Stormfield Capital

STORMFIELD INSIGHTS

2025 Market Outlook

DECEMBER **2024**

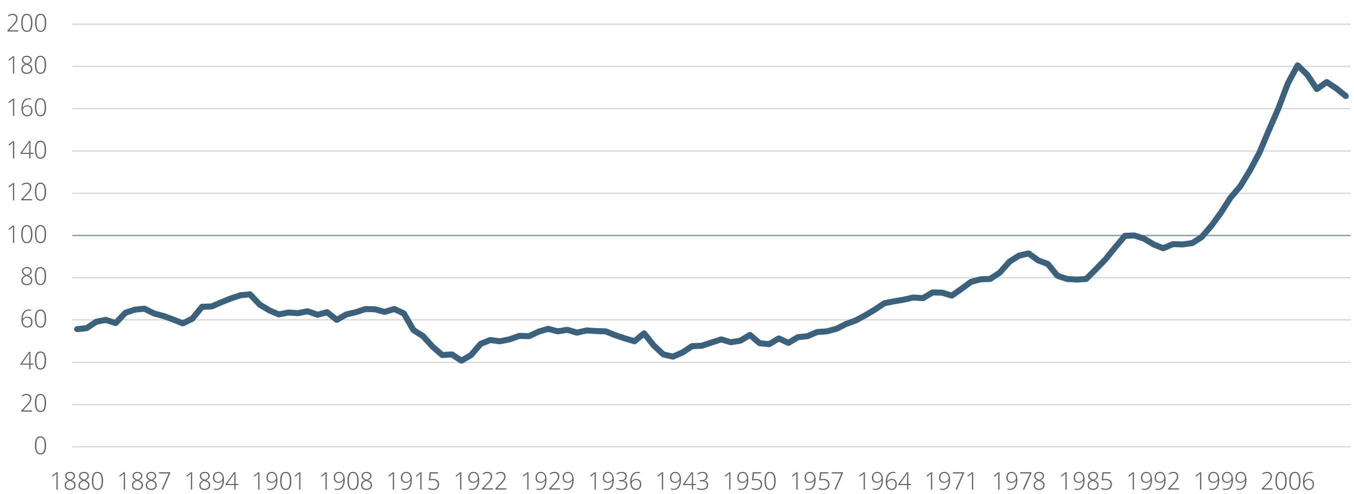
It should come as no surprise that we spend a lot of time at Stormfield thinking about property prices. Specifically, the prices for the single family and small multifamily properties that secure the loans in our fund portfolios. As regular readers of our pieces know, we view the loan-to-value ("LTV") ratio as one of our primary risk mitigants, however, the risk mitigating qualities of a low LTV are only as good as our estimation of the "V" in "LTV." Read on to learn what we think is in store for residential real estate prices in 2025.

It is helpful when evaluating residential real estate to understand its history and how the asset class has evolved in the post-war period. Until the Second World War, housing as an asset class was a sleepy affair, with prices in the rich world generally holding steady in real terms in the decades prior to the war. The development of transportation infrastructure in the late 19th and early 20th centuries opened vast tracts of land close to urban centers, allowing developers to erect millions of homes near places of work, with little interference from onerous zoning authorities. The result was a building boom across the developed world.

No development project embodies this period more than Levittown, New York. Located just outside New York City in the town of Hempstead on Long Island, construction of single family homes began in 1948. By 1951, over 17,000 homes had been built and sold.

Aerial view of suburban Levittown, New York. Circa 1959.

Global House Price Index[1], 1990=100 (11 Countries)

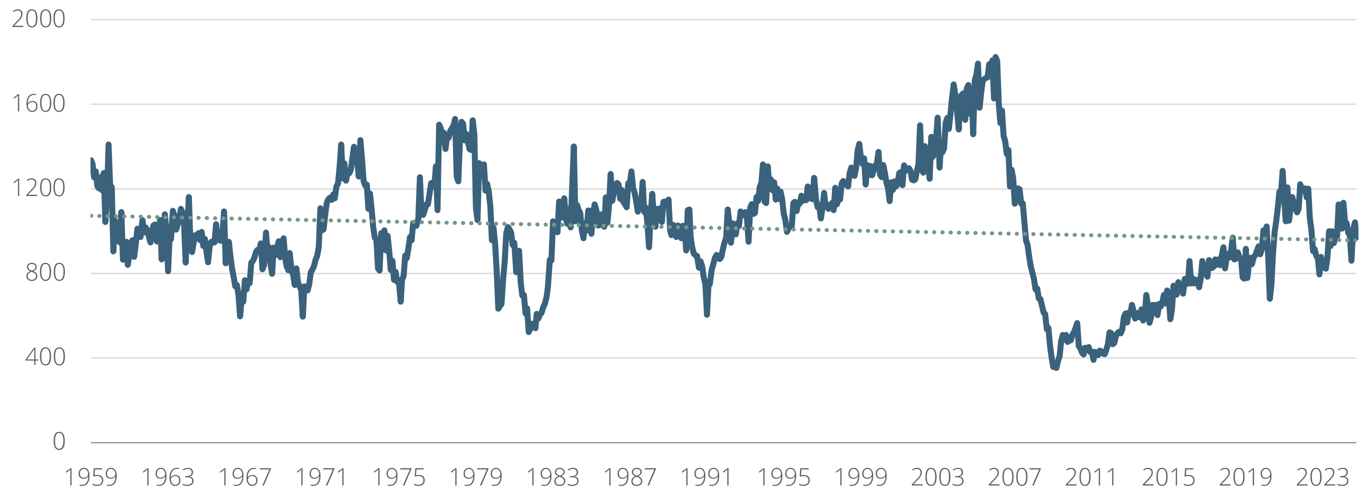


1. Source: American Economic Review, 2017; Federal Reserve Bank

Unfortunately for those desirous of inexpensive homes, this benign process had run its course by the 1980s. There would be no more easy Levittowns. Baby boomers needed homes, sometimes lots of them. Land-use restrictions choked off the supply of affordable land near city centers just as the developed world became increasingly urbanized. Governments around the world got into the business of subsidizing mortgages (most significantly, the famous American 30-year fixed).

