Regions Insights Podcast

Episode 4: What's Driving the Housing Market?

This episode asks: How does the cost of housing affect the grand tapestry of the American economy? Listen to our panel of Regions experts, Brandon Thurber, Chief Market Strategist, and George Trible, Home Loan Direct Group Manager, as they provide invaluable insights on the implications of housing market dynamics for homeowners, aspiring buyers, and businesses alike. Michael Fisher, President of the Atlanta Realtors Association, also shares his real-world perspectives on the market as the housing landscape continues to evolve.

Episode Transcript

Chris Blose: Welcome to The Regions Insights Podcast. I'm your host, Chris Blose, and on this show, we look at trends, tips and triumphs around your money.

Buying a home has always been a major milestone in the world of financial planning. People looking to buy their first home, move into a new home, buy investment property or make any other such moves need to plan carefully and keep a number of factors in mind even in the best of times. And right now, they face a few added challenges: High interest rates. Low inventory. Stiff competition.

On today's episode, we have several guests here to help us sort through the state of the housing market. Later, we'll hear from Brandon Thurber, Chief Market Strategist at Regions, and George Trible, Home Loan Direct Group Manager at Regions.

But first, we asked Michael Fisher, a real estate agent and president of the Atlanta Realtors Association, to tell us about the trends he's seeing in the housing market.

Michael Fischer, President of the Atlanta Realtors Association:
There's different challenges the buyers and sellers are facing. I think the first thing is obviously going to be rates. Rates jumped up significantly from last year and even more significantly from the year before, but just put a lot of pressure on buyers. We had kind of a once in a generation opportunity for a lot of members in the marketplace to buy real estate and lock in these low rates for 30 years. I read recently that 80%, or by some calculations more, have a rate under 6% and 50% have a rate under 5% so a lot of people locked in low rates and have no real interest in

moving. So that's kind of giving us some challenges on the other side of the equation which is the inventory. So buyers right now are facing a situation where they've got low inventory and they're facing higher rates. So with the low inventory you see prices stable and in some markets even higher low days on market. Most recently in Atlanta our market brief had a ten day on market average it's got a thirty day median which is something maybe we can dive into a little bit later. That discrepancy is a little unusual in a marketplace but the rates and inventory just make it really challenging for buyers. They've got to go and be competitive.

Chris Blose:
Obviously we talk a lot about the effects of the covid 19 pandemic and we saw some major trends during that time. So what were those trends and demand patterns and consumer behavior? And how have they changed now as the market has really made a dramatic turn here in the last year or so.

Michael Fischer:
Yeah, so one one statistic we like to use is the months of inventory in the marketplace so that represents a factor of months that really, when you step back and you look, you say okay, this is how many months of inventory that we have that could last if a normal amount of buyers were in the marketplace and normal is considered something in the range of 3 to six months and really I feel like we're almost at a point where we have to redefine what a normal 3 to 6 months of market is because we haven't seen it in a long time. It very briefly jumped up at the very beginning of the pandemic And so we saw the market kind of halt for a few weeks and then it really went into hyperdrive and ever since then we've been hovering anywhere from one and a half to one point eight months worth of inventory in the marketplace. That's really historically low particularly for it having been such a long time. We see it ebb and flow. But it's really stayed under that two months of inventory for a long time. So what that means for the consumer is they have less homes to see.

When I first got into business, it was very common for someone to take somebody out on a Friday, you'd go back out on Saturday and then maybe Sunday you revisit all the properties that you liked and then maybe you narrowed it down to 3 and you went in for a third showing and it was this very methodical process where you could really absorb what was in the marketplace. Nowadays, single-family homes are in a shortage. You're seeing 15 to 20 showings on day one, and offers, and so the buyers agents are forced to literally drop everything they're doing and get their buyers into the house the second it hits the marketplace because in a day or two it's going to be gone and and even in that case, you're seeing multiple offers in a lot of the suburban markets particularly here in Atlanta on the north side of the city.

Chris Blose:
Yeah, so it seems like speed is a real emphasis right now. How have you adapted your own practices and how are you helping consumers overcome that challenge and an entirely different landscape?

