



First American

The State of the Housing Market:

Macroeconomics, Growing Demand, A Nation of Homebodies and Builder Woes

January, 2020



#FirstAmEcon



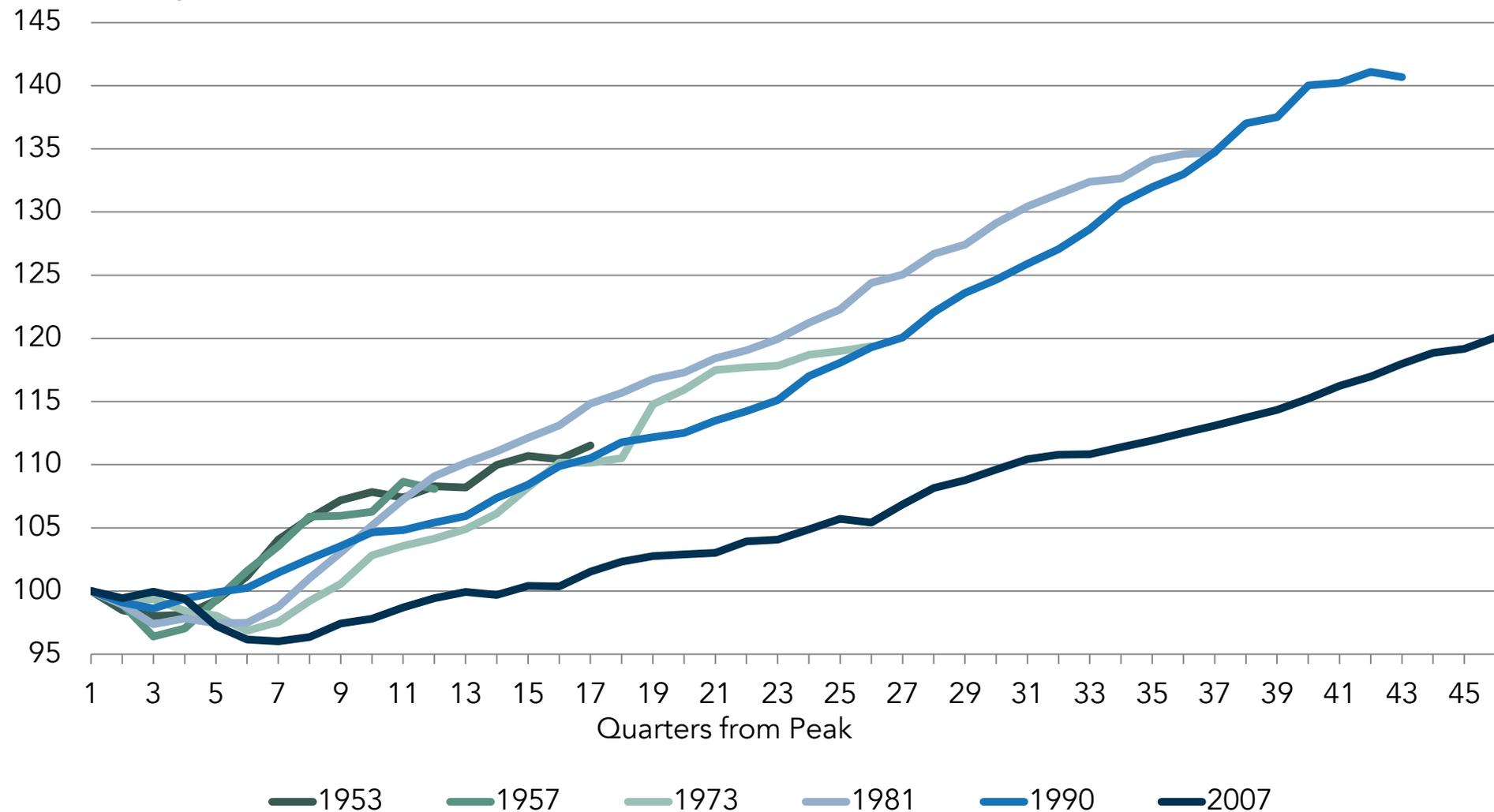
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Measuring the Business Cycle- Recession, Expansion and Duration

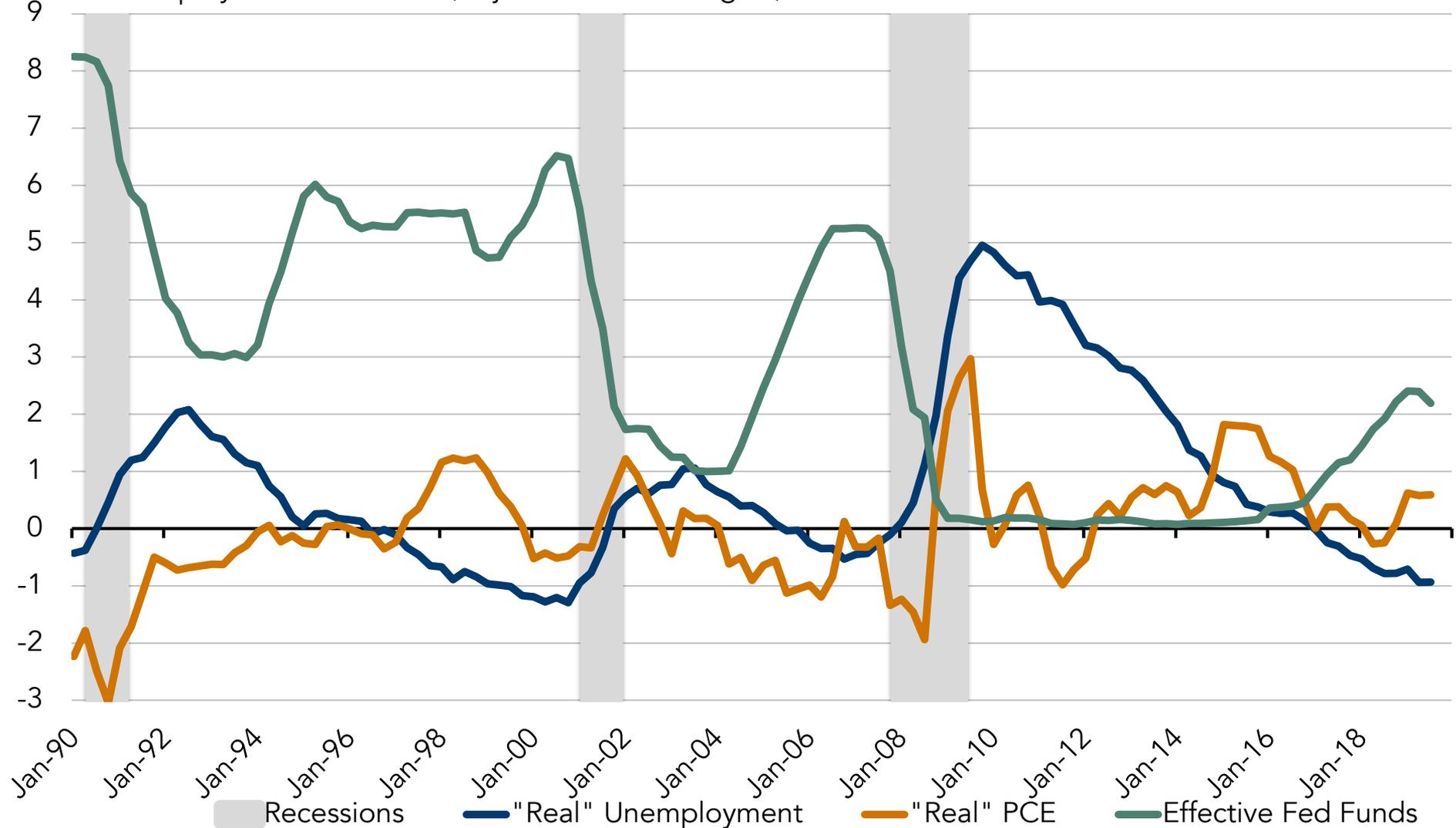
Real Quarterly GDP (SA, %, Recession Peak = 100)



Source: BEA, FRED, Q3 2019

Fed Monetary Policy- Too Hot, Too Cold or Just Right

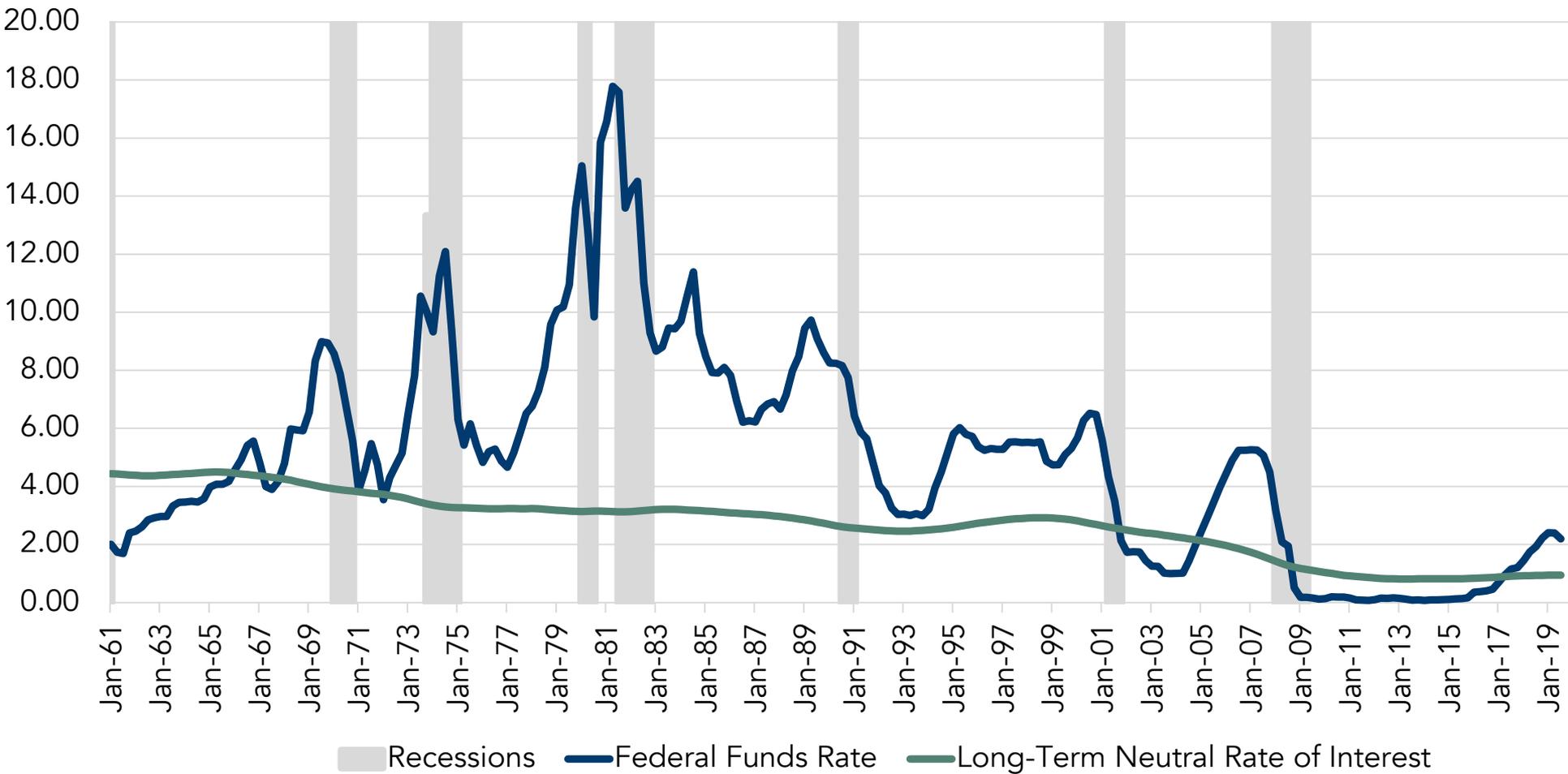
"Real" Unemployment & Inflation (Adjusted for Fed Targets)



Source: BLS, CBO, BEA, Fed Board of Governors, FRED, Q3 2019

Not Too Hot, Not Too Cold

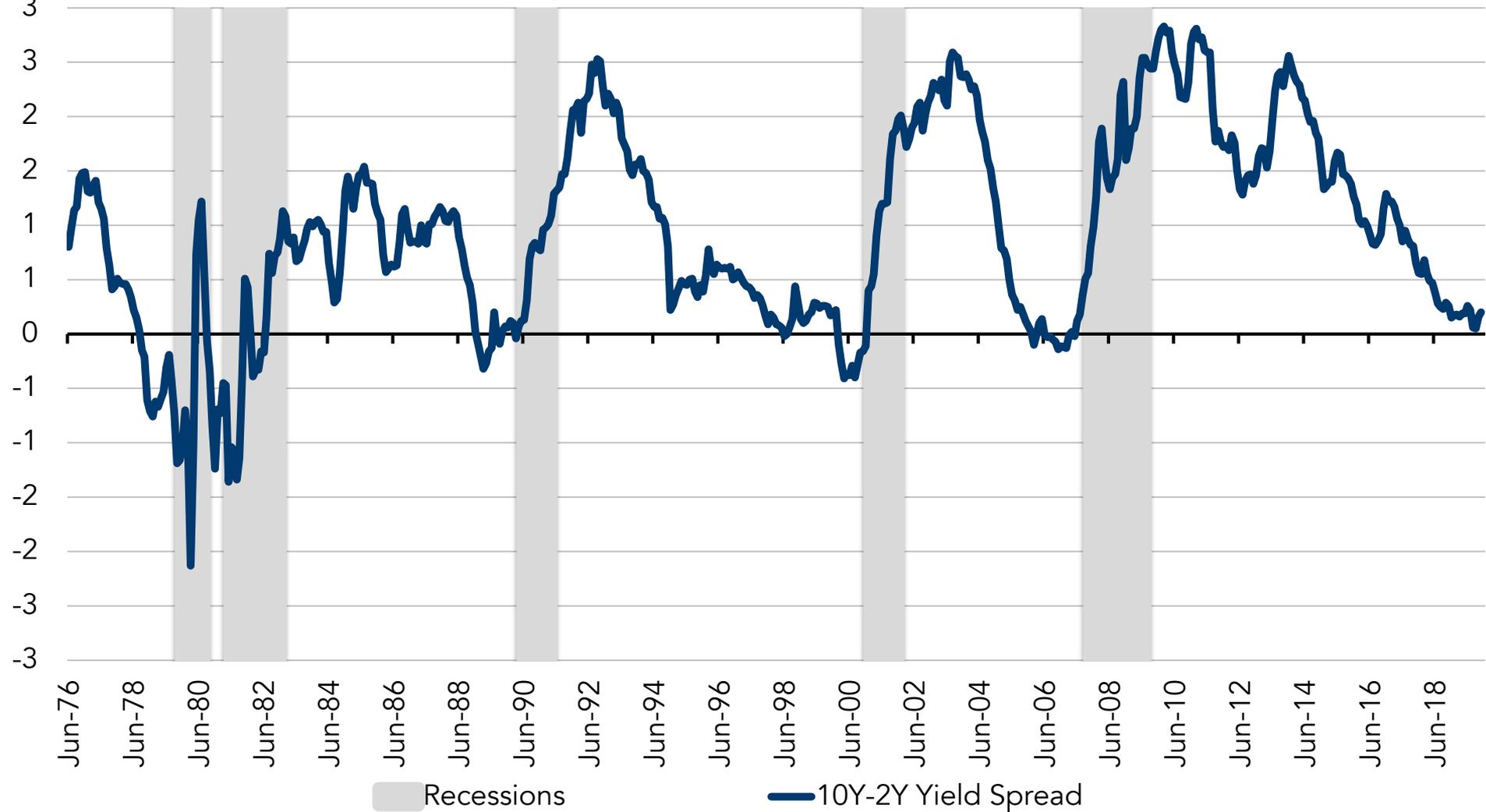
Federal Funds Rate, Long-Term Neutral Rate of Interest, %



Source: Federal Reserve Bank of New York, FRED, Q3 2019

Risking the Upside Down

10-Year Constant Maturity Minus 2-Year Constant Maturity Yields (% , NSA)



Source: Federal Reserve, FRED, November 2019

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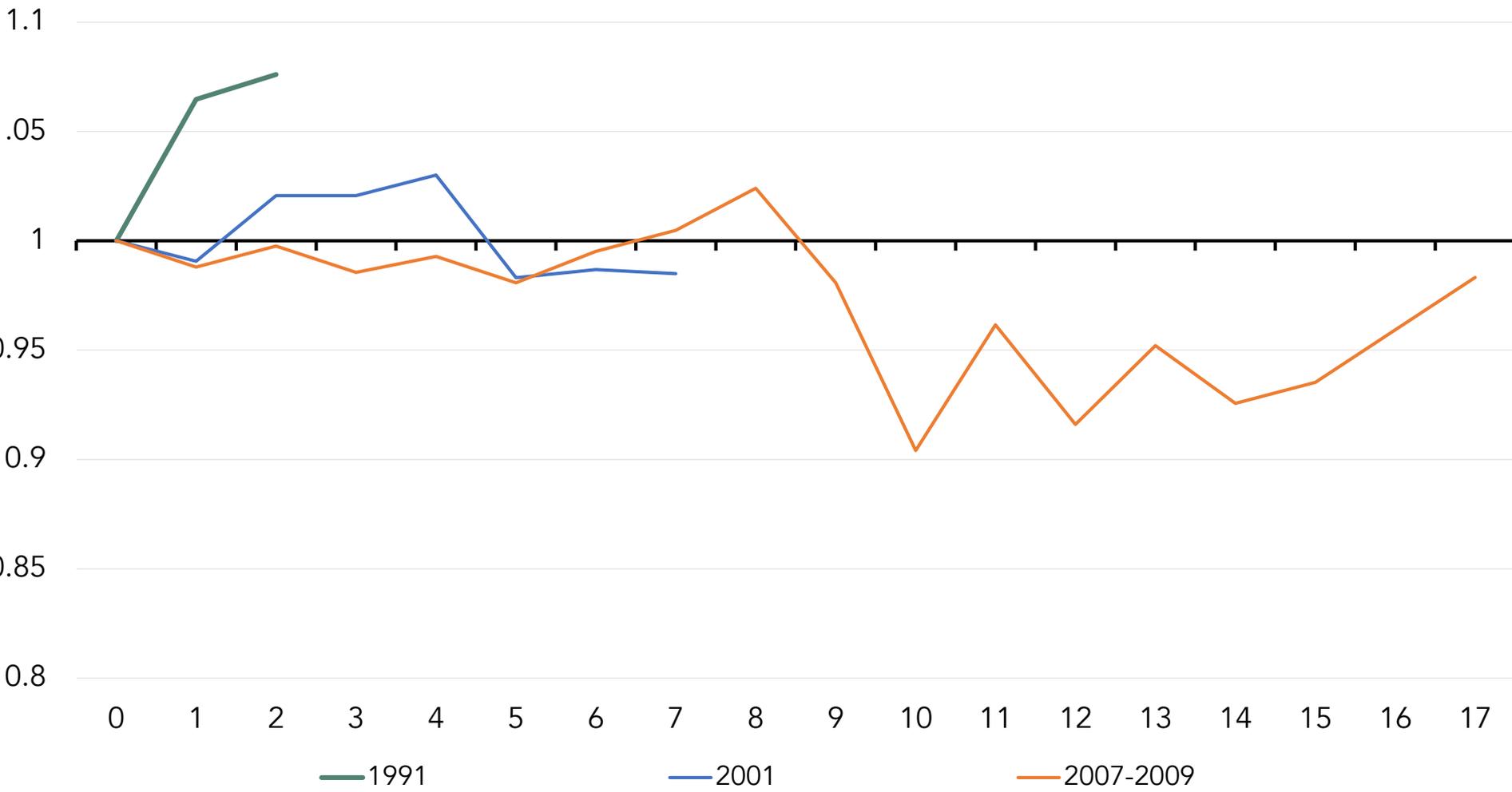
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Existing-Home Sales During Recessions

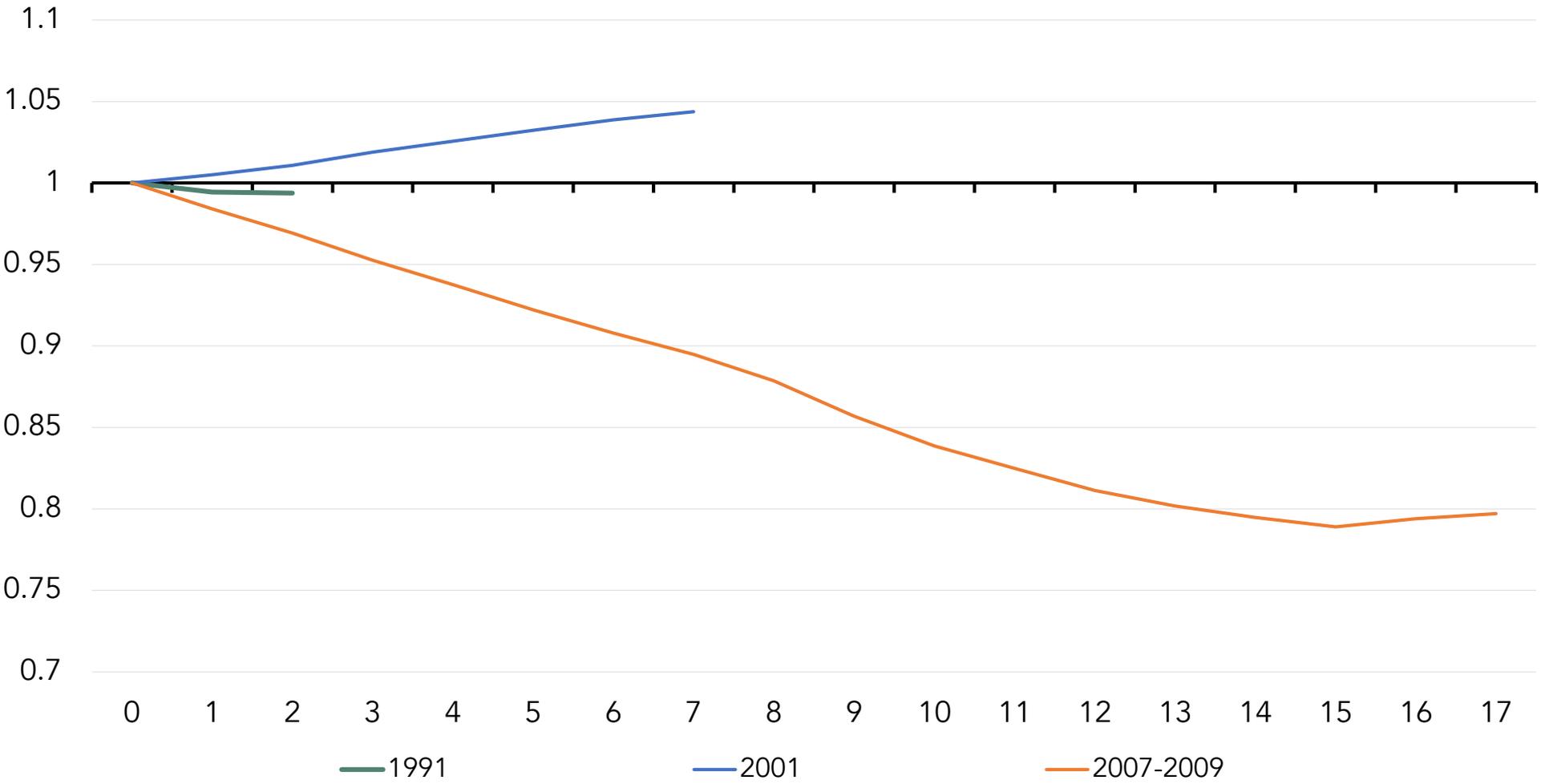
Monthly Change in EHS (%), Index=1 in Beginning Period of Recession



