

WINDERMERE
Economics

AN ECONOMIC & HOUSING MARKET FORECAST

PRESENTED BY: MATTHEW GARDNER

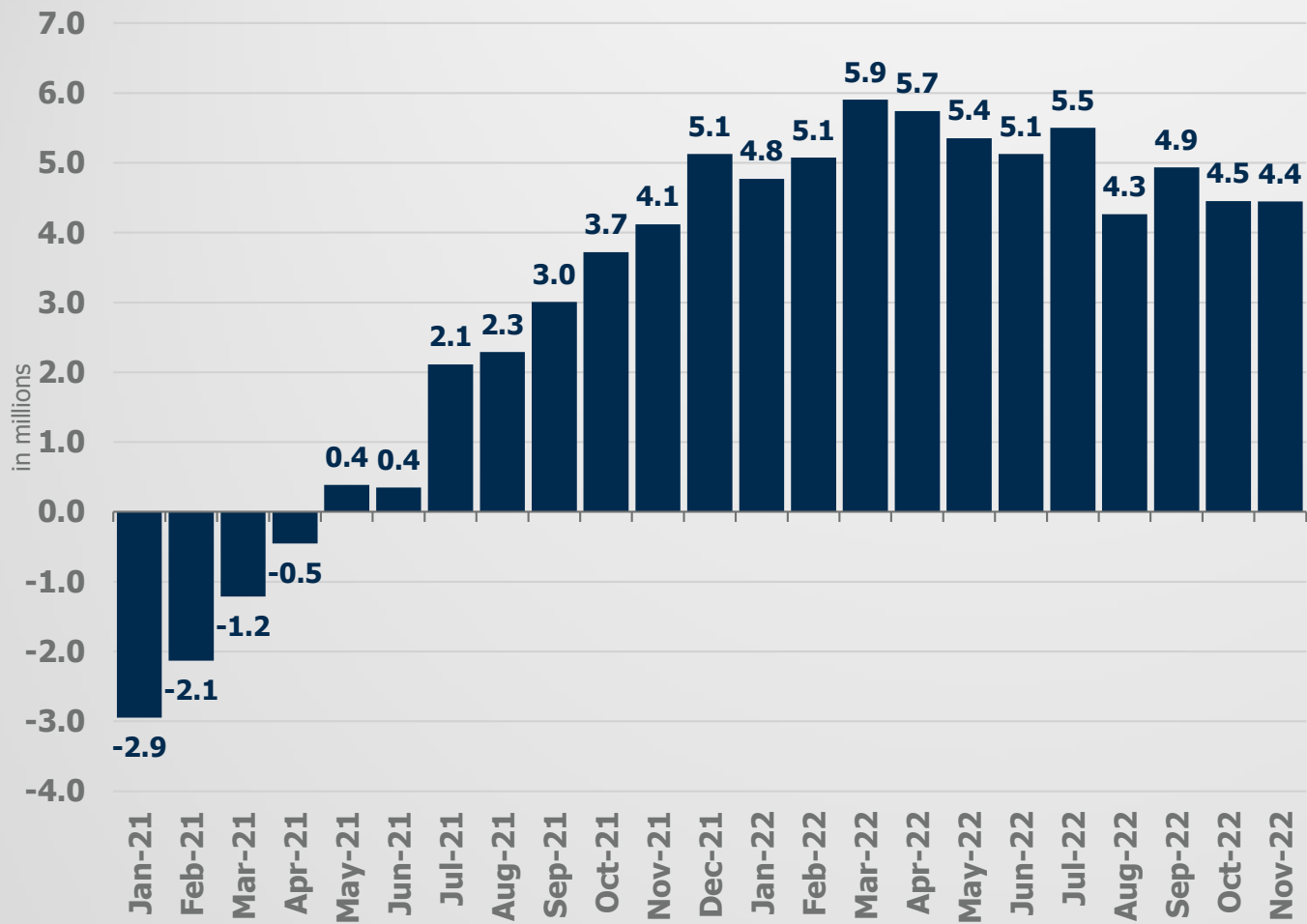
CHIEF ECONOMIST; WINDERMERE REAL ESTATE

WINDERMERE  REAL ESTATE

THE U.S. ECONOMY



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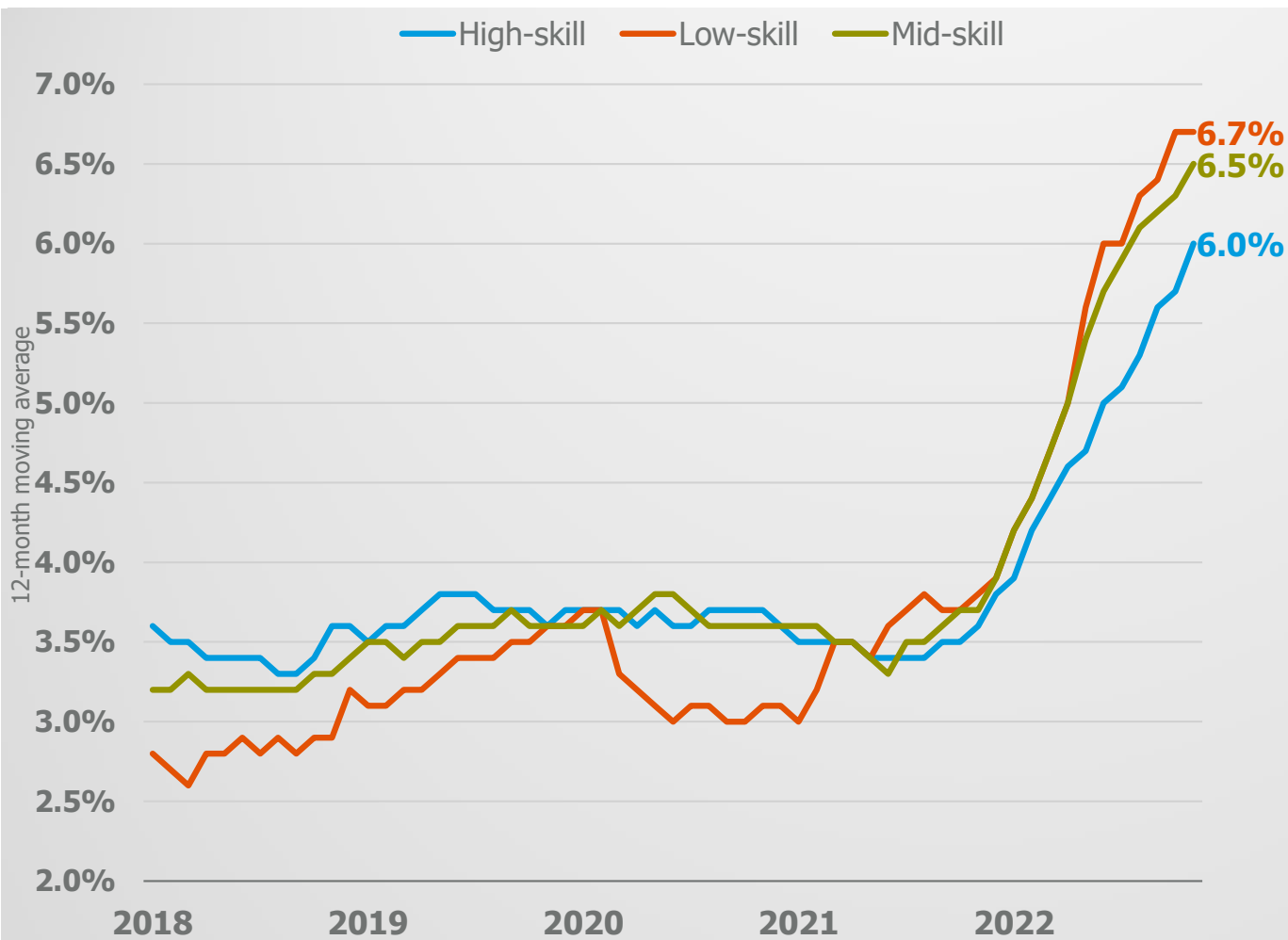


The Labor Market Remains Tight
 In November, there were 4.4-million more job openings than unemployed persons – that’s 1.7 jobs for every unemployed person

Source: Windermere Economics' analysis of BLS data; using U-3 criteria; sa

JOB OPENINGS TO UNEMPLOYED PERSONS



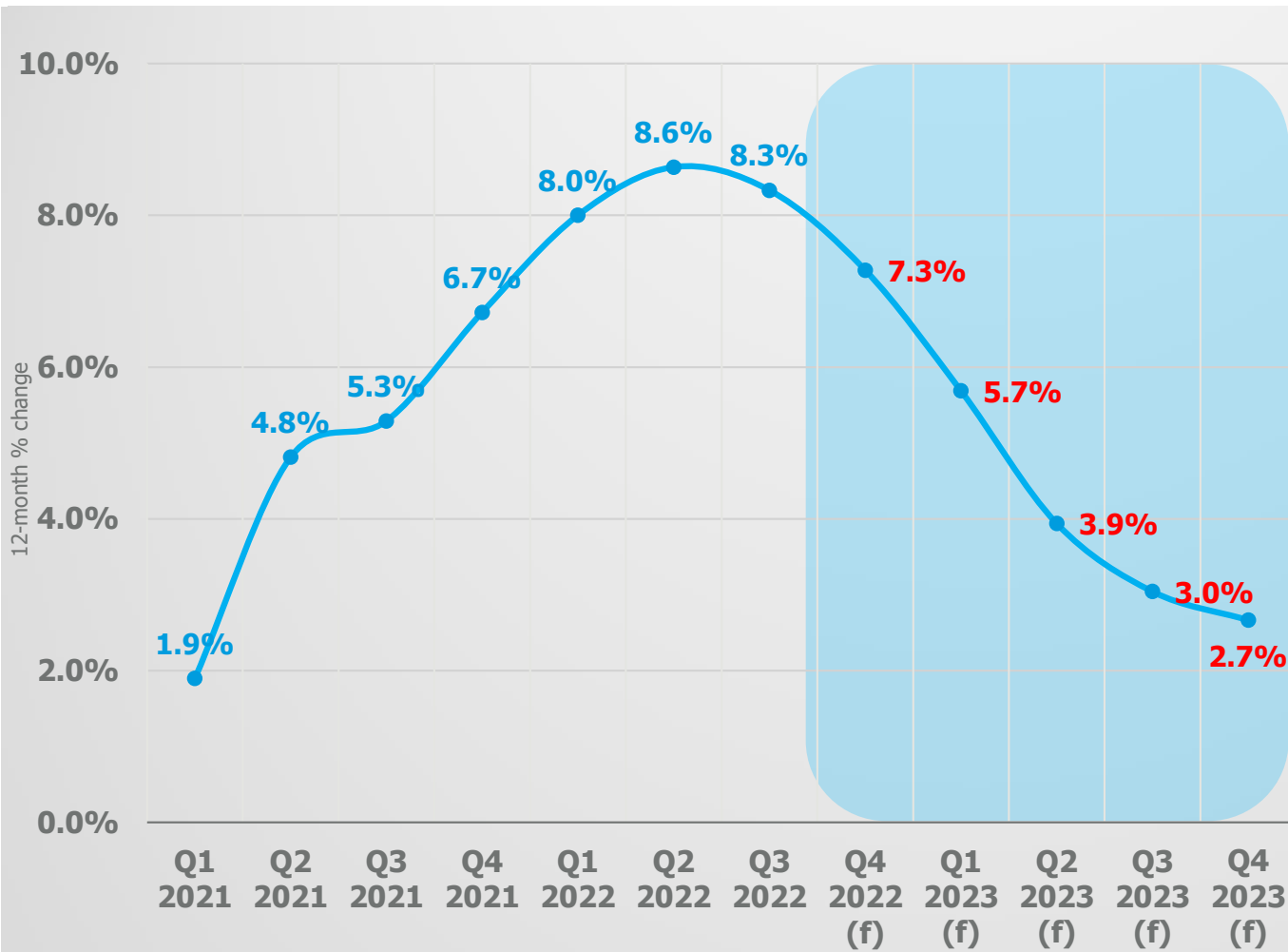


Which is Driving Wages Higher
 The pace of wage growth is consistent with a limited labor force & low participation rates

Source:
 Atlanta Federal Reserve
 Data thru' Nov. 2022

WAGE GROWTH BY OCCUPATIONAL CATEGORY

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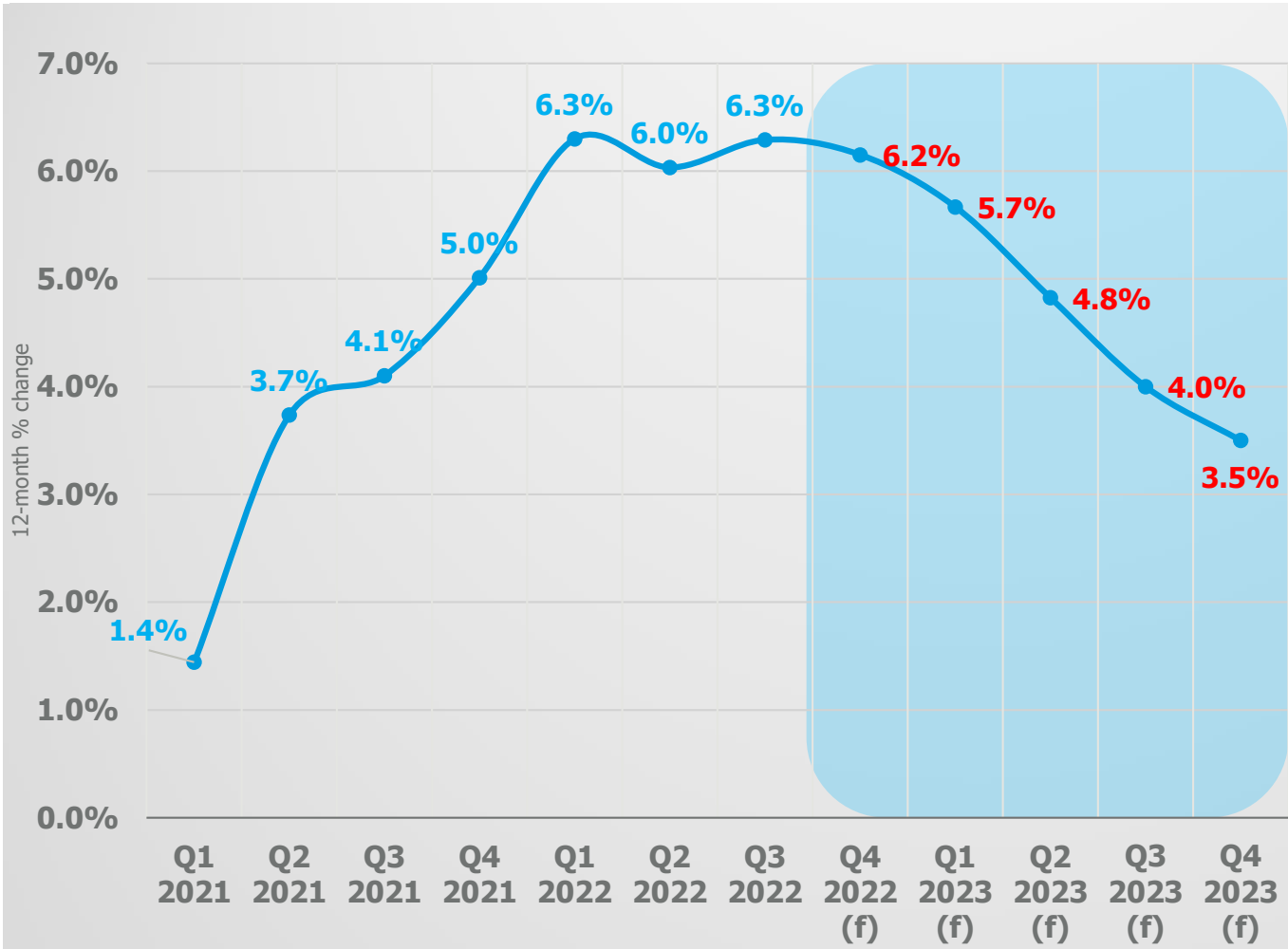


Inflation Has Peaked
 That said, stubbornly high gas prices & strength in the service sectors is slowing its fall

Source:
 Windermere Economics'
 forecast using BLS
 historic data

TOTAL CPI HISTORY & FORECAST





Although Core CPI Unexpectedly Rose in Q-3
 But with the modest pull-back seen in October, I believe that it, too, will resume its trend to the downside

Source:
 Windermere Economics'
 forecast using BLS
 historic data

CORE CPI HISTORY & FORECAST

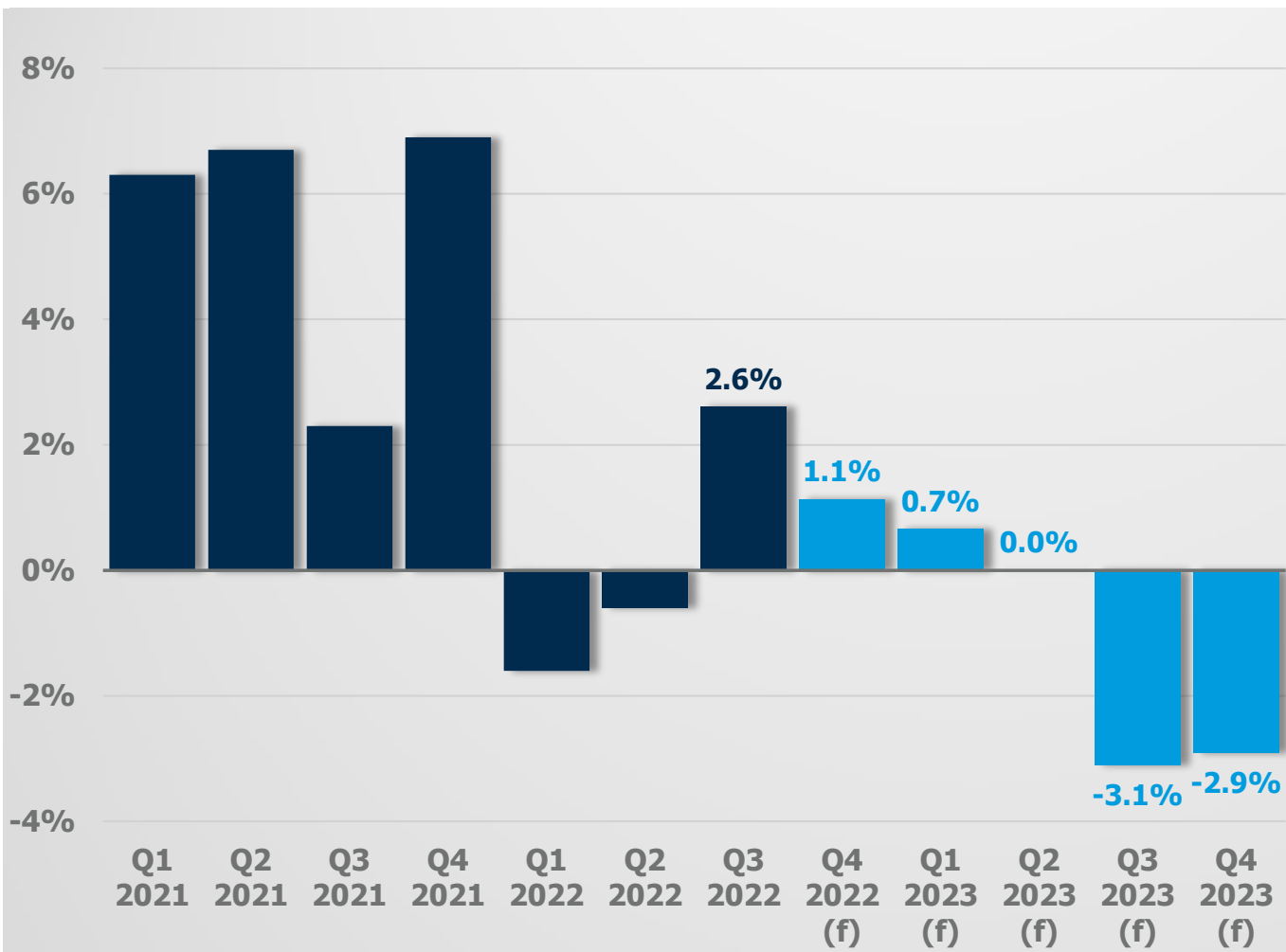


Inflation Has Driven the Fed to Aggressively Raise Rates

I contend that the FOMC waited too long before starting to shift their policy stance, and that they will continue raising rates for longer than necessary

Source: Windermere Economics' forecast using Federal Reserve historic data.

