

## Homebuilders

## Zonda call: new home demand inflection following through into key Spring season

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 call was incrementally more positive than our last update on February 21<sup>st</sup> (see [Homebuilders: Zonda call: new home demand improving as buyers respond to lower mortgage rates 23 February 2023](#)). Our key takeaways include: (1) positive inflection in home demand that started in January has carried through into Spring selling, (2) homebuilder prices have stabilized, and (3) banking issues have not impacted consumer demand but could negatively impact credit availability for private builders and institutional single-family rental investors.

**Improved demand continued from 1Q into April:** As rates fell from peak levels, new home demand rebounded sharply in 1Q23. According to preliminary results from Zonda's April homebuilder survey, 40% of builders expect sales to increase on a MoM basis and 45% expected flat sales MoM in April. Higher incentives (rate buydowns) are helping homebuyers solve the affordability issue, which led to the initial pickup in demand.

**Prices stable (or up):** Zonda estimates that 60% of builders held prices flat in March, 33% raised prices, and only 7% lowered prices. Some builders are raising prices because they cut too much trying to "find the market" and demand recovered quickly.

**Southeast/East markets outperforming:** Markets in the Southeast continue to grow at the fastest pace largest growth in average sales rate vs. 2019. While most major metro areas are selling above 2019 rates, there are a few markets on the West Coast that are underperforming vs. 2019. The payment-to-income ratio has been the biggest driver of market performance, with lower payment-to-income metros outperforming.

**Entry-level is the most desired product:** Prices for entry-level homes continue to increase and are outpacing growth in prices for move-up and luxury homes. Entry-level homes have the broadest range of prospective buyers including investors, flippers, lower income, first-time, and local buyers.

**Quick move-ins inventory already peaked:** Quick move-in (QMI) inventory is now well-above 2019 levels, but inventory has been declining over the last few months. Existing home inventory (including lower active listings) remains historically low in most markets due to the lock-in effect of higher rates.

**Lot supply increasing, but healthy:** Vacant developed lots are rising and more lot development is underway in the eastern US. Lot supply is still low vs. historical levels.

**Multi-family and BTR pipeline are large:** Multi-family apartments and built-to-rent (BTR) have a significant number of units in the pipeline that are scheduled to be delivered in 2024, primarily in Southeast/Texas/Southwest metro areas.

**Credit crunch is a risk to smaller builders:** Zonda noted that smaller, nonpublic builders (around one-third of the market) are seeing a pullback in lending from commercial banks. BTR investments also face headwinds from higher financing costs.

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