

National Housing & Rehabilitation Association

Asset Management Conference

June 11-12, 2018 Bethesda, MD



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Economic Update

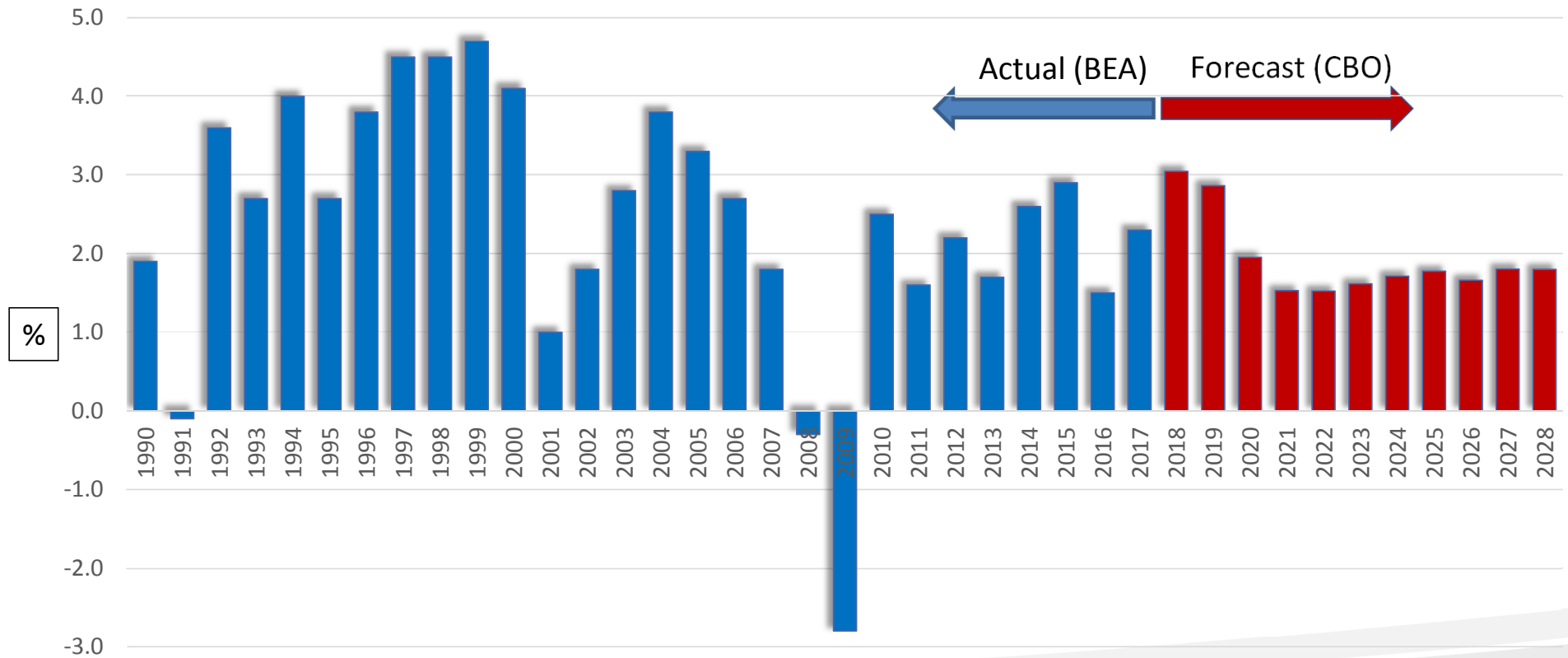
