

REAL ESTATE MARKET UPDATE: Economic Outlook for Metro DC Real Estate 2022 And Beyond

Appraisal Institute, Washington, DC



4/26/2022

Dan Fulton

Senior Vice President

dfulton@zondahome.com

Agenda

- Economic Conditions
- Builder Sentiment
- Home Value Analysis
- Housing Market Performance



Moving parts

- A war in Ukraine
- Stock market volatility
- A (sometimes) inverted yield curve
- 40 year high in inflation with geopolitical influences
- Fastest jump in oil prices on record
- New aggressive Fed policy domestically
- Recent spike in mortgage rates
- Strong housing demand
- Robust labor market



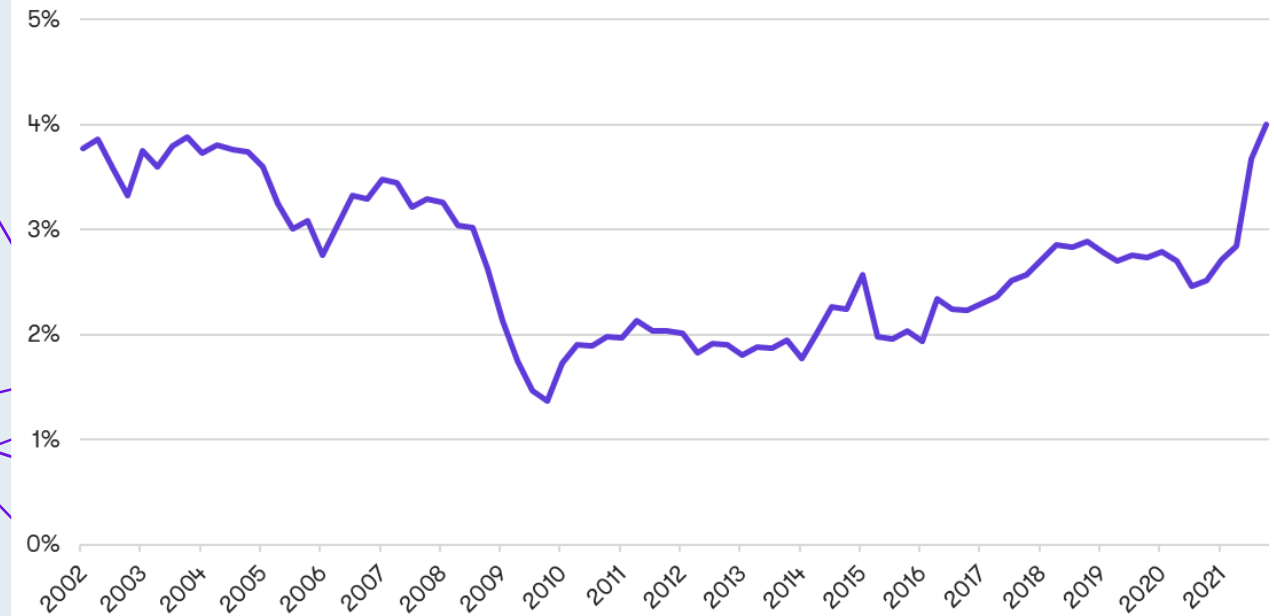
Those that want jobs have jobs

Unemployment Rate and High Income Recovered

Metro	Unemployment Rate	High Income Percent Recovered
Austin	3.3%	117%
Dallas	4.2%	109%
Jacksonville	3.0%	108%
Tampa	3.2%	107%
Raleigh	3.3%	107%
Nashville	2.9%	106%
Miami	3.7%	106%
Atlanta	3.2%	105%
Indianapolis	2.4%	105%
Seattle	3.9%	104%
San Antonio	4.5%	104%
Orlando	3.8%	104%
Denver	4.3%	103%
Charlotte	3.9%	103%
San Diego	4.9%	103%
Salt Lake City	2.4%	103%
San Francisco	4.3%	101%
Houston	5.3%	100%
Washington, DC	4.3%	99%
Los Angeles/OC	6.5%	98%

Source: BLS; Zonda

Employment Cost Index: Total Compensation

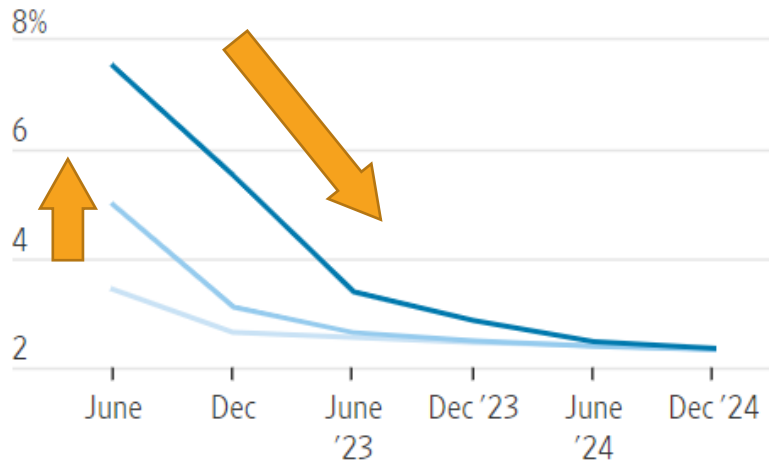


Source: Bureau of Labor Statistics; Zonda

Wage-Price Spiral

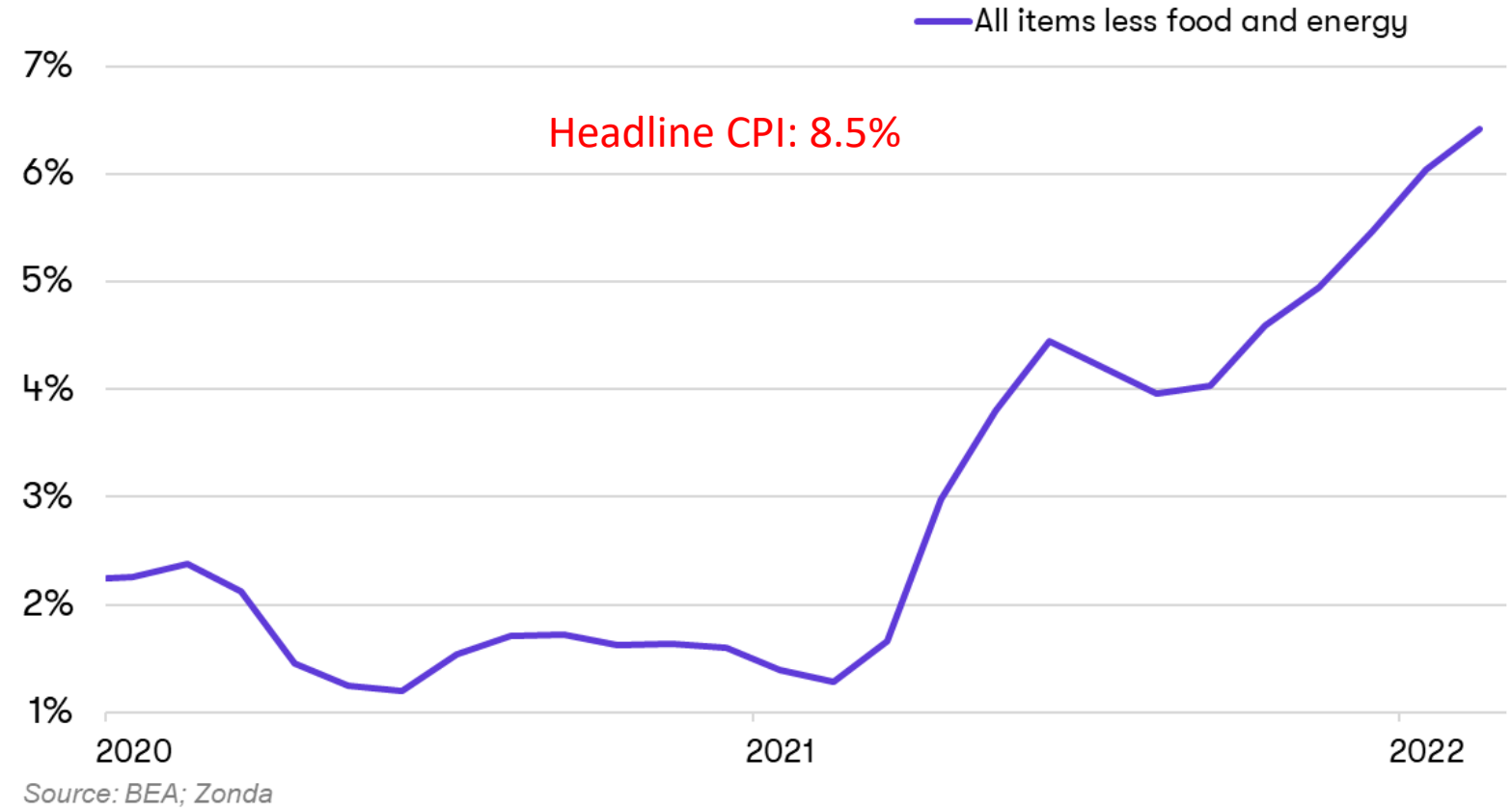
Consumer-Price Index, forecasted year-over-year percentage change

■ Apr '22 forecast ■ Jan '22 forecast
■ Oct '21 forecast

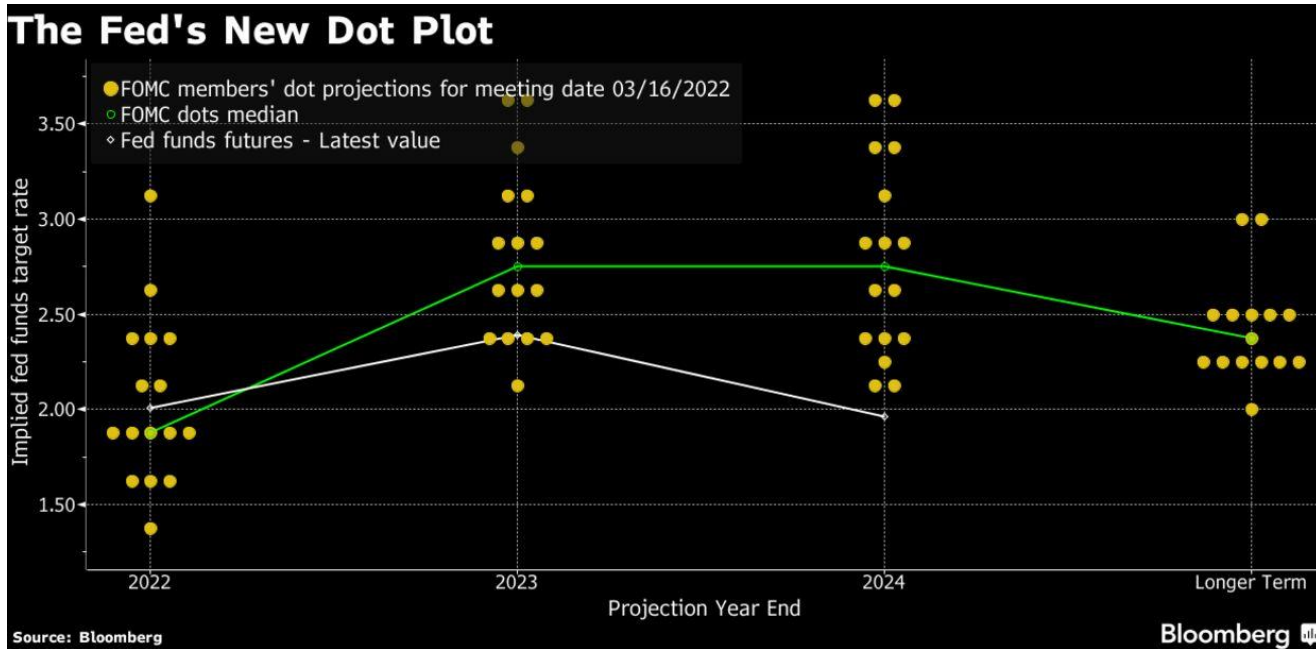


Source: Wall Street Journal surveys of economists

Core CPI YOY

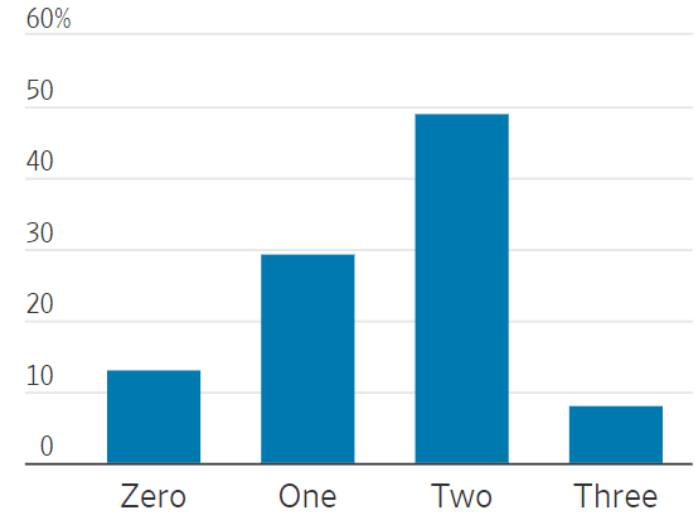


An attempt to intentionally slow the strong economy



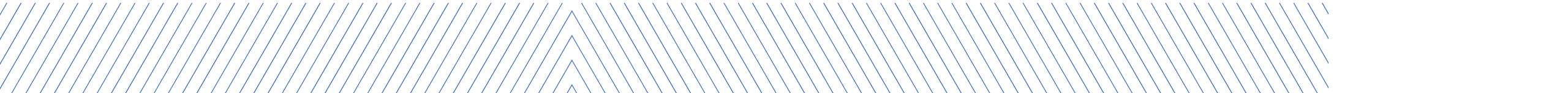
“If we think it’s appropriate to raise [by a half point] at a meeting or meetings, we will do so”

