

*Since 1923*

Roy O'Martin®

BOARD BRIEF

2020 Q3



Home building is a local industry, but with benefits and setbacks stemming from outside variables across different parts of the country. The RoyO Martin 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 INCLUDE:

- Total housing starts +4.7% higher YOY, single-family starts up +63%
- New home pending sales up +33% YOY
- Still no evidence of a housing market bubble in lead markets
- Under-supply in housing market speculated to continue for 5 years
- U.S. Employers add 638,000 jobs in October, beating forecast of 530,000.
- Amazon holds up the workforce in many markets
- Homeowners leaving metropolitan areas for middle-America. Kansas City, MO; Columbus, OH; Fort Collins, CO; and Clarksville, TN all hot markets seeing 47% increase.
- Denver, CO and New York, NY saw largest population exodus and housing declines.
- Zonda Housing Market Research Group projects single-family housing starts to rise 13% in 2021
- Lot prices rise as cities run out of land

## TOP MARKETS IN OUR REGION:

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*Top areas as rated by the Home Building Outlook by MetroStudy for overall market health*

1. Phoenix, AZ (#1 in nation)
2. Austin, TX (#2 in nation)
3. Dallas/Ft. Worth (#3 in nation)
4. Houston (#15 in nation)
5. San Antonio (#22 in nation)



## LOW SUPPLY, HIGH DEMAND DRIVE PRICING

While we were hoping to have secured the presidential election at time of print for 2020 Q3 Board Brief, we are instead looking at a contested election with sitting President Trump claiming voter fraud as the AP declared Joe Biden President-Elect. So, we will have to wait until the meeting of the electoral college on December 14 to have a definitive outcome. 2020 is staying on brand, continuing to wreak havoc and turmoil into its final quarter.

The stock market rallied week of election as it appeared that no matter the outcome for the Presidential election, we would have a divided government (the stock market loves a balance in power). Elections in Senate and House at time of print are still undecided, but Republicans are looking to maintain slight majority of the Senate while Democrats maintain control of the House. All eyes are on Georgia Senate races at the moment, and anything can happen.

Housing continues to be a bright spot in 2020. High demand and low inventory have sent lumber and building material prices on a steep upwards projectory. Since April, lumber prices have climbed 160%, and the answer as to “why?” is that there is simply not enough domestic production. Some speculate COVID, transportation issues, and even lack of timber supply, but the truth is there is simply not enough supply on the market today to meet a ten-year pent up demand. Manufacturing shut downs during COVID are slow to get back online, and there is not enough domestic production to fuel the housing market. We can assure you that RoyOMartin is and has been operating at maximum capacity, to the extent we have been able with the five hurricanes that have come our way. That doesn't change the fact that we can only produce at the output capacity levels our manufacturing plants will allow.

Historically, lumber and building material prices drop 30% in the November of a Presidential election. 2020 did not cooperate with history, as lumber and panel pricing hovered around their current ceilings.

Record high product prices are holding steady for several reasons, as far as we can see:

1. Shuttered manufacturing plants, slow to get back online
2. Increasing demand due to stay-at-home orders
3. Historically low interest rates
4. Pent-up demand: we have been waiting for this market for TEN years, and it came at us all at once in 6 months. Manufacturing-wise, our country was not prepared.
5. Low supply

Experts see the supply scarcity country-wide. “We just don't have enough wood,” said Laura Gonzales, Associate Professor of Finance at California State University in Long Beach. “It's not that the industry is changing, it's just that we have had a shift both in supply and demand.”

For years we have been talking about millennials living in their parents' basements. Guess what? They all got out, and they don't want an apartment where they can get COVID on the elevator. The National Association of Realtors sees this phenomenon as well, that this market has been a long time coming:

“Home builders have been producing below historical average for 10 straight years and the cumulative effect of underproduction is we don't have sufficient inventory and that is the reason why home prices are rising. We need to build more homes to get into balance.”

—Dr. Lawrence Yun, chief economist of National Association of Realtors

Pair a hot housing market with low interest rates and the price of building materials soars. Home prices post another 15% gain YOY, with Americans gaining \$2 trillion in home value. It has never been more lucrative than it is now to be a homeowner, and mortgage rates have builders rushing to build more to feed the increasing demand. Volatility with the presidential election pushed mortgage rates to a new record low, the 12th record low for this year and a full percentage point lower than they were this time last year. 30 year fixed mortgage rate fell to 2.78% November 5, amidst the election turmoil, making homeowners, buyers, and builders the real election winners.

Good news: homes sales are an indicator of economic health, and the US housing market is experiencing a much stronger comeback than expected. We are still finding our footing in response to COVID 19 in the housing market, but based on current economic data we can predict that inventory will continue to remain low, mortgage rates should stay low, and buyers will continue seeking affordability and more space, driving populations to suburbs. These factors alone will contribute to lumber and panel prices remaining high, hovering around a ceiling for next year or so, at a minimum. The supply-demand ratio is expected to correct itself in two years, but home prices and lumber prices are expected to hold firm.

All this to say, if you are waiting for a “burst” for lumber prices to plummet, you may be waiting a while.

