



*First American*

# The State of the Housing Market:

## Macroeconomics, Growing Demand, A Nation of Homebodies and Builder Woes

January, 2020



#FirstAmEcon



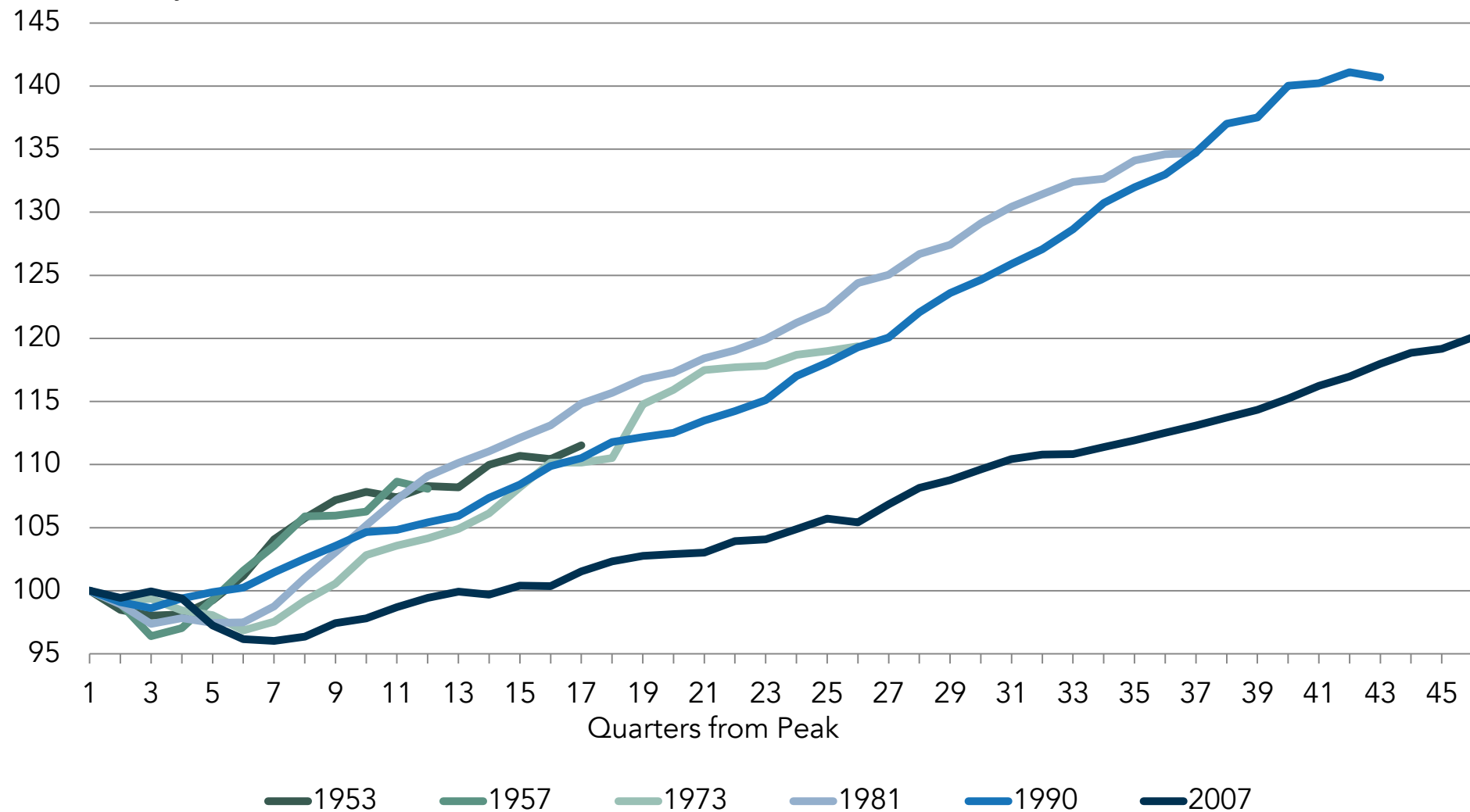
@odetakushi

First American Financial Corporation makes no express or implied warranty respecting the information presented and assumes no responsibility for errors or omissions. First American Financial Corporation is a parent holding company that does business through its operating subsidiaries. First American and the eagle logo are registered trademarks or trademarks of First American Financial Corporation and/or its affiliates.

The following presentation is for informational purposes only and is not and may not be construed as legal advice. First American Financial Corporation is not a law firm and does not offer legal services of any kind. No third party entity may rely upon anything contained herein when making legal and/or other determinations regarding title practices. You should consult with an attorney prior to embarking upon any specific course of action.

# Measuring the Business Cycle- Recession, Expansion and Duration

Real Quarterly GDP (SA, %, Recession Peak = 100)

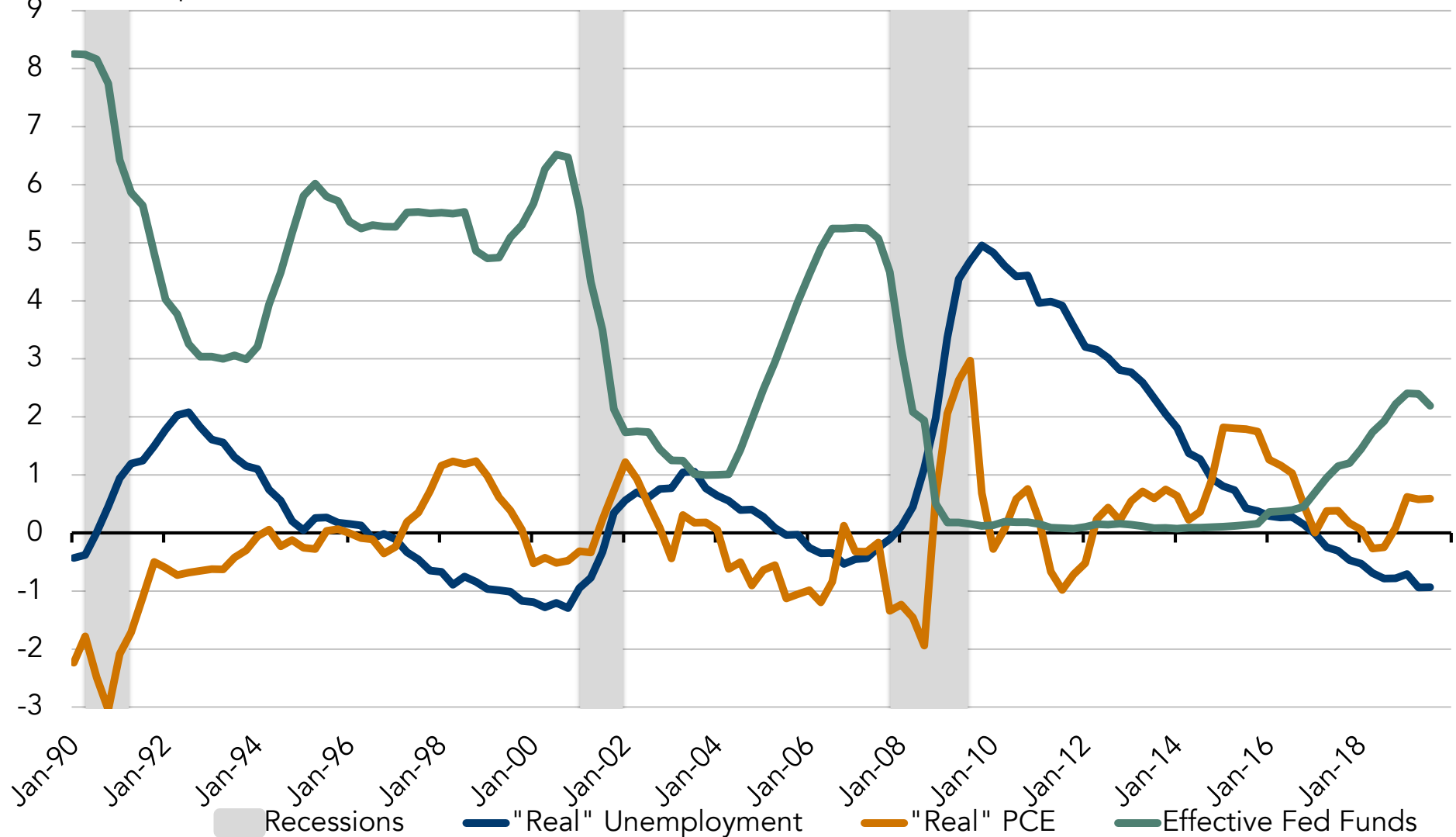


Source: BEA, FRED, Q3 2019



# Fed Monetary Policy- Too Hot, Too Cold or Just Right

"Real" Unemployment & Inflation (Adjusted for Fed Targets)

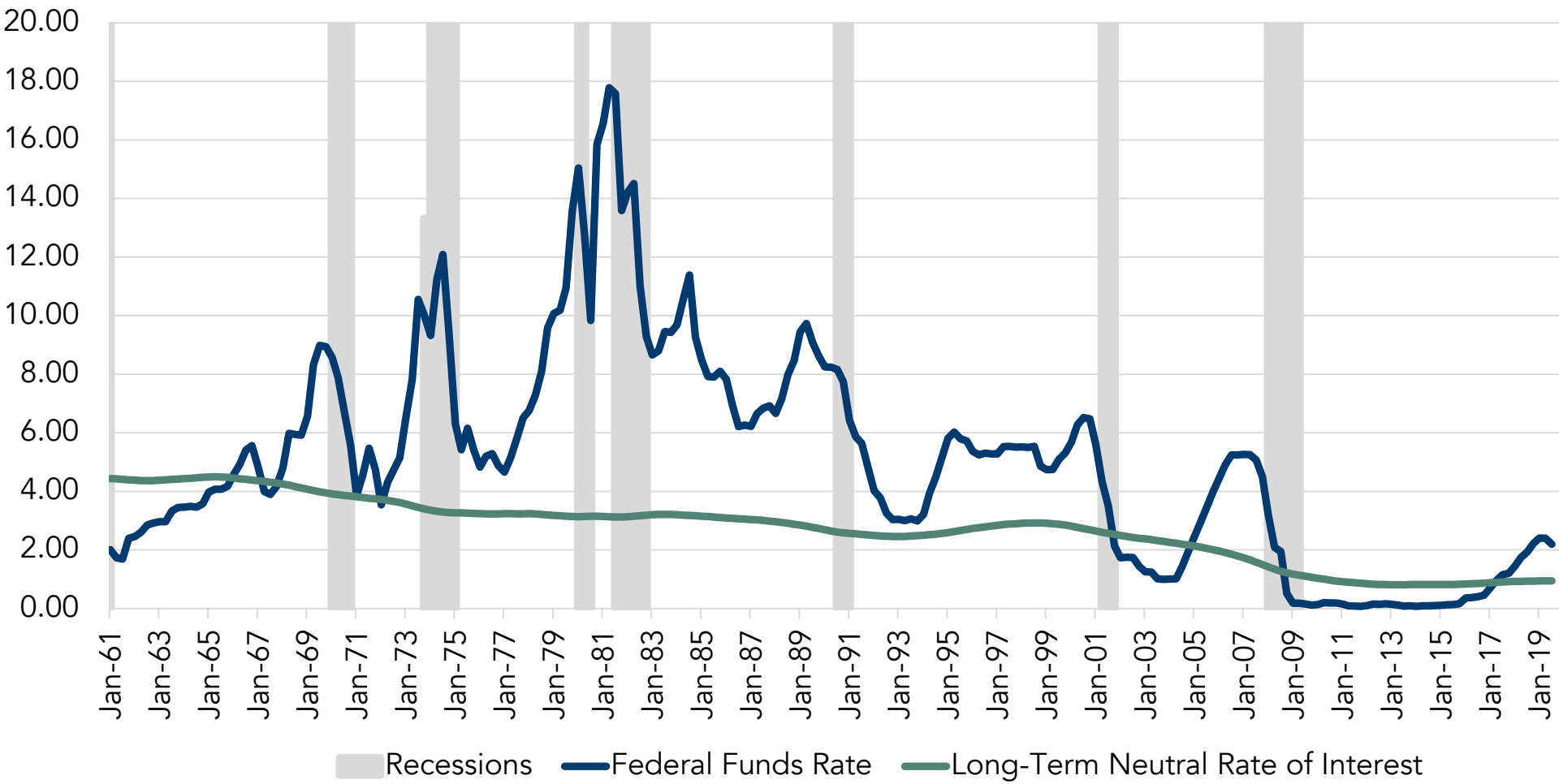


Source: BLS, CBO, BEA, Fed Board of Governors, FRED, Q3 2019



# Not Too Hot, Not Too Cold

Federal Funds Rate, Long-Term Neutral Rate of Interest, %



Source: Federal Reserve Bank of New York, FRED, Q3 2019



@odetakushi #FirstAmEcon

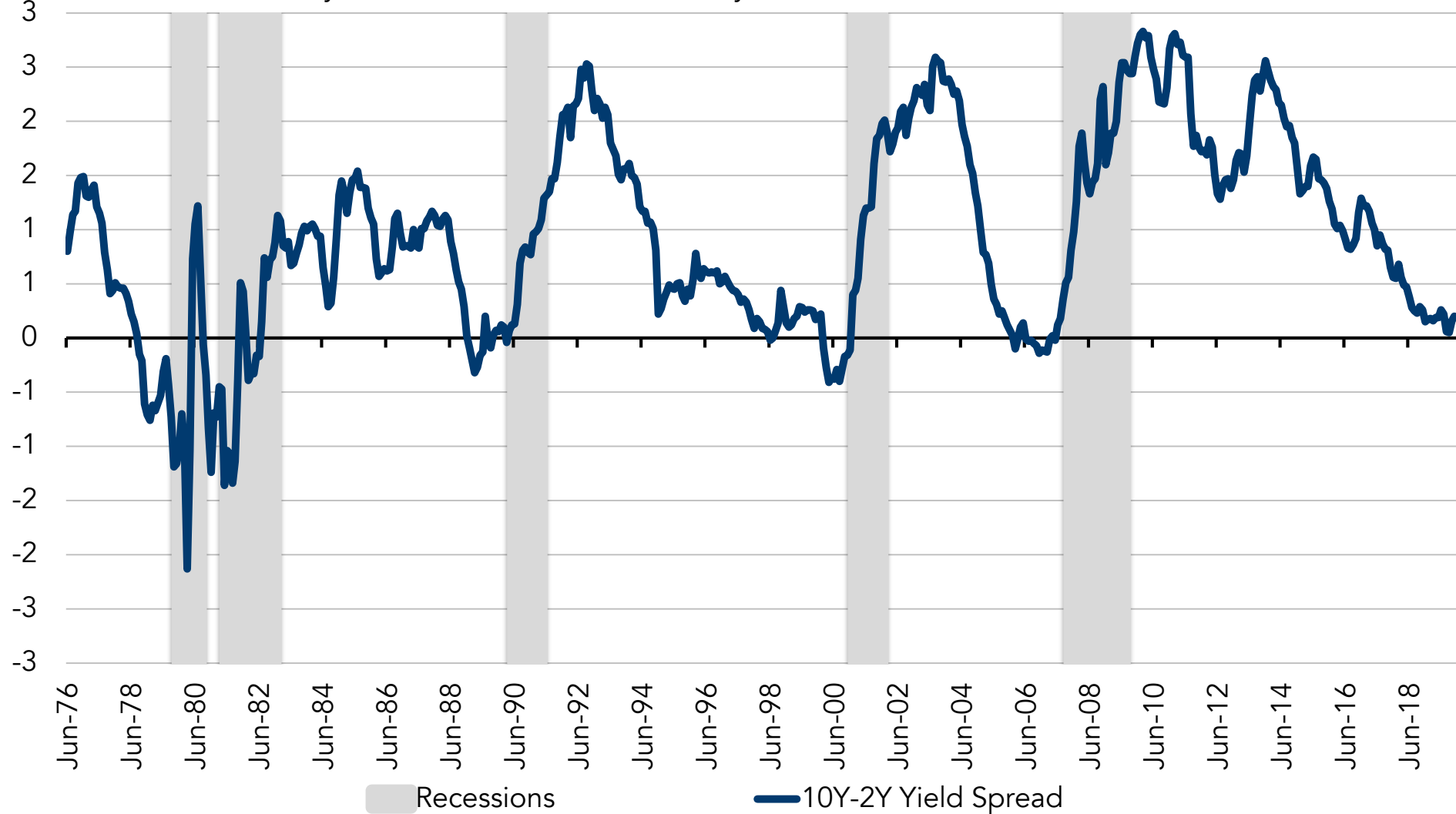
©2019 First American Financial Corporation and/or its affiliates. All rights reserved. NYSE: FAF



First American

# Risking the Upside Down

10-Year Constant Maturity Minus 2-Year Constant Maturity Yields (% , NSA)



Source: Federal Reserve, FRED, November 2019



@odetakushi #FirstAmEcon

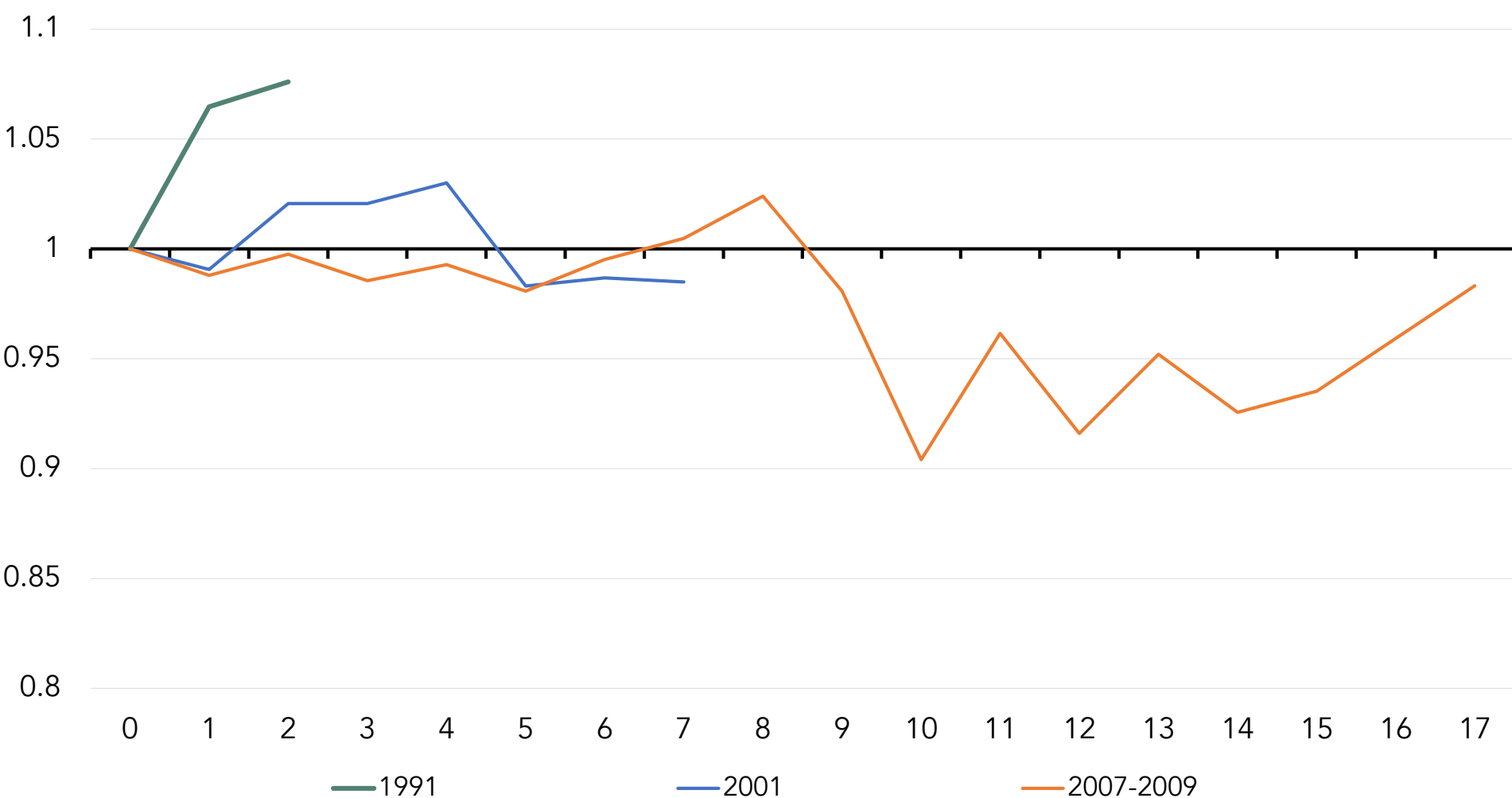
©2019 First American Financial Corporation and/or its affiliates. All rights reserved. NYSE: FAF



First American

# Existing-Home Sales During Recessions

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



Source: Freddie Mac, NAR, First American Calculations, Aug. 2019



@odetakushi #FirstAmEcon

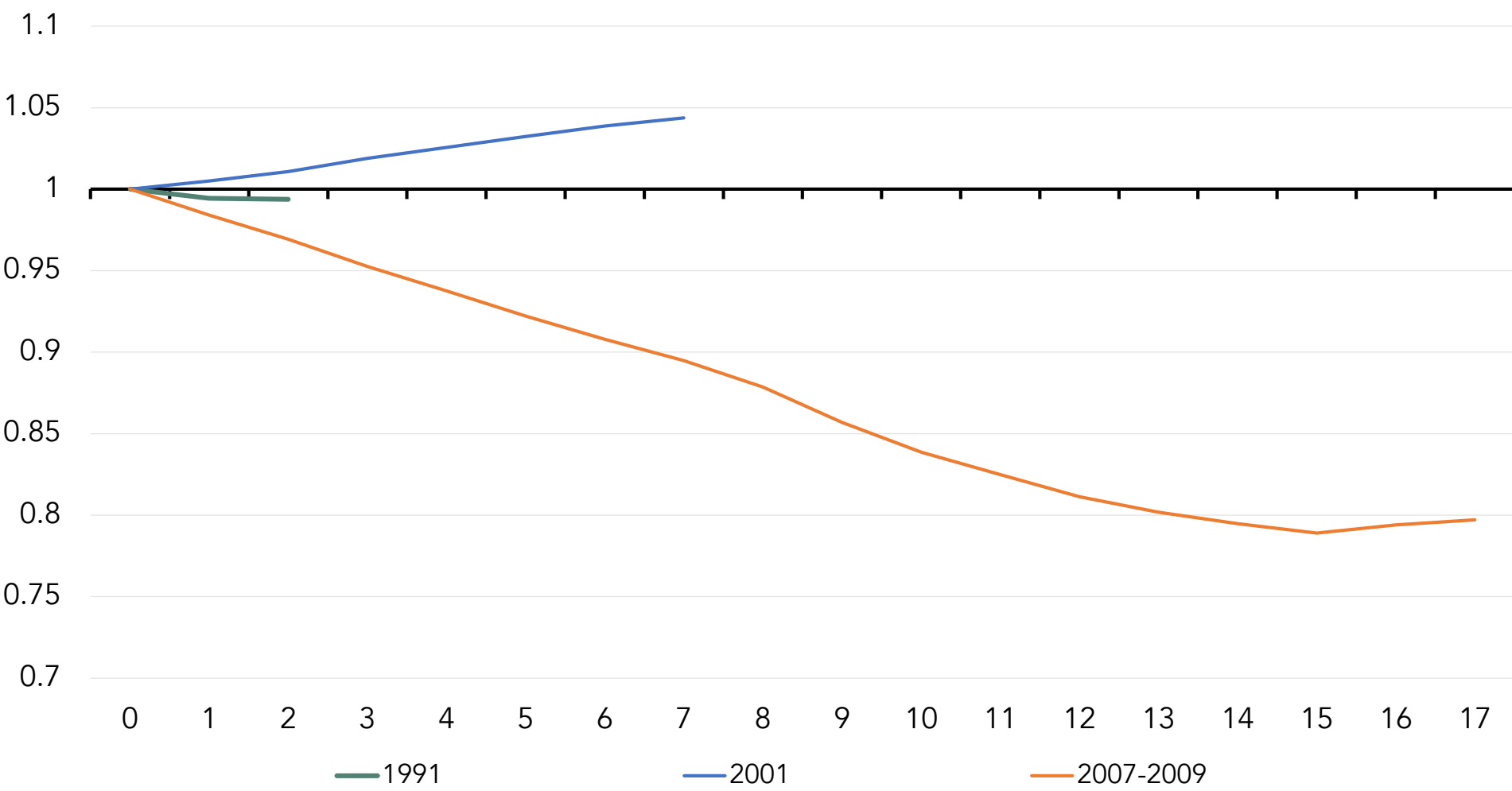
©2019 First American Financial Corporation and/or its affiliates. All rights reserved. NYSE: FAF



