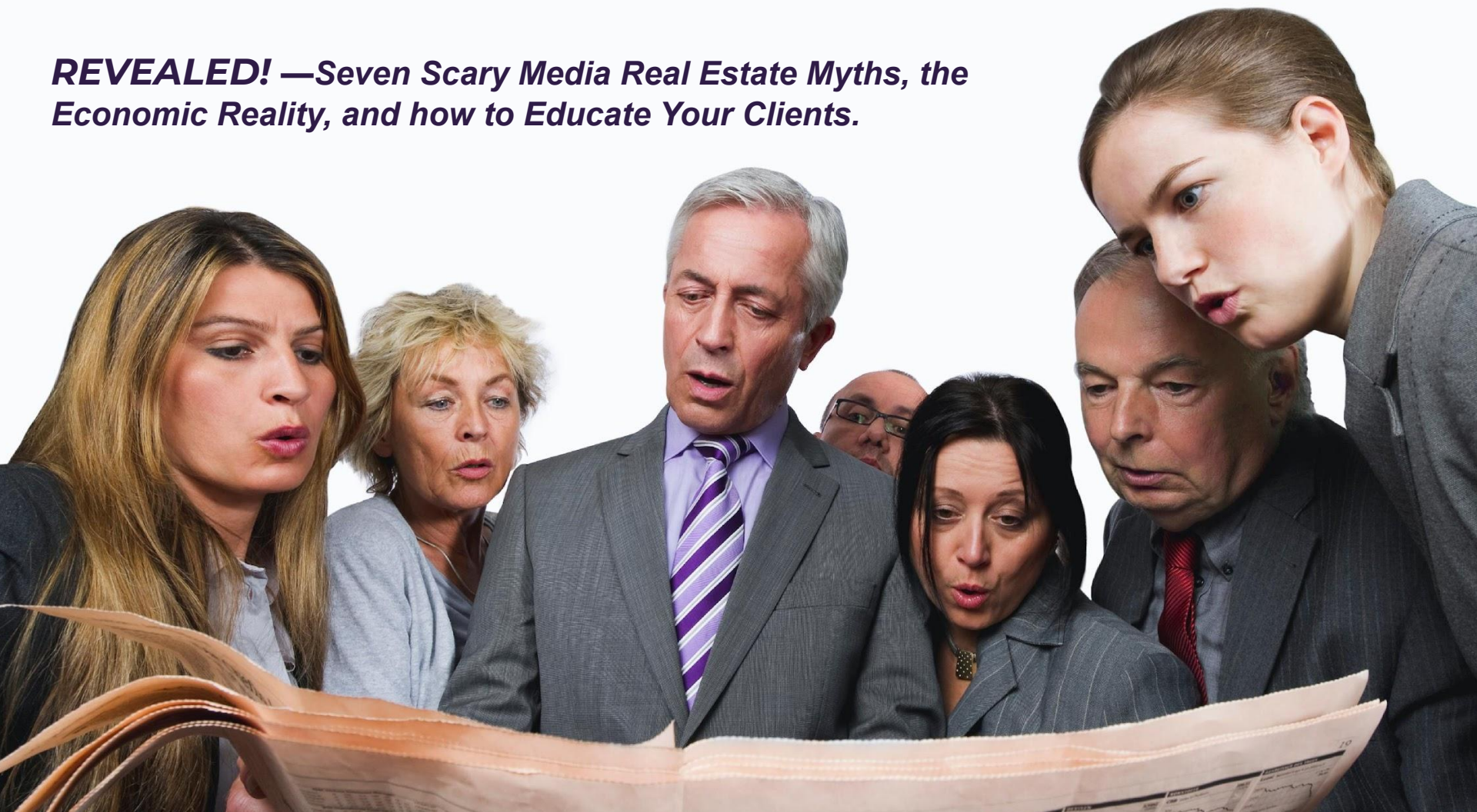




REVEALED! —Seven Scary Media Real Estate Myths, the Economic Reality, and how to Educate Your Clients.



2nd QUARTER 2022 — NATIONAL TRENDS

Your Castle Real Estate was started in 2004 and has grown to become the largest independent brokerage on the Front Range, according to the Denver Business Journal (DBJ). With over 750 agents in 6 offices, we sold over \$3 billion of real estate in 2021. We have also appeared in local and national publications, including recent awards from the DBJ and the Inc. 5000 (See below).

Our staff and agents are passionate about delivering exceptional consumer experiences. We offer services from residential sales to corporate relocation and beyond, so that we can meet our clients' every need. We have experts in every field to guide clients skillfully from the beginning to the end of their real estate journeys. We believe that access to the best and most timely information can dramatically shape decisions, and no one does more research on the local housing market than Your Castle.

In addition, from 2018 to 2021, Your Castle Real Estate annually gave over \$175,000 in charitable donations. We're a proud sponsor of the Ronald McDonald House and Boys and Girls Clubs of Denver.

Awards and Honors...



**America's
Fastest-Growing
Private Company**

2014: #2951
2015: #2163
2016: #2313



**Denver's
Fastest-Growing
Private Company**

2014: #5
2016: #10
2018: #5



**Top Ranked
Non-Franchise Firms
in Colorado 2019: #1**

**Top Ranked
Brokerage Firms in
Colorado by
Transactions
2019: #4**



**Best of Colorado 2017
Best Residential Real Estate
Agency**

As Seen In...



The JPAR® Story

Founded in 2011 by top producers - for top producers. Built on integrity, productivity, and service.

In 2019, we began our national expansion initiative to take our 100% commission full-service model across the country. Now in 26 states with thousands of industry leaders.

JP^{AR}® is known for the star in our logo which represents our consistent mission to affiliate and cultivate the super-stars of the real estate industry. We care, we mentor, and we empower.

Awards and Honors...



A Top 2022 Franchise by Franchise Business Review

A Top 2022 Franchise for Best Culture by Franchise Business Review

One of the Best Low-Cost Franchises in the US by Franchise Business Review (2021)

One of the Top 10 Real Estate Franchises in the US by Franchise Business Review (2021)

The Fastest-Growing 100% Commission Company by Real Trends (2021)*

Real Trends Top 35 (32) Brokerages in the Nation (2022)

Inc. 5000 America's Fastest-Growing Companies (2017, 2018, 2019, 2020, 2021, 2022)

#1 Independent, Privately-Held Brokerage in Texas (2021)**

#1 Fastest-Growing Franchise by Percentage of Office Growth by NAR (2021)***

Top 5 Fastest-Growing Franchises by Percentage of Agent Growth by NAR (2021)****

Top 5 Franchises with the Most Agents per Office by NAR (2021)*****

Top 10 Hottest Franchises in the Nation by Inc (2019)

National Real Estate Trends – July 2022

- **Will there be a Foreclosure Boom like '07?**
- **Will Prices Drop?**
- **Will a Recession Wreck the Market?**
- **Will Mortgage Rates Go Up or Down?**
- **Do Increasing Rates Impact the Market?**
- **How Does Inflation Impact Home Prices?**
- **What's Next For Apartment Pricing?**

Media Myth

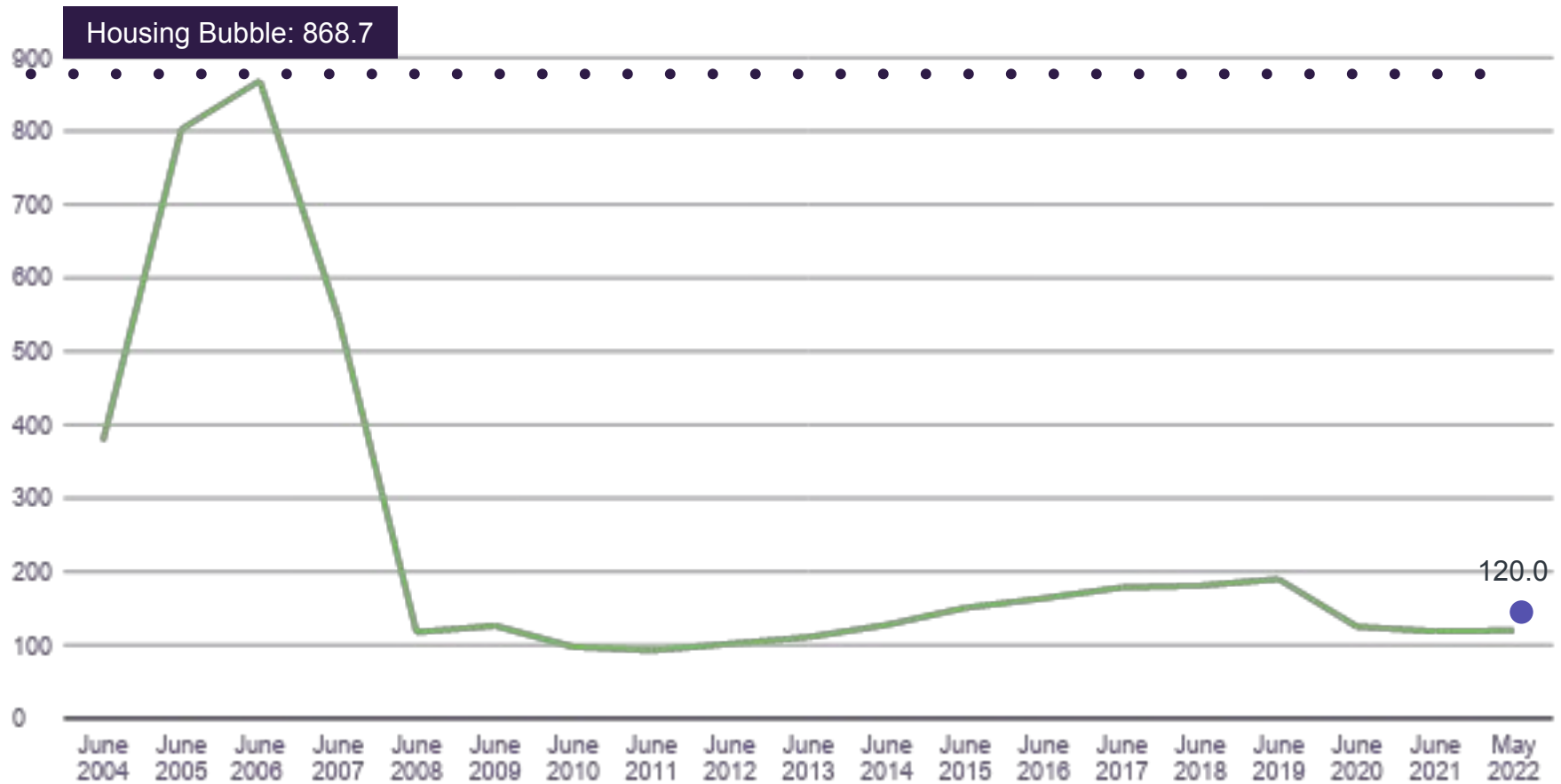
- The recession is going to cause a massive foreclosure boom like 2007.

Economic Reality

- The '07 recession was caused by very loose lending standards. Loans like:
 - Stated income, stated assets
 - No-documentation loans
 - These loans are no longer allowed
- Today's lending standards are very strict.
- Household spending on mortgage debt service is at a 40-year low.
- As a result, foreclosures and distress sales are near 0%.
- Nearly every homeowner has a lot of equity in their home and could sell in an orderly fashion.

