

APOLLO GLOBAL MANAGEMENT

# US Housing Outlook: Early signs of a slowdown

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May 2022

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Unless otherwise noted, information as of May 2022

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## US housing: Key themes

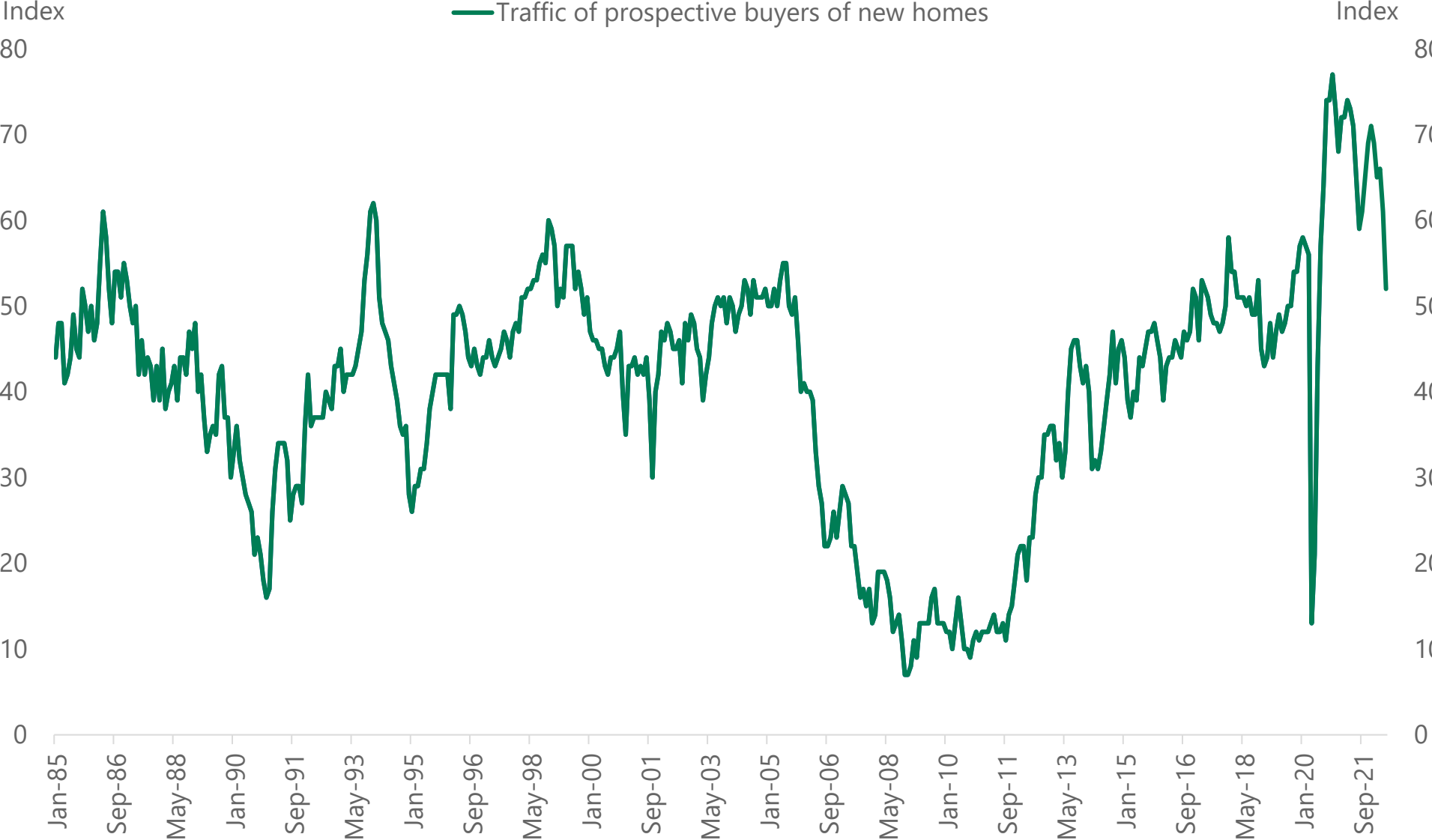
- 1) Despite rising mortgage rates, demand for housing remains solid,** driven by solid employment growth, high wage growth, robust household formation, and solid demand from first-time homebuyers. But there are some early signs of demand starting to slow down.
- 2) Supply remains low across** all types of homes with a record-low inventory of existing homes for sale and record-low vacancy rates for renters and owners.
- 3) Rising rates, high home prices, strong supply pipeline, and high building costs are risks to this housing cycle.**

### **Bottom line:**

Robust demand combined with low supply should keep the housing cycle going in 2022. Rising home prices, high construction costs, significant supply coming, and rising interest rates are likely to slow housing activity over the coming quarters.

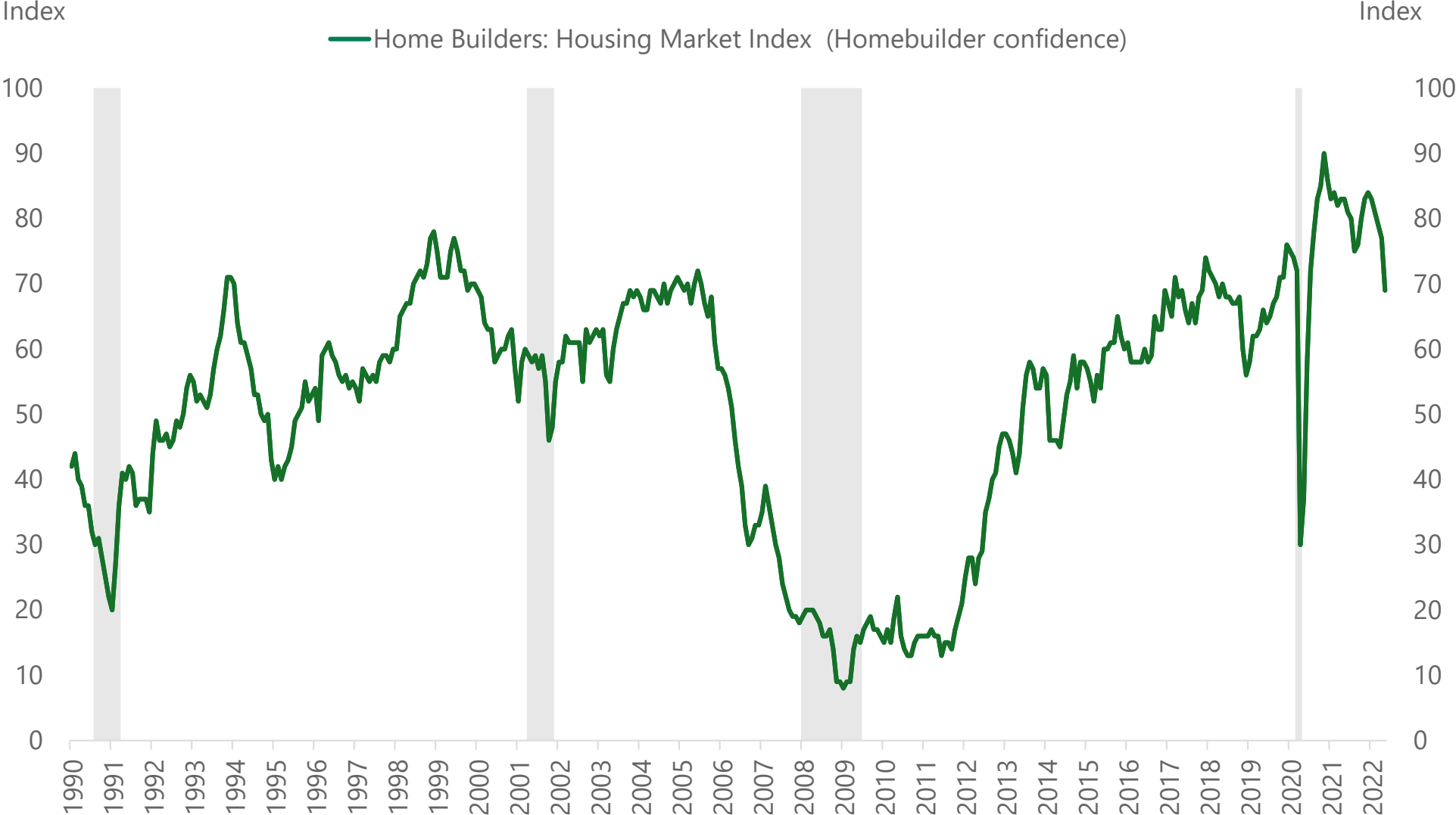
1) Higher mortgage rates and high home prices slowing demand

# Home buyer traffic declining



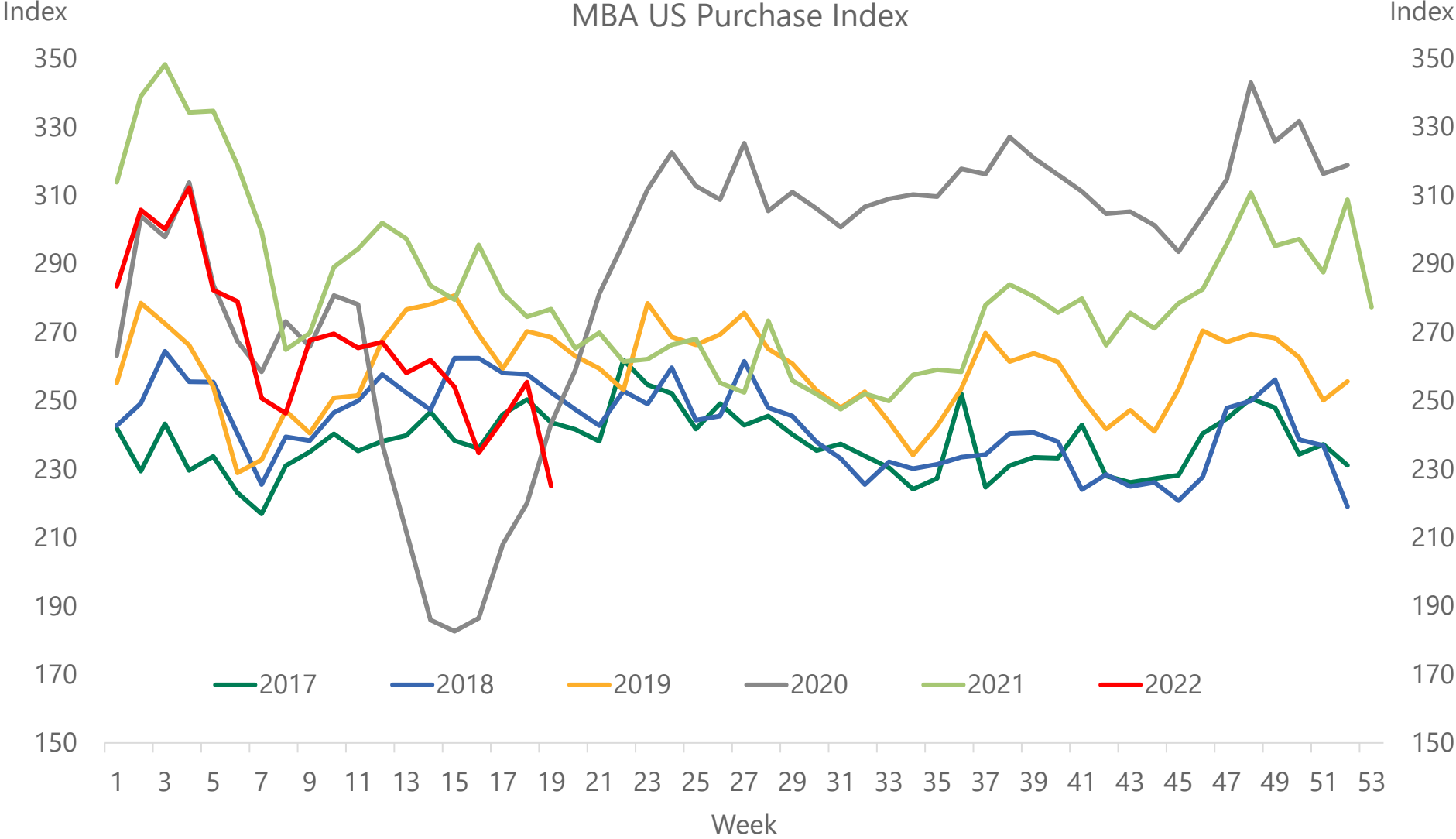
Source: Bloomberg, Apollo Chief Economist

# Homebuilder confidence declining



Source: NAHB, Apollo Chief Economist

# Rising mortgage rates starting to weigh on mortgage purchase applications



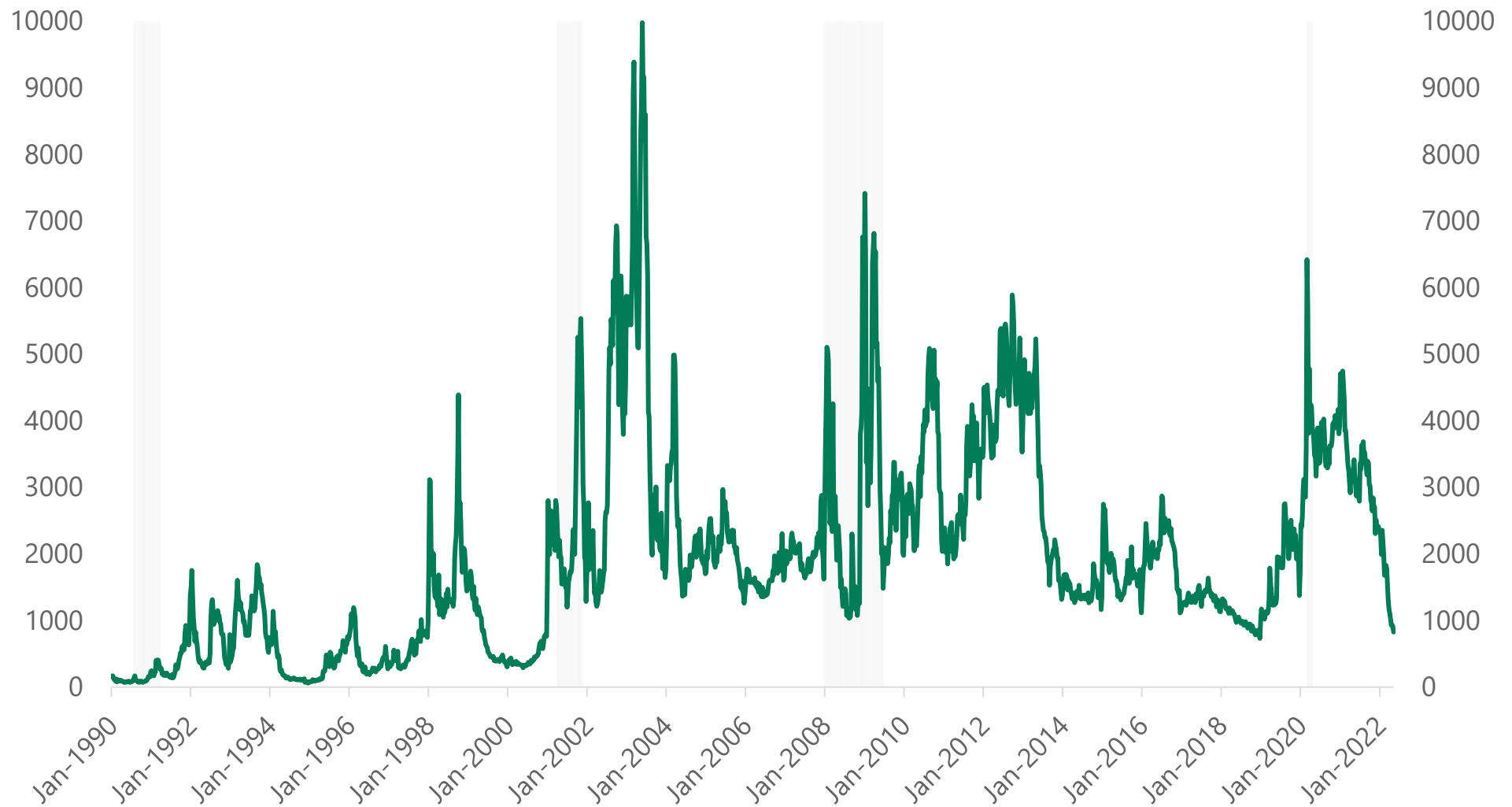
Source: Mortgage Bankers Association, Bloomberg, Apollo Chief Economist

# Mortgage refi applications declining

Index, Mar 1990 = 100

— Mortgage loan applications for refinancing

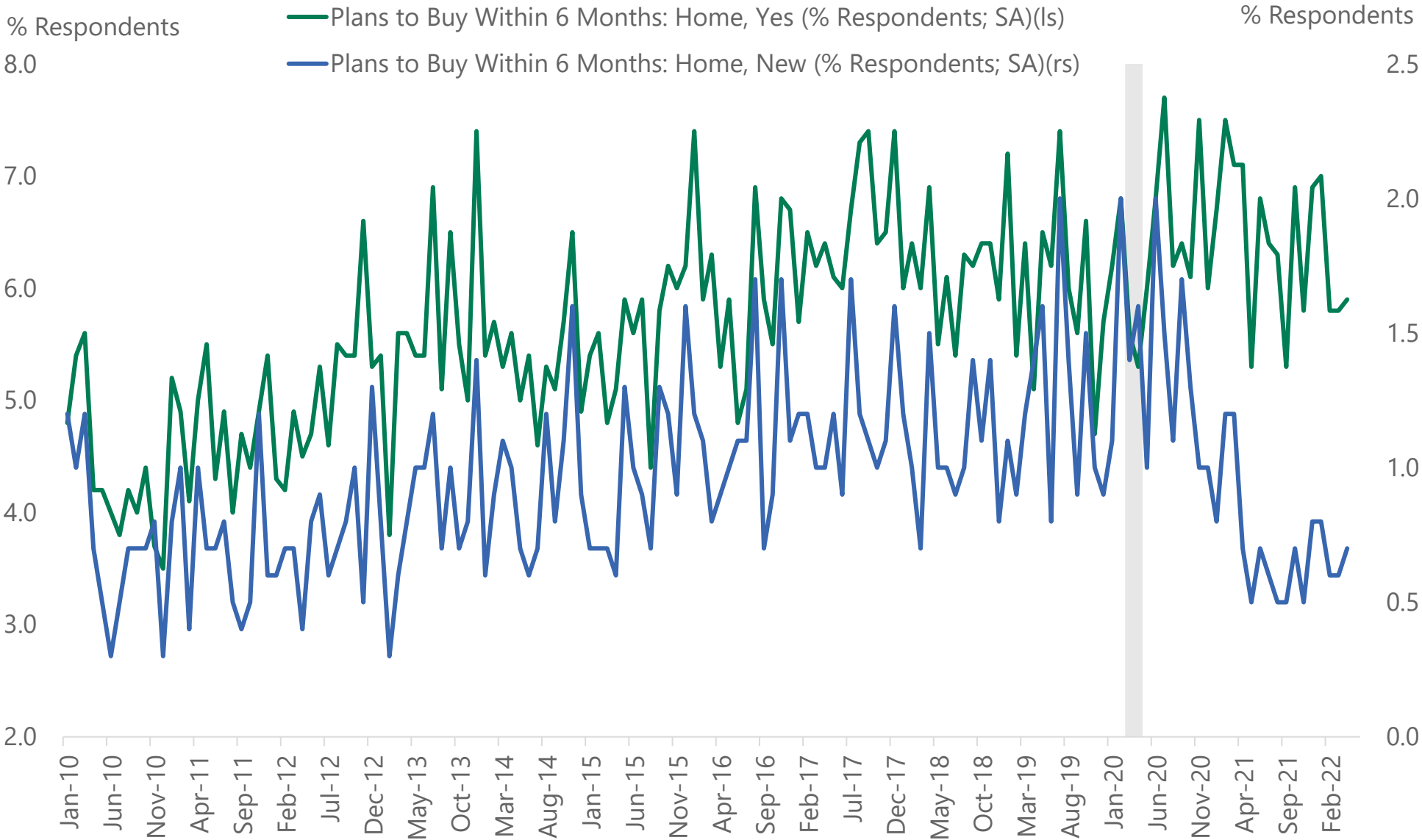
Index, Mar 1990 = 100



Source: Mortgage Bankers Association, Bloomberg, Apollo Chief Economist

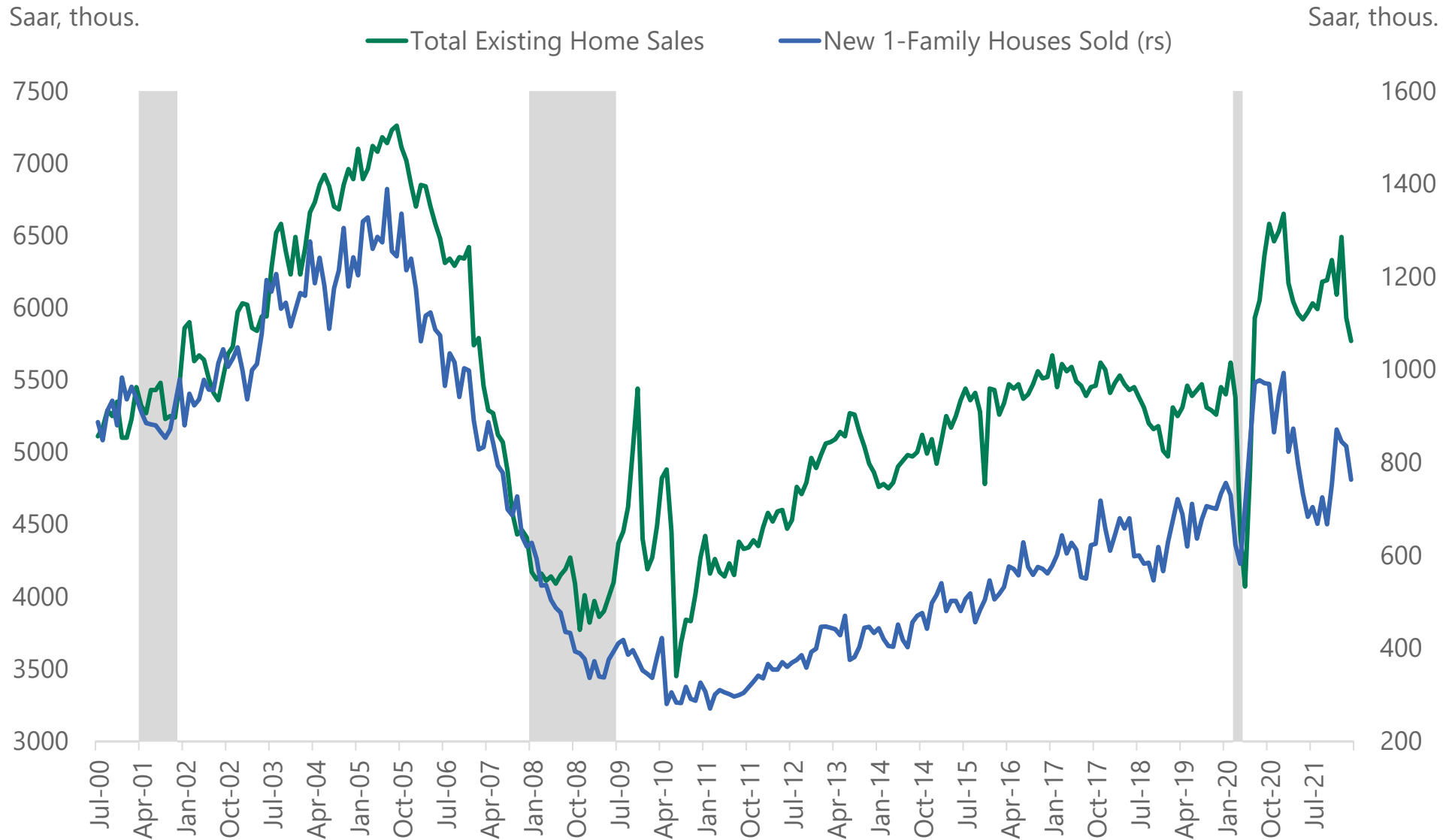


# Plans to buy a home coming down



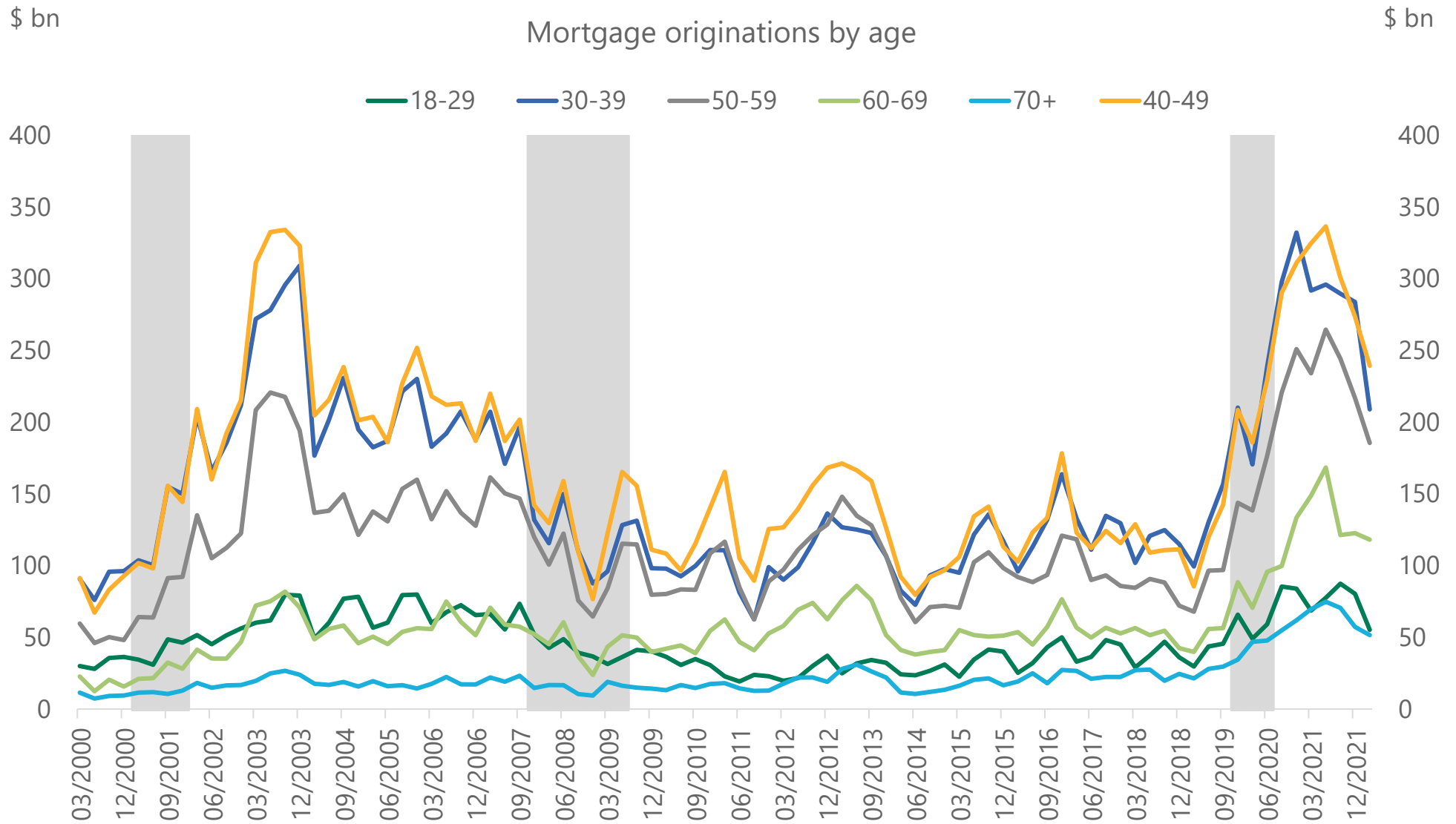
Source: Conference Board, Apollo Chief Economist