First American

# House Prices During Recessions

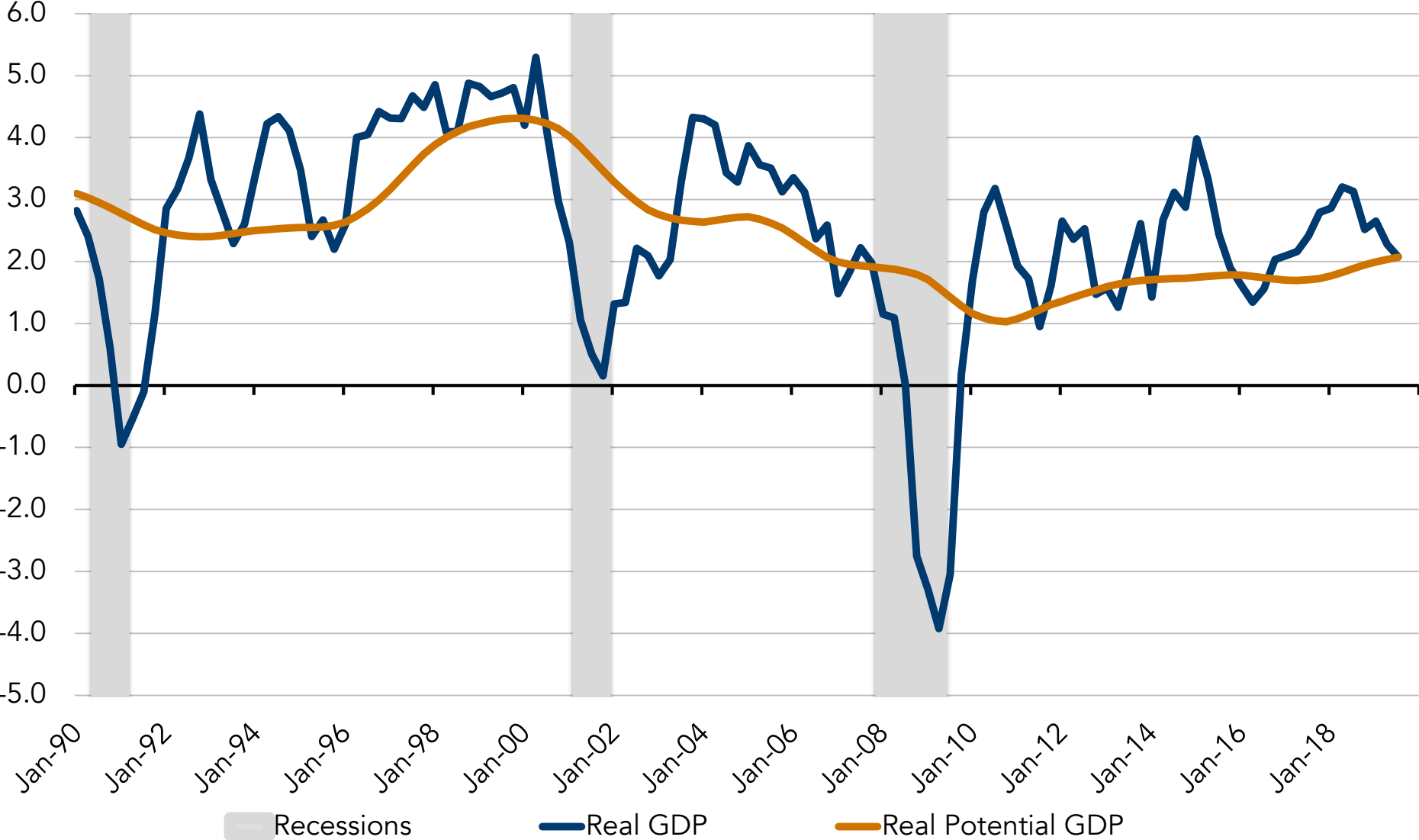
Monthly Change in HPI (%), Index=1 in Beginning Period of Recession)



Source: DataTree by First American, Freddie Mac, Aug. 2019

# Not too Cold, Not too Hot, Just Right GDP Growth

Real & Potential GDP Year-Over-Year (SAAR, Chained 2009 \$)



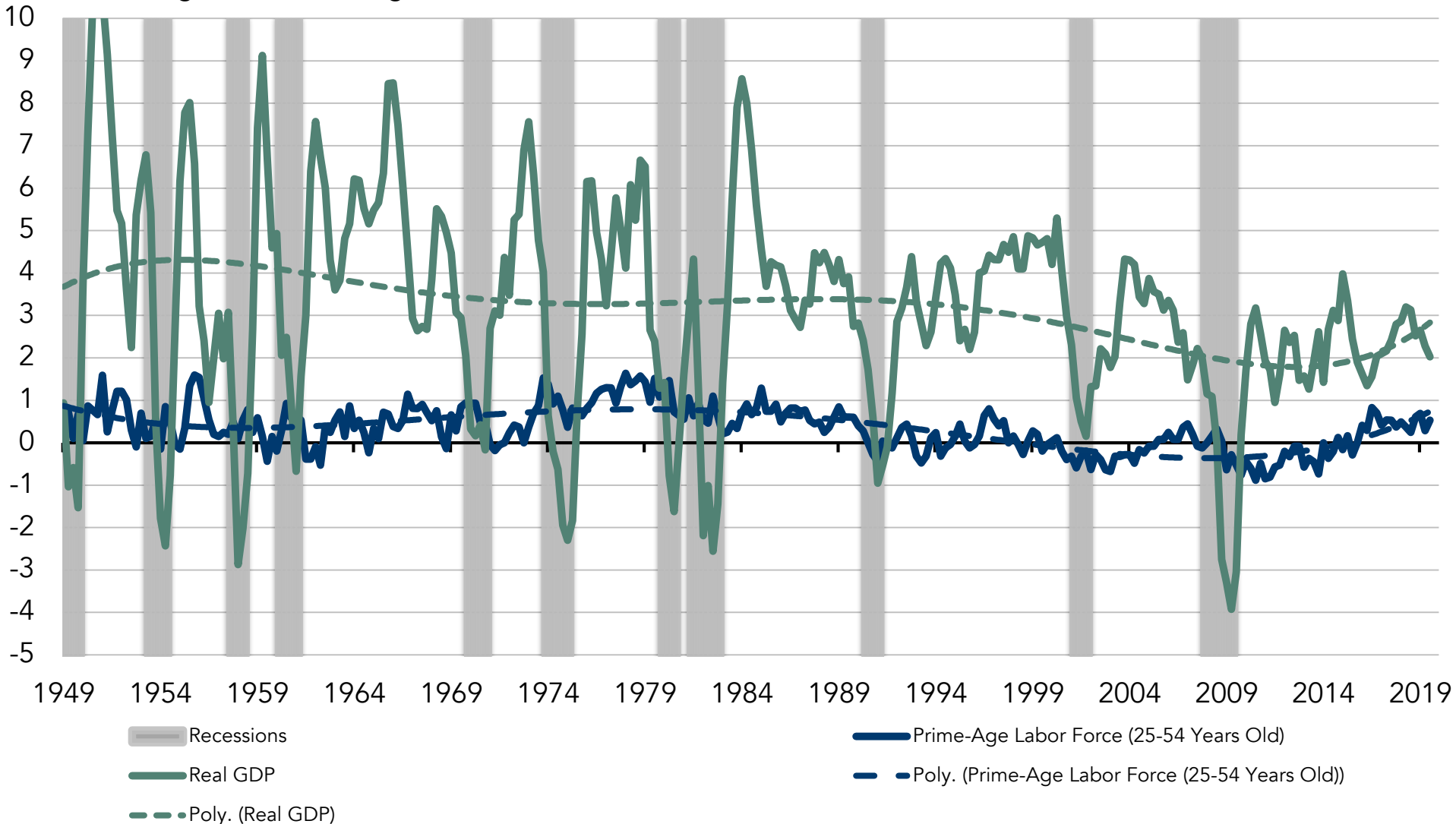
Source: U.S. BEA,CBO, FRED, Q3 2019





# Labor Force Expansion Drives Economic Growth

Percent Change from a Year Ago (SA)

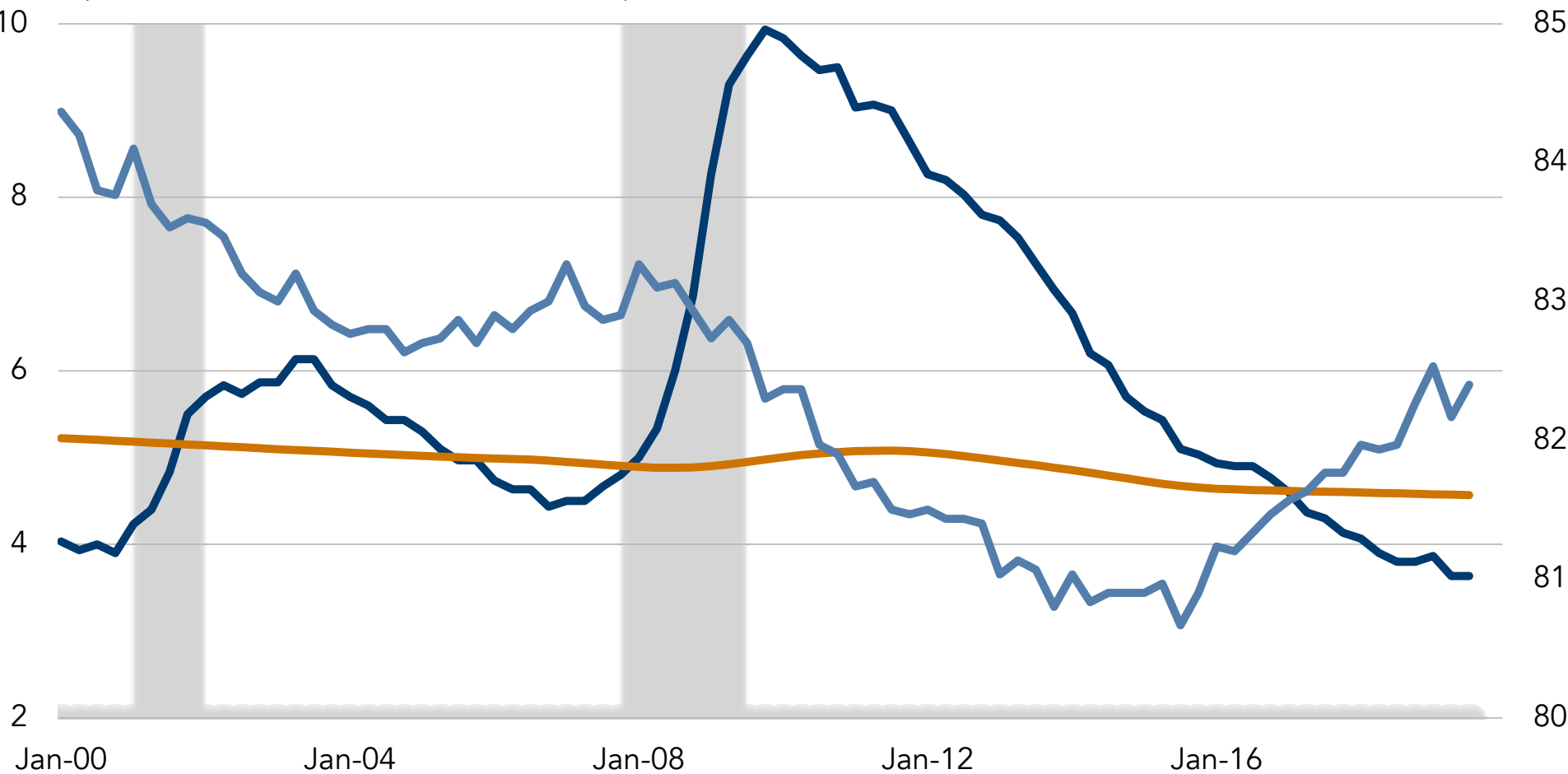


Source: U.S. BEA, BLS, FRED, Q3 2019



# Labor Force – Underemployed, Educating or Aging?

Unemployment Rates and Labor Force Participation (% ,SA)

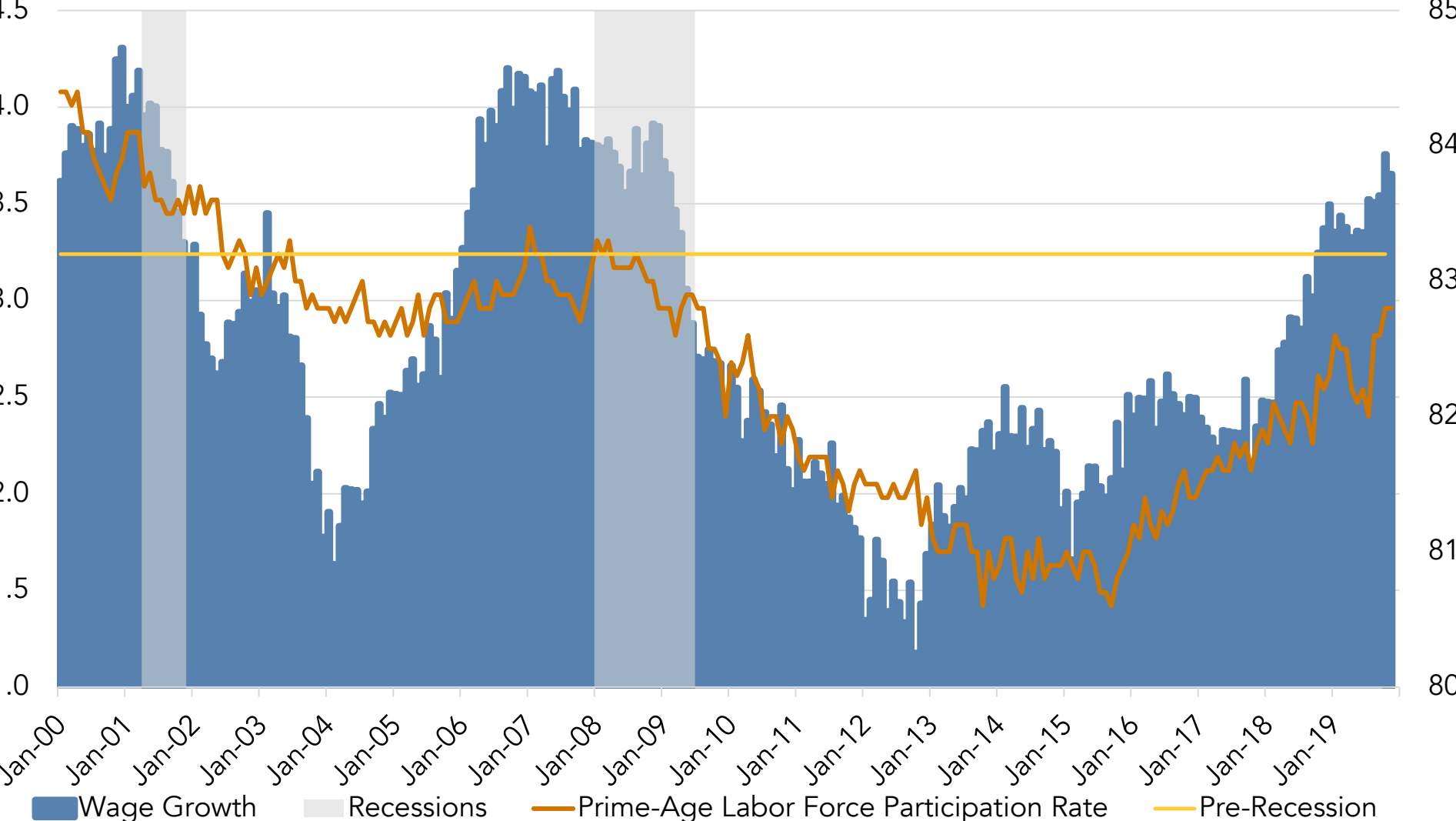


Recessions   Unemployed (LHS)   Natural Rate (LHS)   Working Age Participation

Source: BLS,CBO, FRED, Q3 2019

# Room for Expansion? Wage Growth and Prime-Age Labor Force Participation

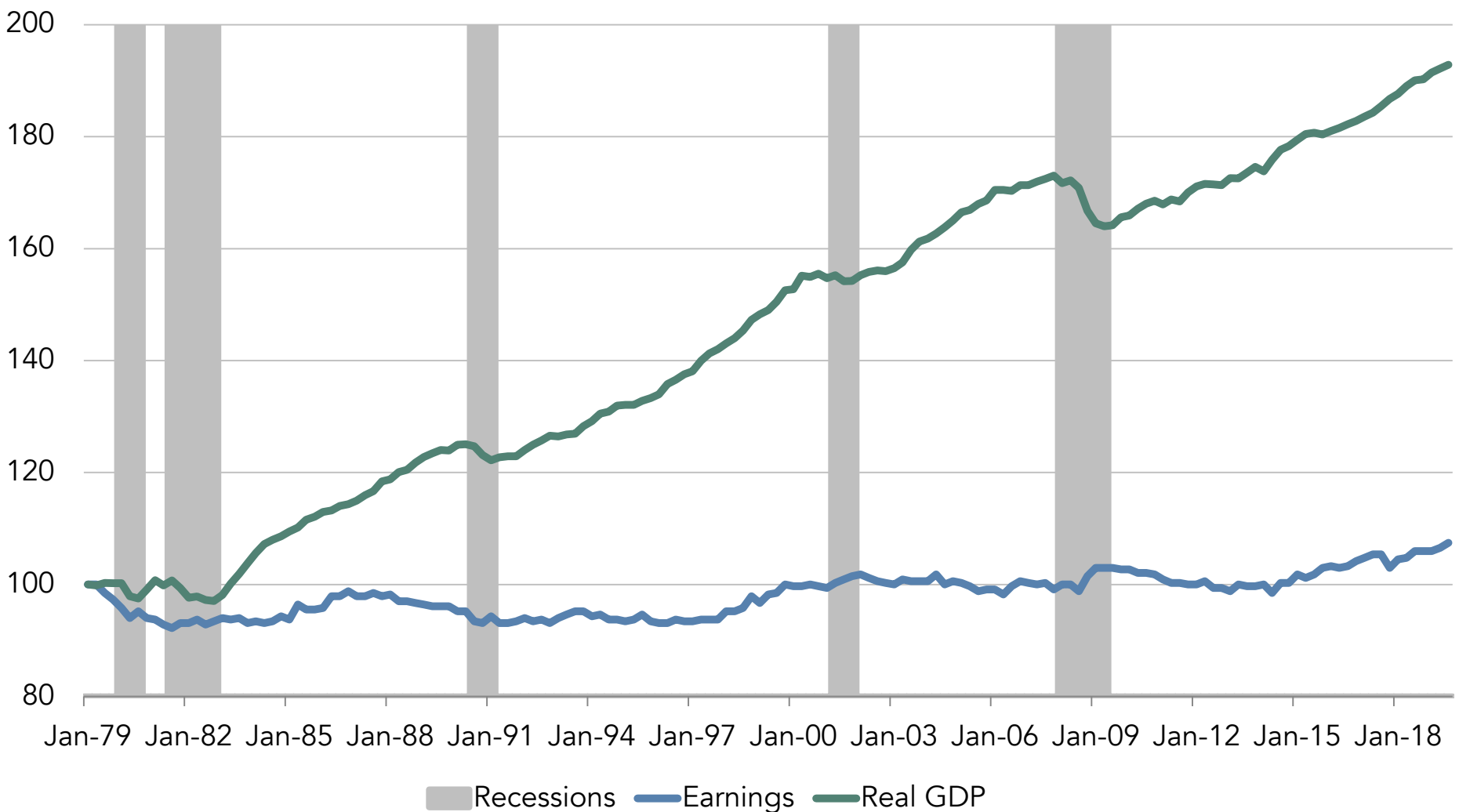
Average Hourly Earning Yearly Growth (%), Prime Age Labor Force Participation Rate (%)



Source: Bureau of Labor Statistics, First American Calculations, Nov. 2019

# Does GDP Growth Imply Welfare Improvement?

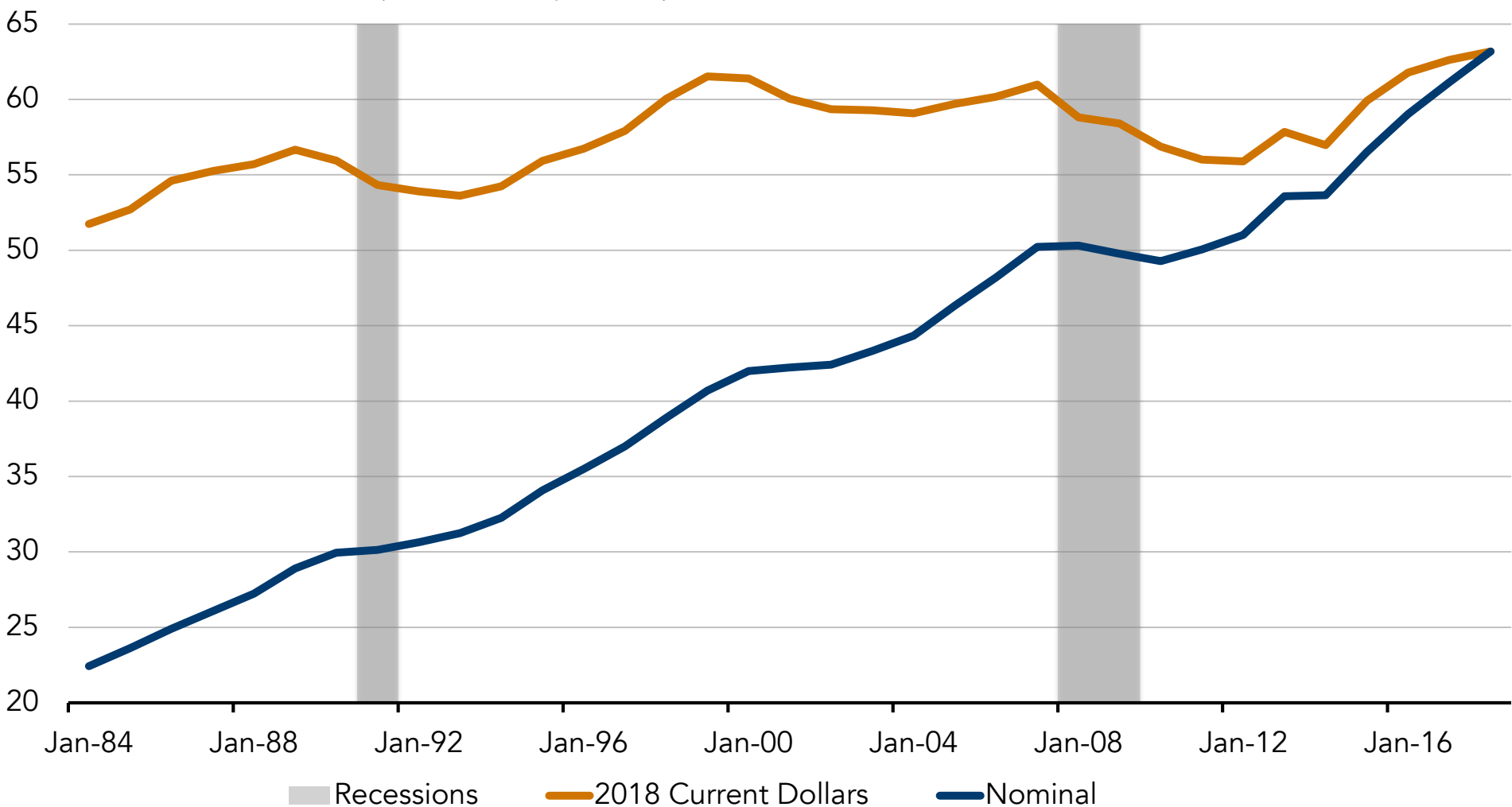
Real GDP Per Capita and Full Time Employed Median Earnings (SA, Q1 1979 = 100)



