



REALTORS' ASSOCIATION OF SOUTH CENTRAL WISCONSIN

2023 Single-Family and Multifamily Real Estate Outlook

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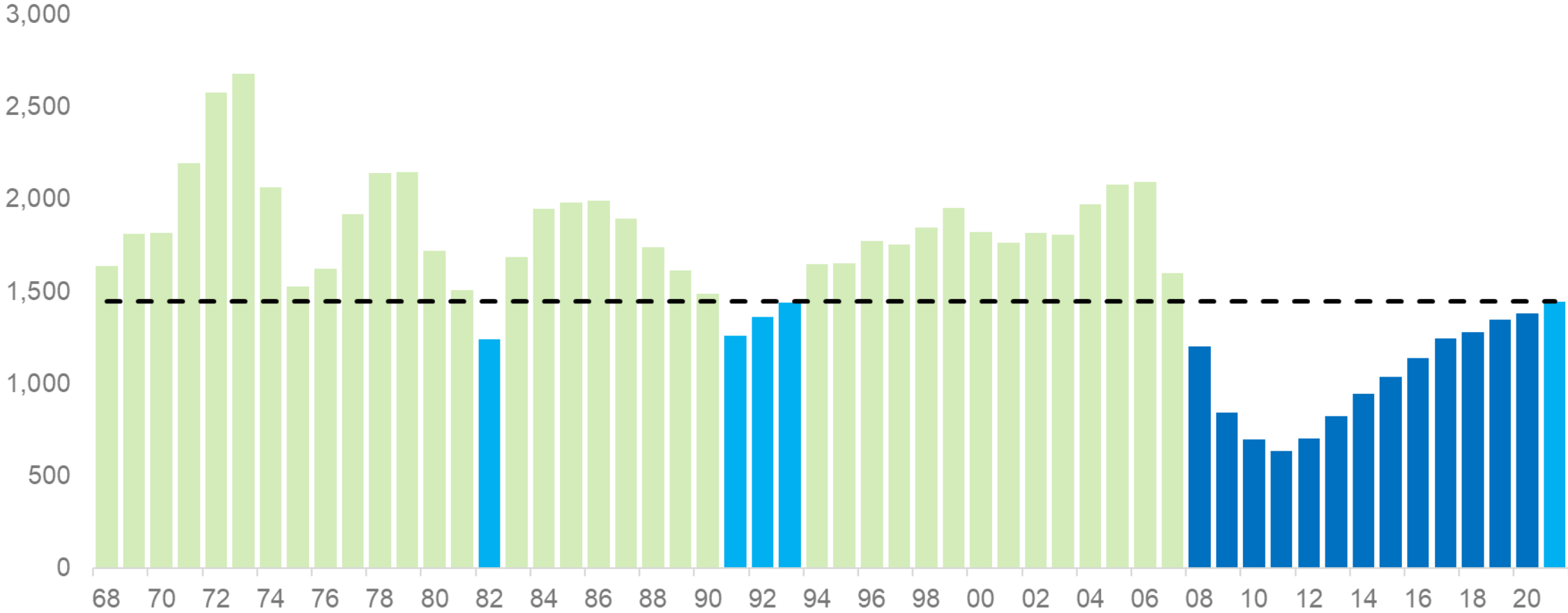
2023 Macroeconomic Outlook

- I. Housing Demographics
- II. Single-family Mortgage Market
- III. Single-family Housing Market
- IV. Multifamily Capital and Property Markets

Housing Demographics

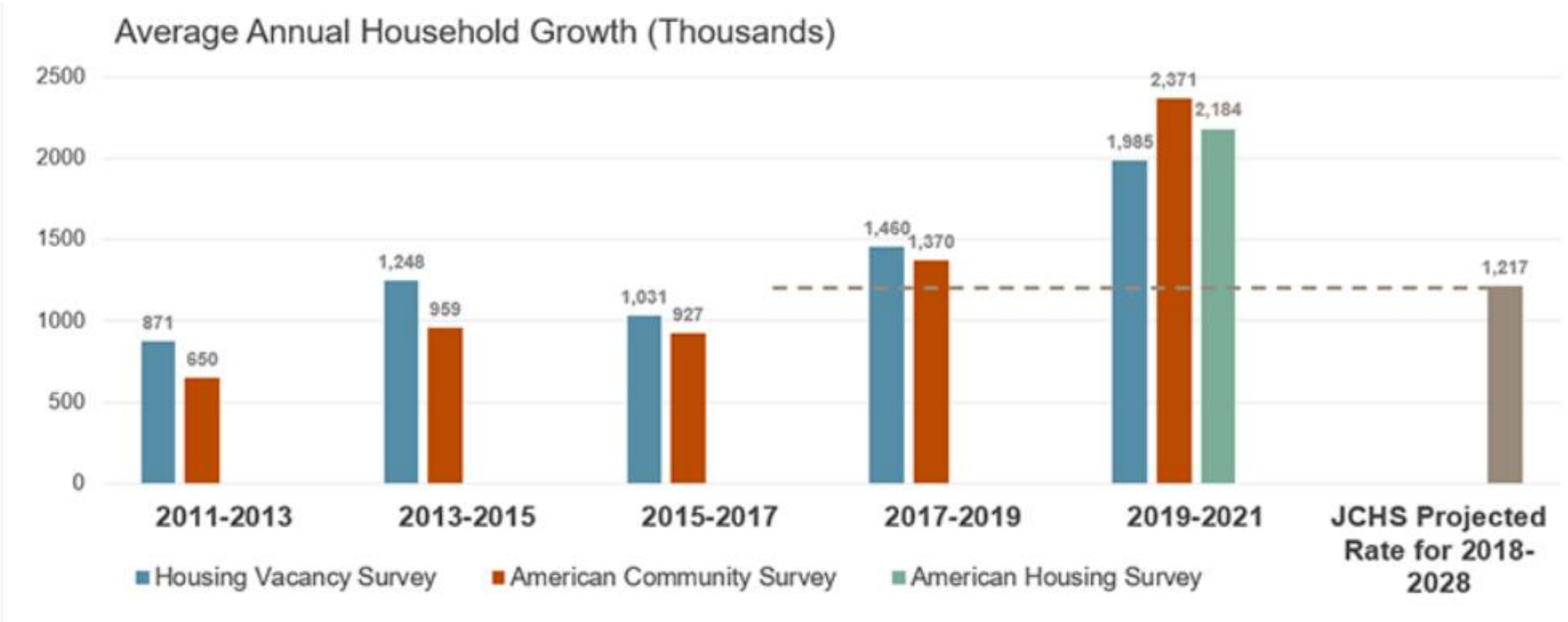
Housing supply growth averaged a low 1,008,000 units from 2008-2022 . . .

U.S. Annual Housing Completions and Manufactured Home Shipments (1000s)

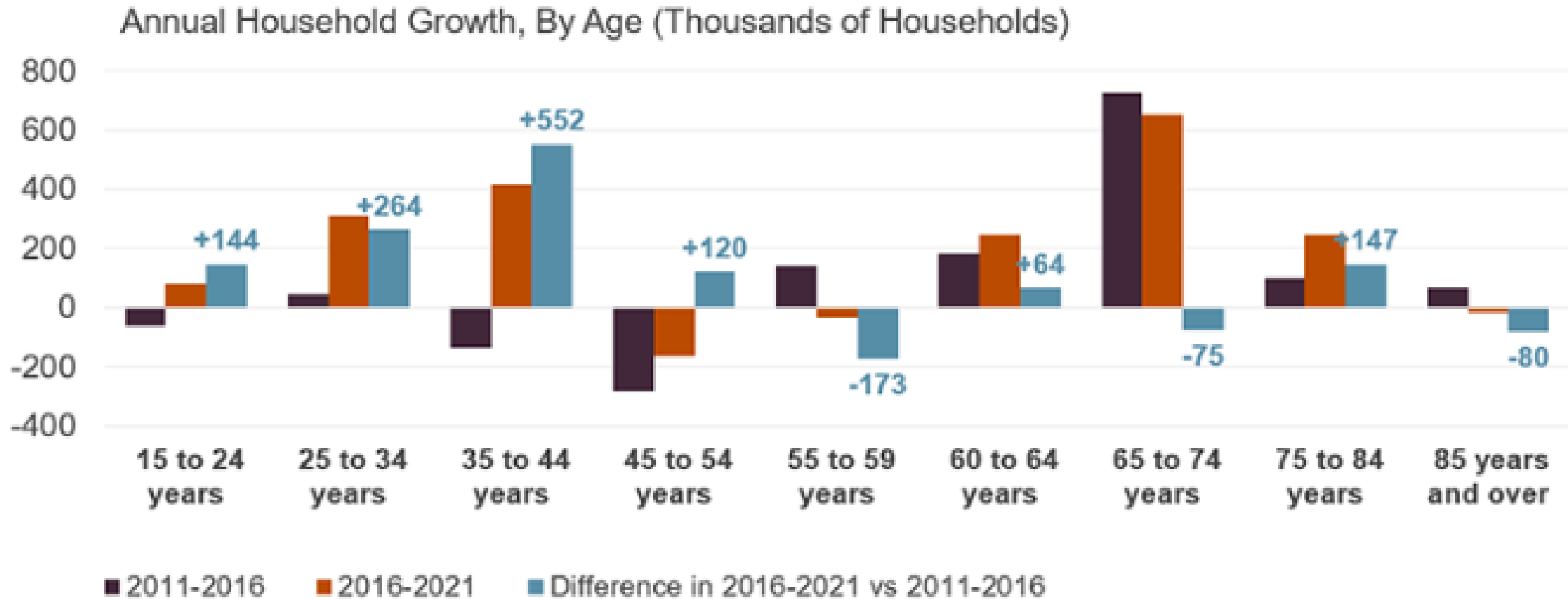


Source: U.S. Census Bureau and Department of Housing and Urban Development, Institute for Building Technology & Safety

... household growth (demand) wildly exceeded expectations for the period 2019-2021 ...

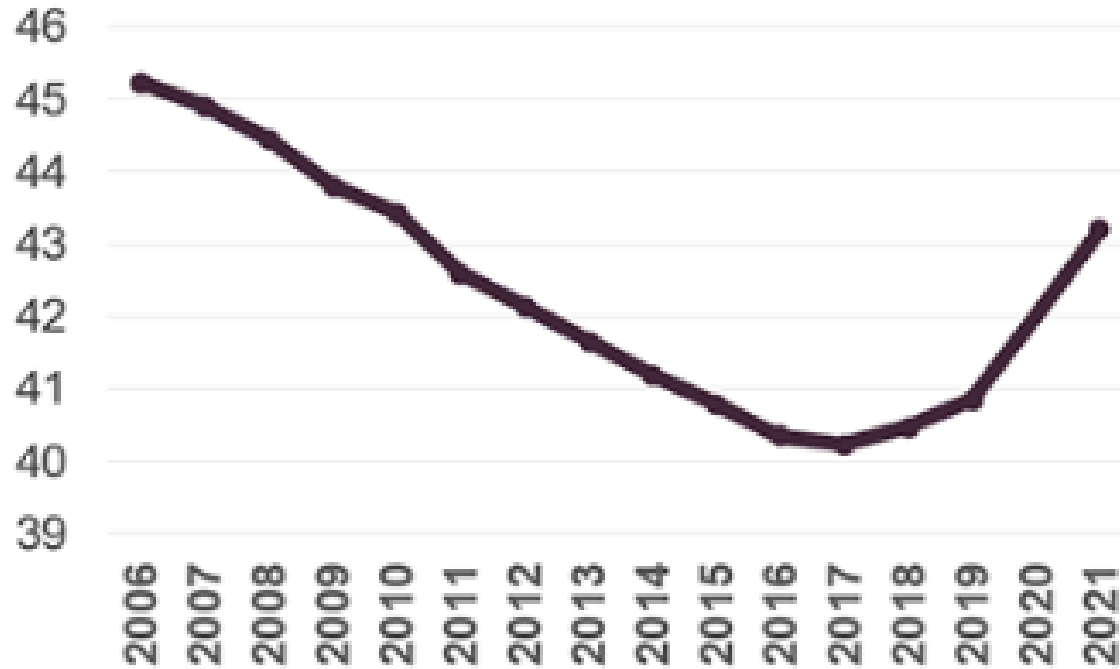


. . . . most of the unexpected growth is in younger age cohorts

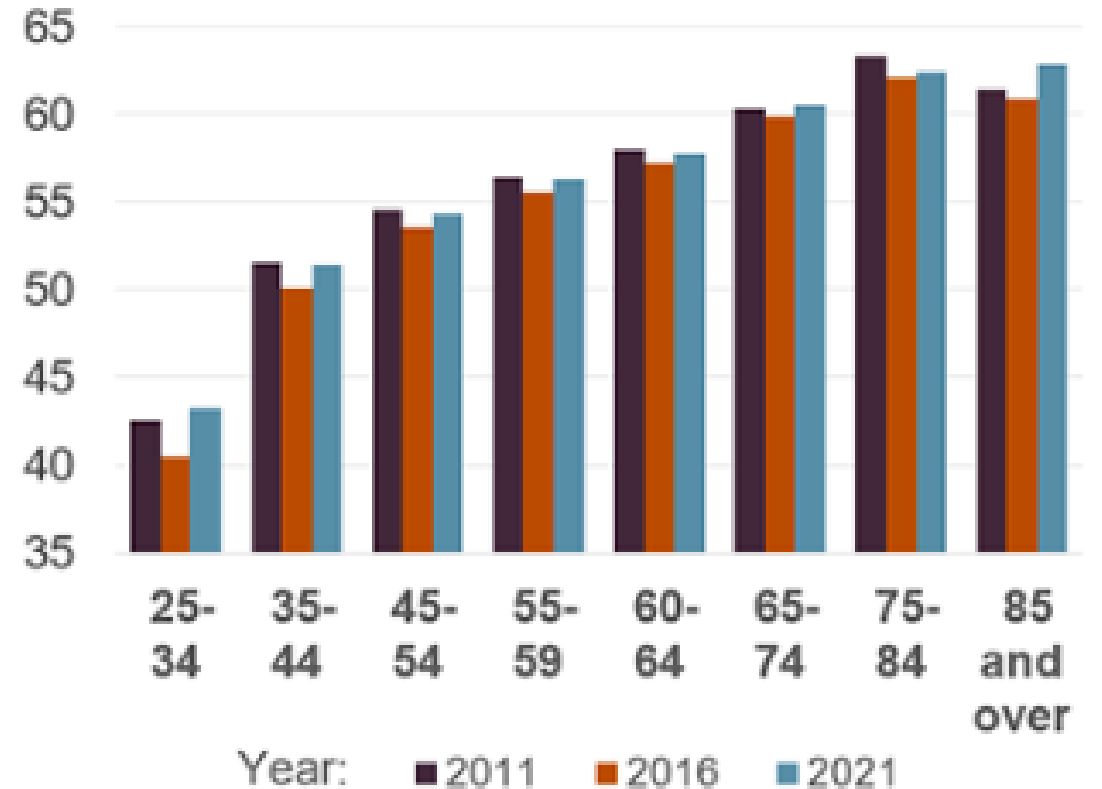


... growth is coming from a turnaround in headship rates across all ages ...

