



MLTA July 2024



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## So Who Turned On the Hose?

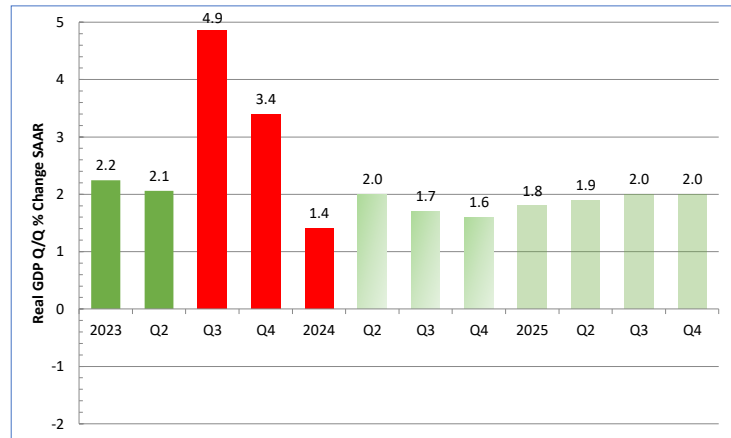


**Interest Rates, Inventory and Law Suits Oh My!**

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## U.S. Real GDP

- Real GDP increased 3.2% in 2023. Growth was well above its long-term trend.
- The initial reading of 1<sup>st</sup> quarter Real GDP growth fell modestly short of expectations
- The most recent Blue Chip consensus forecast expects growth to be much slower this year (1.7%).



Source: Author's calculations using data from U.S. Bureau of Economic Analysis and Blue Chip Economic Forecast.

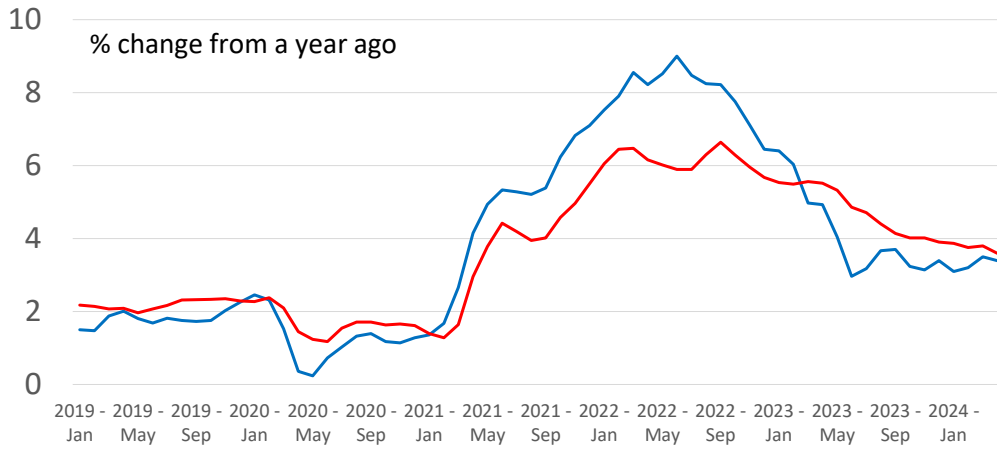
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## Why is the Economy doing so well with egg prices doubling since 2021?

- Wages are rising faster than inflation
- Consumers had historically low debt and high savings going into the post COVID inflation jump – consumers had cash to burn
- Inflation causes higher spending = faster economy
- Inflation was building and ready to burst prior to COVID Gov Spending pushed it over the edge – as a result of forced low rates and Quantitative Easing.
- Consumers are beginning to use credit to finance their spending (not good) – They don't want to stop the party - still not at a worry stage
- Government spending + Tax Cuts generates \$ to inject into the economy and consumer spending (but also is the root cause of inflation)

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## CPI ... 3.0% in June ... Not yet 2%...steady deceleration – Interest rate cuts here we come?



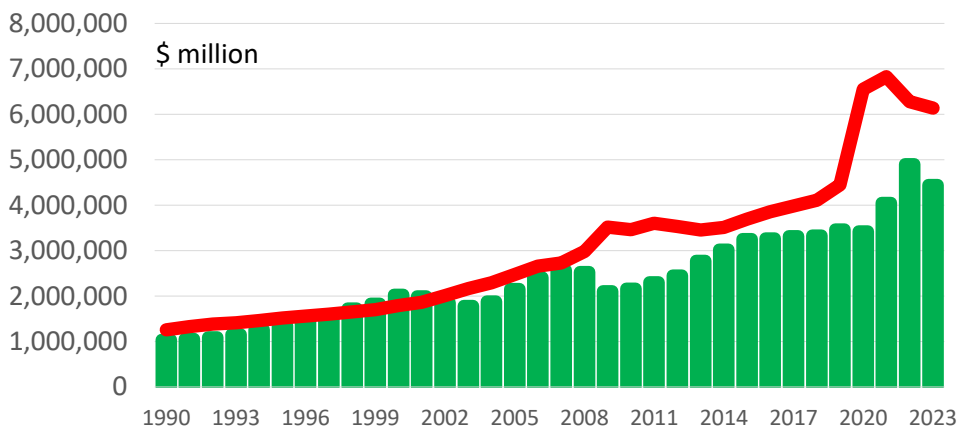
Core CPI (in red)

Source: BLS



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## Government Outlay > Tax Revenue



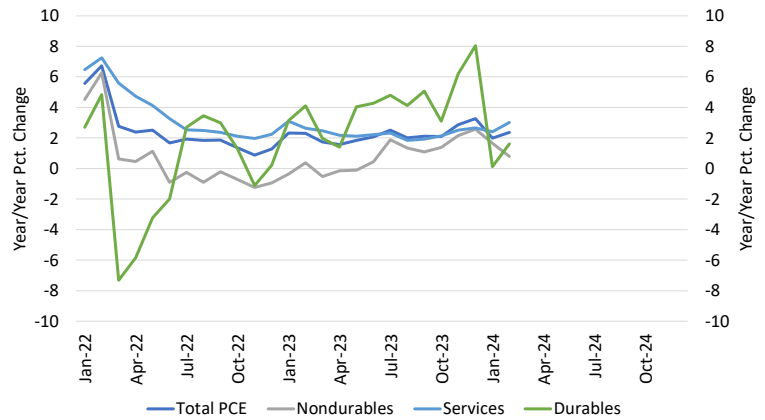
Source: Congressional Budget Office



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## U.S. Real Consumer Spending

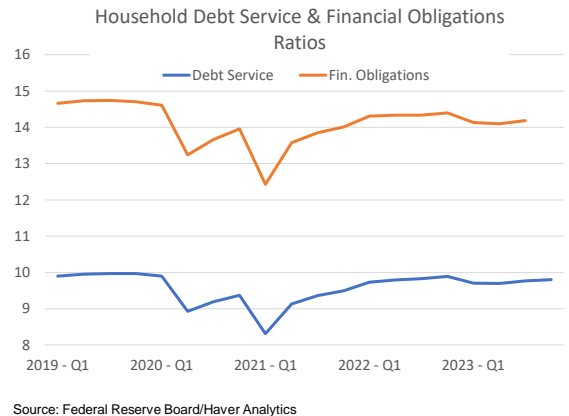
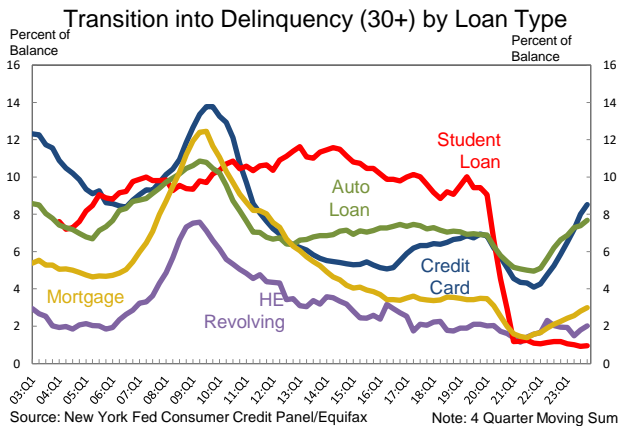
- As expected, consumer spending bounced back in February after the weather impacted spending activity in January
- The rebound in spending on durables stood out: jewelry, furniture and appliances
- Nondurable spending didn't rebound because spending on gasoline fell



Source: Author's calculations using data from U.S. Bureau of Economic Analysis

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## Consumer Financial Health

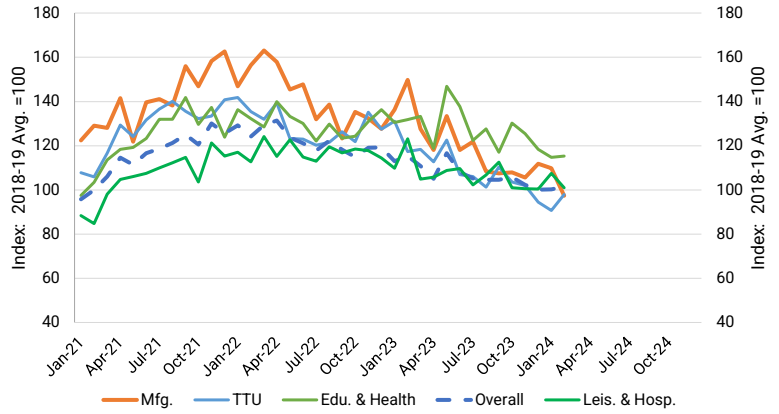


- The number of consumers finding themselves in the early stages of financial stress continues to increase past pre-COVID levels
- As a percentage of disposable income, financial obligations that consumers must pay back are back at pre-COVID levels

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## Job Quits: Overall & Select Sectors

