



First American

Back to the Future

Is What Happened in 2018 What We Should Expect in 2019?

January, 2019



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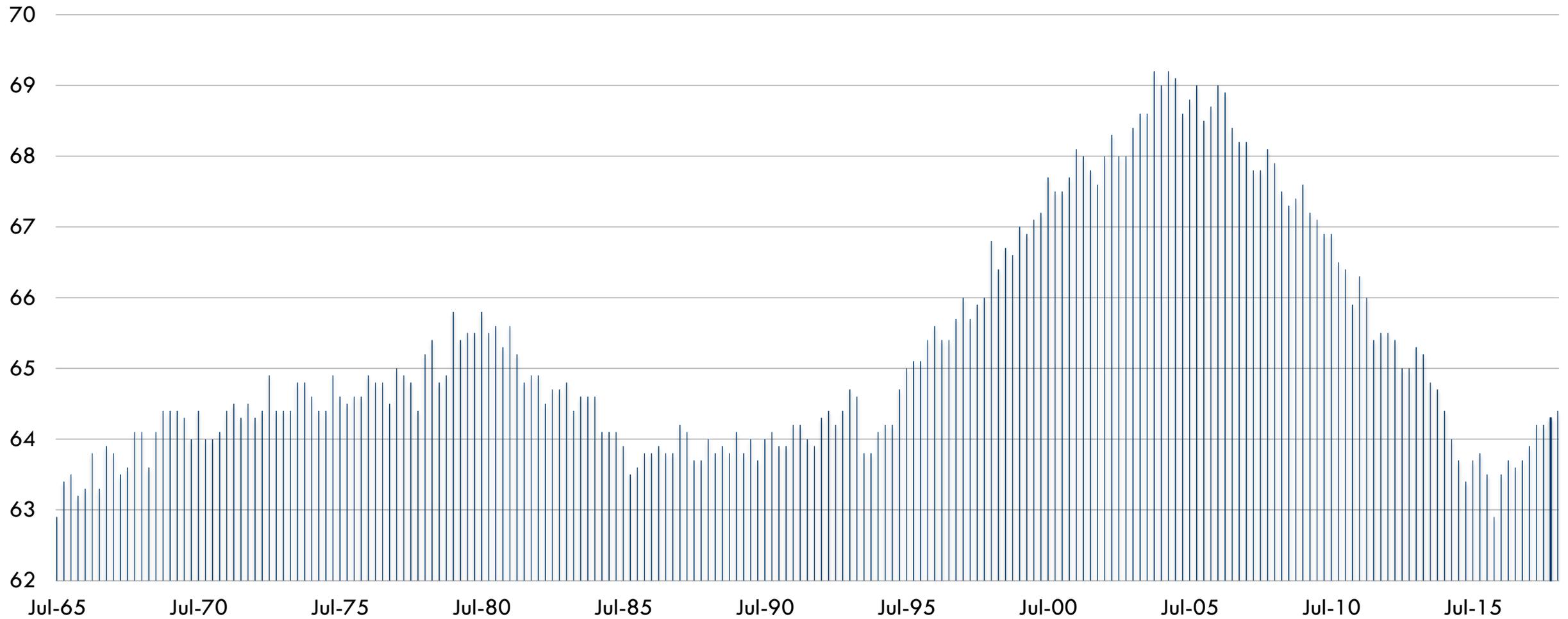
**“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”
- Mark Twain**



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Homeownership Demand Resurgent

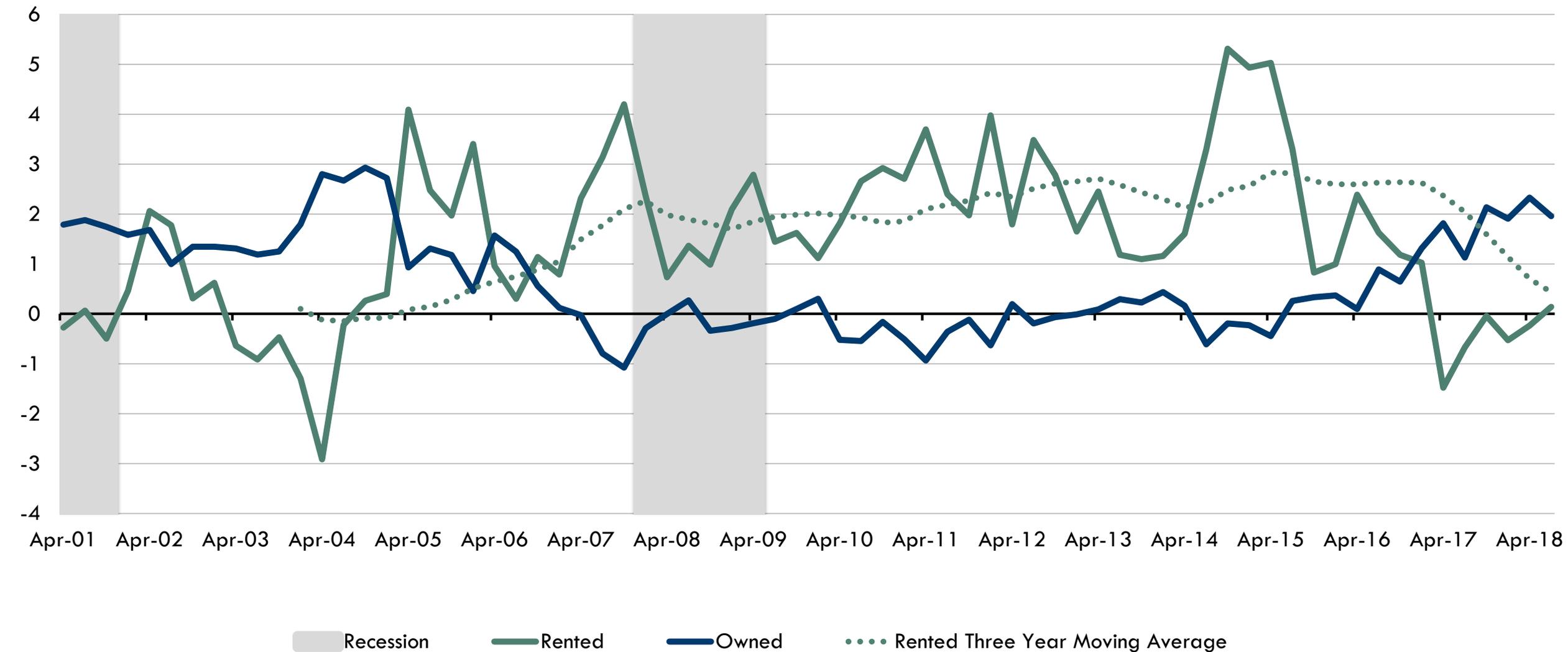
Homeownership Rate (%)



Source: US Census Bureau, Q3 2018

The Tenure Choice Transition is On Again

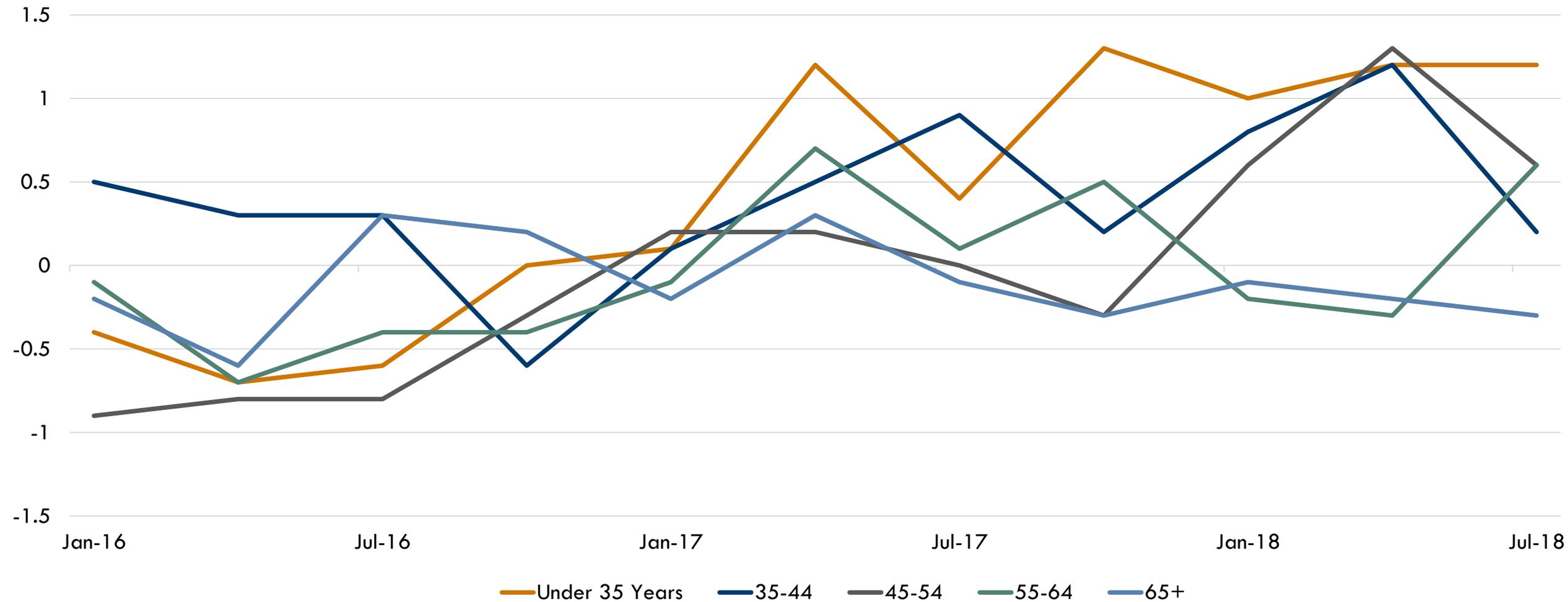
Household Formation by Occupancy Type (Year-Over-Year Inventory Growth, %)



Source: Census Bureau, FRED Q3 2018

Millennials Drive Homeownership Growth

Homeownership Rate Yearly Growth by Age Cohort (%)



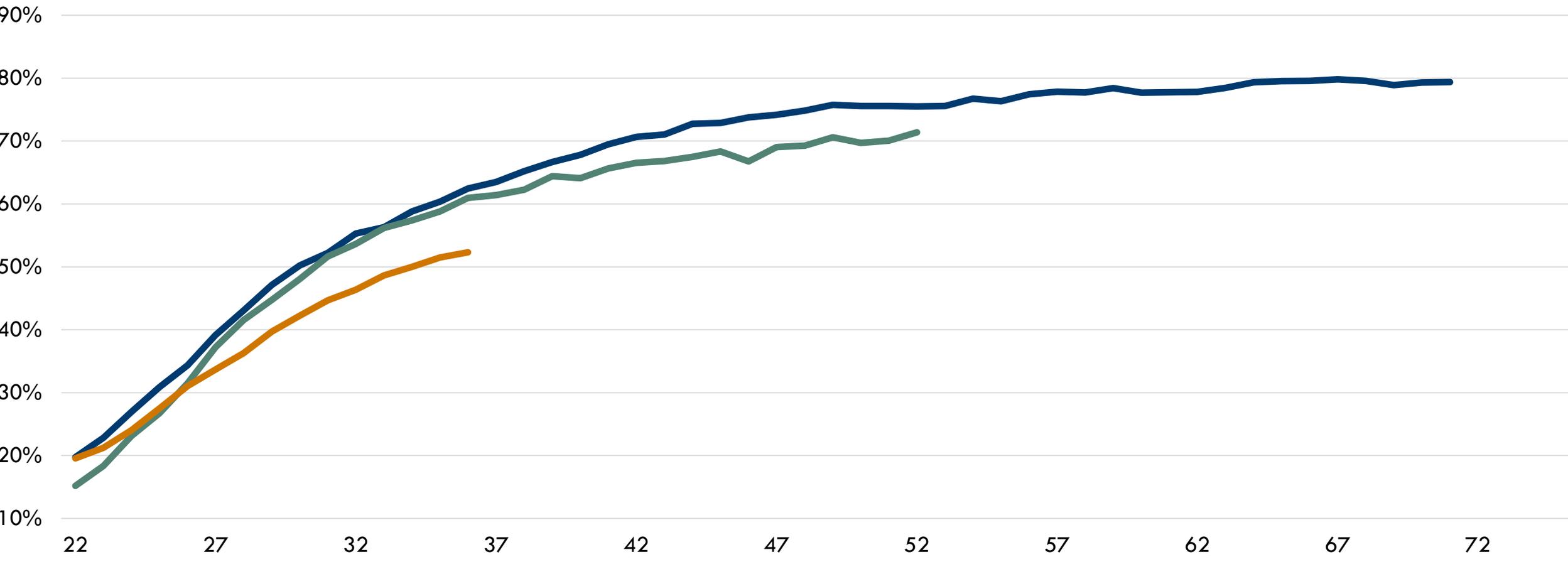
Source: Source: US Census Bureau, Q3 2018