Share of Population Aged 25-34 Heading a Household (Percent)

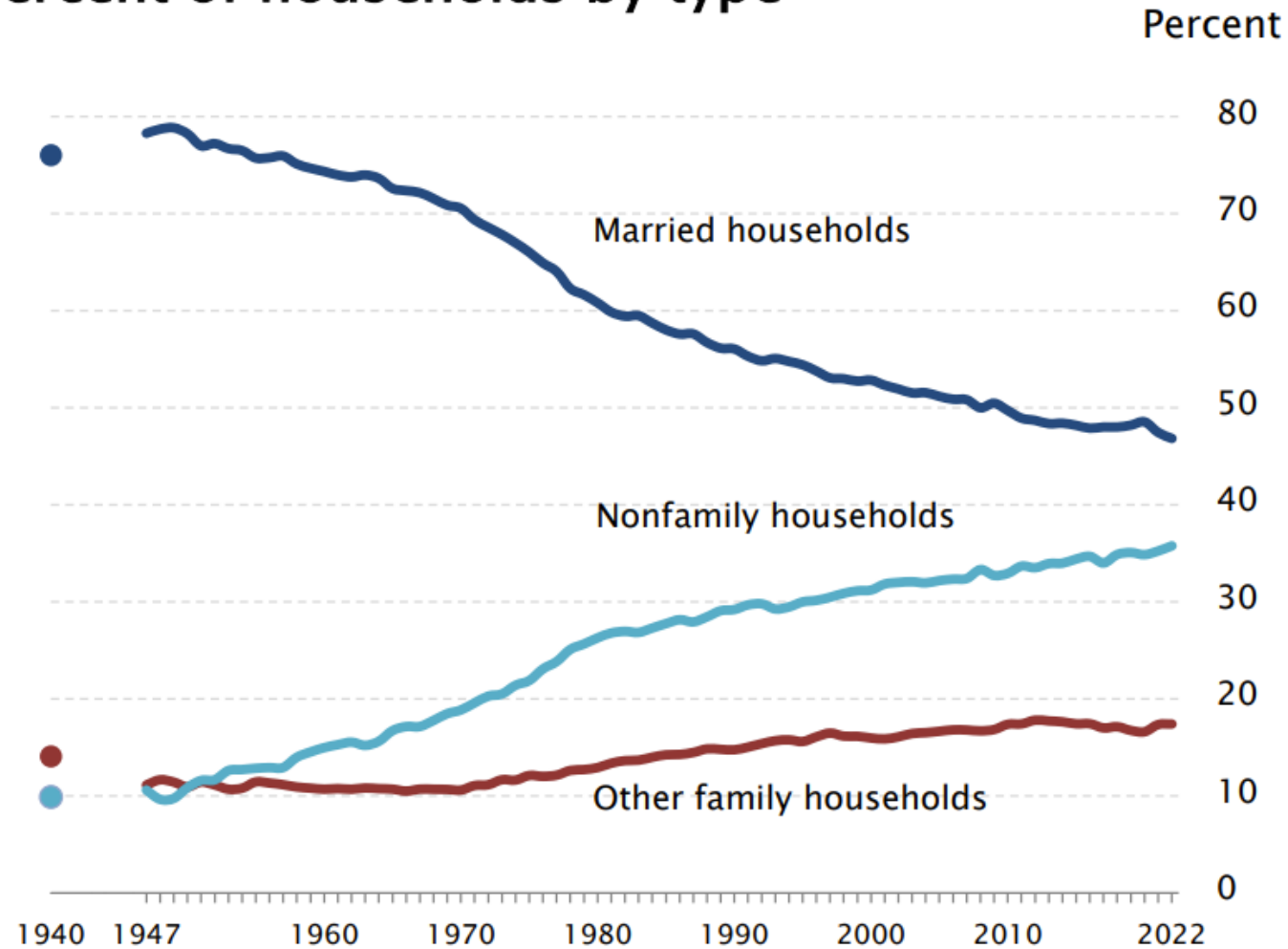


Share of Population Heading a Household, By Age (Percent)



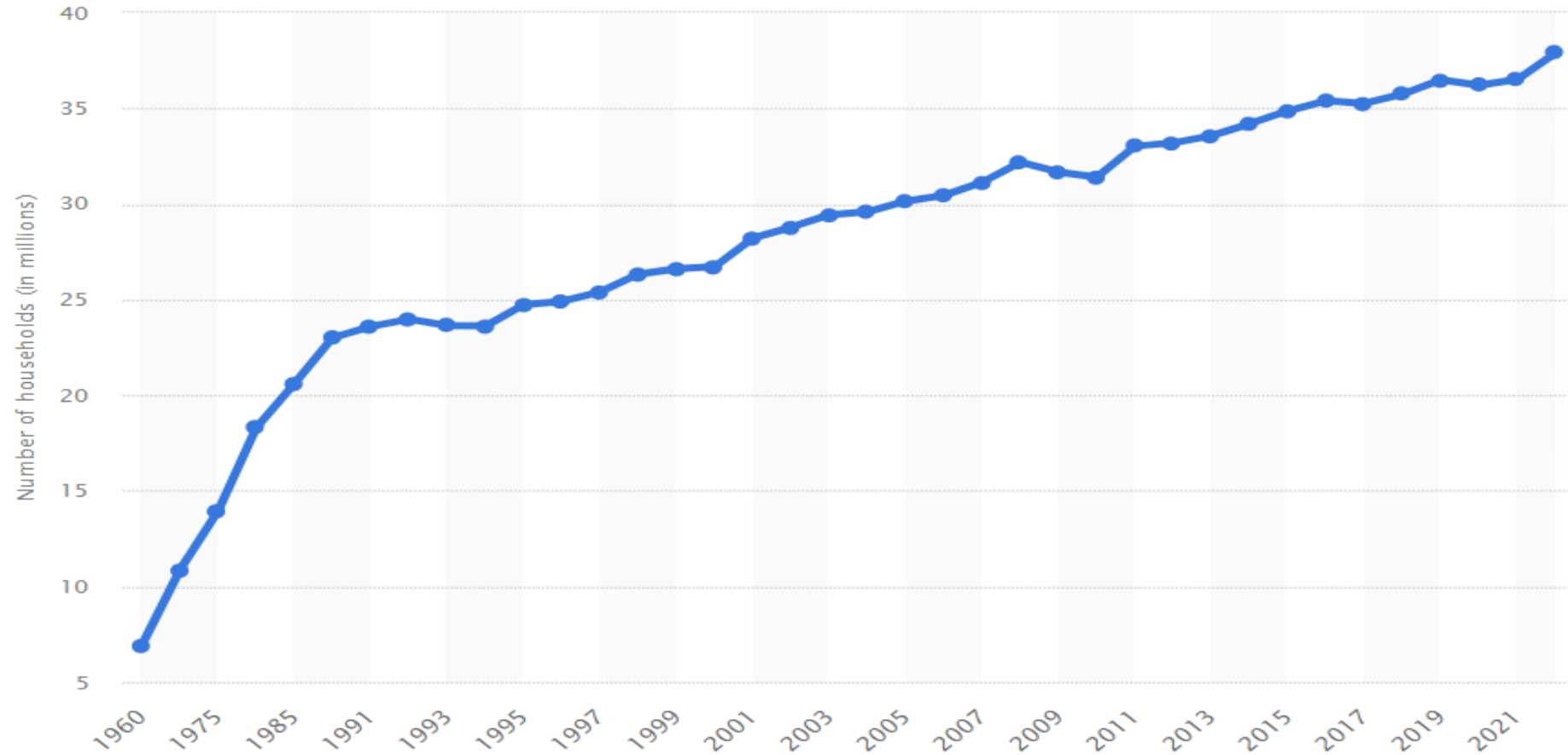
. . . . married households (as a % of all HHs) went from 78% in 1947 to less than 50% in 2022

Percent of households by type



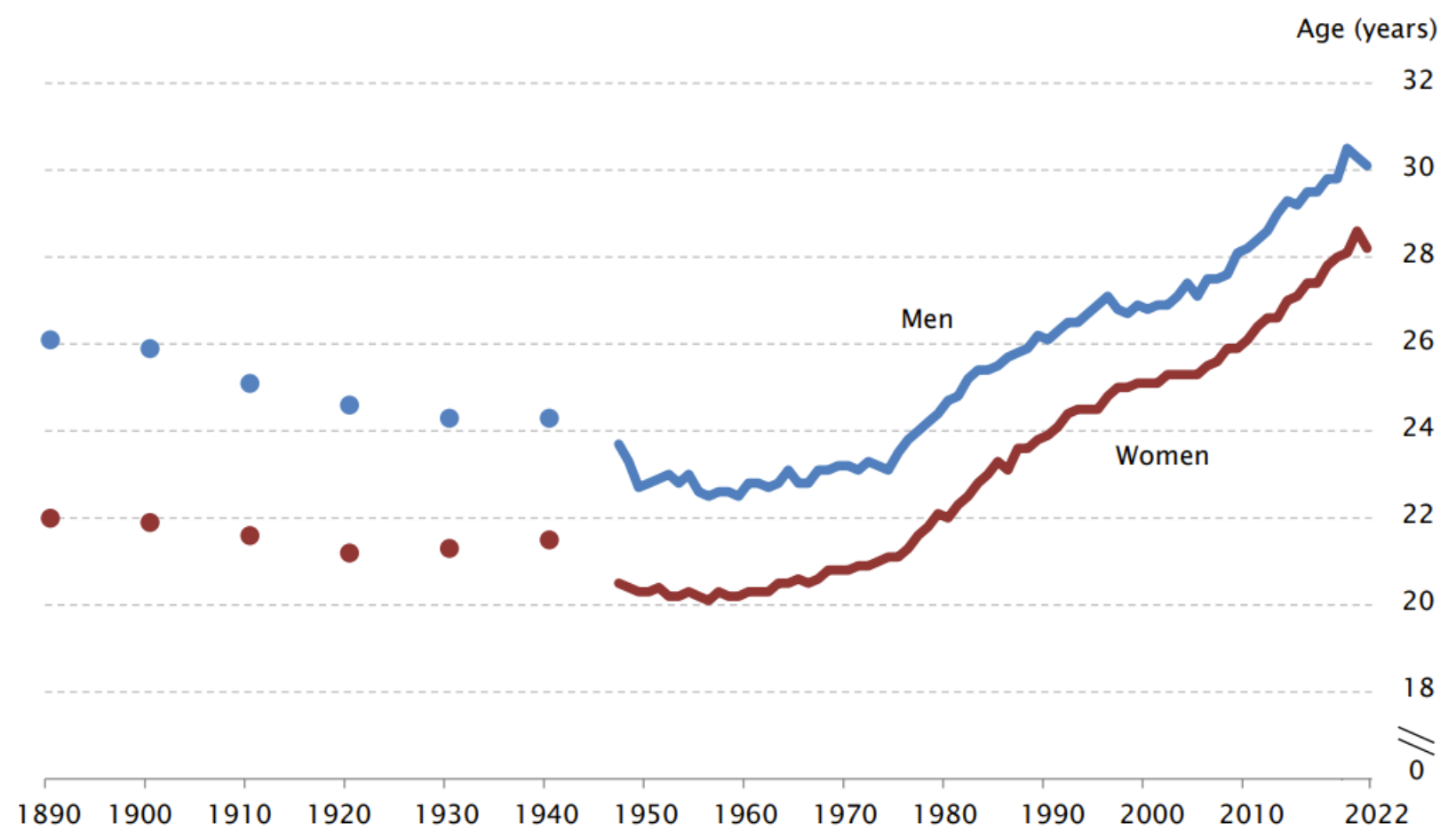
. . . . single-person household growth is expanding the number households

Number of single-person households in the United States from 1960 to 2022 (in millions)



