



Since 1923

Roy O Martin®

BOARD BRIEF

2021 Q3

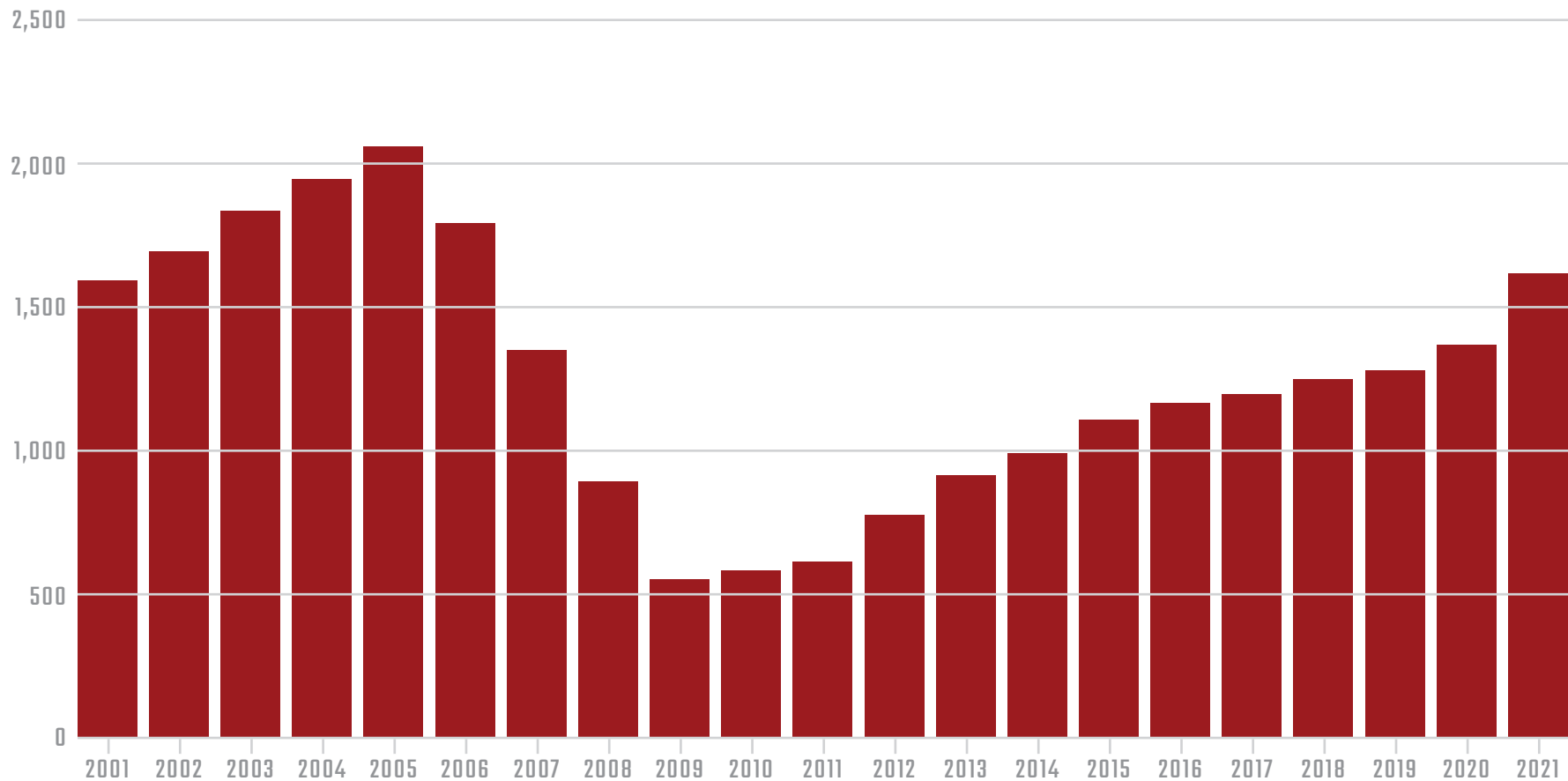
The United States is short 5.24 million homes. Builders would have to double their home productions in order to close the gap in five to six years.

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:

- Housing starts in September at 1,555,000, a five month low down -1.6% from month prior
- A record 4.3 million Americans quit their jobs in August. Job openings on the market: 10 million
- \$1 Trillion Infrastructure Deal passed by House
- Inflation: Consumers spending more on goods and services have less money to spend on housing
- Builders are working with the worst lot shortage ever
- Appraisers are not keeping up with rising material prices. Houses not meeting appraisal are upending sales, with 13% of appraisals in August coming in below sale price.
- The national home price index rose 19.7%, the highest rate of growth since 1987
- Supply chain worries continue, with 90% of builders reporting shortages of appliances, framing lumber, windows, plywood, and OSB according to the NAHB.
- Mortgage rates on the rise, climbing to 3.14% week ending October 28
- The cost of building a home today is 20% higher than it was this time last year.

HOUSING STARTS: THE LAST TWENTY YEARS



While the construction industry is booming, we are still not at the healthy levels of the early 2000's, and pent up demand is ballooning. According to NAHB's Q3 Housing Trends Report, 20% of Gen Z and 29% of Millennials are looking to buy a home in the next year. As the largest generation looks to enter the housing market, the current housing boom is actually running at the slowest pace since 1995.

UNAFFORDABLE HOUSING

The home affordability index is at its lowest level since 2008, with 73% of buyers stating they can afford less than half of the homes for sale in their markets. The greatest disparities are in the Midwest and the Southwest, where buyers are seeing double digit increases in housing prices. According to new data from the Atlanta Federal Reserve, the median home price has reached a new record high of \$343,472 nationwide. The Home Ownership Affordability Monitor is down -11.5% YOY. The Federal Reserve Bank defines housing affordability as spending less than 30% of annual household income on housing and yet today, however, middle income households are spending an average of 32.4% of annual income on housing.

Affordable housing is absolutely essential for a thriving economy. Entry level homes should be affordable and available for median-income families. Families who are priced out of the housing market will rent, which will then raise prices for hourly workers.

Laborers need affordable housing available to them in the fast-growing markets that are most in need of supply. Builders all over the country are seeing the problem and some are working to rectify the issue even if it means loss of profitability. Ryan Von Weller, Managing Director of Development for Wendover Housing Partners in Orlando explains, “A lot of developers will build a house, and they’re passing on the 5% - 10% cost increase to the consumer who can roll it into a mortgage. We don’t have that luxury for affordable housing; we can’t build to the market. We’re building to a set rent

and factor, which makes it difficult for us.” Simply stated, affordable housing is being left to government programming and nonprofit organizations.

The Biden administration has made \$383 million available to NGO housing groups and community development organizations for building manufactured homes and small multi-unit properties. Freddie Mac is opening up credit for buyers of duplexes, making it easier for lower income individuals to finance home ownership. The White House is also regulating investment foreclosure sales and is now taking 50% of HUD defaulted mortgage notes and offering them to nonprofits to rehabilitate and then sell to non-investors. President Biden’s plan also commits to building 100,000 affordable homes in the next three years. As the U.S. housing market is short 5.24 million to 6.8 million homes, 100,000 affordable homes will be quickly consumed.

