

Economic and Housing Outlook

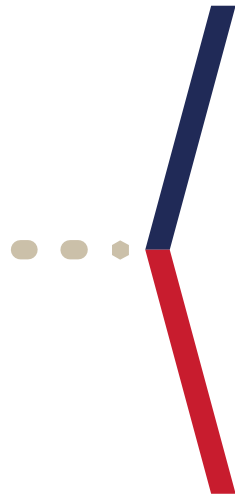
Home Builders Association of Virginia
June 22, 2018

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NAHB Chief Economist



Housing Market Growing; Single-Family Lags

- Tax reform changes
- Macroeconomics post-tax reform
 - Signs of growth momentum
 - Signs of a future slowdown
- Housing demand and affordability
 - Demographics positive
- Supply-side headwinds
- State-level economic measures
- Forecasts



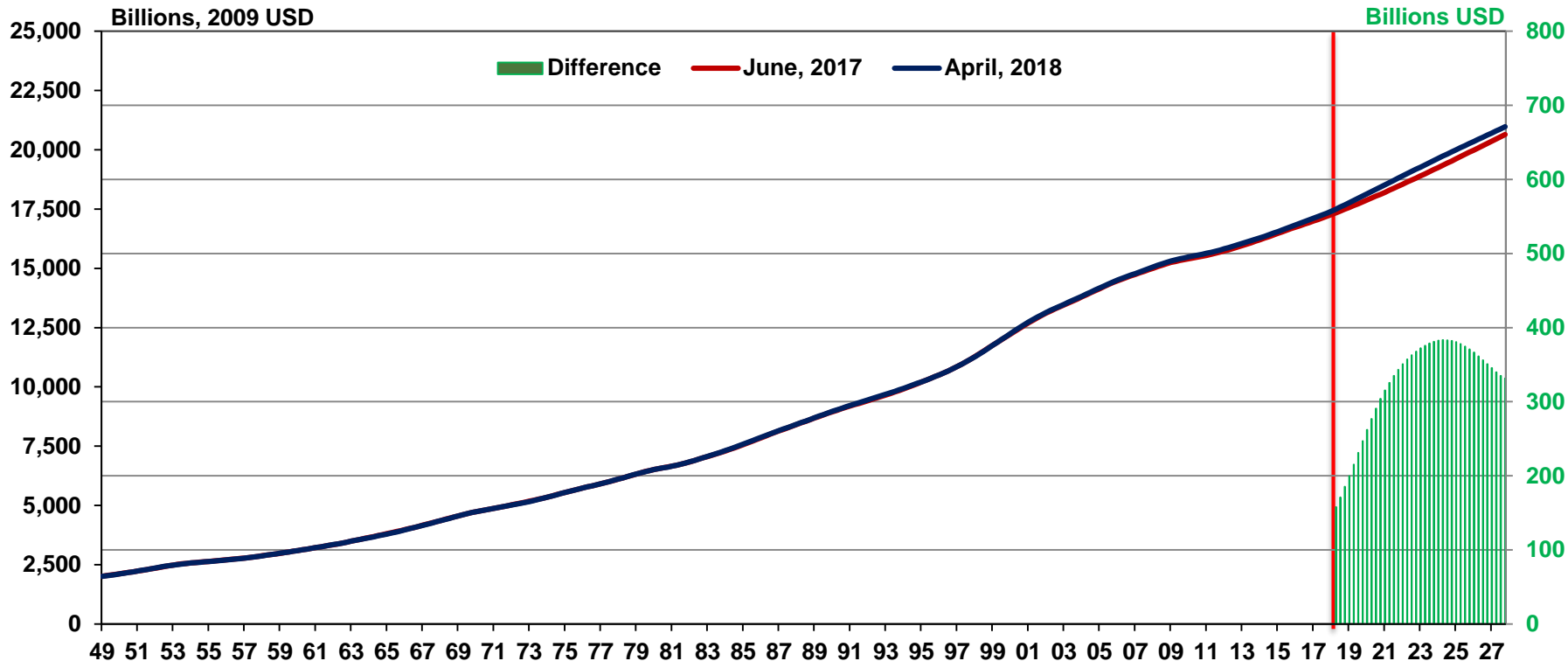
Macroeconomics Post-Tax Reform

Tax Reform – Policy Changes and Impacts

- Economic impacts
 - GDP
 - Marked up 2018 forecast to 2.7%
 - Dynamic scoring model suggests 0.8% more GDP after 10 years
 - Business investment
 - 1.1% higher after ten years
 - Labor supply and employment
 - 0.6% higher
 - 0.9 million more workers in labor force
 - Reduced home price growth to a positive 2.9% growth rate in 2018
 - Incoming data shows no such effect

Tax Reform Boosts Potential GDP

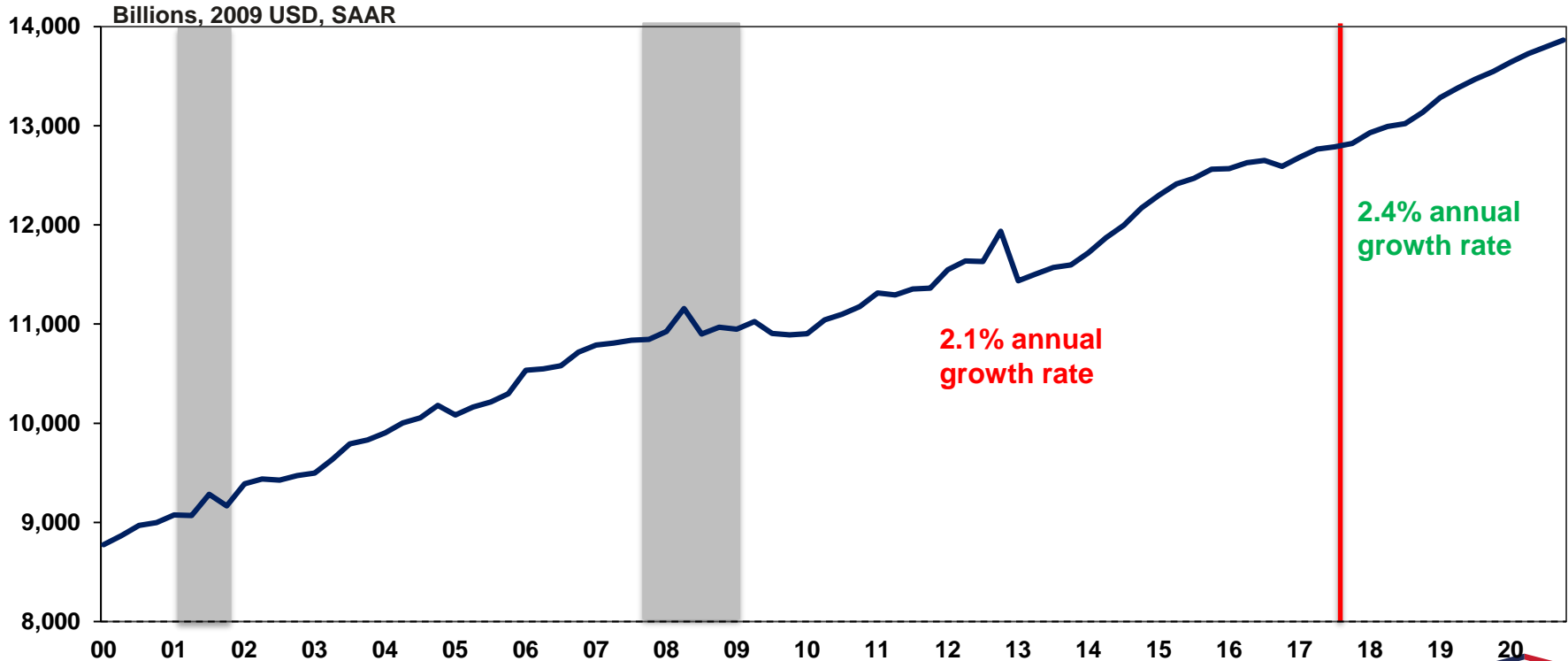
Added economic efficiencies yield more room to grow



Source: Congressional Budget Office.

Tax Cuts Help Disposable Income Growth

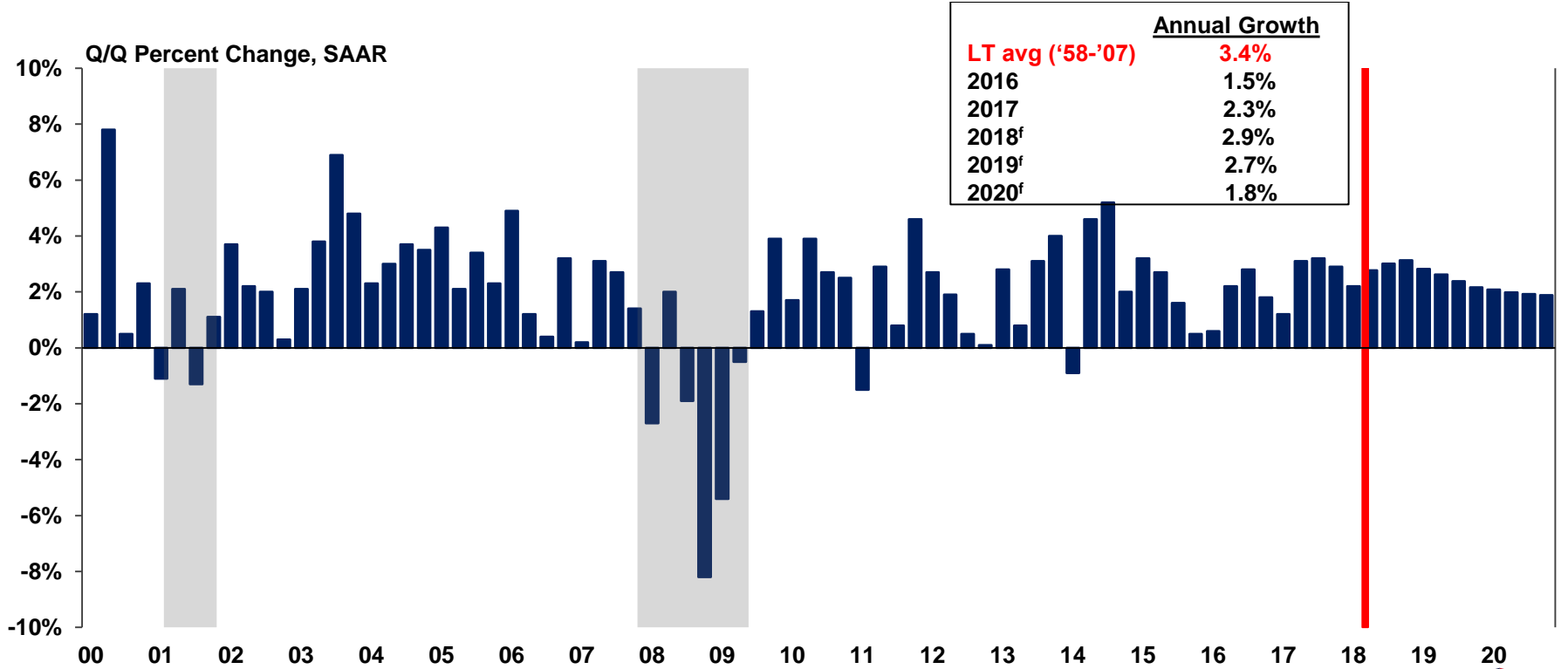
Bonuses and wage growth will drive gains



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

GDP Growth

Stronger growth expected post-tax reform

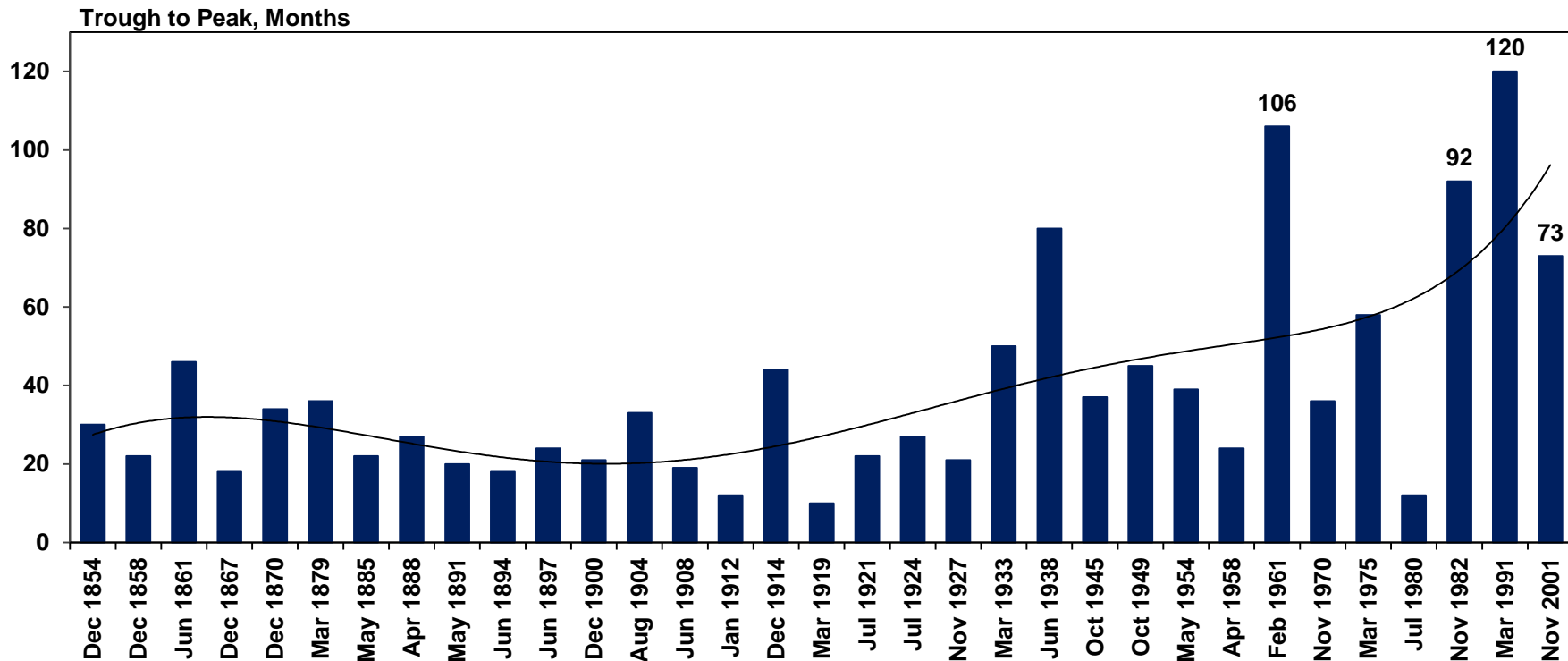


Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.



Expansion is Aging

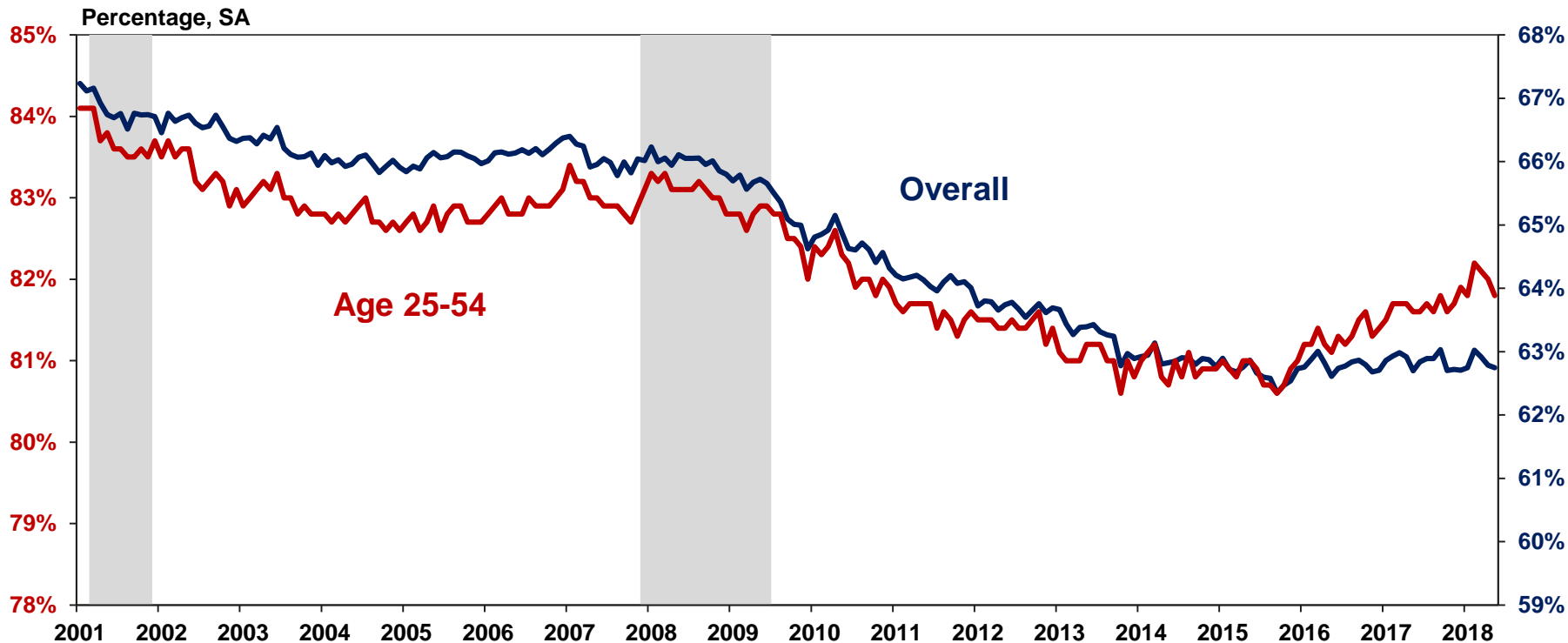
Current expansion is 108 months old – second longest



Source: The National Bureau of Economic Research (NBER).

