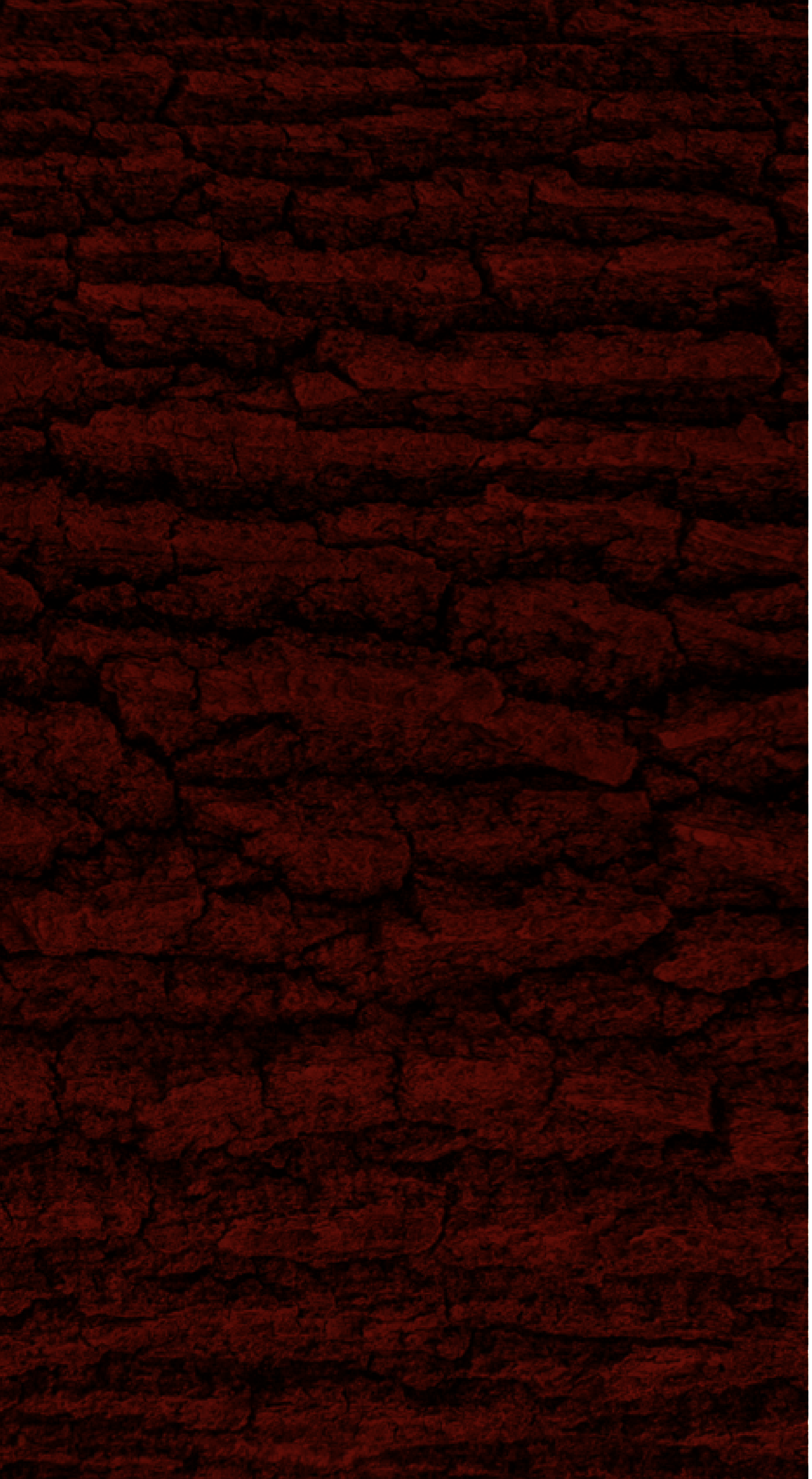


Since 1923

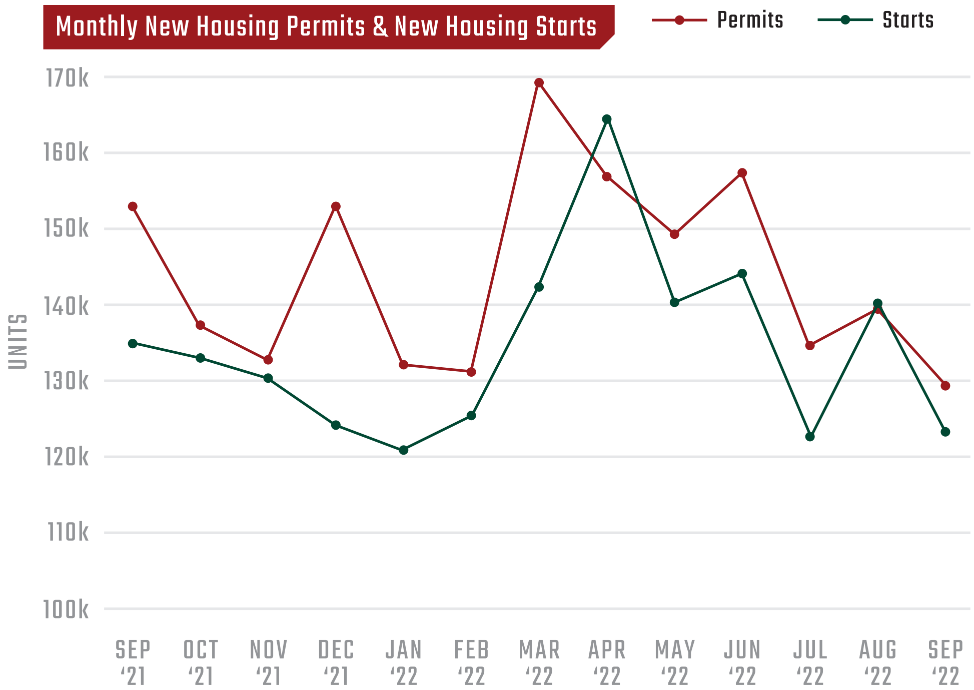
RoyOMartin®

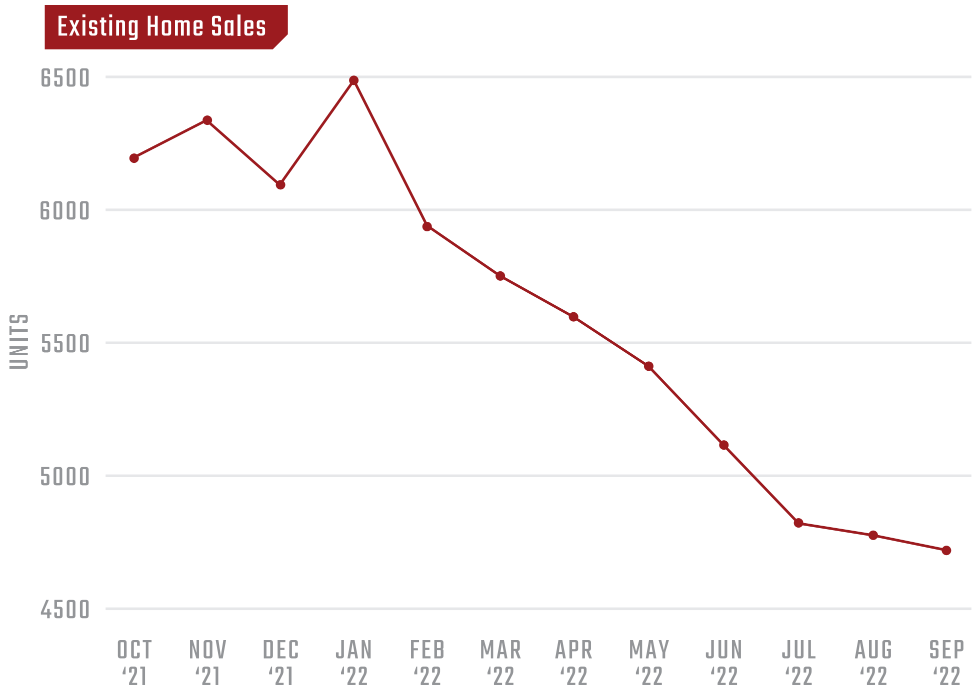
BOARD BRIEF 2022 Q3

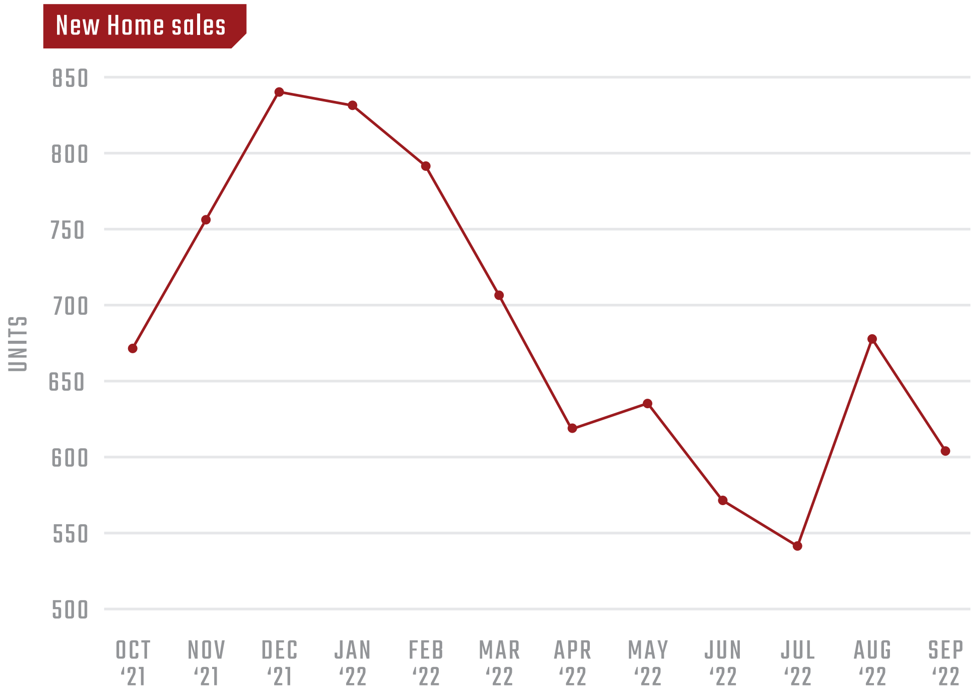
Home building is a local industry, but with benefits and setbacks stemming from outside variables across different parts of the country. The RoyOMartin Board Brief lays out the stats for our customers in key areas, namely the southwest region, so you can better understand the many factors affecting your local market.

