



AN ECONOMIC & LUXURY HOUSING MARKET FORECAST

PRESENTED BY: MATTHEW GARDNER

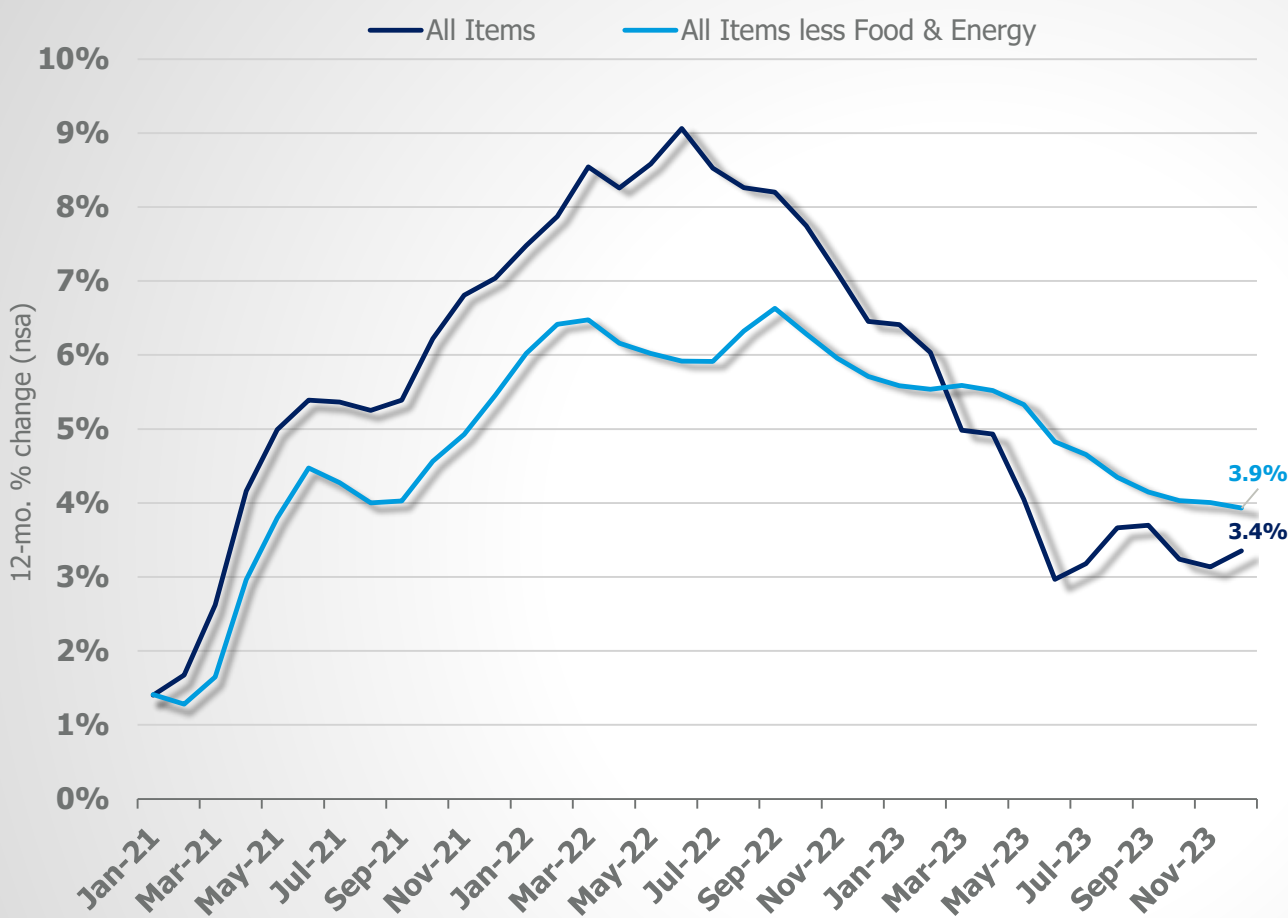
Real Estate Economist

THE U.S. ECONOMY



INFLATION

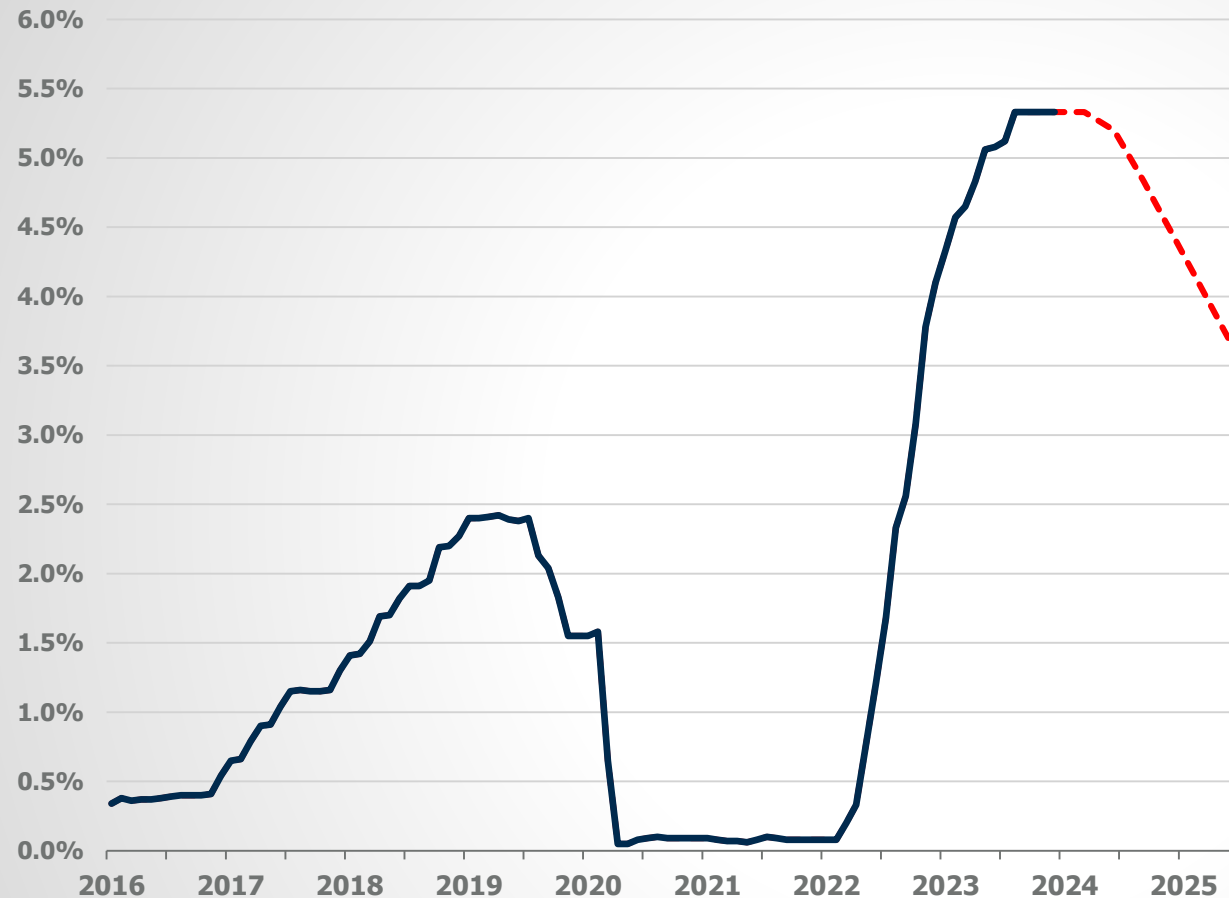




Total & Core Inflation Levels Have Dropped Palpably

However, rates are “sticky” – largely due to shelter costs.

(Insurance costs aren’t helping either)



The “Hawks” are Still in Control

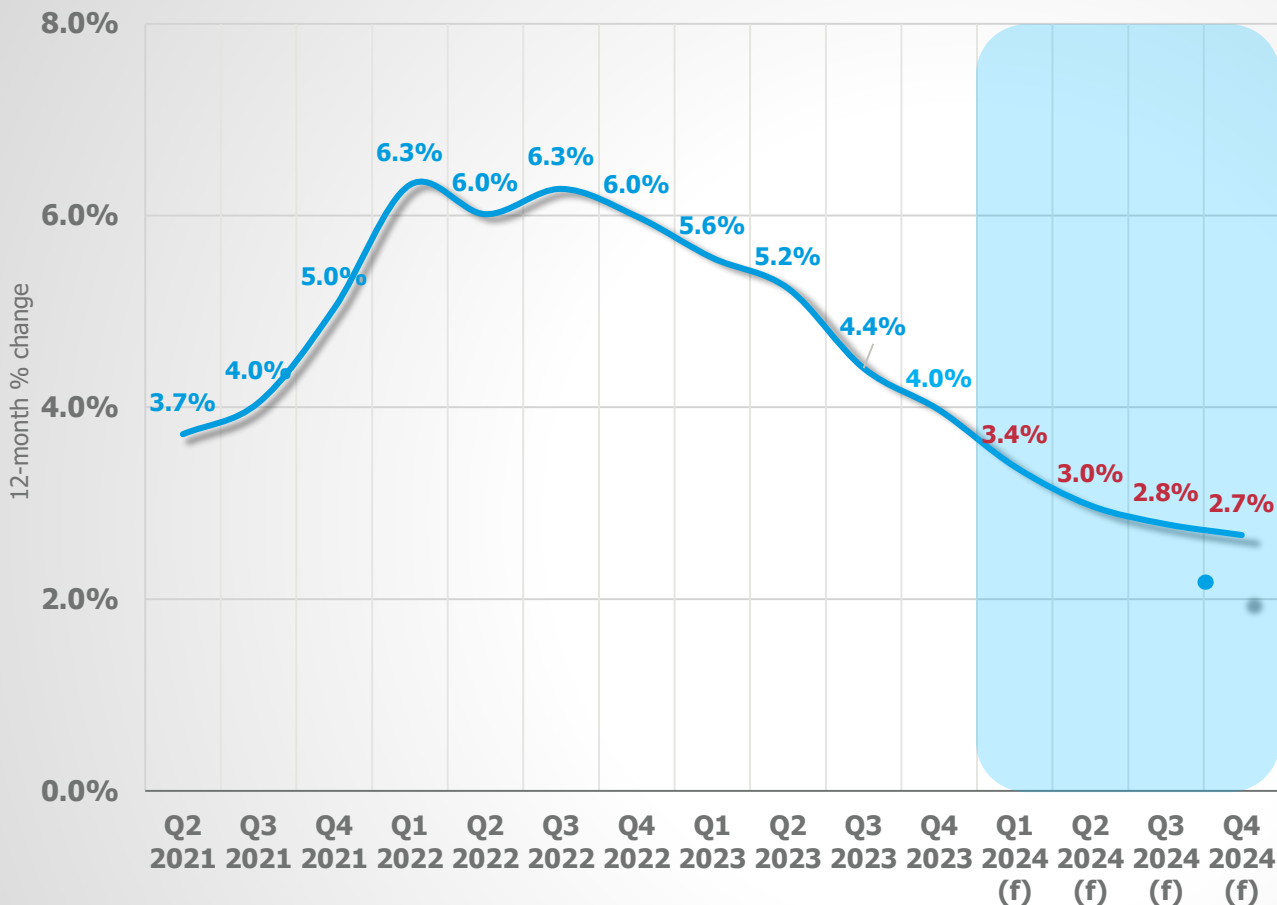
But there will be no more rate hikes...

The question now becomes when will the Fed start cutting?

I see around a 125 bps drop starting in mid-2024

Source:
Gardner Economics'
forecast using Federal
Reserve historic data;
sa

FEDERAL FUNDS RATE & FORECAST



Fed Policy is Working

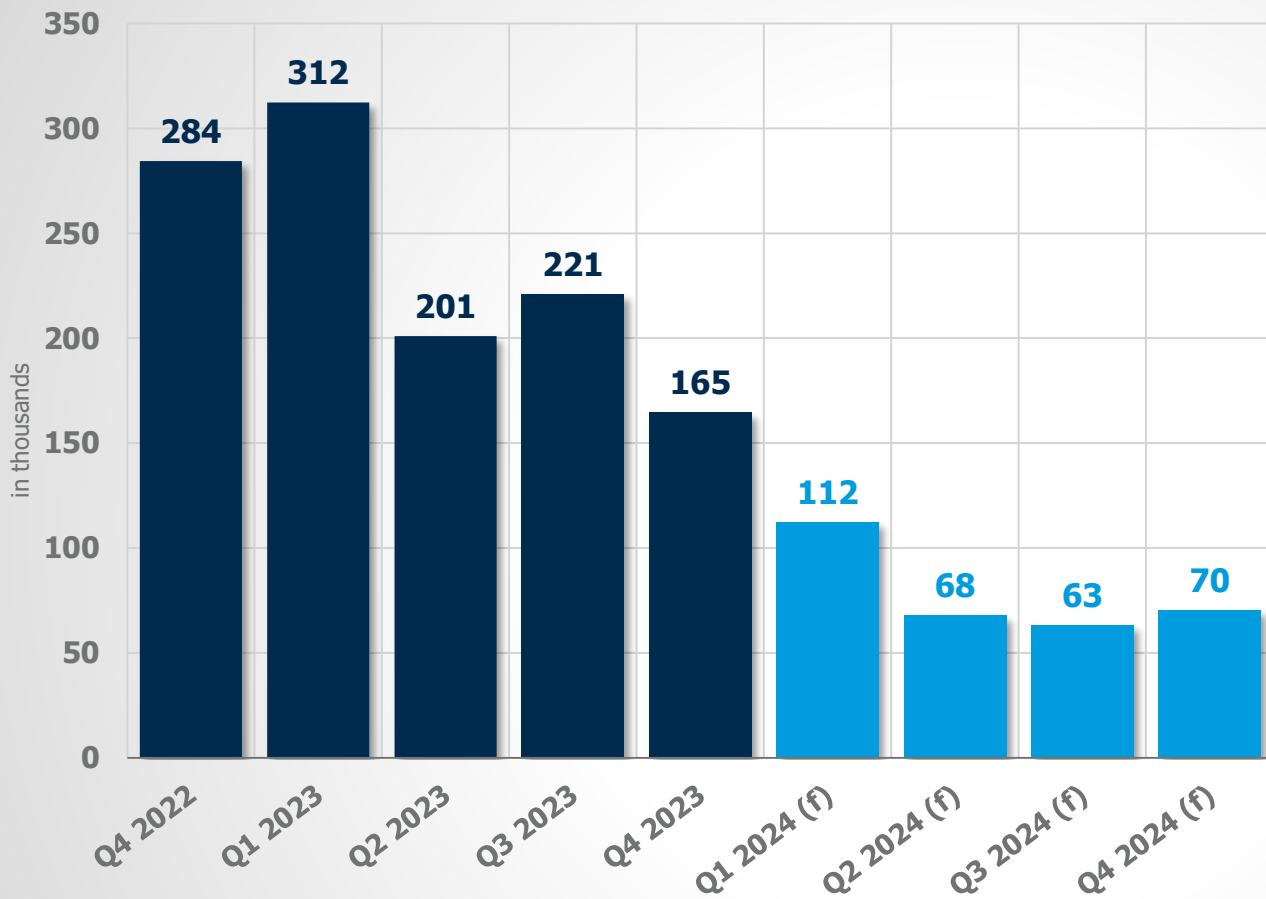
Which, along with the impact of shelter costs starting to wane, will allow inflation to continue trending toward the Fed's target

