

Economic Crosswinds in 2020

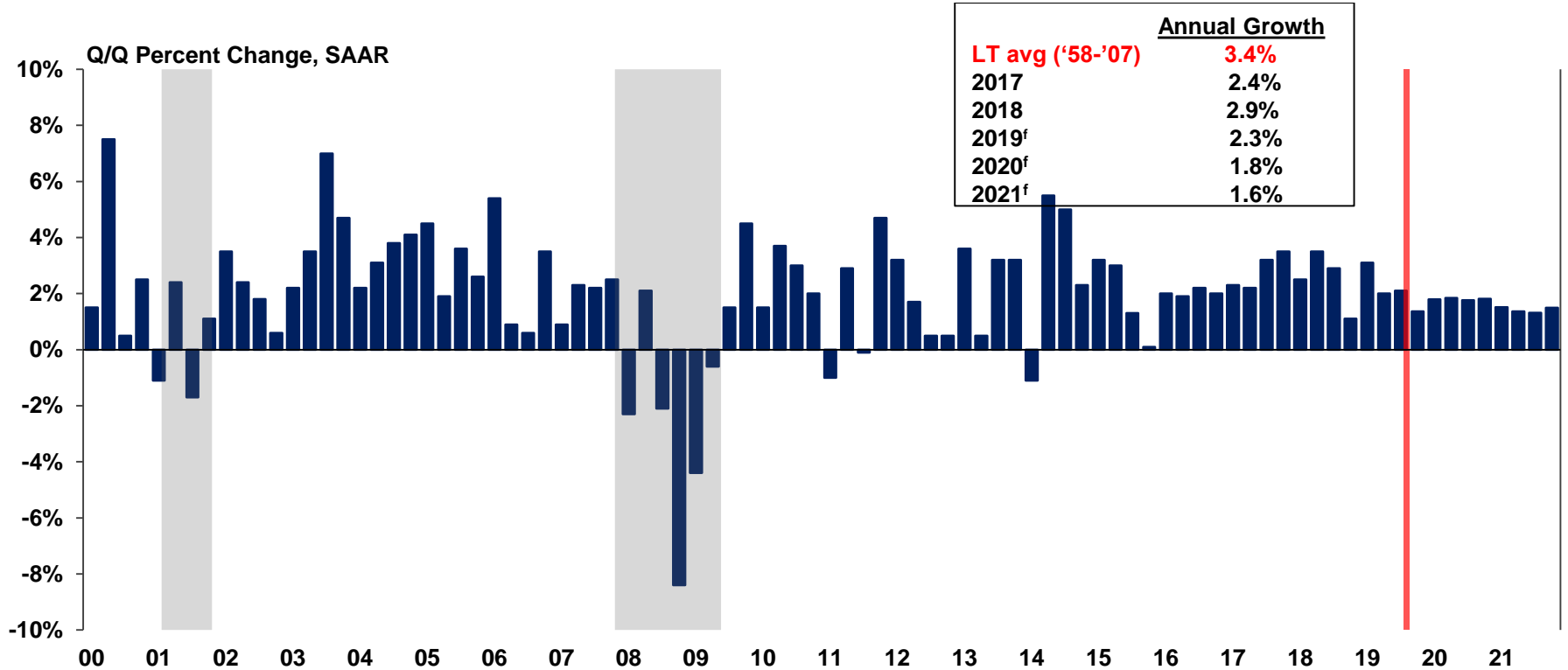
Multifamily Council Board of Trustee Meeting
January 19, 2020

Danushka Nanayakkara,
NAHB AVP, Forecasting and Analysis



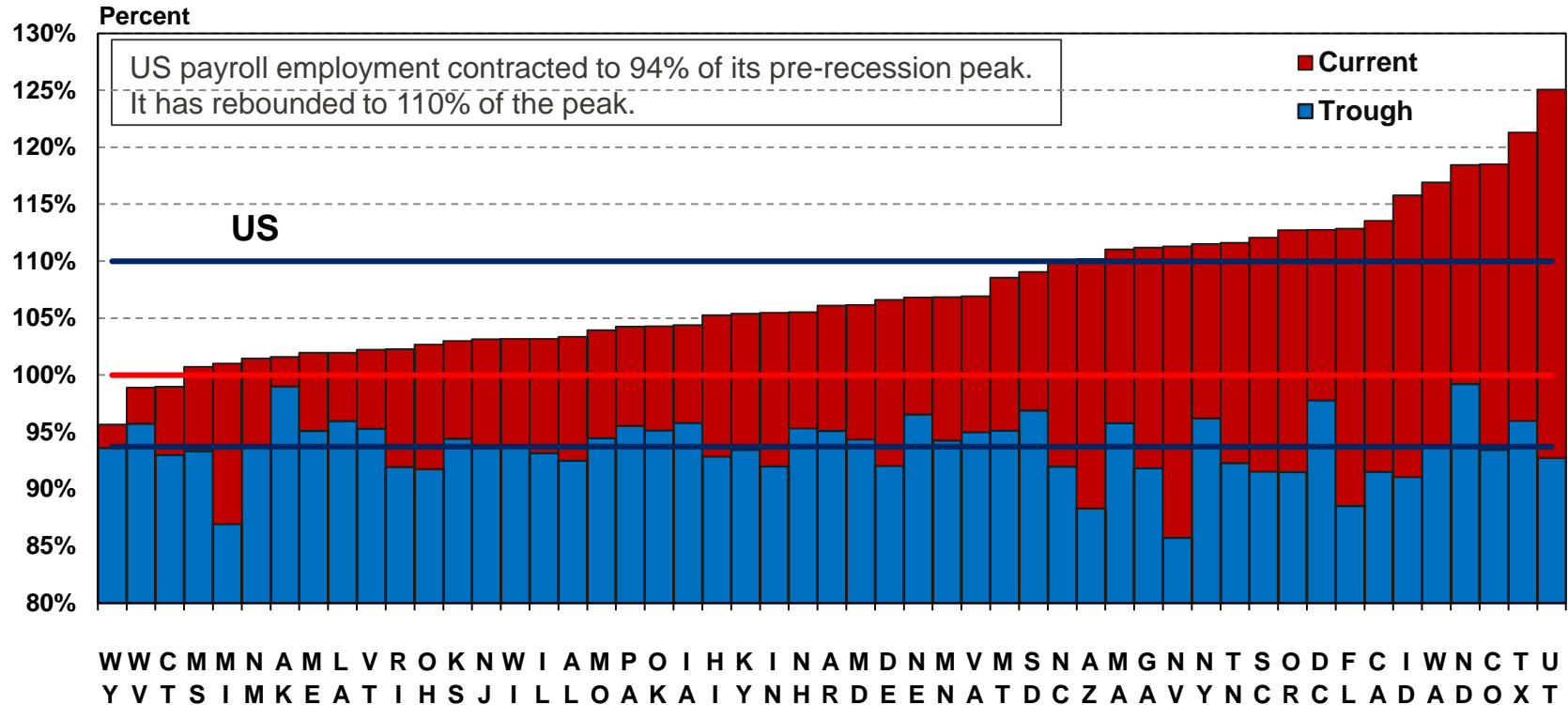
GDP Growth

Economy is slowing after strong 1Q19



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

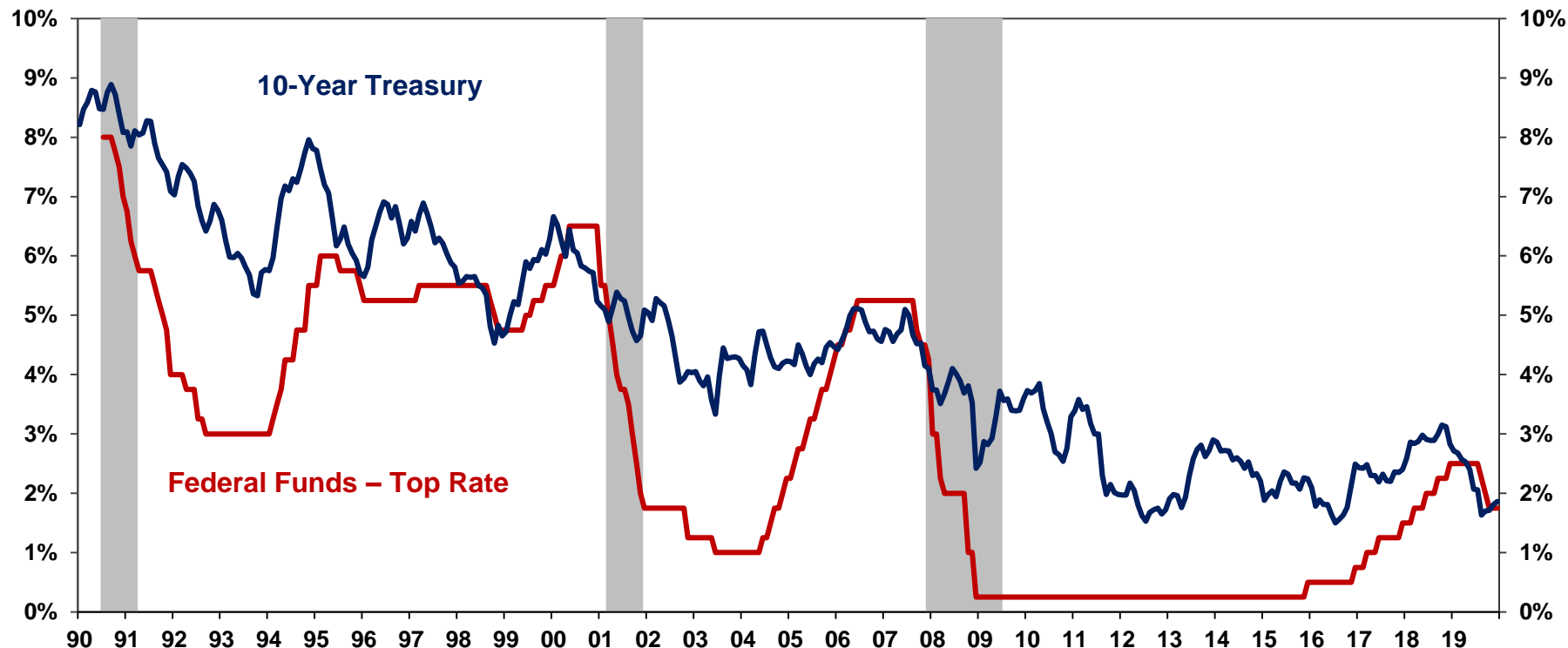
Payroll Employment – Contraction and Current



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

Fed Funds Rate

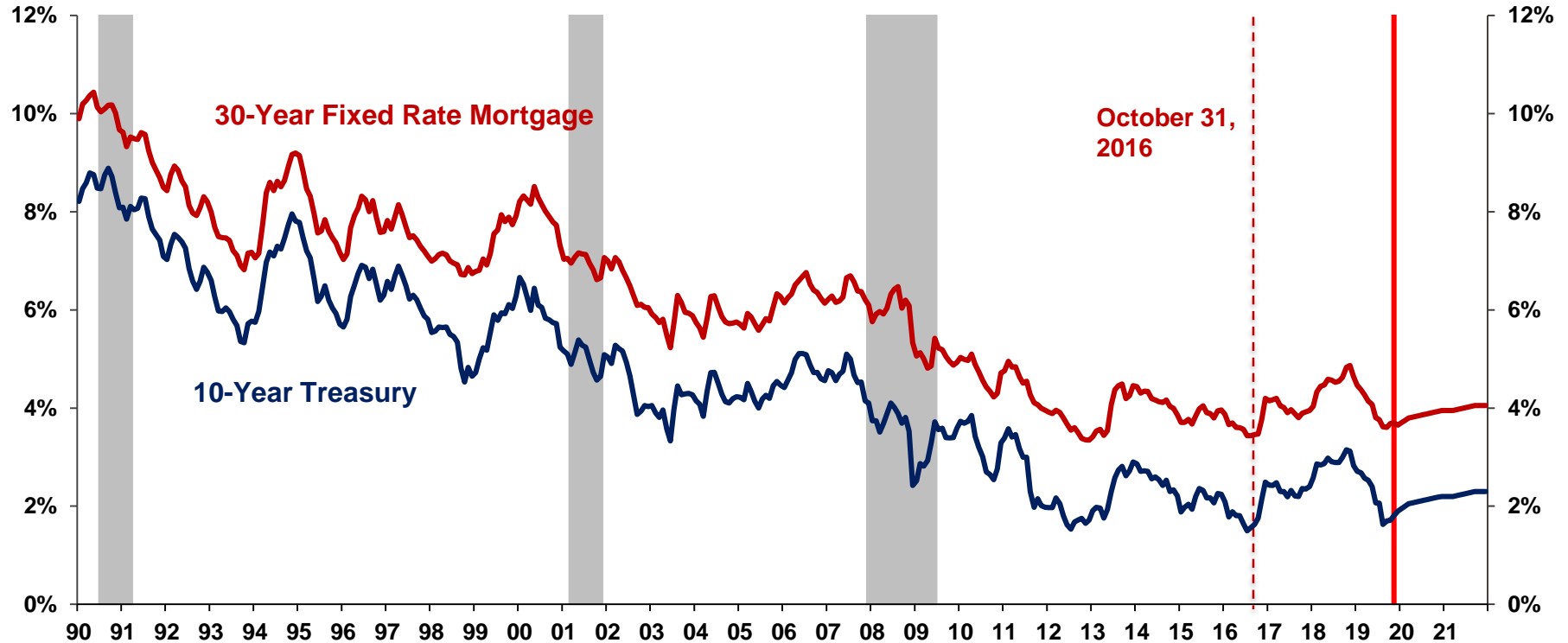
Fed on pause after three rate cuts in 2019



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

30-Year Fixed Rate Mortgage and 10-Year Treasury

Interest rates slowly rising as recession risks decline and trade deals are debated