Source: Freddie Mac, NAR, First American Calculations, Aug. 2019

House Prices During Recessions

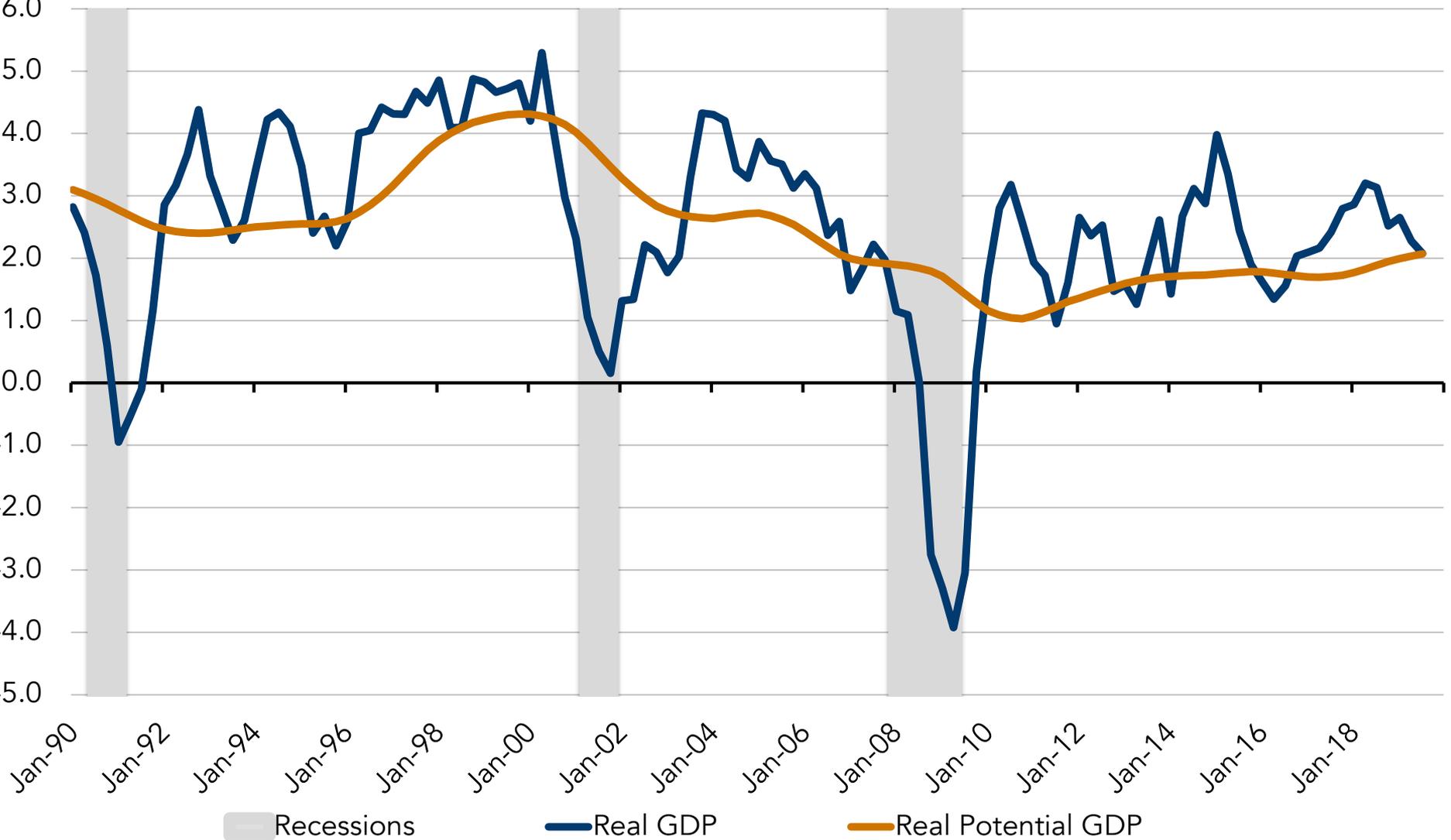
Monthly Change in HPI (%), Index=1 in Beginning Period of Recession)



Source: DataTree by First American, Freddie Mac, Aug. 2019

Not too Cold, Not too Hot, Just Right GDP Growth

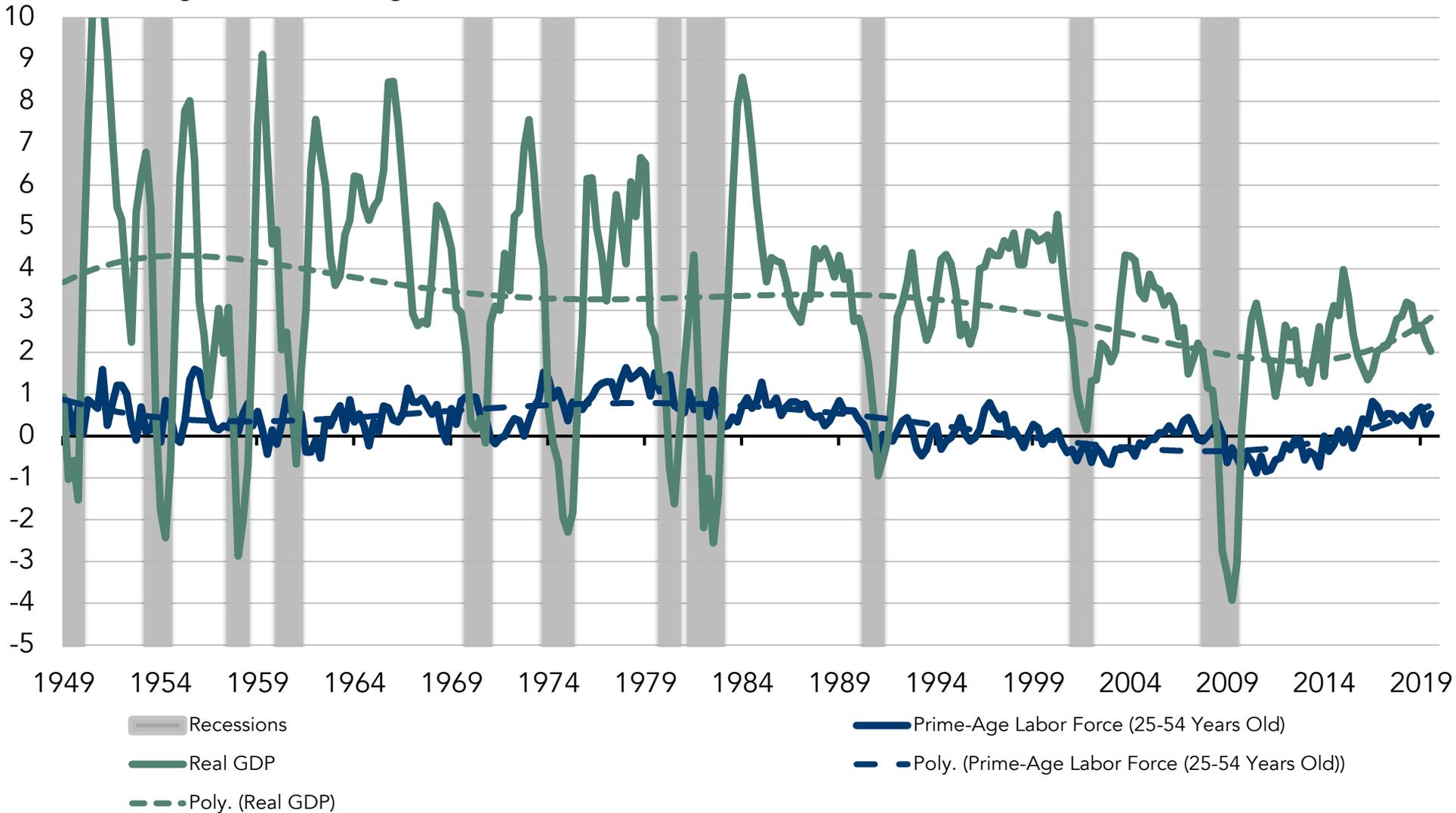
Real & Potential GDP Year-Over-Year (SAAR, Chained 2009 \$)



Source: U.S. BEA, CBO, FRED, Q3 2019

Labor Force Expansion Drives Economic Growth

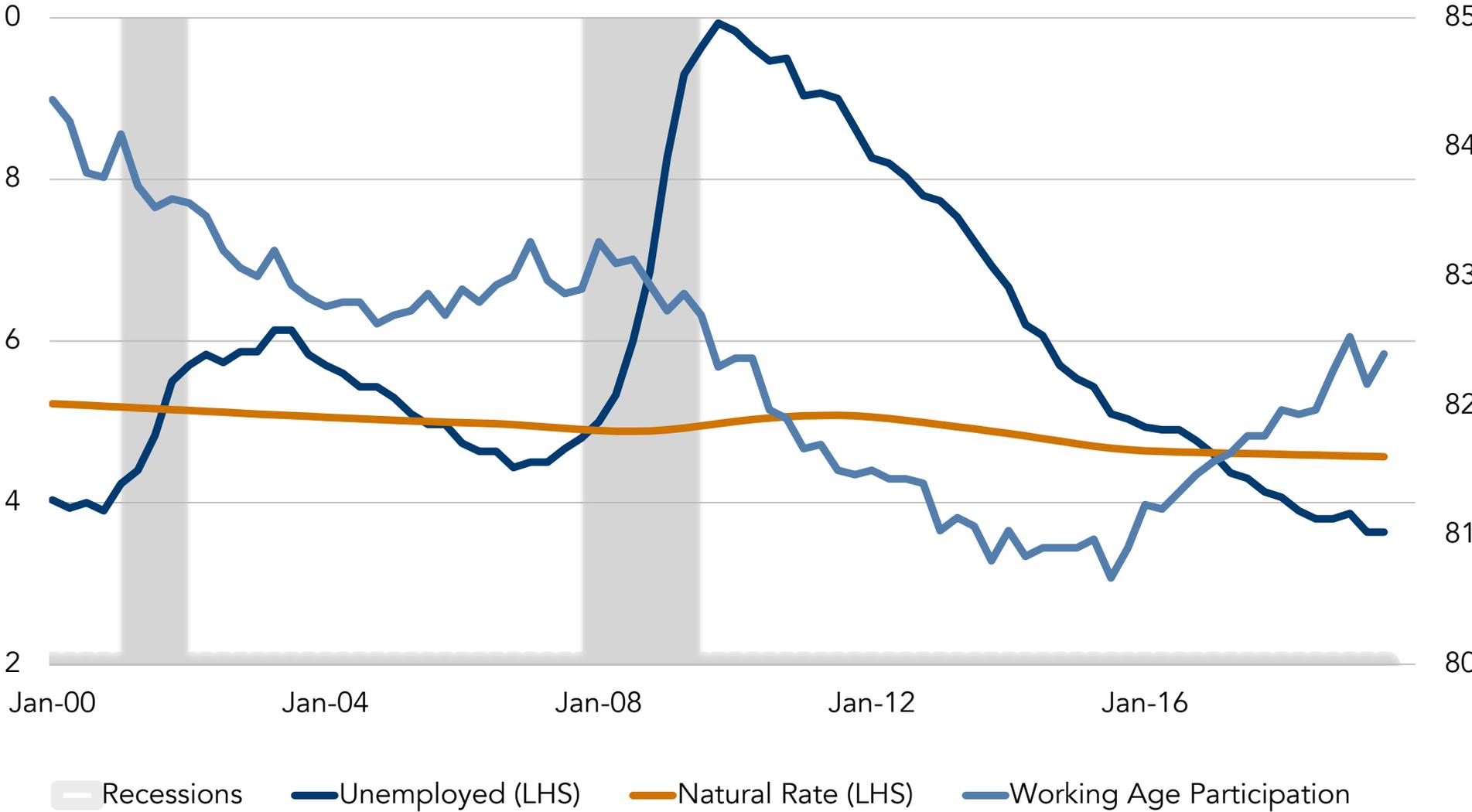
Percent Change from a Year Ago (SA)



Source: U.S. BEA, BLS, FRED, Q3 2019

Labor Force – Underemployed, Educating or Aging?

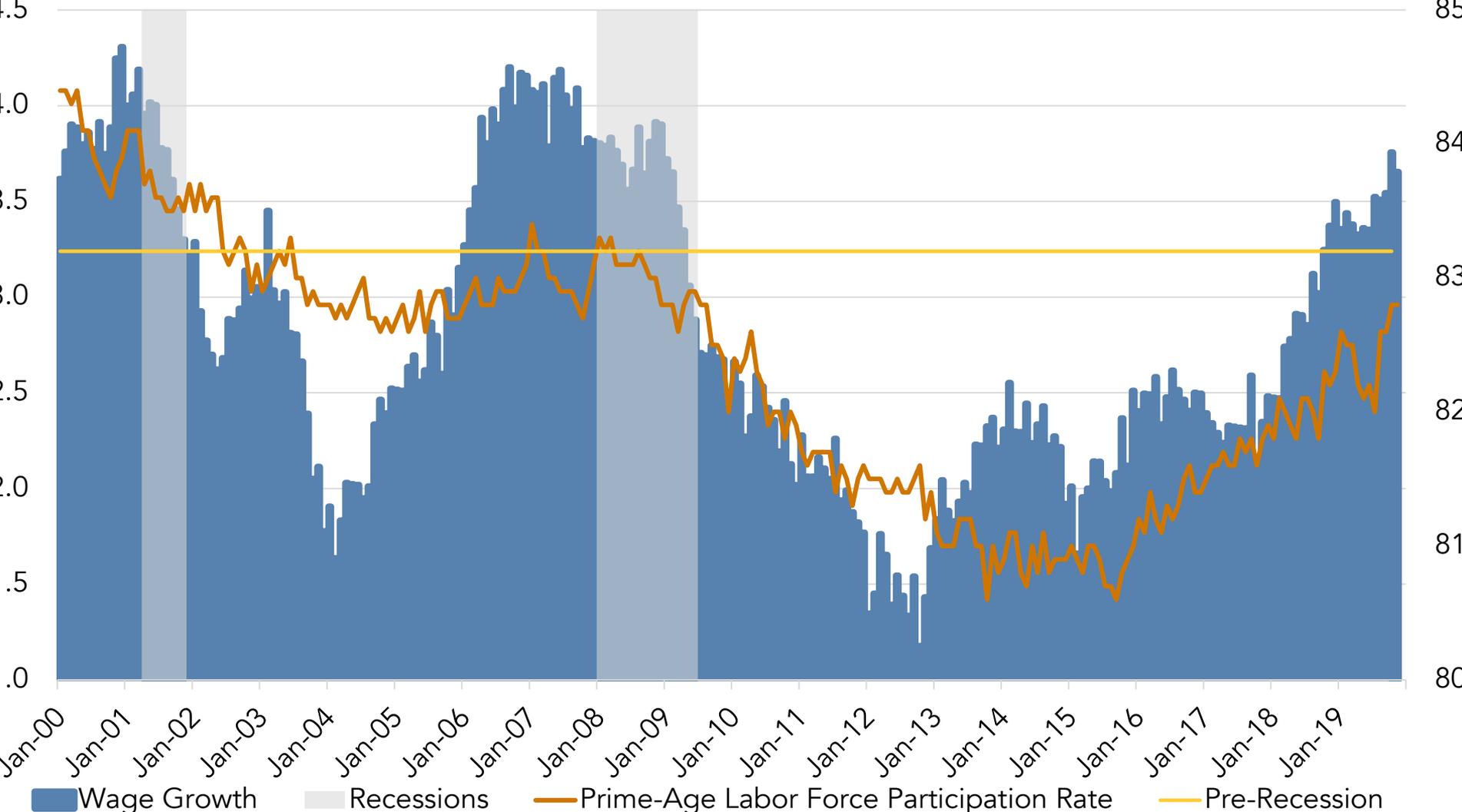
Unemployment Rates and Labor Force Participation (% ,SA)



Source: BLS,CBO, FRED, Q3 2019

Room for Expansion? Wage Growth and Prime-Age Labor Force Participation

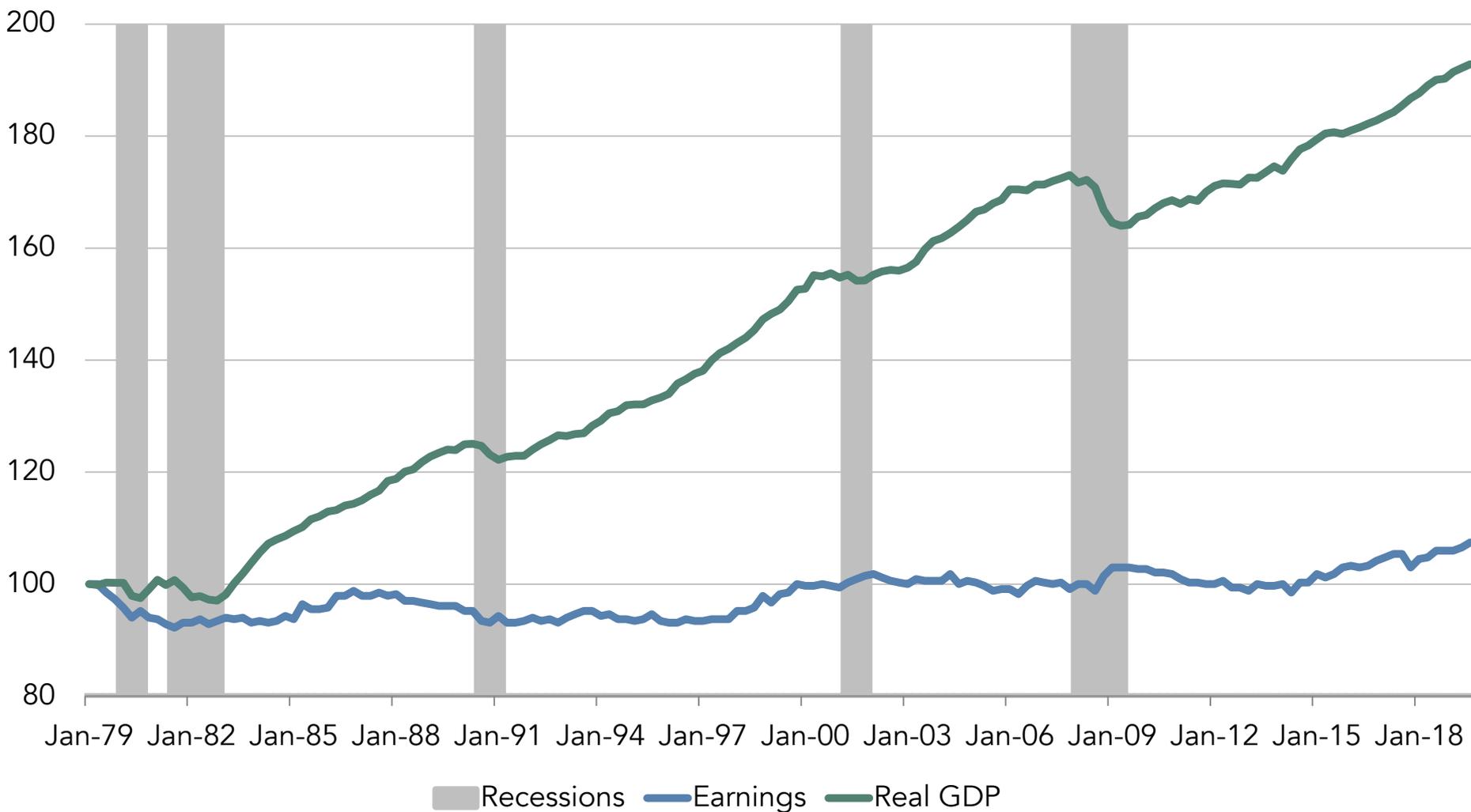
Average Hourly Earning Yearly Growth (%), Prime Age Labor Force Participation Rate (%)



Source: Bureau of Labor Statistics, First American Calculations, Nov. 2019

Does GDP Growth Imply Welfare Improvement?

