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Top Takeaways & Growth Drivers for Window & Door Manufacturers



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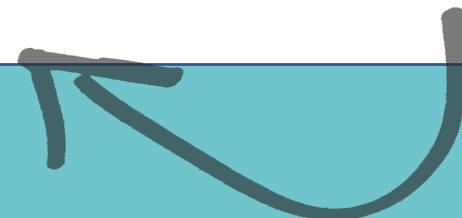


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Laurie Cowin
Editor, Window + Door Magazine
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Session Highlights

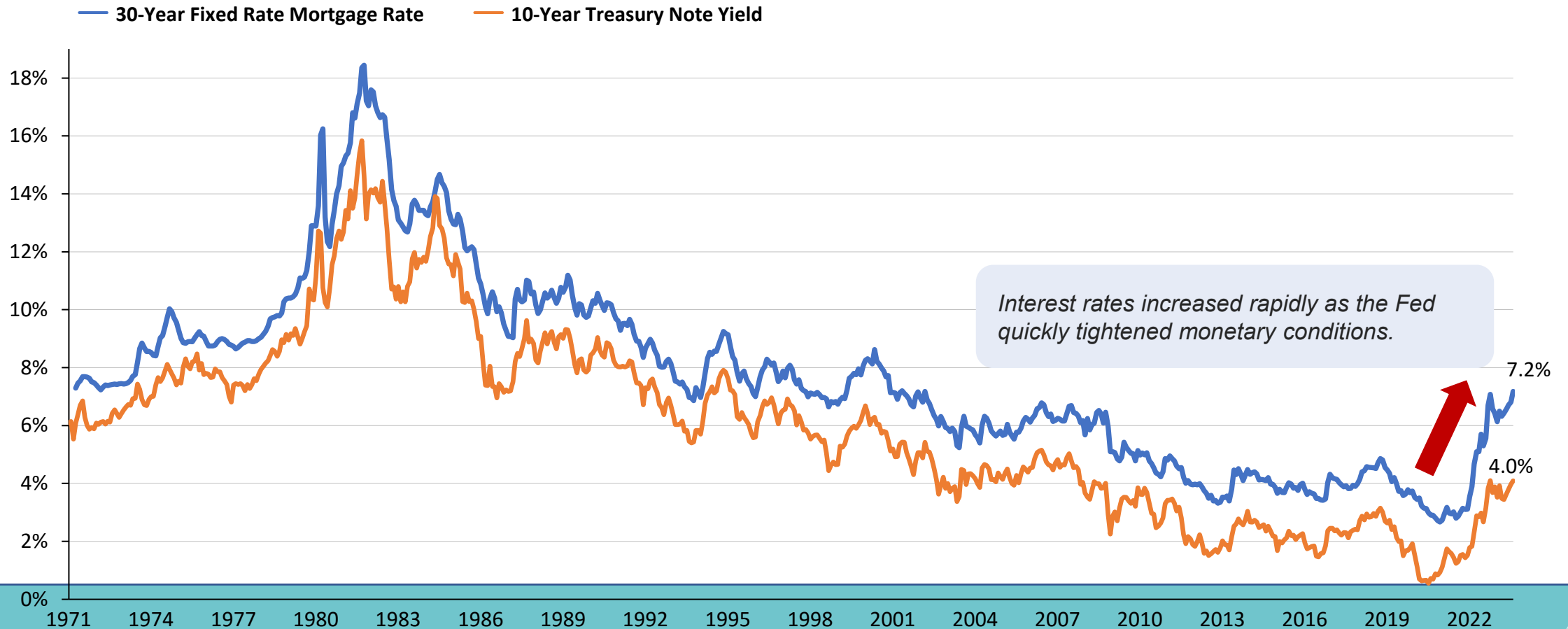
- Macroeconomic Backdrop for New Construction and R&R
- Introducing the Window and Door Market Survey
- Our outlook for building products through 2026

The Fed got behind the curve in its objective to maintain stable inflation...



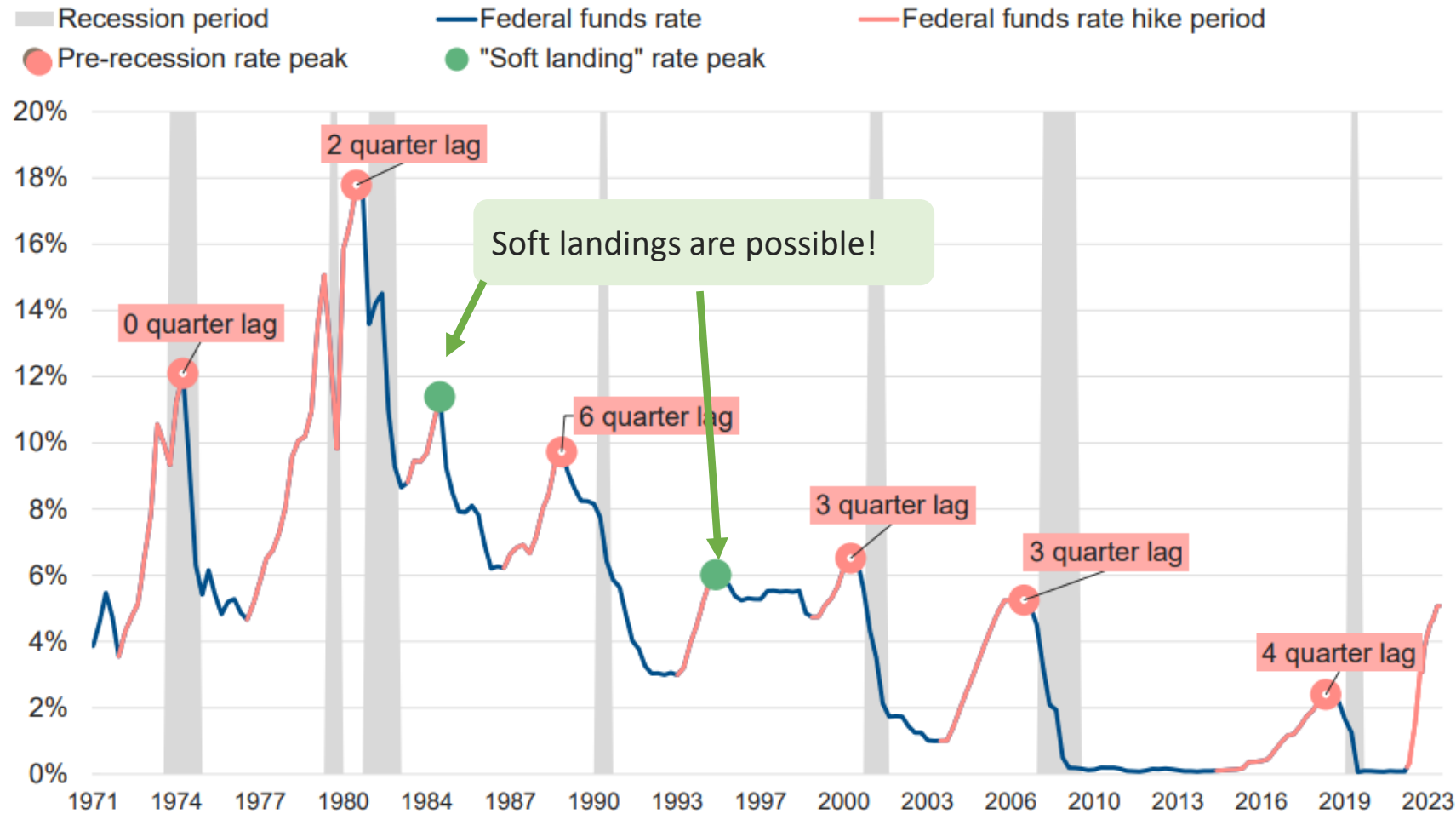
...and because of this, the Fed had to embark on the most aggressive rate tightening cycle in a generation.

Key Housing Interest Rates



Recessions tend to follow these steep rate tightening cycles.

Federal Funds Rate (Percent)



Source: Federal Reserve; Freddie Mac; John Burns Research and Consulting (Data: Jul-23)

Pub: Aug-23



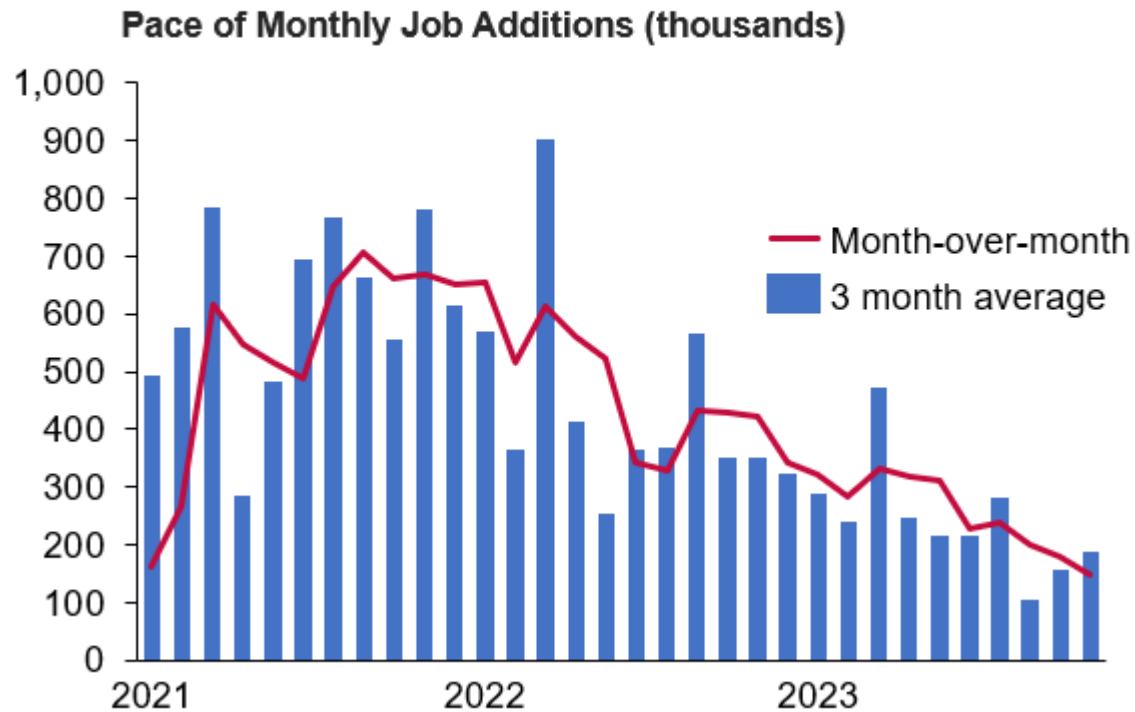
“So, of course, **monetary policy does, famously, work with long and variable lags**.... changes in financial conditions begin to affect economic activity fairly quickly, within a few months.”

- Fed Chair Jerome Powell, September 2022

Will the Fed engineer a soft landing? Two positive signals...

#1 - Labor market resilience suggests we may avoid the most anticipated recession in US history.

Job growth is cooling from the sprint last year, still at a healthy pace of job additions...

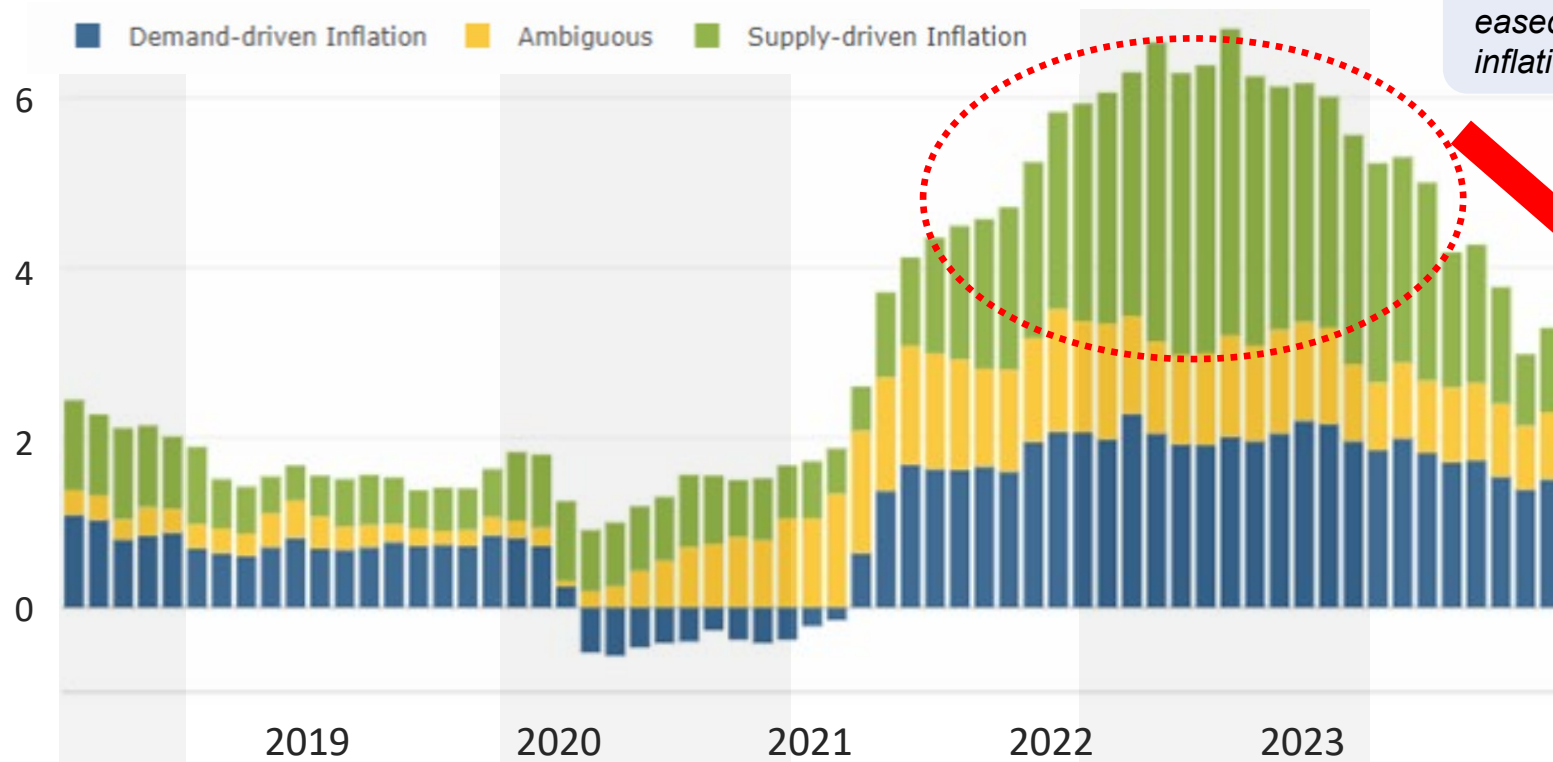


...the Unemployment Rate is low by historical standards



#2 - Supply chain snarls were a major driver of recent inflation, and as these ease, the Fed's task becomes easier.