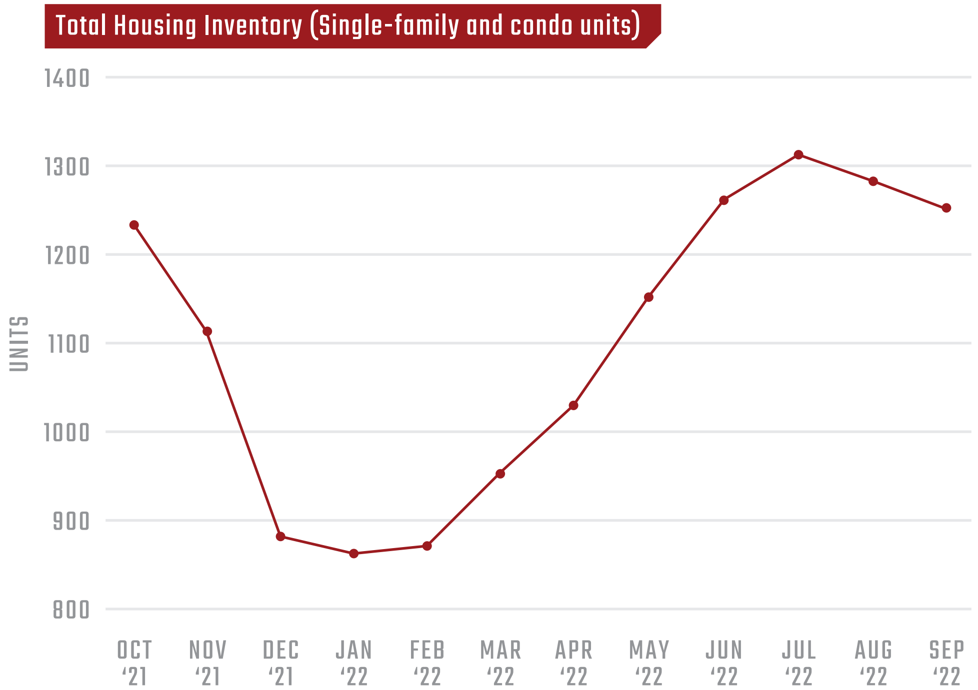
TRENDS WE ARE SEEING NATIONWIDE:

- Declining home prices
- Inflation
- Rising mortgage rates and decreasing mortgage applications
- Growing housing inventory YoY
- Strong job market
- Multi-family sector growth – monthly costs of homeownership are rising faster than monthly rents
- Decrease in residential construction spending
- Quiet Quitting
- Volatility of the railroads and transportation
- Economic volatility
- Effects of the war in Ukraine









Source: National association of realtors, and U.S. Census Bureau

INFLATION, INTEREST, INVENTORY

After two years of astronomical growth, the housing market is slowing down as strengthening headwinds push consumers to take a more measured approach to their buying and selling plans. After looking at September trends, mortgage interest rates have risen to the highest level since 2008, following the highest yield on the 10-year treasury since 2011. The volatility in the mortgage market combined with negative housing headlines, battered consumer confidence, and higher monthly housing costs suggest that the slower sales environment will likely continue throughout the balance of the year.

While non-residential construction is gaining ground, residential construction spending slowed sharply. The upward trajectory in mortgage rates has crushed residential activity since late May, with spending in the sector down nearly 13% annualized in the three months ended in August. Single-family home construction fell 18% YOY in September.

Overall, construction shifted from a tailwind to a headwind for economic growth in the Q3 2022, and will likely remain a drag on growth for at least the remainder of the year and likely well into 2023.

Inventory was up 26.9% in September compared to the same time last year, according to Realtor.com. It's not that sellers and builders are putting more homes up for sale—they're doing the opposite at the moment. It's that homes aren't selling as quickly, so what's been listed is sitting longer, boosting inventory. In fact, new listings were down 9.8% year over year in September. Not many seem eager to trade in their low interest mortgage for the current 30 year fixed average mortgage rate of 7.20% (10/27/22) so they are staying put. And why would they when they'd be potentially looking at a mortgage payment almost double of what they currently have locked in.

Ali Wolf
@AliWolfEcon

The median new home monthly mortgage payment is up $800+ today compared to the beginning of the year

11:40 AM · 10/6/22 · Twitter Web App

This, along with other inflationary pressures, is keeping would-be buyers put as they simply cannot afford to move.

The current national inventory of single-family homes stands at 3.2 months, according to the National Association of Realtors, where a 6-month supply is considered a balanced market. In the U.S. September Housing Starts fell 8% from August to an annual rate of 1.44 million and have plummeted 18% over the past year. Overall building permit issuance was up 1.4% from August, but 3.2% below the September 2021 rate.

Jobless claims continue to fall and remain historically low. New jobless claims fell 16k in the week ended 9/24 to 193K, which is 183K below the YOY level. Nonfarm payroll employment increased by 263,000 in September. The unemployment rate ticked down 20 basis points on a month-over-month basis to 3.5%. Job increases were broad across all sectors. The average hourly wage increased 5% on a year-over-year basis to $32.46 in September, but this increase still lags behind current inflation that fell to 8.2% in September, down from 8.3% in August. For our industry purposes, it's fitting to note that residential construction employment, including specialty trade contractors, increased by 6,400 in September.

There is, however, good news for would-be buyers who can still afford to buy. Housing market experts are forecasting a buyer's market by 2023. The panel of experts also forecast rent growth will outpace inflation during the next 12 months. In fact, ZHPE (Zillow Home Price Expectation Survey) respondents expect rents to grow more than inflation, stocks, and home values (averaging 5.4% rent growth throughout 2023). Home value growth, which hit record levels during the course of the pandemic, is now slowing as affordability challenges and rising mortgage rates are pushing many prospective buyers to the sidelines. Quarter over quarter, home prices rose a seasonally adjusted 0.2% in Q3 2022. This is the slowest quarter of growth since Q4 2011.

While home price growth has slowed, listings' time on the resale market is 11 days shorter than in 2019 and inventory is down almost 42% compared with 2019. While affordability will remain a concern, prospective buyers still able to afford home ownership are experiencing a calmer market and retaining lost leverage.

Looking at the market relative to last year, total contracts are down 25.1% year over year, and the average sales rate is off 26.1%. Nationally, sales are down 7.8% compared with August 2019 levels, led by the more notable slowdowns in the West and Mountain West regions. Approximately 72% of builders reported increasing incentives month over month. Incentives are becoming increasingly prevalent in today's housing market as consumer hesitancy slows overall purchase activity. Funds towards closing costs, mortgage rate buydowns, and discounts on options and upgrades are some of the most common types of incentives.

As home affordability is waning, home buyers are looking to manufactured homes as an option that fits their budget, and the industry is answering the call. Shipments of manufactured homes across all markets are up 15% YOY. Manufactured homes continue to be a crucial solution to the affordable housing crisis, and there continues to be positive signs for growth. Manufactured homes make up 9% of annual new home starts, and after a short pull back due to inflation and higher interest rates, we expect to see a rebound followed by continued growth. The average cost per square foot to buy a manufactured home is $72.46, compared to $139.20/per square foot for a site-built home.

Key inflation measure climbs to a 40-year high as Fed efforts aren't meeting the objective and shoppers brace for more pain. The Consumer Price Index report shows inflation rose 8.2% in the year through September. Core inflation–which removes food and energy costs--rose to a one-year rate of 6.6%, the highest since 1982. While gas and food inflation have eased up from levels seen earlier in 2022, housing costs are taking their place.

Elon Musk says we're in a recession, but not all experts agree. Bank of America and Deutsche Bank are in agreement with Musk stating that a recession is imminent. With an opposing view are JPMorgan Chase and UBS who both agree that a recession (especially in the near term) is unlikely. If we just had a crystal ball, we could advise on which camp we agree with, but it seems like a magic-eight ball is our best bet at coming to a conclusion.

Although the railroad unions reached a preliminary deal in September that prevented a work stoppage and was seen as a major victory to avoid doing more damage to the U.S.