Labor Force Participation Rate

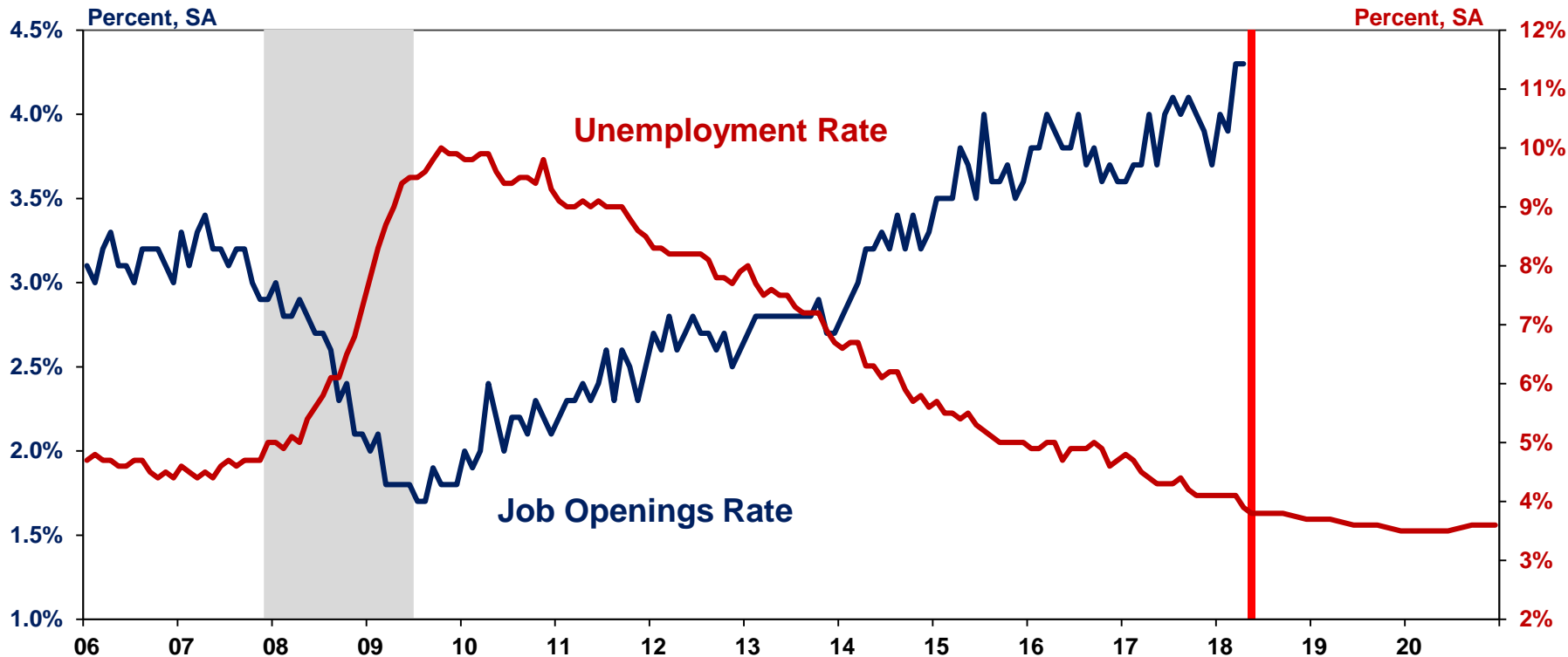
Improving labor force participation key to future growth



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

Tight Labor Market

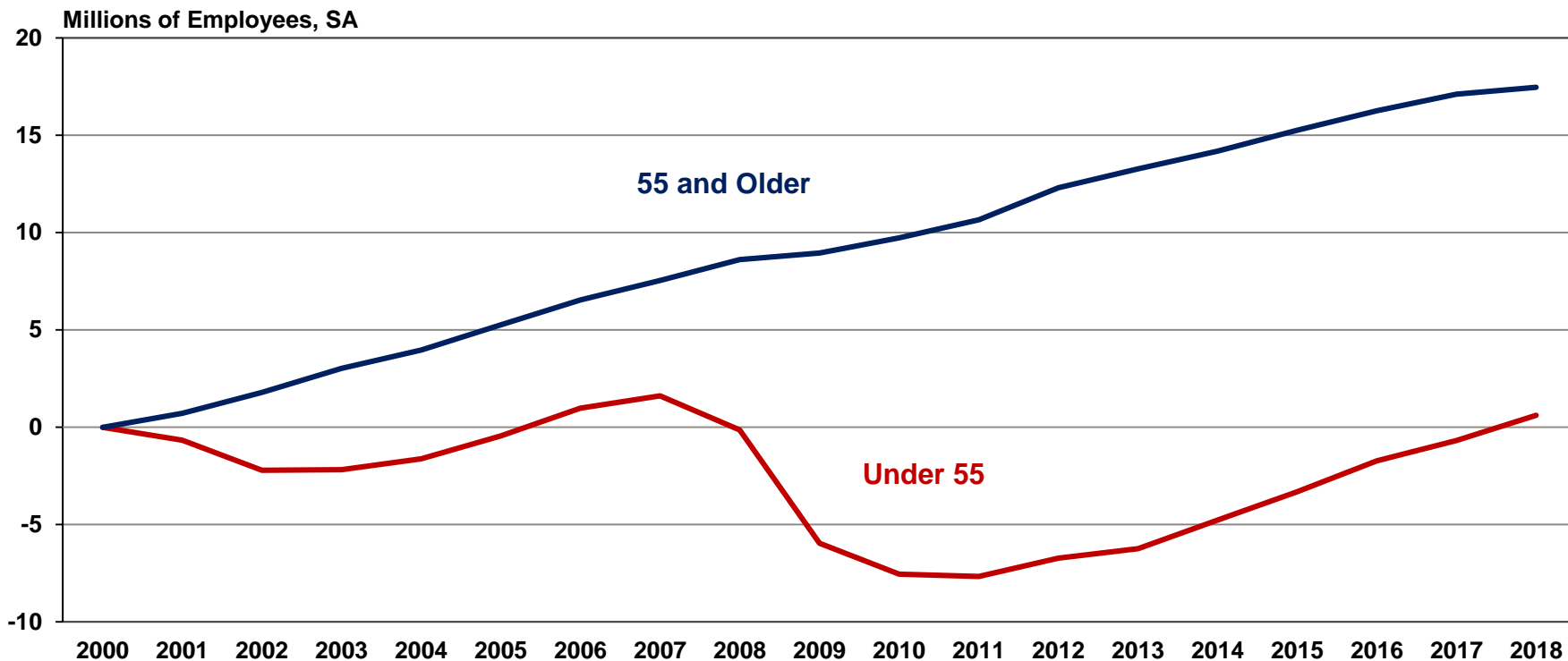
How low can unemployment go?



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

Cumulative Change in Employment by Age Group

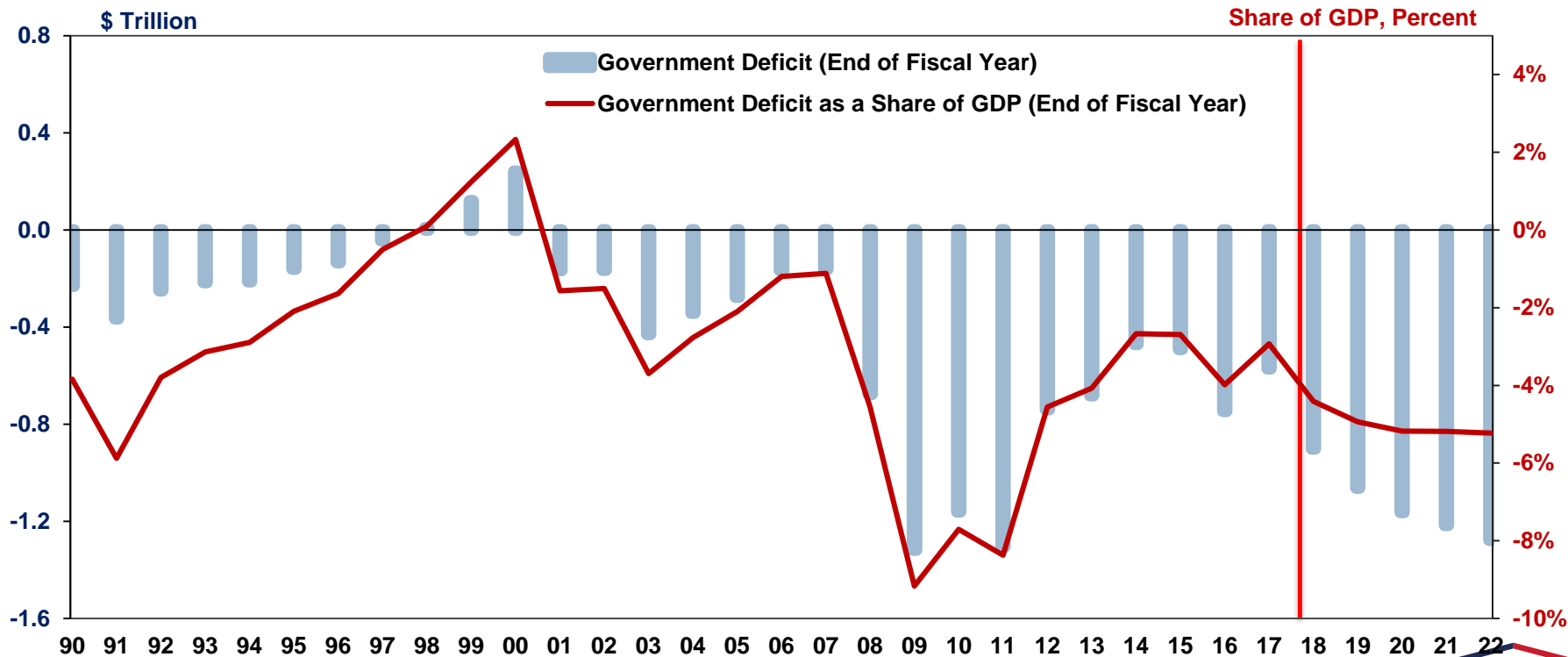
Mind the Gen-X gap



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

Government Deficits Growing

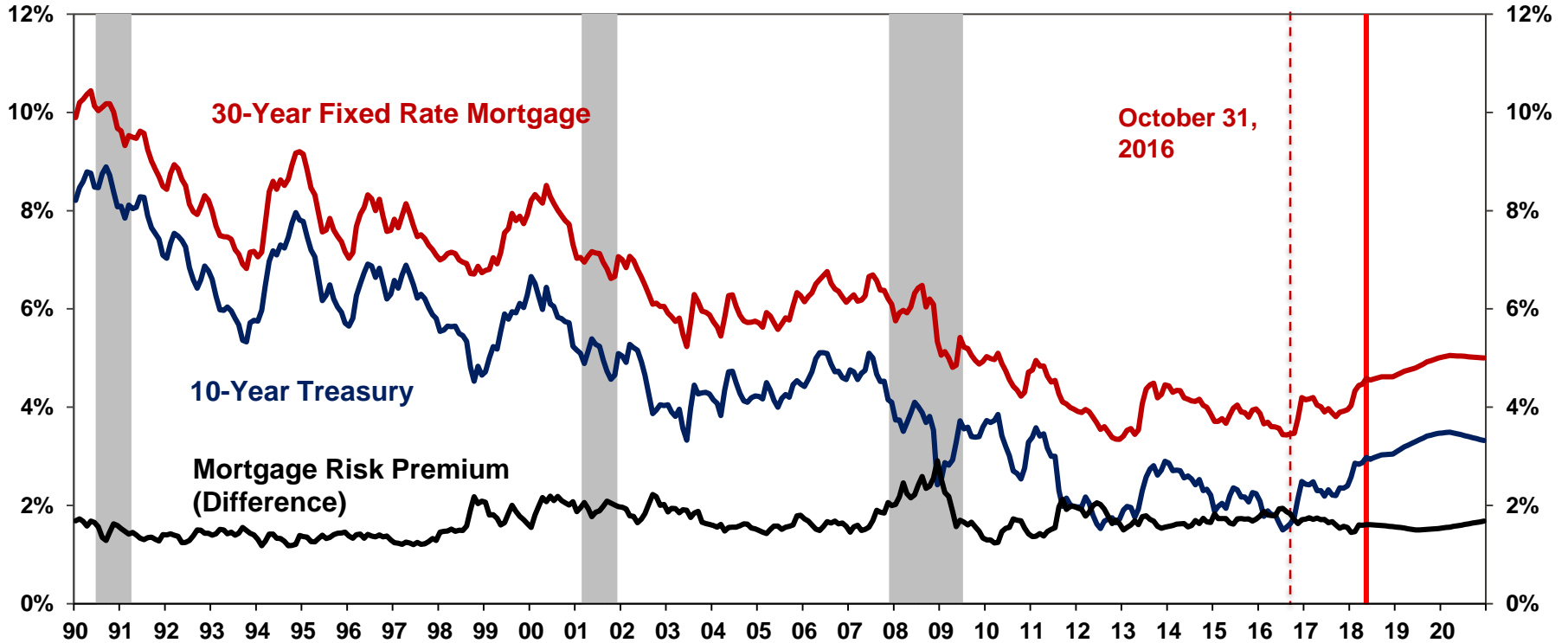
Post-tax reform deficits add up to 30 basis points to 10-year Treasury rate



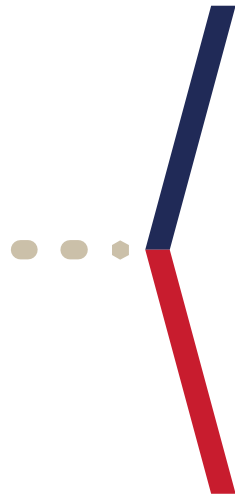
Source: U.S. Treasury Department and Bureau of Economic Analysis (BEA) and NAHB forecast.

30-Year Fixed Rate Mortgage and 10-Year Treasury

Rates will rise due to Fed policy and tight labor markets

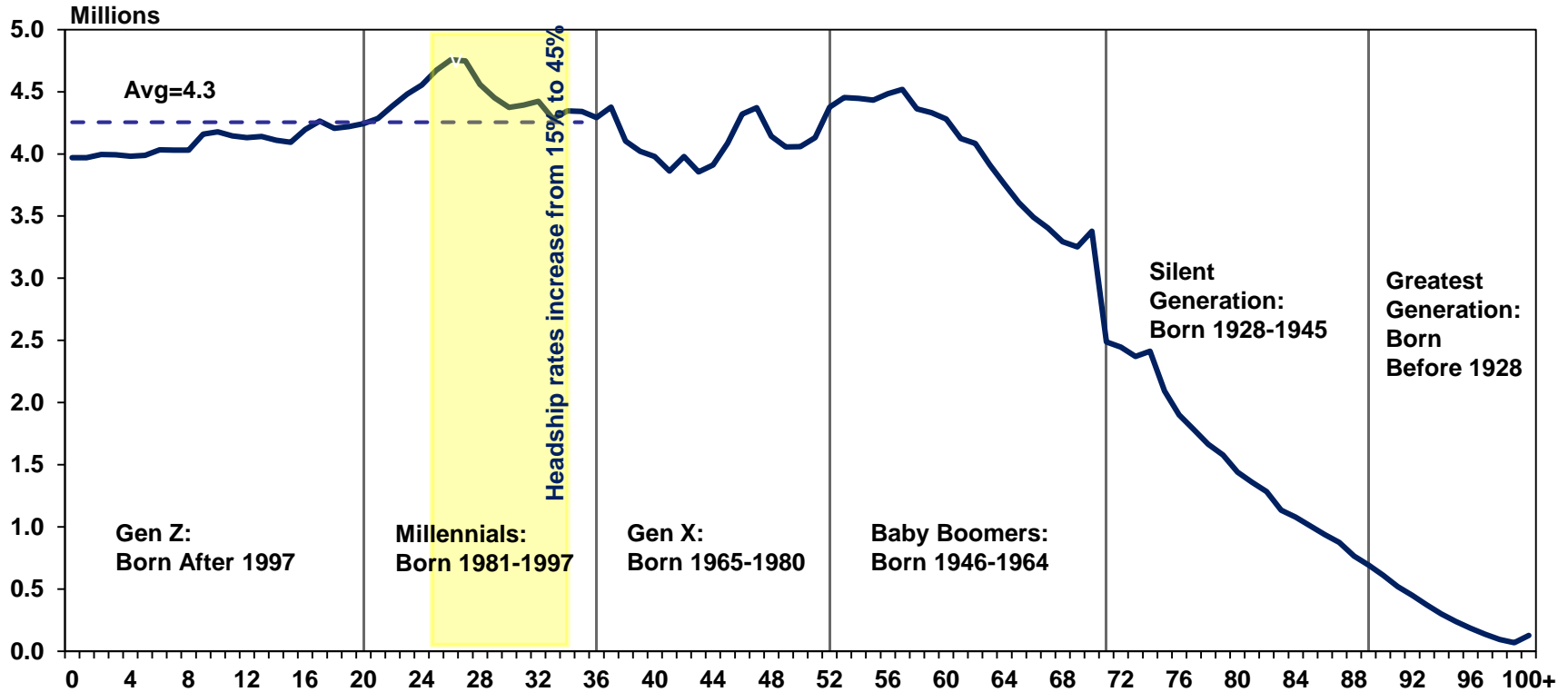


Source: Federal Reserve and Freddie Mac data and NAHB forecast.



