

## Homebuilders

## Housing starts rise in July despite lower builder confidence

Industry Overview

## July housing starts up 6% YoY and 4% MoM

July 2023 housing starts pace (seasonally adjusted annualized rate) increased to 1.45MM, compared to downwardly revised June starts of 1.40MM (+3.9% MoM) and 1.37MM in July 2022 (+5.9% YoY). Single family starts increased on a MoM and YoY basis (+6.7% MoM, +9.5% YoY), while multifamily (MF) starts fell on a MoM and YoY basis (-1.7% MoM, -0.8% YoY). By region: Midwest (+9.9% MoM, +10.6% YoY), South (-1.3% MoM, +11.9% YoY) and West (+14.0% MoM, +13.3% YoY), Northeast (+1.0% MoM, -38.9% YoY). **Supply outlook:** We expect public homebuilders to increase the pace of housing starts in 2H23 relative 1H23 given the improved selling pace over the last six months. We forecast single-family housing starts to decline (7%) YoY in 2023 to 933k (revised higher from 922k), which implies 11% YoY growth in 2H23. See our report: [Housing start acceleration to drive more upside for BLD and OC.](#)

## Housing permits decline (13.0%) YoY, but rose 0.1% MoM

July 2023 housing permits (SAAR) increased slightly to 1.442MM compared to 1.441MM in June 2023 (+0.1% m/m and -13.0% y/y). Single-family permits rose +0.6% MoM and +1.3% YoY, while Multifamily permits fell -1.0% MoM and -30.8% YoY.

## MBA purchase index fell 2.7% WoW

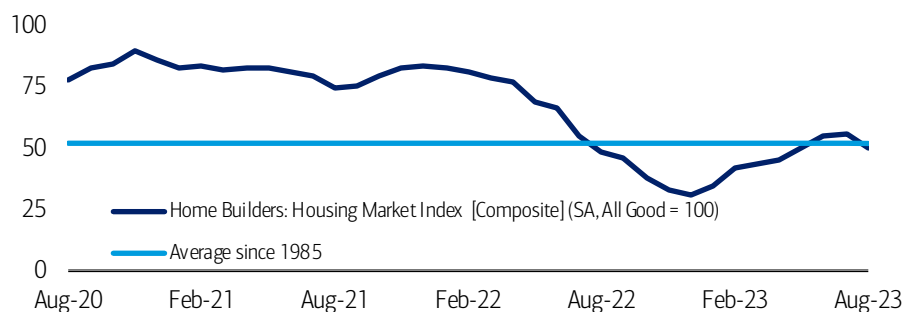
Mortgage Bankers Association (MBA) purchase applications index (seasonally adjusted) continued to decline YoY (-27.0% YoY) and fell -2.7% WoW in the week ended August 4<sup>th</sup>.

## NAHB confidence declines sharply MoM

Homebuilder confidence, as measured by the National Association of Home Builders (NAHB) Index, fell 6 points to 50 in August, indicating that a neutral view of the current market. Year-to-date, builder's outlook for the market has improved with better traffic/sales, low levels of existing home inventory and supply chains improvements, however, over the last month, mortgage rates and inputs costs have moved higher.

## Exhibit 1: NAHB Homebuilder sentiment index

Homebuilder sentiment fell to 50 in Aug, indicating a neutral view of the current market



Source: National Association of Home Builders

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16 August 2023

Equity  
United States  
Homebuilders

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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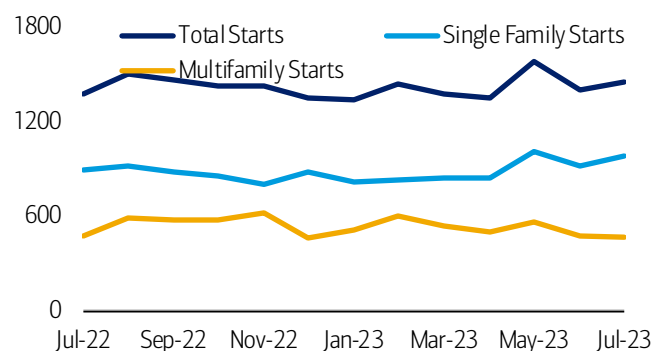


## July housing starts rose 6% YoY and 4% MoM

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### Exhibit 2: US Housings Starts (SAAR; 1,000s units)

