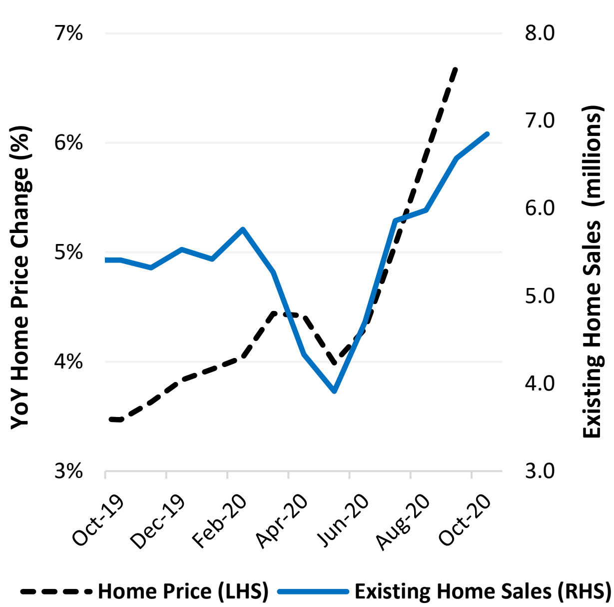
# Housing Supply – Demand Dynamics
# Home Price Correction Unlikely

Home prices have been on a rise despite the coronavirus pandemic given the continuously strong housing demand, low borrowing costs and historically low inventory of homes for sale.

- Sales of previously-owned homes rose 26.6% year-over-year to a seasonally adjusted annual rate of 6.85M, the highest level since 2005.
- Home prices have increased 6.7% during the similar time frame.

**Many wonder, if the experienced price growth and the overall high level of valuations in certain parts of the country, as well as higher levels of mortgage delinquencies are indications of an impending home price correction.**

**Home Price Change (YoY) vs. Existing Home Sales**

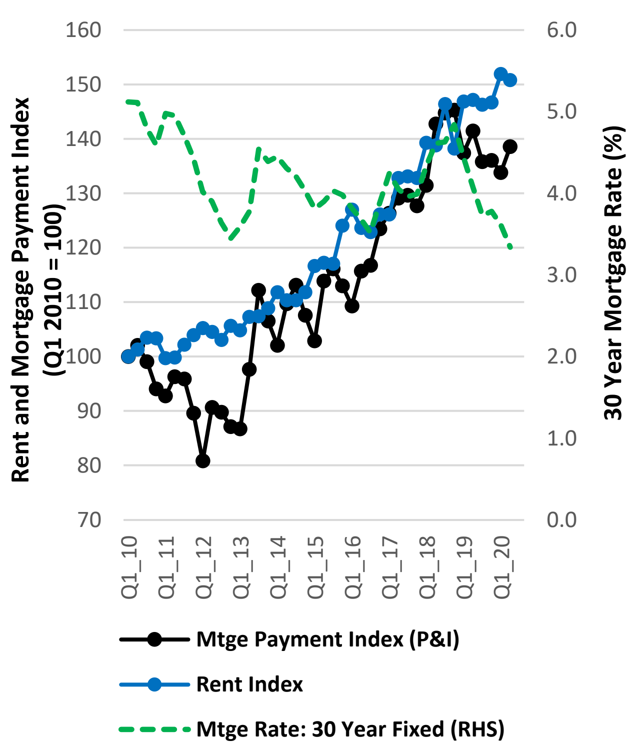



***We remain optimistic and expect the housing market to remain positive and even strong in some parts of the country given the prevailing supply-demand dynamics.***

**Strong demand continues to be driven by:**

- Historically low rates and relatively high affordability supporting ownership.
- Rising appetite for spacious suburban housing given widely prevalent ability to work remotely and declining co-living arrangements observed in high density cities due to COVID concerns.
- Recovering economy.
- Lack of competitively priced rental supply as rent increases in cities and suburbs over the past few years have outpaced a comparable mortgage payments.

