



State of the Housing Market

Danny Robushi, APEX MACRO Founder

July 7, 2024

- “The housing market will recover. It always has. The American story, written in homes, will continue to prosper and grow.” – David Lereah
- “Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world.” – Franklin D. Roosevelt
- “Ninety percent of all millionaires become so through owning real estate.” – Andrew Carnegie
- “Real estate is an imperishable asset, ever increasing in value. It is the most solid security that human ingenuity has devised. It is the basis of all security and about the only indestructible security.” – Russell Sage



Overview

- Building Permits and Housing Starts are negative year-over-year signifying a slowdown is occurring within the housing market
- As this filters through to the number of homes under construction, construction employment will begin to rollover
- Looking back to the 1970's a 10% drawdown in construction employment has been a high probability leading indicator of recessions
- Rates rising from 3% to over 7% locked a large portion of the population within their existing homes creating a frozen housing market and putting a floor under prices
- New homes for sale have risen to 2008 levels with 9.3 months of supply on the market. But new homes make up only 15% of the housing market. Existing homes for sale remain at 3.7 months of supply and make up 85% of the market. Lower rates will be needed to unlock this supply and could be a catalyst for lower prices
- The existing new homes for sale are only 20% of what is in the pipeline with the other 80% either just being started, under construction, or just being completed. Once the market for existing homes picks up the total supply could overwhelm demand

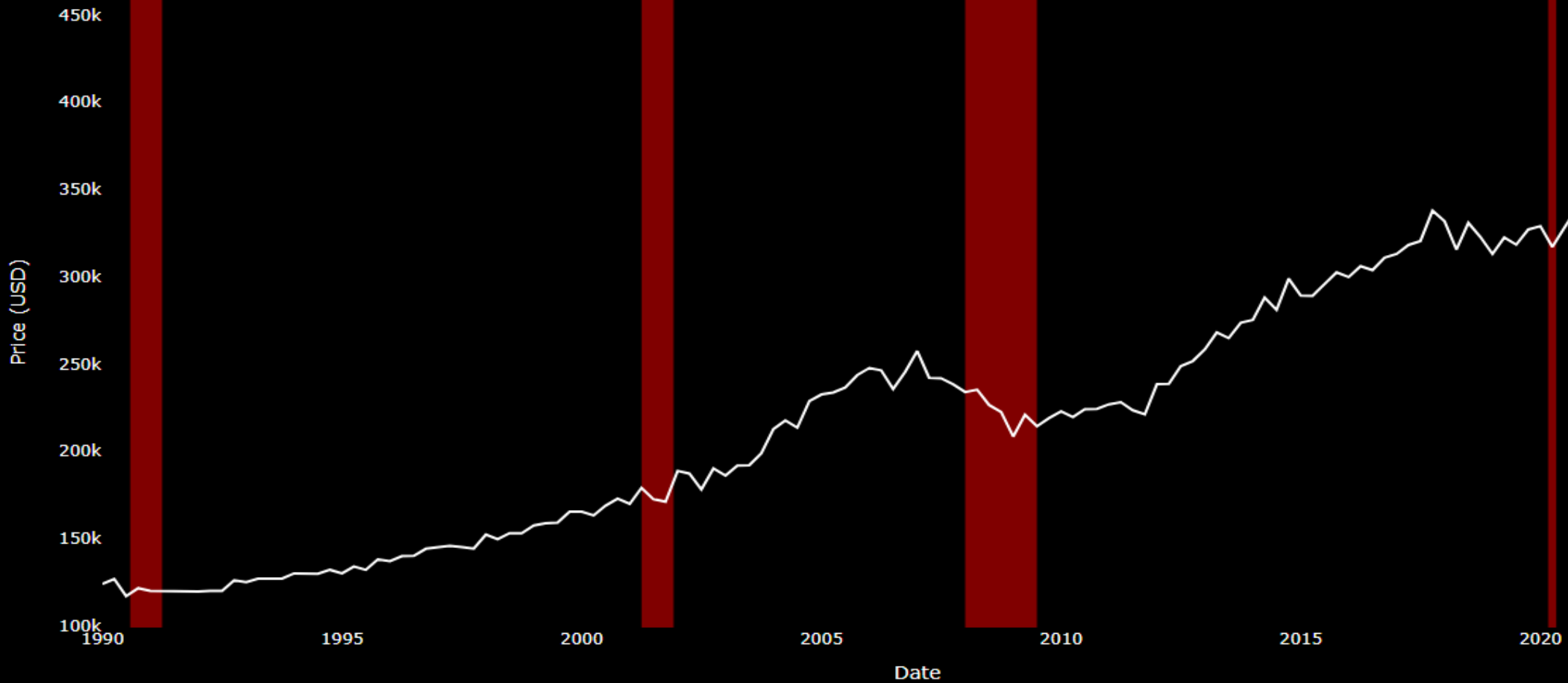


Overview

- Rate buydowns being offered by home builders has allowed for housing activity to continue over the last year for new homes but they sacrificed their own margins to get this done
- Immigration over the past 4 years has created demand for housing. Estimates upwards of 12-14 million people have come into the country and these people all need a place to live
- Home prices are up a total of 40-50% over 4 years and the average mortgage payment is up almost 100%
- Other catalysts that could bring home prices down are employment slowing, creating forced sellers, a pullback in consumption/travel causing Airbnb owners to sell (there is a record number of people that own multiple homes), investors from China being forced to sell homes (China's real estate market peaked at \$50 trillion and is now going through deflation)

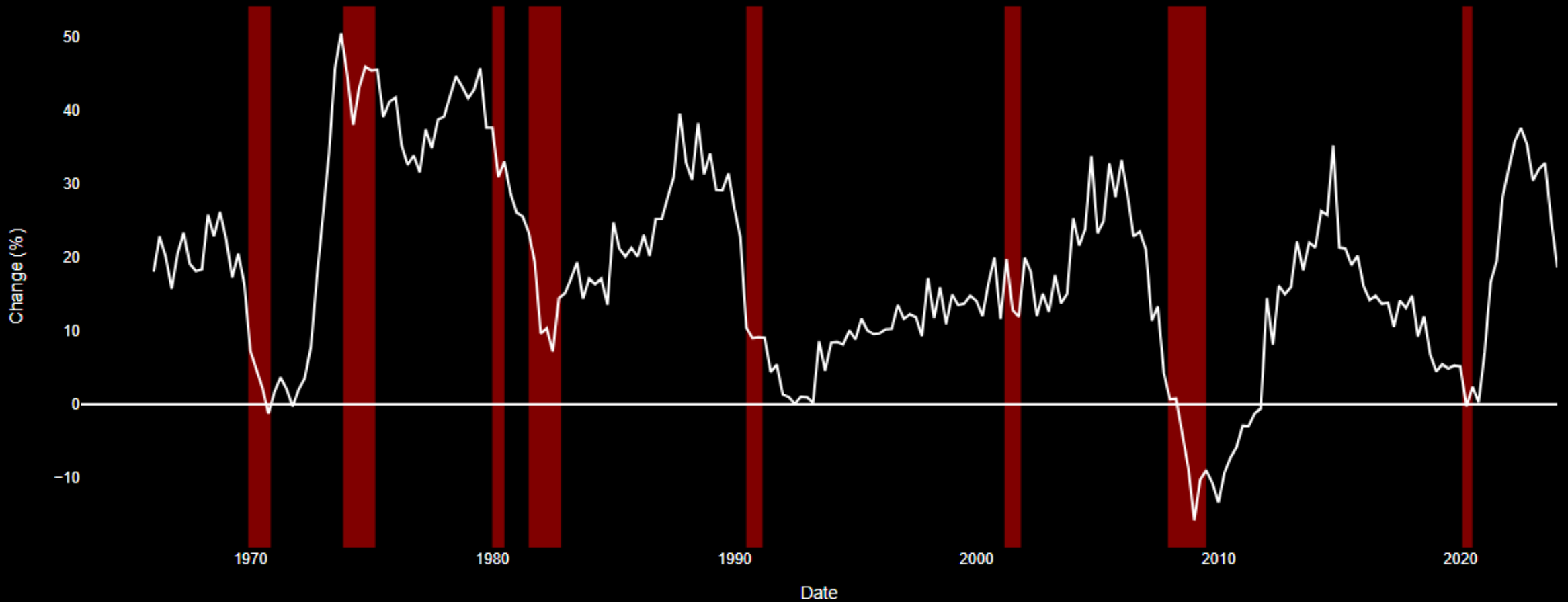
Median Sales Price of Homes Sold in the United States

Median price of a new home is
\$420,000



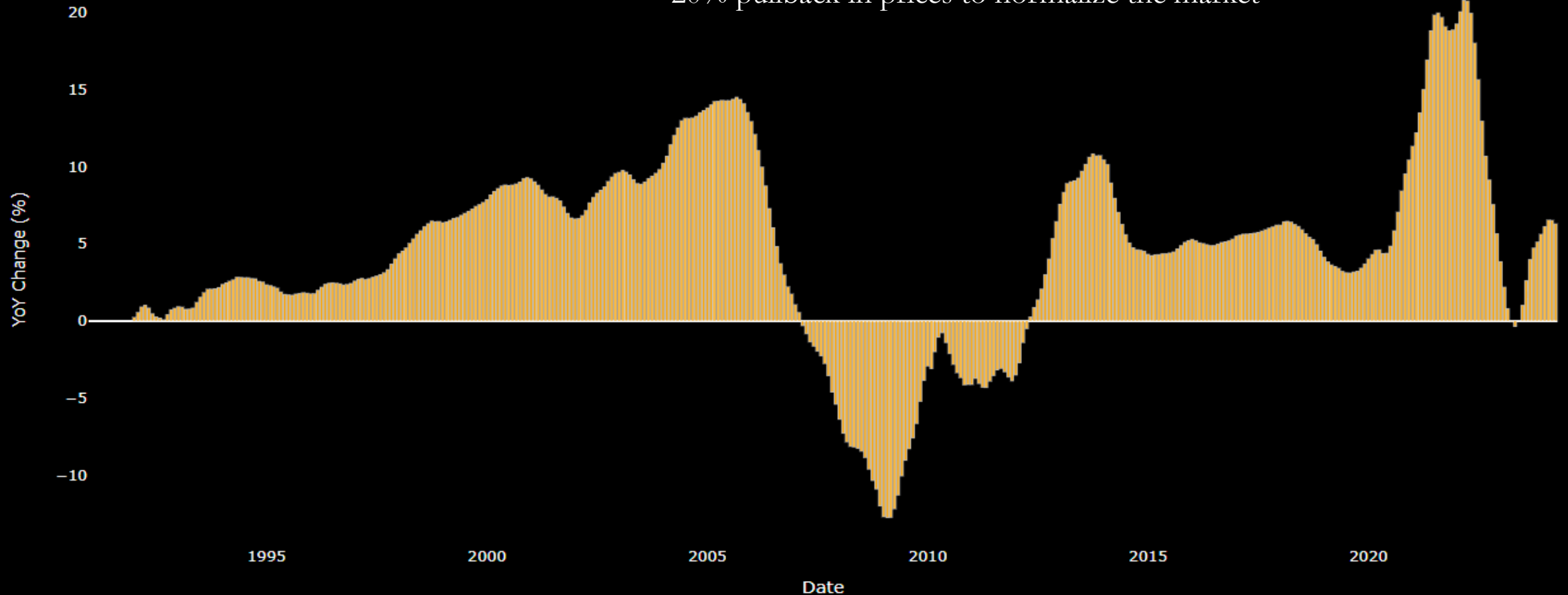
Median Sales Price of Homes (%)

Prices have risen a total 40%-50% over 4 years and 18% over the last year



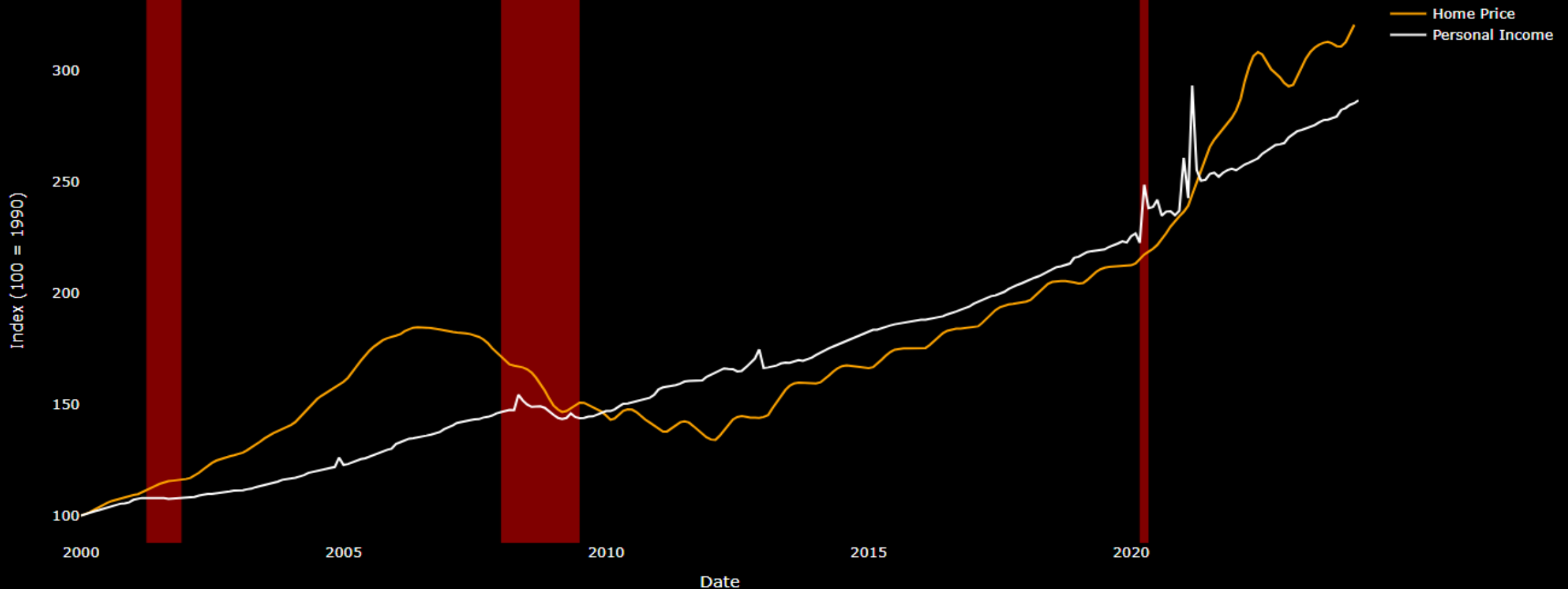
Case-Shiller Home Price Index YoY Change

Prices haven't fallen since the GFC. We do not have set up like the GFC but we do have a market where we could see a 10%-20% pullback in prices to normalize the market