# Home sales starting to decline



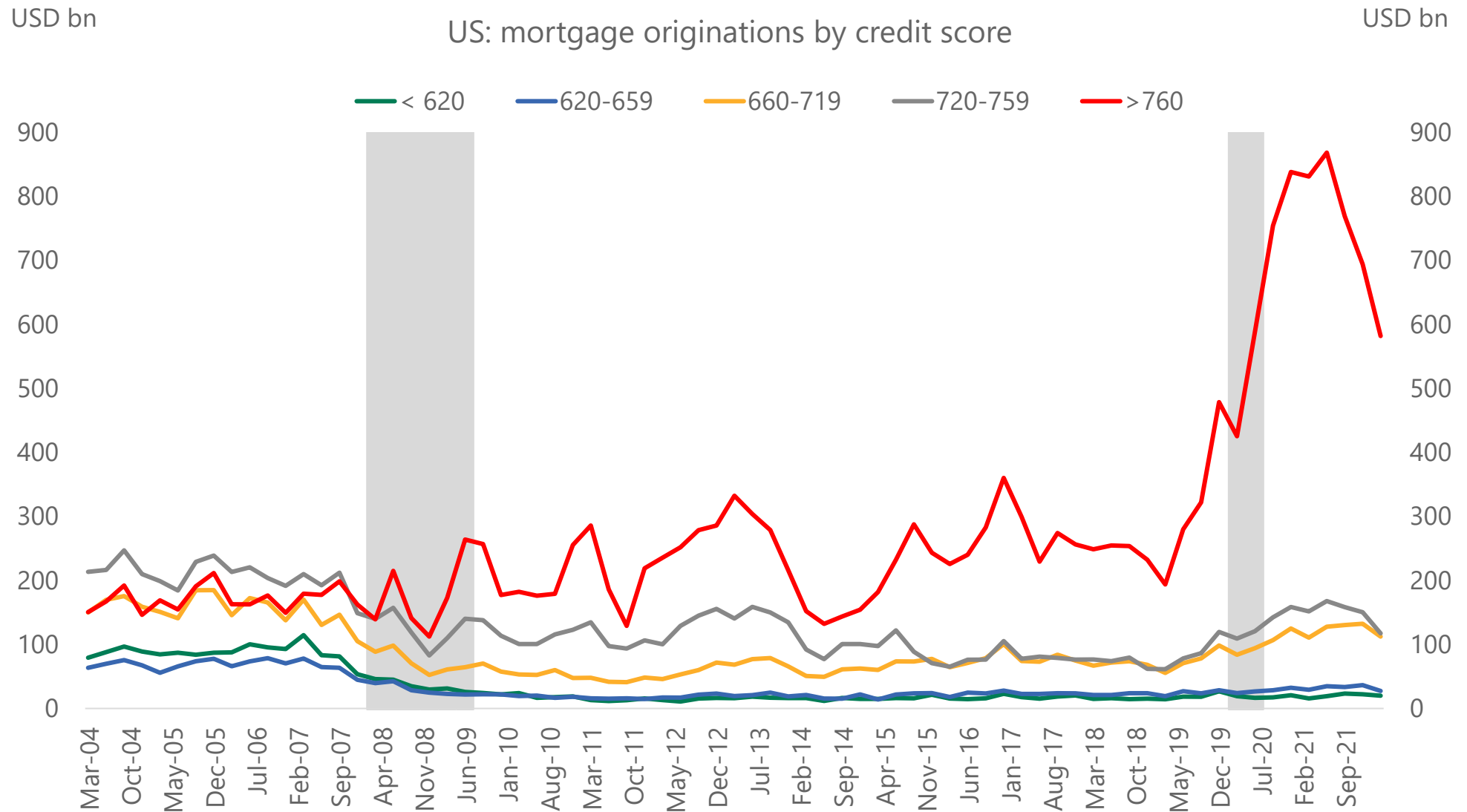
Source: Census Bureau, NAR, Haver, Apollo Chief Economist; Forecast is Bloomberg consensus

# Mortgage originations starting to roll over for all ages



Source: NY Fed, Bloomberg, Apollo Chief Economist

# Mortgage origination starting to decline for households with high credit scores



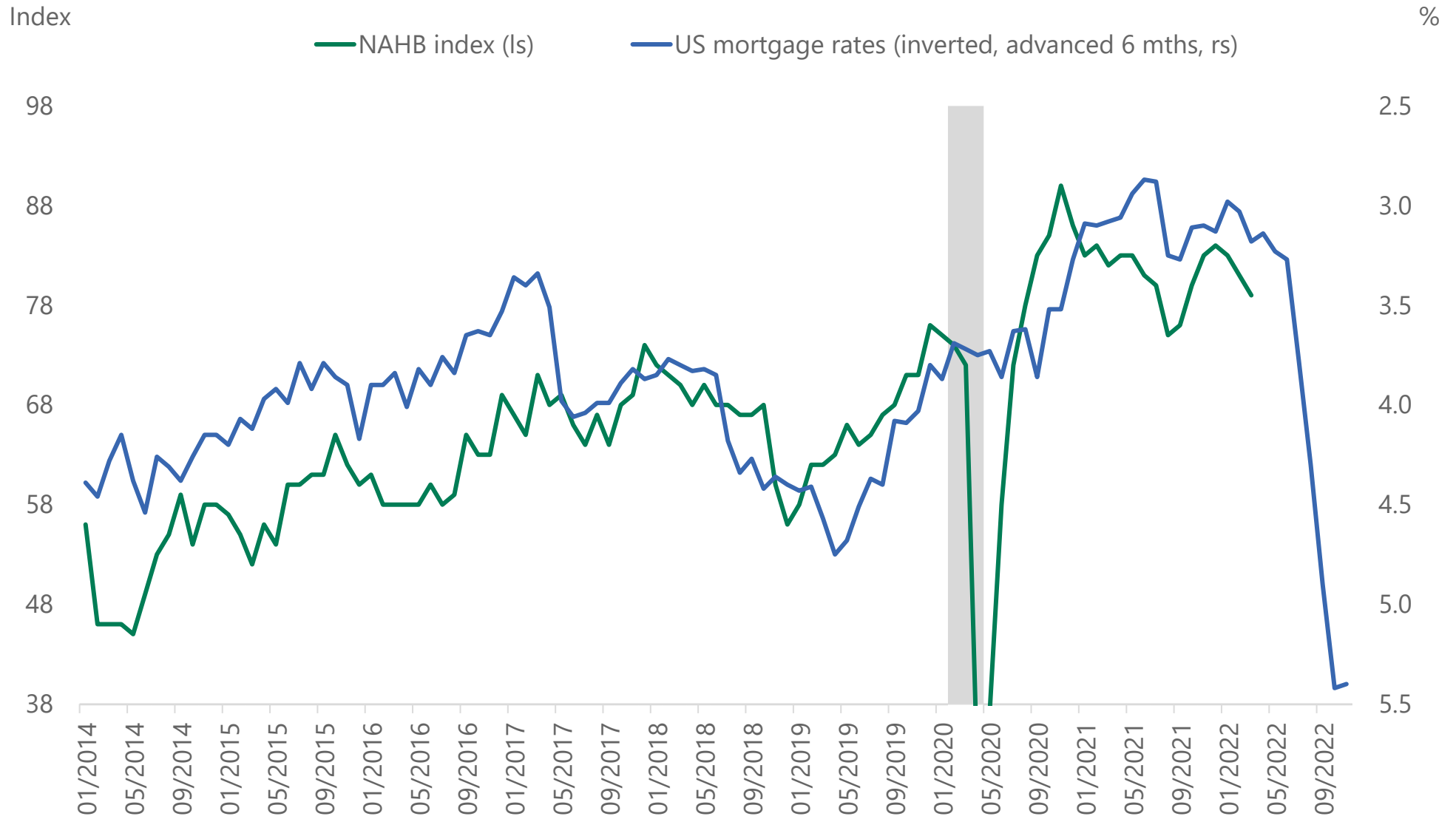
Source: NY Fed, Bloomberg, Apollo Chief Economist

# Mortgage rates rising



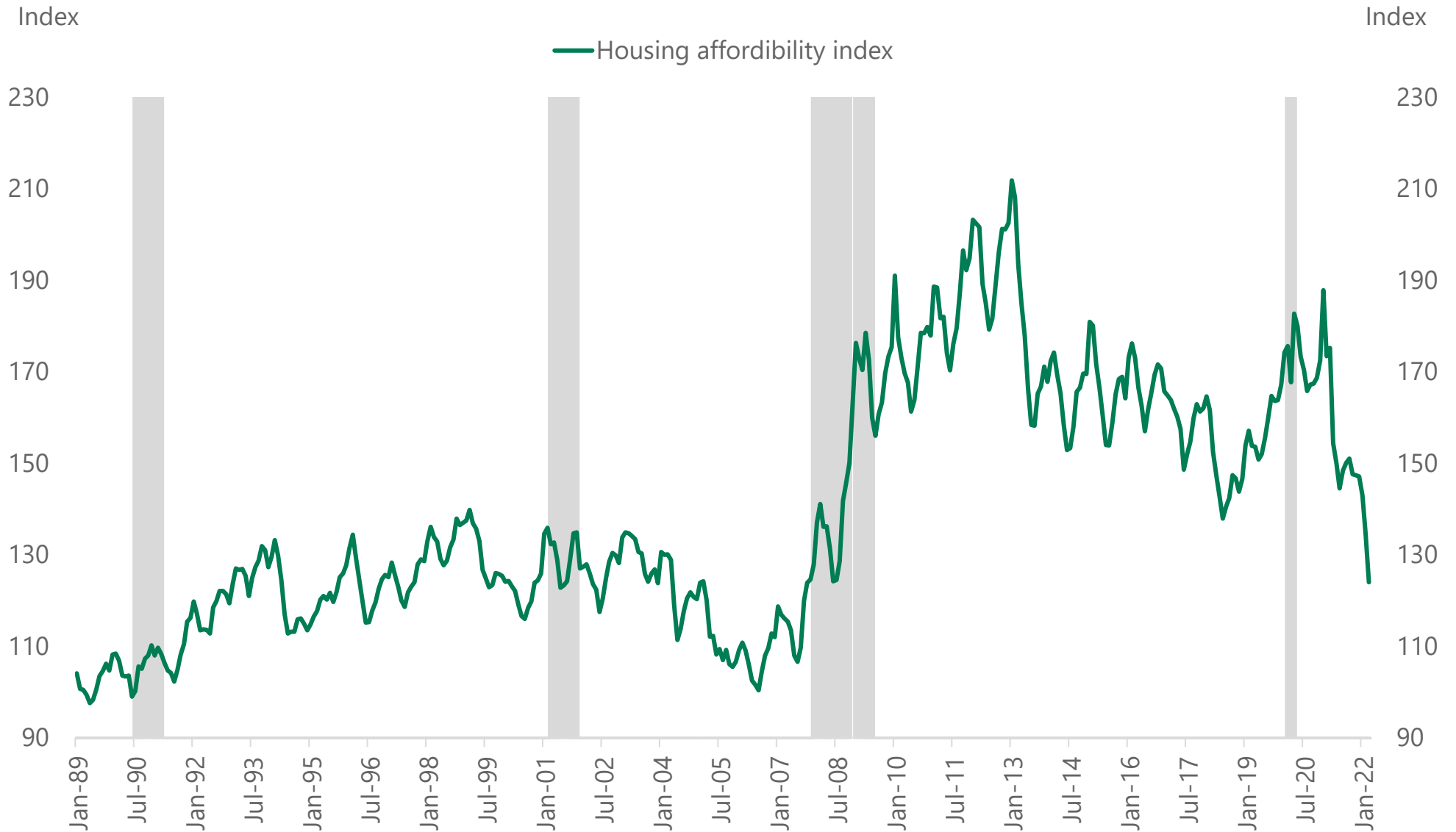
Source: Bloomberg, Apollo Chief Economist

# Downside risks to NAHB index



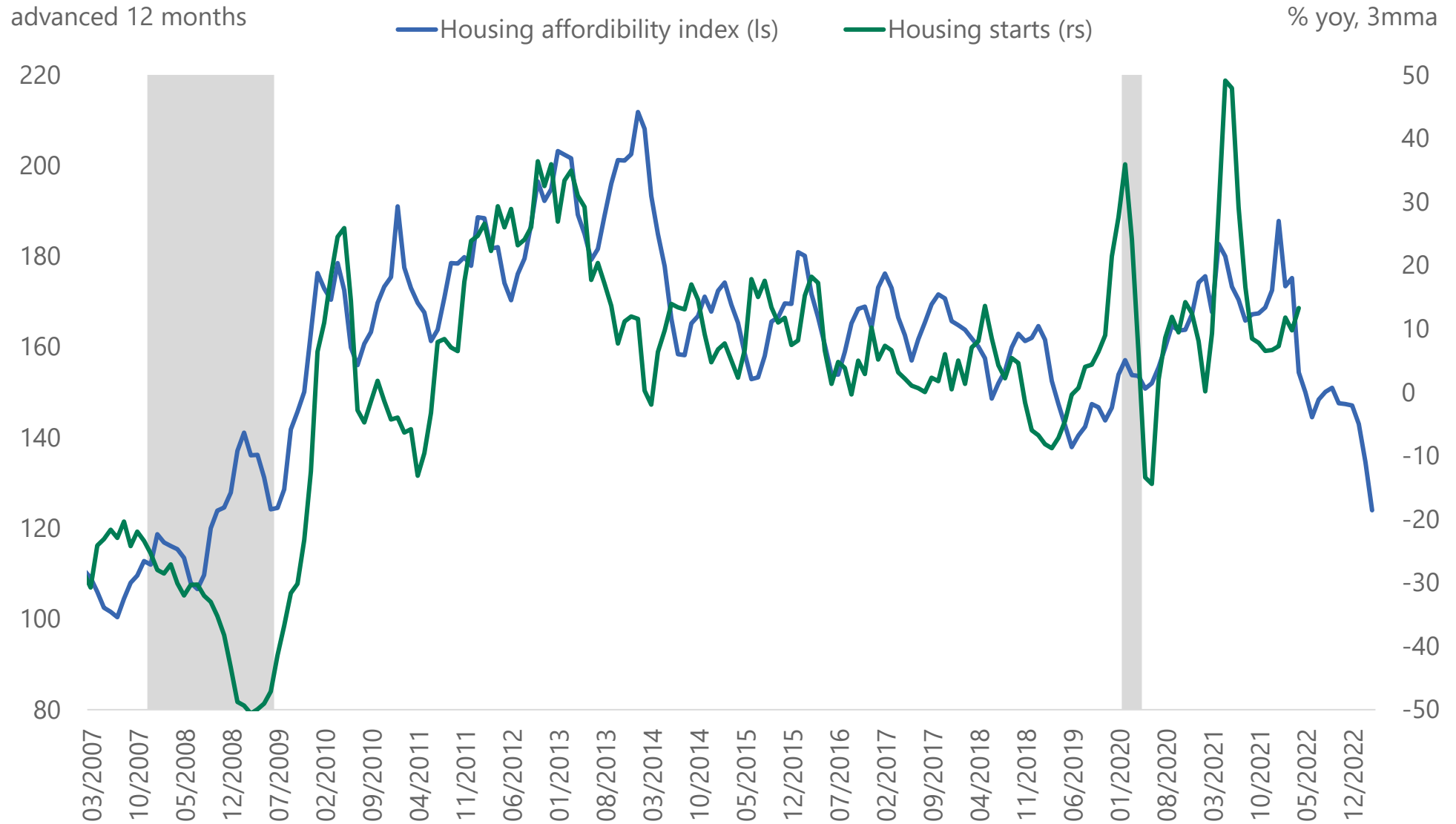
Source: NAHB, Bloomberg, Apollo Chief Economist

