



MONTHLY RESEARCH WEBINAR

HOUSING: MIXED OUTLOOK AMID HIGH RATES

Moderator:

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■ **Housing: Mixed Outlook Amid High Rates**

- Jim Kelleher, CFA, Director of Research
- John Eade, Argus President
- Chris Graja, CFA, Senior Analyst

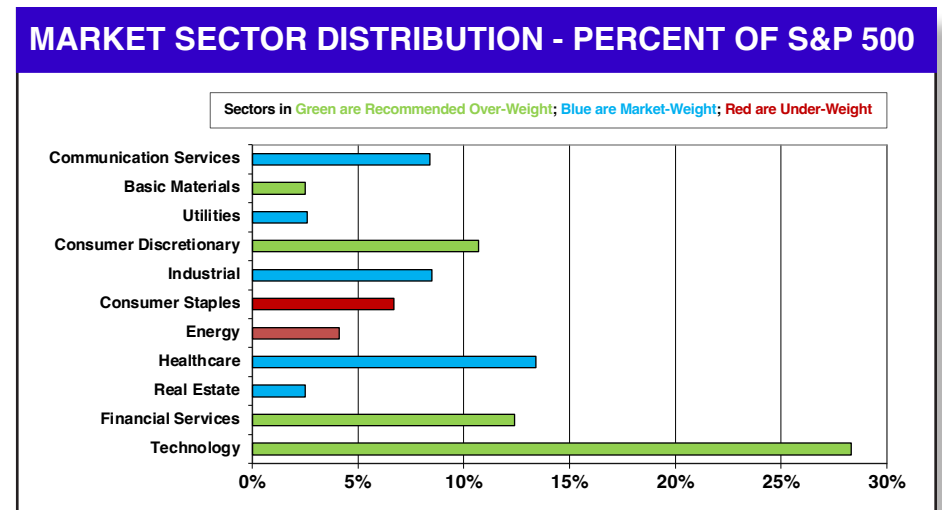
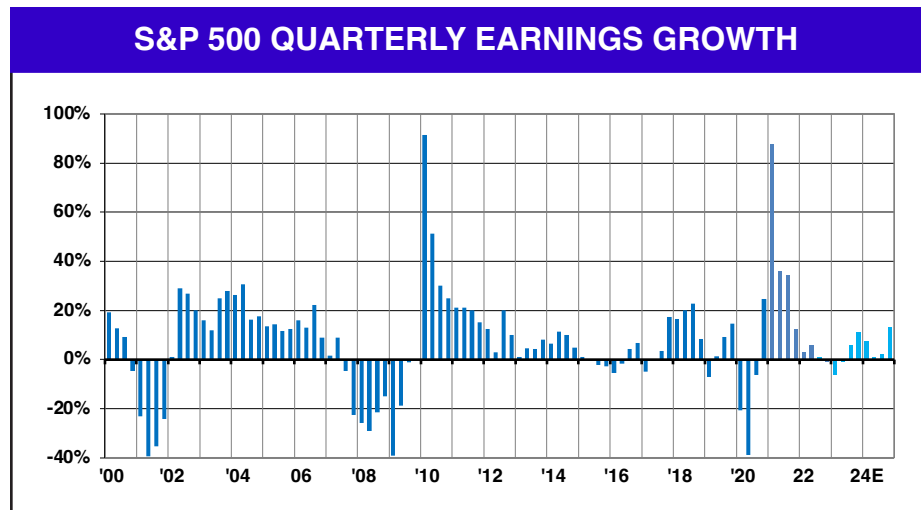
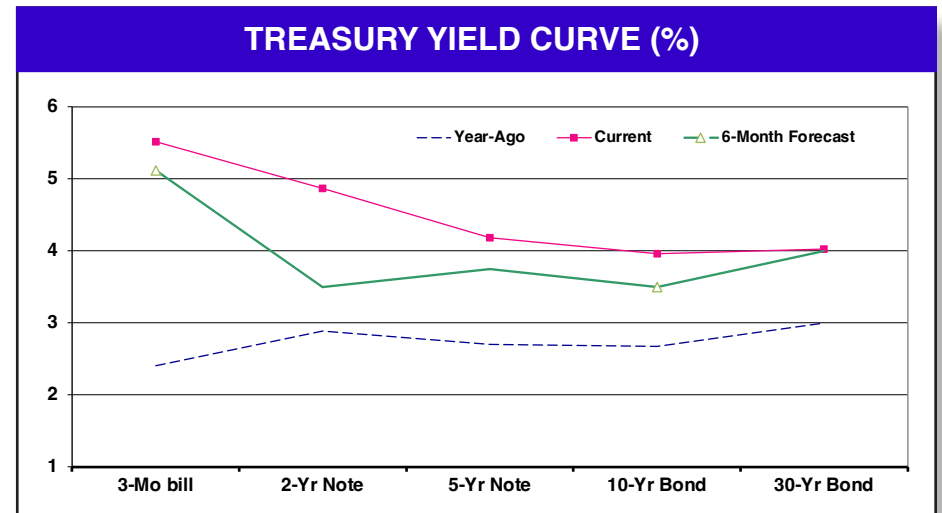
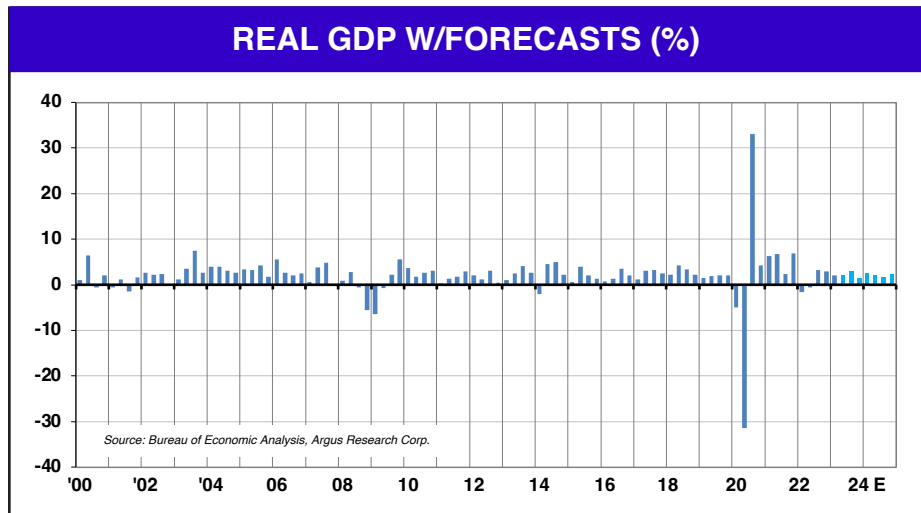
■ **Argus Quick Notes**

