

# 2023 Real Estate Market Update

What's Ahead for Housing and Foreclosures

# What We'll Cover Today

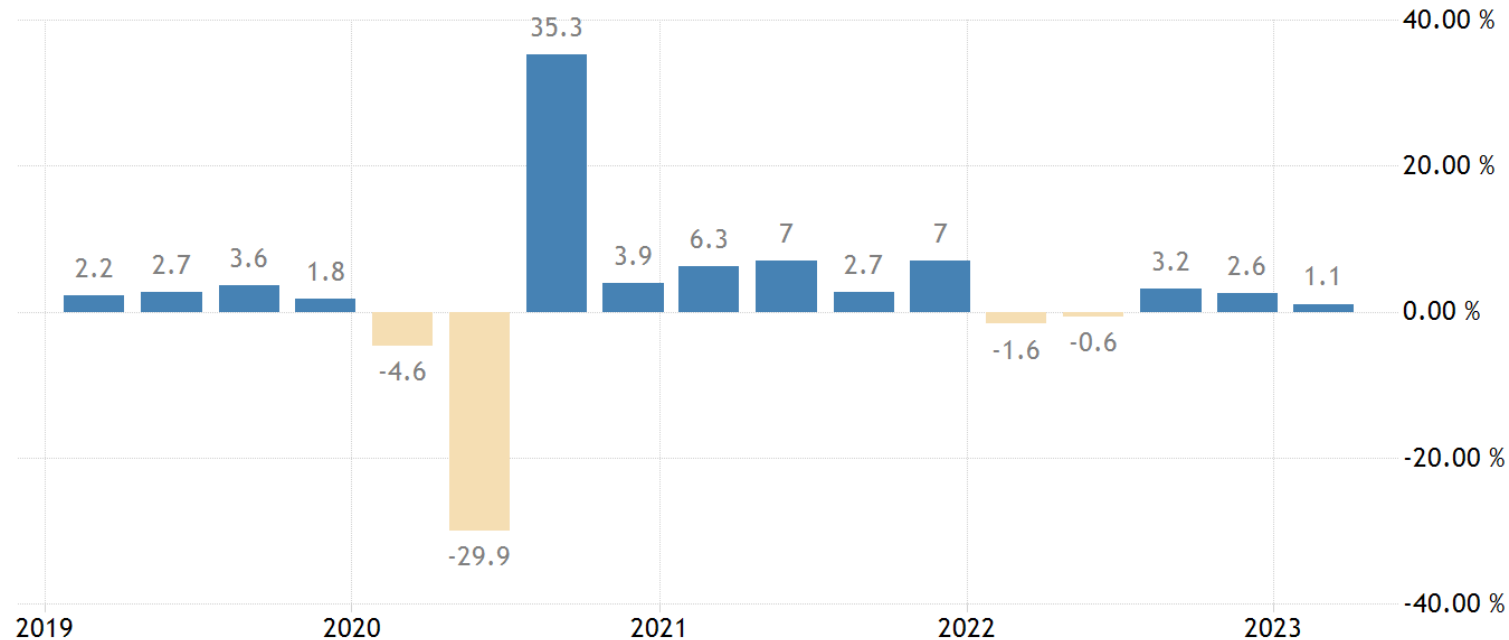


- A Look at the U.S. Economy
- The Housing Market
- Delinquencies & Foreclosures
- Closing Thoughts

What's in Store for 2023?

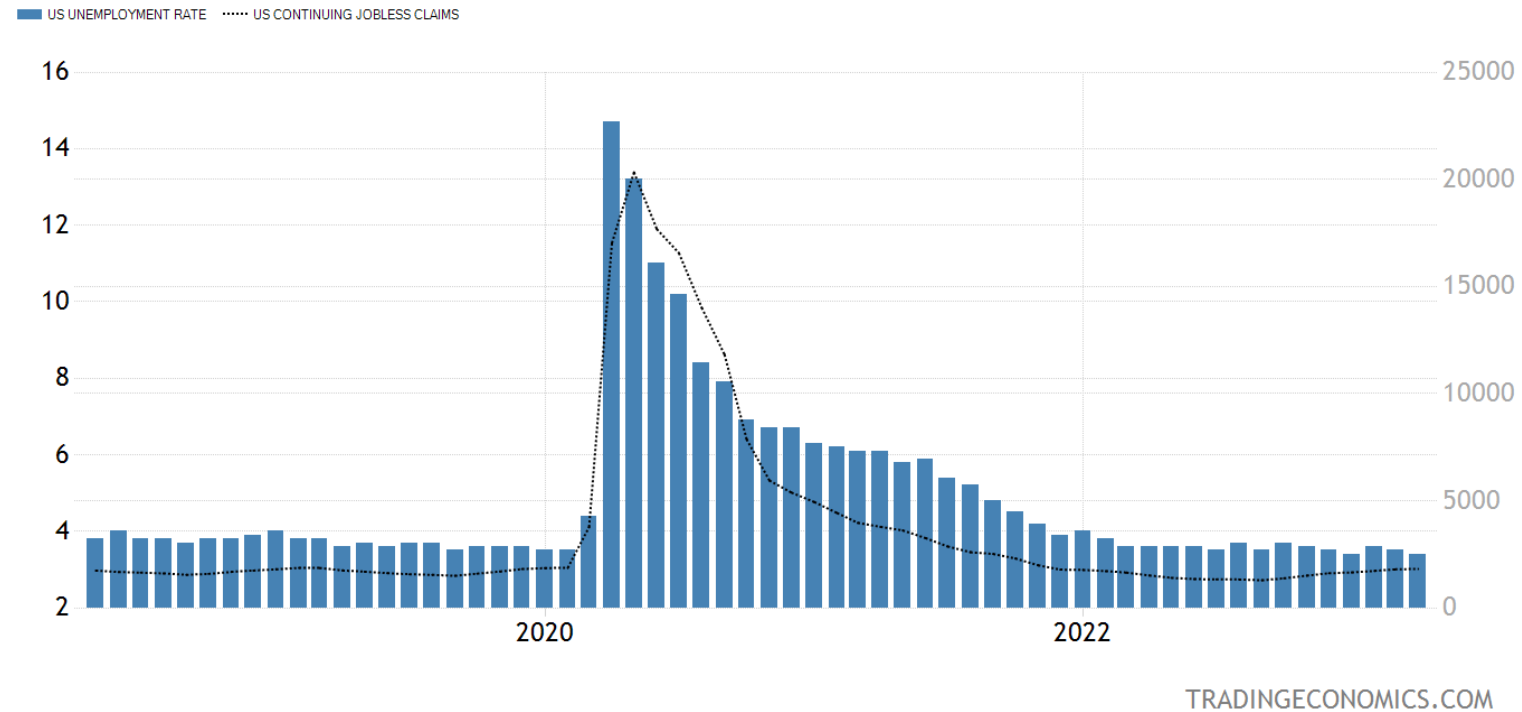
# THE U.S. ECONOMY

# Q1 GDP Remains Positive Despite Gloomy Forecasts

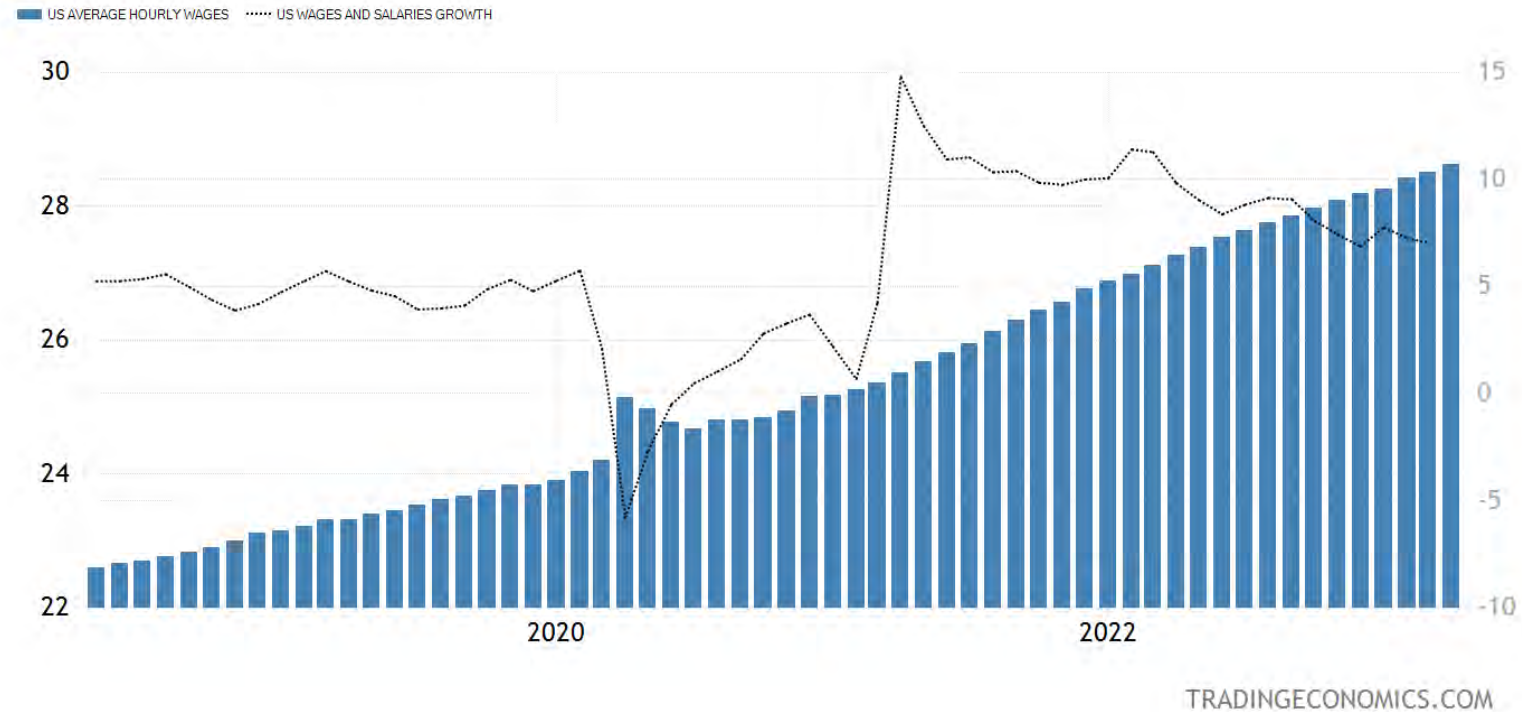


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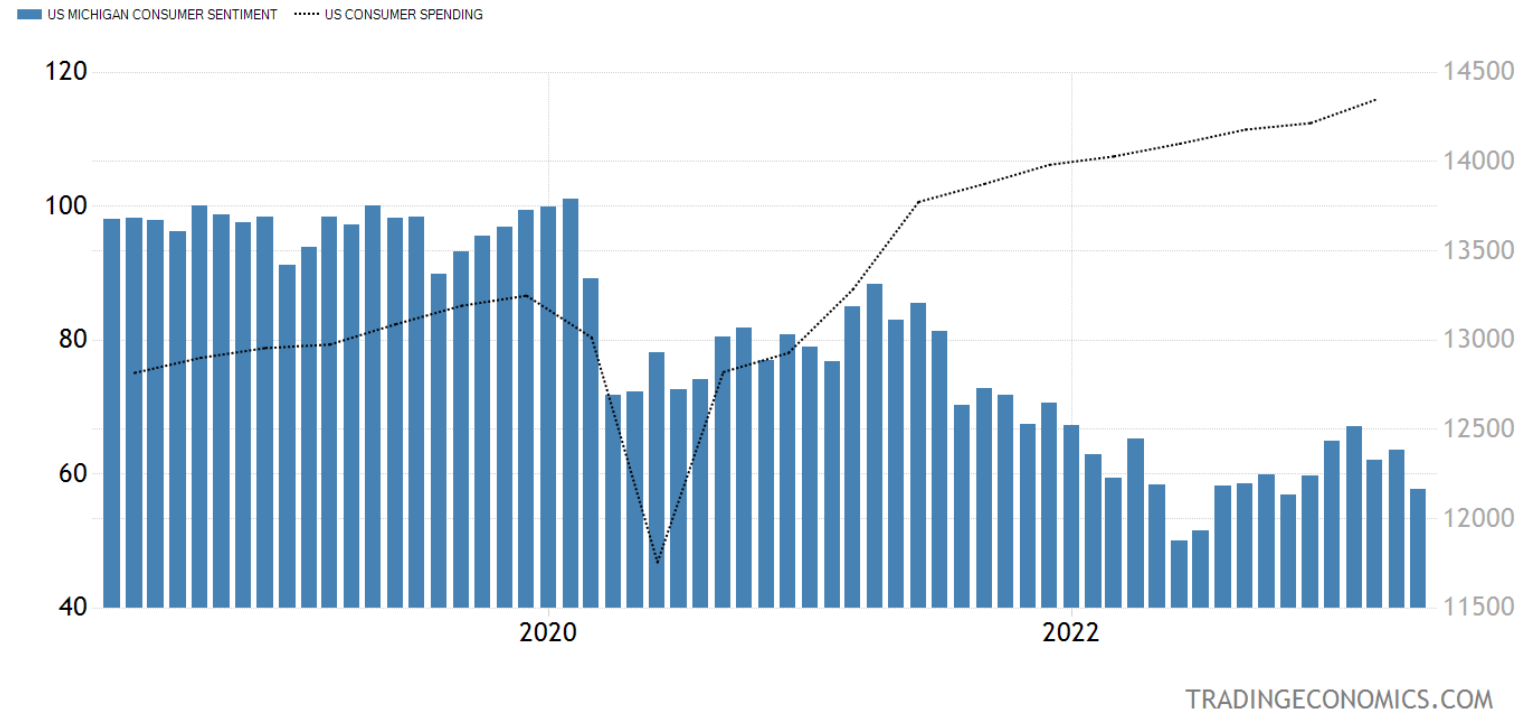
# Unemployment Still Near Historically Low Levels



