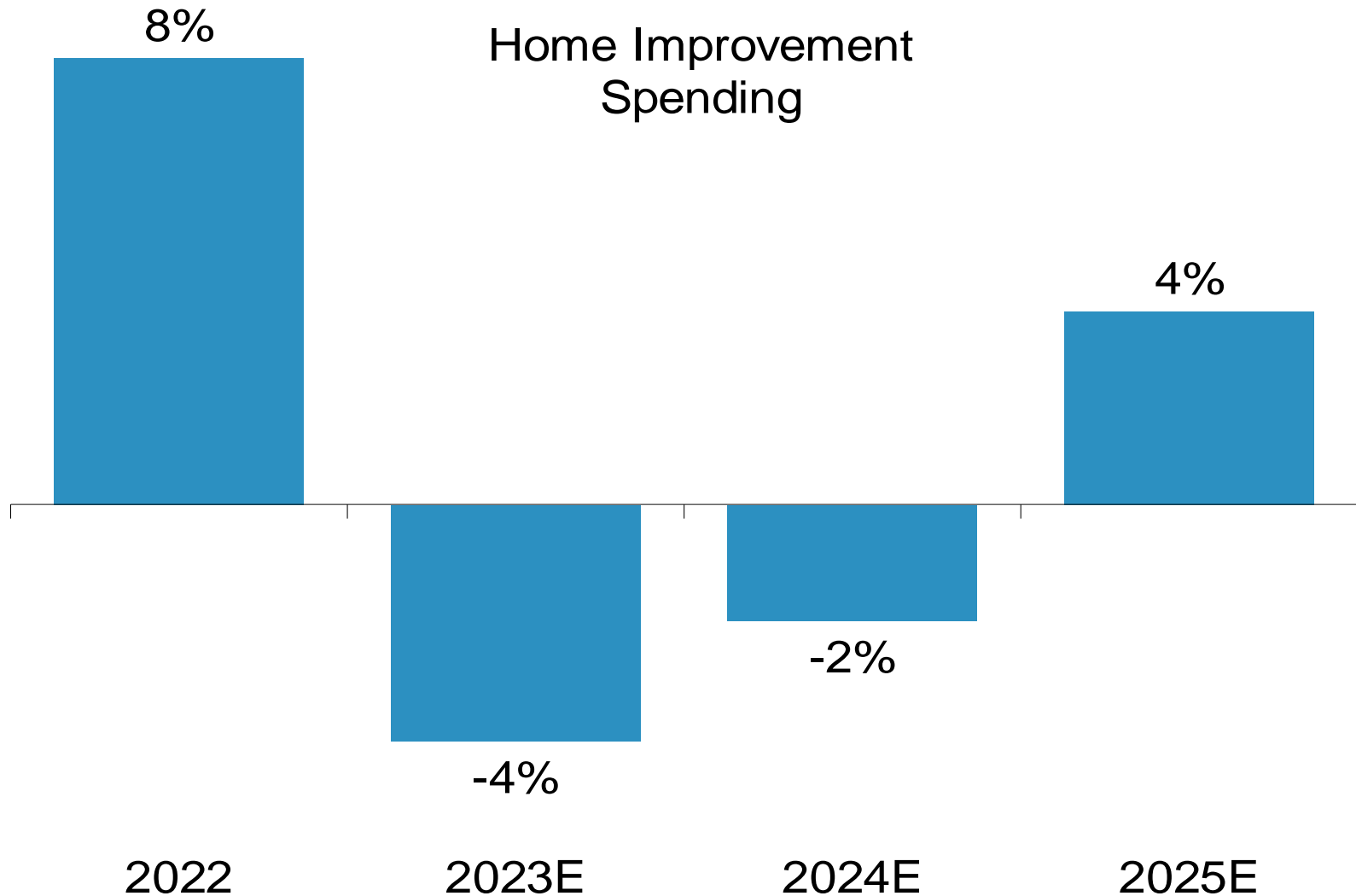
- **Sustainability of Margins Will be Put to the Test:**

- Despite volume pressure, companies delivered strong margins in 2023 due to positive price/cost and operating efficiencies. However, many of those factors are dissipating, leading to concerns around continued positive momentum.