Percentage of economists by the number of 50 basis-point interest rate increases they expect in 2022



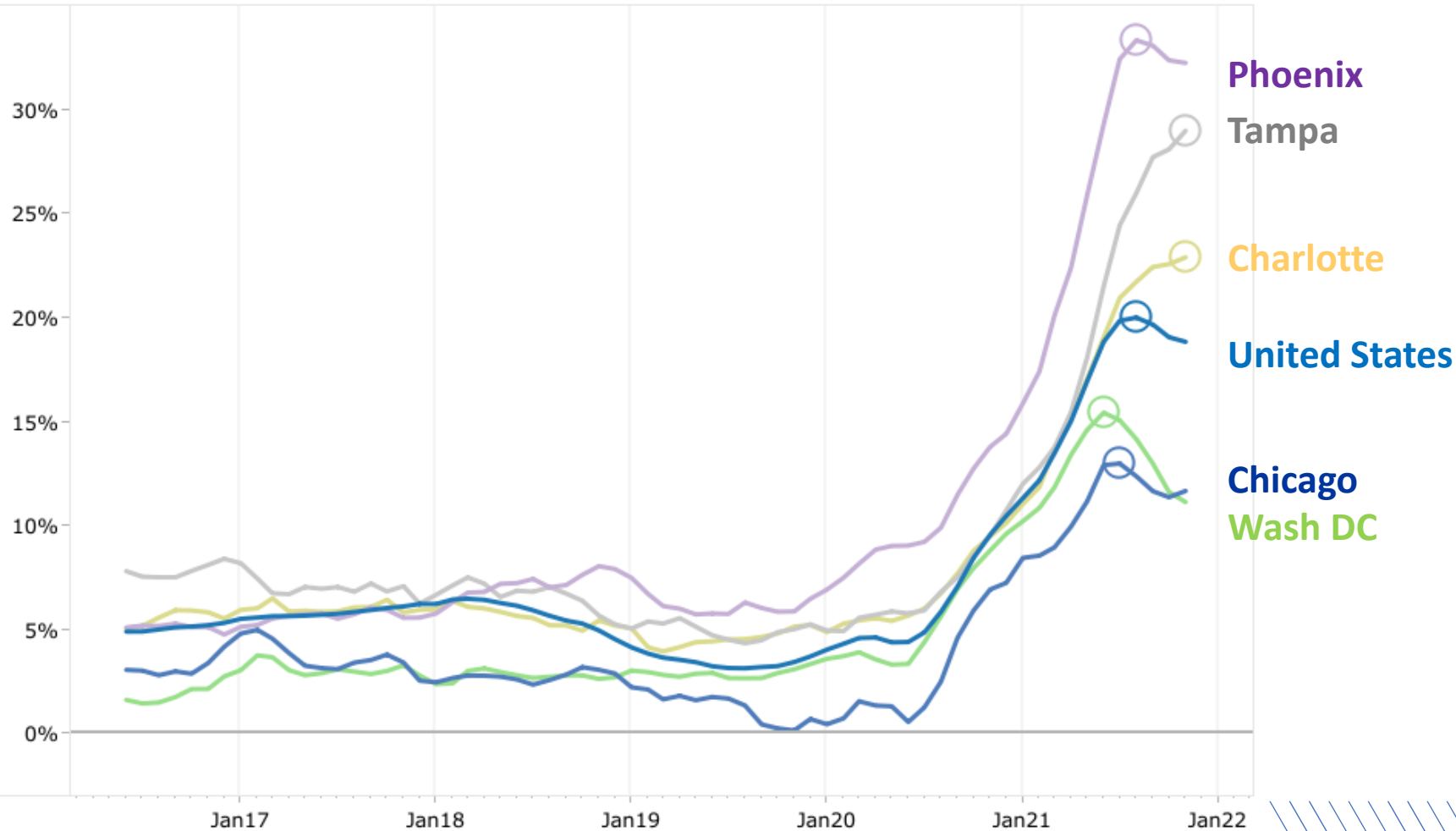
Source: Wall Street Journal survey of economists, April 1-5, 2022

Hard or soft landing?



Home Value to Income Analysis

Case Shiller Home Price Index Y-O-Y Percentage Change (Dec)



Slow and steady price appreciation provides more certainty

Home Prices up Nearly 20% YOY

Home Value Appreciation by Metro

Metro	Bottom Tier	Middle Tier	Top Tier
Austin	48%	45%	46%
Raleigh	33%	33%	32%
Phoenix	32%	31%	32%
Tampa	32%	31%	32%
Dallas	27%	28%	29%
Charlotte	29%	29%	27%
Orlando	26%	27%	27%
Seattle	23%	24%	24%
Denver	22%	24%	23%
Indianapolis	21%	20%	20%
Los Angeles/OC	18%	19%	19%
Houston	20%	20%	19%
Washington, DC	12%	12%	12%

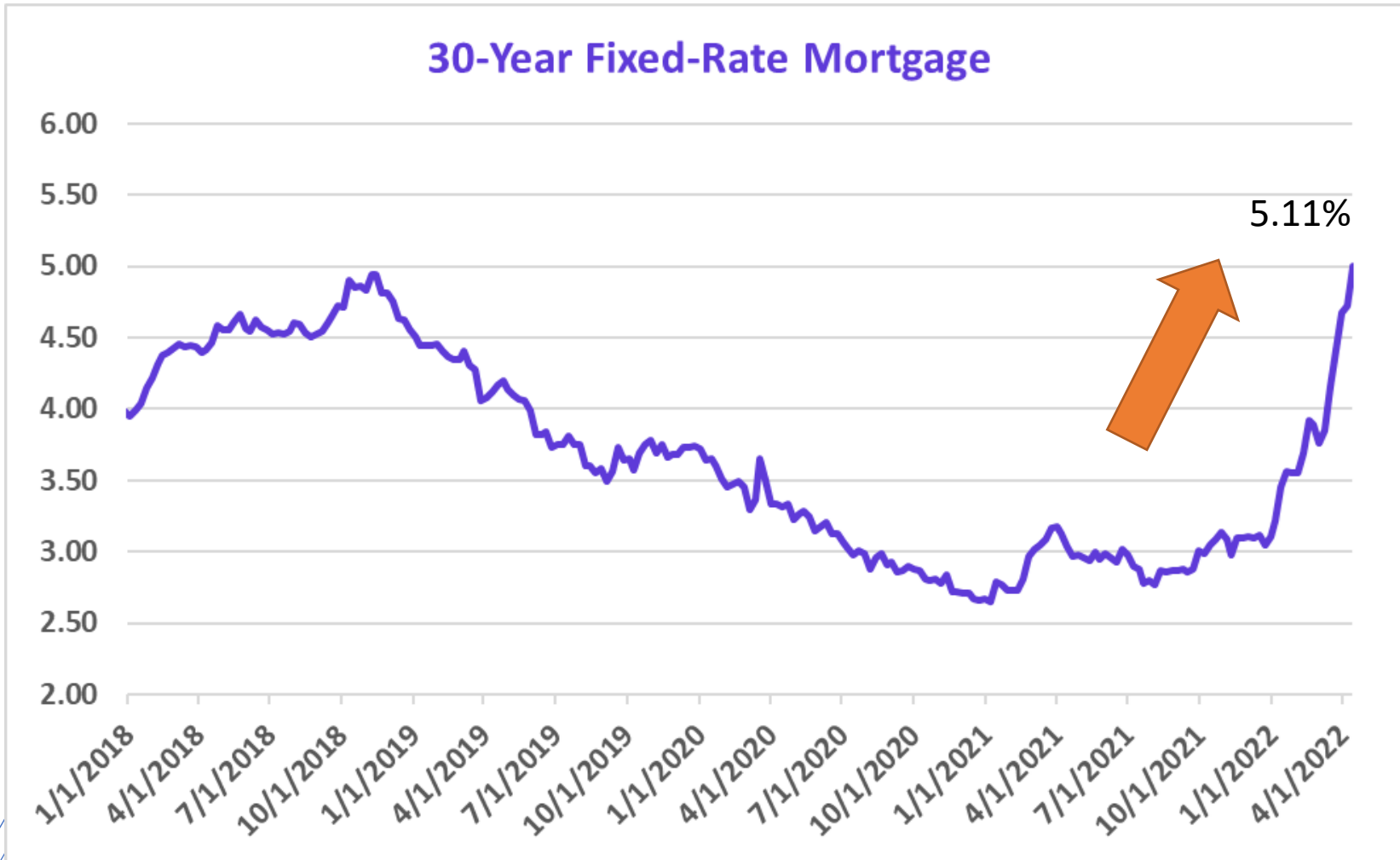
Source: Zillow; Zonda

New Home Price Appreciation by Tier

Metro	Entry Level YOY	Move Up YOY	Luxury YOY
Seattle	16%	25%	29%
Dallas	15%	24%	28%
Los Angeles/OC	12%	21%	23%
Tampa	30%	25%	23%
Phoenix	23%	23%	23%
Charlotte	15%	20%	20%
Denver	13%	16%	17%
Orlando	22%	23%	17%
Indianapolis	21%	21%	15%
Raleigh	12%	17%	15%
Austin	28%	27%	11%
Houston	18%	18%	10%
Washington, DC	13%	9%	-3%