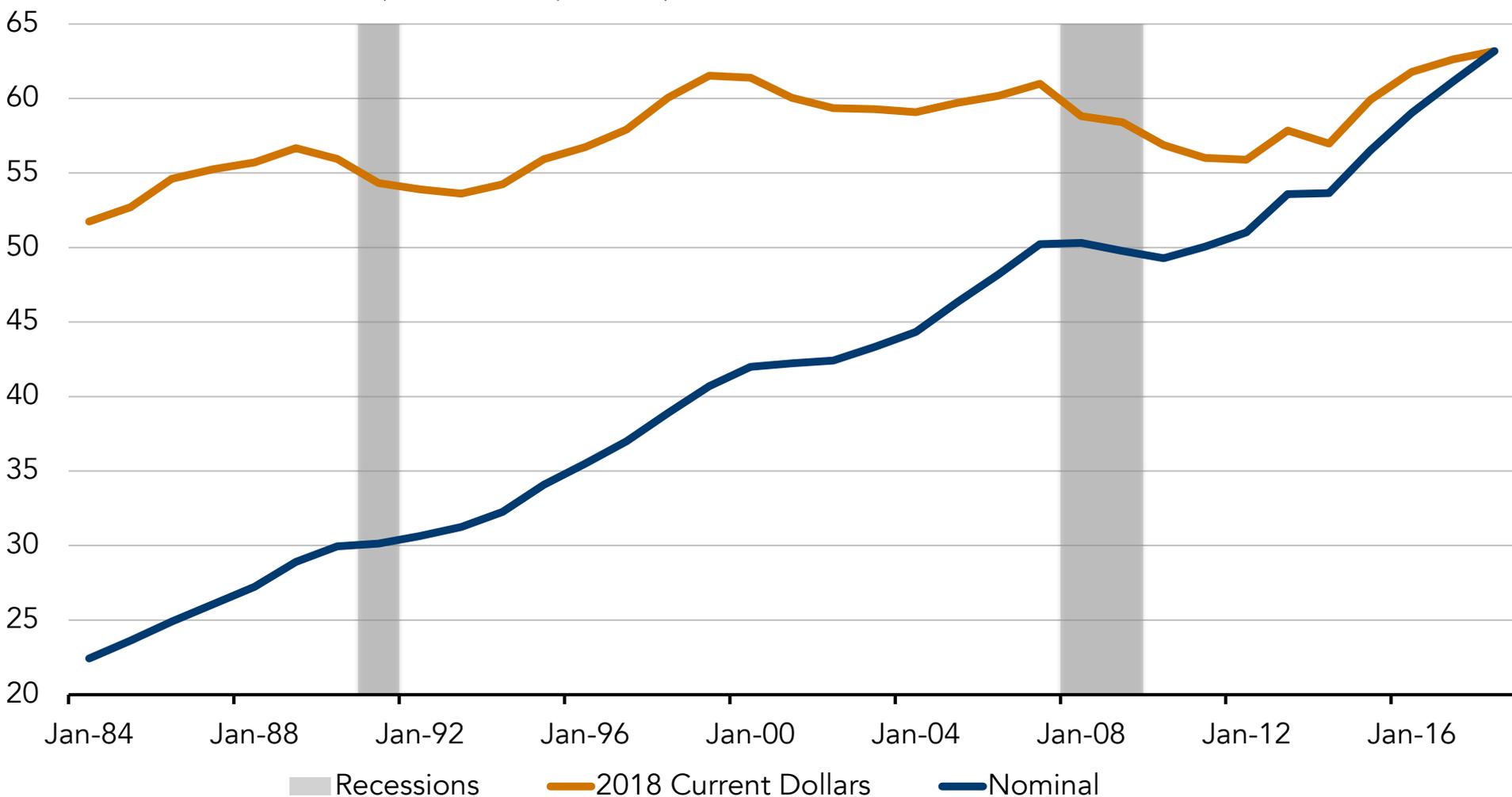
Real GDP Per Capita and Full Time Employed Median Earnings (SA, Q1 1979 = 100)



Source: BLS, BEA, FRED, Q3 2019

Household Income Stagnating for Decades

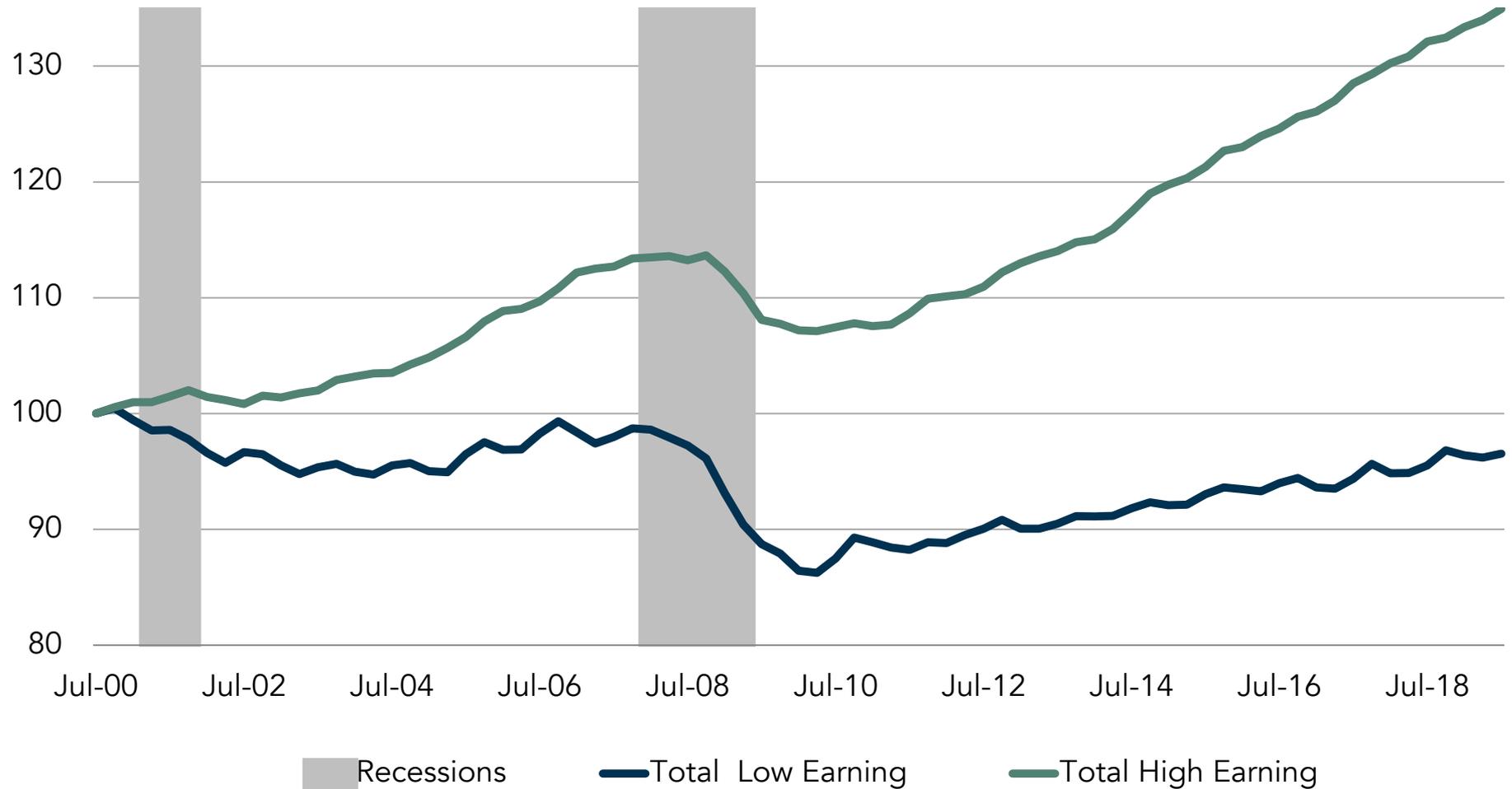
Median Household Income (\$ Thousands, Annual)



Source: BLS, Census, FRED, 2018

Job Polarization- Job Creation is Skill Skewed

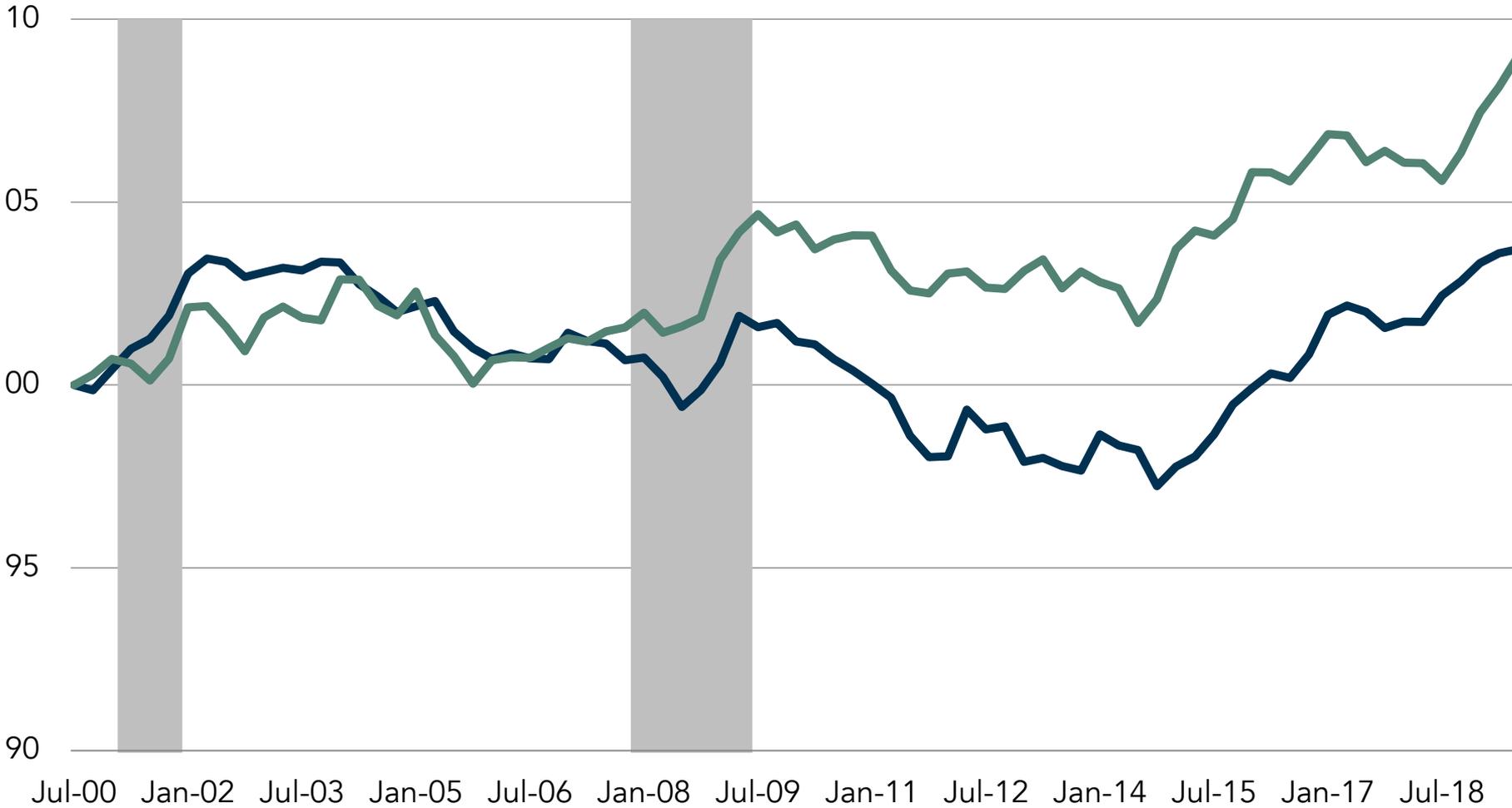
Employment Count of Full Time Workers (Q3 2000 = 100)



Source: BLS, Q3 2019

Robot Maker or Wage Taker

Median Usual Weekly Earnings (Inflation Adjust Q1 2016, Q3 2000 = 100)

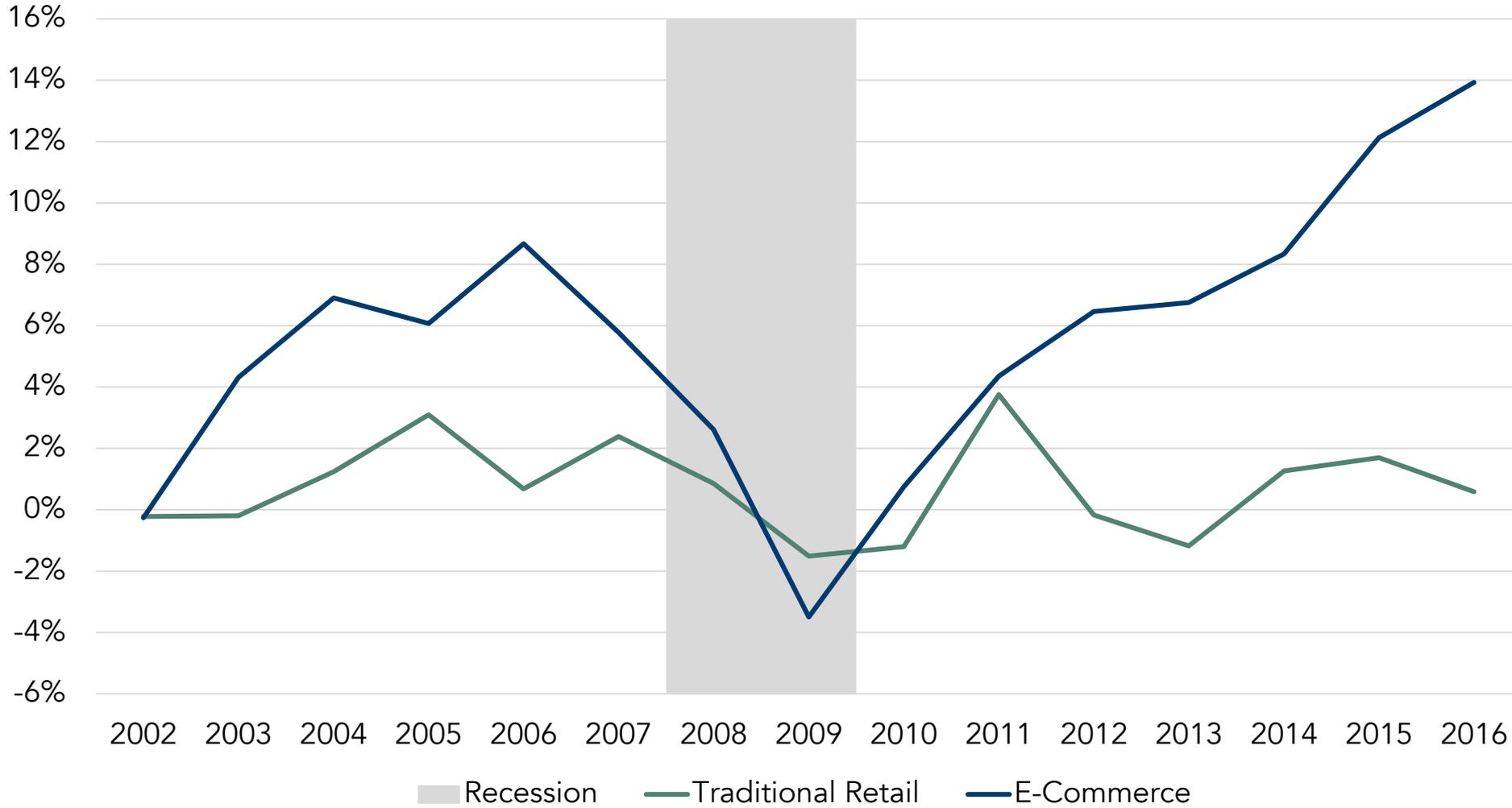


Source: BLS, Q3 2019

Recessions < \$40k > \$40k

The Changing Face of Shopping

Yearly Growth in the Number of Employees, %



Source: Bureau of Labor Statistics, 2018

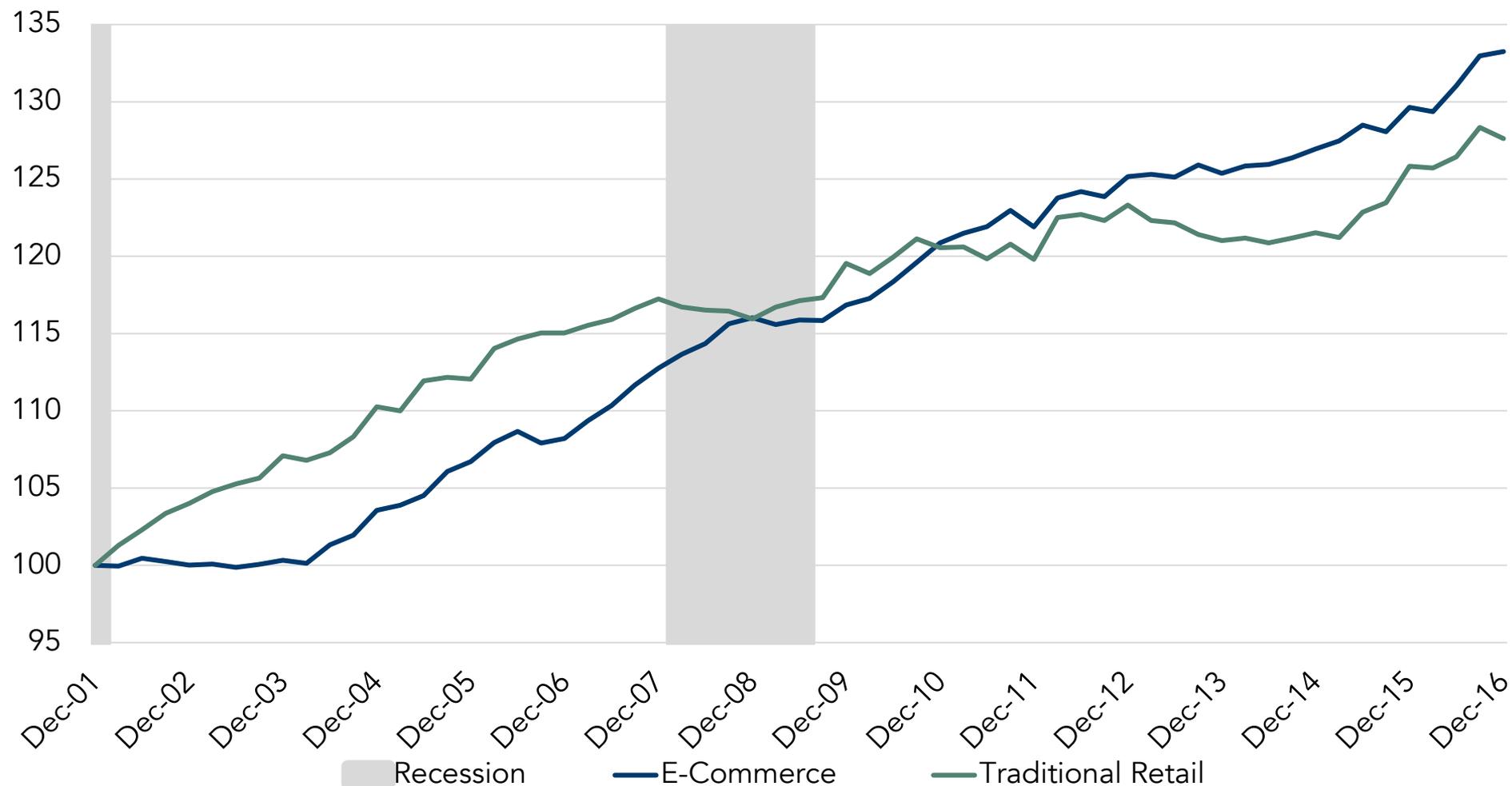
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More Destruction, More Pay

Weekly Wages, Index Q1 2001=100



Source: Bureau of Labor Statistics, 2018

“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”

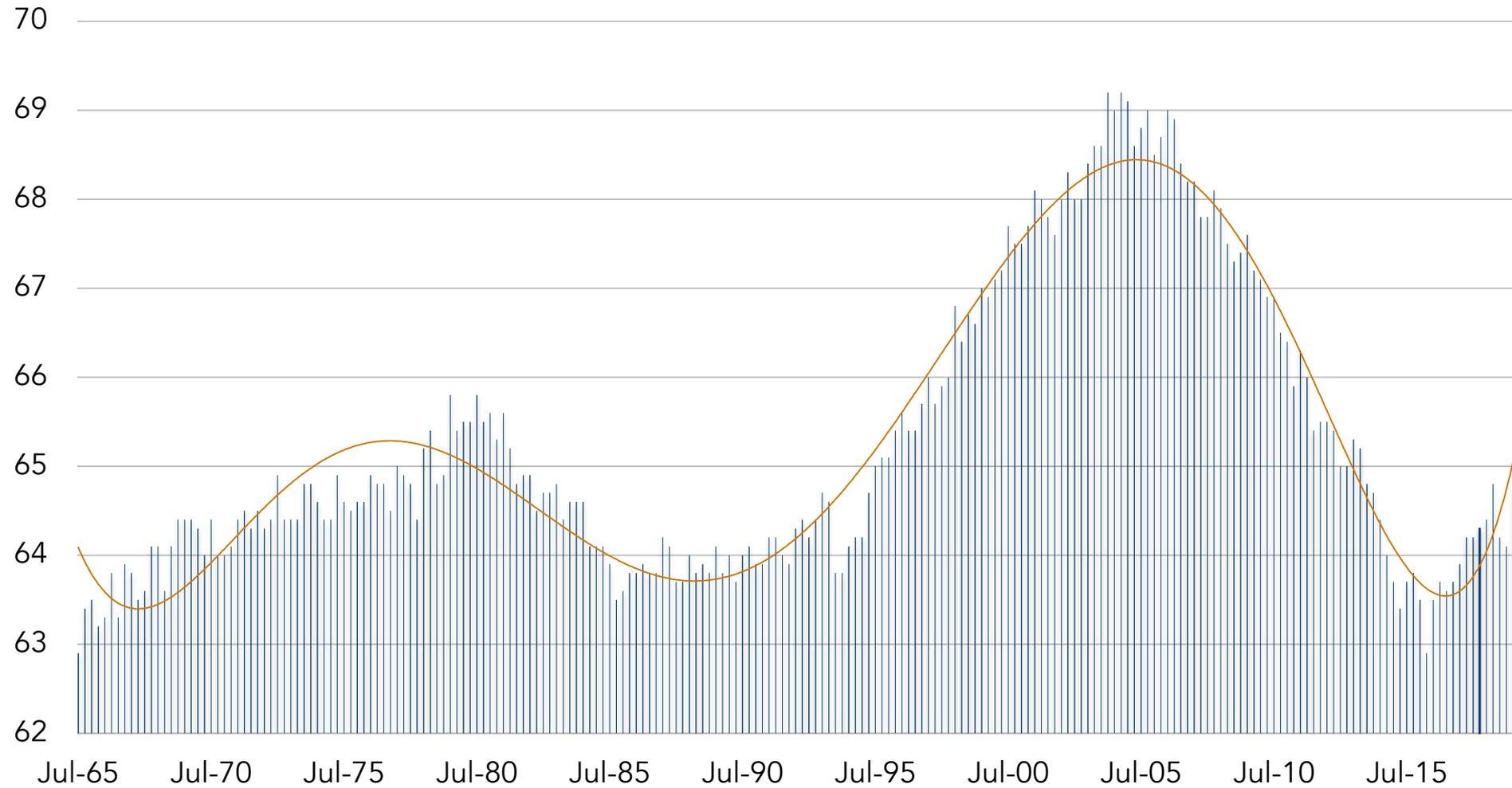
- Mark Twain



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Homeownership Demand Resurgent

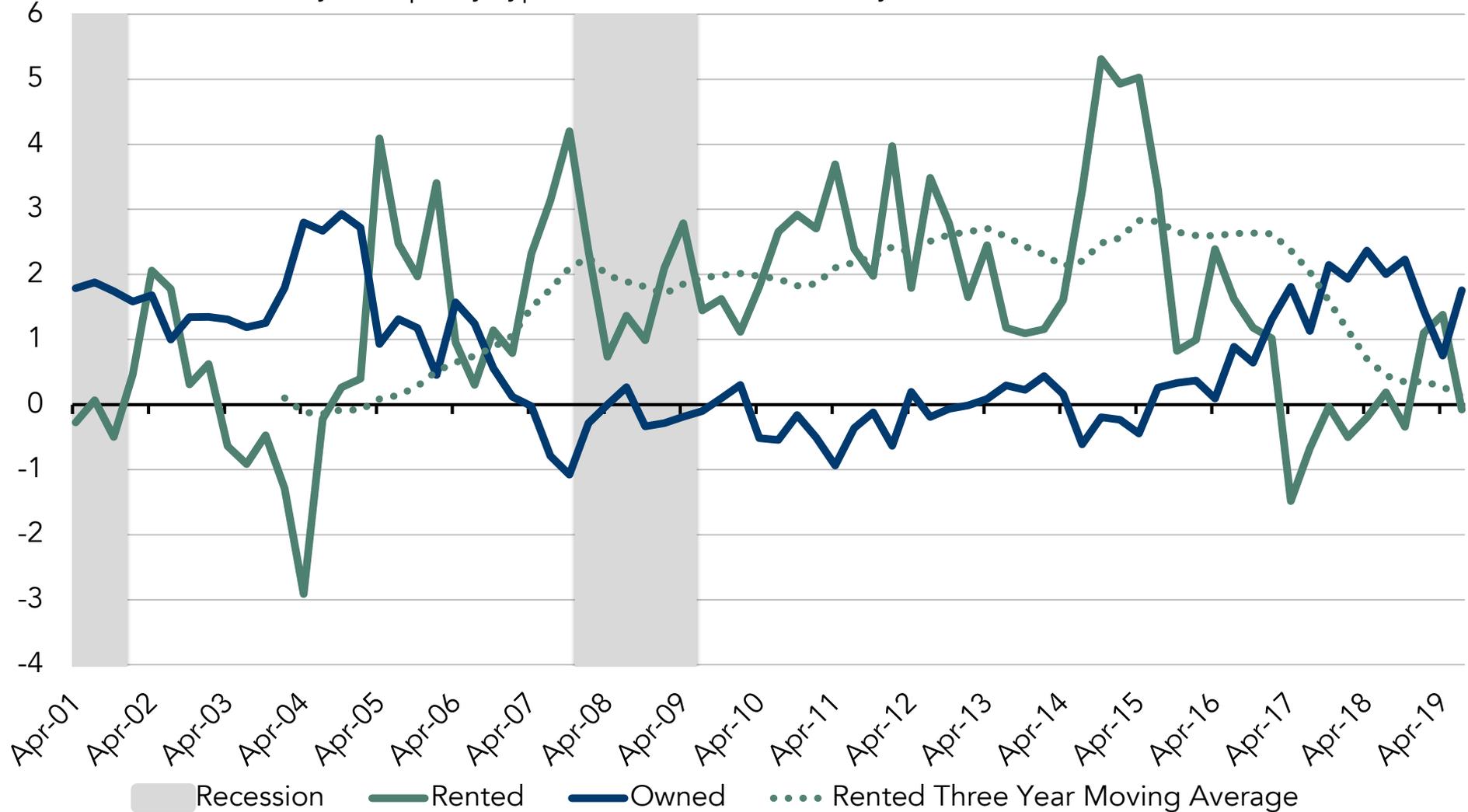
Homeownership Rate (%)