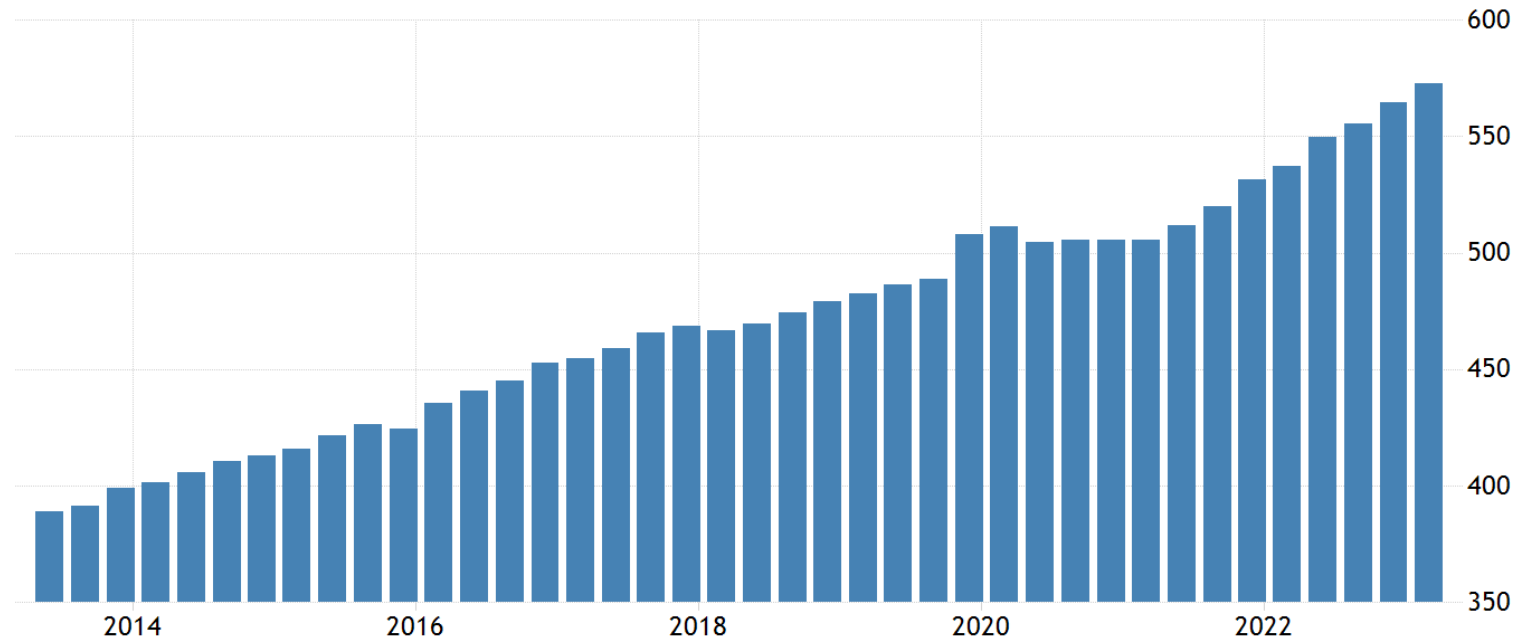
# Wages Continue to Grow



# Consumer Spending Outpaces Consumer Confidence



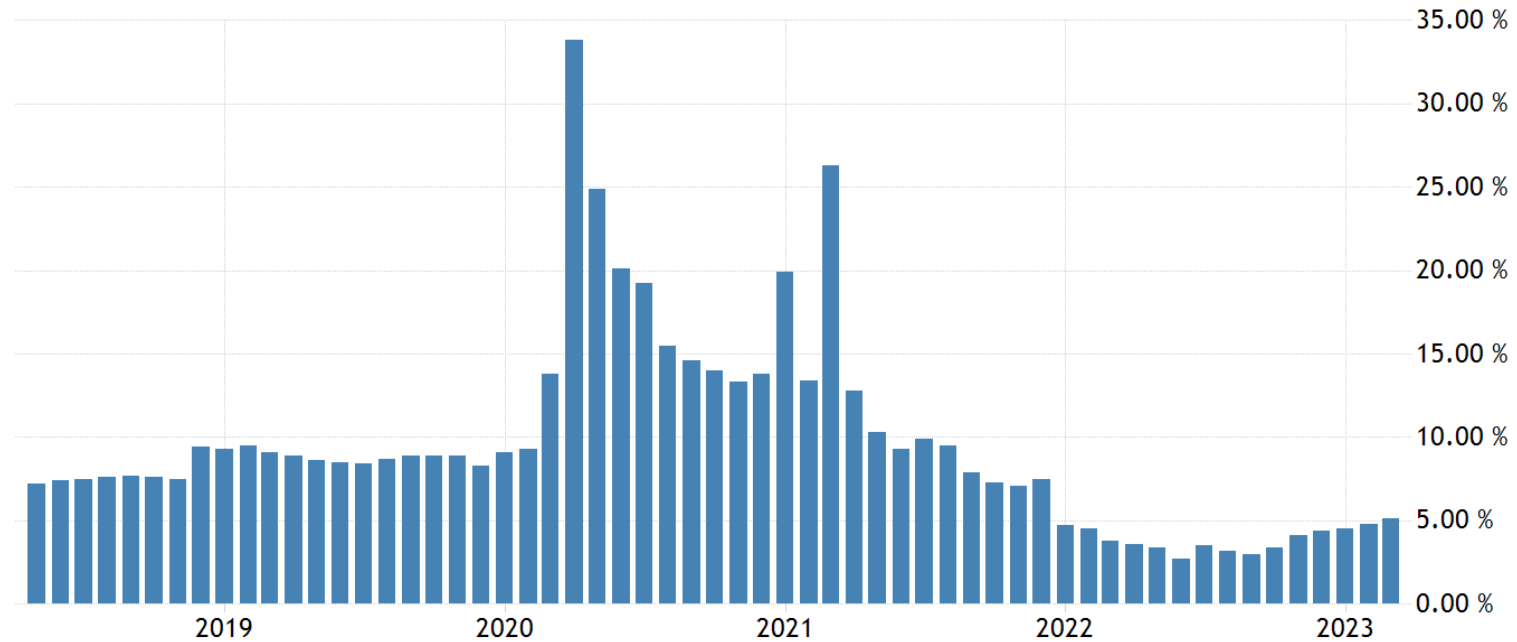
# Consumer Credit Card Use at All Time High



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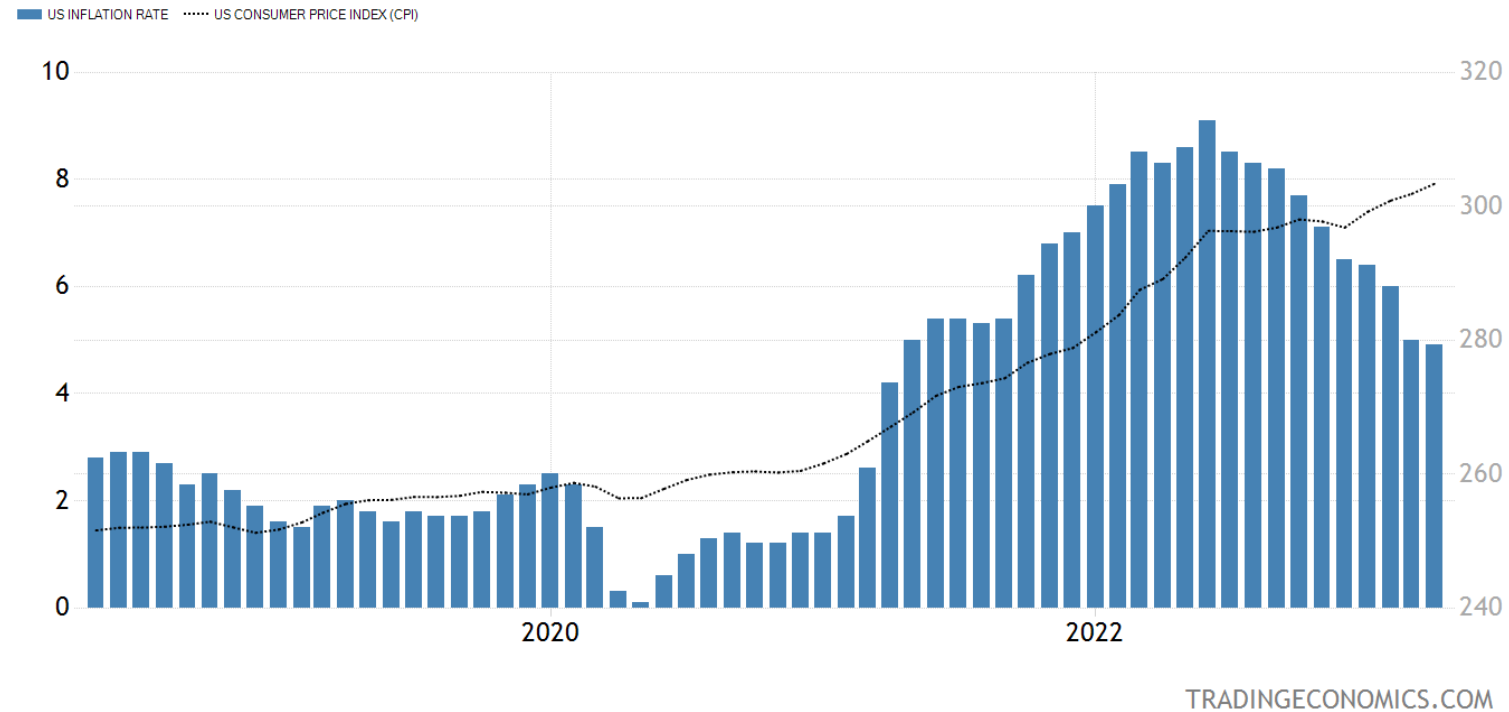


# While Personal Savings Remains Below Historic Averages



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# Inflation Still High, But May Have Peaked



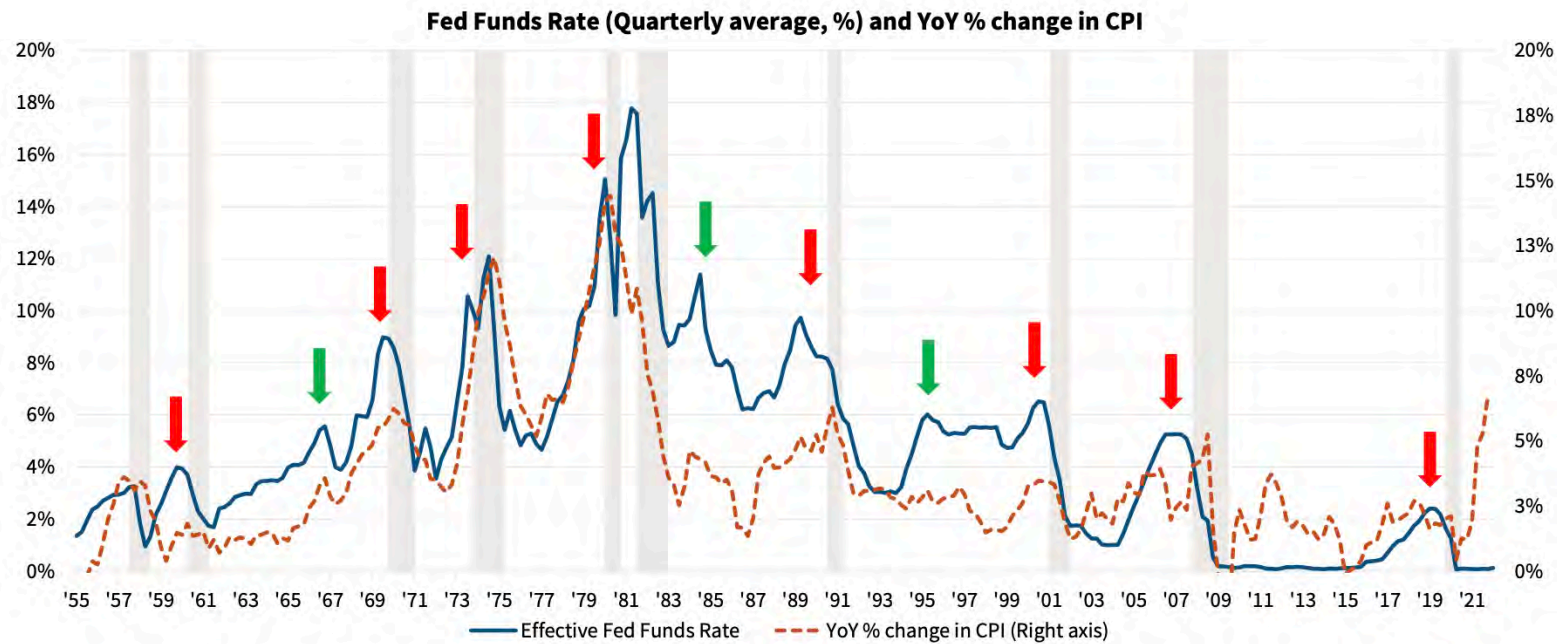
## But the Fed Maintains an Aggressive, Hawkish Posture



# Similar Activity Has Always Resulted in a Recession

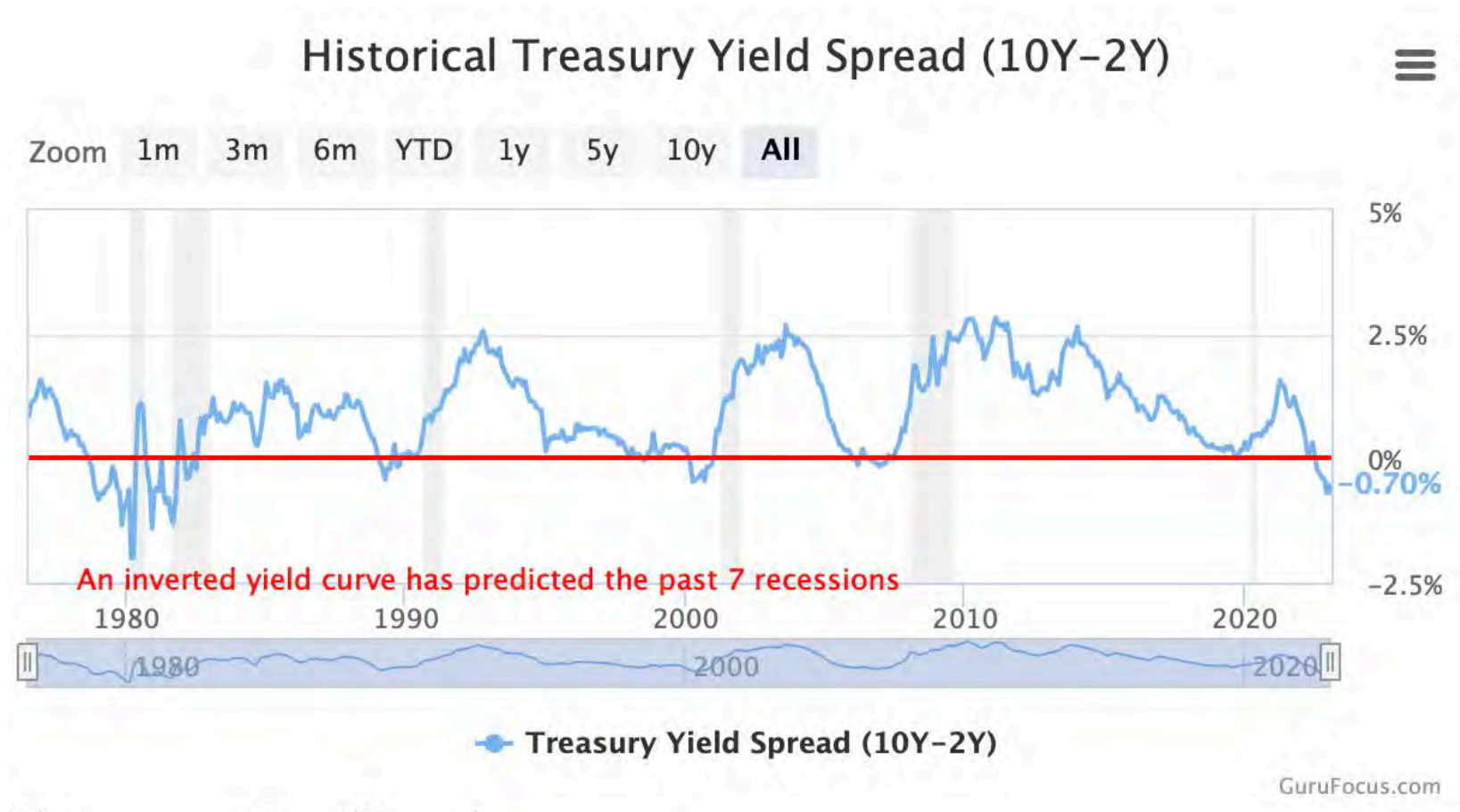
## Fed funds rate increases often point toward next downturn

