



Charlotte

# Fall Meeting Rewind

Thursday, December 5, 2024



# Thank You 2024 Annual Sponsors

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As of 9/10/2024

# Upcoming Events



Charlotte



## Housing in 2025

Terrace at Cedar Hill  
8:00 AM - 10:00 AM EDT

**Open for members and non-members.**



## 2025 Carolinas Meeting

Charleston Gaillard Center

**Open for members and non-members.**



Charlotte

# Fall Meeting Rewind Speakers

Thursday, December 5, 2024



Jeff Cernuto  
Princeton  
Communities



John Porter  
Charter  
Properties



Moderator  
Stuart Proffitt  
Proffitt Dixon



Lat H. Purser  
Lat Purser  
& Associates



Erin Shaw  
Beacon Partners



Beth Silverman  
Lotus Campaign

# LOTUS CAMPAIGN

Unexpected allies working together to solve  
homelessness



**Simon  
Sinek**



Define *why* you exist versus “*what you do*”.

**Infinite Game:** There can be two people who are right. You don't always need a winner.

URBAN REVITALIZATION COUNCIL

# Off the Strip: Arts District, Chinatown, and the historic West Side



URBAN REVITALIZATION COUNCIL

# Brightline West



**KRAFT MOUNTAIN LOOP , RED ROCK CANYON**





# 2024: THE YEAR THAT WASN'T

*BUT MOMENTUM TOWARDS NORMALIZATION IS  
BUILDING ...*

*Residential Neighborhood  
Development Council  
ULI FALL MEETING 2024*

**Princeton**  
communities

# ECONOMIC HOUSING DATA

- **Economic Backdrop**

- U.S. economy shows slowing growth, heading toward a “Soft Landing.”
- Soft Landing = No significant increase in unemployment and no decline in GDP

- **Labor Market is slowing**, with companies not letting people go but slower to hire.

- **Share of Loans in Foreclosure at Record Low**

- **Risks are growing in markets with rapidly increasing non-mortgage costs**, i.e., insurance and taxes, and for homeowners with fixed income.

- Spiking insurance costs are rising at 3x the rate of Principal, Interest & Taxes

- **Futures had interest rates at 5.8% late 2025 pre-election . Now late 2026**

- **32% of Mortgages Originated since 2022 have rates above 6.5%**

- The current mortgage payment for an SFR is up 82% from just a few years ago for the same house.

- **Home Equity Strength - \$32 Trillion Worth**

- U.S. Homeowners hold approximately 32 trillion in total equity. \$17 trillion in net equity among mortgaged properties
- LTV ratios have fallen to 42%

- **Home prices still hitting new highs, expected to increase another 5% in 2024 and 2% in 2025**

- **Movement from higher cost to lower cost areas are pushing up prices**

# HOUSING DATA

- **Home Buying gradually picks up for the rest of the decade.**
  - Total home sales expected to be down 1% in 2024, up 9% in 2025
- **Silver Tsunami Incoming:** The largest generational cohort approaches peak first-time homebuyer age, while Baby Boomers begin transitioning out of homeownership
- **Margins are Still Good Even With Concessions of 30-40K per home.**
  - National Builders have an operating margin in the low to mid-20s compared with a post-Covid high of 28%. Pre-Covid margins hovered at high teens
- **Construction Challenges**
  - Labor shortages persist; job openings for construction remain elevated
  - Material costs are stabilizing but remain high for certain goods/services with HVAC & Concrete are current pressure points.
  - Lumber is still a tailwind
  - Material Costs increased by 2% over the year in U.S., 3.4% in Canada compared to 4% annually from 2017-2019
- **Most Builders anticipate 10% growth next year across the board**

# NAR SETTLEMENT

## “We are in the 4<sup>th</sup> inning”

### **BOOST TO BUILDER MARGINS**

- Declining buyer agent commissions will reduce costs, improving margins for builders like D.R. Horton (DHI) and Meritage Homes (MTH).

### **INCREASED UNREPRESENTED BUYERS**

- More buyers are expected to bypass agents, reducing builder costs and simplifying transactions.

### **REDUCTION IN COMMISSION RATES**

- Builders will pay buyer agents only the fees specified in buyer agreements, lowering expenses.

### **SHIFT IN MARKETING STRATEGIES**

- Builders will move away from bonuses and high commissions as regulatory scrutiny increases.

### **MORE TRANSPARENT PRICING MODELS**

- Builders can use saved commissions to offer credits or upgrades, boosting buyer appeal and profitability.

### **COMPETITIVENESS IN A NEW LANDSCAPE**

- Builders' internal teams and websites make them well-positioned to attract agent-free buyers.

### **FAVORABLE MARKET DYNAMICS**

- Lower commissions may increase luxury home prices, benefiting builders targeting this segment.

### **TEMPORARY DISRUPTIONS IN SALES**

- Adjustments to new practices may cause short-term delays but will reduce costs in the long term.

### **STRATEGIC ADAPTATIONS**

- Builders must ensure compliance with commission limits to avoid legal risks and penalties.

### **INVESTOR OPPORTUNITIES**

- Investors underestimate margin benefits; builders adapting quickly may outperform expectations.

ALL OF THIS IS THROWN OUT THE WINDOW IF IT IS A BUYER'S MARKET

## Summary From Vegas

- Optimism abounds for 25,26 and 27
- US Housing Market is short 1.5 million homes, finds Freddie Mac
- National Numbers are losing relevance in high-growth areas
- *When you sell a house in Detroit and move to Charlotte, you can't bring the house with you. A new one must be built in Charlotte, which contributes to a more significant regional housing shortage compared to the national level*

## Nuggets From Vegas

- Herculean effort is required to lose on debt-free real estate
- Buy at the Corner of “No” and “No Brainer”
- No matter how seasoned you are, inadequate due diligence will harm you
- Knowing when to sell is the hardest decision in real estate.
- Today, the most precious resource you have is your attention, not your time
- Finally, 47% of people cry when buying a home. I say no need to cry things are looking up!

# Unique Lending Environment

- ❖ 2023 was the highest volume of CMBS defaults on record (\$8.6 billion) – this was driven primarily by office defaults (\$4.8 billion) and retail defaults (\$2.55 billion)
- ❖ 2024 defaults are on track to match this figure – CMBS delinquency rates on office increased to 10.38% (up 100bps from October).
- ❖ Overall CMBS delinquency rate across product types is 6.4% as of Nov-2024 (as compared to 4.58% in Nov-2023)
- ❖ Success of an investment can now be determined by the loan maturity date (maturities coming due in 2022-2024 often will not yield sufficient proceeds / debt service to take out original loan)
- ❖ Lenders seeking funded, term loans on stable investments – industrial, retail, multi-family, etc (anything but office)
- ❖ All-cash buyers are often the only investors who can make deals pencil

# Get Creative

- ❖ Multi-Family Conversions: Viable on older hotel product and select office product (attractive basis is important)
- ❖ Covered Land: Buying well-located office in strong locations with the long-term plan of re-developing site, re-purposing building, or adding new development to the site
- ❖ Traditional Office Investment: Buying at attractive basis or (when capital allows) taking a mezzanine equity position at the right basis on stable, core investments



*\*Brodsky Organization converting Flatiron Building in NYC to 60 luxury, residential condominiums*