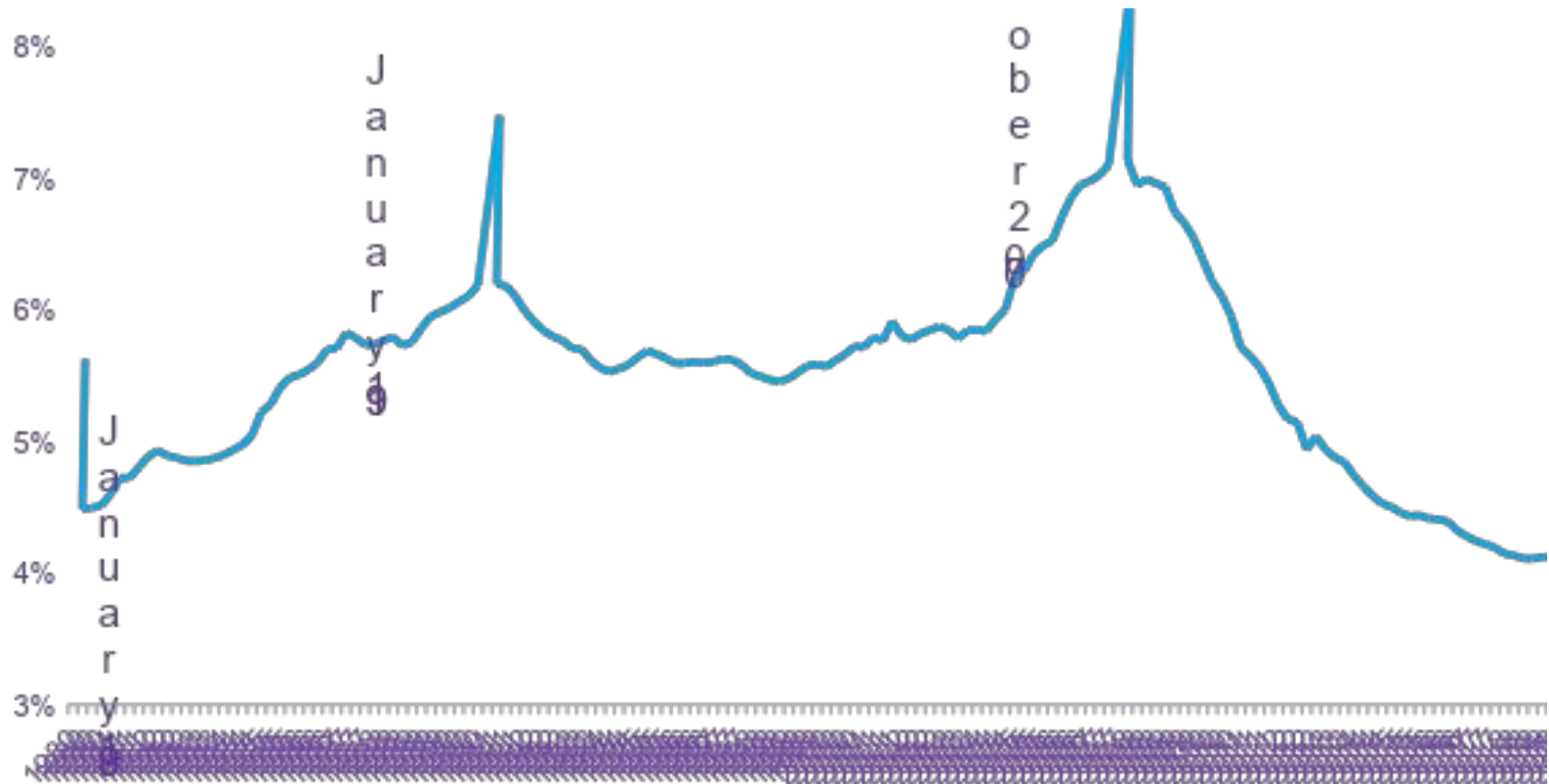
Lending standards are still very strict compared to the housing bubble (that led to the 2007/08 crash)...

Historical data for Mortgage Credit Availability Index (MCAI)



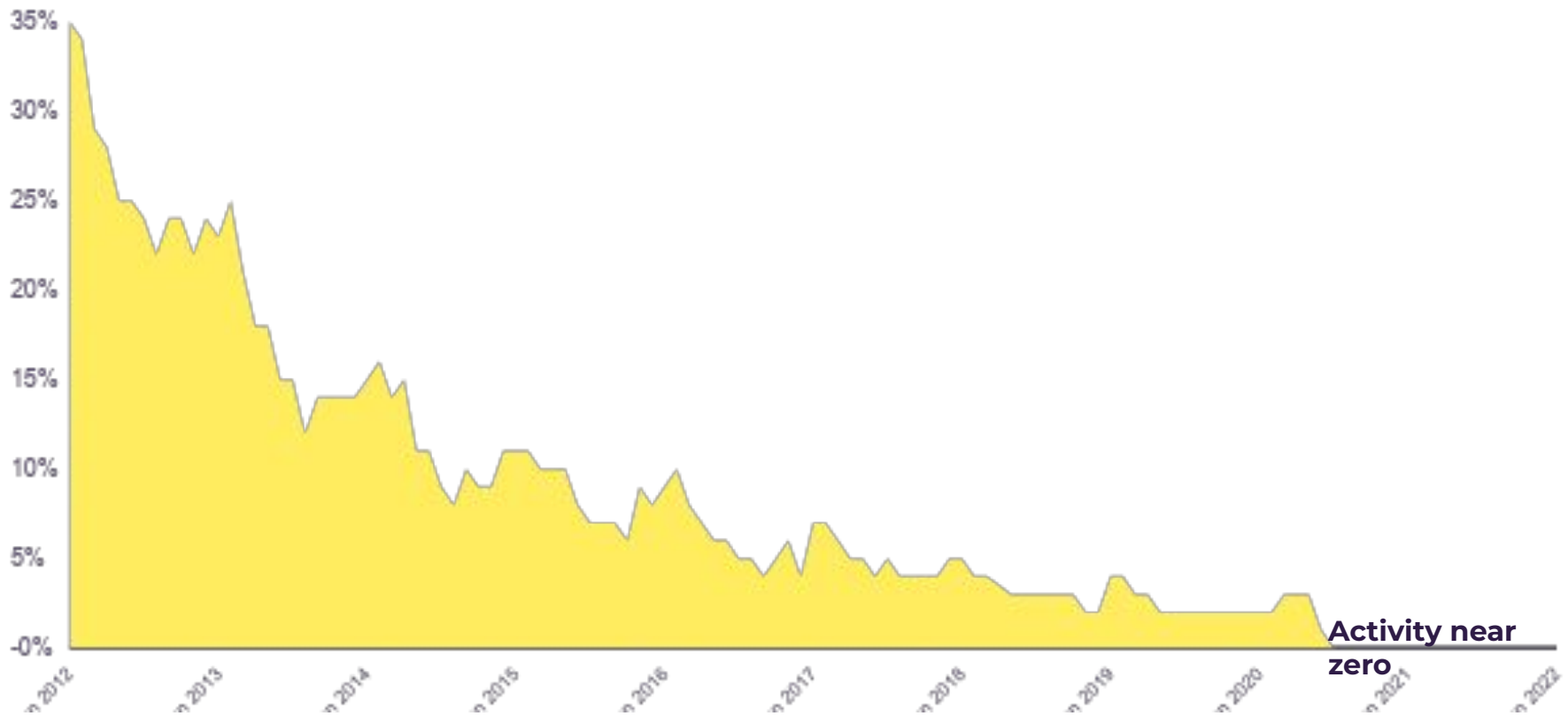
... **Strict lending and cheap rates (almost everyone refinanced to take advantage of low rates in the past few years) have led to a very affordable mortgage debt load. This has kept foreclosure and short sales at low levels ...**

Total required mortgage payments divided by total disposable personal income.



... Thanks to strict lending and cheap rates, the evidence suggests no uptick in foreclosures or distress sales anytime soon. The national data shows distress sales were less than 1% of total sales for the past 18 months. There is no reason to wait for a “deal”.

Number distressed home sales (foreclosure + short sale).



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Media Myth

- Home prices are going to go down... so it's a bad time to buy. "What goes up must come down"

Economic Reality

- Economists expect:
 - 8.5% appreciation for all '22
 - 3-5% annual gains in '23, '24, '25, '26
- Supply: US has had 14 straight years of building fewer new homes than historic average – led to sustained low inventories.
- Demand: Adults aged 20-34 are prime first-time buyers, and we have a record number of people this age. Lots of pent-up demand.
- US active home inventory increased 20% in June '22... it's easier for buyers today!

The media, often with poorly-research articles that are limited on facts, can discourage buyers. This package will give you facts to show it's still a good time to buy.

FINANCE • HOUSING

The cooling housing market enters into the Great Deceleration

BY LANCE LAMBERT
May 26, 2022 4:05 AM EDT

Home prices decelerate, as the housing market downshifts

by Liz Hughes June 02, 2022

REAL ESTATE

Buying a home at the wrong time can backfire big time. Here's why it may pay to wait.

