

Since 1923

Roy O Martin[®]

BOARD BRIEF

2021 Q1

“We should have almost four million more housing units if we had kept up with demand the last few years. This is what you get when you underbuild for 10 years.”

**–Sam Khater,
Freddie Mac Chief Economist**

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.

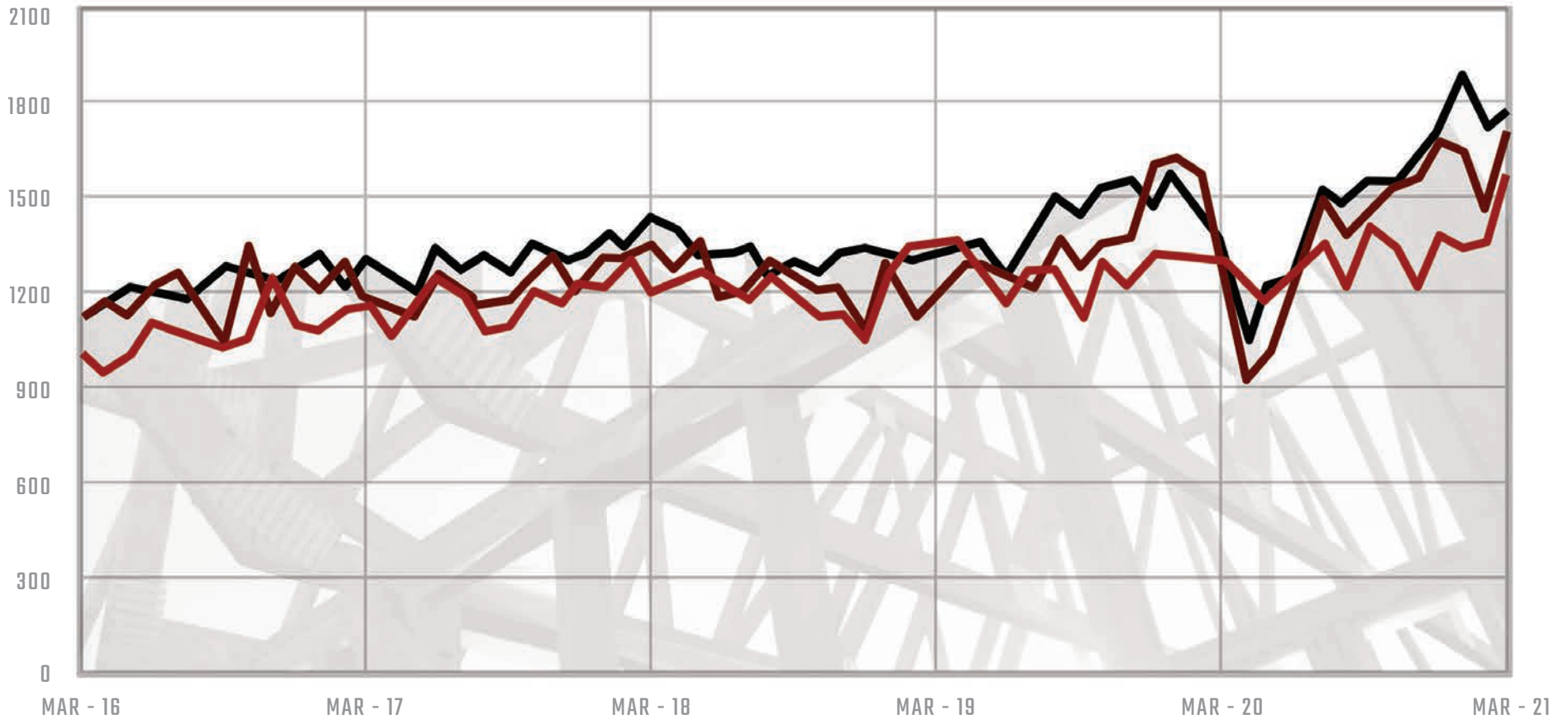
TRENDS WE ARE SEEING NATIONWIDE INCLUDE:

- Housing starts reached 1.739 million, up +30.2% YOY.
- New homes sold reached 1,021,000 in March, up +66.8% YOY with a median sales price of \$330,800.
- The US housing market is short 3.8 million homes, according to data from Freddie Mac.
- The mortgage market is hot, but approval is difficult. In a tight lending environment, 70% of mortgages in 2020 went to borrowers with credit scores of 760+
- Small town USA has become the beneficiary of “Zoom towns” as workers move to find more space and lower rents.
- Supply crunch in homes available for sale means more building is on the horizon. Buyers continue to flood the market. Buyers outnumber sellers by extensive margins, causing homeowners to stay put as there is no place to go.
- February winter storms hampering construction fueled a strong building surge in March.
- There are now more realtors than there are homes for sale in the U.S., with early Q1 having 1.04 million homes on the market with 1.45 million realtors to sell them, according to the National Association of Realtors.
- Mortgage rates bounced higher in March, with the 30-year fix jumping from 2.75% to 3.45% creating the biggest jump in mortgage rates over a 6-week period on record. 3.45% rates existed this time in 2020.
- According to Redfin data, over 1/3 homes sold in February went for more than their original asking price. It’s the strongest seller’s market since 2006.
- The age of the average U.S home is 45 years old. Demand for wood for repairs and remodeling has been around, it simply took stay-at-home orders to get homeowners to finally move on upgrades.