Source: US Census Bureau, Q3 2019

The Tenure Choice Transition is On Again

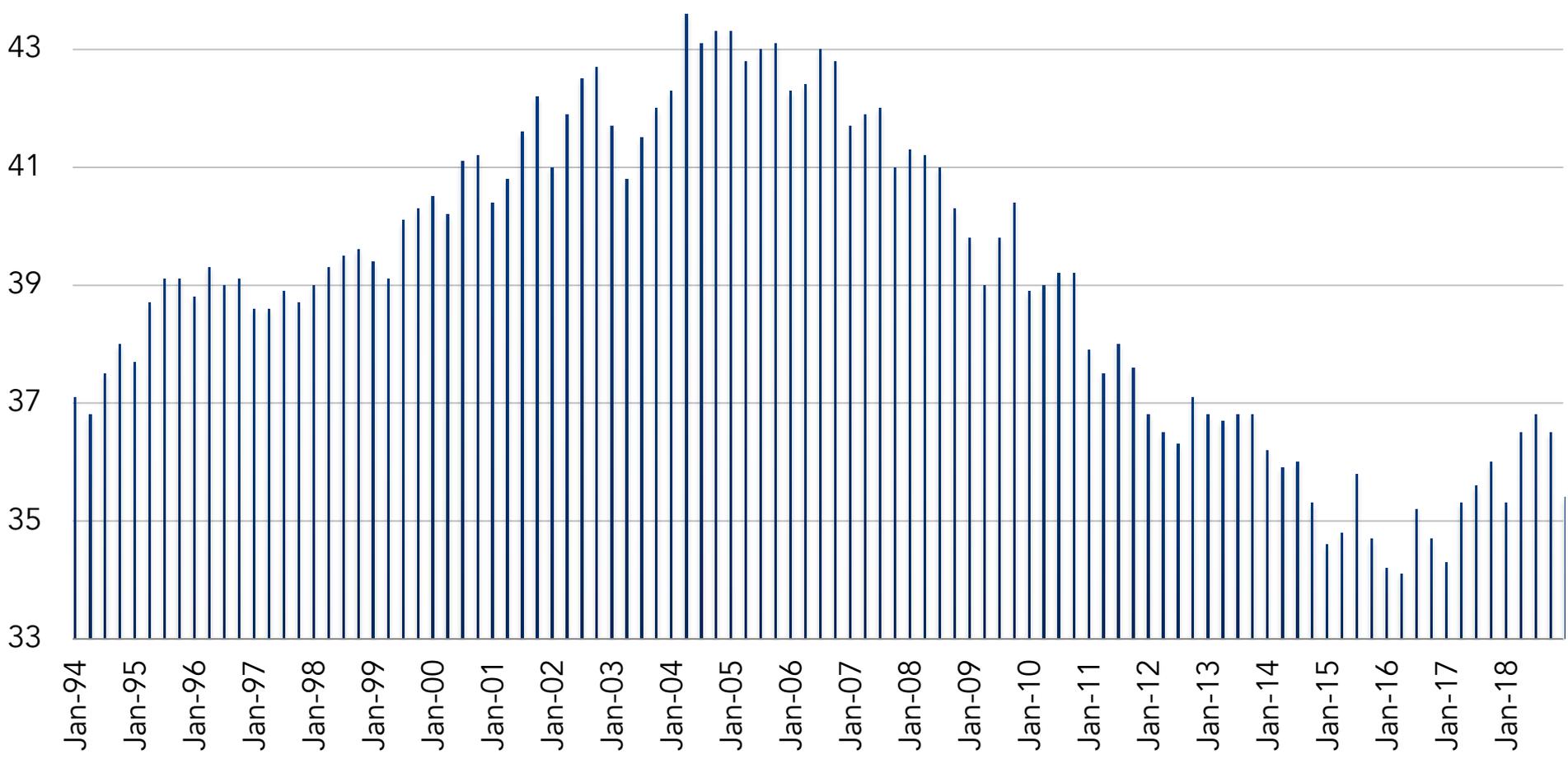
Household Formation by Occupancy Type (Year-Over-Year Inventory Growth, %)



Source: Census Bureau, FRED Q3 2019

Gen Why? Why Own a Home?

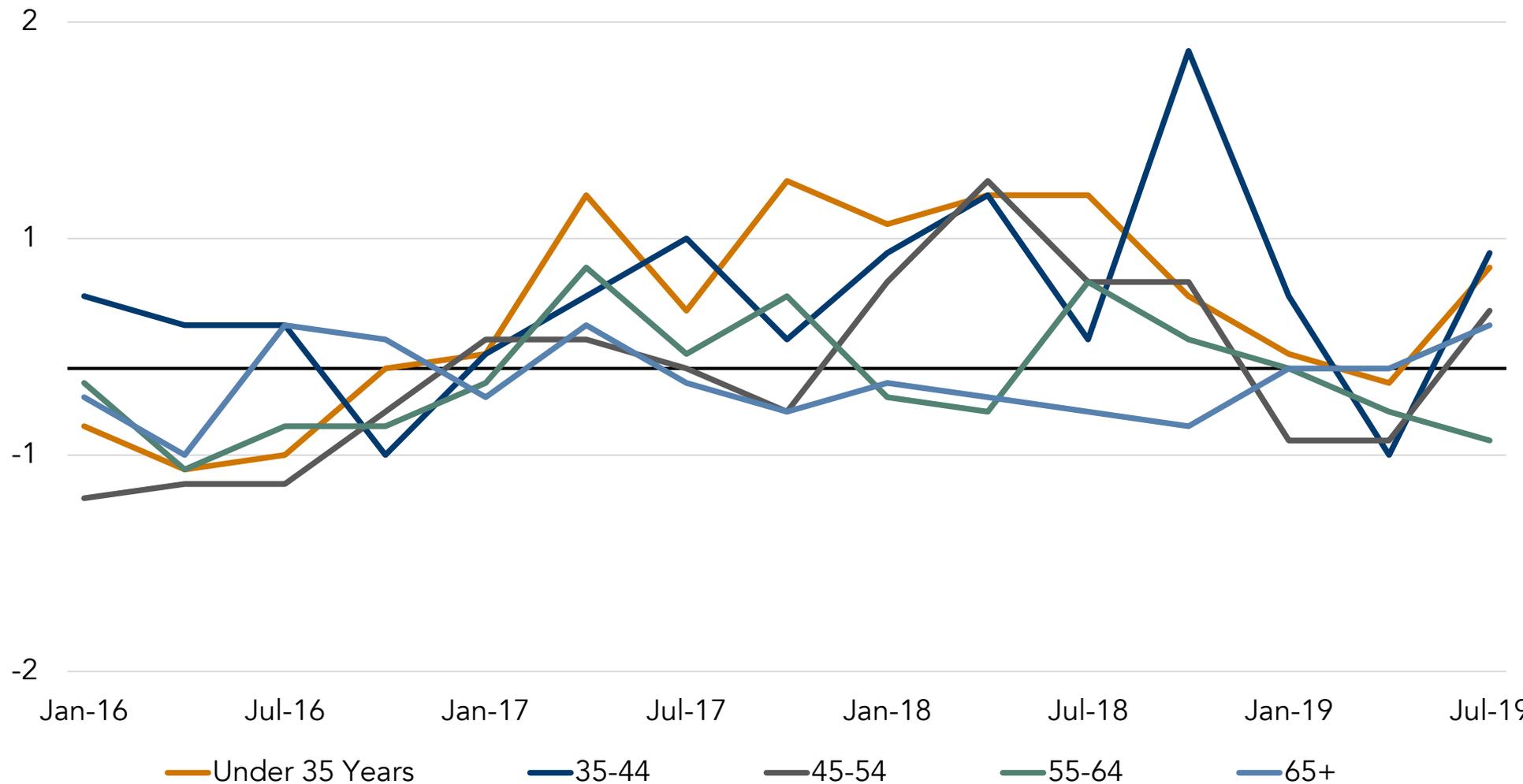
Homeownership Rate for Households Under 35



Source: Census Bureau CPS/HVS, Q3 2019

Millennials Drive Homeownership Growth

Homeownership Rate by Age Cohort (%)

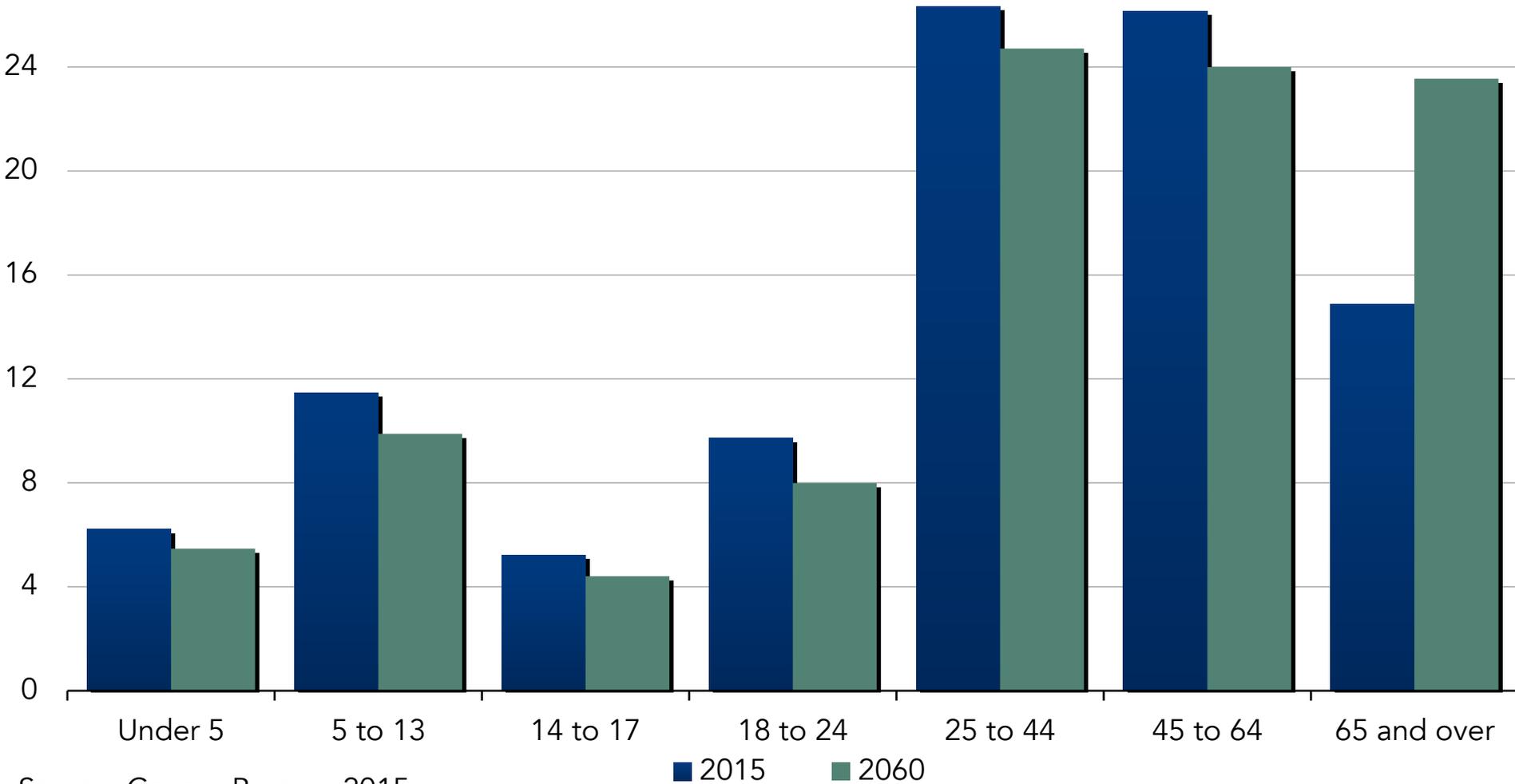


Source: Source: US Census Bureau, Q3 2019

The Dawning of A New Age of Homeownership

Percent Share of Total U.S. Population

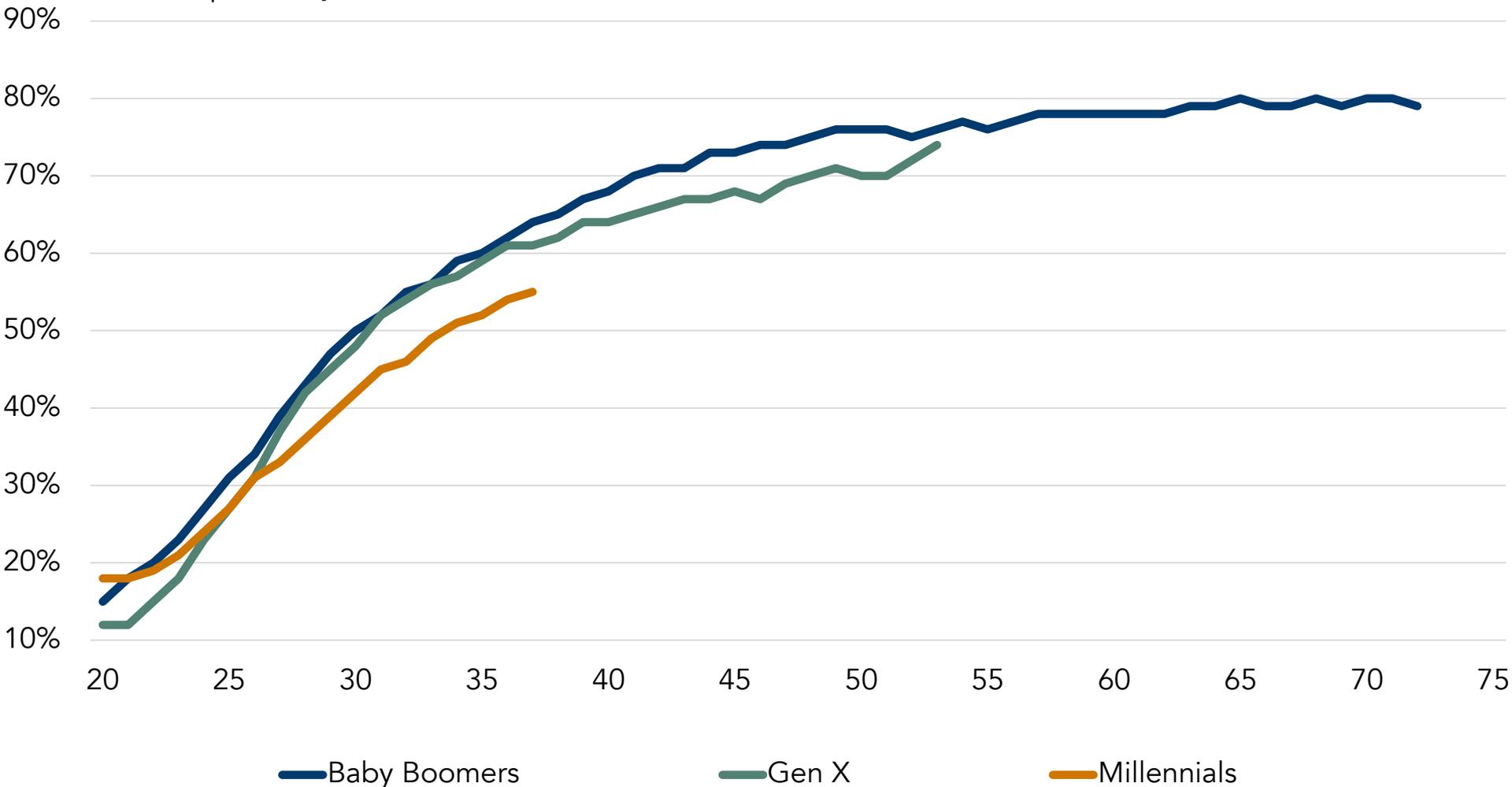
28



Source: Census Bureau, 2015

Millennials Playing Catchup

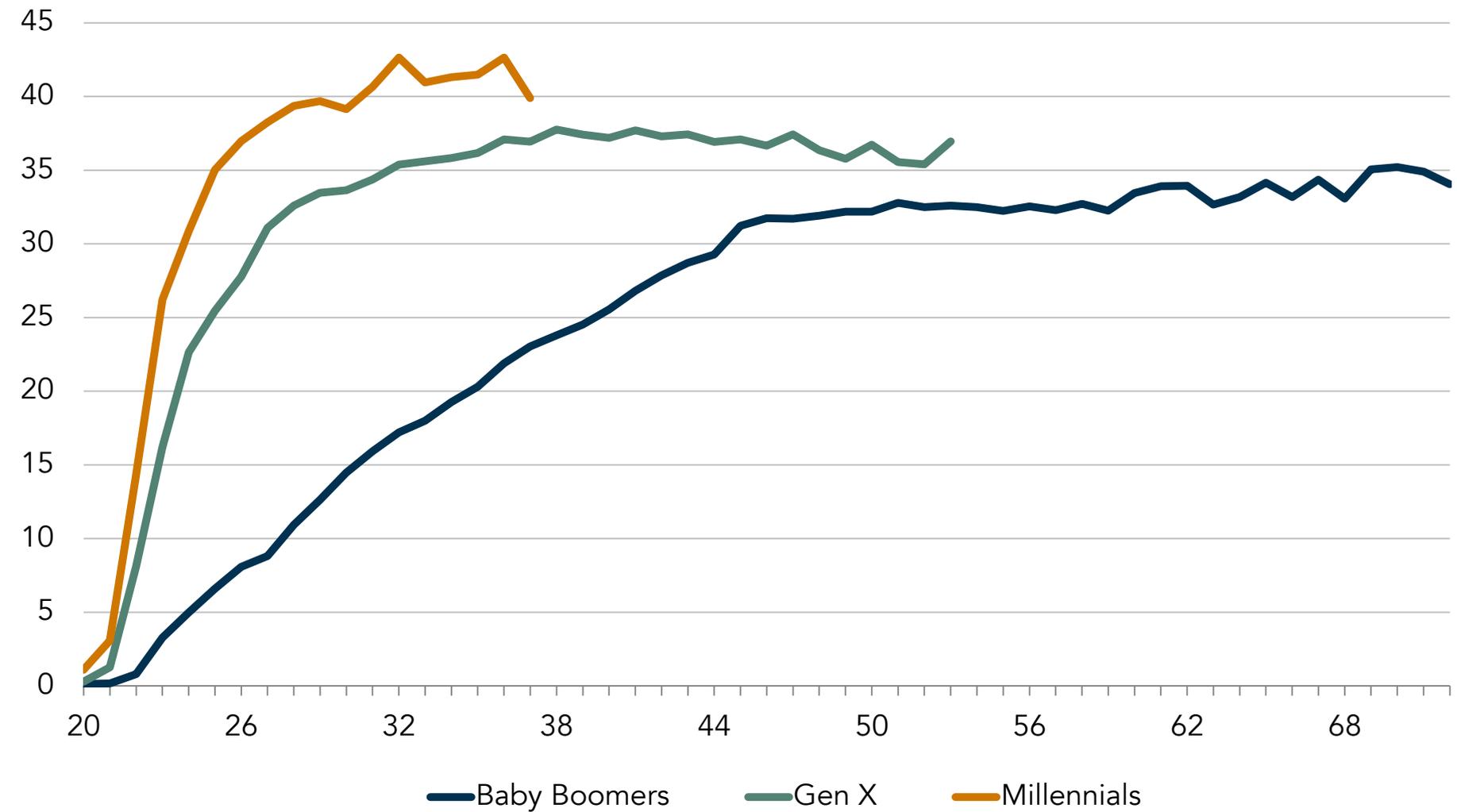
Homeownership Rate by Generation



Source: IPUMS CPS, First American Calculations, 2018

Delaying Homeownership- Education Takes Time

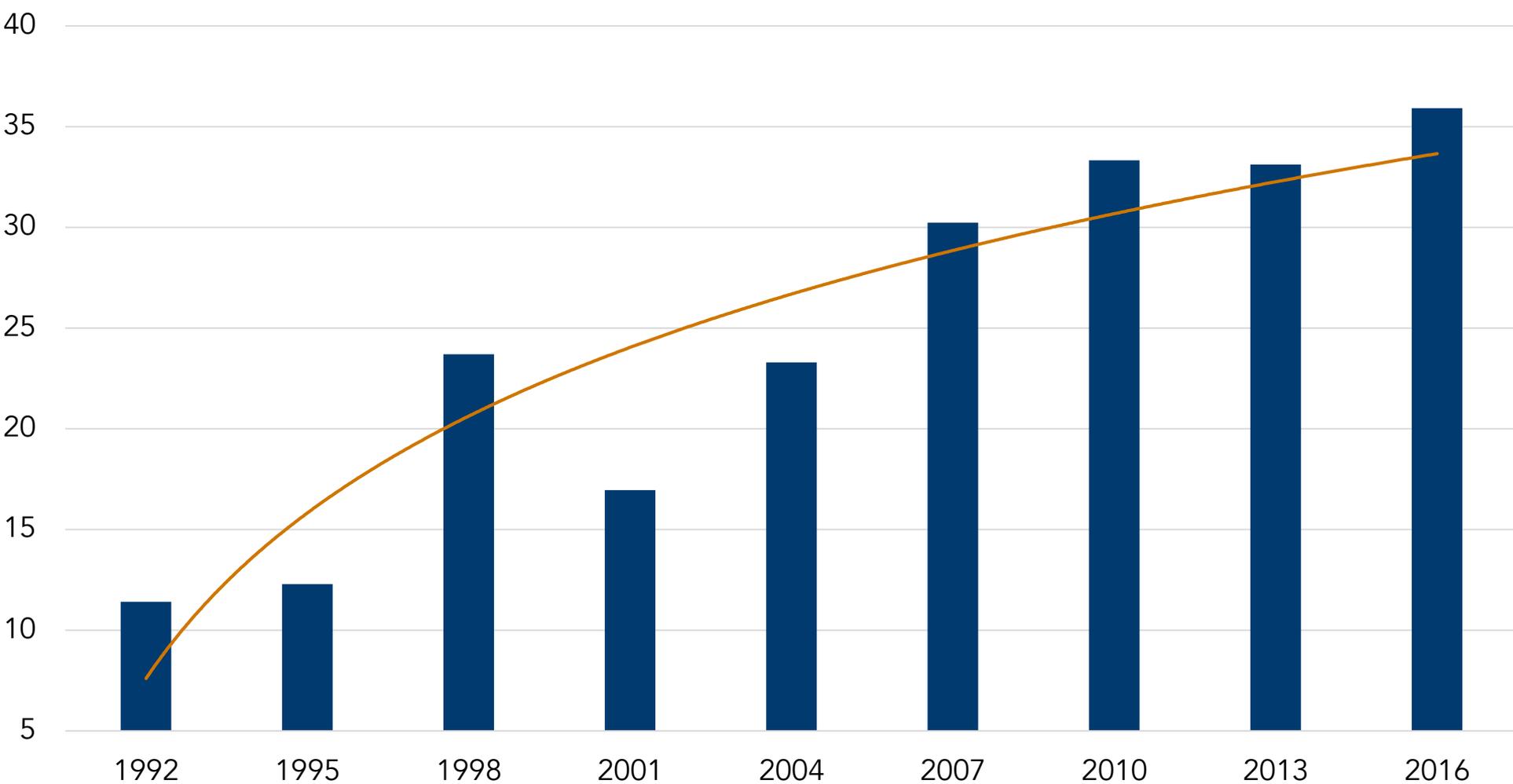
Percent Share of Population with Bachelors Degree or Higher



