

APOLLO

US Housing Outlook: Housing recovery making inflation more sticky

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Apollo Global Management

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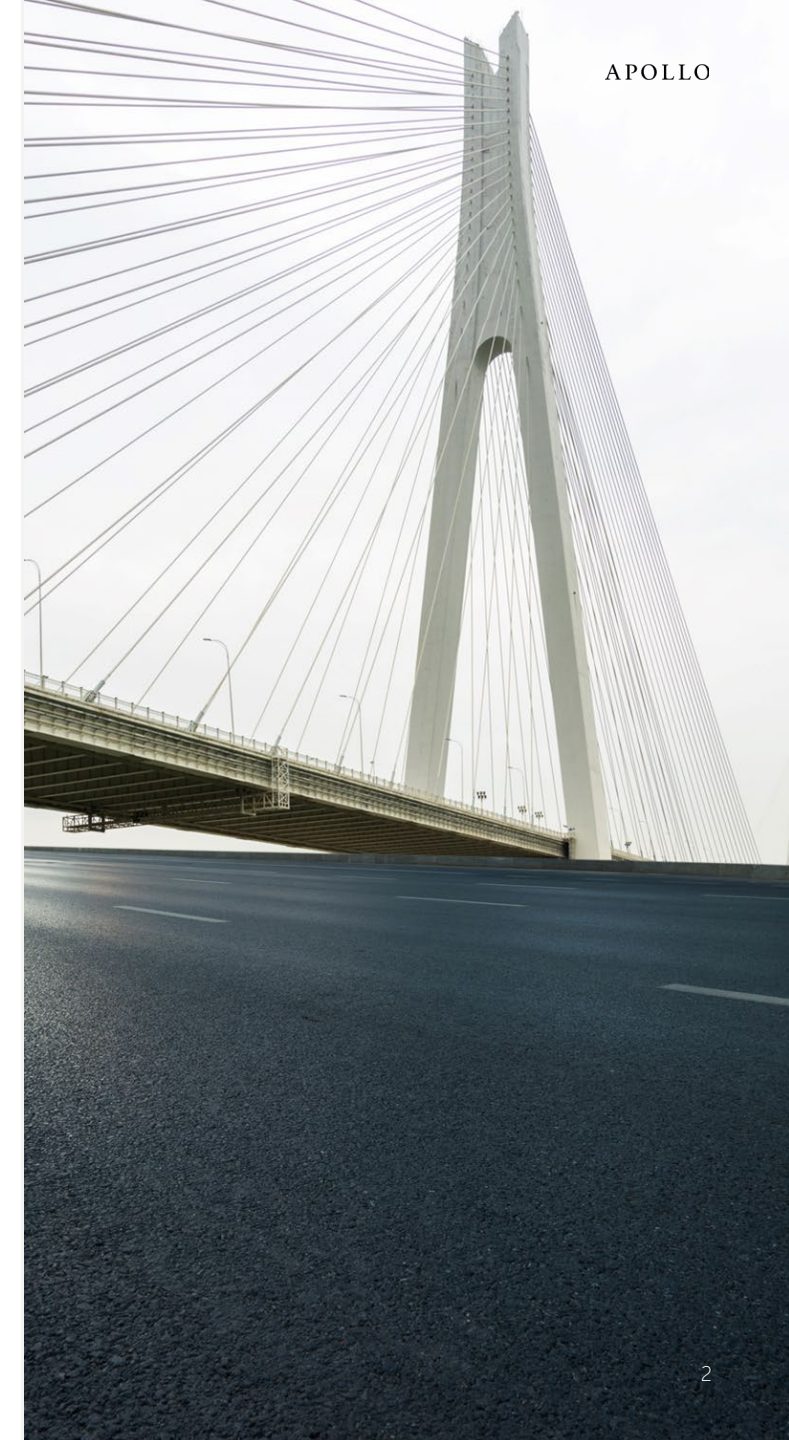
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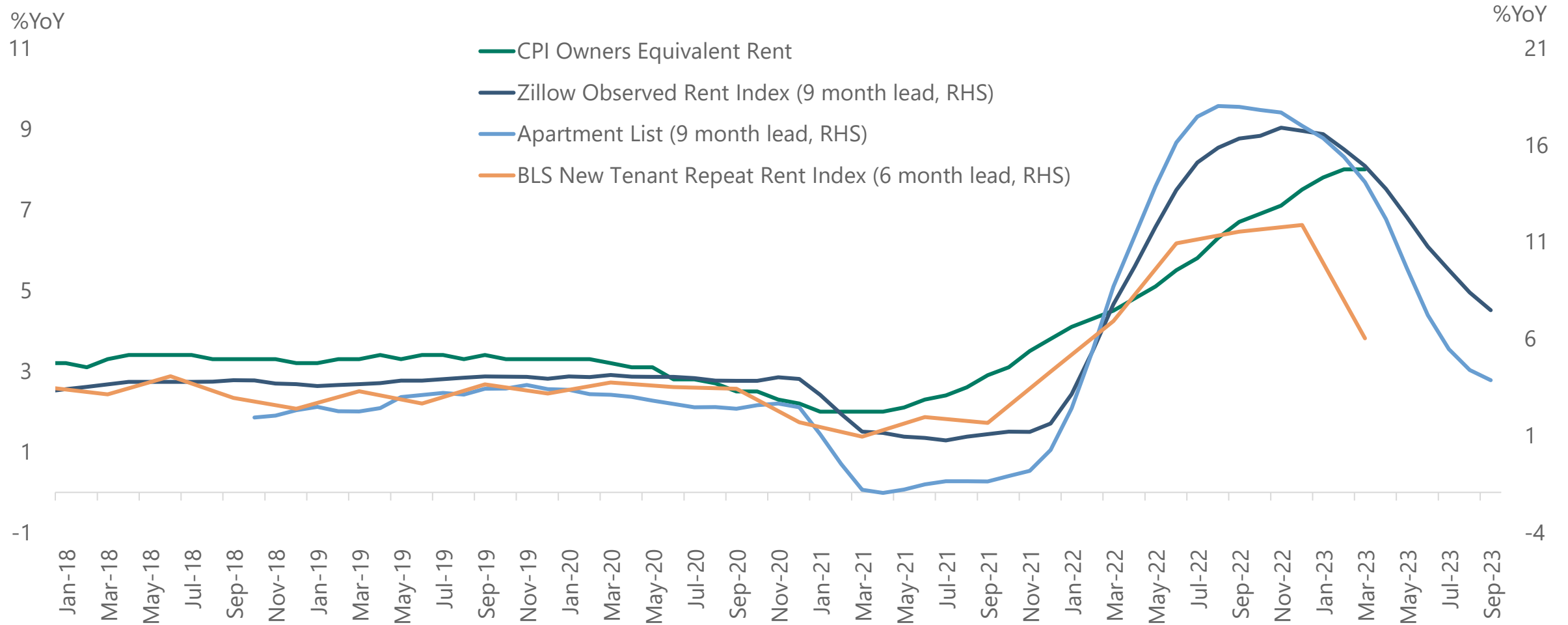
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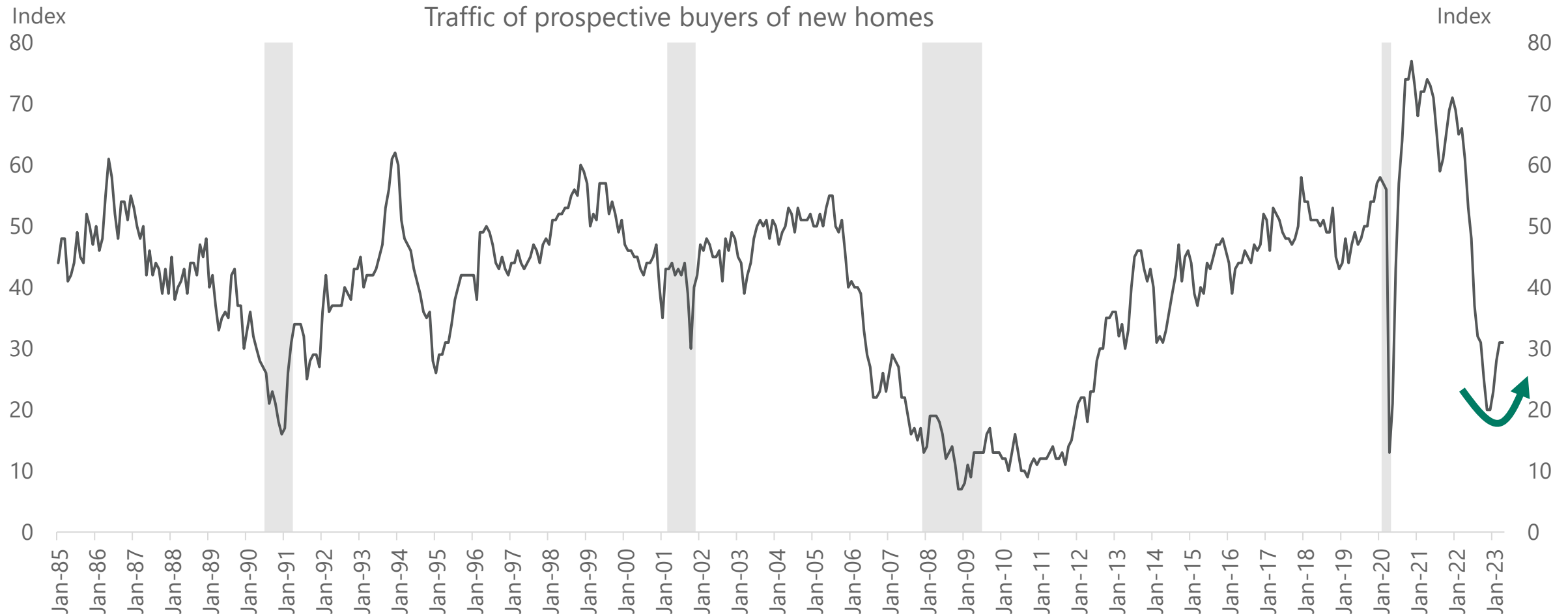


With the housing market recovering, the anticipated strong decline in OER may never happen

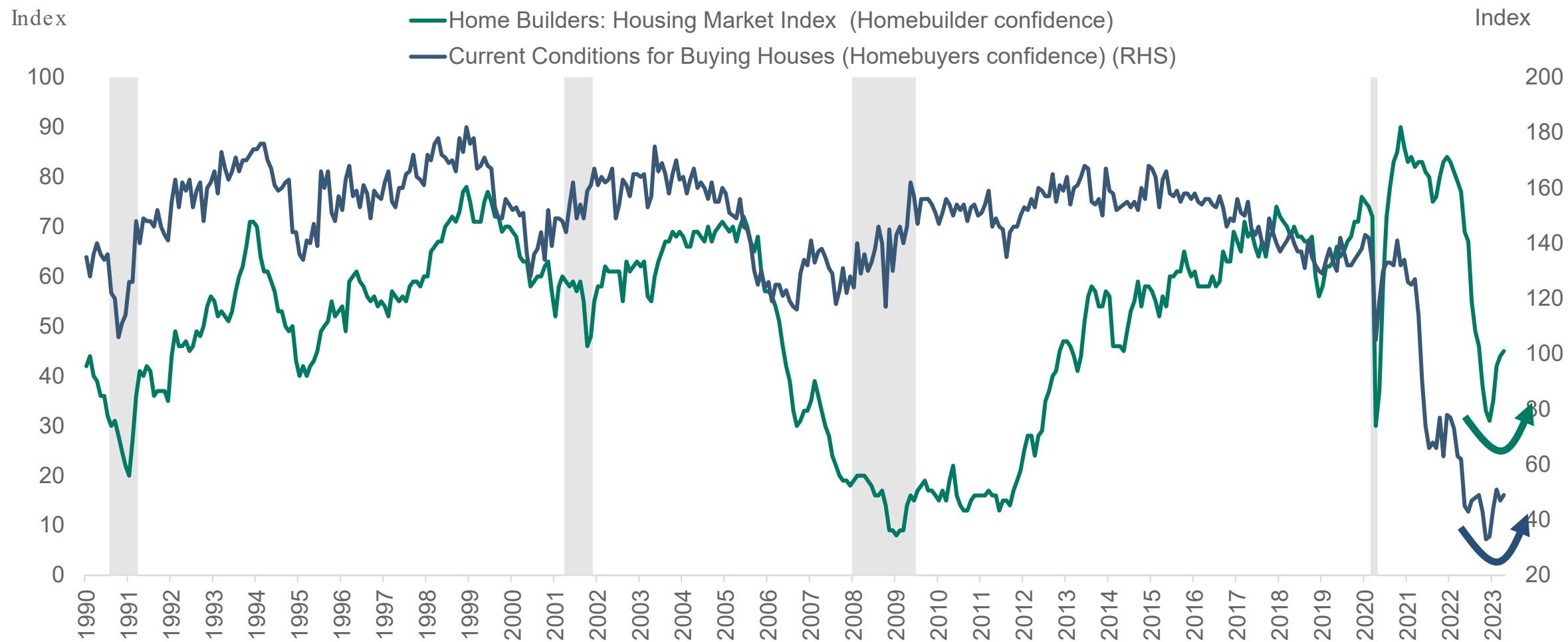


Leading indicators of the housing market

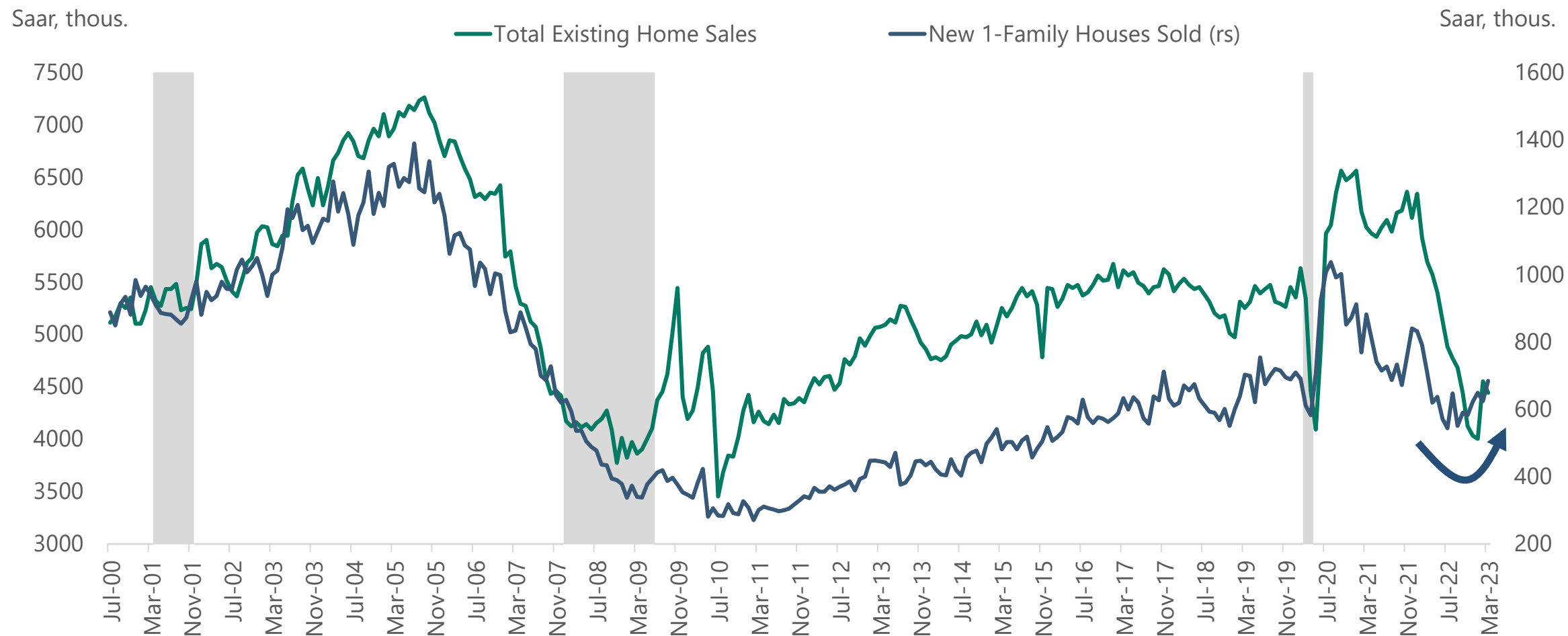
Traffic of prospective homebuyers starting to improve likely driven by solid employment growth, high wage growth, and plenty of excess savings



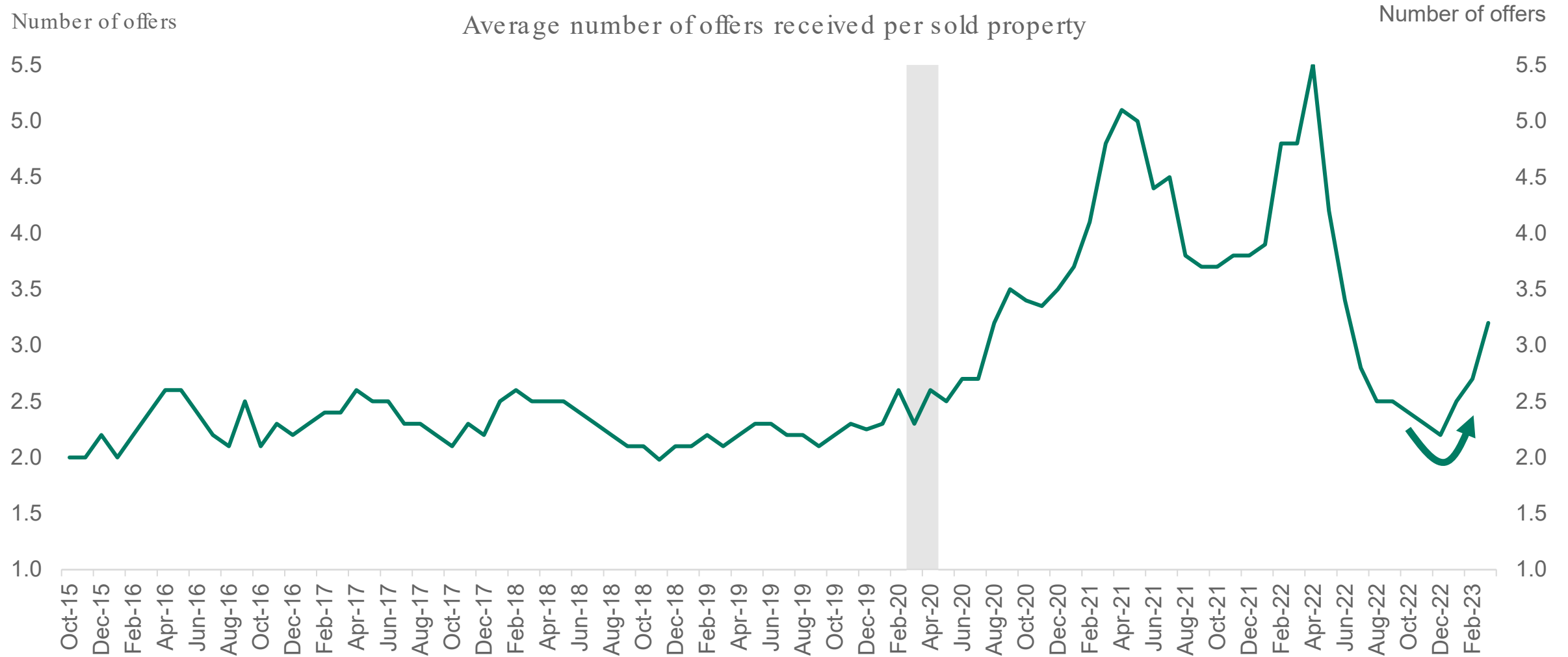
Confidence improving for homebuyers and homebuilders



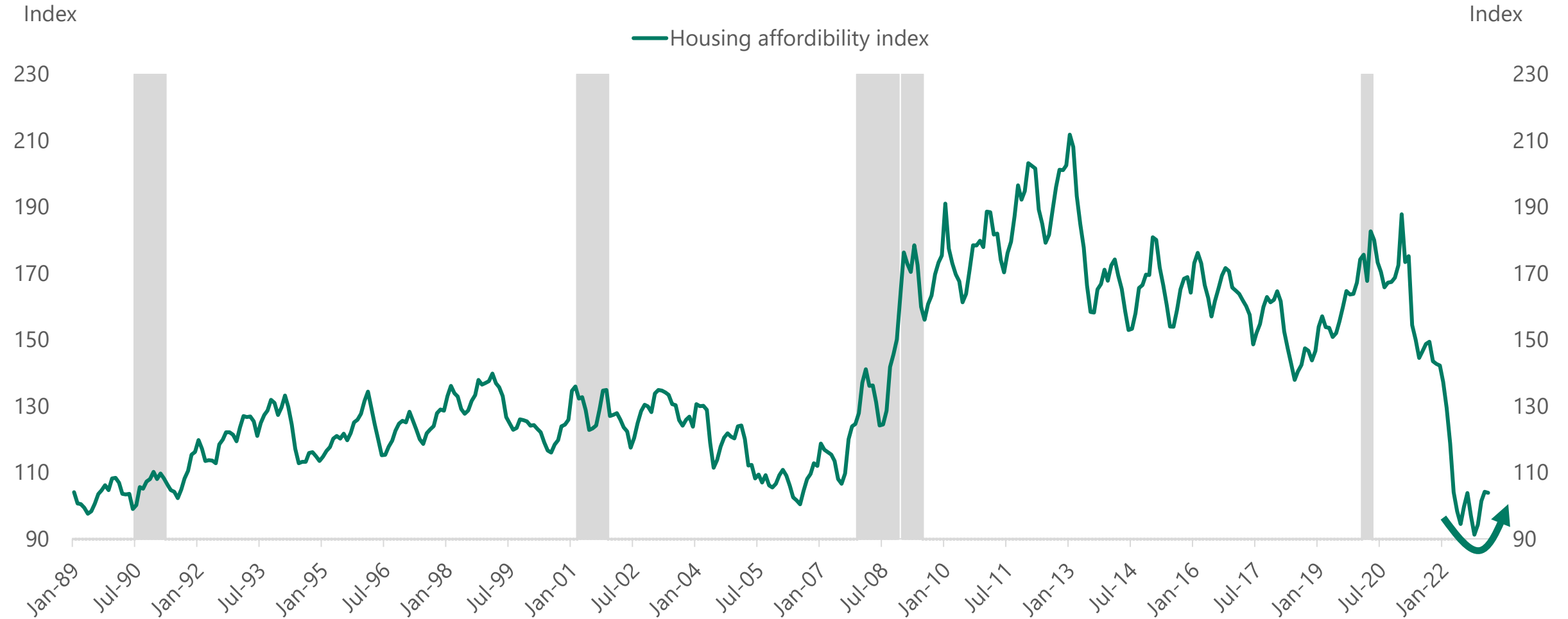
Home sales starting to recover



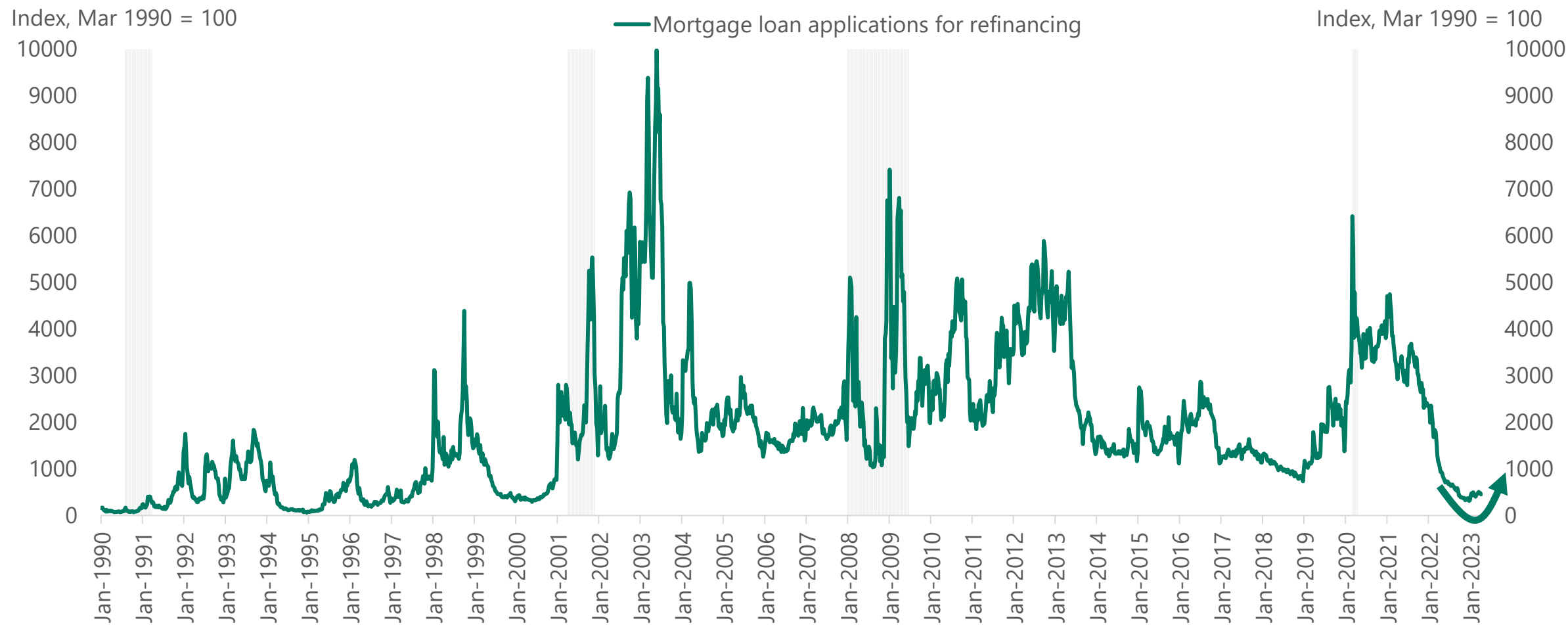
Average number of offers received per sold property is starting to recover



