

INTERNAL USE ONLY

Market Update

Year End 2022

MarketNsights by Mr. John Hunt



**BERKSHIRE
HATHAWAY**
HomeServices

Georgia
Properties

Happy New Year!

For our first market update of 2023, we will recap the 2022 housing market and highlight MarketNsight's forecasts of the past year.

In early 2022, as the country eased out of the worst of the pandemic, we all asked: would the housing market continue its boom cycle or bust from the dizzying heights of 2021? Unfortunately, the Federal Reserve answered the question for all of us. After leaving rates too low for far too long, they began precipitous interest rate hikes in the spring. Of course, the housing market has taken the brunt of the fastest rate increases in Federal Reserve history.

MarketNsight has remained committed to providing our Customers the latest data-driven forecasts to help them stay ahead of the competition. In June 2022, we began weekly updates once again to keep pace with changing market conditions caused by rising interest rates. So, how did we do?

What We Got Right

- Demand did not go negative even as rates went above 4% and then above 5%.
- We identified and defined the Interest Rate Sensitivity Threshold of 5.25%.
- Inventory remained low and did not explode with rising interest rates.
- Prices did not collapse but moderated to be near the 47-year normal.
- We predicted that we would end the year with prices up 12 to 14% over 2021.
- Normal seasonality returned, and as we predicted, inventory dropped in late 2022.
- We perfectly predicted the NAR's National Pending Sales numbers *4 weeks ahead* of every release.

What We Got Wrong

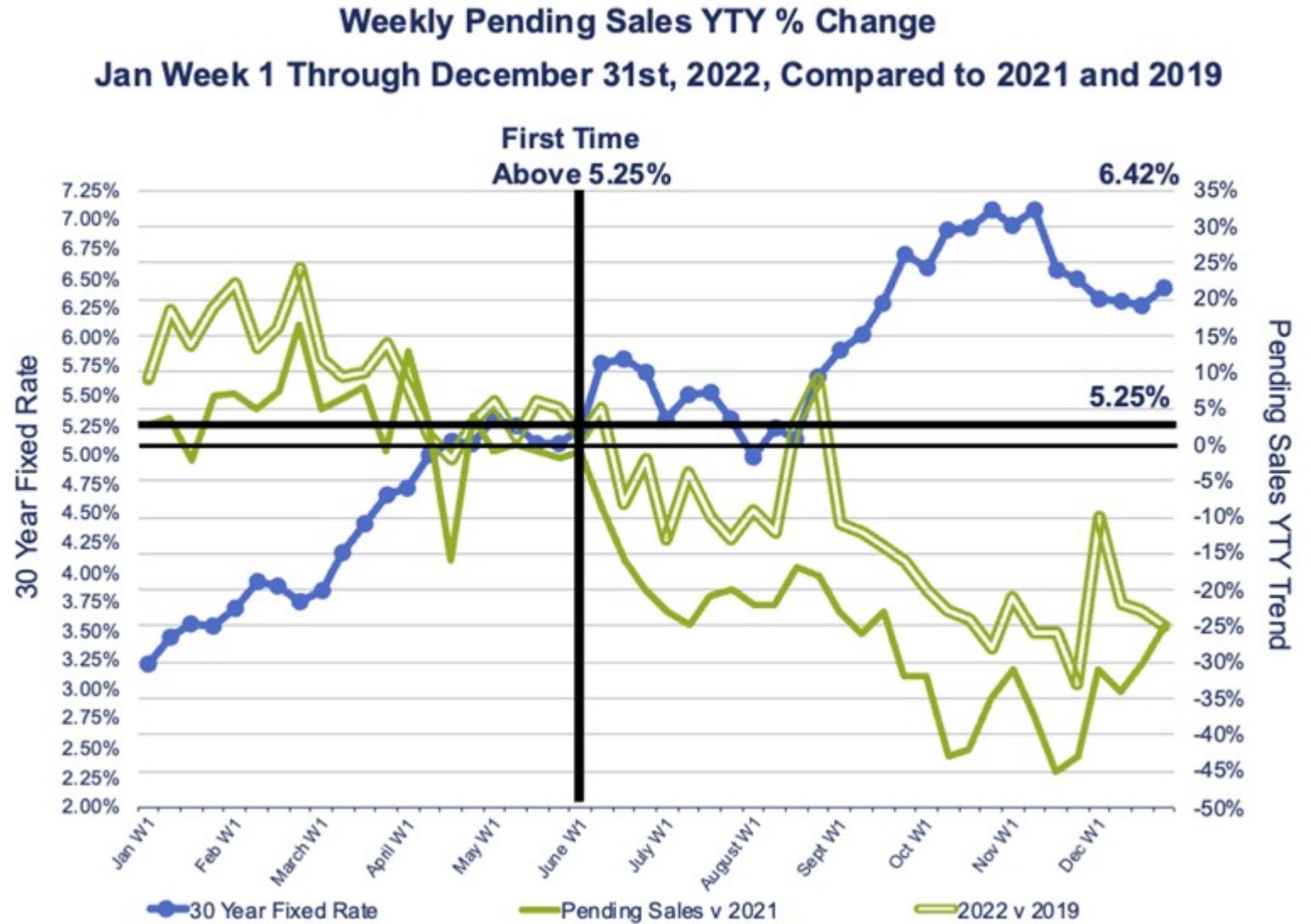
- The Fed was far more aggressive in raising rates than we believed they would be.

