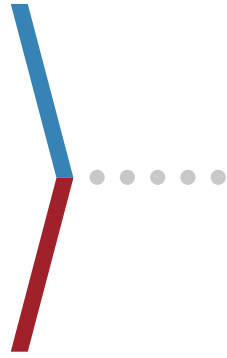


RESIDENTIAL CONSTRUCTION OUTLOOK 2023 and Beyond

NOVEMBER 29 | 2022



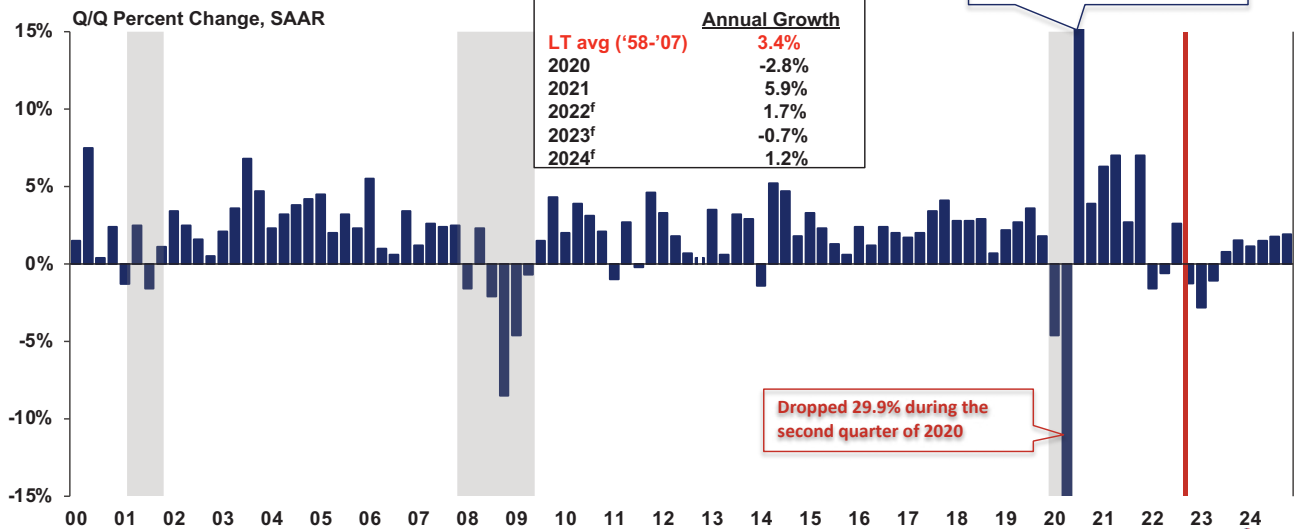
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With

Rich Binsacca
Editorial Director, SGC Horizon

GDP Growth – Recession in the Forecast Window

From 2022 to mid-2023: five of six quarters of GDP declines



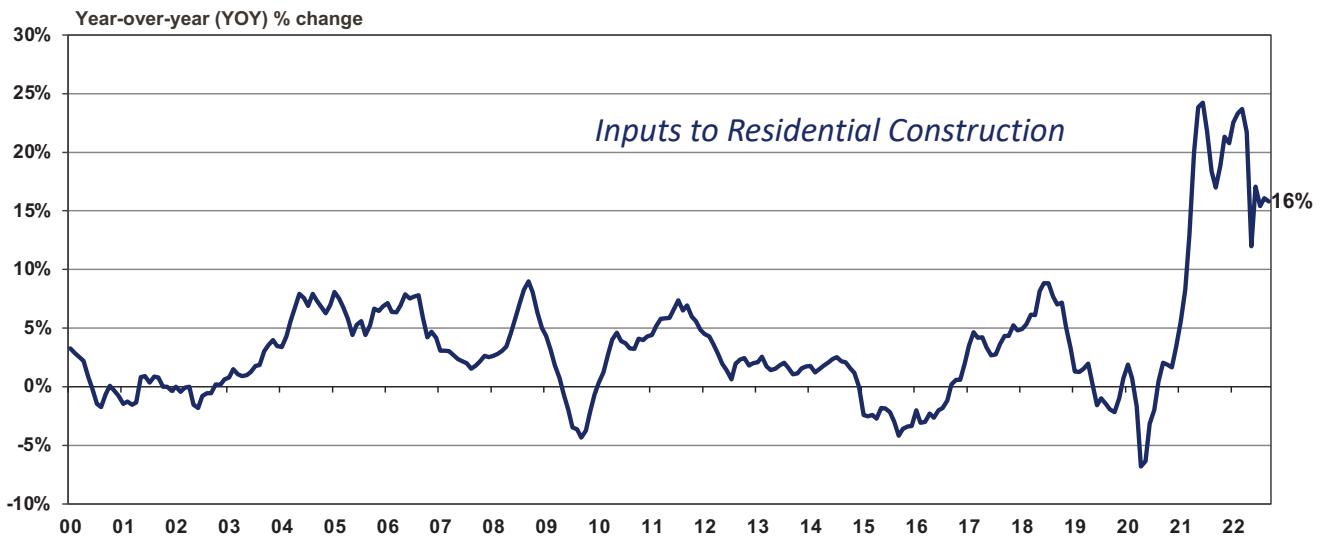
Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.



