



Since 1923

Roy O'Martin®

BOARD BRIEF





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:

- Low mortgage rates (expected to remain low for first quarter 2020)
- Demand for warehousing and distribution driven by increased online sales
- Single family making up the majority of permits
- Multifamily trending downwards with high vacancies due to low mortgage rates for buyers
- Office vacancies
- Rise in permits in affordable regions
- Decreased permitting in luxury markets
- Labor shortages

We can see the impact of a younger Millennial generation at work in these trends: office vacancies (Looking at you, WeWork, Spaces, and remote workers), warehousing (Thank you, Amazon), decrease in multi-family (increased wages helping to pay off those student loans, low mortgage rates welcoming first-time buyers), increased housing demand in affordable regions (See ya later, LA. Hello, Phoenix!). Builders across the country are also building more starter homes, recognizing the need for smaller, more affordable houses for the millennial market. If mortgage rates remain welcoming to a younger generation, watch for these trends to continue. Of course there will always be outliers; read on for more.

LETTER FROM BOBBY BYRD, DIRECTOR OF SALES

Welcome to the Board Brief newsletter, a new market update from RoyDMartin with industry news pertinent to our customers in the southwest region. As most of you know, we do not direct you on what you should or should not do. The best we can do is give you information so you can make the best decision possible concerning your business. (How's that for a disclaimer?)

Starting with OSB Q4 2019, manufacturing inventory levels were manageable as field inventories in the distribution pipeline tended to be on the leaner side as we inched toward the end of December. The quarter started with industry-announced OSB shutdowns, which contributed to stable pricing to offset the seemingly never-ending holiday season we had. Supply tightened while demand shifted to a conservative inventory level as we took off the month for the Thanksgiving-Christmas-New Year's Holiday marathon. Our Chopin Plywood facility took annual outage in November, which proved to be a good time for plywood outages as several other manufacturers took advantage of the extended holiday. Prices traded within a narrow range with little to no price swing in either direction. The cantor mill in Chopin also took its outage in November, making improvements to increase production. Q4 was a better period for 4x4 timbers and price appreciation is carrying over into early 2020. Everything considered, 2019 year-end proved typical historically with trends of inventory adjustment for year-end and adjusted capacity to accommodate market consumption.

As reported by the American Plywood Association, OSB production did decrease during the year with a large percent of that decrease in Q2 of 2019. We do not have the Q4 historical OSB production numbers yet, but it does appear the North American total OSB production will be reported down for the 4th quarter. If this prediction is realized, OSB real production will have dropped each quarter of 2019. Based on reported numbers, OSB production should come in at less than 78% of North American capacity utilization, which is slightly lower than 2018 capacity utilization.

Currently we are in the planning stages to take an annual outage at our Corrigan, TX OSB facility early January. Maintenance will require full shut down for seven days and then reduced capacity for 14 days after the outage.

South American plywood imports continue to put pressure on domestic producers, even though most of these imports do not meet Department of Commerce Product Standards for U.S. Housing, according to third party evaluations. The industry is watching a historical law suit brought against these imports by several domestic producers. The responsibility lays on all of us to promote American-manufactured building products to protect our industry and product standards.

While we are appreciative of everything God and life gives us, we are all too happy to put 2019 behind us and move optimistically and confidently into 2020. Enjoy the Board Brief, and feel free to reach out to us at any time. Thank you as always for your continued loyalty and support.

BEST MARKETS IN OUR REGION (Rank in Nation):

1

AUSTIN
1st Nationally

2

SAN ANTONIO
12th Nationally

3

DALLAS
13th Nationally

4

PHOENIX
15th Nationally

5

RENO
18th Nationally

OSB PRICING YOY

JANUARY 2019

\$178

JANUARY 2020

\$186

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





TEXAS

PERMITS

+9.9% YOY

MONTHLY PERMITS

10,193 = 17% NATIONAL TOTAL

HOT MARKETS IN 2019:

HOUSTON

46,969 PERMITS

(up 15% YOY)

HOME SALES +3.9%

YOY

DALLAS

64,457 PERMITS

(down 10%)

HOME SALES +5%

AUSTIN

26,656 PERMITS

(up 0%)

HOME SALES +5.8%

SAN ANTONIO

12,786 PERMITS

(up 11%)

TEXAS ECONOMY:

- Tech
- Healthcare
- Distribution
- Warehouses
- Manufacturing
- Petrochemical
- Oil & Gas Friendly business environment
- Lots of jobs will show a demand for housing for foreseeable future, especially continuing in urban triangle.