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With Age Comes....Homeownership

Homeownership Rate by Generation



— Baby Boomers — Gen X — Millennials

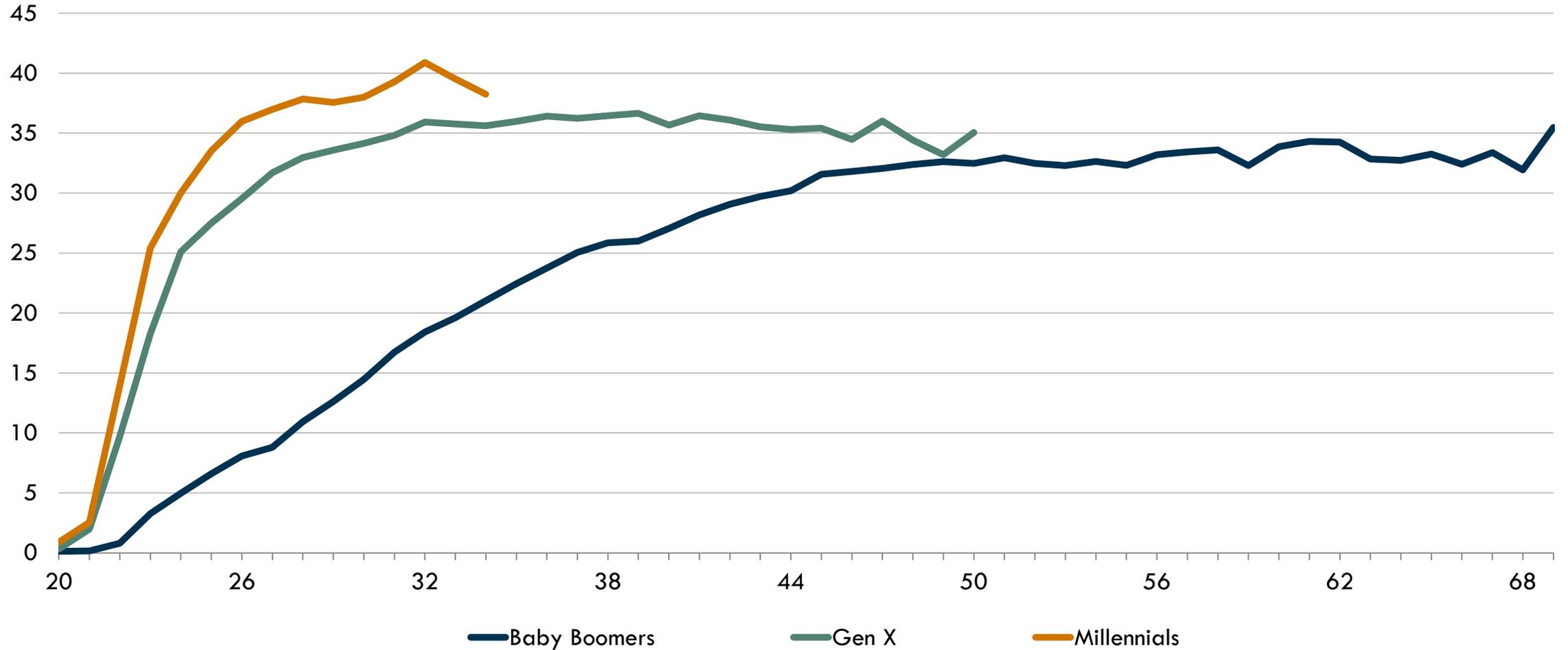
Source: IPUMS CPS, First American Calculations, 2017

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Delaying Homeownership- Education Takes Time

Percent Share of Population with Bachelors Degree or Higher



Source: ACS IPUMS, 2017

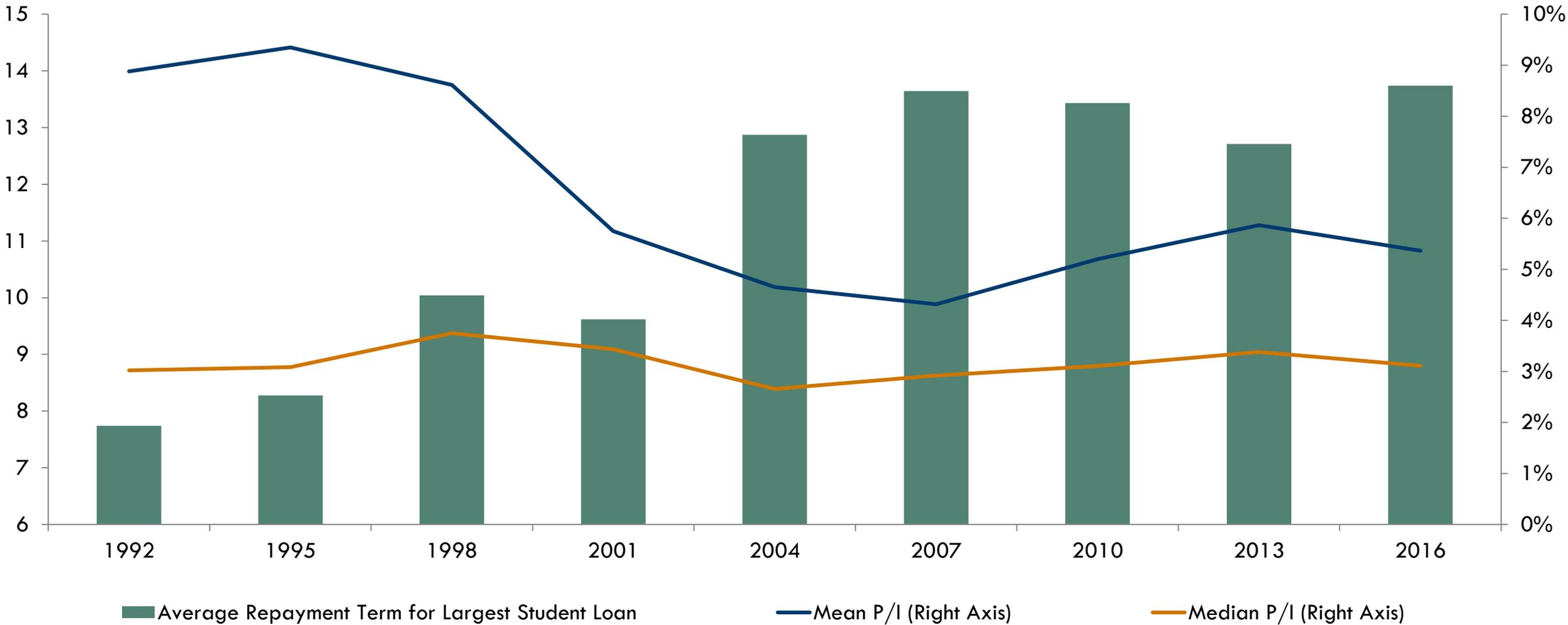
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Delaying Homeownership- The Burden of Student Loan Debt

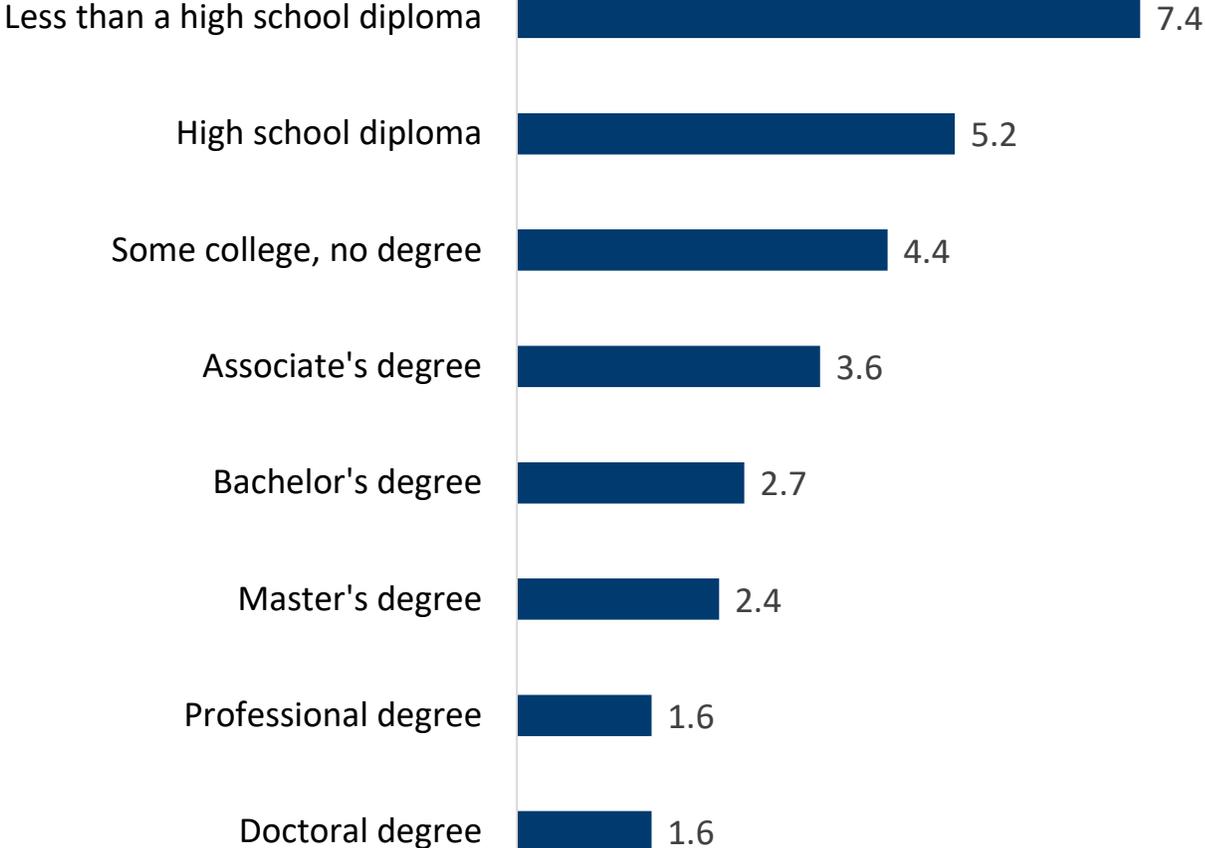
Average Loan Term (Years) and Payment-to-Income Ratio



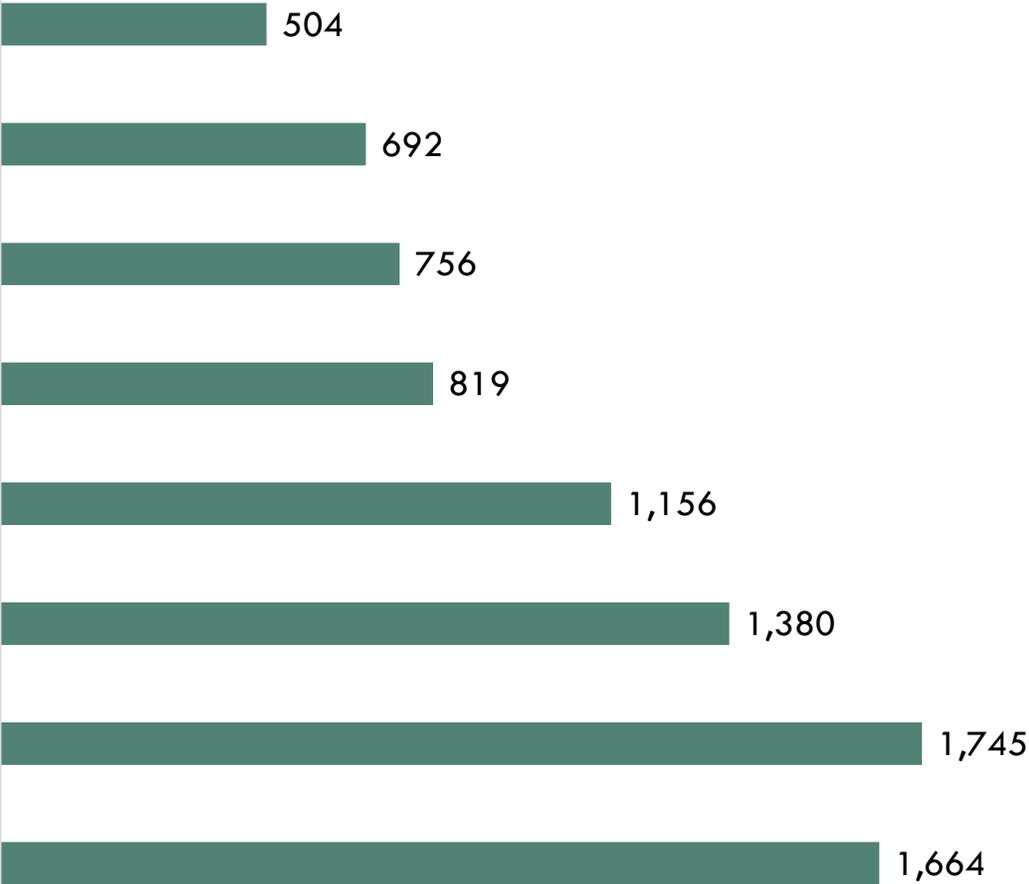
Source: Federal Reserve Board of Governors SCF, 2016

But is It (Education) Worth it?