Michael Fischer:
Well I think the buyers that are having the buyers agents are having success. The buyers agents are critical in this process and the agility to to track the market, understand the ebbs and the flows and then know where the inventory is coming from. So, there's a lot of different strategies but building those relationships with other agents in the marketplace that do list properties, working with other brokerages that are prominent in that marketplace and then really getting on the frontend, coaching your buyers. We found that it's critical at this point to have your entire buyer profile effectively set up so you need to know who your lender is, you need to have all your documents in a row because when you do find the right house you're going to have to move and oftentimes sellers can be very demanding and if you want to succeed in a multiple office situation A lot of times you've got to listen to the sellers and you got to give them what they want and so being able to identify what is going to be attractive to a seller is really important in that diagnosis as well. But it's about really coaching the buyers and letting them understand, hey we can be successful in this marketplace here's how we could do it, giving them the roadmap, really strategizing the plans and then being agile when you see something in the marketplace, you're moving on it. You have a really good understanding of what the prices are so there's no hesitation when a good deal comes up. And then writing a really good offer that really appeals to the sellers and identifies things on their sell side that they need in order to really appeal to them and stand out from the crowd.

Chris Blose:
Now in terms of trends are there any you know, particular regions or even types of properties that have been more resilient throughout this and perhaps that have not faced the same sort of level of inventory crunch?

Michael Fischer:
Yeah, so we see that the single-family home market is just off the charts. by and large we're seeing a lot of inventory in the single-family home area because people are working from home with more regularity if they're not working from home full-time they have some sort of split and when you look at a place like Atlanta even though we've seen a tremendous increase in prices over the last 5 to 10 years it's still very affordable, relatively speaking, and that's why

we're getting a lot of migration from the northeast from the west coast and they come to our marketplace.

We see admin and flows of what buyers and sellers want. But right now it's outdoor spaces and home offices. Since the pandemic the outdoor spaces have been absolutely critical and everybody has to have a place to work from home these days.

Chris Blose:
Yeah, are there any other amenities or features that are in high demand?

Michael Fischer:
Yeah, so one interesting shift is when I first got of the business in 2010 all the way through probably 2018 or 19, the fix it or flip, the I'm going to take this wall out, I'm going to replace the countertops. Everybody wanted to do work and everybody was inspired by a lot of the media shows where people were taking houses that were great deals, investing a little bit, living in them for a little while and then flipping them to the next buyer and doing these projects, but after 2020, with the supply lines, and and the issues and the inflation when it comes to prices of goods and home materials and labor has been extremely expensive. Now things like lumber were really expensive for a long time and it took away a lot of the allure of doing these renovation projects when your countertops are six to eight weeks out and your fridge is going to take six months to deliver you want something that's turnkey. So I'm actually seeing, to a far greater degree, prior to listing houses sellers are fixing up their houses because they know how valuable that is to the buyers and they want to appeal to the broadest market base and most of the buyers out there want something that's turned key and that's a big shift from from say 2015, 16.

Chris Blose:
Yeah, it's not DIY anymore, they want it done when they move in. Well I'm glad you brought up new construction as well and in that last answer talking a little bit about some of the supply chain Issues. So what are the implications of the current marketplace for not just existing inventory, but for people who are involved in new construction.

Michael Fischer:
Yeah, so the closer you get into the city the less land is going to be available and with the higher price these days, we're not seeing a ton of construction inside the city. By and large, a lot of the new construction is happening on the peripheral, the metro area, and those deliveries are just taking a long time. There's less good labor out there. And it's more expensive and so things take

longer. In addition, this isn't necessarily a new issue, but working through local zoning restrictions and getting things permitted and inspected takes a lot longer and is more costly than it was in the past. All these issues kind of come together to make it really tough to build. The typical turnaround on a new build right now is close to eighteen months and that's a long time for somebody to sit around and wait particularly with a challenging lending environment where rates are very volatile and in eighteen months you may not know what it's going to cost so we've seen some struggles with that on the builder side and we've actually seen incentives, some of the bigger developers are locking in rates very early just to keep people locked into the contracts earlier on so they know that when they deliver the house they can close on it.

Chris Blose:

Are there any other trends you're seeing in the market specific to different generations?

