



Please refer to Appendix – Important Disclosures.

Seeing Strength and Strains in Housing Market

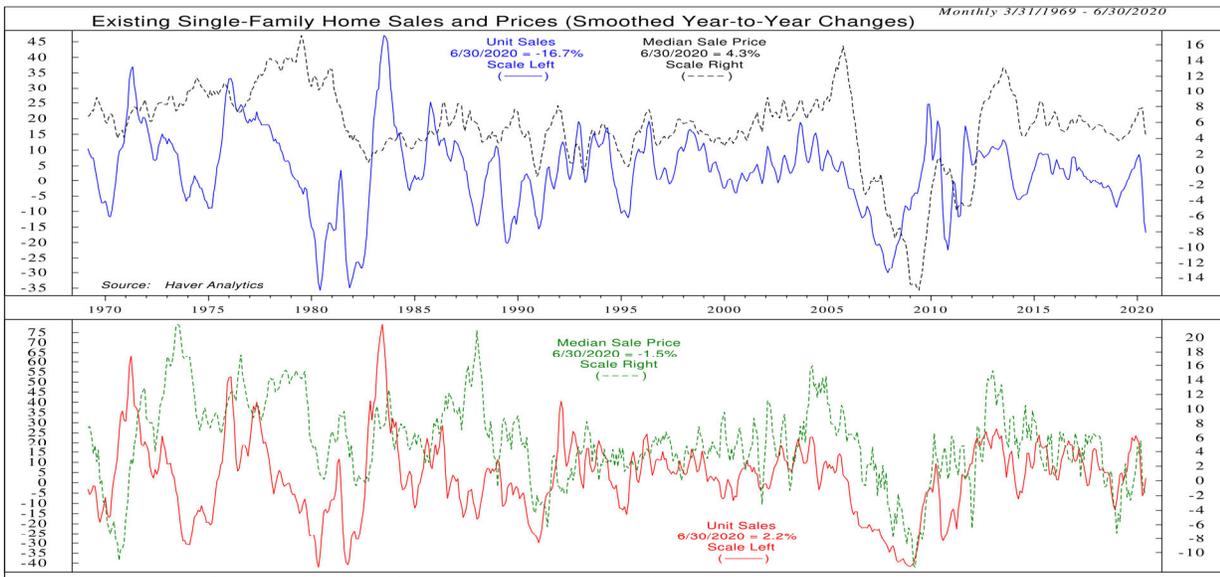
- Key Takeaways:**
- Home sales are recovering from early-year weakness
 - Urban markets are struggling but homebuilding is booming
 - Spike in delinquencies and lack of affordability are challenges

A decline in mortgage rates and changing living preferences in the midst of coronavirus is fueling some strength in the housing market. Like so much else, however, a single summary statistic can oversimplify the story. Aggregate measures of activity are recovering. Existing home sales were down 17% on a year-over-year basis through June, but activity in July appears to have accelerated. The median sales price for existing home sales in June was up 4%, while for new home sales, the median sales price was down slightly from a year ago. A surge in activity at the upper end of the housing market and a drop in activity at the lower end of the market could be overstating some of the reported strength in sales prices.

Residential construction activity has surged (and prices for lumber and homebuilding stocks have done likewise) as housing preferences have shifted from cities to suburbs and beyond in the face of coronavirus uncertainties. Strength in some areas is resulting in weakness elsewhere. The apartment vacancy rate in Manhattan has soared as the number of new leases has collapsed from year-ago levels (even with the sharp reduction in rental rates).

One driver of housing market activity has been lower mortgage rates, but even with this housing affordability has deteriorated. Higher prices and pressure on incomes have offset improved financing terms. While the high end of the housing market is hot, the second quarter also saw a record expansion in mortgage delinquencies, especially among first-time home buyers. Like so much else in the current economy, effects (both good and bad) are not being distributed evenly. Recovery in the housing market appears to be further along for those least impacted by the 2020 recession.

