The State of the Housing Market: Insights from Experts Logan Mohtashami, Dale Wettlaufer, and Ivy Zelman

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SPEAKERS

Ivy Zelman, Logan Mohtashami, Diego Sanchez, Dale Wettlaufer, Clayton Collins, Diego Sanchez

Clayton Collins 00:05

Good morning, everyone. We'll give folks just a second to get logged in, to zoom here before we kick off. Today's market update, a pretty epic market update on what's happening in the housing market. Just one second we'll get started. All right, oh, just drop the chat in the in the chat here. Good morning, everyone. I am Clayton Collins. I'm the CEO at housingwire, where I have the pleasure of leading one of the most exciting businesses in the housing market I've ever had the chance to be exposed to. And one of the reasons this is so exciting because I have the opportunity to speak with some of the smartest people in the housing economy leaders that are building businesses, analyzing markets, making decisions, and I've been around the financial services and housing industry for for quite a while now, and some of the folks that we're going to introduce to you today, I've been following since I started my career just Before the great financial crisis, and the perspectives that we're going to bring to the market today will help you inform how you operate your business, how you advise clients, how you answer questions about what's happening in the market, the broader financial market, as well as the housing market, which we are so focused on here At Housing Wire. For the folks that are just logging in, please drop a hello in the chat. Tell us where you're coming in from. We've got a lot of fabulous leaders from across the industry that I can already see popping in. Ryan Lundqvist, Ryan hills, Andrew, good folks. I'm just impressed with the folks that are giving us their time and energy this morning as we bring you the latest on the housing market. Once again, I'm Clayton Collins, and today I am honored to welcome three of the smartest housing experts out there to your stage, to your computer screen, to talk about the housing market. Mr. Logan moda Shami, lead analyst at Housing Wire, is going to be joining us for this conversation today, as well as an absolute legend, Ivy Zelman, who I mentioned earlier, we have some guests today that been following for quite a while, and Ivy has made some of the biggest, most important calls in the housing market during her career. She is somebody that every leader listens to. I'm so well, so happy to welcome Ivy to the stage, as well as Dale Wettlaufer. Dale is also going to bring some incredible perspectives as analysts as well as an investor. We joked before we came live today about paying our tuition on good and bad decisions, and that may come up in today's conversation. So for the folks that are just logging in, this is Housing Wire, and today we're going to talk about the housing market like we do every day of the year with our journalists that publish content and publish podcast and also produce amazing events like this virtual event today, as well as our big live events like the gathering, which we host every year, this summer, June, 8 through 11th, we're Welcoming over 1000 executives to Colorado Springs to have conversations really similar to this one. We have leaders from some of the biggest mortgage banks, real estate brokerages and investors joining us at the Broadmoor in Colorado Springs to talk about the decisions they're making and how they are running their playbook in this tumultuous and challenging year of 2025 so if you're not familiar with the gathering yet, we'll definitely drop a link in the chat and send out an email to welcome all of you to join us at our in person event where we get to have these conversations on stage, as well as over cocktails and around the really cool fire pits that are sprinkled all around the Broadmoor in Colorado Springs. So June 8 through 11th. I hope you can join us in person. But on that, I'm gonna pass the mic over to Diego. Sanchez. Diego is the president of HW media, and he's gonna help moderate this conversation today with Ivy Dale and Logan Diego, the floor is yours.

Diego Sanchez 04:19
Thanks so much. Clayton and I am incredibly pumped for today. This is a really exciting panel that is coming at just the critical time in our economy. So the way that we're going to structure this is we're going to have each of the panelists do a three to five minute opening statement, and then we'll follow that with a Q and A session that is going to be moderated by me. And the way that Q and A session is going to work is I have a bunch of seed questions that I would love to ask the panelists, but we'd also like to get questions from all. All of you who have, again, like Clayton said, taken time out of your busy schedule to join us this morning. So if you have questions as they come up, please drop them into the chat. We'd love to see them there. Or, I think you can hit the Q and A button at the bottom of your zoom screen, and I'll be able to check out those questions there. I won't be able to get to every question, but I'll try to filter and bring out some themes that I can ask these expert panelists. All right, so let's not delay any further. We're already five minutes into an hour that will go very, very quickly. Ivy, I'd love to start with you. You were one of the few analysts that predicted the housing crisis that led to the great financial crisis. You've been making tough and insightful housing market calls for several decades. You also published a memoir titled Gimme Shelter in 2021 love the stones reference maybe you could, you know, give us an overview of what you're thinking about housing now,

Ivy Zelman 06:07
Definitely. Well, good morning everyone, and thanks for having me die and Clayton pleasure to be on we have been cautious on housing, generally speaking, predominantly related to the risks that pricing is going to decelerate from the call it 4% annual pace that we had in 24 it's tough out there. I mean, we already had a very stretched market in terms of affordability being stretched. New homes have had a little bit less pressure, just because they've been builders have been predominantly buying down mortgage rates for 30 years. For the last two years, that's offset the lack of affordability. They're going to be challenged to keep doing that in an environment now where their gross margins are no longer at elevated levels post pandemic. I think the market is holding up better than I would have expected right now. It's what's happening with, you know, the administration's initiatives. But let's just say, prior to the last week plus, we had a sluggish spring selling season, and what we were seeing finally was the benefit from inventories nationally rising, although not much. But if you go into certain parts of the country, inventories, like in the state of Florida and in Texas, are up probably roughly 50% relative to where they were pre COVID, and that's an allowing turnover to re accelerate, and I think that's going to

