LOCKTON®

REINSURANCE

BEYOND THE HEADLINES:
Analyzing Regional Resilience in a Low-Affordability Housing Market

March 2025

- **Exposure**
- **Peril**
- Risk Transfer
- Placement

A part of Lockton Re's Mortgage & Structured Credit research initiative, our second report expands upon previous analysis of single-family market dynamics and affordability and explores potential regional pockets of stress. Media headlines have been sounding the alarm on potential for regional housing crises, citing dropping home prices in Florida, Texas, and parts of California. Given these three states comprise more than 25% of the total housing market, are these headlines simply clickbait, or do they have merit? Does downward pressure on home prices also mean increased credit events? Our research within this report helps frame the reality of these permeating perceptions.

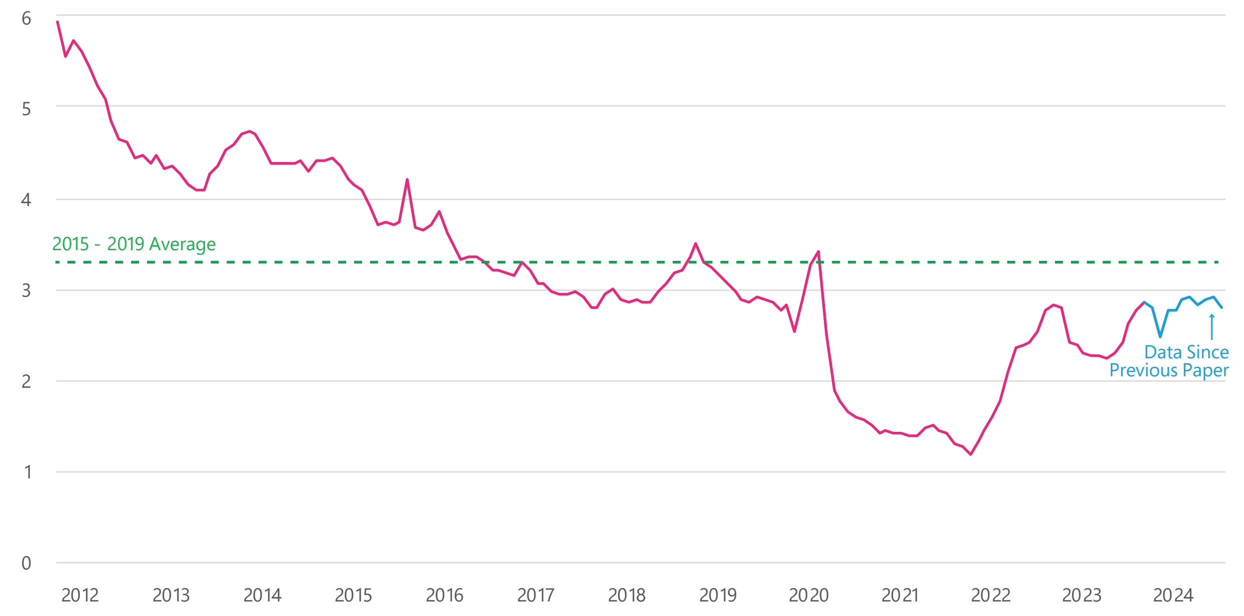
Lockton Re's reports, market commentary, and insights focus on key topics, occurrences, or changes in the (re)insurance and broking marketplace that impact our clients and partners. In order to help guide relevance for the reader, we categorize this content in four areas – Exposures, Perils, Risk Transfer, and Placement. Lockton Re looks forward to working on behalf of our clients to deliver new insights and innovative products designed to address the multifaceted risk environment.

National Housing Market Remains Stable at Lower Volumes

In our previous paper, "Unpacking the Post Pandemic Housing Market," our team explored the prominent market themes of tight supply, strong demand, and low affordability. We determined that low affordability was limiting the buyer pool, and the "lock-in effect" of higher interest rates was restricting supply level. Ultimately, the constrained number of qualified buyers proved to be adequate to service the lower supply level. Age demographics were a positive tailwind for demand and will continue to be a positive tailwind as the largest cohort of the population ages into prime first-time home buyers (FTHBs). The paper concluded that, despite historically low affordability, strong standby demand was supporting the market, as buyers were stepping in at any sign of cost improvement, such as rate drops. Thus, the market trajectory for the near-to-medium term was stable, albeit at lower volumes than in the past.

Nine months, and the theme of stability at lower volumes continues to play out. Months of supply is flattening out to just below normal pre-pandemic (2015 through 2019) levels (Figure 1). We deem this period "normal," as most key indicators were range-bound and relatively stable.

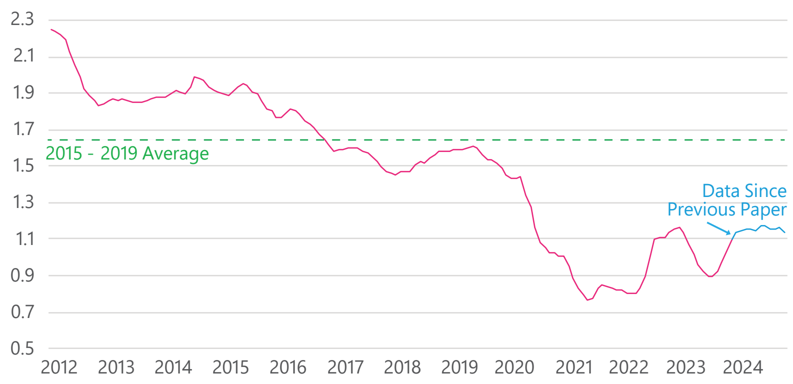
Months of Supply[1]
Monthly, Seasonally Adjusted (Figure 1)



[1] Redfin. "Downloadable Housing Market Data." Redfin Real Estate News. December 15, 2024. https://www.redfin.com/news/data-center/.

Inventory remains lower than pre-COVID norms (Figure 2) due to the persistent "lock-in effect," where ~60% of mortgage holders have a mortgage rate of 4% or less (CFPB).[2] Unless rates drop materially, increases in supply will continue to be driven by new home builds.

Inventory[3]
Monthly, Seasonally Adjusted, Millions (Figure 2)

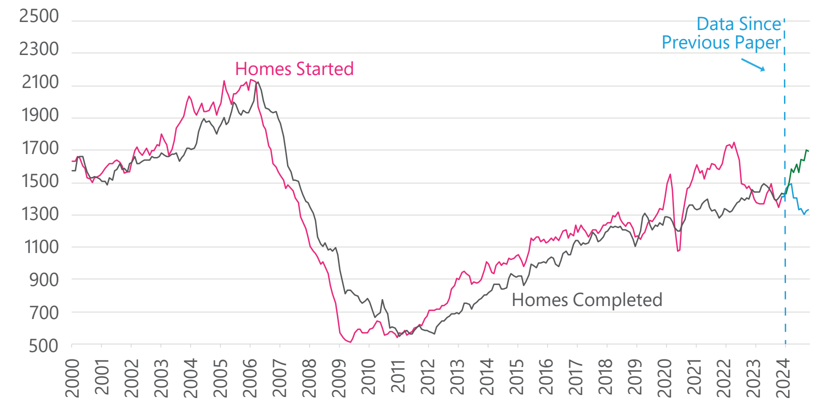


> "Unless rates drop materially, increases in supply will continue to be driven by new home builds."

[2] Consumer Finance Protection Bureau. "Data Spotlight: The Impact of Changing Mortgage Interest Rates." CFPB. September 17, 2024. https://www.consumerfinance.gov/data-research/research-reports/data-spotlight-the-impact-of-changing-mortgage-interest-rates/

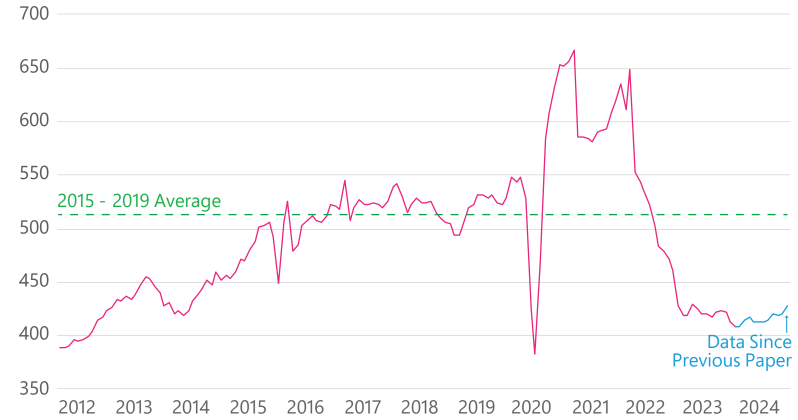
[3] Redfin. "Downloadable Housing Market Data."

Homes Started & Completed[4]
Three-Month Rolling Average, Seasonally Adjusted, Thousands (Figure 3)



As Figure 3 highlights, new home builds continue to increase and are approaching levels similar to the early 2000s. Unfortunately, this is not enough to compensate for the lower supply of existing homes, evidenced by the combination of the low inventory and homes sold volumes, which are ~25% below pre-pandemic levels (Figure 4).

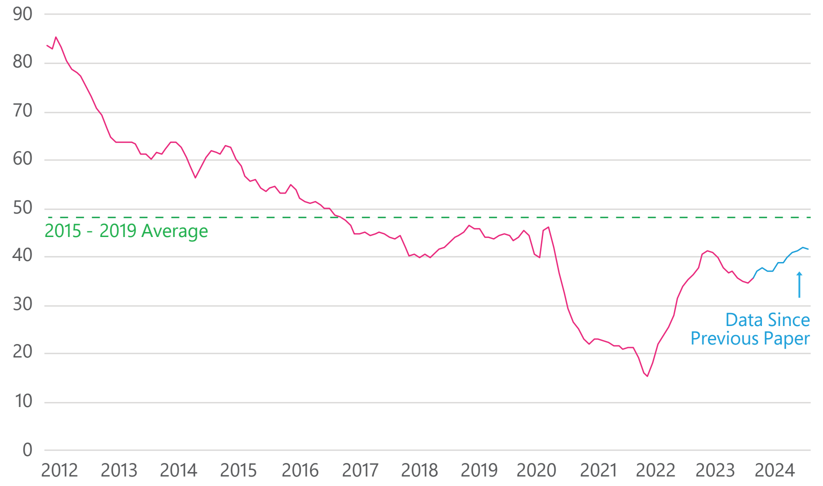
Homes Sold[5]
Monthly, Seasonally Adjusted, Thousands (Figure 4)



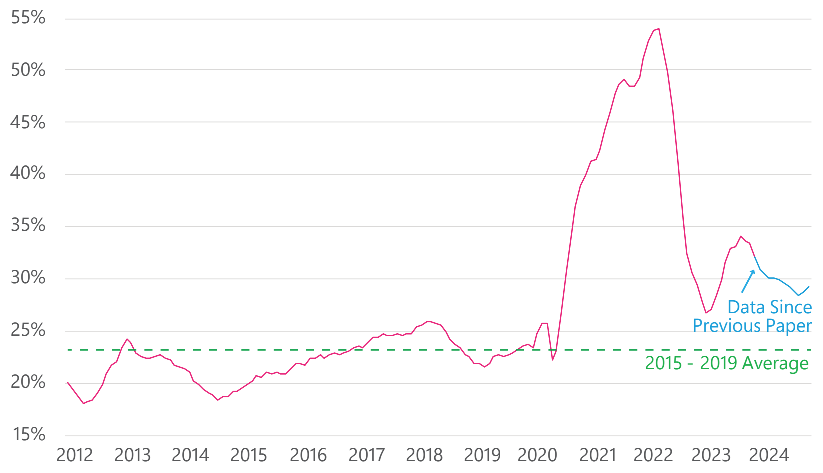
[4] U.S. Census Bureau. "Monthly New Residential Construction, November 2024" U.S. Census Bureau Data. December 18, 2024. https://www.census.gov/construction/nrc/current/index.html

[5] Redfin. "Downloadable Housing Market Data."