Inflation Rate, By Source (Percent)

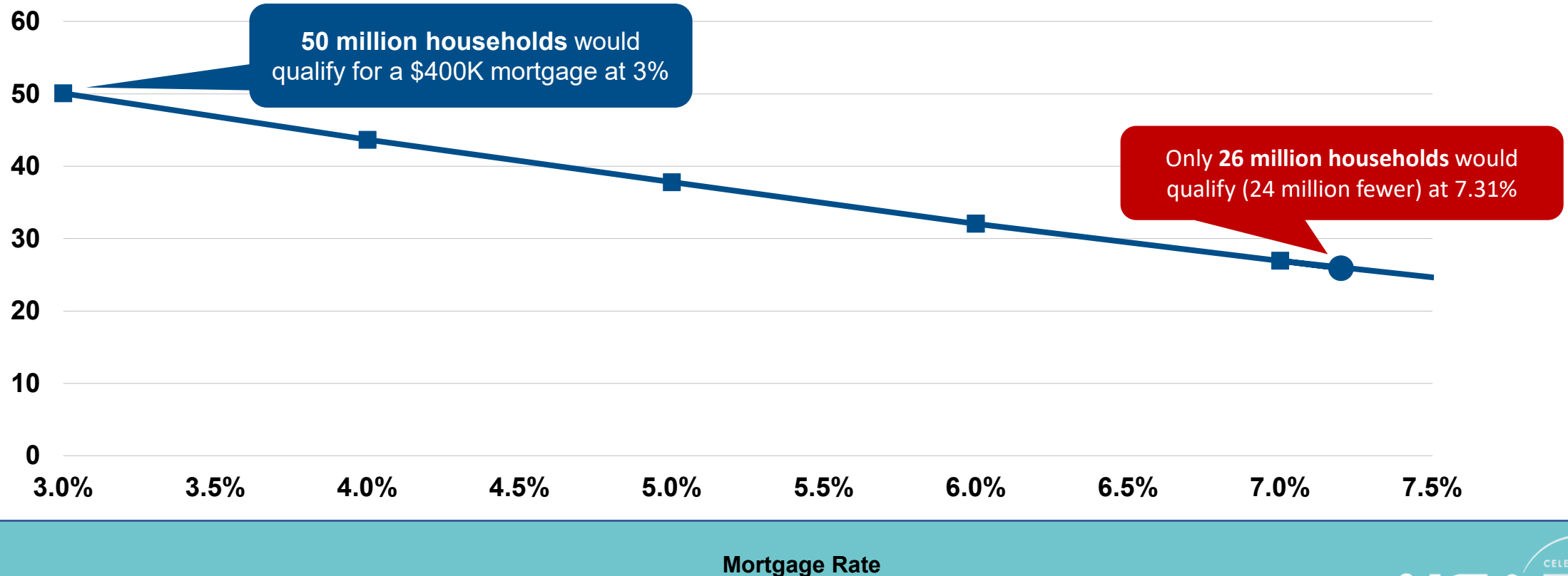


Supply chain constraints have eased, helping to bring down inflationary pressures.

Source: Federal Reserve and John Burns Research and Consulting.

Increase in mortgage rates from end of 2021 to today's rates froze 24M households out of qualifying for a mortgage. This has implications for new construction.

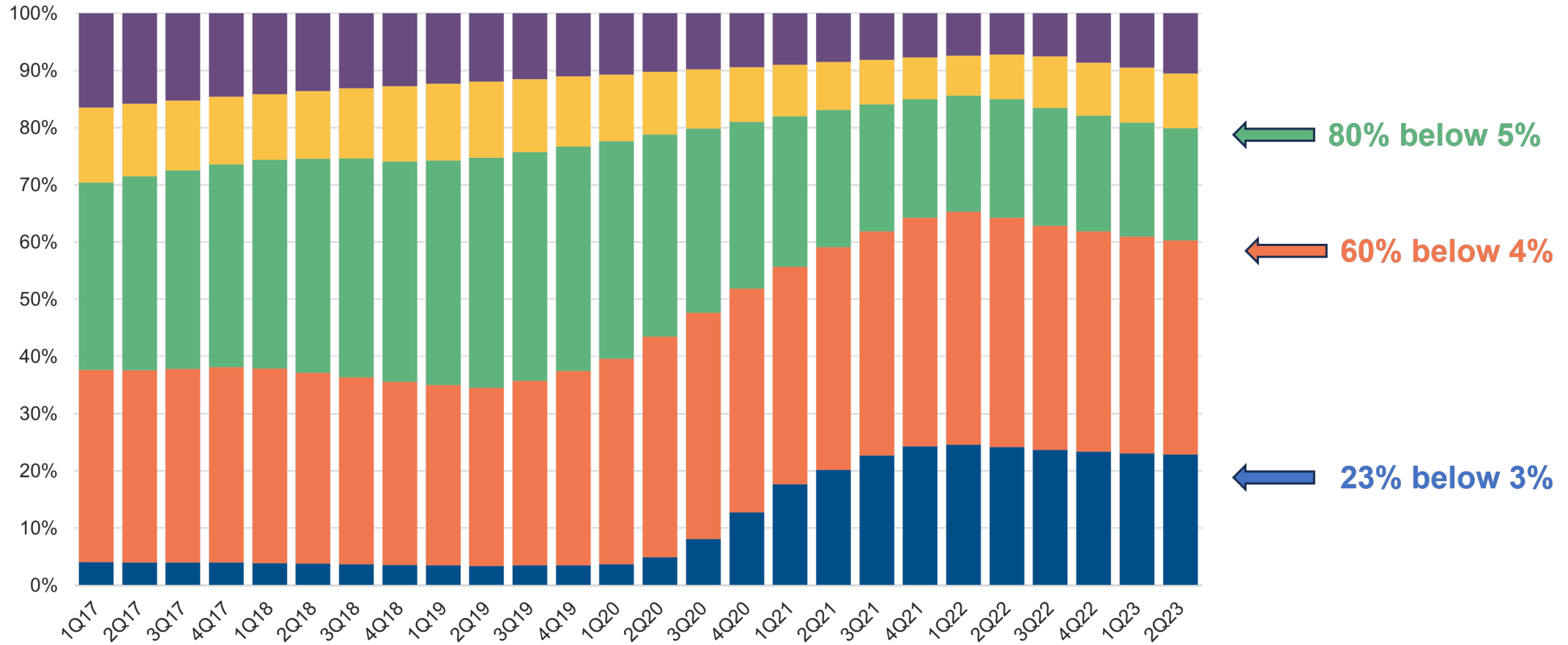
Households Who Can Qualify - \$400K mortgage (Millions)



Therefore, current homeowners are “locked-in” to their homes.

Share of Mortgage Loans Outstanding by Mortgage Rate

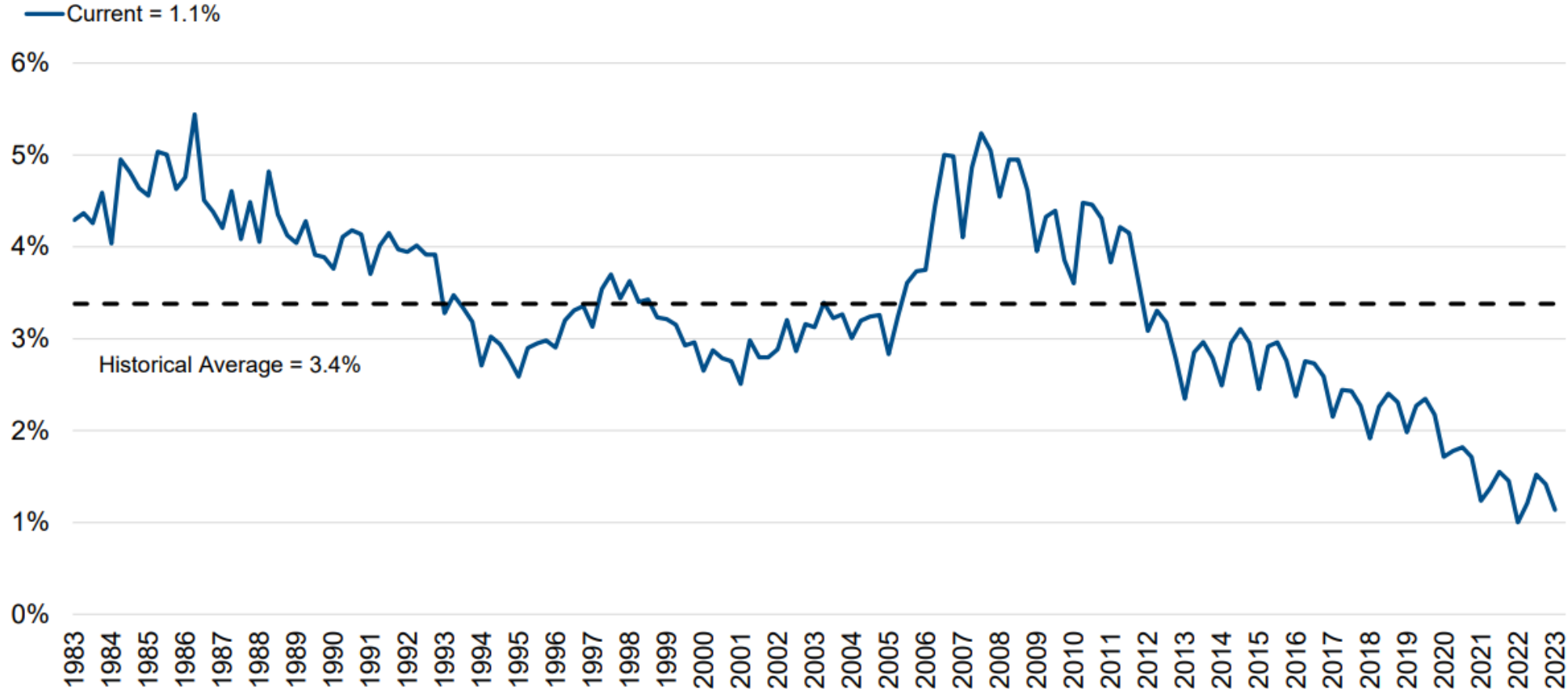
■ ≤3% ■ 3.01%–4% ■ 4.01%–5% ■ 5.01%–6% ■ ≥6%



Source: FHFA; National Mortgage Database (NMD); John Burns Research and Consulting, LLC (Data: 2Q23, updated quarterly†)

Just ~1% of today's owner-occupied homes are up for sale. Homeowners are increasingly staying put.

US Existing Home Inventory for Sale to Owner-Occupied Housing Units Ratio



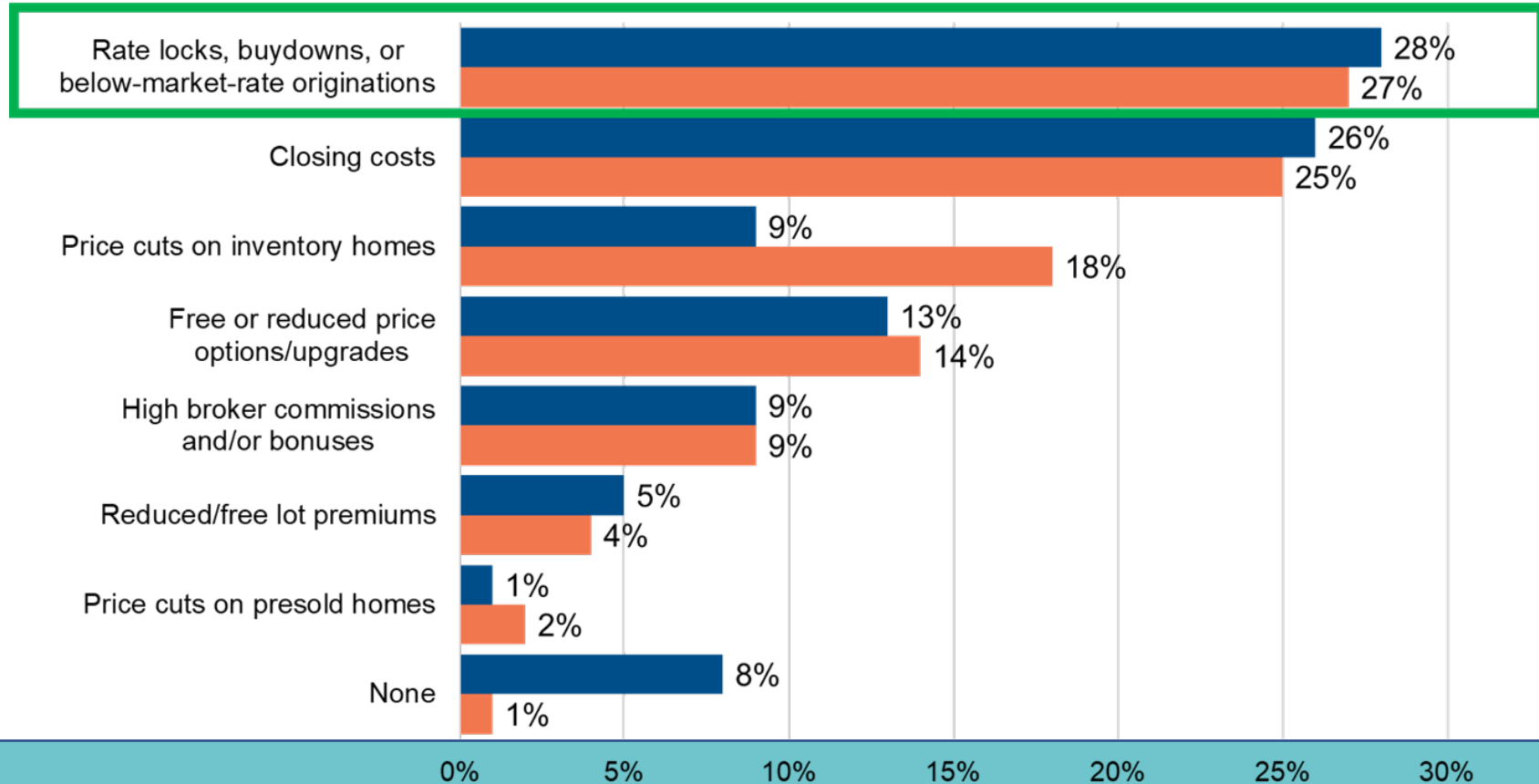
Sources: National Association of Realtors, John Burns Research and Consulting, LLC (Pub: Oct-23)



For prospective homebuyers, new construction is the only game in town.
Builders help offset affordability concerns through incentives.
Namely rate buydowns.