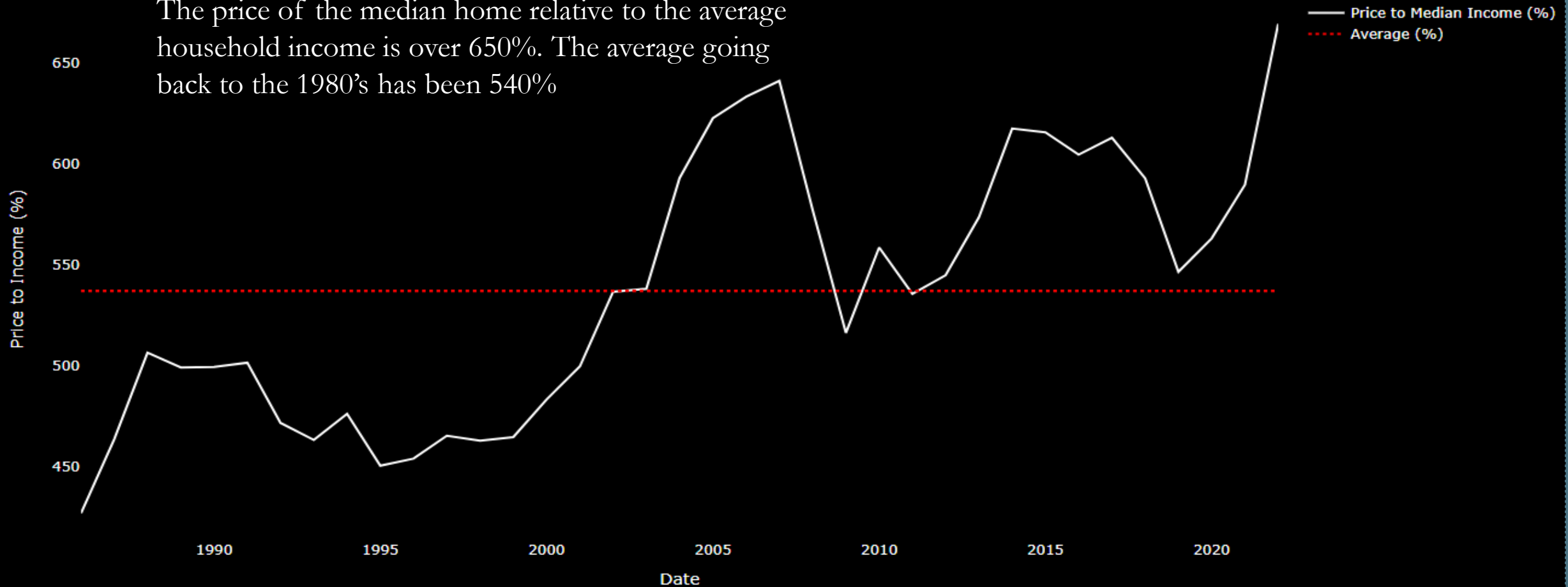
Home Price and Personal Income in the United States

Since 2020 home prices have risen 50% while incomes have only gone up by 25%



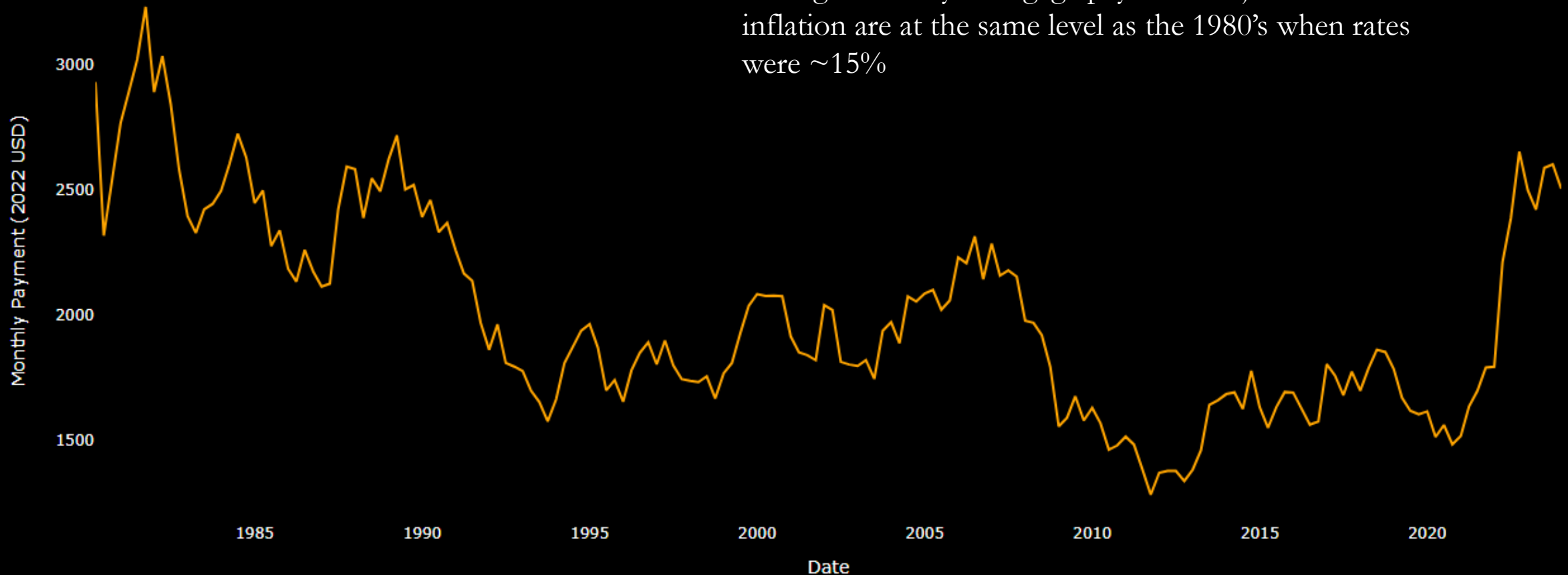
Price to Median Household Income for Homes Sold in the United States

The price of the median home relative to the average household income is over 650%. The average going back to the 1980's has been 540%



Average Monthly Mortgage Payment in the US (in 2022 Dollars, with 20% down payment)

Average monthly mortgage payments adjusted for inflation are at the same level as the 1980's when rates were ~15%



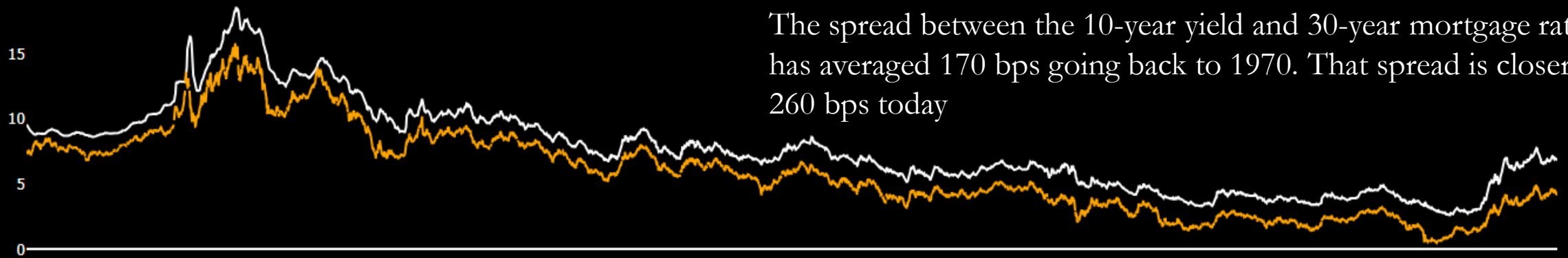
Mortgage Rates



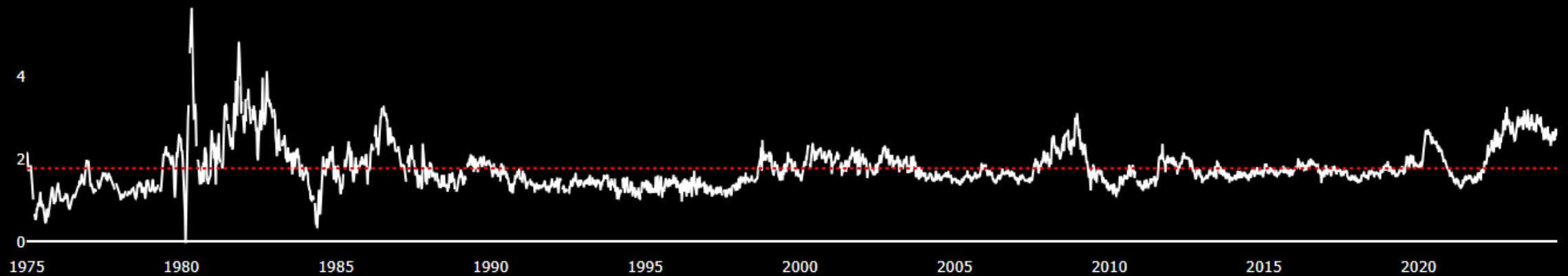
— 30-Year Mortgage Rate — 10-Year Treasury Yield — Spread - - - Average Spread

Mortgage Rates & Treasury Yield

The spread between the 10-year yield and 30-year mortgage rate has averaged 170 bps going back to 1970. That spread is closer to 260 bps today



Delta



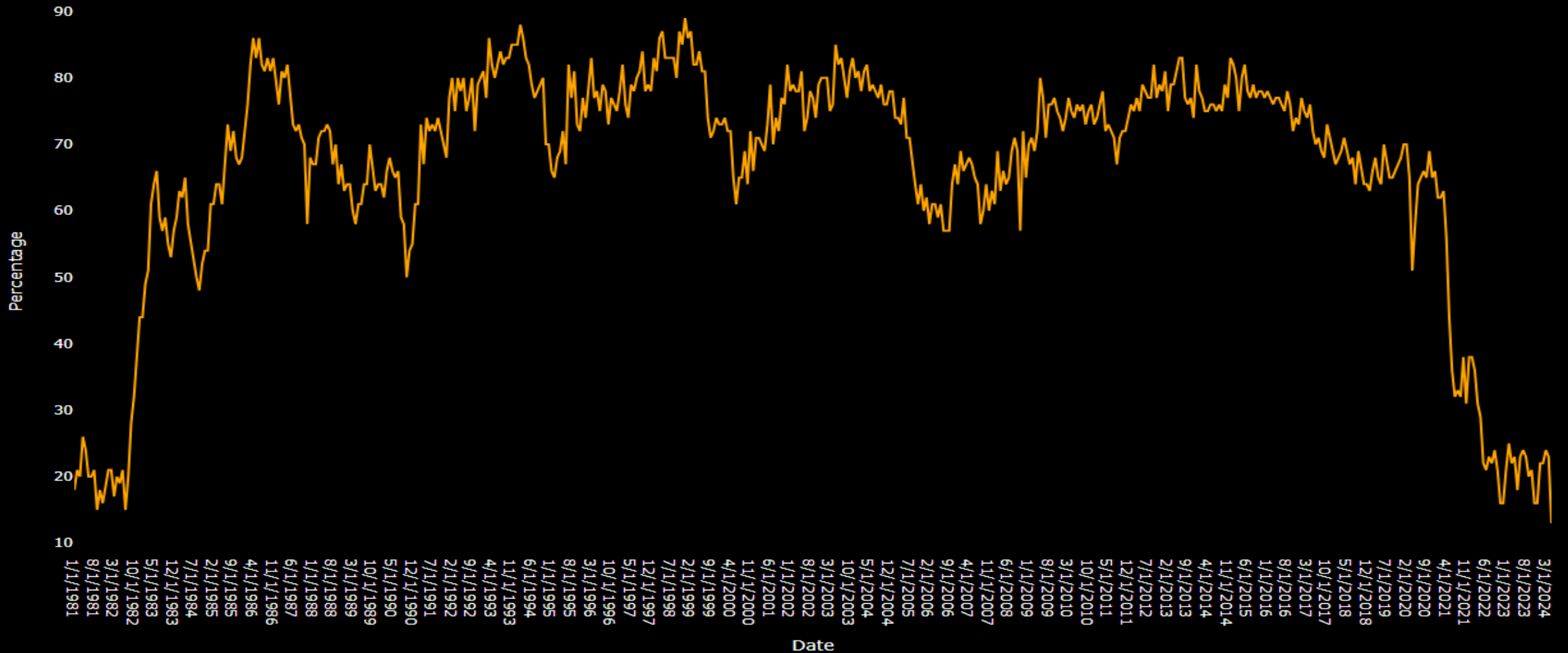
MOVE Index and Mortgage Rate - 10yr Yield

Higher interest rate volatility has caused the spread to widen as well as the lack of refinancing due to higher rates



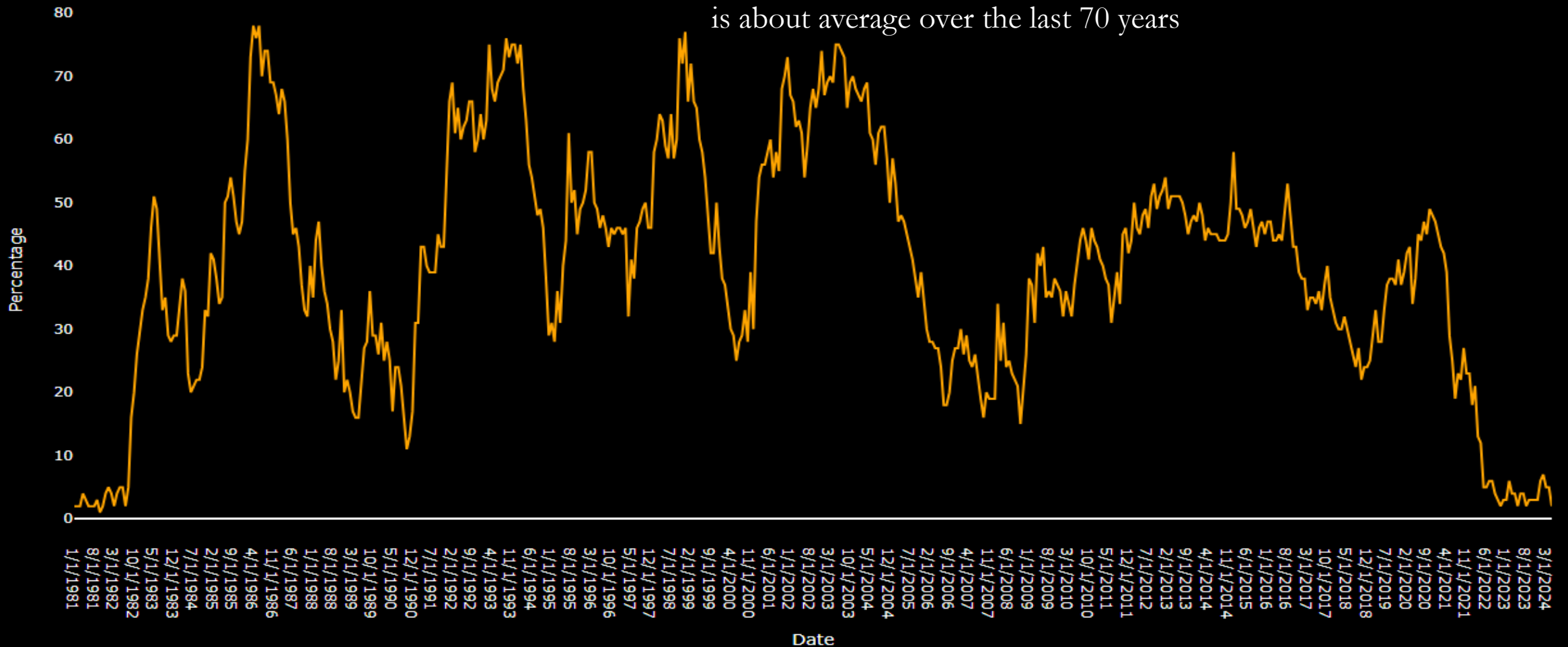
Good Time to Buy a Home

Respondents to the University of Michigan survey think it is the worst time to buy a home in the last 50 years



Good Time to Buy: Interest Rate Low

A record low number of respondents feel it is a good time to buy due to interest rates being low. The current mortgage rate of 6%-7% is about average over the last 70 years



Good Time to Buy: Prices Low

A record low number of respondents feel it is a good time to buy due to low prices



