

Since 1923

Roy O'Martin[®]

BOARD BRIEF

2020 Q4



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

- U.S. home construction jumped 5.8% in December, ending 2020 with 1.67 million starts
- Land grabbing: In the midst of land shortages in hot markets, highly competitive land auctions abound
- Scarcity of developed land leading to fears of not being able to meet growing demand of housing
- Many builders' 2021 inventory already sold in Q3/Q4 2020, creating scarcity in already low-supply markets
- 30-year fixed mortgage rate average at 2.65%, the lowest on record
- US Mortgages expected to top \$3 Trillion in 2021

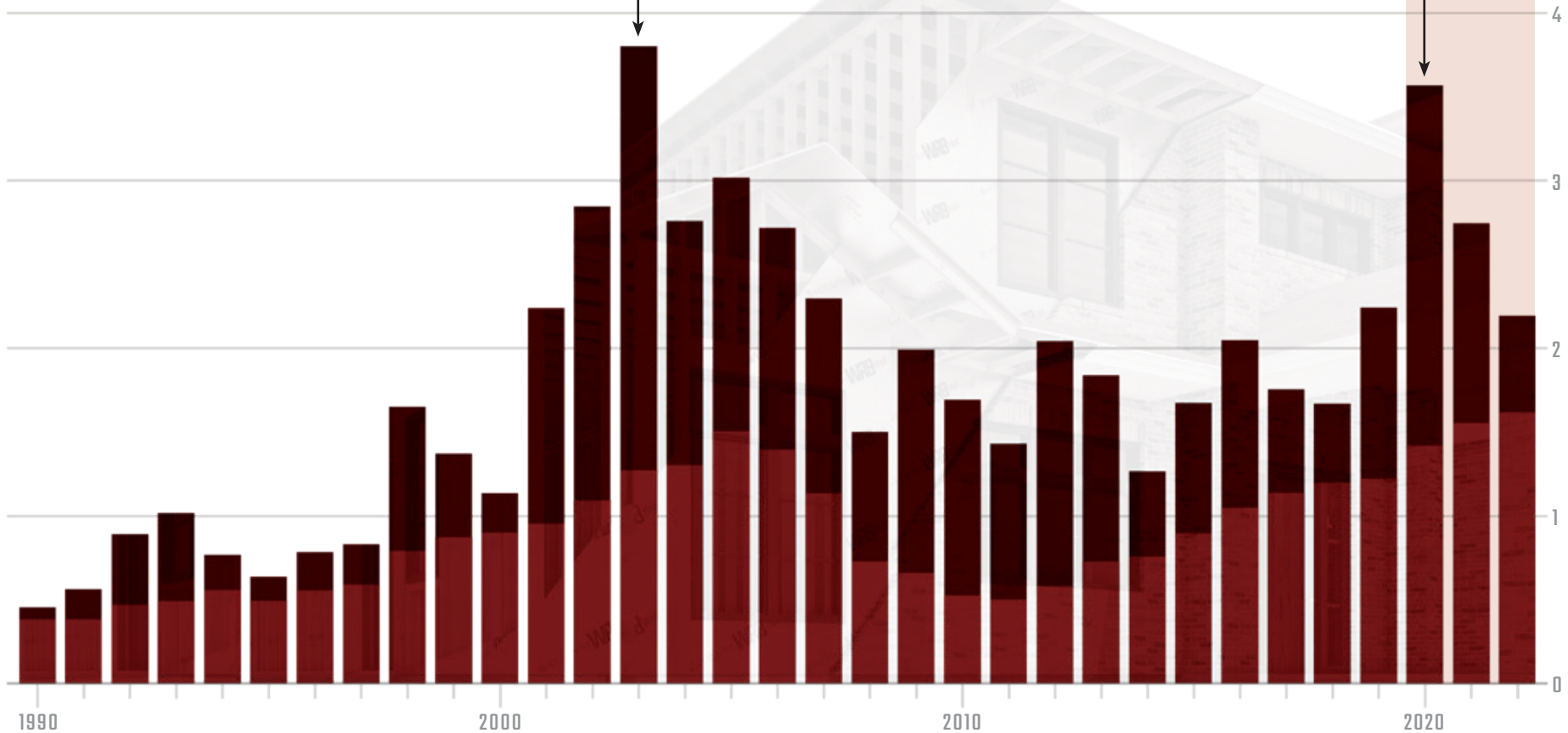
US MORTGAGE VOLUMES COULD TOP \$3tn THIS YEAR

Mortgage loan originations, by value (\$1tn)

- Refinance
- Purchase

Low mortgage rates and surging property values led to a wave of refinancing deals

