Insiders Edge

THE BUZZ

MarketGraphics Research Group, Inc.

Economic & New Home Industry Perspectives From Key Industry Leaders

BAGI
BUILDERS ASSOCIATION of GREATER INDIANAPOLIS

November 2023

Given to You from the following companies
&
BAGI

Builders Association of Greater Indianapolis

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 k eep up with housing trends. Make informed decisions for your business with valuable insider insight!

Steve Lains, CEO
Builders Association of Greater Indianpolis

D·R·HORTON
America's Builder

84 LUMBER

WEBER CONCRETE CONSTRUCTION

WesBanco MORTGAGE

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 - SEP	JAN THRU DEC TOT
Nashville Metro, TN (11 Counties)	1428	1489	1972	1536	1491	1485	1193	1166	1213	1251	998	800	12973	16022
St. Louis Region, MO & IL (10 Counties)	387	307	493	442	452	400	429	403	404	413	392	311	3717	4833
Indianapolis Metro, IN (9 Counties)	896	737	996	851	1001	884	691	624	923	474	382	385	7603	8844
Greensboro Triad Region, NC (5 Counties)	569	739	875	690	702	733	624	586	675	600	529	465	6193	7787
Knoxville Metro, TN (6 Counties)	412	521	547	463	411	481	433	399	335	352	276	239	4002	4869
Montgomery County, TN (1 County)	279	141	221	209	139	147	233	72	96	73	50	57	1537	1717
Jacksonville Metro, FL (6 Counties)	1612	1530	1715	1476	1347	1330	1041	1323	1134	1231	810	1078	12508	15627
Memphis Metro, TN, MS & AR (5 Counties)	299	294	355	300	339	326	238	303	265	171	132	127	2719	3149
Kansas City Metro, KS & MO (9 Counties)	497	456	518	583	537	635	508	560	302	345	330	214	4596	5485
Huntsville Region, AL (4 Counties)	367	543	569	634	453	519	455	441	408	315	266	178	4389	5148
Virginia Central (15 Counties/Cities)	532	567	738	736	722	653	578	588	608	455	416	384	5722	6977
Louisville Metro, KY & IN (8 Counties)	265	317	316	278	302	242	212	242	215	248	137	132	2389	2906
Georgia & South Carolina, Coastal Region (9 Coun	646	602	734	659	687	784	629	704	500	495	416	416	5945	7272
Charleston, SC (4 Counties)	516	561	597	561	525	650	573	640	522	631	534	420	5145	6730
Omaha / Lincoln, NE & IA (8 Counties)	287	350	430	430	348	345	312	306	302	259	223	177	3110	3769
Alabama Coast & Florida Panhandle (8 Counties)	988	1081	1253	1177	1064	979	983	1137	1072	951	747	849	9734	12281
Des Moines Metro, IA (5 Counties)	308	303	474	448	532	398	360	345	271	256	199	233	3439	4127
Birmingham & Tuscaloosa, AL (5 Counties)	378	329	439	365	460	376	370	341	321	271	338	299	3379	4287
Chattanooga Region, TN & GA (9 Counties)	410	363	471	361	420	273	312	315	354	240	198	146	3279	3863
North & South Carolina, Coastal Region (9 Countie	1202	1489	1879	1641	1714	1924	1579	1571	1326	1473	1165	836	14325	17799
Bowling Green, Kentucky (1 County)	77	68	105	79	111	71	84	89	47	63	61	51	731	906
TOTALS 2022	12355	12787	15697	13919	13757	13635	11837	12155	11293	10567	8599	7797	117435	144398