National: Incentives Most Commonly Offered by Competitors

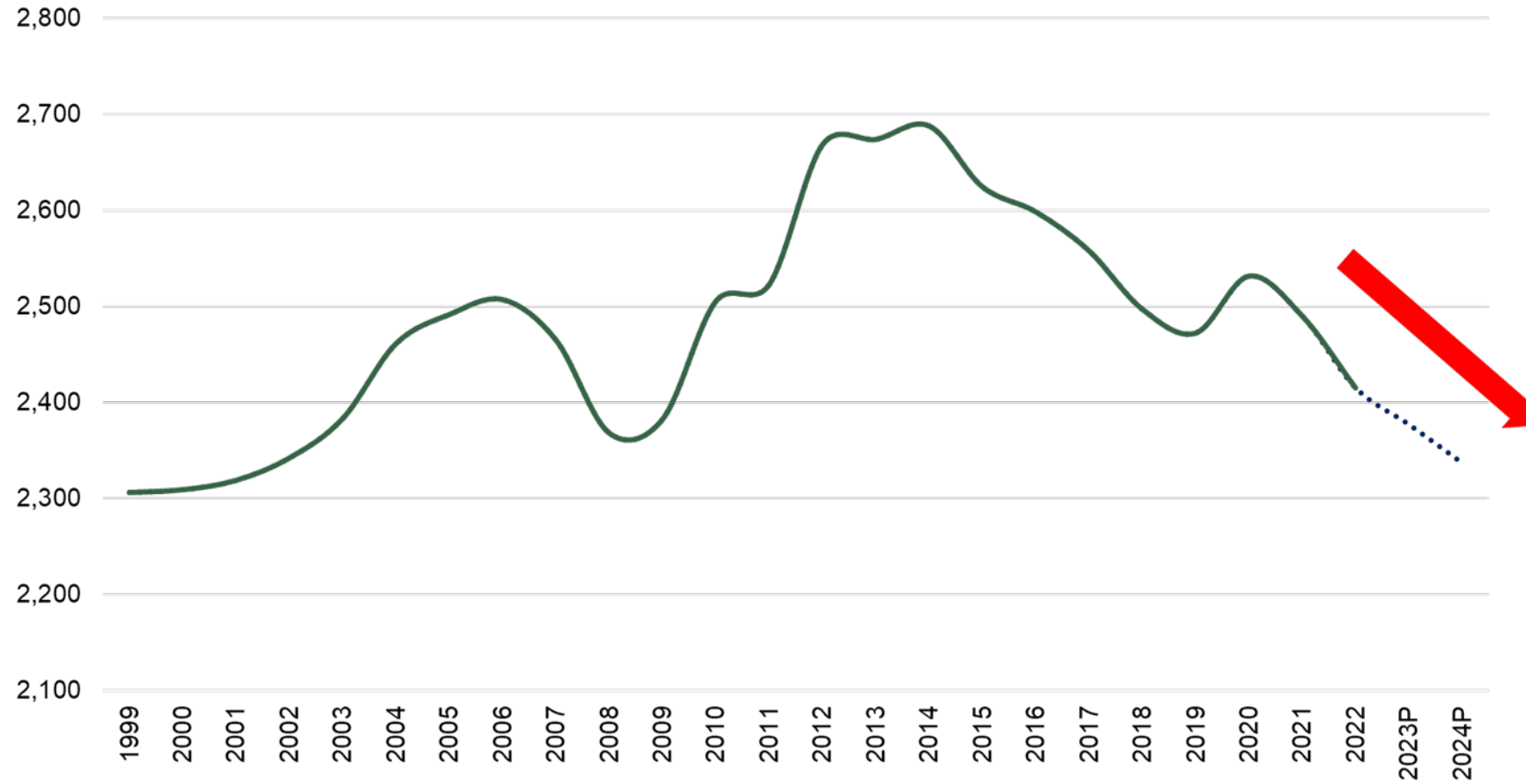
Year-over-year comparison, weighted averages ■ 2022 ■ 2023



Source: John Burns Research and Consulting, LLC, independent survey of ~19% of all US new home sales, NSA (Data: May-23, Pub: Jun-23)

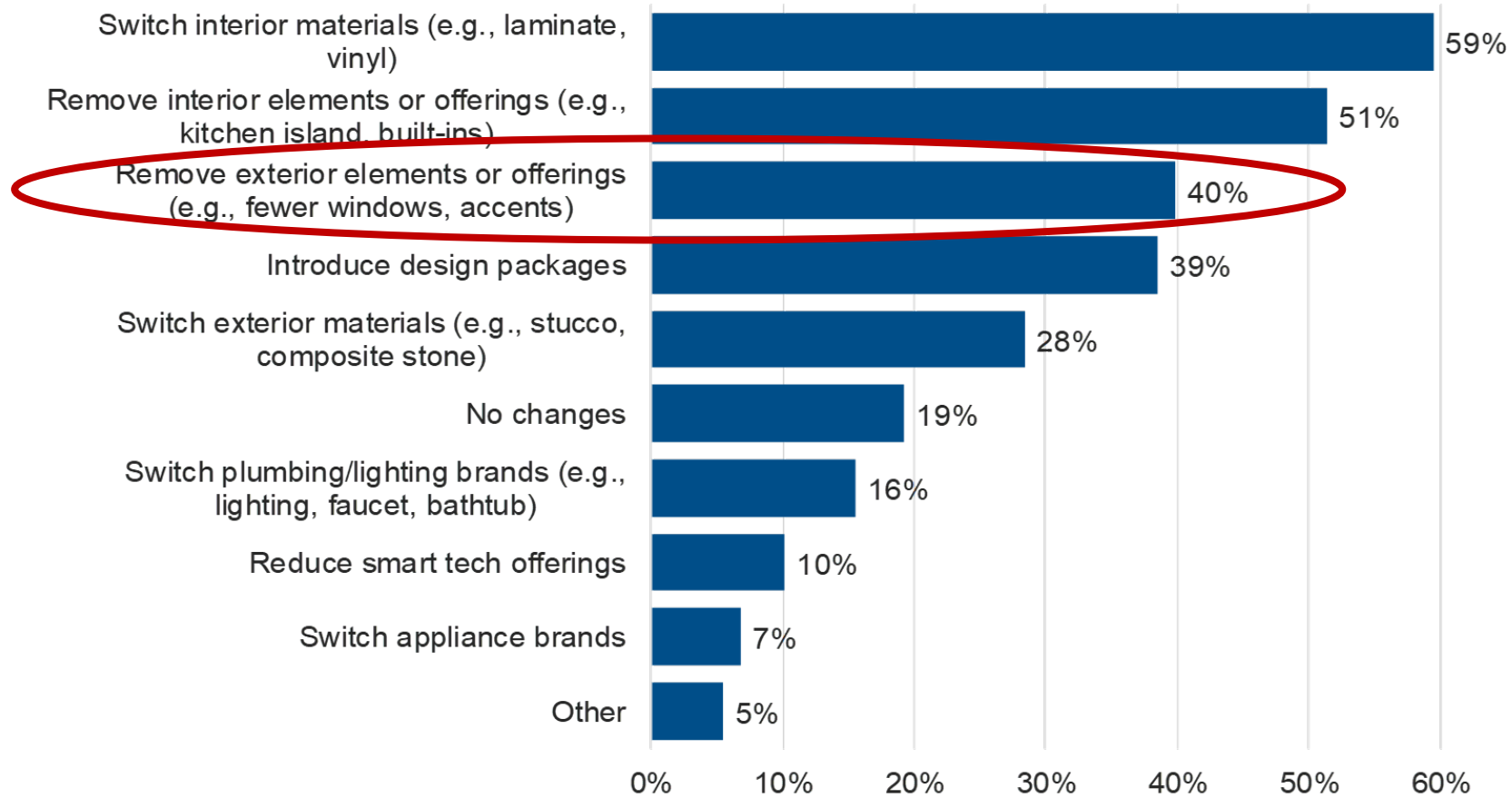
Builders are also offsetting affordability with smaller homes...

Average Square Feet of Single-family Housing Start



...and less costly materials.

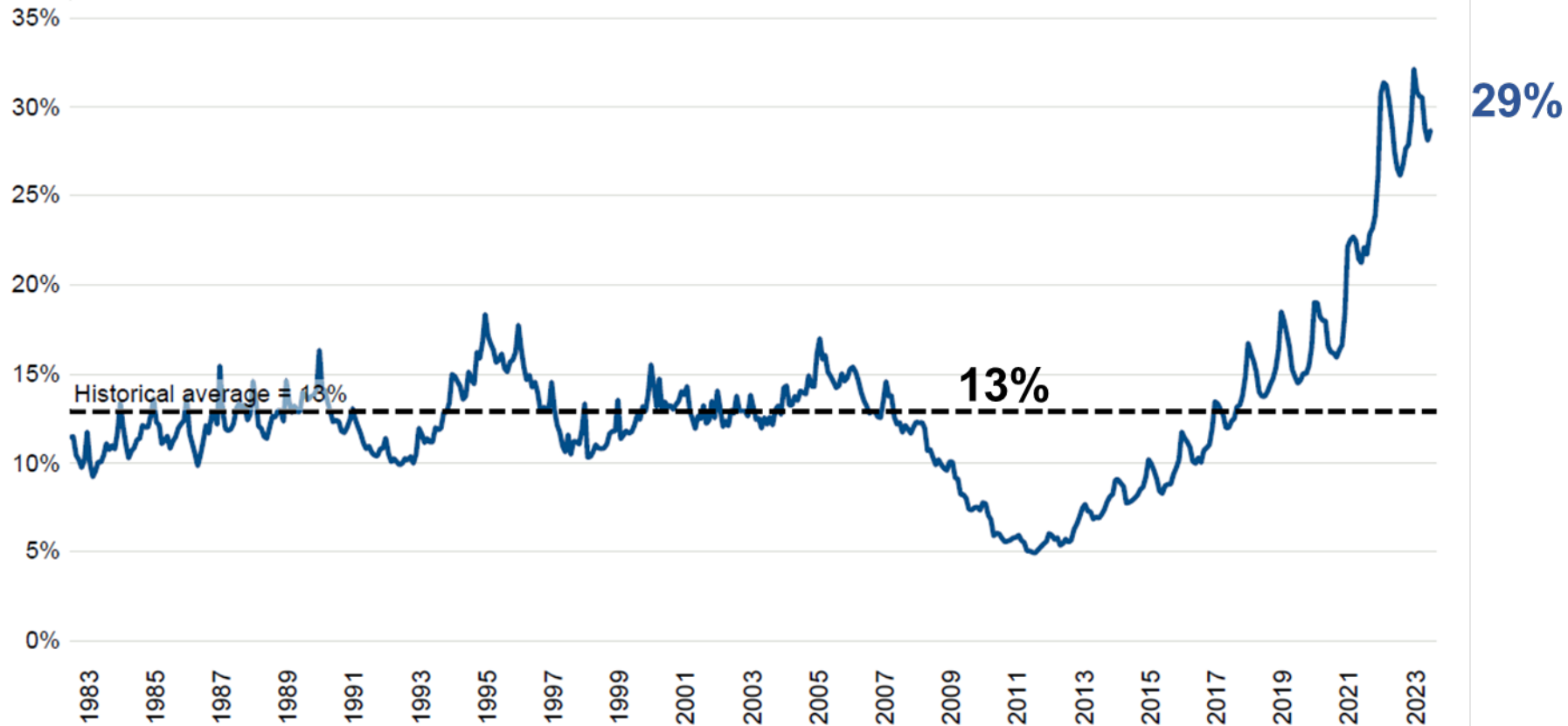
National: How do you plan to change your specifications or features in 2023 to lower costs?



New homes are now 29% of home sales availability – *the highest ever.*

New Homes for Sale as a % of Total For-Sale Single-Family Inventory

— New home share of inventory (NSA) Current = 28.7%

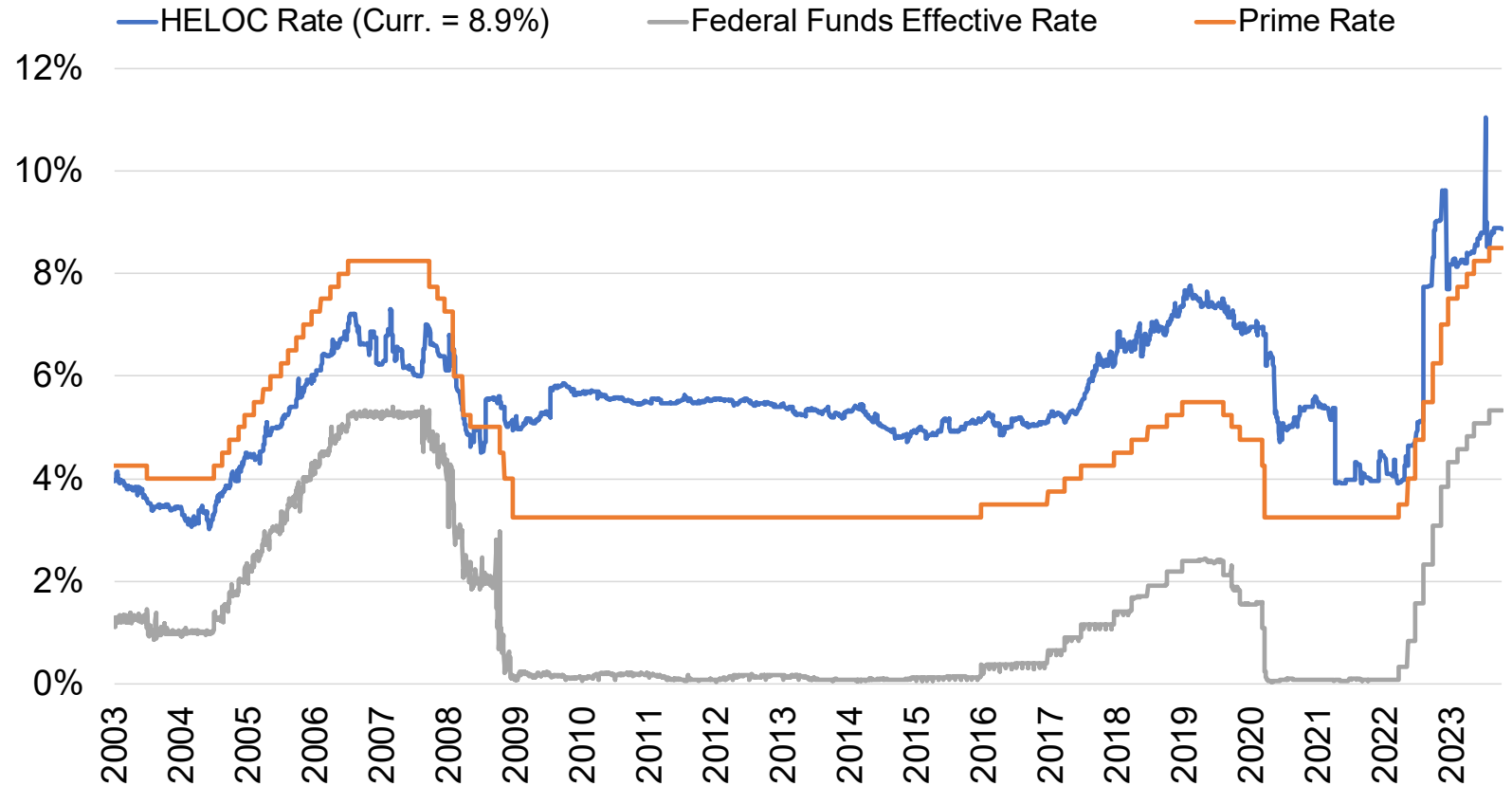


Source: National Association of Realtors, Census Bureau, John Burns Research and Consulting, LLC (Data: Jun-23, Pub: Aug-23)

HELOC interest rates – a major determinant of large projects - are priced based on the Prime rate.

HELOC rates are now at 9%, more than double rates during the pandemic.

