

Real Estate and the Economy in a Post COVID World: What Lies Ahead



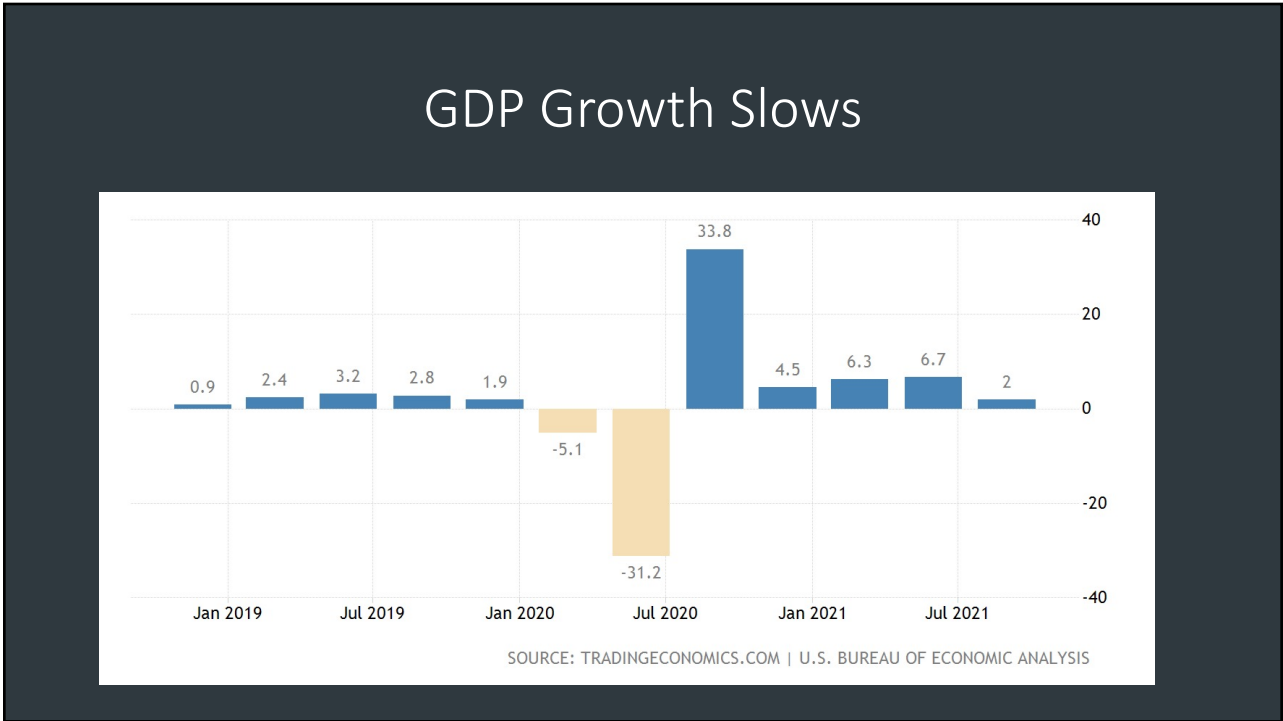
John Tuccillo & Leslie Appleton-Young
Triple Play Atlantic City
December 6-7, 2021



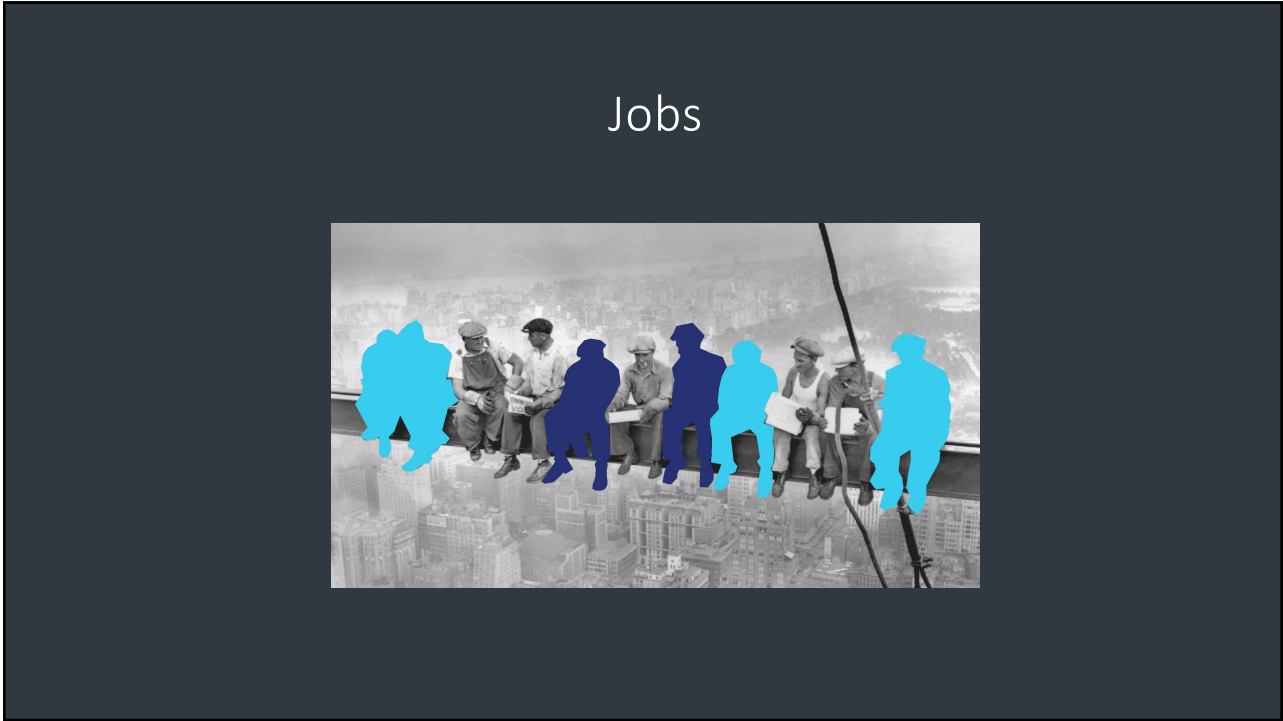
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Part I The Economy & Real Estate

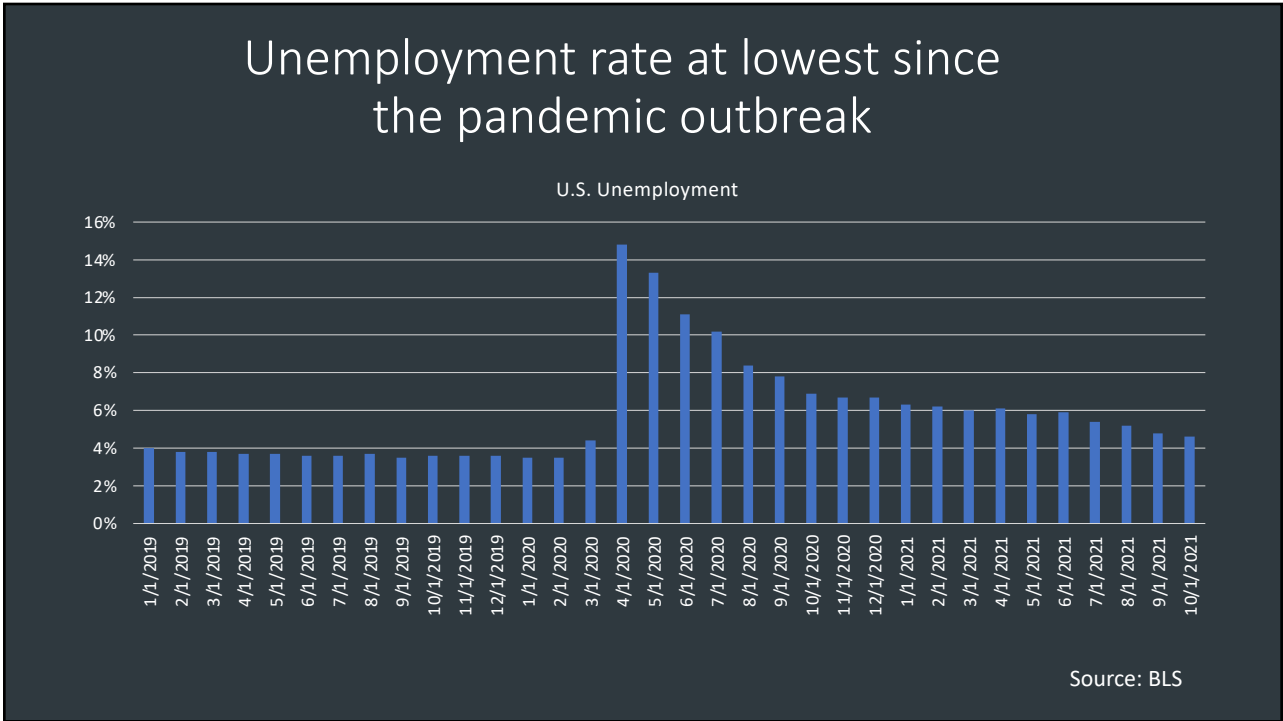
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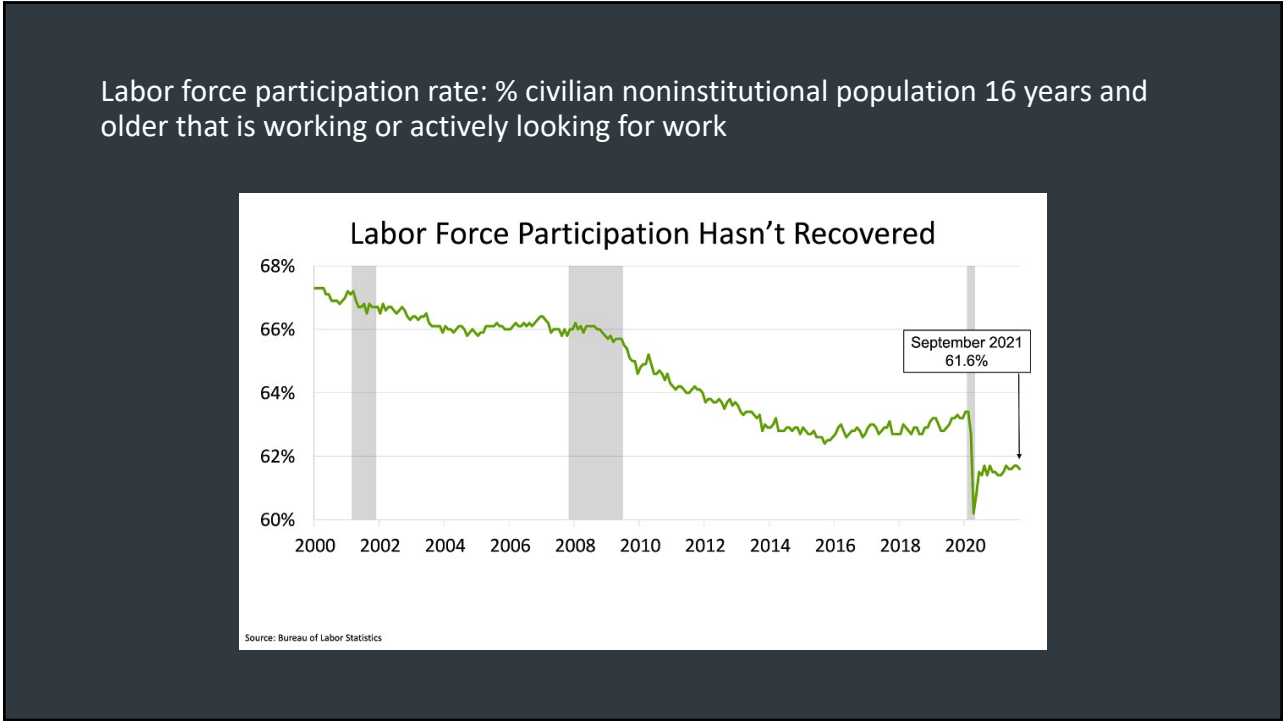
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Why?

- Health crisis
- New priorities
- Starting their own business
- Childcare/reliable school openings
- Savings cushion
- Early retirement
- Holding out for:
 - Higher wages
 - Better working conditions
 - More benefits
 - Full time employment

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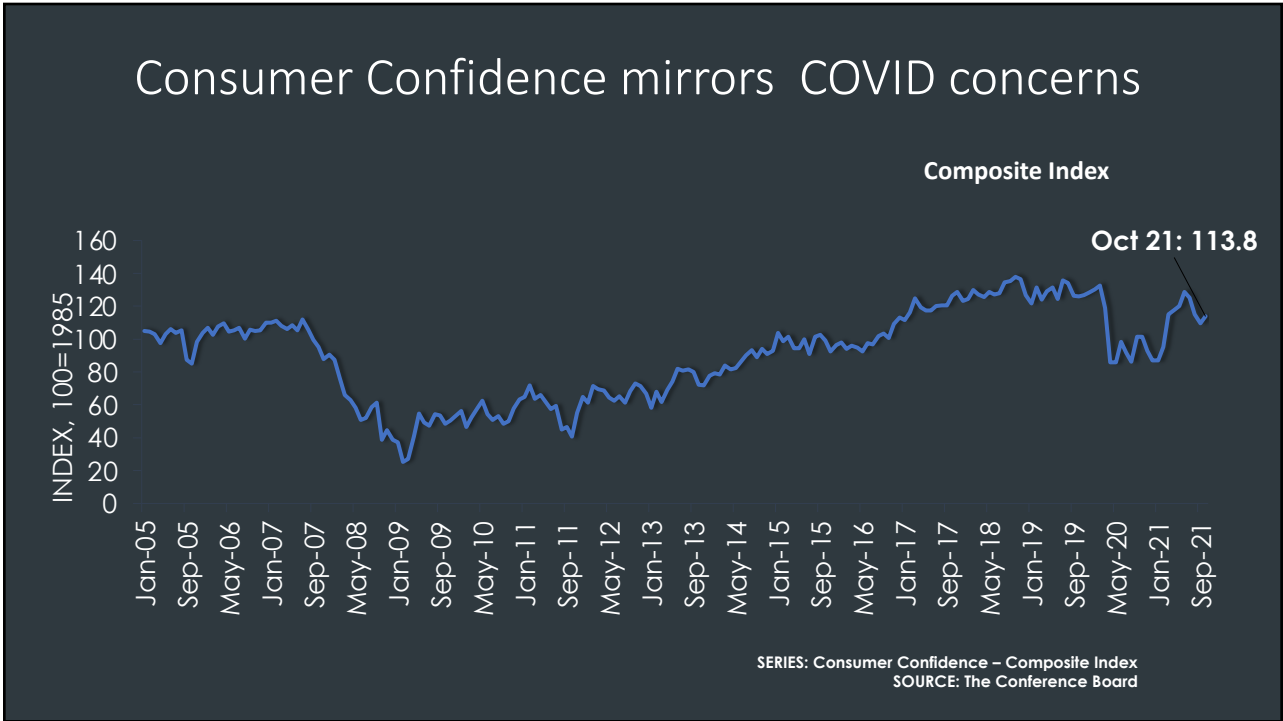
“The Great Resignation”

“It’s like the whole country is in some kind of union renegotiation.”