Median Days on Market[6]
Monthly, Seasonally Adjusted (Figure 5)



Percent Homes Sold Above List[7]
Monthly, Seasonally Adjusted (Figure 6)

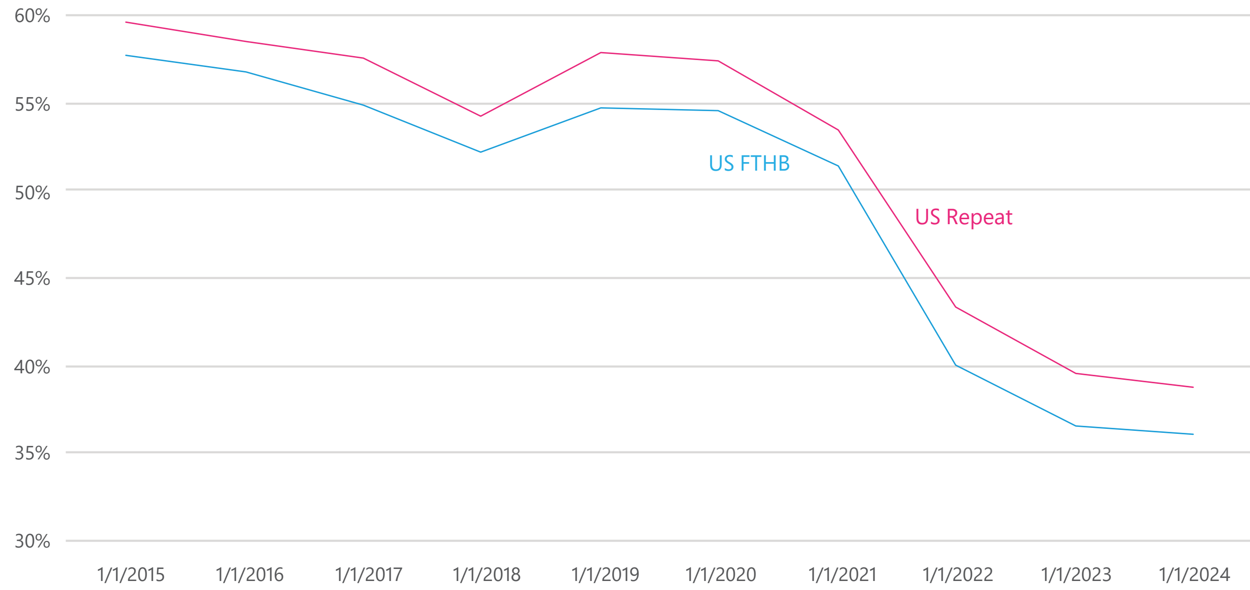


While supply remains depressed relative to historical levels, market demand indicators continue to show signs of stabilization. The current median days on market (Figure 5) and percent of homes sold above the asking price (Figure 6) demonstrate that the market continues to find balance at lower volumes, just as it did nine months ago.

[6] Redfin. "Downloadable Housing Market Data."
[7] Redfin. "Downloadable Housing Market Data."

Lastly, revisiting our proprietary affordability analysis shows that the market remains unaffordable for most of the population (Figure 7). The median FTHB age has ticked up yet again, from thirty-five to thirty-eight years old (NAR).[8] As established in our last paper, the low affordability of homes and the rising FTHB age are concerning on the surface. However, given the current environment, it appears to be the new market norm. People are renting and/or living with relatives longer to save enough money to purchase a home. Therefore, the median FTHB age is increasing. Demographics continue to be a positive indicator for future demand and signs continue to show that the housing market has adequate support to be stable at lower volumes for the near-to-medium term.

US Percent of Population That Can Afford Ownership Payment Under 30% Rule[9]
(Figure 7)



[8] National Association of Realtors. "2024 NAR Profile of Home Buyers and Sellers" https://www.nar.realtor/research-and-statistics/research-reports/highlights-from-the-profile-of-home-buyers-and-sellers
[9] Zillow. "Housing Data - Zillow Research." Zillow Group. December 15, 2024. https://www.zillow.com/research/data/."; Redfin. "Downloadable Housing Market Data."; Freddie Mac. "Single Family Loan-Level Dataset." Freddie Mac. December 15, 2024. https://www.freddiemac.com/research/datasets/sf-loanlevel-dataset."; Federal Reserve Bank of St. Louis, "Median Household Income in the United States [MEHOINUSA646N]", Accessed January 2, 2025, https://fred.stlouisfed.org/series/MEHOINUSA646N,"; US Bureau of Labor Statistics. "Total Private Average Hourly Earnings and Weekly Hours and Earnings by State." 2024. Www.bls.gov. December 20, 2024. https://www.bls.gov/charts/state-employment-and-unemployment/average-hourly-earnings-and-weekly-hours-and-earnings-by-state.htm.

Regional Housing Crises

While the housing market remains stable nationally, some critics are starting to sound the alarm at local market levels. Headlines on dropping home prices in Florida, Texas, and parts of California have been grabbing attention. These three states comprise more than 25% of the US housing market and deserve attention from market participants.[10] But are these concerns clickbait, or do they have merit? Are we on the verge of a series of regional housing crises?

Region or state specific market deteriorations have typically been driven by causes unique to each state and era, with some identifiable patterns: surging speculative investor participation, bad actors taking advantage of a lack of regulation, and unfortunately timed regional economic contractions. To date, regional housing crises have been largely self-contained, which is positive for a diversified holder of US mortgage credit risk. However, even a diversified portfolio could feel pain if contractions happened simultaneously across the three largest markets. This paper analyzes these major housing markets to determine if there is an appropriate cause for concern, or if these states are simply receiving sensationalized media attention.

[10] Federal Home Loan Mortgage Corporation. Form 10-Q. Mclean, VA. Federal Home Loan Mortgage Corporation, September 2024

A Brief History of Regional Housing Crises

There have been several notable regional housing crises throughout the past one hundred years. Two occurred in Florida (one in the 1920s and one in the 1970s), one occurred in Texas (1980s), and one occurred in Alaska (also in the 1980s). These events devastated local markets and took decades to recover from.

Florida had two speculative housing markets pop due to overbuilding, one in the 1920s and one in the 1970s. From 1915 to 1926, Miami Beach land values increased by 1,800%, largely due to agricultural development that was the result of new railroad construction. The population of Miami tripled in a five-year period, and land developers flocked to the area to be part of the real estate boom. Lax regulations helped feed the frenzy, as no real estate broker licenses or regulation existed until the mid-1920s (Appraisal Institute).[1] This introduced the era of the famous "Binder Boys", where real estate speculators would buy and sell properties sight unseen. It was not uncommon for properties to change hands six to seven times a day. Unfortunately, this boom ultimately busted in 1926 when a category 4 hurricane hit South Florida and drove new potential residents away, spurring some South Florida towns' populations to decline as much as 86%. As a result, it took the South Florida market nearly two decades to recover from the unregulated and often fraudulent "boom" spurred on by speculation, bad actors, and regional economic shock.

The 1970s saw another speculative era of development with the erection of thousands of condominium units. Ultimately, overbuilding due to over-speculation led to the collapse of home values and another small regional crisis. However, in both cases, the regional crises in Florida were relatively insulated from national macro housing trends, and ultimately did not have an outsized impact on the national market.

For example, during the Roaring 20s, despite Miami's crashing local housing market, the national housing market was booming due to increases in the availability of credit and household income until the stock market crash of 1929 (Appraisal Institute).[1]

Alaska and Texas both experienced housing crises in the 1980s driven initially by rapid large increases in population and then speculation. In Alaska, a booming oil industry led to massive population increases and reactionary building of much needed housing. Ultimately, this led to speculation and over-building that came to an end with an oil industry bust in 1986 driven by OPEC's actions to increase production. In Texas, the Savings and Loan Crisis was due to local thrifts overextending themselves to high concentrations of high loan-to-value single family exposures (Dallas Fed).[2] Like the crises in Florida, neither crash had an outsized impact on the national housing market.

[1] Cummings, Bruce, J. "A Brief Florida Real Estate History." Appraisal Institute, September 6, 2006. http://www.mapoftheweek.net/Post/342/floridarealestatehistory.pdf.
[2] Duca, John, Elizabeth Organ, and Michael Weiss. "Texas Real Estate: From the 1980s' Oil Bust to the Shale Oil Boom," November 2014. https://www.dallasfed.org/~/media/documents/research/events/2014/14tengallonduca.pdf

California: Worth the Price of Admission?

California is the largest state by population in the US and, unsurprisingly, accounts for the largest exposure of single-family homes across the government-sponsored enterprises (GSEs) and the US Mortgage Insurers (MIs). California single-family housing exposure comprises anywhere from ~8% to ~23% of the portfolio, depending on issuer and loan type.[11]

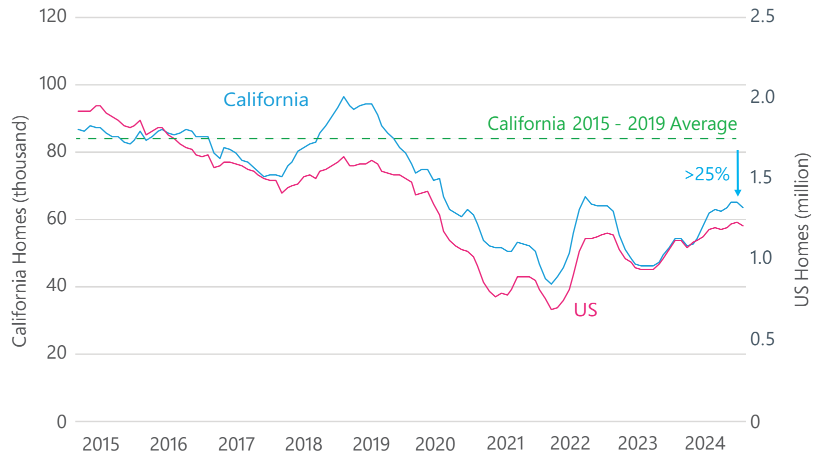
California has recently had several negative headlines about net outward migration and falling home values in some local markets. However, in analyzing California through the framework of our previous paper (supply, demand, and affordability), there do not seem to be any major concerns.

Supply - Follows National Trends

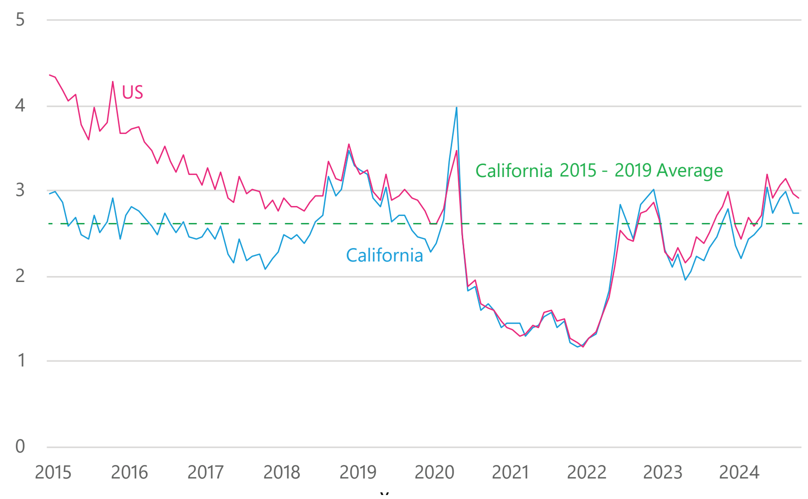
From a supply perspective, California follows a similar trend to the broader national average. As Figure 8 indicates, inventory sits more than 25% lower than pre-COVID levels, in line with the national average of 26% lower.