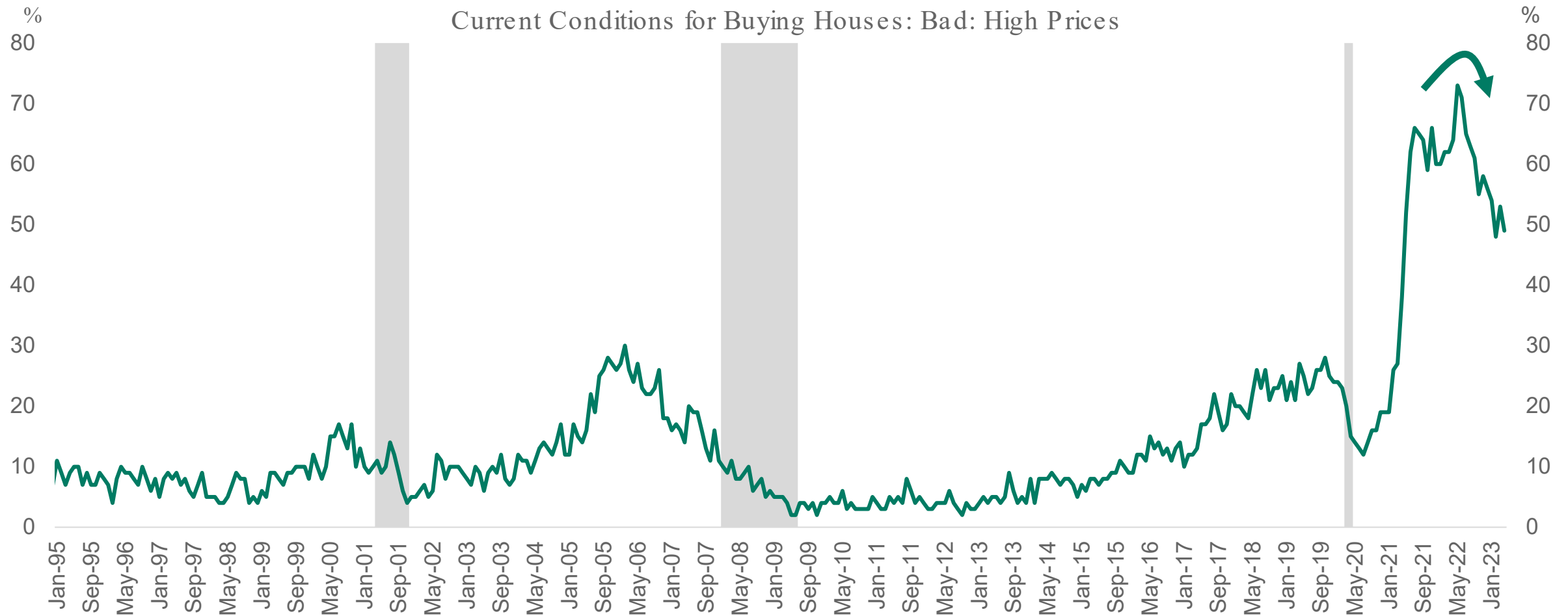
Housing affordability at 2007 levels but starting to bottom because of solid job growth, robust wage growth, and excess savings in the household sector



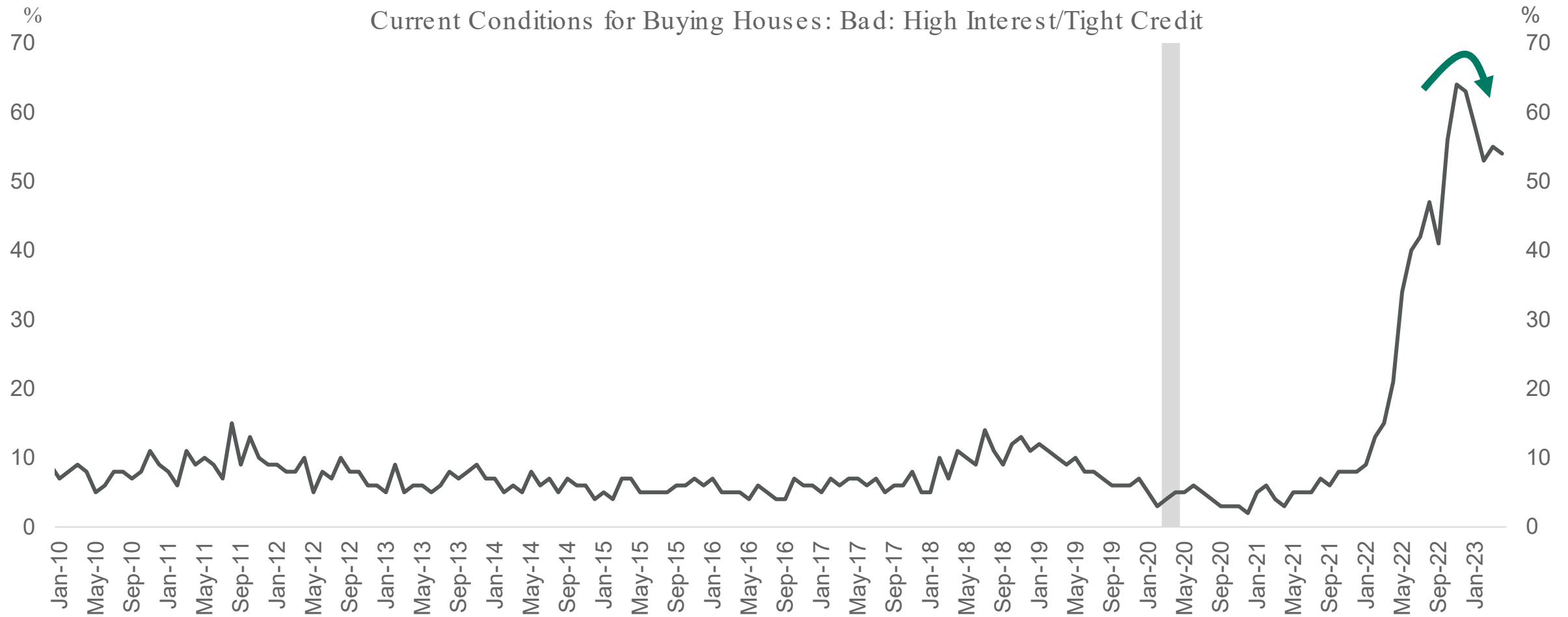
Mortgage refi applications starting to recover



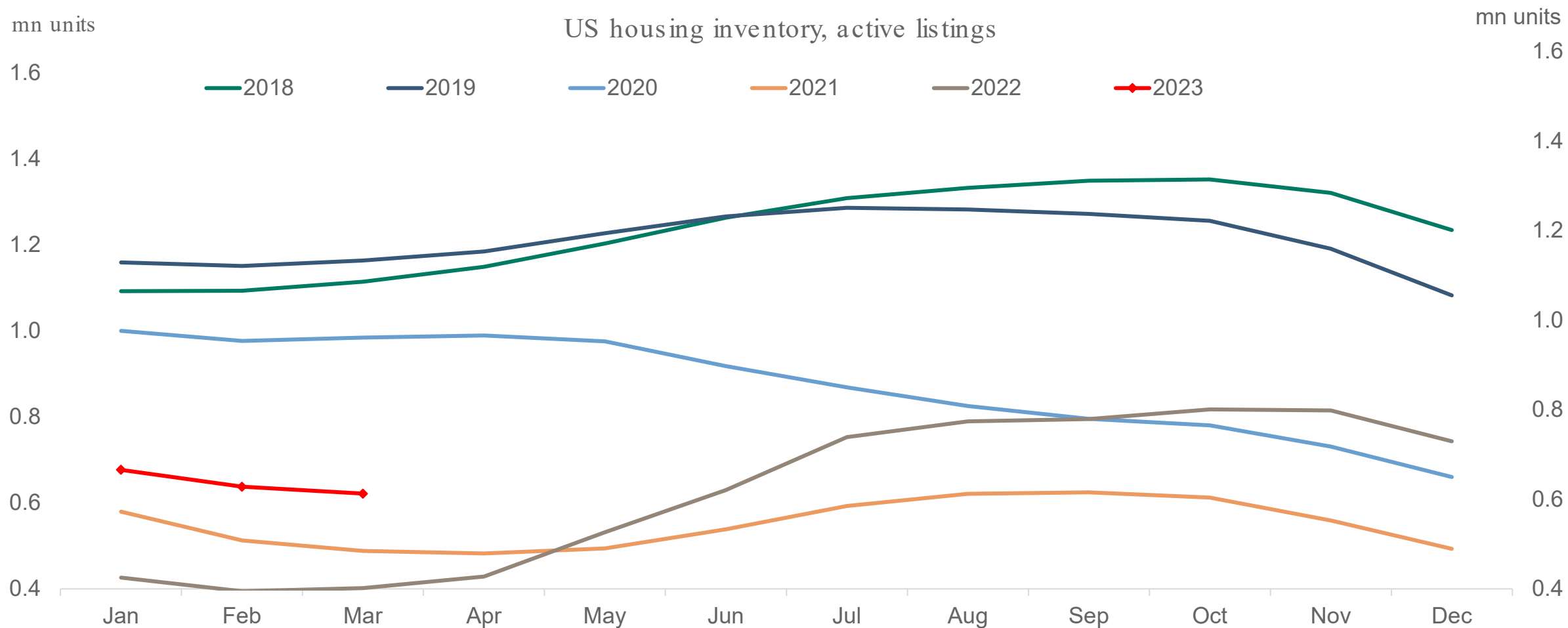
Despite high prices, homebuyer sentiment improving



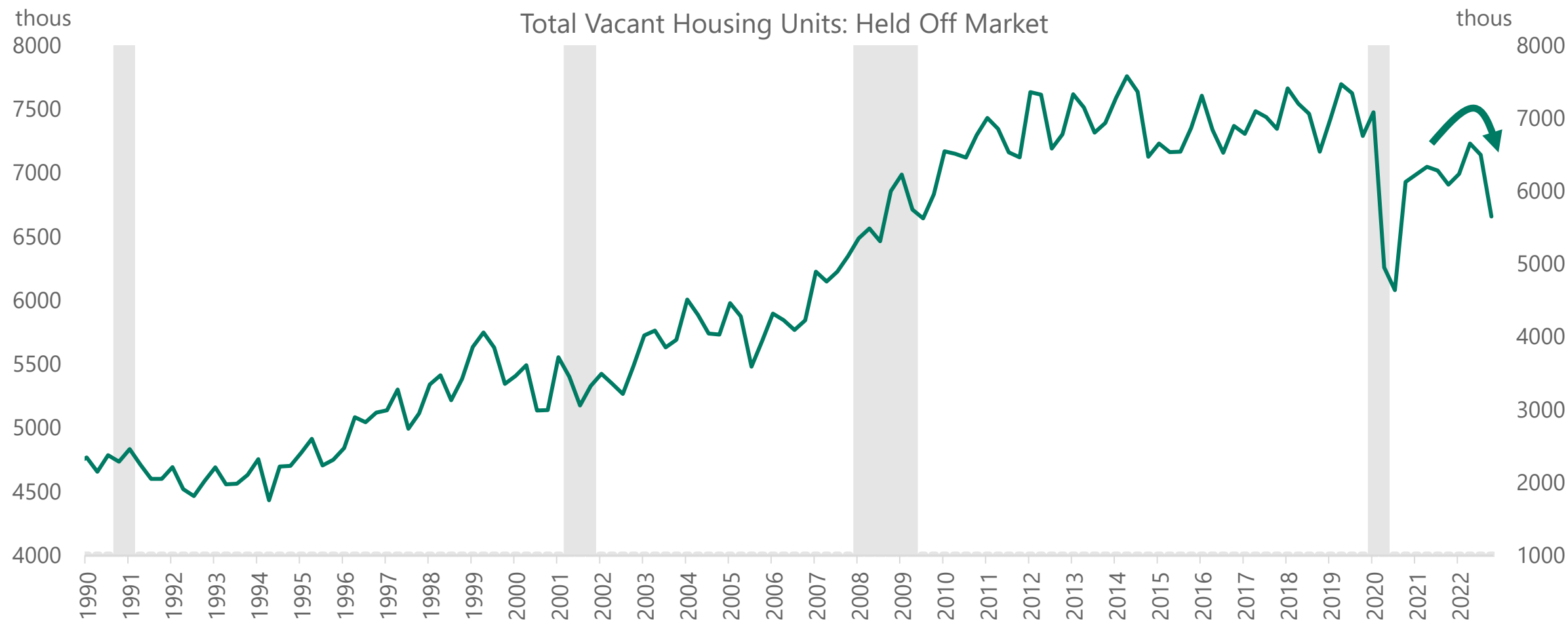
Homebuyer sentiment about mortgage rates and credit conditions getting better



Active listings still at very low levels, very low inventory



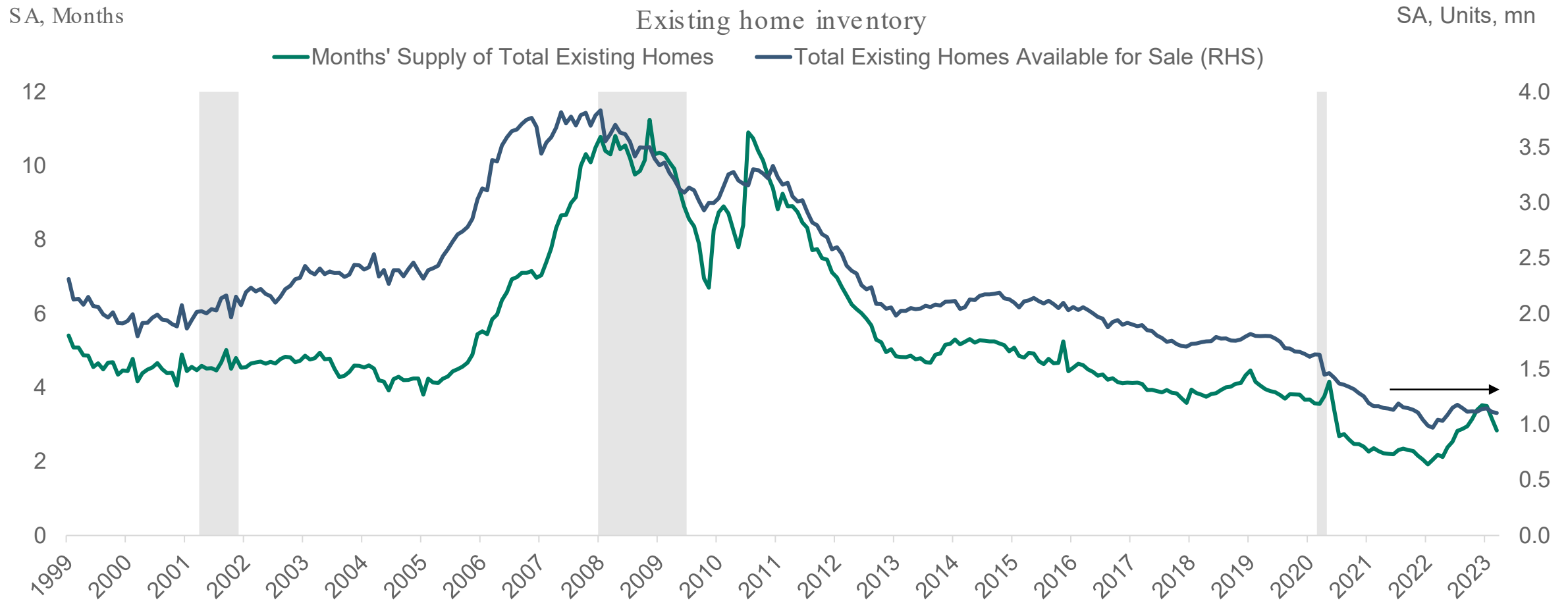
Vacant housing units held off market falling



Fewer people listing their home for sale in a down market



Homesellers don't want to sell their house at a discount: The stock of total existing homes for sale moving sideways

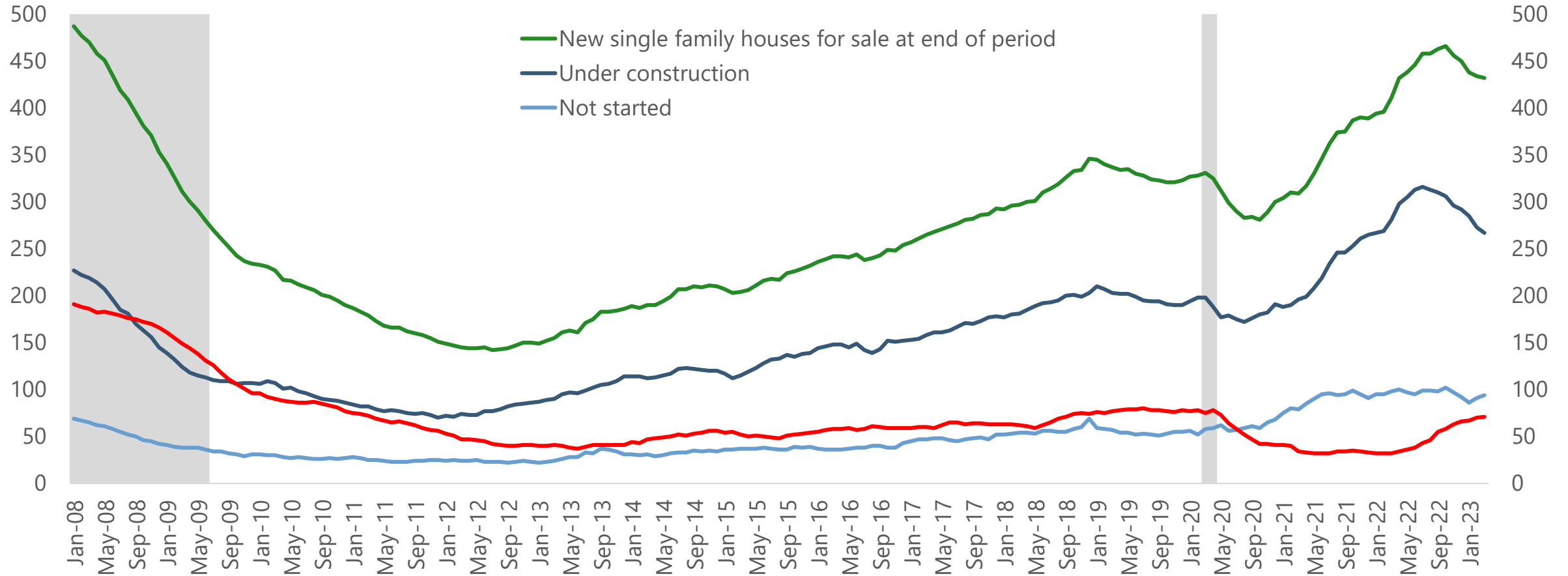


New houses for sale under construction is coming down

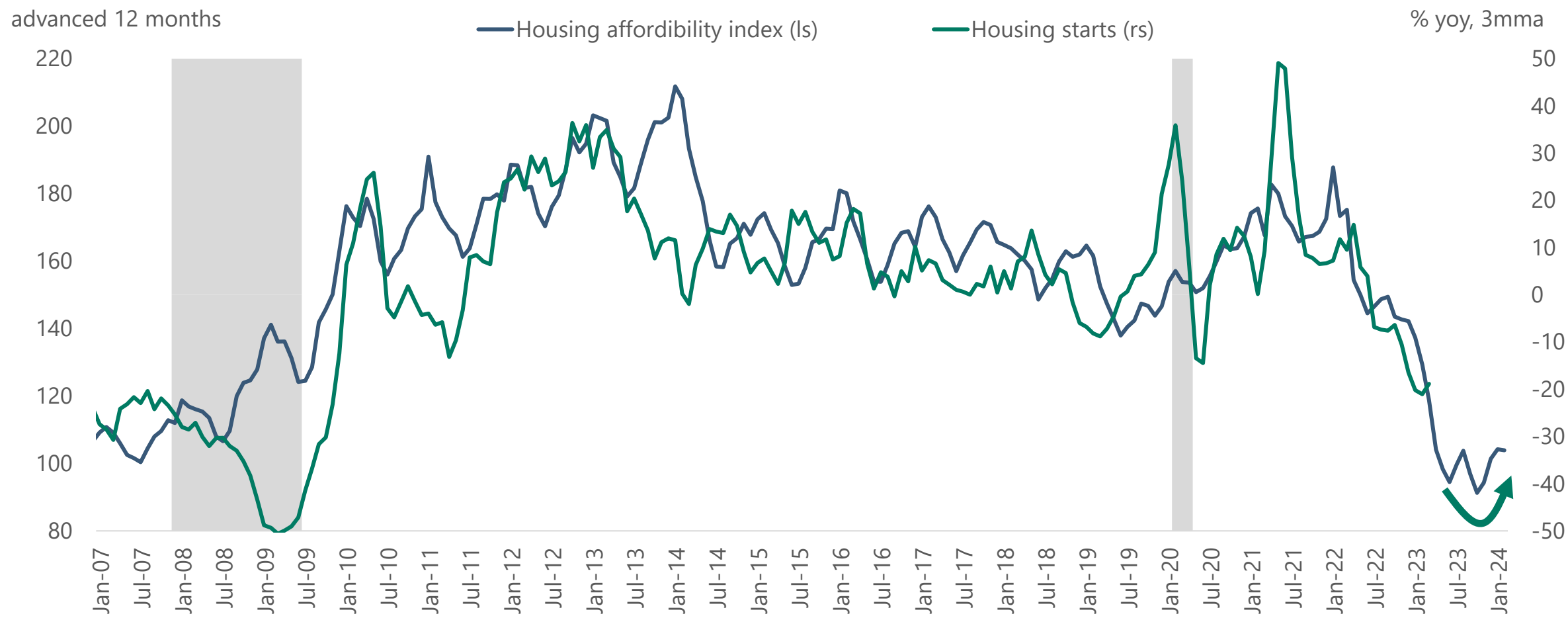
Thousands of units

Number of new houses for sale

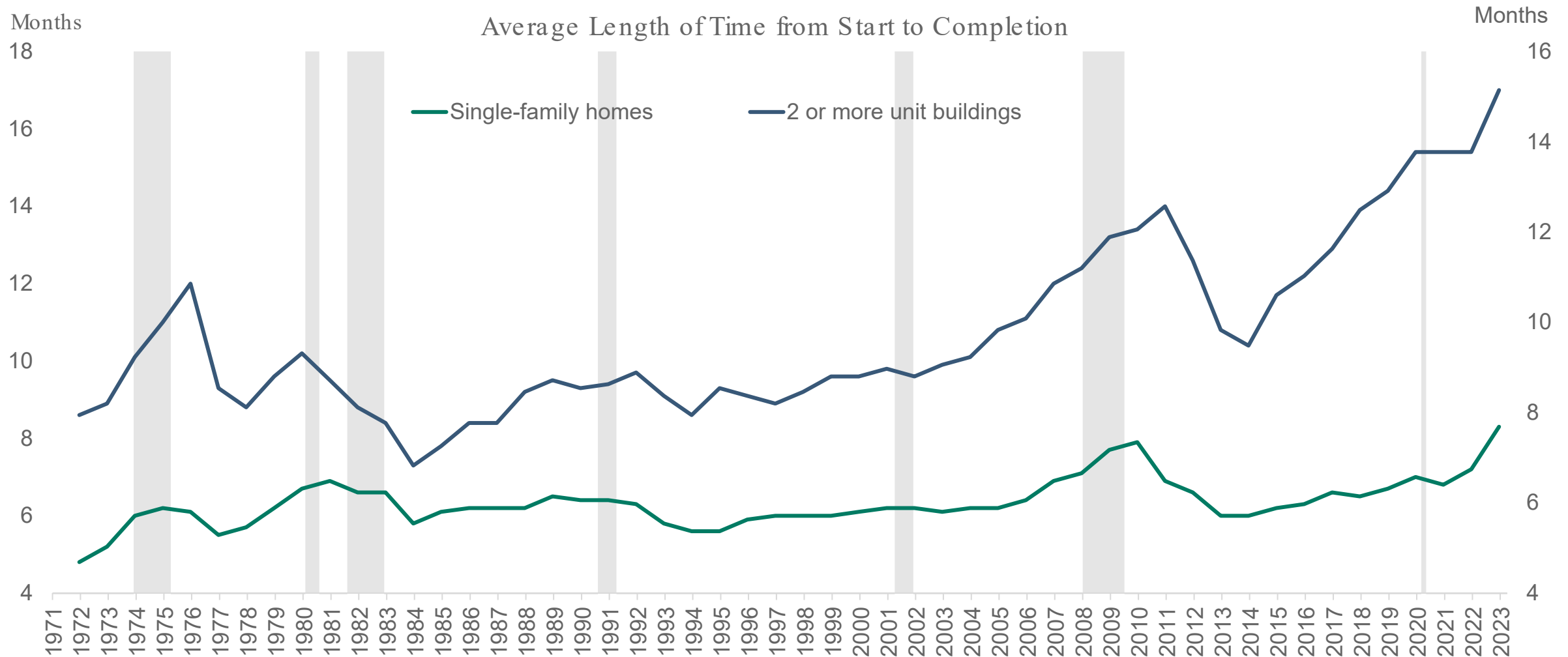
Thousands of units



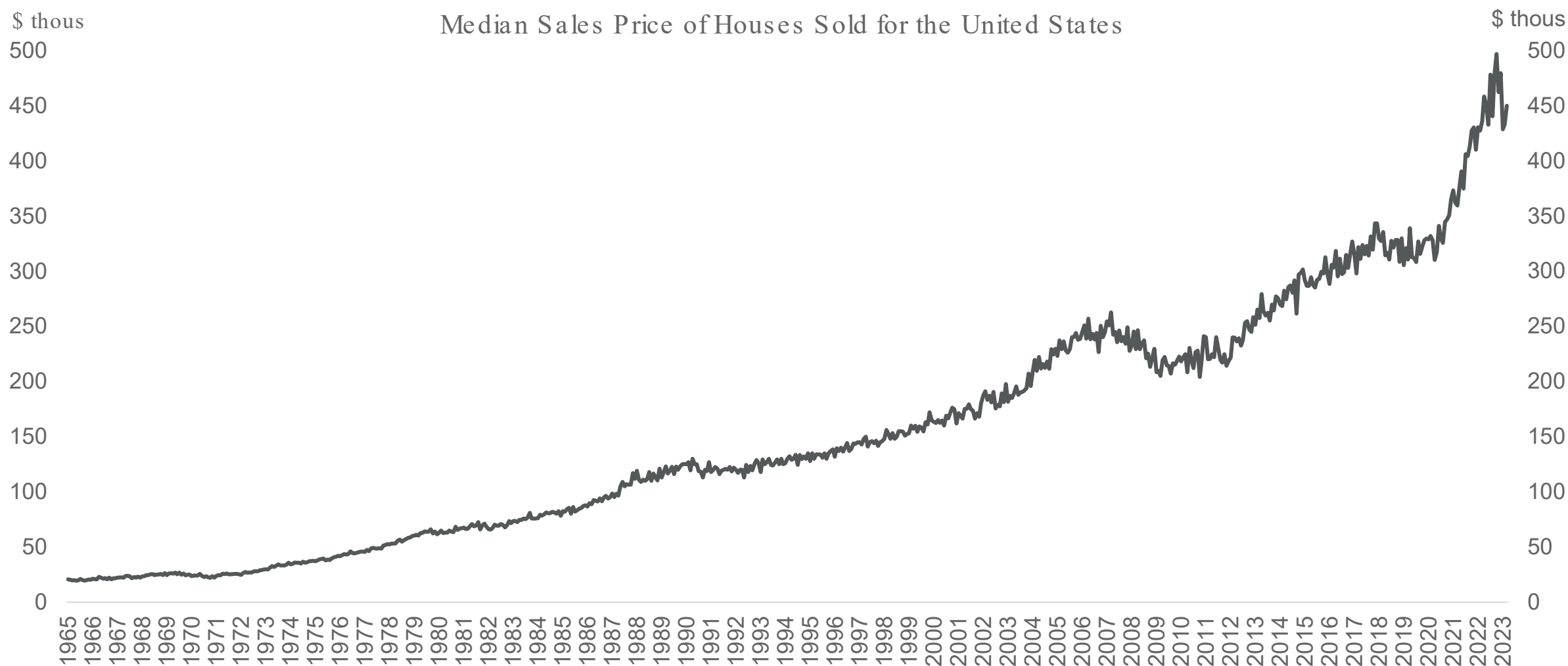
Housing starts also showing signs of bottoming