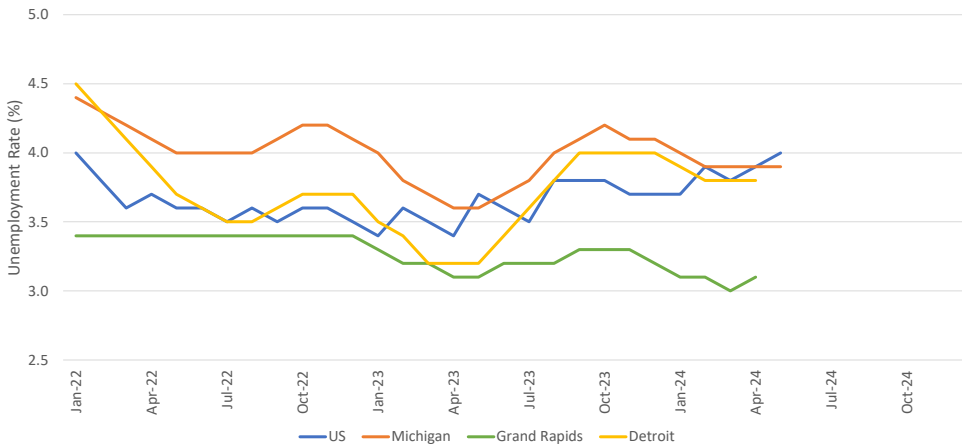
- While job openings in some categories remain elevated, quit rates across most categories have decreased back to pre-COVID levels



Source: Author's calculations using data from the Bureau of Labor Statistics

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## Unemployment Rates

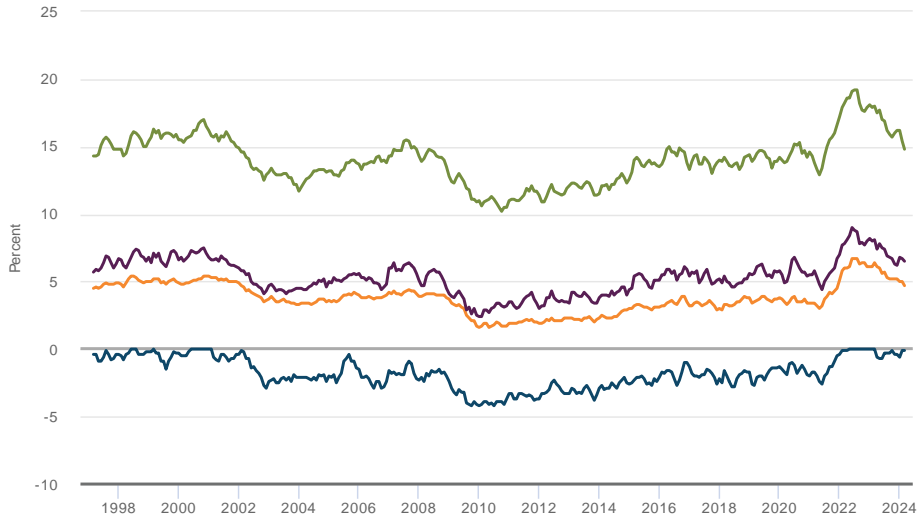


- U.S. unemployment rate is 4.0%
- Unemployment insurance claims are higher versus a year ago, showing the little bit of easing that's going on in the labor market

Source: Bureau of Labor Statistics and Haver Analytics

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### Distribution of Individual Wage Growth



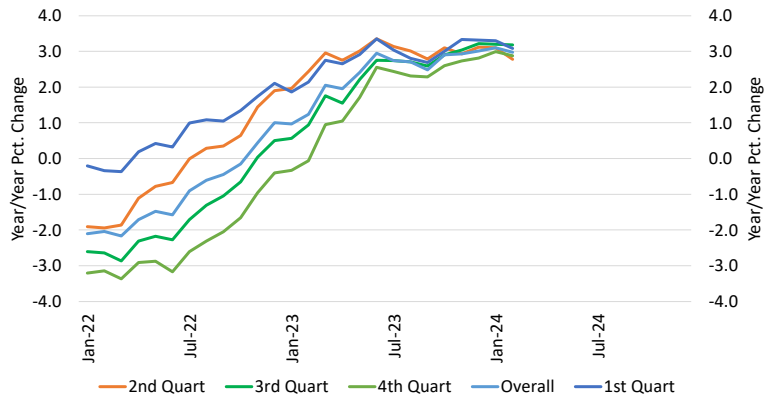
Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations

75% Percentile ■ 25<sup>th</sup> Percentile ■ Median ■ Average ■

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### Real Wage Growth by Quartile using Atlanta Fed Wage Growth Tracker

- Real wage gains have flattened out, but at elevated levels
- Wage pressures seem to be easing, but with inflationary pressures easing as well, real wage gains remain solid
- Wage gains for high skill workers have surpassed those of low and medium-skilled workers

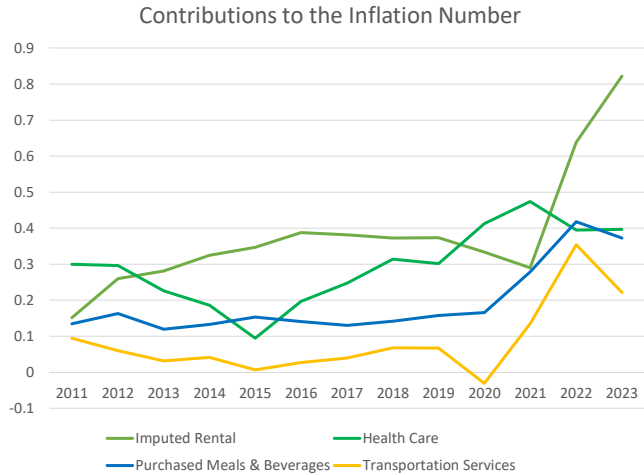


Source: Author's calculations using data from the Atlanta Fed's Wage Growth Tracker

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## What's the Holdup on Consumer Inflation?

- These 4 categories make up 36% of the entire consumer basket and about ½ of the services portion
- Their contributions are elevated though their respective shares of consumer spending have decreased over this time
- So, it may be harder for these categories to contribute less to the inflation number?



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## Inflation and Interest Rate Outlook

- Significant lag between published CPI and actual economic activity – 3-4 months.
- Rate of increase in home value and rents have been declining for the last 4 months, just showing up now in the data
- 1/3 of CPI is made up of rents and housing prices
- As a result, we will continue to see CPI rates flat or declining for the balance of 2024 – the only wild card might be a big jump in energy prices.
- The market has already baked in a extra rate drop or two from the Fed's current plan based on the latest CPI trends.
- There still is about a 25-50 basis point premium in mortgage rates from a combination of cost of national debt and expectation that rates will fall (falling rates=refi to lower rates = current mortgage portfolios have less value and require investors to pay a premium to buy them.

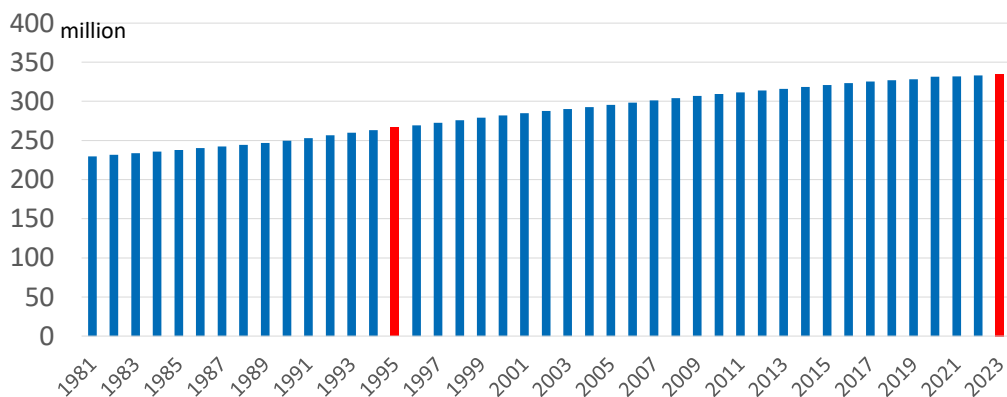
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## The Story for Now

- Consumers are spending more judiciously, but that shouldn't be interpreted as a softening.
- The goods-based side of the economy is moving sideways.
- Inflation numbers remain pesky
- Labor market easing continues at a slow pace.
- Single-family housing is stuck until baby boomers move out.
- Commercial real estate, mostly office and multi-family, remains a concern.
  - Credit is available
    - But hard to access, especially in office and multifamily
    - Financing new construction and the equipment needed for it is difficult as well
  - Elevated construction material and labor costs aren't helping new projects get off the ground
  - Extend and pretend is happening and is likely to continue

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### U.S. Population ... 70 million more people