# Housing affordability approaching 2007 bubble levels



Source: Bloomberg, Apollo Chief Economist

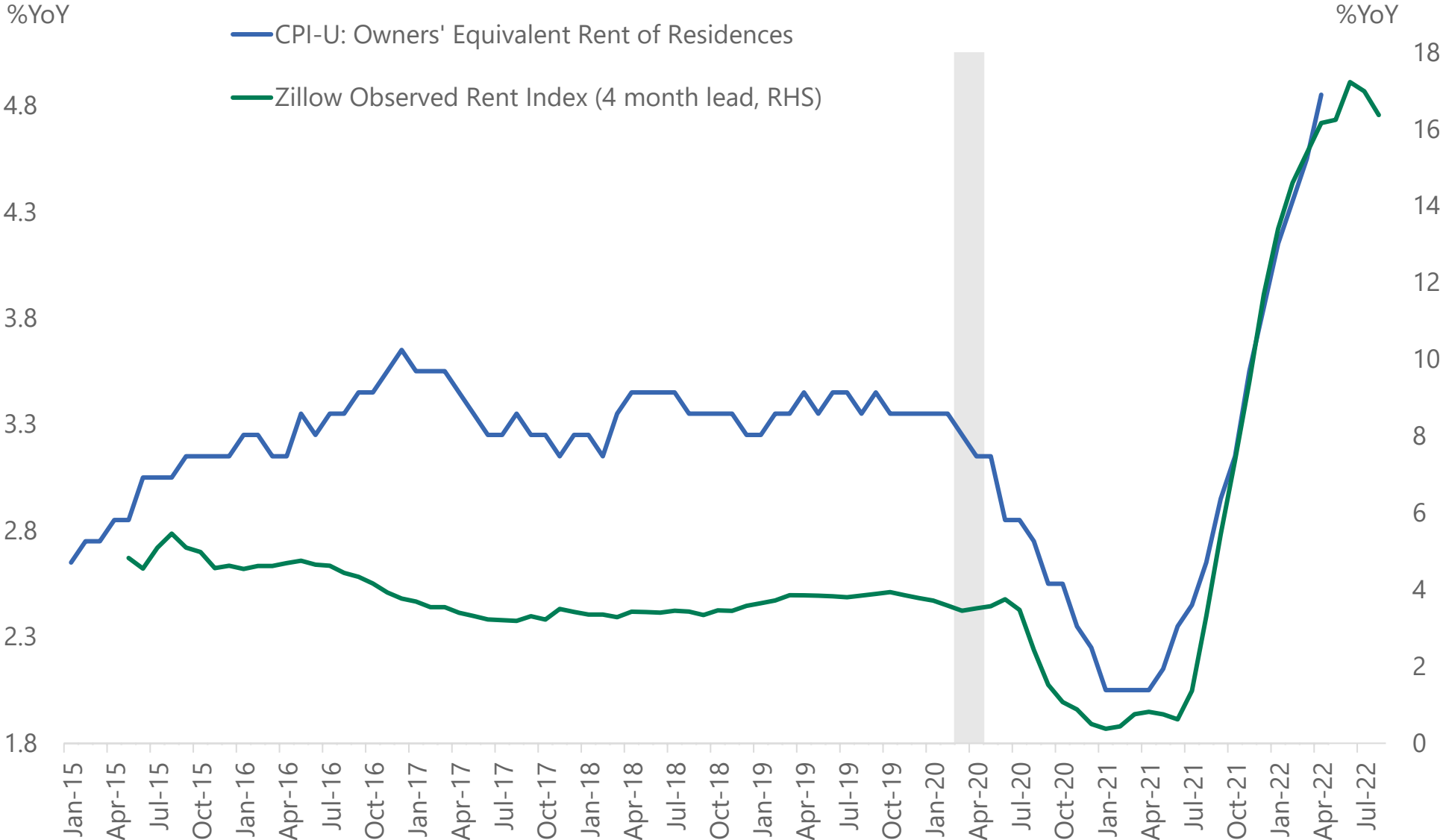
# Housing starts likely to moderate



Source: Bloomberg, Apollo Chief Economist

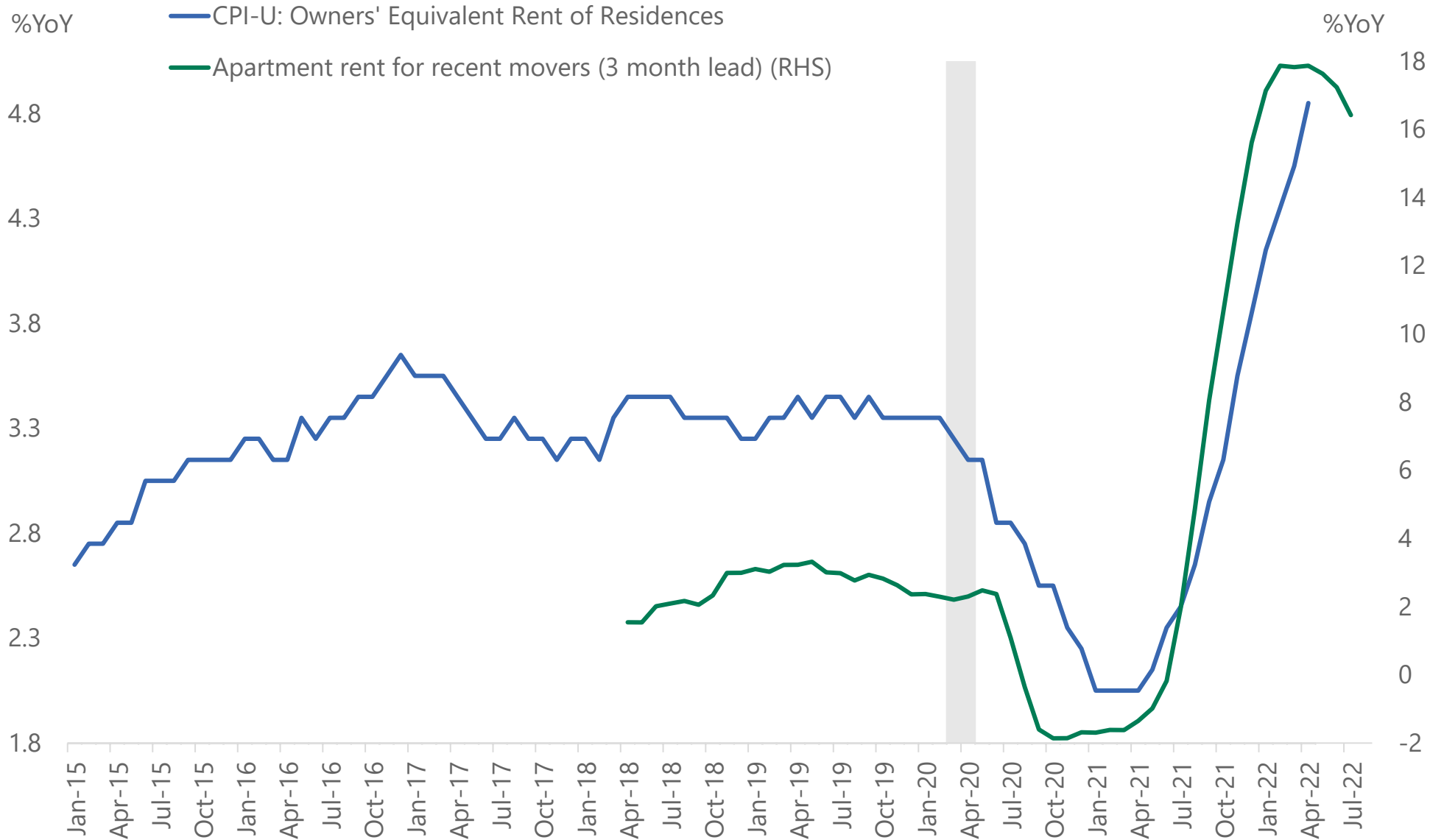


# Home price inflation has likely peaked



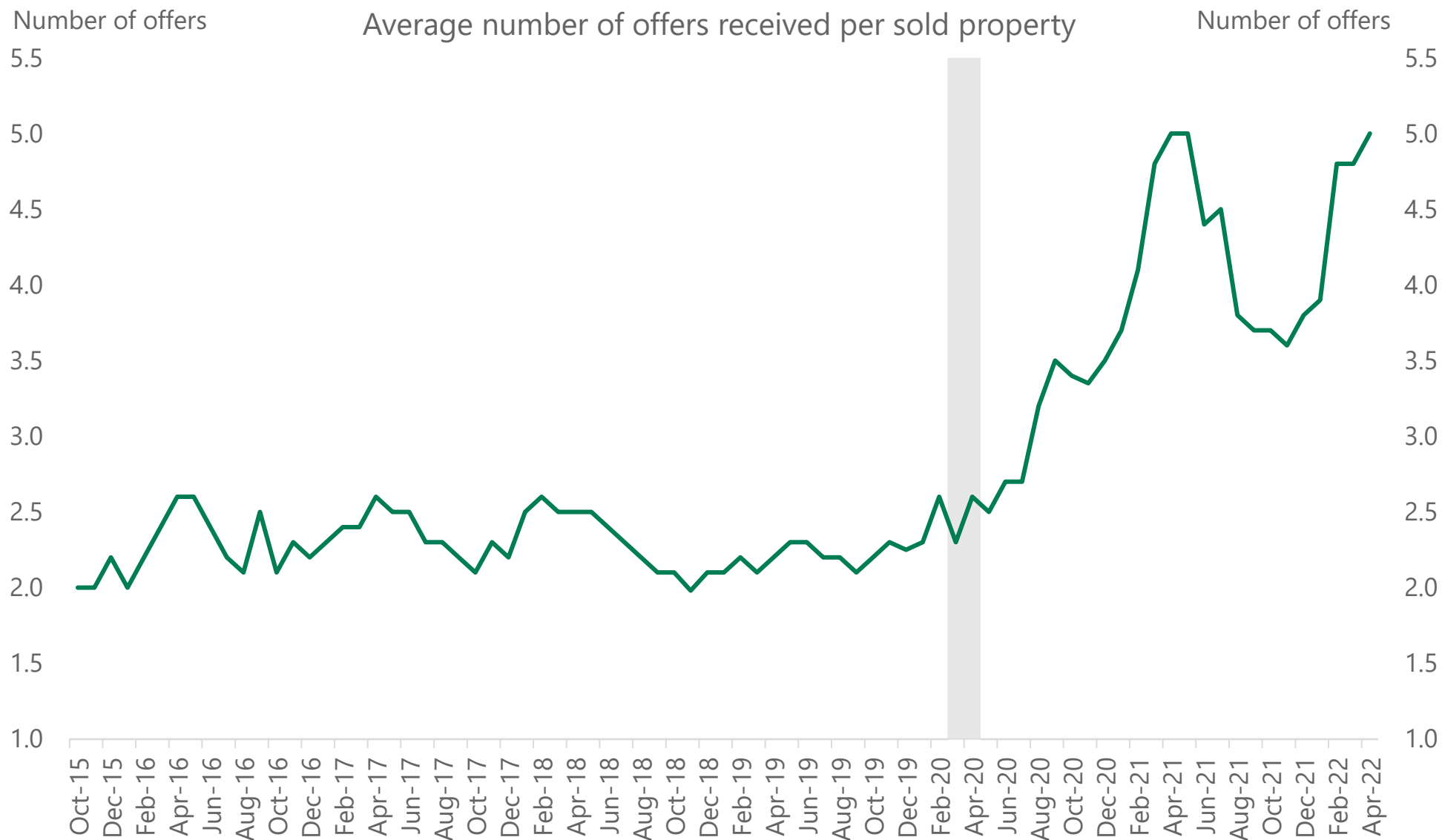
Source: Haver Analytics, BLS, Zillow, Apollo Chief Economist

# Home price inflation has likely peaked



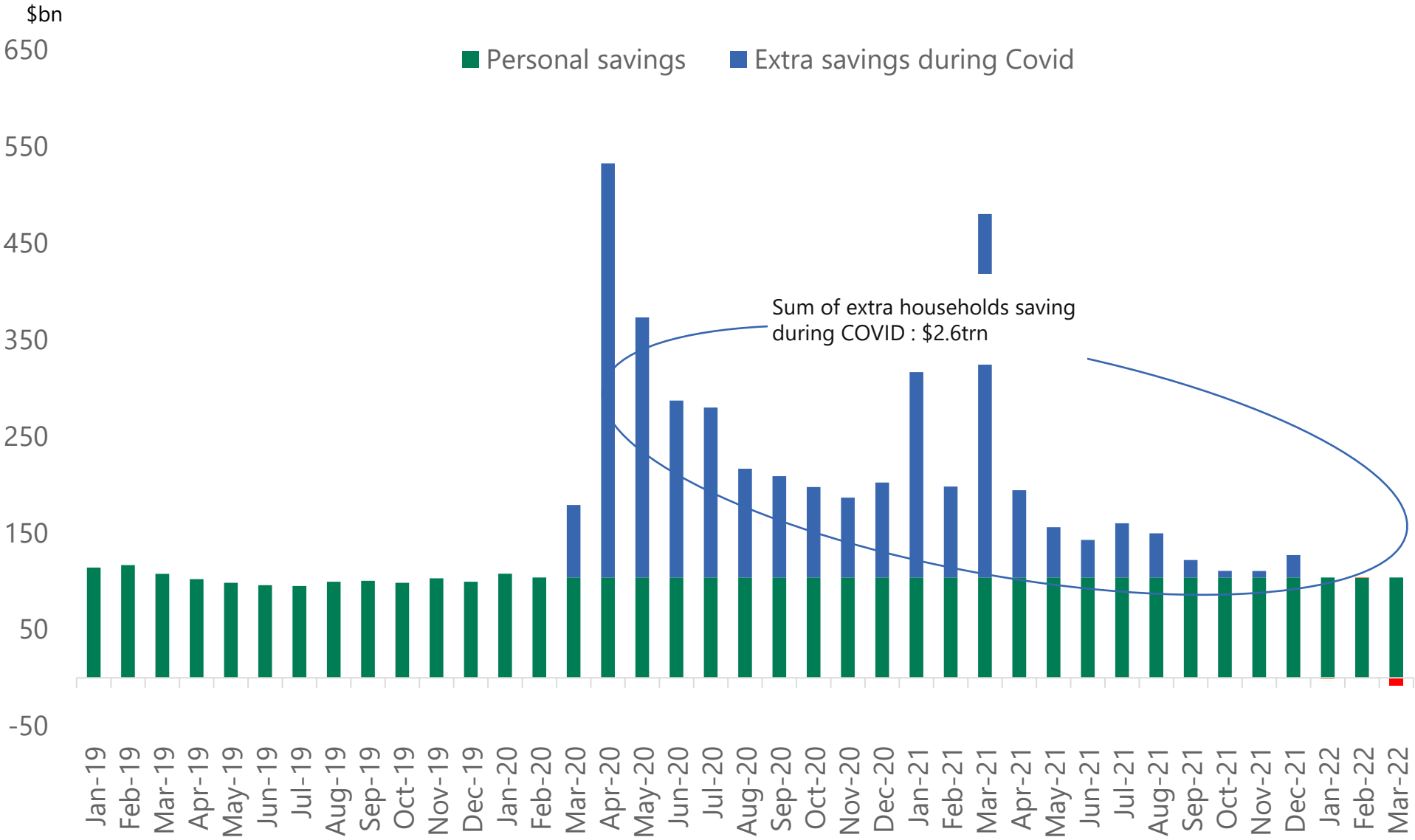
Source: Haver Analytics, BLS, Apartment list, Apollo Chief Economist

# Average number of offers received per sold property



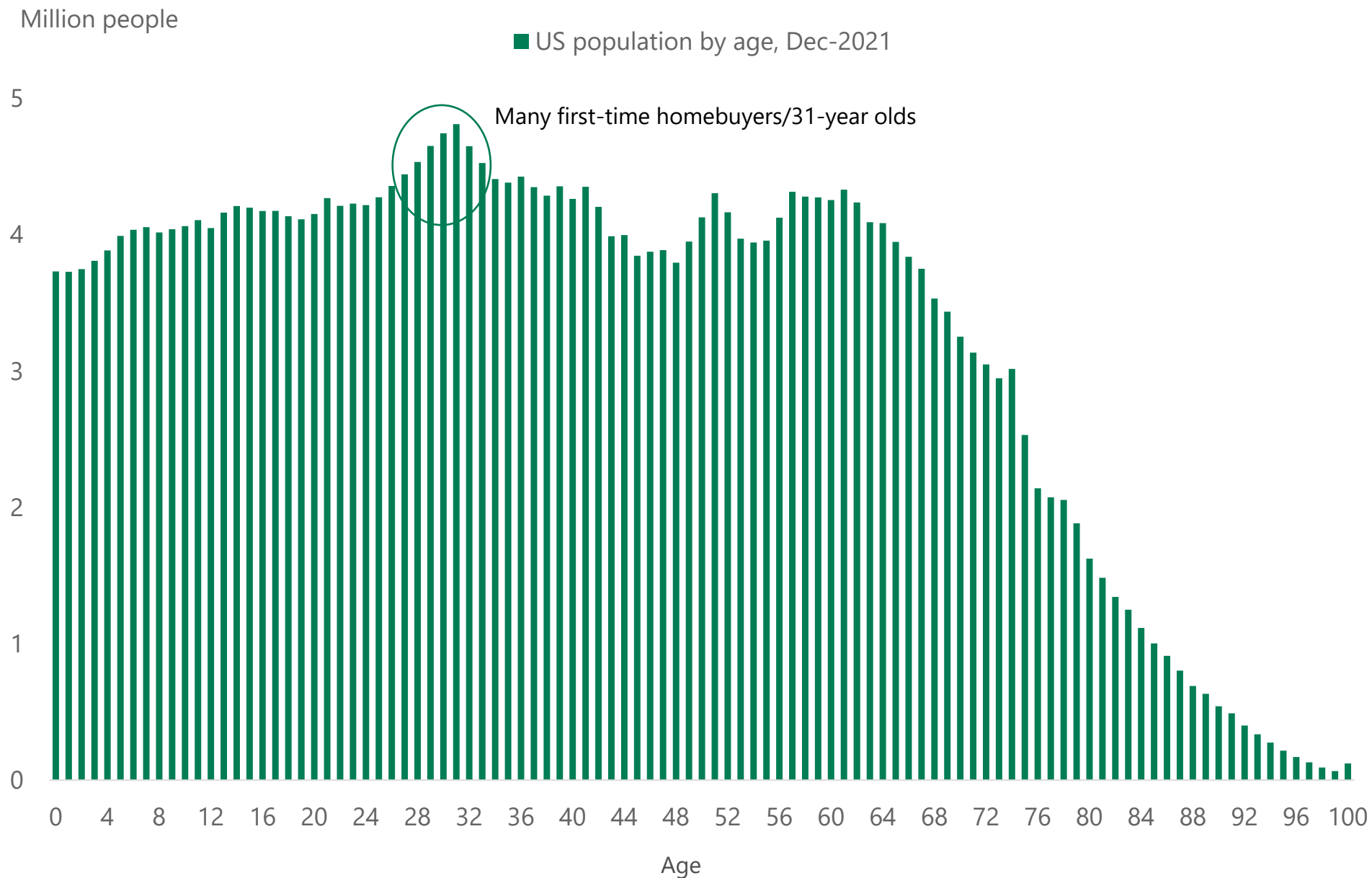
Source: NAR, Apollo Chief Economist

# Households have significant excess savings coming out of the pandemic



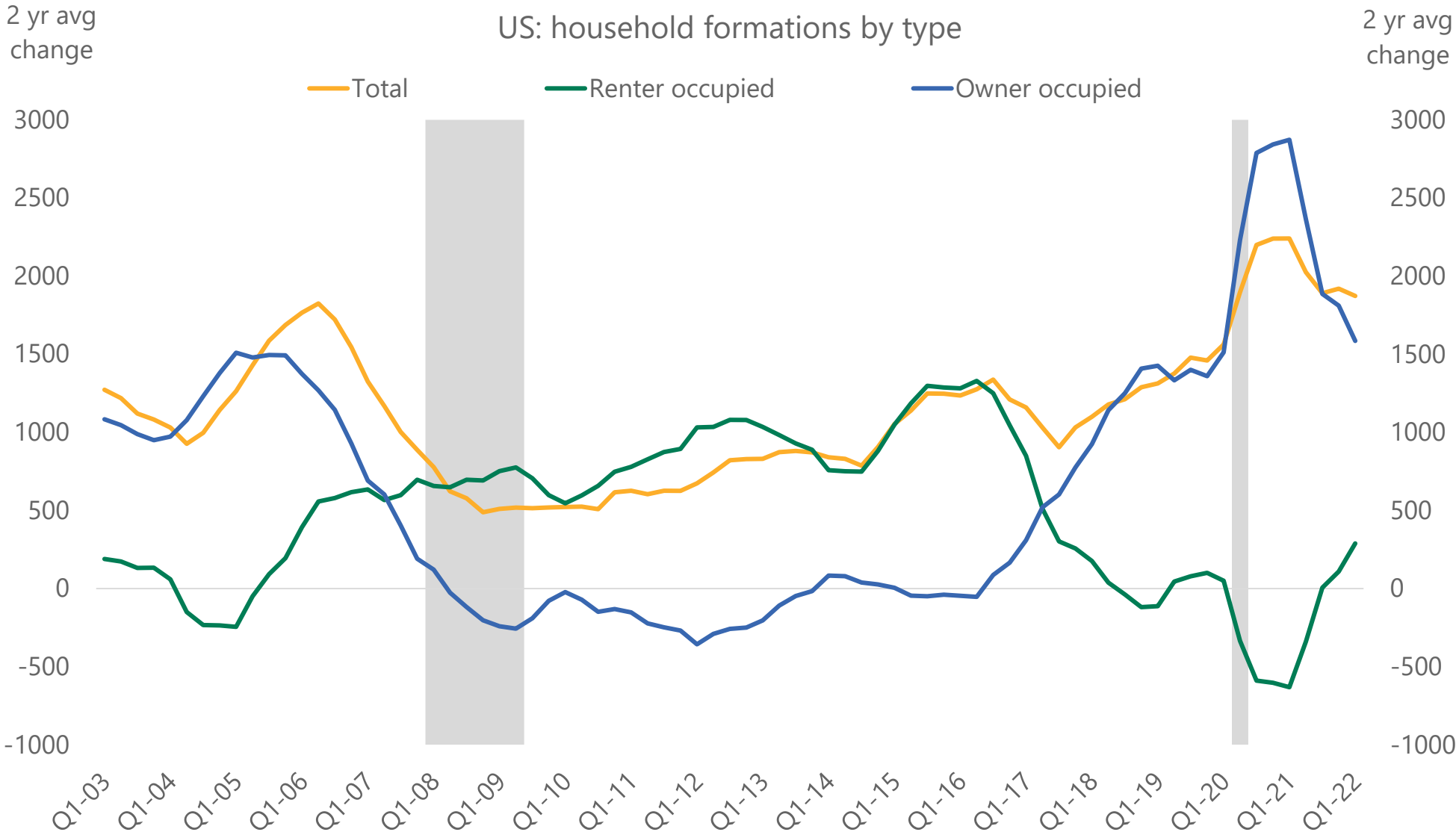
Source: BEA, Haver Analytics, Apollo Chief Economist

# Demographics are a tailwind to housing demand



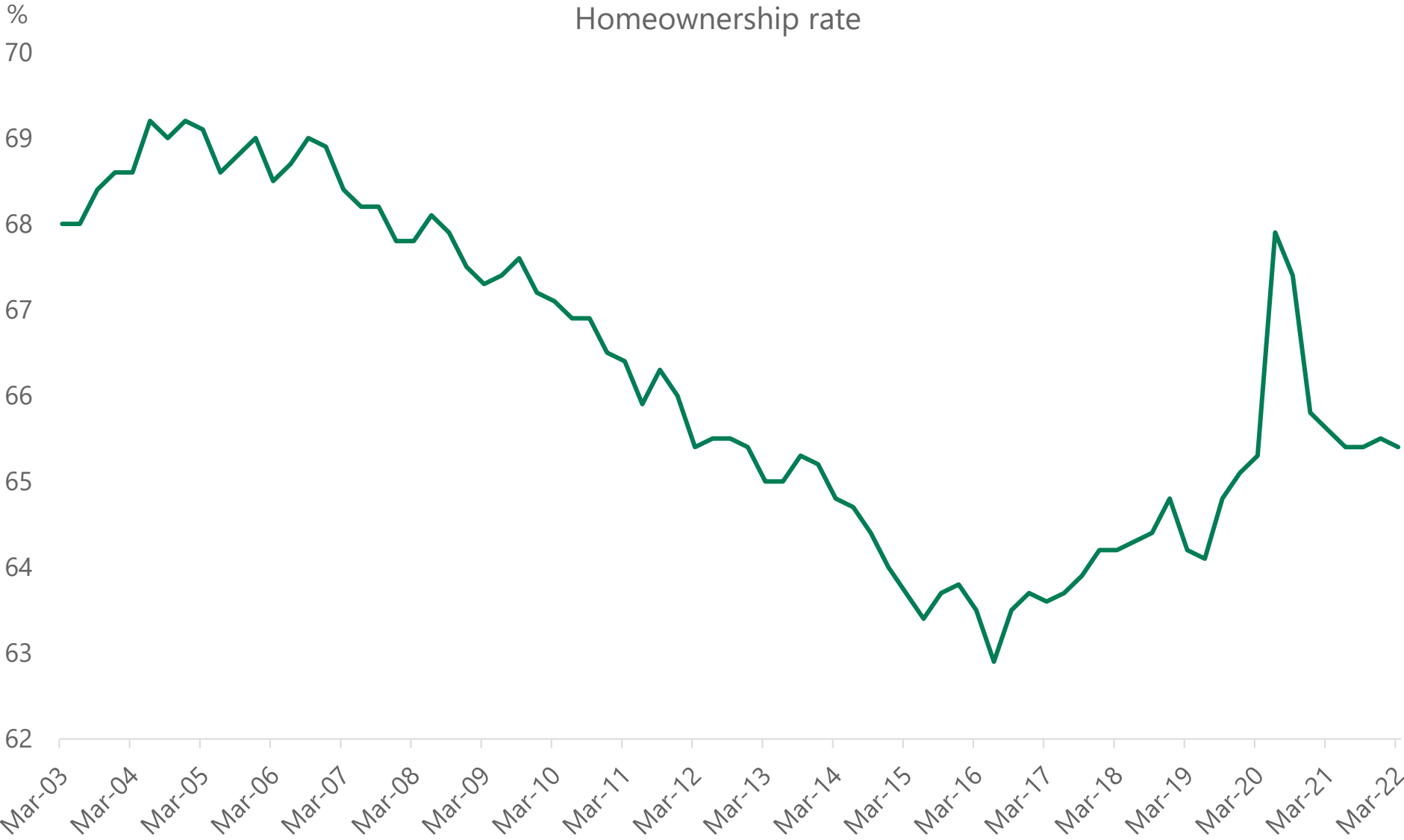
Source: UN, Haver, Apollo Chief Economist

# Household formation starting to decline



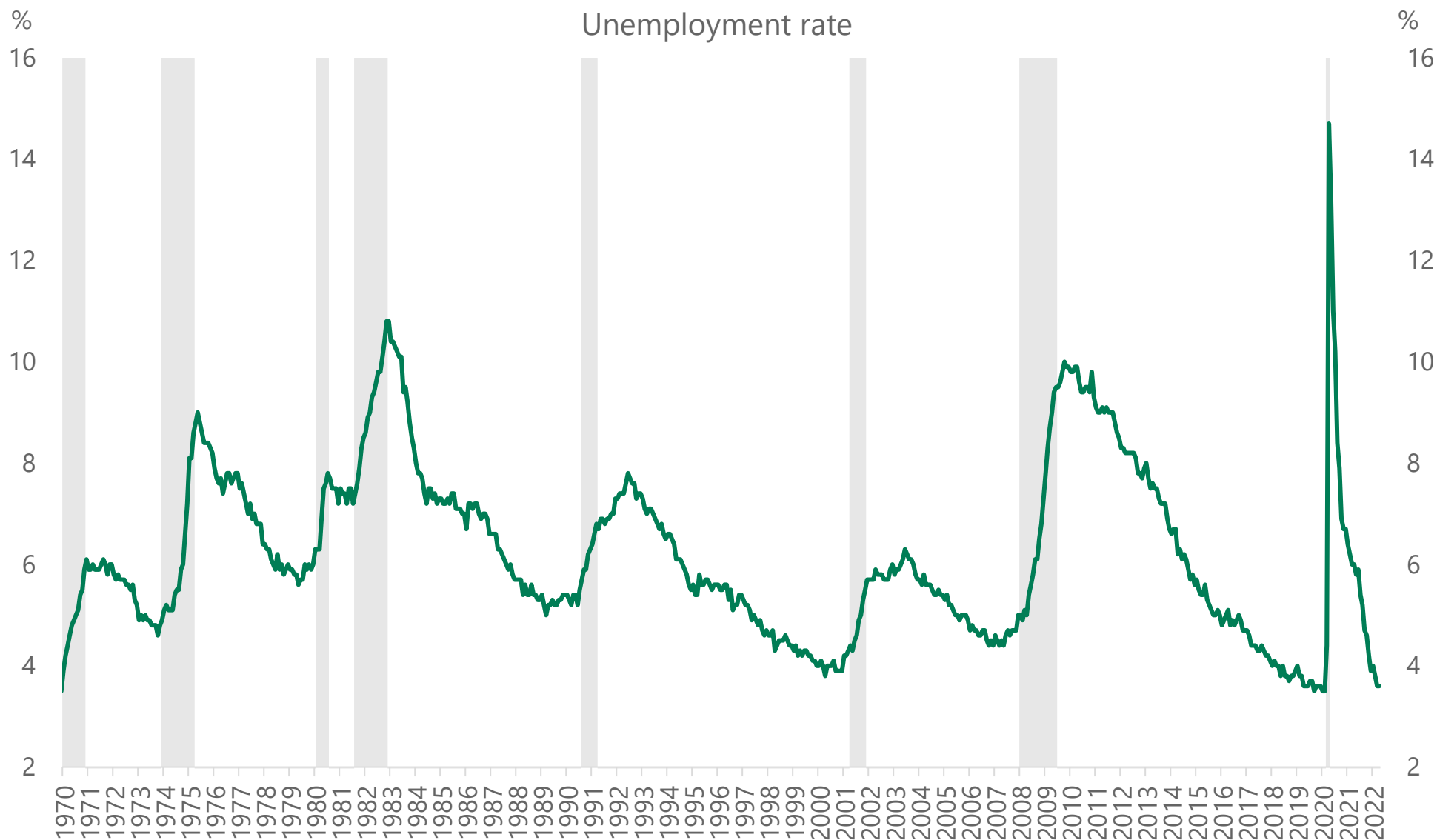
Source: Census Bureau, Haver, Apollo Chief Economist