Source: Zonda

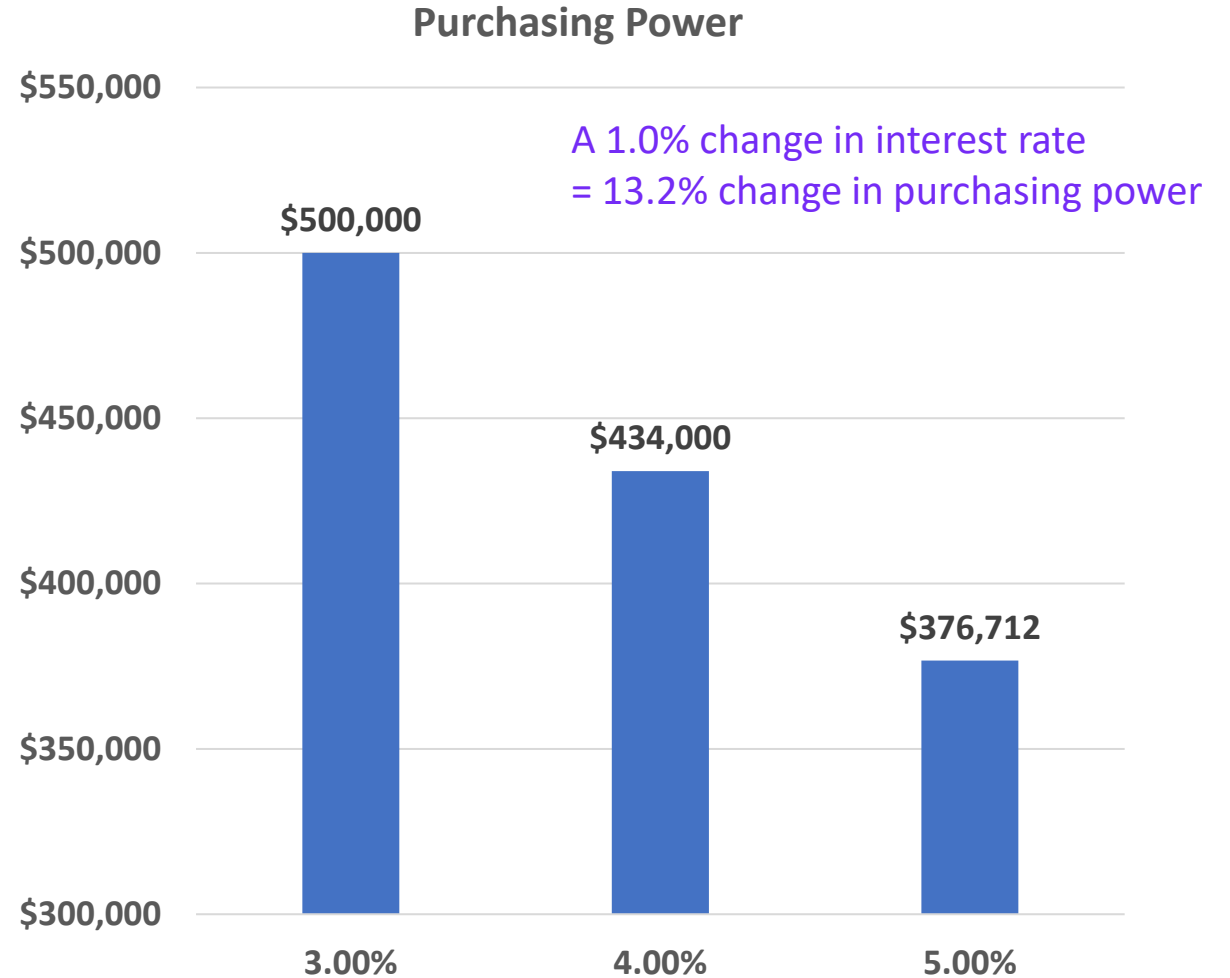
30-Year Fixed Mortgage Rates



Lock-In Effect

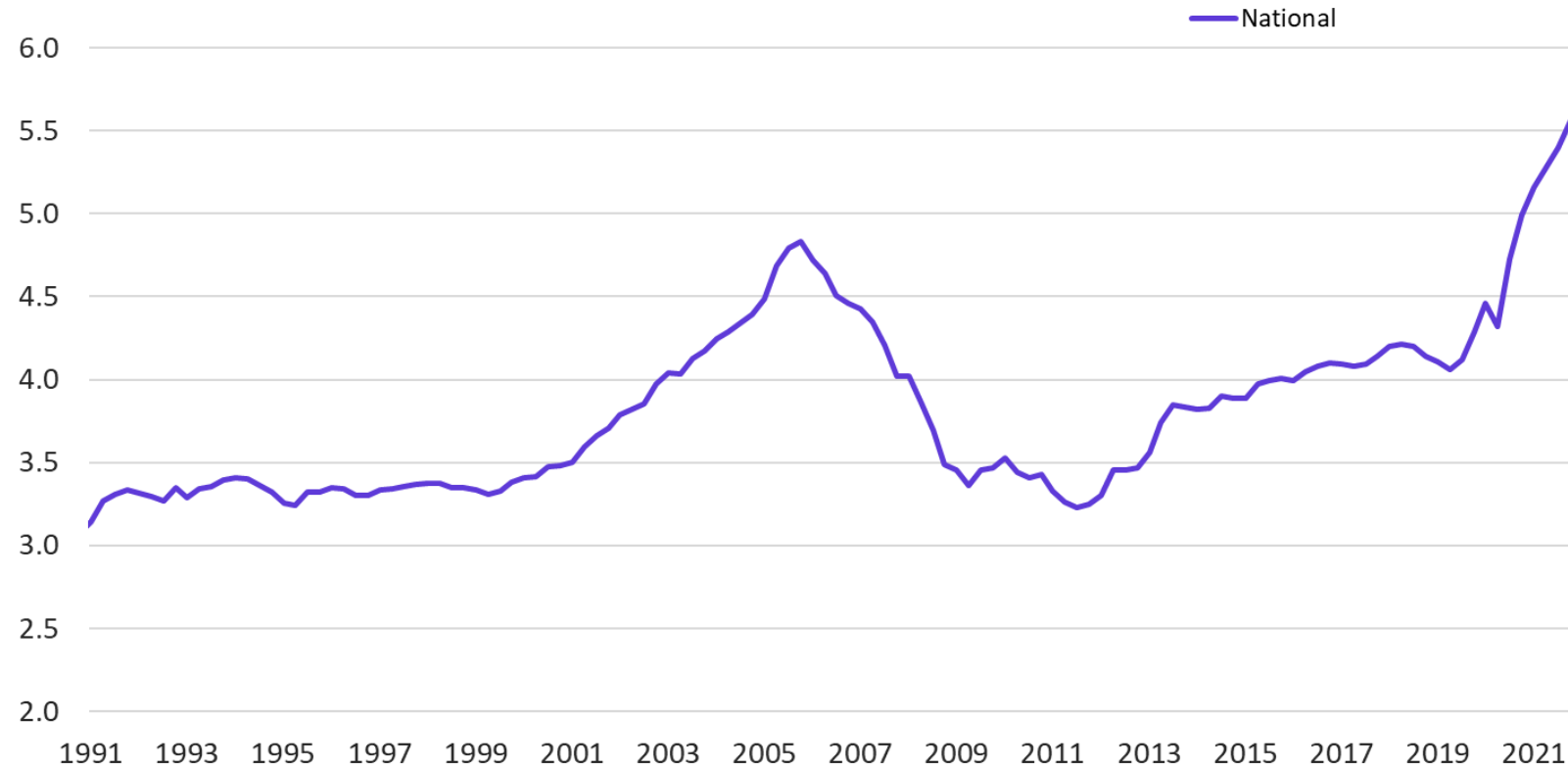
As rates rise, households will be locked into low-rate mortgages

The impact is significant for some buyers



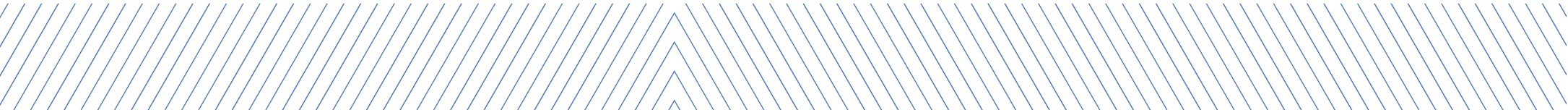
Home price to income levels are noteworthy

Historical Median Resale Single-Family Price to Income Ratio



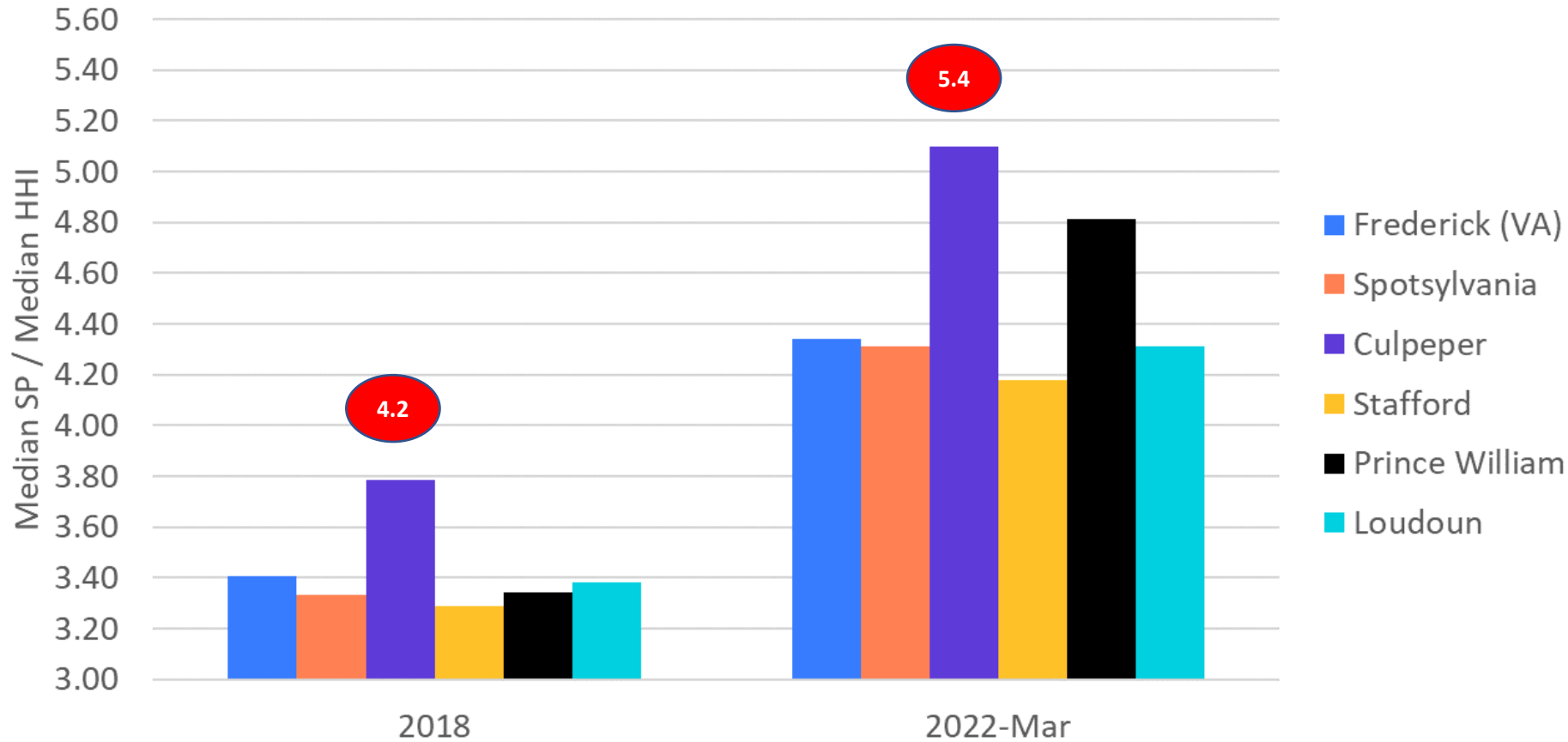
The Price-to-income ratio has reached 30-year highs

