

Economic Forecast

Todd Tomalak, John Burns Real Estate Consulting



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Handout Sponsor

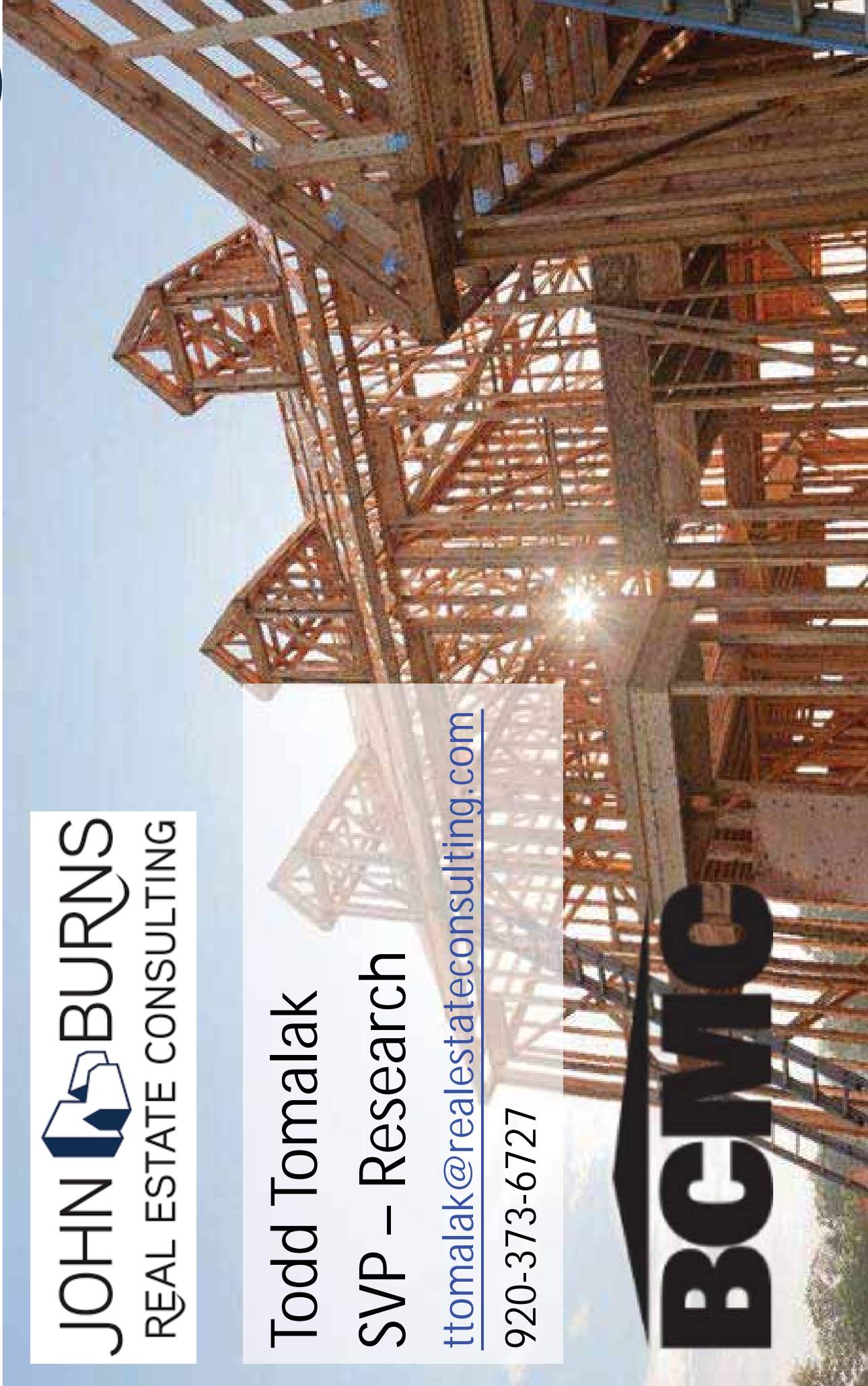
HOUSING INDUSTRY OUTLOOK – BUILDING PRODUCTS



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BCMC



JBREC Research Mix

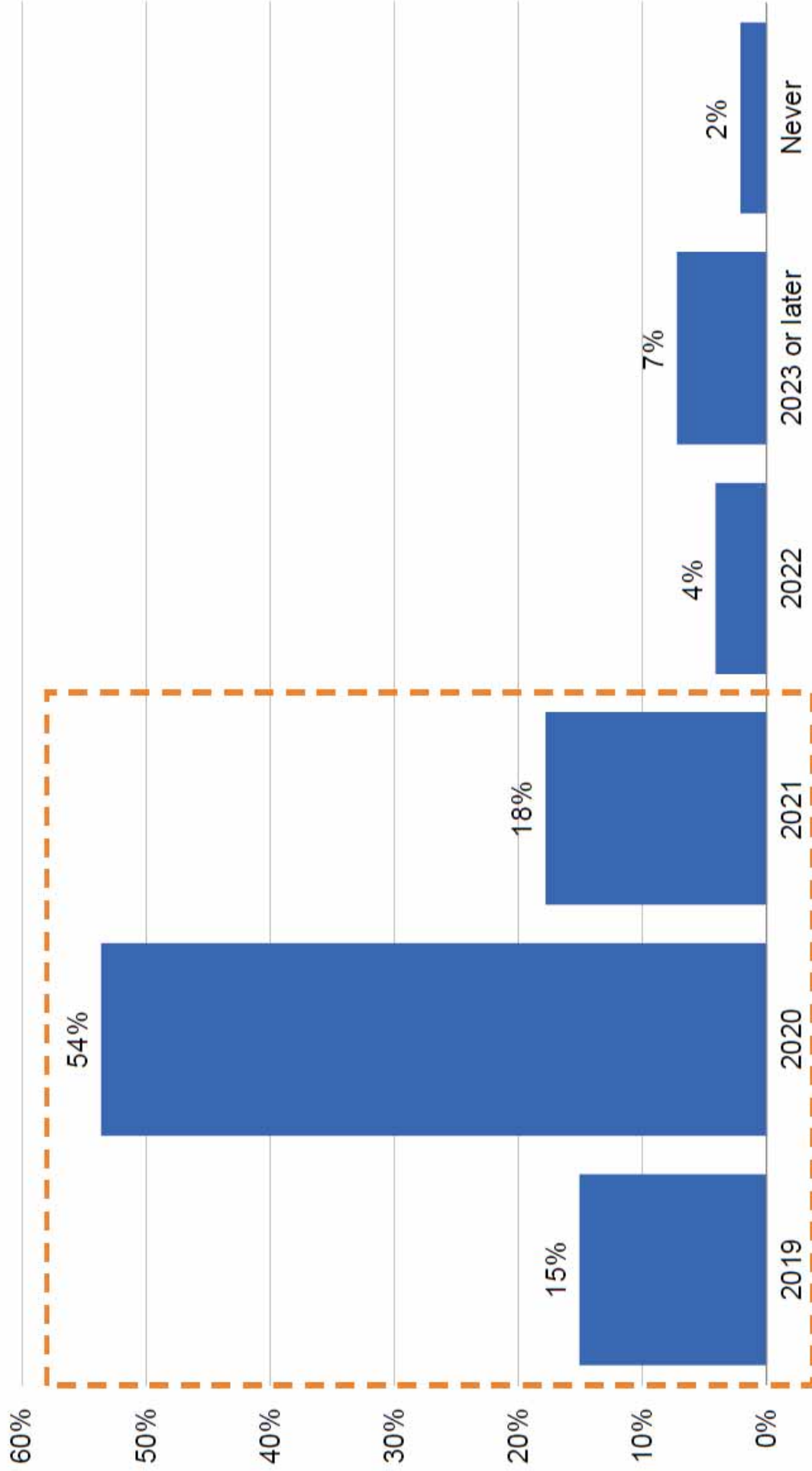


87% of CFOs Expect a Recession in Next 2 Years



CFO Survey: What Quarter Do You Expect a US Recession?

Percent of respondents ■ 2Q19 survey



Source: Duke CFO Magazine Global Business Outlook Survey; John Burns Real Estate Consulting, LLC (Date: 2Q19, updated quarterly)

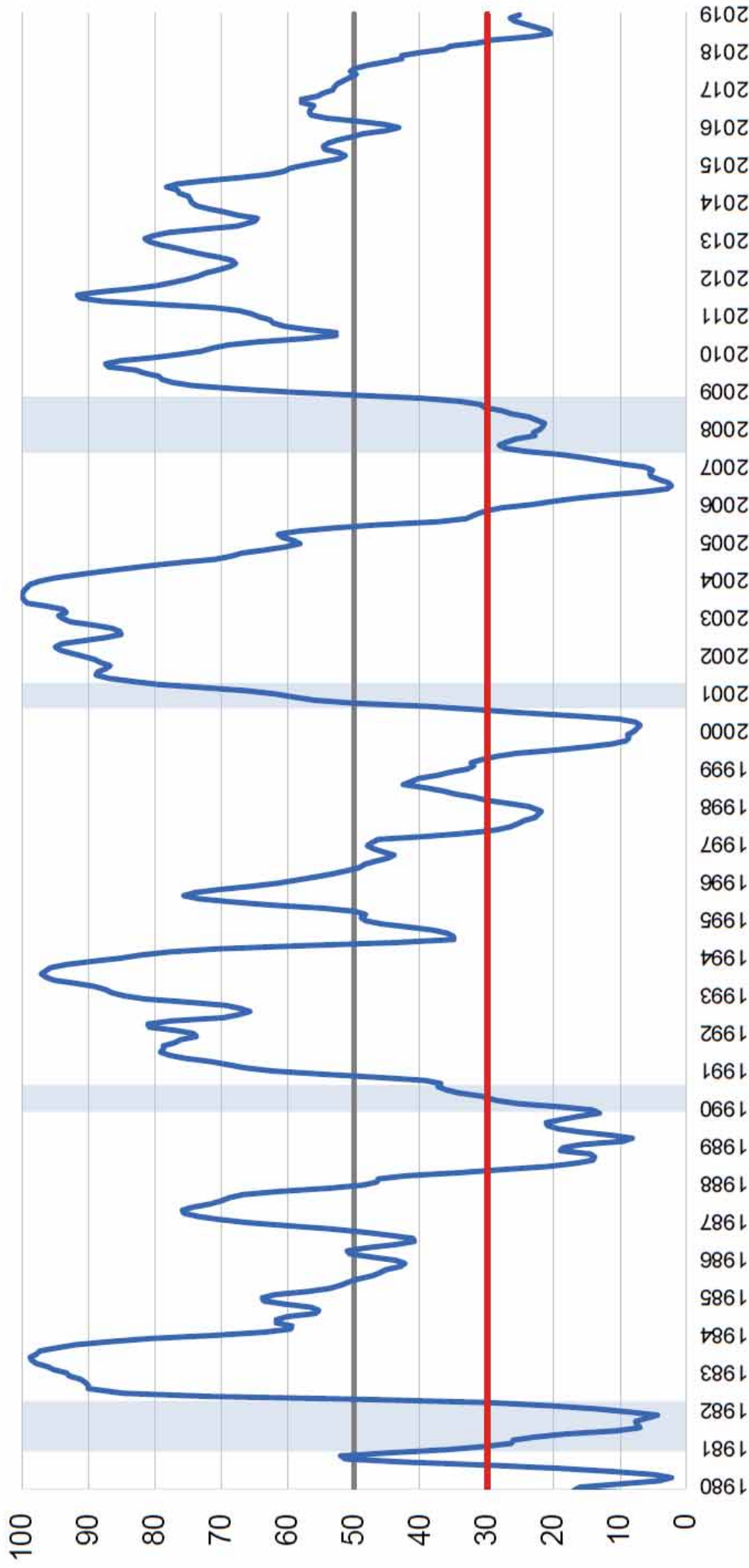
Pub: Sep-19

Our Economic Leading Indicator Points to 75% Chance of Recession in 2 Years



Burns Economic Leading Indicator

■ Recessions — Leading indicator — 30 line



A forward-looking component of the Burns Economic Performance Index™ with data back to 1953 provides a lead on recession events as well as an early indication of coming growth cycles. We did a 64 year back test of this data which shows a normal risk of recession in any given year on average to be 27% 2 years out and 50% four years out. The 30 line equates to a 75% 2-year likelihood of recession.

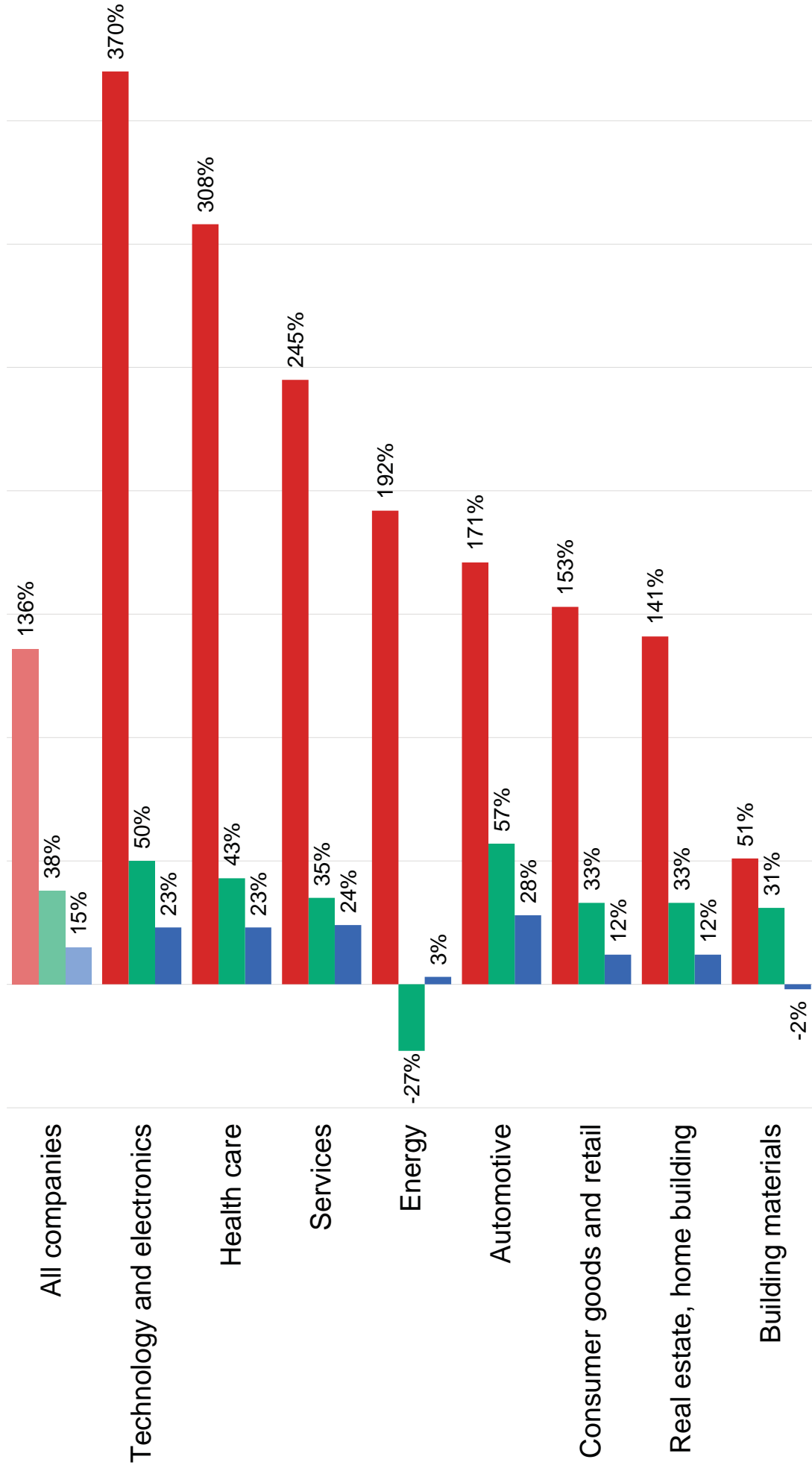
Source: John Burns Real Estate Consulting, LLC (Pub: Sep-19)