**At the National level, rents have increased faster than the commensurate Principal & Interest Payment for a Mortgage.**

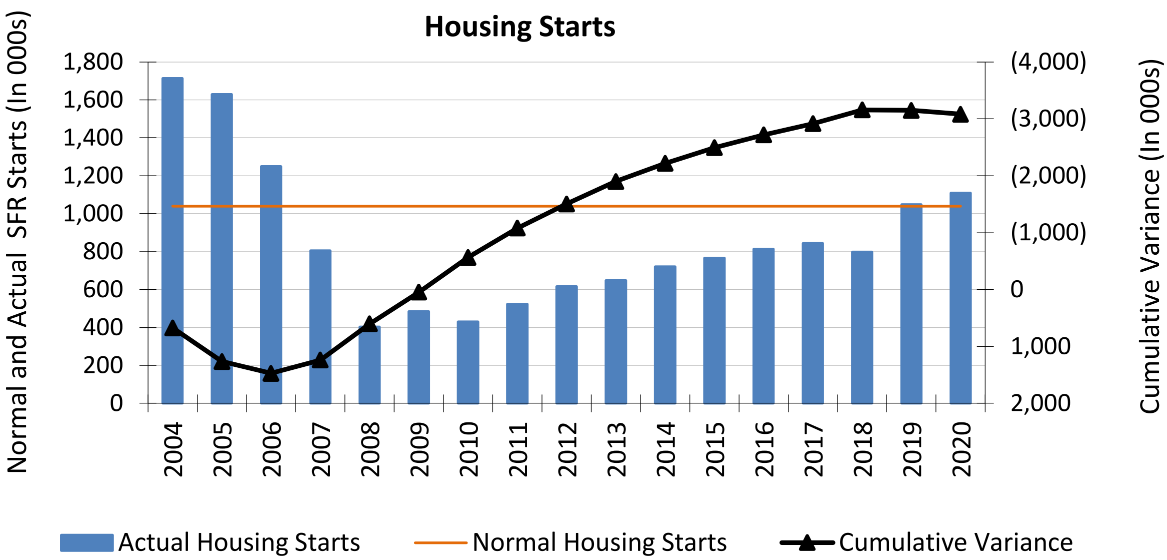



Sources: CoreLogic, U.S. Census Bureau, Bloomberg, NAHB, FBC.

## New Home Construction + Existing Homes for Sale + Distressed Properties

### Inadequate Supply

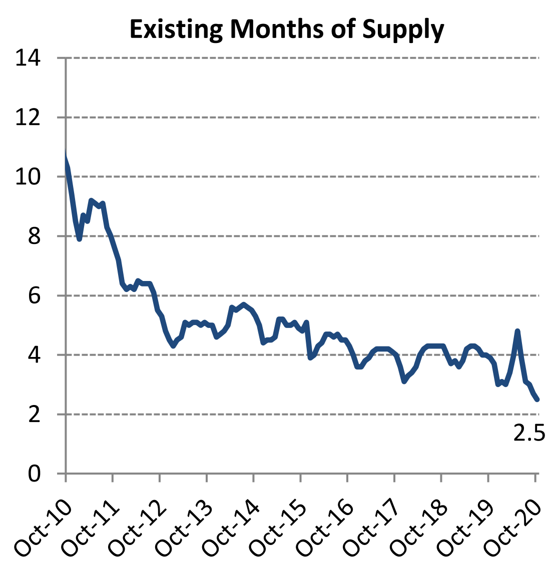
- **New home construction** has lagged historical norms for years. Even with the recent uptick in construction activity, the housing market has been left with **a shortage of approximately 3MM units**.




- **Inventory of existing homes for sale** stands at 2.5 months, representing historic lows and reflecting prevailing shortages of homes for sales.

- Even the **potential addition of distressed properties** stemming from the ongoing pandemic is not expected to affect the housing market significantly. As discussed in our previous article "Great Financial Crisis (2008) vs. COVID-19 Pandemic (2020)" (key discussion points have been provided on page 3 for reference); in the unlikely scenario that 30% of delinquent homes or 1.5M properties liquidate soon, the overall supply-demand relationship will remain largely unchanged.