Immigration exploded to levels not seen since the late 1880s and then the coup de grâce, the financial crisis of 2008, caused new home construction to plummet to 50-year lows for over a decade across the developed world. Even today, long after the GFC, the United States built just 947,000 new single family homes in 2023. This compares to 1,234,000 new homes built in 1959, when the U.S. population numbered 177 million versus over 334 million today.

New Privately-Owned Housing Units Completed: Single-Family Units[2]



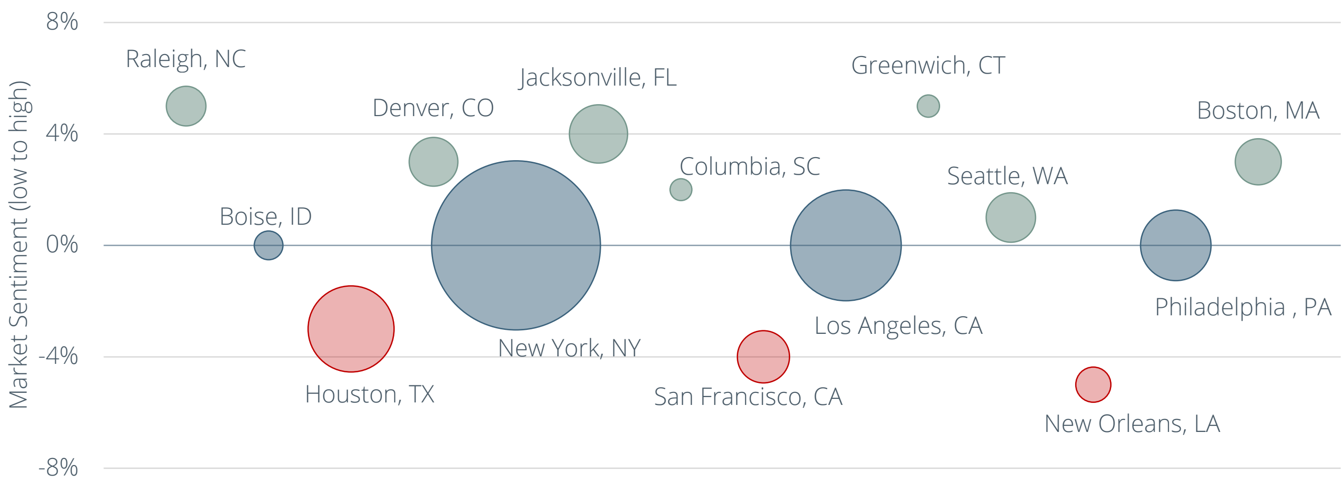
The fact that prices have been rising faster than inflation for decades, whether it be in Los Angeles, London, Sydney or Paris is also informative. When an effect is replicated across multiple countries and timeframes in the largest asset class in the world, chances are there is something significant at work. In this case, one need not be a detective to sleuth out a common denominator – a long building supply/demand imbalance across rich world markets that will likely take years, or decades, to reverse.

Understanding this structural deficit (on the order of **millions** of homes in the U.S. alone) is a material component to our understanding and assessment of individual markets. Most significantly, sustained demand for labor, building materials and desirable land should lead to elevated input costs, supporting new home prices. Meanwhile, demand from Milleneals, Gen Z and immigration is unlikely to abate. Consequently, we expect residential real estate *en masse* to experience a tailwind in pricing for years to come.

That said, at Stormfield, we do not invest in residential real estate *en masse*. We invest in individual cities, towns, sub-markets and neighborhoods. Some of these markets will go up over the next year, some will be flat and some will face challenges. Understanding the interplay between the national housing backdrop, local market dynamics, individual property considerations and interest rates is how we determine which is which – and the differences can often be stark.

2. Source: U.S. Census Bureau

Stormfield Market Outlook[3]



One fact is certain. The U.S. needs more housing and Stormfield stands to benefit from this trend in multiple ways. Our residential transitional loan product helps sponsors acquire, renovate and sell older homes. We believe there is a long runway of demand for this type of loan. In the U.S., new home construction accounts for 15% to 20% of home sales on average. Therefore, 80 to 85% of homes sold are existing, older homes. Many of these need updating before appealing to a wider range of buyers. Stormfield also offers loans to similarly rehabilitate older multifamily buildings, a need that will also be in demand as certain cohorts of individuals struggle with the affordability of single family detached homes. Lastly, while large national homebuilders such as Toll Brothers, Pulte Homes and D.R. Horton have ready access to capital to fund new home construction, the majority of new homes built in the U.S. are still built by smaller, local builders who do not have easy access to capital markets.[4] Here again, Stormfield benefits from our construction completion loan product whereby a builder borrows funds to finish an already started home.

Amidst these various opportunities and trends, one constant remains at Stormfield – our emphasis on value and ensuring we are lending well below of what we believe that value to be. "V" may stand for Value in "LTV," but it could as well stand for Vigilance – the key to a successful lending strategy.

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3. Bubble area represents market population.
4. As of 2023, the top 10 homebuilders in the U.S. accounted for just over 20% of new homes sold.