Edward Seiler

NH&RA Asset Management Conference

Bethesda, MD

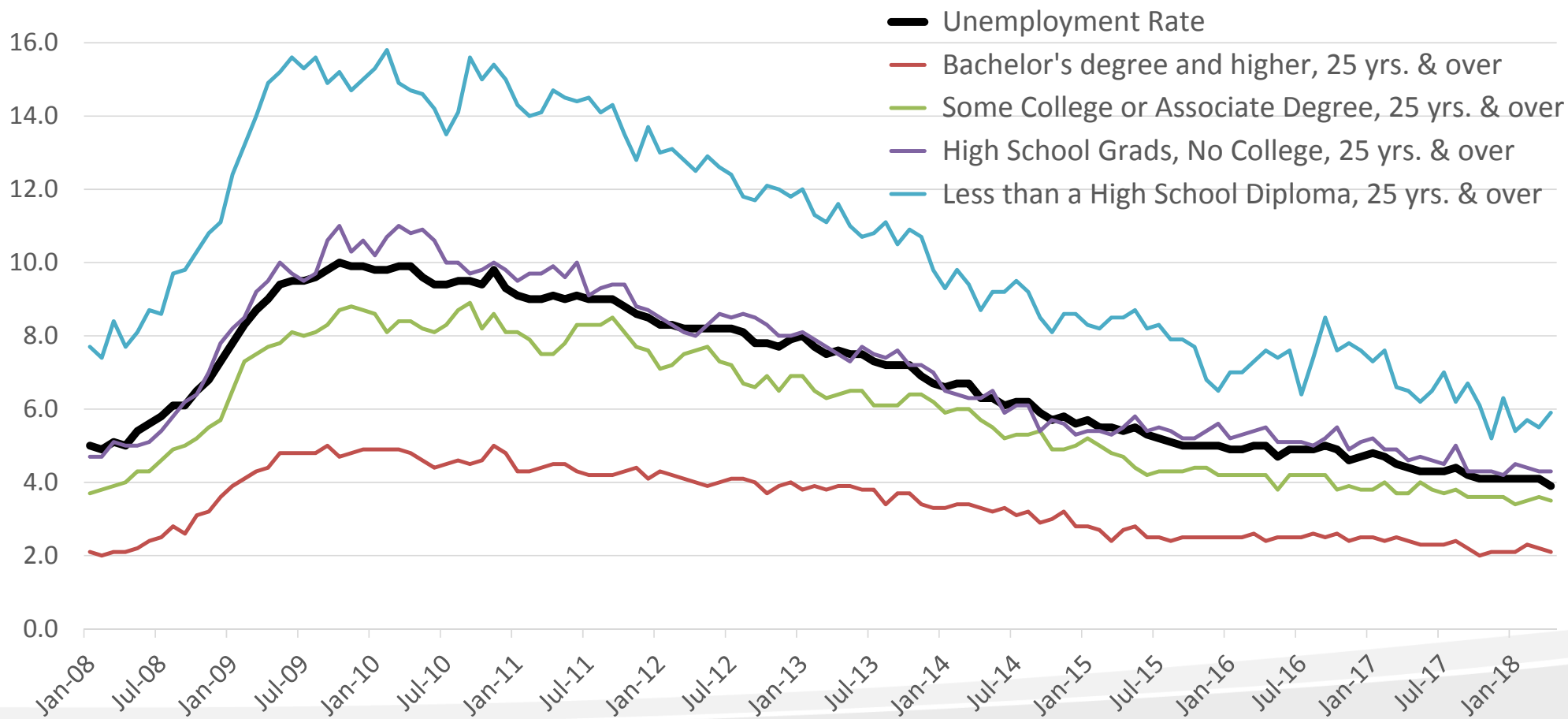
June 11-12, 2018

Real GDP growth is forecast to be strong in 2018 and 2019, but subsequently falls