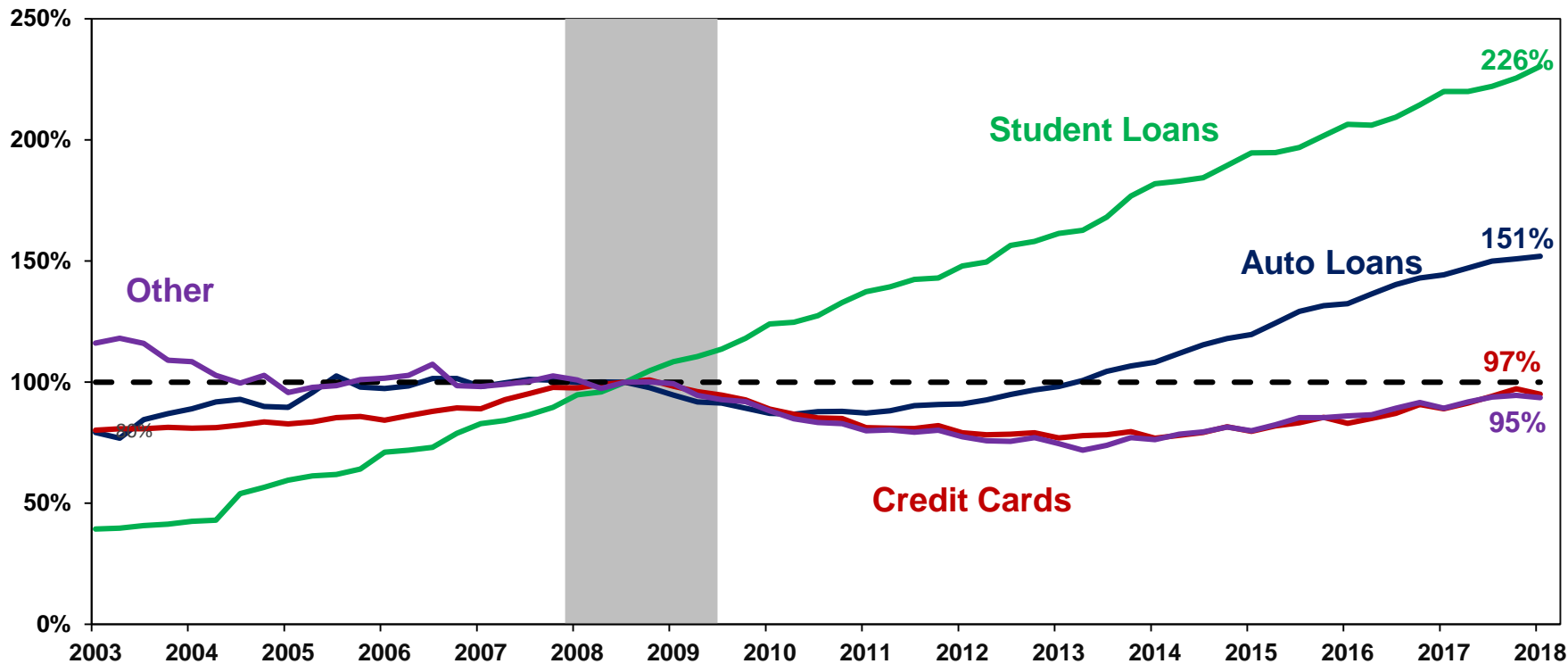
Housing Demand and Affordability

Rising Population Entering Housing Demand Years: 2017



Consumer Debt

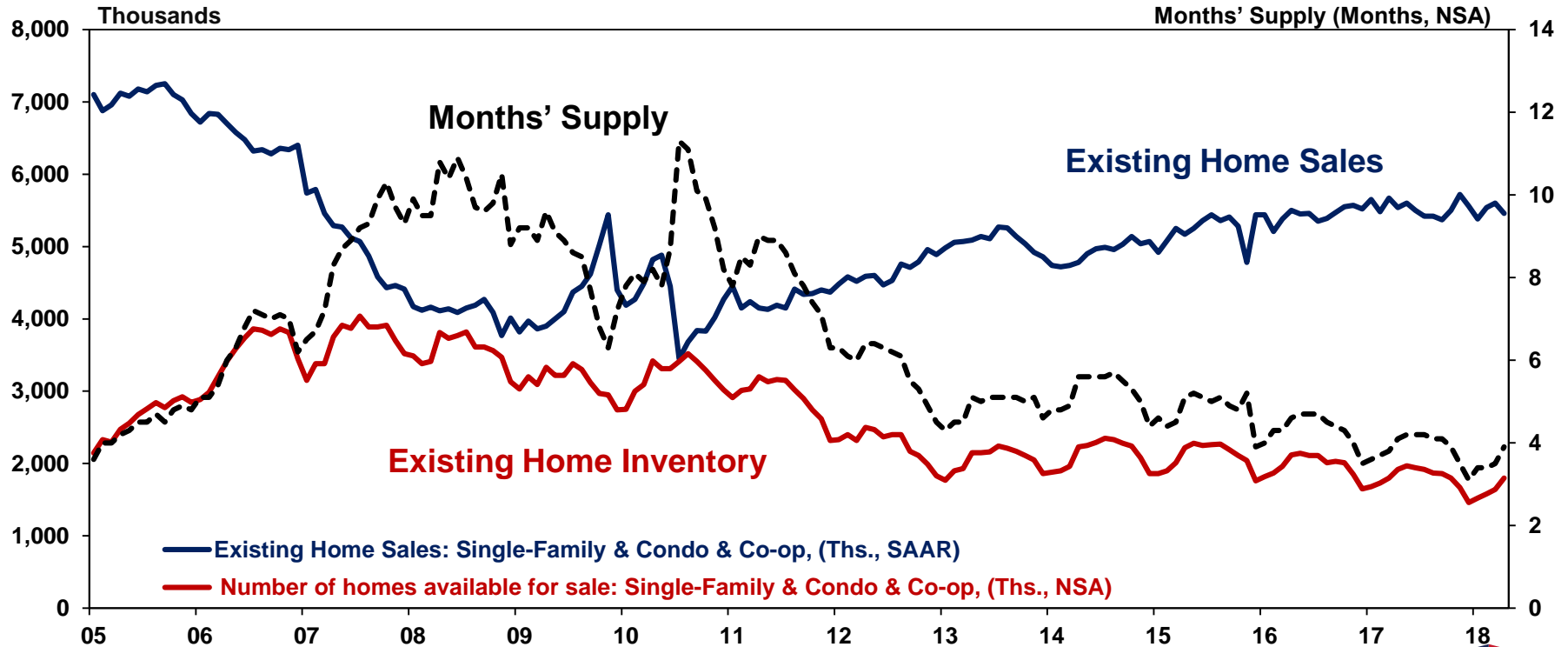
Rise in student and auto loans



Source: Federal Reserve Bank of New York.

Existing Home Sales

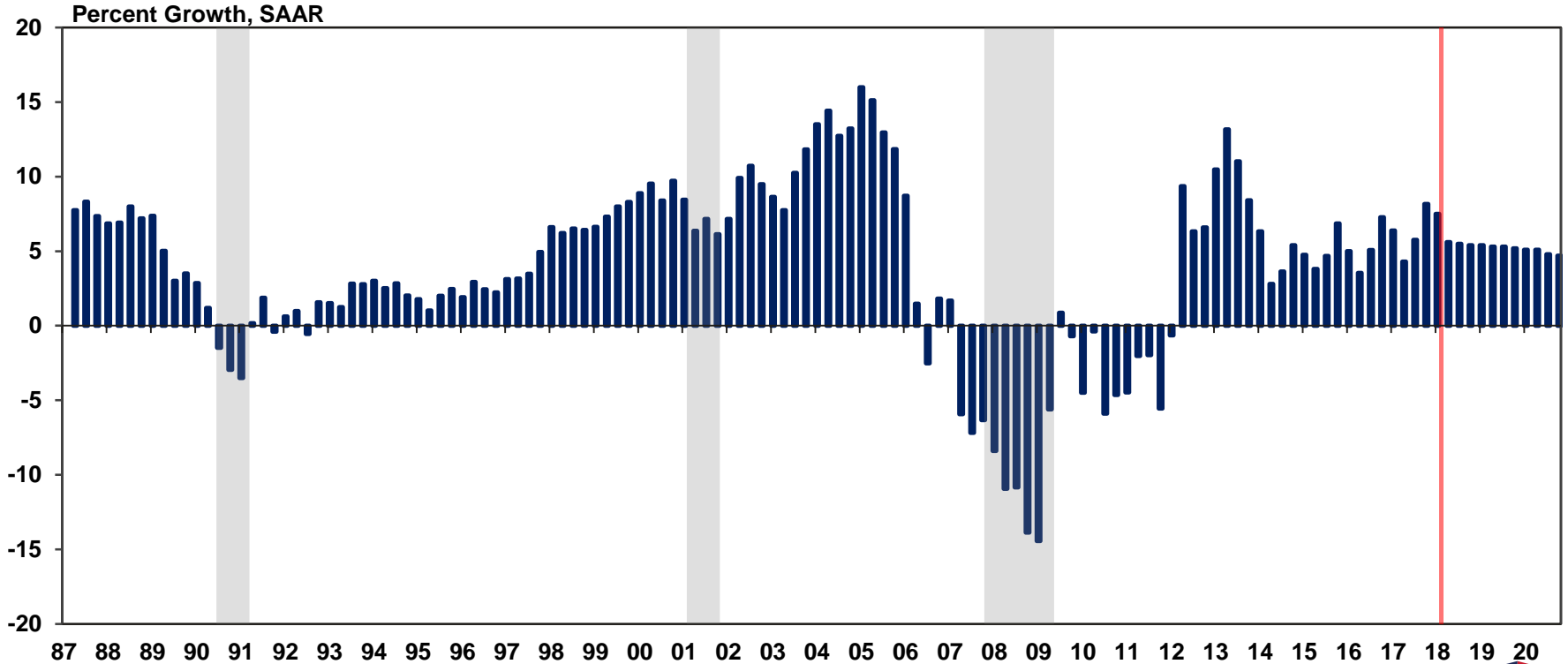
Low inventory



Source: National Association of Realtors (NAR).

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

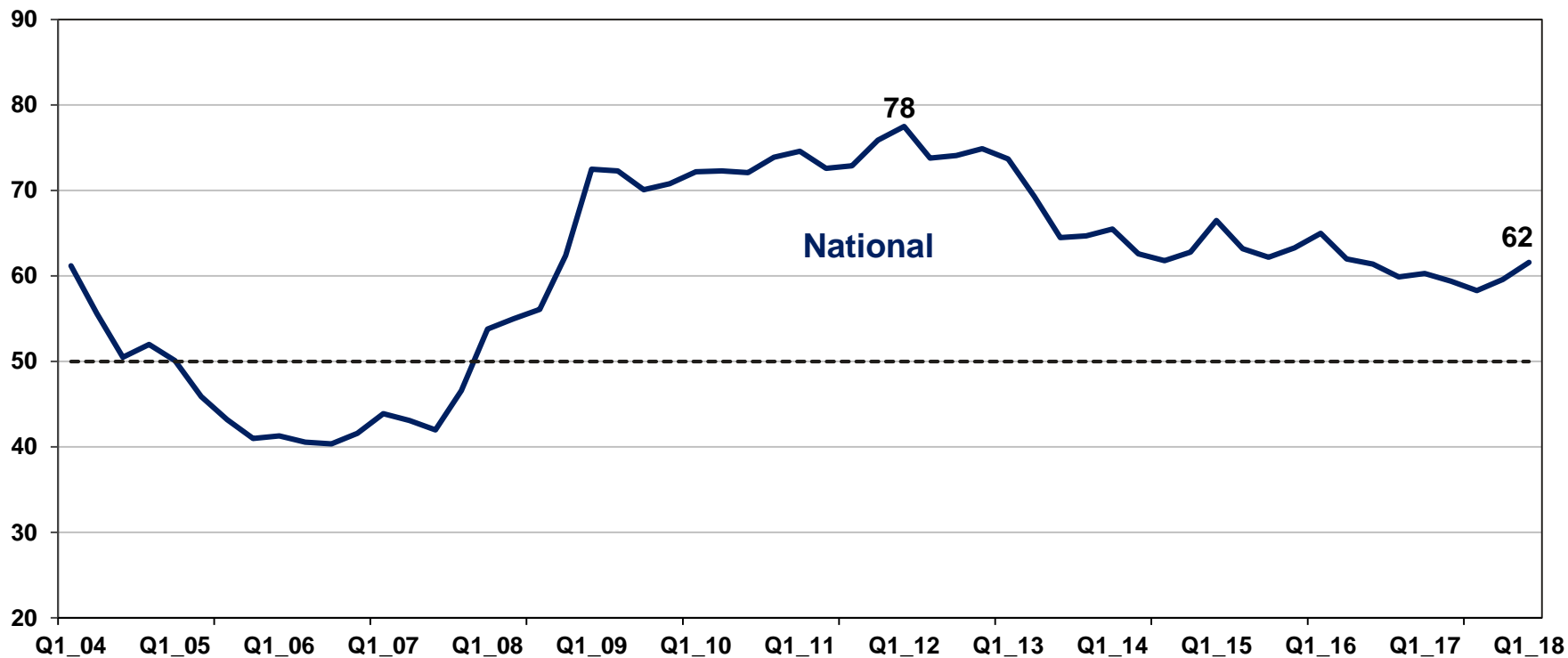
Prices growing faster than income



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

Housing Affordability – NAHB/Wells Fargo HOI

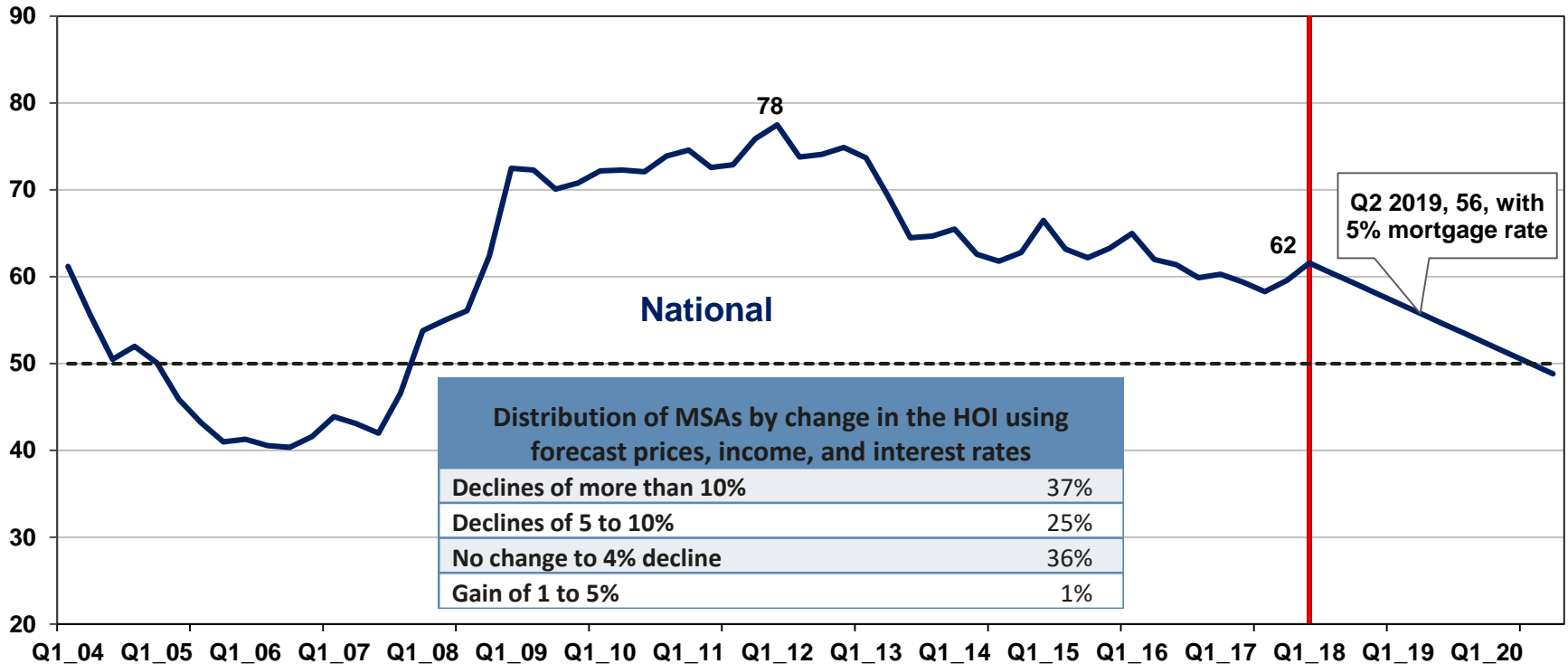
Affordability declining



Source: NAHB/Wells Fargo Housing Opportunity Index.