July single family +6.7% MoM, multifamily -1.7% MoM

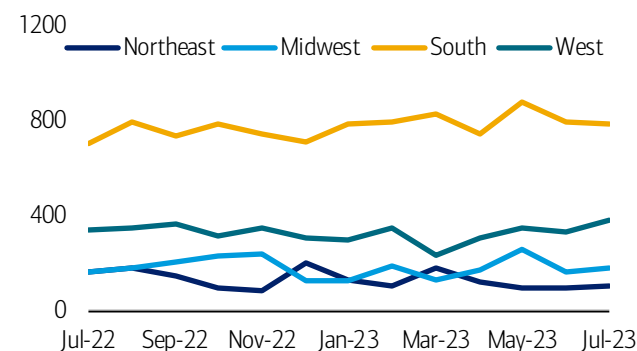


Source: Haver Analytics

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### Exhibit 3: US Housings Starts (SAAR; 1,000s units) by region

West and Midwest regions outperformed

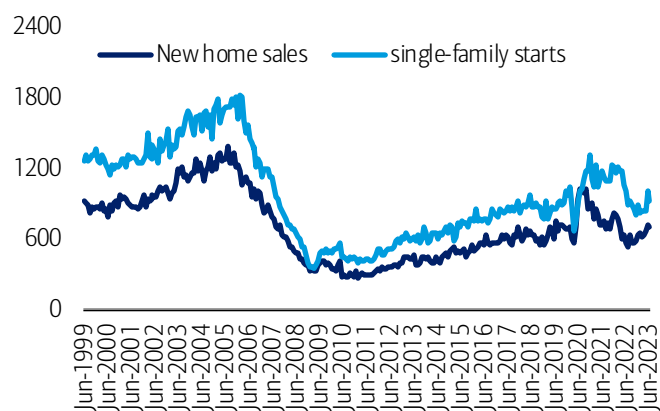


Source: Haver Analytics

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### Exhibit 4: New home sales vs. single-family starts (SAAR; 1,000s units)

New home sales slowed on a MoM basis, but remained healthy

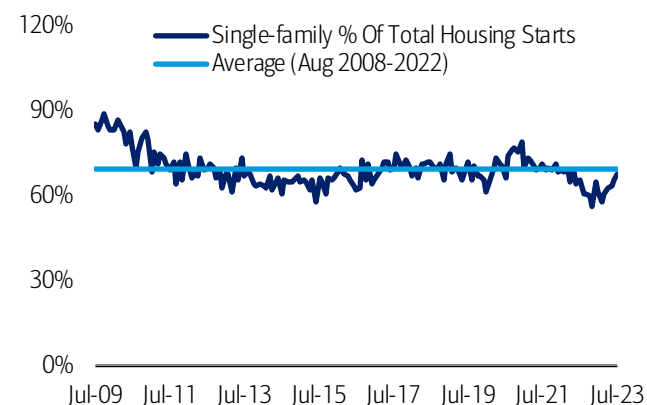


Source: Haver Analytics. May is the latest data point (New home sales)

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### Exhibit 5: US Housings Starts Single-Family as a % of Total Starts (SAAR; 1,000s units)

Single-family represents 68% of total housing starts in June 2023. Average (2008-2023) is 70%



Source: Haver Analytics

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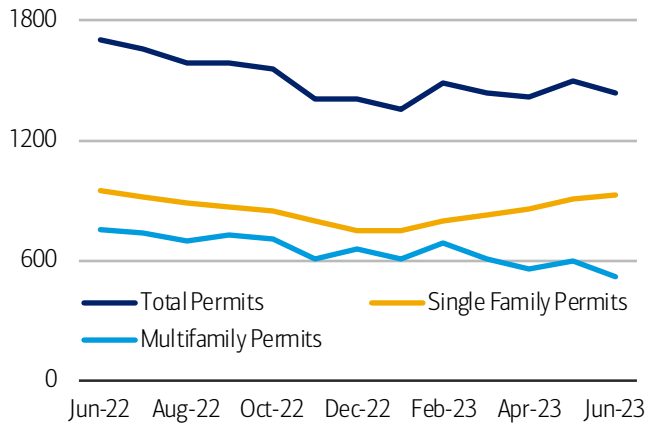
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**Exhibit 6: US Building Permits (SAAR; 1,000s units)**