Pending Sales

The overall pending sales trend since finding a bottom in the last week of November has been positive. This is despite a slight increase in weekly 30-year mortgage rates in the last two weeks of December. Anecdotally, many of our customers experienced this improvement as well. As you will see later, the extremely low months of supply numbers show that there is still plenty of pent-up demand in the system. It could be that shoppers are getting used to rates at this level, or at least they are accepting it and moving forward.

Pending sales in the fourth week of December compared to 2021 continued to improve over the previous four weeks and were down 25%. Compared to 2019, pending sales were also down 25%. (See Chart 1.)

Chart 1



What Was the Final Tally?

Through May 2022, pending sales were up 3% over a stellar 2021. After hitting the Sensitivity Threshold in June, pending sales were down 27% over 2021. The end result was that for the year, pending sales were down 14% from 2021 and only down 4% against our benchmark year of 2019. (See Chart 2.)

It could be that we will see the opposite trend for 2023: a slow start and a recovery in the second half of the year as rates and inflation continue to moderate.

Chart 2

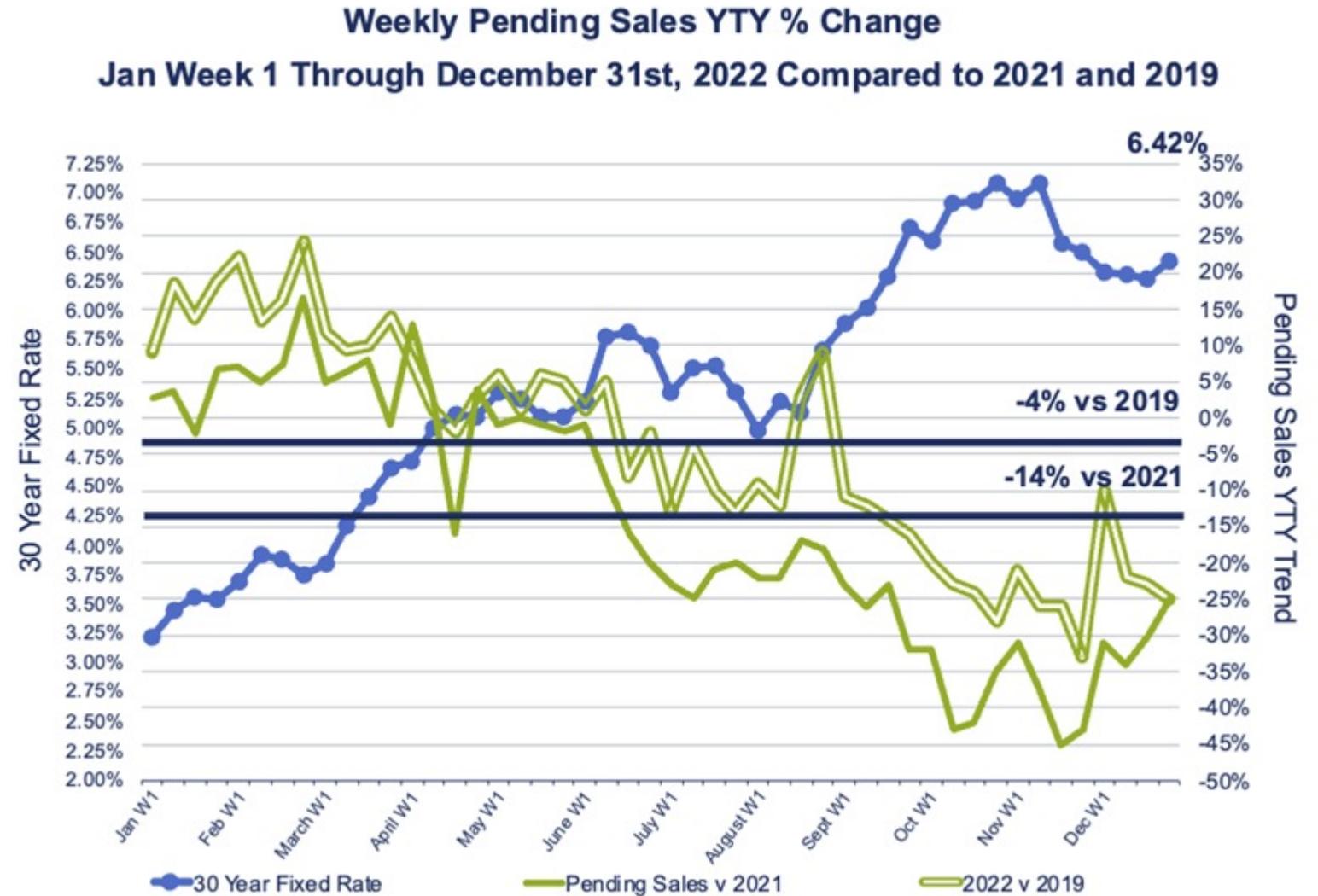
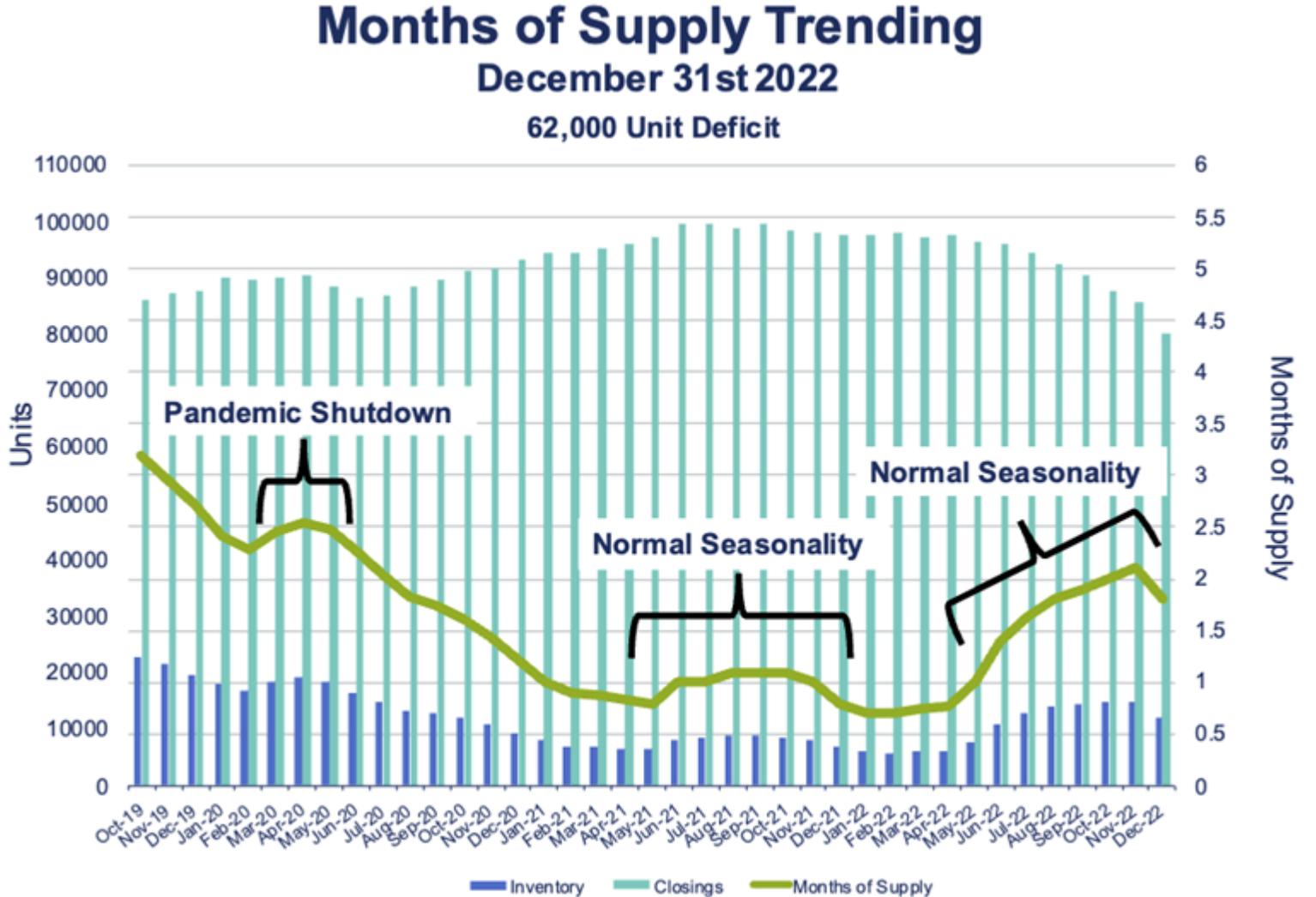