Simulating Future Affordability Conditions

HOI declines due to higher rates and costs/prices despite rising incomes



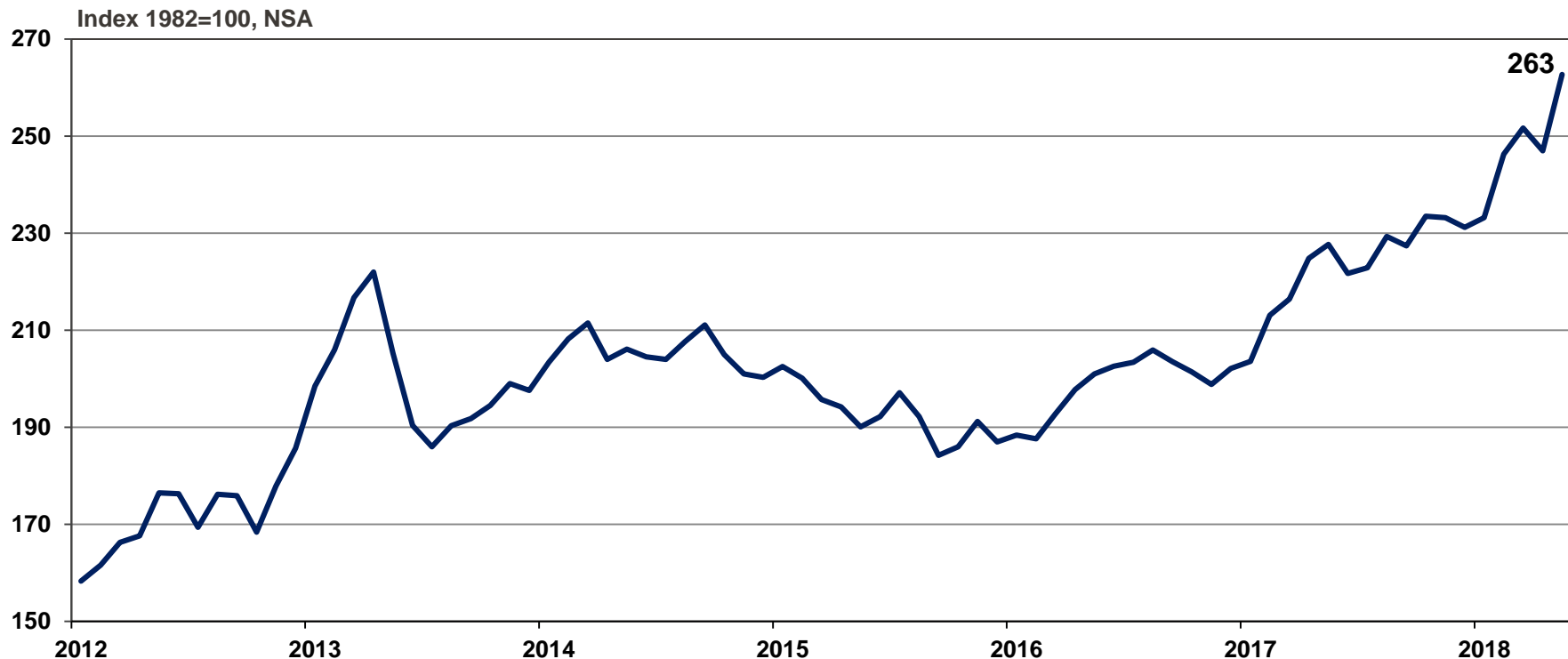
Source: NAHB/Wells Fargo Housing Opportunity Index.



Supply-Side Headwinds

Building Materials – Softwood Lumber

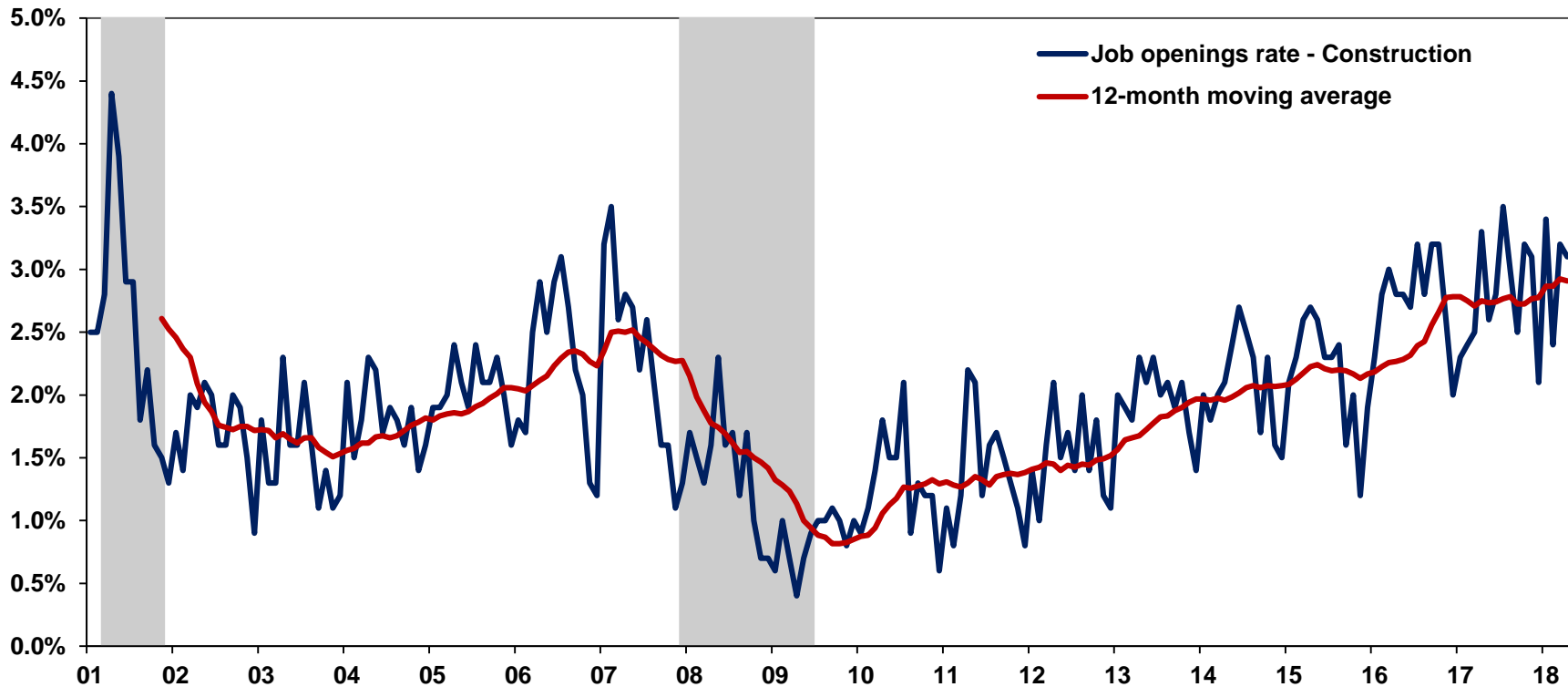
Since January 2017, Random Lengths Framing Composite Price Index up 63%



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

Labor

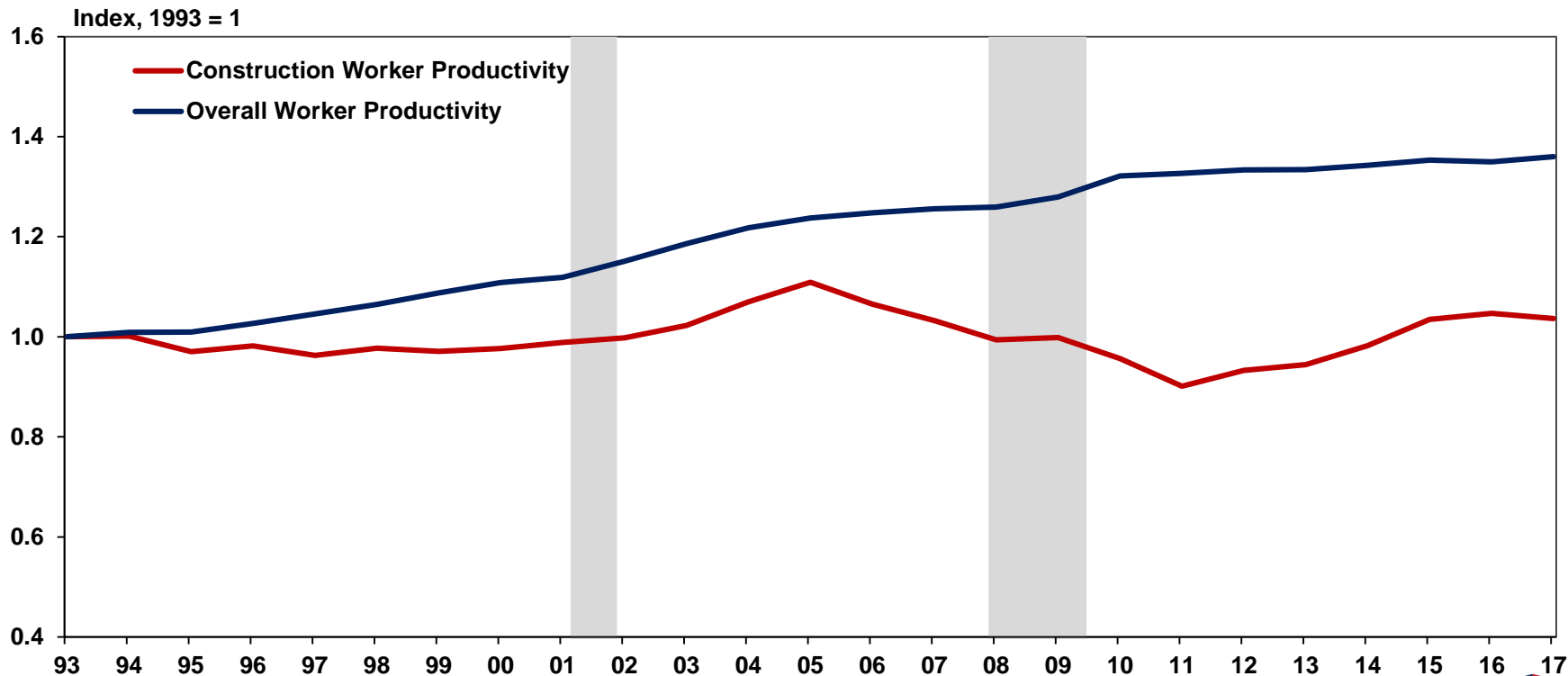
Elevated count of unfilled construction jobs



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

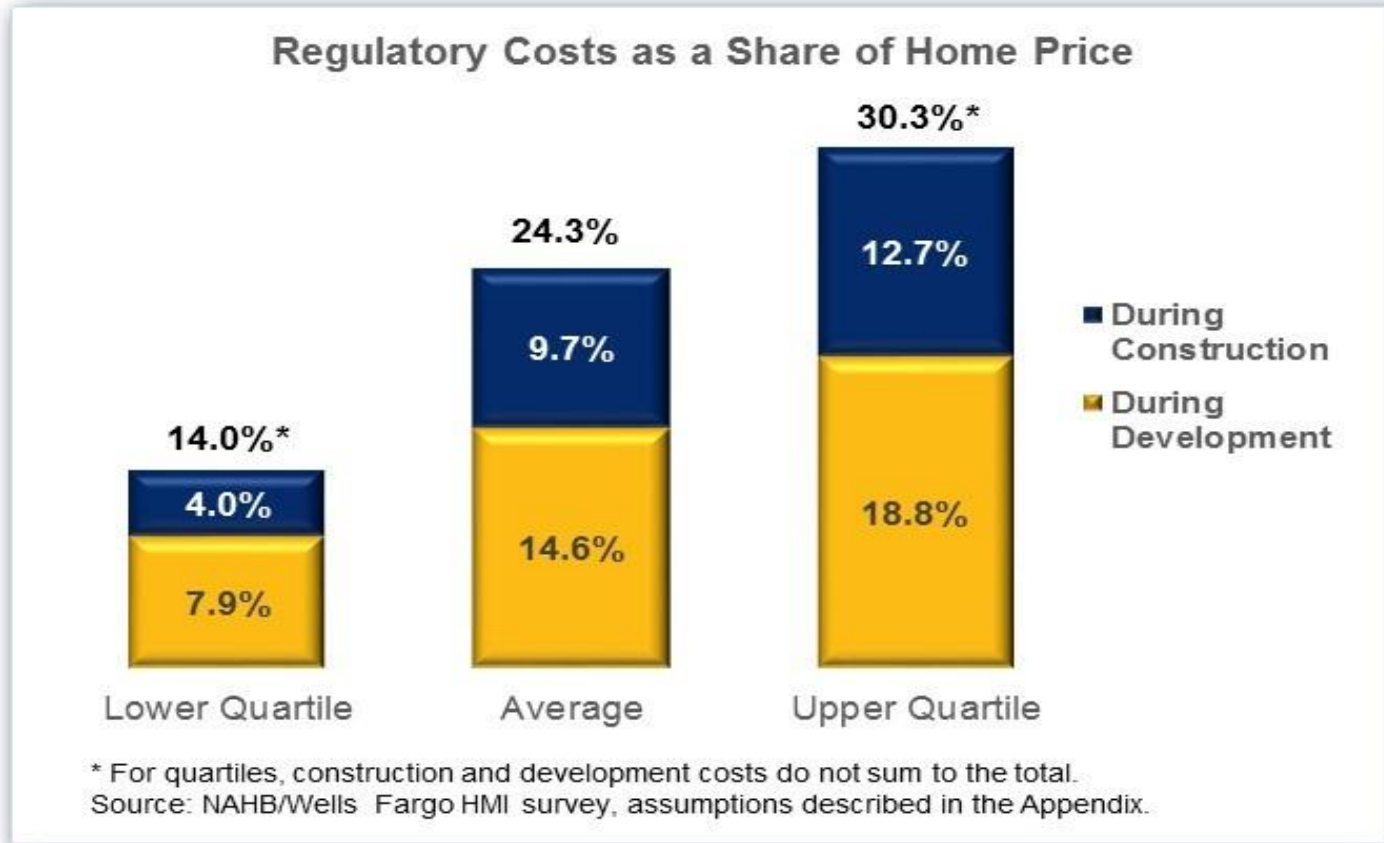
Construction Sector Productivity

Lagging overall economy



Regulatory Costs Rising – Up 29% Over Last 5 Years

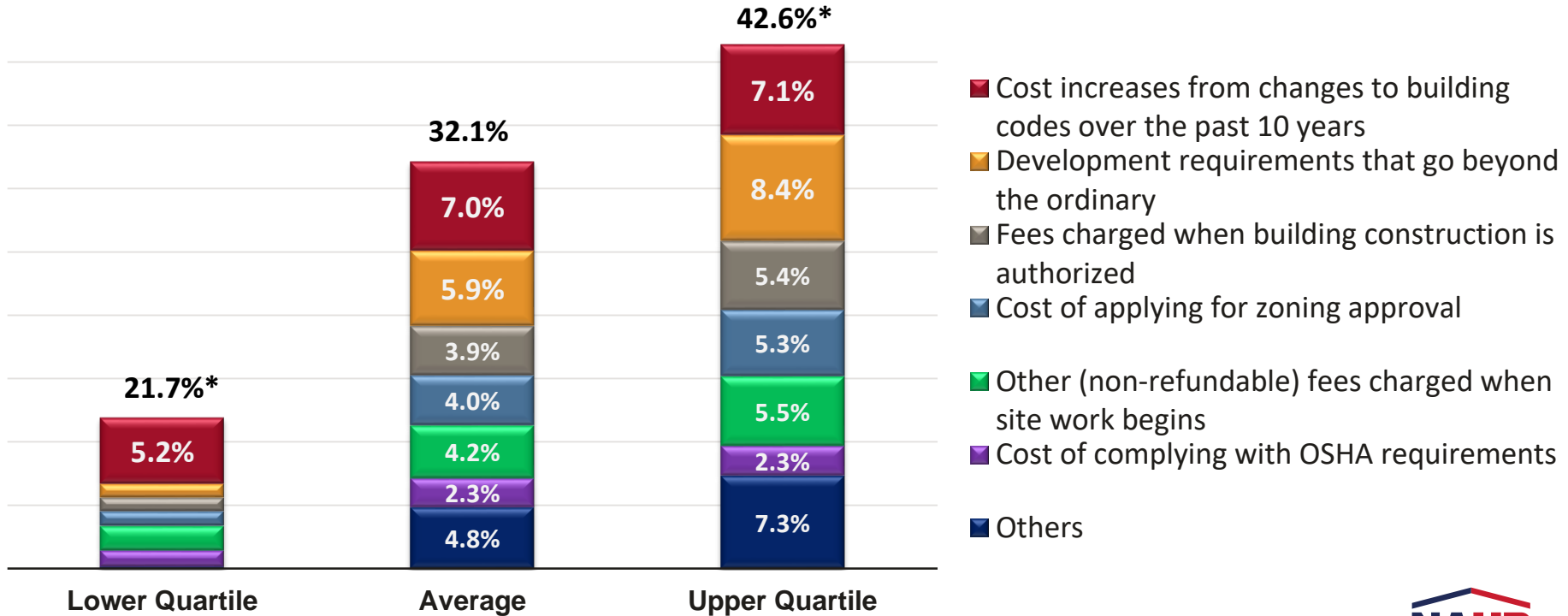
Total effect of building codes, land use, environmental and other rules



Regulations - 32% of Multifamily Development Costs

New 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.