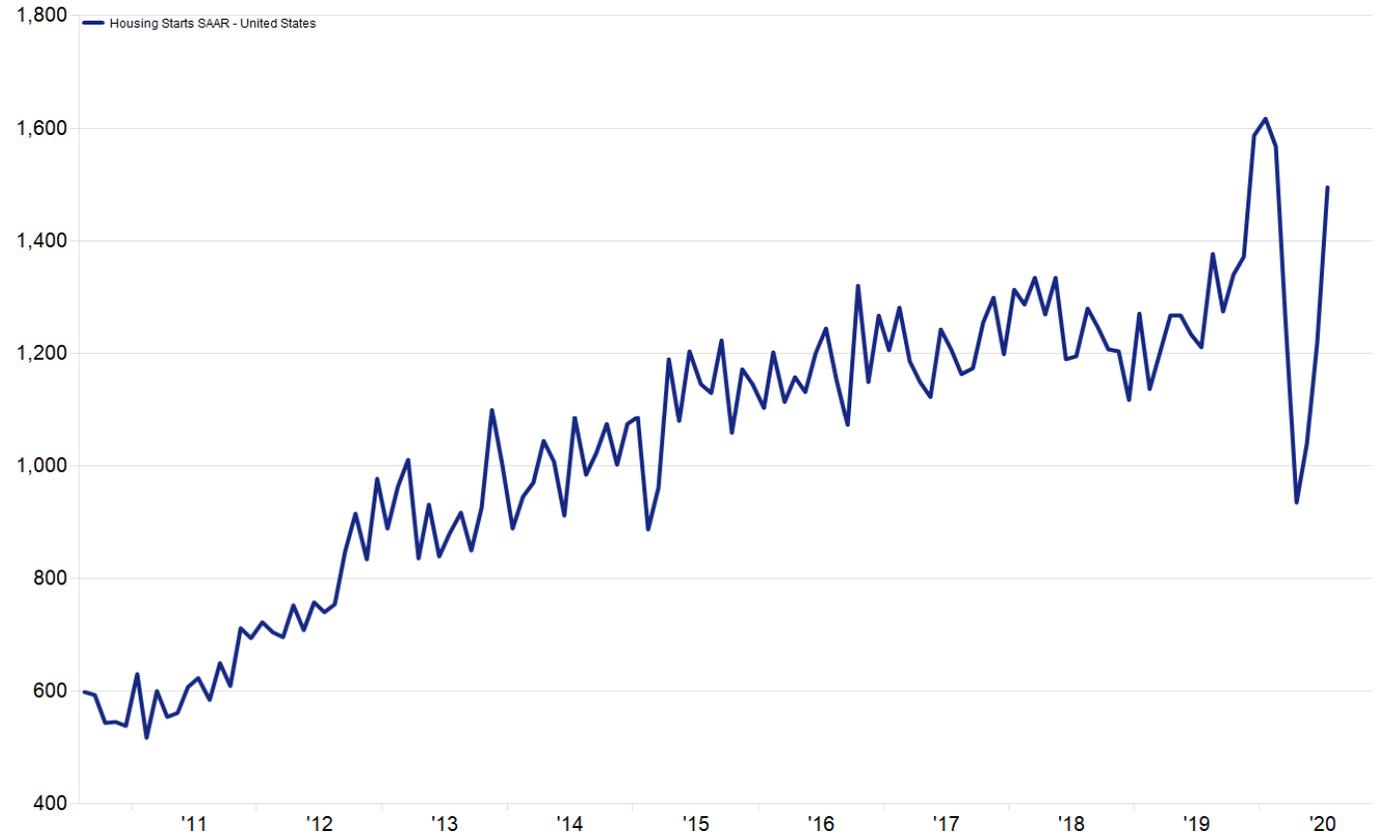
Housing aggregates offer mixed picture of activity