FEDERAL FUNDS RATE & FORECAST

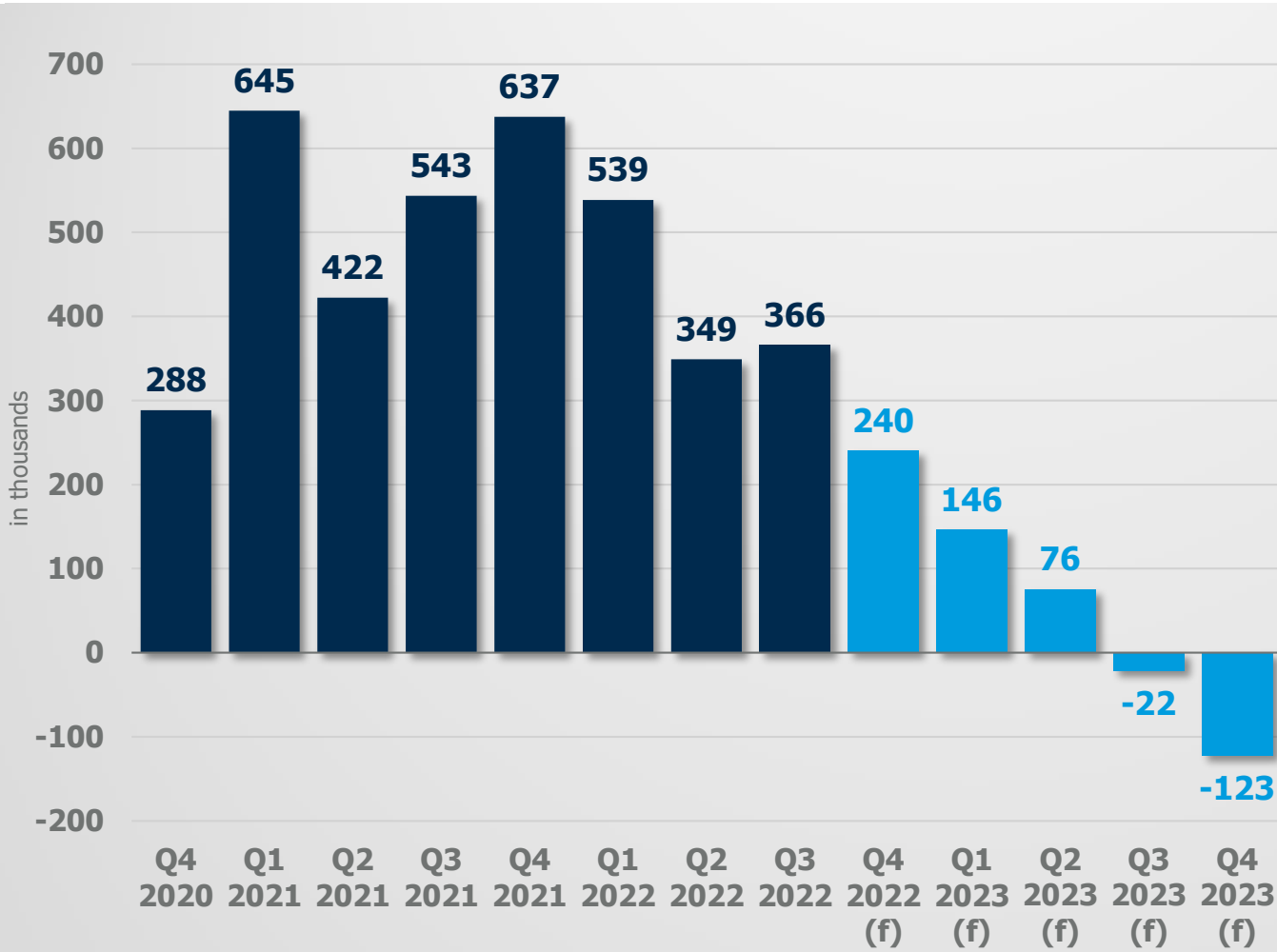


Which Will Likely Result in a Recession
 The U.S. is expected to enter a period of economic contraction starting in Q-2 or Q-3 – but it is far from guaranteed.

Source:
 Windermere Economics' forecast using BEA historic data
 % change from preceding period; SAAR

U.S. REAL GDP



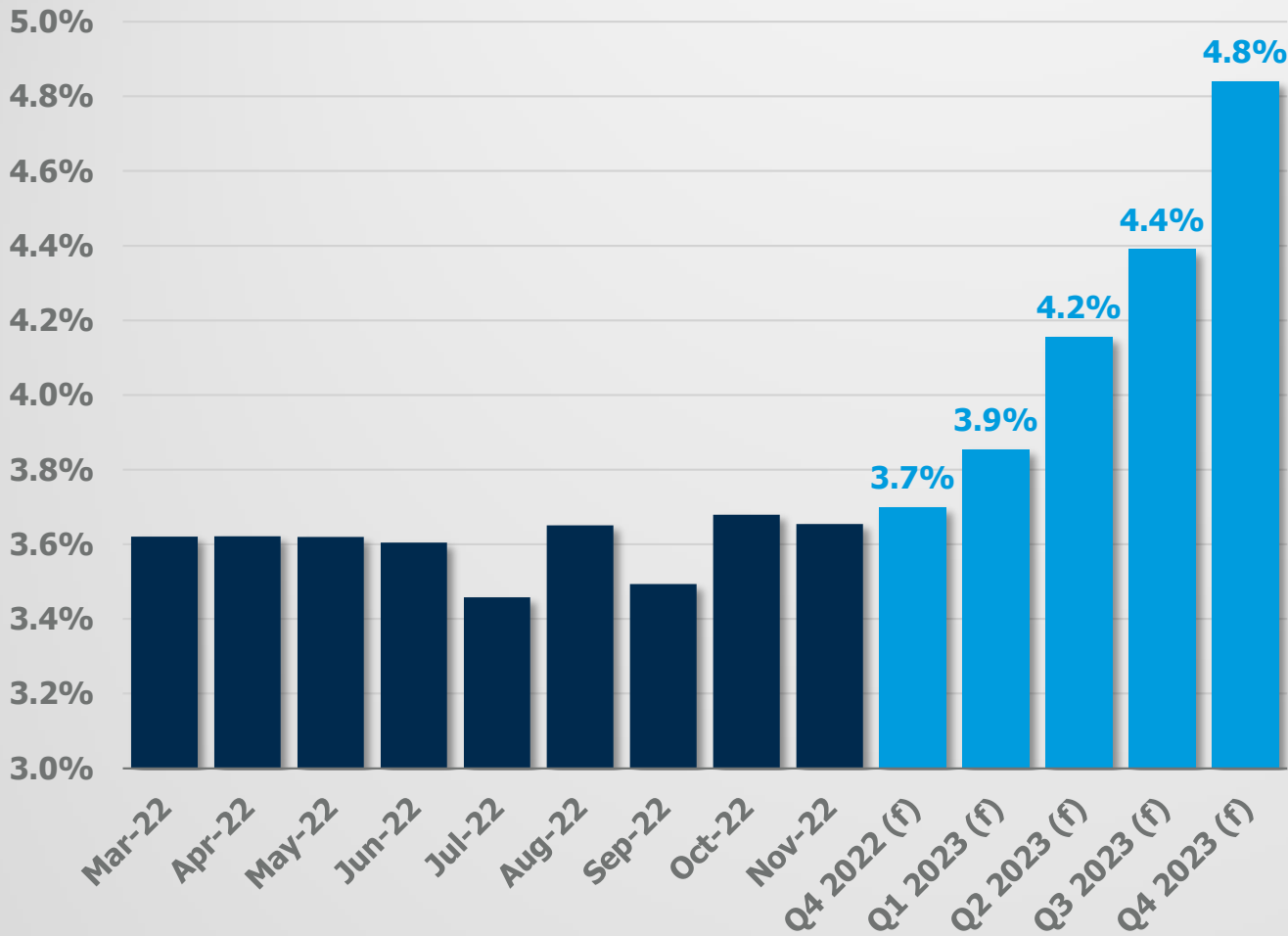


& a Recession Leads to Job Losses
 The U.S. could shed approximately 1.2 million jobs in 2023

Source:
 Windermere Economics'
 forecasts using BLS
 historic data

U.S. PAYROLL CHANGE & FORECAST





& the Jobless Rate Would Rise
 However, given the tight labor market, and favorable demographics, the unemployment rate would peak at a relatively low 5.4% in Q2-24

Source: Windermere Economics' forecast using BLS historic data; U-3 criteria

U.S UNEMPLOYMENT RATE

- The Fed is still willing to risk a recession to bring inflation to heel & a “modest” contraction is now baked into economists’ forecasts;
- Rising interest rates lead to a period of retrenchment in consumer spending starts early next year;
- The FOMC will be slow to ease policy; however, they will start cutting rates in Q3-2023; but
- On a positive note, challenging demographics weigh on labor supply growth, so the jobless rate peaks at “only” 5.4%

THE CLARK CO. ECONOMY

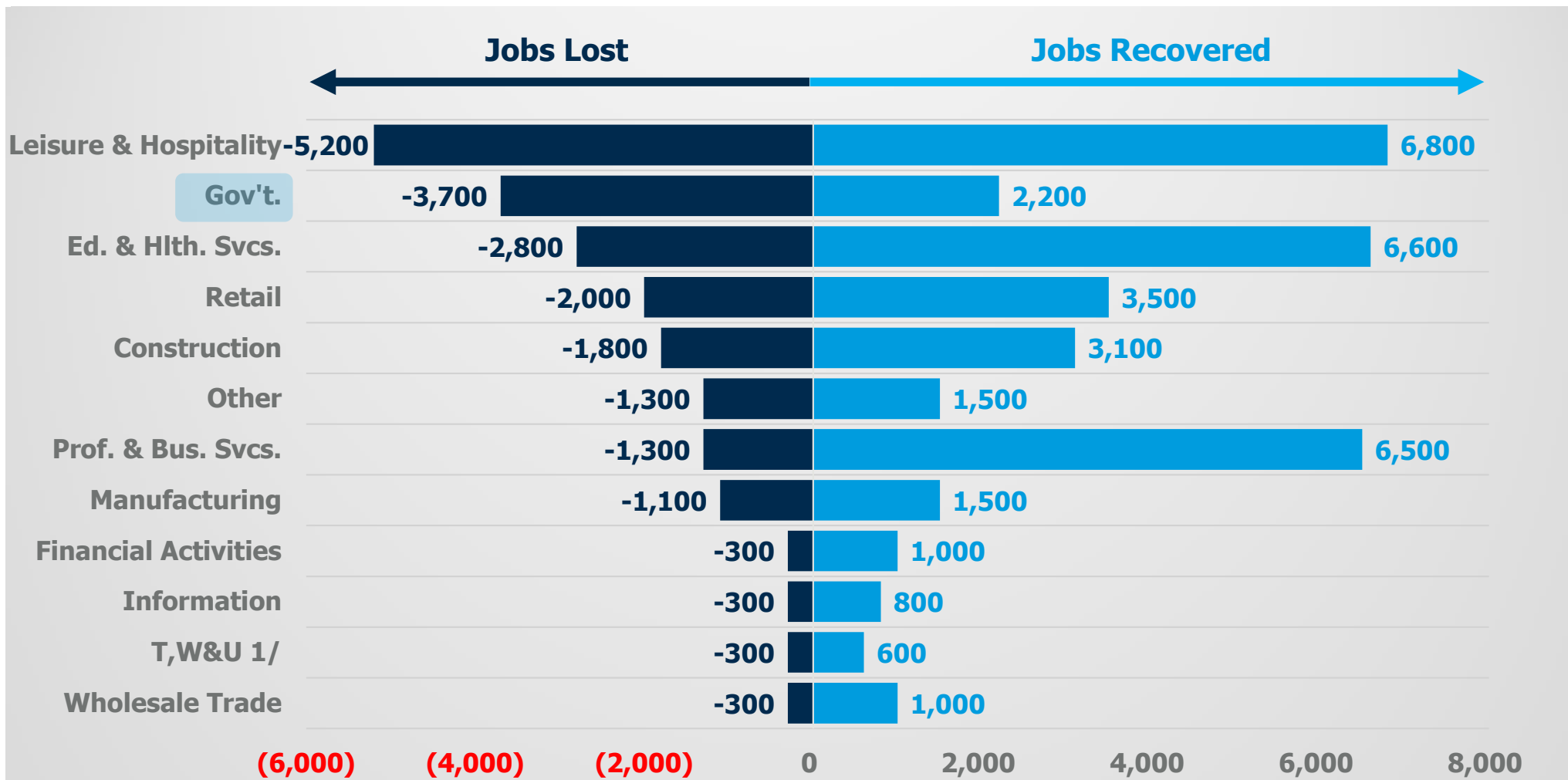


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EMPLOYMENT



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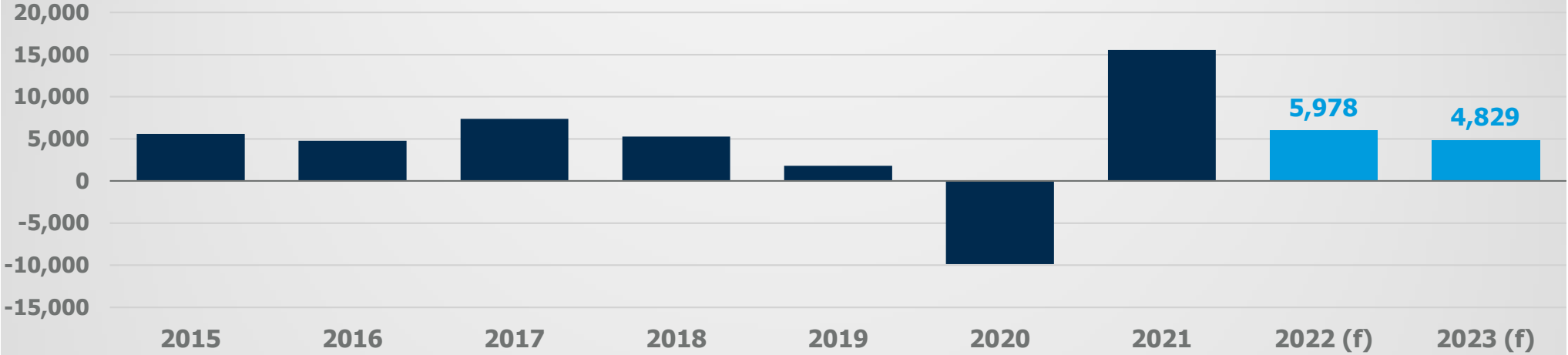
Source: WA ESD
 1/ Transportation,
 Warehousing & Utilities
 Data thru' 11/22

POST COVID JOB RECOVERY

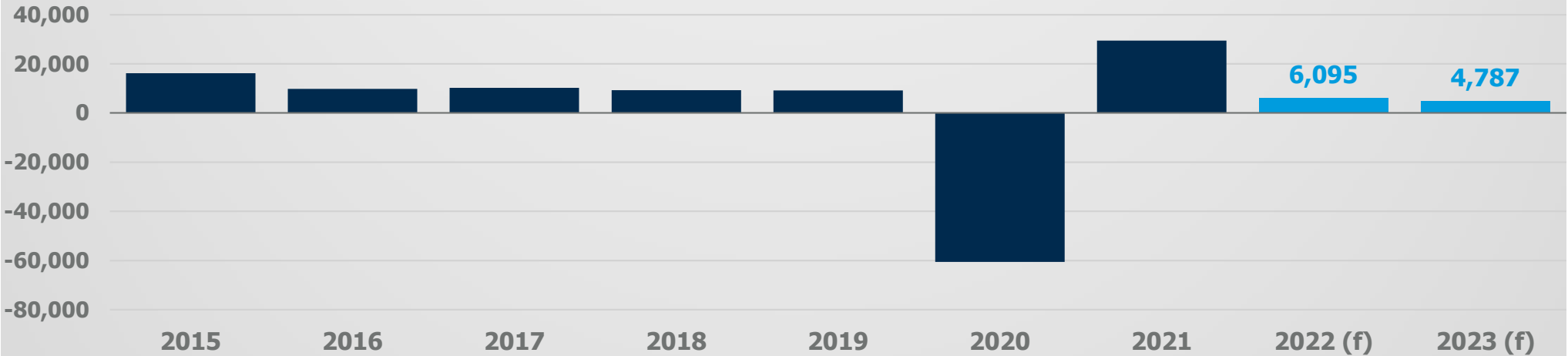


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Clark County Employment Forecast



Multnomah County Employment Forecast



Source:
WA ESD & QualityInfo
w/Windermere
Economics' Forecast

JOB GROWTH WILL NOT TURN NEGATIVE



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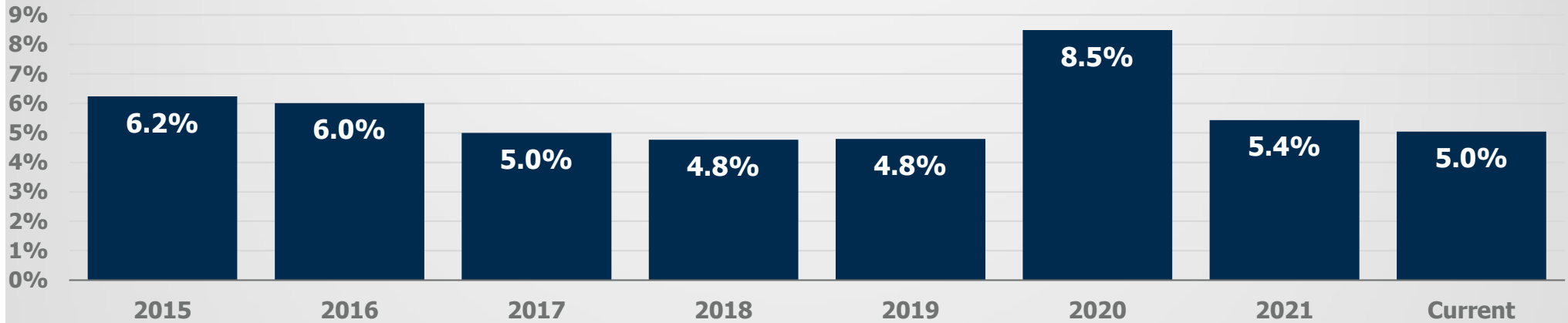
UNEMPLOYMENT



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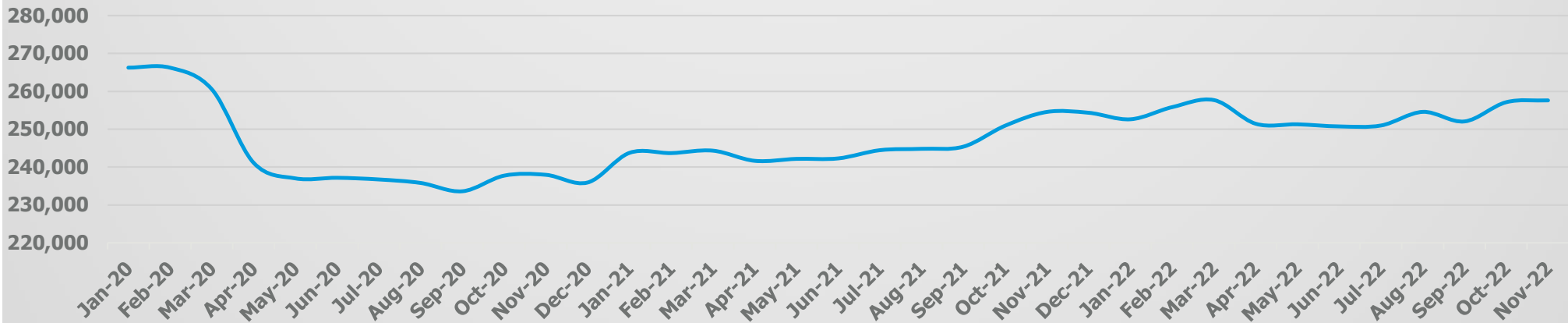
Average Annual Unemployment Rate

Clark County; sa



Labor Force

Clark County; nsa



Source:
WA ESD w/Windermere
Seasonal Adjustments

LACK OF LABOR IS LESS OF AN ISSUE



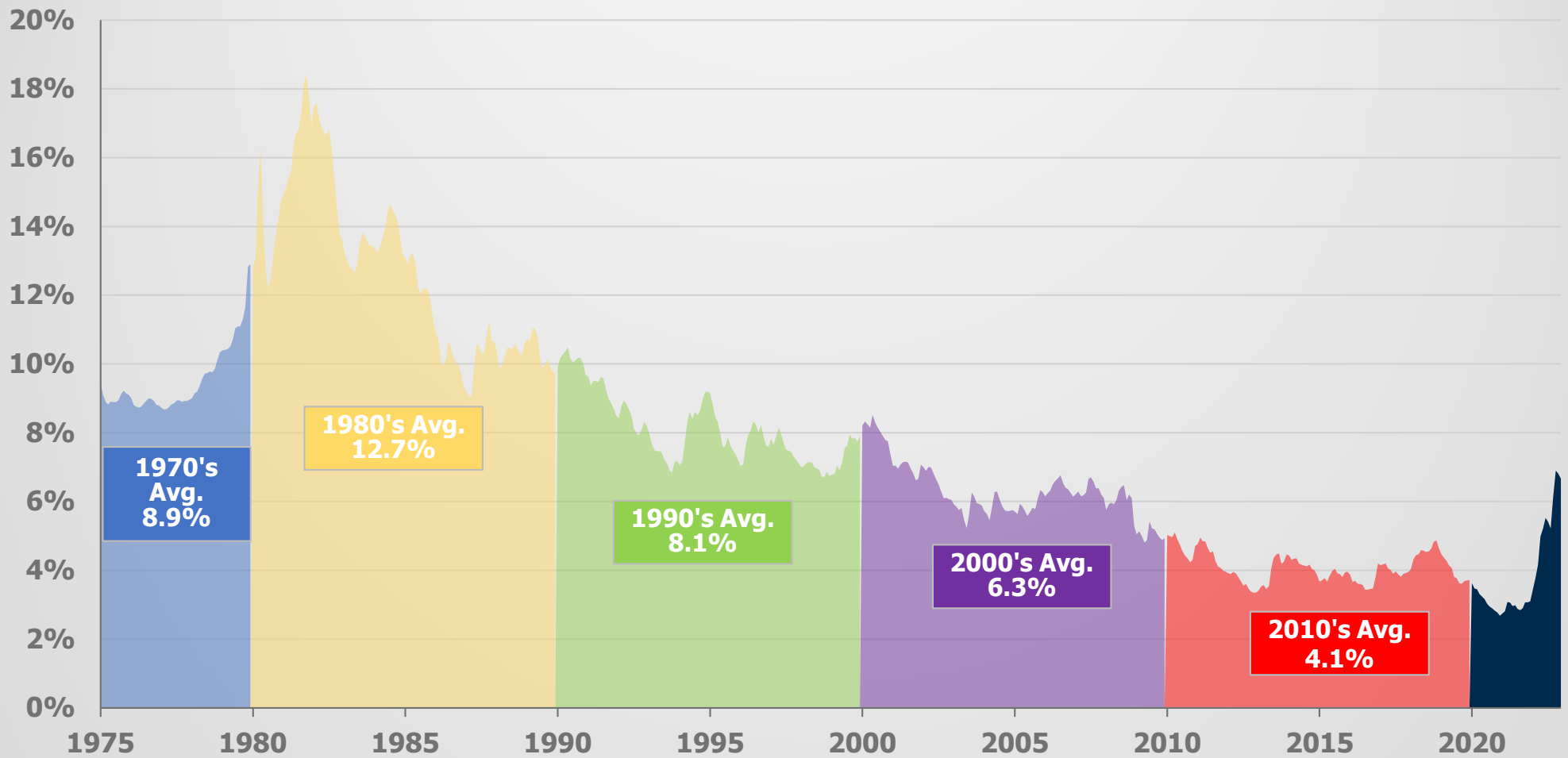
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- In-Migration has Allowed the Service Sector to Grow at Above Average Rates;
- The Labor Shortage – Which Was a Concern – Appears to Have Started to Resolve Itself;
- The Anticipated Economic Slowdown in '23 Should Have Little Impact on the Areas Job Market; &
- Growth Has Been Impressive – However, There is a Price to Pay.