Source:
Gardner Economics'
forecasts using BLS
historic data; sa

CORE CPI HISTORY & FORECAST

THE LABOR MARKET



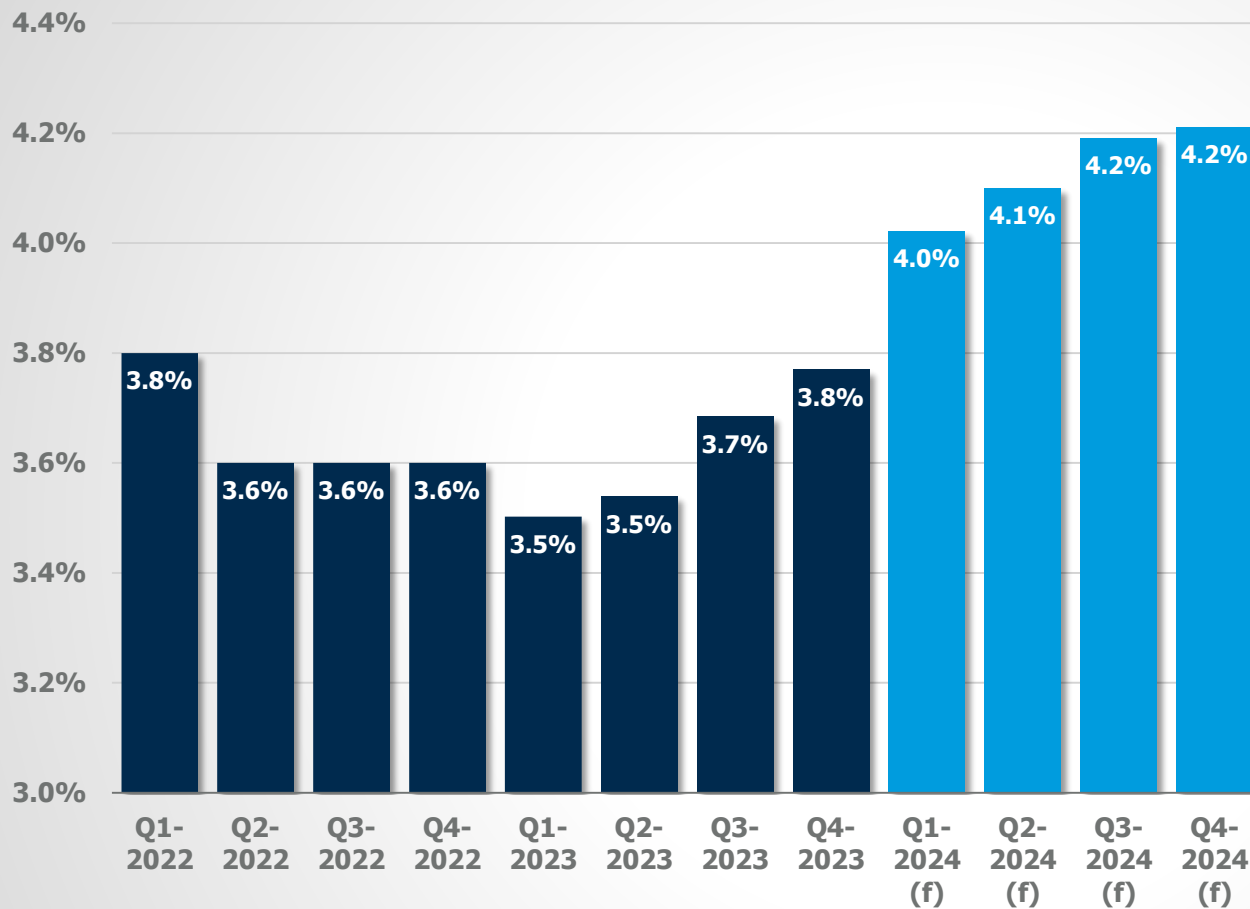


**Job Growth Slows,
But Remains Positive
This Year**

However, I only expect
relatively modest job gains

Source:
Internal forecasts using
BLS historic data;
monthly average
payroll growth in a
quarter

U.S. PAYROLL CHANGE & FORECAST



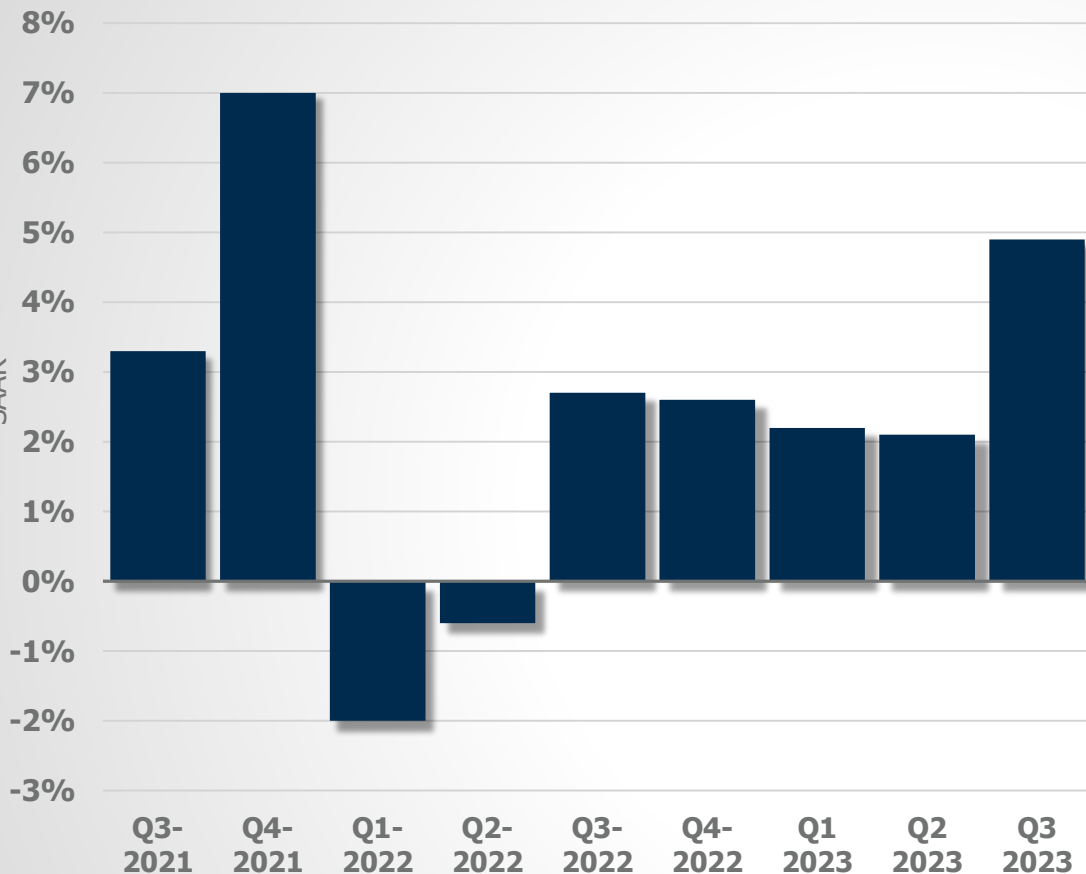
& The Jobless Rate Rises

But given relatively limited labor force growth, the unemployment rate will still stay below the long-term average

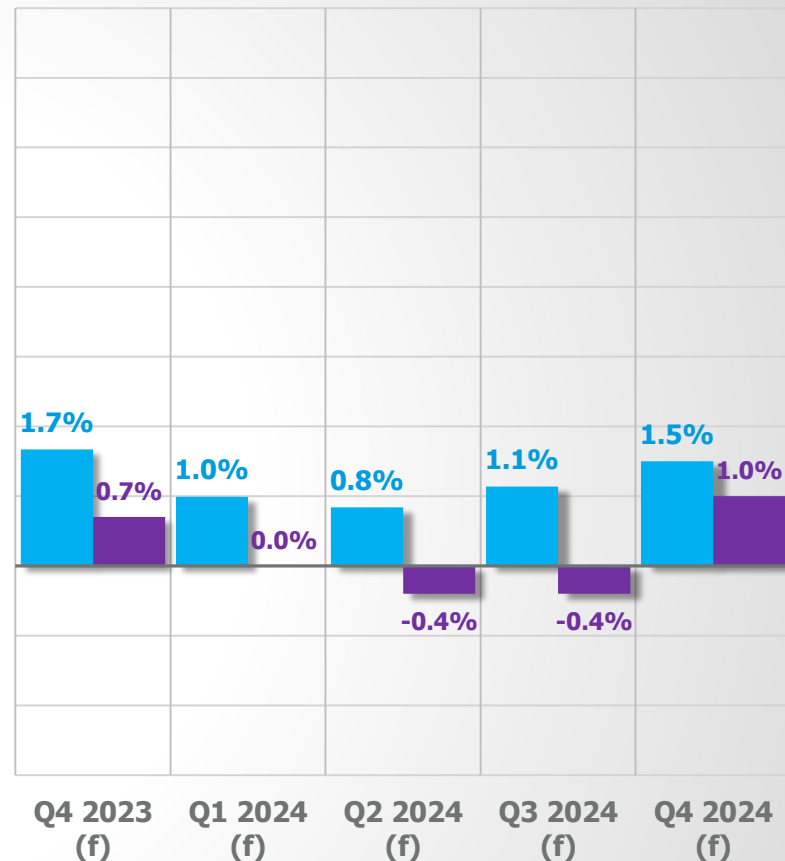
Source:
Internal forecast using
BLS historic data; U-3
criteria

U.S. UNEMPLOYMENT RATE

SAAR



■ Base Case ■ Downside



Source:
Internal forecast using
BEA historic data;
% change from
preceding period

U.S. REAL GDP

- Equity markets saw growth of between 15 and 41% in 2023;
- Interest rates are expected to fall which should act as an economic boost;
- I expect the Eurozone to grow modestly in 2024;
- Diversification may lead to an uptick in interest in real estate; &
- It's an election year!

- I am putting odds of a recession in the next 12-months at around 15% (even with tighter credit conditions that hurts small businesses);
- But resilience in the labor market is starting to wane as the economy slows; & the bottom line is...
- The Fed continues walking a tightrope: To avoid a “hard landing” they need to start lowering rates sooner rather than later.

Contrary to popular opinion, the U.S. Economy is NOT going into recession!

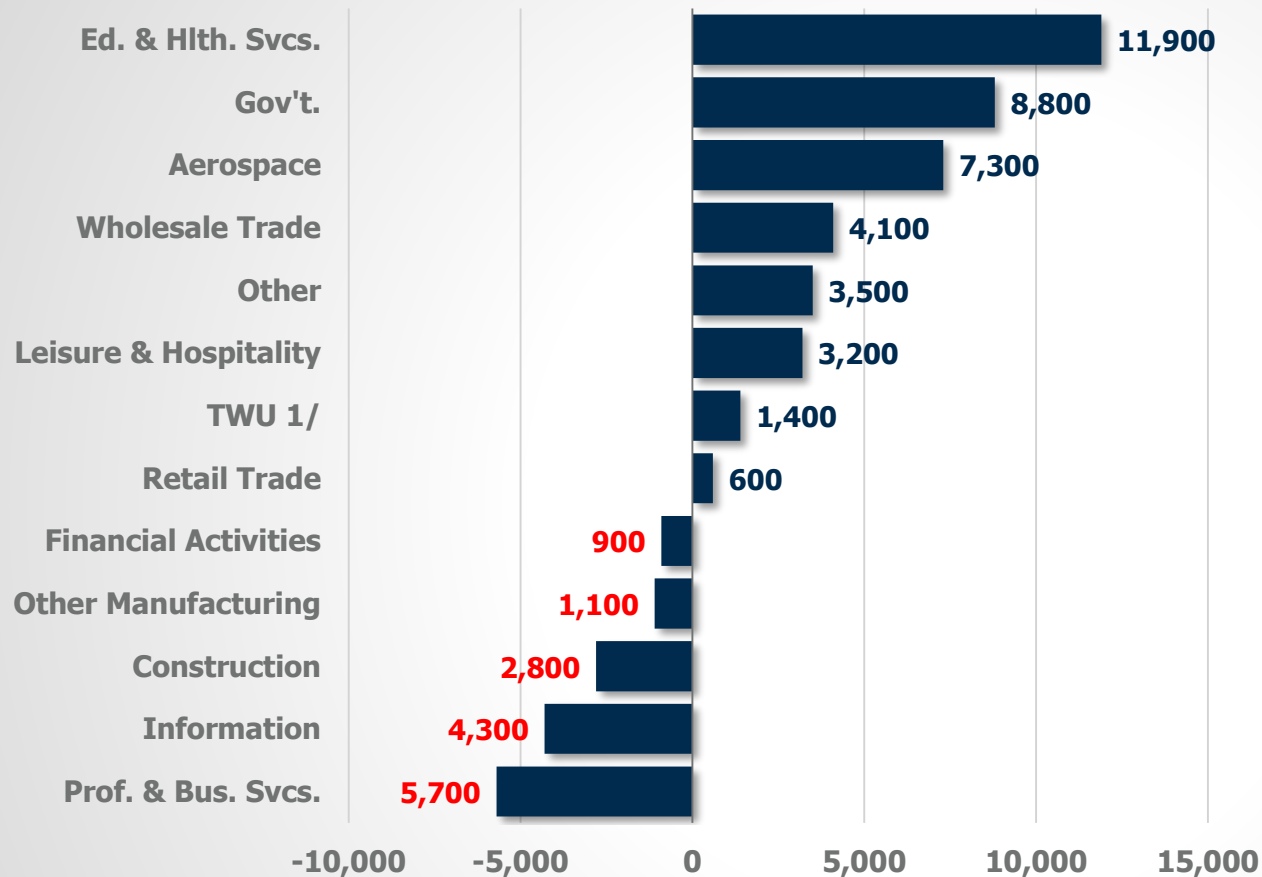
We saw very solid gains in the equity markets in 2023. Households may look to diversify.

Why is this Important?