Source: NAR; US Census Bureau, Moody's Analytics; Zonda



Area home values are more affordable than national average

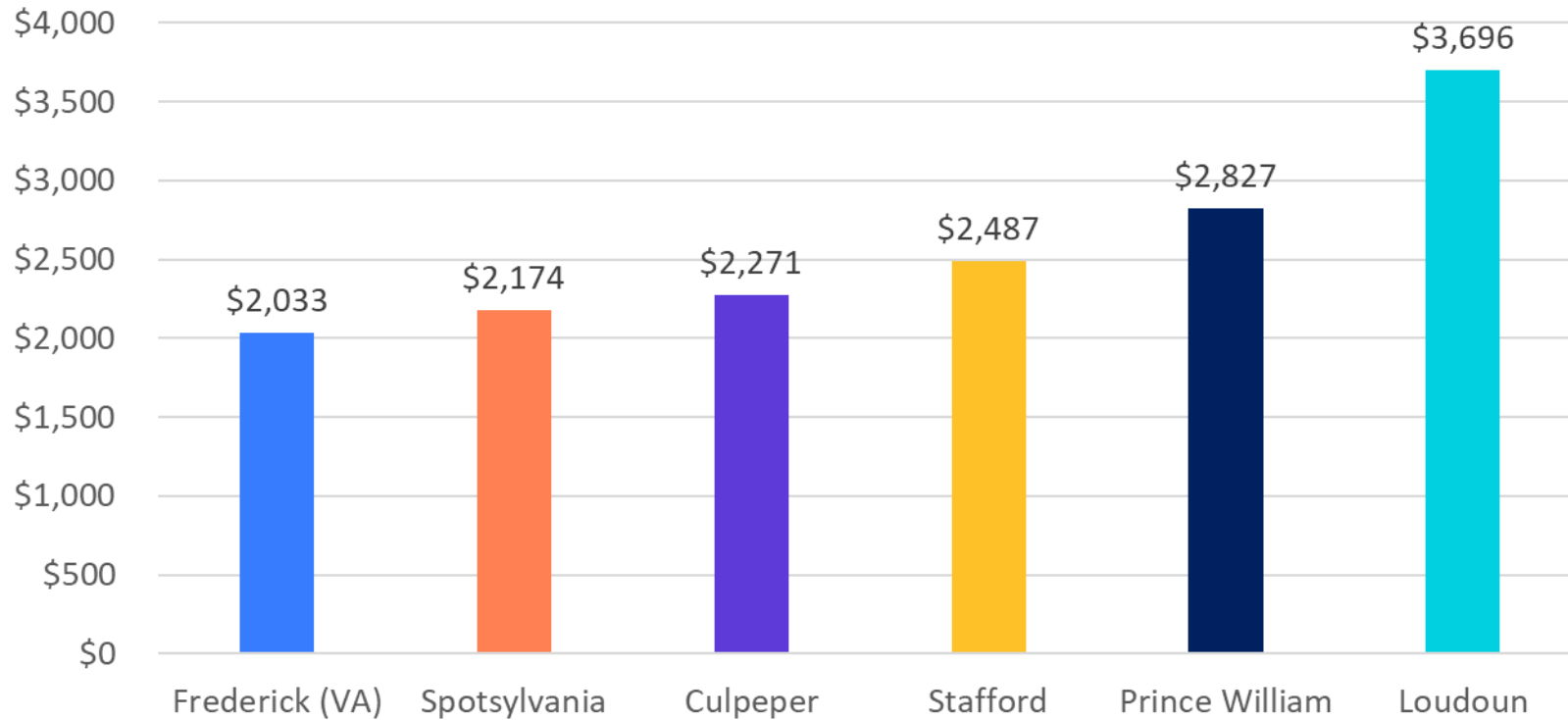
Median Sale Price to Median HHI Ratio



Worsening affordability creates need for missing middle housing

P&I Payment on Median Sales Price

Monthly Payment for Resale Median Sales Price
March 2022

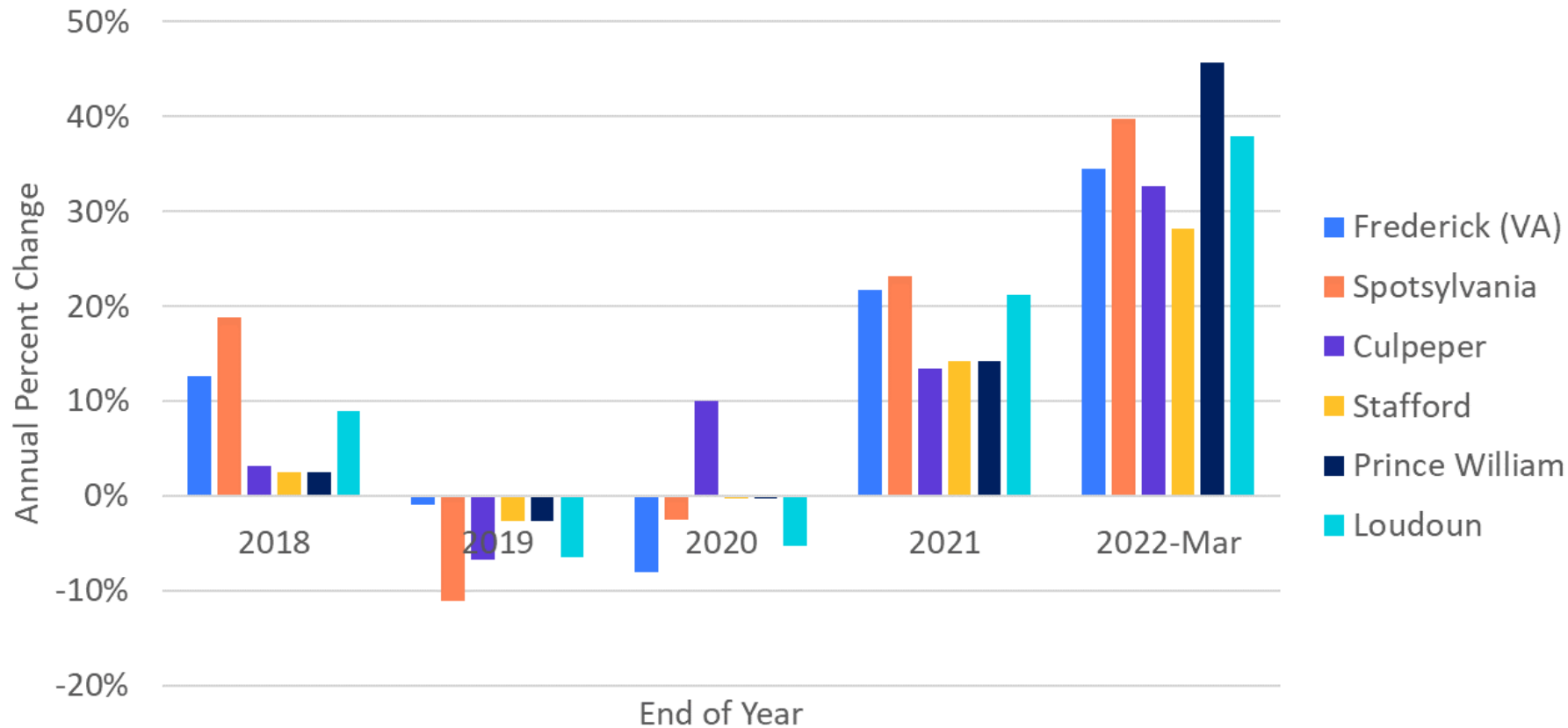


5.11% Interest Rate
on 30-yr Fixed Rate
Mortgage

County	Median SP
Frederick (VA)	\$381,683
Spotsylvania	\$382,225
Culpeper	\$411,438
Stafford	\$414,319
Prince William	\$450,625
Loudoun	\$592,750

Monthly Payments grew 30% to 40% over last 12 months

Annual Payment Change by County

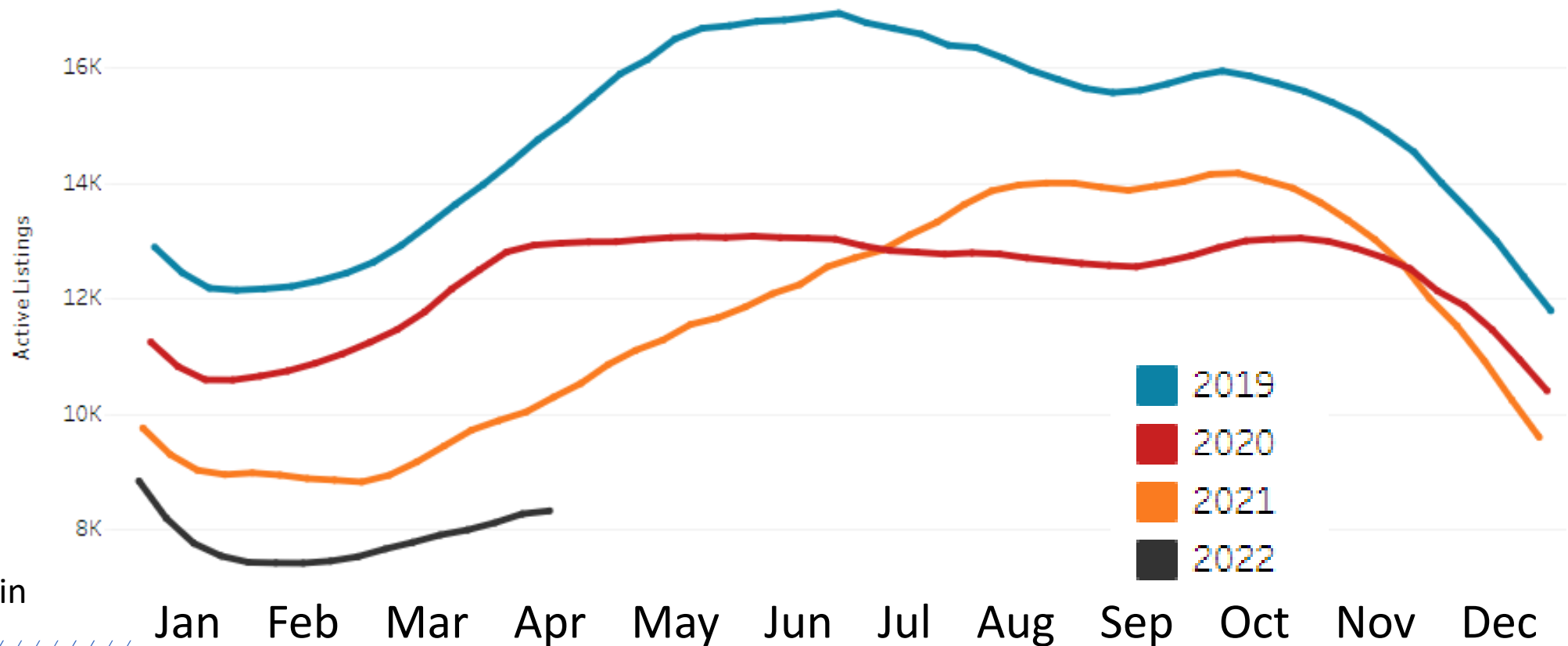


Outer markets have seen extraordinary increase in median prices

Housing Market Conditions

Active Listings is at an all-time low

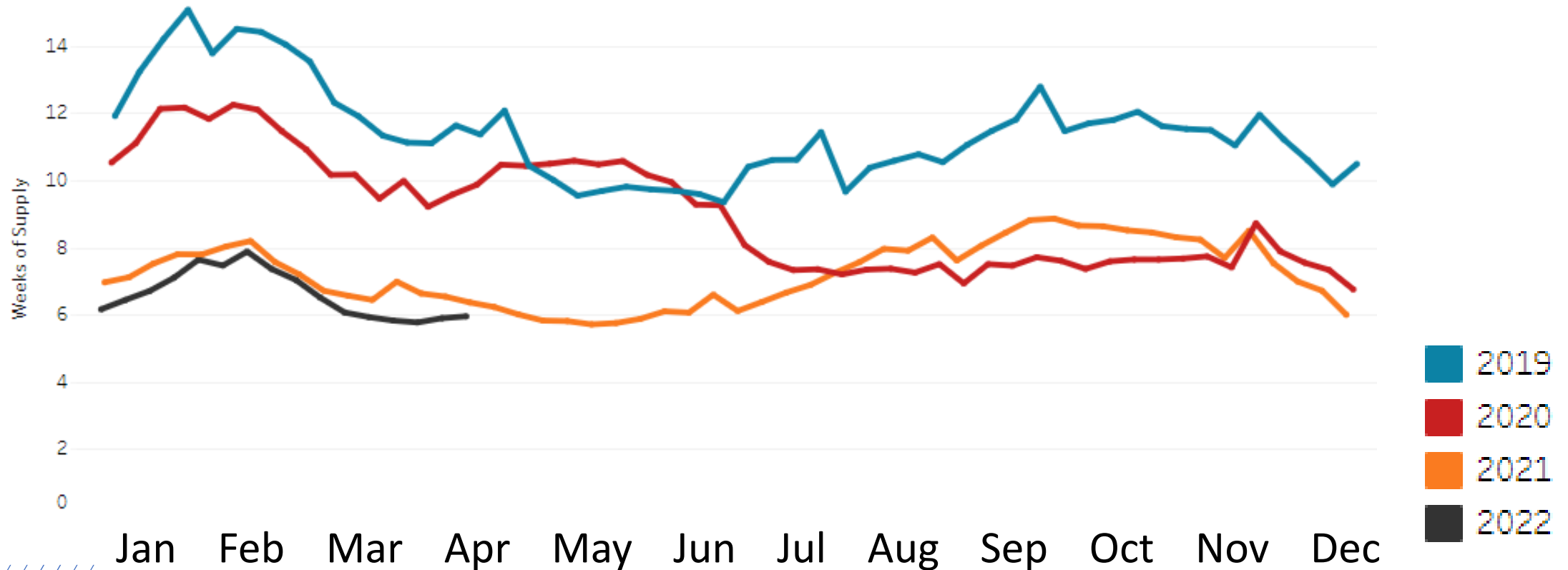
Active Listings in Washington, DC metro area



Source: Redfin

Listing Inventory is at and similar to 2021

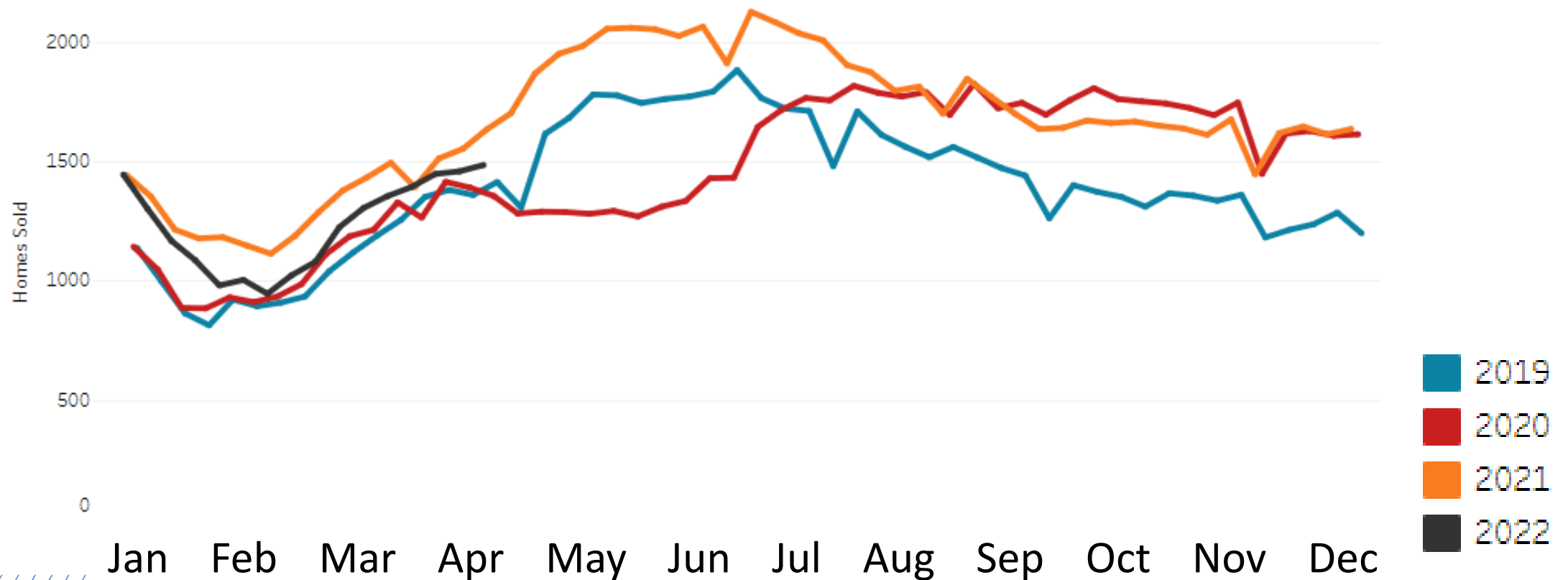
Weeks of Supply in Washington, DC metro area