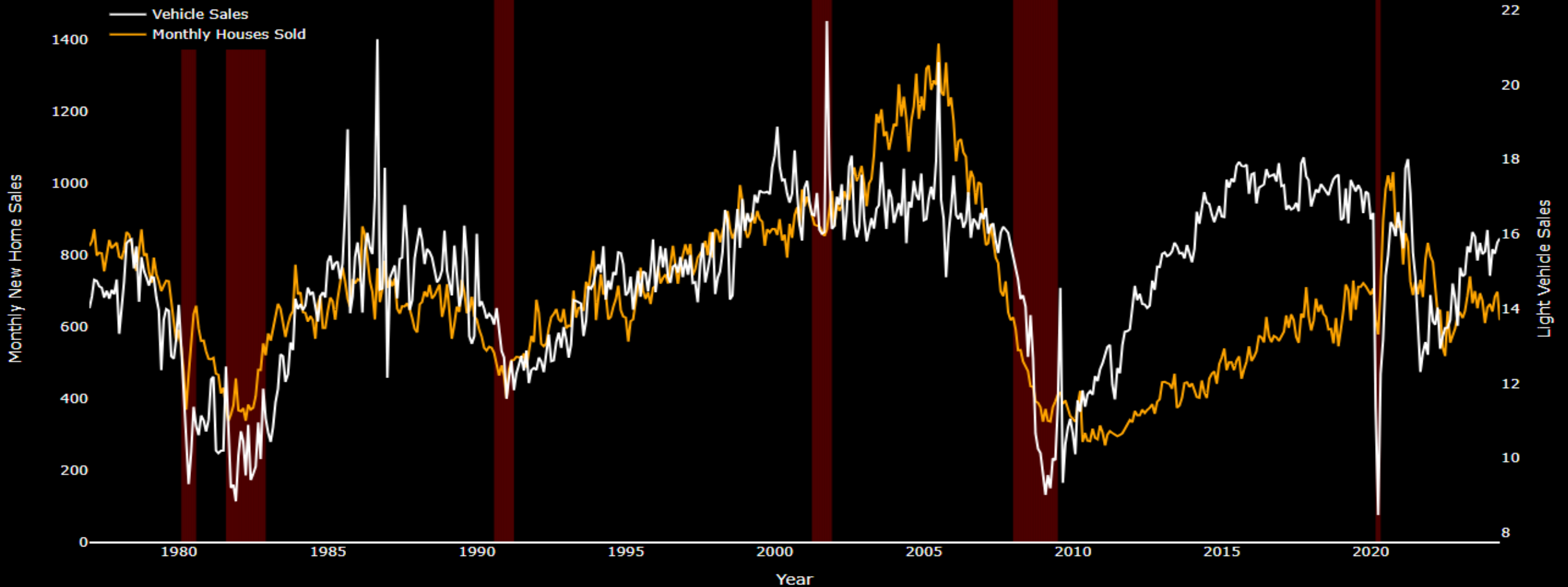
Percentage of Respondents Expecting Home Prices to Increase in the Next 5 Years

The percentage of respondents expecting home prices to rise in the next 5 years is ~70%. The average person believes this is the worst housing market since the 80's and things will not improve going forward



Vehicle Sales & Monthly New Home Sales

Vehicle sales and Home sales correlate well, they both fell in 2022 but have since rebounded



HICP: Furnishings, Household Equipment, and Routine Maintenance of the House

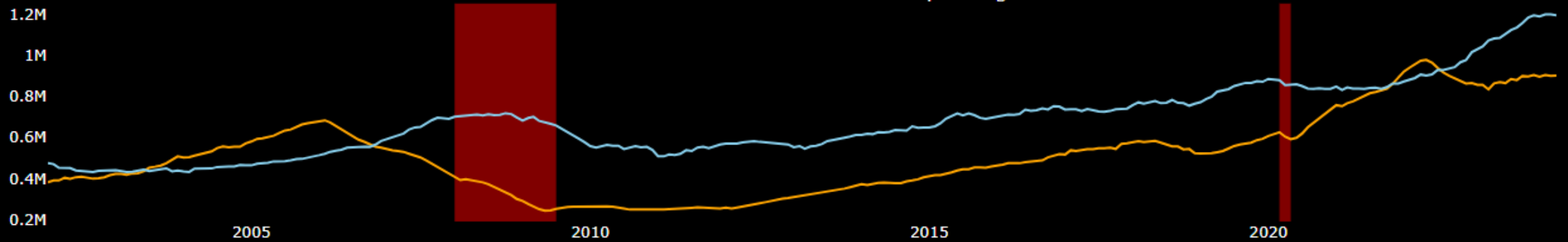
There has been a pullback in housing related consumption shown by deflation within furniture, appliances and maintenance prices



Total Construction Spending

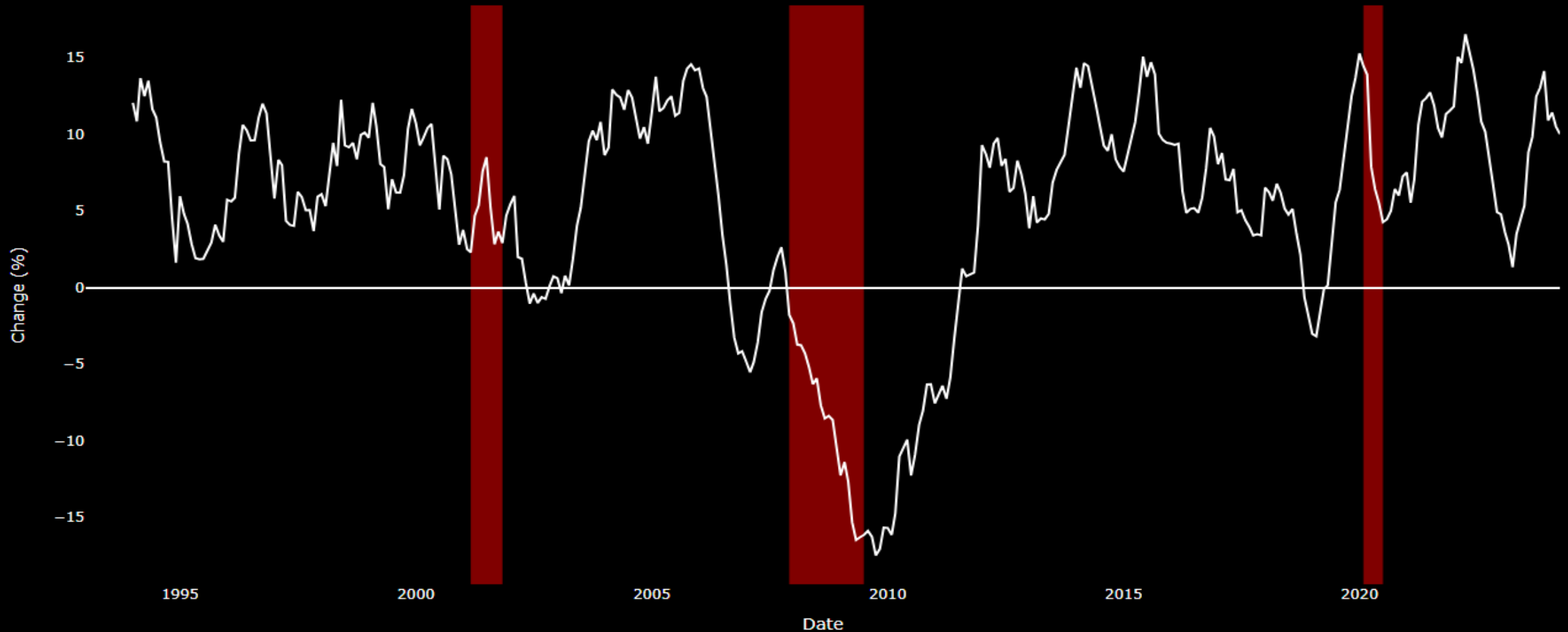


Residential and Nonresidential Spending

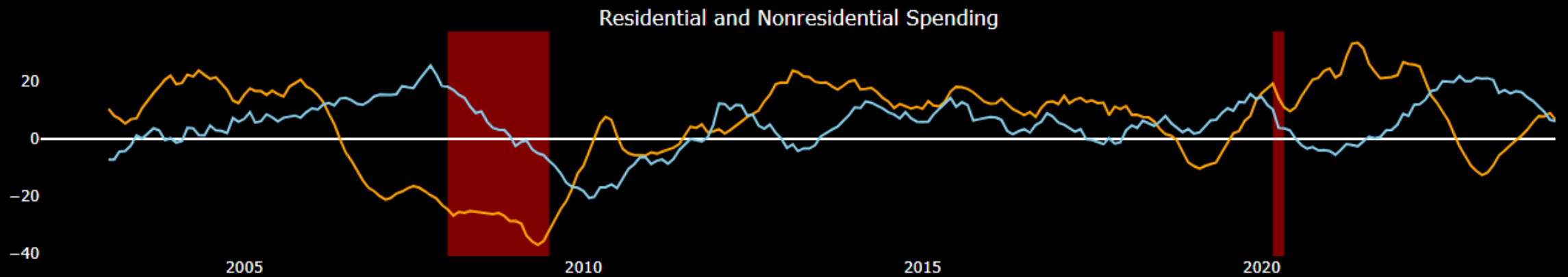
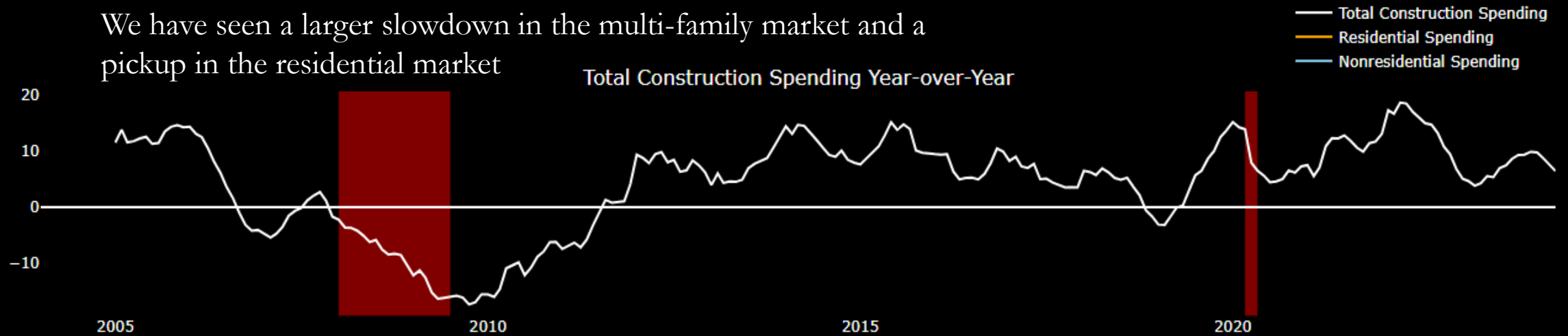


Construction Spending Year-Over-Year

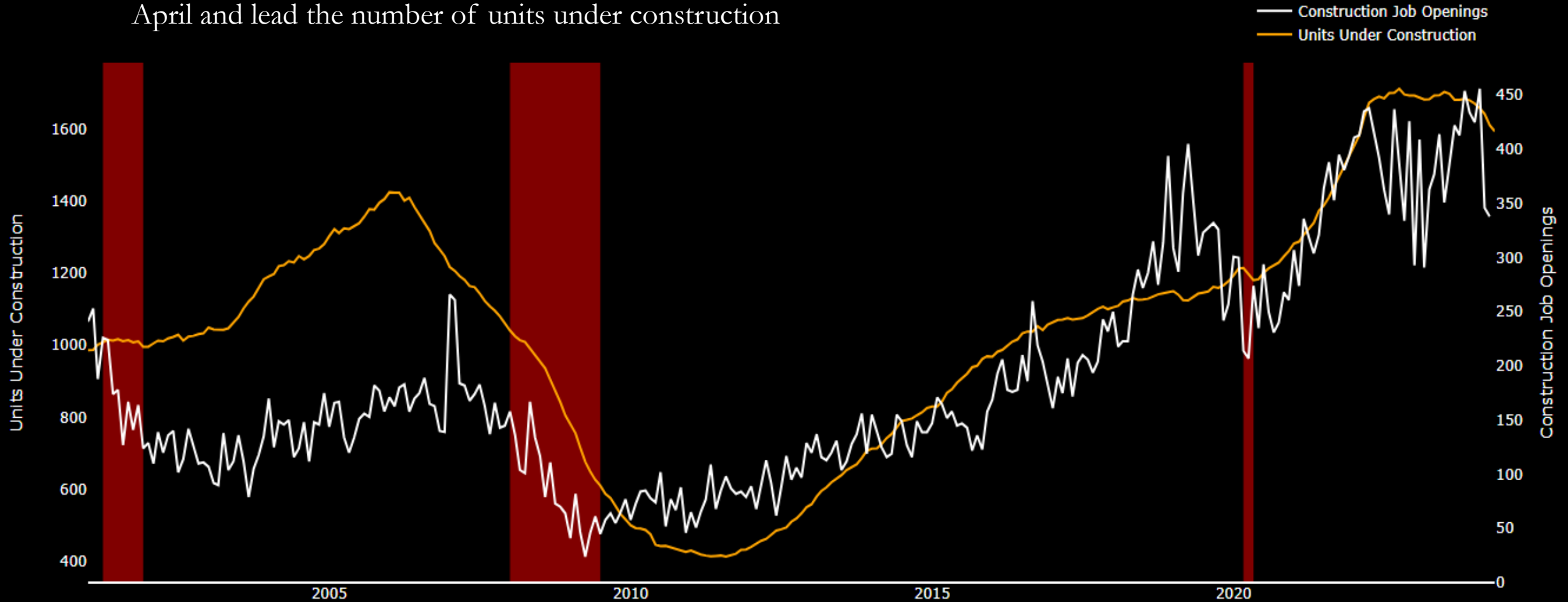
Year-over-Year Construction Spending is up 10% but the rate of change has slowed