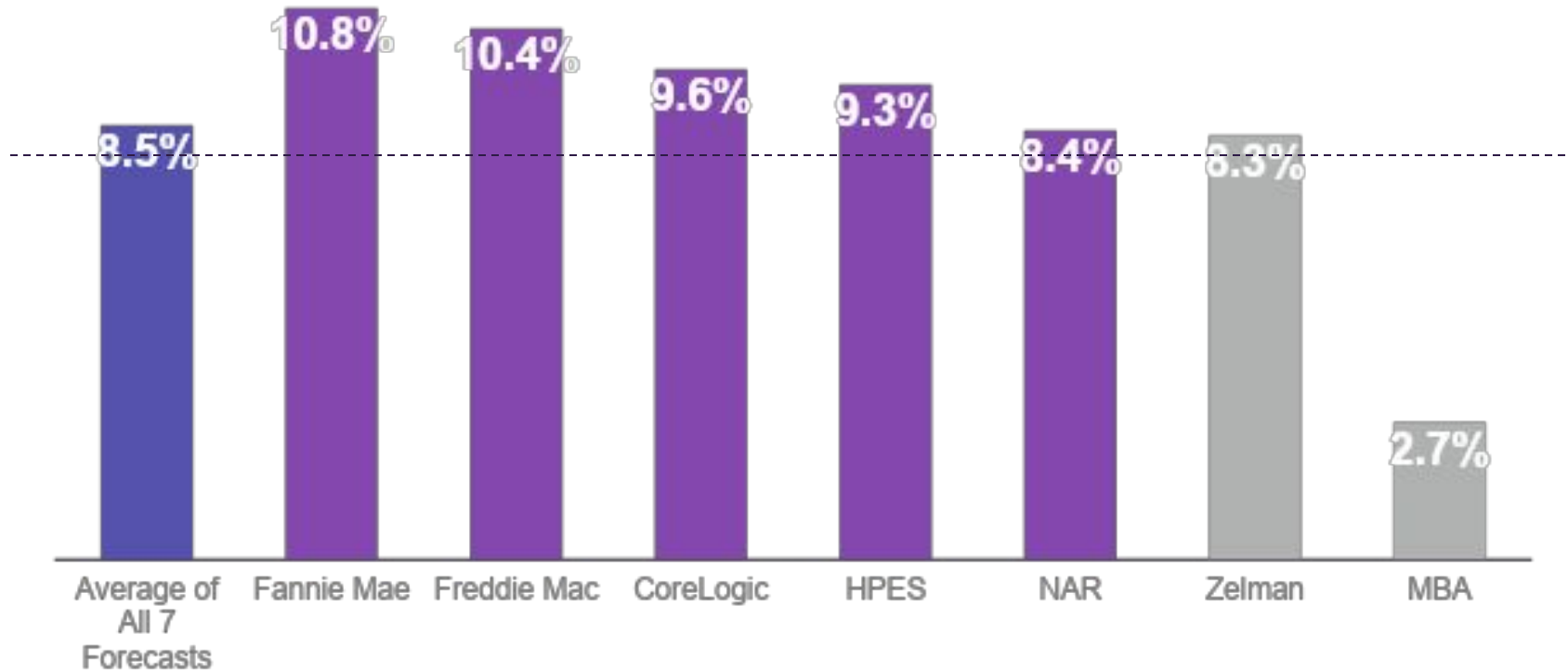
Maurie Backman The Motley Fool

Published 6:00 a.m. ET June 18, 2022



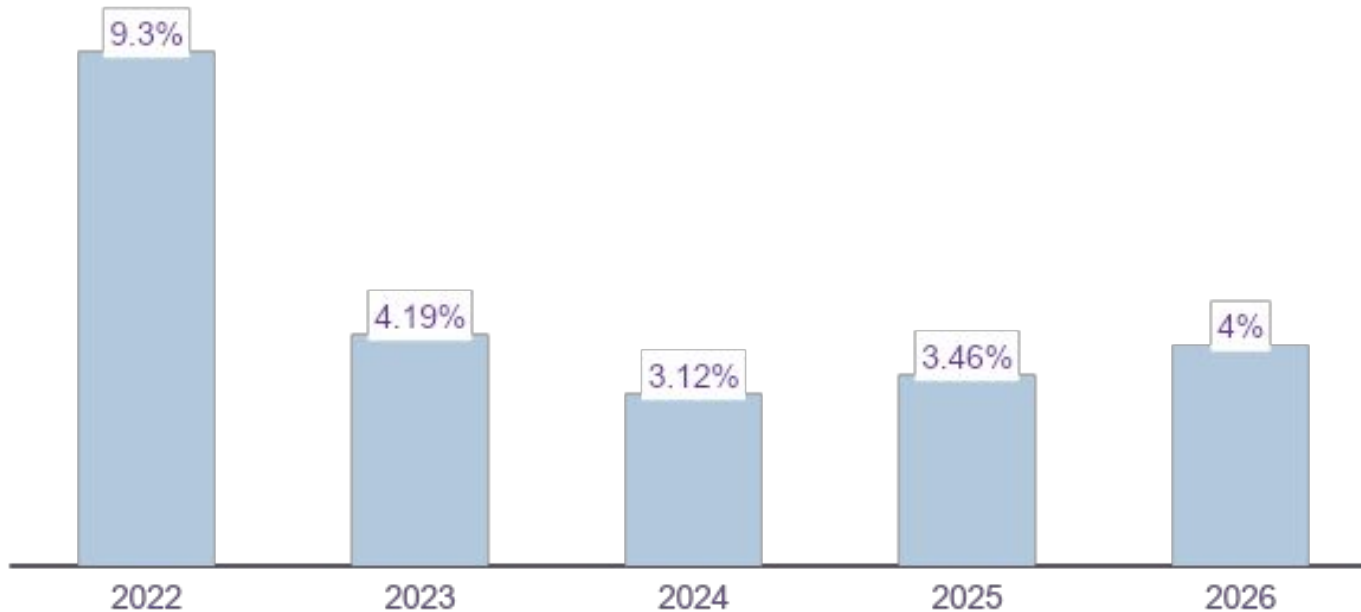
Economists and housing experts still expect home prices to increase at a national level.

Forecasted national home price appreciation for 2022.



The five-year forecast from economists and housing experts still expect home prices to increase at a national level.

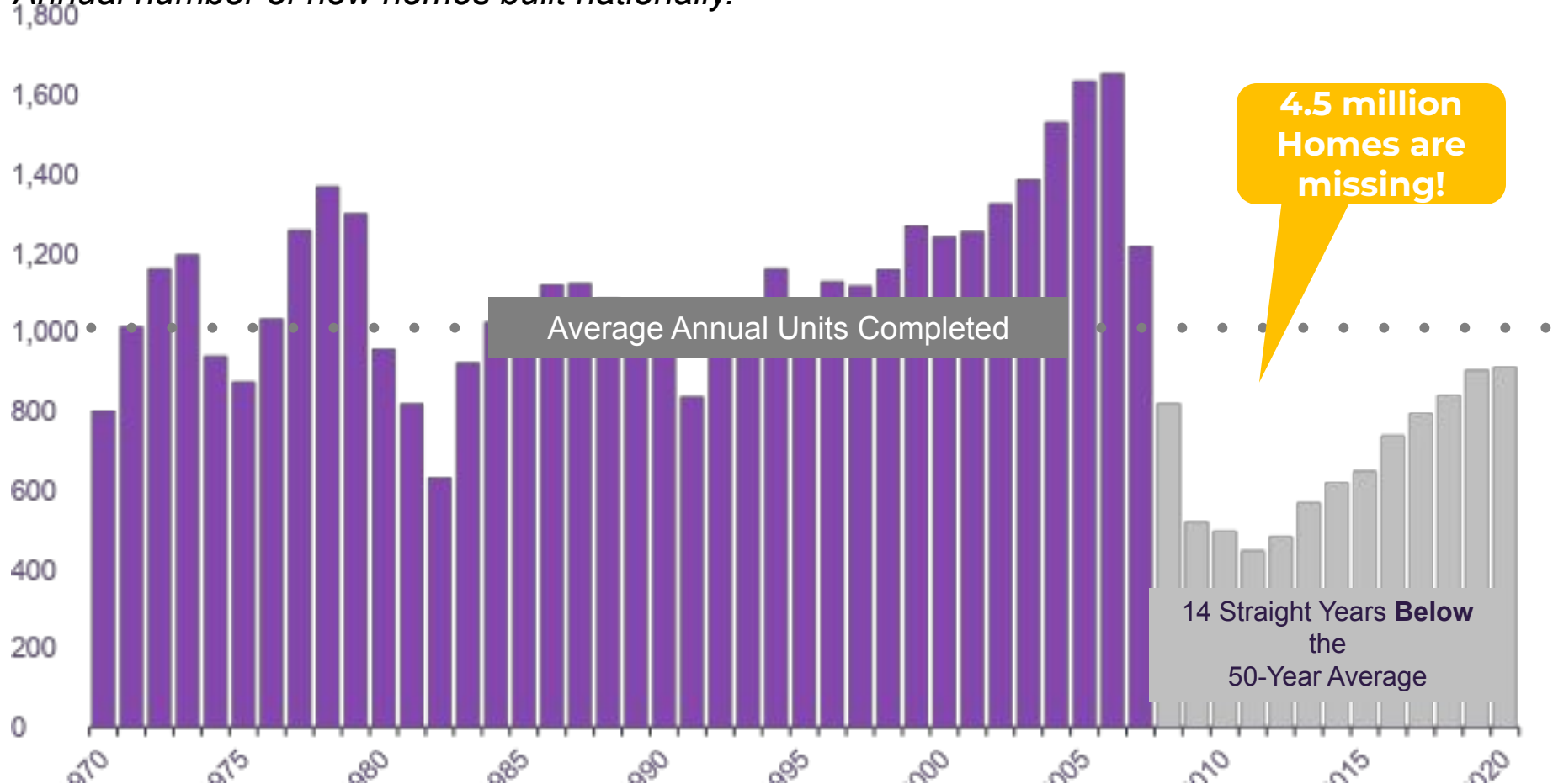
Forecasted national home price appreciation for 2022-26.



... Experts don't believe the market is in a bubble or a crash is in the cards, like during the Great Recession. The nation is still suffering from a housing shortage that has reached crisis proportions at a time when many millennials are reaching the age when they start to consider homeownership. That's likely to keep prices high.

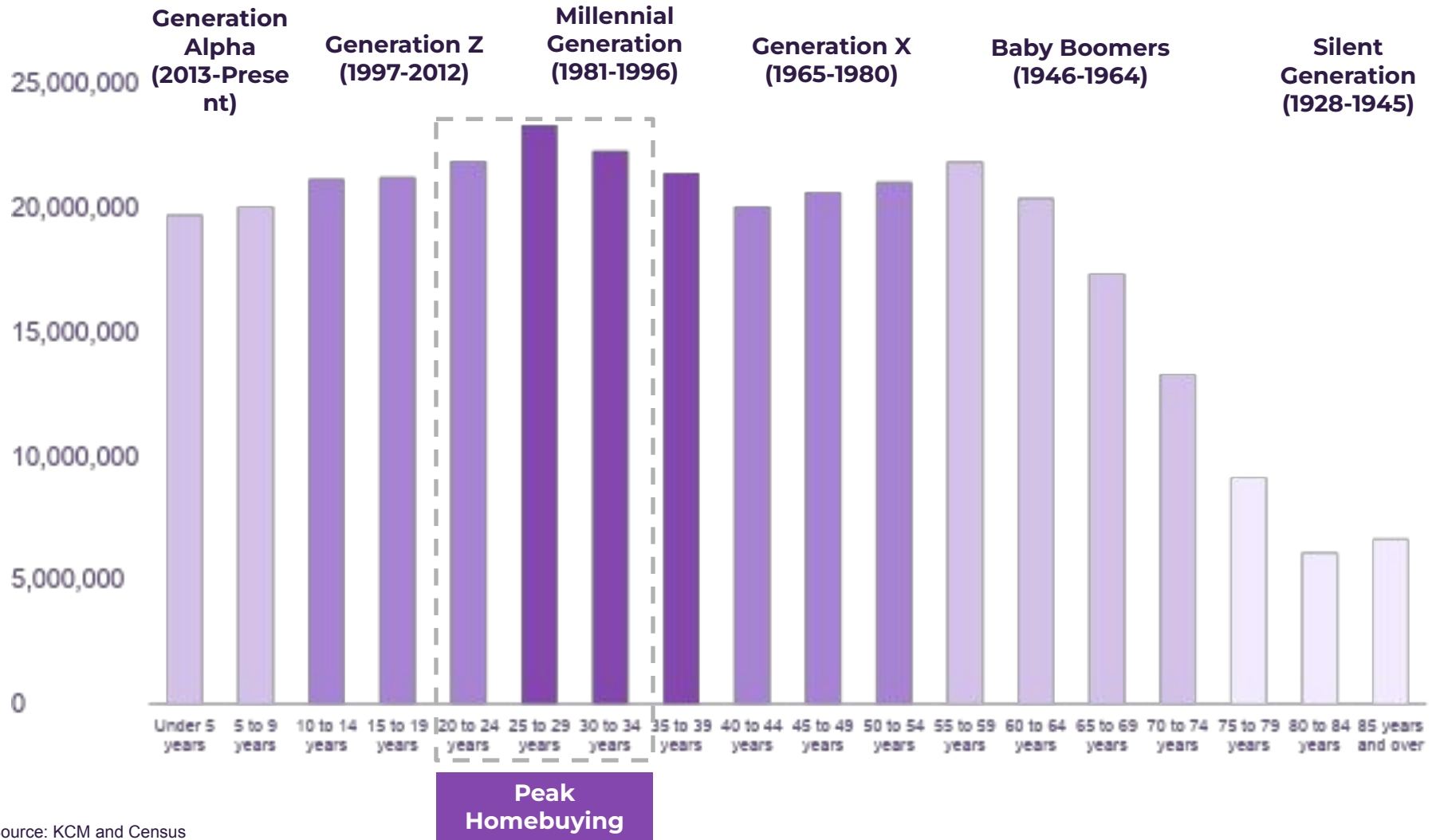
Supply: Why are we short of inventory? We have not been building enough homes to keep up with demand. High labor and commodity prices are not helping. In CO, scarcity of land and water, and slow governmental permitting processes are additional headwinds.