Michael Fischer:

Yeah, so one really interesting phenomenon I'm seeing is that the older generation, so think your baby boomers, they're selling their last big house and they have kids that have either graduated high school and they're off to college or maybe they've graduated college and they hold a really lucrative equity position. So they bought maybe in the 90s or the early two thousands and they've been able to enjoy multiple years of low rates and home appreciation prices and so they're in good positions to where they can sell their homes. They're not as exposed to the lending markets because they own their houses outright so they're selling them. They're taking that cash and they're either buying a smaller home or they're buying a vacation property or they're moving to the beach or the mountains and so it's kind of interesting in this marketplace where there's not a lot of inventory. The one segment sort of with lots of incentive to sell is the older generation with high equity positions in their homes. So it's kind of an interesting thing to watch I think as more buyers get into the markets. If rates get lower it'll be a little less appealing because then they're going to be competing against the entirety of the marketplace. But right now, a cash offer is still a cash offer and you've got a nice house and you've got a strong equity position. It actually makes a lot of sense to go out and sell your house in this very competitive environment and then turn around and know that you've got the flexibility to buy with cash and you can elevate yourself in a multiple offer situation and not have any exposure to the lending market. So that's an interesting trend we've seen happening with the older generation and, you know, it should be interesting to see kind of how that plays out as the market continues to change and unfold here.

Chris Blose:

Michael I know your practice is mostly with residential but are there any trends that you've witnessed or talked with colleagues about in the commercial space?

Michael Fischer:
It's kind of been an interesting dilemma because the flexibility of the office environment is particularly well-suited for Atlanta, we have very dense clusters of office spaces surrounded by suburban neighborhoods. If everybody collectively says hey we only need 40% of the office space that we used to have we can downsize and then you have things like desk chairs and meeting spaces that give people face-to-face time but not necessarily working out of the office in an individual capacity. Where I've seen a lot of the shift is somebody that needed say thirty thousand square feet of class B space might only need 10,000 of class A space so they might pay it the same and they upgrade and sublease out some space in a class a building so you're seeing people spending the same on less space. It's kind of had a cascading effect downhill to where the class C class D office spaces are really struggling and that's where we're looking at particularly from the National Association of Realtors. There's policy to look at how do we convert office spaces into residential spaces and is there a way that we can do more live work play type scenarios where there's smaller office spaces, they can suit the needs of flexible workspaces. There's developments that are being proposed where they really blend in this live work and play lifestyle on the suburban areas that you used to only be able to find inside the city and they're really trying to draw in the millennial crowd and and a lot of the gen x and gen z who may not need as much space and may go in the office from time to time.

Chris Blose:
It's interesting to think about how the commercial development affects residential and vice versa as well and it does seem like a pretty interesting time to be following market trends with that in mind as you look ahead. Are there any projections or thoughts you have on what's going to happen here in the next handful of months and even a couple years both in pricing and in consumer trends in the housing market.

Michael Fischer:
Yeah, if I could predict the future I would be in a different business. But I think there's some trends that we can follow and make some assumptions about particularly with my experience in the Atlanta metro area. It’s an attractive price point when you look at other more expensive marketplaces particularly when you look at what you can buy for the same amount of money. So with that in mind we're thinking prices are going to be more or less level which is about where they've been where we are in Atlanta right now. Single-family home prices are up slightly the condos and townhouses are down slightly so when you put that all together and get the

aggregate numbers and I expect over the next 6 to 12 months Atlanta prices will probably be about even or a little up and then if we see some rates come down I think it's going to unlock a lot of inventory. But it's going to pull some buyers out that were priced out with higher rates.

And I think we'll see a lot more equilibrium in the marketplace and potentially some price growth there once rates do settle down a little bit particular with single family homes I think you're going to see returns of multiple offers. I don't think we're going to solve the inventory struggle for a long time. We need to build more housing. We need more favorable development community and in partnership with the local governments and in local communities to get a variety and a mix of housing styles and stock right now. It seems like it's really tough to get anything other than the largest, most luxurious homes permitted so we've got to really step back and think about the consumer and the entire market segment and where each price point fits within a community and really make sure that we're building something for everybody and then with that you know it's going to take a long time. So even if we were to solve everything right now and build everything we need we're in the middle of 2025 before we even start really seeing some of that stuff come to market. So it's going to take a while to solve and I think for the time being.

Chris Blose:
Great. Well thank you so much for joining us today. Michael, we really appreciate your time.

Michael Fischer:
Thank you so much for having me

Chris Blose: As Michael noted, there's a major shortage in inventory of single-family homes, and that trend is driving another one: rentals. To learn more about that and what high interest rates mean for investors and first-time home buyers, we turned to George Trible, who has years of experience in home loans at Regions.