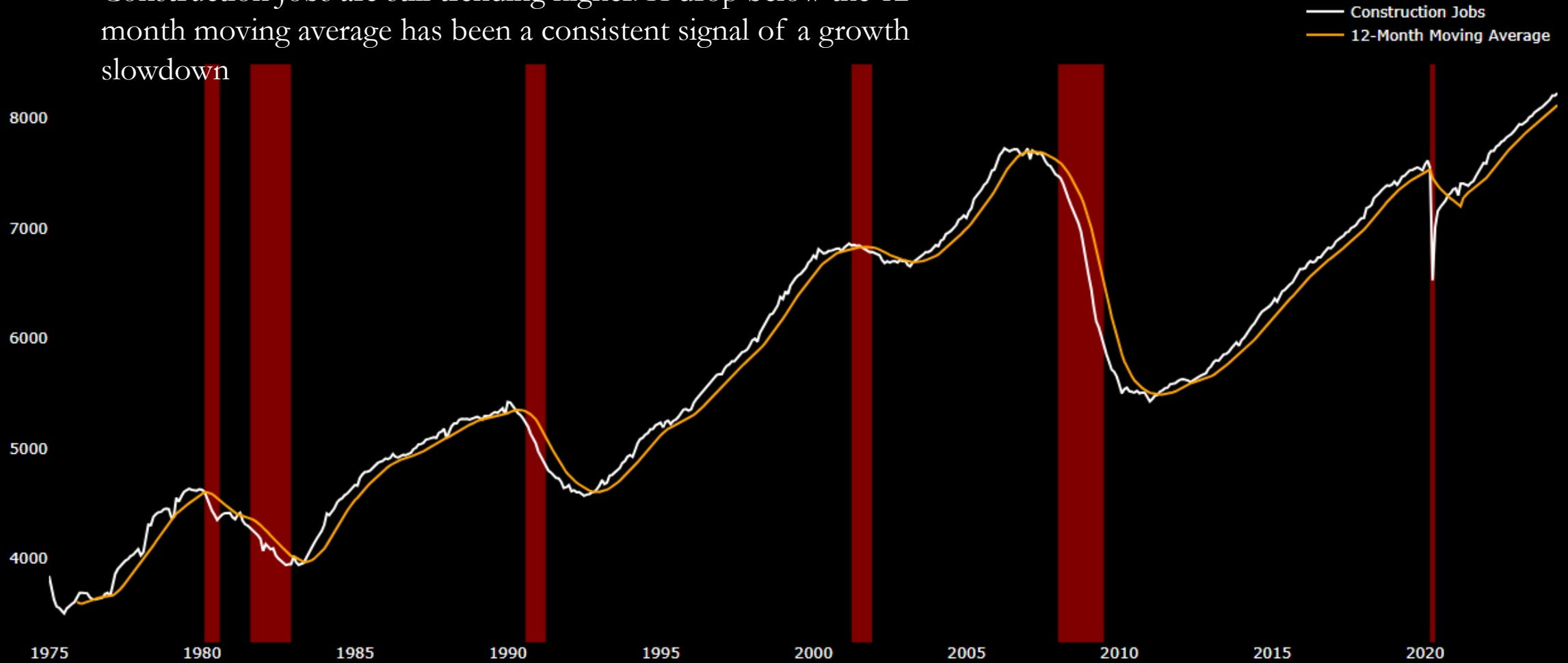
We have seen a larger slowdown in the multi-family market and a pickup in the residential market



Construction Job Openings had the largest pullback on record in April and lead the number of units under construction

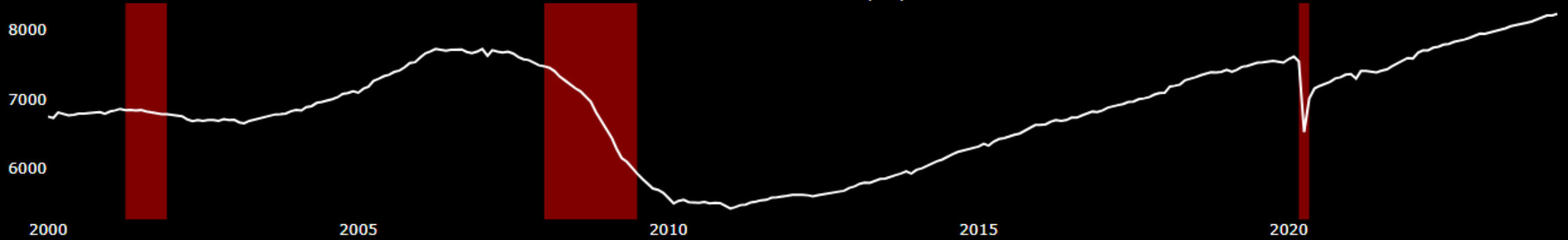


Construction Jobs are still trending higher. A drop below the 12-month moving average has been a consistent signal of a growth slowdown

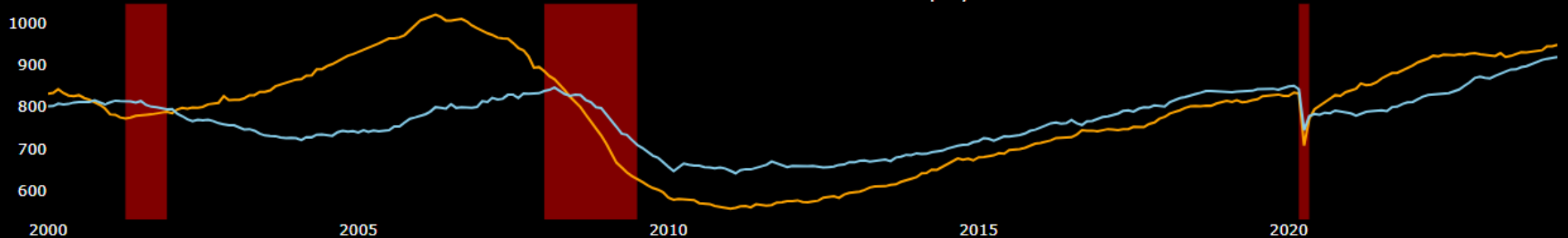


Both employment for multi-family construction and residential construction remain in uptrends

Total Construction Employment



Residential and Nonresidential Employment

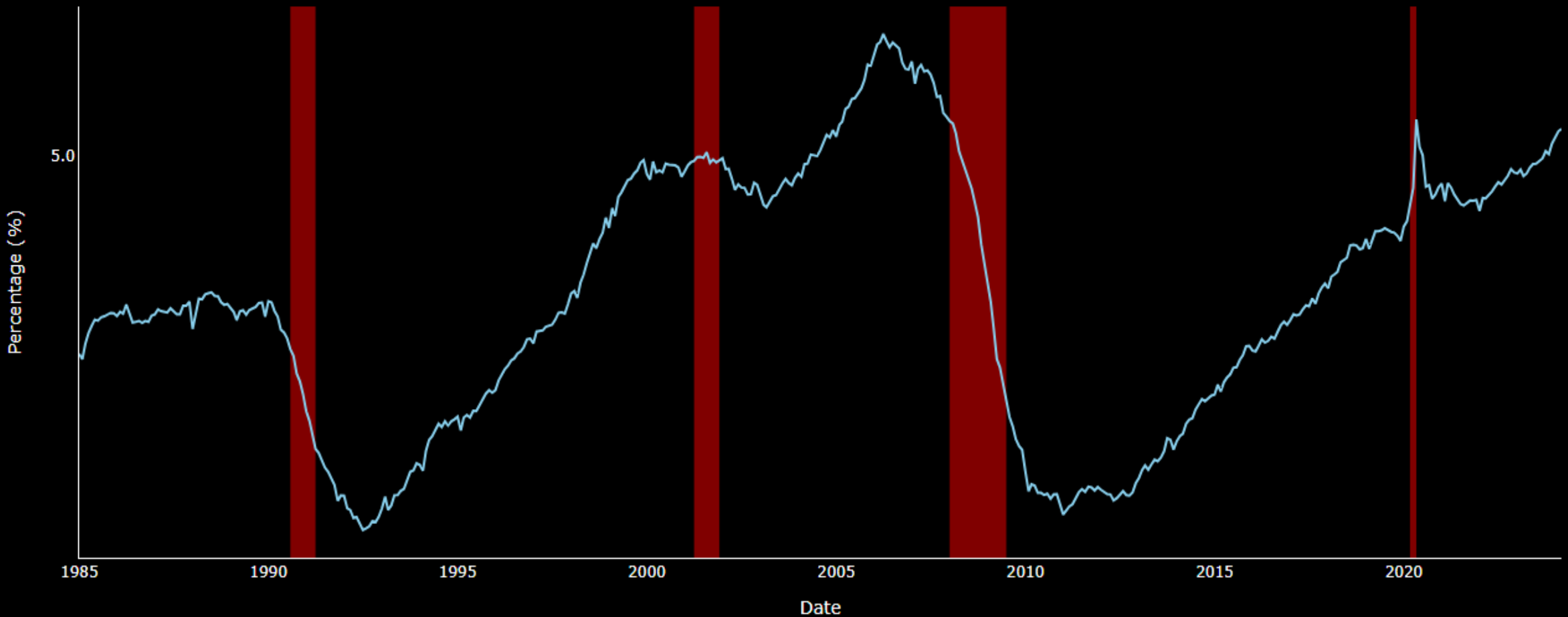


Year-over-Year Change in Residential and Multi-Family Construction Employment



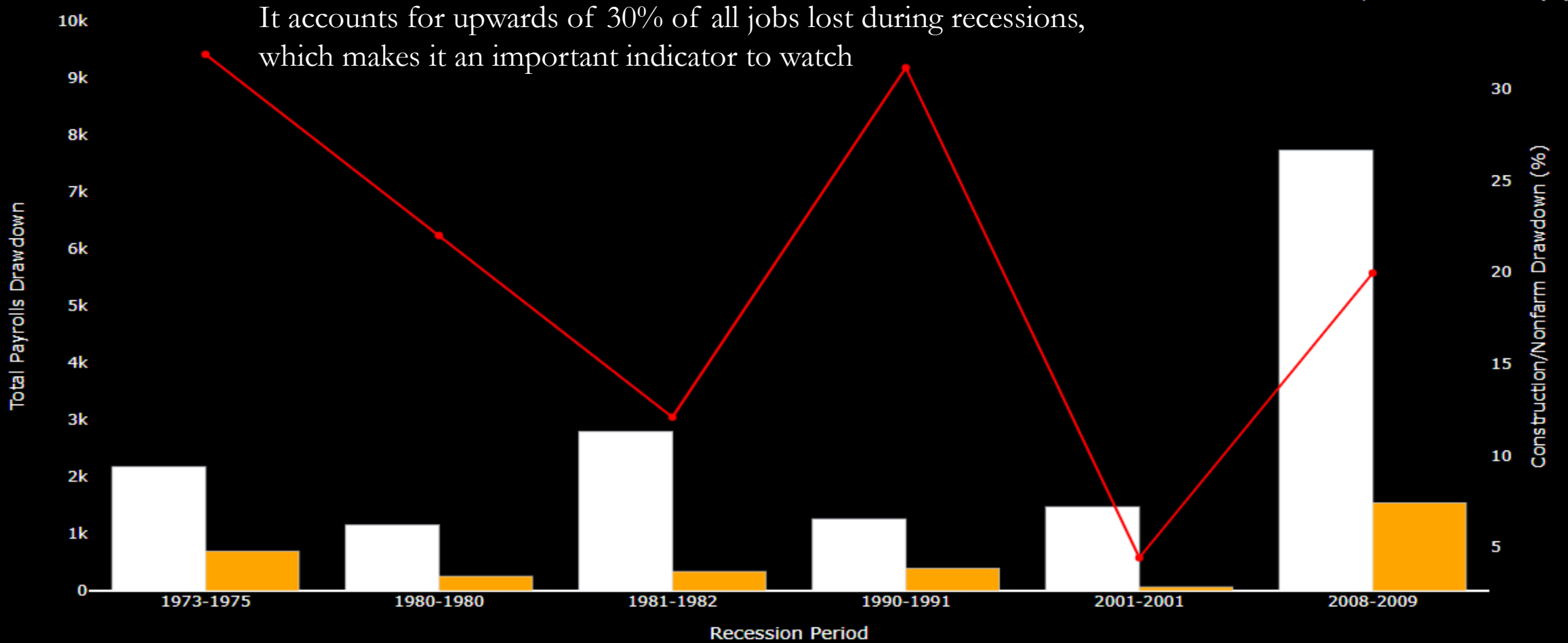
Construction Employment as a Percentage of Total Employment

Construction Employment makes up 3-5% of total employment



Peak-to-Trough Drawdowns During Recession Periods

- Nonfarm Payrolls Drawdown
- Construction Payrolls Drawdown
- Construction/Nonfarm Drawdown (%)





Drawdowns of 10% have been consistent with recessions and would be an indicator to de-risk your portfolio

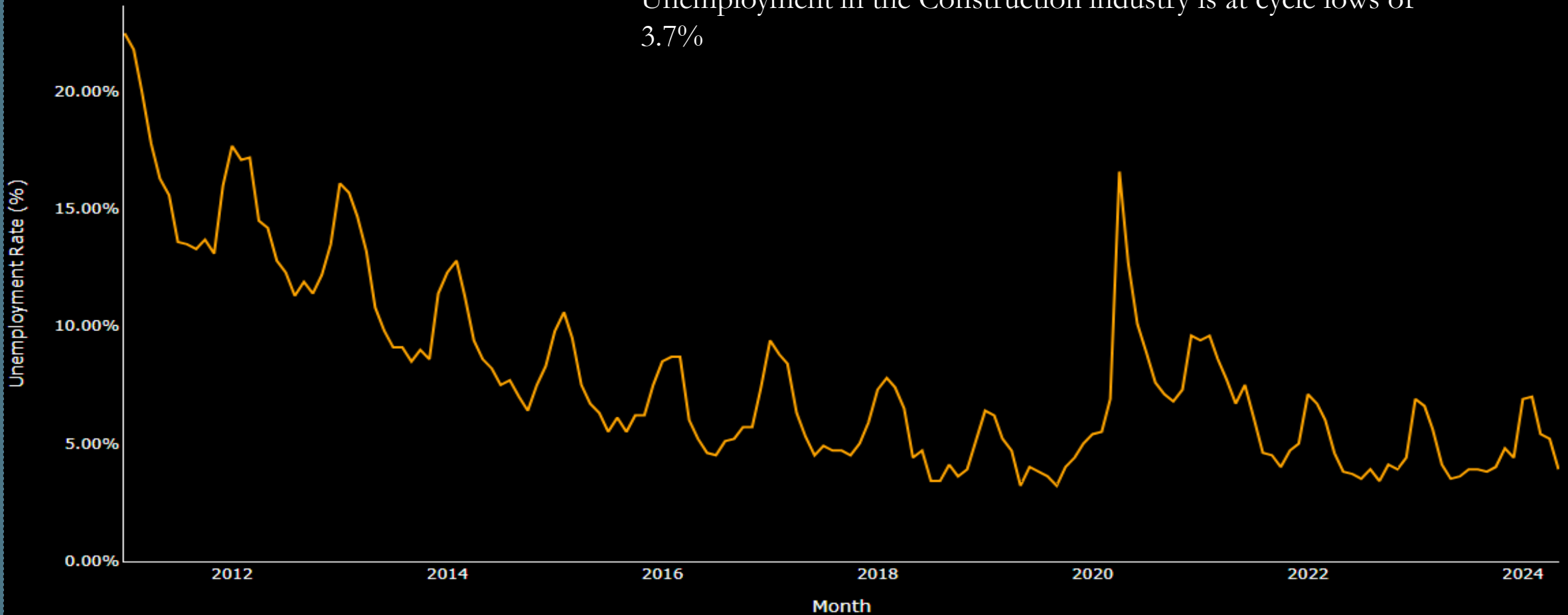
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Construction Employment and Drawdown