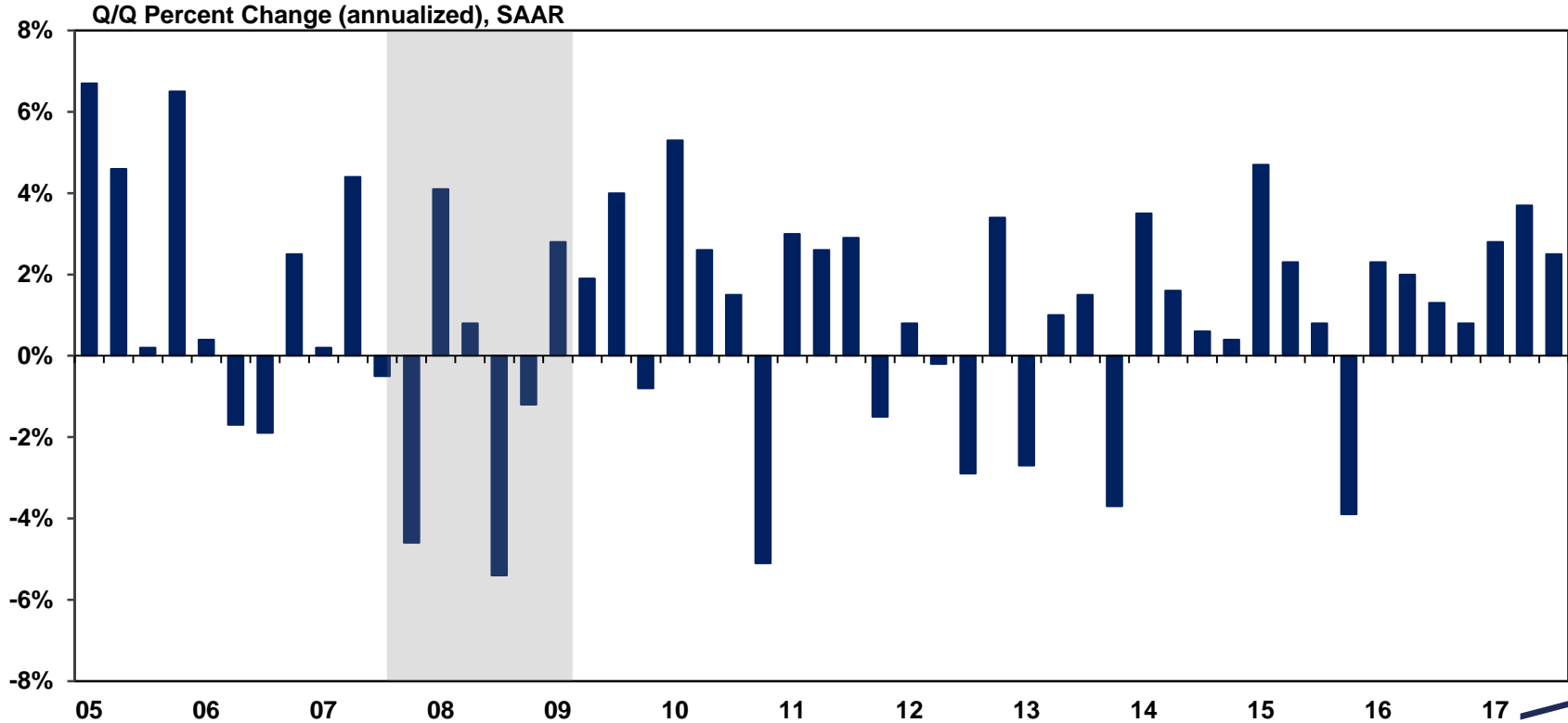
Source: NAHB/Wells Fargo HMI survey.