SEATTLE METRO AREA LABOR MARKET

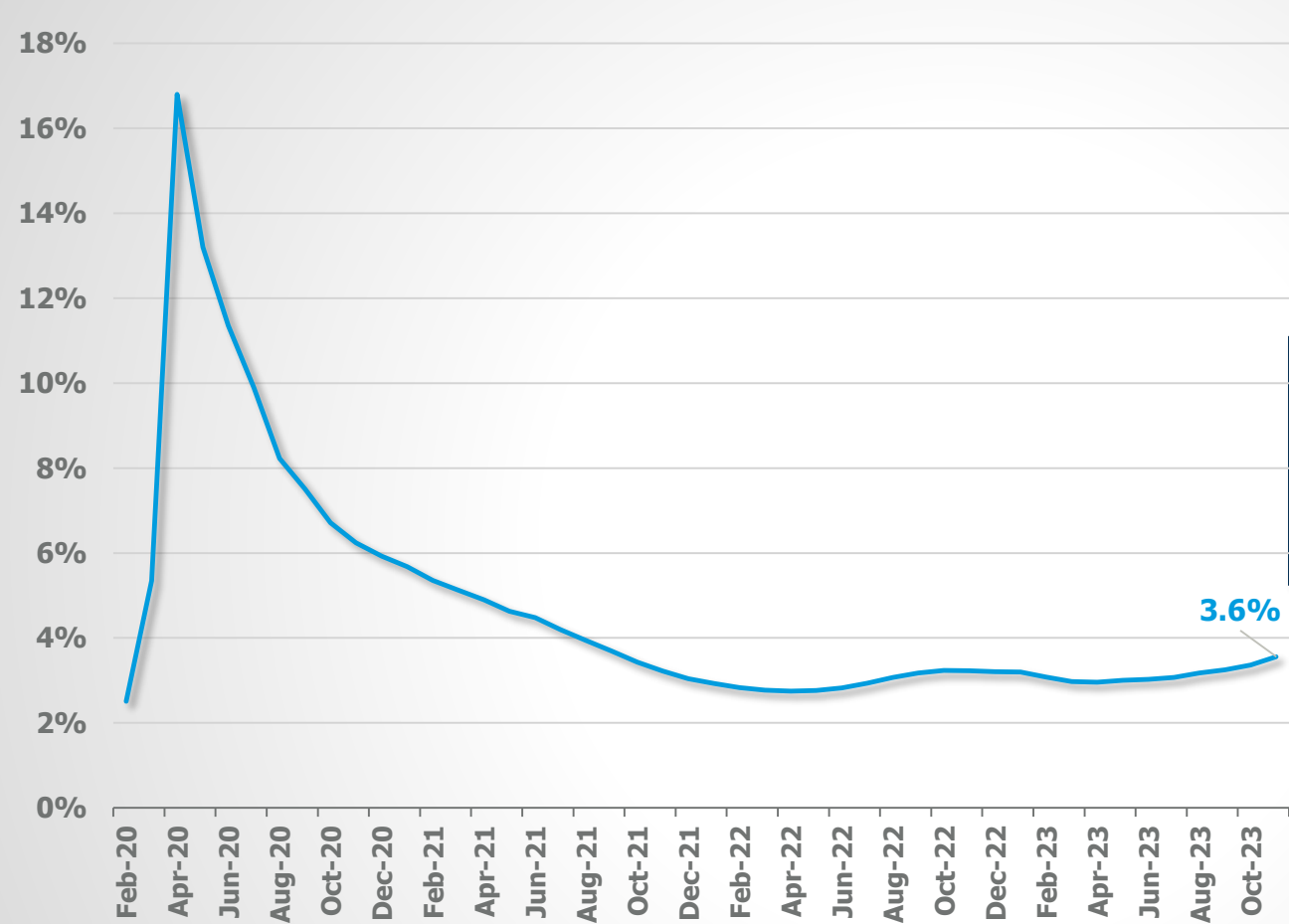




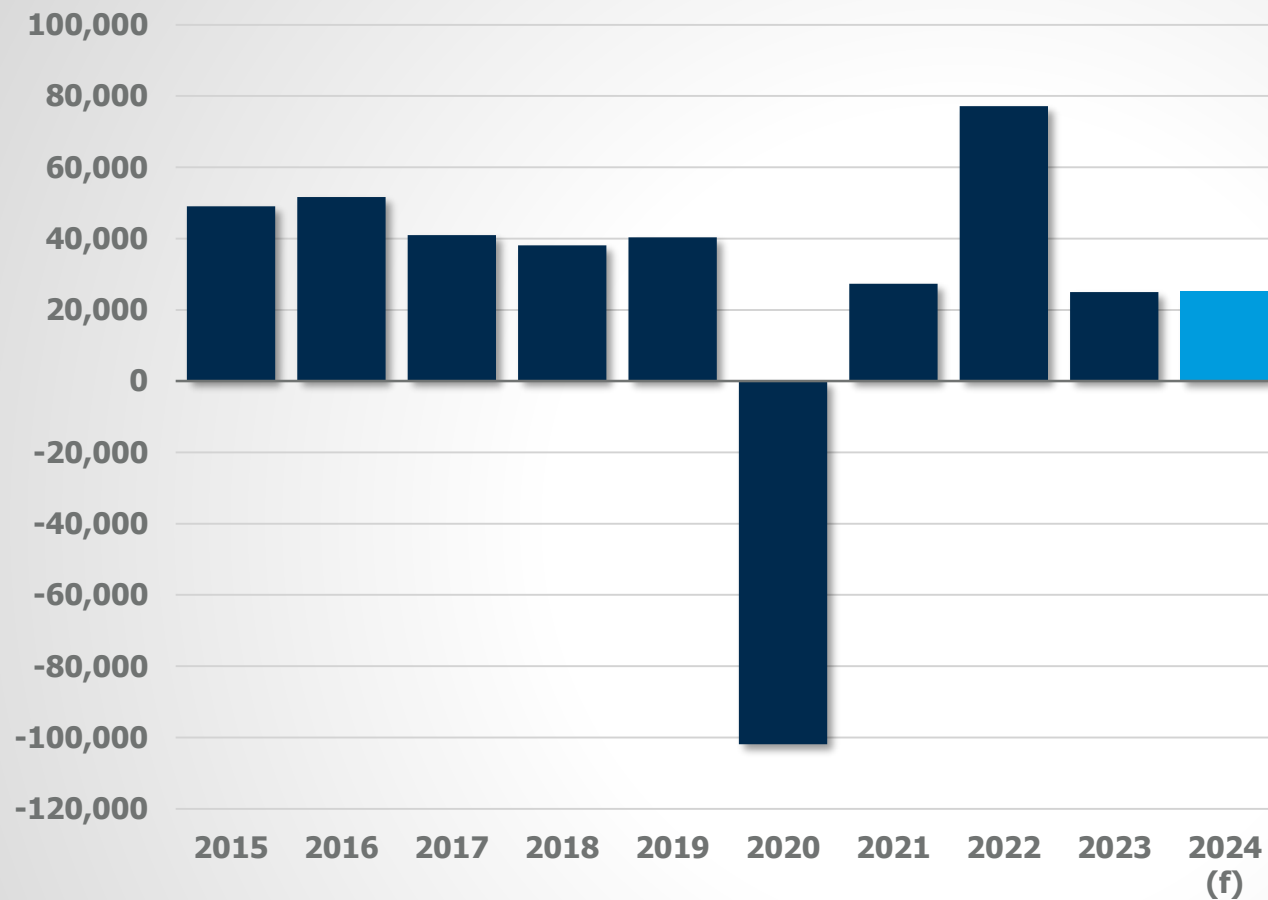
26,000 Jobs Were Added y/y

Layoffs in the tech sector & at T-Mobile are still impacting the data, but the picture remains positive

Y/Y CHANGE IN SECTORAL EMPLOYMENT



The Jobless Rate is Still Low
& remains well below the 30-year average of 4.5%.



Employment Still Rises This Year
Although I do expect it to be below average with jobs expanding by 1.4%

Yes! Last year was a challenge for many “high-paying” industries, but that is changing.

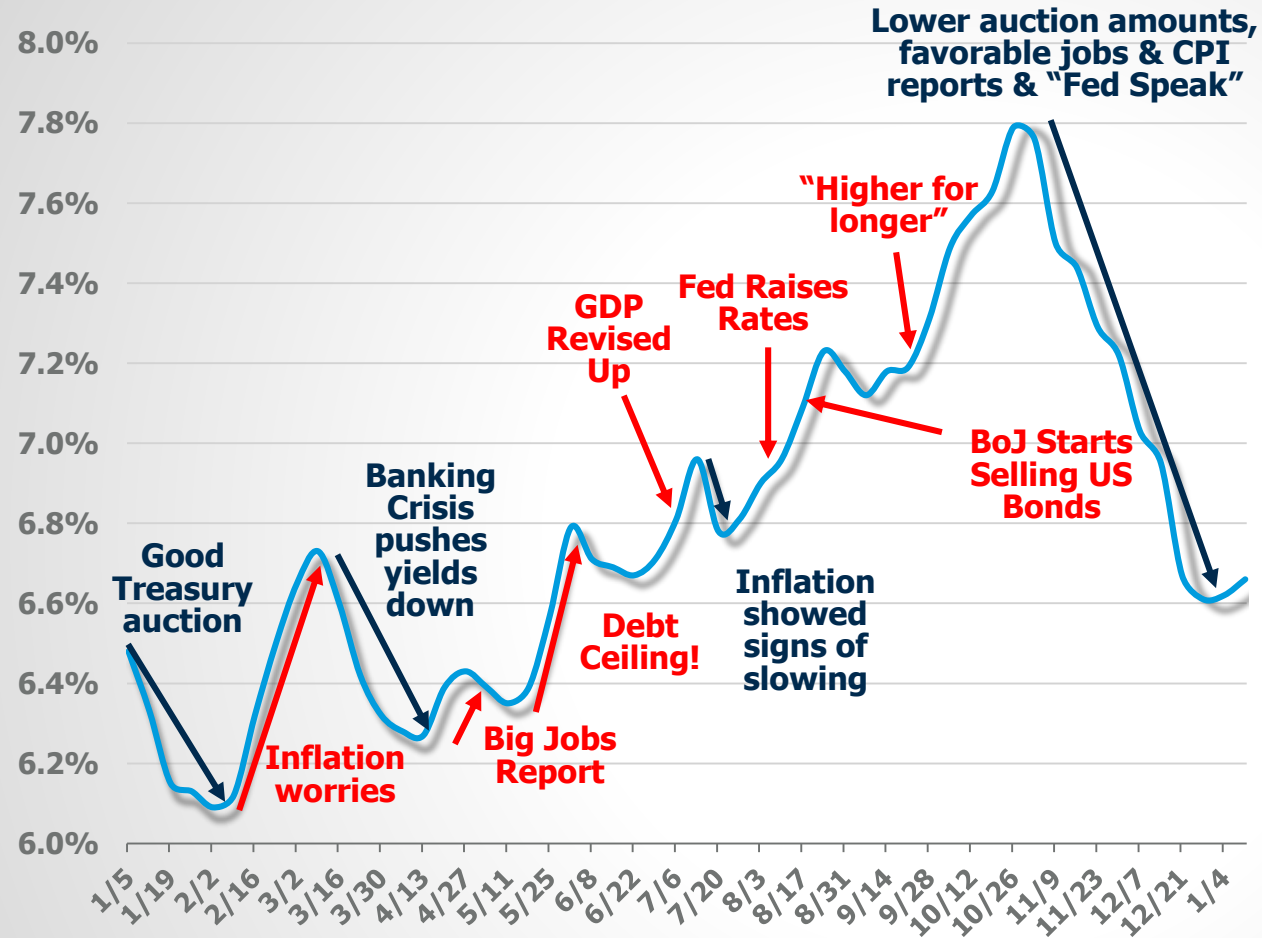
Our regions job market will outperform most other metro areas in 2024

Why is this Important?



MORTGAGE RATES



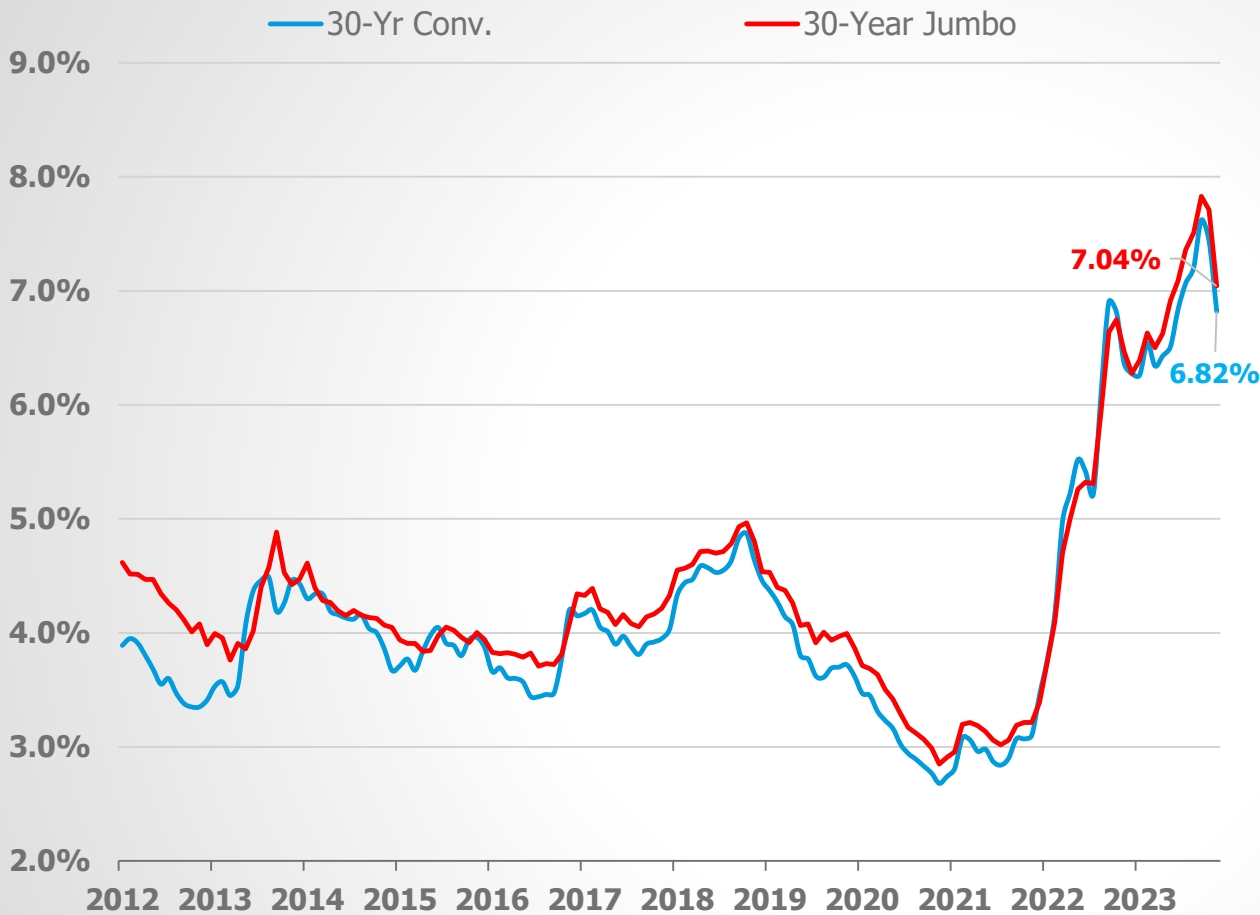


Have Rates Finally Found Direction?

Bonds had been acting petulantly! However, they appear to be starting to feel more comfortable that the economy is slowing

Source:
Freddie Mac; rate for
conforming loans

30-YR. WEEKLY AVERAGE MORTGAGE RATE



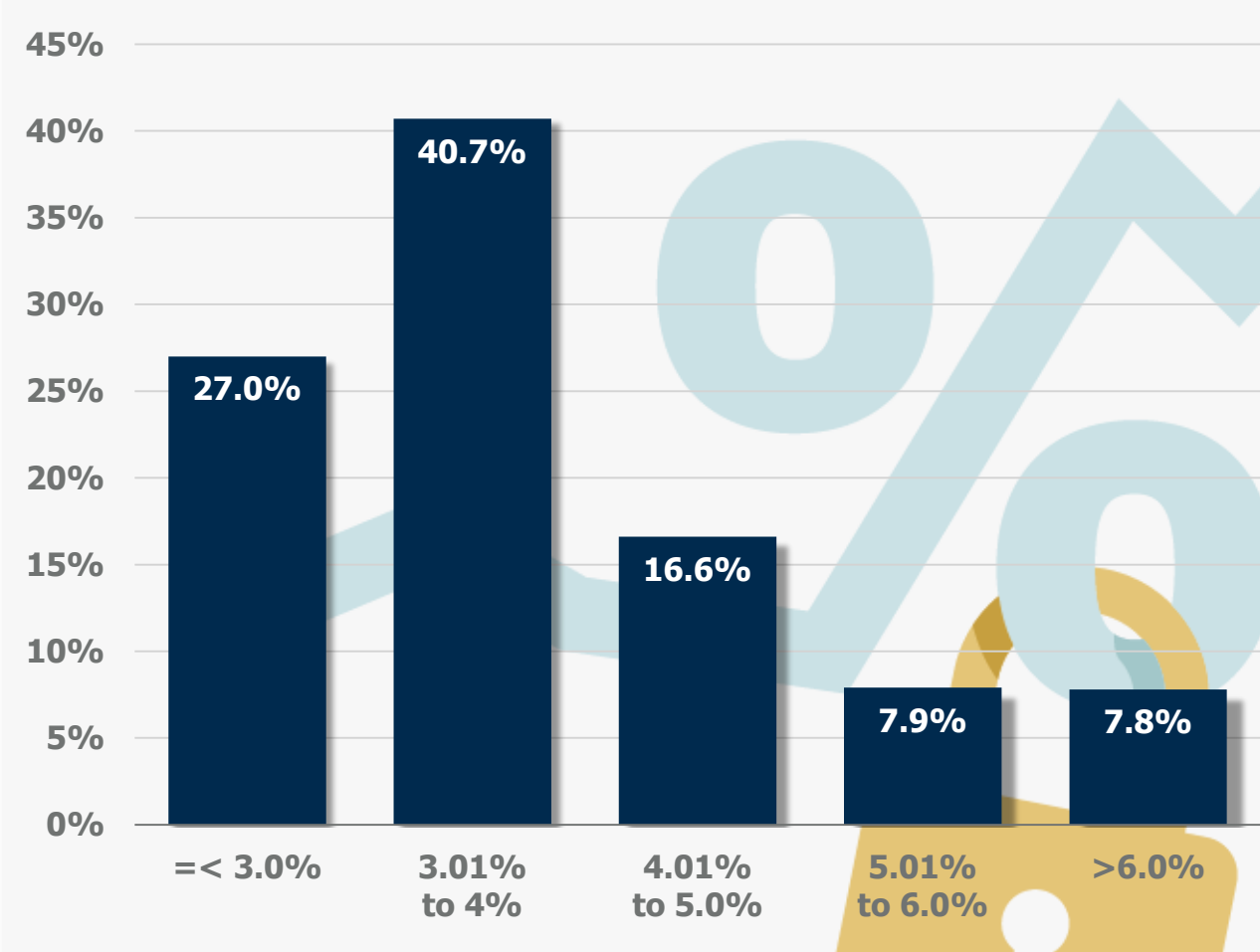
Jumbo Rates Moving in Lock-Step with Conventional Financing

Along with their "conventional" counterparts, they have been pulling back at a good pace too



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BUT.....