Share Who Can Afford Less than Half the Homes For-Sale by Region
(Percent of Prospective Home Buyers)

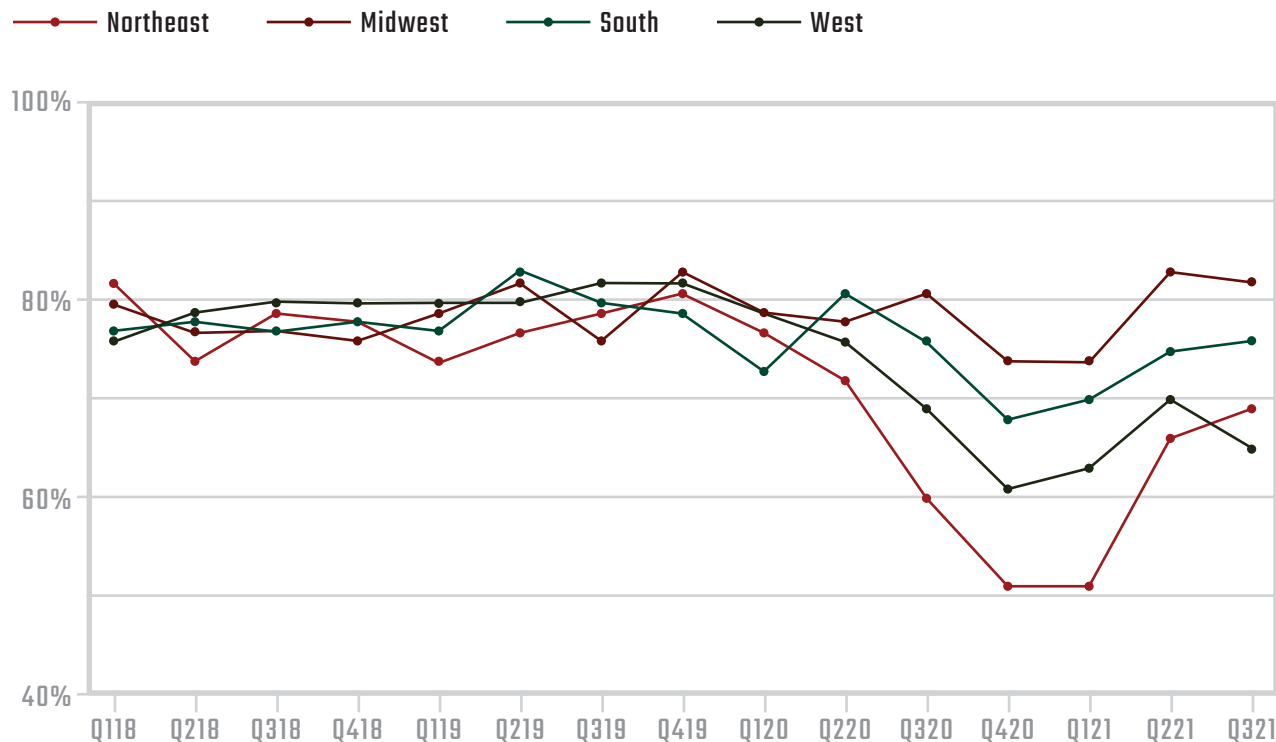
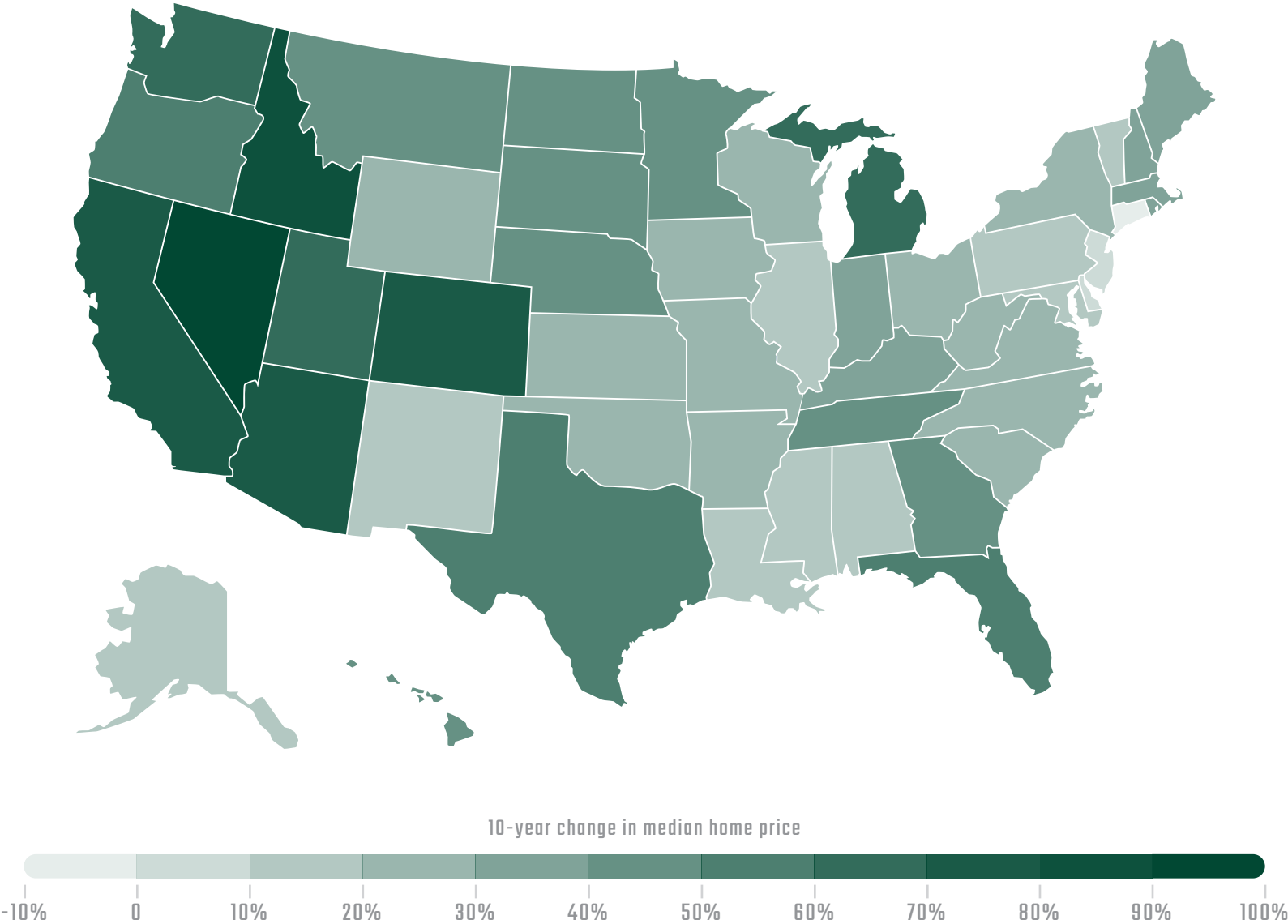


Chart from NAHB Eye on Housing. A large majority of buyers can only afford a small number of homes available to them in their markets, making competition steep.

