

# Homebuilders and Building Products

## State of US Housing call: demand improved better than seasonality with lower rates

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 positive compared to our last update with Zonda in October. Our key takeaways include:

**New home sales recovery continues, resale still under pressure:** New home sales increased 11% YoY in 2023, while existing home sales declined 19% YoY. Zonda expects continued growth in homebuilder orders in 2024. Zonda expects a muted recovery in existing home sales in 2024 as lower rates are partially offset by low / unattractive inventory and a narrow spread on new and existing home prices. Active listings are down 31% vs. 2019 and the available inventory is old and expensive. The spread on new home prices vs. existing was 9% in 2023 (30% historical avg.).

**Sales performing slightly better than expected in Dec/Jan:** According to Zonda's survey, 65% of builders said demand is on track with expectations in January, while 20% reported stronger than expected demand. Traffic is solid and conversion remains elevated, but weather is causing some traffic reduction. Zonda characterized the current buyer sentiment as improving, but not urgent. The Zonda Market Ranking (ZMR) assigns a market ranking based on the seasonally adjusted sales rate and total sales vs. a historical baseline. In December, 50% of the top metros had an outperform ranking with diverse outperformance by region (vs. weakness in the West in 2022/earlier this year).

### Builders continuing to offer incentives to address affordability challenges:

Builders are offering some form of incentives on 60%+ of Quick Move-In homes in most markets with the range of incentives being 1.5%-5.5% of the total list price. The majority of mortgage rate buydowns are in the range of high 4% to high 5% vs. a current 30-year mortgage rate of ~6.60%.

**Baby boomers now largest % of homebuyers:** In 2023, boomers became the highest % of homebuyers by generation (39%), overtaking millennials (28%). In 2023, the % of all cash buyers reached a 9-year high with the % in 55+ communities spiking to ~47%.

**Pricing flat-to-higher in 2024:** 72% of builders expect home prices (ex. incentives) to increase in 2024, while 23% expect flat prices.

**Public builders continue to take share:** Public builder market share is now above 50% (ranging from 25%-90% share in the largest metros) with private builders lagging due to higher cost structures and less access to capital (often at higher cost).

**Expect Japanese builders to remain active:** Japanese builders tend to take a longer-term view than US builders and Zonda sees potential for more acquisitions given the favorable demographics in the US vs. Japan. Japanese builders provide more access to capital without materially changing the management teams/strategy of US builders.

**Builders expect starts to increase in 2024:** 74% of builders expect starts to increase in 2024, supported by higher lot supply. 35% of builders expect to increase starts by more than 10% in 2024. Zonda expects ~950K SF starts in 2024 with upside risk.

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