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Market Update

March 13, 2023

MarketNsights by Mr. John Hunt

MarketNsight

BERKSHIRE HATHAWAY HOMESERVICES | GEORGIA PROPERTIES

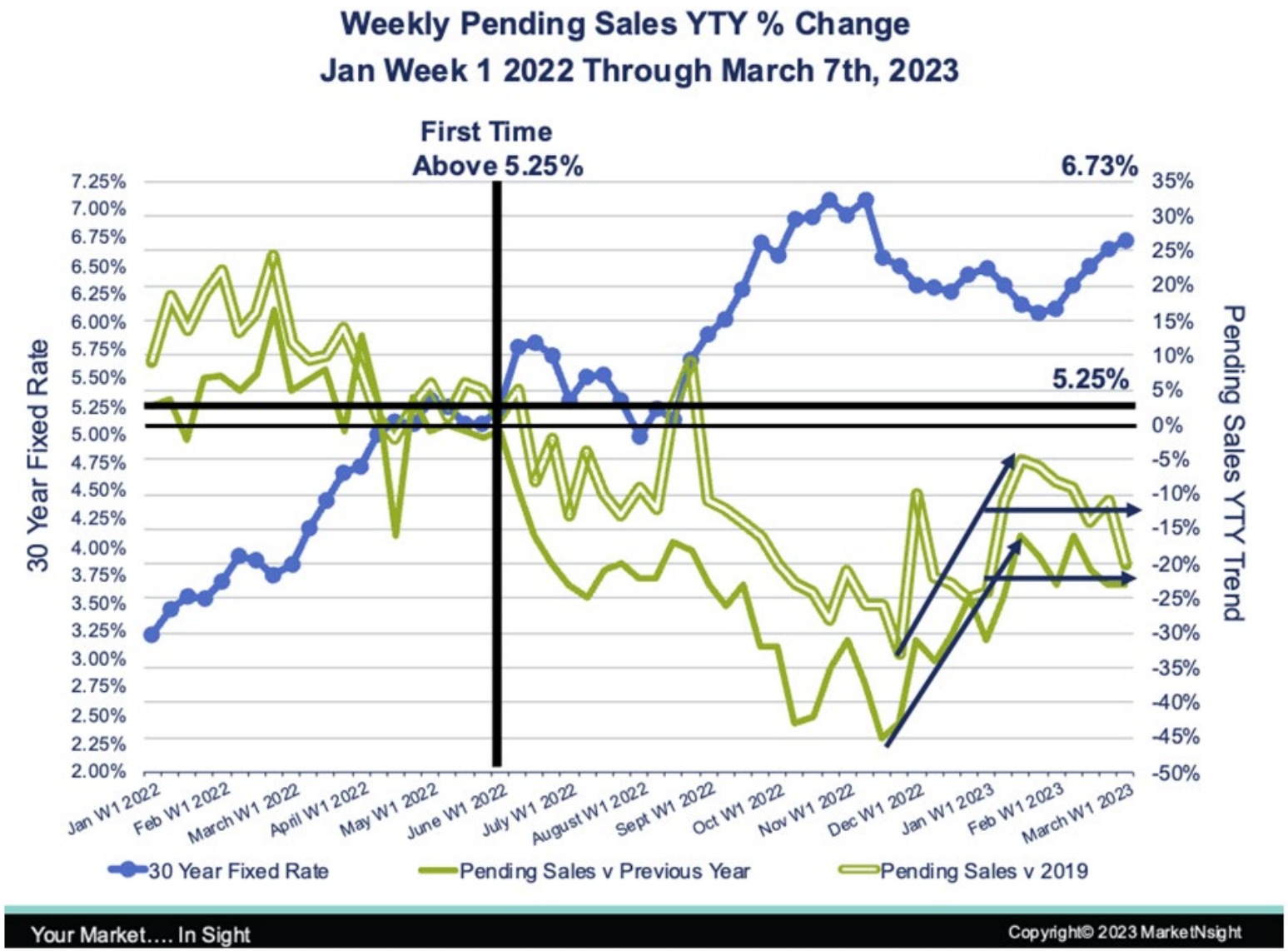
Pending Sales

Mortgage rates hit 6.65% in the last week of February and continued their upward trajectory to 6.73% for the first week of March. The last time rates were above 6.5% was in November, at what has been the bottom to date. At that time, pending sales were down 45% against the previous year and down 33% against the benchmark year 2019.