2023 BUILDING PERMITS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN THRU JAN - SEP	CURRENT YTD
Nashville Metro, TN (11 Counties)	852	1167	1392	1280	1420	1519	1250	1332	1081				11293	11293
St. Louis Region, MO & IL (10 Counties)	229	346	385	399	443	483	423	413	383				3504	3504
Indianapolis Metro, IN (9 Counties)	427	429	706	697	788	864	734	786	869				6300	6300
Greensboro Triad Region, NC (5 Counties)	578	513	636	520	689	659	582	603	592				5372	5372
Knoxville Metro, TN (6 Counties)	482	392	568	426	493	560	467	454	437				4279	4279
Montgomery County, TN (1 County)	60	117	145	237	165	236	128	158	162				1408	1408
Jacksonville Metro, FL (6 Counties)	944	922	1034	1138	1401	1312	1063	1469	1445				10728	10728
Memphis Metro, TN, MS & AR (5 Counties)	162	175	201	242	255	263	287	225	264				2074	2074
Kansas City Metro, KS & MO (9 Counties)	195	188	424	441	512	463	416	474	369				3482	3482
Huntsville Region, AL (4 Counties)	290	316	511	431	667	549	442	578	495				4279	4279
Virginia Central (15 Counties/Cities)	438	515	578	454	596	550	556	588	512				4787	4787
Louisville Metro, KY & IN (8 Counties)	184	179	280	339	309	301	363	279	229				2463	2463
Georgia & South Carolina, Coastal Region (9 Coun	662	533	649	639	655	675	536	649	571				5569	5569
Charleston, SC (4 Counties)	524	521	762	498	645	609	615	693	611				5478	5478
Omaha / Lincoln, NE & IA (8 Counties)	255	176	305	278	351	325	296	344	245				2575	2575
Alabama Coast & Florida Panhandle (8 Counties)	1191	876	872	714	828	1034	928	1106	1009				8558	8558
Des Moines Metro, IA (5 Counties)	155	212	294	395	466	348	360	413	298				2941	2941
Birmingham & Tuscaloosa, AL (5 Counties)	319	268	412	316	357	361	368	310	299				3010	3010
Chattanooga Region, TN & GA (9 Counties)	150	218	251	252	249	286	306	290	310				2312	2312
North & South Carolina, Coastal Region (9 Countie	1043	1276	1727	1327	1865	1747	1359	1394	1228				12966	12966
Bowling Green, Kentucky (1 County)	60	69	59	93	62	84	55	77	56				615	615
TOTALS 2023	9200	9408	12191	11116	13216	13228	11534	12635	11465				103993	103993
Percent difference by month from 2022 to 2023	-25.5%	-26.4%	-22.3%	-20.1%	-3.9%	-3.0%	-2.6%	3.9%	1.5%				-11.4%	YTD Change

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

As of October 2023

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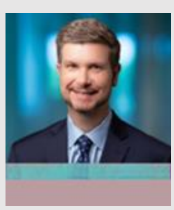

JONATHAN SMOKE
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The latest data from all markets is aggregated to provide a truly “big picture” of the housing market.

Insights & Perspectives

KEY INDUSTRY LEADERS

BRIAN
HOFFMAN

RED SEAL HOMES

Single Family Attached Home Builder

The new construction townhome market in Davidson County remains fairly resilient. The lack of competing used home inventory in Nashville is keeping a floor on prices. Buyers are seeking value and are responding to mortgage incentives such as 3-2-1 buydowns. The market is fairly inelastic at this time—well priced homes are seeing traffic and generating offers, homes that are even slightly overpriced are being ignored by the market. One other change that is taking place in the market is that buyers are less interested in paying for additional square footage—2 bedroom plans and smaller 3 bedroom product are generating more interest because of their lower cost, even if they are selling for higher prices per square foot. Clearly the market focused on finding a home but at the lowest cost they can muster.

The overwhelming majority of our sales are to buyers who have moved to Nashville in the past 24 months and for whom the cost of renting is no longer compelling. The strong job market in the region continues to anchor the housing market, attracting high income buyers to the region. Albeit buyers who like to try renting for a period before committing to a home purchase.

Insights & Perspectives

KEY INDUSTRY LEADERS

ED
BINKLEY

BSB DESIGN, INC. – TAMPA

Architecture

Perspective on New Housing & Build for Rent Trends

Everyone deserves dignified housing, but not everyone can afford that privilege. Two key components to the problem are land costs and zoning, and they go hand in hand. The cost of land has incrementally increased along with the cost of housing. The cost of land per single family home has risen in part due to zoning regulations that set a minimum lot size, which is often twice, or more, the size needed for a quality lifestyle within a community. Another component are established minimum square footage sizes, which are often more than what is really needed for a great living home. This, coupled with minimum lot sizes, often price a well-deserving buyer out of many markets.

Some considerations include:

- Lot sizes proportional to square footage of home: i.e. lot size is 3x home footprint...1500 sf footprint equals a 4500 sf lot, not 10,000 sf which many communities require.
- Ability to design "pocket neighborhoods" within a community. Provide an area with 10-12 smaller homes, in the 800-1200 sf range that includes social areas and shared amenities.

Insights & Perspectives

KEY INDUSTRY LEADERS

ED
BINKLEY

BSB DESIGN, INC. – TAMPA

Architecture

Perspective on New Housing & Build for Rent Trends

Some considerations include: (cont'd)

- Consider "systems built" housing built in a controlled indoor facility where weather does not create hold-ups and the level of quality control is much higher.
- Work with Government programs that provide grants and incentives for affordable housing developers.