Annual number of new homes built nationally.



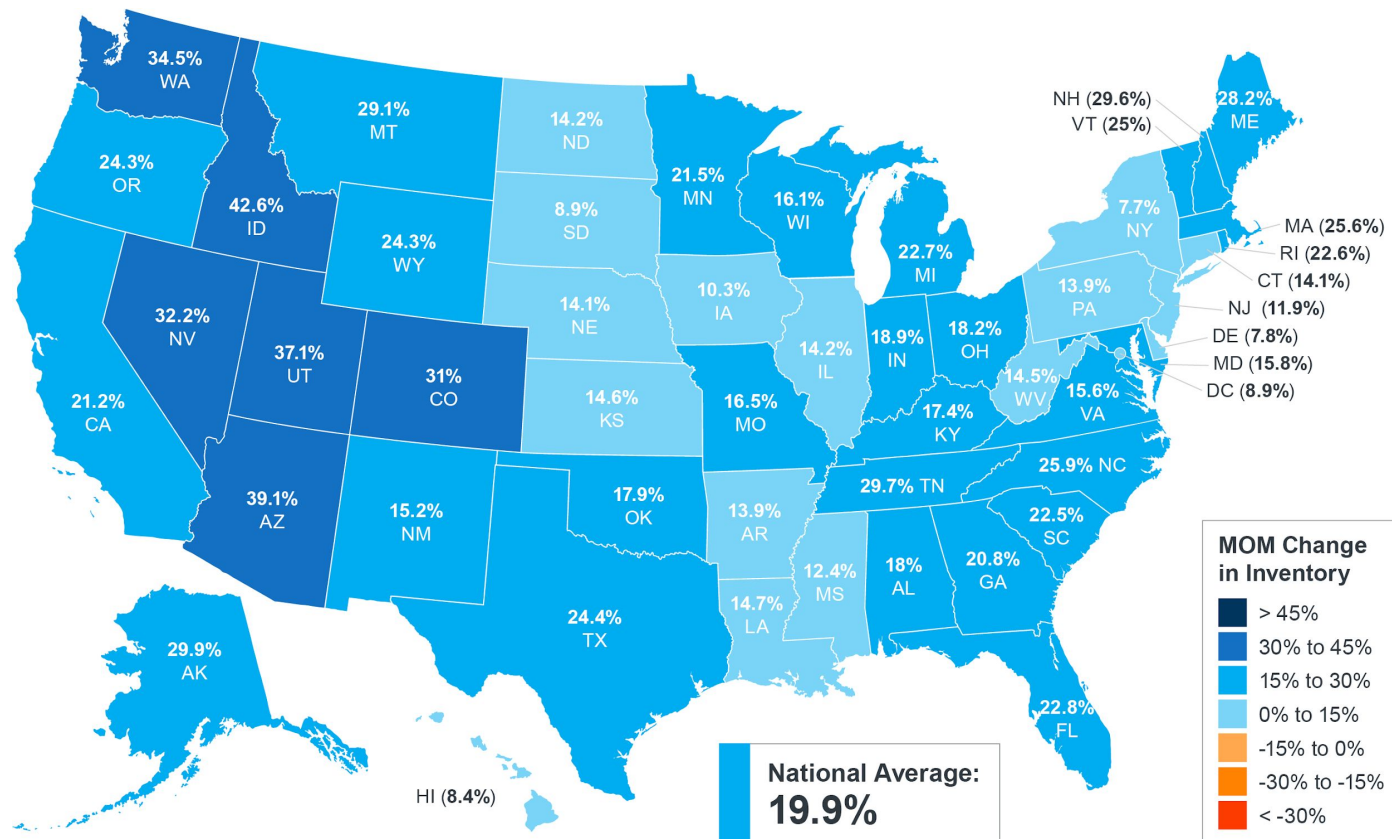
Demand: We have a large demographic cohort that is in their prime years to be first time buyers.

US Population by generational cohort.



If your buyers have been held back by lack of inventory, they will be pleased to see that problem is getting much better. Colorado had a 31% increase in June '22... among the highest in the nation. Texas also had strong gains of 24%.

Change in inventory of homes for sale, June '22 vs. May '22.



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Media Myth

- The next recession is coming soon, and it will wreck the housing market.

Economic Reality

- Looking at the history of the last six recessions, the next recession is likely in the next 15-18 months.
- Home prices went UP in the four of the last six recessions.
- Homes prices only seriously went down in the 2007/08 recession.
- On average, home prices don't change much in a recession.

The yield curve has inverted several times this year.

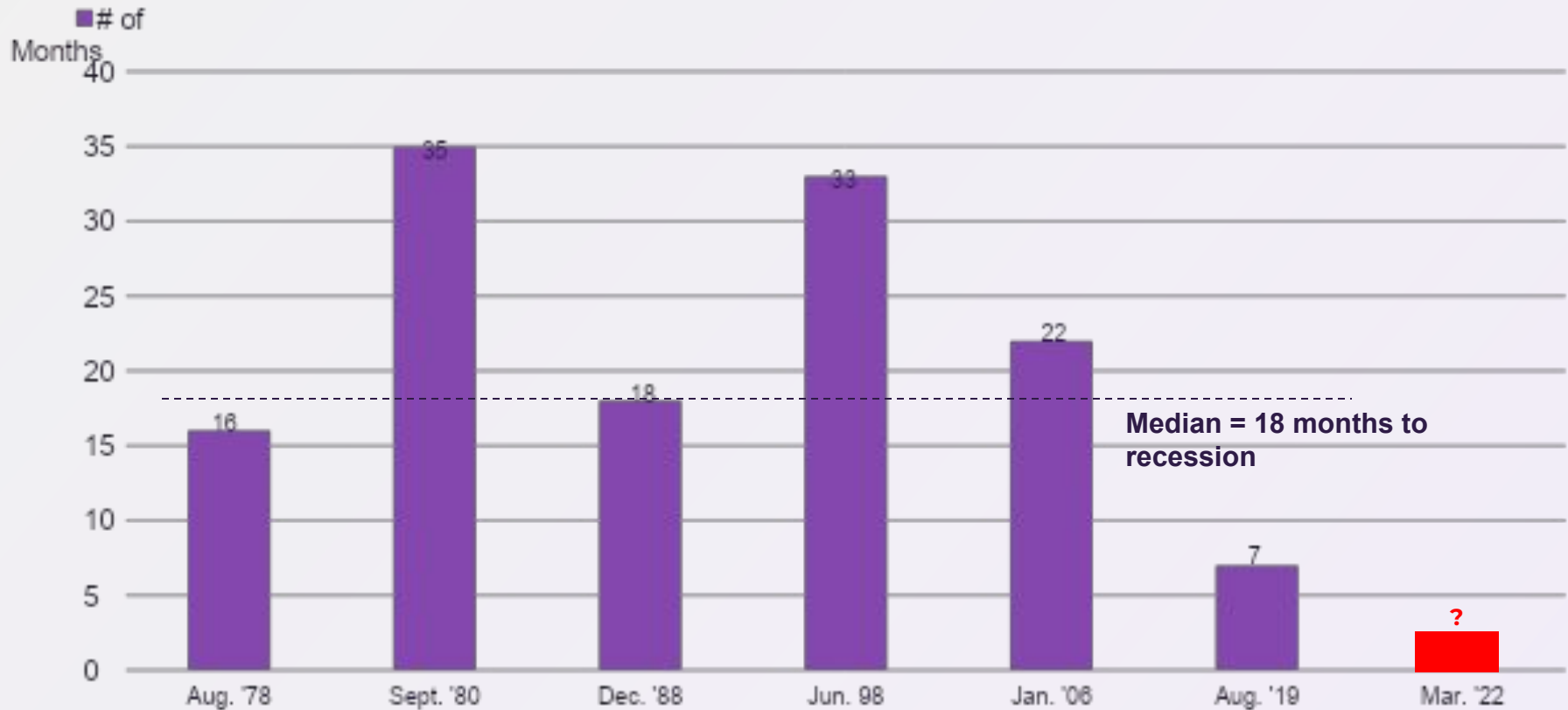
- The Treasury curve remains heavily inverted.



As of March '22, the yield curve is inverted, which is a great predictor of recessions.

The median time from the inversion to the actual recession is 18 months, but this lead time ranges from seven to 33 months

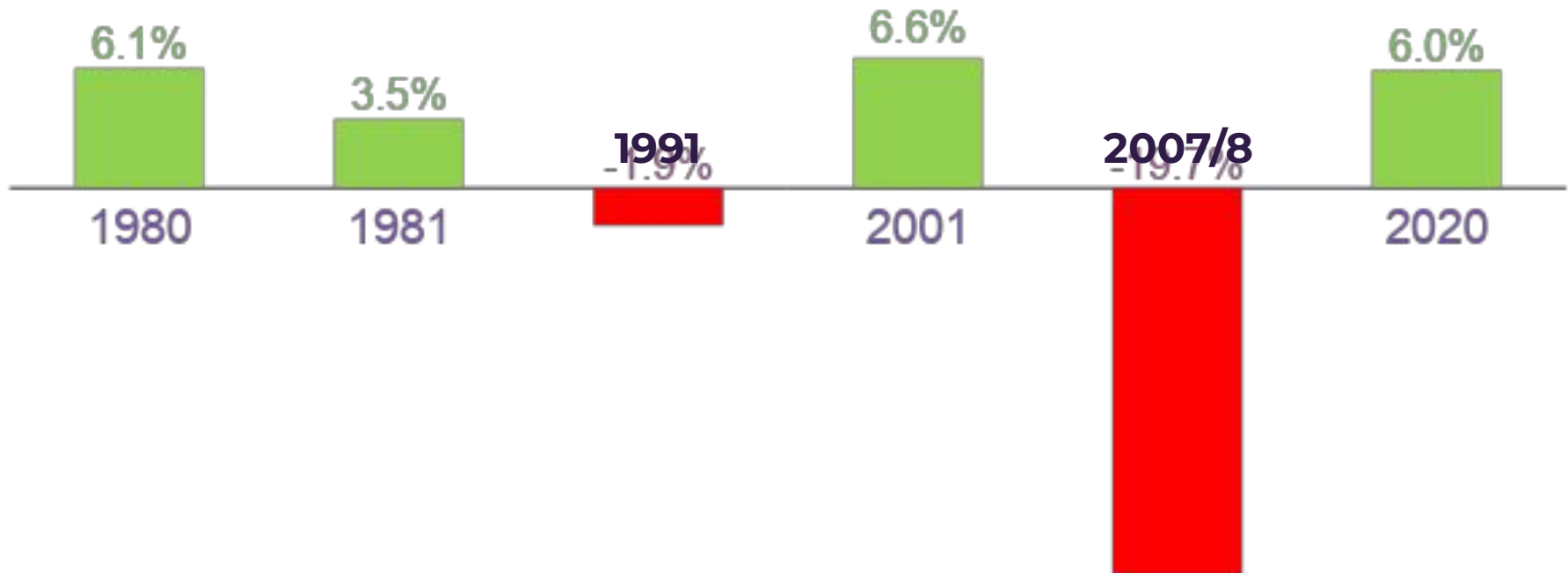
NUMBER OF MONTHS BETWEEN YIELD CURVE INVERSION AND START OF A RECESSION — 1978-2022



Data Source: The Wall Street Journal, The Daily Shot

Home prices usually continue to appreciate during recessions.

