

The Good, the Bad and the Ugly

An Outlook for Real Estate and the Economy



Historically Low
Unemployment



Highest
Mortgage rates



Highest
Inflation

Presented by



Dr. Ted C. Jones
Chief Economist
Senior Vice President
Stewart Title Guaranty Company

NORTHSTAR

A Division of Stewart Title Company

 **stewart**

CHANGE

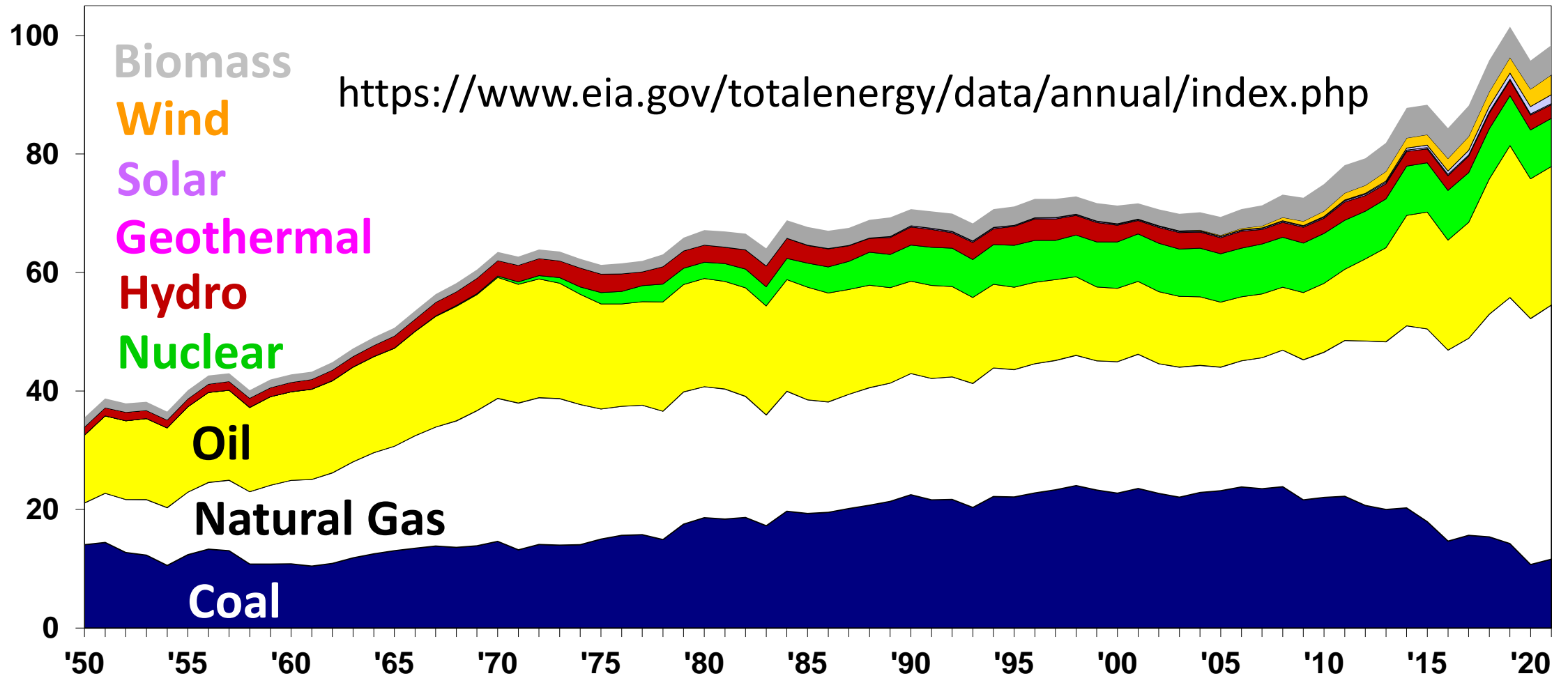
Not

Doing That

ENERGY

US Energy

Quadrillion BTUs Restated by USEI



A Level 3 EV Charger Uses as Much Electricity as 55 Homes on Average During the 20 to 40 Minute Charging Cycle

Bosch EV3000 30kW DC Electric Vehicle Fast Charger

SKU: BOEV3000

Manufacturer: Bosch Automotive Equipment

Weight: 187.40 LBS

\$18,429.89



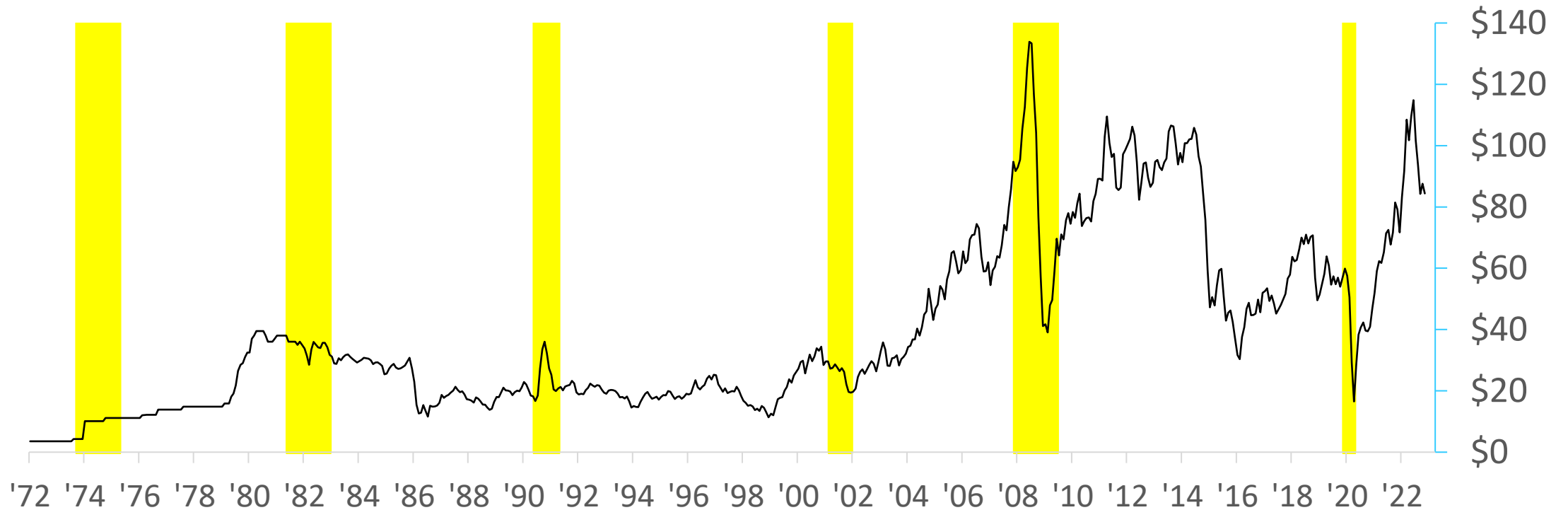
Truth

Recessions + Oil Prices



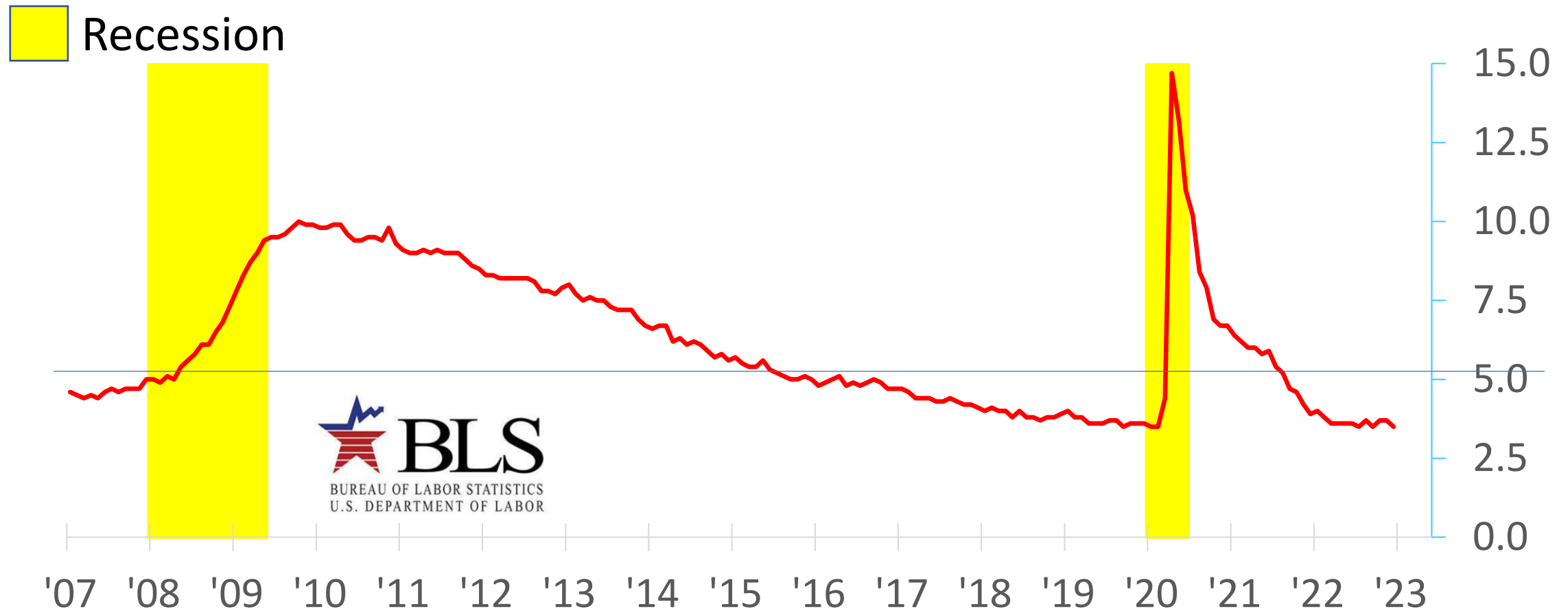
Recession

West Texas Intermediate Crude Oil



U.S. Unemployment Rate

Percent





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The Federal Reserves meeting minutes from December state their intention to raise the Fed Funds Rate to 5% to 5.5% & to keep it there until year end. Only 2 of the 19 policy makers thought rates would be slightly less

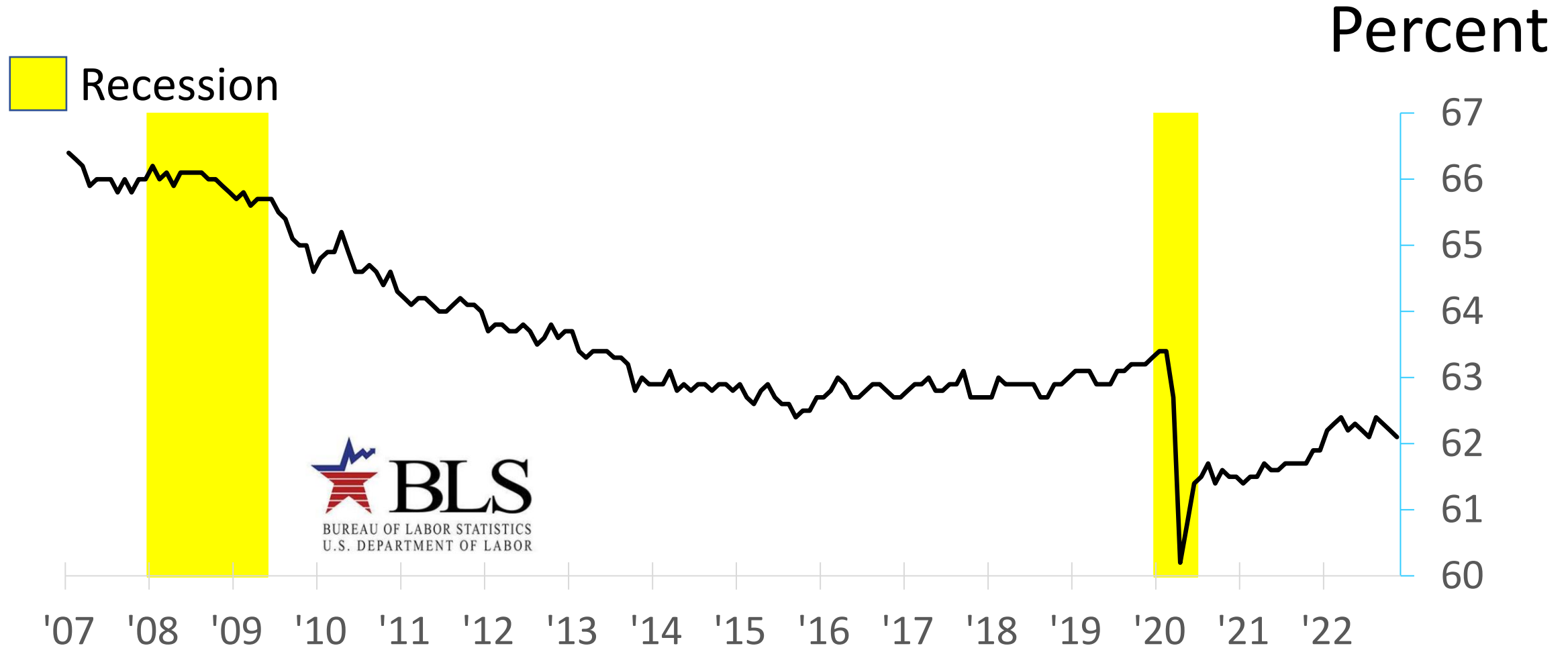
[@USATODAYmoney](#)

[@federalreserve](#)