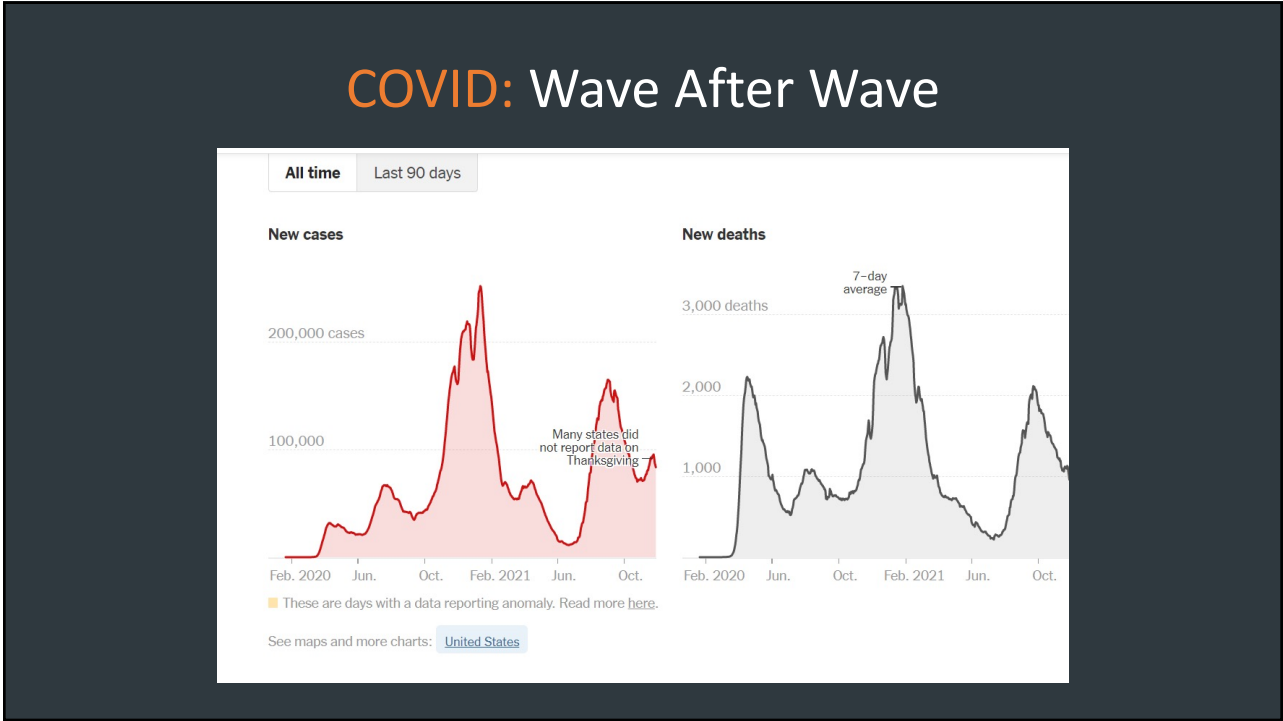
Betsey Stevenson, Economist
Univ of Michigan



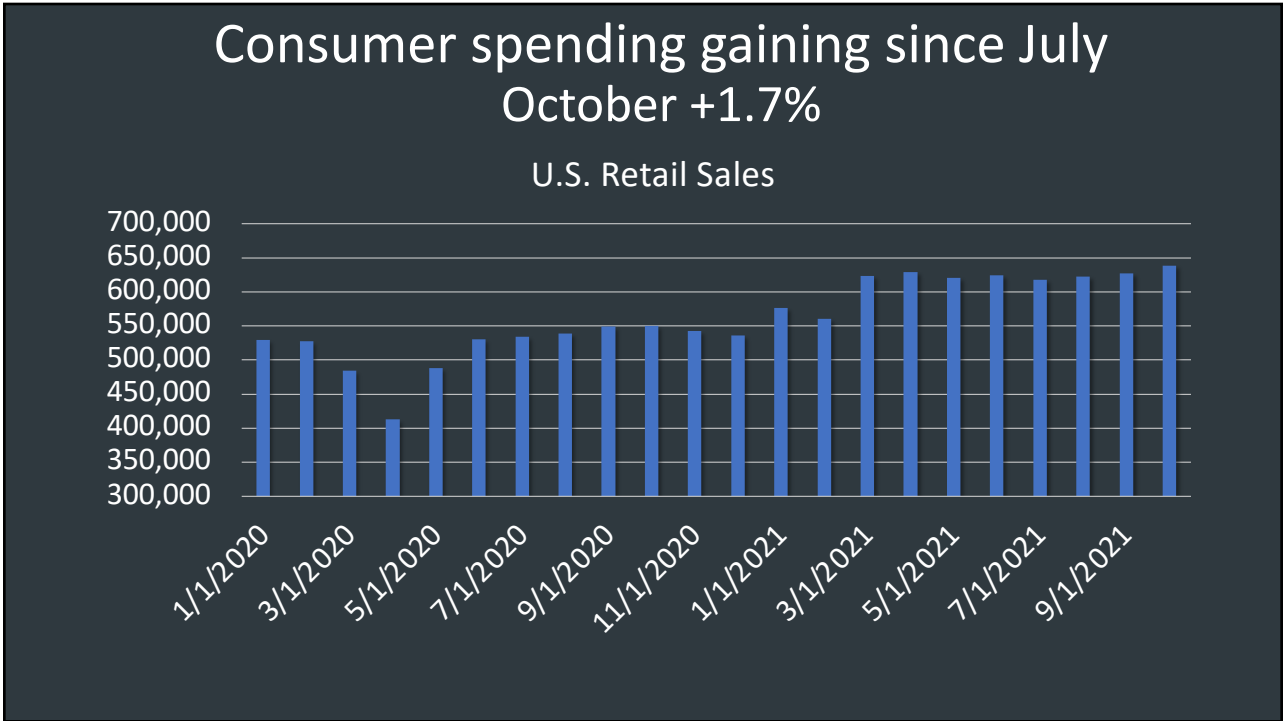
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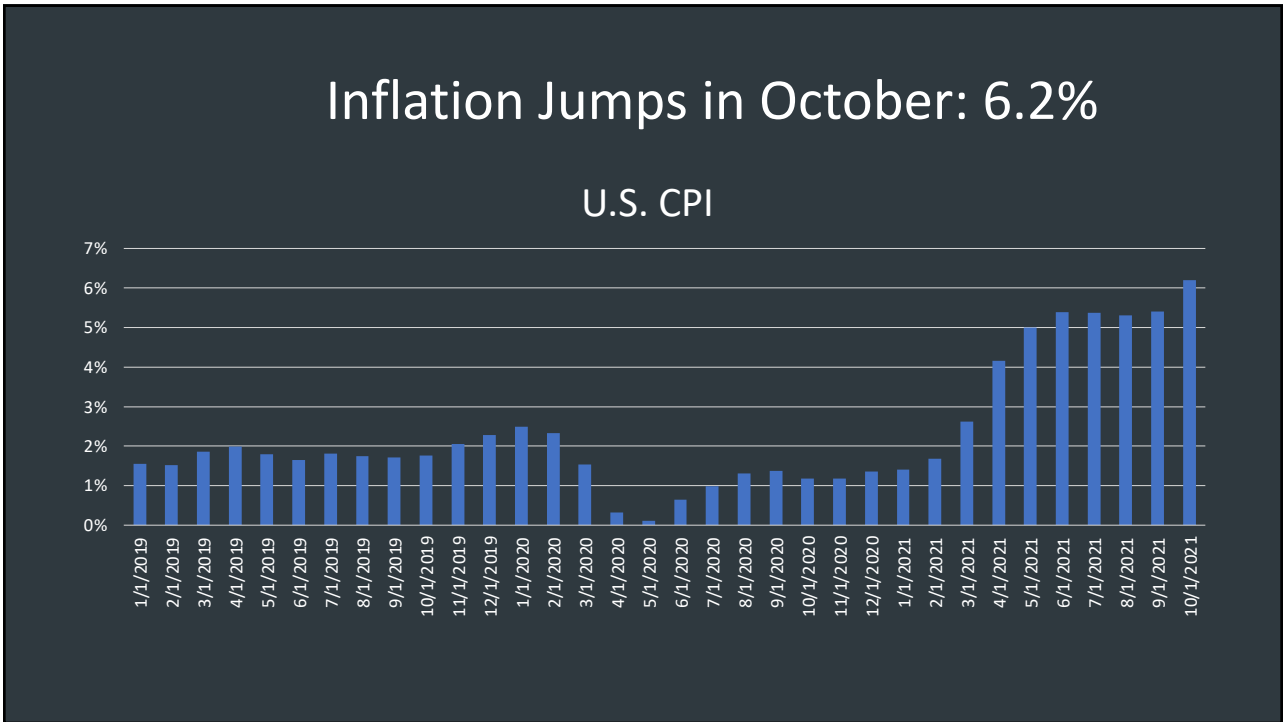
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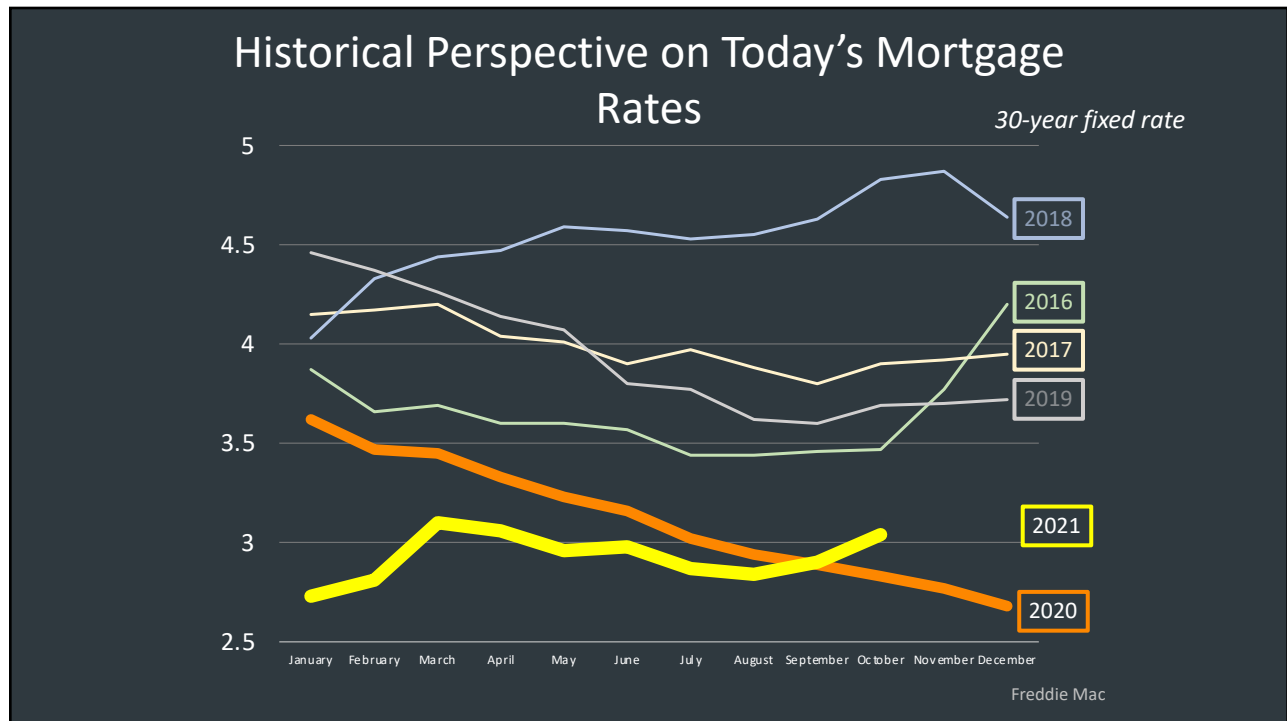
Inflation: Too much money chasing too few goods.

13

Trends Driving Consumer Prices Higher

1. Some prices fell at the start of the pandemic
 - now moving back to pre-COVID levels
2. Some prices are up temporarily with supply constraints & bottlenecks
3. Some prices are permanently higher
4. Some prices have slowed their growth during the pandemic
5. what do inflationary expectations tell us?

14



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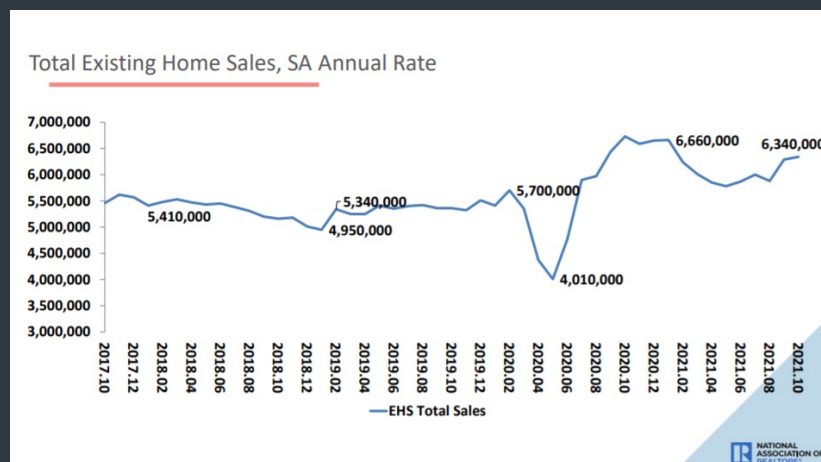


16

Real Estate

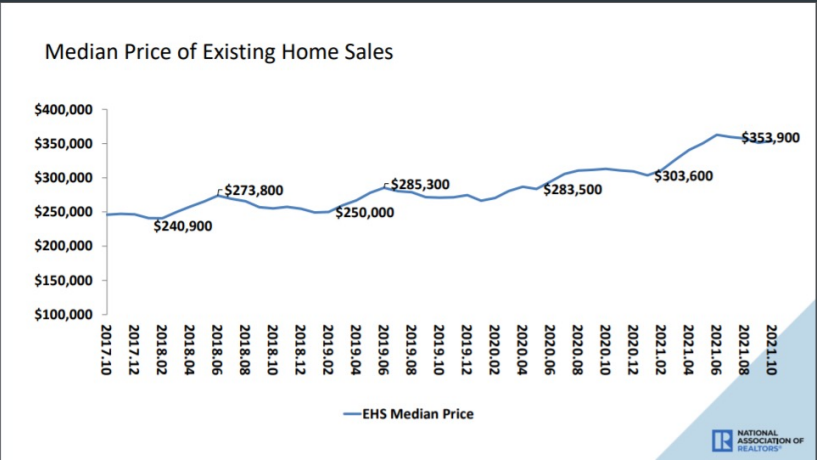
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2021: Highest Sales in 15 Years