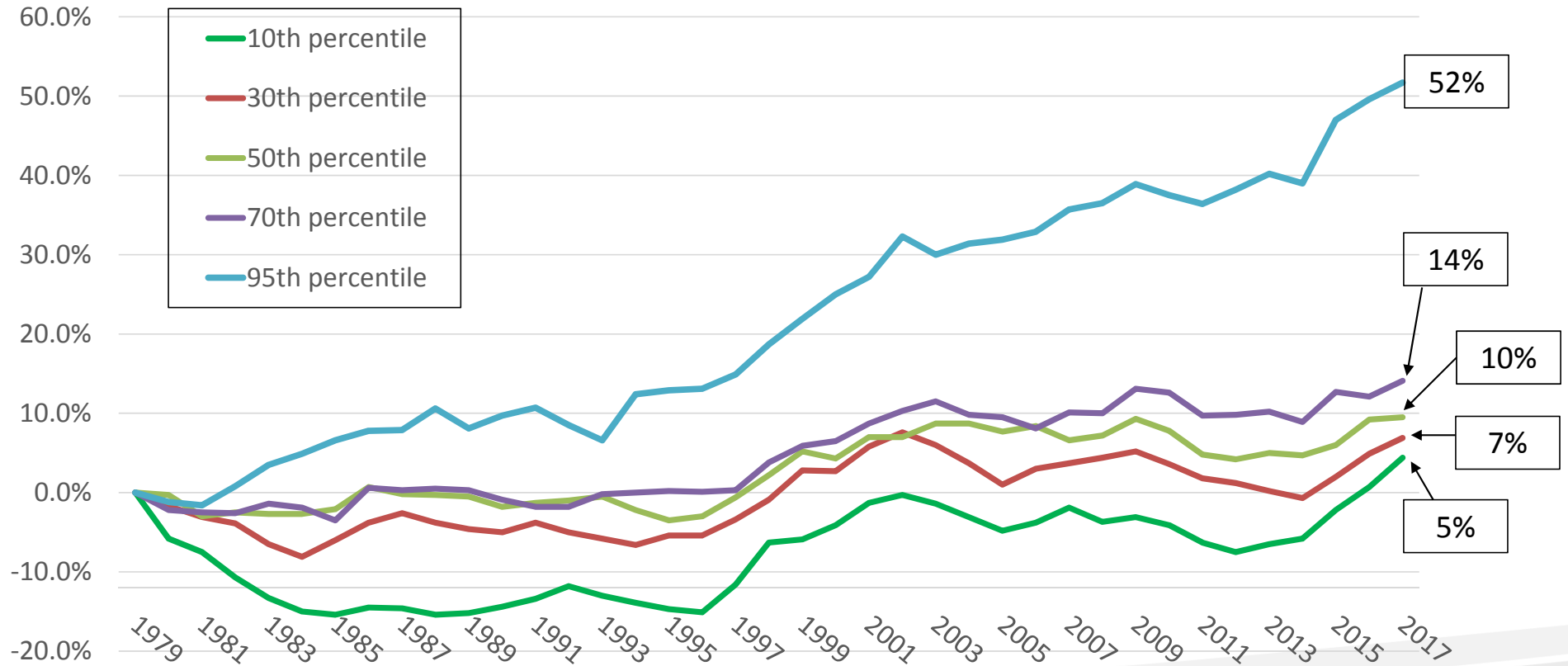
Sources: US Bureau Economic Analysis and Congressional Budget Office.

Seasonally Adjusted Unemployment Rate (%)



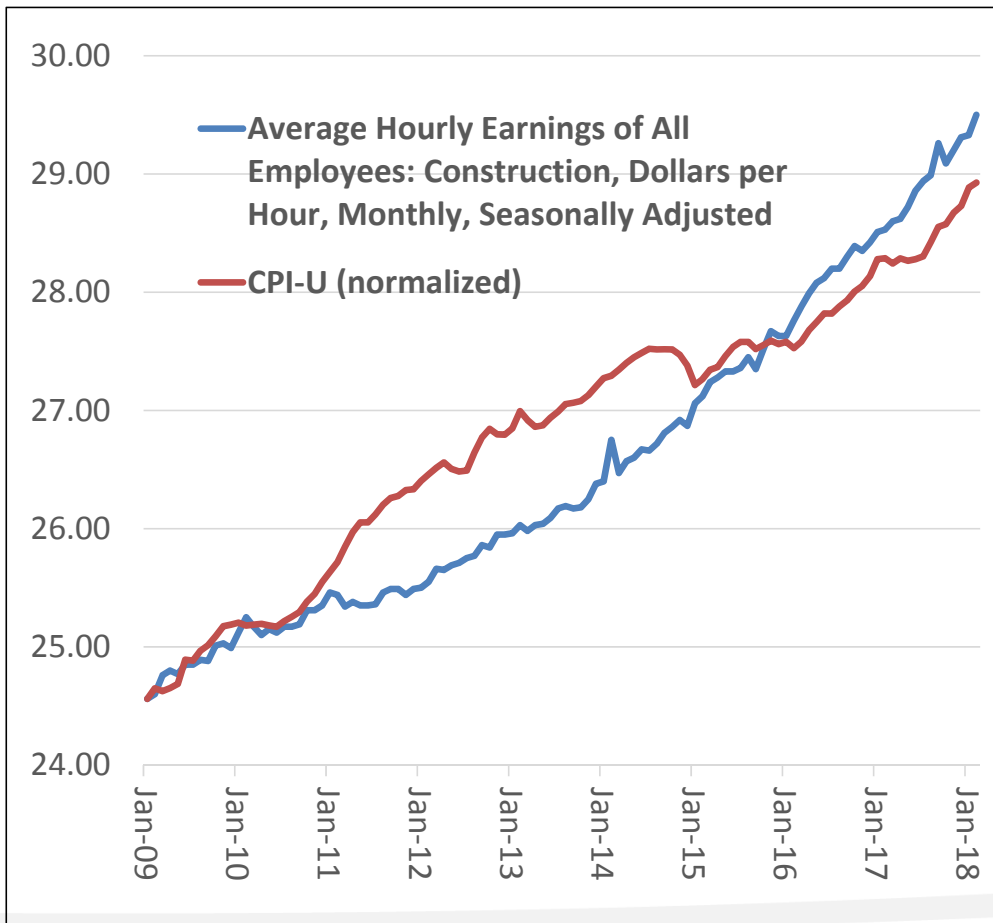
Source: Bureau Labor Statistics

Cumulative wage growth from 1979: Low-wage and middle-wage workers' wages have been stagnant, while those with very high wages saw a 52% increase



