

Homebuilders and Building Products

State of US Housing call: demand slowing as higher rates pressure affordability

Industry Overview

Key takeaways from State of US Housing call with Zonda

BofA US homebuilding and structured products/mortgage research teams hosted a webcast on the US housing market with Ali Wolf, the chief Economist at Zonda, a leading data provider to homebuilders. The tone of the webcast was more cautious on current trends compared to our last update with Zonda two months ago given the recent spike in mortgage rates. Our key takeaways include:

Demand has slowed but remains well above late 2022 levels: In October, 35% of homebuilders said that demand is slower than expected, but not worrisome and 30% said demand is slower and causing concern. Builders are seeing a slowdown beyond normal seasonality as consumers move to the sideline with rising interest rates. Despite the slowing demand, average net sales were still well above 2022 levels in September. Cancellation rates are currently ~15% vs. a high of 60% in 2022.

Lock-in effect benefitting new home sales vs. existing: 60% of homeowners have a mortgage rate under 4% and the lock-in effect is most pronounced in the West. Old, expensive, and limited resale inventory is still funneling people to the new home market.

Pricing generally stable: 72% of builders held prices stable through mid-October, while 12% lowered prices, including increasing incentives.

Builders offering incentives and building smaller homes to address affordability challenges: Home affordability is the biggest concern for homebuilders and they are offering incentives to address this issue, particularly on spec inventory. Builders view mortgage rate buydowns (in some cases builders are still buying down rates to <5%) and funds toward closing costs (typically \$5K-\$20K) as the most effective form of incentives. Builders have also reduced the sq. ft. per house.

Active listings still constrained: The number of active listings has increased recently, but the trend is in-line with normal seasonality. Currently, active listings are at less than half pre-COVID levels and below 2020/2022. The only major market with inventory up from 2019 levels is Austin, Texas.

Builders moving forward with land purchases, despite higher prices: In September, 53% of builders said they were “full steam ahead” on land purchases and 42% were cautiously moving forward. 47% of builders are seeing higher land prices vs. a few months ago, while 45% say that land prices have been flat. Horizontal costs (land development) also remain elevated.

Builders also expect starts to increase in 2024: 70% of builders expect starts to increase in 2024, supported by higher lot supply. 36% of builders expect to increase starts by more than 10% in 2024.

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Rafe Jadrosich
Research Analyst
BofAS
+1 646 855 5815
rafe.jadrosich@bofa.com

Chris Flanagan
FI/MBS/CLO Strategist
BofAS
christopher.flanagan@bofa.com

Shaun Calnan, CFA
Research Analyst
BofAS
shaun.calnan@bofa.com

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