GDP Tells a Story

Quarterly GDP numbers have been all over the map for the last two years, the result of a pandemic-induced downturn, a quick rebound, extraordinary supply chain disruptions and the highest inflation seen in decades. The first two quarters of 2022 showed GDP declines, and NAHB economists anticipate further declines in GDP for Q4 2022 and the first two quarters of 2023.

Building Materials - Residential Construction Cost



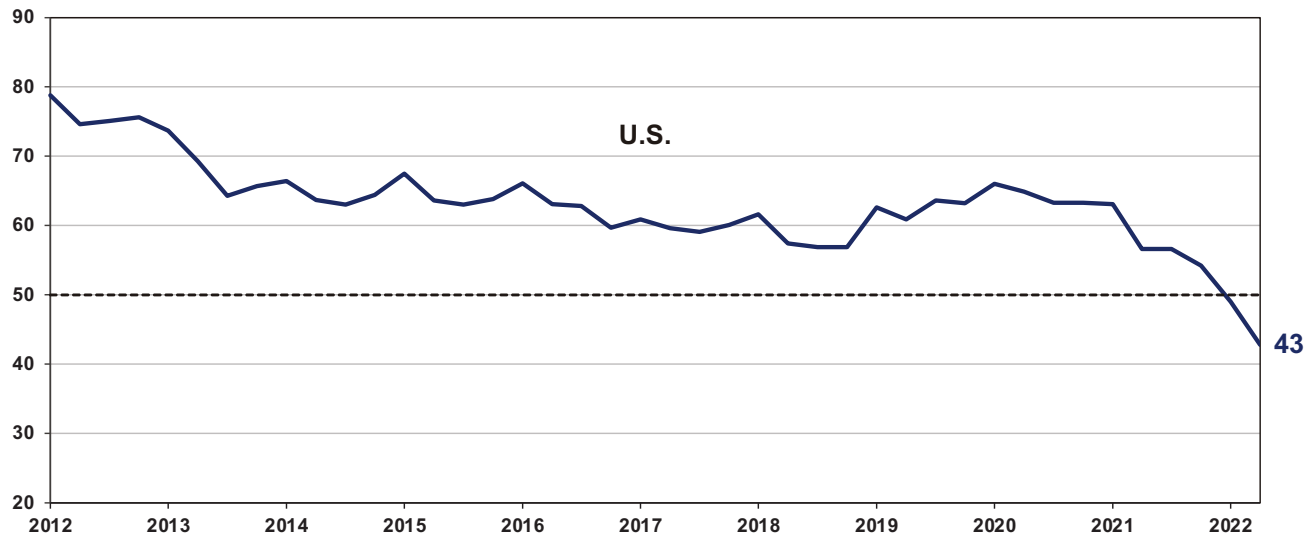
Source: U.S. Bureau of Labor Statistics (BLS): Producer Price Index (PPI)



Building Materials Prices Continue to Decline

The prices of building materials decreased 0.2% in October (not seasonally adjusted) following a 0.5% decline in September, according to the latest Producer Price Index (PPI) report. The index has decreased in four of five months for the first time since 2015. The PPI for softwood lumber (seasonally adjusted) fell 1.7% in October, following 5.5% and 3.1% declines in August and September, respectively. Softwood lumber prices are 4.4% higher than they were a year ago but have fallen 41.3% since March. The index remains 3.0% above pre-pandemic levels.

Housing Affordability Declines? NAHB/Wells Fargo HOI Lower



Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).