Chris Blose:
All right George I want to talk about the investment side of this: Can high interest rates actually present any opportunities for investors in the real estate market?

George Trible, Home Loan Direct Group Manager at Regions Bank:
Generally speaking no because higher interest rates negatively impact the overall cost of buying a home. For consumers looking to buy investment real estate right now, the only way that I feel like it may be able to work would be if a customer is really looking at affordable single family

homes that they may use as rentals to a consumer who doesn't want to live in an apartment anymore that may have an opportunity right now. But for an investor they may only be able to purchase less of a home than they would have been able to buy down the road. So that's kind of the challenges that we've got right now. We have affordability and we have a lack of appreciation in investment real estate.

Chris Blose:
So you mentioned the rental market. Is that something that has actually increased as the availability of purchasable homes has decreased?

George Trible:
Folks appear to have stayed in rentals relative to what they did during the pandemic because of the costs. It's become more affordable to rent, believe it or not, as the cost of houses have decreased so the cost of rents decreased as well. So we see folks staying in rental units. Although we're trying to do everything we can to make them a home buyer.

Chris Blose:
I'm curious about those first-time home buyers too. I mean that's such a big step and a big milestone for a lot of people. Obviously it's a challenging environment. What sort of processes or tools or even just different approaches do you take with a first time homebuyer to make sure that they can get what they're looking for at this point?

George Trible:
Well first of all, we like to handle first time home buyers with kid gloves because this is gonna be arguably the largest financial transaction that he or she has ever had and in their life and we understand that. Sometimes there are going to be challenges with first time home buyers such as student debt, such as competition from cash buyers who really want a home that a first time home buyer may be interested in, and the competition may be more established and have the cash to buy it. Oftentimes we coach first time home buyers around the importance of a down payment Although we have programs that require a little to no down payment. We help them and coach them and give them advice and guidance around what programs are going to be best for them based on the down payment. First time homebuyers sometimes have less established credit than others and we walk the consumer through exactly if they are falling short on from a credit standpoint and exactly what he or she needs to do to help be home buyer ready.

Chris Blose:

Now George I'm curious about your experience or in talking with colleagues as well. How do the trends that you're seeing in the market vary by region or by type whether you're talking about a larger city or you're talking about a smaller town. Are we looking at a shortage across the board or does it vary depending on where you are?

George Trible:
No I mean it certainly in some areas. We saw a lot of consumers migrate to Florida and other tax-free type states. But generally speaking there, although inventory is increasing, it's still not to the point across our entire market that five or ten percent of all the homes are on the market. It's just not the case and sometimes consumers have to be a little bit less particular in what they're looking for in a home to ultimately help them fulfill their dream.

Chris Blose:
I want to think about this a little bit from the perspective of a business owner too and somebody who may be thinking about moving into a particular region, a particular city. How does the current housing market housing affordability in high cost areas affect a business's ability to scale? To expand its operations to kind of move into a new area?

George Trible:
Well, it truly Chris depends on the consumer. I mean let's think about it, if I had two thousand and three years ago during the pandemic if I wanted to have a three hundred and fifty thousand dollars mortgage today. It would cost me about $600 more to own my home. $600 more a month and that's meaningful cash outflow for a customer. That's real money and if I have less money to spend there's certainly going to be a trickle down to business owners and I believe that consumers will have to spend on consumer goods that they need each day and in every way and maybe niche products, so it certainly trickles down to all businesses and markets right now just because of the fact folks have less disposable income to spend.

Chris Blose:
What advice would you have for that millennial that Gen Zer who is now starting to think about that first purchase. What advice ultimately do you have for somebody who's looking to make that purchase in this environment?

George Trible:
My first piece of advice would be your credit matters. Okay. Establishing credit making sure that you're paying your bills on time making sure that you're paying your rent on time. All of that is very very important for a first time home buyer, or millennials, Gen zers. What you save for a

down payment, that's very important and can help make the transaction run much smoother. Understand that the more of student loan debt that can be knocked out or paid down during a rental phase of one's life would be very beneficial. But also understanding once you get in the house, if something breaks, it's on you. I mean if the refrigerator goes out, you got to go buy a new refrigerator. If something happens electrically, you've got to fix it. You don't have a landlord anymore so having reserves to think about once you get in a home can certainly make the overall experience much more pleasant for the customer.