Source: ACS IPUMS, 2018

Rising Student Loan Burdens

Average Outstanding Balance for all Student Loans, \$ (Thousands)

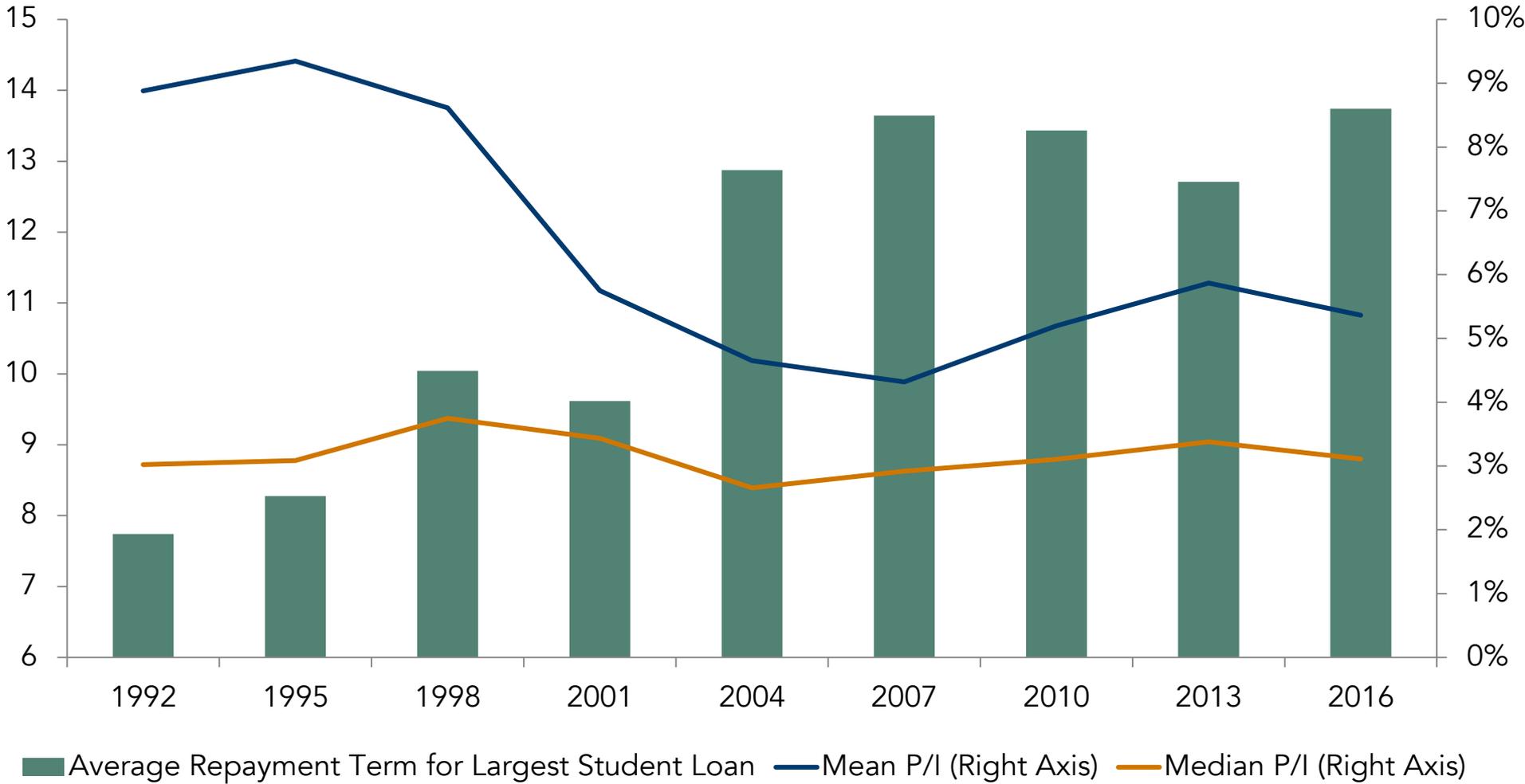


Source: Federal Reserve Board of Governors SCF, 2017



Where's the Burden

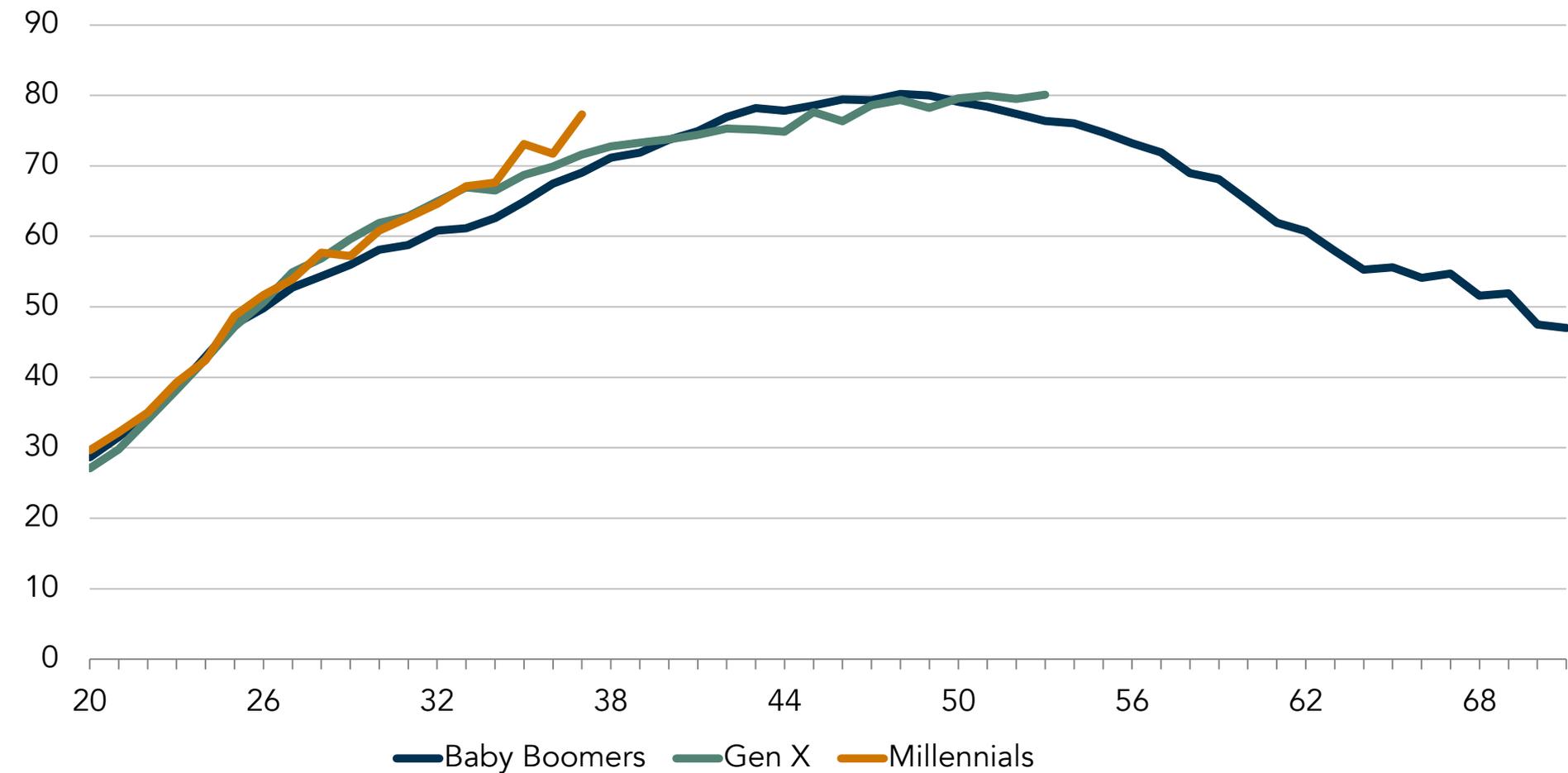
Average Loan Term (Years) and Payment-to-Income Ratio



Source: Federal Reserve Board of Governors SCF, 2016

Millennials Outpace Baby Boomers

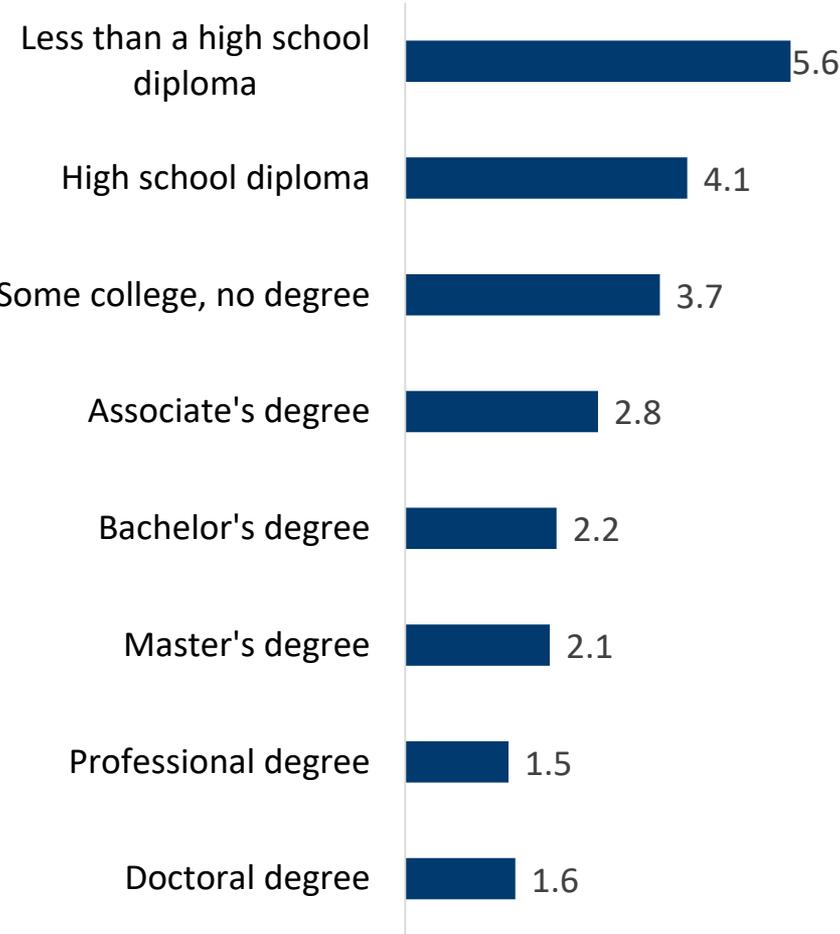
Median Income by Generational Cohort, Thousands (\$)



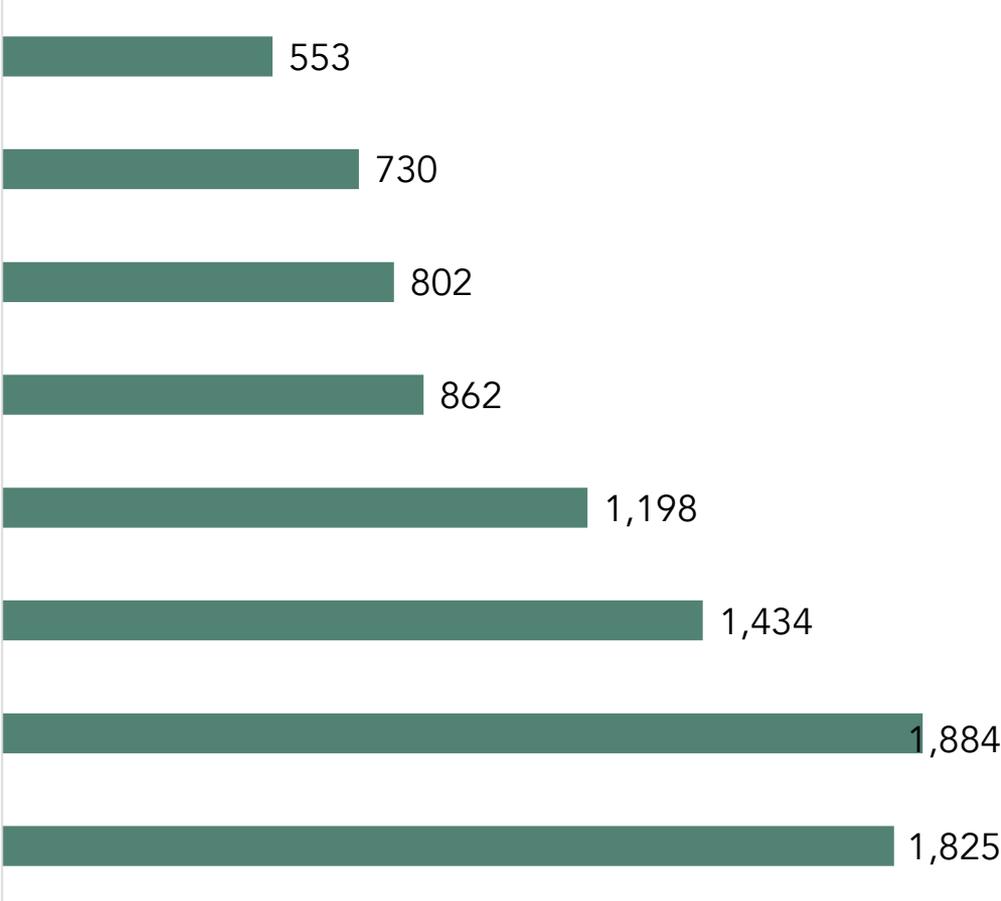
Source: IPUMS CPS, First American Calculations, 2018

But is It (Education) Worth it?

Unemployment rate (%)



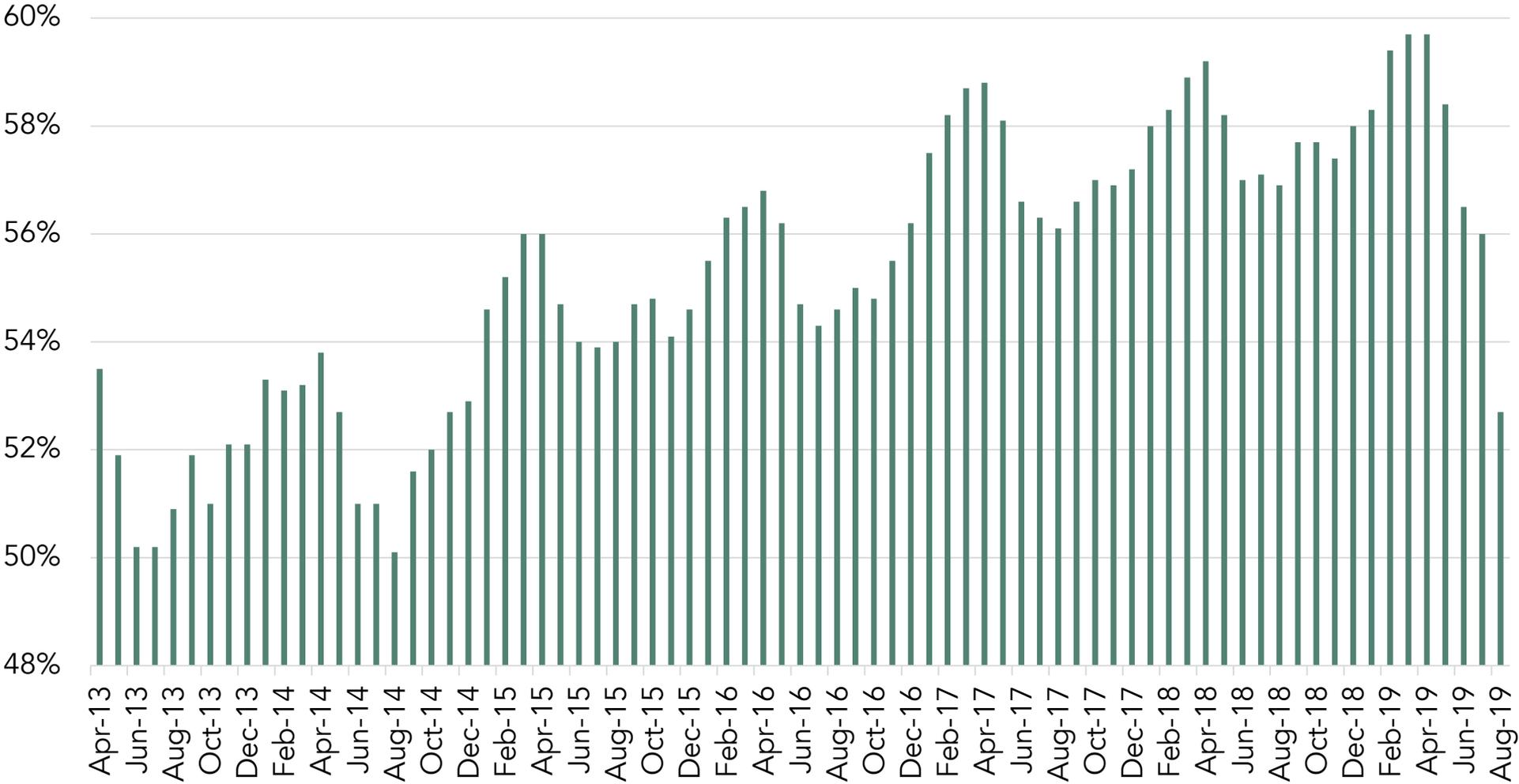
Median usual weekly earnings (\$)



Source: IPUMS CPS, 2018

Know Your Customer?

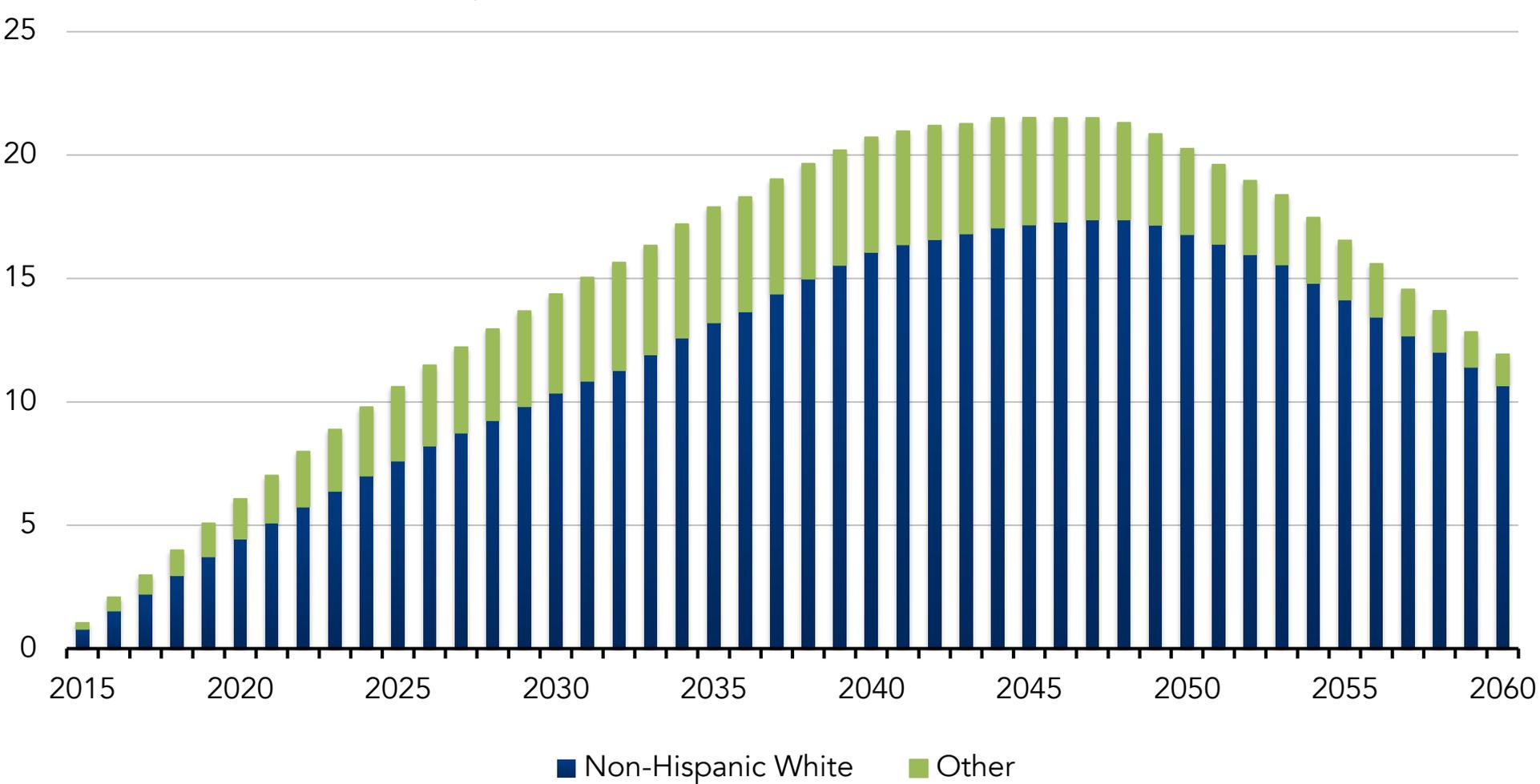
First-Time Homebuyer Market Share (%)



Source: AEI International Center on Housing Risk , Aug. 2019

Wait For it....

