

IT'S DALLAS HERE

The housing market and
implications for the
fenestration industry.

 **JOHN BURNS**
RESEARCH & CONSULTING



Chris Beard

chrisbeard@jbrec.com

GlassBuild 
A M E R I C A
THE GLASS, WINDOW & DOOR EXPO

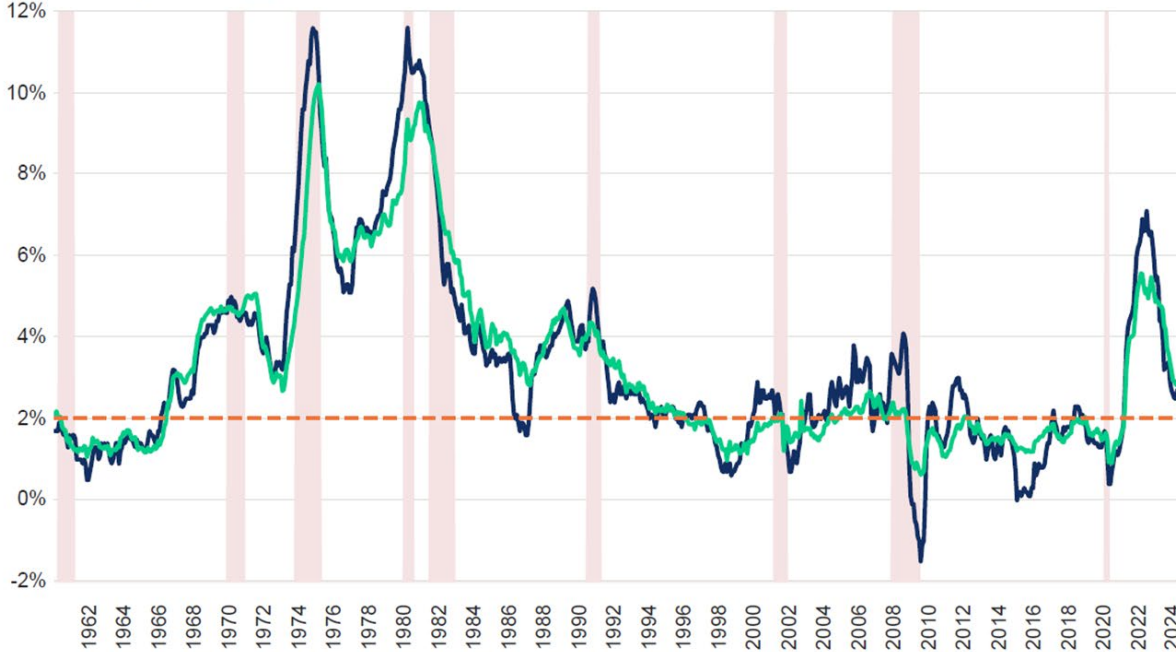
Outline:

- **The macro backdrop for the fenestration industry**
- **Results from the latest quarterly survey**
- **Conclusions**

Inflation is almost back to target.

Personal Expenditures Price Index

YOY % change — PCE Price Index YOY (SA) = 2.5% — Core PCE Price Index YOY (SA) = 2.6%
— Fed target rate — Recession



Note: PCE includes a broader range of expenditures than the CPI and is weighted based on what goods businesses are selling rather than what households are buying.
Source: Bureau of Economic Analysis (Data: Jun-24, Pub: Aug-24)

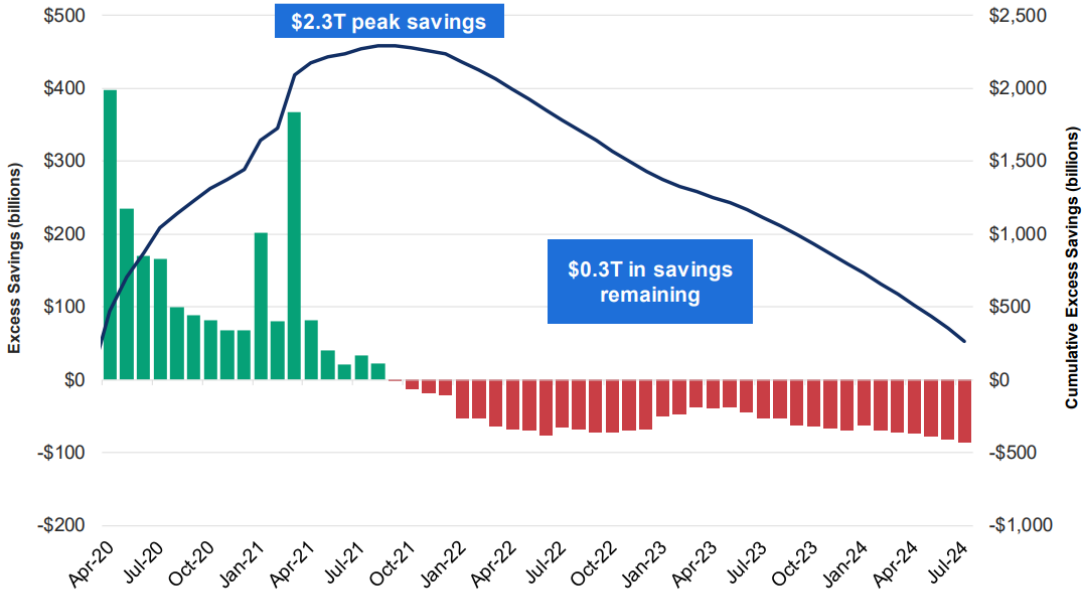


2.5% actual
2.0% target

The economy has been strong because consumers are still spending excess Covid-era savings.

Excess Savings

Relative to pre-Covid trend (2015–2019) — Cumulative savings



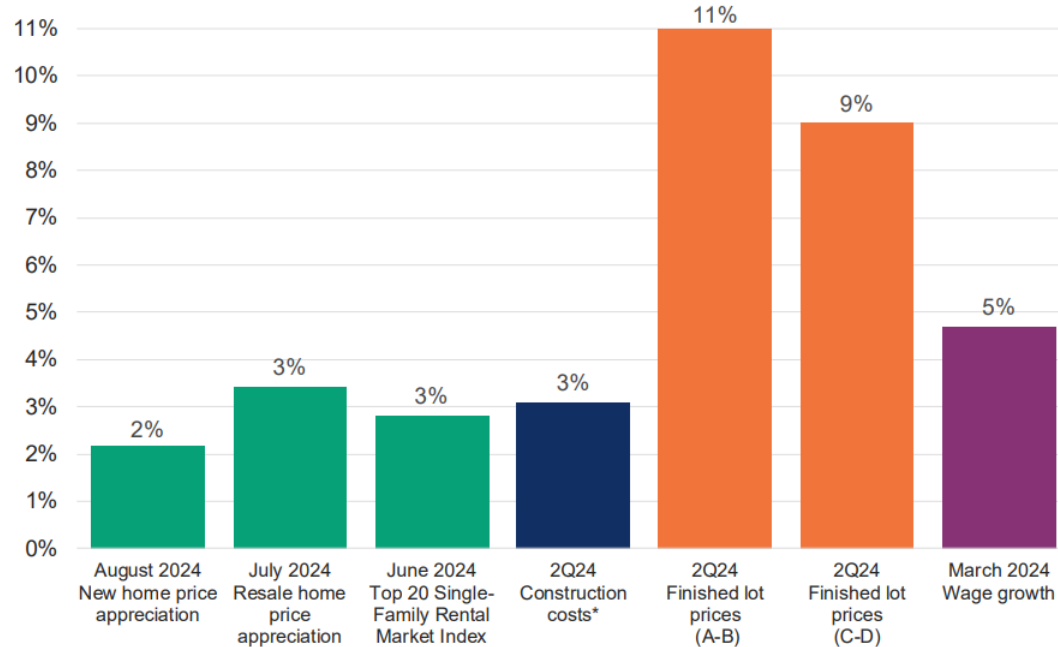
Note: The underlying consumer income and spending data was revised heavily in October 2023.
Sources: Bureau of Economic Analysis, John Burns Research and Consulting, LLC (Data: Jul-24)

Pub: Sep-24



New homes and resale homes continue to appreciate.

YOY % Increase in Key Housing and Economic Metrics



*Construction costs include labor and materials but excludes the lot.