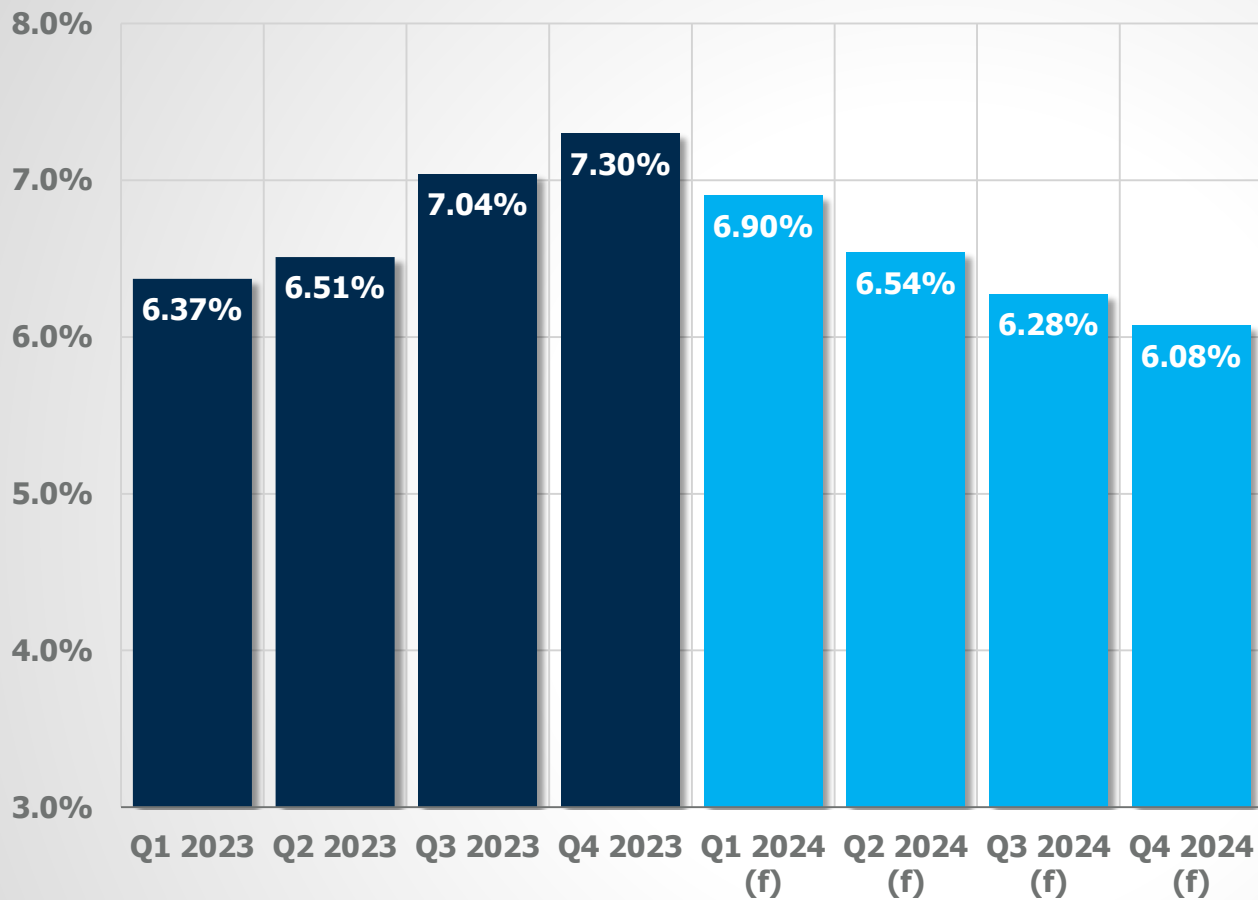


Washington State is Rate Locked

84.3% of mortgaged homeowners have a rate below 5%.

Source:
FHFA National
Mortgage database;
Q3-2023

RATES FOR OUTSTANDING MORTGAGES (WA)



Rates Peaked Last Quarter

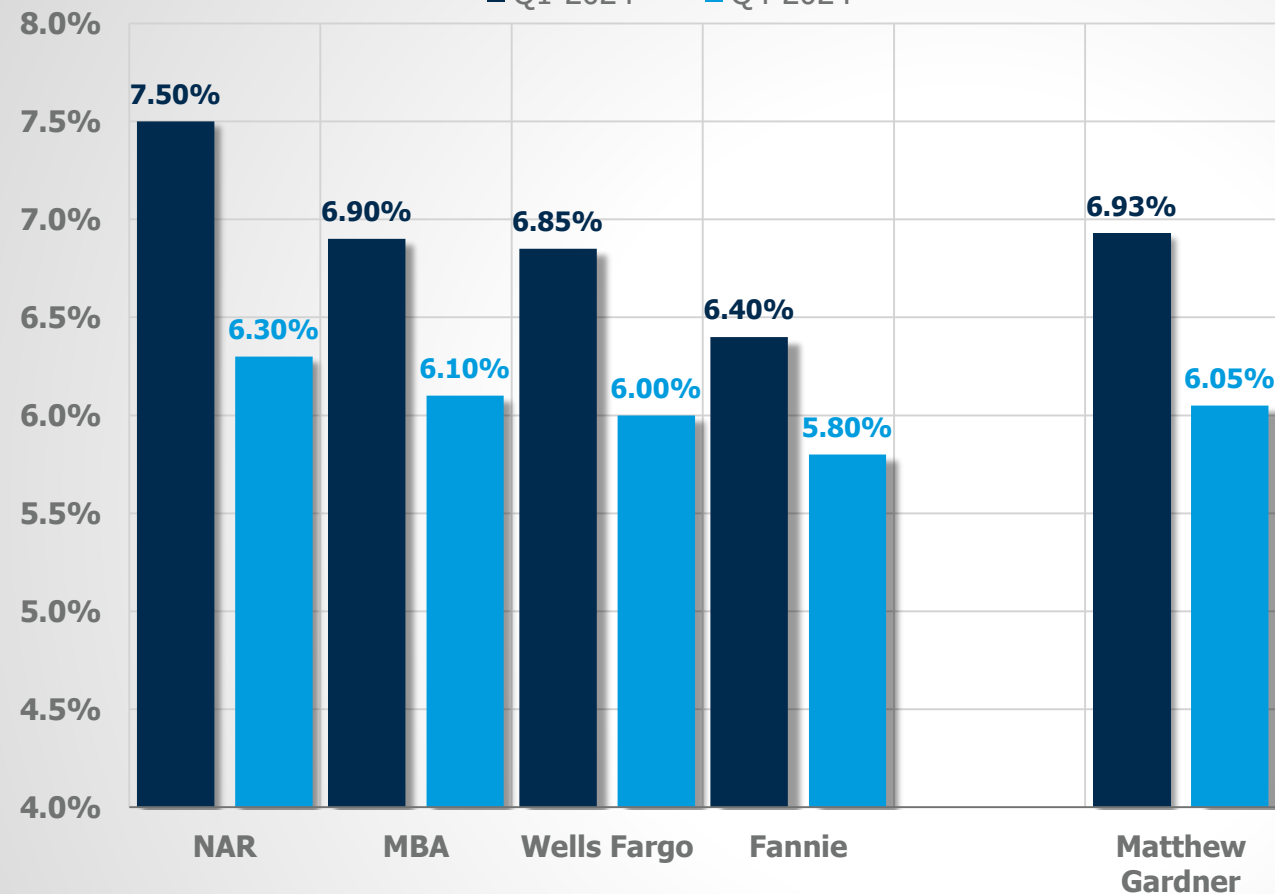
There will still be periods of turbulence, but as the US economy slows, rates trending lower BUT.....

Don't expect a return to sub-3% financing

Source:
Freddie Mac history &
Gardner Economics'
forecasts for a
conventional 30-year
mortgage

30-YEAR MORTGAGE RATE FORECAST

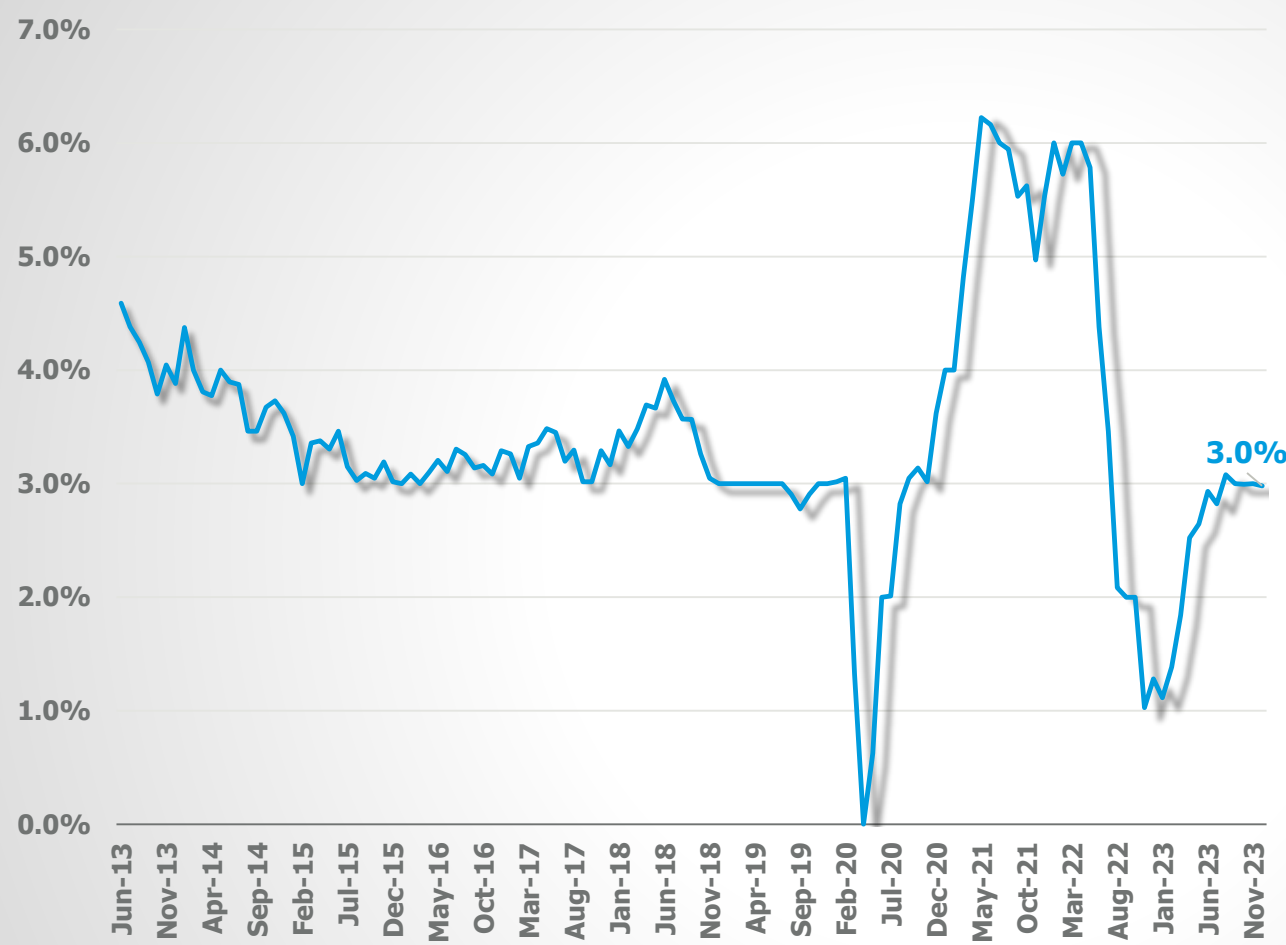
■ Q1-2024 ■ Q4-2024



& My Colleagues Agree

The consensus is that rates will fall as we move through the year

ANALYSTS' EXPECTATIONS
(30-YR. CONV. MORTGAGE RATES)



Consumers Expect Home Values to Rise

This has not moved over the past few months; however, it stands well above the 12-month trailing average of 2.4%

CONSUMER HOME PRICE FORECASTS
(HOW MUCH WILL HOME PRICES CHANGE OVER THE NEXT 12-MONTHS?)

Source:
New York Federal
Reserve Bank



Rates will continue falling!

***Listing activity, buyer interest & buying power
all rise; &***

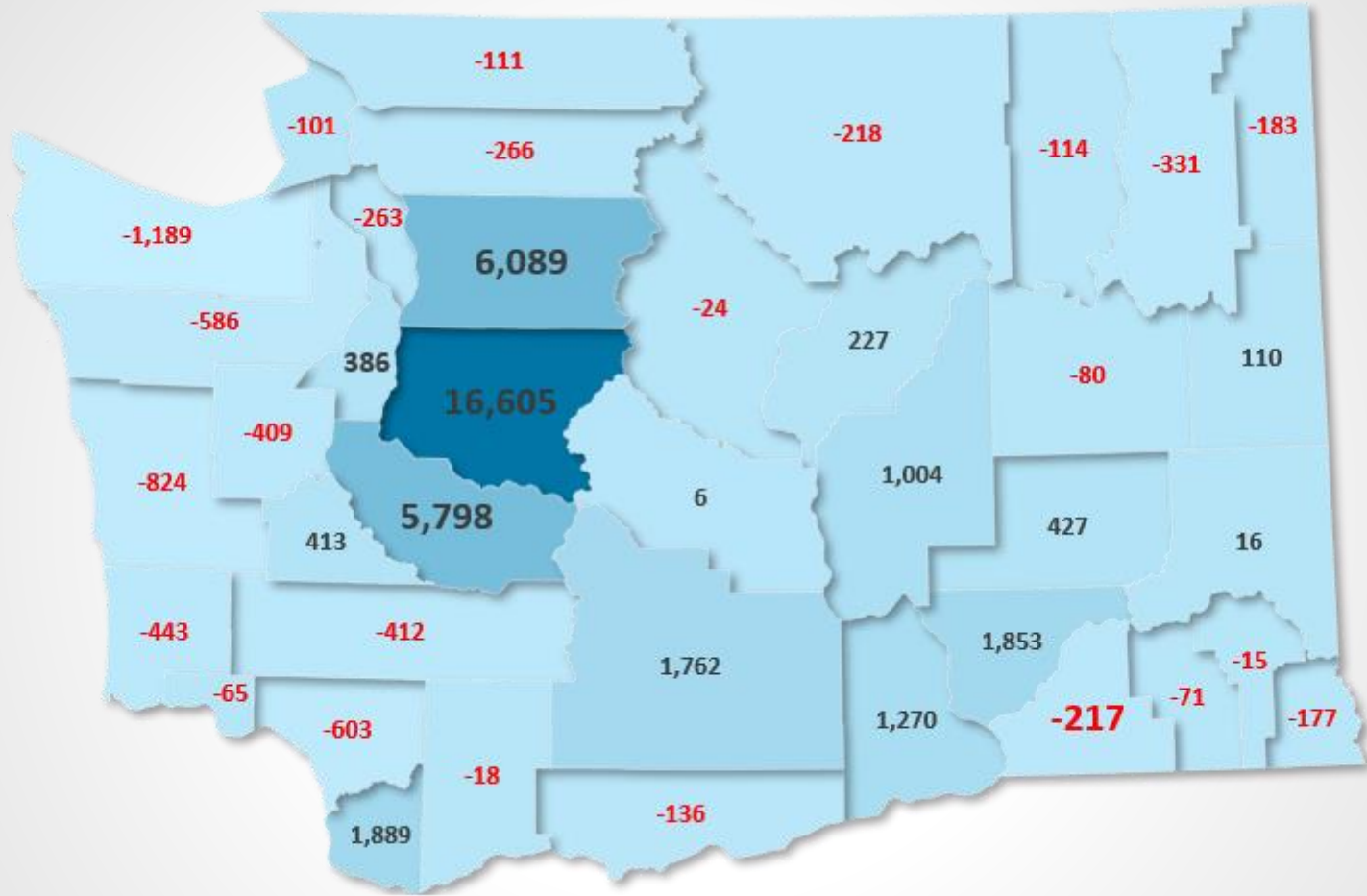
***Those who wait for the market to “come to
them” will miss out***

Why is this Important?