In times when the Fed has managed a “soft landing,” they were generally moving preemptively

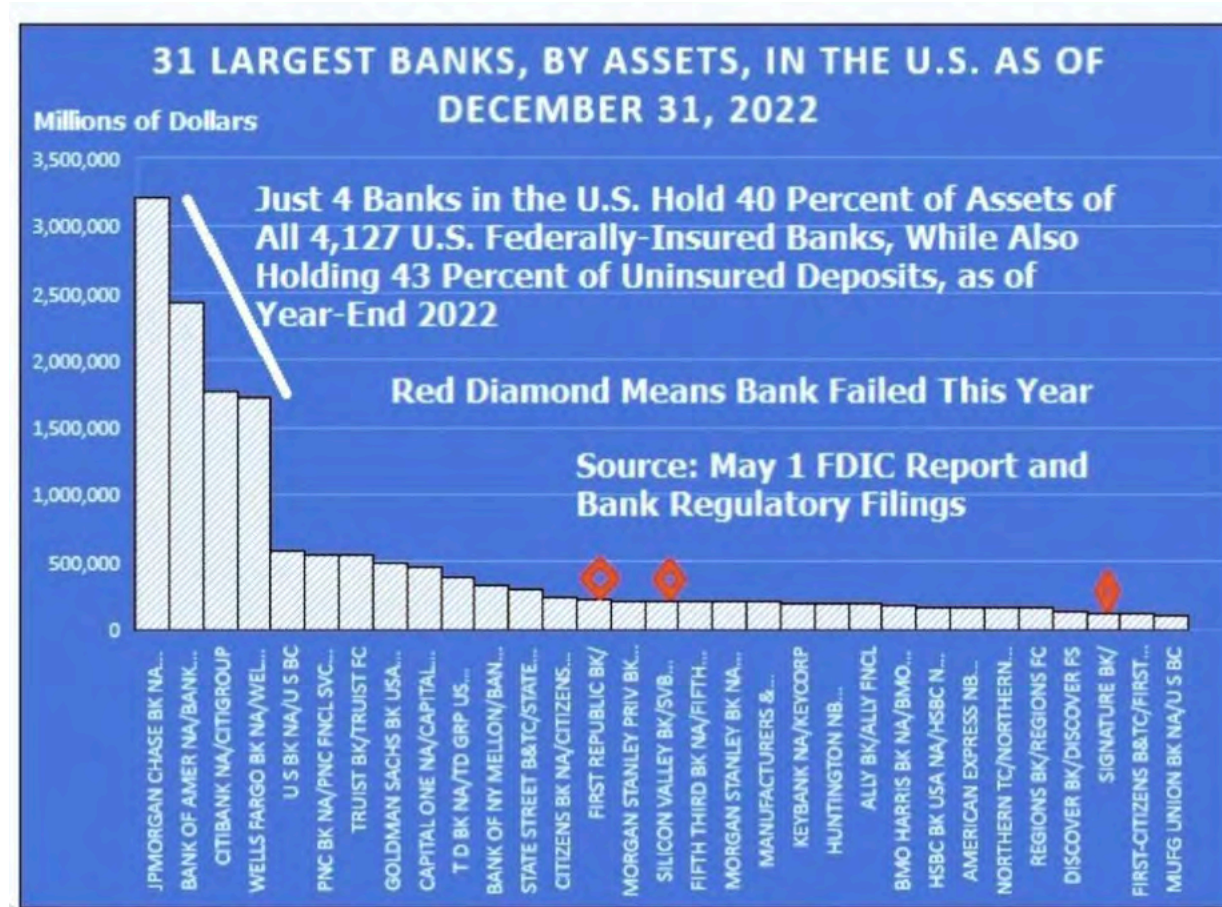


8 Source: Federal Reserve, Bureau of Labor Statistics

# Yield Curve Inversion Also Points to Recession



# Banking Crisis Likely to Slow Down Fed, Could Contribute to Recession



What's in Store for 2023?

# THE U.S. HOUSING MARKET



# Volatility, Risk Keeping Mortgage Rates Near 20-Year High

## Primary Mortgage Market Survey®

U.S. weekly averages as of 03/23/2023



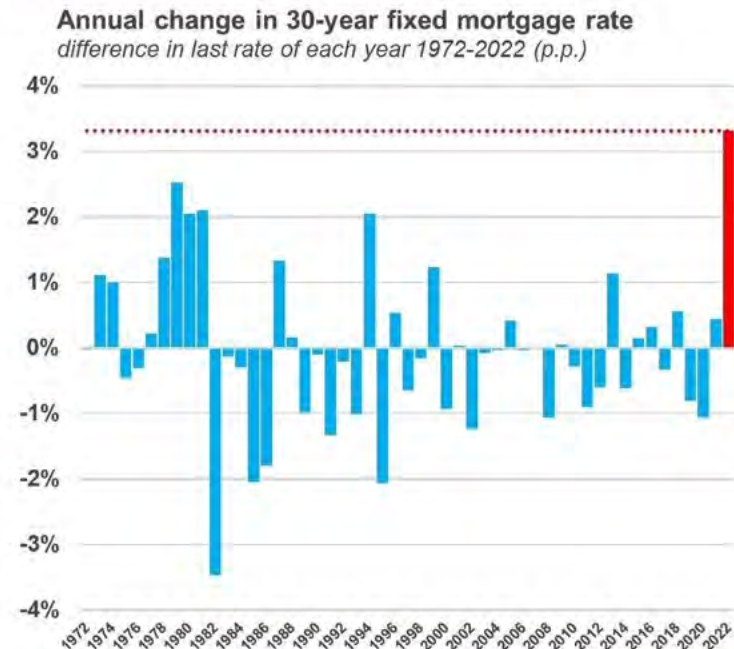


# 2022 Had the Largest Mortgage Rate Increase in U.S. History

## Mortgage Rates in 2022 had the Largest Ever Annual Increase



Source: Freddie Mac Primary Mortgage Market Survey

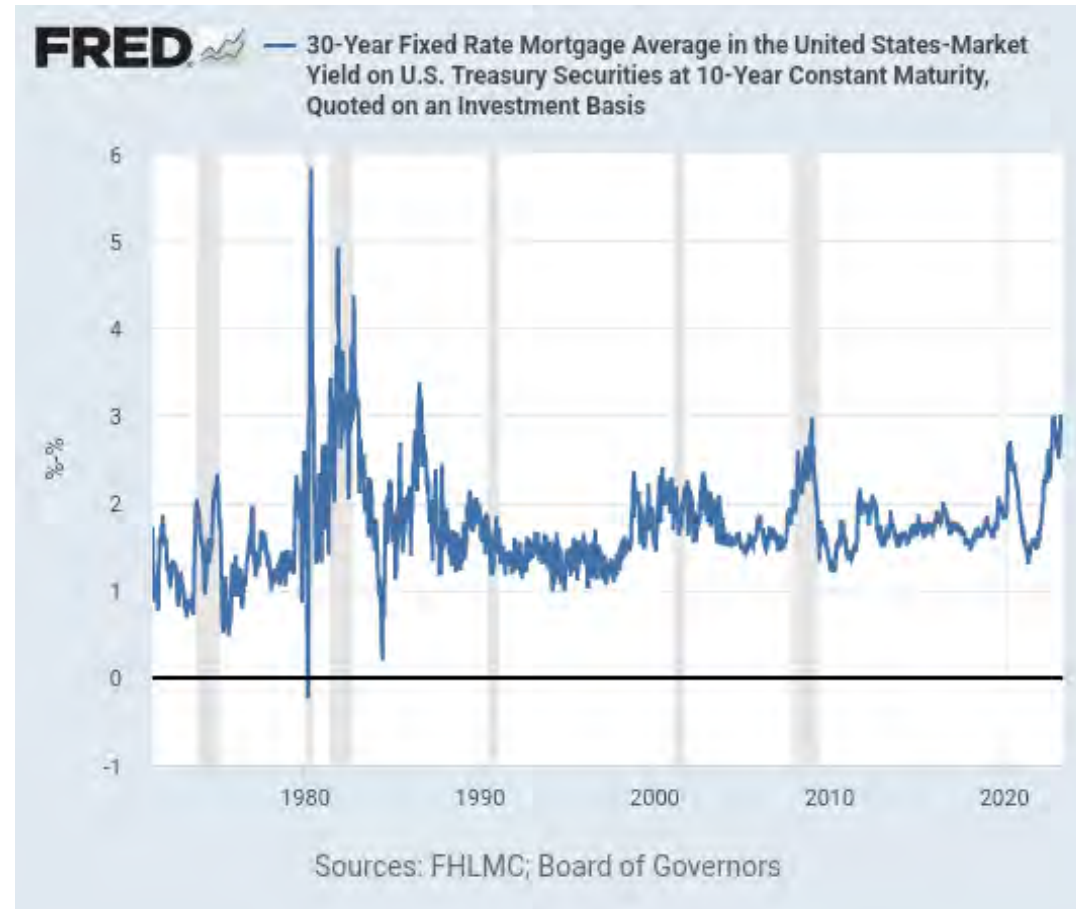


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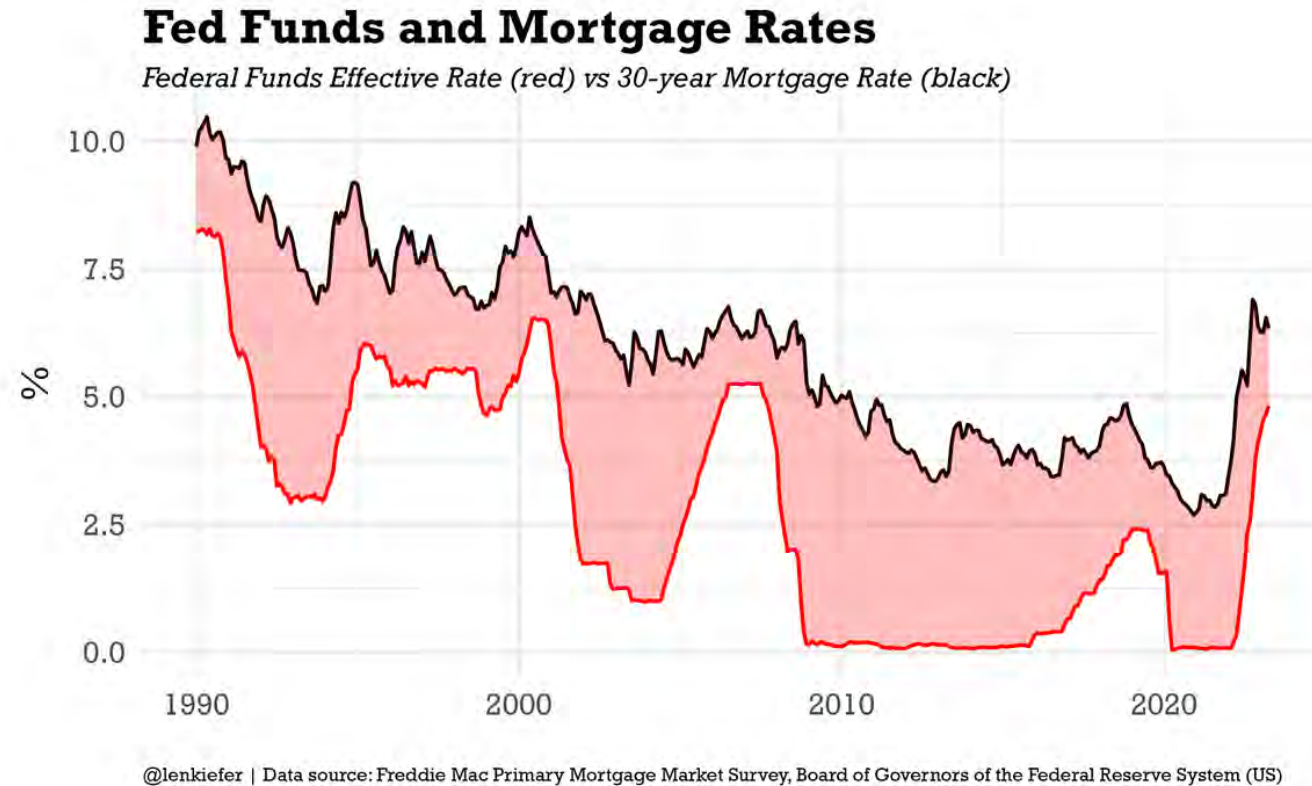
Investor Day – April 20, 2023

