Insiders Edge

THE BUZZ

MarketGraphics Research Group, Inc.

Economic & New Home Industry Perspectives From Key Industry Leaders

July 2023

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BUILDERS ASSOCIATION of GREATER INDIANAPOLIS

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Get the Insider Edge on the home building industry!
Stay ahead of the game with the Insider Edge from MarketGraphics. Being proactive and staying informed about the latest market trends is one of the best ways to keep your business thriving. Check out this resource for industry updates, extensive data, and more to help you keep up with housing trends. Make informed decisions for your business with valuable insider insight!

Steve Lains, CEO
Builders Association of Greater Indianpolis

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The latest data from all markets is aggregated to provide a truly "big picture" of the housing market.

Insights & Perspectives

KEY INDUSTRY LEADERS

JEFF HOLLINGSHEAD

SMYRNA READY MIX

Multi State Concrete Supplier

The economy continues to surprise to the upside. Even with the head wind of rising rates, the consumer continues to spend money, and for the most part, the economy remains strong. Obviously, we are not out of the woods yet. The Fed has offered mixed signals as to their intentions to raise rates again in their fight against inflation. It seems, regardless of the Fed's decision, the economy will remain steady.

There are segments that have obviously been more impacted than others. Residential being one of them. While residential homes sales have slowed, we are starting to see an uptick in building, especially in the southeast. Our southeastern markets have remained steady throughout this year, and we have no reason to believe it will not remain steady throughout the rest of the year.

While residential has been impacted by the rising rate environment, commercial and DOT projects haven't been. These segments for us have been very busy, especially when looking at the growth of electric vehicles across the country.

While I don't believe we are out of the woods yet, the economy as a whole is a lot better than most would have predicted six to nine months ago. I remain cautiously optimistic as we look at the second half of the year.

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RED SEAL HOMES

Single Family Attached Home Builder

The Davidson County townhome market is benefitting from ongoing limited supply on the used home side as well as limited production of new townhomes. Buyers are facing a healthy choice to save money and move further away from Metropolitan Nashville or pay the premium that closer in locations demand.

The challenge going forward in the short run is mortgage interest rates. Sales were running from healthy to robust from December to early June as rates stayed below 6.6%.

With the threat of an additional 50 basis points of increases in short term rates on the horizon and a deluge of supply in the treasury market, we may have another 6+ month stretch of rates at shutdown levels as we saw from July to December of 2022. The risk this time is that spec inventory will begin to weigh on the market as we can build faster today than in 2022 because of normalization of supply chains.

To conclude, the townhome market is hanging in there for now, but there are some rain clouds on the horizon. Let's see what the rest of the year brings!

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BSB DESIGN, INC. – TAMPA

Architecture

Perspective on New Housing & Build for Rent Trends

It's been pretty amazing over the last couple of years how many new developments are "Build for Rent" as opposed to traditional "for-sale" communities. I suppose that mostly revolves around the ability to get into a new home without a mortgage and the flexibility for more mobility if and when the residents decide to move on, without the hassle of selling.

We are involved in a variety of BfR communities and on the surface, there is no distinctive difference that would suggest you are not in a for sale community. The homes are market comparable, and the amenities include clubhouses, pools, dog parks, walking trails, and a very good sense of "Place" The housing also includes townhomes, duplexes, and stacked flats. The construction types range from traditional to modular and pre-fab, which is gaining in popularity due to its controlled building environment and boost in quality construction and control.

I suppose time will tell whether this is a passing trend or here to stay. The option to sell is always on the mind for the future in case market trends support that switch and if it is in the best interest of the development. But for now, Build for Rent ranks very high with our Client Base and we see no end in the immediate future.

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1, 2, 3 – Silicon Valley Bank, CA; Signature Bank, NY; First Republic Bank, CA – who thought banks could fail so quickly today?!

13,14,15 – Consecutive rate hikes implemented by the FED!! The cost of EVERYTHING is up!!

In the community banking sector today, we are dealing with the fallout of the these events every day.

Just like that, the economics of banking took a major turn in the second quarter. The FED's rate increases have had the desired effect of pushing consumer and commercial interest rates up. Nowhere is this more evident than in mortgage rates, which have moved from the mid 3%'s into the mid 7%'s. A $400,000 loan at 4% in 2021 carried a principal and interest payment of $1,910. Today, that same loan requires a principal and interest payment of $2,797. That type of increase in the monthly payment has pushed many potential homebuyers out of eligibility for the mortgage loan they want; instead lowering the loan amount that they can afford. Few want to make a lateral move, so this situation influences people to stay where they are. That reduces the supply of resale homes available in the market. An arguably indirect impact of the FED's rate pressure was the failure of 3 banks on the east and west coasts. With those failures came a flight of deposits – away from small to mid-sized banks, to big banks viewed as safe havens (although Community Banks might actually offer a safer alternative). The result of this flight is a liquidity crunch in the market. Many community banks and regional banks are simply near the end of capacity when it comes to funds to lend. The banks are sound, but deposits - the life blood of lending, have dwindled and the cost of those funds has risen.