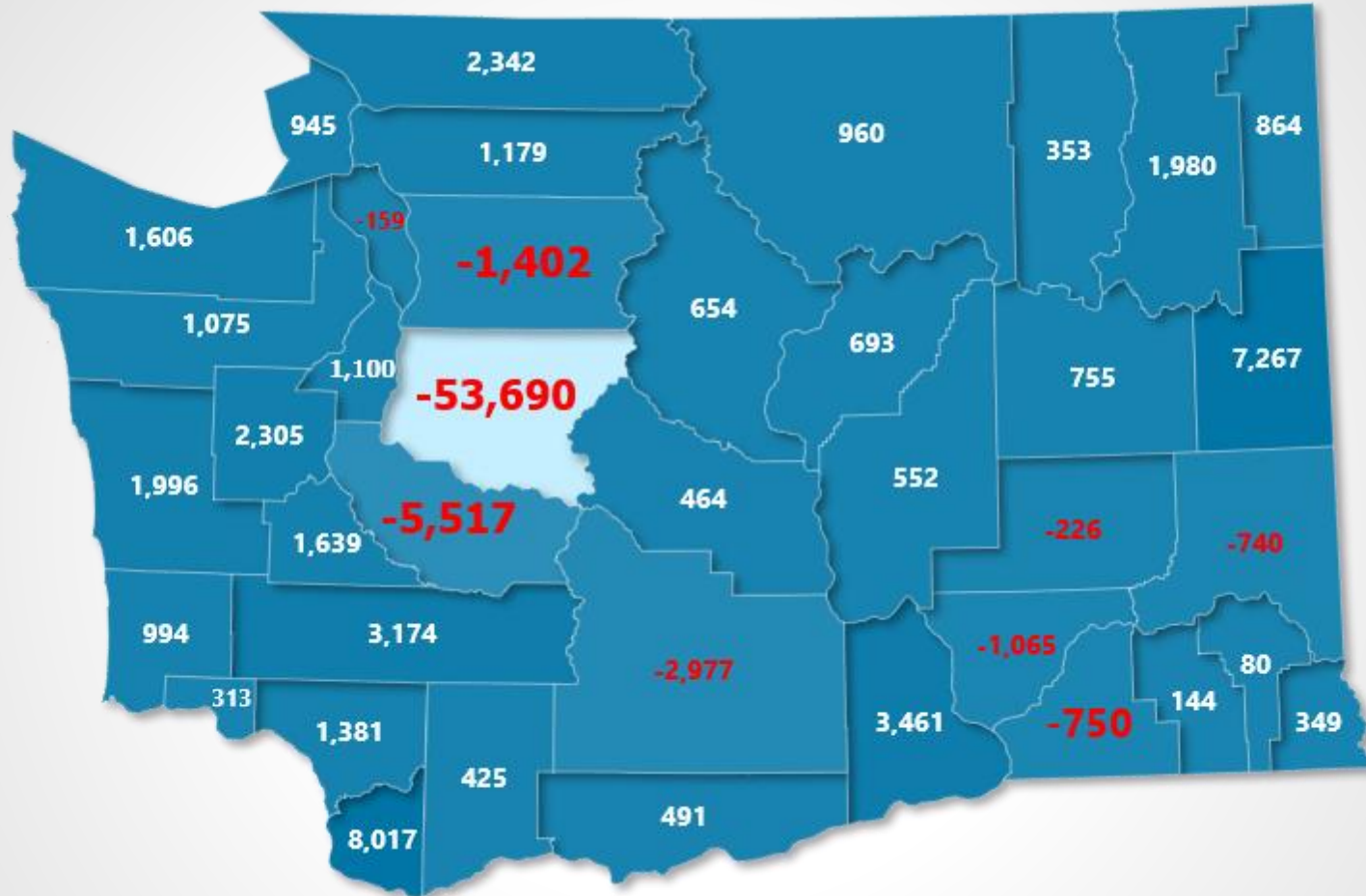


DEMOGRAPHICS





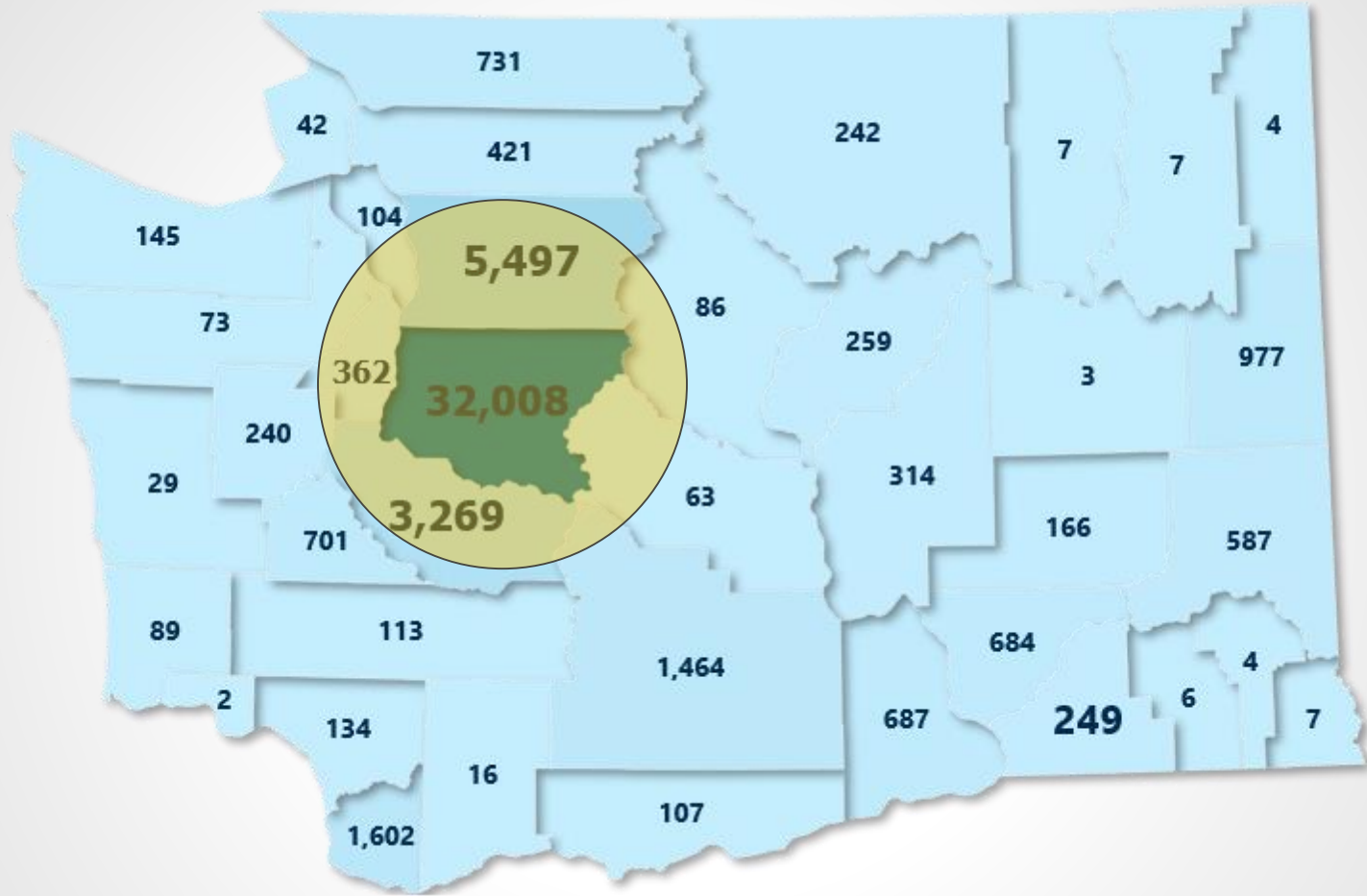
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Source:
US Census

DOMESTIC MIGRATION (2020-2022)



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Source:
US Census

INTERNATIONAL MIGRATION (2020-2022)

We have over 1.3M Millennials & 790,000 Baby-Boomers living in the 4-County area!

Do you believe that they are thinking about moving/buying? I do.....

If we expand immigration – which we should – there will be even more buyers

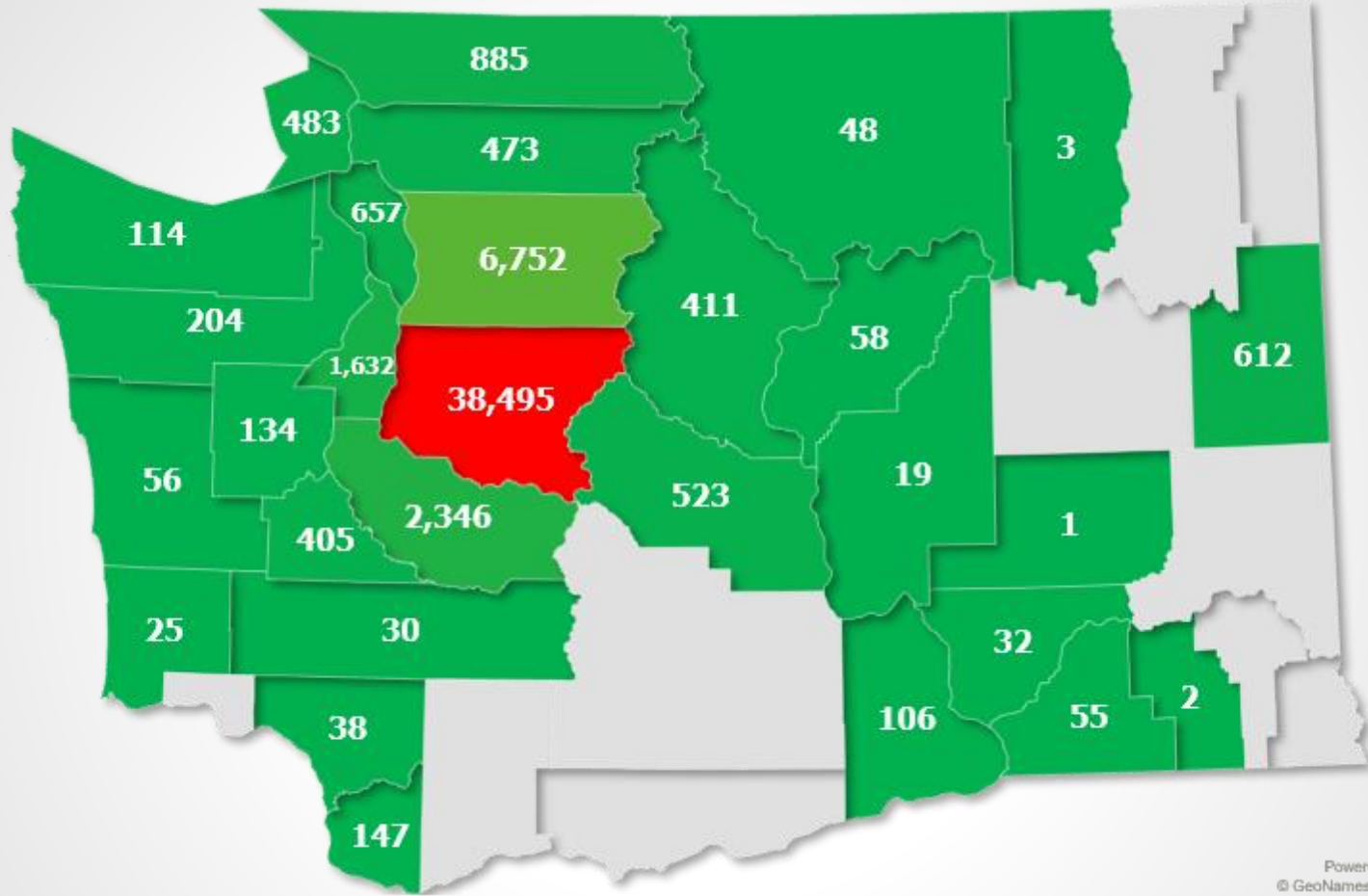
Why is this Important?