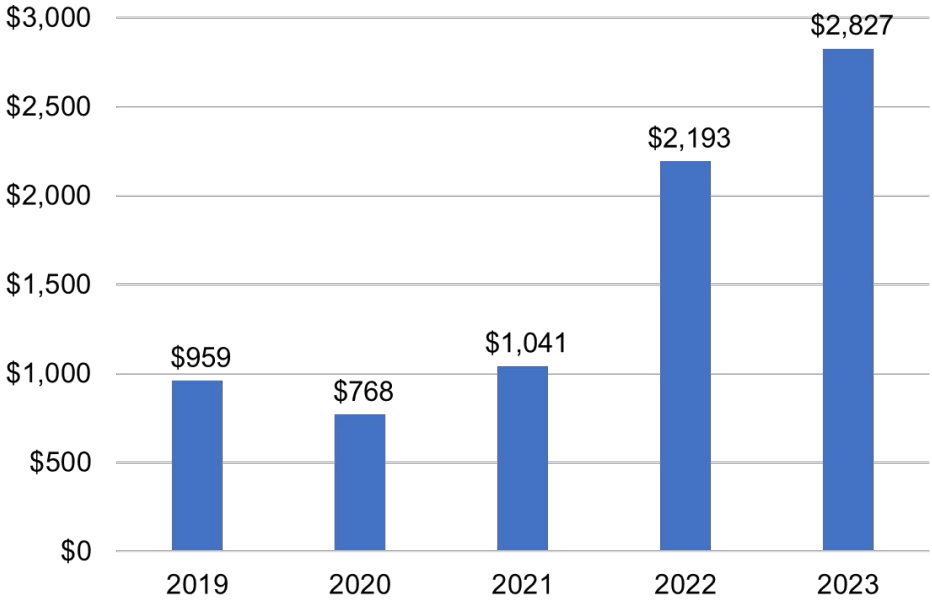
Source: Census Bureau; Moody's Analytics; Single-family rent is our Burns Single-Family Rent Index™, a measure of new lease effective rent, weighted average roll-up of 20 markets; Burns Home Value Index™ (BHVI); John Burns Research and Consulting, LLC, independent surveys, NSA (Data: Jul-24/Aug-24, Pub: Sep-24)

BLUEPRINT
FOR COLLABORATION

GLASSBUILD MAINSTAGE
KAY BAILEY HUTCHISON CONVENTION CENTER
DALLAS, TX

The mortgage payment on the median-priced home has almost tripled in 3 years!

Mortgage Payment on Median-priced U.S. Home

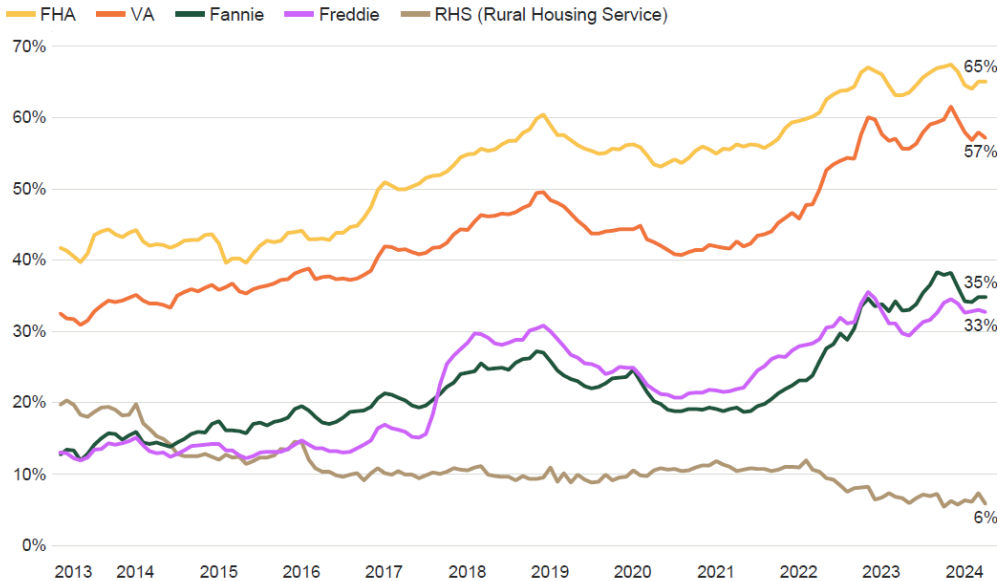


Values as of December of each year except 2023, which uses October values. Assumes 30-year fixed, fixed-rate mortgage with a 10% down payment on a median-priced existing home. Payment includes principal and interest but excludes taxes and insurance costs. Assumes 125% of median household income as a proxy for homebuyer income. (Data: Oct-23, Pub: Nov-23)

Mortgage rates need to decline because homebuyers have never been more financially stretched.

The share of high debt-to-income ratio (>43%) loans is rising.

Purchase Loans with Total Debt to Income Greater than 43%



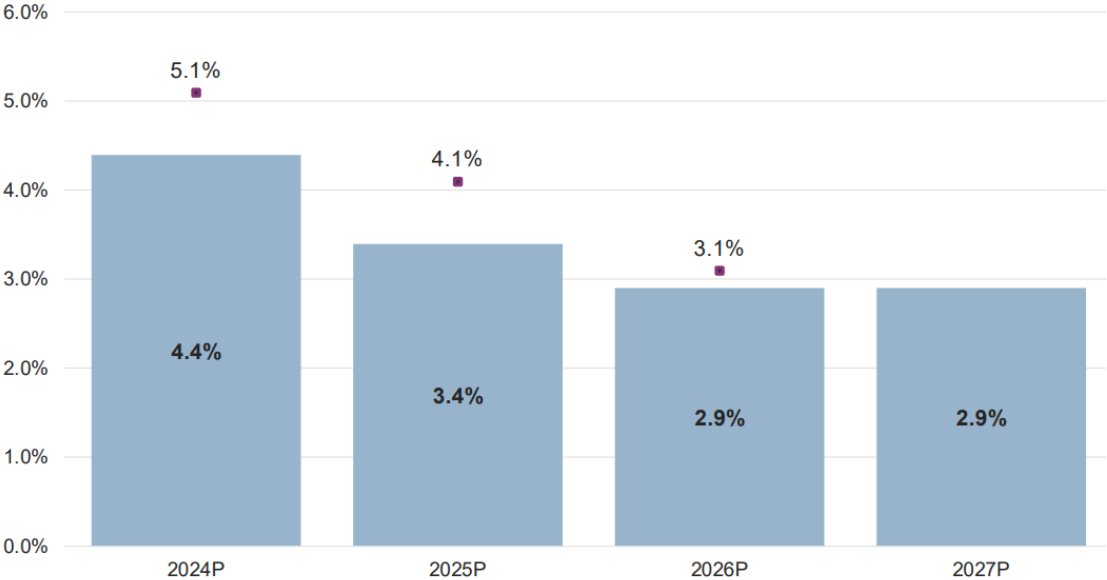
Note: Data pertains to purchase loans for primary owner-occupied properties.

Sources: AEI International Center on Housing Risk; John Burns Research and Consulting, LLC (Data: Apr-24, Pub: Aug-24)

The Fed expects to cut interest rates to 4.4% in 2024 and expects to continue cutting through 2026.

Federal Reserve Projection: Federal Funds Rate

■ Current projection (Sep.) ■ Prior projection (Jun.)



