

BTIG HomeSphere Monthly Builder Survey

November 8, 2021

October 2021: Homebuilders See Demand Environment Improve Modestly

WHAT YOU SHOULD KNOW: The monthly BTIG/HomeSphere Homebuilder Survey solicits the perspective of approximately 50-100 small and mid-sized tract homebuilders nationally about sales, customer traffic, and pricing trends (79 respondents this month). More builders reported yr/yr sales increases in October than in September, but fewer saw yr/yr traffic level increases. Moreover, more builders reported sales and traffic ahead of expectations than last month. Builders continue to take a more cautious approach to price increases than in 1H21, although most builders are still pushing some prices. Incentive use remains moderate. We also asked respondents about investor activity. While 68% of respondents reported selling 10% or fewer of their homes to investors, 10% of builders are knowingly selling over 40% of their product to them. The bottom line: demand is not as robust as earlier in 2021, but the operating environment remains healthy, and our survey indicates that builders are generally more optimistic than pessimistic. Investors may be helping demand more than large public builders are letting on. Price aggressiveness has softened from 1H21 as well, but we see few cuts/incentives. Our survey results suggest the NAHB Housing Market index (HMI) gauging builder sentiment (to be released 11/16/21) should come in at or better than last month's reading of 80 (consensus' expectation is 80).

- **Sales & traffic.** Sales indicators improved, while traffic indicators declined in October. 42% of respondents reported yr/yr increases in sales orders per community vs. 34% last month and 76% in October 2020. 23% saw a yr/yr decrease in orders vs. 25% last month and 7% for the same month last year. 37% reported an increase in yr/yr traffic at communities; 22% saw a decline. This compares to 39% and 19%, respectively, last month.
- **Expectations.** Both sales relative to expectations and traffic relative to expectations increased after dropping for two months. 41% of respondents saw sales as better than expected vs. 24% last month, and 15% saw sales as worse than expected vs. 16% last month. 38% saw traffic as better than expected vs. 29% last month, while 8% of builders saw traffic as worse than expected vs. 9% last month. The better-minus-worse expectations ratio for both indicators continues to be positive, and the gap widened compared to last month.
- **Pricing & incentives.** The number of builders raising prices continues to be at lower levels than in 1H21, while the use of sales incentives continues to be sporadic. 67% of builders raised some, most, or all base prices in October from September, the same reading as last month (76% last October). This is down significantly from the peak of 100% of builders in May 2021. Incentive use increased slightly as 11% of builders increased "most/all" or "some" incentives vs. 8% last month, although we would expect to see incentives increase somewhat seasonally in fall/winter.
- **Special question.** This month we asked respondents about investor and single-family operator activity and, specifically, what percentage of homes were being sold as investment properties as opposed to a traditional consumer. 68% of builders reported minimal activity and responded that either "0%" or "1-10%" of sales were to investors. However, 10% of respondents answered that "41%+" of sales were to investors. 11% were unsure of the number of sales to investors.

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Methodology

We conduct an electronic survey of approximately 50-100 small to mid-sized homebuilders that sell, on average, 50-100 homes per year throughout the nation. We ask questions about sales, traffic, and cost trends on a year-over-year and month-over-month basis. We also query firms as to expectations and whether field trends are ahead of, in line, or below those expectations. We began our survey in October 2017. Last month, we discontinued several questions, mostly those regarding costs, in order to boost response rate.

Our respondents range from CEOs of builders to operations managers, depending on the firm. Our respondents sell across a broad spectrum of price points in both urban and suburban markets. Specific responses are anonymous, although we do analyze data based on regions and price points, and some builders choose to provide more specific commentary on trends than our questions ask.