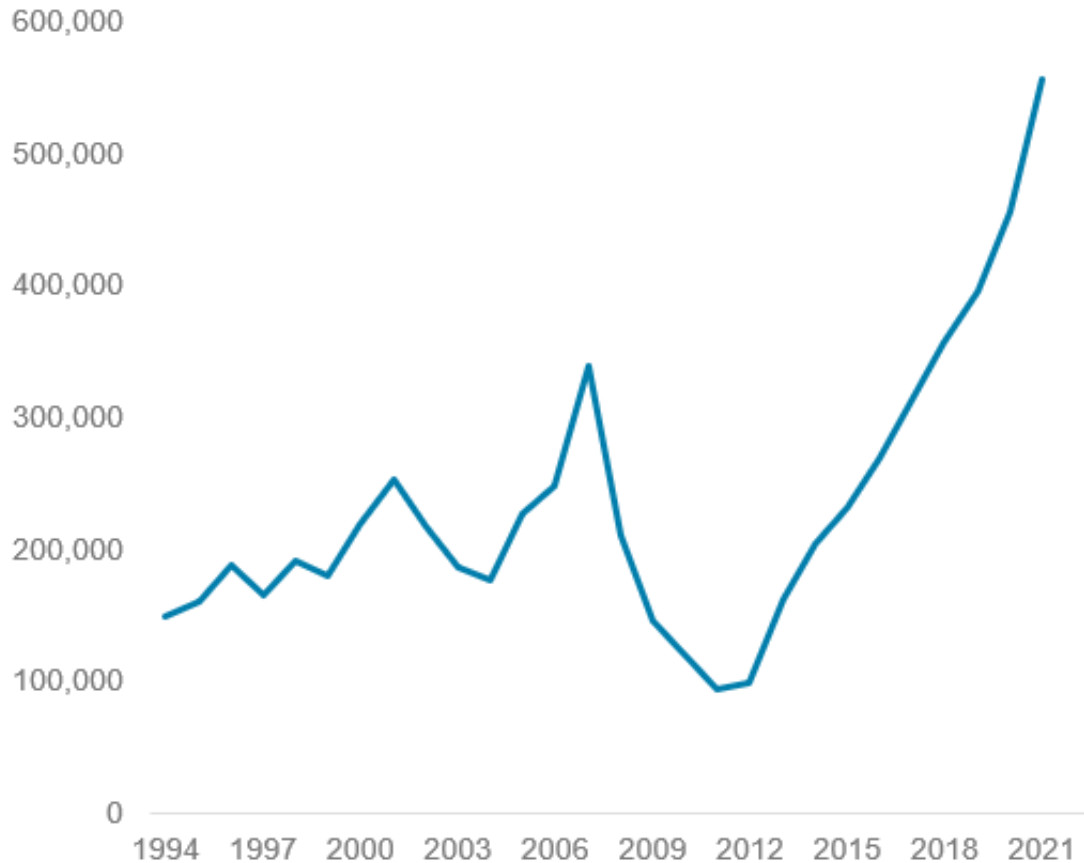
. . . . first-time marriage is being significantly delayed

Median age at first marriage: 1890 to present

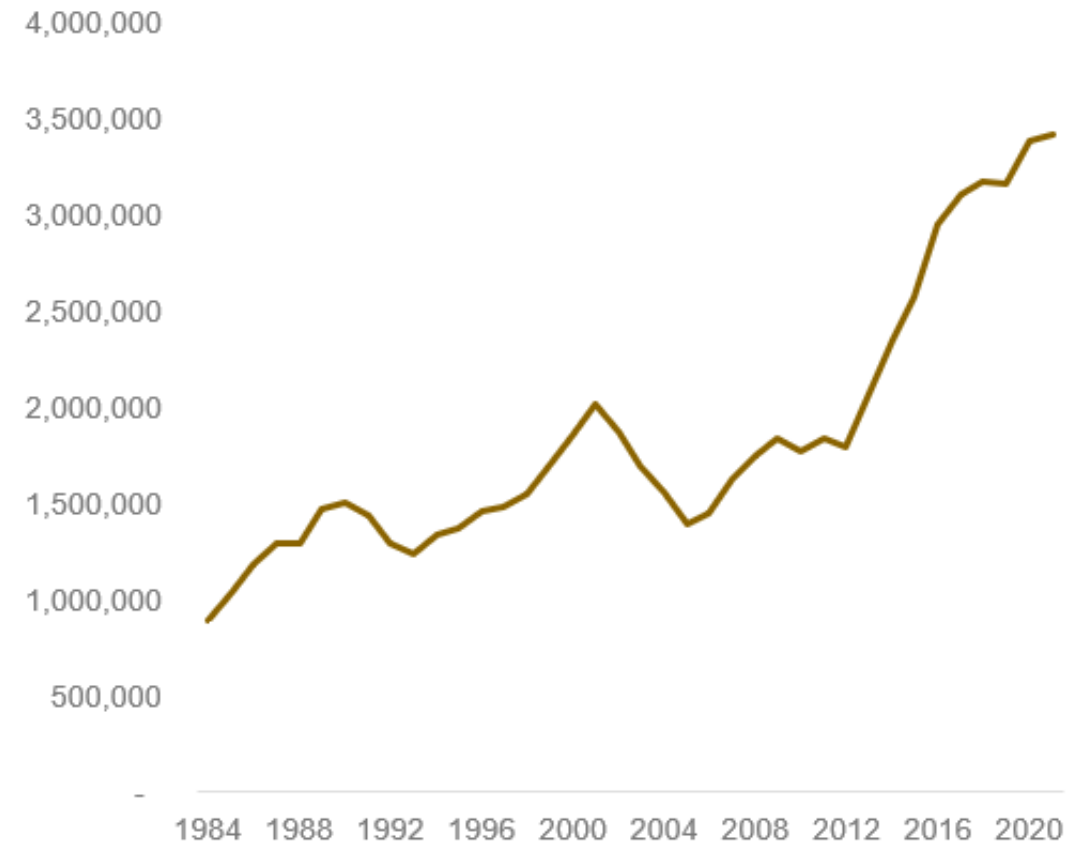


. . . . first-time homebuyers are in the market, many with high incomes

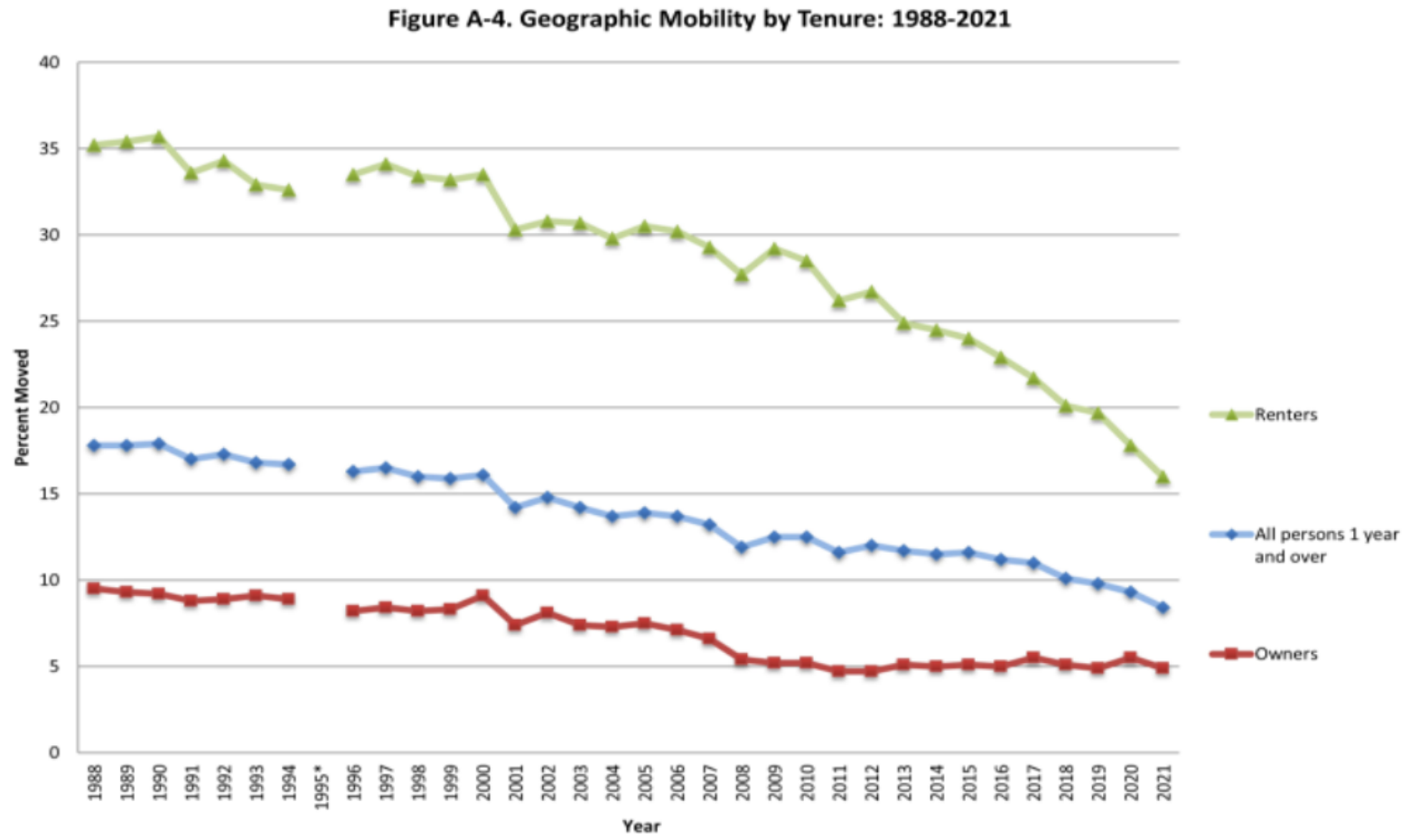
Freddie Mac First-Time Homebuyer Market Surges



Renter Households Between 25 and 44 Years of Age Earning \$75,000 or More



. . . . U.S. mobility rates are the lowest since the data was first collected in 1947.



Housing Demographics

- Housing supply is inadequate which will keep prices from falling much in the economic challenges in 2023
- Housing demand was underestimated as headship rates increased
- First-time homebuyers are growing

SUMMARY: Demographics are destiny and housing demographics are very strong from the demand side in a supply constrained market.

Residential Mortgage Market

Mortgage market Context: slide #1 of 3

Mortgage Statistics

	Percent of Homes with a Mortgage	Average FICO Credit Score	Average Mortgage Payment
United States	62%	739	\$1,358
Wisconsin	63%	750	\$1,058

Mortgage market context slide #2 of 3 . . .

Mark-to-Market Loan to Value (all mortgages in the U.S.)

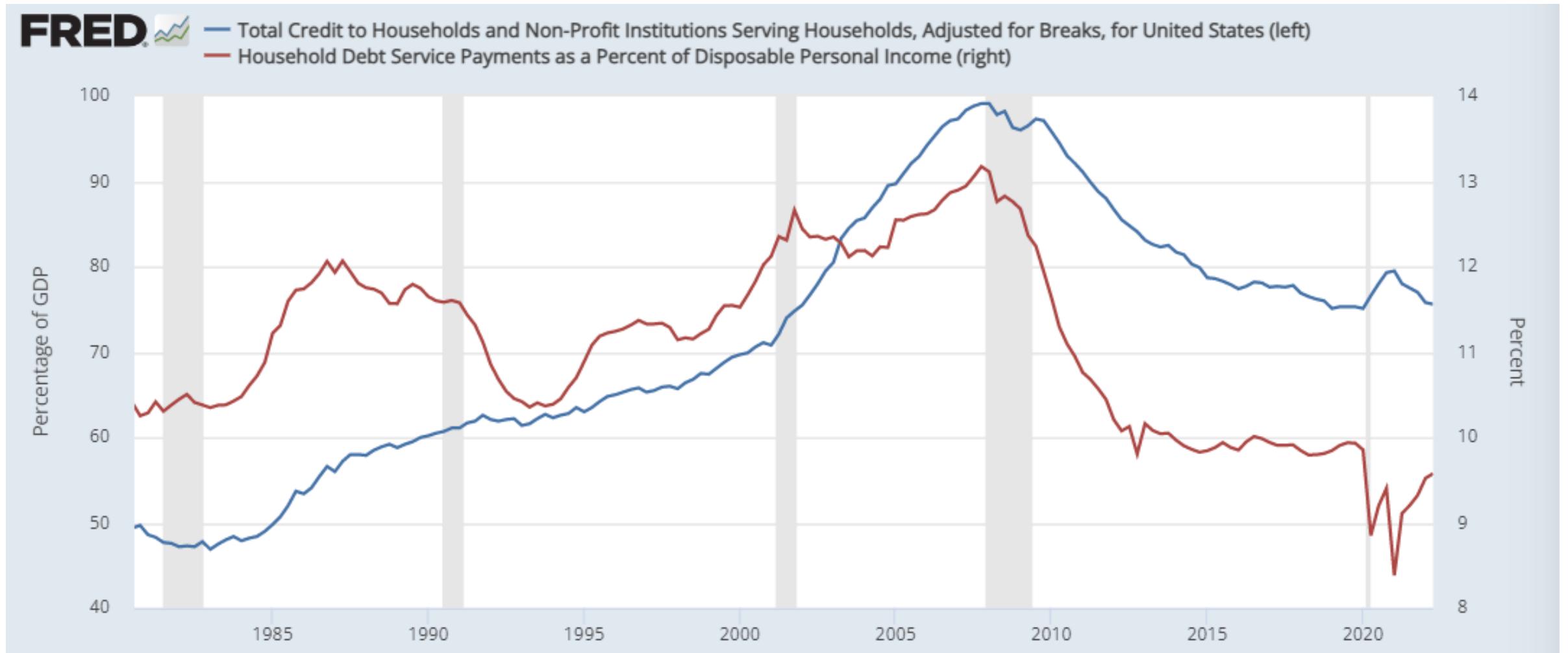
	Average LTVR	Percent less than 60%	Percent 60-70%	Percent 70-80%	Percent greater than 80%
United States	48%	78%	19%	10%	1%
Wisconsin	45%	70%	9%	7%	0%