6:20 AM · Jan 6, 2023

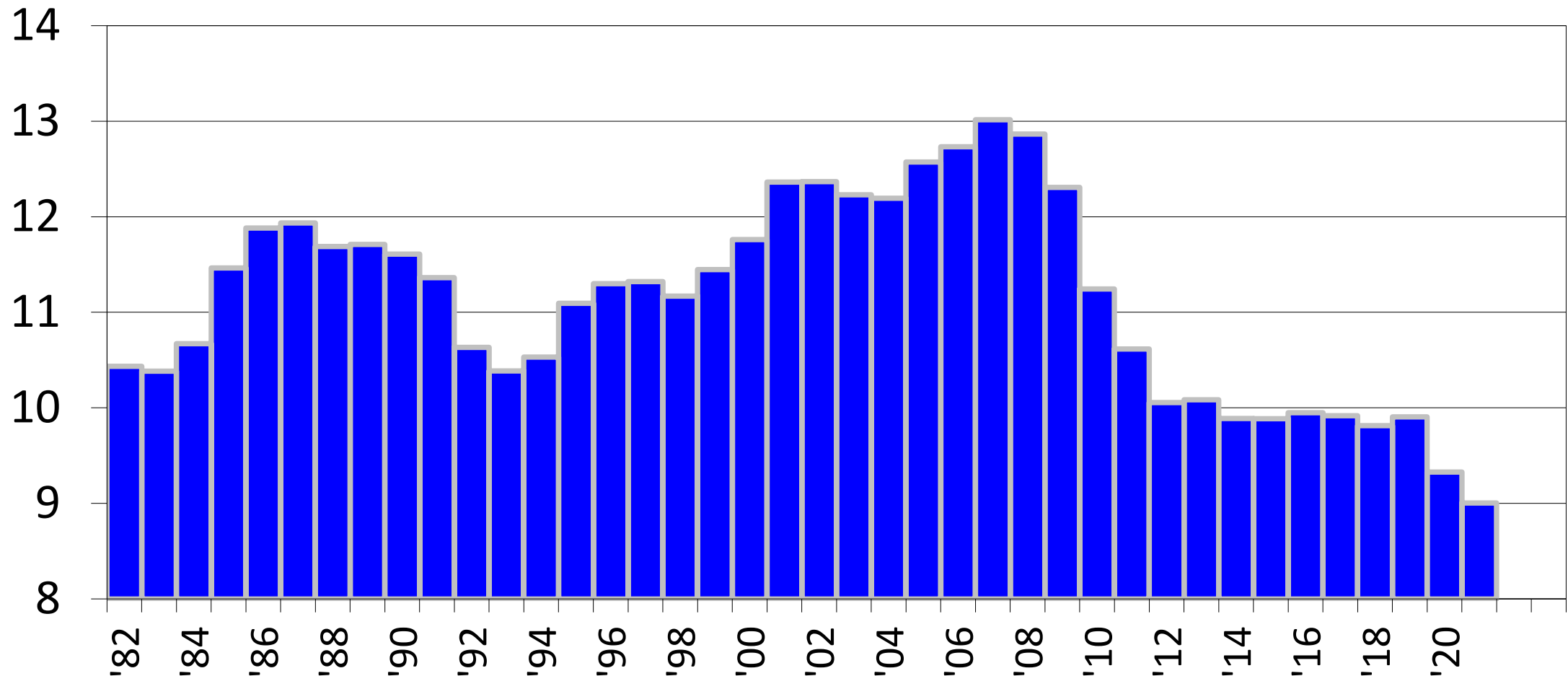
DrTCJ 

Civilian Labor Force Participation Rate



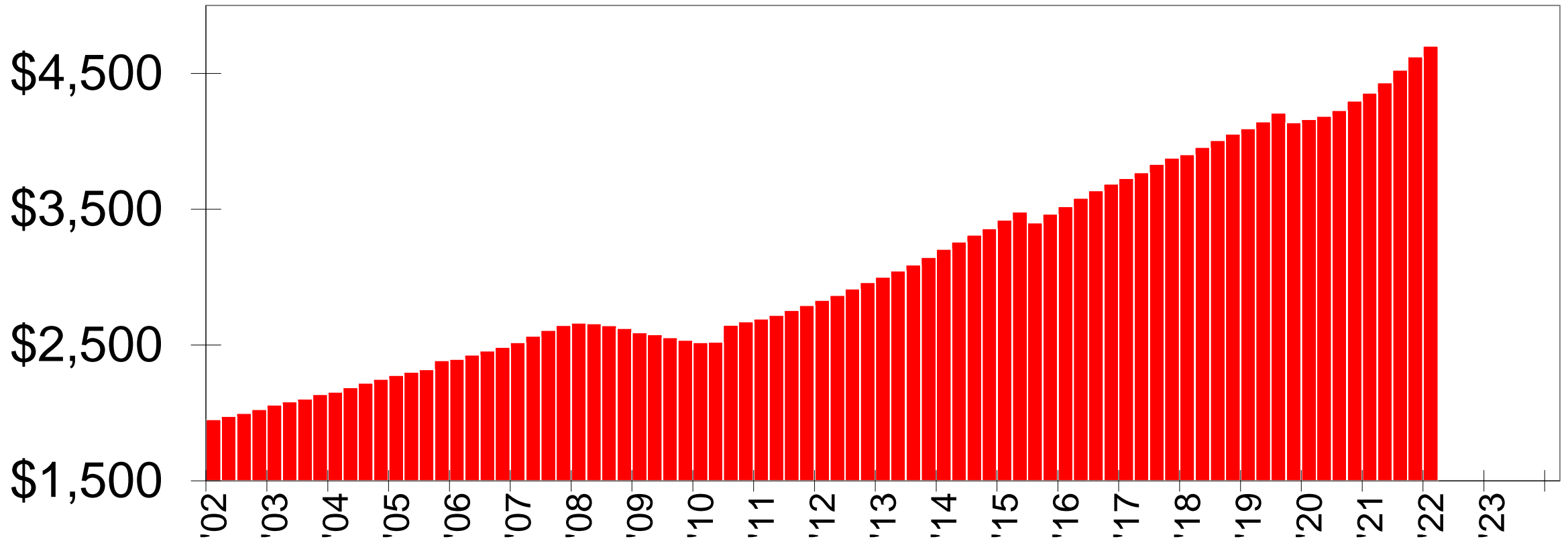
Household Debt Service as a Percent of Household Disposable Income

Percent



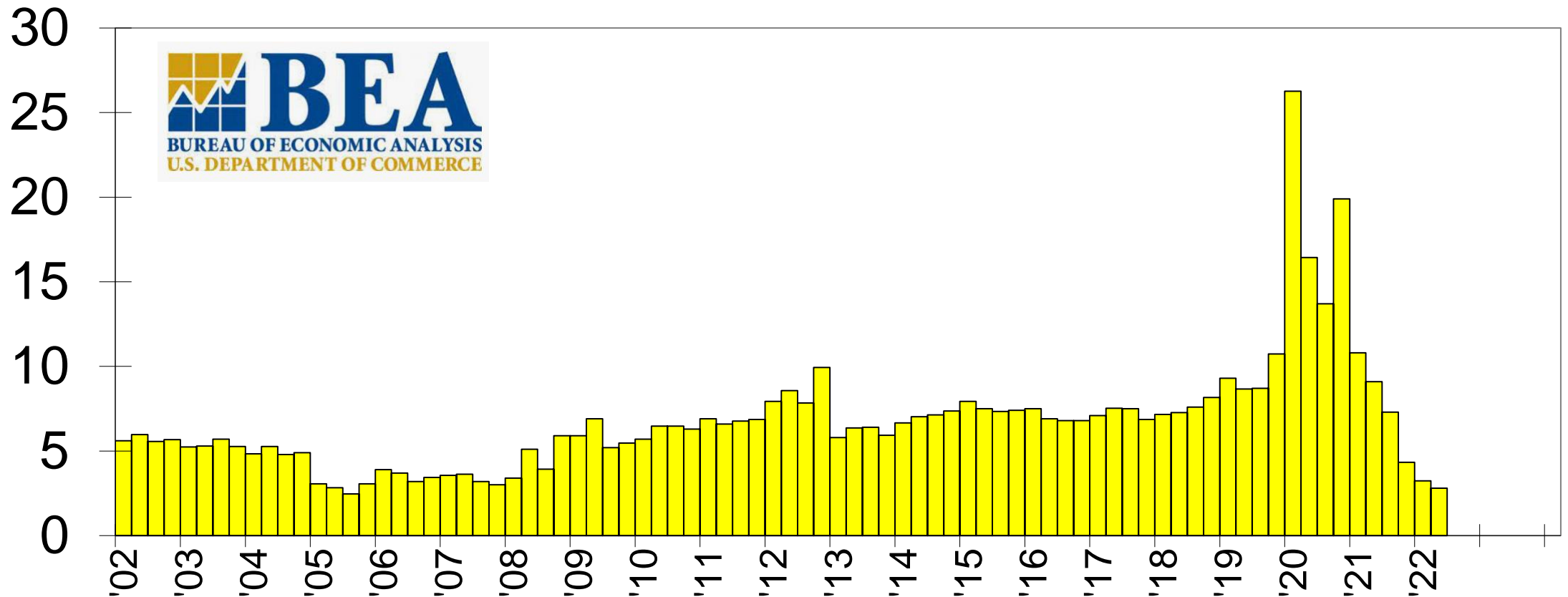
Household & Nonprofit Consumer Credit

\$ Billions



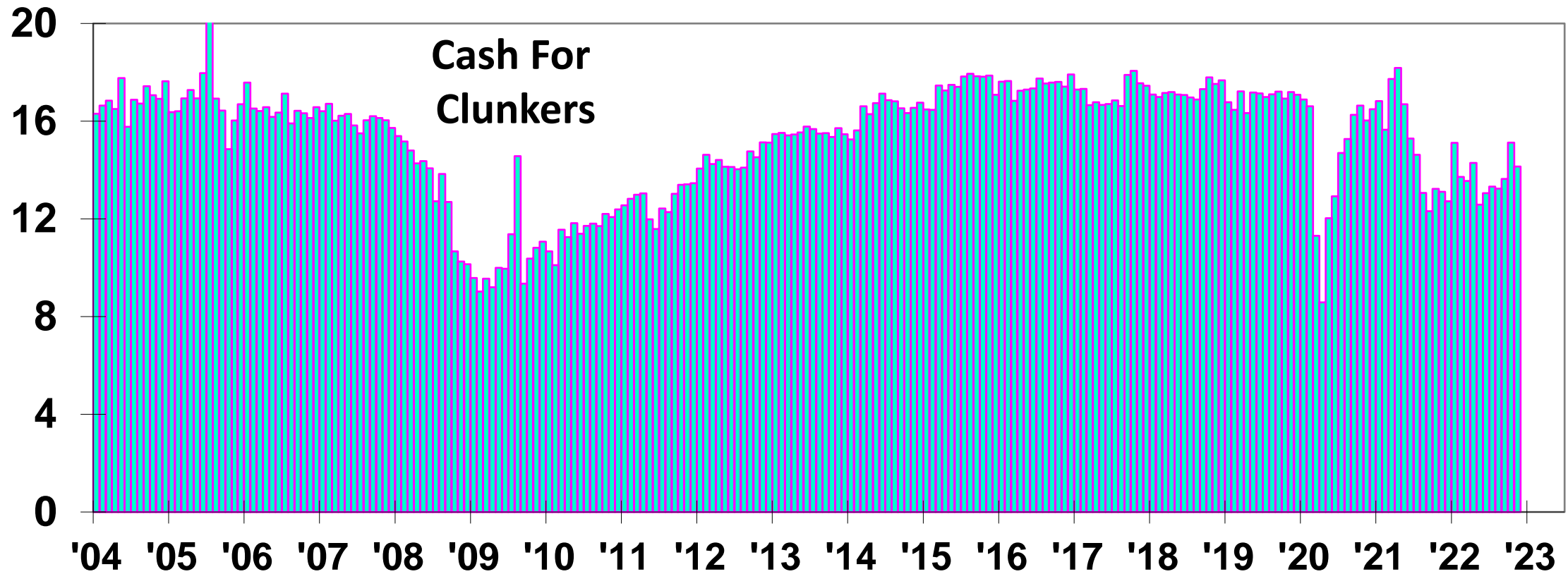
Personal Savings Rate – *Seasonally Adjusted*

Percent



Light Weight Vehicle Sales

Millions – *Seasonally Adjusted Annual Rate*



U.S. Real Retail & Food Service Sales

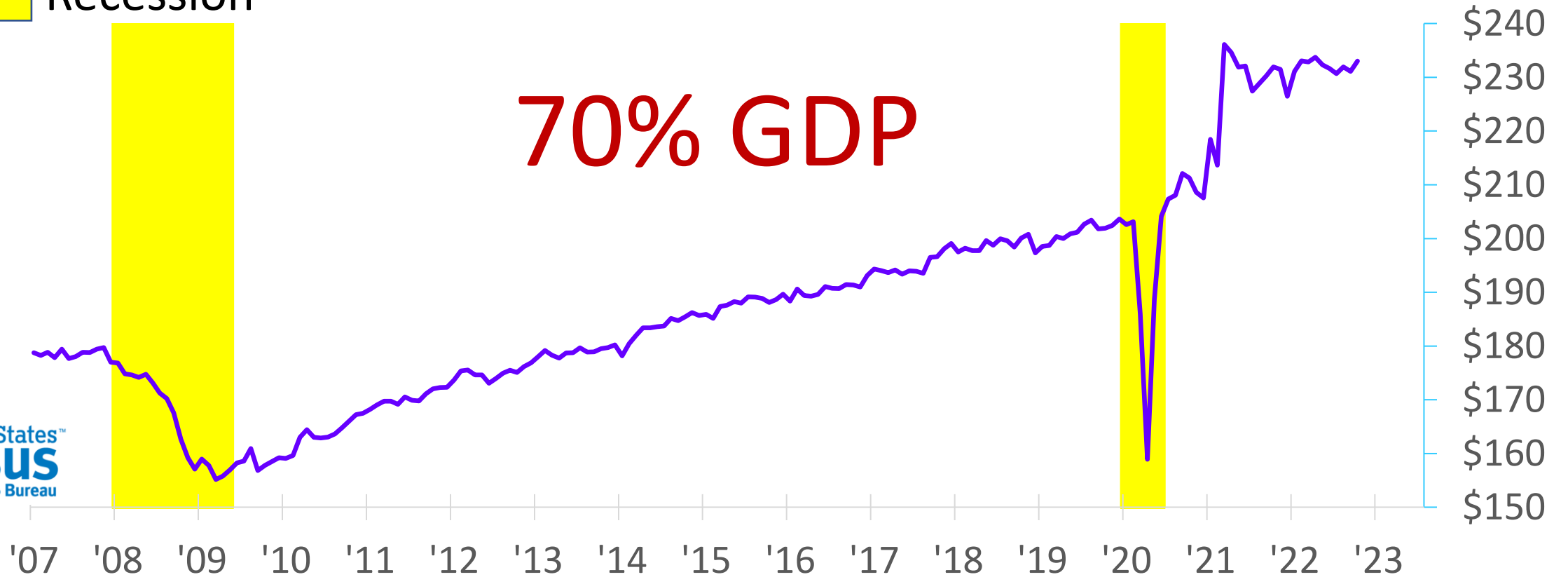
Advance Real Retail Sales – Seasonally Adjusted
1982-1984 CPI Adjusted