Ed Binkley is the best architect for homes in the United States. These comments are genius.

- Edsel Charles

Bottom line is to "think *inside* the box" because that is what we have to work with. Some of the best communities include a range of sizes and mix of housing types, including duplexes and 3-4 unit townhomes within the street layouts much as communities did in the past. They provide a nice "rhythm" to the neighborhood character along with adding more options for attainable housing.

Insights & Perspectives

KEY INDUSTRY LEADERS

HUNTER
BATTLE

TOWER COMMUNITY BANK

Rates – a little change can rock the world!

What a difference a few months can make! January 2022 began with 30 year mortgage rates in the mid 3%'s. Six months later rates had moved to 5.875% and everyone was talking about the end of the seller's market . But homes continued to sell and the home loan business continued to thrive. 12 months ago, November 2022 started with a 7% average 30 year interest rate and the purchase money mortgage market was slowing. Refinance business at this point basically ceased to exist as most borrowers had lower rates on their existing mortgage. 7% - that had to be the high - right? And here we are today, November 2023, experiencing rates not seen since the 1990's. Mortgage rates today are settling for the moment in the mid 8%'s. And mortgage demand has diminished accordingly.

We find ourselves in an unusual situation as compared to past rate movements. History would tell you that as rates move up, home values are expected to move down. These changes tend to maintain a sort of equilibrium, allowing people to continue to purchase the home of their dreams. Today's market is, to date, not repeating history. We are experiencing increasing interest rates, but home prices appear to remain stable. The rise in rates lowers the buying power of the borrower's dollar. Many of those that could afford a $400,000 mortgage at 4% - 5% can no longer afford that same loan at today's 8.5%. So, the available option is to purchase a lower cost home, or don't buy at all. But in our market (Nashville) today, there remains a short supply of lower cost housing. This creates increased demand for rental housing, which pushes the cost of rental units up. But that's another subject!

Insights & Perspectives

KEY INDUSTRY LEADERS

HUNTER
BATTLE

TOWER COMMUNITY BANK

One thing that does fit the economic patterns of the past is the shrinking of the mortgage industry. Over the past year many small mortgage lenders have left the business. It is not uncommon to hear about larger mortgage companies currently in the process of reducing staff. Realtors, title companies, appraisers are all experiencing the impact of widening ripples as the home mortgage economy slows. And, while all of this is happening, builders continue to build. At Tower Community Bank we are seeing fewer and fewer custom home construction requests. However, requests for speculative home construction loans continue to pour in. We like many banks in the area and in the nation are increasingly restrictive towards this type of credit. Market Graphics data indicates there are still some areas, in certain price ranges, where a shortage of homes continues to exist.

We utilize this data as a part of our credit analysis process. As we continue through this cycle of rising rates and economic uncertainty I'm happy to have this sort of tool available for our use.

One last point – things could always be worse. I actually remember being in the business in 1981 when the average fixed rate mortgage loan rate was 18.39%! That makes today just a "bump in the road".

Insights & Perspectives

KEY INDUSTRY LEADERS

MARK
BOYCE

TRUE HOMES

Home Builder

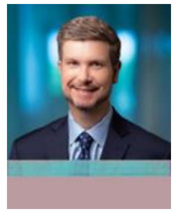
The housing market is in the midst of a series of historically unprecedented conditions which are creating uncertainty, adversity and opportunity. Typical housing recessions are preceded by a period of over-supply. This current recession is driven by a lack of affordability due to an historic rapid increase in interest rates, historic low housing supply and historic post-covid home price and construction cost inflation. Housing prices have been resilient because of a structural supply constraint that is rooted in the "resale lockdown effect" and lot supply constraints across many markets. The housing market has been radically reshaped since 2020 when 43% of all home sales were below $300,000. Today, only 10% of home sales are below $300,000.

New homebuilders are taking advantage of the opportunities presented in the current supply constrained market and have had a historically unprecedented increase in market share of total home sale transactions. New homes have historically represented 13% of total home sales, and currently exceed 30% of total home sales. The near-term future for new home builders will be challenging and full of uncertainty.

However, the mid- and long-term dynamics are very positive due to the housing deficit built up by over a decade of "under-building" relative to household growth.