NEW RESIDENTIAL CONSTRUCTION

Seasonally Adjusted Annual Rate

— Permits — Starts — Completions

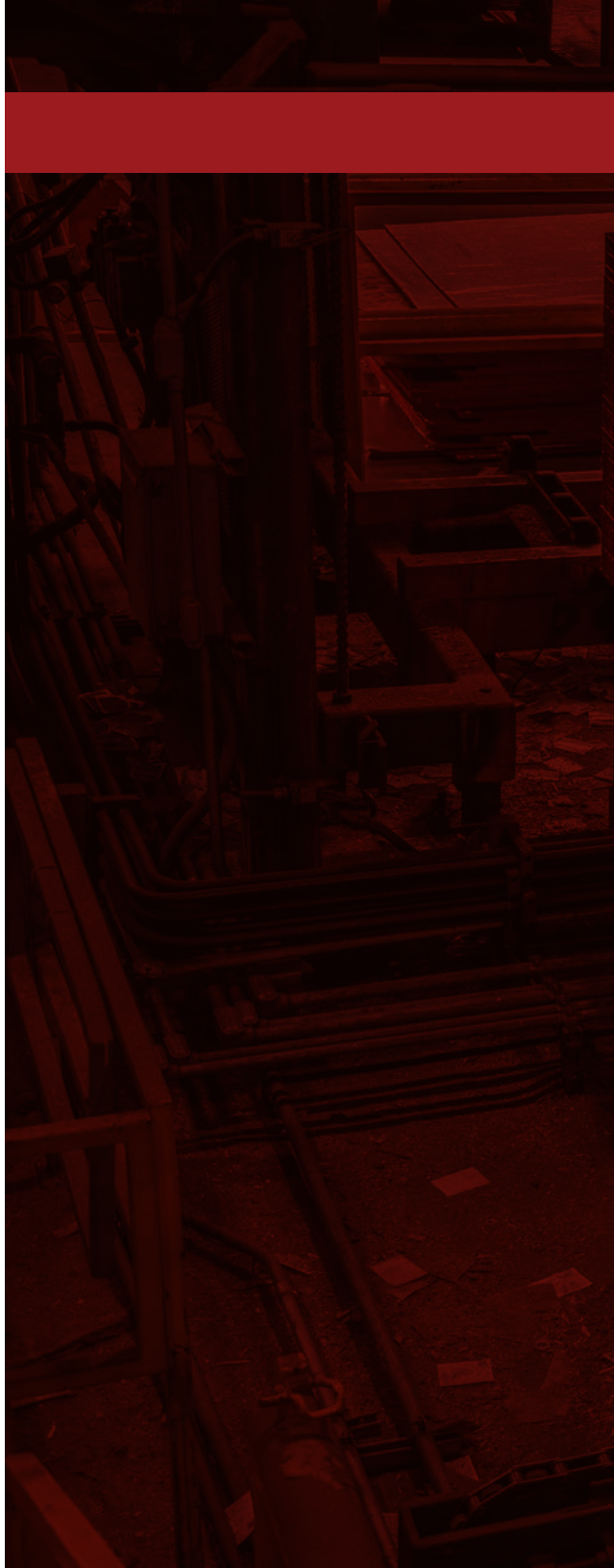
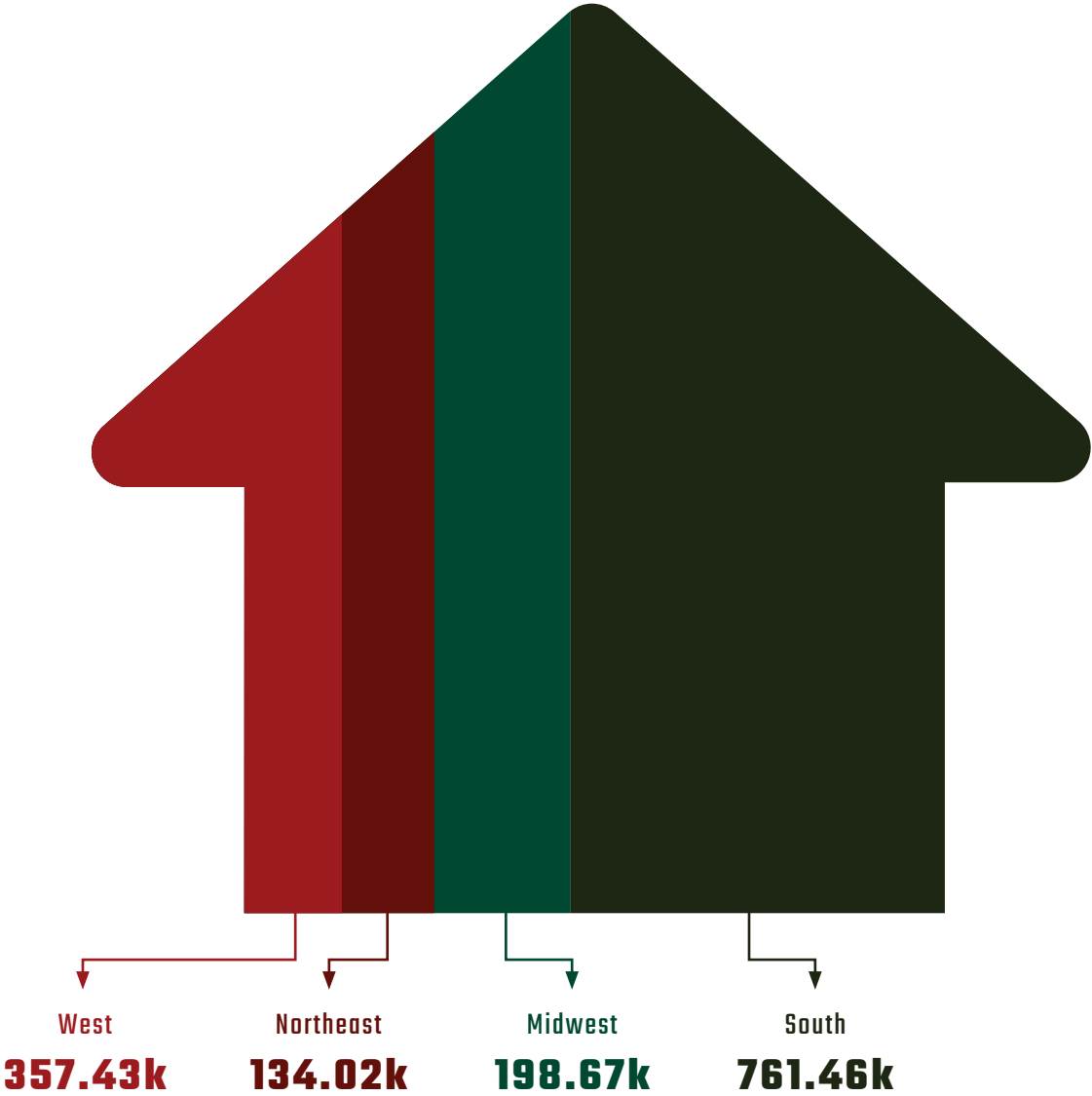


Source: U.S. Census Bureau, HUD, April 16, 2021

Housing completions continue to lag starts due to constraints in supply chain. New home construction halted in 2007-2009 recession. From there builders were reticent to build. Millennials were reluctant to jump into the market after living through the sub-prime mortgage crisis.

THE BUILDING FRENZY IS IN THE SOUTH

Total Permits by Region (YTD 2020)