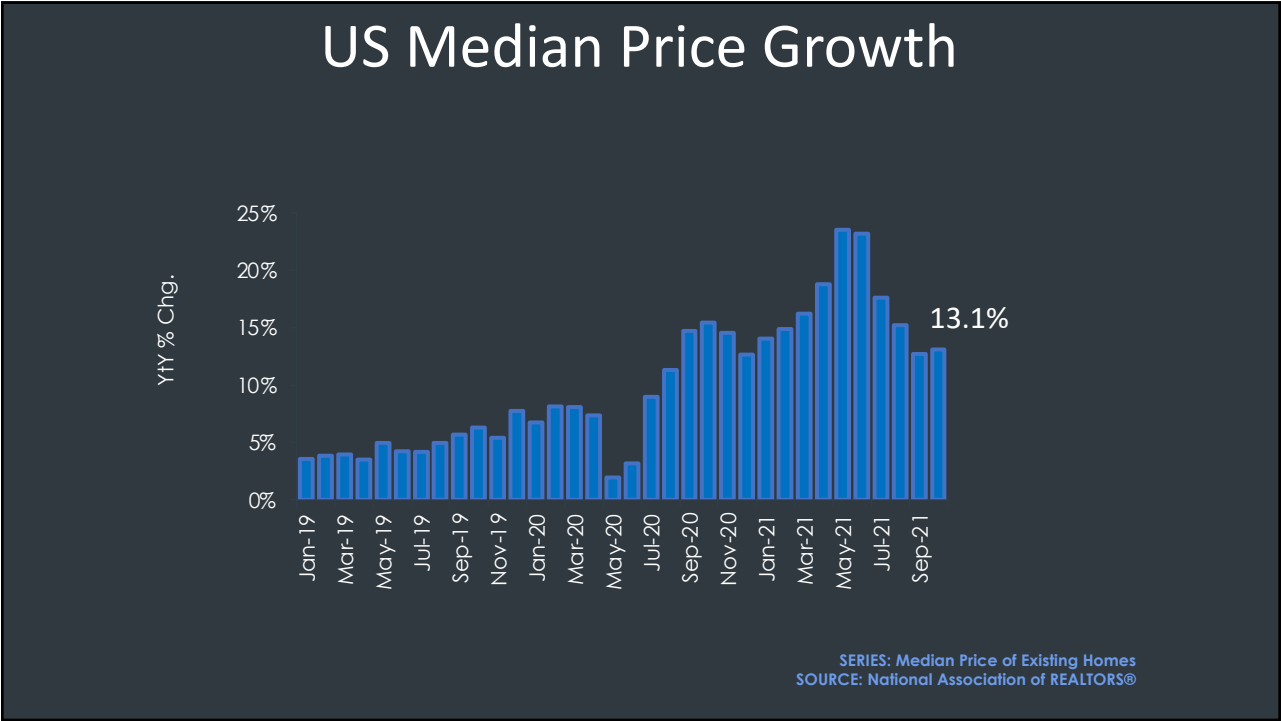
18

2021: Highest Median Price EVER



19

US Median Price Growth



20

Home Price as Inflation Hedge

Decade	Home Price Average Annual	Consumer Price Average Annual
1970s	9.9%	7.1%
1980s	5.5%	5.6%
1990s	4.1%	3.0%
2000s	2.3%	2.6%
2010s	4.9%	1.8%
2020 + 2021	12%	3%



21

Markets with the Highest Q3 YTY Gains:

1. Austin-Round Rock, **Texas** (33.5%);
2. Naples-Immokalee-Marco Island, **Florida** (32.0%);
3. Boise City-Nampa, **Idaho** (31.5%);
4. Ocala, **Florida** (29.7%);
5. Punta Gorda, **Florida** (27.5%);
6. Salt Lake City, **Utah** (26.2%);
7. Phoenix-Mesa-Scottsdale, **Arizona** (25.8%);
8. Sebastian-Vero Beach, **Florida** (25.7%);
9. Port St. Lucie, **Florida** (24.9%);
10. NY-Jersey City-White Plains, **NY-NJ** (24.5%).

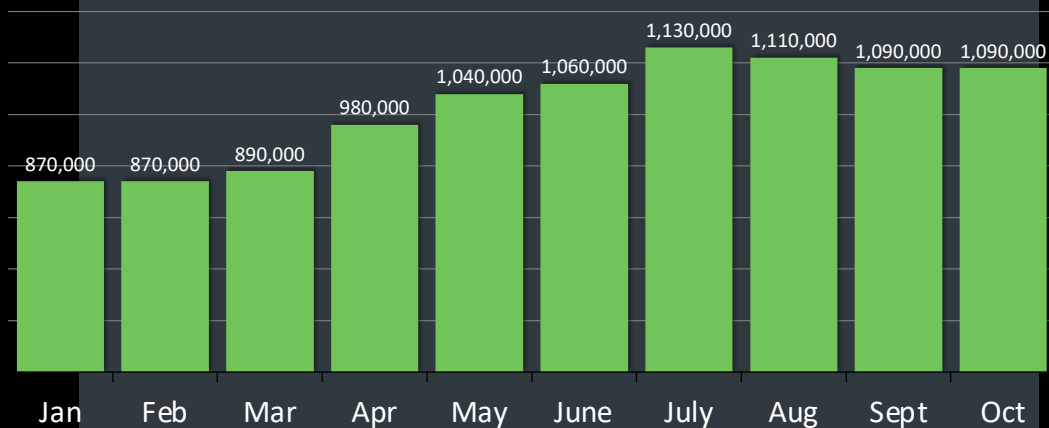
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“The geographic shifts that are becoming possible in the era of remote working [are] really beginning to settle in. We believe that we’re still in the early stages of all those shifts.”

David Doctorow, CEO Move Inc

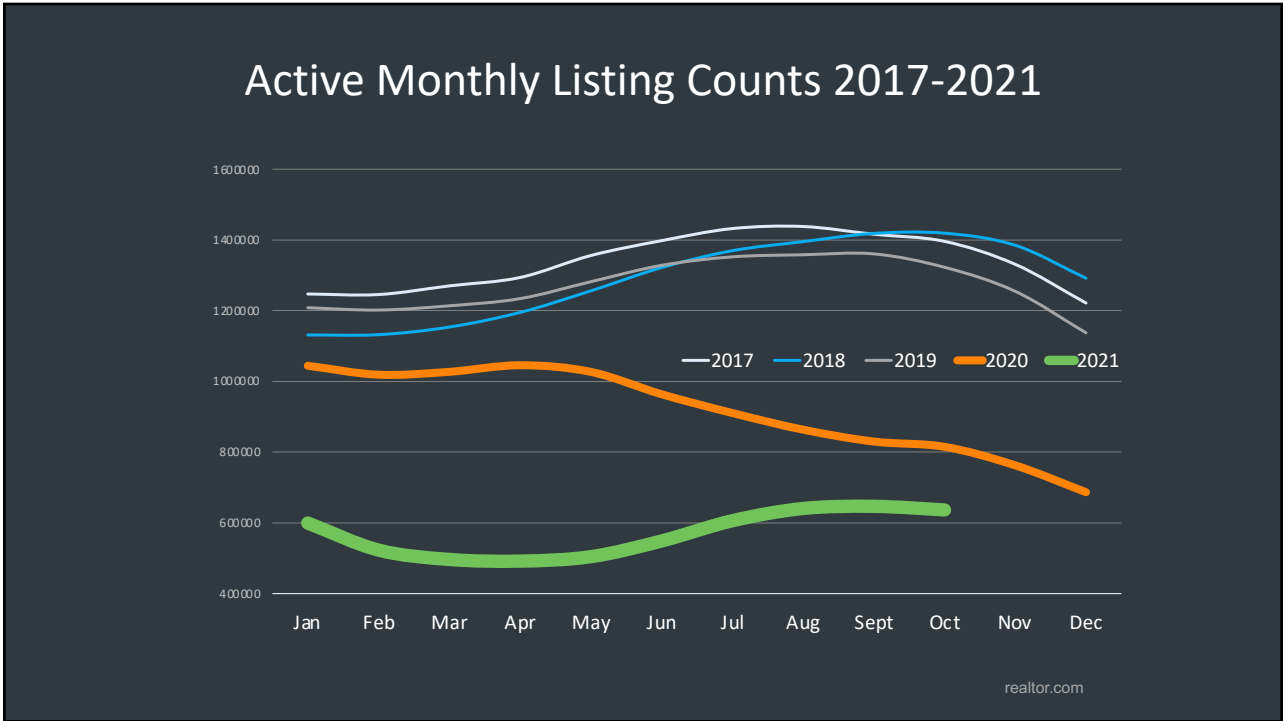
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Inventory: 2021

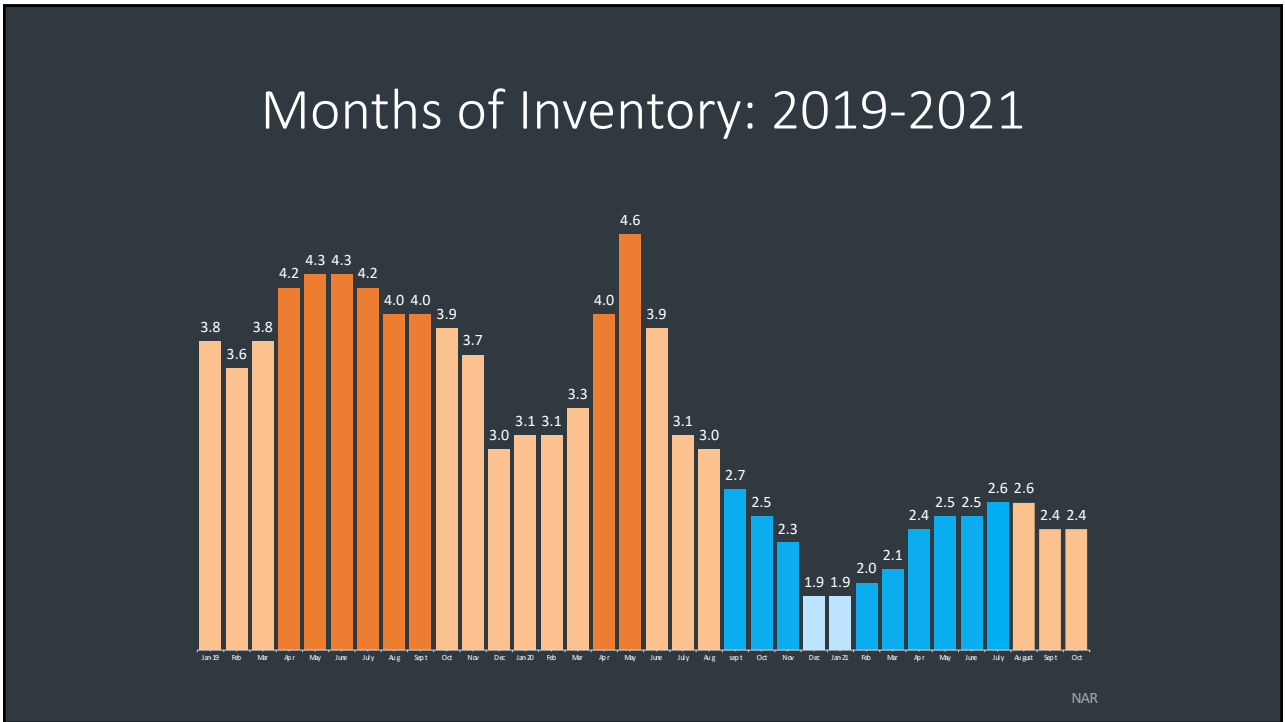


NAR

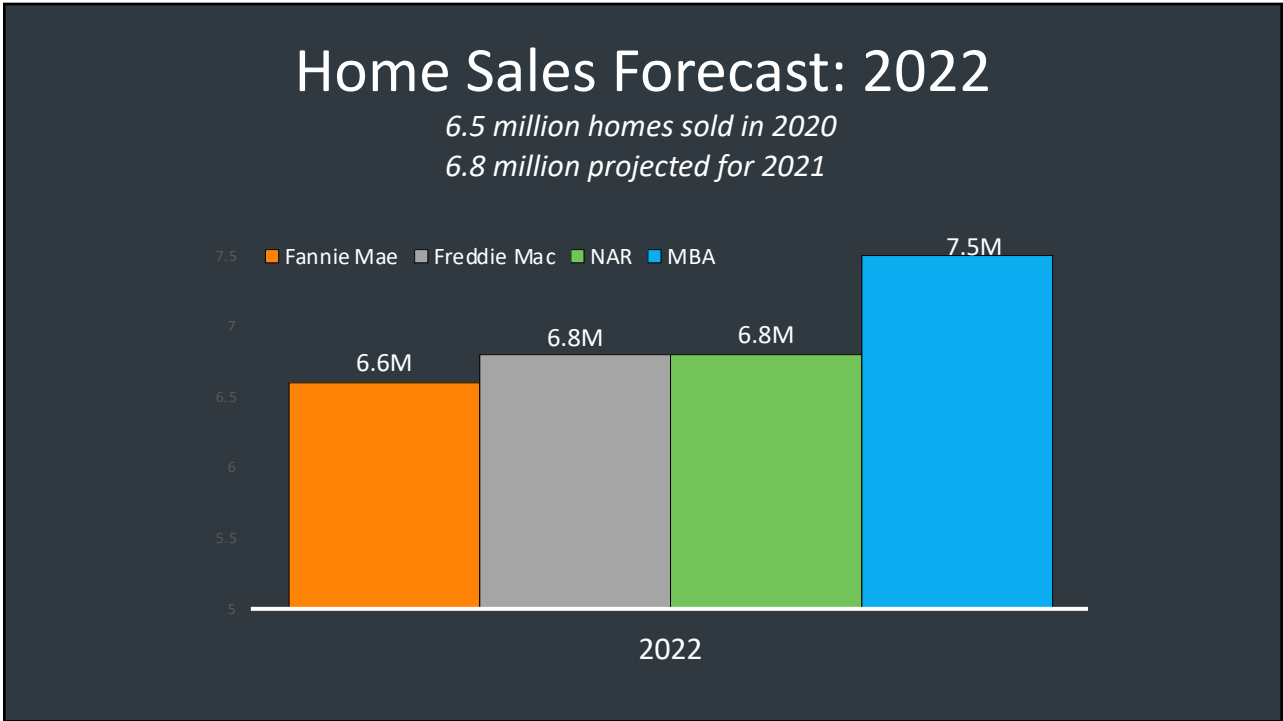
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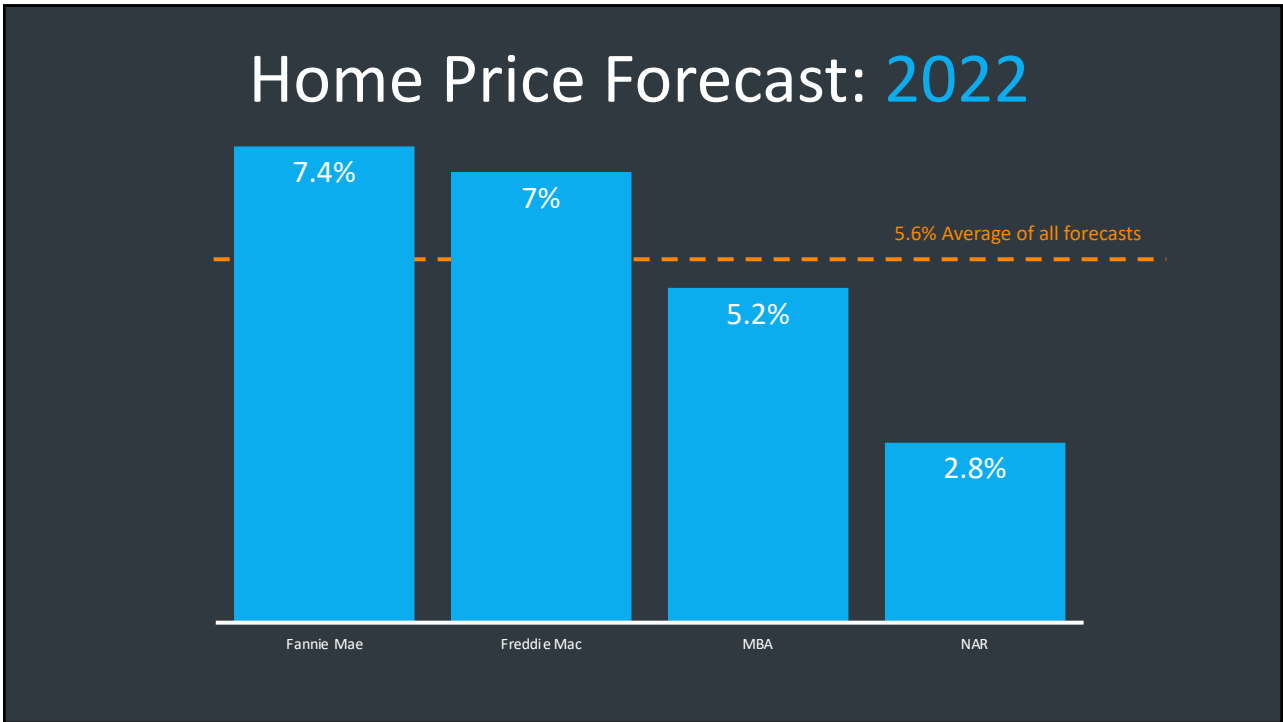
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26