Average home price change in the last six recessions.



Sources: CoreLogic, The Balance, KCM

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Media Myth

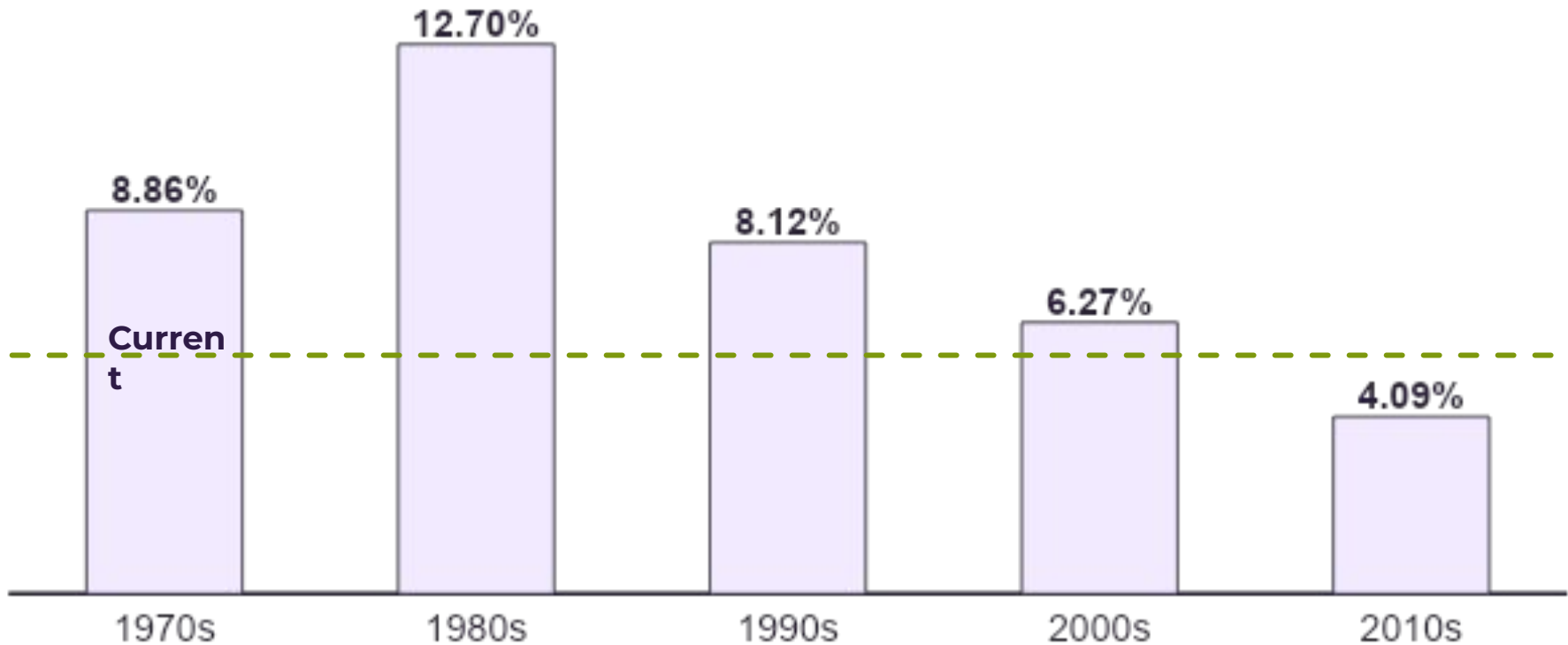
- Mortgage rates are unaffordable, and many buyers can't afford them.
- Rates are very likely to go up even more.
- No one can afford a home.

Economic Reality

- The current rates (5.6%) are less than the fifty-year average.
- The current rates are less than anytime in the '70s, '80s, '90s, and 00's. We sold a lot of homes in those 40 years!
- Rates went down an average of 2.4% in the last six recessions (1971-2021). They never went up.
- Most economists expect mortgage rates to ease over the next twelve months.
- Lender gross profit margins are near record highs; when they drop, rates will drop, too.
- The current level of payment

Mortgage rates have increased this year but are still historically quite attractive.

The average 30-year mortgage rate by decade.



Source: Freddie Mac, KCM

There could be downward pressure on mortgage rates for two reasons.

- 1. The last six recessions all drove mortgage rates down**
- 2. The spreads (gross profit) currently charged by banks are higher than normal**

1. Current Headlines

Recession Fears Surge Among CEOs Survey Suggests

Three-quarters of global CEOs say we are in a recession or will be in the next 12-18 months, according to a new survey.

- *The Wall Street Journal*

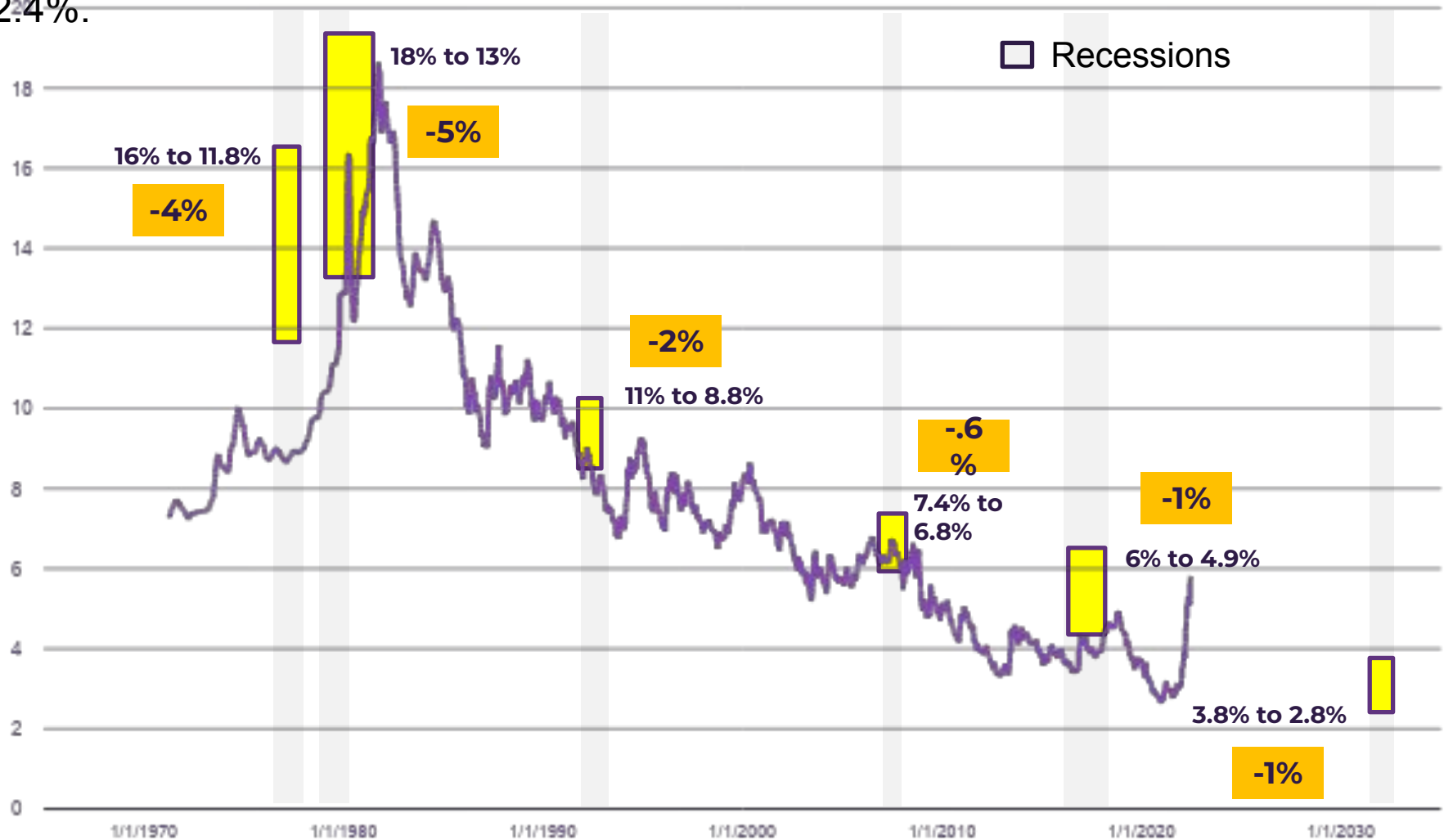
Throughout history, during a recessionary period, interest rates go up at the beginning of the recession. But in order to come out of a recession, interest rates are lowered to stimulate the economy moving forward. **Historically, we have seen a repeated uptick in interest rates followed by lowered interest rates.**

- *Mortgage Specialist*

Part of this increased spread has to do with banks concern about future risk on existing loans that are being made today. Banks may be concerned that there may be some future defaults on a certain percentage of loans originated today and they are including some of this risk into their pricing. This may or may not decrease in the future depending on the overall outlook of uncertainty and risk in the short/medium term.

- *Joe Massey*

1. Mortgage Rates & Recessions. There have been six recession in the last 50 years. The 30-year mortgage rate fell every time. The average decrease was -2.4%.