Housing and Building Products Have Less Debt Than Other Sectors (Lower Risk)



Publicly Traded Company Debt

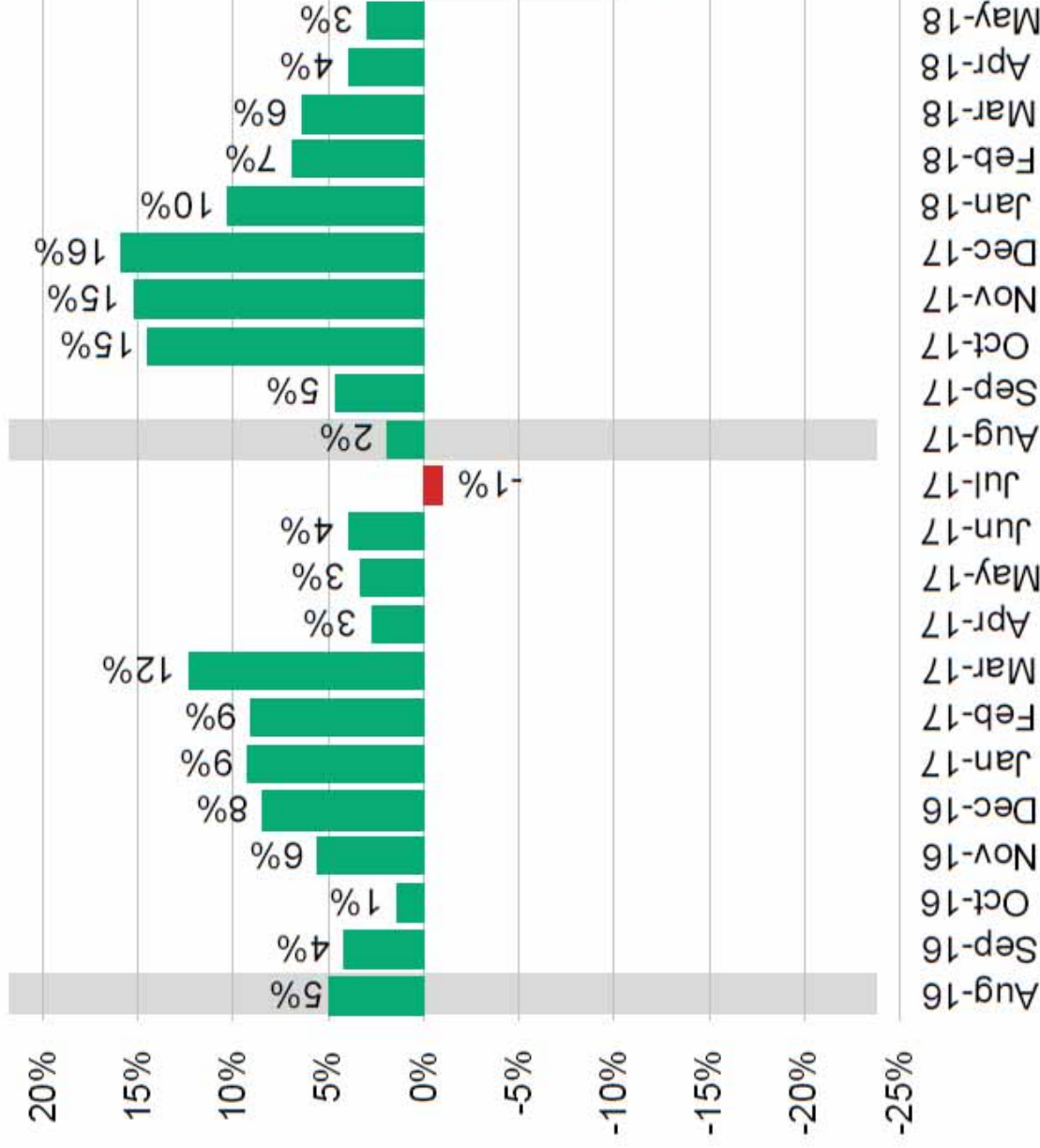
2009–2018 ■ Debt growth ■ Nominal GDP growth ■ Job growth



Near Term: Favorable Comp Will Make Q4 and 1H 2020 Numbers Look Better

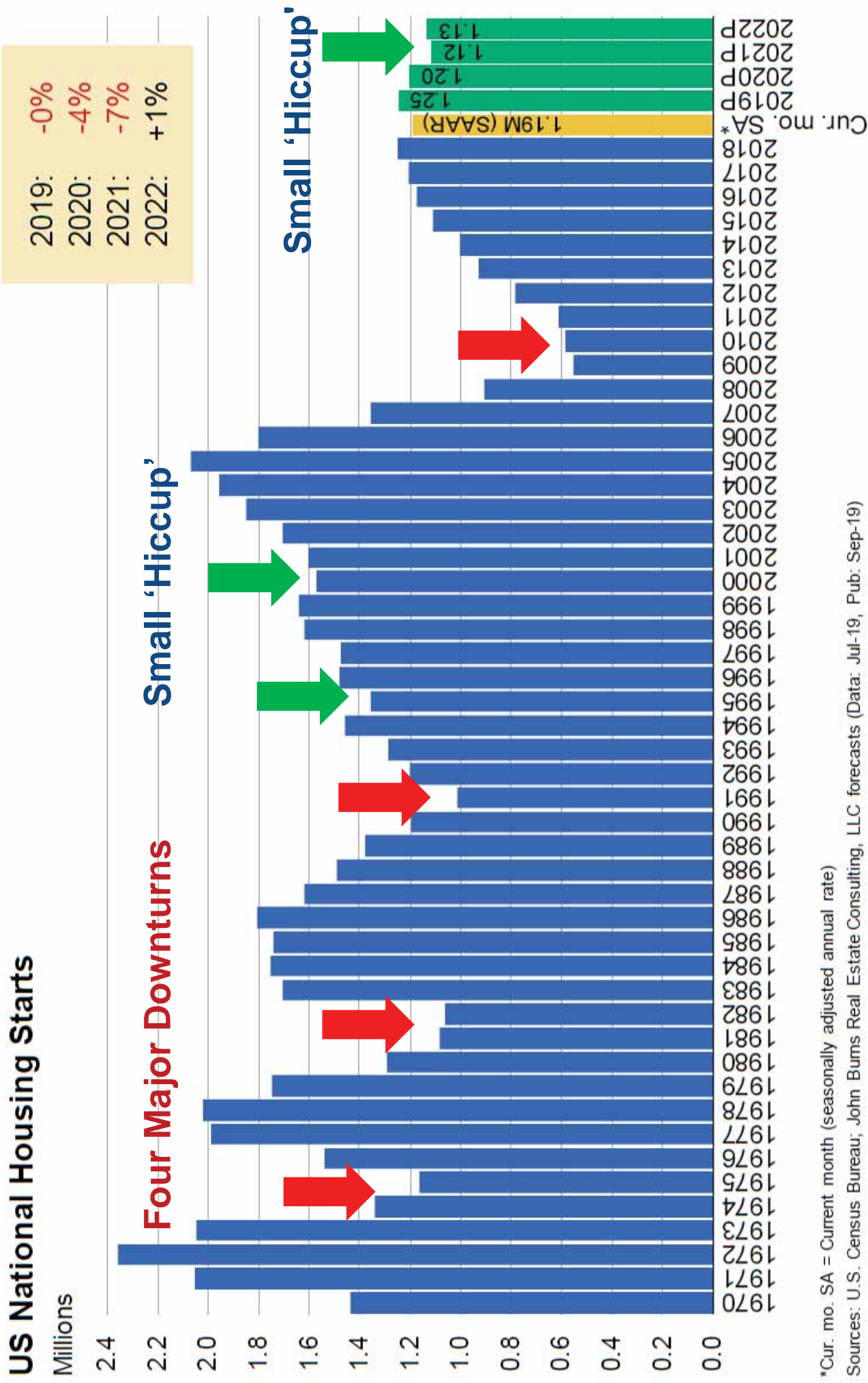


Year-over-Year Sales Rate Growth



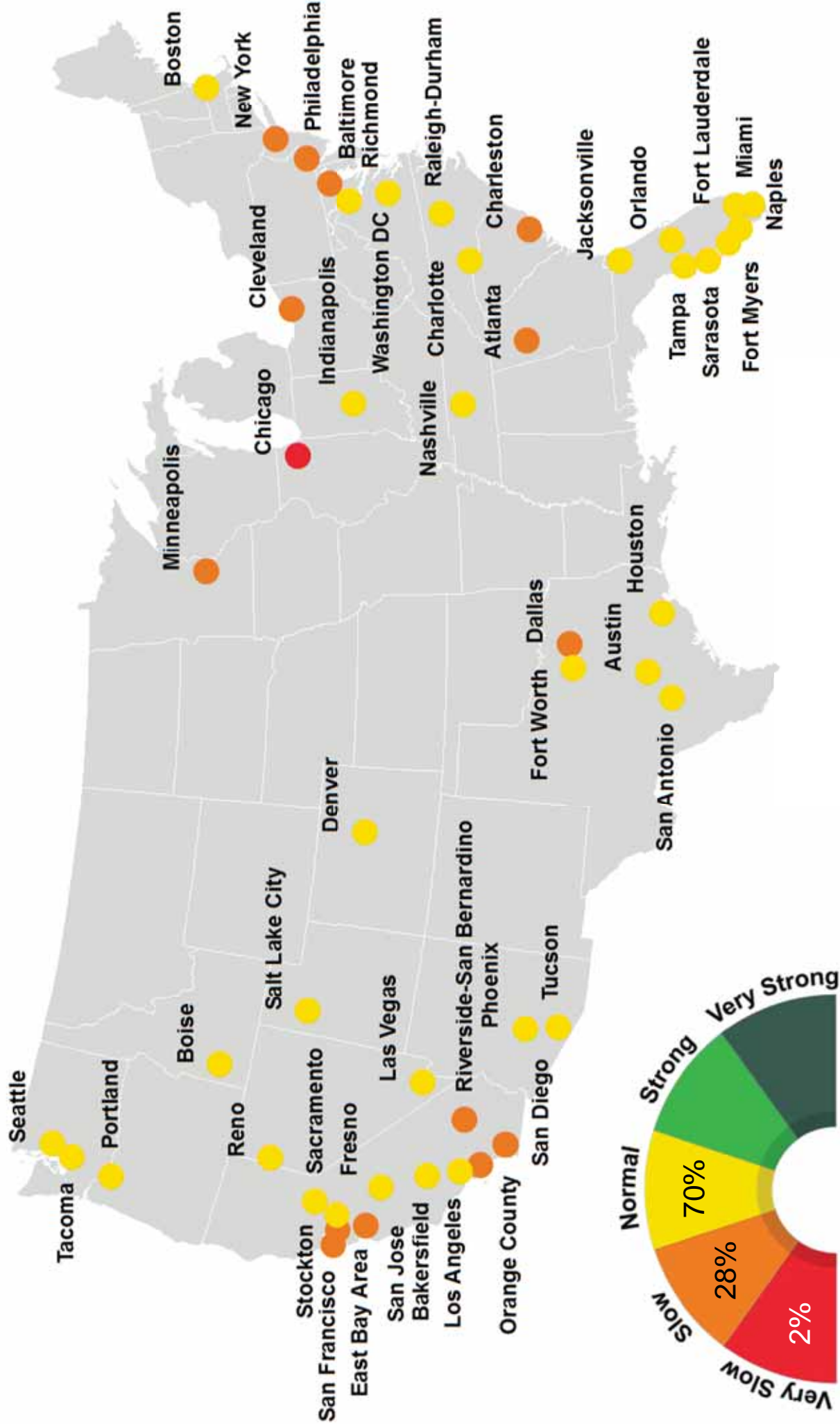
Source: John Burns Real Estate Consulting, LLC proprietary survey, sample size of ~16-20% of new home sales monthly

We Expect Modest 'Hiccup' in New Construction Volume – Rather than Major Downturn



New Home Sales and Pricing Trends Vary By Market

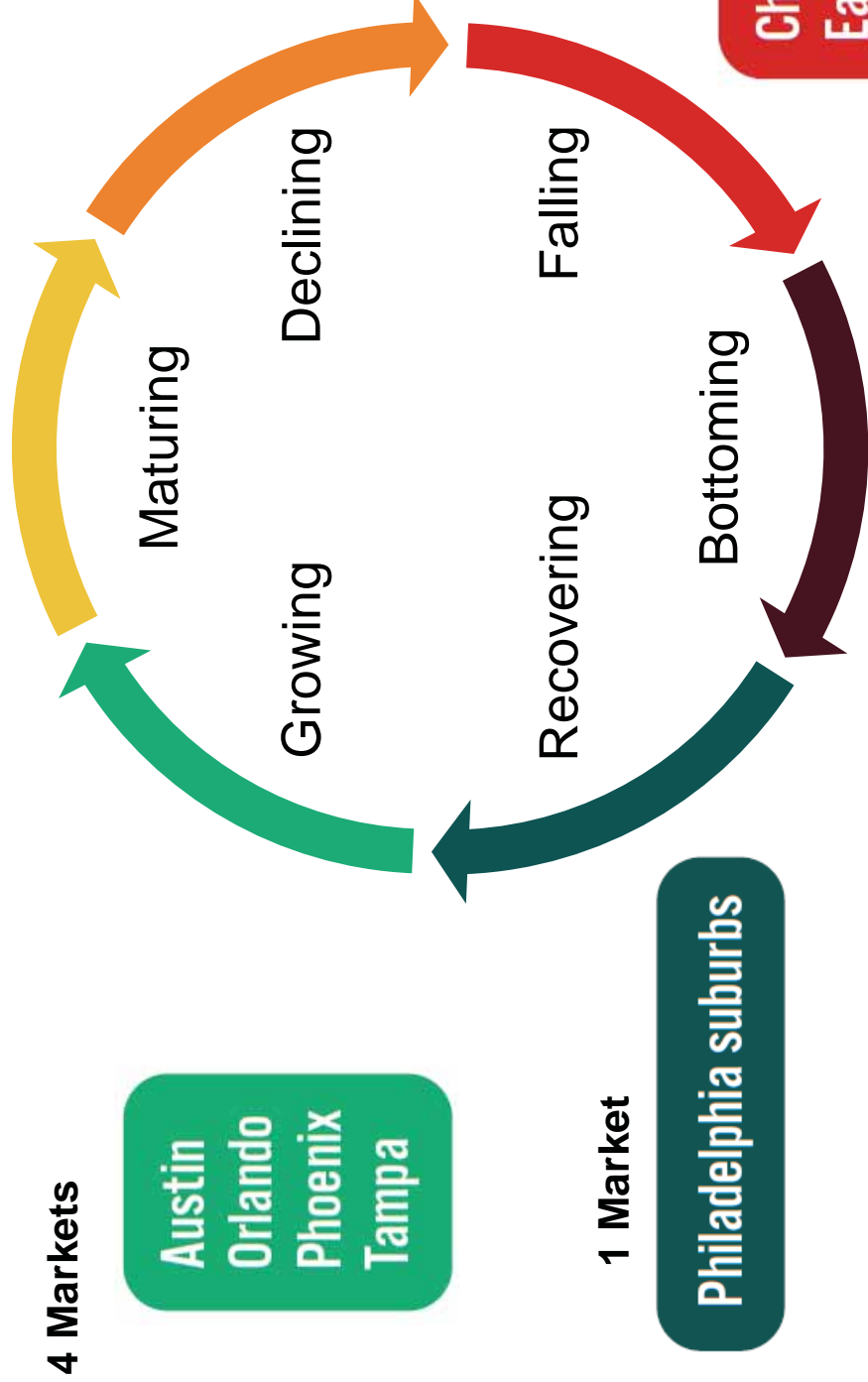
JBREC MARKET HOTNESS INDEX FOR 50 LARGEST MARKETS



Cyclical Conditions Vary by Market.