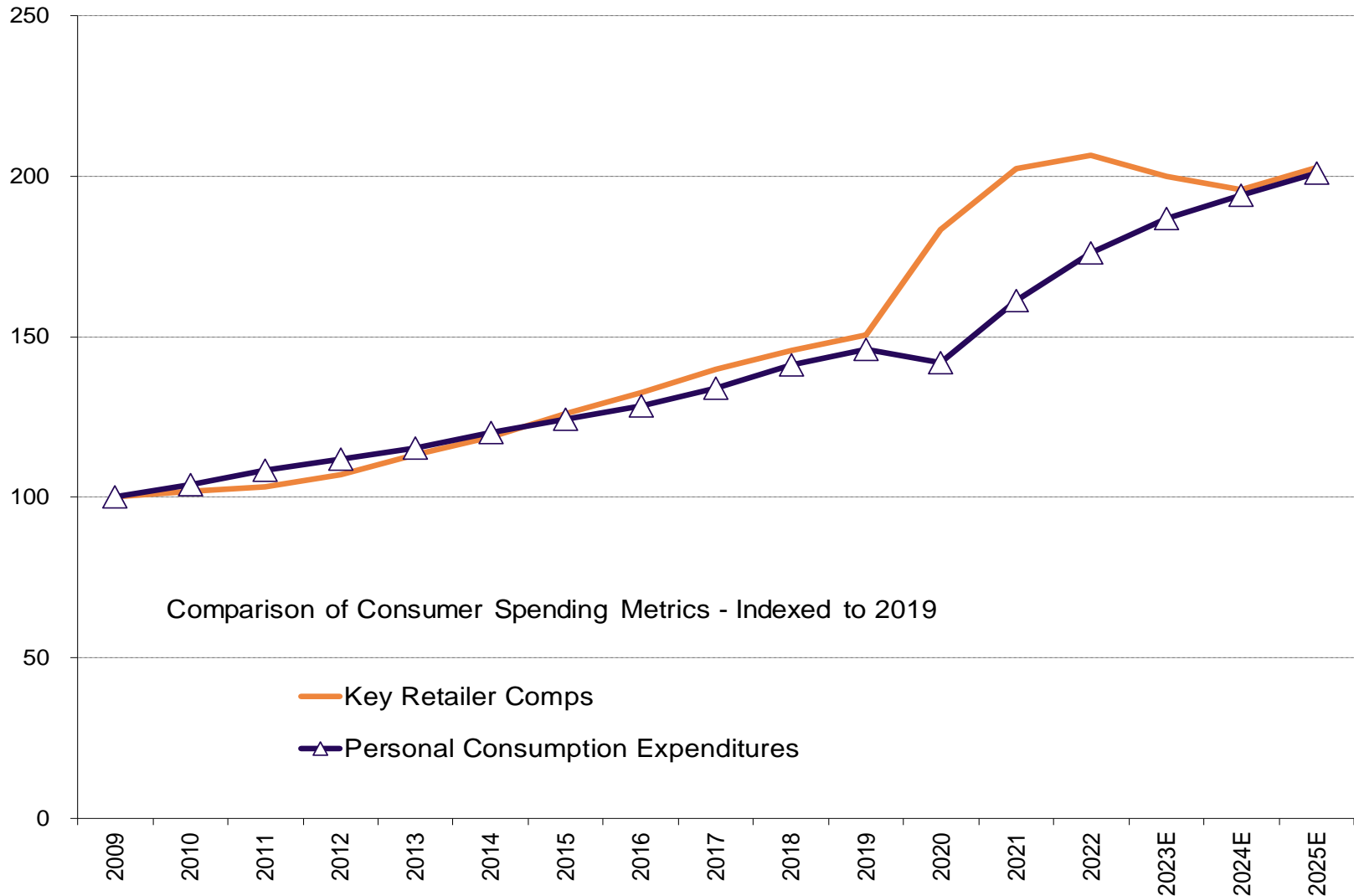
- **Channel Inventories in Good Position:**

- After facing headwinds from destocking and more cautious inventory management since mid-2022, the channel inventory backdrop for suppliers is much more favorable heading into 2024.
- Therefore, we expect sell-out to be aligned with sell-in and see the potential for restocking if demand picks up throughout the year.

