

Special Report

US Housing Market Overview



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Executive Summary

In 2020, the COVID-19 pandemic gave rise to uncontrolled inflation. Prices of consumers goods, household items, and home construction related items grew significantly. The Russia-Ukraine war created disruptions in the supply chain in 2022. Unclear global economic conditions made a lot of construction workers look for newer opportunities, leading to supply crunch in manpower. Favorable mortgage rates in 2021 and the need to own a house became a priority post pandemic, leading to a huge demand in home purchases. All these macro economic conditions led to a rapid increase in home prices in the US.

In 2022, the US Fed took the necessary measures to control inflation by steadily increasing interest rates. The latest update on the Fed's preferred inflation indicator revealed that the core PCE inflation declined to 3.9% in Aug'23, in line with market expectations and the lowest since May'21. However, the broader PCE inflation increased to 3.5% in Aug'23, primarily due to the rise in oil prices.

The US 5-Year Forward Inflation Expectation Rate (T5YIFR) recently reached 2.48%, nearing its high level since Apr'22; it indicates that investors are anticipating a rise in inflation. In the Sep FOMC meeting, the Fed indicated that rates would remain “higher-for-longer” and the pivot in 2024 is anticipated to be softer than expected.

In Aug'23, the US new home sales declined 8.7% MoM to a seasonally adjusted annual rate of 675k units, below the market expectations of 700k units. At the same time, housing starts for Aug'23 dropped 11.3%. Building Permits rose 6.8% MoM to a seasonally adjusted rate of 1.541 million in Aug'23. US existing-home sales fell 0.7% MoM to a seasonally adjusted annual rate of 4.04 million units. The median price of new houses sold was US\$ 407,100, while the average sales price was US\$ 514,000. High cost of construction and rising mortgage rates, shortage of construction workers, insufficient buildable lots and ongoing shortages of distribution transformers froze builder sentiment in Aug.

Mortgage rates, which were below 3% in 2022, are now over 7%, pricing out prospective buyers. While surging interest rates have reduced affordability and consequently demand, supply has also reduced through the mortgage rate lock-in effect. Mortgage rates are expected to remain above 6% for the rest of 2023, keeping sales volume low.

Nevertheless, recent data suggest that competition in the housing market is easing faster than usual on the loosening of inventory and home prices ticking down in Sep as sellers slightly lowered their asking price. This report tries to illustrate the relationship between sector wise employment, home buying activity trend and the positive factors that can bolster the housing market.

The US Housing Market

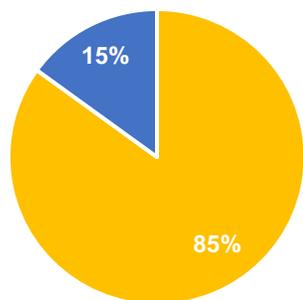
The US housing industry had seen quiet a boom in recent years, especially since the start of the pandemic. This was mainly driven by the increase in the number of new home constructions and favorable mortgage rates. Housing demand in the country was at an all time high in 2021.

Prices of the homes sold during the pandemic surged, given the increased demand for both existing and new homes. For new homes, the median sales price hit its highest at US\$ 493,000 in Oct'22. Thereafter, prices started declining but has remained over US\$ 400,000 till date.

The number of building permits in the country in Dec'21 & Dec'22 were ~1.7 million and 1.5 million, respectively. Mar'23 saw further decline by reaching nearly 1.3 million in the first quarter. Thereafter, demand has been 1.4–1.5 million until date.

