



BOARD BRIEF

2022 Q4

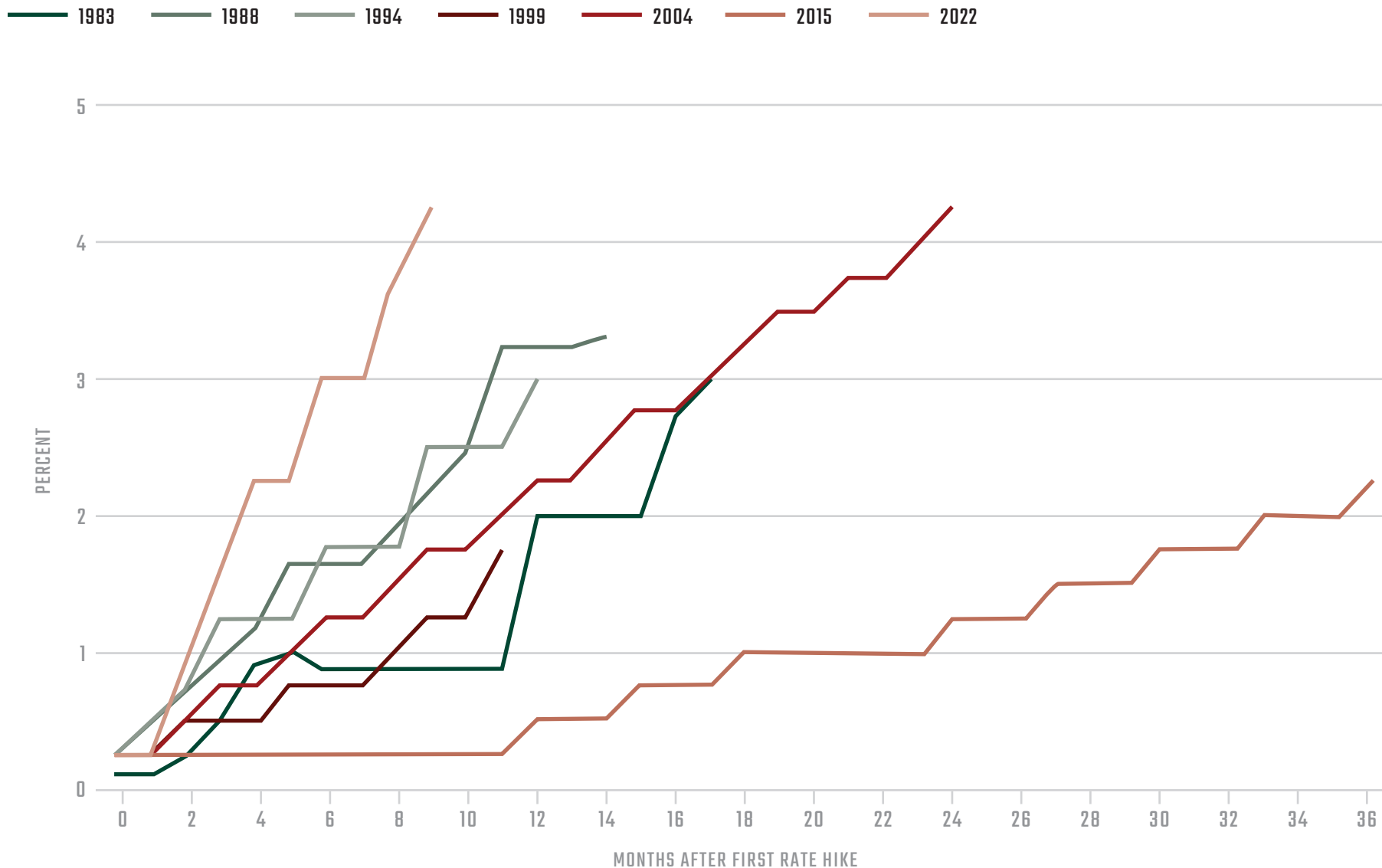
“With interest rates projected to normalize in the second half of 2023 as the Federal Reserve taps the brakes in its fight against inflation, the pace of single-family construction will bottom out in the first half of 2023 and begin to improve in the latter part of the year,” said Robert Dietz, chief economist of the National Association of Home Builders (NAHB), during a housing and economic outlook press briefing at the 2023 International Builders’ Show. “This forward momentum will lead to a calendar year gain for single-family starts in 2024.”

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:

- Declining home prices
- Normalizing housing market
- Housing days on market increasing
- Inflation
- Growing housing inventory YoY
- Strong job market
- Decrease in residential construction spending
- Declining Builder Confidence Reverses in December
- Economic volatility
- Social Security benefits increase

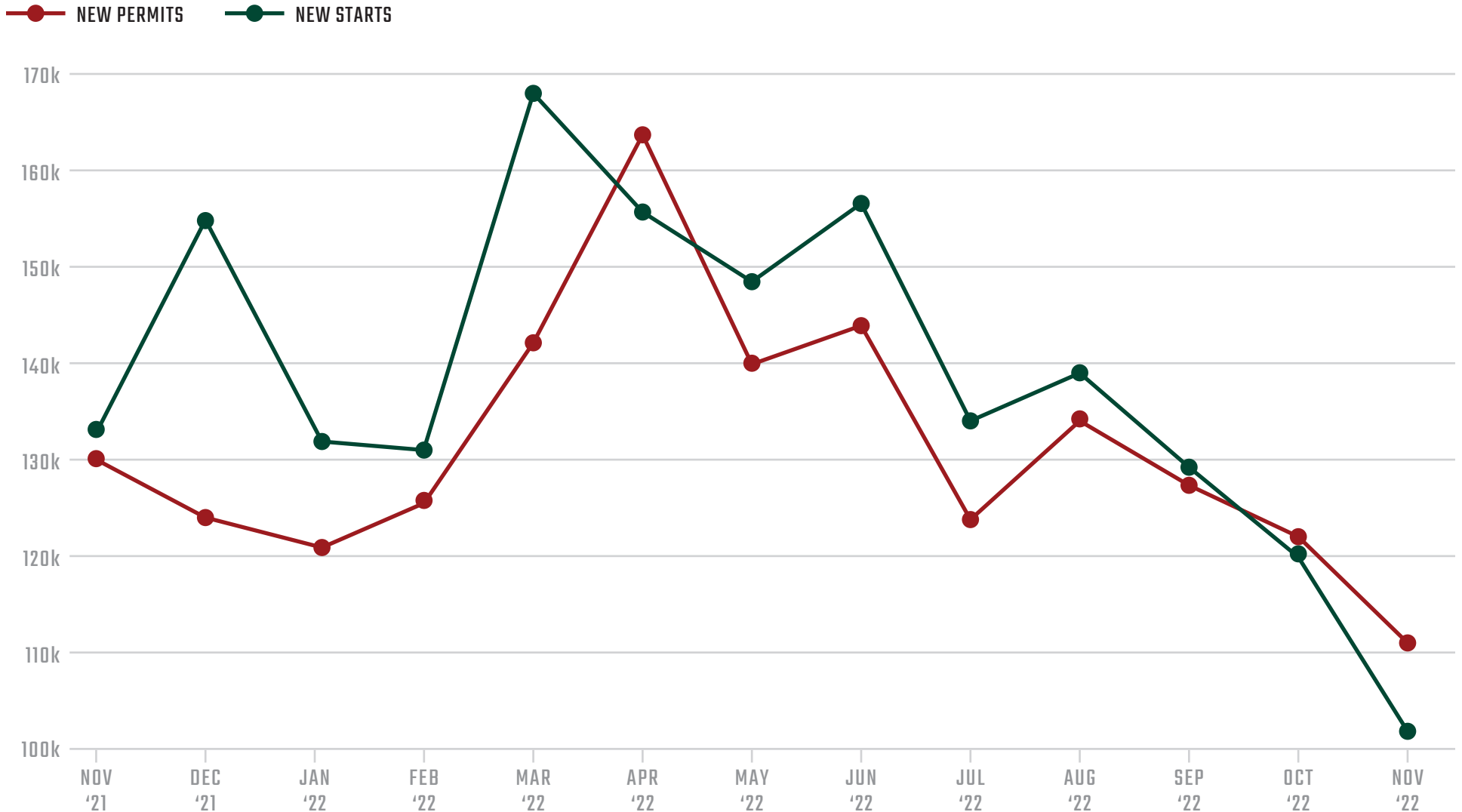
THE FEDERAL RESERVE HIKED RATES IN RECORD TIME IN 2022



Source: Analysis of Federal Reserve data by Statista

Changes in federal funds target rate in past tightening cycles (in percentage points)

