

National Economic Snapshot: Employment & Housing

OCTOBER 2020

As the pandemic continues to impact the economy, it is more important than ever to have access to accurate data and expert analysis to guide your strategy. Realistic analysis is essential to detect and mitigate the risks in your business but also valuable in identifying new opportunities. Covid-19 and social distancing measures have clearly modified buyers' and renters' tastes and created different impacts across markets/geographies and product types... some positive and others negative. Sorting through what is most relevant for your business is a clear priority.

Genesis Capital and its executive team remain committed to helping our clients achieve their goals. Providing timely information and analysis to help you manage through these uncertain economic conditions is a key component in fulfilling that mission. With that in mind, following is the October edition of the *Genesis Capital National Economic Snapshot: Employment & Housing* report, which was created for our clients by the leaders of our Construction Department. The report includes a summary and analysis of key data relating to employment, residential permits, housing starts, and new home sales and inventory. While there is certainly no shortage of economic data and related opinions available, we've tailored this report with an eye towards providing our clients with the most relevant data and analysis for operators and investors in the residential development and investment space.

As you evaluate your business plans for the remainder of the year and into 2021, now would be an ideal time to discuss your future projects and financing needs with your Loan Officer or any member of our senior leadership team. Genesis Capital remains committed to working with leading residential real estate investors, developers, innovators and brokers on the many opportunities that lie ahead.

If there's anything you'd like to discuss, please email me directly at joe.bleyle@genesiscapital.com or reach us at genesisteam@genesiscapital.com.



Joe Bleyle
Chief Credit Officer

Deconstructing the Numbers...

New non-residential and public sector construction continued its flat trend while residential construction experienced slight increases. There is market concern amongst developers that a second round of stimulus will be needed to avoid further disruption, with considerations to seasonal impact and slowing permit applications.

COVID-19 continues to have an effect on forecasts and recovery projections. This is further compounding developer concerns over proposed regulatory changes such as California's Proposition 21.

Additional increases in lumber prices are negatively impacting current construction costs with an average increase of \$16,000 per new home. Decreased domestic production, due to stay at home orders, along with imposed import tariffs from Canada are seen as the greatest contributing factors. The potential increase in affordable or entry-level housing during the fourth quarter of 2020 could be negatively impacted due to continued increased costs.

Market changes have led Genesis Capital to create some innovative approaches and product enhancements to support our clients as they prepare for continued instability. We still see opportunities within the framework of current market conditions – albeit in a more targeted approach that captures underlying project value.

P2 • Employment

P3 • Residential Permits

P4 • New Housing Starts

P5 • New Home Sales
and Inventory



Robert Jayne,
Executive Vice President – Construction & Development

YEAR-OVER-YEAR CHANGES (2020-2019)



in U-3 Unemployment



In 1-4 Permitted Units



in Housing Unit Starts



in Median Sales Price



in Residential Inventory

Employment

2020 CONSTRUCTION EMPLOYMENT 3.1% BELOW 2019 YTD

September national construction employment experienced a 1.6% increase versus March 2020. Similarly, there was a 1.1% increase in residential remodel employment versus the previous month while new single-family and multifamily general contractors experienced lower increases at 0.1% and 1.0%, respectively.

LABOR MARKET RECOVERY SLOWING MORE THAN ANTICIPATED

The unemployment rate fell below 8.0% as construction (particularly residential), motion pictures, sound, transit and gambling all experienced gains. Not captured in these metrics are the large furloughs and layoffs announced at the end of September and early October at several airlines, Disney, Ralph Lauren, Shell and a multitude of small businesses.