HOME PRICES ... THIS IS GETTING EXPENSIVE

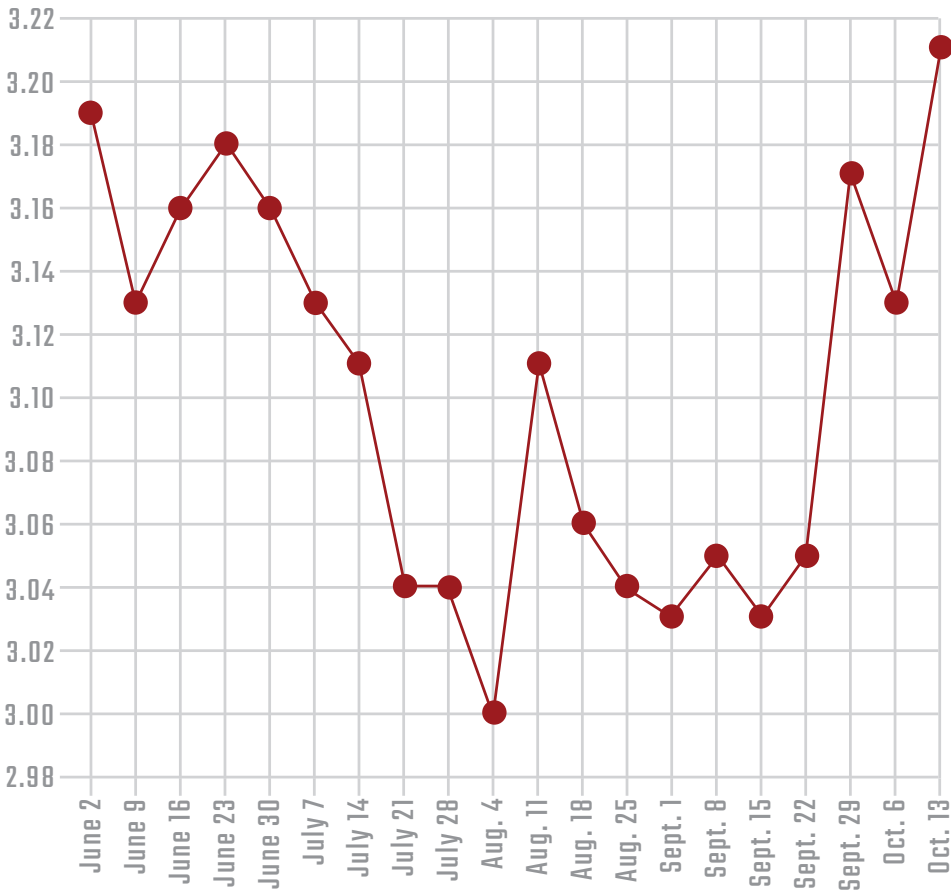


Source: Zillow

Housing prices have risen most dramatically in the west and Midwest

2021 MORTGAGE INTEREST RATES

Mortgage rates are on the rise and that isn't necessarily a bad thing. As buyers rushed to capitalize on historic lows, prices rose enough to price first time buyers out of the market. If the Fed keeps mortgage rates (3%) lower than inflation (6%), home prices will continue to rise, as history has shown. Housing prices could rise so much that families will be unable to afford mortgage payments, even at today's historic lows. Gradually raising interest rates could stall the buying frenzy, cause pricing to rise more steadily, and potentially avoid a 2008 market crisis.



OSB PRICING YOY

OCTOBER 2020

\$685

OCTOBER 2021

\$515

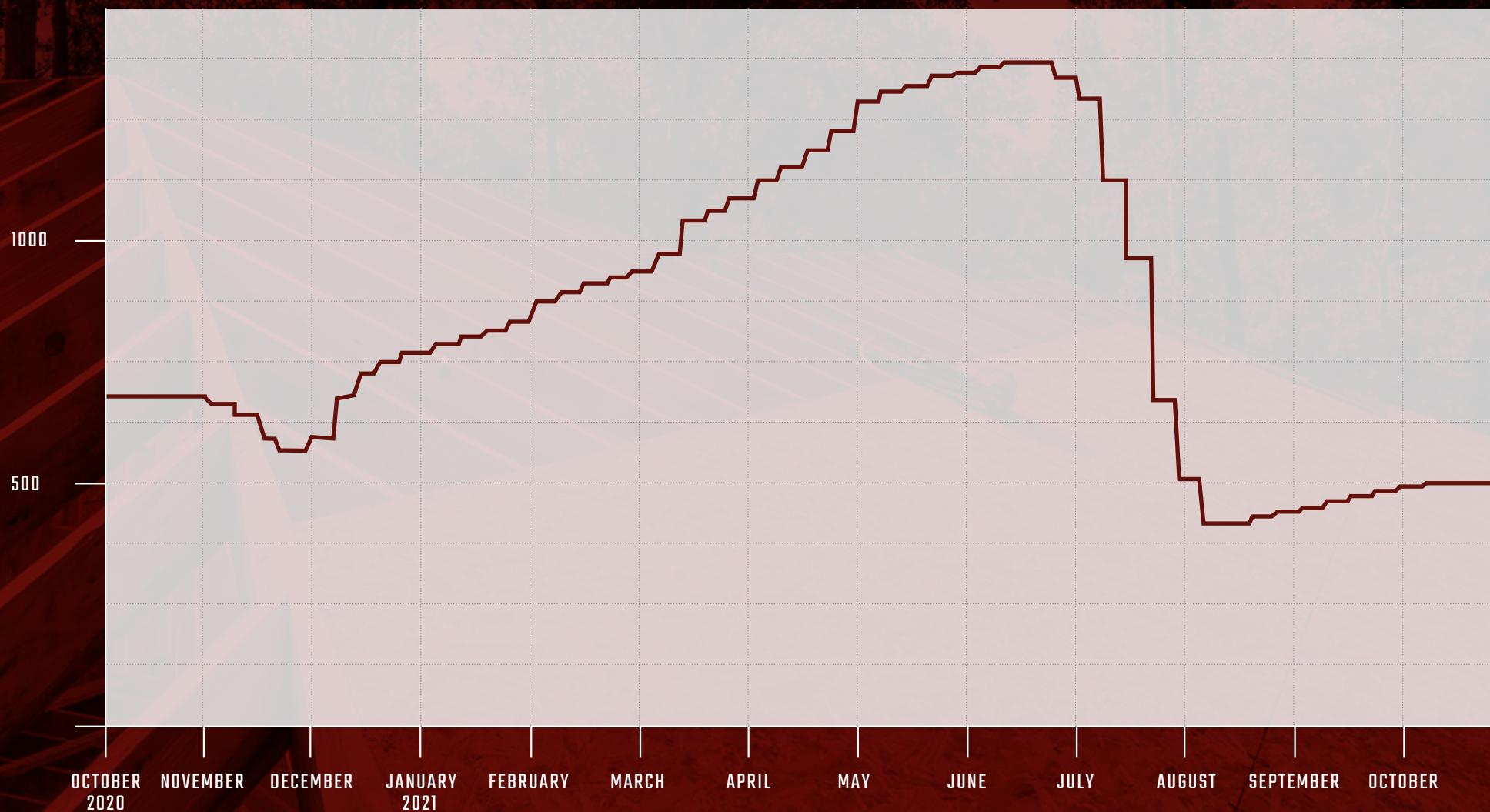
*OSB pricing on 7/16 OSB in southwest region from October 2020 - October 2021. Chart from Random Lengths, FastMarkets RIS. Prices are down for the first time year over year but have remained steady throughout Q3.

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

\$515

DOWN \$170

(-24.8% YOY)





LOUISIANA

TOP MARKETS:

BATON ROUGE

3,451 HOME SALES

(down -10.2% YOY)

3,426 STARTS

(up +17% YOY)

LAFAYETTE

2,940 PERMITS

(up +43% YOY)

2,294 STARTS

(up +19% YOY)

NEW ORLEANS

13,223 HOME SALES

(up +8.2% YOY)

3,236 STARTS

(up +27% YOY)

LOUISIANA ECONOMY

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

IMPACT OF INFRASTRUCTURE DEAL

- \$378 million for federal highways
- \$46 billion to rebuild coastline
- \$100 million for broadband
- Flood mitigation
- \$53 million to restore Lake Pontchartrain
- \$371 million for clean drinking water

Louisiana added 17,700 jobs YOY but lost 25,000 jobs in the months of August and September alone. Statewide unemployment is at 5.8%, underperforming the national average of 4.8%. Manufacturing, information, and government lost the most jobs while leisure and hospitality, logging, and professional business services saw the highest gains.