Texas is leading the way in the housing market with increased housing starts, permits, and home sales across the state. In Q3 Texas was the fastest growing state according to GDP. A friendly business environment contributes to a healthy and growing sector for tech, healthcare, distribution, warehousing, manufacturing, petrochemical, and oil & gas industries. Employment is up and keeping steady with the growing population. Such growth means wide open Texas spaces are no longer an advantage, especially in the urban triangle of Dallas, Houston, and Austin. Builders are finding it hard to build and sell affordable homes as the land prices have substantially increased in those markets. Labor shortages continue to plague builders in Texas as they do in other parts of the country. In the first quarter of 2020 we should continue to see steady growth in building permits, home price increases as land becomes more scarce, and a decrease in multifamily builds. Mortgage rates are expected to remain affordable at below 4%, continuing a healthy trajectory in this market.

CALIFORNIA

TOP MARKETS:

ORANGE COUNTY

7,667 PERMITS

(down 32% YOY)

LOS ANGELES

24,894 PERMITS

(down 5.9%)

HOME SALES +3.4%

SAN DIEGO

9,231 PERMITS

(down 38%)

HOME SALES +1.9%

SAN JOSE

8,504 PERMITS

(down 12%)

FRESNO

3,515 PERMITS

(down 23%)

MARKET OVERALL

HOME SALES -4%

CALIFORNIA ECONOMY:

- Tech
- High-tax business environment
- Tourism
- Energy restrictions hamper economic growth (gubernatorial moratorium on hydraulic fracturing), more planned power outages to decrease chance of wildfires
- Agriculture
- Warehouses
- Distribution
- Military

California is seeing a younger workforce being priced out of its expensive housing market. Compare Orange County's 2019 median home price of \$822,790 to Dallas's 2019 median home price of \$260,230 and it's no mystery as to why young professionals are migrating out. With a competitive and burgeoning tech market in Texas, the third largest in the country which includes Facebook, Amazon, Apple and Google, California will continue to have steep competition for its young professional workforce if housing prices stay at current heights. A high-tax business environment, skilled labor shortage, and high cost of living are also viable concerns for the California market. However, it is still California and still has the economic strengths of tourism, a highly skilled and educated work force, world class universities and research facilities, home appreciation, and strong demand for housing. Home sale volumes are not expected to rise significantly until after home prices bottom out, potentially in 2021. The 2020 census could be very telling of the state's housing market and population decrease; it is speculated California risks losing a congressional seat.





LOUISIANA

TOP MARKETS:

BATON ROUGE

3,994 PERMITS

(up 2% YOY)

LAFAYETTE

1,383 PERMITS

(up 18% YOY)

LOUISIANA ECONOMY

- Crude Oil
- Natural Gas
- Petrochemical
- Commercial Fishing
- Agriculture
- Home affordability could allow for steady growth in housing market
- Highest auto insurance rates in nation; unfriendly tort environment for businesses and individuals
- Healthy increase in Gross Domestic Products

Alas our home state is not seeing the growth we would like to see. Louisiana's unemployment remains higher than the national average. There is a lack of economic growth beyond the energy industry, homelessness in Baton Rouge is up 43% since January 2018, the housing market is oversupplied, multi-family and office space are seeing high vacancies, the technology sector is losing jobs, and overall home sales are stagnant. Multi-family units in Baton Rouge have oversaturated the market around LSU with a two-year supply on hand, not counting current permits that are underway.

There is good news for Louisianians in 2020 however. In Q3 2019, Louisiana's gross domestic product increased by 2.9%, surpassing the national average and placing the state as fourth overall for national average of GDP growth, preceded only by Texas, Utah, and Washington. Housing affordability combined with lower mortgage rates (that the Fed expects will remain low for foreseeable future) should encourage first time homebuyers. Baton Rouge will see an increase in industry with several large industrial projects underway, breaking a three year lull in industrial activity. State legislators are prioritizing tort reform and tax reform, which if passed could create a more friendly business environment. Cities should enjoy national trends of increased warehouses and distribution thanks to online retail. Baton Rouge and Lafayette remain in the top 100 markets according to MetroStudy's Outlook. First quarter 2020 we expect housing growth to remain at current levels with multifamily permits and builds to decrease due to oversupply.

OKLAHOMA

TOP MARKETS:

TULSA

3,100 PERMITS

(up 9% YOY)

HOME SALES +3.12%

OKLAHOMA ECONOMY

- Energy
- Information and Finance
- Agriculture
- Biotechnology
- Transportation and Logistics
- Aerospace and Defense
- Home sales and pricing are increasing
- Government cuts are affecting growth

Foreclosures will be a factor that impact home values in Oklahoma for the next few years. The percentage of delinquent mortgages in Oklahoma City is 2.1%, higher than the national average of 1.6%. Many homeowners are underwater on their mortgages, owing more than their home is worth, as prices have fallen more than 20% from their peak in 2007-2011. 8.8% of homeowners in Oklahoma City are underwater on their mortgages. This will be something to watch in this area for the foreseeable future. Home values in this area are expected to rise a modest 1.9% in the coming year.