Prepared by Freddie Mac © Freddie Mac

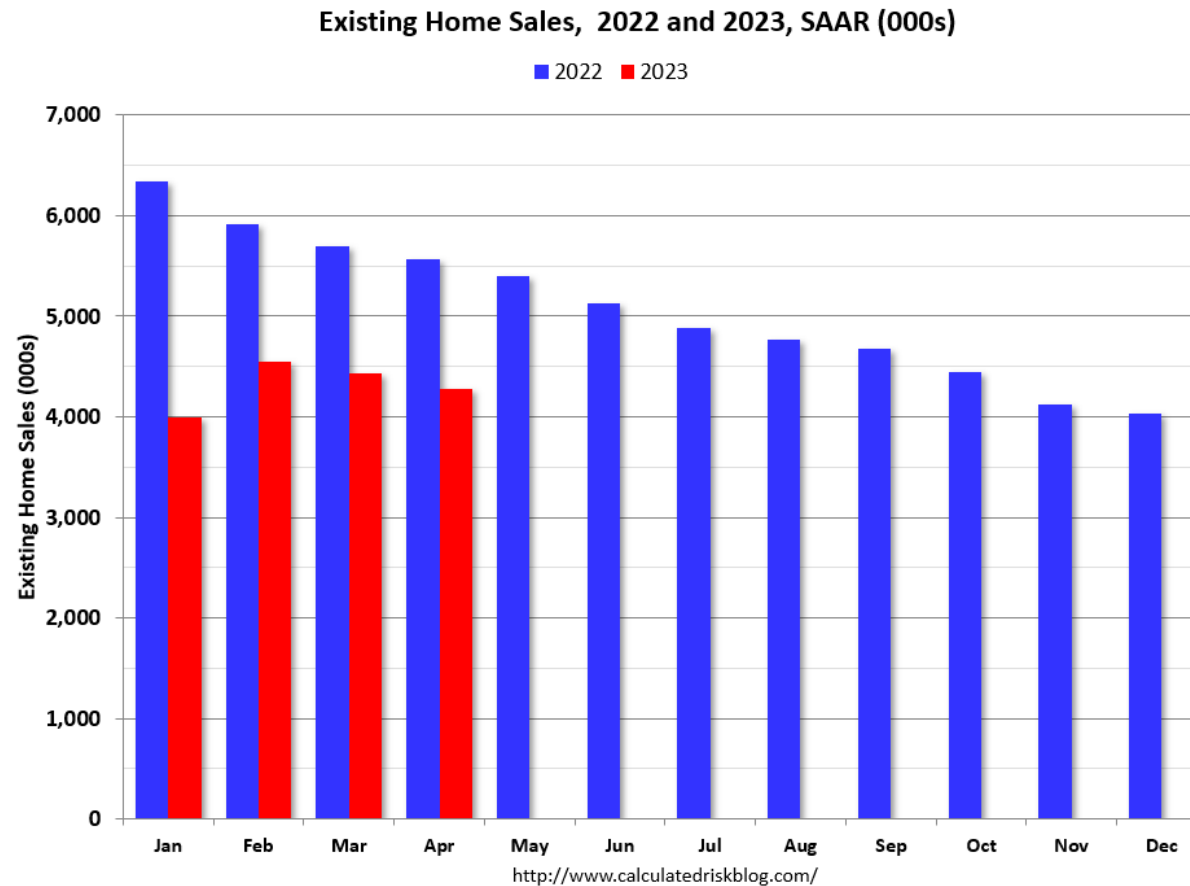
# Widest Gap Between 10-Year Treasury Yields and 30-Year Loans Since 1880



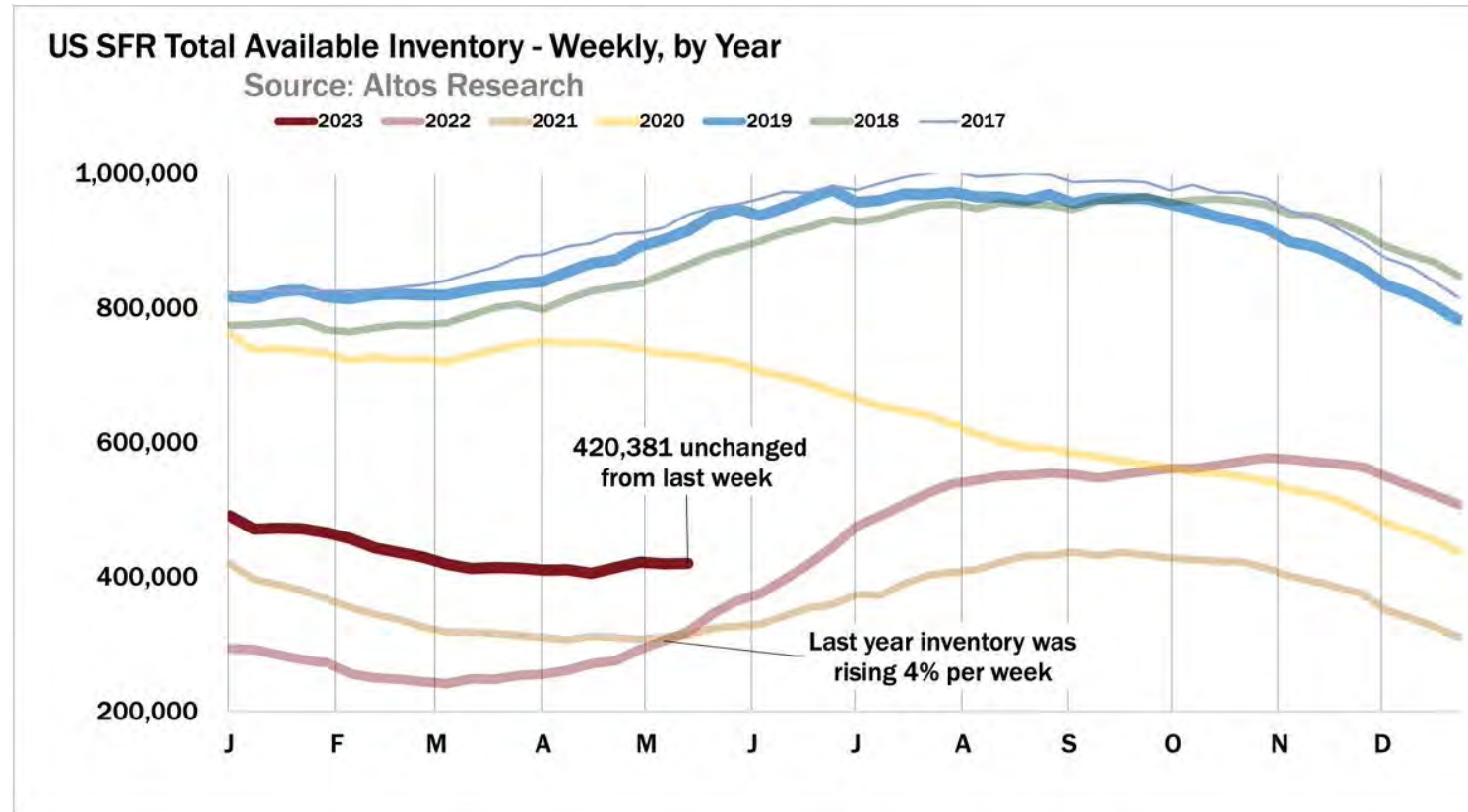
# Mortgage Rates Usually Fall After Fed Funds Rates Peak