Mortgage market context slide #3 of 3

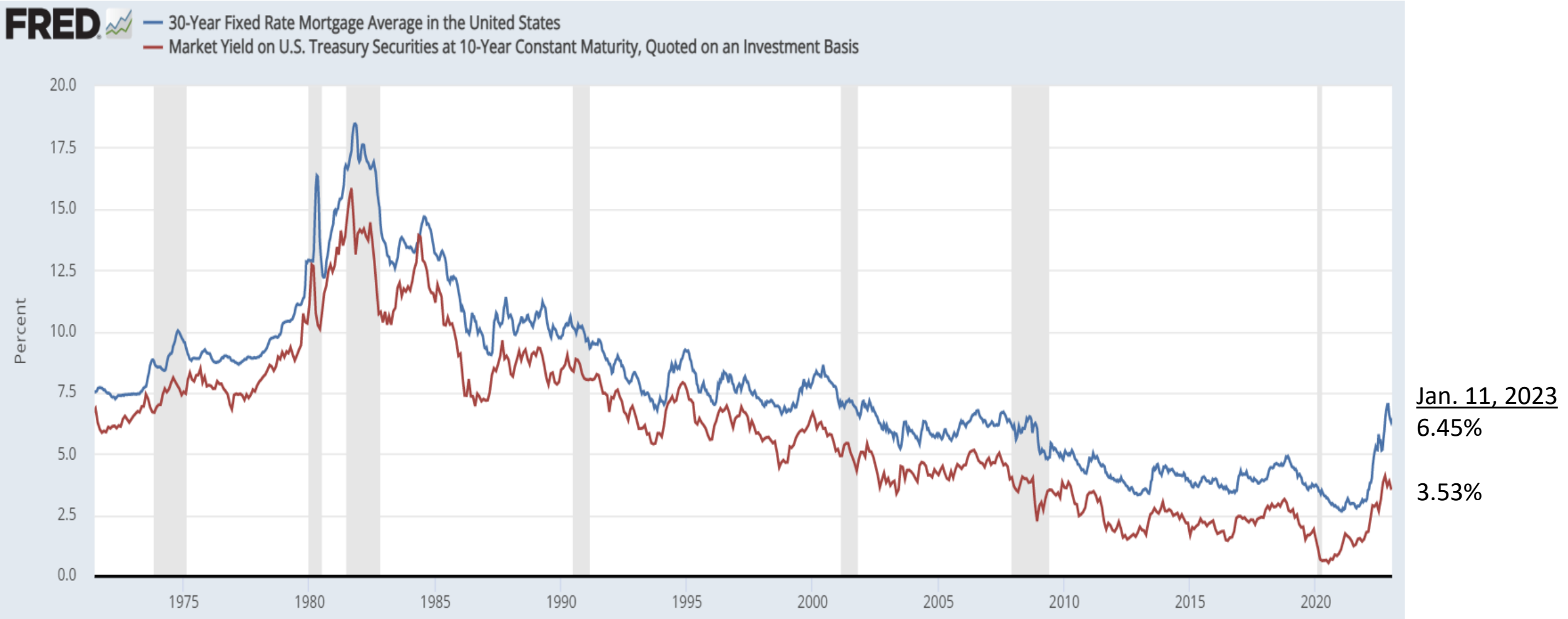
Interest Rate at Origination (all mortgages in the U.S.)

	Average Interest Rate	Percent less than 3.0%	Percent 3.0-4.0%	Percent 4.0-5.0%	Percent greater than 5.0%
United States	3.6%	28%	44%	19%	10%
Wisconsin	3.7%	28%	43%	19%	11%

Homebuyers have debt service and debt capacity

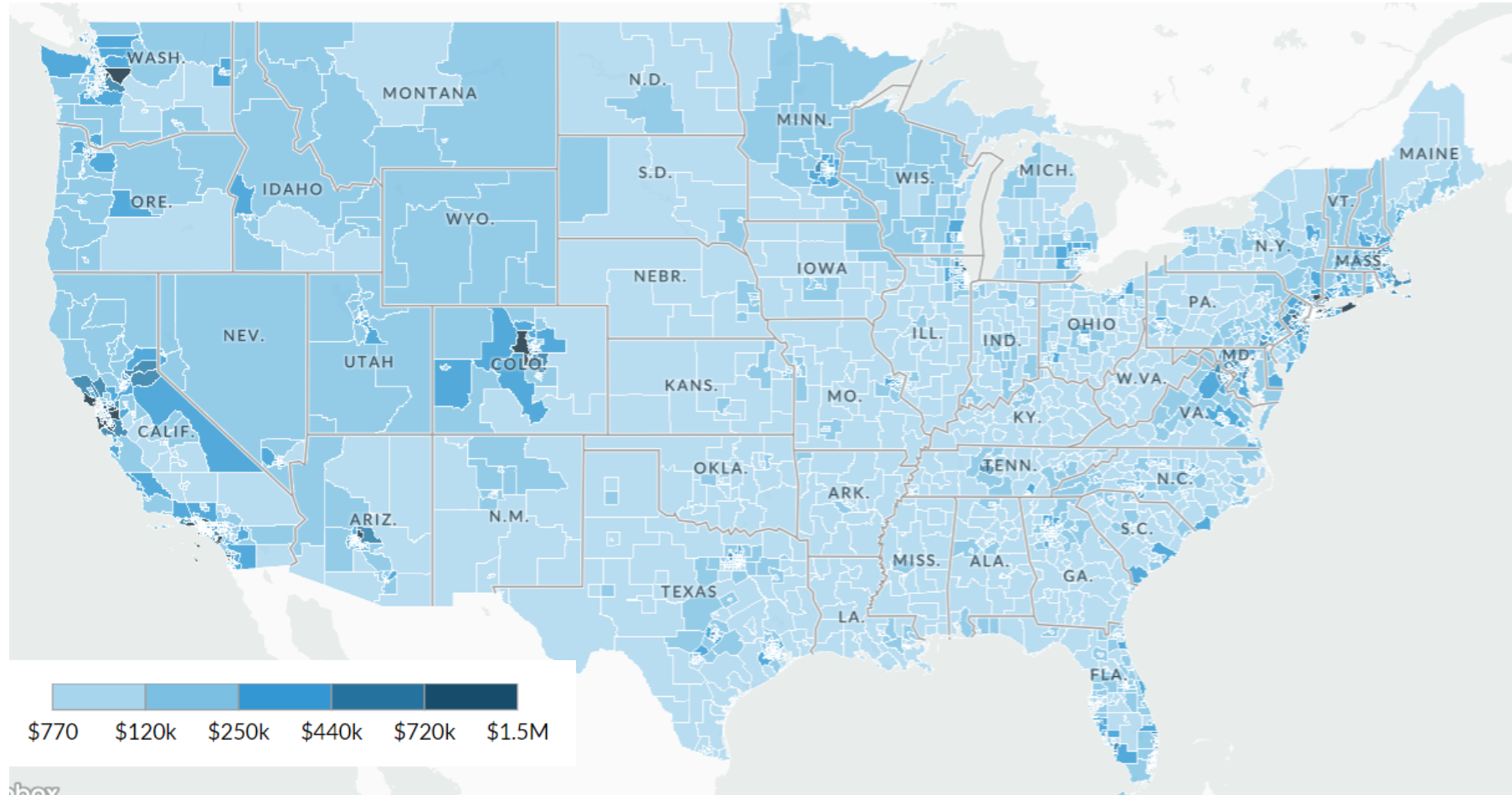


... average 30-year mortgage spread over 10-year U.S.T. are 1.79% (currently 2.92%)...



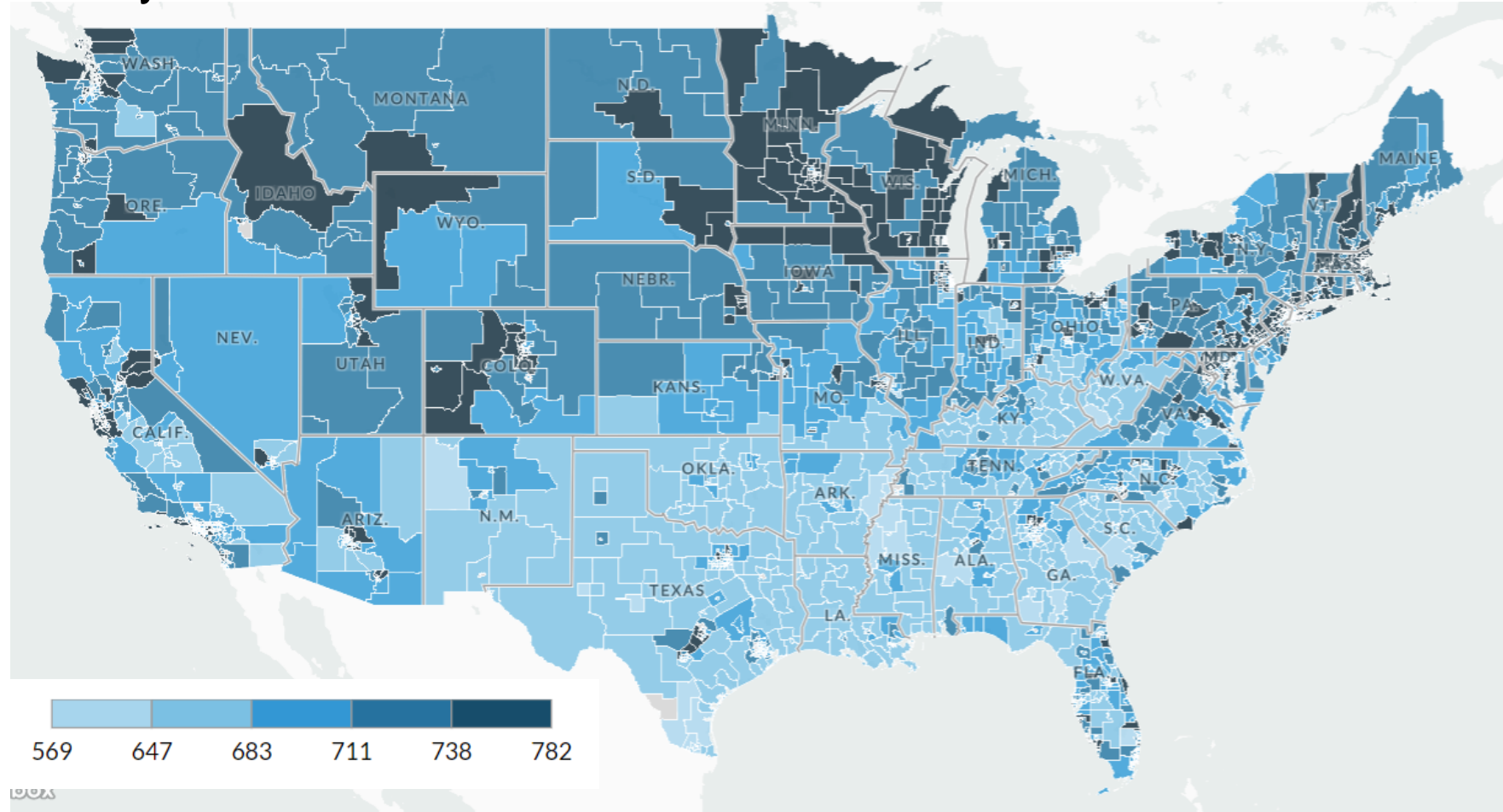
. . . . net worth in Wisconsin counties bests many other areas in the nation. . . .

County-level Median Net Worth in U.S.