The US housing market is mainly divided into two categories

Total US Homes Sales



■ Existing ■ New

New Home Sales

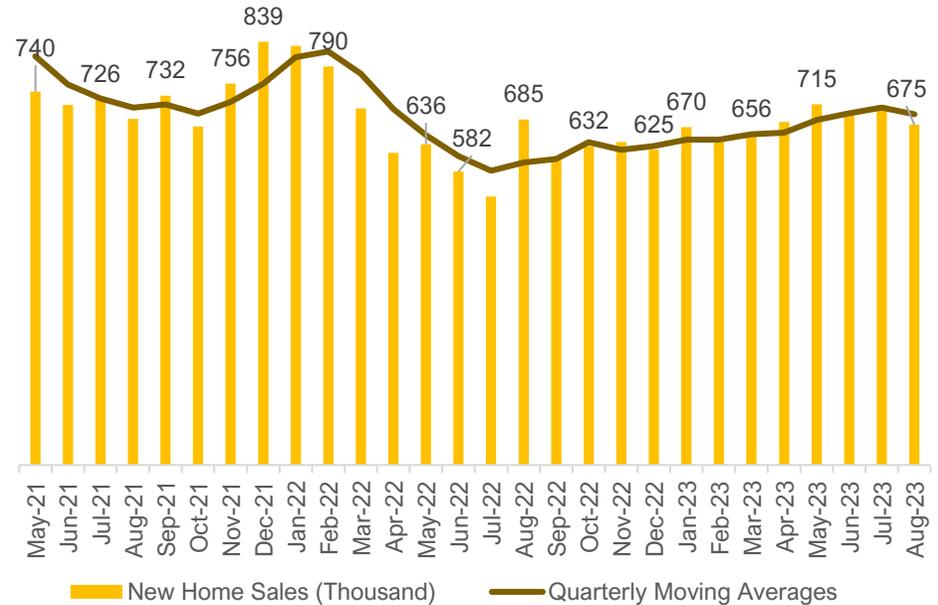
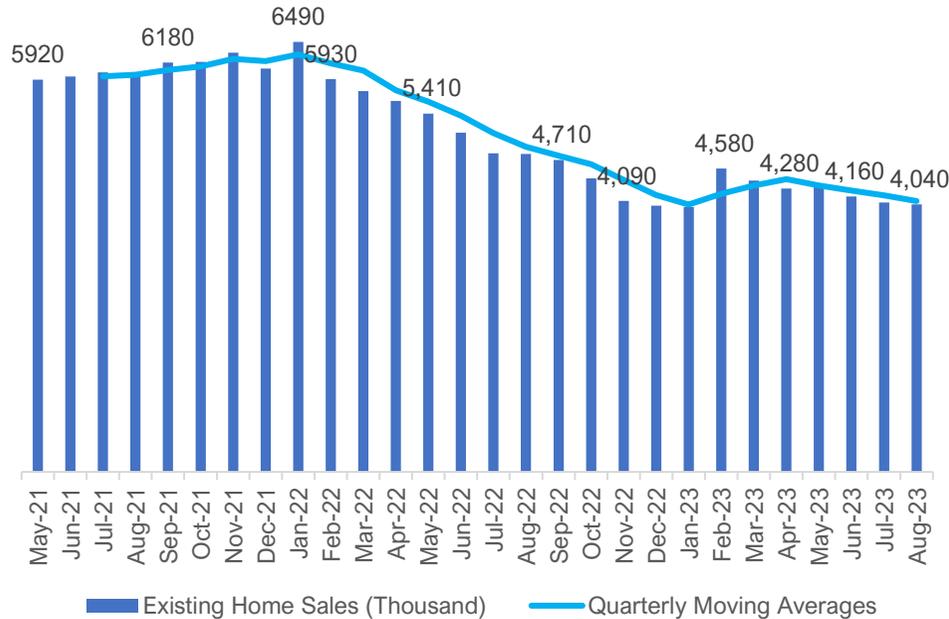
- Dec'21 & Dec'22 new home sales stood at 839,000 & 625,000 units, respectively.
- From the beginning of 2023, sales started to slowly rise and reached 675,000 units in Aug'23, up 4.4% from 625,000 in Jan'23.

Existing Home Sales

- A similar trend is seen across existing home sales with nearly 34% decline in Dec'22 from 6.09 million units in Dec'21.
- Sales reached 4.58 million units in Feb'23 but reduced to ~4 million units in the second half of 2023.

In the US, there is huge disparity in the share of sale of existing vs new houses. About 85% of the houses sold in the country are existing homes.