27




28

The New York Times Magazine

Account ▾

Will Real Estate Ever Be Normal Again?

In Austin, Texas, and cities around the country, prices are skyrocketing, forcing regular people to act like speculators. When will it end?



29

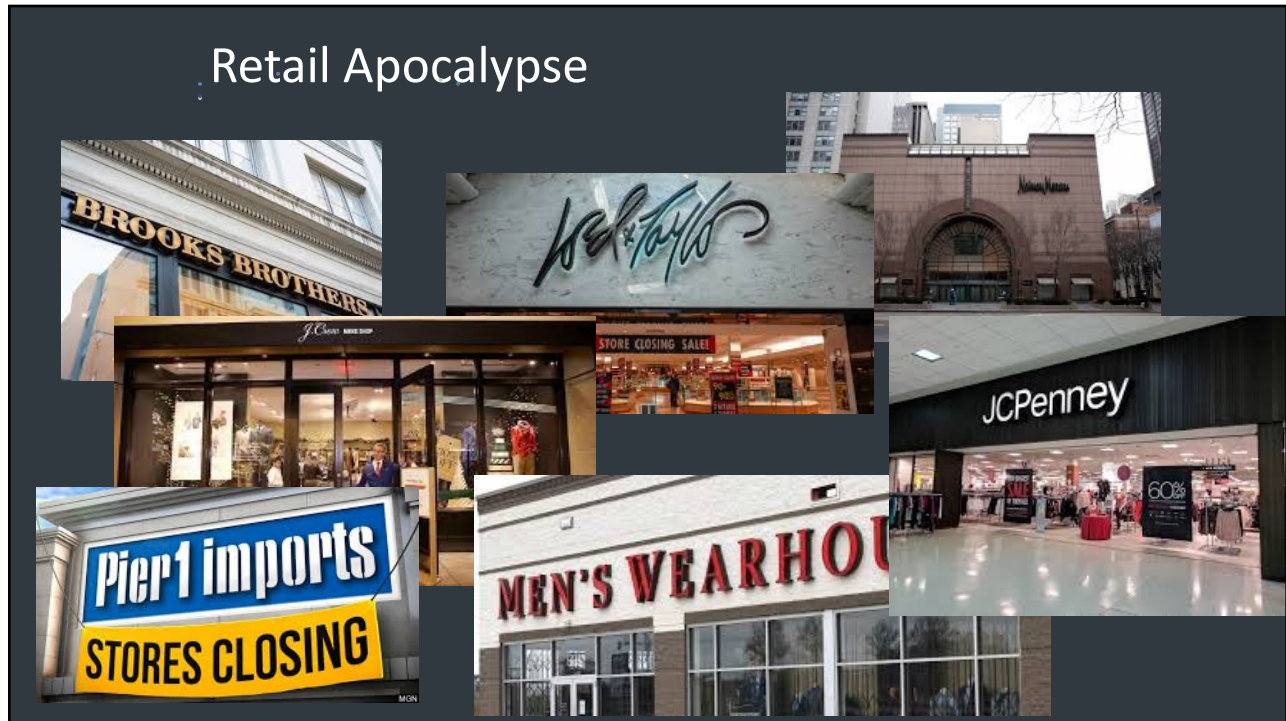
Category	Normal	Today	Normal/Not Normal
Mortgage Rate	5.1*	2.86	Not Normal
Price Appreciation	3.8%	17.2%	Not Normal
Months Supply	4-6	2.5	Not Normal
Days on Market	52**	17	Not Normal
Selling Over List	18%**	52.3%	Not Normal
Offers per Listing	2.2	4.5	Not Normal
SP\$ to LP\$ Ratio	< 100%	> 100%	Not Normal

30

Triple Play REALTOR® Convention & Trade Expo

15

Retail Apocalypse



31

Commercial Office Space



32

Multi-Family



33

NAR Economic Forecast: 2022

	Q121	Q221	Q321	Q421	2021	2022
Real GDP	6.3	6.7	4.3	3.3	5.1	2.6
Nonfarm Payroll Employment	2.1	4.8	6.3	2.5	3.5	2.0
Unemployment Rate	6.2	5.9	5.1	5.0	5.6	4.9
CPI	3.7	8.4	6.6	5.6	5.7	5.1
Consumer Confidence	99	122	117	113	113	105
10-Year Bond	1.3	1.6	1.3	1.7	1.5	2.0

* Latest updates as of 11/21

NAR

34

NAR Housing Market Forecast: 2022

	Q121	Q221	Q321	Q421	2021	2022
Existing Home Sales	6303	5833	6057	5800	6000	5900
% Change YTY	14.9	33.1	-0.8	-12.9	6.4	-1.7
Housing Starts % Change	7.7	46.3	8.7	0.9	14.4	5.7
Median Home Price	313.5	351.3	356.7	339.4	340.2	349.8
% Change YTY	15.0	21.9	15.4	9.1	14.7	2.8
Mortgage Rate	2.9	3.0	2.9	3.1	3.0	3.5

* Latest updates as of 11/21

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35

Growth Continues

1. COVID is declining
2. Inflation is transitory
3. Consumers are spending
4. Fed continues with support
5. Housing remains the great stabilizer

Headed for Recession

1. COVID is sticking around
2. Inflation is here to stay
3. Consumers are unhappy
4. Stock market signaling drop
5. Commercial real estate drag

36

Part II

The Post-COVID Market: Forever Changed?

37

Index of Consumer Sentiment



38

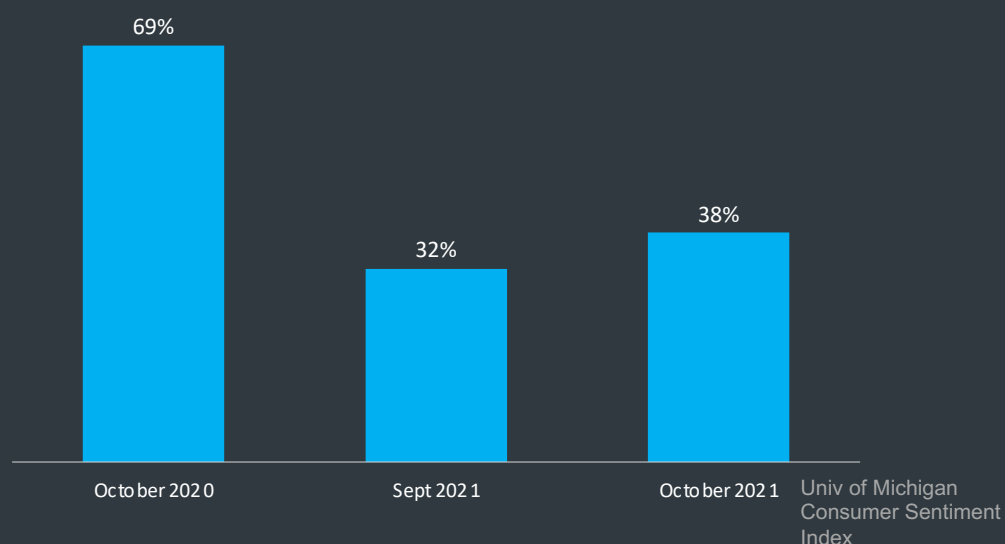
Consumers expressed **less optimism in the November 2021 survey than any other time in the past decade about prospects for their own finances as well as for the overall economy.** The decline was due to a combination of rapidly escalating inflation combined with the absence of federal policies that would effectively redress the inflationary damage to household budgets.

Richard Curtin
Surveys of Consumers Chief Economist



39

Generally speaking, do you think now is a good time to buy a house?




40

U.S. ECONOMY

U.S. Home Sales on Track for Biggest Year in 15 Years

Existing-home sales rose 0.8% in October, the highest pace since January



The frenzied housing market from earlier this year has plateaued, but sales are still at pandemic levels.

PHOTO: FREDERIC J. BROWN/AGENCE FRANCE-PRESSE/GETTY IMAGES

By [Nicole Friedman](#)
Updated Nov. 22, 2021 2:24 pm ET

U.S. home sales rose in October as buyers continued to compete for a limited number of homes for sale.

Existing-home sales increased 0.8% in October from the prior month to a seasonally adjusted annual rate of 6.34 million, the highest pace since January, the National Association of Realtors said Monday. Still, October sales fell 5.8% from a year earlier, when the market was at its peak for this cycle.

Macro Matters

Surging COVID-19 cases dampen U.S. consumer confidence, house prices post record gains

By Lucia Mutikani

41

What's changed: "The Great Reshuffling"

1. What consumers want in a home
2. Where they want to live
3. Thinking about affordability/Buy vs rent
4. Urgency/Inventory/Time on Market/Competitive
5. Necessity of Virtual Tours/Floor Plans/Virtual Closings
6. Pricing & bidding strategies
7. Closing the Appraisal Gap
8. Prepping for sale
9. Value of all cash offers
10. Qualifying for a mortgage

42

How quickly the pandemic changed everything:

Before: 1 in 20 working adults worked remotely

After: 1 in 3 adults substituted some or all of their typical in-person work for remote work

Next? Expect 2 out of 5 workers will be at least partially remote

43



44

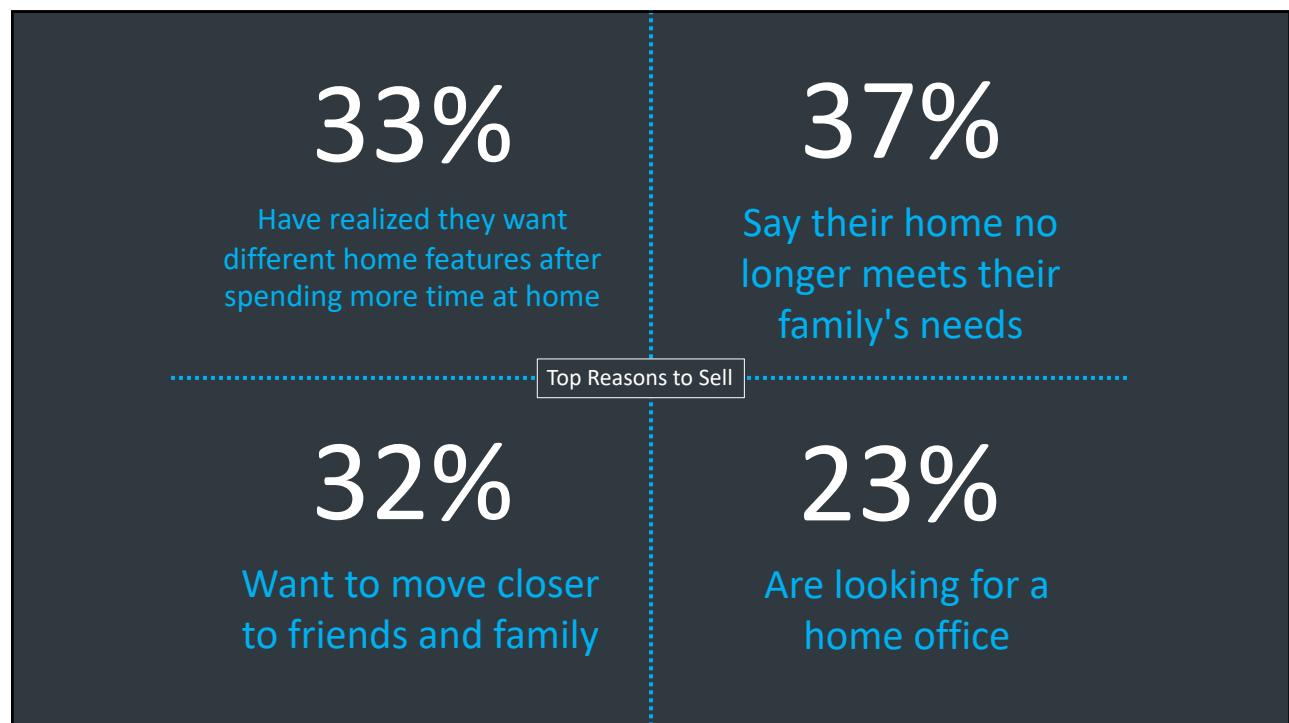
“Home sellers have historically moved when something in their lives changed – a new baby, a marriage, a divorce or a new job... **The pandemic has impacted everyone, and for many this became an impetus to sell and make a housing trade.**”