Despite reduced inventory, the months of supply have stabilized around pre-pandemic levels, indicating that supply/demand is finding an appropriate balance (Figure 9). This is largely in line with national data.

Inventory[12]
Monthly, Seasonally Adjusted (Figure 8)



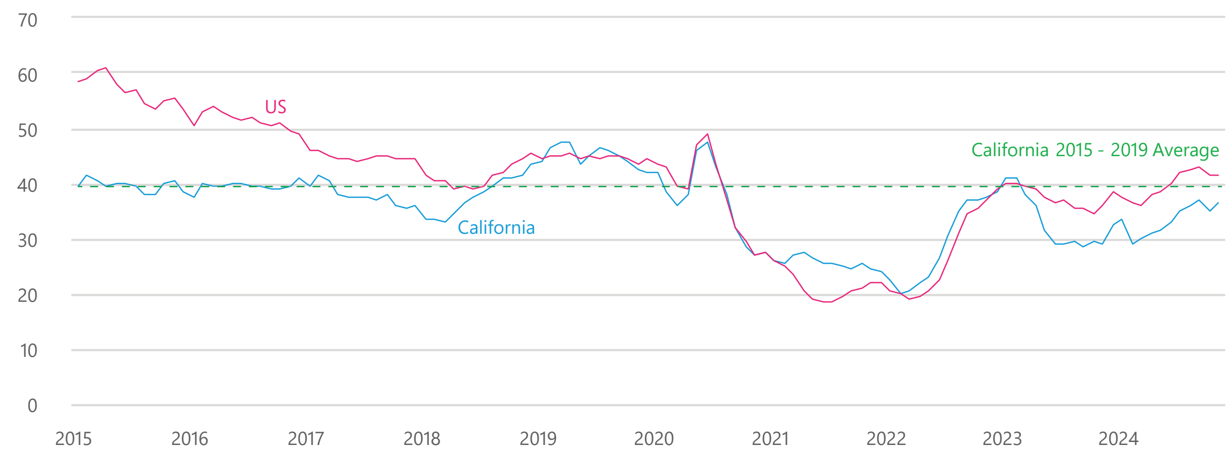
Months of Supply[13]
Monthly, Seasonally Adjusted (Figure 9)



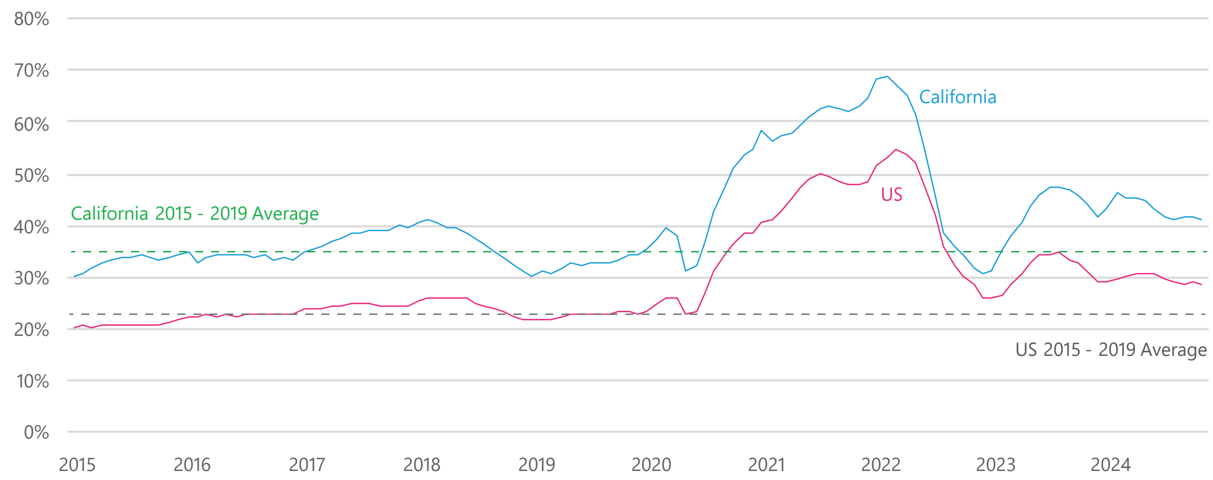
Demand - In Step with National Trends

In California, demand appears slightly higher than the national average, with homes spending fewer days on the market (Figure 10) and more homes selling above the asking price (Figure 11). Looking back to pre-COVID levels, these differences may be the market standard. Both indicators have been flattening, indicating market stability.

Median Days on Market[14]
Monthly, Seasonally Adjusted (Figure 10)



Percent Homes Sold Above List[15]
Monthly, Seasonally Adjusted (Figure 11)



[11] Recent US MI and GSE Financial Statements
[12] Redfin. "Downloadable Housing Market Data."
[13] Redfin. "Downloadable Housing Market Data."

[14] Redfin. "Downloadable Housing Market Data."
[15] Ibid.

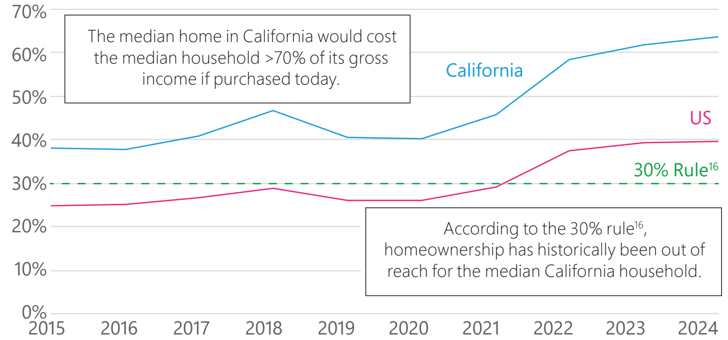
Affordability – Continued Challenges

California has historically been one of the least affordable housing markets in the country. As observed in Figure 12, the mortgage burden – the costs associated with owning the median priced home (mortgage, insurance, and property tax payments) divided by the median household gross income – has long exceeded the national equivalent. The divergence only worsened through the pandemic.

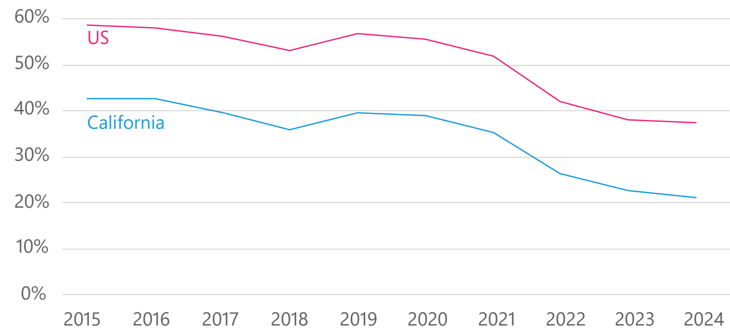
Looking at homeownership through the lens of the 30% rule across the entire population, we see that a little more than 20% of Californians can afford to own the median home today (Figure 13). This percentage is significantly lower than the rest of the country, down from more than 40% in 2015.

Low affordability is a negative theme permeating the US housing market. Affordability in California has followed the same path and historically has been even worse than in the rest of the country. Given the historically low affordability in California, it appears the market has somewhat adapted to this, as evidenced by the fact that a significantly higher percentage of the population rents (Figure 14). Affordability will continue to be something to watch, but at least for now, it appears the market functions in a balanced manner despite low affordability.

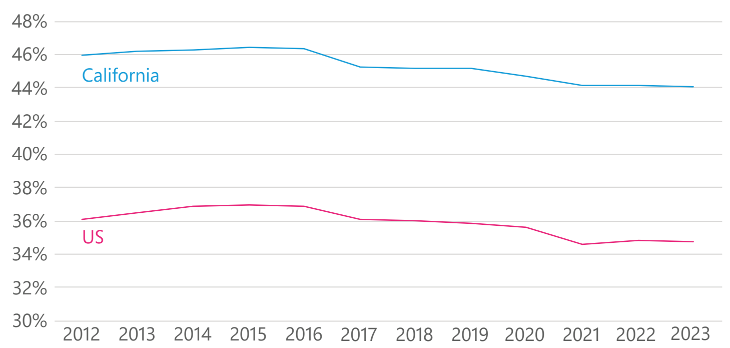
Mortgage Burden[16]
(Figure 12)



Percent of Population That Can Afford Ownership Payment Under 30% Rule[17] (Figure 13)



Percent of Renters[18]
(Figure 14)



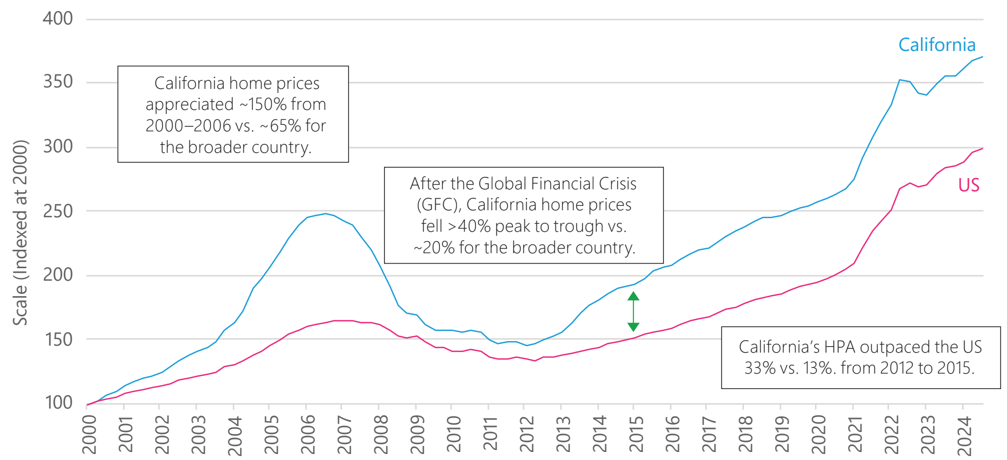
[16] A benchmark of housing affordability developed by the United States Department of Housing and Urban Development (HUD) in 1981, and codified via the Brooke Amendment to the Housing and Urban Development Act of 1969. It suggests that in order for a home to be considered affordable, it should cost no more than 30% of gross household income on a monthly basis.

