

Housing's slowdown is likely to be felt more acutely in the new home market vs. the resale market

Pandemic supply chain issues increase inventory risk in the new home market

The increase in mortgage rates by more than 200 bps during 2022 has begun to achieve the Federal Reserve's desired goal of slowing home purchase demand. In recent weeks, pending sales of existing homes have fallen back to 2019 levels and sales volumes in the new home market as of June have fallen to pre-pandemic levels.¹ While home price momentum has also slowed across both markets, it has been felt more acutely in the new home market than in the resale market. While data from mortgage rate locks indicates a still-above average pace of resale home price gains, builder surveys show there are already more builders cutting prices than raising them.² While it is normal for the new home market to adjust more quickly than the resale market during periods of changing demand, Pretium believes the paths of the new home and resale markets could diverge to a greater extent this cycle due to differences in inventory risk.

At the start of the pandemic, factors such as cumulative underbuilding, aging-in-place³, and lengthening homeowner tenures contributed to historically low existing home listings, as shown in Exhibit 1. The pandemic housing demand surge further depleted existing home supply until it began to recover this year due to slowing demand. New home inventory sat at normal levels by historical standards in the beginning of 2020 before declining in the early months of the pandemic as demand grew. However, supply chain constraints limited builders' ability to respond to this increasing demand. As construction cycles lengthened and labor/materials became more difficult to source, builder inventories of incomplete homes rose rapidly. The unusual divergence this cycle between inventory levels of existing homes and new home markets is best illustrated by looking at months' supply, as shown in Exhibit 2, which highlights how the inventory paths of the resale and new home markets began to separate in 2015, and how the pandemic widened the gap meaningfully.

This divergence suggests that the risk to resale home prices should remain less than the risk to new home pricing. Pretium does not expect overall resale home price declines, even in a moderate recession scenario. In the new home market, completions are likely to increase over the next 6-12 months with increasing pressure on builders to sell into a slowing market. As a result, Pretium expects compelling opportunities to acquire in the build-to-rent sector.

EXHIBIT 1

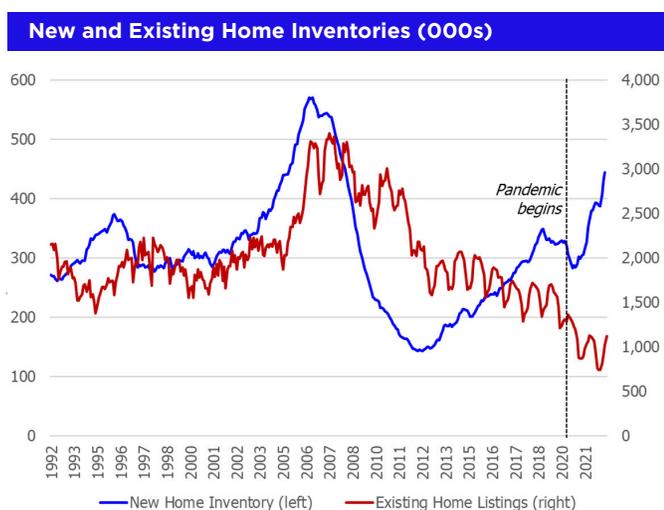
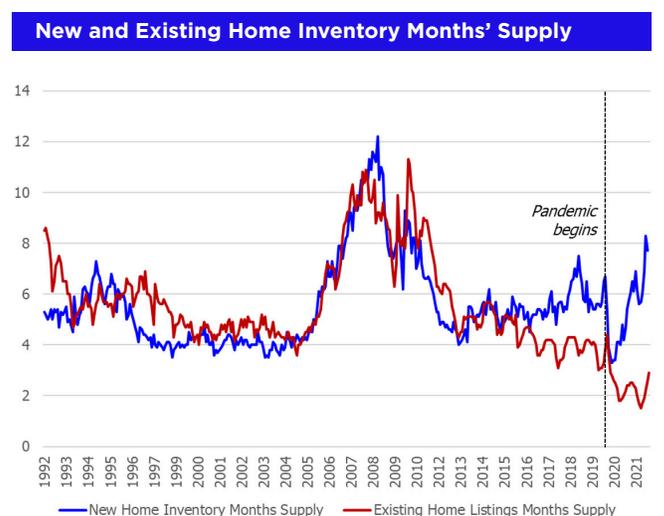


EXHIBIT 2



Source: National Association of Realtors, Existing Home Sales as of July 20th, 2022; US Census, New Residential Sales as of June 2022.

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1. Redfin, Weekly Housing Data as of July 24th, 2022, US Census, New Residential Sales as of June 2022.
 2. AEI Housing Center, Housing Finance Watch as of August 9th, 2022, John Burns Consulting, Home Builder Survey as of August 4th, 2022.
 3. Pretium's Housing Insights as of April 2022