16 Markets + 4 Watch Listed

Boston (urban)	Jacksonville	Nashville	Salt Lake City	Watch List
Charlotte	Las Vegas	Portland	San Antonio	Atlanta
Houston	Los Angeles	Raleigh	Seattle	Dallas
Indianapolis	Miami (SFD)	Sacramento	Washington, DC	Denver

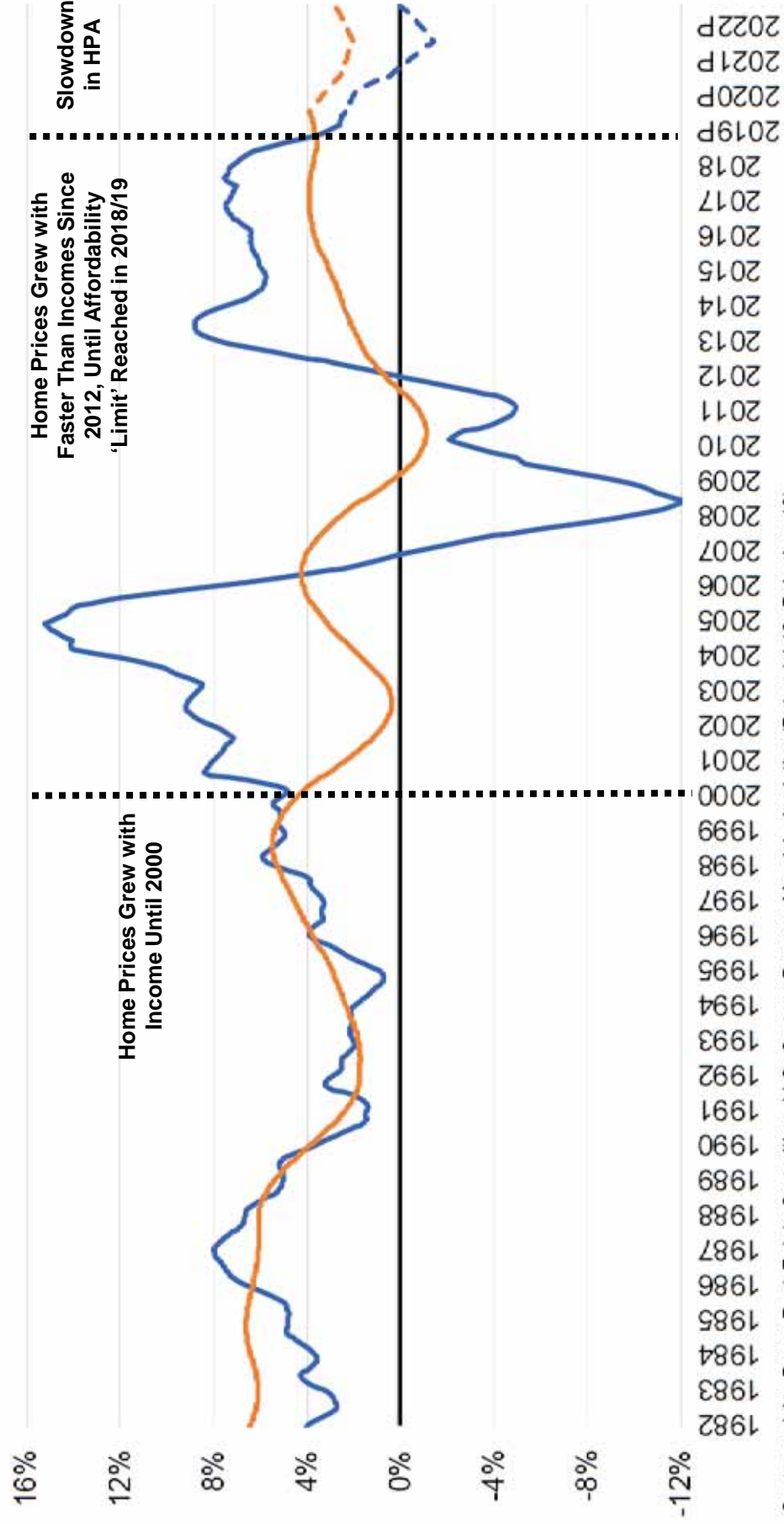


Home Price Appreciation Moderating



Home Value Growth vs. Income Growth

— Burns Home Value Index YOY % — Income YOY %

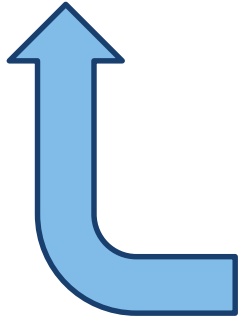


Sources: John Burns Real Estate Consulting, LLC; Census Bureau; Moody's Analytics (Data: Jul-19; Pub: Aug-19)

Thought Experiment: Early Read on Migration

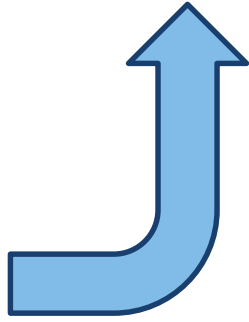


Regional Shifts to Affordable Markets



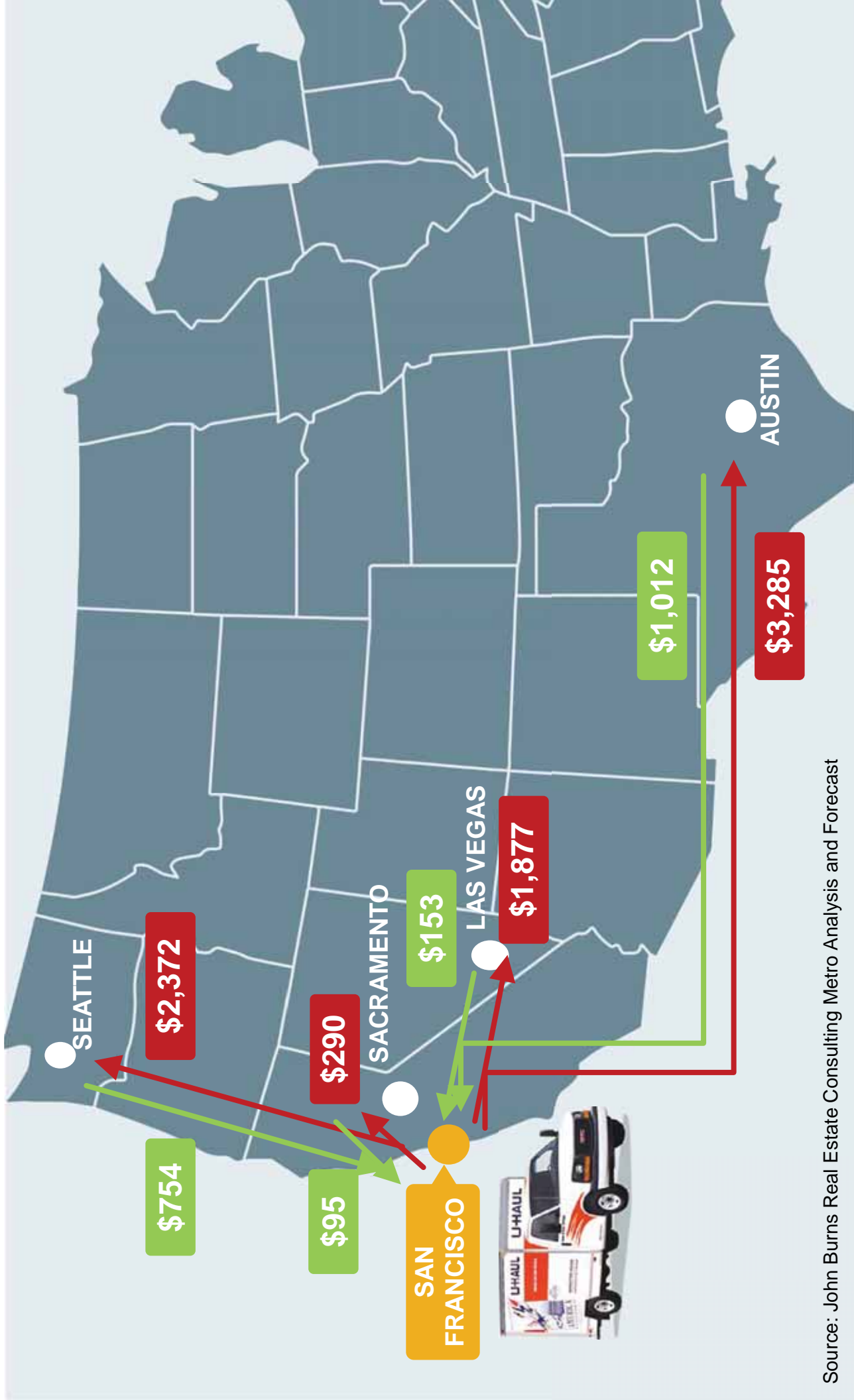
Thought Experiment:

- Which market has **more outmigration?** (people moving AWAY)



Pivot to Affordable Secondary Markets

UHAUL RENTAL PRICES

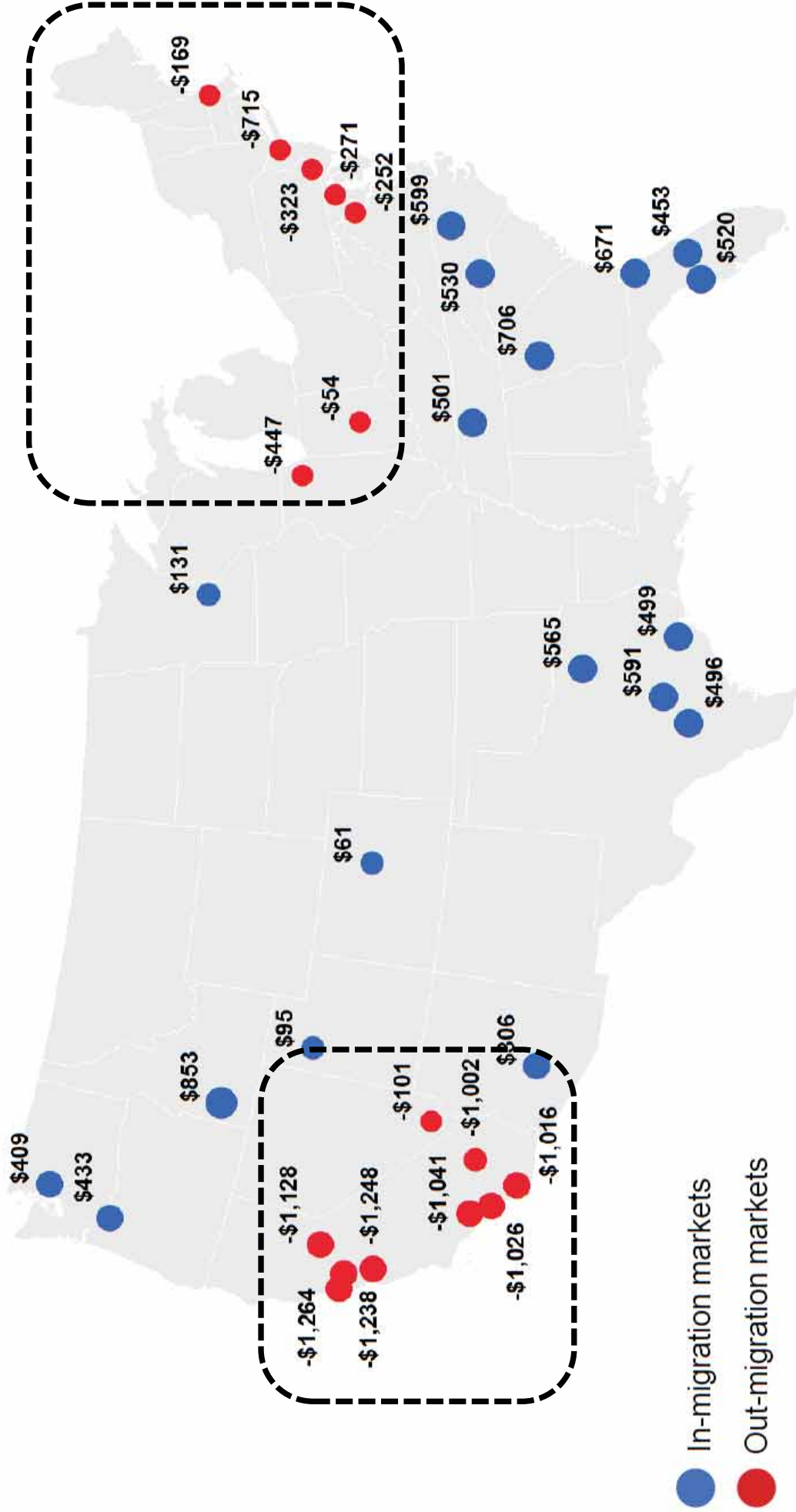


Pivot to Southern and Affordable Markets



Average Premium/(Discount)

To take a truck to a city and return the same truck (Jul-19 vs. Jul-18)

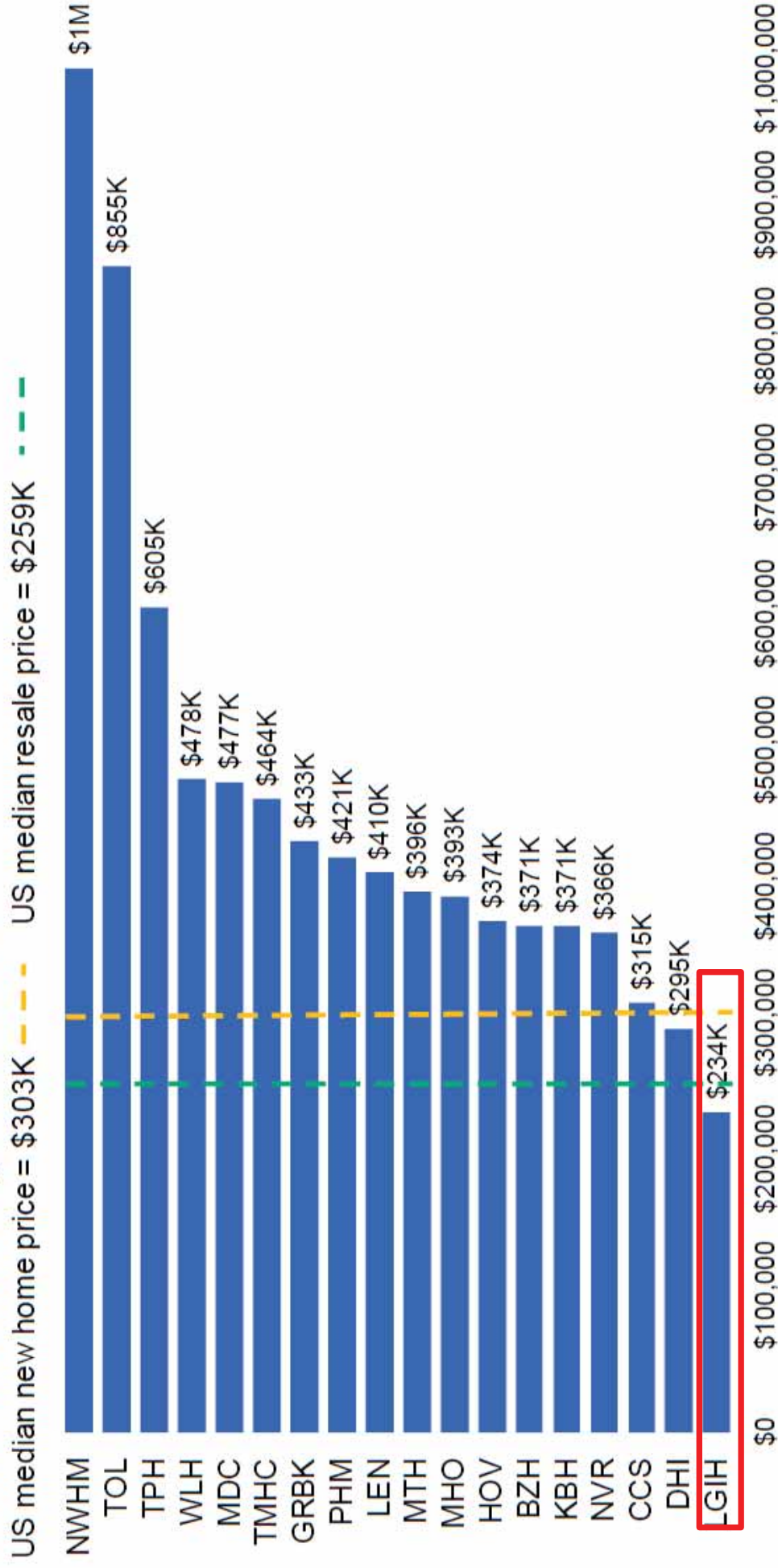


Source: JBREC Independent Analysis of U-Haul Data (Pub: Sep 2019)

