



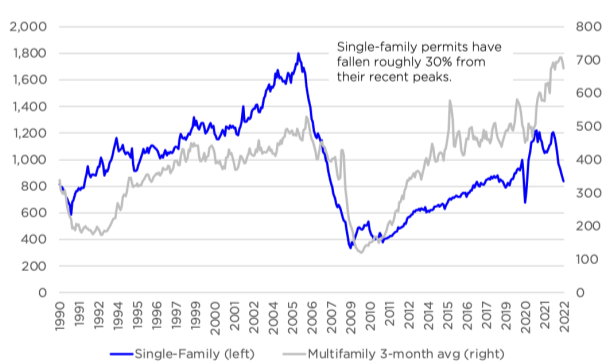
## The US is already underbuilding housing again, worsening the long-term supply shortage

Single-family housing construction has fallen meaningfully below long-term averages<sup>1</sup>

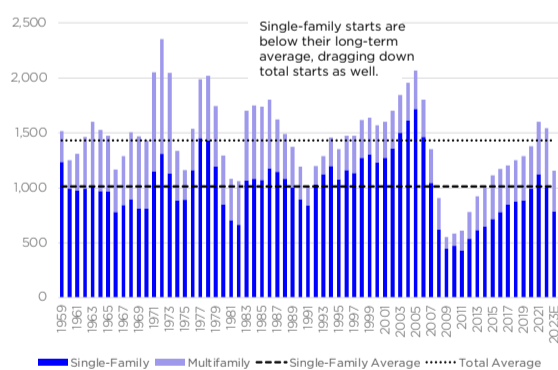
Rising rates have achieved the Federal Reserve's intended effect of dampening housing demand and bringing down the rate of home price and rent growth. But increased demand was just one side of a historic supply-demand imbalance that drove rapid home price and rent growth during the pandemic. The other side was years of underproduction leading up to the pandemic, especially of single-family homes. The Fed induced rate shock may have brought housing supply & demand back into balance; however, it has also prompted builders and developers to sharply reduce rates of construction, particularly of single-family homes. Consensus forecasts call for rates of construction to continue to decline into 2023, which means the pandemic construction surge lasted less than two years. This wasn't enough to address housing's pre-pandemic housing shortage, let alone a post-pandemic housing market that could feature structurally higher levels of demand driven by factors such as hybrid work, increased migration, and an increased focus on the home. Longer-term, Pretium expects that the housing supply shortage is likely to remain a central driver of US housing market dynamics and that this supply shortage will be more pronounced for single-family vs. multifamily homes.

Permits are the first step in the construction process and monthly permits trends provide an early gauge of overall housing construction levels. In October, US housing permits are down nearly 20% from their early 2022 peaks. As shown in Exhibit 1 this decline is almost entirely driven by declining single-family permits that are down roughly 30%; by contrast, multifamily activity is down just 5%. Single-family permits fell below the rate of single-family completions in June, so homebuilder construction backlogs have been declining since then. On the other hand, multifamily permits remain well above multifamily completions and construction backlogs are still increasing. In the near-term single-family homebuilders have curtailed production more sharply than multifamily developers because of the sensitivity of home purchase demand to rising mortgage rates; over the longer-term, Pretium believes that land and housing supply constraints are also more acutely felt in the single-family market.

**EXHIBIT 1**  
Monthly Housing Permits (1990-Current, 000s)



**EXHIBIT 2**  
Annual Housing Starts (1959-2023E, 000s)



Starts represent ground-breaking for new homes and provide the longest time series for analyzing levels of construction. As shown in Exhibit 2, the average level of single-family starts since 1959 has been 1.02 mm. October's single-family starts pace of 0.86 mm is 16% below this long-term average and consensus forecasts project construction levels to continue to decline in 2023. For example, Fannie Mae forecasts that single-family starts will decrease to 0.79 mm in 2023. Multifamily starts remain above their long-term average, but the decrease in single-family activity has been significant enough to drive overall housing starts below their long-term averages. If housing starts begin to recover in 2024 at the same roughly 6% annual growth rate the market experienced from 2013-19, it could take until 2027 for total housing starts to again exceed their long-term averages. This would result in a 20-year period from 2007-2026 where total housing starts only exceeded their long-term average for two years during the pandemic.

1. Source: US Census, New Residential Construction, as of October 1, 2022; Fannie Mae Housing Forecast, as of October 10, 2022.

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