OSB PRICING YOY

APRIL 2020

\$187

APRIL 2021

\$1,160

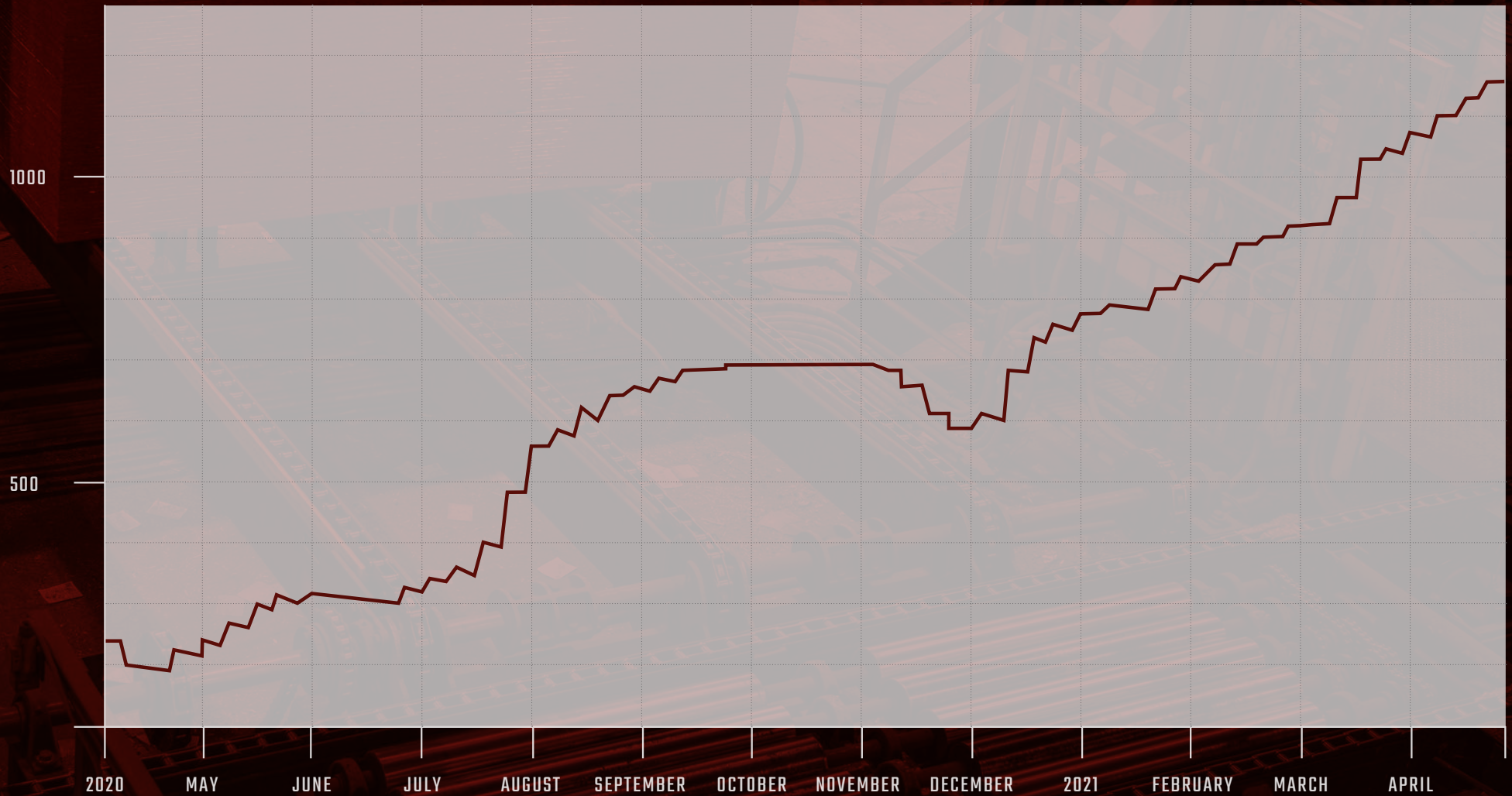
OSB SHEATHING (SOUTHWEST) 7/16" PRICES NET F.O.B. MILL
US Southwest RL End-week

\$1,160

UP \$973

(+520.3% YOY)

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





LOUISIANA

TOP MARKETS:

BATON ROUGE

3,848 PERMITS
(up +7% YOY)

2,238 STARTS
(up +2% YOY)

NEW ORLEANS

827 PERMITS
(up +24% MOM)

LAFAYETTE

2,425 PERMITS
(up +50% YOY)

6,177 HOME SALES
(up +10.4% YOY)

LOUISIANA ECONOMY

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

Baton Rouge

Buyer demand in Baton Rouge spiked in March with 1,352 closed sales up +36% YOY. Inventory is at an all-time low of 1.4 months. Builder confidence is high, even amid struggles with material shortages, supply chain disruptions, rising prices in materials, and project delays. Major developments are moving forward with Harveston, a 1,000 lot community with lots ranging in price from \$450,000 to \$650,000, Rouzan, which is now developing its restaurant and commercial property and adding 250 luxury apartment units, and a residential 52-lot infill subdivision off Sherwood Forest Blvd. and Old Jefferson Hwy.

Baton Rouge lost 14,897 residents in 2020 and is listed with Redfin data as a metro area with biggest net outflow trailing only New York, Los Angeles, Chicago, San Francisco, Boston, Seattle, Detroit, and D.C.

Amazon is coming to Baton Rouge and should be a boon for the area. Already the 2.9 million square feet is being expanded to 3.5 million square feet, with nearly 2,000 parking spaces planned. As we have seen across the nation, where Amazon goes, jobs go. Where we have jobs, housing is needed. Amazon comes as a bright spot in the economy as petrochemical companies reduce capital expenditures and push back projects in the region. Low demand from the pandemic coupled with President Biden's moratoriums on oil and gas leases are issuing a huge blow to the region and the state as a whole.

New Orleans

Developers in New Orleans were recently awarded grant money to create remote work hubs that would combine offices and co-working spaces with affordable housing from the co-living company Common. The city would be an attractive region for a younger workforce once a full reopening has commenced. The city has an overall B rating from Niche's Best Places to Live, earning the #36 spot for Young Professionals in America. A+ ratings for nightlife, outdoor activities, commute, and diversity

are brought down by lower ratings for schools and housing. Locals say that while it may not be the most logical place to live, the essence of the city steals your heart and soul.

Drew Brees may be retiring from the NFL, but he says he is not done with New Orleans. Brees is part of development team chosen as a finalist to redevelop the Six Flags site in New Orleans East. S.H.I.E.L.D 1, his foundation, plans to turn the site into education centers to help at-risk youth in the area. In addition to educational facilities, the property would have transportation hubs and an agricultural center to teach urban farming. The foundation is one of three finalists bidding to redevelop the site.

Median home sales in New Orleans are up +\$37,000 YOY at \$335,000, right in line with the national average. Affordability is a positive for the area, and if the city can offer incentives for remote workers and new businesses the area would see growth. Expansion of broadband network, a focus on safer streets, and complete reopening would help the area's economy. Cancelled festivals are set to now take place in October and the city anxiously awaits a recovery in the hospitality sector.

Lafayette

Single family housing dominates the Lafayette market with permitting up +51% while multifamily is on a steep decline with permitting down -67%. Home sales were up +42.8% YOY, depleting inventory and fueling the need for more construction. Lafayette now has only a 2.6 month supply of homes. To put it in perspective, Lafayette sold roughly 1,500 more homes than San Francisco this past year.

Lack of high-wage job growth and low walkability scores are contributing to the downturn of multifamily in the area. Just a few projects are on the horizon, including a 78-unit renovation of the old federal courthouse, and another downtown unit—The Monroe Apartments—that is slated to have 70 units. An Opportunity Zone project revitalizing a former Coca-Cola bottling plant, which will house 40

apartments with community spaces and another 65 mixed-income residential units, is expected to begin soon.

Employment in Lafayette is down -3.5% as the area suffers from the declining oil and gas industry. The hospitality industry is still lagging from the pandemic, and not expected to recover until 2022. The health-care sector is expecting a good year. Oschner's Hospital System is investing \$95 million in local improvements including a new tower with more capacity and more jobs, increasing jobs in the area by 1%.

The cities of Lafayette and New Orleans ranked in the bottom tier, Tier 5, for the Milken Institute's Best Performing Cities list. Lake Charles had the biggest drop amongst small US cities, falling 129 places mainly due to economic volatility from the one-two punch of the pandemic and the hurricanes. Negative job growth, limited broadband network, and lack of high-tech industries are all contributing factors to the low performance of Louisiana cities.