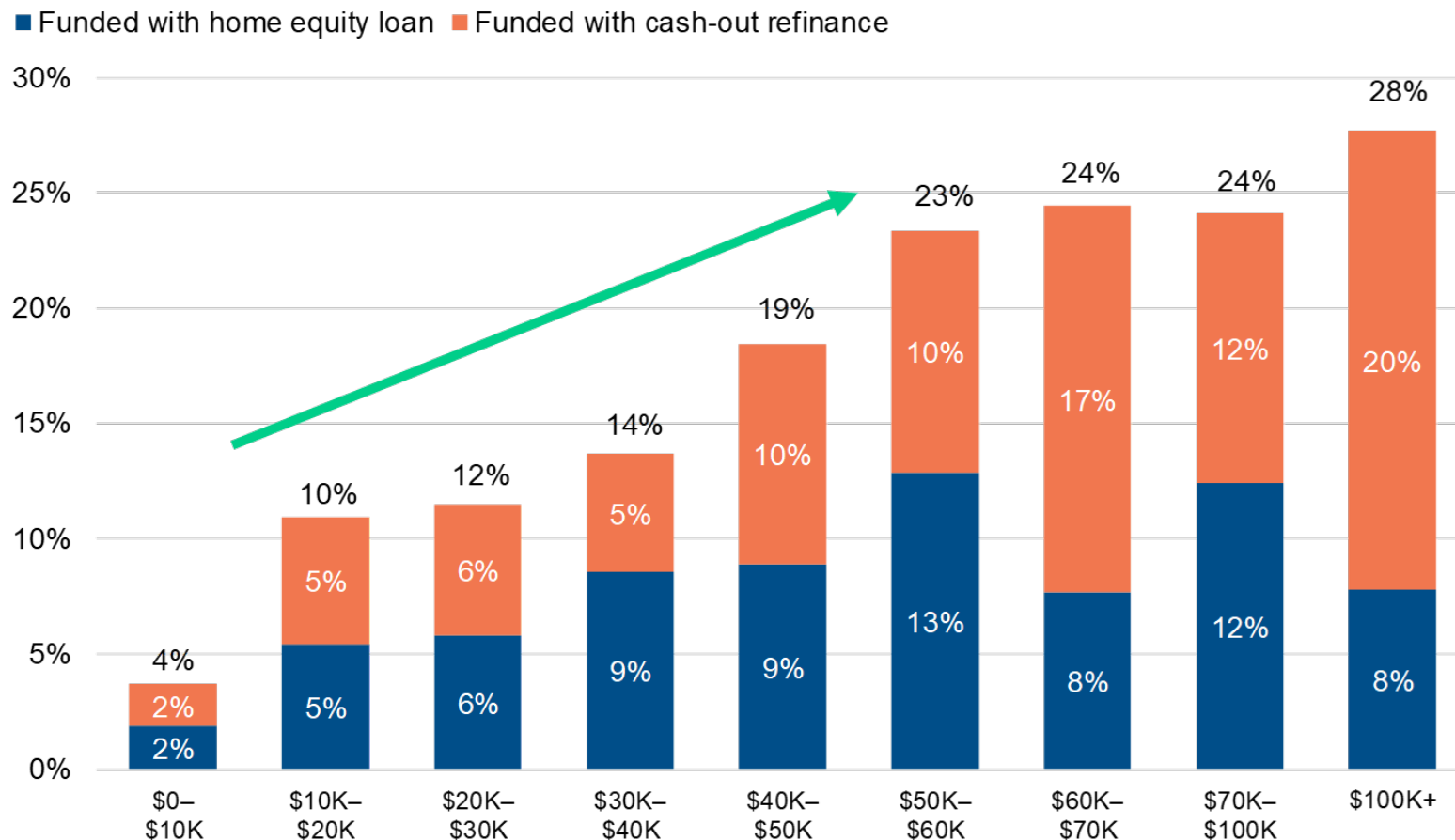
Home Equity Line of Credit - Interest Rate (\$30,000 Credit Line)



Sources: Bloomberg, John Burns Research and Consulting, LLC (Data through Oct 2, 2023, Pub: Oct-23)

Availability of financing is vital for large R&R project sentiment. Historically 1 in 4 large projects draw from home equity.

Share of Remodeling Projects Financed with Home Equity, by Total Project Spend

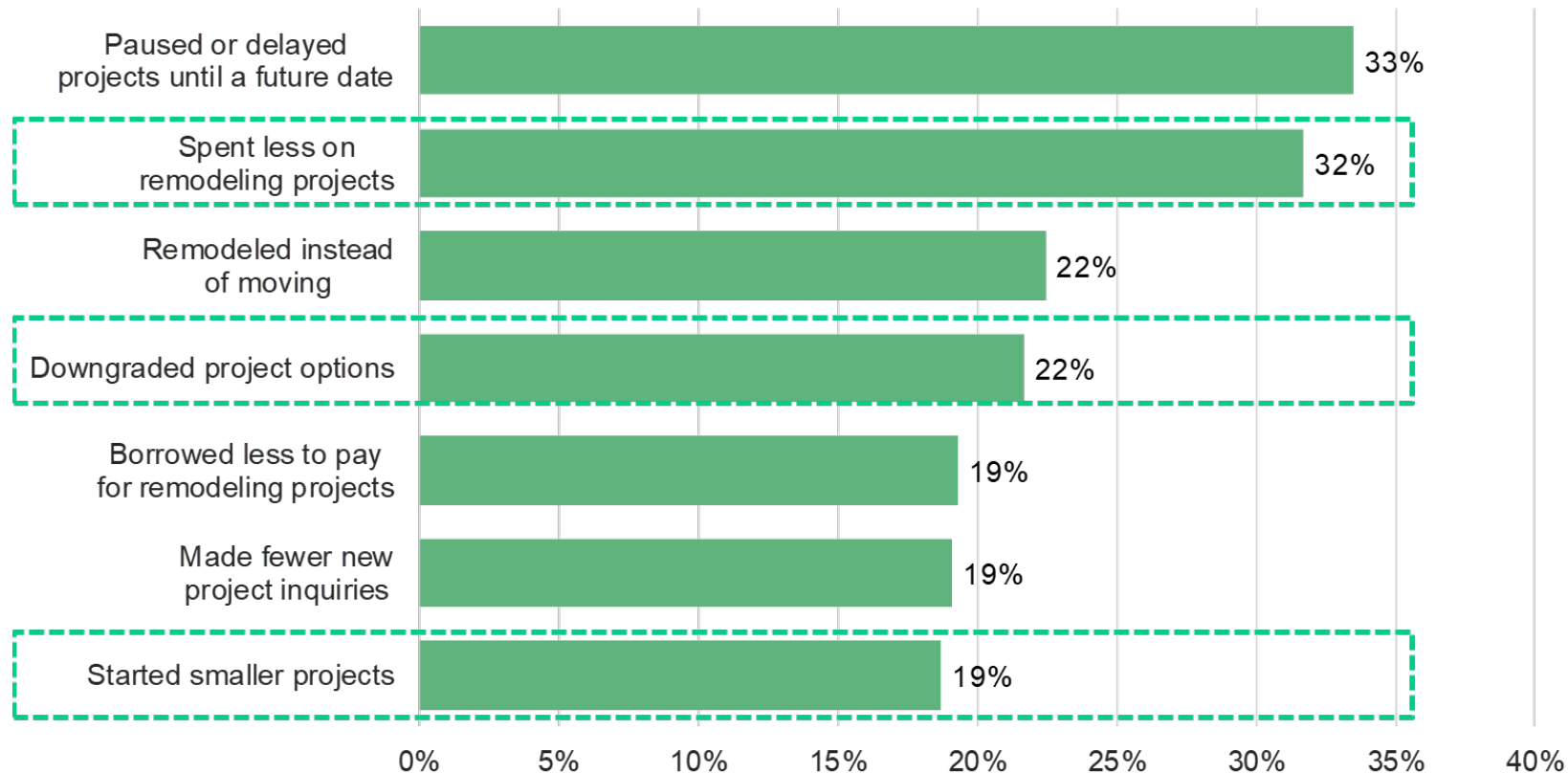


Note: Totals may not match sum of shown shares due to rounding.

Source: U.S. Census Bureau American Housing Survey (2021); John Burns Real Estate Consulting, LLC (Pub: Oct-23)

Shifts from larger to smaller projects will continue, adding to pent-up large-project demand that should release as rates moderate.

How Residential Remodeling Customers Have Responded to Higher Interest/Mortgage Rates (3Q23)

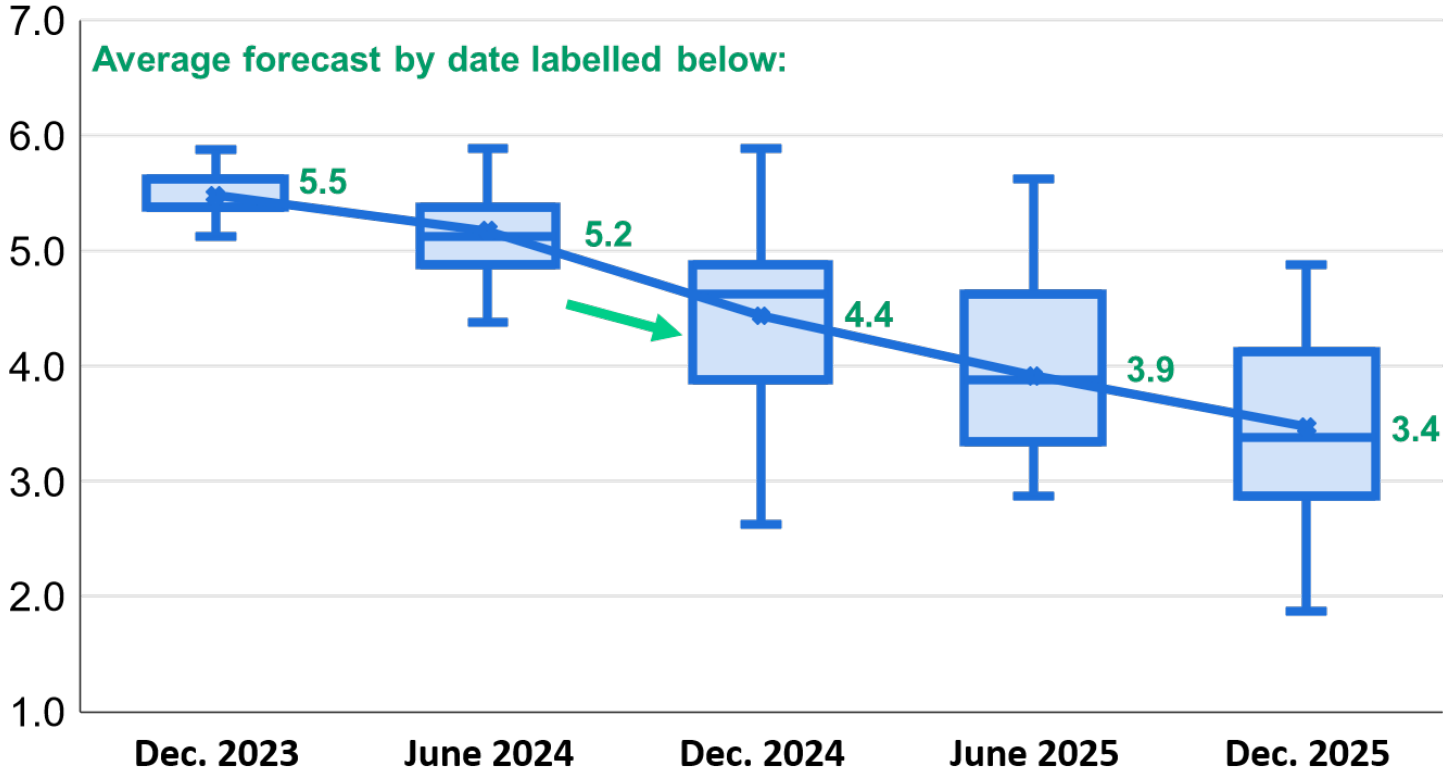


Note: Respondents selected all that apply. Percent values are based on those who selected the answer option as a percent of all respondents.

Sources: Qualified Remodeler; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

Economists expect the Fed to lower rates starting in mid-2024, which will bring down HELOC rates and release more financing for large remodels.

Wall Street Journal Economic Survey – October, 2023
Projected Midpoint of the range for the Federal Funds Rate, By Future Date

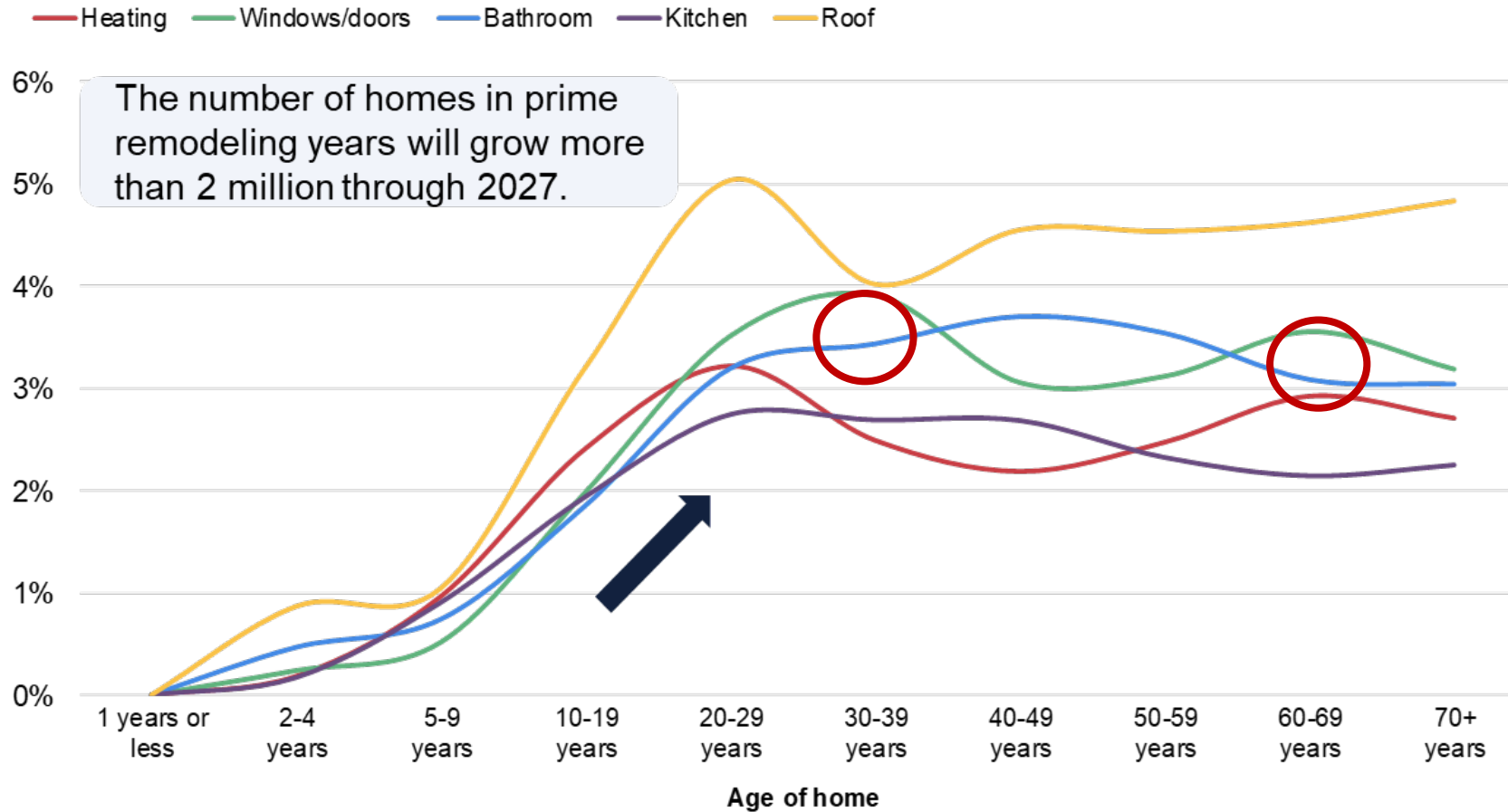


Note: *Each box covers the interquartile range (the difference between the 3rd and 1st quartiles). The dark stripe is the median and the whiskers represent the range beyond which opinions would be outliers. The trend line intersects the mean forecast for each future date.