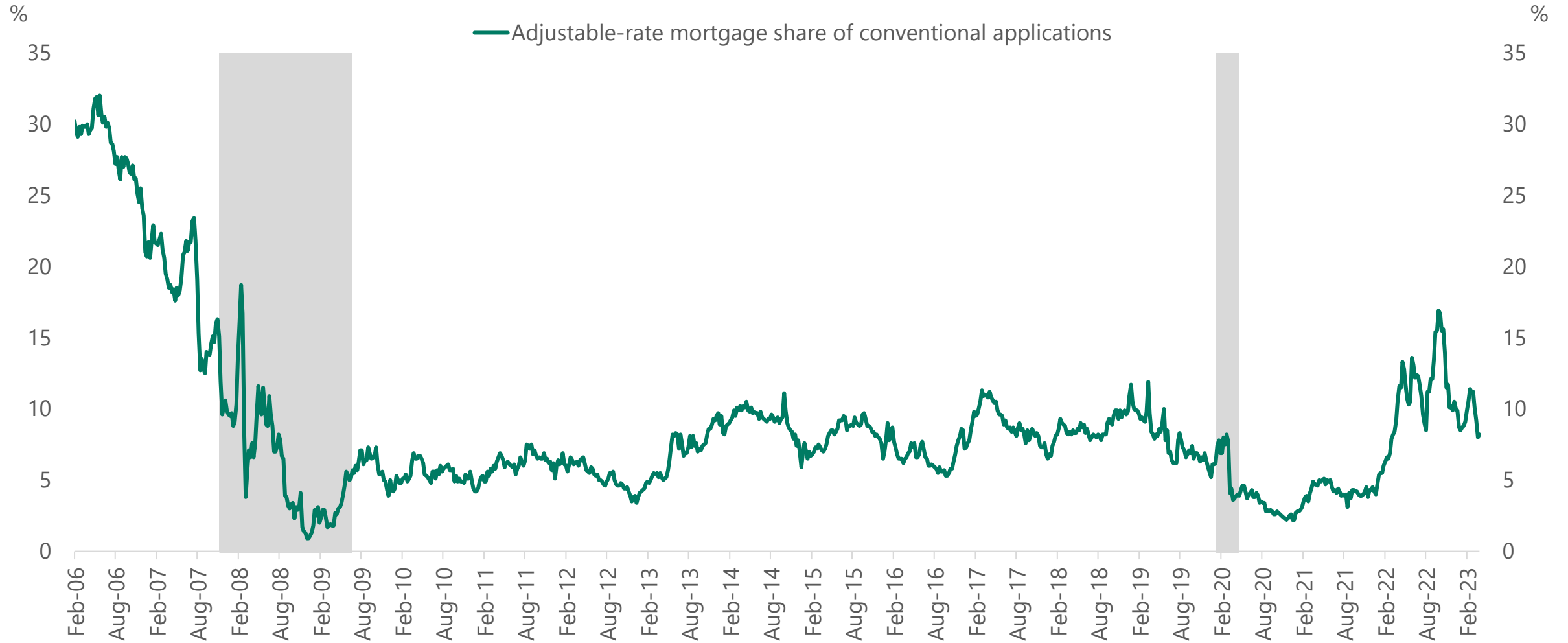
It currently takes 8 months on average to build a single-family house



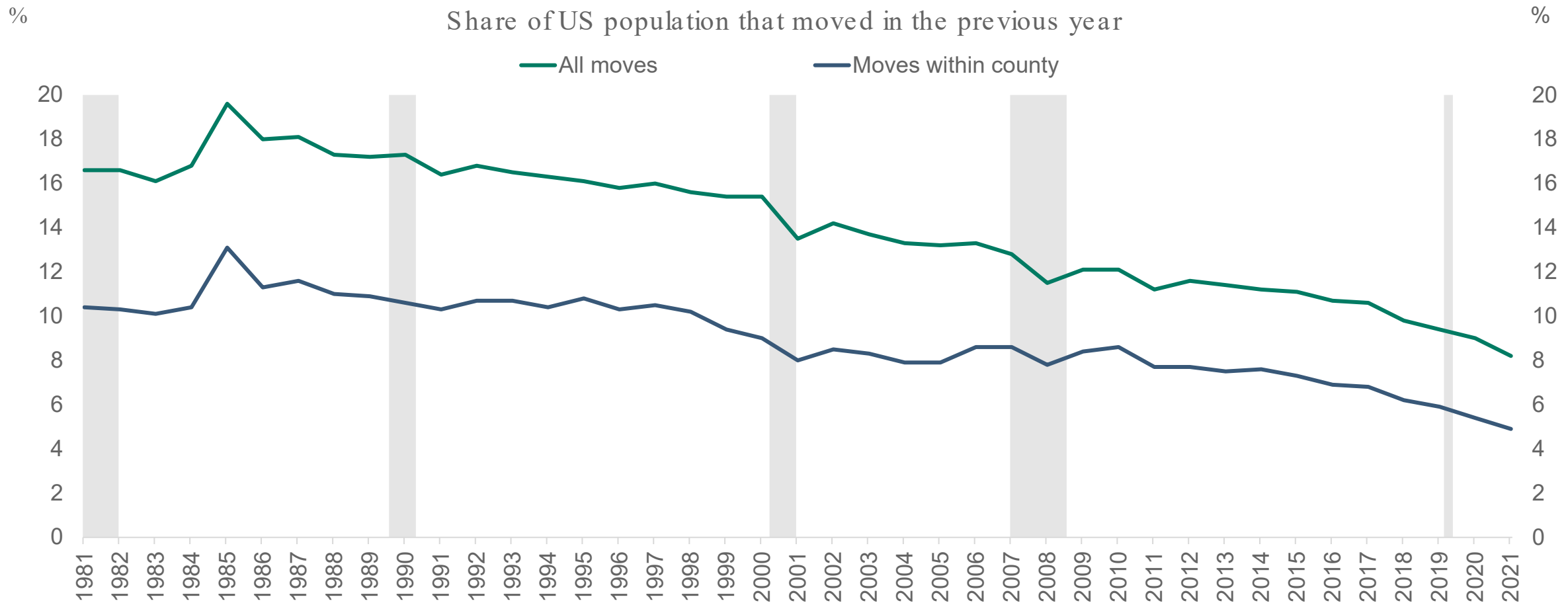
Median home sales price now \$450K



ARM share of total mortgage applications at 8%

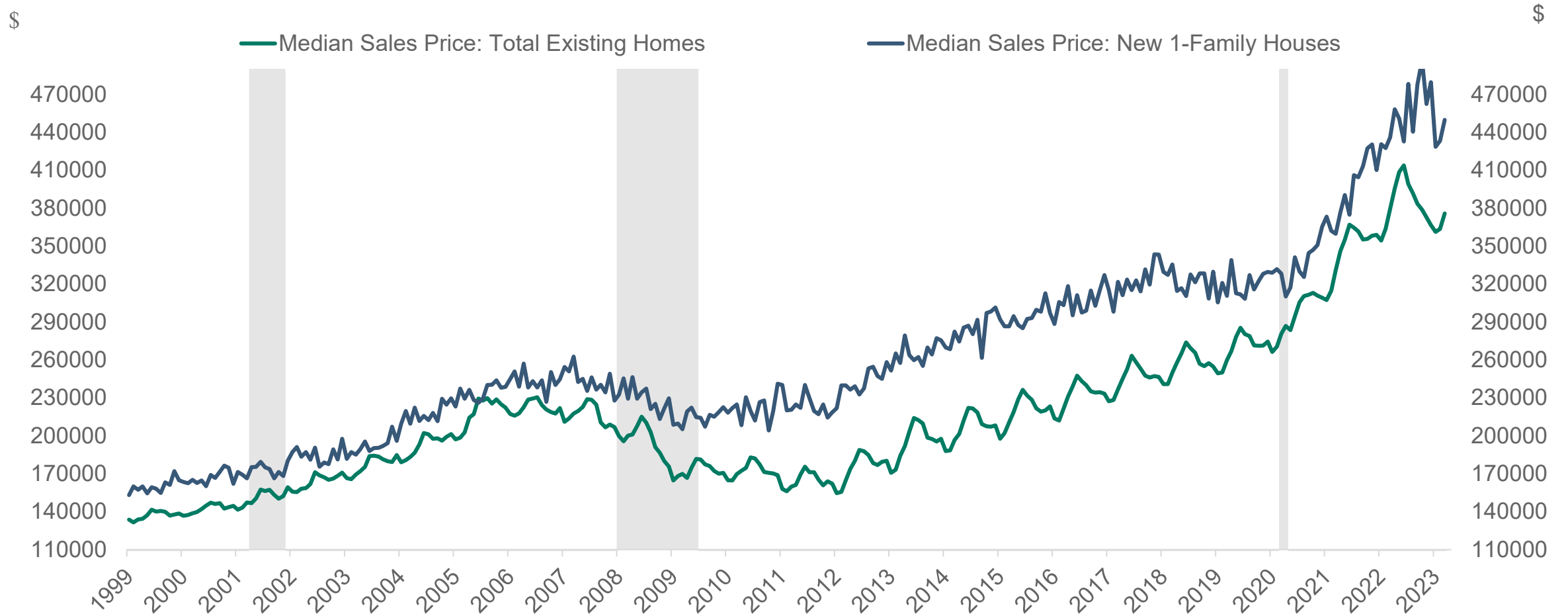


Secular decline in the share of the US population moving to a new address

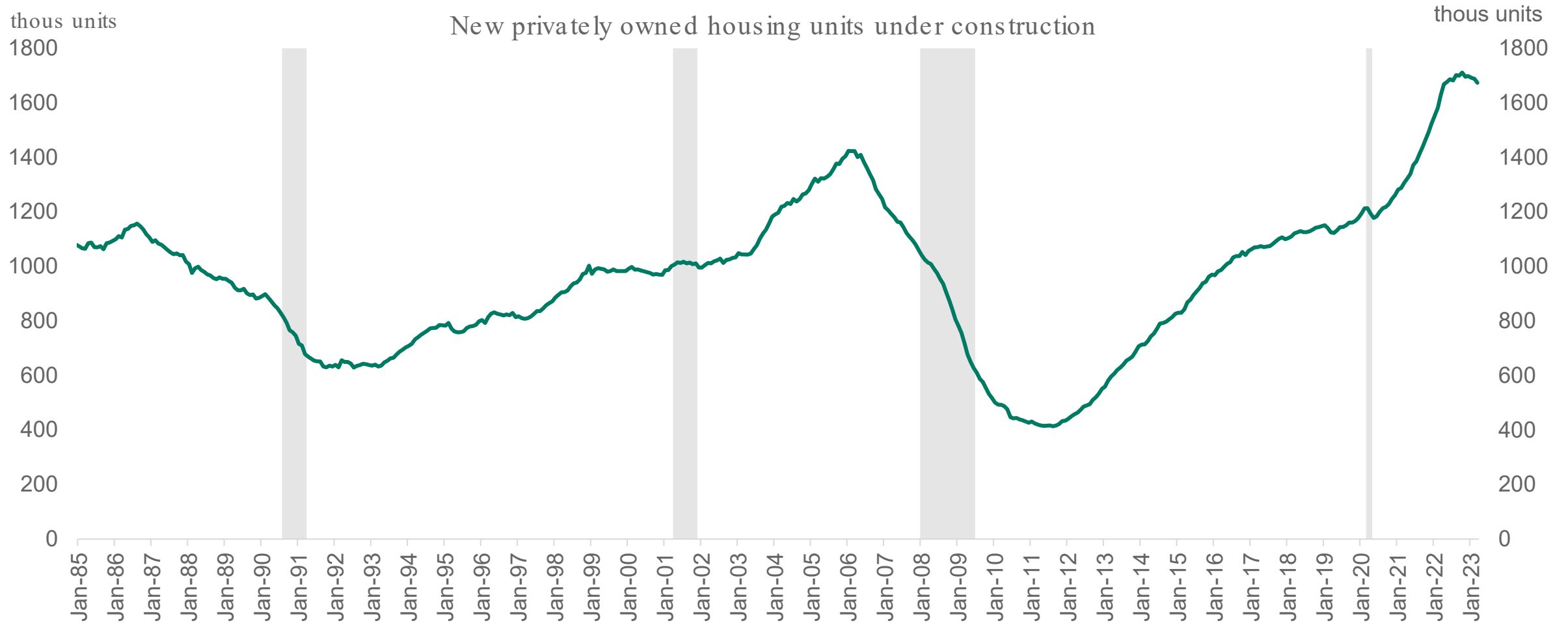


New versus existing homes

House prices are down a bit for both new and existing homes

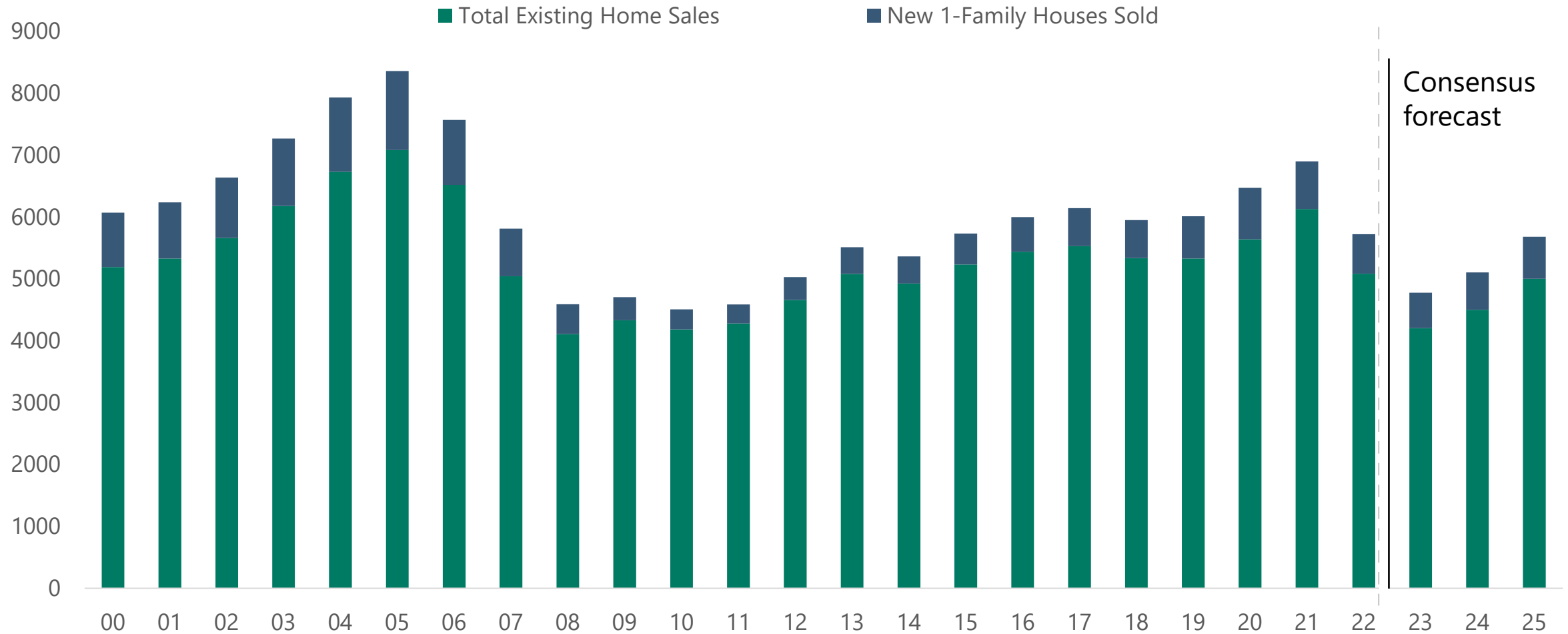


New privately owned housing units under construction starting to peak



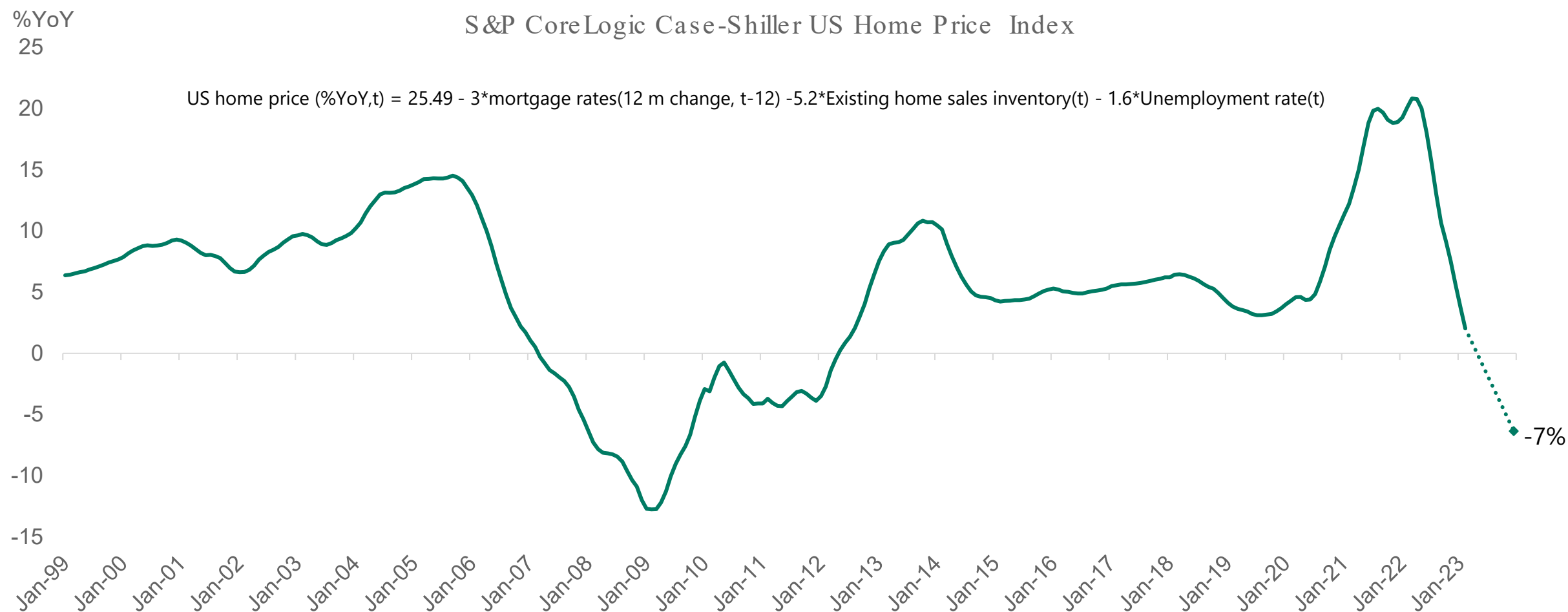
Consensus is forecasting a soft landing in home sales

SAAR, thous.