Home Builders Have Raised Prices for Past Seven Years... Well Above Resale Prices



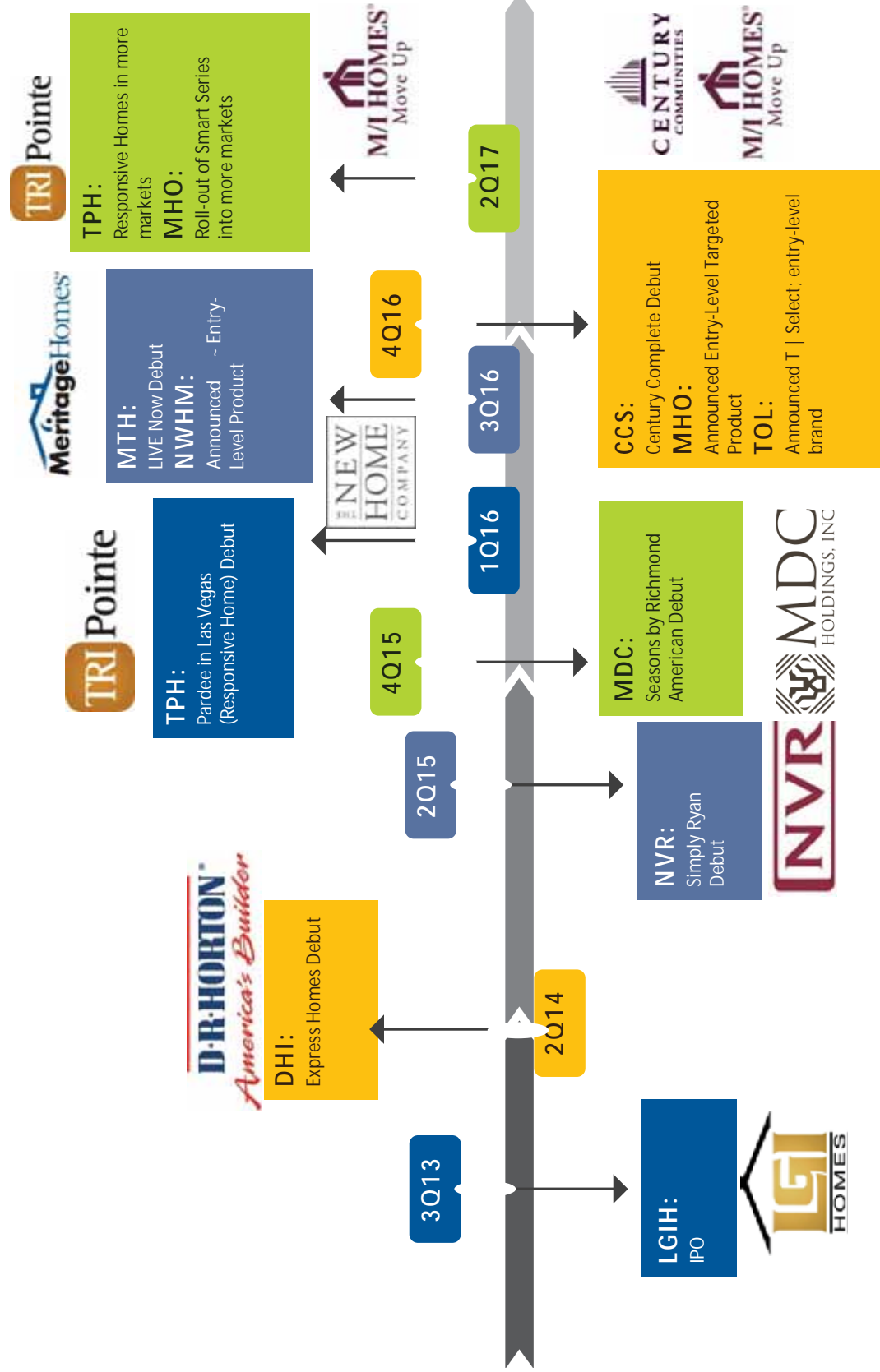
Home Builder Average Sales Price



*INVH and AMH = average estimated cost basis according to Q1 2019 Supplements; Tricon American Homes calculated from total cost basis of 18,094 total homes in 1Q19 MD&A; Front Yard Residential calculated from stated real estate acquisitions of 49 properties for \$6.1 million.

Sources: John Burns Real Estate Consulting, LLC; builders' and REITs' most recently reported quarterly results; Census Bureau (Pub: Jun-19)

Builders Pivoting to Entry Level

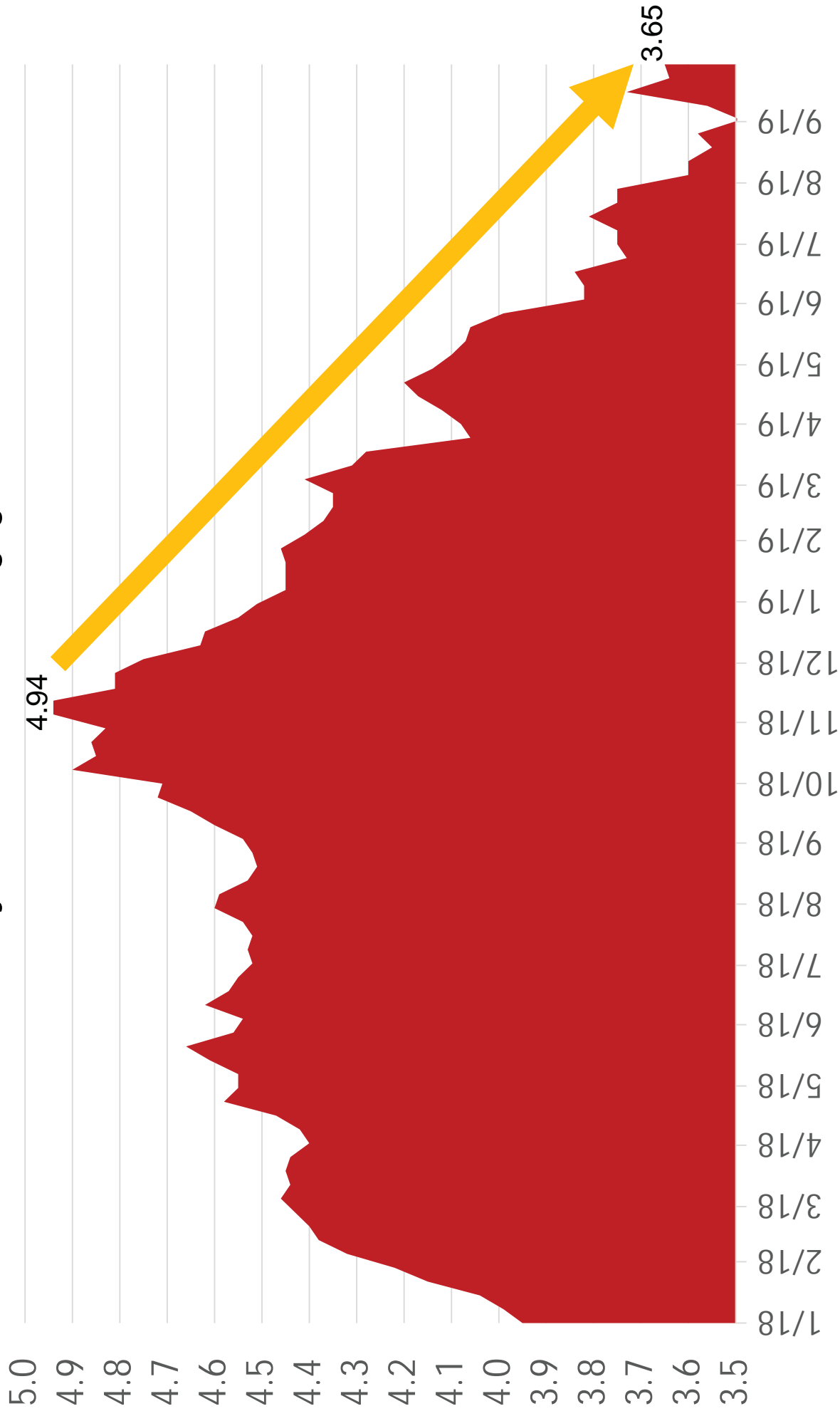


Toll Brothers
AMERICA'S LUXURY HOME BUILDER

Source: Builders' most recent quarterly earnings calls

This year, mortgage rates have plummeted.

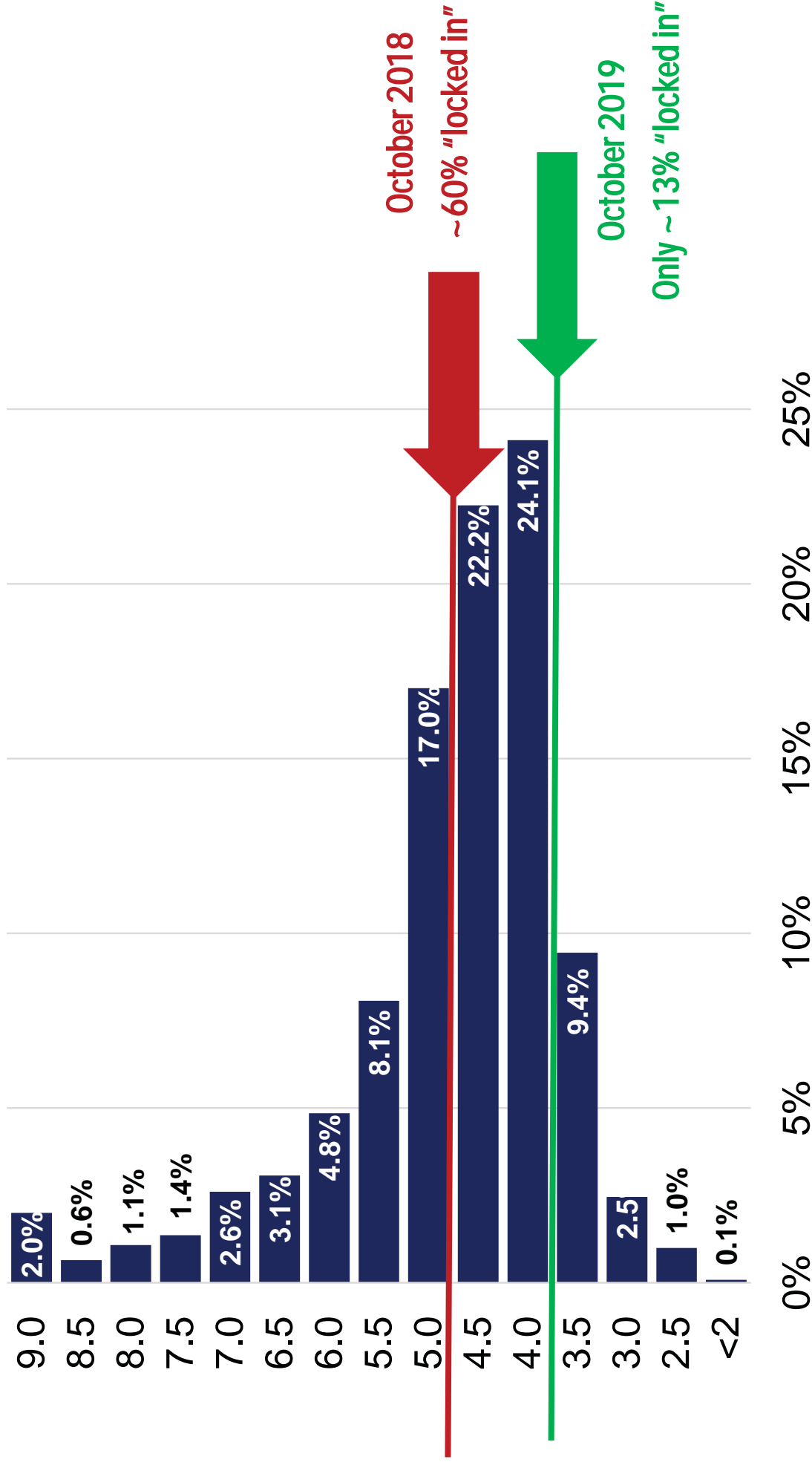
30-yr Fixed Rate Mortgages



Source: Freddie Mac, updated through 10/3/19

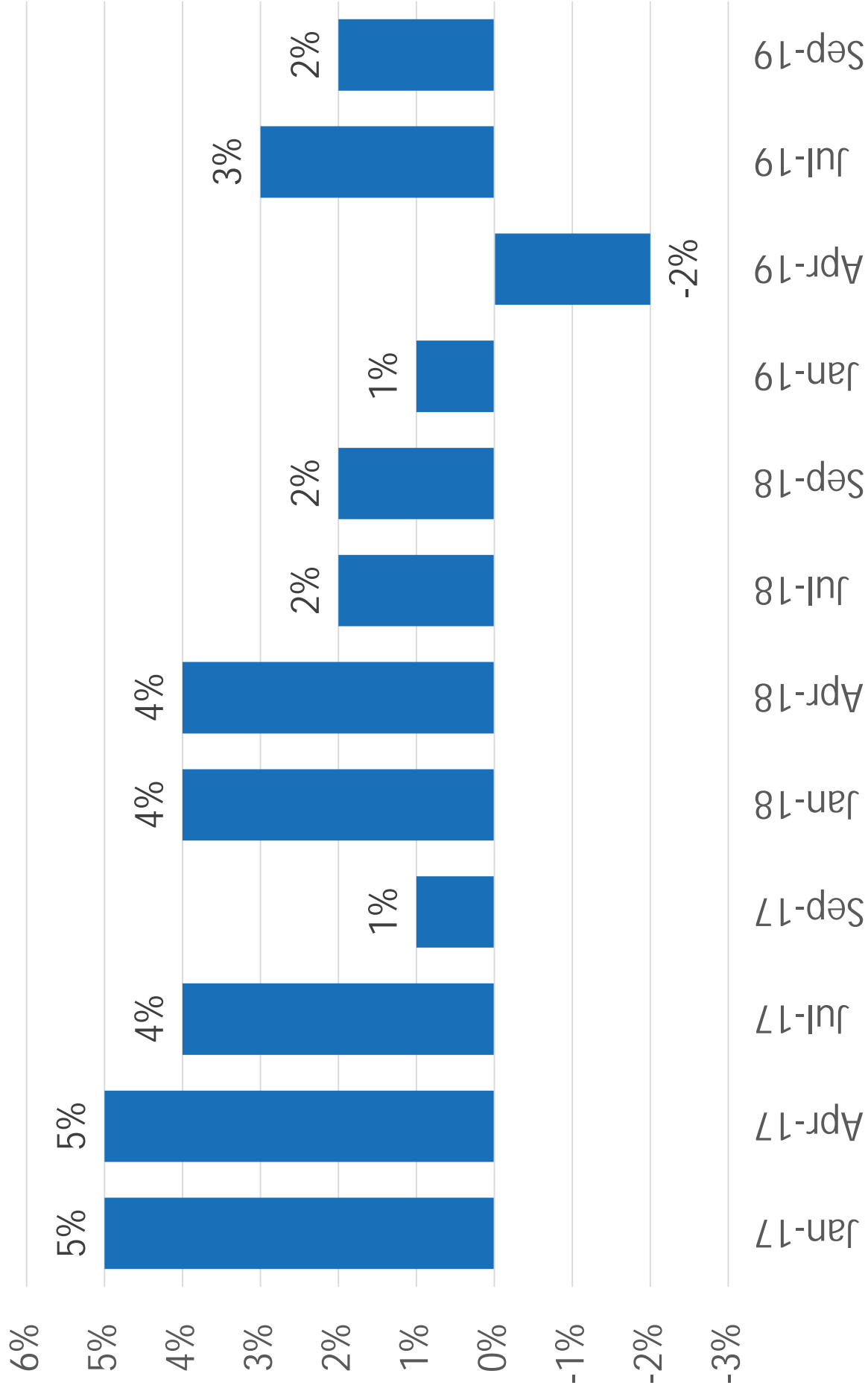
Opened Up the Moveup Market Again

Mortgage Distribution by Rate (2018)



But don't expect a surge in starts due to lack of entitled land in good locations.