LUXURY HOUSING SALES ACROSS THE NWMLS

(SINGLE-FAMILY RESALE UNITS PRICED ABOVE \$1M)

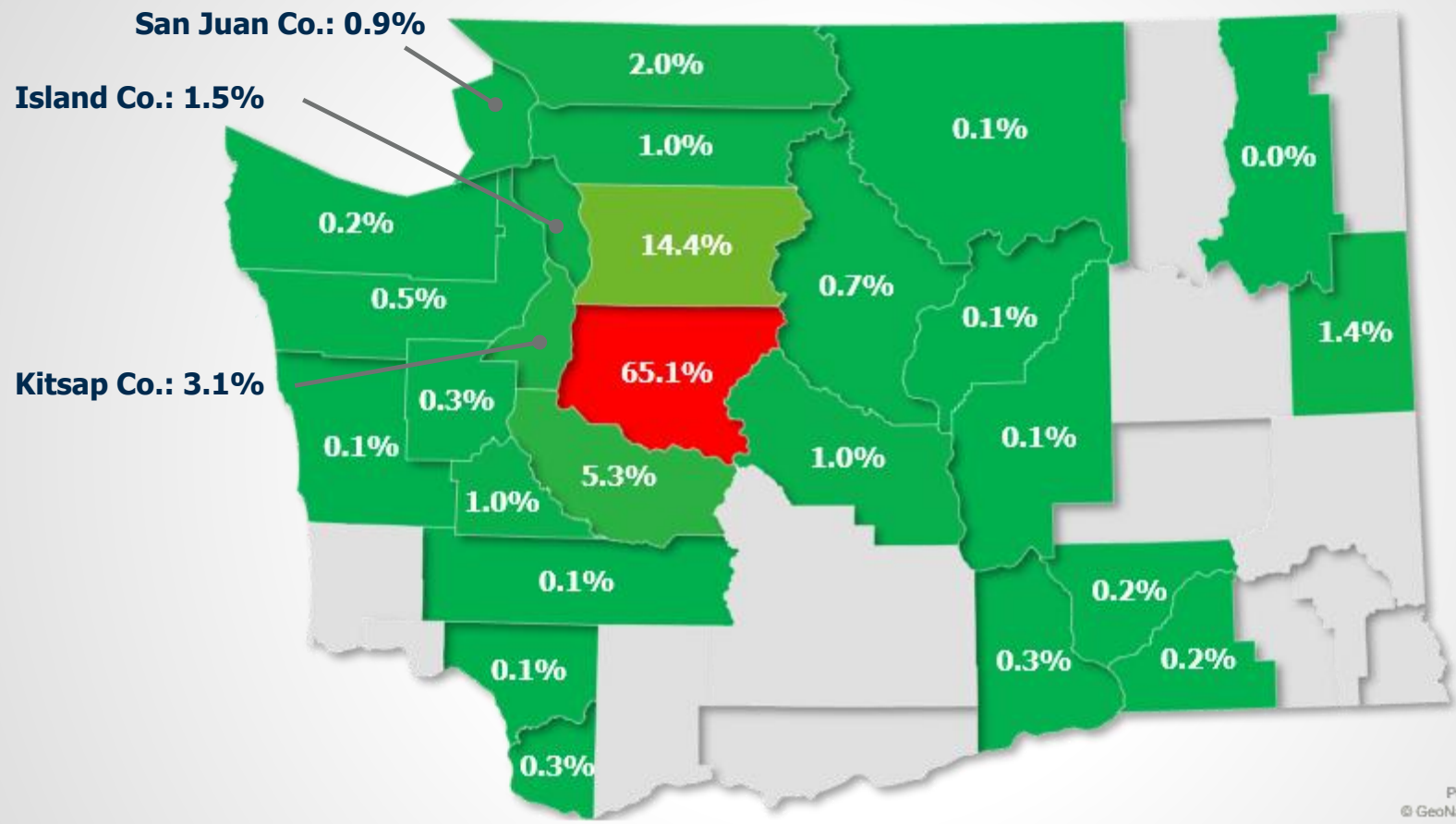




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Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

LUXURY SINGLE-FAMILY SALES (2019-2023)



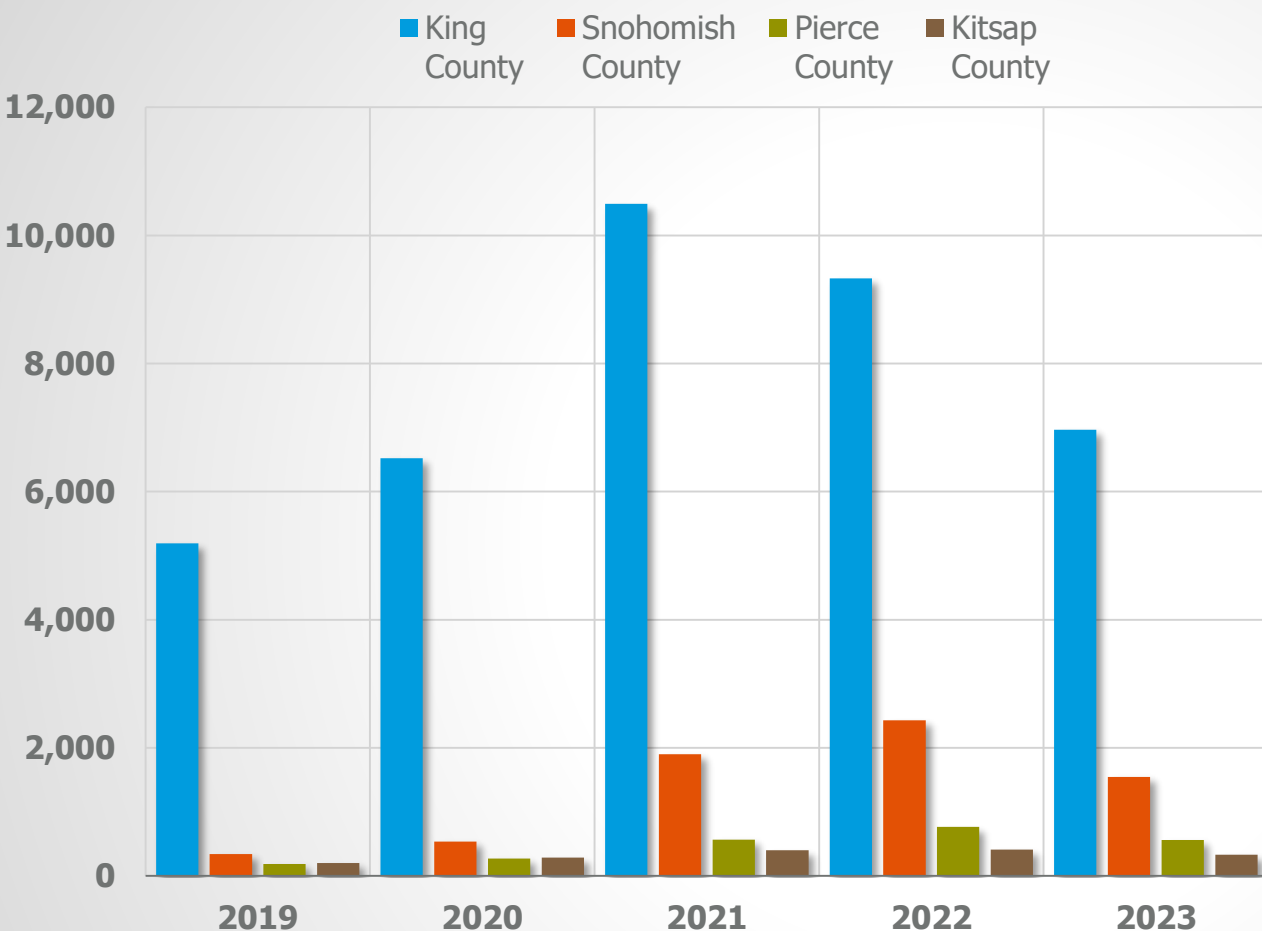
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Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

SHARE OF LUXURY SINGLE-FAMILY SALES (2023)

LUXURY HOUSING ACROSS THE 4-COUNTY AREA





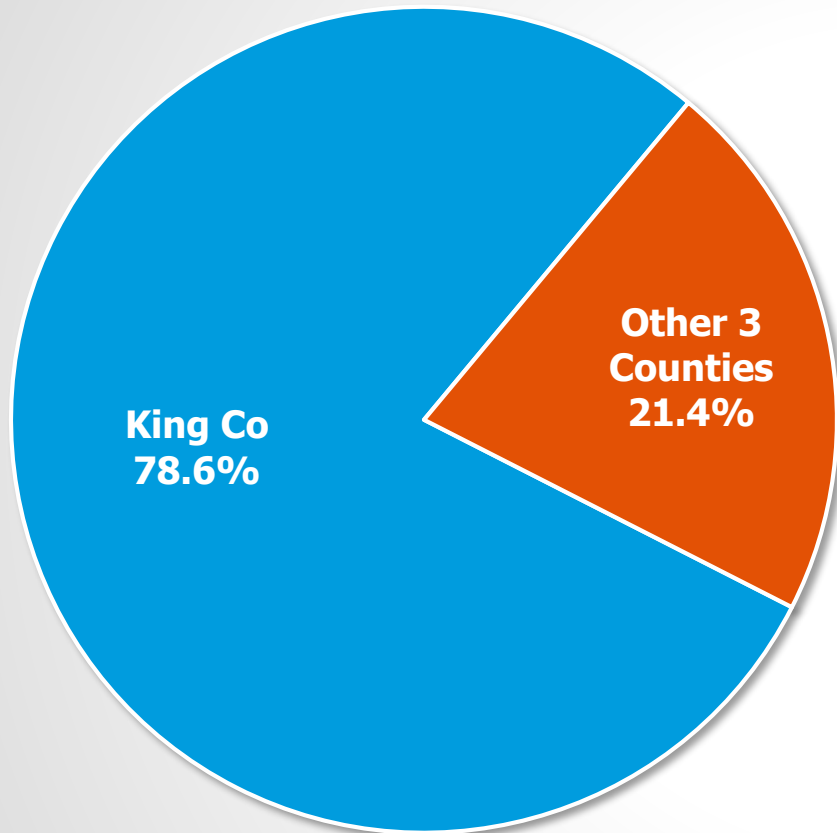
King Co's Dominance Declines

Between 2021 & 2023 luxury sales in King County fell, but this was only seen between 2022 and 2023 in the other 3-counties.

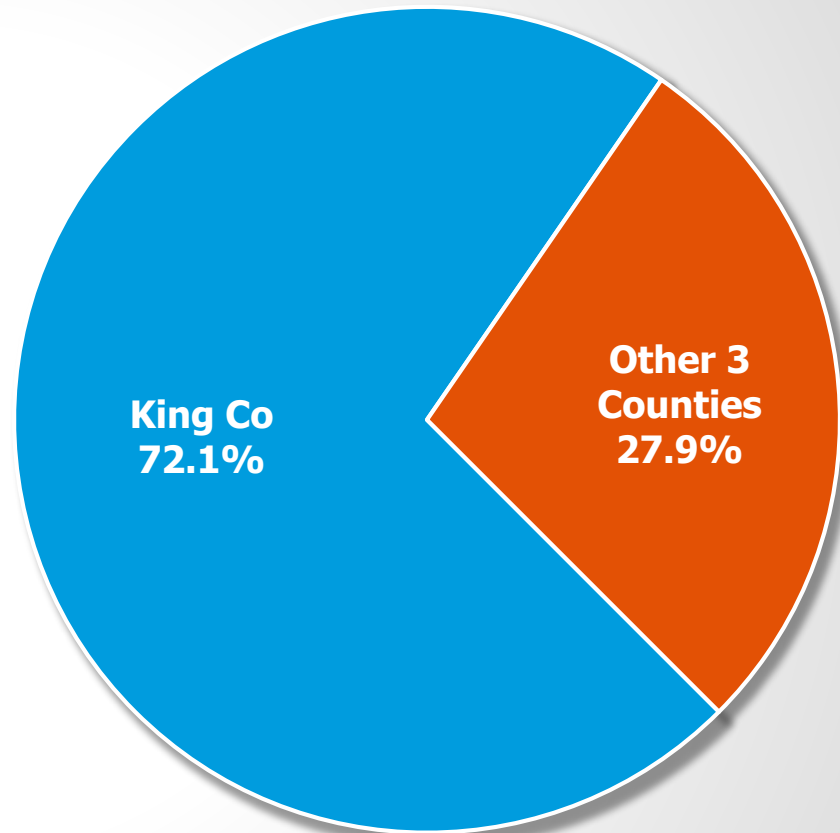
Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

LUXURY SINGLE-FAMILY SALES

2021



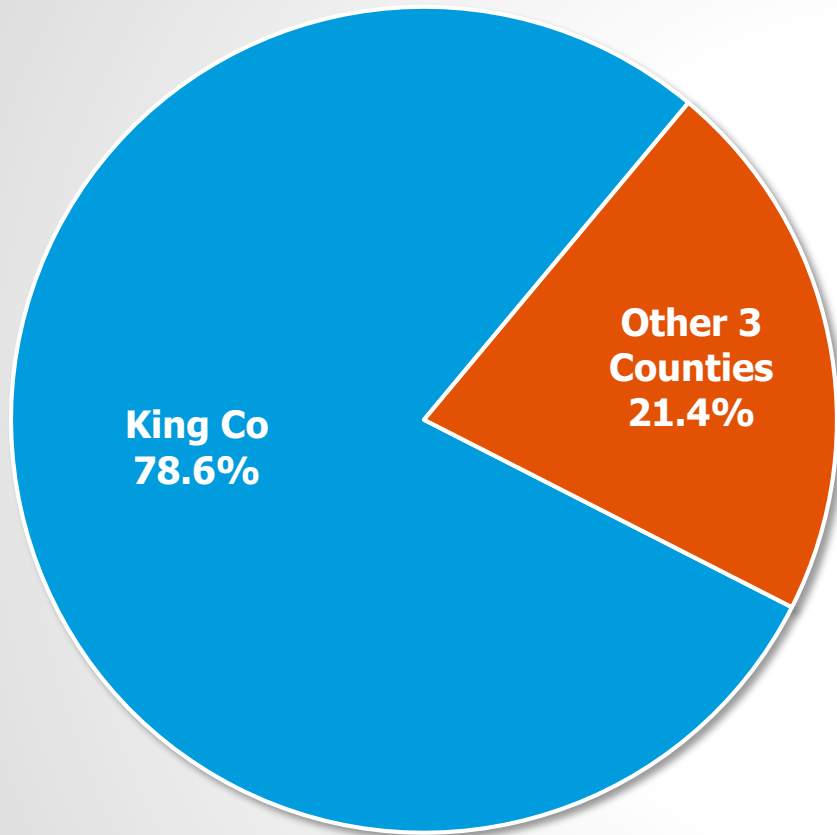
2022



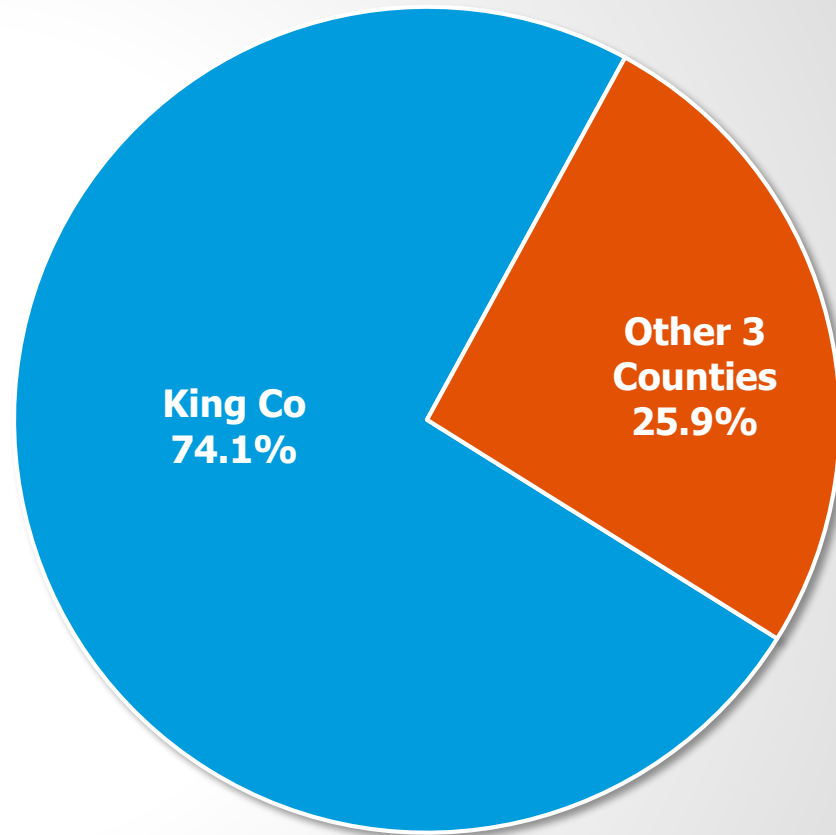
Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