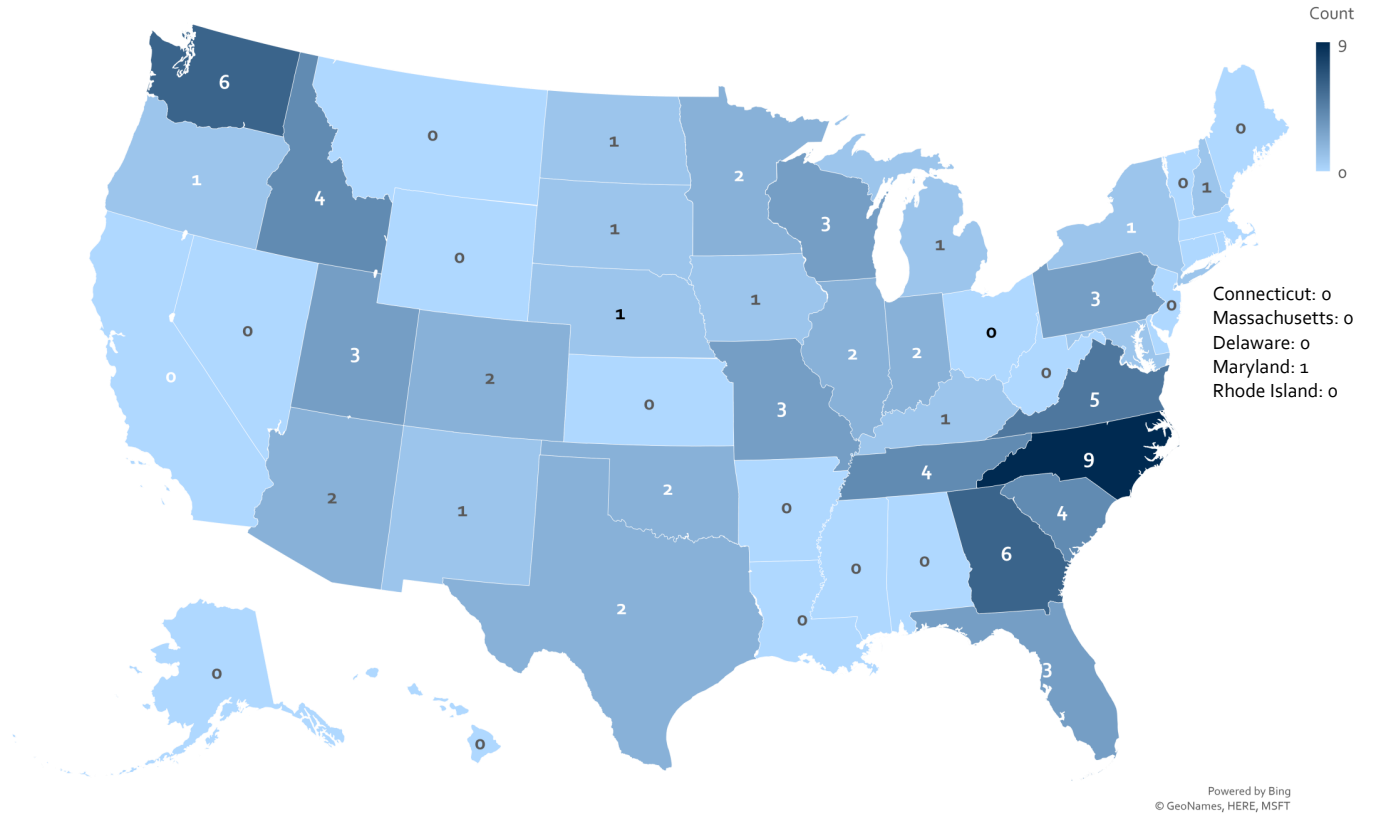
We are very pleased to partner with HomeSphere. HomeSphere offers technology-driven solutions for the homebuilding industry, linking building products manufacturers with builder/developers, automating and simplifying the rebate process while increasing the visibility of products builders choose to install in their homes. HomeSphere assists us with our respondent target list and data collection efforts.

Note: Response totals for certain questions may show values greater or less than 100% due to rounding.