Jessica Lautz

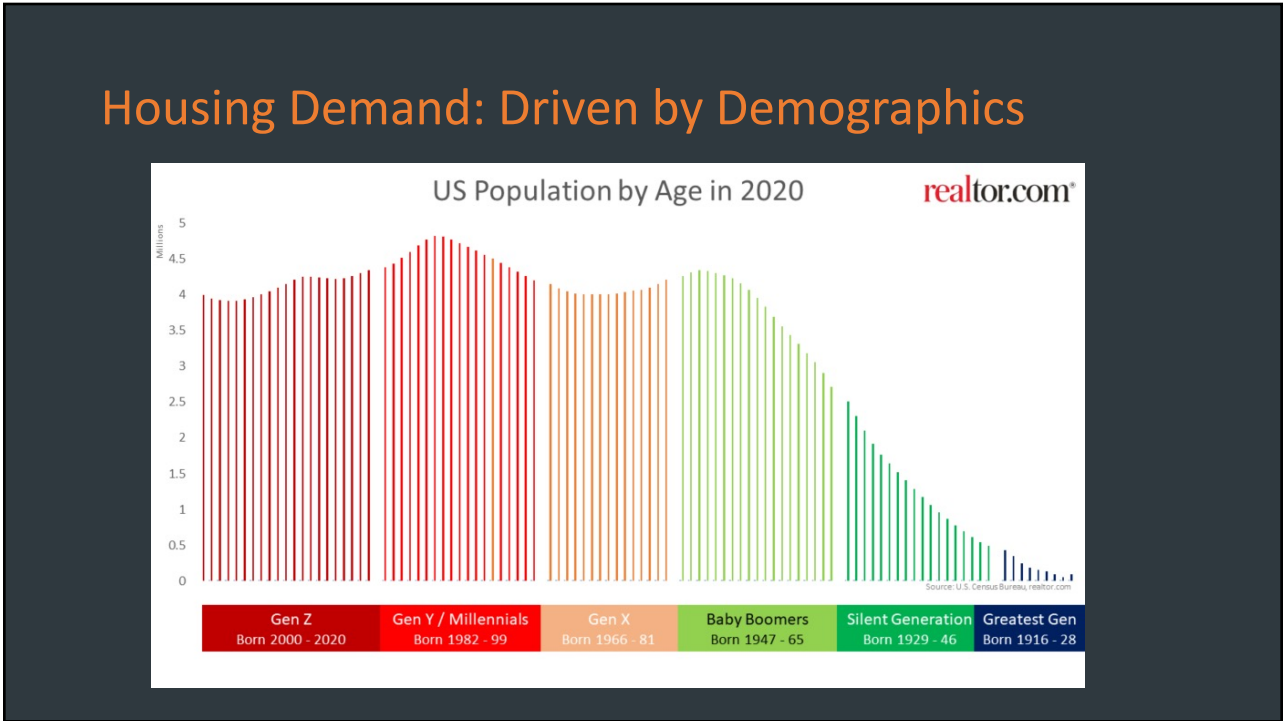
VP of Demographics and Behavioral Insights at NAR



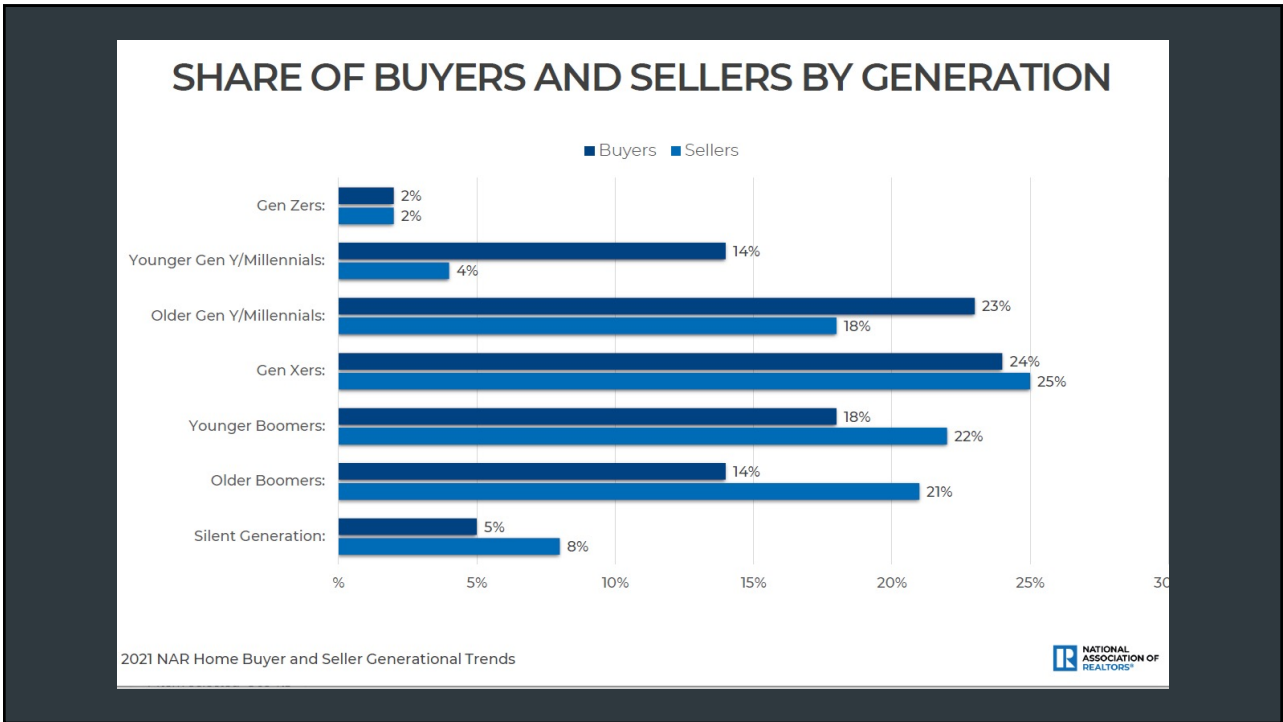
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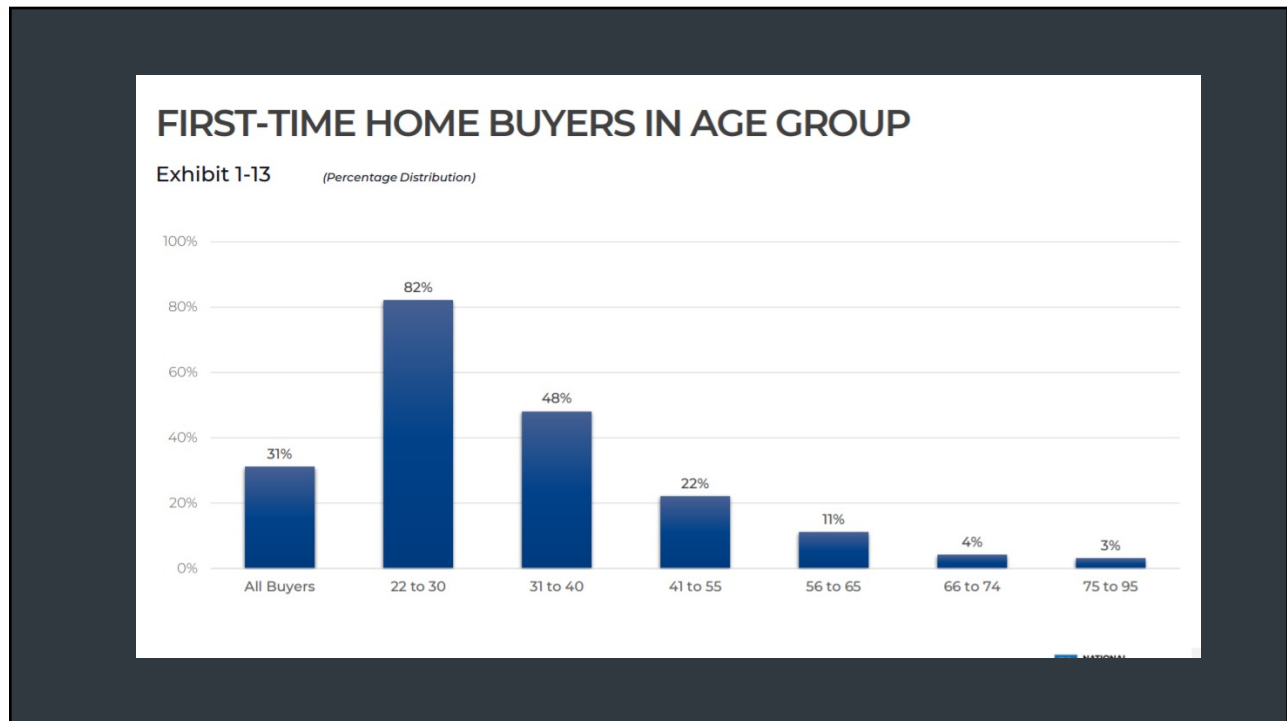
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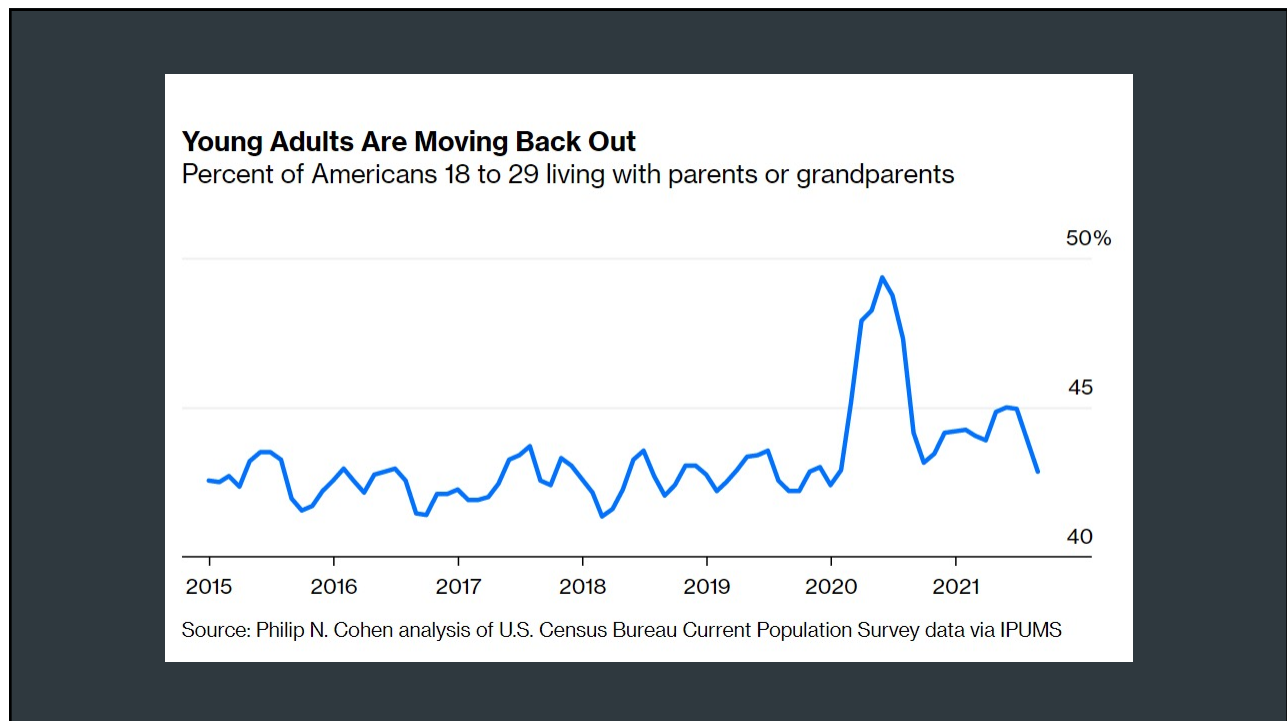
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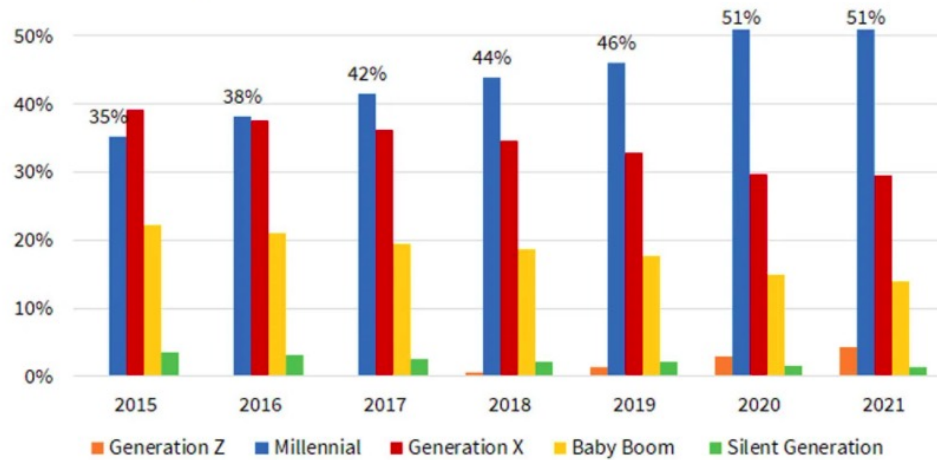


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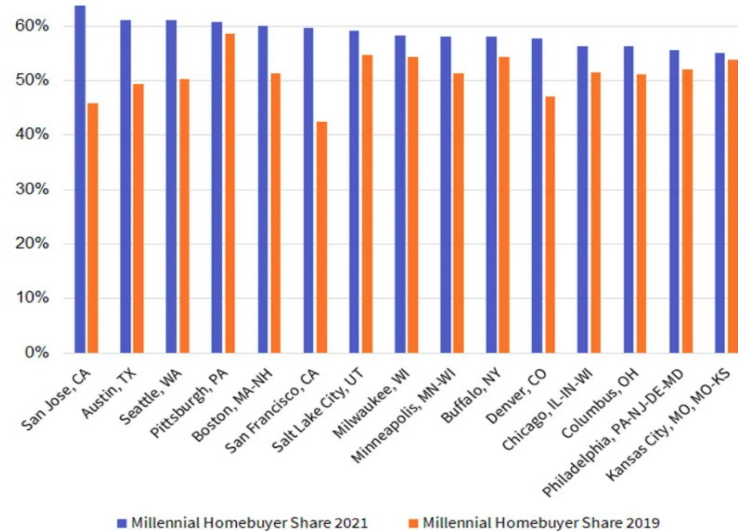
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Figure 1: Millennial Home Purchase Applications Share Largest Since 2016



53

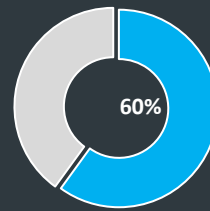
Figure 3: Top 15 Metros with Highest Millennial Home Purchase Applications Share



54

Millennial Buyer Profile

Given this year's heated market, where multiple bids and price escalation clauses are the norm, *affordability is a major theme of the millennial buyer profile*. About 60% of all 2021 buyers are looking to pay \$350,000 or less, with 16% of those looking for homes below \$100,000.