June multifamily -12.8% m/m, single-family +2.2% m/m

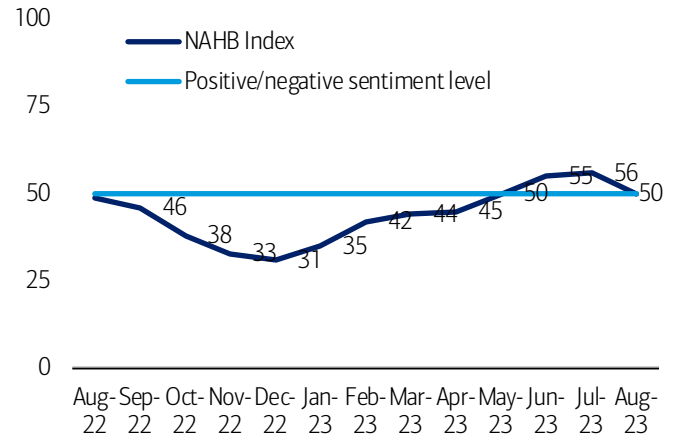


Source: Haver Analytics

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**Exhibit 7: NAHB Homebuilder sentiment index**

Builder sentiment fell to 50 in August



Source: National Association of Home Builders

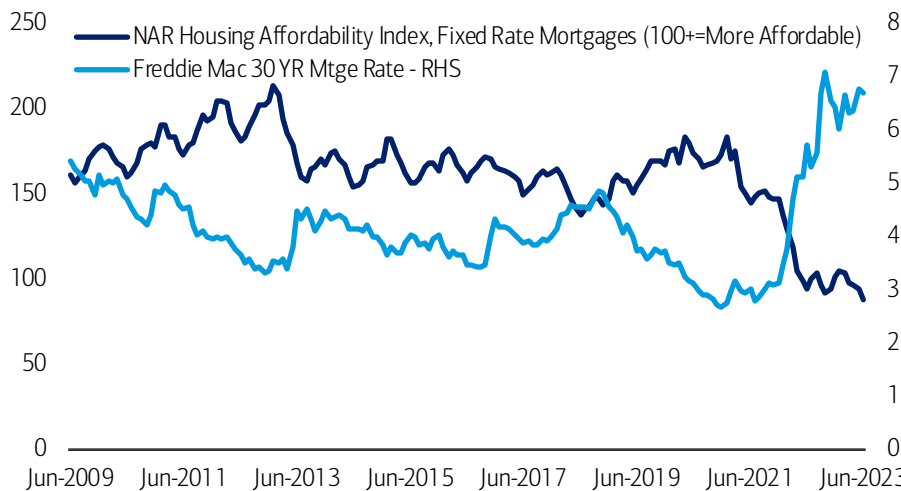
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**Housing affordability drops in June**

Mortgage rates have increased year-to-date affecting the affordability index and nearing the 7% level again. The National Association of Realtors (NAR) affordability index was down 7.1% YoY in June, reaching a new all-time low.

**Exhibit 8: Affordability vs Freddie Mac 30 YR mortgage Rate**

Affordability reached a new low in June



Source: Haver Analytics

Note: most recent affordability as of May

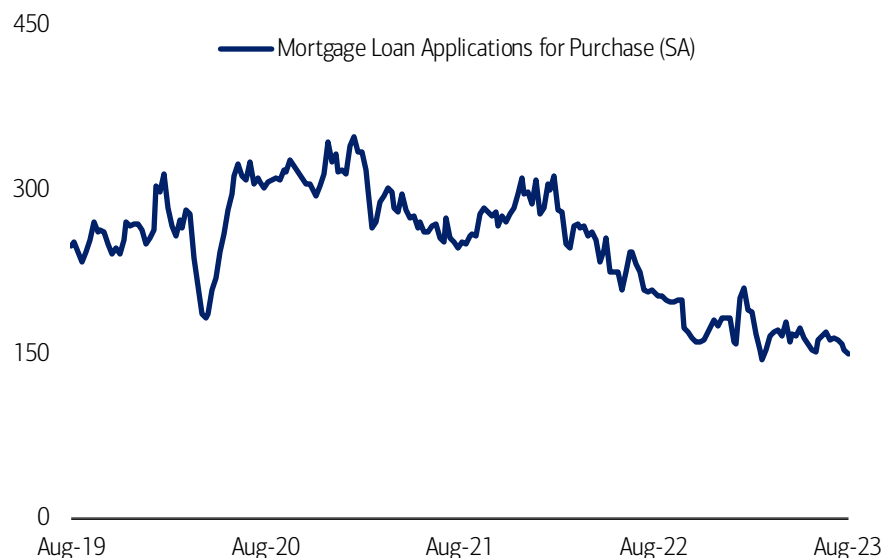
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**MBA purchase index fell 2.7% WoW**

The Mortgage Bankers Association (MBA) purchase index measures mortgage loan application volume. The Index is a leading indicator of home sales by four to six weeks. Mortgage Bankers Association (MBA) purchase applications index (seasonally adjusted) fell -2.7% to 149.9 during the week ended August 4<sup>th</sup> and was down -27.0% on a YoY basis.