Refinancing expected to hit its second-highest value on record in 2020



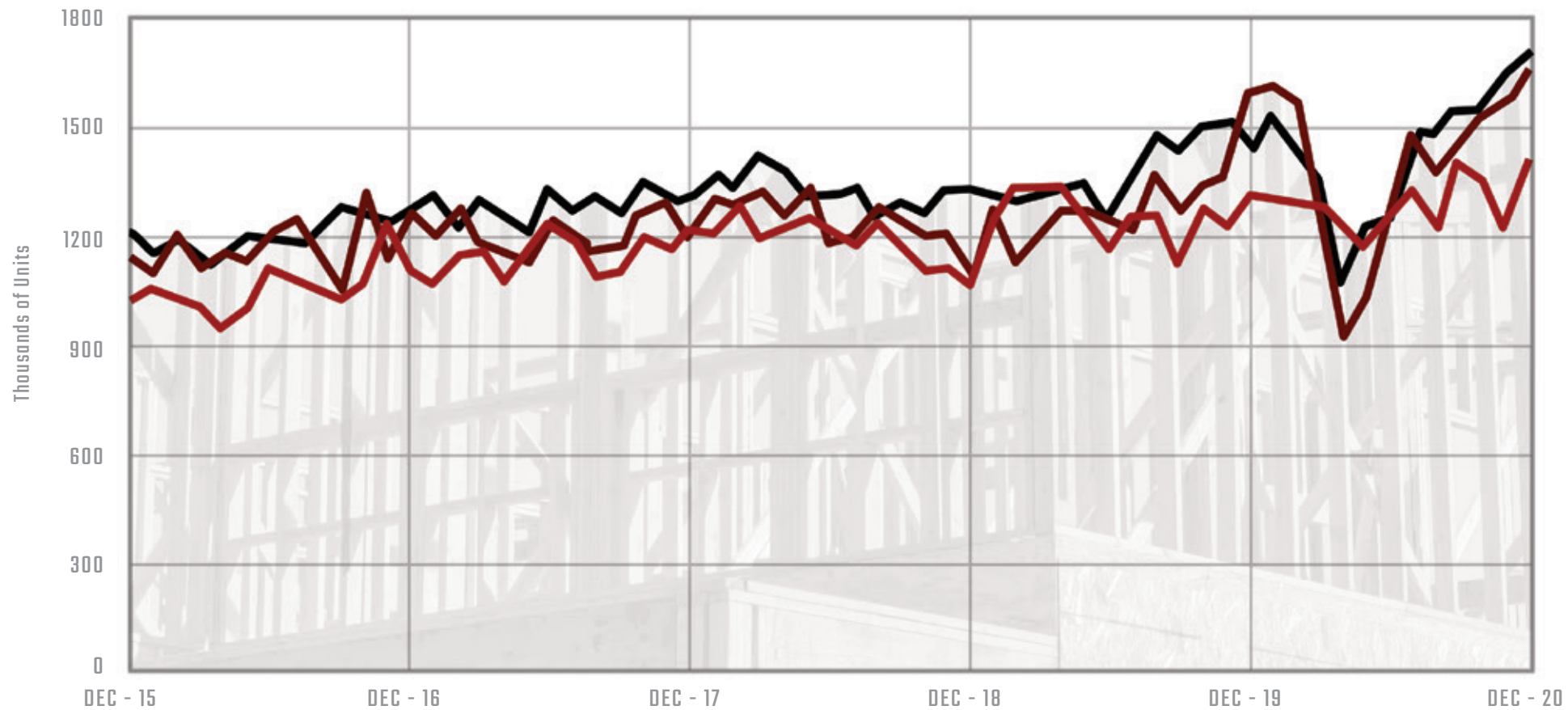
Source: Mortgage Bankers Association

The Federal Reserve is adding \$40 billion in mortgage backed securities to its balance sheet every month, recognizing that housing needs to lead America out of this economic recession. The Fed has also indicated they intend to keep interest rates low until 2023.

NEW RESIDENTIAL CONSTRUCTION

Seasonally Adjusted Annual Rate

— Permits — Starts — Completions

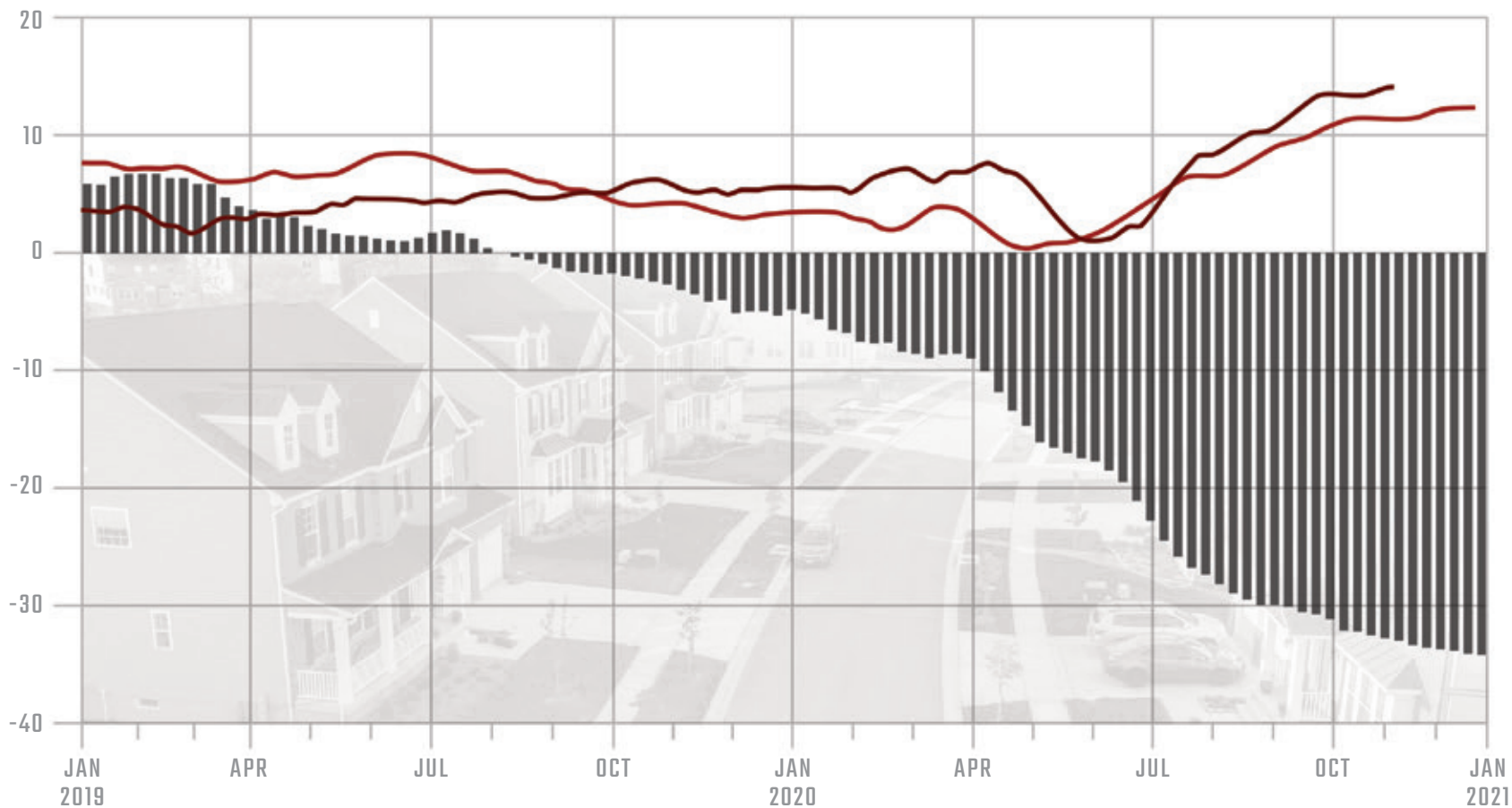


Source: U.S. Census Bureau, HUD, January 21, 2021

Residential Starts hit a record 1.67 million, but material delays and shortages are keeping completions down.

HIGH DEMAND AND LOW INVENTORY INCREASES HOME PRICING IN 2020

— Median Sale Price
 — Median List Price
 Inventory of Housing For Sale



Source: Zillow

MOST UNDERSUPPLIED MARKETS:

San Diego, CA

Seattle, WA

Nashville, TN

Boise, ID

Las Vegas, NV

2020 MARKET RECAP

For most of us in the wood-products industry, 2020 proved to be a trying, but interesting year. Throughout this century we have weathered both economic downturns and dramatic upswings in housing, just as we are seeing now. Although we are still awaiting 2020 numbers, actual 2019 structural-panel production was reported at 33.4 billion feet – 9 billion feet shy of 2000's peak.