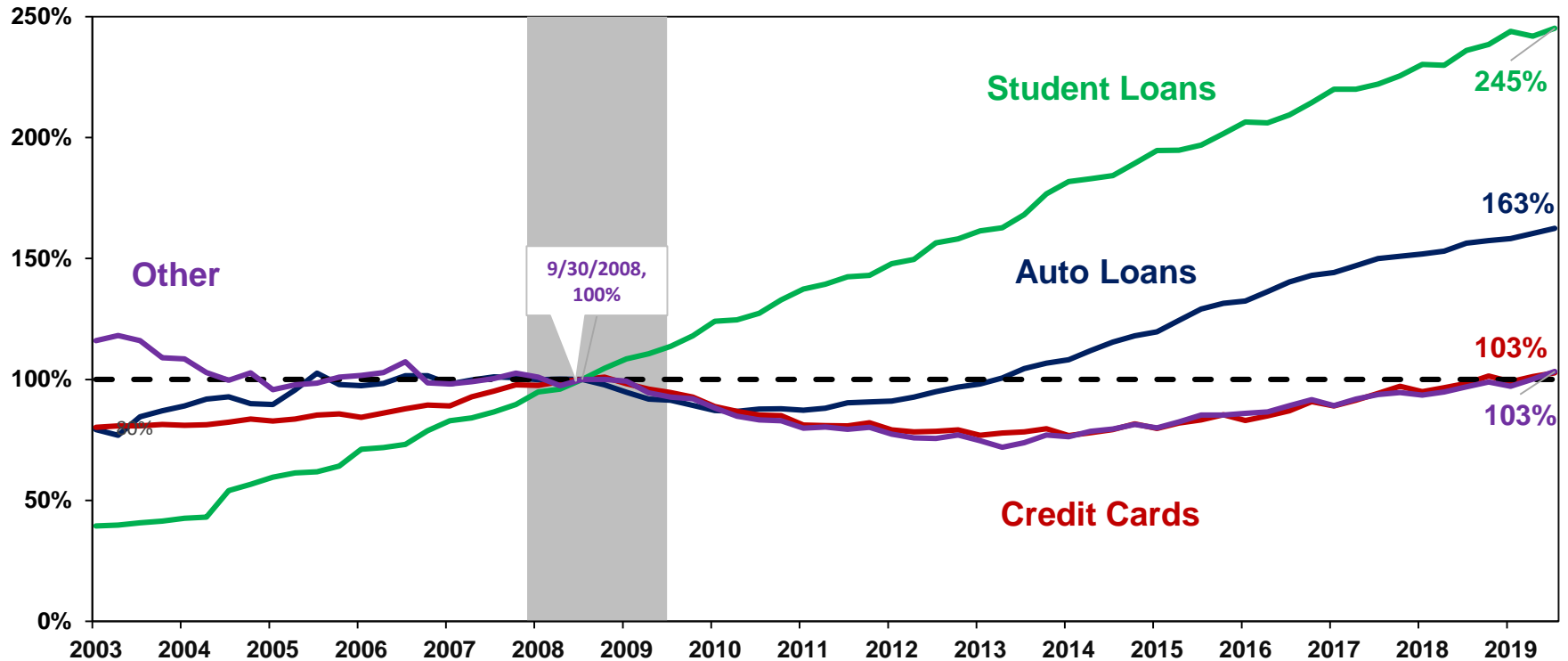
Source: Federal Reserve and Freddie Mac data and NAHB forecast.

A decorative graphic element consisting of three small gold dots followed by a diagonal line that is dark blue on top and red on the bottom.