# The homeownership rate no longer trending up



Source: Bloomberg, Apollo Chief Economist

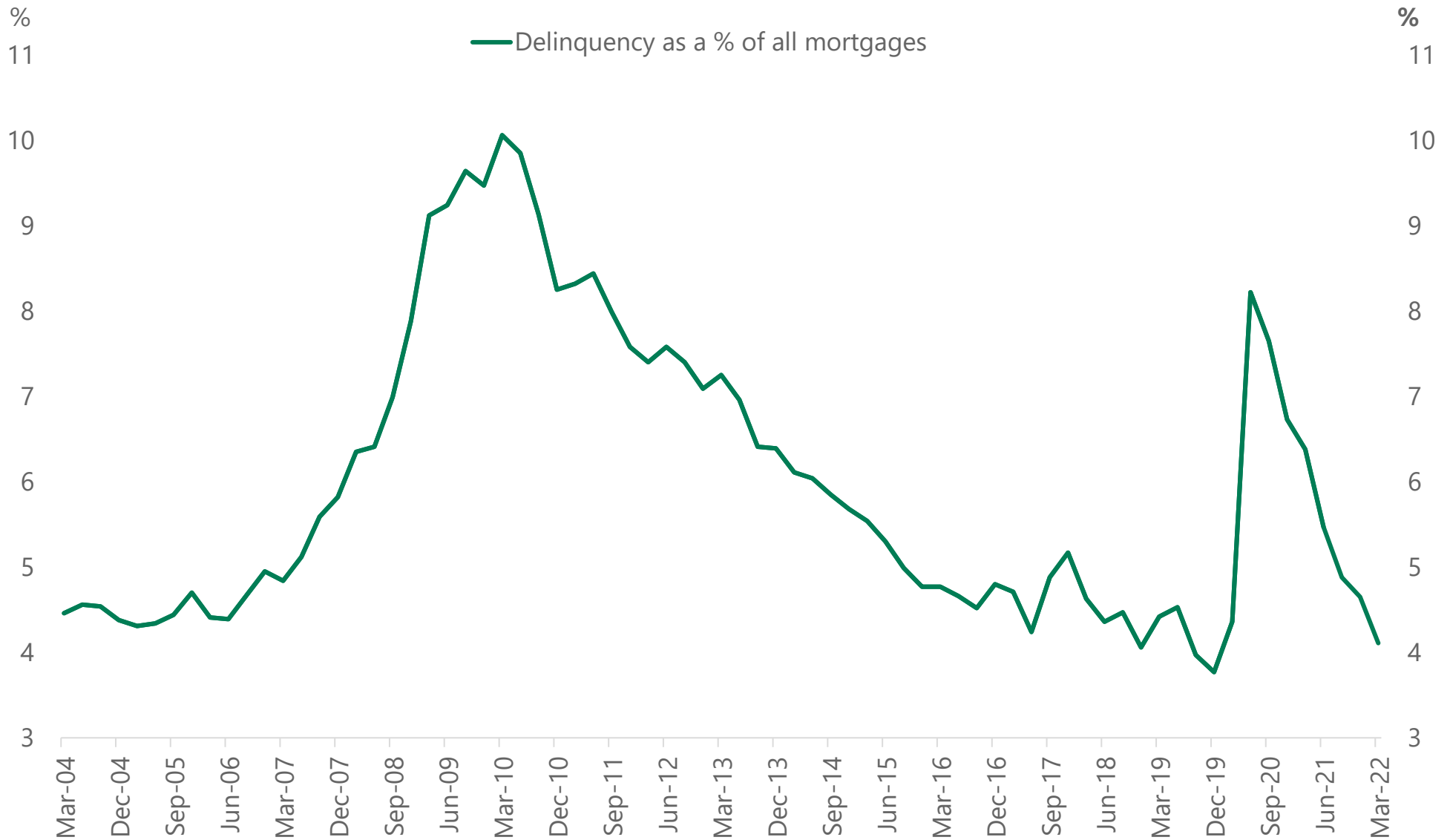
# Low unemployment is a tailwind to housing demand



Source: BLS, Haver Analytics, Apollo Chief Economist

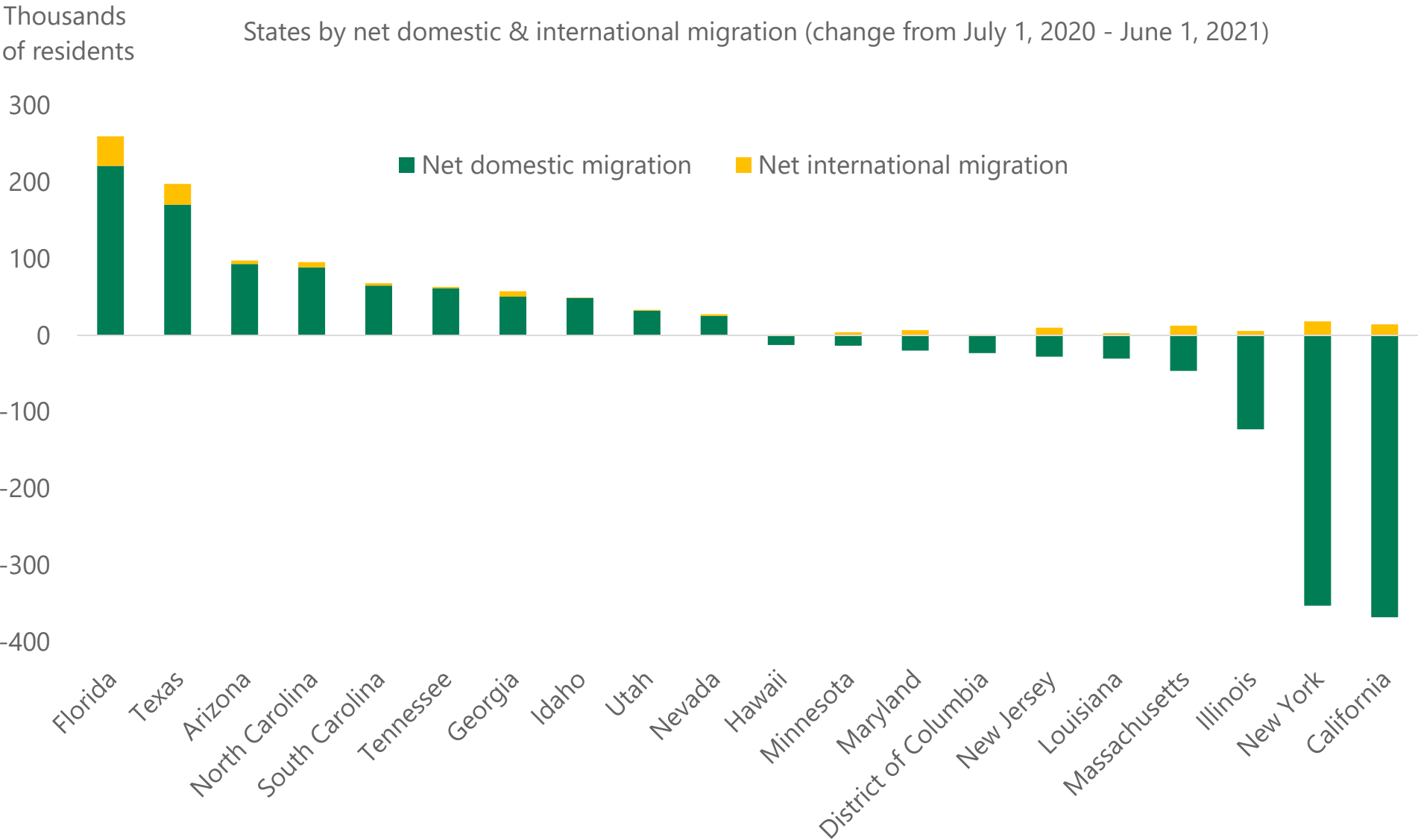


# Delinquent mortgages still low



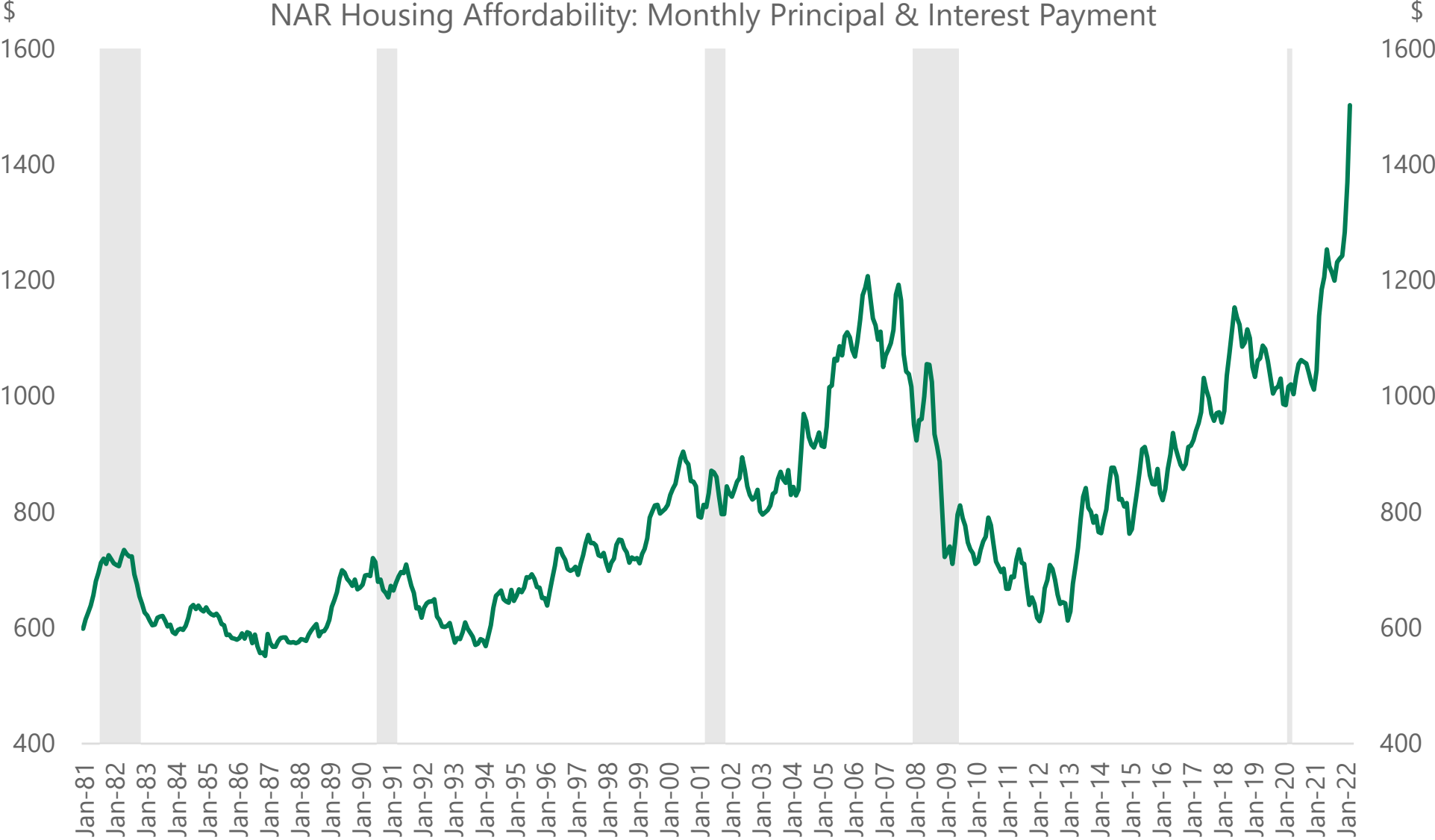
Source: Bloomberg, Apollo Chief Economist

# Migration out of California and migration into Florida during the pandemic



Source: Census Bureau, Apollo Chief Economist

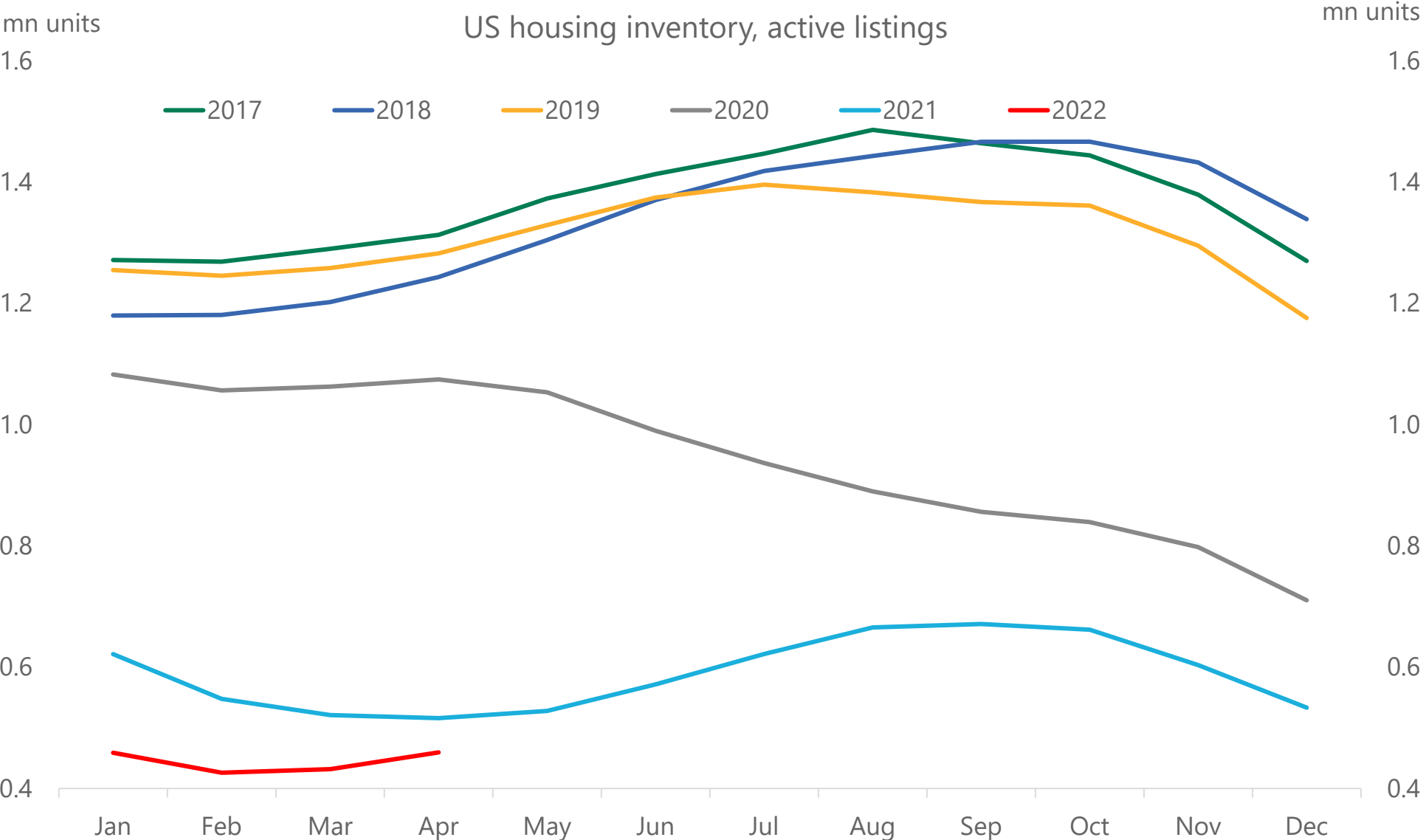
# Monthly mortgage payments rising



Source: NAR, Haver Analytics, Apollo Chief Economist

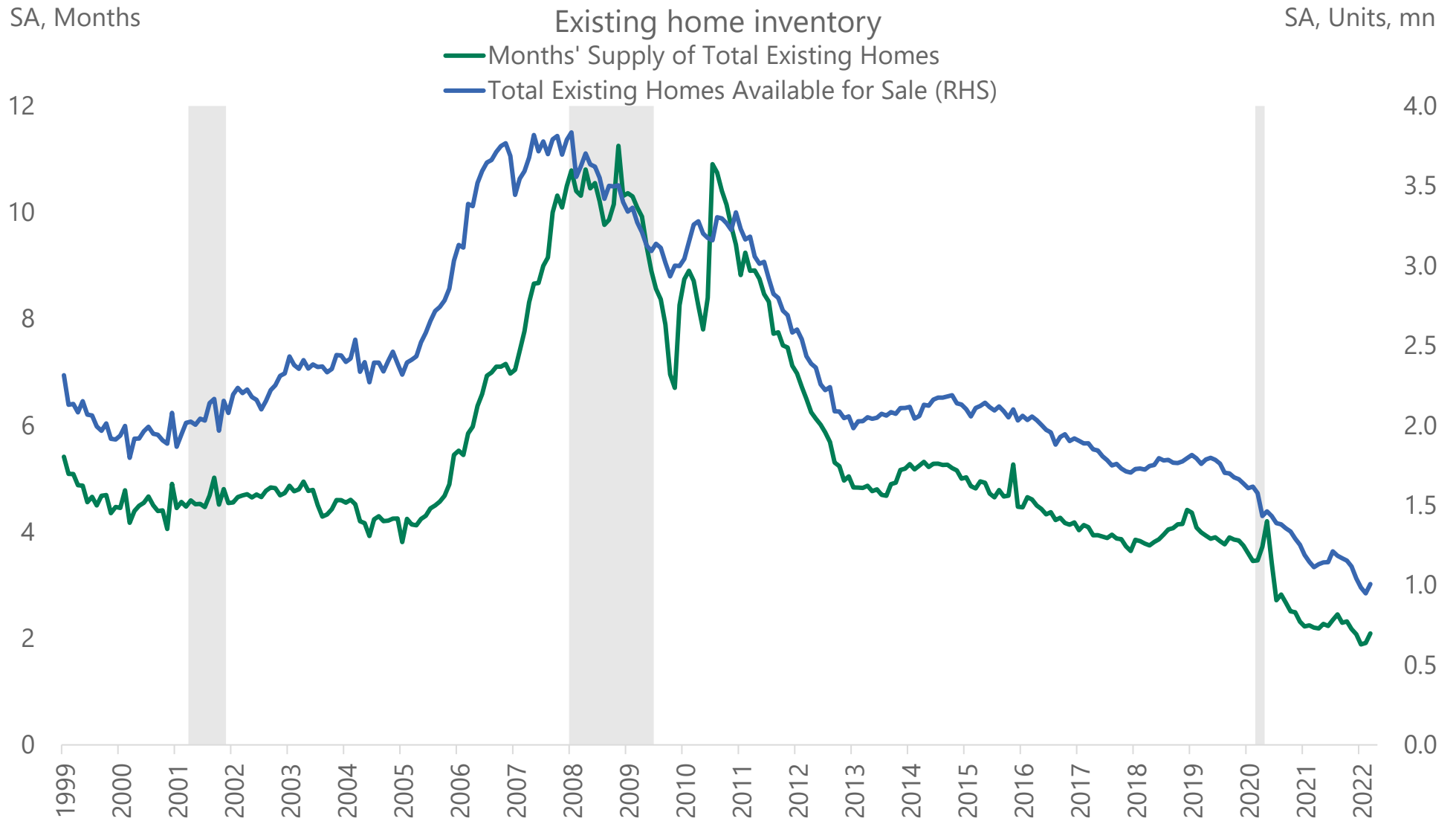
**2) Housing supply is low, but construction is at record-high levels**

# US housing inventory at 5-year lows



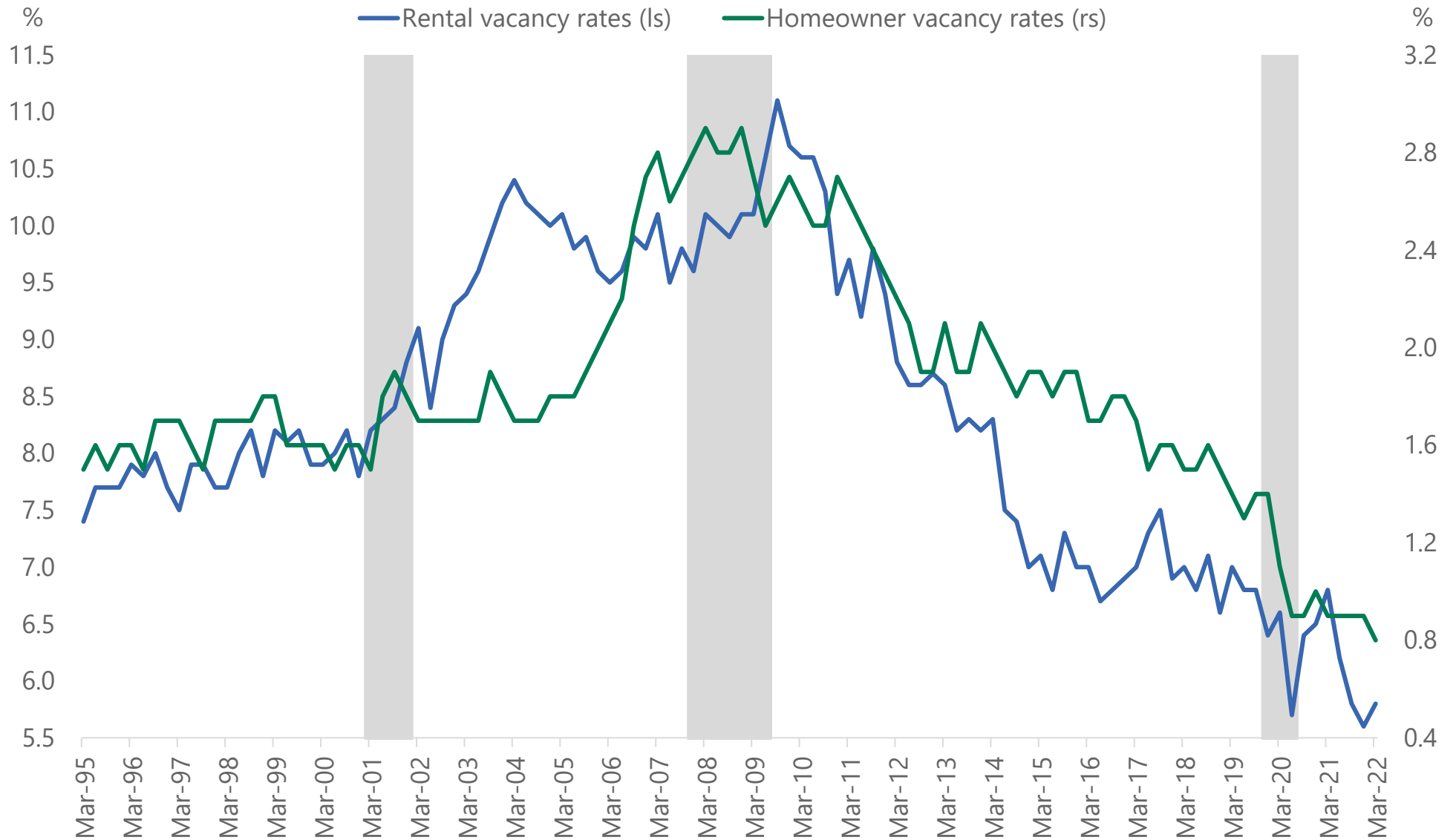
Source: Realtor.com, Apollo Chief Economist