- An increase in the estimated Months of Supply to ~6 months is expected to have a minimal price impact, if any at all.

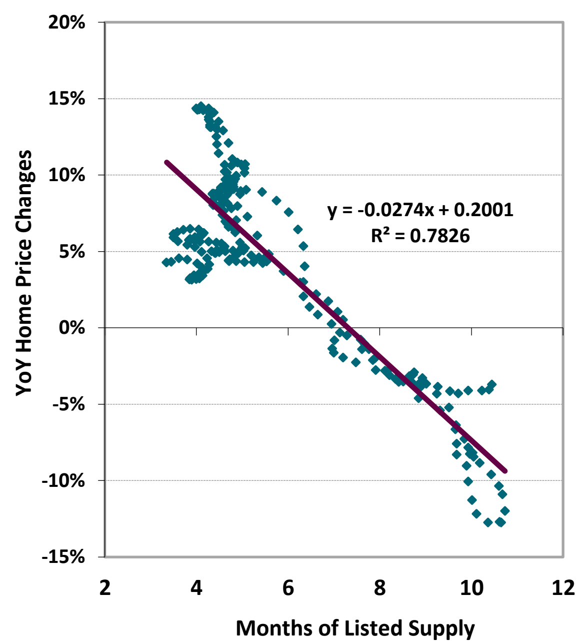



Notes: Risks to the estimates include the lack of population growth in certain areas or a very strong recession; neither of which are predicted by economists.

## Estimated Housing Supply from COVID-19 Pandemic if Modifications are Unsuccessful

- As a result of the pandemic, total delinquencies in outstanding U.S. mortgages increased to 8.9%[1] in Q2 2020 compared to 4.55% at the end of Q4 2019. Based on this delinquency statistic, we attempt to estimate the number of housing units that could enter the market as distressed sales with the potential negative impact to home prices.
- We estimate that 1.5mm properties could be added to the housing supply (see chart below) based on the assumptions developed in the table below.
- This assumption is impractical as it would take multiple years for Servicers to foreclose and ultimately list properties for sale. Nevertheless, the resulting increase in months of supply to 6 months vs. the current level of 3 months would possibly result in no home price appreciation until the supply is absorbed.

| Estimated Housing Supply from COVID-19 Pandemic if modifications are unsuccessful | | |
|---|---|---|
| (a) | Total Mortgage Debt Outstanding[2] | $11.3 trillion |
| (b) | Average Balance | $230,000 |
| (c) = (a)/(b) | # of Single-Family Units | 49,130,435 |
| (d) | Total Mortgage 30, 60, 90 Day Delinquencies | 8.2% |
| (e) | Total Foreclosure % | 0.7% |
| (f) | 30, 60, 90 Day Delinquency Pull-through[3] | 30% |
| = [(c)*(d)*(f)] + [(c)*(e)] | Total Estimated Supply from Pandemic | 1,545,643 |
| | **Estimated Months of Supply[4]** | **6** |




**Months of Supply is 6m average moved forward 6m*

[1] *Mortgage Bankers Association ("MBA") reported 30, 60, 90 day delinquent seasonally-adjusted % plus Foreclosure %*
[2] *Urban Institute – Housing Finance At A Glance: A Monthly Chart book September 2020*
[3] *Assumes 30% of 30, 60, 90 day delinquencies will eventually be listed in the market - similar to the GFC crisis.*
[4] *Months of Supply estimate assumes existing home sales are 5.53 million units (December 2019 level) and current property listings of 1.5 million units (https://www.realtor.com/research/data/)*

# Company Background

**INVESTORS**

Capitalize on FBC's insight and product knowledge of the U.S. Securitized market

Registered with the SEC since June 30, 2011

| | |
|---|---|
| SEC Registration Number: | 801-72513 |
| FINRA IARD Number: | 156661 |