Community Count Growth



Source: John Burns Real Estate Consulting, October 2019

The U.S. Is Shifting to More High-Density Surban™ Living



- **Cities want it**
 - Efficient use of land
 - More taxable income with more residents/acre
- **Consumers want it**
 - Proximity to everything (experiences / employment)
 - Better affordability in a desirable location
- **Builders and developers want it**
 - Less risk in a desirable location
 - More homes/acre means higher revenue/acre

Young Singles are buying more row townhomes.

15%



Young Single
(No Kids)

956 responses

Centerhouse
by Trumark Homes
DesignLens™ Feature
February 2019
Ontario, CA

- Designed to be attainable and charming.
- Smaller homes with square footage in all the right places
- Small yards and covered decks



Source:

DESIGNLENS
by John Burns Real Estate Consulting

Empty Nesters Are Buying More Low Maintenance Homes with Entertainment-Centric Floor Plans.

11%



Empty Nester

4,380 responses

**Villas at Legacy West
by Britton Homes**
DesignLens™ Feature
December 2018
Plano, TX

- 2 and 3-story homes that provide a low maintenance lifestyle, in a vibrant Surban community
- Dramatic contemporary elevations
- Low maintenance
- Entertainment-centric floor plans



Source:

DESIGNLENS
by John Burns Real Estate Consulting

Multigenerational Living is on the Rise

Flats over the garage

DL



DESIGN LENS
by John Burns Real Estate Consulting



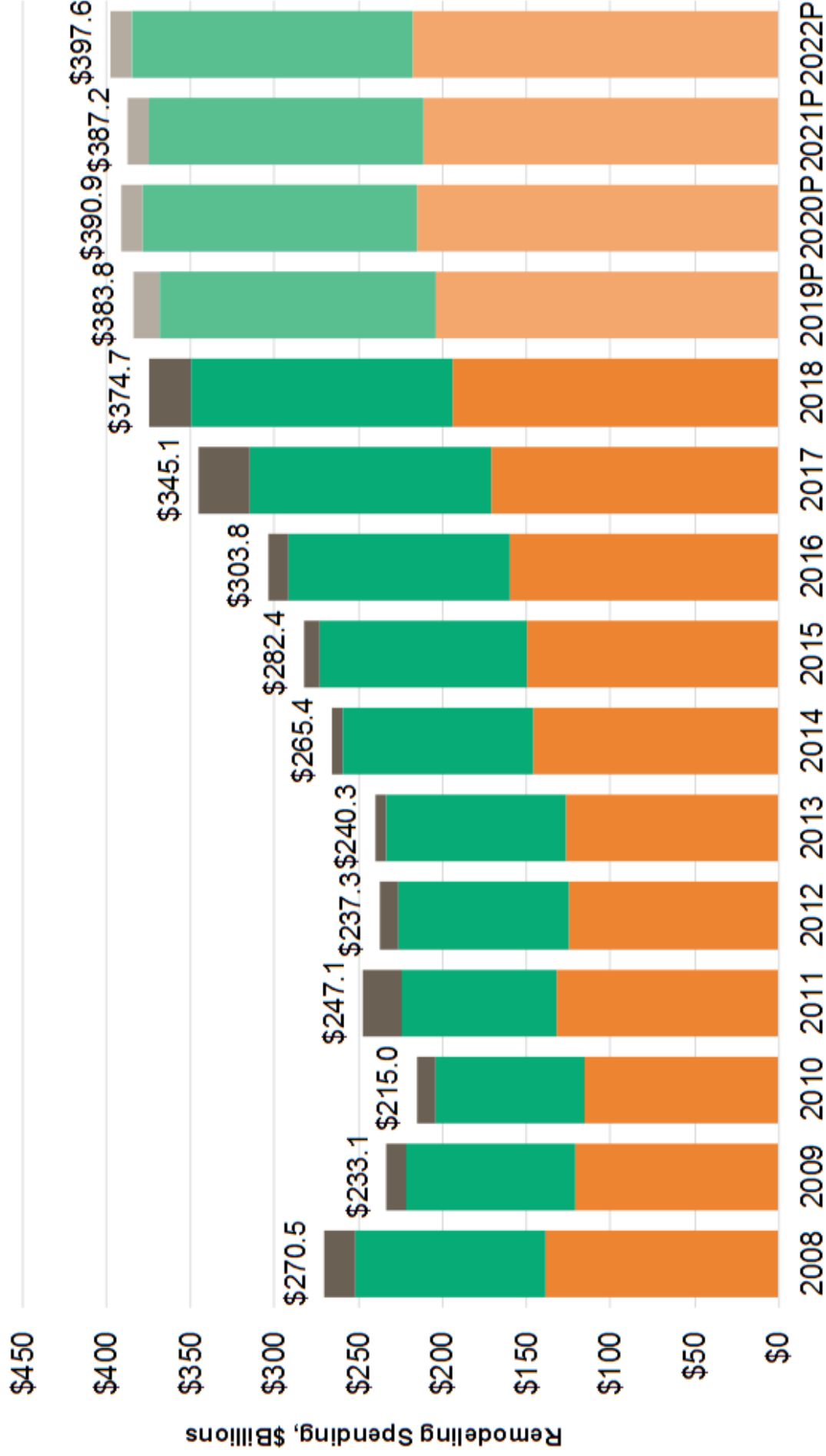
Opportunities to Focus On

2% Growth in R&R 2020 -



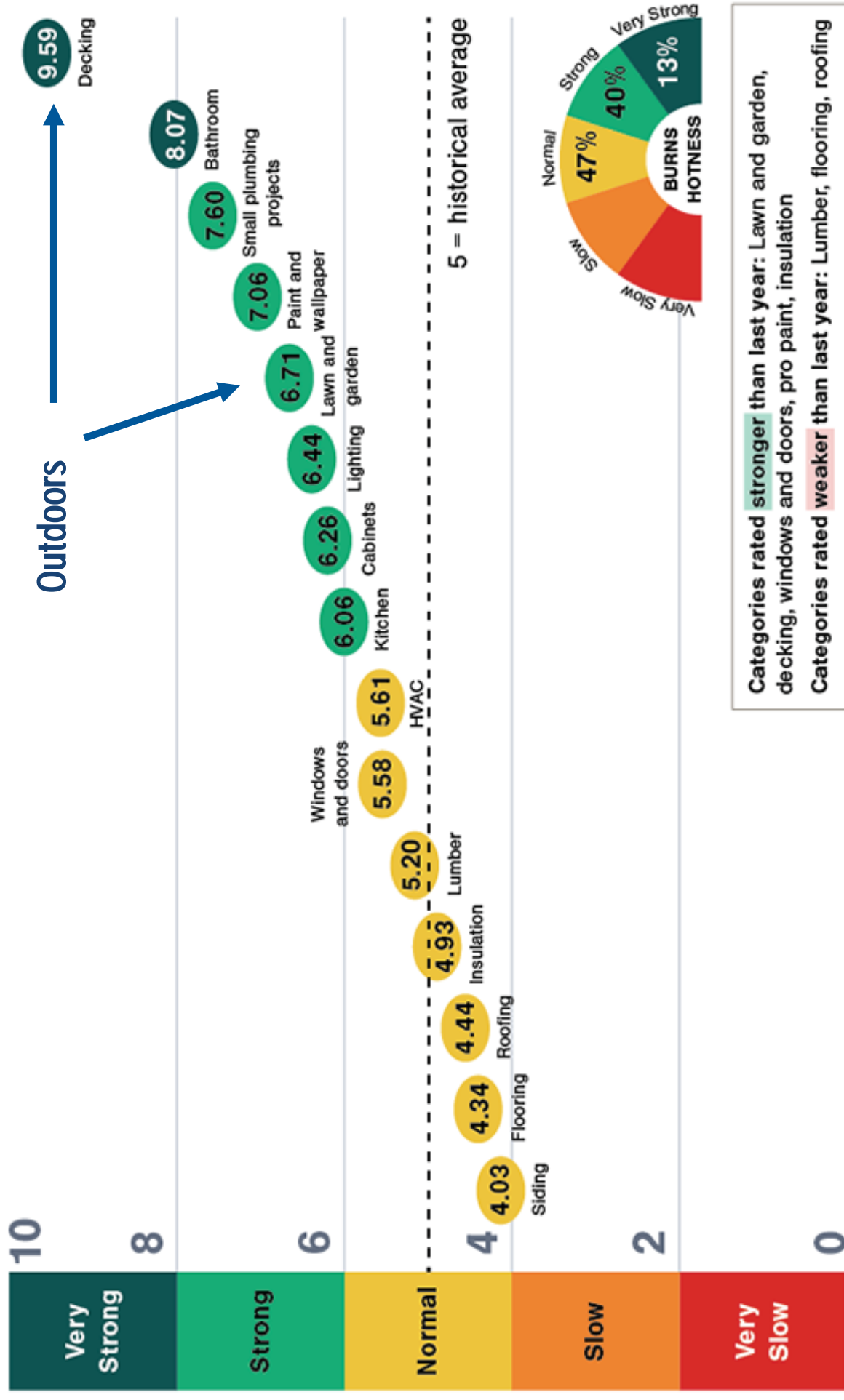
Burns Residential Repair and Remodel SpendingTM

- Small project discretionary
- Big project discretionary
- Disaster repairs



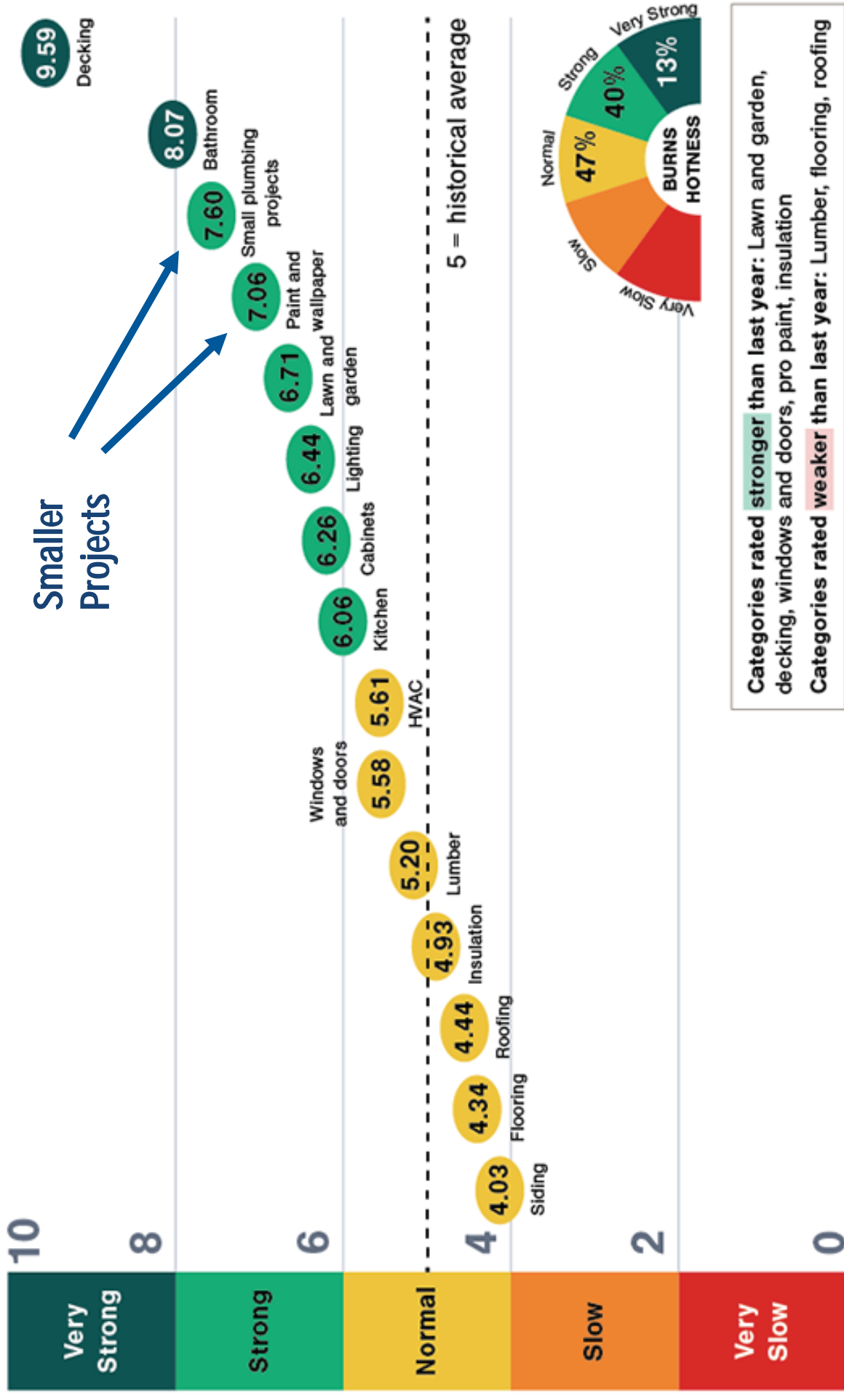
Product Category Health Varies Dramatically