MORTGAGE RATES



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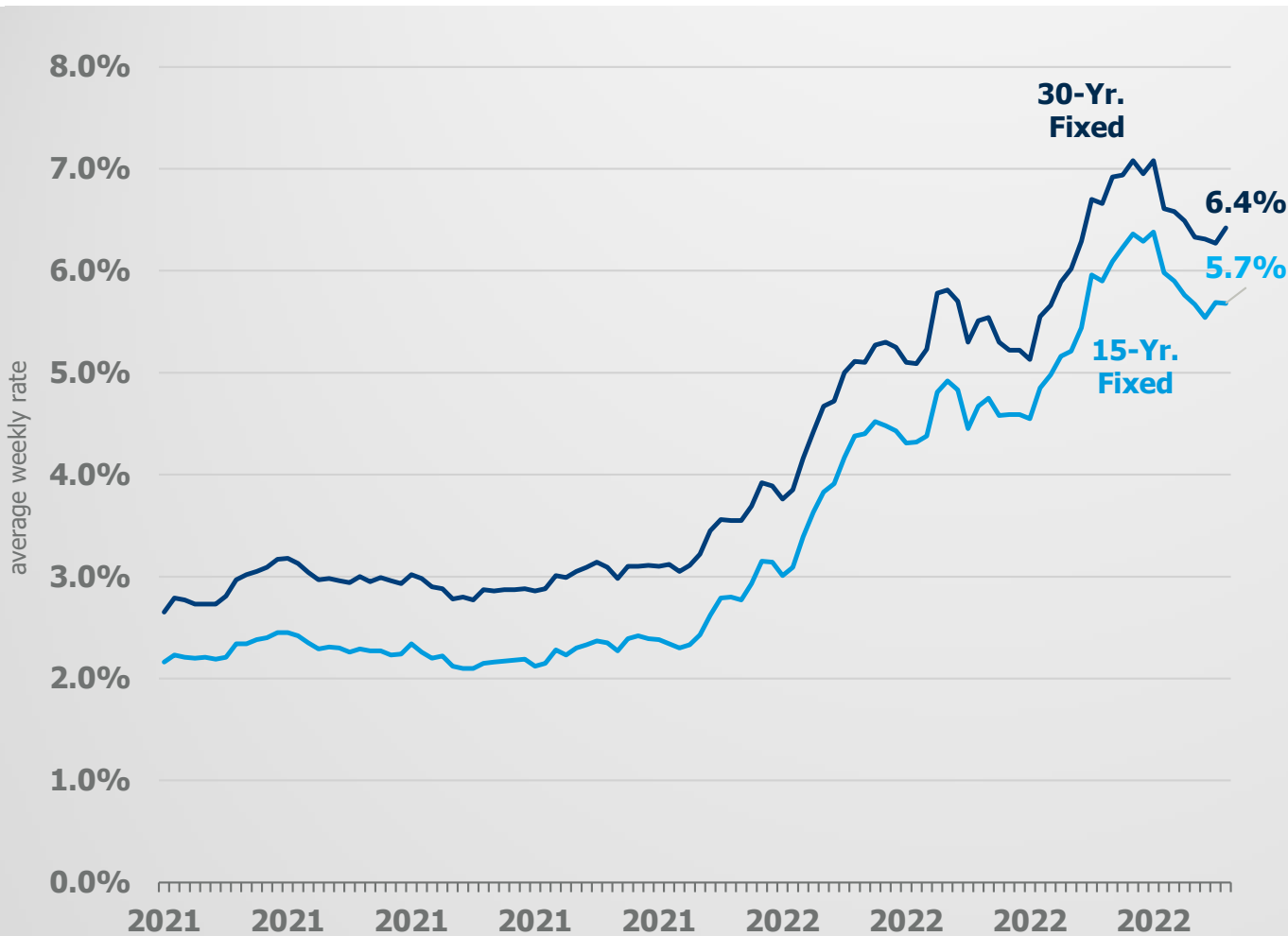


Source:
Freddie Mac
Average monthly
conforming rate

MORTGAGE RATES OVER TIME



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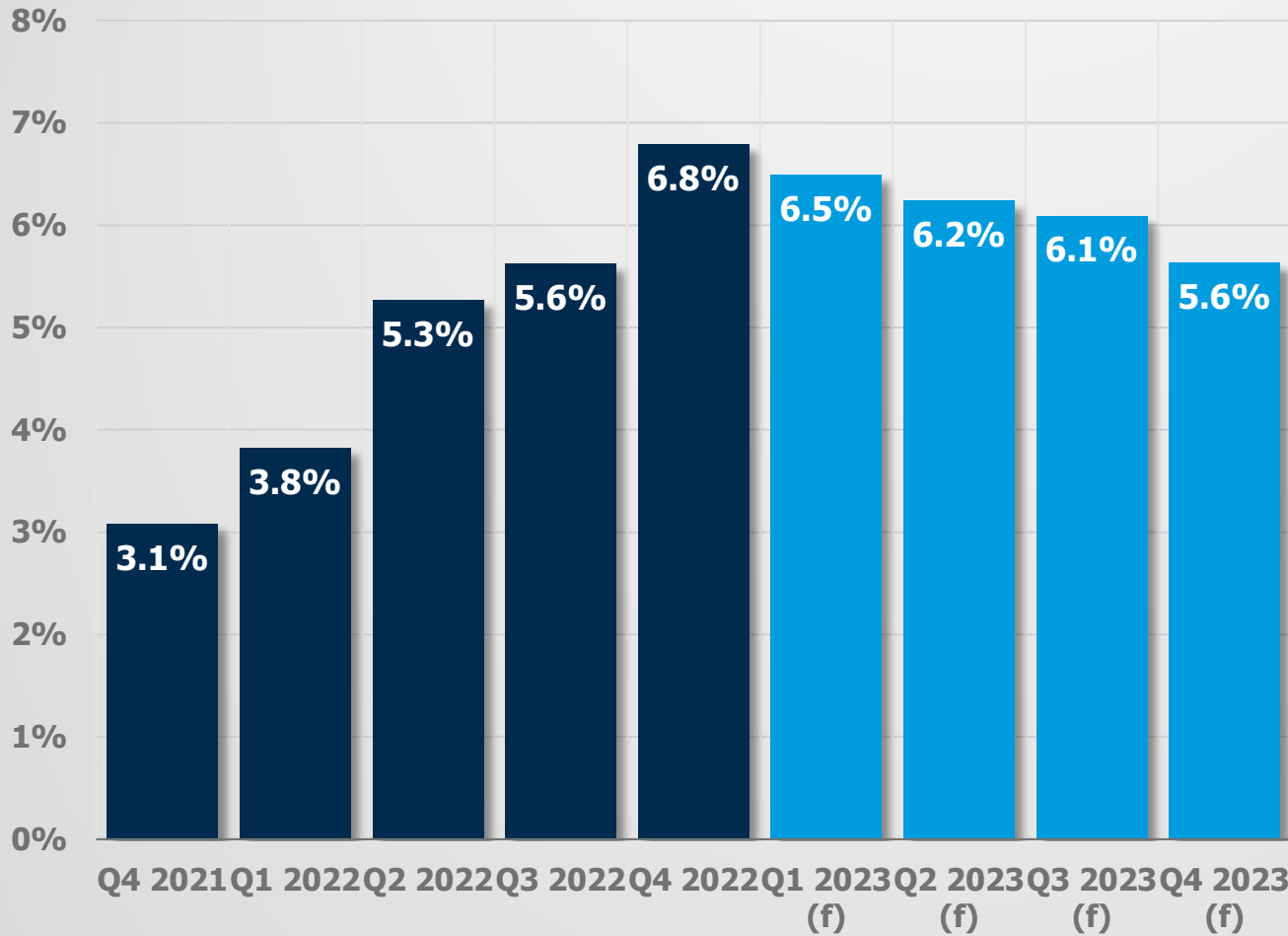
Rates Have Started to Moderate
 But inflation data – & the Fed’s response – will ultimately direct rates

Source:
 Freddie Mac; weekly
 rate for conforming
 loans, ex-points

MORTGAGE RATES OF VARIOUS DURATIONS



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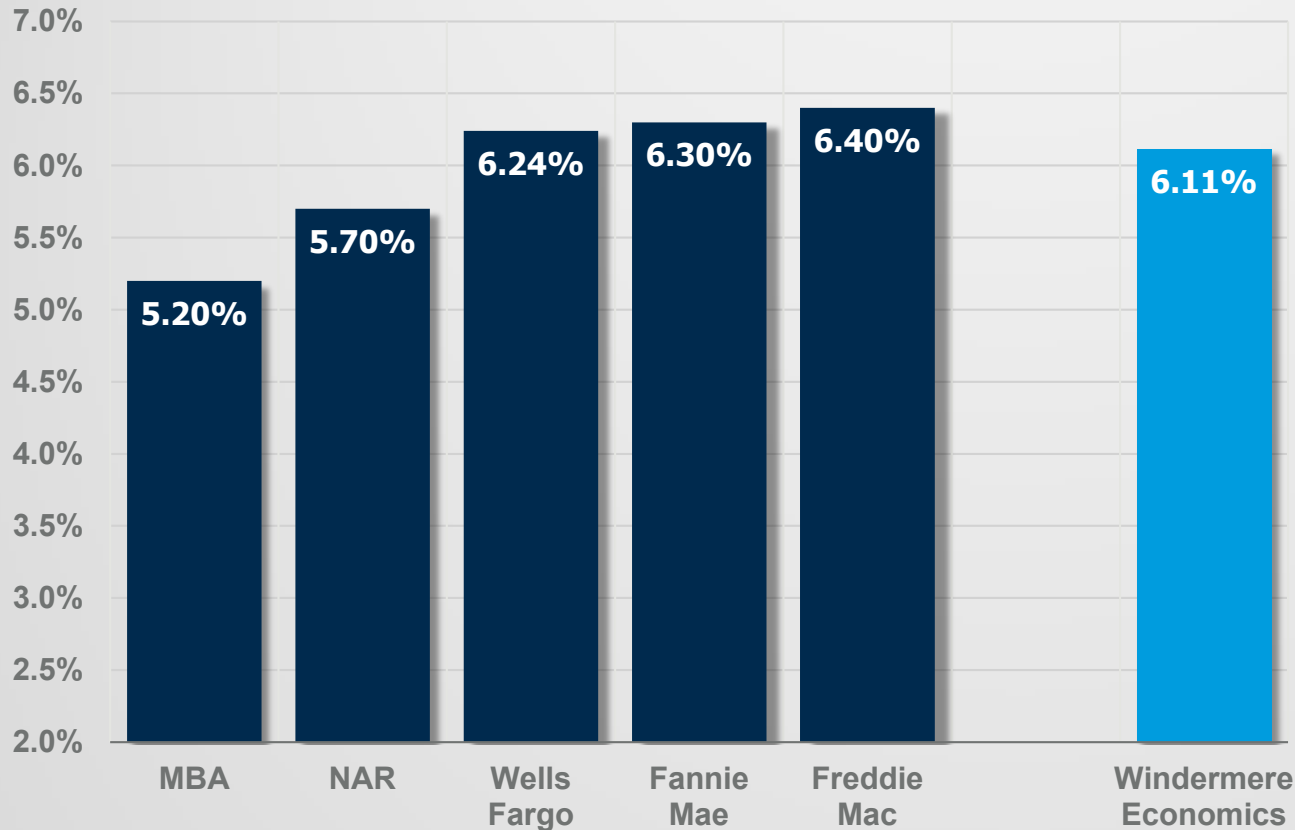


Data Tells Me That Rates Likely Peaked Last Quarter
 With inflation slowing, bond yields start to pull back & this should allow rates to slowly trend lower as we move through 2023

Source: Freddie Mac history & Windermere Economics forecasts for a conventional 30-year mortgage

AVERAGE 30-YEAR RATE & FORECAST

Forecasts for Conventional 30-Year Fixed Mortgage Rates in 2023



& My Colleagues Generally Agree

No-one is expecting rates to rise further, but if they fall faster than anticipated, demand - & prices – will recover faster than currently forecast

ANALYSTS' EXPECTATIONS FOR 2023

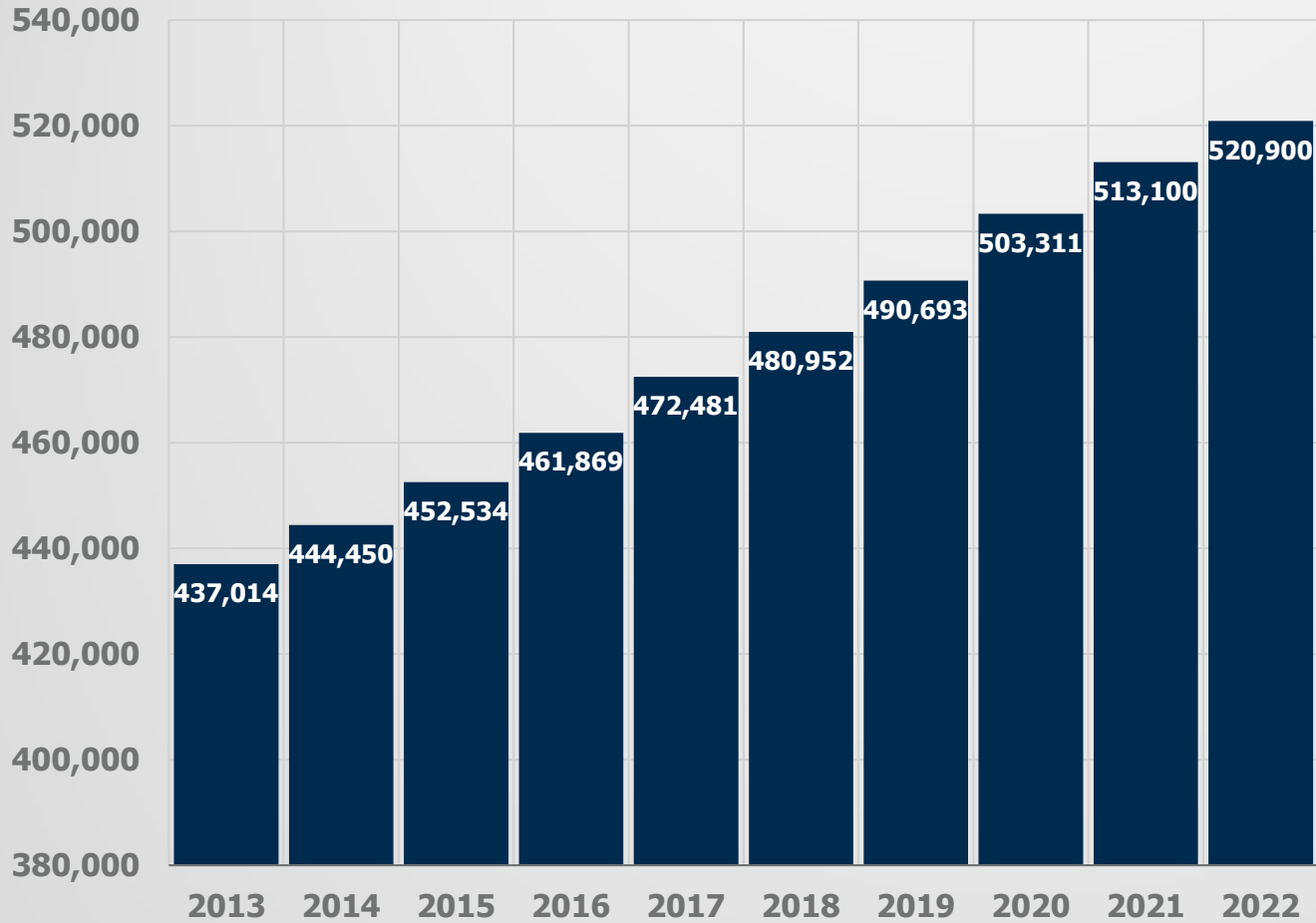


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POPULATION TRENDS



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The County Population Continues to Grow

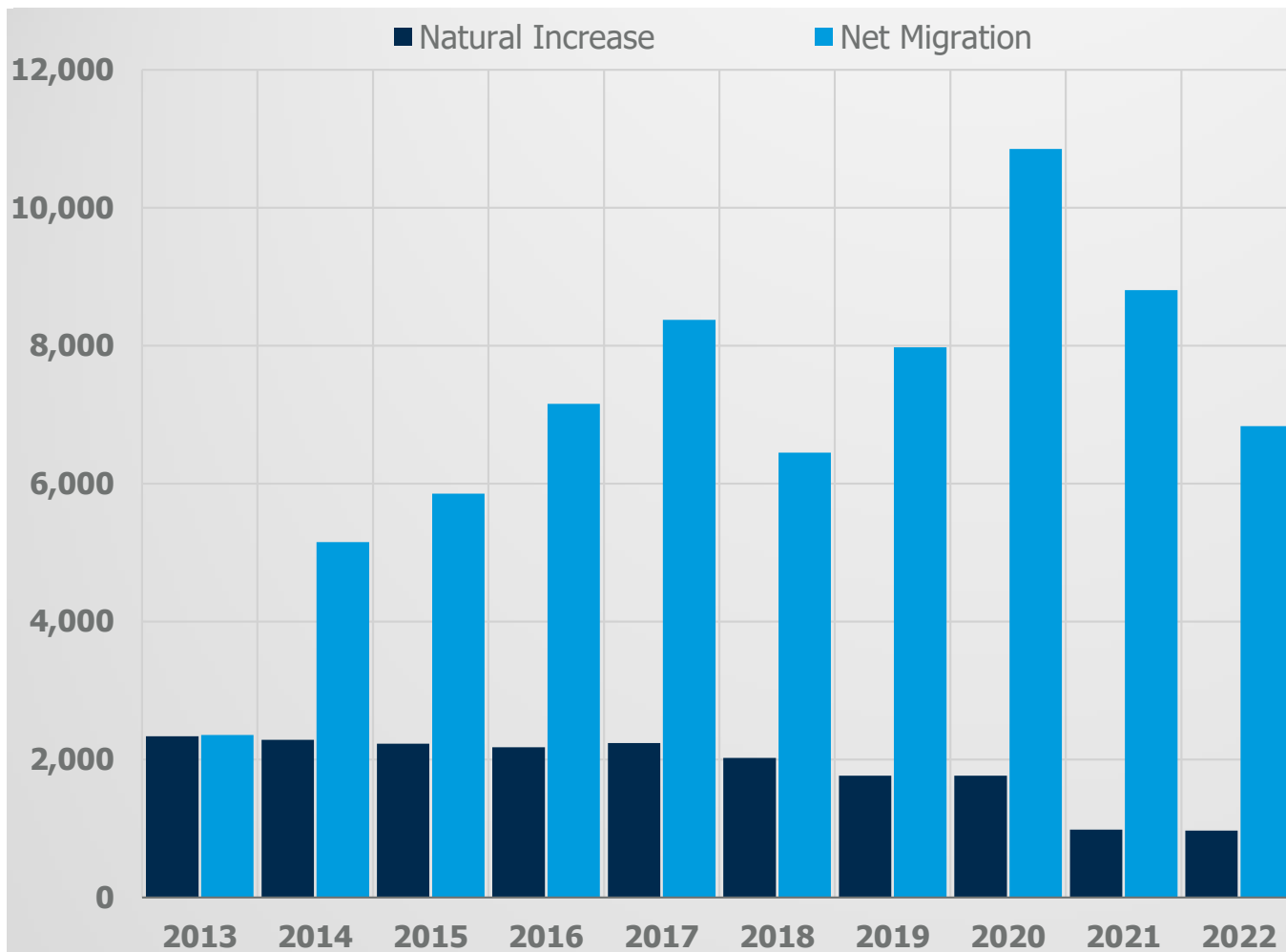
Total population has risen by 20.5% over the past decade

Source:
WA OFM

POPULATION TRENDS



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The County Population Continues to Grow
 But growth has been driven by in-migration, and not by “natural” increases with twice as many “movers” than seen via “organic” growth

CLARK COUNTY HOUSING MARKET

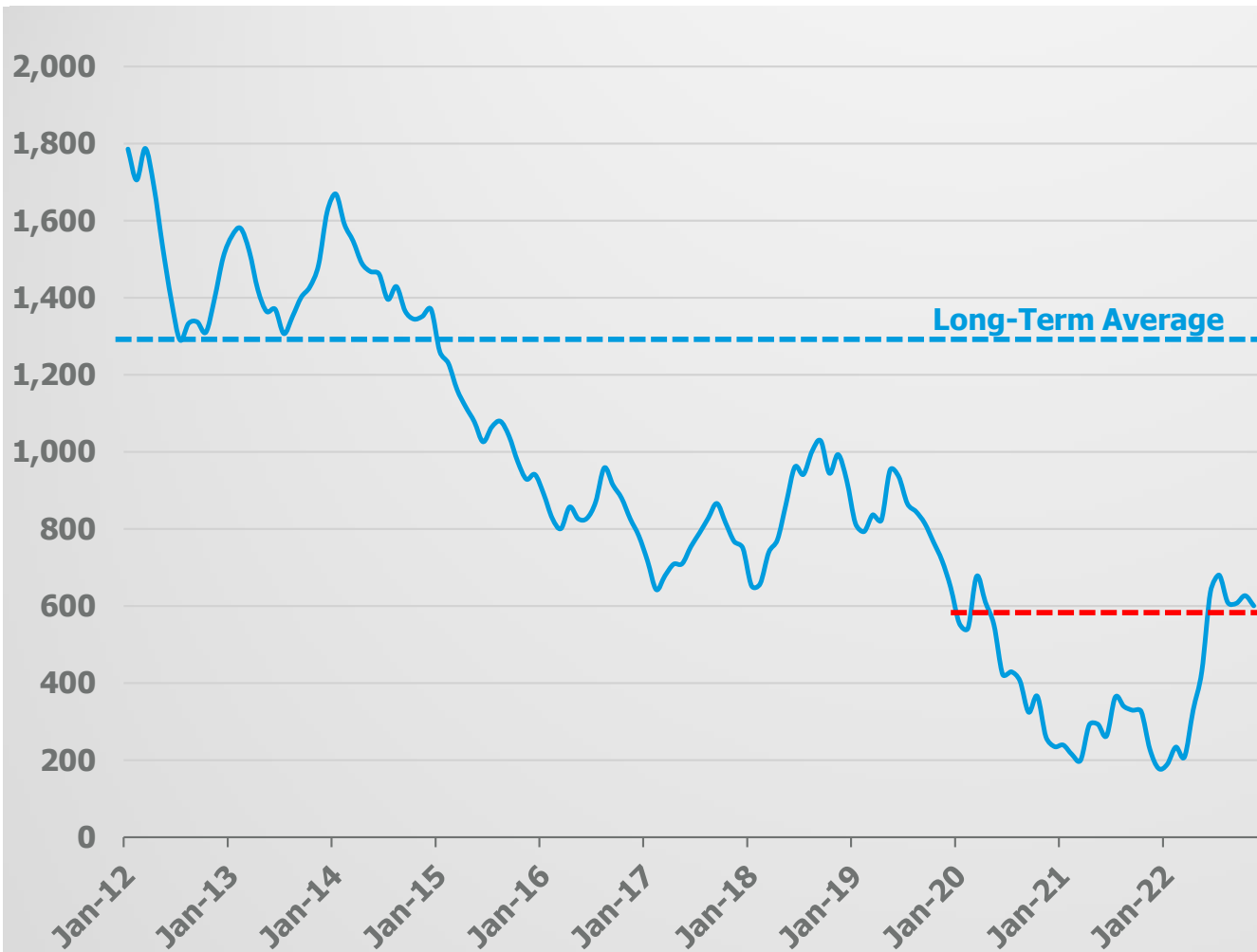


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EXISTING SINGLE-FAMILY HOMES