Descriptive Statistics of Respondents

Exhibit 1 - Responses by State

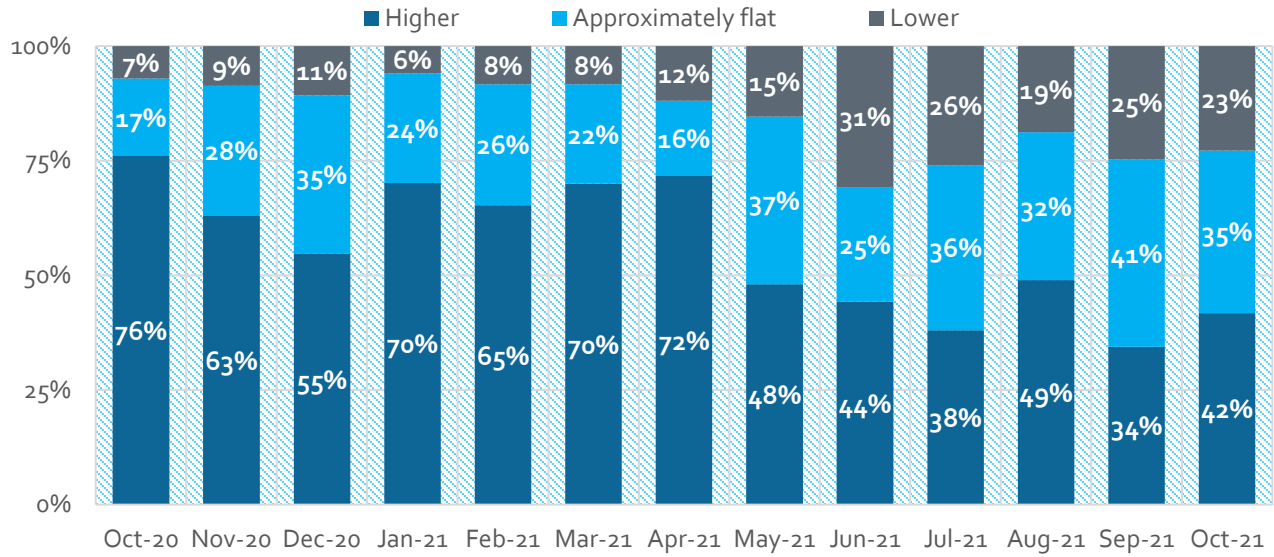
(79 Responses, October 2021)



Source: BTIG Research, HomeSphere

Sales

Exhibit 2 - New Sales Contracts Per Community vs. 1 Year Prior

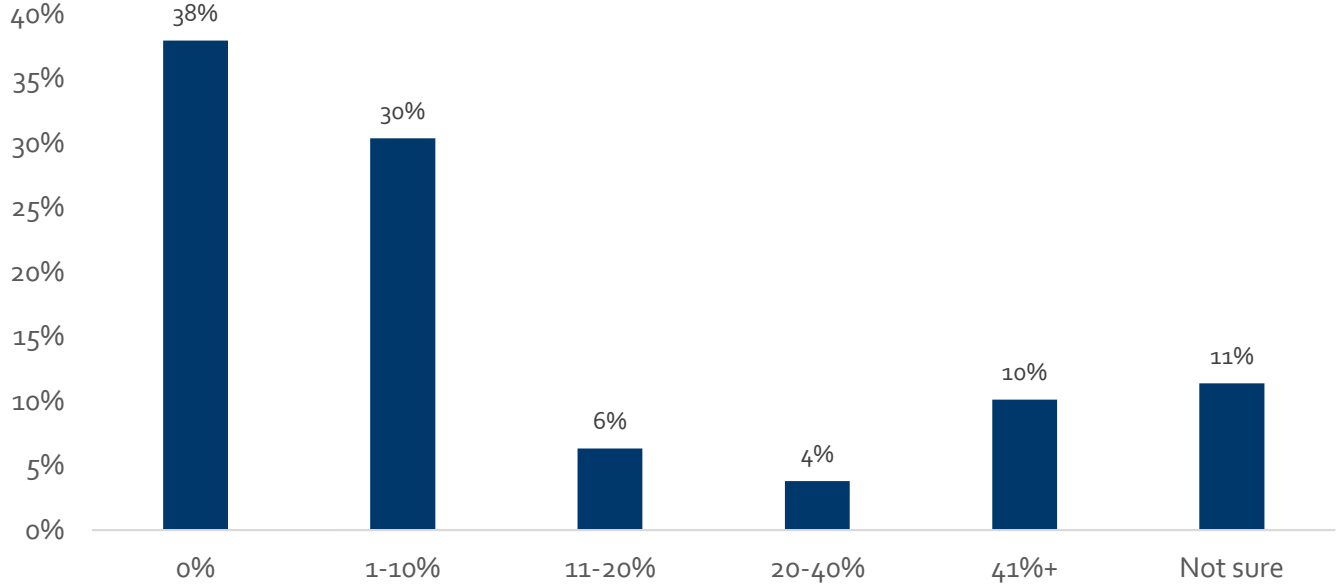


Source: BTIG Research, HomeSphere

- The number of builders reporting year/year increases in sales saw a bump in October after seeing a drop in September. 42% of respondents reported that orders increased year/year vs. 34% last month (the lowest percentage since peak pandemic shutdowns in April 2020) and 76% in October 2020. 23% saw a drop in orders vs. 25% last month and only 7% in October 2020. We remind investors that comparisons are difficult vs. the robust pandemic recovery activity of 2020's second half. Additionally, some builders continue to purposely slow orders to match sales with production capacity, although likely in fewer communities than earlier in the year.