Source: BLS, BEA, FRED, Q3 2019

# Household Income Stagnating for Decades

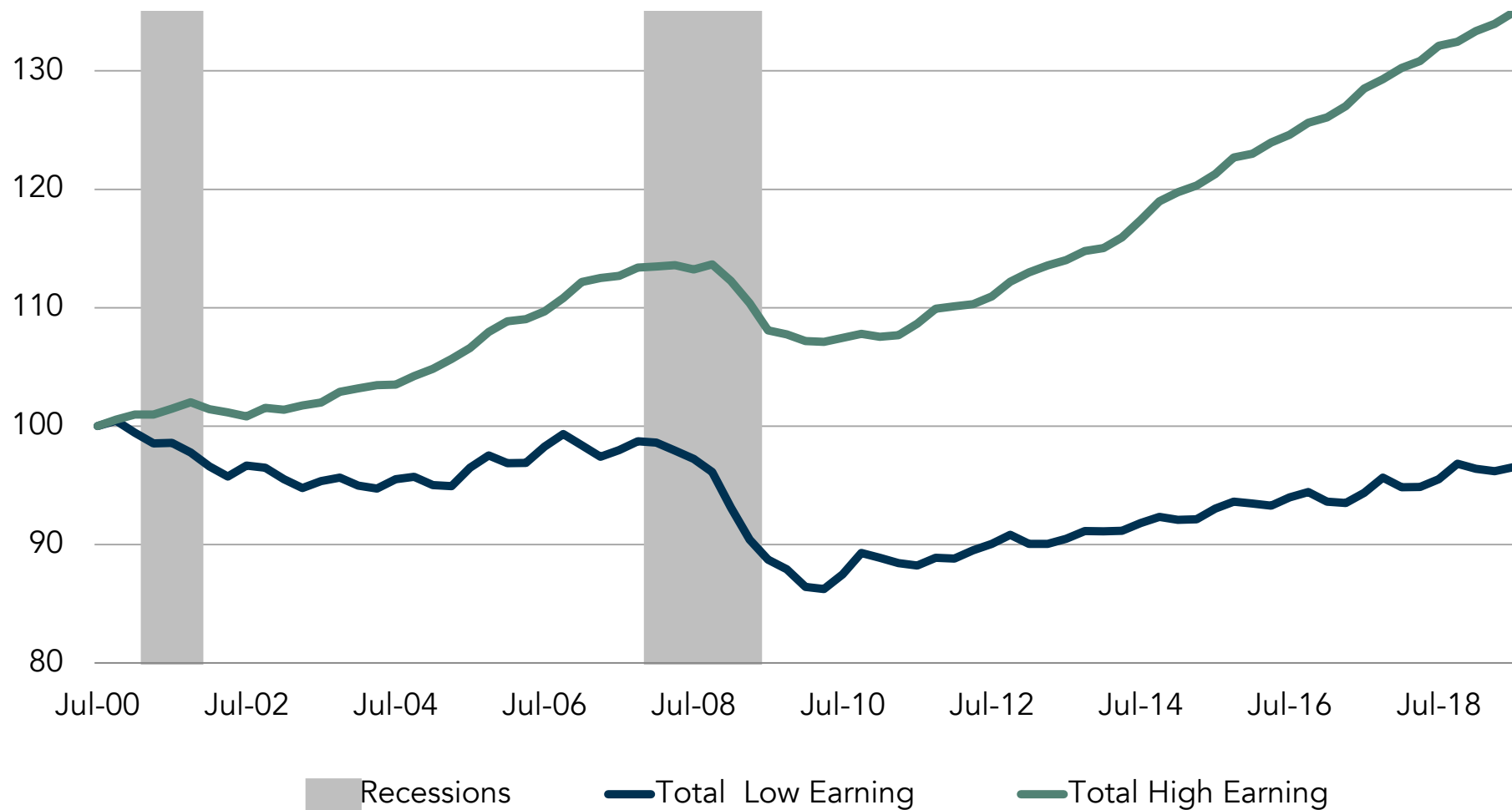
Median Household Income (\$ Thousands, Annual)



Source: BLS, Census, FRED, 2018

# Job Polarization- Job Creation is Skill Skewed

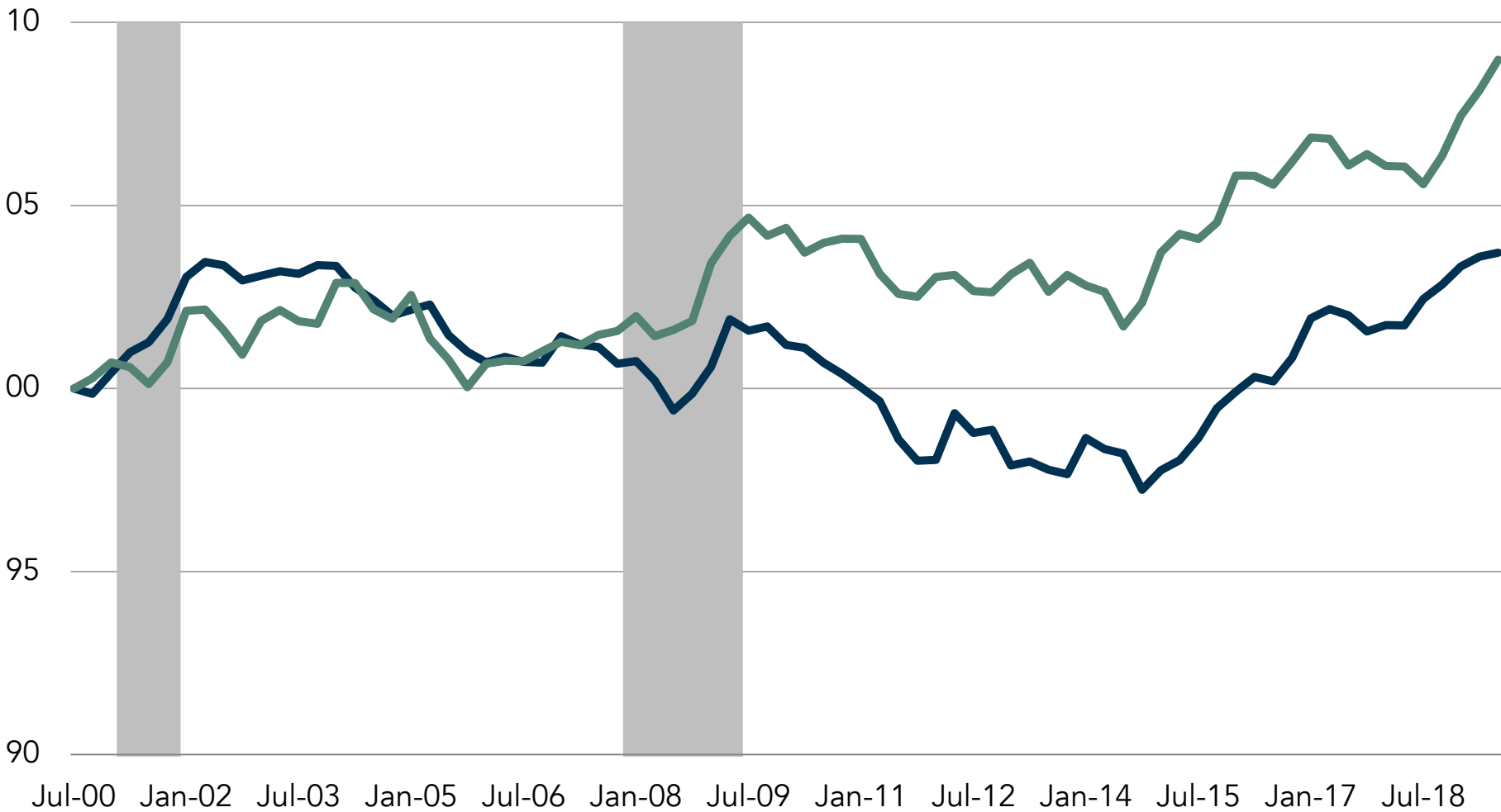
Employment Count of Full Time Workers (Q3 2000 = 100)



Source: BLS, Q3 2019

# Robot Maker or Wage Taker

Median Usual Weekly Earnings (Inflation Adjust Q1 2016, Q3 2000 = 100)

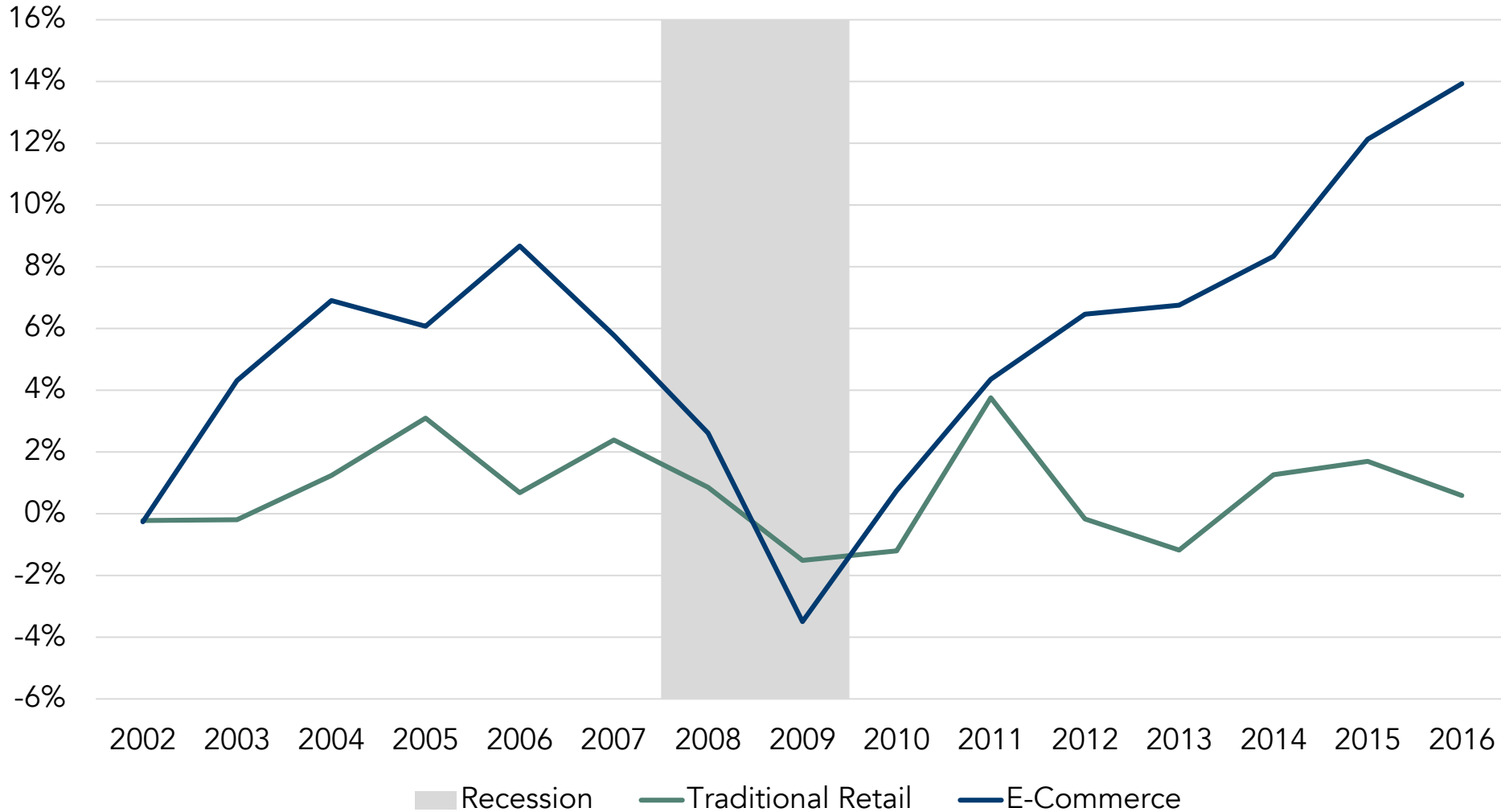


Source: BLS, Q3 2019


Recessions      < \$40k      > \$40k

# The Changing Face of Shopping

Yearly Growth in the Number of Employees, %



Source: Bureau of Labor Statistics, 2018

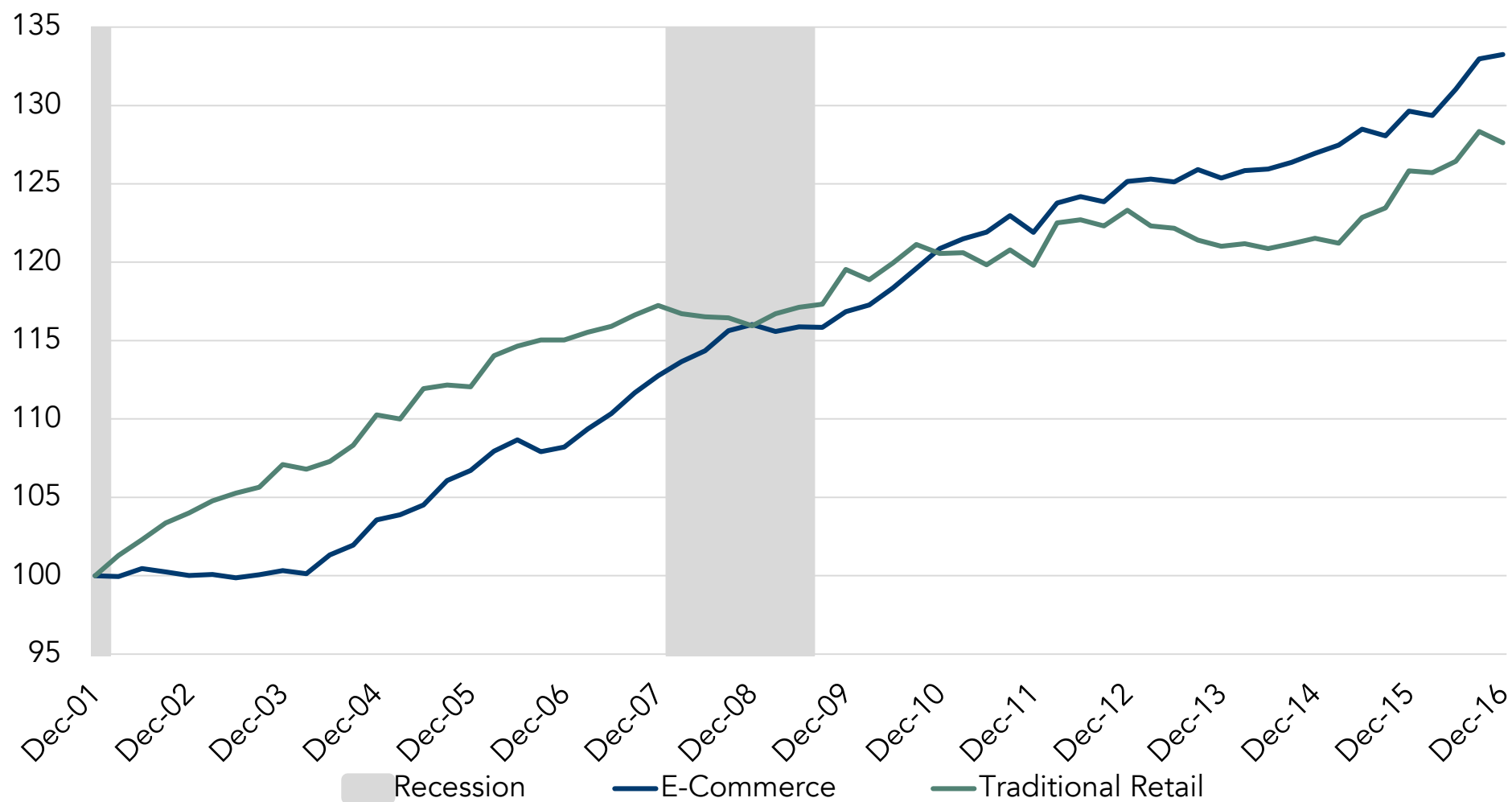
 @odetakushi #FirstAmEcon

©2019 First American Financial Corporation and/or its affiliates. All rights reserved. NYSE: FAF



# More Destruction, More Pay

Weekly Wages, Index Q1 2001=100



Source: Bureau of Labor Statistics, 2018

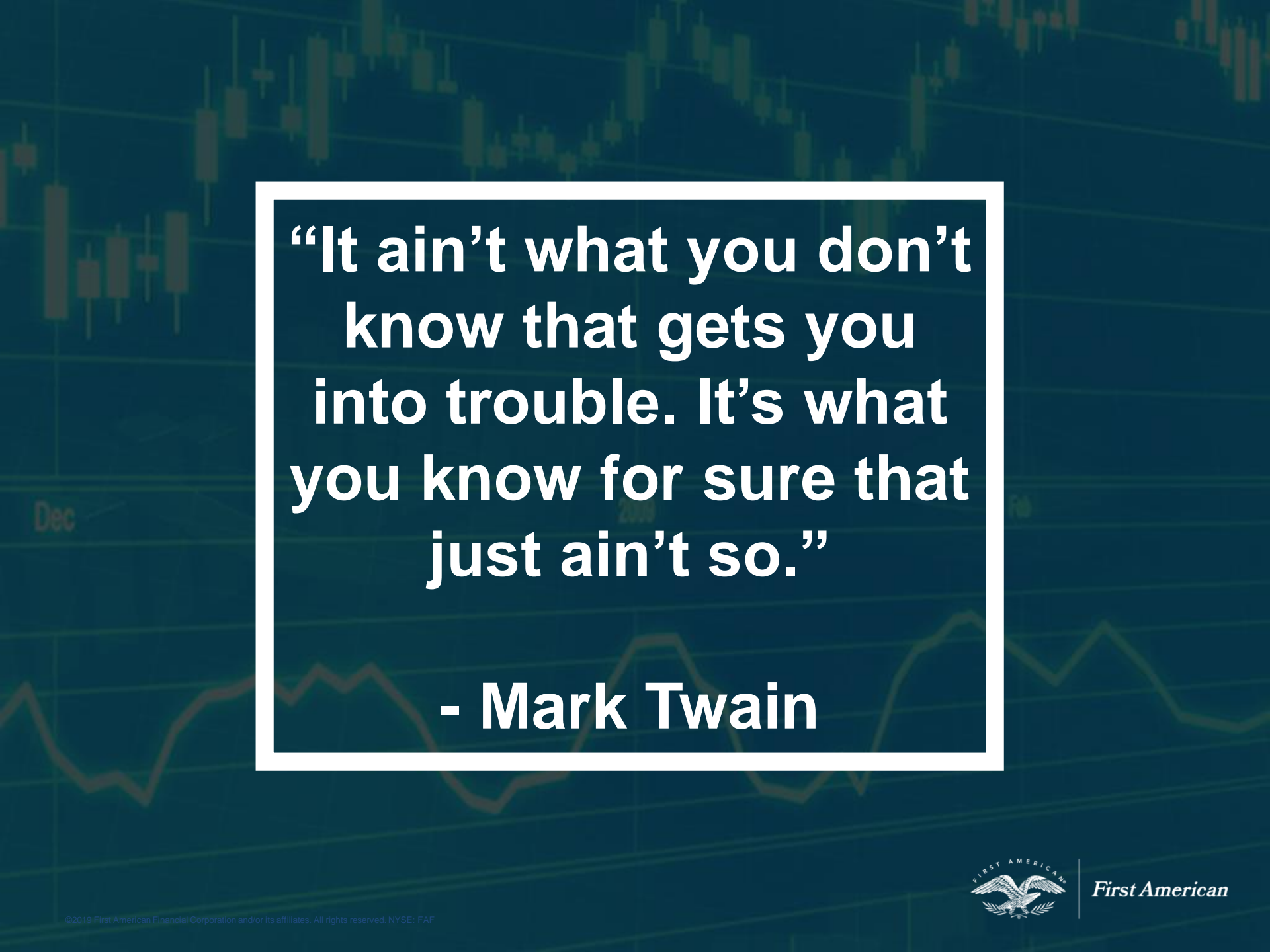


@odetakushi #FirstAmEcon

©2019 First American Financial Corporation and/or its affiliates. All rights reserved. NYSE: FAF



First American

The background of the slide is a dark blue financial chart. It features a candlestick chart in the upper half and a line chart in the lower half. The candlesticks are green and red, indicating price movements. The line chart is a jagged line, likely representing a stock price over time. The word 'Dec' is visible on the left side of the chart, suggesting a time period. The entire chart is overlaid with a white rectangular box containing the quote.