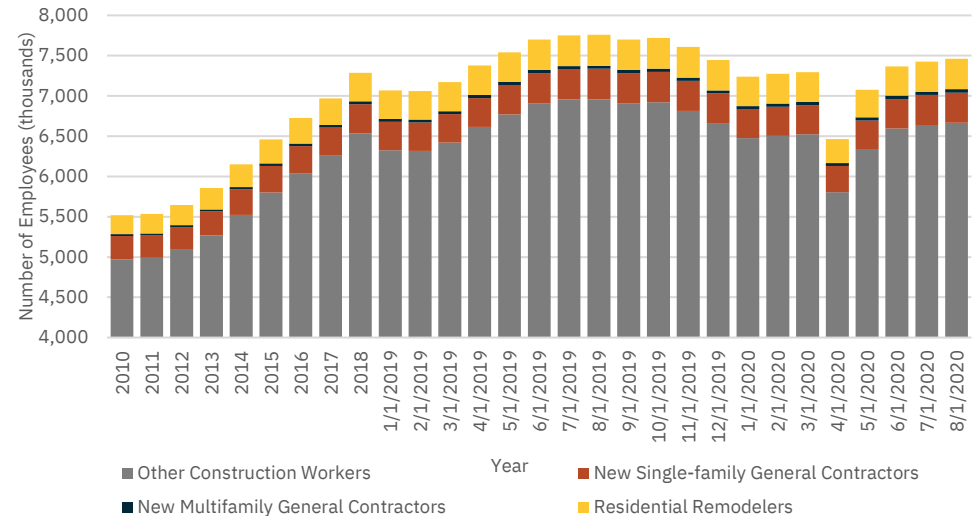
	AUGUST		CHG	JULY	CHG
	2020	2019	(YEAR)	2020	(MONTH)
Other Construction	6,668	6,957	-4.1%	6,639	0.4%
New Single-Family General Contractors	373	381	-2.9%	373	0.1%
New Multifamily General Contractors	42	38	8.6%	41	1.0%
Res. Remodelers	378	384	-1.7%	374	1.1%

	SEPTEMBER		CHG	AUGUST	CHG
	2020	2019	(YEAR)	2020	(MONTH)
U-3 Unemployment	7.9%	3.5%	4.4%	8.4%	-0.5%
U-6 Unemployment	12.8%	6.9%	5.9%	14.2%	-1.4%

Employment statistics are released on the Friday of the first full week of the month. These numbers are taken from the U.S. Census Bureau Employment Situation report, which is typically released on the third Friday after the conclusion of the reference week (i.e., the week which includes the 12th of the month).

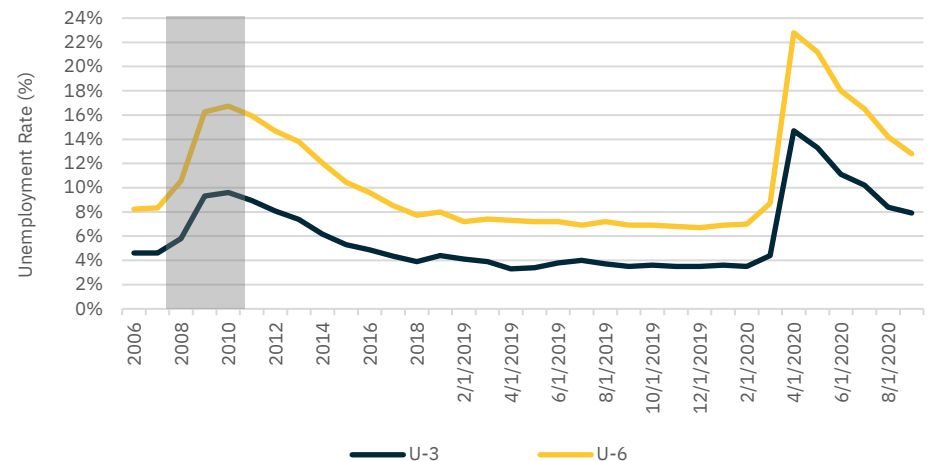
U-3 is the most commonly reported rate of unemployment in the U.S. and represents the number of people actively seeking a job. The U-6 rate is widely considered to be more accurate, as U-6 includes discouraged, under-employed and unemployed workers.

U.S. Construction Employees 2010 through August 2020



Note: 2020 data was collected on September 4, 2020 but preliminary data is through July.
Source: The Bureau of Labor Statistics; Compiled by Tres Seippel, MAI, MRICS.