Source: Redfin

Sales volume is similar to previous years

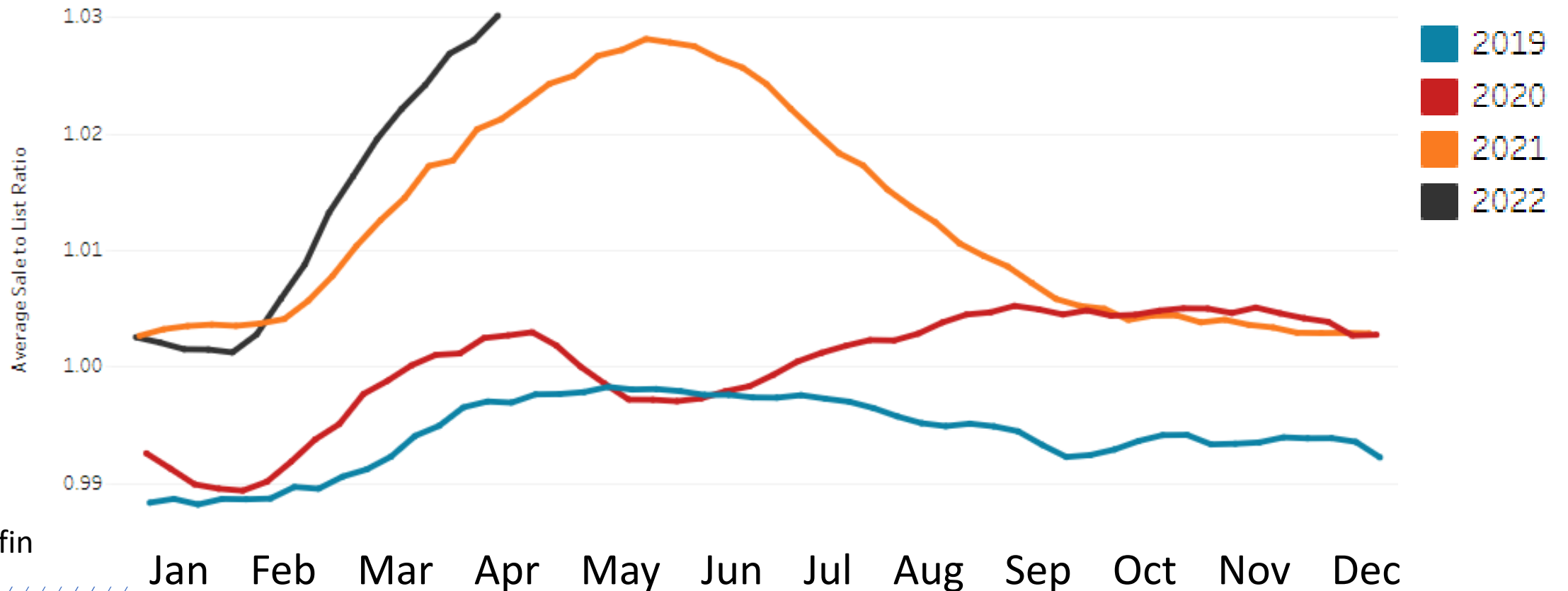
Homes Sold in Washington, DC metro area



Source: Redfin

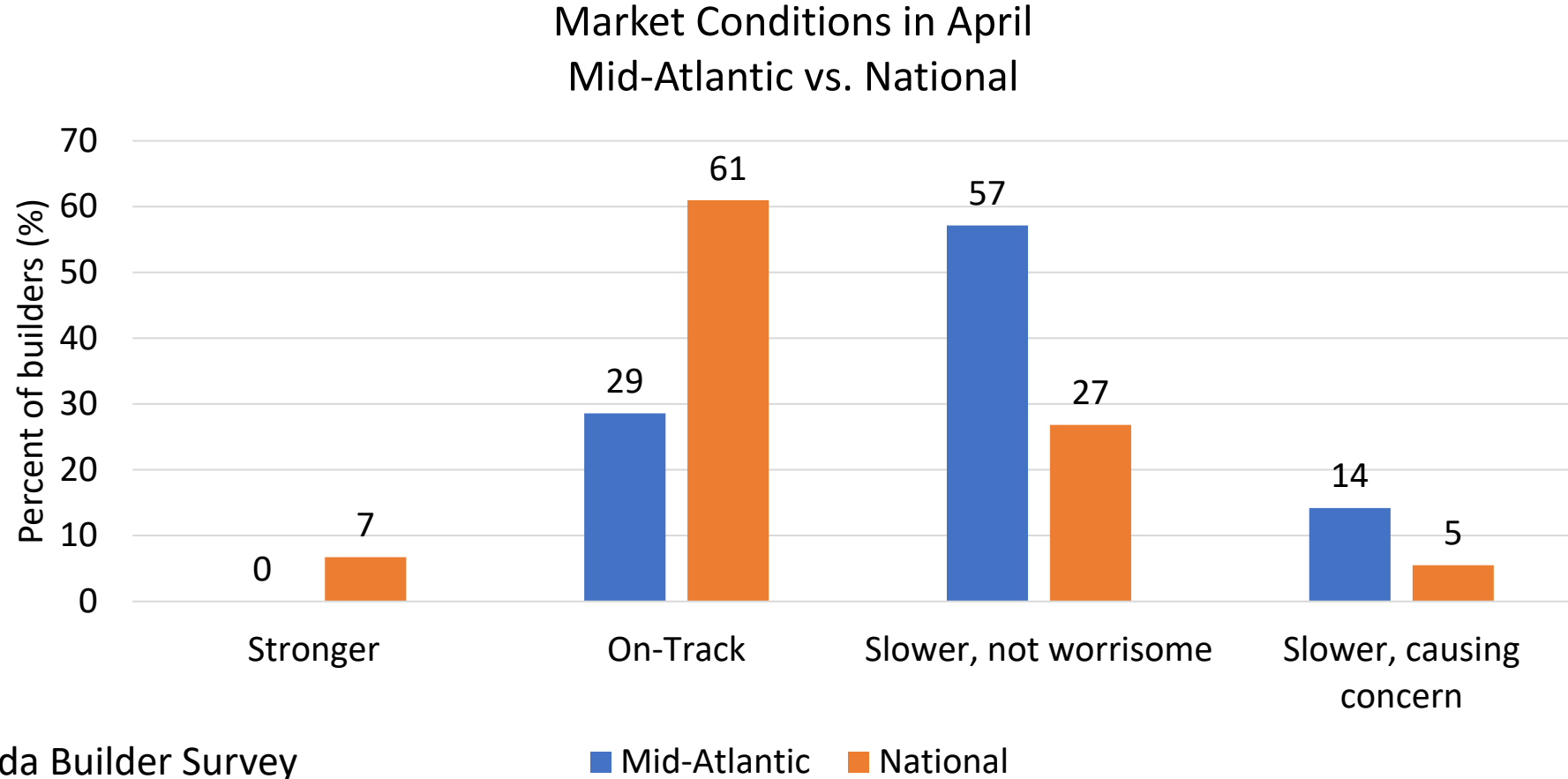
Sale prices are reaching frenzied stage –3% above asking prices

Average Sale to List Ratio in Washington, DC metro area



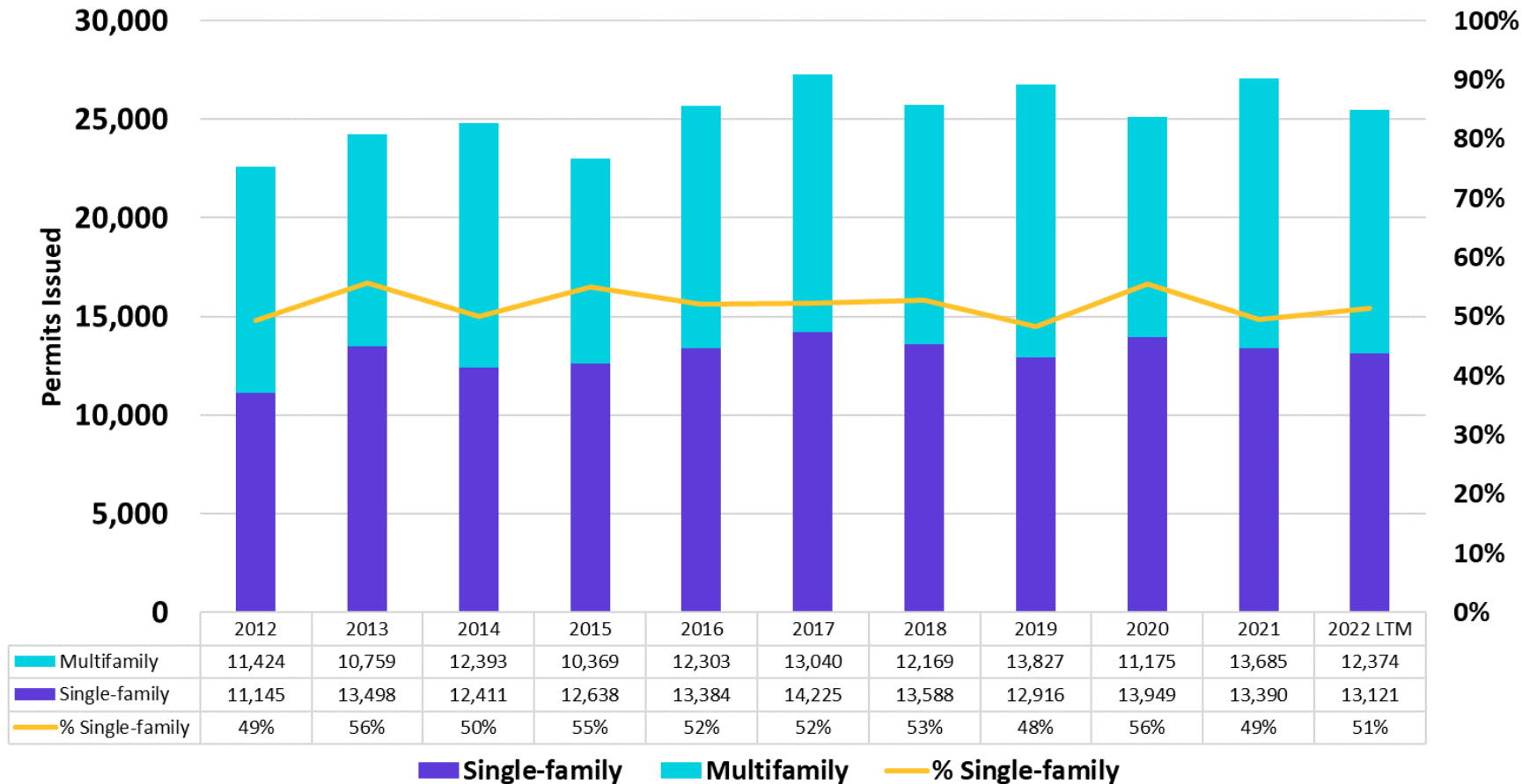
Source: Redfin

How is the April market shaping up compared to your expectations?



Permits have been stable over time with just over half of development as single-family

Building Permits - Washington MSA

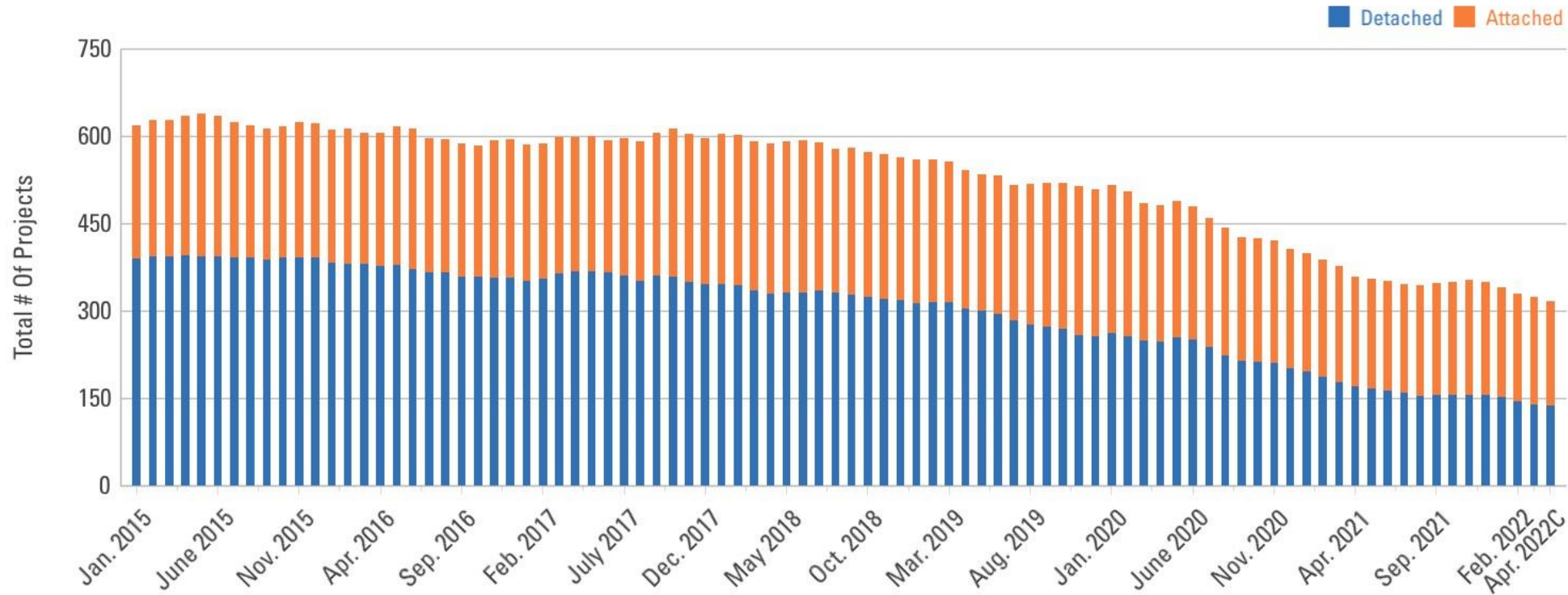


Metro DC development has been stable since 2016 – 25K to 27K permits and just over 50% Single-family