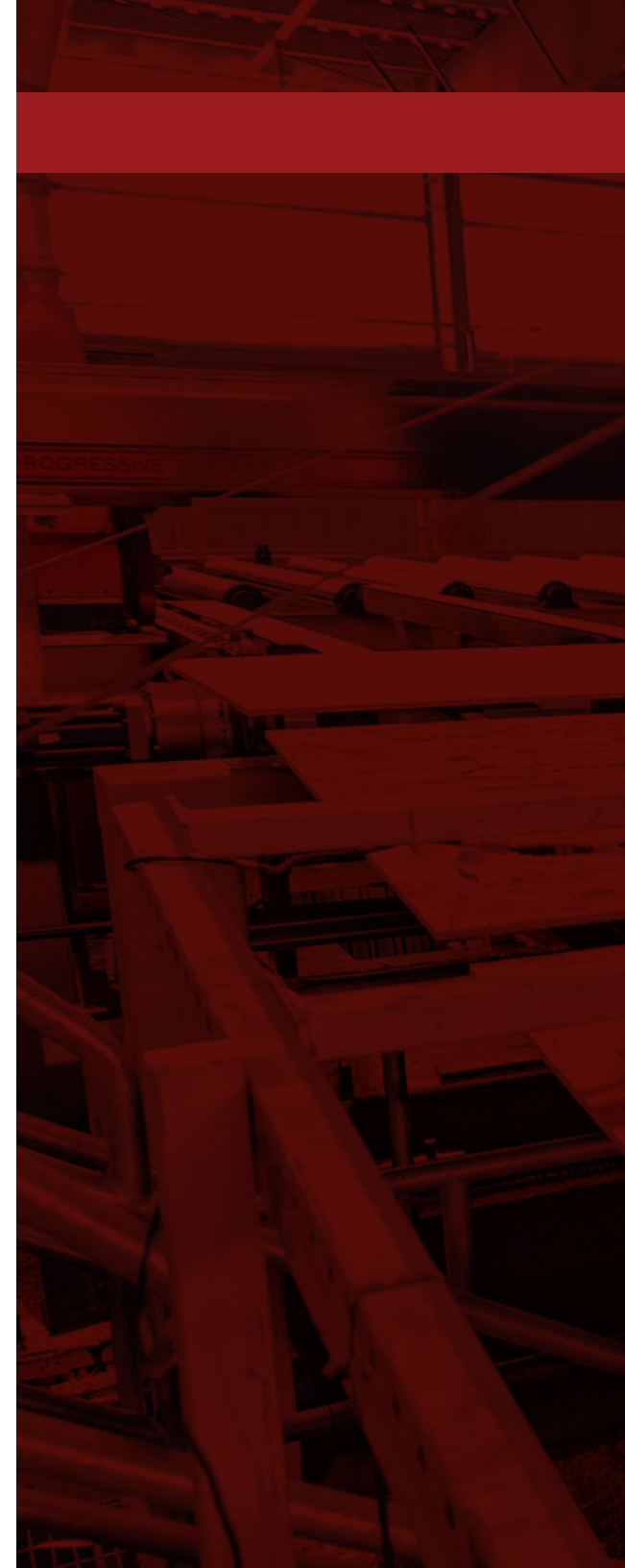
— Amanda M. Vincent

## PLYWOOD UPDATE

The plywood market saw unprecedented prices in second and third quarter in reaction to the demand from the big box stores. Repair and remodel jobs drove DIYers to large home improvement stores, and stockpiles were not sufficient for the demand. Q3 saw sheathing prices drop 200.00 to 500.00/m, while OSB prices have held strong. The pricing discrepancy going into Q4 left an open door for plywood to displace some of OSB's business in structural applications, upholstered furniture, crating and packaging.

Furniture and shed markets are still strong with order files into mid spring. Treaters are steady, staying in the market. Distributors are cautious going into year end, watching inventory levels and pricing. Sanded prices will begin to come off as we approach the holidays and 2021, imports are once again affecting the pine markets. All eyes look to 2021 to be a good year, not to see the prices we experienced this year, but to be a good year of demand at prices trading within a narrow, consistent range and less volatility.