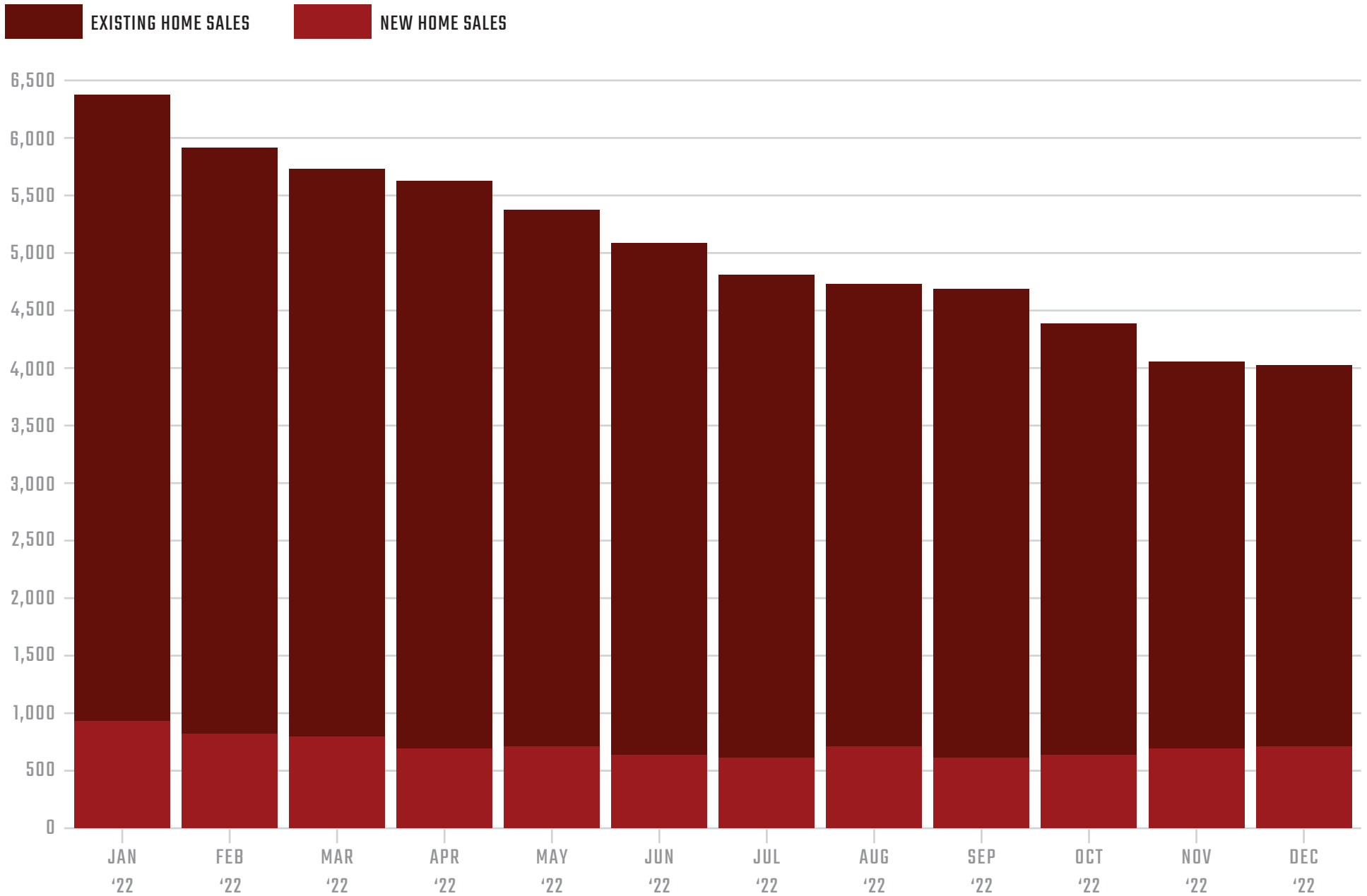
NEW PERMITS AND NEW STARTS



Source: U.S. Census Bureau

It is glaringly evident, as you can see in the above graph, the correlation between rising interest rates and the decrease in both housing starts and permits. Even though we have seen a decline in both housing starts and permits in the back half of 2022, new house starts in 2022 are 27.6% higher than their previous 120-month average. In the last 12 months, there have been 1.482 million non-seasonally adjusted new house starts. 70.4% of new house starts were single family housing.

HOME SALES



Source: National Association of Realtors, U.S. Census Bureau

HAS HOUSING REACHED THE BOTTOM?

KEY HOUSING MARKET TAKEAWAYS FOR 400+ U.S. METRO AREAS:

- Monthly mortgage payments are up 36% from a year ago.
- Pending home sales were down 32% year over year.
- New listings of homes for sale were down 22% YOY, dropping to the lowest level on record.
- Active listings (the number of homes listed for sale at any point during the period) were up 19% from a year earlier, the biggest annual increase since at least 2015.
- Months of supply was 3.4 months, up from 1.8 months a year earlier.
- Homes that sold were on the market for a median of 42 days, up nearly two weeks from 30 days a year earlier.

Start a conversation about real estate and development these days, and you're bound to hear one or more of these phrases: "slowdown," "taking a pause," "normalizing market" and "uncertainty."

As the U.S. settled into the new pandemic normal, the housing market turned red-hot. Homes spent little time on the market, sellers were able to cash in on their home equity and upgrade, and builders were able to confidently invest in building new homes as fast as the supply chain would allow. However, as mortgage rates started to climb in the beginning of 2022, the housing market became increasingly challenging for buyers, as the double whammy of high prices and high borrowing costs meant many buyers just couldn't afford what they were looking for. This decrease in demand eventually became an issue for sellers and builders, as well. Slightly

lower household formation in 2021 and 2022 gave builders the opportunity to begin to make progress on the housing supply gap, but cooled buyer demand crushed builder confidence, slowing construction activity. Sellers felt the effects of softened demand as well, as homes spent more time on the market and price reductions started to climb. Affordability concerns are stopping many would-be buyers today, and this slowdown in activity is giving the housing market a much-needed breath and opportunity to rebalance, which industry experts tout as a good thing. At the same time, the size of the housing shortage is keeping the housing market from resetting too rapidly. Unless we see a massive shift in construction or household formation, young millennial and Gen Z consumers will continue to feel the effects of the building shortage as they navigate the housing market, searching for the right home that they can afford.

November saw single-family housing starts hit their lowest since the early months of the pandemic, and higher borrowing costs are cooling new apartment investment. In the first 11 months of 2022, single-family building permits issued year-to-date reached a total of 921,626, down 11% YOY from the November 2021 total of 1,029,208, National Association of Home Builders reports. Single-family permits fell in all four regions, with the West reporting the steepest decline of 13.9%.

Contracts for homes under construction nationwide saw a 26% cancellation rate in October, according to builder survey data. The year before the pandemic began, cancellation rates were closer to 10 percent. However, in the Southwest region, buyers exited contracts for new homes at a 45% rate, up from 9% the same time last year. In Texas that cancellation rate hit 39%, up from 12% the year before. In the Northwest, cancellations reached 30%, up from 7% last year.

In order to curb inflation by the end of the year, the Fed had raised its target for the benchmark

short-term interest rate seven times in eight months, by a total of 4.25 percentage points—the fastest run-up in Fed history. Mortgage rates more than doubled, with rates on 30-year fixed-rate mortgages hitting a 2022 peak of 7.16 percent on Oct. 24, according to the Optimal Blue Mortgage Market Indices.

The Federal Reserve's December minutes confirmed interest rates won't be cut in 2023, and noted that as long as inflation is well above 2%, continued interest rate hikes will be necessary. However, on December 14, the Federal Reserve policymakers made it clear that they're ready to dial back the pace at which they've been raising the short-term federal funds rate. Due to this, Fannie Mae has revised its predictions for next year home sales stating that they won't fall quite as hard as they had previously forecast. In addition, they believe mortgage rates have reached their peak and that we could expect them to dip below 6% by the first quarter of 2023.

A growing "lock-in effect"—the financial disincentive for existing homeowners with a fixed-rate mortgage well below current market rates to put their home on the market, move, and take on a new, higher mortgage rate—is also having a large impact on total home sales. Because of the lock-in effect, first-time homebuyers may increasingly be forced to turn to new construction homes in the coming years as even fewer existing homes come on the market.

Mortgage applications rebounded strongly in the first week of January on the heels of a continued two-month decrease in mortgage interest rates. The jump certainly has something to do with the holiday season coming to a close, but it is worth noting that some home buyers are beginning to come to terms with the sustained higher rates. Mortgage rates hit a 2023 low of 6.09% on Thursday, February 2.

Fannie Mae expects real GDP growth in 2024 to be 2% year over year, reflecting the start

of a recovery following an anticipated 2023 contraction of 0.6%. Its forecast of the economy tipping into a modest recession in the first quarter of 2023 remains unchanged. Fannie Mae's Economic and Strategic Research (ESR) Group forecasts single-family home sales to drop to 4.42 million in 2023 and then climb to 5.25 million in 2024. "From our perspective, the good news is that demographics remain favorable for housing, so the sector appears well-positioned to help lead the economy out of what we expect will be a brief recession," said Doug Duncan, senior vice president and chief economist at Fannie Mae.

In our last board brief we reported peaked inflation. However, the latest consumer price index of 6.45% in December is in the sixth consecutive month of deceleration after peaking in June 2022. Increased earnings aren't rising in line with inflation, so most Americans are falling behind in their standard of living. Food prices are up over 10%. Although gasoline prices have fallen by 1% YOY, they are still up 42% from pre-pandemic levels in March 2020. Consumers are feeling the pain in all sectors of the economy, not just housing.



Ali Wolf
@AliWolfEcon

Home from the International Builders Show. Here are my three takeaways:
1. The new home cancellation rate has largely normalized; 2. Sales in January crushed expectations; 3. Builders had cautious optimism with many mentions of a head fake

3:15 PM · 2/2/23 · 71.7K Views

Despite the slow-down in housing, home prices are still rising, even if modestly. This suggests demand is still strong, but doesn't help buyers with decreased housing affordability.