A Local Look

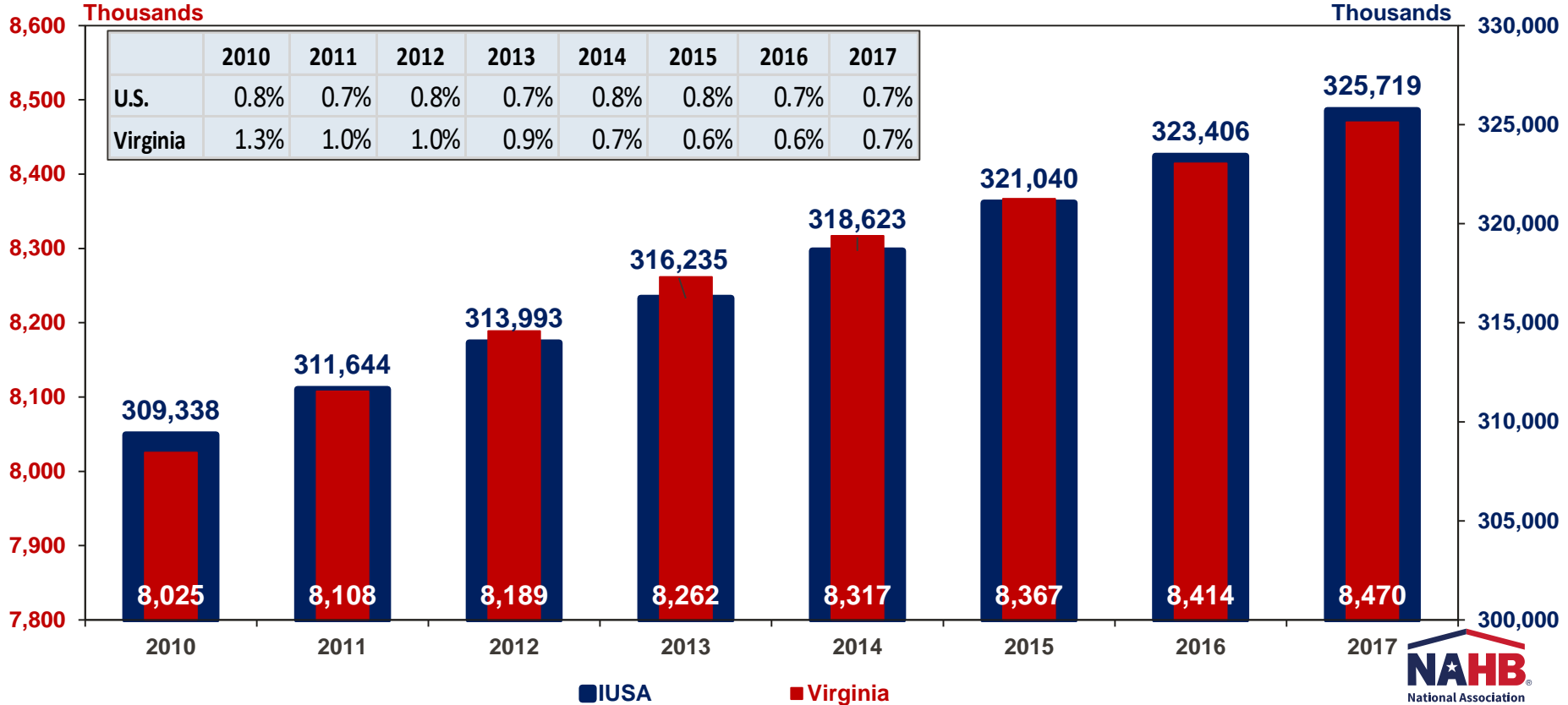


Virginia GDP Growth



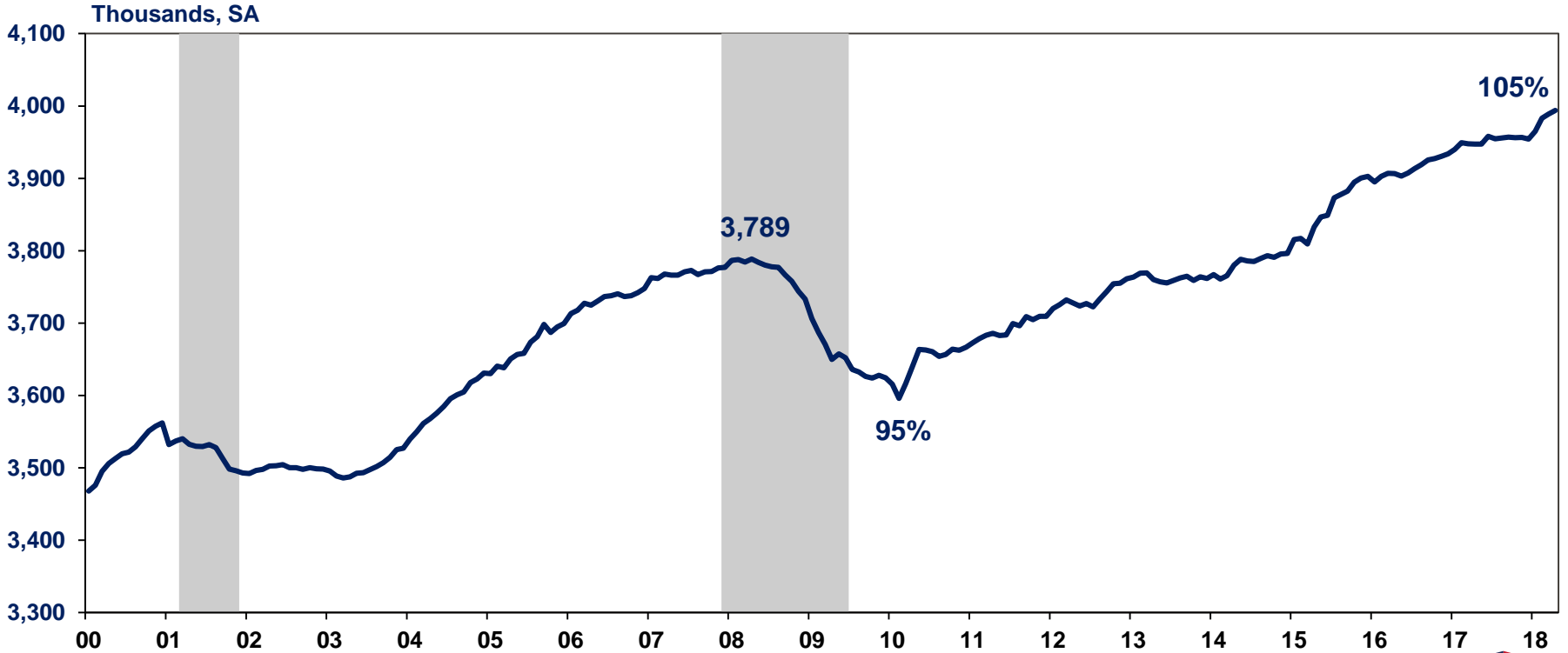
Population Growth

Virginia population grew slower in recent years



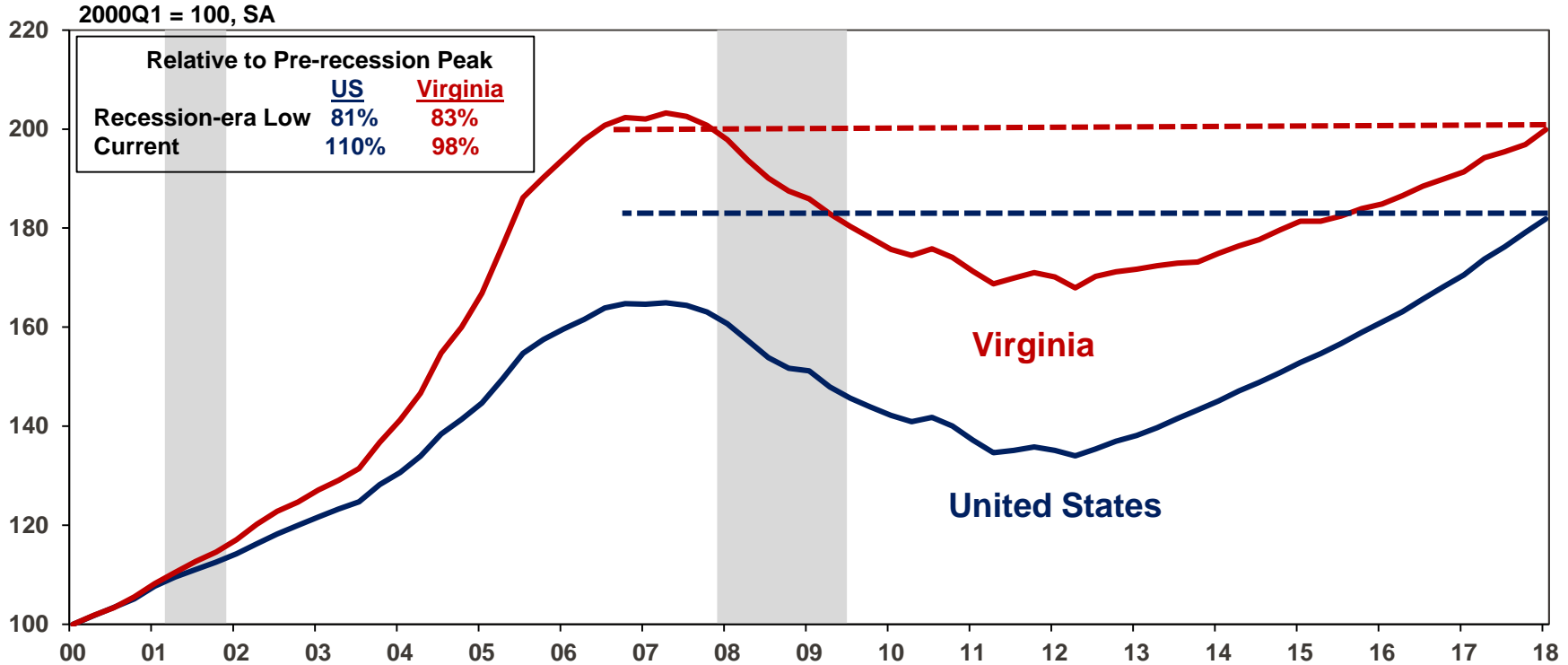
Payroll Employment

Virginia above pre-recession peak



Existing House Price Index

Virginia below pre-recession peak



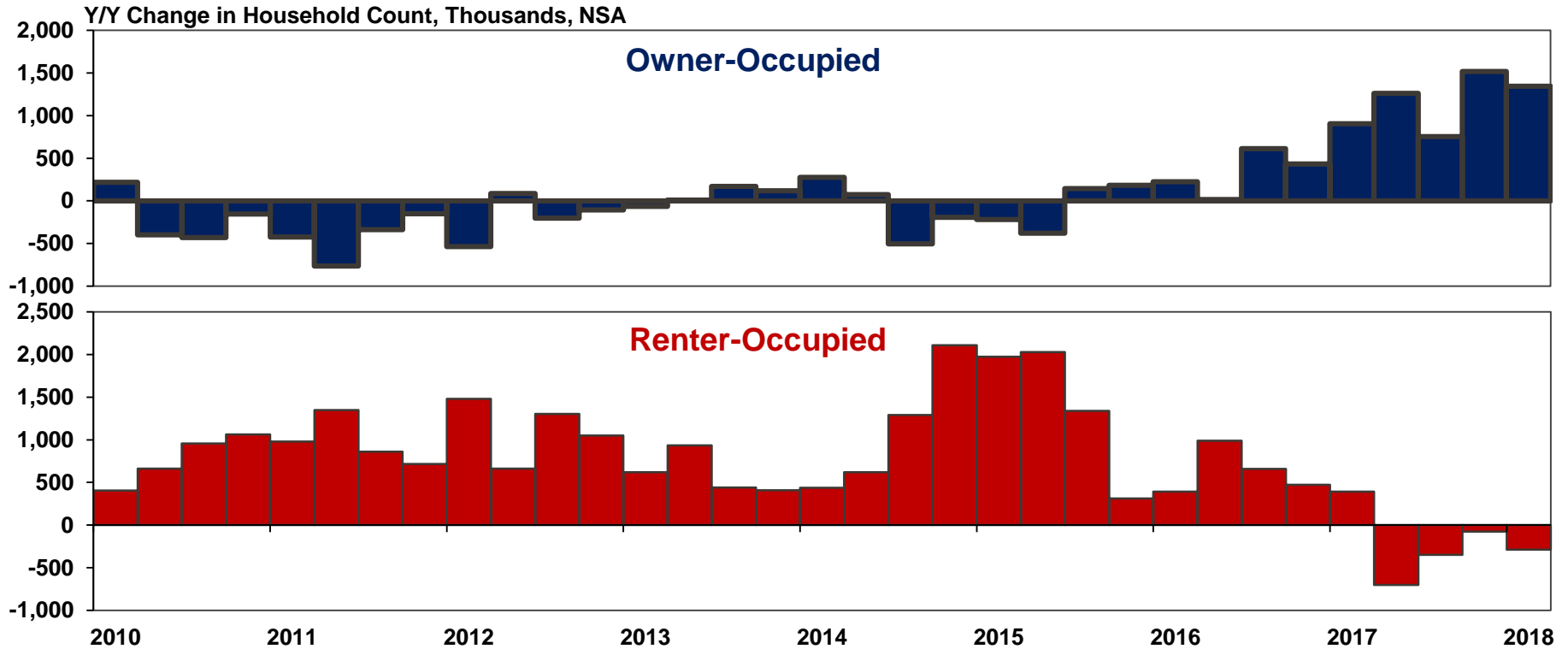


Forecasts



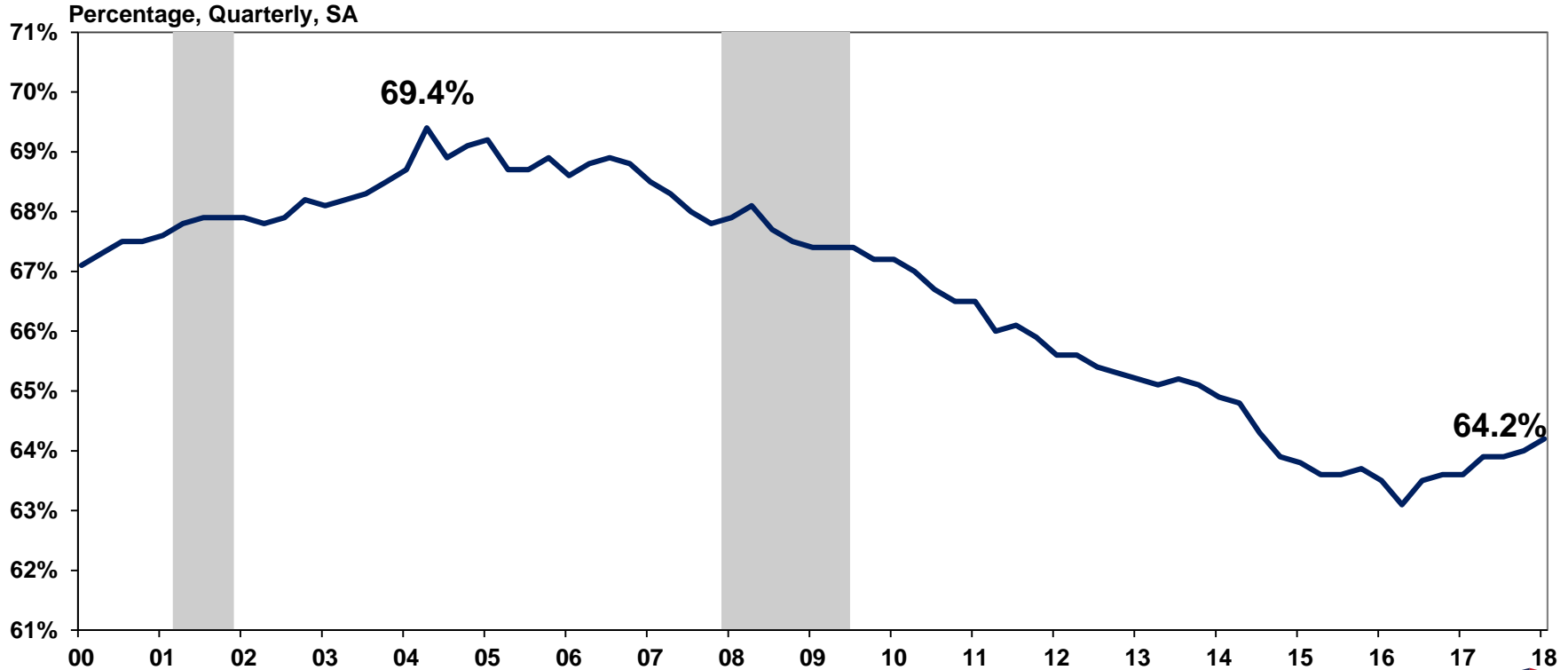
Household Formation

Demand for home ownership strengthening



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

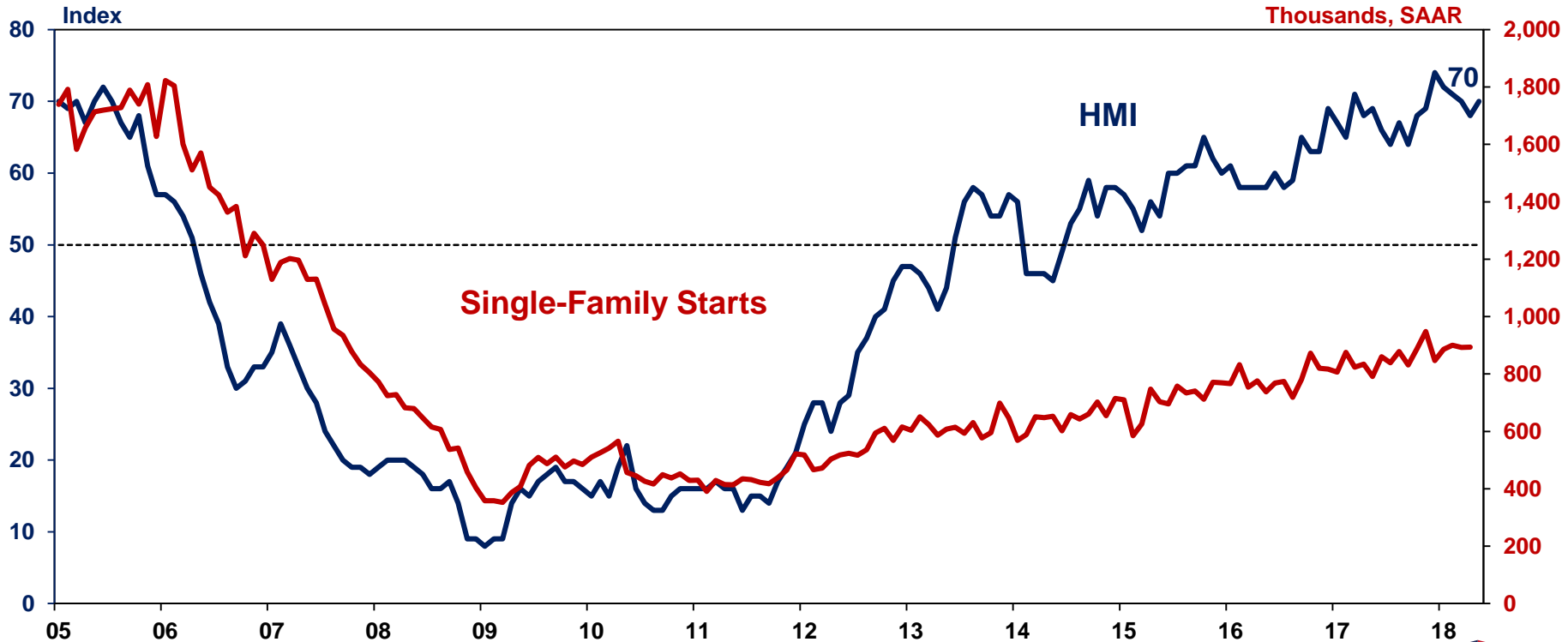
Homeownership Rate



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

NAHB/Wells Fargo Housing Market Index

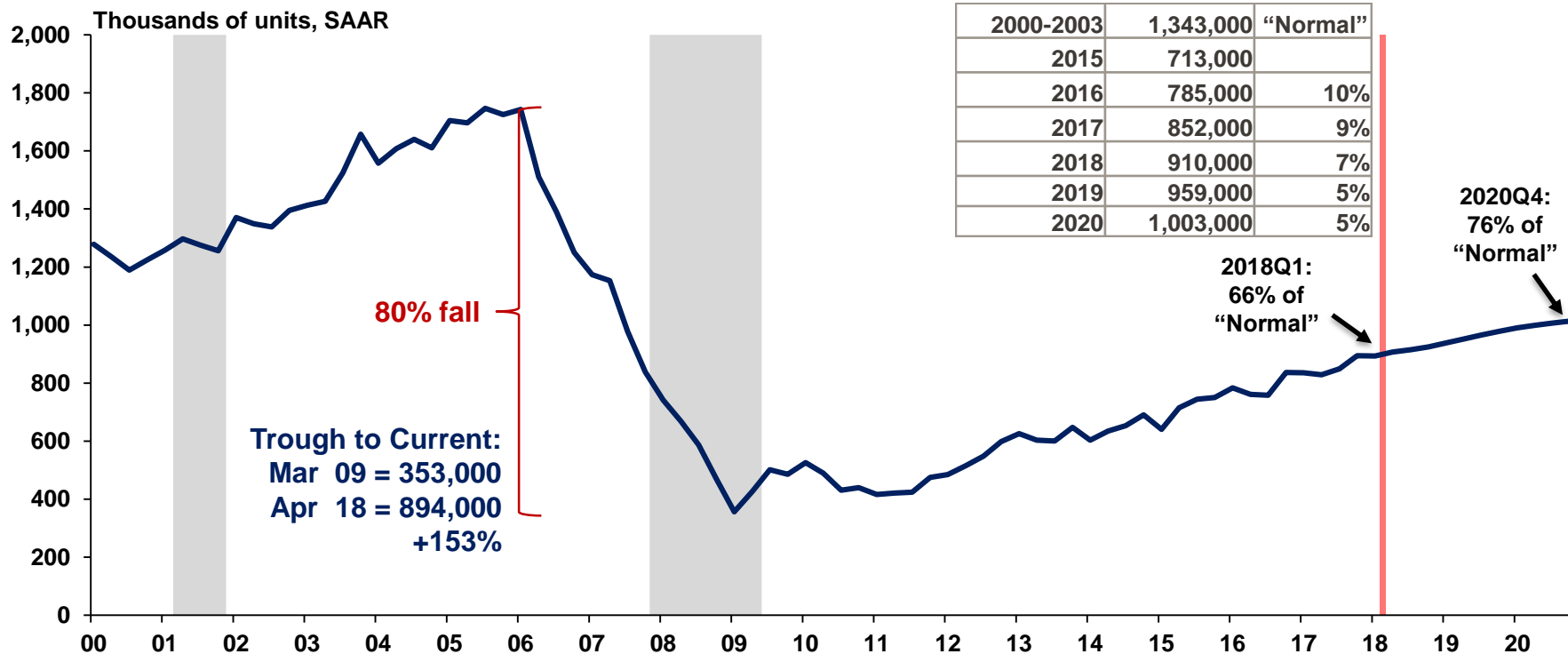
Nearly two-decade high for builder confidence



Source: Census Bureau and NAHB/Wells Fargo HMI survey.