Burns Building Product Category Ratings: August 2019



Product Category Health Varies Dramatically

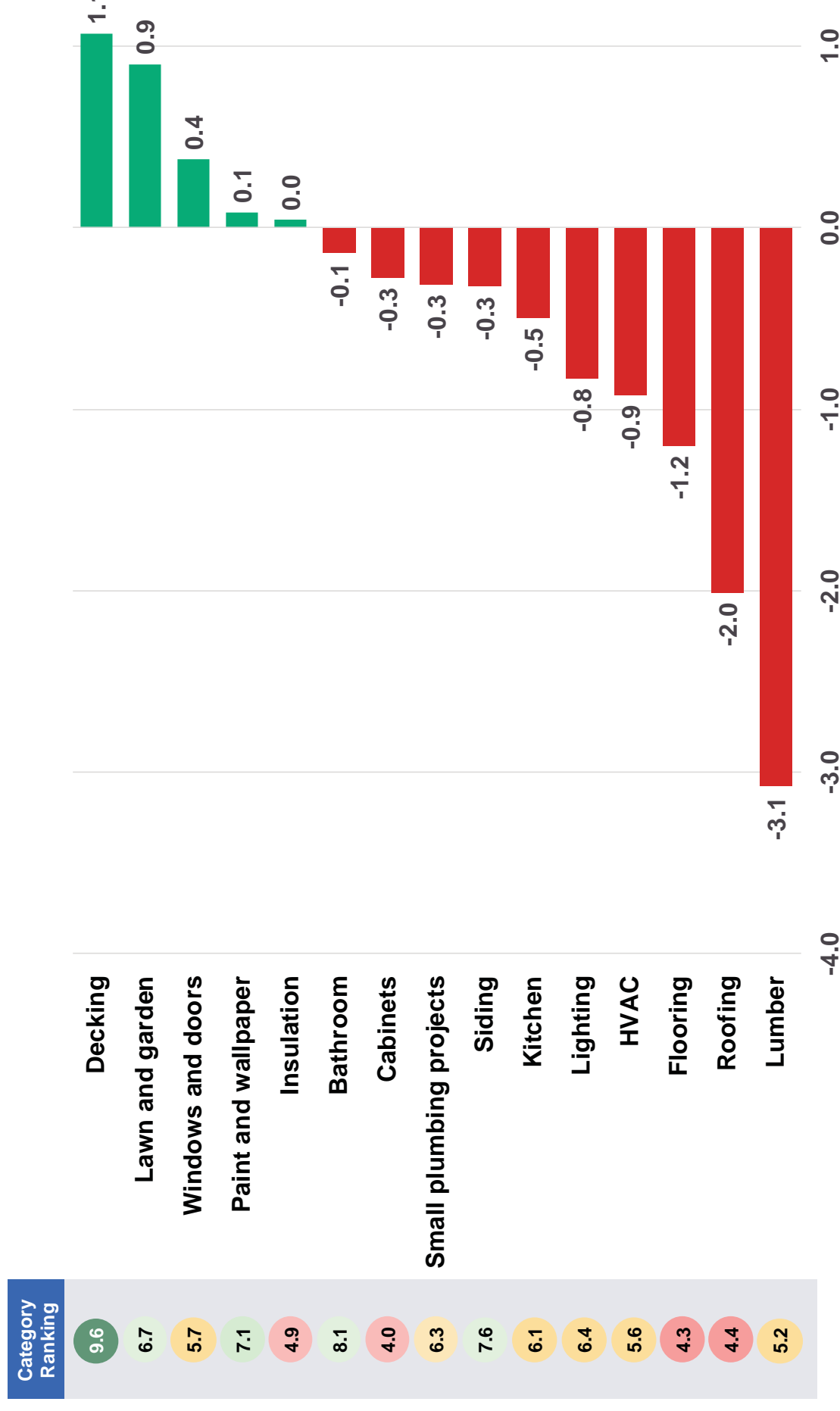
Burns Building Product Category Ratings: August 2019



YOY Improvements Also Favor Outdoors and Small Projects

Burns Building Product Category Ratings: August 2019

Rank change vs. prior year



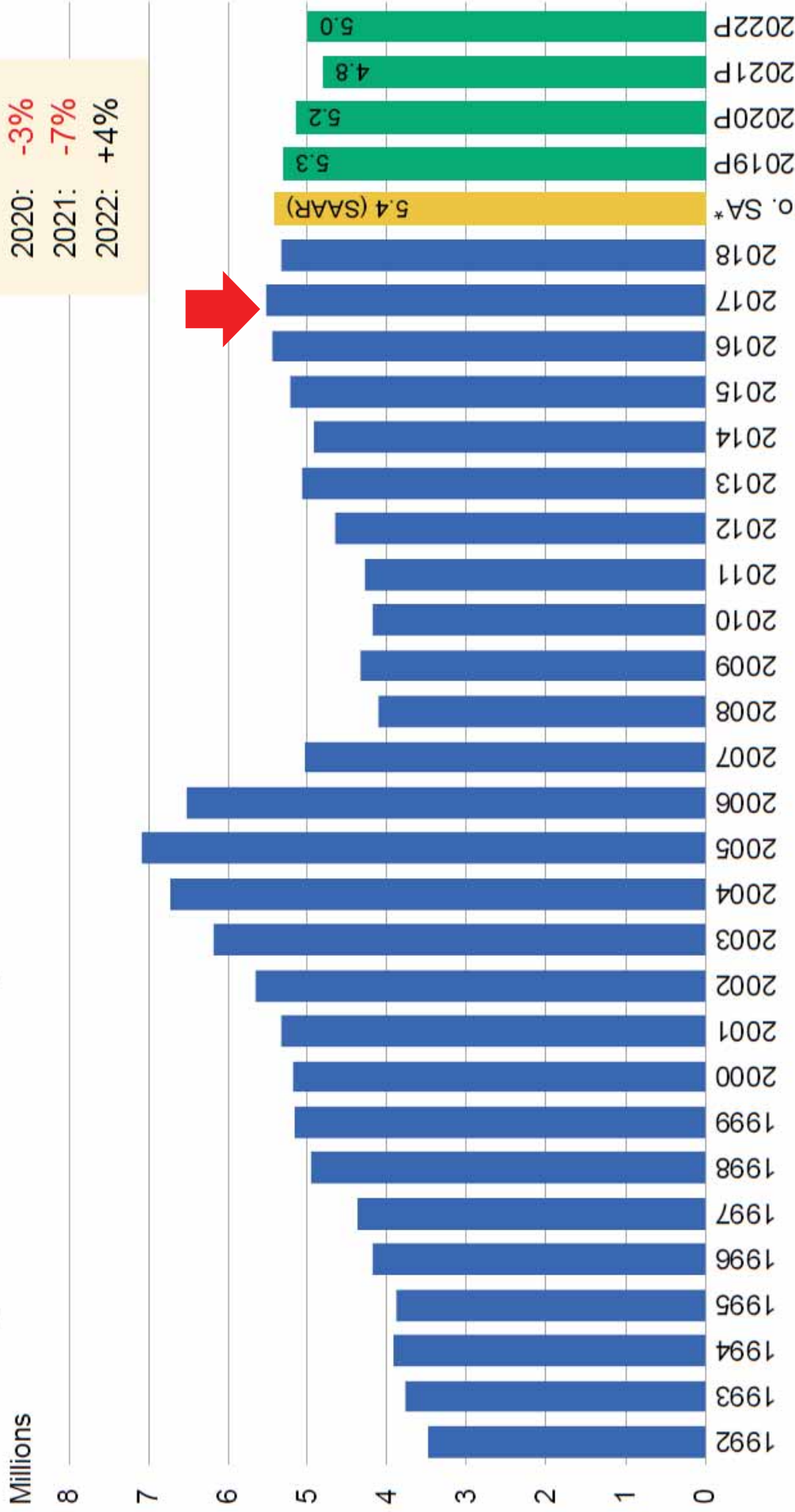
Sources: John Burns Real Estate Consulting (Data: Aug-19, Pub: Sep-19)

Existing Home Sales Has Been Slowing for Two Years



Existing Home Sales Slowing – Peaked in 2017

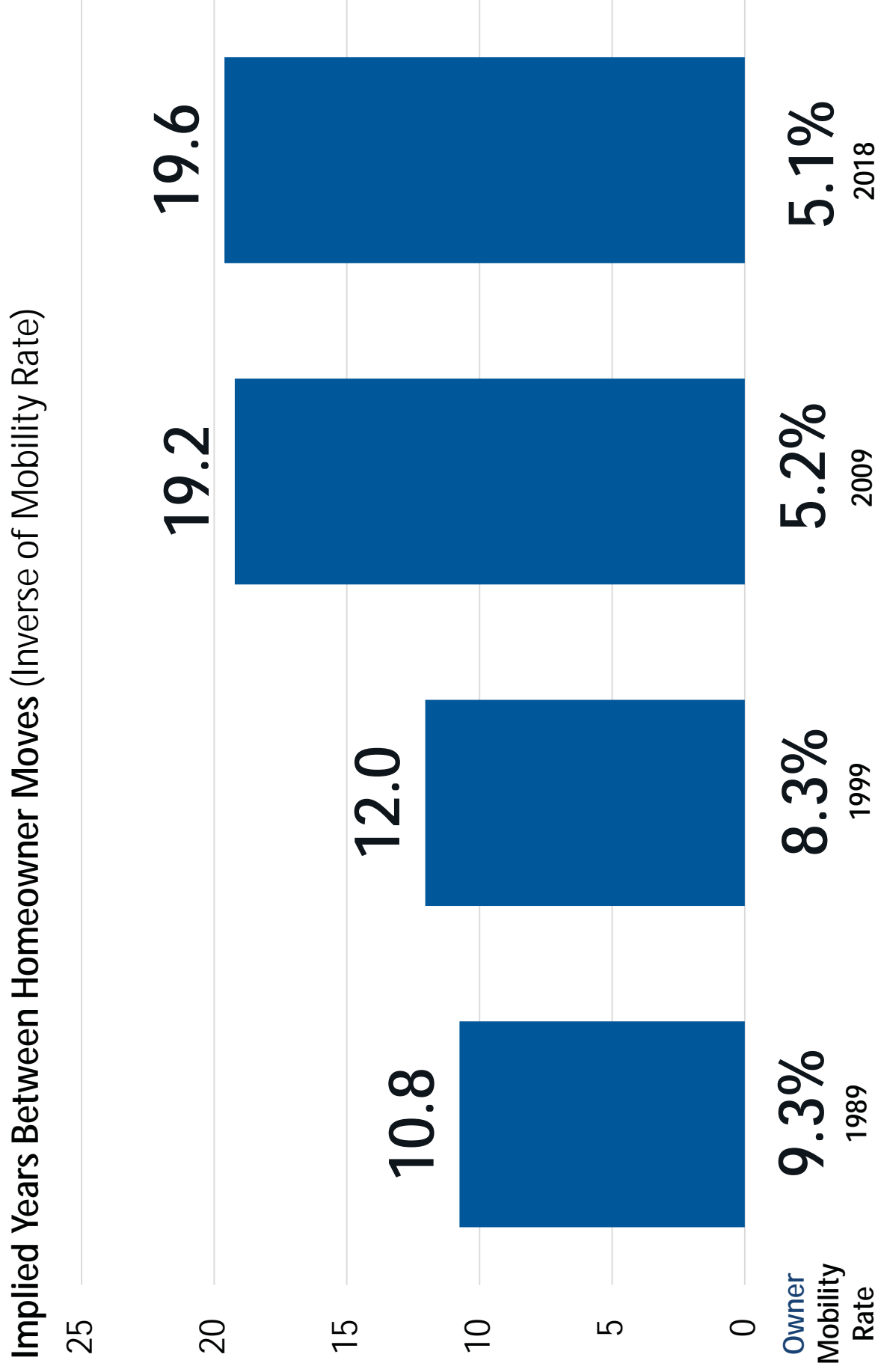
US Existing Home Sale Closings



*Cur. mo. SA = Current month (seasonally adjusted annual rate)

Sources: ©2019 National Association of REALTORS®; John Burns Real Estate Consulting, LLC (Data: Jul-19, Pub: Sep-19)

Homeowners Move Far Less Often



Source: US Census CPS, John Burns Real Estate Consulting, LLC (Pub: March 2019)

Example Scenario: Deck Purchase



Scenario: 10 ft x 20 ft Deck



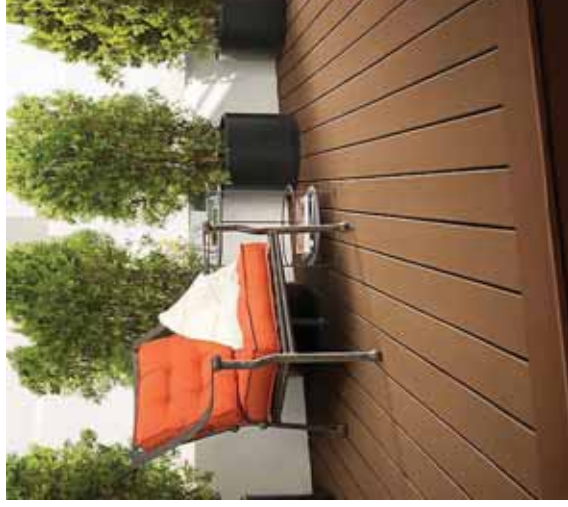
Example Scenario: Deck Purchase

Scenario: 10 ft x 20 ft Deck



\$350

Wood



\$1,000 - \$2,100

Composite



3-6X

More Expensive Than Wood

Households Who Stay Longer in Their Home are More Likely To Spend on Products with 'Long Term' Value Proposition



“How Long Are You Planning on Staying in Your Home?”

WOOD



COMPOSITE



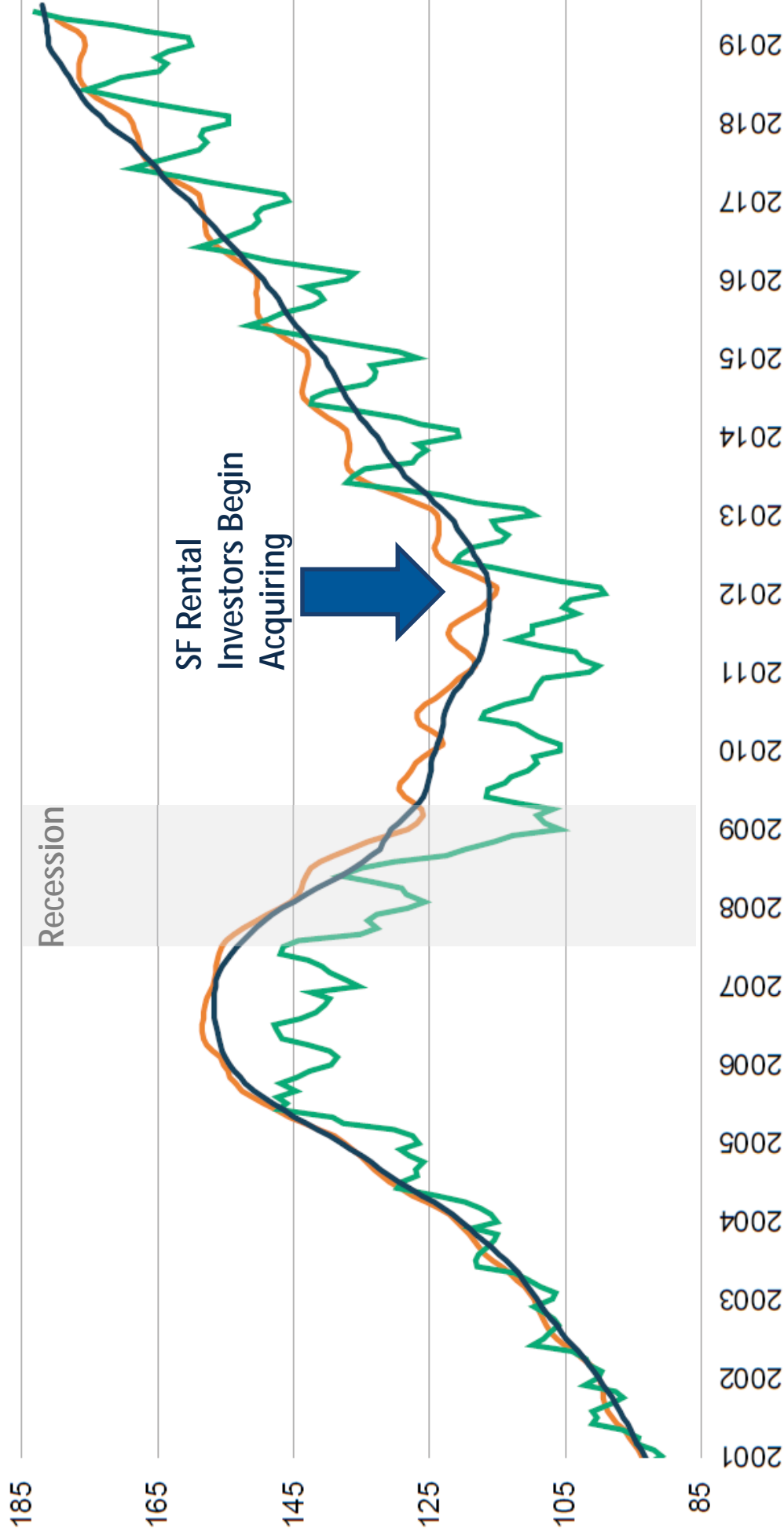
Home Price 'Bottom' Last Cycle Coincided with Ramp Up in Single Family Rental Investors



Burns Home Value Index™ vs. Median Price and CoreLogic Case-Shiller Index (SA) United States

BHVI™ is based on contract date and precedes most published HPIs by months. It is indexed to 100 in January 2002.