continue to be the case. But the levers price, and part of the reason why we think pricing will be under pressure is that number one, you've got willing sellers, motivated sellers, that need to move on, but they also have choice. And the interesting thing is that where the markets are probably the most challenged, it's where production builders are most present, and production builders are motivated, and they're much better positioned in this period than they've ever been from their balance sheets, their cash flow generation, but they are motivated to move their spec inventory. And many of them have a strategy that they're basically manufacturers and assembly line, and they will move that inventory when it gets to a point they have, you know, dynamic pricing models where you'll go green, yellow, red, red. You're going to sell it, you'll discount it, you'll reduce base price. And because of that, I think there's more volume, but the pricing is going to remain pressured, and incentives will remain elevated. And now it's probably starts will start pulling back. There's already builders trying to renegotiate land options, and I think land prices will have to reset. Land sellers have been very aggressive in keeping land prices elevated. So just a lot of moving parts and the tariff story, I think the builders in general are probably better positioned than any other part of the ecosystem because they don't have pricing power. They're going to push back on incentives, or, I'm sorry, on tariff price increases, and they have scale advantages that will allow them in the bigger builder situations to do so, but they're still going to have a lot of pressure as it relates to land that's was bought pre COVID, I'm sorry, post COVID, that's now going to be hitting the P and L and the continued incentives to try to drive that volume, but I'm a little bit more optimistic that the turnover in the existing market will start to see a little bit of share shift back to existing homes if that inventory remains elevated, but certainly it won't be necessarily a good thing if you're the seller that you have to reduce your price, but it could become more opportunistic for will buyers that have been on the sidelines Hope that helps?

Diego Sanchez 09:36
Yeah, that's great, and I can't wait to dig in on that a little bit. But before we do that, let's go to Dale. Dale is really the catalyst for us having this panel today. Him and Logan pulled it together after some some chats on Twitter and other social media. Dale is a partner at Bleecker Street, capital. Dale take it away.

Dale Wettlaufer 09:58
Good morning. If. Say anything that's crazy or stupid, I'm appearing as Dale Wettlaufer, the individual. If I say anything useful and intelligent. I'm appearing on behalf of Bleeker Street, capital. I first met Ivy 20 plus years ago. I was a young analyst working under Bill Miller at like, Mason Capital Management, and he went pretty deep on the builders. And I'm sitting there like, oh, five times earnings and pre cash flow yield of 20% isn't as great. And Ivy came into the office First Boston, or 2004 so, and after a couple years of hearing her pitch every nine months or so, you know, of course, she's got superior data and experience, I'm like, Huh? You know, maybe I shouldn't quite be as bullish. But when you're a young analyst working under a legend at a huge $75 billion mutual fund, you you know, gotta ride the wave. But so I went to so I paid, I paid my tuition, or actually, like Mason paid my tuition. And home builders 20 years ago, and so we got short two years ago, toll was one of the primary things, and I can't talk about our current exposures, but I was looking at home price appreciation versus cogs. And what a lot of equity generalists don't understand is that today's cogs for a long lead time, builders such as toll reflect development dirt and development costs that existed four years ago. So we've had inflation of all sorts, both on the dirt and and on the soft cost end, and that's a bad thing. Ivy just gave the rundown on

home price appreciation. That's a that's that's something and you can't look at national aggregates. You really need a good firm like Zelman to give you a viewpoint on what's happening in Sarasota, what's happening in Naples, California and Washington state. And so, you know, they, they have the texture on that. And I was sort of picking up on that. But So right now, you know, we believe that cogs per unit will will go up and pretty hardly, and that's before deportation and the tariffs and everything else. We were also for something called builders first source, which is a big supplier to that sector, on the hypothesis that the big production builders will take their extraordinarily high profit margins at builders first source and just beat them into the ground. You know, I mean, they are, it's the builders that are closest to the customer, and then builders first source is one step back. We've already seen a margin decline there. And, you know, estimates have come down a lot, but we, we believe that the ultimate price on that security is probably lower here. Now, I haven't checked the news in the last 10 minutes, so I'm not sure what's going on in the world. But as as I understand it, as I look at the rate curve today, it's it shifted negatively. Again, corporate credit is is well under control, but it's in a it's in a downtrend. Google, Google's credit is actually underperformed. Procter and Gamble your entire General Motors, Citigroup, city groups. Credit is hanging in there, so I would caution or advise people watching this telecast to look at corporate credit, what's going on the spreads, what's going on with the with their yield curve? So I've used a lot of time here, and I'm going to save some some elements for later, but thank you for having me on. It's great to be here.

Diego Sanchez 13:22
Thank you, Dale again. Can't wait to dig in on some of that stuff. But first, let's go to Logan. Logan motoshame is housing wires lead analyst, and from my perspective, has really been close to spot on about housing since his America is back column in April of 2020, love working with Logan. Him and I have great debates on our internal slack almost every day. Logan, take it away.

Logan Mohtashami 13:50
I am very happy so far in 2025, for the existing home sales market, the new home sales market. I'll touch a little bit later. But if somebody would have told me that rates would have stayed above 6.65% for most of the time, and we would have had positive purchase application data year to date, year over year, our weekly pending contracts are positive. Year over year, our total pending contracts are now positive. Year over year, inventory is up, new listings data is up, price growth is slowing down. I would have not taken that bet with elevated rates, but we are here, and unfortunately, rates have flipped on the aggressive side in the last few days. But if everything would have stayed constant, everyone's forecast would have been wrong for 2025 on sales growth, we were we were heading it away. And I always like to say this market reminds me of the 1980s 1980s we had a double dip, recession, home sales crash. Affordability was worse. Sales were depressed for many, many years, then rates fell. And because we are working from such a low bar, and I always say this is the lowest home sales ever recorded in history, like when you adjust it to the labor force, it doesn't take much to move. The needle, and we were seeing that needle being moved with rates that I didn't think could do that. So if hypothetical, if mortgage rates could just get down towards 6% and have a little bit of duration, the sales growth is there. The price growth is cooling down. The inventory is growing. The unhealthy and the savagely unhealthy housing market I was talking about in 2020 2020, 2021 and early 2022 is gone. We're getting a more balanced marketplace, and we're working with the equilibrium of affordability, the 10 year yield mortgage rate spreads. It's a little bit chaotic since Liberation Day. Eventually we'll get