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As we reflect on the past year, a few realizations come to mind:

- 2020 will be remembered as one for home repairs and remodels. This sector had the largest percentage growth in history, due largely to COVID-19 related stay-at-home orders and stimulus checks. Although R&R is difficult to track as it flows out the retailer's doors, some analysts calculate this percentage of the market at 10-12% normally.
 - As many of us witnessed the lowest mortgage rates in our lifetime, countless first-time homebuyers seized the opportunity of the American Dream of home ownership.
 - The "urban flight" resulting from the pandemic is sure to be greater than normal. An unverified report from San Francisco has already determined some 89,000 residents moving out of that one city in 2020. Additionally, working from home in new home offices is more common. Could this be the new normal?
-

- One of the most active and destructive hurricane seasons in the South's history took place, leading to yet more demand for wood products, as thousands of acres of timberlands were destroyed, homes and businesses flooded, roads and bridges washed out, and powerlines fell.

All these points add up to the perfect storm of extra consumption that North American producers were not prepared to fulfill. Manufacturers were strained, almost to our limits. However, **RoyOMartin had no reductions in force or production curtailments.** Indeed, we have managed to produce OSB, plywood, and solid wood products safely each week. We pushed scheduled maintenance as far as we could to keep product flowing to our customers, extended loading times, and pushed for every opportunity to manufacture extra product. Our inventory levels are reduced to waiting on wood to cool before we can load. Despite hurricane-related impacts to southern timberlands, raw material continued to flow into our plants, thanks in large part to our vendor partners and RoyOMartin's forestry and procurement teams. (Did I mention the RoyOMartin Land and Timber Department worked 13 years without an OSHA-recordable accident?)

All of us here at RoyOMartin thank you for your patience and for working with us to help you succeed. We look forward to working with you in 2021 and for many years to come.

– Bobby Byrd, Director of Sales

OSB PRICING YOY

JANUARY 2020

\$178

JANUARY 2021

\$800

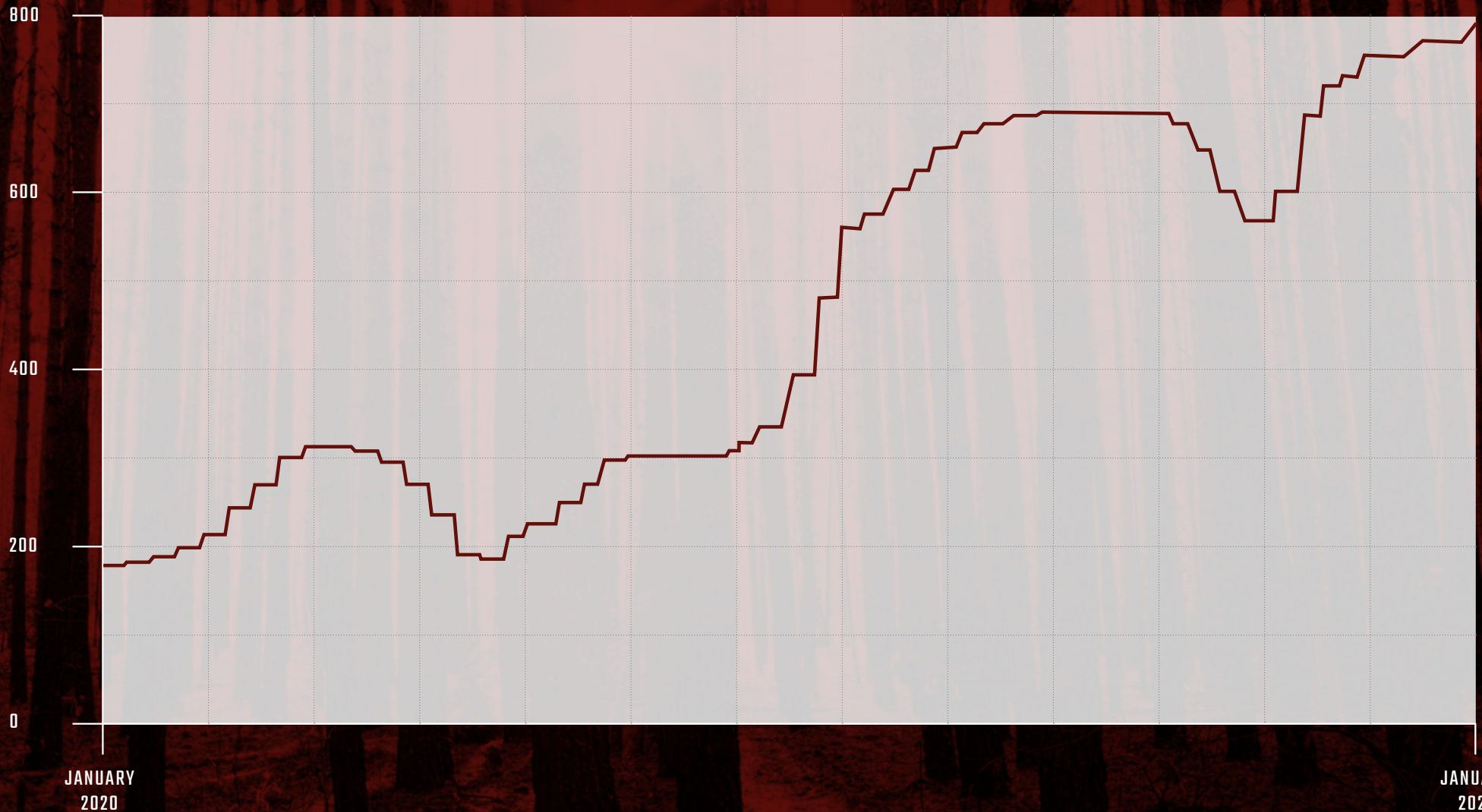
OSB SHEATHING (SOUTHWEST) 7/16" PRICES NET F.O.B. MILL
US Southwest RL End-week

\$800

UP \$622

(+345% YOY)

*OSB pricing on 7/16 OSB in southwest region from January 2020 - January 2021. Chart from Random Lengths, FastMarkets RISI



JANUARY
2020

JANUARY
2021



LOUISIANA

U.S. 2020 CENSUS DATA

4,648,794 POPULATION

(up +2.5%)

TOP MARKETS:

BATON ROUGE

3,579 SINGLE FAMILY
HOUSING PERMITS

(up +2% YOY)

66 MULTIFAMILY
HOUSING PERMITS

(up +214% YOY)

LAFAYETTE

2,248 SINGLE FAMILY
HOUSING PERMITS

(up +42% YOY)

8 MULTIFAMILY
HOUSING PERMITS

(down -67% YOY)

LOUISIANA ECONOMY

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

Homeownership is at 66.5% in Louisiana, with median home price at \$172,100, well below the \$240,500 average. Population declined -0.3% in 2020. Overall population growth between 2010 and 2020 was +2.5%, below the +6.3% national average.