Active Projects ↓ 317

Change over 2021: **-41** Change over month: **-6**

Updated 04-25-2022



317 in April
639 in May
2015
50% decline

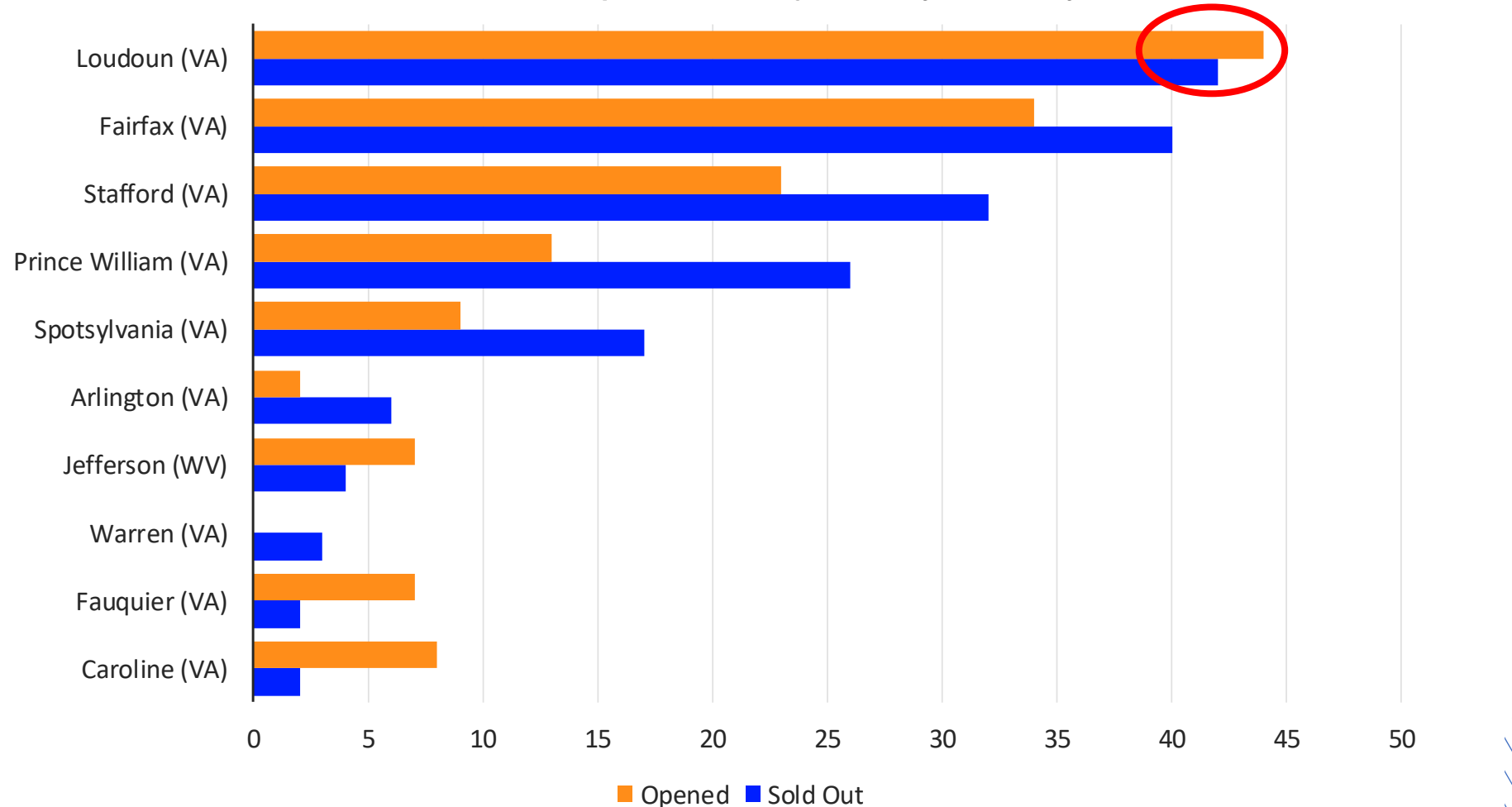
Minimum: **317** in Apr. 2022

Maximum: **639** in May 2015

Historical Average: **527**

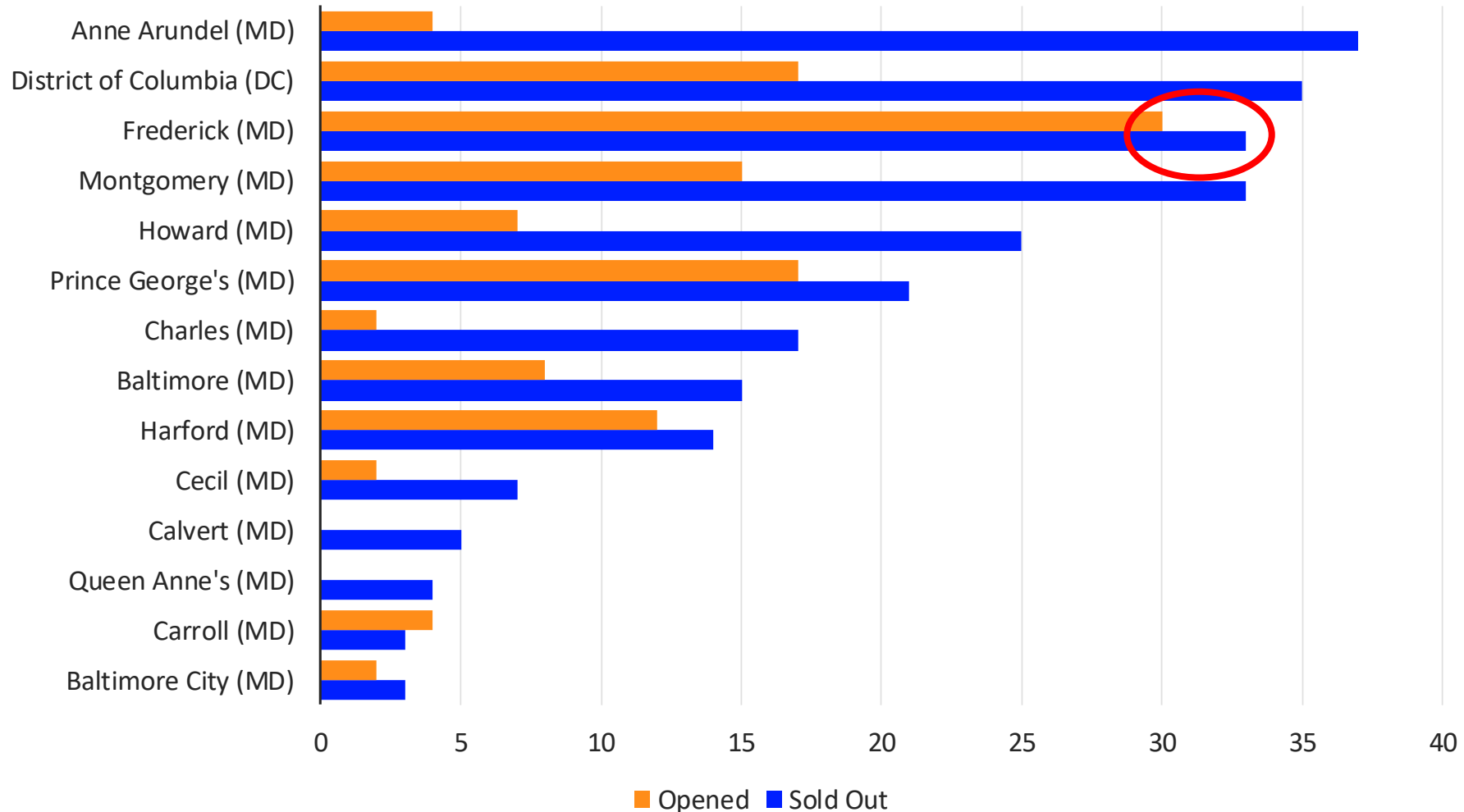
Loudoun County has replaced sold out projects. Other NoVA counties have fallen short

LTM Sold Out vs Opened Projects by County (May 2021 to Apr 2022)



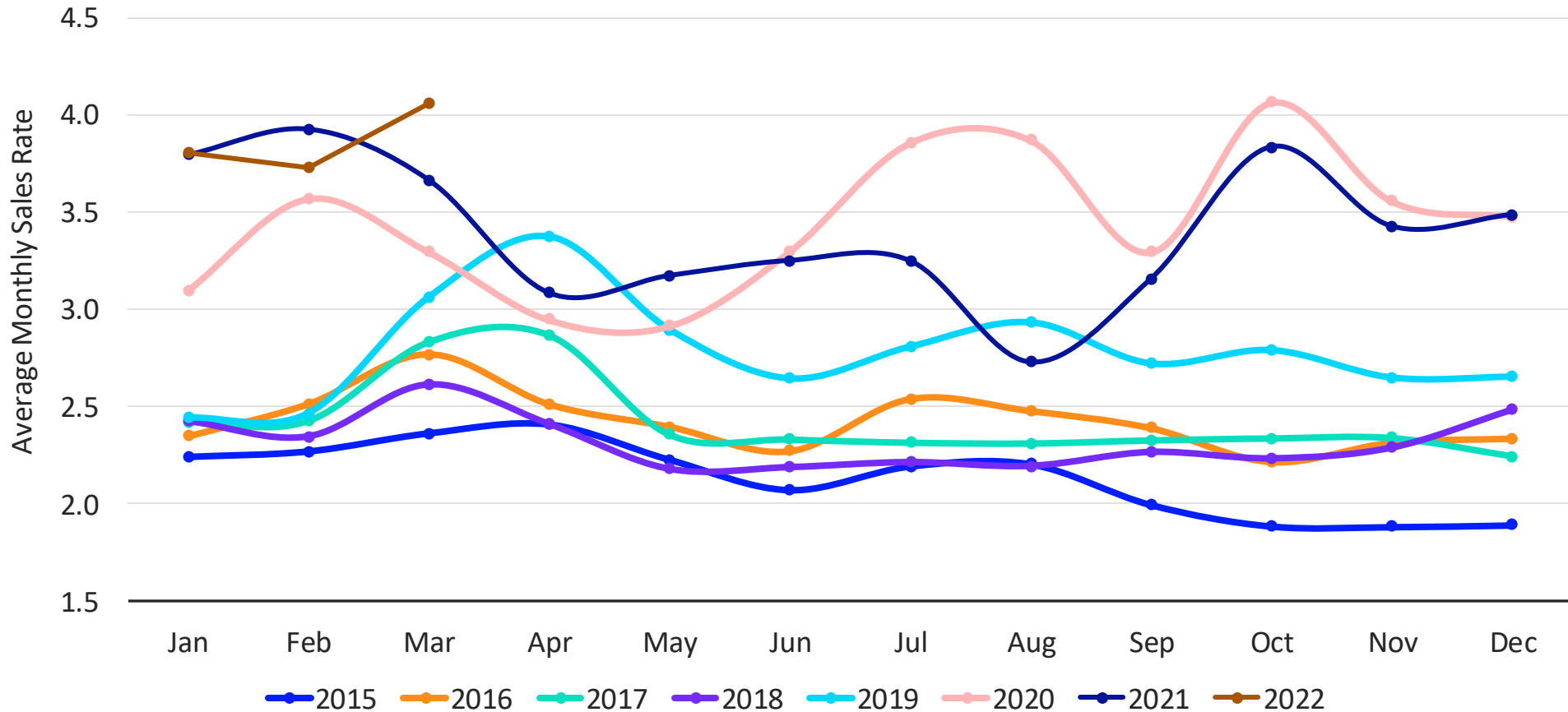
Sub MD counties have not replaced sold out projects. Frederick, Prince George's, and Harford are closest to full replacement.

LTM Sold Out vs Opened Projects by County (May 2021 to Apr 2022)



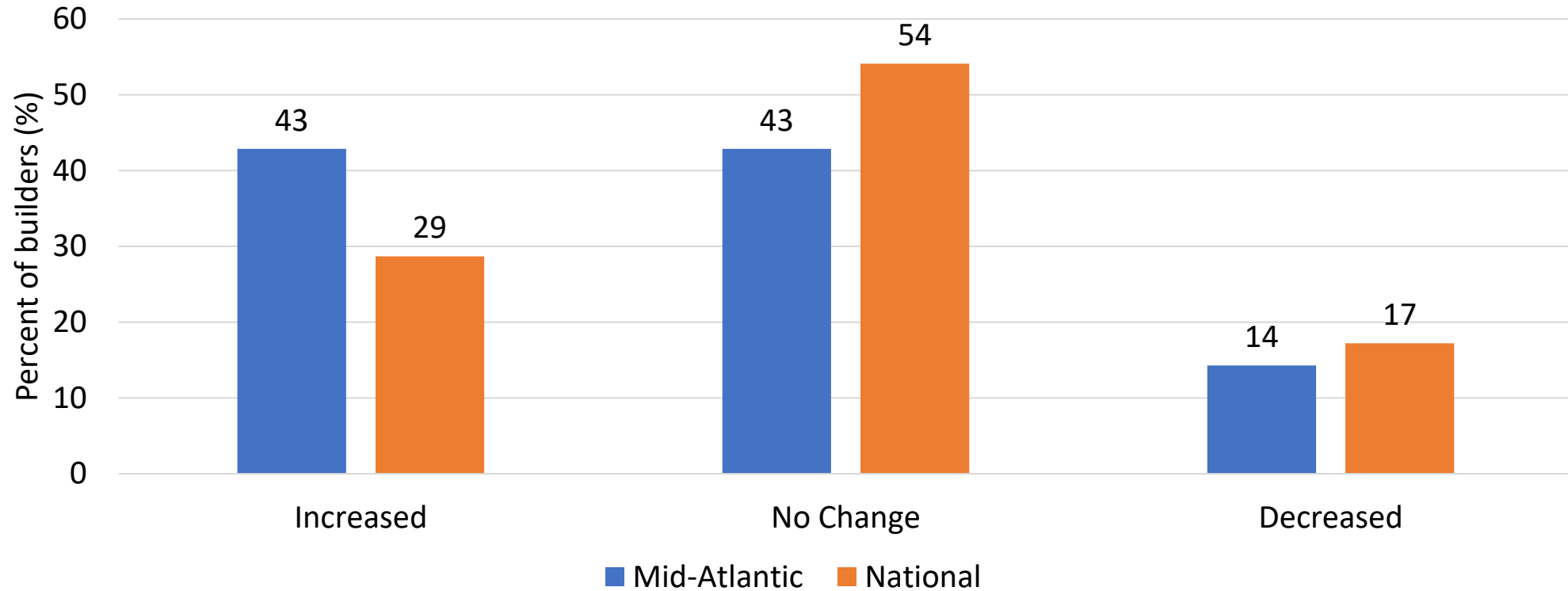
NoVA Sales rate for 2022 is matching 2021 with 3.5 to 4.0 sales per month