But, have you tasted the food?



TEXAS

TOP MARKETS:

HOUSTON

37,978 NEW HOME SALES (up +24.7% YOY) **36,935 STARTS** (up +6.5% YOY)

AUSTIN

25,937 NEW HOME SALES (up +30.6% YOY) **21,415 STARTS** (up +5.2% YOY)

DALLAS

47,385 NEW HOME SALES (up +36.7% YOY) **42,465 STARTS** (up +9.1% YOY)

SAN ANTONIO

17,948 NEW HOME SALES (up +44.9% YOY) **16,462 STARTS** (up +9.2% YOY)

TEXAS ECONOMY

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

Texas added more construction jobs in March than any other state. Construction jobs were up +2.6%, or 19,000 MOM as builders scrambled to make up for losses from the freeze in February. Construction jobs in the state are down for the year however, with the state losing the most construction jobs in the country, -35,400, down -4.5% YOY. Builders struggle with unprecedented supply chain issues, which the February freeze only exacerbated. March brought signs of hope the home building industry will be going into overdrive for the late spring and summer. Buckle your seatbelts, it looks like Texas is just getting started and will be making up for lost ground in the coming quarters.

Houston

Houston needs more inventory. It is expected that housing starts in Houston will outnumber the housing starts in the entire state of California in 2021. While Houston is hoping more sellers will begin to put homes on the market to free up inventory, the massive demand for housing in the area will keep prices competitive and inventory low.

Housing starts are slowed by supply shortages and rising cost of materials. Labor is also in short supply and is slowing the area's building boom. Houston is second only to Dallas in total volume new home starts. Staggering existing home inventory is driving the building industry, fueled by record low interest rates and desire for larger spaces. If builders can keep pace with the growing demand they will be set for a record-breaking year.

Out of state workers continue to choose Houston as an affordable alternative to work from home. Houses are larger, lot sizes are larger, communities are well-built, and the perks of the big city are just around the corner from suburban neighborhoods. The Woodlands was recently rated No. 1 on Niche's 2021 Best Cities to Live in America List. Public schools, housing, family friendliness, nightlife, diversity, and low crime all contributed to the A+ rating for the city.

San Antonio

Concern over San Antonio's housing shortage continues as listings are down -59.5%. New home construction is not keeping up with the soaring demand in the area driving land, material, and labor prices higher. Even still, San Antonio is the only major metro area in the US that saw housing growth in the under \$200,000 range, affordability gained by builder/developers buying land and developing lots themselves, cutting out third parties. Affordability continues to be a huge driver to the San Antonio market, especially among younger home buyers.

In this unprecedented market of strapped capacity and high demand creative, innovative projects are key. New uses for shuttered movie theaters? High-end luxury apartment complexes. San Antonio's Regal Cinema on Vance Jackson Road is now closed permanently, and Houston owner Weingarten Realty is looking to capitalize on the growing San Antonio population by working with multifamily developers to explore potential for the vacant site. The Morgan Group plans to build multifamily units encompassing 14 acres in the master-planned community of Longhorn Quarry near I-35 and 410. The development will be located right next to Morgan's Wonderland, a unique theme-park for special needs children.

Austin

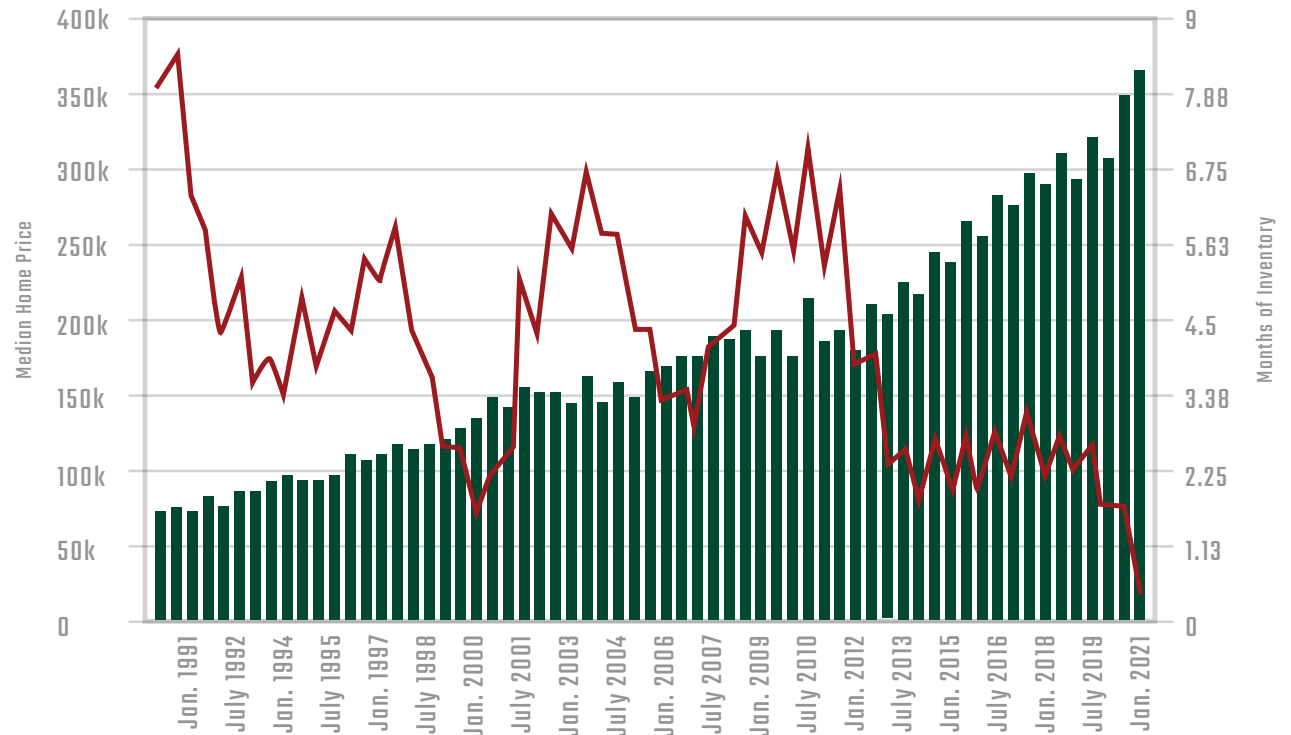
Austin is affordable . . . for those coming from California, that is. Austin is reporting at least 18 corporate relocations to the city within the first two months of 2021. Deep-pocket tech-investing out of towners are gobbling up Austin real estate and pricing locals out of the market. According to Redfin data, the average home buying budget for incoming residents from out of state is \$852,276. Apparently, when a software company moves its high-income workforce to a more affordable community they do not lower their salaries, thus sending a once-affordable market to record low-supply levels and record high prices. Home values in Austin jumped 18% YOY to \$295.2 billion in February 2021.