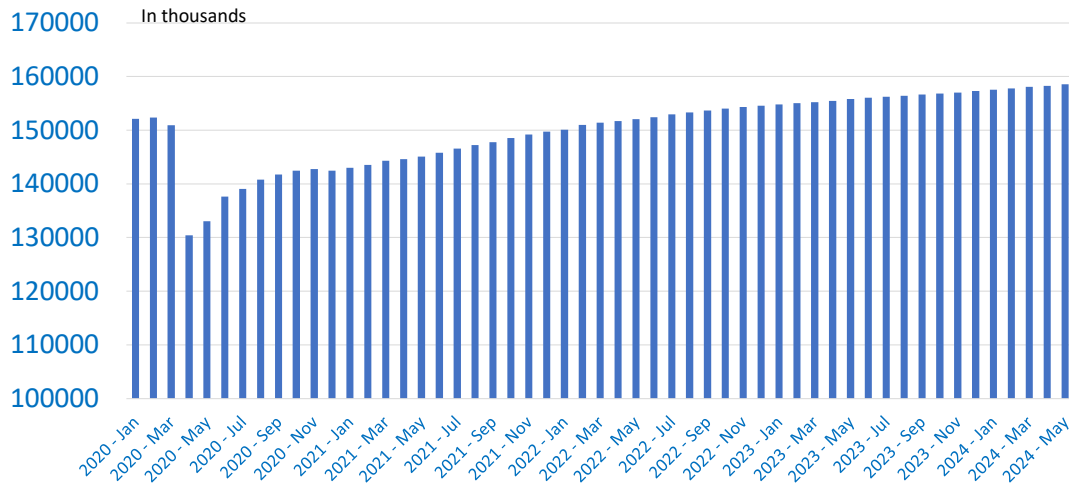
Source: NAR

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## Total Payroll Jobs

### 6.2 million more compared to pre-covid highs



Source: BLS



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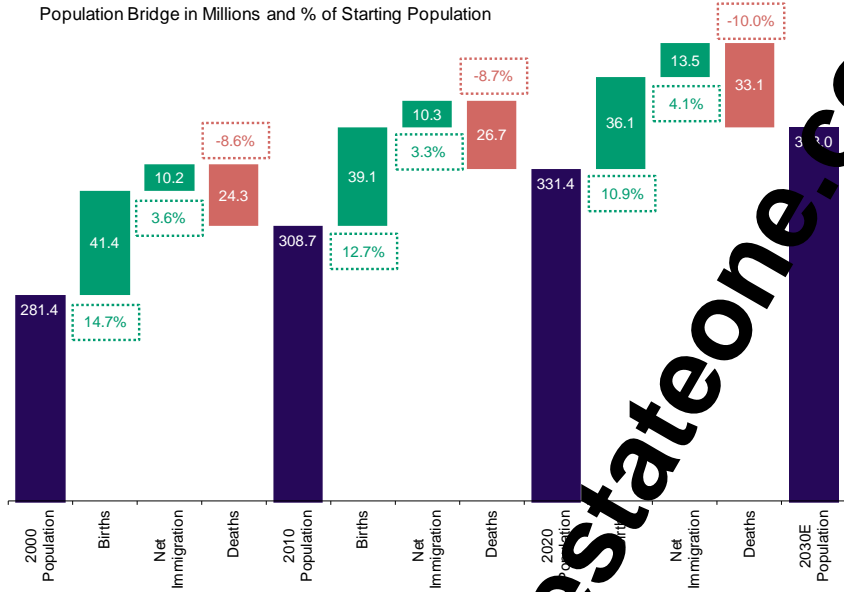
Exhibit 1: Summary of Demographic Forecasts

Units in Millions	1980	1990	2000	2010	2020	2030E
Total Population	226.5	248.7	281.4	308.7	331.4	348
% Change		9.8%	13.2%	9.7%	7.4%	5.0%
Household Populations	220.8	242	273.6	300.8	323.2	339.2
% Change		9.6%	13.1%	9.9%	7.5%	5.0%
Households	80.5	91.7	105.5	116.7	126.8	142.3
% Change		14%	15%	10.7%	8.6%	12.2%

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**Exhibit 2: Higher-than-Expected Immigration and Births Driving 2020-30 Estimates Higher**

Population Bridge in Millions and % of Starting Population

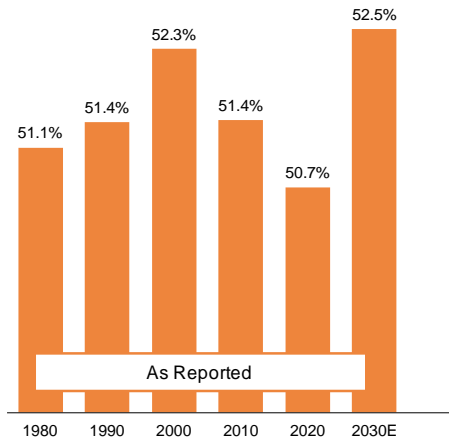


Source: Census Bureau, Zelman & Associates analysis

[Zelman.com](https://www.zelman.com)

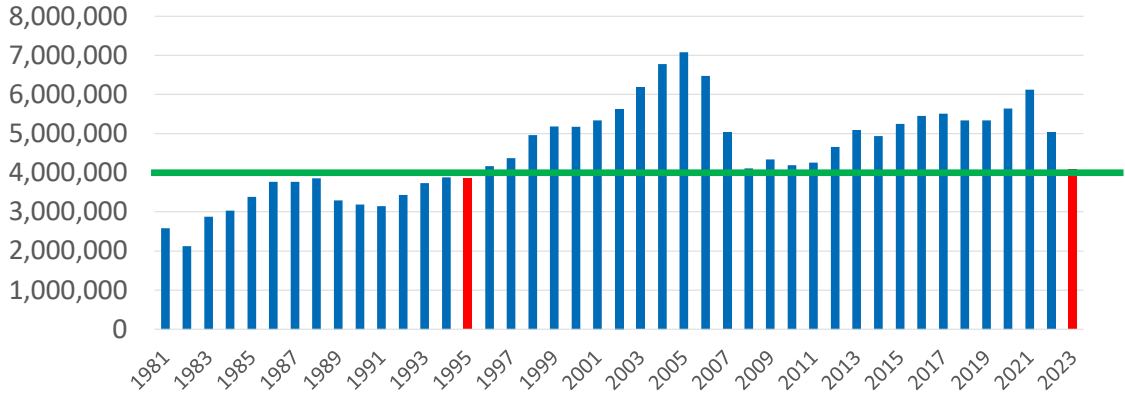
**Exhibit 8: Fewer Roommates, Fewer Adults Living With Parents Support Headship Rates**

Adult Headship Rate



Source: Census Bureau, Zelman & Associates analysis

## Annual Existing Home Sales: Worst Year since 1995

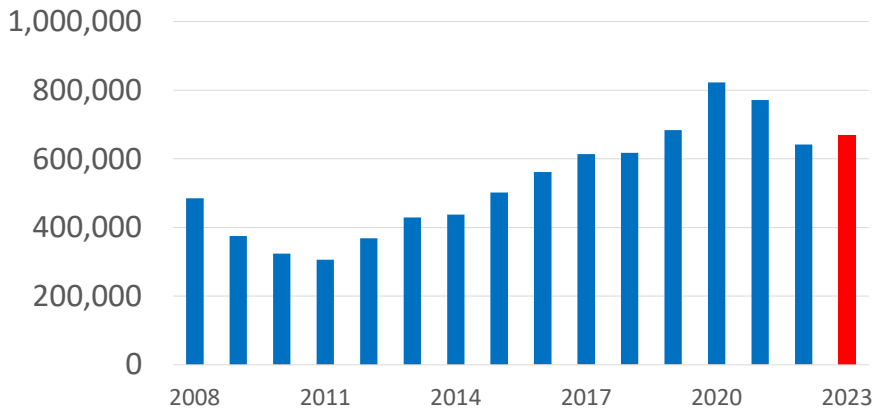


Source: NAR



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## Annual New Home Sales 3<sup>rd</sup> best year since 2008 foreclosure year



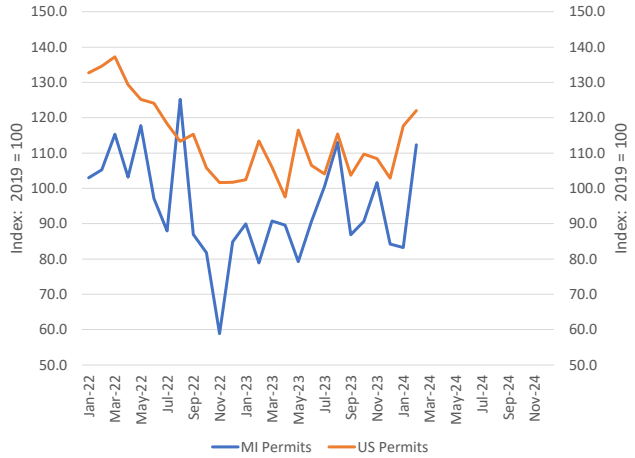
Source: Census and HUD



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## Housing Permits: Michigan vs. U.S.

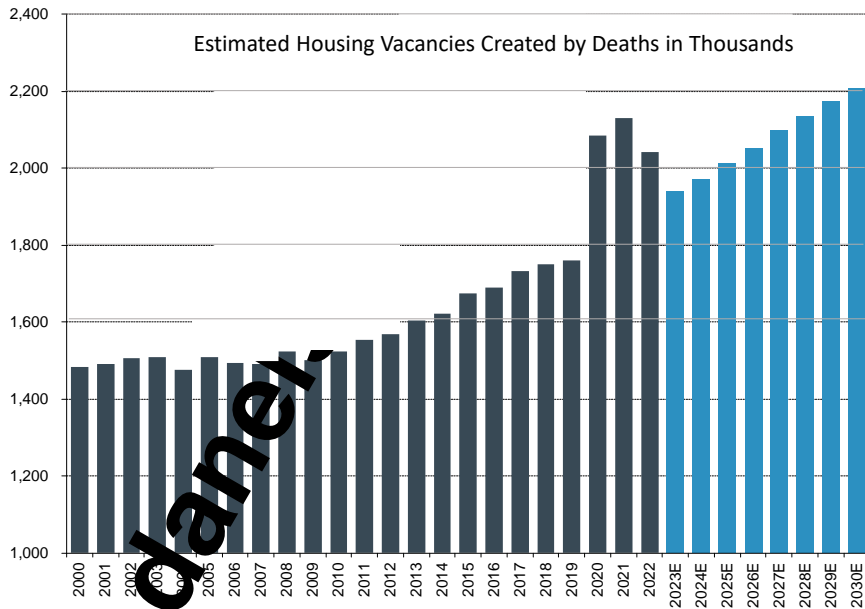
- Michigan housing permits are consistent with 2013-14 levels
- Not surprisingly, Michigan lags the U.S. in housing permit growth as other areas of the country grow at a quicker pace
- Per Michigan Realtors, existing home sales were down double digits year/year in 2023



Source: Author's Calculations Using Data From Haver Analytics

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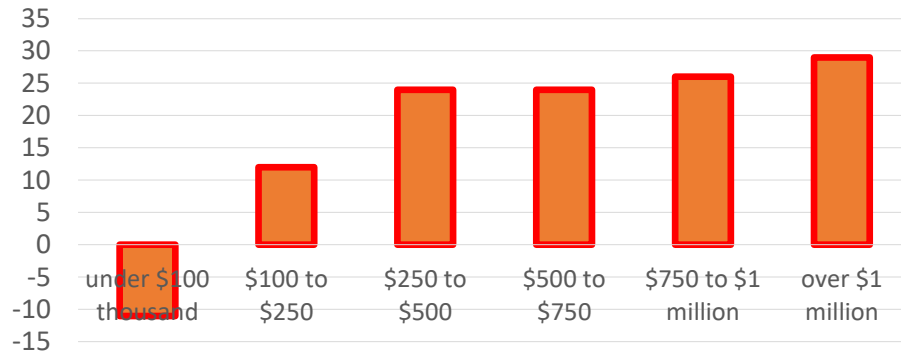
### Aging Population Should Increasingly Add More Supply in Coming Years