Construction Unemployment Rate

Unemployment in the Construction industry is at cycle lows of 3.7%

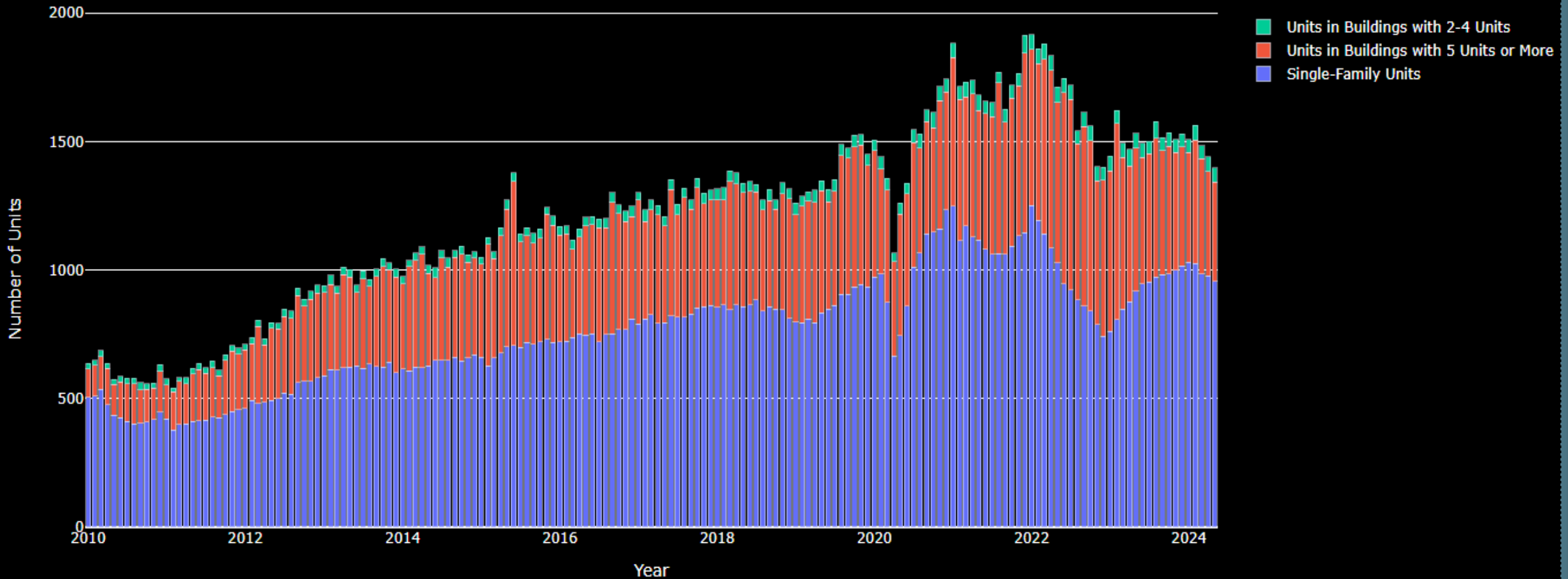




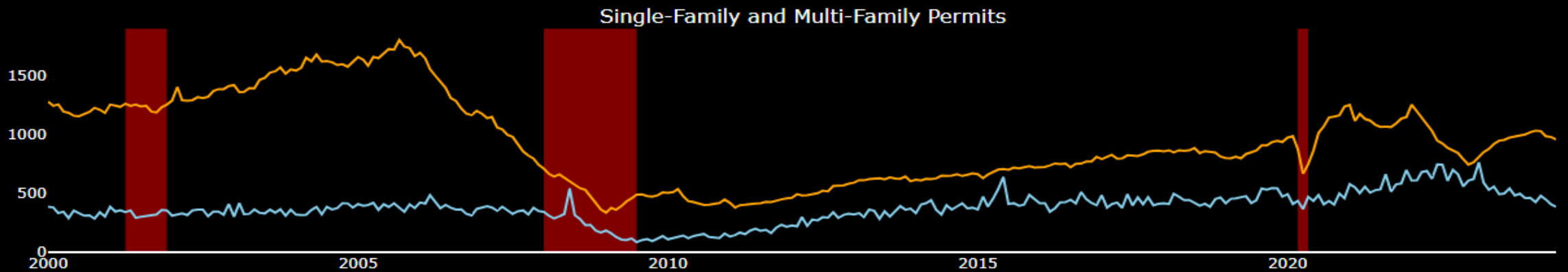
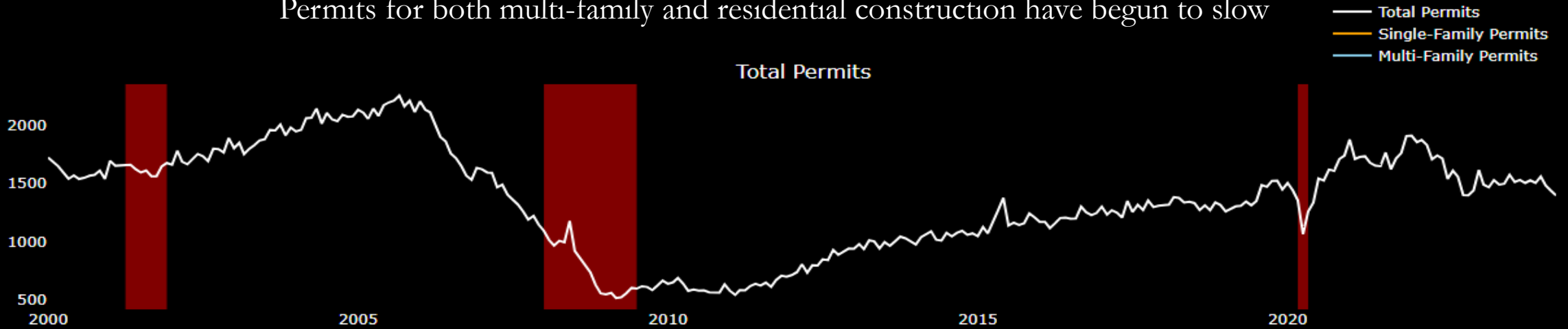
Building Permits have slowed and give you an idea of where construction employment will go as well as the number of homes being built. A permit issued is only a potential new home, as a builder can make the decision to delay construction

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New Privately-Owned Housing Units Authorized by Permit Type



Permits for both multi-family and residential construction have begun to slow



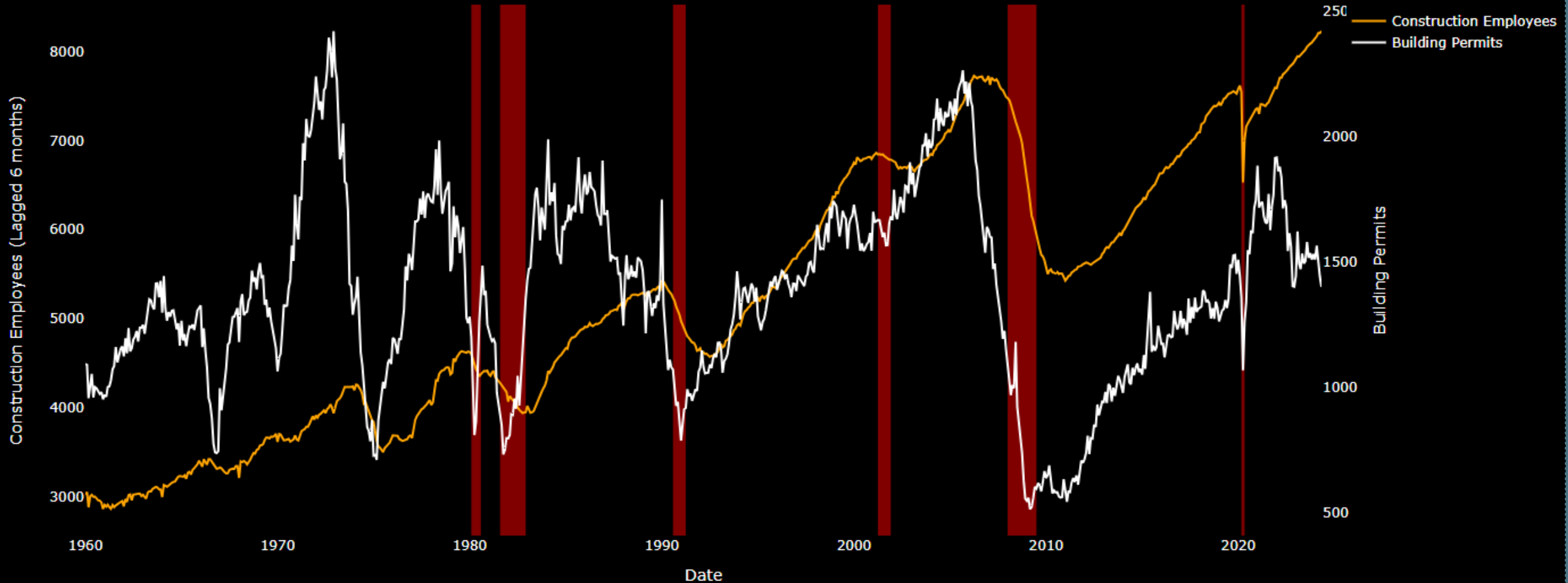
Building Permits YoY Change

Permits are down 9% Year-over-Year



Construction Employees & Building Permits

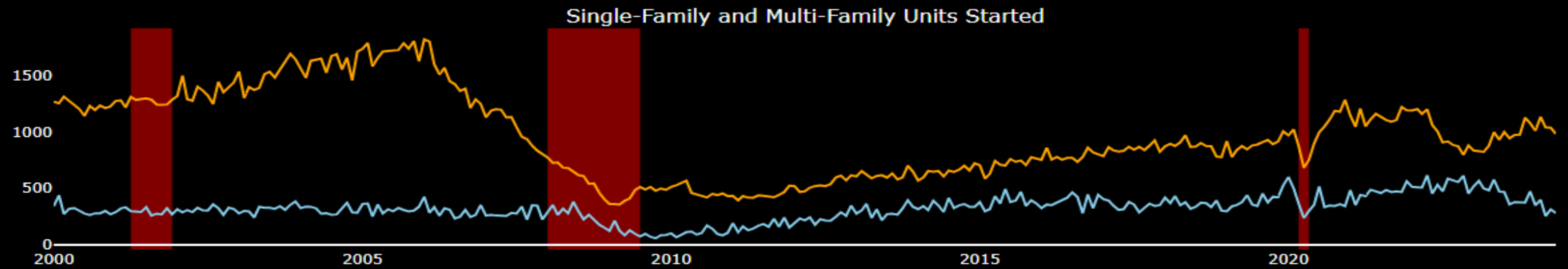
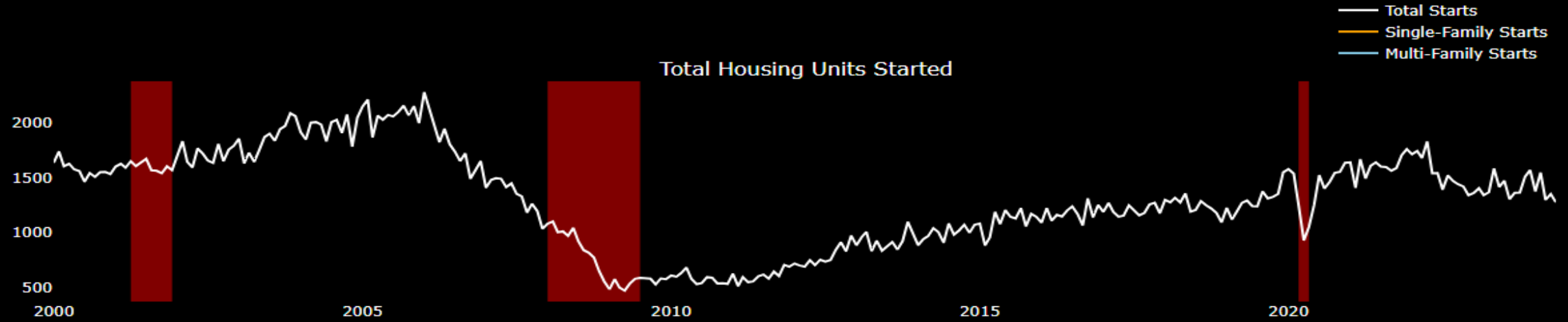
Building Permits have a 12–14-month lead on Construction Employment





Housing Starts for multi-family started falling first but residential has now also begun to follow

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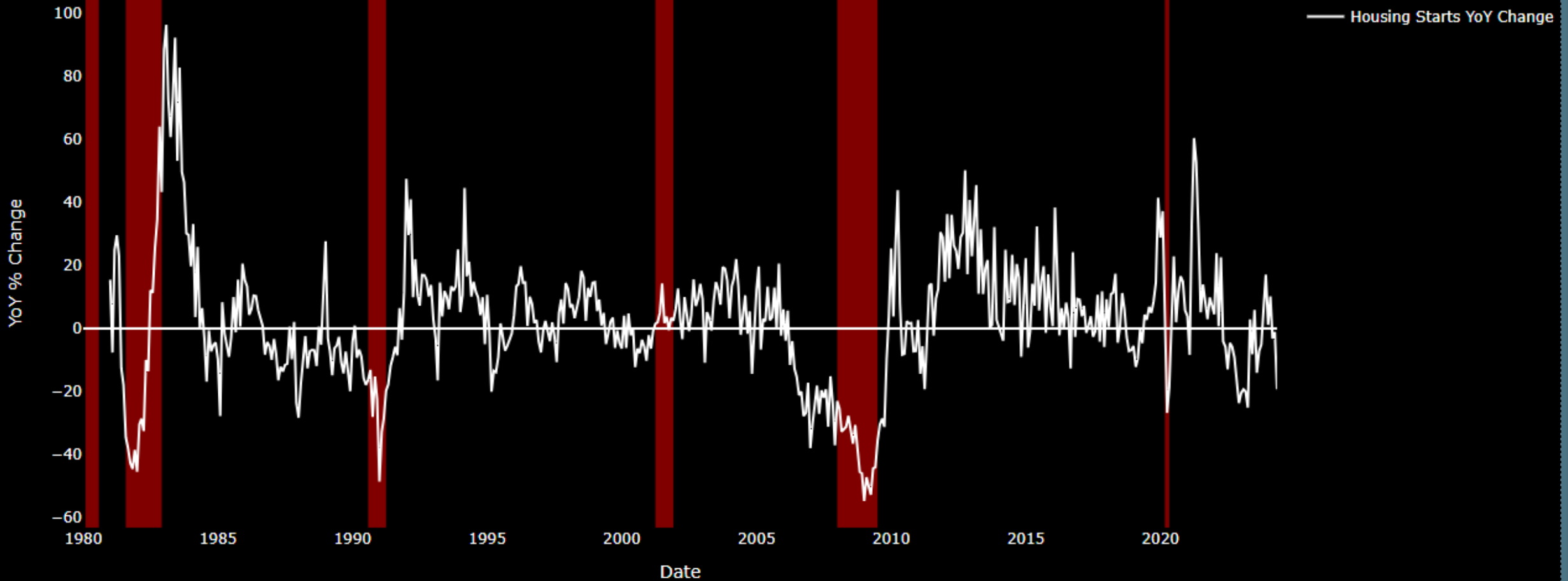




Housing Starts are down 16% Year-over-Year

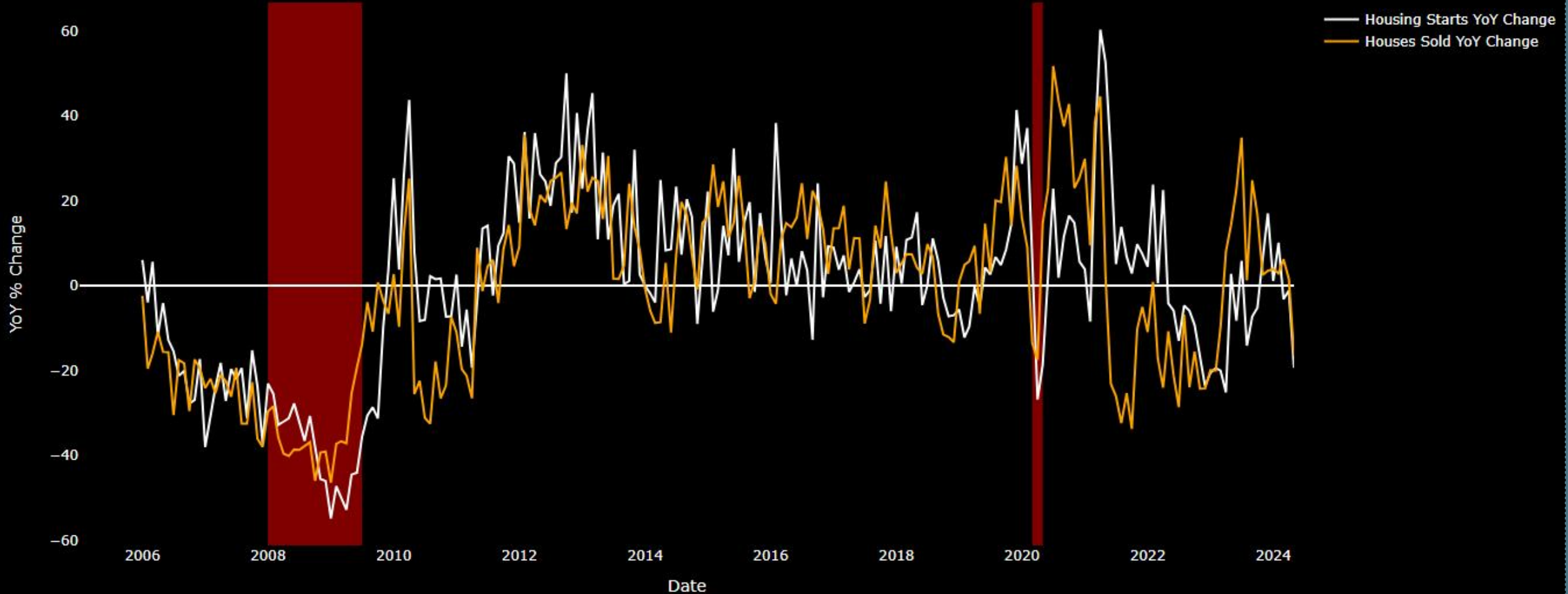
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Housing Starts YoY Change