Sources: Wall Street Journal; John Burns Research and Consulting, LLC (Pub: Oct-23) .

Homes undergo a wave of renovations when they are 20-39 years old, including window replacements.

Annual Share of Single-family Homes Renovated by Age of Home (%)

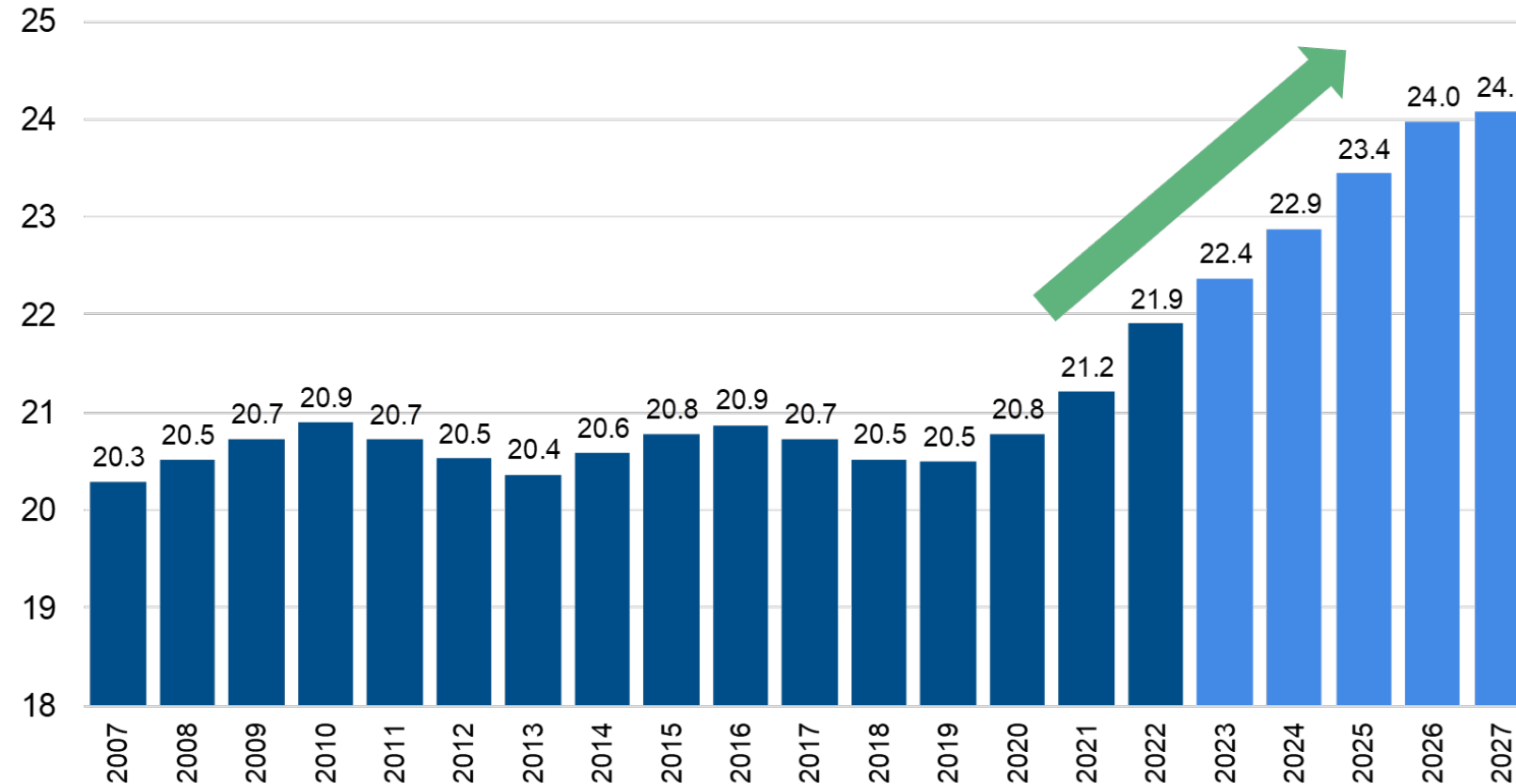


Note: Share calculated using 2019 American Housing Survey (inflation-adjusted project size).
Sources: American Housing Surveys; John Burns Research and Consulting, LLC (Pub: Apr-23)

24 million homes will reach prime remodeling years by 2027.

Single-Family Homes in "Prime Remodel" Years

Homes between 20-39-years-old
Millions

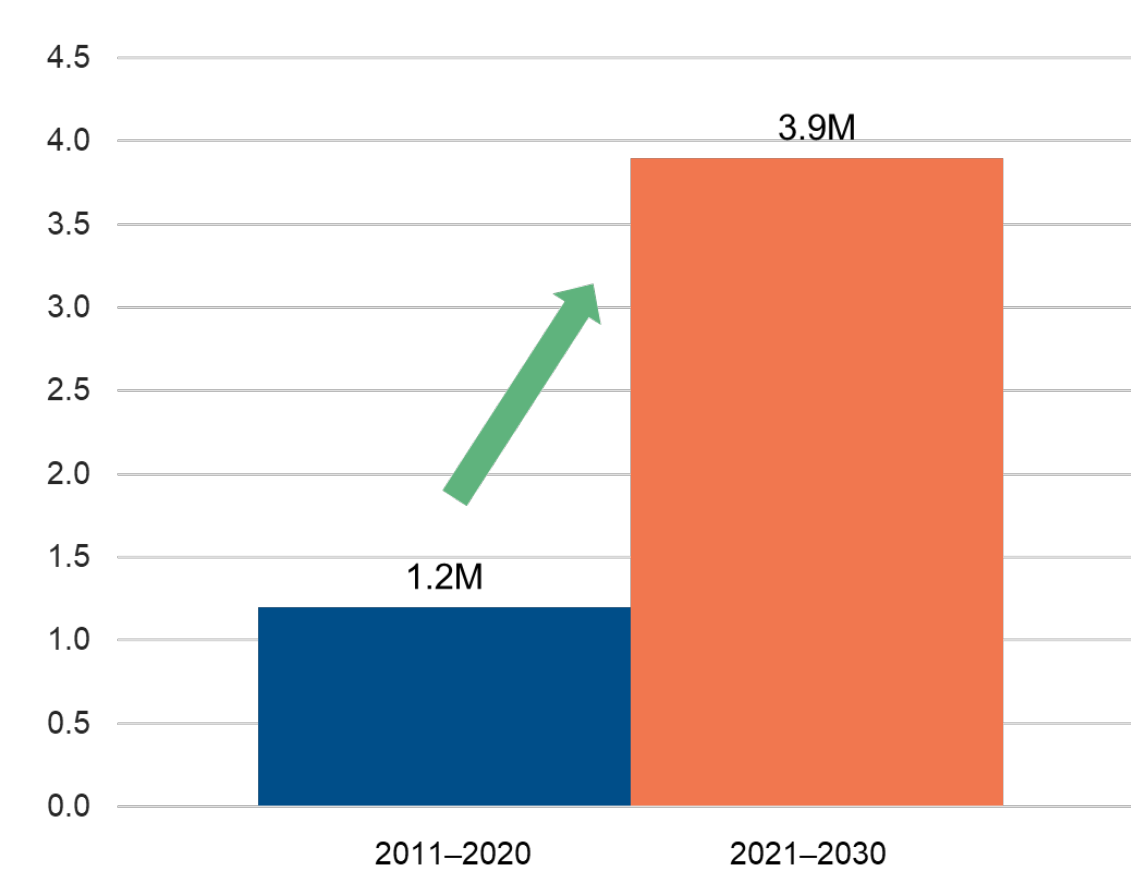


Source: US Census; John Burns Research and Consulting, LLC (Pub: Apr-23)

Demographics is a powerful long-term tailwind for housing demand. Maturing millennials are now entering their prime first-time homebuying years.

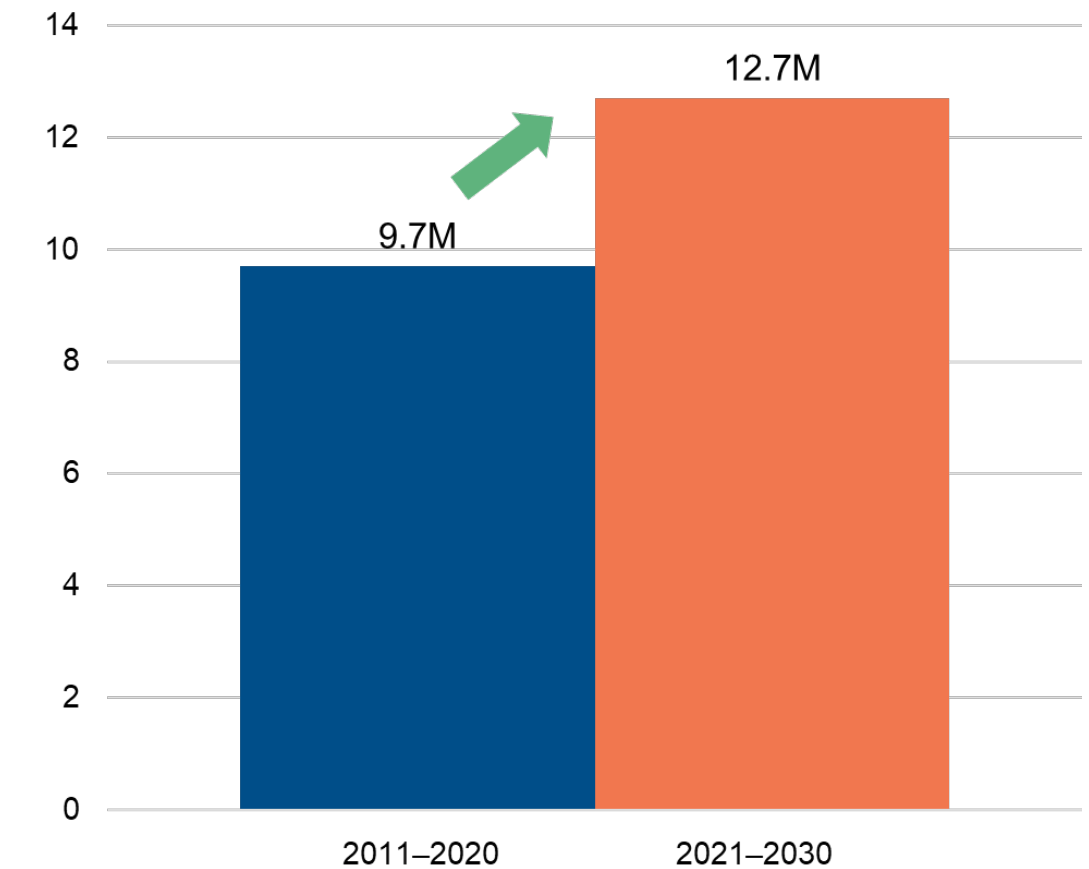
35-44 Year-Old Population Growth by Decade

Millions



New Households Formed by Decade

Millions




Source: John Burns Research and Consulting, LLC (Pub: Oct-23)


17.1M new homes are needed in the 2020s, a long-term structural driver of new construction demand.

Total homes needed in the 2020s


12.7M
households
formed




2.3M
teardowns



1.7M
undersupplied
homes



500K
new second
homes



17.1 million total new homes needed

Source: John Burns Research and Consulting, LLC (Pub: Oct-23)

Takeaways

1. The Fed got behind the curve in its objective to maintain stable inflation.
 - Most aggressive rate tightening cycle in a generation to make up for lost ground.
 - Cautiously optimistic that the Fed can engineer a soft landing (avoid a recession).
2. Interest rates remain elevated and are still climbing.
 - Buyers qualifying for new mortgages has been cut in half. Builders have been responding by offering incentives such as rate buydowns.
 - HELOC interest rates also continue to rise affecting large remodeling projects.
3. Expectations are for rates to begin to come down mid-2024.
 - This has the potential to unlock financing and spur growth for large remodeling projects.
 - Aging housing stock will need replacement products, including windows.

Introducing the Window and Door Market Survey

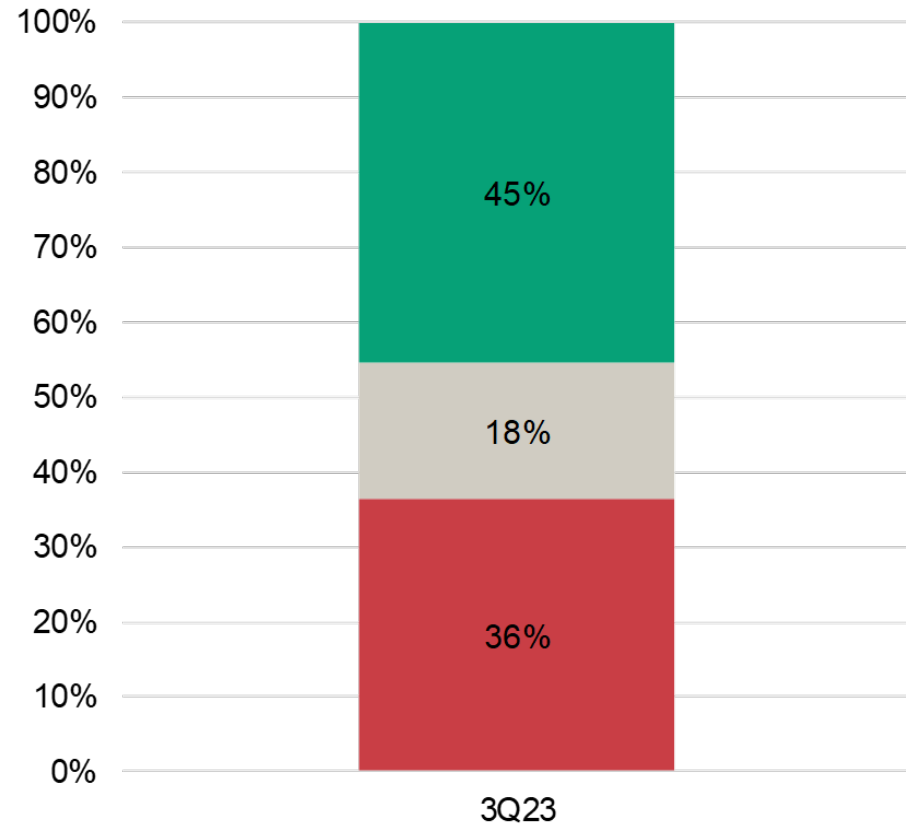
Background

- 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

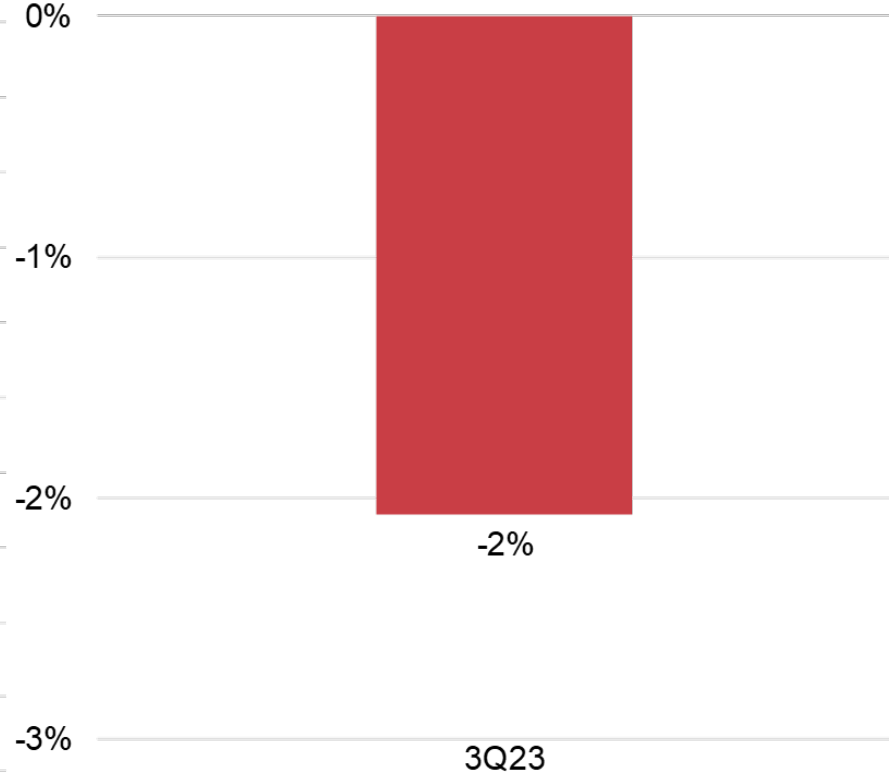
45% of window and door companies reported YOY volumes growing in 3Q-2023. Average volumes declined by -2% YOY.