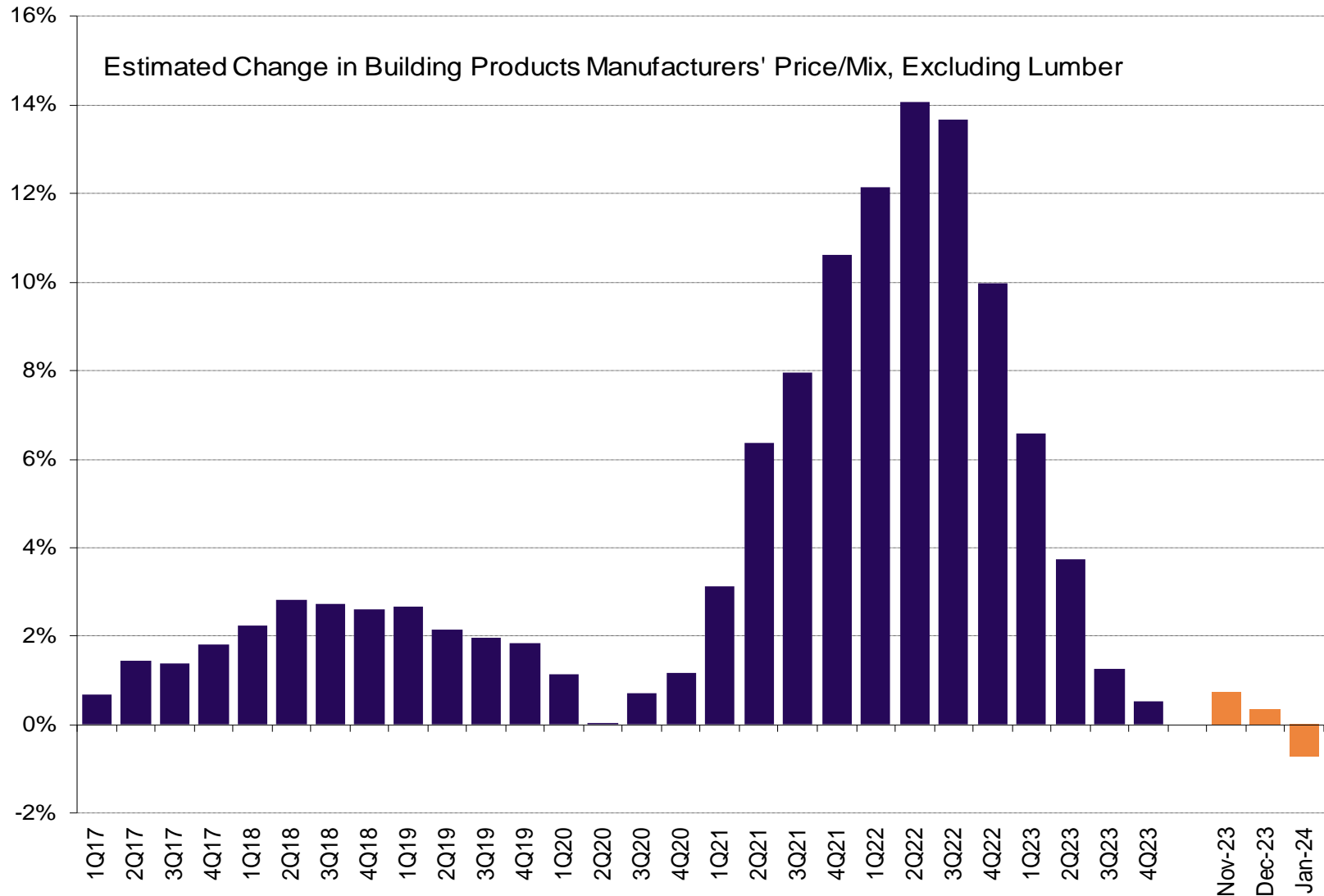
# Recovery in Home Improvement Expected in 2H24



# Abnormal Pandemic Growth Normalized by 2025



# Price/Mix Has Flattened After Significant Increases





The background of the slide is a dark blue financial chart. It features a line graph with a jagged, upward-trending line in a light yellowish-gold color. The chart has a grid of horizontal and vertical lines. At the top, there are labels '1m', '3m', and '6m' in a light blue font. At the bottom, there is a bar chart with many thin, vertical bars in a light yellowish-gold color. The overall image has a textured, slightly grainy appearance.