# Record low inventory of homes for sale



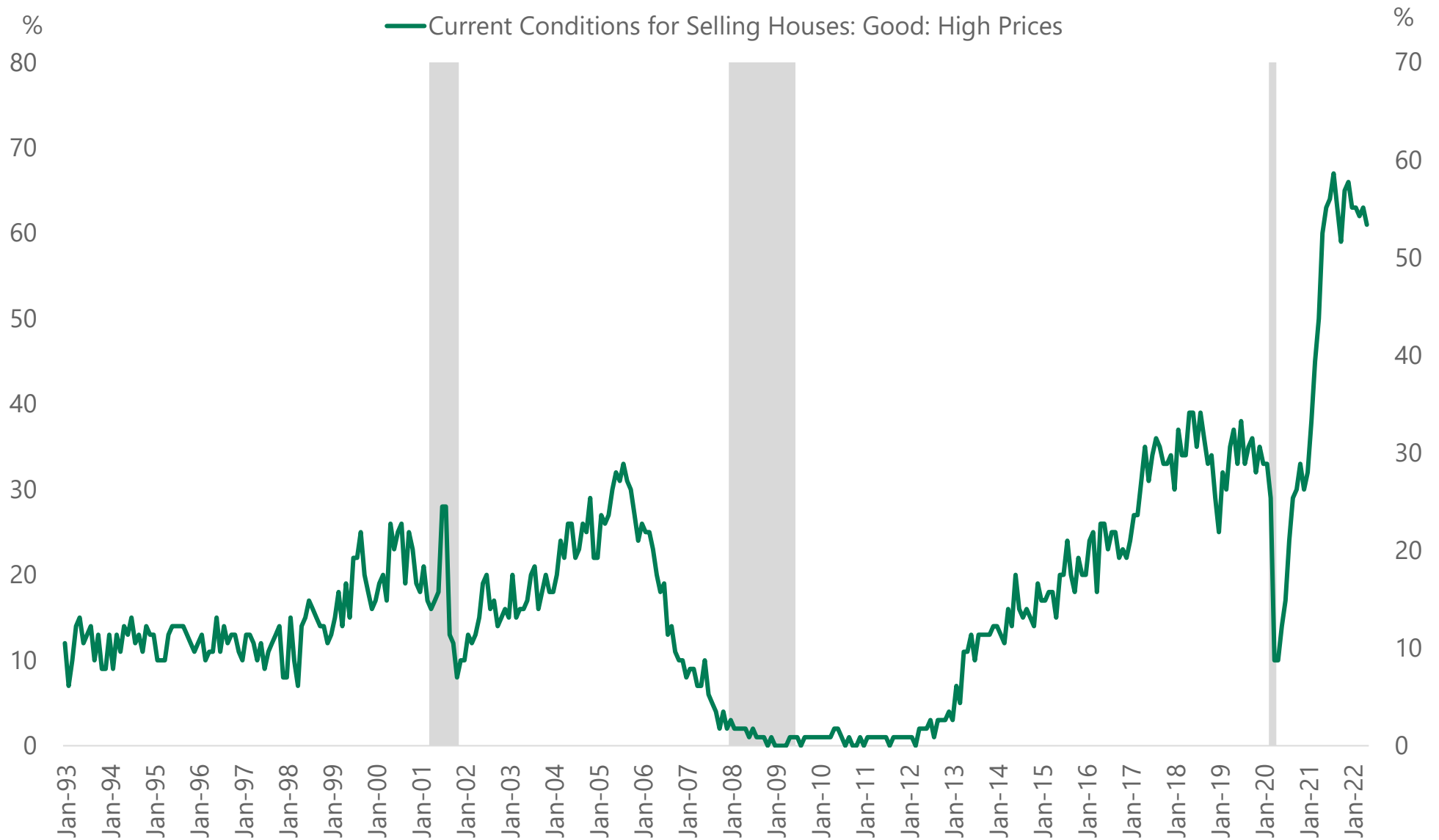
Source: NAR, Apollo Chief Economist

# Vacancy rates at record-low levels



Source: Bloomberg, Apollo Chief Economist

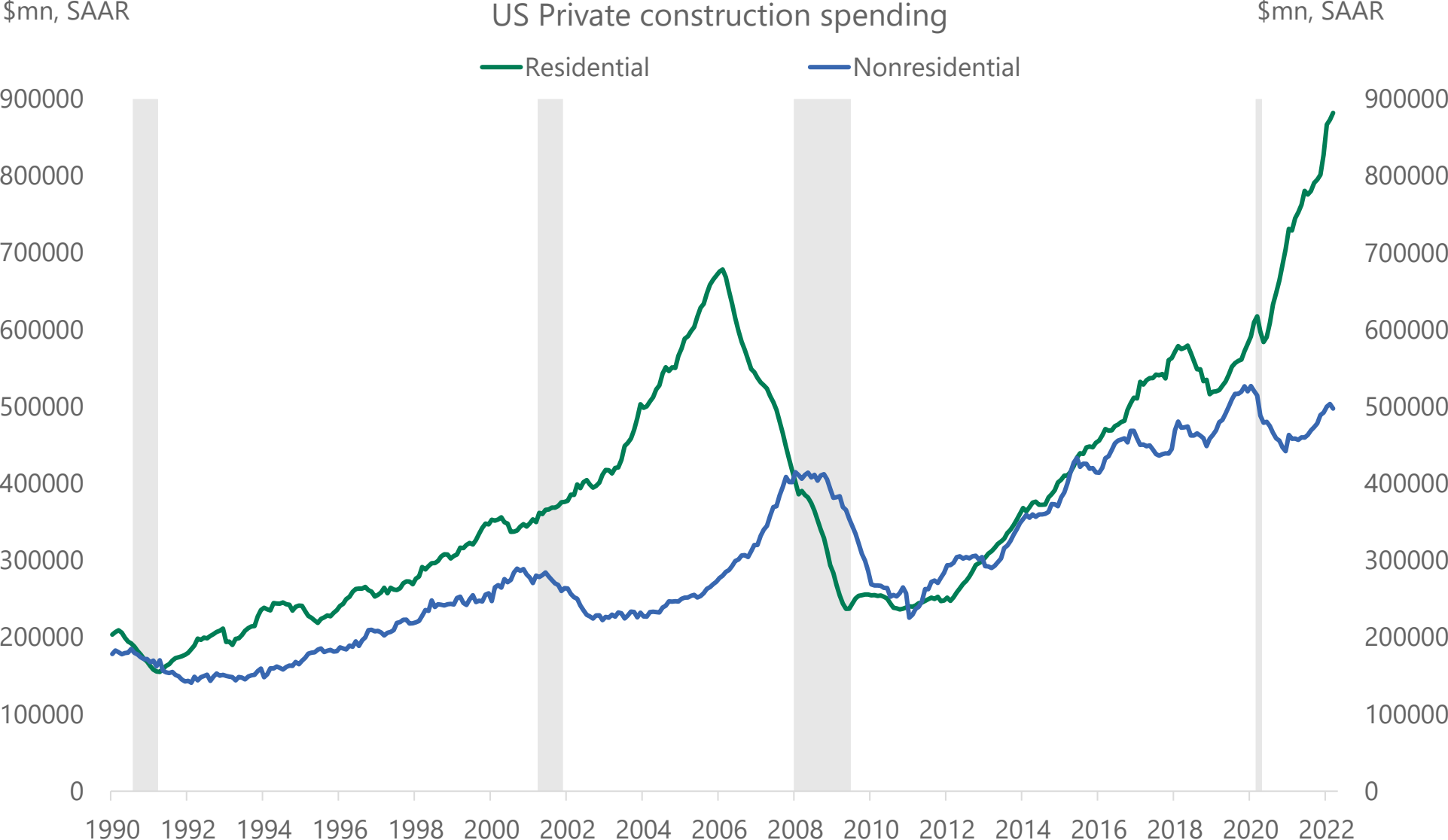
# This is a good time to sell a house



Source: University of Michigan, Apollo Chief Economist

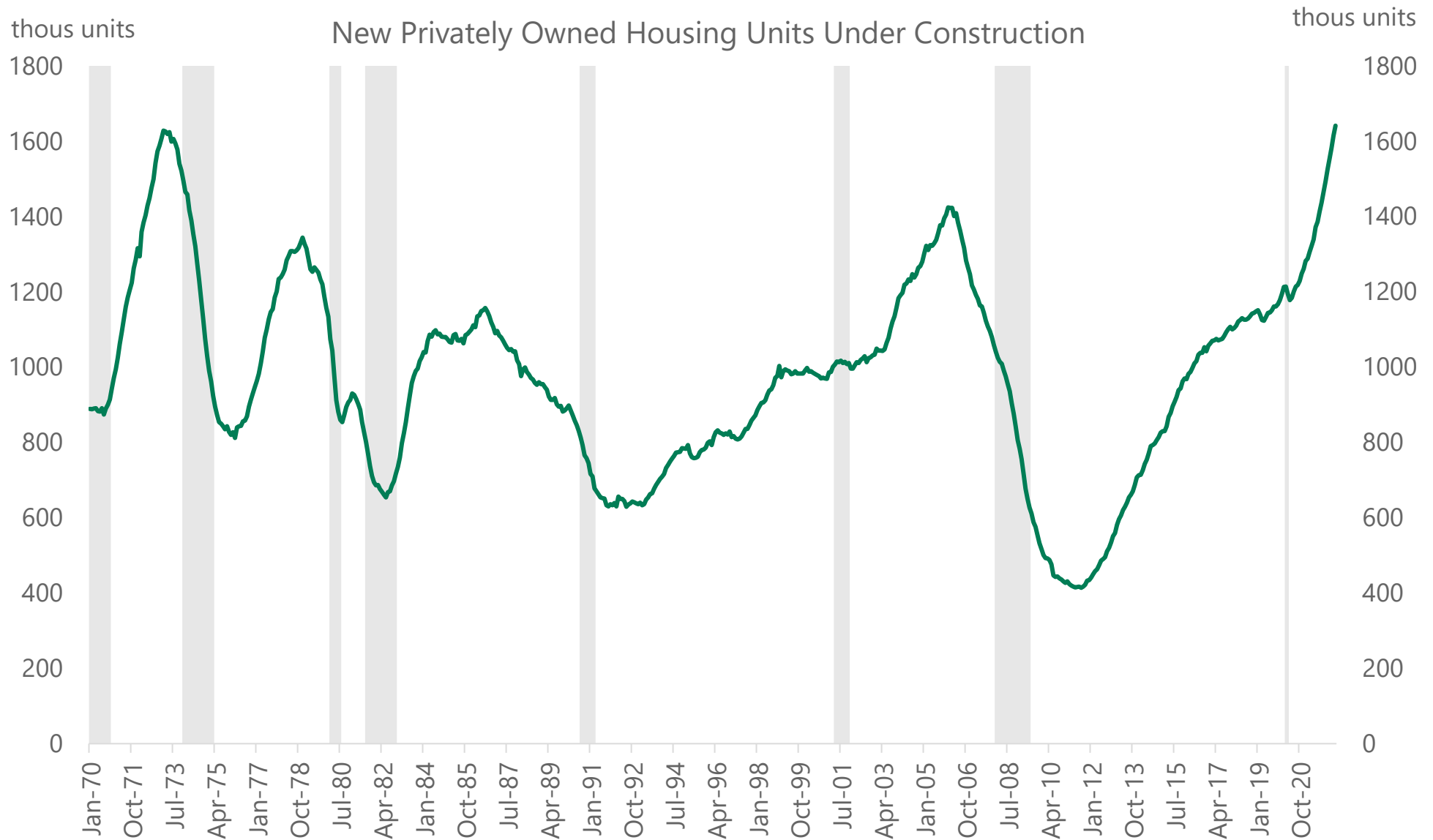


# Residential construction spending very strong



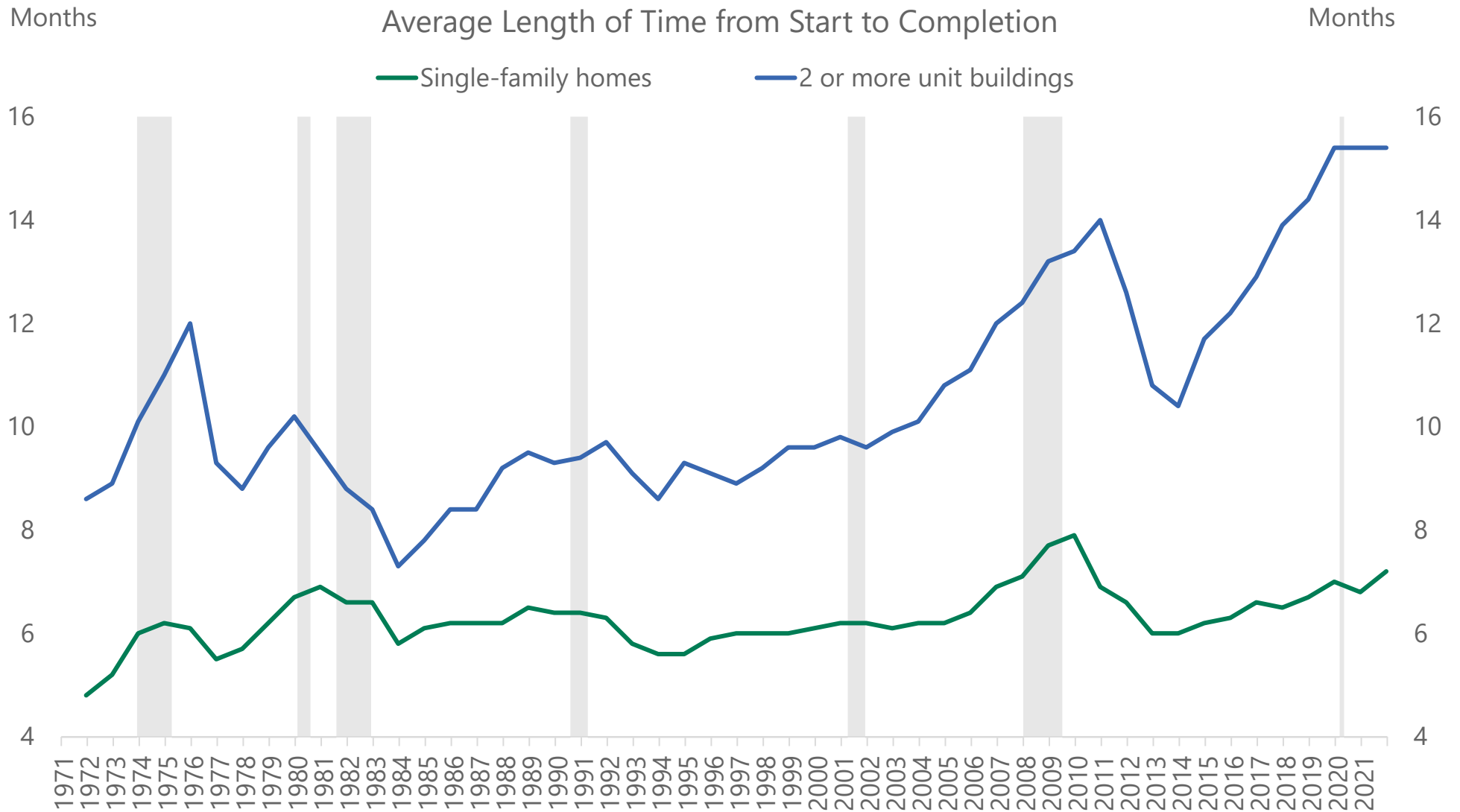
Source: Census, Apollo Chief Economist

# New privately owned housing units under construction at record highs



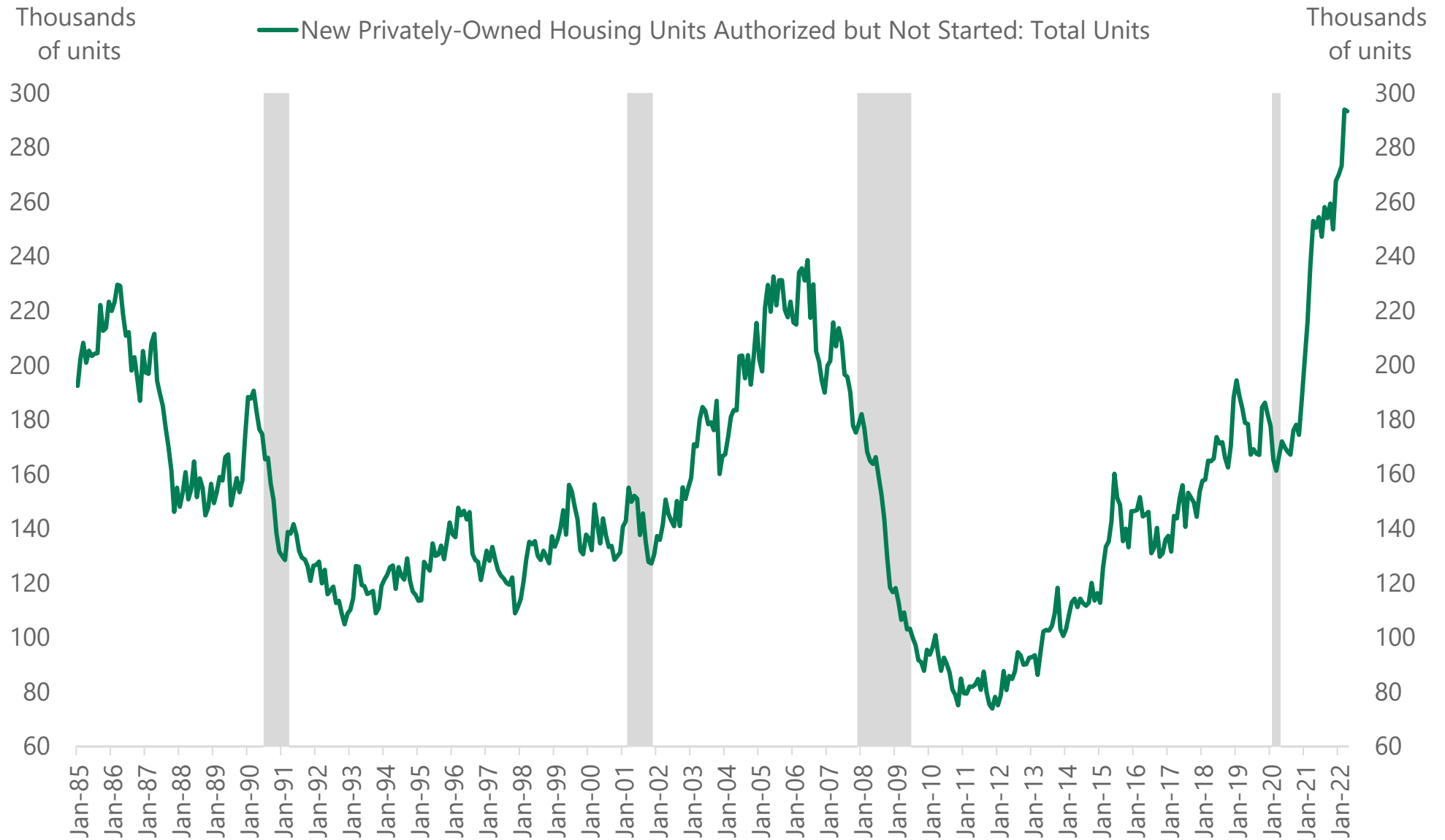
Source: Census Bureau, Haver Analytics, Apollo Chief Economist

# It currently takes 7 months on average to build a single-family house



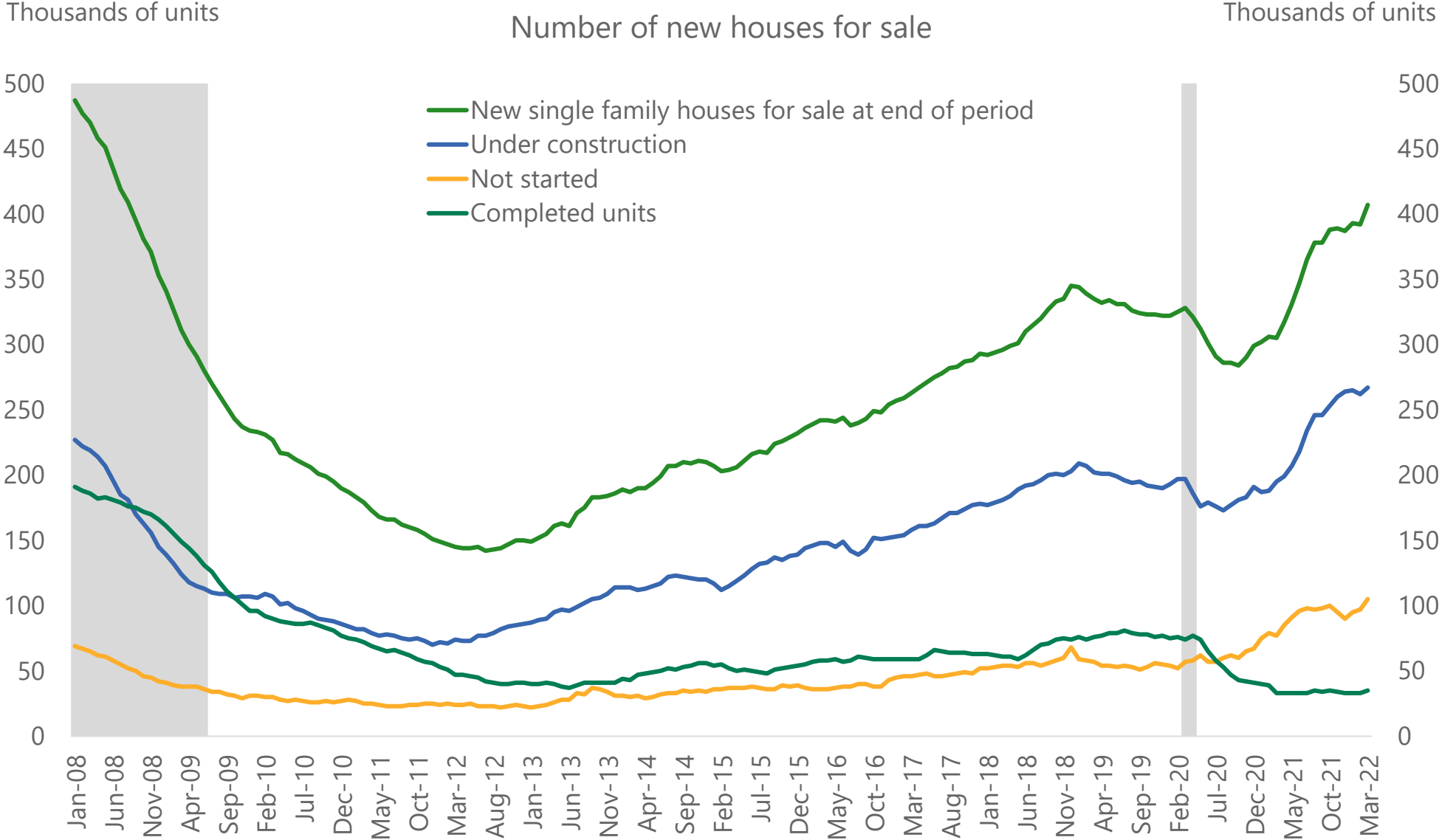
Source: Census, Haver Analytics, Apollo Chief Economist. Note: Single family homes are 1 unit buildings