– Lori Byrd



# OSB PRICING YOY

NOVEMBER 2019

\$204

NOVEMBER 2020

\$675

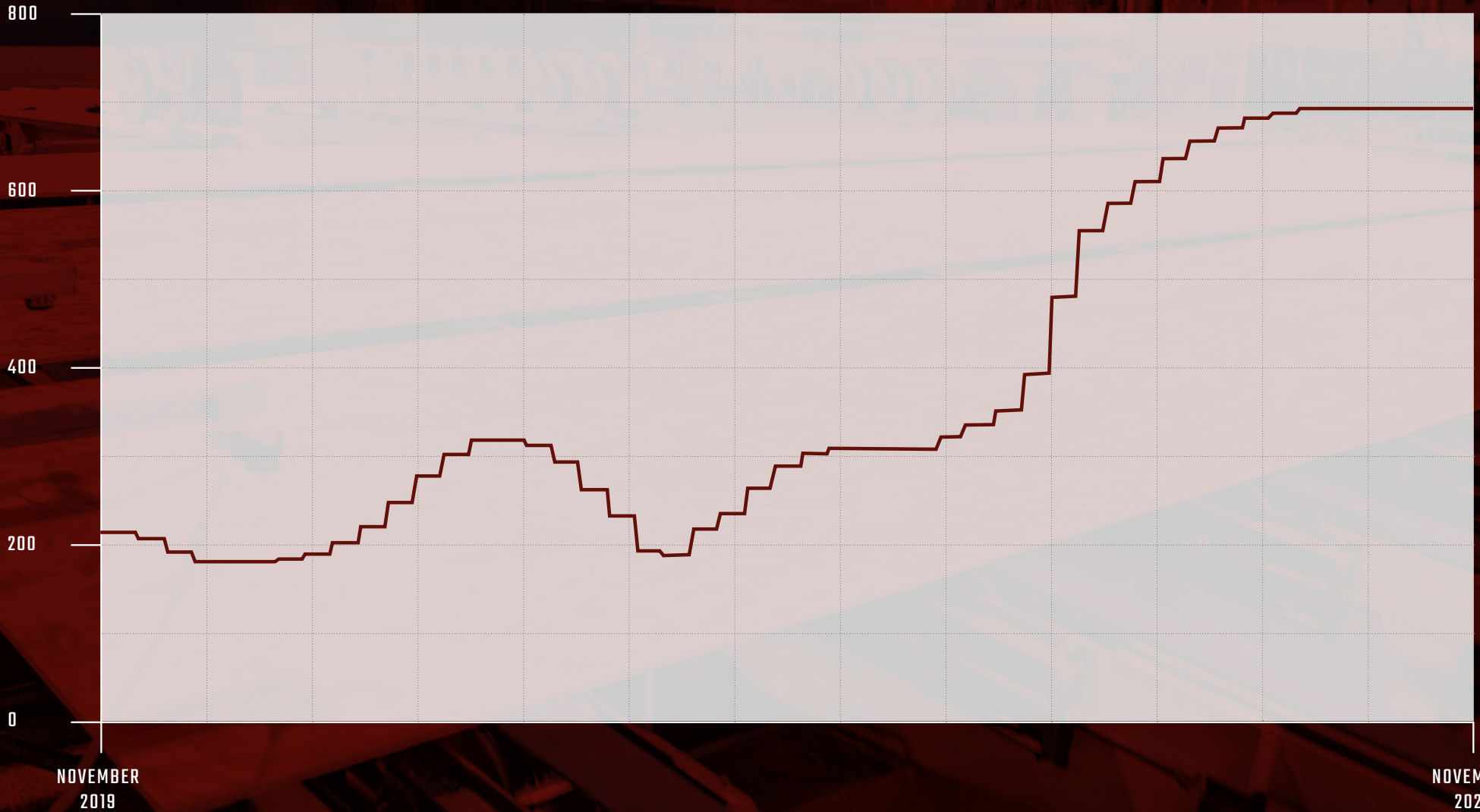
OSB SHEATHING (SOUTHWEST) 7/16" PRICES NET F.O.B. MILL  
US Southwest RL End-week

\$675

**UP \$475**

(+330% YOY)

\*OSB pricing on 7/16 OSB in southwest region from  
November 2019 - November 2020. Chart from Random  
Lengths, FastMarkets RISI



NOVEMBER  
2020





# LOUISIANA

## TOP MARKETS:

### BATON ROUGE

**2,924** NEW HOME SALES (up +2% YOY)      **3,497** PERMITS (down -8% YOY)

### LAFAYETTE

**1,303** NEW HOME SALES (up +2% YOY)      **2,012** PERMITS (up +23% YOY)

### LOUISIANA ECONOMY

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

Louisiana saw 5 hurricanes in Q3 and we can say definitively that the state is officially DONE with 2020. Hard-hit areas such as Lake Charles and central Louisiana still struggle with repairs and power outages. Hurricane Laura managed to knock out all three of RoyOMartin’s manufacturing plants which we were quickly able to get back on line. Laura also took out a good amount of southern yellow pine timber. Hurricane Delta caused temporary closures and halt in production. We have narrowly dodged Eta but there are rumblings and brewings in the Caribbean again, so we shall see.

September set an all-time record for home sales in Baton Rouge. 2019 was record year for Livingston Parish home sales (2,005 homes sold), and 2020 already outpaces 2019 by 200 in with 253 single family sold in Livingston Parish in September alone, +70 YOY.

Permits in multifamily are down -80% YOY as Baton Rouge continues to be over-supplied, with high-end developments near LSU exacerbating the issue. In order to absorb the excess, Baton Rouge would need 70,000 new residents. Still, multifamily builders continue press on with new projects, including new apartment complexes downtown, Rouzan (a new TND), and the Baton Rouge General Medical Center area. Multifamily could be seeing skewed numbers even now as Baton Rouge hosts several Lake Charles evacuees, meaning, the grim multifamily numbers we see this past quarter could grow even more dismal.

The new Rouzan development in Baton Rouge is hitting pre-COVID numbers in single family home sales. Commercial property in Rouzan continues to lag as it does in other parts of the country. Other high-end single family projects in Baton Rouge such as Willow Grove and Valhalla are doing remarkably well as home buyers are looking for new homes with more features, such as a home office and home gym.

The virus is back in Louisiana with new spikes, including an outbreak on the LSU Tiger football team, with the LSU-Alabama game being postponed as a result. The economic impact of COVID football cancellations/modifications in Baton Rouge is expected to be severe. Each game normally brings in 100,000 people to Death Valley. The banner year of 2019 brought in \$92 million in revenue to the area. Nearby restaurants, bars, and hotels profit substantially from the football fans. Head Coach O

and other football coaches are taking voluntary salary reductions during the pandemic. The full economic impact of COVID on football in the Baton Rouge area, and college towns around the country, will not be known until next quarter.