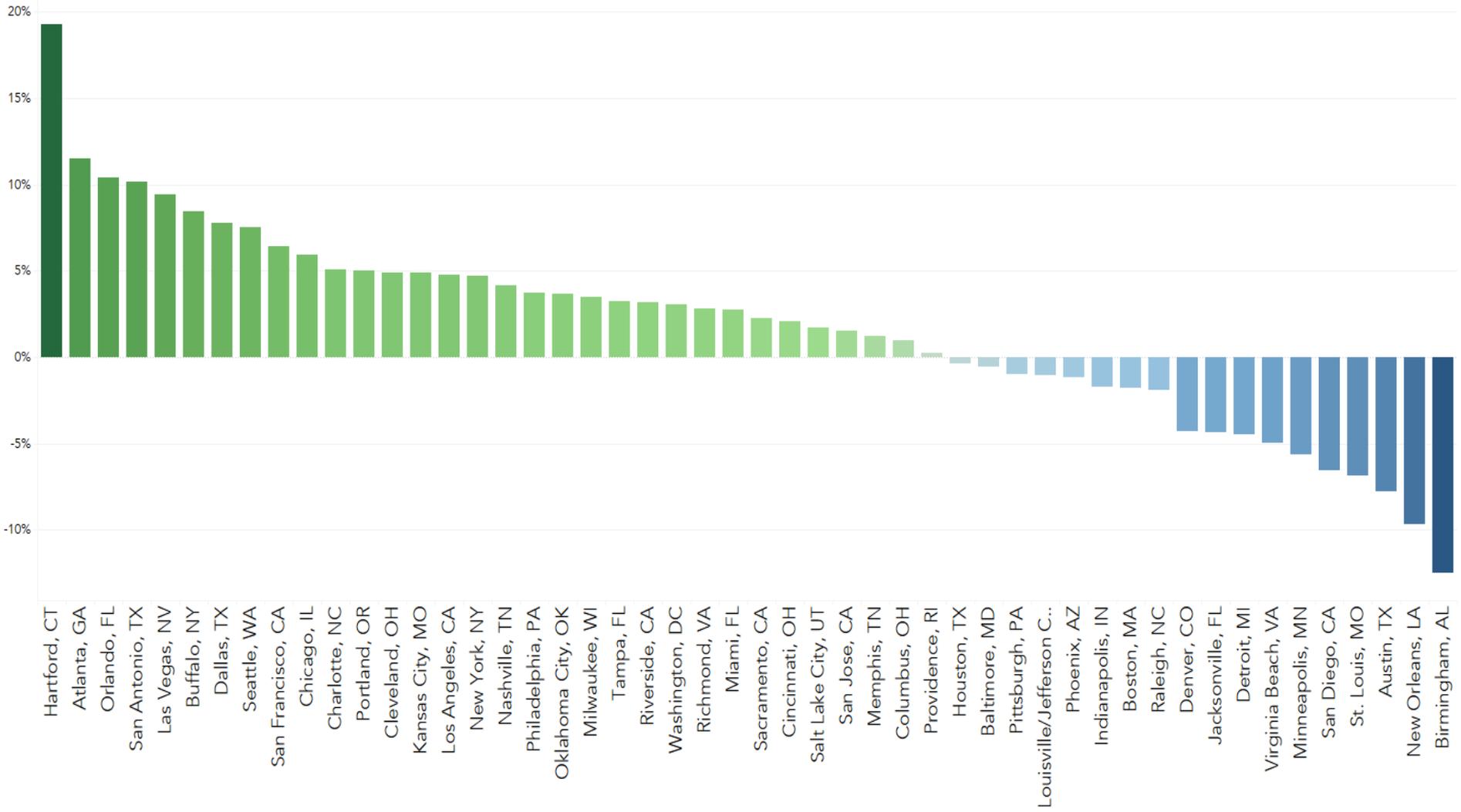
Cumulative Net New Owner-Occupied Households (17-35 Yrs. Old in 2015, Millions)



Source: Census Bureau, FirstAm Calculations

Where, Oh Where Are Millennials Buying Homes?

Yearly Change in the Share of Millennial Homeowners, %



Source: IPUMS CPS, 2018

The Existing Owner's Dilemma

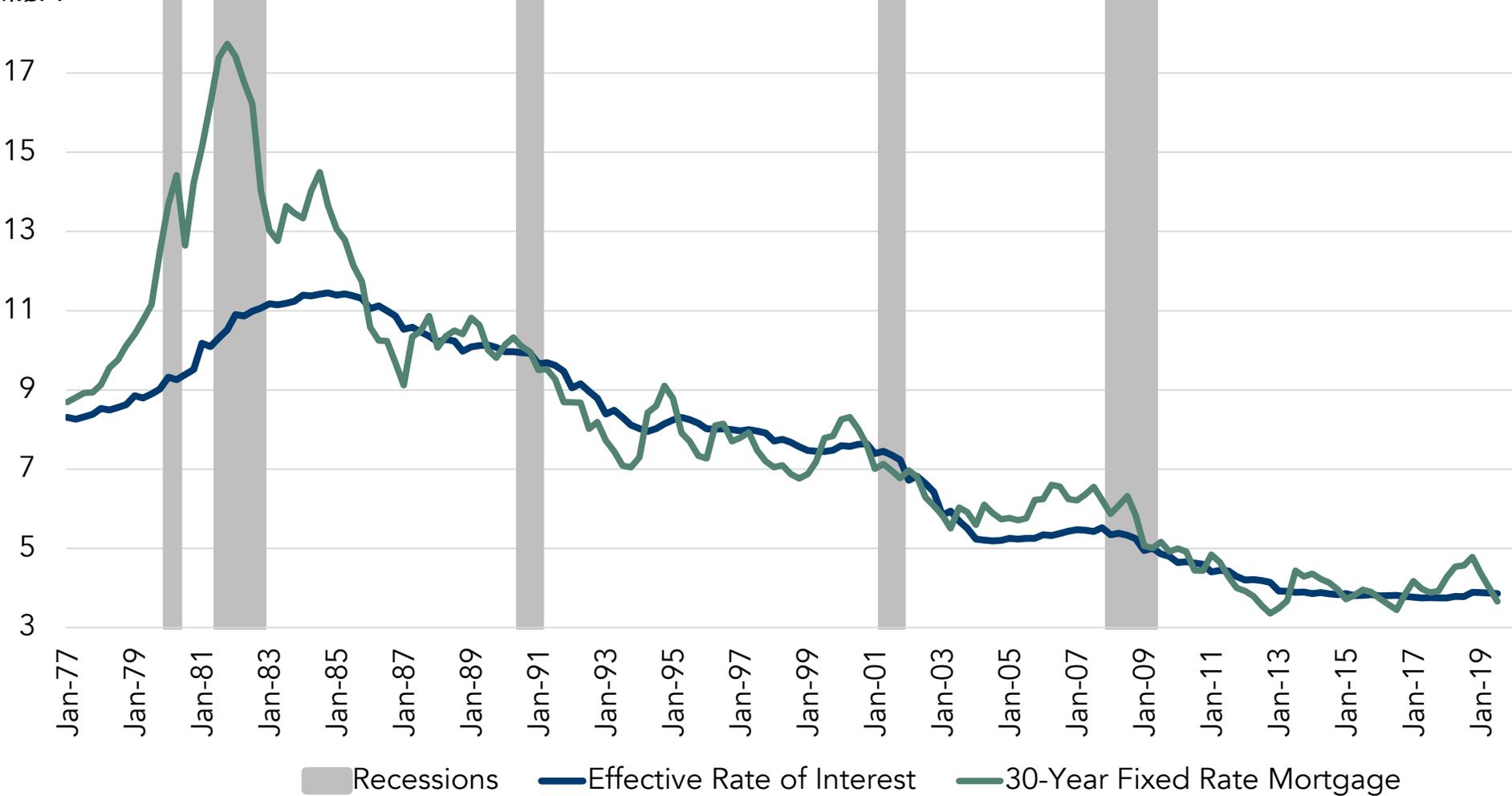
A Nation of Homebodies



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Never Shall We See Those Rates Again

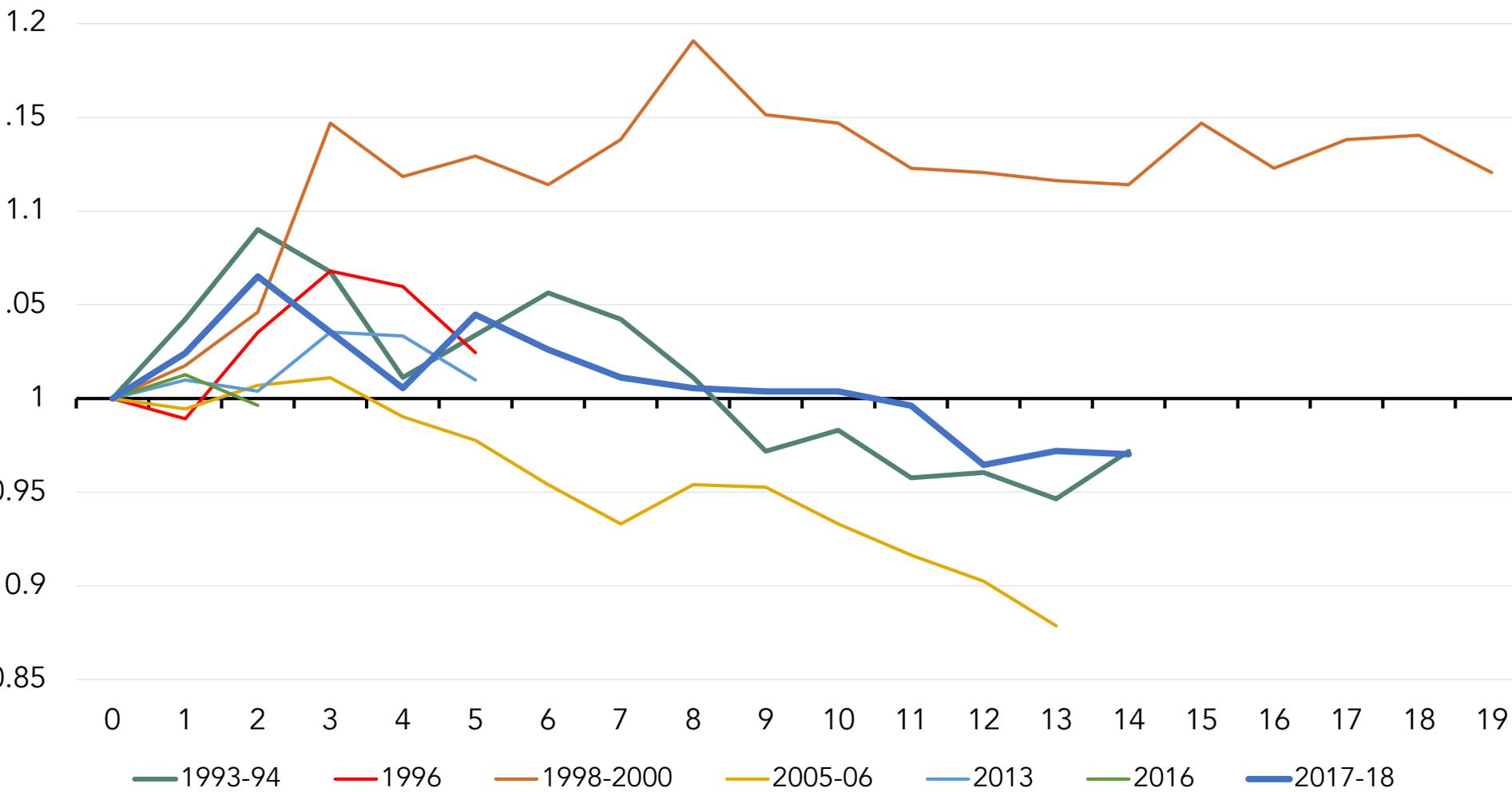
30-year Fixed Rate (%), Effective Rate of Interest on Mortgage Debt Outstanding Residential Housing (%), NSA



Source: Bureau of Labor Statistics, FRED, Q3 2019

Existing-Home Sales When Mortgage Rates Rise

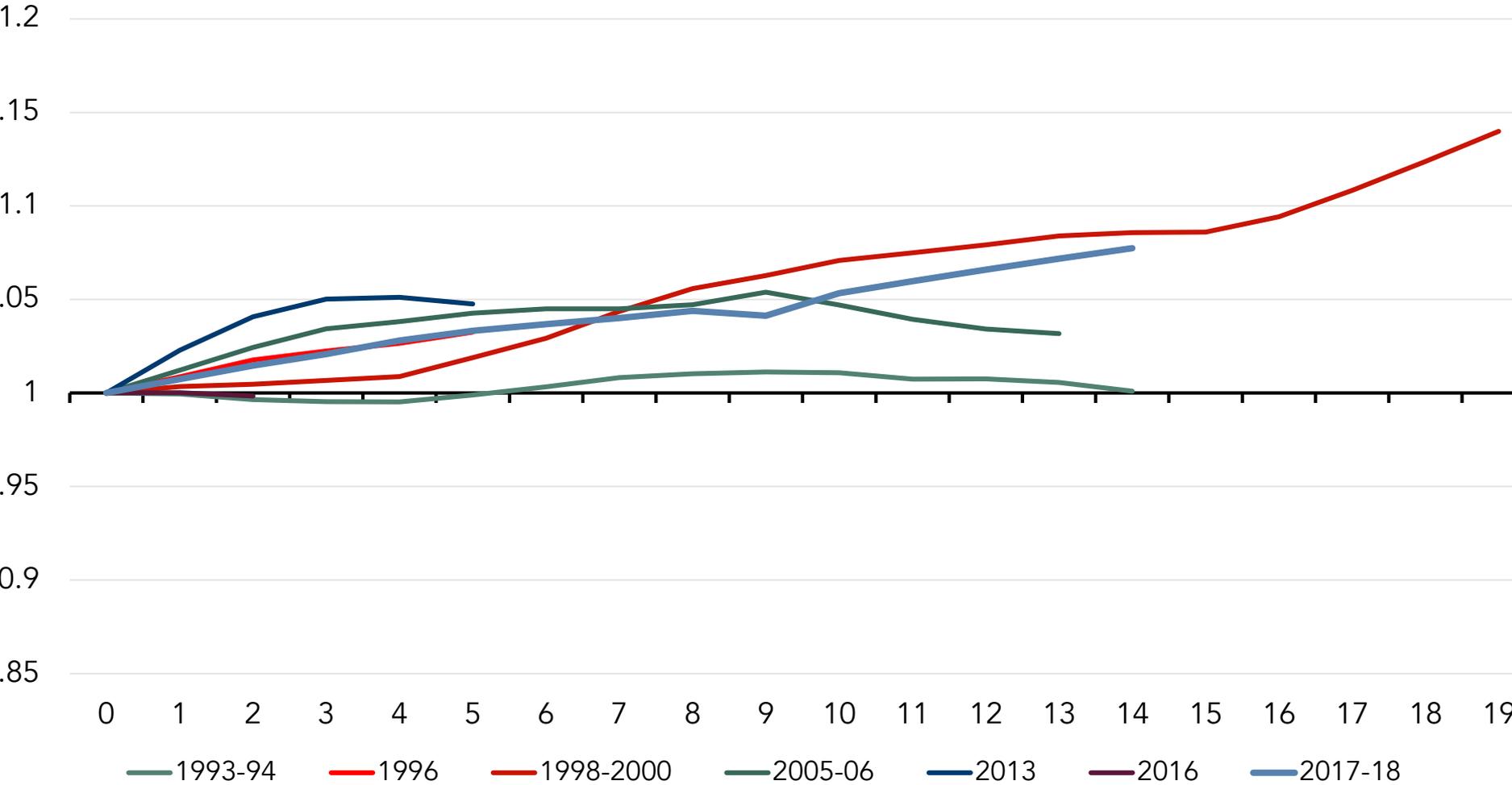
Monthly Change in EHS (%), Index=1 in Beginning Period of Rising Rates



Source: Freddie Mac, NAR, First American Calculations, November 2018

House Prices When Mortgage Rates Rise

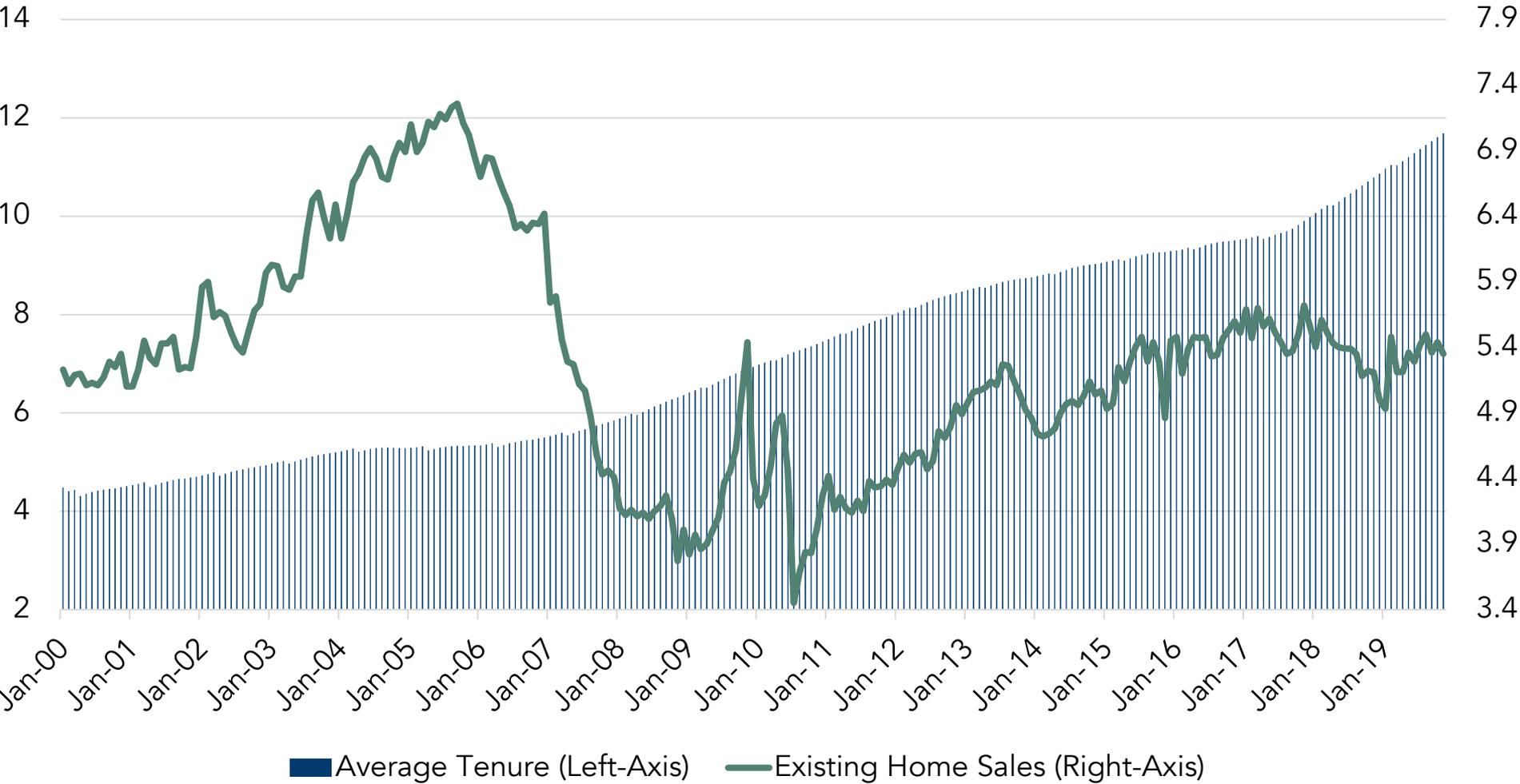
Monthly Change in HPI (%), Index=1 in Beginning Period of Rising Rates



Source: DataTree by First American, Freddie Mac, November 2018

A Nation of Homebodies

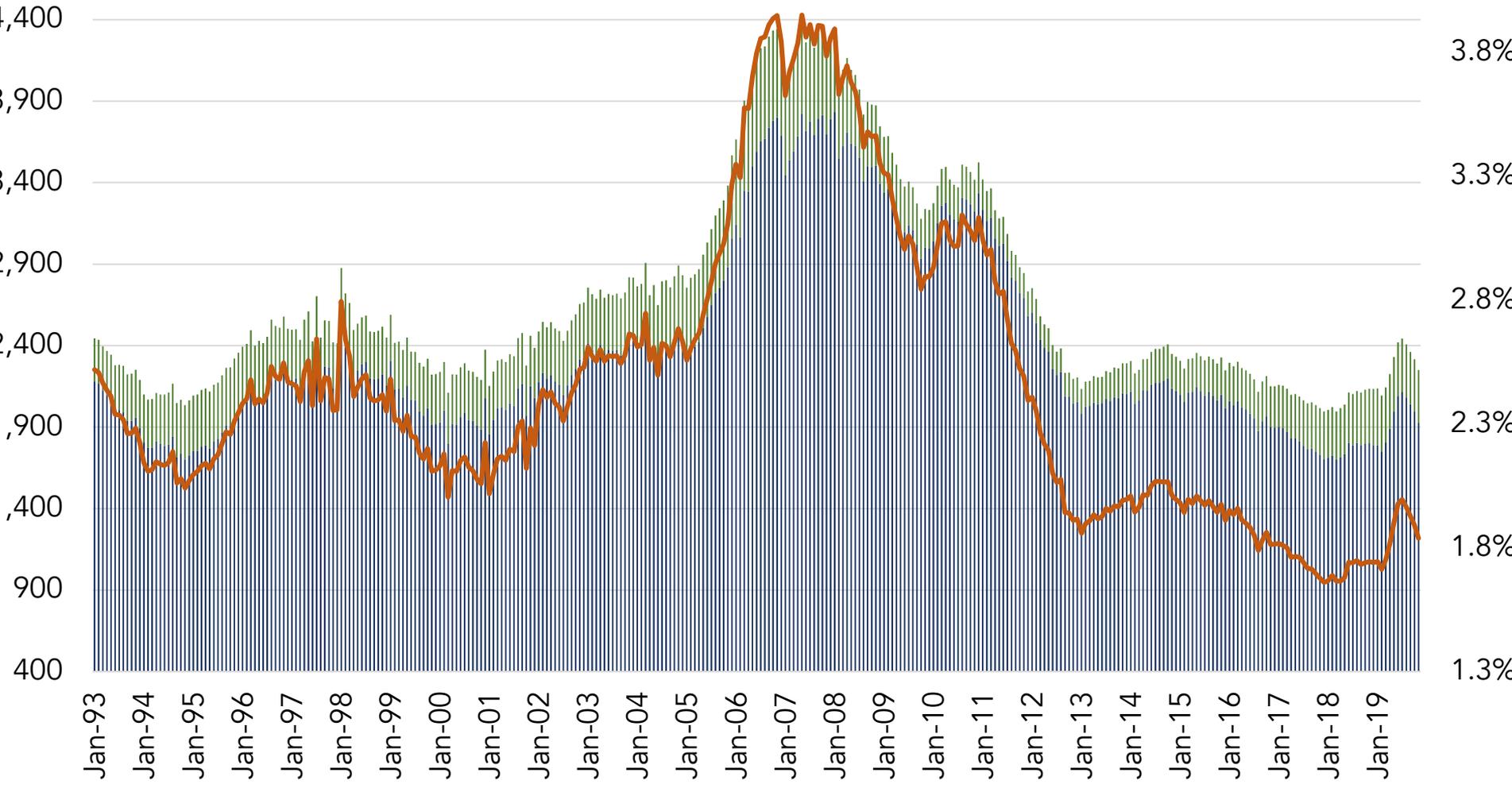
Average Tenure Length (Years), Existing Home Sales (SAAR, Millions)



Source: DataTree by First American, NAR, FRED, Nov. 2019

Supply At Quarter Century Low

New and Existing Inventory for Sale (Thousands, SA, % of Households)



Existing Home Inventory (LHS) New Home Inventory For Sale (LHS) Inventory Turnover (RHS)

Source: NAR, Census, FRB St. Louis, First American Calculations, Nov. 2019

What's For Sale?