some kind of clarity there. But what I've saw this year on the existing home sales a plus so far. The builders, of course, we went into 2025 saying, this was the wild card for the economy. This was the area that was going to be stressed. Total units completed is up to around 120,000 if you look at the history of the builders, that's when things fade out. Their advantage of not going against lower inventory is gone. The South is where they spent so much money over the years. That place is being hit on affordability. The bigger builders have some profit margins still above 15% generally, for all the publicly traded companies, they can manage this better. The smaller builders will be stressed rates. If rates go well above 7% starts go down, permits go down. Even later, builders start laying off people. This is why we always focus on this, because it's tied to the economic cycle so positive. On the existing home sales side, outperforming, from what I was thinking about, but the builder side still looks stressed to me, and it doesn't help them, with rates going up, about 7% of their total costs gets imported. So to Ivy's point, they can manage it a little bit better than other sectors of the economy, but it just gets a little bit more interesting when chaos is the big variable. Now,

Diego Sanchez 16:53
Amazing. And thank you to the three of you for actually staying under five minutes. I think that was like four minutes a piece, amazing. So let's get right into it. You know, I've already had a really interesting question come in from the audience. I'm probably going to save that for question two or three. But if you have questions as we go through this, please drop them in the Q, a or in the chat and and I'll take a look at them. So first question, it's been nine days since Liberation Day. The S, p5, 100 is down 8% while the 10 year treasury yield is up over 9% I think as of 10 minutes ago, what's happening? What's going on? I'll start with Ivy.

Ivy Zelman 17:31
Well, I think the concern, you know, we have right now is the fact that rates are backing up as much as they are. And Scott percent, you know, treasurer has made it clear that part of the initiatives is to get the long end of the curve down, and whether that's the Chinese selling treasuries or other foreign owners selling whatever is causing the backup in rates, it's certainly a concern that that might continue with that said, I think that to where we're looking at so much uncertainty. So when we talk about the existing home sale turnover, we were optimistic as we started to see those pendings and overall purchase apps continuing to move higher. But I think that we are really shaking up the consumer we're going to see a lot of people step into the sidelines. We do a real estate broker survey along with a new home builder survey, and all of our gathering now is sort of day to day. We're calling and talking to people in our inner month, and what we're hearing is that there's a lot of concern about people just stepping to the side and or very motivated sellers reducing price pretty substantially. So I think we're going to see confidence, which really Trumps rates. If you look at the order of importance, you know, consumer doesn't feel good. They're going to probably pause if their job is at risk. They're certainly not going to be buying a house, and with rates at nearly seven if they can afford it, and they're feeling good about their personal situation, you could still see overall transactions happening, but I think that we're taking a chunk of confidence away from the consumer, and we're going to see people pause, and that's going to not be a positive for

Diego Sanchez 18:59

housing. Logan does. Does that drop in consumer confidence and investor confidence impact the bullishness that you've had about the spring housing market?

Logan Mohtashami 19:10
Well, first regarding the 10 year yield. I never thought the 10 year yield should have dropped as low as it did with the labor data. But when you, when you when you have an entire marketplace, a global marketplace not ready for Godzilla tariffs, and you get that major selling, and you're eventually, we're going to hear the name of the firm that just went under and had to get liquidate their their holdings. The short term is very chaotic. So the question is, when we go out for the next one week or one month, is this going to continue, or do we just snap a few fingers, make a few deals, and then things get back to play. So that is all not in any of our control. That's the administration. So we'll wait to see that. But so far, even with the trade war, even with consumer confidence, the Michigan index has been. Terrible. For some time, the purchase application data has still outperformed my expectations, so until I see that fade. Now, whenever you get a rate of change on the 10 year yield and rates, the growth that you see in the previous week tends to come down. But this is a very fast moving thing. You know, one one day this is happening the other day is that we're gonna have to look at every single thing that's being announced on a day to day basis and correlate it to the economic data, especially with weekly contracts, purchase apps and what sales is. And remember, with our data, we're about two three months ahead of the existing home sales market. So as of now, everything was good up until the last few days, and we'll see what the rate impact is going out in the future. Traditionally, when we have that reversal, it does impact the purchase application data. And the rest of the year will be very interesting in that dynamic between what the White House want, what the set wants, what the 10 year yield is doing, and what options do they have? Because the Federal Reserve presidents in the last 48 hours said, Don't look at us. We don't want to get a part of this. We still think this is somewhat orderly, and we don't want to intervene if this is how the Marketplace is acting, until we see real big collateral damage.

Diego Sanchez 21:13
Dale, do you think buyers?

Ivy Zelman 21:16
Sorry, I was just going to add to Logan, you know, recognizing, you know, you're looking at the last few weeks of data to make you feel a little bit more optimistic versus what you might have expected. But if you start to look at the market's pressure, you know, the wealth destruction, and what that means for consumers, I think we can look beyond and even if the turmoil subsides a bit, unless the market comes roaring back, I think we're we've taken a bite out of, you know, a lot of people's net worth, and it's going to keep them on the sidelines. So I would say your purchase apps could probably start to flatten out, even go negative in the environment of the next few weeks, unless we get a massive rally, or we start to see stabilization with with China's trade war, I think we're in for some very tough sailing right now. Question is, you know, if you like to see volume great, but it's going to be at the expense of price. And I don't know that we've ever seen a housing market really do well when pricing is under pressure.

Diego Sanchez 22:11
Dale, I'd love to get your thoughts here. You know, I think we'll see mortgage rates head well into the sevens today and tomorrow. If the 10 year yields where it's at and it stays there. Do you think home

buyers are going to kind of watch, try to try to catch the falling knife? Are they going to step to the side, the sidelines here?