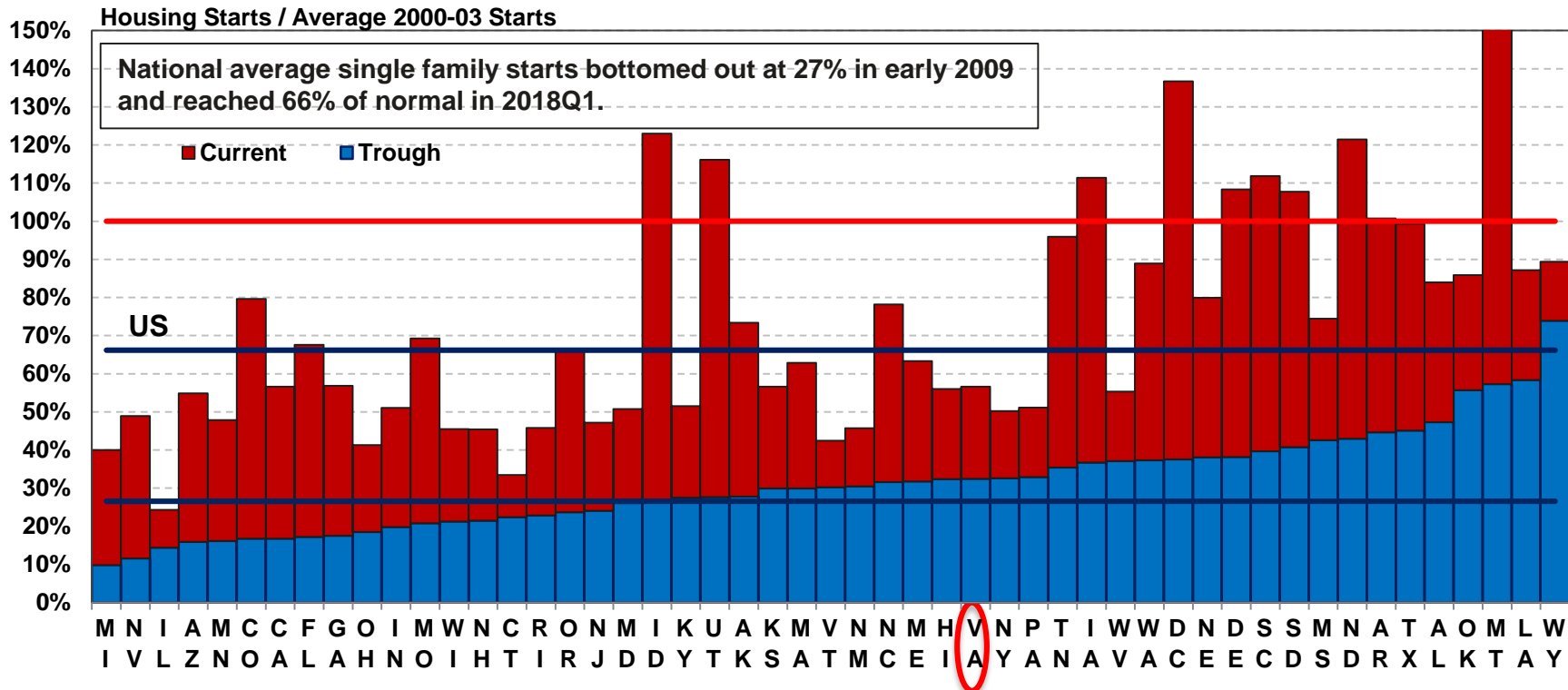
Single-Family Starts

Modest growth ahead



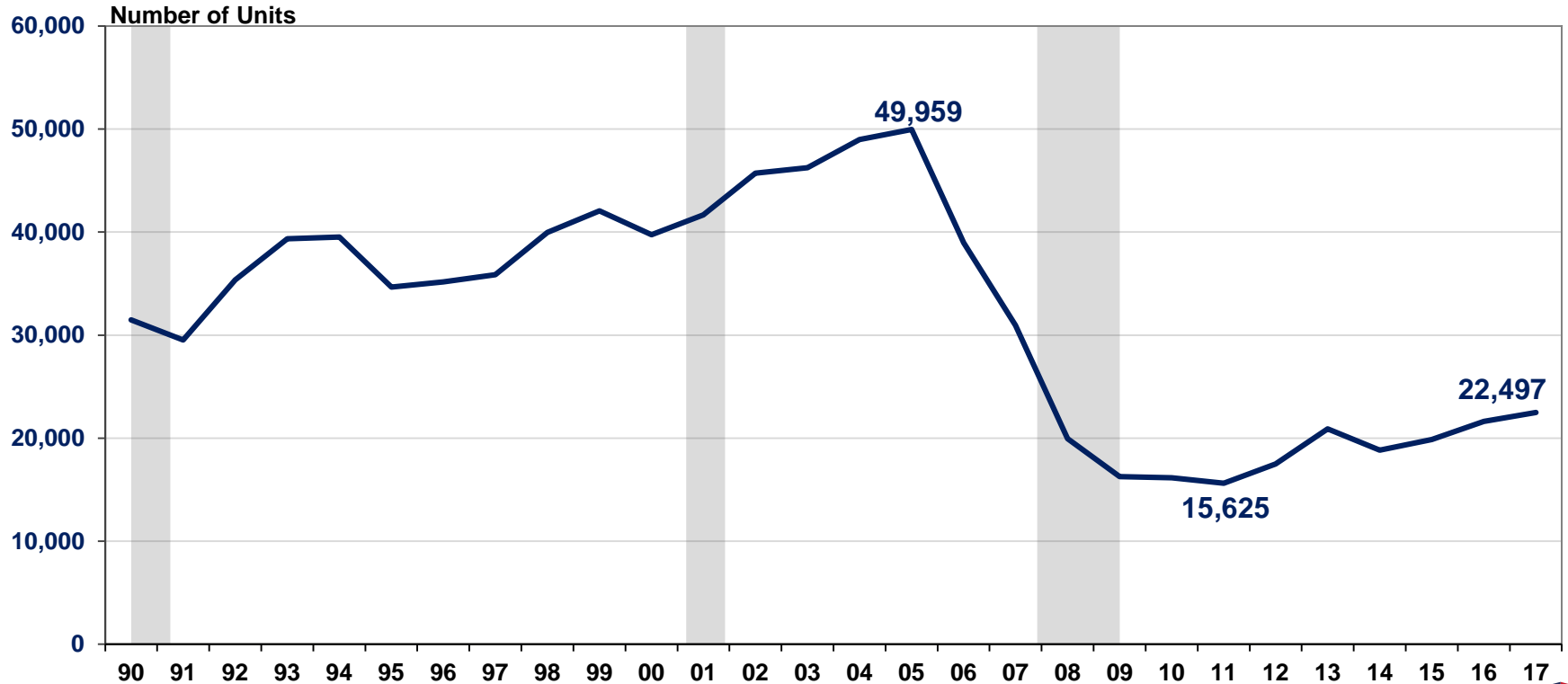
Source: Census Bureau and NAHB forecast.

Single Family Housing Starts— Trough and Current



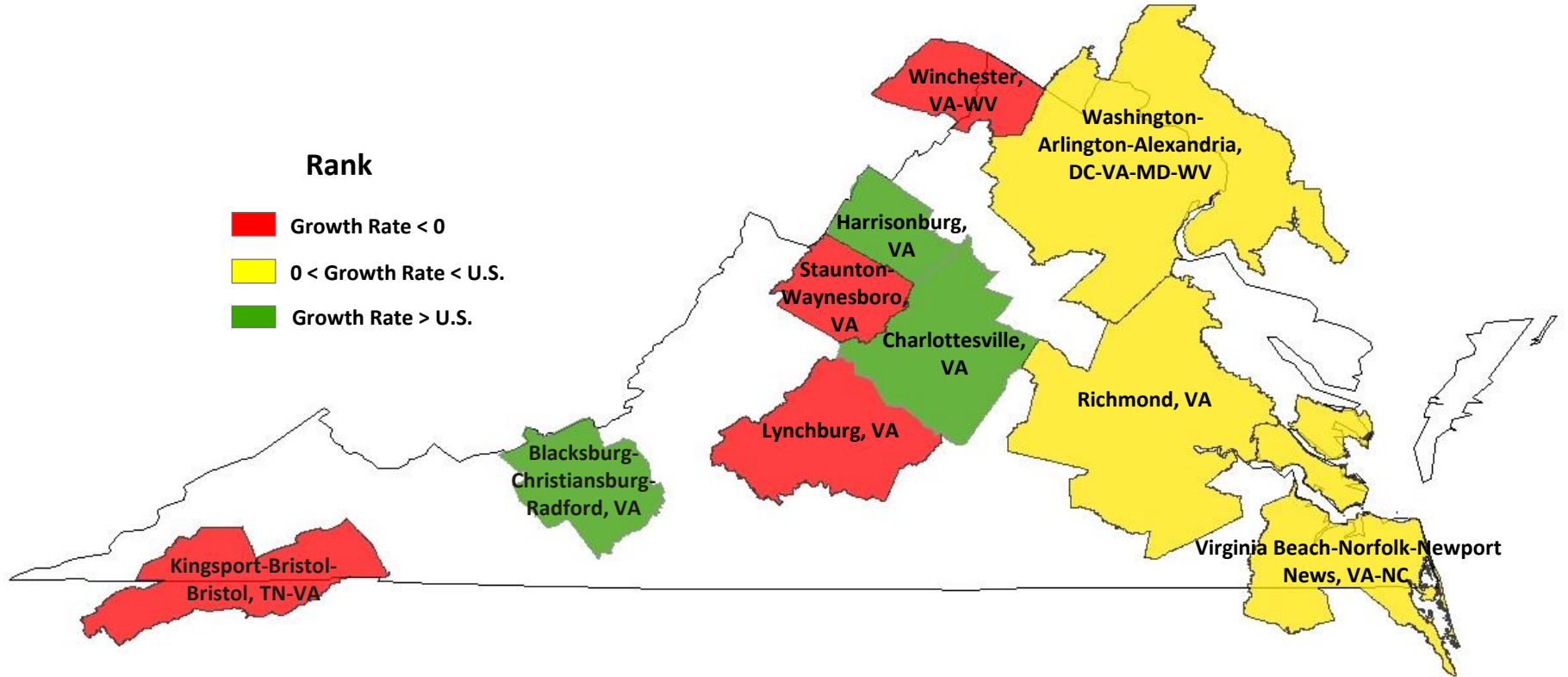
Source: Census Bureau.

Single-Family Building Permits – Virginia



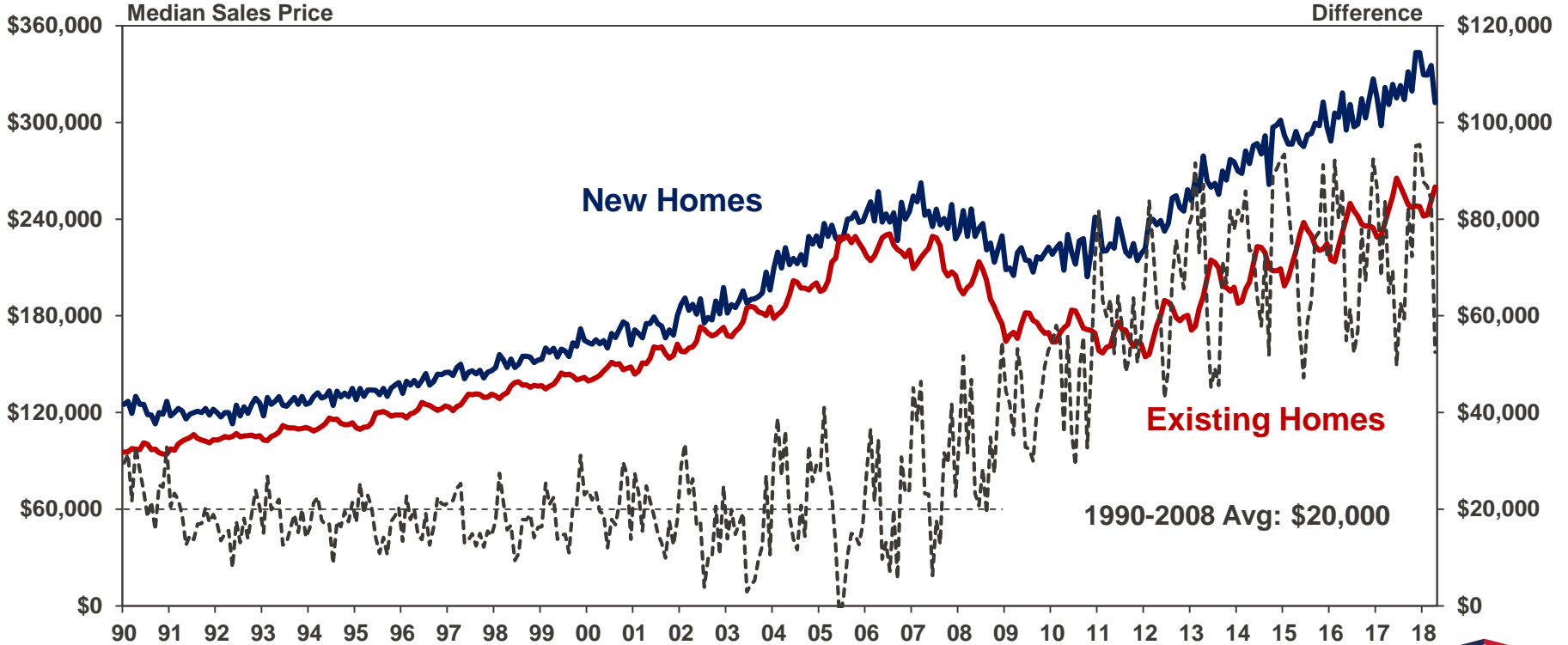
Source: U.S. Census Bureau (BOC).