National Unemployment - 16 Years and Older Not Seasonally Adjusted



Note:
1. 2020 data was collected on October 2, 2020 but preliminary data is through September.
2. Shaded area represents a recession, as determined by the National Bureau of Economic Research.
Source: The Bureau of Labor Statistics; Compiled by Genesis Capital Construction Department

Residential Permits

MULTIFAMILY PERMITS LAG 2019

Although overall residential permits exceeded 2019 by 2.8%, year-to-date, multifamily permits were 6.5% lower during the same period. The pivot from multifamily to single-family permit filings indicate developers' outlook on the strength of the single-family market. Five-plus units posted a 29.3% decrease versus the previous year, in August, while one to four family homes saw a 14.0% increase. There are continued concerns that the pace of permit filings is a result of the backlog of documents due to municipal office closures. There are further concerns that continued waves of COVID-19 and the upcoming Presidential election could also cause continued drops in newly permitted multifamily properties.

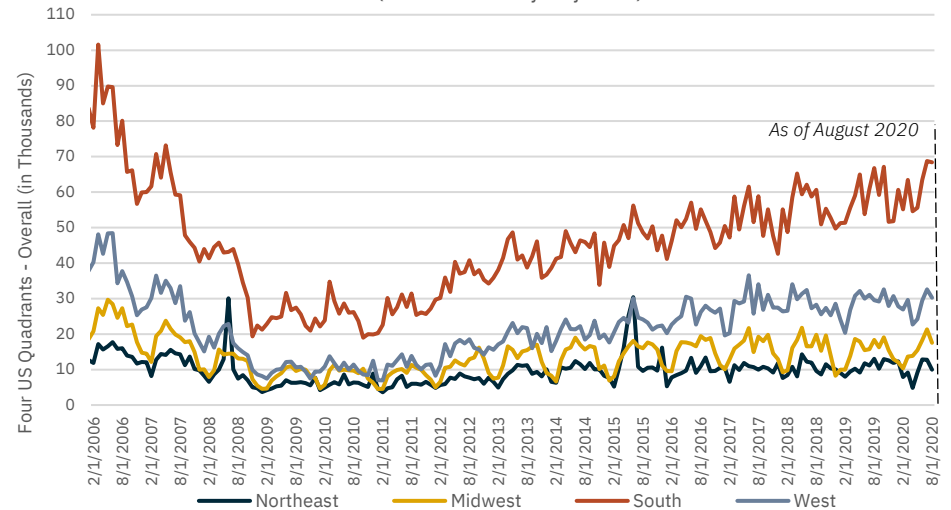
New home permit filings are reflective of both current and future economic outlooks. They are indicators of consumer confidence and how homebuilders are perceiving changes to the market.

NATIONAL NEW HOME PERMIT DATA (IN THOUSANDS)

	AUGUST		% CHG (YEAR)	JULY	
	2020	2019		2020	(MONTH)
Overall, One to Four	94.49	82.92	14.0%	96.28	-1.9%
Overall, Five-Plus	31.72	44.83	-29.3%	39.14	-19.0%
Northeast	9.93	13.06	-23.9%	12.73	-22.0%
Midwest	17.57	18.39	-4.5%	21.32	-17.6%
South	68.44	66.76	2.5%	68.73	-0.4%
West	30.26	29.55	2.4%	32.65	-7.3%

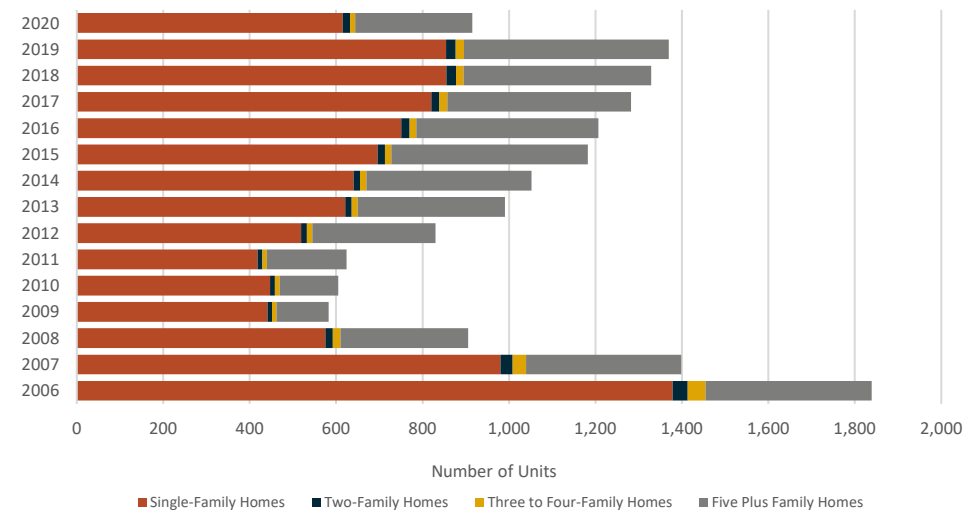
This data set is revised monthly around the 18th workday of each month and provides estimates for the number of new home permits that were issued in the U.S. and four Census Regions.