\$ Billions

Recession

70% GDP

United States™
Census
Bureau



2023

Pause, Look Both Ways & Reflect Economy

New Normal - Permanent Changes 66 Days

Shrinking Commercial Sales

Shrinking House & Apartment Sales

Downward Pressure on Rents & Home Values

Recession - *Almost Guaranteed in 2023* **Bloomberg**

- **Fannie Mae** – modest recession will commence in Q1 2023
- **The Conference Board** – economic weakness to see a recession to begin around the end of 2022
- **Bloomberg** – probability of a recession is now 100 percent within a year
- **JPMorgan** – mild recession in 2023
- **Forbes** – recession will begin late 2022 or early 2023
- **Former Boston Fed President Eric Rosengren** – U.S. likely headed to mild recession in 2023
- **FitchRatings** – recession to start in Q2 2023
- **University of Michigan Economists** – mild recession ahead in 2023
- **The Economist** – Why a Global Recession is inevitable in 2023
- **Bank of America** – forecasts mild 2023 recession
- **S&P Market Intelligence** – 2023 recession more likely than not
- **RBC** – recession is not here but it is coming

Wealth Effect

Notion that when households become richer as a result of a rise in asset values, such as corporate stock prices or home values, they spend more and stimulate the broader economy, and vice-versa



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Goldman Sachs note to clients says if the Fed has to hit the economy hard enough to raise the unemployment rate to 5%, the S&P500 index would have to fall another 14%. A 6% unemployment rate would drop the S&P500 27% in worse case scenario

@GoldmanSachs

@MKTWeconomics

DrTCJ





Goldman Sachs (NYSE:[GS](#)) chief U.S. equity strategist David Kostin expects a soft landing in 2023, with U.S. GDP growing about 1%.

Speaking to CNBC, he said that there will be no earnings growth next year, given the negative earnings revisions in the past several months and the likely impact from the recent hikes in interest rates.

Given this scenario, Kostin predicted S&P 500 earnings would decline ~11% in 2023. As a result, the S&P 500 will likely trade in a range of 3,750 to 4,000.

December 6, 2022

U.S. Census Bureau Vintage Population Estimates



Greatest Percentage Gain



Overall Rank	State	As of July 1		Percent Change	Net Change People
		2021	2022		
1	Florida	21,828,069	22,244,823	1.9%	416,754
2	Idaho	1,904,314	1,939,033	1.8%	34,719
3	South Carolina	5,193,266	5,282,634	1.7%	89,368
4	Texas	29,558,864	30,029,572	1.6%	470,708
5	South Dakota	896,164	909,824	1.5%	13,660
6	Montana	1,106,227	1,122,867	1.5%	16,640
7	Delaware	1,004,807	1,018,396	1.4%	13,589
8	Arizona	7,264,877	7,359,197	1.3%	94,320
9	North Carolina	10,565,885	10,698,973	1.3%	133,088
10	Utah	3,339,113	3,380,800	1.2%	41,687
11	Tennessee	6,968,351	7,051,339	1.2%	82,988
37	Ohio	11,764,342	11,756,058	-0.1%	-8,284

U.S. Census Bureau Vintage Population Estimates



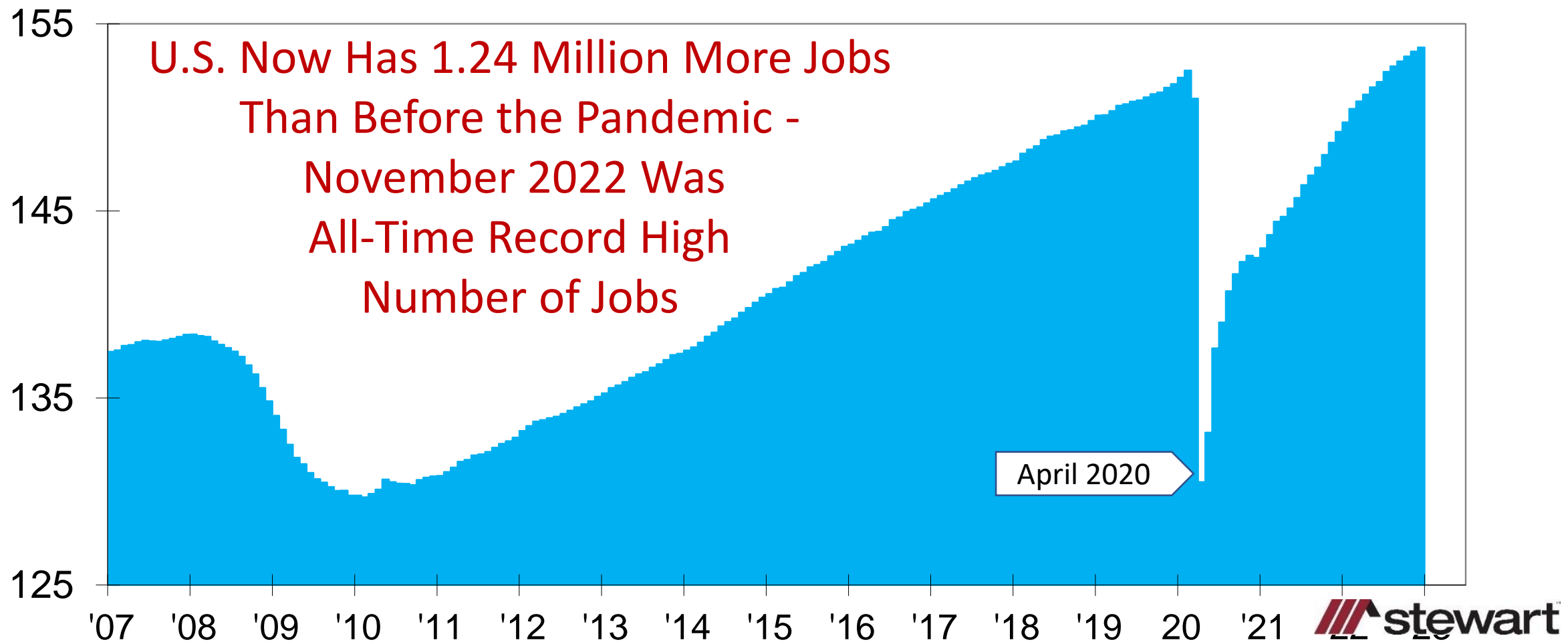
Greatest Percentage Gain



Overall Rank	State	As of July 1		Percent Change	Net Change People
		2021	2022		
39	Massachusetts	6,989,690	6,981,974	-0.1%	-7,716
40	New Mexico	2,116,677	2,113,344	-0.2%	-3,333
41	Maryland	6,174,610	6,164,660	-0.2%	-9,950
42	California	39,142,991	39,029,342	-0.3%	-113,649
43	Rhode Island	1,096,985	1,093,734	-0.3%	-3,251
44	Pennsylvania	13,012,059	12,972,008	-0.3%	-40,051
45	Mississippi	2,949,586	2,940,057	-0.3%	-9,529
46	Oregon	4,256,301	4,240,137	-0.4%	-16,164
47	Hawaii	1,447,154	1,440,196	-0.5%	-6,958
48	West Virginia	1,785,526	1,775,156	-0.6%	-10,370
49	Louisiana	4,627,098	4,590,241	-0.8%	-36,857
50	Illinois	12,686,469	12,582,032	-0.8%	-104,437
51	New York	19,857,492	19,677,151	-0.9%	-180,341

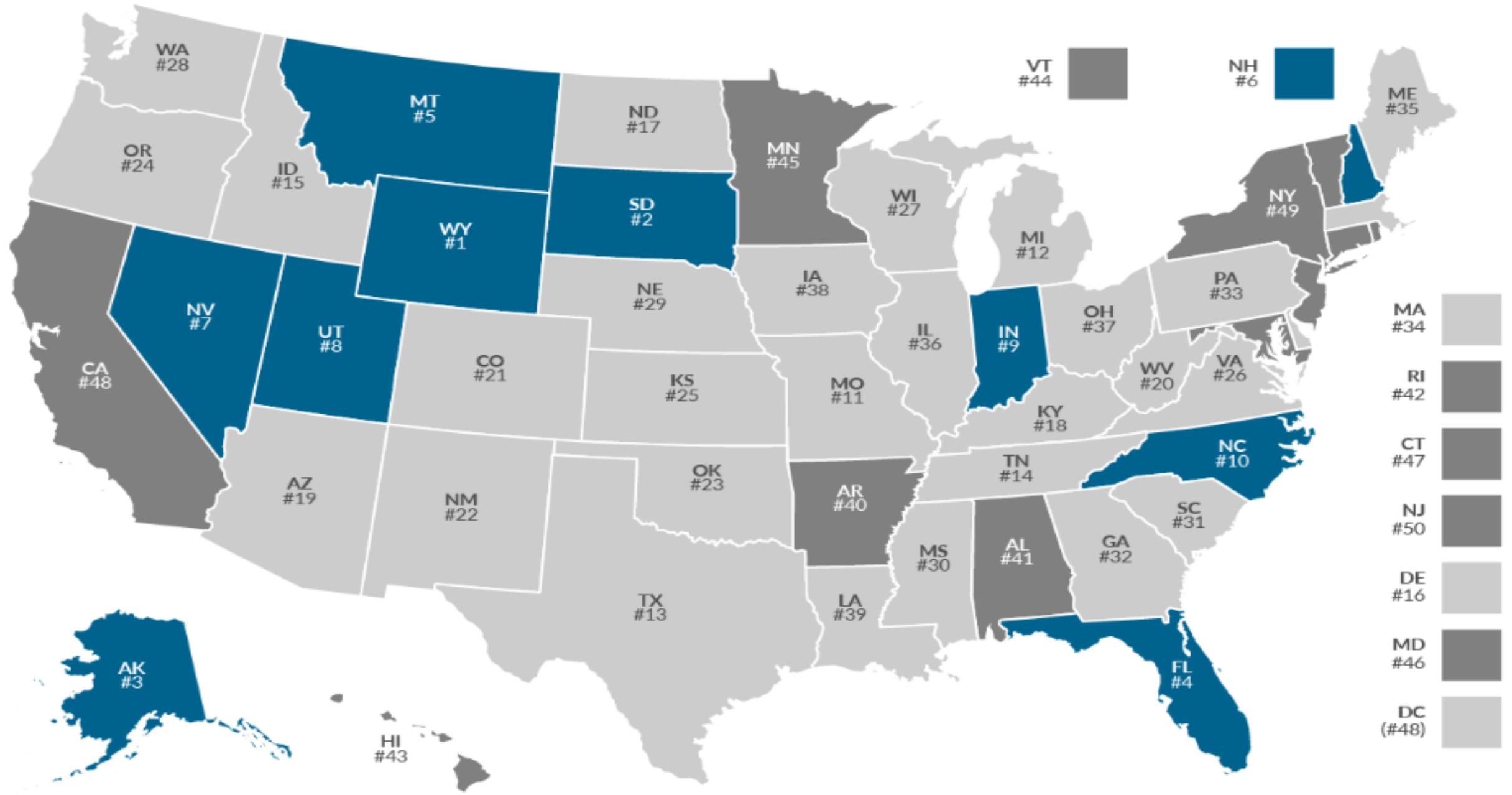
U.S. Jobs

Jobs (Millions) *Seasonally Adjusted*



2023 State Business Tax Climate Index

THE TAX FOUNDATION



Change in Jobs - February 2020 Through November 2022



Idaho	6.9%	Nebraska	0.9%	Kansas	-1.0%
Utah	6.6%	Kentucky	0.8%	Minnesota	-1.2%
Texas	5.5%	Maine	0.8%	Pennsylvania	-1.2%
Florida	5.4%	Alabama	0.7%	Wisconsin	-1.2%
North Carolina	4.7%	New Jersey	0.7%	Delaware	-1.4%
Arizona	3.7%	Missouri	0.5%	Michigan	-1.5%
Tennessee	3.6%	California	0.3%	Connecticut	-1.5%
Georgia	3.6%	Virginia	0.1%	Maryland	-1.7%
Montana	3.6%	New Hampshire	0.0%	Ohio	-1.9%
South Dakota	3.2%	Oklahoma	-0.2%	Rhode Island	-1.9%
Colorado	2.9%	Iowa	-0.3%	Alaska	-1.9%
South Carolina	2.2%	Massachusetts	-0.3%	North Dakota	-2.3%
Arkansas	1.8%	New Mexico	-0.5%	Louisiana	-2.8%
Nevada	1.8%	West Virginia	-0.5%	New York	-2.9%
Indiana	1.3%	Illinois	-0.6%	Dist of Columbia	-4.1%
Washington	1.1%	Mississippi	-0.7%	Vermont	-4.3%
Oregon	1.0%	Wyoming	-1.0%	Hawaii	-6.5%