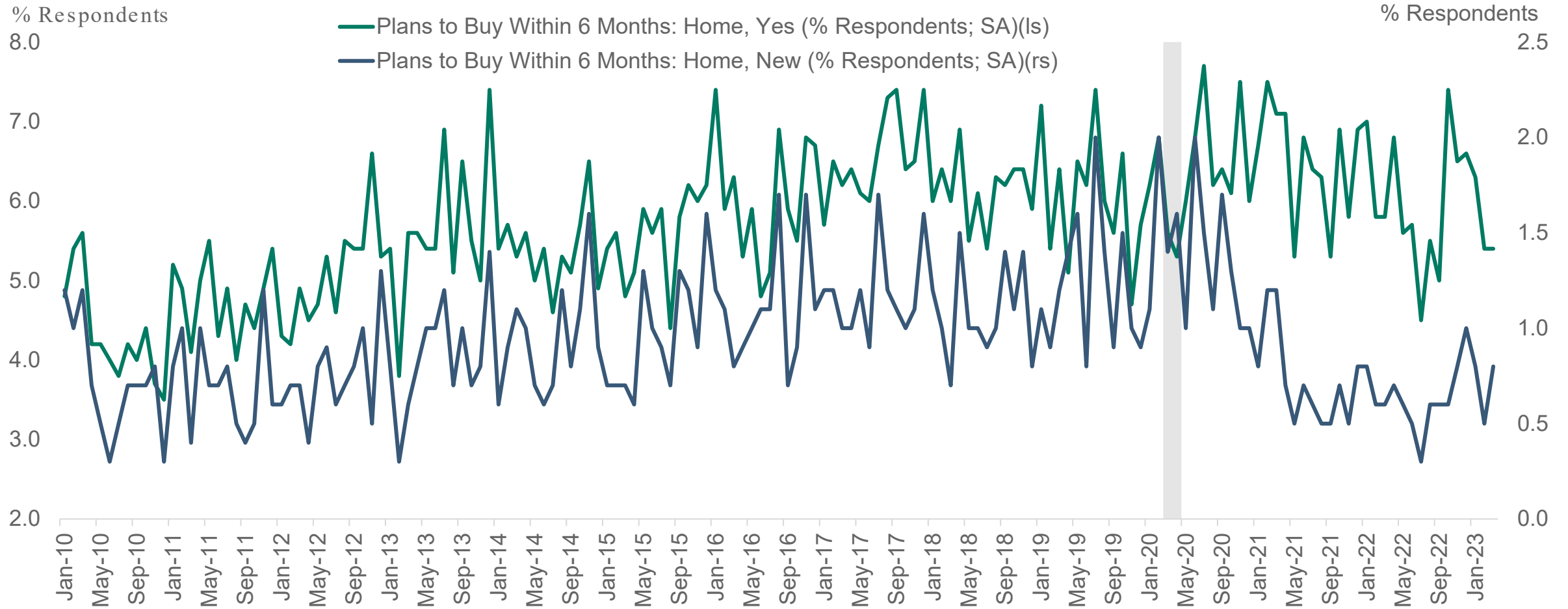
US house price model

US house price model

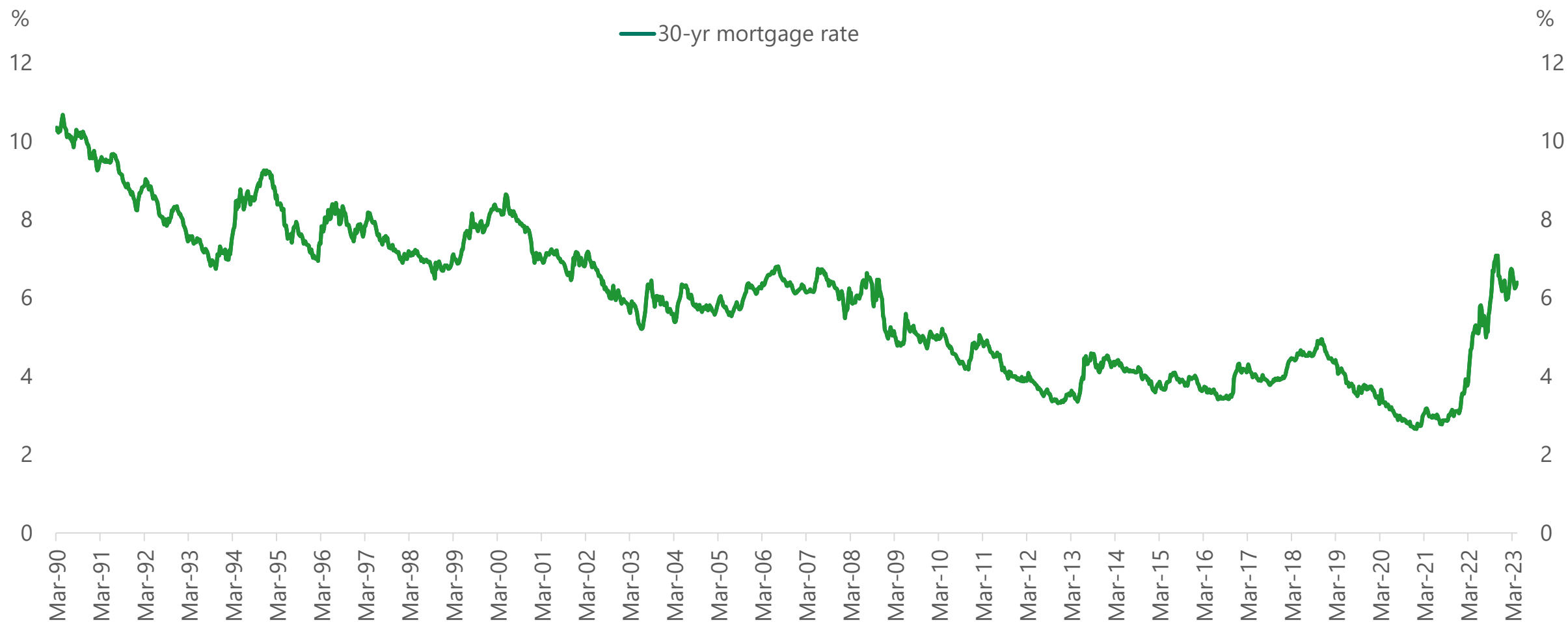


1) Housing Demand: Higher mortgage rates and high home prices slowing demand

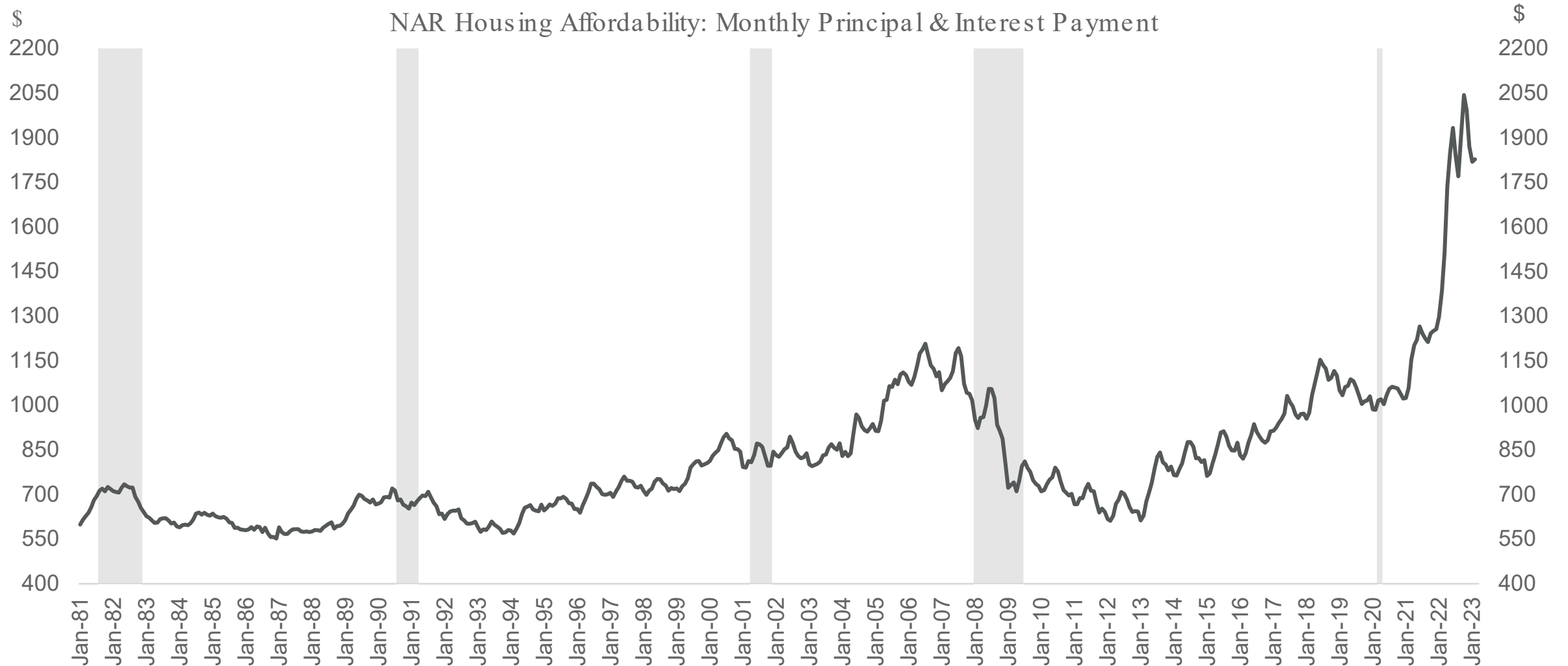
Plans to buy a home stabilizing



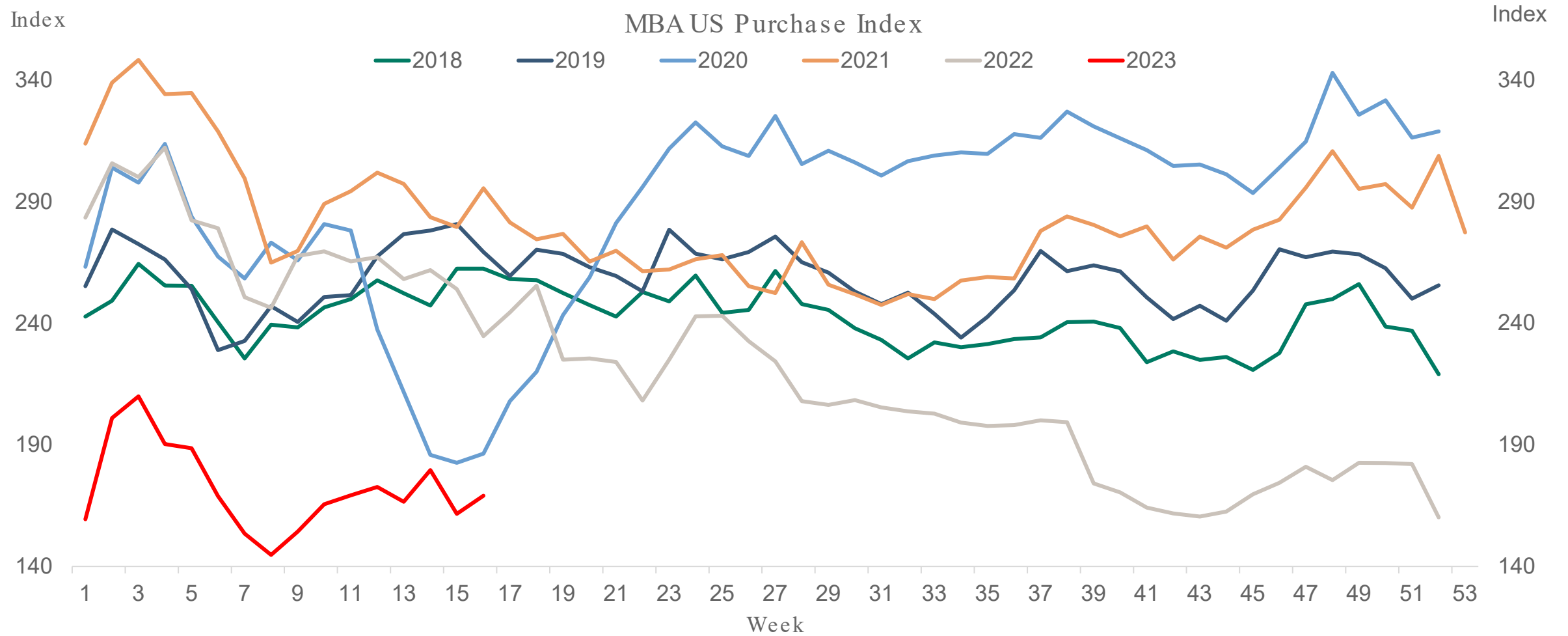
Mortgage rates elevated



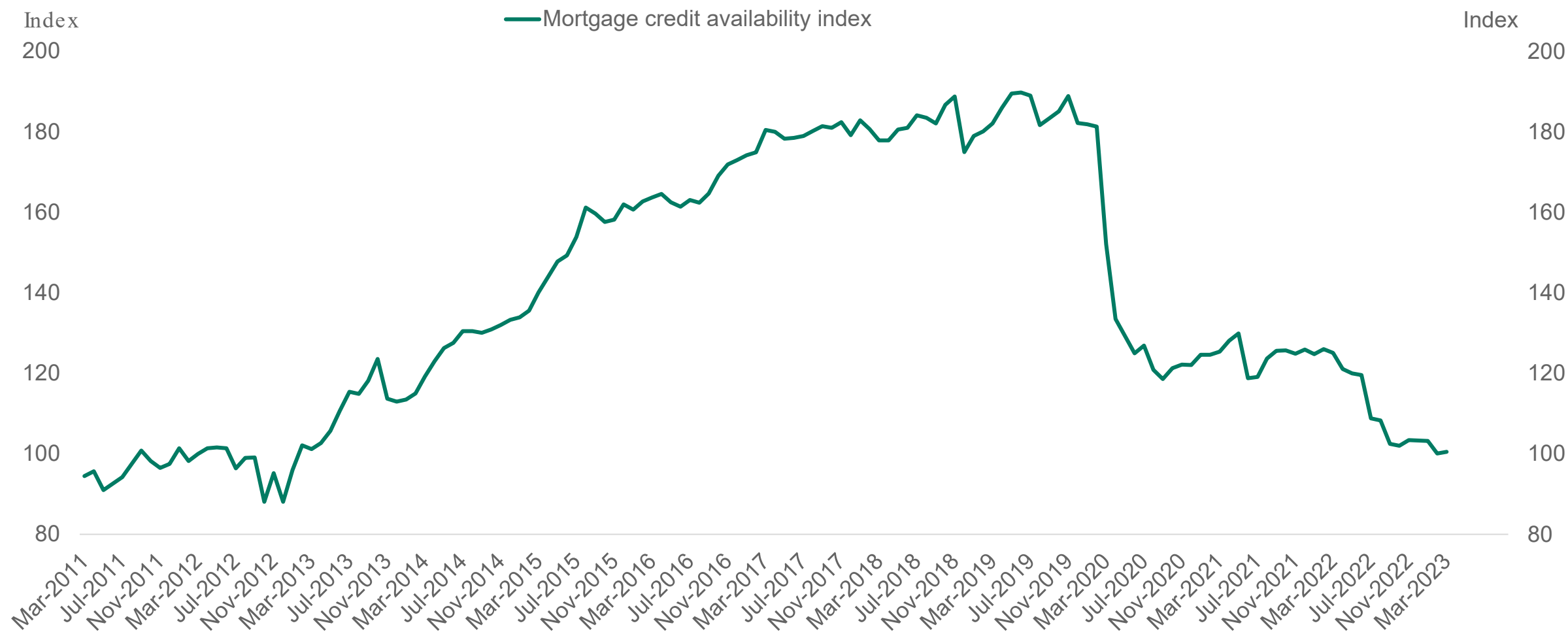
Monthly mortgage payments on new mortgages still very high



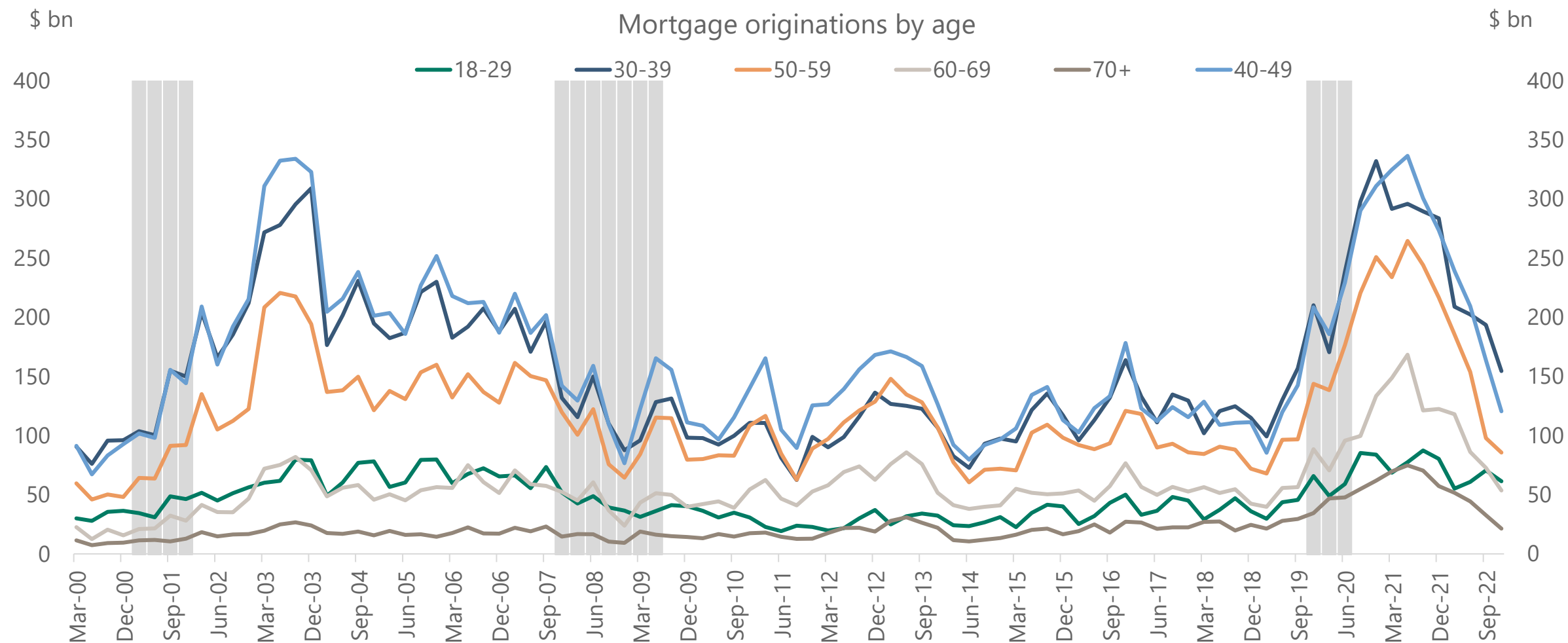
Mortgage purchase applications weaker than usual



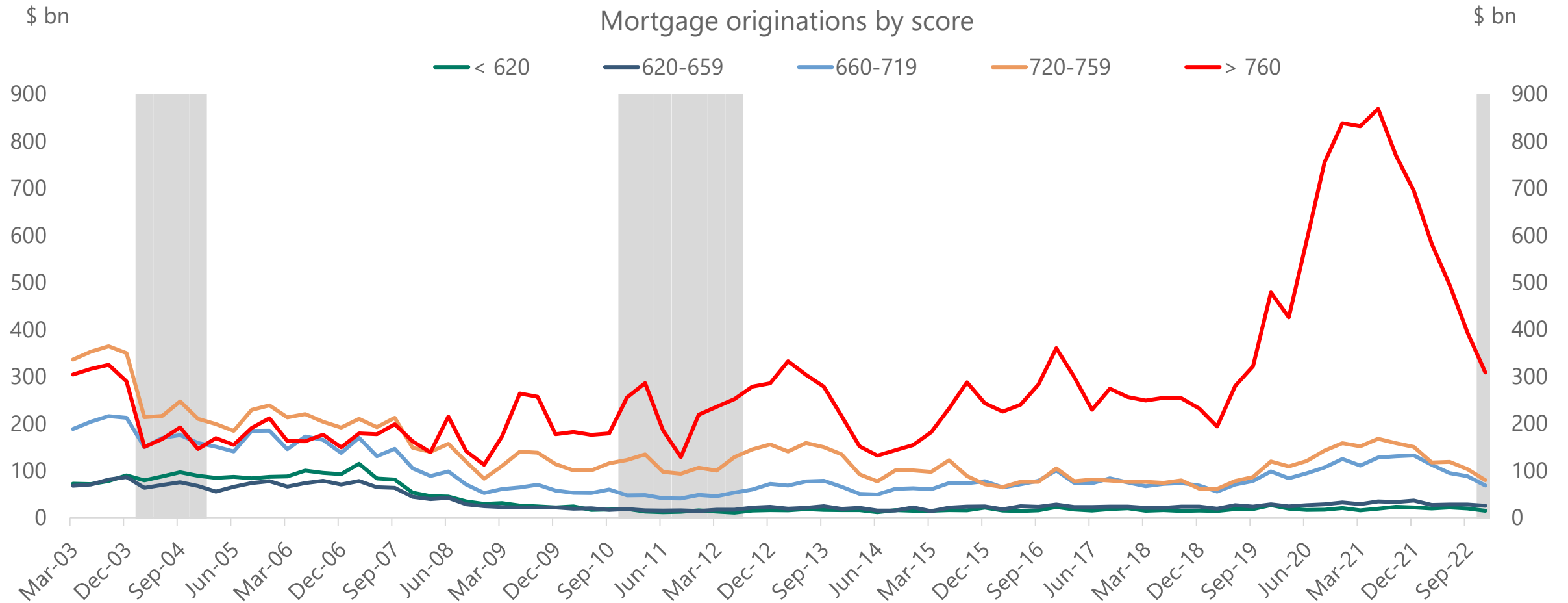
Availability of mortgage credit continues to tighten



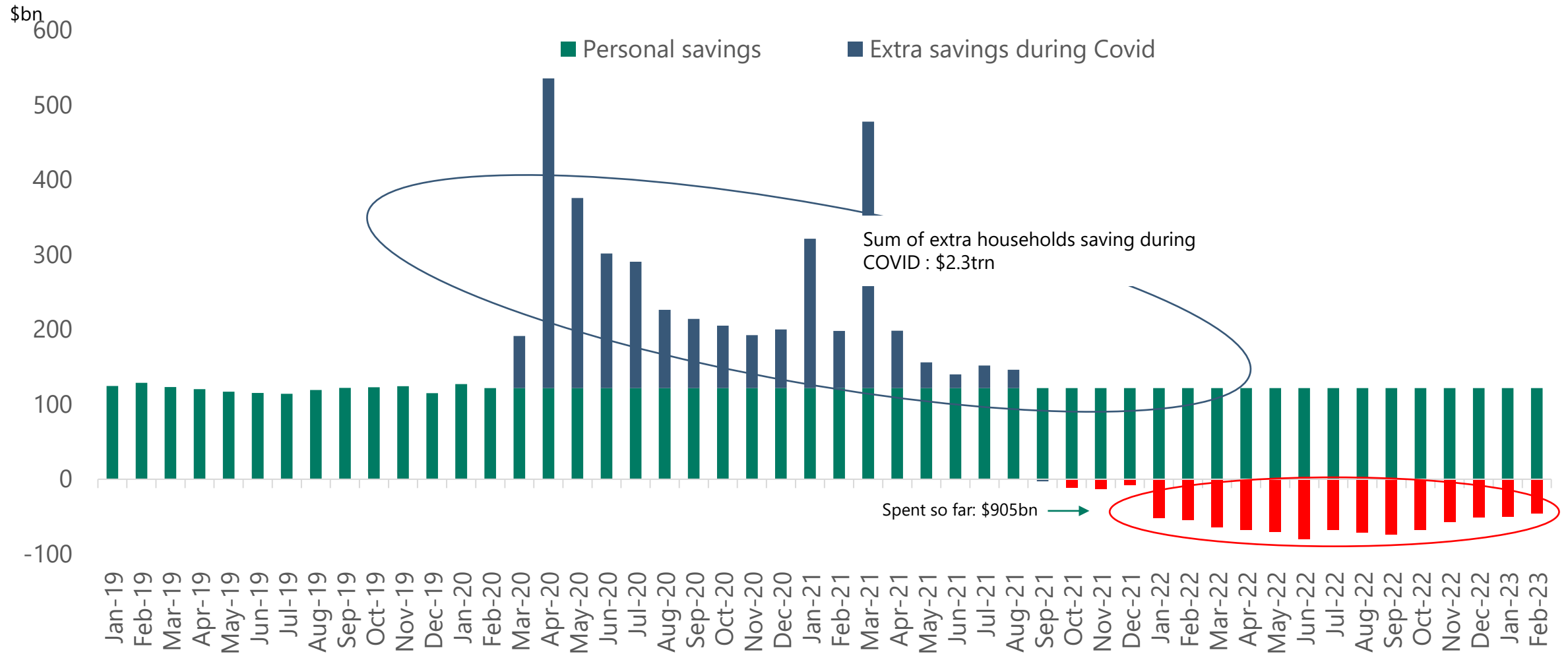
Mortgage originations coming down to pre-pandemic levels