While the economy in Baton Rouge suffered a major blow in 2020, it is still expected to have the fastest recovery in the state. 26,000 jobs were lost, or -6.3%, mainly due to the hospitality and petrochemical industry. Construction jobs were down -3,100 jobs mostly due to industrial slowdown. The \$469 million ExxonMobil expansion has been delayed until 2021, as has the \$1.4 billion Methanex plant. Stupp Corp eliminated 375 jobs from the area. The industrial outlook is positive however for 2021, with the Louisiana Economic Outlook predicting all industrial job losses to be recovered, gaining 17,300 jobs this year and then another 5,800 in 2022.

Government projects to mitigate flooding are underway in Baton Rouge, including \$1.2 billion in HUD flood resiliency funds, \$300 million in hazard migration grants, and \$50 million for clearing 350 miles of creeks and waterways.

Residential sales in the capital region are up +36% YOY. Home prices rose +4.3% as buyers flocked to the market, increasing the new median home price to \$248,200. Low interest rates paired with high demand should keep the housing market humming in 2021. Buyer demand in the area is healthy and highly competitive in the under \$1 million market. Scarcity is a problem, with the typical 15 month supply declining to a 4 month supply.

Lafayette is experiencing weak housing market conditions, being one of the few areas in the country where supply outweighs demand. Single-family permits continue to rise, however, +42%

YOY. The area is currently experiencing a negative demographic trend, with population declining -0.14%. Mining and Construction in Lafayette lost 3,700 payrolls in 2020, decreasing -16.4%. Unemployment in Lafayette is currently at 9.2%, down -2.0% down from national average.

Not making the news these days is the very slow recovery of Lake Charles, LA after two hurricanes in 2020. Blue tarps still mire the roofs, or lack thereof, of houses along I-10. The town of roughly 78,000 was mostly eviscerated by Hurricane Laura before getting punched again by Hurricane Delta. Thousands still remain displaced, with those who can moving temporarily to nearby cities of Baton Rouge and Lafayette. Decline of the oil and gas industry plagues the economy of Lake Charles as well.

Louisiana is sadly on the bottom of all the good economic indicator lists and top of bad lists, a worrying trend. In Wallet Hub's List of Fastest Growing Cities in America, Shreveport, and Metairie, LA came in the top five of "Midsize Cities with the **Lowest** Growth," Shreveport in the top five of "**Lowest** Population Growth" and both Shreveport and Lafayette ranked number three and number four respectively in "**Lowest** Job Growth in America." Lake Charles ranked number three in "**Lowest** Poverty Rate Decrease," while Lafayette came in at number five for "**Lowest** Regional GDP Growth."

“We are in a really huge supply crunch. People don’t want to move because it’s difficult to buy a home, which makes it more difficult to buy a home. People aren’t moving and freeing up inventory.”

– Daryl Fairweather,
Chief Economist Redfin Data



TEXAS

U.S. 2020 CENSUS DATA

28,995,881 POPULATION

(up +15.3%)

TOP MARKETS:

DALLAS

38,898 ANNUAL
HOUSING STARTS

(up +2% YOY)

40,806 HOME SALES

(up +25.6% YOY)

HOUSTON

34,753 ANNUAL
HOUSING STARTS

(up +6.8% YOY)

34,637 TOTAL NEW
HOME SALES 2020

(up +16.9% YOY)

9,652 DECEMBER
NEW HOME SALES

(up +25.6% YOY)

AUSTIN

20,382 ANNUAL
HOUSING STARTS

(down -0.9% YOY)

23,112 TOTAL NEW
HOME SALES 2020

(up +20% YOY)

2,028 DECEMBER
NEW HOME SALES

(up +43.9% YOY)

SAN ANTONIO

15,033 ANNUAL
HOUSING STARTS

(up +6.5% YOY)

14,670 TOTAL NEW
HOME SALES 2020

(up +24.4% YOY)

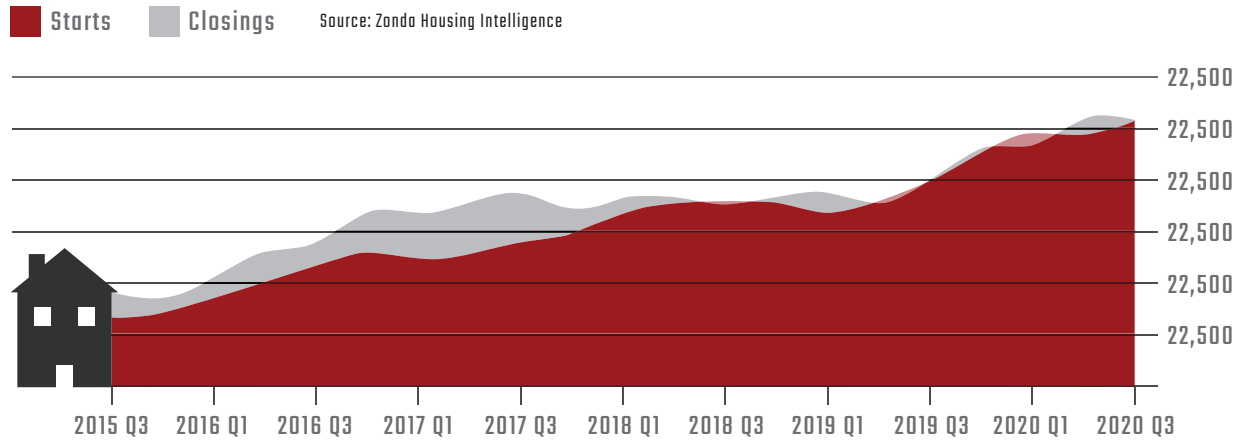
1,310 DECEMBER NEW
HOME SALES

(up +35.1% YOY)

TEXAS ECONOMY

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

Austin Starts and Closings are Neck-and-Neck Tight:



In the 2020 census, Texas added the most residents of any state, growing its population by 15.3%, ahead of the 6.3% national population growth. The state has no plans of slowing down and forecasts a 15.2% increase in housing permits in 2021. Inventory is extremely low across the board, with the depletion of available homes for sale contributing to meteoric rises in home sales prices.

Housing inventory in Houston is at an all-time low with a 1.9 month supply as of December 2020, down from a 3.2 month supply from December 2019. Total property sales jumped to 11,572 in December, up +27.2% YOY. 2020 proved to be a banner year for Houston, with total property sales at 115,523 (single family at 96,151), topping \$35.3 billion in sales for the region. Housing trends of high sales volumes and low inventory are expected throughout 2021, according to the Houston Association of Realtors.

Inventory in Austin, meanwhile, is in a perilous position with only a 15 day supply in the area near the new Apple campus, and only a 1.7 month supply as a whole. Low inventory levels are keeping sales down -5.6% YOY. In 2021, lots in development in

Austin number around 14,000 creating a 7,000 lot shortage to keep up with 2020 home starts.