Housing Demand and Affordability

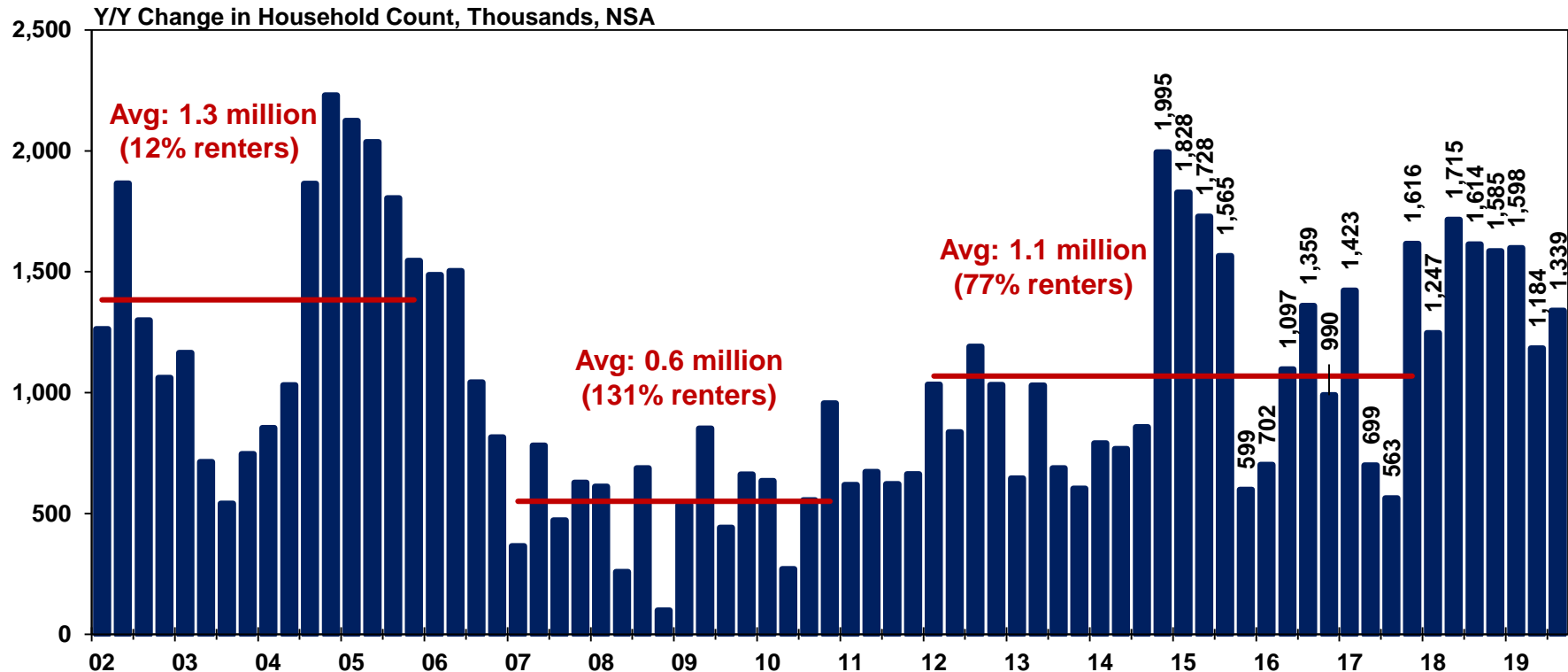
Consumer Debt

Rise in student and auto loans



Source: Federal Reserve Bank of New York

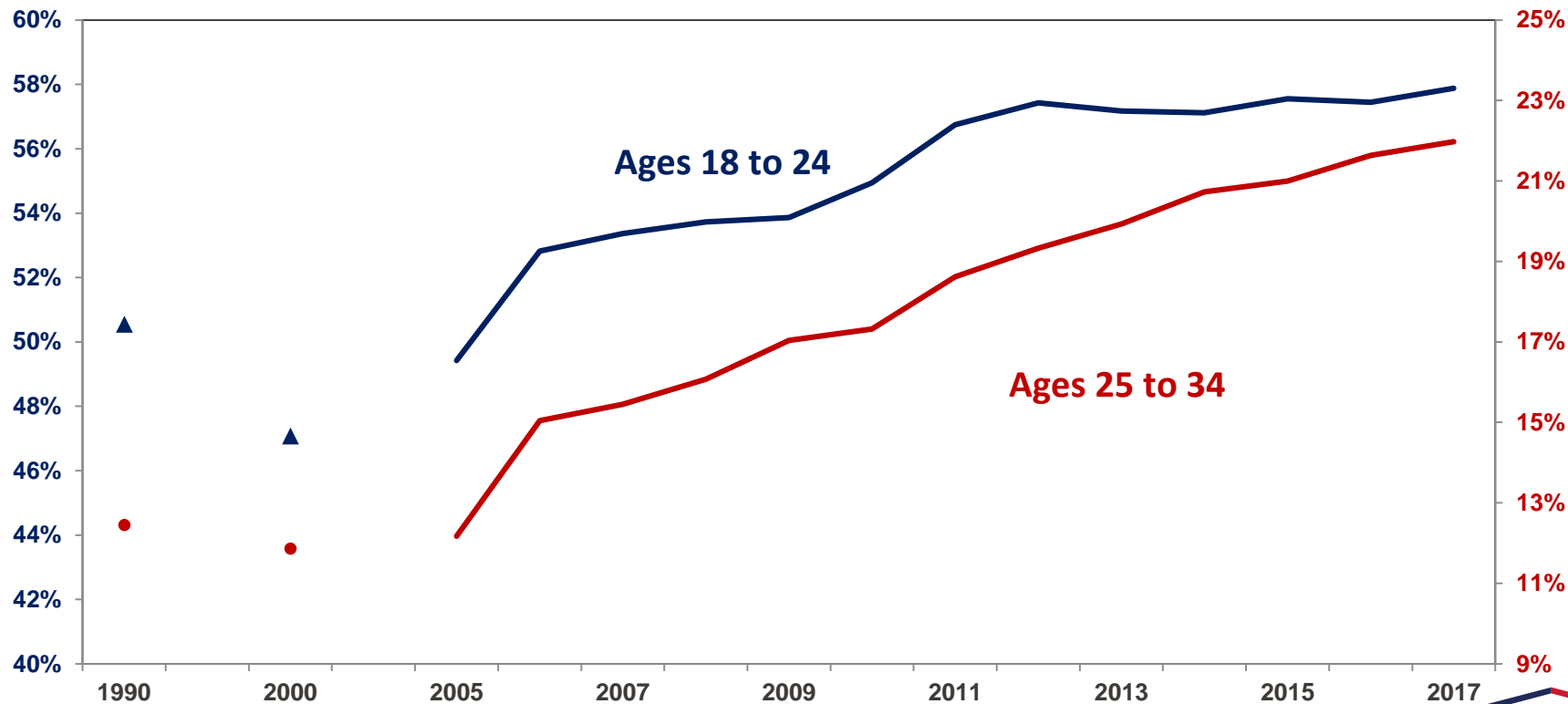
Household Formation



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

Share of Young Adults Living with Parents

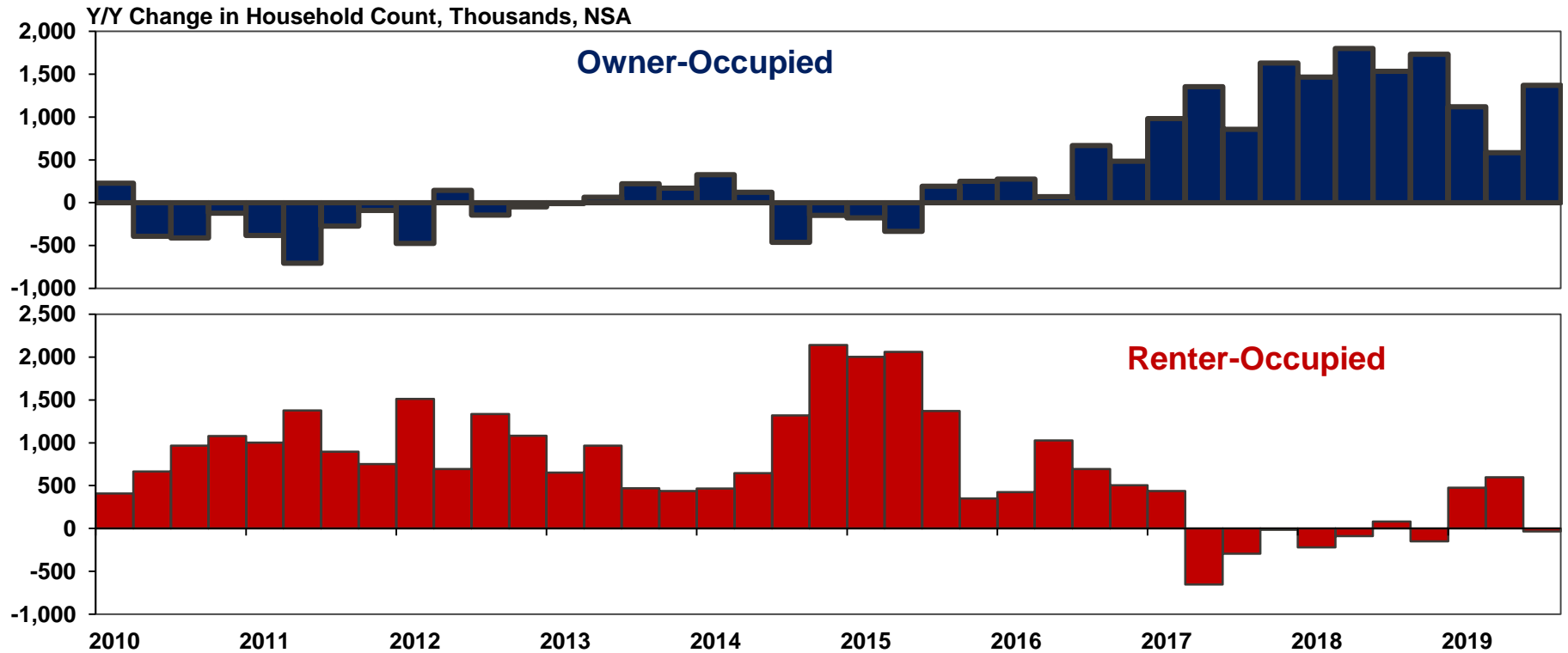
Almost doubled



Source: US Census 1990, 2000, PUMS, 2000-2017 ACS, PUMS, and NAHB Estimates

Household Formation

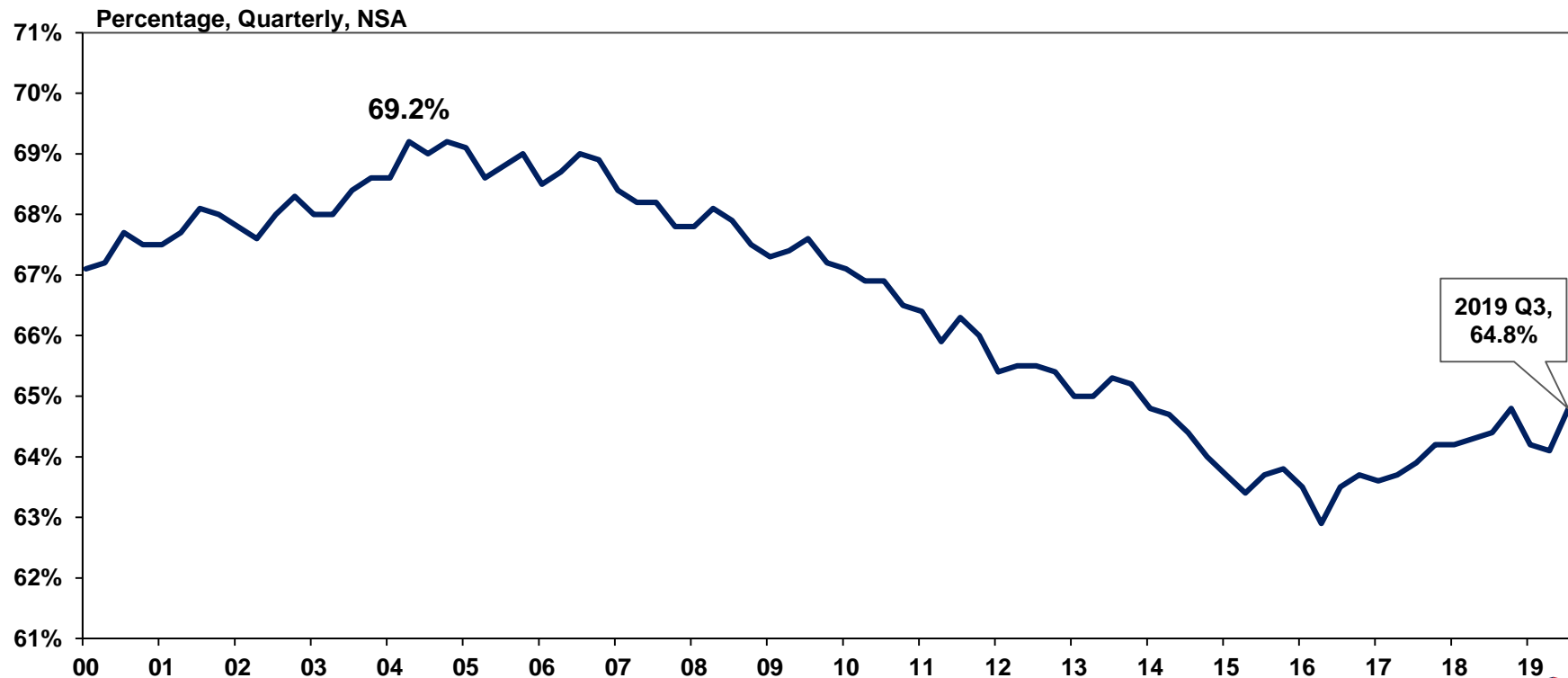
Strong demand for home ownership in Q3 2019



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

Homeownership Rate

Bounced back after two declines

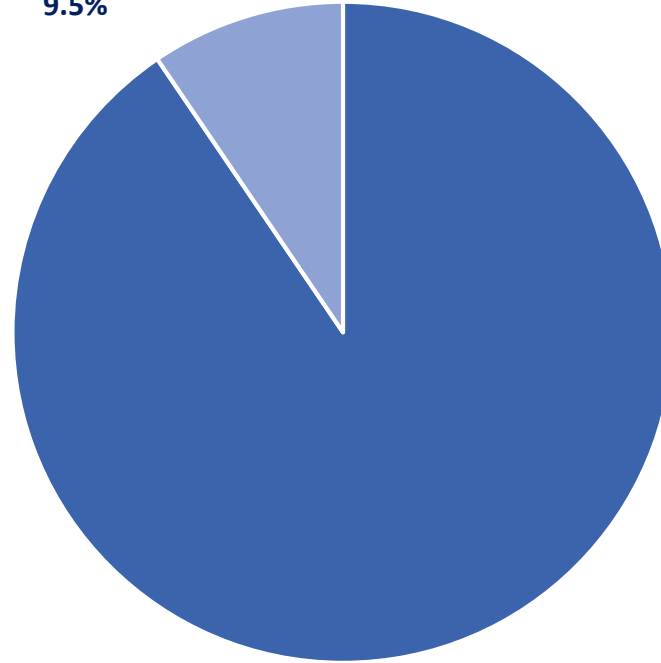


Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership

Lifetime Homeownership Rates – New NAHB Research

A reminder that most households need access to rental and for-sale housing

Share Who Have Never Owned a Home
9.5%

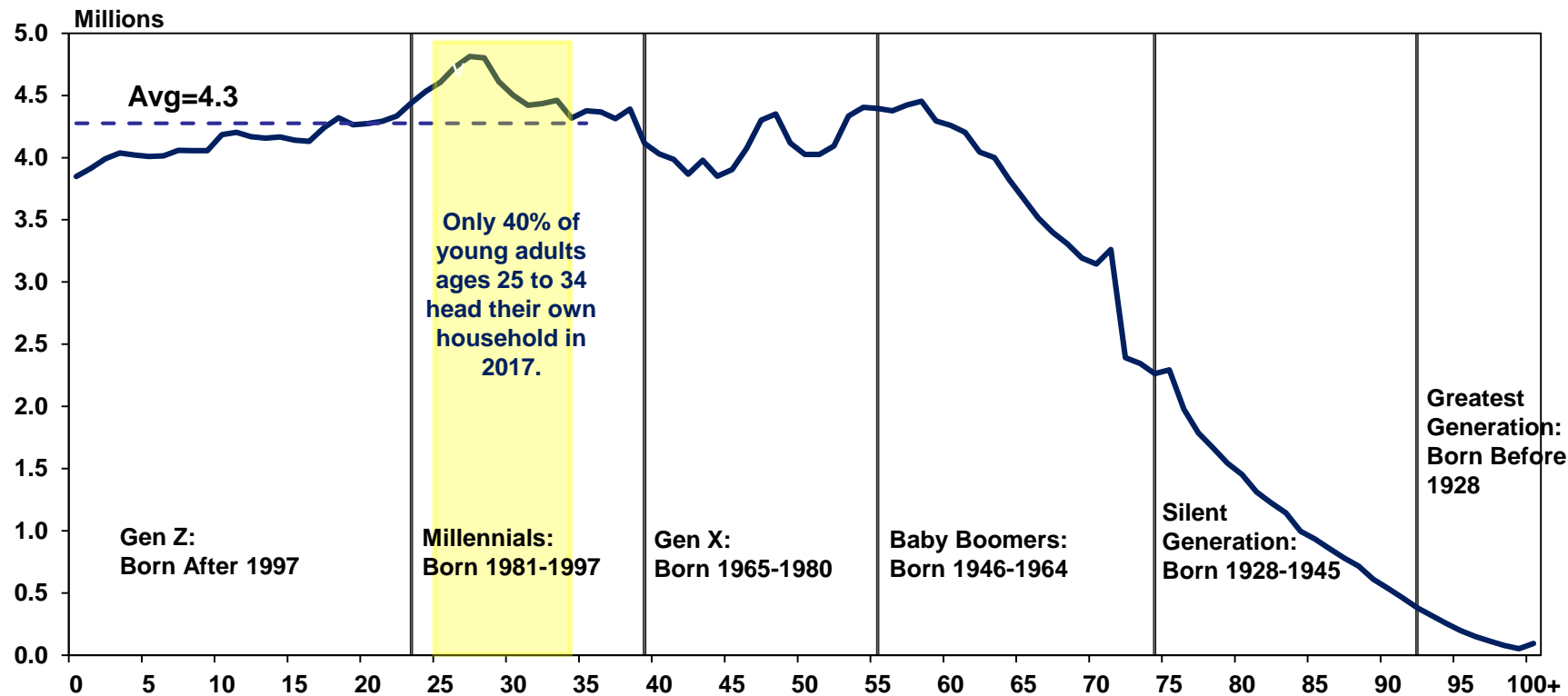


Lifetime Homeownership
Rate
90.5%

Source: The National Longitudinal Survey of Youth and NAHB Analysis.

Rising Population Entering Housing Demand Years: 2020

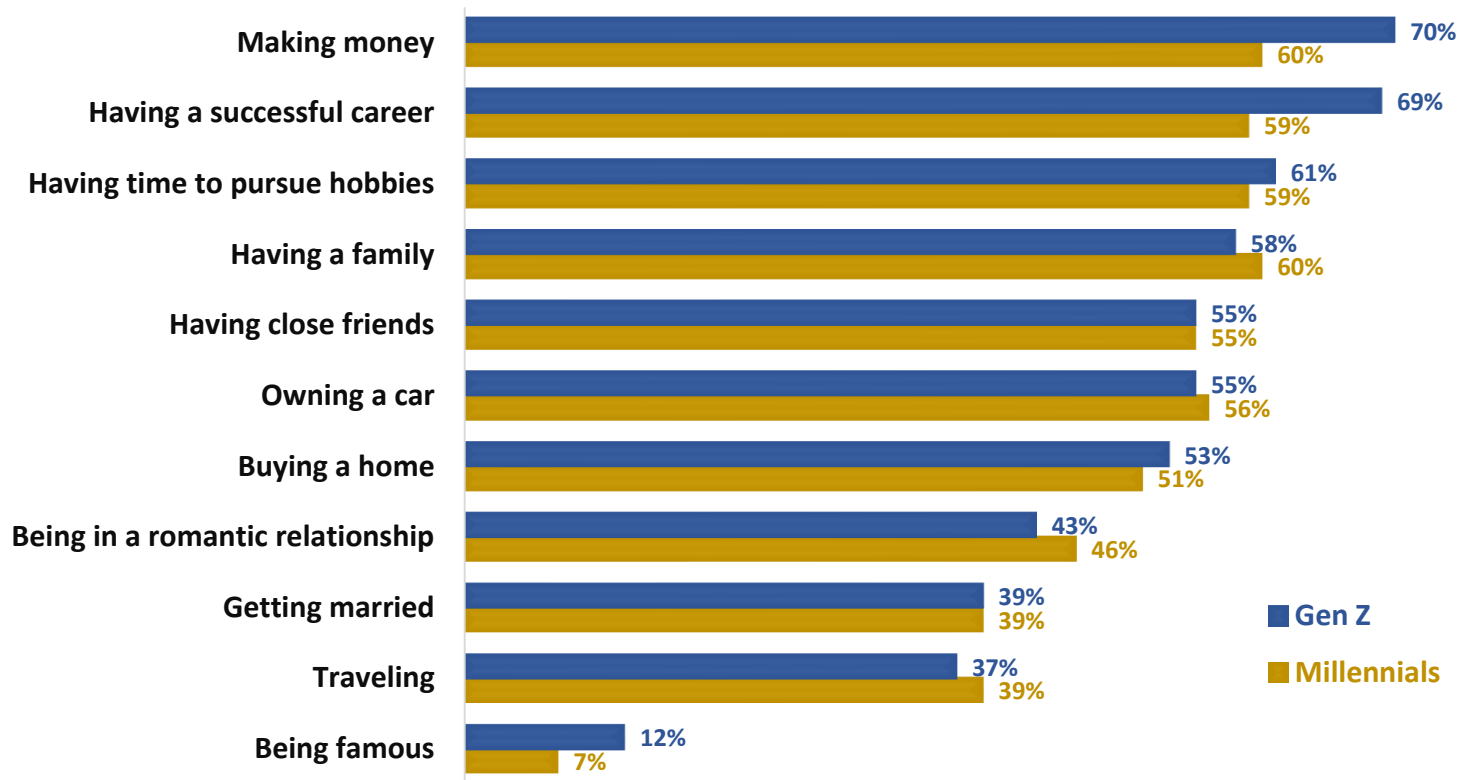
Gen X the majority of new construction home buyers



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

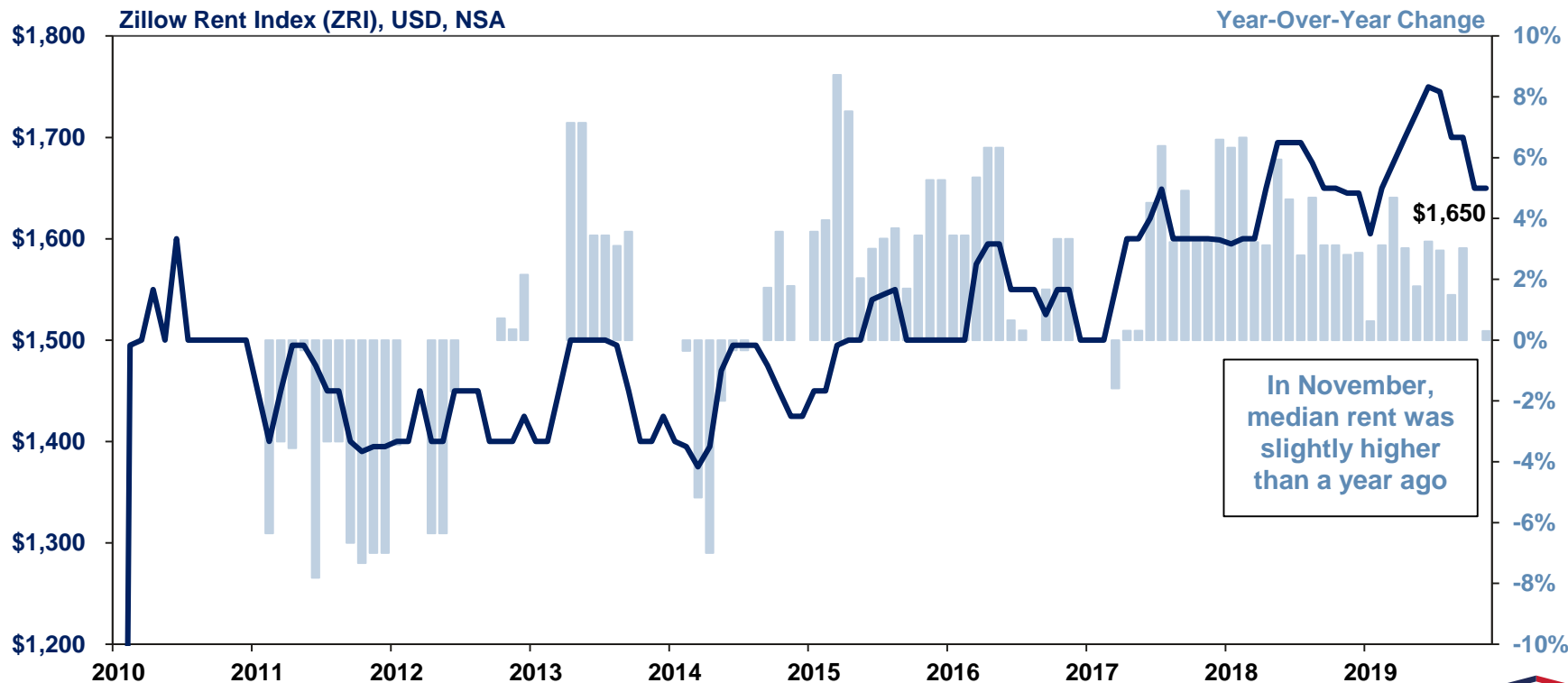
Here Comes Gen Z: Born 1998 to 2013

A smaller, more traditional generation?