The Trend of Existing vs New Home Sales in the US

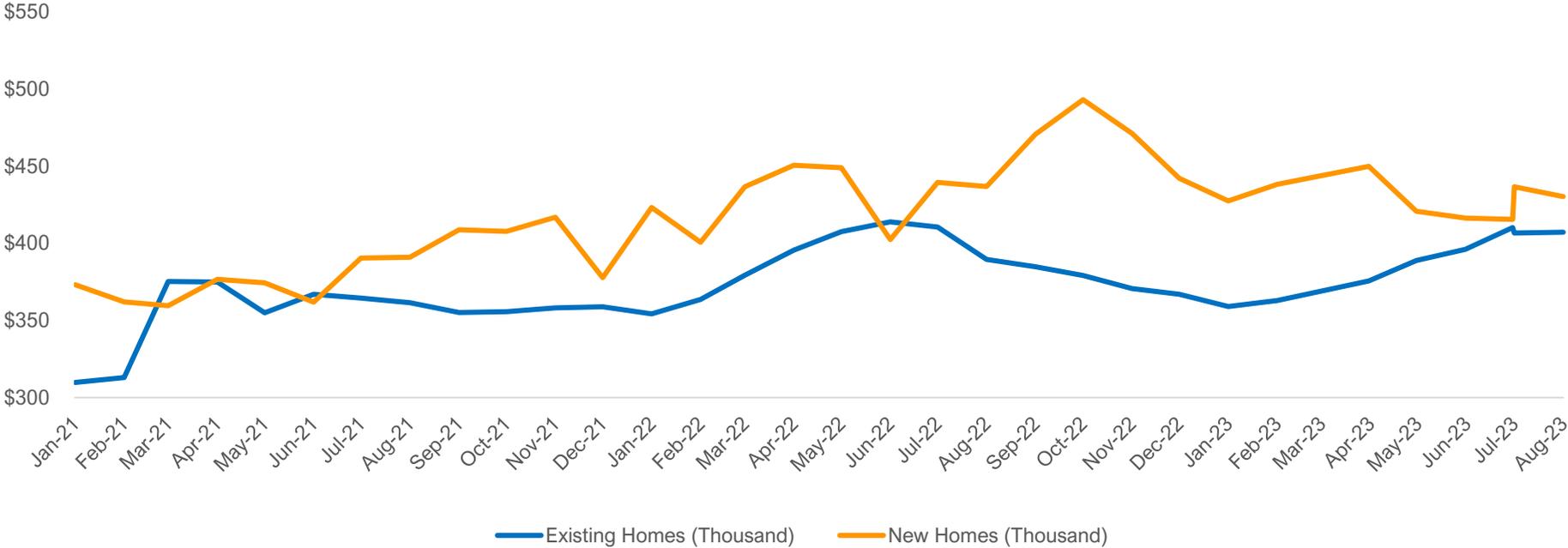


Home sale in the US was at its peak in 2021. Demand for houses increased significantly in 2020 and 2021. Thereafter, there was a decline in the sale of housing in 2022 due to several reasons. It started with the increase in raw material prices, making it more expensive to build houses, mainly driven by the pandemic and the Russia-Ukraine war disrupting the supply chain. At the same time, shortage of construction workers slowed down the construction of houses, increasing the turnover period for houses during the pandemic. Increase in the wages of workers pushed up overall costs further.

The Housing Market Index from the National Association of Home Builders dropped to 33 (lowest since Jun'12) in Nov'22 from 83 a year back. Conditions have improved to some extent in 2023 with the Sep'23 number at 45.

Source: National Association of Realtors, The U.S. Census Bureau, The U.S. Department of Housing and Urban