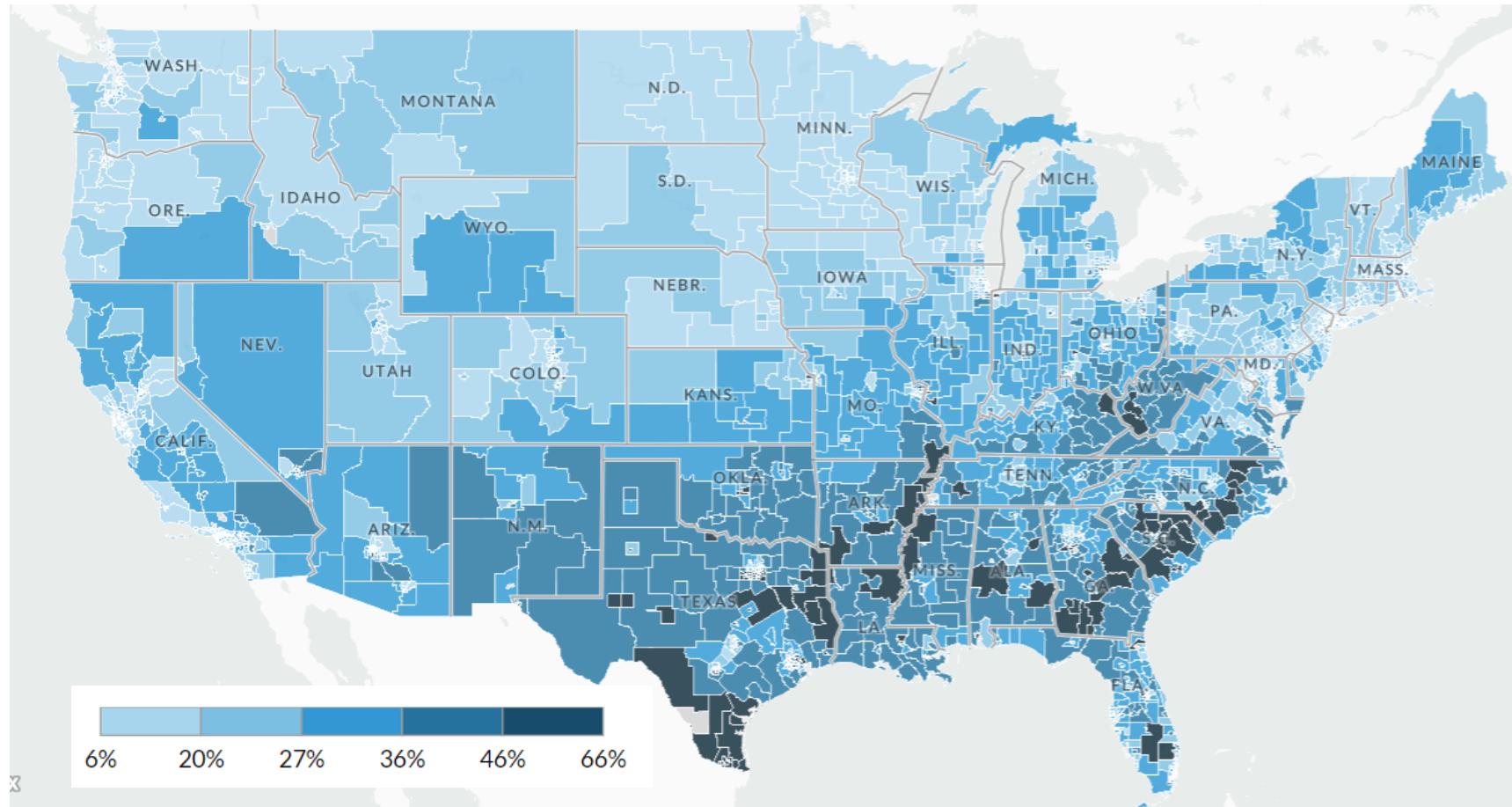
. . . .Wisconsin credit scores are among the best in the nation. . . .

County-level Median Credit Scores in U.S.



. . . . Wisconsin delinquency rates are low

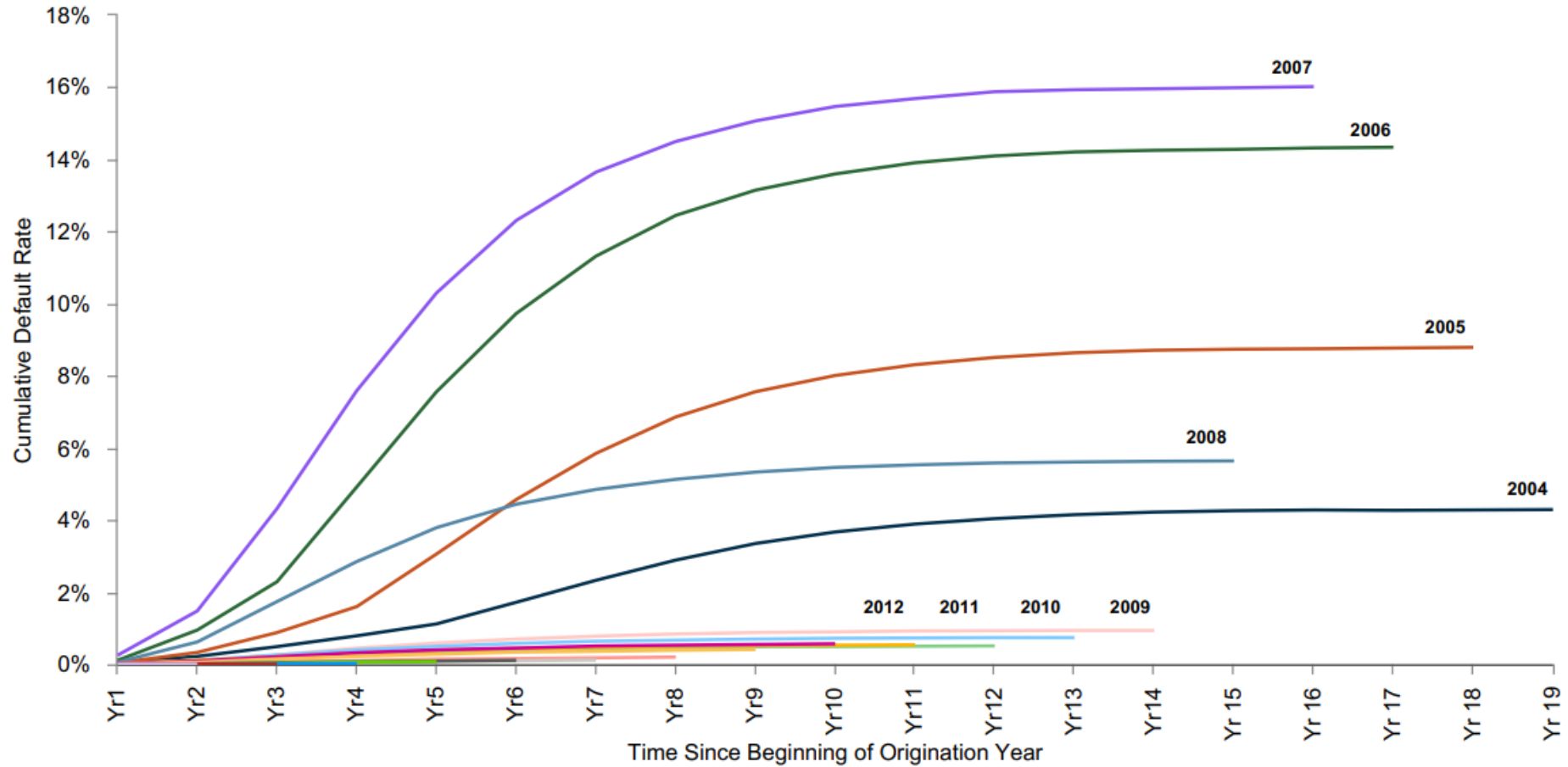
County-level Mortgage Delinquency Rates in U.S.



... the national mortgage market is performing well.

Single-Family Cumulative Default Rates

Cumulative Default Rates of Single-Family Conventional Guaranty Book of Business by Origination Year⁽⁵⁴⁾



Interest Rates/Mortgage Market

- The mortgage credit markets are in sound shape – solid credit scores, low loan-to-value ratios, and low loss rates (very different from 2007)
- Mortgage interest rates include outsized credit risk premiums
- The Fed's resolve to push the short-term Fed Funds rates up to reduce inflation, keeping long-term mortgage interest rates at or below current rates
- Borrowers in Wisconsin are better positioned than the rest of the U.S. in terms of net worth, mortgage payments, and loan-to-value

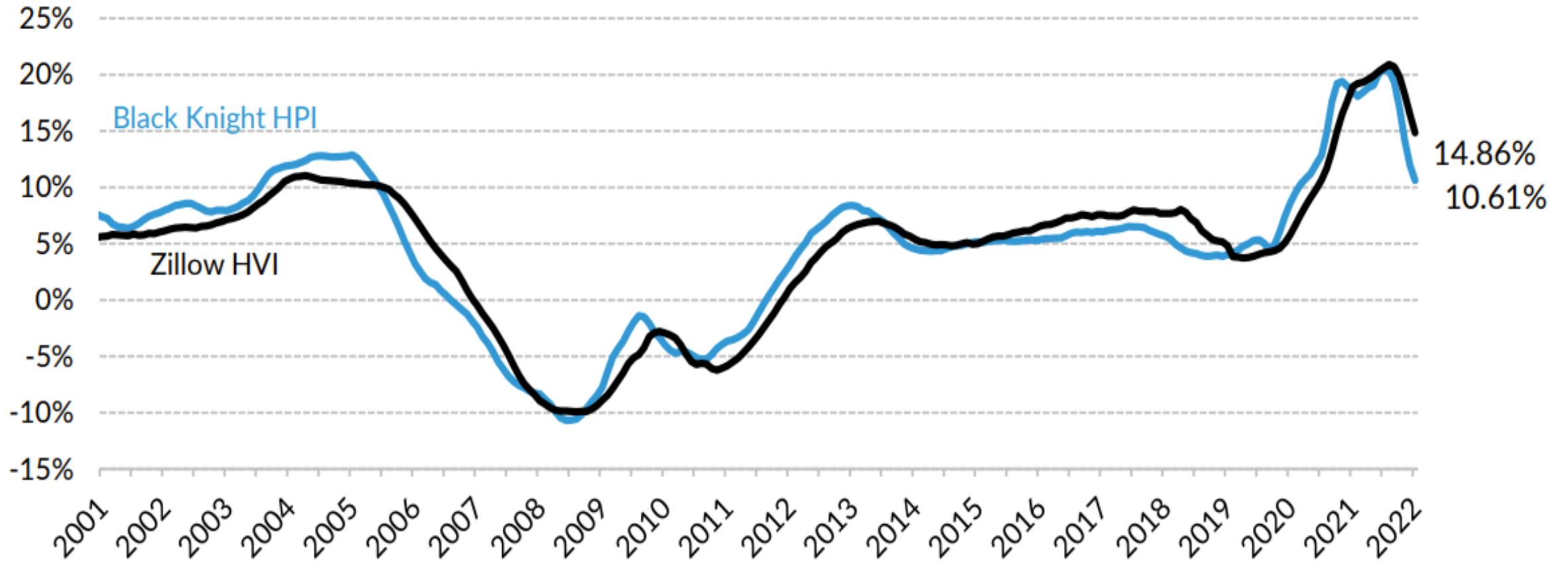
SUMMARY: Mortgage interest rates have peaked and will slowly settle into the **mid-5% range (maybe lower)** by year-end 2023.

Single-Family Housing Market

National house price appreciation is cooling. . . .