Source: Morning Consult, Understanding Gen Z

Rent Growth Volatility



Source: Zillow, Inc: Zillow Real Estate Metrics

Growing Challenge of Rent Control

- Rent control and rent stabilization laws lead to a reduction in the available supply of rental housing in a community
- Rent control policies generally lead to higher rents in the uncontrolled market
- Rent control and rent stabilization policies do a poor job at targeting benefits
- Rent control can cause renters to continue to live in units that are too small, too large or not in the right locations to best meet their housing needs
- There are significant fiscal costs associated with implementing a rent control program
- Rent-controlled buildings can potentially suffer from deterioration or lack of investment
- Rent control policies can hold rents of controlled units at lower levels but not under all circumstances

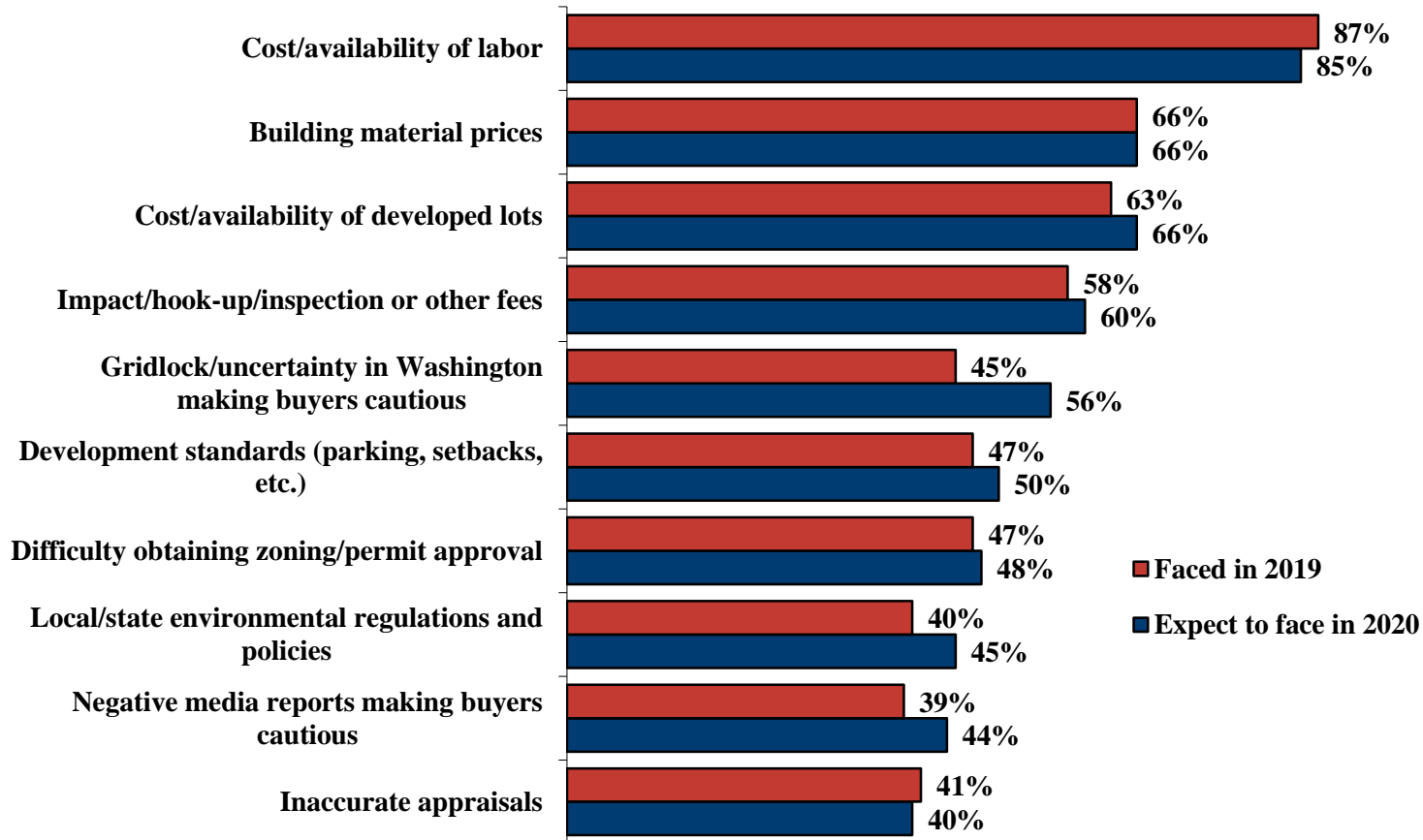
Source: Lisa Sturtevant, Ph.D



Supply-Side Headwinds

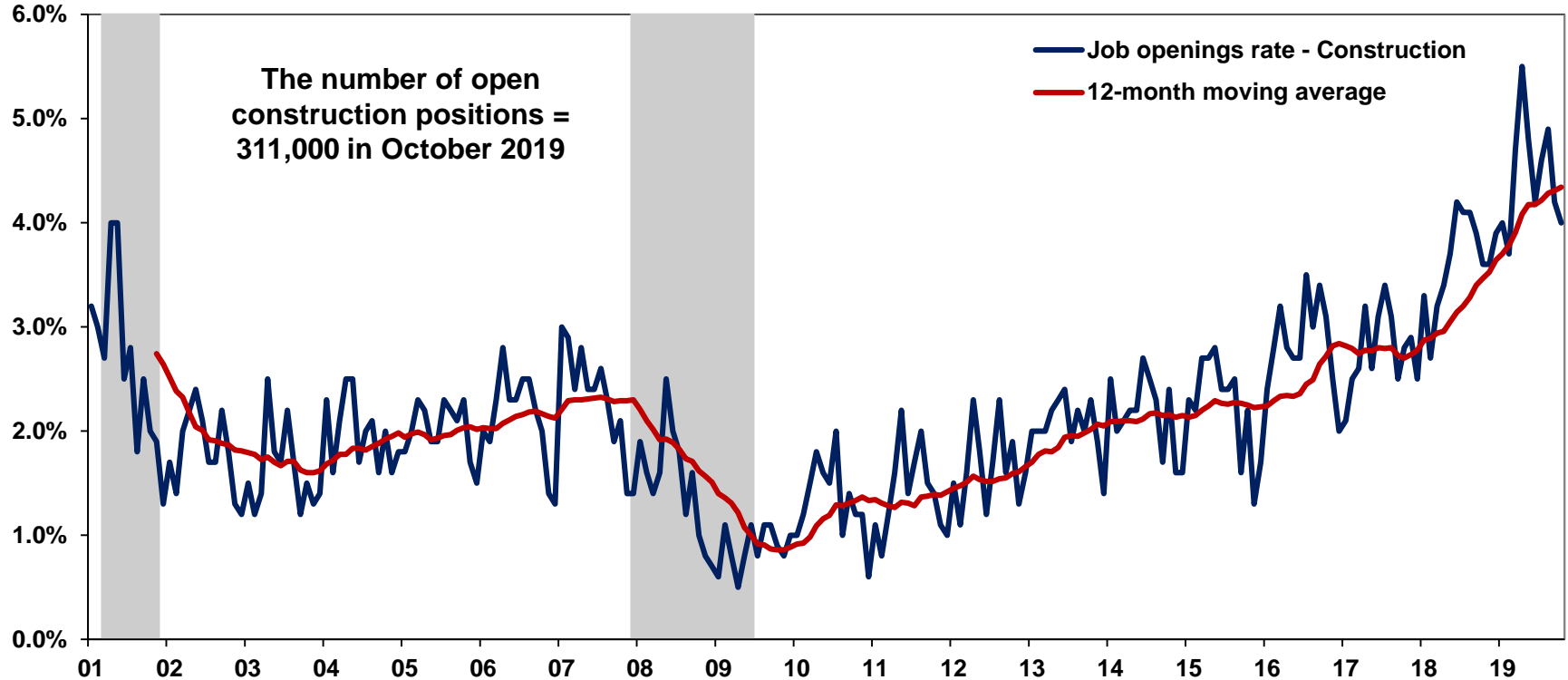


Top 10 Significant Problems Faced in 2019 and Expect to Face in 2020



Labor - Construction

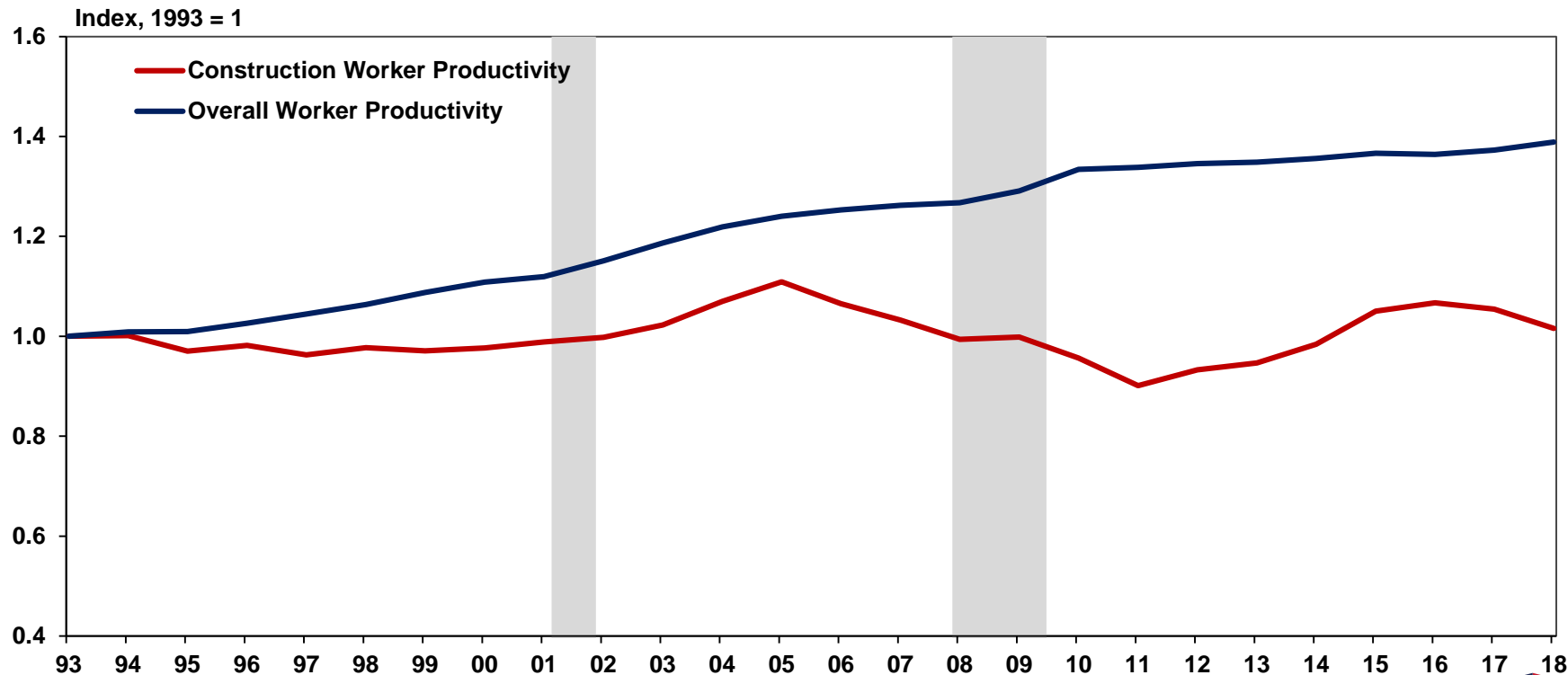
Skilled labor shortage persists



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

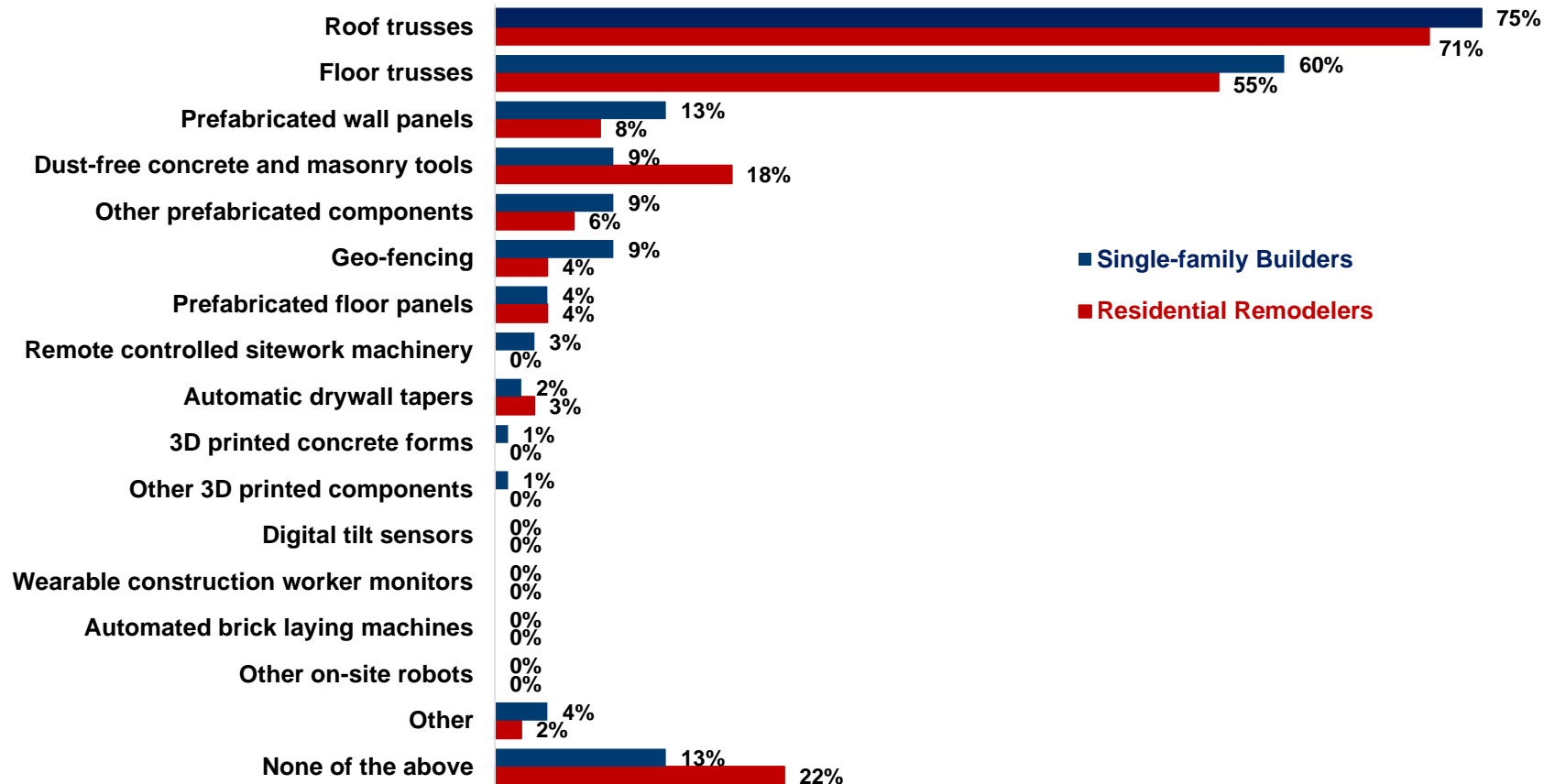
Construction Sector Productivity

Lagging overall economy



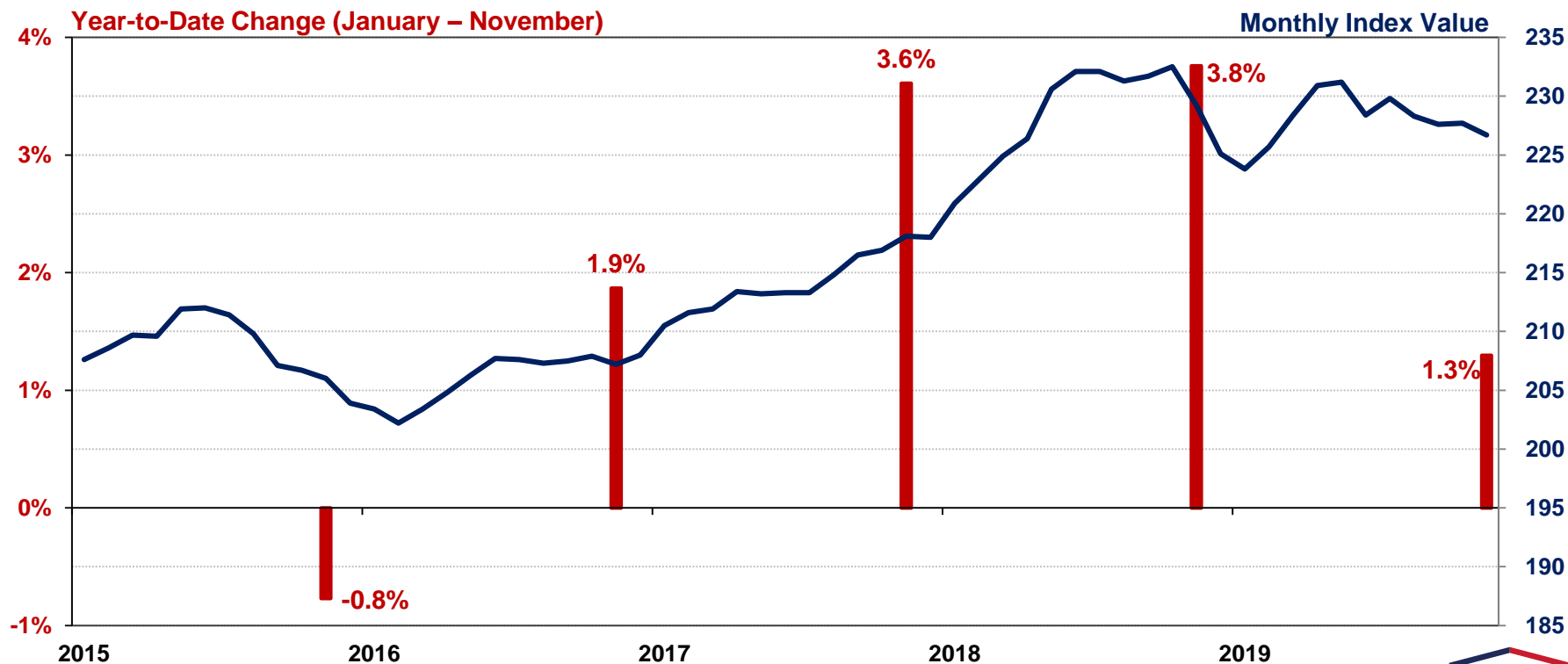
Source: U.S. Bureau of Labor Statistics (BLS)

Types of Construction Technology Used in 2019



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

Moderate Building Material Price Growth in 2019

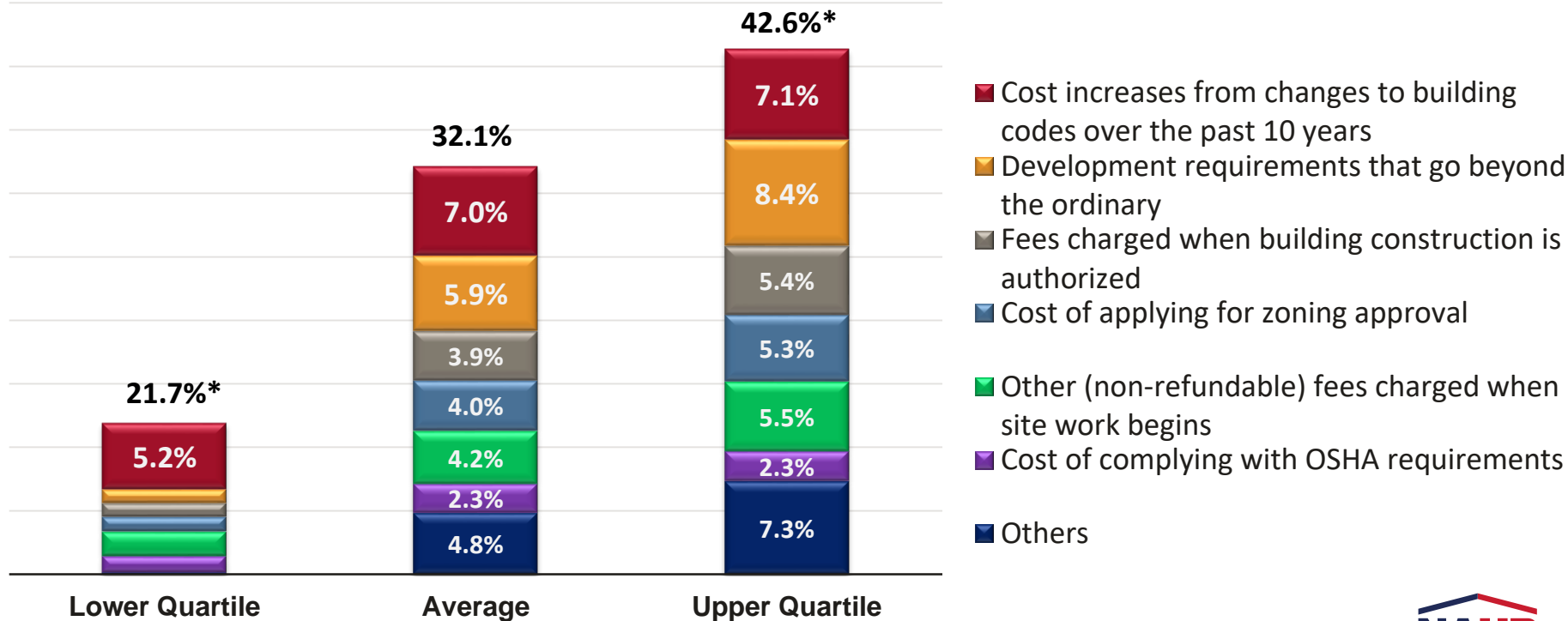


Source: NAHB Analysis; U.S. Bureau of Labor Statistics (BLS)

Regulations - 32% of Multifamily Development Costs

NAHB-NMHC research

Government Regulations as a Share of Multifamily Development Costs



Note: * For quartiles, all types of costs do not sum to the total.