Source: Ned Davis Research

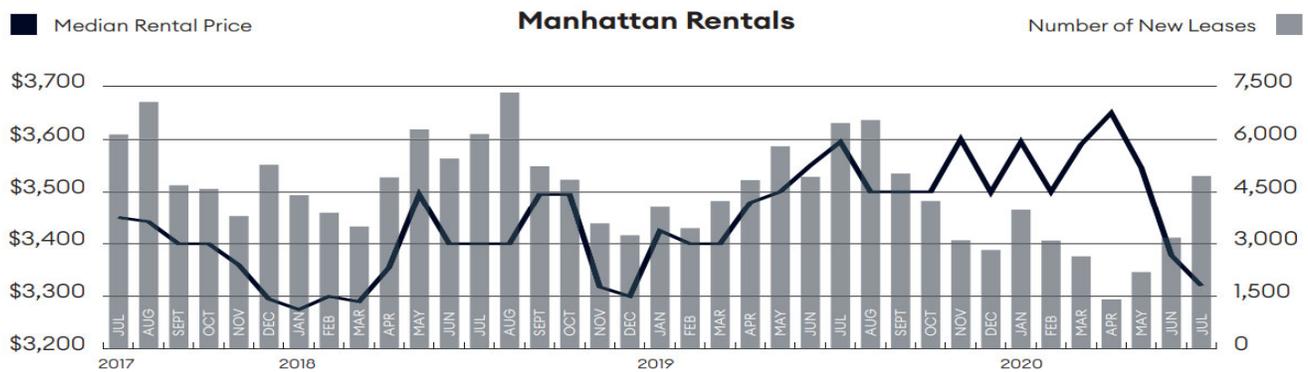
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Residential construction data shows homebuilding boom



Source: FactSet

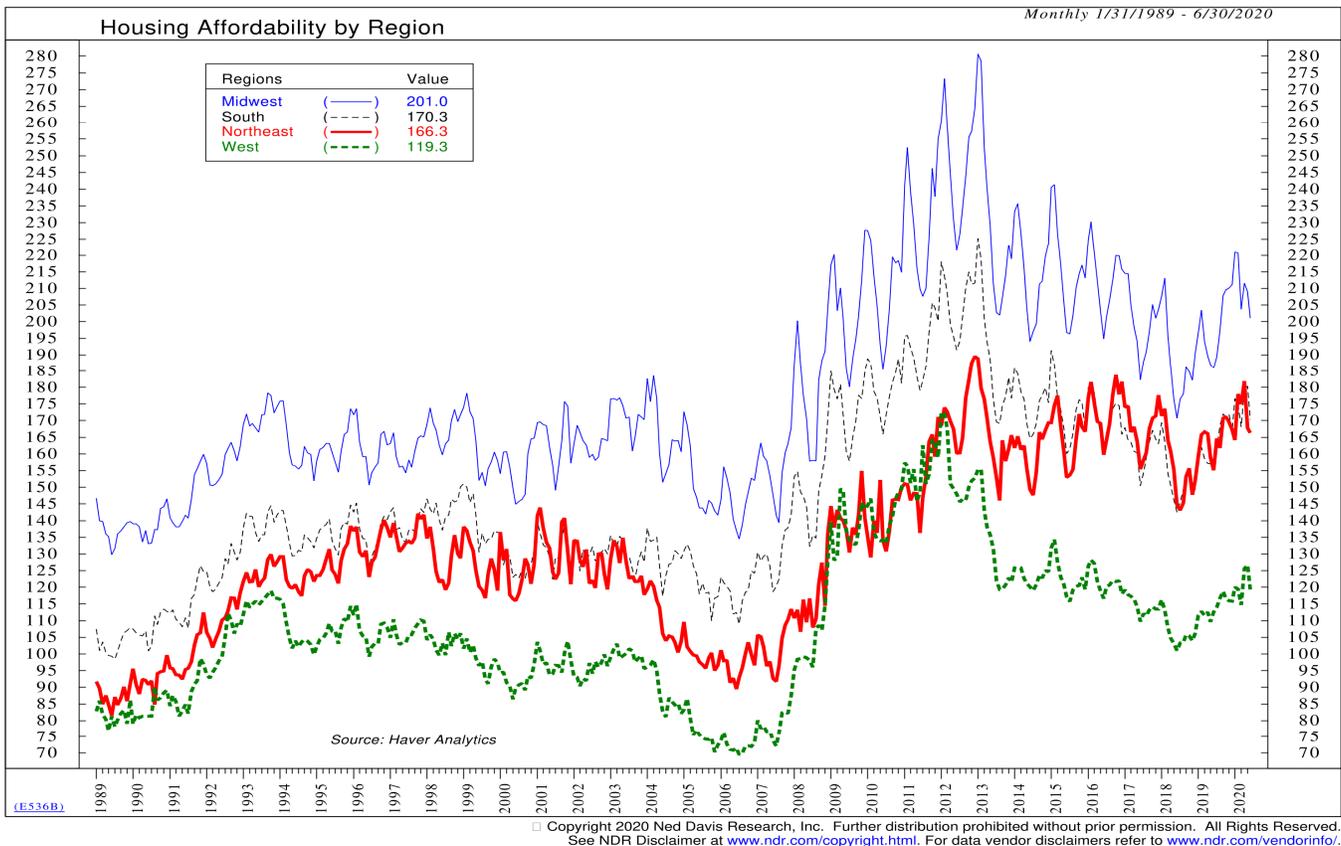
Urban markets feel the strain of shifting housing preferences