**“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.”**

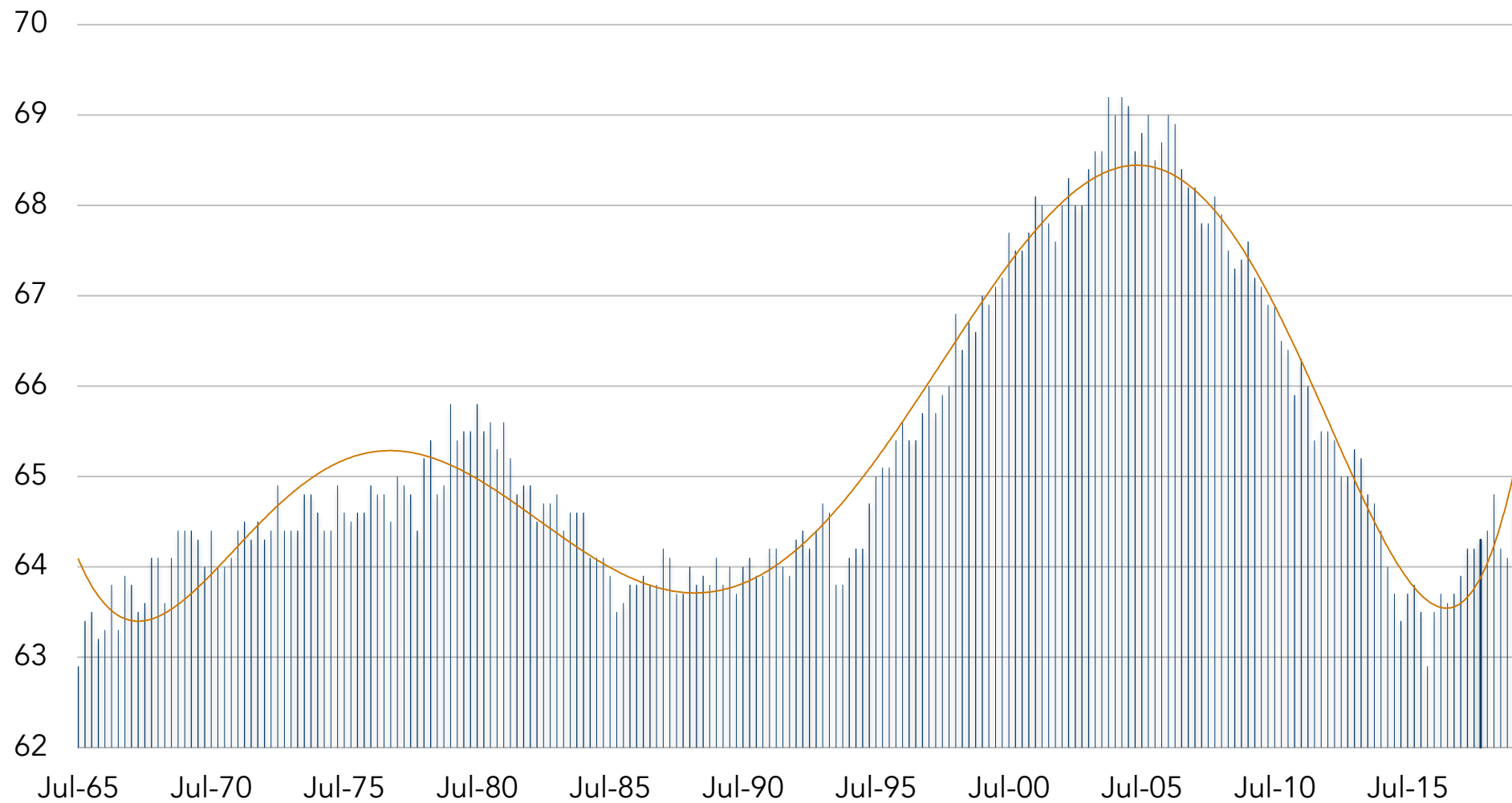
**- Mark Twain**



*First American*

# Homeownership Demand Resurgent

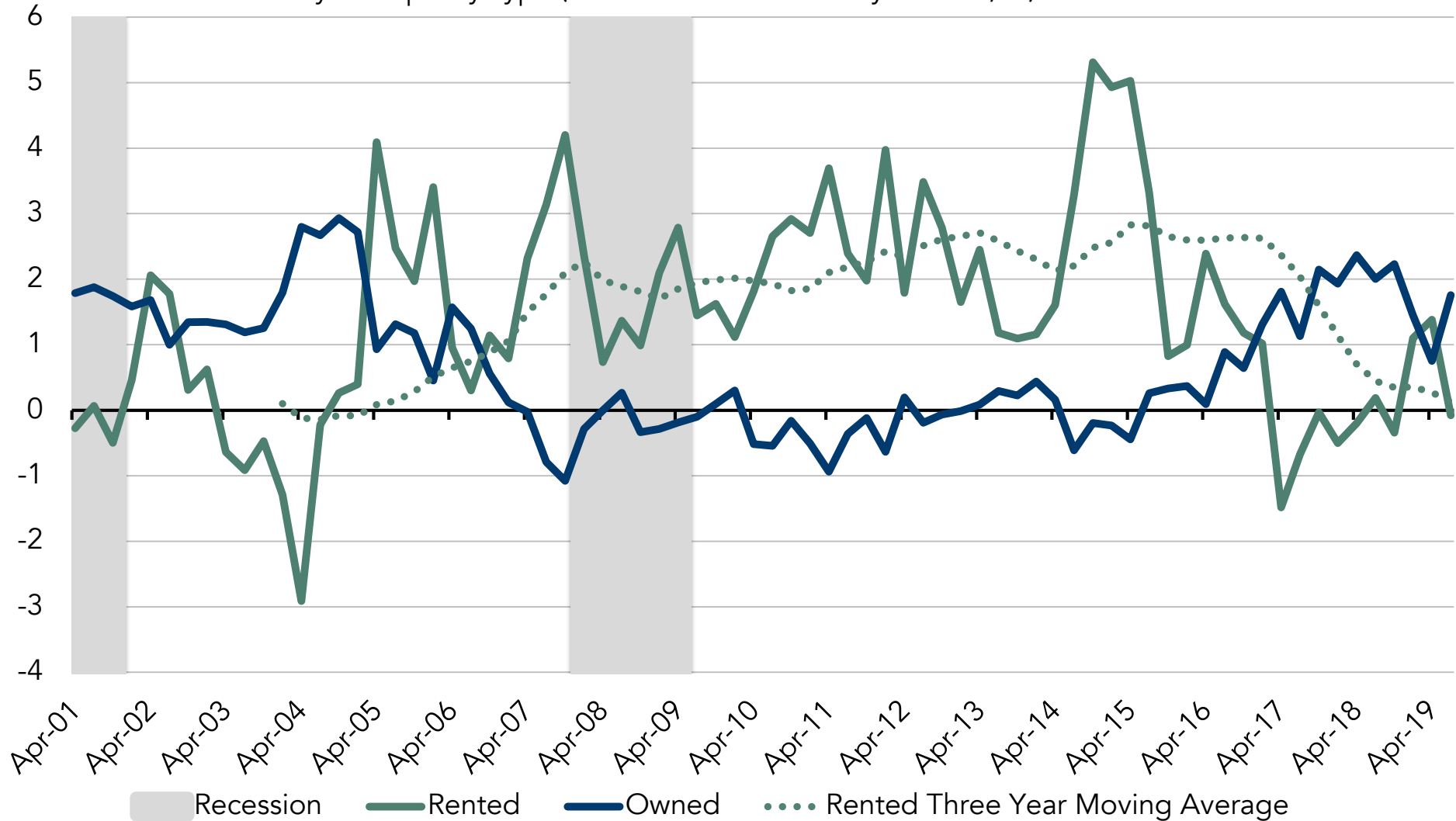
Homeownership Rate (%)



Source: US Census Bureau, Q3 2019

# The Tenure Choice Transition is On Again

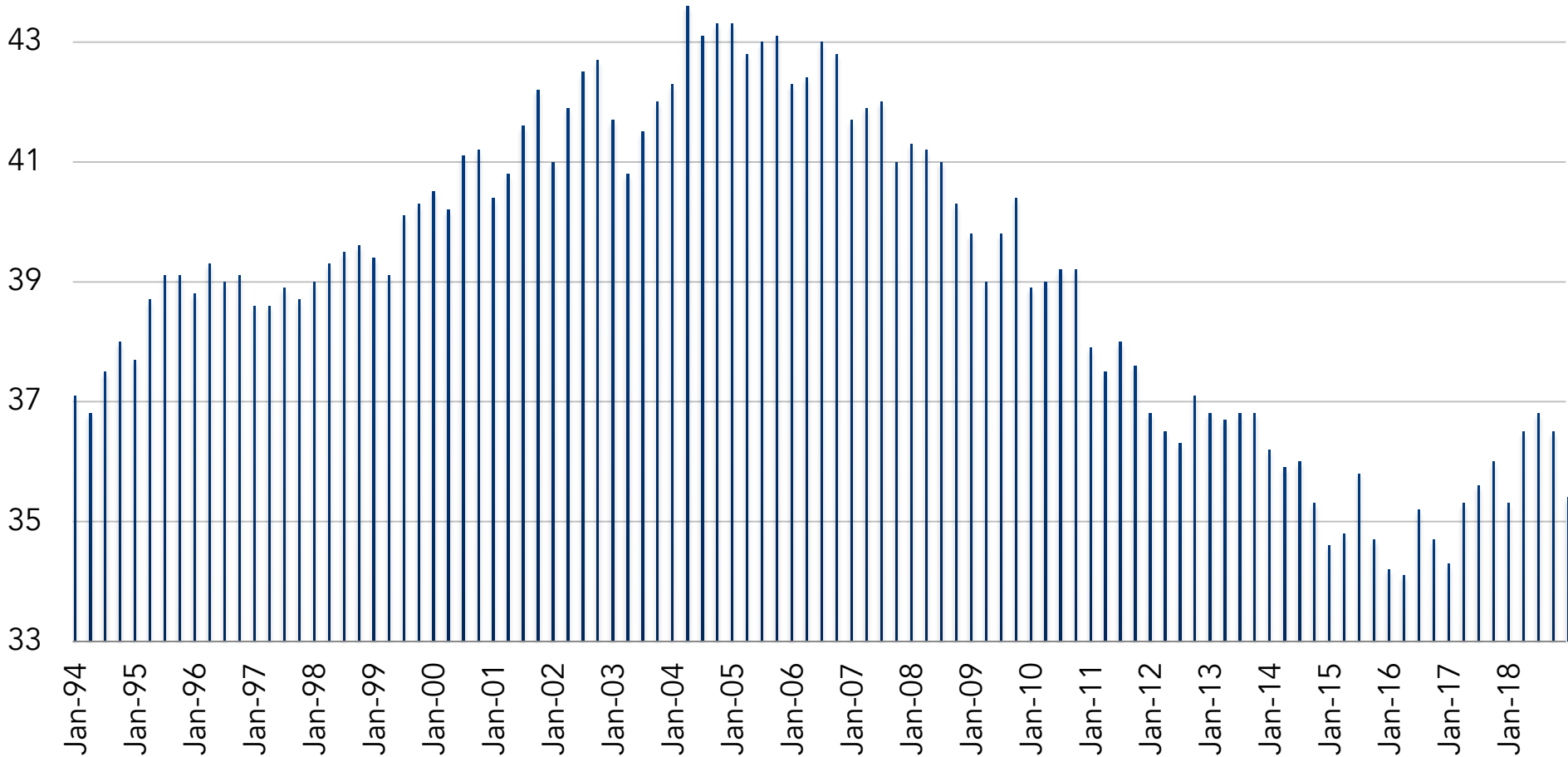
Household Formation by Occupancy Type (Year-Over-Year Inventory Growth, %)



Source: Census Bureau, FRED Q3 2019

# Gen Why? Why Own a Home?

Homeownership Rate for Households Under 35

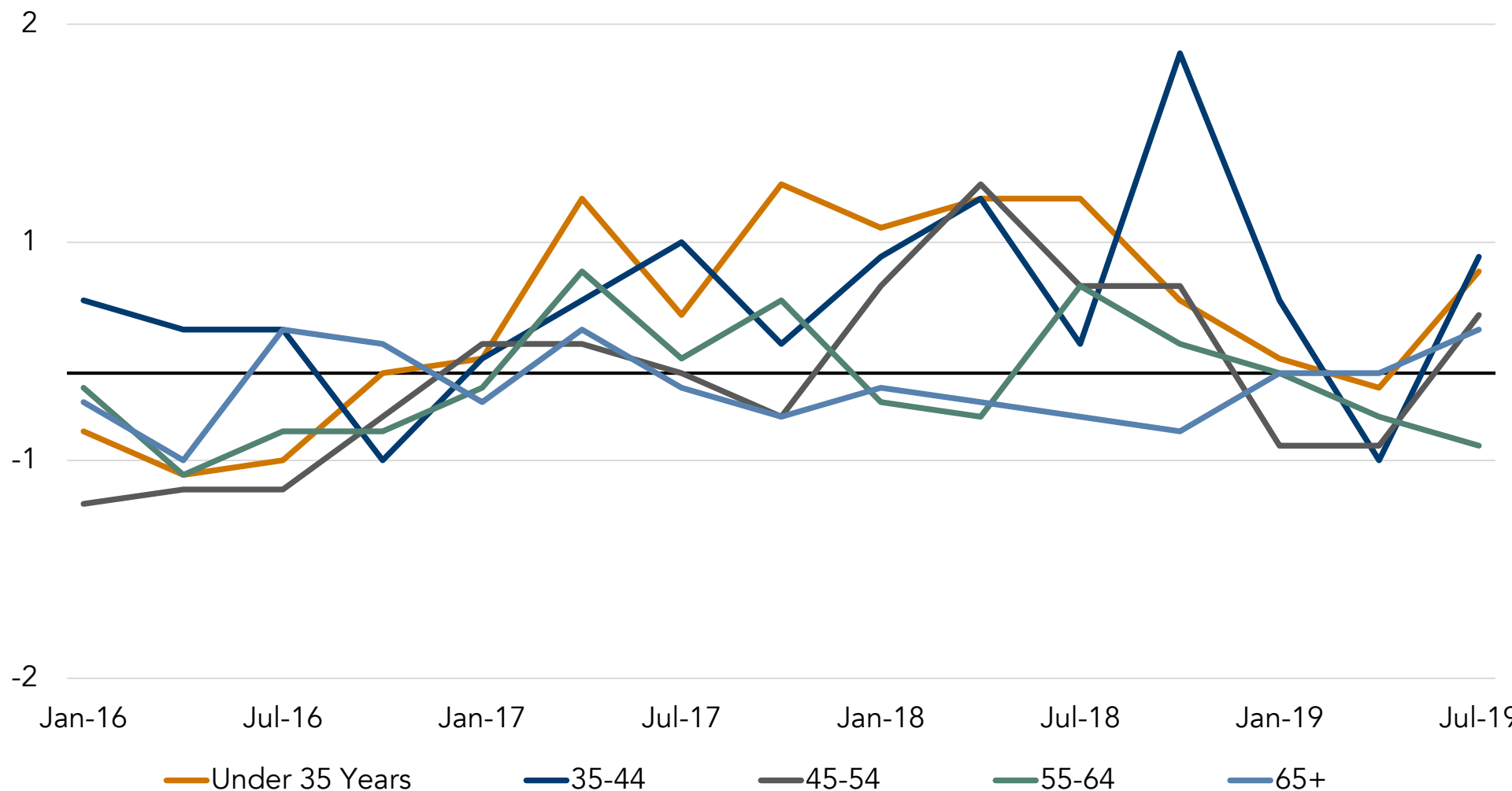


Source: Census Bureau CPS/HVS, Q3 2019



# Millennials Drive Homeownership Growth

Homeownership Rate by Age Cohort (%)