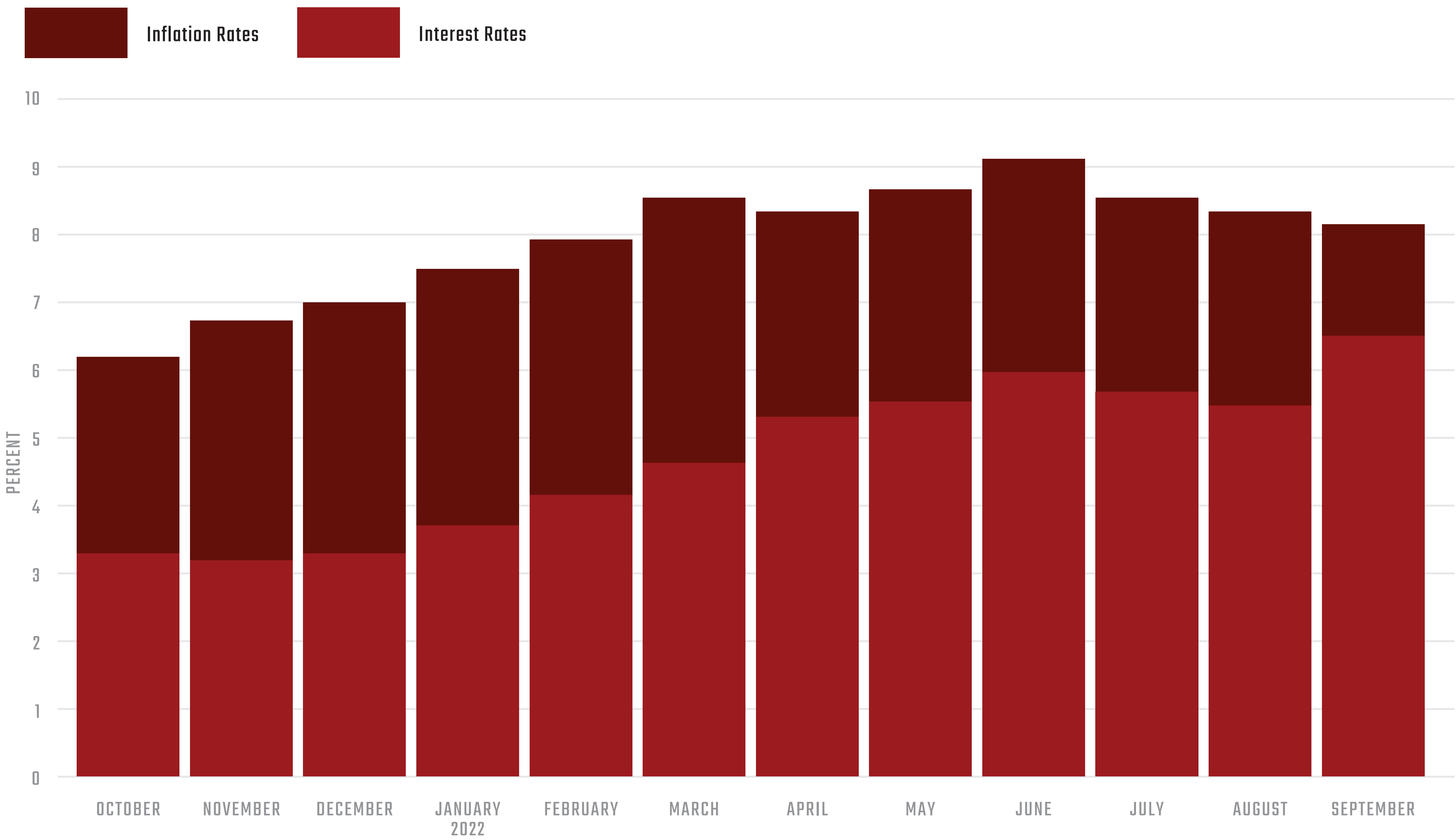
A freight train rolls past an oil refinery in the Port of Los Angeles in Wilmington. (Luis Sinco / Los Angeles Times via Getty Images) (Luis Sinco / Los Angeles Times via Getty Images / Getty Images)

economy, at an October 10 meeting, the Brotherhood of Maintenance of Way Workers have rejected the tentative agreement between their union and the Class I freight railroads, sending the sides back to the bargaining table and again raising the possibility of a work stoppage. More recently, the Brotherhood of Railroad Signalmen voted down the tentative agreement, as well.

Any work stoppage would have a massive impact on the supply chain and national economy. It is estimated that a service disruption would cost the U.S. economy $2 billion daily! Despite President Biden's boasting that the "trains are running on time," some say he merely pushed the showdown to a time more convenient for his party. We have no opinion on that matter; we are just hopeful that they find a resolution that everyone can live with…sooner, rather than later.

To add to the uncertainty of the union standoff, the trucker shortage continues as well. According to the U.S. Department of Labor, the number of trucking jobs went down in September, creating a loss of 11,400 month-over-month. Excluding April 2020, this is the largest decrease since April 2009. According to American Trucking Associations President and CEO Chris Pear, there is an existing shortage of 80,000 drivers.

INTEREST & INFLATION RATES OVER LAST YEAR



Source: Tradingeconomics.com | Mortgage Bankers Association of America

With interest rate hikes, a lag effect on prices can take "6 to 12 months," Kansas City Fed President Esther George said in an interview last month. Since the first rate hike was seven months ago in March, it's possible the full impact of the Fed's shift in monetary policy is yet to be seen.

OSB PRICING YOY

OCTOBER 2021
$515

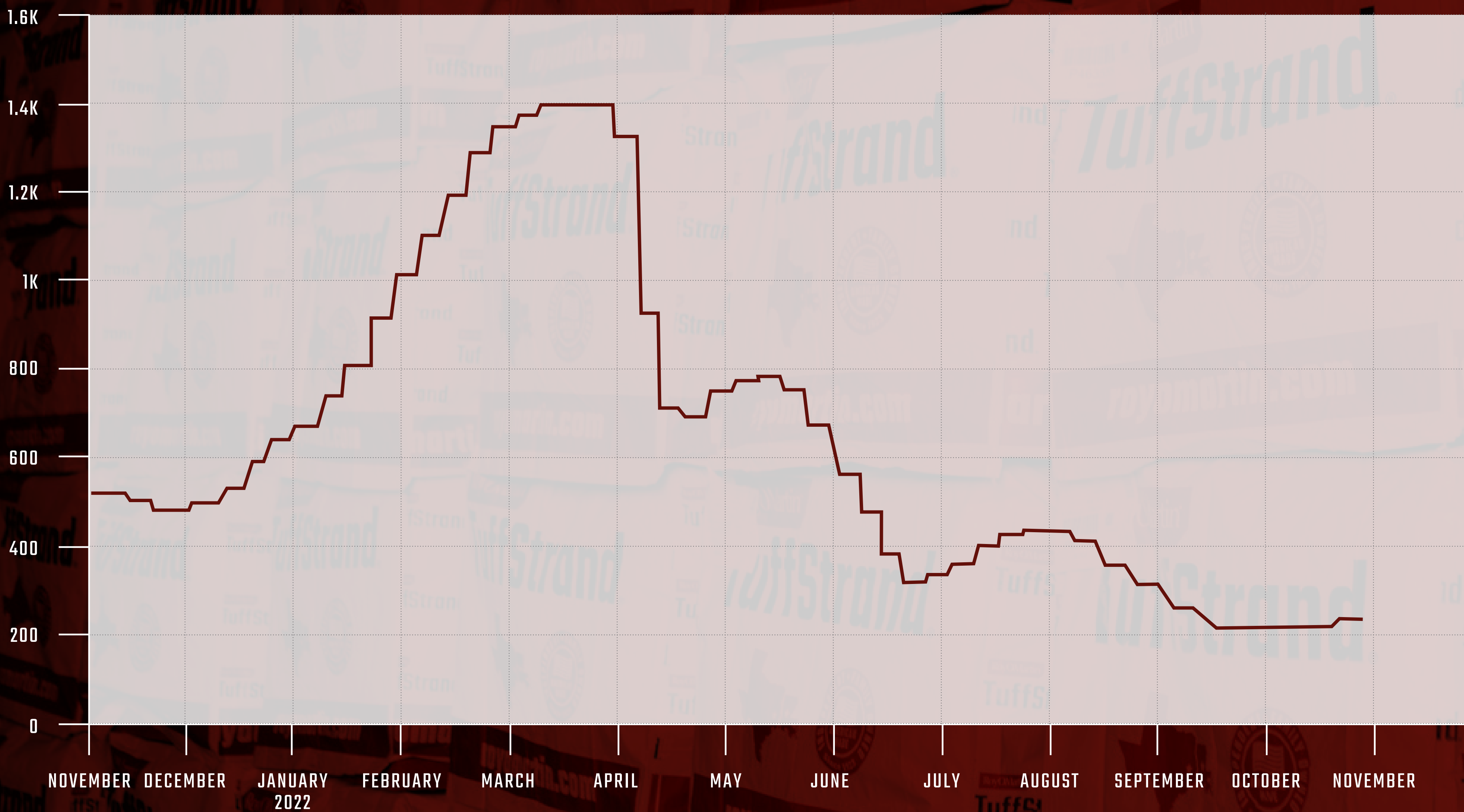
OCTOBER 2022
$325

*OSB pricing on 7/16 OSB in southwest region from October 2021-October 2022. Chart from Random Lengths, FastMarkets RISI. Prices have greatly fluctuated over the last year, and are normalizing in response to the housing market correction.

OSB SHEATHING (SOUTHWEST) 7/16" PRICES NET F.O.B. MILL
US Southwest RL End-week

$325

DOWN $190
(-36.9% YOY)



LOUISIANA

TOP MARKETS:

BATON ROUGE

2,917 NEW HOME SALES
(-16.3% Q3)

2,817 SINGLE PERMITS
(-18% YTD)

285 MULTI PERMITS
(+14,150% YTD)

LAFAYETTE

1,679 SINGLE PERMITS
(-27% YTD)

20 MULTI PERMITS
(+400% YTD)

LAKE CHARLES

671 SINGLE PERMITS
(0% YTD)

266 MULTI PERMITS
(+923% YTD)

NEW ORLEANS/METARIE

2,613 SINGLE PERMITS
(-19% YTD)

806 MULTI PERMITS
(-23% YTD)

LOUISIANA ECONOMY

- Oil and Gas
- Tourism
- Chemicals
- Commercial Fishing
- Agriculture and Forestry

Statewide, Louisiana should gain a modest 14,300 jobs next year and 30,800 the following year, a growth rate of 1.6% in 2024 that will be largely driven by industrial construction, new health care facilities, new Amazon distribution centers and casino expansion projects. The seasonally adjusted unemployment rate of 3.4 percent is the lowest rate in the state's history.

Canadian company Ucore Rare Metals Inc. just announced that it has chosen the state for its first rare earth processing facility, and has signed a letter of intent with the Louisiana Economic Development to confirm the agreement. To secure the company's commitment, LED offered $9.6 million in tax incentives and payroll rebates over its first 10 years of operation, in consideration of the company's projected investment of $55 million. The company has yet to choose among 10 brownfield sites for the plant, so stay tuned on this development.

Baton Rouge

Baton Rouge has flipped to a buyers' market, according to the latest data from realtor.com. The supply of homes is greater than the current demand. The median listing home price is $265K in September, up 10.8% year-over-year. The area isn't any different than the rest of the country in that although price appreciation is up year-over-year, price increases are slowing drastically with sellers finding themselves forced to lower the ask price in order to attract a buyer. Homes are still moving, just not as swiftly as they were this time last year while staying on the market 25 days, compared to 18 days YOY.

At a Louisiana Economic Forecast event in early October, Dr. Loren Scott, stated that people should be prepared for a national recession.

However, attendees were quickly relieved to find out Louisiana is positioned to catch a break, aside from rising interest rates and a weakened housing market. He predicts that Baton Rouge alone will add 4,500 jobs next year and 7,900 jobs in 2024, which would make the Capital Region's economy the third fastest growing in the state.