Source: Freddie Mac, Mortgage Specialist, KCM

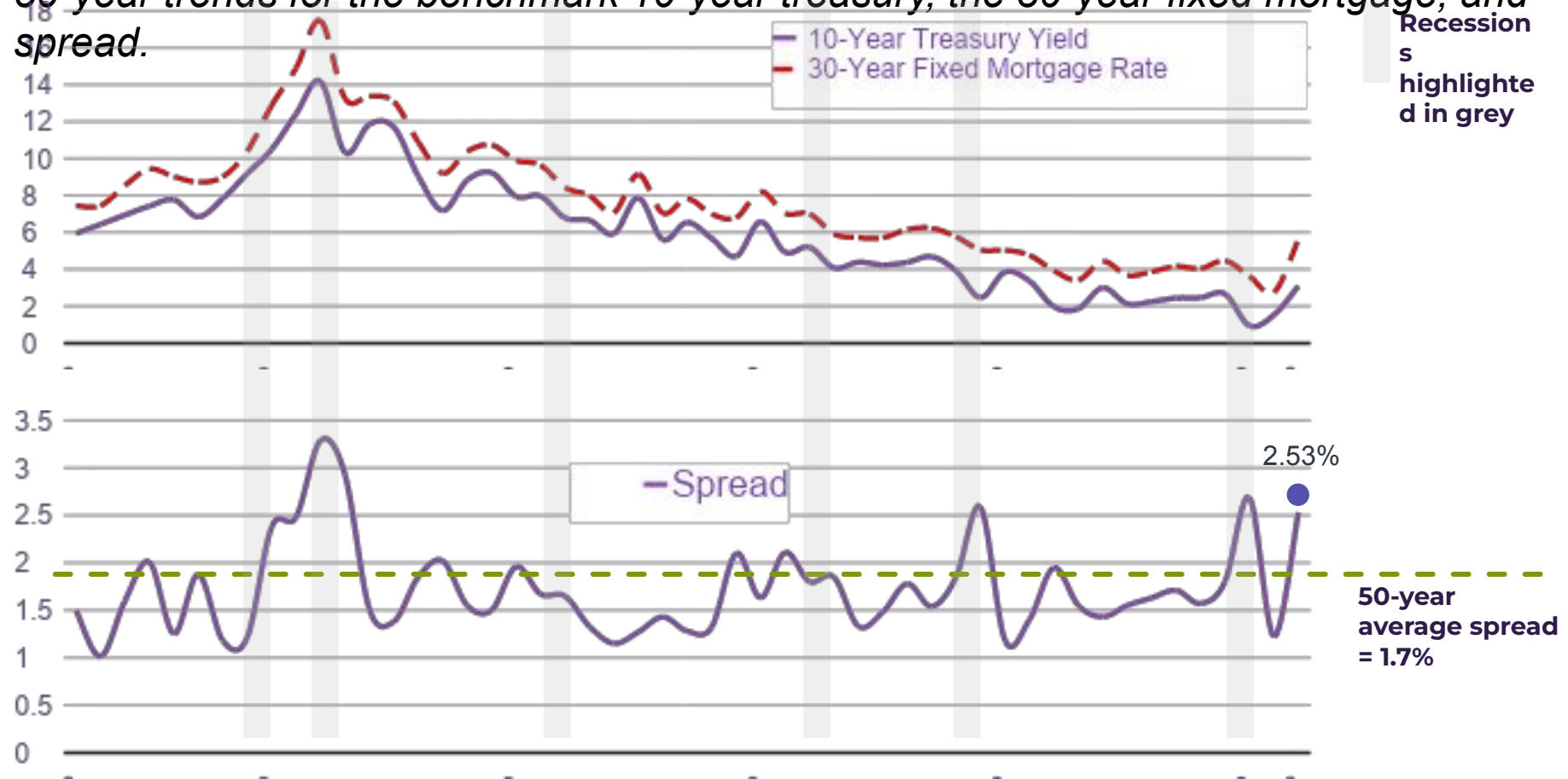
1. The experts and economists anticipate that mortgage rates will decline over the next year.

Mortgage rate projections.

Quarter	Freddie Mac	Fannie Mae	MBA	NAR	Average of All Four
2022 4Q	5.0	5.0	5.0	5.3	5.07%
2023 1Q	5.0	5.0	5.0	5.3	5.07%
2023 2Q	5.0	4.9	5.0	5.4	5.07%
2023 3Q	5.0	4.8	4.8	-	4.86%

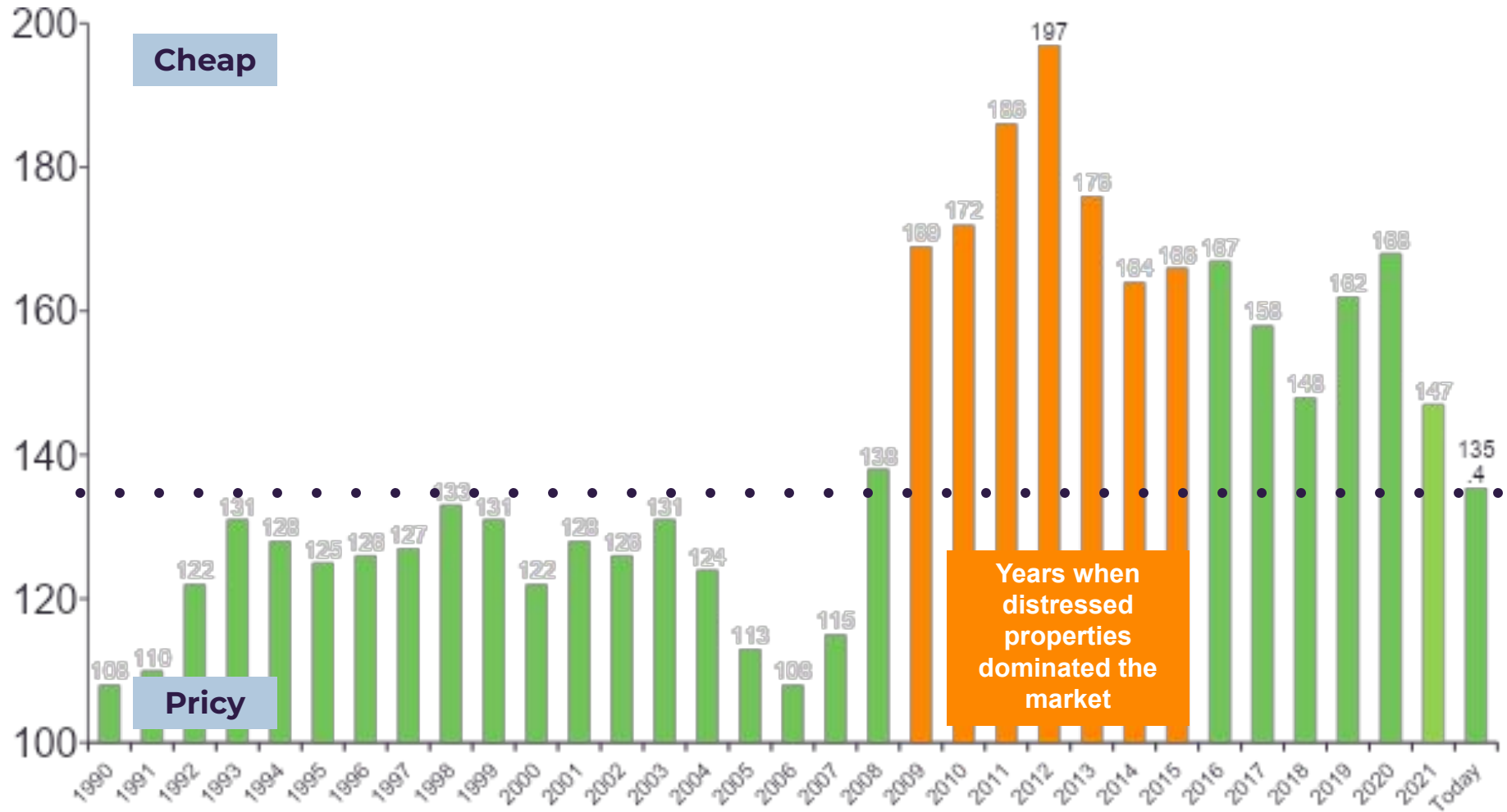
2. The spread or gross profit is the difference between the ten-year treasury and the average 30-year mortgage rate. Currently the spread is 2.5%, which suggests that mortgage rates could decline when there is less economic uncertainty.

50-year trends for the benchmark 10-year treasury, the 30-year fixed mortgage, and spread.



While this sudden “payment shock” is uncomfortable, the reality is that we’re close to the historic levels for affordability.

Housing Affordability Index: 1990 to Today



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Media Myth

- The increase in mortgage rates means the homes prices must come down.

Economic Reality

- The last six times mortgage rates quickly went up by more than 1%:
 - The average price was +8%
 - The number of sales was -11%
- 2021 was a record year for homes sale (COVID boom).
- We'll likely sell 12% fewer homes in 2022 than in 2021.
- The 2022 sales count will likely match the average of 2017-2019.

Historically when mortgage rates quickly go up by more than 1%, home prices go up 8% in the next twelve months. In the past six “rate shocks”, prices never declined. The number of homes sold drops 11% on average in the twelve months following the rate shock.

Changes When Mortgage Rates Increase by Greater Than 1%

Start Date	End Date	Months	Rate Increase	Home Prices	Home Sales
Oct 1993	Dec 1994	14	2.38%	+3%	-11%
Jan 1996	Sept 1996	8	1.2%	+2%	-2%
Oct 1998	May 2000	19	1.81%	+13%	-2%
June 2003	June 2004	12	1.06%	+13%	2%
June 2005	July 2006	13	1.18%	+7%	-14%
Nov 2012	Dec 2013	13	1.11%	+11%	-2%
		13	1.46%	+8%	-11%

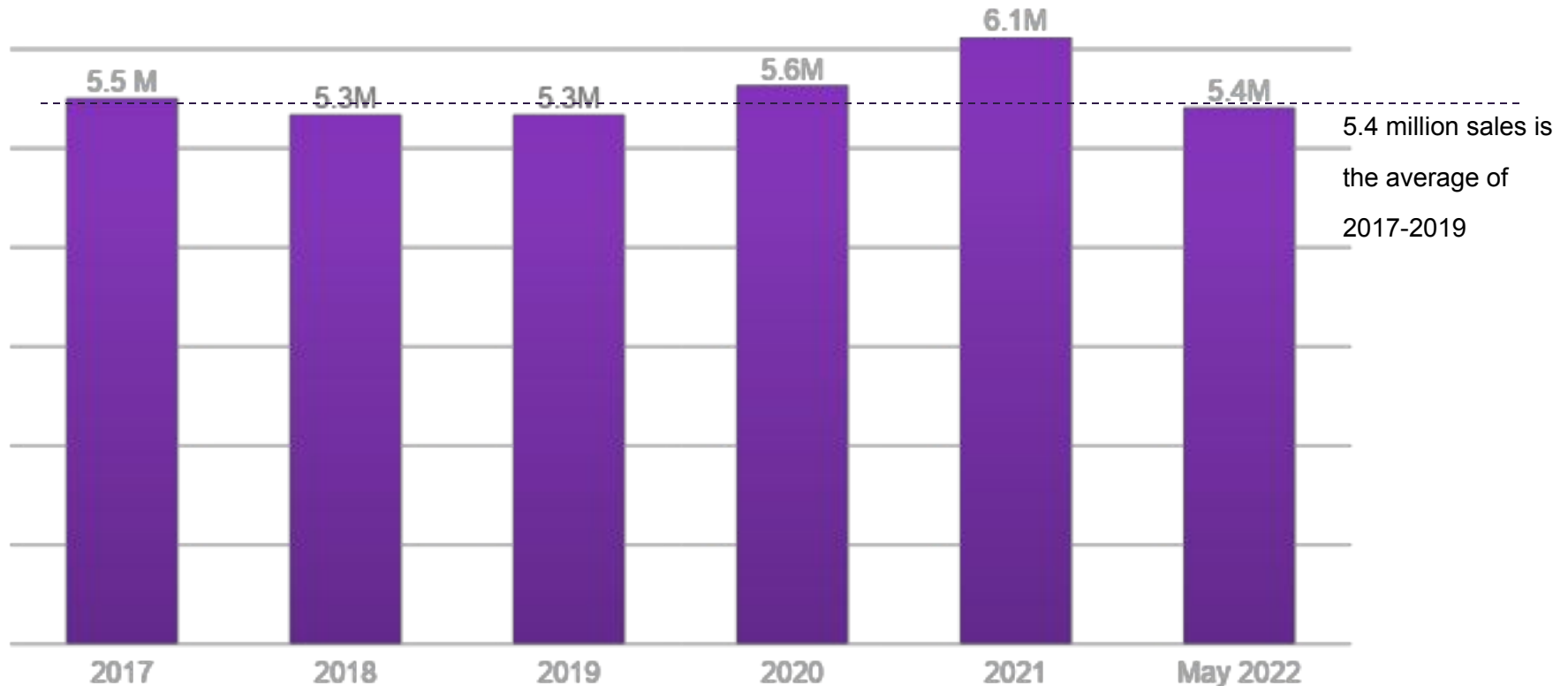
Source:

http://www.freddiemac.com/research/insight/20180223_increasing_mortgage_rat

July 2022 National Real Estate Trends

We are on track to sell 5.4 million homes in the US in 2022. That's close to the average of the 2017-2020 period. 2020-21 were outliers due to COVID. We are simply slowing down to the historical sales pace.