Single Family Permits 12-Months Growth Rate



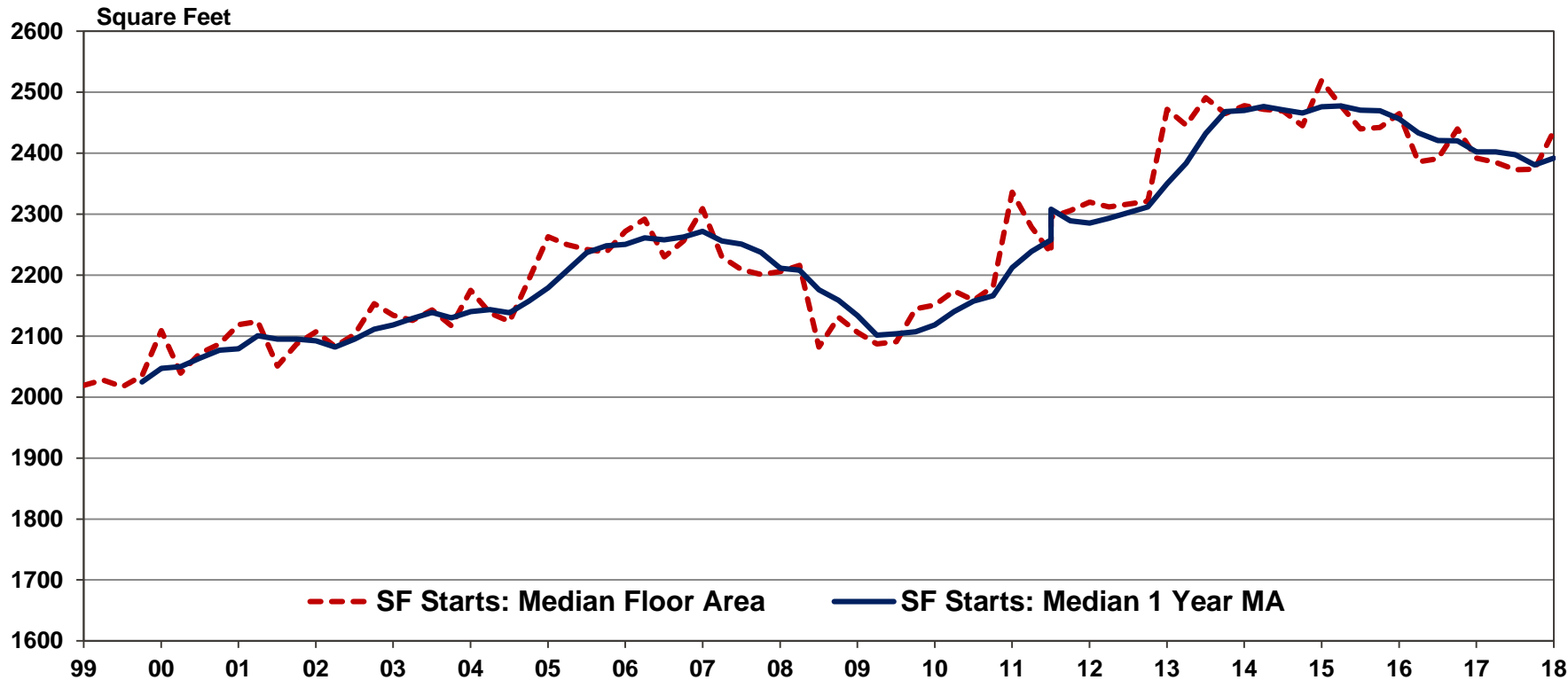
Home Prices of New and Existing Homes

Wide gap since 2012

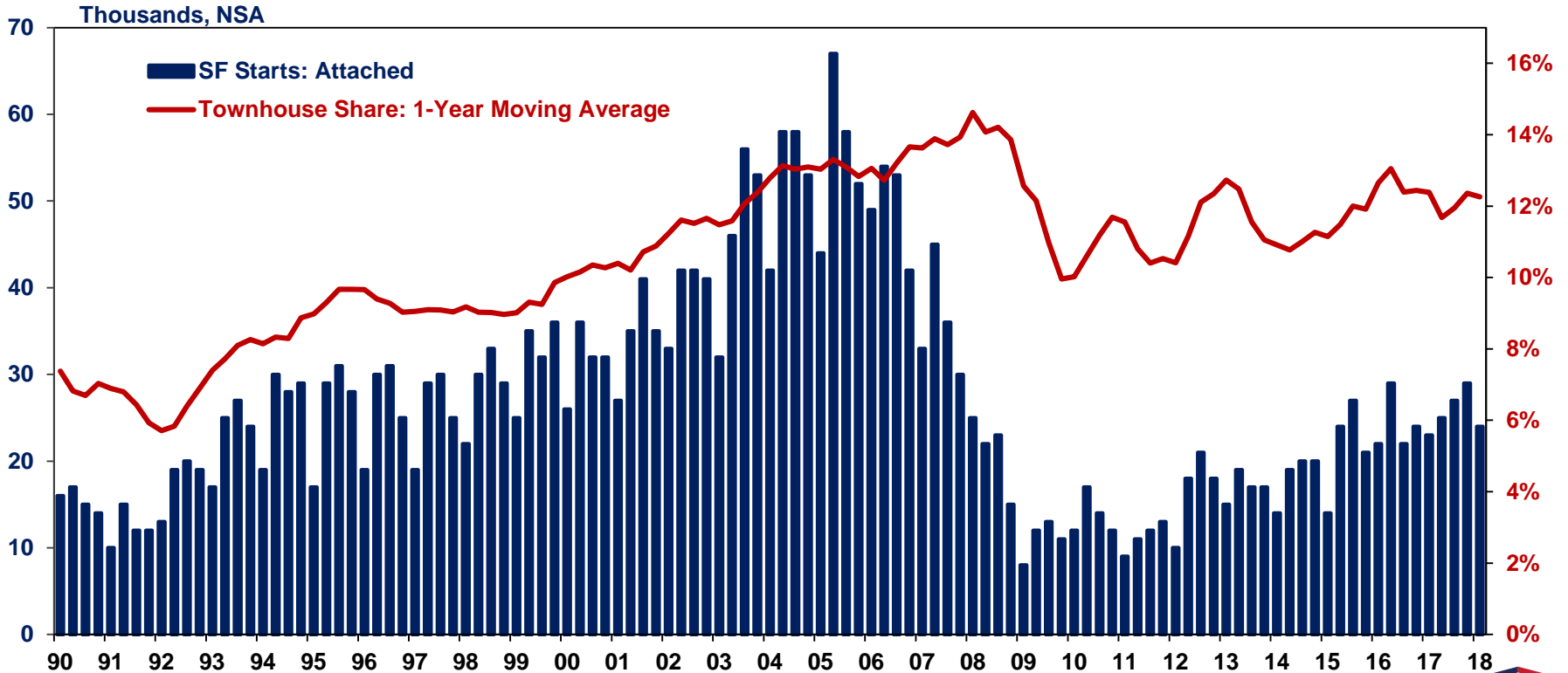


Typical New Home Size

Decline after market shift

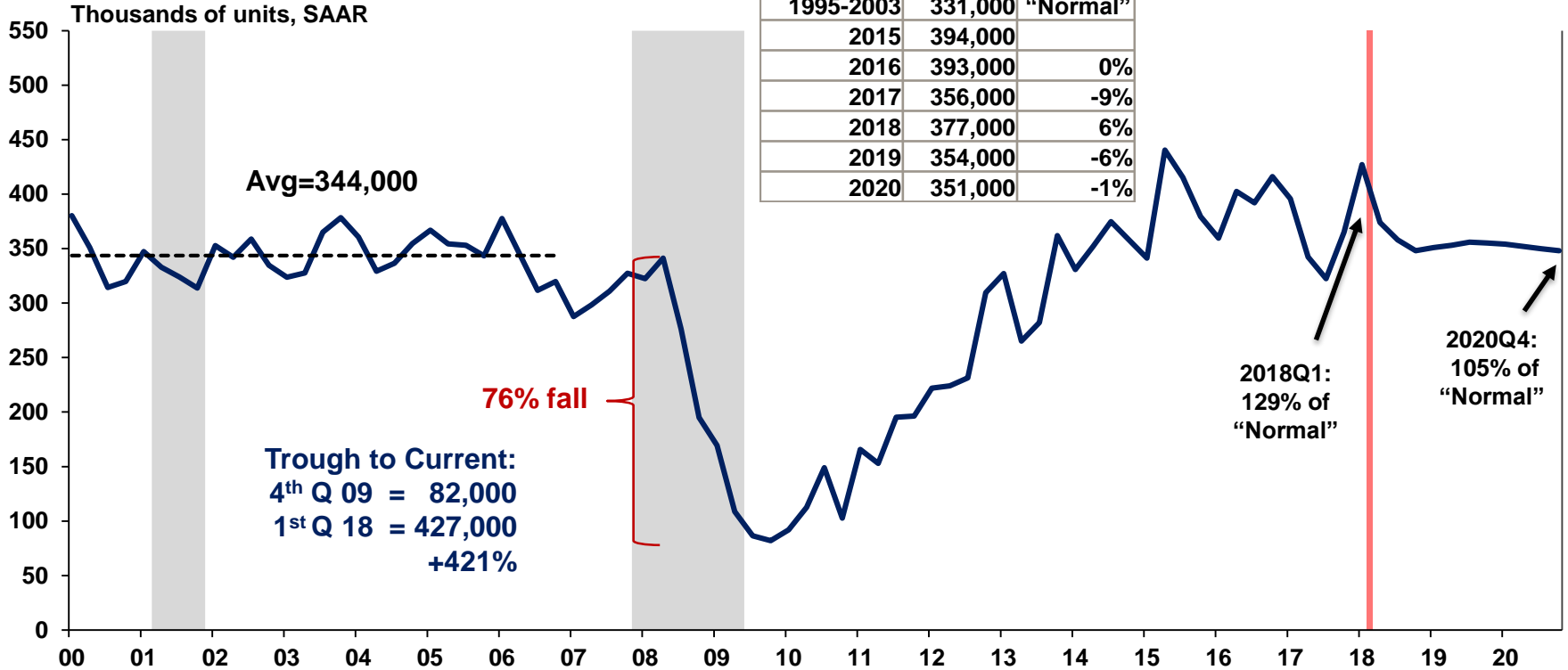


Townhouse Market Expanding



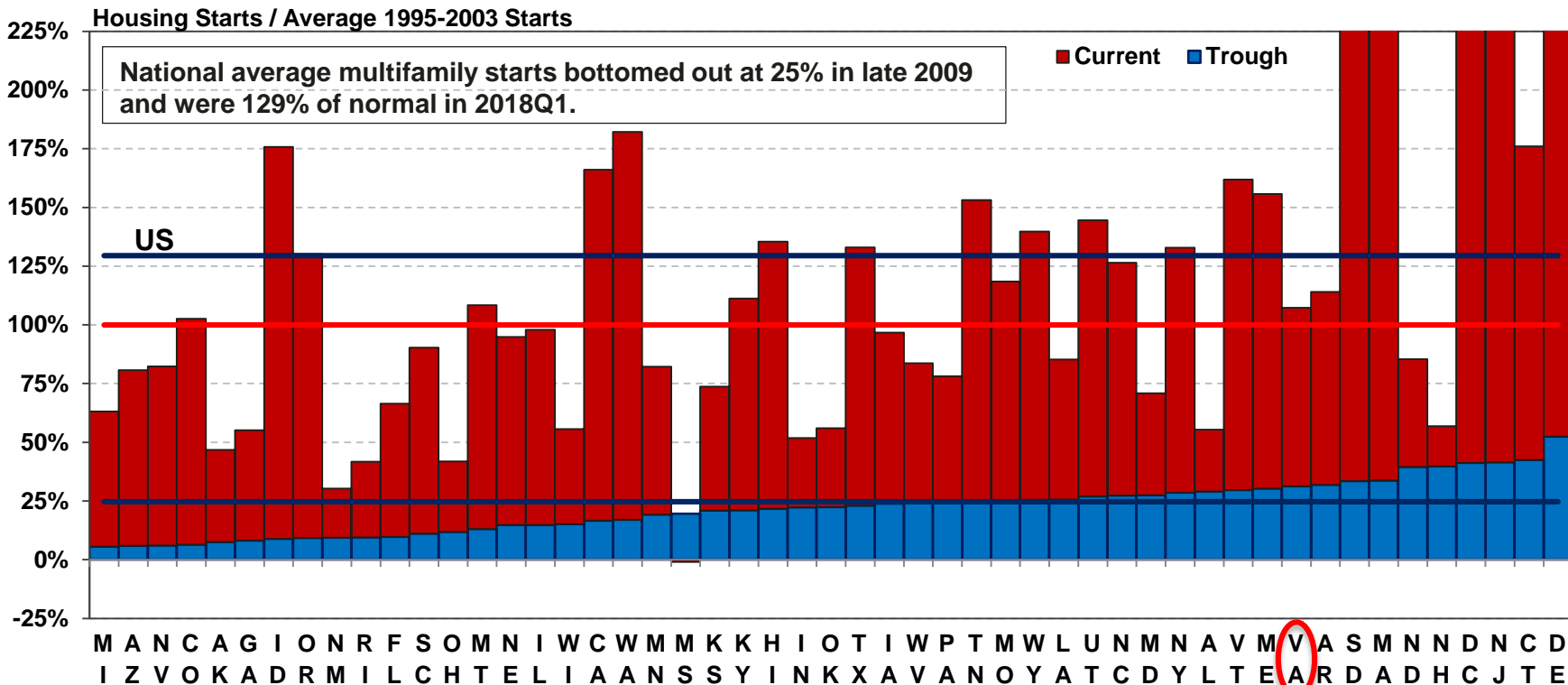
Multifamily Housing Starts

Leveling off



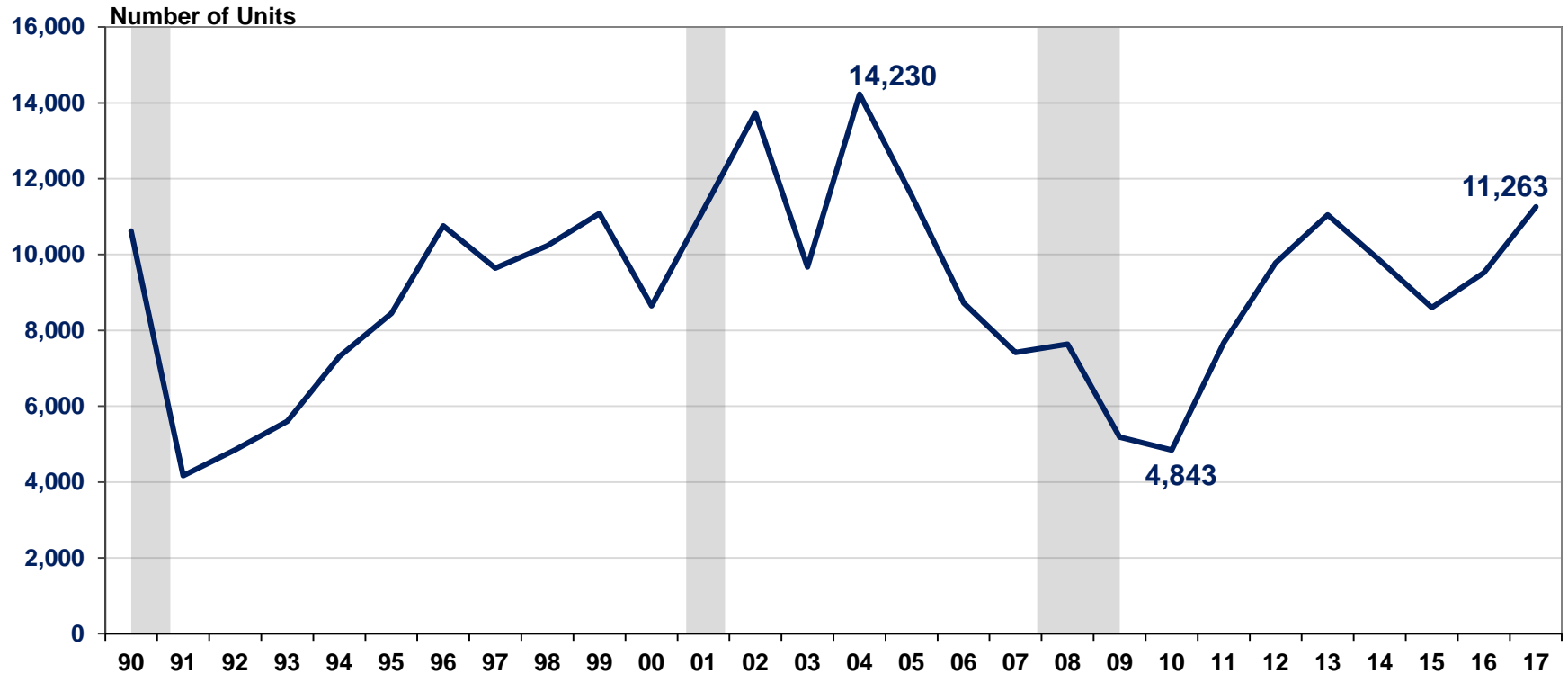
Source: Census Bureau and NAHB forecast

Multifamily Housing Starts – Trough and Current



Source: Census Bureau.

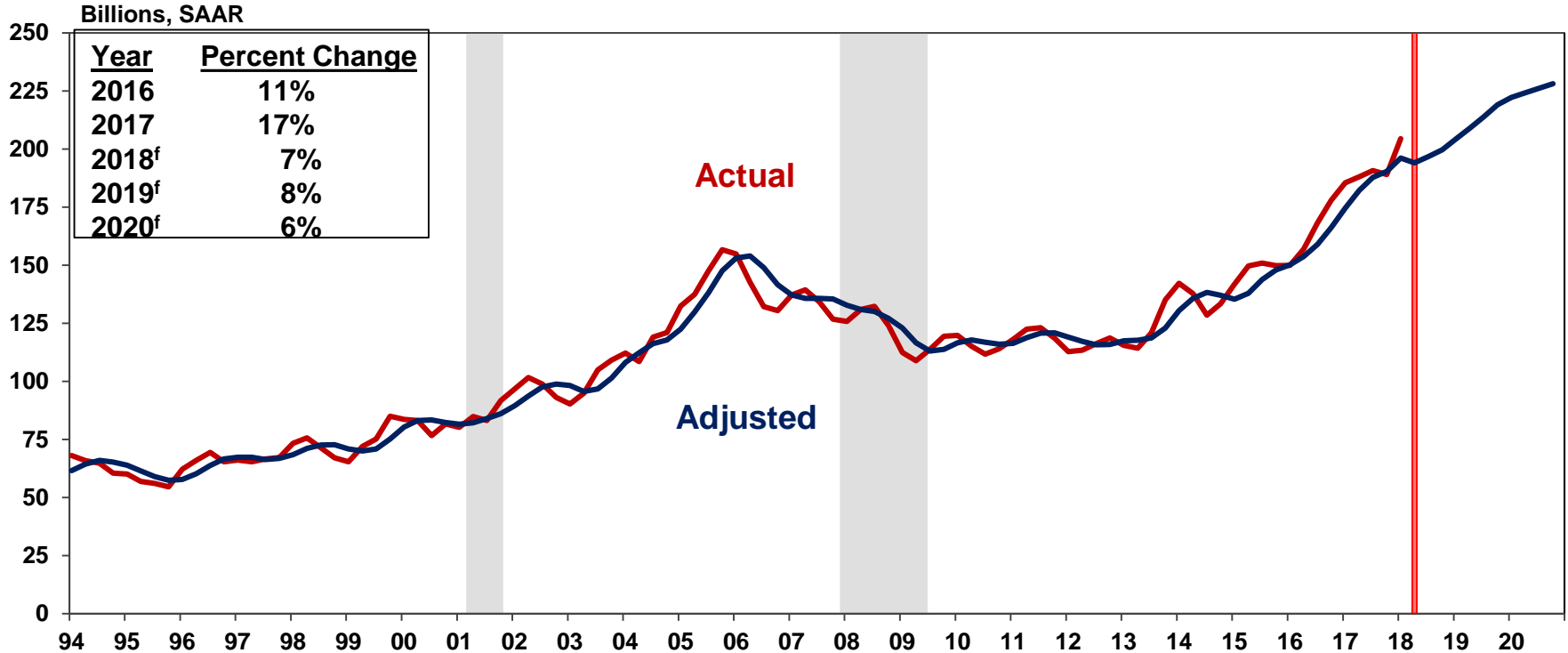
Multifamily Building Permits – Virginia



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

Residential Remodeling

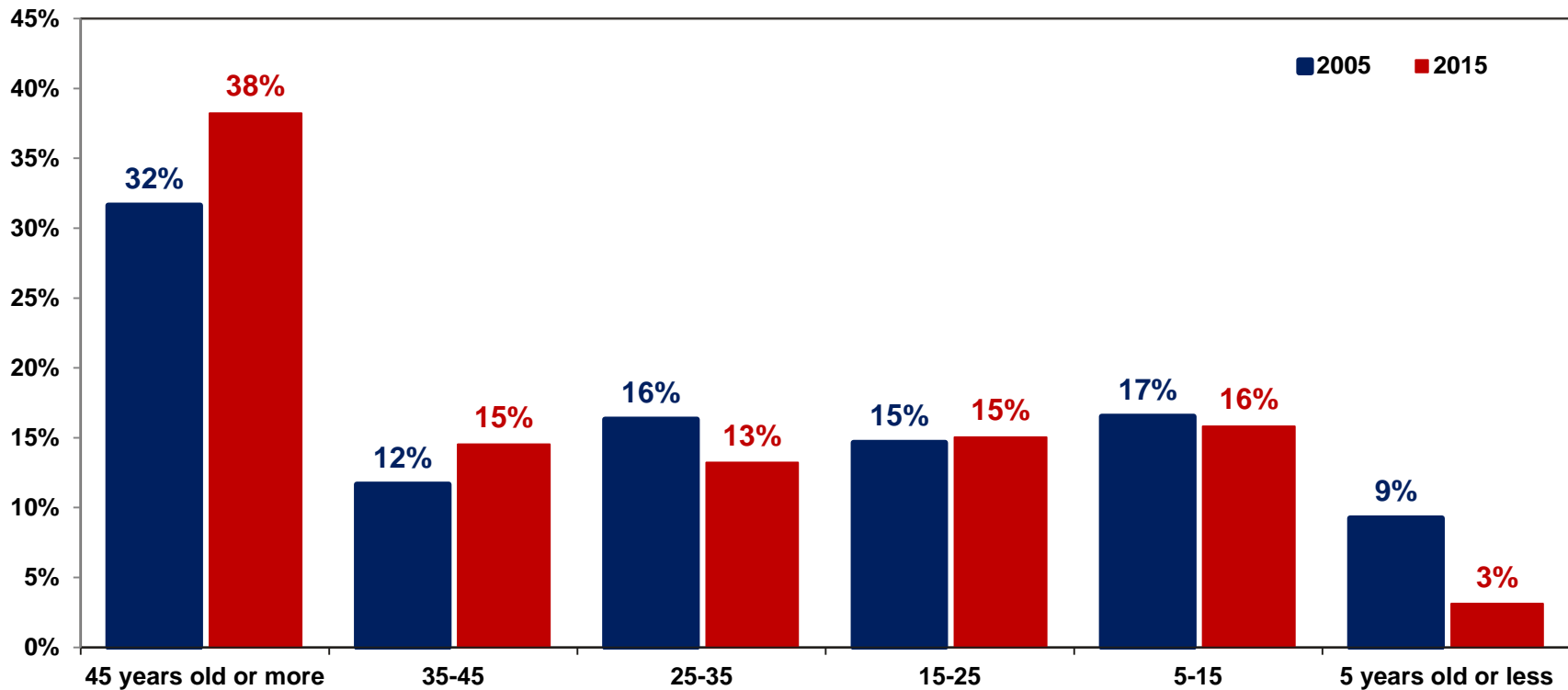
Strong market conditions



Source: Census Bureau and NAHB forecast.

The Age of the Housing Stock

Typical home is almost 40 years old



Thank you

Questions?

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