Baton Rouge

New home sale listings are down -22.6% MOM with 946 homes available on the market. 98.7% of homes sold were at list price. Q3 housing market was still hot, with low inventory (down -20.9%) contributing to record high sales prices and multiple offers. Months supply of inventory is down to 1.6 months, down -59% from last year's 3.9 month supply.

Tax breaks for builders and developers in North Baton Rouge have been extended by the Metro Council until 2026. Long neglected, development is finally progressing in North Baton Rouge, and not a moment too soon as crime in the area spikes. Experts note development will not only bring much needed quality of life to the area but also aid in cleaning up and securing neighborhoods. Build Baton Rouge is planning construction Q1 2022 on a \$10MM mixed-use development on Plank Road that will include affordable housing, child care centers, and office space. Housing vouchers total 12,799 for low income families in the area.

Lafayette

As President Biden shifts more resources to renewable energy sources, the Lafayette oil and gas industry and the sectors that service it are bleeding jobs. The economy in Lafayette contracted 6.3% below the national average of 4.5%.

The housing market doesn't care though as everyone's still buying houses in the area at a

record rate of 650 homes being sold each month. Inventory is short and permits are up +51% in single-family residential. Developments of 500 homes are being built north of I-10. Small surrounding communities Opelousas, Grand Coteau, Sunset, and Washington have all signed on to the three-phase Midway Corridor Strategic Growth Initiative to further economic development while simultaneously studying environmental and land-use concerns.

New Orleans

Supply increased in September flipping a seller's market to a buyer's market in New Orleans. There are currently 2,414 homes for sale on the market. Competition has ebbed as demand has decreased, making once multiple-offers now all but non-existent.

Someone is finally fixing the potholes in New Orleans and the city just isn't the same. If you can't blow a tire in a 4 foot crater in the garden district, are you really even in the Big Easy? The city is spending \$2.3 billion on the Joint Infrastructure Recovery Response program to rebuild 400 miles of damaged roads and infrastructure and crews are out patching potholes everywhere. That's right, potholes are so bad in New Orleans that fixing them requires \$2.3 billion in taxpayer dollars. But wait it gets worse...\$3.6B is what is actually needed to bring the all streets up only to a Fair rating, which no street in the entire city had at the time of the study. Streets in New Orleans have historically rated from "Poor" to "This-is-where-you-die" so "Fair" would be quite the upgrade, actually.



New Orleanian Joe Frisard sits beside a massive pothole two blocks from his home. Residents are no strangers to potholes, often decorating them or making jokes – as was the case when someone placed a miniature car inside this one. (Matt Haines/VOA)

Photo from VOA News https://www.voanews.com/a/usa_new-orleans-desperate-us-government-debates-action-infrastructure/6206989.html

Other exciting projects have come to fruition, such as the Four Seasons which is now open downtown in their \$500MM remodel of the former World Trade Center. Ochsner's Hospital is expanding everywhere including its North, South and West campuses to fill the need fueled by the pandemic. A \$150MM retirement community on Mandeville's lakefront is in the works with Woodward Interests and LSU Health Foundation and will include retail, restaurants, a marina and senior housing.

Permitting will hopefully become a less arduous process as homebuilders work with the Office of Safety and Permits to streamline city processes.

New Orleans is targeted as one of the cities to actually lose highways in President Biden's Infrastructure Plan. The Claiborne Expressway has been identified as a historic inequity, or "racist highway," that divides and segregates the minority community of Tremé. Little is known other than the plan to tear down the Claiborne Expressway and reconnect the neighborhood.

"Inflation remains a wild card for the housing market."

—Greg McBride,
Bankrate Chief Financial Analyst



TEXAS

TOP MARKETS:

AUSTIN

22,319 NEW HOME SALES

(down -0.5% YOY)

26,743 STARTS

(up +9.0% YOY)

DALLAS

42,622 NEW HOME SALES

(up +6.8% YOY)

54,924 STARTS

(up +10.9% YOY)

HOUSTON

35,582 NEW HOME SALES

(up +4.8% YOY)

43,197 STARTS

(up +1.0% YOY)

SAN ANTONIO

17,135 NEW HOME SALES

(up +14.1% YOY)

20,095 STARTS

(up +5.6% YOY)

TEXAS ECONOMY

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

IMPACT OF INFRASTRUCTURE DEAL

- \$26.9 billion for federal highway construction
- \$537 million for bridge replacement and repairs
- \$100 million for broadband
- \$3.3 billion for public transportation

Texas had the highest value of residential construction in the nation last year, with \$40 billion in new home builds approved. The Austin metro was responsible for \$7 billion of that. At this moment in time, no other state is building as much as Texas is.

Q1 ice storms in Texas have residents and businesses concerned over the power of the electricity grid. Taylor, TX landed a \$17 billion Samsung chipmaking plant, which would use 100 times the power of an average downtown tower with the same square footage. With reliable utilities being an absolute necessity for chipmaking plants, questions are being raised as to how the rural Texas town will deliver and sustain the power needed to fuel the plant. It is estimated that the 2020 freeze cost Samsung \$268 million in damaged products from lack of power.

Austin

Employment levels in Austin are back to pre-pandemic numbers at 1,142,500 non-farm payrolls, in large part due to the record number of businesses moving headquarters to the area. Austin joins the ranks of Dallas, Salt Lake City, and Kansas City as the only cities to increase jobs since the pandemic. Amazon recently completed a massive hub in Pflugerville, with plans to employ 1,000 workers at the facility.

Supply lags demand as downtown high rise condos rapidly sell out. Cascade Condominiums in Old West Austin was completely sold before the framing was complete. The Station at St. Elmo, a 132-unit, sold out in just five hours.

Low housing inventory and rapidly increasing home prices are putting Austin at risk of losing its spot as the top place to live in the U.S. Austin is now more expensive than other major metros including Dallas, Atlanta, Tampa, Nashville, and Houston. Moreover, affordable San Antonio is just around the corner. Low inventory levels are exacerbating high pricing issues as builders struggle with regulations and construction delays. The entitlement process for homebuilding is arduous, with 28-36 month waits for final plats for development ready land. Lot availability is low, and developing and building lots is more expensive in Austin than any other city in Texas.

Labor shortage is slowing home construction, even as laborers around the country from New York and DC flock to the hot Austin housing market for lucrative work. Laborers will leave a project and hop jobs for an extra buck or two. Bobby Vasquez of the Gulf Coast Carpenters and Millwrights Training Trust Fund noted what builders all over the country are seeing, “A lot of people jump ship for a couple more dollars an hour. When you’re throwing \$5, \$6, \$7 more an hour, it’s not too hard of a decision for workers to make.” Laborers jumping jobs are causing delays and raising prices on projects already stretched thin with material shortages.

“The pandemic has exacerbated the U.S. housing shortage, but data shows household formations outpaced new construction long before COVID. Put simply, new construction supply hasn’t been meeting demand over the last five years.”

**–Danielle Hale,
Realtor.com Chief Economist**

The biggest news for Q3 in Austin was Tesla's announcement to move its corporate headquarters from Palo Alto to the Texas capital. 750 employees currently make up the Palo Alto headquarters, though an exact number of employee transplants has yet to be announced. The ripple effects of Tesla in Austin are already in play. Suppliers North America Corp and Plastikon Industries have leased 500,000 and 100,000 square feet respectively to keep supplies close to the electric vehicle manufacturer.

Dallas

Housing is cooling in Dallas, with sales up only 6.8% YOY versus last quarter's 31.4%. Builders are continuing to feed the housing market and starts are up 10% YOY, up from last quarter's 5.6%. Affordability is the main catalyst for slowing sales, and buyers are waiting in the sidelines for the market to cool even as economists predict home prices to rise by nearly 16% this coming year.