New Privately Owned Housing Units Authorized by Census Regions
(Not Seasonality Adjusted)



Note: 2020 Data is as of August
Source: US Census (www.census.gov); compiled by Genesis Capital Construction

Residential Permits 2006 through August 2020



Source: U.S. Census (www.census.gov); compiled by Genesis Capital Construction Department

New Housing Starts

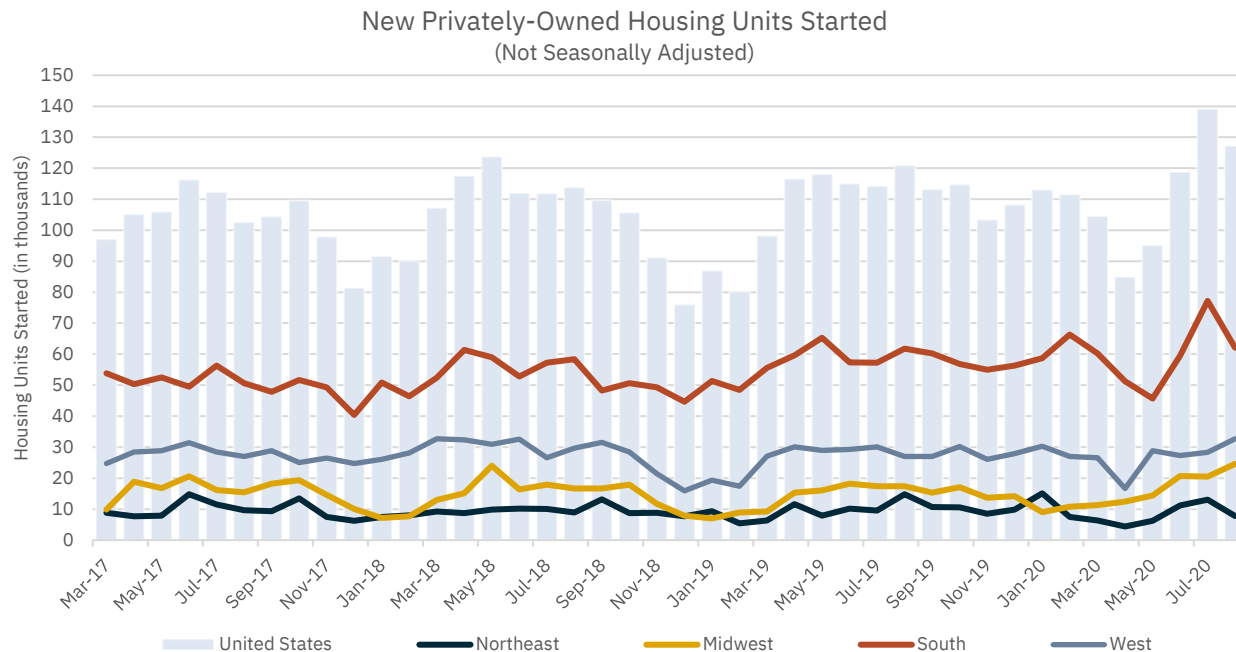
MULTIFAMILY STARTS DECREASE IN AUGUST VERSUS 2019

Year-to-date nationwide housing starts outpaced 2019 by 5.2%, this is a result of a 3.7% increase in one to four family projects and an 8.8% increase in five-plus unit projects. Meanwhile, five-plus unit starts from May through August have decreased 2.0%, maintaining the assumption that developers are shifting attention to single-family development. The Northeast was the only region to post a decrease in new housing starts versus August 2019.