Note: The 50th percentile is the wage at which 50% of wage earners earn less. **Source:** Economic Policy Institute

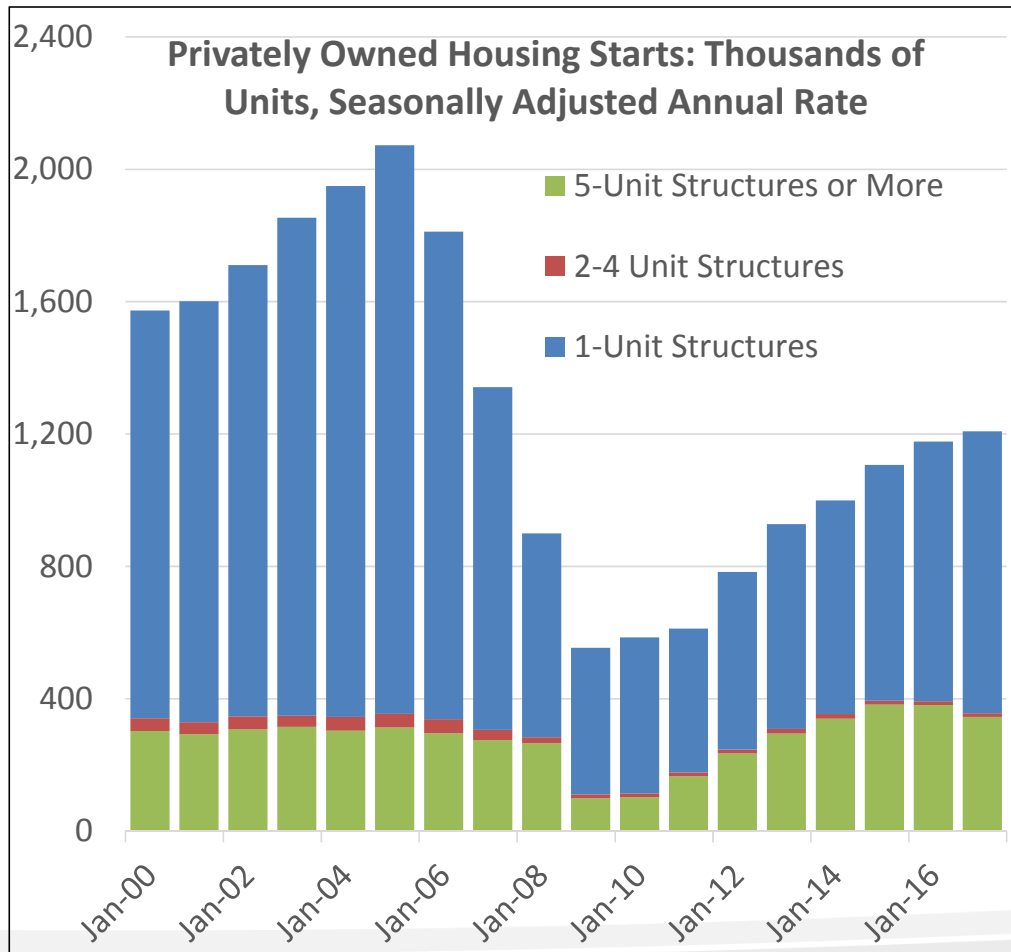
What is the situation with construction workers and their hourly wages?