Unemployment rate (%)



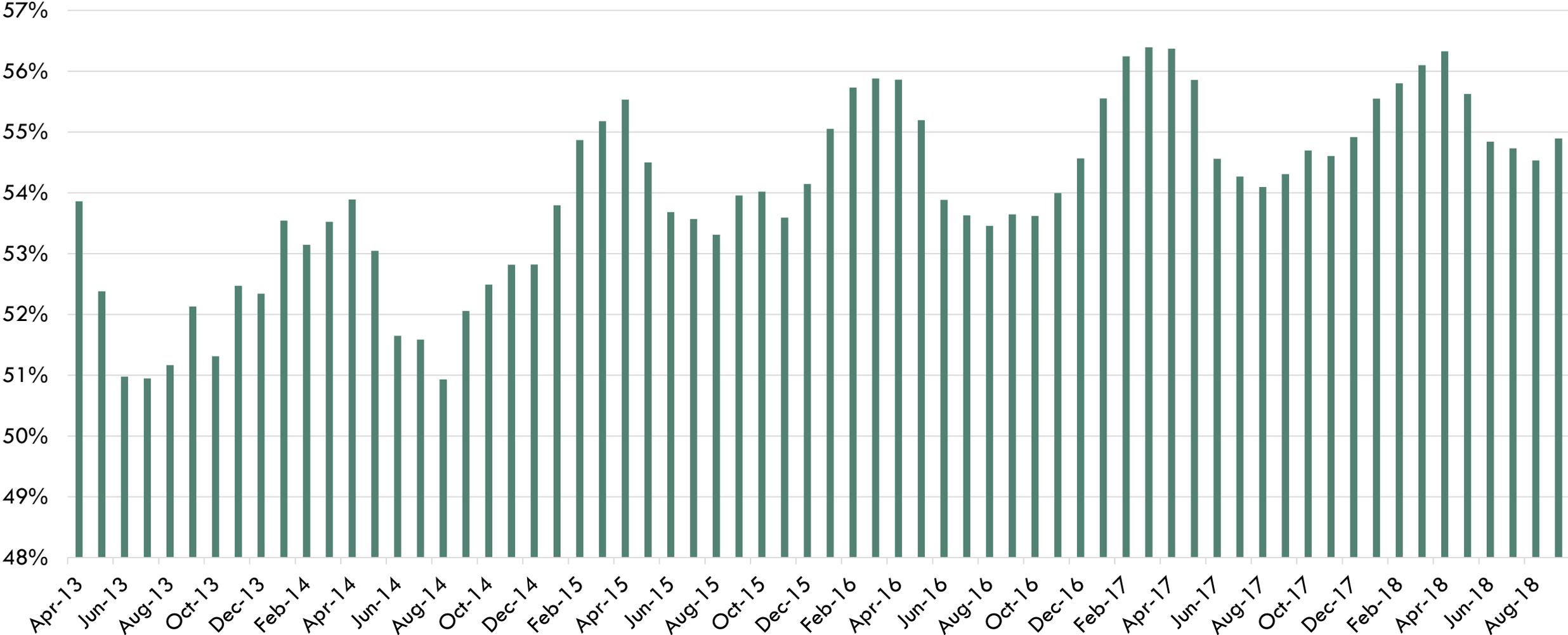
Median usual weekly earnings (\$)



Source: IPUMS CPS, 2017

Where There's a Will There's A Way

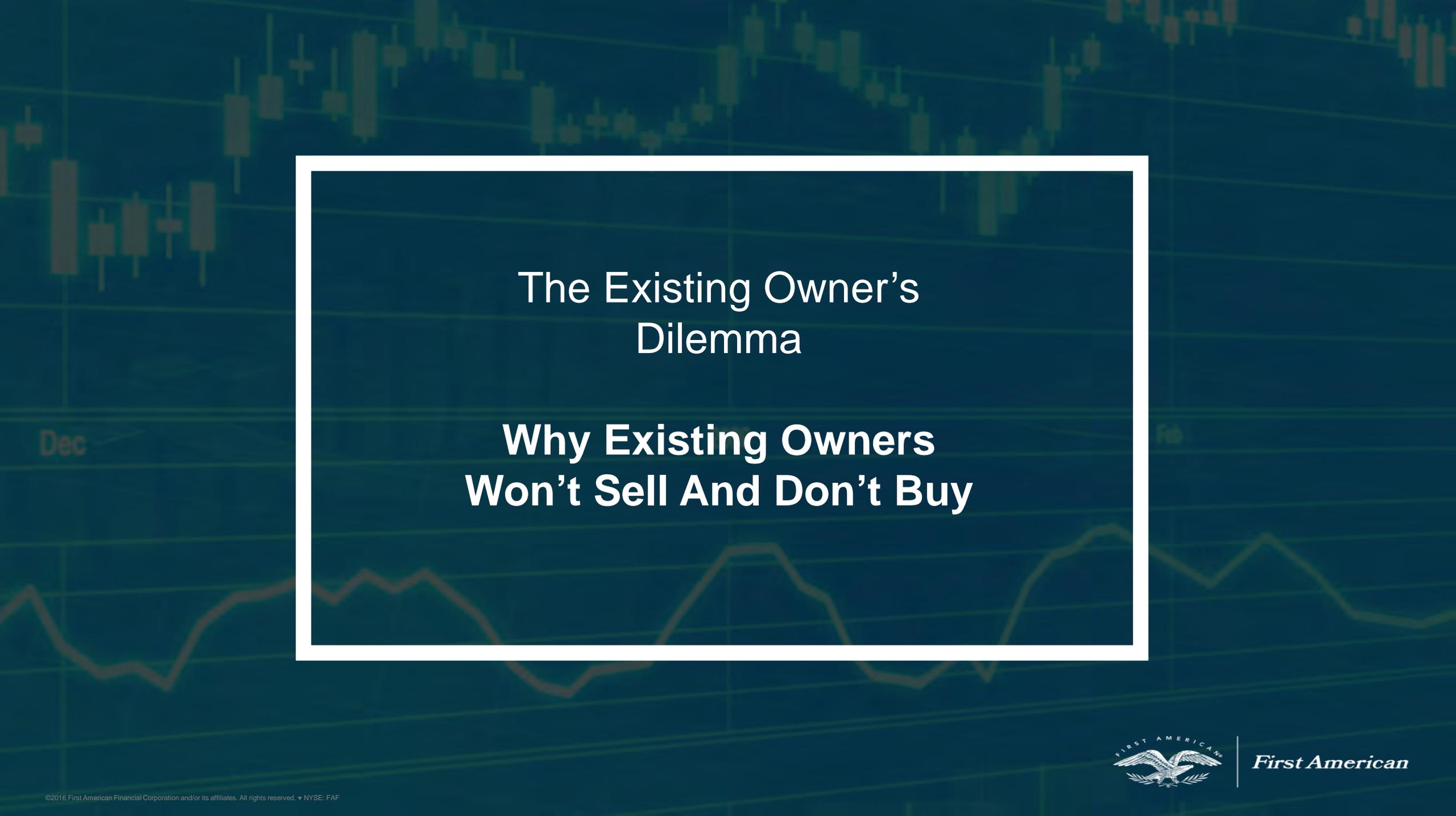
First-Time Homebuyer Market Share (%)



Source: AEI International Center on Housing Risk , Sep. 2018

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The Existing Owner's Dilemma

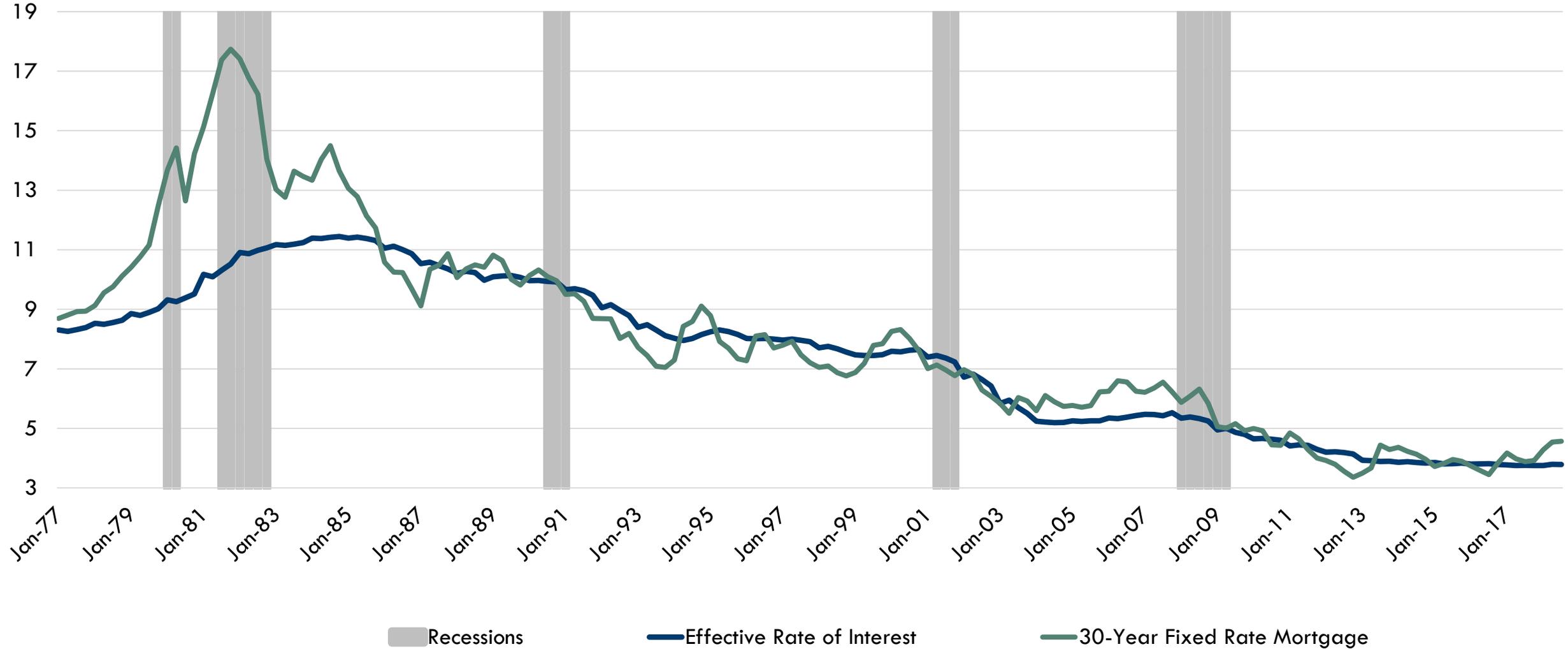
**Why Existing Owners
Won't Sell And Don't Buy**



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Never Shall We See Those Rates Again

30-year Fixed Rate (%), Effective Rate of Interest on Mortgage Debt Outstanding Residential Housing (%), NSA