Tulsa is seeing a boom in downtown development that is fueling construction payrolls. Amazon is creating 1,500 for a new fulfillment center, and other companies such as Milo's Tea Company and Kimberly Clark are making significant industrial expansions. The city of Tulsa is incentivizing potential companies to develop the Peoria-Mohawk Business Park, including free land within three miles of downtown, \$10MM in infrastructure, \$5,000 per employee in job training, transitional housing, charitable fund matching, and below-market financing. While the economy seems promising, job growth slowed to 0.5% annually in 2019. Information payrolls dropped 2.8% in 2019, services sectors slowed, and the office market saw rising vacancies. If, however, the government is successful in enticing business growth, home builders should see a steady stream of work in the coming year.





ARIZONA

TOP MARKETS:

PHOENIX

35,811 PERMITS

(up 14%)

TUCSON

4,851 PERMITS

(up 10%)

MULTI-FAMILY -18.6%

ARIZONA ECONOMY

- Aerospace
- Electronics and Semiconductor Manufacturing
- Tourism
- Biosciences
- Film
- Population and job growth are among highest in nation
- Strong housing market, highly skilled labor force for housing for foreseeable future, especially continuing in urban triangle.

Arizona real estate thrived in 2019. Phoenix home prices are up 9.5% YOY and 145% since the 2011 housing recession, ranking Phoenix in the top 15% of housing markets nationwide. However, Phoenix is only just now back to its 2006 levels when prices were at the height of the real estate bubble. Trends should continue upward in 2020, with some real estate experts predicting a 25%

increase in 2020-2021. Even with home value increases, Phoenix remains affordable and a favorite amongst real estate investors nationwide. Appreciation rates are so healthy that despite a nationwide downturn in the housing market, Phoenix real estate appreciated faster than most markets in 2019. Economic growth in Phoenix is outpacing the national average, with employment up 2.7% YOY. Notably, the construction industry grew at the fastest pace by increasing over 8.5% in 2019. With an influx of millennial residents, low mortgage rates, and healthy economic growth we expect to continue to see growth in this region for the next quarter. With its increase of population Arizona stands to gain another congressional seat with the 2020 census.

The job market should increase in 2020 as well. Most notably, with the Raytheon and United Technologies merger, Tucson will host the second-largest aerospace and defense company in the world. The merger is expected to have a \$2.1 billion impact on Arizona's economy.

Going against a national trend we have seen elsewhere, Arizona is experiencing a healthy office market due its thriving economy and growing population. Phoenix, Tempe, and Scottsdale saw the largest leases. An expected 2.5 million square feet of office space is in construction for 2020. Staying in line with national trends, Phoenix saw 7% decrease in multifamily permits. Tucson went in the opposite direction of the nation with a 225% jump in multi-family permit issuance in 2019. With signs pointing towards overbuilding, we expect to see a downward trend in multi-family in 2020. Labor shortages abound here as well, resulting in record overtime pay for skilled labor and increased pricing for entry level single-family housing.

NEVADA

TOP MARKETS:

LAS VEGAS

13,132 PERMITS

(up 9%)

RENO

5,450 PERMITS

(up 22%)

HOME SALES +30.6%

NEVADA ECONOMY

- Aerospace/Defense
- Health
- IT
- Manufacturing and Logistics
- Mining
- Tourism and Gaming
- Natural Resource Technologies
- Development-friendly environments and abundance of affordable land should strengthen home building in 2020
- Increase in multi-family and office space

Count Nevada as another beneficiary of the high-tax Californian business environment. While elsewhere in the nation we are seeing overbuilt office space, Las Vegas is seeing increase demand for office space from out-migrating Californians. Office space demand came primarily from financial services, health services, and professional and business services. The industrial market in Las Vegas is healthy with the expansion of Nellis Air Force Base. Google is adding a \$600 MM data center and convention space is expanding and expecting to grow +30% in 2020. In Reno, job growth is up 6.1%, with every sector increasing year-over-year payrolls. The in-migration of Google and Tesla helped fuel a fast-growing population, expecting to increase by 100,000 this decade.

The housing market seems to be correcting itself towards affordability, making room for growth in 2020. Median new home pricing decreased by 1.4%, following a 8.4% decline in 2018. Lower mortgage rates and trends towards affordability should make for a friendly residential construction economy. KB Homes, Lennar, DR Horton and Pardee have plans for massive master communities in North Las Vegas region in the next five to eight years. Lennar, Toll Brothers, and D.R. Horton account for 50% of new home closings in Reno. The mayor has proposed an incentives program for home builders that would defer fees collected by the city toward the end of the project which will free up capital for smaller, local builders. Multi-family permitting is increasing in downtown Las Vegas with 2,830 units expected in 2020-2021. Single-family supply across the state is increasingly tight. Strong demand for housing in these regions should prove for a healthier housing market in 2020.