HIGH-END MARKET SHARE

2021



2023



Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

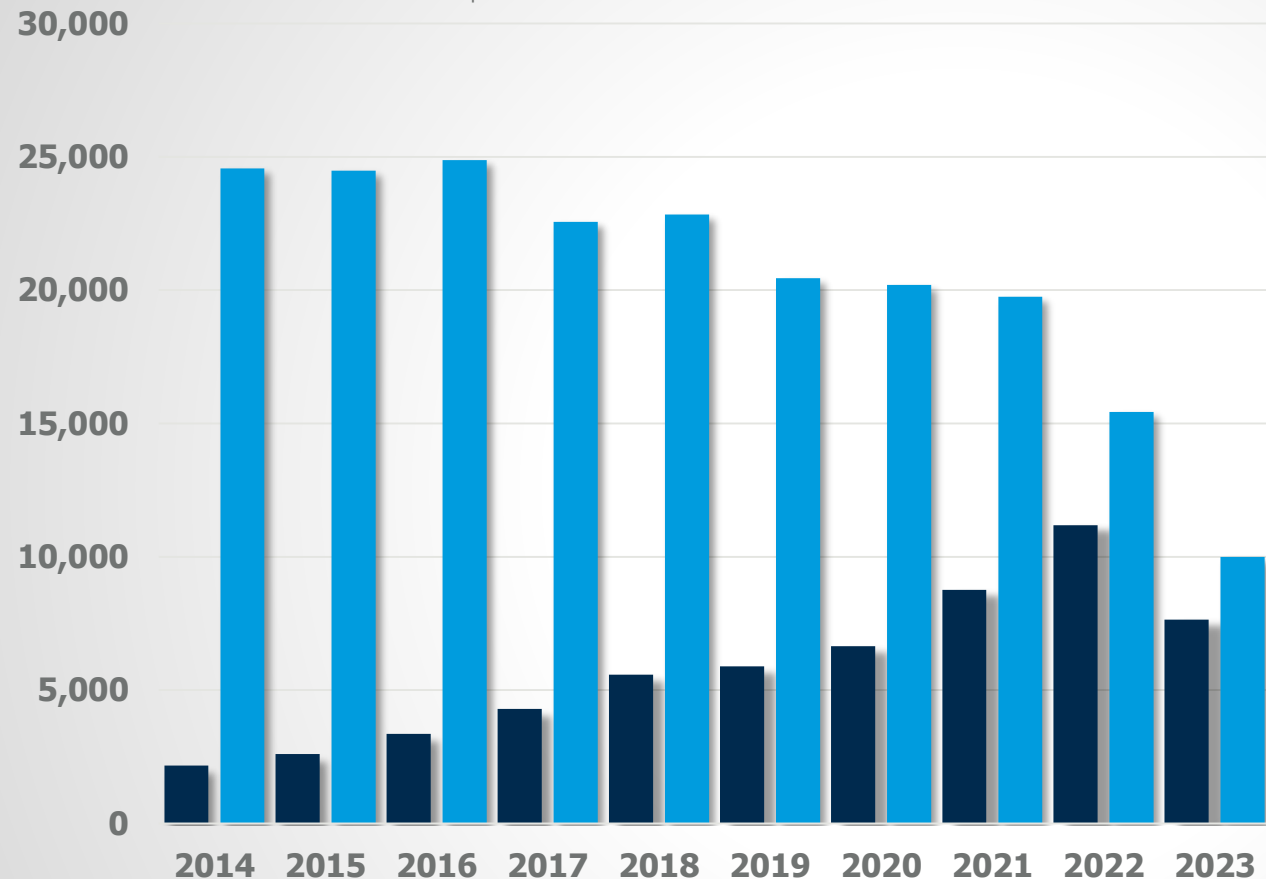
HIGH-END MARKET SHARE

THE KING COUNTY LUXURY HOUSING MARKET



■ \$1M+ Units

■ Balance of Market



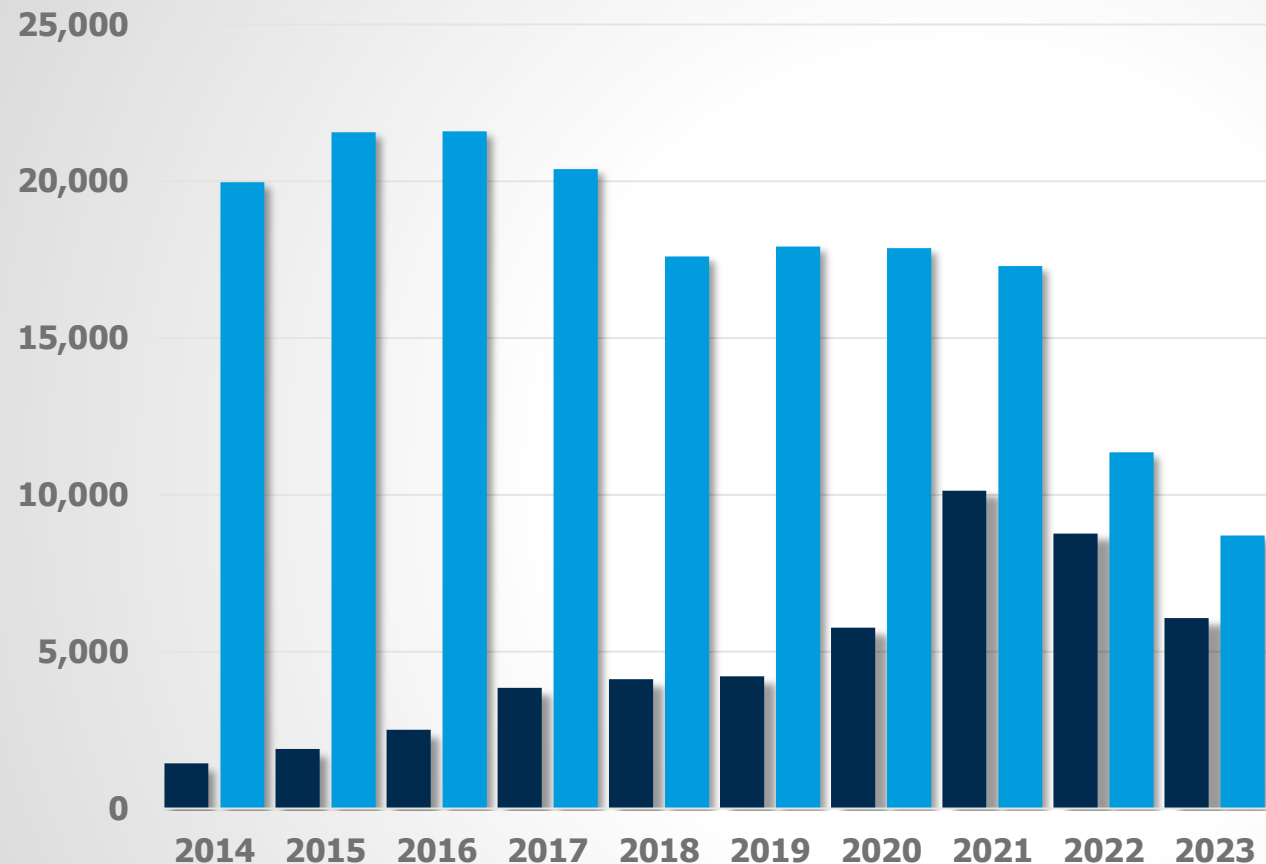
The Lack of Inventory is Pronounced

New listing activity in the sub \$1M market fell 35% y/y but the luxury segment fell a slightly more modest 32%

Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

NEW LISTING ACTIVITY

■ \$1M+ Units ■ Balance of Market



As a Consequence, Sales Fell

The \$1M+ segment did not fare as well as the balance of the market, with total transactions down by 31% y/y while the sub \$1M market contracted by 23%

Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

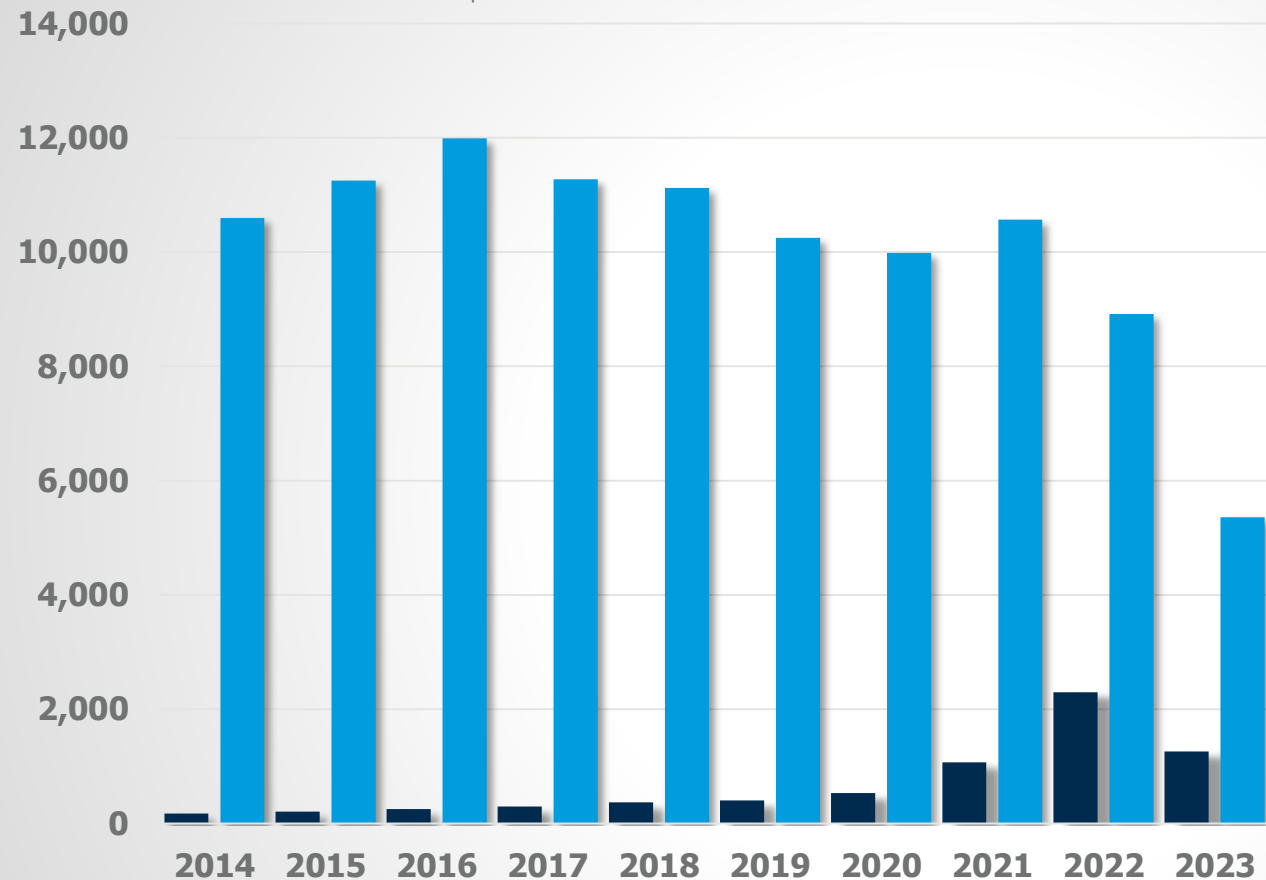
SALES ACTIVITY

THE SNOHOMISH COUNTY LUXURY HOUSING MARKET



■ \$1M+ Units

■ Balance of Market



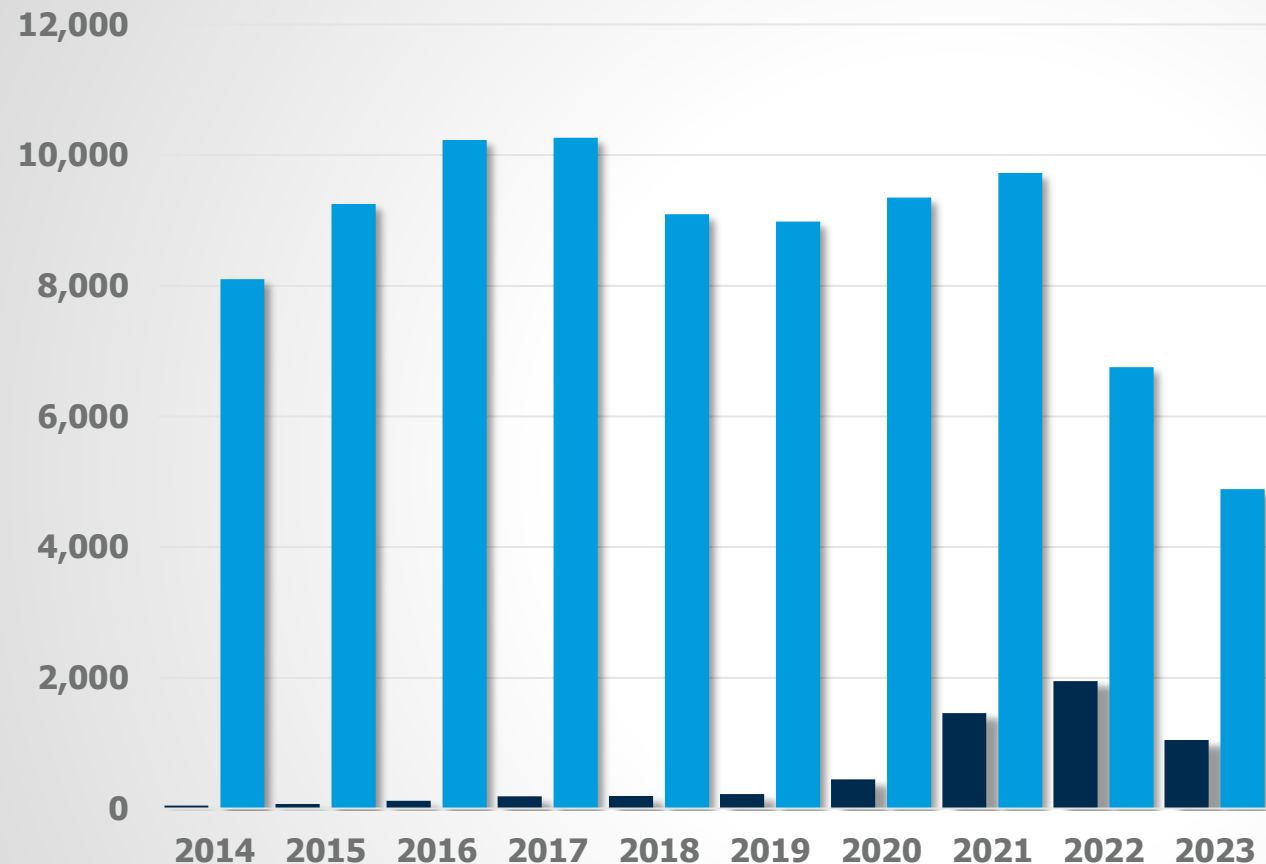
Sellers are Missing

New listing activity in the sub \$1M market fell 40% y/y but the luxury segment fell a slightly greater 45%

Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

NEW LISTING ACTIVITY

■ \$1M+ Units ■ Balance of Market



The Luxury Segment is New

The \$1M+ market was virtually non-existent before 2016. It grew rapidly, but has pulled back rapidly too.