[17] Zillow. "Housing Data - Zillow Research."; Redfin. "Downloadable Housing Market Data."; Freddie Mac. "Single Family Loan-Level Dataset; U.S. Census Bureau. "Financial Characteristics, American Community Survey, ACS 1-Year Estimates Subject Tables, Table S2503." Explore Census Data. 2024; US Bureau of Labor Statistics. "Total Private Average Hourly Earnings and Weekly Hours and Earnings by State."; Federal Reserve Bank of St. Louis. "Median Household Income in the United States [MEHOINUSA646N]"; Federal Reserve Bank of St. Louis "Median Household Income in California [MEHOINUSCAA646N]", Accessed January 2, 2025,https://fred.stlouisfed.org/series/MEHOINUSCAA646N

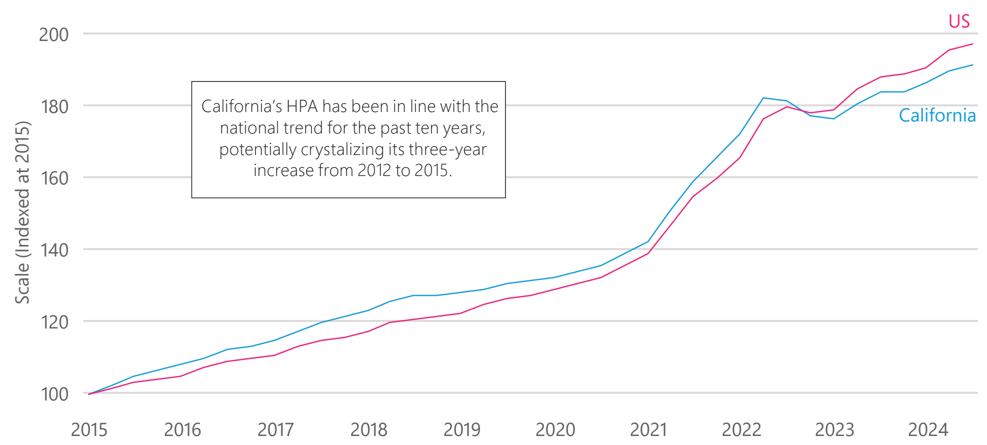
[18] U.S. Census Bureau. "Selected Housing Characteristics, ACS 1-Year Estimates Subject Tables, Table DPO4." Explore Census Data. 2024. https://data.census.gov/table/ACSDP1Y2012.DP04?q=rent&g=010XX00US,$0400000&moe=false

Other Factors to Consider – Home Price Appreciation (HPA) and Population Trends

Home Prices Historically More Volatile...[19]
(Figure 15)



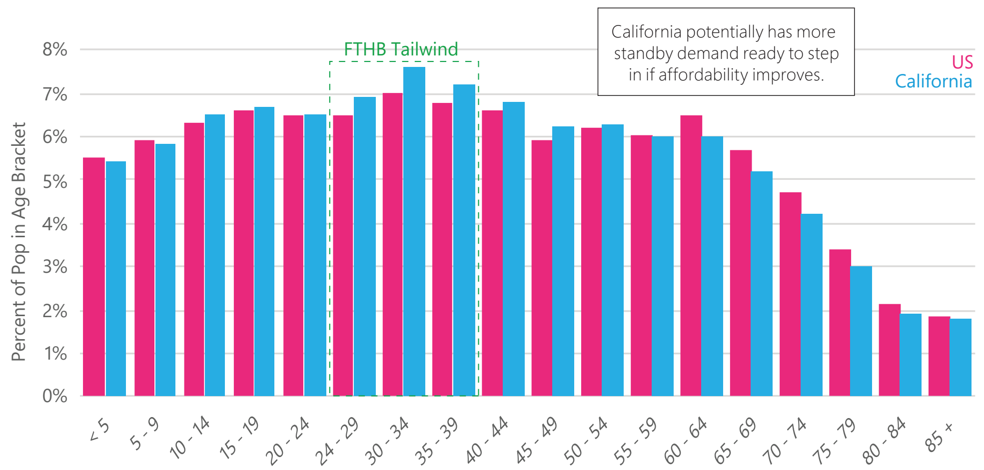
...However, HPA In Line with US Since 2015[20]
(Figure 16)



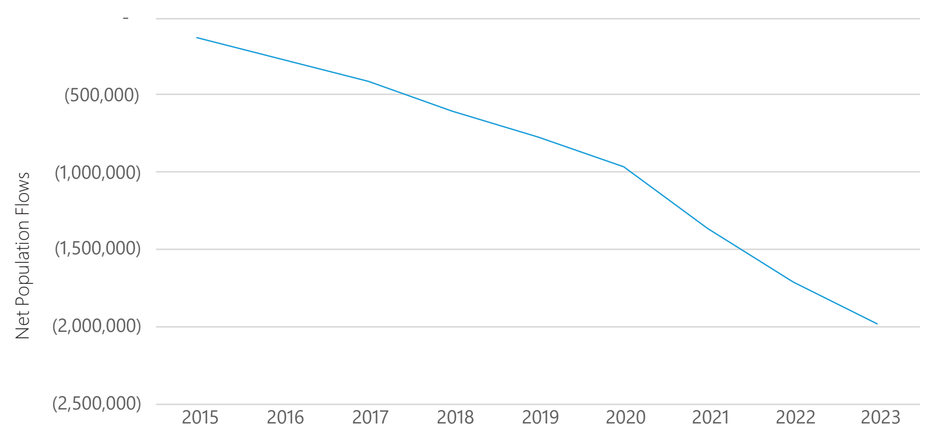
[19] Federal Reserve Bank of St. Louis. "U.S. Federal Housing Finance Agency, All-Transactions House Price Index for California [CASTHPI]." Accessed January 2, 2025, https://fred.stlouisfed.org/series/CASTHPI Federal Reserve Bank of St. Louis; "U.S. Federal Housing Finance Agency, All-Transactions House Price Index for the United States [USSTHPI]." Accessed January 2, 2025. https://fred.stlouisfed.org/series/USSTHPI

[20] Federal Reserve Bank of St. Louis. "U.S. Federal Housing Finance Agency, All-Transactions House Price Index for California [CASTHPI]"; "U.S. Federal Housing Finance Agency, All-Transactions House Price Index for the United States [USSTHPI]."

FTHB Demographics Even Stronger Than Broader US[21]
(Figure 17)



Growing Net Outflows With An Increase of Exits Through COVID[22]
(Figure 18)



	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Population Flows	(130,000)	(143,000)	(138,000)	(190,000)	(173,000)	(185,000)	(408,000)	(342,000)	(268,000)
Cumulative Population Flows	(130,000)	(273,000)	(411,000)	(601,000)	(774,000)	(959,000)	(1,367,000	(1,709,000	(1,977,000

[21] U.S. Census Bureau. "Age and Sex, American Community Survey, ACS 1-Year Estimates Subject Tables, Table S0101." U.S. Census Bureau Data. 2023. https://data.census.gov/table?q=age%20state.
[22] U.S. Census Bureau. "State-to-State Migration Flows." U.S. Census Bureau Data. January 18, 2024. https://www.census.gov/data/tables/time-series/demo/geographic-mobility/state-to-state-migration.html; Decker, Blake. 2023. "State-To-State Migration Trends in the United States." Data Science. February 15, 2023. https://www.tamus.edu/data-science/2023/02/15/state-to-state-migration-trends-in-the-united-states/.

Conclusion

Affordability is Alarming, but the Market is Behaving in Line With the Broader Country

In California, no metric is sufficiently out of line with national trends and historical relationships to generate serious cause for concern. Demand appears adequate and stable for the supply level, and the state benefits from a strong demographic tailwind. Affordability is alarming on the surface but has maintained its historical relationship with national levels. It is evident that Californians either cope with a higher cost of living or move to another state (typically Texas or Arizona). Either way, the California market follows the broader theme we are witnessing in the US market of stability at lower volumes.

CALIFORNIA EXODUS

Since 2015, two million more people have left the state than entered it, approximately 5% of the population (US Census).[1] The term California Exodus even has its own Wikipedia page describing the phenomenon. Interestingly, this mass exodus does not appear to be negatively impacting the housing market, as home prices have been steadily rising. Perhaps this reflects the benefits of being a transient state with nearly half the population renting?

[1] U.S. Census Bureau. "State-to-State Migration Flows." U.S. Census Bureau Data. January 18, 2024. https://www.census.gov/data/tables/time-series/demo/geographic-mobility/state-to-state-migration.html

California Wildfires Not Likely to Impact Mortgage Credit Risk Transfer Exposures

Economic losses from the devasting California wildfires could be upwards of $200 billion, the greatest in US history.[1] It is estimated that over 12,000 structures burned down.[2] Wide-ranging effects are seen in all facets of the economy, from the uncertain employment of ~86,000 farm workers[3] to local communities of ~42,000 people[4] completely razed to the ground. However, the fires will likely not greatly affect conforming mortgage loans.

Mortgage insurance exposure on the decimated homes is expected to be minimal, as most homes in the impacted areas are too valuable to require mortgage insurance. The average single family home price in Q3 2024 for a home in Pacific Palisades, California was $4.9 million.[5] Additionally, to help minimize defaults, the GSEs have already enacted forbearance policies for those affected by the fires, allowing homeowners to suspend payments for up to twelve months without penalty.[6] For homeowners with non-GSE loans, the state has coordinated with five key lenders to arrange a 90-day grace period on mortgage payments.[7] The low portion of conforming loans, combined with the option of forbearance, indicates that mortgage credit losses should be minimal unless there is a broader economic fallout from the catastrophe.

[1] Clayton, Abené. 2025. "LA Fires Forecast to Be Costliest Blaze in US History with Estimate of over $200bn in Losses." The Guardian. January 14, 2025. https://www.theguardian.com/us-news/2025/jan/13/la-fires-wildfire-economic-losses.
[2] Ibid
[3] "Comprehensive Economic Data at Your Fingertips: IMPLAN Data." 2025. IMPLAN | Economic Impact Modeling. IMPLAN. 2025. https://implan.com/data/.
[4] Greene, Sean, Sandhya Kambhampati, Colleen Shalby, and Noah Haggerty. 2025. "Mapping the Damage in Los Angeles from the Eaton and Palisades Fires." Los Angeles Times. January 16, 2025. https://www.latimes.com/california/story/2025-01-16/mapping-los-angeles-damage-from-the-eaton-and-palisades-fires-altadena-pasadena.
[5] Solomont, E.B, Libertina Brandt, and Jessica Flint. 2025. Review of $155 Million and Counting: A Tally of Celebrity Homes Lost in and around the Pacific Palisades. Wall Street Journal. Dow Jones & Company. January 10, 2025. https://www.wsj.com/real-estate/luxury-homes/los-angeles-fires-celebrity-homes-destroyed-30d214a4.
[6] "Freddie Mac Reminds Homeowners Impacted by Devastating Wildfires in the Los Angeles Area of Mortgage Relief Options | Freddie Mac." 2025. Freddie Mac. Freddie Mac. January 13, 2025. https://freddiemac.gcs-web.com/news-releases/news-release-details/freddie-mac-reminds-homeowners-impacted-devastating-wildfire.
[7] "Governor Newsom Announces Commitments from Major Lenders to Provide Firestorm Survivors with Mortgage Relief | Governor of California." 2025. Governor of California. January 18, 2025. https://www.gov.ca.gov/2025/01/18/governor-newsom-announces-commitments-from-major-lenders-to-provide-firestorm-survivors-with-mortgage-relief/.

Texas: A Builder's Paradise?