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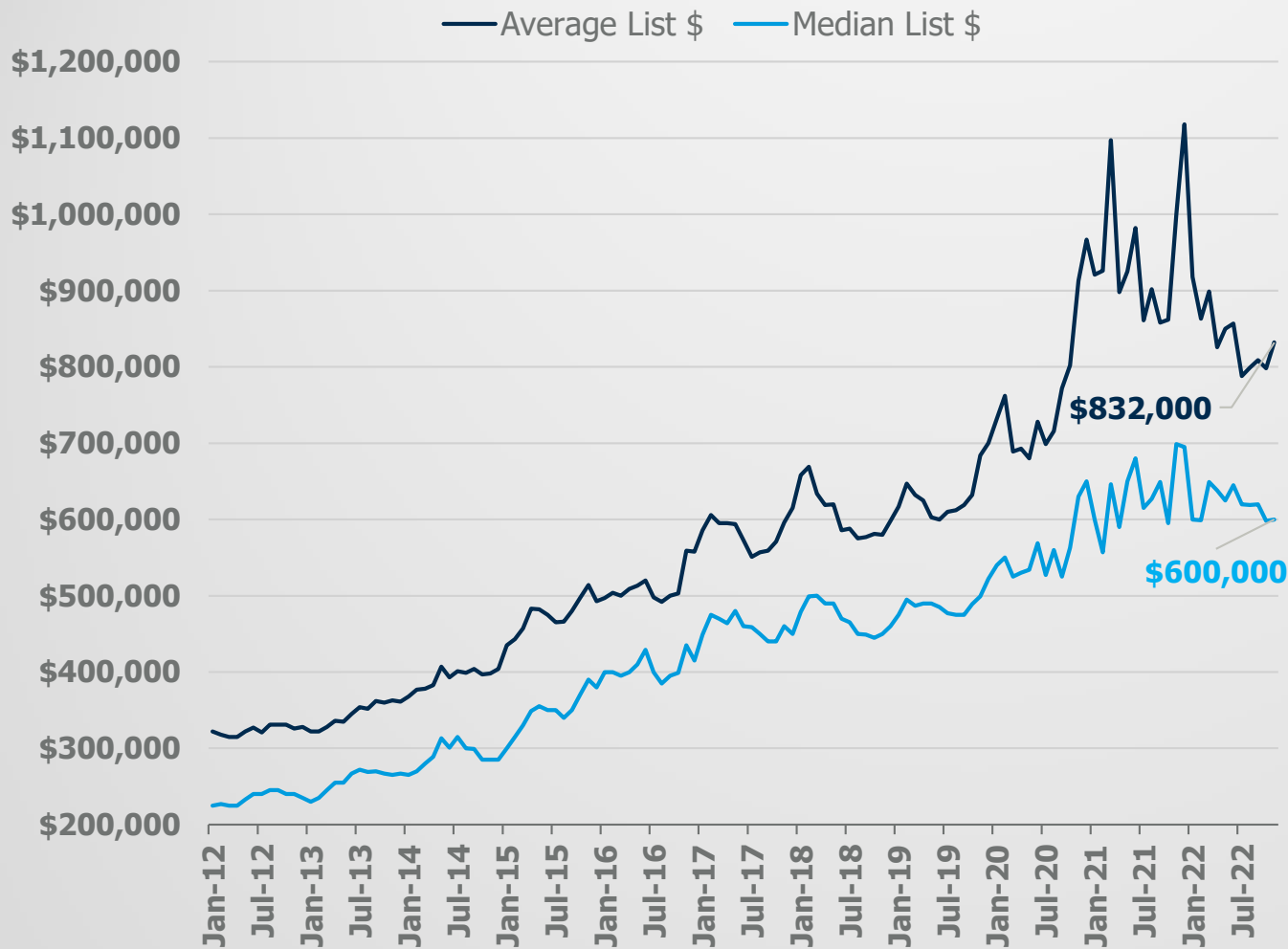


The Market is Heading Toward Balance

The rise in listing activity – although certainly significant – needs to be put in perspective

Source:
RMLS w/Windermere
Economics seasonal
adjustments
LTA: 1,316

LISTING ACTIVITY



**Home Sellers
Becoming Less
Bullish**

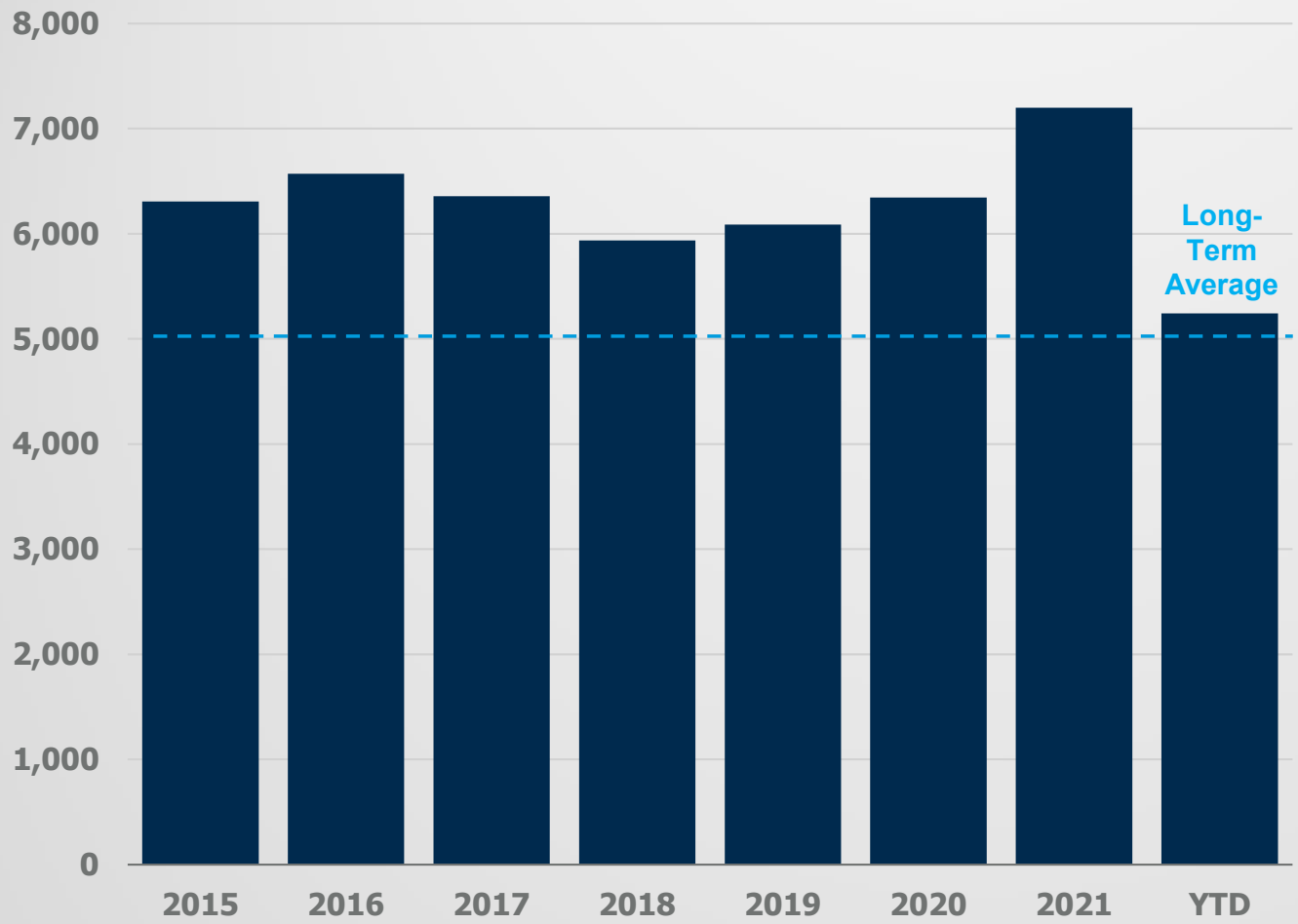
Average list prices are down 16.8% median prices are 14.2% lower (y/y).

Source:
RMLS

LIST PRICES



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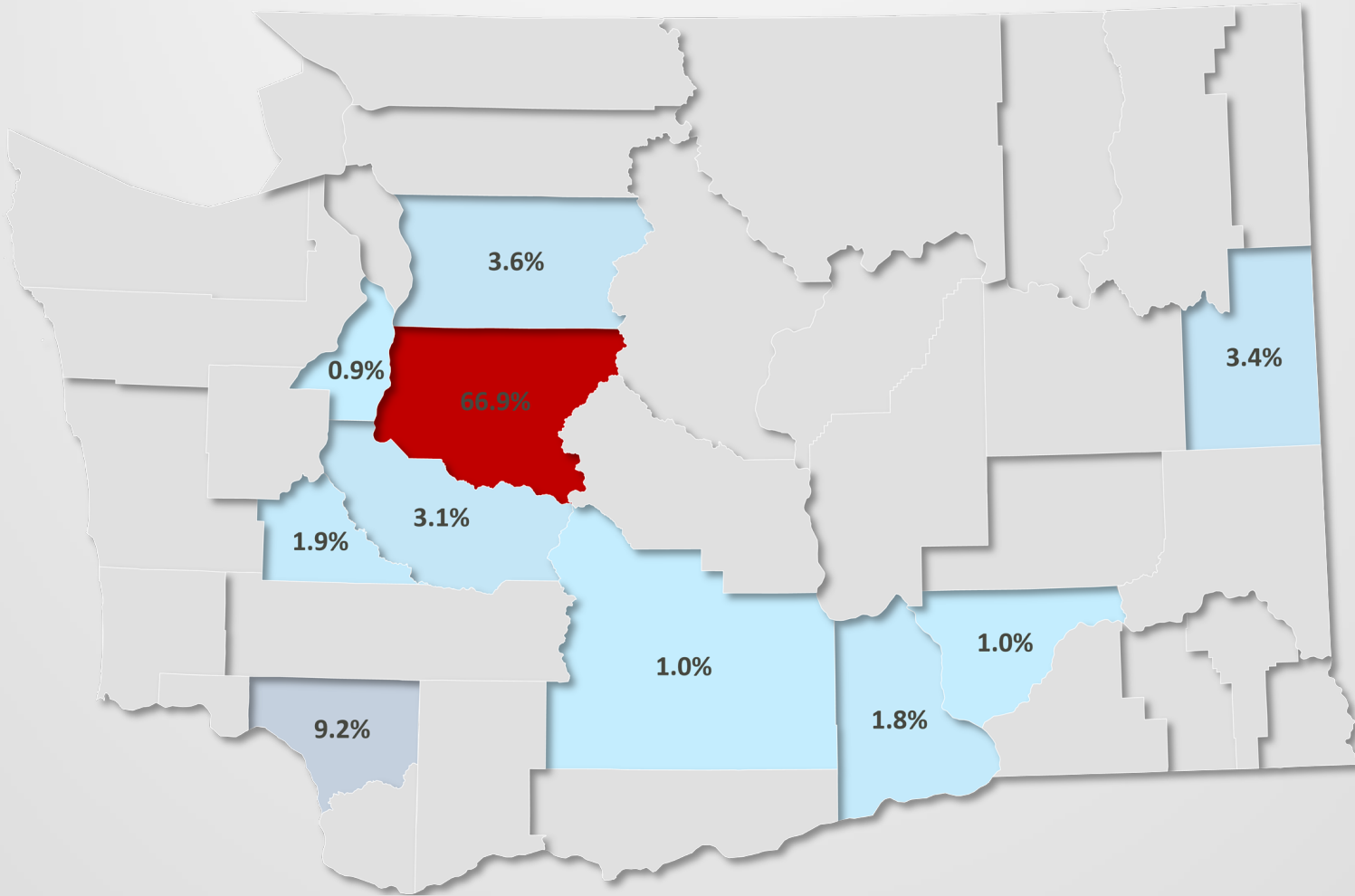
Sales Still Exceed the Long-Term Average
 YTD sales are running 20% below 2021 levels; however, they are down by just 6% when compared to the same period in 2019

Source: NWMLS
 LTA: 4,996

ANNUAL SALES ACTIVITY



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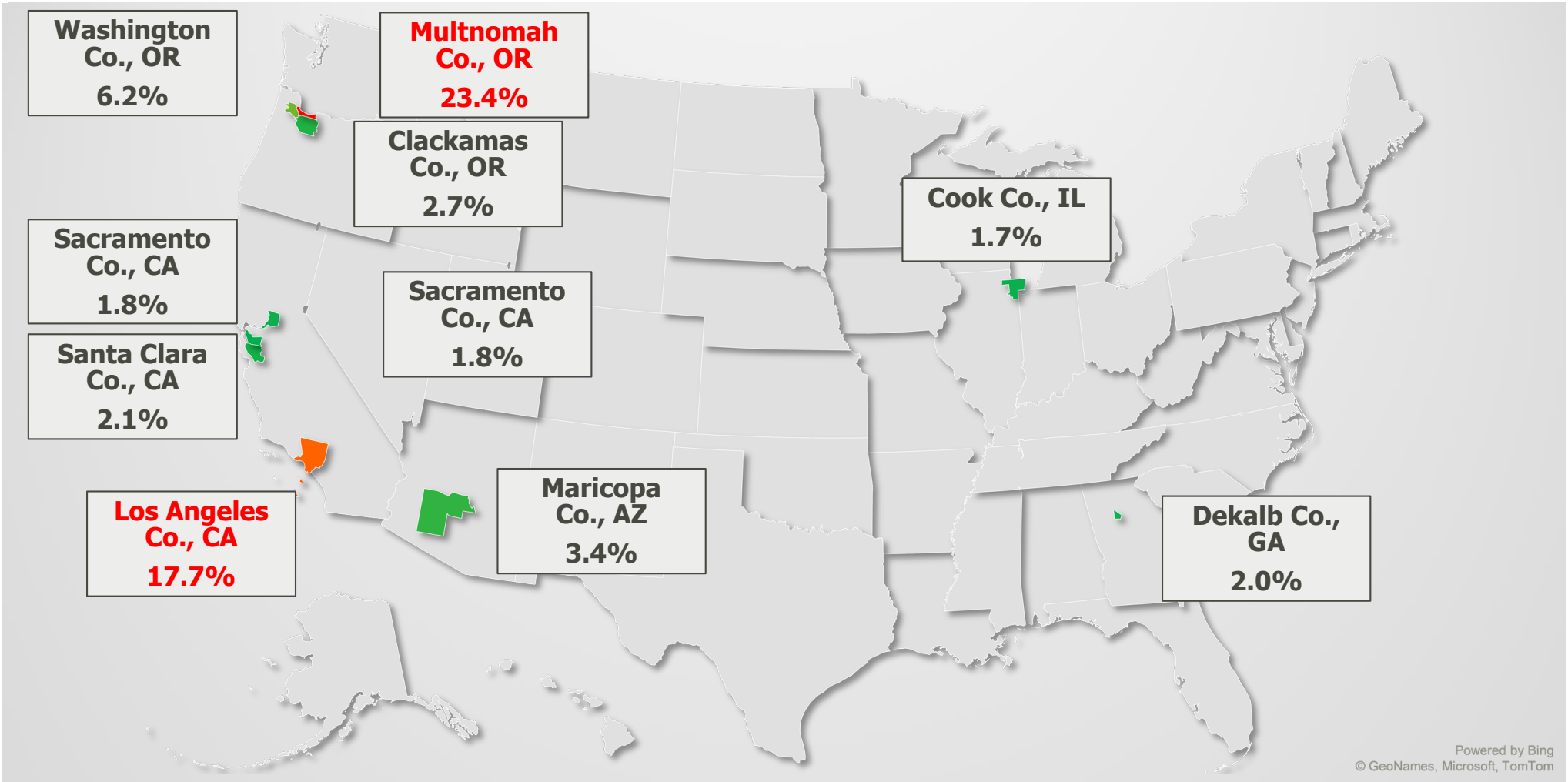
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Source:
Realtor.com
Data for Q3-2022

WHERE ARE BUYERS COMING FROM?



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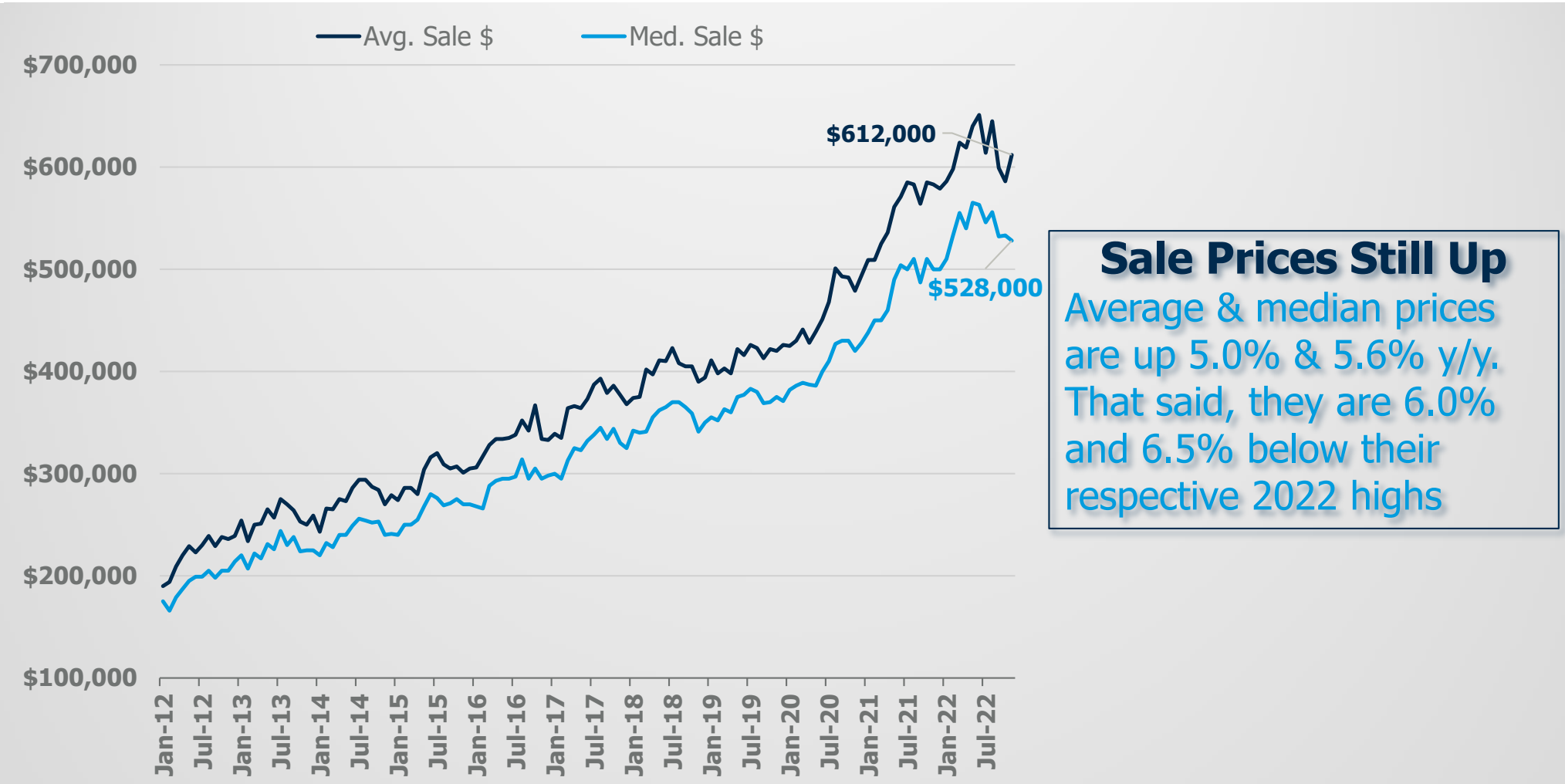
Powered by Bing
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Source:
Realtor.com
Data for Q3-2022

WHERE ARE BUYERS COMING FROM?