US Home Prices Hit Record Highs



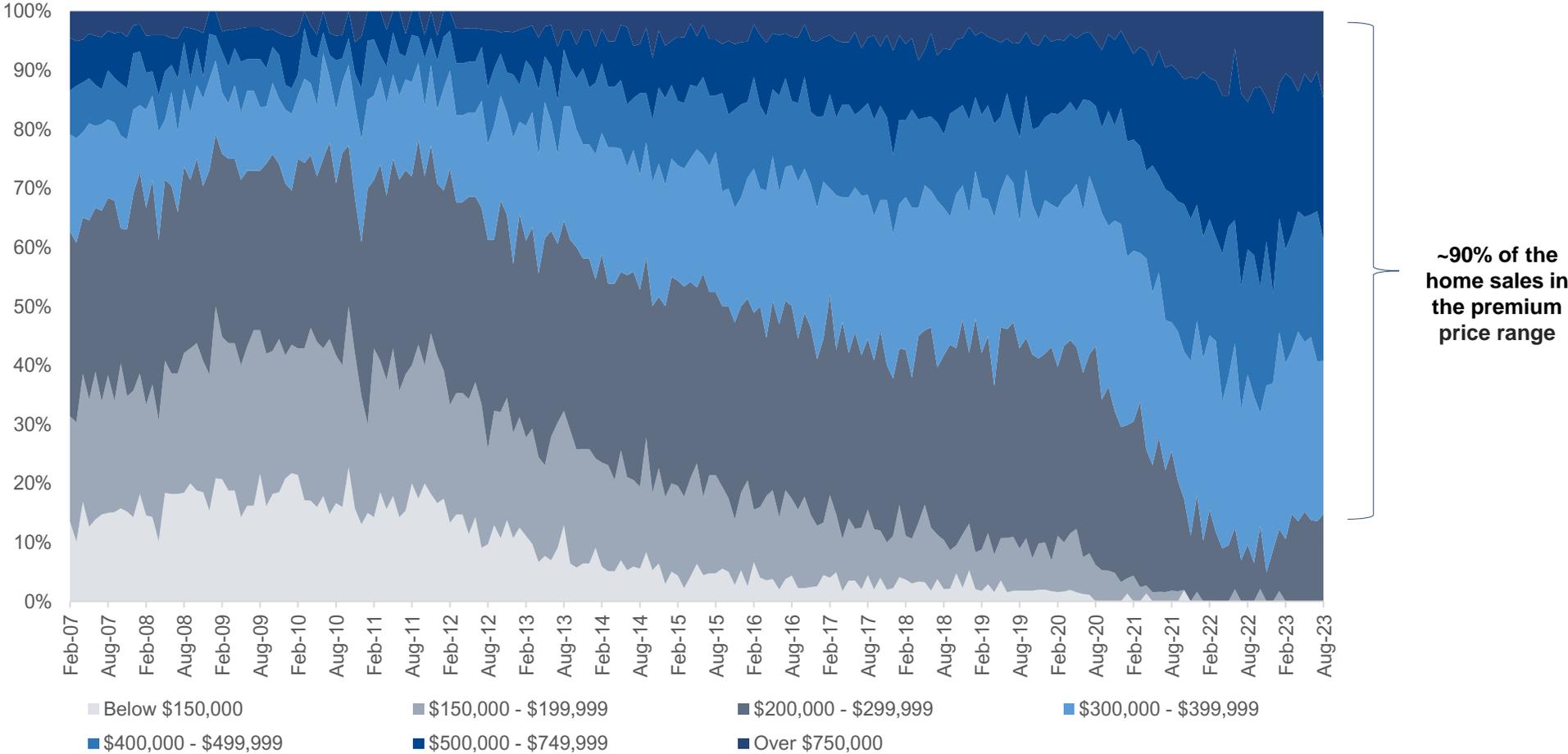
Median home prices hit record high in 2022 with new home prices at US\$ 493,000 in Oct and existing homes reaching a high of US\$ 413,800 in Jun'22. Spring home buyers pushed the single-family home prices up during the period.

The year 2023 saw a slight decrease in the prices of new homes while the existing homes witnessed an uptrend. Historically, existing home sale prices have always been lower than new homes. Homeowners are currently hesitant to list homes in the market to continue benefiting from the low interest mortgage availed under the lock-in-effect during the pandemic.

Source: National Association of Realtors, The U.S. Census Bureau, The U.S. Department of Housing and Urban

Shift of home sales trend toward expensive housing

Price Range Wise Home Sales (Thousand)