Window and Door Shipments/Installations Volume Change YOY

■ Growing ■ Flat ■ Declining



Window and Door Shipments/Installations Net Volume Change YOY

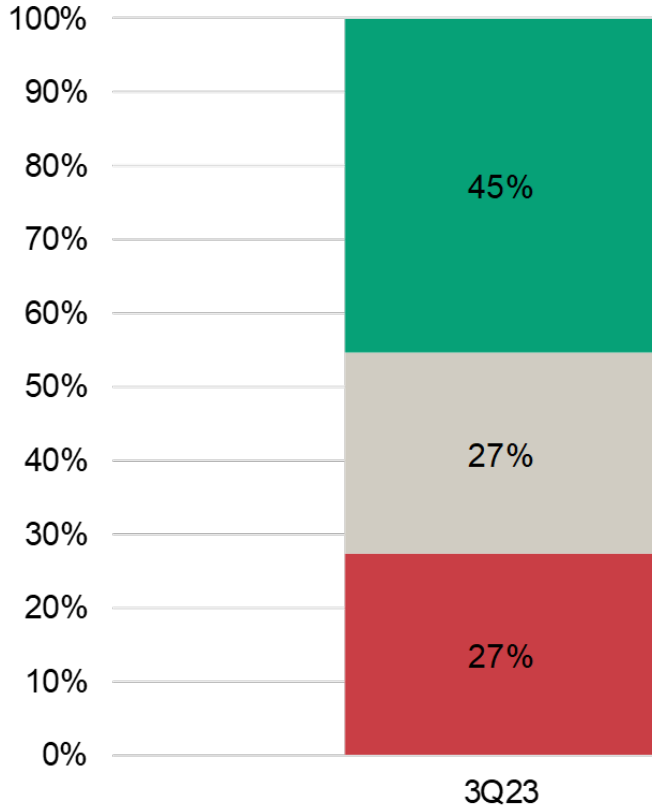


Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

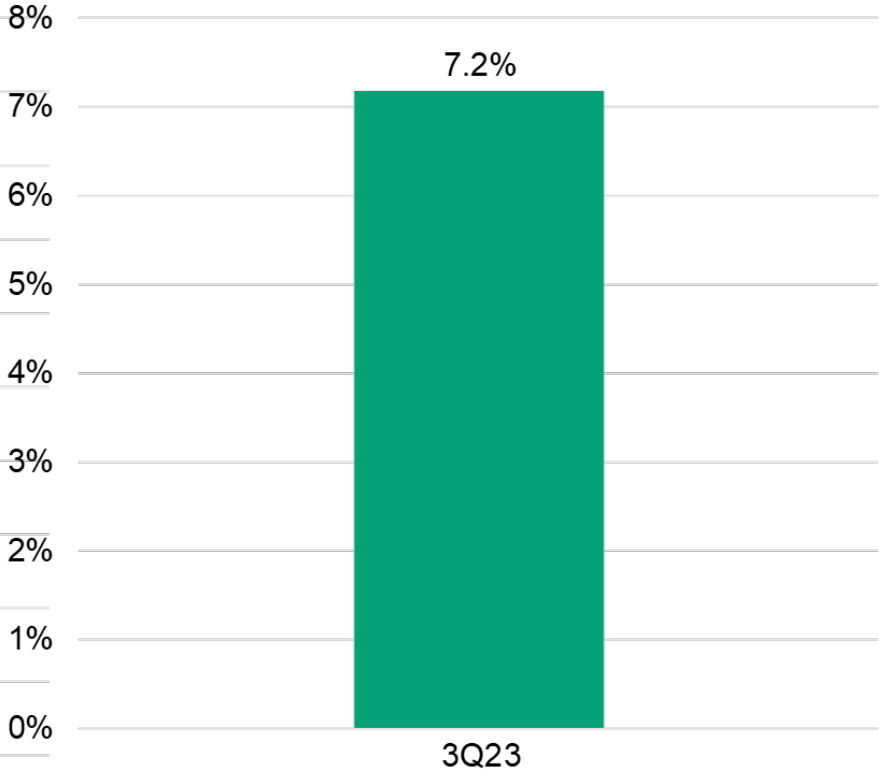
49% of window and door companies reported YOY revenue growth in 3Q-2023. Average revenue increased +7.2% YOY.

Residential Window and Door Company Revenue Change YOY

■ Growing ■ Flat ■ Declining



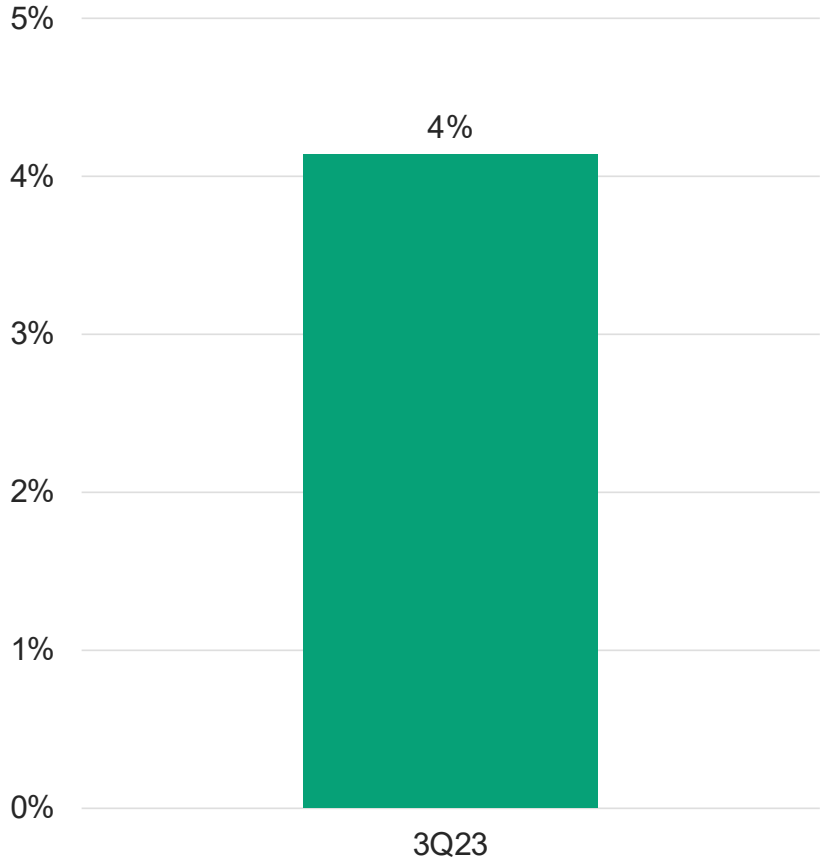
Residential Window and Door Company Revenue Percent Change YOY



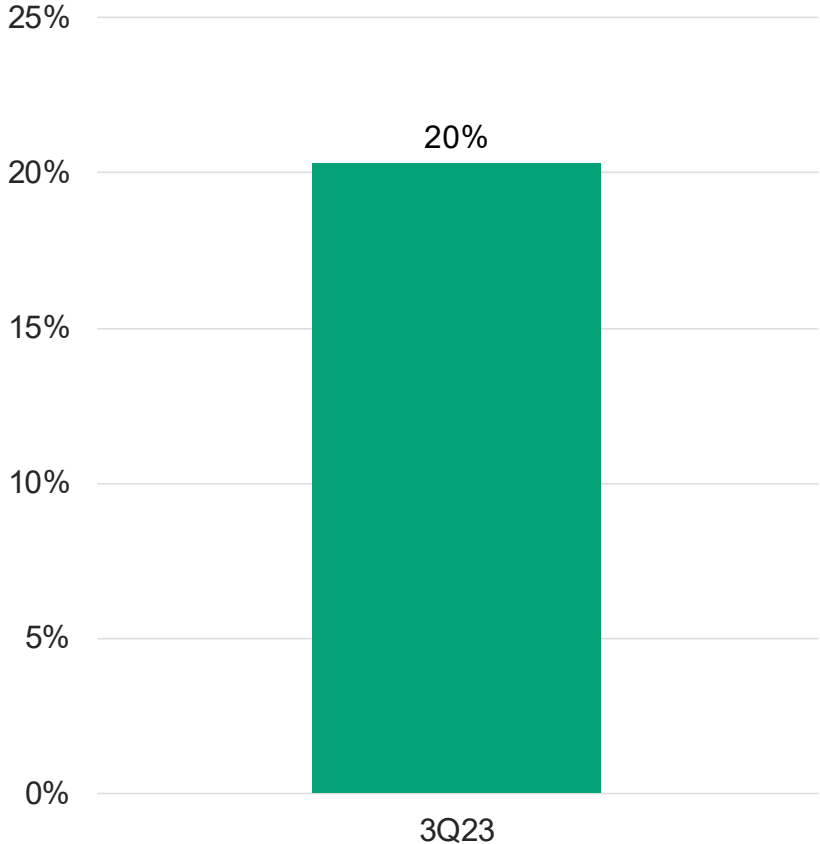
Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

Companies reported YOY inflation in materials and, more significantly, direct labor.

Residential Window and Door Company Materials/Supplies Cost Inflation YOY



Residential Window and Door Company Change in Direct Labor Costs YOY



Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)



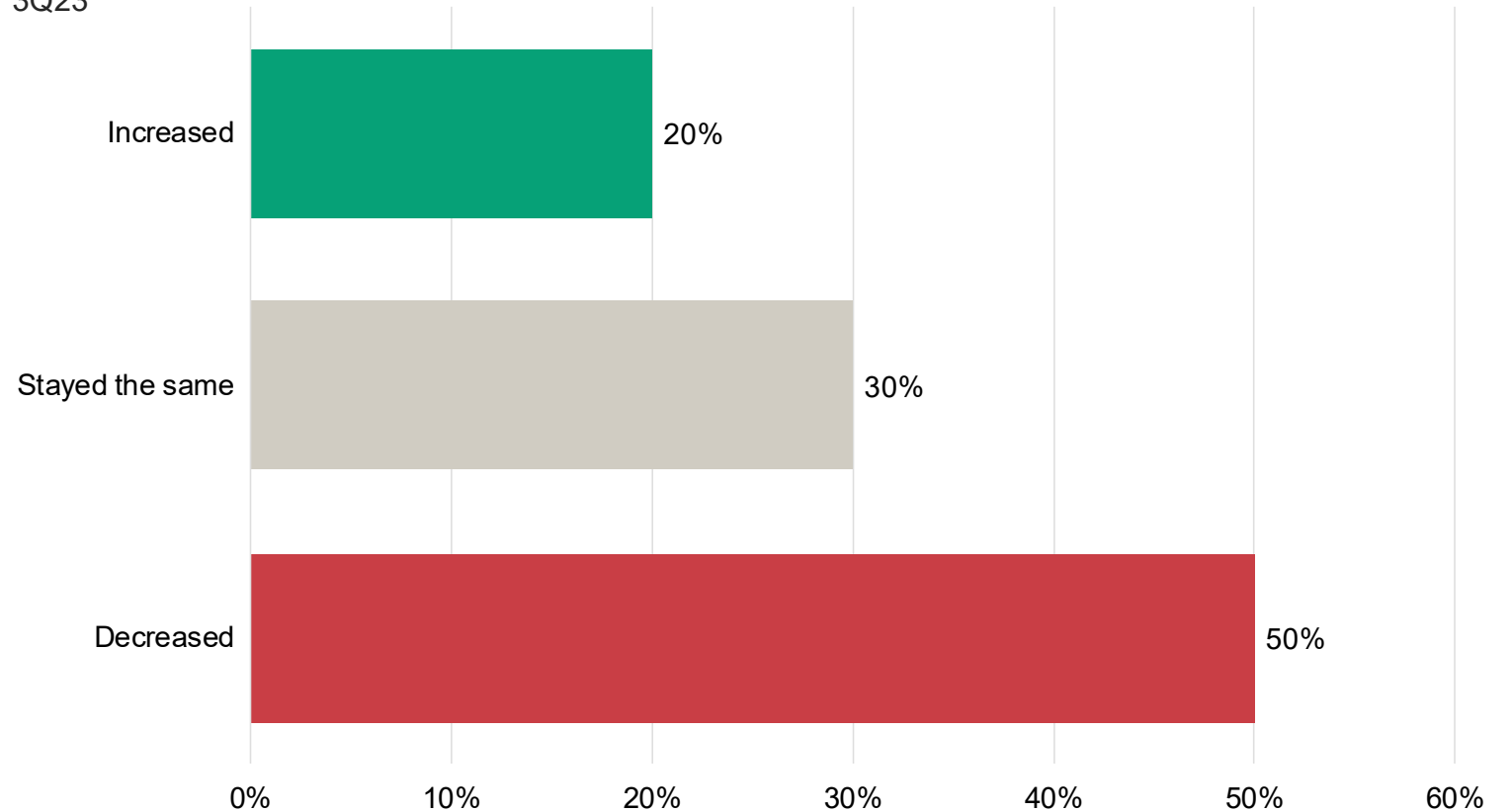
50% of companies were able to reduce backlogs vs last year.

20% reported increasing backlogs.

78% of companies reported more than 75% of projects being on schedule.