# Existing Home Sales Down from March – and Well Below Last Year

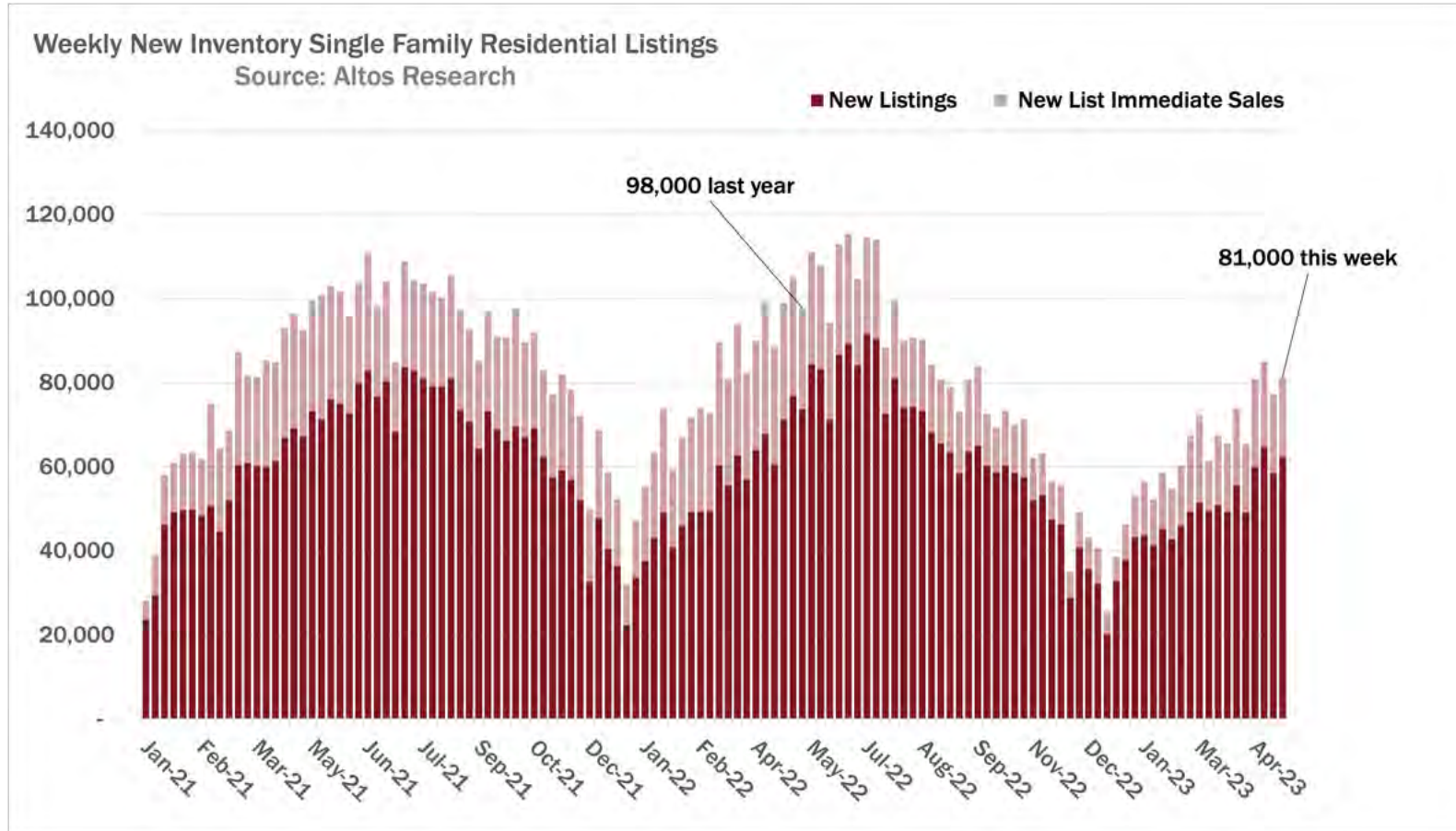


# Inventory Slightly Higher Than Last Year, but Weakening

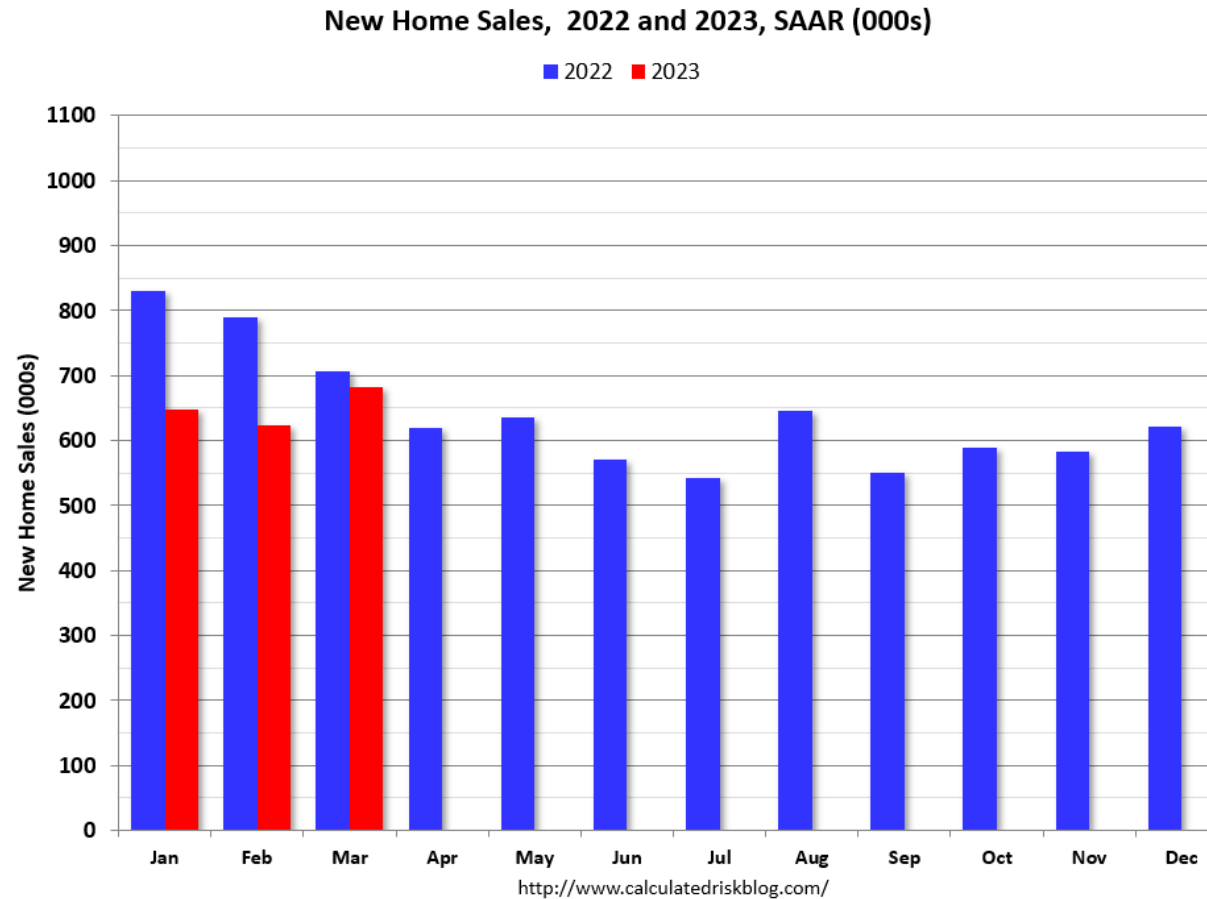


Source: Altos Research

# And New Listings Are Down Significantly

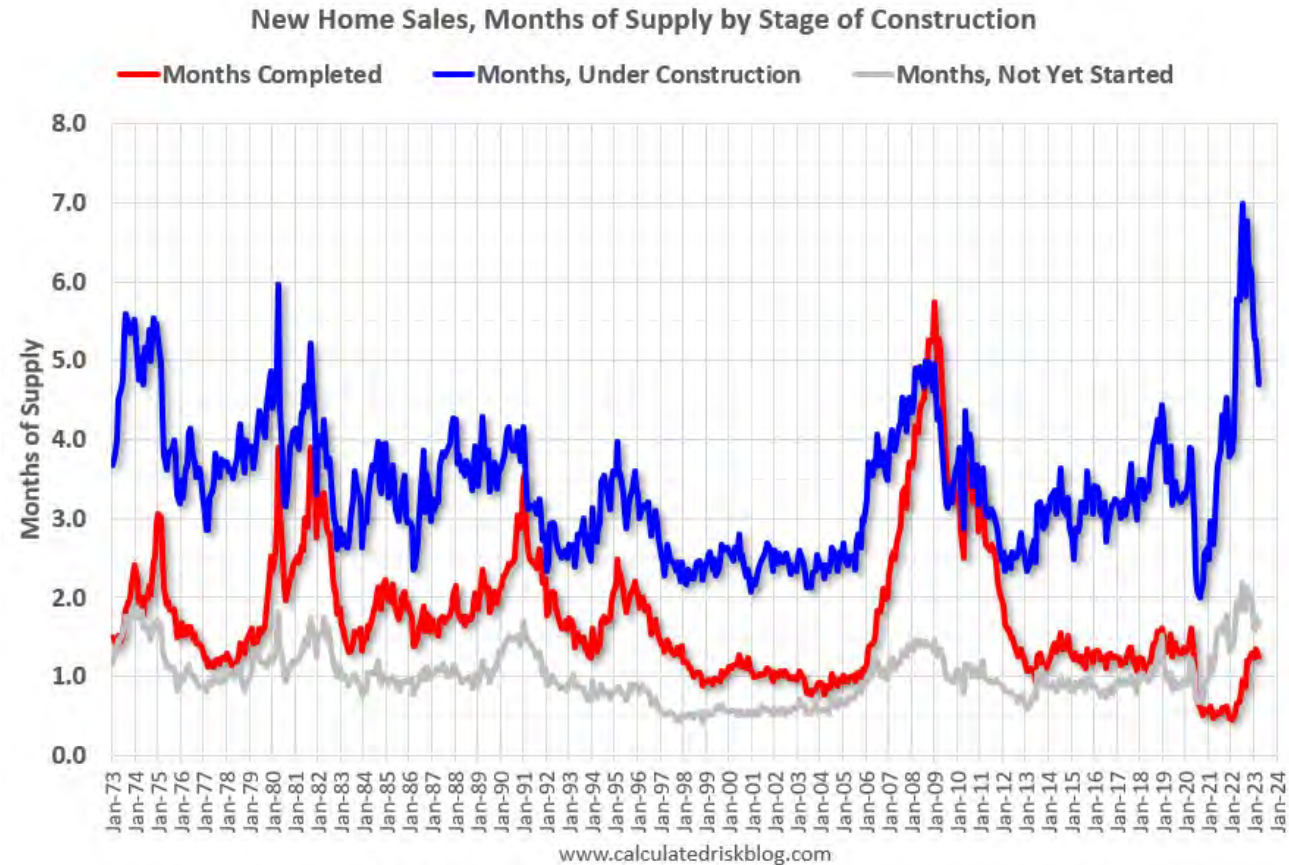


# New Home Sales Improving as Builders Offer Incentives



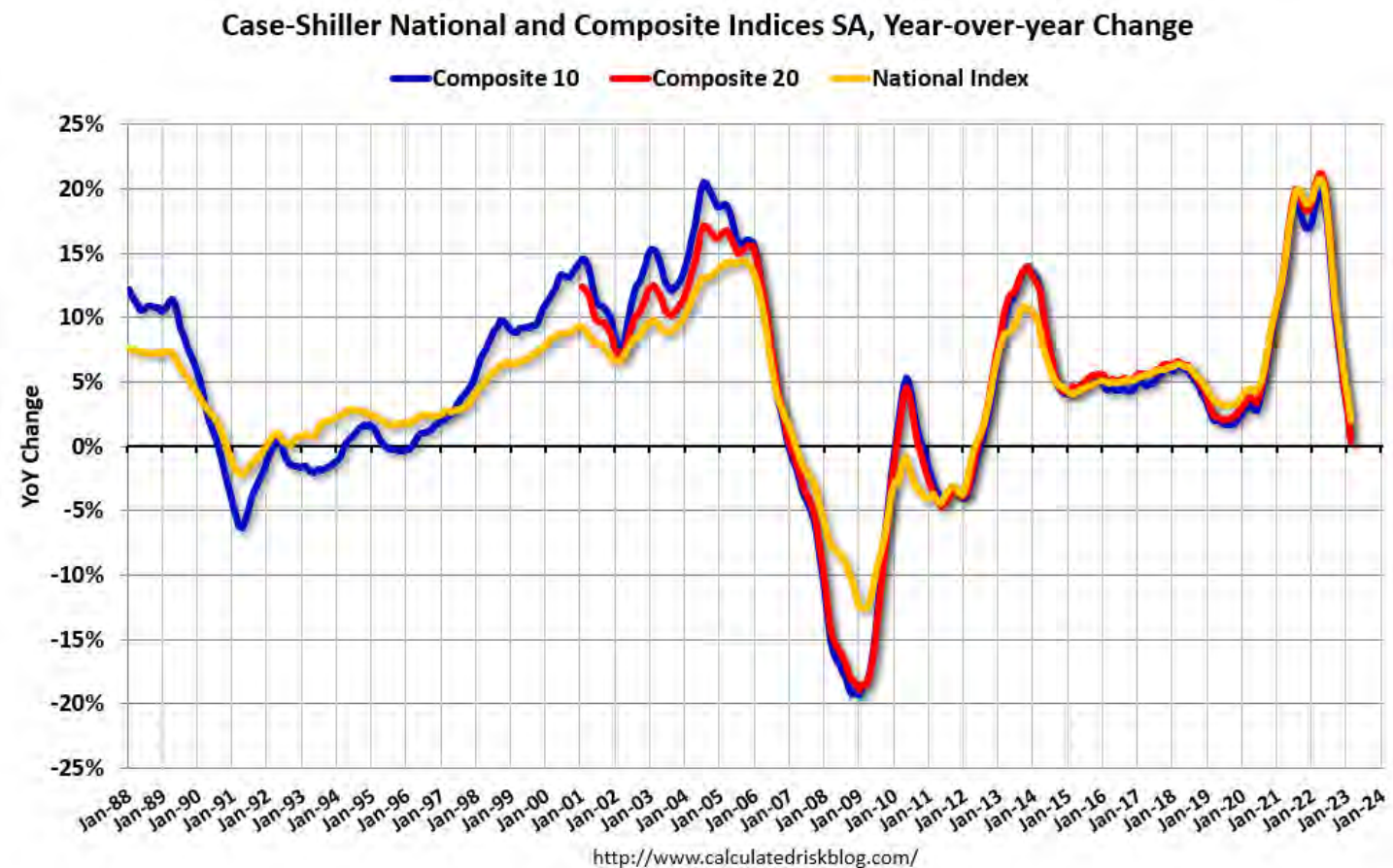


# Inventory Coming to Market Slowly, and Selling Quickly

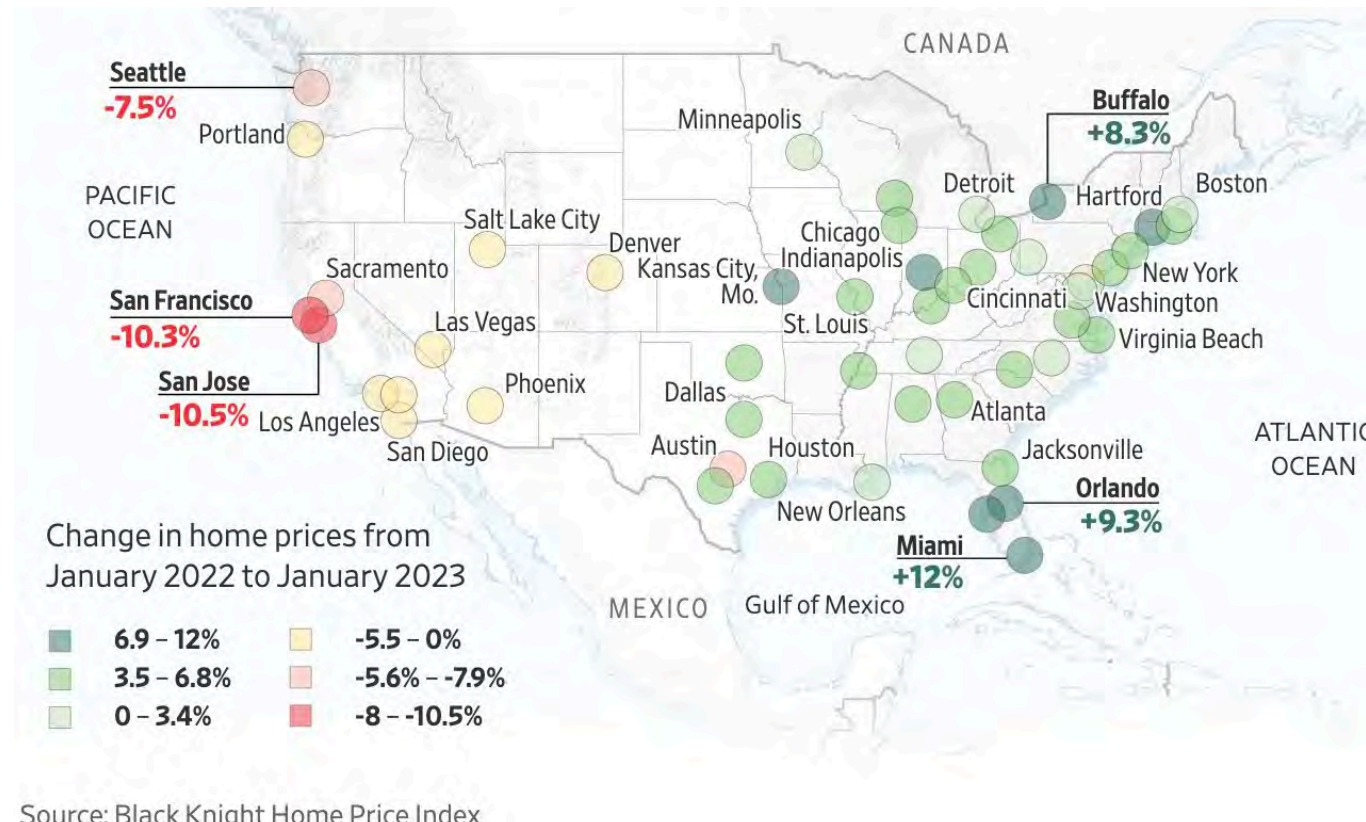




# Price Appreciation Has Declined Rapidly

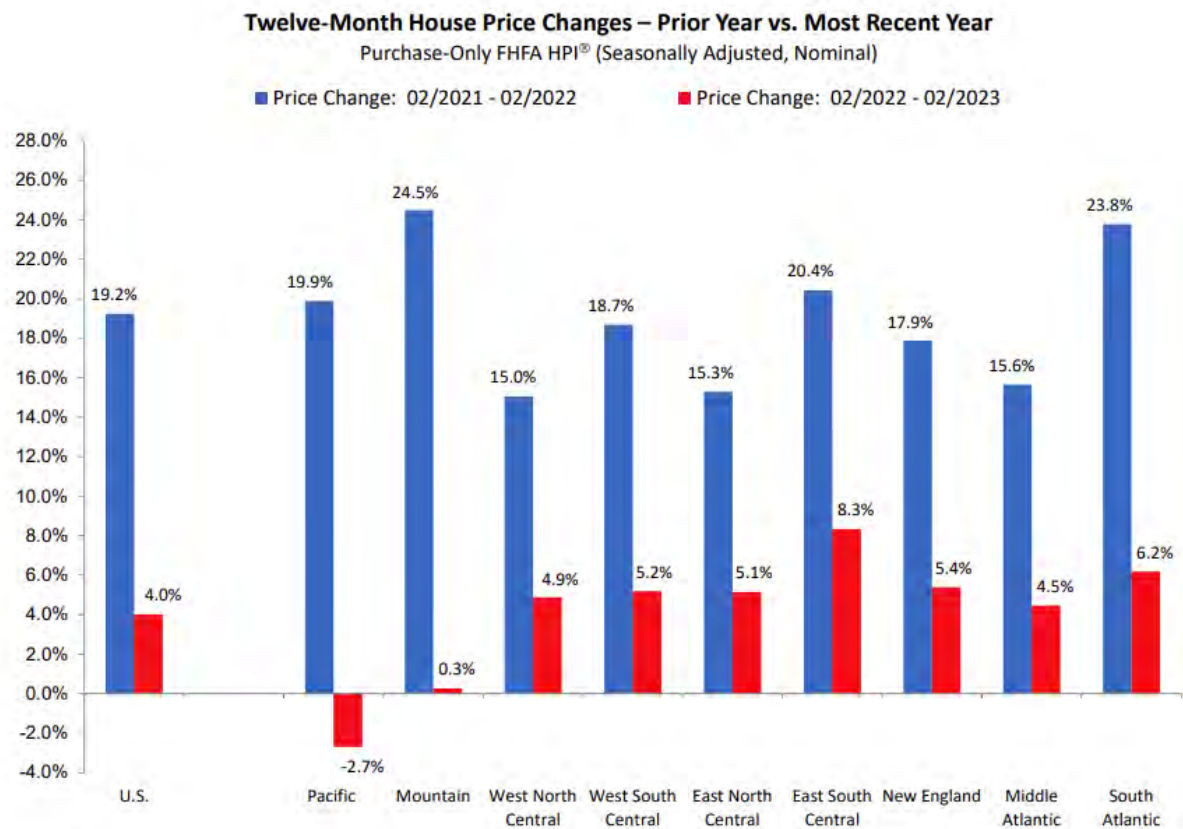


# Prices Declining Most Rapidly in Western States



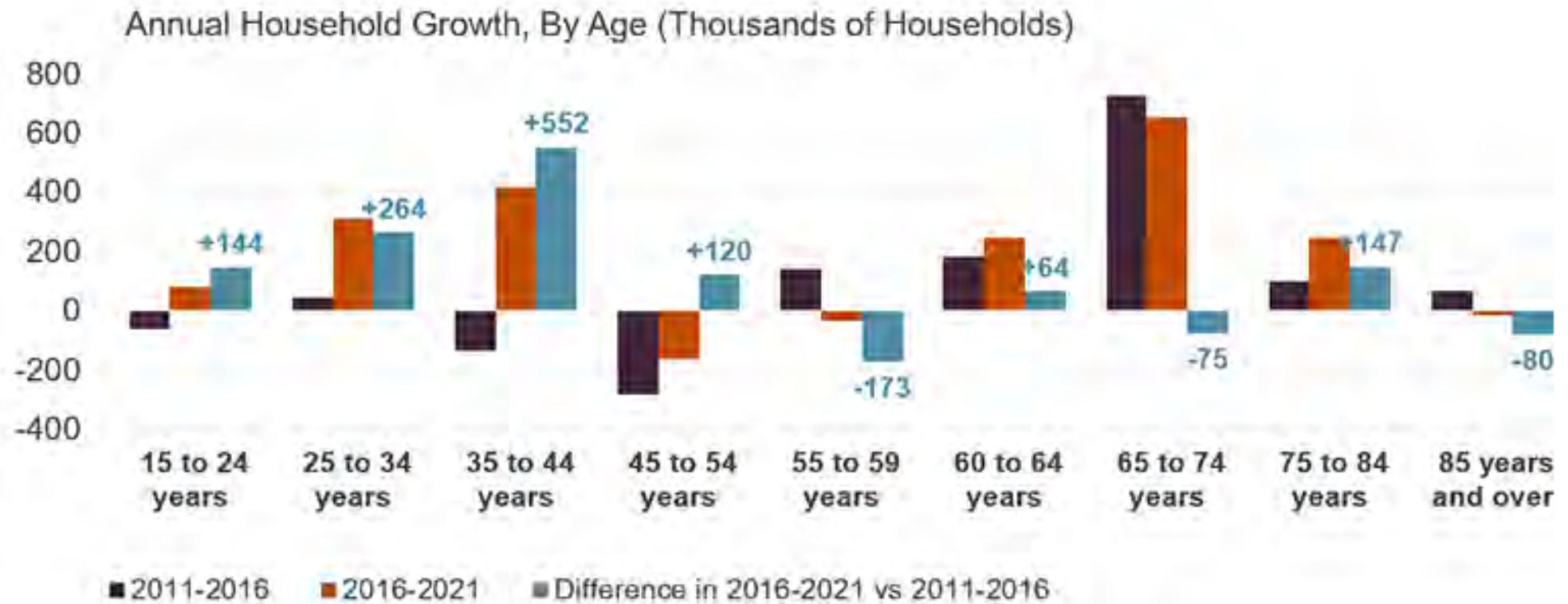
Source: Black Knight Home Price Index  
Camille Bressange/THE WALL STREET JOURNAL