Change in Single-Family House Prices

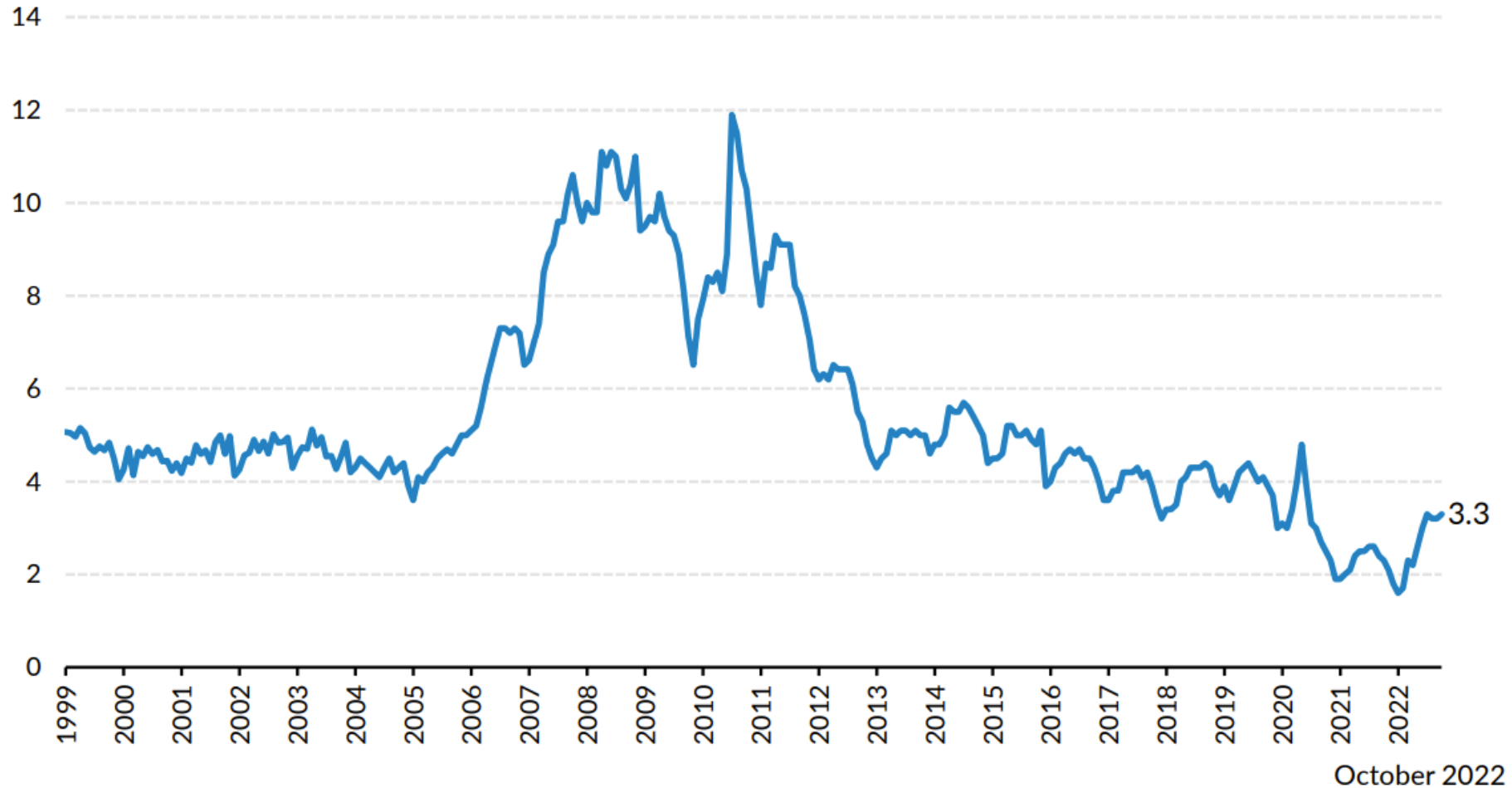
Year-over-year growth



. . . . the national supply of for-sale housing remains tight

Months of Supply

Months of supply



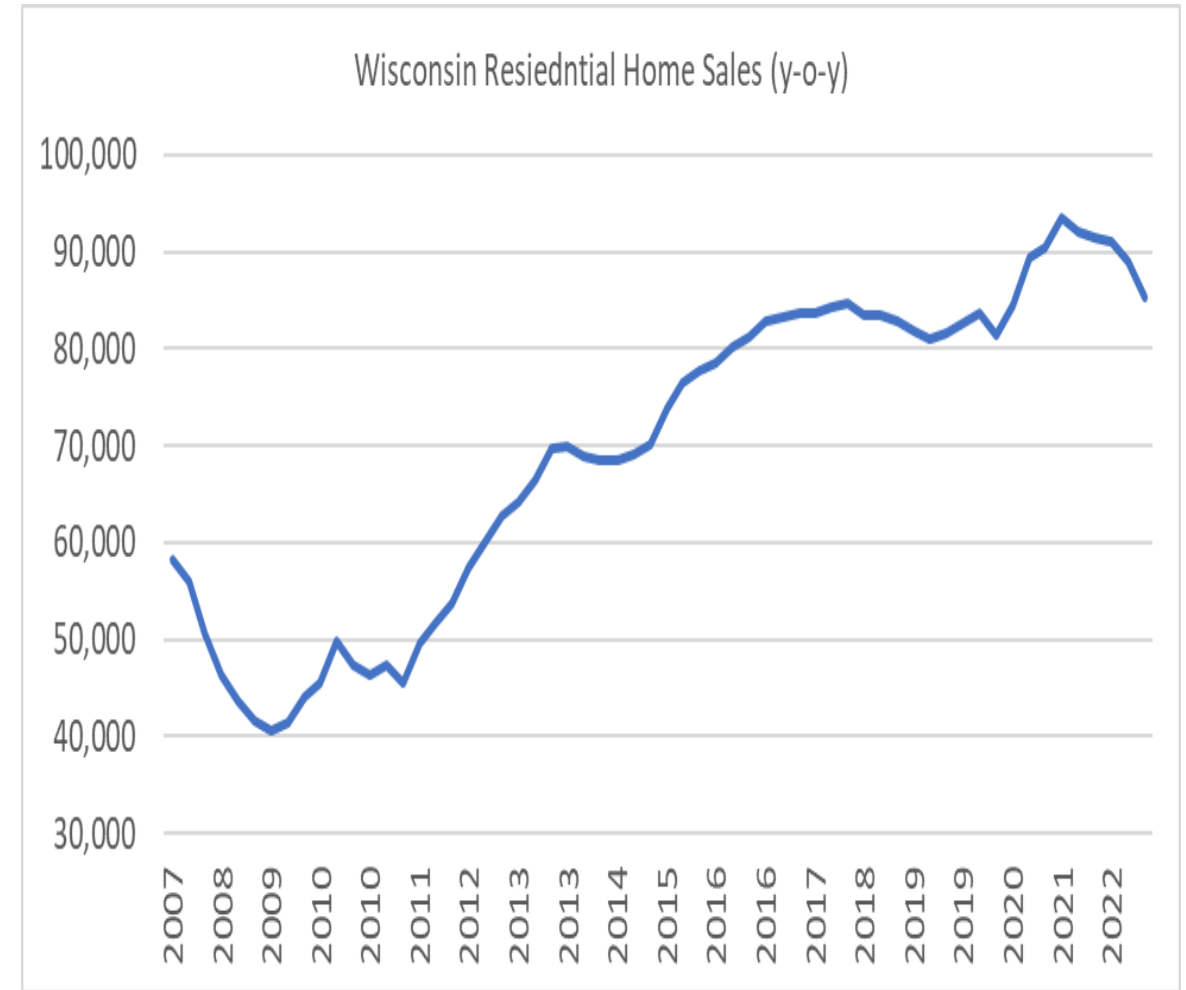
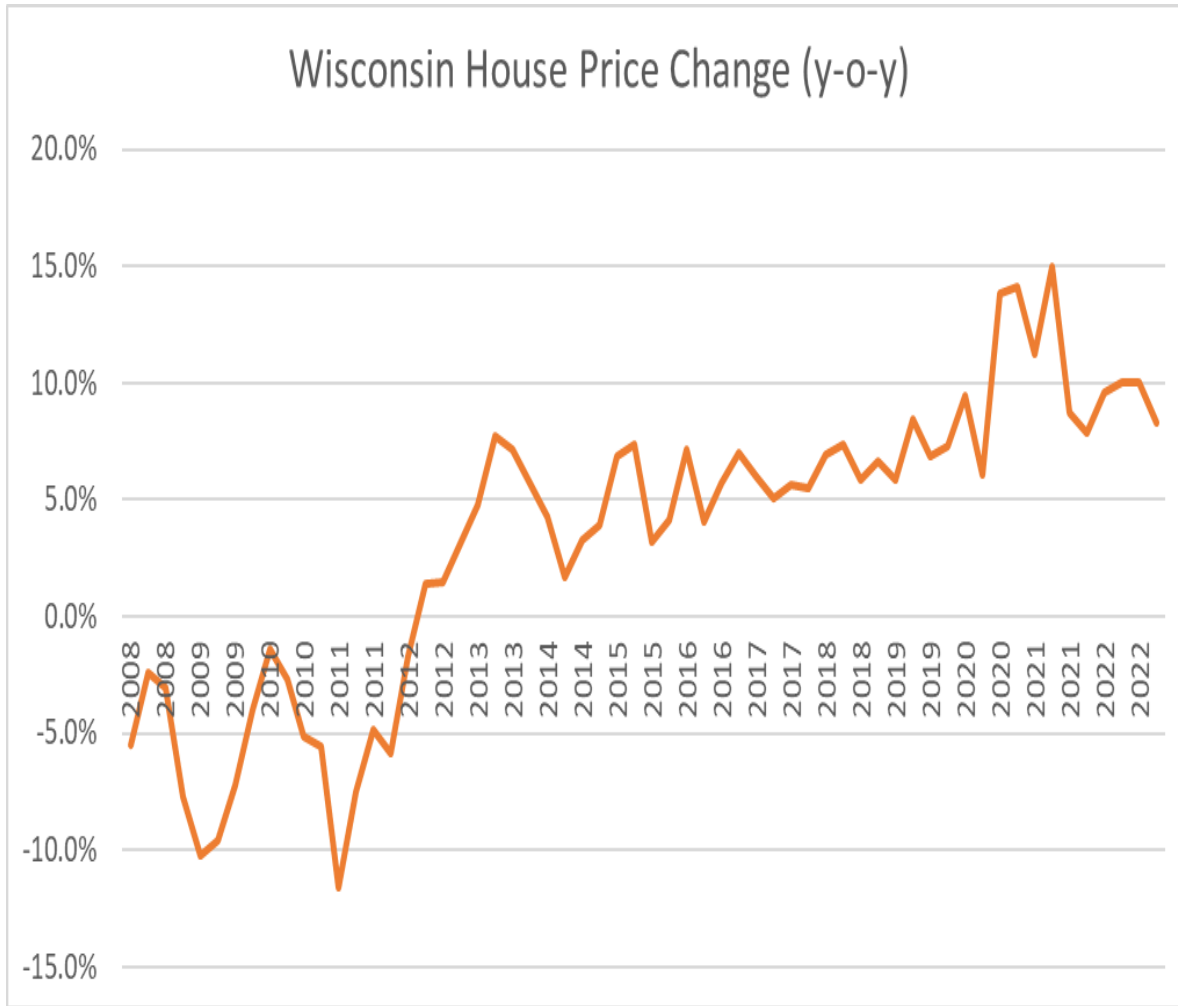
. . . . Wisconsin's supply of housing is tighter than the national average. . . .

Urban-Rural Classification	Months Supply
Metropolitan Counties	2.4
Micropolitan Counties	2.5
Rural	3.6
State	2.6

Price	Months Supply
\$0 - \$124,999	2.1
\$125,000 - \$199,999	2.0
\$200,000 - \$349,000	2.2
\$350,000 - \$499,999	3.1
\$500,000+	4.8
State	2.6

Region	Months Supply
Central	2.5
North	3.3
Northeast	2.7
Southwest	2.5
Southeast	2.3
West	2.9
State	2.6

. . . . Wisconsin price appreciation continues as home sales begin to flag



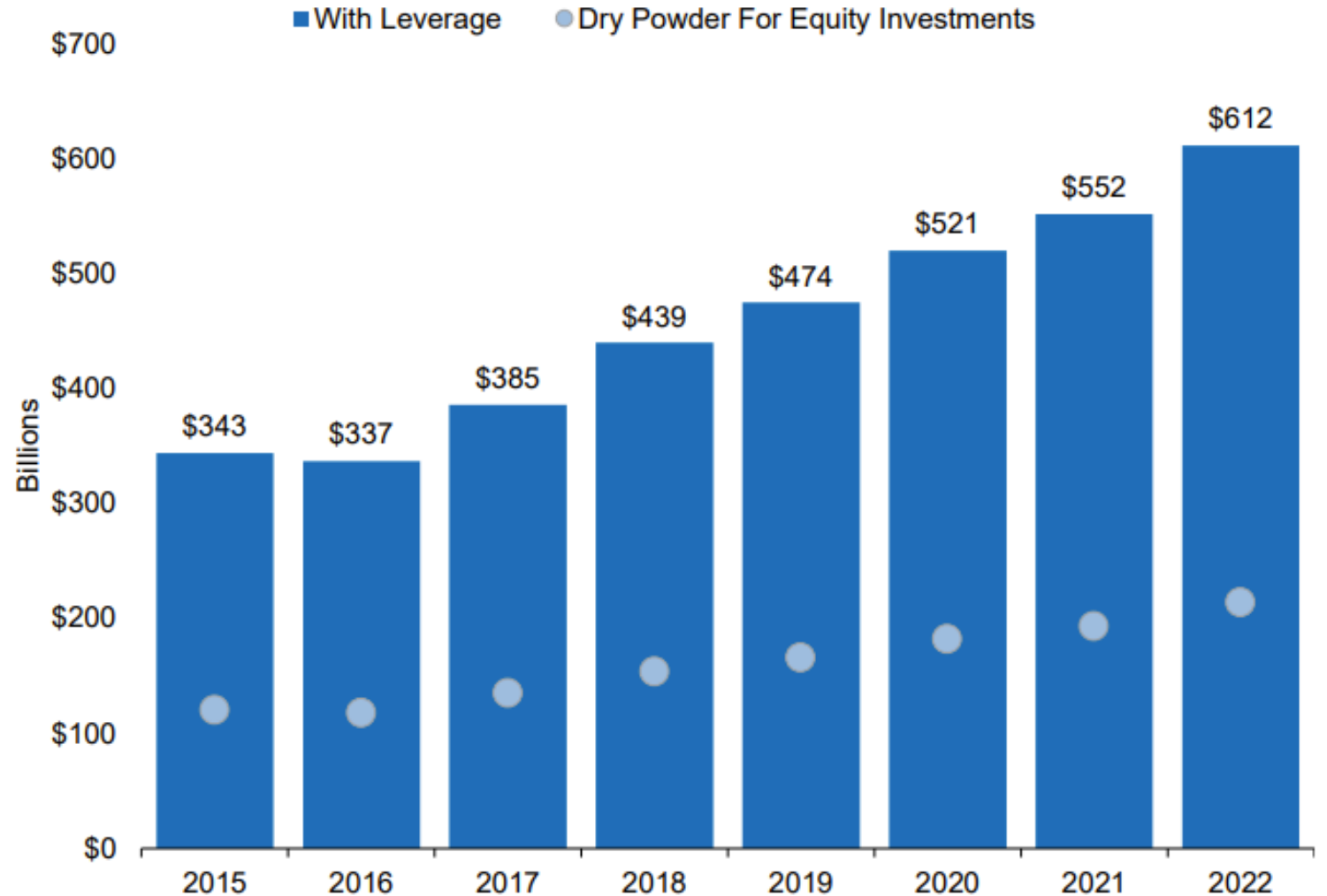
. . . . year-over-year sales and new listings are a concern. . . .