Source: US Census Bureau, Q3 2019

# The Dawning of A New Age of Homeownership

Percent Share of Total U.S. Population

28

24

20

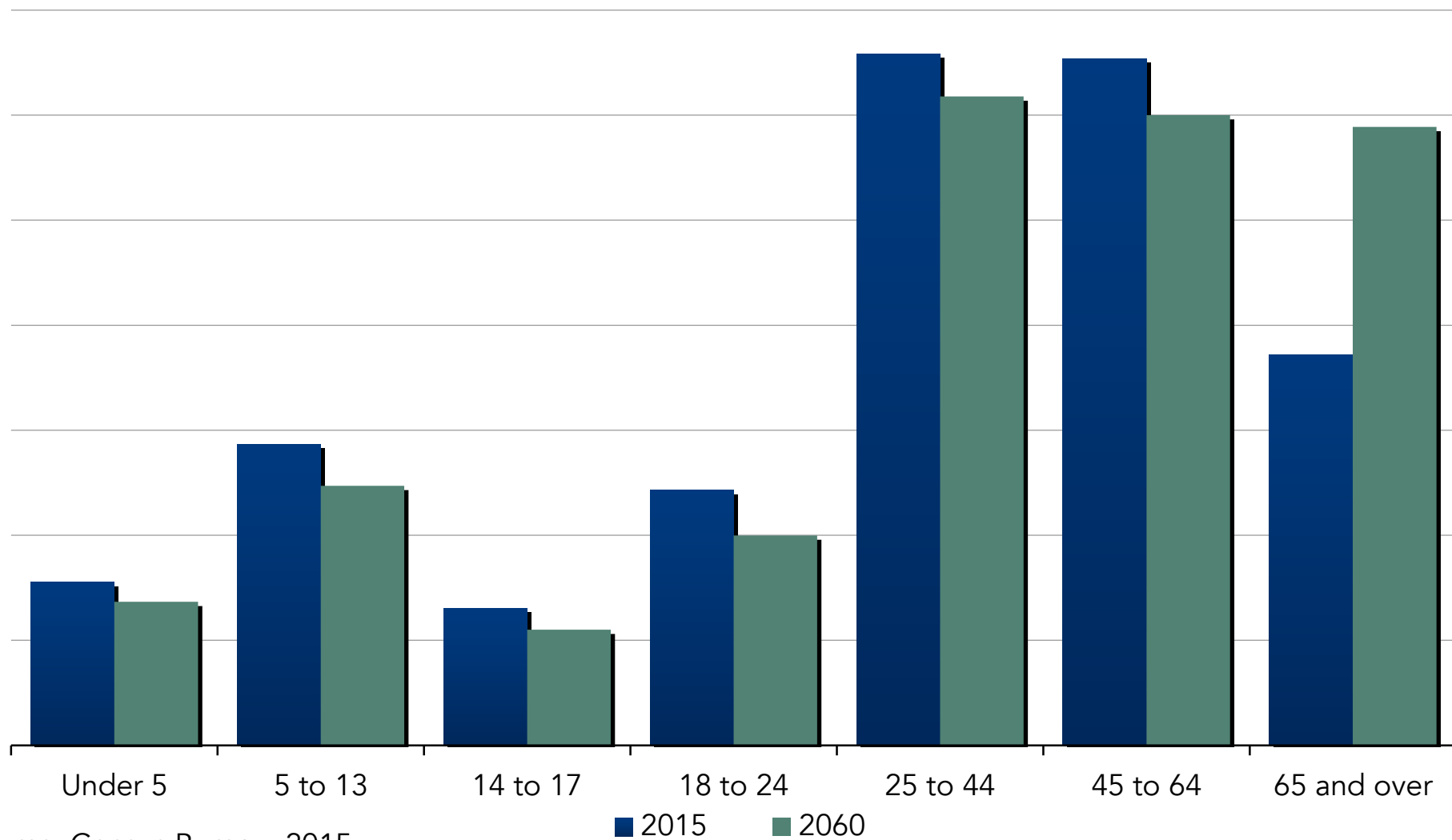
16

12

8

4

0

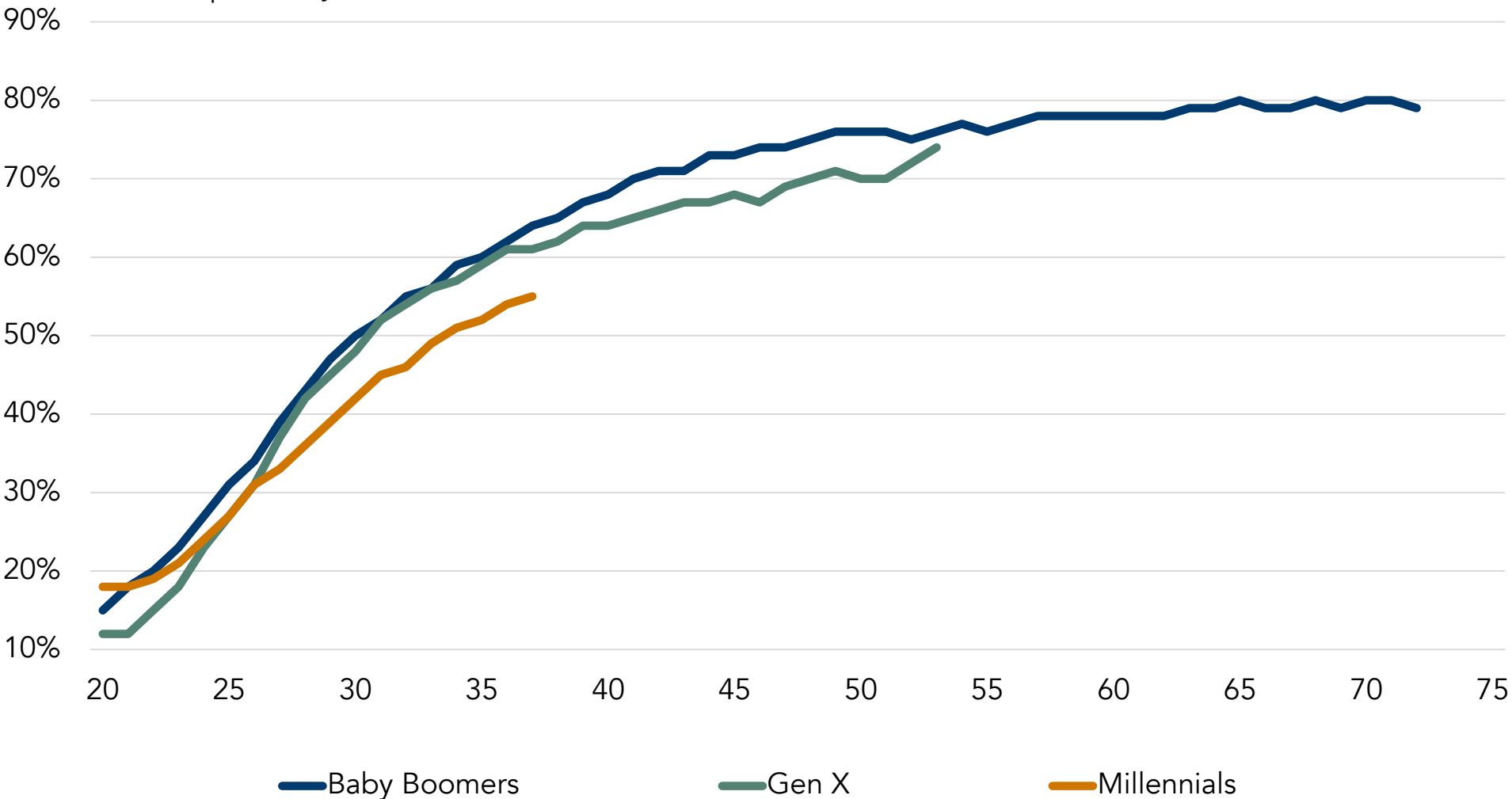


■ 2015 ■ 2060

Source: Census Bureau, 2015

# Millennials Playing Catchup

Homeownership Rate by Generation

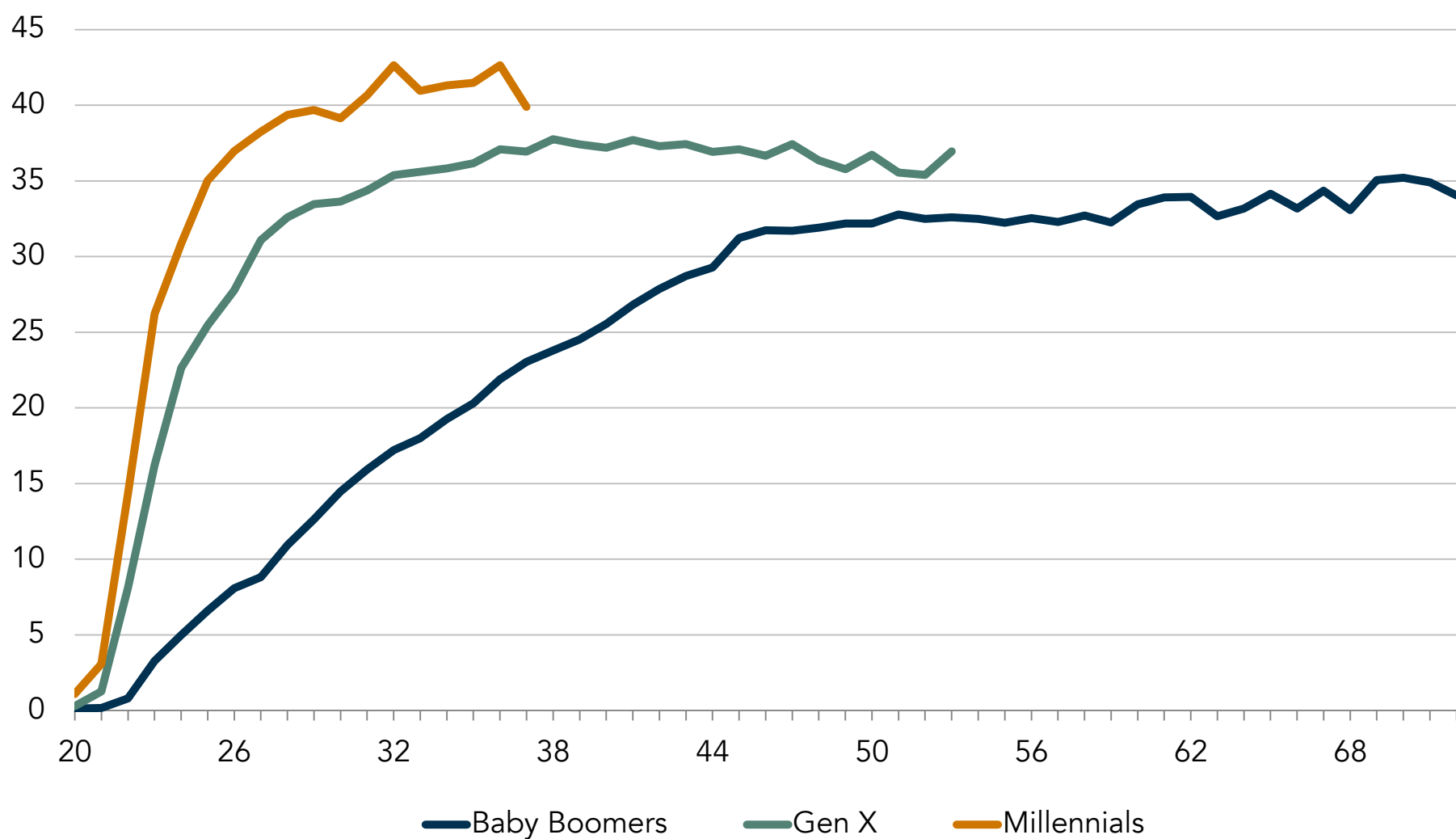


Source: IPUMS CPS, First American Calculations, 2018



# Delaying Homeownership- Education Takes Time

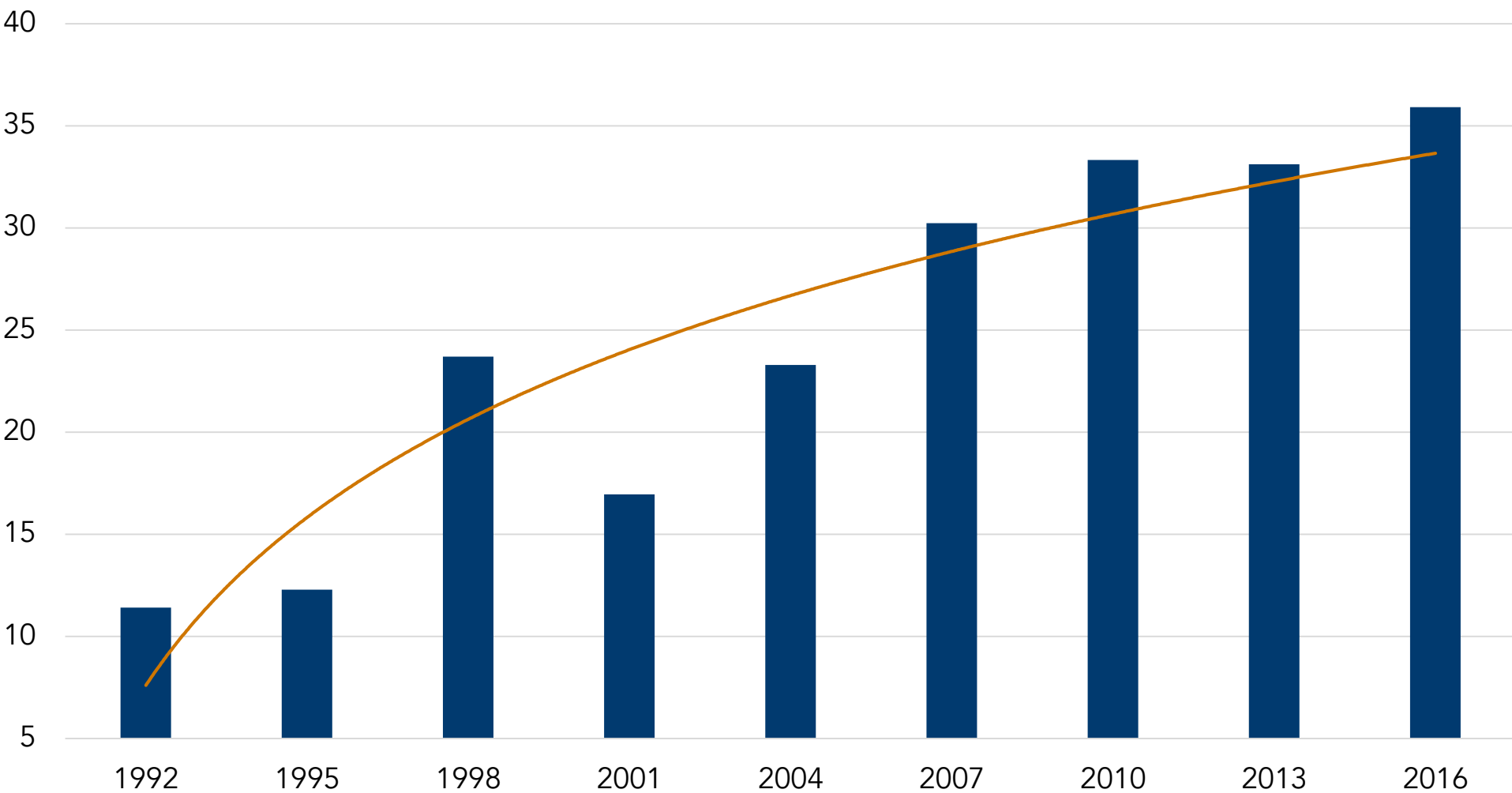
Percent Share of Population with Bachelors Degree or Higher



Source: ACS IPUMS, 2018

# Rising Student Loan Burdens

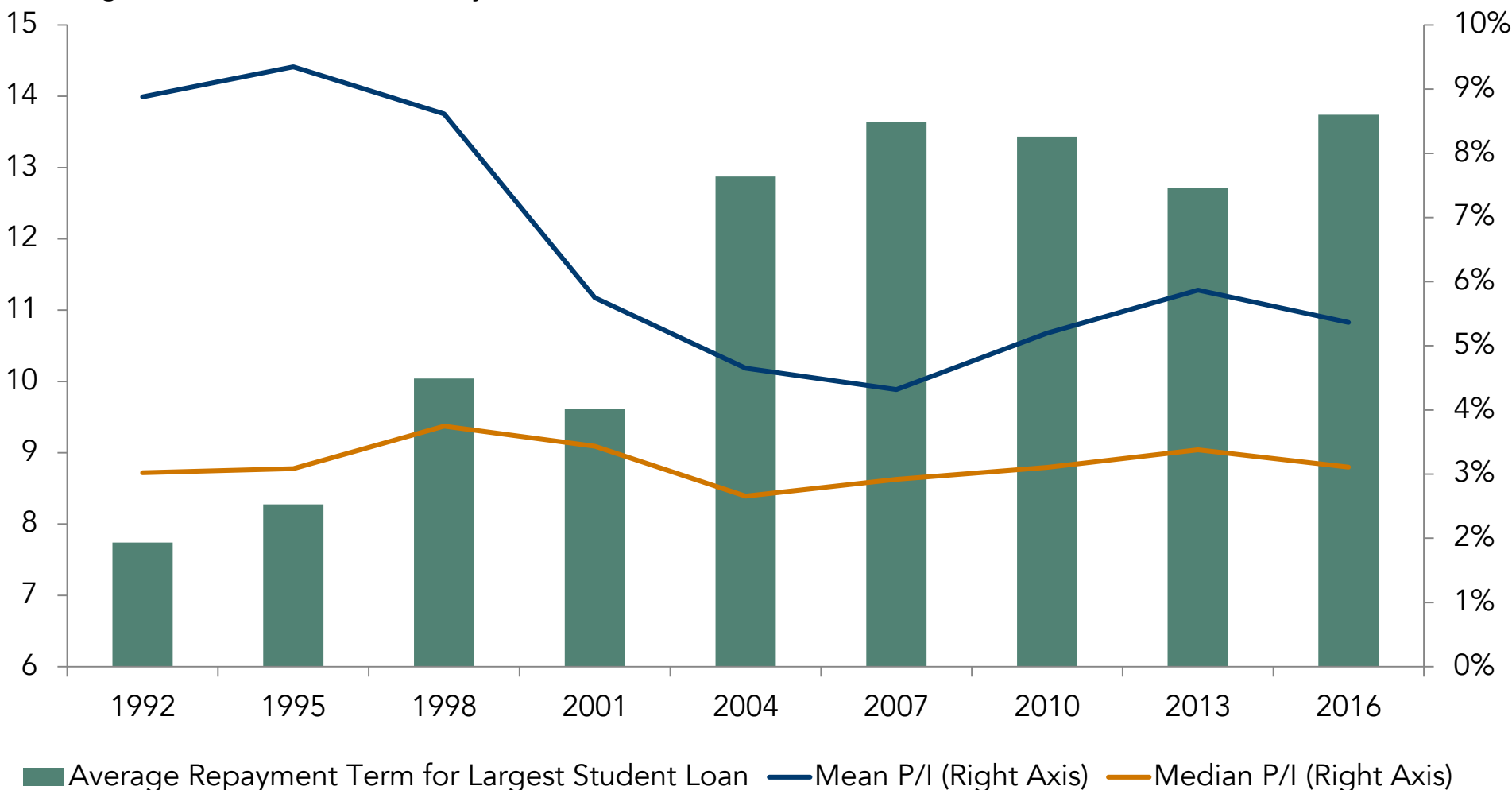
Average Outstanding Balance for all Student Loans, \$ (Thousands)



Source: Federal Reserve Board of Governors SCF, 2017

# Where's the Burden

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

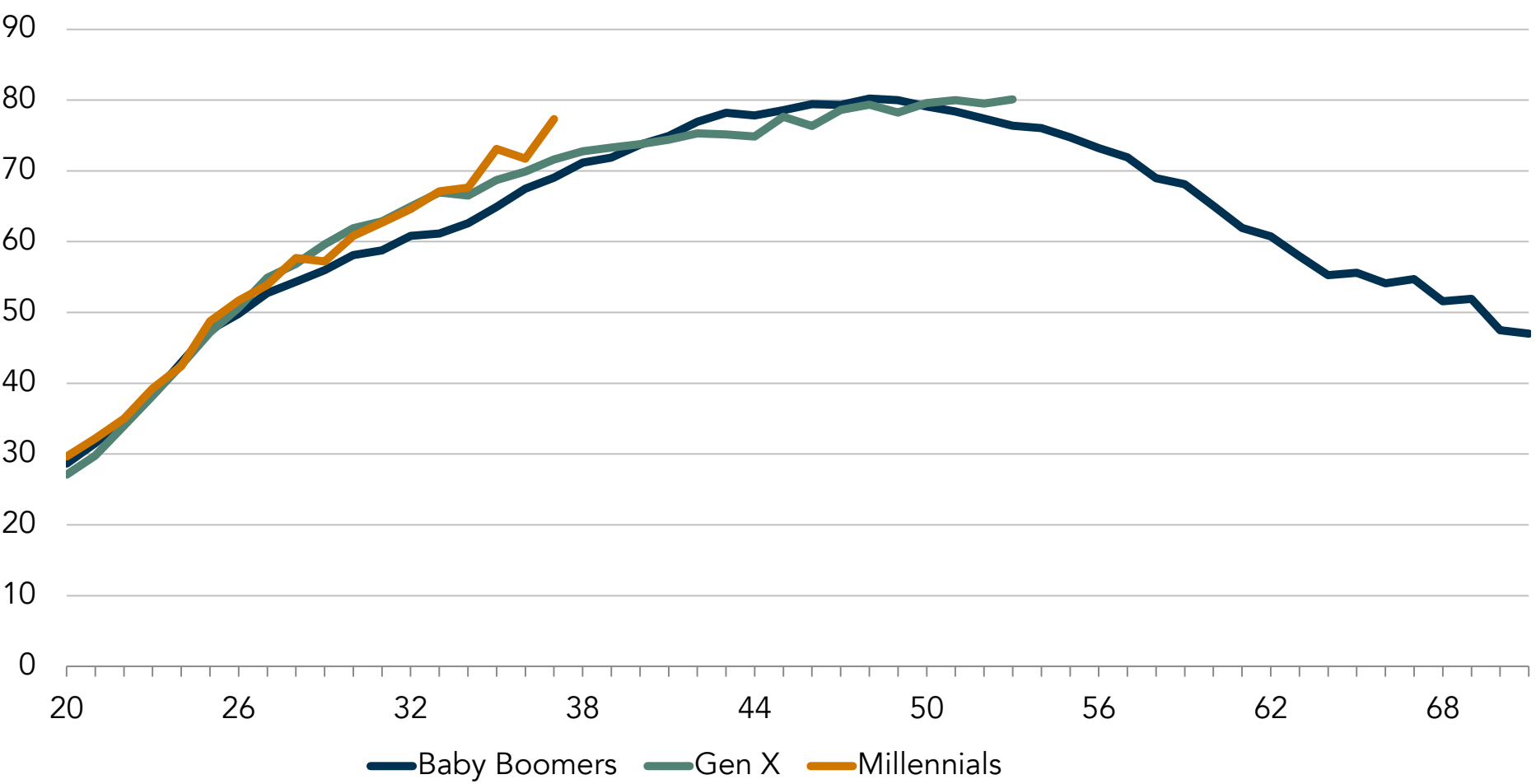


Source: Federal Reserve Board of Governors SCF, 2016



# Millennials Outpace Baby Boomers

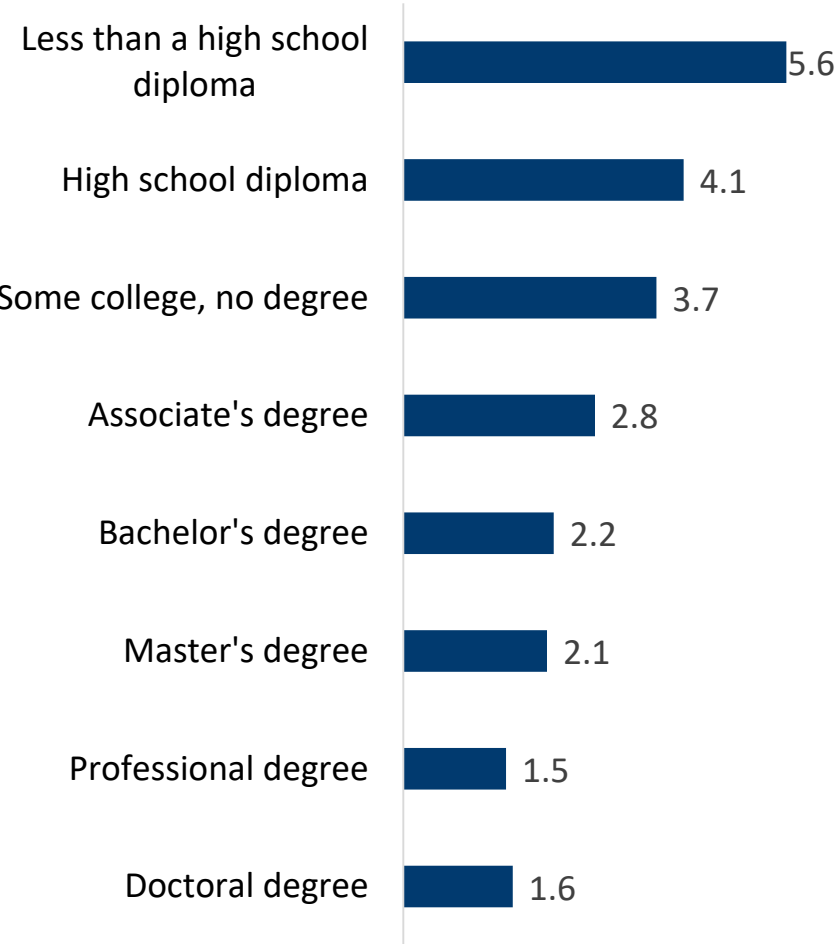
Median Income by Generational Cohort, Thousands (\$)



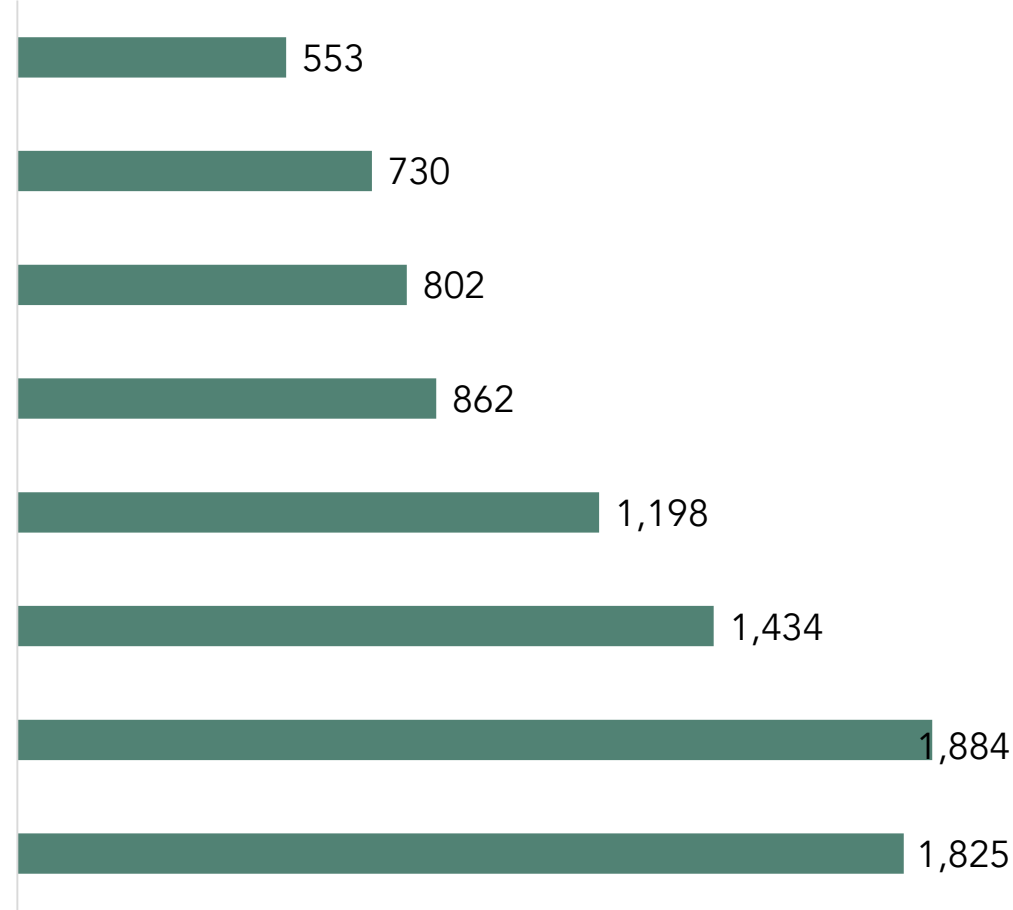
Source: IPUMS CPS, First American Calculations, 2018

# But is It (Education) Worth it?

Unemployment rate (%)



Median usual weekly earnings (\$)



Source: IPUMS CPS, 2018

# Know Your Customer?

First-Time Homebuyer Market Share (%)

60%

58%

56%

54%

52%

50%

48%

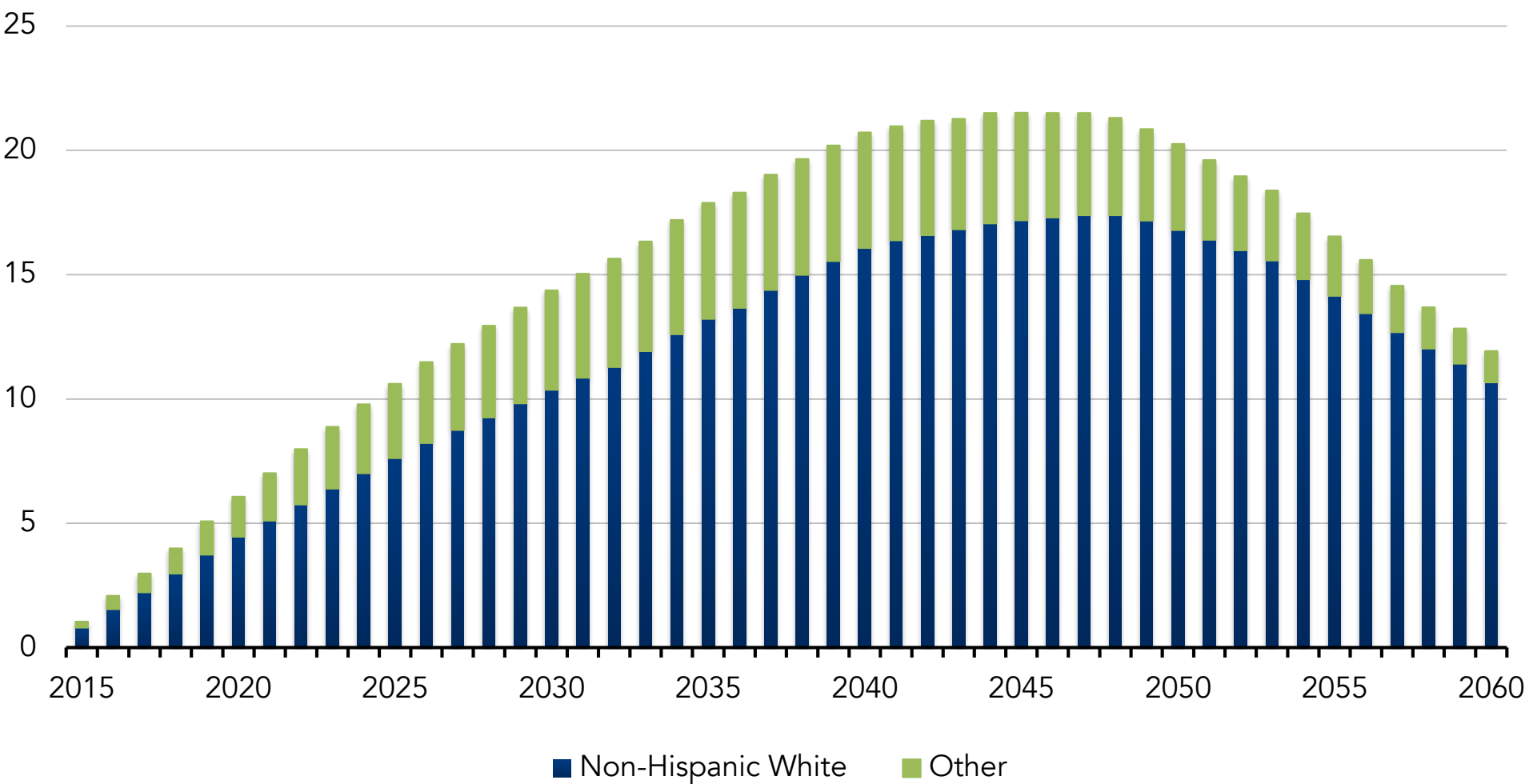
Apr-13 Jun-13 Aug-13 Oct-13 Dec-13 Feb-14 Apr-14 Jun-14 Aug-14 Oct-14 Dec-14 Feb-15 Apr-15 Jun-15 Aug-15 Oct-15 Dec-15 Feb-16 Apr-16 Jun-16 Aug-16 Oct-16 Dec-16 Feb-17 Apr-17 Jun-17 Aug-17 Oct-17 Dec-17 Feb-18 Apr-18 Jun-18 Aug-18 Oct-18 Dec-18 Feb-19 Apr-19 Jun-19 Aug-19