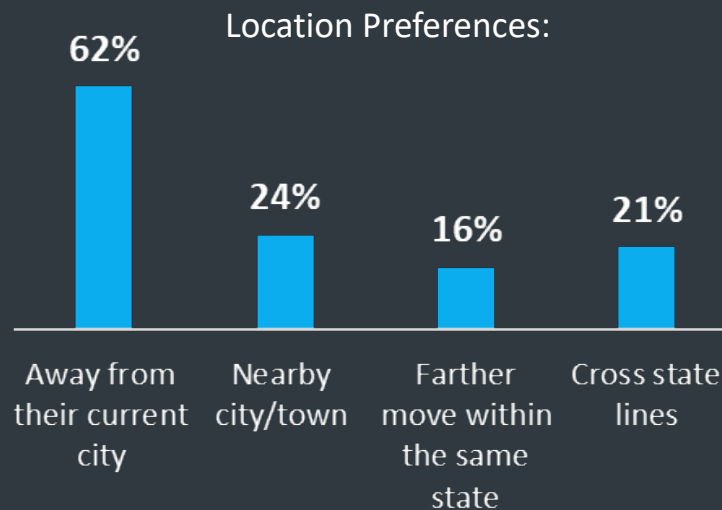


60% of all 2021 buyers are looking to pay \$350,000 or less

Source: Realtor.com

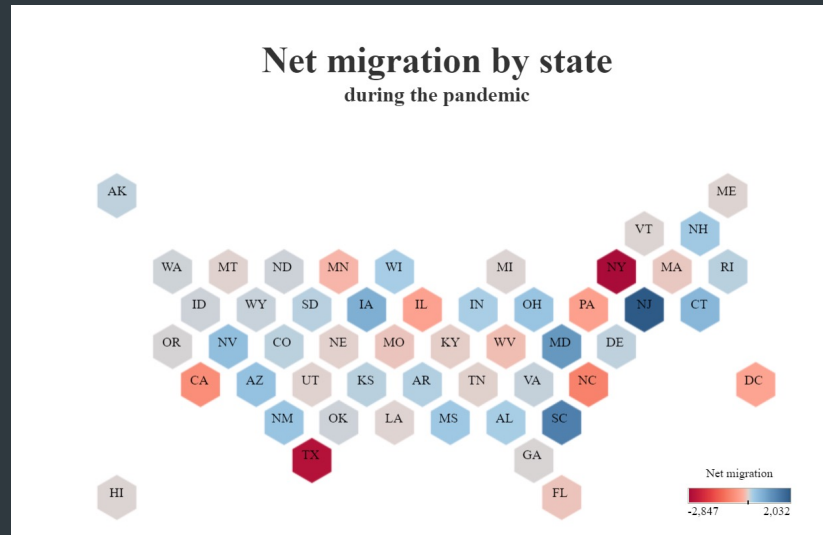
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Changing stage-of-life is also shifting location preferences for this year's buyers



56

Migration Accelerated



57

What Millennials are looking for:

1. Energy efficiency
2. Opportunities for customization
3. Home office
4. Open floor plan
5. Separate laundry room
6. Automation
7. Furnished
8. Low maintenance
9. Modern kitchen and bath
10. Outdoor entertaining area

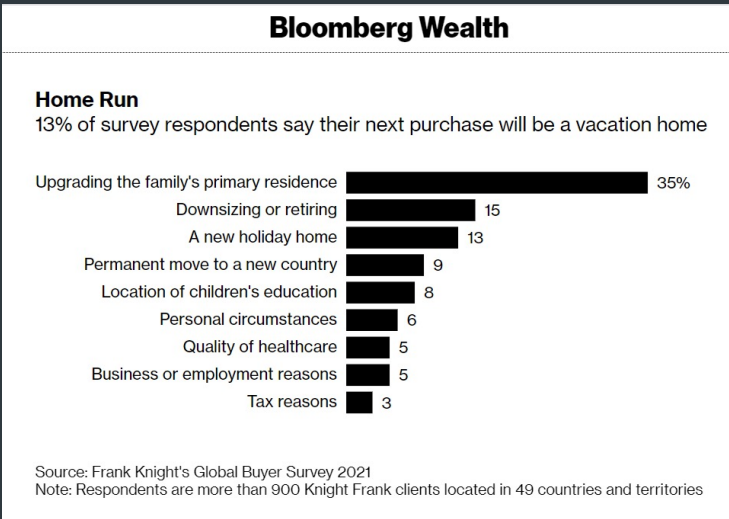
58

Multi-Generational House: 12%



59

Hybrid Living/Second Homes Popular Option



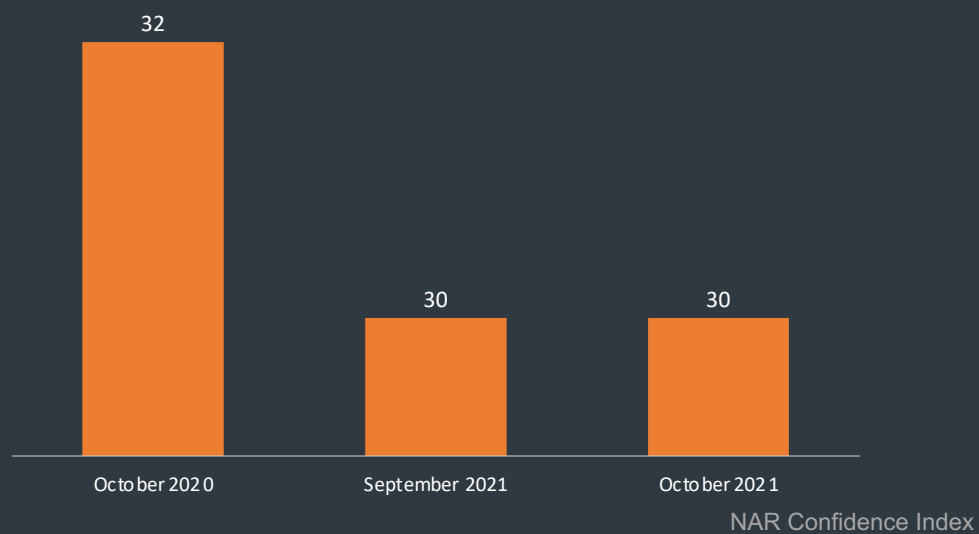
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The Post-COVID Transaction Experience

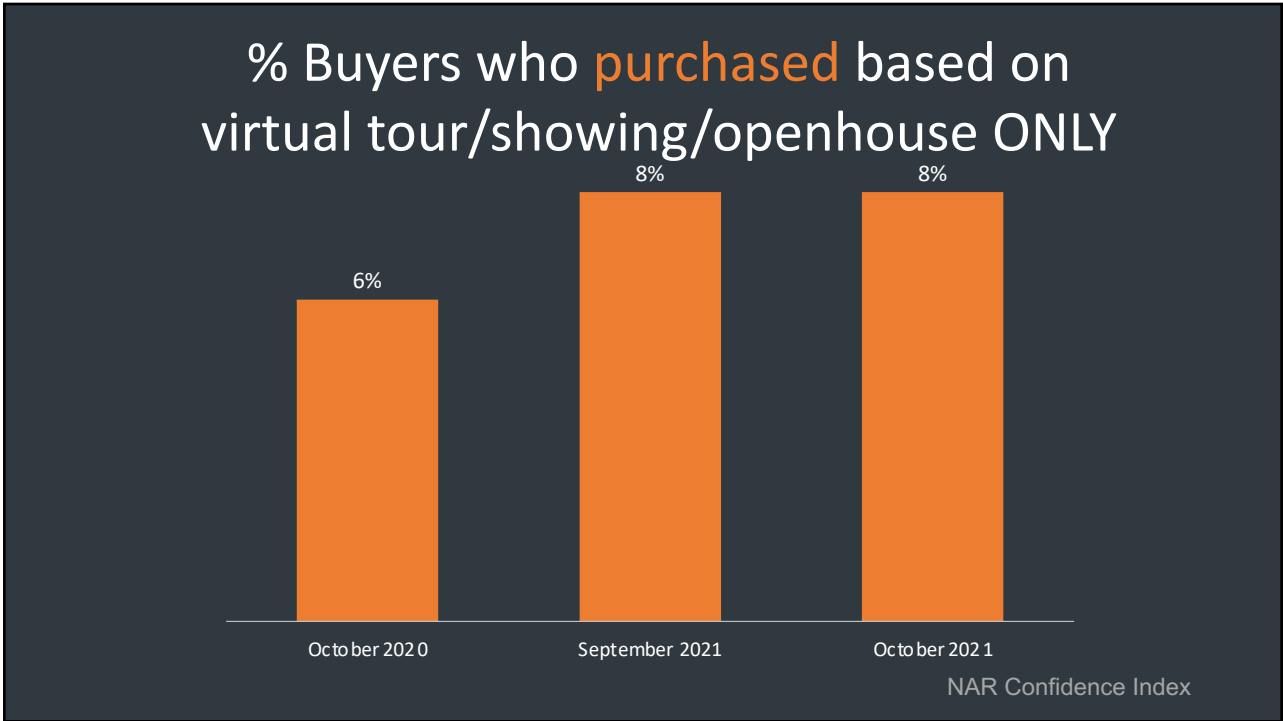
- Fast
- Virtual
- Cash is King
- Contingencies not so much
- Multiple offers & sales over list common
- Appraisal gaps are real
- Rates are low and credit is tight
- Agent is critical to a successful transaction