# New housing units authorized



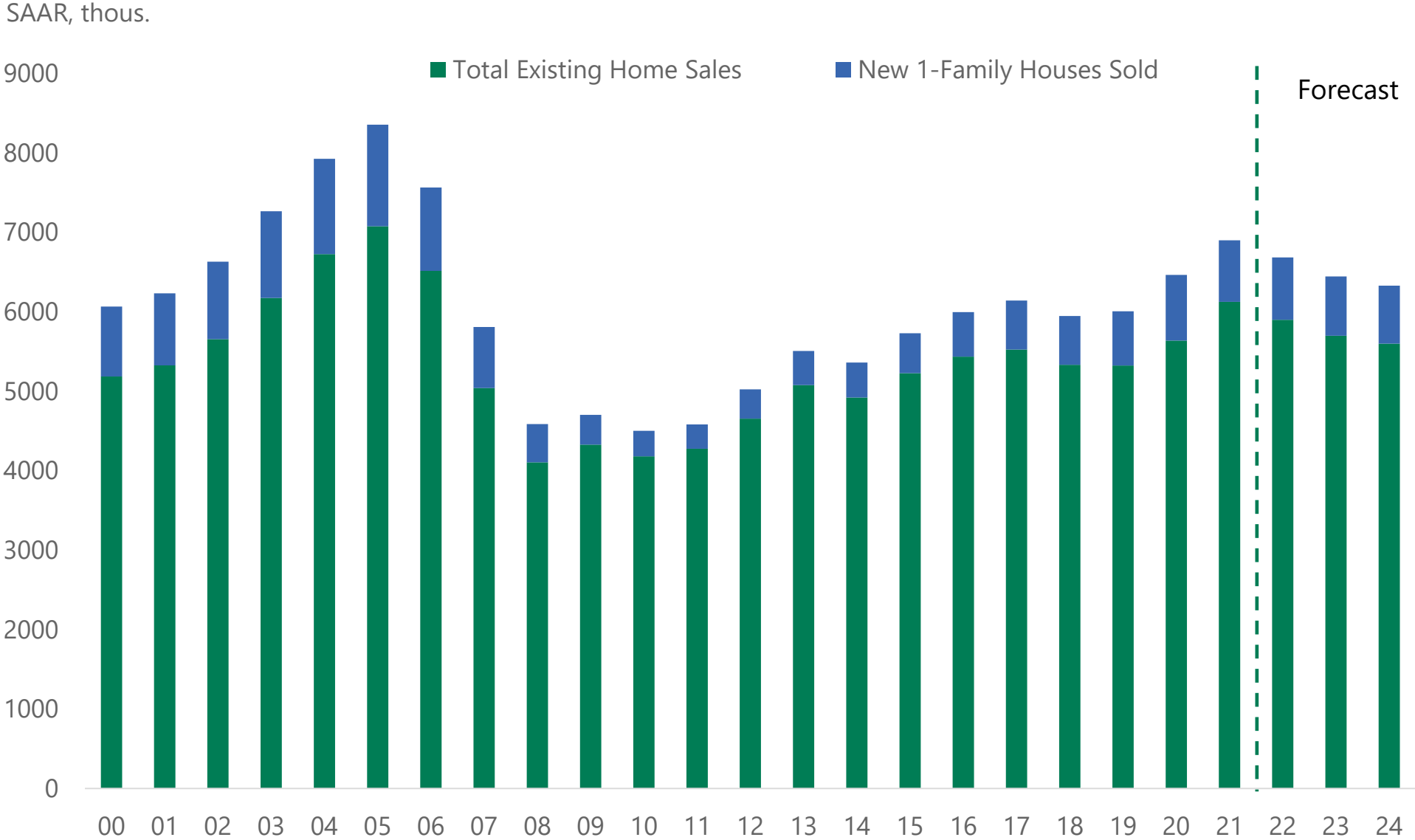
Source: FRED, Apollo Chief Economist

# More new houses for sale where construction has not yet started



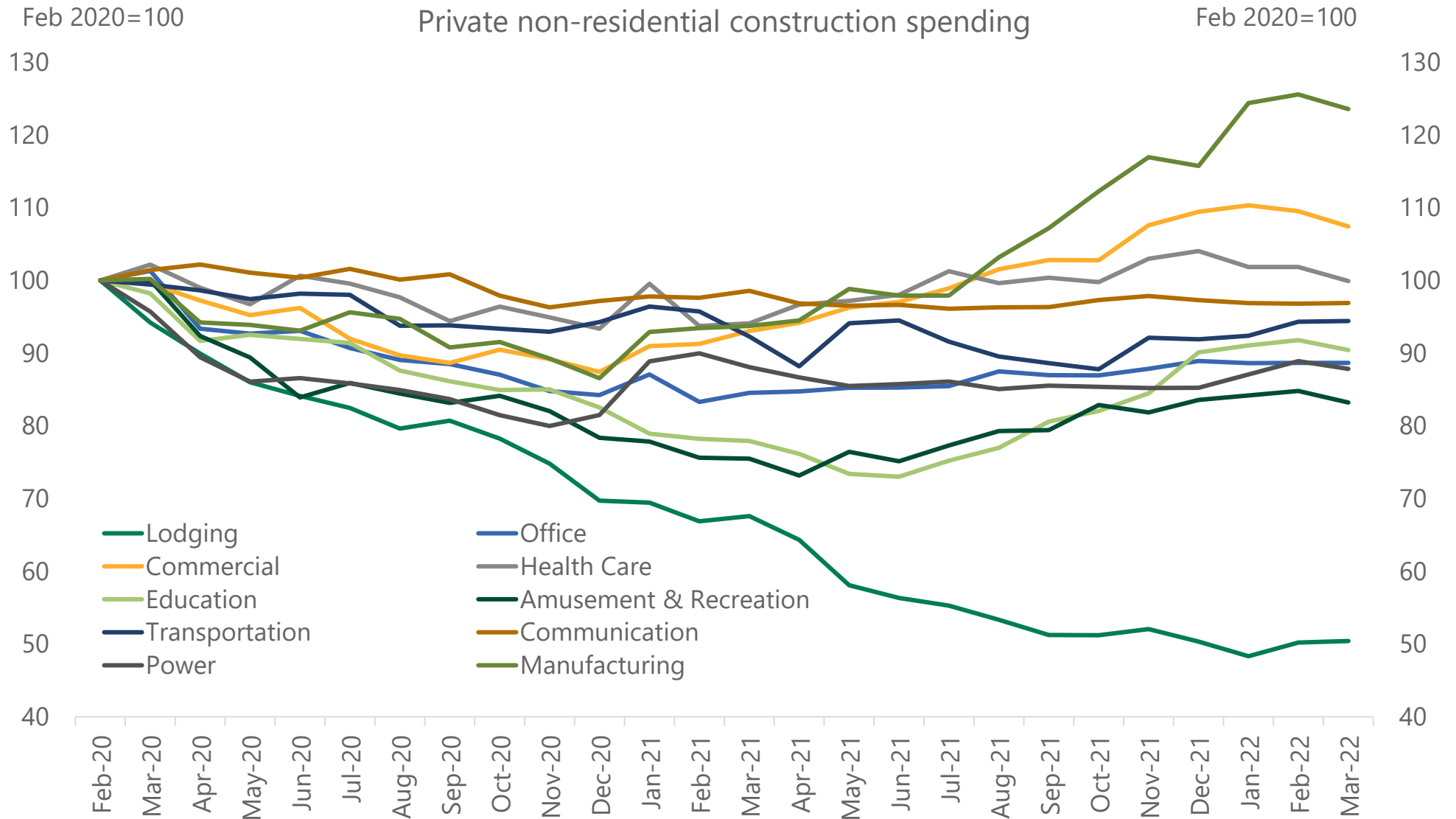
Source: Census Bureau, Apollo Chief Economist

# Consensus forecast for home sales



Source: Census Bureau, NAR, Haver, Apollo Chief Economist; Forecast is Bloomberg consensus

# Lodging has seen the biggest decline in non-residential construction

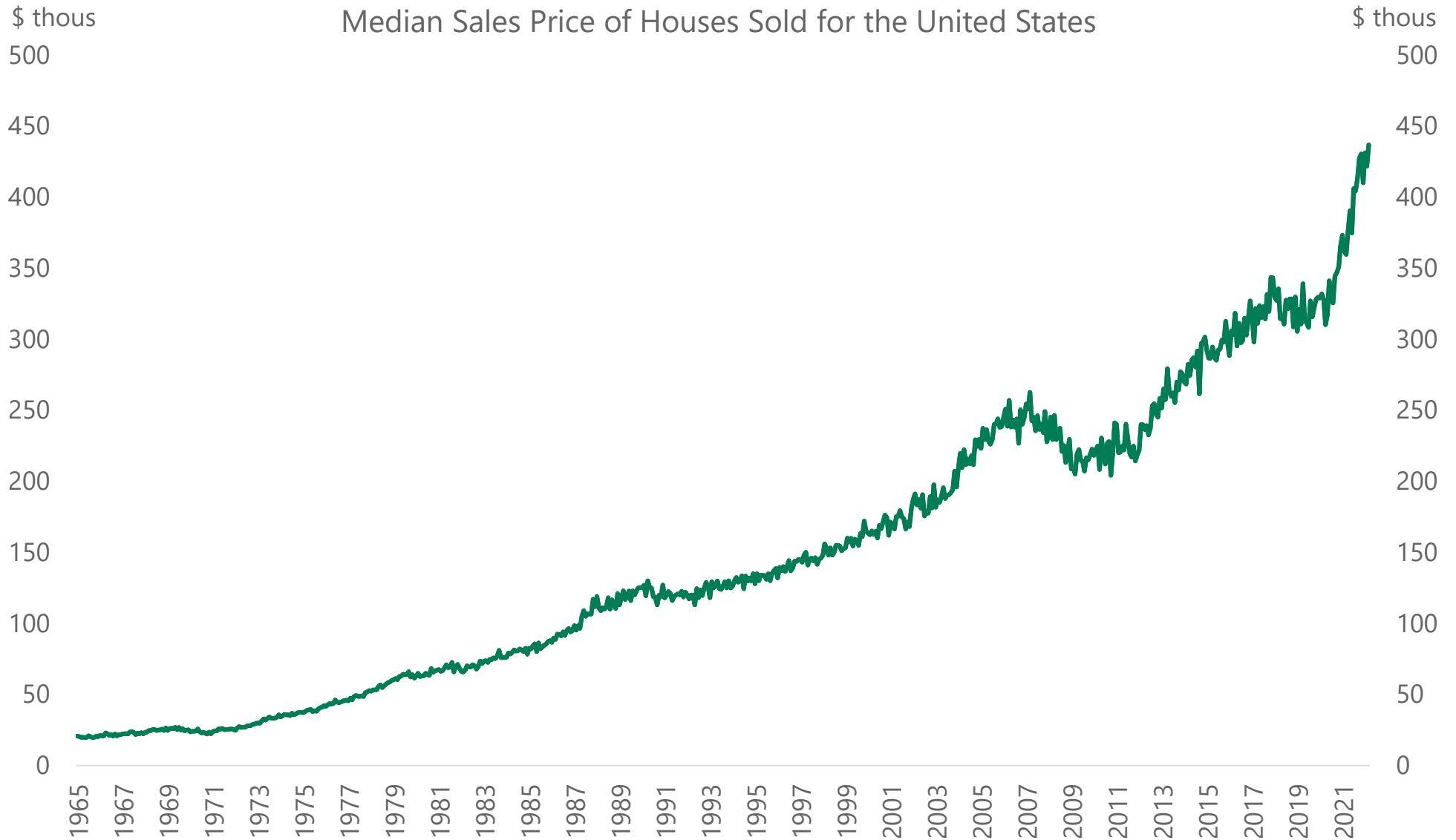


Source: Census, Haver Analytics, Apollo Chief Economist

3) Rising rates, high home prices, strong supply pipeline, and high building costs are risks to this housing cycle

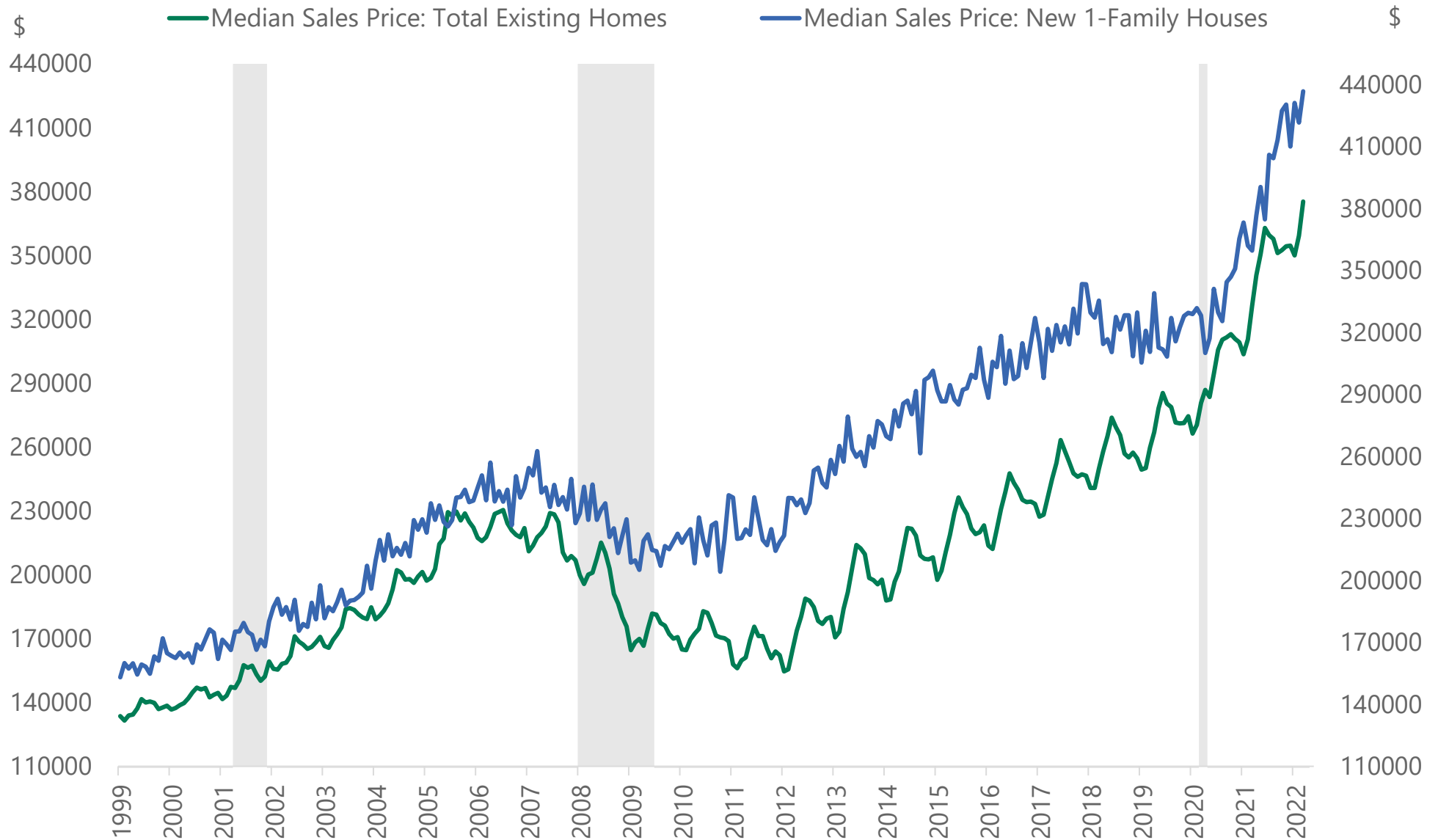


# Median home sales price approaching \$450K



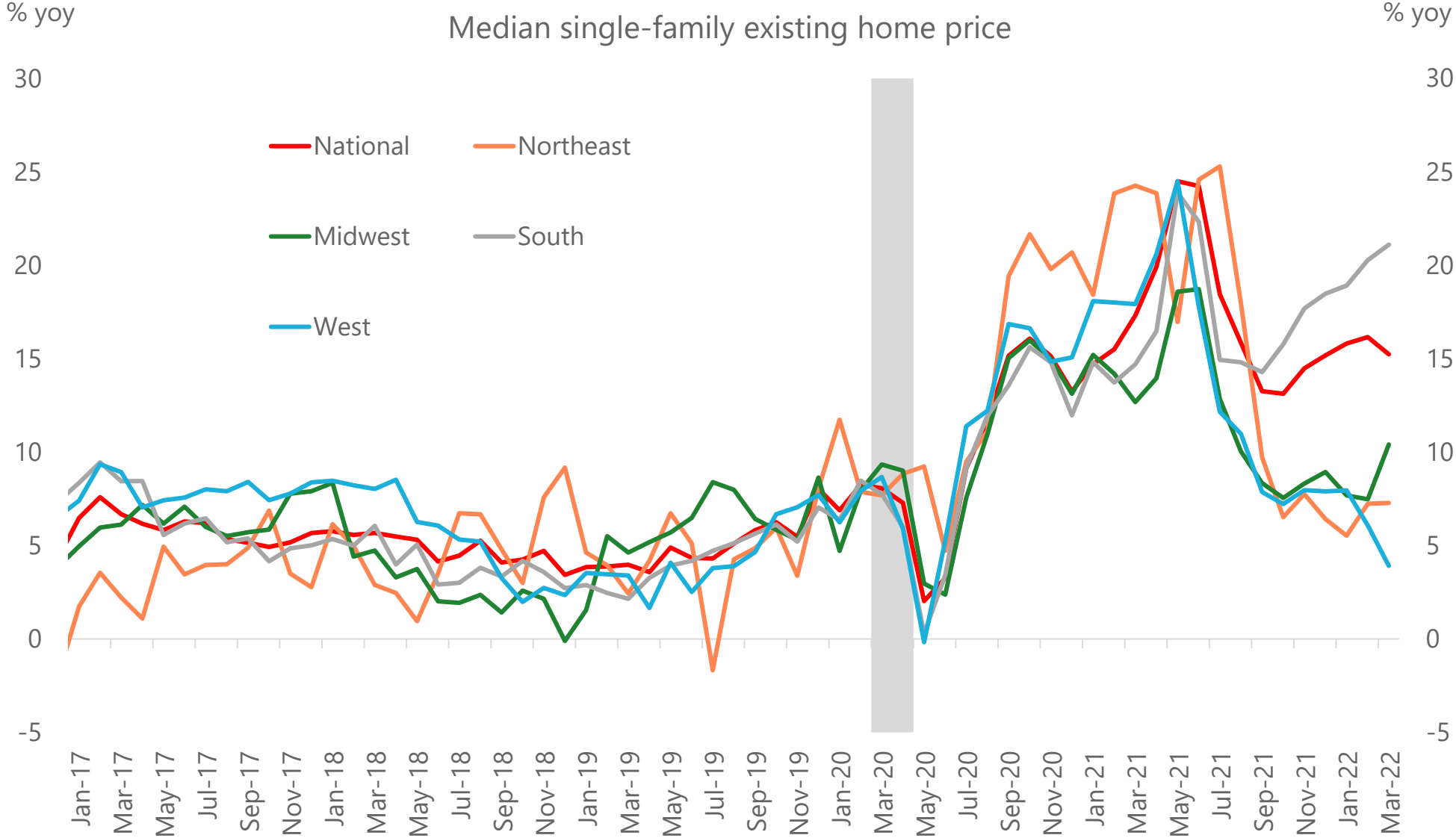
Source: Census Bureau, Apollo Chief Economist

# House prices keep rising



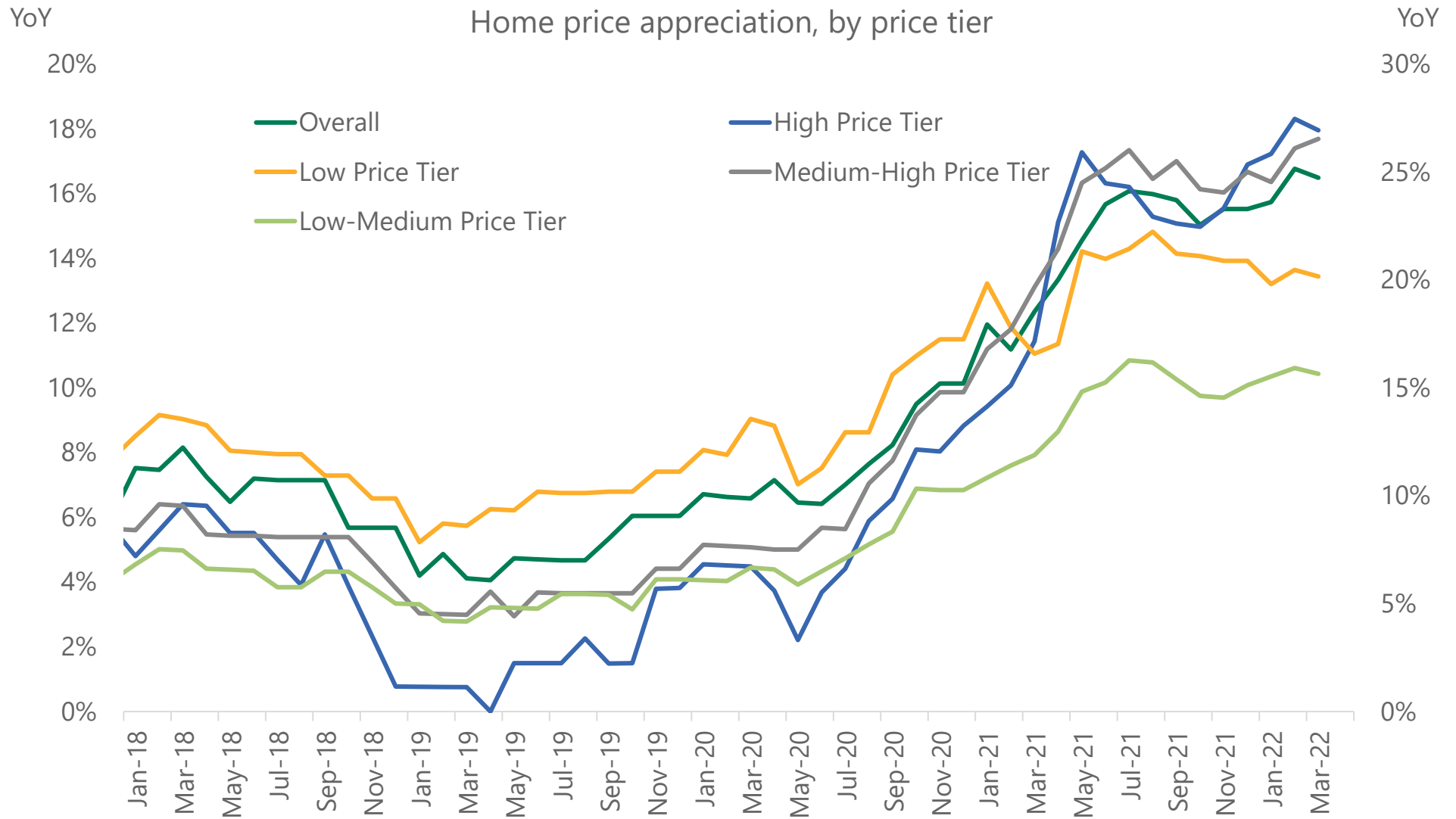
Source: Census, Apollo Chief Economist

# Big geographical divergences in home price inflation



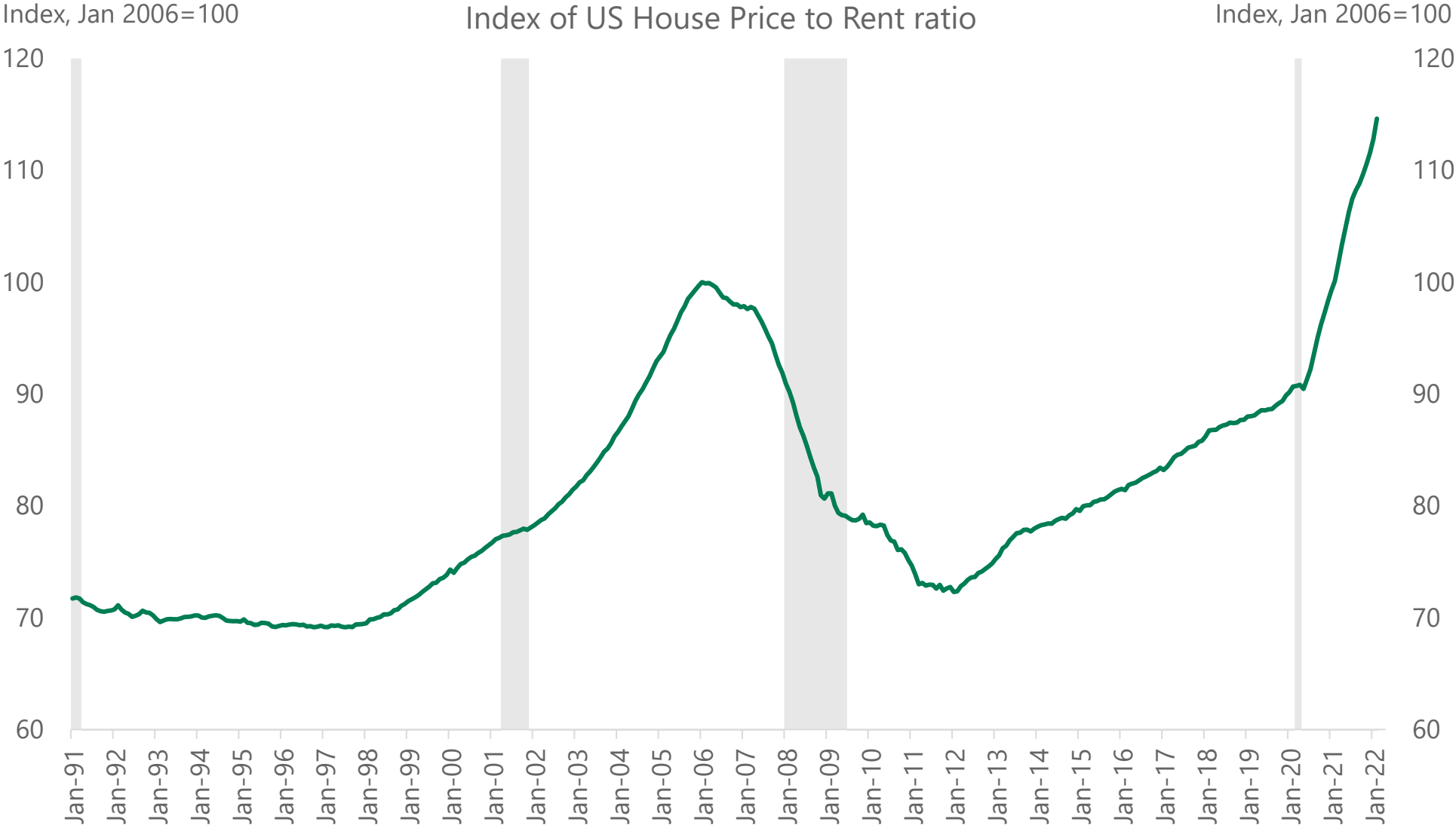
Source: NAR, Haver, Apollo Chief Economist