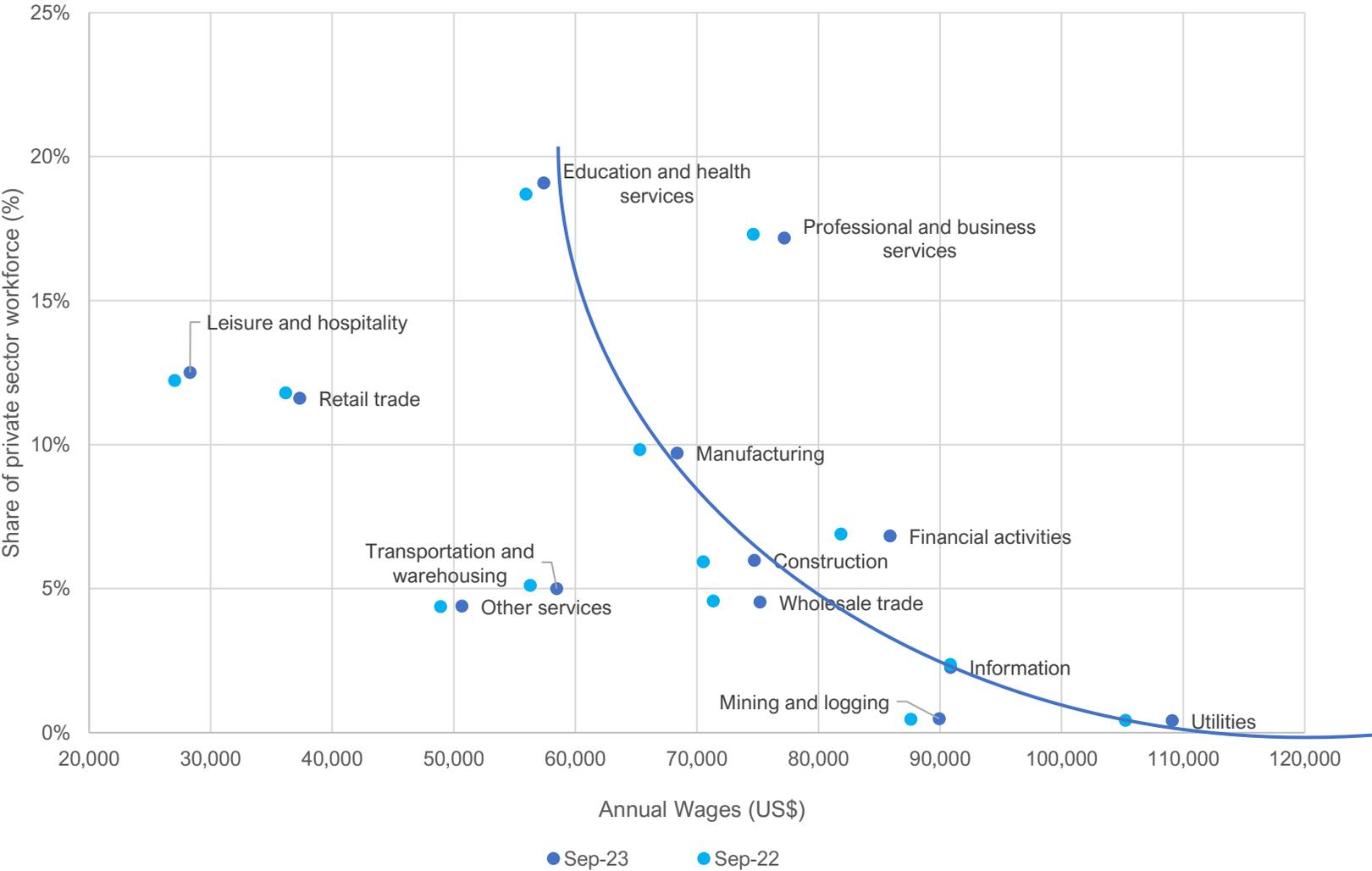
Source: Freddie Mac

Housing purchase trend shifts to premium housing from affordable housing

- The area graph on the last slide shows the shift of sale of homes in the US over the years in the mentioned price ranges.
- Before 2010, the US housing prices showed a trend where the affordable houses, i.e., below US\$ 300,000, held the maximum share of the housing sales. Houses sold over that range made up just about 35% of the total market share.
- After 2010, the trend started shifting toward premium housing. By 2015, houses below US\$ 150,000 made up barely 5%, down from about 20% in 2010.
- Houses above the price of US\$ 400,000, which contributed about 20% to sales between 2007 and 2011, started contributing more than 30% to total sales by 2015. After 2020, these houses together contributed nearly 70% to the total sale for the month. New houses in the price range above US\$ 400,000 contributed ~ 60% to total sales in Aug'23.
- From 2022 and present, premium houses (i.e., over the price range US\$ 300,000) dominate the US housing market, with nearly 90% of total sales coming from this category.
- As the entire world was pandemic stricken between 2020 and 2022 along with high mortgage rates, it surprising to see the impact of expensive housing on the overall market. This trend signifies a growing market of buyers in quest of more opulent and well-equipped homes.
- In the post-pandemic world, people realized that home is the most important asset in their armor and the biggest shield against any such natural calamity. The way people use and experience their homes evolved after the pandemic whereby the need for private spaces within families increased and so the size of homes. The sheer size of the luxury market is only going to grow exponentially, marking the start of a decadal cycle.