Population is on the rise; Dallas grew by 1.9% last year alone and is projected to grow 18% by 2029. GDP is \$523.9 billion, up +62% since the 2010 census.

On the agenda for the Dallas City Council is the housing age crisis. Median age of homes is 41 years in Dallas, many of which are in low income neighborhoods and need to be demolished. The city council has budgeted \$58.2 million for housing and homelessness solutions, seeing the need for modern, affordable housing as a workforce development issue.

Houston

According to the NAHB, Houston has the most single-family building permits out of any major metropolitan city in the nation.

Builders in Houston are moving to speculative builds and not pricing until the drywall is up. Material shortages and delays have burned enough builders

in the area to where they are now hesitant to price too soon or commit to custom builds as pricing and supply chains fluctuate daily. Lot supply levels are low and will stifle home building in the coming months as developers will not be able to refill lot supplies in the time that builders will consume what is already available. Vacant developed lots are down 35,456 units and VDL months supply is down 9.8 months for Q3. Homebuilders and suppliers in Houston could see a market slowdown unless developers quickly refill supply.

Labor shortages in Houston have helped construction tech startup Buildforce raise \$4MM for product launch. Buildforce connects contractors with skilled laborers and reliable tradesmen to meet project deadlines. Investor TDF Ventures Principal Will Rayner noted "The U.S has millions of unfilled openings for skilled tradespeople, yet consistent work remains out of reach for many construction professionals. Buildforce's exponential growth in 2021 is a testament to the company's ability to connect supply and demand in this difficult labor market." All tradesmen with Buildforce are fully insured W-2 employees, so contractors simply find a match and compensate Buildforce.

The Moran Ranch Community, formerly the hunting property of oil magnate W.T. Moran, is underway after two major homebuilders, Lennar and M/I Homes, purchased 262 acres. 800 single-family homes are slated for the site but timeline for delivery is still distant as construction crews are only now building out drainage and frontage roads. Johnson Development has plans for a 1,620 acre master-planned community near Hockley. The development is named "Jubilee," because it "represents joy, is energetic and has nuances of community" and will be "represented in the mindful spaces we are designed for residents," according to

general manager Trey Reichert. Sounds amazing, but with only a 1.9 month housing inventory and even that at its highest level since 2020, we are pretty sure they could name it "Sad Place" and residents would still flock there.

Office leasing in Houston has slowed due the pandemic, but is still moving at a rate above the national average. According to the Back to Work Barometer report by Kastle Systems International, national office space occupancy averages at 33.1%, while Houston's occupancy is at 48.3%.

San Antonio

With surges in population and large scale neighborhoods popping up along the Austin/San Antonio I-35 corridor, parallels are being drawn to large metroplexes like Dallas-Fort Worth. According to the 2020 Census, Hays County grew over 50% in population, adding 84,000 residents and making it the fastest growing county of its size in the nation.

San Antonio is growing faster in jobs and population than the U.S. average, with a young population to boot. The rental market is hot, with Gen Z being the most active renter demographic. Low cost of living along with low tax rates are attracting people from all over the country, with an average of 66 people moving to the area a day. According to Curbed.com, San Antonio is one of the best markets for real estate investment due to its population growth, job market, affordability, and home value increases of 8.9% within the past year. How fast is San Antonio building? Data from Construction Coverage show 2020 Q1 had \$692,547,000 value in new home builds. 2021 Q1 nearly doubled that with \$1,252,208,000 in new home build values.

Annual starts in San Antonio are looking to exceed 2006's high of 19,818.

ARIZONA

TOP MARKETS:

PHOENIX

25,212 NEW HOME SALES

(down -2.8% YOY)

28,719 STARTS

(up +5.8% YOY)

TUCSON

3,797 NEW HOME SALES

(up +9.9% YOY)

3,972 STARTS

(up +4.5% YOY)

ARIZONA ECONOMY

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

IMPACT OF INFRASTRUCTURE DEAL

- \$5 billion for federal highways
- \$225 million for bridge repair and replacement
- \$883 million for public transportation
- \$100 million for broadband
- \$76 million for electric vehicle stations

Phoenix

Inventory is on the rise as starts outpace sales in Phoenix. Sales have been more competitive for sellers as a result. Multifamily rentals are at their lowest availability in 50 years, and landlords are

raising rents accordingly to make up for income lost during the mortgage forbearance and moratorium. Multifamily is underbuilt by 1,006 units and permits are down -3.7%.

City leaders in Tempe are working to mitigate the housing affordability crisis. The Hometown for All initiative will acquire property, remediate city owned sites and partner with private builders to create more housing options. Remediating sites is key as the city is landlocked and lots are in short supply. In Phoenix, Dominion, a developer based in Minnesota, is working on a 40-acre parcel to develop two affordable multifamily communities with rents priced at \$800/month. Dominion is running into hurdles with city approval and permitting and the project is seeing a substantial delay, nearly doubling the normal approval period. Dominion has plans to build 3,000 affordable units in other projects in the city as well.

Nearby Buckeye, a newly designated city, is seeing single-family starts on the rise and a massive increase in popularity due to its affordability. Population in the area has jumped from 6,500 to 91,000 since the early 2000's. Development is playing catch-up to the migration, with last year seeing 2 million sq ft in commercial construction. The city has access to loop 303, MC 85, I-11, I-10, and I-17 and sits on 16 miles of industrial property owned by the UP railroad. Buckeye is only 5% built out and has the most developable land in Arizona.

Tucson

Annual starts are up in Tucson, improving supply to 8 months. Demand continues to be moderately strong and nowhere close to the 2008 housing bubble. Home prices are up +4.9% at \$244,200 for median sales price, with sellers receiving 101% of asking price on average. Listings are down -7.1%.

New zoning laws will allow for growth in Tucson, increasing office building and multifamily limits to 12 stories. Median rent is \$1,769/month, an increase of 13.8% YOY. Tucson has a large rental community, with 45% of the households occupied by renters.





OKLAHOMA

TOP MARKETS:

OKLAHOMA CITY

8,682 PERMITS

(up +28% YOY)

6,038 STARTS

(up +19% YOY)

TULSA

4,881 PERMITS

(up +2% YOY)

3,296 STARTS

(up +11% YOY)

OKLAHOMA ECONOMY

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

IMPACT OF INFRASTRUCTURE DEAL

- \$4.3 billion for federal highways
- \$266 million for bridge replacement and repairs
- \$349 million for public transportation
- \$100 million in broadband
- \$18 million to fight forest fires
- \$16 million in cyber security

Oklahoma City

Oklahoma City is seeing one of the largest increases in residential construction spending in the country since the COVID-19 pandemic. New home construction values are up 40% from \$363,869,000 of units authorized in 2020 to a \$509,329,000 value of units authorized in 2021. Oklahoma City is ranked as one of the most competitive housing markets in the country right now. Inventory is scarce and is contributing to the record price increases. The housing market is not expected to slow down in Oklahoma City any time soon; demand is too great.

Development is increasing as low supply and high demand necessitate. Highland Pointe by TimberCraft Homes is a gated community under development near Chisholm Creek center with strong pre-sales. The Abbot Lake development close to Tinker Air Force Base is under construction with only 27 homes left available for sale. The largest homebuilder with 13% of the market share, Homes by Taber, has scarce availability for its 26 communities.

The Greater Oklahoma City Region has five of the six fastest growing counties in the state, growing 14% with 170,000 people in the last decade. It is one of only 14 cities in the U.S. to add over 100,000 new residents since the 2010 Census.