Texas is the second-largest state by population in the US and accounts for the second-largest exposure for single-family homes across the GSEs and the US MIs. Texas's single-family housing exposure comprises anywhere from ~7% to ~11% of portfolios, depending on issuer and loan type.[23]

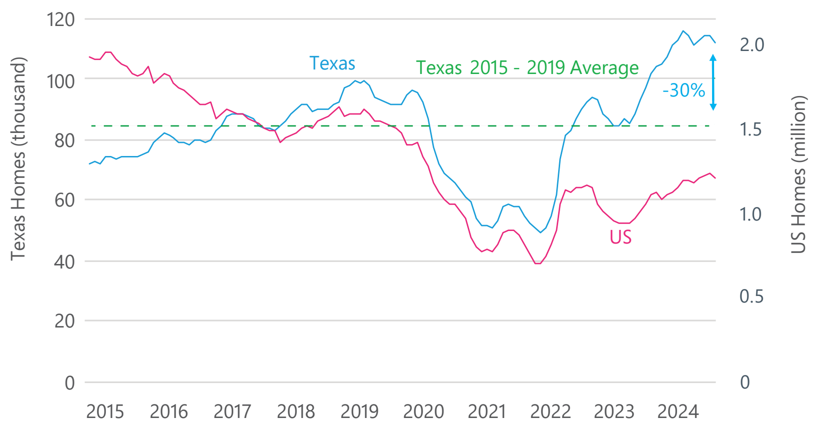
While the headlines on Texas's housing market are not as drastic as those in other states, reports are starting to describe signs of fissures, describing the market as "stalling" (HousingWire).[24] Despite increased demand due to net inward migration from other states, headlines claim that some pockets are seeing inventory rise threefold (Newsweek).[25]

An investigation into the nuances of the Texas housing market should help paint a better picture of the urgency of these risks and highlight some key trends not discussed in the media.

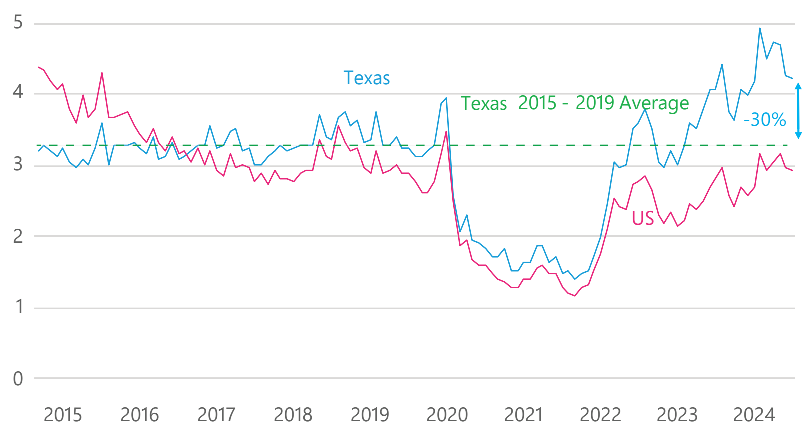
Supply – Higher Levels Than Normal

Supply is above national averages and historical norms. As Figure 19 indicates, inventory is about 30% above pre-COVID levels. Meanwhile, the national trend is still below pre-COVID norms. Additionally, Texas's months of supply statistic is about 30% above pre-pandemic norms. On a national level, this statistic is stable (Figure 20). In Texas, the inventory and months of supply statistics indicate the state has a bigger supply problem than the national market.

Inventory[26]
Monthly, Seasonally Adjusted (Figure 19)



Months of Supply[27]
Monthly, Seasonally Adjusted (Figure 20)

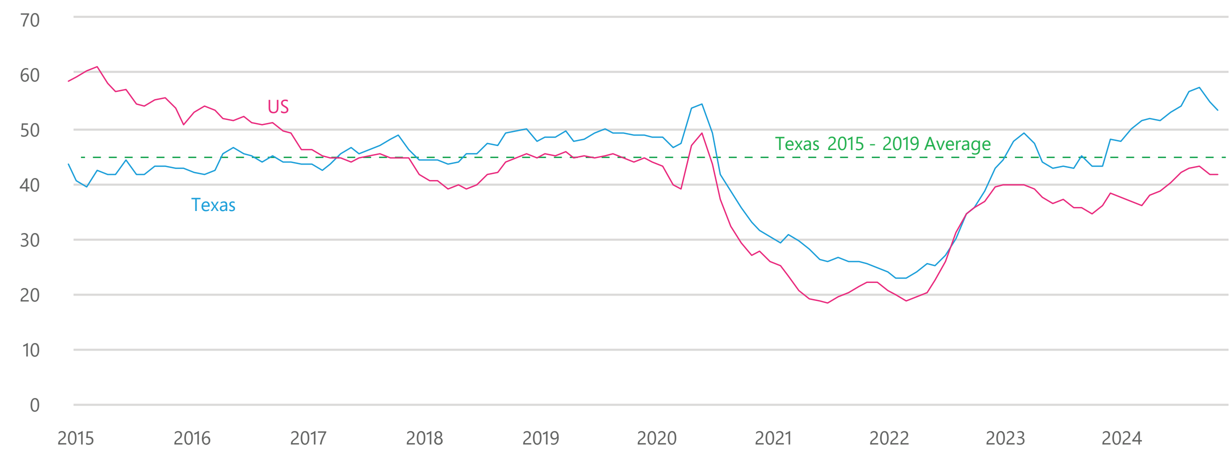


[23] Recent US MI and GSE Financial Statements
[24] Andrews, Jeff. 2024. "Two Charts That Explain Why Texas Housing Markets Have Stalled." HousingWire. December 21, 2024. https://www.housingwire.com/articles/texas-housing-markets-dallas-austin-houston-san-antonio/.
[25] Carbonaro, Giulia. 2024. "Texas' Housing Market Hits Troubling Milestone as Inventory Triples." Newsweek. August 9, 2024. https://www.newsweek.com/texas-housing-market-hits-troubling-milestone-inventory-triples-1936936.
[26] Redfin. "Downloadable Housing Market Data."

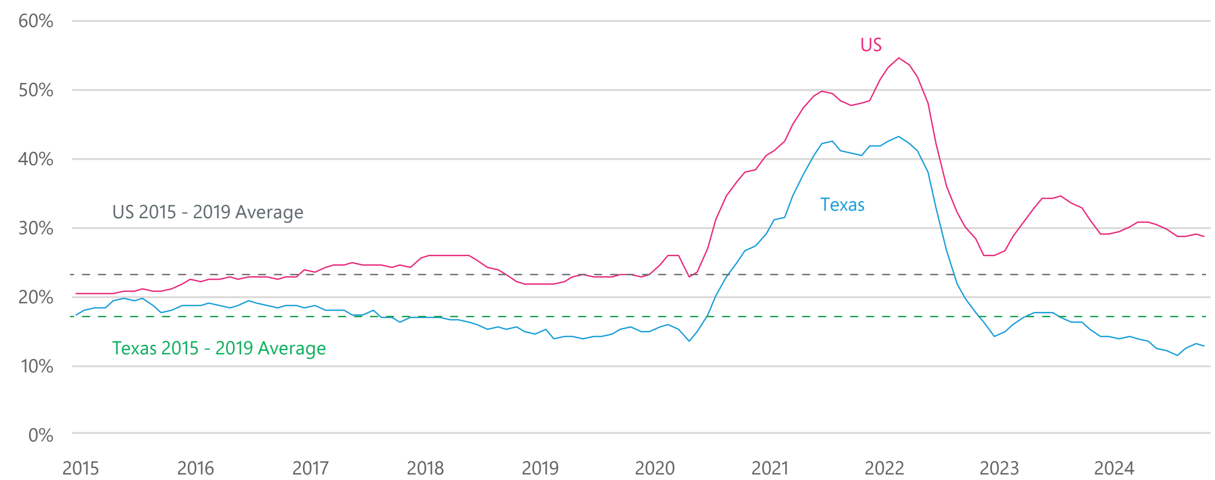
Demand – Below National Averages, but Not Yet Worrisome

Demand in Texas is lower than the national average, with homes spending more days on the market (Figure 21) and fewer selling above the asking price (Figure 22). Compared to the normal pre-pandemic market, these metrics indicate a slight deterioration in demand relative to supply and are worth monitoring.

Median Days on Market[28]
Monthly, Seasonally Adjusted (Figure 21)



Percent Homes Sold Above List[29]
Monthly, Seasonally Adjusted (Figure 22)



Texas's percentage of homes sold above the listed price lags behind the rest of the nation, consistent with pre-pandemic trends. While the nation is above its pre-pandemic level, Texas is below its 2015–2019 average. This shows that while demand remains stronger nationally, the demand for available supply in Texas is not as strong.

[27] Ibid.
[28] Redfin. "Downloadable Housing Market Data."
[29] Ibid.

Affordability – Slightly Outperforming Broader US

The mortgage burden in Texas closely correlated with national trends until 2022 (Figure 23). After that, the burden increased slower and even decreased in 2024. This decrease in the mortgage burden is unique compared to California, Florida, and the national median. It is primarily caused by relatively flat median home ownership costs from 2023 to 2024 (Figure 24) and a positive wage inflation of 4.46% through November 2024 (US BLS).[30] Home prices increased by about 4% in Texas in 2024 (HPA is measured based on repeat home sales), while the median sale price was relatively unchanged. This is likely due to home-building trends, which are covered in a sidebar below.

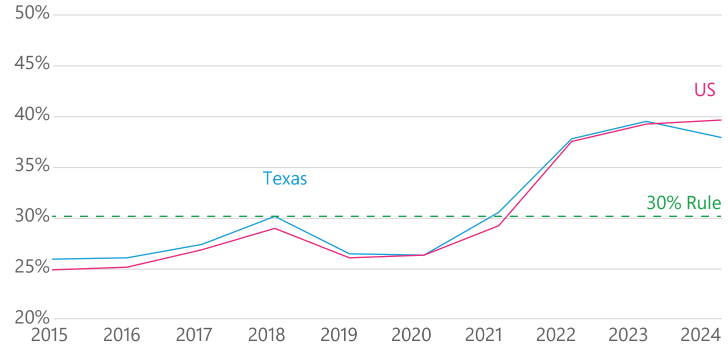
[30] US Bureau of Labor Statistics. Total Private Average Hourly Earnings and Weekly Hours and Earnings by State. 2024.

[31] Zillow. "Housing Data - Zillow Research."; Redfin. "Downloadable Housing Market Data."; Freddie Mac. "Single Family Loan-Level Dataset; U.S. Census Bureau. "Financial Characteristics, American Community Survey, ACS 1-Year Estimates Subject Tables, Table S2503."; US Bureau of Labor Statistics. "Total Private Average Hourly Earnings and Weekly Hours and Earnings by State."; Federal Reserve Bank of St. Louis, "Median Household Income in the United States [MEHOINUSA646N]", Federal Reserve Bank of St. Louis, "Median Household Income in Texas [MEHOINUSTXA646N]," Accessed January 2, 2025, https://fred.stlouisfed.org/series/MEHOINUSTXA646N.

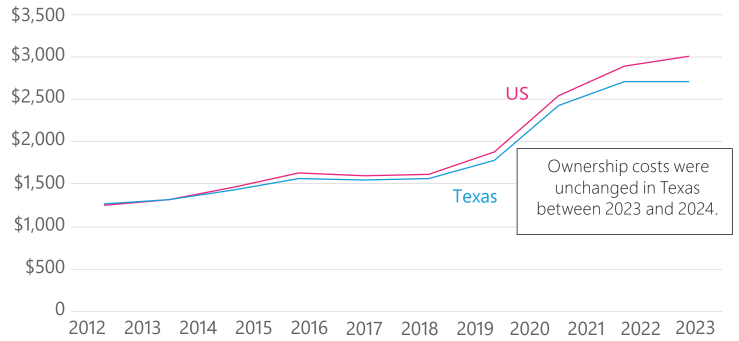
[32] Zillow. "Housing Data - Zillow Research."; Redfin. "Downloadable Housing Market Data."; Freddie Mac. "Single Family Loan-Level Dataset; US Bureau of Labor Statistics. "Total Private Average Hourly Earnings and Weekly Hours and Earnings by State."; Federal Reserve Bank of St. Louis, "Median Household Income in Texas [MEHOINUSTXA646N]"; Federal Reserve Bank of St. Louis, "Median Household Income in the United States [MEHOINUSA646N]."