Baton Rouge added 800 jobs from August to September.

Revitalization in North Baton Rouge is progressing with the announcement that Rouse's is coming to Ardenwood Shopping Center helping to fill in the gap and provide access to fresh food to residents who live in "food deserts." A $200 million Amazon fulfillment center at the former Cortana Mall is set to open in 2023.

Barstool Sportsbook has opened in L'Auberge Casino and Hotel Baton Rouge. The casino spent $6.7 million on renovations at the brand's 13th location. The Barstool brand's sports betting app has been wildly popular.

Lafayette

The median listing home price in September was up 5.9% YOY at $249K. Like Baton Rouge, Lafayette is also a buyer's market.

Lafayette is set for steady growth at 1,200 jobs (0.6%) in 2023 and 4,100 jobs (2%) in 2024. Lafayette added 1,100 from August to September, alone. However, as the state's second-most oil-dependent economy, the metro area could be held back by slow drilling activity in the Gulf of Mexico. The push from the Biden administration for cleaner energy will keep oil production below its pre-pandemic levels. The number of rigs exploring for oil and gas in the Gulf of Mexico has stayed low, despite higher-than-usual oil prices this year, as pressure from the White House has deterred companies from drilling. In fact there are currently only 15 rigs active, compared to 56 in September 2014. It's not all bad news though. The region still has a diverse employer base that includes healthcare, the university and manufacturing, that are continuing to hire more workers.

Lake Charles

The median listing home price in Lake Charles trended up 6.5% year-over-year in September at $242.5K, and the average time it takes for a home to sell is 70 days.

The cost of living in Lake Charles is 8% lower than the state average, and 14% lower than the national average. This, along with the strong job market in the area, makes it an attractive option for buyers.

Southwest Louisiana received an additional $46 million to fund the elevation of some 200 structures out of flood plains in Calcasieu, Cameron, and Vermilion parishes. That's roughly $230K per structure. So that begs the question... what are these homes even currently valued at, and would it be smarter to tear down and rebuild? This additional $46 million brings the total that Louisiana has received for coastal, waterway, and flood protection projects from the infrastructure bill to $700 million.

Although, and perhaps due to, Lake Charles has been pummeled by a one-two punch of pandemic restrictions and natural disasters over the past two years, Dr. Loren Scott is predicting the area will be the fastest growing in Louisiana over the next two years. Scott points to a projected 7% in employment growth over the next two years. The area still has lots of catching up to do, but it is well on its way with upcoming large construction projects in the natural gas and petrochemical sector. On top of new construction and new casino activity, the state also recently announced the approval of a grant agreement with the U.S. Department of Housing and Urban Development, effectively releasing $600 million in federal aid, much of which will go toward restoring housing destroyed by hurricanes Laura and Delta.

New Orleans

Median days on market is 48.5 days, with inventory moving 9% 'Slower' than last year and 6.5 days 'Slower' than the US overall. The median listing price in NOLA was $365K in August 2022, trending up 4.3% YOY. According to NeighborhoodScout data, home appreciation rates in New Orleans have been above average for the last decade. Over the last decade, the cumulative appreciation rate has been 71.67%, placing it in the top 50% nationally.

New Orleans added 2,200 jobs from August to September.

A massive new riverfront development in downtown New Orleans has received final approval to move forward. The 45-acre tract, known as the River District, will provide affordable housing as well as the long-promised Civil Rights museum. As well as the residential and museum component, there are plans to include office and retail space, in addition to entertainment and cultural venues. The effort is to create a whole new city district aiming to provide another visitor destination besides the French Quarter.

TEXAS

TOP MARKETS:

SAN ANOTONIO/NEW BRAUNFELS

21,034 STARTS (+27.7% YTD)

14,464 NEW HOME SALES (-21.2% LAST 12 MONTHS)

8,555 SINGLE PERMITS (-23% YTD)

11,069 MULTI PERMITS (+65% YTD)

HOUSTON/THE WOODLANDS/SUGAR LAND

41,633 STARTS (+13.4% YTD)

31,733 NEW HOME SALES (-13.4% LAST 12 MONTHS)

39,590 SINGLE PERMITS (-2% YTD)

21,070 MULTI PERMITS (+76% YTD)

DALLAS/FORT WORTH/ARLINGTON

54,378 STARTS (+27.3% YTD)

33,735 NEW HOME SALES (-25.2% LAST 12 MONTHS)

36,581 SINGLE PERMITS (-7% YTD)

24,071 MULTI PERMITS (+13% YTD)

AUSTIN/ROUND ROCK/GEORGETOWN

27,030 STARTS (+26.3% YTD)

19,032 NEW HOME SALES (-20.1% LAST 12 MONTHS)

18,320 SINGLE PERMITS (-5% YTD)

18,682 MULTI PERMITS (-7% YTD)

TEXAS ECONOMY

- Finance
- Tech
- Healthcare
- Air and Space
- Energy
- Manufacturing
- Agriculture

If Texas were a country, it would rank as the ninth largest economy in the world, and stateside, it trails only California for the largest GDP in the nation. Texas has a thriving startup scene, is centrally located, and is culturally diverse. These are all attractive pulls for those looking to relocate. Among the reasons Texas is so appealing are:

1. The economy is booming. Forbes recently reported that there are now more Fortune 500 companies headquartered in Texas than any other state.
2. There's no shortage of entrepreneurial spirit. Texas recently ranked first on WalletHub's list of Best Places to Start a Business. CEOs and businesses cite a low-tax, low-regulation business climate as positives.
3. Texas is home to the workforce of the future.
4. It offers a high quality of life. Texas has something to offer for everyone.
5. It has a prime location. Texas is also the home to 380 airports, so travel to and from is relatively easy.

Texas is the leading state for semiconductor chips, and will benefit tremendously from the recently passed CHIPS Act. Samsung is adding to its $17 billion chipmaking campus under construction in Taylor and is eyeing $192.1 billion for 11 more plants (Taylor and Austin) in coming decades.

All 4 Texas metros reported here made the top 20 real estate markets to watch this year by the Urban Land Institute and PwC's annual ranking. Houston came in at number 14, San Antonio at number 12, Austin at number 4, and Dallas-FortWorth came in at number 2.

Austin

Austin's market is reflecting what is happening in other major cities across the country. Although activity has slowed slightly in recent months, the home prices are still on the rise. Homes here are still selling for close to the asking price. The current trends indicate that a slowing growth rate in sales indicates market stabilization, but the demand is still outpacing the supply in a market where housing prices have reached all-time highs. The market here is still not balanced and still favors sellers, but buyers have greater negotiating power than at any time since the outbreak. The market is now at 3 months of inventory, but still short of the 6-6.5 months needed to be considered a healthy market. We suspect that as mortgage rates continue to rise or stay elevated, that Austin will continue on its path to a balanced market, but will remain a sellers' market for some time. Demand is expected to remain strong as Austin is an engine of job and population growth. Certainly, big companies moving in will also play into what happens to the housing market over the next year.

One hurdle that builders continue to face are the constant regulatory changes that are notorious in Austin. Due to supply shortages, cities and utilities are battling to find water meters and transformers, adding to development and construction delays. The number of active projects continues to decrease, with sharp declines in projects priced below $400K. Lot supply remains elusive as there are about 15,900 lots currently under development, which is 39% below the current starts pace, or a 10,300 lot deficit.

Although appreciation isn't happening as rapidly as it did during the pandemic, it is still expected to rise, just at a slower pace. In fact, NeighborhoodScout's data shows that Austin real estate has appreciated 169.47% over the last ten years, which is an average annual home appreciation rate of 10.42%. During the last twelve months, Austin's appreciation rate was 26.34%. However, median home price sales dropped more than $25,000 from August, helping the city push back on what's widely considered the biggest threat to the economy: affordability. Homes are also staying on the market longer, averaging up to 40 days, an increase of 23 days YOY.

With its booming tech industry, Austin has been dubbed "Silicon Hills" and has a thriving startup scene. In fact, it is estimated that almost 185 people are moving to Austin on a daily basis. That is music to homebuilders' ears! One of Texas's most active venture capitalists says the growth and energy in Austin feels like Silicon Valley in the '90s.

Austin's life sciences sector is poised for continued growth as well. Local life sciences employment has expanded nearly 74% over the past three years and is expected to continue to climb at a rate of 6.5% per year through 2025, according to Newmark Group, Inc. This will have positive effects on commercial and residential real estate for the foreseeable future.

There are several upcoming construction projects in the area including a 132-unit mixed use senior housing project to be built beside Cedar Park's Bell District and build-to-rent community in Hutto. Georgetown is also getting another neighborhood of more than 1,000 homes, and presales should start next summer. Pflugerville is also expected to receive relief as an additional 375 single-family homes are being developed. This community is among the fastest growing cities in the Austin metro.

Dallas

The Dallas market has recovered greatly from the pandemic. According to Zillow, the typical home value for the Dallas/Fort Worth area rose by a whopping 27.1% in the past 12 months, and they forecast it will rise by 4.2% by July 2023. Over the previous five years, home values in Dallas increased by over 78%. Pricing is expected to continue northward, just not at the same pace we've seen over the last 18 months. Although inventory of homes is increasing, the area still

"The Austin real estate market's inventory and mortgage interest rates have returned to pre-pandemic levels in recent months. It's not the intense sellers' market it was a few months ago, and sellers should reset their expectations."

- Ryan Leahy,
regional president at Austin mortgage lending company HomeTown Texas

has a ways to go to reach an equilibrium of a 6-month supply.

Home site supply is rising. Lot deliveries are now outpacing starts, now with a 17.1-month supply, while a 24-month supply is considered equilibrium. With the anticipated continued reduction in the start rate for new homes the lot supply should swing back into equilibrium in 2023.

The cost of living in Dallas is approximately 50% less than in urban coastal cities, including San Francisco and New York City. Forbes ranks Dallas as the second best place to pursue business and careers in the country. These facts, along with a stellar school system, a vibrant and dynamic cultural scene, and bustling job market, makes Dallas a top pick for buyers to consider when relocating.

Employment growth in North Texas continues to be a bright spot, with a net YOY increase of 260,700 jobs for a 6.75% growth rate in the DFW area. Caterpillar announced their move to Irving from Chicago, making it the fifth-largest public company. Dallas will now be home to 24 Fortune 500 companies.