Tulsa

The city of Tulsa continues to prioritize Poeria-Mohawk Business Park and is working on incentives for new businesses to locate there. \$40 million has been approved by the city council for housing assistance, schools, and beautification projects in the area. They aren't discrete in their marketing either, as its website boldly states "Grow your business in Tulsa. We'll support you with free land and a very generous incentives package." Perks include short-term housing for relocating employees, free land, below market financing, tax credits, and opportunity zone tax incentives. Located in an underserved community, city leaders are looking to the business park to revitalize and transform the area and expect corporate tenants to give back and serve in the community. Muncie Manufacturing, the first tenant, is currently under construction with a 250,000 sq ft plant.

Single-family permits are on the rise in Tulsa and new home prices are growing by double digits. The market is competitive still with multiple bids. Starts are up +11% with most activity happening in Broken Arrow, which has an ample availability of land. Most recent construction in Tulsa has been tear-down/remodel as the availability of land in the city center is very scarce.

"When they get to Tulsa, they love it here. They want to stay because the traffic is low, the housing is affordable and the schools are good . . There's a very supportive environment here. It's unlike any other city I've ever been to."

**—Paula Marshall,
CEO Bama Companies on relocating
employees to Tulsa**



ARKANSAS

TOP MARKETS:

LITTLE ROCK

1,850 STARTS

(up +24% YOY)

FAYETTEVILLE

7,053 PERMITS

(up +0% YOY)

4,458 STARTS

(up +30% YOY)

ARKANSAS ECONOMY

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

IMPACT OF INFRASTRUCTURE DEAL

- \$3.6 billion for federal highways
- \$278 million for bridge replacement and repairs
- \$252 million in public transportation
- \$54 million for electric vehicle charging stations
- \$100 million in broadband coverage

Arkansas ranks 15th in the nation for job recovery after the economic shutdowns from Covid-19 pandemic. Jobless rates are at 4%, outperforming the national average by .5%.

Little Rock

Housing is still a seller's market in Little Rock. Bids come in over asking and multiple bids are typical.

Median home prices are below national average at \$240,000, or \$119/sq ft. Home values have increased 12.1% in the past twelve months.

Little Rock is ranked as #1 on Kiplinger's "10 Great Places to Live," #2 on Moody's "Most Diverse Economy in the Nation," and #6 on Gallup's "America's Happiest Cities." Cost of living is 6% below the national average, has an active arts and cultural scene, and the beautiful Ozark Mountains. Little Rock is also ranked as one of the best cities for renters in the United States by WalletHub. The area is attractive for Gen Z renters largely due to affordability, quality of life, and business growth. Renters in Little Rock are increasing two times faster than homeowners and make up 64% of the households in the metro area. In the past 8 years, the population in Little Rock has increased by 5.9%. GDP has grown by 28% to \$38 billion annually in the past decade.

Fayetteville

With a score of 7.3/10, U.S News and World Report ranks Fayetteville as the #4 Best Places to Live list. The report commends Fayetteville for transforming a small town to a center for higher education, commerce, culture, and entrepreneurship. With regional employers Walmart, J.B. Hunt, Tyson Foods and the University of Arkansas, jobs are easily accessible and cost of living is low, ranked #10 in the nation for affordability.

New home construction is up in Fayetteville but permits are dropping at the largest rate since 2020.

Bentonville is fast growing and is a hot spot for apartment developers looking to capitalize on the younger workforce. BSR Real Estate Investment Trust marks the area as a key growth area for the state, citing U.S. Census statistics of the city growing in population by ten people a day.

NEW MEXICO

TOP MARKETS:

ALBUQUERQUE

2,046 PERMITS

(+42% YOY)

NEW MEXICO ECONOMY

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

IMPACT OF INFRASTRUCTURE DEAL

- \$2.5 billion for federal highways
- \$225 million for bridge replacement and repair
- \$100 million for broadband
- \$38 million in wildfire protection
- \$355 million to improve water infrastructure, including funding Eastern New Mexico Water Utility Authority's project to pipe water from Ute Lake to the deteriorating Ogallala aquifer and sanitation facilities for indigenous communities

Albuquerque

The Los Lunas community continues to grow. Hakes Brothers, one of New Mexico's largest homebuilders with 451 builds in 2020, just finished their first set of builds on 37 lots in the Legacy at Sierra Vista neighborhood and plans to build 74 more. Hakes is also pre-selling 45 lots in the high-end community The Bluffs. Builders say the Village of Los Lunas is the most sought after market in Albuquerque, with Facebook and Netflix contributing to the high demand.

Albuquerque's affordability index fell by 3.2%, coming in fifth in the nation for most affordability lost. Existing home sales slipped 2% mainly due to rising sales prices. Median sales prices are up +15.2% to \$295,000. Listings are down -11.5% for single family homes.

Two new affordable housing projects are set to break ground this coming quarter as part of Albuquerque Housing Authority's plan to bring 950 affordable housing units to the area. 54 townhome units are planned for Broadway Place, known as Broadway McKnight, with another 59 units at 6100 Harper. All apartments will be available to low-income renters below market rate with funding from tax credits from the New Mexico Mortgage Finance Authority. National average apartment rent increased in Q2 to a \$1,482 high, making housing options scarce for laborers.

Construction materials are hard to come by, and builders grappling with the uncertainty of product availability are finding it difficult to bid projects and meet deadlines. Ice storms in Texas and Louisiana in Q1 slowed manufacturing operations for construction materials, namely wood products. Global supply chain issues abound with everything from windows to plastic roofing membranes remaining scarce. Manufacturers who rely on imported materials cannot predict when supply chain issues will ease.





NEVADA

TOP MARKETS:

LAS VEGAS

13,399 NEW HOME SALES

(up +28.1% YOY)

13,398 STARTS

(up +3.5% YOY)

RENO

2,757 NEW HOME SALES

(up +13.5% YOY)

2,962 STARTS

(up +1.5% YOY)

NEVADA ECONOMY

- Tourism
- Gaming
- Mining
- Agriculture
- Manufacturing

IMPACT OF INFRASTRUCTURE DEAL

- \$2.5 billion for federal highways
- \$225 million for bridge repair and replacement
- \$459 for public transportation
- \$38 million for electric vehicle charging stations
- \$100 million for broadband
- \$293 million for airports

Las Vegas

If you haven't already seen them, stop what you're doing right now and get on TikTok to watch the viral videos Las Vegas real estate agent @seangotcher is putting out, claiming Zillow and Redfin are manipulating the housing market by buying up properties over market value and pricing first time buyers out. Grab the popcorn because it is Jerry Springer good. As a real estate agent Sean saw his customers constantly being outbid, then saw Zillow's agents buying 50 properties a week in the same area and he hilariously calls them out in his now viral TikToks. Sean's videos sent Zillow into a PR tailspin. After being exposed by the real estate agent, Zillow then sought to unload the 7,000 homes from its digital home flipping shenanigans in order to save face, resulting in a \$10 billion loss in valuation and the firing of 2,000 employees. \$2.8 billion dollars in real estate swallowed up by a giant tech company to flip for profit when entry level housing is in such dire straits that would-be buyers have to undergo a lottery system in order to have the privilege of purchasing a home is what has Sean up in arms, and rightfully so. How bad is it? Rich Dad, Poor Dad author Guy Kiyosaki states Zillow's housing flop could signal 2008 again. God help us. The good news is Mr. Kiyosaki has had his fair share of Chicken Little moments, so take this with a grain of salt.

Home sale prices in Vegas are up .4% in Q3, still up but quite the slowdown from 2020's Q3 price increase of 20.5%. The market has stabilized, but is still historic. Median home prices in July were at all time highs of \$405,000, and increased to \$406,500 in September. 29.1% of all sales in Q3 were cash sales. Listings are up +9.8% at 5,650 with 35 days until pending.