Homebuilders did begin to trim their payrolls in November, but layoffs weren't as bad as anticipated considering home sales decline. About 906,700 workers remained employed for residential builders in November, 11,900 fewer than the same time from the previous month, according to the U.S. Bureau of Labor Statistics. Although this is a big drop, considering the seasonal trends, this amounts to just a 0.3 percent monthly decline in builder payroll levels.

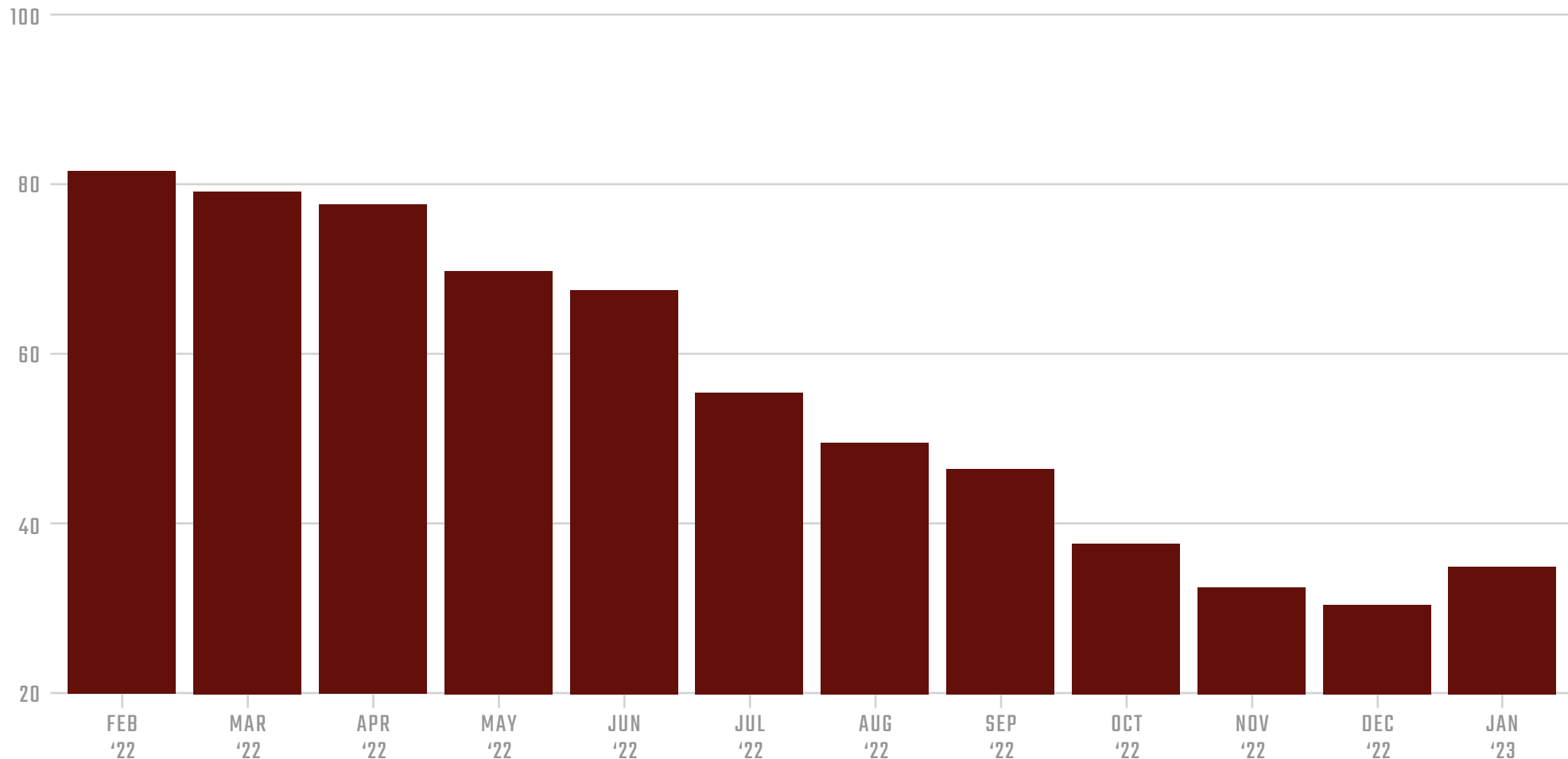
As Mark Zandi, the chief economist for Moody's Analytics, said in a recent presentation, millions of Americans are about to come into the median age for first-time homebuyers: age 34. The population age distribution should result in a steady demand as millions of Millennials are now aging into that critical range. In fact, this is the biggest population wave to age into their home-buying years that the nation has ever seen. Those that stepped out of the market in late 2022 won't stay away forever, especially given the competing demands from first-time buyers looking to get into the market and retirees looking to move or downsize. People everywhere still 'need' to buy and sell, and these buyers/sellers will be key as the market continues to normalize.

Other good news is on the horizon as builder confidence reverses in December, after 12 consecutive months of decline. The National Association of Home Builders (NAHB) reported that the modest drop in interest rates helped to end the 12 month string. Builder sentiment remains in bearish territory as builders continue to struggle with elevated construction costs, building material supply chain disruptions and challenging affordability conditions.

"While NAHB is forecasting a decline for single-family starts this year compared to 2022, it appears a turning point for housing lies ahead," said NAHB Chief Economist Robert Dietz. "In the coming quarters, single-family home building will rise off of cycle lows as mortgage rates are expected to trend lower and boost housing affordability. Improved housing affordability will increase housing demand, as the nation grapples with a structural housing deficit of 1.5 million units."

Homebuilding behemoth D.R. Horton Inc. plans to increase its home starts in spring, aiming to match an anticipated return to normal seasonality in the market. The Arlington-based homebuilder isn't offering guidance for the full year yet, but its first-quarter results and early sales data from January gave executives confidence in the coming months. The company currently has a higher level of unsold inventory than it has had in previous quarters. However, this marks a level of inventory seen in a typical year, and D.R. Horton takes this as evidence of a return to seasonality in the market.

NAHB HOUSING MARKET INDEX



Source: National Association of Home Builders

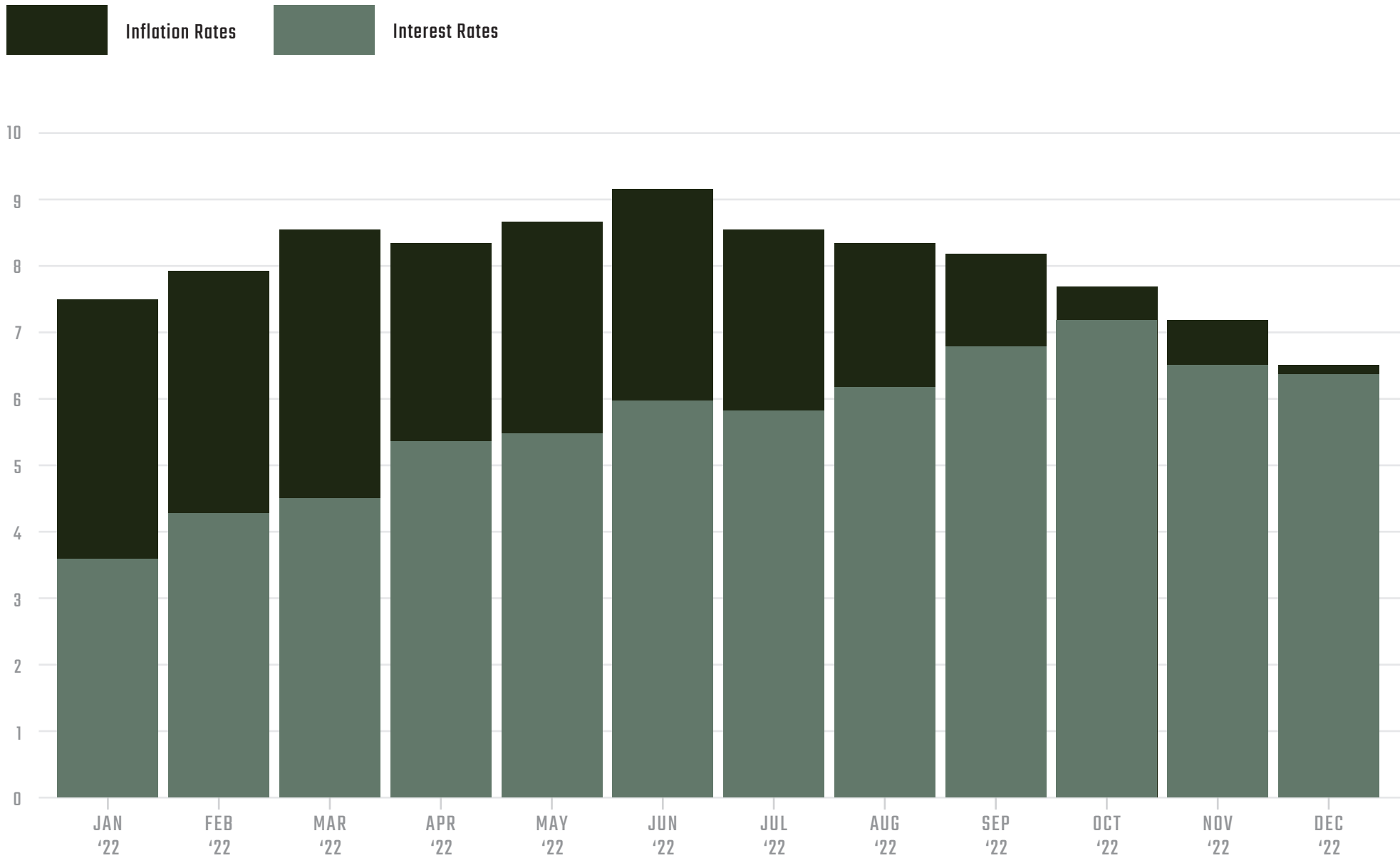
The NAHB housing market index in the US increased to 35 in January of 2023 from 31 in December of 2022, which was a fresh low since 2012 excluding the immediate onset of the pandemic. It is the first rise in the index since December of 2021, beating market forecasts of 31. The gauge for current sales conditions rose to 40 from 36, sales expectations in the next six months went up to 37 from 35, and traffic of prospective buyers edged 3 points higher to 23. "It appears the low point for builder sentiment in this cycle was registered in December, even as many builders continue to use a variety of incentives, including price reductions, to bolster sales. The rise in builder sentiment also means that cycle lows for permits and starts are likely near, and a rebound for home building could be underway later in 2023", " said NAHB Chairman Jerry Konter.