Note: CPI-U is the consumer price index for all urban consumers. **Source:** Bureau Labor Statistics

- There were 7.7 million construction workers in late 2006, fell to 5.5 million by end 2010
- Has been growing since—back to 7.2 mill
- NAHB/Wells monthly survey—demand for housing at levels not seen in 20 years
- There is a shortage: Proportion of unfilled construction workers up to 2.5%
- Questions:
 - Infrastructure program? Disaster recovery? Immigration policy?
- Wages are rising steadily and hit \$29.63/hr. in April

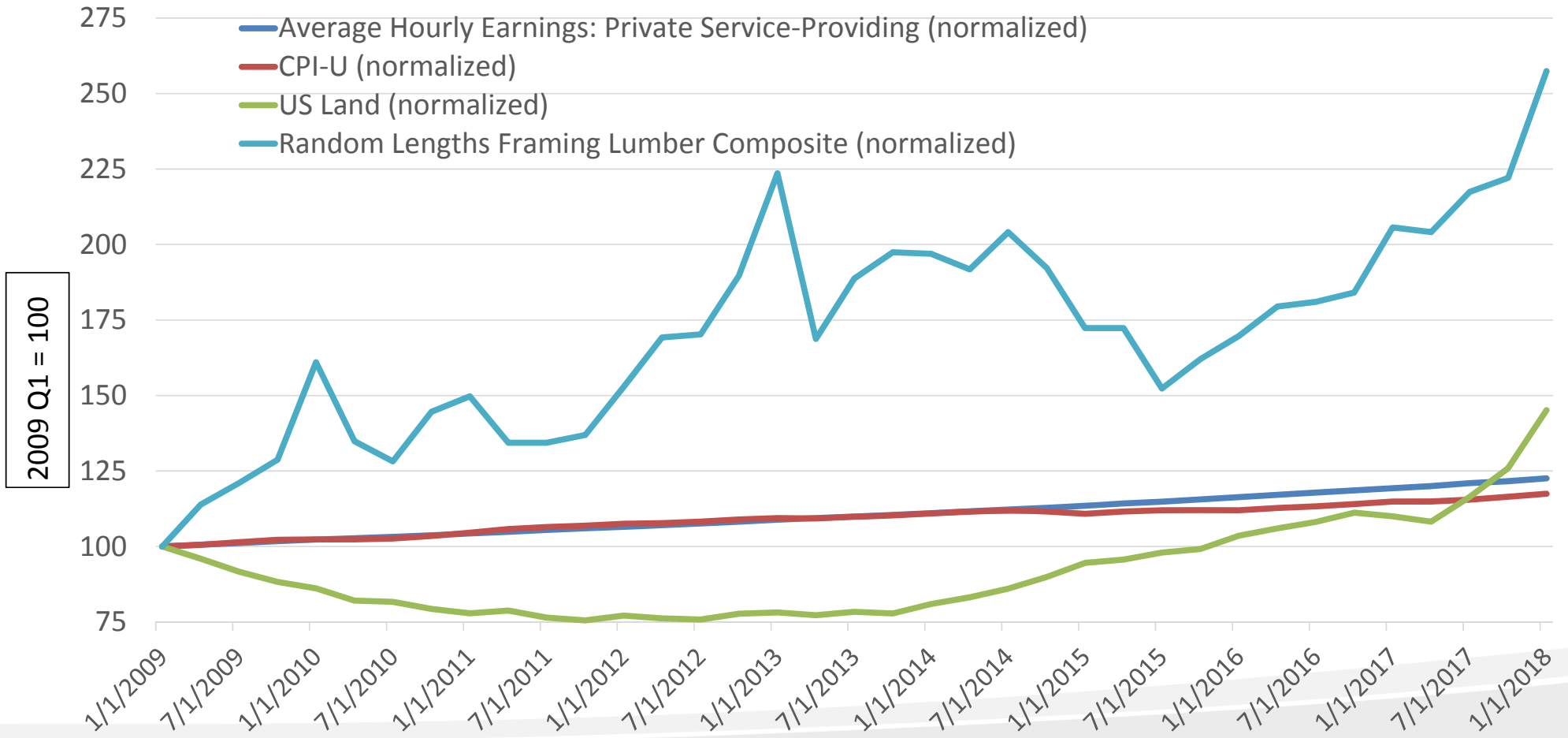
Given the shortage, how many units are being built?