# But Most Regions are Still Positive Year-Over-Year



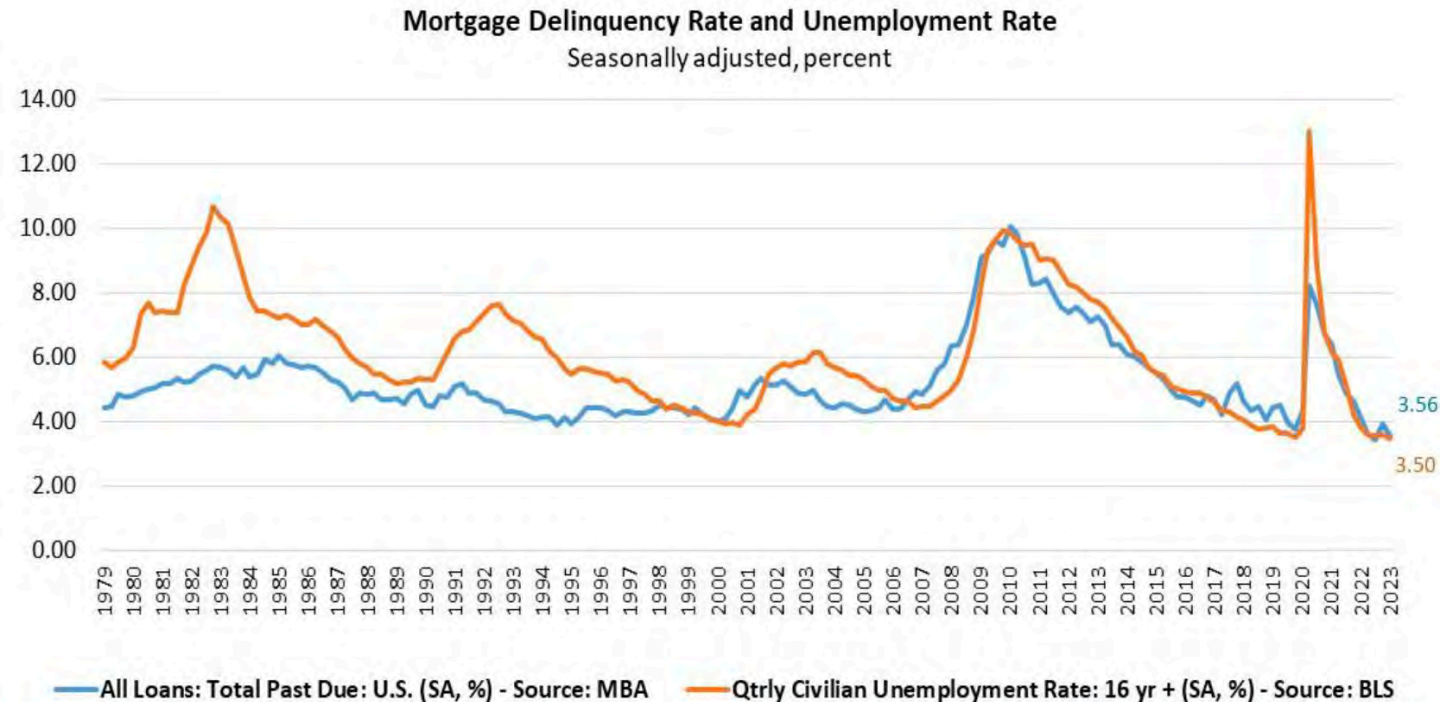
Source: FHFA

## And Demographics Should Ultimately Provide a Tailwind for the Market



# DELINQUENCIES & FORECLOSURES

# Strong Correlation Between Unemployment and Delinquency Rates



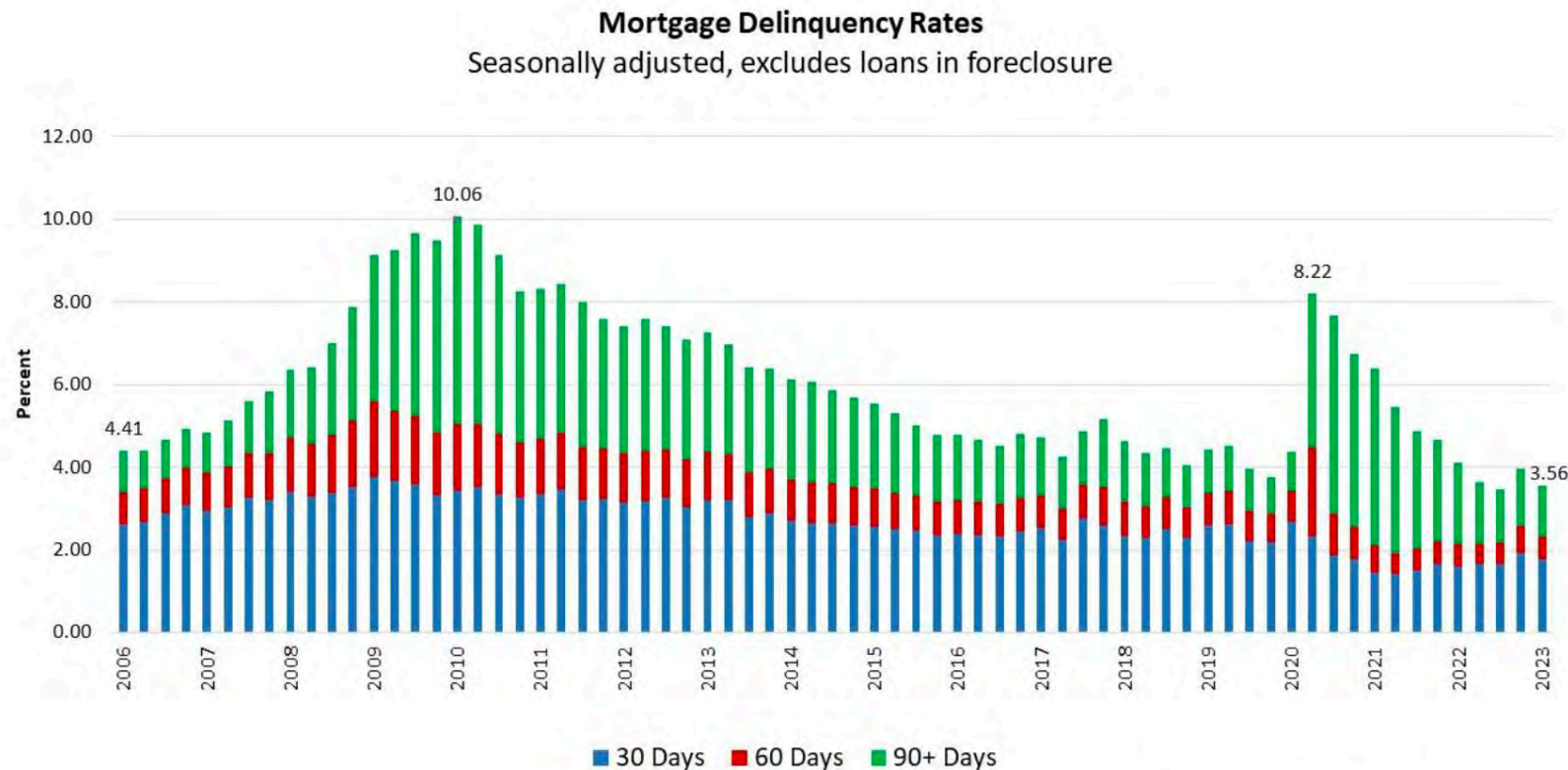
Source: MBA's National Delinquency Survey

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# Delinquency Rates Dip Below Normal Levels in Q1 2023

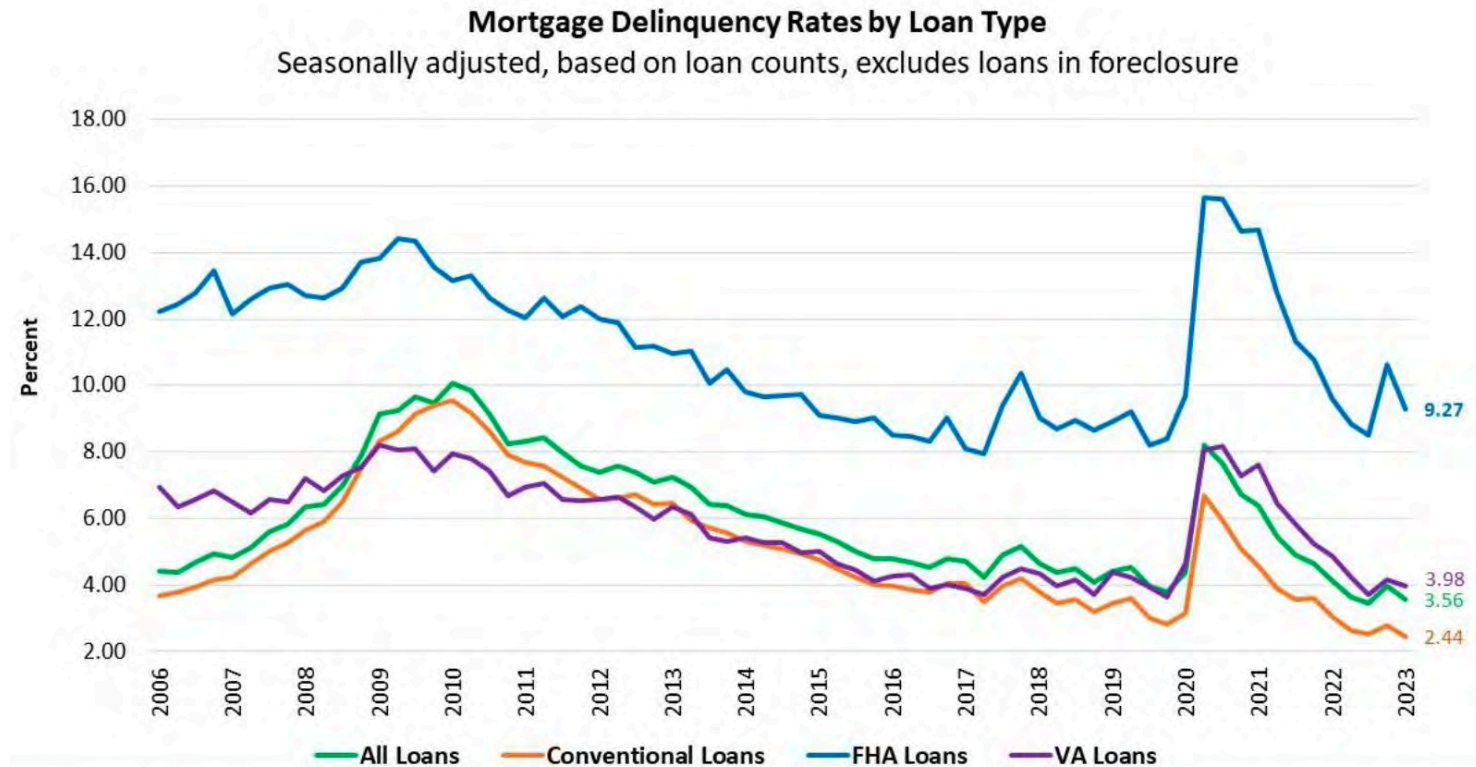


Source: MBA's National Delinquency Survey

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# All Loan Types Saw Drop in Delinquency Rates



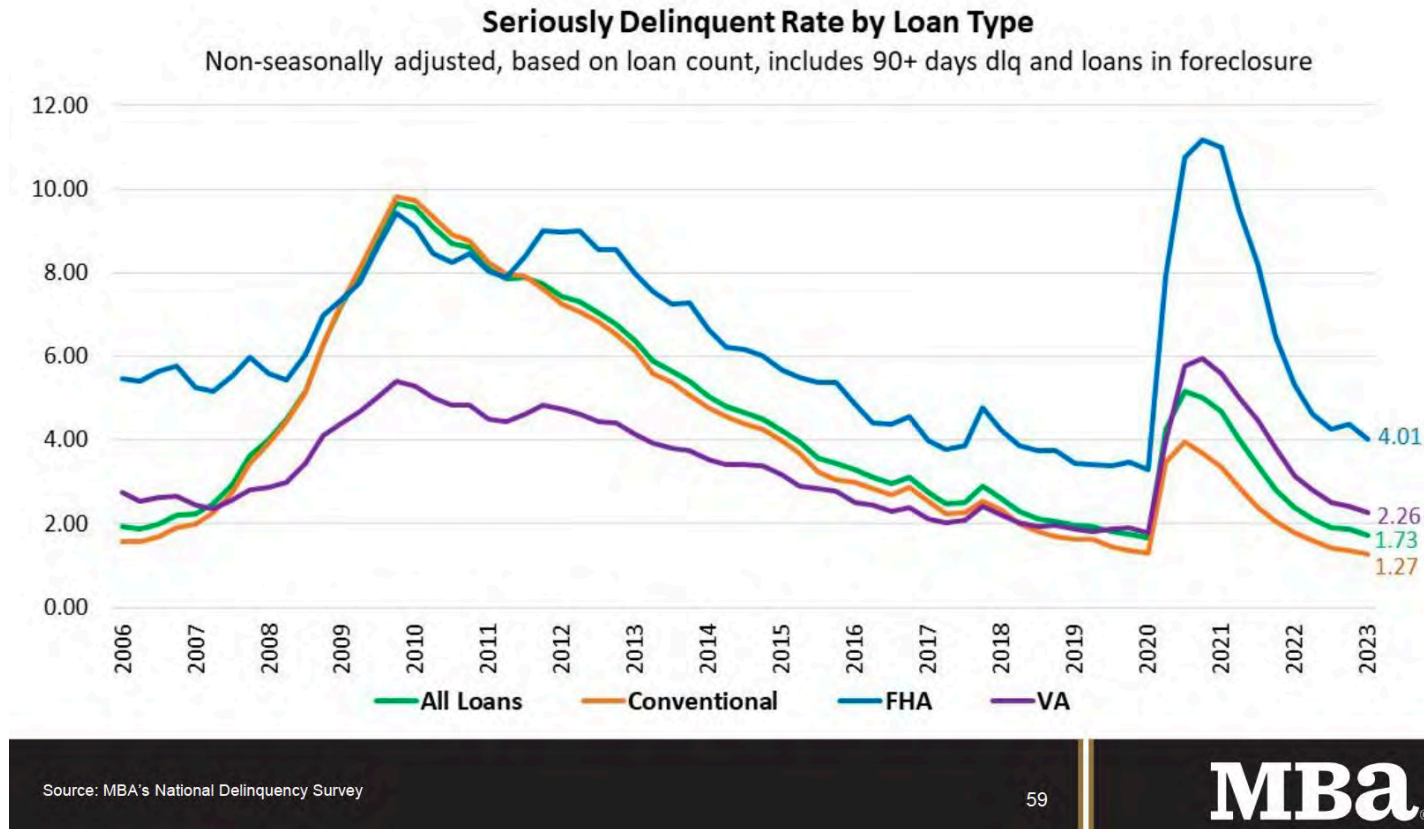
Source: MBA's National Delinquency Survey