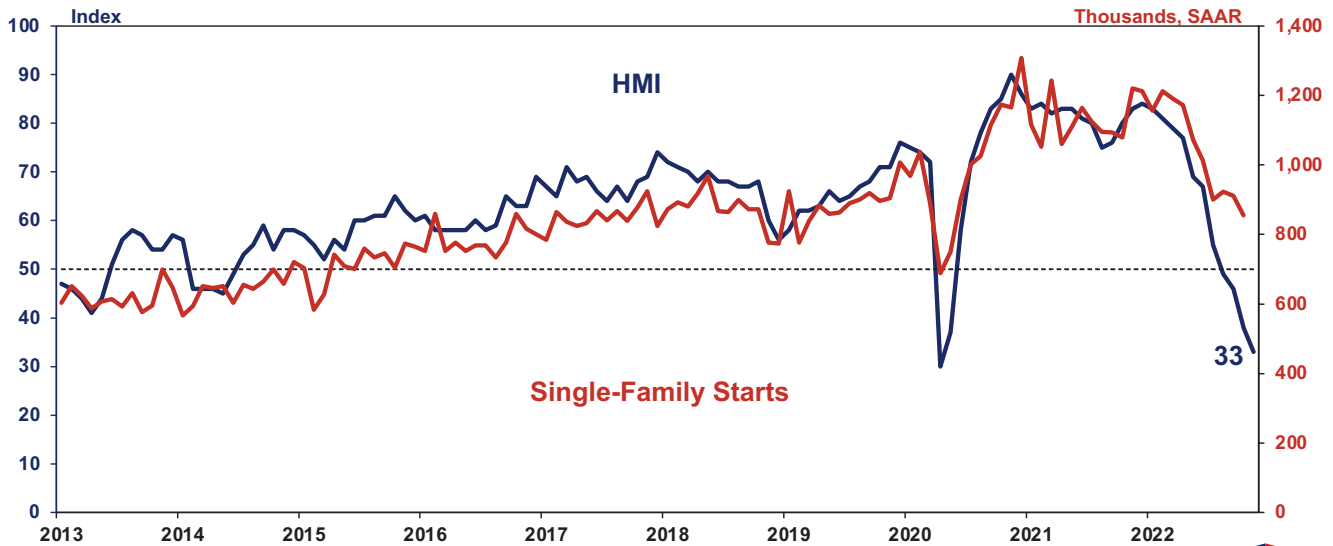


Housing Affordability Falling

Housing affordability fell to its lowest point since the Great Recession in the third quarter of 2022. According to the NAHB/Wells Fargo Housing Opportunity Index, just 42.2% of new and existing homes sold between the beginning of July and end of September were affordable to families earning the U.S. median income of \$90,000.

NAHB/Wells Fargo Housing Market Index (HMI)

Builder confidence fell for the eleventh straight month as housing weakness continues