Chris Blose:
And probably even thinking about budgeting for you know, upgrades or renovation depending on the type of home that they're looking at as well right.

George Trible:
100% it's amazing once someone gets in the home. They all want to make it their own and there's definitely a need or desire to upgrade items once you get in there. So certainly thinking about proper reserves would be a great move.

Chris Blose:
Last question for you George, you know, as you look at the market and where it stands today and how drastically it's changed here in the last 2 to 3 years, what do you see coming next in the next few months in the next year and so on?

George Trible:
Really it really depends on who you talk to. I think that we're going to see more of the same. I think the amount of mortgages that we're doing or have leveled off and will continue to level off over the next 6 to 12 months. I do see, based on what I've read, the opportunity for lower rates down the road. I don't want to make any gross predictions, I'm not an economist for a living but there are some that feel like rates will gradually decrease heading into 2024 so we'll all keep our fingers crossed.

Chris Blose: George gave us a good sense of the uncertainty of the market — but also the planning people can do to combat some of that uncertainty. To go a little deeper on the investment side of things, we turned to his Regions colleague Brandon Thurber, a strategist who always has his eyes on the market. The first thing he stressed was an echo of what we heard from Michael Fisher: We’re simply not building enough homes.

Brandon Thurber, Chief Market Strategist at Regions Bank: I really think a lot of what's going on with the housing market right now that has the greatest impacts from an investment perspective are tied to, you know, housing related equities, specifically home builders, as well as some of the home improvement related equities or companies. And you know, building products, just across the spectrum. A lot of what we've seen over the last, the better part of the last decade has been pronounced under building of new homes here in the United States. And whether that's single family or multifamily, we're somewhere between, call it two and a half and four and a half million units under supplied. And so I really think that this is a very strong, not just cyclical tailwind, but secular tailwind for anything really housing related. And so it is really from an investments perspective, an exciting time or an interesting time to be tied into anything that's even remotely housing related, just because of, the powerful tailwinds that we have from an under supply, as well as the fact that you know, new household formation last year, I believe was at the highest level on record. And so I think we're, we're continued to be in a perennially undersupplied housing market.

Chris Blose:

And how do you see folks in the industry actually looking to address that lack of supply right now?

Brandon Thurber:

Yeah, I think it's geography to geography. I think what we saw in the post covid backdrop is a shift from the west coast or the northeast, to the sunbelt, the southern states where the region's footprint really dominates all the way out to the West coast, where Arizona Southern California, those markets really did quite well. And I think you really see a situation where a lot of the home builders that are focused on those particular geographies or pockets of the market have performed best or better on a relative basis. And so I think that this is just really kind of setting up as a nice backdrop for active investment managers to really dig in, do the work and find the most appealing or attractive investment opportunities for not just the next six to 12 months, but maybe the next six to 12 years.

And so I think that's really where we're seeing a lot of that opportunity. And then, you know, you think about the larger home improvement companies, those are just gonna be again, secular tailwinds for those sorts of companies, and it's gonna attract more entrance into that industry as well. So I just really think that broadly speaking, there's gonna be a lot of opportunities for a lot of different housing related plays and I think active management's gonna be the way that's gonna be most capable of taking advantage of those exposures or accessing those exposures.

Chris Blose:

And obviously when you're assessing the market, you're also always considering what government policies, what future possible regulations could affect that market. So what are you seeing right now in that space in terms of either regulation or policy that's coming in the future to either address current housing market challenges or that might even be a challenge on their own for a few people who are interested in this market?

Brandon Thurber:

I think I would frame it a little bit differently in that I think a lot of the monetary and fiscal stimulus programs that we've seen in the wake of the global financial crisis have really kind of created some of the imbalance that we have in the housing market and have inflated home values in certain pockets of the country, if not, you know, countrywide. And so I think as monetary policy becomes more restrictive, or I guess, less accommodative you know, I think ultimately the home price appreciation that we've seen in the post covid world has been to an extreme degree. And I think that's obviously priced out of a lot of people that would've loved to have bought a house.

