Five Market Drivers

1. Macro economy
2. Consumer
3. Housing sector
4. Head winds
5. Forecasts
1. Macro economy
Real GDP Growth

Picking up speed

Q/Q Percent Change, SAAR

2.4% 1.9% 3.7% 2.4%
Payroll Employment

US has nearly returned to peak, but is still 3% below trend

Jan 2008: 138.35
Feb 2010: 129.7
Mar 2014: 138.25

125
129
133
137
141
145

00 01 02 03 04 05 06 07 08 09 10 11 12 13 14

-3%

Trend in US Employment

Total US Employment

National Association of Home Builders
Unemployment Rate - slowly receding

Q4 2006: 4.4%
Q4 2009: 9.9%
Q1 2014: 6.6%
Q4 2015: 6.2%

Percent, SA

National Association of Home Builders
Relative Unemployment Rates

Younger unemployment near all

% 0.5 spread 2009 - 2011

2009 2010 2011 2012 2013 2014

25-34 All

6.8 6.7

National Association of Home Builders
Mortgage Rates
Expected to rise in the near-term

30-year FRM

1991 – 2001 Avg: 7.9%
2002 – 2007 Avg: 6.1%

3/14: 4.3%
12/15: 6.0%

Percent

National Association of Home Builders
Consumer Confidence Returns
Back to pre-recession levels

Index

University of Michigan

Conference Board

05 06 07 08 09 10 11 12 13 14

0 20 40 60 80 100 120

National Association of Home Builders
Motor Vehicle and Home Furnishing Sales
Other Durable Sectors Rising Steadily

Billion 2009$, SAAR

Motor Vehicles

Home Furnishings

National Association of Home Builders
Household Balance Sheets

Debt and savings closer to long term averages

Debt-to-Income
AVG = 4.6%

Savings Rate
Household Formations Are on the Rise

Year-over-year change in households rising again

Thousands

Avg: 1.4 million (12% renters)

Avg: 0.5 million (130% renters)

Avg: 0.6 million (126% renters)
Share and Excess Number of Young Adults with Parents

- Share w/parents: 11.1% in 1990, 19.3% in 2012
- Number above trend: 1990: 500,000, 2000: 1,000,000, 2010: 1,500,000, 2012: 2,000,000

Source: National Association of Home Builders
3. Housing sector
Home Sales Volume

New homes have more ground to make up

- Chart showing the sales volume of existing and new homes from 1990 to 2013.
- The red line represents existing homes, and the blue line represents new homes.
- The data is measured in thousands (000s).

National Association of Home Builders
New Homes Share of Sales

New homes half historic share of sales

Avg=16.1%
Existing Home Turnover Rate

Current turnover lower than normal

2001 2003 2005 2007 2009 2011

6% 6% 7% 6% 5% 4%
Cumulative Lost Existing Sales

Substantial pent up sales

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>0</td>
<td>500,000</td>
<td>1,000,000</td>
<td>1,500,000</td>
<td>2,000,000</td>
</tr>
</tbody>
</table>

National Association of Home Builders
Housing – Prices (and equity) rising
To-Date House Price Change

Significant state variation in price recovery (2013Q4 relative to peak)
House Prices Return to Normal (and then some)

House Price-to-Income Ratio

Long-term: 3.2
Peak: 4.7
Current: 3.7

US: $4.7/3.2 = 150\%$

National Association of Home Builders
House Prices and Income
Trend, Peak and Current

Percentage of Historical Trend

- Peak
- Current

National Association of Home Builders
Housing – Low inventories

Jan 2009: 12.2

Aug 2010: 11.8

Jan 2009: 12.2

Aug 2010: 11.8

5.2

4.9

Jan-03  Jul-03  Jan-04  Jul-04  Jan-05  Jul-05  Jan-06  Jul-06  Jan-07  Jul-07  Jan-08  Jul-08  Jan-09  Jul-09  Jan-10  Jul-10  Jan-11  Jul-11  Jan-12  Jul-12  Jan-13  Jul-13  Jan-14

New

Existing

National Association of Home Builders
Affordability Remains High
NAHB/Wells Fargo Housing Opportunity Index Index

40.4
65

Better  Worse

04 05 06 07 08 09 10 11 12 13
Rates (inverted) & New Home Sales
Still room for higher rates & more sales
Head winds

Lot supply
Labor supply
Credit availability
Market demand
Lot Supply
Builders reporting low or very low supply


Low/Very low

%
Lot Supply

Shortage indicators rise and fall with level of starts, except most recently
Subcontractors in Some or Serious Shortage - Up from trough but not to boom levels

%
Consumer Credit
Some relaxation

Source: Federal Reserve Bank of New York, Federal Reserve Board, and FNMA.
AD&C Access
Improved access for builders