Summary of Wisconsin Housing Statistics			
	Monthly		
	Dec 2022	Dec 2021	% Change
Unit Sales	4,840	7,433	-34.9%
Median Price	\$250,000	\$237,000	+5.5%
New Listings	2,760	3,848	-28.3%
Total Listings	12,606	15,335	-17.8%
Months of Inventory	1.9	2.0	-5.0%
Average Days on Market	73	75	-2.7%
WI Housing Affordability Index	148	213	-30.5%

Multifamily Capital and Property Markets

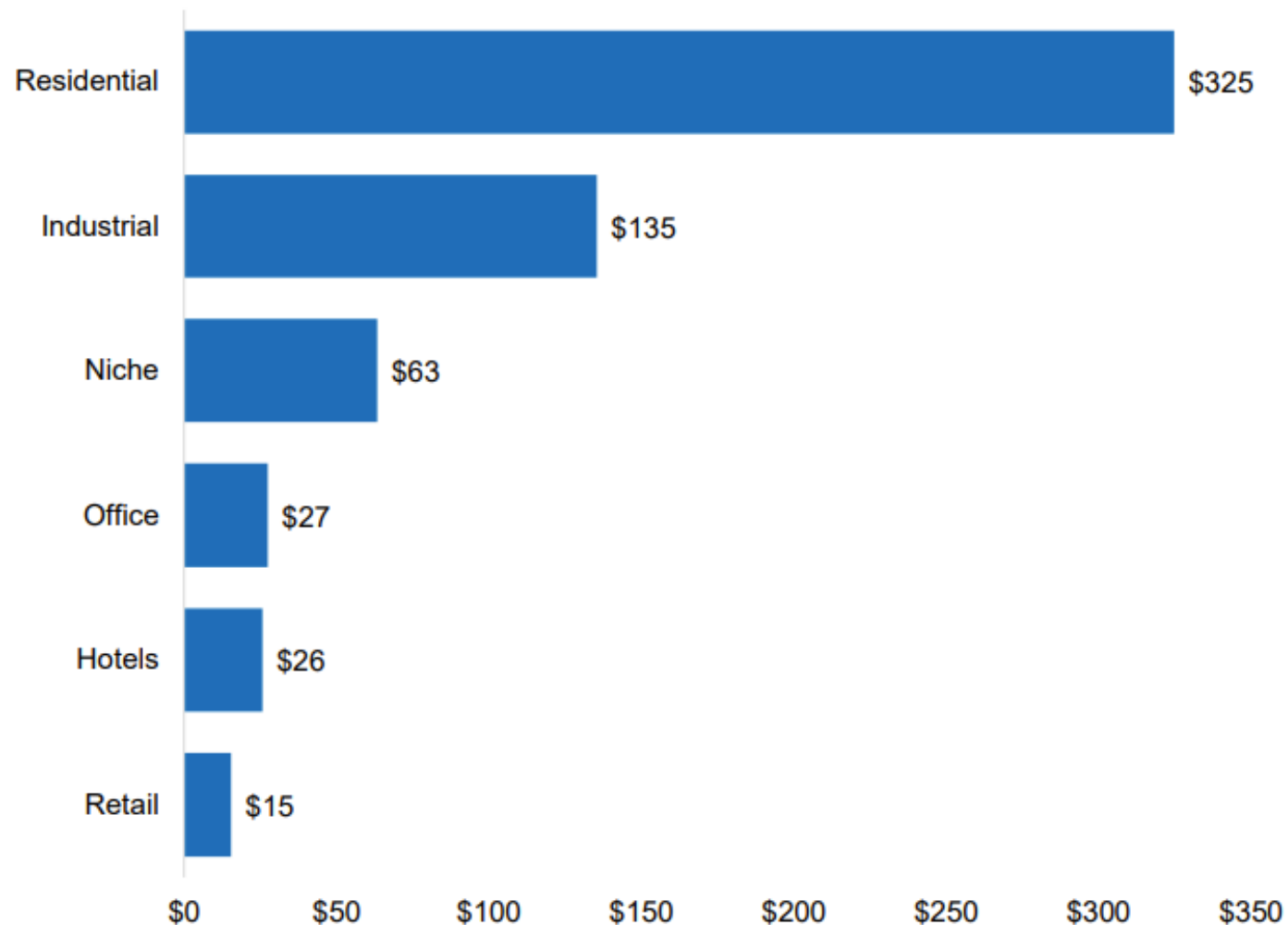
Equity Investment
interest in
commercial real
estate remains
strong

Dry Power – Real Estate Equity Raised

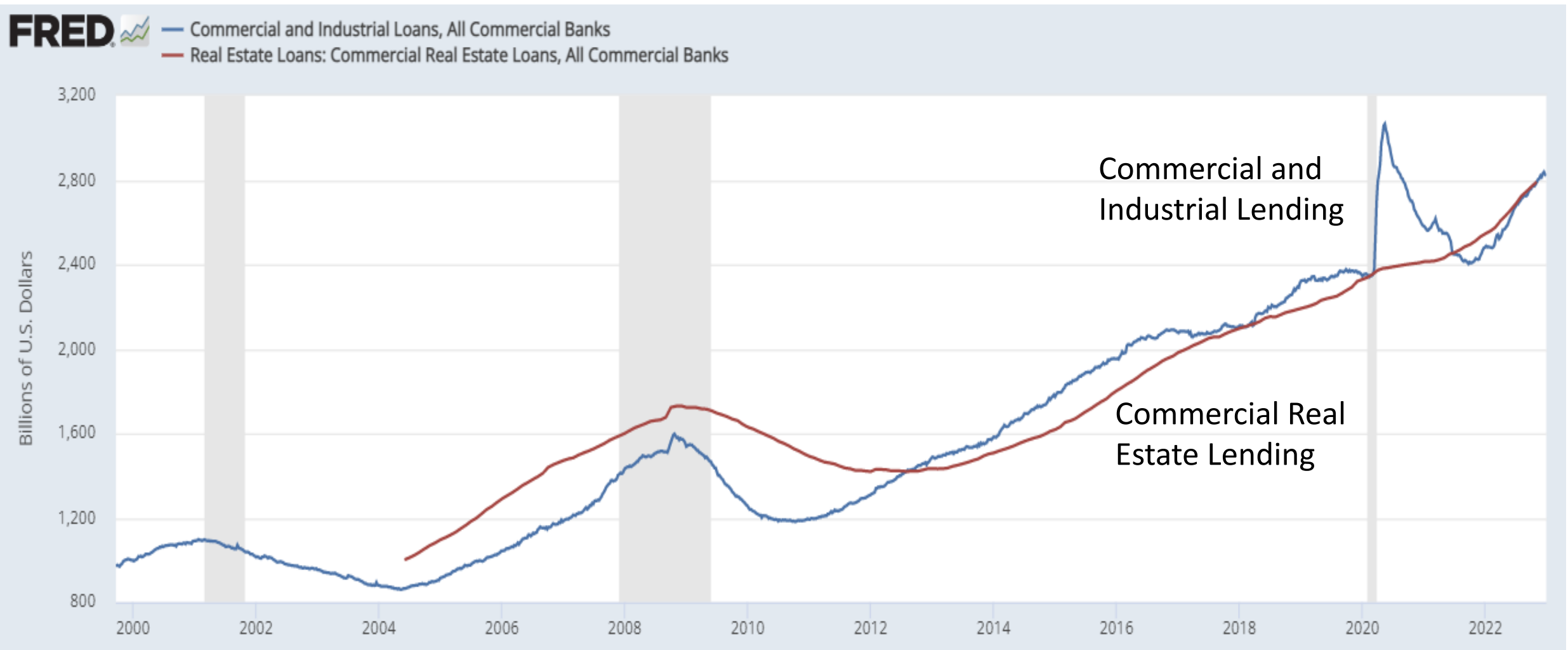


. . . . private equity investment interest remains focused on residential and industrial property types. . . .

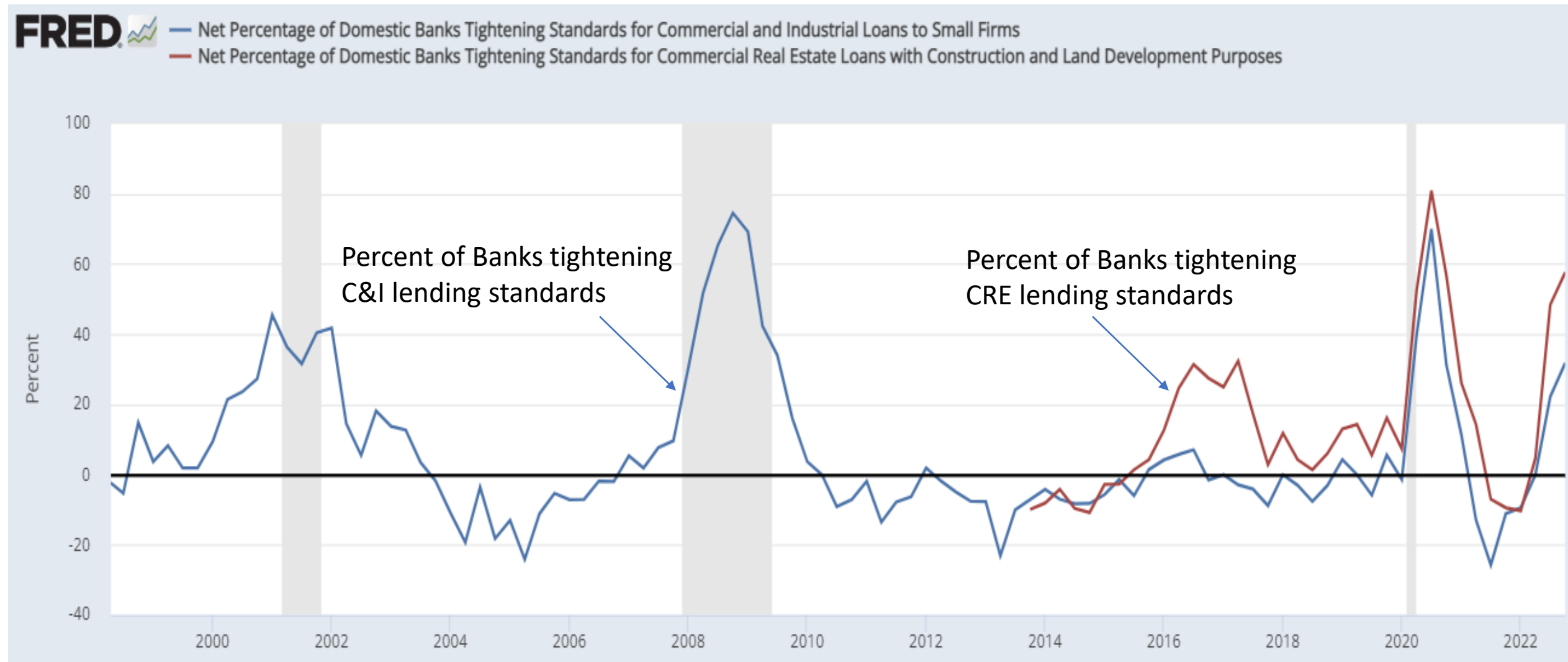
Dry Power – Real Estate Equity Raised



... Commercial and Industrial and Commercial Real Estate lending marches on ...

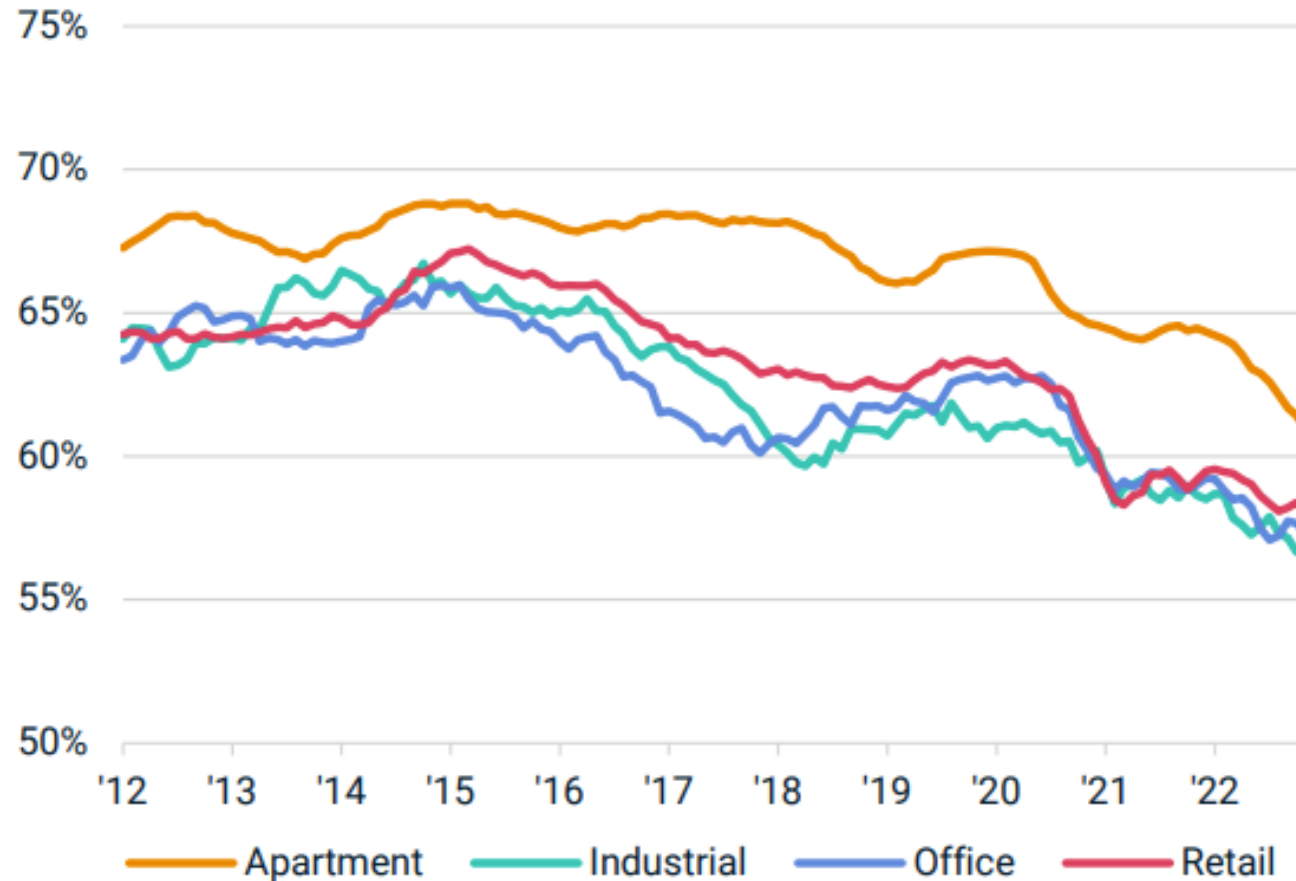


... however, bank CRE lending is tightening dramatically ...