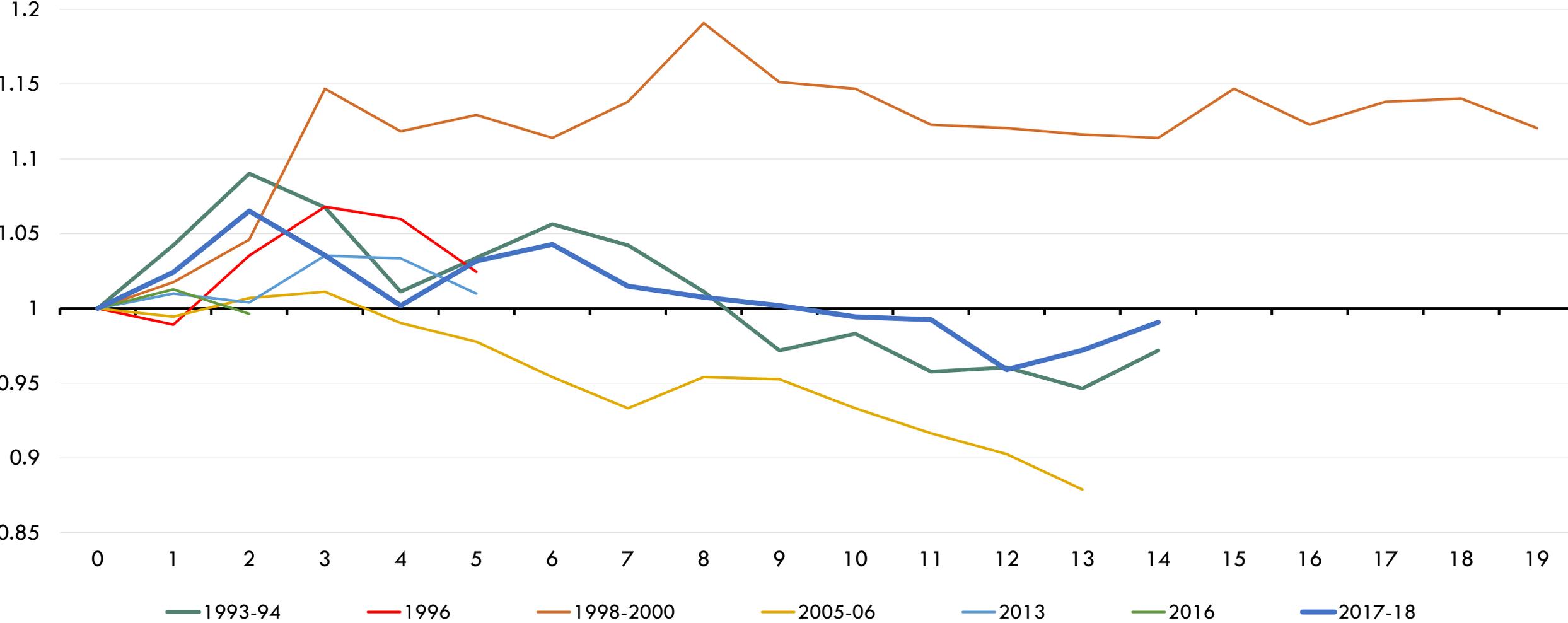


Source: Bureau of Labor Statistics, FRED, Q3 2018

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Existing-Home Sales When Mortgage Rates Rise

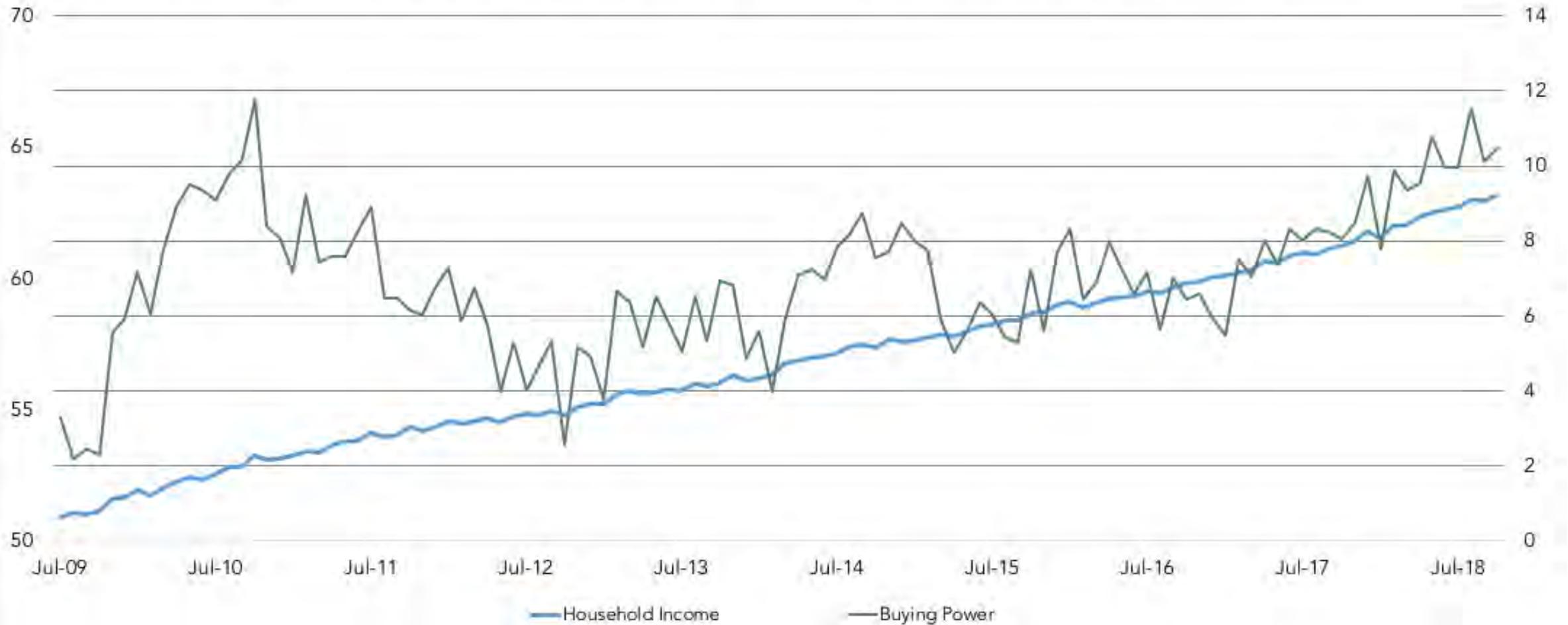
Monthly Change in EHS (%), Index=1 in Beginning Period of Rising Rates



Source: Freddie Mac, NAR, First American Calculations, October 2018

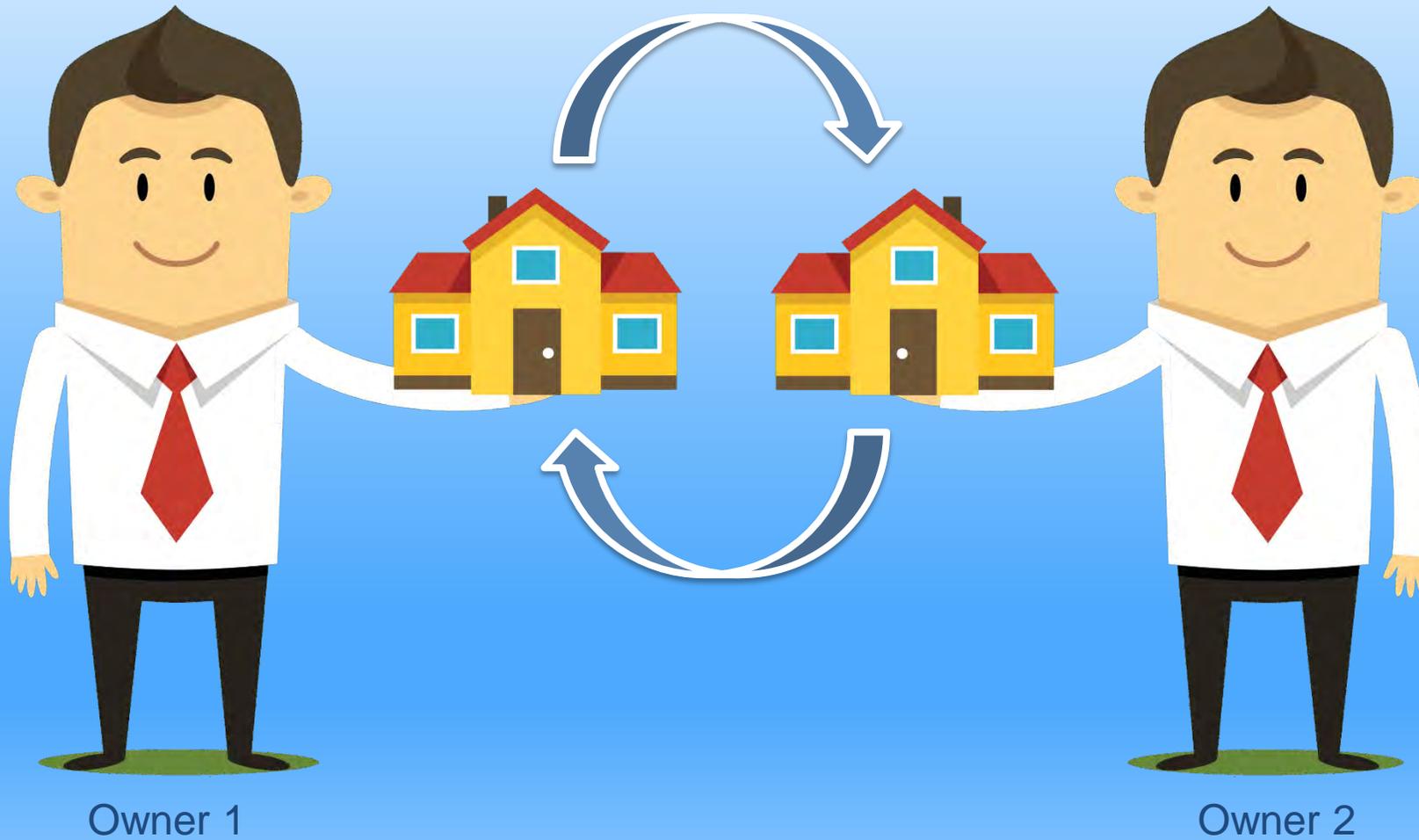
Labor Market Driven Income Growth Influences House-Buying Power

Estimated Annual Household Income ('000s, Left Axis), Year-Over-Year Income Driven Change in Consumer House-Buying Power ('000s, Right Axis)



Source: Bureau of Labor Statistics, Freddie Mac, First American Calculations, October 2018

The Homeowners' "Prisoner's Dilemma"



The Homeowners' "Prisoner's Dilemma"



Owner 1



Owner 2

The Homeowners' "Prisoner's Dilemma"



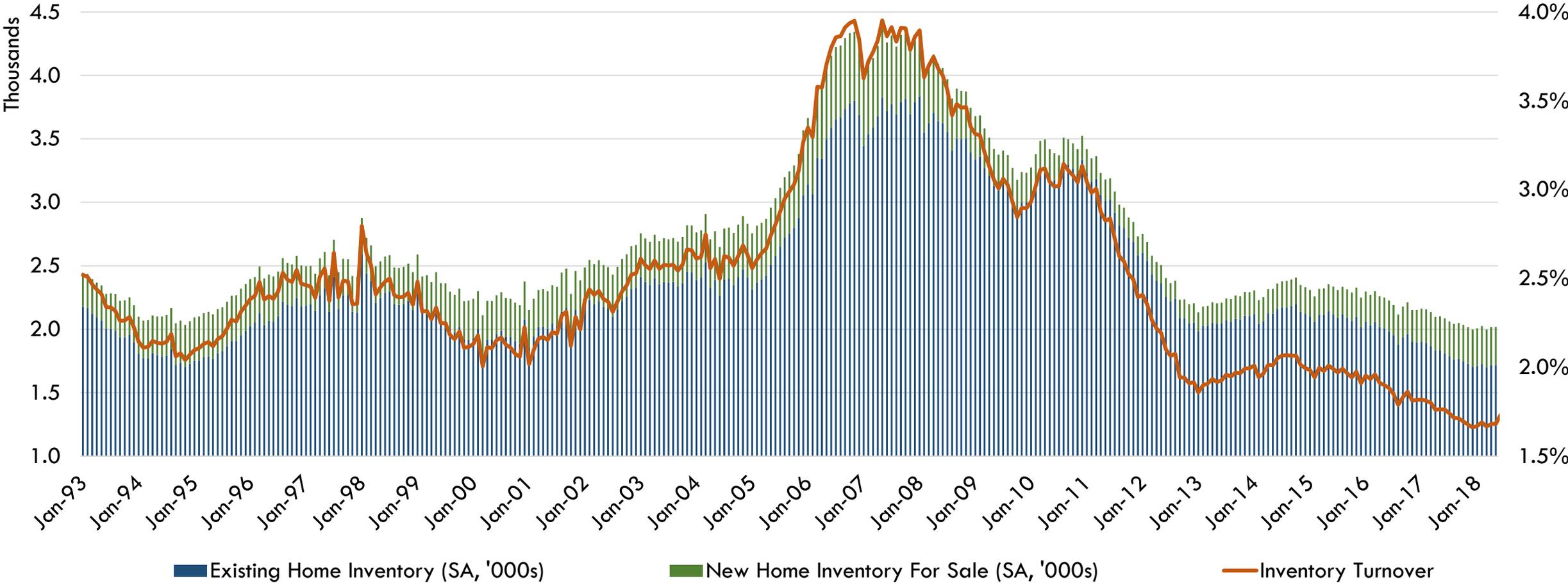
Owner 1



Owner 2

Supply At Quarter Century Low

New and Existing Inventory for Sale (Millions SA, % of Households)