According to Zillow, "No housing market will be hotter than Austin's in 2021." Zillow marks Austin as the no. 1 relocation destination, thus sending a white hot housing market soaring even higher. The area's current inventory is at a 15 day supply and has seen as low as a 3 day supply in Q1. Healthy markets, where supply can meet the demand, have up to a 6 month housing supply.

Experts agree: this is no bubble. Graph below from Biz Journals Austin shows relationship of home pricing compared to inventory.

Inverse Relationship

This graphic shows 30 years of Austin-area housing statistics, illustrating the correlation between inventory and prices.



A housing bubble would suggest the market is superficial, with speculating buyers making purchases for investments rather than need. The job growth, influx of corporations moving their headquarters to the region, and need for housing at all levels indicates no such bubble is in store for Austin for the foreseeable future.

Elon Musk continues his quest to build his own city-within-a-city in Austin with the possible addition of a Space-X facility which could locate near the current Tesla factory. As of now no permits have been filed, but site-prep is happening close-by for a “development project” that is the highly speculated location for Space-X. Even Elon Musk is tweeting about housing, as he needs the Austin area to ramp up homebuilding to accommodate the 10,000 workers he is bringing to the city.



High population growth, employment gains, and lifestyle will continue to drive the Austin housing market for the foreseeable future. Q2 alone is on track to see 6,000 starts in the area.

Dallas

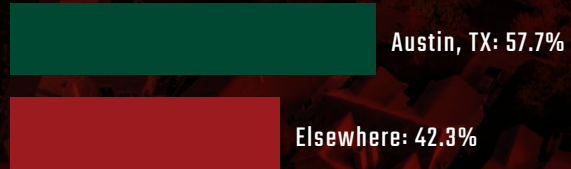
Median home prices in the DFW region are up +14.9% YOY at \$314,900. The housing supply in Dallas is at a record low 1.1 month supply. Sellers are receiving multiple offers \$10,000 above asking price within hours after listing. Some sellers are requesting no inspections and no appraisals. Buyers are complying and using the listing price as the starting price for negotiating. There is mounting pressure for builders to build more homes to keep up with the market, but even still new homes are selling before builders can break ground. Demand for housing in DFW is expected to drive starts past 50,000 in 2021.

Dallas builders grow increasingly perturbed by the city’s permitting system. During the pandemic, permitting officers were allowed to work from home, moving the once all in-person permitting process completely online. Where permitting reviews could once take as little as two hours, builders now experience two month delays, and even that timeline is only achieved by calling daily, according to builders in the area. It is estimated that Dallas permitting is at least 10 months behind, costing the city anywhere from \$264 million and \$382 million in tax revenue growth. The city has hired more staff members and upgraded computer systems to address the bottleneck. The goal is to clear the backlog and have a new process for 2– 3 week full approval for single family new construction permits.

**Texas is now home
to over 750,000
former Californians.
The state’s growth
is reflected in the
2020 Census and will
receive an additional
two congressional
seats as a result.**

WHO'S MOVING TO AUSTIN?

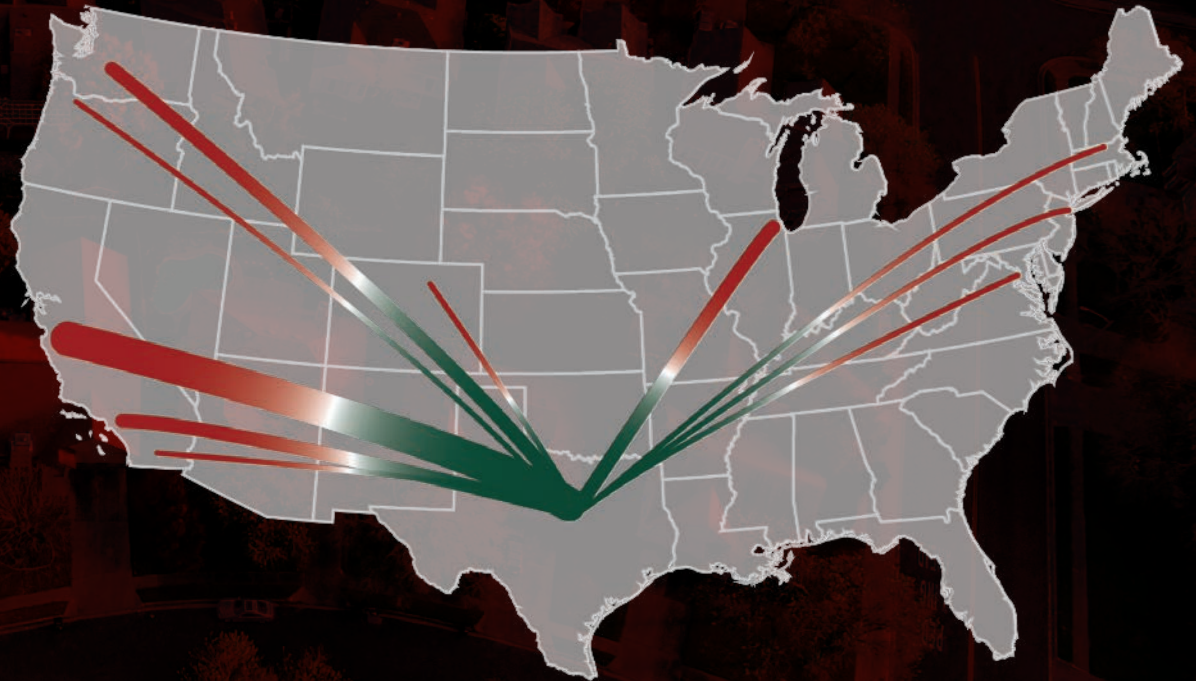
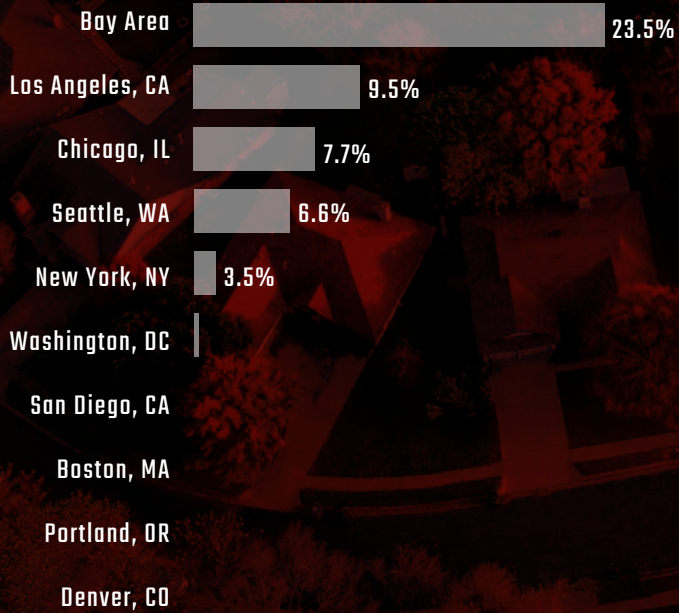
Percentage of Austin, TX Redfin users searching from....



Origin → Destination

Origin as % of Destination Incomers

Out-of-State metros only



Above chart from Redfin data shows 33% of migrants are coming from California.