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Sale Prices Still Up
 Average & median prices are up 5.0% & 5.6% y/y. That said, they are 6.0% and 6.5% below their respective 2022 highs

Source: RMLS

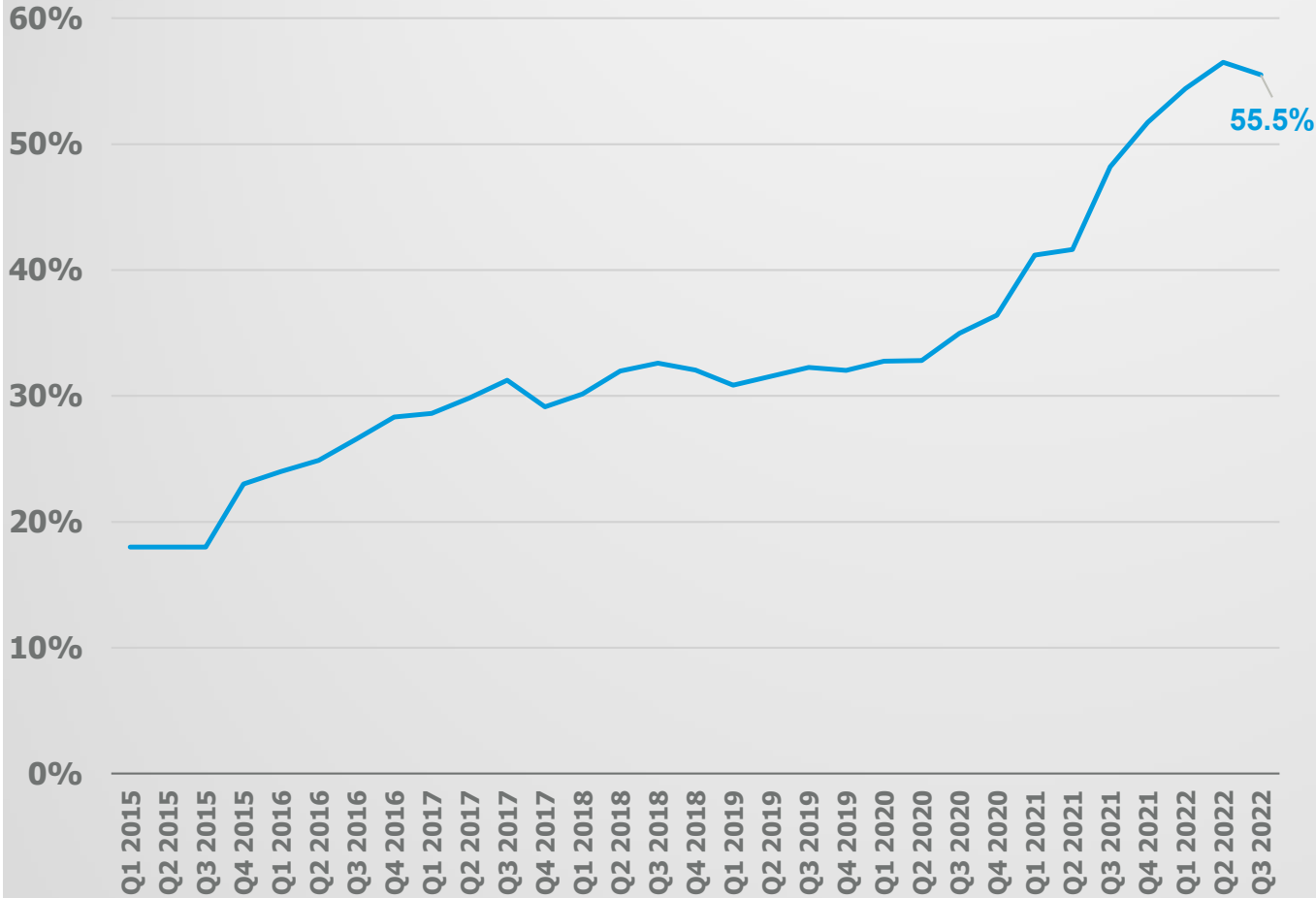
SALE PRICES



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Equity Rich Homeowners

homeowners in Clark County with more than 50% equity



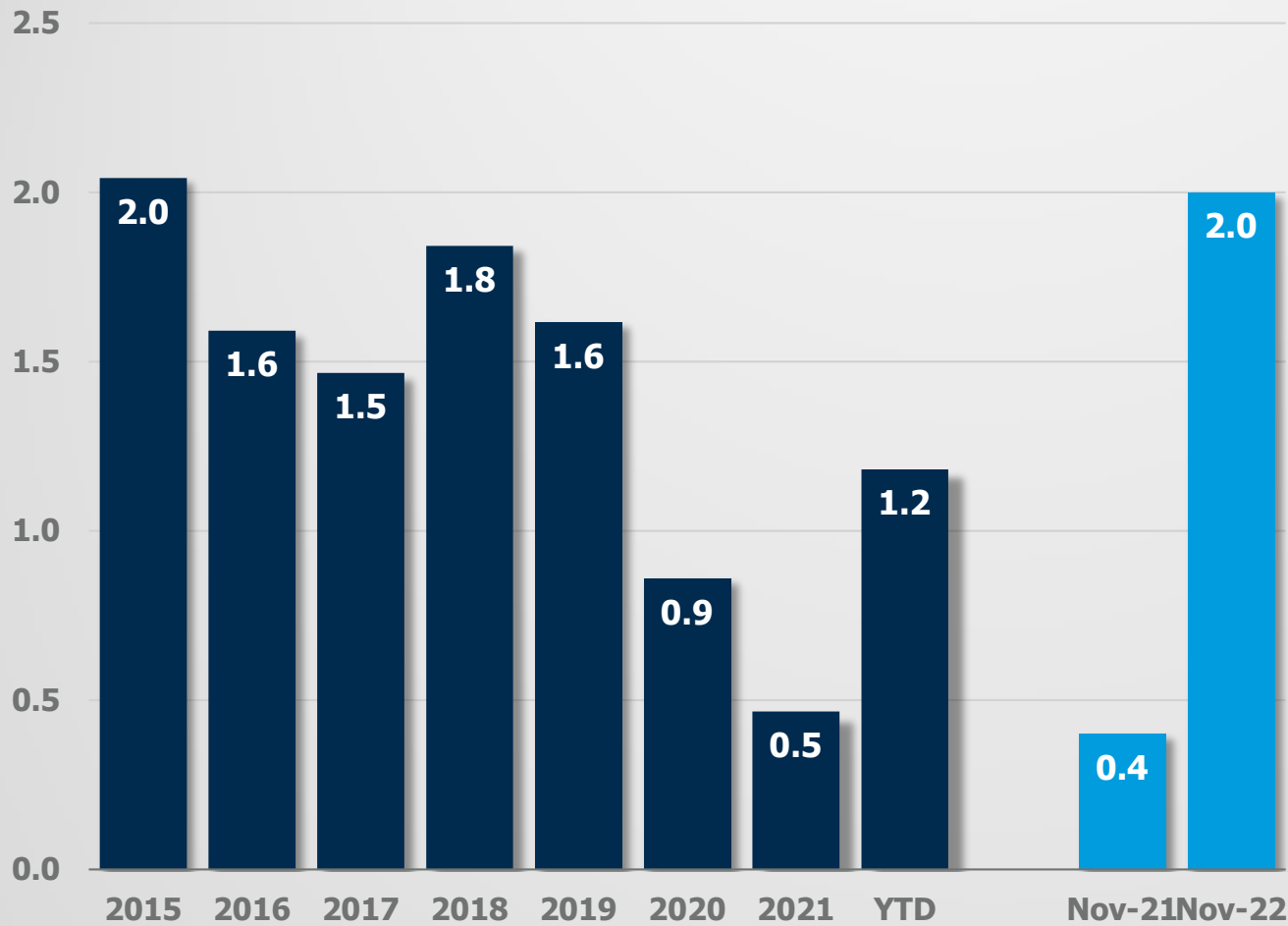
Owners Benefit from Recent Price Growth
Homeowners are still in a remarkably secure financial position when it comes to their homes.

Source:
Attom Data Solutions
Clark County
homeowners with more
than 50% equity

HOME EQUITY HAS SOARED



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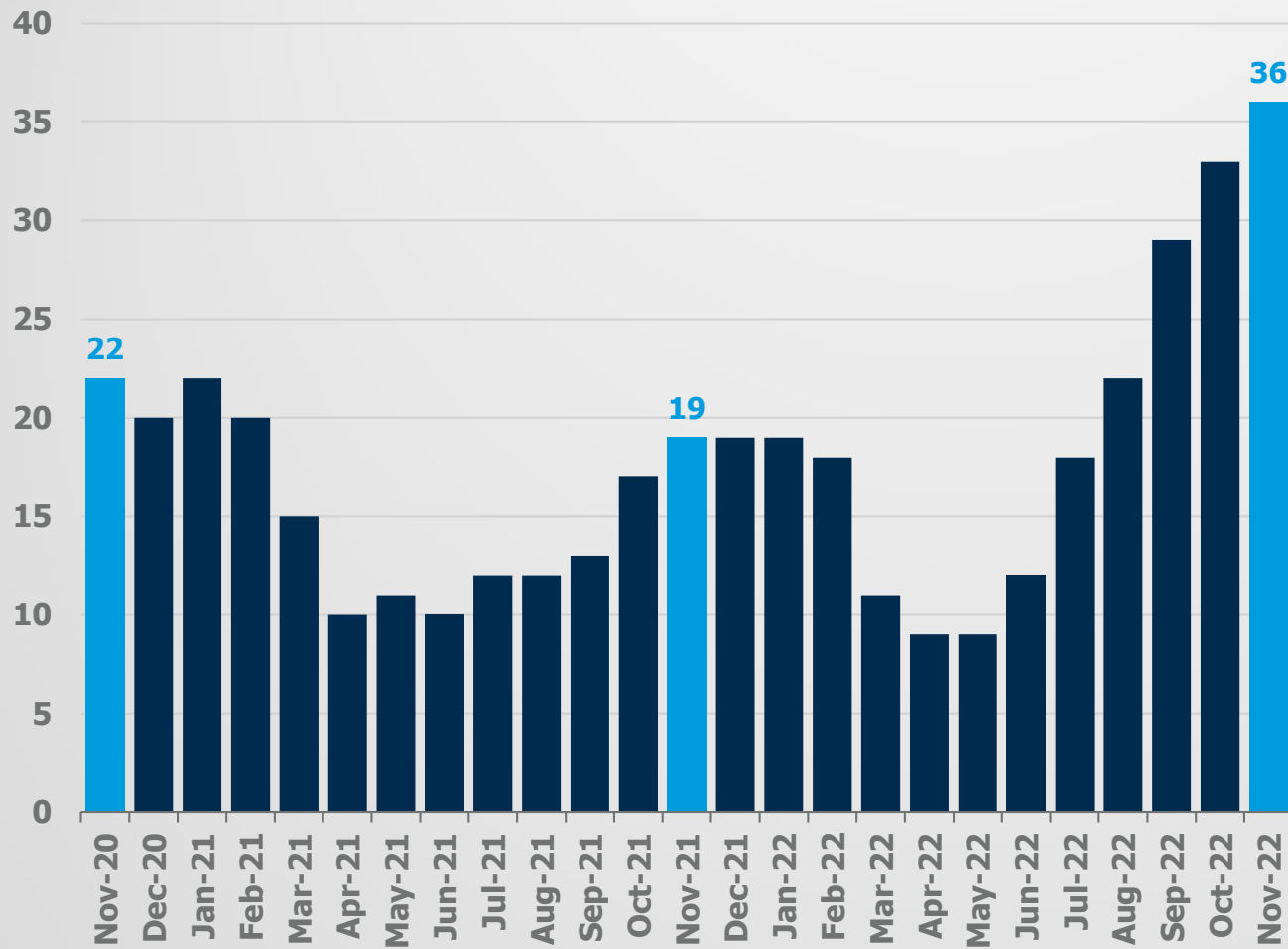
More Listings & Fewer Sales have Moved the Number Higher
 But we remain well short of the figure that would describe a "buyers' market"

Source:
RMLS; based on
pending sales

MONTHS OF INVENTORY



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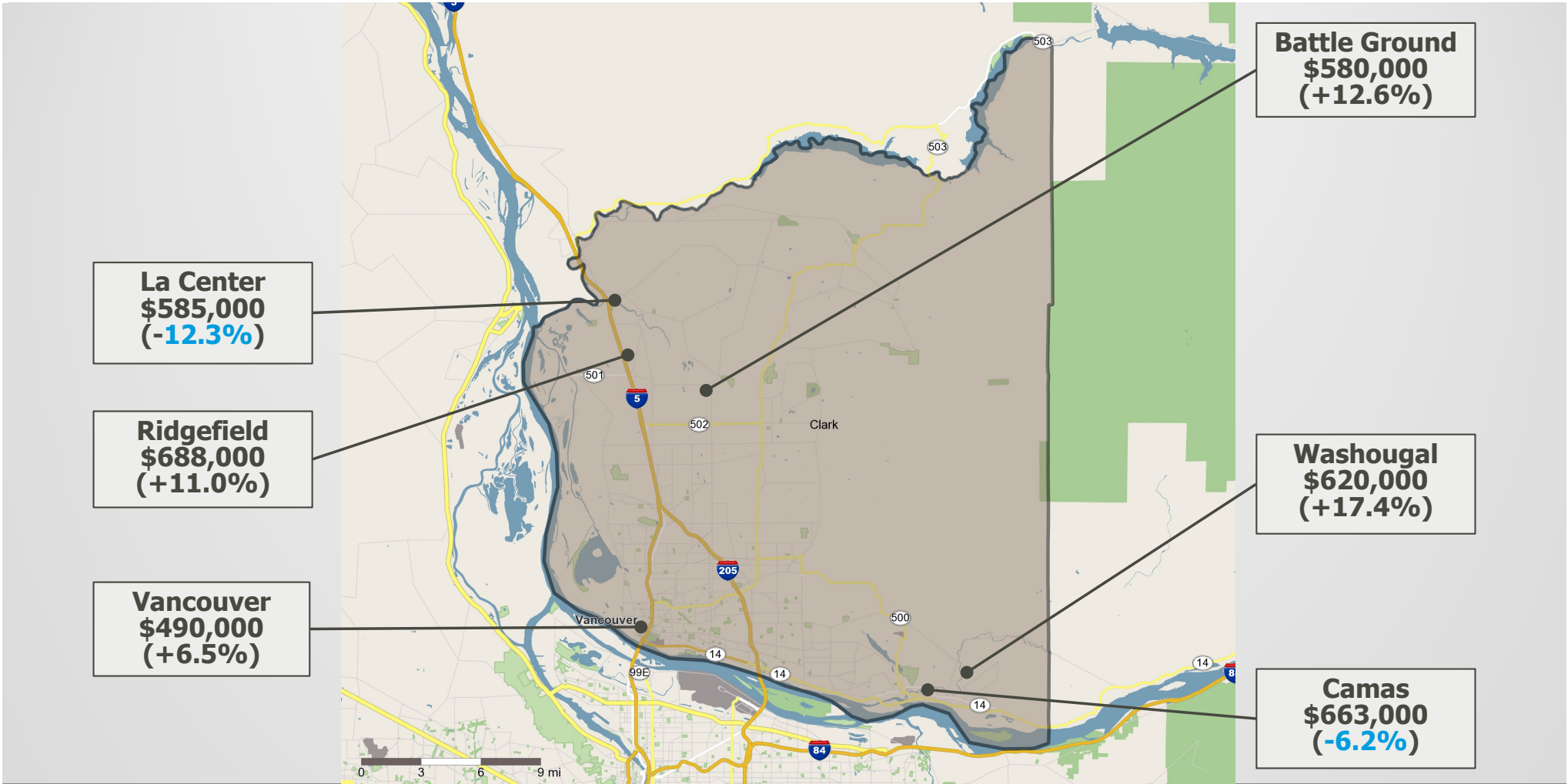
A Lot of Buyers are Waiting
 But the average time to find a buyer was still 7 days less than seen in November of 2019

Source: RMLS

AVERAGE DAYS ON MARKET



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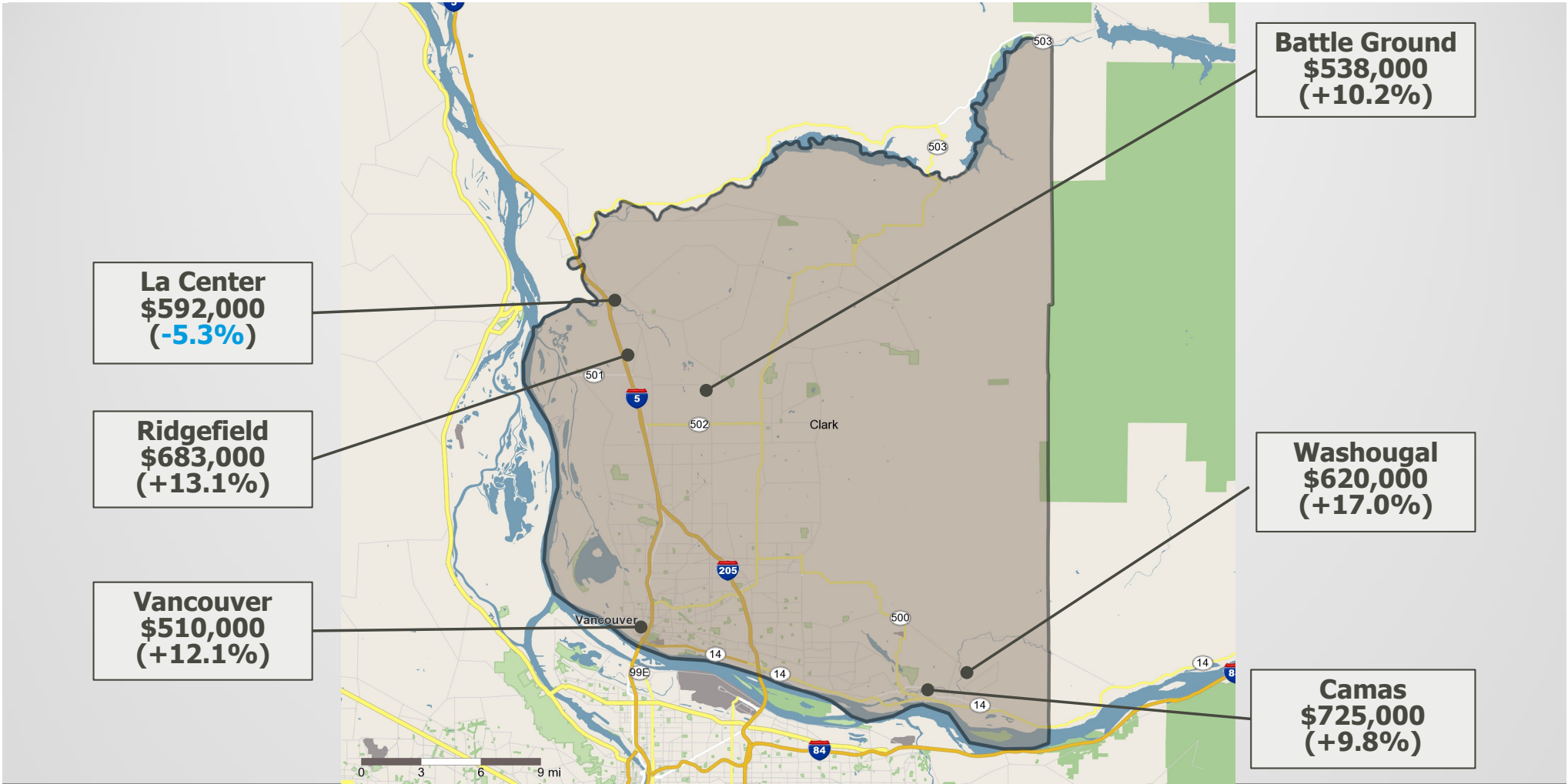


Source:
RMLS;
single-family resale
Homes;
Sales in 11/21 vs 11/22

MEDIAN SALE PRICES (11/21 vs 11/22)



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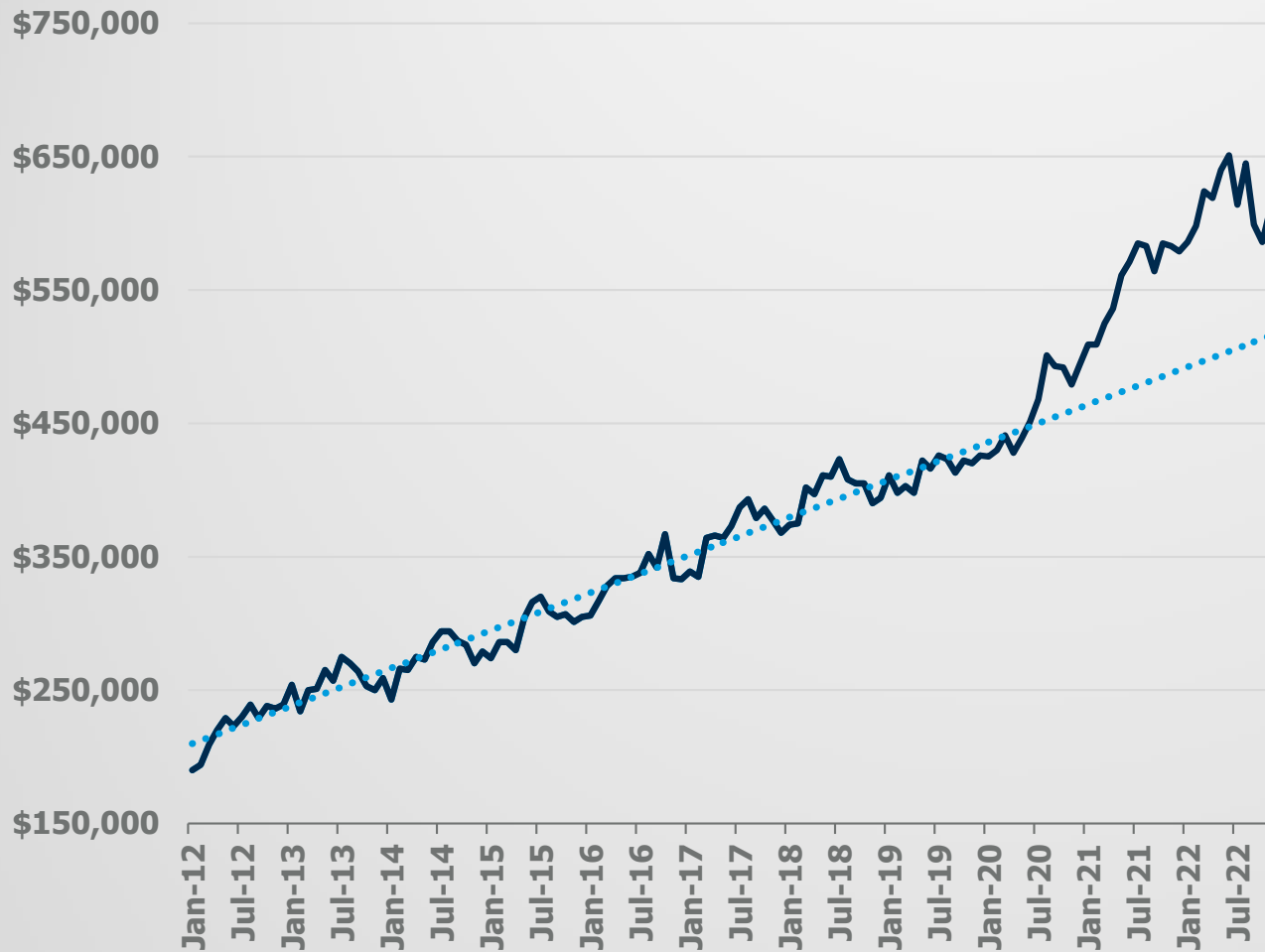