Source: NAHB/Wells Fargo HMI survey

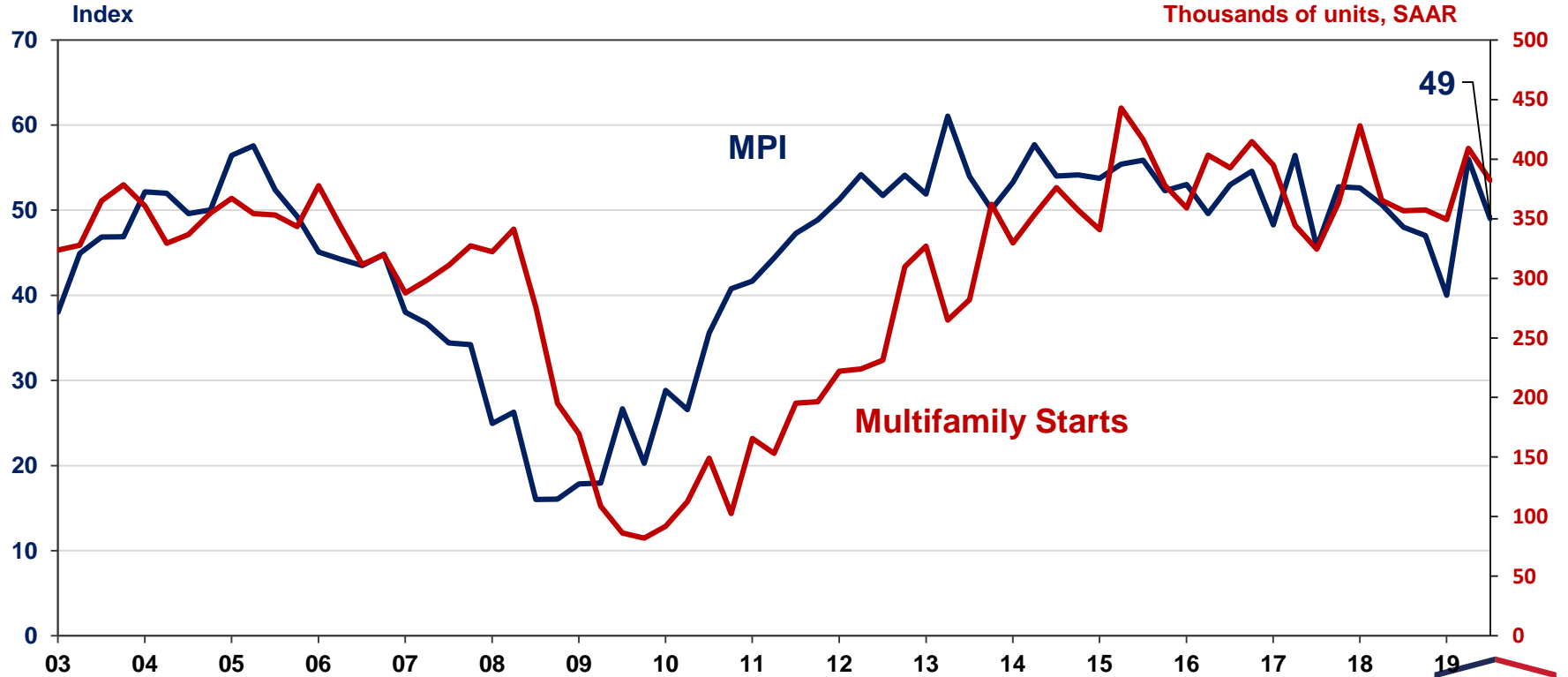


Construction Outlook



NAHB Multifamily Production Index

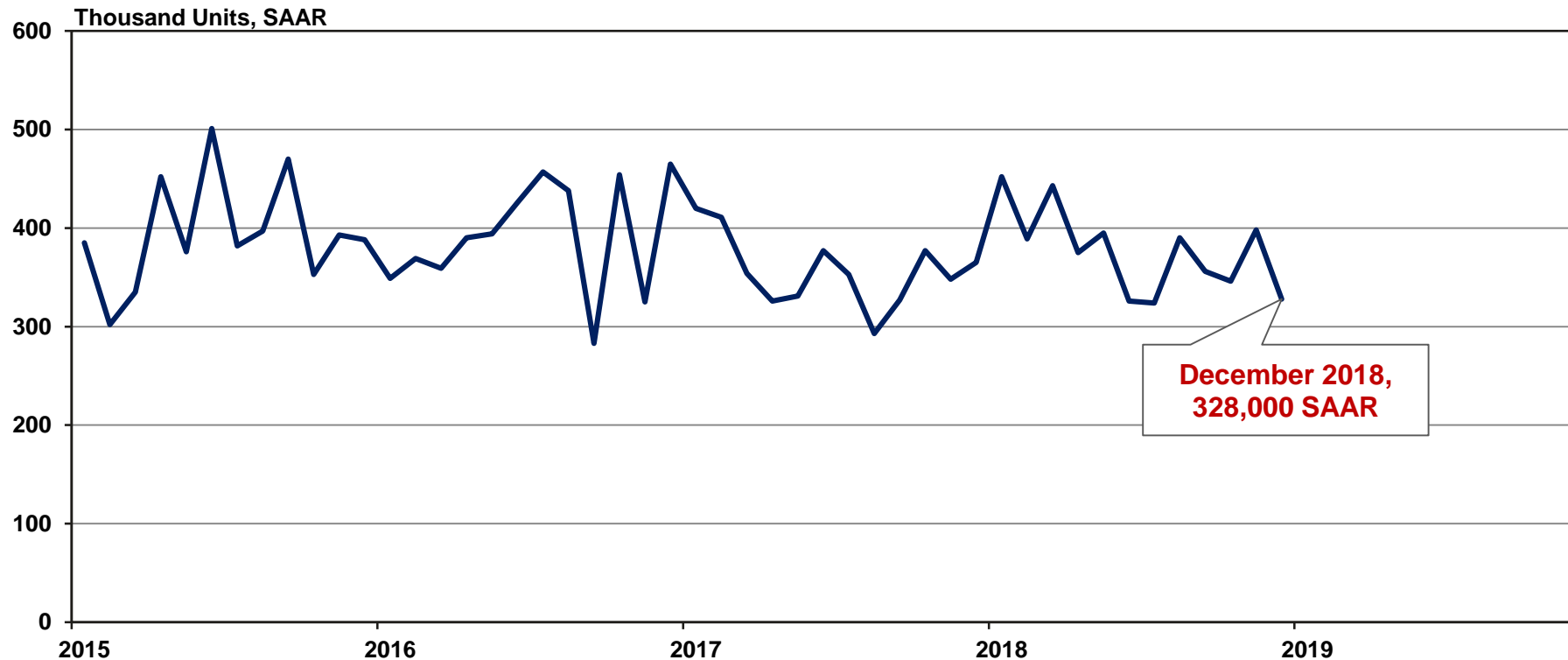
Confidence in the multifamily market weakened



Source: U.S. Census Bureau (BOC) and NAHB Multifamily Market Survey (MMS).

/ Multifamily Housing Starts

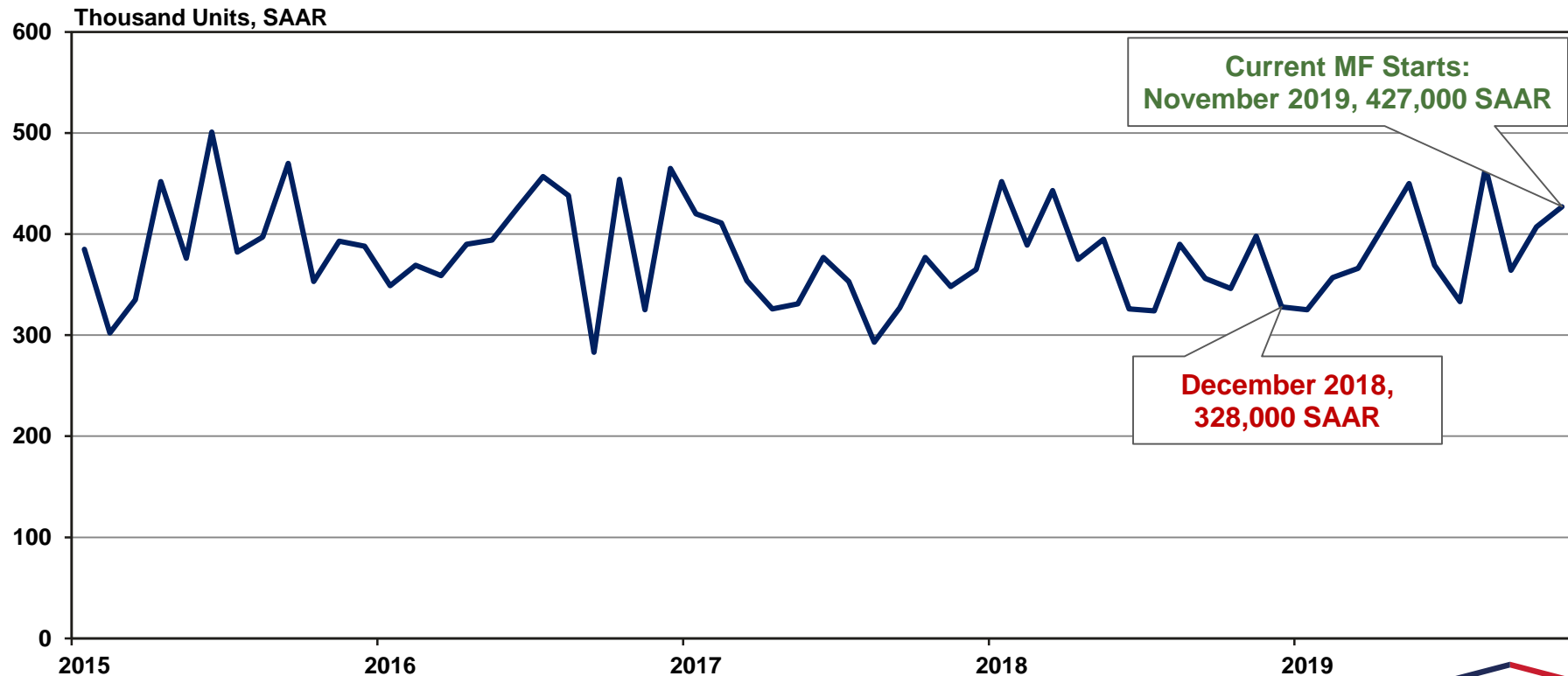
Apartment construction has leveled off since 2015



Source: U.S. Census Bureau (BOC)

/ Multifamily Housing Starts

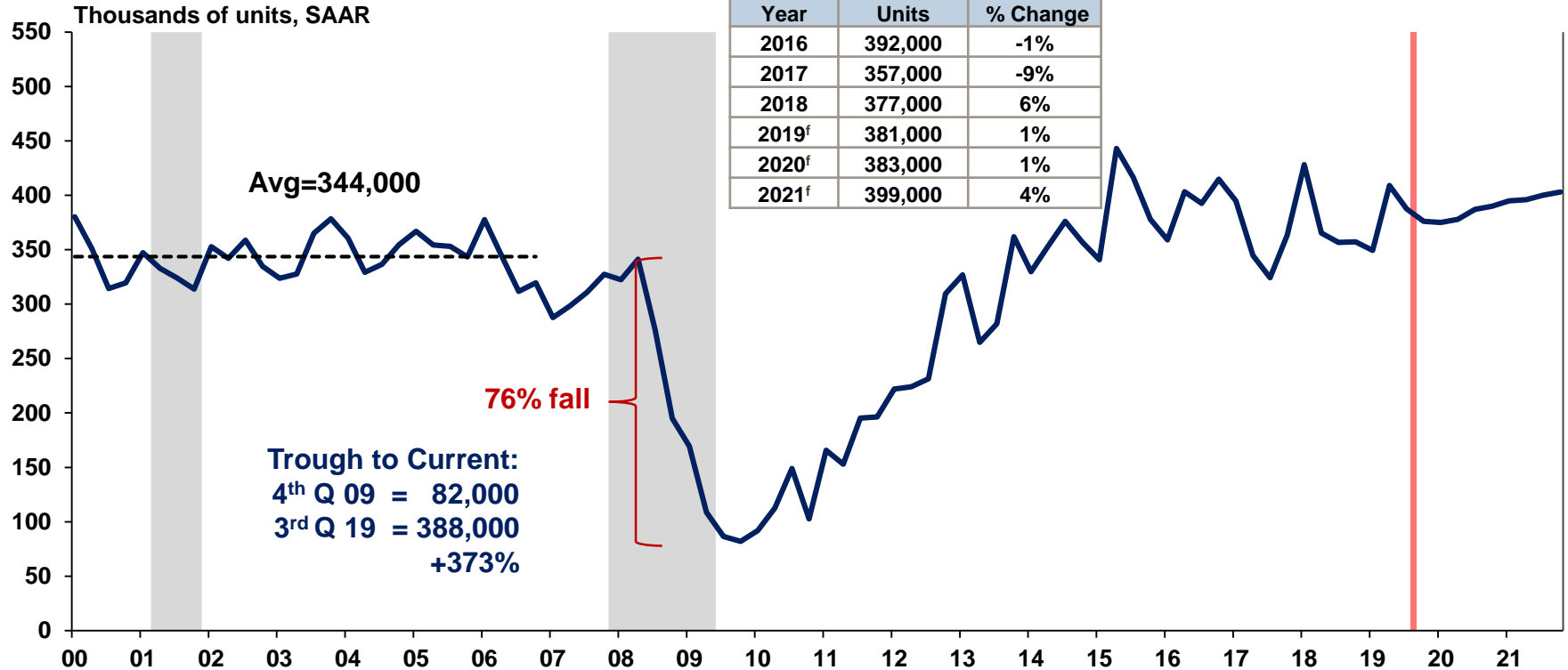
Apartment construction increased slightly due to single-family slowdown



Source: U.S. Census Bureau (BOC)