Manhattan Rentals Matrix By Property Type	JUL-20	%Δ (MO)	JUN-20	%Δ (YR)	JUL-19
Doorman Median Rental Price	\$3,916	-2.0%	\$3,995	-4.0%	\$4,079
Non-Doorman Median Rental Price	\$2,850	0.0%	\$2,850	-8.8%	\$3,125
Loft Median Rental Price	\$5,398	8.1%	\$4,995	-7.7%	\$5,850
New Development Median Rental Price	\$4,881	-1.8%	\$4,972	-1.2%	\$4,940
Existing Median Rental Price	\$3,273	-0.7%	\$3,295	-6.4%	\$3,495

Source: The Elliman Report

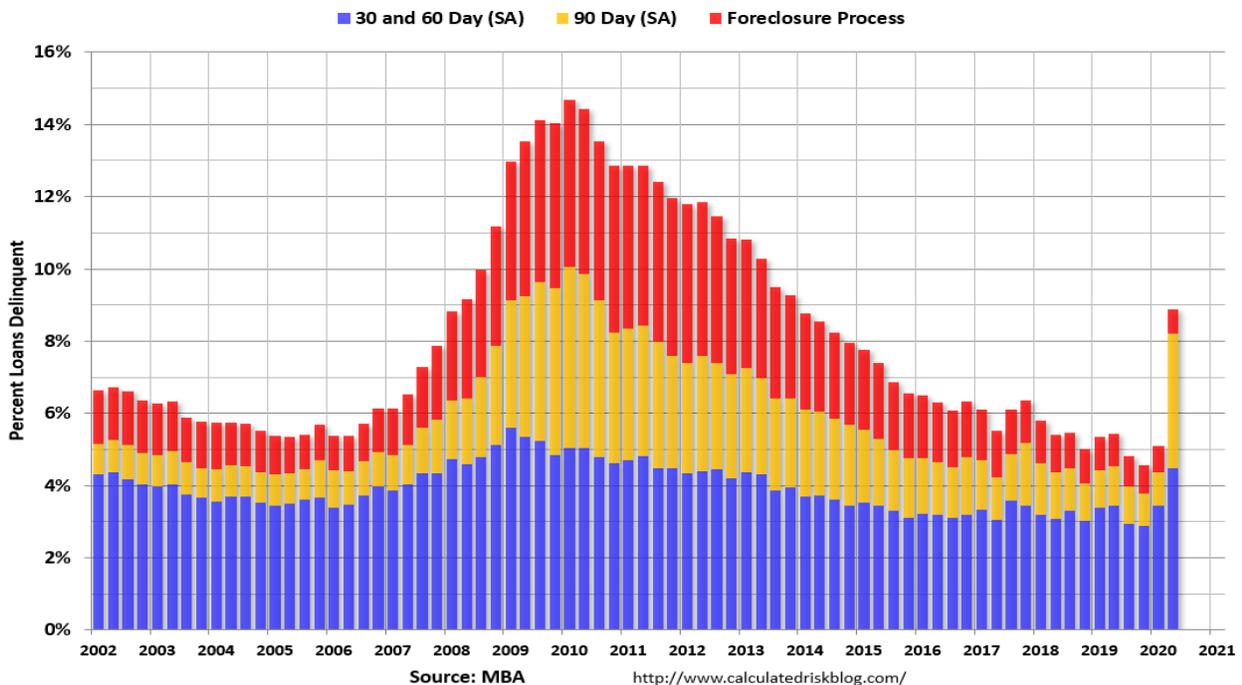
Even with low interest rates, housing affordability struggling to expand



Source: Ned Davis Research

First-time buyers struggling to stay current on mortgages

Mortgage Delinquencies and Foreclosures by Period Past Due, All Loans



Source: Calculated Risk

Appendix – Important Disclosures and Analyst Certification

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