Lafayette demographic trended downwards at -0.14% YOY with population growth -625% lower than the five year average. Total permits are up 23% YOY at 2,012. Homebuilding trending up paired with population trending down equals a very saturated market. Good news: Lafayette is affordable with median new home price at \$244,000.

New Orleans was hit hard by the virus and seems a ghost town compared to Pre-COVID times. Tourism has come to a halt with music, entertainment, and indoor dining banned. Mardi Gras 2021 has officially been cancelled, bringing up further concerns of the continued economic impact COVID will have on this city. The housing market in New Orleans still trends towards not-competitive, with homes selling 3% below listing price.

The Louisiana economy at-large is still reeling from COVID, with oil and gas projects shrinking or being tabled for later dates. The local chambers estimate that only \$82 billion of \$125 billion in energy manufacturing will come to fruition. Large scale LNG projects scheduled for Gulf Coast are also in jeopardy until 2025, experts say.

Local politicians weigh in on increasing lumber prices, including our friend Congressman Garret Graves:

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“The coronavirus has impacted every industry across the board and home building is no exception. Early in the pandemic, many lumber mills shut their doors or had slowed production which is why they are still playing catch up from the closures. As businesses began reopening these mills have slowly, but fortunately, ramped back up their operations. With low interest rates and the economy reopening, we have seen an increase in home renovations and new home construction - including right here at home in Louisiana. There are probably a lot of previously-quarantined DIYers that had to call in the professionals to fix their attempts at remodeling as well. This increase in activity is a positive sign for our economic recovery, but the supply and demand imbalance in lumber is causing significant price increases in building supplies. Just this year, some lumber prices have doubled or more. We have been in touch with the United States Trade Representative and the U.S. Department of Commerce regarding mitigating measures that can be taken to address the lumber imbalance and corresponding price spikes. In the coming months, experts anticipate this supply and demand conundrum will level out and will pay off for our communities. It proves too there is a strong desire for people to keep building families in Louisiana so long as we keep making the right investments that move our state forward - and I will keep working with home builder groups to mitigate the strains on their industry.”

—Congressman Graves





# TEXAS

## TOP MARKETS:

### AUSTIN

**16,700** NEW HOME SALES (up +1% YOY)      **36,127** PERMITS (up +20% YOY)

### DALLAS

**30,920** NEW HOME SALES (up +1% YOY)      **59,339** PERMITS (up +1% YOY)

### HOUSTON

**34,873** NEW HOME SALES (up +1% YOY)      **61,091** PERMITS (up +1% YOY)

**34,557** STARTS

### SAN ANTONIO

**8,436** NEW HOME SALES (up +1% YOY)      **16,128** PERMITS (up +10% YOY)

### TEXAS ECONOMY

- Finance
- Tech
- Healthcare
- Distribution
- Oil and Gas
- Manufacturing
- Agriculture



Texas dominated the news cycle during election coverage for a short while as pundits speculated whether or not the state could go blue. The sentiment was not without merit as Texas has seen vast in-migration from high-rent/high-tax blue states such as California. The tech industry is thriving under business-friendly government leadership in Texas; we hear word of more companies moving headquarters to the state on a regular basis. Time will tell if the migrants change the political climate of Texas, or if Texas changes the political leanings of its new residents.

Texas is now in the news for skyrocketing COVID numbers. Texas A&M paused football due to COVID concerns, the Texas jails are the worst hotspots of any in the U.S., and hospitals and funeral homes are bracing for new waves as the state hits 1 million confirmed cases.

Austin climbed back to the number two spot for top markets in the MetroStudy Housing Outlook, temporarily outpaced by the rush of vacation home purchases in Corpus Christi last quarter. Residential housing in Austin is beyond scarce with only a 1.4 month supply available, sending the median home price on the upwards trajectory. Home sale closings are up +12% YOY while sales prices are up +35% YOY at \$1.88 billion. The market is extremely competitive with the majority of homes listed receiving multiple offers.

Housing starts in Austin reached 5,330 from April to June, a +30% increase from Q2 2019. In August, single family permitting rose +10% to 19,060. First time buyers leaving apartments, low inventory, and low interest rates are fueling the building boon in the area. Pflugerville, Cedar Park, Leander, Del Valle, Hutto, and Liberty Hill are seeing the most new

home building in the region. Tens of thousands more new homes are proposed in the Del Valle area, with the new Tesla plant being the main driver.

Office space in Austin is also scarce. Big tech firms are crowding in and are expected to need an extra 3 million square feet of office space by 2022.

Multifamily is doing just fine in Austin, thanks in large part to millennials who make up one-fourth of Austin's population. Multifamily permitting is up +35% YOY (over 4,000) at 17,067.

The Dallas economy is booming. Fintech leads, marrying Dallas's strong financial sector with its burgeoning tech industry. Amazon is adding 600 new jobs (\$150k or more), other Fortune 500 companies are attracted to the area for its low tax rate and population growth. Office space is in high demand with pre-leases filling up as fast as the workers can build it. The services sector was slammed however, with Dallas hotel revenues falling -72.9% YOY.

12,000+ homes sold in Dallas in August alone, +11% YOY. Lack of inventory is a huge concern, with a -45% YOY downturn in supply. Currently, the DFW area has only a 1.5 month supply on hand of houses for sale. As we see in other hot markets, this will ramp up home prices and competitive bidding. We need to say it again: Supply is a huge concern. Lack of housing in hot markets will continue to keep commodity building prices at record highs.