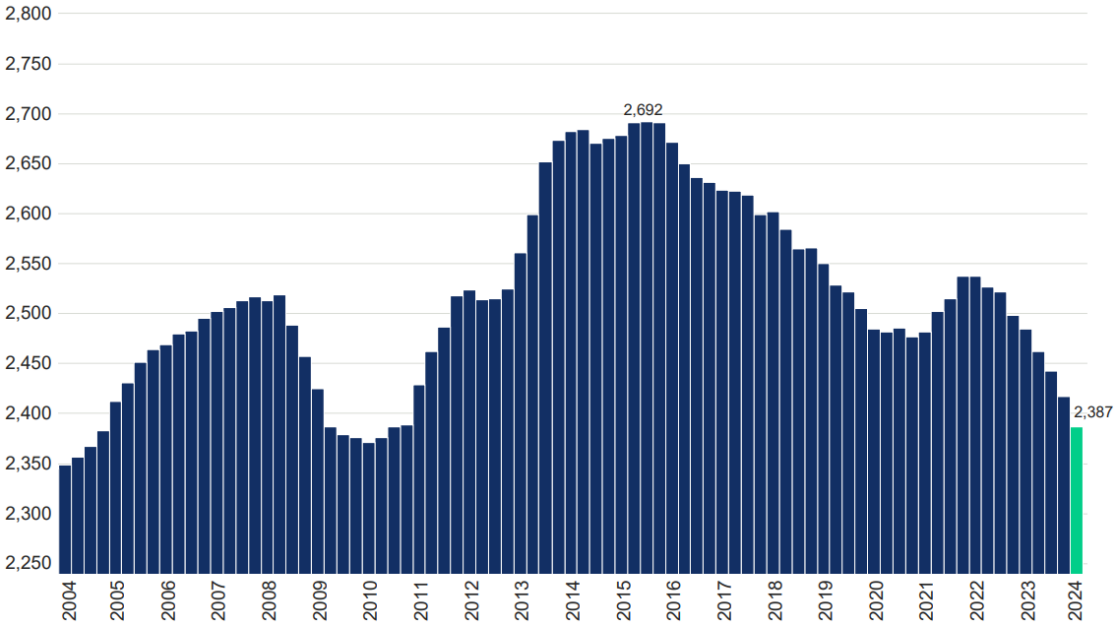
Note: Economic projections represent the median of all projections received from Federal Reserve Board members and Federal Reserve Bank presidents under their assumptions of projected appropriate monetary policy and reflect estimates as of the 4th quarter of each year.

Source: Federal Reserve (Data: Sep-24, Pub: Sep-24)

New single-family homes are smaller now than at any time since 2011...

Size of New Single-Family Homes

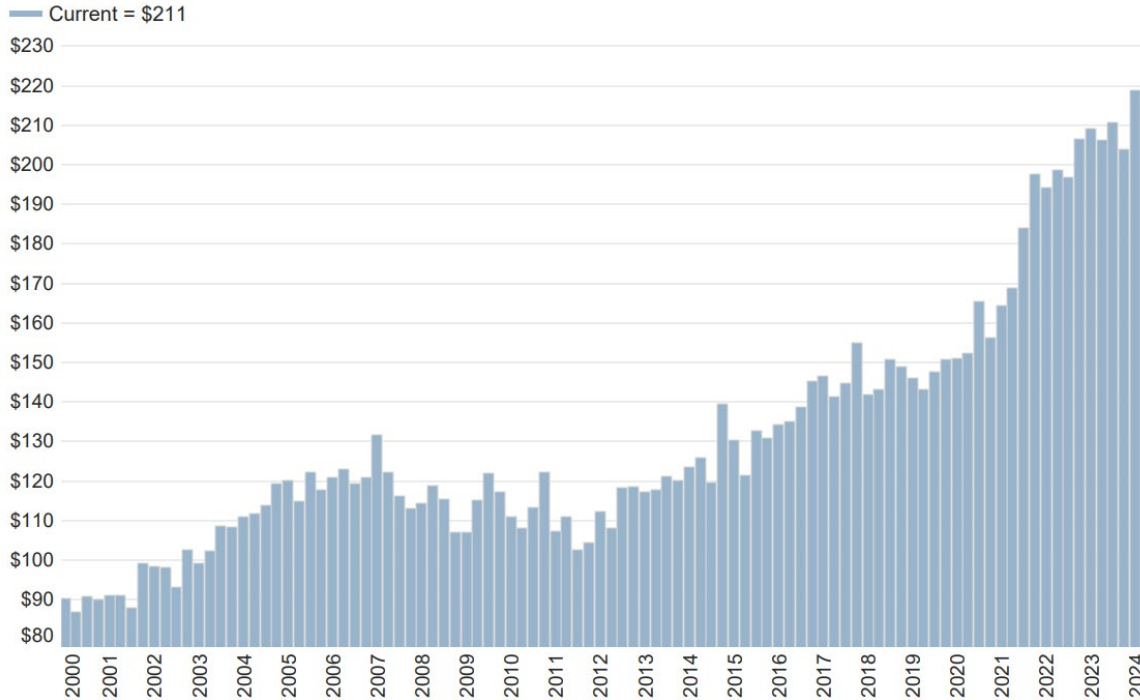
Rolling 4 quarters — SF starts: average floor area — Current* = 2,387



Source: Census Bureau (Data 1Q24, Pub: Jun-24).

...and more expensive.

Average Price per Square Foot of Newly Built US Homes



Source: Census Bureau; John Burns Research and Consulting, LLC (Data 2Q24, Pub: Sep-24).



The average price per square foot for a newly built home in 2Q24 rose +2.3% YOY to \$211.

Home price affordability is the dark cloud looming over the housing industry.



Offsetting optimism includes:

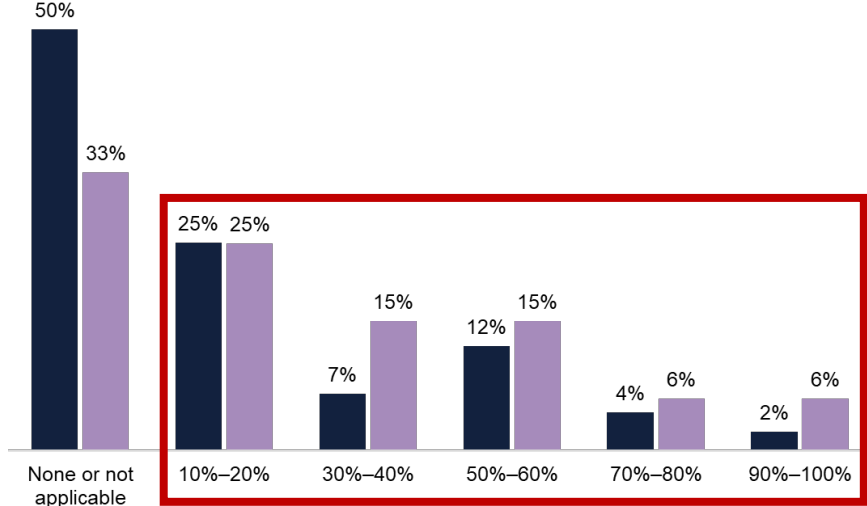
- Home undersupply
- Pristine homeowner mortgages
- Belief that rates will fall
- Well-capitalized homebuilders who can keep building

Residential designers are lowering a project's finish quality to reduce costs.

Share of 2023 projects where the finish quality was lowered to reduce costs

Share of residential designers who specify/select materials by market segment

■ Custom ■ Production



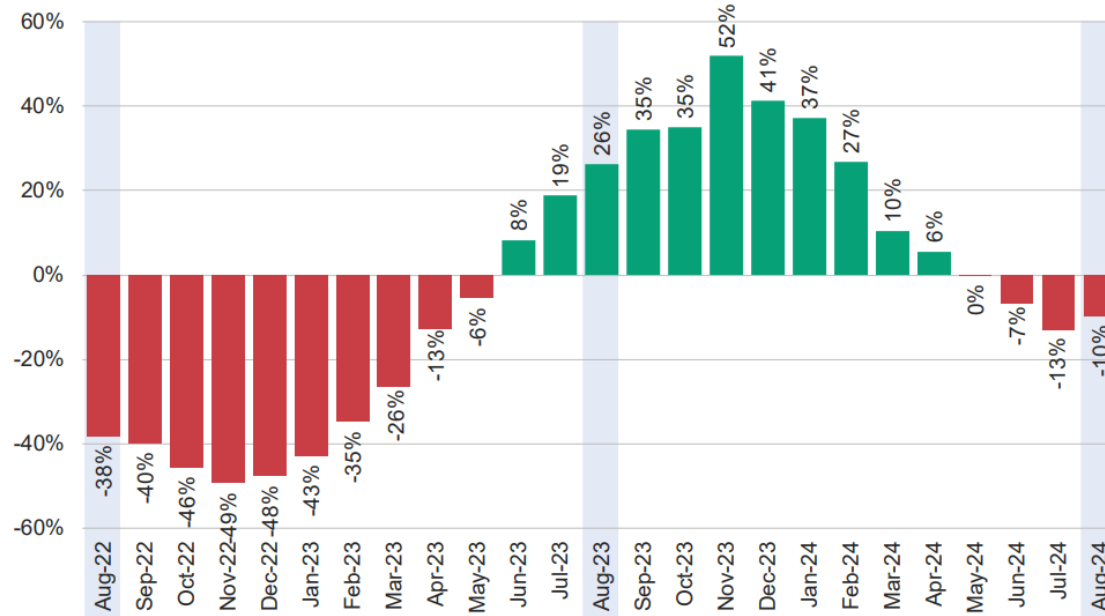
67% of production residential designers lowered the finish quality on a project compared to 50% of custom residential designers.