[33] Zillow. "Housing Data - Zillow Research."; Redfin. "Downloadable Housing Market Data."; Freddie Mac. "Single Family Loan-Level Dataset; U.S. Census Bureau. "Financial Characteristics, American Community Survey, ACS 1-Year Estimates Subject Tables, Table S2503."; US Bureau of Labor Statistics. "Total Private Average Hourly Earnings and Weekly Hours and Earnings by State."; Federal Reserve Bank of St. Louis, "Median Household Income in Texas [MEHOINUSTXA646N]"; Federal Reserve Bank of St. Louis, "Median Household Income in the United States [MEHOINUSA646N]."

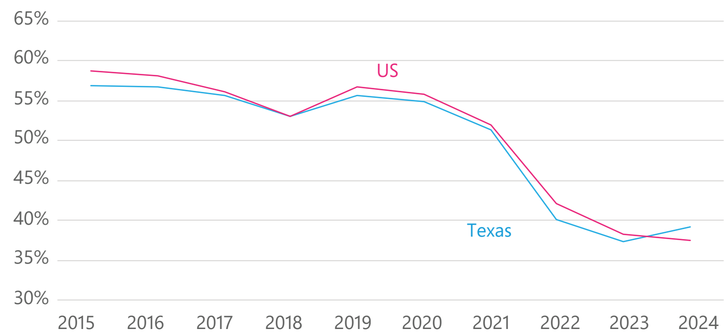
Mortgage Burden[31]
(Figure 23)



Monthly Ownership Costs[32]
(Figure 24)

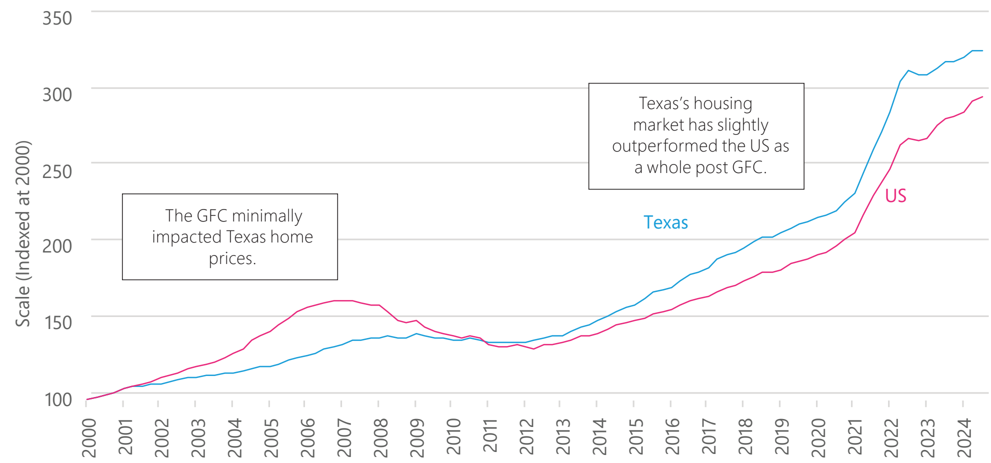


Percent of Population That Can Afford Ownership Payment Under 30% Rule[33] (Figure 25)



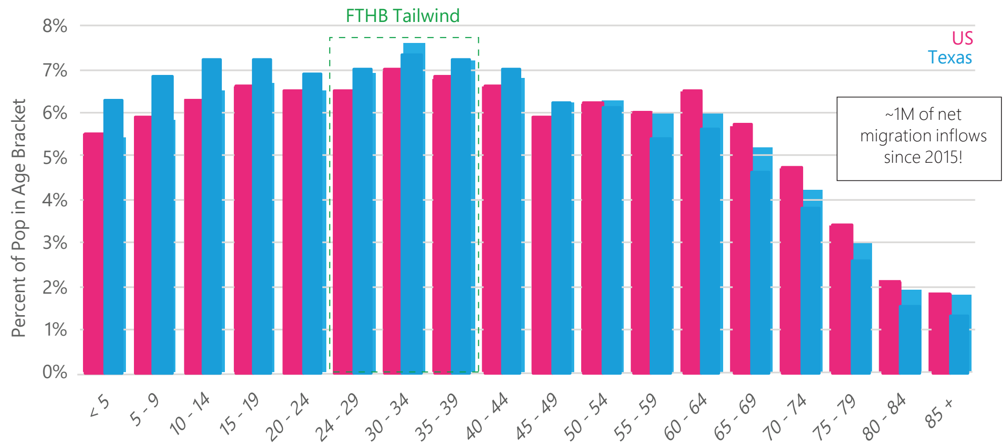
Other Factors to Consider – HPA and Population Trends

Home Prices Stable Historically, With Outperformance Post GFC[34]
(Figure 26)

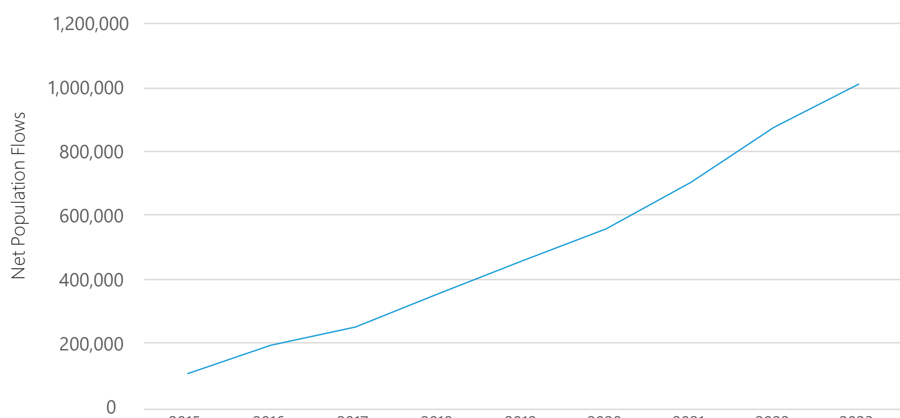


[34] Federal Reserve Bank of St. Louis. "U.S. Federal Housing Finance Agency, All-Transactions House Price Index for Texas [TXSTHPI]." Accessed January 2, 2025.; https://fred.stlouisfed.org/series/TXSTHPI; Federal Reserve Bank of St. Louis. "U.S. Federal Housing Finance Agency, All-Transactions House Price Index for the United States [USSTHPI]."

Positive Population Trends Provide Demand Tailwinds Through Age Demographics and Net Inflows[35]
(Figure 27)



Steady Net Inflows Over Past Ten Years With Uptick Through COVID[36]
(Figure 28)



	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Population Flows	108,000	88,000	57,000	102,000	107,000	97,000	144,000	174,000	133,000
Cumulative Population Flows	108,000	196,000	253,000	355,000	462,000	559,000	703,000	877,000	1,010,000

[35] U.S. Census Bureau. "Age and Sex, American Community Survey."
[36] U.S. Census Bureau. "State-to-State Migration Flows."; Decker, Blake. 2023. "State-To-State Migration Trends in the United States.

Potential Concerns from Growing Supply

Texas is experiencing higher supply and lower demand compared to national averages. Headwinds surrounding cooling demand and growing supply are worth monitoring but do not appear to be a major concern. Affordability has broadly correlated with national trends, and Texas became slightly more affordable than the national average in 2024. Net inward migration and age demographics that are even better than those of the broader country are boosting the state's housing market. These two factors combined provide a strong tailwind for demand, and we assume any concerns about supply growth will dissipate. We expect Texas to perform in line with the broader country: stable at lower volumes over the near-to-medium term.

Honey, I Shrunk the House – but at Least I Got a Rebate!

New Construction Getting Costlier and Smaller

According to the Texas Real Estate Research Center at Texas A&M University, as of October 2024, Texas had the highest year-to-date issuance of single-family permits at 136,374—20,000 permits ahead of #2 Florida and 76,000 permits ahead of #3 North Carolina (TA&M).[1] It is not surprising that permit issuance for new single-family construction in Florida and Texas, which have received large net population inflows and have high relative HPA, is the highest in the country.

Interestingly, although the median new build is getting more expensive, the rate of change is significantly less than the broader state HPA. The median sales price for new construction has increased about 38% since Q3 2015, while HPA over that same period was approximately 98%. This divergence is partly explained by the decrease in median square footage for a new build, which is down about 13% from its peak in 2015 (US Census and Federal Reserve).[2-3]

Builder Buy Downs

One way to increase affordability in a high-borrowing-cost environment in places with large volumes of new construction is a buy down, which allows the borrower to reduce the interest rate in exchange for an upfront fee. The two common types of buy downs are:

1. A discount point buy down, where basis points (bps), often twenty-five, are "purchased" up front and removed from the mortgage rate

2. A temporary buy down; for example, a "3-2-1," where a mortgage rate is reduced by 3%, then 2%, then 1% annually for the first three years.

The buy down benefit has often been subsidized by home builders, with high home prices driving profits, but time will tell if this practice is sustainable. The benefit of builder-subsidized buy downs comes at the expense of the existing housing market. Rather than drop the price, homebuilder subsidization of buy downs synthetically makes new builds affordable via interest rate relief. However, this artificially props up home prices. By subsidizing buy downs, homebuilders can continue to move expensive inventory without dropping home prices, protecting their profits by propping up home prices.

[1] Roberson, Joshua. "Texas' New Home Market Still on Top." Texas Real Estate Research Center at Texas A&M University, January 2, 2025. https://trerc.tamu.edu/blog/texas-new-home-market-still-on-top/.
[2] U.S. Census Bureau and U.S. Department of Housing and Urban Development. Median Sales Price for New Houses Sold in the United States [MSPNHSUS]. Accessed January 8, 2025. https://fred.stlouisfed.org/seriesBeta/MSPNHSUS.
[3] U.S. Federal Reserve Bank of St. Louis. U.S. New Privately Owned Housing Completions in the United States, Median Square Feet of Floor

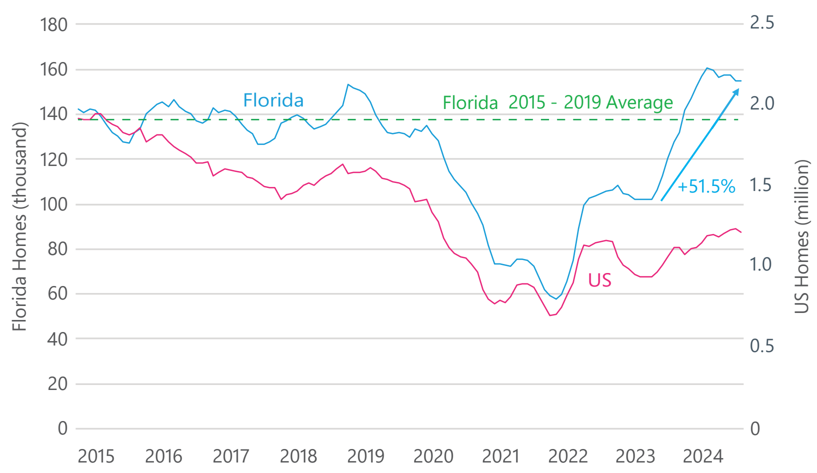
Florida: Is It Getting Cold in the South?