“As we monitor sales and monitor cancellations week to week, and when we see that trend returning to more of a normalized market, it’s hard not to be optimistic that we’re going to have a good Spring.”

- David Auld,
president and CEO
of D.R. Horton

INTEREST & INFLATION RATES OVER LAST YEAR



Source: U.S. Bureau of Labor Statistics, Mortgage Bankers Association of America

OSB PRICING YOY

FEBRUARY 2022

\$1,015

FEBRUARY 2023

\$230

*OSB pricing on 7/16 OSB in southwest region from February 2022-February 2023. Chart from Random Lengths, FastMarkets RISI. Prices have greatly decreased over the last year, and are normalizing in response to the housing market correction.

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

\$230

DOWN \$785

(-77.3% YOY)





LOUISIANA

TOP MARKETS:

BATON ROUGE

3,338 STARTS

(-26.2% Q4)

3,502 SINGLE PERMITS **292** MULTI PERMITS

(-19% YTD)

(+7,200% YTD)

LAFAYETTE

1,977 STARTS

(-35.9% Q4)

1,947 SINGLE PERMITS **5** MULTI PERMITS

(-36% YTD)

(+12.8% YTD)

LAKE CHARLES

906 SINGLE PERMITS

(+2% YTD)

272 MULTI PERMITS

(+750% YTD)

NEW ORLEANS/METARIE

3,129 SINGLE PERMITS **1,063** MULTI PERMITS

(-22% YTD)

(-16% YTD)

LOUISIANA ECONOMY

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

Great Southern Wood Preserving will invest \$5.9 million expanding its remanufacturing facility in Mansura, La. The project will add four new production lines, increasing the facility's capacity and allowing for the manufacture of components used in the oil field and for storm relief and mitigation. Construction is starting soon with plans of completion in October.

Baton Rouge

The Capital Region's housing market is stabilizing after the frenzy of the last couple of years.

I think it's going to be a balance," Kendra Novak, president-elect of the Greater Baton Rouge Association of Realtors says, when asked if she expects next year's market to favor buyers or sellers. "Sellers still aren't going to just give up everything. Negotiations are still going to be taking place."

Compared to October of last year, pending sales and closed sales in the Baton Rouge area were down about 40% and 25%, respectively.

The area is experiencing record-low unemployment and its largest labor force since 2018. Tourism continues to rebound; 7.2 million visitors in 2022 added \$126 million to state and local tax revenues.

Although home sales have slowed, prices have continued to rise YOY due to still-tight inventory. At the current sales pace, Baton Rouge has 2.5 months of supply of homes for sale on its MLS, up from 1.2 months one year earlier.

New building and energy codes that kick in next year expect to add an average of \$2,000-\$2,500 to the cost of building a house in the Capital Region, according to the Home Builders Association of Greater Baton Rouge. The codes require more resilient and energy-efficient homes, which should translate into lower insurance costs. This could help to address what many lawmakers consider a crisis in the state's property insurance market. Lower insurance costs would be welcomed since flood insurance premiums have skyrocketed.

The Baton Rouge metro area added 500 jobs from October to November and has gained 4,000 jobs since November 2021, according to the Louisiana Workforce Commission.

Lafayette

The housing market is cooling rapidly as monthly home sales have been contracting year over year for the past three months. Weaker demand for housing has put builders on edge and construction activity has cooled significantly this year. The gap between new and existing home prices has widened recently as well.

The University of Louisiana at Lafayette is one of the primary employers and is poised to make an even greater impact with its newest \$43 million lab expansion that will create 550 jobs. In the fall of 2022, the school also set the record for the largest freshman class in its history.

Dave and Buster's has officially purchased the land that will be the second location in the state. The location of the new Dave & Buster's will be in the Ambassador Town Center at 201 Spring Farm Road, across from Our Lady of Lourdes Women's and Children's hospital. Jet Coffee and Jersey Mikes also announced their plans to build in the area.

Once an oil and gas giant, the city is becoming more diversified and the health and medical industry is leading the way. In the first quarter of 2012, during the height of the fracking boom, Lafayette parish was the hub of Louisiana oil and gas, with over 17,000 jobs in the natural resources and mining sector, according to the U.S. Bureau of Labor Statistics. By the second quarter of 2022 that number has been more than cut in half at just over 7,000. By comparison, jobs in health care and education went from just over 19,000 in the first quarter of 2012 to over 25,000 in the second quarter of 2022. Among the companies that are growing by leaps and bounds are Tides Medical, Acadian Ambulance, and LHC Group.

Lake Charles

The city received a \$150 million federal grant to replace the famed "pistol bridge." The bridge, originally erected in 1952 and designed for a capacity of 37,000 vehicles per day, has outlived its lifespan and sees approximately 90,000 vehicles per day. The bridge also has no shoulders, no lights, and a steep incline. The replacement cost is estimated to be \$1.5 billion, so more funding is needed to make this project a reality.

The Horseshoe casino opened on December 12, 2022, adding over 700 jobs and further growing the over \$1 billion tax base the industry contributes to the state budget. Local business and government leaders hope it will drive more traffic to the area. Today, gambling accounts for about 10% of state general fund revenues.

Downtown Lake Charles was on an upswing before Laura and Delta hit 2 years ago, putting many businesses out of commission. But, momentum is finally building again. Beyond its importance to locals, a vibrant downtown in Louisiana's fifth-largest city would also provide

a viable option for Texas visitors. The old Sears location is looking to get a makeover by New Orleans-based Green Coast Enterprises. The company plans to turn the building into a mixed commercial space, serving food on the street level and housing two stories of office space above.

New Orleans

Buyers in the New Orleans area are getting hit with a triple punch. Not only are they suffering from higher interest rates and inflation, but they are also getting hit with sky-high property and flood insurance premiums. This puts many would-be buyers out of the market. "The insurance rates are literally killing deals," said Jiarra Rayford of Rayford Realty. "I had a quote for a \$10K premium for property insurance on a 2,800-square foot house in Metairie. We couldn't do the deal. The buyer had to walk away from their dream house."

Rising housing appreciation in the city is also squeezing home buyers. According to NeighborhoodScout data the New Orleans' housing appreciation rate over the last twelve months has been 10.8%. In comparison to the rest of the state, the city's annual appreciation rate is greater than 50% of the state's other cities and towns.

Investor and real estate developer Zach Kupperman has acquired a medical office complex at 2237 Poydras Street on the edge of the Central Business District. He plans to redevelop the property for a new medical tenant that will move in later this year. The move was motivated in part by the recent passage of legislation that will fund a long-awaited BioDistrict in the area. In October, the City Council approved the creation of a special taxing district comprising large swaths of downtown aimed at attracting companies in the biosciences sector.



Lumber carts, circa 1962

TEXAS

TOP MARKETS:

SAN ANTONIO/NEW BRAUNFELS

22,764 STARTS

(+14.4% YTD)

12,327 NEW HOME SALES

(-2.1% LAST 12 MONTHS)

10,459 SINGLE PERMITS **9,660** MULTI PERMITS

(-25% YTD)

(+16.1% YTD)

HOUSTON/THE WOODLANDS/SUGAR LAND

40,385 STARTS

(-6% YTD)

28,798 NEW HOME SALES

(-2% LAST 12 MONTHS)

47,546 SINGLE PERMITS **18,042** MULTI PERMITS

(-9.8% YTD)

(+9.1% YTD)

DALLAS/FORT WORTH/ARLINGTON

47,489 STARTS

(-13.1% YTD)

32,173 NEW HOME SALES

(-2% LAST 12 MONTHS)

45,469 SINGLE PERMITS **29,796** MULTI PERMITS

(-12.6% YTD)

(+11.6% YTD)

AUSTIN/ROUND ROCK/GEORGETOWN

26,105 STARTS

(-1.4% YTD)

15,893 NEW HOME SALES

(-2% LAST 12 MONTHS)

22,626 SINGLE PERMITS **25,447** MULTI PERMITS

(-10.1% YTD)

(-4% YTD)

TEXAS ECONOMY

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

Austin

Austin's housing market has been one of the quickest to slow nationally. The labor market remains strong, but the housing market is faltering. Employment trends won't save Austin from the near-term slowdown; however, all of the workers and companies that have relocated to Austin will be there on the other side and others will continue to come.