ARKANSAS

TOP MARKETS:

FAYETTEVILLE/BENTONVILLE

7,234 PERMITS

(up +2% YOY)

LITTLE ROCK

2,903 PERMITS

(up +13% YOY)

ARKANSAS ECONOMY

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

Bentonville

Bentonville wants to be the Zoom town of choice, and is launching initiatives specifically designed to appeal to remote workers. A recent recipient of a grant to create remote work hubs, Bentonville is offering \$10,000 plus either a free bike or membership to museums to lure remote workers. Large companies like Slack and Zillow have stated that their workforce can remain permanently remote. Workers want a cheaper house and reduced living costs by 50% or more. Bentonville is attractive to these workers, and as a result of the city's efforts housing is up 12.1%. Instead of luring big businesses as chambers of commerce were prone to do pre-Covid, cities are now better off spending money on better schools, public services, parks, green spaces, safer streets, bike lanes, and walkable neighborhoods.

Little Rock

Service industry jobs are down -7.3% or 11,600 jobs in Little Rock as the area is still reeling from the pandemic. Amazon is again coming to the rescue with a new facility creating over 500 new jobs. Housing prices are on the rise as first time buyers enter the market. Affordability is still high, even with home prices climbing 14.4% YOY as the area's average of \$248,400 is well below national average. Permits are on the rise for both single and multifamily units, but home buying in the area has cooled.

OKLAHOMA

TOP MARKETS:

OKLAHOMA CITY

7,613 PERMITS

(up +16% YOY)

TULSA

4,827 PERMITS

(up +11% YOY)

3,080 STARTS

(up +22.8% YOY)

OKLAHOMA ECONOMY

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

Oklahoma City

Oklahoma City is ranked by Forbes magazine as one of the most competitive housing markets in the United States right now. Single-family building permits are up +18% YOY as builders try and fill the demand. Material shortages, however, are slowing builders' progress. There is much talk about lumber shortages and price increases, but scarcity and rising prices abound in construction materials across the board. Due to stressed supply chains lighting fixtures, plumbing fixtures, nuts and bolts, windows, appliances, and piping are also increasing in price and contributing to delayed completions.

Tulsa

Manufacturing employment is down -14.2% in Tulsa as the energy sector struggles with lower demand during the pandemic and new industry restrictions. Tulsa's Future, a public-private partnership supported by the regional chamber is addressing economic concerns and working with the mayor to continue to offer attractive packages for businesses relocating and expanding. Past successes include Sofidel's \$360 million plant, Amazon's fulfillment center, Milo's Tea, and the Peoria Mohawk Business Park. \$259.3 million for the Gilcrease Expressway expansion is much anticipated and should be completed with 18 months.

Home sale closings are up +10% YOY and continue to grow. Inventory is down to a 1.93 month supply, and new home construction is slowing due to low supply of materials. Housing starts were up +22.8% YOY. Tulsa is also making the lists of possible Zoom Towns as smaller, more affordable communities become increasingly desirable for remote workers. Google, Microsoft, Slack, Salesforce, Zillow, Nationwide Insurance and Air B&B have all announced employees may continue to work from home for the long-term. Remote work is thus not only responsible for saving corporations money on office space, it is also reshaping our country as workers flee major cities to more quiet, family-friendly locations. Tulsa just happens to have what most remote workers are craving right now: affordable housing.

Commodities are on the rise and it's not just lumber: Copper, wheat, crude oil, and corn are all increasing in price. Historically, rising prices for raw materials have correlated with boosted corporate profits.

— The Wall Street Journal



NEW MEXICO

TOP MARKETS:

ALBUQUERQUE

1,937 SINGLE
FAMILY PERMITS
(up +5% YOY)

87 MULTIFAMILY
PERMITS
(down -68% YOY)

NEW MEXICO ECONOMY

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

Kirkland Air Force Base is spurring economic development in Albuquerque, along with Facebook, Amazon, and Netflix who are all expanding as well. Jobs are down but hiring is expected to rebound as expansions come underway.

Albuquerque will officially be Netflix's largest production hub with its new expansion, which includes \$150 million in capital expenditures and \$1 billion in production expenditures. The expansion will create 1,500 construction jobs and 1,000 production jobs, which is great news since we all finished Netflix during the pandemic and are now in need of new content.

Commercial space travel is growing and aerospace company Group Orion is developing its campus, the Orion Center, near Sunport, creating 2,500 jobs. Kirtland is one of six finalists to house the new U.S. Space Force, which would bring 1,000 new jobs if the contract came through. Amazon is bringing in another 1,000 jobs and Facebook is building a \$1 billion data center in Los Lunas.

Robust in-migration from remote workers is driving home sales, with median home prices up +9.0% to \$319,400. The major development of Mesa del Sol continues to grow so much that the city is now pumping money into its infrastructure for better access. Upgrading the Tijeras Arroyo bridge, widening roads, improving storm drainage, adding curbs, gutters, and sidewalks are all part of the plan.

ARIZONA

TOP MARKETS:

PHOENIX

27,711 SALES

(up +18.3% YOY)

24,259 STARTS

(up +3.8% YOY)

TUCSON

4,074 SALES

(up +26.7% YOY)

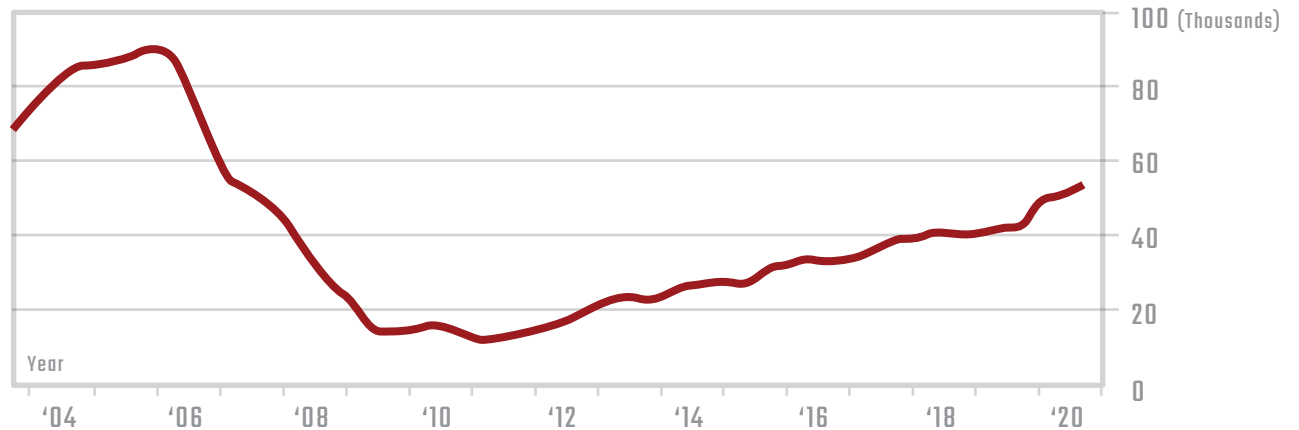
3,402 STARTS

(up +6.9% YOY)

ARIZONA ECONOMY

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

Exhibit 1: Housing Permits in Arizona Annualized, Trend-Cycle Component



Arizona was the epicenter of the 2007 subprime mortgage crisis. Housing permits reached record highs before the bottom fell out in 2008. Understandably, buyers and builders were reluctant to jump back in the market, even as the need continued to grow. The above graph shows that even at today's record highs, Arizona is not yet reaching the heights of 2006. There is still much room to grow. Buyers have more savings, mortgage rates are still low, businesses are relocating to the area and bringing a workforce with them, and once-hesitant millennials are now confident and eager enough to enter the market for the first time. Unlike 2007, today's market is not reflective of bubble we saw then. Mortgages are low, but harder to obtain. Speculators are not driving the market, homebuyers are. Economists forecast more growth on the horizon.