- Min Vol Stocks
- Housing Opportunities
- Shooting Stars and Falling Angels
- Find these on the homepage of our website

■ **Portfolio Update: the Argus Dividend Growers Model Portfolio**

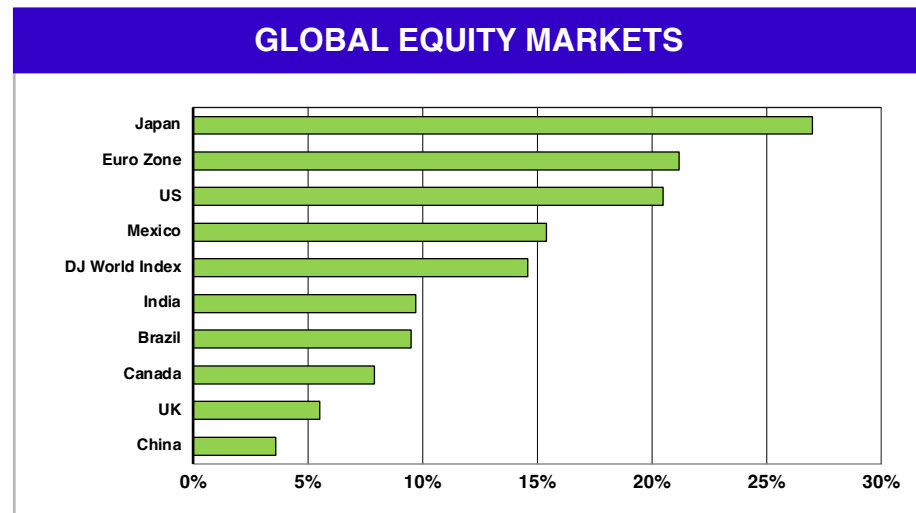
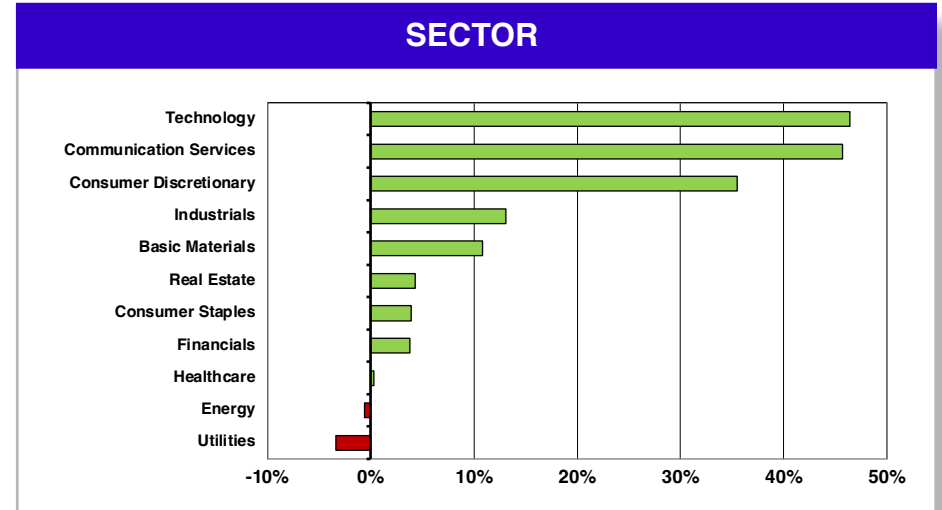
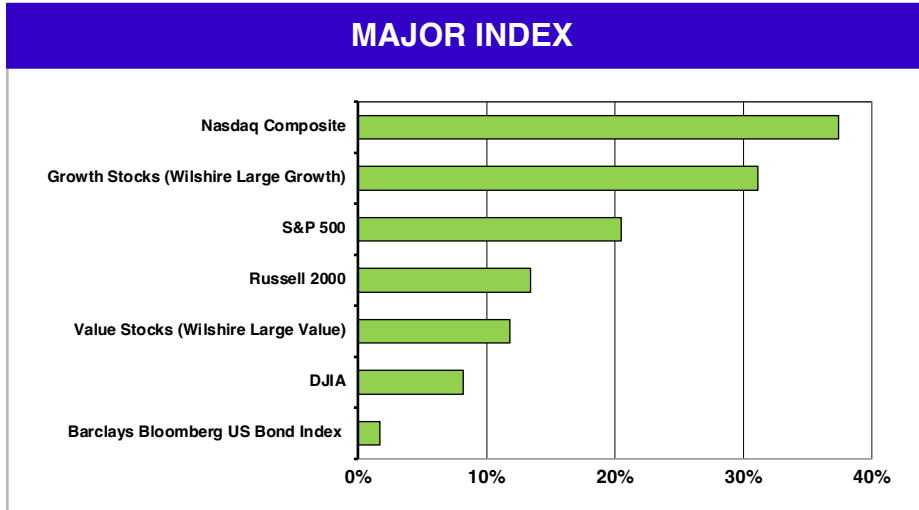
- In growth markets, less focus on income
- Historically, dividends account for 42% of total return
- Dividend Growth: all-weather strategy for growth or defensive markets
- Correlated with strong cash flow at “companies on the rise”
- Find the Argus Dividend Growers MP on the homepage of our website