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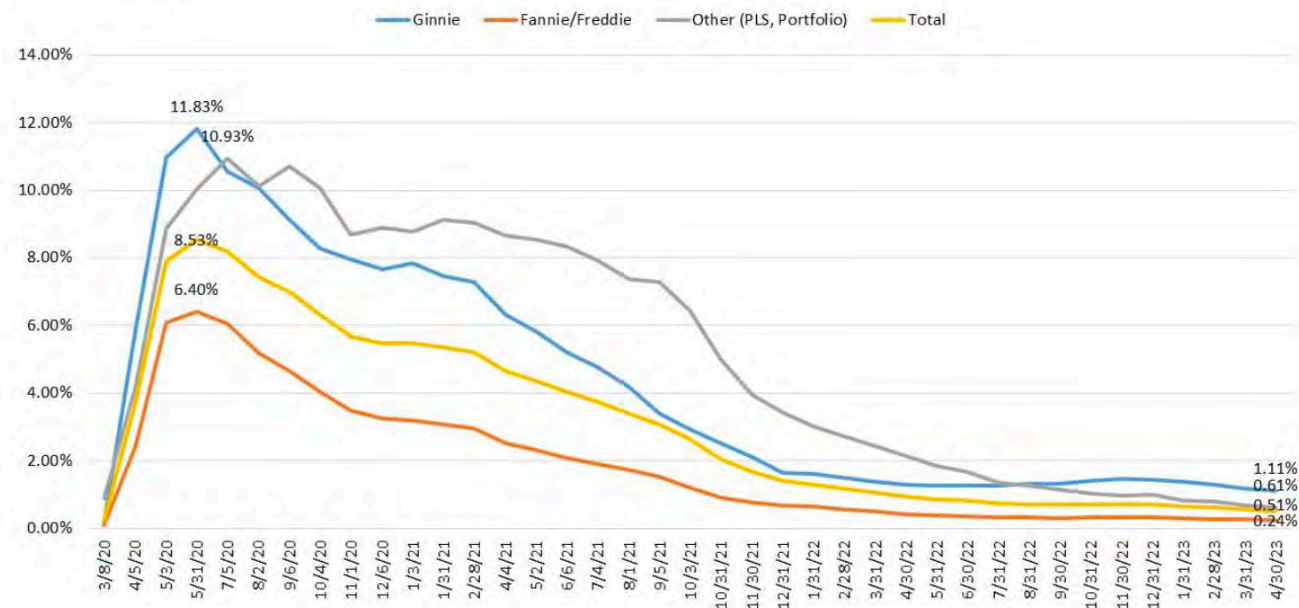


# And Seriously Delinquent Loans Declined Even More



# Forbearance Loan Pool Nearly Exhausted

% of Servicing Portfolio in Forbearance by Investor Type Over Time  
(Full Sample)



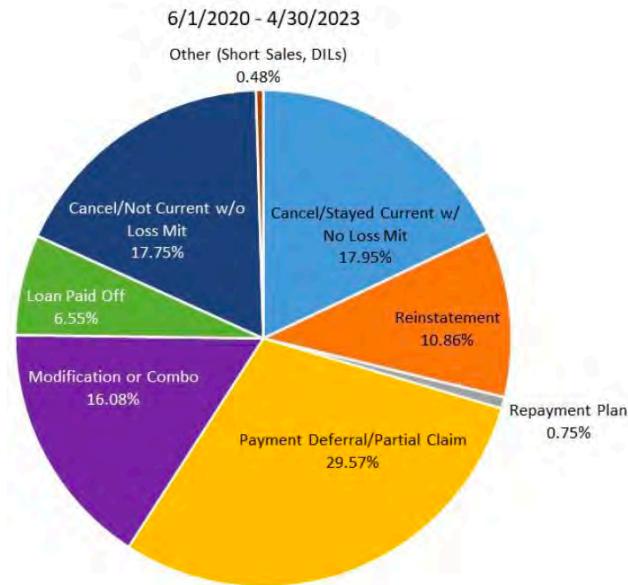
Source: MBA's Monthly Loan Monitoring Survey, as of 4/30/2023  
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# Less Than 0.50% of Loans Exiting Forbearance Have Defaulted

## % of Cumulative Forbearance Exits by Reason, at Time of Forbearance Exit



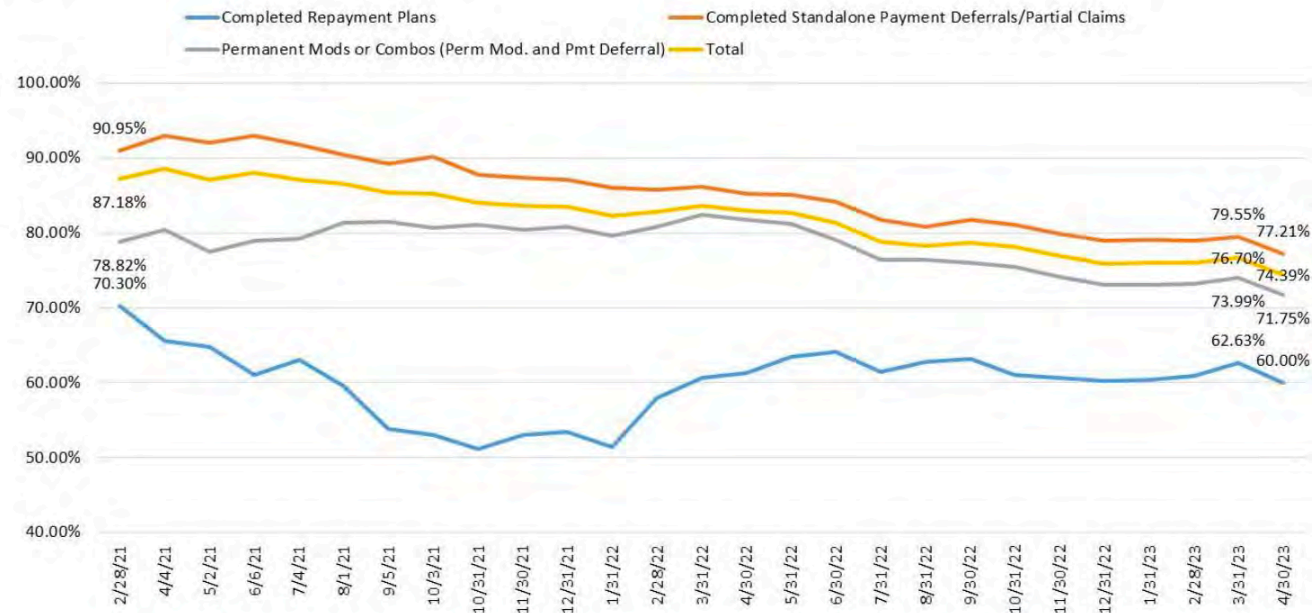
Source: MBA's Monthly Loan Monitoring Survey, as of 4/30/2023  
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# And ~77% of Loan Workouts Remain Current

## Total Completed Loan Workouts in 2020 or After: % Current at End of Reporting Period

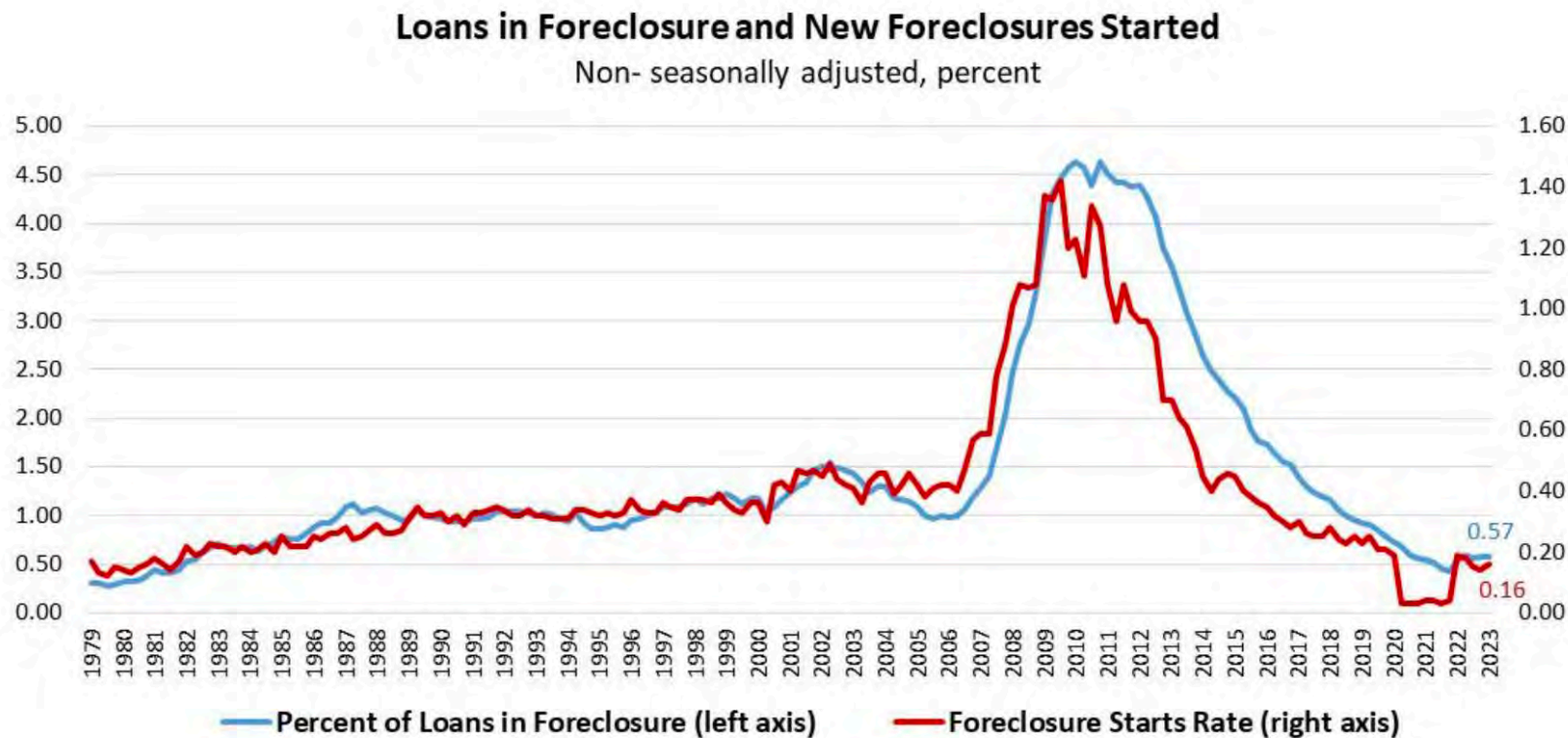


Source: MBA's Monthly Loan Monitoring Survey, as of 4/30/2023  
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# Foreclosure Activity Remains at ~60% of 2019 Levels