People are continuing to flock to the Dallas area, but they likely won't have much luck in Frisco as the single-family market is approaching buildout as current estimates show the city is 80% built out.

Ashlar Development LLC will add 122 acres and more than 500 homes to its Wildridge community of Lake Lewisville north of Dallas. Construction on this project is anticipated to begin in summer 2023.

Construction of new homes, like these in an Allen neighborhood, has plunged in the wake of higher mortgage rates as builders fear being burned by waning demand.
JAKE DEAN

Houston

Houston has held up as one of the better performing housing markets in the U.S. during the rise in housing costs, in part due to strong in-migration and an economy that continues to produce astounding job growth. Year-over-year job growth is strengthened, and annualized growth was second only to Dallas in leading major Texas metros.

Houston's new home sales have moderated. Single-family home sales totaled 7,446 in September, down 17% from the year before. Current single-family pending sales are also down 15.5% compared to the same time last year, and days on the market for single-family homes increased from 29 to 37 days in September. Total active listings are up 36.3% compared to the same time last year. Sales have been strongest in the upper-end where buyers have been less deterred and are downsizing in order to make their numbers work. For builders, the current picture is akin to two to three buyers now waiting in line to buy a home, where before it was ten.

Houston's housing market continued its return to pre-pandemic levels in September, with home sales down year over year for the sixth straight month and inventory continuing to grow. That's not the only thing growing, however. Prices are on the rise as well.

During the construction frenzy, lots were hard to come by. Houston-based Johnson Development Corp. has announced that they are releasing more than 1,660 homesites to builders across six of its Houston-area communities between now and the end of the year. This will help the market equilibrium since at the end of Q2, months of supply of vacant developed lots was little changed and stood at only about half of the healthy range of 20 to 24 months.

"The high end of the market continues to perform well, as is the rental market. But because of a lack of homes priced below $400,000, the market as a whole is slowing to levels we were accustomed to before the pandemic. The most encouraging news of all is the gradual build-back of inventory, which should yield more options for consumers going forward." Jennifer Wauhob with Better Homes and Gardens Real Estate Gary Greene.

Caldwell Cos. is getting ready to open sales for Chambers Creek, a 1,200-acre active-adult community at Lake Conroe. It is a master-planned community exclusively for residents ages 55 and older. The plan calls for more than 3,000 homes and is expected to take 10 to 15 years to build out. This will be the Houston region's largest age-restricted community ever built.

Landmark Properties is starting construction this month on a build-to-rent property in the Spring area near the Grand Parkway. The Everstead at Windrose will offer 194 townhouses, single-family homes and cottage-style homes. Houston is the number 2 city nationwide for the most

A rendering of HTX Surf
COURTESY OF BEACH STREET DEVELOPMENT

single-family rentals with 1,620, RentCafe reports. Houston is second to Las Vegas. Other build-to-rent communities recently announced include Clay Residential's 97-home Willow at Sierra Vista in Iowa Colony in Brazoria County, the 162-home Leva Living community in Atascocita, and a 240-home neighborhood by Mesa in the Cypress area.

Perhaps the most exciting news to come out of Houston is the announcement by California-based Beach Street Development, is the addition of a man-made lagoon and surf park in Generation Park. The 6-acre lagoon will use Spain-based Wavegarden's proprietary technology to create customizable ocean-like waves for up to 70 surfers per hour. The park will undergo construction in early 2023 with an expected opening of fall 2024.

So if the housing market is giving you the blues, you can surf your troubles away.

San Antonio

New home contract sales in San Antonio are now back to 2019 levels, and monthly base price increases have really become a thing of the past. Homes are taking longer to sell, and builders are scrambling to sell finished vacant inventory. Annual starts in SA increased 25.9% YOY in Q2 2022, beating Dallas, Houston, and Austin.

With strong population growth and more affordable housing compared to the other big Texas markets, San Antonio has become a prime target for investors. West San Antonio leads all other market areas in annual starts.

All of this growth is great for the economy, but is straining the already overburdened infrastructure. Traffic congestion is bad, and the widening of Culebra Road won't be completed until 2028, and SH 151 improvements won't begin until 2025.

The San Antonio's once scorching hot housing market has been showing signs of slowing since the second quarter of 2022. Homebuilders are now growing nervous and looking to incentivize their builds to fly off of the proverbial "shelf." Not unlike the rest of the country, the cost of housing in SA has been on the rise since the pandemic, up an average 39% across the city to a median home price of $385,340.

Despite the recent housing market downtown, First America Homes is sticking to its plan to deliver over 500 homes to the San Antonio market over the next five years. The next development will be built in Applewhite Meadows, a South Side community south of Loop 410 South and east of State Highway 16. Floor plans will range up to 2,000 square feet, and will provide three- and four-bedroom options. Pricing will begin around $250,000 per home, which is significantly below the city's $385,340 median price. Chris Hill of First America Homes said "we are not concerned about rising interest rates impacting us–we believe more people will seek us out as we offer a quality home at a reasonable price."

Genesis Capital Partners is betting on San Antonio's continued rapid job and population growth, and has filed plans to build a $48 million luxury apartment complex on a 16-acre lot in Westover Hills on the far west side of San Antonio. Construction is set to begin in January 2023.

A utility plan to double developer fees threatens to put the fire out on New Braunfels growth. New Braunfels Utilities is proposing to more than double a fee on new building projects in an effort to better manage the area's population growth. The plan would equate to hundreds of millions of dollars in new costs for local property developers with thousands of planned housing units in the pipeline. A 2022 report by the U.S. Census Bureau showed New Braunfels as the fifth fastest growing American city, increasing its population between 2020 and 2021 by 8.3%.

ARIZONA

TOP MARKETS:

TUCSON

4,141 STARTS (+8.6% Last 12 months)

2,678 NEW HOME SALES (-29.7% LAST 12 MONTHS)

3,149 SINGLE PERMITS (-22% YTD)

1,520 MULTI PERMITS (+128% YTD)

PHOENIX

29,000 STARTS (+20% YTD)

20,029 NEW HOME SALES (-22.7% LAST 12 MONTHS)

23,399 SINGLE PERMITS (-15% YTD)

13,816 MULTI PERMITS (+25% YTD)

NEVADA ECONOMY

- Tourism
- Gaming
- Mining
- Agriculture
- Manufacturing

Phoenix

Inventory jumped 136.7% compared to this time last year, per Phoenix Realtor's market activity report for the week ending September 24. New home sales have fallen every month since January. Resale supply is dramatically increasing, with supply levels now consistent with levels in late 2018-early 2019. Nearly 45% of resale listings now have price cuts according to Redfin. Pending sales are down 61% year-over-year. The median sales price still rose 10.6% year-over-year, but it's fallen in recent months. For example, in May, the median sales price was $510,000, and in August it was $475,000.

Phoenix has a diversified and growing workforce as job growth has been strong across all sectors, and there are more people employed now than before the pandemic.

Sublease space in Phoenix increased in Q3 as companies evaluate the effect of an in-office hybrid model and are putting redundant or underutilized space on the market. Newer, more luxurious office space is going quick as companies fight to lure employees back to the office.

A Texas-based firm is bringing the newest residential tower (24 stories) to Roosevelt Row. Designed to integrate arts and amenities for both residents and visitors, the new 452,464 square-foot project will comprise 326 studio and one-bedroom apartments. The project is expected to be completed by spring of 2023.

An exciting development in the Phoenix metro is set to open in late 2023. VAI Global Development is behind the $1 billion resort and lagoon entertainment complex. The 60-acre Glendale resort will include the soon-to-be largest hotel in Arizona with 1,200 rooms, a 360-degree concert stage, a dozen restaurants and a 6-acre lagoon. The resort aims to become the premier

A rendering shows an aerial view of what the overall VAI Resort will look like at full build out.
VAI GLOBAL DEVELOPMENT

international destination featuring day and nightlife entertainment. Next to it, the first ever Mattel Adventure Park is also being developed by Mattel Inc. and Epic Resort Destinations LLC.

Moderne Communities has begun construction on a 185 unit build-to-rent community at Roosevelt in Tolleson. The project is expected to begin leasing in early 2023.

Tucson

The Tucson market is not unlike any other in that they are going through a recalibration period due to macro-level economic concerns, affordability, and seasonality trends. New home sales have fallen nearly every month since March and resale transactions have stalled. Resale supply is steadily increasing but is still below pre-pandemic levels. A key focus for builders is selling existing inventory homes and keeping existing backlogs stable as they increase incentives. Resale supply is steadily increasing, with supply levels approaching late 2019 levels. Nearly 30% of resale listings now have price cuts, according to Redfin.

Tucson has a stable workforce, and affordability relative to Phoenix has people flocking to the area. There are more people employed now than before the pandemic started, and most sectors are experiencing growth.

Tucson has a median listing price of $336.3K, trending up 20.5% year-over-year. Since 2016, the typical home value in Tucson has appreciated by around 91%, according to Zillow Home Value Index. Tucson real estate appreciated 82.08% over the last ten years, which is an average annual home appreciation rate of 6.18%, putting Tucson in the top 10% nationally for real estate appreciation, according to NeighborhoodScout's data.

The second-largest private employer in the city is the University of Arizona. The college has around 45,000 students helping to keep the rental market hot. Rental rates are steadily increasing, and that would typically push more renters to make a purchase. However, the housing inventory of properties under $200,000, which is mostly what these renters looking to buy would be eyeing, is low relative to demand.

Moderne Communities recently closed on a purchase of 14-acres situated within the Gladden master planned community in Marana. The company plans to develop a build-to-rent community with construction target to begin on the gated community of 182 single-family homes for rent in 2023. The community will include a mix of one-,two-, and three-bedroom units ranging from approximately 839 to 1,565 square feet. Moderne also has construction underway on another build-to-rent community at Rocking K, and will include 224 single-story homes.