Among metros with 750K+ populations, Austin had the most total employment growth from 2010-2021 and from 2019-2021. Austin ranks No. 4 nationally for high-income jobs as a share of total jobs.

Home inventory is growing, and prices are receding, both signs that the market is trying to normalize. Housing inventory has grown a whopping 700% since the start of the year, reaching 3.2 months in October, according to Austin Board of Realtors data. However, this is still much lower than the healthy level of 6 months. The median price was \$550,000 in April and May, but fell to \$474,990 in October. Home builders are cutting prices too: Lennar Corp. also got in on the Black Friday sale game, with some homes going for \$120,000 less than originally priced! Although the Austin area saw about \$5.3 billion in total home sales volume in Q3 2022, which was down nearly 19% year over year, it's still higher than any quarter before 2020.

An Austin-based 3D-printed housing startup, Icon Technology Inc., and one of the country's largest homebuilders, Lennar Home Corp., have teamed up to introduce a 100-home community in Georgetown built by robots, otherwise known as enormous 3D-printers. According to Icon, the proprietary "Vulcan" construction machine can produce houses up to 3,000 square feet and the materials are "believed" to be longer-lasting and more weather-resistant than traditional

homebuilding materials. The first floor of the homes are built with 3D mediums, while the second floor uses traditional wood home-building products. Icon and Lennar are hopeful that their partnership can significantly impact communities such as Austin with major housing shortages.

Dallas

As demand for new home purchases lessens, build-to-rent single-family homes have grown in market share and account for roughly 8% of new construction.

Job growth has been averaging more than 7% in recent months while the unemployment rate hovers below 4%.

Although single-family building permits are continuing to slide for most of the nation and North Texas, Denton is bucking this trend. Building permits were up 46% year-over-year for the 10 month period ending in October, according to data compiled by Addison-based Tomlin Investments.

There are two very large master-planned communities scheduled for Denton, Hillwood's Hunter Ranch and the Cole family's Cole Ranch. When new communities are hitting the market, builders are putting starts in place.

GKN Aerospace is relocating their North America Additive Manufacturing Center of Excellence from East Tennessee to Fort Worth. The move will add up to 100 jobs to the area.

A \$3 billion "mixed-experience community" called the Mix will be built at the high-profile site in Frisco where the defunct Wade Park project previously was planned. The Mix plans to have 2 million square feet of office space, 375,000 square feet of retail, a 450-key business hotel and a 200-key boutique hotel, medical space, and 3 million square feet of residential. The project kicked off in December 2022, and is expected to be completed in 2026.



Rendering of The Mix coming to Frisco.

Frisco will also be getting a new theme park. Universal Parks and Resorts has acquired land along the Dallas North Tollway in Frisco and plans to build a family-focused theme park with rides, shows and a 300-room hotel. The Frisco theme park will be a smaller version of Universal Studios' parks in Orlando and Los Angeles.

Houston

Houston's single-family home sales for 2022 came in below the record set in 2021, making it the first time the metro's full year sales fell since 2015, the Houston Association of Realtors reported.

Houston's economy continues to expand. Employment growth remains broad-based with all sectors growing year-over-year. The metro may not be attracting as many flashy names as Austin, but plenty of diverse businesses are moving into the Houston area, and it remains the second most active new home market nationally based on starts volume.

Houston is known as the oil and gas hub of the nation, and the industry has had a cyclical ride over the last several years. However, 2022 saw a welcomed rally for oil and gas companies. Some speculate that the investment cycle is just getting started, and this would be welcomed news for the Houston area as a whole.

Tesla has leased over one million square feet in the Empire West Business Park in Brookshire,

west of Katy. Although the EV giant hasn't confirmed the space's use, many suspect that it will be used for battery storage.

The development of a 50-acre tract into a mixed-use development next to Sugar Land's Smart Financial Centre is a step closer to reality. While the plans are still in the preliminary stage, the goal of the project is to have 50% commercial development—including office, retail and restaurants—and 50% townhomes.

Bridgeland's fourth and final residential village, Creekland Village, is now offering homesites for sale. There will be approximately 3,000 homes with prices starting in the \$290's, and the model homes are expected to be completed in late spring. Builders for this segment include Beazer Homes, Century Communities, Chesmar Homes, Coventry Homes, Gehan Homes, Lennar, Perry Homes and Westin Homes. In addition to homes, Creekland will also have approximately 40 acres of commercial development, schools and early childhood learning centers.

San Antonio

After nearly two years of continuous sharp appreciation in the housing market, July 2022 told a different story. The median home price peaked in July at \$340,000, but has since dropped 5% to \$323,190. However, that's still a 7.8% increase from the \$300,000 median home price in October

2021 and a staggering 26.5% higher than October 2020. The elevated prices, coupled with higher interest rates, has buyers at bay. Active listings recorded by SABOR have skyrocketed from 4,022 in March to 10,390 in October.

Home buyers and sellers are at a standoff, each waiting for the other to move. This has resulted in somewhat of a suspended market. According to Zillow senior economist Orphe Divounguy, inventory is up 29%, and homes are staying on the market 18 days longer than last year. However, in spite of these numbers, prices aren't coming down quick enough to support people jumping back in the market.

San Antonio is the only Texas market where project counts are growing in most counties. Vacant developed lot supply is moving higher, and reaching the equilibrium range of 20-24 months is possible in 2023.

Dallas based Provident Realty Advisors Inc. is planning to develop a 330-unit multifamily project in New Braunfels that is due to break ground in February. The 33-acre property will consist of three garden-style, four-story multifamily buildings with tuck-under garages, surface parking, a fitness center, pool and dog park. The project has an anticipated finish date of January 2025.

NEW MEXICO

TOP MARKETS:

ALBUQUERQUE

2,216 STARTS

(-2.9% YTD)

1,239 NEW HOME SALES

(-1.6% LAST 12 MONTHS)

1,985 SINGLE PERMITS

(-21.7% YTD)

1,082 MULTI PERMITS

(-27.2% YTD)

NEW MEXICO ECONOMY

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

Albuquerque

The metro area continues to see a limited housing supply. Fewer existing homes are coming on the market than a year ago, and builders have pulled back.

As cancellations tick up, there has been a noticeable increase in the number of finished vacant homes and the average quick move-in per project has jumped and is holding close to its highest level in recent history.

The Department of Energy and Sandia National Laboratories announced two projects that could jump-start the local high-tech sector. More than \$8 million plus in matching funds will be used to help small businesses in clean energy tech.

Albuquerque's Metropolitan Redevelopment Agency has \$750,000 available in the form of

grants to businesses or nonprofits interested in rehabilitating ground-floor commercial space in Downtown. The program has a goal of attracting established businesses with an existing customer base, improving safety by increasing foot traffic to new businesses and decreasing the number of vacant commercial spaces in Downtown Albuquerque. Grants will be awarded in amounts ranging between \$50,000 to \$250,000.

In addition to commercial redevelopment, downtown residential development will increase as well. "The Downtowner," a \$30 million proposal to build 207 units of housing at the intersection of 1st Street and Silver Avenue, is making strides in the planning process. Pending approval, the Downtowner project is anticipated to break ground in late 2023.

The \$30 million multifamily project at Mesa del Sol is nearing completion, and is expected to be open for tenants by April 2023. In addition to the multifamily project, at least 600 lots across three different subdivisions are ready for development. Mike Fietz, the president of Albuquerque-based Westway Homes, expects new home construction to occur on about 320 lots within the next six months. In addition to the residential additions, the community has a sizable commercial footprint as well. The commercial side of the project will create tens of thousands of jobs. Although initial construction started back in 2008, "about the last five years, we've been doing more and more development," added Mesa del Sol LLC CEO David Campbell. He previously estimated the community could hold up to 37,500 residences with a population of 100,000 people.



Water tank, circa 1960-1964



ARIZONA

TOP MARKETS:

TUCSON

4,009 STARTS
(-0.7% YTD)

2,124 NEW HOME SALES
(-1.9% LAST 12 MONTHS)

3,814 SINGLE PERMITS
(-25.4% YTD)

958 MULTI PERMITS
(-18% YTD)

PHOENIX/MESA/CHANDLER

27,184 STARTS
(-5.2% YTD)

14,433 NEW HOME SALES
(-2.1% LAST 12 MONTHS)

28,512 SINGLE PERMITS
(-17% YTD)

18,471 MULTI PERMITS
(+13.8% YTD)

NEVADA ECONOMY

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

Arizonians may not immediately notice any changes in the availability of water in their daily lives, but steep cuts have been imposed on the amount of water the state can draw from the Colorado River as the state struggles to keep the drought-ravaged Lake Powell and Lake Mead from falling to critically low levels. The Phoenix Water Resources Management Adviser, Cynthia Campbell, said the most recent projections show that Lake Mead and Lake Powell could drop to a point where the Hoover and Glen Canyon dams can no longer produce hydroelectric power. It is unsure when more cuts in water supplies will be needed, but Arizona will see the sharpest of them. Most of the cuts in Arizona will be felt by the farmers, however, with agriculture one of the biggest uses of water in the state. This water shortage is especially relevant as people flock to the state to enjoy the lower prices and unending sunshine. In 2022, four of the ten fastest-growing counties in the U.S. were in Arizona. The state and developers who wish to develop in these areas must find other water supplies or other solutions.