Average Monthly Sales Rate by Year
Northern Virginia Market



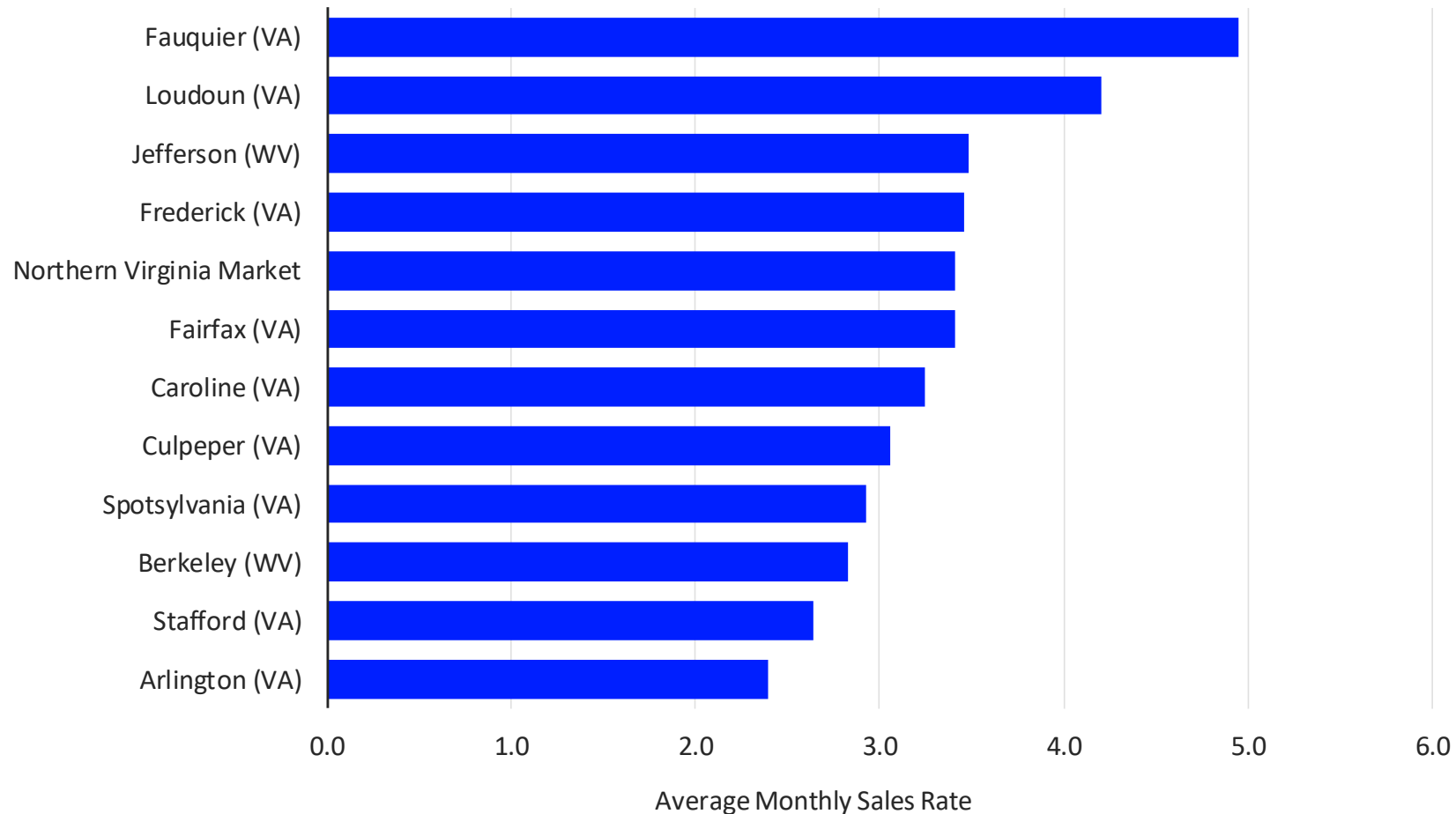
How have gross sales been in March compared to February?

Gross Sales Activity Compared to March
Mid-Atlantic vs. National



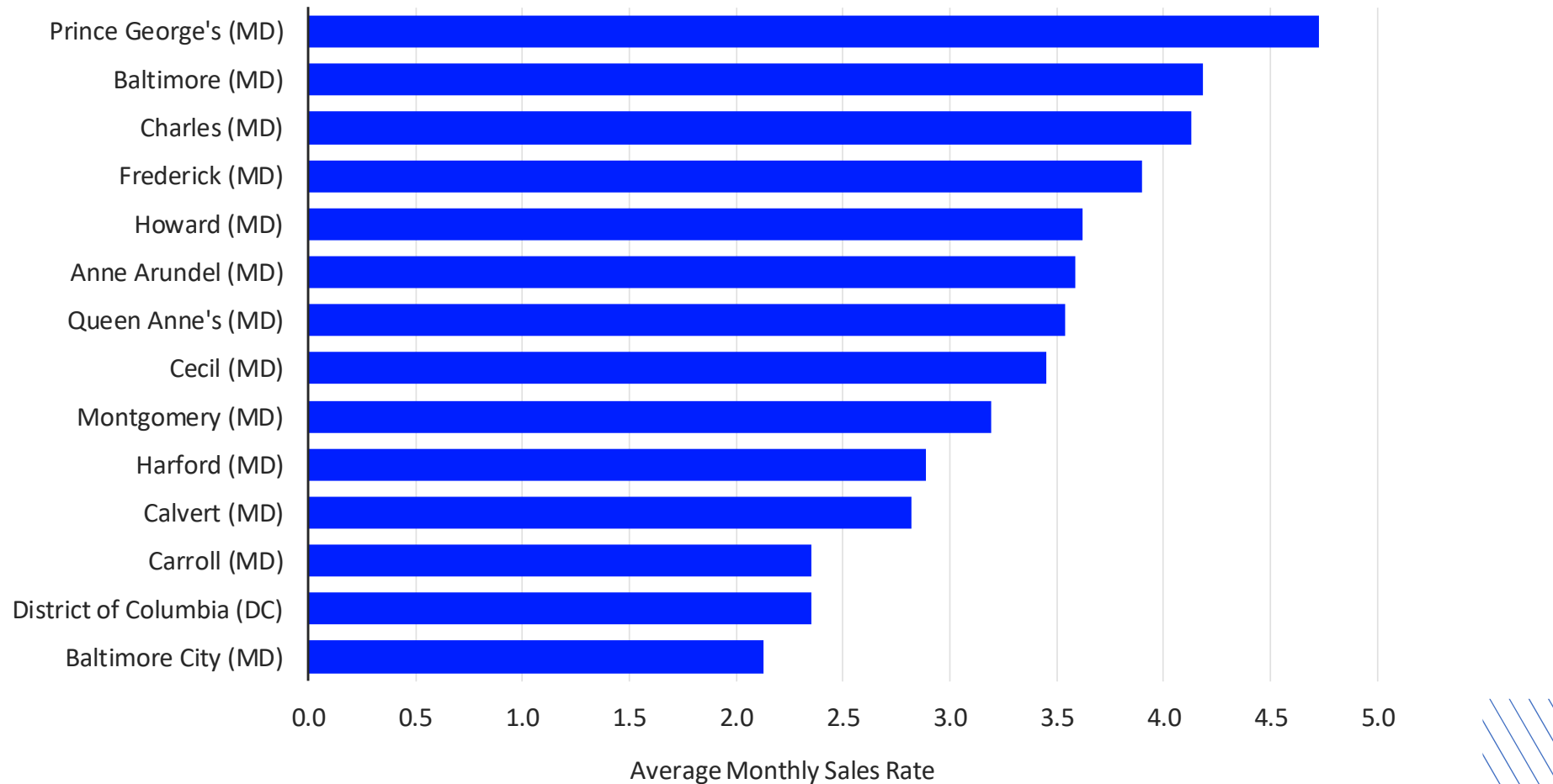
Sales rates are capped, run from 2.5 to nearly 5.0 per month. Lower sales pace found in outer markets.

LTM Average Sales Rate by County (Apr 2021 to Mar 2022)



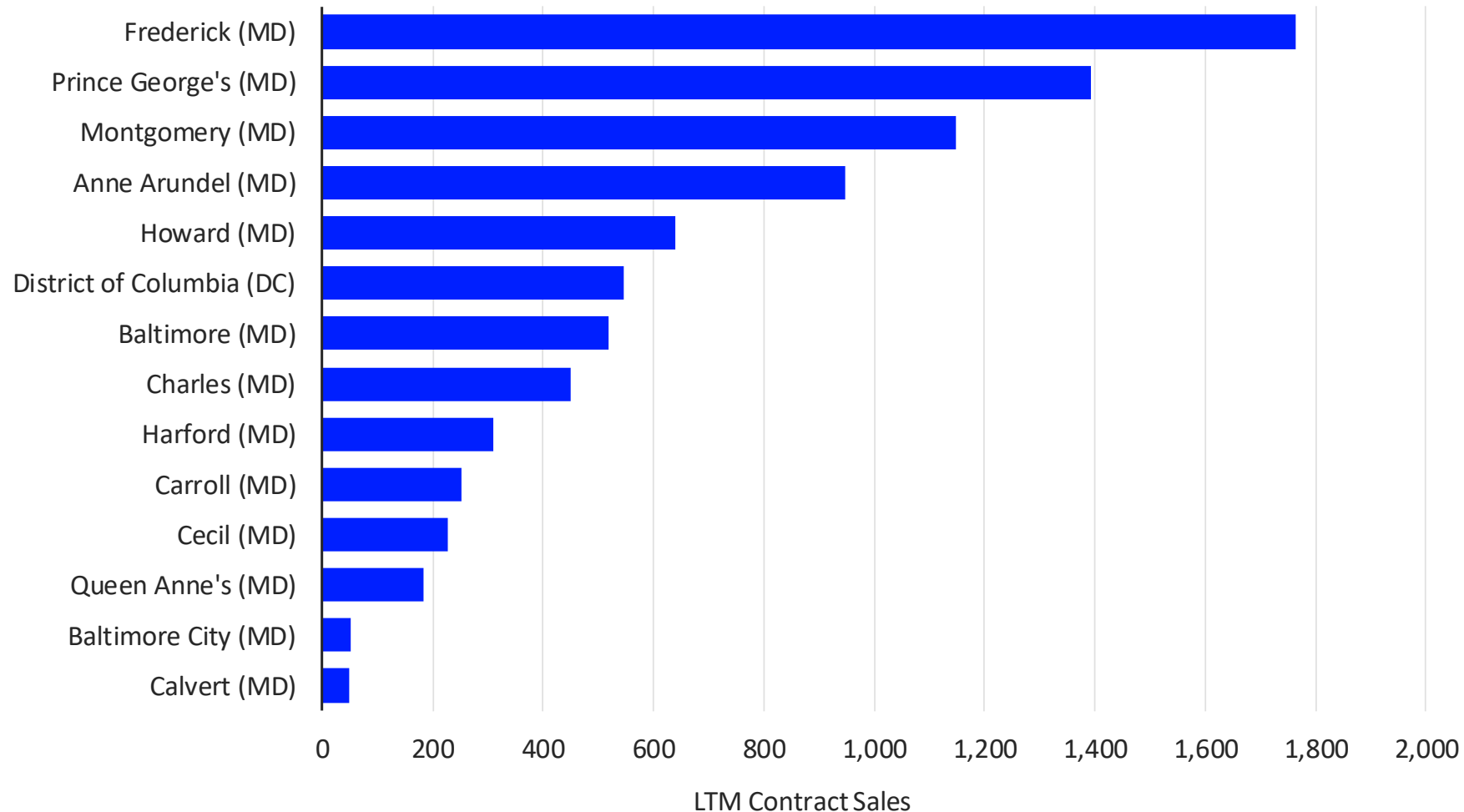
Sub. MD sales are similar to NoVA.