State Job Growth -- 1-Month October to November 2022

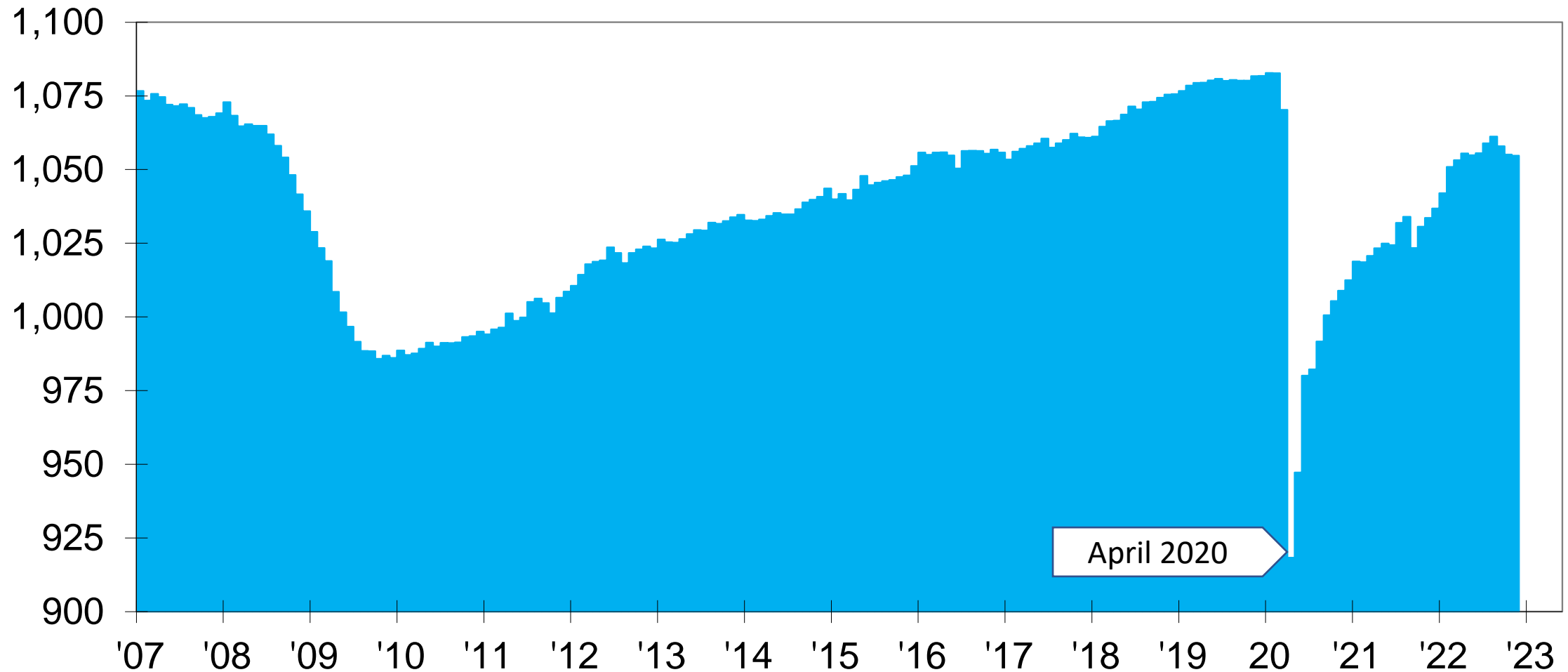


West Virginia	1.0%	Missouri	0.3%	California	0.2%
Wyoming	0.7%	New Jersey	0.3%	Colorado	0.1%
New Hampshire	0.6%	Hawaii	0.3%	North Carolina	0.1%
Alaska	0.6%	Indiana	0.3%	Ohio	0.1%
Oklahoma	0.5%	Texas	0.2%	Idaho	0.1%
Maine	0.5%	New Mexico	0.2%	Maryland	0.1%
Massachusetts	0.5%	Nebraska	0.2%	Iowa	0.0%
Oregon	0.4%	Minnesota	0.2%	Georgia	0.0%
Dist of Columbia	0.4%	New York	0.2%	Utah	0.0%
South Dakota	0.4%	Arizona	0.2%	Kentucky	0.0%
Connecticut	0.4%	Rhode Island	0.2%	Kansas	0.0%
Washington	0.4%	Wisconsin	0.2%	South Carolina	0.0%
Nevada	0.4%	Alabama	0.2%	Virginia	-0.1%
Montana	0.3%	Louisiana	0.2%	North Dakota	-0.2%
Michigan	0.3%	Tennessee	0.2%	Vermont	-0.2%
Florida	0.3%	Mississippi	0.2%	Delaware	-0.2%
Illinois	0.3%	Pennsylvania	0.2%	Arkansas	-0.2%

Cleveland-Elyria MSA



Jobs (Thousands) *Seasonally Adjusted*



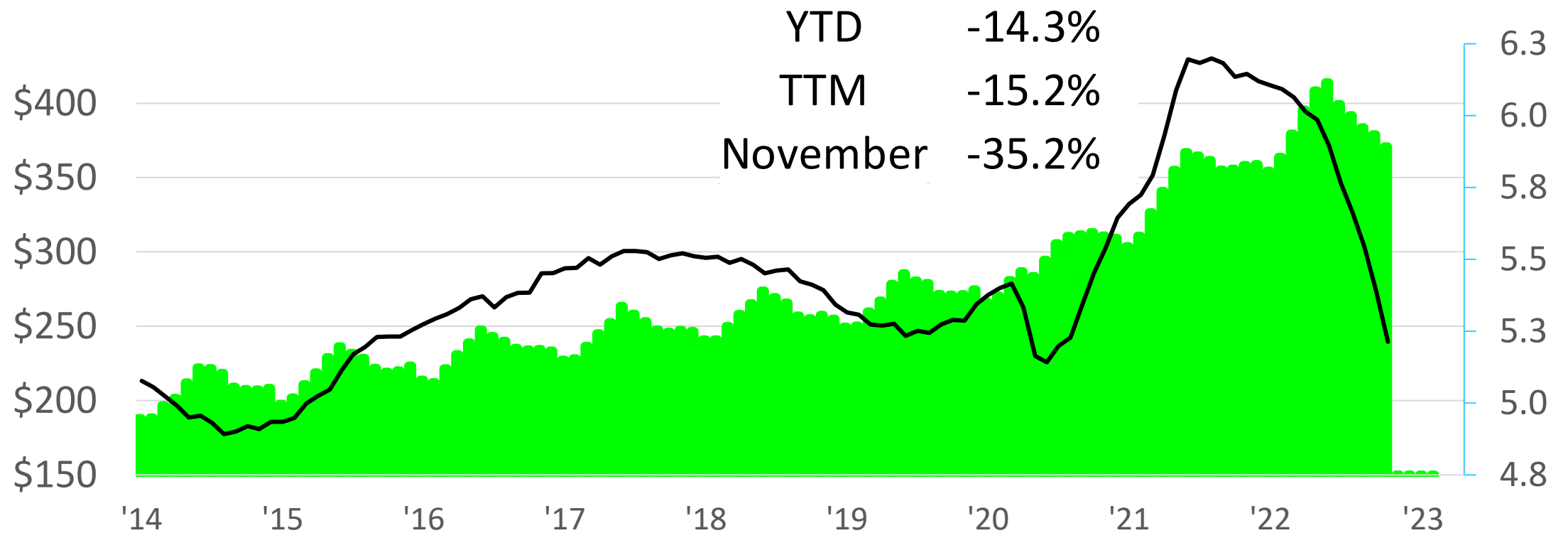
The 1st Indicator of
a Softening, Down-Turning
Real Estate Market is a
Decline in Sales as Prices
Rise Strongly

Ted C Jones - 2002

US Existing Home Sales & Median Prices

Median Price - \$ Thousands

Sales – Prior 12 Months *Millions*



U.S. Existing Single-Family Sales

November 2022

Price Range <i>Thousands</i>	Sales Distribution	Change in Sales Vs November 2021	Median Days On The Market
\$0 to \$100	4.8%	-27.4%	23
\$100 - \$250	23.6%	-37.1%	16
\$250 - \$500	43.8%	-33.6%	20
\$500 - \$750	16.5%	-32.0%	22
\$750 - \$1 Million	5.8%	-34.7%	22
Great than \$1 Million	5.5%	-41.2%	25

Based on a Non-Seasonally Adjusted Sample

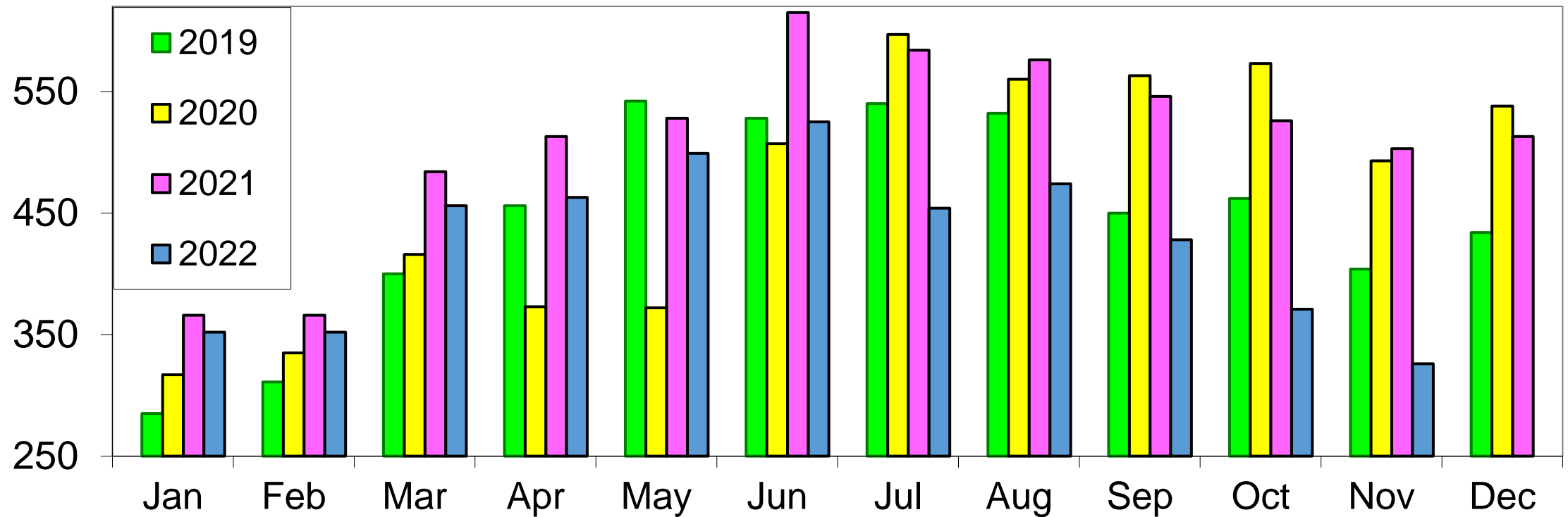
Existing Home Sales Year-to-Date

October 2022

Year	Single Family	Townhouse Condo	Total
2021	4,506,000	598,000	5,104,000
2022	3,894,000	480,000	4,374,000
Percent Change	-13.6%	-19.7%	-14.3%

U.S. Existing Home Sales

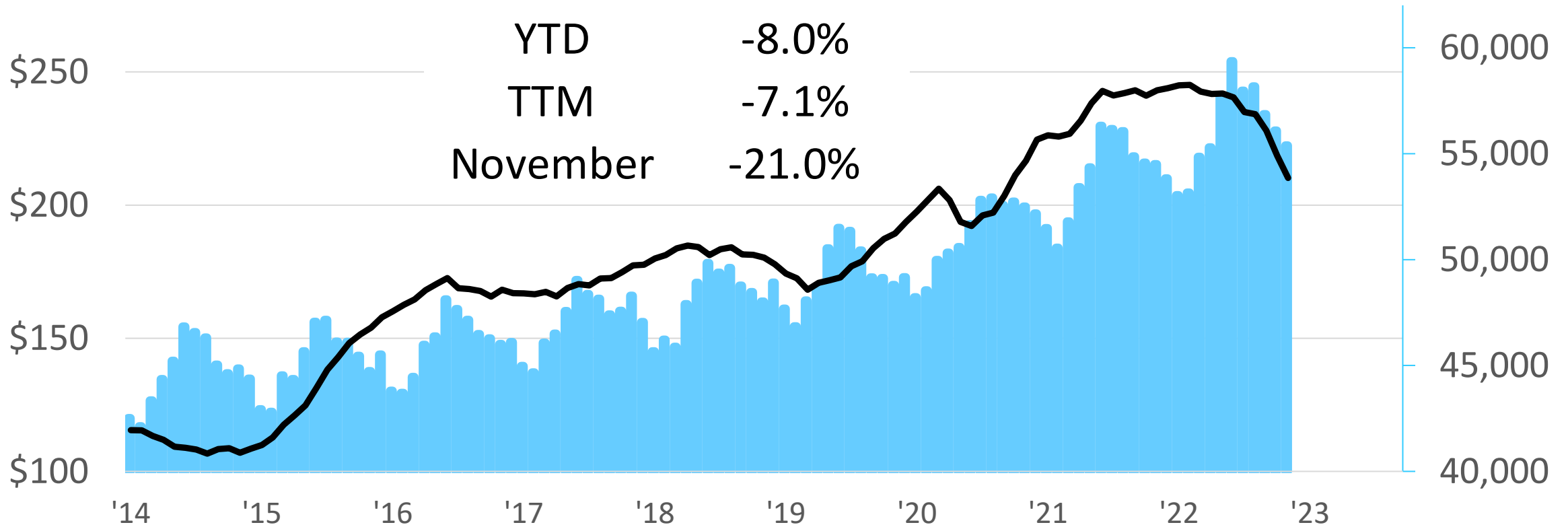
Monthly Sales – *Not Seasonally Adjusted* - Thousands