Source: 2024 US Residential Architecture and Design Survey conducted by the New Home Trends Institute by John Burns Research and Consulting, LLC and Pro Builder.

Average single-family starts per community decline -10% YOY and comparisons grow tougher.

Single-Family Housing Starts per Community YOY % Change

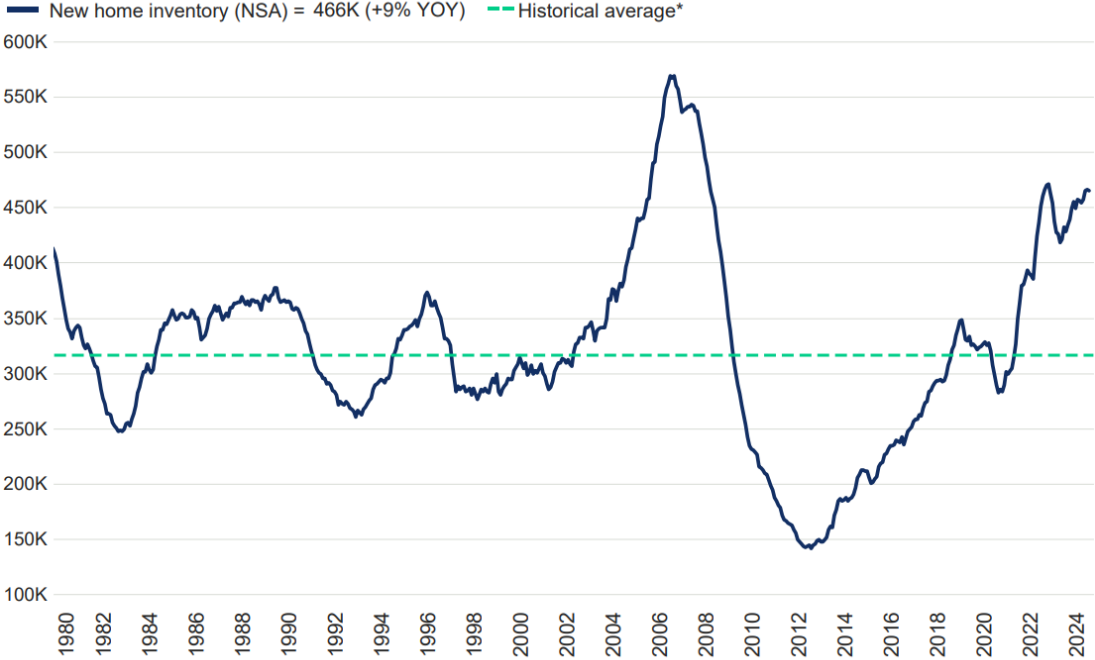
All builder responses YOY, weighted averages



Source: John Burns Research and Consulting, LLC, independent survey of ~19% of all US new home sales, NSA (Data: Aug-24, Pub: Sep-24)

Standing, unsold new home inventory now exceeds normal levels.

Unsold New Home Inventory

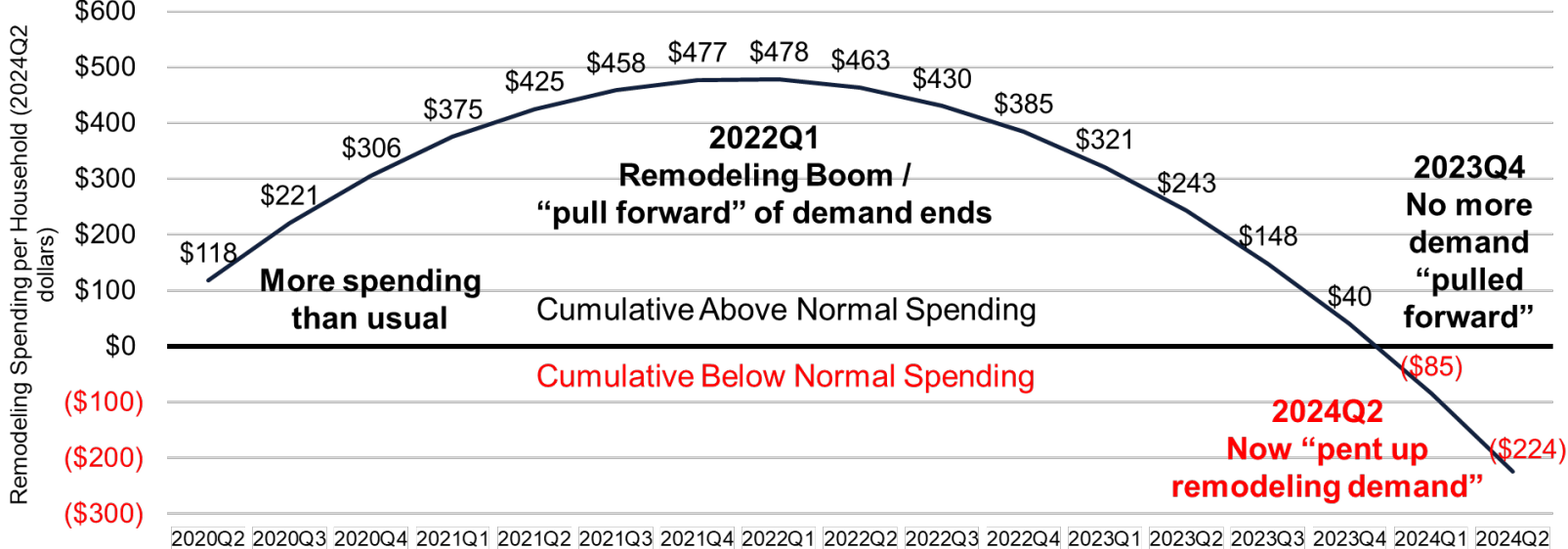


Source: Census Bureau (Data: Jul-24, Pub: Sep-24)

*Historical average Jan-63 through current

The remodeling boom has now flipped to remodeling pent-up demand.

Cumulative Post-Covid Remodeling Spending per Household Above/(Below) Expectations (Stated in Current Dollars)



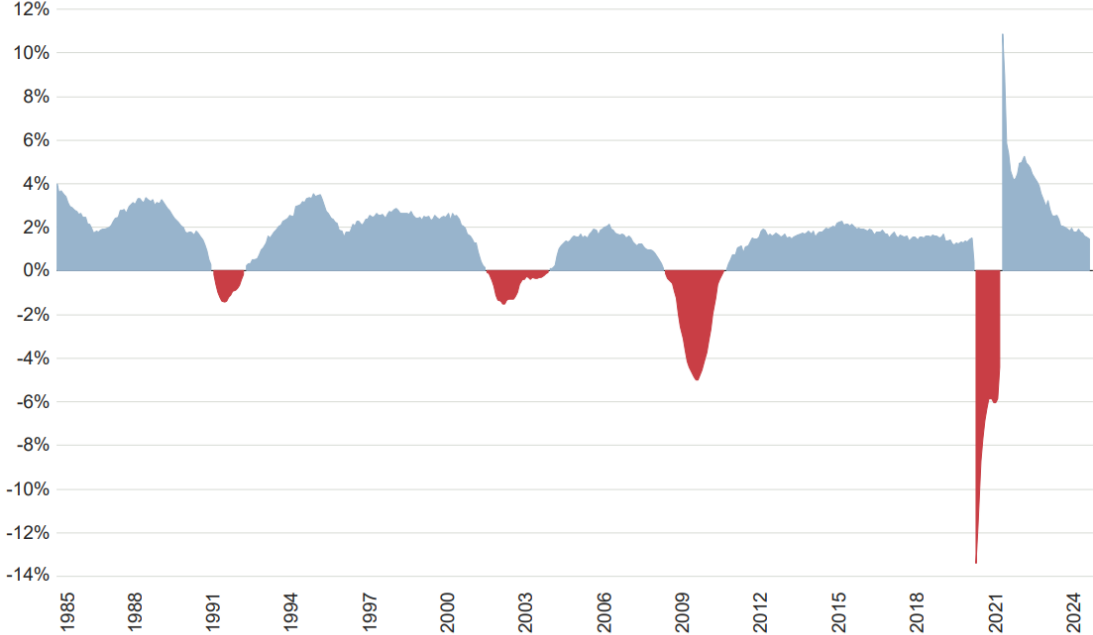
Sources: John Burns Research and Consulting; Census, BEA (Data: June-24, Pub: Aug-24)



Employment growth is slowing YOY but remains healthy. Total US employment rose +1.5% in August.