Source: NAR, Census, FRB St. Louis, First American Calculations, Oct. 2018

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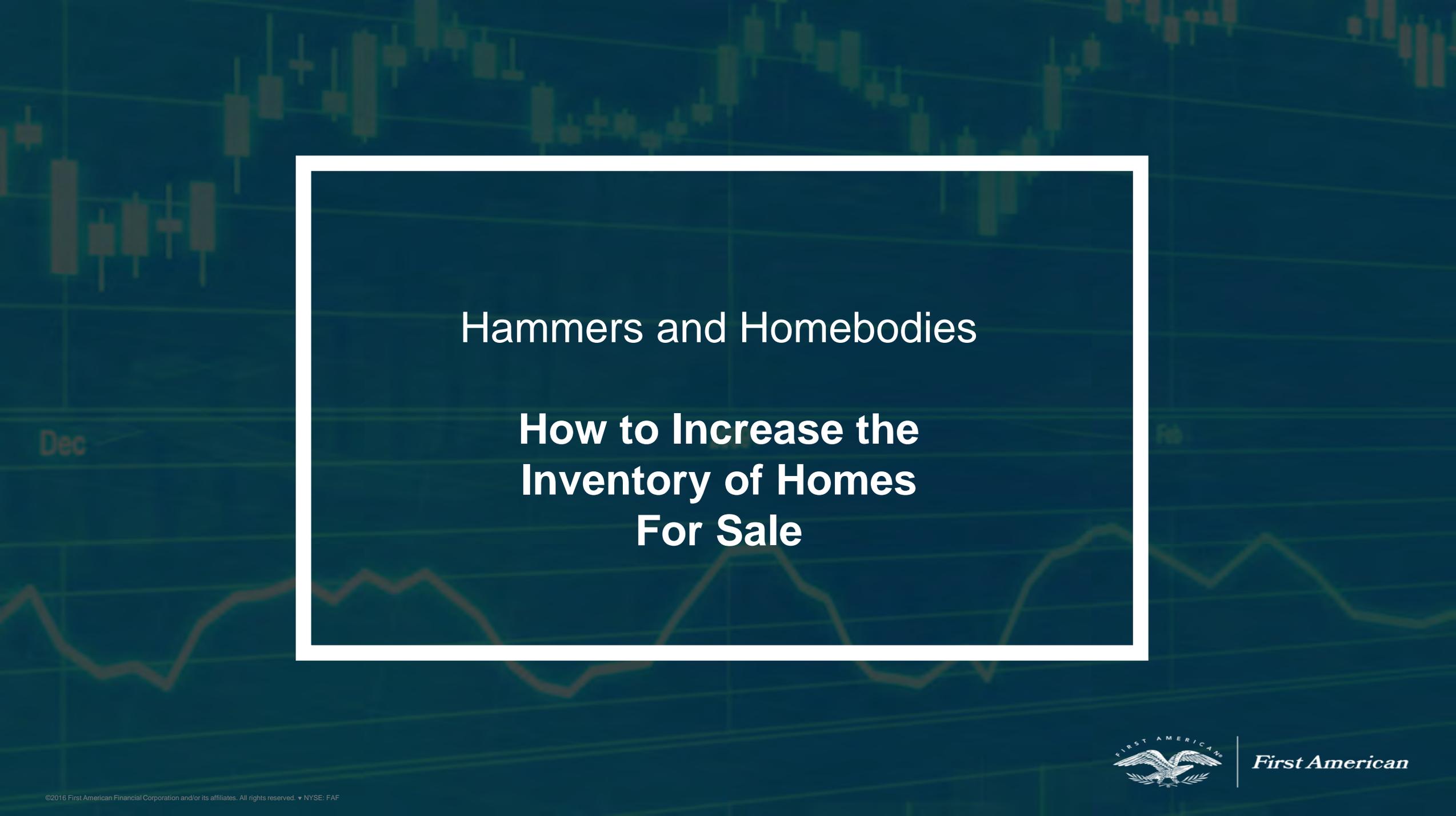
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A Nation of Homebodies

Median Tenure Length (Years), Existing Home Sales (SAAR, Millions)



Source: DataTree by First American, NAR, FRED, Dec. 2018



Hammers and Homebodies

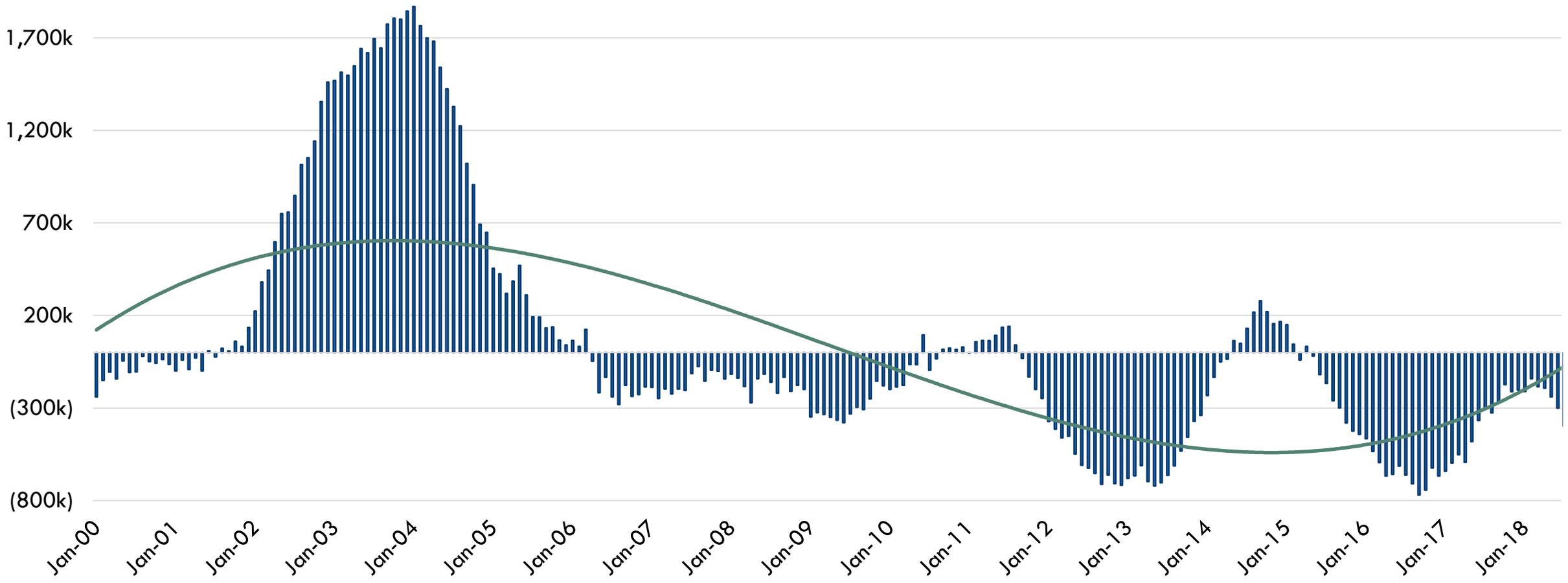
How to Increase the Inventory of Homes For Sale



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Building the Housing Debt

Difference Between New Housing Units Completed (SAAR) and New Household Formation (2-Year Moving Average)



Source: Census Bureau, HUD (obsolescence rate of 0.31% of existing stock), Oct. 2018

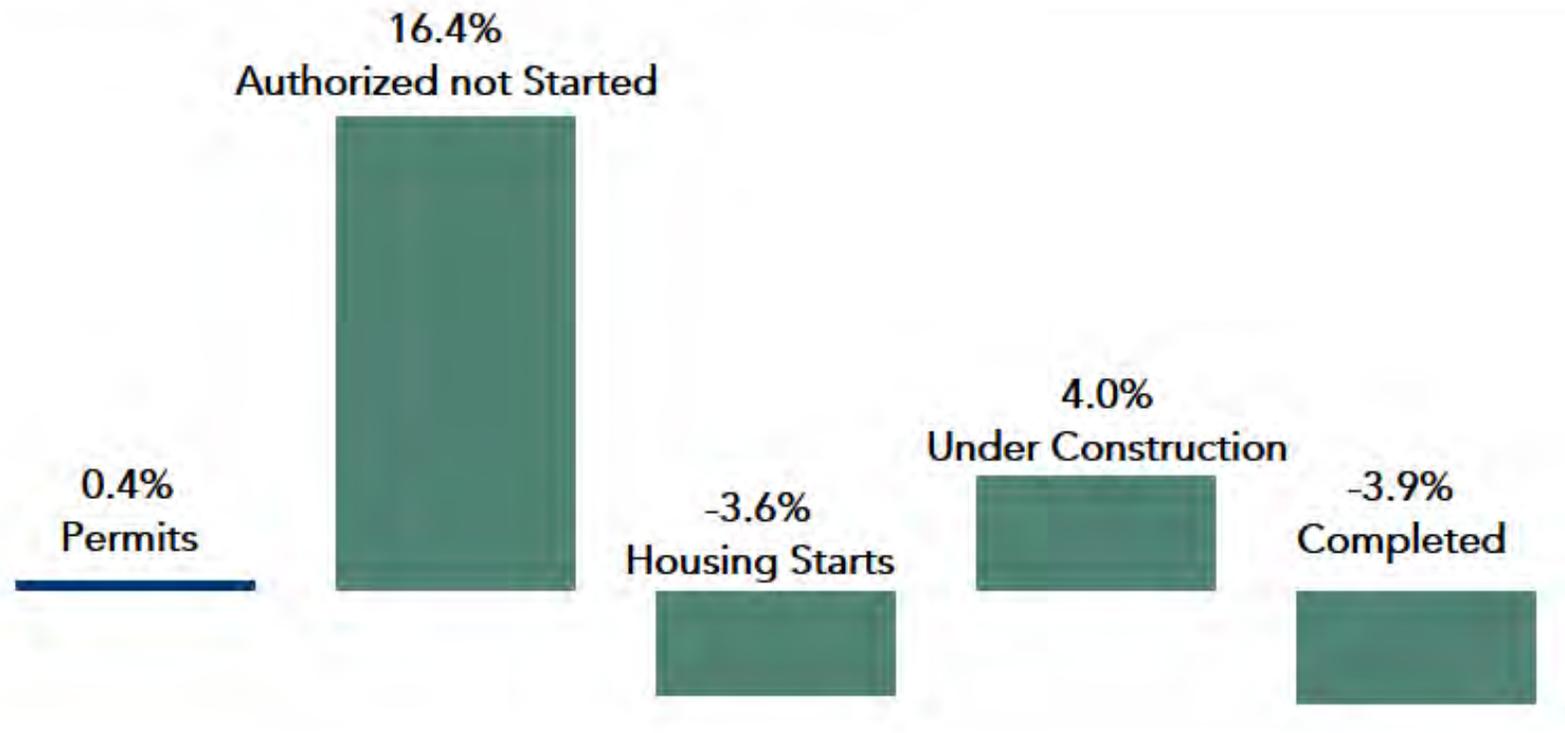
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New Residential Construction