New home starts are typically a key indicator of economic strength as residential construction has overarching impacts on most other industries. A brief slowdown in starts can signal a large issue like COVID-19 or even the 2008 Recession.

	AUGUST		% CHG (YEAR)	JULY 2020	% CHG (MONTH)
	2020	2019			
Overall, One to Four	94.90	82.20	15.5%	93.80	1.2%
Overall, Five-Plus	32.40	38.80	-16.5%	45.30	-28.5%
Northeast	7.80	14.80	-47.3%	13.10	-40.5%
Midwest	24.60	17.40	41.4%	20.50	20.0%
South	62.10	61.80	0.5%	77.20	-19.6%
West	32.70	27.00	21.1%	28.30	15.5%

This data set is revised monthly around the 18th workday of each month and provides estimates for the number of new home permits that were issued in the U.S. and four Census Regions



Source: U.S. Census (www.census.gov); compiled by Genesis Capital Construction Department

New Home Sales and Inventory

NEW HOME SALES

	AUGUST		% CHG (YEAR)	JULY 2020	% CHG (MONTH)
	2020	2019			
Northeast	4,000	3,000	33.3%	3,000	33.3%
Midwest	9,000	5,000	80.0%	11,000	-18.2%
South	52,000	34,000	52.9%	49,000	6.1%
West	19,000	15,000	26.7%	20,000	-5.0%

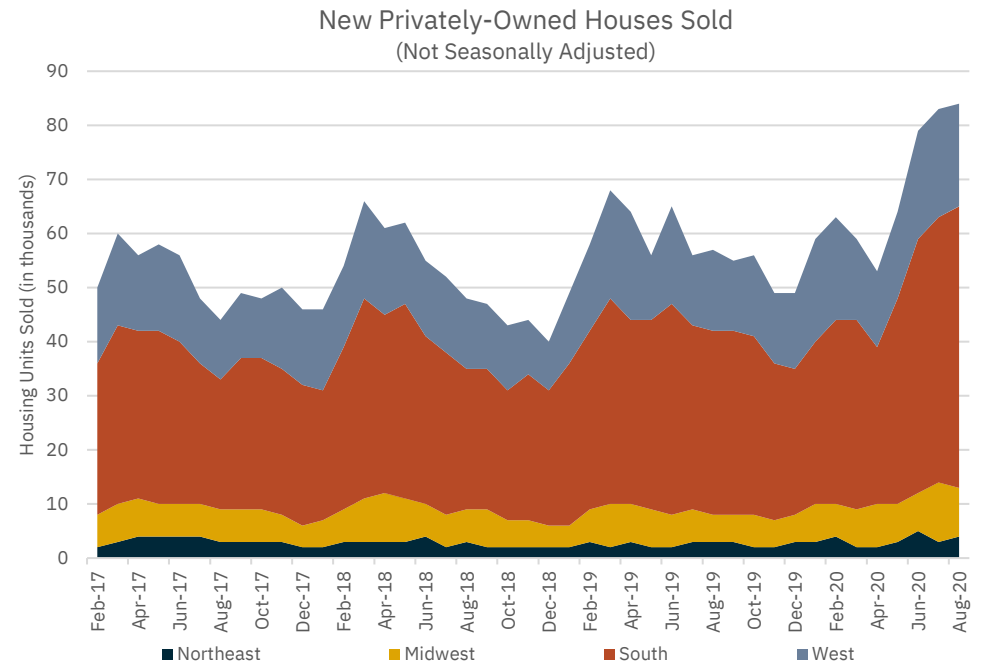
NEW HOME INVENTORY

	AUGUST		CHG (YEAR)	JULY 2020	CHG (MONTH)
	2020	2019			
Northeast	23,000	28,000	-17.2%	24,000	-4.2%
Midwest	28,000	37,000	-24.3%	28,000	0.0%
South	154,000	173,000	-11.0%	163,000	-5.5%
West	75,000	87,000	-13.8%	75,000	0.0%