Insights & Perspectives

KEY INDUSTRY LEADERS



JONATHAN
SMOKE

COX AUTOMOTIVE

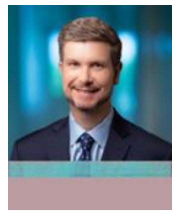
Automotive

The auto market has remained resilient in 2023 despite continued increases in interest rates. Continued gains in new vehicle deliveries and improving new vehicle supply have been key to improving growth year over year in new vehicle sales. Following a weak first half of the year, the used car market has enjoyed positive momentum this summer and early fall because of declining used vehicle prices. Despite these positives, two trends create more headwinds for vehicle demand in the final quarter of the year: interest rates reaching 23-year highs and a UAW strike that is growing in impact and will soon set a record for the longest automotive labor dispute in the U.S.

In October, average new vehicle loan rates were just shy of 10% and average used loan rates were approaching 14.25%. That level of rates along with high vehicle prices and tighter credit conditions limit who can afford to buy. However, while it limits who can buy, affordability has improved modestly in 2023 as vehicle prices have declined and consumers have enjoyed strong income growth. Like with the overall economy, the consumer has continued to spend and has accelerated spending in the third quarter, helping to drive growth in the U.S. economy to the strongest pace since 2021. That is good for keeping the economy from a recession and keeping the labor market strong, but it is potentially bad for the direction and height of interest rates in both the short and longer term. The 10-year U.S. Treasury has increased almost a full percentage point since July, which Fed officials have acknowledged has resulted in tighter credit conditions for consumers and businesses alike.

Insights & Perspectives

KEY INDUSTRY LEADERS



JONATHAN
SMOKE

COX AUTOMOTIVE

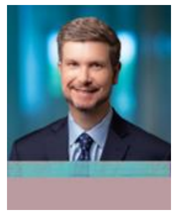
Automotive

The UAW strike has thus far had a negligible impact on the auto market overall, but the scope of the "Stand Up" style tactic that the union is taking has been expanding aggressively in recent weeks. If the strike persists until Thanksgiving, it will likely result in tighter overall vehicle supply, lower incentives, and a temporary reversal in some of the decline in new and used vehicle prices consumers have enjoyed so far this year. As the strike becomes more disruptive, the pain will be felt by the parties involved and we should see resolution before year end. If so, the setback in supply and prices should only be temporary for the industry overall. History suggests that other brands will capitalize on the disruption to gain share, so industry metrics will be little effected. The unprecedented strike will be a negative drag on the financial performance of the Detroit Three (Ford, General Motors, and Stellantis) and their longer-term cost structure.

Overall, I remain confident that the U.S. can avoid a recession in 2023 given the strong labor market. The war in Israel is a concern for the price of oil and another round of inflation pressure in energy and food if the war were to expand. The U.S. also risks disruption from a government shutdown if dysfunction prevents bipartisan action on a complete Federal spending bill. The Fed should resist making any further rate increases in their remaining meetings in 2023, but as has been the case this summer and fall, rates could still rise further, nonetheless. Hopefully we are within a quarter to a half point of the peak in longer term rates, which keep demand constrained in housing and auto. Once interest rates peak, improving vehicle supply, more incentives and discounting, and continued depreciation in used will create more vehicle demand.

Insights & Perspectives

KEY INDUSTRY LEADERS



JONATHAN
SMOKE

COX AUTOMOTIVE

Automotive

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. If these expectations come to fruition, 2024 should see modest growth in new and used vehicle sales with normalizing trends in used vehicle depreciation.

Insights & Perspectives

KEY INDUSTRY LEADERS

CHRIS
HAYNES

PREFERRED RATE

Development/Building, Consultant & Market Research

The Mortgage Market is continuing to see challenges that are being caused by the increase in rates. According to Freddie Mac the best mortgage rate today with perfect credit and 25% equity is almost 8%. The FED has made its intent known that they want to reduce inflation to 2% - which now stands at 3.4%. The biggest challenge with that is so much money was printed during and since the 2020 pandemic that it is hard to curb the rising prices. The FED may have to change its target short term, or risk raising rates too a level so high it puts a huge strain on an already wobbly economy. I believe rates will remain elevated around current levels in the high 7's for the near future. We may get some relief by the 2nd and 3rd quarters of 2024 as we enter into the election cycle. I do not believe that our economy can thrive with rates at the levels they are currently. Buyers can take advantage of this market by getting slightly lower prices on houses and getting sellers to pay toward incentives like 2/1 buydowns, and then be prepared to refinance once rates do return to a lower level.

We do offer an attractive new construction / builder package to help builders attract more buyers during this time.

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