Residential Window and Door Company Change in Product/Job Backlogs YOY

3Q23



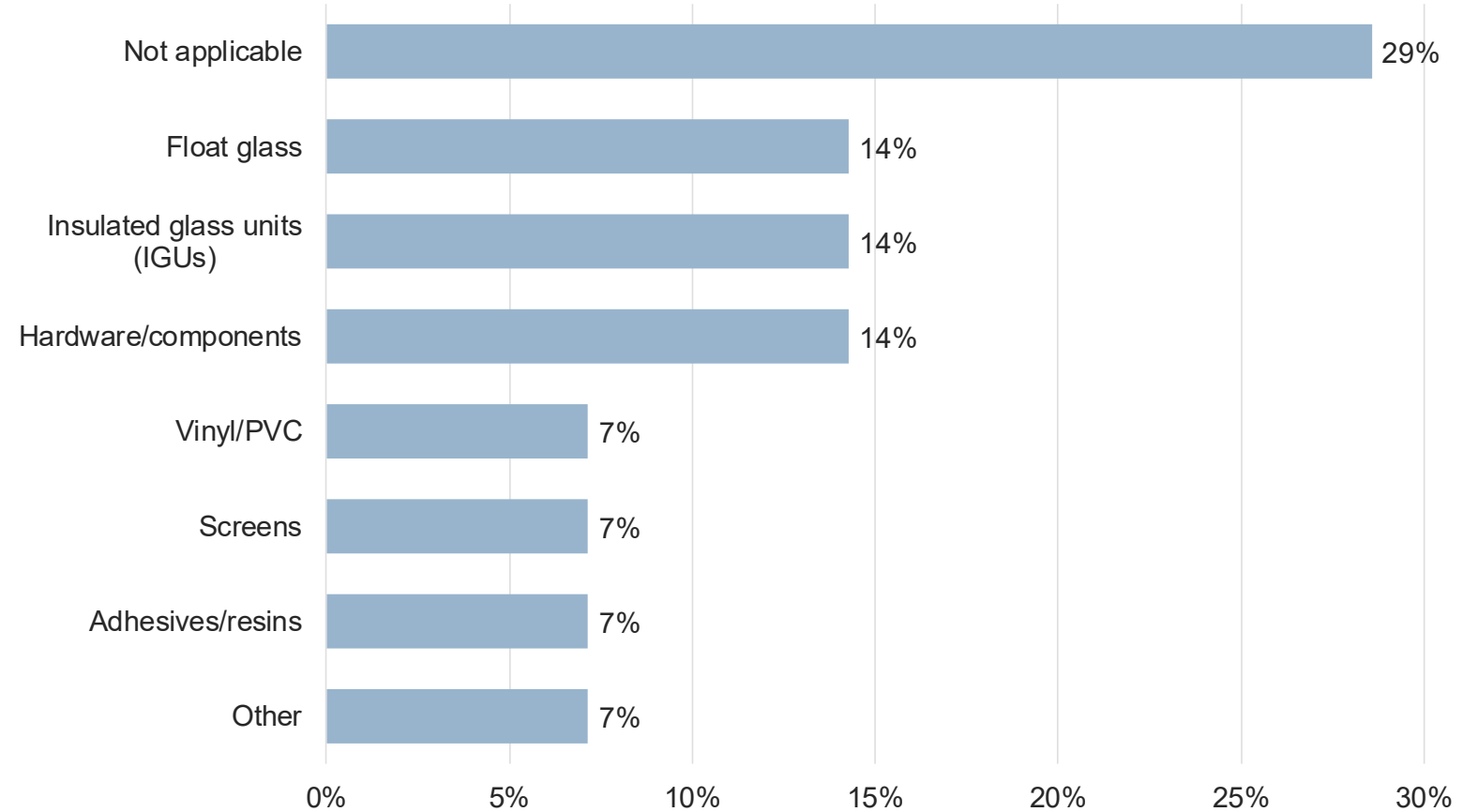
Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

29% of manufacturers reported no extended lead times for input materials.

14% reported extended lead times for glass and hardware.

Products or Materials with Extended Lead Times

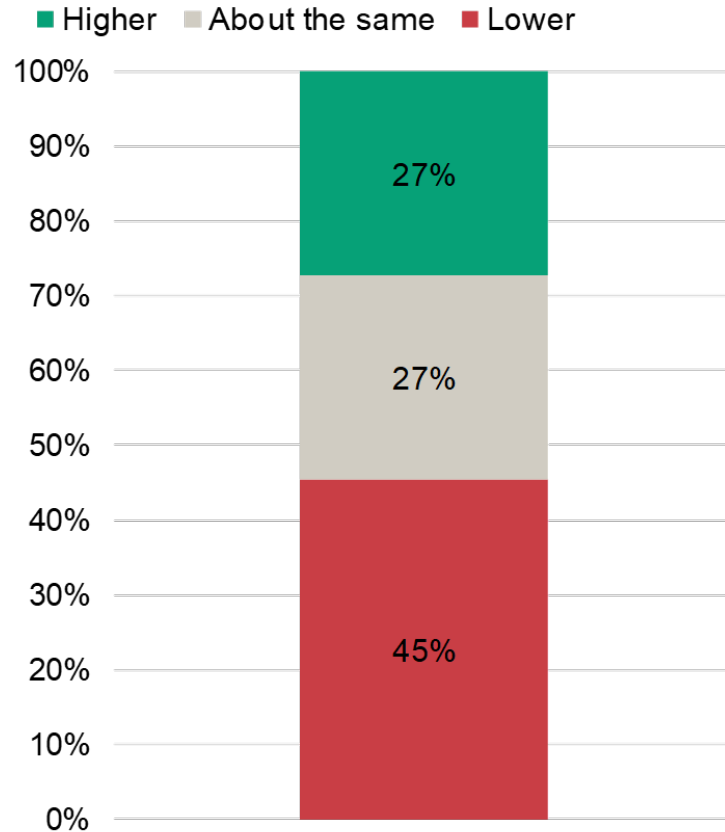
3Q23



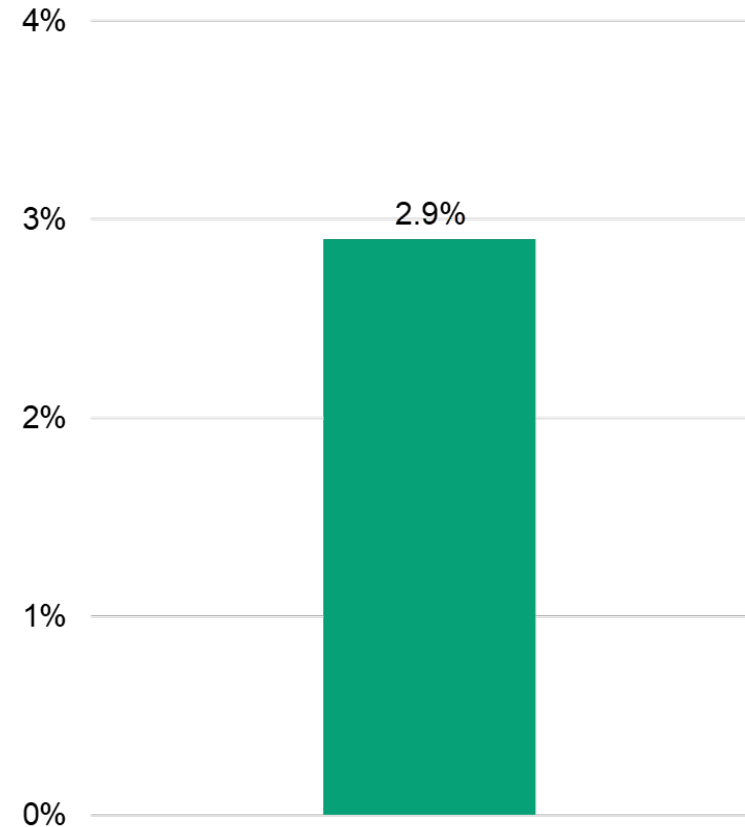
Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

45% of companies are expecting lower revenue in 4Q23 vs 3Q-2023.
Typical seasonality is a main driver for lower expectations.

**Residential Window and Door Company
Next Quarter Revenue Expectations QOQ**



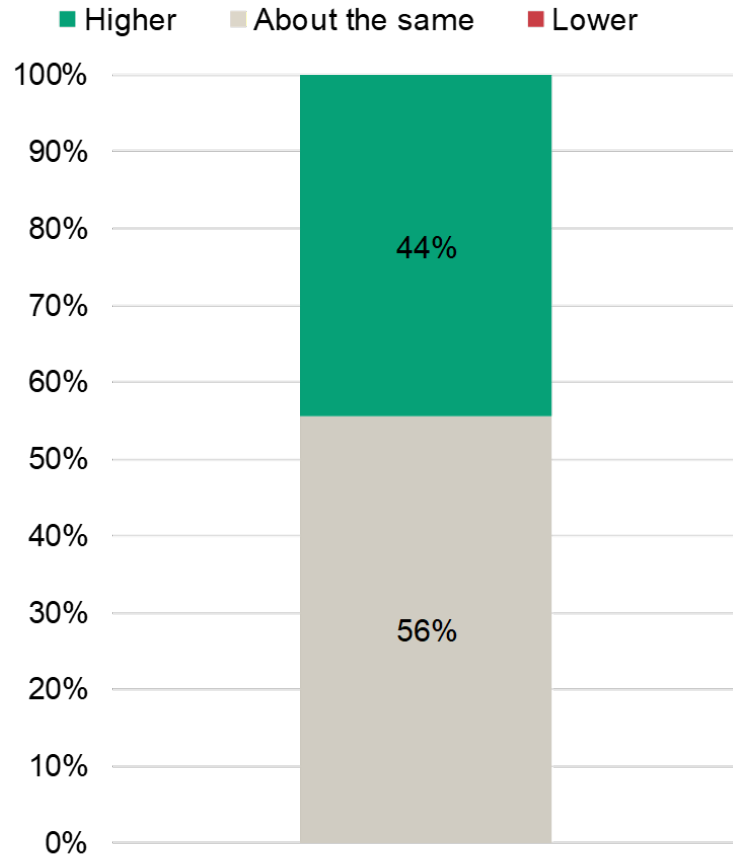
**Residential Window and Door Company
Expected Revenue Net Change QOQ**



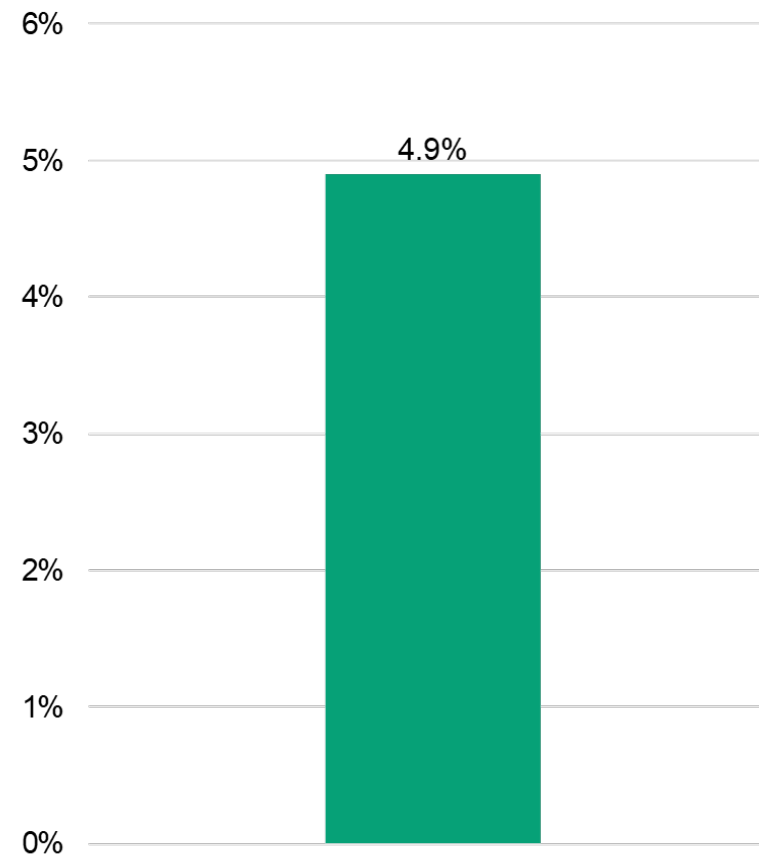
Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

44% of companies are expecting to raise prices in 2024.
56% of companies are expecting to maintain current pricing levels.

Expected Price Increases in 2024



Average Expected 2024 Price Increase YOY

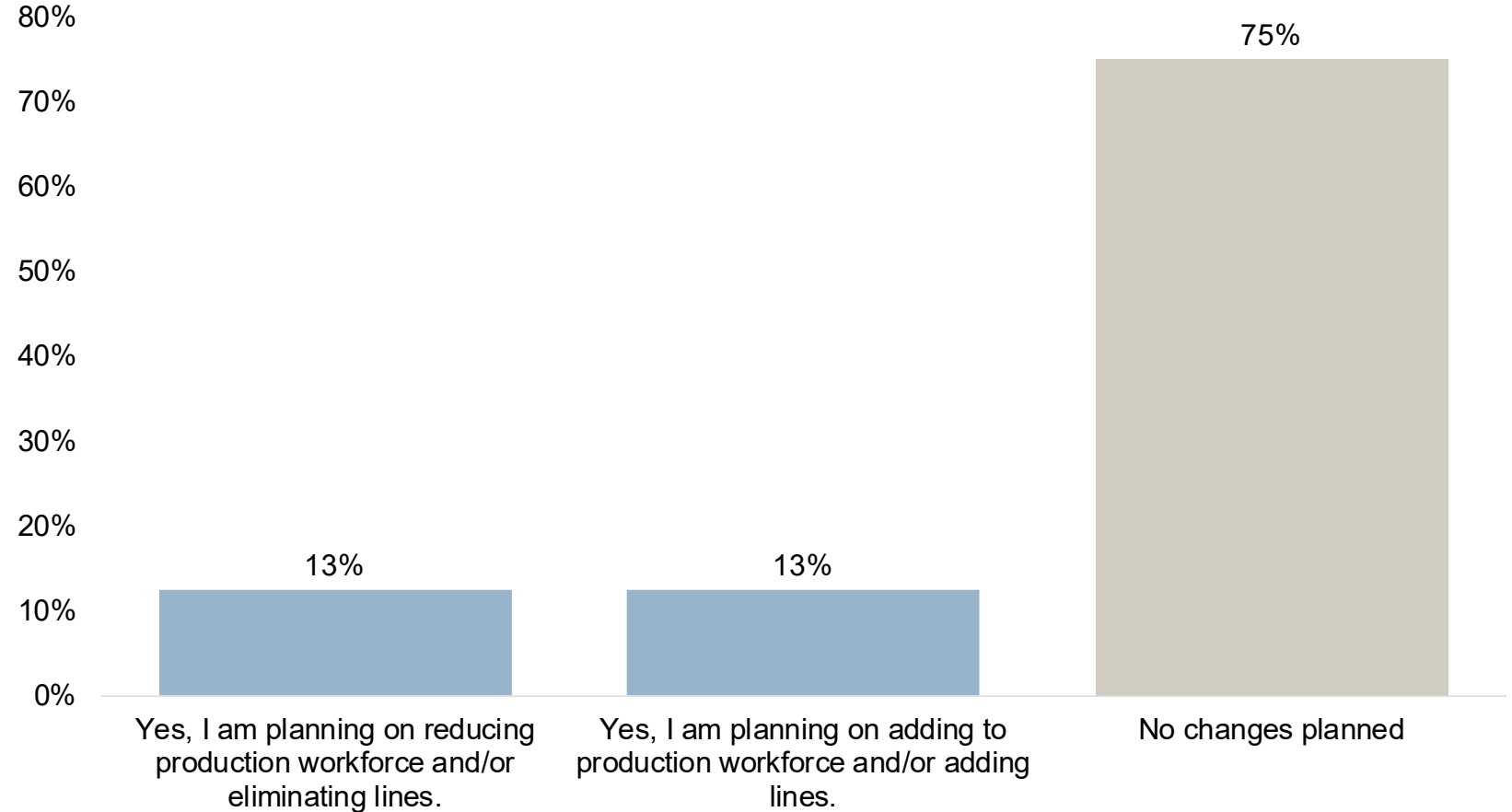


Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

75% of companies are not planning on making changes to production workforce.