Source:
RMLS;
single-family resale
homes;
sales thru November

MEDIAN SALE PRICES (YTD 2021 VS YTD 2022)



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A "Reversion" in Values

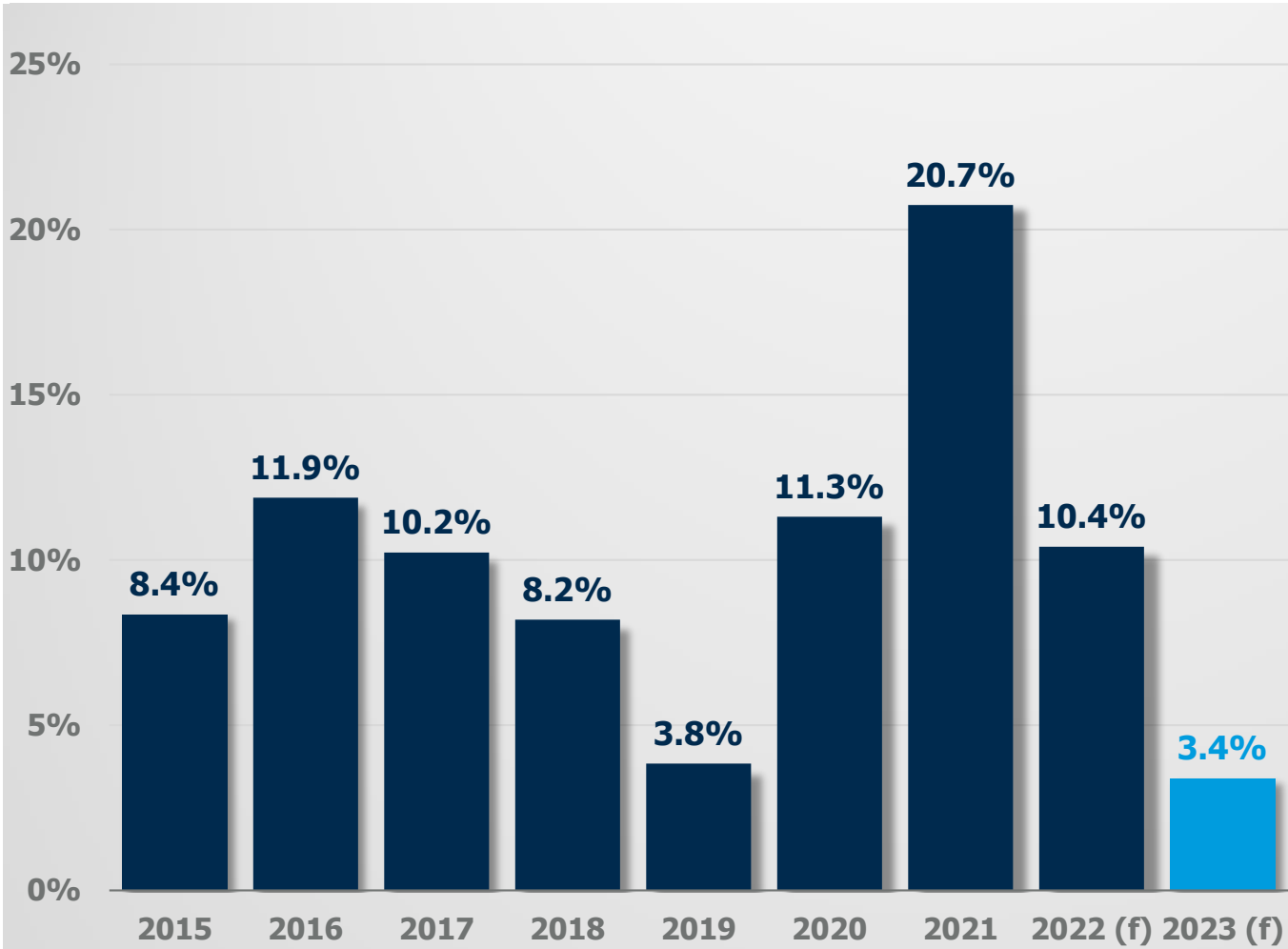
Sale prices have risen at a far faster rate than is appropriate. Price growth needs to pull back in order to get close to the pre-pandemic trend

Source:
RMLS

CLARK COUNTY SALE PRICES



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Prices Growth Slows – But Remains Positive
 Although price growth will slow this year, it is unlikely to turn negative

Source:
 RMLS history
 w/Windermere
 Economics' forecast

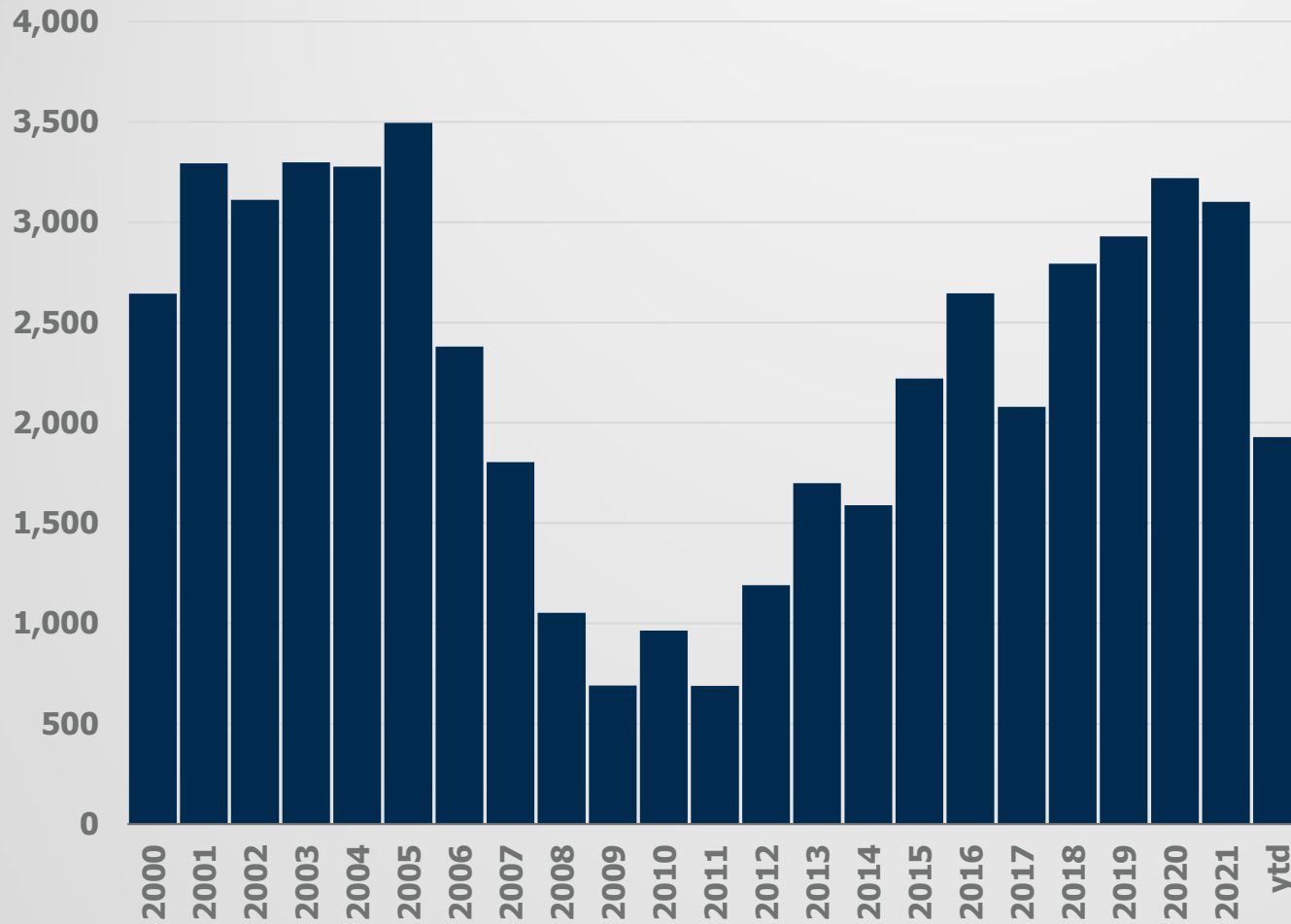
SINGLE-FAMILY PRICE FORECAST



NEW CONSTRUCTION HOUSING MARKET



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Permit Issuance is Impressive
 Following the housing bubble “bursting”, permit activity has risen significantly

Source:
 Census Bureau
 ytd thru Nov.
 LTA: 2,507

SINGLE-FAMILY PERMIT ACTIVITY



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OWNER HOUSEHOLDS



124,161

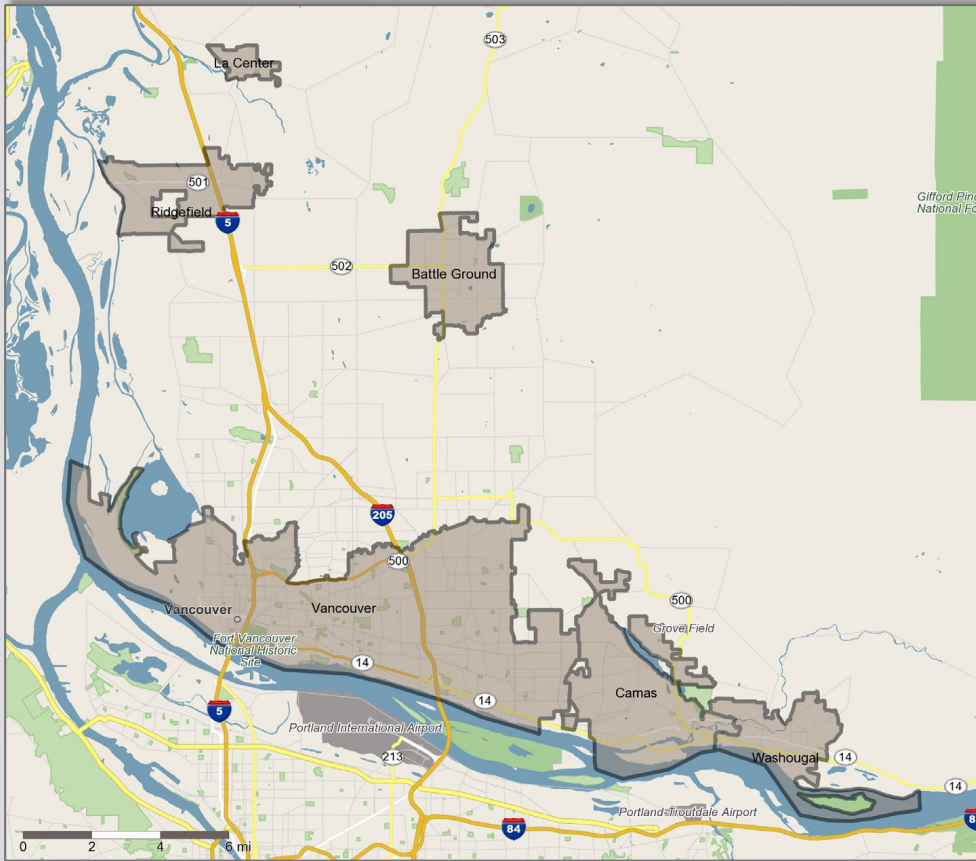
Current Owner Households
in Clark County

9.2%

Projected Growth over
the Next 5-Years

11,401

Additional Owner
Households to be Formed



Single Family Permit Activity & Demand

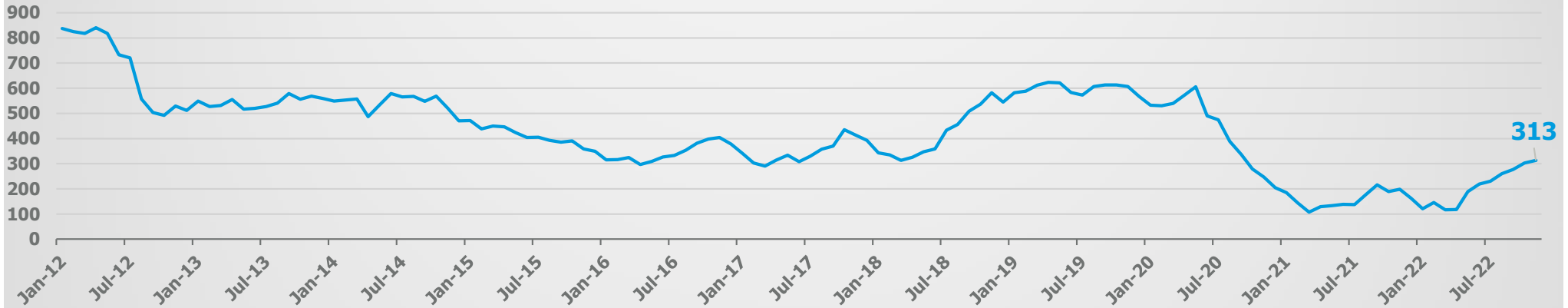
| City | SF Permits (past 5-years) | Ownership Demand (next 5-years) | Surplus/Shortfall |
|---------------|---------------------------|---------------------------------|-------------------|
| Battle Ground | 975 | 473 | 502 |
| Camas | 1,503 | 713 | 790 |
| La Center | 382 | 115 | 267 |
| Ridgefield | 2,155 | 523 | 1,632 |
| Vancouver | 1,883 | 2,540 | (657) |
| Washougal | 316 | 412 | (96) |

Source:
Census Bureau history
& Windermere
Economics' forecasts

PERMITS VS DEMAND

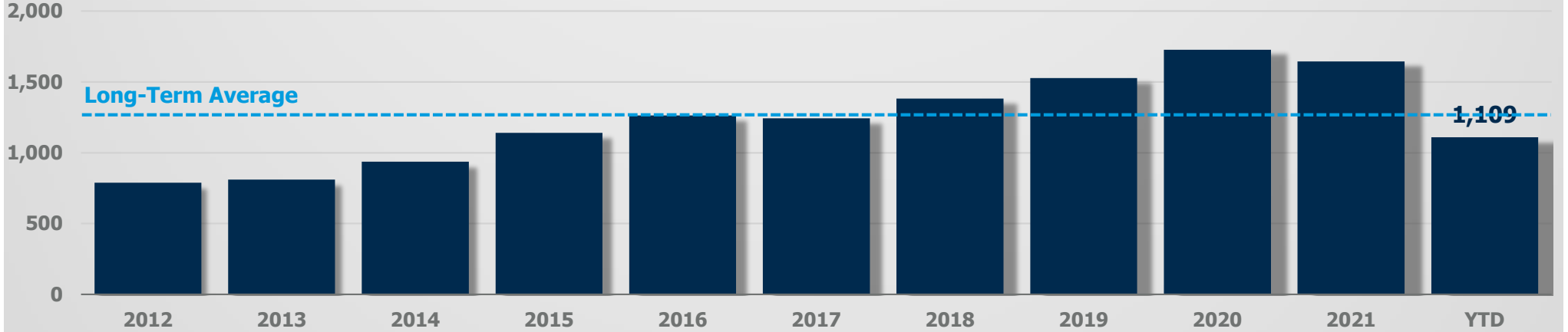
Listing Activity

single-family new homes; nsa



Sales by Year

single-family new homes; long-term avg. 1,973

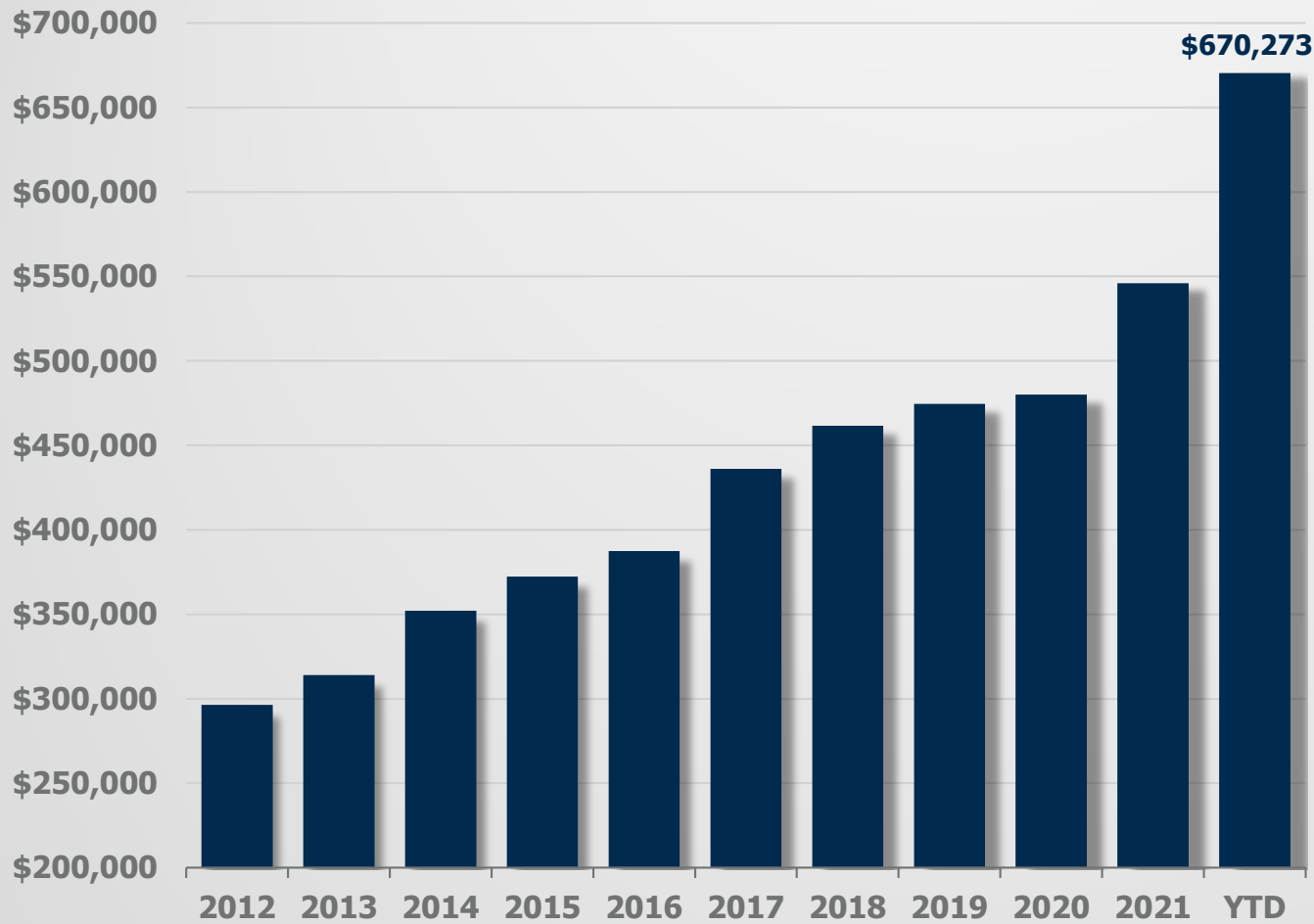


Source:
RMLS

LISTING & SALES ACTIVITY



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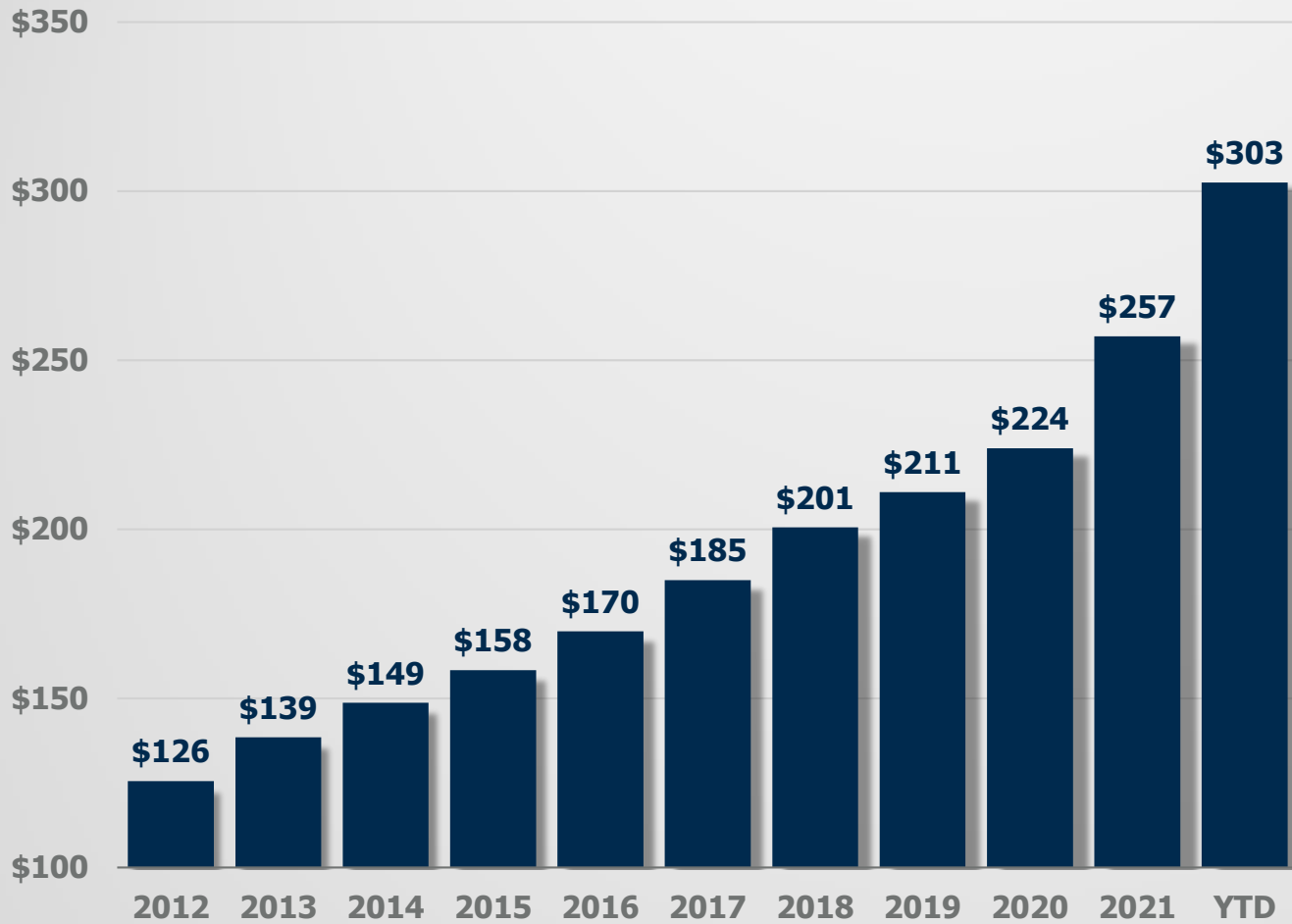
New Home Sale Prices Have Soared
Average sale prices appear to have ignored higher financing costs. Demand appears to be robust, with supply constraints forcing prices higher