Chart 3

Supply and Demand

As we have been predicting since August, the inventory and months of supply peaked in November and began to drop in December under normal seasonal conditions. Total inventory dropped to the lowest level in 5 months, and the months of supply declined significantly from 2.1 in November to 1.8 in December. Inventory and months of supply will continue to fall for the next few months until we approach whatever spring market 2023 has in store for us.

To reach the equilibrium of six months of supply, Atlanta still needs 62,000 units of additional housing inventory over the next 12 months. (See Chart 3.)



What About Price?

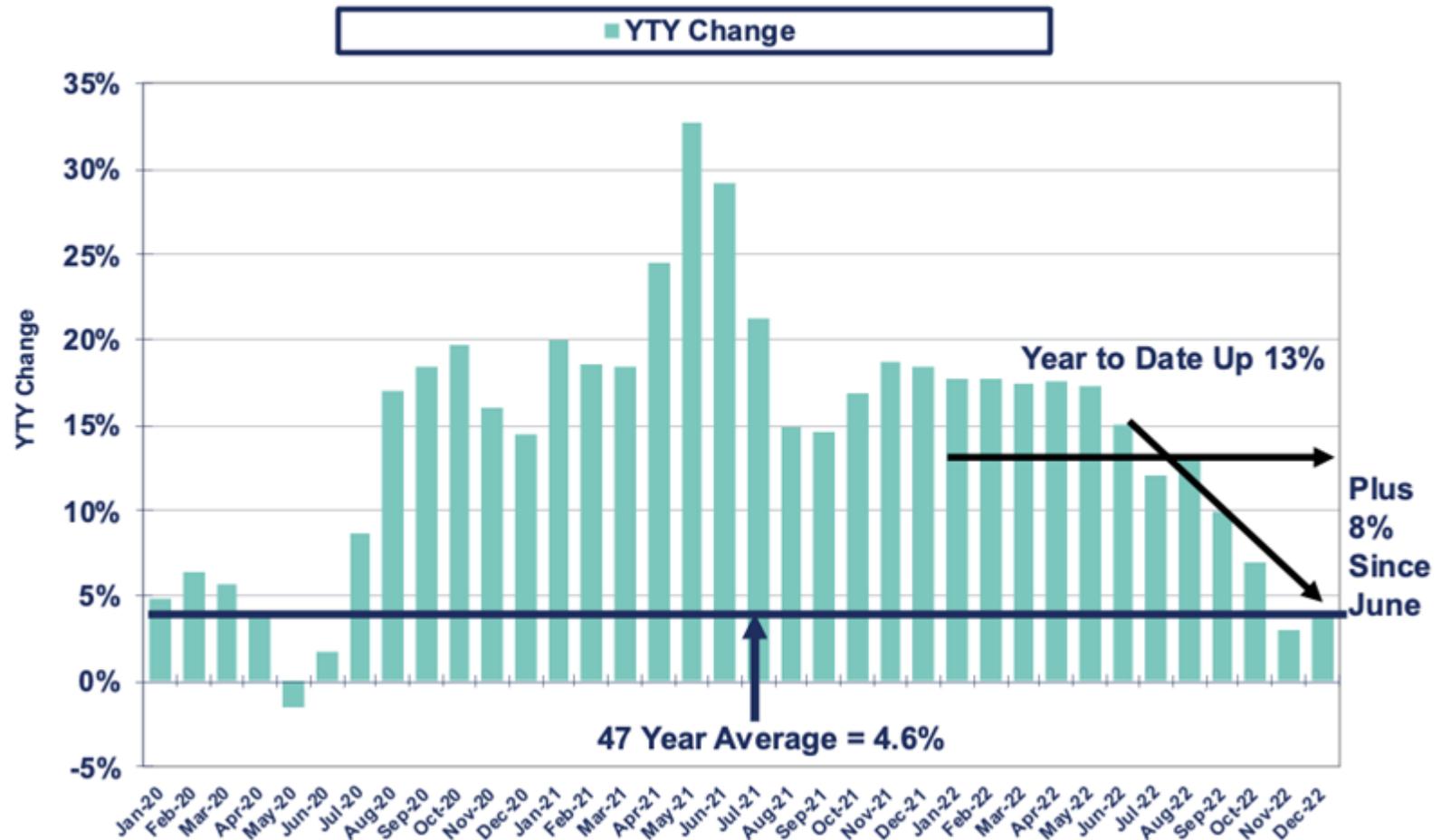
As we predicted, prices have not collapsed in the face of the highest interest rates in 20 years. There is simply not enough inventory in the system to cause a massive drop in prices.

For the year, prices were up 13% over 2021 (our forecast called for 12% to 14%). Looking at prices since we passed the Sensitivity Threshold in June, they are only up 8%. (See Chart 4.)

It appears that prices are settling into a range similar to the pre-pandemic period and are approaching the 47-year average appreciation of 4.6%.

Chart 4

YTY Change in Closed Price



NAR and MarketN Sight

MarketN Sight's weekly updates kept our customers 4 weeks ahead of the NAR's national pending sales results. After correctly predicting the NAR's November numbers, we believe that their national pending sales numbers for December will show an improvement over November and only be down 31% when they are released at the end of this month.

As we have said many times over the last year, we had an inventory shortage before the pandemic started, and the return of millennial buyers and the pandemic housing boom made that inventory shortage even worse. The current environment will only leave us even farther behind the eight ball when rates and inflation moderate later this year.

	NAR		MarketN Sight	
	Closings	Pendings	Closings	Pendings
June 2022	-14%	-20%	-15%	-22%
July 2022	-20%	-20%	-24%	-22%
August 2022	-20%	-24%	-23%	-20%
September 2022	-24%	-31%	-25%	-26%
October 2022	-28%	-37%	32%	-38%
November 2022	-36%	-38%	-39%	-39%
December Week 1				-31%
December Week 2				-34%
December Week 3				-34%
December Week 4				-25%