MACRO FORECASTS



MARKET PERFORMANCE

DATA AS JULY 31, 2023



■ **We believe there is big shortage of homes.**

- More than a decade of under production.
- Existing home owners not moving -- golden-handcuffed with low locked-in rates.
 - » 90% of mortgages below 5%. Two thirds below 4%
- Demographics: 75 million Boomers aging in place, and 77 Million Millennials hitting home buying age.

■ **We expect the shortage of housing to dampen affordability issues.**

- 30-year fixed mortgage: 3.05% on December 23, 2021 - 6.8% in July 2023
- National Association of Realtors Affordability Index has dropped from highly-affordable 169.9 in 2020 to 93.8 in May. First-time buyer affordability has dropped from 111.9 in 2020 to 87.6 in 1Q23.

- **“There are simply not enough homes for sale. The market can easily absorb a doubling of inventory.” Lawrence Yun, chief economist, the National Association of Realtors.**
- **“The supply of both new and existing homes at affordable price points remains limited and demographics supporting housing demand remain favorable,” - Donald Horton, chairman of D.R. Horton.**

- **“Remodeler sentiment remains positive even though the median price of a bath remodel has risen to \$40,000 and the median price of a kitchen remodel to \$75,000.” Robert Dietz, chief economist, National Association of Home Builders**
- **“The ongoing reductions in household moves will cause a decline in the remodeling and repair activity that typically occurs around the time of a home sale,” said Carlos Martin, Project Director of the Remodeling Futures Program at the Harvard University Joint Center for Housing Studies**
- **“The magnitude of the impact may be offset if owners who are locked into their current homes with ultra-low mortgage rates continue to renovate to meet changing needs or take advantage of new federal incentives for energy-efficiency retrofits,” said Carlos Martin.**

■ What is Hurting Home Builders?

- Last year's spike in mortgage rates strained affordability for millions of prospective buyers.
- The 30-year Mortgage rate is still high at 6.8%.
- High rents are making it tough for first-time buyers to save.
- Fannie Mae Survey:
 - » Bad time to Buy – 78%
 - » Good time to Sell – 64%

■ What is Helping Home Builders?

- Very low supply of existing homes.
- Big demographic wave – you have to live somewhere.
- Buyers want to start their lives – yard, schools and neighborhood.
- Job market is good.
- Builder balance sheets in pretty good shape.
- Supply chain issues are easing.
- Builders are being realistic to generate cash flow:
 - » Cutting prices
 - » Offering mortgage rate buy-downs, helping buyers with closing costs.
 - » More efficient/smaller home designs
 - » Homes available for quick delivery/mortgage lock.

■ Beyond Builders

- **Positives:**

- » U.S. homes are old and need upgrades and repairs.
- » Low-mortgage-rate owners who don't move may remodel.
- » Many projects are non-discretionary repairs and replacements.
- » Lots of smart technology and environment-friendly innovations.
- » GDP is growing and unemployment is low.

- **Negatives:**

- » Inflation has reduced discretionary spending.
- » Record-high credit card rates are hurting big-ticket categories.
- » There is a consumer-spending shift from goods to services.
- » Harvard Leading Indicator (LIRA) suggests spending declines in 1Q24 and 2Q24.

■ **D.R. Horton (DHI)**

- Price Target: \$145

■ **Lennar (LEN)**

- Price Target: \$140

■ **Toll Brothers (TOL)**

- Price Target: \$95

■ **Lowe's (Low)**

- Price Target: \$260

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