Dale Wettlaufer 22:31
Oh, well, that. I can't answer that directly, but I'll talk, I'll talk about a couple things that I would put into my thinking if I'm thinking about that problem. Number one, the intergenerational transfer of wealth from Boomers to the next generation and from Gen X to the next generation. That's a significant element of demand in the in the existing home and new home market last five years. So if mom and dad are the grandparents, wealth is being destroyed in the market. You know that's a negative headwind. Today, I just saw the University of Michigan inflation expectations for the household sectors like six and a half percent. What what we have here is 40 years of us, share of GDP has been stagnant at about 25% it looks like a sine wave, and for 45 years, the household sector has lost share of net national income in the US, and that's been taken by by corporations labor. The household cannot absorb an inflationary shock here. So that's why I'm sort of bearish on the middle of income statements. It just, it can't, it can't happen. You know, it's corporate. Corporations have to, have to absorb it. So you know, unit labor costs, if that's the inflation expectation, and that comes out to be true, imagine your Home Depot or builders first source. Your gross profit line is going down, but your SD and a per store is going up, and this isn't even building in the elasticity of demand. So you can get some bound you can get some income statements that are really twisted up here, so I'm bearish, but look, that could change tomorrow. It could change 10 minutes from now.

Diego Sanchez 24:10
So really good question that I think came through a couple minutes ago in the chat. And question was simple, don't we think that the long term trend for rates is still for them to go down. And I'll start with Logan.

Logan Mohtashami 24:26
I basically ran through my entire channel on the 10 year yield so far this year. So where the 10 year yield is actually trading now, where rates are looks right to me, considering the economic data, if the labor data starts to break, then I would expect the 10 year yield to go lower. So I'm at 454 30 to 470 that looks right to me. If the 10 year yield starts to break well above 480 where the Fed funds rate is there, there's where we have a problem. But to me, it's late. Over inflation, as long as the labor market sticks, you know, the 10 year yield going down has limits, or mortgage rates have limits. The spreads getting better. Has been a positive story in 2024 and 2025 however, whenever you have market stress like this, you know, in the past, when the 10 year yield would rise, the spreads would keep the damage at bay. We are dealing with chaos right now, and spreads do not act well in chaos, similar to what happened in the mid 1980s right now. So what the advantage we had on that is going away until you get some resolution and Mother bond market rules everyone. So the longer this, you know, trade war, tap dance goes in this kind of format, the more chaotic things will be. But if you could get some clarity, then at least we have something legitimate to work with. But where the 10 year yield is between 430 to 470 with what the labor data is showing, that's that's fine to me. If getting down below 4% was market driven, not so much economically driven at this stage.

Diego Sanchez 26:03

Yeah, what do you think long term, long term trends going down for long, long, long term interest rates or or you think we're heading upwards from here?

Dale Wettlaufer 26:14
Directed to me? Okay, so look if, if, if it's the University of Michigan sentiment indicator is correct, the 10 year going to get destroyed, and you know, to the extent that the market incorporates that as cyclical or secular, I don't know, but I will say when you look at long term trend of interest rates, we were in A disinflationary trend and decreasing trend from 1982 forward, you know. And these things move in long cycles, and it's tough to catch the turn and make a bet. But if you want to look at it on a technical basis, you want to look at it on a socio economic, you know, multi factor GDP basis. I think, you know, rates are in a secular uptrend from here, and it's, and it's like the mid 60s, you know, everything was great for a long, long time, and the Fed was very lax. And eventually these things turn into bedrock forces in the economy that are very tough to see in the moment. But like, you know, the market, the equity market from 1968 to 1982 was horrendous. The bond market was horrendous. I'm not one of those perma bear, super bears, whatever like. I like to be net long, but there's ample opportunity right now to be tactically short things within a net long structure. And so I'm just bearish on rates, especially, again, if the things that exist in this moment don't change, that's bearish. And we're talking like pretty bearish, ultra bearish,

Diego Sanchez 27:45
Ivy. We'll end with you on this question, bullish or bearish on mortgage rates.

Ivy Zelman 27:51
You know, I think that right now, rates are likely to head lower if we start to see the Fed incrementally back in the market to buy treasuries, which is obviously a little QE here. If that came to fruition, they have a lot of tools that, being one of them banks, if regulations allow it, we'll start being able to hold more treasuries, which would be positive long for the long end of the curve for rates, the wild card is what the foreign buyers owners are going to do. And that, to me, is where I completely have no idea. I do think that if the economy slows, rates will go lower, and I think that's part of maybe what the administration wanted to do is kind of slow us down, and even arguably, risk putting us in a recession to bring the long end of the curve back down, because we've got 9.2 trillion of debt that needs to be refinanced this year. And I think that we're struggling to understand, why the long end of the curve right now? Why, with 10 years moving back up? But I do think it has a lot to do with the market dynamics and maybe some foreign sellers. So it's tough to tough to say,

Diego Sanchez 28:51
Dale, you said something in our prep prep session that stuck out to me. You mentioned that you've been short home builders for the past two years. Tell us more about that.

Dale Wettlaufer 29:03
Oh, I can't remember what I said in the preview, but basically, I was looking at, you know, the ratio of home median home price to median household income. And back, you know, when I first started covering the sectors, like two, 2.5 turns. And we always thought, why is Australia? Why can Australia sustain? Why can Canada? Why can the UK sustain much higher ratios? And look, that was the that