61

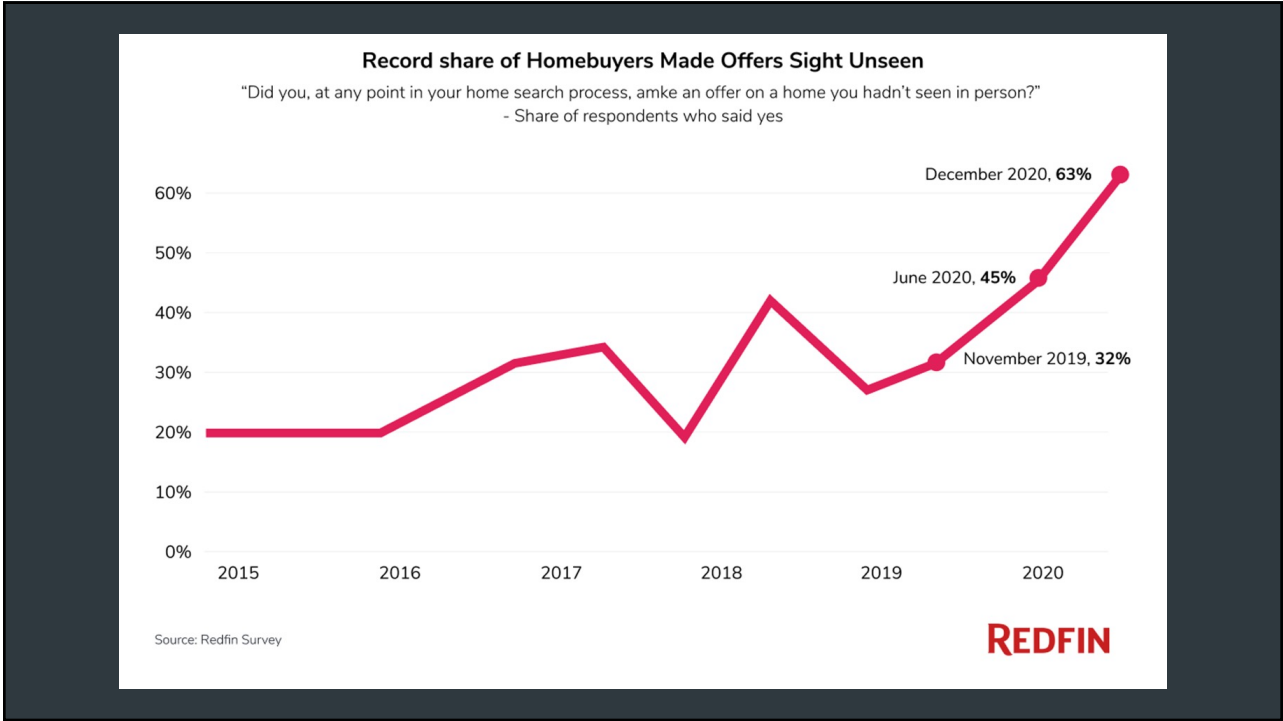
Median Days to Close



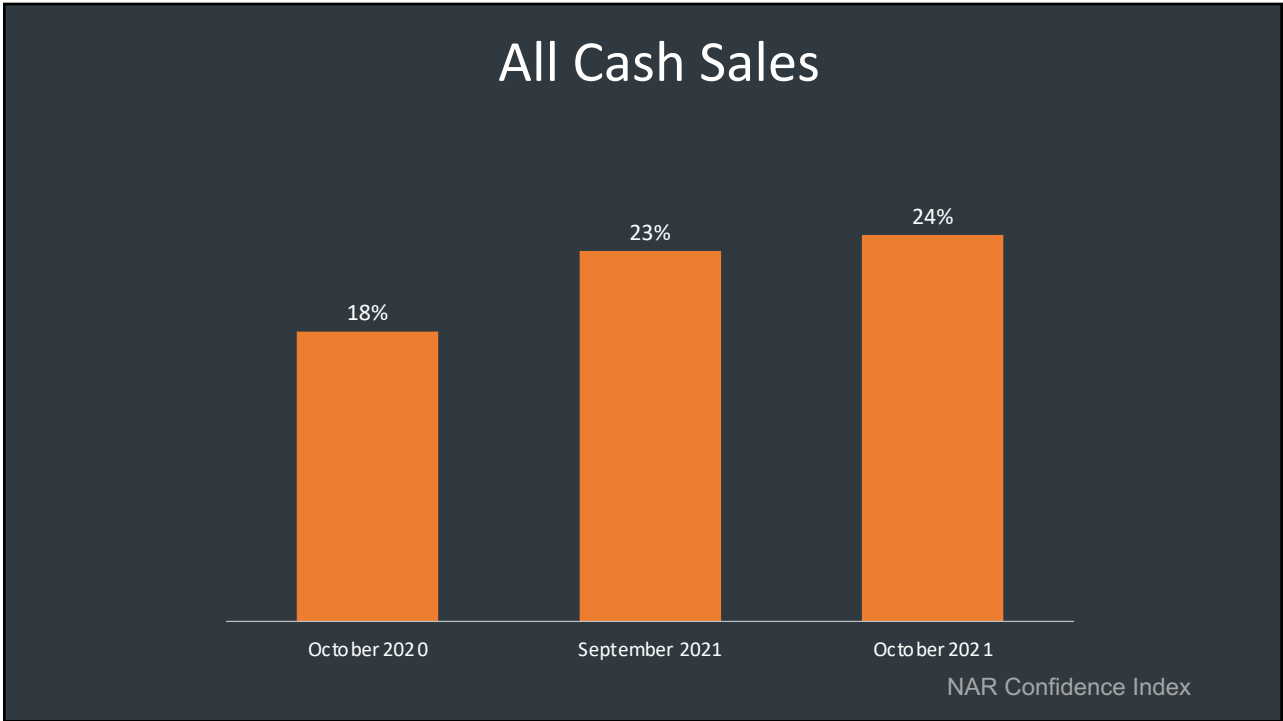
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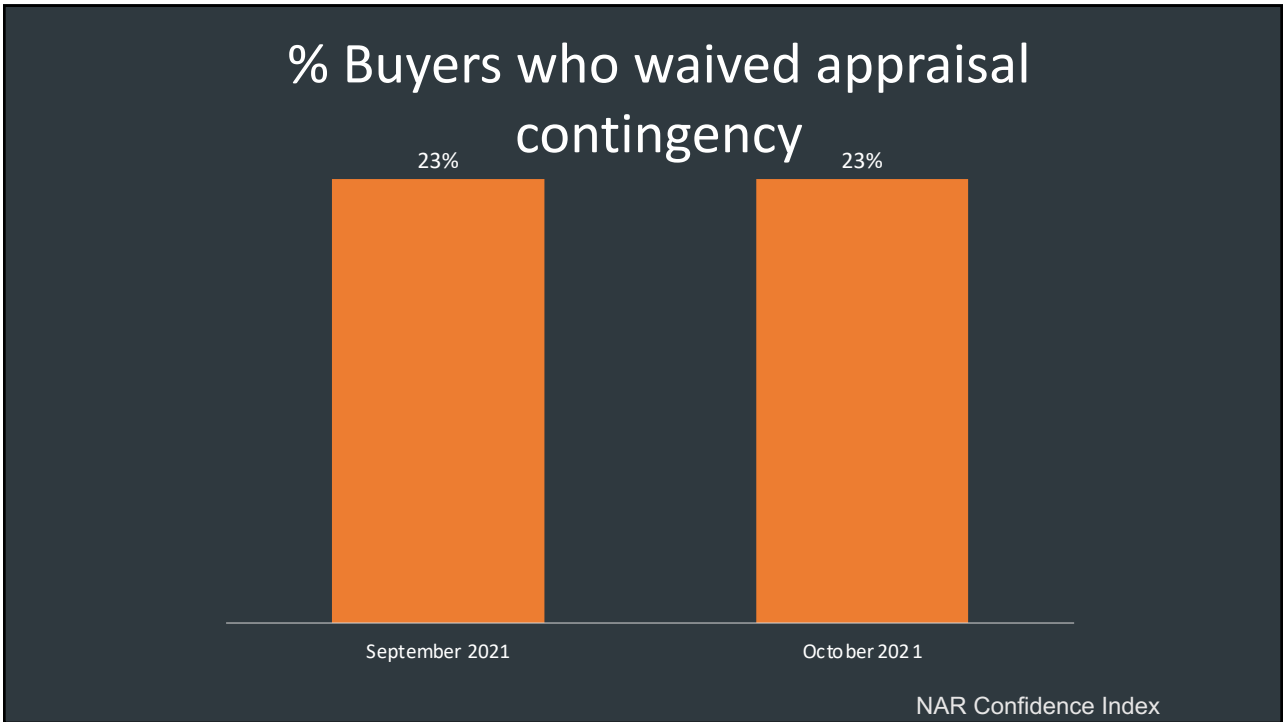
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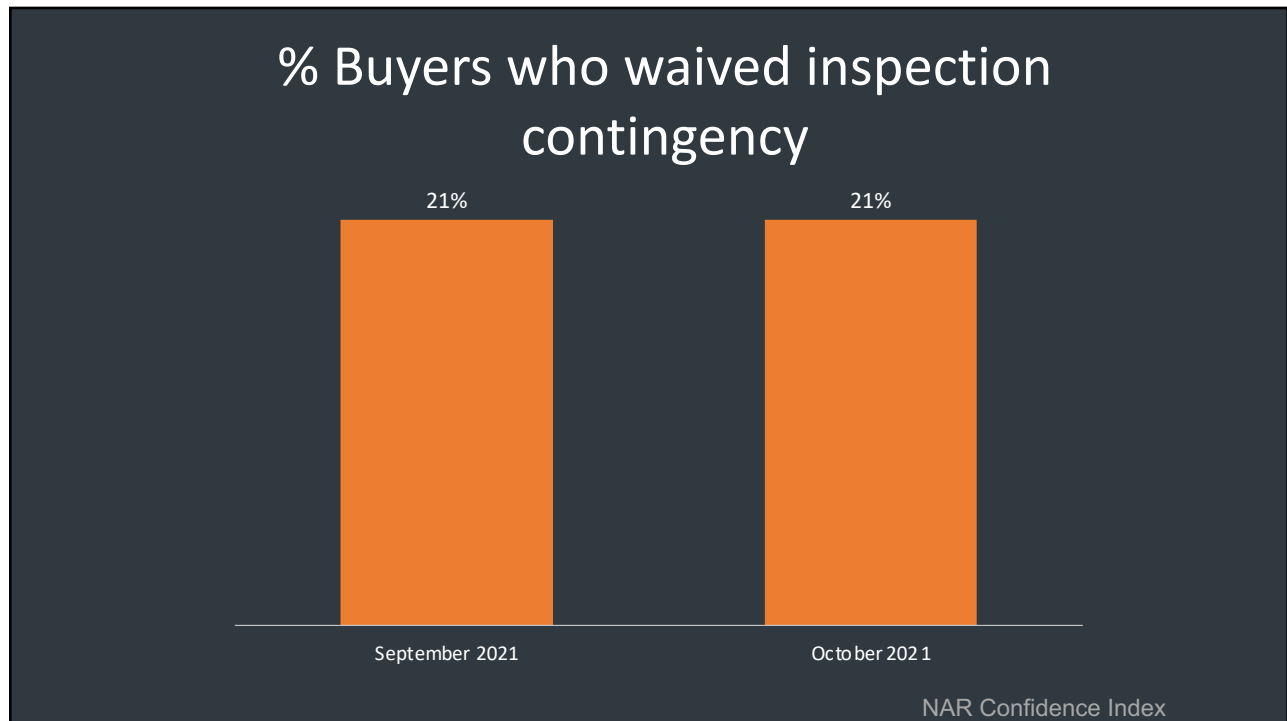
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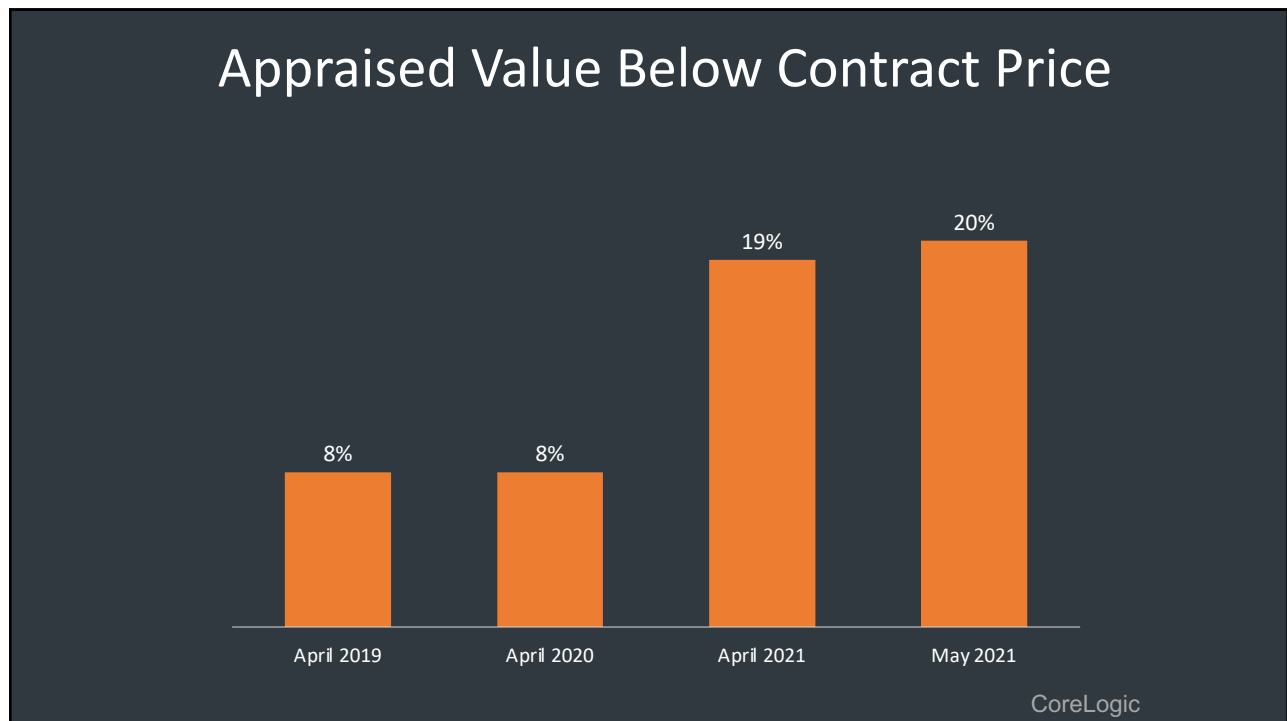
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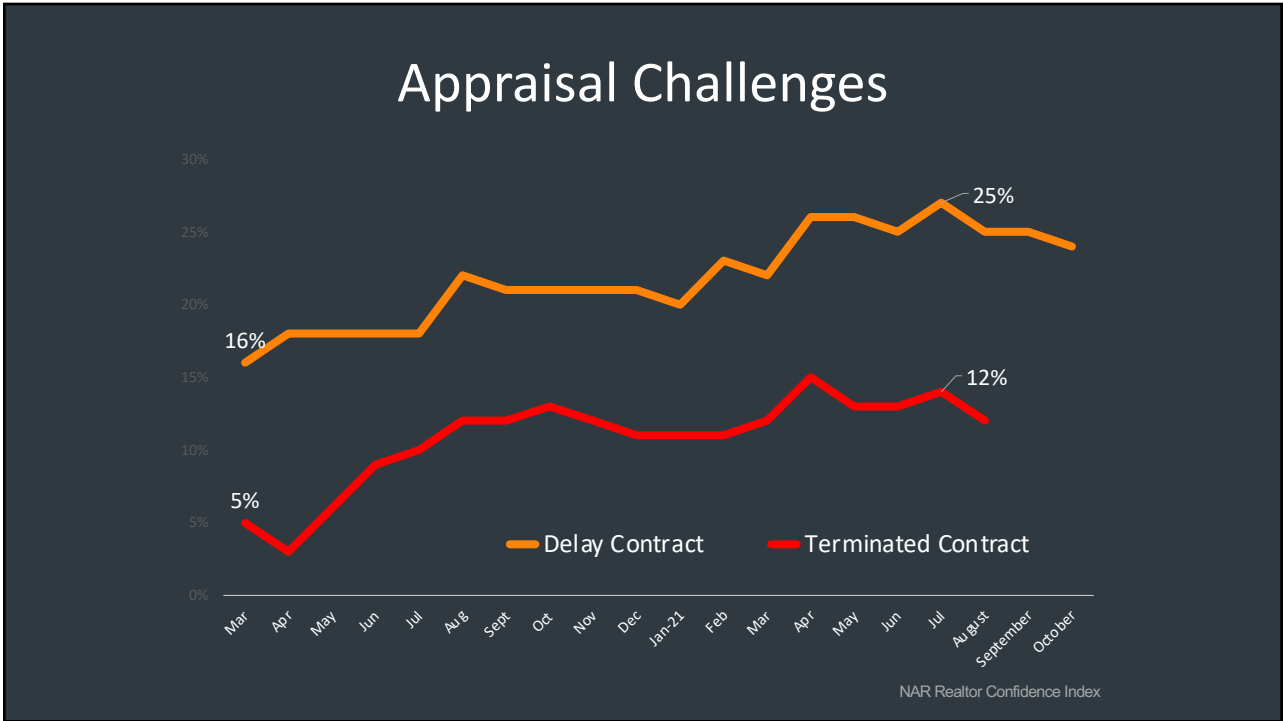
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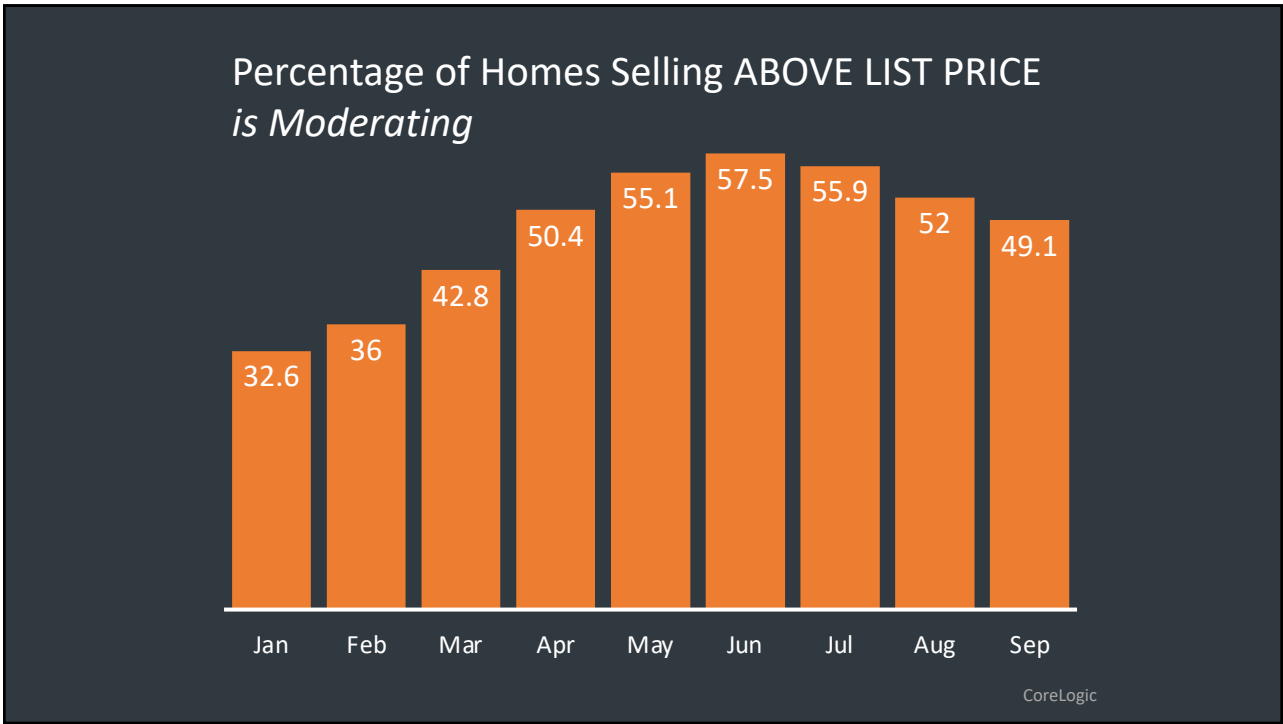
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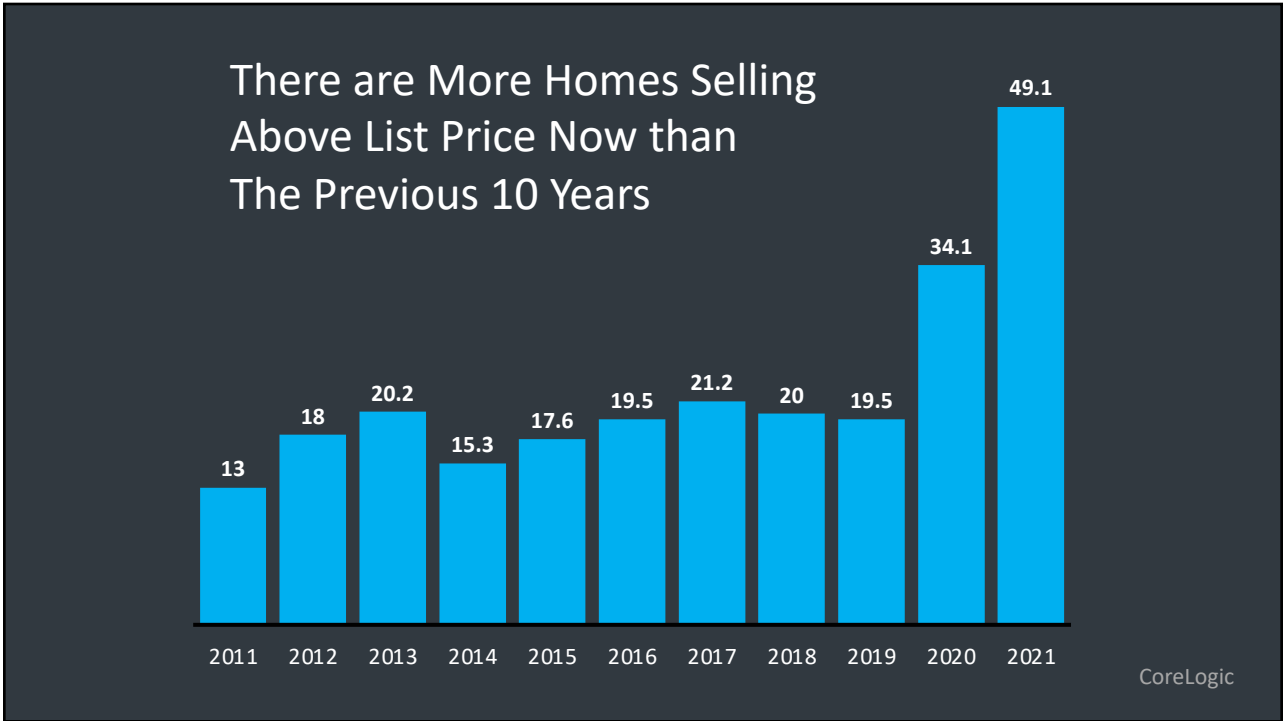
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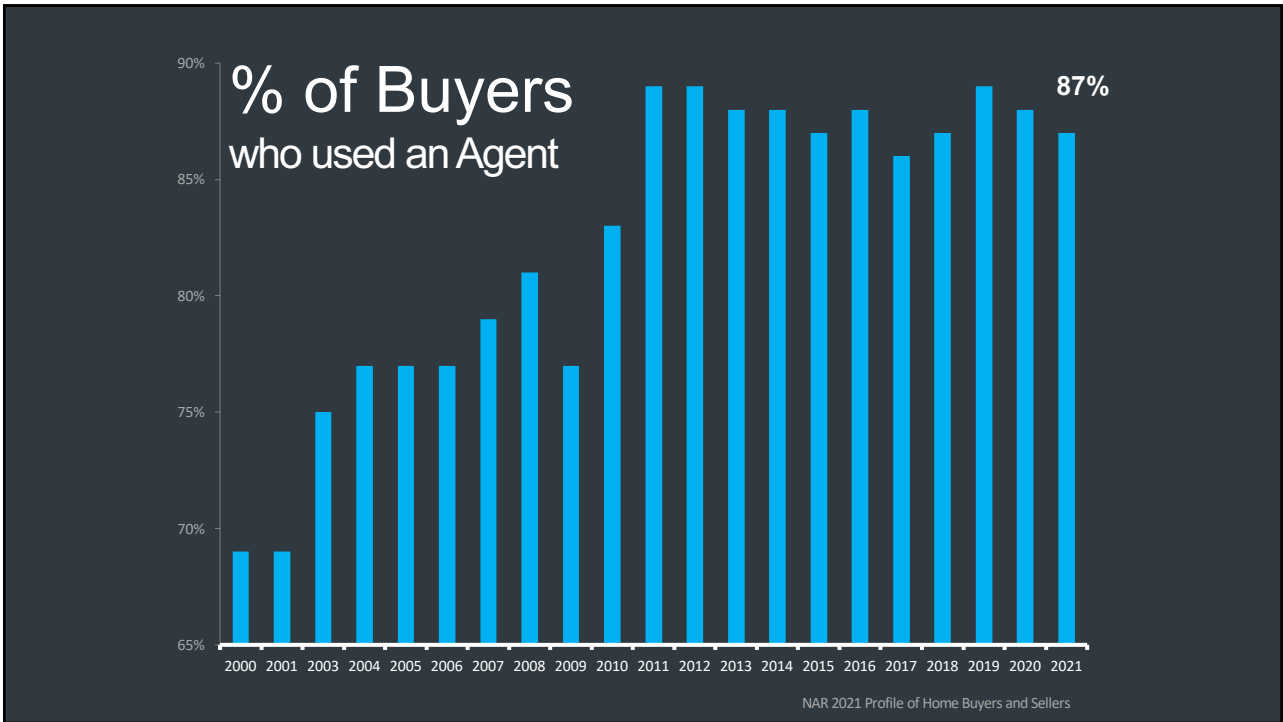
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70