Greater Cleveland Home Sales & Median Prices

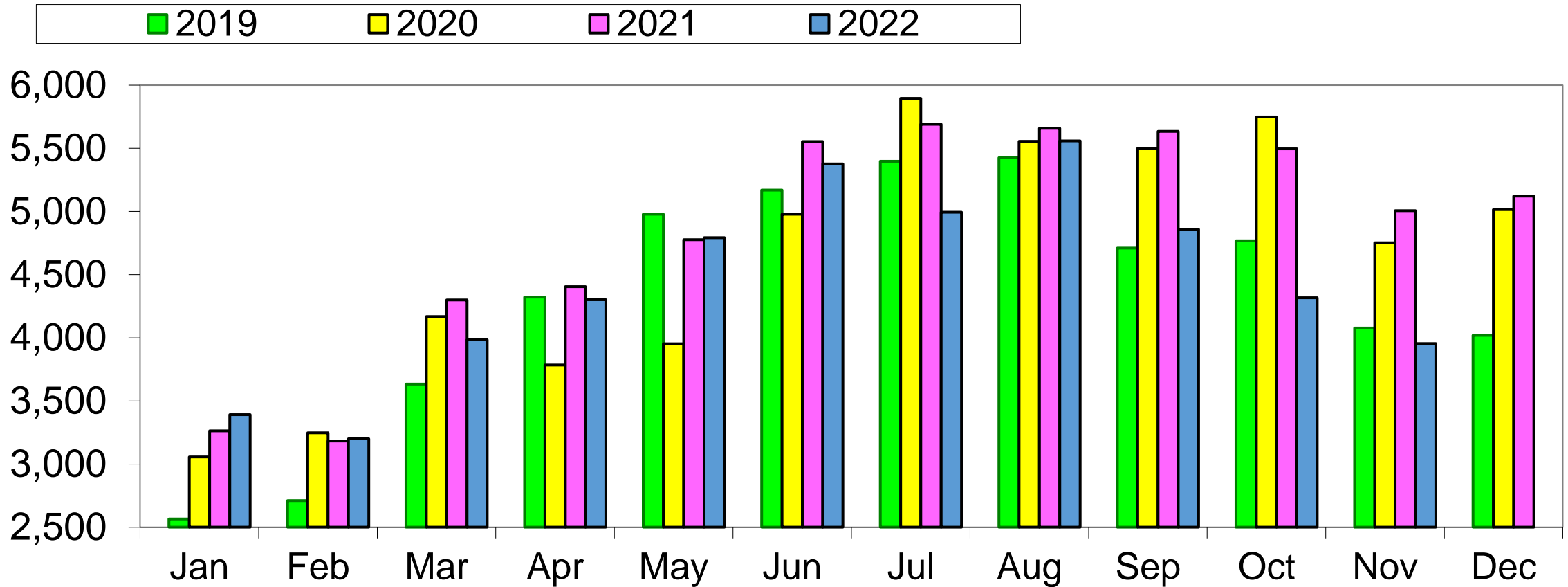
Average Price - \$ Thousands

Sales – Prior 12 Months



Greater Cleveland Home Sales

Monthly Sales – *Not Seasonally Adjusted* - Thousands



Cleveland MSA - Building Permits - Jobs

Year	Single Family	Multi Family	Total New Dwelling Units	Net New Jobs	New Jobs Per Dwelling
2010	1,853	88	1,941	8,900	4.59
2011	1,585	182	1,767	13,600	7.70
2012	1,925	407	2,332	14,700	6.30
2013	2,280	500	2,780	11,400	4.10
2014	2,282	644	2,926	8,900	3.04
2015	2,533	405	2,938	7,600	2.59
2016	2,618	435	3,053	4,600	1.51
2017	2,749	478	3,227	5,000	1.55
2018	2,733	248	2,981	14,800	4.96
2019	2,584	448	3,032	6,200	2.04
2020	2,814	560	3,374	(69,300)	-20.54
2021	2,949	391	3,340	24,300	7.28
	28,905	4,786	33,691	50,700	1.50

Need
1.25 to
1.50 Net
New Jobs
Per New
Dwelling
Unit



Ted C. Jones

@DrTCJ

..

Where 1st-Time Homebuyers Got Their Down Payment

52% from their paychecks

24% stimulus money

23% saved extra during the pandemic

22% worked a 2nd job

17% inheritance

15% sold stocks

12% cash gift from family

12% sold cryptocurrency

10% retirement account

@Redfin

@MBAMortgage

12:20 PM · Feb 7, 2022 · Twitter for iPad





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@DrTCJ



The percent of 1st-time homebuyers just fell to a record-low 26% of all transactions, down from 34% a year ago and off the record high 50% tallied in 2010 as interest rates continued upwards and greater year-over-year median prices [@NAR_Research](#)

10:32 AM · Nov 7, 2022 · Twitter for iPhone



Existing Home Sales

Existing Home Sales Forecast

December 2022

Sales -- Thousands *Annual*

	2021	2022	2023	2024
Fannie Mae	6,120	5,073	4,004	4,627
MBA	6,127	5,161	4,513	5,174
Average	6,124	5,117	4,259	4,901

Percent Change - *Year-Over-Year*

Fannie Mae	-17.1%	-21.1%	15.6%
MBA	-15.8%	-12.6%	14.6%
Average	-16.4%	-16.8%	15.1%

Existing Home Median Price Forecast

December 2022

Median Price -- \$ *Thousands*

	2021	2022	2023	2024
Fannie Mae	\$ 347.1	\$ 378.3	\$ 372.7	\$ 367.4
MBA	\$ 347.9	\$ 384.6	\$ 371.4	\$ 380.1
Average	\$ 347.5	\$ 381.5	\$ 372.0	\$ 373.8

Percent Change - *Year-Over-Year*

Fannie Mae	9.0%	-1.5%	-1.4%
MBA	10.5%	-3.4%	2.3%
Average	9.8%	-2.5%	0.5%

Existing Home Sales

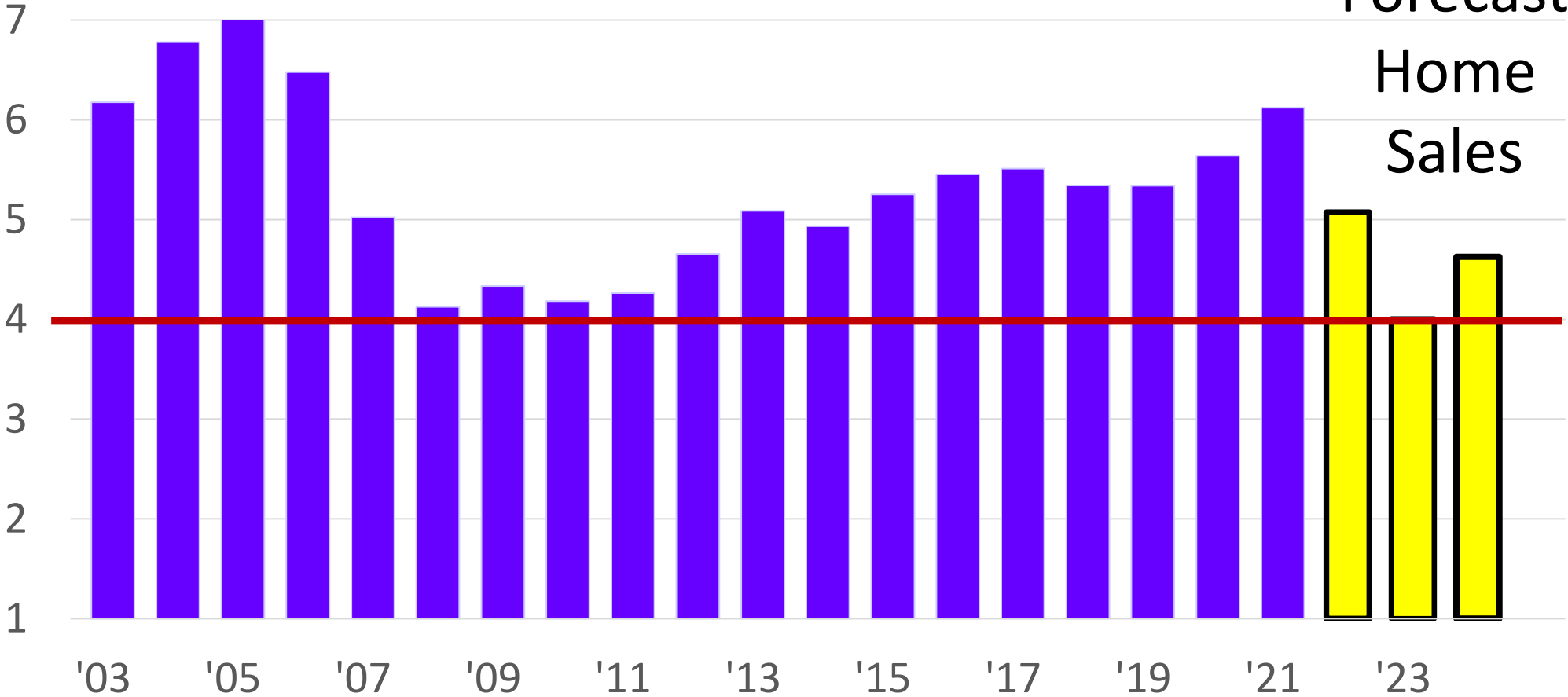
NAR Historical



December 2022

Forecast

Home
Sales



Residential Lending Forecast

December 2022

Residential Lending Forecast

Dec 2022

Purchase Lending \$ Billions

	2021	2022	2023	2024	2022	2023	2024
Fannie Mae	\$ 1,900.0	\$ 1,660.0	\$ 1,331.0	\$ 1,533.0	-12.6%	-19.8%	15.2%
MBA	\$ 1,863.0	\$ 1,578.0	\$ 1,450.0	\$ 1,644.0	-15.3%	-8.1%	13.4%
Average	\$ 1,881.5	\$ 1,619.0	\$ 1,390.5	\$ 1,588.5	-14.0%	-14.1%	14.2%

Refinance Lending \$ Billions

	2021	2022	2023	2024	2022	2023	2023
Fannie Mae	\$ 2,670.0	\$ 686.0	\$ 366.0	\$ 576.0	-74.3%	-46.6%	57.4%
MBA	\$ 2,574.0	\$ 667.0	\$ 449.0	\$ 635.0	-74.1%	-32.7%	41.4%
Average	\$ 2,622.0	\$ 676.5	\$ 407.5	\$ 605.5	-74.2%	-39.8%	48.6%

Total Lending \$ Billions

	2021	2022	2023	2024	2022	2023	2023
Fannie Mae	\$ 4,570.0	\$ 2,346.0	\$ 1,697.0	\$ 2,109.0	-48.7%	-27.7%	24.3%
MBA	\$ 4,437.0	\$ 2,245.0	\$ 1,899.0	\$ 2,279.0	-49.4%	-15.4%	20.0%
Average	\$ 4,503.5	\$ 2,295.5	\$ 1,798.0	\$ 2,194.0	-49.0%	-21.7%	22.0%

HOUSINGWIRE

Daily Update

November 10, 2022

“Last night, my Uber driver was a loan officer.”

Mortgage, Real Estate

The logo consists of a red square containing the white letters 'HW' in a bold, sans-serif font.

HW

Declining Home Prices

Joint Congress Economic Committee

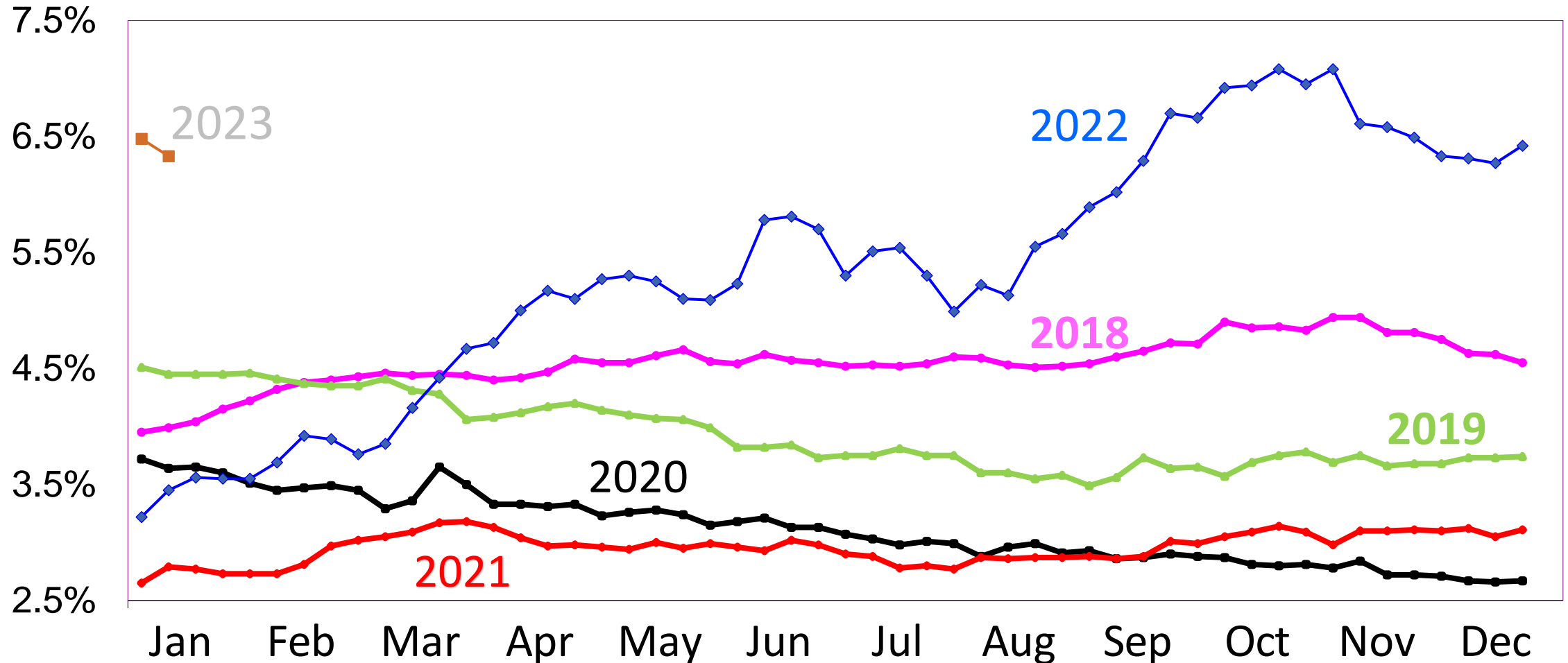
\$747 Per Month More Expensive This Year