Payroll Employment

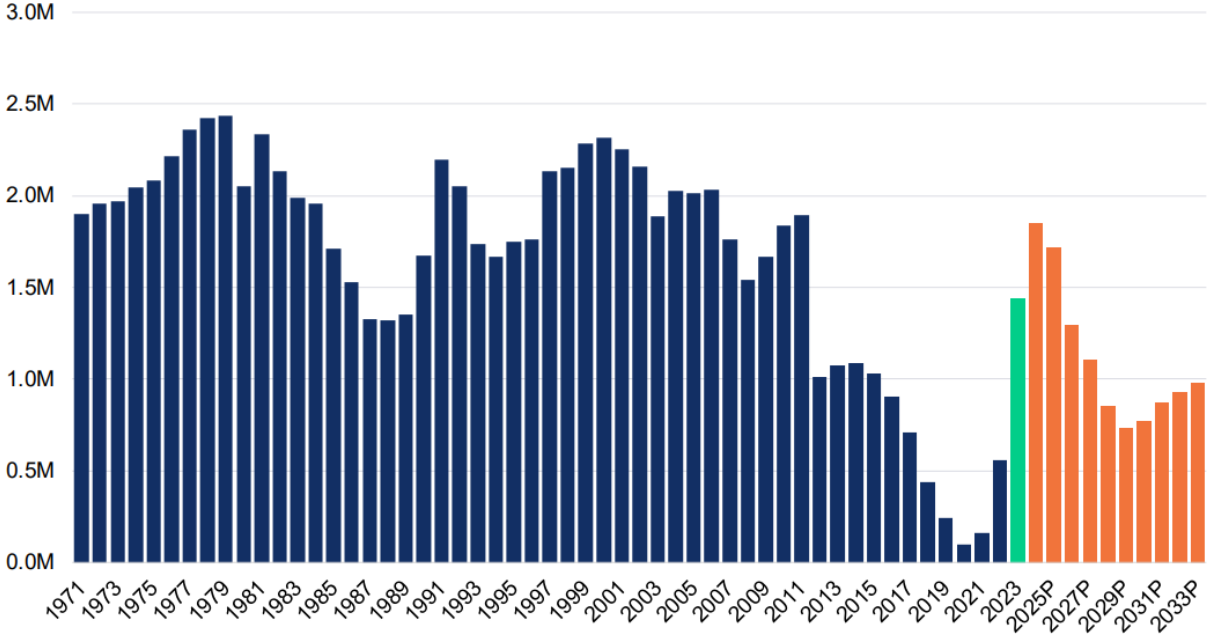
YOY % change, NSA Current YOY = 1.5%



Source: Bureau of Labor Statistics (Data: Aug-24, Pub: Sep-24)

US working-age population growth accelerated due to a surge in net immigration.

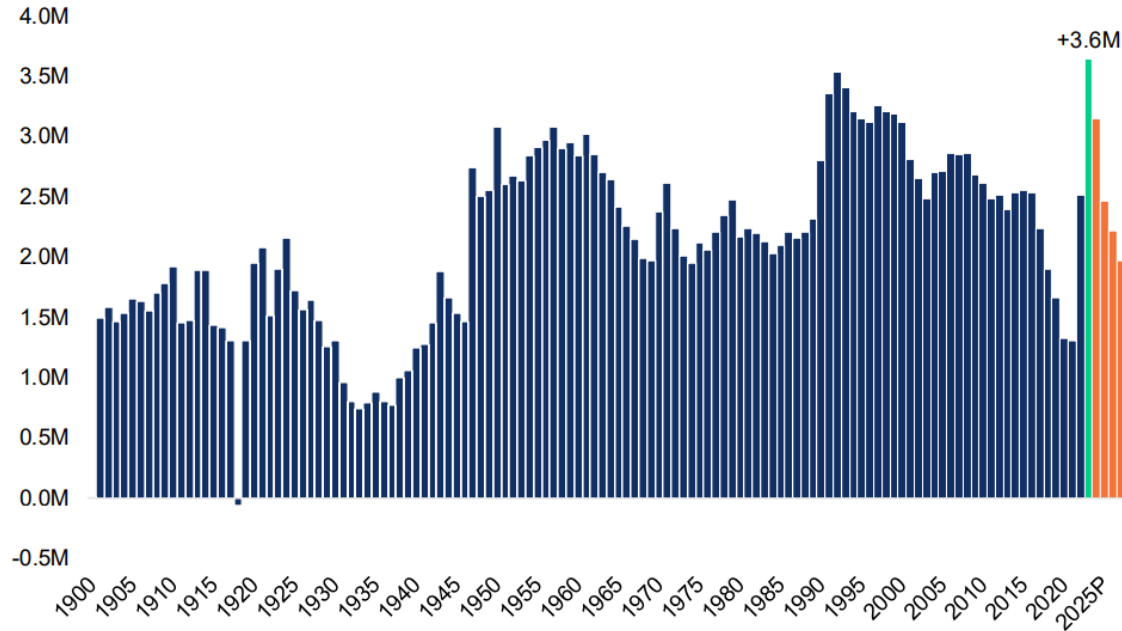
US Annual Working-Age Population Growth (Age 20–64)



Source: John Burns Research and Consulting, LLC, based on US Census Bureau Population Estimates and the Congressional Budget Office (Data: May-24., Pub: Jun-24)

Unprecedented foreign immigration is contributing to employment growth and household formations.

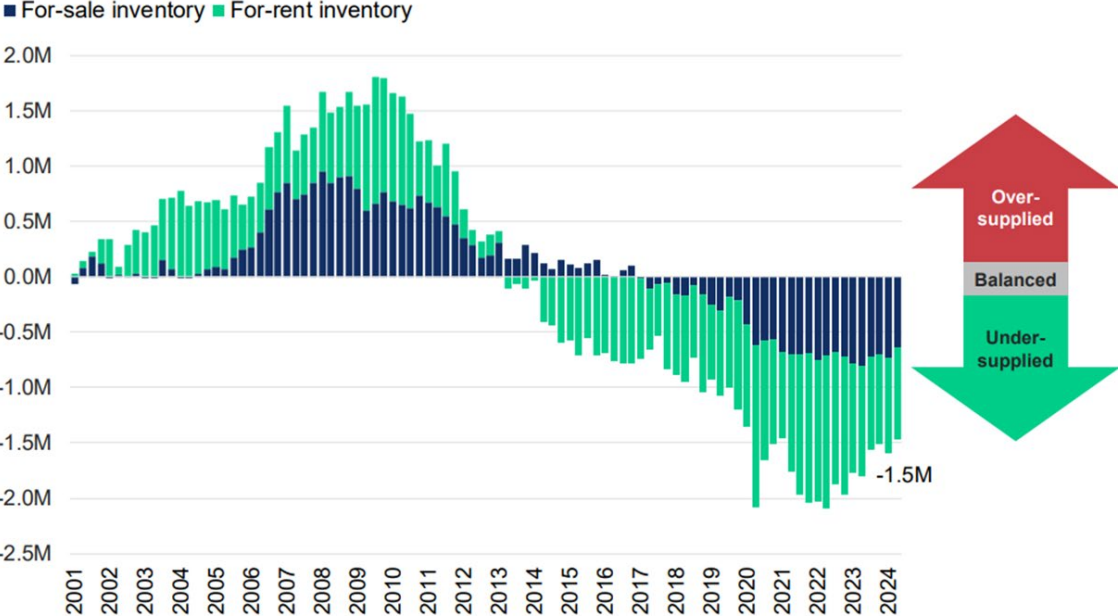
US Annual Net Population Growth



Source: John Burns Research and Consulting, LLC, based on US Census Bureau Population Estimates and the Congressional Budget Office (Data: May-24., Pub: Sep-24)

Housing undersupply persists, partly due to immigration, leading to continued appreciation.