# House prices rising faster for more expensive homes



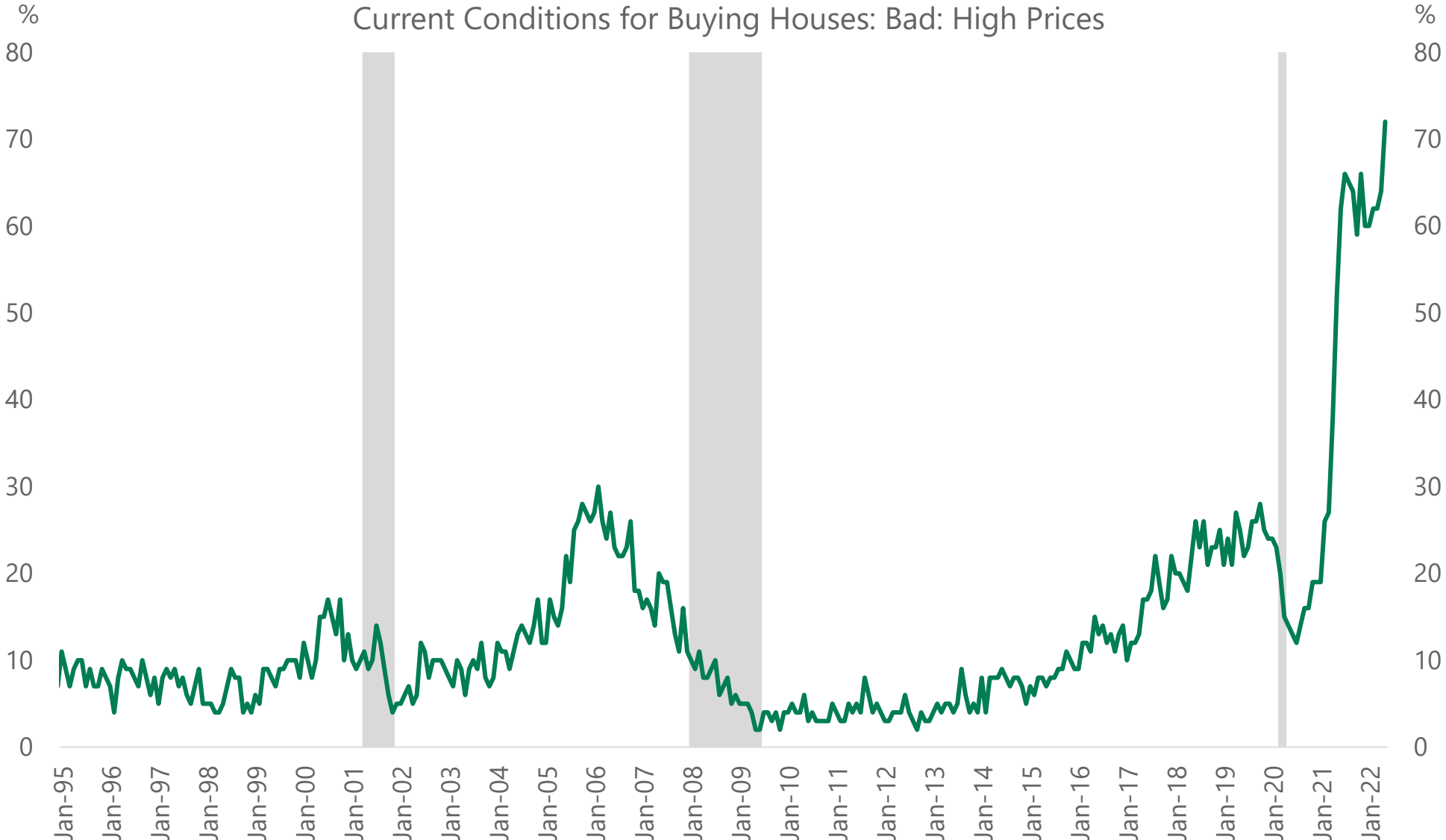
Source: American Enterprise Institute, Haver, Apollo Chief Economist

# Home price to rent ratio is above 2006 levels



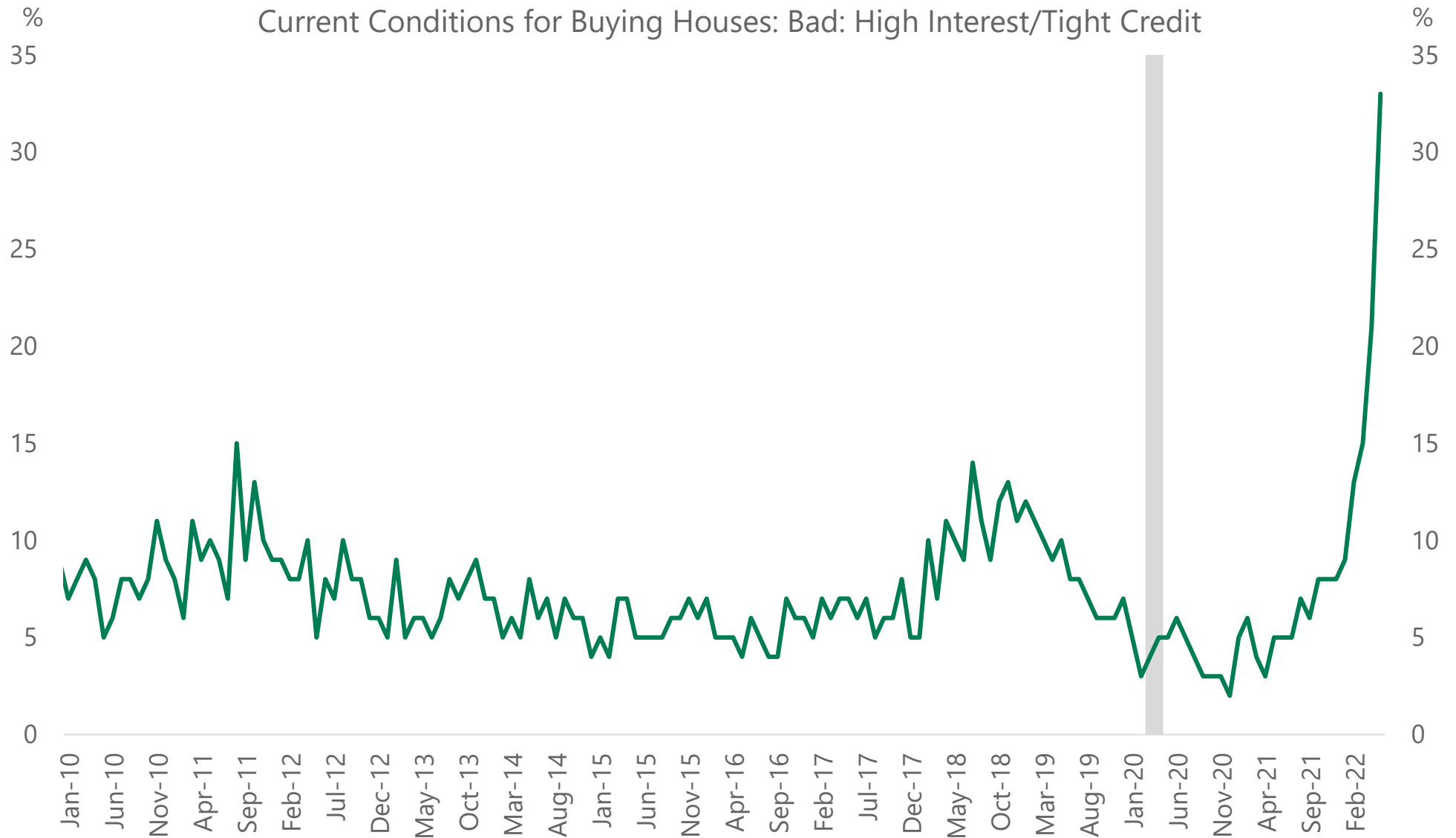
Source: FHFA, BLS, Apollo Chief Economist. Note: the series is indexed ratio of FHFA monthly purchase only house price index divided by the OER component of the CPI.

# High home prices having negative impact on homebuyer sentiment



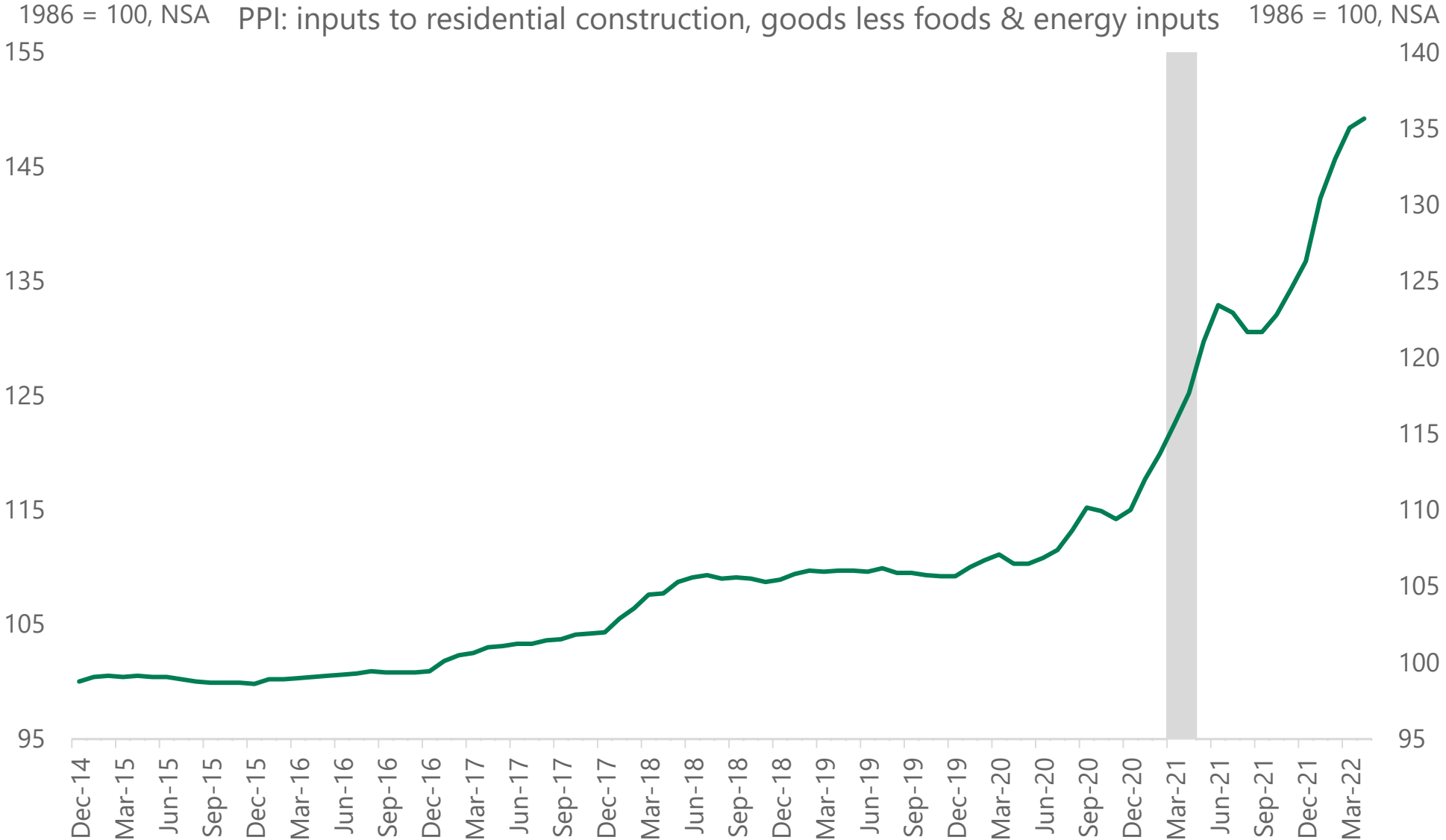
Source: University of Michigan, Apollo Chief Economist

# Tighter credit also having negative impact on homebuyer sentiment



Source: University of Michigan, Apollo Chief Economist

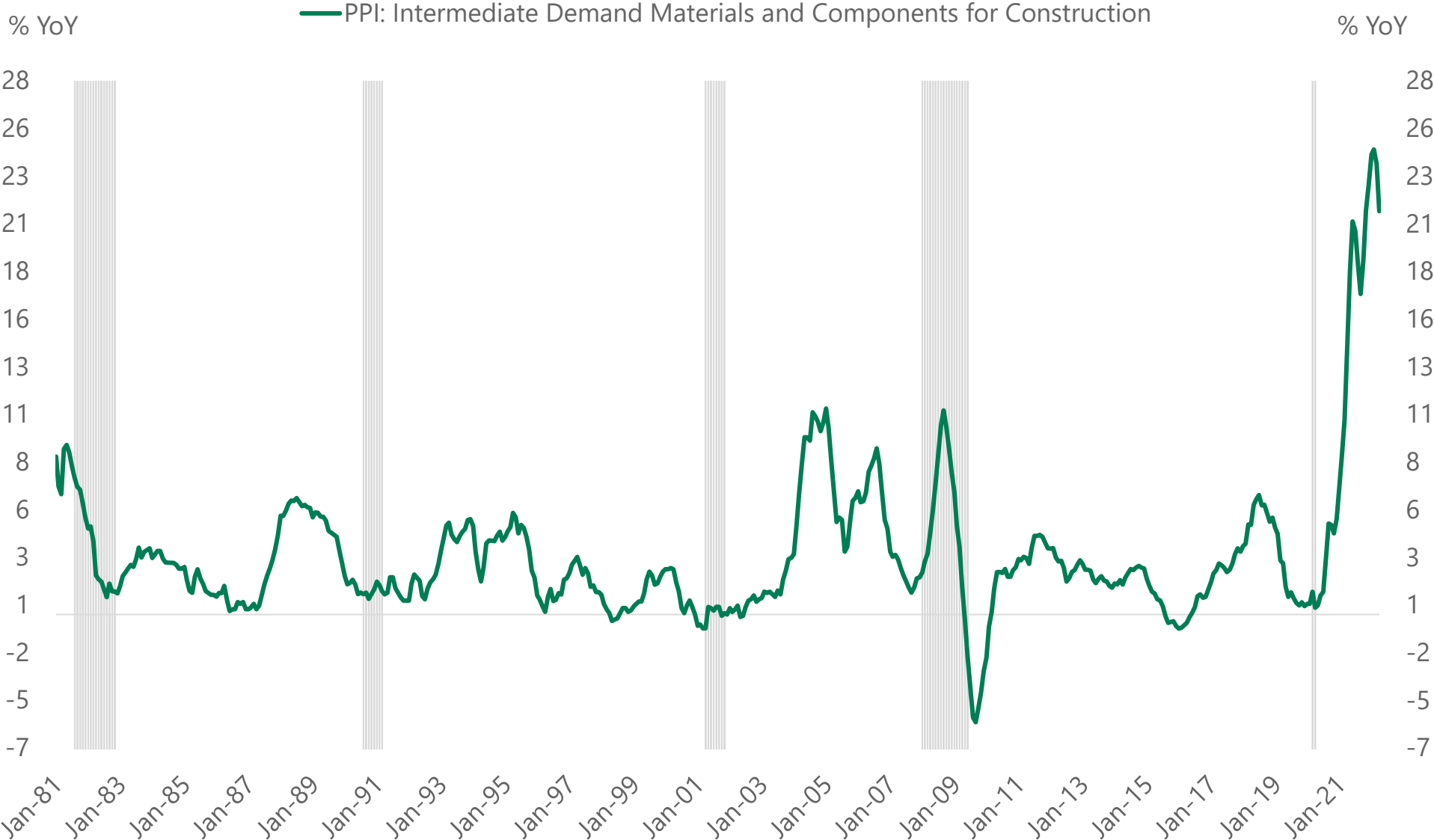
# Housing construction costs rising



Source: Bureau of Labor Statistics, Apollo Chief Economist

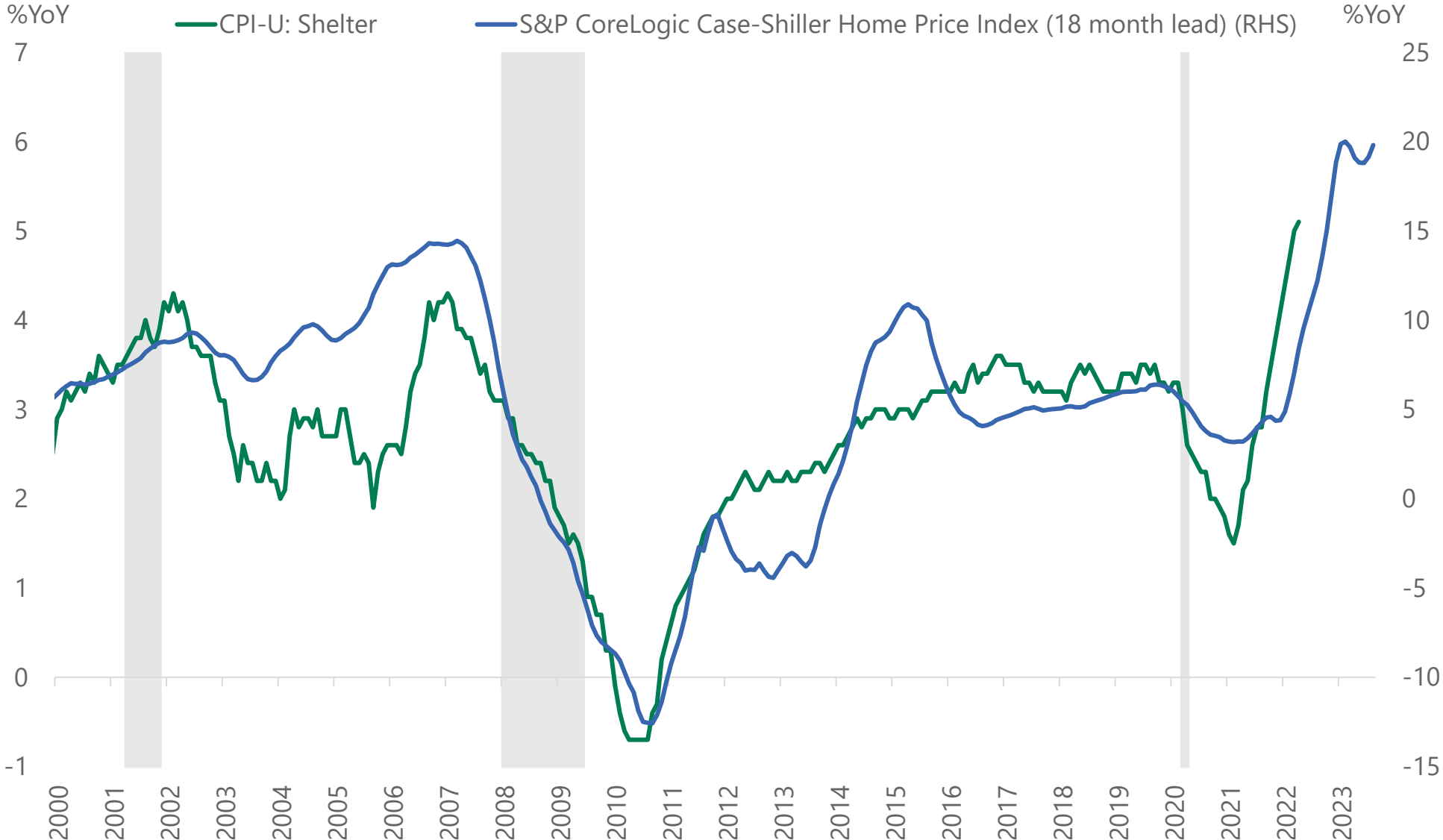


# High inflation in input costs



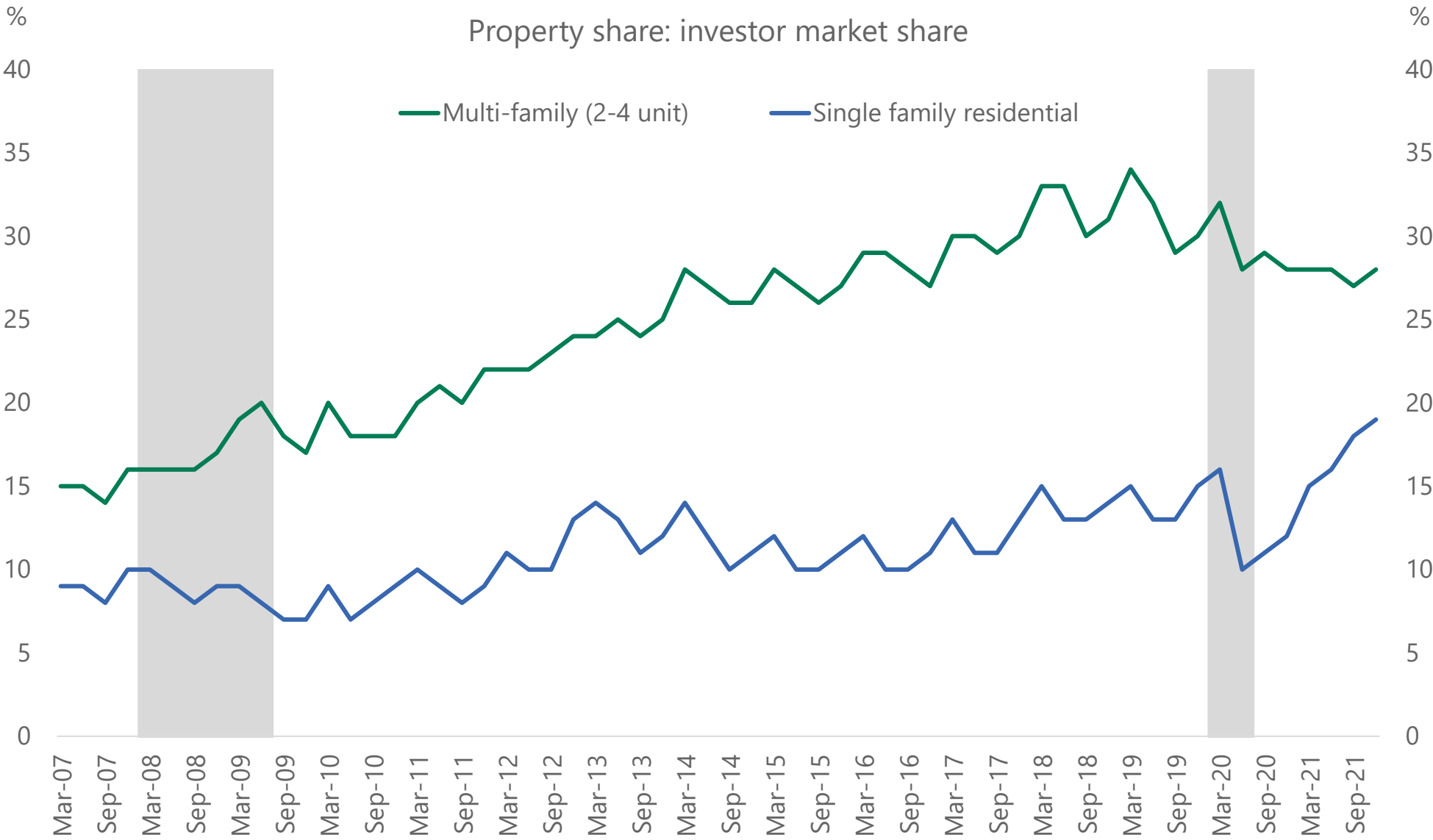
Source: Bureau of Labor Statistics, Apollo Chief Economist