Multifamily Housing Starts

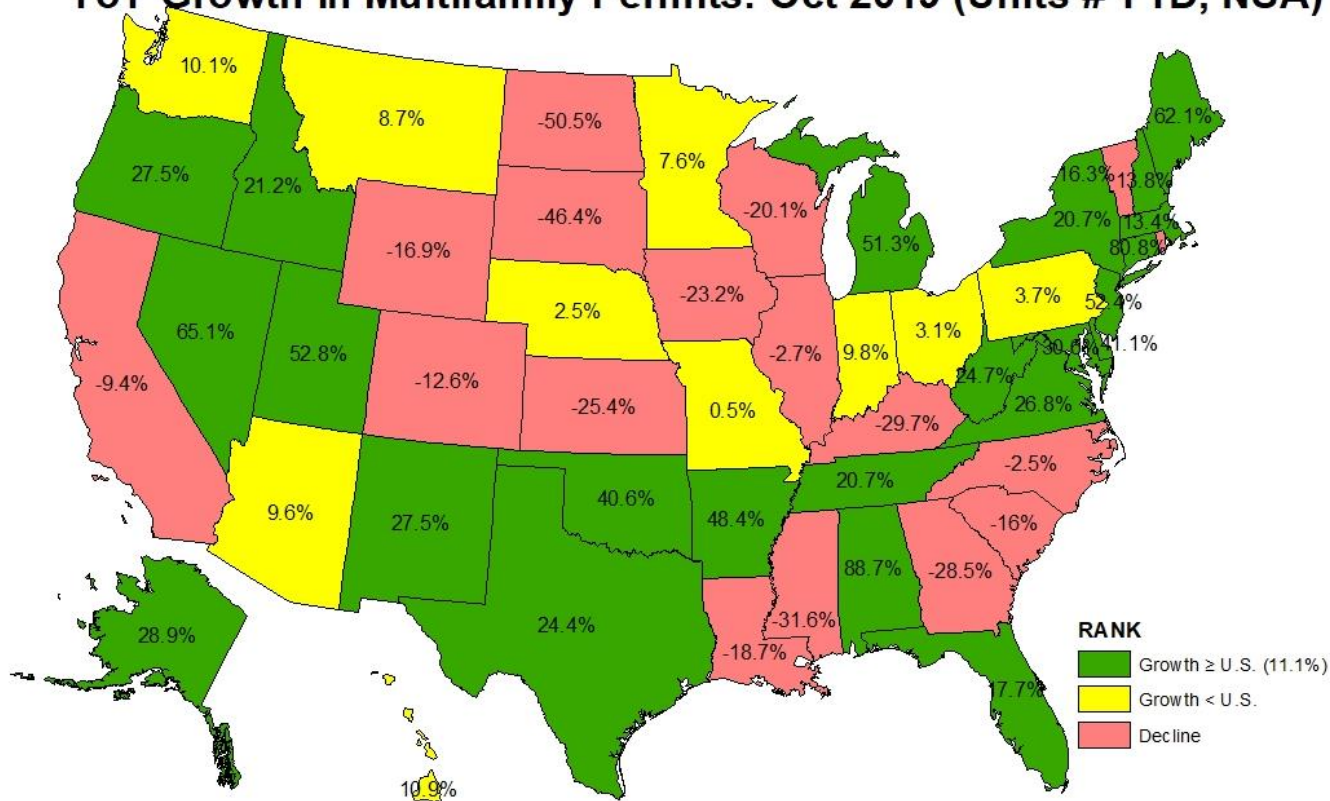
Leveling off



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

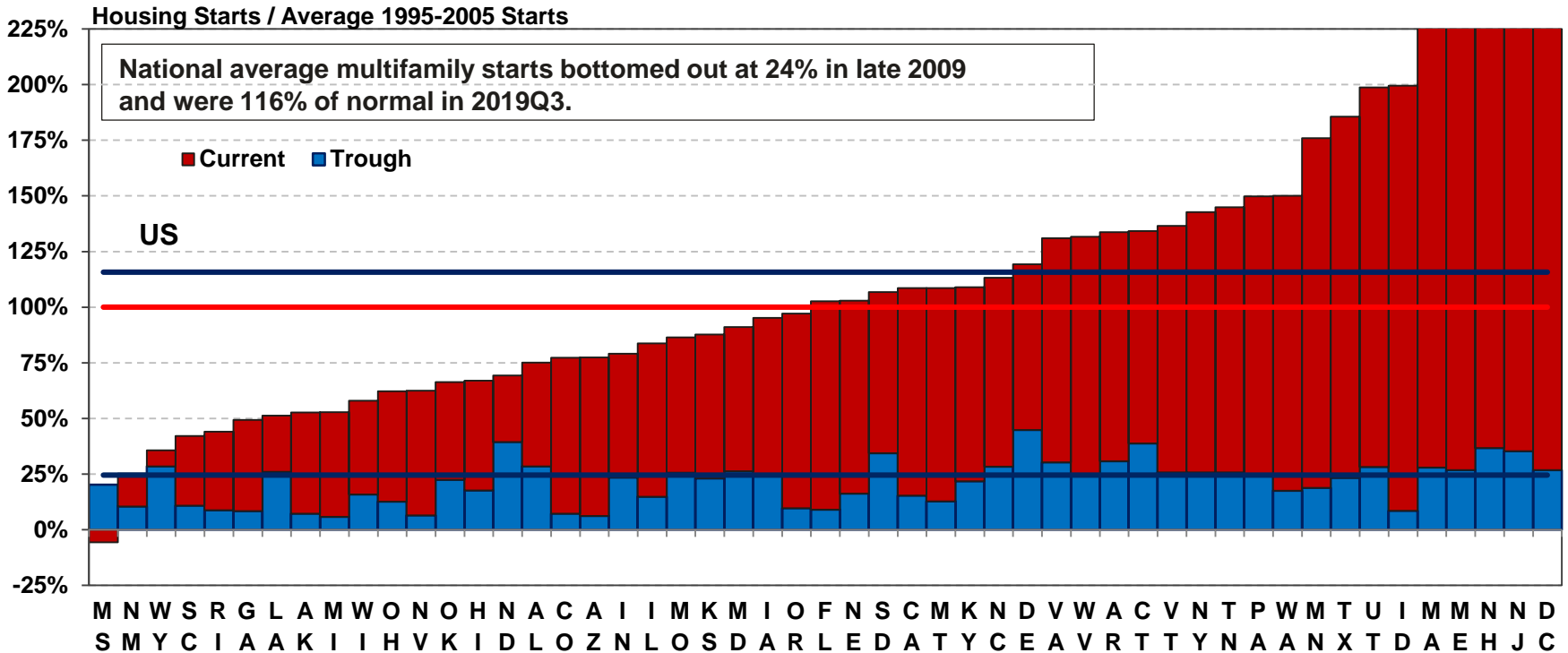
Growth in Multifamily Permits

YoY Growth in Multifamily Permits: Oct 2019 (Units # YTD, NSA)



Source: U.S. Census Bureau (BOC)

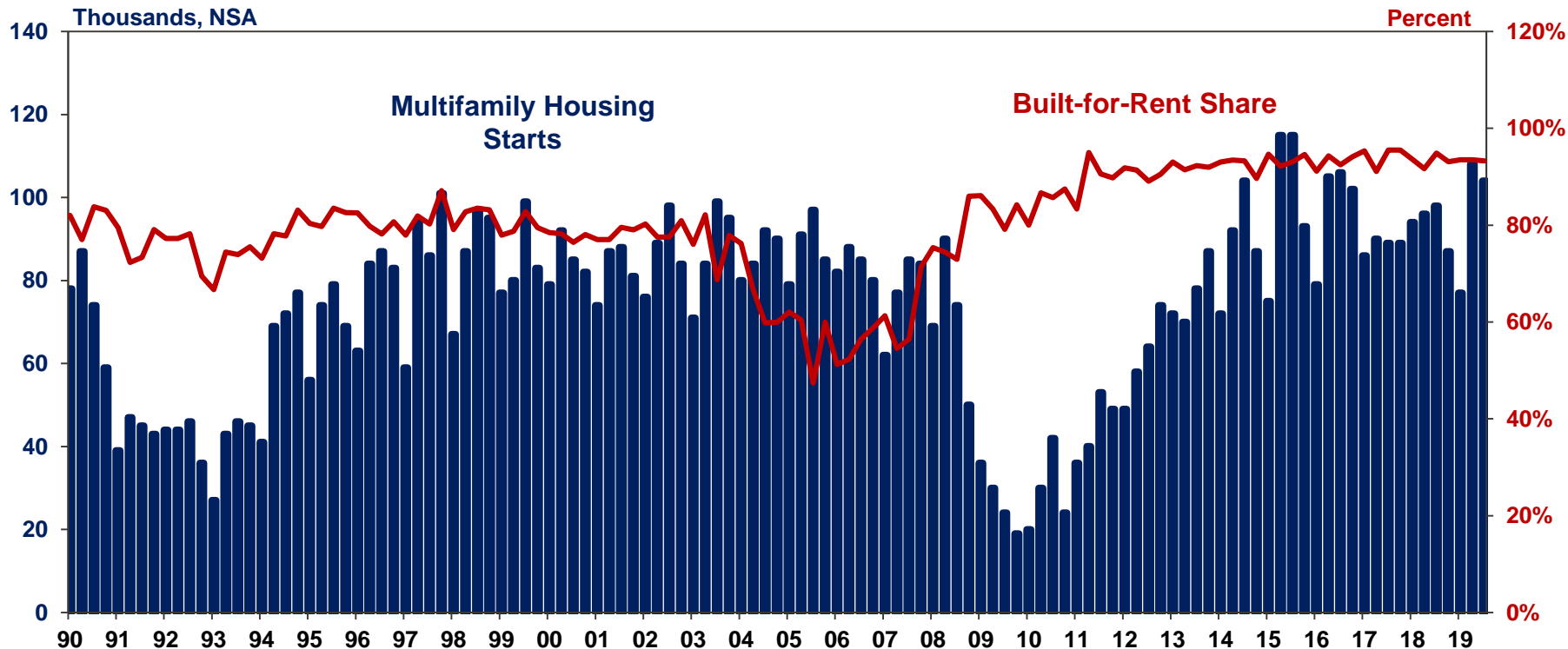
Multifamily Housing Starts – Trough and Current



Source: U.S. Census Bureau (BOC)

Multifamily Construction

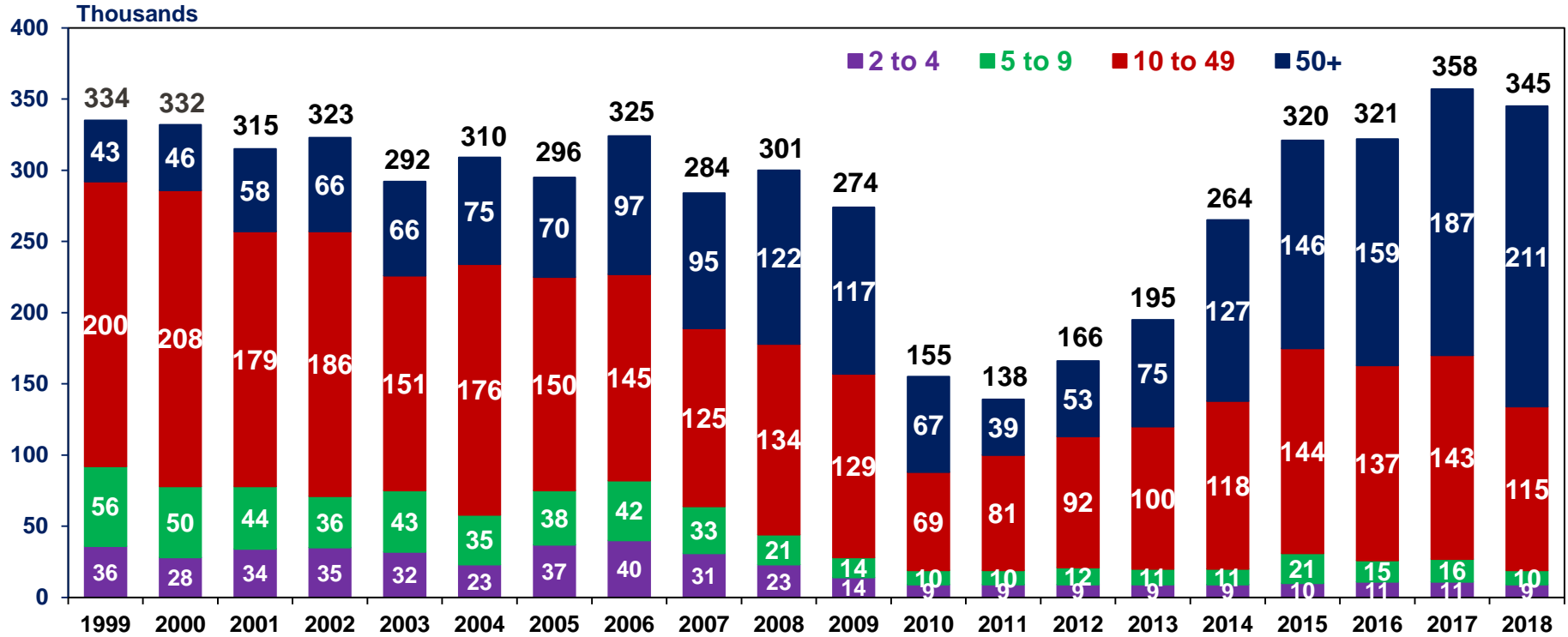
Rental production dominates



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

Multifamily Buildings Completed By Units

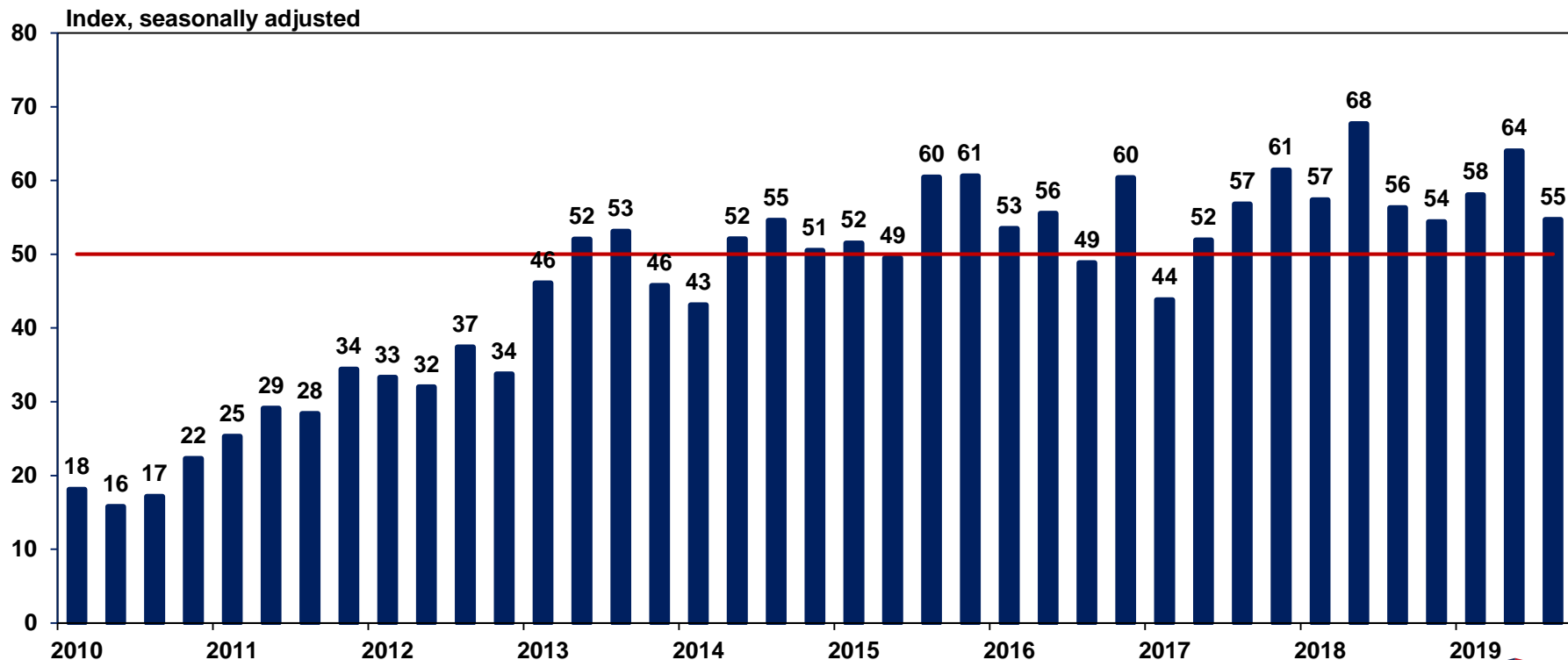
More concentration in 50+ unit properties