Number of homes sold nationally.



Sources: NAR, KCM

National Real Estate Trends – July 2022

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Media Myth

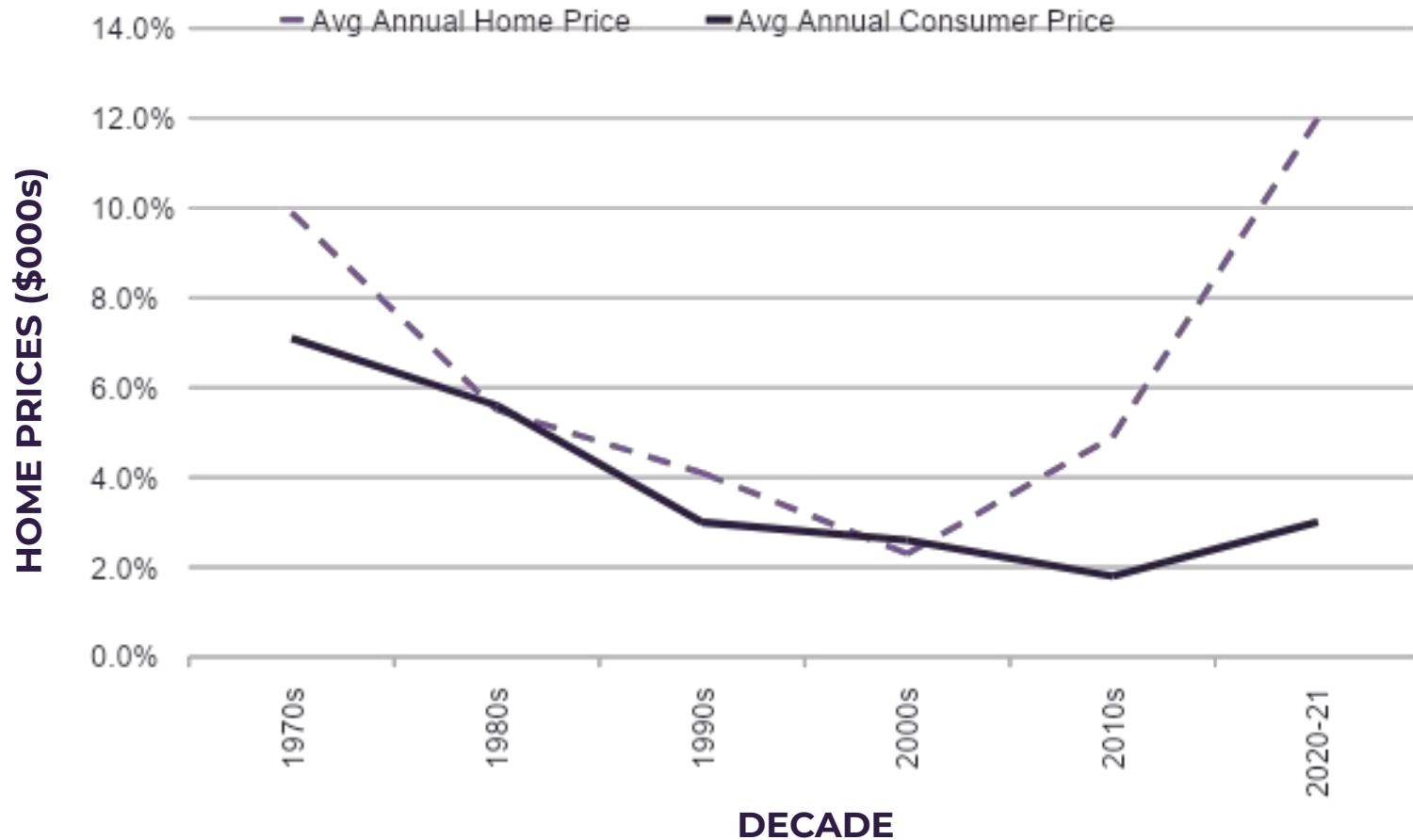
- It's a bad idea to buy a home in times of high inflation.

Economic Reality

- Housing is the biggest part of the CPI (consumer price index).
- Over the past fifty years, home price gains have been higher than inflation.
- Home price gains and inflation were about the same in the 1980s, 1990s, and 2000s.
- Homes price gains outperformed inflation in the 1970s, 2010s, and recently.
- Home prices have never lagged inflation over a long period of time.

How do rising home prices compare to inflation? Historically, home prices do better than inflation!

Average Denver home price vs. CPI (Consumer price index)



Data Source: National Association of Realtors, December 2021 Economic and Market Update.

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Media Myth

- Increasing interest rates means cap rates will increase, so the values of commercial properties will go down.

Economic Reality

- The ten-year treasury is 1% higher than pre-COVID (Jan '20) and same as July '18
- 40 years of history shows there is little correlation between interest and caps.
- The interest rate has spiked by 1% or more nine times in 40 years. The cap rate went down -0.1% on average.
- The interest rate has fell by 1% or more nine times in 40 years. The cap rate went down -0.1% on average.

Why is Real Estate investing a good idea today?

The Stock Market has had 14 bear market (20%+ decline) since the 1929 Depression. After hitting the 20% decline (where we are now), markets continued to fall six times. It's hard to know what will happen next with stocks.

After each of the past 14 bear markets, markets have made back new highs over time

U.S. RECESSIONS AND BEAR MARKETS

S&P 500 index level, USD

#	Type	Description	Start (Prior High)	End (Trough)	Drawdown (S&P 500)	Prior high to trough (months)	Trough to prior high (months)	12-month return following -20% threshold	Recession?
1	Structural	Crash of 1929	Sep-29	Jun-32	(86)%	32	267	(23)%	x
2	Structural	1937 Fed Tightening	Mar-37	Apr-42	(60)%	61	45	(16)%	x
3	Cyclical	Post WWII Crash	May-46	Jun-49	(30)%	36	11	(1)%	x
4	Event-driven	Suez Canal Crisis	Aug-56	Oct-57	(22)%	14	11	31%	x
5	Event-driven	Flash Crash of 1962	Dec-61	Jun-62	(28)%	6	14	26%	
6	Event-driven	1966 Financial Crisis	Feb-66	Oct-66	(22)%	7	6	25%	
7	Cyclical	Tech Crash of 1970	Nov-68	May-70	(36)%	17	21	12%	x
8	Structural	Stagflation - OPEC Oil Embargo	Jan-73	Oct-74	(48)%	20	69	(29)%	x
9	Cyclical	Volcker Tightening	Nov-80	Aug-82	(27)%	20	2	9%	x
10	Event-driven	1987 Crash	Aug-87	Dec-87	(34)%	3	19	23%	
11	Cyclical	Early 1990s Recession	Jul-90	Oct-90	(20)%	2	4	29%	x
12	Structural	Tech Bubble	Mar-00	Oct-02	(49)%	30	55	(2)%	x
13	Structural	Global Financial Crisis	Oct-07	Mar-09	(57)%	17	48	(30)%	x
14	Event-driven	COVID-19	Feb-20	Mar-20	(34)%	1	4	59%	x
15	Cyclical	Central Bank Tightening	Jan-22	Jun-22	(24)%	?	?	?	?

Sources: Standard & Poor's, NBER, J.P. Morgan Asset Management, Goldman Sachs, FactSet. Data as of July 1, 2022. Bear market types were determined by Goldman Sachs in its March 9, 2020 report titled 'Bear essentials: a guide to navigating a bear market.' Drawdown represents change in index price level from prior high to bottom of bear market. Length represents time from prior high to trough of bear market. Recovery represents time from prior high to the date that level is reached again.

Source:
<https://www.cnbc.com/quotes/US10Y>

There is a lot of discussion about the interest rates and the cap rates. The 10-year treasury is a good benchmark to examine. If you disregard the extremely easy money policy during the height of COVID, the rate right before was 1.9%. Rates have gone up about 1% since then.