Source: AEI International Center on Housing Risk , Aug. 2019



# Wait For it....

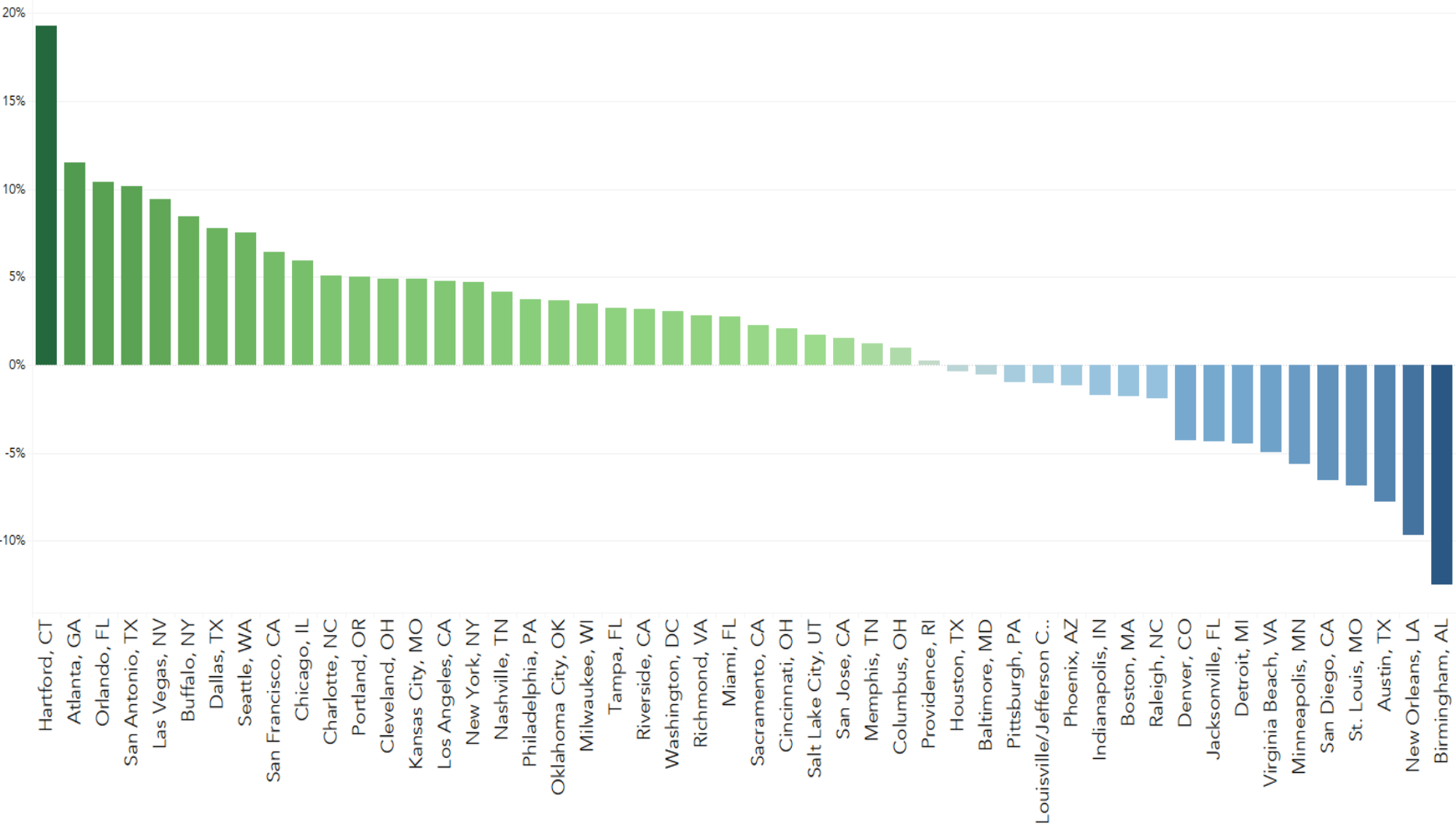
Cumulative Net New Owner-Occupied Households (17-35 Yrs. Old in 2015, Millions)



Source: Census Bureau, FirstAm Calculations

# Where, Oh Where Are Millennials Buying Homes?

Yearly Change in the Share of Millennial Homeowners, %



Source: IPUMS CPS, 2018



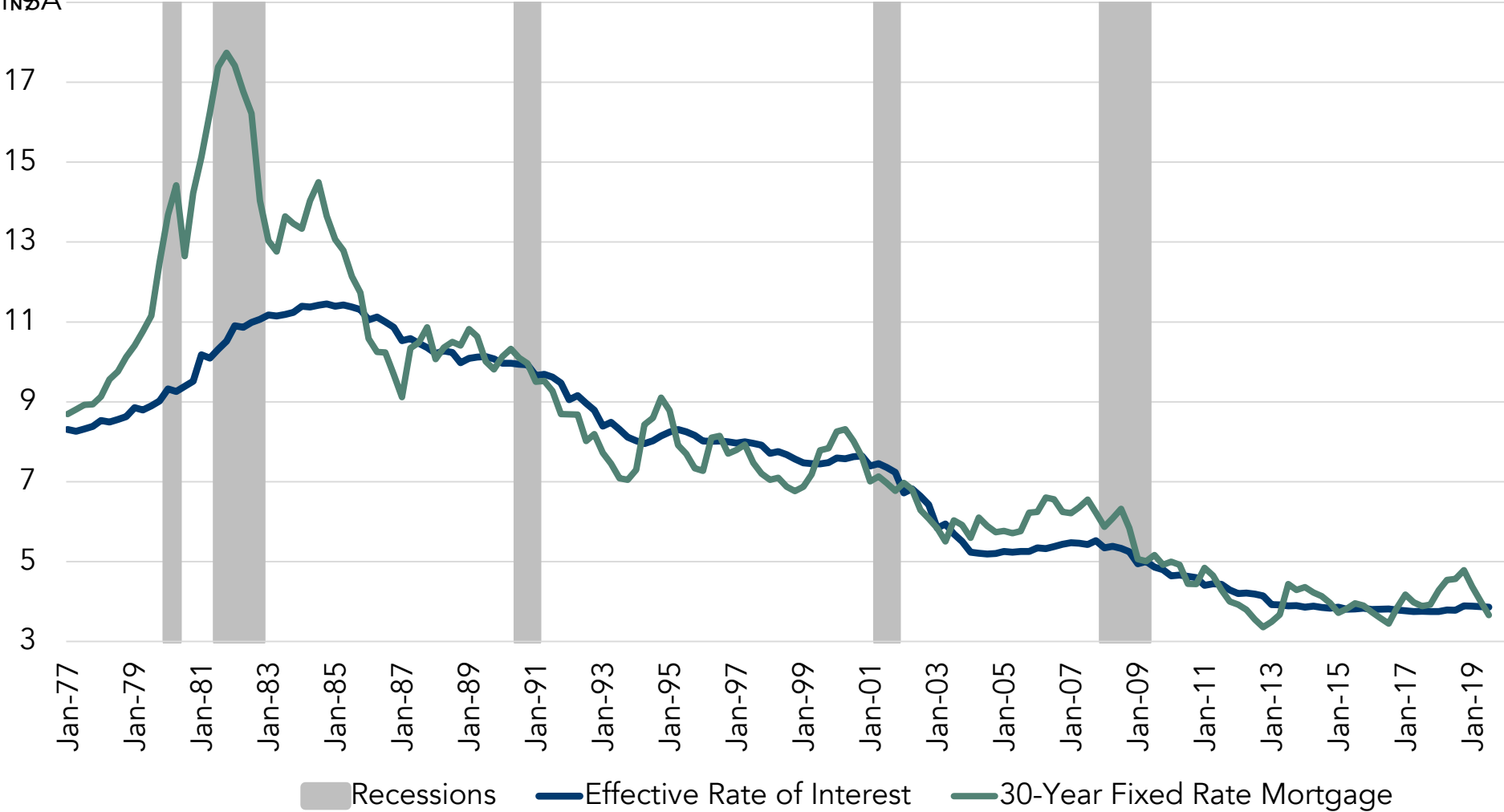
# The Existing Owner's Dilemma

## A Nation of Homebodies



# Never Shall We See Those Rates Again

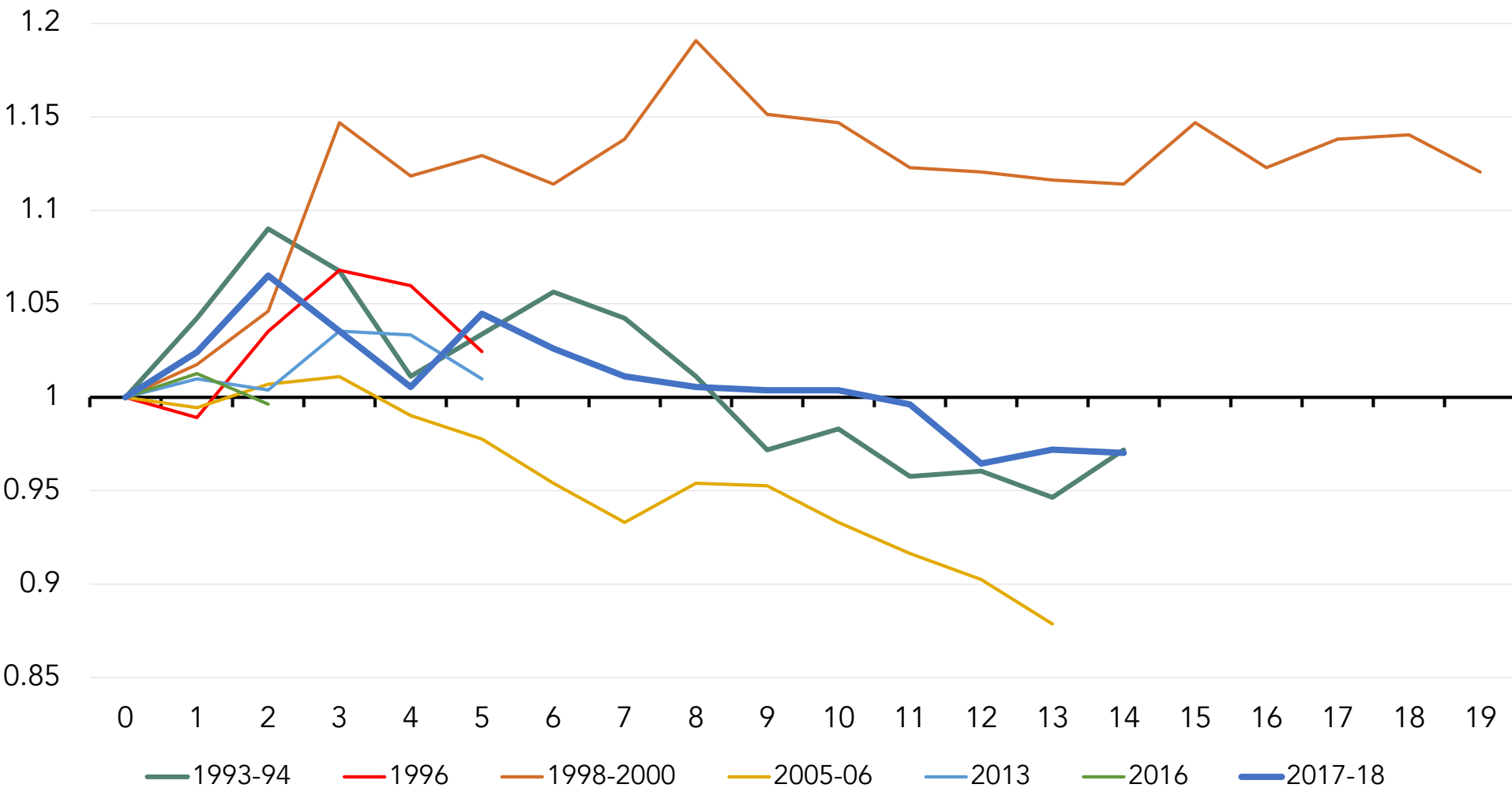
30-year Fixed Rate (%), Effective Rate of Interest on Mortgage Debt Outstanding Residential Housing (%),  
NSA



Source: Bureau of Labor Statistics, FRED, Q3 2019

# Existing-Home Sales When Mortgage Rates Rise

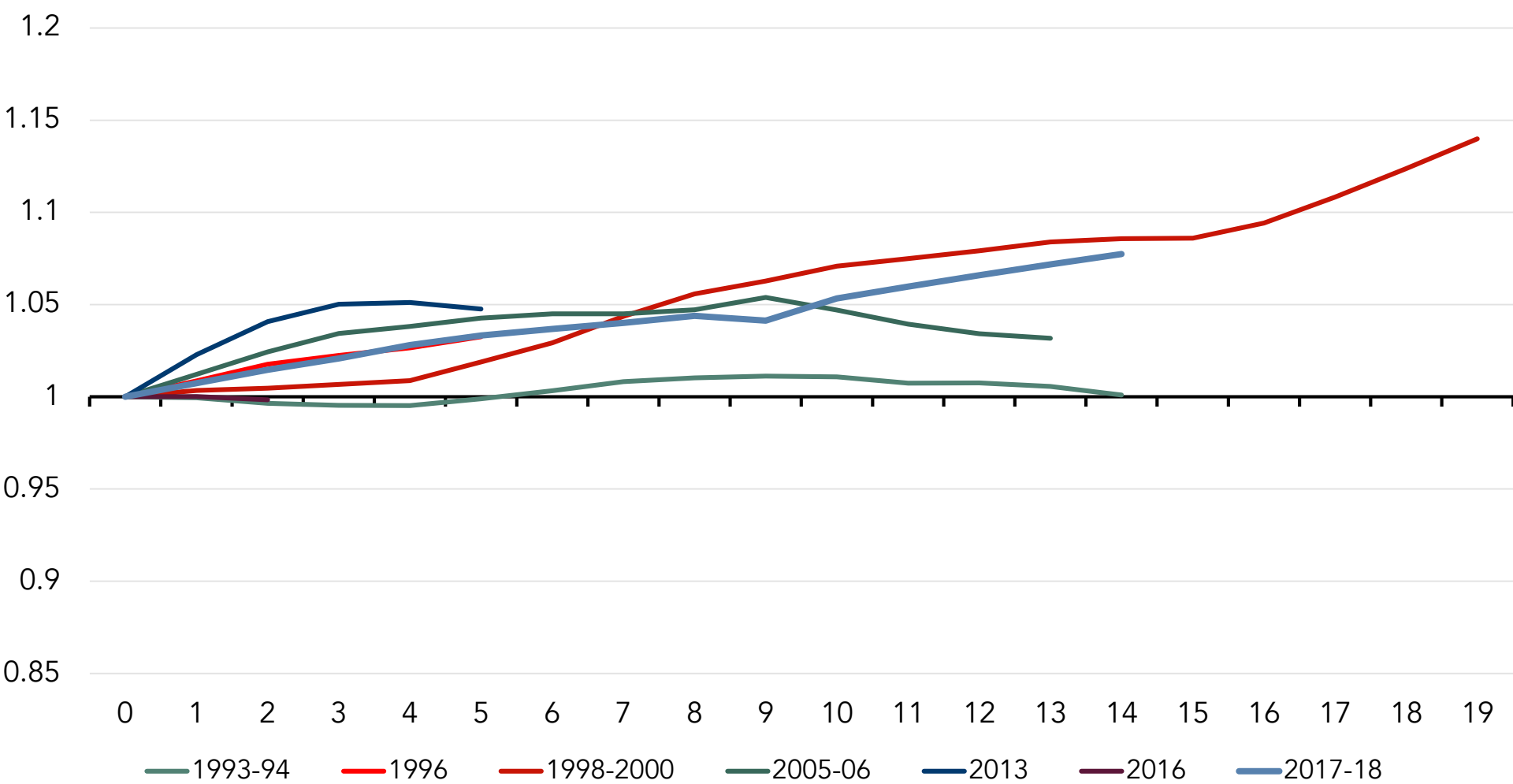
Monthly Change in EHS (%), Index=1 in Beginning Period of Rising Rates



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

# House Prices When Mortgage Rates Rise

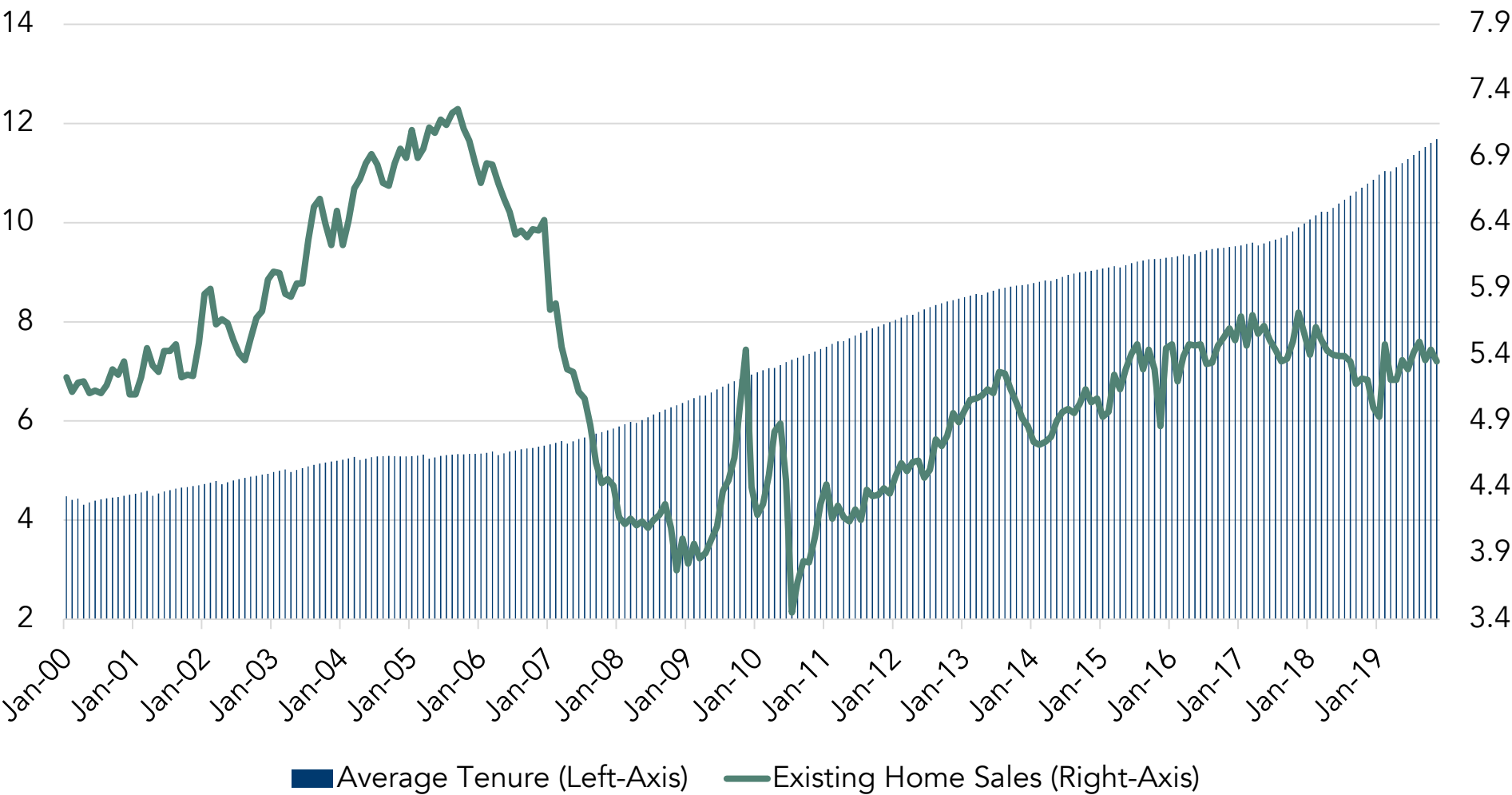
Monthly Change in HPI (% , Index=1 in Beginning Period of Rising Rates)



Source: DataTree by First American, Freddie Mac, November 2018

# A Nation of Homebodies

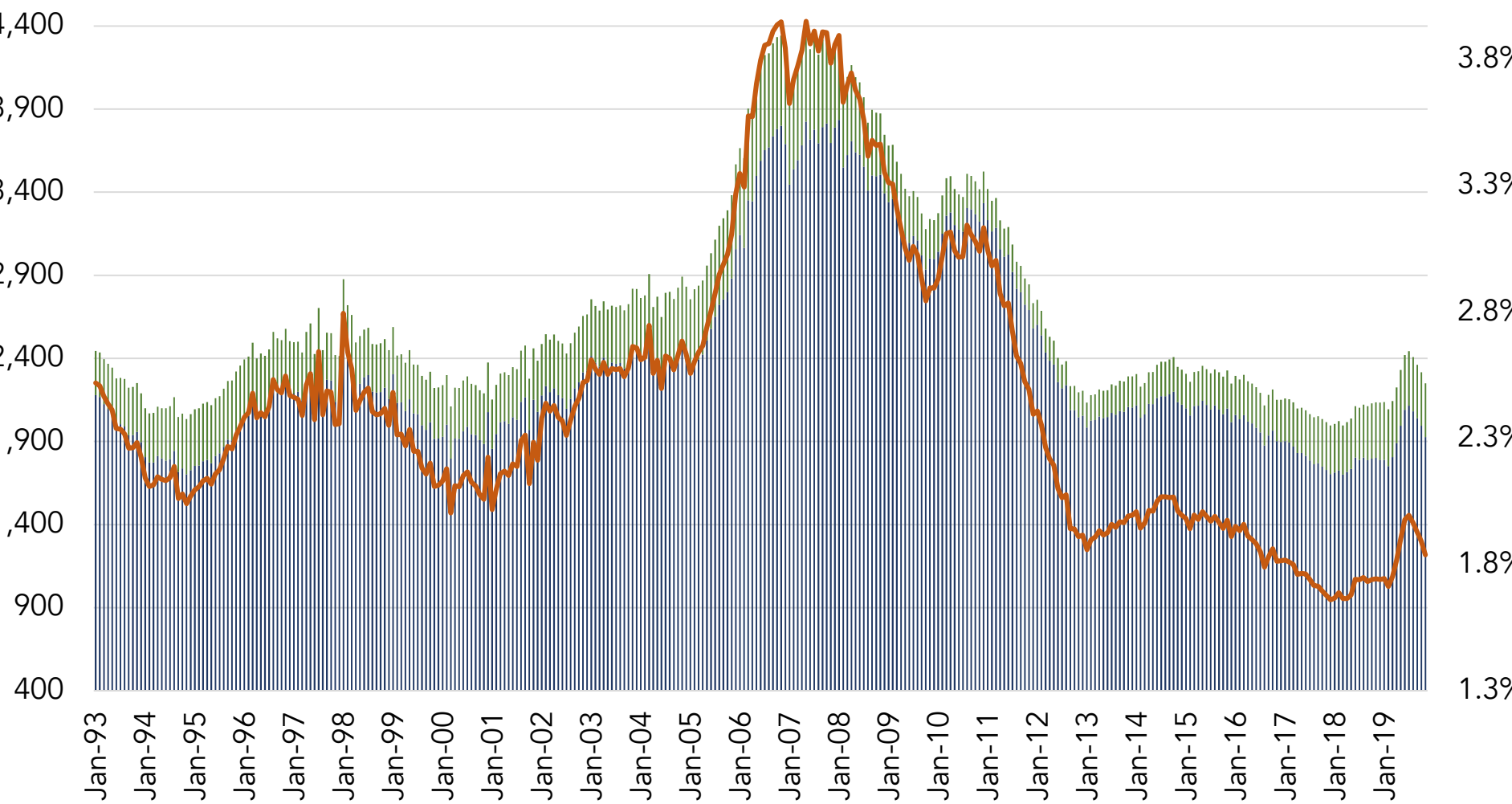
Average Tenure Length (Years), Existing Home Sales (SAAR, Millions)



Source: DataTree by First American, NAR, FRED, Nov. 2019

# Supply At Quarter Century Low

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



Existing Home Inventory (LHS) New Home Inventory For Sale (LHS) Inventory Turnover (RHS)

Source: NAR, Census, FRB St. Louis, First American Calculations, Nov. 2019

# What's For Sale?

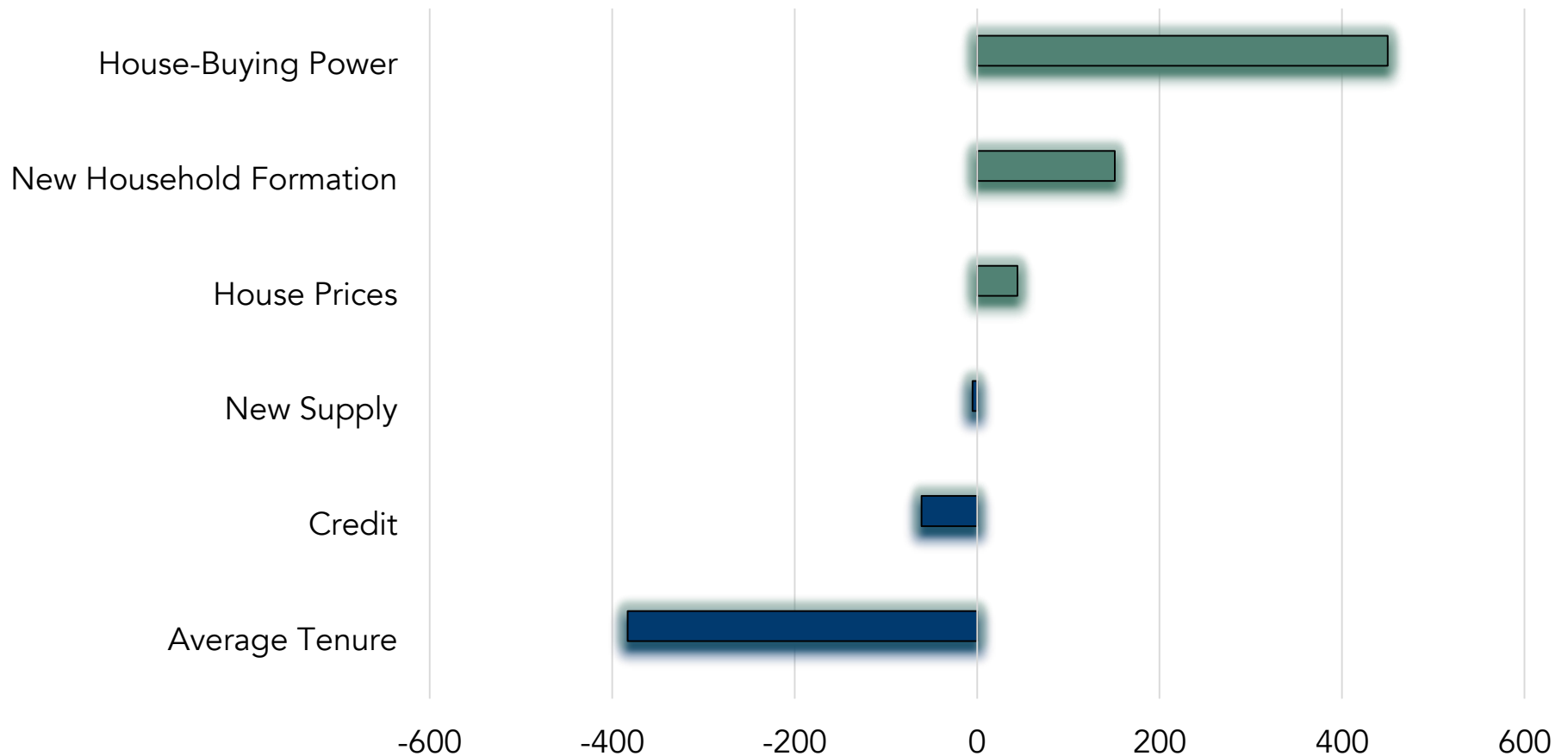
For-Sale Inventory by Price Tier, YoY Growth



Source: Zillow, Nov. 2019

# A Year in Review: The Fundamentals Influencing Housing Market Potential

Number of Sales, Yearly Change Contributed by Components, Thousands



Source: DataTree by First American, First American Calculations, NAR, FRB St.Louis, Nov. 2019



@odetakushi #FirstAmEcon

©2019 First American Financial Corporation and/or its affiliates. All rights reserved. NYSE: FAF



First American



The background of the slide is a dark blue financial chart. The top half features a candlestick chart with green and red bars, while the bottom half shows a line graph with a fluctuating brown line. A white rectangular frame is centered on the slide, containing the main text.