Housing Starts and New One Family Houses Sold YoY Change

When New Homes Sold slows, Housing Starts begin to slow which flows through to employment and the broader economy





Like Building Permits, slowing Housing Starts lead Construction Employment

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Housing Starts and Construction Employees

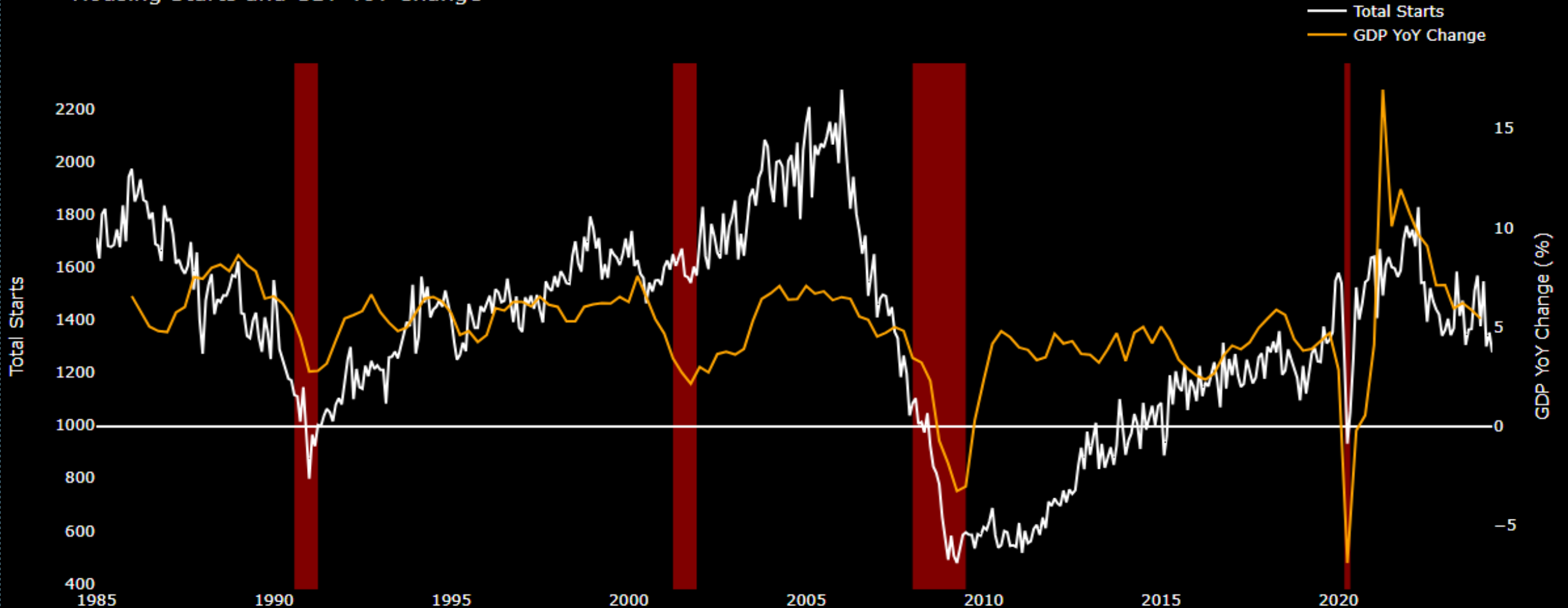




Housing Starts have a high correlation with GDP and tend to fall prior to GDP rolling over

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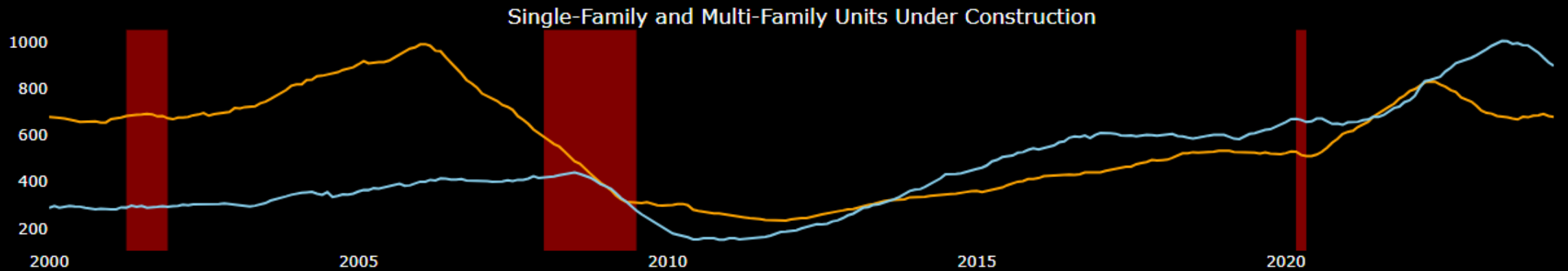
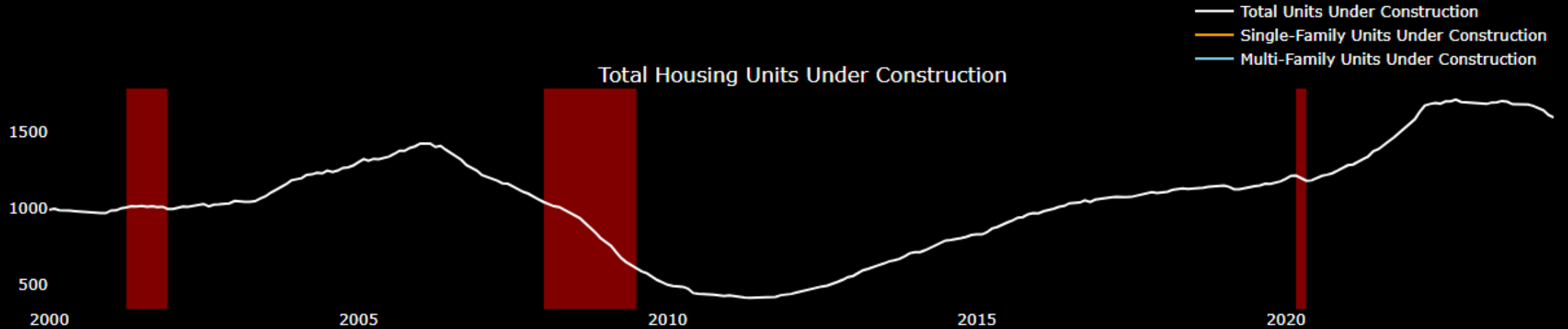
Housing Starts and GDP YoY Change





Units under construction remained relatively strong driven by multi-family until it topped a few months ago

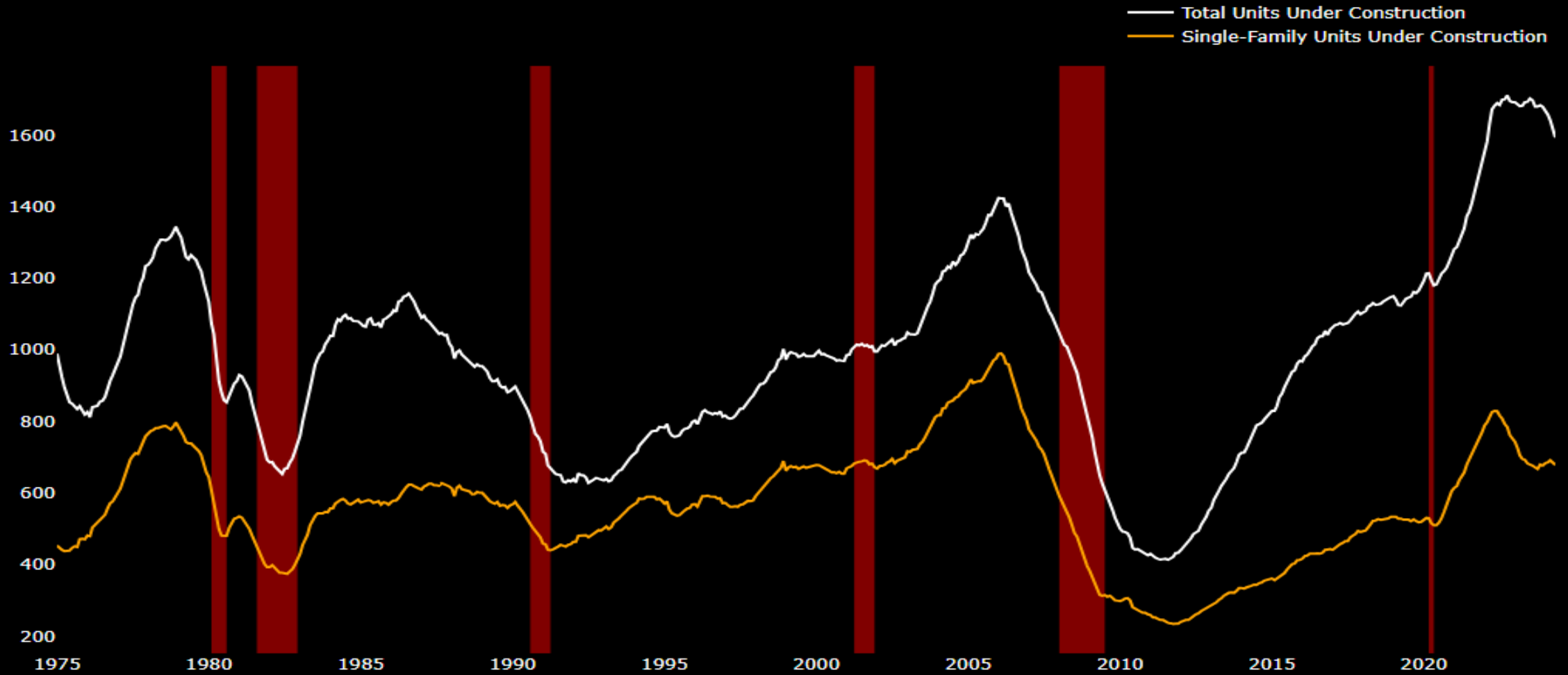
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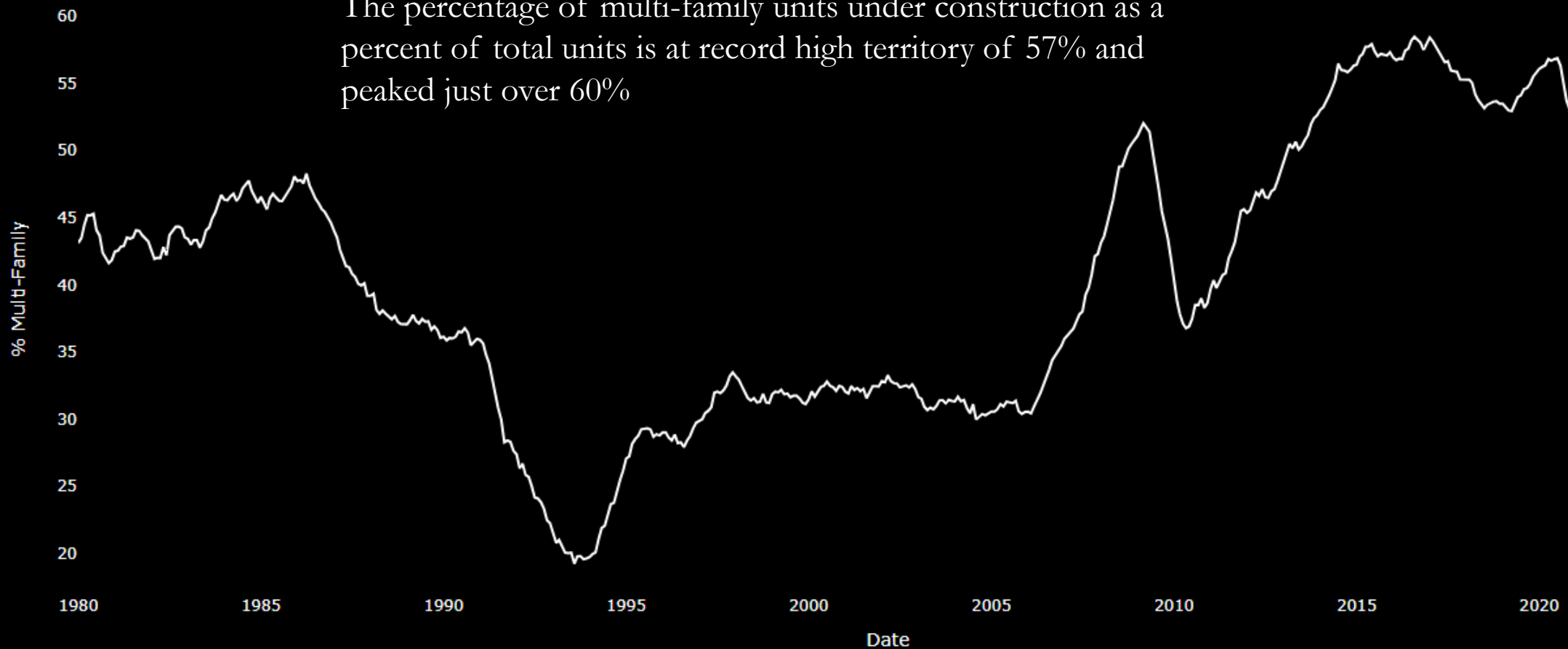
The deviation between total units under construction and single-family units is the largest on record