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

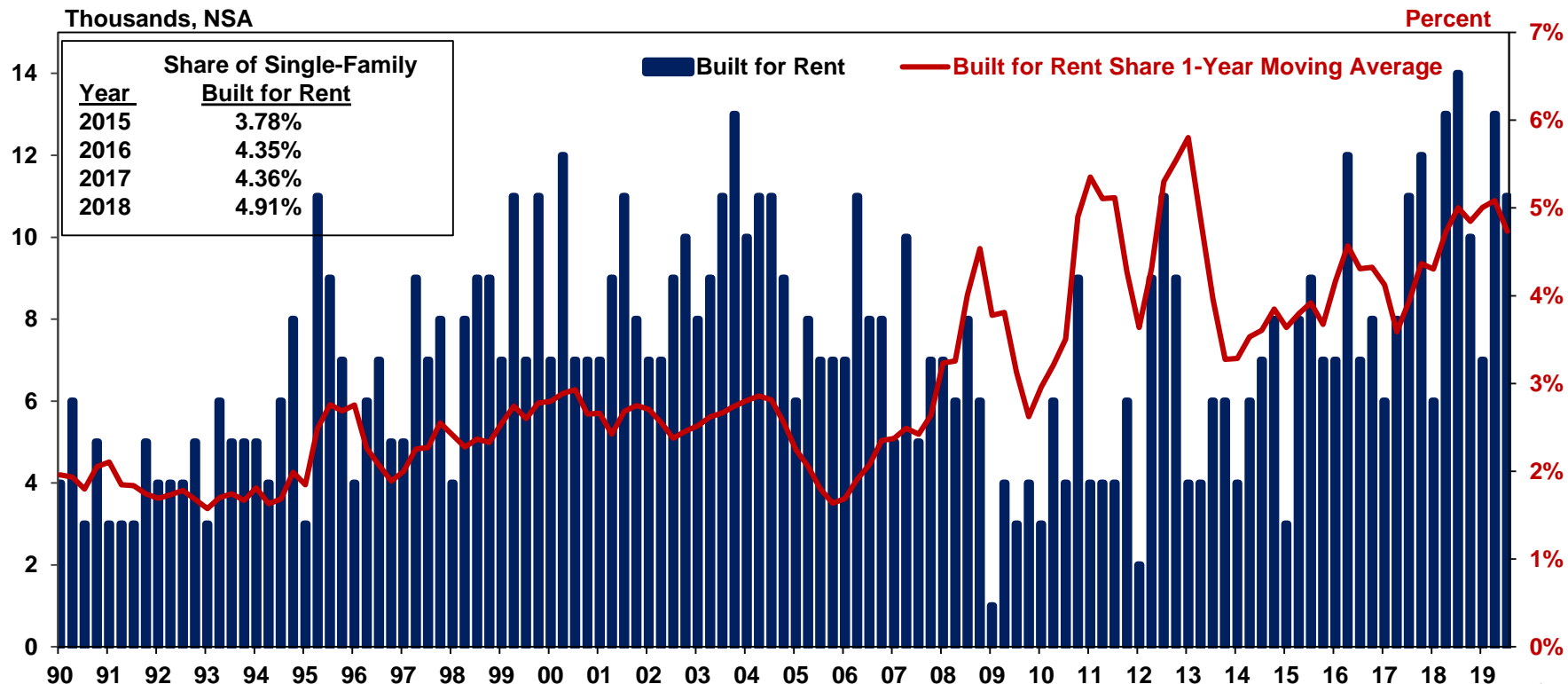
/ NAHB 55+ Multifamily Rental Production Expected

Senior market slowing?



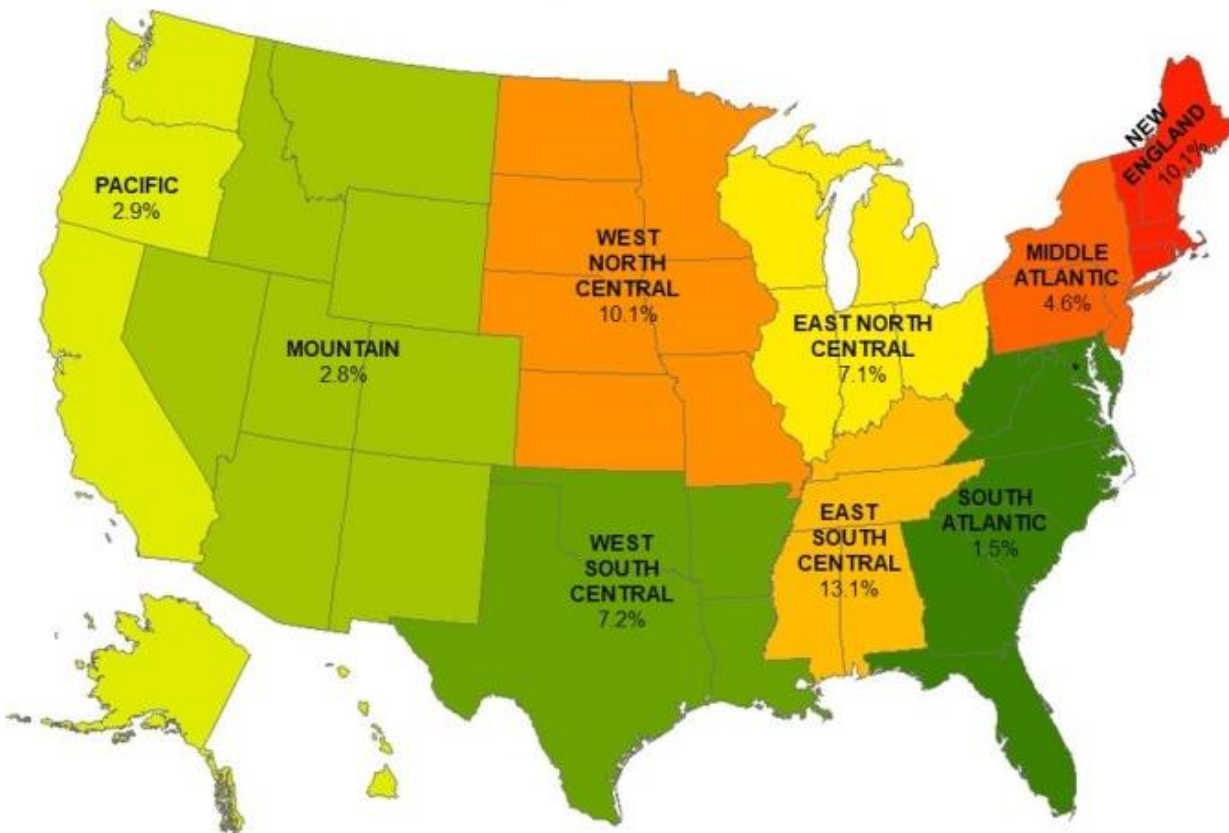
Source: NAHB 55+ Housing Market Index Survey

Single-Family Built-for-Rent a Niche Market



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

Single-Family Built-for-Rent Geography



Source: NAHB analysis of U.S. Census Bureau (BOC) data

<https://eyeonhousing.org/2019/08/contrasting-built-for-rent-and-for-sale-new-single-family-homes/>

More on Geography of Rental Housing

Figure 1: Detached Renter Occupied Units
As Share of Total Renter Occupied Units by Metro Area
(2017 1 Year ACS)

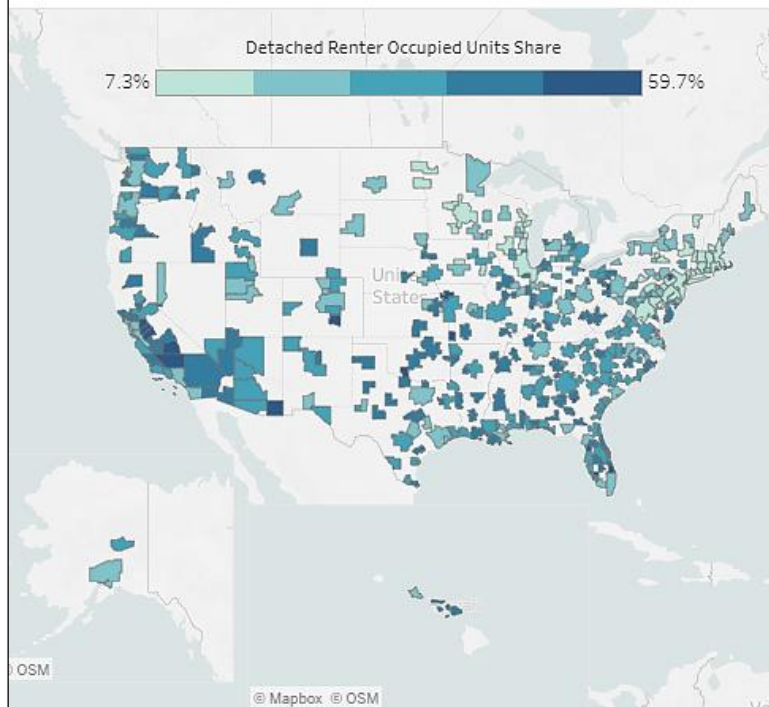
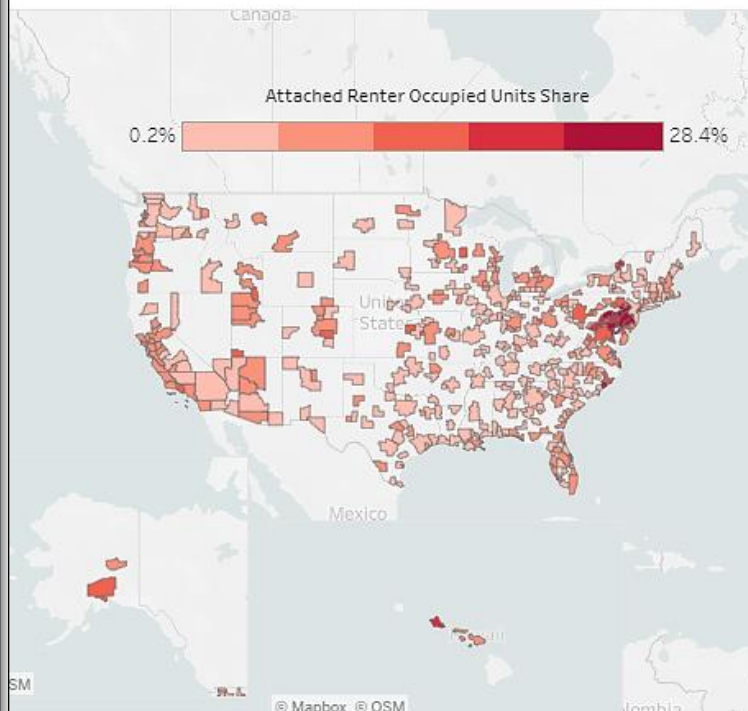


Figure 2: Attached Renter Occupied Units
As Share of Total Renter Occupied Units by Metro Area
(2017 1 Year ACS)

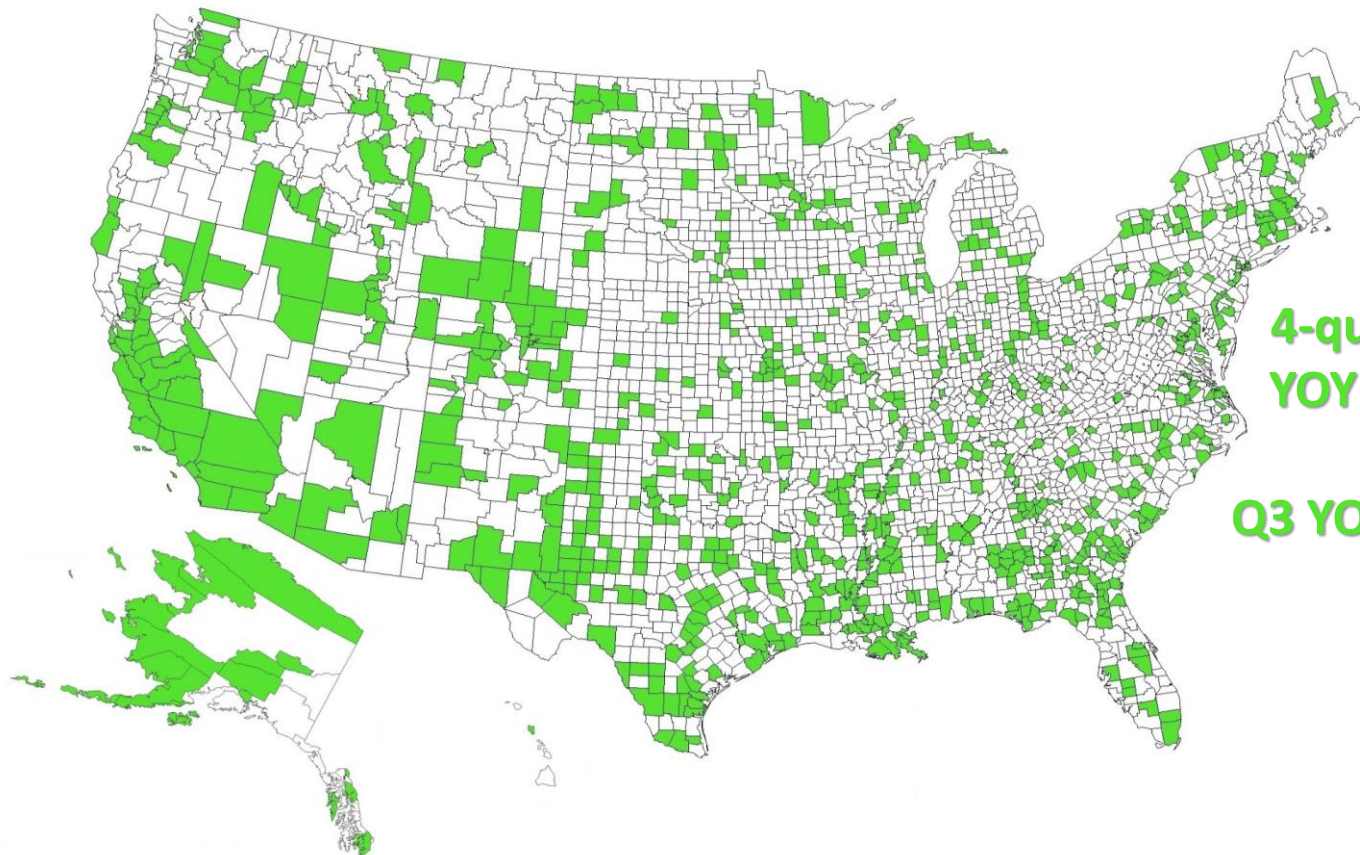


Source: NAHB analysis of the 2017 American community Survey (ACS)

<http://eyeonhousing.org/2019/09/examining-the-spatial-distribution-of-rental-housing/>

/ New NAHB Home Building Geography Index

79.9% of multifamily construction takes place in **Millennial Counties**



Q3 2019

4-quarter MA of
YOY growth rate:

6.5%

Q3 YOY growth rate:

25.5%

Source: NAHB Analysis of Census data (Building Permits and ACS)

Thank you

Questions?

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