US Housing Oversupply/Undersupply of Vacant Units for Balance

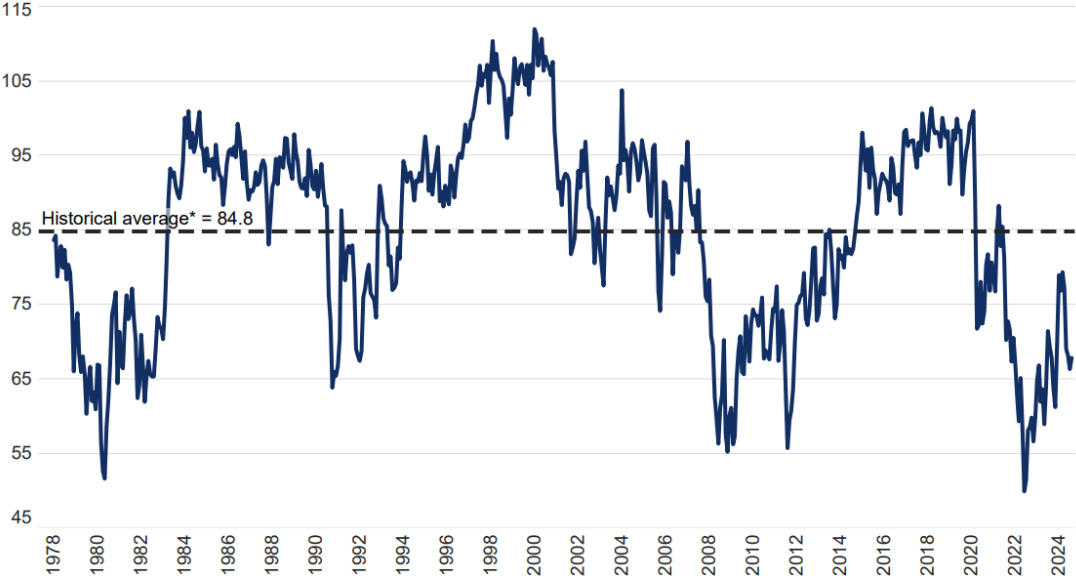


We estimate undersupply (or oversupply) as the number of additional vacant units (or fewer vacant units) needed to restore the average vacancy rate of 1994-2003.
 Sources: John Burns Research and Consulting, LLC, tabulations of U.S. Census Bureau Housing Vacancies and Homeownership Survey (Data: 2Q24, Pub: Sep-24)

Consumer sentiment is rising but remains low relative to 2015-2019.

Consumer Sentiment

— Current = 67.90



Note: The Consumer Confidence and Sentiment indices generally track each other. Consumer sentiment measures consumers' 12-month forward expectations for business and personal finance.

Source: University of Michigan Survey of Consumer Sentiment (Data Aug-24, Pub Sep-24)

Mixed bag of economic indicators relevant to housing

- The Fed's dual mandate has largely been met
 - PCE was 2.5% in August – still higher than the Fed's target of 2.0%
 - Unemployment was 4.2% in August
- Consumers still have \$265B in excess Covid savings
- Home price appreciation (new and existing homes) remains positive YOY
- The Fed has begun lowering interest rates as the job market comes more into focus
- As inflation is moderating, housing affordability remains an issue
- New home starts have decreased, and large discretionary remodeling remains weak
- Hiring has slowed, but job growth remains positive YOY, fueled by immigration
 - Immigration is expected to contribute to the existing housing undersupply



Results from the latest quarterly survey

 **JOHN BURNS**
RESEARCH & CONSULTING

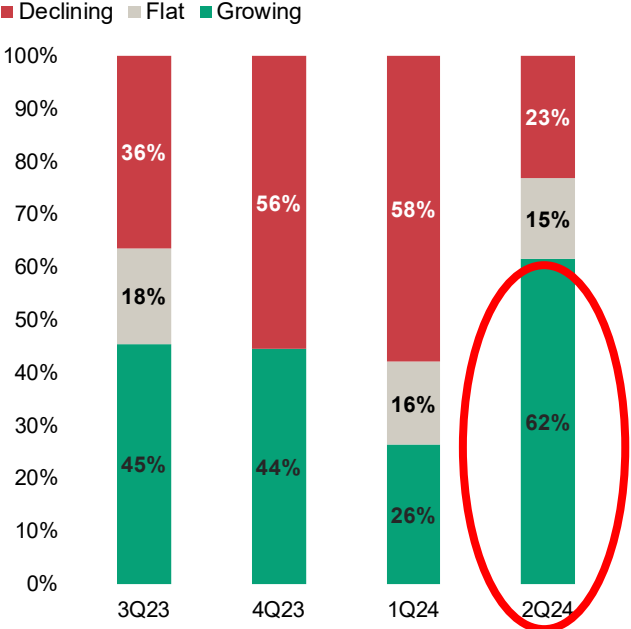
GlassBuild 
A M E R I C A
THE GLASS, WINDOW & DOOR EXPO

Background

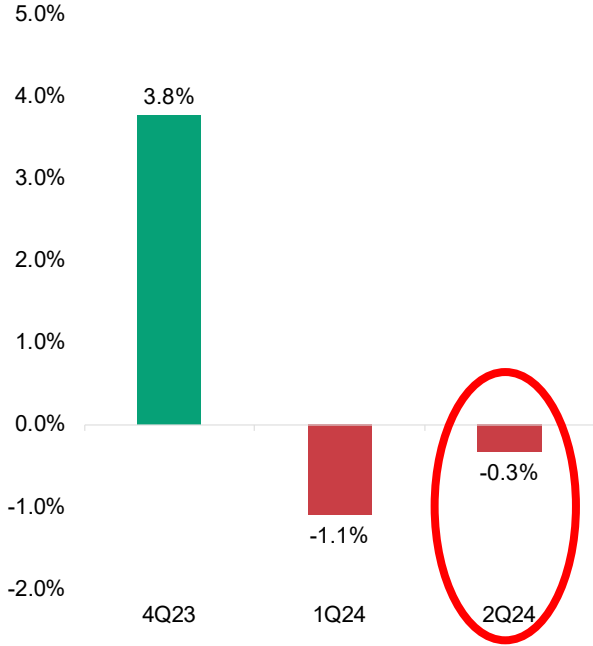
- Exclusive partnership between Window + Door Magazine and John Burns Research and Consulting
- Quarterly survey of residential manufacturers, glass shops, glaziers, and installers
- Measurements of volumes, revenue, lead times and backlogs, supply chains, and guidance
- Quantitative data and qualitative commentary to understand the overall sentiment of the industry

Companies reported volumes growing, but average revenue decreasing.

Residential Window and Door Company Shipments/Installations Volume Change YOY



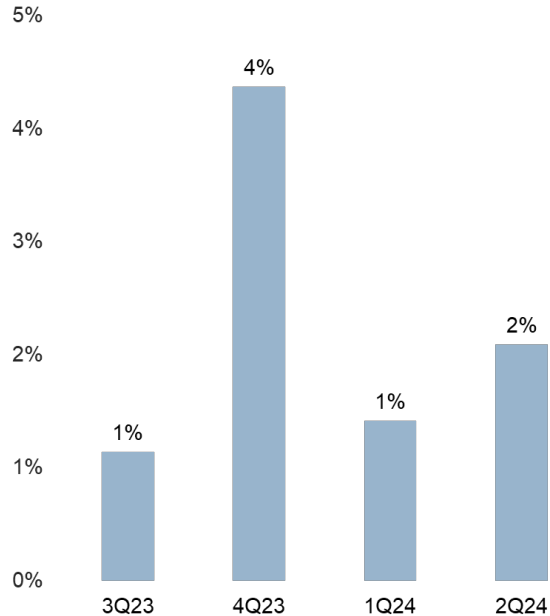
Residential Window and Door Company Average Revenue Percent Change YOY



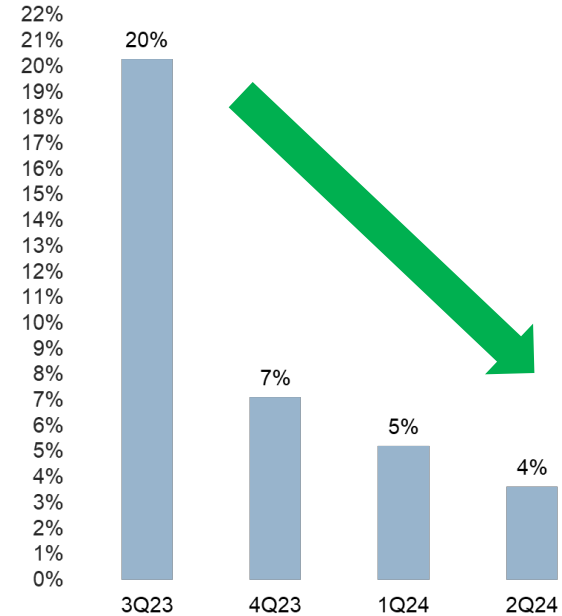
Sources: Window + Door magazine; John Burns Research and Consulting, LLC (Data: 2Q24, Pub: Sep-24)

Material and labor inflation have moderated since last year.