Source: MBA's National Delinquency Survey

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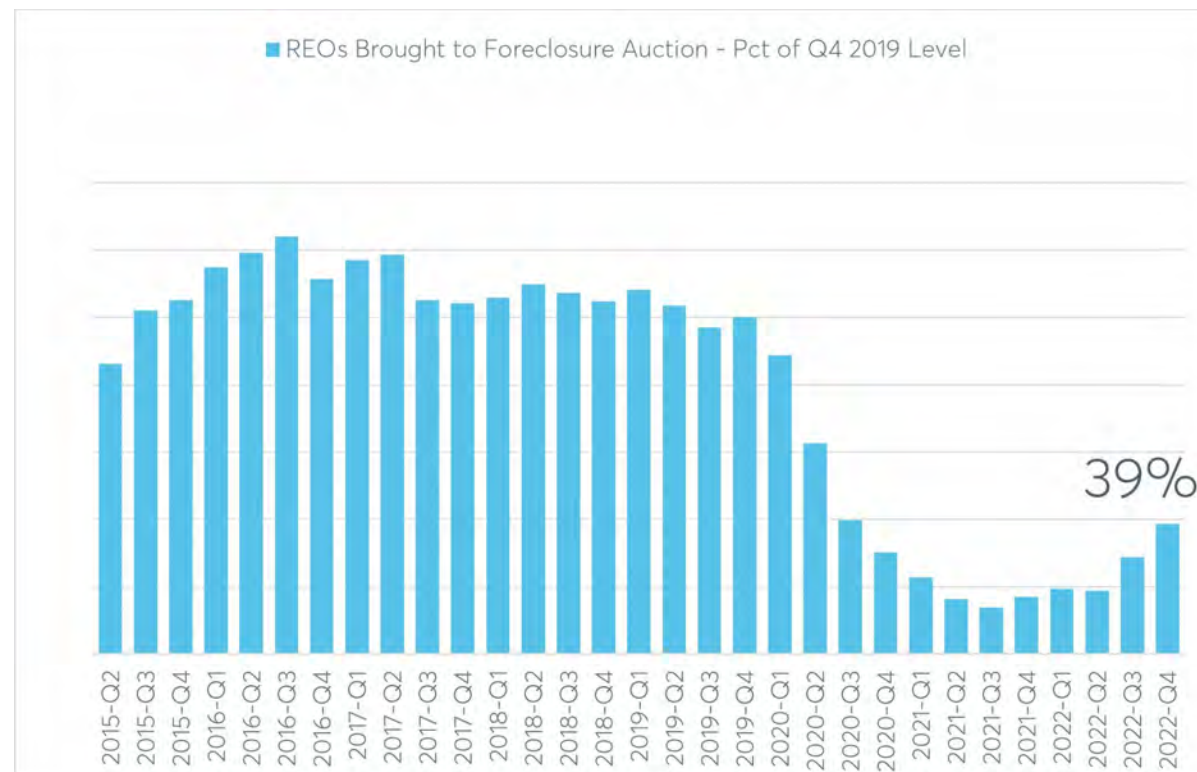
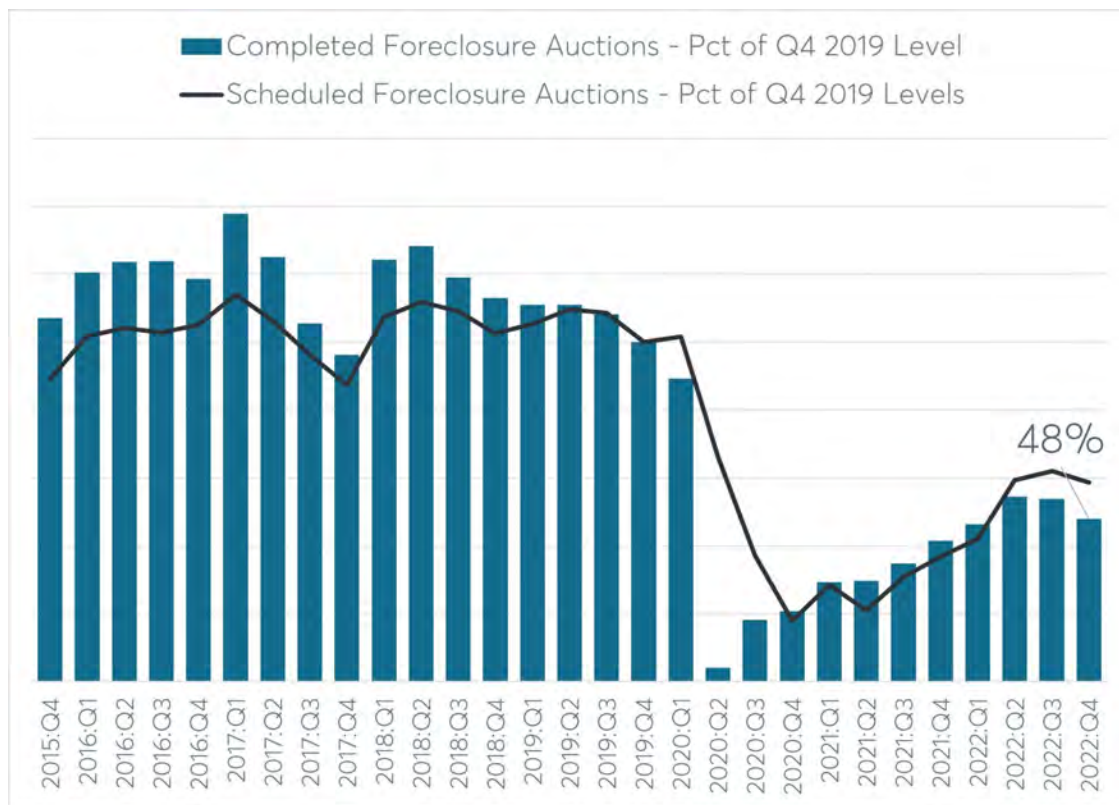
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# Foreclosure Starts Recover to ~80% of Pre-Pandemic Levels



# Foreclosure Auctions Remain Far Behind



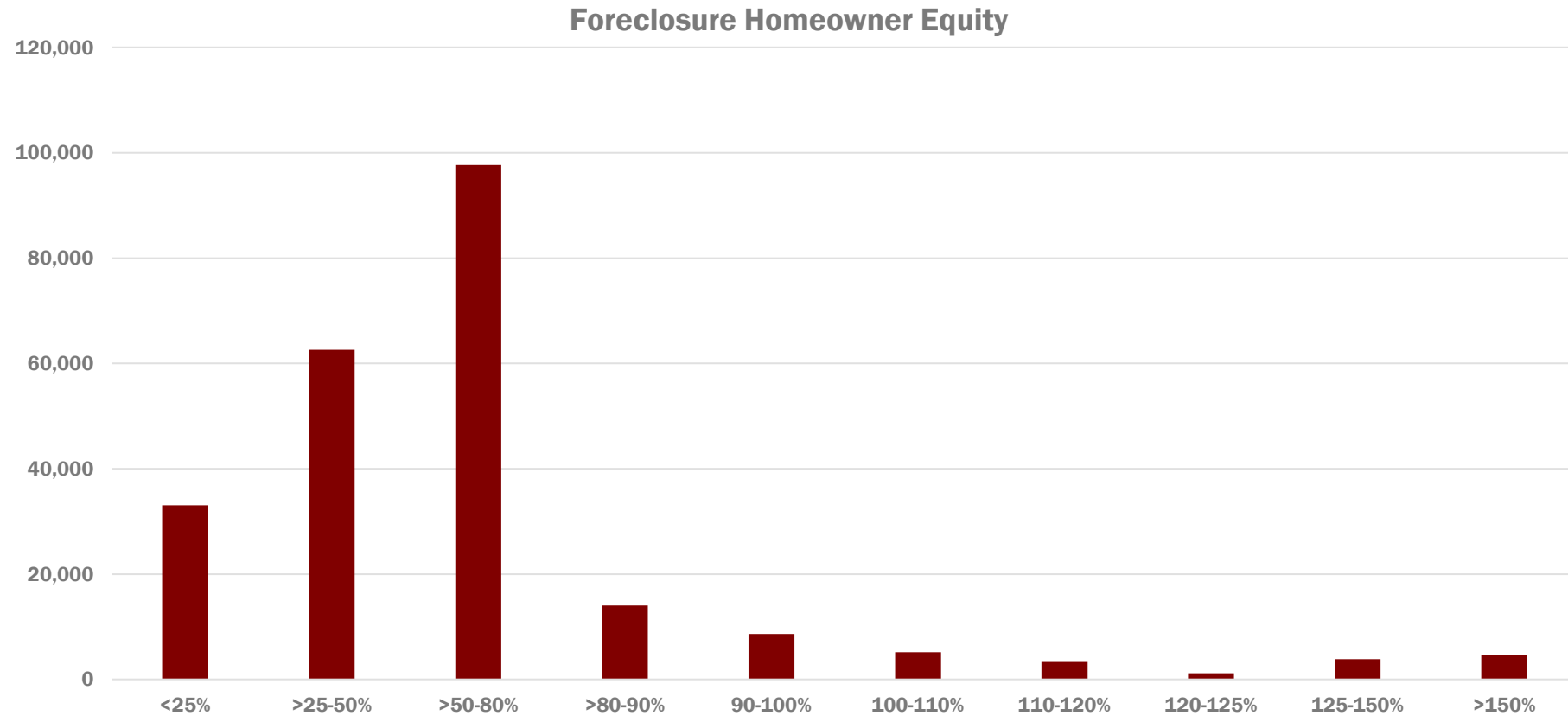
Source: Auction.com

# Overall REO Activity Lags Pre-Pandemic Levels at ~30%

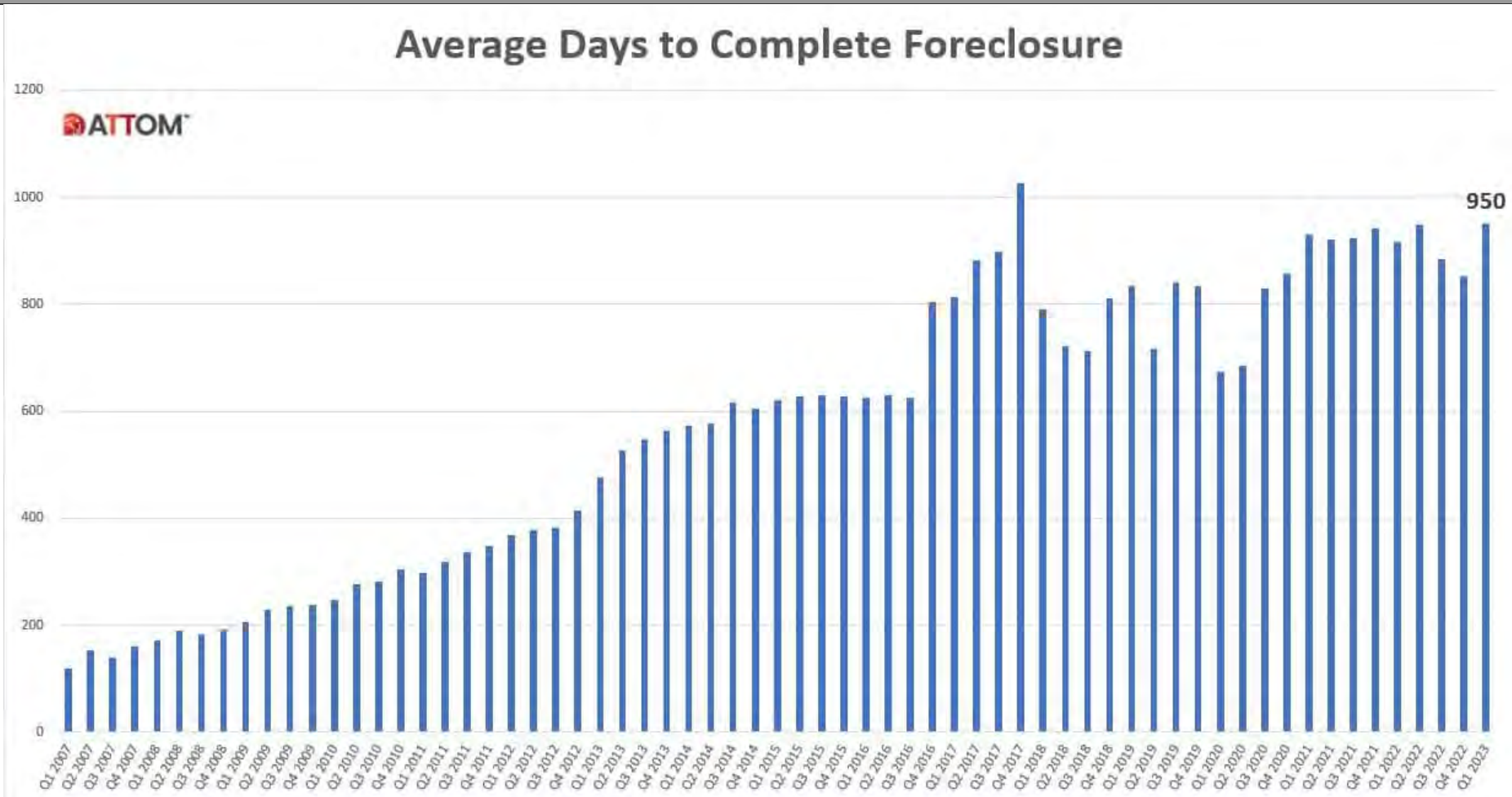




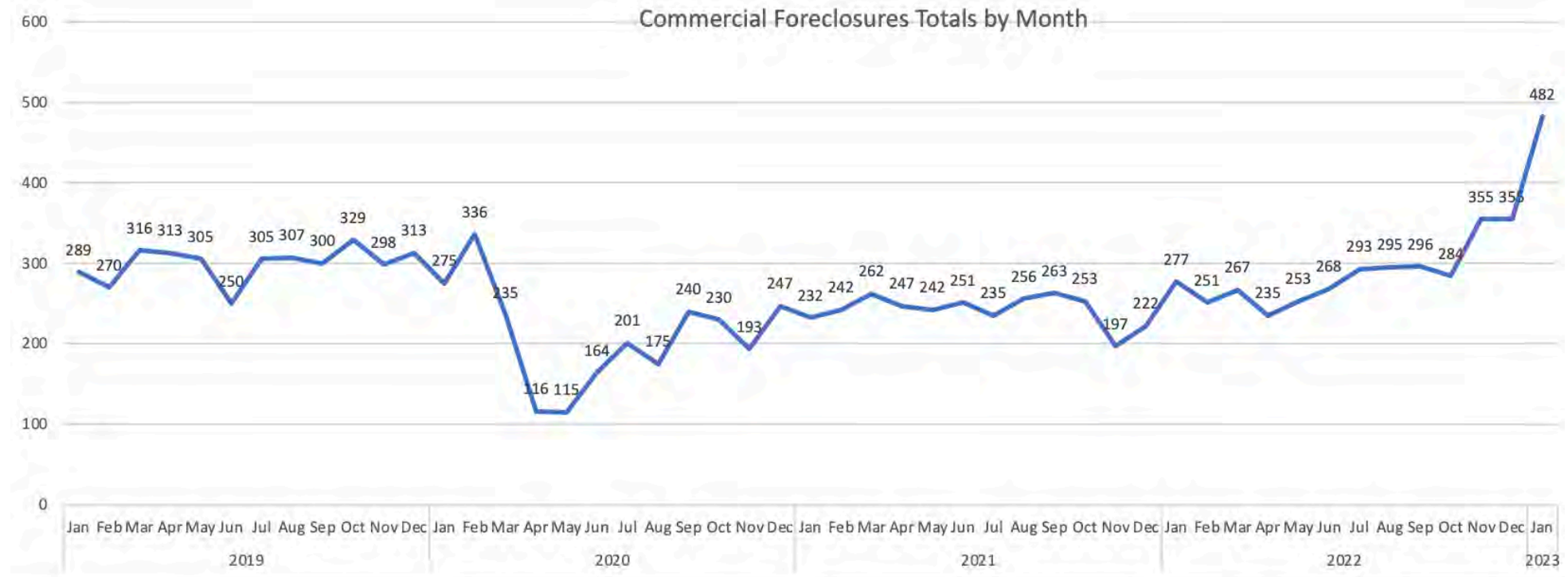
# One Reason: 92% of Borrowers in Foreclosure Have Positive Equity



# Another Reason: Foreclosures Averaging 950 Days to Execute



# Commercial Real Estate Foreclosure Activity Unusually High



Source: ATTOM

# CLOSING THOUGHTS

# Takeaways from Today's Session

- There's likely to be a recession in 2023, but a relatively short and mild one, with unemployment peaking around 5.0-5.5%
  - Higher unemployment could create more distressed inventory
- Home sales will decline – ending year at about 4.4MM existing home sales and 600K new home sales
- Mortgage rates should gradually decline back towards 5% towards year end, with corresponding declines in commercial lending rates
- Home prices likely to decline year-over-year, but by less than 5%
- Foreclosure activity won't reach pre-pandemic levels until late 2023 or early 2024 – and REO activity will lag even further behind
- Commercial market could be more vulnerable to downturn and foreclosure activity than residential real estate during this cycle

# Thank You!

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