was the bull case. It's like, well, if they can do it elsewhere, why can't it happen here? Now, it wasn't the best bull case, but we've now rejoined, you know, we've joined those, those countries at five times or or more. So housing affordability is super stressed, and the thing that balances it is, you know, grandma and grandpa's and the parents balance sheets, but you kick that leg out from another stool, that's a problem. But it was also based on, we just saw the whole cogs thing, cogs per unit equity generalists don't really understand. And even industrial. Sectors, generalists don't understand home builders, because they move to their own rhythm. And you've got to understand the gross margin line, the cogs line. You've got to be able to think about what was happening four years ago. What were the acquisition prices for services, entitlement, services, legal, all that stuff and dirt. Those prices from 2021 are just hitting poles balance income statement now, and it's all on the balance sheet. You can see it. So the 2022 and 2023 and 2024 prices on a cogs per unit, I think, are going up. And I don't think the market at large, or the sector specialist at large in industrial I don't think they understand that the income statements, so I think estimates are going lower. Back 20 years ago, these things tried to trade five times earning so like I'm looking at NVR. I live 50 miles east of DC, across the Chesapeake Bay, and I like to short quality companies, and that's the quality company, but it's trading at this fancy 13 times. What's going on in Washington is horrible. I mean, from a macro perspective, for a regional perspective, it's horrible. So you could short. I mean, the hypothesis on NVR is okay, estimates are too high, and this thing squeezes down to like, seven times earnings. That's 50% decline in the stock I'm not hating on. I'm not hating on NVR. Like the one of the worst things you can do as a short seller is is short only terrible companies. It's a diversification factor within a portfolio to have a quality company because, like, look at Costco today, 50 times earnings. That thing could decline to 25 times earnings, that's a 50% decline in the stock. And I know I would turn around and buy the thing. I would go along the thing. So it's not a hate on Costco or an NVR. It's just these are missed by securities

Diego Sanchez 31:51
Ivy. I wanna dig in a little bit here, but zoom out to kind of home buyers, broadly, Home Builders broadly, really, home builders have been one of the few bright spots in a pretty dismal housing market over the past couple of years. Do you think that bright spot continues in this next year?

Ivy Zelman 32:09
I think it's shifting from what had been an opportunity to gain share with I think maybe Dale said it, but the lack of inventory in the existing market and really nowhere else to go but the new home market, where they are present. I think that given their probably concern about the broader economic outlook, they'll pull back on starts, pull back on specs, where he's seeing that. So I think that their volume side will probably lag what it's been, you know, seeing in the past several years. We'll say during that period where they were gaining shares. So it's going to shift back to the existing home market a little bit, but again, at the expense of price and the lack of affordability, they've done a great job. They were very, very quick and prudent to buy mortgage rates down. And if you're not familiar with that, I'm sure everyone that's a mortgage executive knows very well. It was pretty big shift for them, and became the majority of of the builders offering to not only buy your rate down for, you know, three years, but 30 years. So that's allowed for more affordable more affordability. But as I said in my opening comments, I think that gross margins are now sub 20% for many builders, and there's not enough cushion for them to continue to do those very expensive buy down. So I think they're going to have a difficulty sustaining the volume that they've enjoyed, shifting the market share back to the existing where inventory is rising,

and I think it's going to be tough slaying for them, but I don't think they're going to be at risk of the type of risk they had during the GFC, where they owned a tremendous amount of land. They've really pushed that risk to land bankers for the majority of them, where they're currently, now trying to renegotiate contracts or just walk away from escrow money. So I think they're, well, bet much better position, and we're not going to have the type of housing led recession, at least from my perspective, this will not be a housing led recession, probably if we have one more similar to the tech rec, when actually housing did well, and that would also be because rates were coming down and the Fed was trying to help the economy.

Diego Sanchez 34:02
So a I love this audience question, and I think it'll be a really interesting discussion on this panel, because I think there are different points of view here. The common narrative is that we have been under supplied housing, really, since the great financial crisis. And so are we? Logan, do you think we're under supplied housing?

Logan Mohtashami 34:25
I actually was never a low inventory person up until 2020 so if you want to make it simple, if you take the NAR data going back to the early 1980s normal inventory is between two to two and a half million. What's changed in this last 14 years, when qualified mortgage was put into place in 2010 and everybody is a standard, you know, can own the capacity to own the debt. We had a very interesting model for the last 14 years, which didn't work in the 80s, 90s or 2000 where back then, inventory would rise with sales, but if 70 to 80% of home sellers are buyers, and then you have the millennium. Who started buying in 2013 if mortgage demand grows, that could slowly withdraw inventory because they're taking that 20 to 30% off, right? That's what we saw. But we never had home sales escalate out of control, or prices escalated out of control. So if we just get back to 2019 inventory levels, I will never say the word low inventory ever. It's just that we got into a place to where there's too many people chasing too few homes, if you do the supply and demand equilibrium with housing economics for 40 years, housing broke out right before COVID hit us, but inventory broke the all time lows. So that's not going to work. But now why love 2024 and 2025 is inventory is growing. If we can get inventory to sales grow together. That's like the Shep kiss. That's the that's the 1980s that's the 1990s I would x out the 2000 period because that was a credit boom and bust that couldn't be sustained. But that would be a more, healthier market, because housing market's going to be here for a very, long time, right? The equilibrium had to get balanced up. So if I get back to 2019 levels, all my low inventory theory goes out the door, because that's what the data has shown us for the last 40 years.

Ivy Zelman 36:13
I think, though Logan, what, at least, I think Diego, was asking is if we have a housing shortage in terms of needing new construction, because obviously your stock is there already. And if you look at the rhetoric from Freddie, from NAR, any you know, major institution providing sources, we've heard three to 5 million, there's a shortage. And I personally think that it's, it's just a sort of BS, the whole thing, to be honest with you, because we have a shortage of affordable homes, and we can't get new construction to meet that demand. So if you had you know our kids today, I have 2022 and 24 year olds, and they're fortunate. They have a fluent mother, but they have a lot of friends that are graduating from college that can't afford to even rent an apartment by themselves, as we all know, and so you think