**Exhibit 9: Mortgage Bankers Association Purchase Index**

MBA Purchase Index down 27.0% YoY



Source: Haver Analytics  
Data through August 4, 2023

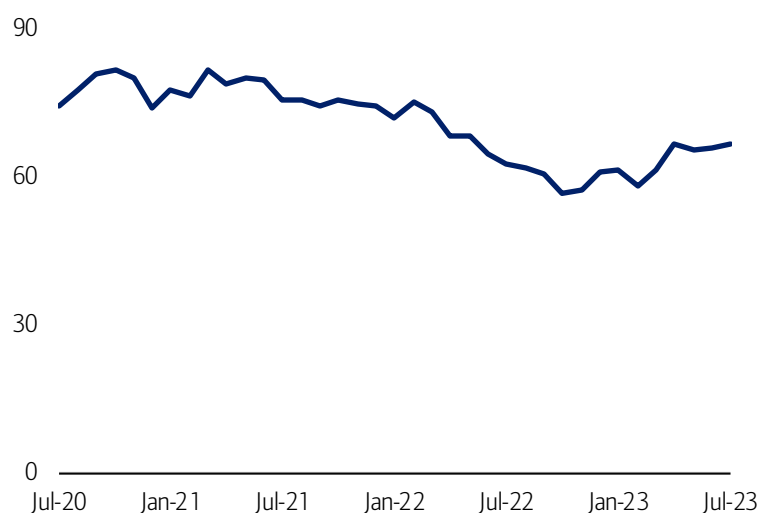
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**HPSI index fell remained slightly increased in July**

Home purchase sentiment index (HPSI), as measured by Fannie Mae, slightly increased to 66.8 in July. Survey respondents noted increased confidence regarding their personal financial situations was largely offset by further pessimism toward homebuying conditions (only 18% of consumers say it's a good time to buy). The full index is up 4.0 points year over year.

**Exhibit 10: Fannie Mae home purchase sentiment index**

Home purchase sentiment rose 0.4 points to 66 in June



Source: Fannie Mae HPSI

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**Stocks mentioned**

Prices and ratings for stocks mentioned in this report

<b>BofA Ticker</b>	<b>Bloomberg ticker</b>	<b>Company name</b>	<b>Price</b>	<b>Rating</b>
OC	OC US	Owens Corning	US\$ 140.25	B-1-7
BLD	BLD US	TopBuild	US\$ 296.74	B-1-9

**Source:** BofA Global Research

**Price objective basis & risk****Owens Corning (OC)**

Our PO for OC is \$165. Our PO is based on 7.5x 2024E EV/EBITDA, in line with Owens Corning's historical average and roughly in line with OC's historical discount to the group to the current peer group average. We believe that a multiple in the middle of OC's historical range is appropriate given positive demand and pricing trends but some input cost pressure and capacity constraints.

Downside risks: 1) further input cost pressure, 2) softer-than-expected new construction and repair and remodel trends in the US, 3) slower-than-expected GDP growth in key regions, 4) deceleration in industrial production, 5) further competitor capacity additions in the insulation industry, 6) inability to successfully integrate acquisitions, 7) slowing global growth.

Upside risks: 1) stronger than-expected new construction and repair and remodel trends in the US, 2) upside to GDP growth in key regions and global industrial production, 3) better-than-forecast capacity utilization, particularly in Insulation, 4) stronger-than-expected pricing power.

**TopBuild Corp (BLD)**

Our \$340 PO is based on a 10.5x EV/2024E EBITDA multiple, in line with its average from 2017-2023. We think BLD's valuation will trade more in-line with its historical valuation as housing starts recover.

Upside risks to our PO: 1) faster than expected recovery in new home starts, 2) further residential market share gains through organic growth and M&A, 3) continued strength in the commercial/industrial market, 4) continued price increases on insulation products. Downside risks: 1) a downturn in the housing market leading to less starts, 2) deflation in insulation products leading to weaker revenue growth and margin pressure, 3) a broad pullback in commercial/industrial activity.