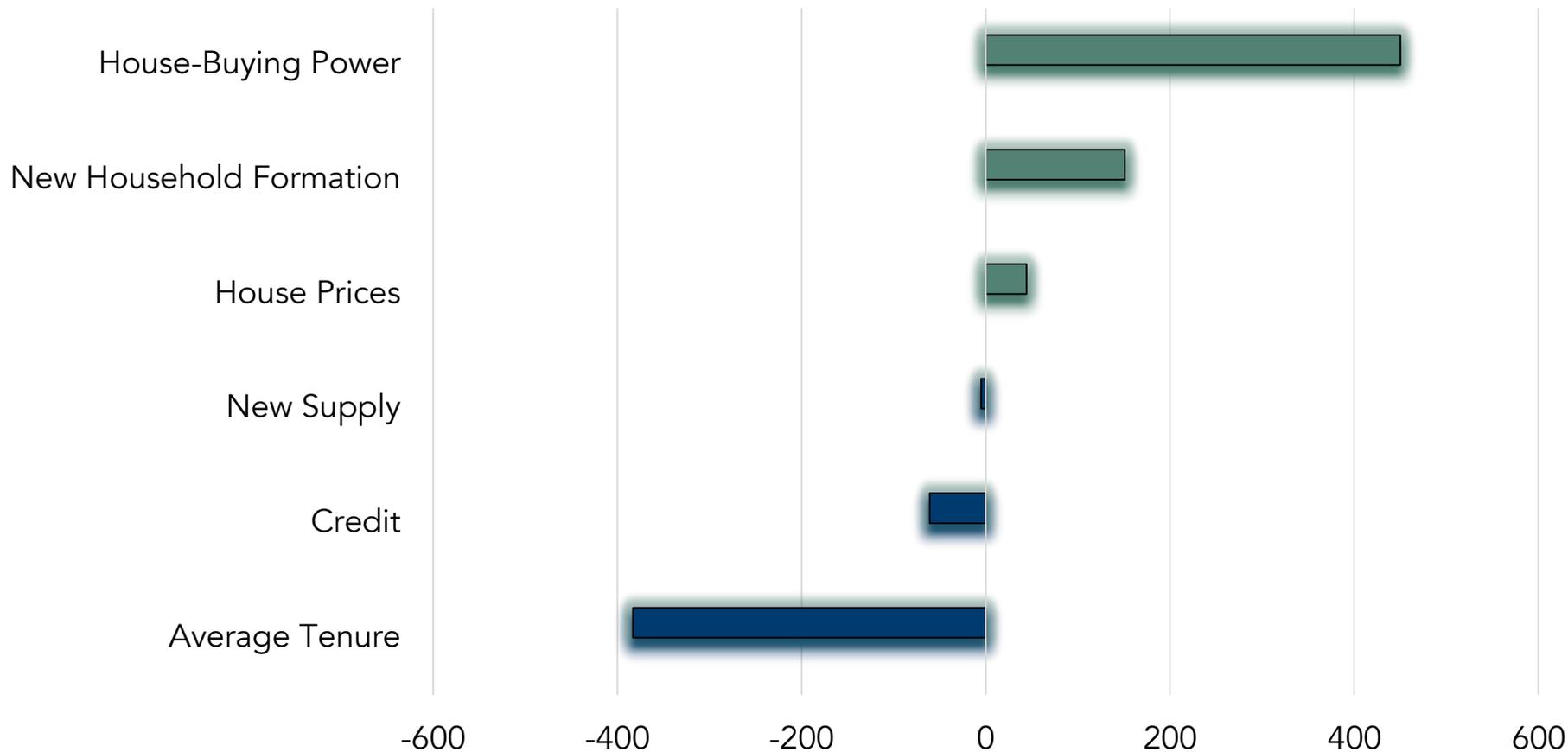
For-Sale Inventory by Price Tier, YoY Growth



Source: Zillow, Nov. 2019

A Year in Review: The Fundamentals Influencing Housing Market Potential

Number of Sales, Yearly Change Contributed by Components, Thousands



Source: DataTree by First American, First American Calculations, NAR, FRB St.Louis, Nov. 2019

Builders' Woes

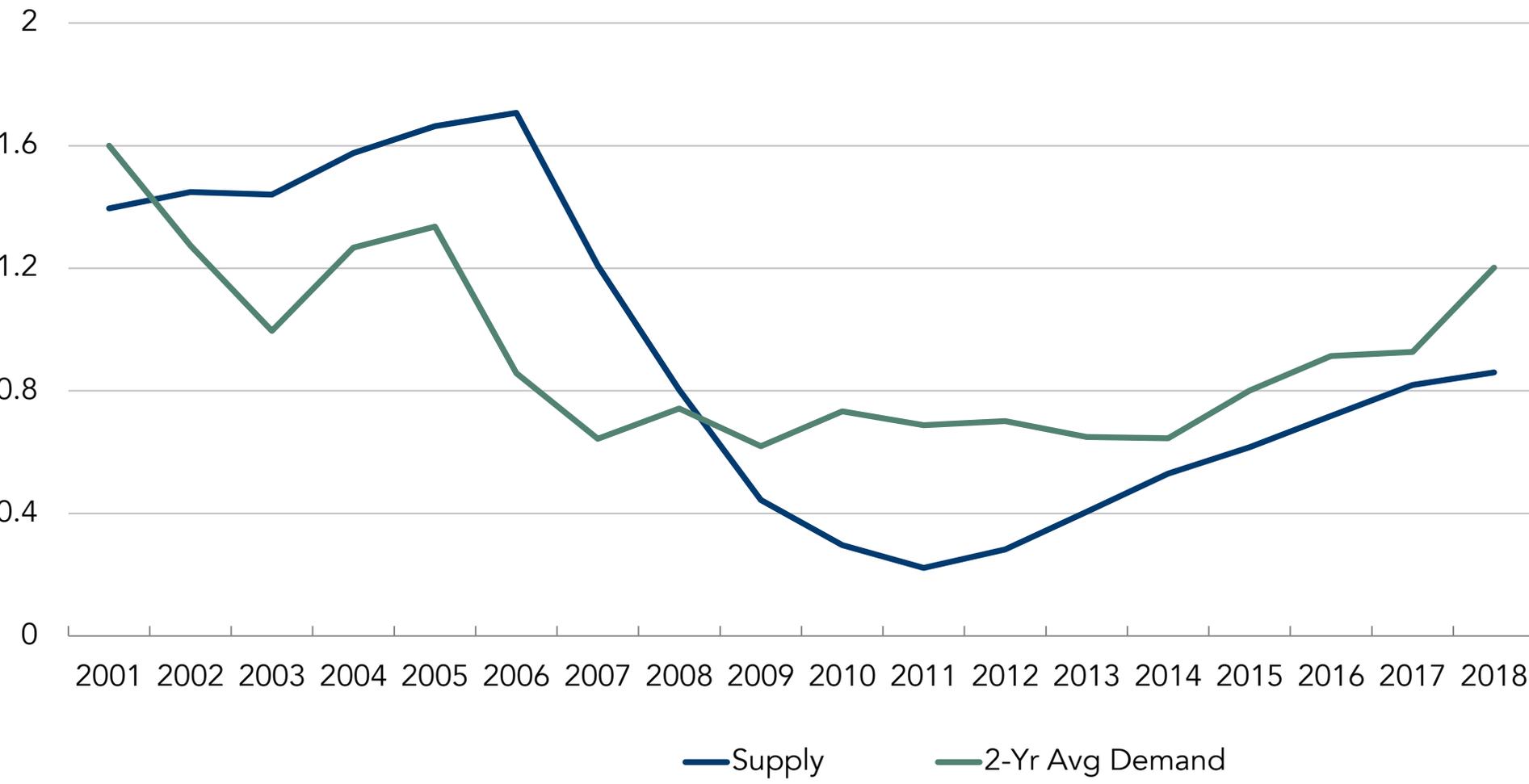
The Challenges of Building More Homes



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Keeping Up With Increasing Demand

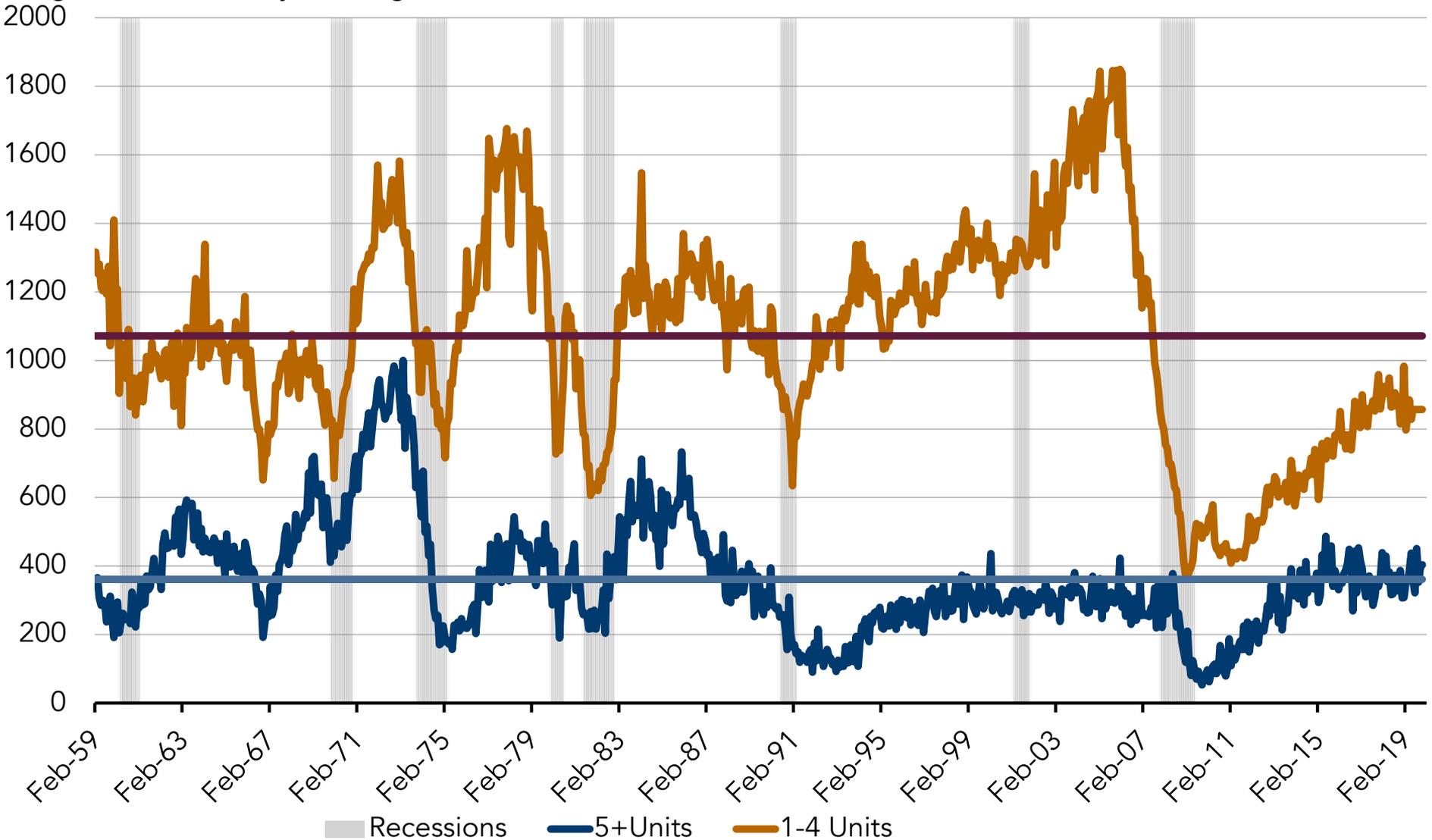
New Housing Units and Households (Year-Over-Year, Millions)



Source: Census Bureau, HUD (obsolescence rate of 0.31% of existing stock), 2018

A Building Boom, Of Only One Kind

Single and Multifamily Housing Starts ('000s,Units)



Source: US Census Bureau, FRED, Nov. 2019

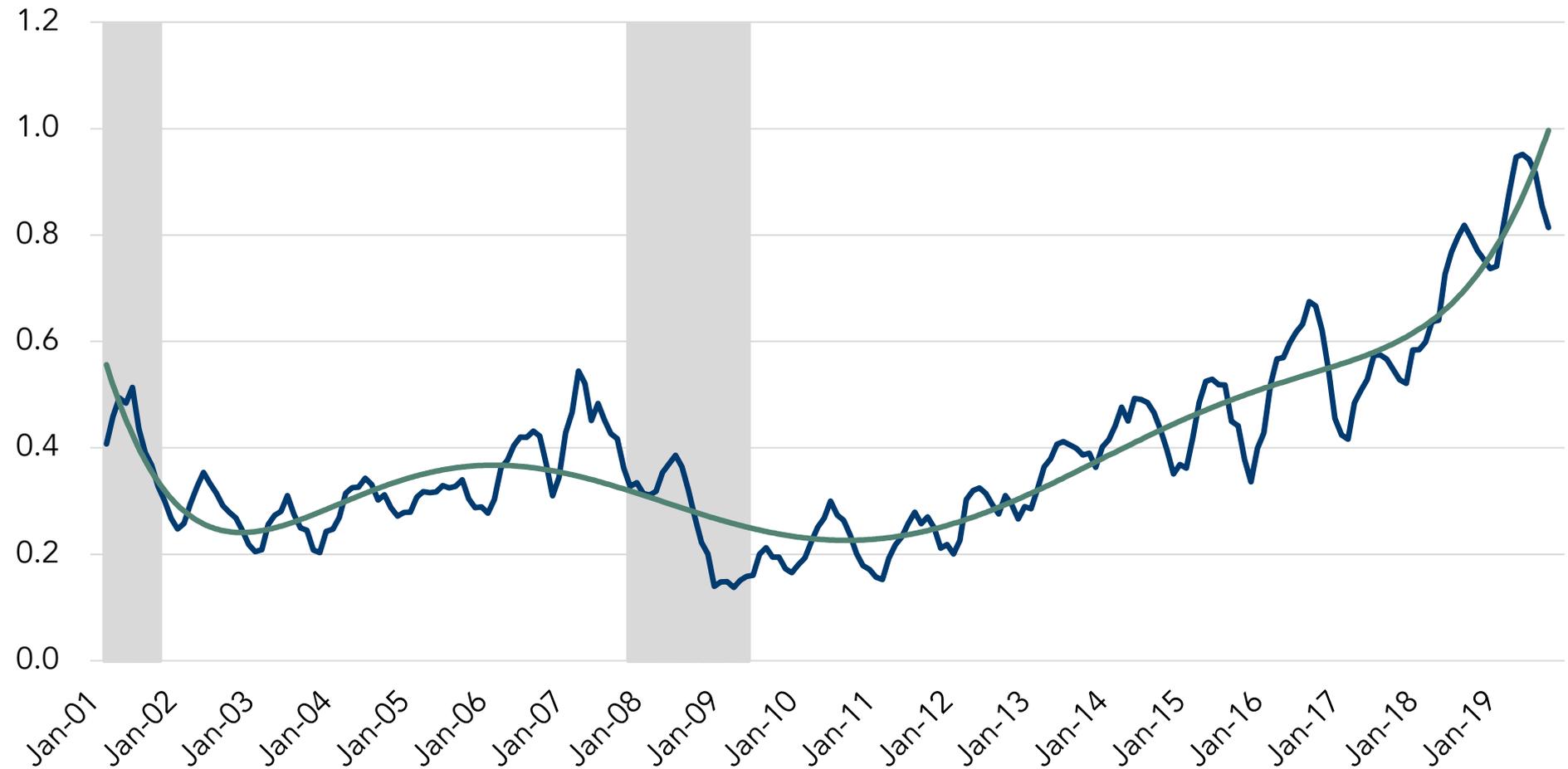
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A Lack of Labor

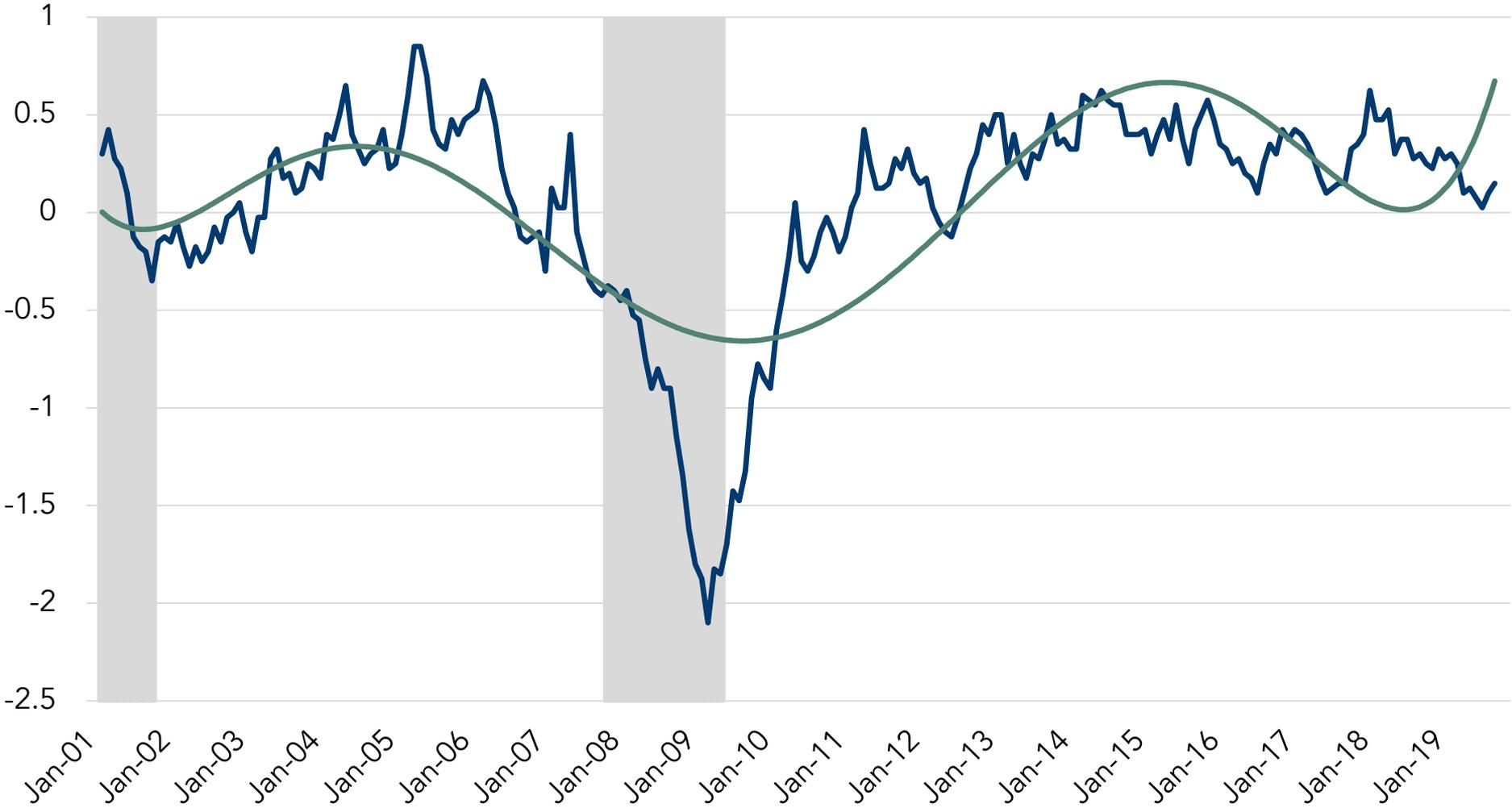
Months Supply- Ratio of Construction Job Openings to Hires (Thousands, SA)



Source: JOLTS BLS, First American Calculations, Oct. 2019

Can't Find More Labor? Retain the Ones You Have

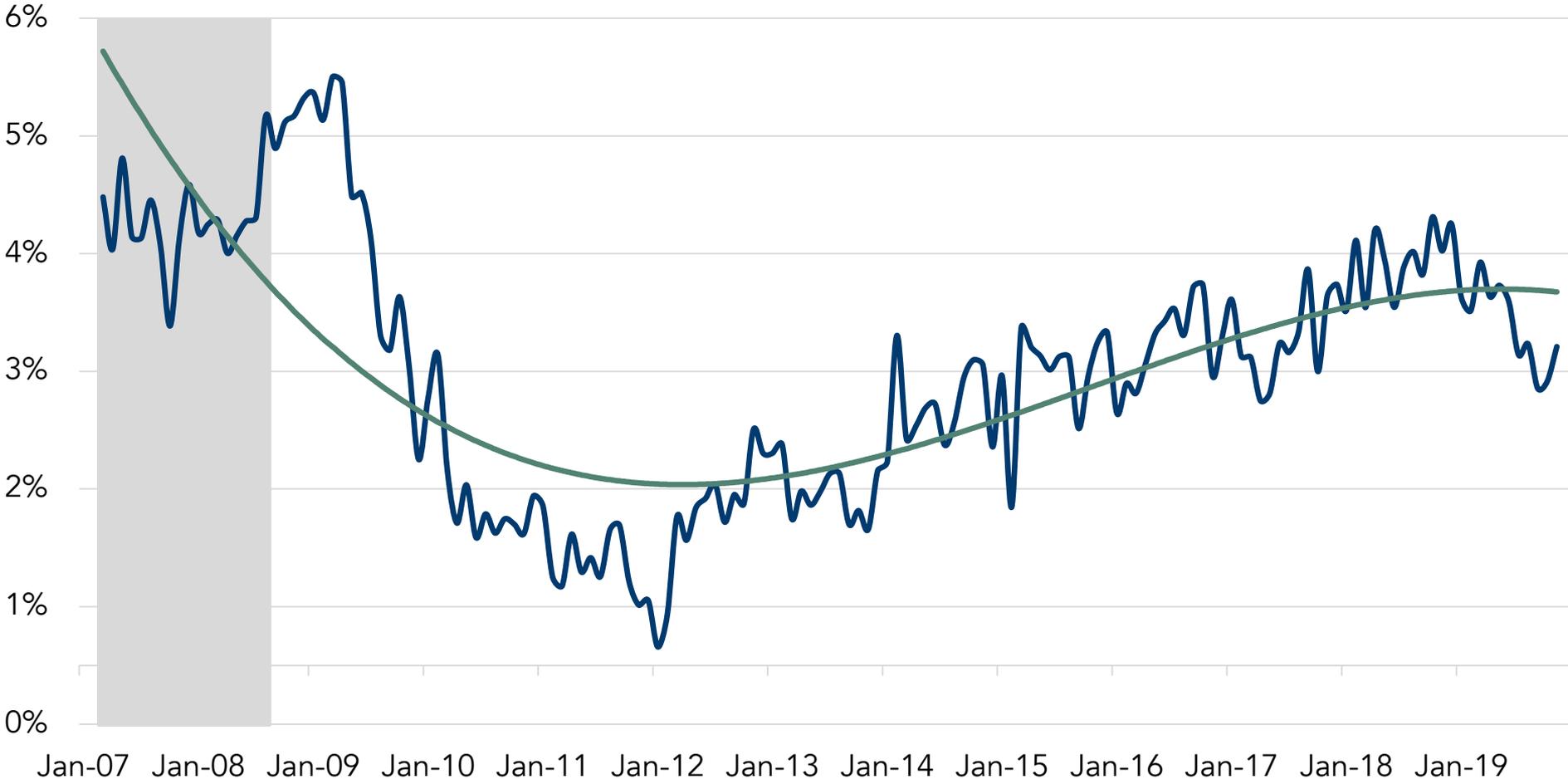
Rate of Hires-Rate of Separations, SA



Source: JOLTS BLS, First American Calculations, Oct. 2019

Best Retention and Attraction Policy? Pay More

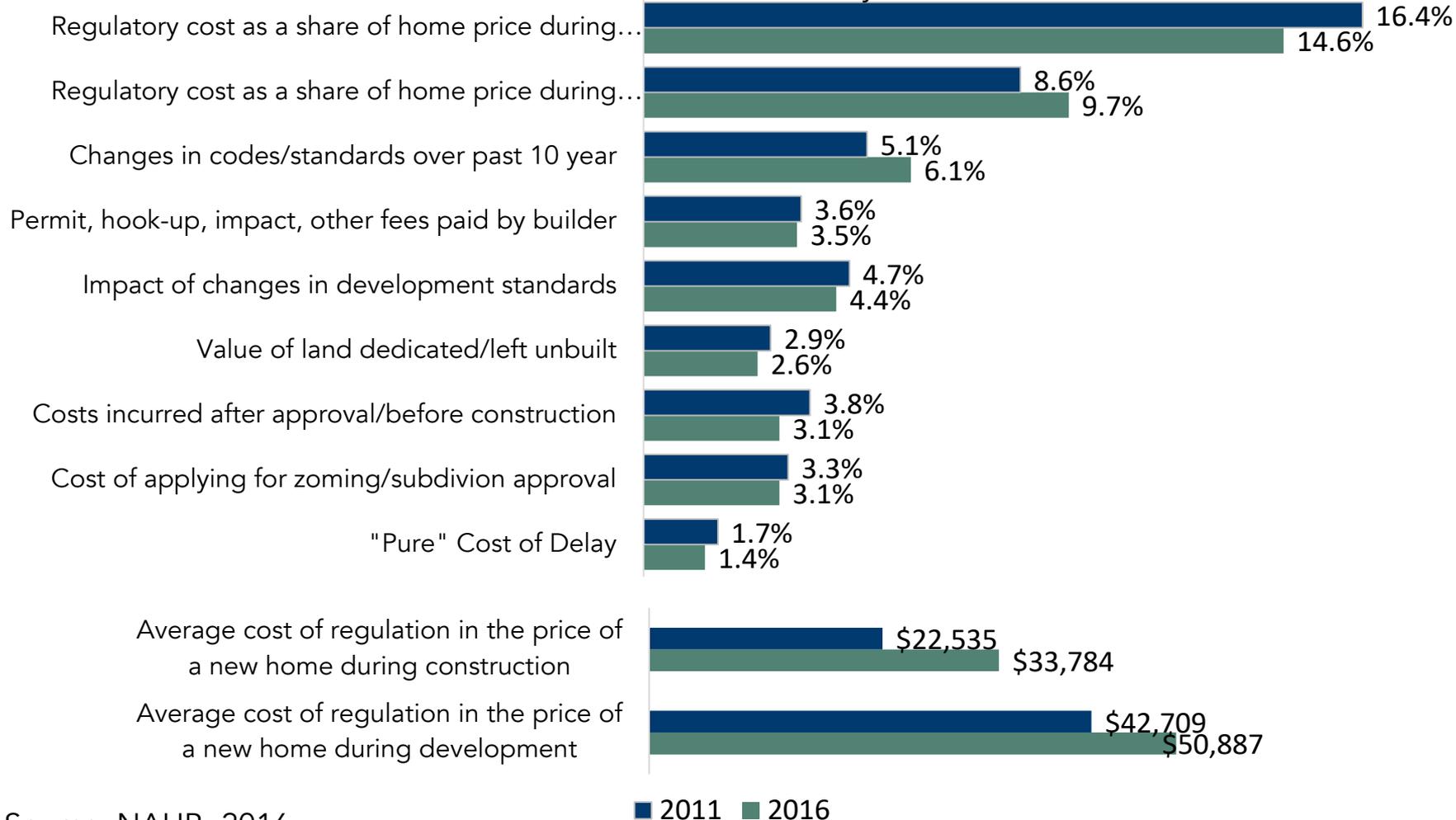
Average Hourly Earnings of All Employees, Construction, SA