# Rising home prices is a problem for the Fed



Source: S&P case-shiller, BLS, Bloomberg, Apollo Chief Economist

# Share of homes purchased by real-estate investors

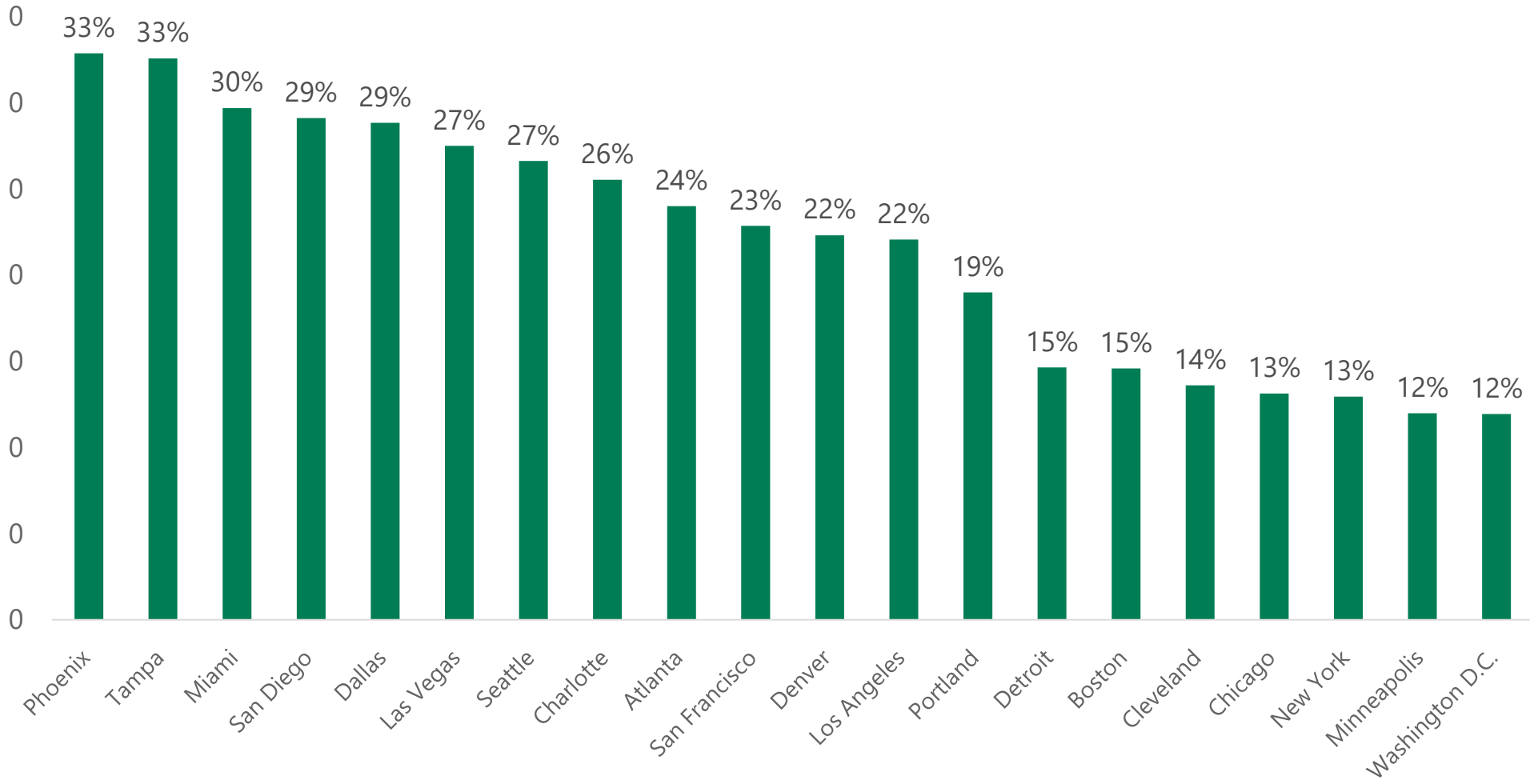


Note: Redfin, Apollo Chief Economist (Note: Investor market share: the percentage of total home sales in which an investor was the buyer)

# Home prices up 33% in Phoenix and Tampa

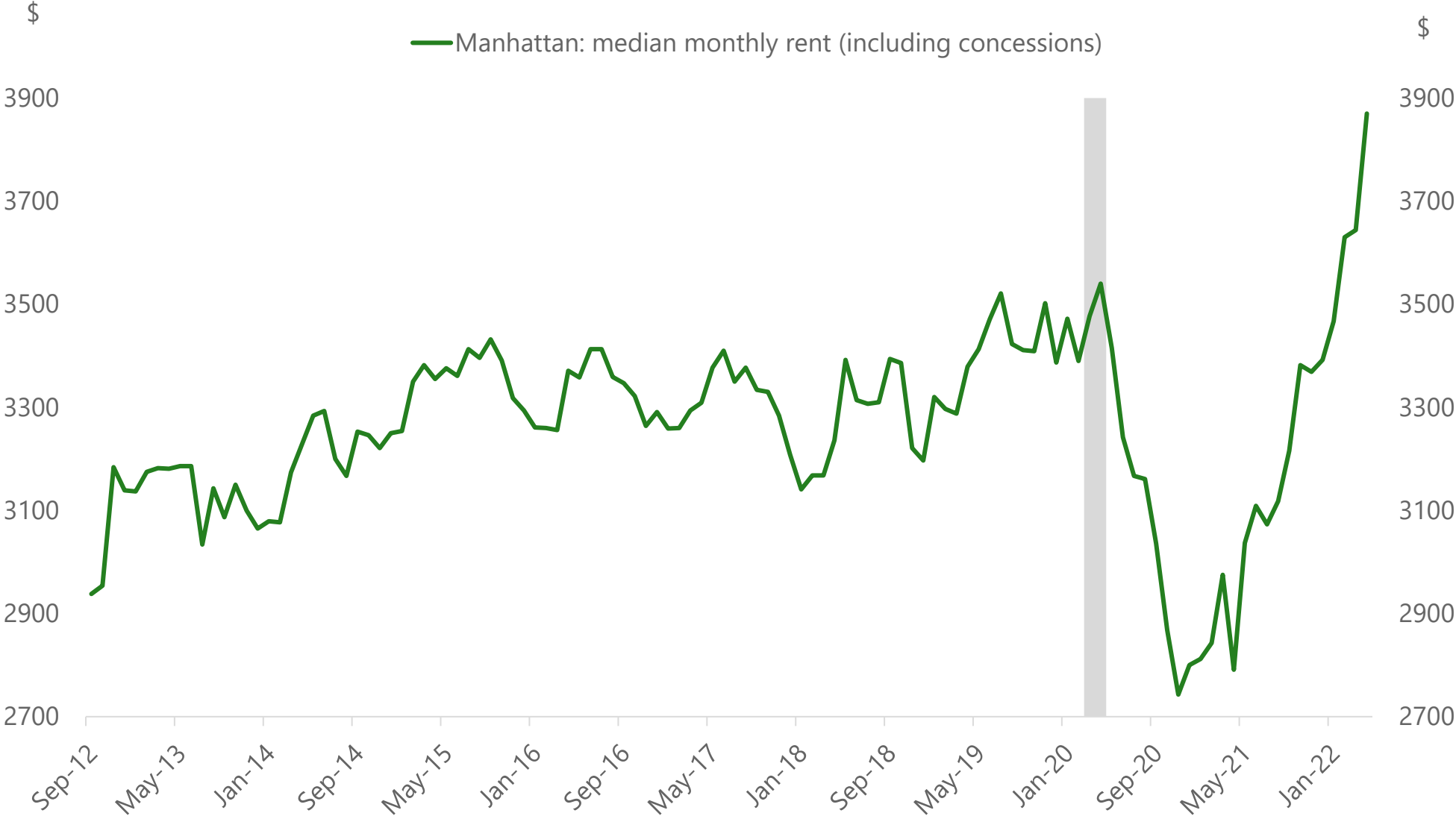
% yoy, NSA

S&P CoreLogic case-shiller home prices (February 2022)



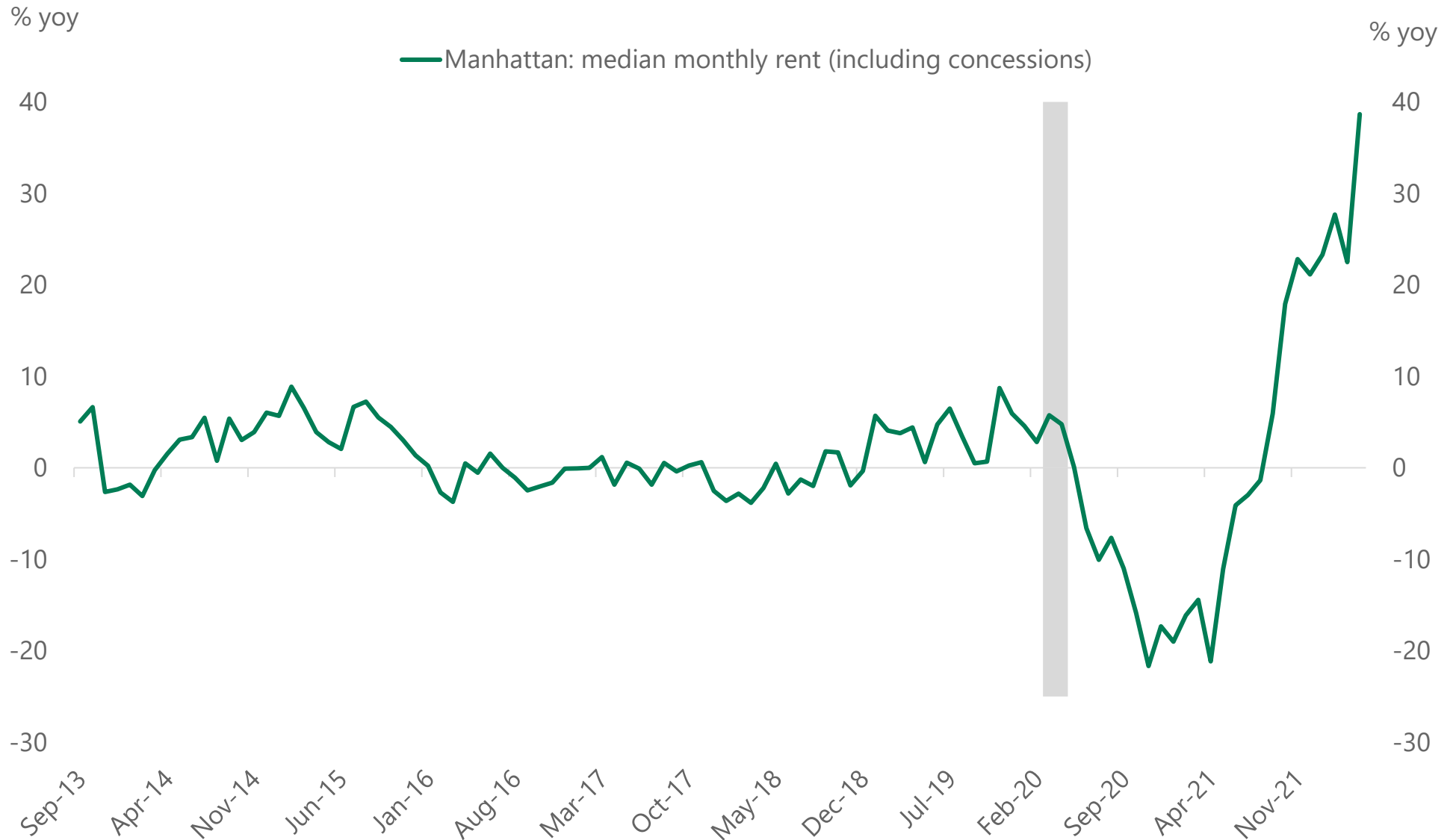
Source: S&P Case-shiller, Bloomberg, Apollo Chief Economist

# Manhattan rents now above pre-pandemic levels



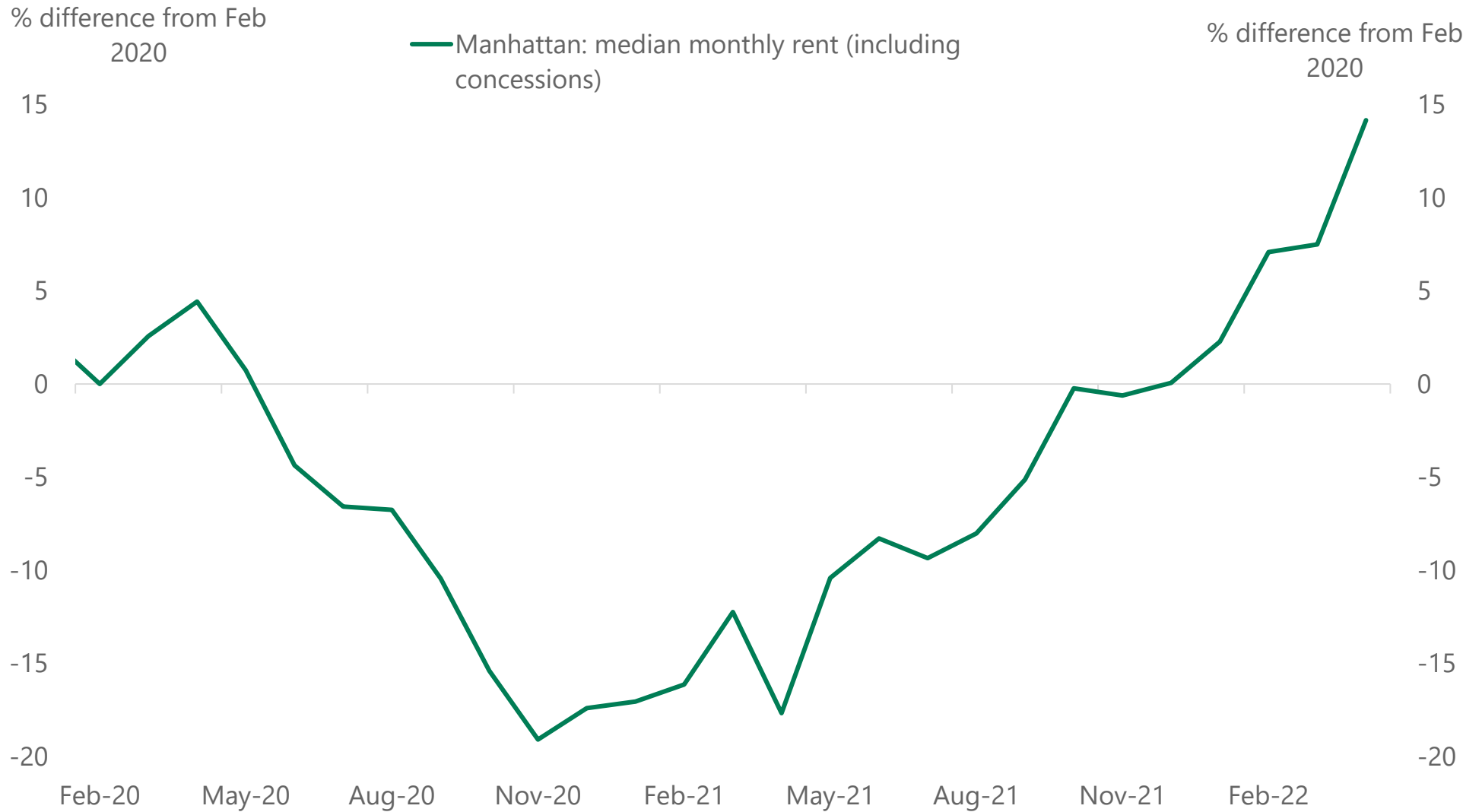
Source: Elliman, Apollo Chief Economist

# Manhattan rents are up almost 40% year-over-year



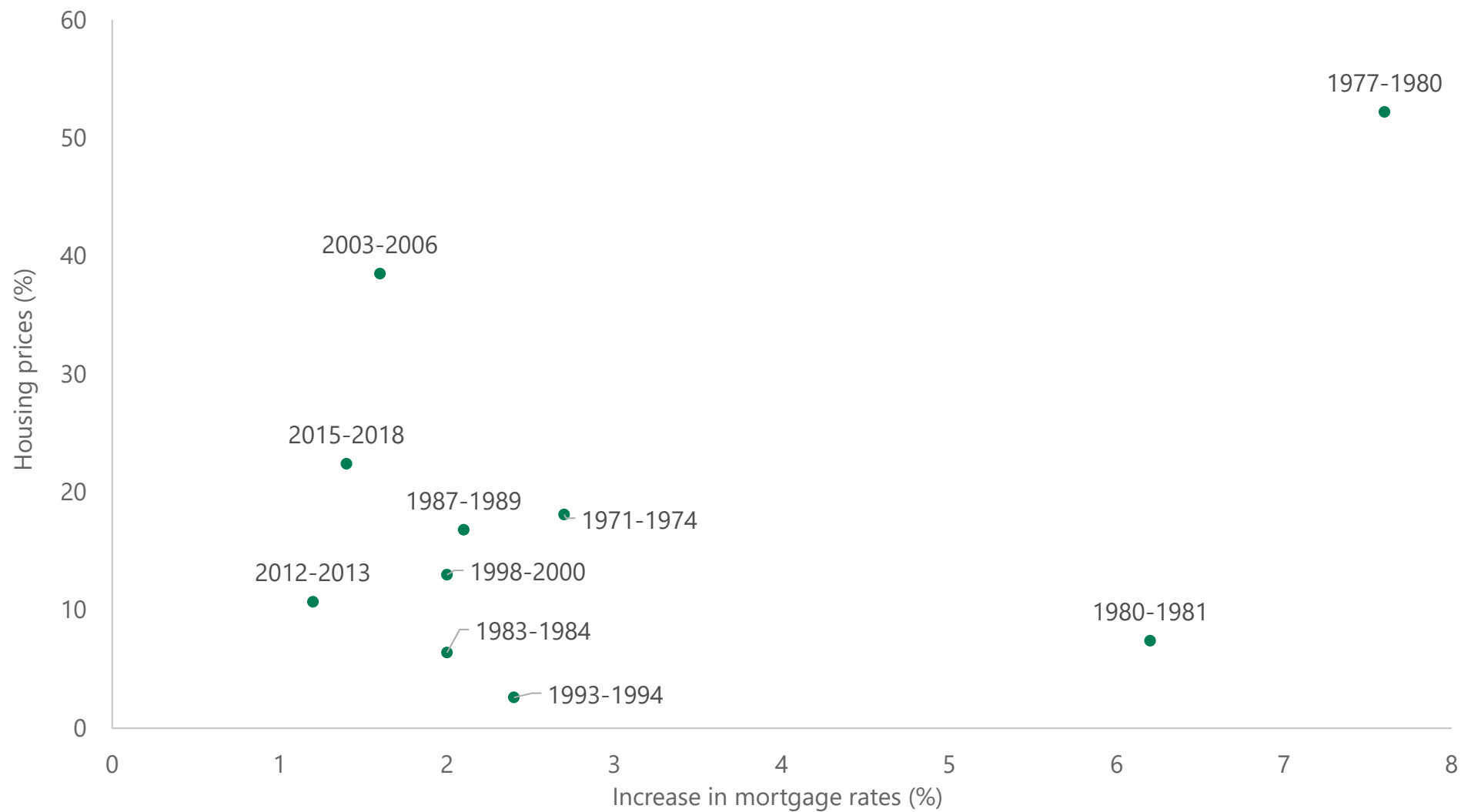
Source: Elliman, Apollo Chief Economist

# Manhattan rents above pre-pandemic levels



Source: Elliman, Apollo Chief Economist

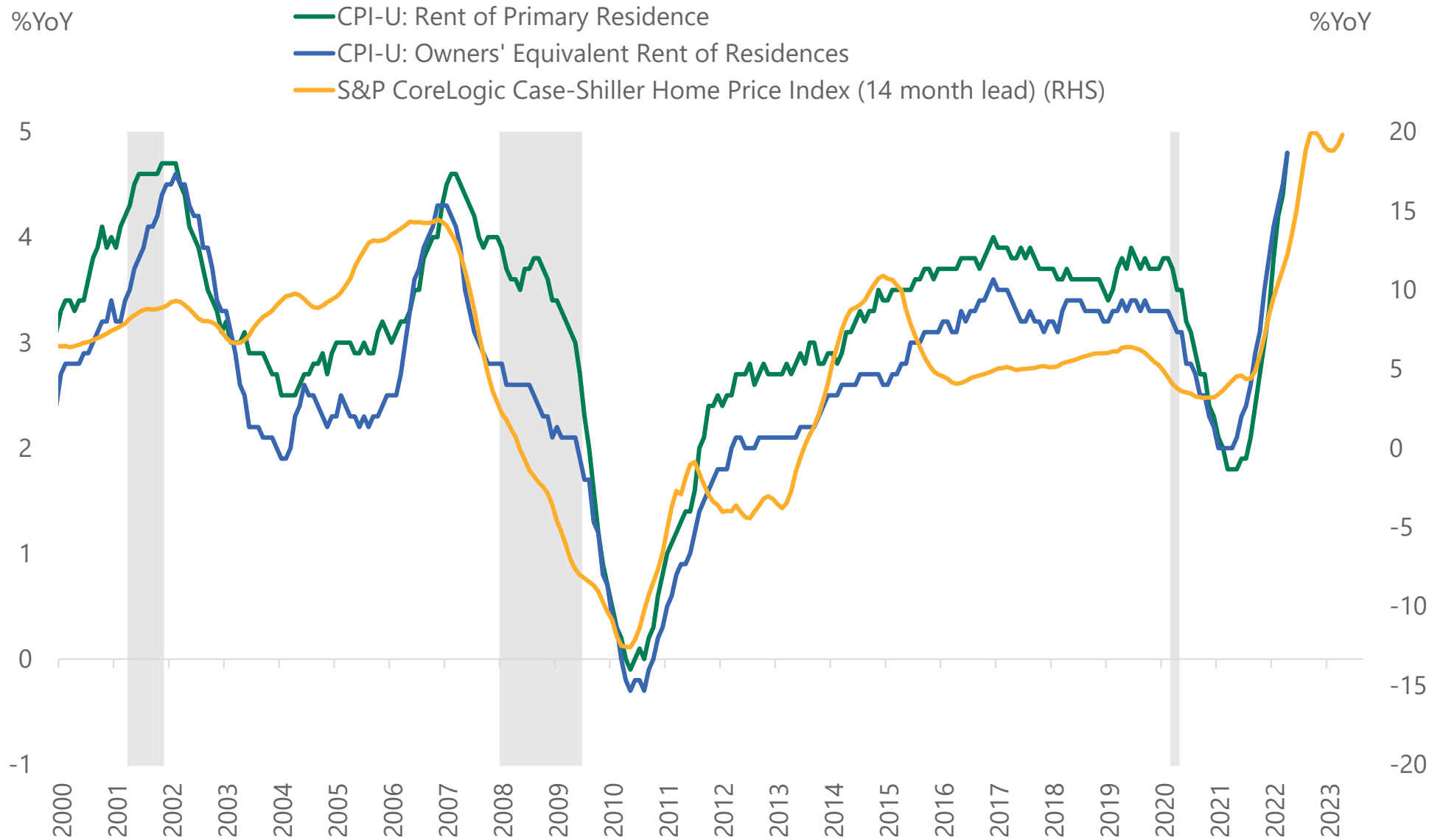
# Rising mortgage rates is associated with rising home prices



Source: FRED, Apollo Chief Economist



# Housing inflation expected to peak



Source: Haver Analytics, BLS, S&P, Apollo Chief Economist

# Biography



## **Torsten Slok, Ph.D.**

Chief Economist

Apollo Global Management

[tslok@apollo.com](mailto:tslok@apollo.com)

Torsten Slok joined Apollo in 2020 as Chief Economist and he leads Apollo's macroeconomic and market analysis across the platform.

Prior to joining, Mr. Slok worked for 15 years as Chief Economist at Deutsche Bank where his team was top ranked in the annual Institutional Investor survey for a decade, including #1 in 2019. Prior to joining Deutsche Bank Mr. Slok worked at the IMF in Washington, DC and at the OECD in Paris.

Mr. Slok has a Ph.D in Economics and has studied at the University of Copenhagen and Princeton University.