The pandemic continues to slow the Houston economy. Jobs are down -7.2%, representing a loss of 227,500 jobs. The city is expected to see net population loss in the coming years as a result of the pandemic and hard-hit oil and gas industries. Home sales plummeted 20% YOY with the biggest hit in the luxury market. Oil and gas companies are offering

early retirement to executives, and an older, well compensated faction is leaving the city. Industrial activity is picking up with distribution and warehousing, off-setting some losses in the energy sector. Multi-family permits are down -5% YOY.

Military and aerospace contracts are positive economic indicators for San Antonio, but lack of skilled labor for the growth the city is seeing is a concern. San Antonio is a hub for auto-manufacturing where Toyota and Navistar are currently hiring locally for high-wage jobs. Home closings in the area are up +7%; inventory is low and concerning. Low supply and high demand for new homes in San Antonio are driving prices with the median home price increasing by 5.4%. Multifamily was strong in 2020, up +20%, with San Antonio having the second highest number of multifamily construction completions among major U.S. cities.



# OKLAHOMA

## TOP MARKETS:

### TULSA

**2,881** NEW HOME SALES

(up +2% YOY)

**4,556** PERMITS

(up +15% YOY)

**3,473** STARTS

(annual YTD)

### OKLAHOMA CITY

**5,179** NEW HOME SALES

(up +2% YOY)

**6,804** PERMITS

(up +17% YOY)

### OKLAHOMA ECONOMY

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

Tulsa is currently seeing a worrying spike in Coronavirus cases, with healthcare workers stating there are “no more ICU beds” at time of print. The economy contracted 5.8% Q3, with much of the downturn due in large part to oil and gas. With lower demand for fuel in the midst of the pandemic and a steep uptick in cases, Tulsa could be in for more economic troubles at least for the immediate future. American Airlines furloughed 1,003 Tulsa workers in October after reporting a \$2.1 billion Q2 loss. Other industries are staying afloat with Amazon building large distribution centers, Kimberly Clark expanding, and \$6.1 million in funding for the Tulsa Port of Catoosa.

The Tulsa housing market trends towards very competitive with many houses getting multiple offers. Closings increase by 6.39% Q3, and pending sales jumped up +26.08%. Inventory is down -41% YOY. Low supply and high demand is increasing new home sales prices +11.6%.

Job losses are up in Oklahoma City, spearheaded by the energy sector which lost -6,500 payrolls. Government jobs are up, accounting for 19.3% of jobs in the area. Amazon is building a new facility that will bring 1,000 jobs in addition to its current 5,000 jobs in the area. Population in Oklahoma City trends downward with a YOY increase of only 0.9%. Single family housing permits are up by a thousand at 6,359 YOY.



# ARKANSAS

## TOP MARKETS:

### FAYETTEVILLE

**3,800 NEW HOME SALES** (up +1% YOY)      **7,153 PERMITS** (up +37% YOY)

### LITTLE ROCK

**1,545 NEW HOME SALES** (up +1% YOY)      **3,145 PERMITS** (up +56% YOY)

### ARKANSAS ECONOMY

- Energy
- Agriculture
- Aerospace and Defense
- Freight and Transportation
- Forestry and Timber

Fayetteville is seeing an overvalued housing market at present attributed to an under-supply level of homes. Multifamily is on the rise; 50% of Fayetteville residents are renters, in large part because of the University of Arkansas. Fayetteville's economy outperformed national numbers with employment down -1.9%. Walmart continues to slash jobs in the area as it transitions to a more automated business structure.

Amazon is moving into Little Rock with a new fulfillment center that will employ 1,000+. Population is speculated to grow at 1% over the next two years. The housing market is currently trending towards oversupplied, but permits are up. Single family permits are up +15%.

The pandemic is also upending holiday shopping in 2020. The Arkansas health department issued guidelines for limiting hours and encouraging consumers to not shop as usual on Black Friday. All over the country many stores are offering Black Friday deals now, so that by the time Thanksgiving rolls around the deals will already be gone. Thanks to business shut downs earlier this year, many retailers have already added a virtual shopping component to their websites and should be well-equipped for Cyber Monday to gain any traction lost from Black Friday.





# ARIZONA

## TOP MARKETS:

### PHOENIX

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**22,872** NEW HOME SALES (up +1% YOY)      **41,639** PERMITS (up +28% YOY)

### TUCSON

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**3,155** NEW HOME SALES (up +2% YOY)      **4,443** PERMITS (up +3% YOY)

### ARIZONA ECONOMY

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- Tourism
  - Services Industry
  - Manufacturing
  - Agriculture
  - Mining
-



Phoenix continues to enjoy in-migration from high-tax states. 25% of people searching for homes in Phoenix are located in Los Angeles, according to Redfin data. Demand for housing is strong with an increase of +6.8% in total sales closed YOY. Builders are accelerating new home construction, rushing to meet demand. Single-family residential permits are up +28%, multifamily is up +65% YOY.

Commercial real estate is expanding in Phoenix. Earlier this month the city council approved an amendment that will allow Aspirant Development to build a mixed-use project, called Astra Phoenix, that will include a 535 foot tower, the state's soon-to-be tallest building. Apartments, hotel, and retail are set for the tower. The city and the state are investing heavily downtown, drawing in businesses and contributing to an influx of high-rise construction. ASU's downtown campus, light rail, restaurants, and breweries in Roosevelt Row are spurring demand for downtown dwelling space. Land is limited, so more high-rise buildings are in the works. Q3 saw 16 tower cranes over Phoenix's Central Business District, a construction development record for the area.