Residential Window and Door Company
Materials/Supplies Average Cost YOY



Residential Window and Door Company
Average Change in Direct Labor Costs YOY

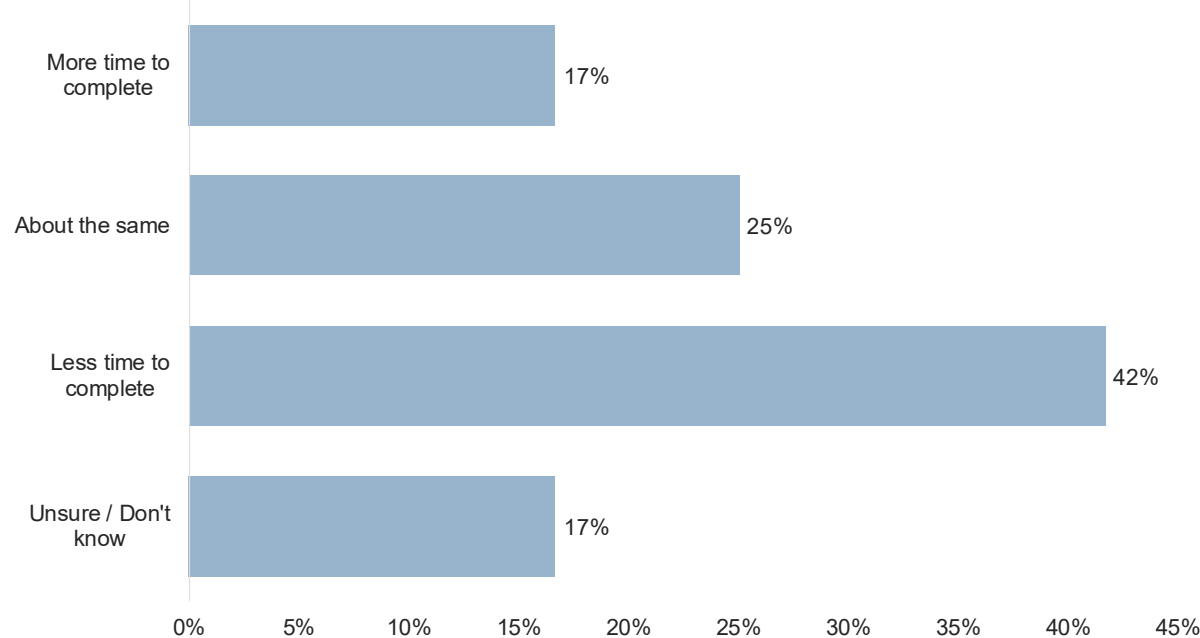


Sources: Window + Door magazine; John Burns Research and Consulting, LLC (Data: 2Q24, Pub: Sep-24)

Companies continue to report improving cycle times and lead times YOY.

Residential Window and Door Company Project Timelines / Cycle Times Direction YOY

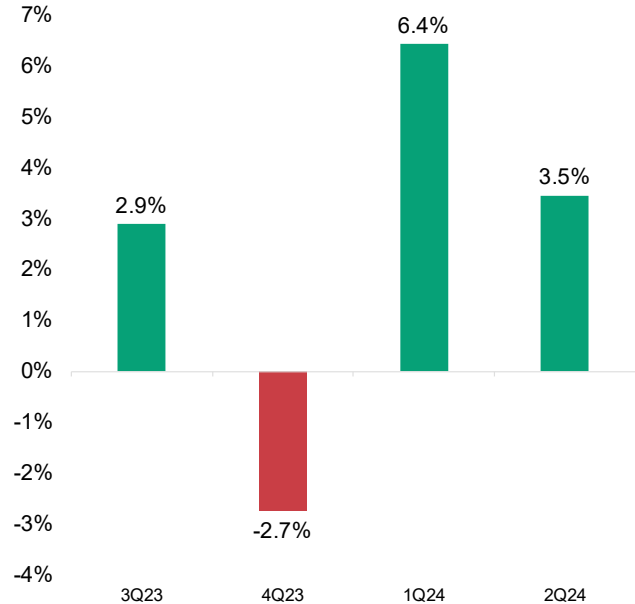
2Q24



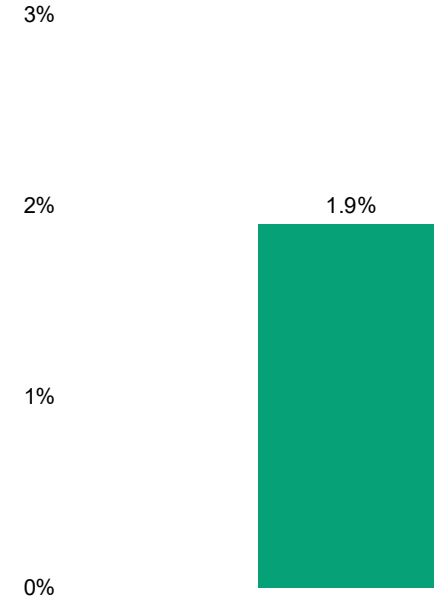
Sources: Window + Door magazine; John Burns Research and Consulting, LLC (Data: 2Q24, Pub: Sep-24)

Companies expect to ship more units this year vs last.

**Residential Window and Door Company
Average Expected Shipment Net Change QOQ**



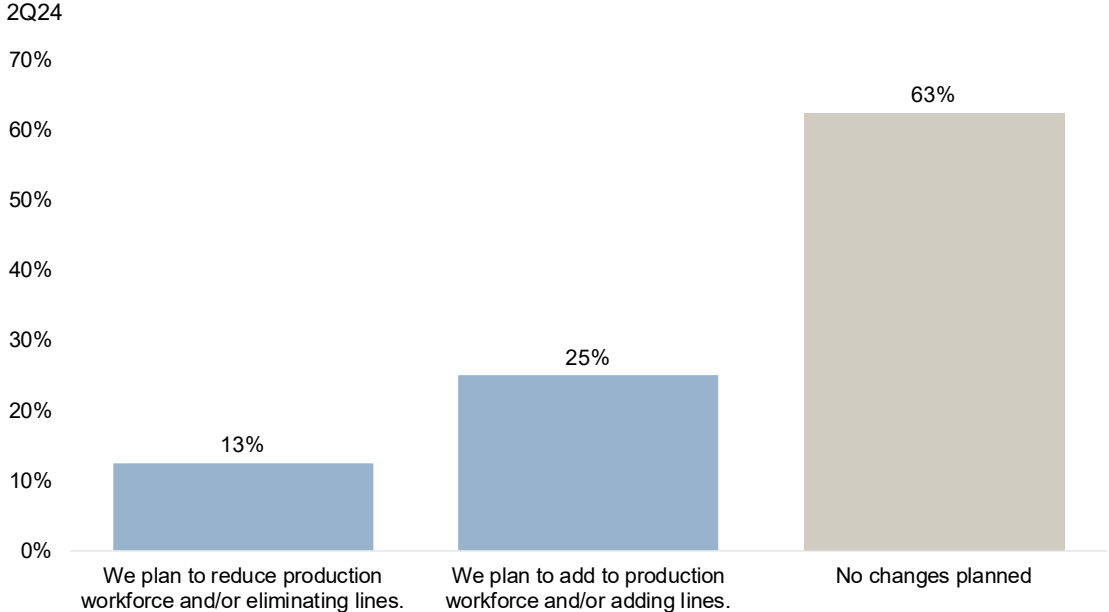
**Residential Window and Door Company
Average Full-Year Shipment Expectations**



Sources: Window + Door magazine; John Burns Research and Consulting, LLC (Data: 2Q24, Pub: Sep-24)

63% of companies do not plan to make changes to their production workforce this year.

Residential Window and Door Companies Expecting Changes to Production/Installation Workforce This Year



Sources: Window + Door magazine; John Burns Research and Consulting, LLC (Data: 2Q24, Pub: Sep-24)

60% of companies have added or plan to add sales and marketing resources this year.