Source: BLS, Nov. 2019

The Process Costs More Too

Costs as a Share of Final Price of the Home Sold to the Ultimate Buyer



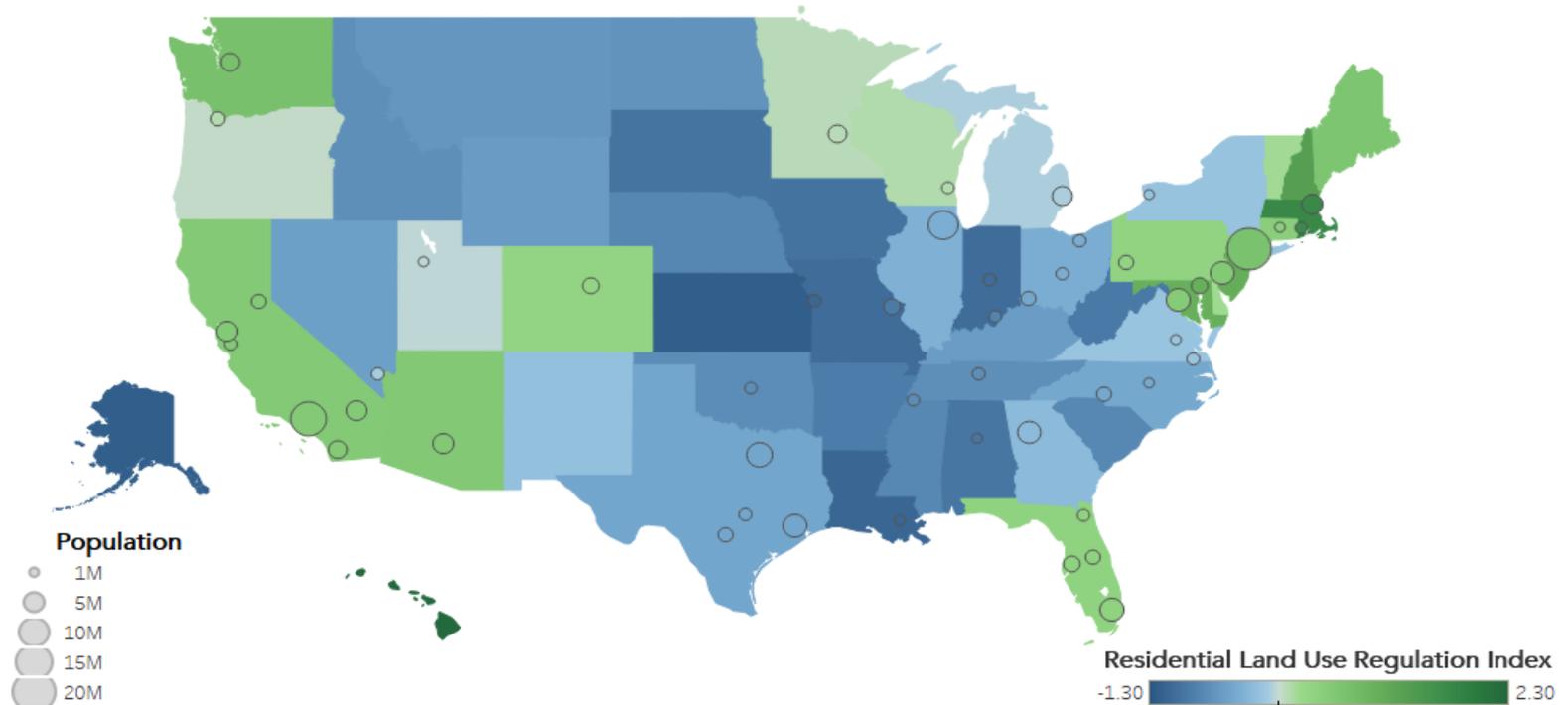
Source: NAHB, 2016

What is “Normal” Regulation?

- Local and state pressure groups are much more likely to be involved in the regulatory process in the more highly regulated places.
- More than 50% of the highly regulated communities have a 1 acre minimum lot size rule in at least one neighborhood, whereas less than 5% of lightly regulated communities have such a rule.
- The average delay time between application and approval for a standard project in the highly regulated communities is three times longer than in the lightly regulated communities (10.2 months vs. 3.2 months, respectively)
- The WRLURI is the strong positive correlation across its component indexes. Essentially, if a community is rated as highly regulated on one dimension, it is likely to be highly regulated along other dimensions.

Residential Land Use Regulation Index

(Higher Values Indicate More Regulation)



CBSA Name	Residential Land Use Regulation Index	State	Residential Land Use Regulation Index
Providence-Warwick, RI-MA	1.8436	HI	2.30
Baltimore-Columbia-Towson..	1.8189	RI	1.83
Boston-Cambridge-Newton,..	1.7472	MA	1.73
Memphis, TN-MS-AR	1.2106	NH	1.29
Seattle-Tacoma-Bellevue, WA	1.0802	NJ	1.03

Gyourko, Joseph, Albert Saiz, and Anita A. Summers, "A New Measure of the Local Regulatory Environment for Housing Markets: The Wharton Residential Land Use Regulatory Index", Urban Studies, forthcoming. First American Calculations



Supply or Demand
Restricted?

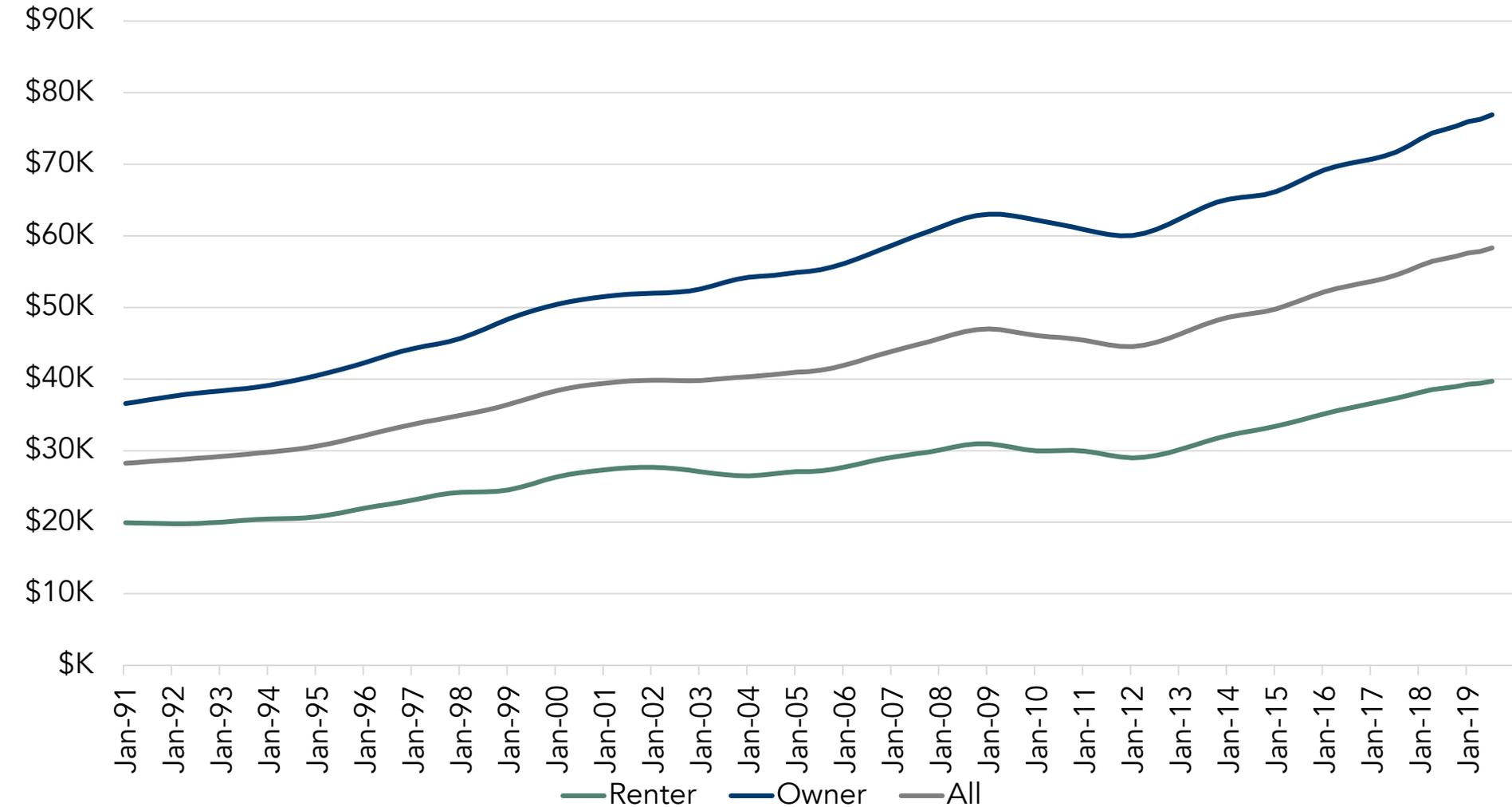
**A Supply Restricted
Market Drives up
Prices**



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Mind the Income Gap

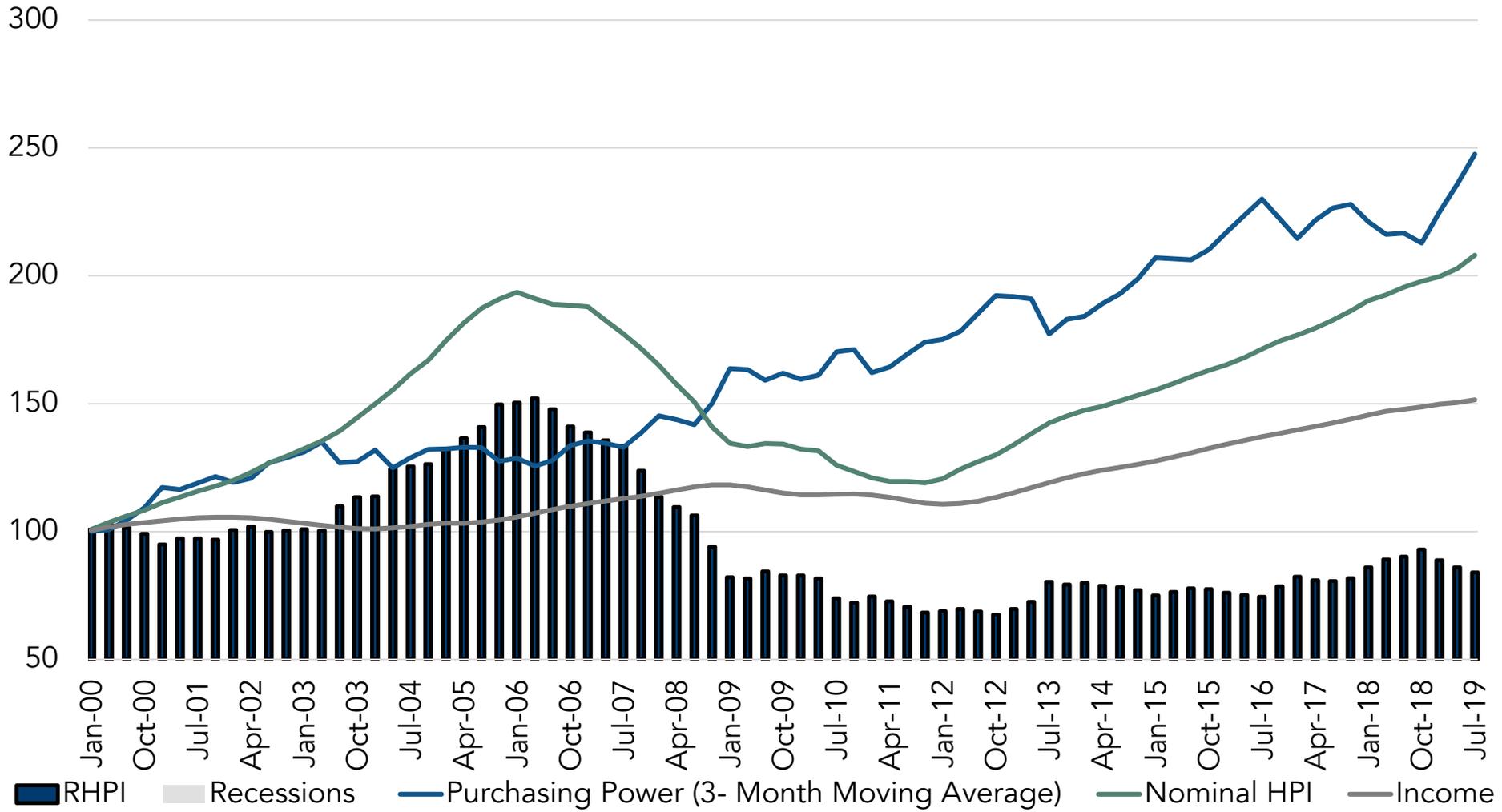
Median Income, National



Source: IPUMS, BLS, First American Calculations, Q3 2019

How Much Home Can A Renter Buy?

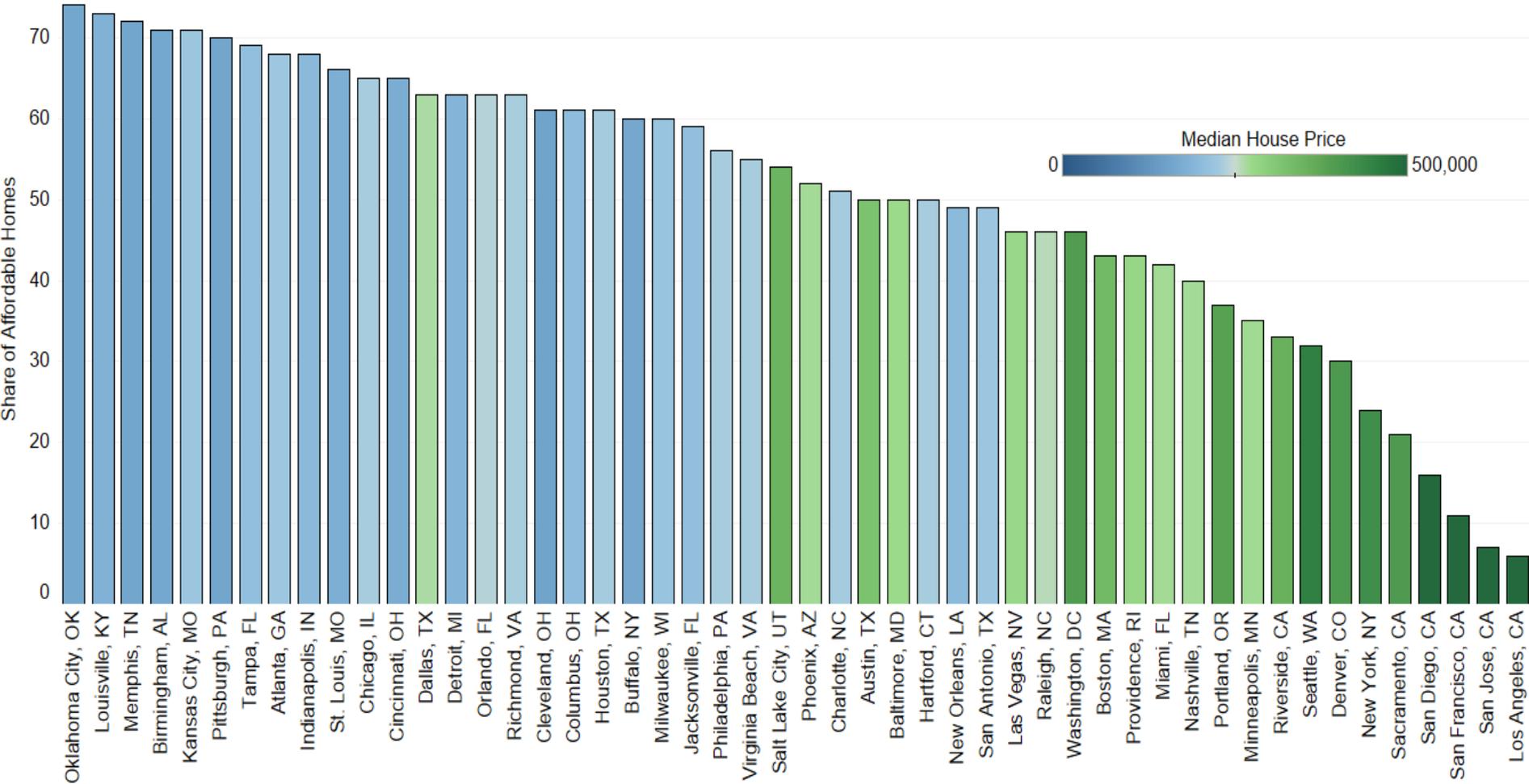
Index= 100, Jan. 2000



Source: First American Calculations, BLS, Census, Q3 2019

Where Can Renters Find the Largest Supply of Affordable Homes?

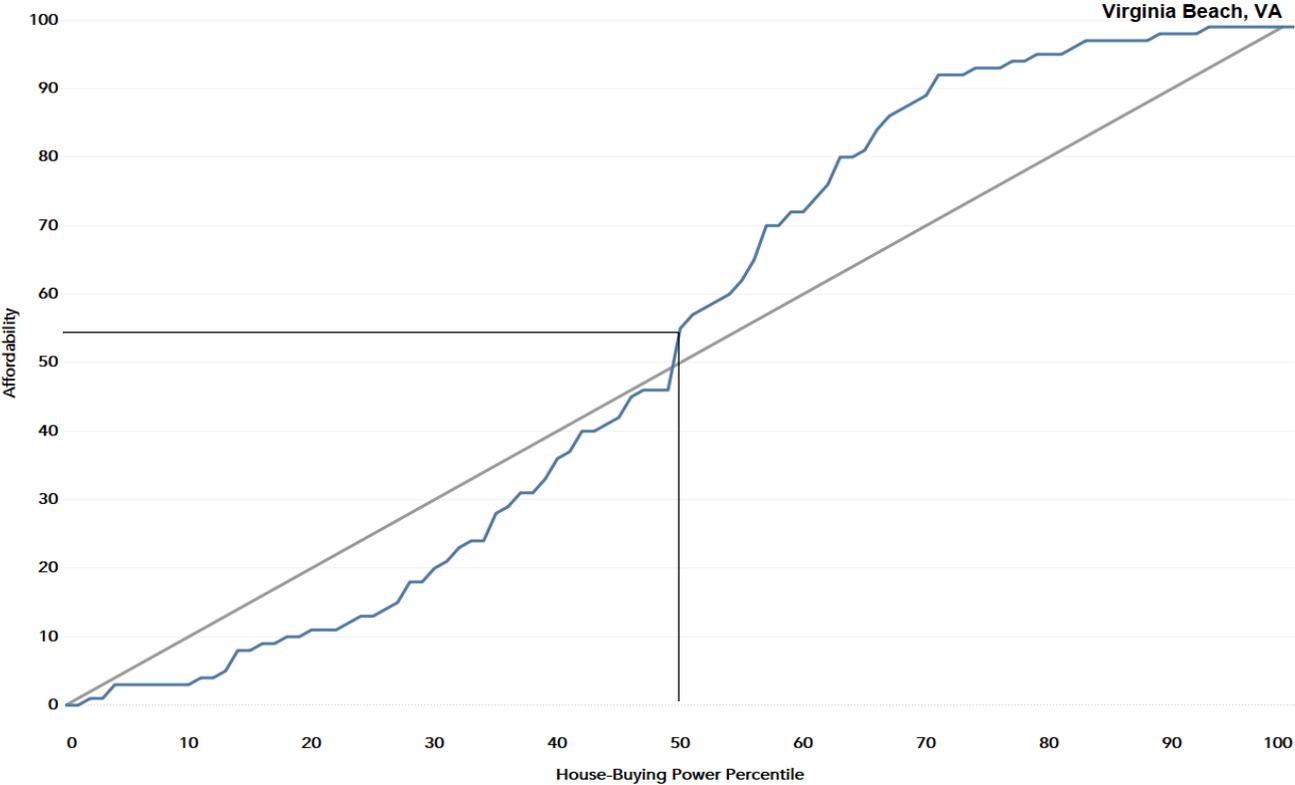
Median Renters: Share of Affordable Homes



Source: DataTree by First American, Standard & Poor's, Freddie Mac, Census, IPUMS CPS, Q3 2019

When It Comes to Affordability, Place Matters

Median Renter: Share of Sold Homes



Source: DataTree by First American, Standard & Poor's, Freddie Mac, Census, Q3 2019

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80/50

→ The **80th** percentile renter in Los Angeles can only afford **51%** of homes for sale, with a house buying power of **654,179** and an income of **105,080**

→ This same renter could afford **98%** of homes for sale in Detroit, Cleveland, and Oklahoma City

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