Services a 6.42% \$119,173 30-Year Loan



30-Year Conventional Residential Mortgage Rates

Percent



Top Percentage Inbound States 2022

- 1 Texas
- 2 Florida
- 3 South Carolina
- 4 North Carolina
- 5 Virginia
- 6 Tennessee
- 7 Arizona
- 8 Georgia
- 9 Ohio

- 10 Idaho



Top Percentage Inbound MSAs 2022

- 1 Wilmington NC
- 2 Bellingham WA
- 3 Santa Fe NM
- 4 Myrtle Beach SC
- 5 Punta Gorda FL
- 6 Flagstaff AZ
- 7 Sarasota-Bradenton FL
- 8 State College PA
- 9 Eugene-Springfield OR
- 10 Ft Myers-Cape Coral FL

- 11 Burlington VT
- 12 Ft Pierce-St Lucie FL
- 13 Daytona Beach FL
- 14 Dothan AL
- 15 Hickory AL
- 16 Mobil AL
- 17 Portland-Vancouver OR-WA
- 18 Montgomery AL
- 19 West Palm Beach- Boca Raton
- 20 Dover DE



Ted's 2023 Existing Home Sales Forecast

Total Sales Down 10% to 12% Vs 2022

Median Price Gain in 2022 in Lower Single Digits
Then Negative 10% to 14% YOY in 2023

30-Year Mortgage Rates in 6% to Low 7%

According to the Redfin Homebuyer Index, while home prices are up 3.2% year-over-year in the 4 week period ending November 6, prices have dropped 8.4% since reaching a record high this past June

[@DSNewsDaily](#)

[@Redfin](#)

6:13 AM · Nov 14, 2022 · Twitter for iPad

DrTCJ 

Where Home Prices are Dropping the Most Percent Change in Monthly Median Home List Price Since June

- 10.3% Austin
- 9.9% Phoenix
- 8.9% Palm Bay FL
- 8.6% Charleston
- 8.6% Ogden UT
- 8.0% Denver NC
- 7.9% Las Vegas
- 7.7% Stockton CA
- 7.5% Durham
- 7.4% Spokane WA

[@realtordotcom](#)



New Home Glut

There are now an estimated 470,000 unsold new homes under all-states of construction - up 21% year-over-year & the largest inventory seen since March 2008 at the start of the housing bubble implosion

[@uscensusbureau](#)