# **Zelman & Associates' Macro Forecasts**

# Summary of Select Macro Housing Forecasts

	2019	2020	2021	2022	2023E	2024E	2025E
30-Year Fixed Mortgage Rate	3.94%	3.11%	2.96%	5.33%	6.80%	6.40%	6.10%
Private Residential Investment Growth	2%	11%	23%	2%	-3%	-3%	-1%
Housing CPI Inflation	3.4%	2.9%	2.5%	5.8%	7.6%	4.6%	1.7%
Existing Home Closings Growth	1%	4%	14%	-16%	-20%	4%	8%
Production New Home Orders	685	833	769	637	675	695	730
Single-Family Starts	888	989	1,126	1,005	950	980	1,020
Single-Family Completions	904	911	970	1,021	1,000	1,055	1,070
Multi-Family Rental Revenue Growth	3.6%	-0.2%	7.0%	10.5%	2.7%	0.8%	1.2%
Single-Family Rental Revenue Growth	4.3%	4.4%	8.1%	7.9%	4.7%	2.5%	2.0%
Existing Home Price Appreciation	4.8%	10.7%	17.5%	6.0%	6.1%	1.4%	2.0%
New Home Price Appreciation	3.8%	8.9%	12.5%	0.3%	0.7%	0.8%	2.0%
Building Products Revenue Growth	1.4%	2.2%	14.2%	10.1%	-3.8%	-1.0%	1.7%
Purchase Mortgage Dollar Origination Growth	8%	19%	25%	-14%	-20%	7%	10%
Refinance Mortgage Dollar Origination Growth	125%	152%	-3%	-74%	-58%	31%	54%

Note: Estimates published between December 20<sup>th</sup> and December 22<sup>nd</sup>, 2023

# Zelman & Associates Equity Research Team

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# Disclosure

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## Price Charts:

For charts containing rating and price target information of covered companies, please contact Zelman & Associates via phone at 212-993-5840 or mail at 27101 East Oviatt Road, Suite 14, Bay Village, OH 44140.

## As of October 6, 2023, Zelman & Associates' Ratings are defined as follows:

OUTPERFORM – The security is expected to outperform the relevant benchmark\* within the next 12 months.

NEUTRAL – The security is expected to perform in line with the relevant benchmark\* within the next 12 months.

UNDERPERFORM – The security is expected to underperform the relevant benchmark\* within the next 12 months.

*\* Relevant benchmark: Ratings are based on a stock's total return relative to Zelman & Associates' industry sector universe\*\*, which consists of all companies covered by Zelman & Associates within the relevant sector (further specified below).*

## Zelman & Associates Ratings System prior to October 6, 2023:

BUY: The security is deemed under-priced by at least 10-15% relative to fair value.

HOLD: The security is priced within approximately 10% of fair value.

SELL: The security is deemed over-priced by at least 10-15% relative to fair value.

Industry sector weightings are distinct from Zelman & Associates' stock ratings and are based on Zelman & Associates' expectations for the fundamentals and/or valuation of the sector relative to S&P 500. An industry coverage sector consists of all companies covered by Zelman & Associates within the relevant sector.

OVERWEIGHT: Zelman & Associates' expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

MARKET WEIGHT: Zelman & Associates' expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

UNDERWEIGHT: Zelman & Associates' expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

## Zelman & Associates Distribution of Investment Ratings as of 12/31/2023:

OUTPERFORM/BUY: (38.6%; 0.0% Investment Banking Clients)

NEUTRAL/HOLD: (36.4%; 0.0% Investment Banking Clients)

UNDERPERFORM/SELL: (25.0%; 9.1% Investment Banking Clients)

*\*While the investment recommendations within the three-tiered, relative stock rating system used by Zelman & Associates do not directly correlate to buy, hold and sell recommendations, for the purposes of the FINRA ratings distribution disclosure requirement, our stock ratings of outperform, perform and underperform most closely correspond buy, hold and sell, respectively, as our stock ratings are determined on a relative basis.*

# Disclosure

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\*\*Below is a list of the Zelman & Associates' industry sectors that are currently weighted along with the list of companies covered by Zelman & Associates that constitute each "industry sector universe":

## **Mortgage & Real Estate Services**

Anywhere Real Estate (HOUS)  
Compass (COMP)  
Opendoor Technologies (OPEN)  
RE/MAX Holdings (RMAX)  
Redfin (RDFN)  
Rocket Companies (RKT)  
Zillow Group (Z)

## **Homebuilding**

Beazer Homes (BZH)  
Century Communities (CCS)  
D.R. Horton (DHI)  
Dream Finders Homes (DFH)  
Five Point Holdings (FPH)  
Hovnanian Enterprises (HOV)  
KB Home (KBH)  
Lennar (LEN)  
M.D.C. Holdings (MDC)  
M/I Homes (MHO)  
Meritage Homes (MTH)  
NVR (NVR)  
PulteGroup (PHM)  
Taylor Morrison (TMHC)  
Toll Brothers (TOL)  
Tri Pointe Homes (TPH)