And so I think that the policies that we've seen put in place in the last about 10 to 15 years while necessary in a lot of situations or cases, I think has also really in a lot of ways exacerbated home price appreciation and kind of limited the ability of people to actually buy as opposed to just rent. And I think that has kind of forced some hedge funds, private equity vehicles, private real estate funds into being landlords and, building multi-family properties, buying up properties, raising rents, and again, that is sort of a self-fulfilling prophecy, if you will, because as rents go higher, that's also potentially gonna increase what people are gonna be forced to pay to actually buy a single family house.

And so I think all these things kind of tie into one another. And from a policy perspective, I think the government's fairly limited as to what it's going to be able to do to increase home affordability. I think it's just gonna take time and it's gonna take the free market to kind of self-regulate itself to get back to a point where we've got a little bit of equilibrium. But, you know, when you're somewhere between two and a half to four and a half million units under supplied, that's gonna take the better part of the next decade to sort of remedy or balance that sort of circumstance out. And that's assuming that household formation remains in line with what it's been over the better part of the last three to five years. So I think you have to make a lot of assumptions to assume that we're gonna get back into balance anytime in the next decade.

Chris Blose:

So let's think about the investor perspective for a moment and how does the current environment, that low inventory that maybe shift toward more rental versus buying, how does that environment affect how someone is thinking about their portfolio or thinking about their investment strategies?

Brandon Thurber:

Well, it's a good question, Chris, and when I think about the housing market, there's really no other pocket of the US economy that I think impacts consumer or investor sentiment to the degree that housing does. You think about if you bought your house three or four years ago, you've got probably a nice equity cushion built up in that home. You've probably got a sub 4% 30 year mortgage on your home. And so you feel pretty good about your cashflow circumstances. You feel pretty good about your ability to invest. Whereas others that are in the market trying to currently buy a house are looking at mortgage rates, probably approaching 7%, maybe even above. And they're probably looking at it, taking years from now to build up a decent equity cushion.

When you think about the 60% of existing homeowners that have a mortgage, let's call it 4% or less, that is the very pocket swath of the consumer that we really think are gonna be in a better position to invest more over the better part of the next decade. And so I think that, if I'm an investor, the other piece of this is, you know, while I may be paying 4% for my mortgage, if I was lucky enough to lock that in a few years ago or over the last couple years, I can look at 10 year US treasury bonds or 30 year treasury bonds that are yielding somewhere close to 4%. So I may not have the investment base to deploy the exact amount that I have of a mortgage into a 10 year or 30 year treasury, but there are avenues that I can help offset some of those mortgage payments via my investment portfolio.

And so there are some more appealing alternatives as it relates to being able to help balance that out. And again, if you can put a small percentage of your portfolio in treasury bonds, generating a nice income stream, then that can kind of allow you to take on potentially more risk on the equity side of things if you know you got your mortgage covered. but again, I think that's gonna be very specific to each individual and their ability and willingness to tolerate or take on risk in their investment portfolio.

Chris Blose:

Yeah. I'm curious too, you brought up bonds obviously as an example, but do you see a relationship between the housing market and other asset classes and, you know, what sort of interdependencies are there that investors should consider?

Brandon Thurber:

Yeah, and I think that the issue, you know, historically, if you think about it there's been a lot of talk of real estate investment trust being highly correlated to treasury yields. But if you look at it over a longer term timeframe, there's actually basically no correlation there. So just because interest rates rise, that doesn't necessarily mean that things like real estate investment trusts can't be a viable alternative or interesting place to deploy capital. And, a lot of times real estate is one of the few areas where you can actually tie your loan, your leases or your rental income to inflation. And so I think that as it relates to the housing market specifically and what we're seeing from an inflationary perspective, things of that nature flow into our inflation data.

I think that areas like REITs can be a very interesting place to be just because, again, there is this, I think misconception or misperception that higher interest rates portend poorly for real estate investment trusts or real estate broadly. And I don't think that's a fair characterization. There are definitely some pockets of the real estate market that are gonna be more negatively impacted than others. But I think that's where the opportunity comes in is that you get a lot of babies that get thrown out with the bathwater. And again, that sets up a pretty appealing backdrop for active managers to come in and say, you know what, I wanna be overweight, multifamily, or I wanna be overweight, industrial or data center. And you know, there are some areas where they may wanna be underweight as well, but they can take more of a, a rifle approach and choose individual securities that may meet or insulate themselves from some of the negative impacts or ramifications from rising interest rates, rising inflation, et cetera.

Chris Blose:

And for those who, who may be less familiar, will you explain just the basics of what a real estate investment trust is as well?