about it, so you could talk about as much as you want, how many units might be short, but if you can't offer, whether it be a rental unit at less than $1,000 a month or the mortgage payment at $1,000 a month, who really cares? And it doesn't matter, because we can't provide whatever's needed. Now the young adults, let's say the 18 to 39 year olds that live with with their parents or with family relatives, has been on an upward trend, really going back to the 90s when, you know, when I was growing up, 18, you're out, there wasn't any discussion, you're out. And fast forward. Here we have that was about 15% of young adults were living with their parents. That had been sort of the trend line. Today. We're at 21% so if we said, okay, everybody's going to decouple, they're going to leave mom and dads. And I say, it's not just because they can't afford it, but we've made it too comfortable for them. We're all helicopter parents. We want them to have it better than we did, and so we really are always subsidizing and helping them in every way. And to your point, Dale, we're also buying them houses, cash, purchases up. People have very wealthy family members, or many that are fortunate to have that. But when you back up and you say, Okay, are we really going to see that decoupling? And it's not just a coupling from parents, it's also decoupling from roommates. So if we don't have the decoupling, then we don't have a shortage. So they're kind of, it's a circular argument. And you know, you've heard about 3d printed homes. I couldn't believe it. In Austin, Texas, icon is doing three printed homes, and they start with a four handle. They look like a box, they look awful, and people are buying them. I just can't believe it. That's not affordable housing. That's not going to solve the shortage issue. So anyway, I'm on my side.

Diego Sanchez 38:36
Now, you know Ivy, I want to stick there for a moment, though. I think this is a really good, good thing to talk about, and I love the way you distinct. Have that distinction between affordable housing and housing in general. Really, there's a triple whammy on affordability right now with high mortgage rates, high home prices and rising insurance costs, and in some states, there's rising property taxes as well. Is the first time homebuyer just out of luck? Or are there solutions that you see out there for this, you know, kind of affordability crisis?

Ivy Zelman 39:08
You know, I love that question, just because I get the question a lot. If you're sitting in the Oval Office, what would you do? What do you think administration should do? And I think it's just listening to, you know, President Trump, or, you know, Kamala Harris talk about housing was comical. Anyone that was listening to their proposals that could help affordable housing, none of that's going to work. Federal land owned is not going to work. No one wants to live out there, even the cows don't want to live where a lot of that land is positioned in rural America. But I do think that one of the things you're looking at today, which could be a stick for the administration to utilize, is take funding away from states that won't mitigate the regulatory impediments. Because when we look at why housing is so stuck, it's at the local level, whether nimbyism, you name it, it starts at the local level with the municipalities that are holding up entitlements the cost for a developer. They have to absorb, which we call impact fees in some parts of the country, could represent as much as 15% of the average selling price. So they're already in the hole well before they even break ground. So whether it's a big stick takeaway funding, threatening funding, I think is a good thing. They're doing it at universities right now. Elite universities are feeling the pain, and they're going to have to do something that gets that local market to adhere to less stringent regulatory impediments, and that's a good start. And maybe sharing in that little allocation of those

impact fees that the builder has to absorb, whether it be police, fire, schools, I think it's embedding in it's an impediment for affordable housing.

Diego Sanchez 40:38
Logan, let's get you in on a on affordability crisis.

Logan Mohtashami 40:41
I actually don't even believe in the concept of affordable housing. Like, like, what does it look like like? When was housing ever affordable? Like? We go back to the 1940s we had major inflation. In the 40s, prices took off. 1970s home prices took off with inflation. Global pandemic, prices took off with inflation. The only time that that didn't happen the housing bubble years, inflation didn't take off. Prices went off because it was a credit boom. Credit bus, millions of people buy homes every year. We have near 5 million total home sales the last two years. The only housing affordability, like thing that could get fixed is you build smaller and you get people to to reduce their the size of the home they want. That's it, unless you drive rates down. That's, yeah, it's not. It's not. We cannot build affordable housing. San Antonio is trying those little tiny houses, not, you know, suitable for families. So it this is a problem that's not going to be fixed. The only way it solves itself is dual household incomes come in and they buy homes, and that's kind of how the housing cycle has really worked for the last four decades. People rent, but they may. They date, they get married three and a half years after marriage, they have kids. Millennials still have been the biggest home buyers until rates go up. But unless you're building small, which the builders aren't going to do, really in a scale terms, we are stuck with the market here. So there's pretty

Ivy Zelman 42:10
Logan only because when you go back to the great financial crisis and coming out in oh nine, we had record affordability in oh nine, and we still didn't have a housing market that was, you know, working, and that was because the lack of confidence the pricing of homes was still under pressure, and we also had massive job losses. So I think even with record affordability, we didn't have people willingly buying homes. Now, if we had a strong economy like we did prior to now, when people were less concerned about the outlook, people are still buying their lives, like you said that, whether they're forming families, getting married, etcetera, I think affordability is important, but it's it's not the most important variable for buyers. And by the way, home builders have reduced square footage from 2018 we were kind of in that 2200 plus 2400 we're down to 1800s right now, and just so you know, builders can want to build even smaller, but a lot of municipalities will say you can't below, go below 1600 square feet. So that's another guard rail that communities put in place to mitigate ability, ability to buy affordable or build affordable housing, which is tough.

Diego Sanchez 43:18
So two experiments that I'm keeping an eye on, ADUs in California are, I think are interesting. Abolishment of single family zoning in Minneapolis could also help solve the problems in some parts of the country. So we're gonna, we're gonna move on amazing discussion about this. But there's some more audience questions that have come in that I think are really, really interesting. So someone asked, How is rocket buying Redfin and Mr. Cooper going to impact the housing market, the purchase and the

refinance market? Dale, I don't know if this is an area that you've been looking at. I'd love to start with you on this. If you have a perspective here,

Dale Wettlaufer 44:03
I am going to move along quickly and say pass.

Diego Sanchez 44:07
Well, no, Ivy. You want to Ivy? You want to jump in on this one?

Ivy Zelman 44:10
I don't know if I can. I don't know that compliance would like me for talking about any specific names

Diego Sanchez 44:17
That makes sense. Logan, let's, let's, let's end with you on this one.