71



72

Buyers #1 Challenge

“Buyers continue to report the most difficult task for them in the home buying process was just finding the right home to purchase.”

NAR 2021 Generational Trends Report

73

(Potential) Sellers #1 Challenge

“Where will I go that is “better” than where I am now?”

74

Housing Industry #1 Challenge

Shortage of housing - Increasing demand meets tight supply of what is considered “reasonably” priced housing options.

75

Supply Conundrum:

Why Aren't Homeowners Moving?
Why Aren't Builders Doing More?
What About Foreclosures?

76

Part III. The Real Estate Business

77

What is driving change?

1. Consumer empowerment
2. Tech, innovation and disruption

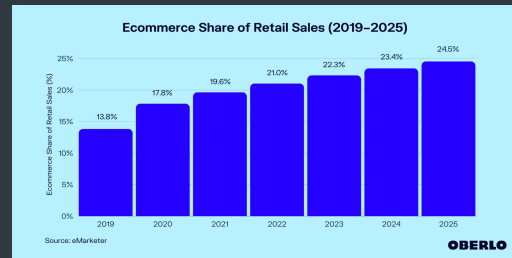
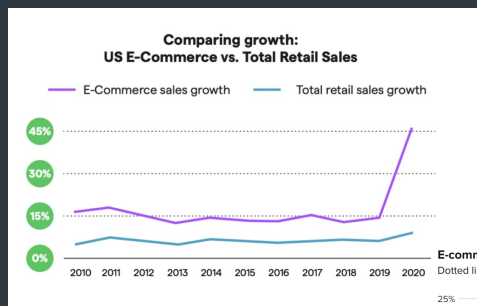
78

CONSUMER EMPOWERMENT

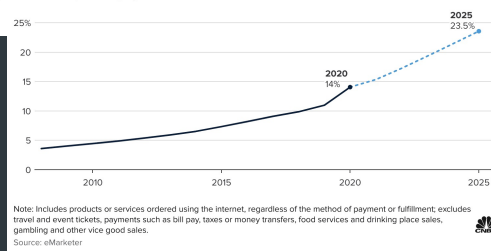
1. Access to Information
2. Multitude of Choices
 - Streaming entertainment
 - AMAZON
 - Real estate information
3. The consumer controls the transaction

79

Consumers more comfortable shopping online



E-commerce sales as a share of total retail sales
Dotted line represents projection



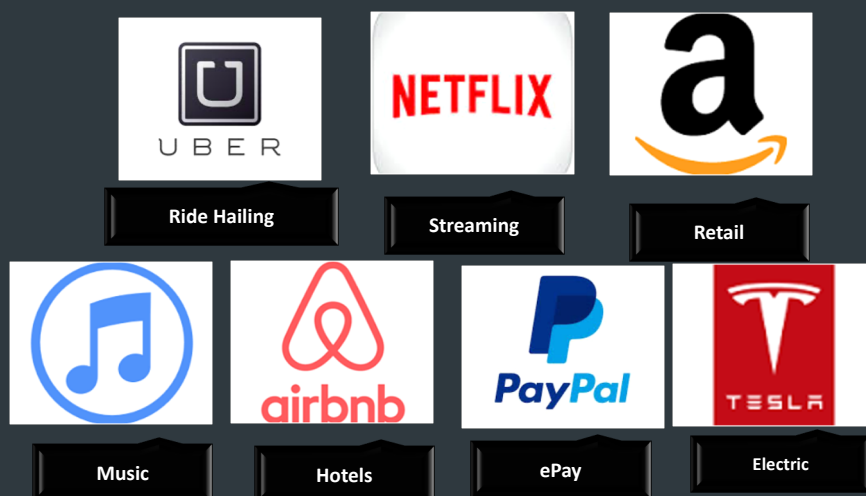
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TECH, INNOVATION AND DISRUPTION

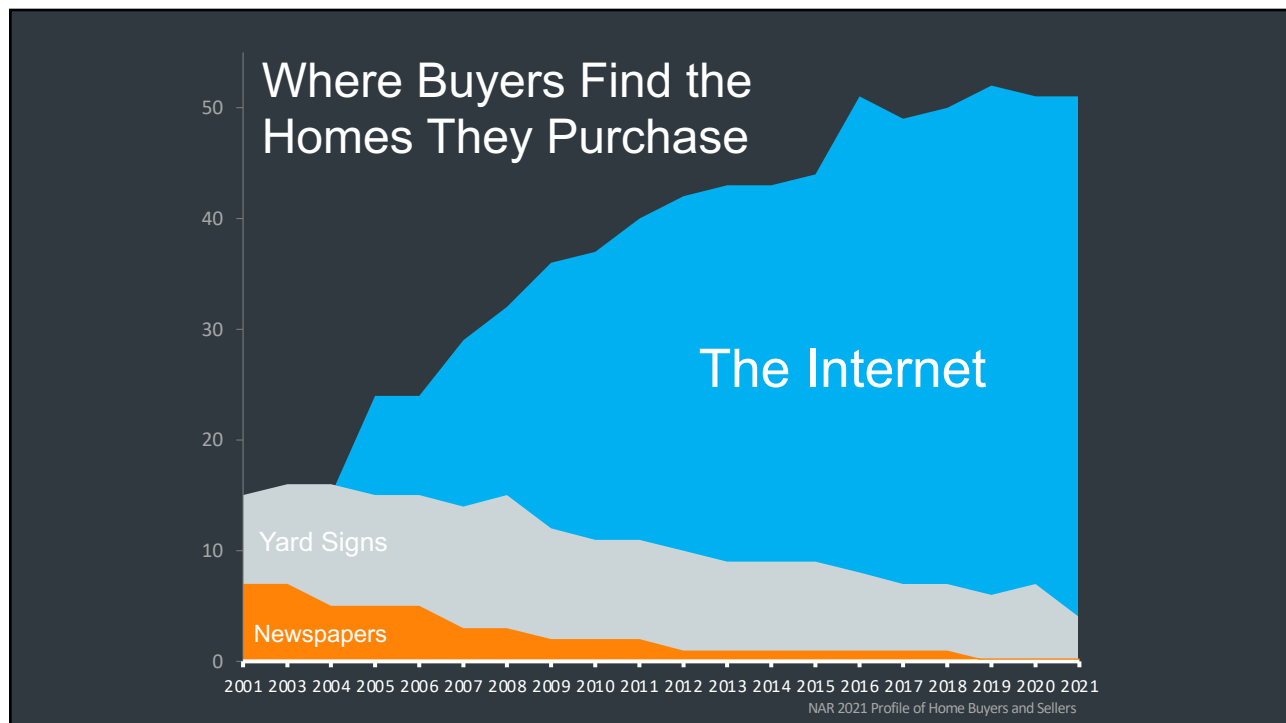
1. Technological change is all pervasive
2. Capital is flooding into the real estate space
2. What is a disruption?
3. What works and why

81

Disruption is Continuous...



82



83

The Challenge of Reality:

The home-buying/selling experience is stressful – for many consumers the process from initial contract to close is a painful.

- Getting the property ready for sale
- Getting a mortgage
- Home-inspections
- Hidden and extraordinary costs
- The “why” factor?

84

Traditional Transaction vs iBuyers

Traditional transaction

annoying ✕
painful ✕
uncertain ✕

iBuyer

✓ speed
✓ convenience
✓ certainty

85

“An iBuyer is a company that uses technology to make an offer on your home instantly. iBuyers represent a dramatic shift in the way people are buying and selling homes, *offering in many cases, a simpler, more convenient alternative to a traditional home sale.*”

Opendoor

86

Essentially, iBuyers are institutional house flippers: companies that use algorithms to estimate a home's value and then buy it directly from the owner for cash.

New York Times

87

How it works



1. Seller fills out online questionnaire about their home
2. iBuyer uses algorithms and technology to determine offer price
3. iBuyer presents seller with a nonbinding offer (typically within 2 days)
4. iBuyer sends inspectors to verify value and assess any needed repairs



88



5. Transaction closes and iBuyer takes ownership and charges fee (6-8%)
6. iBuyer renovates for resale
7. iBuyer lists home
8. Offer is received, enters into closing process

89

Here come the Disruptors: iBuyers

Company	Service fee	What makes this company unique
 Opendoor	3.5-5%	Low fees and consistent service
 Offerpad	6-10%	Free moving service within 50 miles
 Zillow Offers	1.5-7.9% + 6% selling costs	Widest service area among iBuyers
 RedfinNow	6-12%	Buys high-price homes (but limited to the West Coast)
 Knock*	N/A	Lets you buy a new home before your old home sells

90

What makes a successful business model in this market?

91

1. Absolute focus on the consumer
2. Mastery of information
3. Understanding the disruptors
 - Models that work
 - Models that will wilt away
4. View the world differently

92

You compete with technology,
you win with people..

93

Questions?
Thank you

94