**Analyst Certification**

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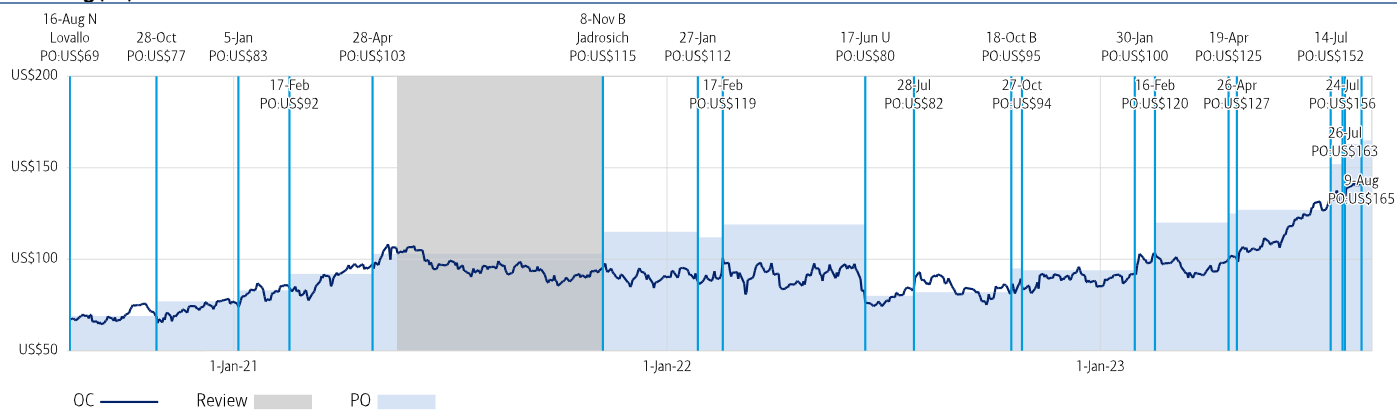
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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
<b>NEUTRAL</b>				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
<b>UNDERPERFORM</b>				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA

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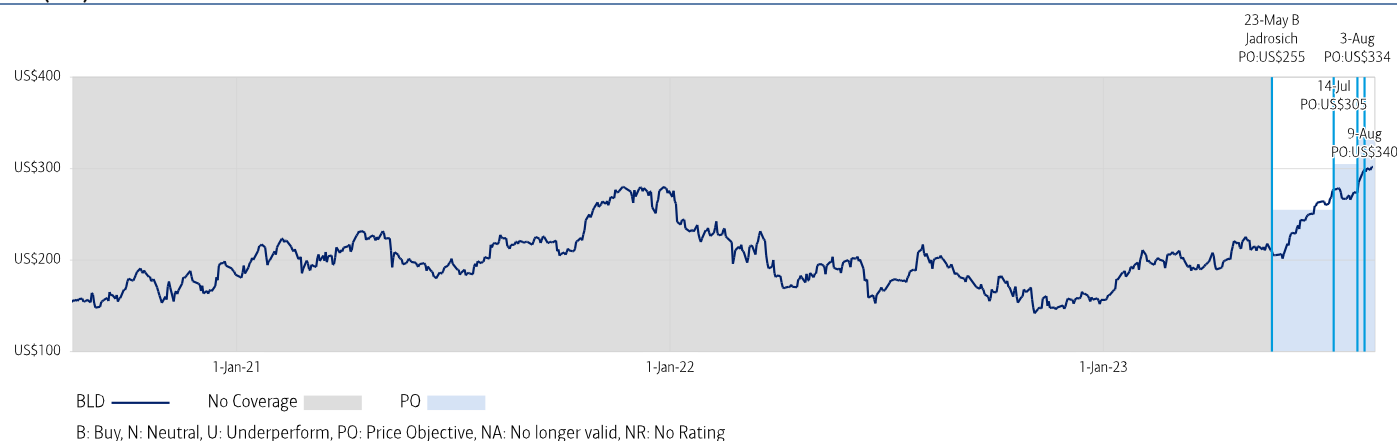
## Owens Corning (OC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

## TopBuild (BLD) Price Chart



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## Equity Investment Rating Distribution: Building Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	39	46.43%	Buy	23	58.97%
Hold	16	19.05%	Hold	9	56.25%
Sell	29	34.52%	Sell	9	31.03%

## Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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