Source: Census Bureau, Zelman & Associates analysis

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## Inventory of Existing Homes by Price Buckets

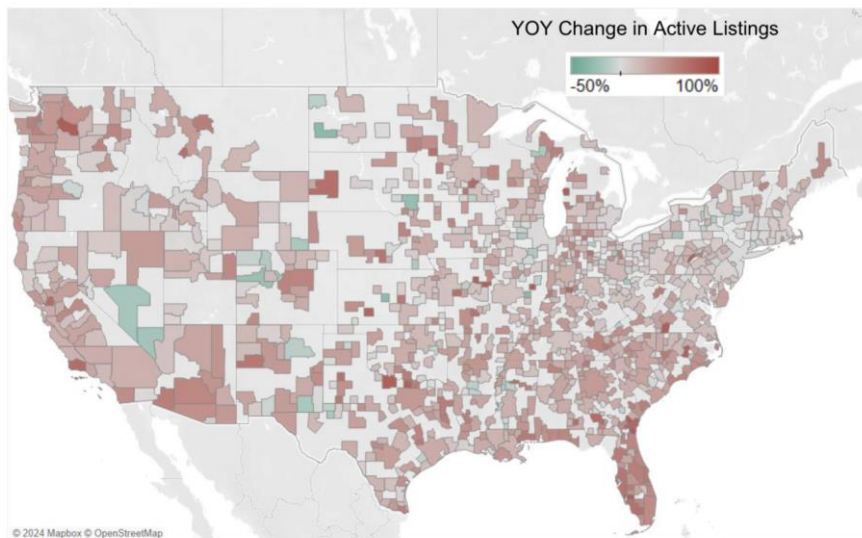


Source: NAR



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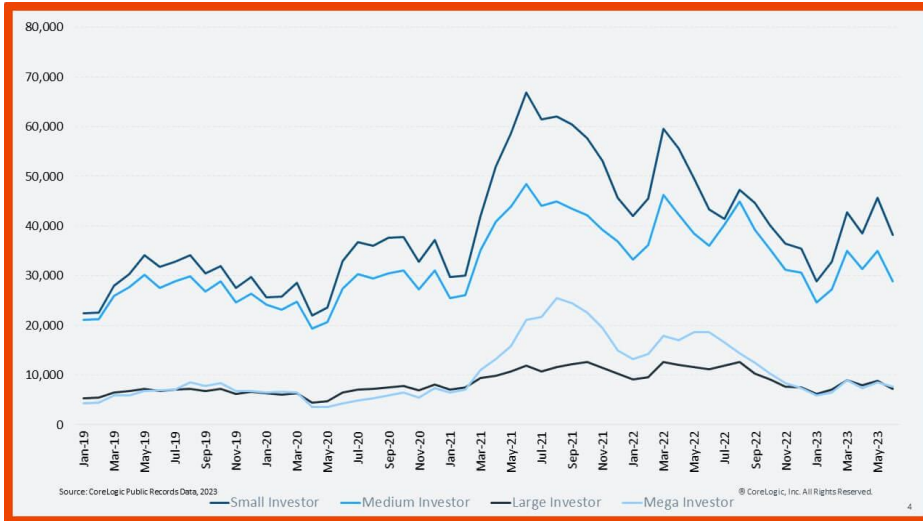
**Exhibit 2: Mapping Year-Over-Year Active Listings Growth Across The Country**



Source: Realtor.com, Zelman & Associates analysis

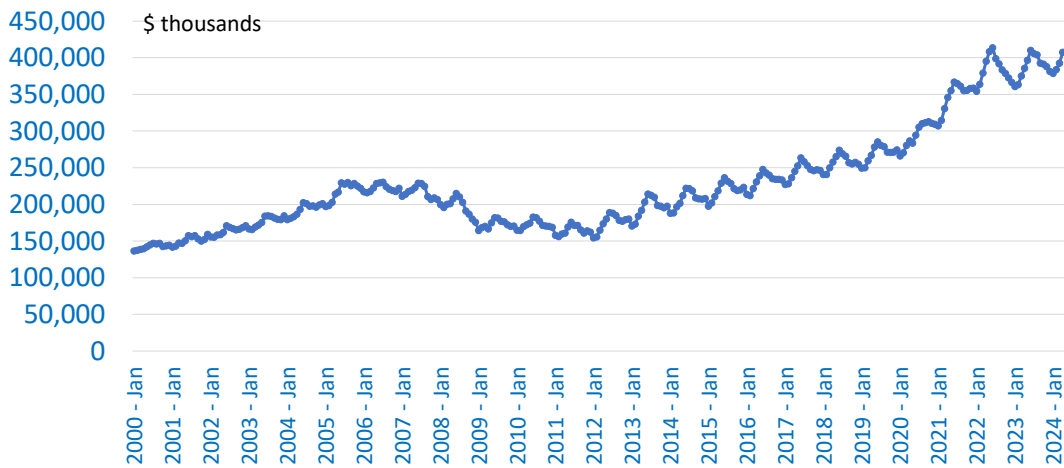
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Mega Single Family Investment Funds – Not a significant influence on low Inventories  
 However, small investors are, but just a bit  
 Potential of 40,000 more listing against 4.2 Million sales



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### Median Home Price

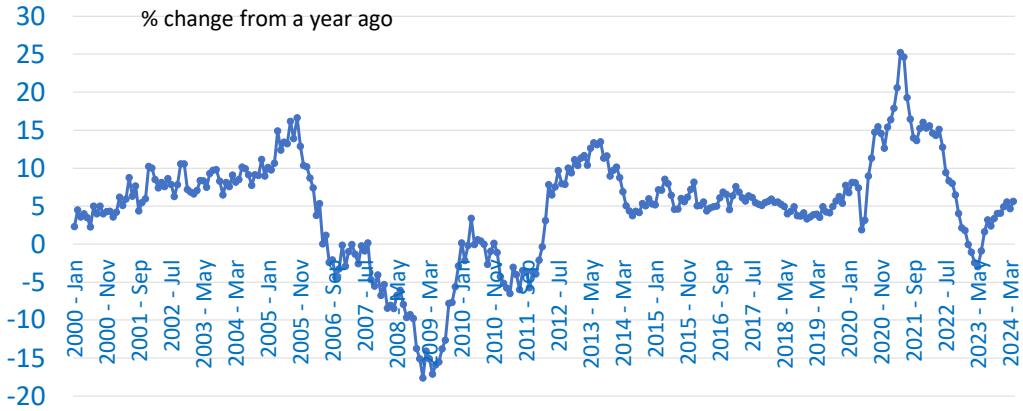


Source: NAR



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## Home Price Appreciation

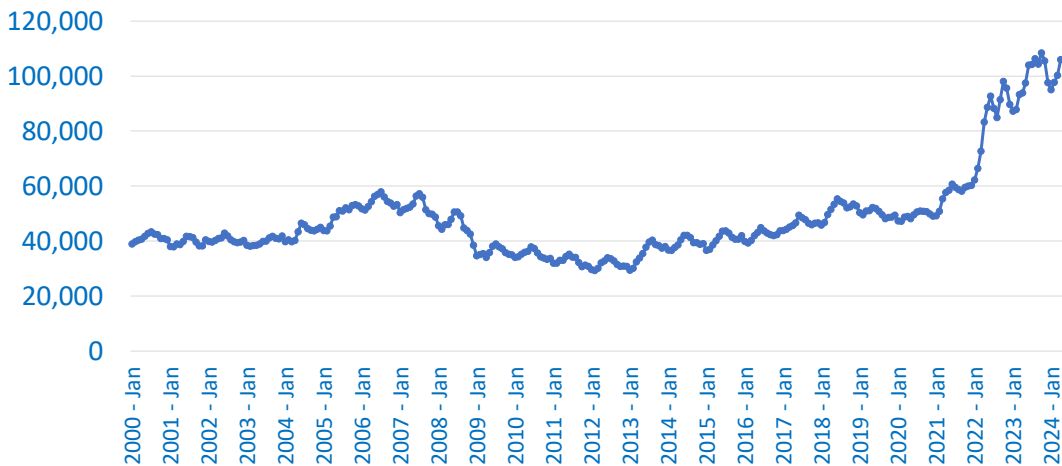


Source: NAR



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## Income Required to Buy Median Priced Home