Wolf Street

5:08 AM · Dec 12, 2022

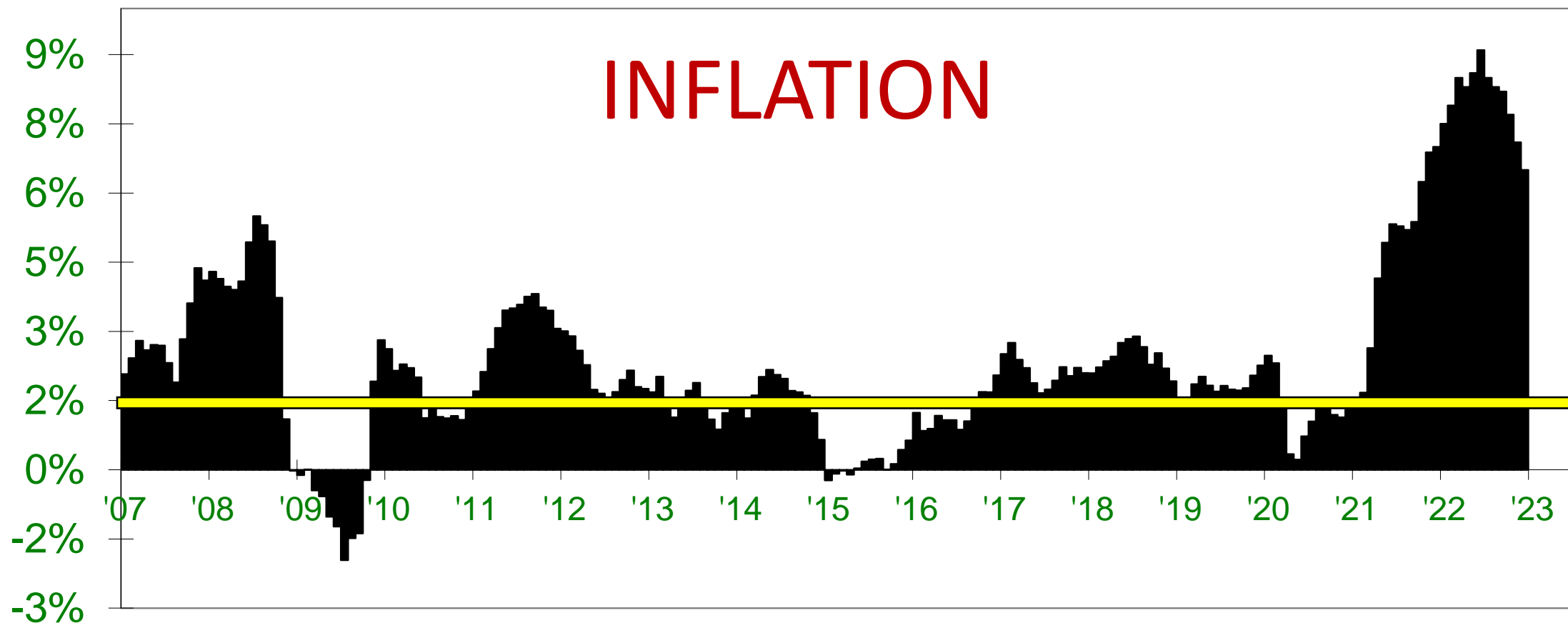
Select Markets
Not Every Place



CPI for All Urban Consumers -- U.S. City Average

12-Month Change Seasonally Adjusted

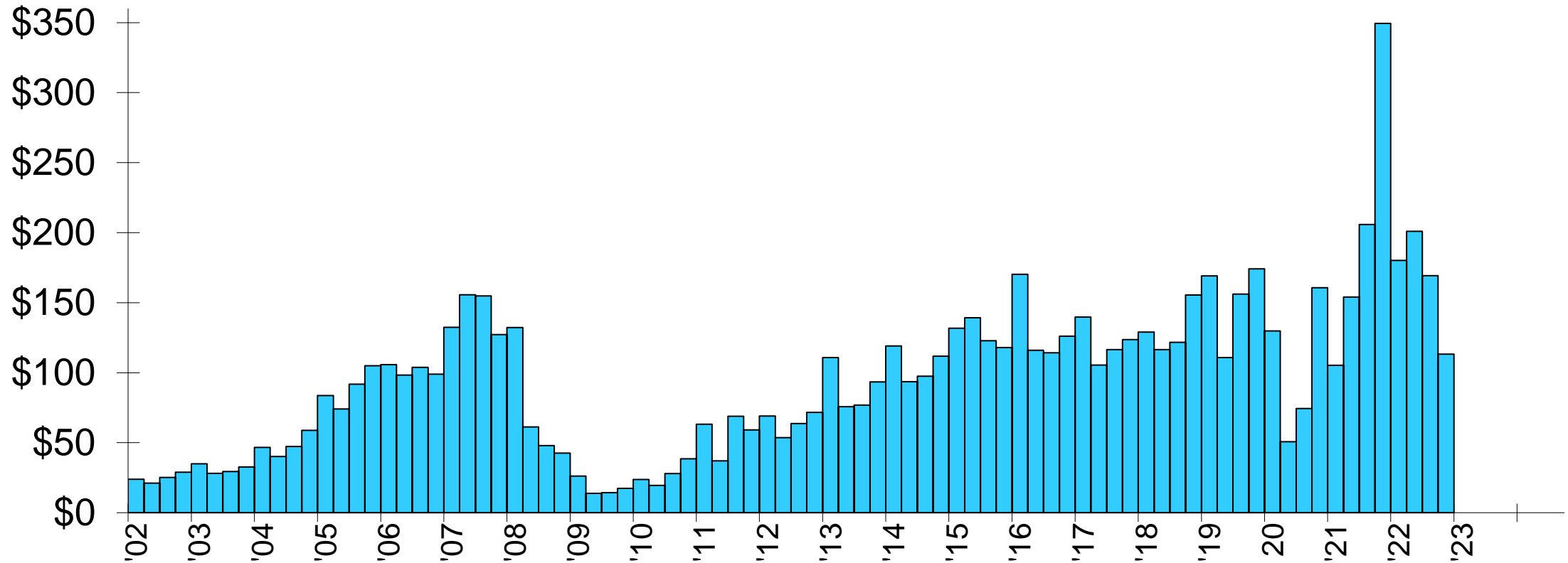
6.5% December 2022



U.S. Commercial Real Estate Sales

\$ Billions – Quarterly

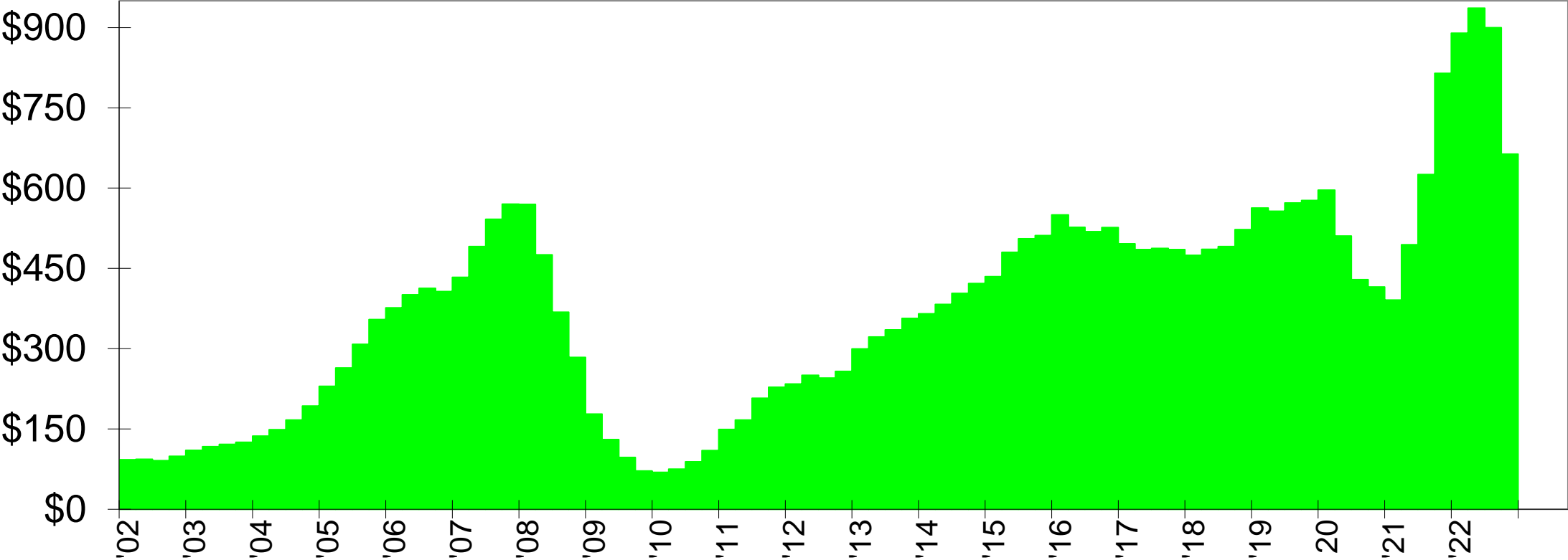
Q4 2021 **Best** Quarter in History



US Commercial Real Estate Sales

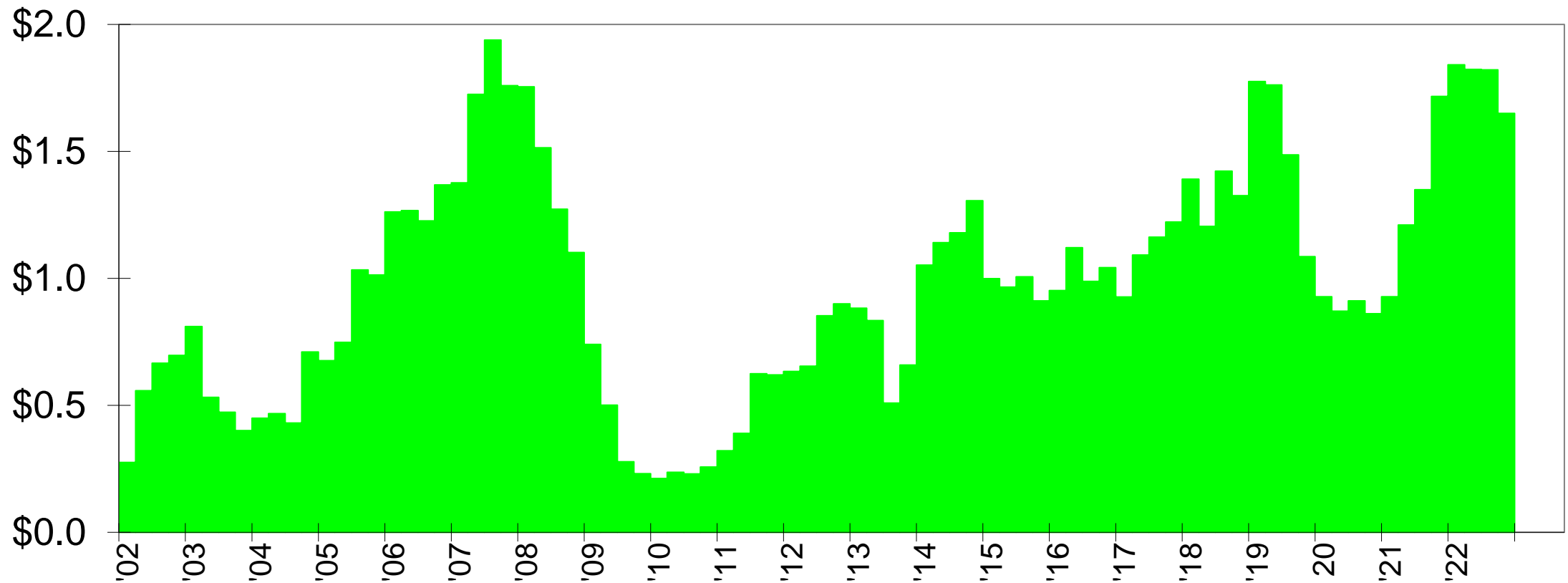


\$ Billions – *Trailing 12 Months*



Cleveland Commercial Real Estate Sales

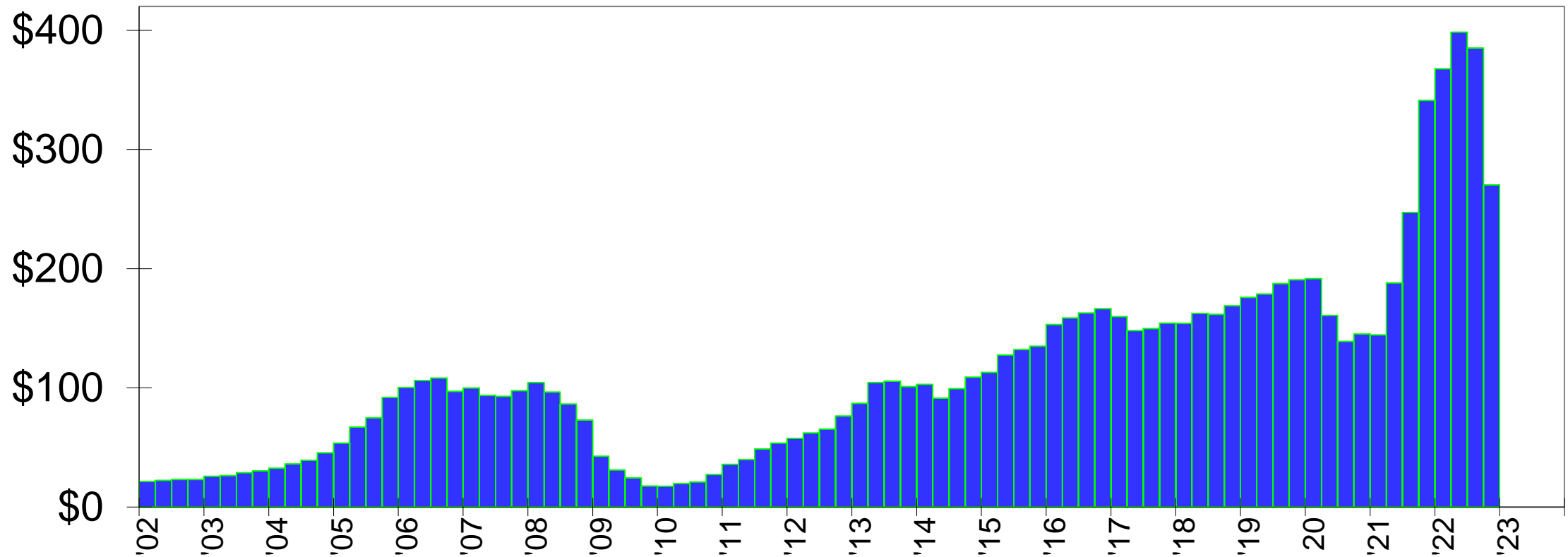
\$ Billions – *Trailing 12 Months*



US Apartment Sales



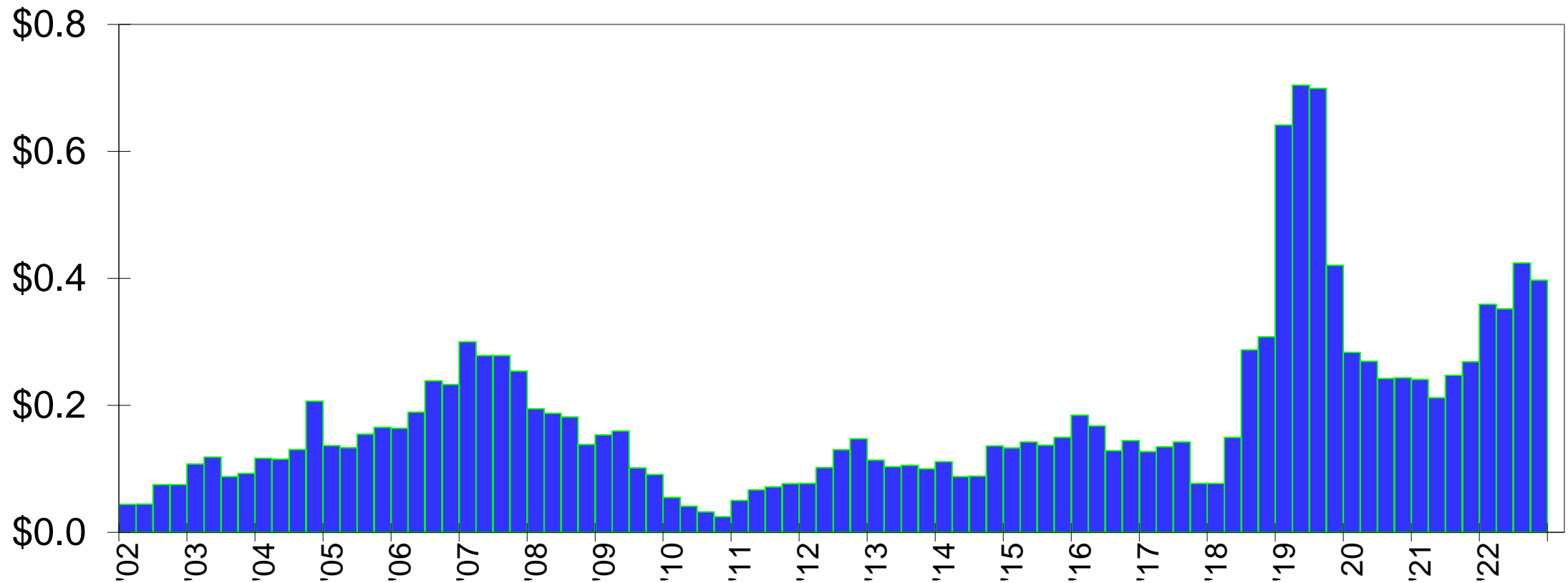
\$ Billions – *Trailing 12 Months*



Cleveland Apartment Sales



\$ Billions – *Trailing 12 Months*



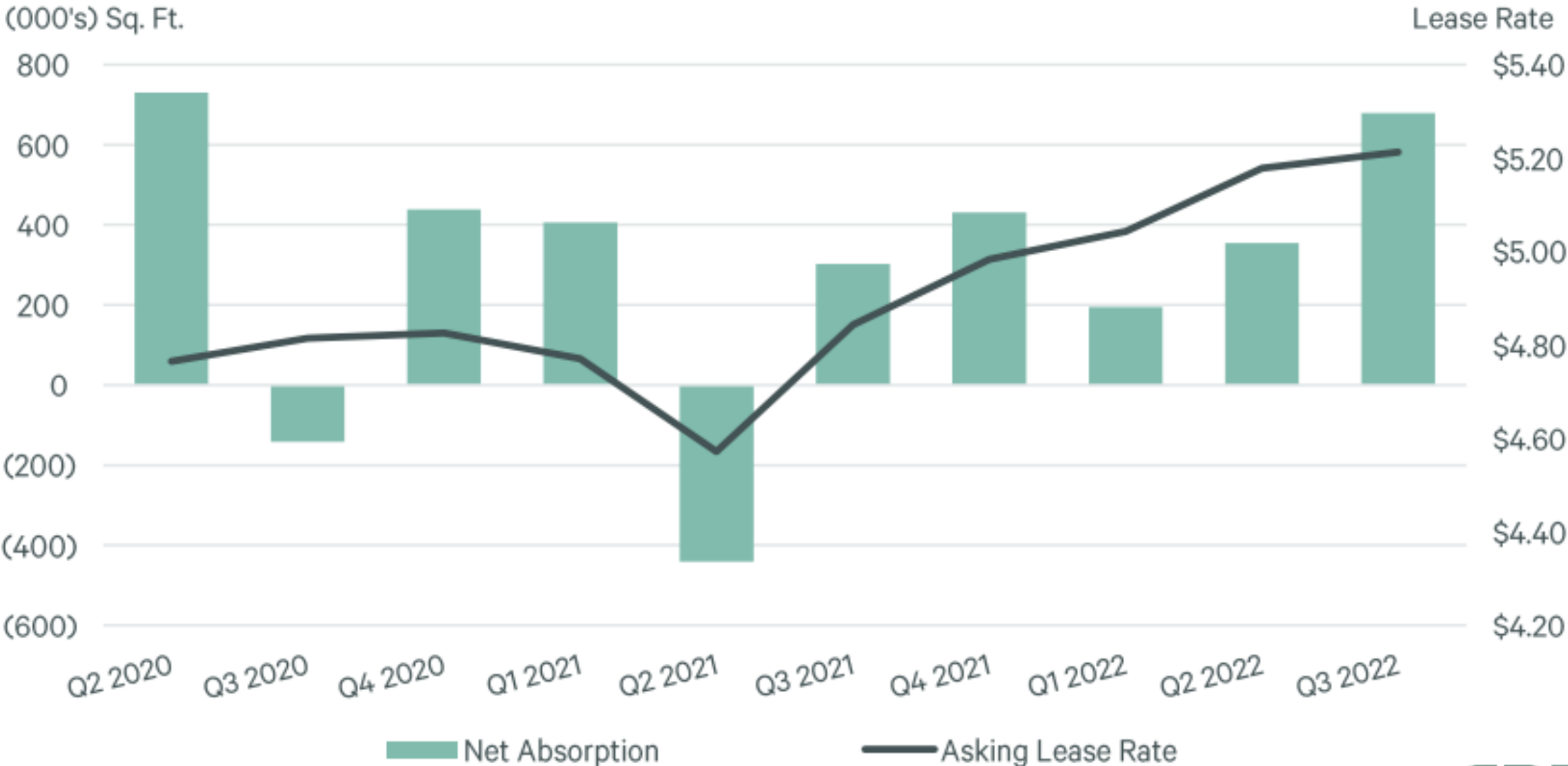
Ohio



Ohio Apartment Market Data | Q3 2022

Metro Area	Inventory (# of Units)	Vacant Units	Annual Demand (Units)	Occupancy Rate (%)	Annual New Supply (Units)	Units Under Construction	Avg Monthly Rent	Avg Rent per SF
Cleveland	170,024	5,985	35	96.5%	1,088	2,107	\$1,187.00	\$1.37
Cincinnati	164,992	5,148	1,013	96.9%	2,130	6,411	\$1,286.00	\$1.35
Columbus	195,960	7,603	1,486	96.1%	3,921	8,768	\$1,267.00	\$1.34
Dayton	56,564	2,002	-200	96.5%	373	907	\$1,071.00	\$1.18
Akron	44,497	1,112	-136	97.5%	357	731	\$1,134.00	\$1.23
Grand Total	632,037	21,851	2,198	96.7%	7,869	18,924	\$1,189.00	\$1.29

Cleveland Industrial



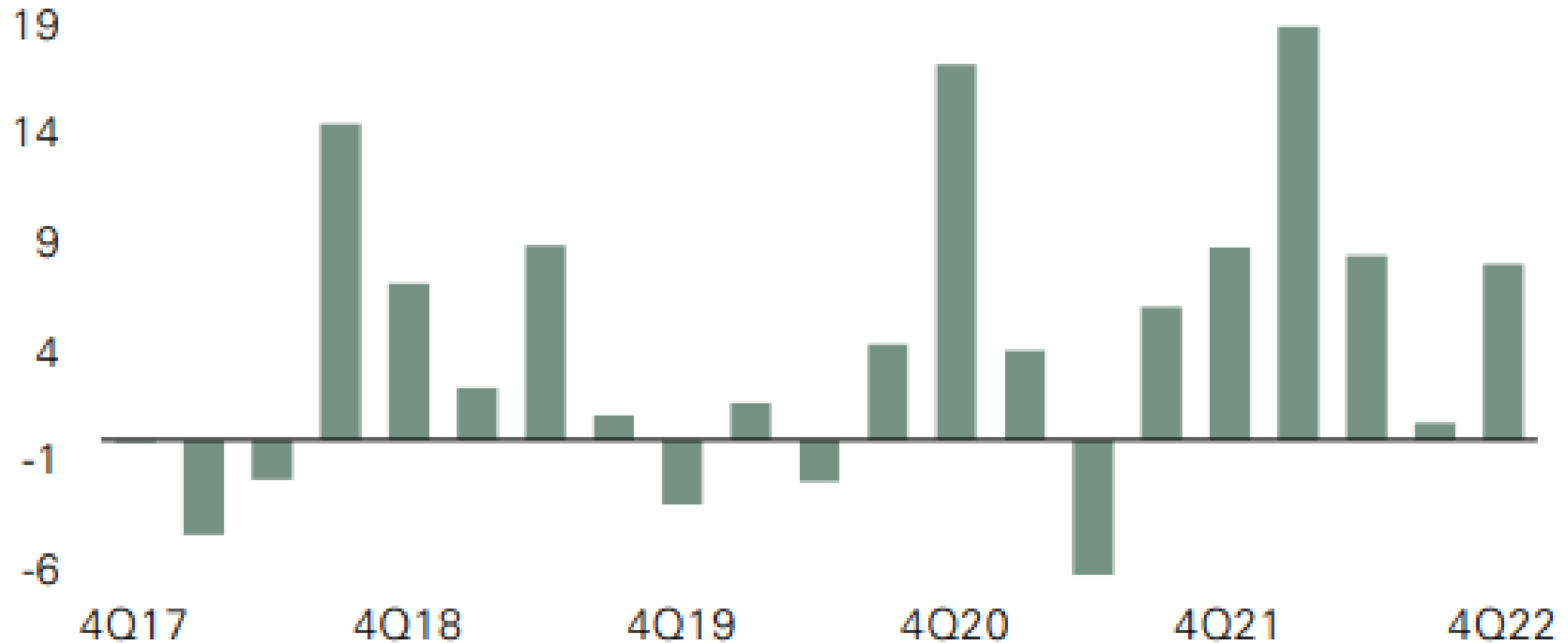
Source: CBRE Research, Q3 2022



Cleveland Industrial

NEWMARK

NET ABSORPTION (SF, Hundred Thousands)



Cleveland

Vacancy reaches a historic low while the average rent increases to its highest level on record

- Construction in 2022 is projected to total 6.1 million s.f. This is the highest annual level of industrial construction in more than 25 years.
- Demand for industrial space in Cleveland has outpaced construction levels for the last four years, pushing vacancy down to 3.3% at the end of Q3 2022.
- The average industrial asking rent in Cleveland increased to \$5.41 p.s.f. in Q3 2022, a historic high-water mark and an increase of 32% in the last two years.