Fed SLOS*

NAHB

*SLOS – Senior Loan Officer Survey

National Association of Home Builders
Most Common Buyer Concerns

- Buyers worried about employment/economic situation
- Buyers have trouble selling existing homes
- Buyers unwilling to pay enough to cover current construction costs
- Existing home prices more competitive
Reasons Home Buyers Holding Back – Significant improvement

- Buyers worried about employment/economic situation
- Buyers have trouble selling existing homes
- Buyers think they can’t qualify for a mortgage
- Media reports are making buyers more cautious

[Graph showing trends from May 2008 to April 2014]
Reasons Home Buyers Holding Back - Less important

- Buyers think they can't qualify for a mortgage
- Media reports are making buyers more cautious
- Government proposals to restrict housing support
- Buyers believe their student loan debts are too large
Forecasts
Remodeling Market Index (RMI)

Has remained above 50 for the past year
Residential Remodeling

Billions 2009 $, SAAR

<table>
<thead>
<tr>
<th>YR</th>
<th>4Q/4Q Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>4.5%</td>
</tr>
<tr>
<td>2012</td>
<td>3.4%</td>
</tr>
<tr>
<td>2013</td>
<td>0.6%</td>
</tr>
<tr>
<td>2014</td>
<td>3.8%</td>
</tr>
<tr>
<td>2015</td>
<td>2.4%</td>
</tr>
</tbody>
</table>
Multifamily Production Index
2 years at or above 50

NAHB MMI (L)
5+ Starts (R)

National Association of Home Builders
Multifamily Housing Starts
Healthy Response from Growth in Renters

Trough to Current:
- 4th Q 09 = 82,000
- 1st Q 14 = 318,000
  +287%

76% fall

Avg=339,000

1995-2003  |  331,000  | "Normal"
2010      |  114,000  |
2011      |  178,000  | 56%
2012      |  247,000  | 39%
2013      |  308,000  | 25%
2014      |  331,000  | 8%
2015      |  358,000  | 8%

2014Q1: 96% of "Normal"

2015Q4: 110%
Builder sentiment dips below 50, but improved from recession depth

NAHB/Wells Fargo Housing Market Index

Single-family starts (R)

HMI (L)
Existing and New Home Sales – Expected to Rise

New (L)

Existing (R)

Millions

0.00 0.25 0.50 0.75 1.00 1.25 1.50

00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15

Years

Millions

0.00 0.25 0.50 0.75 1.00 1.25 1.50 2.00 2.50 3.00 3.50 4.00 4.50 5.00 5.50 6.00 6.50

National Association of Home Builders

NAHB
Single-Family Starts – Beginning a Recovery

Thousands of units, SAAR

<table>
<thead>
<tr>
<th>Year</th>
<th>Starts</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2003</td>
<td>1,343,000</td>
<td>&quot;Normal&quot;</td>
</tr>
<tr>
<td>2010</td>
<td>471,000</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>434,000</td>
<td>-8%</td>
</tr>
<tr>
<td>2012</td>
<td>537,000</td>
<td>24%</td>
</tr>
<tr>
<td>2013</td>
<td>621,000</td>
<td>16%</td>
</tr>
<tr>
<td>2014</td>
<td>760,000</td>
<td>22%</td>
</tr>
<tr>
<td>2015</td>
<td>1,180,000</td>
<td>55%</td>
</tr>
</tbody>
</table>

Trough to Current:
Mar 09 = 353,000
Mar 14 = 635,000
+80%

2000-2003: 80% fall

2015Q4: 93%

2014Q1: 45% of "Normal"
Recovery Will Vary By State

Housing Starts / Average 2000-03 Starts

National Average will be 70% of normal by 2014Q4 and 93% of normal by 2015Q4.

- **2015Q4**
- **2014Q4**

Source: US Census Bureau
This map shows how the states rank in the return to more normal levels of housing production. By the end of 2015, the top 40% will be back to normal production levels. The bottom 20% will be below 80% of normal production.
Focus When Shopping
Collective and Carpeting

**Collective**
- Quality: 50%
- Appearance: 24%
- Features: 8%
- Warranty: 7%
- Upgrade price: 6%
- Brand name: 5%

**Carpet**
- Quality: 53%
- Appearance: 33%
- Warranty: 3%
- Upgrade price: 5%
- Features: 2%
- Brand name: 4%

Source: What Home Buyers *Really* Want, NAHB
What Rooms Are in New Homes?

Source: NAHB Special Study, August 2013
How Big are the Rooms?

In square feet

Source: NAHB Special Study, August 2013
Rooms Included in a Great Room

Source: NAHB Special Study, August 2013
Questions?
Answers:
www.housingeconomics.com
eyeonhousing.org
dcrowe@nahb.org