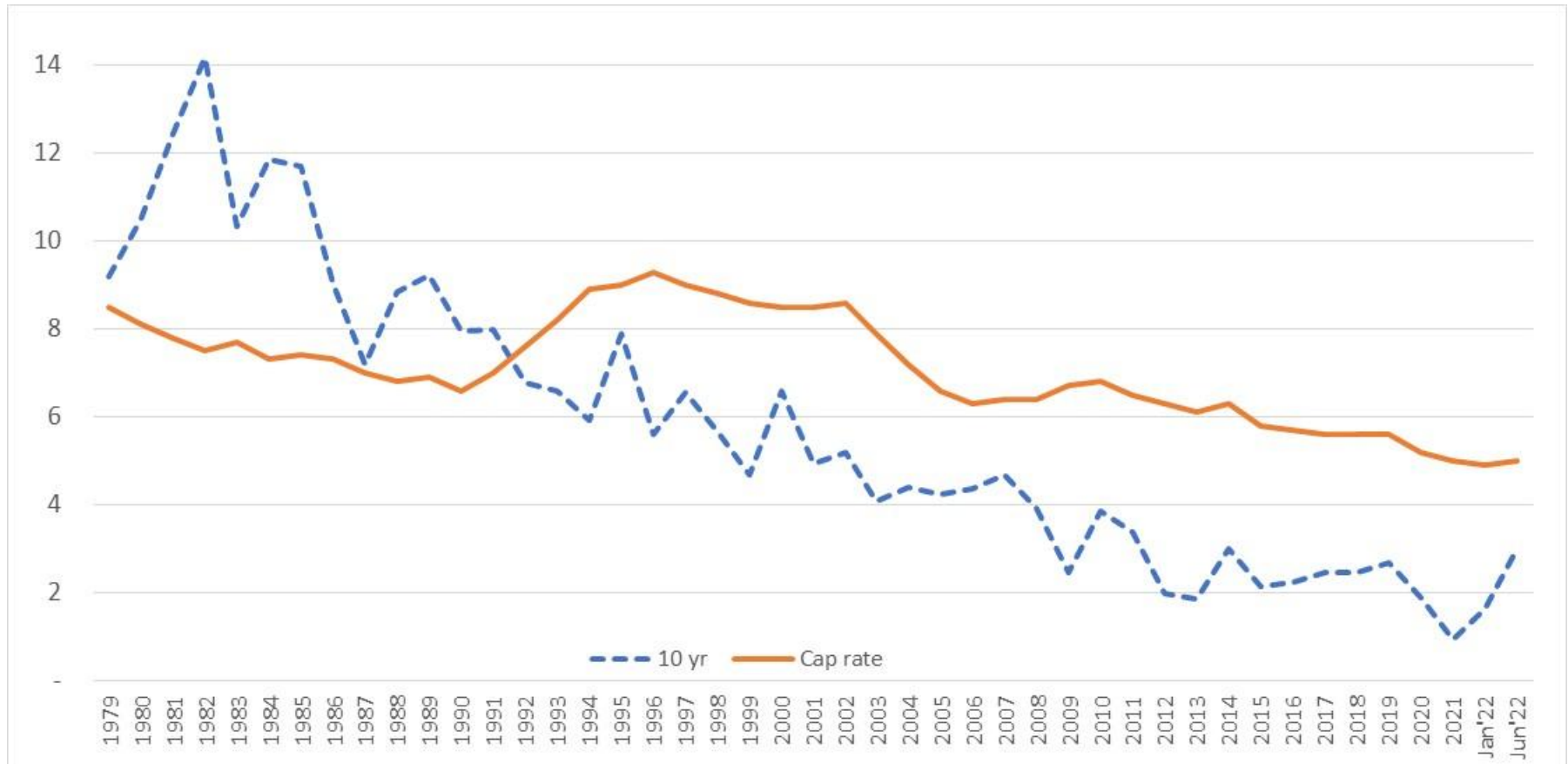
10-year treasury trend



Source:
<https://www.cnbc.com/quotes/US10Y>

Cap rates and the ten-year treasury. There isn't much of a correlation.

40-year trend for multifamily cap rates vs. the ten-year treasury.

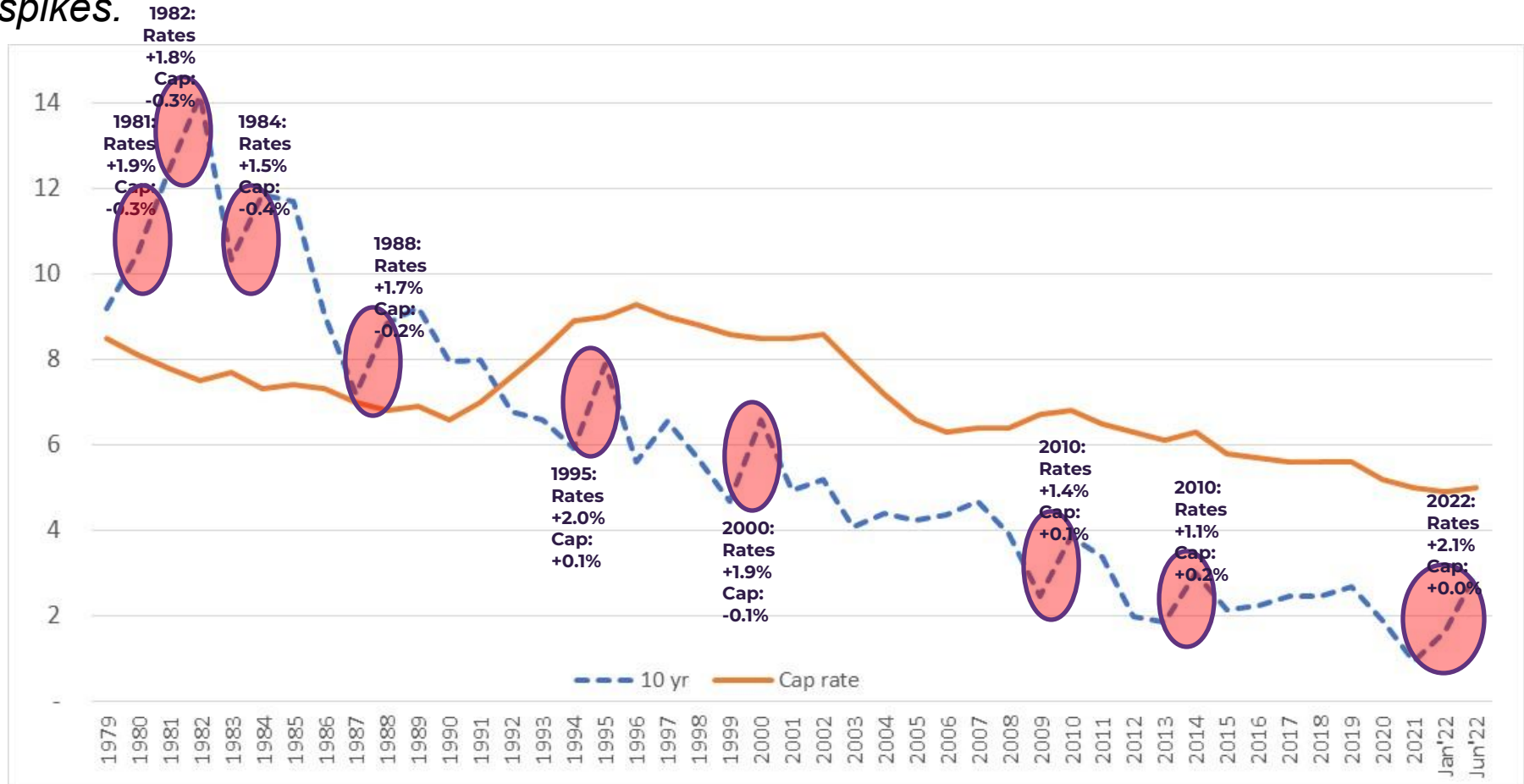


<https://www.nmhc.org/research-insight/research-notes/2022/what-rising-interest-rates-mean-for-apartment-cap-rates/>

Other sources: Fed Reserve St Louis, CCIM, NCREIF

Let's look at points at the nine times when the ten-year treasury quickly spiked by 1% or more. The average change was a -0.1% change in cap rate.

40-year trend for multifamily cap rates vs. the ten-year treasury; focus on ten-year spikes.

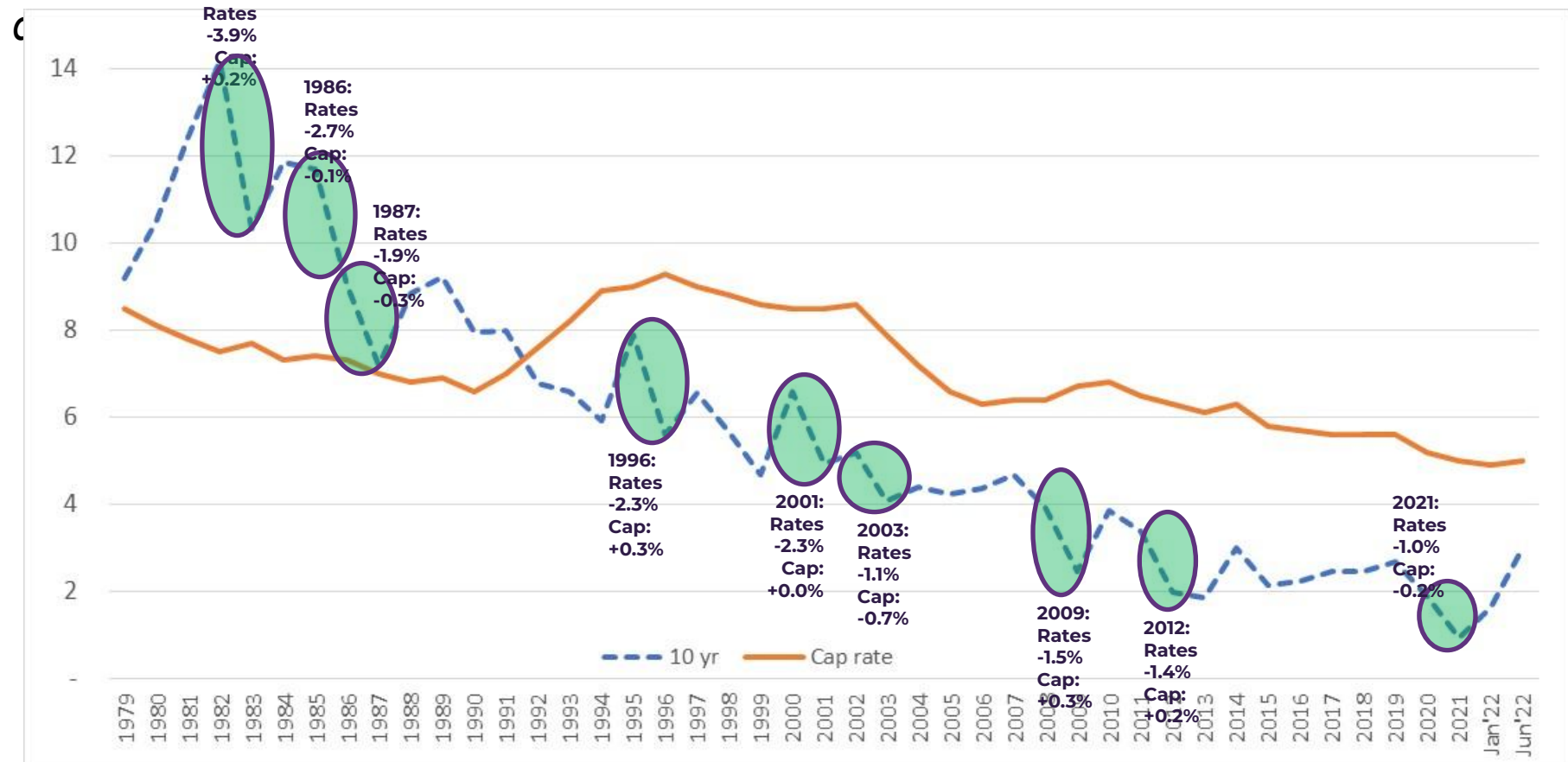


<https://www.nmhc.org/research-insight/research-notes/2022/what-rising-interest-rates-mean-for-apartment-cap-rates/>

Other sources: Fed Reserve St Louis, CCIM, NCREIF, Ironton Capital analysis.

Let's look at the nine times when the ten-year treasury quickly dropped by 1% or more. The average change was a -0.1% change in cap rate (same as the increase, on average).

40-year trend for multifamily cap rates vs. the ten-year treasury; focus on ten-year



<https://www.nmhc.org/research-insight/research-notes/2022/what-rising-interest-rates-mean-for-apartment-cap-rates/>

Other sources: Fed Reserve St Louis, CCIM, NCREIF, Ironton Capital analysis.

What impact does a 0.1% change in cap rates have on property valuation?

value of commercial property				
rent				
- op ex				
= NOI net op income		100,000	100,000	100,000
/ cap rate		4.90%	5.00%	5.10%
= value property		2,040,816	2,000,000	1,960,784

Source: Ironton Capital analysis.



YOUR CASTLE
REAL ESTATE