OKLAHOMA

TOP MARKETS:

OKLAHOMA CITY

5,061 SINGLE PERMITS
(-16% YTD)

787 MULTI PERMITS
(+85% YTD)

TULSA

3,140 SINGLE PERMITS
(-5% YTD)

1,165 MULTI PERMITS
(+146% YTD)

OKLAHOMA ECONOMY

- Energy
- Natural Resources
- Manufacturing
- Agriculture and Forestry
- Transportation and Logistics

Oklahoma has been promoting its lower overall cost of living to attract those looking to move out of higher cost areas, but transplants are shocked to find out how much their home insurance premiums are taking a bite out of their wallets. Oklahoma has the highest premiums in the country for homeowners' insurance. Based on reports from Bankrate.com and Insurance.com, the average price is around $3,500. For comparison, a homebuyer from California was paying $800 before he moved. Now he's paying $3,000 for his Oklahoma home. According to Glen Mulready, Oklahoma's Insurance commissioner, there are trade-offs for people moving from Florida or California. He states, "I think for someone moving from California or Florida, I have really good news for you, and that is you can buy a whole lot more house." Experts contribute the higher premiums to the frequency and severity of roof claims and other catastrophes.

Oklahoma City

Oklahoma City is among the top 10 markets where first-time buyers are battling investors for homes. Realtor.com reports that investors are buying about 11% of the homes listed for sale, and with limited inventory this is making it challenging for first-time buyers. This is a smart investor decision considering that the population of the city has grown about three times as fast as Oklahoma, and almost twice as fast as the U.S. overall. Over the past five years, home values in Oklahoma city have grown by about 53%, and housing prices are up 18.1% year-over-year.

The job market is still strong in Oklahoma City thanks to business-friendly government incentives to grow the job market. Likewise, the aviation and aerospace, bioscience, financial services and international trade sectors are helping to keep the economy diverse and the housing market robust over the long term. With 620 square miles, Oklahoma City is the second-largest city in the U.S. by area just behind Houston, so it has plenty of room for growth and development. The fact that the cost of living is still 14% below the national average is a huge plus for those looking to make a move with the current inflation levels. Another key factor that shouldn't be overlooked with rising electricity rates is that Oklahoma City has the 2nd lowest electric rates in the U.S.

The Crossroads Mall, which at one time was the single largest contributor to Oklahoma City sales tax for the entire town, was shuddered in 2017. It is set to reopen soon after receiving a major overhaul. The mall is planning to open a gym, restaurants, small businesses, a daycare center for families, and will work as one of the biggest convention centers in the state with 90,000 square feet on three different floors. So far over 25 businesses have been leased, and they are looking to fill 115 more spots throughout the mall. Nearby residents are hopeful that this revitalization will bring high wage jobs to the area.

Tulsa

Tulsa is ranked as one of the top 10 markets to buy a home by Money Crashers, based on key criteria such as median home price, appreciation, and average time on market. Amazon recently opened a fulfillment center in Tulsa with plans to build another soon. Tulsa also ranks among the top 100 best places to live. Tulsa World notes that the city is an affordable, under-the-radar city with a historic downtown and art scene that rivals cities twice its size.

Tulsa is putting their money where their mouth is, so to speak. An aesthetically pleasing and easy to navigate tulsaremote.com promises you'll love it when you get there, and they are eager to receive remote workers. So eager in fact, that they'll pay you $10,000 and give you desk space at Tulsa's top coworking community. If you're not really sure about Tulsa's claims that they can offer a much lower cost of living than your current address, they have made the comparison easy on their website where you can compare other top cities' costs of living and rent. Really though, kudos to whoever built this site!

Low rents, energy costs, and taxes help to make the cost of doing business in Tulsa 11% less than the U.S. average.

Over the last five years, home values in Tulsa have increased by more than 53%, with the last year seeing a 20% jump in value. Maple Ridge Historic District is the most expensive neighborhood in the area with a median listing price of $687,500.

"Today's new housing data matches what we know—in a market where home sales are slowing, we should expect housing starts to slow as well," says Ali Wolf, chief economist at Zonda. "Builders are increasingly aware that not every home is selling within a day (or even a month) anymore, and aligning starts to demand makes a lot of sense in today's uncertain market."

ARKANSAS

TOP MARKETS:

FAYETTEVILLE/SPRINGDALE/ROGERS

4,595 SINGLE PERMITS (+3% YTD)

1,481 MULTI PERMITS (+23% YTD)

LITTLE ROCK/NORTH LITTLE ROCK/CONWAY

1,544 SINGLE PERMITS (-17% YTD)

1,227 MULTI PERMITS (+45% YTD)

ARKANSAS ECONOMY

- Healthcare
- Agriculture
- Energy
- Forestry and Timber
- Freight and Transportation

"Once you've been on a rocket ship, everything else is going to feel slower," says Keith Hughes, Zonda director of business development.

The Arkansas real estate market is amongst the most affordable in the country. The state boasts an attractive low price-to-rent ratio making it actually cheaper to own than rent. Demand is strong and should remain that way, with an improving economy, promising job-growth opportunities, and relative affordability.

Little Rock

Prices were up in Little Rock 2.2% compared to September 2021, so price appreciation is definitely slowing down, and 253 less homes sold this September compared to last year. Between August and September listings increased by 75.6%, and homes spent 57 days on the market.

Currently the real estate market in Little Rock can be described as a soft buyer's market, which means that more homes are currently for sale than are being purchased.

The cost of living in Little Rock is 13% lower than the national average, and the average homeowner spends 6.3% of his income on his mortgage, compared to the national average of 14%.

The metro Little Rock commercial market continued its slow and steady march to COVID-19 pandemic recovery in the third quarter of 2022 with vacancy rates dropping across all commercial sectors. Perhaps the biggest news for new retail coming out of Q3 is the announcement that Top Golf is building its first Little Rock facility at Village at Broke Creek on Colonel Glenn Road adjacent to I-430.

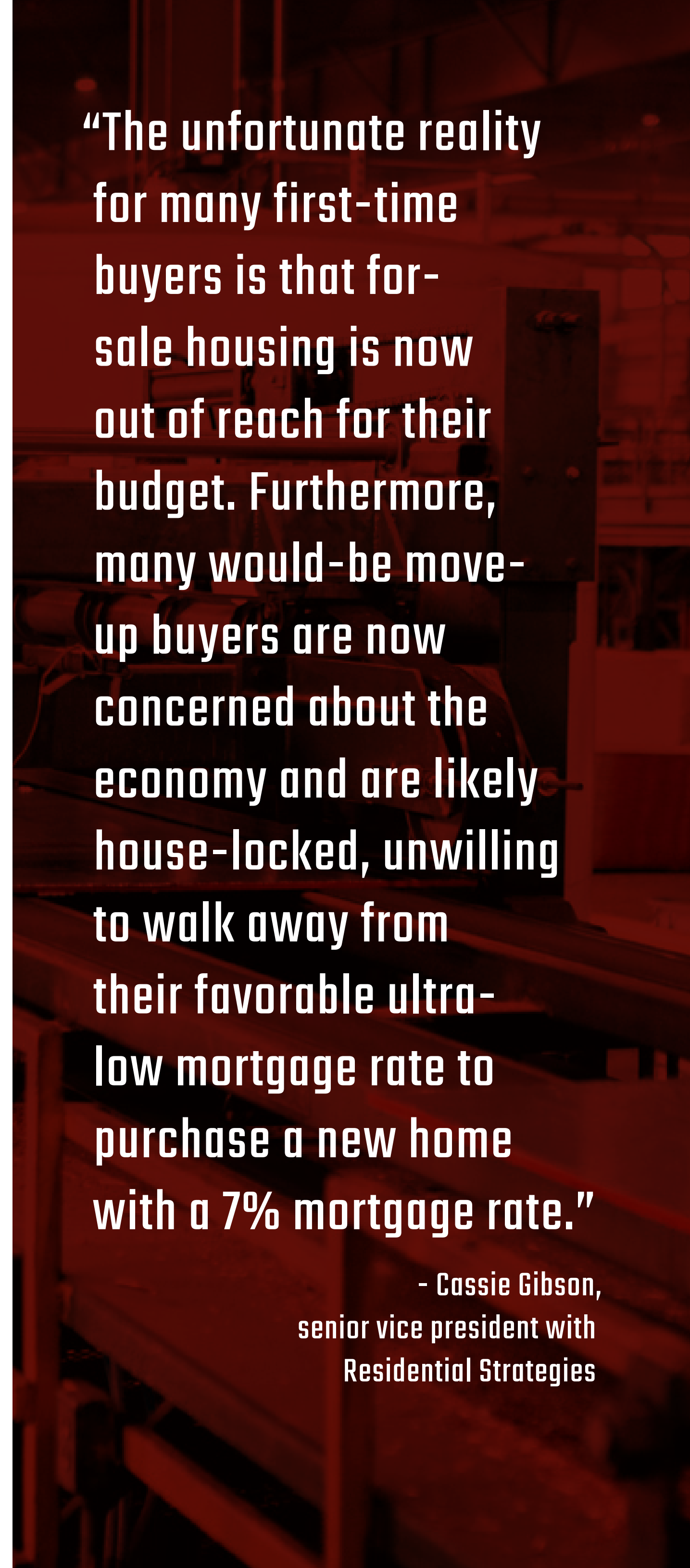
Fayetteville

The number of homes for sale in Fayatteville increased by 13% in September YOY, while the median sold price increased by 22.3% YOY. Fayetteville remains a sellers' market. Days on market is up 31%. In September the number of units sold decreased 20% YOY and decreased 16% MOM.

The multi-family vacancy rate is just over 2%, and as the increased cost of housing continues to rise, and we continue to have supply chain issues, the rental market will continue to remain squeezed as would-be buyers either can't afford to move right now, or there just simply isn't anywhere for them to buy.

Fayetteville is experiencing a large amount of growth due to Walmart corporate offices, and their plans to expand and bring in new employees, which will increase the demand for single-family homes. This city is a great place to buy a house for a rental since there is a high percentage of residents who prefer renting. Due to the relatively low cost in housing, Arkansas is a state where you can easily own more than one home, whether it be houses or commercial real estate.

Like Tulsa, Oklahoma, and other metro areas, Northwest Arkansas (NWA) is paying people to move there. It's already known as one of the best places to live in America, thanks to its low cost of living, outdoor activities, world-class arts institutions and a per-capita income that's higher than the national average. The Northwest Arkansas Council's Life Works Here initiative seeks to capture the interest of talent from all over the country. If you're a remote worker looking for a fresh start, NWA will pay you $10,000 to relocate there–and they'll throw a mountain bike into the deal for good measure. If you're interested in moving and want to take your job with you, Northwest Arkansas might be worth a look.