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Interestingly, in an unusual twist, the demand for speculative home building funding remains strong even at higher cost. One can assume that building with a higher carrying cost will push up the cost of new housing. That, with the increase in rates, will continue to shrink the number of people eligible to buy. This impact may be especially felt in the "affordable housing" market.

So rates move up and available funds move down, the impact on housing is a reduction of funding available for homebuilders. Or, when funds are available the cost is much higher than in the past. Buyers can't buy and sellers won't sell. Many banks have stopped lending for speculative home builds, adding pressure to a supply that remains low in many areas of the market. And with all of this going on, inflation remains stubbornly above the 2% FED target.

What action will the FED take next? What impact will that action have on your local market and on community banks for the rest of 2023? Stay tuned for the third quarter. This economic roller coaster is not near the end of the ride.

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BOYCE

TRUE HOMES

Home Builder

Despite the unprecedented run-up in mortgage rates over the past year, the housing market is remarkable demonstrating resilience. Last year there were many experts predicting housing price declines of 10% to 20% in the first half of 2023. While total housing sales are down 15% or more and building permits are down 20% nationally, housing prices have remained stable in the Southeast. This is primarily due to the lack of available homes for sale in the resale market.

We continue to see a reduction in the months supply of available homes from a recent peak of just 3 months supply at the end of 2022 to current levels in the range of 1 to 2 month's supply. The prevailing consumer psychology in the back half of 2022 was hitting the pause button and taking a wait and see attitude until prices declined.

The prevailing consumer psychology now is back to a scarcity mindset, characterized by decisive offers at or near asking price. As a result of this shift in the face of limited supply, the days on market have declined precipitously and bid/ask are back to or above historic norms.

I believe that we remain in a new housing super-cycle that could last for the remainder of this decade. The pre-condition of this super-cycle was the dramatic underbuilding period of the 2010's. Housing demand in growth states increased with The Great Covid Migration (a sustained period of amplified volume of existing migration patterns) and remains a key driver of housing demand. This super-cycle is further driven by positive demographics such as strong household formation and the addition of over 7 million 30-49 year

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olds between 2020 and 2030. Systemic constraints on new housing supply rooted in government regulation that limits the delivery of lot supply will become the revealed constraint on new housing. In total, these meta-themes will likely define an long term era of sustained undersupply and continued housing price increases.

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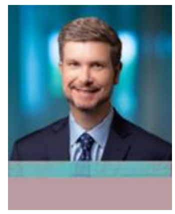

JONATHAN
SMOKE

COX AUTOMOTIVE

Automotive

The auto market is enjoying more total sales this year than last, but the market gains in new vehicle sales this spring have been offset by additional weakness in used vehicle sales. Vehicle demand so far in 2023 has been muted by ups and downs with consumer sentiment, lower tax refunds, and interest rates on auto loans moving higher. During the height of the banking crisis in March, credit tightened substantially for consumers with less than perfect credit. As a result, used car loan rates on average hit 14%. The combination of high prices and high rates substantially limits what consumers can afford, and increasingly median and lower income households are finding it difficult to purchase any vehicle. However, the labor market remains strong, and the improving inventory of new vehicles is also bringing higher incentives from manufacturers and a return to discounting.

Dealers have consistently had about 70% more new vehicle inventory than last year, but supply is still about half of what existed in 2019. Supply has been more limited in the used market where the lack of new vehicle sales from the last three years has caused a big decline in younger used vehicles. Used vehicle prices increased to start the year, first in wholesale and then in retail because of the limited supply, but those increases came to an end as demand weakened from higher rates and higher prices this spring. Wholesale and retail prices are declining again as we enter the summer, and that should create more buying opportunities for consumers who have been sidelined by affordability.

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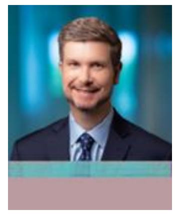

JONATHAN
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Overall, I am more confident that the U.S. can avoid a recession in 2023 given the strong labor market and the risk of a U.S. default from hitting the debt ceiling having been eliminated for now. The Fed left the Fed Funds Rate unchanged in June but communicated that two more quarter-point increases could happen later this year if inflation and labor data indicate a still too hot economy. We get two more inflation reports and one more employment report before their next meeting in July. I am not sure they will see enough progress by then, but if they raise by a quarter point, that is likely to be the end of the rate increases. If so, improving supply in new, along with more incentives and discounting, and further price declines from depreciation in used will create more vehicle demand. The market will still be limited by total available supply, but demand will also be limited by the level of prices and rates, which are not likely to come down enough to stimulate more demand than the market can bear. What this suggests is an auto market that falls more into balance delivering small but predictable changes in sales and less news about big changes in prices. In a year we will look back and see that this was the beginning of returning to normal.