Faith-based college Grand Canyon University cannot build dorm space fast enough to meet growing demand in downtown Phoenix. The university is investing \$100 million in residence halls for its Phoenix campus, which will consist of three 6-story halls. The university plans to expand its campus to 400 acres, connecting its commercial hub at 27th avenue with its main campus. Merit Partners is planning to convert a former Phoenix cement plant into an industrial employment center that could host 1,000 jobs. The \$111 million 83-acre project is in the heart of Phoenix, and will house seven industrial buildings totaling roughly 900,000 square feet.

Nearby Arizona Fresh Holdings is developing a 153-acre \$200 million project to include a produce distribution center, market, community park, and food and agriculture education and research facilities.

Tucson is also benefitting as a low-cost alternative to Southern California. Population growth rate is up +40.7% compared to five-year average. Continued population growth is expected for next two years. Government sector was the largest growing industry in Q3, accounting for 22.7% of payrolls and adding 200 jobs. Home prices are at record highs as demand outpaces supply. Single-family permits are up +17% YOY while multifamily is down -32%.

## Tripadvisor projects that Arizona will be the most traveled-to state over Thanksgiving.

Hotels in Sedona and Scottsdale have seen a 50% YOY increase in bookings. Americans are avoiding big cities during the pandemic, and Arizona is the beneficiary with its vast array of outdoor activities and mild winter climate.



# NEW MEXICO

## TOP MARKETS:

### ALBUQUERQUE

**1,470 NEW HOME SALES**  
(up +2% YOY)

**2,138 PERMITS**  
(up +12% YOY)

### NEW MEXICO ECONOMY

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

New Mexico has an abundant supply of natural resources. The state has the single-largest proven natural gas reserve in the United States, geologists estimate that the Permian Basin has enough reserves for another 100 years, and the state rates number three in the nation for copper production.

A strong military presence with three air force bases (Kirtland, Cannon, and Holloman) kept the economy level during COVID, offsetting the imbalance of the tourism and food industry bleeding jobs during the shut-down.

While jobs are down -5.5% in Albuquerque, movie production and self-driving auto industries are proving to be a major economic benefit for the region. ABQ Studios is Netflix’s production hub and has already exceeded their promise of \$1 billion investment and 1,000 jobs per year. Albuquerque’s climate and grid system paired with its robotics and trucking industries provides a wonderful test ground for self-driving trucks. Damier Trucks and Torc Robotics have recently announced plans for partnership and expansion in the area. Sandia Labs is hiring and Amazon is building a new fulfillment center in the Upper Petroglyphs. There is a large pent-up demand for industrial space and developers are building speculative industrial developments quickly. Housing communities are expected to follow the industrial centers’ locations and growth.

Entry-level homes in Albuquerque are in short supply and high demand, attracting migrants from Southern California, DFW, and New Jersey. Pending sales jumped +32% in August. Single family permits are up +12% YOY. More single family and multifamily housing starts are expected in Upper Petroglyphs area in coming year.



# NEVADA

## TOP MARKETS:

### RENO

**1,943 NEW HOME SALES**

(up +2% YOY)

**4,920 PERMITS**

(down -6% YOY)

### LAS VEGAS

**8,432 NEW HOME SALES**

(up +2% YOY)

**11,875 PERMITS**

(down -9% YOY)

### NEVADA ECONOMY

- Tourism
- Mining
- Agriculture
- Manufacturing

Manufacturing growth with Apple, Google and Tesla are helping to offset a catastrophic economic downturn from the hospitality sector in Nevada. The leisure and hospitality sector is currently -5,700 YOY in job losses.

In Reno, lack of affordable housing stymies growth. Manufacturing jobs are growing, but the would-be work force is unable to find suitable housing at current salary levels. Now in an “affordable housing crisis,” the region is seeing a rise in its homeless population. Total permits fell -6% YOY. Single-family was up +13% while multi-family fell -18%. Builders have noted that renovations in the area are growing as homeowners look to add an office or a “Zoom Room” for at-home work.

Commercial developments in the works in Reno include Jacobs Entertainment \$100 million investment in West Fourth Street corridor, a \$250 million restoration of the Sands, and an additional \$1 billion redevelopment around downtown’s West Fourth Street. Lack of readily developable land is pushing projects eastward. Tahoe Reno Industrial Center had two new transactions totaling over 100 acres.

Las Vegas’s economy was the hardest hit in the state, contracting 12.3% in August. COVID cases are back on the rise in the state as well as nationwide, delaying a hopeful resurgence in tourism. The pandemic hit Nevada worse than any other state economy-wise, as the income tax dollars from gambling, entertainment, and conventions plummeted to near zero.

Industrial activity in Vegas is strong however, with warehouse and distribution centers greatly contributing to the sector.

The Vegas master-planned community of Summerlin is seeing high levels of residential construction activity. Builders Pardee Homes, Taylor Morrison, Pulte Homes, Toll Brothers, Woodside Homes and KB homes are all building in the 34 neighborhoods constituting Summerlin with single-families ranging from \$300,000 to \$1 million. KB Homes is also building Saguarto, a gated single family community. Beazer Homes is developing Solaris, which will include 188 single-family homes in the low \$200,000 range. Solaris is expected to house military and civilian personnel who work at the Creech Air Force Base (5,000 personnel total). New home sales city-wide are trending higher as inventory is low; Vegas has the same supply-crunch we are seeing all over the country. Concerns for the housing market in this area include mortgage defaults as the workforce continues to suffer from hospitality and entertainment shut downs. Also with a large percentage of the population renting, an eviction crisis could be in store for 2021.