Source: Federal Reserve Bank of St. Louis

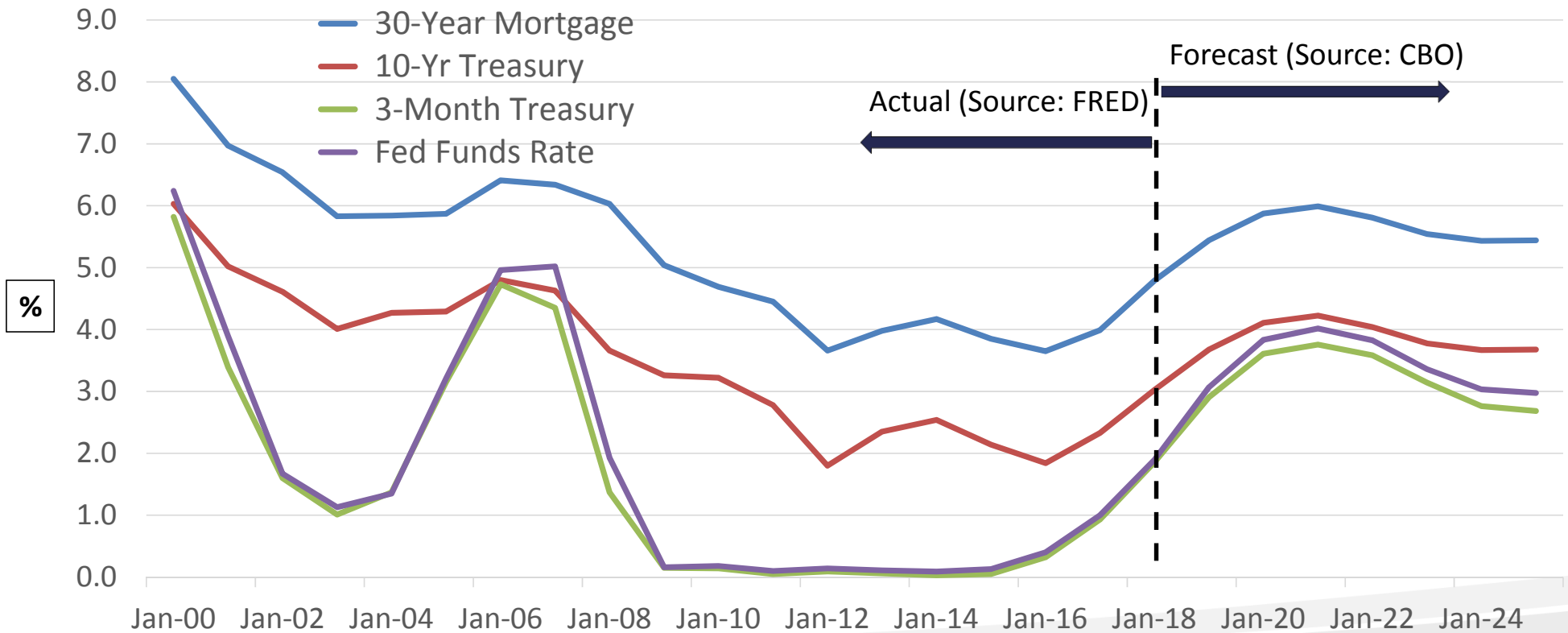
- April starts: 1.32 million new units
 - Multifamily at 452k (14% up)
 - Single-family down 4% to 867k
 - National Association of Realtors claims we ideally need 1.5-1.6 mm
 - According to the Wall Street Journal, there is a shortage of 7.3 mm units to keep up with job, population and income growth
- LIHTC:
 - 27% of multifamily starts in 2009-2011 (\approx 37k starts p.a.) (NAHB)
 - More recently, about 30k starts p.a. (\approx 8% multifamily total)

What about other construction and maintenance costs?



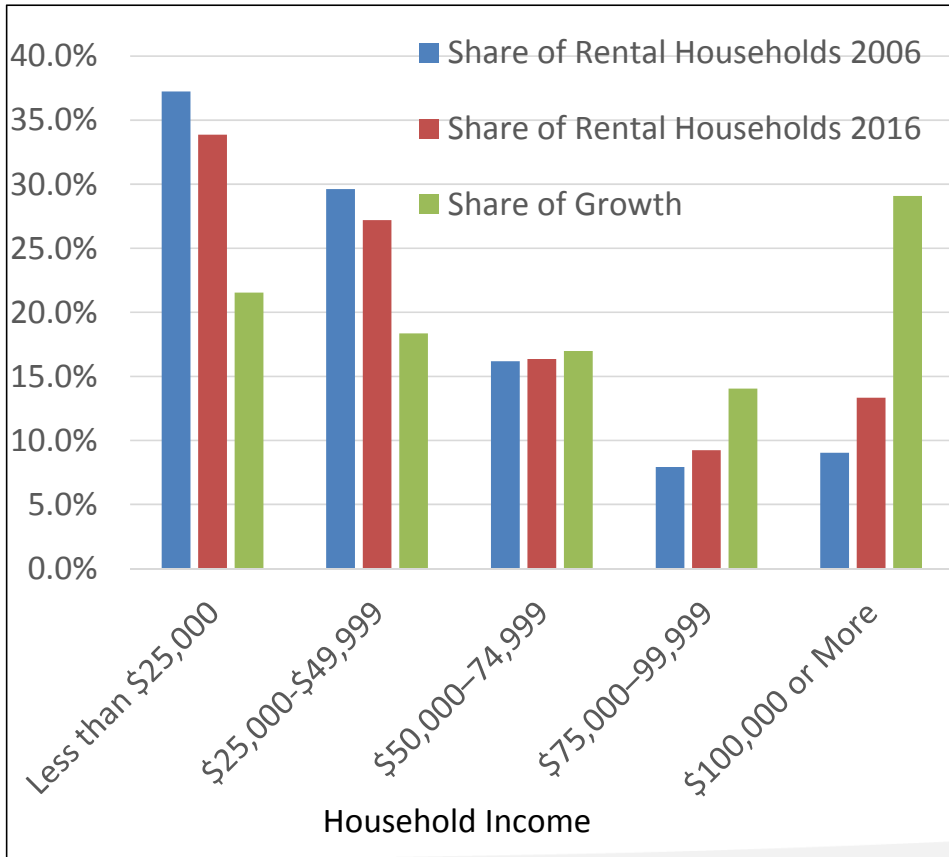
Sources: Federal Reserve Bank of St. Louis, Random Lengths