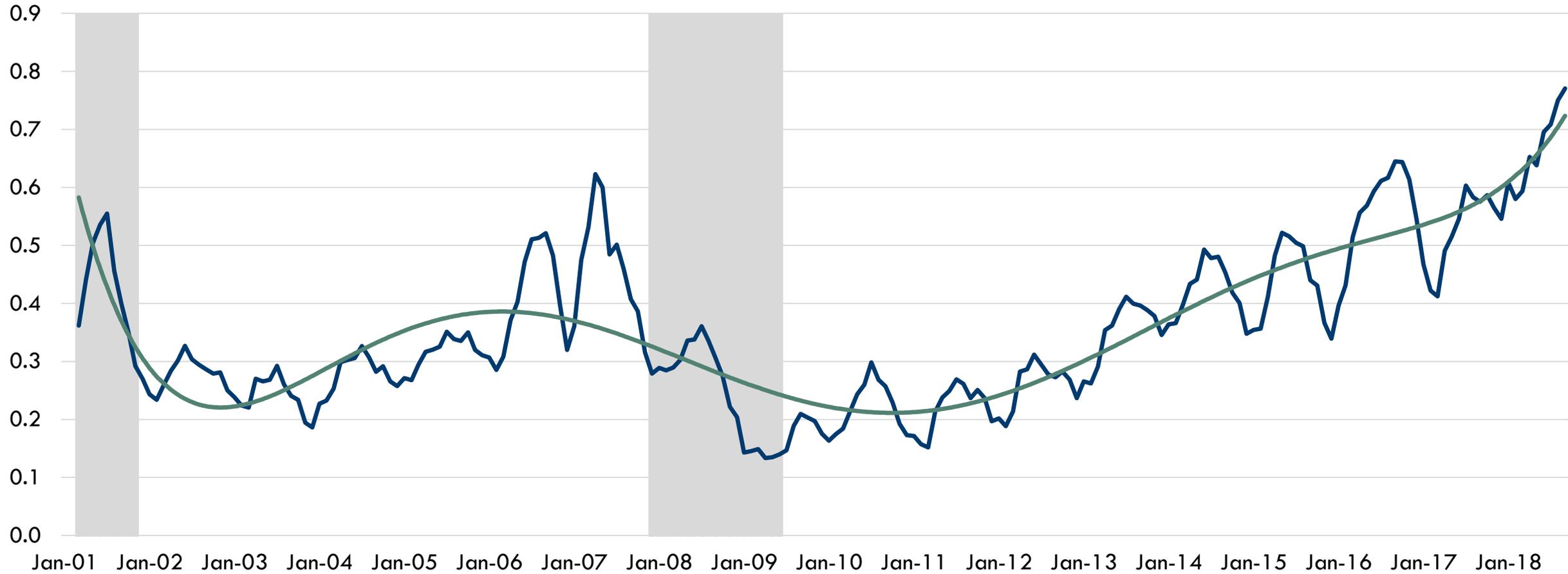
Total (Single and Multifamily), Yearly Growth (%)



Source: U.S. Census Bureau, Nov. 2018

A Lack of Labor

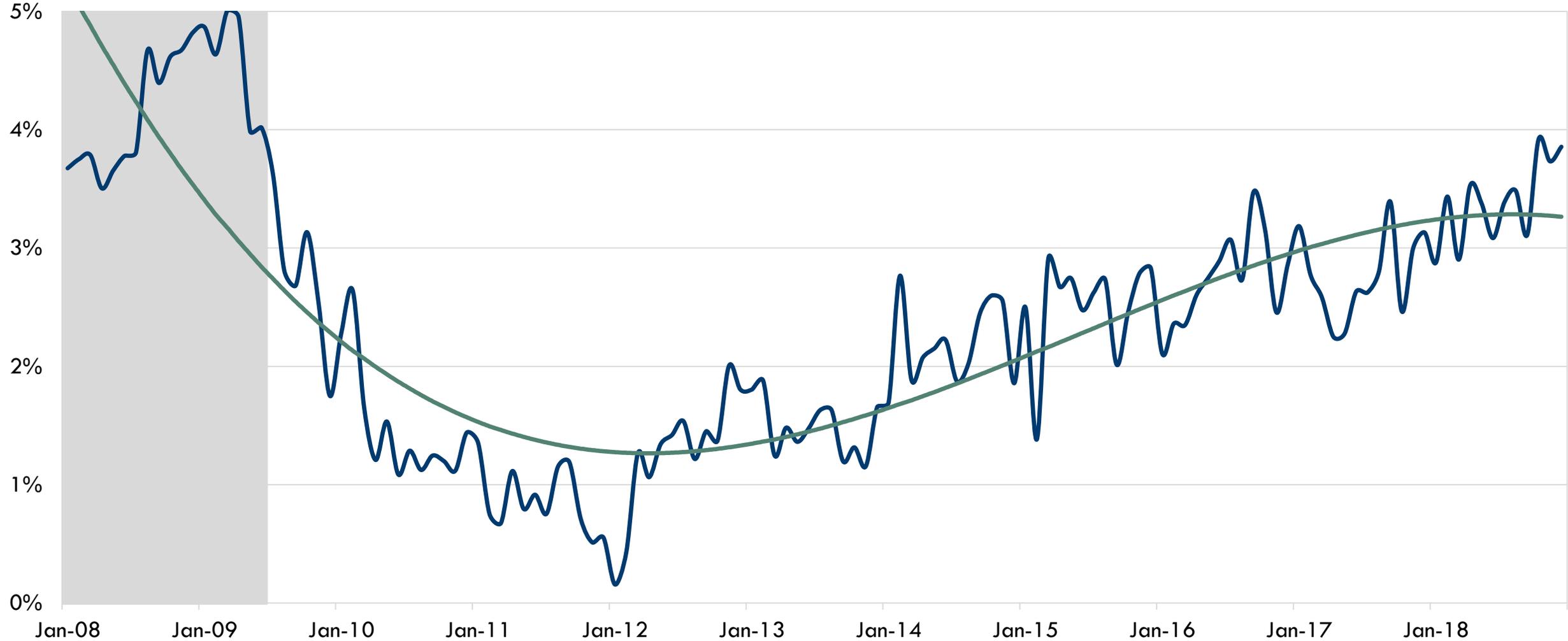
Months Supply- Ratio of Construction Job Openings to Hires (Thousands, SA)