Mortgage originations normalizing for households with high credit scores



Households are running down their savings, but still about \$1.7trn left

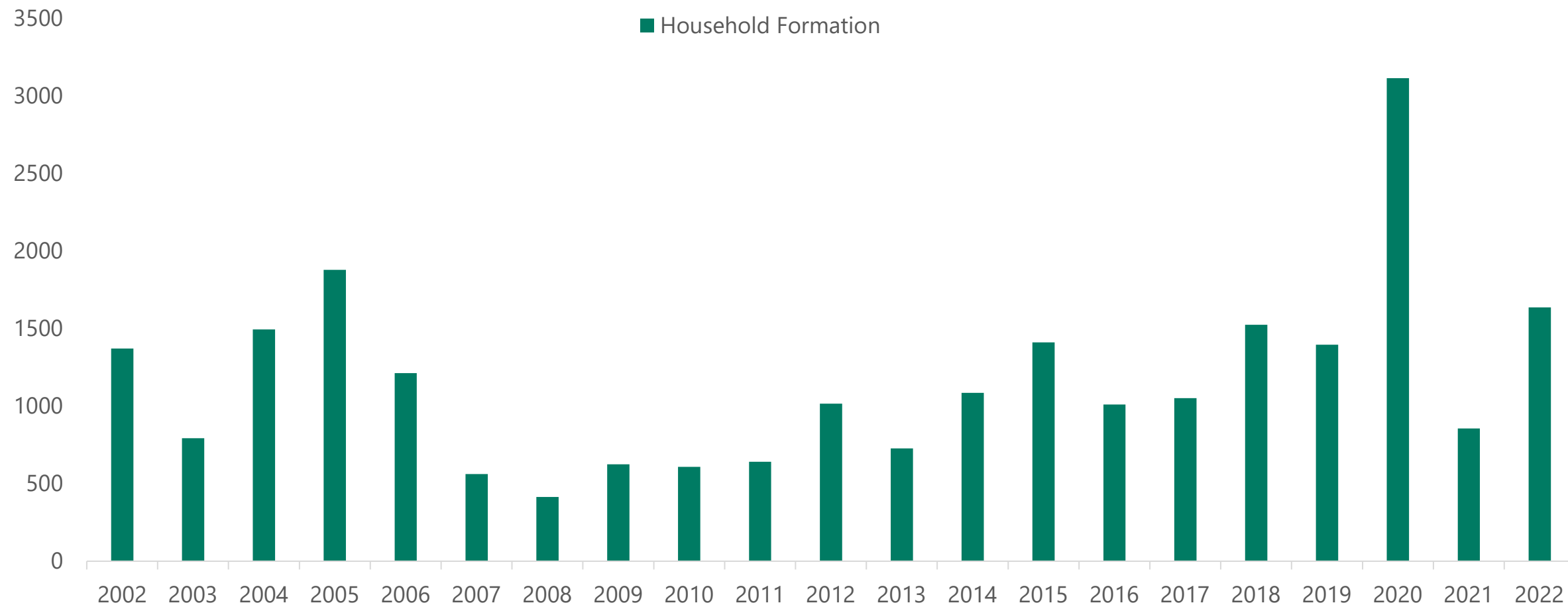


Demographics are a tailwind to housing demand

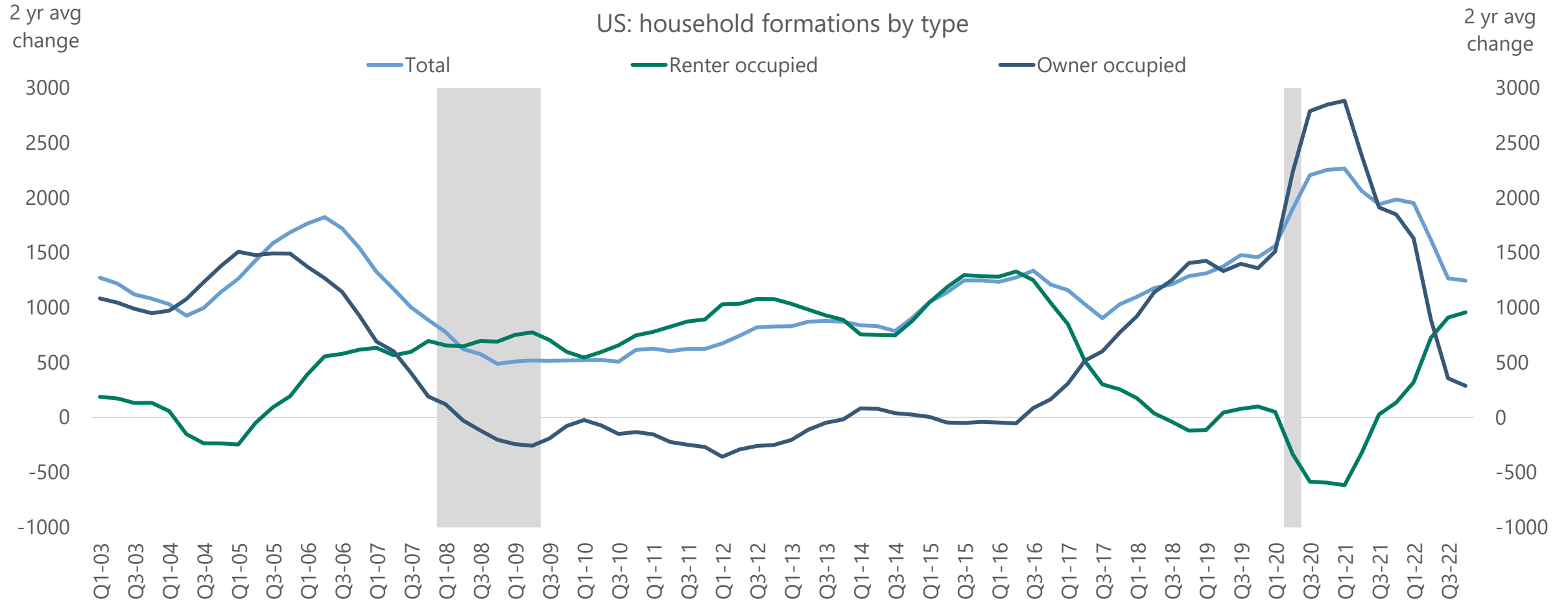


Household formation rising

Thousands of units



The number of renter occupied housing units has been growing



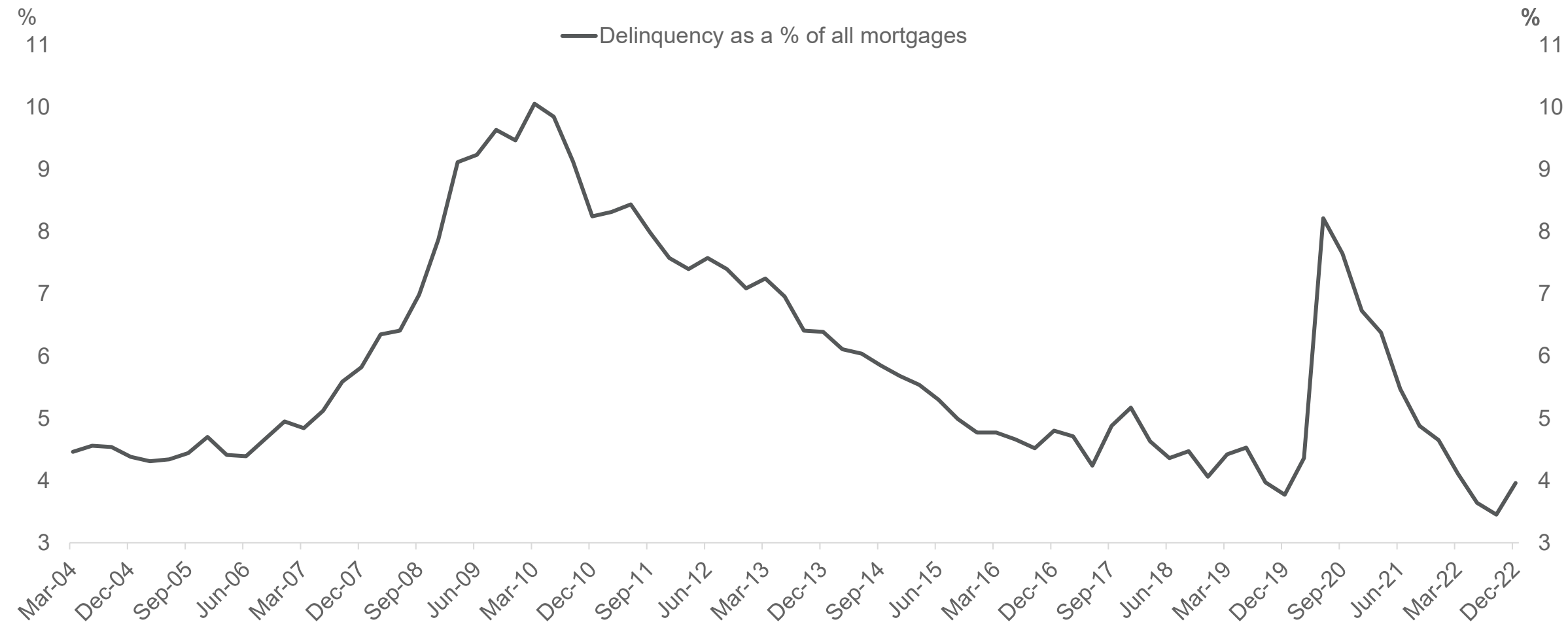
Homeownership rate moving gradually higher



Low unemployment is a significant tailwind to housing demand

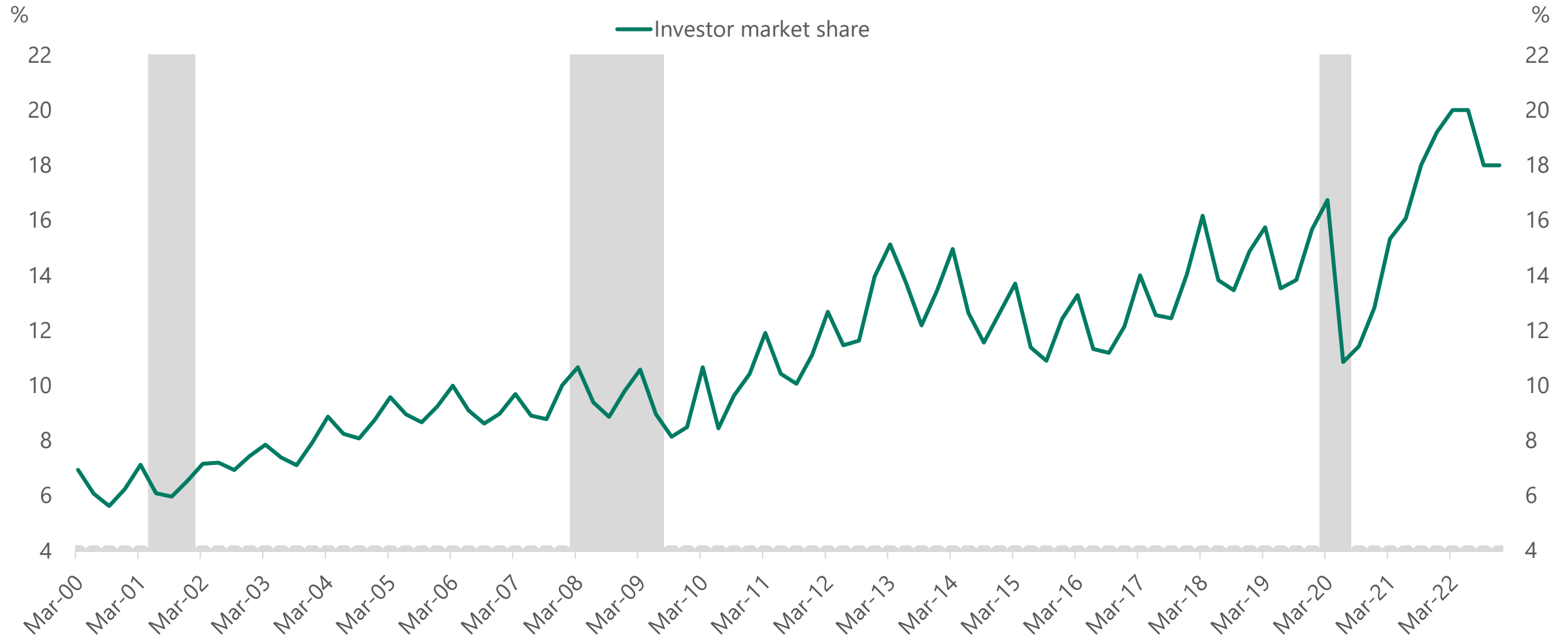


Delinquent mortgages still low

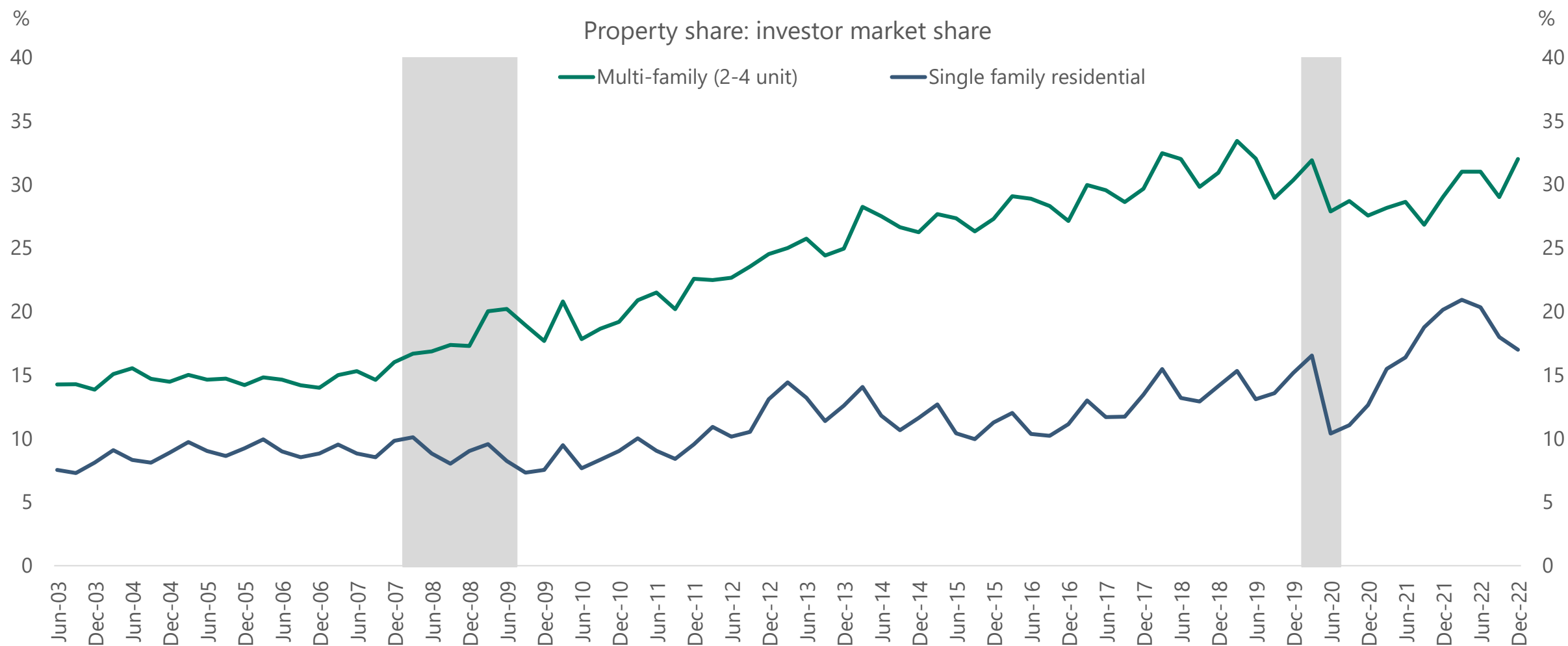


Source: Bloomberg, Apollo Chief Economist

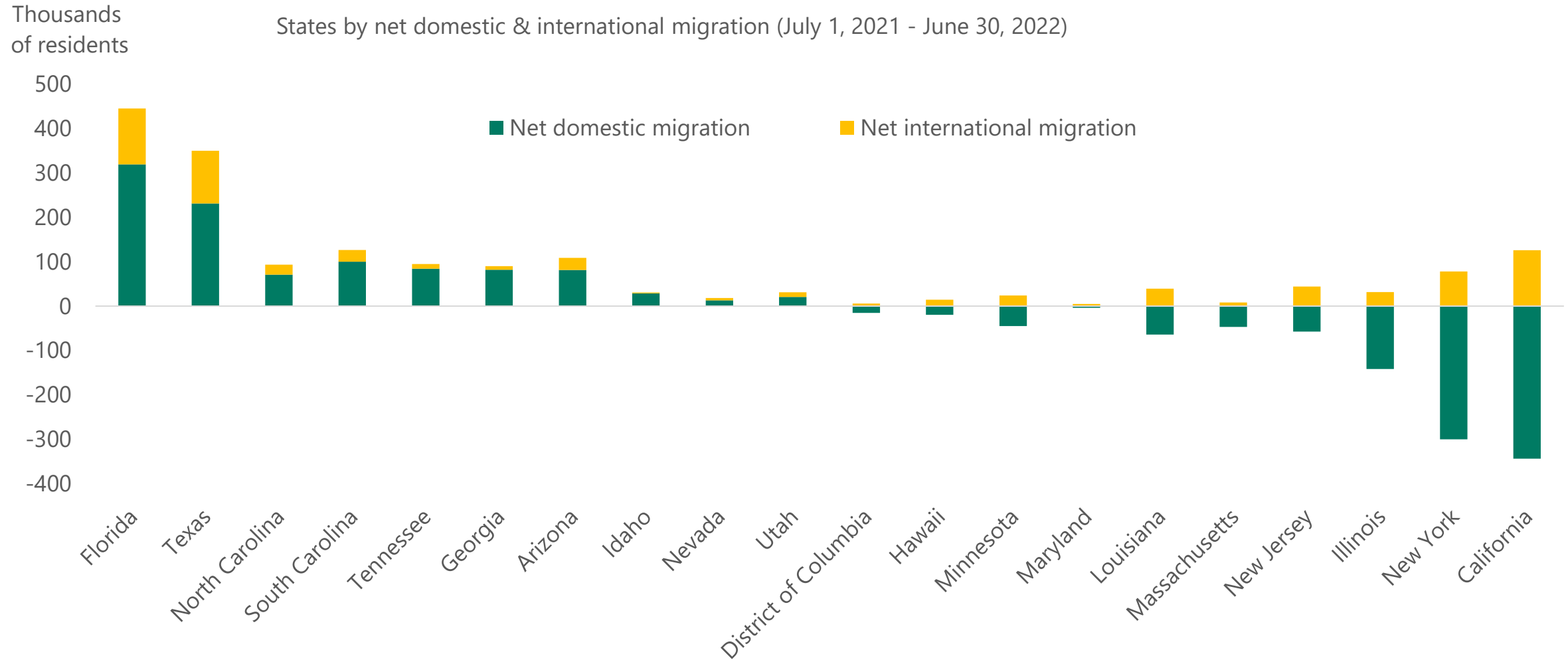
Investors accounting for 18% of all home purchases



Investor share of multi family trending higher

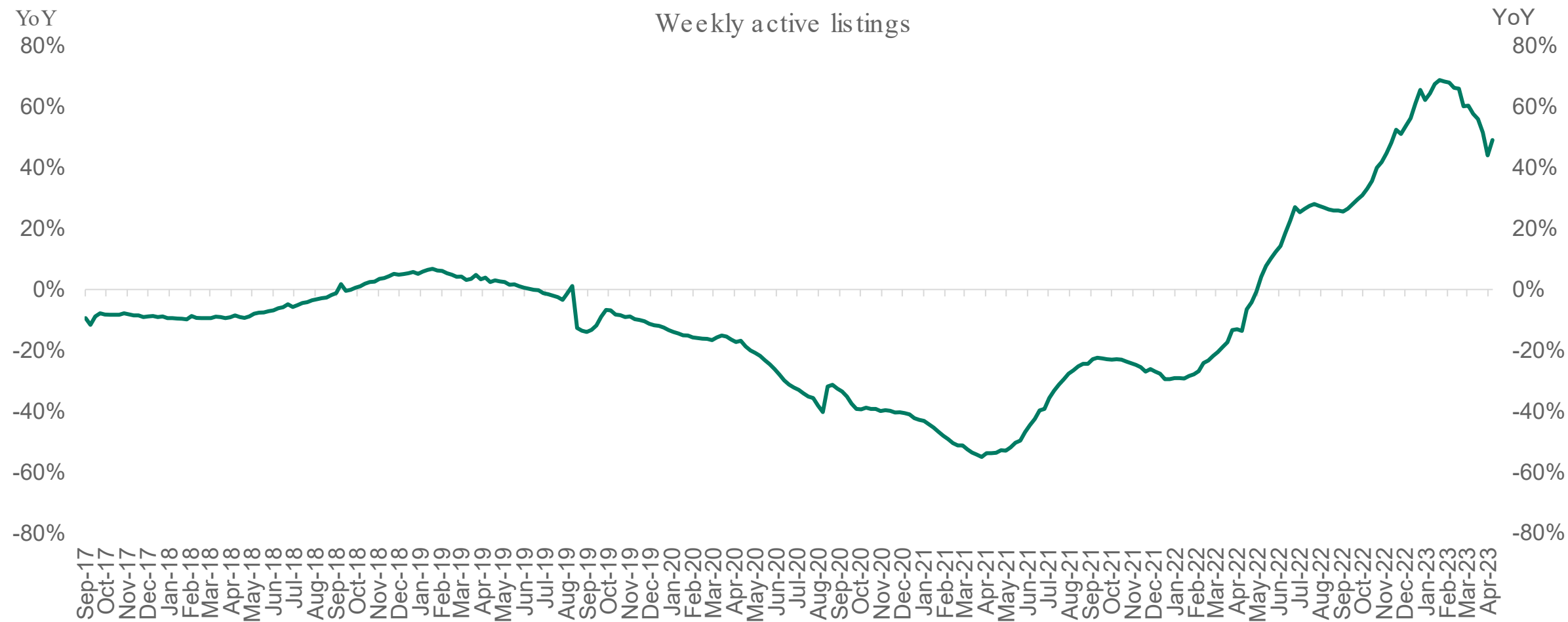


Migration out of California and migration into Florida during the pandemic



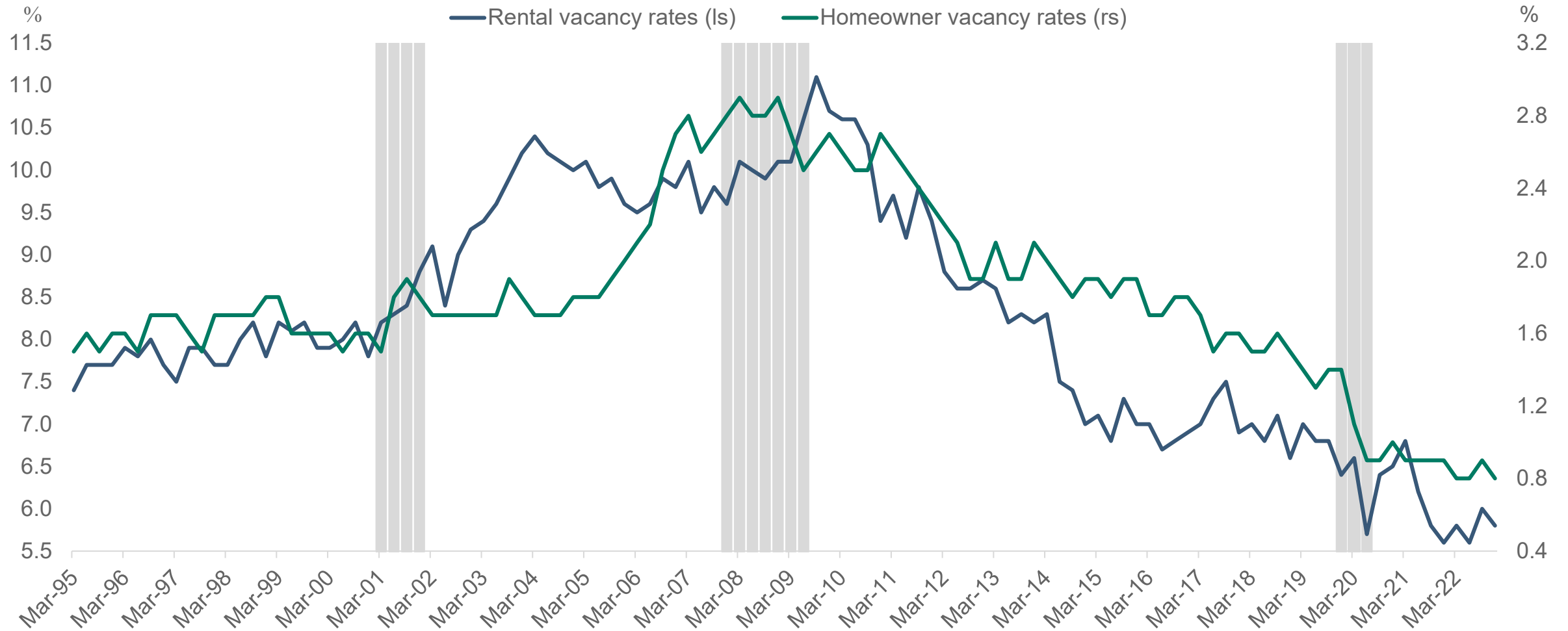
2) Housing Supply: Housing supply is low, construction near record-high levels