Macroeconomic factor: Interest rates remain (historically) low, but are expected to rise



Sources: St. Louis Fed (FRED) and Congressional Budget Office (CBO).

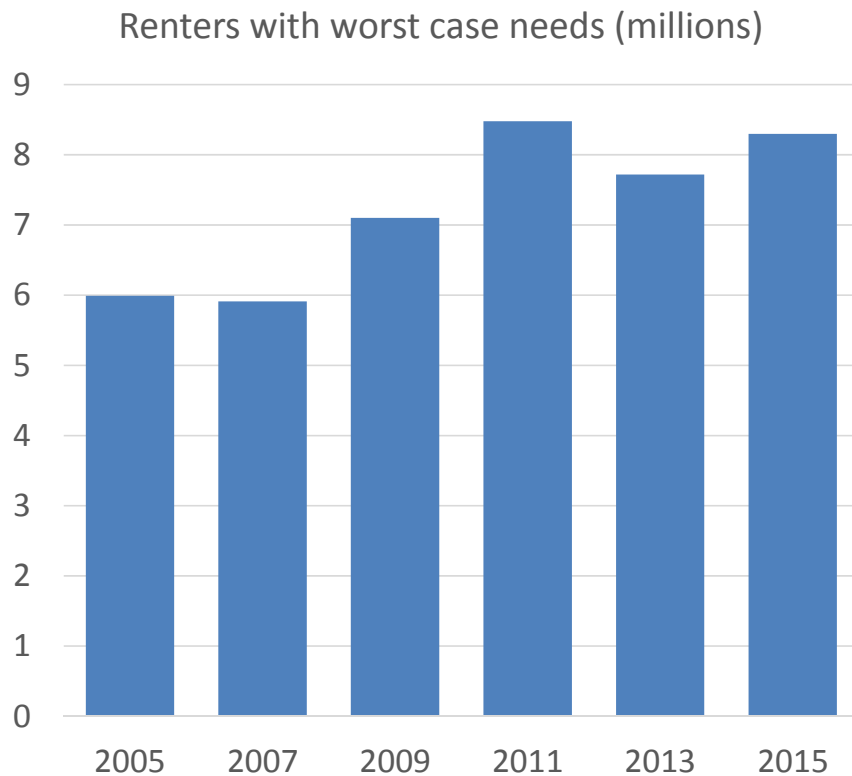
Additional units being built at high-end is in part due to increasingly expensive development costs with land and construction costs increasing faster than CPI



Metropolitan Statistical Area	Share of Growth 2006-2016 (by Household Income)				
	Under \$25,000	\$25,000-\$49,999	\$50,000-\$74,999	\$75,000-\$99,999	\$100,000 or More
United States	22%	19%	18%	13%	29%
Atlanta	23%	19%	22%	15%	21%
Baltimore	22%	-5%	19%	10%	54%
Boston	13%	2%	7%	16%	61%
Chicago	21%	15%	15%	14%	35%
Las Vegas	41%	28%	11%	7%	13%
Los Angeles	27%	7%	15%	9%	42%
New York	9%	15%	1%	11%	65%
Philadelphia	22%	21%	11%	15%	30%
Pittsburgh	-60%	42%	42%	36%	40%
San Francisco	1%	-4%	0%	11%	93%
Seattle	2%	3%	18%	25%	51%
Washington, DC	22%	6%	10%	14%	48%