As the high demand and the Housing Shortage Tracker show, more single-family permits are needed in Vegas in order to beef up supply. Builders currently have buyers on waiting lists and are raising prices amid higher costs of labor, supply shortages, and strong demand. Inventory is low at a 1.1 month supply and is continuously being depleted. As the Nevada Census data projects a 1.51% increase in population before 2025, Vegas builders simply cannot build fast enough.

Reno

Sales have cooled in Q3, but it is still a seller's market. Inventory is up from Q2 from 130 homes to 500 homes in a few months. Growth is on the horizon as the Reno City Council officially approved the 3,000 unit residential community The Neon Line District. Affordability still ranks as a key driver for the market, attracting young professionals away from California.

Reno's small and midsize employers struggle to hire in the midst of a strong workforce population. The influx of a young professional workforce has not correlated to job fulfillments in Reno, as those workers are commuters or remote workers seeking outdoor recreation and affordable housing outside of California.

"We aren't like Zillow."

—Everyone at Redfin

"Look, similar to other technology companies that have gone before us, we strongly believe in taking big swings and failing fast. We have learned from our experience in Zillow Offers in Q3 and are applying those learnings as we look ahead."

**—Rich Barton,
Zillow CEO after announcing the winding
down of Zillow Offers iBuying program and the
laying off of 2,000 employees**



UTAH

TOP MARKETS:

SALT LAKE CITY

3,802 NEW HOME SALES

(down -15.2% YOY)

6,487 STARTS

(up +13.8% YOY)

PROVO-OREM

5,135 NEW HOME SALES

(down -11.6% YOY)

8,285 STARTS

(up +10.0% YOY)

OGDEN

1,783 NEW HOME SALES

(down -31.7% YOY)

3,749 STARTS

(up 6.0% YOY)

UTAH ECONOMY

- Aerospace
- Advanced Composites
- Tech
- Distribution

IMPACT OF INFRASTRUCTURE DEAL

- \$3 billion in highway funding
- \$500 million for Western Area Power Administration for droughts
- \$100 million in drought contingency
- \$1 billion for wildfires and droughts
- \$214 million to Navajo Utah Water Rights Settlement
- \$1.7 billion for Indian Health Services sanitation facilities

The Utah housing market is ranked number one in the nation due to its strong job growth, rapid population growth, low unemployment, and low SALT taxations. Utah is the only state other than Idaho that has surpassed pre-pandemic employment levels. With job growth and influx of remote workers, local real estate agents state there are not enough single-family homes to meet demand with only a four-week supply state wide. Also putting pressure on the housing supply are the vast number of Californians who are moving to the state seeking lower housing prices and lower taxes. So many Silicon Valley tech companies have relocated to Utah that Salt Lake City has been dubbed “Silicon Slopes.” Warnings persist that deep-pocketed out of towners will continue to price first time homebuyers out of the Utah market. Current homeowners in Utah with no desire to move are the winners, as Utah home equity is estimated to have increased somewhere between \$15 and \$20 billion in 2020 alone.

Salt Lake City

Lack of supply and higher prices are depressing home sales in the Salt Lake region and sending median home prices skyward. Average home prices in the area have risen +41.8% YOY to \$578,648, which correlates to an average of \$223/sq ft for new home builds. The area still remains underbuilt by .9% and builders are scrambling to meet demand.

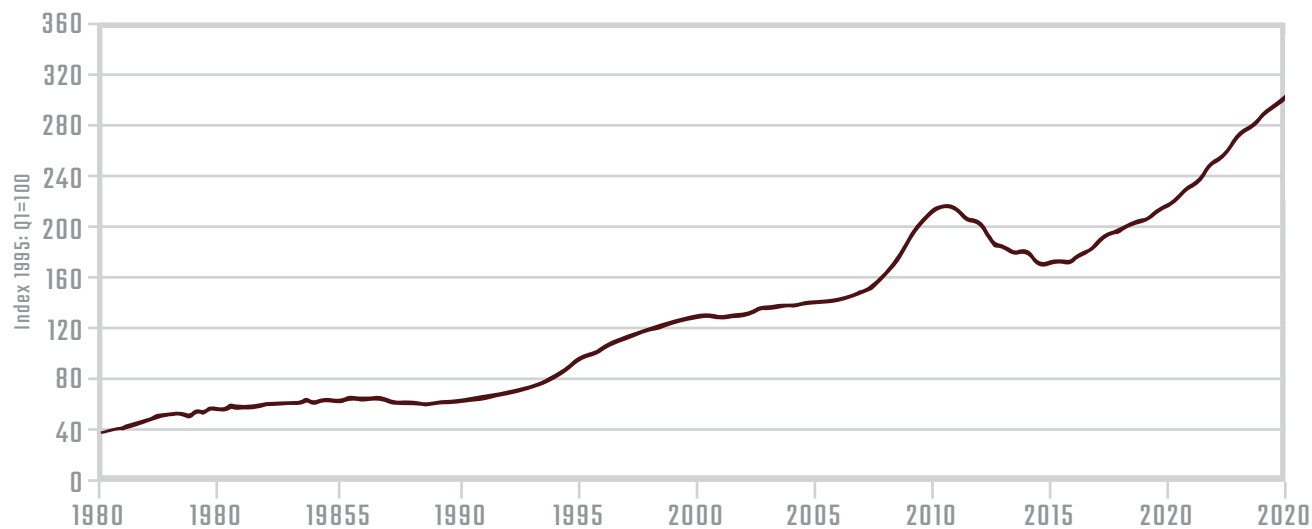
More homes were sold in Salt Lake City in 2020 than any other year prior. Home sales in the area are currently down -15.2% but 2021 is still on track to be the second highest sales year ever. Home sales in August averaged only six days before pending, with total sales volume rising to \$870 million in August, up +4% YOY. Supply is directly affecting the sales rate, with listings down -24% YOY.

Salt Lake City's largest demographic is in the 25 to 39-year-old range, or, first-time homebuyers.

Millennials are finding the market tough to enter due to low supply, high demand, and increasing prices. As a result, Salt Lake City has become one of the top markets to watch for 2022. The economy is doing well (Forbes has listed Salt Lake as one of the “next tech meccas”), employment rates are enviable, the population is educated, and overall the region is expected to outperform the country in economic growth, population growth, employment, and housing in the upcoming year. Salt Lake is business-friendly and it is booming as a direct result.

2021 year-end forecasts expect total home sales to reach 19,500 (14,000 single-family and 5,500 multi-family) with housing prices rising +5%. Home sale prices are expected to continue to rise in 2022, with the Zillow Home Value Index projecting a 18.7% increase in value for June 2022.

Housing Prices One the Rise in Salt Lake City



Graph Source: FRED – All-Transactions House Price Index for Salt Lake City, UT (MSA)

Provo-Orem

The imbalance of supply and demand is distorting sales prices, sending them north as there are simply not enough homes. Starts are up +10% as builders work to open up supply. Hot housing, low employment, and strong job growth have boosted Provo as one of the top economies in the country among major metros. Sales are actually higher in Provo than even Salt Lake City, with the market growing at a faster per capita rate than any other region in the state.

Utah has the highest birthrate in the nation, and the rate of millennials reaching the homebuying age is greater in Utah than it is anywhere else. Immigration is also up due to business, schools, and the open economy. With the population numbers soaring and the little bit of land there is left to build on, pricing in the region looks to continue on the upwards trajectory for the foreseeable future.