Phoenix

Recent data results from Zonda indicate that the monthly new-home sales contracts have fallen every month since January across the Phoenix MSA. Current new-home sales contract activity is the lowest since at least 2015. This slowdown could be attributed to continued high cancellation rates. According to the same data results from Zonda, the cancellation rate, which is gross sales divided by cancellations, has

hovered at 50% or higher since late August. This situation has created an inventory problem for home builders. Current calculations indicate that there are 2.5-plus months of supply of quick move-in homes. Housing affordability continues to be an issue as an income-to-payment calculation by Zonda shows the typical household in Phoenix today would need to spend close to 40% of its monthly income on housing.

Although the market is cooling, luxury real estate agents continue to close deals. Cash buyers are continuing to flock to the valley, and they can afford the higher-end homes that are available. Local experts agree that other than luxury homes, they expect prices to decrease in the coming year as homes sit on the market longer. Typically January through March sees an influx of homes coming on the market, so buyers will have more choices. Sellers will need to be prepared to sell at lower prices and be willing to make repairs and/or upgrades to inch out the competition.

Job growth remains healthy and there is significant investment in the semiconductor industry.

Andrea Crouch, board president of Phoenix Realtors, says she's sensing that the housing market is getting back to normal.

“The market really feels normal now,” she said. “I think the public is under the impression that the market is falling. That’s simply not the case. We’ve just returned back to normal, which is fine with me.”

While pending sales are down compared to 2021, it's important to remember that 2021 was an outlier.

Defunct malls have been the focus of some of the biggest redevelopment efforts in the Valley. Two groups are gearing up to take on the redevelopment of MetroCenter and Paradise Valley Mall. The MetroCenter property plan, called the Village, will include 2,600 multifamily units and 100,000 square feet of essential and service retail.

A new 660 acre project being proposed in the city of Eloy, between Phoenix and Tucson, would bring 2,618 residential units, 30 acres of mixed-use, 12 acres for a school, and 10 acres for parks and open space. There are still some hurdles to overcome as this would require rezoning. The addition of these homes in this growing area would help alleviate Arizona's housing deficit; Arizona ranks eighth in the nation for housing shortages.

The 23-acre entertainment project in Scottsdale, dubbed The Sydney, is set to break ground in January. The development will feature several indoor and outdoor courts, restaurants, bars, as well as the anticipated Goodsurf, where guests can hop on a board and ride a wave in an on-site pool. Palmer Development is also planning to bring a 180-key boutique hotel to the property.

Tucson

Tucson saw active listings increase 54% from the same time period last year but supply is still at just over 2 months. The median sales price increased 7% YOY for single family homes and 18% for condos/townhouses. Days on market for single family increased 87% to 45 days. Inventory levels are on the rise and are comparable to 2018 levels.

Despite current headwinds, Tucson remains more affordable compared to its neighbor Phoenix and should continue to benefit from migration patterns and affordability. A stable workforce could also help mitigate the risk of significant job loss in the near term.

Financing has been secured for the construction of Aerie Northwest, a 144-unit multifamily property located in Northwest Tucson. The property will be built on over 12 acres and will feature 17 two-story buildings with one-, two- and three-bedroom units, as well as a pool house. There was no mention of when the project will kick off.

Utah-based American Battery Factory is planning to build a \$1.2 billion battery manufacturing plant in Tucson, across 267 acres. The new factory plans to hire 1,000 employees and have an estimated economic impact of \$3.1 billion over a decade. The factory will be located at Pima County's Aerospace and Research Campus, south of Tucson International Airport. ABF is a lithium-iron-phosphate battery cell manufacturer.



First office, circa 1924-1926

OKLAHOMA

TOP MARKETS:

OKLAHOMA CITY

6,226 STARTS

(-19.6% Q4)

6,130 SINGLE PERMITS **565** MULTI PERMITS

(-19.7% YTD)

(+27.5% YTD)

TULSA

3,862 SINGLE PERMITS **590** MULTI PERMITS

(-11.3% YTD)

(+4.2% YTD)

OKLAHOMA ECONOMY

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

Overall, Oklahoma home buyers have been the 11th most affected by rising interest rates, analysts at Construction Coverage found. The mortgage payment for a median-priced home purchased in Oklahoma last year amounted to \$568; but, after a year of mortgage rate increases, the mortgage payment for a median-priced home in the Sooner State now stands at \$960—a year-over-year increase of 69%.

Oklahoma City

Oklahoma City sales were down 8.1% YOY, and the share of new homes for sale jumped by over 40% for the third quarter 2022.

Job growth in Oklahoma City remains robust and the unemployment rate has been hovering around the 3% range, and jobs are growing by roughly 4% annually.

A shortage of electrical transformers is affecting real estate development, leading to delays for new projects. Oklahoma Gas and Electric Co. and Public Service Co. of Oklahoma have had supply issues, resulting in ongoing delays.

Oklahoma City remains an attractive city for those looking to relocate due to its low cost of living, which is 17% below the U.S. average, while housing costs are 27% below the national average. Home prices in Oklahoma City average \$340K vs. the national average of \$466K. Renters also do well on a relative basis considering the average apartment rent comes to \$892/month versus the U.S. average of \$1,427.

Homebuilders in Oklahoma City slammed on the brakes toward the end of the year, sending parts of the economy to a screeching halt. “With inflation hitting so hard so fast, it will take time for things to settle out again,” said Jason Schuff, of Vesta Homes. The year ended with 6,618 new houses built in the Oklahoma City metro area, down 21% compared with 2021, according to Dharma Inc.’s Builder Report. Builders started just 741 homes in the fourth quarter, 1,055 fewer new homes than during the last three months of the year before. But this also matters to others, not just those looking to buy a home because home construction is such a heavy hitter in the general economy. Those 1,000 or so homes not built meant nearly 3,000 full-time jobs not created, \$162 million in wages unpaid, \$118 million in business income foregone, and \$11 million in taxes and revenue not collected by state, local and federal governments, according to the National Association of Home Builders.



New residential construction near Oklahoma City.

Gardner Tanenbaum plans to add a 444-unit apartment complex at its Westgate Park mixed-use development after securing \$61 million in construction financing through Dallas-based IPA Capital Markets. Gardner Tanenbaum plans further development at the site, including additional office, retail, restaurant and industrial space.

Tulsa

Tulsa’s job growth remains strong, and its rate of YOY job creation is running even with the U.S. and is outpacing Oklahoma. The metro unemployment rate has ticked higher this year, but this is due to more people returning to the labor force.

Among the 50 largest U.S. cities, Tulsa is one of only four where starter homes are still affordable for those earning the area’s median household income.

Buyers in the Tulsa area have been among the most affected in the state when it comes to increased mortgage interest rates. Last year the typical mortgage payment for a median priced home was \$651. A year later, the mortgage payment on a median priced home would be 70% higher at \$1,109.

A Michigan-based financial services company is expanding to Eastgate Metroplex, a former shopping mall. Compu-Link Corp. provides reverse mortgage servicing support and will be bringing up to 190 jobs with it.

There aren’t a ton of property options up for grabs in the Tulsa Arts district, especially after a 306-space parking lot was just sold to a Philadelphia-based real estate firm for over \$5 million. David Dobkins, managing director and head of acquisitions at Parkway Corp. who purchased the block, said they will create a master plan to determine the best way to contribute to the area’s revitalization.



Roy Otis Martin, 1960

ARKANSAS

TOP MARKETS:

FAYETTEVILLE/SPRINGDALE/ROGERS

5,541 SINGLE PERMITS **1,566** MULTI PERMITS
(-2.4% YTD) (+8.6% YTD)

LITTLE ROCK/NORTH LITTLE ROCK/CONWAY

2,029 SINGLE PERMITS **1,988** MULTI PERMITS
(-19% YTD) (+75.9% YTD)

ARKANSAS ECONOMY

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

Little Rock

Little Rock residential construction activity peaked in 2021 with the most housing starts since 2007. With rising interest rates, however, builders have reined in new construction and project delays are up. Home values have been skyrocketing in Arkansas, and at least 15 counties have reported 25%-plus growth in value since 2017. Pulaski and Saline counties saw values climb 28.9% and 46%, respectively, and should boost tax revenues for local governments.

The city has seen exponential growth in wholesale trade and transportation and warehousing. It began in 2020 when Amazon announced plans to build major warehouses at the Port of Little Rock and in eastern Little Rock. Most of the new jobs created in the Little Rock area are in these two sectors. Amazon's move caused other companies to take notice, and firms like Dollar General and Lowe's are building sizable warehouses in central Arkansas. You might be wondering what's behind this trend. The region is central to the country, and nearby metro areas like Dallas, Memphis, and St. Louis are near maxed out in terms of real estate costs and traffic congestion. The Little Rock region also benefits from having two major rail lines, good water transportation and a well-located airport with plenty of spare capacity.