Source: JCHS

The availability of housing assistance continues to lag the growth of very low-income renters

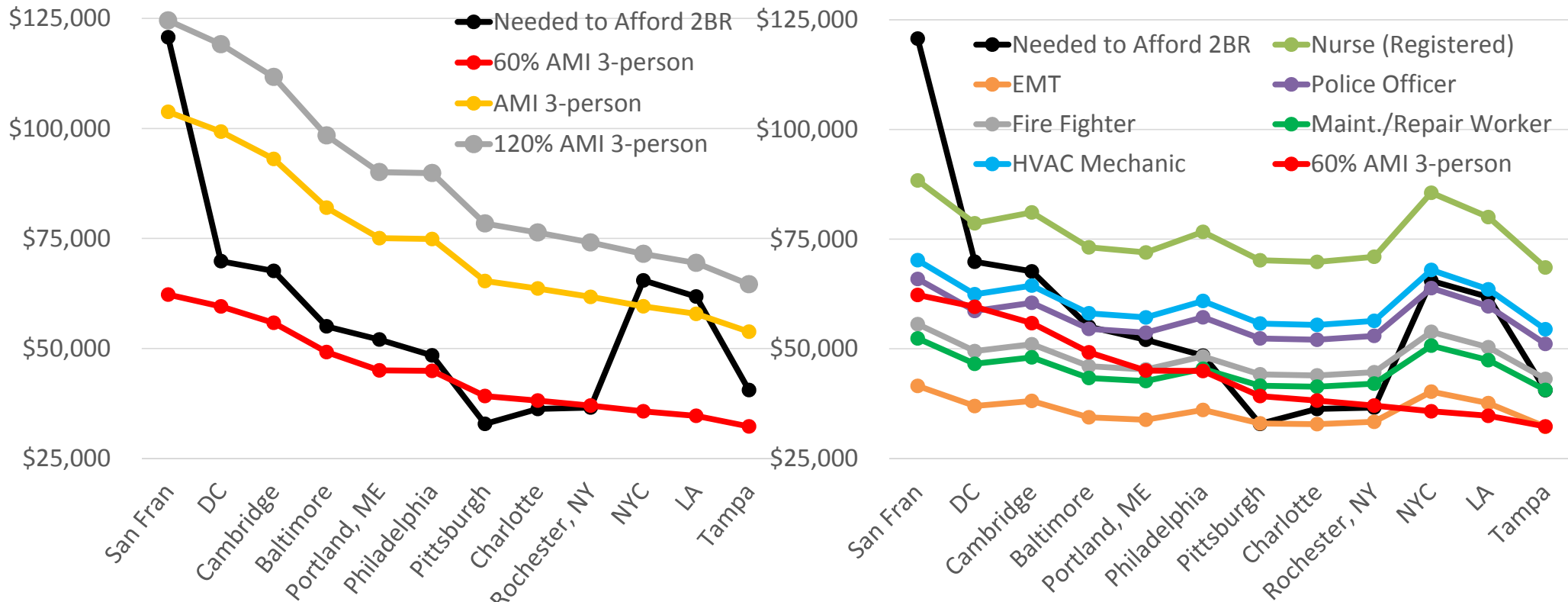


Income Category	Rental Units per 100 Renters				
	2011	2013	2015	Change	
				2011 to 2013	2013 to 2015
Extremely low-income renters (0–30% AMI)					
Affordable	58.2	65.3	66.0	7.1	0.7
Affordable and available	35.8	39.0	37.9	3.2	-1.1
Very low-income renters (0–50% AMI)					
Affordable	92.4	97.2	92.9	4.8	-4.3
Affordable and available	64.6	65.2	62.0	0.6	-3.2

Note: Worst Case Needs: Renters with v. low incomes who don't receive govt housing assistance and who pay > ½ of their income for rent, live in severely inadequate conditions, or both.

Source: HUD Worst Case Needs 2017 Report to Congress.

AMI, Affordability and Annual Wages



Sources: HUD and National Housing Conference

- Affordability is correlated to AMI, but note affordability in San Francisco, NYC, LA
- Average wages are relatively flat across metros, making affordability issues more acute in specific metro areas

In Closing

- Comments and questions welcome
 - This is the first time I have given this economic update to the asset management forum
- How should I structure this in the future?
 - What particular topics should I start showing, stop showing, continue (expand or contract)?
- Contact information:
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 - 202-939-1795