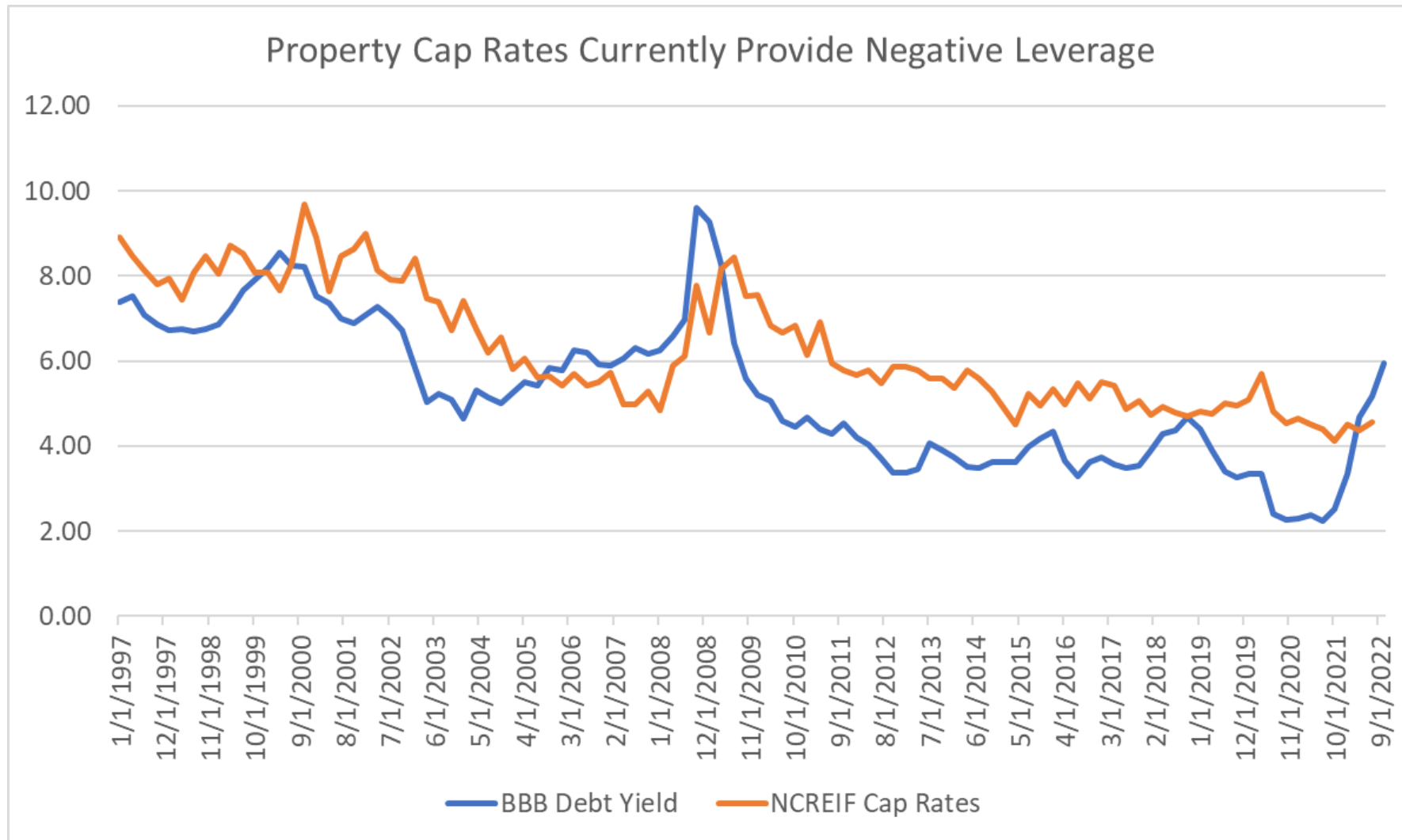


. . . . as interest rates increase, LTVRs are in decline

LTVs by Property Type

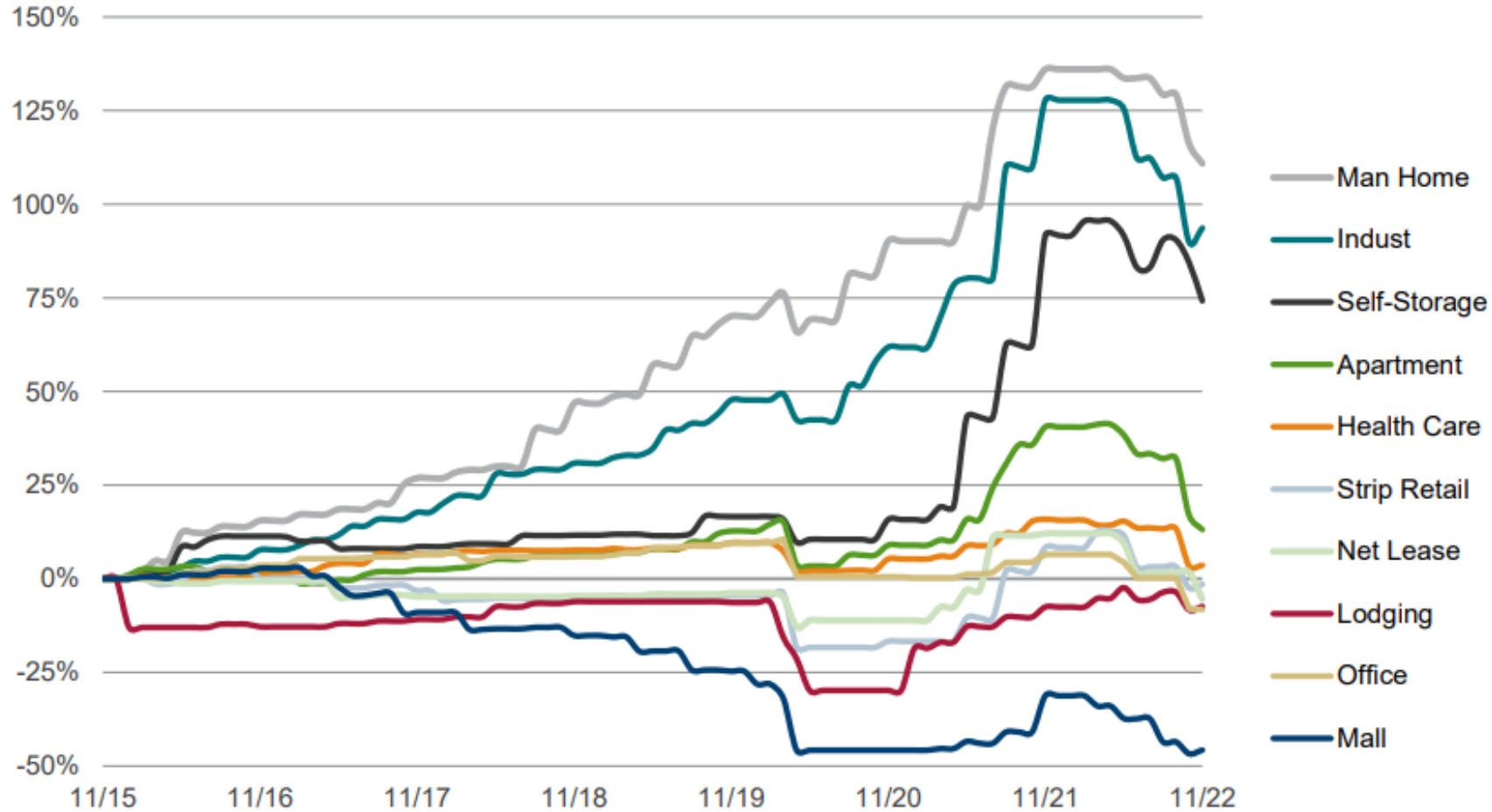


. . . . cap rates are now lower than BBB interest rates, a bad transaction omen . . .



Prices are falling fastest for property types with the best fundamentals . . .

Cumulative Change in CPPI®: Past Seven Years



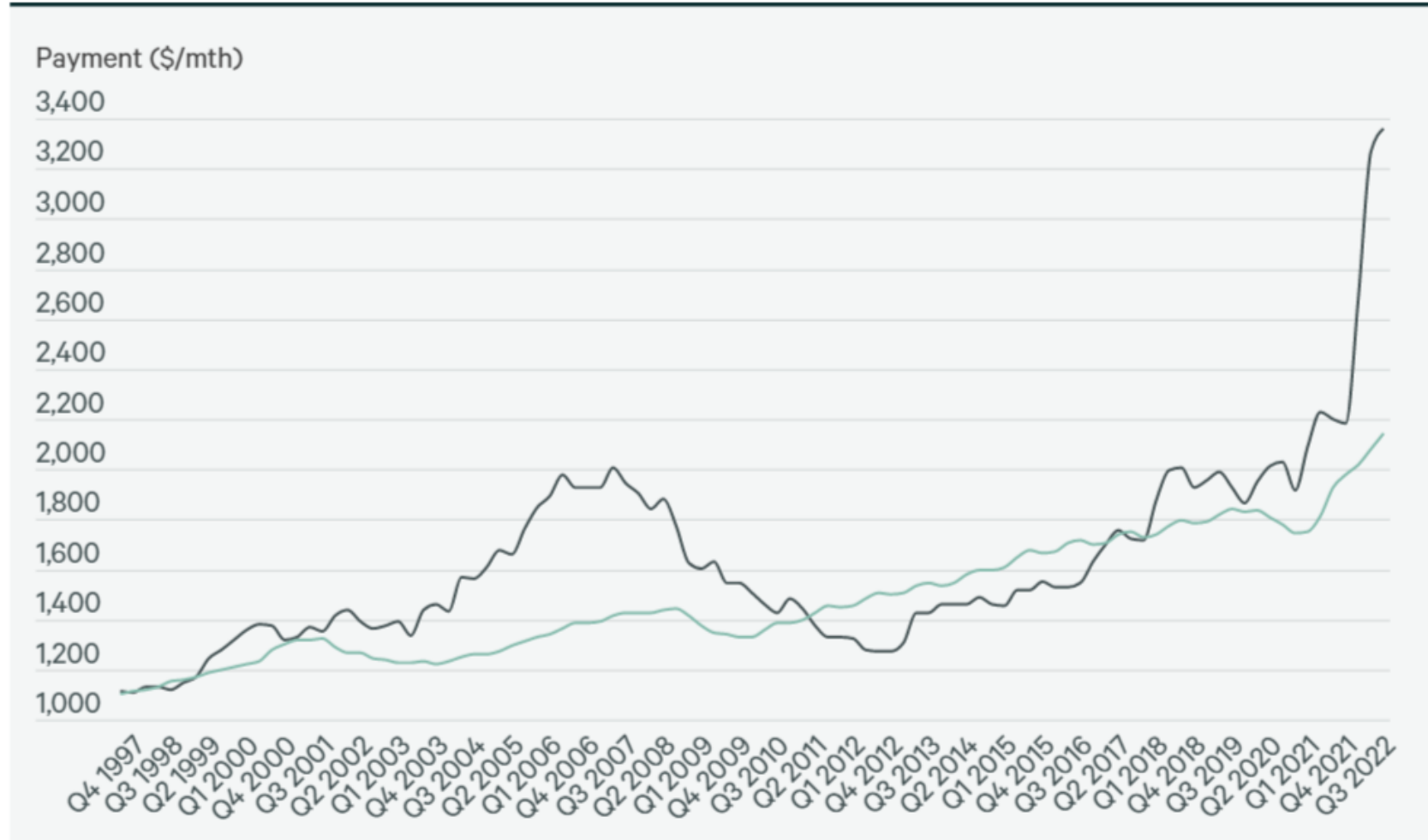
... price declines are broad-based ...

Green Street CPPI®: Sector-Level Indexes

	Index Value	Change in Commercial Property Values		
		Past Month	Past 12 Mos	Recent Peak
All Property	134.3	-1%	-13%	-13%
Core Sector	134.4	0%	-16%	-16%
Apartment	152.7	-3%	-19%	-20%
Industrial	215.8	2%	-15%	-15%
Mall	77.1	2%	-21%	-21%
Office	97.9	0%	-14%	-14%
Strip Retail	115.2	1%	-9%	-13%
Health Care	134.9	0%	-11%	-10%
Lodging	107.6	1%	0%	-5%
Manufactured Home Park	289.2	-2%	-11%	-11%
Net Lease	97.6	-7%	-16%	-16%
Self-Storage	278.8	-6%	-9%	-11%

...interest rate hikes and construction costs accelerated the cost to own a home.

Cost of Homeownership versus Renting



Multifamily Capital, Interest Rate, and Property Market

- Equity is sitting on the sidelines waiting for the bid-ask spread to narrow and for price discovery to begin
- Most debt providers are on the sidelines repricing loans, extending loans, and working with regulators
- Negative leverage is not sustainable, but expect greater interest rate movement down than cap rate movement up

SUMMARY: Expect a period of very slow transaction volume as the market goes through wide bid-ask spreads and then price discovery in the 2023Q2-2023q3



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