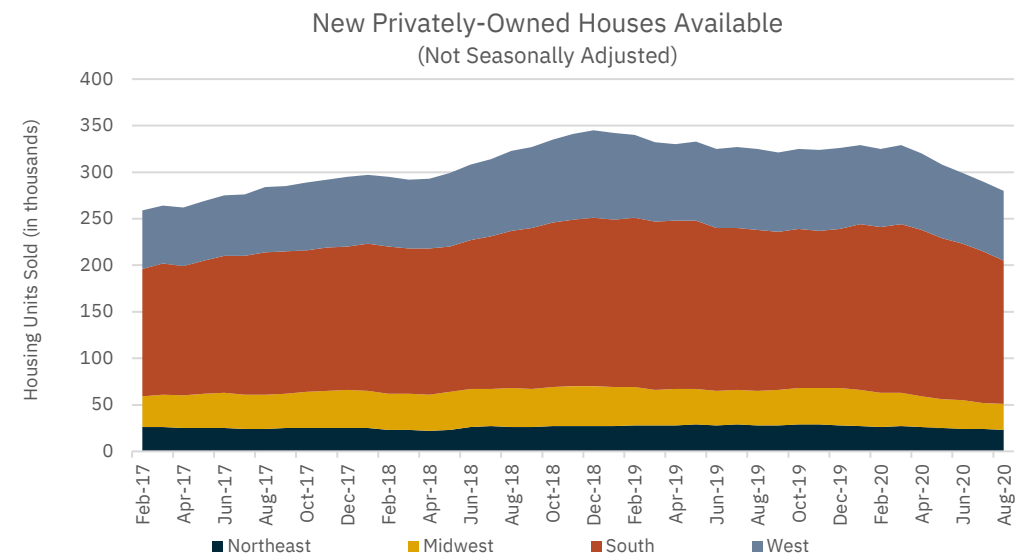
NEW HOME SALES AND MONTHS OF SUPPLY

	AUGUST		CHG (YEAR)	JULY 2020	CHG (MONTH)
	2020	2019			
Median sales price (\$)	\$312,800	\$327,000	-4.3%	\$327,800	-4.6%
Months' supply	3.40	5.70	-2.30	3.50	-0.10

Revised monthly estimates for the U.S. and four Census Regions are released on or around the 18th workday of each month.

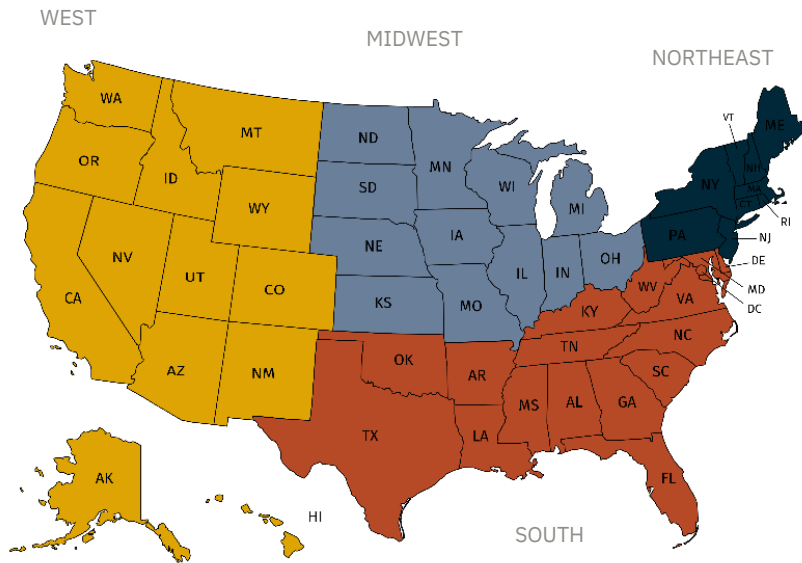


Source: U.S. Census (www.census.gov); compiled by Genesis Capital Construction Department



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For statistical purposes, the U.S. Census Bureau divides the nation into four geographic regions illustrated in the map below:



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Our diversified product line and sharp, swift execution enables us to cater to a broad range of investors and developers, across multiple types of projects. We can serve your leverage needs – from large scale fix and flip operations to single-family new construction, as well as multi-unit and multifamily development.

Source for all tables and charts: U.S. Census (census.gov) Compiled by Genesis Capital Construction Department

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