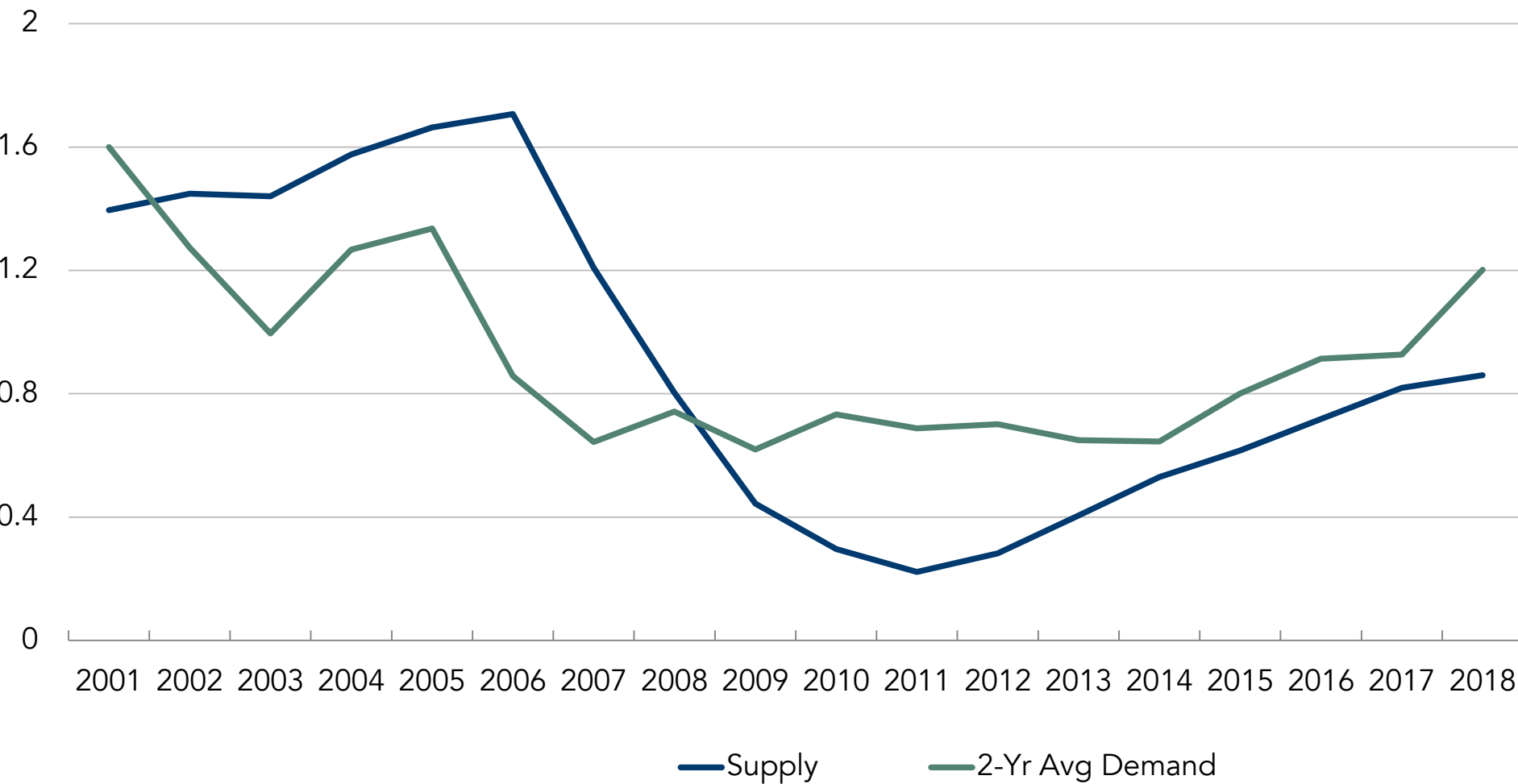
# Builders' Woes

## The Challenges of Building More Homes



# Keeping Up With Increasing Demand

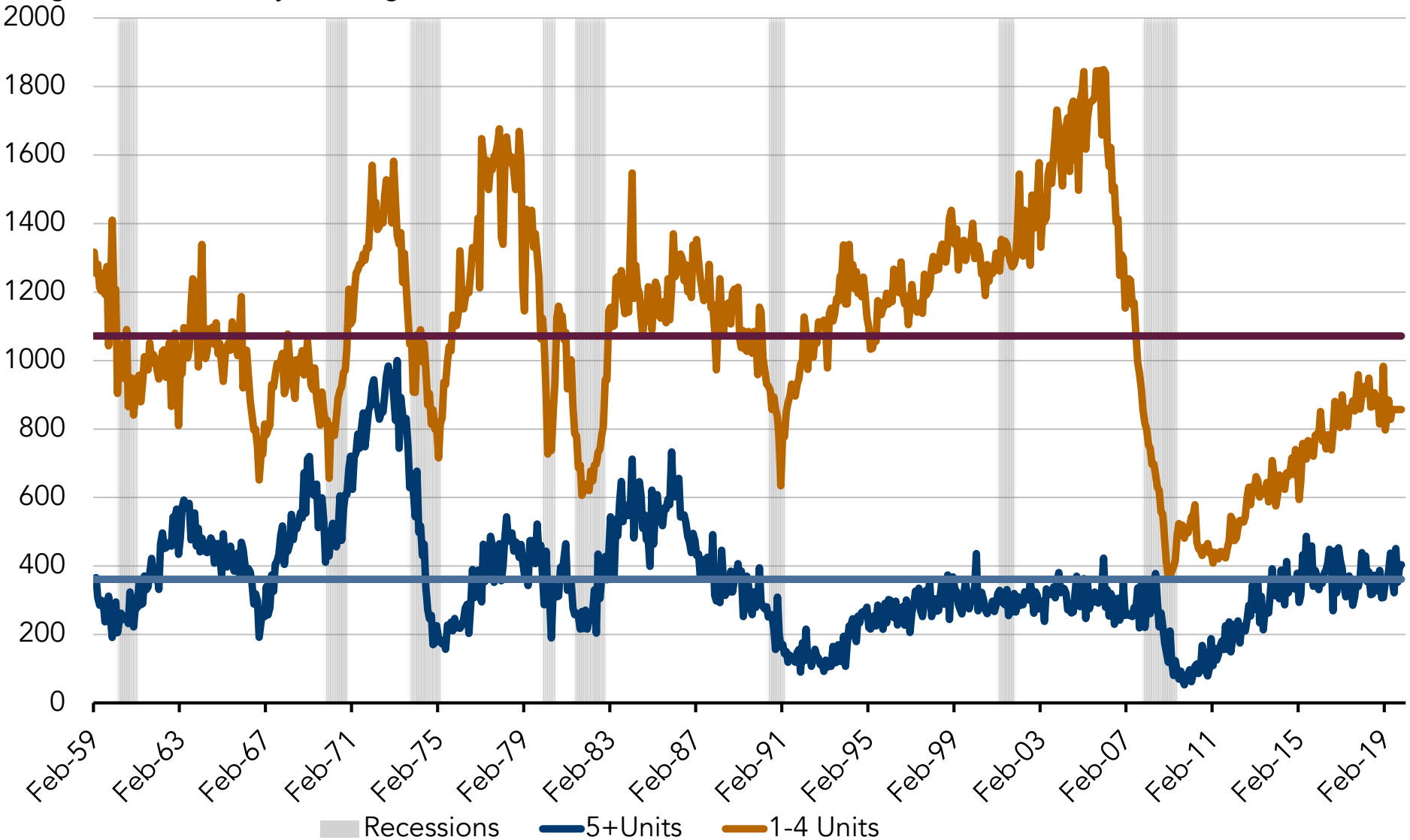
New Housing Units and Households (Year-Over-Year, Millions)



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

# A Building Boom, Of Only One Kind

Single and Multifamily Housing Starts ('000s,Units)



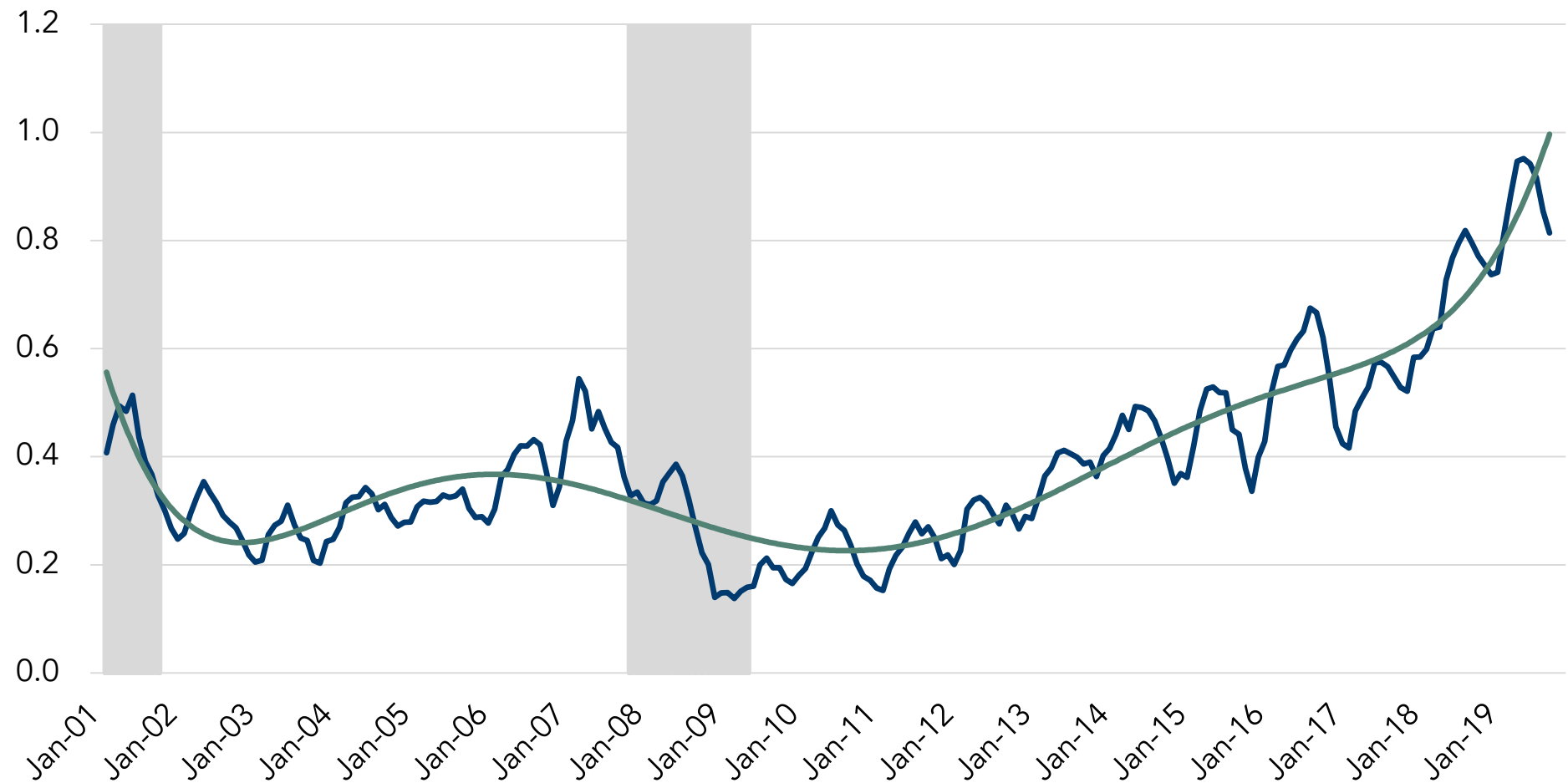
Source: US Census Bureau, FRED, Nov. 2019

43 @odetakushi #FirstAmEcon

©2019 First American Financial Corporation and/or its affiliates. All rights reserved. NYSE: FAF

# A Lack of Labor

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

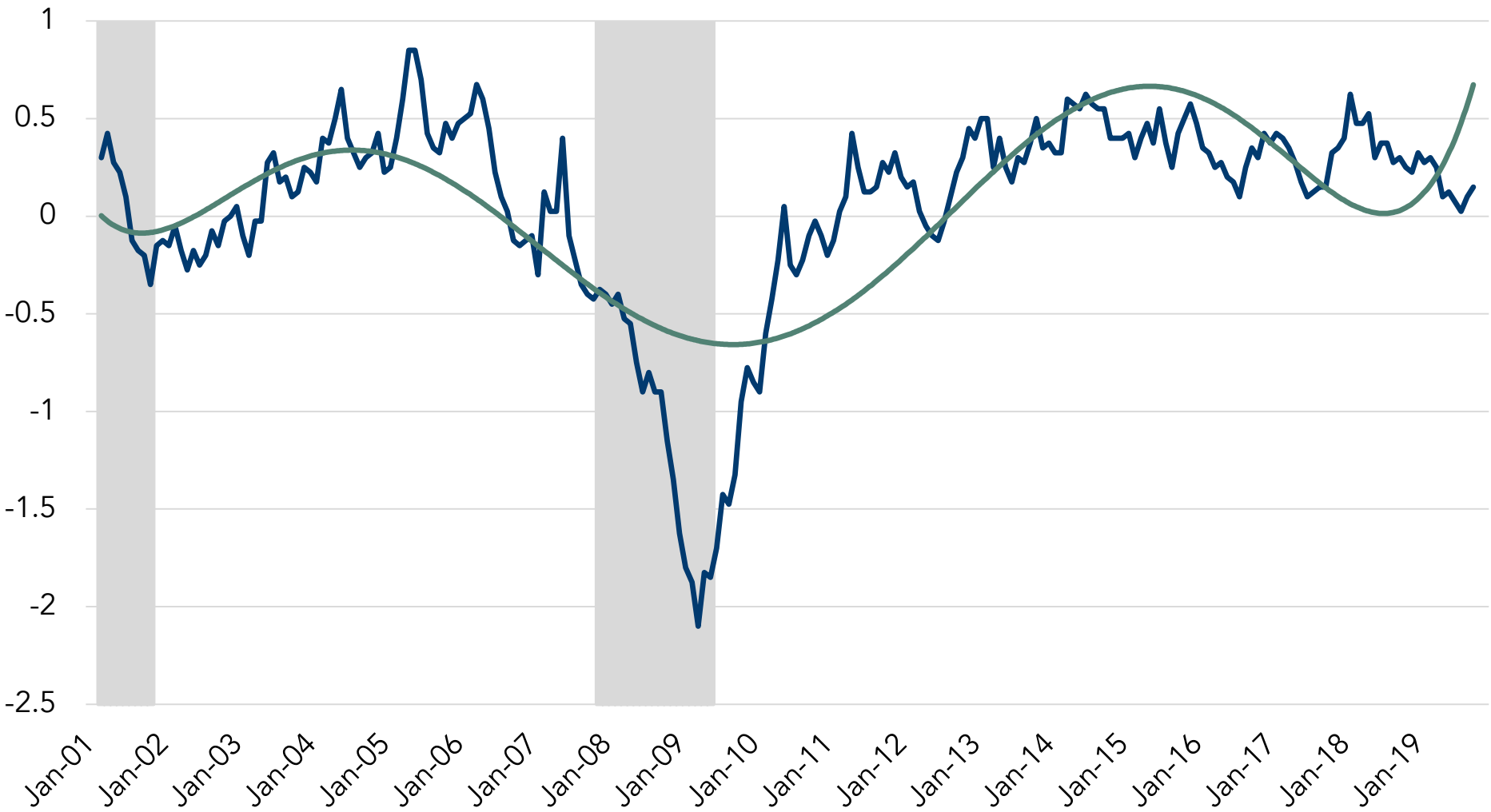


Source: JOLTS BLS, First American Calculations, Oct. 2019



# Can't Find More Labor? Retain the Ones You Have

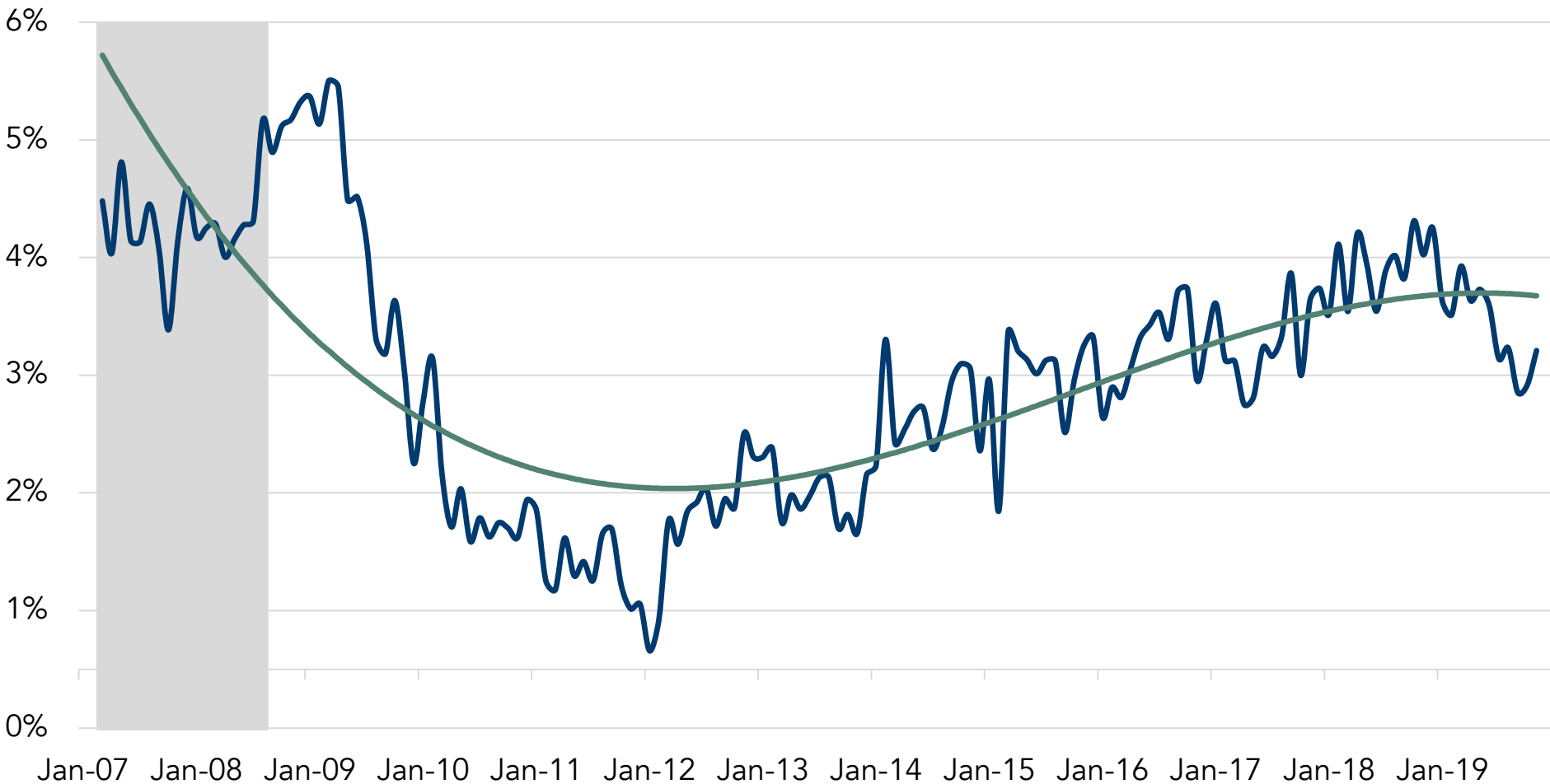
Rate of Hires-Rate of Separations, SA



Source: JOLTS BLS, First American Calculations, Oct. 2019

# Best Retention and Attraction Policy? Pay More

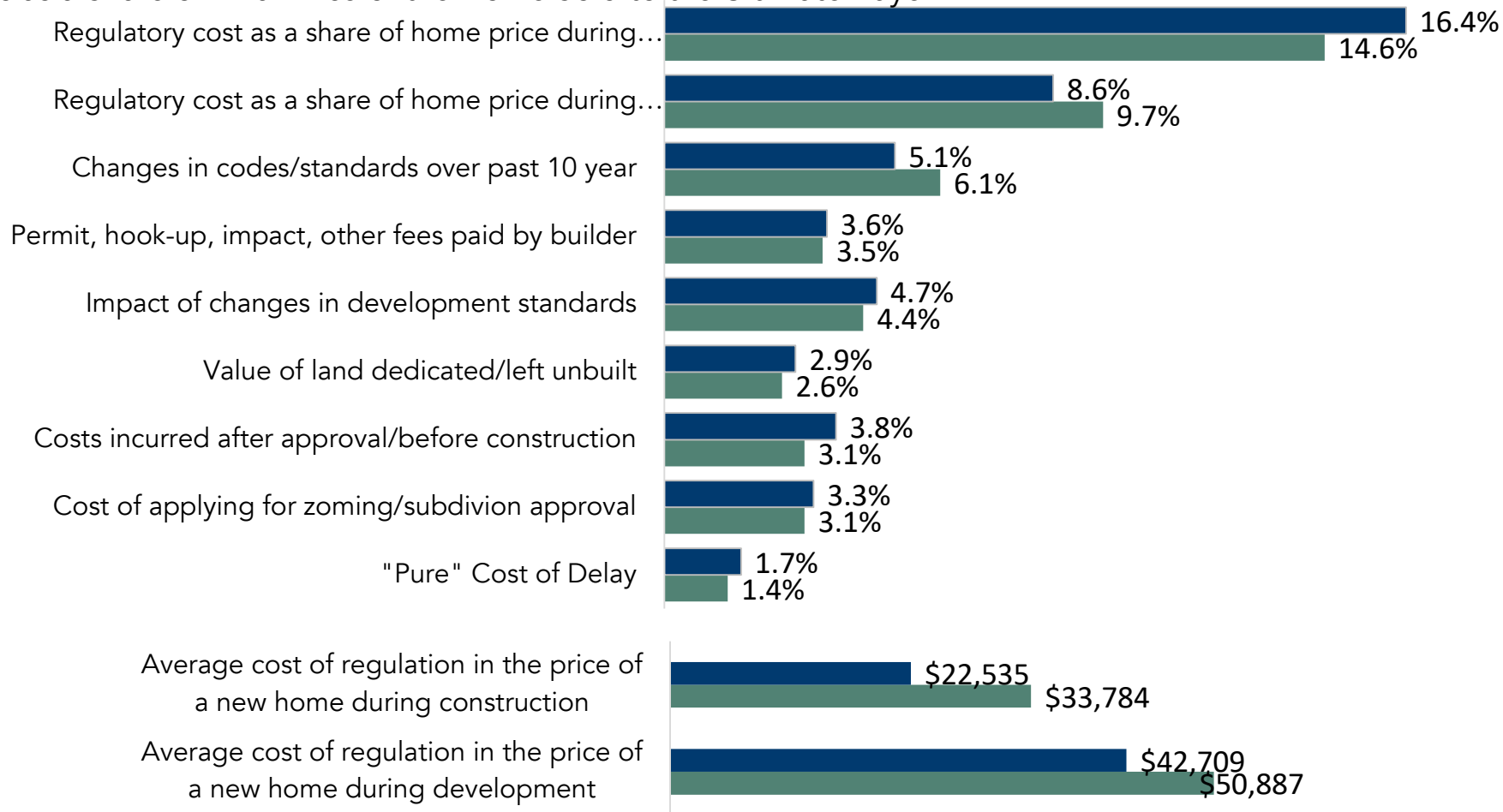
Average Hourly Earnings of All Employees, Construction, SA