Phoenix

Phoenix continues to grow at unprecedented rates. Home sale prices in Phoenix are up +15.8% YOY, reaching a 15-year high. Buyers in the Phoenix area are fiercely competing for a limited supply of homes, and prices continue to climb as a result. As seen across the country, the hot housing market can be contributed to a wide range of factors including record low mortgage rates, millennials entering the market, an influx of remote workers, companies moving to more tax-friendly locations, and homeowners holding on to their houses longer. New home construction has also lagged behind

demand for the past ten years, and builders are just now beginning to make up for it.

Phoenix ranks highly for high-tech GDP concentration, job growth, and wage growth. Semiconductor manufacturing is growing, with TSMC building a 12 billion dollar business over 40 acres in the area. Another California tech company, Moov, is relocating to Phoenix to be at the "white hot center of the global chip shortage."

Tucson

The National Association of Realtors named Tucson one of its top commercial markets for 2021 for its lower office and retail rents. The top ten markets offer affordability and greater benefits for a remote workforce. Other winners for top commercial markets include Nashville, Austin, Charleston, Phoenix, Raleigh, and Salt Lake City.

It is a seller's market in Tucson with 428 new homes being sold in March, which is a 110.8% increase month over month. The median home price is \$302,620, and the average days-to-pending for houses on the market is 12 days. Homeowners who lived through the subprime mortgage crisis do have a little PTSD and are worried the area could see another collapse. The good news for Arizonians is that this is not where this market is right now. 2007 saw an abundance of short sellers and foreclosures, 2021 is seeing low inventory and high demand driven by a remote workforce.



UTAH

TOP MARKETS:

SALT LAKE CITY

4,717 SALES
(up +14.1% YOY)

4,623 STARTS
(up +1.2% YOY)

OGDEN

2,499 SALES
(up +16.8% YOY)

3,231 PERMITS
(up +15.8% YOY)

PROVO-OREM

5,729 SALES
(up +26.2% YOY)

7,113 STARTS
(up +11.3% YOY)

UTAH ECONOMY

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

Salt Lake City

Jobs and recreation are fueling growth in the Salt Lake City region. A popular tourist destination, vacationers are now sticking around for the jobs in the city's growing technology sector. High paying jobs coupled with low mortgage rates in a beautiful setting are spurring unprecedented growth in the housing market. Once

again experts are not seeing bubble territory as the majority of homes sold are to primary home buyers, not investors.

Broadband access has become a huge factor in quality of life for remote workers, and Salt Lake City has it. The region ranks 17th in the nation for widespread broadband access, positioning itself for continued economic growth as remote workers are still migrating and reconfiguring the economic map.

Ogden

The Ogden economy is seeing positive job growth, thanks in large part to Hill Air Force Base which provides 25,000 jobs in the area with a payroll of \$1.5 billion. The tech sector in the area is growing as the city recently received a \$50 million grant to fund the industry. The construction industry is hot as well, with the downtown master plan "Make Ogden" planning to add 5,000 housing units and 7,000 jobs over the next 25 years. The housing market in Ogden is bullish, with Construction Coverage ranking it the third hottest housing market in the U.S.

Provo

Provo ranks number one in the Milken Institute's Best Cities list, with low unemployment rates, low debt, a highly educated workforce, low crime, high tech GDP and high median household income all serving as contributing factors. Provo has benefitted greatly from the tech sector migrating out of the expensive state of California. Tech giants such as Vivint and Qualtrics have moved headquarters from Silicon Valley to Provo to cash in on lower costs for the businesses and better quality of life for employees. Now nicknamed the "Silicon Slopes," Provo can compete not only with quality of life but also a highly skilled workforce with graduates from BYU.

Economic growth and quality of life are fueling an already hot housing market in Provo, with fierce competition amongst home buyers. Median new home sales prices hover around \$400,000 and are forecasted to rise to \$422,500 this year, well above the national average.

Construction is on the rise in the state as a whole, and construction jobs are up 6,400 or +5.6%.

NEVADA

TOP MARKETS:

LAS VEGAS

10,902 STARTS

(up +6.4% YOY)

12,014 SALES

(up +14.2% YOY)

RENO

2,253 STARTS

(up +7.4% YOY)

2,848 SALES

(up +46.1% YOY)

NEVADA ECONOMY

- Tourism
- Gaming
- Mining
- Agriculture
- Manufacturing

Las Vegas

Vegas casinos are eyeing the housing market boom and hoping for the same pent-up demand in their industry. Casino resorts are lining up acts as corporations begin planning events again. The World of Concrete is hosting the first major return to Vegas in early June. Capacities in casinos were up to 50% in March from 35% in January.

Governor Sisolak announced plans to reopen at 100% capacity June which is great news for the region's leisure and hospitality sector. Fully re-opened cities and states are more fun to travel to and benefit more economically than states where lockdowns are still in place (refer to anything Florida Governor Desantis says).

The Vegas housing market is red hot, with the migration mania from Los Angeles residents being a huge factor. Once again we see incoming residents pricing locals out of their own market, and new home construction is moving north to the suburbs as affordability declines.

See the below chart. If you lived in Los Angeles in a 2500 sq foot home and wanted to buy the same house in a similar neighborhood in Vegas, you would save over \$600,000. San Franciscans would save even more:

Las Vegas	
Square Footage	2,554
Price in Vegas	\$535,639
Price in LA	\$1,174,488 (Los Angeles/OC)
Price in San Francisco	\$1,193,538 (San Francisco)

Credit: Zonda Housing Intelligence

So, even as prices rise in Las Vegas, they are still incredibly affordable for many out-of-state transplants.

Reno

Supply is low and sales outpace new listings in Reno. Home values are up due to low inventory as owners hold off on listing properties until pandemic is over. Median home prices are now at \$430,000, up +6% since February.

The California influx is helping drive the market in Reno, which is happily situated close to Lake Tahoe and the California border. High taxes, strict regulatory restrictions, and high cost of living are driving California residents to the nearby respite of Reno, where they can sell their California home for \$600,000 and buy a larger one in Reno for \$400,000. Add a lower tax rate (and no income tax), and it literally pays to move to Nevada. Reno residents are young with the median age at 35, and the money made from the move can help them pay off student loans and credit cards.