Austin is earning the nickname “Startup City” as the arrival of tech firms Oracle, Google, Amazon, Apple and Tesla fuel unprecedented growth. Apple alone is adding 5,000 jobs in the area. The housing market is hot, hot, hot and sales prices are climbing as a result. Continued affordability is a concern. As out of state companies and workers flock to the city, they could ultimately be contributing to the problems of high rent and traffic they are leaving elsewhere.

Q4 2020 saw construction on 13,667 home sites in the DFW area, an increase of 51.3% from Q4 2019. Low mortgage rates, millennials entering the market, and an influx of new residents is only increasing the demand expectations for 2021. Dallas projects home sales will increase 7.3% in 2021, still strong but slower than previous years. Low inventories contribute to the lower sales projection. The “Great California Migration,” as it is known in Texas, is a large contributor. According to the Texas Realtor’s Association, 86,000 Californians moved to Texas last year, and Dallas was busting at the seams

even before the golden state ex-pats moved in. Lot supplies are low, at just a 1.4 month supply for finished vacant lot inventory.

Low housing inventories decelerate growth in the San Antonio region as well, where home sales are expected to increase 9.4% in 2021, down -3.6% from 2020’s 13%. The rapid growth of the Texas housing market could send more buyers to the San Antonio area, especially when affordability rates become a concern. Lawrence Yun, chief economist of the National Association of Realtors, expects the work-from-home movement to be a boon for the San Antonio region. “Some people in Austin, if they don’t have to commute downtown every single day may say, ‘I can buy a large-size home in San Antonio knowing I only need to go to Austin two days a week.’” Buyers can find larger homes and lots in San Antonio, just an hour’s drive from Austin where housing is increasingly expensive and scarce. Plus, an hour commute twice a week is nothing for workers migrating in from San Francisco and Los Angeles. All considered, housing in San Antonio is expected to continue to set records throughout 2021, leading the region toward economic recovery.

San Antonio has been named a top city for real estate investment and development projects, according to the Urban Land Institute. The report touts the city’s low cost of living, high quality of life, and opportunity for business growth. Home sales and prices are skyrocketing north as interest rates move lower and supply dwindles, just at a slower rate than nearby Austin. Slow permitting processes from WFH workers and record home starts are stretching laborers thin and delaying projects in the area. San Antonio inventory is low at a 2-month supply, just barely outperforming Austin’s low supply.



OKLAHOMA

U.S. 2020 CENSUS DATA

3,751,582 POPULATION

(up +5.5%)

TOP MARKETS:

OKLAHOMA CITY

6,527 SINGLE FAMILY HOUSING PERMITS

(up +11% YOY)

17,894 TOTAL HOME SALES

(up +8.2% YOY)

677 MULTIFAMILY HOUSING PERMITS

(up +23% YOY)

TULSA

3,113 HOUSING STARTS

(up +17.2% YOY)

686 MULTIFAMILY HOUSING PERMITS

(down -10% YOY)

3,775 SINGLE FAMILY HOUSING PERMITS

(up +14% YOY)

OKLAHOMA ECONOMY

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

Layoffs in construction and oil and gas have hampered the economy in Oklahoma City. The city has been unsuccessful in recruiting new businesses to the area due to lack of land and builder-ready sites. The city council is working to alleviate this outcome in future recruiting by allocating more funds towards economic development. The aerospace industry continues to be a bright spot in Oklahoma City's economy, due in large part to Tinker Air Force Base, which contributes \$44 billion to the state's economy each year.

Sales and home prices in Oklahoma City are on track with nationwide trends and climbing higher. Inventory is low, with only a 1.3 month supply. Homebuilders grapple with tight labor (which is also in short supply) and material shortages and rising costs.

Employment is down -5.8% YOY in Tulsa, but the outlook for 2021 is bright. The city is looking to invest \$1 billion to bring 4,200 jobs through various projects and industries. Demand for housing is strong and inventory is steadily decreasing. Builder confidence is high with several downtown projects and residential developments underway.

ARKANSAS

U.S. 2020 CENSUS DATA

3,017,804 POPULATION

(up +3.5%)

TOP MARKETS:

LITTLE ROCK

2,013 SINGLE FAMILY HOUSING PERMITS

(up +18% YOY)

1,112 MULTIFAMILY HOUSING PERMITS

(up +119% YOY)

FAYETTEVILLE

4,558 SINGLE FAMILY HOUSING PERMITS

(up +14% YOY)

2,252 MULTIFAMILY HOUSING PERMITS

(down -15% YOY)

ARKANSAS ECONOMY

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

The mining and construction sector experienced the highest job growth rate in Little Rock, adding 300 payrolls, up +1.7% while overall jobs in the area were down -4.2%. Amazon is expanding, purchasing new land for a fulfillment center that will employ 1,000+. Healthcare is a large industry in Little Rock, and brings in an educated workforce to the region.

Home prices in Little Rock are on the rise with median home prices at \$308,300, 39% higher than the five year average in the area. Overvaluation could be of concern in the near future, but as interest rates are still at record lows, buyers aren't blinking at ballooning prices. Residential permits are up 56%.

Fayetteville has offset troubling economic numbers from the manufacturing and government sectors with other economic growth in Bentonville. Walmart is building a new corporate headquarters with space for 17,000 employees. The medical services sector is growing with University of Arkansas for medical Sciences building a 185,000 sq foot clinic, and USable is building a 76,000 sq ft medical office building near Arkansas Children's Hospital in the growing medical corridor. Highlands Oncology Group opened a new 125,000 sq foot building in 2020, and has plans to purchase more land nearby to accommodate future growth.

Permits in Fayetteville are on the rise. Homebuilding is healthy with several new communities in the works along with a new mixed-use development in south Fayetteville. Sales and pricing are up, selling at a faster pace than previous years at an average of 74 days on market versus last year's 90 day average.

"A nation of homeowners, of people who own a real share in their own land, is unconquerable."

- President Franklin D. Roosevelt





ARIZONA

U.S. 2020 CENSUS DATA

7,278,717 POPULATION

(up +13.9%)

TOP MARKETS:

PHOENIX

23,347 HOUSING STARTS

(down -1% YOY)

26,191 TOTAL NEW HOME SALES 2020

(up +23.4% YOY)

2,329 DECEMBER NEW HOME SALES

(up +32.6% YOY)

TUCSON

3,203 HOUSING STARTS

(down -1.9% YOY)

3,553 TOTAL NEW HOME SALES 2020

(up +14.3% YOY)

283 DECEMBER NEW HOME SALES

(up +13.7% YOY)

ARIZONA ECONOMY

- Tourism
- Services Industry
- Manufacturing
- Agriculture
- Mining

The land grab in Phoenix is in full force, and intense bidding wars are underway. Ashton Woods acquired a 328-acre parcel of land in Peoria for \$72.6 million in a state land auction. The bidding began at \$46.92 million, had 257 bids, and lasted an hour and a half. A bidding war for another 2,783 acre parcel in the far East Valley lasted only 45 minutes, with D.R. Horton emerging as the winner, paying \$245.5 million. 2020 alone saw \$1.34 billion in land transactions to builders, and as the land runs out, the bidding wars are getting fiercer in 2021. Builder-ready lots are especially in low supply, meaning builders are buying “raw land” and having to develop their own lots. This adds time to the process, and could slow homebuilding in the area. Many tract-development are underway and going up quickly, though. The housing market has only a 15-day supply in Phoenix at this time. Low supply will continue to drive demand for more housing in this area for the foreseeable future.