Source: Freddie Mac

Sector wise employment in the US



Source: U.S. Bureau of Labor Statistics

Trend of employment and wages in the US private sector workforce

- The chart on the previous page shows the private sector workforce scenario. The x-axis shows the approximate annual wages of the workforce in various sectors and the y-axis illustrates the sector-wise spread of the private sector workforce.
- The chart shows some of the top sectors in the US in terms of employment numbers and their respective wages.
- Out of these sectors, the top 5 together employed majority of the country’s workforce, i.e., about 55%, as of Sep’23.
- Below is a table displaying the share of employment in the top 5 sectors.

Sr. No.	Private Sectors	Share of workforce
1	Education & Health Services	19%
2	Professional & Business Services	17%
3	Financial Activities	7%
4	Manufacturing	10%
5	Information	2.3%
6	Others	44.7%
	Total	100%

Looking at the highest wages paying sectors, Education & Health Services sectors provide annual wages of US\$ 50,000+ and the remaining 4 (from the table above) provide annual wages between US\$ 60,000 and US\$ 90,000, among the highest in the overall sectors.

Source: U.S. Bureau of Labor Statistics

Factors likely to (positively/negatively) impact US Housing

Positive Factors

The US Fed is expected to start lowering the interest rate in 2024 considering the inflation/recession figures

Home buying for the past few years shows a shift toward premium housing

The ones who can afford premium housing (majority of home buyers in the US) may not be highly affected by increasing prices and mortgage rates

New home sales have been increasing steadily in 2023 despite rising prices and mortgage rates due to low supply of existing homes

Negative Factors

Hawkish stance of the US Fed with rapid mortgage rate increases could lead to a drop in housing demand

Recent layoffs in IT and other sectors are likely to impact the housing market and lower demand

Pandemic induced housing demand led to record breaking housing prices

Increase in the prices of construction material may impact housing prices even further

Rising employment in high paying sectors to bolster housing market

- The housing market in the US has witnessed a lot of unusual trends in the past two years with 2021 being a boom for housing and 2022 the start of decline.
- Rising mortgage rates, inflation, soaring housing prices, low housing inventory and more turnaround time for new home building impacted the US housing market.
- As a result of adverse economic conditions, the US housing market started witnessing a sharp decline in 2022 with sales continuing to decline in 2023.
- Coming to the analysis on the previous slides, a comparison of the area graph (showing price-wise US home sales trend) and the employment graph (displaying sector-wise employment) shows the relation between premium home purchases and higher employment in sectors with the highest wages.
- Those who are employed in high wage paying sectors can be said to be the driving force of the US home buying activity and the premium housing sales could be majorly led by these top sectors.
- With the US mortgage rates breaching 7% in 2023, sales of homes did not drop as aggressively as could have been expected. In fact, the existing homes remained in the average range while new homes sales saw a slight pick up in the second half of 2023.
- Even in times of recession, which is expected to hit the US in 2024, along with job losses, the housing market may not see a sharp decline due to the high-income earning population driving the home buying activity.

Top Home Builders in the US (1/2)

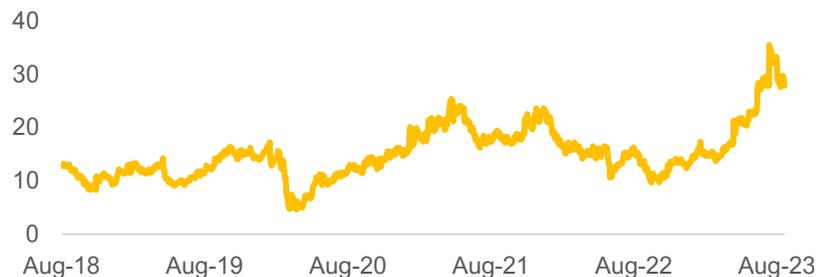
Company Name		Beazer Homes USA	Legacy Housing	Landsea Homes	M/I Homes
Financial Year End		Sep-22	Dec-22	Dec-22	Dec-22
Financial Info (US\$ mn)					
Revenue	Current	2,317	257	1,446	4,131
	FY23e	2,187	220	1,131	4,254
	FY24e	2,272	235	1,419	4,623
EBITDA	Current	290	80	115	677
	FY23e	255	75	64	NA
	FY24e	281	86	115	NA
PAT	Current	221	67	79	505
	FY23e	146	62	33	482
	FY24e	162	66	65	522