Brandon Thurber:

It purely just kind of a pass through entity, Chris. So I think the way that you think about real estate investment trust is that they have to basically return, I believe it's 85 or 90% of their earnings in the shape of dividends to investors to maintain that real estate investment trust status. But it's again, a fairly kind of nuanced and very specific sort of approach. And it may not make sense for all investors to go the real estate investment trust route. There are other entities that are real estate related that are more property management type entities. And so again, I think a lot of this is sort of in the weeds and a little more nuanced for some. But you know, I think what we try to do when we're thinking about inflation or housing or real estate more broadly is try to meld that together into sort of a larger portfolio construct.

We wouldn't put a hundred percent of anyone's portfolio in REITs, but it may make sense as, you know, a two to 5% allocation either for total return purposes, income generation or a combination of those two things. And so I think it could be a valuable component to a portfolio, but it definitely shouldn't be an outsized component because there can be a lot of volatility tied to those sorts of things as well. And I think it's important to note as well that there are public and private REITs as well. So there's different ways to slice and dice that space.

Chris Blose:

Now, Brandon, you also mentioned, you know, looking across the portfolio and looking at various types of real estate, right? So we're talking about housing mostly today, but obviously there have been changes in the commercial real estate sector here in the past few years. So what sort of trends are you seeing in the commercial space?

Brandon Thurber:

I think you can almost think about it as the loss for a lot of these commercial estate holdings, is the gain for multifamily and single family development. Because a lot of the issues that you're seeing in commercial are tied to office buildings on, you know, say the east coast, the west coast, Chicago, some of the larger cities here in the United States that really has kind of developed in the post covid world as again employees have, have really started to move south because a lot of companies were effectively forced to allow them to work remotely or risk losing them to another company that would. And so I think, you know, you look at, at the commercial sector, really a lot of the stress that we've seen up to this point has been isolated.

What you're not really hearing is concerns surrounding office overbuilding or office capacity in the southeast from a broad brush strokes perspective. you've had a lot of people that have moved to Texas and Southeast in recent years. And I think that again, that is gonna be a support for new household formation. It's gonna be a support for housing demand, both in single family and multifamily homes. And it's also going to continue to weigh on the demand for commercial space and some of the larger gateway markets in the United States. And so I think that the two are related but it does kind of also bring around the point that the pendulum swings too far to one side.

Chris Blose:

Brandon, any trends that you would advise people to watch here in the next year or two? I mean, we've had so many changes in the market in the last three or four years, so what do you see coming here in the immediate and the longer term future as well?

Brandon Thurber:

I think the main thing is the labor market. You look at the fact that there's still somewhere around 9 million job openings. Whether you trust that data fully is another conversation altogether, but you have 9 million jobs open and you've got somewhere, somewhere around 5 million people that are actually looking for jobs. And so you still have jobs that are ample and available. It's just a matter of are they the right jobs? And so I think the jobs opening equation is that starts to normalize or moderate a little bit could have some ramifications for consumer spending, consumer confidence, but I think at this point it's gonna take a pretty meaningful downshift in those job openings to really kind of force consumers to reign in their spending.

I think the inflation data that we've seen over the last, call it, 18 months was trending in the right direction. Core inflation is still very sticky. And it is elevated relative to where our monetary policy decision makers would like to see it. And so I think the trend in that inflation data moving, continuing to move lower is going to be of the utmost importance from a consumer spending perspective. And those, those would be kind of the two main things. So, call it the labor market more broadly as well as inflation data, if those two metrics hold up, you know, particularly the labor market continues to hold up and the inflation data continues to at least trend lower for the, for the right reasons that's sort of a backdrop you know, [to allow] consumer spending to hold up well and consumer confidence to hold up well, and that's gonna continue to increase demand for new household formation as well as multifamily and single family housing.

Chris Blose:

Brandon, thank you so much for joining us today. We really appreciate your time.

Brandon Thurber:

Thank you, Chris

Chris Blose: It's certainly an interesting time to follow the housing market, not to mention participating in it. If you're shopping, hopefully our guests today offered some valuable insight for navigating a challenging market. And if you're investing, take note not only of the challenges, but of the opportunities involved in meeting demand in an under-supplied environment.

Thanks to Michael, George and Brandon for joining us today, and thank you for listening.

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