Logan Mohtashami 44:21
If you believe you're at the bottom of the sales curve and you're willing to buy assets in a deep discount to the economic cycle, the real players set themselves for a better time. So what rocket did is basically try to make itself a better mousetrap or one stop shop for everyone. And listen, this is, this is how economic cycles work. The the people with the bigger balance sheets by the weaker ones conform them into something, and they run with the next cycle. So it's not coincidence that. That they did this right now, if we don't break under 4 million existing home sales, and rates go lower and sales grow, they've got a little bit better of a mouse trap out there. So we've seen this in other sectors of the economy going back 100 years. So it's timing on their part, so that that's, that's the that's the one thing that I see that that whole thing made sense to me, get in early, make yourself a bigger mousetrap, get everybody into one place, get the data, get the mortgage, get everything, and then move forward with the next cycle. Because what the last two years have shown us, even with six to 8% mortgage rates, even with the property taxes, insurance, elevated home prices, existing home sales don't really break down under 4 million. And if you get lower, for example, hypothetical, let's just say mortgage rates. There's no trade war. Mortgage rates head down to 6% we'd have an additional 375 to 485,000 home sales more today, they would be a little bit better suited for that going out in the future. That's that. That's the one and only thing I think about with those transactions,

Diego Sanchez 46:03
Ivy, I'm gonna reframe and try a grant try again with this one. So there are probably four or five, maybe a half dozen companies out there that are looking at housing and seeing a very fragmented ecosystem and a very difficult, still difficult transaction, and trying to build more of an end to end process. Do you think that's the right move for housing?

Ivy Zelman 46:31
It makes a lot of sense from a profitability perspective, because look how thin the margins are for real estate brokers, and for those brokers that are large enough that have title and have mortgage that's really where they make all their money. So when you think about a mortgage entity today and having to be able to capture all elements of the transaction, I think it makes tremendous sense. And you know,

companies that have strong balance sheets and are sitting with tons of cash are also the ones that are investing in technology and AI is going to become a much bigger part of our world, and I think that they're just a hell of a lot ahead of the curve relative to everyone else, and that's all I'll say. But we're fans of rocket, and I think what they're doing is definitely what Logan said they're setting up for the next up cycle. And I think that those trends are when they do come to fruition, they'll be a big winner.

Diego Sanchez 47:19
So there's been some challenges in commercial real estate, you know, coming in COVID, and coming out of COVID, one of the solutions out there that people have been writing a lot about, but I've yet to see, you know, significant progress on is, you know, taking some of those office buildings and malls and turning them into housing supply. And I'd love to get the perspective from this panel on that conversion process and whether that's something that could help with with affordable housing. Ivy, I'll start with you.

Ivy Zelman 47:58
It's pretty negligible. I think the number in 24 was 50,000 units, and a lot of that was in New York City. I don't necessarily think that that's a solution. It's not easy to convert office to multifamily or and or condo, just the way that they're built, but I think it's a significant cost that many developers aren't willing to do without maybe some local subsidization from government, which I know in Boston and other cities, that has come to fruition. So it's really about whether the local markets will support that initiative, and I don't see it making a big dent in affordable housing at all

Diego Sanchez 48:38
Dale, you have any thoughts there?

Dale Wettlaufer 48:40
Yeah, well, the cost per square foot to convert a 50 year old office building is just horrendous. And, you know, do you really want to live in a CB Central Business District block where, you know, it's just like, after 5pm It's just a ghost town, and it's, can be unpleasant. I mean, I hate to, you know, say that, but that is true. Like, would I want to live, you know, in the old lake Mason building at the corner of light Street and Lombard? Not really. It's very unpleasant, I'm sorry to say. But said, No, there's no units as negligible as Ivy said, and there's no ROI in it. You know, the problem with affordable housing isn't we're going to push mortgage rates, or we're going to do this and that and the other. It's just it costs a certain amount per square foot. And you know, Americans are going to have to change the way they live, which, if I could snowball into one of the points that I'd like to make on a secular basis, because that's how I underwrite companies. When you look at people living in a household in 1940 that was 3.5 people per household. Today, that is 2.3 people. So when you think about you know that reduction, and how many more so people per household? Well, you need more homes per person. What if it flips the other way? And what if we live. With the rest of the world, where you have multiple generations in a household, you have multiple incomes in a household, and the housing stock ages, you start to turn those two dials, and 1 million housing starts will look like a bonanza year. I mean, you could be talking about 500,000 housing starts. So we we got to start thinking about that like 50 years ago, 75 years ago, was a historical accident. In the American century, our industrialized competitors lay in ruins after a disastrous war, and the US produced 50% of global GDP. That's 25% today. Is that going higher? That's

going lower. That's why we have all these problems with the rest of the world, and that's why it's manifesting itself and division and whatnot. But basically this world, the United States, is going to have to start living like the rest of the world, and we're seeing it as as Ivy said, more people per household, multi generations per household, multiple incomes per household. The whole idea that detached dwelling with a nuclear family and one income, and that everybody from Bernie Sanders over here to everybody over the right grasped as the normal. That's not the norm that's gone. And, you know, from a secular basis, I'm just, I'm just bearish. I hate to be the hater, but like I'm looking at, you know, you gotta look forward in this. You can't look at 1940 to 2005 GDP regressed against housing starts like you gotta, you gotta take the historical context there.

Diego Sanchez 51:31
So I’m gonna stick with you. You for a moment. So 80 use maybe single botchment of single family zoning, maybe, but that's, that's a lot. That's very local issue, and will need to happen in localities across the country, office to residential, probably not at scale. What? What needs to happen? Does the government need to subsidize the development of 300k $300,000 single you know, single family houses of affordable housing, subsidize the builders to build those kinds of units. What do you think needs to happen to like, solve this problem?