# CALIFORNIA

## TOP MARKETS:

### RIVERSIDE - SAN BERNARDINO

**9,744** NEW HOME SALES

(up +2% YOY)

### SACRAMENTO

**6,123** NEW HOME SALES

(up +2% YOY)

**10,529** PERMITS

(up +29% YOY)

### SAN JOSE

**2,217** NEW HOME SALES

(up +2% YOY)

**6,167** PERMITS

(down -17% YOY)

### LOS ANGELES

**8,344** NEW HOME SALES

(up +1% YOY)

**21,070** PERMITS

(up +7% YOY)

### SAN DIEGO

**8,472** PERMITS

(up +15% YOY)

### FRESNO

**2,322** NEW HOME SALES

(up +1% YOY)

**3,330** PERMITS

(up +23% YOY)

## SAN FRANCISCO

**3,861 NEW HOME SALES**

(down -2% YOY)

**11,405 PERMITS**

(down -24.56% YOY)

### CALIFORNIA ECONOMY:

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

California suffered from COVID, economic shut-downs, and devastating wildfires in Q3. Rampant wildfires charred more than 2.5 million acres in the state, over 20 times what had burned last year. Frightening photos of the San Francisco Golden Gate Bridge seemingly engulfed in flames were on front pages of national newspapers. In Sacramento, the Bear Fire consumed a catastrophic 230,000 acres overnight. At one point, the fires were reportedly burning 500,000 acres a day. Reuters reported that insurance losses from the fires were estimated at \$8 billion, with economic losses topping \$13 billion. 2020 has been the worst year ever for wildfires in California, with five of the six largest fires in state history starting in August and September. Currently, the state is experiencing reprieve as temperatures drop and the snow and rain set in. Politicians and foresters warn the state to do more to proactively manage its forests and prevent future wildfires. Active forestry management of burning off fuel, fending tracks, and inserting fire lanes between timber will slow the pace of future fires.

Sacramento has a heavy reliance on government jobs, 25% of the employment base, which are down -3.3% with 7,900 job losses. COVID has hit the city hard, with August being the deadliest month with 362 fatalities. Nevertheless, economists find a bright spot for the city in in-migration from more expensive cities such as San Francisco. Redfin reports 22% of Silicon Valley and Bay Area residents are looking to relocate to Sacramento. Housing inventory is at its lowest in a decade, and prices are steadily rising. New home sale prices increased 6%. The subdivision Russell Ranch is planning 1,025 homes in the \$500-\$700k range. Northlake is expected to have 2,700 new homes in its development. Multifamily permits are on the rise +134% at 3,753.

Population is growing at 0.6% YOY in San Jose. A strong demand for housing exists in large part due to an undersupply, certainly not due to affordability. The median home price in the area is \$1,357,500, up +10.8% YOY. Residential permitting is down in both single and multi-family builds.

Home sales are down in Los Angeles merely due to low supply. Prices are accelerating for the few homes on the market, with resale homes up +6.2% and new home sales up +3.3%. Need for more space, strict lock downs, and low interest rates are fueling the market to the point of scarcity. Buyers wanting larger spaces are fleeing to San Fernando Valley. Overall supply of homes in Los Angeles and Orange County is down -19%. Multifamily is down to Great Recession levels with a 30% decline in development. Developers, however, are still bullish on the area as the tech and entertainment industries continue to bring in buyers. The LA Planning Commission is set to review a Downtown Community Plan that will include 100,000 new housing units in early 2021.

San Diego is another jobs market that is benefitting from the growth and success of Amazon. The online retailer is expanding its office space in University City by 40,000 sq ft, adding 200 jobs to its current 500 technology workers in the region. San Diego's housing market is stable and currently undervalued. Demand outpaces supply in single family, and multifamily permitting is up +15% YOY

Three builders dominate the Fresno market: Wilson Homes, Lennar, and Century Communities account for 40% of all new homes. The Fresno housing market is healthy as low interest rates and affordable homes interest buyers. Supply is outpacing demand, with homes in the \$300,000 range being the most sought-after and most scarce.

Rents and permitting are down in San Francisco's multi-family market as tech companies shift to working from home, and their workers flee to more affordable communities. Areas outside of San Francisco including Oakland and Sonoma are seeing buyer demand skyrocket, far outpacing supply. Sales growth in the area was up +10% YOY in August.