Special Question: Investor Sales

Exhibit 3 - "What percentage of homes has your company sold this year to customers who intend to use them as investment properties as opposed to living in them?"

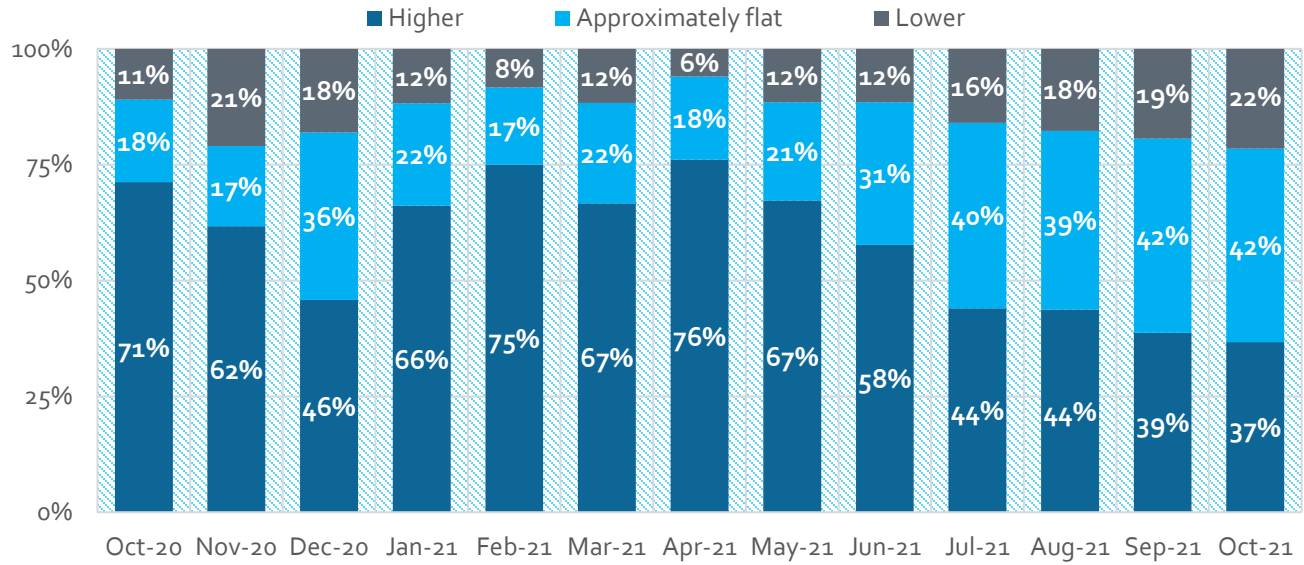


Source: BTIG Research, HomeSphere

- This month we asked respondents about investor and single-family operator activity and, specifically, what percentage of homes were being sold as investment properties as opposed to a traditional consumer. The most common answers were "0%" and "1-10%", with the least common answers being "20-40%" and "11-20%". Surprisingly (to us), 10% of builders reported that over 40% of sales were to investors. 11% were not sure. We also note that builders may be unknowingly selling homes to investors. We believe investors are playing a potentially growing role in both unit demand and price acceleration.