MarketGraphics
RESEARCH GROUP

Building Permit Summary for All Active MarketGraphics Markets

2022 BUILDING PERMITS		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN THRU JAN - MAY	JAN THRU DEC TOT
Nashville Metro, TN (11 Counties)		1428	1489	1972	1536	1491	1485	1193	1166	1213	1251	998	800	7916	16022
St. Louis Region, MO & IL (10 Counties)		387	307	493	442	452	400	429	403	404	413	392	311	2081	4833
Indianapolis Metro, IN (9 Counties)		896	737	996	851	1001	884	691	624	923	474	382	385	4481	8844
Greensboro Triad Region, NC (5 Counties)		569	739	875	690	702	733	624	586	675	600	529	465	3575	7787
Knoxville Metro, TN (6 Counties)		412	521	547	463	411	481	433	399	335	352	276	239	2354	4869
Montgomery County, TN (1 County)		279	141	221	209	139	147	233	72	96	73	50	57	989	1717
Jacksonville Metro, FL (6 Counties)		1612	1530	1715	1476	1347	1330	1041	1323	1134	1231	810	1078	7680	15627
Memphis Metro, TN, MS & AR (5 Counties)		299	294	355	300	339	326	238	303	265	171	132	127	1587	3149
Kansas City Metro, KS & MO (9 Counties)		497	456	518	583	537	635	508	560	302	345	330	214	2591	5485
Huntsville Region, AL (4 Counties)		367	543	569	634	453	519	455	441	408	315	266	178	2566	5148
Virginia Central (15 Counties/Cities)		532	567	738	736	722	653	578	588	608	455	416	384	3295	6977
Louisville Metro, KY & IN (8 Counties)		265	317	316	278	302	242	212	242	215	248	137	132	1478	2906
Georgia & South Carolina, Coastal Region (9 Coun		646	602	734	659	687	784	629	704	500	495	416	416	3328	7272
Charleston, SC (4 Counties)		516	561	597	561	525	650	573	640	522	631	534	420	2760	6730
Omaha / Lincoln, NE & IA (8 Counties)		287	350	430	430	348	345	312	306	302	259	223	177	1845	3769
Alabama Coast & Florida Panhandle (8 Counties)		988	1081	1253	1177	1064	979	983	1137	1072	951	747	849	5563	12281
Des Moines Metro, IA (5 Counties)		308	303	474	448	532	398	360	345	271	256	199	233	2065	4127
Birmingham & Tuscaloosa, AL (5 Counties)		378	329	439	365	460	376	370	341	321	271	338	299	1971	4287
Chattanooga Region, TN & GA (9 Counties)		410	363	471	361	420	273	312	315	354	240	198	146	2025	3863
North & South Carolina, Coastal Region (9 Countie		1202	1489	1879	1641	1714	1924	1579	1571	1326	1473	1165	836	7925	17799
Bowling Green, Kentucky (1 County)		77	68	105	79	111	71	84	89	47	63	61	51	440	906
TOTALS	2022	12355	12787	15697	13919	13757	13635	11837	12155	11293	10567	8599	7797	68515	144398

2023 BUILDING PERMITS		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN THRU JAN - MAY	CURRENT YTD
Nashville Metro, TN (11 Counties)		855	1169	1410	1309	1435								6178	6178
St. Louis Region, MO & IL (10 Counties)		230	347	398	406	370								1751	1751
Indianapolis Metro, IN (9 Counties)		419	425	699	658	752								2953	2953
Greensboro Triad Region, NC (5 Counties)		578	513	617	518	558								2784	2784
Knoxville Metro, TN (6 Counties)		441	398	567	423	458								2287	2287
Montgomery County, TN (1 County)		60	117	145	237	164								723	723
Jacksonville Metro, FL (6 Counties)		946	923	1041	1110	1300								5320	5320
Memphis Metro, TN, MS & AR (5 Counties)		162	175	213	246	237								1033	1033
Kansas City Metro, KS & MO (9 Counties)		195	182	422	437	504								1740	1740
Huntsville Region, AL (4 Counties)		288	313	511	431	555								2098	2098
Virginia Central (15 Counties/Cities)		438	515	578	454	601								2586	2586
Louisville Metro, KY & IN (8 Counties)		184	177	278	302	318								1259	1259
Georgia & South Carolina, Coastal Region (9 Coun		662	533	637	658	627								3117	3117
Charleston, SC (4 Counties)		524	521	762	494	641								2942	2942
Omaha / Lincoln, NE & IA (8 Counties)		255	175	304	280	342								1356	1356
Alabama Coast & Florida Panhandle (8 Counties)		1191	876	872	710	754								4403	4403
Des Moines Metro, IA (5 Counties)		154	211	294	388	444								1491	1491
Birmingham & Tuscaloosa, AL (5 Counties)		325	273	411	318	286								1613	1613
Chattanooga Region, TN & GA (9 Counties)		156	188	258	291	237								1130	1130
North & South Carolina, Coastal Region (9 Countie		1048	1284	1693	1303	1543								6871	6871
Bowling Green, Kentucky (1 County)		60	69	59	93	62								343	343
TOTALS	2023	9171	9384	12169	11066	12188								53978	53978
Percent difference by month from 2022 to 2023		-25.8%	-26.6%	-22.5%	-20.5%	-11.4%								-21.2%	YTD Change

Estimates were used for jurisdictions not able to provide data at the time of publication and then adjusted.

As of June 2023

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