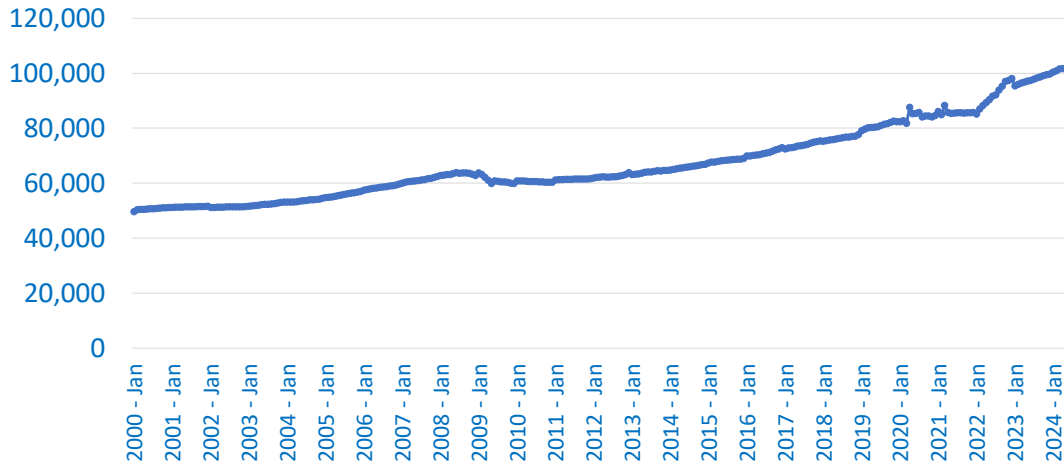


Source: NAR



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## Median Family Income

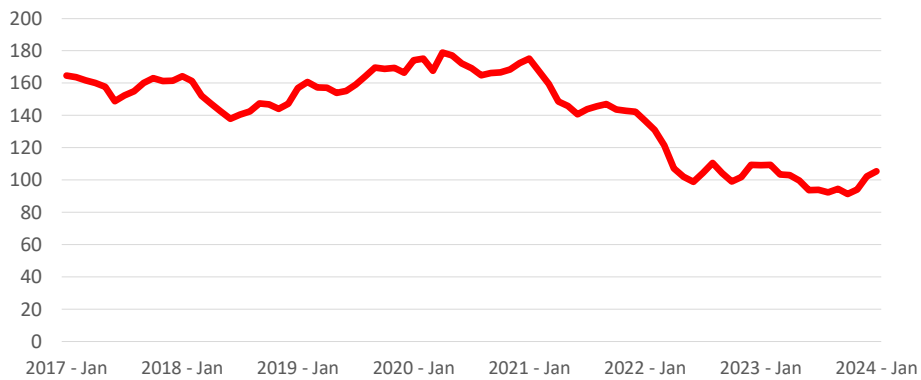


Source: NAR



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## Affordability Index



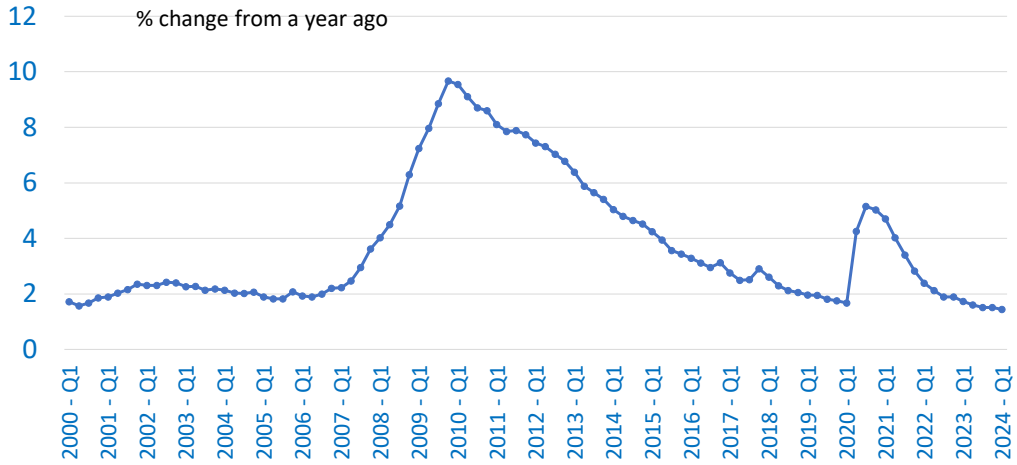
Source: NAR



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## Seriously Delinquent Mortgages

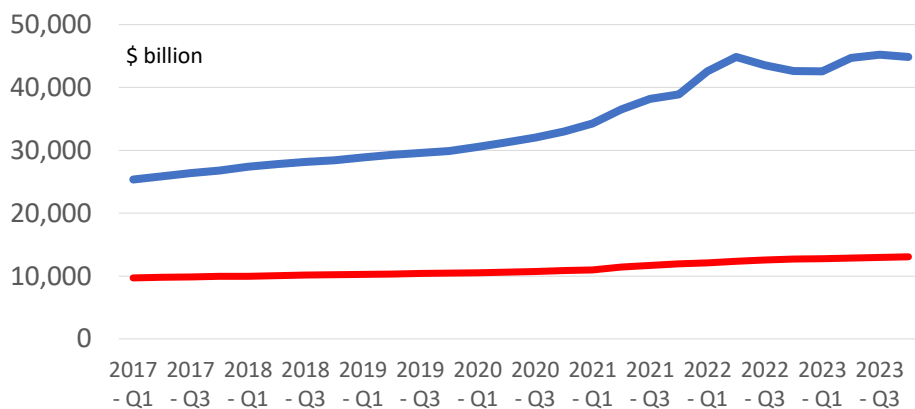


Source: MBA



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## Record High Housing Wealth Housing Asset Valuation and Mortgage Liability



Source: Federal Reserve



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## All Cash Transactions

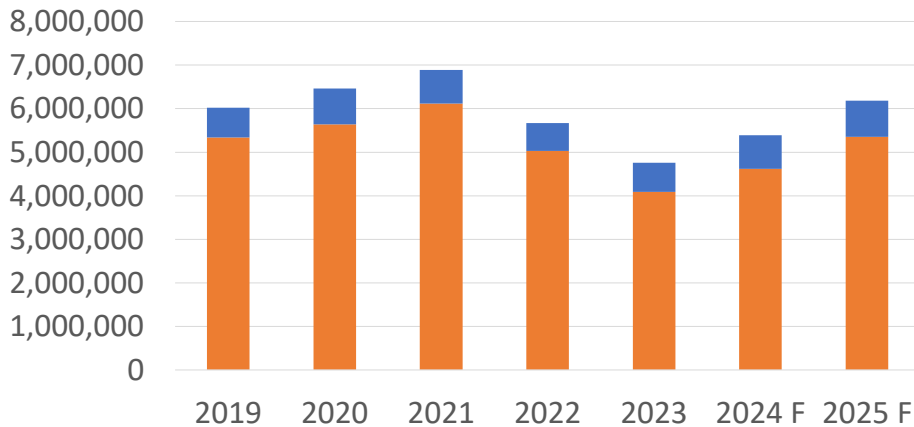


Source: NAR



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## Total Home Sales: Rising the next two years ... to 2019 pre-covid levels

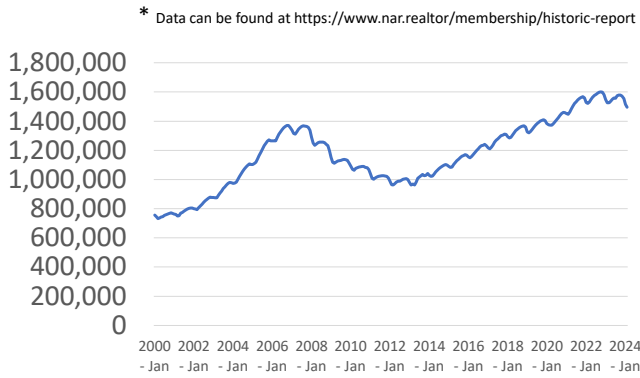


Source: NAR forecast and HUD



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## Latest NAR Membership



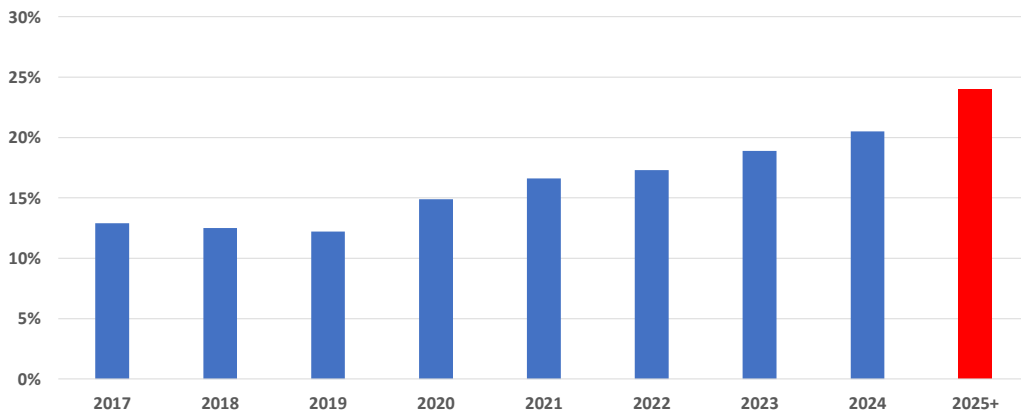
- NAR Membership at the end of February was 1,496,707.
- From 12-months ago, and it is lower by 29,048 or 1.9%.
- 12 states/territories experienced a gain in membership over a 12 month period.
- 33 states/territories experienced a gain in membership from a month ago

Source: NAR



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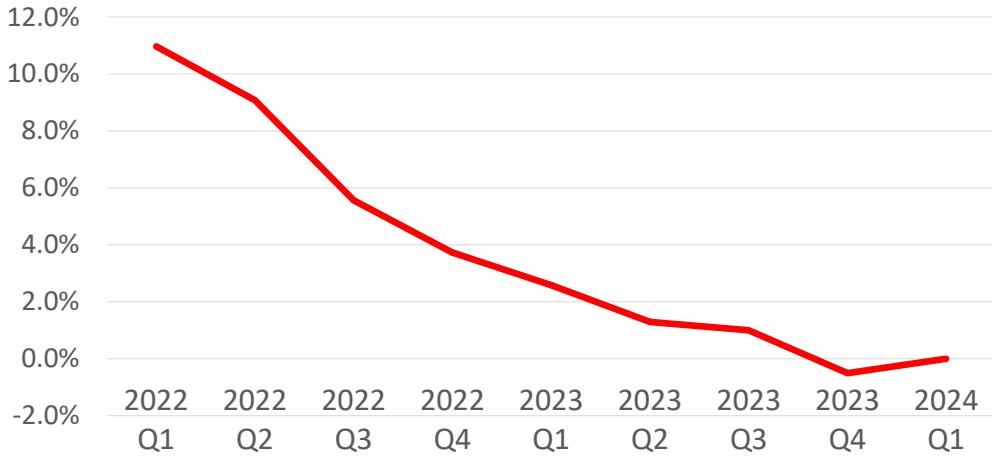
## Rising Office Vacancy Rate – 10 year + recovery



Source: CBRE/ULI NAR Forecast ,Fed Reserve

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## Rents no longer Rising



Source: NAR Analysis of CoStar data

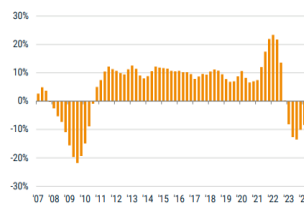


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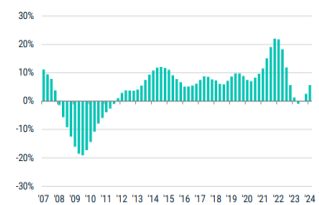
## Commercial Property Prices