Phoenix saw the fastest home-pricing increase in the country in Q4 2020, continuing its 17-month trend. New median home pricing is now at \$346,445, with an average of only 11 days on the market until sale pending.

Home sale prices are rising in Tucson due to increasing demand and lack of supply. The area is seeing an increase in new residents, thanks in large part to affordability and WFH trends. WOW Studios, the luxury sportswear company, is relocating its headquarters from Seattle to Tucson.

Arizona was right behind Texas and Nevada in population growth in the 2020 census, increasing 13.9% over the ten year period.

NEW MEXICO

U.S. 2020 CENSUS DATA

2,096,829 POPULATION

(up +1.8%)

TOP MARKETS:

ALBUQUERQUE

1,940 SINGLE FAMILY HOUSING PERMITS

(up +12% YOY)

198 MULTIFAMILY HOUSING PERMITS

(up +14% YOY)

NEW MEXICO ECONOMY

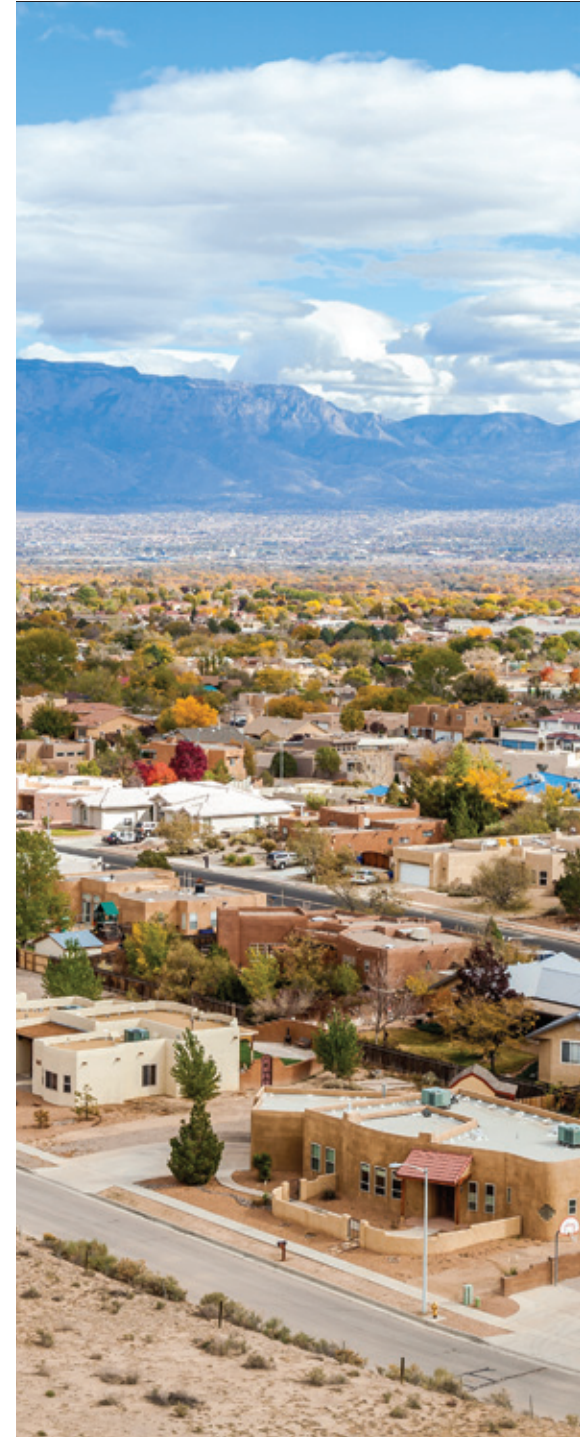
- Aerospace and Defense
- Accommodation and Food Services
- Energy
- Distribution, Logistics, and Transportation
- Digital Media and Film Production
- Public Administration and Federal Government

New housing communities are popping up in Albuquerque, and not a moment too soon. Inventory declined -56.9% YOY in 2020 for single family homes. The new Valle Prado community by Hakes Brother's features 90 lots and will begin phase two once all lots are sold in phase one. Westway Homes broke ground on a new residential community in Mesa del Sol, which is expected to be the rising phoenix of the area. Average

home prices are up +16.3% at \$250,000 and the market is very competitive.

A strong military presence, Netflix, robotic technology, and transportation helped sustain Albuquerque during the 2020 pandemic. Losses in tourism and hospitality were significant as they were (and still are) country-wide, but a diverse economy has shielded the area from significant blows.

Oil prices crossing the \$50/barrel threshold should have been good news for New Mexico. President Biden's executive order to cease all drilling on federal lands for 60 days, however, has upended hope for resurgence in energy activity for the area. Prior to the order, the state had 70 active oil and gas rigs, up from the average of 44 rigs during the pandemic, but down from the 114 rigs pre-pandemic March 2020. Two weeks before Biden took office, oil and gas producers were expecting a "full price recovery" according to an analysis from Rystad Energy, arguing more activity was expected in 2021 with prices moving beyond \$50/barrel. The Permian Basin is estimated to have a 100 year supply according to geologists. Economic recovery packages and infrastructure stimulus packages were expected to fuel growth in the energy sector in this region in 2021. With a swipe of a pen, those hopes were dashed. New Mexican Democrats and Republicans alike have stated the economic fallout from President Biden's order could be catastrophic for the state's economy. Oil and gas leaders have slammed the federal leasing halt as "devastating," and warn of lost jobs by the thousands, and lament a return to energy dependence on foreign nations.





NEVADA

U.S. 2020 CENSUS DATA

3,080,156 POPULATION

(up +14.1%)

TOP MARKETS:

LAS VEGAS

10,302 HOUSING
STARTS

(up +1.3% YOY)

10,706 TOTAL NEW
HOME SALES 2020

(up +5.9% YOY)

897 DECEMBER NEW
HOME SALES

(up +24.8% YOY)

RENO

2,113 HOUSING
STARTS

(up +9.2% YOY)

2,464 TOTAL NEW
HOME SALES 2020

(up +36.1% YOY)

295 DECEMBER NEW
HOME SALES

(up +79.9% YOY)

NEVADA ECONOMY

- Tourism
- Mining
- Agriculture
- Manufacturing
- Gaming

Vegas is still reeling from COVID's negative impact on the leisure and hospitality industry, and experts predict it will take the Vegas economy another two years to recover. Recent surges in COVID cases have Governor Sisolak considering new lockdown measures, which will further slow recovery. Yet even with the slow recovery at hand, the housing market is outperforming the rest of the economy, with high demand met by low supply driving pricing.