We will see what happens in the coming weeks, but <u>it appears that some buyers are beginning to accept the current interest rate environment</u> and making adjustments in price point or location to mitigate the rise in their monthly mortgage payment.

<u>Pending sales in the first week of March 2023 were down 23% year to year.</u> Compared to 2019, pending sales were down 20%. Year to date, pending sales are down 22% from 2022 and down 12% from 2019. (See Chart 1.)

Chart 1



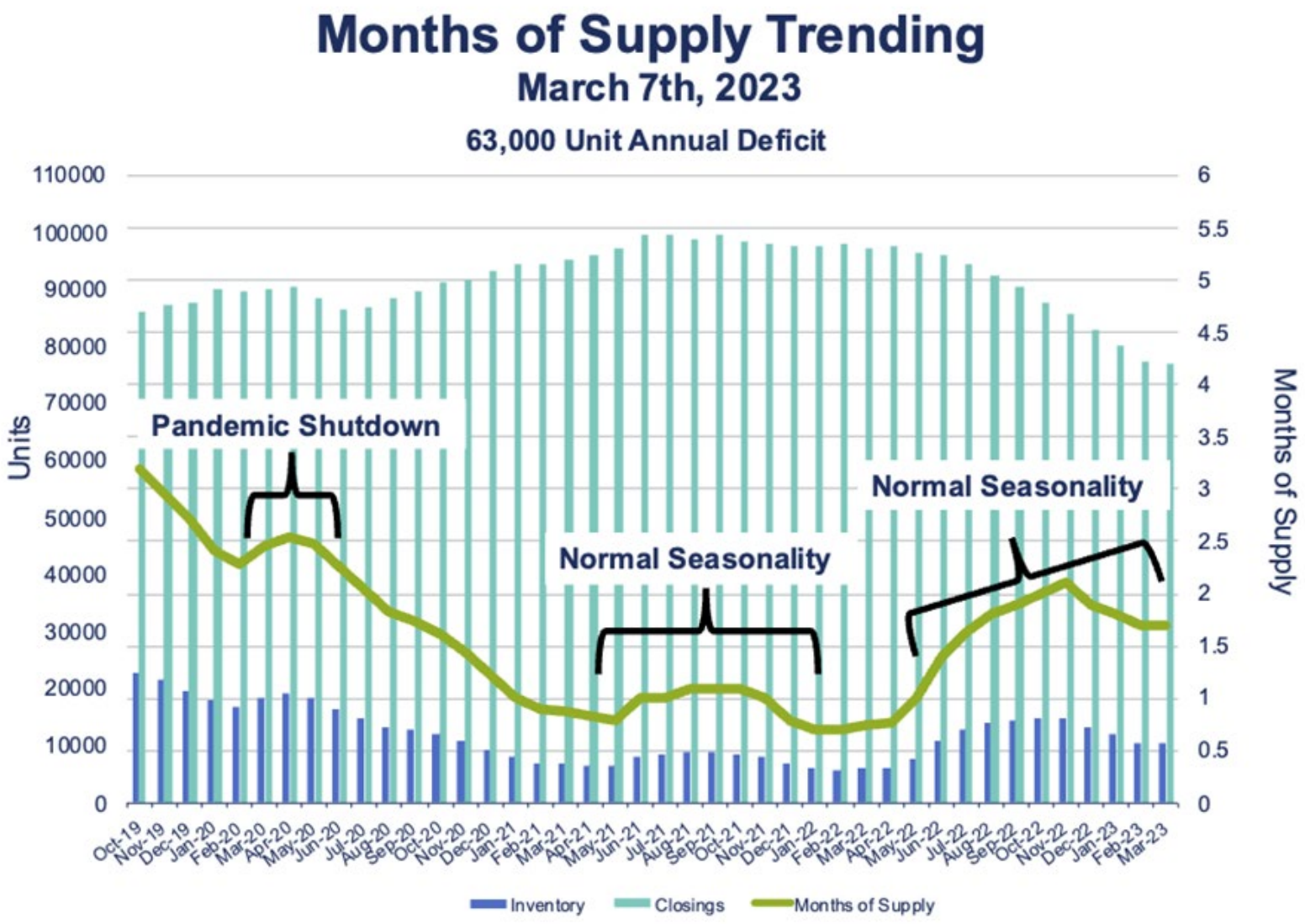
Supply and Demand

Since the last week of January 2023, months of supply has remained unchanged at 1.7. Closings and inventory have stabilized in a seasonal fashion similar to the same period last year. We should see closings and inventory beginning to rise in April/May for the spring selling season.

Atlanta continues to need an additional 63,000 units of housing inventory over the next 12 months to reach 6 months of supply, which is equilibrium. (See Chart 2.)

Our forecast is the same: we expect to see demand rise moderately into the spring selling season, and months of supply will not exceed 3 in the third and fourth quarters of 2023.

Chart 2



Your Market.... In Sight

NAR and MarketNsight

Two weeks ago, we said: *"For the first three weeks of February, MarketNsight shows pendings down an average of 20% year to year. Unless the bottom falls out in the last week of February, we should see the NAR February pending sales numbers look very similar to January's when they are released at the end of March – down 20% to 25% year to year. Remember, you heard it here first!"*.

The bottom did not fall out, and February pending sales were down 21% from 2022.

We expect that the NAR February pending sales numbers will look very similar to January's when they are released at the end of March – down 21% to 24% year to year. (See Table 1.)

Table 1

	NAR		MarketNsight	
	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 2022	-34%	-33%	-35%	-30%
January 2023	-37%	-24%	-36%	-23%
February 2023 Week 1				-23%
February 2023 Week 2				-16%
February 2023 Week 3				-21%
February 2023 Week 4				-23%
March 2023 Week 1				-23%