Florida is the third-largest state in terms of exposure across US MIs and GSEs. Its single-family housing exposure comprises anywhere from ~7% to ~12% of portfolios, depending on issuer and loan type.[37] During the pandemic, Florida was a hotbed of housing activity, benefiting from net inward migration from other states throughout the country. More recently, however, Florida has made headlines over concerns of a pending housing crisis. Articles state that high mortgage rates and astronomical insurance costs are intensifying pressure on affordability. While the state was one of the top housing markets through the pandemic, there are signs that the market is cooling down, fueling speculation that a crash is on the horizon.

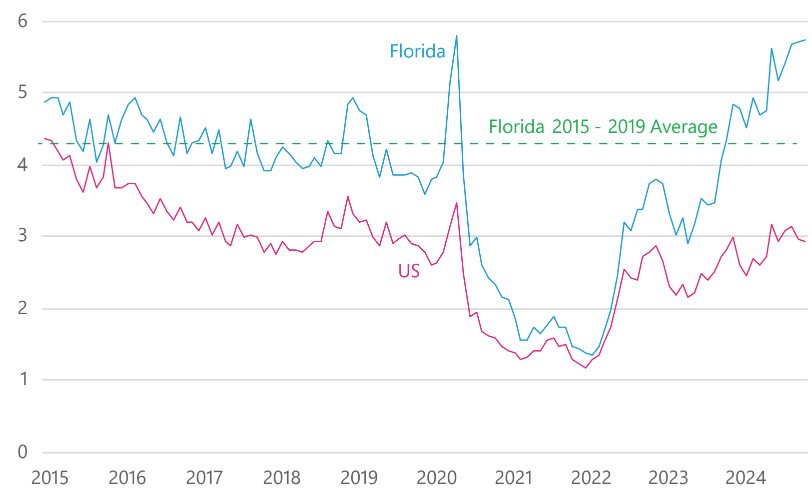
Supply – Above Pre-COVID Norms

Inventory has increased more than 50% over the past eighteen months and is slightly higher than the pre-COVID normal levels (Figure 29). This trend differs from the broader country, where inventory has yet to return to pre-COVID levels. Florida and Texas both benefit from fewer restrictive building regulations, which are partly responsible for the increase in total housing stock despite the reduced inventory of homes due to the lock-in effect.

Inventory[38]
Monthly, Seasonally Adjusted (Figure 29)



Months of Supply[39]
Monthly, Seasonally Adjusted (Figure 30)



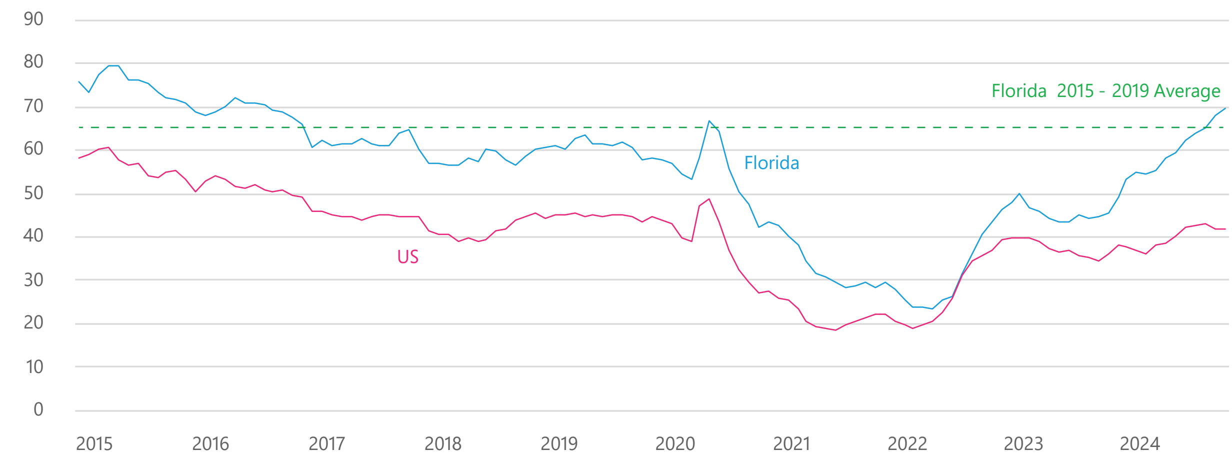
While increased inventory is not necessarily a red flag by itself, the corresponding increase in months of supply creates cause for concern (Figure 30). Months of supply is near where it peaked during the COVID shutdowns. The current value implies it would take twice as long to sell off all homes in the Florida market compared to the national average (Florida ~six months vs. US ~three months).

[37] Recent US MI and GSE Financial Statements
[38] Redfin. "Downloadable Housing Market Data."
[39] Redfin. "Downloadable Housing Market Data."

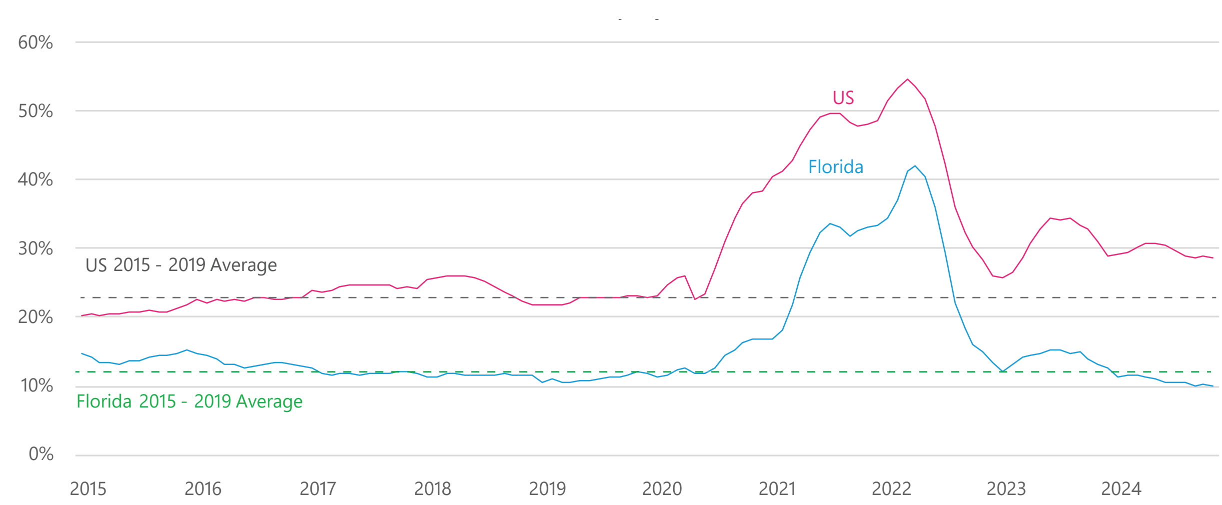
Demand – Falling and Far Below National Values

From a demand perspective, the median days on the market have been steadily rising (Figure 31), and the number of homes sold above the list price is slightly below the pre-COVID level (Figure 32). All these trends negatively diverge from the national trends.

Median Days on Market[40]
Monthly, Seasonally Adjusted (Figure 31)



Percent Homes Sold Above List[41]
Monthly, Seasonally Adjusted (Figure 32)



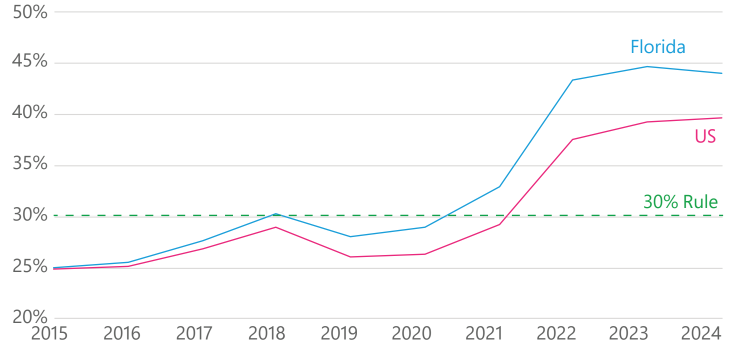
[40] Redfin. "Downloadable Housing Market Data."
[41] Redfin. "Downloadable Housing Market Data."

Affordability – Low and in Line With National Rates

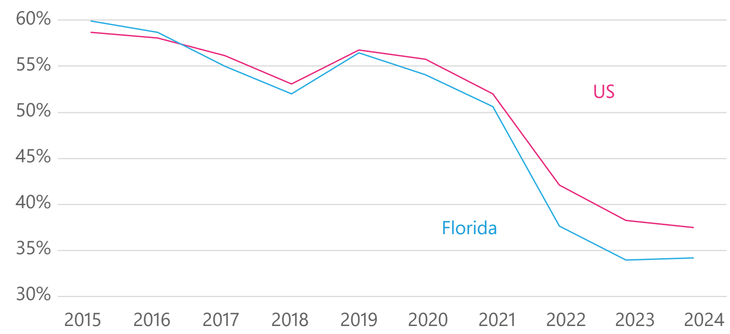
The homeownership cost of a median-priced home in Florida as a percentage of median state income has historically been slightly higher than the national average (Figure 33). A recent widening of the gap between Florida and the national average may be attributed to trends such as higher relative levels of HPA in the state and outsized increases in the cost of property insurance.

Alongside increases in mortgage burden, the percentage of Florida's population able to afford a median-priced home while abiding by the 30% rule has fallen. Historically, this trend has remained largely in line with the movement on a national level and continues to do so now. Since COVID, Florida has become less affordable than the broader country.

Mortgage Burden[42]
(Figure 33)



Percent of Population That Can Afford Ownership Payment Under 30% Rule[43] (Figure 34)

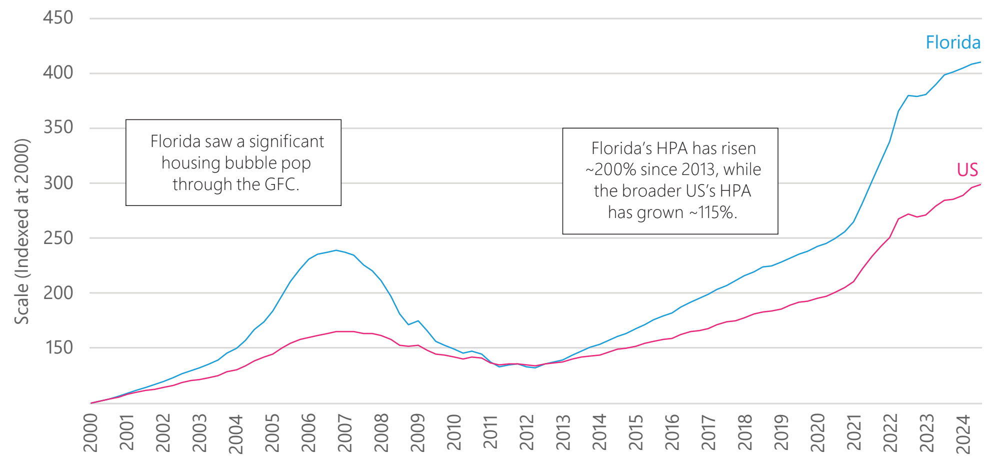


[42] Zillow. "Housing Data - Zillow Research."; Redfin. "Downloadable Housing Market Data."; Freddie Mac. "Single Family Loan-Level Dataset; US Bureau of Labor Statistics. "Total Private Average Hourly Earnings and Weekly Hours and Earnings by State."; Federal Reserve Bank of St. Louis, "Median Household Income in the United States [MEHOINUSA646N]"; Federal Reserve Bank of St. Louis. "Median Household Income in Florida [MEHOINUSFLA646N]", Accessed January 2, 2025, https://fred.stlouisfed.org/series/MEHOINUSFLA646N.