Legal Counsel: Weintraub Tobin

**For complete analysis, research, loss modeling and sensitivity analysis, please contact:**
**Contact & Principal Office Address:**


**Sunil Chowdry, CFA**
1999 Harrison St., Suite 1575
Oakland, CA 94612
Telephone No: (925) 289-7601
Fax No: (925) 289-7613
schowdry@falconbridgecapital.com

**Jessica Huang**
**Chief Financial Officer**
Telephone No: (925) 289-7602
jhuang@falconbridgecapital.com

**Aga Linsky**
**Portfolio Management & Research**
Telephone No: (925) 204- 6188
alinksy@falconbridgecapital.com

## The information contained herein is submitted to you on a strictly and permanently confidential basis.

- BY ACCEPTING A COPY OF THIS CONFIDENTIAL PRESENTATION, THE RECIPIENT AGREES THAT NEITHER IT NOR ANY OF ITS EMPLOYEES OR ADVISORS SHALL USE THE INFORMATION FOR ANY PURPOSE OTHER THAN EVALUATING THE SPECIFIC TRANSACTION DESCRIBED HEREIN OR DIVULGE TO ANY OTHER PARTY SUCH INFORMATION. THIS CONFIDENTIAL PRESENTATION SHALL NOT BE PHOTOCOPIED, REPRODUCED OR DISTRIBUTED TO OTHERS WITHOUT THE PRIOR WRITTEN CONSENT OF THE PRINCIPALS.
- NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, THE RECIPIENT (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF THE RECIPIENT) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTIONS DESCRIBED HEREIN) AND ALL MATERIALS OF ANY KIND THAT ARE PROVIDED TO THE PROSPECTIVE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE (AS SUCH TERMS ARE DEFINED IN TREASURY REGULATION SECTION 1.6011-4). THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF DISCUSSIONS WITH PROSPECTIVE INVESTORS REGARDING THE TRANSACTIONS CONTEMPLATED HEREIN.
- THE FINANCIAL PROJECTIONS INCLUDED HEREIN HAVE BEEN PREPARED ON THE BASIS OF ASSUMPTIONS STATED THEREIN. FUTURE OPERATING RESULTS ARE IMPOSSIBLE TO PREDICT AND NO REPRESENTATION OF ANY KIND IS MADE RESPECTING THE FUTURE ACCURACY OR COMPLETENESS OF THESE FORECASTS.
- THIS DOCUMENT AND THE RELATED ORAL PRESENTATION IS NOT AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY SECURITIES.
- THE INFORMATION INCLUDED HEREIN IS PRELIMINARY, AND WILL BE SUPERSEDED BY A DEFINITIVE PRIVATE PLACEMENT MEMORANDUM.
- WE WILL NOT ACCEPT ANY OFFER BY YOU TO PURCHASE SECURITIES AND YOU WILL NOT HAVE ANY CONTRACTUAL COMMITMENT TO PURCHASE SECURITIES UNTIL AFTER YOU HAVE RECEIVED THE DEFINITIVE PRIVATE PLACEMENT MEMORANDUM.
- DISCUSSIONS OF FEDERAL TAX ISSUES IN THIS PRESENTATION ARE NOT INTENDED TO BE RELIED UPON BY INDIVIDUAL INVESTORS. EACH INVESTOR SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.
- THERE CAN BE NO ASSURANCE THAT PROJECTED RETURNS WILL BE ACHIEVED OR THAT THE FUND WILL BE ABLE TO IMPLEMENT ITS INVESTMENT STRATEGY OR ACHIEVE ITS INVESTMENT OBJECTIVES.
- GROSS IRRs DO NOT REFLECT MANAGEMENT FEES, CARRIED INTEREST, TAXES, TRANSACTION COSTS AND OTHER EXPENSES TO BE BORNE BY INVESTORS IN THE FUNDS, WHICH WILL REDUCE RETURNS.

11.2020