CALIFORNIA

TOP MARKETS:

LOS ANGELES

6,155 STARTS

(up +5.9% YOY)

7,534 SALES

(down -2.7% YOY)

SAN DIEGO

3,158 STARTS

(down -0.2% YOY)

3,579 SALES

(down -7.2% YOY)

SAN FRANCISCO

4,961 STARTS

(up +3.1% YOY)

4,587 SALES

(up +14% YOY)

SACRAMENTO

6,611 STARTS

(up +6.9% YOY)

8,198 SALES

(up +31.9% YOY)

CALIFORNIA ECONOMY

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

California has set a full opening date: June 15, 2021. Assuming, vaccines are widely distributed and hospital rates remain low. Full reopening could be of political benefit to current governor Gavin Newsome, who now officially faces a recall election over his handling of the pandemic. Housing is not staying out of politics with challenger John Cox, a real estate developer, making housing his main platform and promising it will be the first issue he would address as governor. No word yet on how Caitlin Jenner would handle the housing market.

The housing crisis in California is complicated and in need of major reforms. Strict zoning and regulations contribute to the expense of building in a state where it is already expensive based on land and lot values. The California Environmental Quality Act (CEQA) gives activists license to sue any construction anywhere in the state based on environmental impact. One in five cases brought by CEQA litigations is a residential property. Local zoning codes, driven highly by design aesthetics, slow down housing production. Costs are also driven by lawsuits, environmental reporting, impact fees, multi-layered approvals, and strict regulations.

With what is being referred to as the “economic exodus”, California is now more populated by the wealthy who can afford the rising costs of building thus making the state more unaffordable for the average homebuyer. The median price for a single-family home in California hit a new record of \$750,000 – a 6% bump from December’s record and a 24% increase from 2020. In comparison, the national median home sale price hit a record \$353K – up +17% from 2020, while the number of homes for sale plummeted -29%, pushing homes that are on the market into offers well above asking.

As housing becomes more and more unaffordable in the golden state, a young workforce is fleeing due to the burden of regulations, cost of living, and increasing housing prices. Most Californians migrating to other states are under 35 and earn less than \$50,000 a year. The California tax rate is higher than almost every other marginal state rate in the country.

San Diego

San Diego home prices rose the third fastest in the country in comparison to other major cities, climbing +14.2% in comparison to the national 11.2%. This is largely due to the increasingly limited housing supply within the area, in concurrence with low mortgage rates. San Diego's median price hit an all-time record at \$700,000 up +6.3% YOY. There were 1,483 homes sold just in March this year, according to Redfin. More supply is needed to put a pin on the price growth. Fewer homes on the market make homeownership difficult unless buyers are willing to pay well above asking.

San Francisco

San Francisco homes are selling at 60% above asking, but the portion of sales has declined over the last year. San Francisco produced 4,402 new units in 2020, representing a 9% decrease from 4,858 in 2019. Some seem to think this is a larger part of a cyclical move-out/move-in - there will always be tech and startups in the bay area.

However, residential rentals in San Francisco decreased 27% from a year ago, and the office vacancy rate has spiked to 16.7%. Austin is the no. 1 destination for those leaving the bay area: no state income tax is a huge plus for businesses and families alike and a move from San Francisco to Austin would likely yield \$34K more in annual disposable income. The prominence of remote work combined with the freedom to work from a more cost-efficient, family-friendly state is amplified.

Sacramento

The exodus from the Bay Area to Sacramento shows no signs of slowing down. 65% of homes in Sacramento have sold above asking in the last month, even with median prices increasing to \$530k, a 20% jump over this time last year. This is partly due to competition from remote workers moving from Los Angeles and San Francisco now they are no longer tethered to the office. Studies show that moves from San Francisco to Sacramento went up 70% as the transition yields new residents \$28,000 more a year in disposable income.

This trend does not just apply to single-family homes – younger workers are enjoying the new WFH movement and they are eager to move from a cramped San Francisco apartment to a less expensive one in Sacramento. Occupancy rose to 97% from 95%. This is compounded by increased interest from developers who are looking to build single-family homes for rental.

Kellie Swayne, president of the Sacramento Association of Realtors, describes it as the perfect storm – with a “10-year backlog of construction for new housing and the demand for housing now exponentially outpacing the ability to construct” – she’s not wrong. Over the past few years, legislators in Sacramento have been working to increase housing production with bills to rewrite unnecessary zoning regulations, streamline the environmental reviews and mitigate any red tape roadblocks, but the progress is slow.

An alternative to Sacramento for many looking to relocate from the hustle and bustle is the charm of nearby “Zoom town” Truckee, CA. Primarily known for the influx of seasonal visitors at peak tourist seasons, Truckee, like many other resort towns, is now seeing a steady migration of big city prospects. The benefit of the one group comes at a slight disadvantage to the locals. Towns like Truckee are simply not equipped with the infrastructure to accommodate rapid growth. Critically, the town is already experiencing limited housing availability, and incomers are sending home values up +20% and thus excluding locals who do not bring the cash power to meet offers above asking.

For the first time since it became a state in 1850, California is losing a congressional seat due to the loss in population as reflected in the 2020 Census.

FEBRUARY FREEZES IMPACT AN ALREADY TIGHT SUPPLY OF WOOD PRODUCTS

We all thought 2020 ended on December 31st, but it seems we are in to the fifteenth month of 2020 with the many obstacles our RoyOMartin team has faced in early 2021. Our two OSB mills in Oakdale and Corrigan completed two-week and one-week annual maintenance outages, respectively. They were quickly followed by the longest stretch of sub-freezing temperatures the deep south has seen in decades. As the weather produced significant freezing precipitation, we proactively took all three of our mills down on Monday February 15th. We knew it would be too unsafe for our team members to travel to and from work. The road conditions did not improve until Friday of that week. Fortunately, none of our facilities was affected by the power grid issues in Texas or rolling blackouts in Louisiana. We took many precautions across our business to deal with freezing weather, but our facilities were not designed for such harsh and long lasting freezing winter weather. When we were safely able to return to the mills, we found MANY broken fire water lines, process water pipes, potable water pipes and frozen equipment. The RoyOMartin maintenance teams rose to the challenge and safely completed the repairs by Sunday, February 21st.

But...it was NOT over just yet. As we were attempting to return our operations to full capacity, we learned the same weather system shut down most all of our raw material suppliers including phenolic resin, MDI resin, Wax, and the base chemical in our foil glue. Our manufacturing team has an operating philosophy to keep the resin and wax storage tanks at 75% level or higher and this helped us 'weather the supply chain storm' that followed the ice storm. Due to strong supplier relationships and multiple raw material vendors, our teams have been able to produce OSB, Plywood, and Timbers without issue. We are seeing each of these raw material supply issues improve as we move into the second quarter. Our team's commitment to World Class manufacturing performance and exemplary customer service helped us stay focused on our customer's needs during a very challenging time.

**- Terry Secrest,
Executive Vice President**

2020 saw \$228 billion spent on remodeling kitchen and baths, making big box home building stores huge winners. Home improvement grew +17% in 2020.

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Home Improvement Retail Store Sales

2019: \$138 billion in sales

2020: \$162 billion in sales



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SOURCES

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