Fundamentals	Forecast
YTD net absorption	6,425,138 s.f. ►
Under construction	5,589,886 s.f. ▼
Total vacancy	3.3% ▼
Sublease vacancy	845,414 s.f. ▼
Direct asking rent	\$5.42 p.s.f. ▲
Sublease asking rent	\$5.32 p.s.f. ▲
Concessions	Decreasing ▼

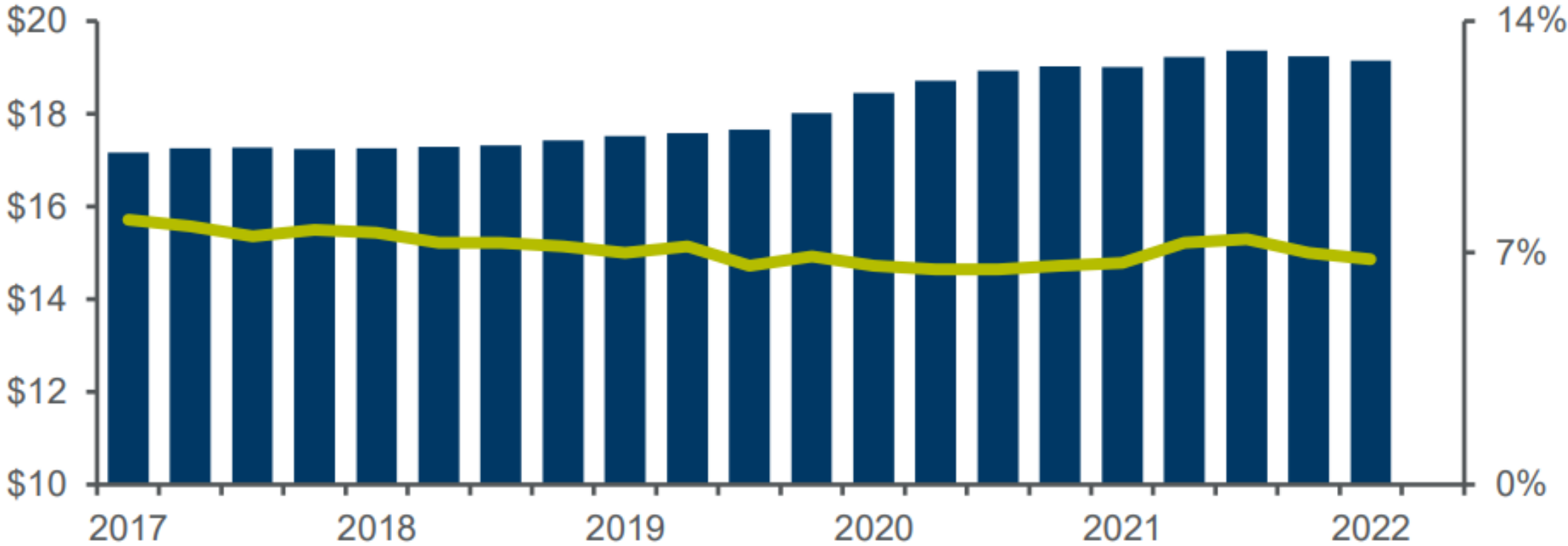
Cleveland Office

	21Q3	22Q2	22Q3
"Total Inventory (in Millions of SF)"	52.3	52.4	52.4
"New Supply (in Thousands of SF)"	130.0	0.0	0.0
"Net Absorption (in Thousands of SF)"	14.8	56.4	-33.6
Overall Vacancy	13.6%	13.1%	14.3%
"Under Construction (in Thousands of SF)"	533.4	2039.9	2039.9
"Overall Asking Lease Rates (FSG)"	\$18.46	\$18.22	\$18.46



Cleveland Office

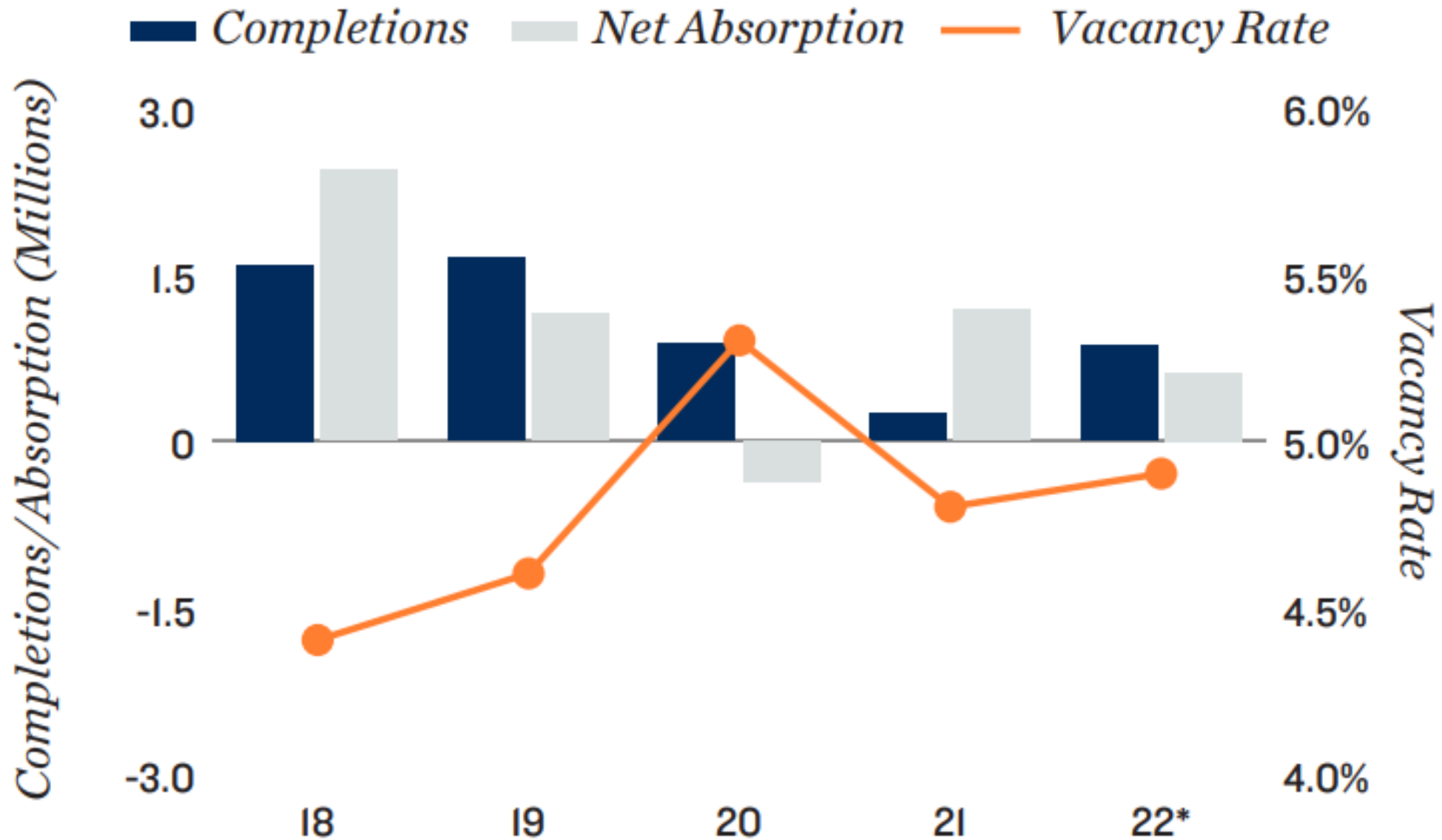
OVERALL VACANCY & ASKING RENT



Asking Rent, \$ PSF Vacancy Rate



Cleveland Retail



		<u>Columbus</u>	<u>Cincinnati</u>	<u>Cleveland</u>
Transactions	<i>2019</i>	39	56	31
	<i>Q1-Q3</i>			
	<i>2021</i>	32	37	21
	<i>2022</i>	45	20	25
Sales Change Q1-Q3				
	2019 to 2022	15.4%	-64.3%	-19.4%
	2021 to 2022	40.6%	-45.9%	19.0%
Cap Rates - Average				
	2019	6.05%	6.32%	6.22%
	2021	5.34%	5.78%	5.53%
	2022	5.11%	5.50%	5.50%
	Q4 2022	<u>5.08%</u>	5.54%	5.28%
Price Per Unit - Hedonic				
	2019	\$81,055	\$68,061	\$55,360
	2021	\$99,079	\$103,196	\$70,852
	2022	<u>\$110,947</u>	\$113,329	\$78,180



Ted C. Jones

@DrTCJ

Government imposed regulations account for more than 40% of all multifamily development costs according to a study by [@NAHBhome](#) & [@NMHCInnovation](#) National Multifamily Housing Counsel

87.5% of builders will avoid new construction in markets with rent controls

[@GlobeStcom](#)

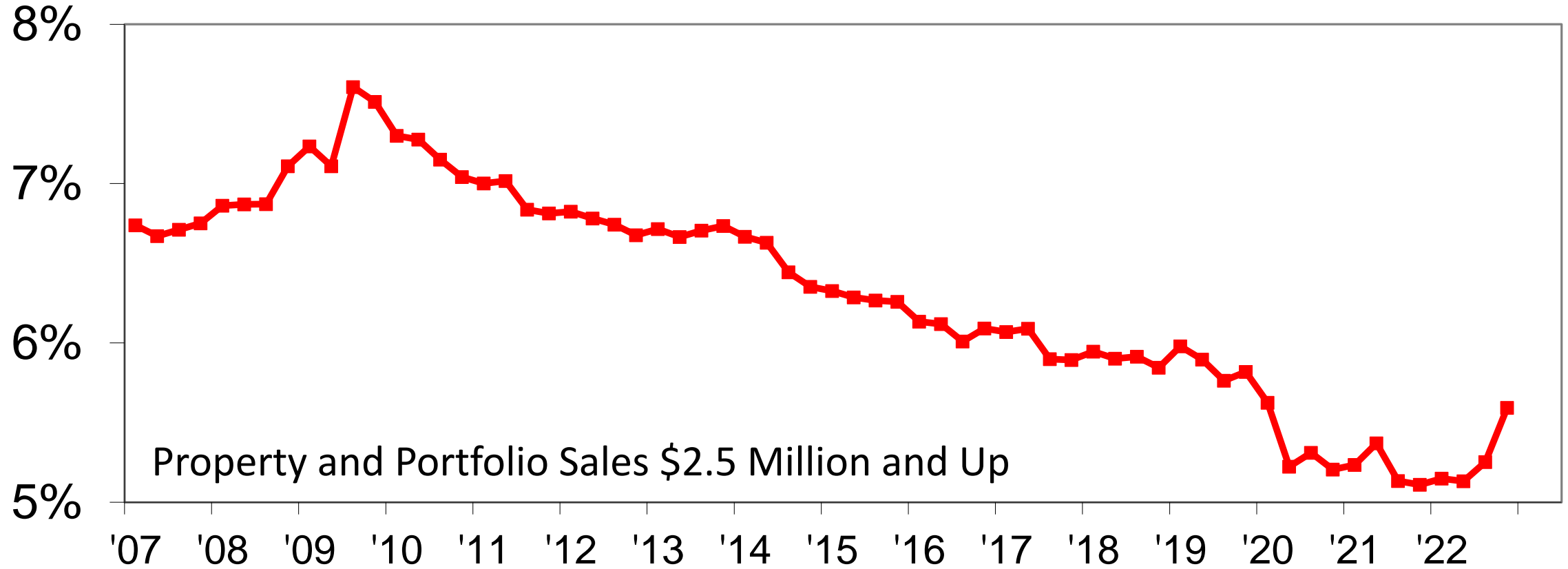
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U.S. Cap Rates – *All Property Types*



Percent



CREATIVITY

The Good, the Bad and the Ugly

An Outlook for Real Estate and the Economy



Historically Low
Unemployment



Highest
Mortgage rates



Highest
Inflation

Presented by



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NORTHSTAR

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