Your Market.... In Sight

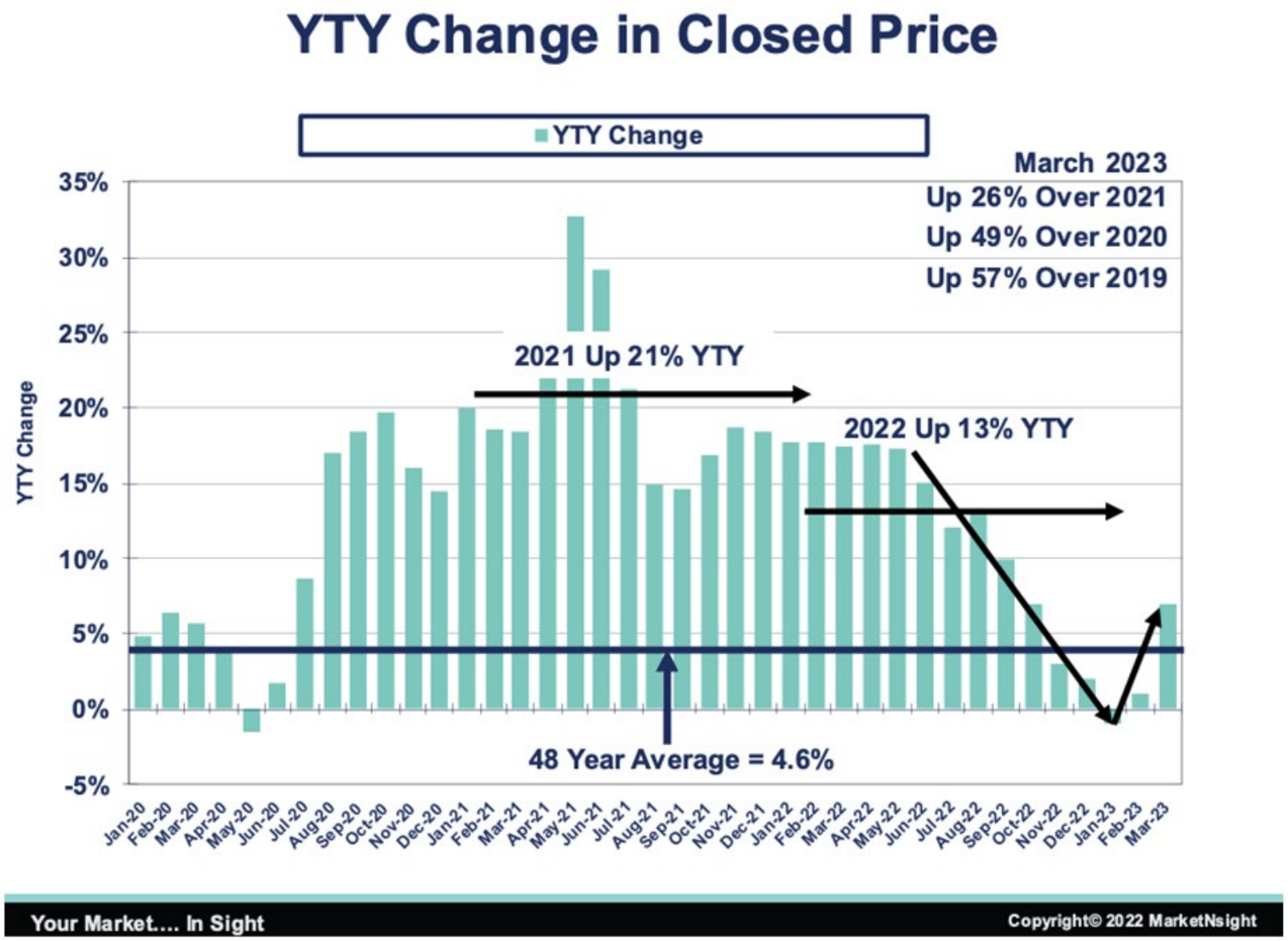
What About Price?

When rates began rising a year ago, we maintained that there would be no collapse in prices, primarily due to the extreme lack of inventory. Now, we have proof that we were correct, and other national pundits are finally starting to come around. (https://your.marketnsight.com/3YJ1boX)

We not only agree that prices have found a bottom, but we can also show it in the most recent data. Prices bottomed out in January when they were down 1% from the previous year. Prices were up 2% in February, and for the first week of March are up 7%. It is still early in the month, but the upward trend is clear. (See Chart 3.)

In raising rates at the fastest pace in history, the Federal Reserve's strategy has continued to drastically suppress inventory. The effect of this (we all learned in Economics 101) will be rising prices, exactly what they were trying to correct. The only long-term answer is more supply—period.

Chart 3



Continued Indictment of the Fed

Is anyone surprised that the Federal Reserve overcorrected on both sides of the pandemic? Using inaccurate and lagging data, they kept rates far too low for far too long, and now, to fight the inflation that they helped create, their answer has been possibly the most radical and destructive shock to the system in the history of the Fed. In what universe does that make sense? "Everything in moderation" doesn't seem to be a part of their lexicon.

And now, some of the unintended effects of their radical strategy are being seen in the closure of three large banks in just a few days. Here's a great summary of the situation from an article this weekend: "[the SVB collapse] is emblematic of the financial cracks and unintended consequences to the fastest rate hikes since the 80s," Wei Li, Global Chief Investment Strategist at BlackRock, said…." (https://your.marketnsight.com/3mTkONC)

Some analysts expect the Fed to pause their rate hikes in the near term. This may be a good time for the FOMC to reflect on the downrange consequences of their policies.

Despite the Fed's recklessness, we believe the housing industry will be resilient through this. Demographically, the country still needs millions of units of housing, so we still have more demand than supply. We agree with the NAR when they say that housing has bottomed and will continue to see improvement, especially in the second half of the year. (https://your.marketnsight.com/3JdBsiD)