US housing inventory rising from low level

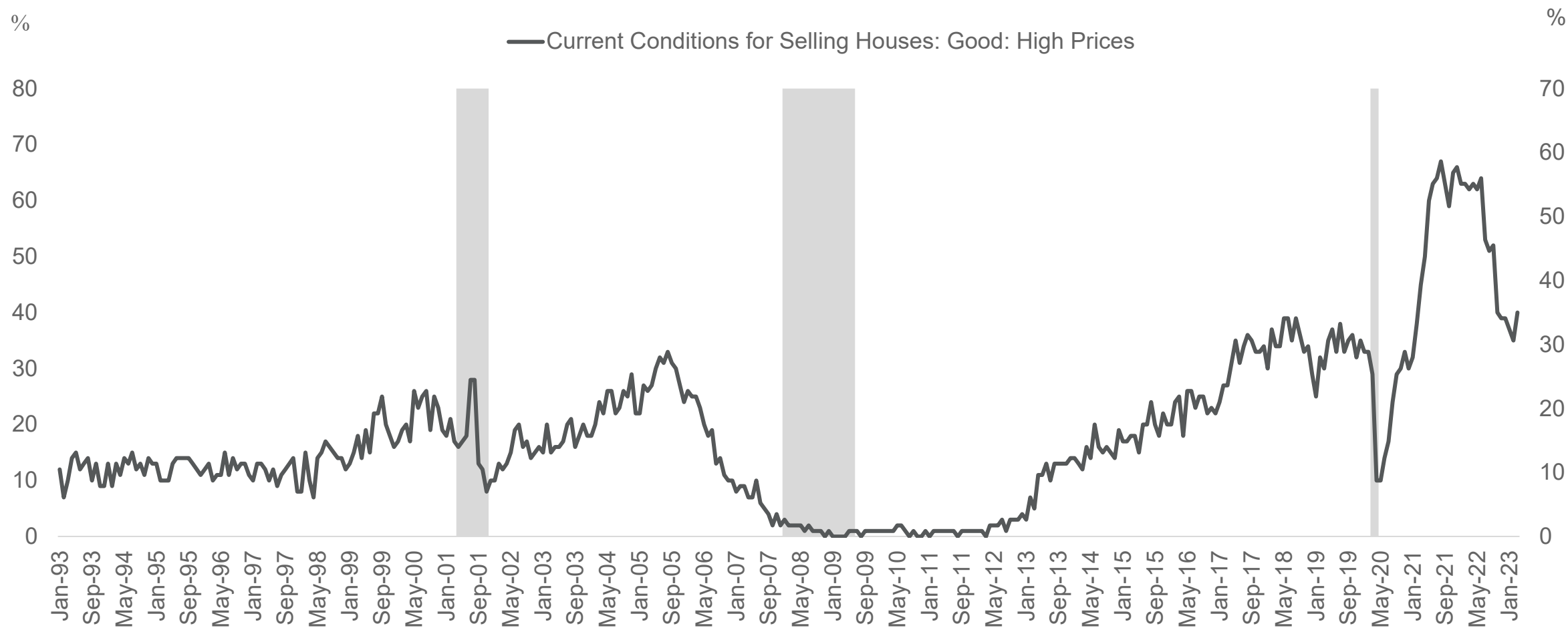


Source: Realtor.com, Apollo Chief Economist

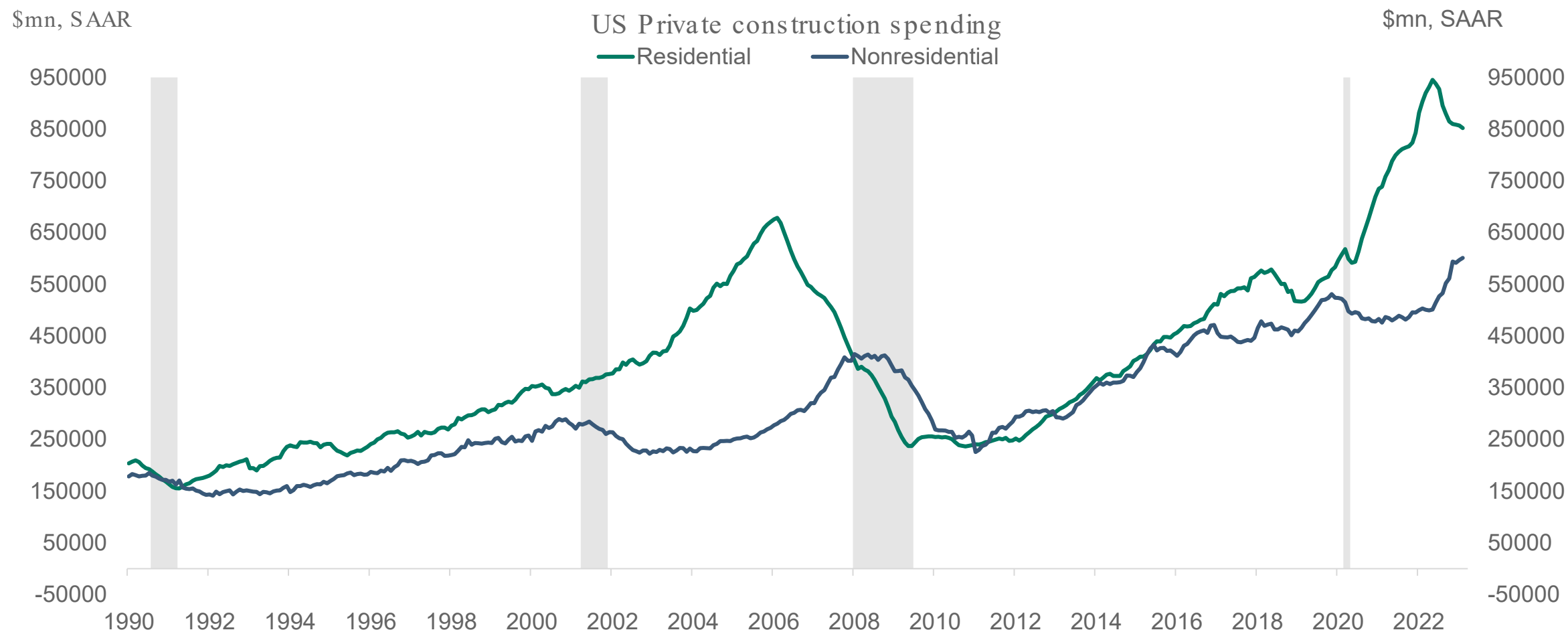
Vacancy rates at record-low levels



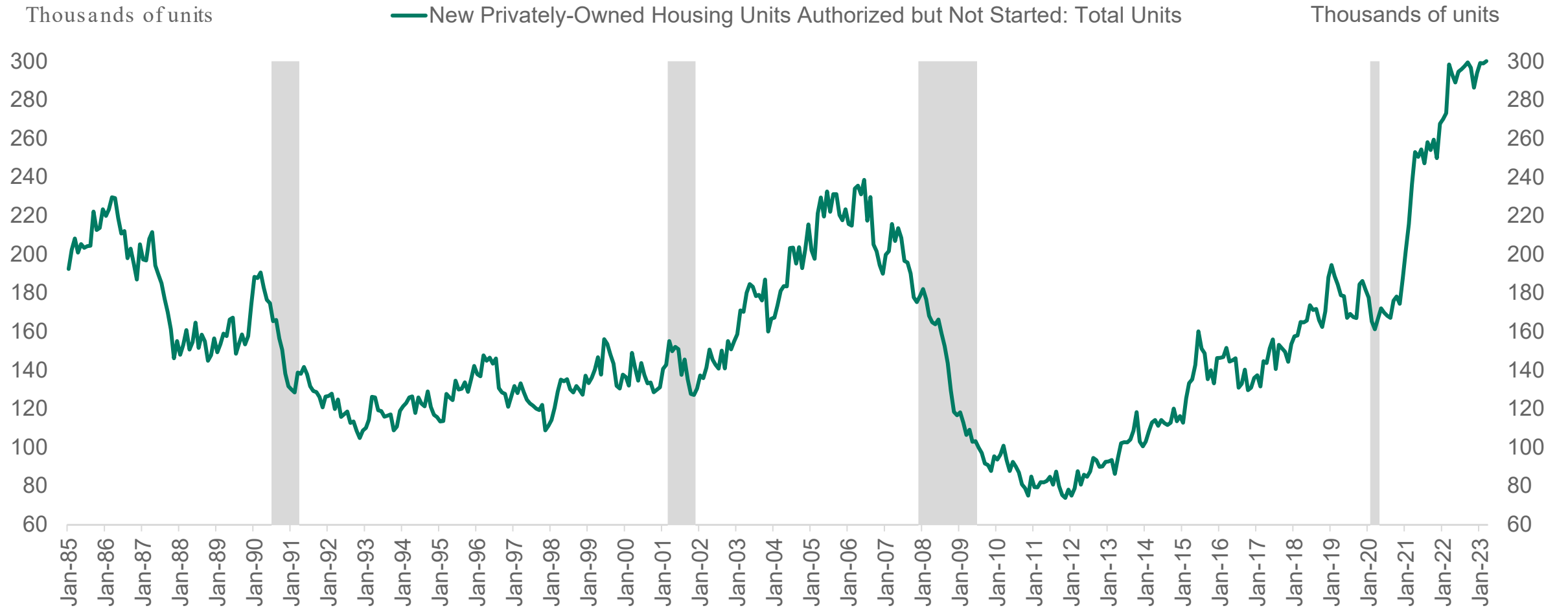
Consumers saying “This is a good time to sell a house” coming down



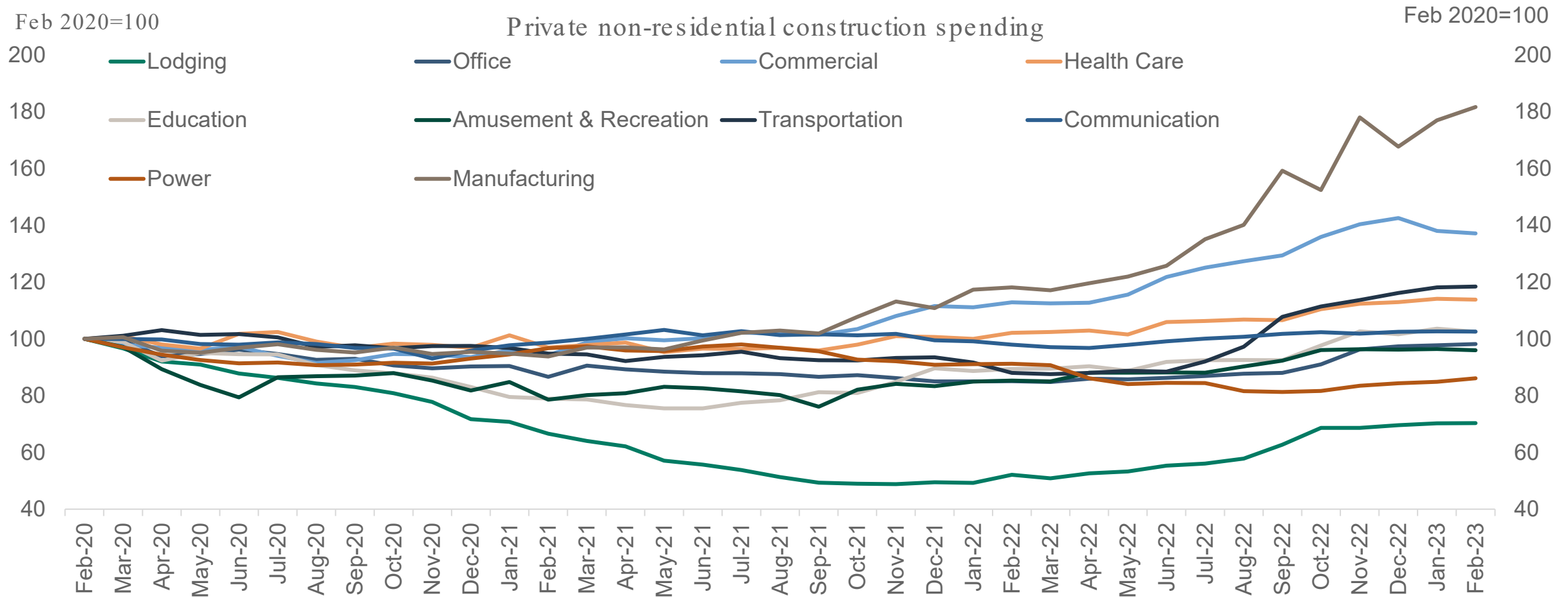
Residential construction spending coming down from recent peak



New housing units authorized near record highs

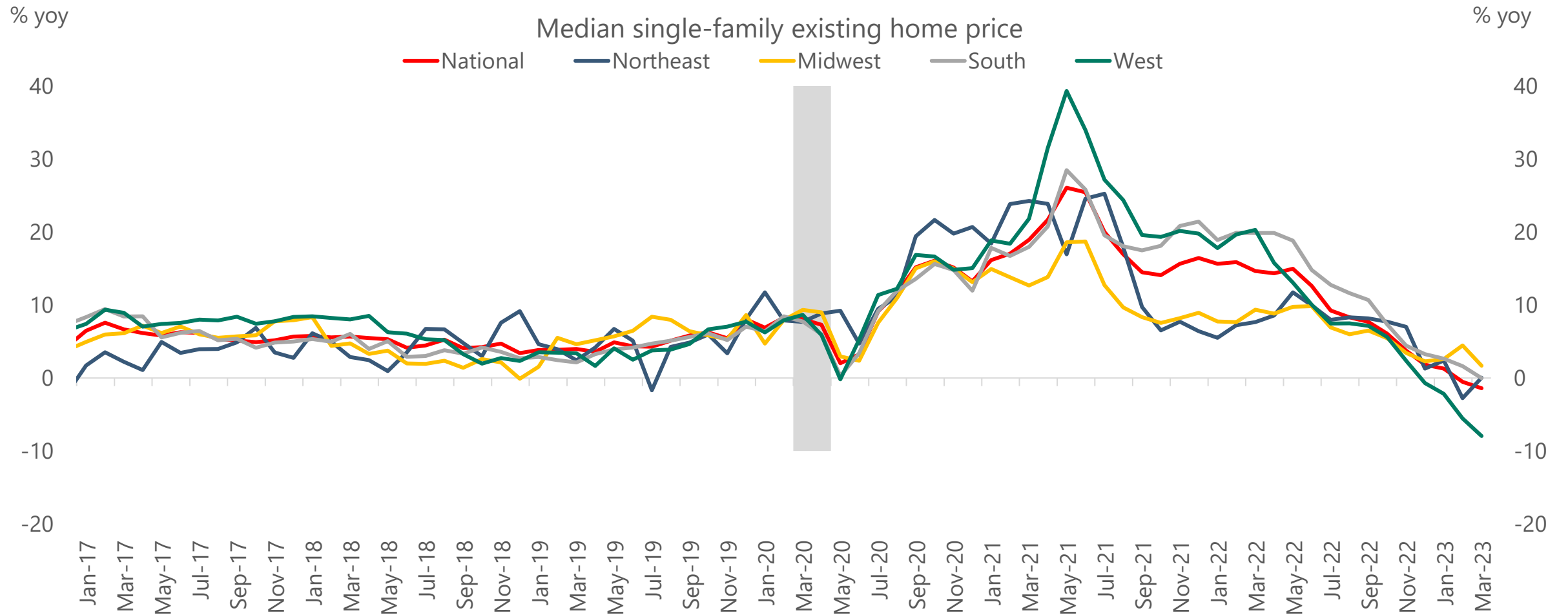


The biggest decline in non-residential construction has been in lodging

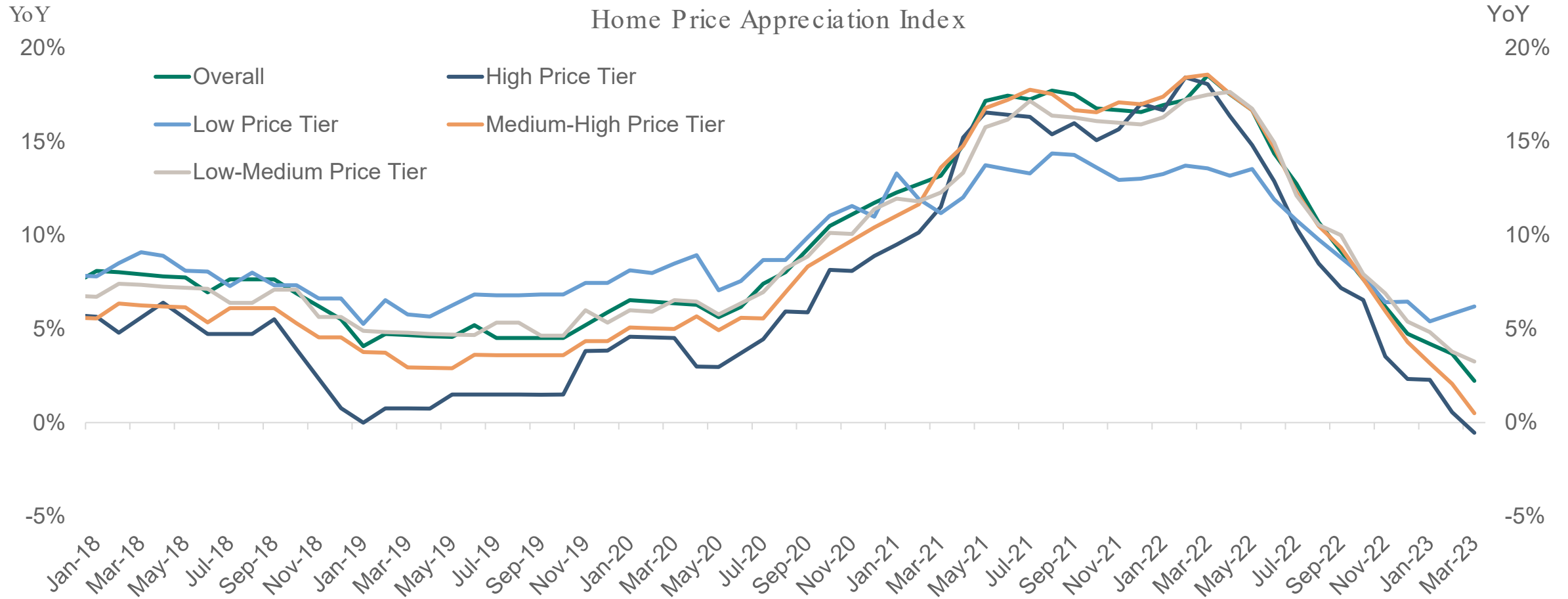


3) House Prices: Home price
inflation slowing down

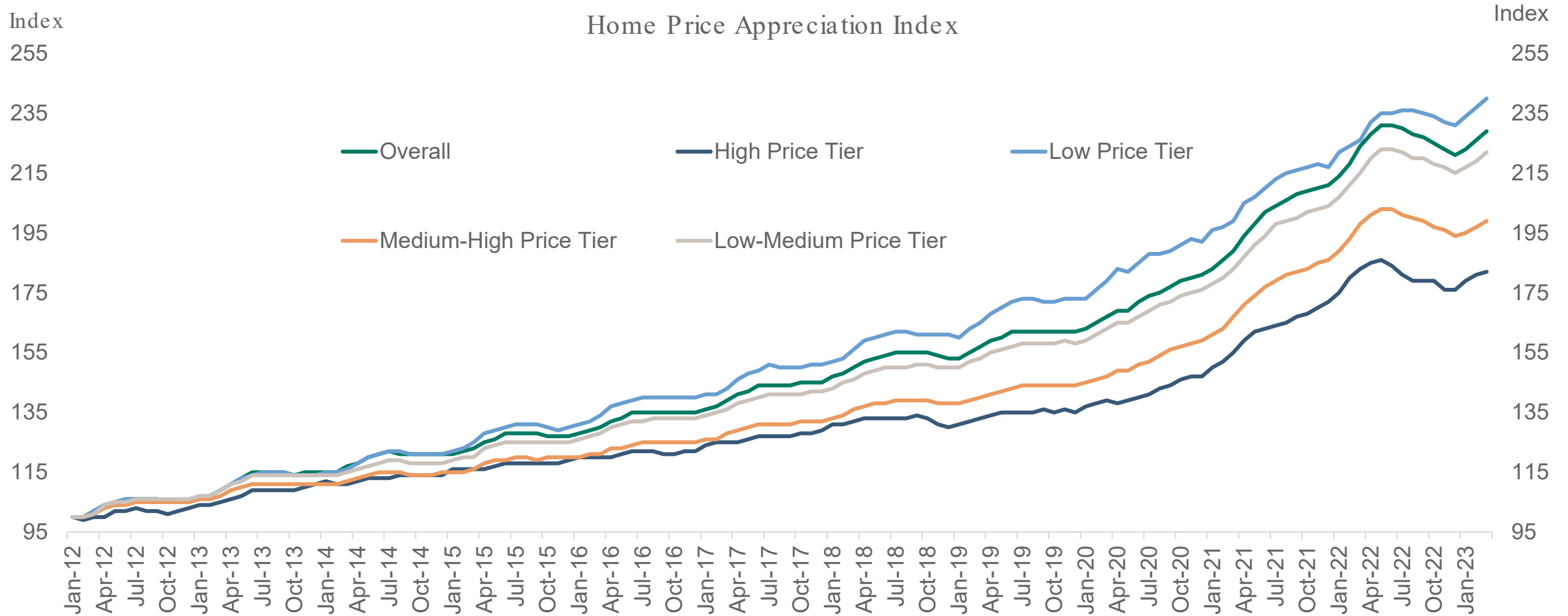
Home price inflation coming down



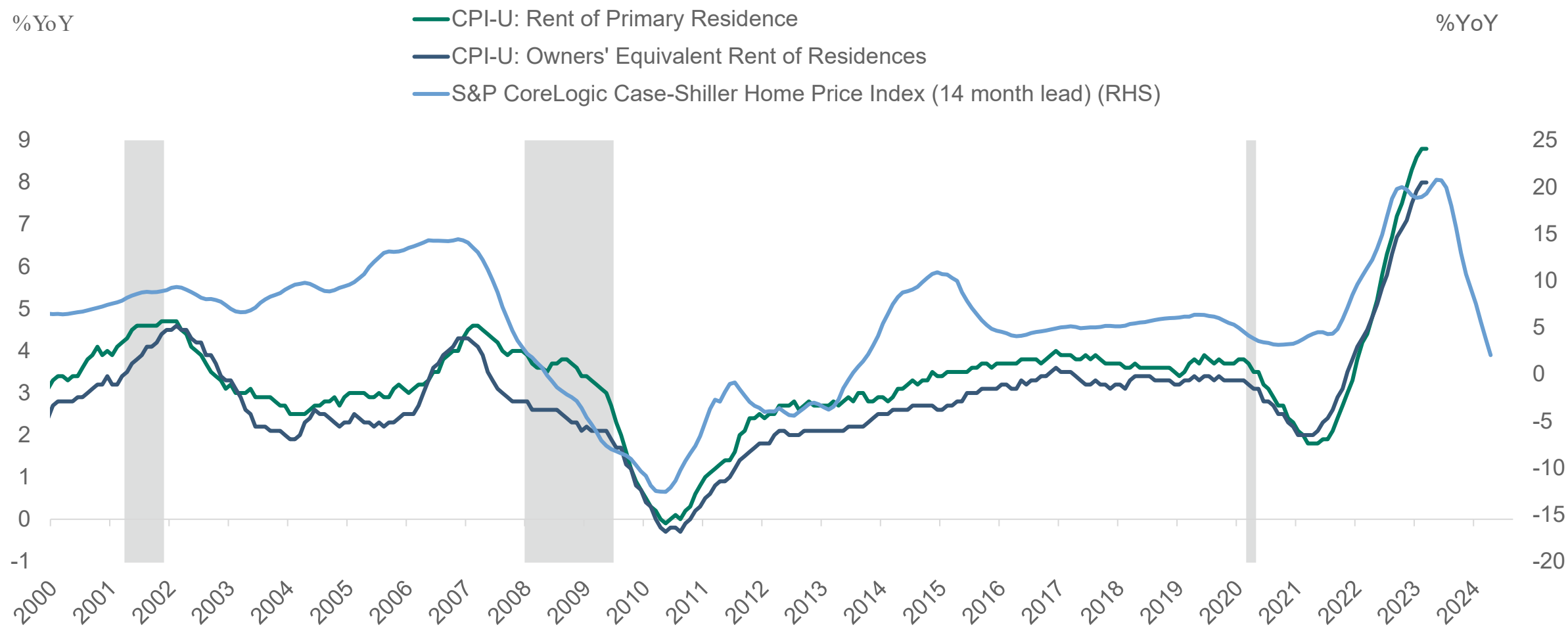
House price inflation slowing across price tiers



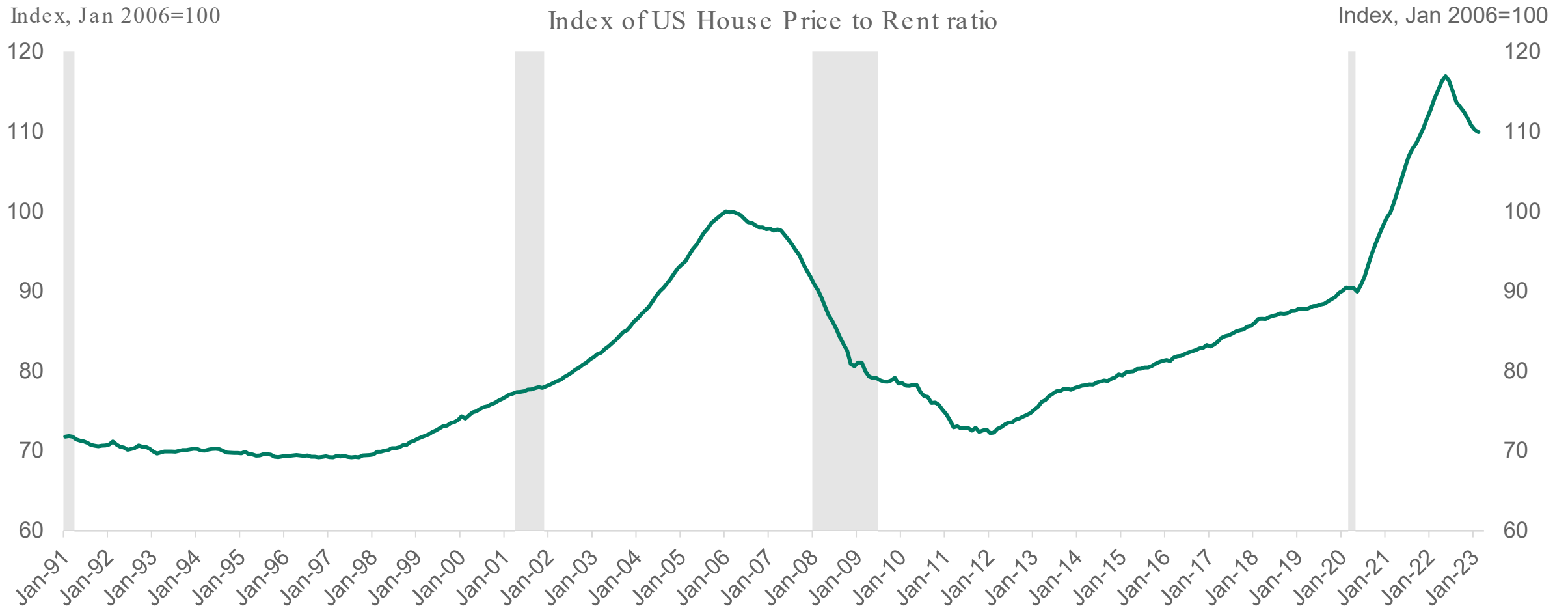
House price inflation slowing across price tiers



Home price inflation has peaked



Home price to rent ratio significantly above 2006 levels

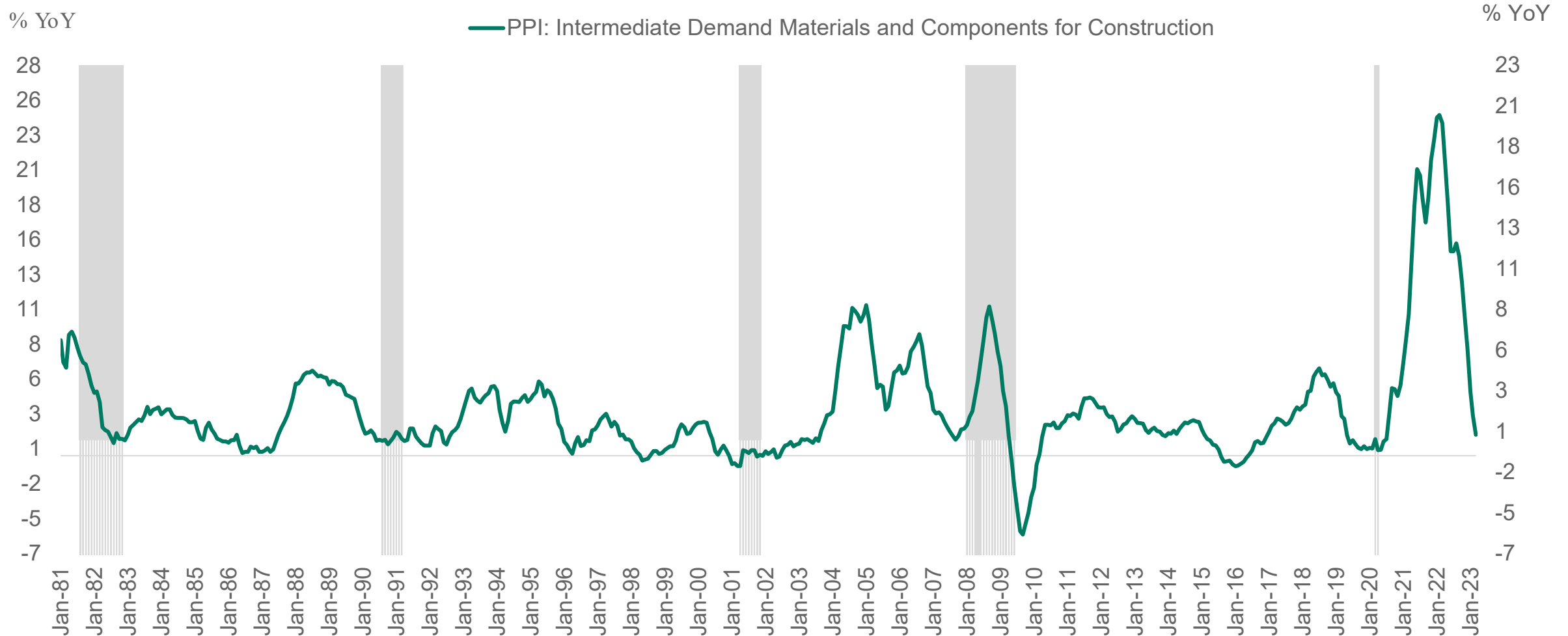


4) Housing Outlook: Elevated interest rates, high home prices, strong supply pipeline, and high building costs are risks to this housing cycle