LTM Average Sales Rate by County (Apr 2021 to Mar 2022)



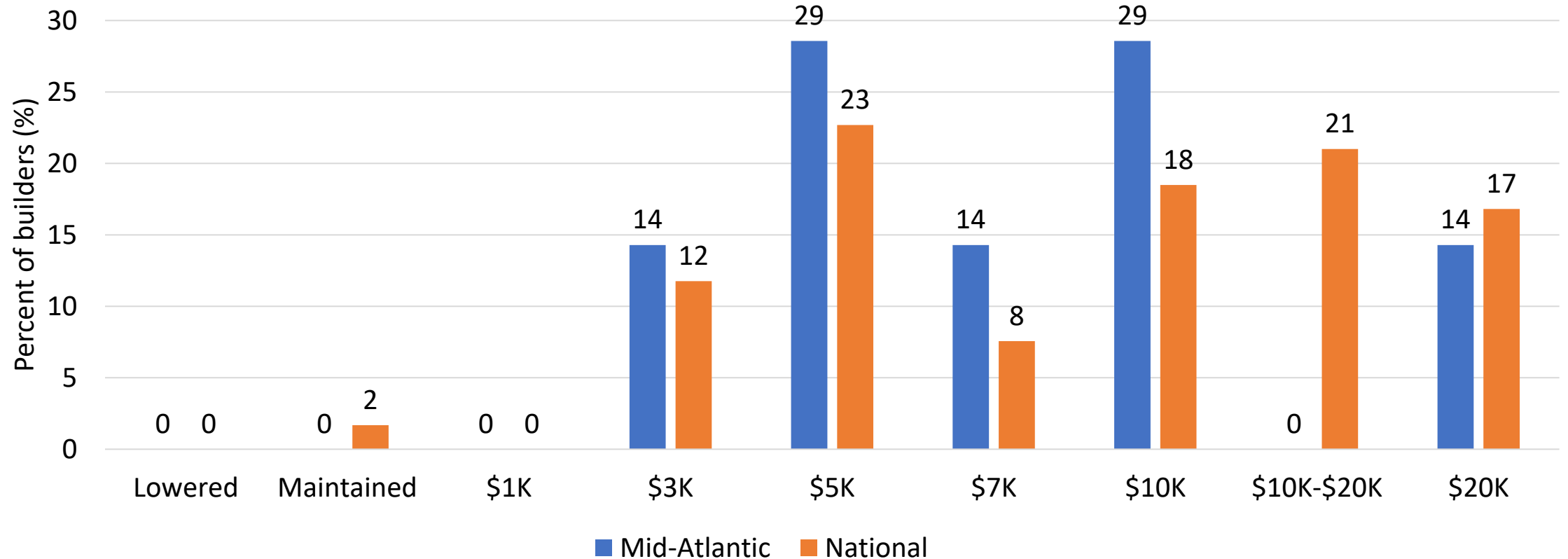
Frederick leads sales Sub. MD followed by Prince George's and Montgomery.

LTM Contract Sales by County (Apr 2021 to Mar 2022)



Base Price increases ranged from \$3K to \$20K locally

Base Prices Increase March to April
Mid-Atlantic vs. National



Forecasts and Final Thoughts

Monitoring Sentiment

Prospective Home Buyers - Planning to Buy a Home in Next 12 Months
(Percent of Respondents)

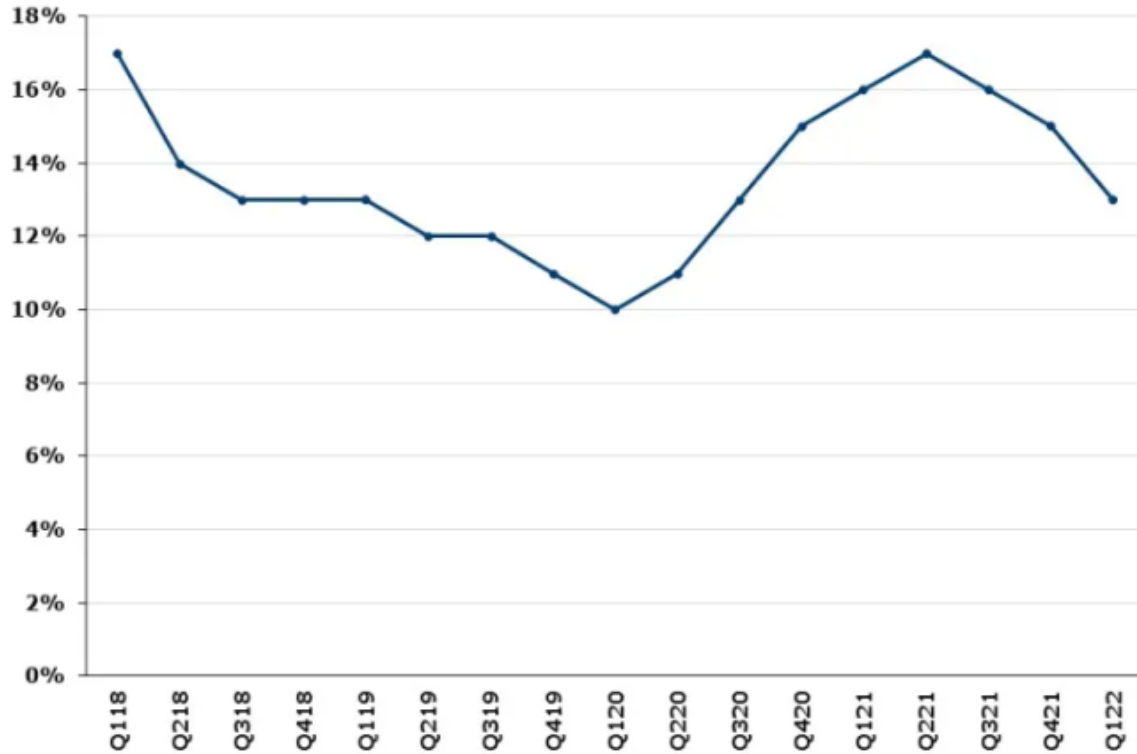
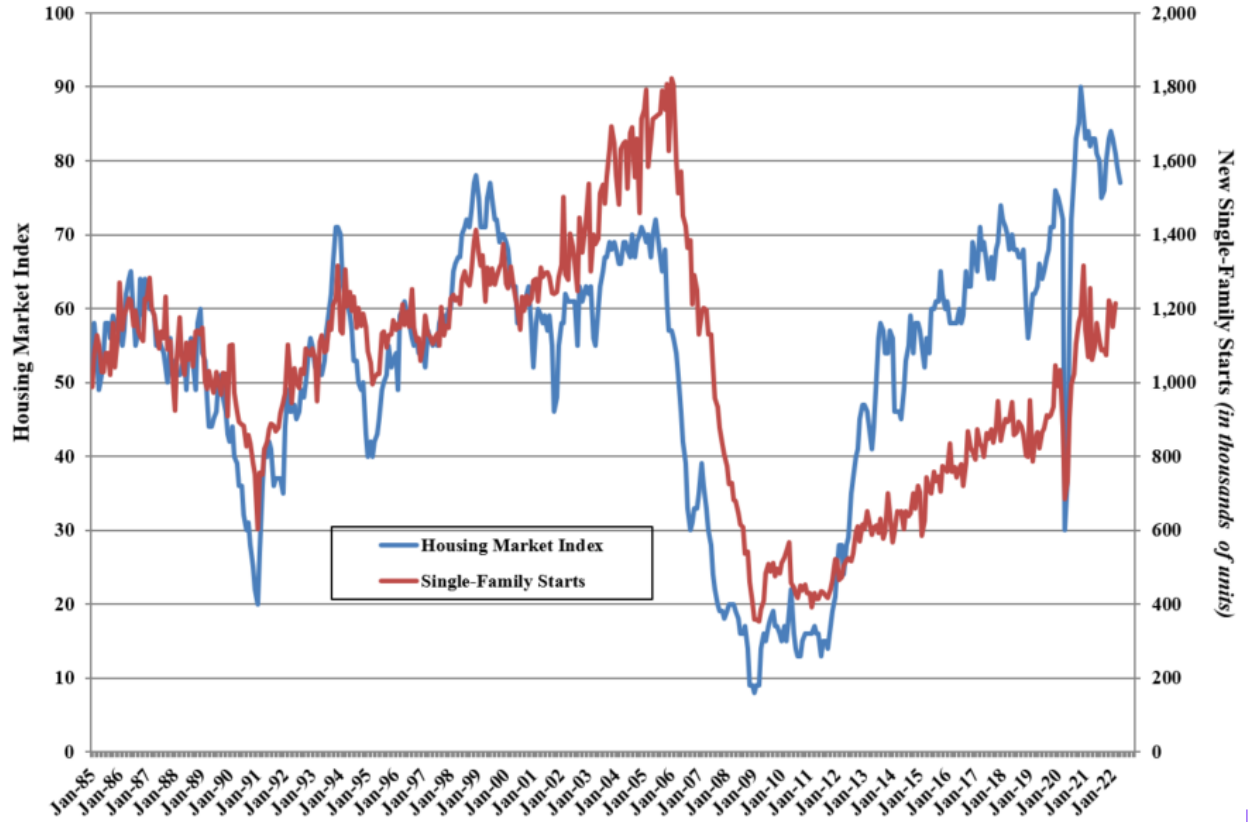


Chart: NAHB/Wells Fargo Housing Market Index (HMI) and New Single-Family Starts



Source: NAHB/Wells Fargo Housing Market Index.
U.S. Census Bureau.

Supply Challenges Continue

64% Yes

Government Services

(66% yes last month)

94% Yes

Supply Disruptions

(93% yes last month)

88% Yes

Labor Shortages

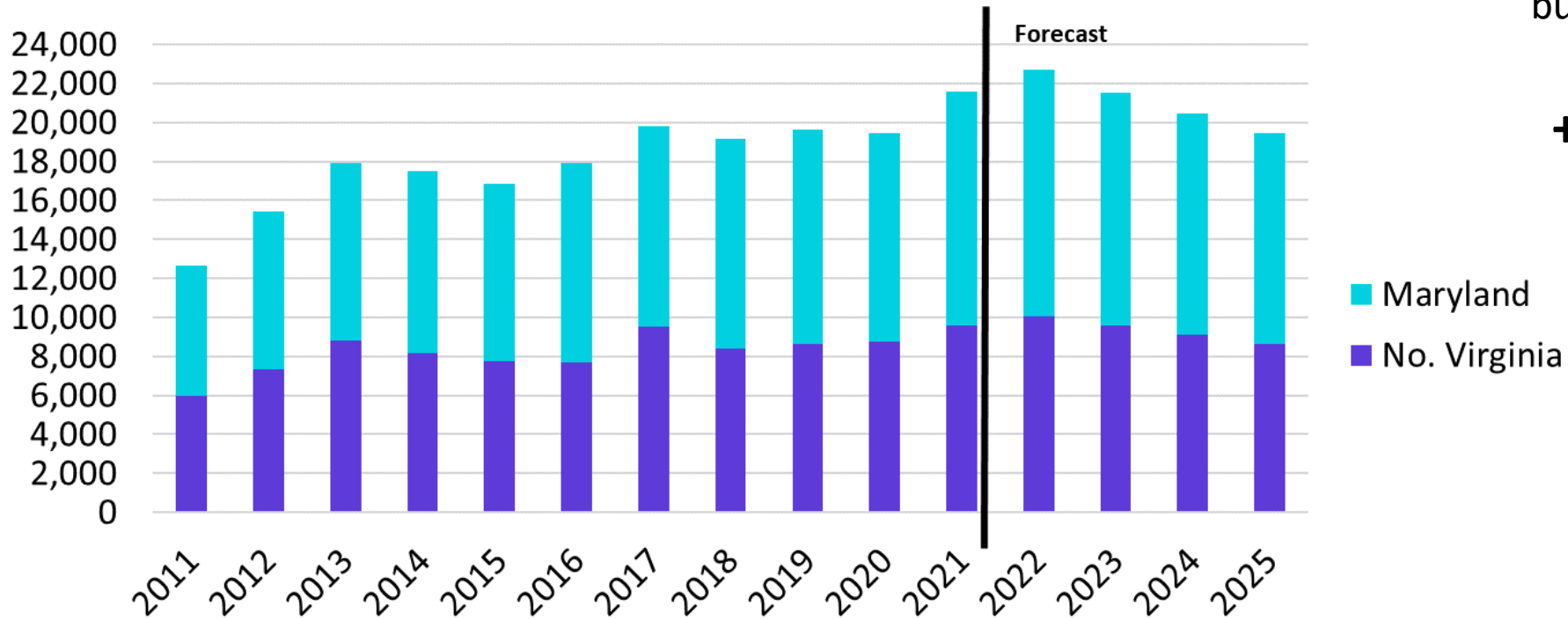
(79% yes last month)

65% Yes

Land Disruptions



(59% yes last month)

Annual Starts for Metro Area

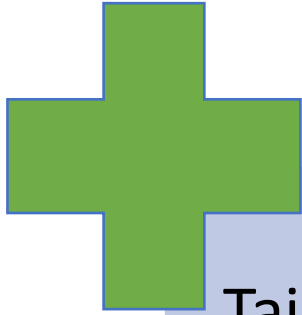


We are calling for
additional growth
but with a little more caution

+5% in 2022

 Maryland
 No. Virginia

Push / Pull For Housing



Tailwinds

- Demographic Tailwinds
- Remote Work Appears Somewhat Lasting
- Years of Under Supply

Headwinds

- Geopolitical Concerns
- Affordability
- Inflation / Stagflation
- Growing Risk of “R”
- Lock in Effect
- Builders Have Significant Backlog
- Additional Supply Over Next 24 Months



Thank You!

Sharing market trends from a local perspective

4/26/2022

Dan Fulton

Senior Vice President

dfulton@zondahome.com