## **Single-Family Rental**

American Homes 4 Rent (AMH)  
Invitation Homes (INVH)

## **Building Products**

American Woodmark (AMWD)  
Armstrong World Industries (AWI)  
AZEK Company (AZEK)  
Beacon Roofing Supply (BECN)  
Builders FirstSource (BLDR)  
Carlisle Companies (CSL)  
Ferguson (FERG)  
Fortune Brands Innovations (FBIN)  
Installed Building Products (IBP)  
Masco (MAS)  
MasterBrand (MBC)  
Mohawk Industries (MHK)  
Owens Corning (OC)  
Sherwin-Williams (SHW)  
Stanley Black & Decker (SWK)  
TopBuild (BLD)  
Trex Company (TREX)

## **Homecenters**

Lowe's Companies (LOW)  
The Home Depot (HD)



# Disclosure

## Zelman & Associates Research Disclosures as of:

February 29, 2024

Company	Ticker	Rating	Price	Disclosure
American Homes 4 Rent	AMH	Underperform	\$37.01	None
American Woodmark	AMWD	Outperform	\$100.24	1
Anywhere Real Estate	HOUS	Underperform	\$6.27	None
Apartment Income REIT	AIRC	Not Rated	\$30.32	None
Armstrong World Industries	AWI	Outperform	\$120.61	None
AvalonBay Communities	AVB	Not Rated	\$177.03	None
AZEK	AZEK	Neutral	\$48.11	None
Beacon Roofing Supply	BECN	Underperform	\$85.89	None
Beazer Homes	BZH	Outperform	\$31.33	1
Builders FirstSource	BLDR	Outperform	\$195.18	1
Century Communities	CCS	Underperform	\$86.29	1
Camden Property Trust	CPT	Not Rated	\$94.48	None
Carlisle Companies	CSL	Underperform	\$350.00	1
Compass	COMP	Outperform	\$3.95	None
Dream Finders Homes	DFH	Underperform	\$39.13	1, 2
D.R. Horton	DHI	Outperform	\$149.44	None
Equity Residential	EQR	Not Rated	\$60.21	None
Essex Property Trust	ESS	Not Rated	\$231.40	None
Ferguson	FERG	Outperform	\$211.45	None
Five Point Holdings	FPH	Neutral	\$3.27	None
Fortune Brands Innovations	FBIN	Outperform	\$81.34	1
Hovnanian Enterprises	HOV	Neutral	\$156.66	1
Installed Building Products	IBP	Neutral	\$238.93	1
Invitation Homes	INVH	Outperform	\$34.07	None
KB Home	KBH	Outperform	\$66.43	1
Lennar	LEN	Outperform	\$158.51	1
Lowe's Companies	LOW	Outperform	\$240.67	None
M.D.C. Holdings	MDC	Neutral	\$62.70	1
M/I Homes	MHO	Neutral	\$126.99	1
Masco	MAS	Neutral	\$76.76	None
MasterBrand	MBC	Neutral	\$17.31	1
Meritage Homes	MTH	Outperform	\$157.66	1
Mid-America Apartment Communities	MAA	Not Rated	\$125.68	None
Mohawk Industries	MHK	Underperform	\$118.62	None
NVR	NVR	Neutral	\$7,625.57	None
Opendoor Technologies	OPEN	Neutral	\$3.08	None
Owens Corning	OC	Underperform	\$149.78	None
PulteGroup	PHM	Neutral	\$108.38	1
Redfin	RDFN	Neutral	\$7.11	None
RE/MAX Holdings	RMAX	Underperform	\$8.53	1
Rocket Companies	RKT	Outperform	\$12.56	None
Sherwin-Williams	SHW	Neutral	\$332.03	None
Stanley Black & Decker	SWK	Outperform	\$89.29	1
Taylor Morrison	TMHC	Underperform	\$56.61	1
The Home Depot	HD	Underperform	\$380.61	None
Toll Brothers	TOL	Outperform	\$114.64	1
TopBuild	BLD	Neutral	\$402.38	None
Trex	TREX	Neutral	\$91.76	None
TRI Pointe Homes	TPH	Underperform	\$35.38	None
UDR	UDR	Not Rated	\$35.50	None
Zillow Group	Z	Outperform	\$56.15	None

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# Disclosure

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