Source: Census Bureau and NAHB/Wells Fargo HMI survey

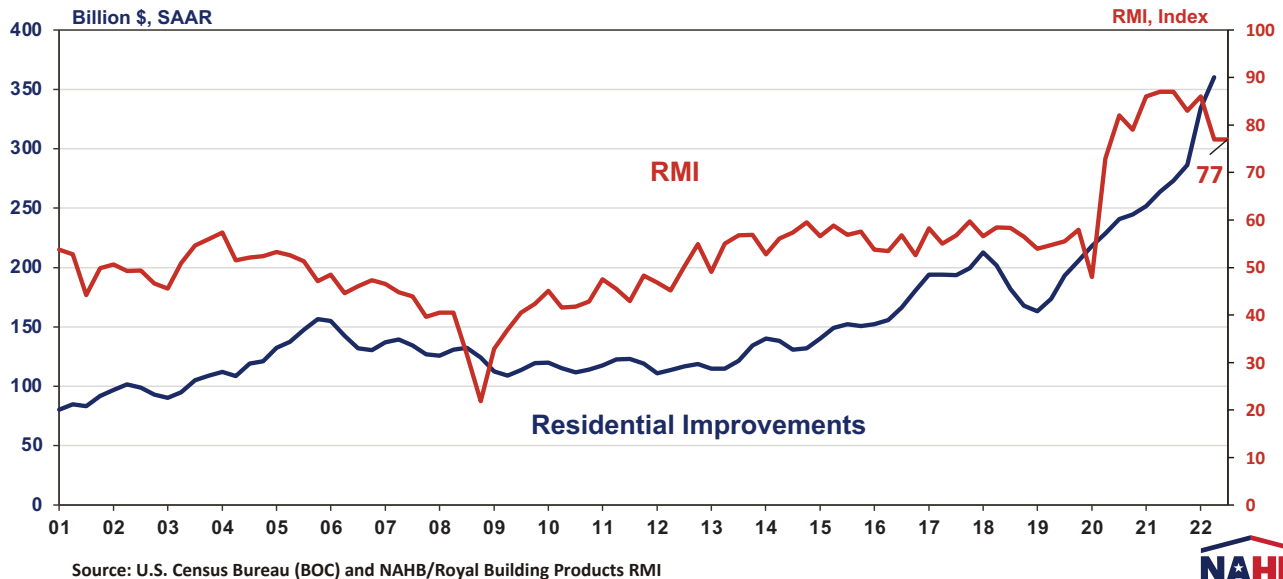


Builder Confidence Declines for 11 Consecutive Months

Builder confidence in the market for newly built single-family homes posted its 11th straight monthly decline in November, dropping five points to 33, according to the NAHB/Wells Fargo Housing Market Index. This is the lowest confidence reading since June 2012, excluding the reading at the onset of the pandemic in the spring of 2020.

NAHB/Royal Building Products Remodeling Market Index

Residential remodeler sentiment softened, but remains positive

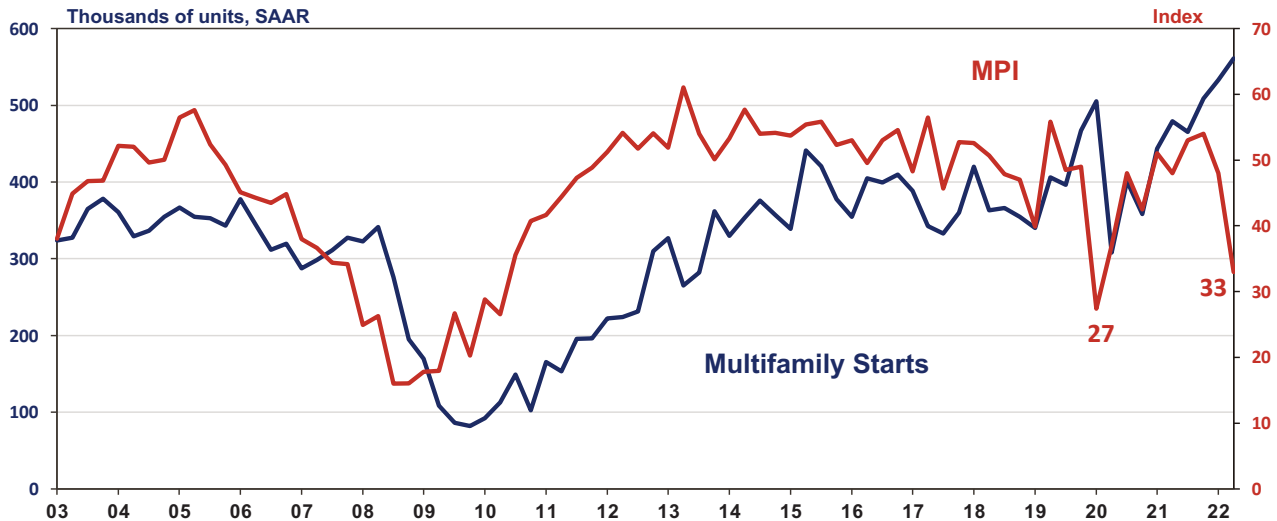


Remodeling Market Sentiment Softens But Remains Positive

The NAHB/Westlake Royal Remodeling Market Index (RMI) for the third quarter of 2022 posted a reading of 77, declining 10 points from the third quarter of 2021. The RMI is based on a survey that asks remodelers to rate various aspects of the residential remodeling market “good,” “fair” or “poor.” Responses from each question are converted to an index that lies on a scale from 0 to 100, where an index number above 50 indicates that a higher share view conditions as good than poor.

NAHB Multifamily Production Index

Multifamily construction sentiment turned downward, declines for 2023 signaled



Source: U.S. Census Bureau (BOC) and NAHB Multifamily Market Survey (MMS).



Multifamily Developer Confidence Declines Significantly in Third Quarter

Confidence in the market for new multifamily housing declined significantly in the third quarter of 2022, according to results from the Multifamily Market Survey (MMS) released Nov. 17 by NAHB. The MMS produces two separate indices. The Multifamily Production Index (MPI) decreased 10 points to 32 compared to the previous quarter while the Multifamily Occupancy Index (MOI) fell 15 points to 45.

Medium-Term Outlook for Residential Construction

2024

Fed will ease, interest rates will normalize

Single-family home building will lead a recovery

Demand will return, but supply-side issues will increase

- Lack of lots
- Concerns about AD&C financing
- Building materials constraints

2025 through 2030

Demographics yield a good runway for home building growth

Structural housing deficit will be reduced

Single-family home building volumes at or near 1.1 million per year

After 2030

Declining demographics weaken single-family and multifamily demand