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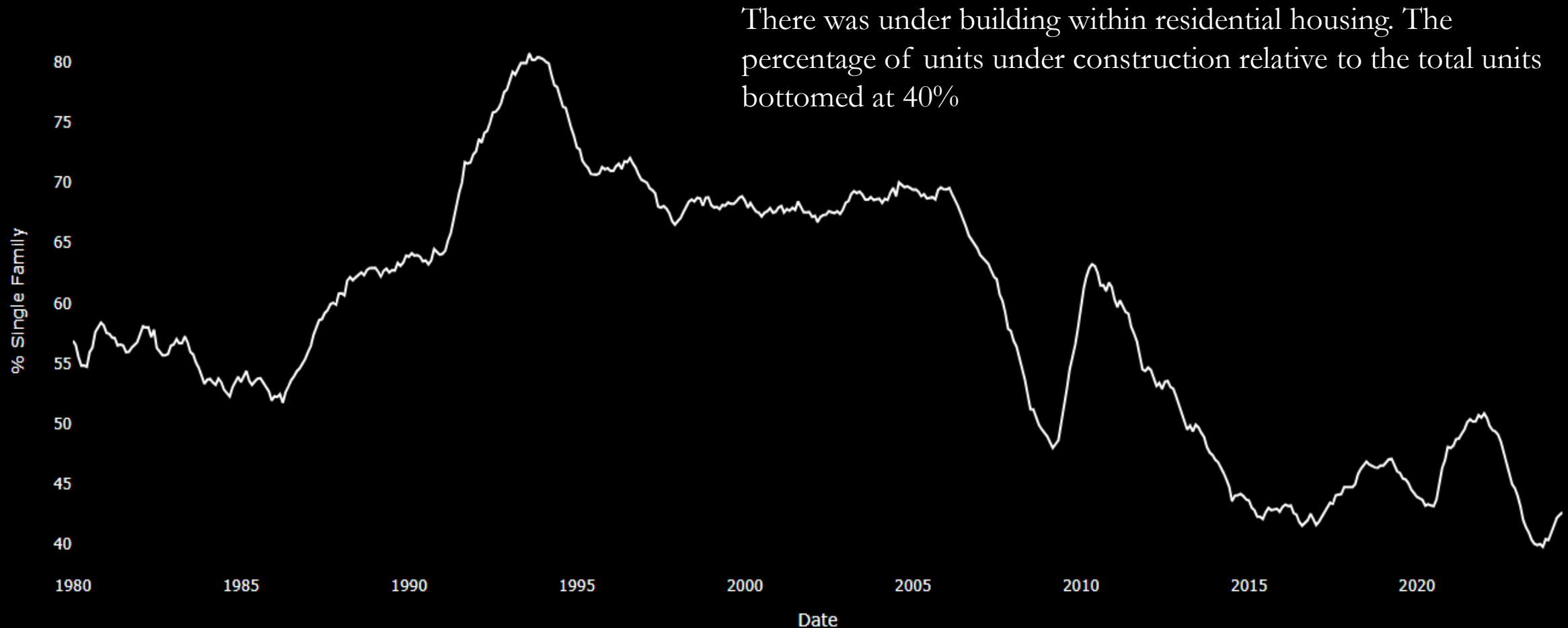


Percentage of Total Units Under Construction: Multi-Family

The percentage of multi-family units under construction as a percent of total units is at record high territory of 57% and peaked just over 60%



Percentage of Total Units Under Construction: Single Family

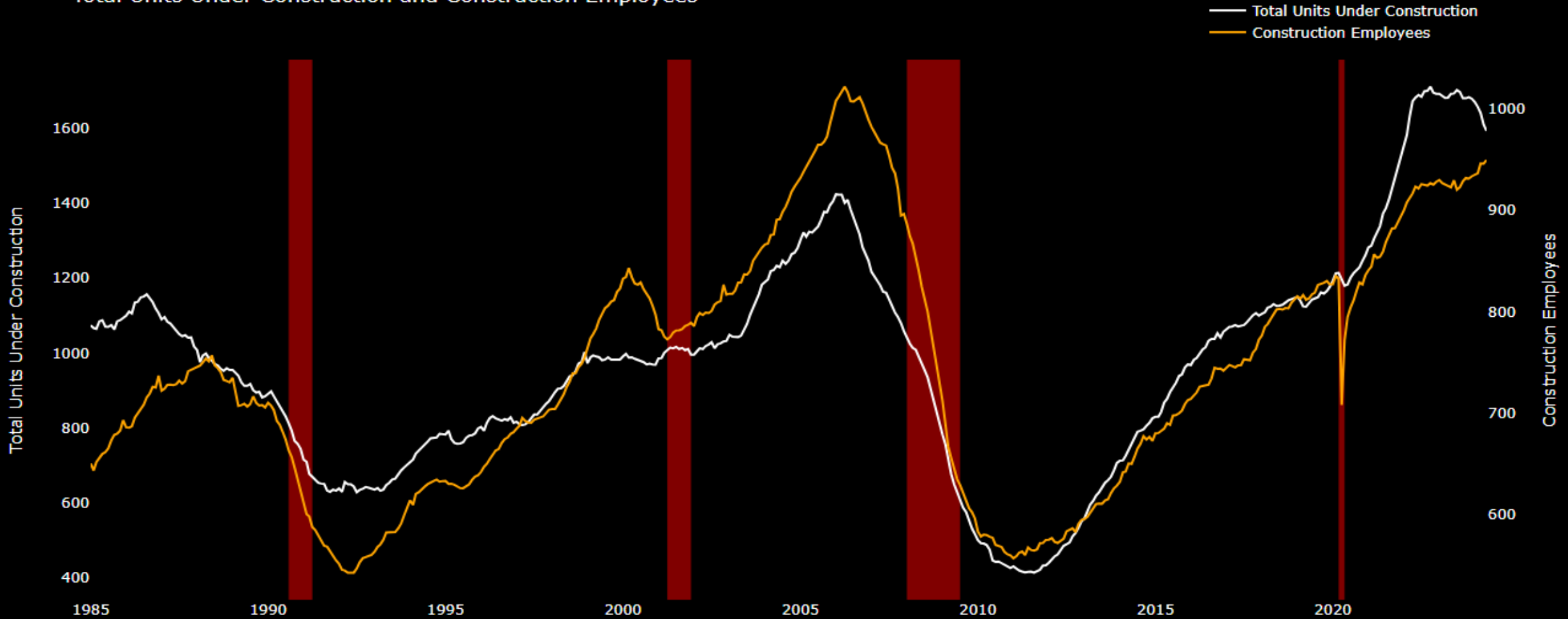




The tight relationship between units under construction and Construction Employees says we are nearing peak levels of employment in the space

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Total Units Under Construction and Construction Employees

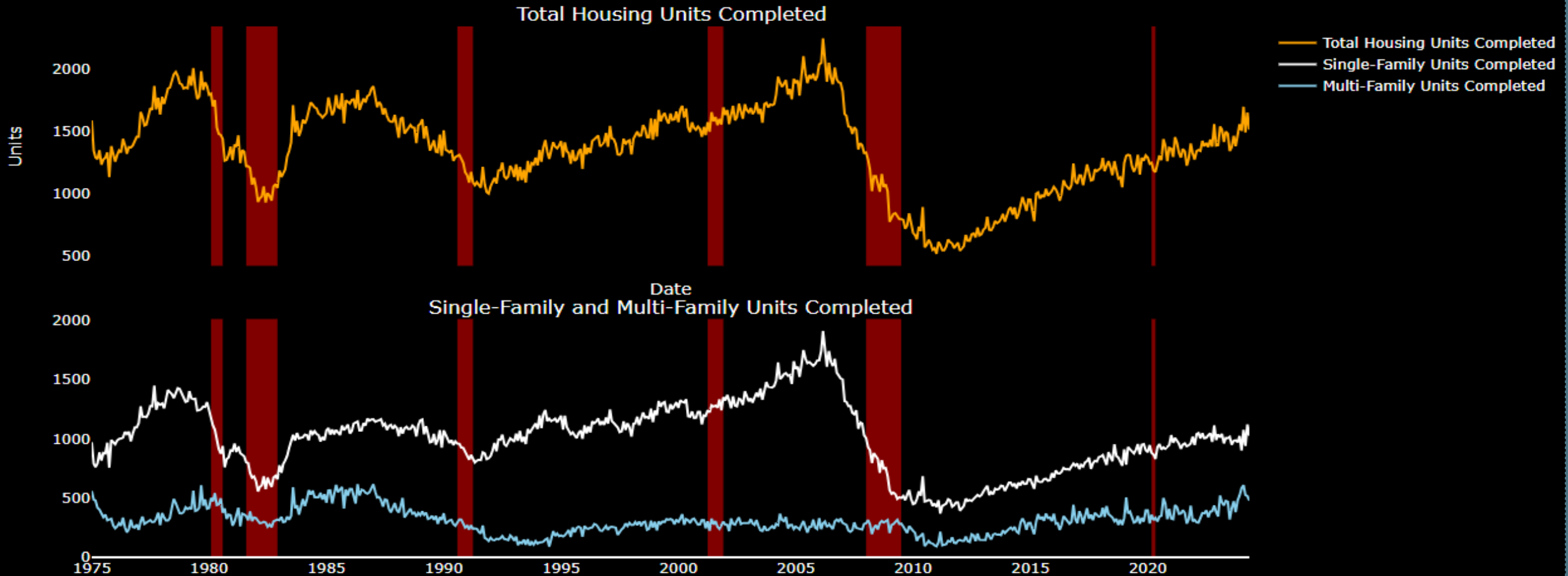




Units completed have been on a steady trend higher, but we expect this trend to break in the coming months as permits, starts and units under construction slow

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Housing Units Completed: Total vs. Single-Family vs. Multi-Family



Housing Units Under Construction and Completed

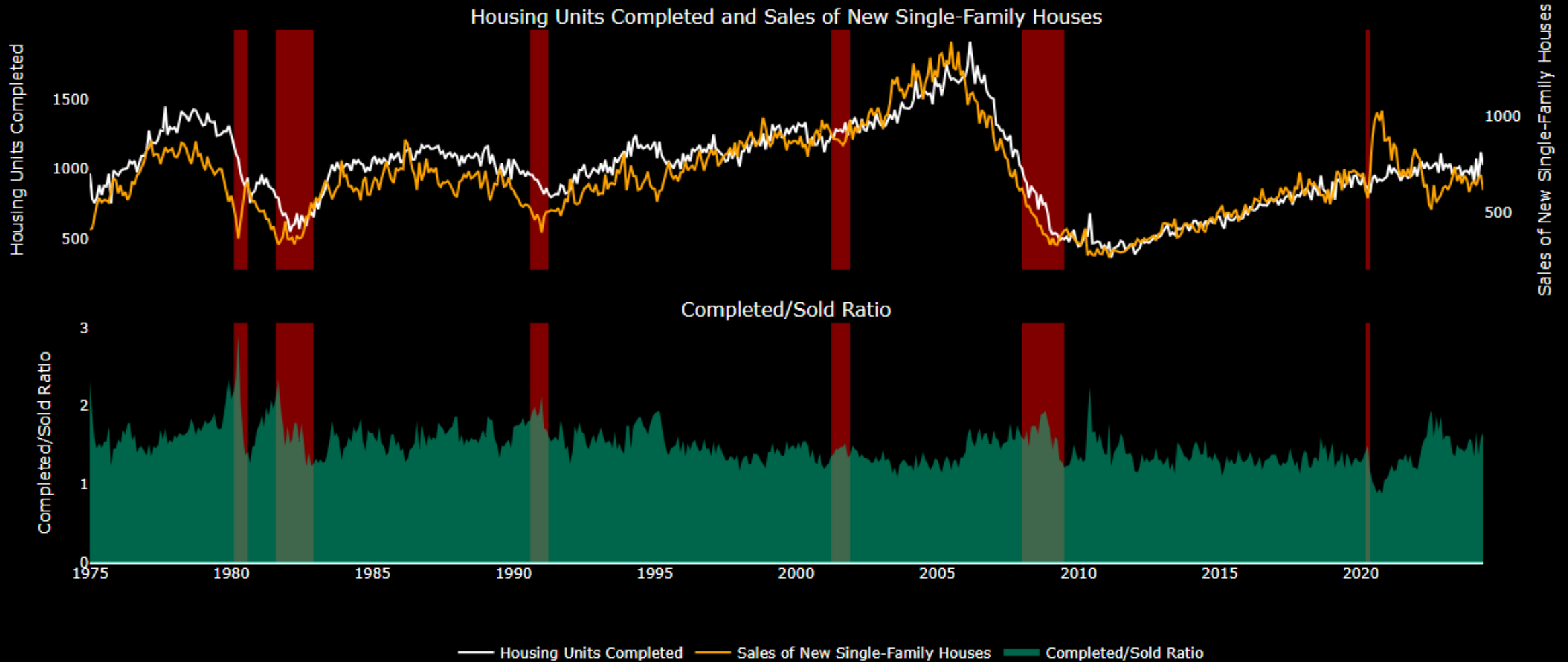
Once the current backlog of units under construction finish there will be less housing coming to the 15% of the market that make up new homes





When the ratio of units completed/sold begins to rise it usually spells out recession and lower prices due to write downs occurring to get excess supply sold

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New one family homes sold has sharply declined since 2021. The supply within the space has not yet been enough to overwhelm demand.

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New One Family Homes Sold in the United States

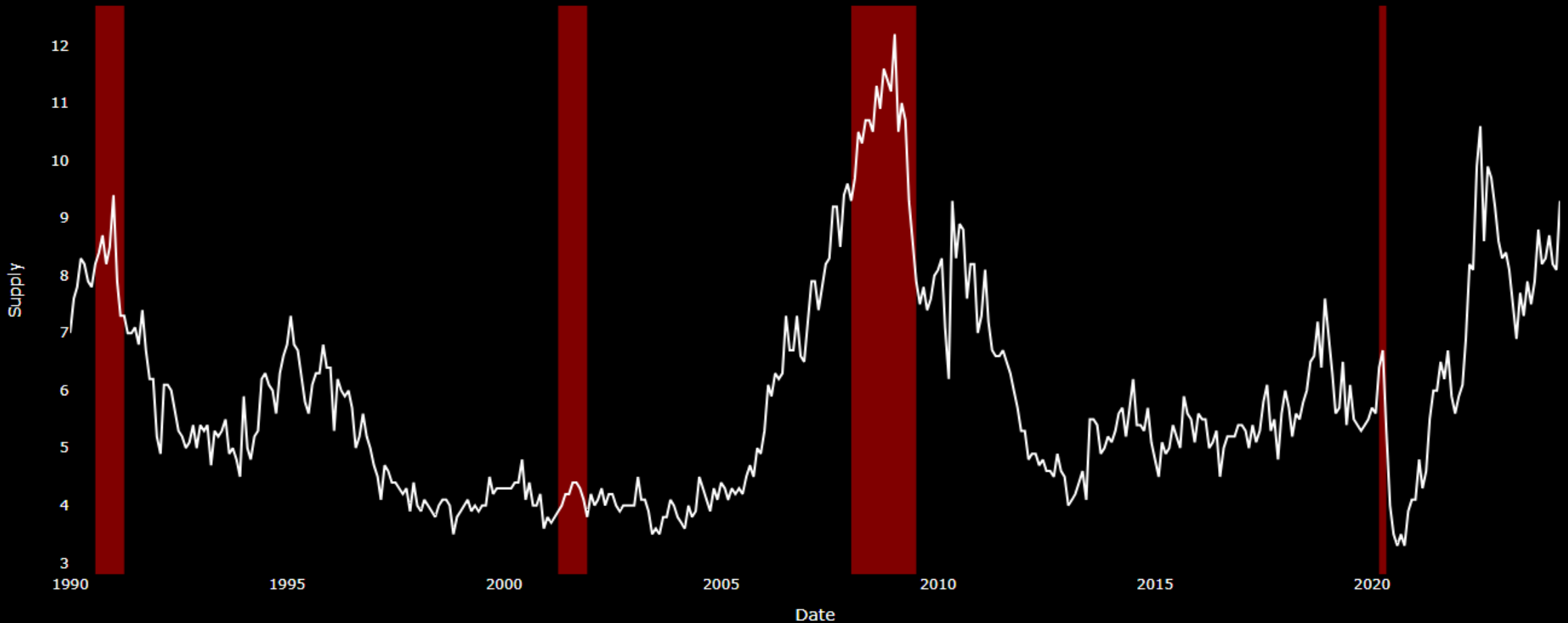




Months of supply has reached 9.3. Breakouts of supply have in the past occurred in recessions, more so due to forced sellers as employment deteriorates