Enterprise, NV, an unincorporated town in the Las Vegas Valley, is the 5th fastest growing city in America. Henderson, 16 miles southeast of Vegas, is the 12th fastest growing city while Spring Valley, 2 miles west of the Vegas strip is the nation's 23rd fastest growing city. Such is the trend across the United States, cities are shrinking and suburbs are exploding.

COVID hit Reno's entertainment and hospitality sector, but the region had been systematically diversifying its economy for the past several years and jobs have almost returned to pre-pandemic levels. New industries such as DayMed are expanding to Reno and bringing jobs with them. Albemarle is doubling production of lithium at Silver Peak to prepare for growing demand for EV (electric vehicles), and a \$3 billion Energos project, an ambitious carbon-neutral industrial park, is underway.

Affordability in Reno is problematic. The median home price reached \$500,000, and homelessness in the area is on the rise in direct correlation.

UTAH

U.S. 2020 CENSUS DATA

3,205,958 POPULATION

(up +16%)

TOP MARKETS:

SALT LAKE CITY

4,617 HOUSING
STARTS

(down -0.6% YOY)

4,680 NEW HOME
SALES

(up +16.9% YOY)

OGDEN

2,812 HOUSING
STARTS

(down -1.4% YOY)

2,587 NEW HOME
SALES

(up +26.8% YOY)

PROVO-OREM

6,355 HOUSING
STARTS

(up +2.4% YOY)

5,592 NEW HOME
SALES

(up +53% YOY)

UTAH ECONOMY

- Aerospace
- Data Centers
- Advanced Composites
- Digital Media
- Distribution

Welcome to the Board Brief, Utah!

Utah is moving up as the number 7 state to relocate to in the midst of the work-from-home craze, and home buyers fleeing big metro areas have found a new place to call home in Salt Lake City. Home prices are on the rise as new buyers come in from New York, California, and shockingly, Texas. Buyers are looking for suburban settings and eschewing downtown multifamily units. Median home prices are at \$375,869.

Lockdowns have not been significant in Salt Lake City. When the rest of the country was shut down in mid-April, Utah was still open for business. Staying open early-on reduced negative economic impacts, especially in hospitality sectors. A rising technology sector is contributing to job sustainability, with jobs only down -1.7%. Employment is expected to rise in the area in 2021 by 3%.

Housing is strong in Ogden, and prices are increasing at a breaking speed. The government accounts for the most jobs in the area at 20%. With a median home price at \$359,967, many government employees are finding themselves priced out of the market, and income disparity is growing to be a troubling concern for the region.

Home sales are up 53% in BYU's hometown of Provo, with the median price at \$365,000. The market is highly competitive, with homes selling 2% above asking price and going under contract within 7 days. Software is a major industry in the area. Fin-tech group LendingClub Corp is expanding here, adding 860 jobs. Labor shortages abound, with 5,000 openings for skilled workers unfilled.





CALIFORNIA

U.S. 2020 CENSUS DATA

39,512,223 POPULATION

(up +6.1%)

TOP MARKETS:

LOS ANGELES

5,778 HOUSING
STARTS

(down -3.6% YOY)

7,215 TOTAL NEW
HOME SALES 2020

(up +4.3% YOY)

SAN DIEGO

3,857 HOUSING
STARTS

(up +14.4% YOY)

3,857 TOTAL NEW
HOME SALES 2020

(up +14.4% YOY)

644 DECEMBER NEW
HOME SALES

(up +6.1% YOY)

383 DECEMBER NEW
HOME SALES

(up +33% YOY)

SACRAMENTO

6,183 HOUSING
STARTS

(down -3.8% YOY)

7,271 TOTAL NEW
HOME SALES 2020

(up +23.4% YOY)

637 DECEMBER NEW
HOME SALES

(up +39.4% YOY)

CALIFORNIA ECONOMY:

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

Hollywood is in trouble as the film industry has suffered a major blow due to the coronavirus pandemic. Disney has publicly stated plans for a partial relocation of its headquarters from California to Orlando. No deal has been signed, but the negative impact to California would be significant. Home buyers are leaving the area, heading for more affordability in Texas, Arizona, and Nevada. A glut of multifamily units paired with high unemployment has rent prices falling. Housing starts are down in the area, contributing to a decrease in supply so home prices are still rising from their already record highs. Google, Apple and Netflix keep employment in the tech industry strong in the region, one of the bright spots for the area during the pandemic.

San Diego home prices continue on the upward trajectory. Low interest rates, low supply, and WFH orders keep the bidding highly competitive. Homes

are selling in San Diego at the fastest rate in the nation. Starts are on the rise and expected to continue through 2021 to accommodate growing demand. The Otay Ranch mixed-use development near Chula Vista with 2,000 homes has finally received approval, 25 years after initial inception.

Sacramento is the welcome recipient of workers fleeing San Francisco for lower rents and more space due to WFH orders. Sacramento ranks among one of the top metro areas for workers looking to relocate, along with Las Vegas and Phoenix. New median home pricing in Sacramento is \$517,750, compared to \$750,500 in San Francisco. Starts are down as builders struggle with labor and material shortages, financing difficulties, strict stay-at-home orders, and a rising surge in cases.

Big Tech plans to keep a remote workforce even after the pandemic ends, which is bad news for commercial real estate in the Bay Area. It has, however, been great for the single family housing market as the remote workers who stay in the area want more room to spread out. Housing in the crowded city is weak as workers move to the slightly more affordable North and East Bay. Multifamily rents are down. Still, much of the workforce is fleeing to Texas to escape the extremely high cost of living.

Why Businesses are Moving to Texas:

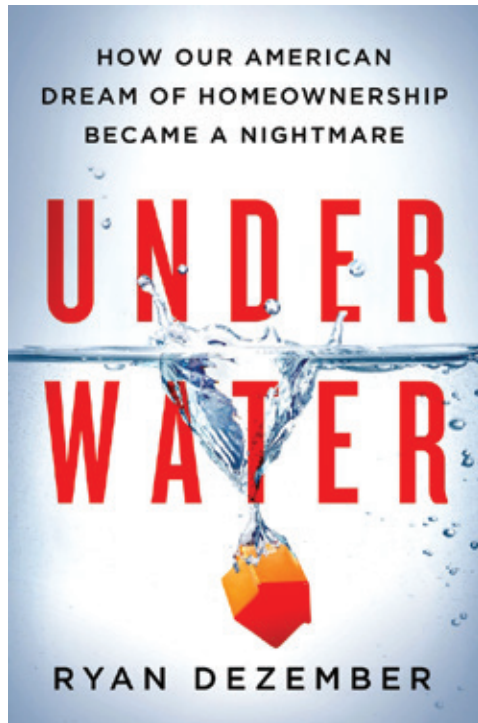
	TEXAS	CALIFORNIA
Median Income	\$61,874	\$75,235
Income Tax	0%	13.3%
Corporate Income Tax	0%	8.8%
Median Home Price	\$220,034	\$609,757

Jobs we didn't know existed: Site selectors who specialize in moving companies out of California. Firms like Spectrum Location Solutions are expecting a banner year as the exodus continues in California. New corporate tax hikes proposed have every major company exploring options as a matter of due diligence to their shareholders.