Source: BLS, Nov. 2019

# The Process Costs More Too

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



■ 2011 ■ 2016

Source: NAHB, 2016

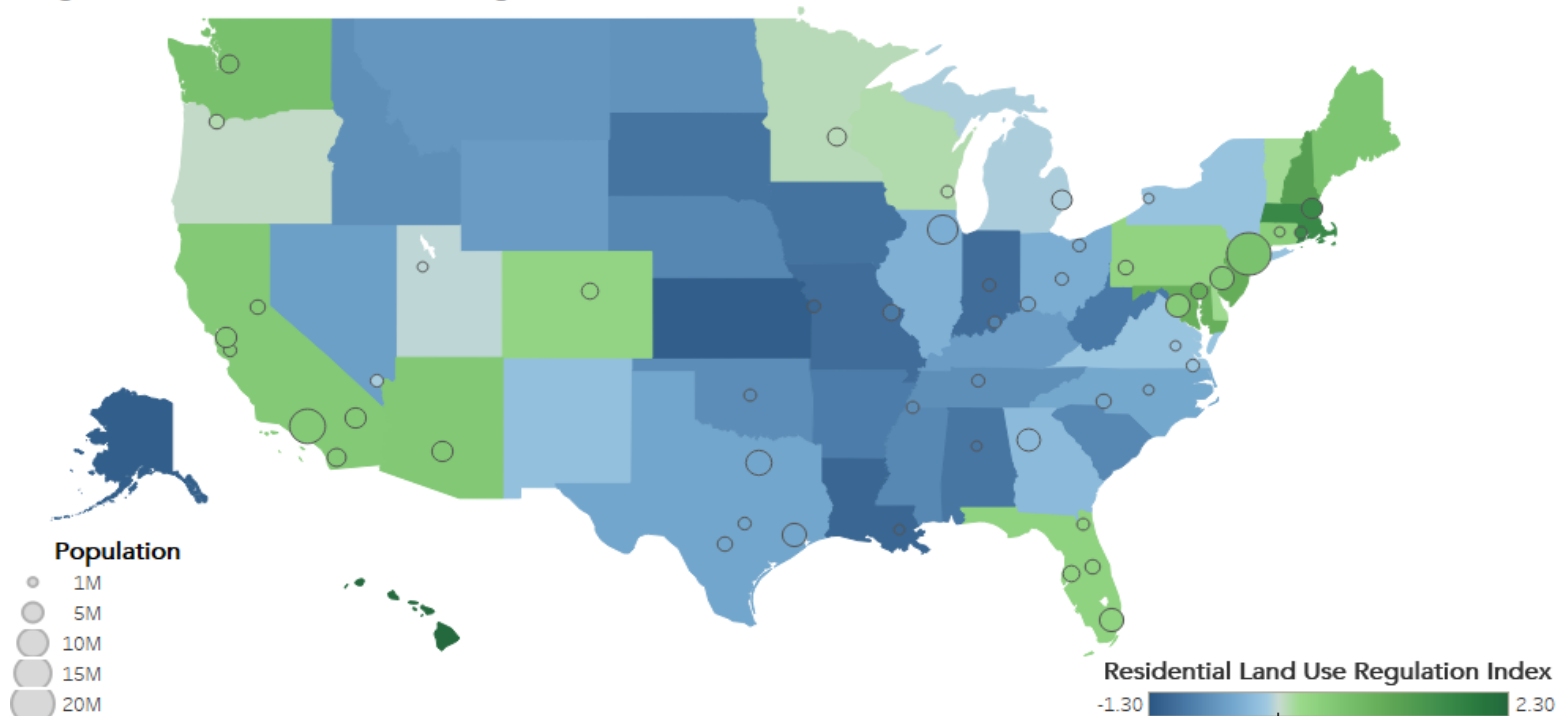
## What is “Normal” Regulation?

- Local and state pressure groups are much more likely to be involved in the regulatory process in the more highly regulated places.
- More than 50% of the highly regulated communities have a 1 acre minimum lot size rule in at least one neighborhood, whereas less than 5% of lightly regulated communities have such a rule.
- The average delay time between application and approval for a standard project in the highly regulated communities is three times longer than in the lightly regulated communities (10.2 months vs. 3.2 months, respectively)
- The WRLURI is the strong positive correlation across its component indexes. Essentially, if a community is rated as highly regulated on one dimension, it is likely to be highly regulated along other dimensions.



## Residential Land Use Regulation Index

(Higher Values Indicate More Regulation)



CBSA Name	Residential Land Use Regulation Index	State	Residential Land Use Regulation Index
Providence-Warwick, RI-MA	1.8436	HI	2.30
Baltimore-Columbia-Towson..	1.8189	RI	1.83
Boston-Cambridge-Newton,..	1.7472	MA	1.73
Memphis, TN-MS-AR	1.2106	NH	1.29
Seattle-Tacoma-Bellevue, WA	1.0802	NJ	1.03

Gyourko, Joseph, Albert Saiz, and Anita A. Summers, "A New Measure of the Local Regulatory Environment for Housing Markets: The Wharton Residential Land Use Regulatory Index", Urban Studies, forthcoming. First American Calculations

The background of the slide features a dark blue gradient with faint, semi-transparent financial charts. At the top, there is a candlestick chart with green and red bars. Below it, a line chart with a red line is visible. On the left side, there is a small label 'Dec' in a light blue font. The overall aesthetic is professional and financial.

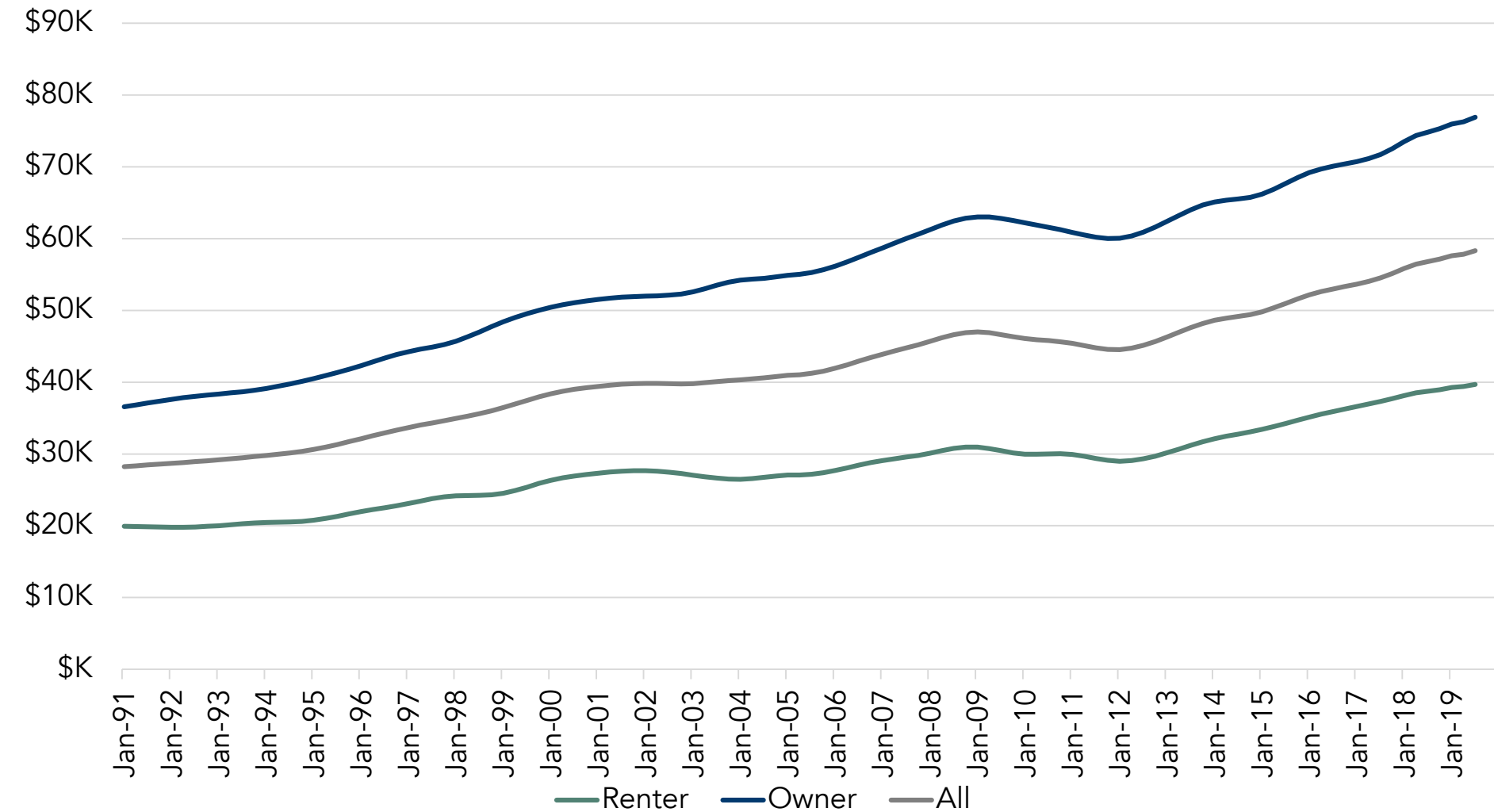
Supply or Demand  
Restricted?

**A Supply Restricted  
Market Drives up  
Prices**



# Mind the Income Gap

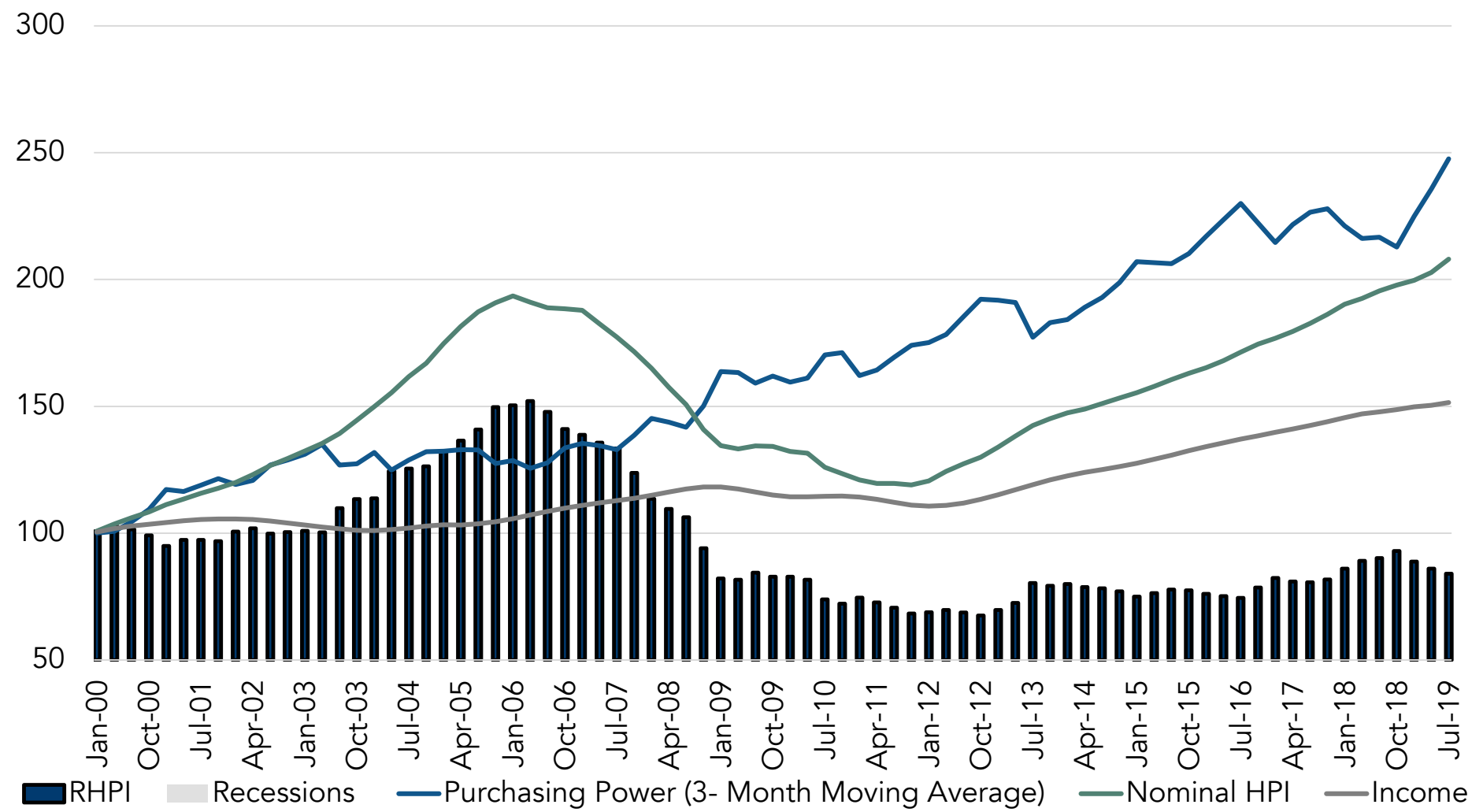
Median Income, National



Source: IPUMS, BLS, First American Calculations, Q3 2019

# How Much Home Can A Renter Buy?

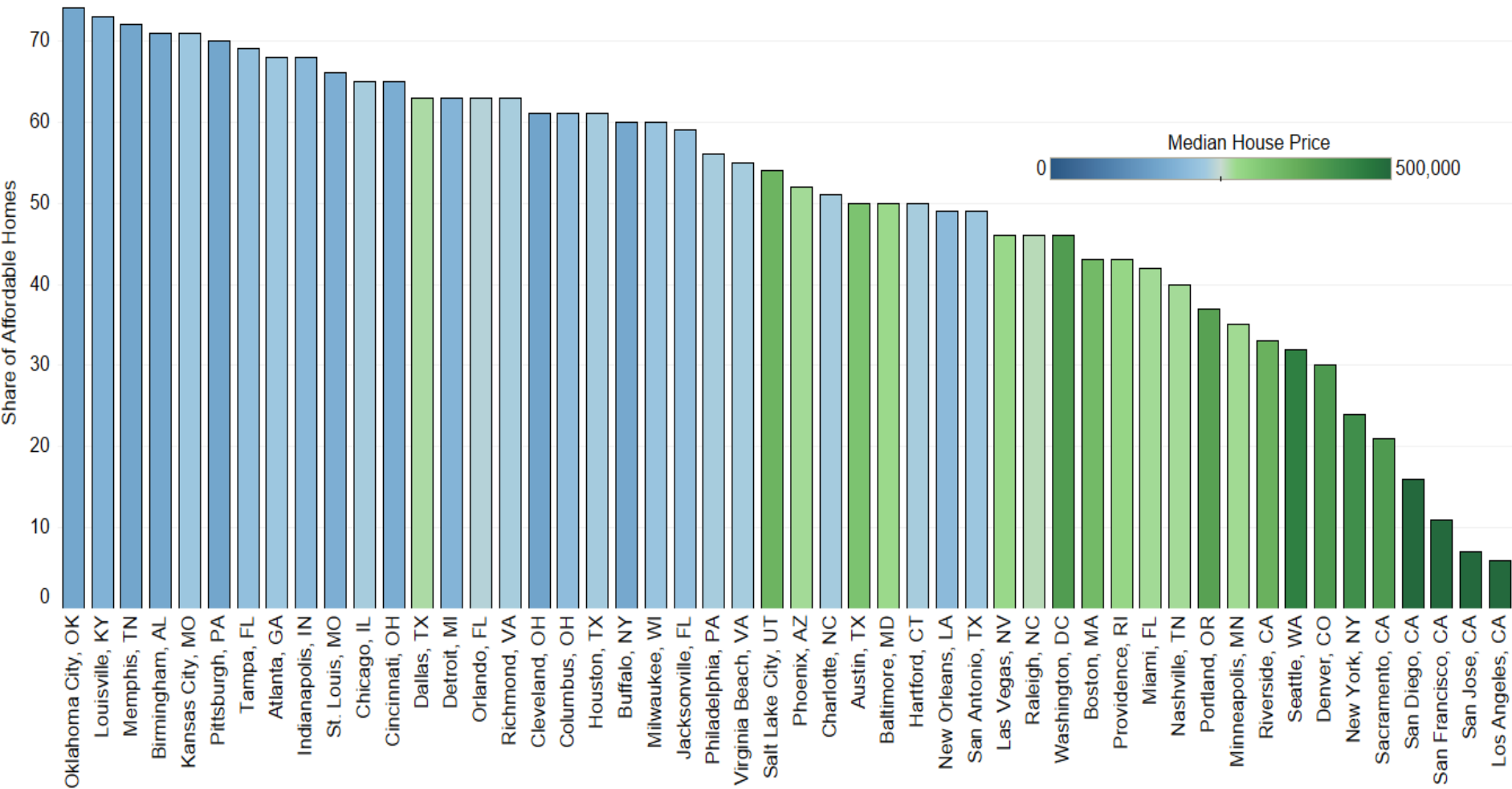
Index= 100, Jan. 2000



Source: First American Calculations, BLS, Census, Q3 2019

# Where Can Renters Find the Largest Supply of Affordable Homes?

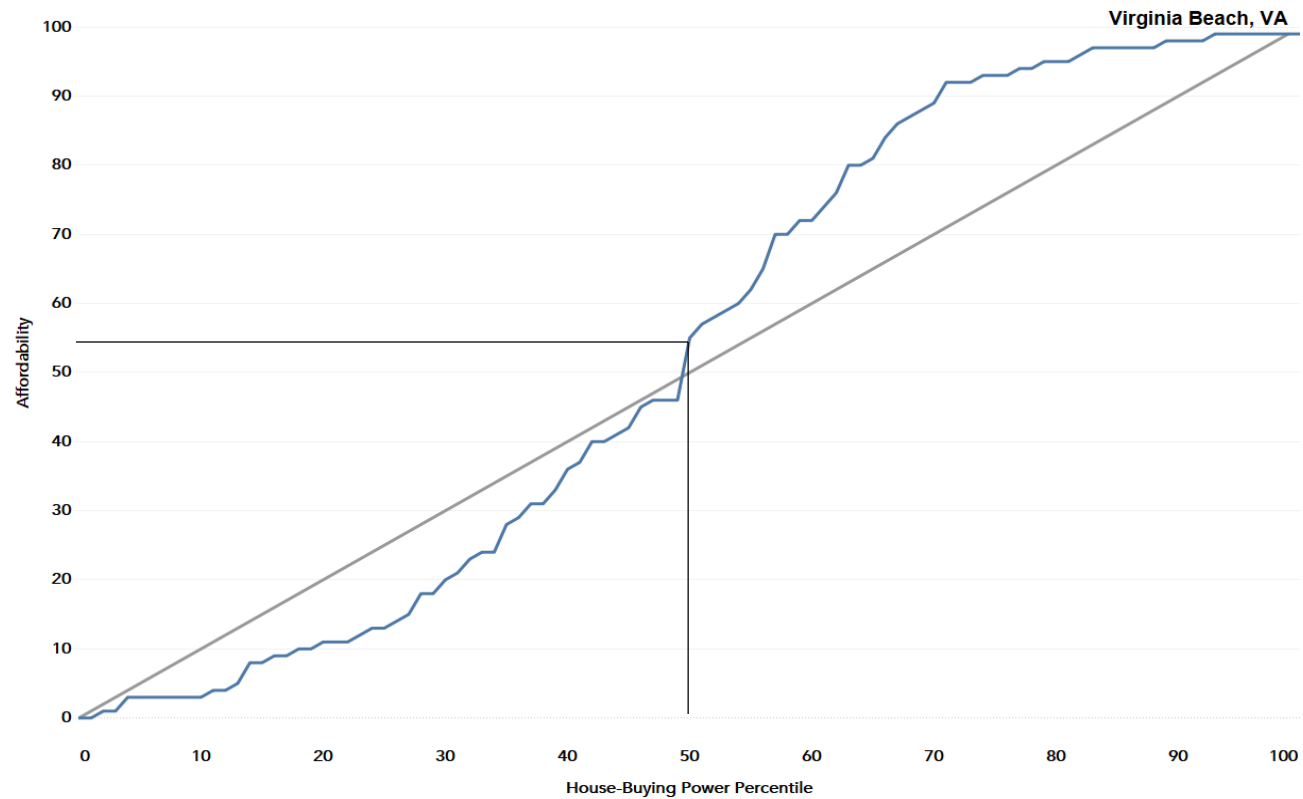
Median Renters: Share of Affordable Homes




Source: DataTree by First American, Standard & Poor's, Freddie Mac, Census, IPUMS CPS, Q3 2019

# When It Comes to Affordability, Place Matters

Median Renter: Share of Sold Homes



Source: DataTree by First American, Standard & Poor's, Freddie Mac, Census, Q3 2019

 @mflemingecon #FirstAmEcon



First American

**80/50**

→ The **80<sup>th</sup>** percentile renter in Los Angeles can only afford **51%** of homes for sale, with a house buying power of **654,179** and an income of **105,080**

→ This same renter could afford **98%** of homes for sale in Detroit, Cleveland, and Oklahoma City



# First American's Office of Economic Research

[FirstAm.com/Economics](https://FirstAm.com/Economics)

@odetakushi  
#FirstAmEcon