Just north of Little Rock about 30 minutes is Conway, with the cost of living at 17% below the national average. Conway is known as "The City of Colleges," and it's because of the younger college residents that help keep costs in check. So if housing prices in Little Rock don't quite fit the budget, there is a more cost friendly city not far away that would love to welcome new residents.

Fayetteville

Demand is waning, and new home closings have declined at a faster rate than the existing home

market. Builders are trying to limit cancellations and entice buyers with rate buy downs and larger incentives, but the median home price is facing stiff headwinds while prices are still up from year-ago levels.

Fayetteville is second among the National Association of Realtors (NAR) top 10 rankings in terms of housing affordability. Annual population growth is 2%, which is well above the national average of 0.01%. Homes are also cheap, and the share of renters that can afford the typical home is nearly double the national average.

D.R. Horton is expanding its presence in the area with the acquisition of Riggins.

The housing market in Fayetteville is about to get tighter since Tyson Foods announced that they are relocating corporate employees to Springdale, just north of Fayetteville. The economic impact is measured to be as high as \$250 million. Executive Director of Northwest Arkansas Workforce Housing Center, Duke McLarty, says Northwest Arkansas needs a long-term housing plan to keep up. He says they'll start with efforts to change building codes, policies, and zoning regulations in cities around the region to encourage more housing opportunities to meet the demand.

In Lowell, just north of Fayetteville and Springdale, 10 acres just changed hands, and plans are to develop the property into a 94-unit "active lifestyle" multifamily community for residents aged 55 or older. The intended target is people 55 and over that choose to rent instead of own. The development will have on-site walking trails, pickleball courts and a clubhouse. Construction is scheduled to begin in the spring, with completion in the summer of 2024.

“Markets in roughly half of the country are likely to offer potential buyers discounted prices compared to last year.”

**- Lawrence Yun,
chief economist at NAR**



Roy O. Martin Lumber, Alexandria location, circa early 1960s

NEVADA

TOP MARKETS:

RENO

1,951 STARTS
(-32.7% YTD)

1,236 NEW HOME SALES
(-2% LAST 12 MONTHS)

2,291 SINGLE PERMITS
(-15.7% YTD)

3,041 MULTI PERMITS
(+16.1% YTD)

LAS VEGAS/HENDERSON/PARADISE

13,128 STARTS
(-1.8% YTD)

8,791 NEW HOME SALES
(-2.9% LAST 12 MONTHS)

9,942 SINGLE PERMITS
(-18.2% YTD)

5,141 MULTI PERMITS
(+23.9% YTD)

NEVADA ECONOMY

- Tourism
- Gaming
- Mining
- Agriculture
- Manufacturing

Las Vegas

After the pandemic housing boom pushed home prices, the current market conditions in the area are moving toward stability, where buyers and sellers can bargain and haggle like the old days. Although prices are still over 9% higher YOY, the median price of an existing single-family house in November was down 2% from October. There is currently a 5 month supply of houses available in Southern Nevada, which is a massive increase of 463% from the prior year! We are nearing a balanced market in Las Vegas.

Luxury homes and condos have been hit hard, not unlike other markets, but due to the equity-rich buyers coming to Las Vegas from California and other states, the luxury market is expected to rebound the quickest.

Population is expected to increase in the area, and even though builders are continuing to bring more homes to the market they are still not building at a rate that meets the needs of homebuyers.

You can expect the city to change even more dramatically than ever this year since Super Bowl LVIII will take place at Vegas' recently opened Allegiant Stadium next year, which is a huge win for the city and its many resorts and entertainment outlets.

The Fountainebleau Las Vegas, a hotel/resort development that fell victim to the 2008 financial crisis, is back on its feet and is expected to open later this year. Once completed, the 67-story resort that is set on 25 acres will have 3,700 hotel rooms, gaming area, restaurants, shopping, multiple pools and convention space—so basically a shiny new version of what you see from every other megaproject on the Strip.

Reno

Reno's favorable business environment has been luring businesses away from California, and according to a report by Claremont McKenna College, the metro area is the third most popular destination for companies moving out of California.

Higher interest rates continue to squeeze the Reno-Sparks real estate market as the median home price in the area fell to its lowest point since May 2021. Reno-Sparks closed 2022 with a median price of \$519,950 in December, a drop of nearly 5% compared to the previous month, and a 15% drop since posting a record of \$615,000 last May. The Reno/Sparks Association of Realtors described the trend as a market "normalization" following several years of skyrocketing home values. This is welcomed news for those waiting at the door of homeownership. The average monthly mortgage payment in Reno one year ago was \$1,284, according to a study by data analysis firm Construction Coverage. Today, Reno's average mortgage payment is up by 50% to \$2,747.

Days to contract after being listed in Reno now approaching close to two months. In contrast, a year ago it only took 2 weeks for a home to become under contract. While Reno-Sparks remains in a sellers market, more homes are available on the market for buyers to choose from. Active inventory in December was up 135% from December 2021.

"Rates are expected to move lower for the year, and home price growth is expected to cool, both of which will help affordability challenges."

**- Mike Fratantoni,
the Mortgage Bankers
Association chief economist**



Circa 1962

UTAH

TOP MARKETS:

OGDEN/CLEARFIELD

3,362 STARTS

(-7.6% YTD)

1,389 NEW HOME SALES

(+1.3% LAST 12 MONTHS)

3,225 SINGLE PERMITS

(-23.3% YTD)

2,386 MULTI PERMITS

(-27.2% YTD)

PROVO/OREM

7,991 STARTS

(-2.1% YTD)

4,084 NEW HOME SALES

(-1.9% LAST 12 MONTHS)

5,664 SINGLE PERMITS

(-25.1% YTD)

3,190 MULTI PERMITS

(-11.7% YTD)

SALT LAKE CITY

4,148 STARTS

(-27.3% YTD)

2,068 NEW HOME SALES

(-1.4% LAST 12 MONTHS)

3,865 SINGLE PERMITS

(-27.6% YTD)

6,663 MULTI PERMITS

(+5.7% YTD)

UTAH ECONOMY

- Aerospace
- Advanced Composites
- Tech
- Distribution

Utah's housing market had been ranked as the nation's #1 housing market due to the strong pace of job growth, along with low unemployment, low mortgage rates, few mortgage delinquencies, and low state and local taxes, according to Bankrate.com. The state's solid economy has provided a big help to the housing market. Although inventory levels are rapidly rising and interest rates have

put the brakes on the housing market here, prices are expected to climb in all counties in single digits this year. It is still a seller's market in Utah as the current housing supply can't satisfy demand. Even though inventory is rising considerably compared to the previous two years, there is still a ways to go to solve the same problem that has existed in Utah for years...an insufficient home supply.

Salt Lake City

Salt Lake County saw its first year-over-year decline in housing prices since 2011. Housing prices dropped 6% YOY in Utah's most populated county, representing the first YOY decline in 11 years. While this may sound bad, it's important to remember that this decline comes after about two years of wild price run-ups that were fueled by the pandemic home buying frenzy. This rush caused Salt Lake county's median single-family home price to jump nearly 60% from 2020 to 2022.

To help get rid of inventory, builders are reducing prices, offering incentives, and buying down rates for buyers. Builders have also sharply cut back on new construction, and new home starts continued to slide below closings.

Utah's tech industry is booming. Research by SmallPDF ranked Utah as one of the best states for working in tech. There is a high concentration of tech jobs with 39 jobs per 1,000 being tech positions.

The Wells Fargo building in the center of the Sugar House urban core is set to be sold at the end of January to a buyer that is planning to construct a mid-rise residential building. Once the sale is finalized, the buyers intend to build what would be Salt Lake City's first mass timber residential project. The building will be constructed with wood, as opposed to the higher priced concrete and steel.

Provo-Orem

While builders have reduced prices, they are still more likely to buy down rates and increase incentives to drive sales. The average list price for single-family homes is up 13% year-over-year. As new home starts exceed closings, upward pressure on inventory levels is anticipated. Builders are facing increased cancellations due to the uncertainty about the housing market and buyers failing to qualify at current mortgage rates. Speculative inventory rose sharply in the second half of the year and will erode pricing power.

The local economy has rapidly been adding jobs, and although job growth has started to slow in recent months the unemployment rate remains below 2%.

Ogden-Clearfield

Ogden still has one of the hottest housing markets in the nation, and pricing is still holding strong.

New home construction in Ogden appears to be stabilizing. Although higher mortgage rates have weakened housing demand, the area has been struggling with a chronic shortage of homes. New home sales have fallen off their level from the last couple of years, but with mortgage rates ticking lower recently, there has been a small uptick.

Zonda home reports that Weber County's new general plan seeks to prevent uncontrolled growth and contain some of the sprawl. While the plan doesn't necessarily increase density, higher-density development will be concentrated along the 12th Street corridor.

“In fact, we may have already seen the bottom of the housing market. Mortgage rates fell throughout January, prompting more buyers to view properties and make offers. “Inflation has begun to ease, boosting consumer confidence. Many agents and brokers are expecting a robust spring housing market, and the overall mood in the market feels much more optimistic than even a month ago.”