Sales fell by 46% y/y while the balance of the market contracted by 28%

Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

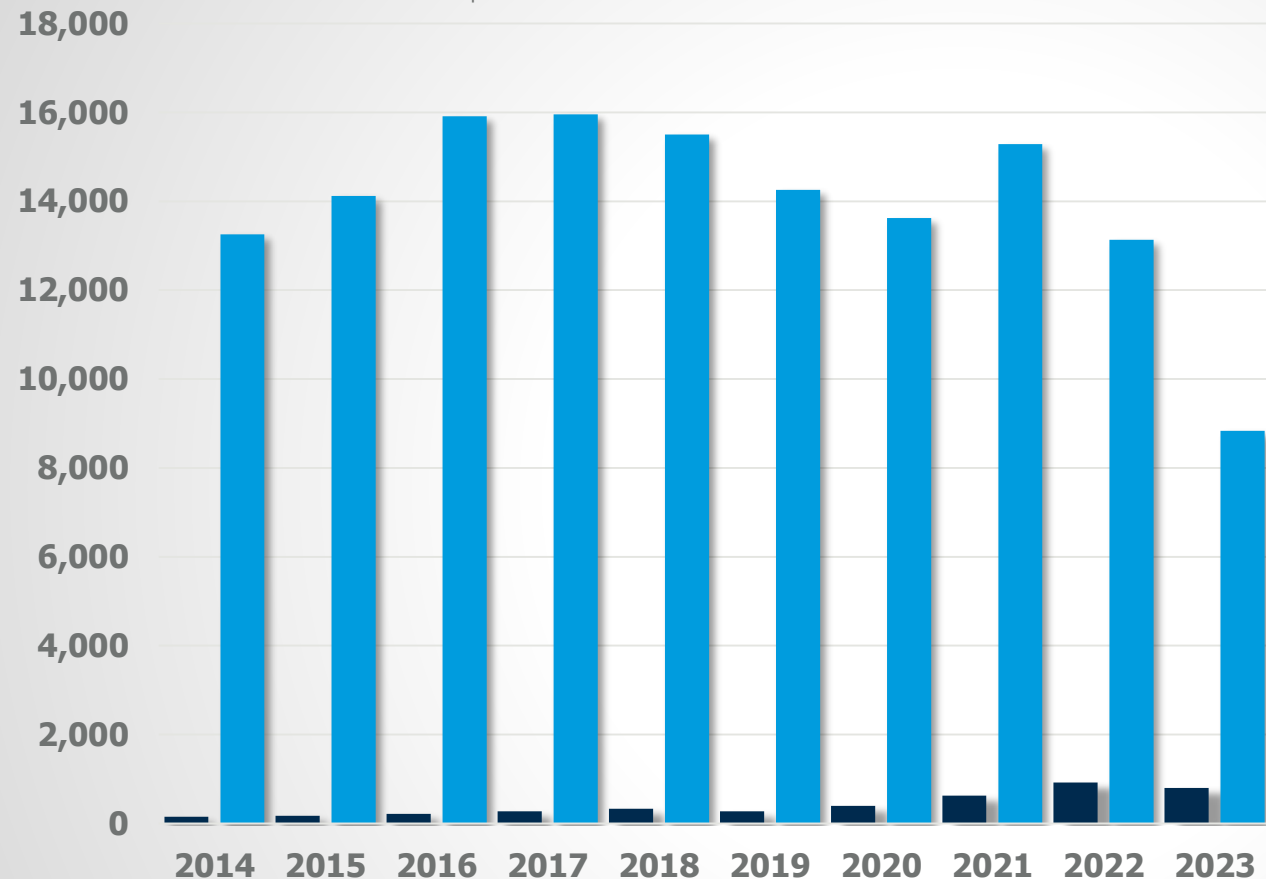
SALES ACTIVITY

THE PIERCE COUNTY LUXURY HOUSING MARKET



■ \$1M+ Units

■ Balance of Market



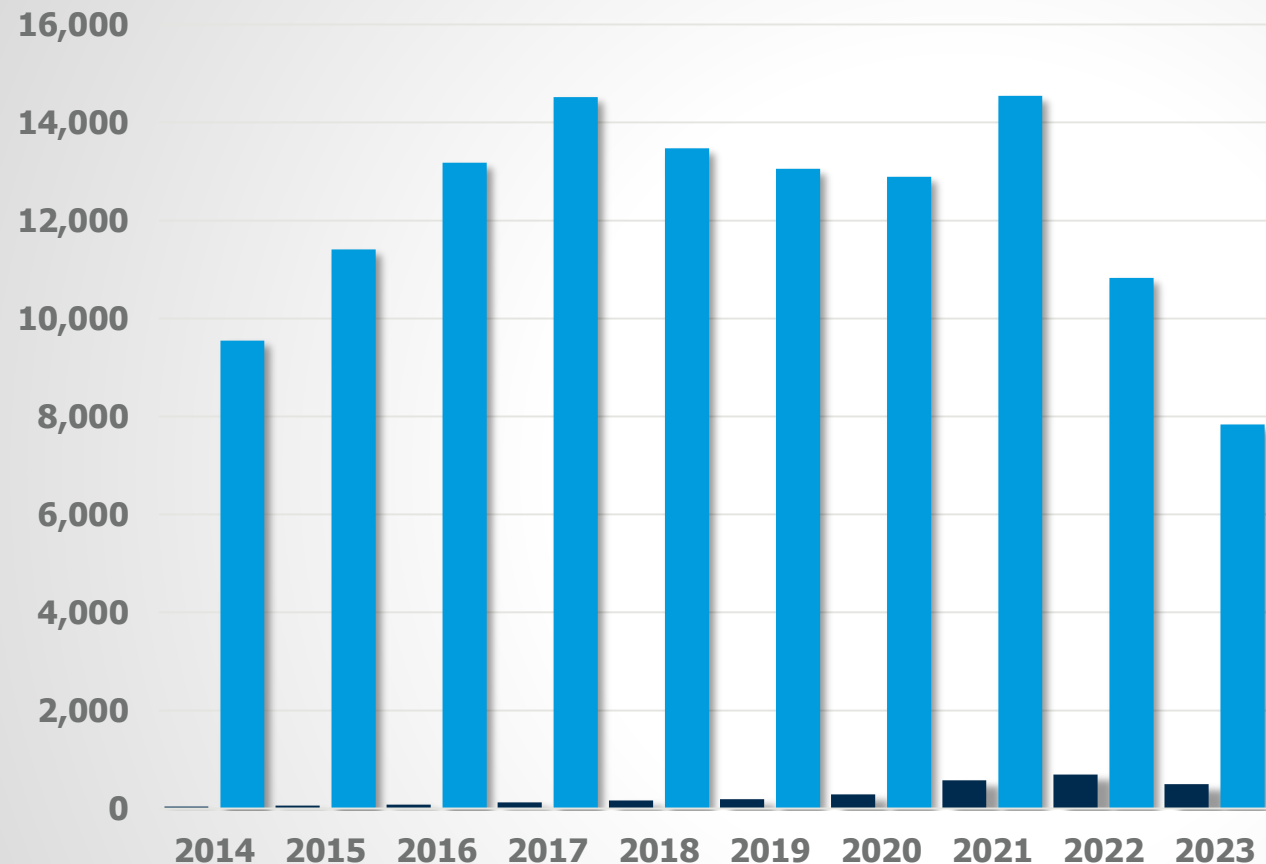
Another "New" Luxury Market

It was interesting to see new listings in the sub \$1M market fall 33% y/y, but the luxury segment fell just 13%

Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

NEW LISTING ACTIVITY

■ \$1M+ Units ■ Balance of Market



Sales Fell Across the Board

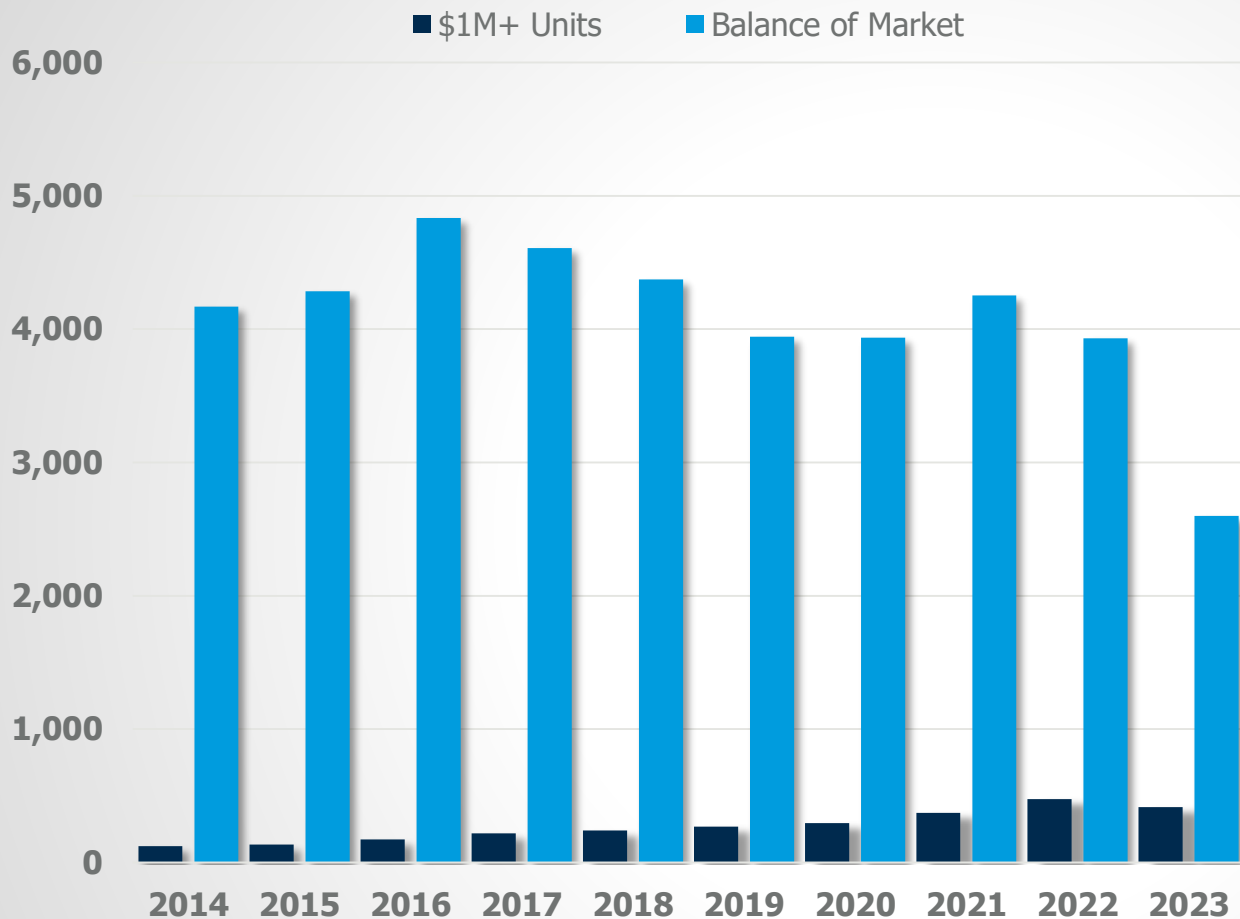
Both segments of the market saw sales fall by 28% y/y

Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

SALES ACTIVITY

THE KITSAP COUNTY LUXURY HOUSING MARKET





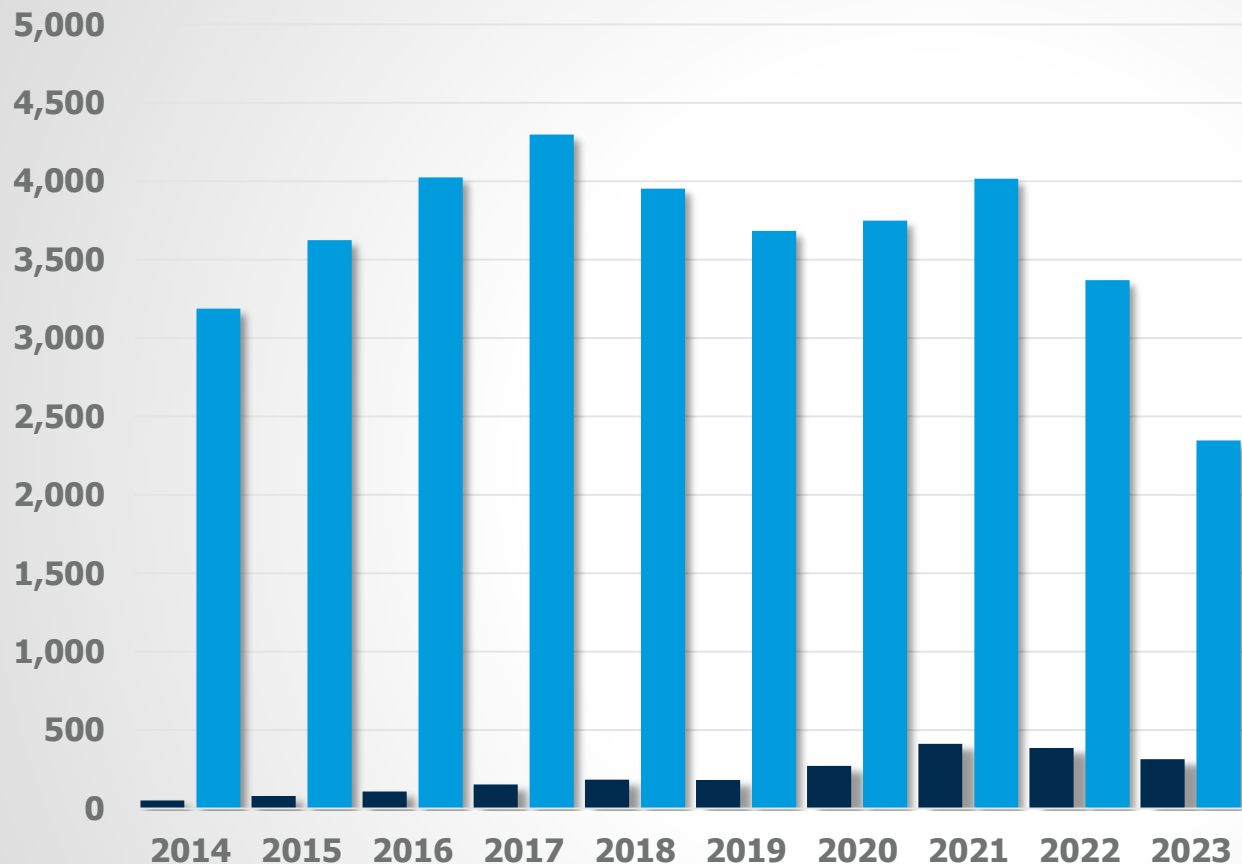
Small Decline in Luxury Listings

New listing activity in the sub \$1M market fell 34% y/y, but the luxury segment fell just 12%

Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

NEW LISTING ACTIVITY

■ \$1M+ Units ■ Balance of Market



Resiliency in the Luxury Segment

The sub \$1M market saw sales drop by 30% in 2023, while the luxury segment fell by a more modest 19% y/y

Source:
NWMLS; "luxury"
defined as sale prices
above \$1M

SALES ACTIVITY

- Lower sales volumes were a function of inventory constraints – nothing more:
 - Inventory shortfalls were a function of sales having been “pulled ahead” in 2021, rising mortgage rates, & economic uncertainty; &
 - Sellers were reluctant to lose their current financing.
- But as the cost of borrowing falls as rates pull back, this offsets any concerns regarding a homes investment potential;
- Urban markets were hit more than ex-urban or suburban ones, but I expect this to start turning around in 2024:
 - Changed in City Hall etc.
 - Possible early interest in new condominium development

- Listings should see a modest uptick in 2024 – but buyer requirements have shifted:
 - Buyers are increasingly looking for “move-in ready homes.
- Accurate pricing is as important as it has ever been – there is still a dichotomy between what sellers believe values are & what buyers think a home is worth;
- There is no “crash” on the horizon, but I do see modest price growth going forward which will be lower than sellers would wish for; &
- Although the “rate of return” for owners will pull back, luxury housing will still be an investment that increases in value.

OK! Sales are down. The US sold fewer housing units in 2023 than any year since 1993 but....

The last time the 4-County area sold less housing was in.....

2011

Why is this Important?



Don't count Seattle out! Many have before but.... They lost that bet!

Are buyers sidelined? Sure they are; but inventory levels will rise and FOMO will start to kick in

Why is this Important?



COVID hit urban markets HARD. Unwillingness by developers to break ground – and the City in recovery – will lead to more demand for urban housing.

Do you love our region? I do & it's poised for a serious comeback

Why is this Important?



IMPACT OF HB 1110



King County

Pierce County

Snohomish County

Kitsap County

1,400

1,200

1,000

800

600

400

200

0

1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 YTD '22 YTD '23

Source:
Census Bureau

DUPLEX DEVELOPMENT PERMITS

King County

Pierce County

Snohomish County

Kitsap County

1,600

1,400

1,200

1,000

800

600

400

200

0

1990

1991

1992

1993

1994

1995

1996

1997

1998

1999

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2020

2021

2022

YTD '22

YTD '23

Source:
Census Bureau

TRIPLEX & QUAD DEVELOPMENT PERMITS

FINAL THOUGHTS



ANY QUESTIONS?





LET'S KEEP IN TOUCH...!



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