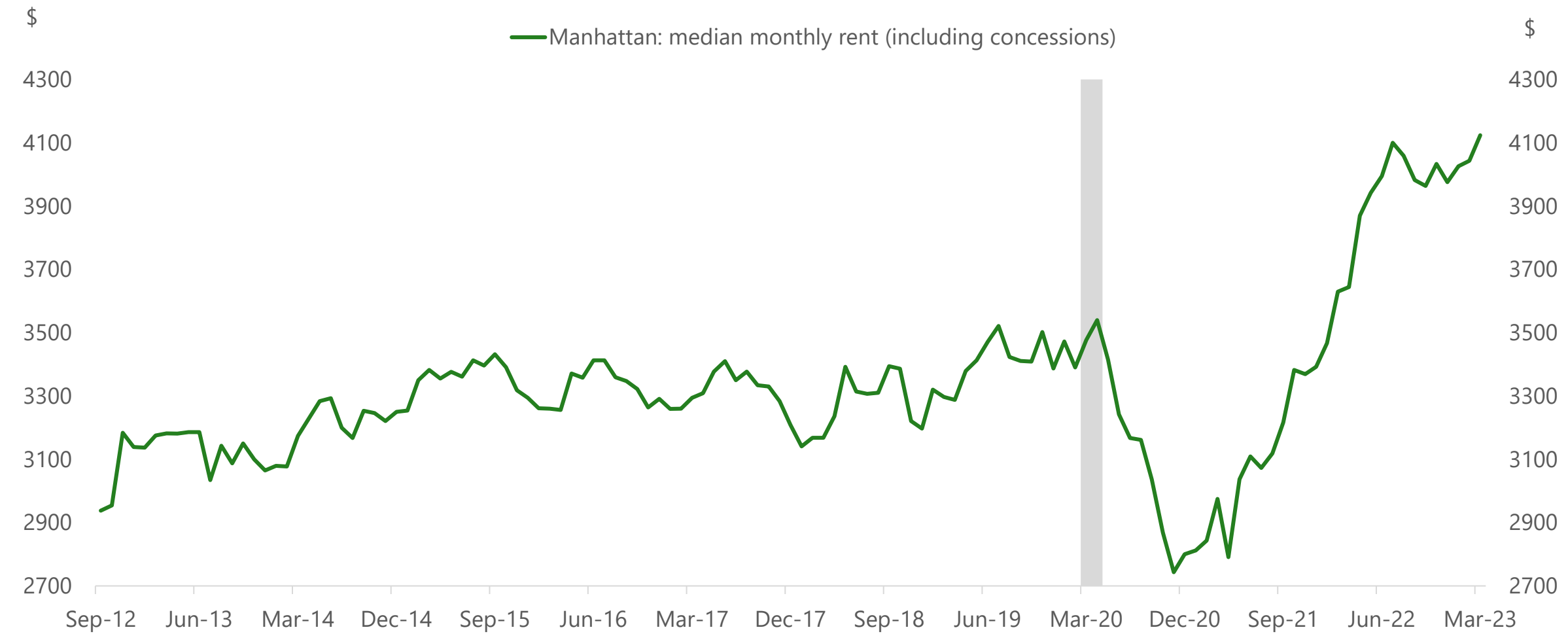
Housing construction costs are high



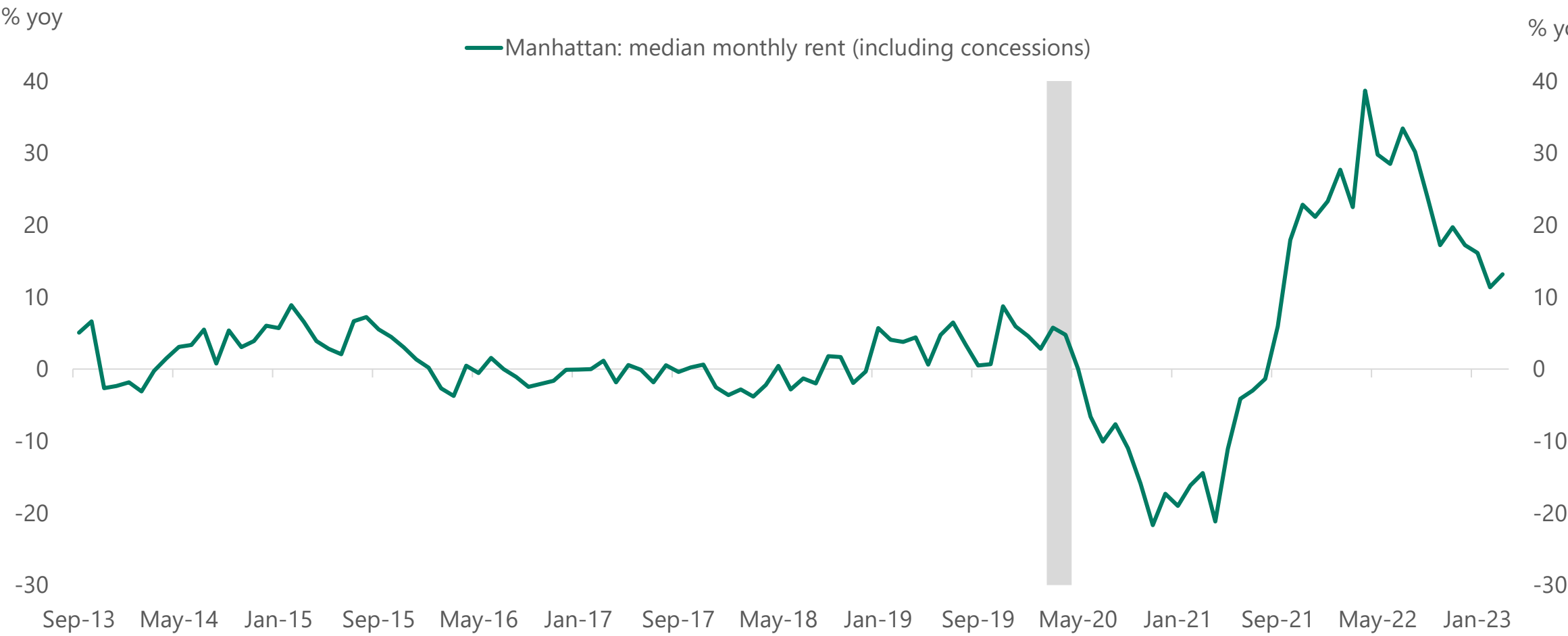
Inflation in input costs for home builders declining sharply



Manhattan median rent at a new high at \$4124 in March 2023

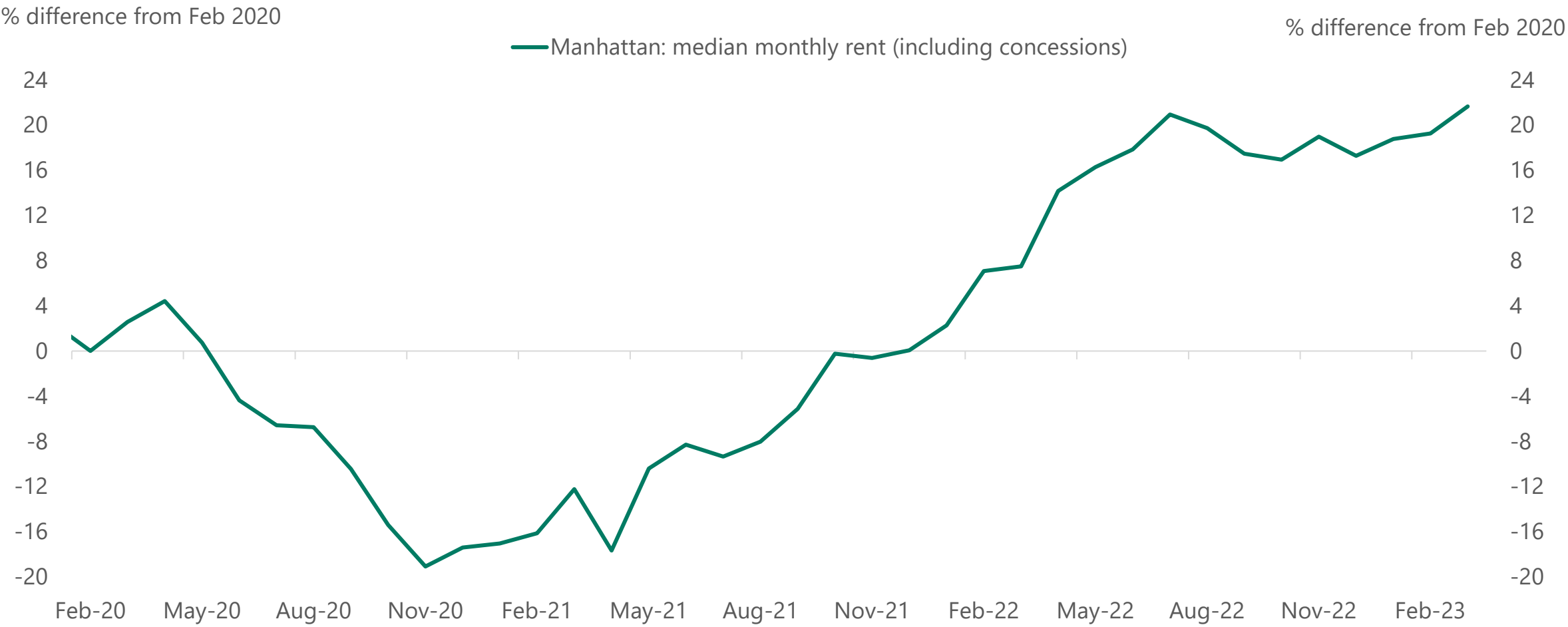


Manhattan rents up 13% year-over-year

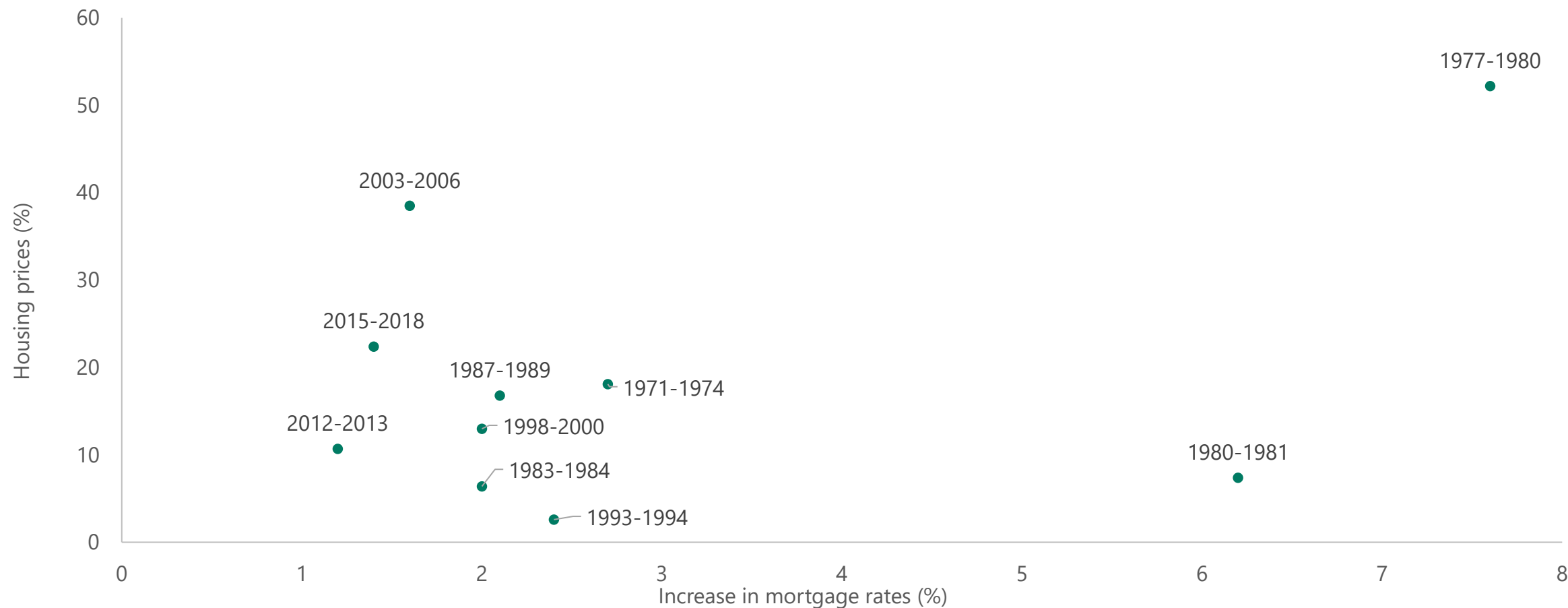


Source: Elliman, Apollo Chief Economist

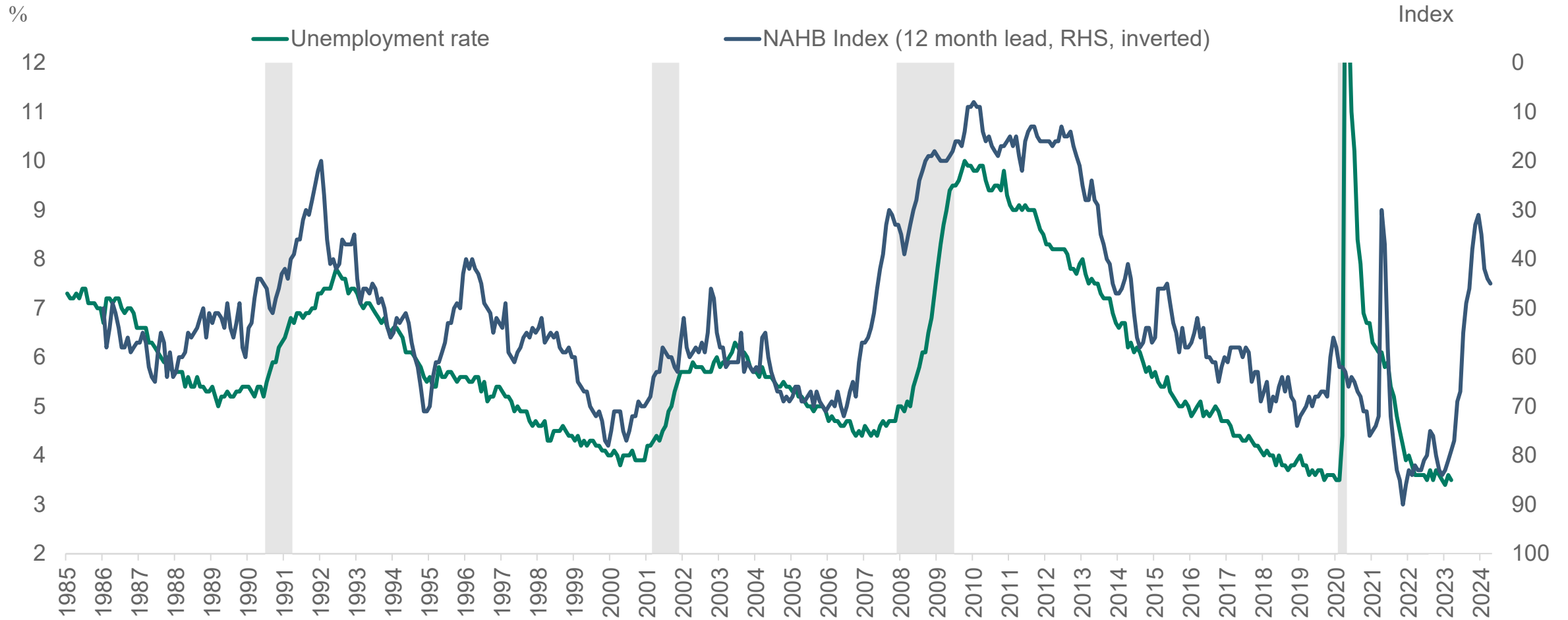
Manhattan rents above pre-pandemic levels



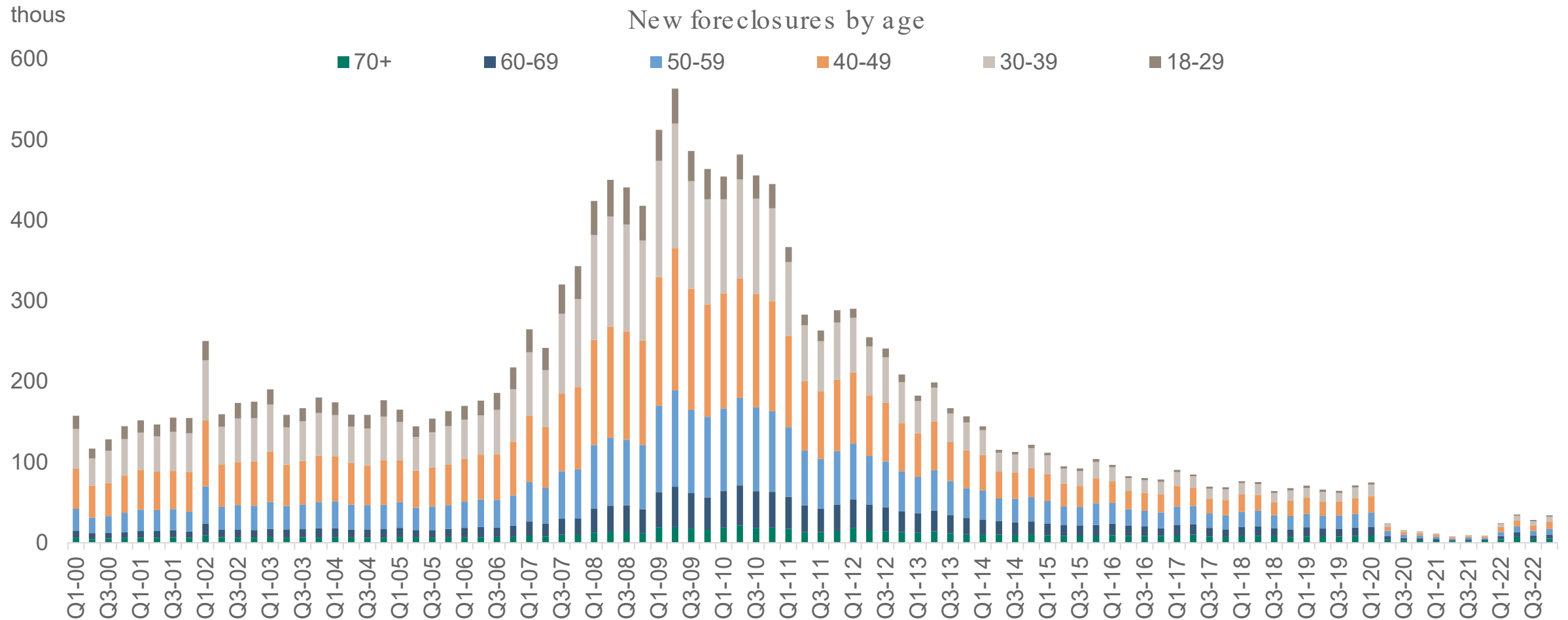
Rising mortgage rates generally associated with lower home price inflation



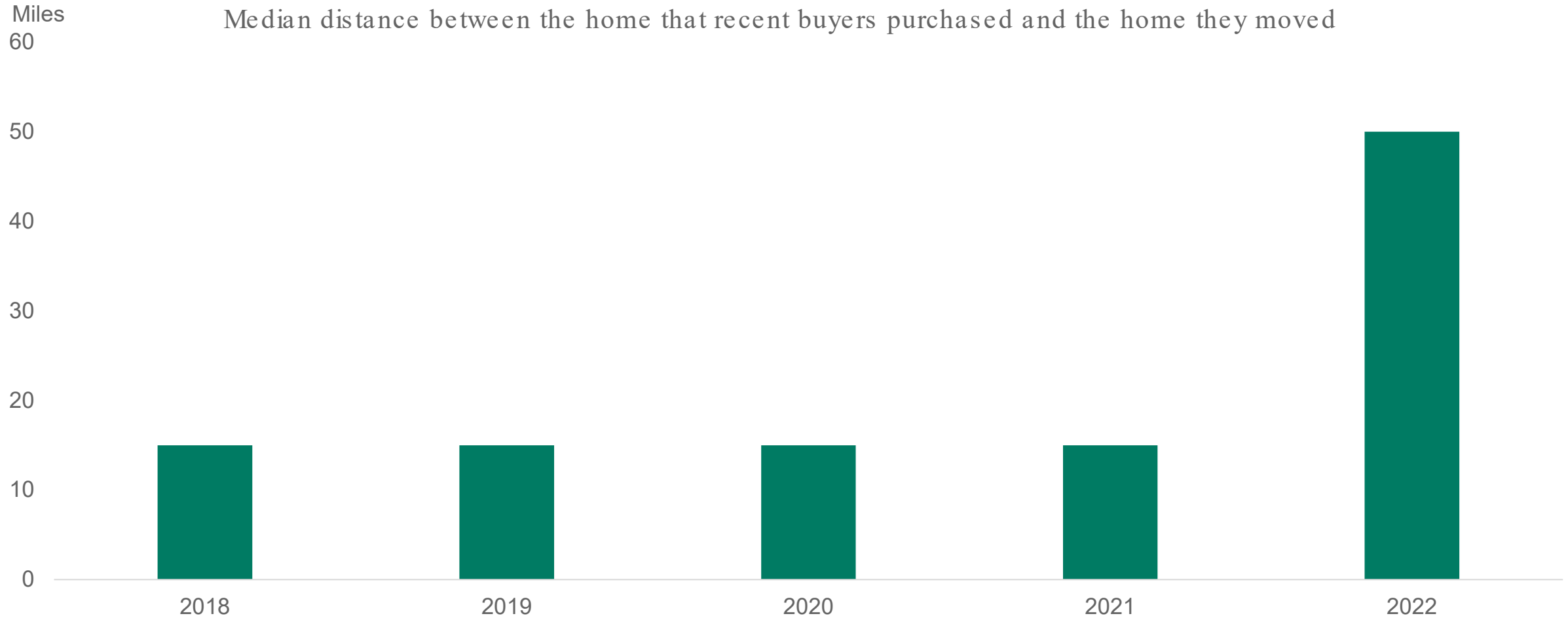
Some upside risks to the unemployment rate as the Fed raises interest rates