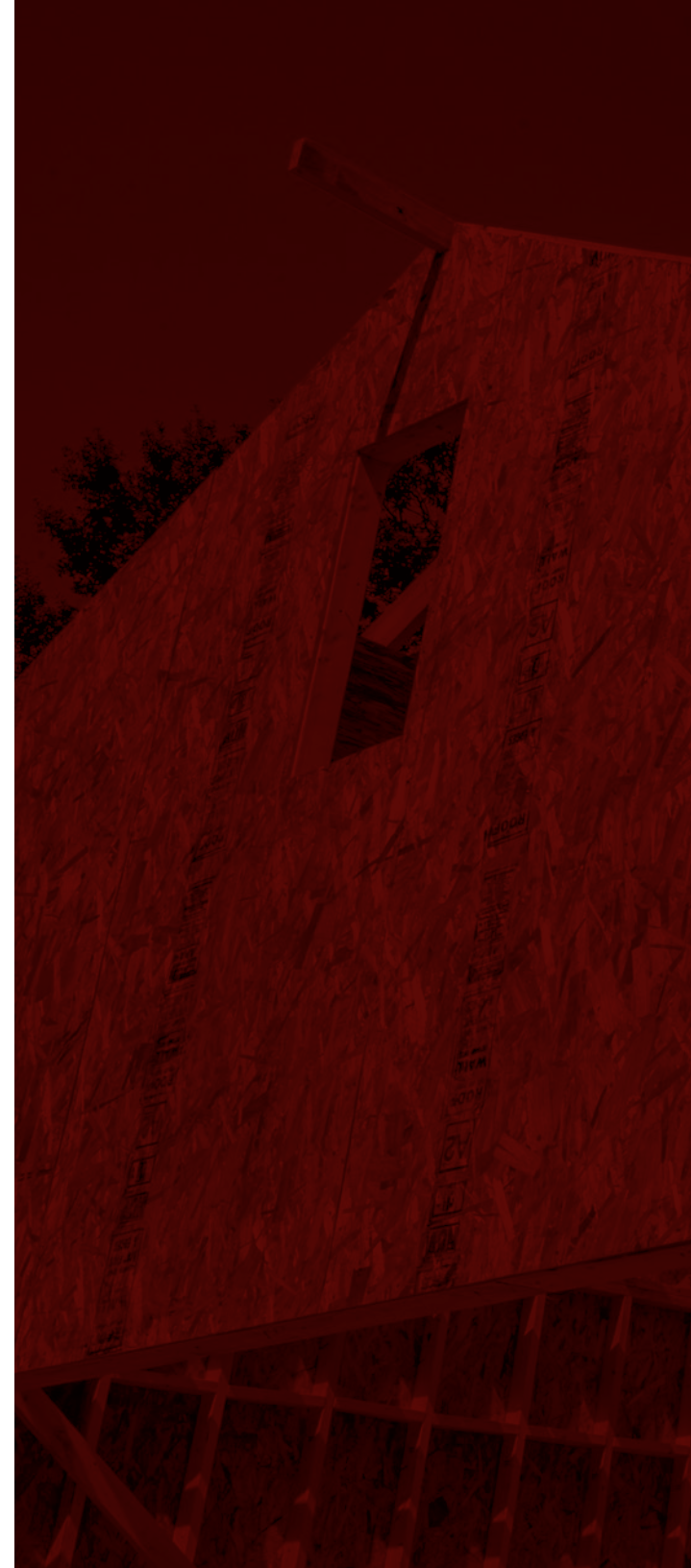


## COVID CONCERNS

The U.S. is currently seeing a large spike in COVID cases nationwide. Epidemiologists warn that we have not seen the worst of it, that a peak worse than we saw in the spring is imminent and inevitable. Dr. Michael Osterholm, appointee of President-Elect Joe Biden's coronavirus advisory board and director of the Center of Infections Disease Research and Policy at the University of Minnesota stated, "What America has to understand is that we are about to enter Covid hell. It is happening. We have not even come close to the peak and, as such, our hospitals are now being overrun. The next three to four months are going to be, by far, the darkest of the pandemic." He went on the following day to suggest a 4-6 week shut down.

The CDC grimly reports newly reported COVID-19 deaths will likely increase over the next four weeks, with 4,600 to 11,000 deaths likely to be reported in week ending November 28. While vaccine news from Pfizer sent stocks soaring, experts remain less than optimistic. Pfizer can reportedly make enough doses to immunize 25 million out of 331 million Americans before the end of the year, and antivirals such as remdesivir and dexamethasone are now more readily available for treatment. Yet warnings from leading epidemiologists and infectious disease doctors paired with the reality of the spike in outbreaks (Texas and California have both reached one million cases this month), leave open the possibility for more stay-at-home orders and economic shut downs. Already Chicago, Ohio, and New York are restricting gatherings. America followed Europe in the spring in both case spikes and shut-downs; it is not far-fetched to assume we will follow them again.

While the majority of this report projects continued high prices due low supply and high demand, the truth of the matter is that another economic shut-down could turn that prediction on its head. More stay-at-home orders could delay older manufacturing plants in opening and producing building materials, which could raise prices even higher. Demand could collapse as materials become unaffordable, and prices could plummet. The construction industry held strong during the spring shut-downs as it was deemed an essential industry, but a new administration could change that. Anything can happen. We will remain optimistic that the vaccine and antiviral news will help bring the virus to a halt, but experience tells us we should also prepare for the alternative.











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**HOME SALES:** Redfin Data, Zillow.com, Trulia.com, MetroStudy, Zonda, Austin Board of Realtors

**PERMITTING:** MetroStudy, Trulia.com, Redfin Data

**ECONOMIC DATA AND INDICATORS:** WalletHub, Moody's economy.com, MetroStudy, Bureau of Labor Statistics, Bureau of Economic Analysis, U.S. Department of Commerce, U.S. Department of Housing and Urban Development, Meyer's Research, BizJournal, Texas Tribune, Investopedia

**PRICING:** Random Lengths, FastMarket RISI, Redfin Data

**CONSTRUCTION DATA:** Association of General Contractors of America, National Association of Home Builders, Builder Online