- When looking at the year/year change in property prices, the largest decreases are in multifamily and office.
- For office, it's becoming increasingly common to hear of properties that have seen values fall 30-40% from their peak

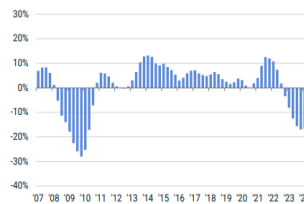
Apartment



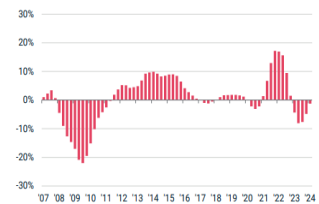
Industrial



Office



Retail



Source: MSCI Mortgage Debt Intelligence

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## Michigan Housing Market

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### Why is MI moving different than the rest of the Country

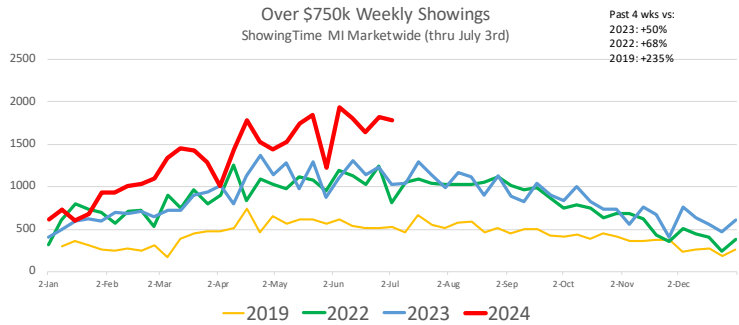
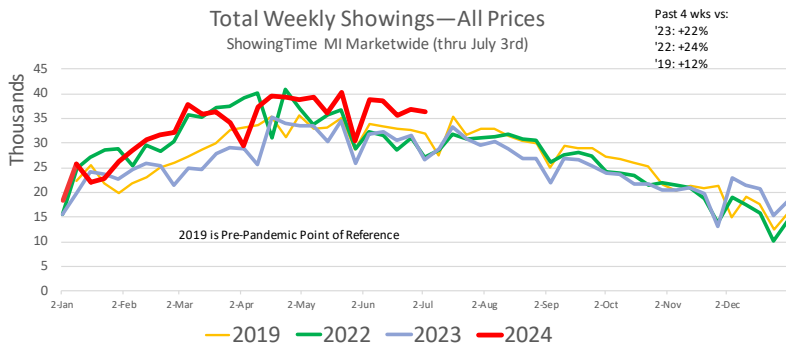
Slow Population Growth

Average Economic Growth

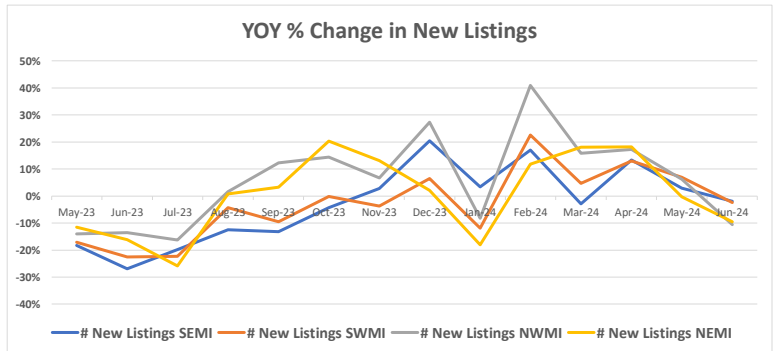
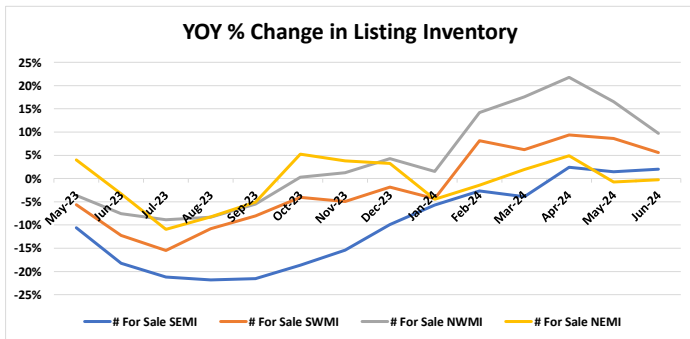
Slow New construction growth

Aging Population – too many boomers who are not moving

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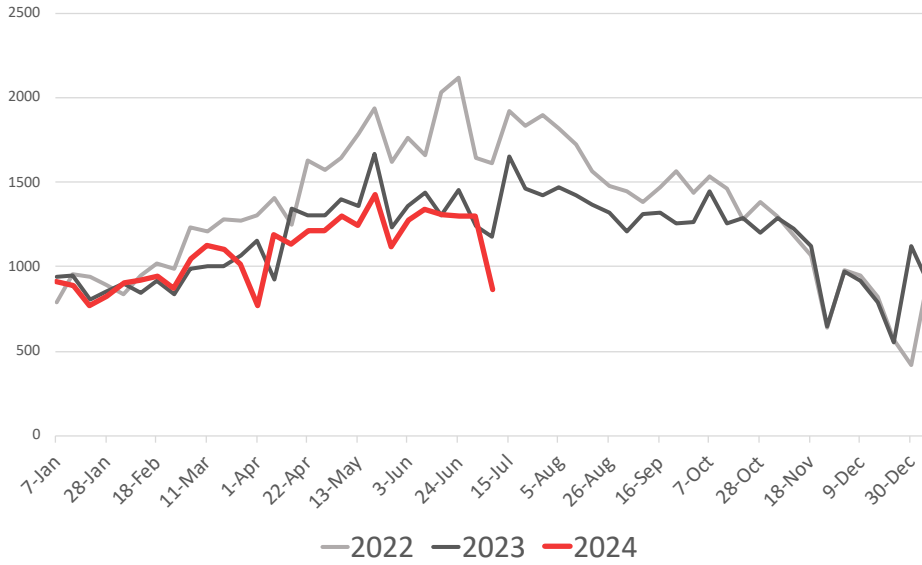


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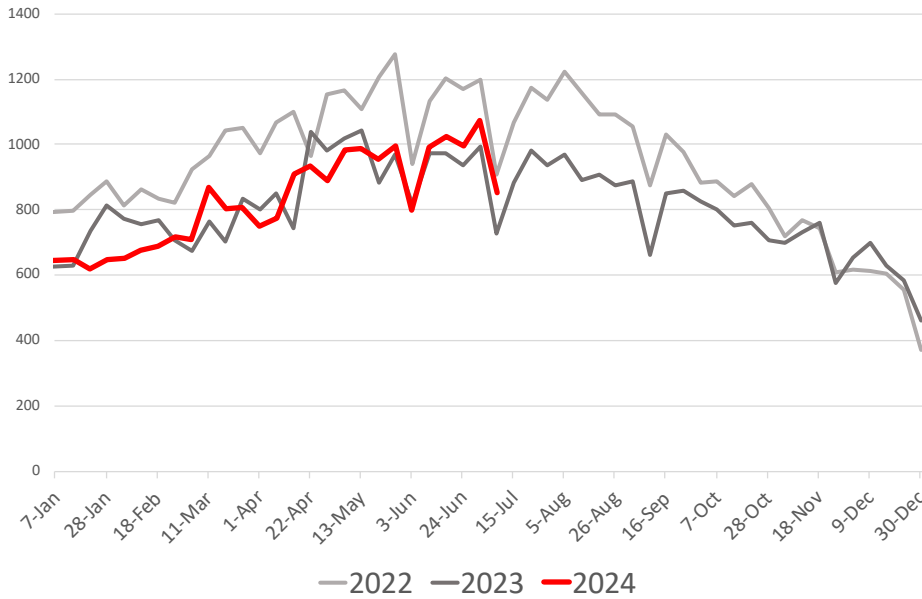
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### SEMI SF YOY Weekly New Listings

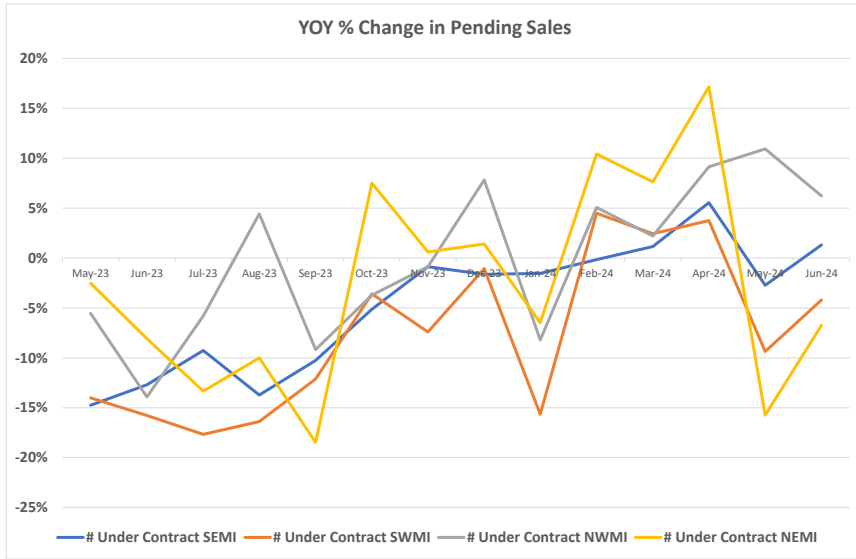


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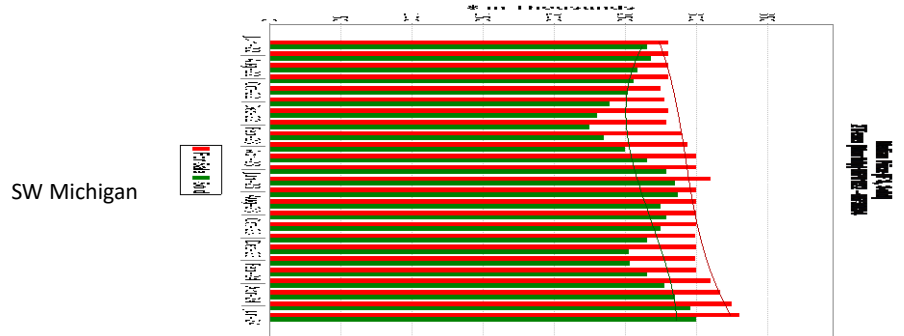
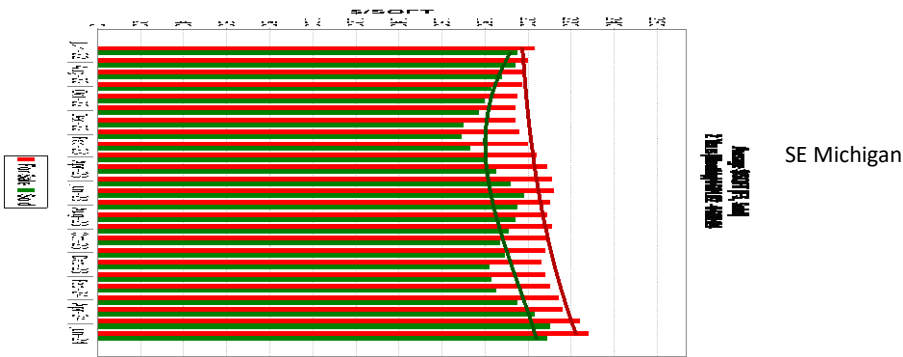
### SEMI SF Weekly New Under Contract