NEW MEXICO

TOP MARKETS:

ALBUQUERQUE

1,665 SINGLE PERMITS (-19% YTD)

986 MULTI PERMITS (-16% YTD)

NEW MEXICO ECONOMY

- Aerospace and Defense
- Energy
- Accommodation and Food Services
- Distribution, Logistics, and Transportation
- Public Administration and Federal Government

Overall in New Mexico, home prices were up 5.7% compared to last year with a median price of $511,700. On average, the number of homes sold was down 25.3% year over year, and the median days on the market inched up by an additional two year-over-year. Available homes for sale are down 9.36% year over year, and the average months of supply remains unchanged at three months.

Burrell Aviation has announced plans to build a $72 million cargo aviation facility at the Dona Ana County Jetport. The project is expected to create up to 1,300 jobs and will expand cargo and distribution services, including facilities for air cargo handling, cold storage, distribution and aircraft maintenance.

Albuquerque

The latest figures for the Albuquerque market show inventory climbed for the sixth straight month, reaching just over 1,400 homes in September. That's more than 2.5 times what it was in March of this year and the highest it's been since October of 2020. The 22% year-over-year increase reflected in the data in the Greater Albuquerque Association of Realtors report for September is a good sign that the local market is continuing to normalize. Homes are also staying on the market for 19 days, which is an increase of about 46% compared to September 2021. Home prices continue to show year-over-year increases, with the latest figures indicating a 15.25% increase compared to the previous year.

Although inventory is climbing, affordability remains an issue. The city is on a mission to provide cost-effective housing for its citizens with its Housing Forward ABQ plan. The plan calls for 5,000 units to be created by 2025. Overall, there is a need for between 13,000 and 30,000 housing units, according to Albuquerque Mayor Tim Keller. The plan has the potential to bring more developers into projects, and it calls for the conversion of existing hotel and motel properties into permanent housing units. Zoning codes remain an issue for builders, and Keller is proposing a rebalance of the zoning codes to "accurately reflect the needs of housing in our city." Efforts will also go toward training at least 250 people to become qualified construction workers through the Job Training Albuquerque program as well as state workforce development programs.

The Albuquerque Rail Yards will soon house the Next Generation Media Academy's flagship campus. Once built, the academy plans to admit 1,000 students per year. The plan calls for $20 million to go towards renovations, and another $10 million would come from the state's general fund and be used to pay faculty and staff for the first year. Productions that film outside of Albuquerque/Sante Fe area receive a 5% tax credit. As a result of that legislation, direct spending in rural communities reportedly increased from $6.5 million in 2021 to nearly $50 million in the 2022 fiscal year.

NEVADA

TOP MARKETS:

RENO

2,687 STARTS
(+21.4% YTD)

1,600 NEW HOME SALES
(-45.2% LAST 12 MONTHS)

1,853 SINGLE PERMITS
(-13% YTD)

3,099 MULTI PERMITS
(+68% YTD)

LAS VEGAS/HENDERSON/PARADISE

13,560 STARTS
(+24.8% YTD)

10,756 NEW HOME SALES
(-21.1% LAST 12 MONTHS)

7,932 SINGLE PERMITS
(-13% YTD)

3,103 MULTI PERMITS
(+2% YTD)

NEVADA ECONOMY

- Tourism
- Gaming
- Mining
- Agriculture
- Manufacturing

Las Vegas

Las Vegas has not been immune from the rapidly slowing housing market, as buyers are being forced to the sidelines. Even buyers who signed contracts are backing out in large numbers. The metro area was second in the nation with a cancellation rate of 27.4%. Inventory is growing, and sales are sliding. Some builders have even started to lay off their workforce.

Visitors are back! The Las Vegas Convention and Visitors Authority showed visitor spending has just about recovered with $36.1 billion spent in 2021. This is just short of 2019 levels. Visitations were down 24.2% from 2019, but convention attendance is improving.

The metro area boasts strong population and household growth, reflecting a strong economy. The high-speed rail project and continued commercial developments are expected to push the population past 3 million by 2040.

No more lush and green lawns for residents, as the city has now banned aesthetic lawns. The decision was made as Lake Mead has reached record lows as the 22-year megadrought continues.

As housing costs rise, Las Vegas renters have seen average rents jump 11.33% YOY at the end of July.

Between December 31, 2020, and July 31, 2022, the median home value of Clark County, Nevada, where Las Vegas is located, increased 44.6% from $313,778 to $453,764, according to Zillow Group Inc. data. Heading into (and during the first year of) the pandemic, Clark County saw the largest out-of-state relocations from a single county–Los Angeles County, Ca–than any other in the U.S. The median price of a single-family home reached $525,00 in May in Las Vegas before falling to $499,990 last month, according to Las Vegas Realtors. According to its latest reading, Moody's calculates that the vast majority of U.S. regional housing markets are "overvalued." Las Vegas is among the top at an overvalue of 60%.

Reno

Home sales are continuing to contract due to declining affordability. Estimates show a 40.4% discrepancy between the current prices and supported by income. Reno is at the top of the nation in price reductions with 32.6% of listings cutting prices. Builders are working quickly to slow or halt new projects. Annual starts have dropped to levels seen at the start of the pandemic.

Potential sales of federal land around Reno-Sparks could help improve the housing supply and ease the housing crisis. Federal agencies own 83% of land in Washoe County, and a public lands legislation that's in the woods could lead to sales of parcels east of Sparks.

Job growth remains strong, but major tech companies have made the news with layoffs and Reno firms have not been immune. Socure announced a 13% cut of its workforce.

UTAH

TOP MARKETS:

ODGEN/CLEARFIELD

3,469 STARTS
(+9.2% YTD)

1,607 NEW HOME SALES
(-24.9% LAST 12 MONTHS)

2,652 SINGLE PERMITS
(+9% YTD)

1,727 MULTI PERMITS
(-14% YTD)

PROVO/OREM

8,253 STARTS
(+17.2% YTD)

5,238 NEW HOME SALES
(-6.6% LAST 12 MONTHS)

4,700 SINGLE PERMITS
(-21% YTD)

2,277 MULTI PERMITS
(-28% YTD)

SALT LAKE CITY

6,053 STARTS
(+32.6% YTD)

2,905 NEW HOME SALES
(-26.3% LAST 12 MONTHS)

3,213 SINGLE PERMITS
(-26% YTD)

4,877 MULTI PERMITS
(+7% YTD)

UTAH ECONOMY

- Aerospace
- Advanced Composites
- Tech
- Distribution

Salt Lake City

As homebuilders anticipate a slowdown, they have pulled back on new construction as total inventory rose to one of the highest levels in recent years.

Salt Lake City had one of the highest year-over-year price growth in the nation with sellers recently continuing to remain in the driver's seat and housing supply near record lows. However, the market is slowly shifting away from sellers as prices face increased headwinds. The share of listings that cut their prices more than doubled from a year ago to 56.4%, the third highest in the nation behind Boise and Denver. New home prices are also under duress. Homes that a year ago would've sold over asking price are starting to backtrack as builders began to increase incentives. Some are even offering discounts proactively to under contract listings to prevent cancellations.

The downtown area has been thriving, in part due to new residential housing. SLC has seen visitors soar to 155% of their levels before the pandemic.

Local residents are fed up with being trapped behind a train crossing, and they are demanding authorities do something about it. The residential areas of Salt Lake city's westside experience long commuter delays, halted access between the west and east sides, and emergency access is impeded. Sometimes people are forced to walk in-between stopped trains. The City Council is taking steps to address the issue by approving $6 million for quiet crossings. They are also looking into technologies that provide advance notice to commuters about an upcoming blocked train crossing. Relief can't come soon enough for residents.

Perhaps some of the new tax money coming in can help alleviate the railroad problem. In August, The South Salt Lake City Council voted for their first property tax rate increase in 16 years, by more than doubling the rate! The increase goes into effect this year, and will add $26 million in revenue to this year's general fund.

Provo-Orem

After experiencing some of the fastest home price growth in the nation, Provo's housing market may be vulnerable to a correction. During the past two years, the median existing home price increased by 67%. According to Redfin, markets with the most price cuts are the ones with the strongest price appreciation. Provo is one of the leaders in price cuts with 47.8% of sellers slashing prices, while the market average is 25.7% of sellers cutting their sales price. Despite all of the price cuts, Provo's pricing is still up by double-digit percentages YOY. Inventory of existing homes is on the rise after years of contraction. The supply of new homes has been trending higher as well and will continue given the high level of starts activity. According to the U.S. Census, Provo had the second highest level of construction activity in the nation with 20,349 houses built since 2014, accounting for 10.5% of total housing units. Bet you can't guess which metro had a higher rate? Right! It's no surprise that Austin tops the list with a rate of 11.7% of total residential construction.

It should come as no surprise then that with new home sales shrinking, builders won't be able to turn off the supply quickly enough given the current number of homes under construction.

Among smaller metropolitan areas, Provo was ranked No. 2 by the Wall Street Journal for the hottest job market. Among the factors contributing to this ranking is Provo's strong entrepreneurial spirit, growth of the tech industry, and educational instructions.

Ogden-Clearfield

Home sales have contracted during the past year as the lack of supply became a bottleneck, but affordability has become a much bigger issue and more buyers are being squeezed out of the market. Builders are facing challenging conditions as cancellations climb resulting in a jump in average quick move-in per project. Despite increasing housing inventory, the area continues to experience a shortfall in housing supply and is estimated to be underbuilt by 1.7% at the end of the year.

The metro area is seeing accelerated growth in tech jobs due to an exodus of Silicon Valley. It has one of the fastest growing high-tech sectors in the country. In the last 5 years, employment in high-tech industries climbed by 28%. The growth has been led by surging employment in the electronic instrument manufacturing industry.

The Ogden-Clearfield metro area is seeing a rapid rise in new permits for apartment building construction. In 2021, a total of 7,482 new housing unit permits were issued, 41.8% of which were for units in buildings with five units or more. This is welcomed news since the metro area population has climbed by 8.6% from 2016-2021.