Expected Changes to Production/Installation Workforce This Year

3Q23

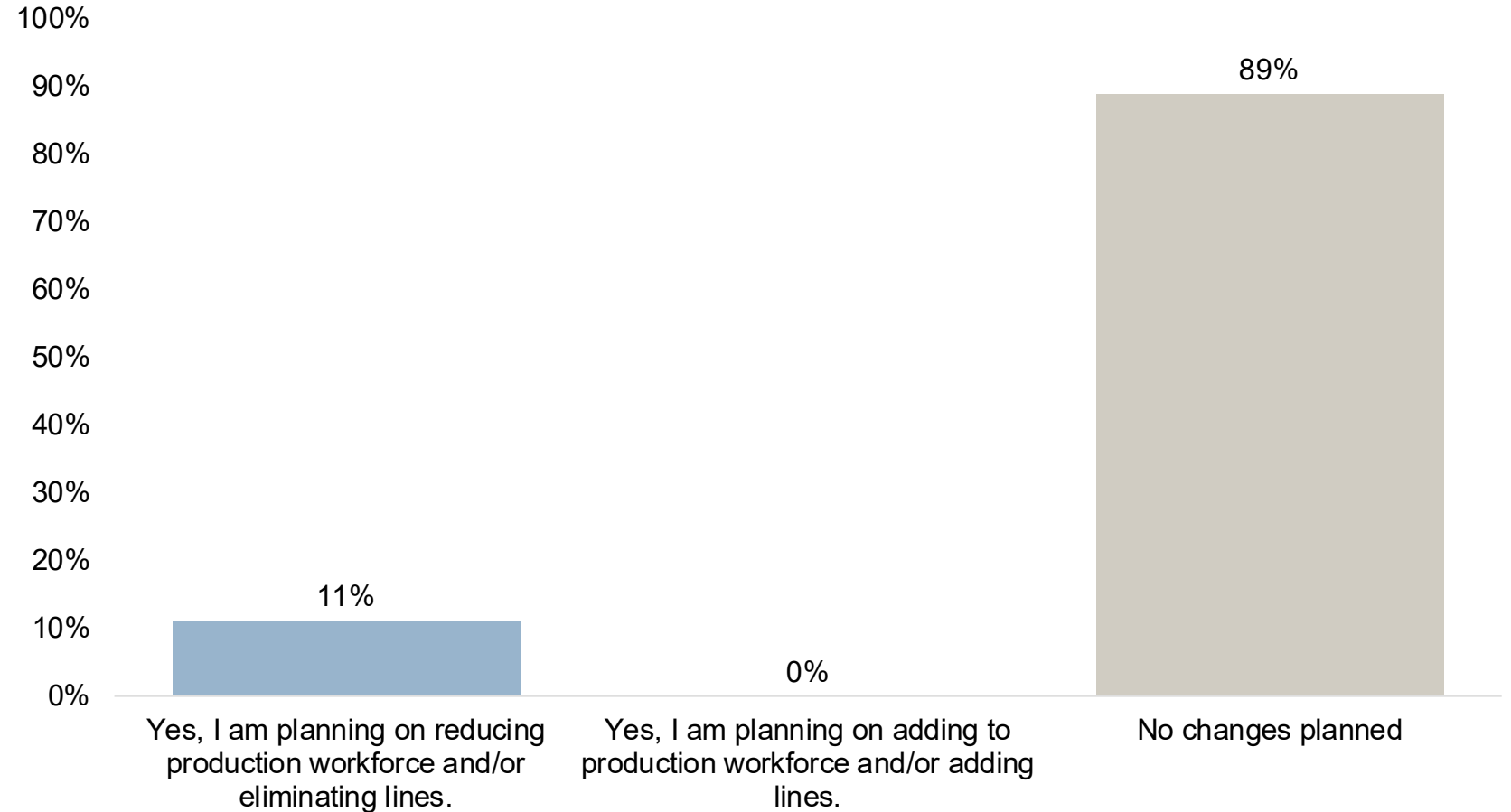


Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

89% of companies are not planning on making changes to sales and marketing staff.

Expected Changes to Sales and Marketing Workforce This Year

3Q23

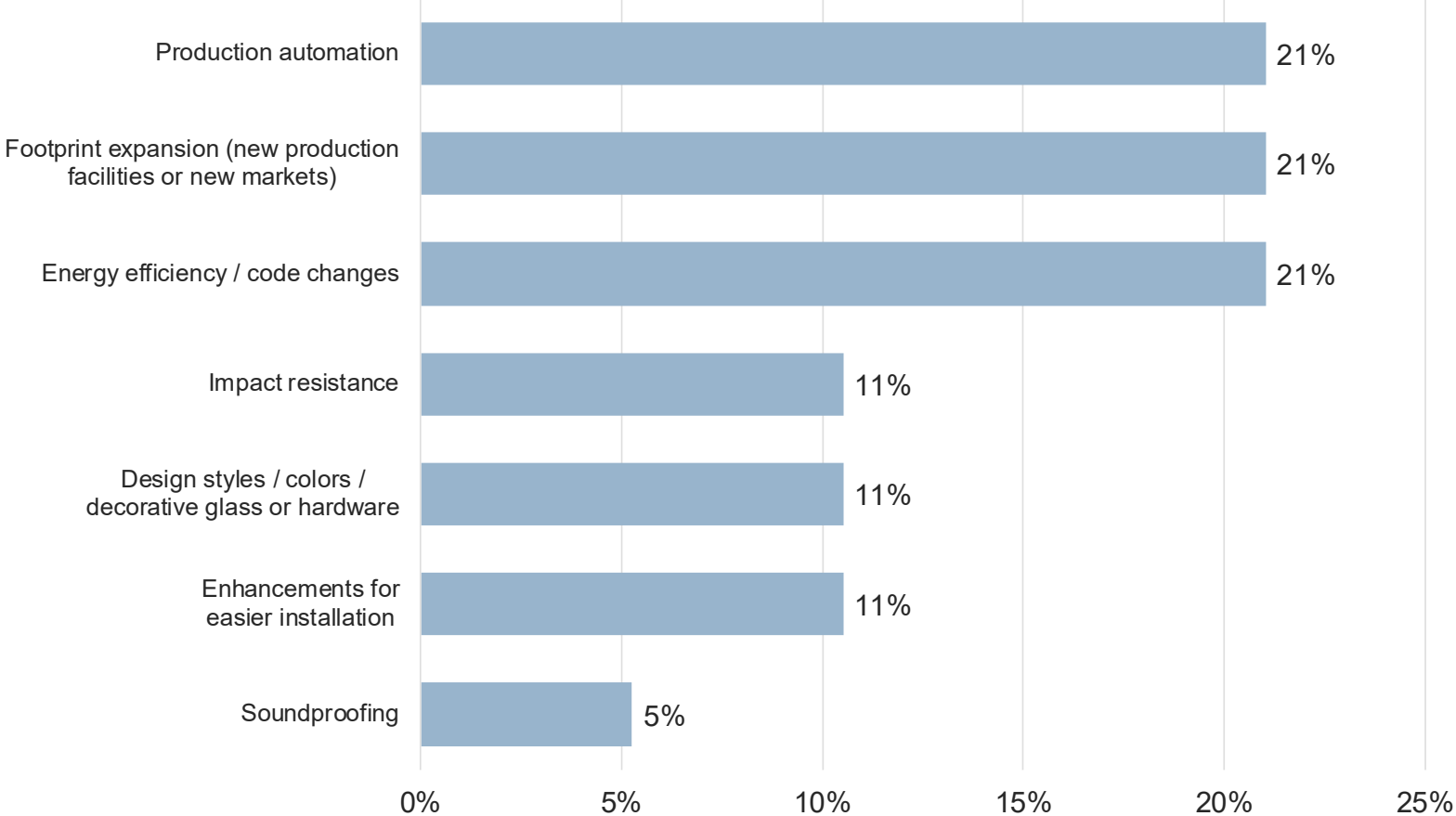


Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

Production automation, footprint expansion, and product modifications due to energy efficiency code changes are leading focus areas for companies.

Expected Focus Areas in the Next 12 Months

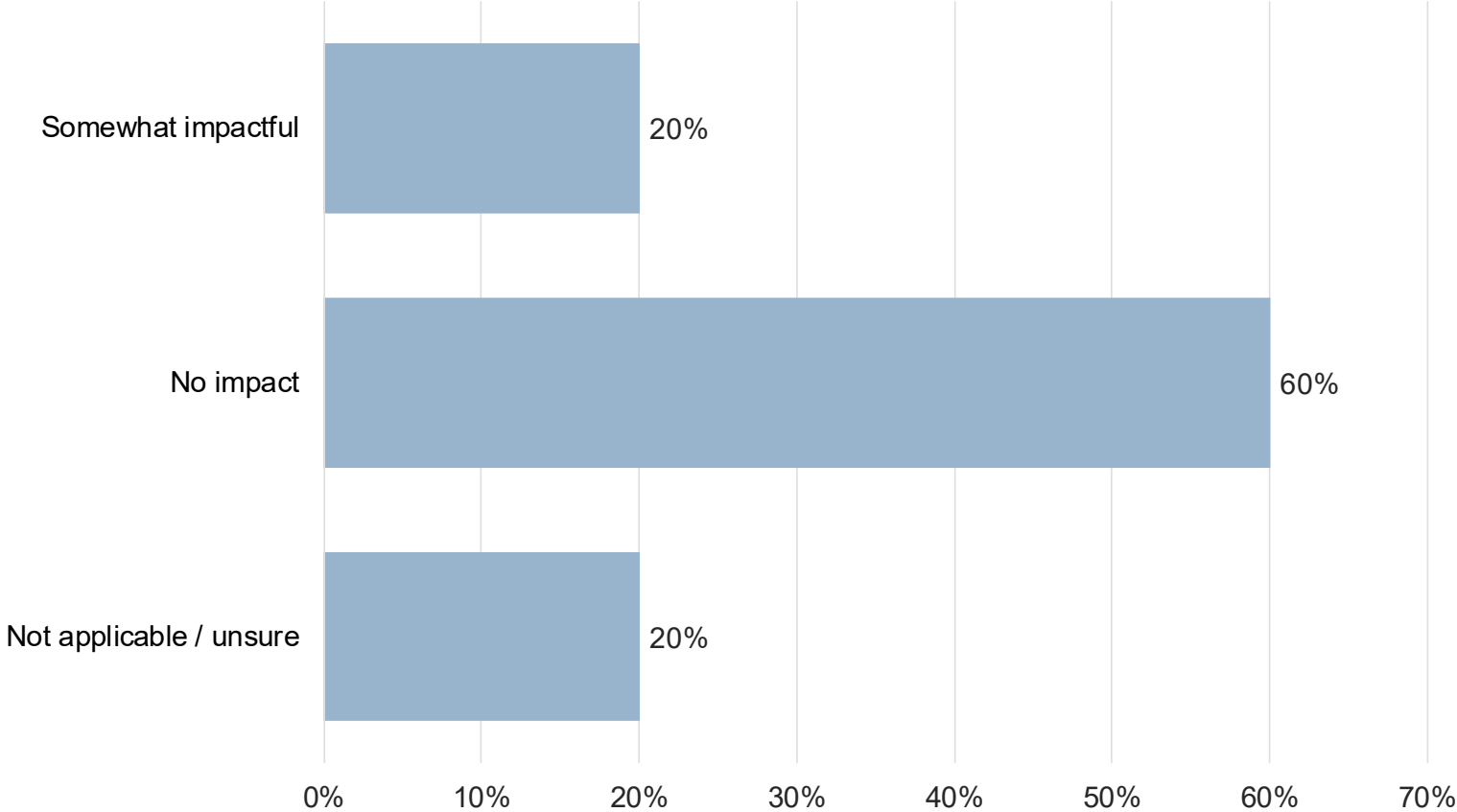
3Q23



Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

60% of companies do not expect an impact from the Inflation Reduction Act tax credits.

Expected Impact from the Inflation Reduction Act
3Q23








Sources: Window + Door Magazine; John Burns Research and Consulting, LLC (Data: 3Q23, Pub: Oct-23)

Outlook for Building Products


2024 Residential Repair + Remodeling

Here are the trends we expect for 2024:


-  **Relative strength in smaller projects.** Supported by rising incomes and a more cautious consumer.
-  **Muted large project spend** over first half of year. Interest rates remaining higher increases the cost of accessing home equity.
-  Inflation Reduction Act will support a broad range of **energy efficiency upgrades** to existing homes in 2024 and beyond.
-  More price-sensitive consumers continue to **shift toward lower-priced products.**
-  More **'trade-up-in-place' discretionary remodels** with lower household mobility for both younger and older households.


2024 New Residential Construction


What we expect:

 **Builder drive to solve for affordability continues to shape homebuilding activity in 2024**

- **Builders continue to install lower-cost materials in homes under constructions.**
- **Trend toward smaller/more dense homes and communities continues in response to affordability pressures.**

 **Cycle times continue to improve for both single-family and multifamily construction, pulling building products spend forward.**

 **Builders continue to take share with continued lack of resale inventory.**

 **Multifamily building materials spending declines as a glut of units comes online and the cost of capital remains elevated.**

Going into 2024, wider backdrop for building products industry is longer-term structural strength.

Structural Drivers for the Building Products Industry

Repair & Remodel Drivers

- ↑ **Regions with a combination of older homes** (esp. those built during the late 1990s and 2000s) and higher disposable income will drive remodeling activity.
- ↑ ~80% of mortgage borrowers are “locked in” at rates below 5%, with **some regional variation**.
- ↑ The average homeowner has \$365K of equity in their home, near an all-time high.

New Construction Drivers

- ↑ Growing population, esp. millennials, will **drive 12.7 million new households** formed in the decade of the 2020s.
- ↑ **17 million new homes** are needed in the decade of the 2020s to meet demographic demand and to fill the current 1.7-million-unit undersupply of homes.



Thank you!

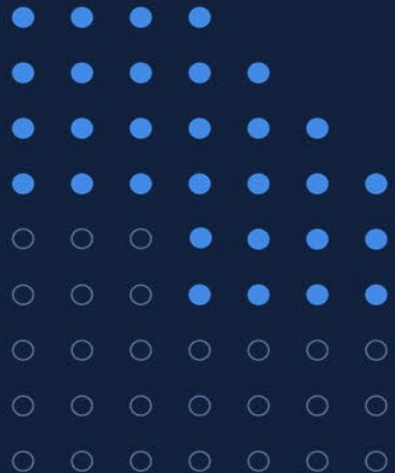


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