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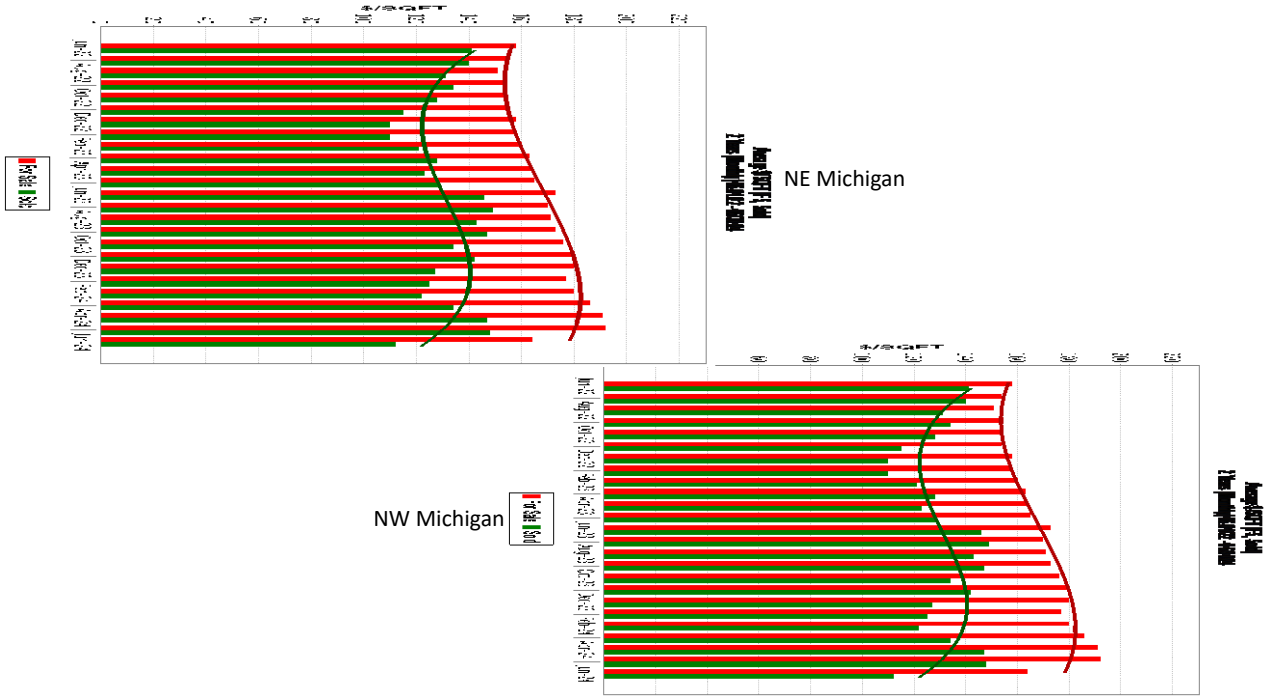


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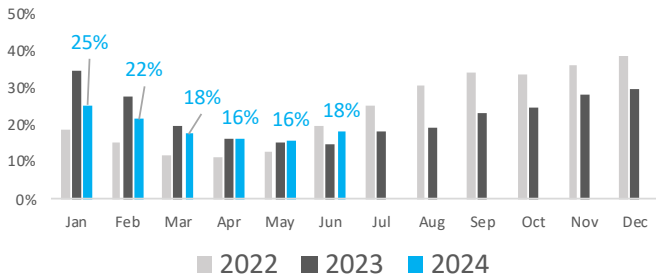
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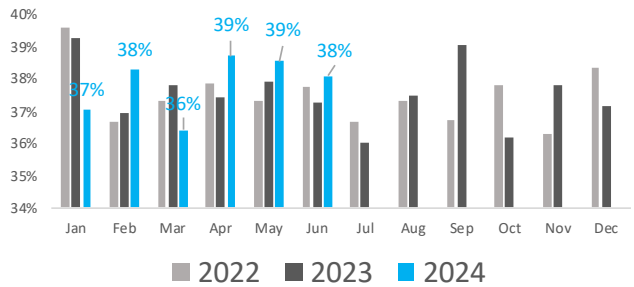
### Frequency of Price Reductions Prior to Pending



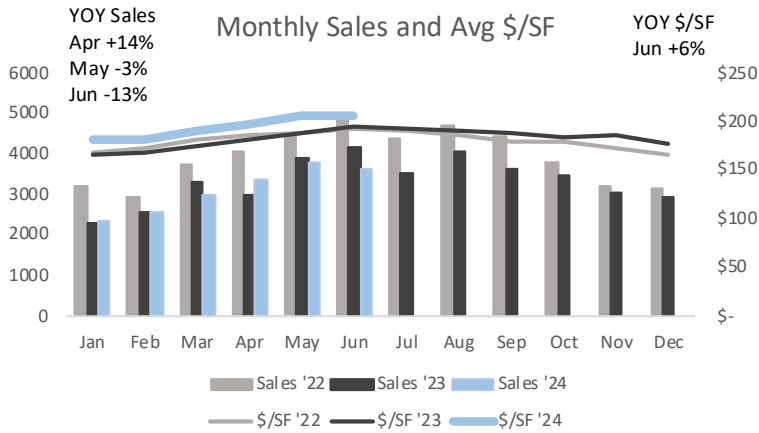
Mixed Signals – More Price cuts and more sales in under 10 days

Reflects “over priced” current inventory and the “best” homes go fast, the rest need adjusting

### Under 10-Day Sales



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- Values Up – Rate of increase slowing
- Sales slowed in June from rate increases in April – May
- 23% Sales Unit decline from peak 21'
- Offset by value increase of 13%+

SEMI SF 2024 YTD vs Prior Years						2024 Compared to:			
Through June 30th						'20	'21	'22	'23
	2020	2021	2022	2023	2024				
YTD Sales	18,411	24,202	23,241	19,141	18,626	1%	-23%	-20%	-3%
Avg Sale Price	\$238,310	\$287,858	\$306,430	\$303,283	\$323,847	36%	13%	6%	7%
Avg \$/SF	\$139	\$165	\$182	\$180	\$195	40%	18%	7%	8%
Listings Taken	30,611	32,297	35,390	29,451	28,383	-7%	-12%	-20%	-4%
Pend/UC	24,286	28,359	26,063	21,638	21,602	-11%	-24%	-17%	0%

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SEMI SF 2024 YTD vs Prior Years					
All Price Ranges					
	Apr '24	May '24	Jun '24	YTD	
				'23	'24 (+/-)
Listings Taken	5,170	5,781	5,406	29,500	28,461 -4%
New Pending	3,891	4,131	4,294	21,564	21,440 -1%
Closed Sales	3,360	3,757	3,625	19,141	18,626 -3%
Price/SF	\$197	\$205	\$206	\$180	\$195 8%
Avg Price	\$326,532	\$350,797	\$349,912	\$303,283	\$323,847 7%
<\$250k					
	Apr '24	May '24	Jun '24	YTD	
				'23	'24 (+/-)
Listings Taken	2,317	2,461	2,305	14,751	13,473 -9%
New Pending	2,099	2,262	2,347	11,619	11,833 2%
Closed Sales	1,514	1,588	1,455	9,482	8,651 -9%
Price/SF	\$126	\$129	\$131	\$124	\$127 2%
\$250k-\$500k					
	Apr '24	May '24	Jun '24	YTD	
				'23	'24 (+/-)
Listings Taken	1,853	2,120	1,925	9,838	9,678 -2%
New Pending	1,218	1,273	1,392	6,764	6,566 -3%
Closed Sales	1,313	1,453	1,472	7,067	6,968 -1%
Price/SF	\$204	\$210	\$207	\$189	\$203 7%
>\$500k					
	Apr '24	May '24	Jun '24	YTD	
				'23	'24 (+/-)
Listings Taken	1,000	1,200	1,176	4,911	5,310 8%
New Pending	574	596	555	3,181	3,041 -4%
Closed Sales	533	716	698	2,592	3,007 16%
Price/SF	\$268	\$267	\$266	\$244	\$262 8%

Over \$500k market the strongest in terms of sales and listings

Lower priced markets the tightest on inventory and sales.

Prices up across all segments

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## NAR Settlement Details and Status

Additional Compensation  
Disclosures for Buyers and  
Sellers

Compensation no longer  
displayed in the MLS

Michigan Agency Disclosure  
rules put us ahead of the  
game

Typical MLS Photo post 8/17

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## Settlement Summary

- Realtors need an agreement with buyers before showing a home\*
- Buyer's Agents cannot received a fee more than what was agreed to in the BA contract, the fee must be specific, not open ended.
- Co-op Compensation will no longer be displayed in the MLS
- A Sellers Concessions field will be added in most MLS's
- Sellers must agree to any fee sharing between brokers.