Ogden-Clearfield

Home shortages in Ogden are causing prices to rise 11% - 18%, with median pricing for new home closings averaging \$430,389 and existing homes averaging \$402,009. Affordability is a concern with rural areas seeing as much of an uptick in pricing as the more populated areas. Lack of supply for the weighty demand in Ogden could be creating an overvalued market. In fact, Ogden is on the USA Today’s list of the top ten markets for surging home prices in the U.S. Current homeowners are being priced out of the market and are finding it difficult to move out of a starter home for a growing family or find a home closer to work or school.



CALIFORNIA

TOP MARKETS:

LOS ANGELES

7,332 NEW HOME SALES

(up +1.8% YOY)

6,878 STARTS

(up +0.3% YOY)

SAN FRANCISCO

4,979 NEW HOME SALES

(up +17.7% YOY)

4,256 STARTS

(up +5.3% YOY)

SAN DIEGO

3,380 NEW HOME SALES

(down -9.0% YOY)

3,061 STARTS

(up +5.7% YOY)

SACRAMENTO

8,588 NEW HOME SALES

(up +25.1% YOY)

8,939 STARTS

(up +12.6% YOY)

CALIFORNIA ECONOMY

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

IMPACT OF INFRASTRUCTURE DEAL

- \$25.3 billion for federal highways
- \$4.2 billion for bridge replacement and repairs
- \$9.45 billion for public transportation
- \$384 million for electric charging stations
- \$100 million for broadband
- \$84 million for forest fire protection
- \$40 million for cyber attack protection

Los Angeles

Californians are trapped in their homes again, but this time it's not because of COVID. Now it's shipping containers lining neighborhoods and blocking residents from exiting their homes. Backlogs of cargo ships lined up at the Port of Los Angeles are finally being unloaded with the President's order to open the port for operating 24/7. Trouble is, there's nowhere to store the empty containers, so truckers are bringing them to the neighborhoods of Wilmington for safe keeping. Teenagers all over Wilmington rejoice as shipping containers in driveways prohibit them from going to school. Parents not so much. Warehouses face a shortage of space, workers, and equipment. Prologis, the nation's largest logistics company, is completely sold out of warehouse space.

Buyers continue to competitively bid on a low inventory of housing. Building and permitting has slowed as builders face supply and labor shortages. Vacant developed lots are down for the quarter by -44.1% with an 8 month supply.

San Francisco

While the housing market may be cooling nationwide, it remains strong in the Bay Area with median prices topping \$1 million for seven months straight. Granted, with median construction prices at \$725/sq ft that only buys you a 1,300 sq ft home.

No inventory, high demand, low mortgage rates, and a large population of billionaires with \$860 billion in net wealth are all contributing factors to high prices. Oppressive high regulation coupled with high taxation is moving residents out of the state of California for more business-friendly environments such as Utah, Texas, and Arizona. Silicon Valley's housing market is booming, but it also has the highest poverty rate in the nation.

The middle is missing from the Bay Area housing market. Nurses, teachers, social workers, and first responders are completely priced out. While the very wealthy and the very poor garner much of the attention as pertains to housing, the middle class is completely left out of the conversation. Workforce housing in the area is problematic as it is virtually nonexistent. While a large number of developments are underway, city planners are hoping to address the issue by enforcing development agreements that would hold the private sector accountable, offering incentives for middle-income housing to spur growth.

For affordable housing, the new 5M development has over 300 units listed as below market rate, which is the largest affordable housing commitment on private property. Balboa Reservoir on the west side will have 550 of 1,100 total housing units for low and middle income wage earners, and Bridge Housing is planning a 150-unit educator housing development. But, profit is hard to earn in affordable housing and the units will need to be 100% occupied in order to cover debt.

Spectrum Location Solutions has published another California exodus report, "Why company headquarters are leaving California in unprecedented numbers," describing the vast amount of relocation plans for companies looking to place their headquarters in more business-friendly environments (hey, Austin). In Q1 and Q2 of 2021, 74 companies moved their headquarters

out of California, while only 62 left in all of 2020. The golden state has lost a total of 272 headquarters since 2018. The study cites high cost of labor, litigation, energy, utilities, taxes, and regulations as main catalysts for the exodus. Media outlets have dismissed the data, with reporters claiming "The much-discussed 'California-exodus' isn't real" (The Guardian, July 2021) and "Cal Exodus debunked" (LA Times July 2021). Those stories focus on residents surveyed who really like California, but neglect to cite the data showing real companies leaving the state for greener pastures.

Nevertheless, venture capitalism reigns in Silicon Valley. Investments reached a record \$7B in Q3, while investments in 2020 were just under \$2B.

San Diego

Supply of new homes in San Diego are at historic lows with a five month supply. Median home values are high at \$792,531.

Real estate is so expensive in California that millennials are now co-buying property. Friends, significant others, and possibly other homeless millennials they meet in juice bars are pooling finances to be able to afford the American Dream. High home prices and student loan debts have kept younger millennials out of the market in high priced cities such as San Diego, with half of the homebuyers surveyed by NAR citing student loans as the reason for not buying.

Sacramento

The capital of the golden state is one of the hottest housing markets in the U.S right now, ranking number 14 on Zillow's list of Hottest U.S. Housing Markets. Median home values are up 14% in just six months to \$540,438. Sacramento ranks just below San Diego at the number 13 spot. Home prices are up and inventory is down. Job growth is recovering at a faster pace in Sacramento than it is state-wide, with employment up +2.3% at 992,485.

"Although demand and home sales remain strong, builders continue to grapple with ongoing supply chain disruptions and labor shortages that are delaying completion times and putting upward pressure on building material and home prices."

**—Chuck Fowke,
Chairman National Association
of Homebuilders**

LETTER FROM BOBBY

As we are now in the midst of Q4 2021 and looking ahead to 2022, we are seeing a lot of challenges and opportunities in this still unprecedented market.

As I sit here thinking about what I can possibly inform you about, these a few thoughts that go through my head: our new OSB plant in Corrigan, COVID impact, supply chain impacts, customer acquisitions, transportation interruptions, hurricanes in the south, Infrastructure deal, and potential winter storms!

Most critical perhaps is labor shortage that is plaguing builders, distributors, truckers, and manufacturers. Currently there are more than 10 million open jobs in the United States, the highest level ever and more jobs available than there are unemployed people. So who gets them and what is their skill level? The building industry will end up with some of these new people and their skill levels will likely be minimal.

When I started in this business I taught classes on proper installation of building products and thought to myself, surely I will work myself out of a job soon, but 30 plus years later I haven't accomplished that task yet. As these new workers begin to filter into our work force installing products into buildings, who will teach them? The building codes change every three years and have become a homogenous engineering code that embodies all the different individual components of a structure. More framing techniques, energy codes, fire codes, etc. equals more complexities in maneuvering through the building process.

RoyOMartin recognizes that we will need to help teach these new people proper installation and handling practices and we are prepared and will continue to prepare to do just that. We stay in tune with the building codes and building science practices and have our professional staff ready to help you get this information out into the field. This is going to be a challenge for industry, but I don't think we are afraid of a challenge as together we can overcome them.

We wish you the best of luck navigating the best market we have ever seen that has ironically come with the most challenging issues we have ever seen. As always, don't ever hesitate to contact anyone of us at RoyOMartin. We are all in this together.

**- Bobby Byrd,
Director of Sales**

**"The labor shortage
used to mean that you
could expect to add 3%
- 5% to the budget for
framers. Now, it's more
like 15% - 20%."**

**-Mike Dishberger,
CEO Sandcastle Homes**



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SOURCES

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CONSTRUCTION DATA: Association of General Contractors of America, National Association of Homebuilders, Builder Online, Construction Coverage