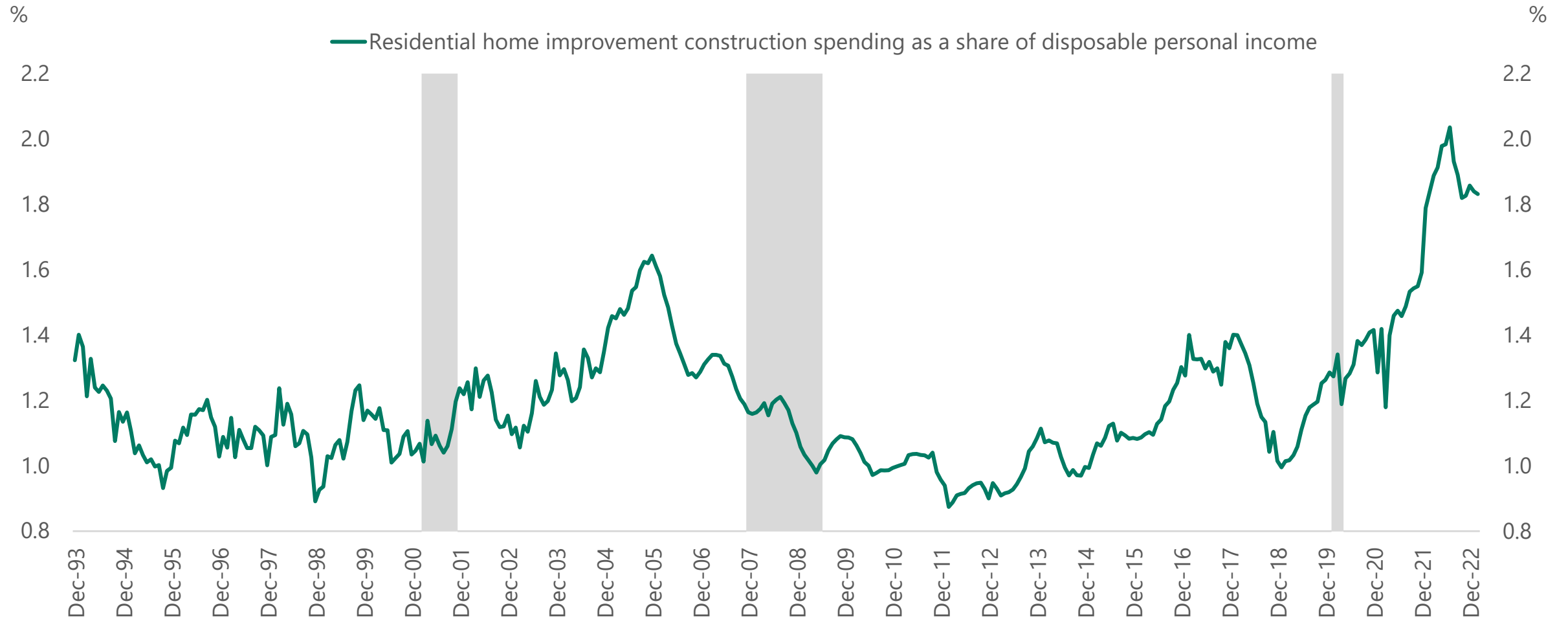
New foreclosures by age



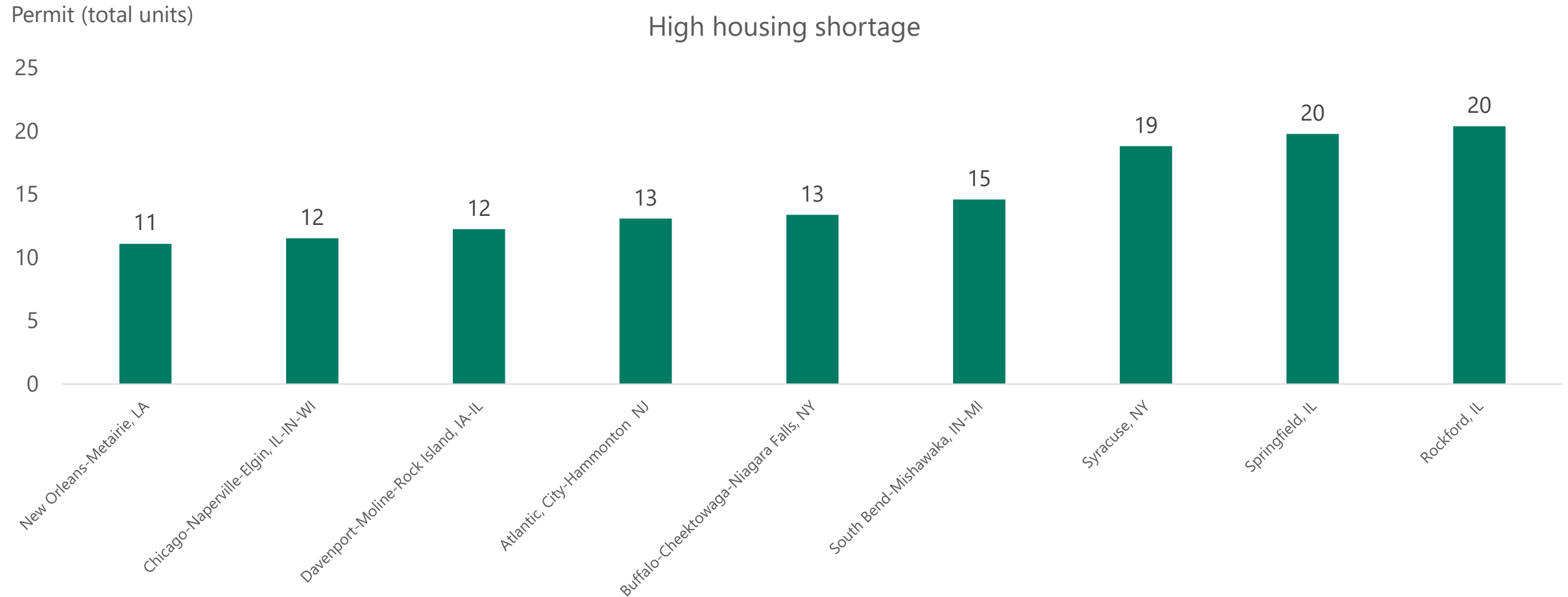
Median distance between the home that recent buyers purchased and the home they moved from at 50 miles in 2022



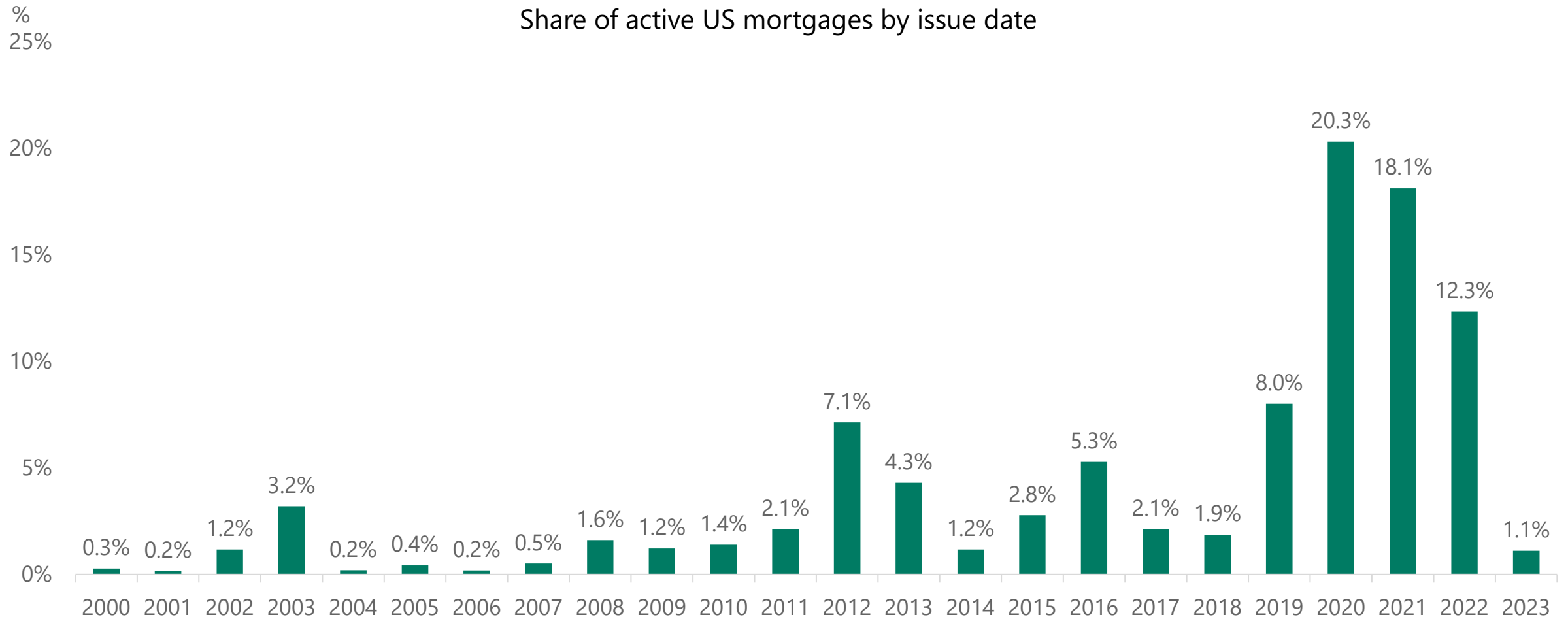
Home improvement spending near all-time high levels



Areas that need to build more houses in order to keep up with the increased demand

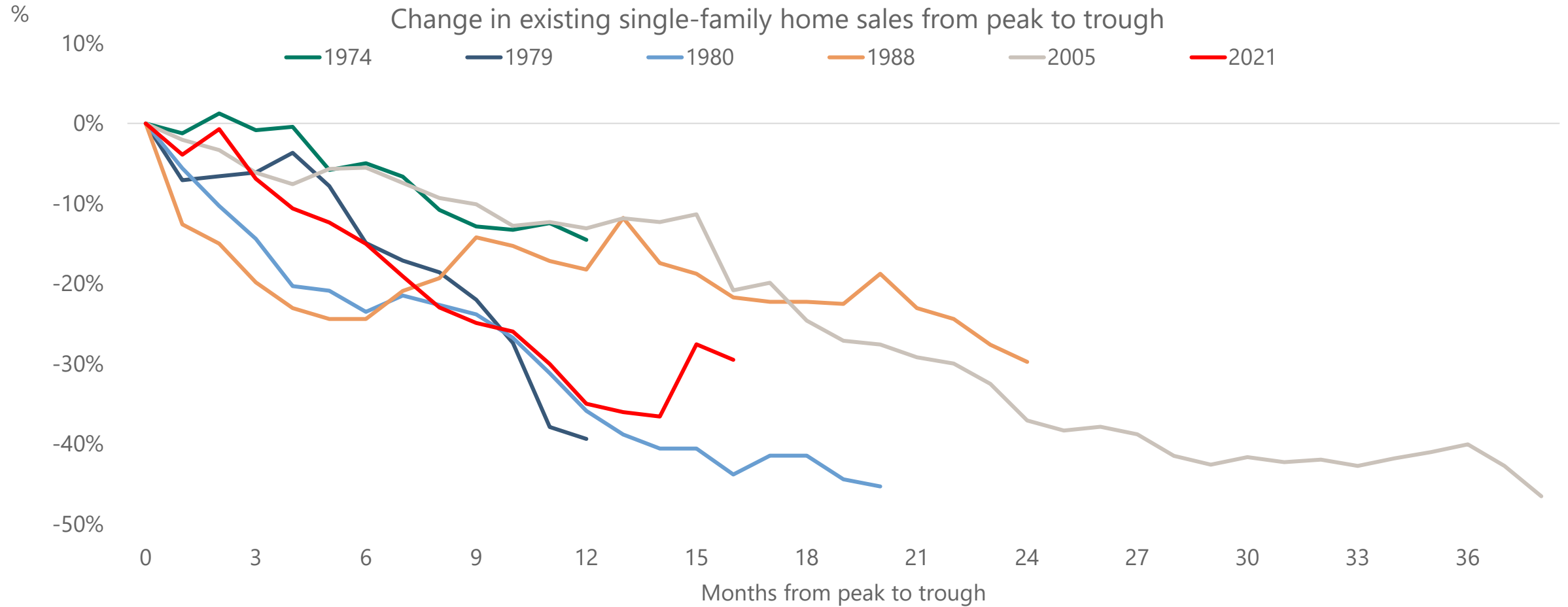


60% of all mortgages outstanding were issued after 2018

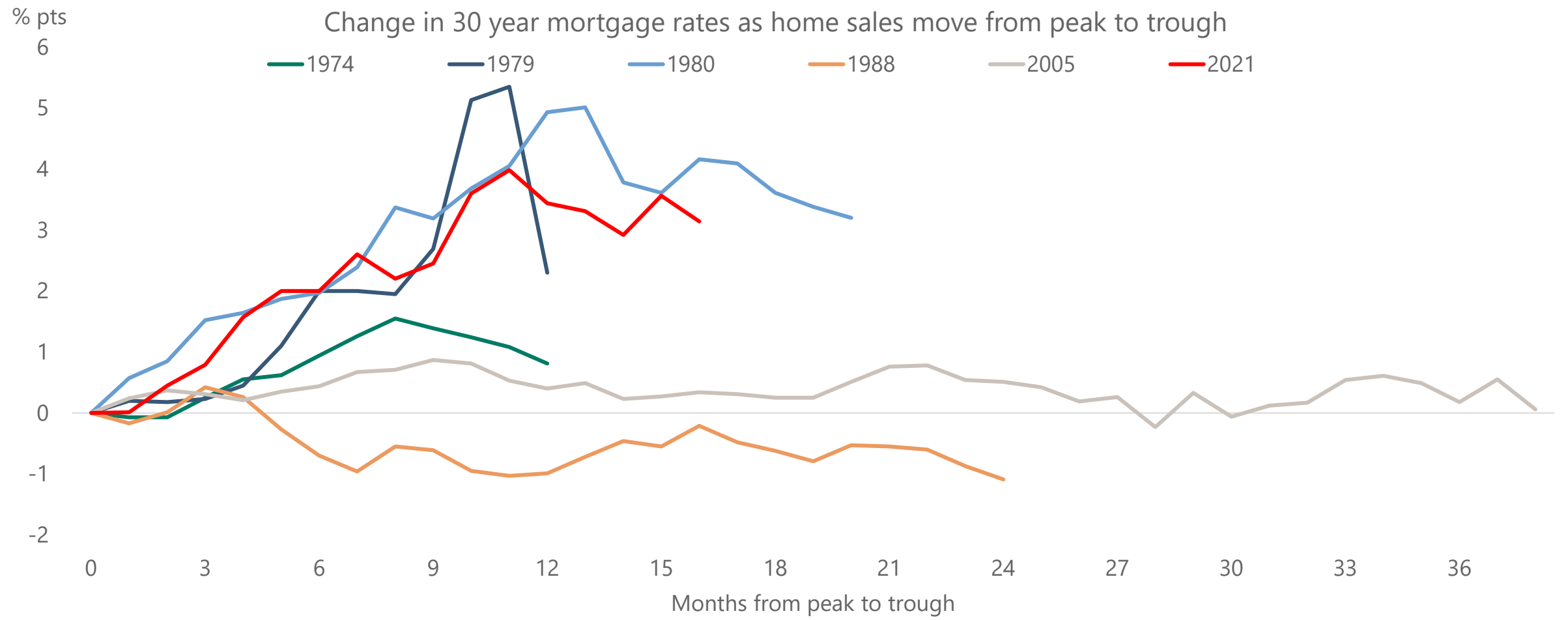


Comparing the current housing slowdown to previous housing slowdowns

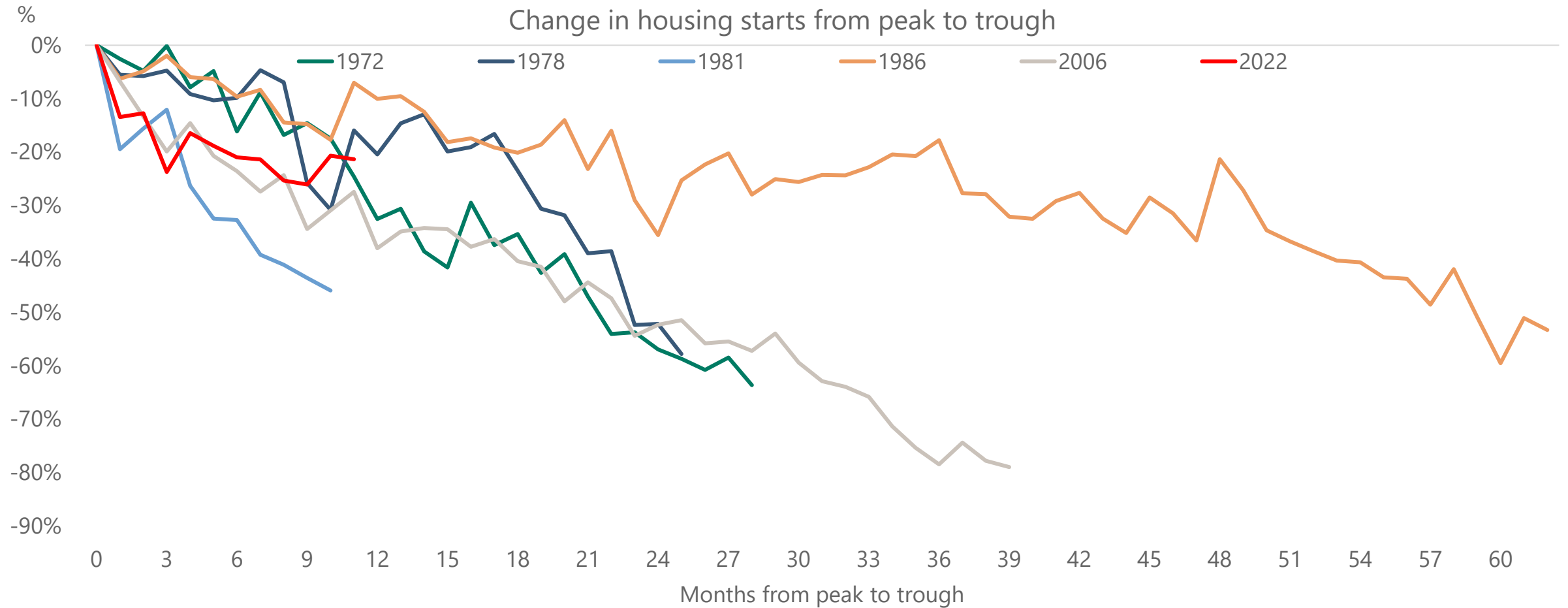
The current decline in existing home sales in line with previous housing slowdowns



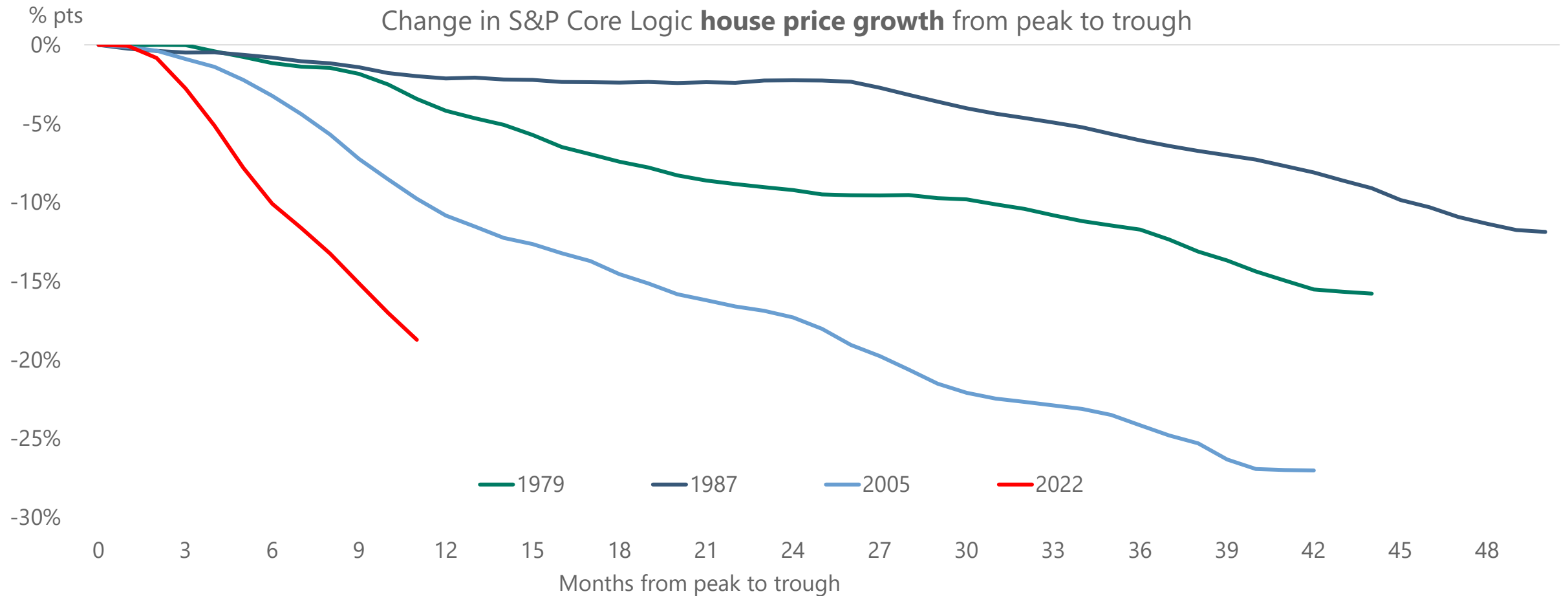
The current rise in mortgage rates is similar to what we saw during the Volcker disinflation



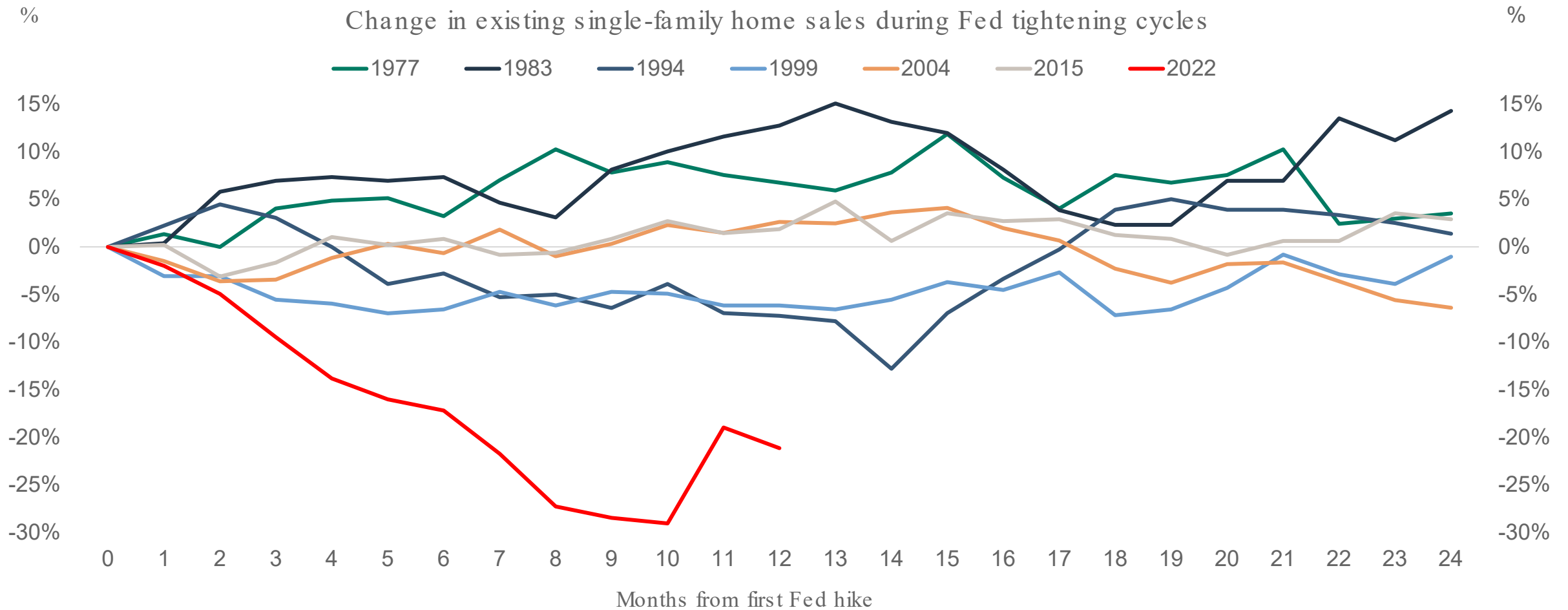
The current decline in housing starts follows pattern of previous slowdowns



The current slowdown in home price inflation is faster than usual



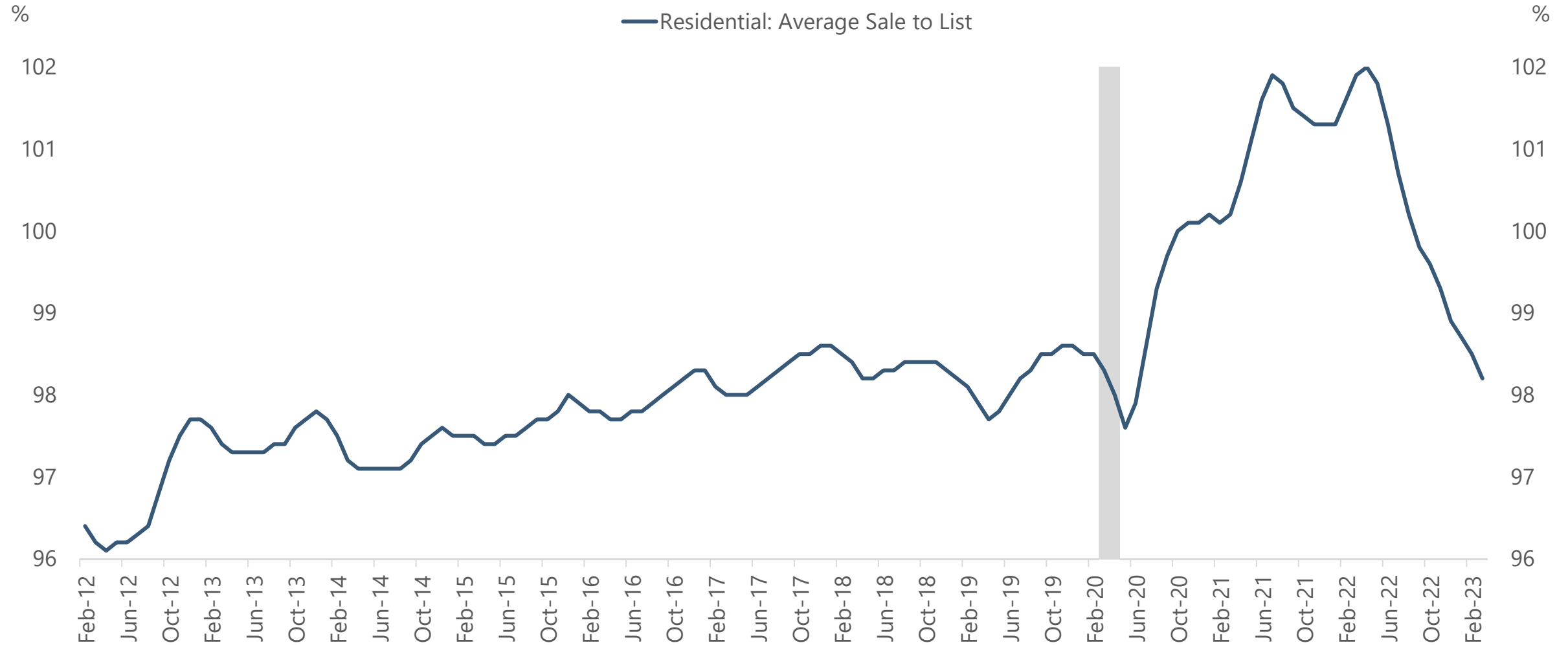
This is the fastest Fed-driven housing slowdown on record



Fewer people listing their home for sale in a down market



Post Covid, homes were sold for less than the list price





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Torsten Slok joined Apollo in August 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. 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.