Residential Window and Door Companies Expecting Changes to Sales and Marketing Workforce This Year

2Q24

70%

60%

50%

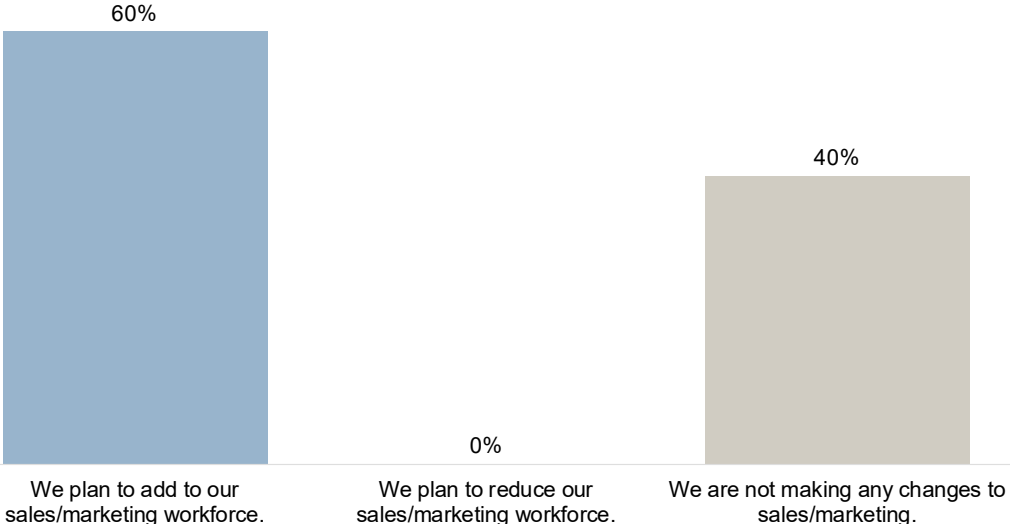
40%

30%

20%

10%

0%

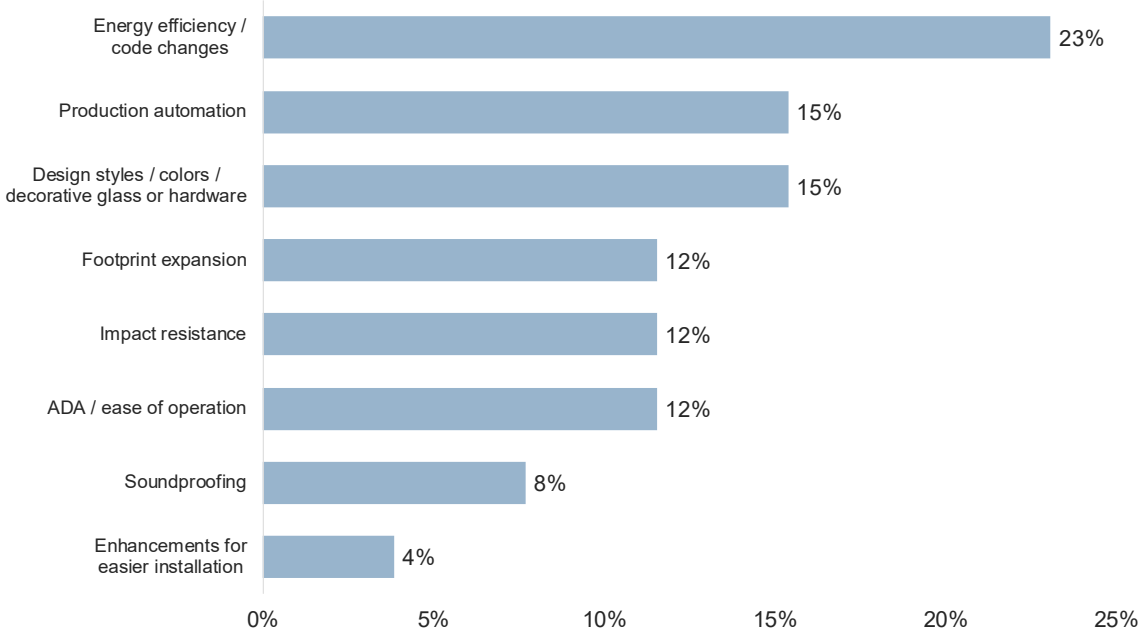


Sources: Window + Door magazine; John Burns Research and Consulting, LLC (Data: 2Q24, Pub: Sep-24)

Product enhancements to address energy efficiency and code changes are the main focus areas.

Residential Window and Door Company Expected Focus Areas in the Next 12 Months

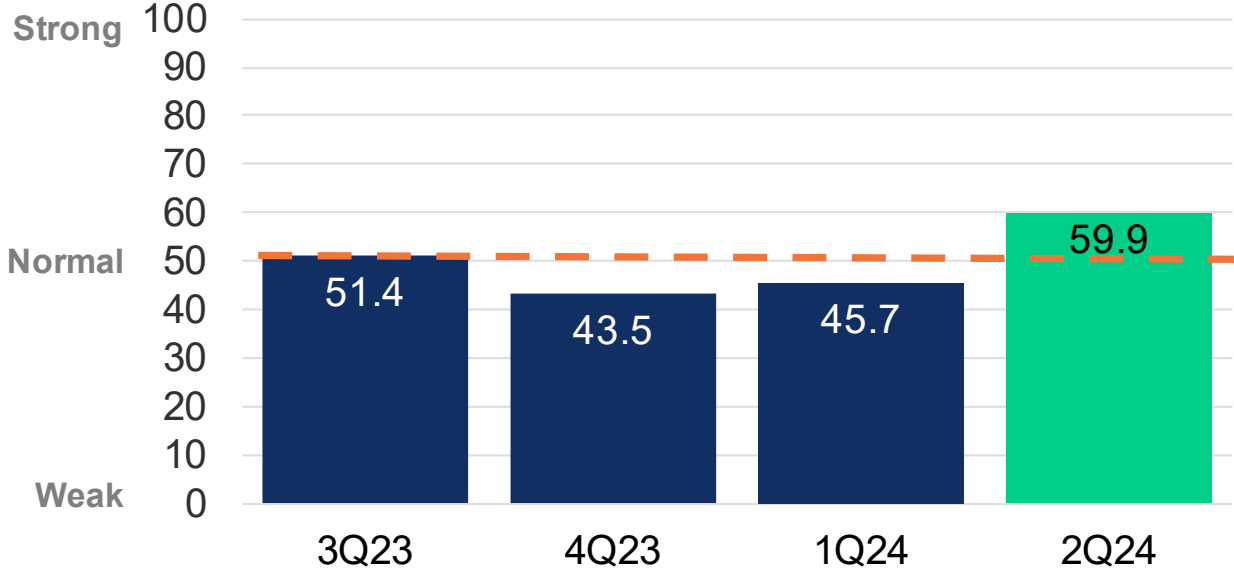
2Q24



Sources: Window + Door magazine; John Burns Research and Consulting, LLC (Data: 2Q24, Pub: Sep-24)

The 2Q24 Window and Door Market Index is 59.9. This represents an expanding fenestration market.

Window and Door Market Index



Sources: Window + Door magazine; John Burns Research and Consulting, LLC (Data: 2Q24, Pub: Sep-24)

Conclusions

 **JOHN BURNS**
RESEARCH & CONSULTING

GlassBuild 
AMERICA
THE GLASS, WINDOW & DOOR EXPO

Conclusions

- The economy remains strong, but risks remain
 - The Fed has begun cutting rates as the labor market moves into focus
- New home starts are declining YOY as builders prioritize selling finished inventory
- Large discretionary remodeling activity remains weak – expect a pickup from deferred demand as financing costs ease
- The US remains undersupplied in housing as immigration remains strong
- Window and door companies are expecting to ship more units in 2024 than 2023
- Companies are investing in production and sales and marketing as input costs decline and demand remains weak
- Energy efficiency code changes, a rebound in remodeling activity, and an aging housing stock will be tailwinds for the fenestration industry in the coming years

Share Your Thoughts!



**BLUEPRINT
FOR COLLABORATION**

GLASSBUILD MAINSTAGE
KAY BAILEY HUTCHISON CONVENTION CENTER
DALLAS, TX

IT'S
DALLAS
HERE

Scan to download:



Chris Beard

chrisbeard@jbrec.com

THANK YOU

JOHN BURNS
RESEARCH & CONSULTING

GlassBuild
AMERICA
THE GLASS, WINDOW & DOOR EXPO