— CoreLogic Case-Shiller — NAR Median Price — BHVI



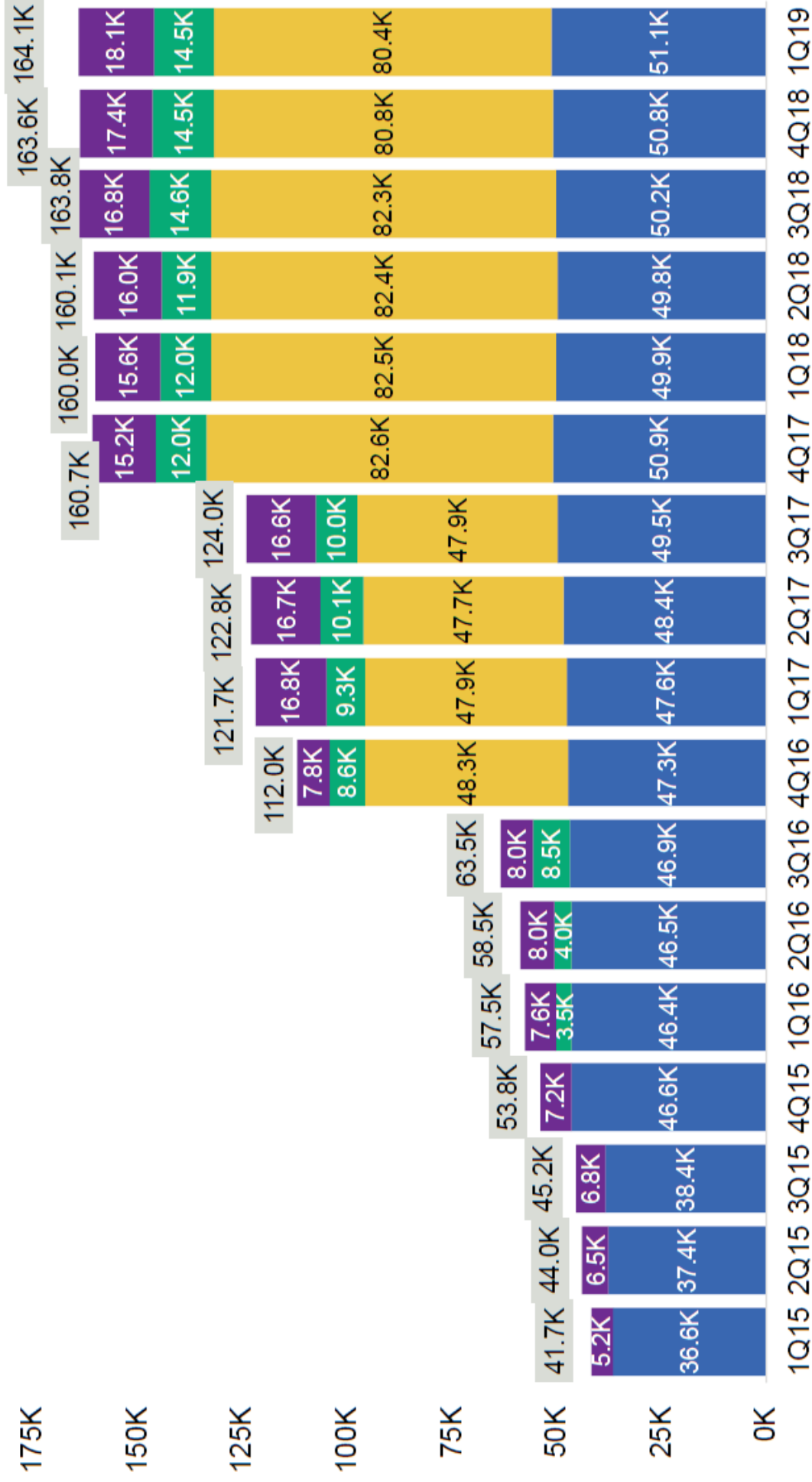
Sources: NAR; S&P/Case Shiller; John Burns Real Estate Consulting, LLC (Data: Jul-19, Pub: Aug-19)

Public Investors Now in Single Family Rental



Combined Public REIT Number of Properties at Quarter End

■ AMH ■ INVH ■ RESI ■ TAH ■ Total



Note: The jump in INVH inventory in 4Q17 reflects merger with Stanwood Waypoint (SFR).

Sources: Public company filings; John Burns Real Estate Consulting, LLC (Data: 1Q19, Pub: Jun-19)



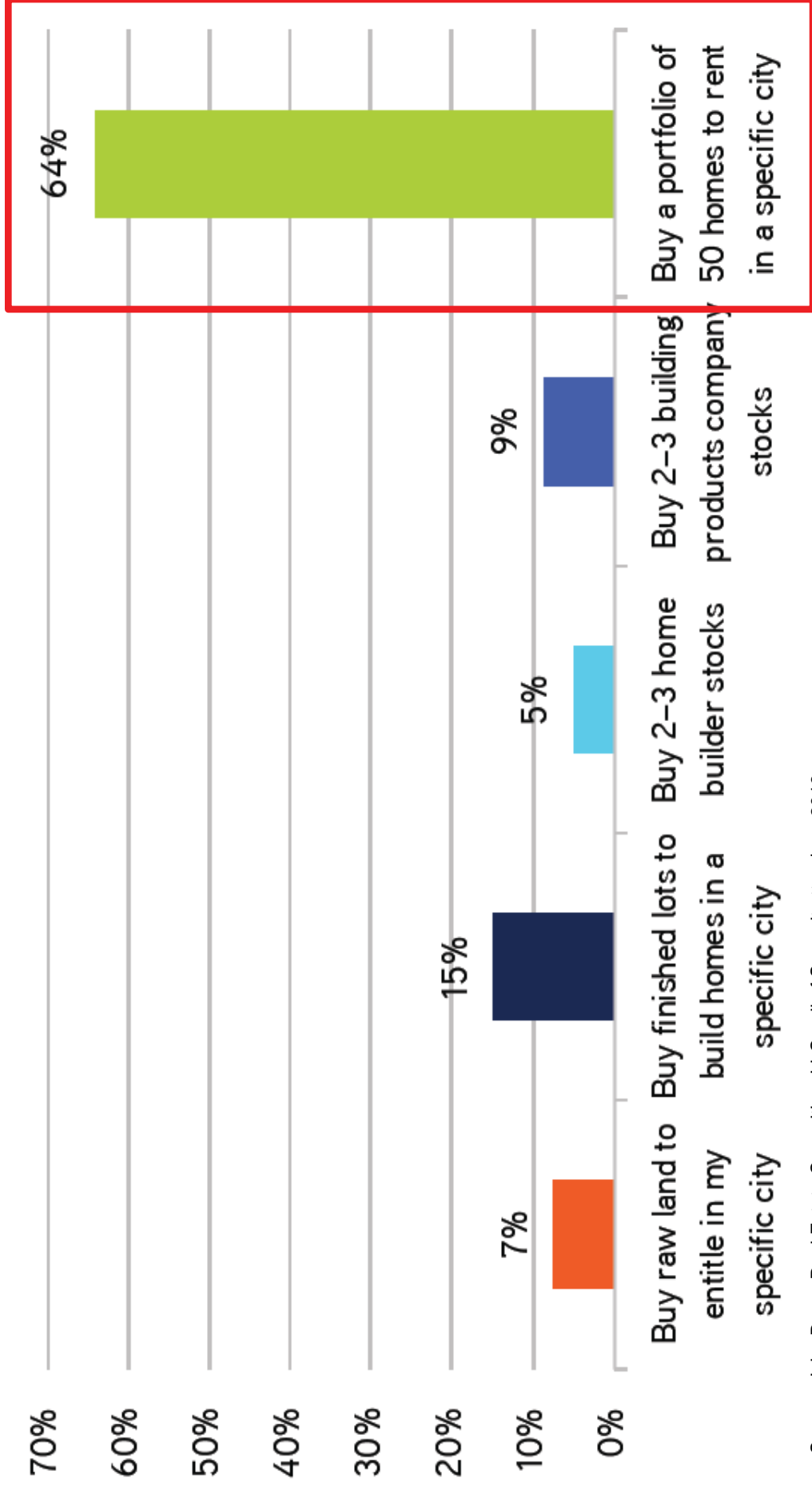
Question to Housing Industry Investors:

The best, risk-adjusted housing industry investment is...?

SF Rental CLEAR FOCUS Among Housing Investors



The best, risk-adjusted housing industry investment today is:



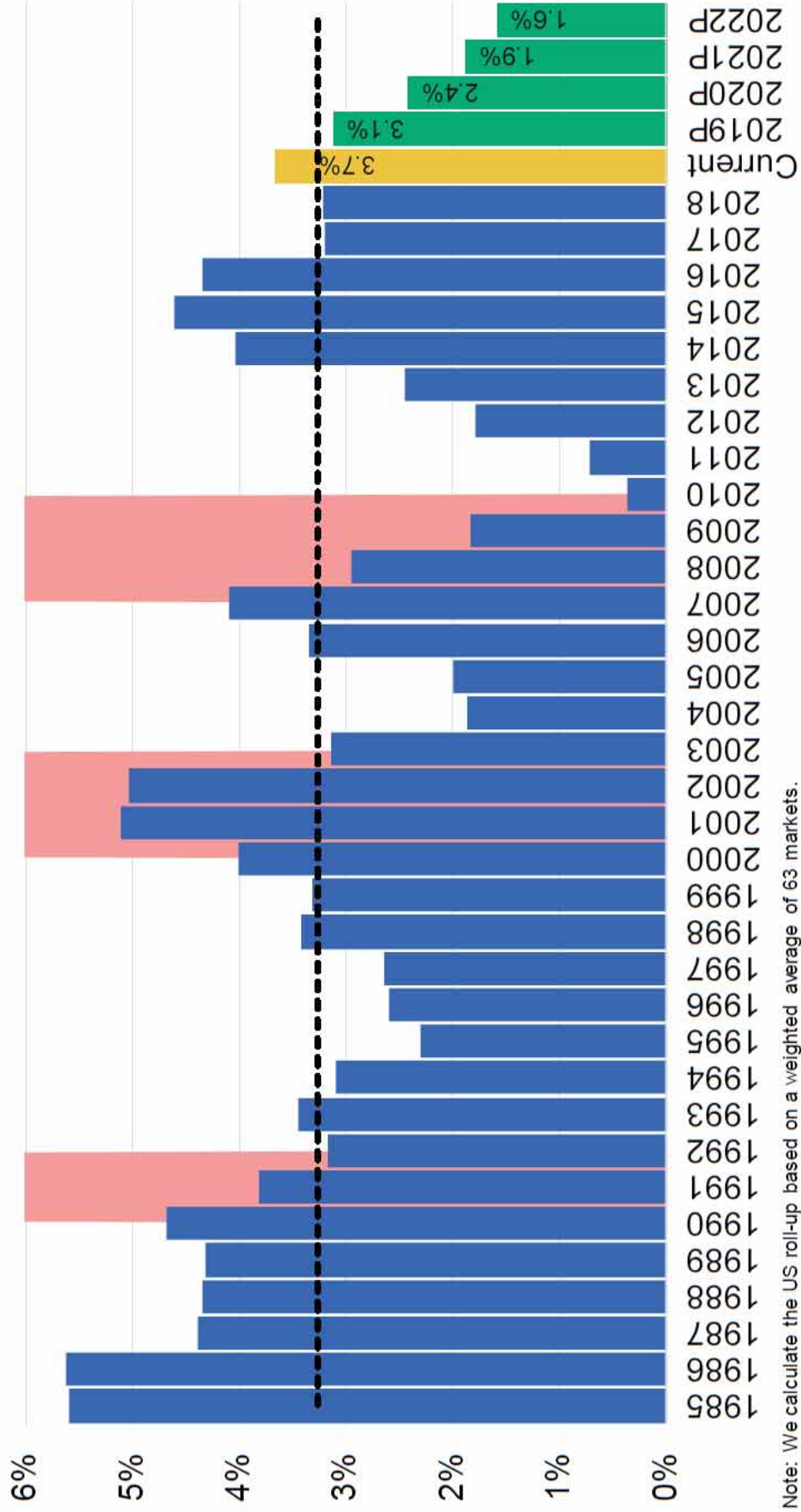
Source: John Burns Real Estate Consulting, LLC poll of Summit attendees 2019

SF Rents Continue To Grow During Recessions



Burns Single-Family Rent Index™ (YOY %)

■ US roll-up = 3.7% - - - Historical average = 3.4%



Note: We calculate the US roll-up based on a weighted average of 63 markets.

Source: John Burns Real Estate Consulting, LLC (Data: Mar-19; Pub: Jun-19)

Tech Making it Easier for Investors to Push Capital to Single Family Rental



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You invest. You relax. We do the rest.