**- Lisa Sturtevant,
Bright MLS chief economist**



Hardwood Logging in South Louisiana

CALIFORNIA

TOP MARKETS:

SACRAMENTO/ROSEVILLE/FOLSOM

7,529 STARTS

(-15.3% YTD)

4,902 NEW HOME SALES

(-2% LAST 12 MONTHS)

8,371 SINGLE PERMITS

(-10.8% YTD)

3,136 MULTI PERMITS

(+3% YTD)

SAN DIEGO/CHULA VISTA/CARLSBAD

3,388 STARTS

(+16.7% YTD)

2,603 NEW HOME SALES

(-3.3% LAST 12 MONTHS)

3,512 SINGLE PERMITS

(+8.8% YTD)

7,096 MULTI PERMITS

(+4% YTD)

SAN FRANCISCO/OAKLAND/BERKELY

3,365 STARTS

(-20.9% YTD)

2,547 NEW HOME SALES

(-1.8% LAST 12 MONTHS)

3,503 SINGLE PERMITS

(-18.6% YTD)

10,536 MULTI PERMITS

(+13.2% YTD)

LOS ANGELES/LONG BEACH/ANAHEIM

6,195 STARTS

(-14.8% YTD)

4,681 NEW HOME SALES

(+2.6% LAST 12 MONTHS)

10,996 SINGLE PERMITS

(+1% YTD)

21,597 MULTI PERMITS

(+9% YTD)

CALIFORNIA ECONOMY

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

Los Angeles

Monthly new home sales in Los Angeles-Orange County have decreased to their lowest volumes since April 2020. The metro's new home pending sales dropped sharply YOY but did see little MOM gains in Q4, suggesting that incentives, price cuts, and moderating mortgage rates brought some buyers back to play. Although developed lot inventory has improved, Los Angeles-Orange County is still one of the most significantly undersupplied markets in the US and the 12-month average sales rate is slightly outpacing the U.S.

Homes in a new neighborhood in the Highland Park masterplan in Fontana opened for sales in December. Richmond American Homes of California is the developer. Prospective homebuyers can choose from three floor plans with prices in the \$500's. Coming soon to this area is Talise at Highland Park. This development will include two-story detached cluster homes with shared open spaces. The gated master-planned community of Highland Park has amenities such as a community clubhouse, pool, dog park and picnic area.

San Francisco

As is with the Los Angeles metro, San Francisco builders are also seeing positive results from price cuts and incentives. Both under construction and finished vacant units were lower than many markets across the U.S.

Among metros with populations above 750K, San Francisco ranked tenth nationally for high-income job growth between 2010-2021, and ranked second behind San Jose for high income jobs as a share of total employment in 2021. However, San Francisco is also suffering from unused office space, increasing tech layoffs, and a decrease in venture capital investment, all of which threaten a post pandemic recovery.

The city of Concord, just 30 minutes west of San Francisco, has agreed to remake a 2,300-acre portion of the decommissioned Concord Naval Weapons Station to allow 15,595 new homes to be built on the site. The total project has a 40-year timeline, with the first phase consisting of 2,873 new homes, of which 693 will be affordable units, on roughly 423 acres. There is no mention of when this project is anticipated to kick-off.

San Diego

The housing market has been booming throughout the pandemic, but has fallen victim to the same setbacks as the rest of the country. Existing home sales are almost half of what they were last year, and pending new home sales are the lowest they've been in recent history. Because of strong price appreciation in recent years, the metro area is more susceptible to a correction and recent gains are being carved away. Nearly three-quarters of homeowners are making concessions to entice buyers.

San Diego's life science market remains strong despite high inflation and interest rates. The metro area has been attracting companies from Boston, New York and San Francisco. Demand for lab space has been high, edging rents higher.

San Diego's employers are trying to lure workers, but the rising costs of housing is a deterrent. Although San Diego doesn't offer economic payments like Tucson and Northwest Arkansas, the San Diego Economic Development Corp. does run ad campaigns in an attempt to recruit those that want to "just say no to winter," and the ads emphasize tech jobs, craft breweries and the weather.

Sacramento

Home sales continue to decline due to higher mortgage interest rates, and November monthly sales for existing homes fell to their lowest level

in decades. New home sales have also slowed. Homebuilders have pulled back, and annual starts fell below closing during Q3 2022. The market is stabilizing though, and builders are reporting success with mortgage buy downs and incentives though it will be hard for them to maintain current pricing.

Realtor.com forecasts that home prices in the Sacramento metro area will rise by 3.7% next year, but sales volume will drop by more than 12%. Demand is still strong. Sacramento's reputation as both one of the most affordable urban areas in California, and in recent years, also one with a notable housing shortage helps to explain this trend.

More details emerge about a massive housing and commercial project proposed in the northwest corner of Sacramento's River District. The 826-unit apartment project called American River One would also include some commercial space. A start date was not mentioned.

Upcoming projects to watch include Placer One, a 2,213-acre project in Placer County northwest of Roseville being developed by Taylor Builders. This year will see infrastructure work for what will be the first 800 homes, as well as the first phase of a higher education center. Full build out will take years, but will conclude with 5,600 homes, a 355-acre campus park employment center and a 200-acre town center with retail, office and residential components. Another project to watch is the upcoming Woodland Research Park, which is expected to receive the votes to move forward on the 351-acre park that will have 2 million square feet of office space, as well as 1,600 homes. These new projects to watch will help alleviate the region's long-term housing shortage.

LETTER FROM PAUL

You may have noticed the changes in images throughout this version of our publication. Instead of general real estate or product photos, we've given you a glimpse of the rich history of RoyOMartin through the years. The start of 2023 marks the beginning of our centennial celebration, and we'd like to thank you, our customers, 100 times over! This year we celebrate one hundred years of growth, sustainability, safety, relationships, and a commitment to excellence. We are excited to share more of our history with you throughout the year.

Despite the downturn in the market, we are poised to weather this storm just as we have many before and are pressing forward to make the next one hundred years safer and more sustainable while strengthening our relationships with our industry partners along the way.

While the near-term future will have its set of hurdles, hope is on the horizon as builder sentiment ticks up for the first time in eleven months. Although we've seen a reduction in cost of building materials for new home framing packages, this is more than offset by the financial impact of rising mortgage rates, making navigation of a home purchase especially difficult for first-time homebuyers. Throughout the brief, we've touched on many factors that indicate a normalizing housing market; although generally speaking, economic uncertainty remains a prevailing sentiment among builders, buyers, and sellers alike. Hopefully, as we continue to see a more normalized market and as the Fed decreases the frequency of their lending rate increases, we'll see buyer confidence tick up as well.

From our team's perspective here on the OSB sales floor, we are hearing improved reporting of lumber yard take away and lagging single-family starts have been propped up by strong multi-family activity. Spring is near, and that means fewer winter weather related construction delays. We are hearing from buyers that they anticipate a much stronger back half of 2023 and their purchasing patterns mirror this projection.

We are continuing as planned with our Corrigan II expansion and anticipate bringing more OSB to the market just in time for the end of year push. In the meantime, we'll continue to do what we do...make OSB safely, ethically and sustainably, and provide the world class customer service you have come to expect from your RoyOMartin sales team.

Again, thank you...100 times over!

-Paul Pfingsten
OSB Sales Manager

LETTER FROM LORI

Fourth Quarter of 2022 wasn't unlike any prior end of year as people focused on the holidays, inventory and closing out 2022. Rising interest rates and lower housing starts translated for plywood not only in the reduction of custom housing but also in lower demand for upholstered furniture as customers and retailers reduced year-end inventory levels.

Looking ahead for plywood, we should see an increase in demand from the repair and remodel sector as consumers decide to do repairs or remodel their homes instead of moving. There will be an increased need from the industrial markets for crating, boxes, handy panels, and even things you don't even think about such as bag toss games and outdoor chess sets. Furniture manufacturers will be preparing for their spring markets, and retailers will be adding inventory. We will see a positive impact from the infrastructure bill that is adding more funding for massive projects, thereby increasing demand on the concrete forming industry. Plywood is a diverse product, and we have a very diverse product mix out of our Chopin, La, facility.

All in all, we still see positives in the plywood market. The demand for housing didn't change, whether multi-family or single-family, people still need housing. In turn, they still need furniture, storage units, garages, or an extra wall here or there. Plywood has many possible uses, and unfortunately there is less plywood production in the U.S. than last year.

As we continue our commitment to safety, sustainability and excellence we are excited to celebrate 100 years here at RoyOMartin. We couldn't do it without you, our valued customers, and friends. Thank you for your continued support, and we hope you enjoy the historical images as we give you a glimpse into the rich RoyOMartin history over the next several publications.

-Lori Byrd
Director of Plywood and Solid Wood Sales

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SOURCES

HOME SALES AND STARTS: U.S. Census Bureau, National Association of Homebuilders, Zonda

PERMITTING: U.S. Census Bureau, National Association of Homebuilders, Zonda

ECONOMIC DATA AND INDICATORS: Business Journals, Wall Street Journal, BuilderOnline, Inman, HousingWire, Business Report, Business Insider, The Advocate, Tulsa World, Trading Economics, Statista, U.S. Census Bureau, National Association of Realtors, National Association of Home Builders, U.S. Bureau of Labor Statistics, Mortgage Bankers Association of America, iPropertyManagement, Barron's

PRICING: Random Lengths, FastMarket RISI, Business Journals, National Association of Realtors

CONSTRUCTION DATA: National Association of Homebuilders, Zonda, U.S. Census Bureau