Construction is underway in Clearfield on a new community center that encourages more people to get around without driving. The 65-acre site next to the Clearfield Frontrunner train station is a mixed-use development with 1,000 units of housing, retail and office space, plus parks and entertainment.

"What we've seen in Salt Lake City and Ogden and Provo is that if we can give people the option to live close to the park and to stores and to jobs, they're much more likely to walk or to bike," said Andrew Gruber, executive director of the Wasatch Front Regional Council. "It's good for our air quality and it's good for public health."

CALIFORNIA

TOP MARKETS:

SACRAMENTO/ROSEVILLE/FOLSOM

8,674 STARTS
(+33.5% YTD)

6,356 NEW HOME SALES
(-24.5% LAST 12 MONTHS)

6,646 SINGLE PERMITS
(-6% YTD)

2,224 MULTI PERMITS
(+8% YTD)

SAN DIEGO/CHULA VISTA/CARLSBAD

2,849 STARTS
(-7.9% YTD)

3,121 NEW HOME SALES
(-10.9% LAST 12 MONTHS)

2,883 SINGLE PERMITS
(+19% YTD)

5,008 MULTI PERMITS
(+10% YTD)

SAN FRANCISCO/OAKLAND/BERKELY

4,273 STARTS
(+11% YTD)

3,416 NEW HOME SALES
(-33.2% LAST 12 MONTHS)

2,845 SINGLE PERMITS
(-17% YTD)

5,508 MULTI PERMITS
(-23% YTD)

LOS ANGELES/LONG BEACH/ANAHEIM

6,824 STARTS
(+7% YTD)

5,611 NEW HOME SALES
(-27.3% LAST 12 MONTHS)

8,639 SINGLE PERMITS
(+4% YTD)

16,008 MULTI PERMITS
(+3% YTD)

CALIFORNIA ECONOMY

- Tourism
- Tech
- Agriculture
- Entertainment
- Maritime
- Military

Home sales have fallen for 15 straight months year over year, and September was the second time in the last three months that sales fell more than 30% from the previous year, according to C.A.R. Sales in all price ranges fell by 25% or more year over year, with the sub-$300,000 price category decreasing the highest (36.7%). Million-dollar house sales fell by double digits for the fourth month in a row.

Home prices increased on a year-over-year basis, but the rate of rising has slowed considerably compared to earlier this year. Home prices gained 1.6% YOY in September, which is much lower than the 6-month average growth rate of 6.7% recorded between March and August of this year.

California remains the most valuable in the country, with a total value of $9.24 trillion as of last December, accounting for 21.3% of the national total. However, the overall value growth is underperforming by about -5.5% relative to its total weight, particularly given the immense growth seen in other states.

California saw as many companies move their headquarters out of the Golden State in 2021 as in the two previous years combined, with the Bay Area bearing the brunt of the exodus. One-hundred and fifty-three companies left the state in 2021. Los Angeles led the list with 80 moving their headquarters, and San Francisco was second with 52. The majority of the companies left for Texas, looking to capitalize on lower taxes and lower cost of living and doing business. Despite this, the Bay Area is expected to post the nation's strongest economic growth at 4.8% for 2022, according to research from the Kenan Institute of Private Enterprise at the University of North Carolina.

Los Angeles

Orange County has the lowest unemployment rate among all So. Cal counties (LA has the highest). Many markets nationwide have record high backlogs of new homes under construction, but that is not the case in LA-OC. Overall Orange County is performing well, but LA is among those experiencing more significant softening and correction.

For builders, LA-Oc is the most significantly undersupplied market in the US for vacant developed lots, but more are on the way. The majority (62%) of lots that are currently being developed are expected to be delivered in Q3/Q4 2022. They might be too little too late though if the cost of housing continues to rise.

Los Angeles falls in the top 10 most expensive places to live with a cost of living at 51.9% above the U.S. average. The leading reason is housing-related expenses, including rents and mortgages, followed by transportation costs.

According to The Business Journals, Los Angeles ranks number 12 among the top 30 metro areas cooling off the fastest. The typical home value in September was $908,160, representing just a 1.1% increase in the last 6 months, and a one year value change of 8.5%.

San Francisco

Nationally, San Francisco has experienced one of the sharpest slowdowns in housing. Unease in the tech industry, higher mortgage rates, and concerns about crime in the city have combined to cool both sales and prices. Annual starts and closings continued to move in-line with each other through Q2, on a downward trend, and closings remain higher than starts.

Third-quarter median home sales prices have retreated dramatically from the spring peaks. The median sales price for a home in the city fell from $2 million in the second quarter to $1.65 million in the third quarter, a huge 17.5% decline, and a 9% year-over-year decline, according to data from Compass. Statewide, California's median single-family home price also fell to $821,680 in September, off 2.1% in the month and down 8.7% from the $900,000 high set in May.

On the employment front, San Francisco has fully recovered from its loss of high income jobs, and unemployment is comparable to pre-pandemic. Finance, law, insurance, and accounting firms are capitalizing on favorable commercial real estate left behind by big tech. YOY job growth rate continues to outpace the U.S., and nearly every job sector continues to see growth. New home inventory in SF continues to decrease, in contrast to many markets across the U.S. that have seen inventory continue to rise.

Another California city to top the most expensive places to live is San Francisco at 84.2% above the U.S. average. Houses are famously expensive, and the median home value is the highest among the eleven most expensive cities in the U.S., while the average rent is four times greater than the national average.

San Diego

With the rise in housing costs, more residents are looking to rent, and demand for apartments has been robust. Among major metropolitan areas, San Diego has the fourth-highest percentage of mortgage-burdened households. Approximately 38.5% of households spend more than 30% of their income on housing. Although mortgages are high in San Diego, in comparison to the rest of the nation, rents are high also. In fact, the area has the second highest median rent for a single-family home at $4,617 according to House Canary. When weighing options, despite the rising rates it may still make sense for potential buyers to secure a mortgage rather than pay exorbitant rent.

Despite the more tumultuous market conditions, San Diego continues to outperform other neighboring metros with new and existing homes selling faster than Los Angeles or the Inland Empire with the lowest relative supply of new homes and existing homes selling in a week. One reason is that there is a low level of total new home inventory. New home starts only began to increase at the start of the year, despite the shortage of and declining home starts throughout the pandemic.

Sacramento

While overall supply remains low historically, market dynamics are shifting away from sellers as we see inventory of existing homes jumping sharply. Sellers are realizing that they need to adjust their expectations and reduce prices to accomplish their objective in this market. Builders are reporting more cancellations recently, and are offering incentives to lure other buyers.

Sacramento isn't immune to the worsening homelessness issue plaguing the state. The City Council has laid the path for the construction of 820 new units of affordable housing. This $35 million approval will shift the focus away from the temporary shelter plan that the city approved more than a year ago, in favor of a new focus on permanent housing. There are more than 9,000 people throughout Sacramento County experiencing homeslessness on a given night, according to the 2022 Point-In-Time Count, and there are 2,614 shelter beds.

The local biotech sector is often overshadowed by the neighboring Bay Area, but they made progress recently when CPC Scientific selected Rocklin as the site for its expansion plans. The 41,000 SF facility will manufacture peptides and hire 50 workers.

Beazer Homes USA recently scooped up 40 acres in Elk Grove (south of Sacramento), which will equate to 192 single-family homes in an area known as Poppy Meadows. The city has less than a thousand lots combined available to build on, so it appears Beazer is looking to capitalize on that once the lot supply continues to dwindle.

LETTER FROM LORI

Looking back – it has been a wild ride. We have experienced markets we could only dream of, and yet they were very real.

Looking ahead, it will be a different dynamic, yet familiar – while plywood is not as tied to the housing market as OSB, we will feel the effects from the slowdown in housing. Plywood will go back to what we call a "more normal market." Industrial panel products will continue to be a strong focus for MARTCO L.L.C., as we continue to concentrate on a high-quality diverse product mix, working smart and safe, valuing partnerships, employees, and our resources. With our vast product mix, MARTCO L.L.C. prides itself on being nimble and catering to each clients' needs as they arise. This next year will not be without its challenges; but because of our commitment to our customers, our community, as well as our employees and their families, we will operate our facilities at full production keeping our employees working and our customers' needs met with a strong commitment to our values.

-Lori Byrd
Director of Plywood and Solid Wood Sales

LETTER FROM PAUL

As I gathered my thoughts regarding what I would include in this message, there were several things that came to my mind. I am reflecting on yet another year of unprecedented change, and an ever-evolving building materials market. Many things in our world today look, feel, and operate quite differently from the way that many of us were accustomed to a few short years ago. When you couple these factors with the market conditions we have experienced over the past year, it can create quite a bit of anxiety for many of us.

We are firmly into Q4 now, and it is "contract season" for the RoyOMartin OSB sales team. We are focused on how we plan to navigate the OSB panel world in the upcoming year. I'd like to share just a few factors that are top of mind for myself and the sales team as we craft our sales strategy for the next 12 months:

- Home affordability and downward pressure on single-family home starts
- Mortgage rates and the impact on the available home buyer pool
- A dynamic shift toward multi-family dwelling construction
- Manufactured Home construction
- New product additions to the RoyOMartin portfolio
- Startup of our new OSB facility with Corrigan II

These are just a few current examples that speak to that ever-evolving world I mentioned earlier. There are many factors for all of us to consider as we do our best to build plans given the information at hand today. I cannot eliminate the uncertainty and anxiety of today's market. I can, however, without a doubt, give this commitment...RoyOMartin manufacturing facilities will continue to operate at full capacity, regardless of market conditions, and we will operate with the safety and wellbeing of our team members at top of mind. We will remain easily accessible to our customers and continue to grow our OSB production and market reach, despite the market projections. RoyOMartin values you as our business partner and will continue our commitment to excellence as we strive to be your preferred supplier.

-Paul Pfingsten
OSB Sales Manager

THE BOARD BRIEF IS BROUGHT TO OUR CUSTOMERS BY THE ROYOMARTIN SALES TEAM

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SOURCES

HOME SALES AND STARTS: U.S. Census Bureau, National Association of Homebuilders, National Association of Realtors, Zonda, S&P Core-Logic Case Schiller National Home Price Index, Norada Real Estate Investments, Freddie Mac House Price Index, Kiplinger

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