NEW MEXICO

TOP MARKETS:

ALBUQUERQUE

2,315 TOTAL PERMITS

NEW MEXICO ECONOMY

- Healthcare
- Retail
- Accommodation and Food Services
- Educational Services
- Public Administration

In the fall of 2019, Albuquerque's economy slowed to half the pace of the national average, suffering from government sectors which account for 8% of the state's economy, and the transportation sector. In all, Albuquerque lost nearly 4,000 jobs.

Home prices were strong, average price increased by 1.8% YOY and the median sales price increased by 5.1% YOY. The number of homes sold in August increased by 7.3%. Fall is traditionally the time of year when Albuquerque home price growth cools off after a hot summer. However, the early returns suggest that wasn't the case in 2019. The average price of a single-family home in metro Albuquerque in October stood at \$269,247, while the median home price stood at \$229,900, according to a report from the Greater Albuquerque Association of Realtors. Both numbers are slightly larger than the home prices posted during the second quarter of the year, which includes months that tend to be the busiest on Albuquerque's real estate calendar, and both represent large jumps from the previous October.

There is room for optimism for New Mexico's economy in 2020 as new data centers and film studios (such as Netflix's purchase of ABQ studios and NBC's Universal new TV and film studio) are being built. Film studios could spur multi-family growth as short-term leases will be appealing to that industry. Healthcare, the state's number one industry, is seeing growth with new health care centers and medical centers expansions, such as Presbyterian Healthcare Service's \$260 MM expansion. Sandia National Laboratories, the engineering lab for the nation's nuclear weapons complex, is expanding and hiring an additional 1,900 employees.



LOOKING FORWARD

The past few years, we have seen the plywood and OSB markets fluctuate from very good to not so good. At RoyOMartin, we don't let market conditions affect our decisions to produce quality panels while looking for every opportunity to satisfy your needs.

.....

Our sales and manufacturing teams are committed to helping you create solutions for your customers opportunities. In 2020, our OSB business will grow with increased production from our newest facility in Corrigan Texas while enhancing efficiencies at the Oakdale facility. We have several exciting products under development that we will be sharing later in the year. Our plywood team runs the most efficient and customer focused business in the industry. The team is innovative and looking at several enhancements for some key markets including shed builders and siding. We feel the housing and specialty plywood markets will improve in 2020 and we will be here to support you. Give our team a call.

TERRY SECREST,
Executive Vice President

Visit our blog for more industry and product related information royomartin.com/blog



Build

YOUR LEGACY



FSC® C022036

www.royomartin.com

Green building projects on the horizon? If you are supplying a LEED®, FSC®, government, healthcare or other green building project call us for our FSC® certified wood products. Make an order and we will send you and your team a shirt! **T-shirt supply is limited; don't wait to place your FSC® order. Everyone who's anyone is wearing them.**

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

BOBBY BYRD

Director of Sales | Board Brief Author & Editor
Bobby.Byrd@RoyOMartin.com

AMANDA VINCENT

Product Marketing | Board Brief & Blog Author
Amanda.Vincent@RoyOMartin.com

TONY ROCHA

Business Development: Houston, San Antonio, Phoenix
Tony.Rocha@RoyOMartin.com

RYAN TRACZEWITZ

OSB Product Manager
Ryan.Traczewitz@RoyOMartin.com

KELLY MATTHEWS

Senior Sales Representative
Kelly.Matthews@RoyOMartin.com

ARI BANDARANAIKE

Customer Service Representative
Ari.Bandaranaike@RoyOMartin.com

LORI BYRD

Sales Manager | Plywood & Timbers
Lori.Byrd@RoyOMartin.com

ZACH ZIMMERMAN

Business Development: DFW, California, Oklahoma
Zach.Zimmerman@RoyOMartin.com

WAYNE MILLER

Senior Sales Representative
Wayne.Miller@RoyOMartin.com

PAUL PFINGSTEN

Sales Associate
Paul.Pfingsten@RoyOMartin.com

TRICIA DAUZAT

Sales Associate
Tricia.Dauzat@RoyOMartin.com



Roy O Martin®

www.royomartin.com

SOURCES

HOME SALES: zillow.com, tulia.com, LittleBigHomes.com, MetroStudy, Redfin Data

PERMITTING: MetroStudy, trulia.com, Redfin Data

ECONOMIC DATA AND INDICATORS: Moody's economy.com, MetroStudy, Bureau of Labor Statistics, Bureau of Economic Analysis, U.S Department of Commerce

PRICING: Random Lengths, FastMarket RISI