Source: JOLTS BLS, First American Calculations, Nov. 2018

Best Retention and Attraction Policy? Pay More

Average Hourly Earnings of All Employees, Construction, SA



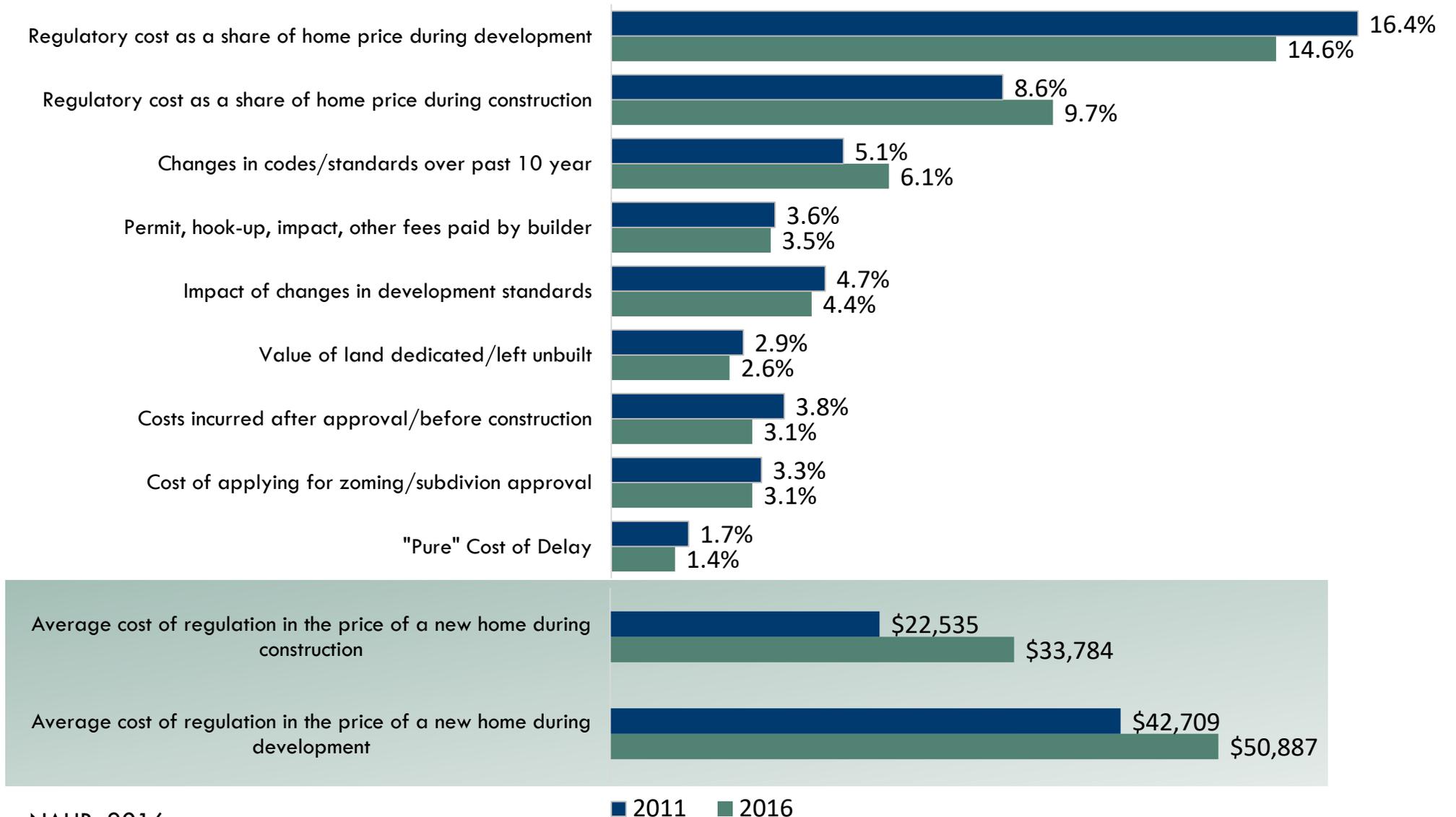
Source: BLS, Dec. 2018

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The Process Costs More Too

Costs as a Share of Final Price of the Home Sold to the Ultimate Buyer

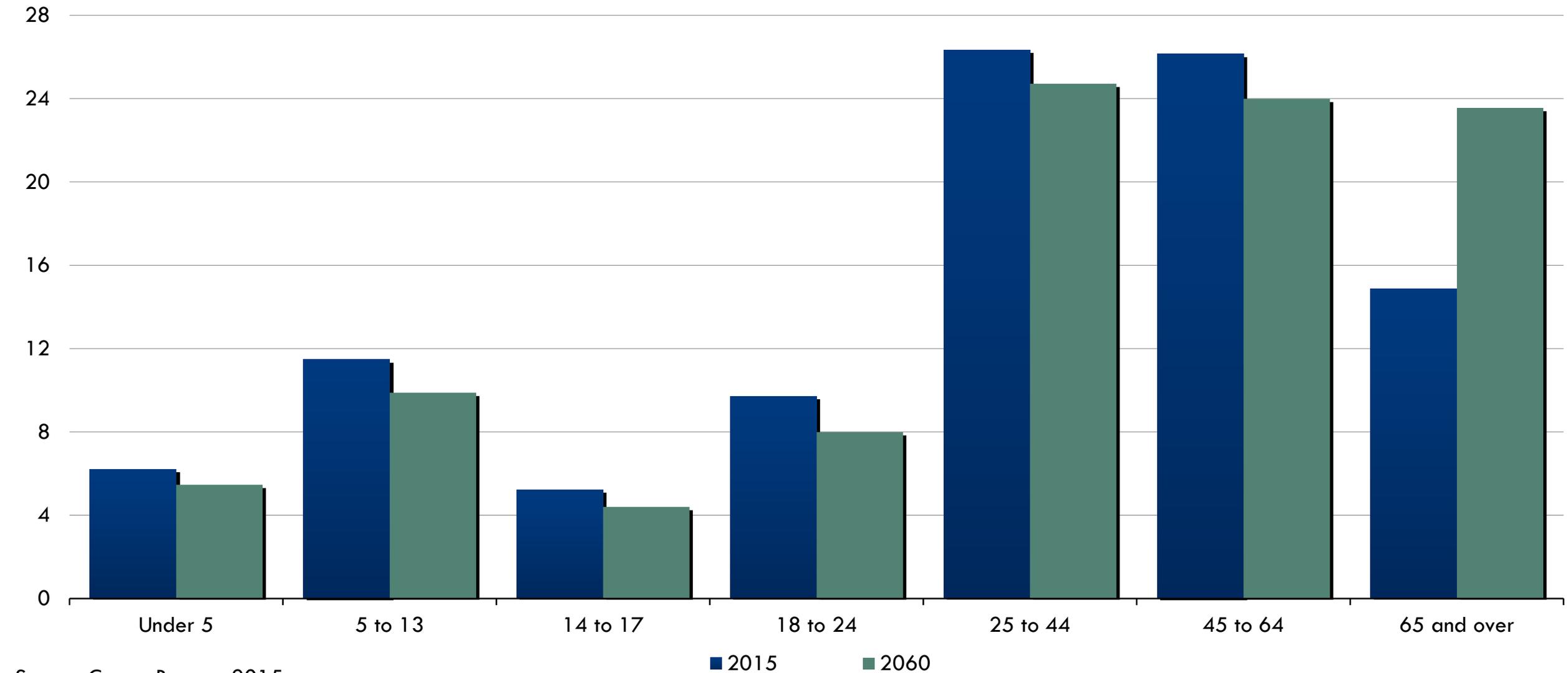


Source: NAHB, 2016

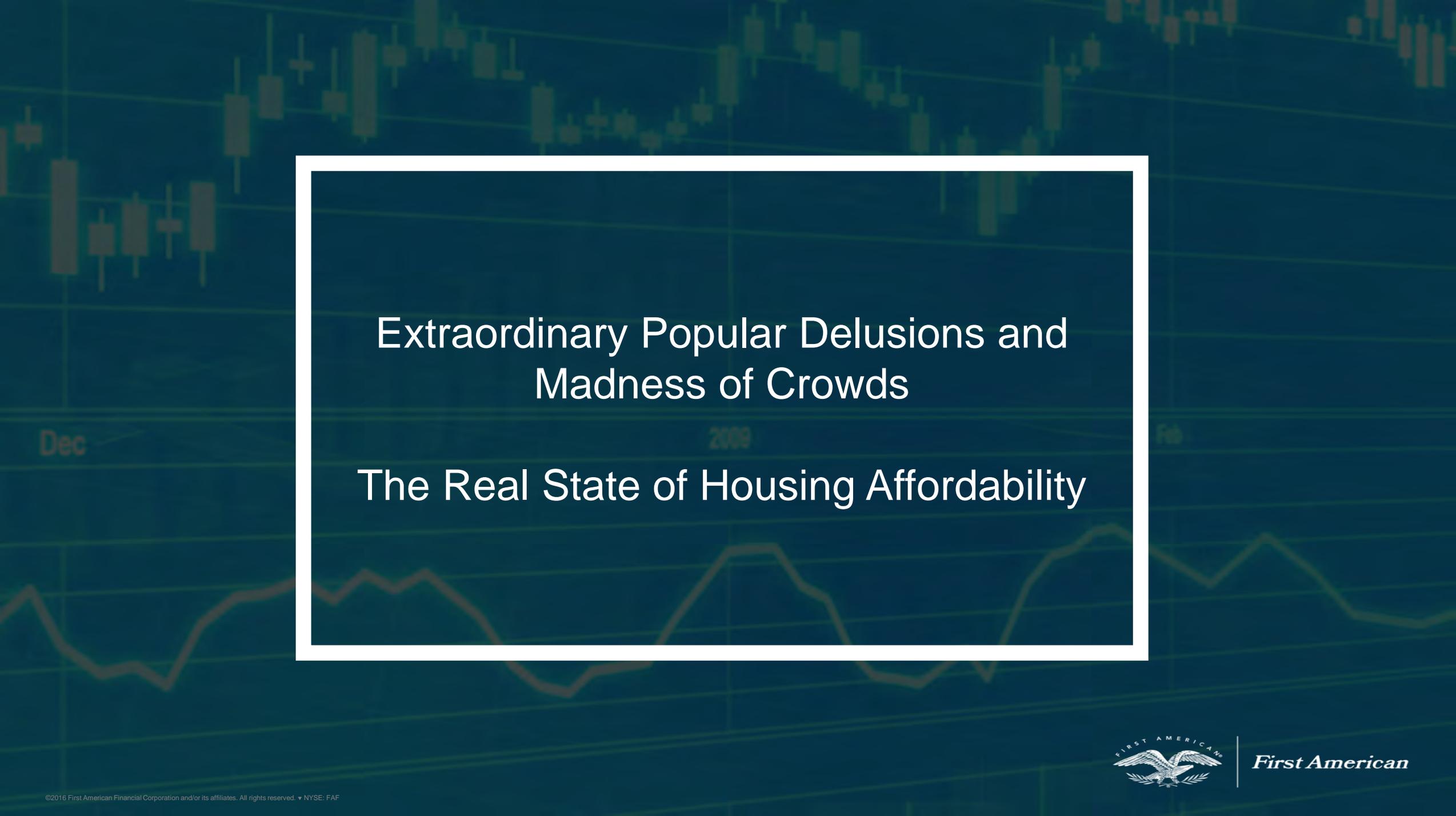
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The Coming Exodus of Homeowners

Percent Share of Total U.S. Population



Source: Census Bureau, 2015



Extraordinary Popular Delusions and Madness of Crowds

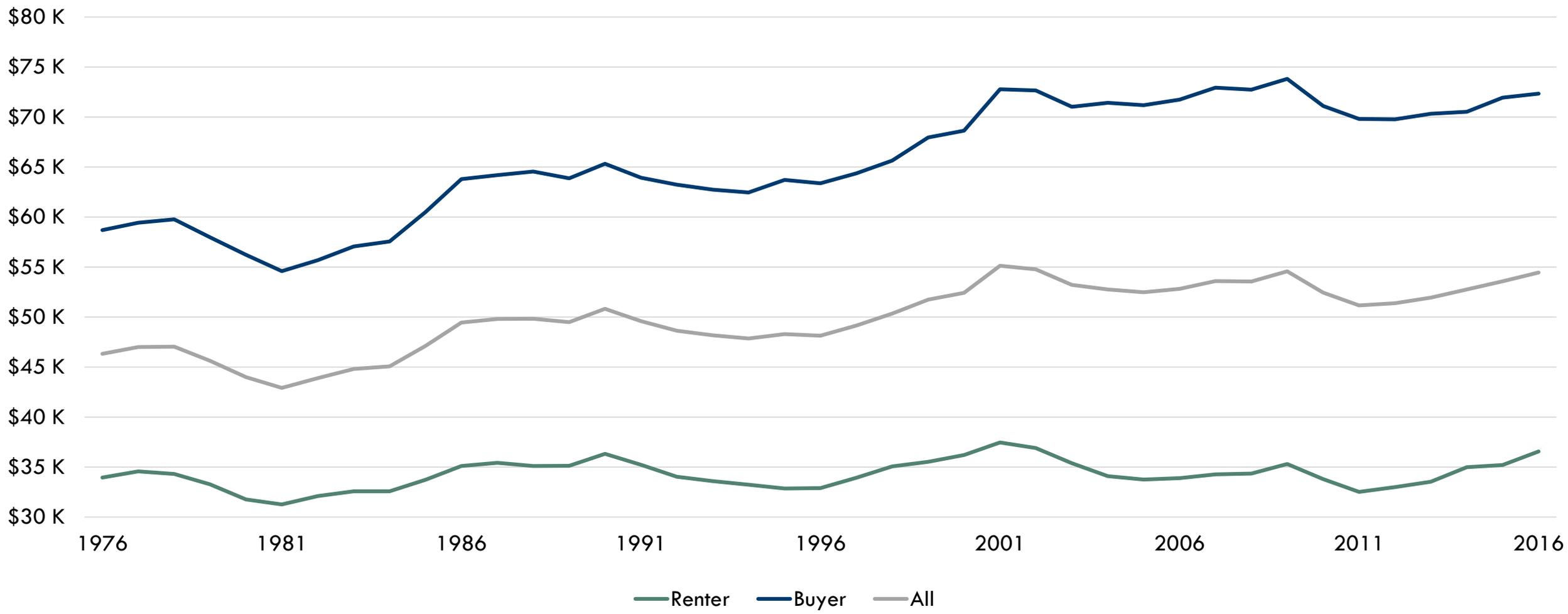
The Real State of Housing Affordability



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Mind the (Income) Gap

Median Income, 1976-2016



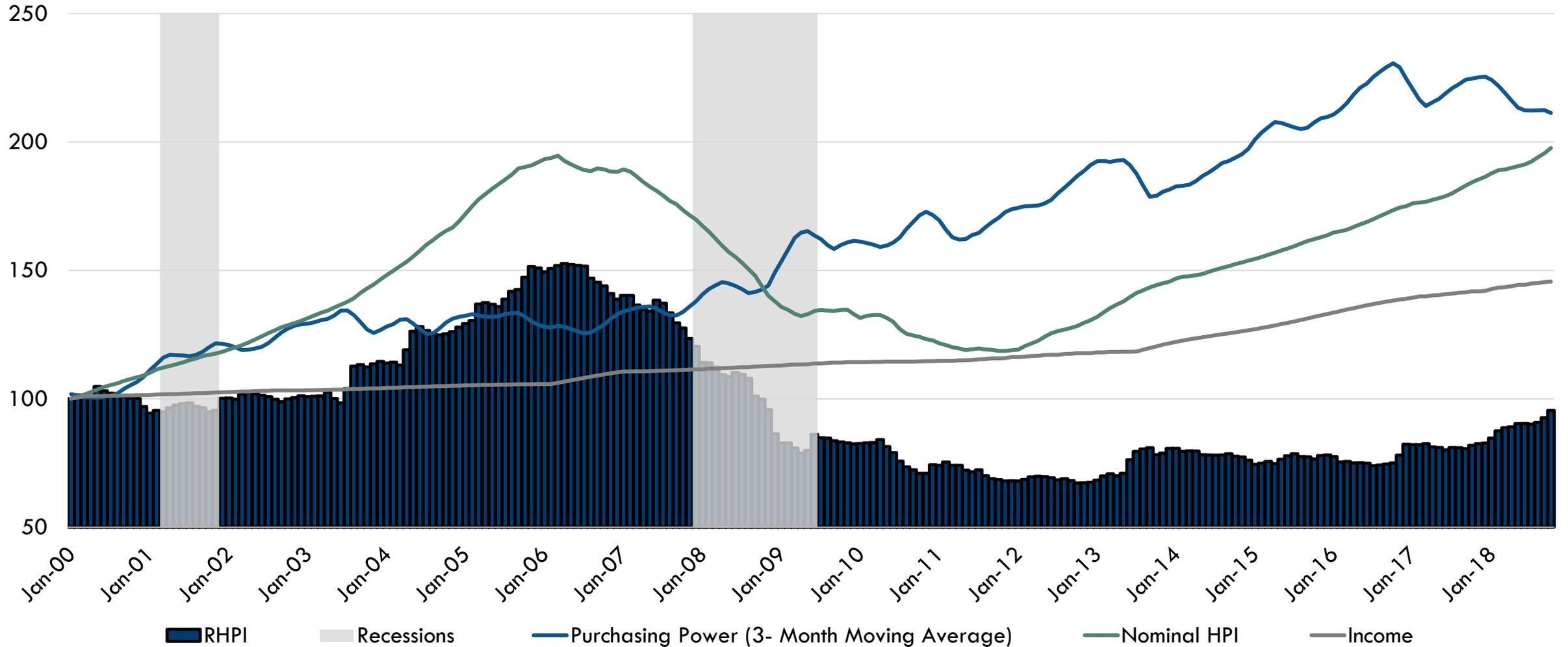
Source: IPUMS, First American Calculations, 2017

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How Much Home Can A Renter Buy?