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Monthly Supply of New Homes in the United States

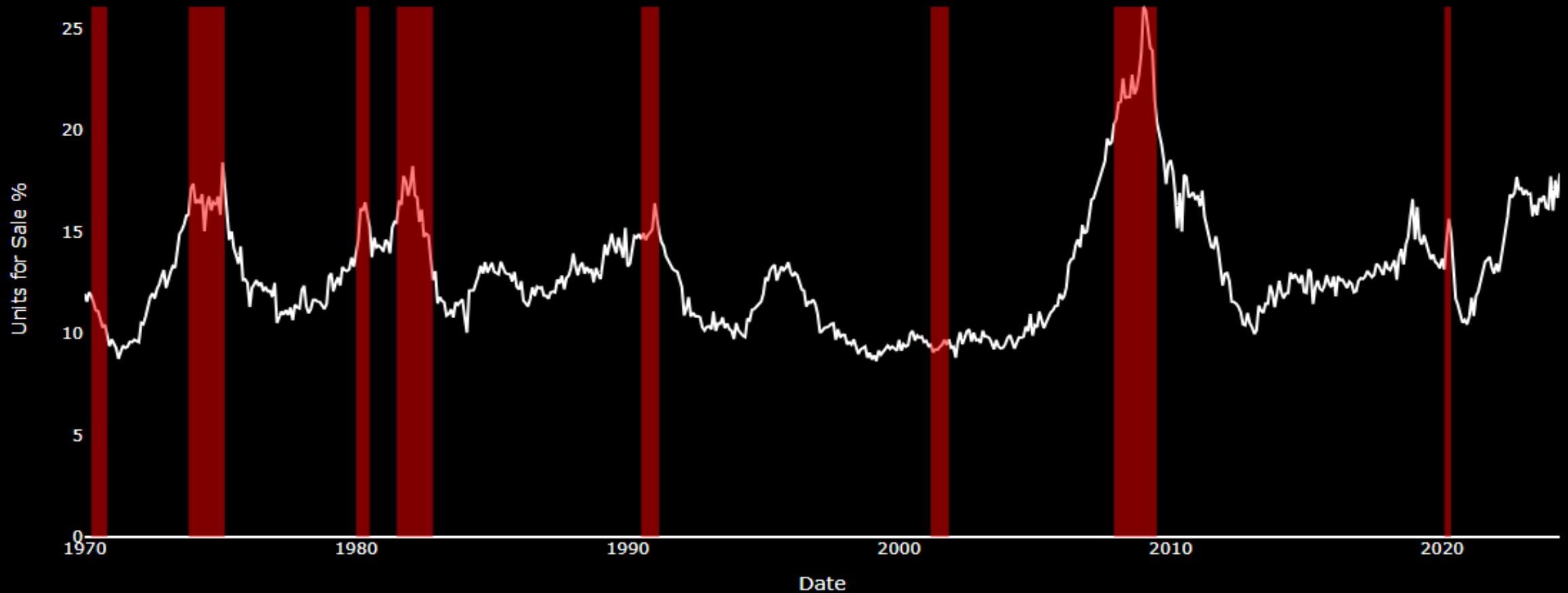




The supply is set to continue to rise as only ~20% of the homes in the pipeline (starts, units under construction, completed homes, homes for sale) are on the market with the other 80% not yet completed

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Units for Sale as a Percent of Total Housing Pipeline in the United States



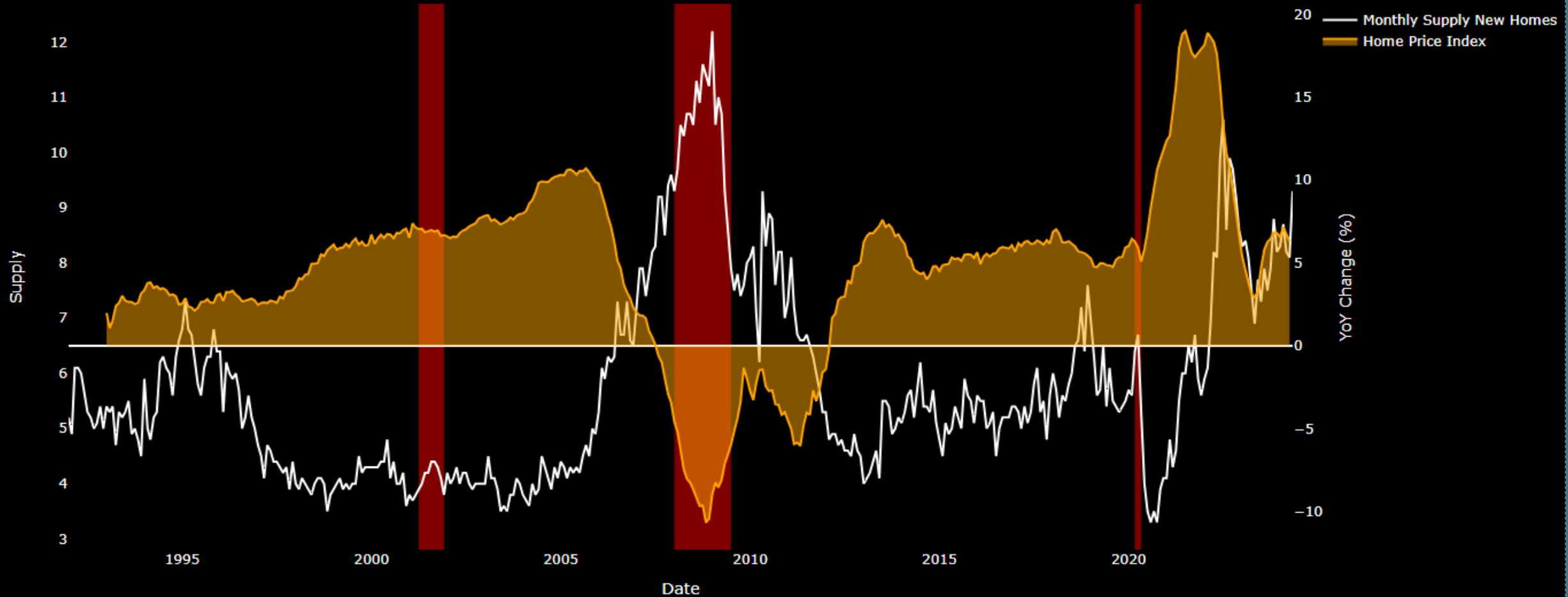


Traditionally months of supply reaching 9 has been enough to impact prices

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Monthly Supply of New Homes & House Price Index Year-over-Year

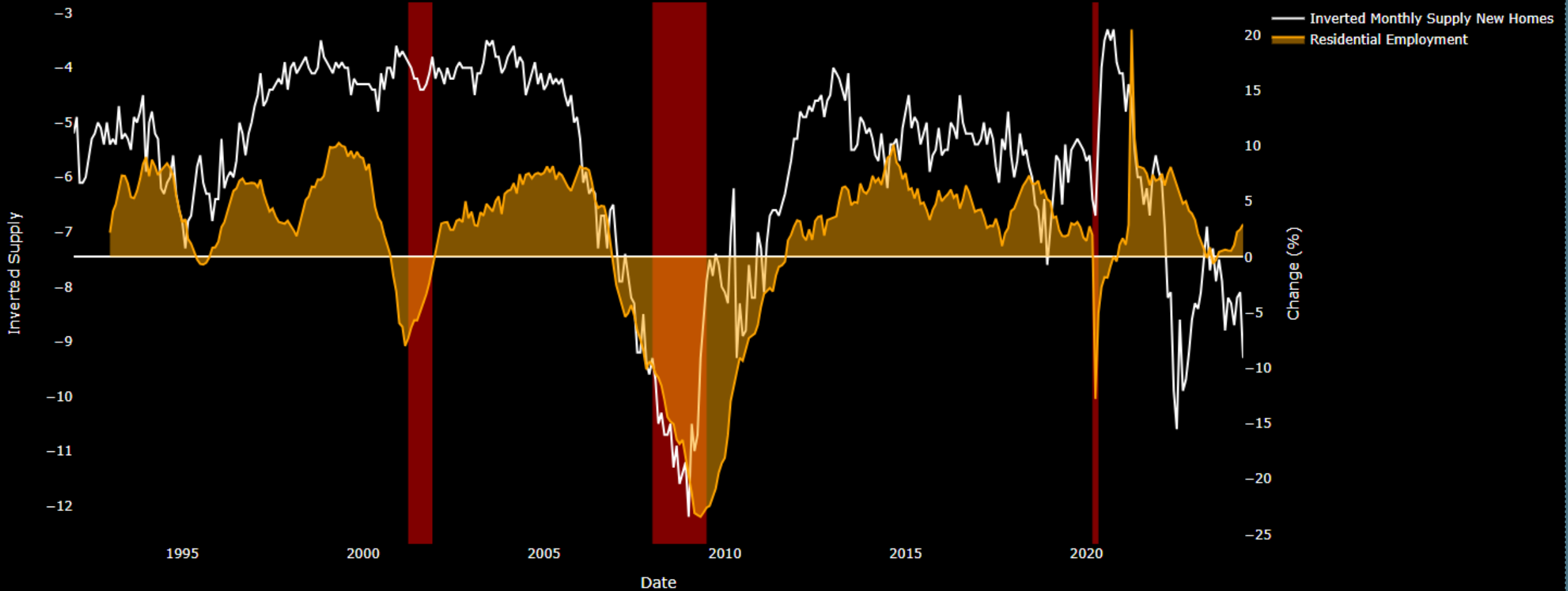




Months of supply (inverted) when rising has also negatively impacted employment within the construction space

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Monthly Supply of New Homes (Inverted) & Residential Employment Year-over-Year

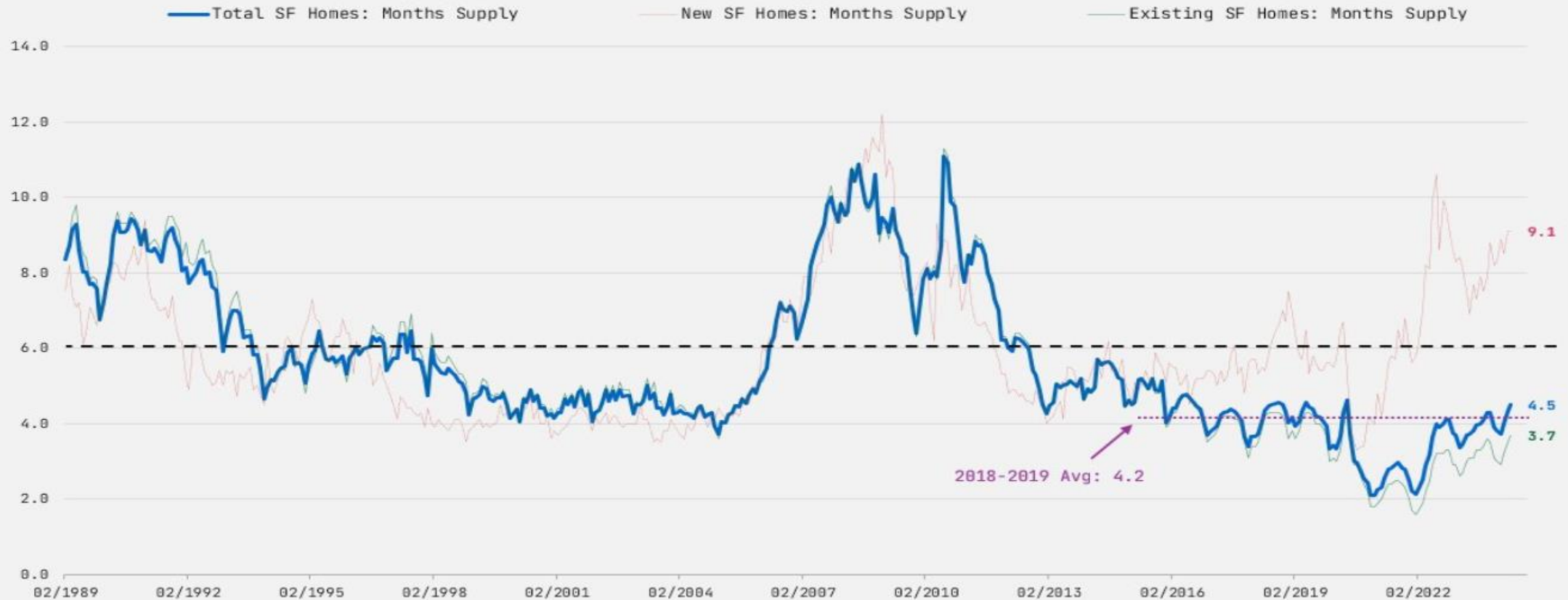




New and existing homes for sale tends to be highly correlated. Due to a large portion of the country locking in rates sub 3% the existing home market has completely frozen with 7% rates. New homes rising to 9 months of supply with more supply set to come to market creates a setup where lower rates unlocking supply of existing homes will push supply above its long-term average and likely overwhelm demand, bringing down prices

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Months Supply of Total US Single-Family Housing



SPDR S&P Homebuilders ETF

Homebuilder stocks have been beneficiaries of higher home prices. It allowed for margin expansion and helped them accumulate large cash balances. They have used their margins and cash to engage in rate buydowns to keep the new home market alive



iShares U.S. Home Construction ETF

Earnings projections for FY 24 are negative and a top looks like its forming within homebuilding stocks



S&P 500, ITB, and XHB

Both XHB and ITB are up 280% since the start of 2020 while the S&P 500 had returned 136%



D.R. Horton, Inc. (DHI)

D.R. Horton has support at its 200 DMA. Below that you would be looking at \$128 for initial support



Lennar Corporation (LEN)

Lennar has a similar setup with support at \$133



PulteGroup, Inc. (PHM)

Pulte has held up a little better but has the same pattern as other builders and more to fall if it breaks through its moving averages. Support is at \$85





Pulte peaked at 130%, Lennar and D.R. Horton at just under 100% year-over-year in 2023 and are still positive for 2024. But the rate of change is coming down

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Year-Over-Year Percentage Change of LEN, PHM, and DHI





Early in the pandemic companies that provided materials for home repairs were outperformers as everyone was stuck at home. Since their peak in late 2021 they have traded sideways

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The Home Depot



Lowe's Companies, Inc.



POOL Corporation



Sherwin-Williams (SHW)





Since the start of 2023 Homebuilders outperformed and housing related stocks outside of Lowes performed in line with the S&P 500

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Housing Related Stocks





Conclusion

- The supply of new homes on the market/coming to market is at elevated levels relative to recent history. It makes up only 15% of the housing market. Existing supply (the other 85%) is down at just under 4 months. Meaning the overall months of supply stands at 4.5, with 6 months being the long-term average. A likely catalyst even though counterintuitive is lower rates. That will unlock existing home supply and push overall supply to levels high enough to bring home prices lower
- The key to being accurate on the timing of the recession everyone was calling for in 2023 will be construction employment. We have seen slowing within building permits and housing starts but there is lag between that data and layoffs taking place. Once the remaining homes started and units under construction move to completed status, less housing in the pipeline will lead to lower employment. A 10% drop in construction employment would be a recession signal but just seeing rollover in jobs would be a signal to de-risk. This data has been a leading indicator of the business cycle historically
- Homebuilder stocks look like they've reached a peak on a technical and fundamental basis. The XHB (Homebuilder ETF) is 13% off its peak and our analysis suggests it could fall another 12%



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