Dale Wettlaufer 52:12
No, a true free market person would say, let the market sort it out. And what the market needs to sort out is that you need more people per household, more incomes per household. I live in a very agricultural area with a very high Hispanic population. That population has many more people per household, many more incomes per household. Their Civic. Civic engagement is very high relative to native born Americans of all of all different ethnic backgrounds, their investment per household. You know, you get, let's say, 10 people here in a family in a 1500 square foot household. They're buying arable land, and they are buying tractors, and they are doing the American dream. They come out for Halloween, the Christmas parade, like the whole idea that we're going to hurt that portion of the population, which, by the way, immigration, accounts for 60% of population growth over the last 100 years. That's the that's the biggest portion population growth and productivity in GDP growth. So we're going to kick the legs from out, from under that stool like lots of stuff is going to go wrong, and I'm we're not even going there on the builders, because that could really screw the builders. But no, it's not government subsidizes, it's people have to recognize what the economic reality is and change their lifestyles. And that's just unpleasant, and that's why the world is kind of unpleasant in some ways right now in the United States.

Diego Sanchez 53:34
Ivy, I'd love to get your your thoughts on that. How do we how do we get the builders to make more affordable homes.

Ivy Zelman 53:42
Well, I think there's so many impediments. I don't know how they will to be able to do it. As I said, I made a suggestion of two things that they can do the government. That is to reiterate those. But we, we have a real problem. But, you know, with today's consumer that is better positioned, whether they're confident in their employment and income. We've already had dual incomes. I mean, that's that's call it.

Two thirds of purchases have dual income. I think even dual incomes to buy the median priced home today with, with the today, I think the median income, the household income, is the 222, income is 82,000, I think, and that can't afford. You can't afford to buy a median existing home price today's median with even two income. So like what Dale saying you might need a third income or a fourth income. So I don't think the builders have the ability today, where land prices are to build anything more affordable than they're currently doing. And you know, home prices pre COVID, for the public builders, we're in the high twos or low threes. We're now in the fours. So we did have a surge, and I think we're going to see a reset, and then we'll have a better, affordable offering, and then we'll have a pickup in market share for the home builders, if they're able to do so. But I think it's going to be a little pain. Before we get there.

Diego Sanchez 55:03
So there's a question that just came in around multi family versus single families. Dale, do you think that the next couple of years could be a good time to be long multi family while you're short? You know, kind of single family home builders?

Dale Wettlaufer 55:20
Well, no, I mean, multifamily has had a very tough time of it. And when you look at insurance costs, both, you know, on the west coast and in Florida, in the the Gulf of America states, you've got a you've got a problem there, as Ivy has said, you know, it's there's a big NIMBY problem. Like Robert rice will go on Twitter and say, you know, Power to the people. But does he want a 10 story apartment building next door to him and swanky Pasadena or whatever he lives? No, I mean, so you know this, I think the solution to multi family is a very well designed 400 to 650 square foot, you know, housing unit for two roommates or a small family, it's just, there's no way to there's no way to square it. I mean, and what do we want to do? Do we want to we've been, we've been stimulating the housing market since 1932 non stop. Where does it where does it end? You know, it's the thing that squares the equation is people have to change the way they live.

Diego Sanchez 56:20
All right. Well, this has, this has been really an incredible conversation. The chat has been completely on fire. Which, which I, which I love to see. So we'll end with maybe just a rapid fire response to, you know, how many, how many homes do you think are going to change hands over the rest of 2020? What do you think the final number of home sales is going to be for for 2025 Logan, I'll start with you. And this is existing, plus plus, plus new, new construction.

Logan Mohtashami 57:00
If everything goes as is, I'm going to be wrong with 4.2 million existing home sales, it could be higher, especially if rates go down. If rates go up, it'll be more problematic. But we're looking at near 5 million total home sales, which would be the same frame for the last two years. Just remember, in 2010 to 2019 the peak during that period combined was near 6 million. So you're missing roughly a million mortgage buyers from the constant buyer trend. So you you the builders have been able to do better because they buy down rates. We don't have monetary policy to get sub 6% rates yet, if you had sub 6% rates with duration, you could get more home sales. But for this year, it to me, it still, always has been and will be about the 10 year yield.

Dale Wettlaufer 57:50
Dale, no, the problem in the way that data is constructed. When you look at multi family sales versus multi family starts, multi family is built for rent, and not just, you know, condo sales. So when you look at, when you look at all starts, plus new plus existing home turnover at the very moment, at this very moment, it's 5.7 6 million, and that's about a little more than one standard deviation below the mean of 50 year trend as a percentage of US households. So there are, like 125 million households. 5.5 million, you know, units, you know, so we're, we're in the channel. You know, people still need to move and and, you know, need a new home or existing home. So I would say anything the way I do it, you know, 4.8 million to 5.7 million. But you know, the the inflation rate is a wild card. If, if this inflation expectation that came out today, like this is it comes to pass, that's a big problem. And, you know, I mean, we're not going to be able to control the yield curve.

Diego Sanchez 58:52
So we're going to end with Ivy. And I'll just say, I think I've seen maybe a dozen people in the chat just say, more Ivy, more Ivy. So Ivy, somehow we got to get you back for another one of these sometime soon. But Ivy, how do you think the housing market ends up this year in terms of total home sales?

Ivy Zelman 59:11
So we have a flat forecast for new home sales this year, which I think might be high, and on existing homes. We've been looking for modest 5% growth. I think that could be low. So combined, I don't have the absolutes in front of me, but we're looking for the lion's share growth to come from existing homes.

Diego Sanchez 59:30
Well, I'll take this final minute to just thank the three panelists. This has been a very lively conversation. I've really enjoyed being the moderator. Want to thank the audience for your participation and your engagement and also the great questions that you sent our way. We will be publishing this this, this panel on demand in some way. I don't know what the timing of that's going to be, but we will send out emails to everybody that was on this on this panel. To let them know when that's published. So if you want to go back and look at it again, you can thank you so much, everybody. Thank you.

Dale Wettlaufer 1:00:07
Take care. Bye.