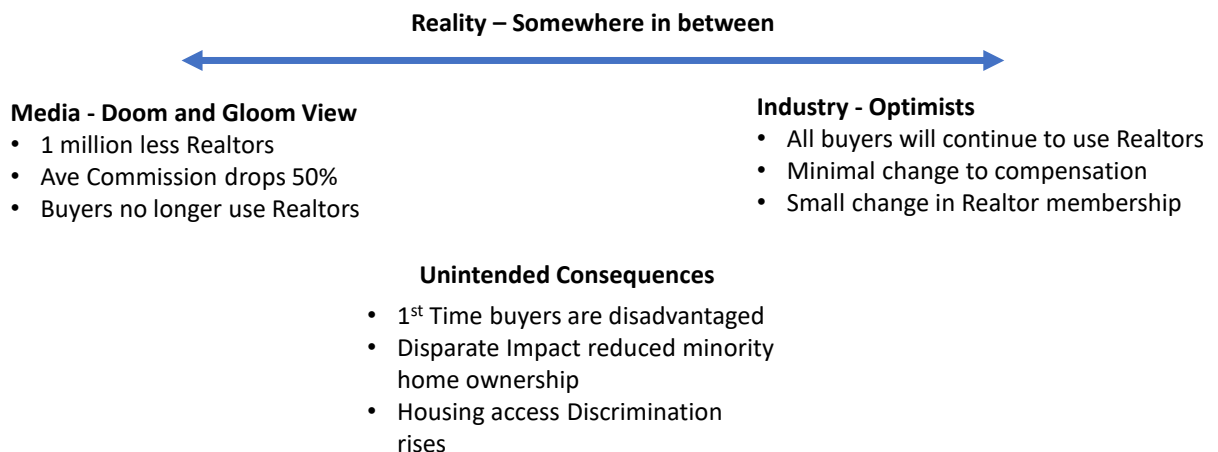
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## What about the Department of Justice?

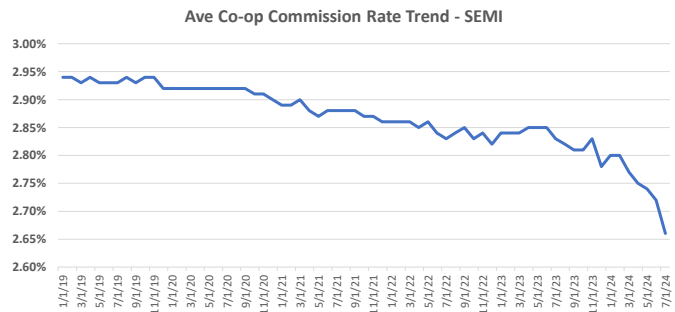
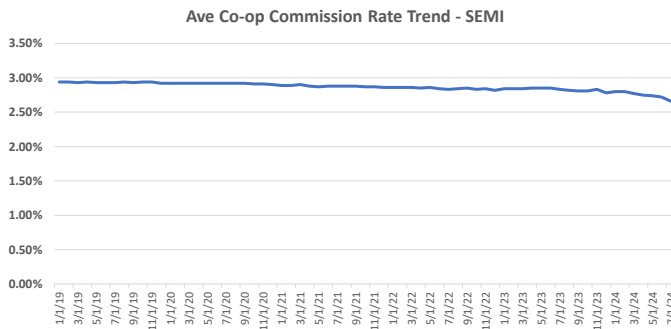
- The DOJ agrees with most everything in the Settlement Agreement
- They would like added that Realtors are prohibited from sharing their fees with a buyer's agent. Each party pays their own agent
- DOJ has taken no action (yet) and is not a part of any of the settlements or law suits.

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## Effects of the Settlement Changes



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## Three ways the Buyer's Broker can be compensated:

- Buyer pays all or a portion of the commission to their agent's broker
- Seller pays a portion or all of the commission by paying a concession to the buyer. Depending on the MLS, shown as a \$ amount or % or simply a Y or N – (buyer uses the concession to pay their agent's broker)
- Seller authorizes their agent to pay a portion of their commission to the buyer's broker

### And/or

A combination of the above: example – Buyer pays 1%, Listing agent offers 1%, and buyer requests a 1% concession from the Seller = 3%

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## Buyer Contracts Before Showings

1. Listing agents showing a property to a buyer do not need to have a contract in advance of the showing
2. Agents holding open houses do not need to have an agency agreement before you show them the home.
3. The agreement is necessary if you develop a significant relationship with the buyer, i.e. are setting appointments to show them several homes – see next slide.
4. What about dual agency? No change, it will only occur if your buyer wants to buy your personal listing (designated agency) or your company's listing.

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## How do we know what a broker is offering to a Buyer's Broker?

- The concessions field gives you an idea of seller's incentives to the buyer as a starting point for covering your costs.
- Some brokers may choose not to offer any commission sharing and only offer seller's concessions.
- Text or call the listing agent to find out what they are offering
- Look for a link in Showing time to their web site or listing site – many brokers are adding BA offering to their listing on their company web site.
- Because this is new, many brokers will not have a communication plan in place by August. As a result, agents may be showing some homes without a clear understanding of what fees, if any, the seller or listing agent are offering.

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## Forms Changes

- **Listing Agreement**
  - Two Choices - Seller will agree specifically to a Listing Fee, a Buyer's agent fee and a unrepresented buyer fee or Seller agrees to a total fee and authorizes a specific fee to be paid to the buyer's agent.
  - Additional wording that these fees are broker's policy and not set by law and are fully negotiable.
- **Buyer Representation Agreement**
  - New wording on fees offered and credits towards fees paid by the Seller.
  - Additional wording that these fees are broker's policy and not set by law and are fully negotiable.
- **Purchase Agreement**
  - Seller agrees to pay \_\_\_\_\_ of the purchase price at closing to be used towards any of the Purchaser's closing costs, at their sole discretion.
  - Seller agrees to pay \_\_\_\_\_ of the purchase price towards the cost of the Purchaser's buyer's agency fee.
- **Broker to Broker Commission Agreement** – presented in advance or with offers – similar to commercial brokers
- **Agency Disclosure/Home Tour Agreement** - For Property Showings prior to a formal agency agreement or for showing your own listings.

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## Counseling Buyers

1. Review the services you will be providing them
2. Review the three ways, or combination of the three that you are compensated for those services.
3. Review that you will let them know as best you are able, prior to showing a home, whether the seller is offering any BA compensation.
4. Discuss that the purchase agreement may specifically reflect your compensation in the form of seller's concessions to the buyer – and that the first x% of any concessions the buyer receives is used to pay your services.

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## What can we expect?

Some initial market confusion as Realtors adjust to different methods of communication and purchase agreement negotiations.

Consumer Confusion – “The law has changed and you can no longer....” No law change, just a settlement agreement from a law suit in Missouri, not Michigan. Michigan rules have always required agency disclosure to buyers and sellers.

While we are in a Sellers Market some Listing agents may recommending "don't pay a BA" as a competitive advantage – will change in a balanced market.

- Sellers may question paying a BA fee
- Buyers concerned they may be paying a fee directly
- Listing agent splitting fees vs taking the reduction on the list side.
- More buyers going directly to the listing agent

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Thank You



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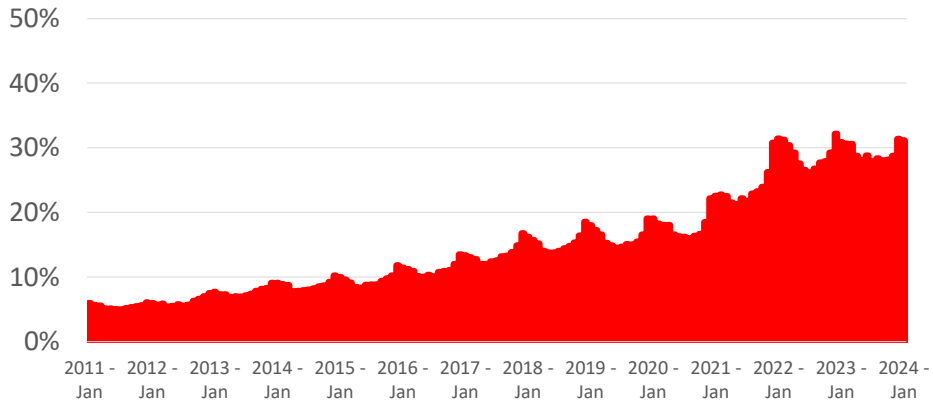
## Presentation Highlights

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- 1<sup>st</sup> quarter economic growth was slower but not worrisome.
- Consumer and business sentiment have both softened.
- Inflationary pressures have eased but are pesky.
- Activity in the goods-based side of the economy is flat to modestly lower
- There's reason to be worried about CRE, but the question is how worried.

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## Newly Constructed Inventory share of all listings

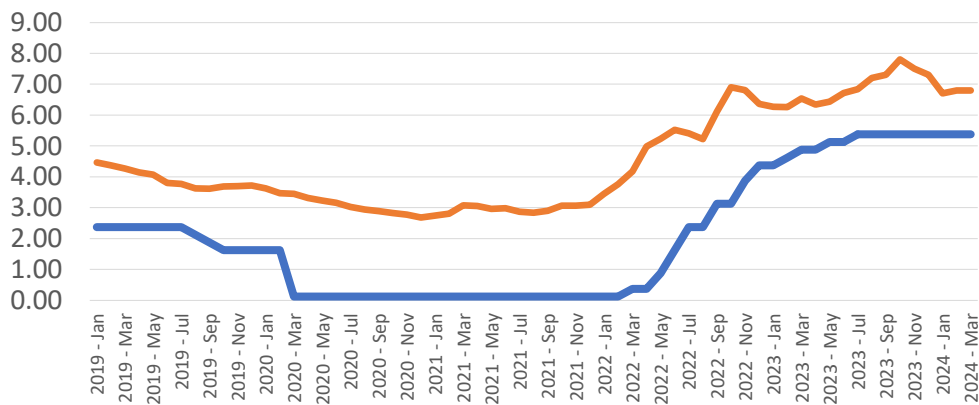


Source: NAR



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## 30-year Mortgage and Fed Funds Rate ... High Rate Environment



Source: U.S. Treasury and Federal Reserve



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