It is estimated that businesses save upwards of 20% on operating costs by moving from California to Texas. Savings are met in the form of taxes, commercial leases, payroll, labor, and utilities. No personal income tax is huge for corporations and their employees. Companies such as FileTrail state they have doubled their employee count while simultaneously reducing salary costs by 25% due to reduction in taxes and payroll expenses.

Workers moving from San Francisco to Austin see an enormous change in home value with the Bay Area's average price at \$1.38 million to Austin's \$438,000. Meanwhile, office leases average \$80/sq ft compared to Austin \$45/sq ft. The savings are astronomical. The most notable California ex-pat: Elon Musk. California losing that income tax, along with the other billionaires leaving the state, has to hurt.

WHAT WE'RE READING



Rising home prices, low inventory, buyers flocking to the market . . . we would be foolish 2020/2021 didn't remind us just a little bit of the early 2000's.

Wall Street Journal reporter Ryan DeZember brings us back to the trials of the subprime mortgage crisis in his book *Under Water*, and lays out how we got ourselves there. Believe me when I say this is a fascinating read, and at times, hysterical. I laughed out loud at his colorful descriptions of beach condo swinging developers, mainly because I've met them. In an analytical book that reads like a novel, DeZember gives an expert,

well-researched voice to the housing crisis of 2008, all from his painful but well-humored personal experience.

We should learn from our history as we embark on an unprecedented housing market, and this book is a wonderful tool to do just that. May we not repeat the mistakes of our past and move ever cautiously and optimistically forward.

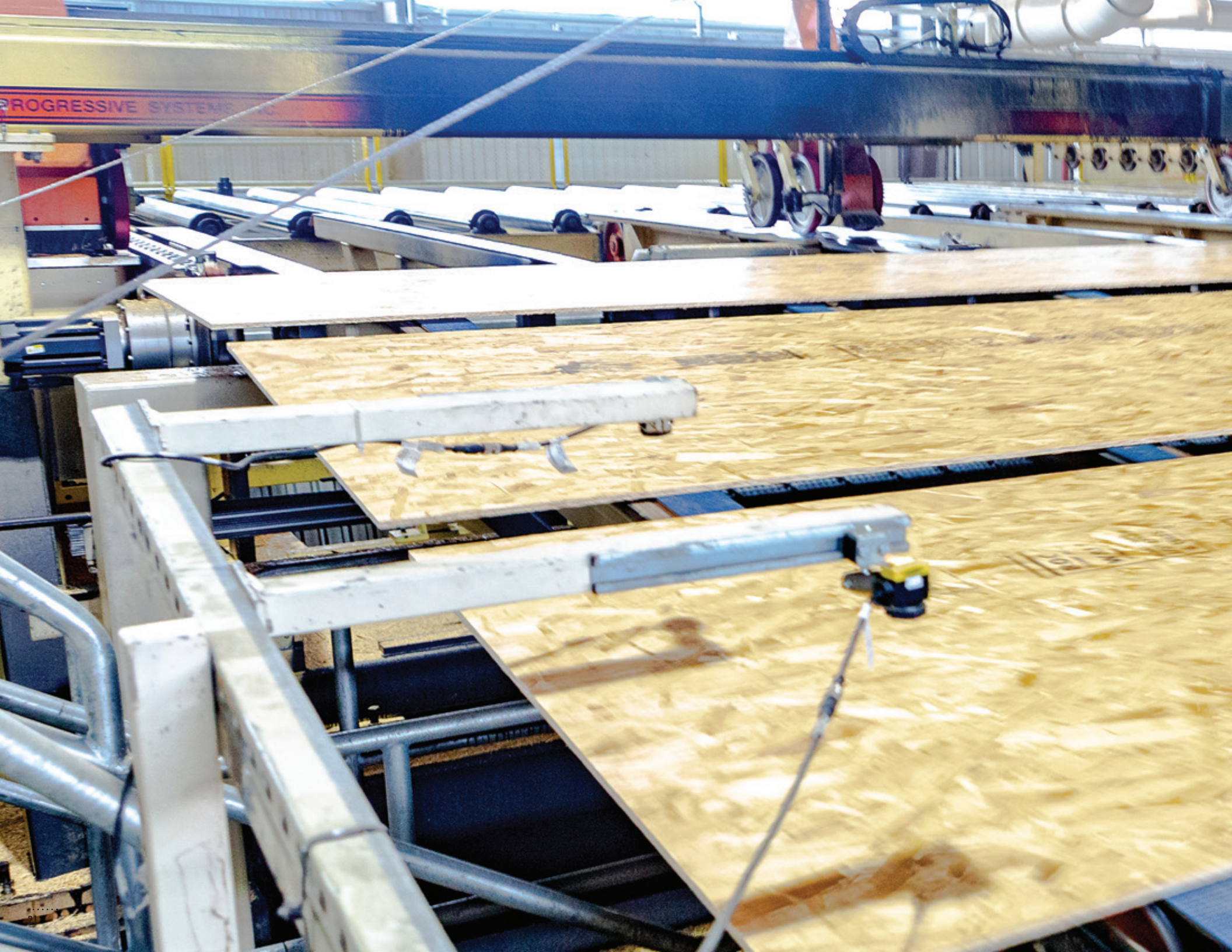
– Amanda M. Vincent

Historically, homeownership was thought as a necessary means to fight socialism and communism. After World War II Americans set out to build homes as a matter of patriotism.

.....
“No man who owns his own house and lot can be a communist. He has too much to do.”

– **Builder William Levitt of New York, as quoted by Ryan DeZember in *Under Water***

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SOURCES

HOME SALES AND STARTS: US Census Bureau, Redfin Data, Zonda, Trulia, Zillow, National Association of Realtors, National Association of Home Builders

PERMITTING: US Census Bureau, MetroStudy, Zonda, Redfin, Trulia

ECONOMIC DATA AND INDICATORS: WalletHub, Moody's, Bureau of Labor and Statistics, Bureau of Economic Analysis, US Department of Housing and Urban Development, Meyer's Research, BizJournal, Investopedia

PRICING: Random Lengths, FastMarket RISI, Redfin Data

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