[43] Zillow. "Housing Data - Zillow Research."; Redfin. "Downloadable Housing Market Data."; Freddie Mac. "Single Family Loan-Level Dataset; U.S. Census Bureau. "Financial Characteristics, American Community Survey, ACS 1-Year Estimates Subject Tables, Table S2503."; US Bureau of Labor Statistics. "Total Private Average Hourly Earnings and Weekly Hours and Earnings by State."; Federal Reserve Bank of St. Louis, "Median Household Income in Florida [MEHOINUSFLA646N]"; Federal Reserve Bank of St. Louis, "Median Household Income in the United States [MEHOINUSA646N]."

Other Factors to Consider – HPA and Population Trends

Home Price Uptick Looks Similar to GFC[44] (Figure 35)

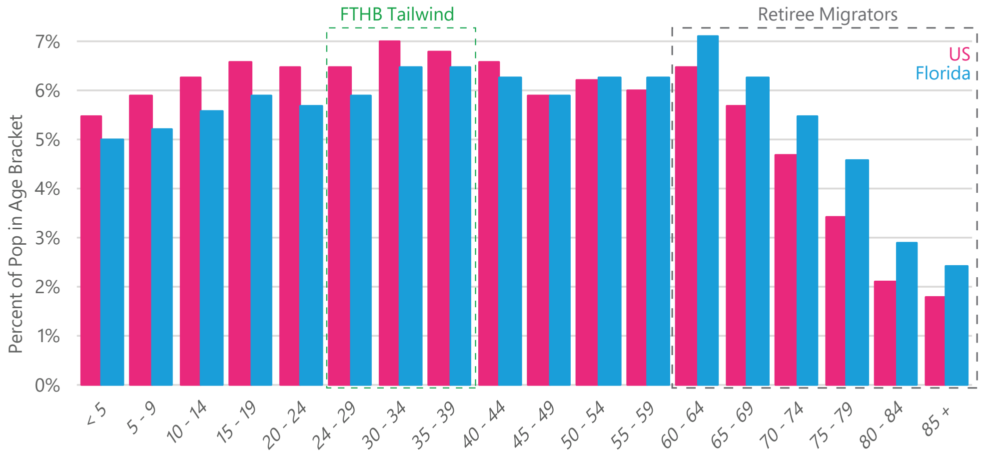


[44] Federal Reserve Bank of St. Louis. "U.S. Federal Housing Finance Agency, All-Transactions House Price Index for Florida [FLSTHPI]." Accessed January 2, 2025. https://fred.stlouisfed.org/series/FLSTHPI; Federal Reserve Bank of St. Louis. "U.S. Federal Housing Finance Agency, All-Transactions House Price Index for the United States [USSTHPI]."

Florida

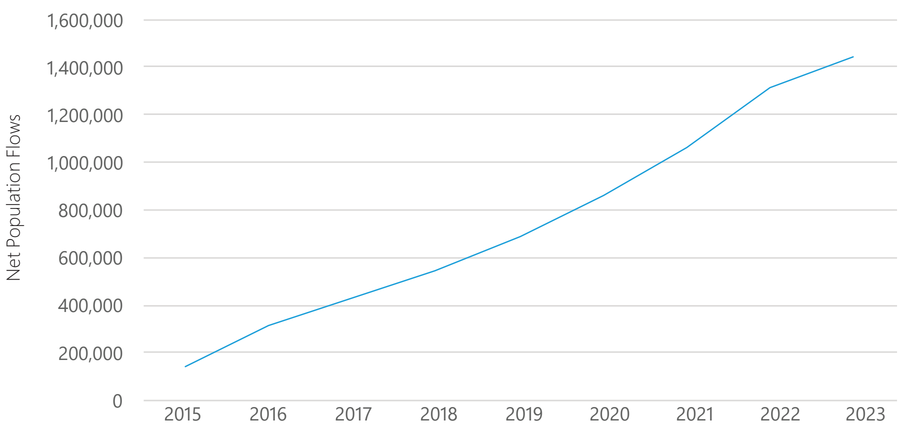
Unique Demographics With FTHB Tailwind and Retiree Migrators[45]

(Figure 36)



Steady Net Inflows in Past Ten Years With Uptick During COVID[46]

(Figure 37)



	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Population Flows	140,000	172,000	118,000	116,000	143,000	169,000	206,000	249,000	127,000
Cumulative Population Flows	140,000	312,000	430,000	546,000	689,000	858,000	1,064,000	1,313,000	1,440,000

[45] U.S. Census Bureau. "Age and Sex, American Community Survey."

[46] U.S. Census Bureau. "State-to-State Migration Flows."; Decker, Blake. 2023. "State-To-State Migration Trends in the United States."

Conclusion

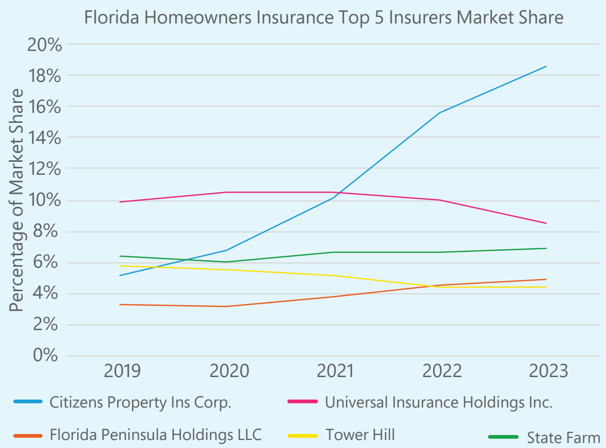
– Monitor Closely: Growing Supply, Weakening Demand, and Decreasing Affordability

Florida is the most concerning of the three states. Low affordability, primarily driven by rapid HPA and rising insurance costs, seems to be limiting demand. As a result, inventory has reached the highest level in over ten years.

These negative factors do not necessarily mean the Florida housing market is about to fall off a cliff, but home prices may have peaked in the near term. We expect home prices to face downward pressure in the near-to-medium term.

Rising Insurance Costs

Insurance costs in Florida significantly impact the average monthly housing expenses for homeowners. In recent years, the increase in catastrophic weather events has led many insurers to raise rates to cover additional losses or even pull out of the market entirely. As a result, premiums have soared in coastal counties, leaving more homeowners unable to secure coverage. This shift has driven many policyholders to Florida's non-profit insurer of last resort, Citizens. Since 2020, Citizens's market share has grown rapidly, making it the leading insurer in the state by a wide margin.



Citizens is required to charge actuarially sound rates that are non-competitive with the private market. However, that does not mean that premiums are affordable for homeowners. Since 2020, Citizens's premiums have increased by an average of 50%. However, in its latest press release, it stated that its rates are still 38% below what actuarial analysis indicates it should be charging. The average annual premium cost for Citizens's homeowners insurance in 2025 is about $4,000, which is double the national average. While $4,000 for homeowners insurance is not cheap, it is probably not enough of a burden to drive the average homeowner into financial distress. When looking at more coastal counties, however, the insurance burden starts to become much more impactful. To further highlight the difference, the chart below, published by the Florida Office of Insurance Regulations, compares the quotes of two different representative risks from Citizens and private insurers.

1. Home with 150,000 replacement value built pre-2001
2. Home with 300,000 replacement value that is a new construction

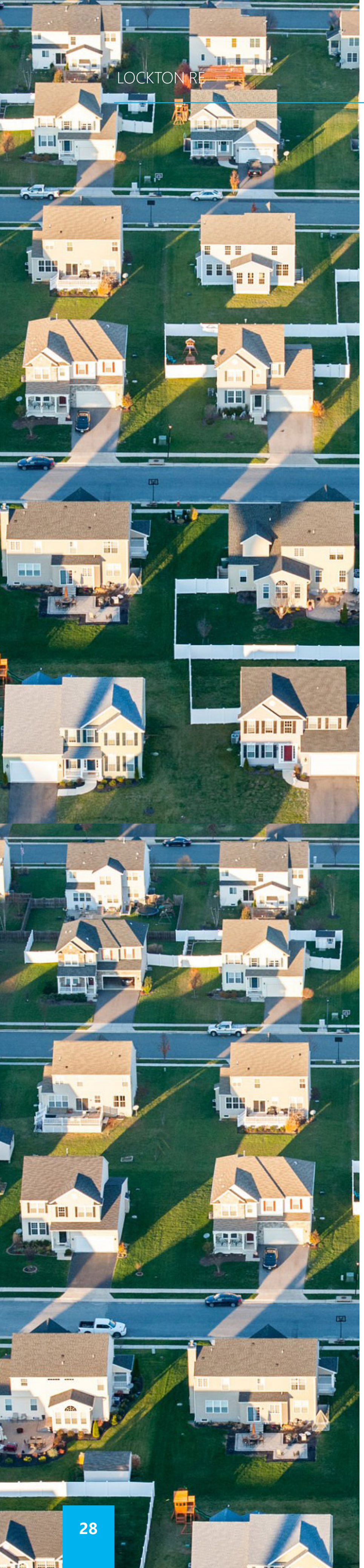
Looking at Miami-Dade as a representative county with coastal exposure, we get the following premium rates.

Company	$300K New Construction	$150K Pre-2001 Construction*
Citizens	$9,672	$4,463–$8,588
Private Insurer Average	$9,528	$5,597–$13,423

*Rates vary based on levels of wind mitigation in place.

The increases in insurance premiums, which do not seem that large in state averages, are in fact much greater in pockets around coastal Florida. These higher rates could result in a long-term decrease in affordability that may start to affect the housing market.

[47] "CHOICES Rate Comparison Search." 2024. FLOIR. https://www.floir.com/consumers/choices-rate-comparison-search.



Closing Analysis

– Sustainable Affordability and Associated Required Changes to Home Prices and Mortgage Rates

A housing crisis does not seem imminent for any of the states we analyzed. Priced-out demand continues to wait on the sideline for any sign of improvement in affordability, and supply continues to be held hostage by the lock-in effect of mortgage rates. As stated numerous times, we continue to believe the market will operate stably at lower volumes, barring any surprise shocks. However, for contextual purposes, we tried to determine the required changes to affordability to maintain a stable market at higher volumes. We determined the mortgage burden ranges by looking at monthly mortgage burden movements by state from 2021 through Q1 2022 and changes in demand metrics. These ranges, while higher than historical, seem to set reasonable levels for stable market functionality given changes in consumer behavior. The differences by state may be attributable to changing demographics caused by net inward and outward migration and general lifestyle differences by state. We then calculated the required home price depreciation or drop in mortgage rate to achieve the determined mortgage burden range. We think it is highly unlikely that these changes would happen in an isolated manner, but we think it provides a helpful context in framing the affordability analysis.

California

52.5%-47.5%
Mortgage Burden

18%-27%
Required Home Price Depreciation

200-300 bps
Required Rate Drop

Texas

35%–30%
Mortgage Burden

8%–23%
Required Home Price Depreciation

100–300 bps
Required Rate Drop

Florida

40%–35%
Mortgage Burden

10%–23%
Required Home Price Depreciation

100–270 bps
Required Rate Drop

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