Top Home Builders in the US (2/2)

Company Name	Beazer Homes USA	Legacy Housing	Landsea Homes	M/I Homes
Stock Performance				
Stock Price (US\$)	27.74	18.62	5.83	46.55
YTD	(39%)	(27%)	(19%)	(23%)
1Y	(39%)	(25%)	(18%)	(25%)
5Y	(27%)	NA	NA	0

Stock Closing Price US\$

Beazer Homes



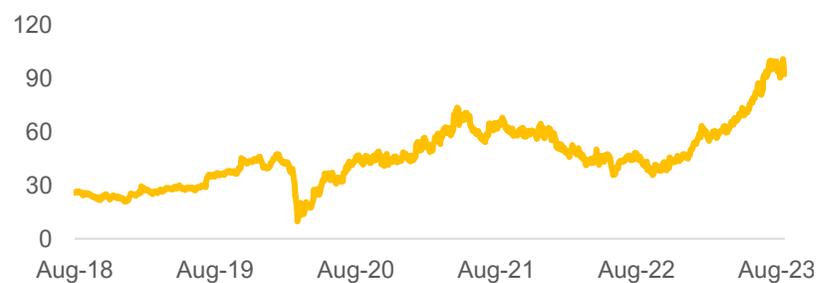
Legacy Housing



Landsea Homes



M/I Homes



Consensus Analyst View

Company Name	Beazer Homes USA	Legacy Housing	Landsea Homes	M/I Homes
Broker Views (Bloomberg)				
Buy	2	3	2	2
Hold	1	1	2	0
Sell	0	0	0	0
Average Target Price (US\$)	\$ 35.33	\$ 29.75	\$ 14.00	\$ 116.00
Valuation Ratios				
Forward P/E	5.72	9.06	7.29	5.18
Historical Average Forwards P/E (LTM)	7.53	7.53	11.45	4.86
Forward EV/EBITDA	6.97	9.16	10.22	7.13
Historical Average Forwards EV/EBITDA (LTM)	-	6.55	11.45	-