Source:
RMLS

SALE PRICES



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The Average New Home Size Has Risen
 The average new home sold in '22 was 2,229 square feet – up 4.9% from the 2021 average of 2,126 square feet

Source:
RMLS

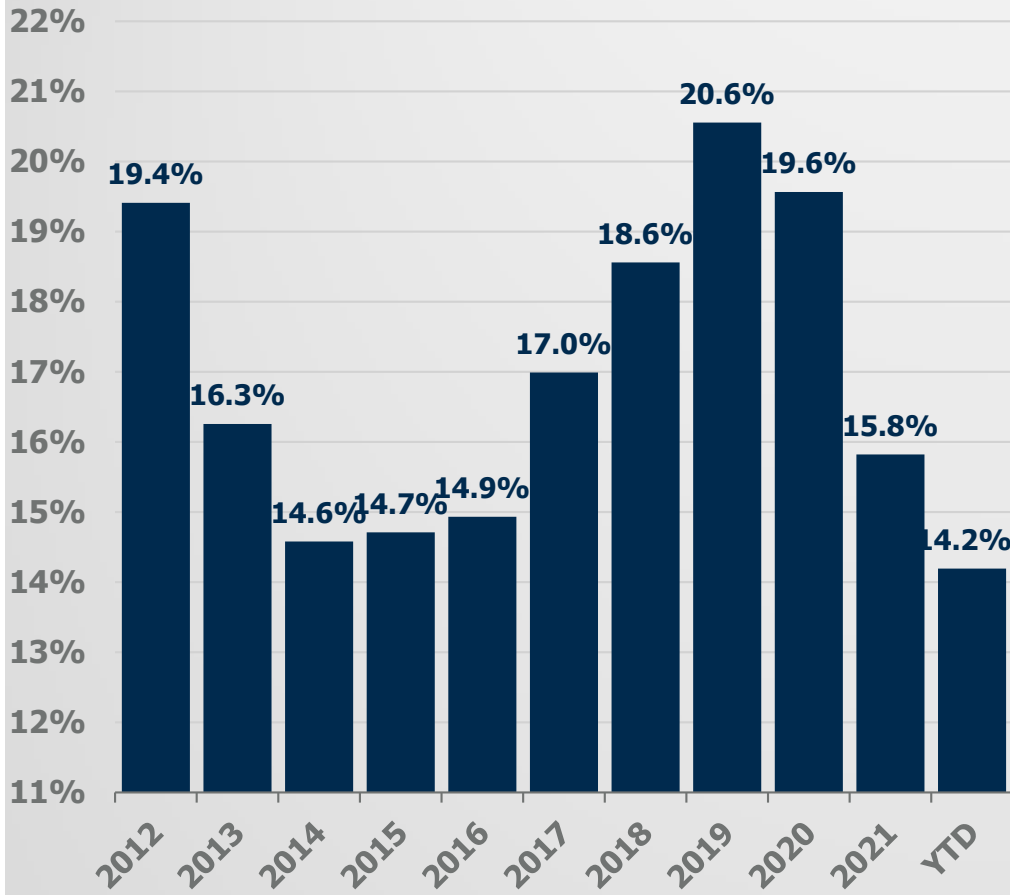
SALE PRICES PER SQUARE FOOT



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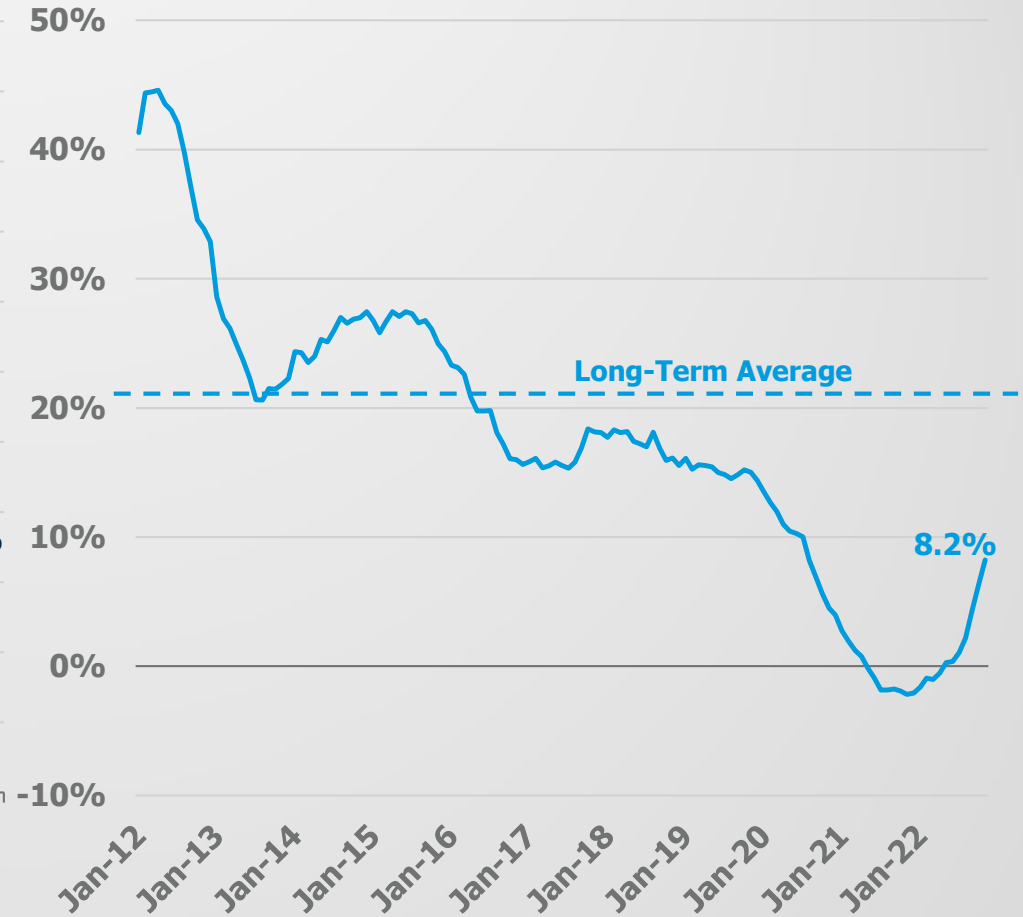
New Construction Share of Total Sales

single family homes; nsa



New Home Price Premium vs Resales

12-month average spread; single-family housing; long-term average 20.3%



Source:
RMLS

OTHER MEASURES

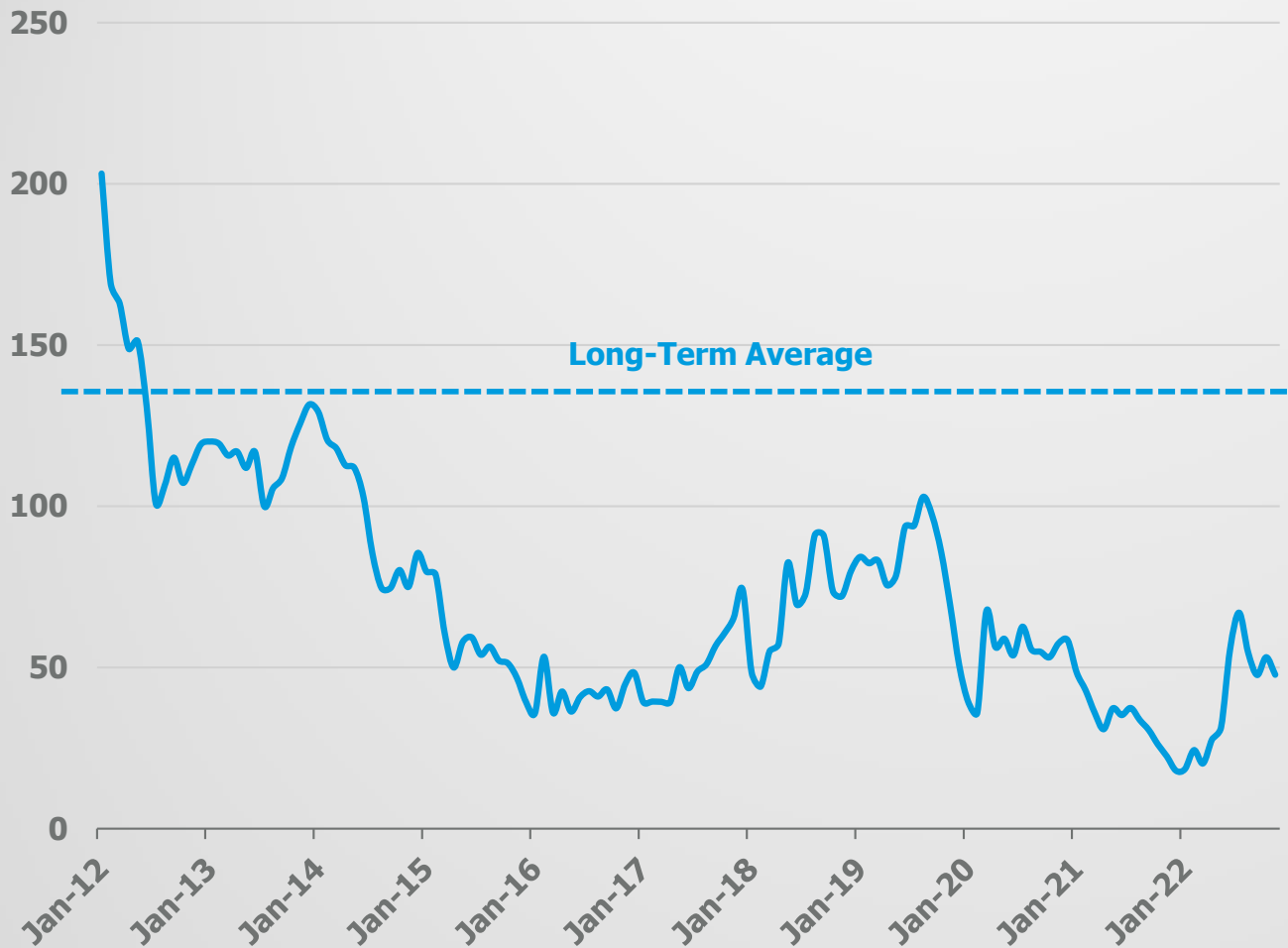


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EXISTING MULTIFAMILY HOMES



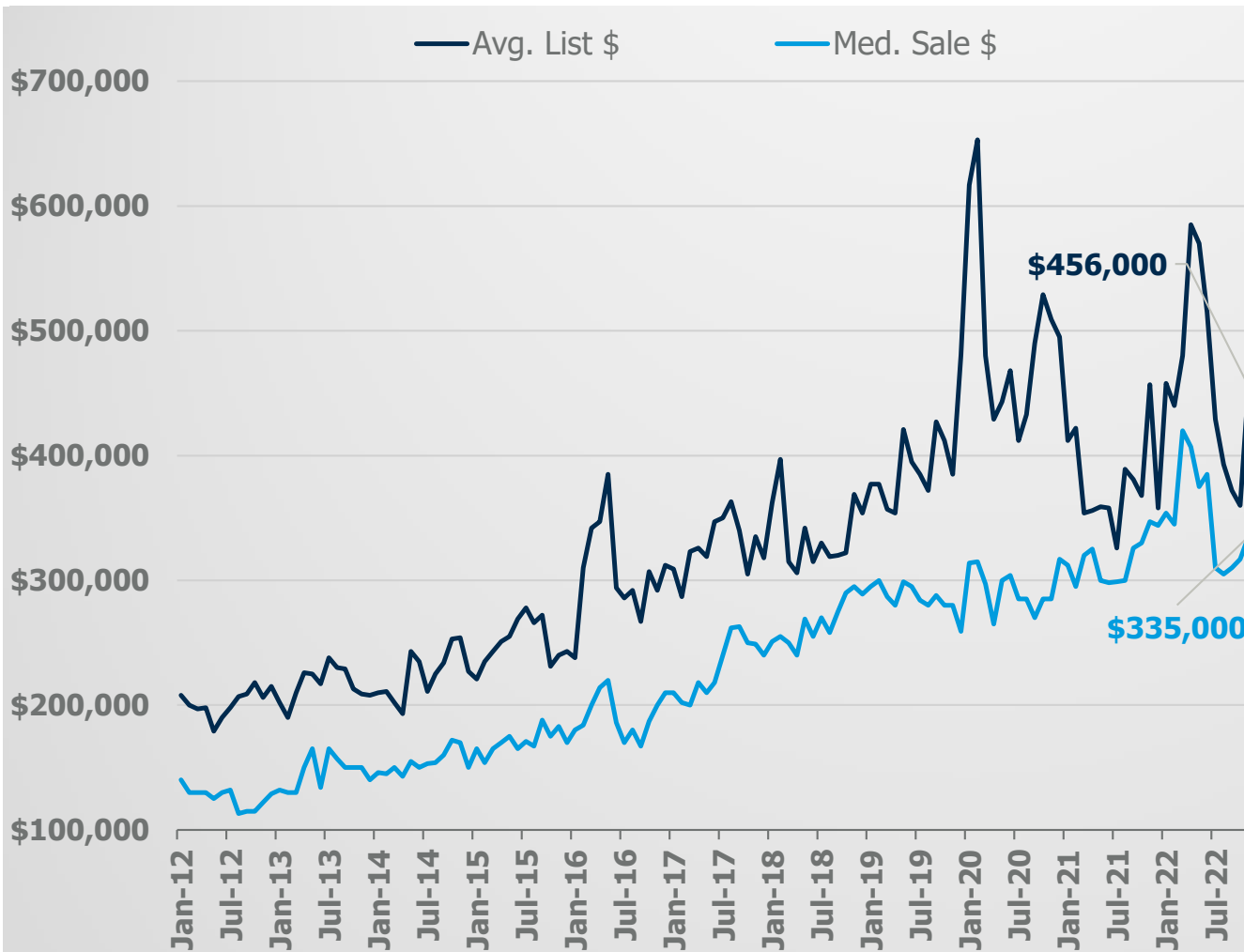
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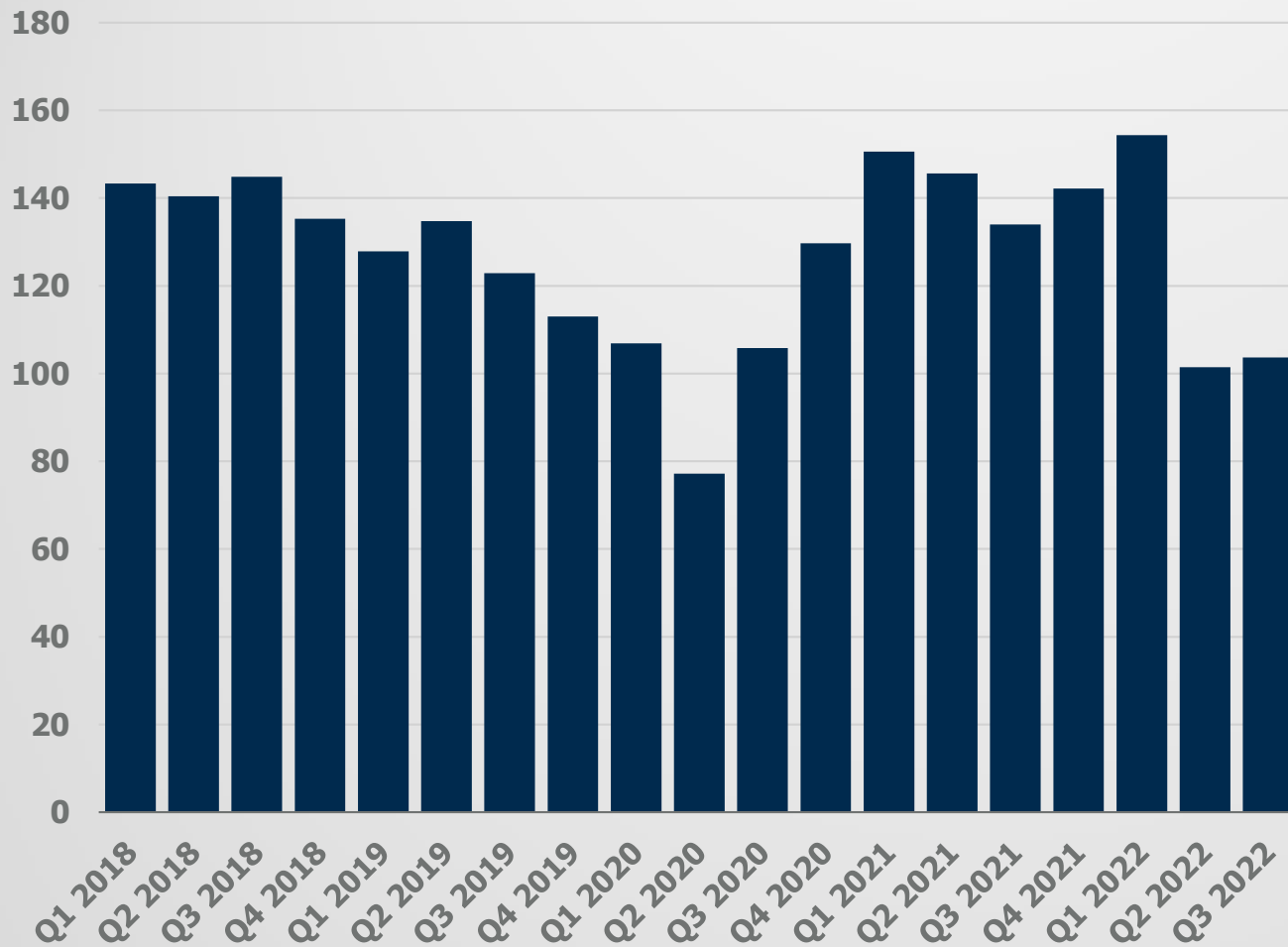
A Market Heading Toward Balance?
 Although more than double that seen a year ago, the number of listings in November was 31% *lower* than seen in the same month in 2019

Source:
 RMLS w/Windermere
 Economics Seasonal
 Adjustments
 LTA=138

LISTING ACTIVITY



List Prices Retreat
 Average list prices match that seen a year ago, but median list prices are 3% lower. However, from their 2022 peaks, average asking prices are down 22% & median prices are 18% lower

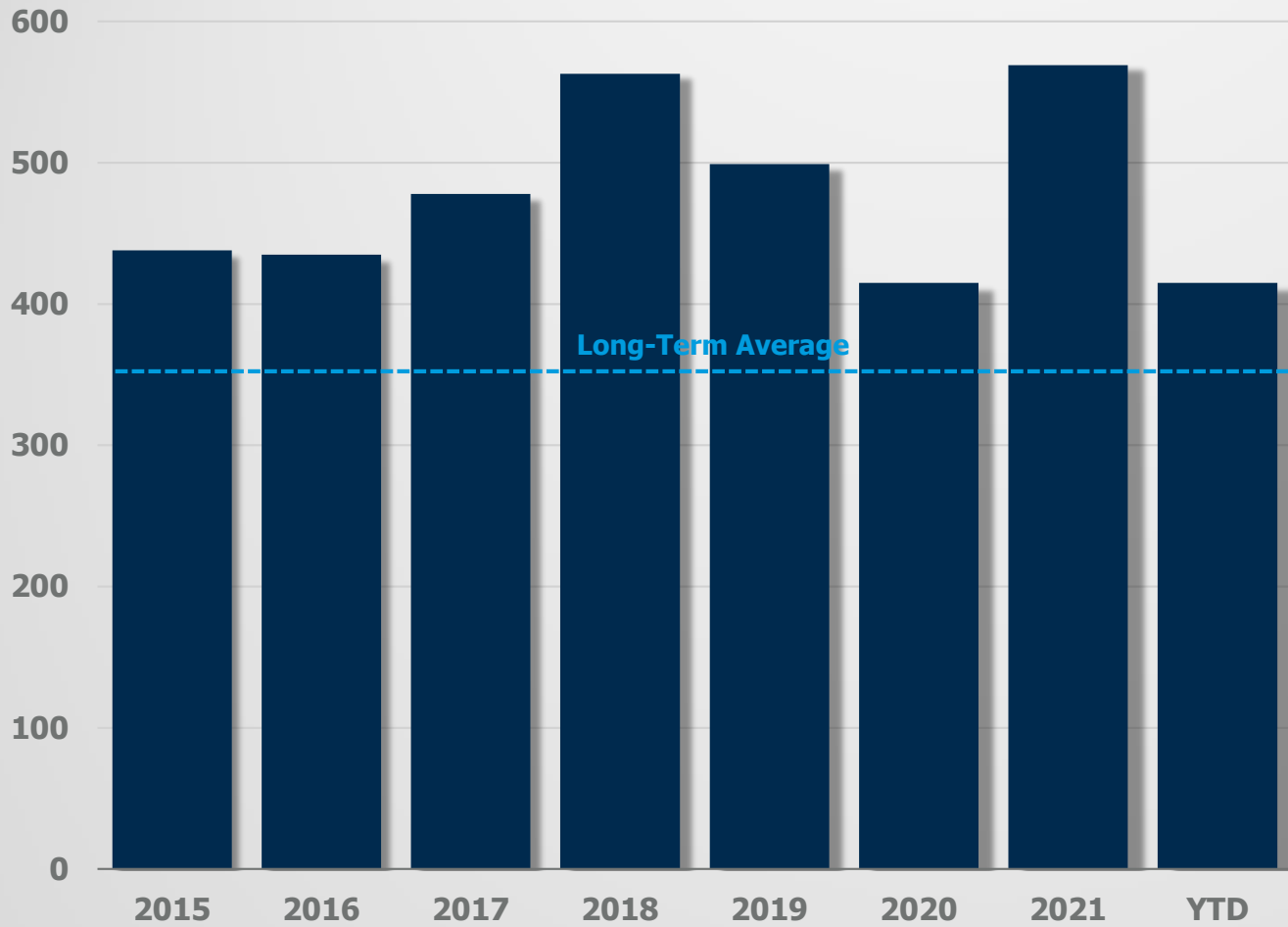


Sales Below Trend
 In part due to home sellers deciding to wait until the market stabilizes/improves