Index= 100, Jan. 2000



Source: First American Calculations, BLS, Census, Oct. 2018

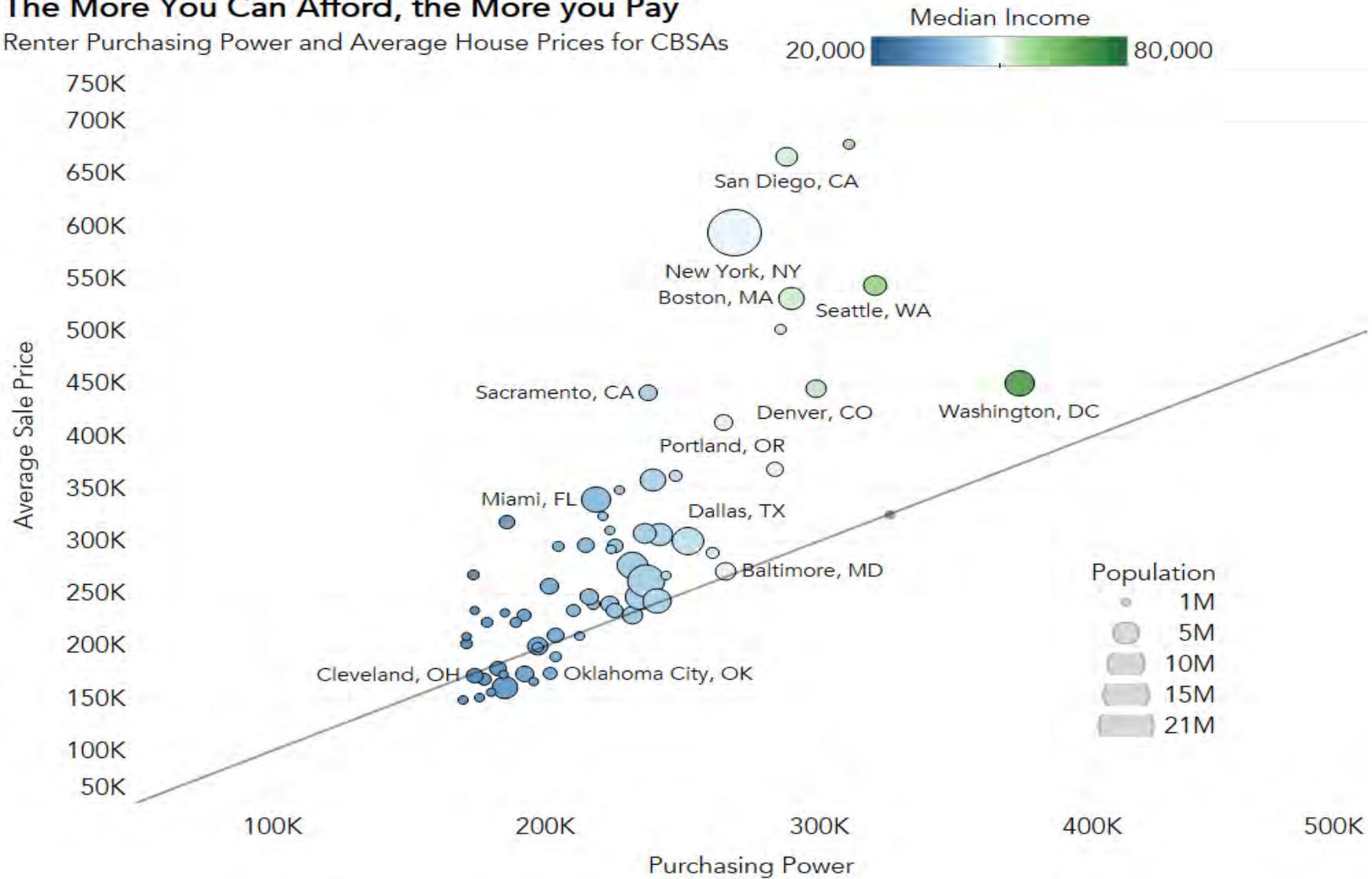
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The More You Can Afford, the More you Pay

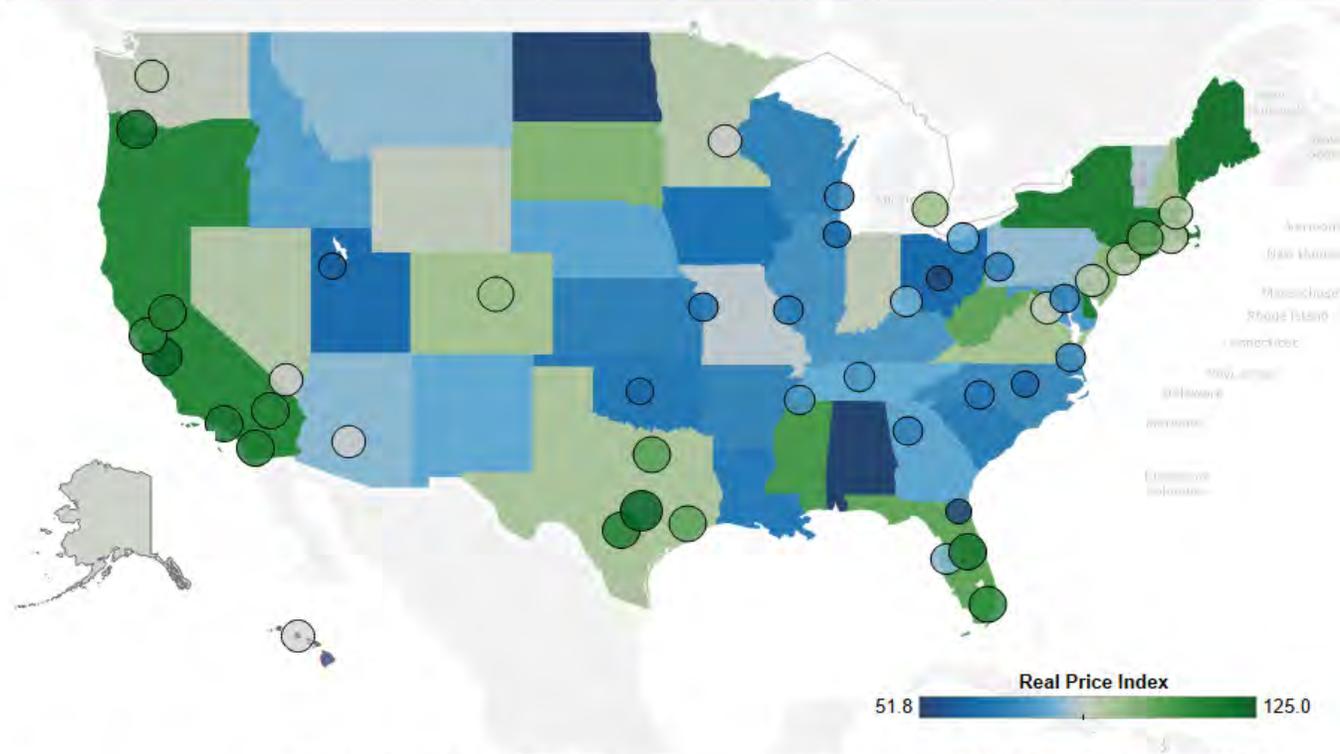
Renter Purchasing Power and Average House Prices for CBSAs



Source: DataTree by First American, IPUMS CPS, BLS, Oct. 2018

How Much Depends on Where

	Real Price Index	Monthly Change	Quarterly Change	Yearly Change
October 2018	95.46	2.99%	5.84%	16.58%



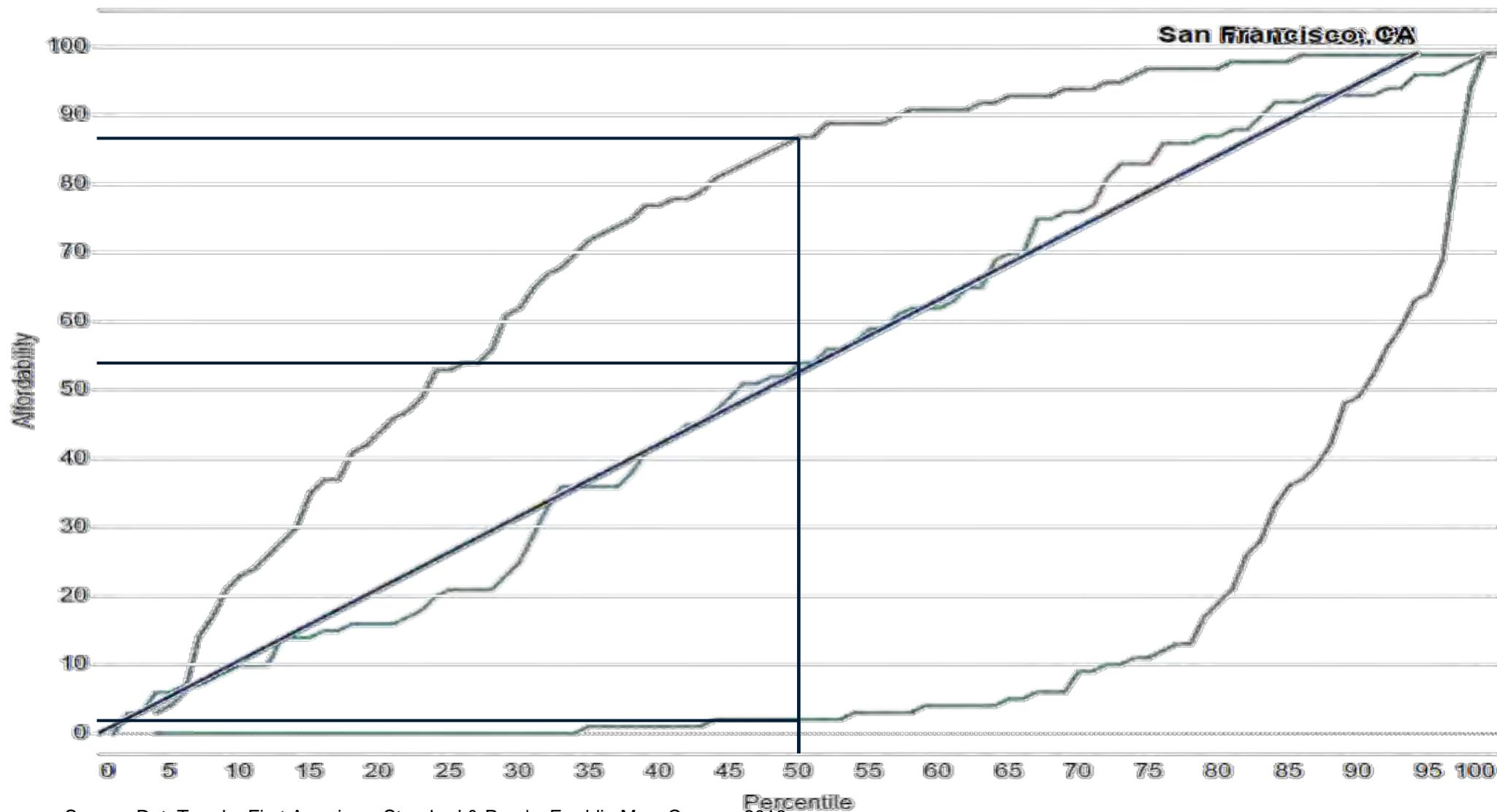
State	State Index	Monthly Change	Quarterly Change	Yearly Change
NV	91.80	3.21%	5.05%	22%
OH	64.19	3.43%	6.20%	21%
NJ	97.50	4.04%	7.02%	20%
NH	95.03	3.15%	5.13%	19%
AZ	82.79	3.16%	5.01%	19%

City Name	City Index	Monthly Change	Quarterly Change	Yearly Change
Cleveland, OH	79.3	4.30%	8.64%	28%
San Antonio, TX	115.7	3.59%	9.49%	27%
Las Vegas, NV	87.2	2.12%	4.99%	25%
Cincinnati, OH	80.7	4.23%	8.71%	24%
Salt Lake City, ...	60.6	3.71%	5.92%	20%

Source: FHFA, Freddie Mac, Census, First American Calculations, Oct. 2018

When It Comes to Affordability, Place Matters

Median Renter: Share of Sold Homes



Source: DataTree by First American, Standard & Poor's, Freddie Mac, Census, 2018

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80/20 RULE

→ The **80th** percentile renter in San Francisco can only afford **20%** of homes for sale, with a house buying power of **822,000** and an income of **135,419**.

→ This same renter could afford **99%** of homes for sale in Detroit, Cleveland, Oklahoma City, and Kansas City

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