Source: Bloomberg

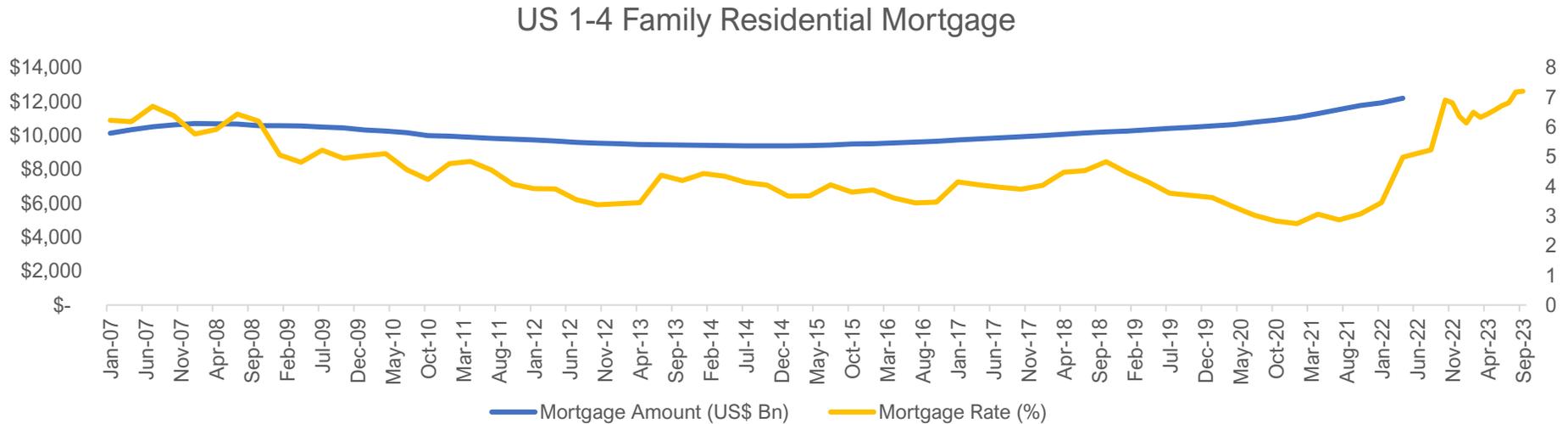
US Home Builders Industry ETFs

ETF	iShares US Home Construction ETF	Invesco Dynamic Building & Construction	SPDR S&P Homebuilders ETF
1 Year Returns	46.53%	33.48	33.52
3 Year Returns	20.58%	19.94%	20.45%
5 Year Returns	19.34%	14.03%	17.47%
Top Holding Companies under the ETF	D R Horton Inc Lennar A Corp NVR Inc Pultegroup Inc Home Depot Inc Lowes Companies Inc Sherwin Williams Toll Brothers Inc Topbuild Corp Masco Corp M/I Homes Inc Beazer Homes Inc UFP Industries Inc Eagle Materials Inc Louisiana Pacific Corp	NVR inc Lennar Corp Home Depot Inc Vulcan Materials Co Tractor Supply Co Lowe's Cos Inc Martin Marietta Materials Inc M/I Homes Inc Green Brick Partners Inc Skyline Champions Corp Tri Pointe Homes Frontdoor Inc	D R Horton Inc Lennar A Corp NVR Inc Pultegroup Inc Home Depot Inc Lowes Companies Inc M/I Homes Inc Century Communities Inc Floor & Décor Holdings Inc LGI Homes Inc Mohawk Industries Inc Carlisle Companies Incorporated

Source: Bloomberg

Appendix

Mortgage Rate Scenario in the US



During 2019, 2020 and 2021, an average 87% of the total new home sales were financed through conventional and Federal Housing Administrative (FHA). The conventional and FHA home buying basically means with a mortgage either from a private or government entity.

With rising inflation, the US Federal Reserve started increasing the repo rate. This led to a significant increase in the mortgage rates in the country, with the rates in Sep'23 reaching over 7%. This is more than a 35% increase from last year. Despite ultra-high mortgage rates and home prices, the market remains as competitive as ever due to demand levels surpassing the ongoing inventory crunch and homeowners who locked in low interest rates staying put. These and other factors perpetuate the perfect affordability crisis storm that continues to sideline many aspiring homeowners.

With expectations that the Fed will start lowering interest rates in 2024, the housing market could get some support and home buying activity could increase.

Source: Freddie Mac

Appendix

Price range wise share of home sales in the US

Particulars	Aug-07	Aug-08	Aug-09	Aug-10	Aug-11	Aug-12	Aug-13	Aug-14	Aug-15	Aug-16	Aug-17	Aug-18	Aug-19	Aug-20	Aug-21	Aug-22	Aug-23
Below \$150,000	15%	18%	22%	17%	20%	10%	13%	6%	5%	4%	4%	2%	2%	0%	0%	0%	0%
\$150,000–199,999	23%	24%	24%	25%	20%	16%	19%	14%	17%	13%	11%	8%	7%	6%	2%	0%	0%
\$200,000–299,999	30%	32%	27%	29%	32%	35%	32%	33%	31%	33%	29%	31%	34%	37%	24%	10%	15%
\$300,000–399,999	13%	13%	11%	13%	16%	16%	19%	19%	24%	24%	24%	25%	21%	26%	22%	29%	26%
\$400,000–499,999	8%	8%	8%	8%	8%	10%	10%	14%	10%	11%	16%	13%	14%	15%	22%	21%	20%
\$500,000–749,999	7%	3%	5%	4%	4%	10%	3%	8%	10%	11%	11%	15%	16%	11%	22%	25%	24%
Over \$750,000	3%	3%	3%	4%	0%	3%	3%	6%	5%	4%	4%	6%	5%	5%	9%	15%	15%
Total	100%																

Source: Freddie Mac



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