Source: RMLS
 w/Windermere
 Economics Seasonal
 Adjustments; LTA: 570

QUARTERLY SALES ACTIVITY





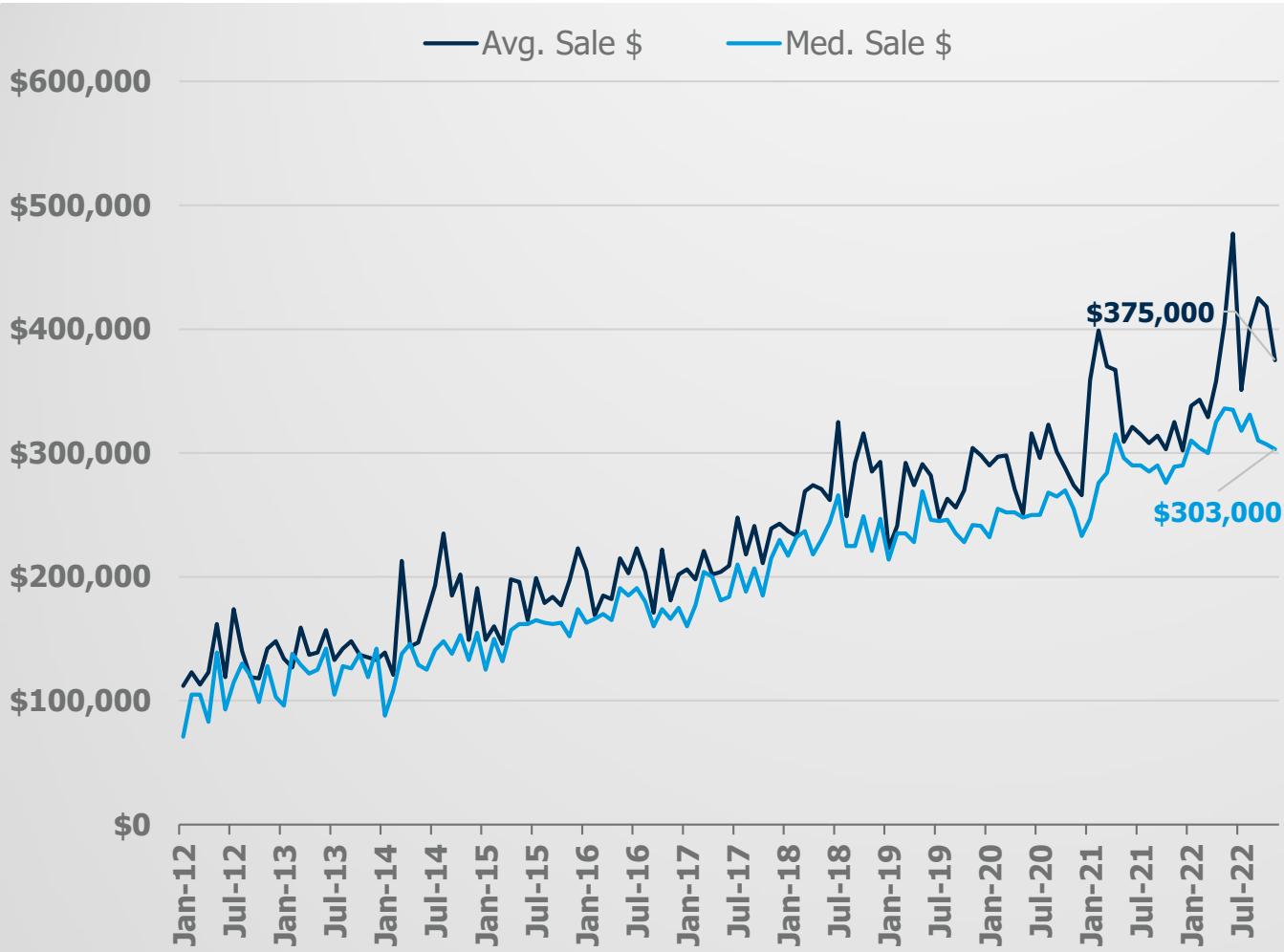
2022 Sales May Match 2021
& have already exceeded the long-term average

Source:
RMLS w/Windermere
Economics seasonal
adjustments
LTA: 376

ANNUAL SALES ACTIVITY



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Modest Pullback in Sale Prices

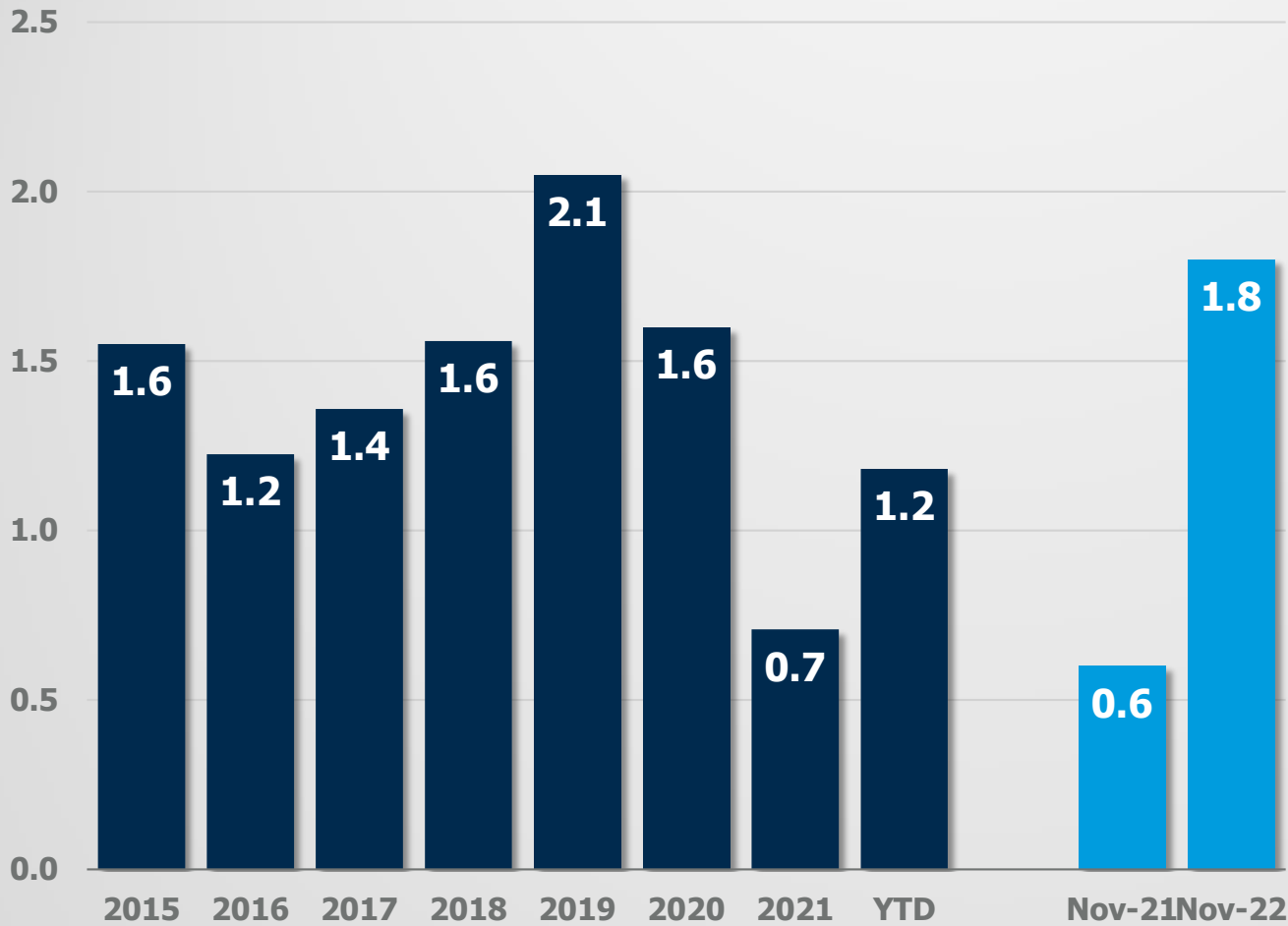
Year-over-year, average prices are 15% higher, while median sale prices are up by 5%; however, from the 2022 peak, average prices are down 21% & median prices are 10% lower

Source:
RMLS

SALE PRICES



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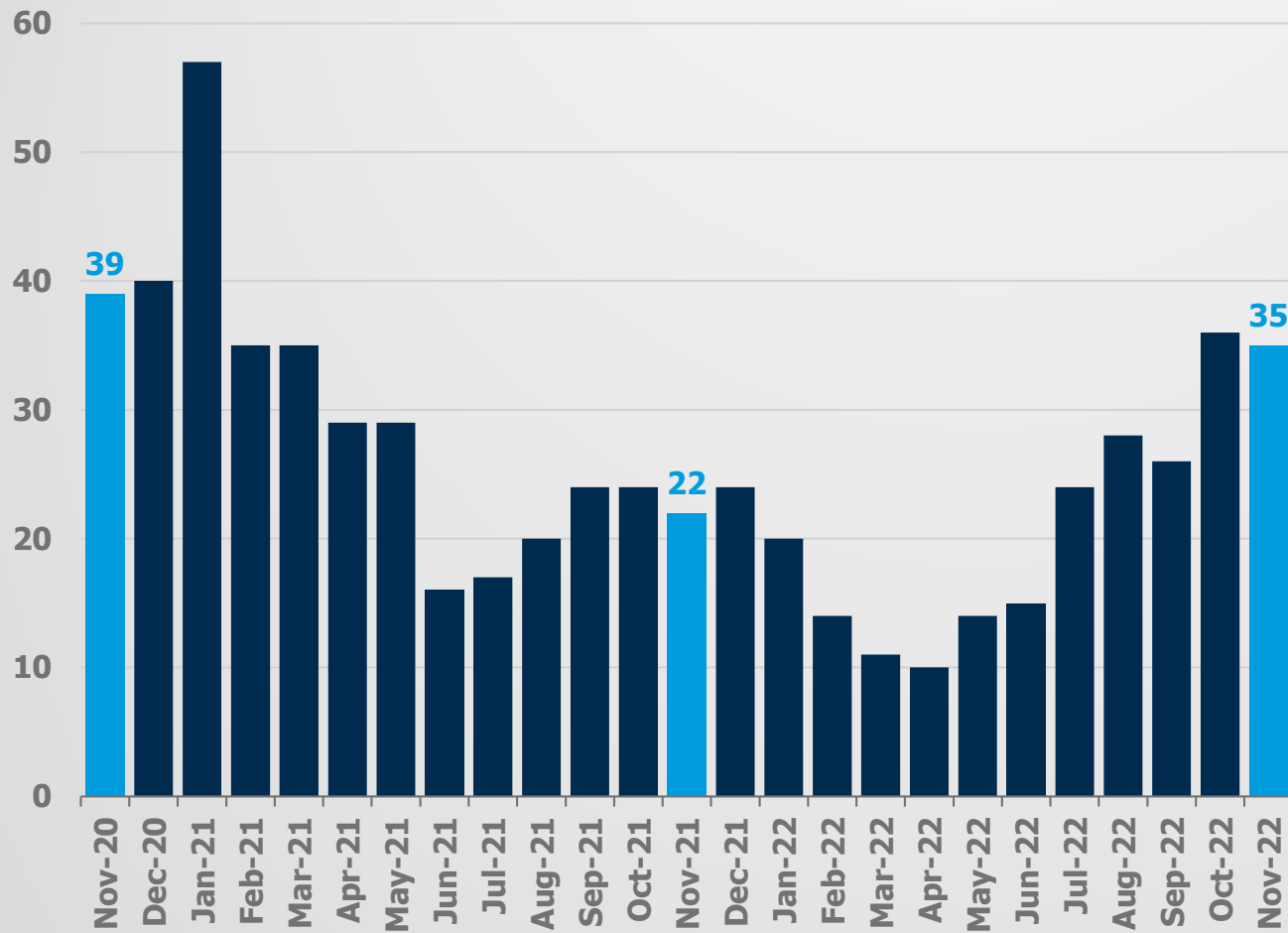
The Market Remains Out of Balance
 The median number of showings before a home went pending in November was just 10

Source: RMLS
 Based on pending sales

MONTHS OF INVENTORY



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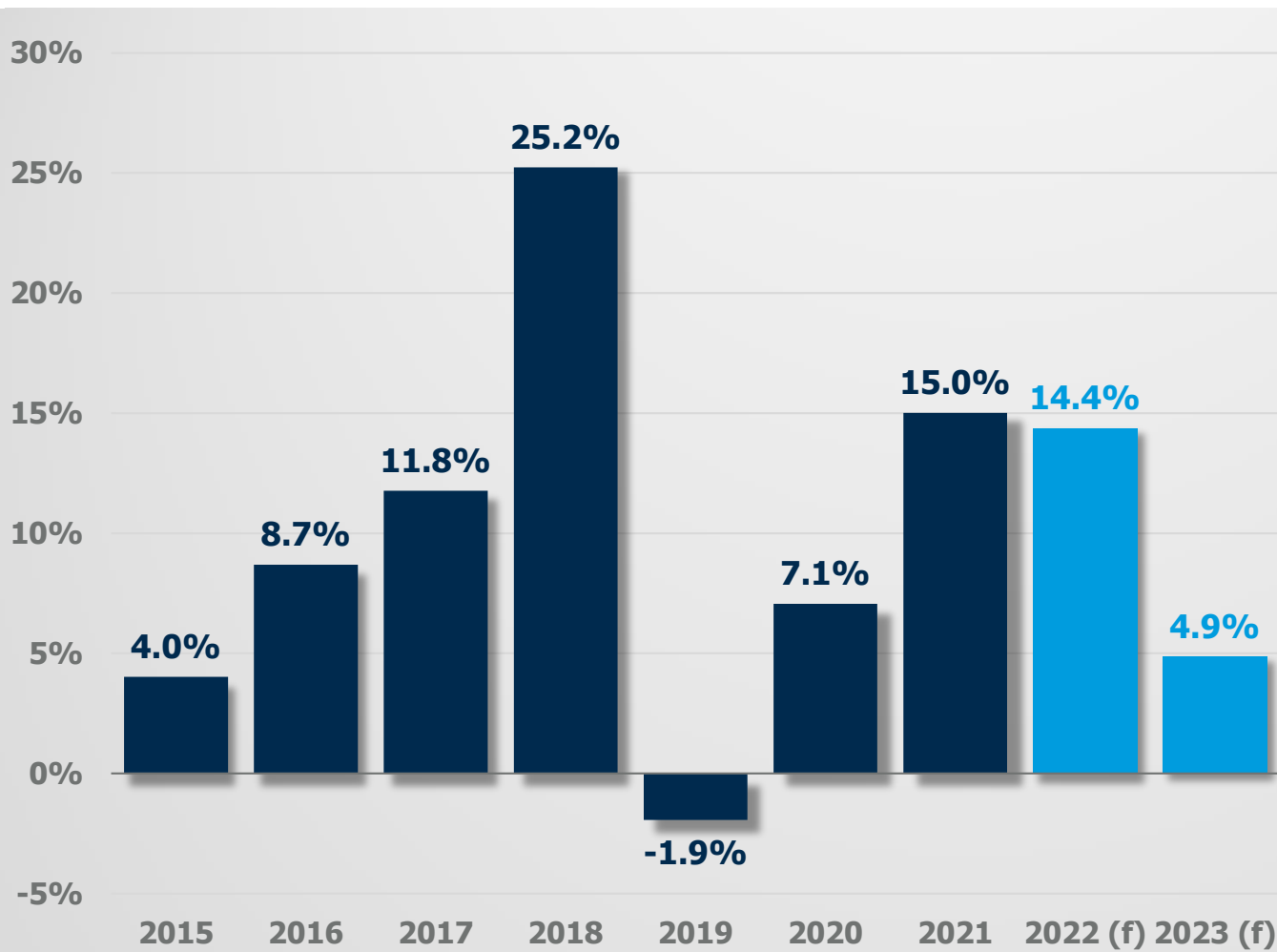
Market Time Has Risen
 But remains well below pre-pandemic levels

Source:
RMLS

AVERAGE DAYS ON MARKET



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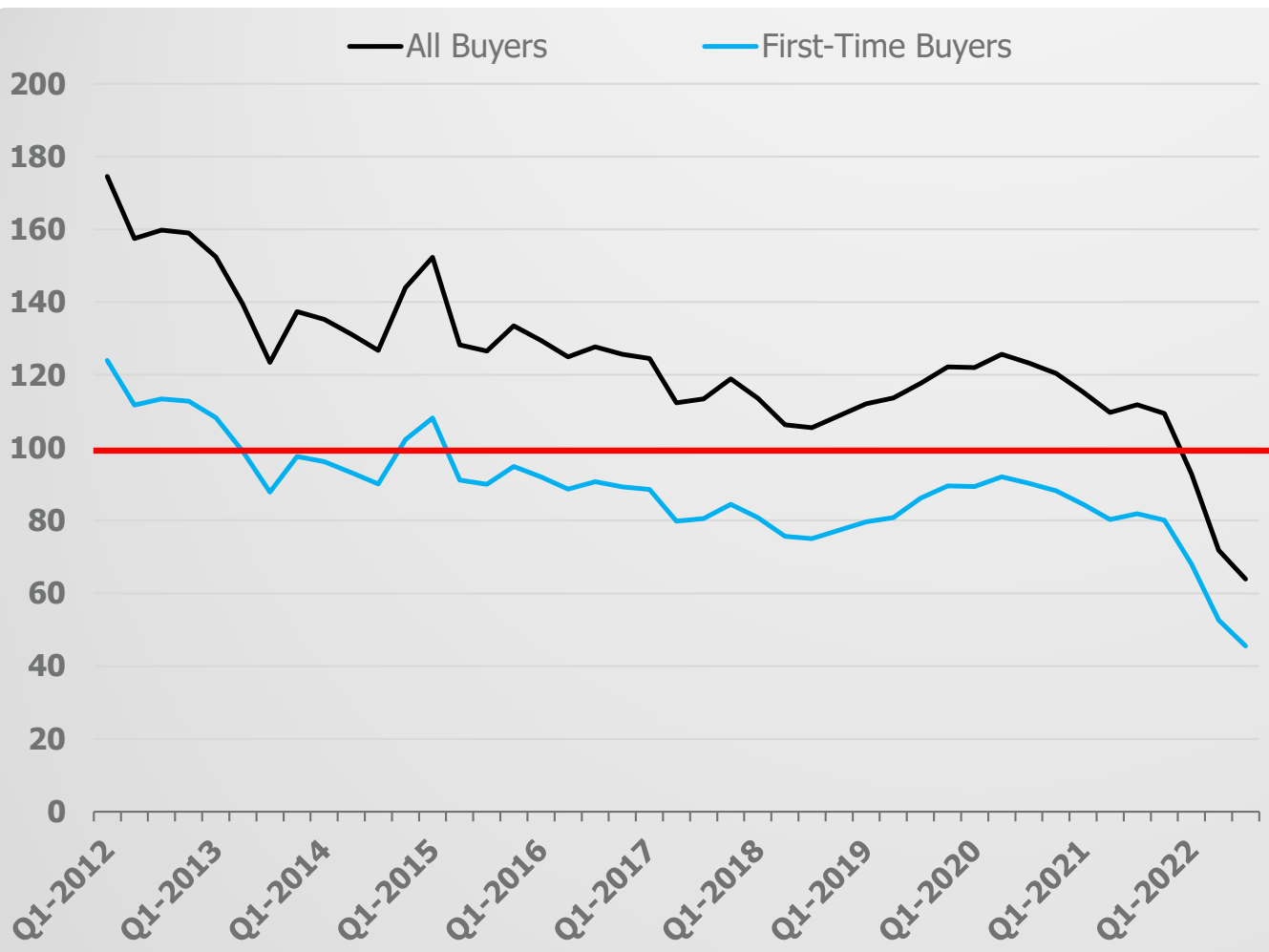
Price Growth Will Continue to Slow
 2023 will be a year where the pace of price growth will fall, will remain positive

Source:
 RMLS history
 w/Windermere
 Economics' forecast

MULTIFAMILY FORECAST



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This is Very Worrying
 Growing permit activity isn't translating to more housing being built, leading prices higher &, increasingly, out of the reach of many families

Source: WCRER

HOUSING AFFORDABILITY

- Demand Appears to Still be There, With Oregon Households Still Taking Advantage of “Relatively” Cheap Housing Options in the County;
- What Buyers Want in a Home Has Changed;
- Clarification Regarding WFH Policies May Lead “Fence-Sitters” to Reenter the Market;
- Price Growth Slows, But Won’t Turn Negative; &
- As Mortgage Rates Fall, Demand Could Rise Further.

FINAL THOUGHTS



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ANY QUESTIONS?

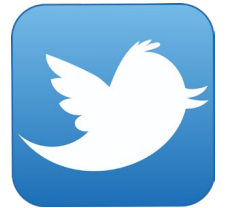


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