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[How It Works](#) [See Properties](#)

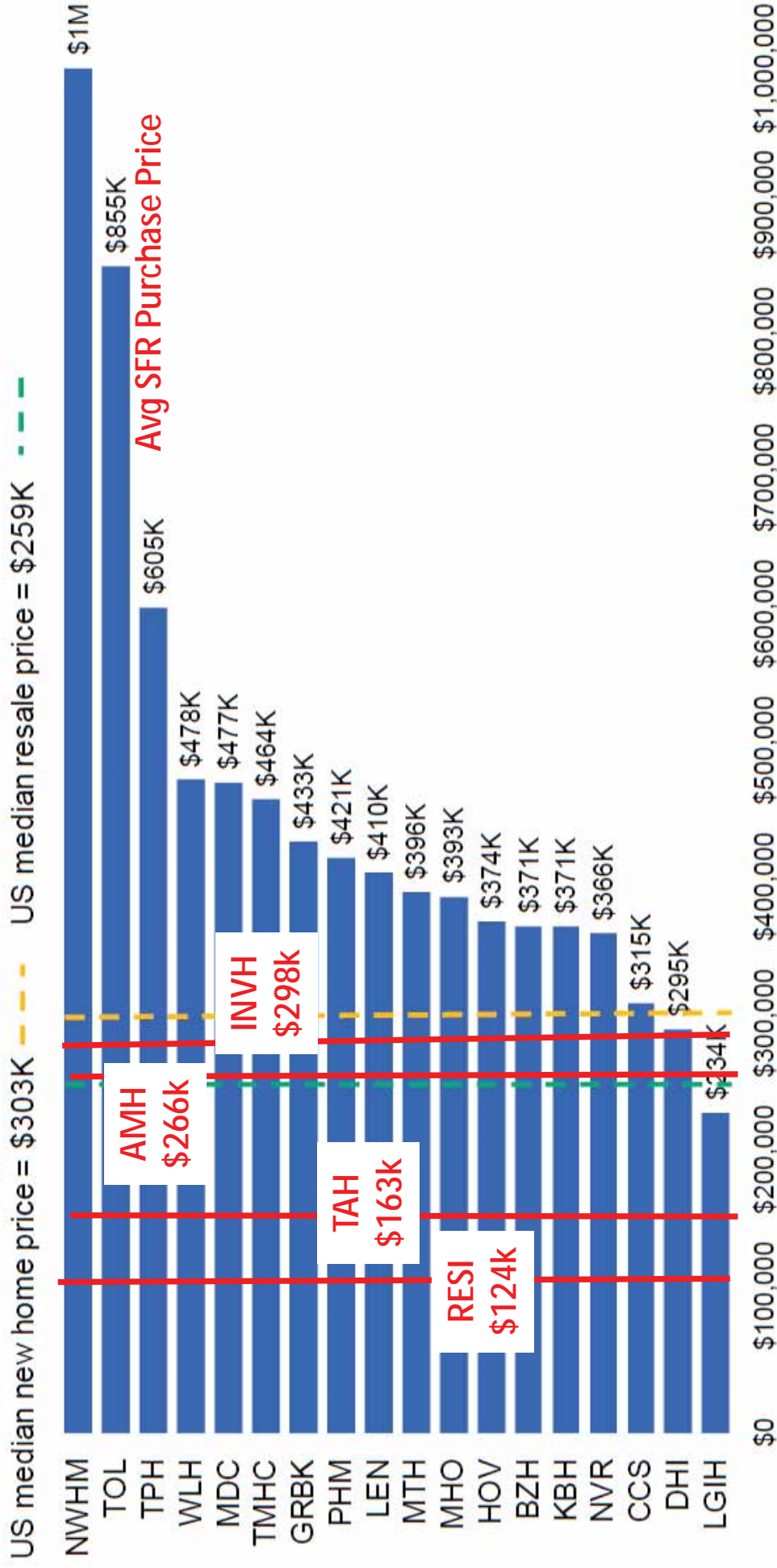
Properties Learn More Login Sign Up

\$145,653
3bd, 2ba | 1,809 sqft. | Built in 1996
Current Rent **\$1,315** Cap Rate

Single Family Rental Investors Target 'Buy Box' at Lower Pricepoints... Boosting Home Price



Home Builder Average Sales Price



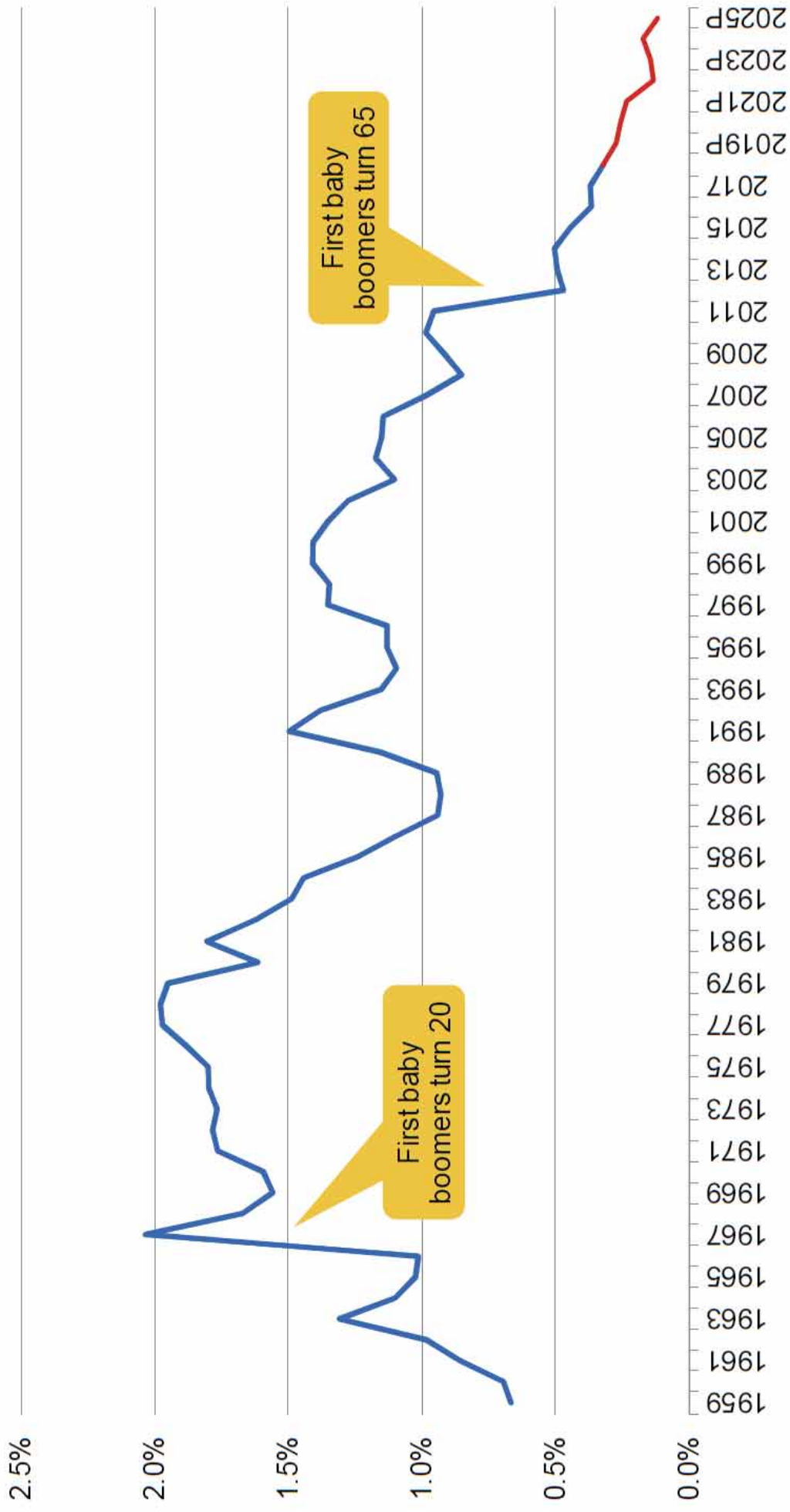
*INVH and AMH = average estimated cost basis according to Q1 2019 Supplements; Tricon American Homes calculated from total cost basis of 18,094 total homes in 1Q19 MD&A; Front Yard Residential calculated from stated real estate acquisitions of 49 properties for \$6.1 million.

Sources: John Burns Real Estate Consulting, LLC; builders' and REITs' most recently reported quarterly results; Census Bureau (Pub: Jun-19)

Labor Shortage is Not Going Away. Labor Will Get More Scarce



Annual Growth of 20–64-Year-Old Population

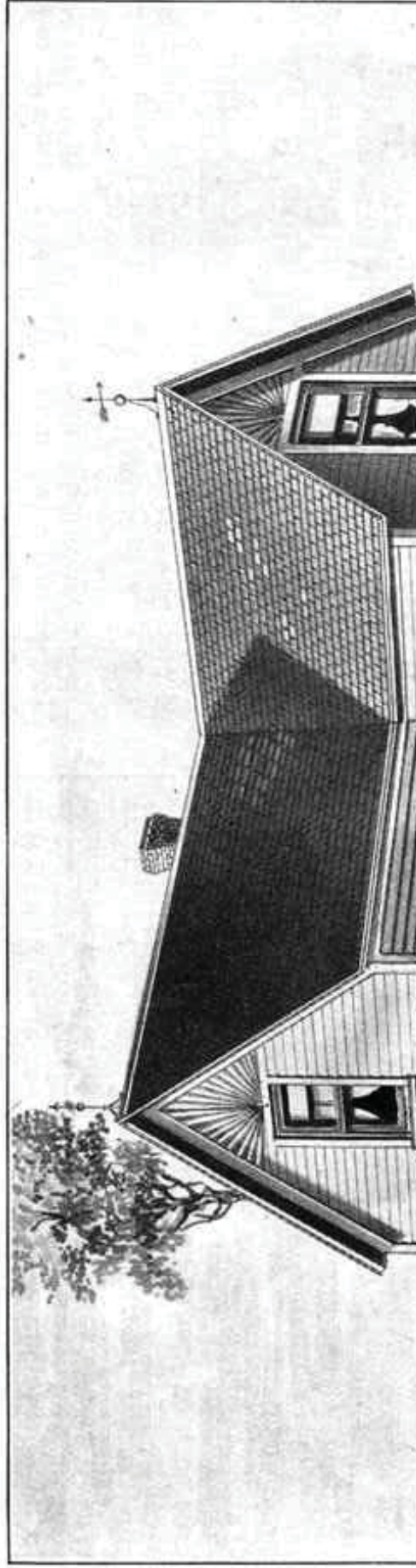


Sources: U.S. Census Bureau Intercensal Population Estimates; JBREC Adjustment of Census Dec. 2018 population projections; updated quarterly†

Pub: Aug-19

\$725⁰⁰ and Our FREE BUILDING PLANS WILL BUILD, PAINT AND COMPLETE, READY FOR OCCUPANCY, THIS INVITING \$1,100.00 SIX-ROOM COTTAGE.

We tell you on page 2 how we furnish, free, the plans for this house, or any of the many houses shown in this book.



GOOD MATERIALS MAKE GOOD HOUSES

When planning our houses it is a question of how good, not how cheap. This statement is easily proven by referring to some of the materials we illustrate and describe on opposite page. In using our plans, you take no risk of getting poor materials, such as might occur if the work were done by some unscrupulous contractor. The mill work specified is the best in each grade. You take no risk when building from our plans, as we positively guarantee every piece of material we furnish, and if each piece is not entirely satisfactory, it may be returned and your money will be refunded, together with all transportation charges.

BOOK OF MODERN HOMES

—9—

Seais, Roebuck & Co., Chicago, Ill.

MODERN HOME No. 115

With Wood Foundation, Not Excavated.

'Bundle' Innovation Success - Toilet



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 Internet #307908571 Model # K-78279-0 Store SKU #1003951328 Store SO SKU #1003945947



Best Seller **KOHLER**

Highline Arc The Complete Solution 2-Piece 1.28 GPF Single Flush Elongated Toilet in White (Slow-Close Seat Included)

★★★★★ (2,480) Write a Review Questions & Answers (86)

- Easy to install with included slow-close toilet seat (\$30 value)
- Class 5 Flush exposes 90% less seal material (see video)
- Comfort Height offers chair-height seating (about 2 in. taller)

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Save up to \$100 on your qualifying purchase. Apply for a Home Depot Consumer Card

Color/Finish: **White**



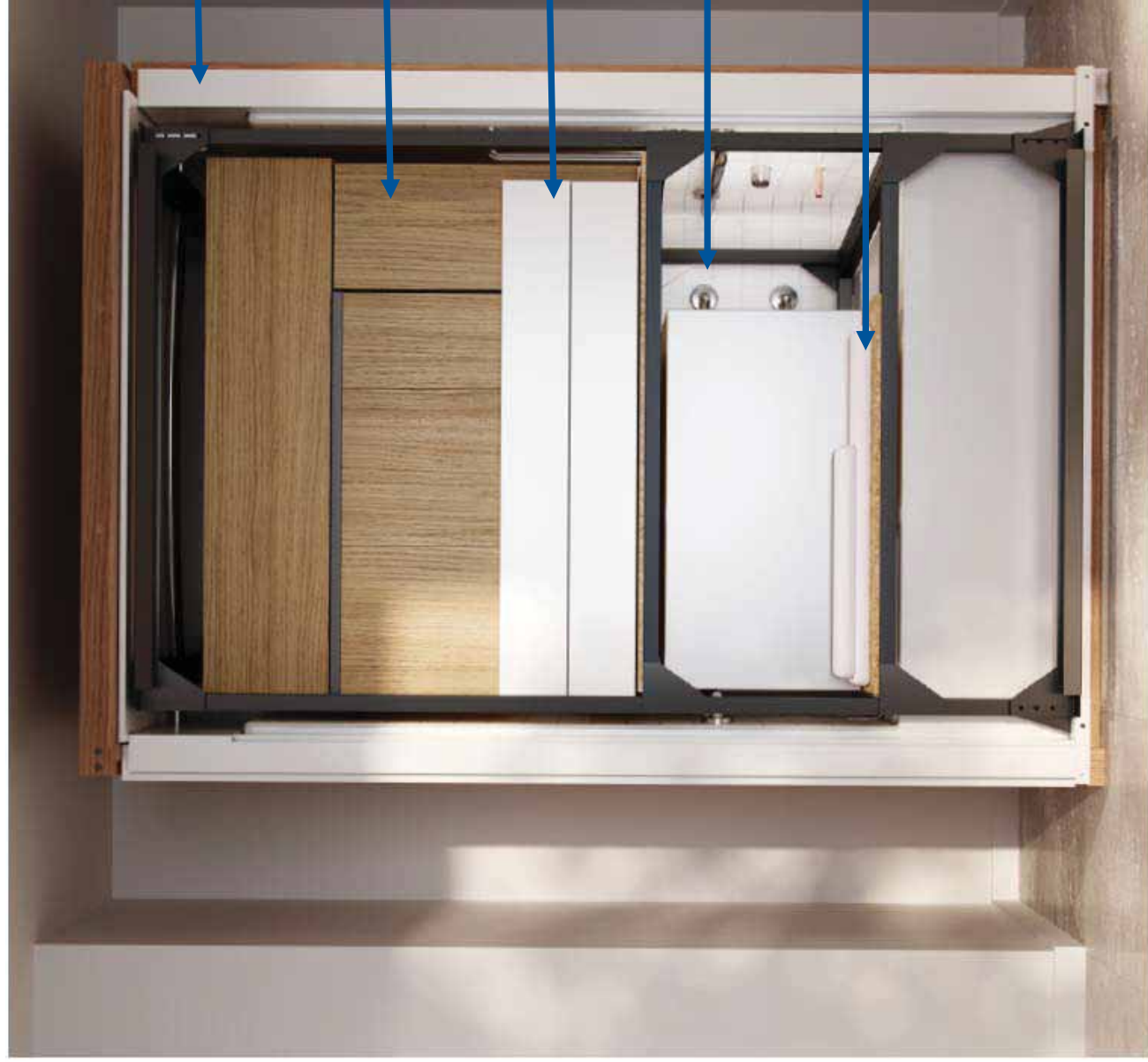
Share Save to Favorites Print

Quantity

Costco 'All-in-One Kit' - Kohler



Kattera Bathroom Kit



Shower Surround

Vanity

Flooring

Plumbing Fixtures

Trim

What is Not Offered (Yet)? Good, Better, Best.



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XL

Starting at \$28,495¹

Finance at \$410/mo¹



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Starting at \$34,510¹

Finance at \$494/mo¹



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Starting at \$42,500¹

Lease at \$485/mo¹



King Ranch[®]

Starting at \$52,740¹

Lease at \$556/mo¹



#1: New Home Market is on Solid Ground

- Demand only slightly exceeds supply at today's prices/rents
- Few excesses in construction or in financing
- Strongest builder balance sheets ever
- 1.4-1.5 million new homes per year is what is needed for shelter
- **Watch mortgage rates and mortgage policy closely**



#2: 4 New Home Shifts Have Already Happened

1. Smaller, more efficient homes closer to mature neighborhoods
 2. More of the home will be built offsite, and will come with better consumer tech
 3. Offsite framing is already here in high volume, expensive labor markets
- Opportunity #1: Watch migration patterns for emerging affordable markets



#3: Repair and remodeling growth will vary greatly by product and price point

- Younger homeowners will lead activity
- Lower price points / smaller projects
- Yards and low-priced interior spending will grow faster than exteriors and luxury goods
- Older homeowners will refresh their homes “post kids”
- **Watch real income growth**
- Upside Opportunity: New forms of home equity lending
- Opportunity to ‘Bundle’ private label products



Notes: _____

How **BCMC** Contributes to Your Business Success



Best practices are shared by industry experts in every educational session.

Conversations with peers lead to ideas that transform individual businesses.

Meetings with suppliers give insight into opportunities for further innovation.

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