Traffic

Exhibit 4 - Traffic Per Community vs. 1 Year Prior

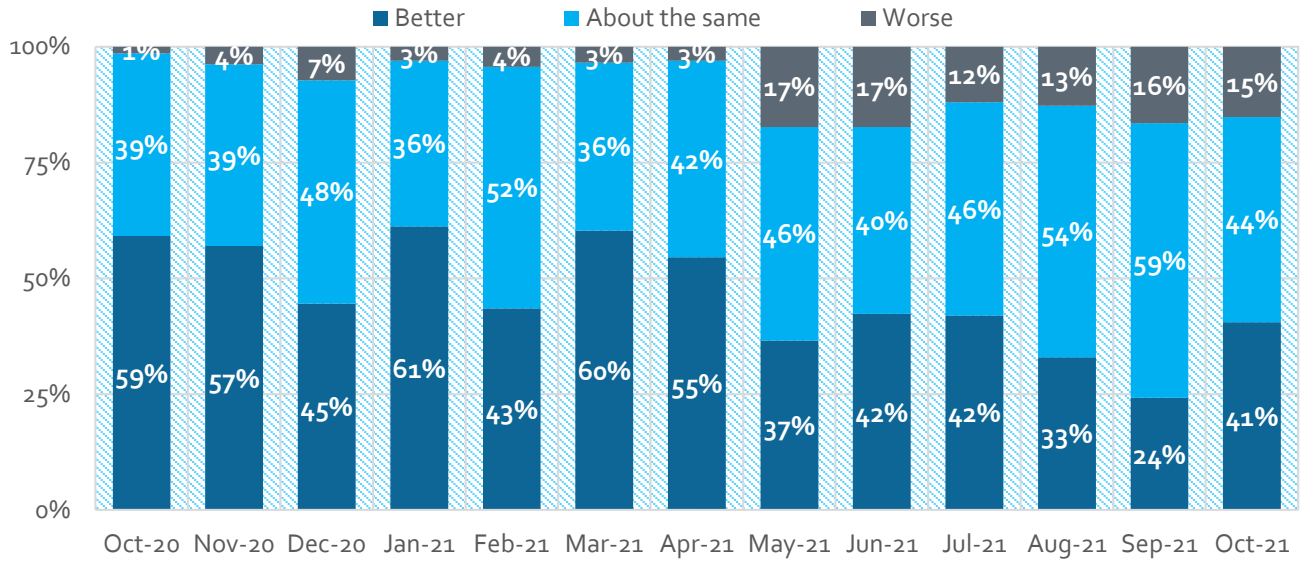


Source: BTIG Research, HomeSphere

- Traffic trends dropped for the second straight month in October as 37% of builders reported year-over-year growth in community traffic (the lowest number since May 2020), with 22% seeing a drop vs. 39% and 19% last month, respectively. The percentage of builders indicating "higher" traffic year-over-year has not increased sequentially since April 2021 (although this could be seasonal). Relative to last year, we believe a larger number of sales centers are now open and conducting business as usual (to the extent that communities have homes available for sale). We also believe that a larger number of builders are using virtual sales tools to sell product.

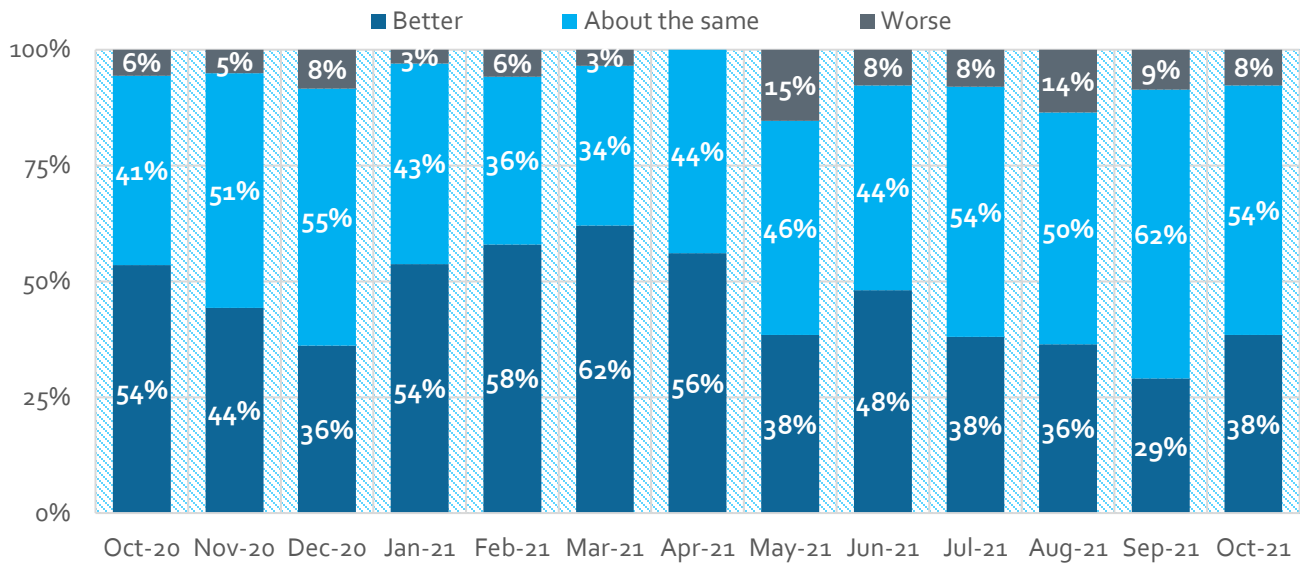
Trends Relative to Expectations: Sales and Traffic

Exhibit 5 - New Sales Contracts Per Community Relative To Expectations



Source: BTIG Research, HomeSphere

Exhibit 6 - Customer Traffic Per Community Relative To Expectations

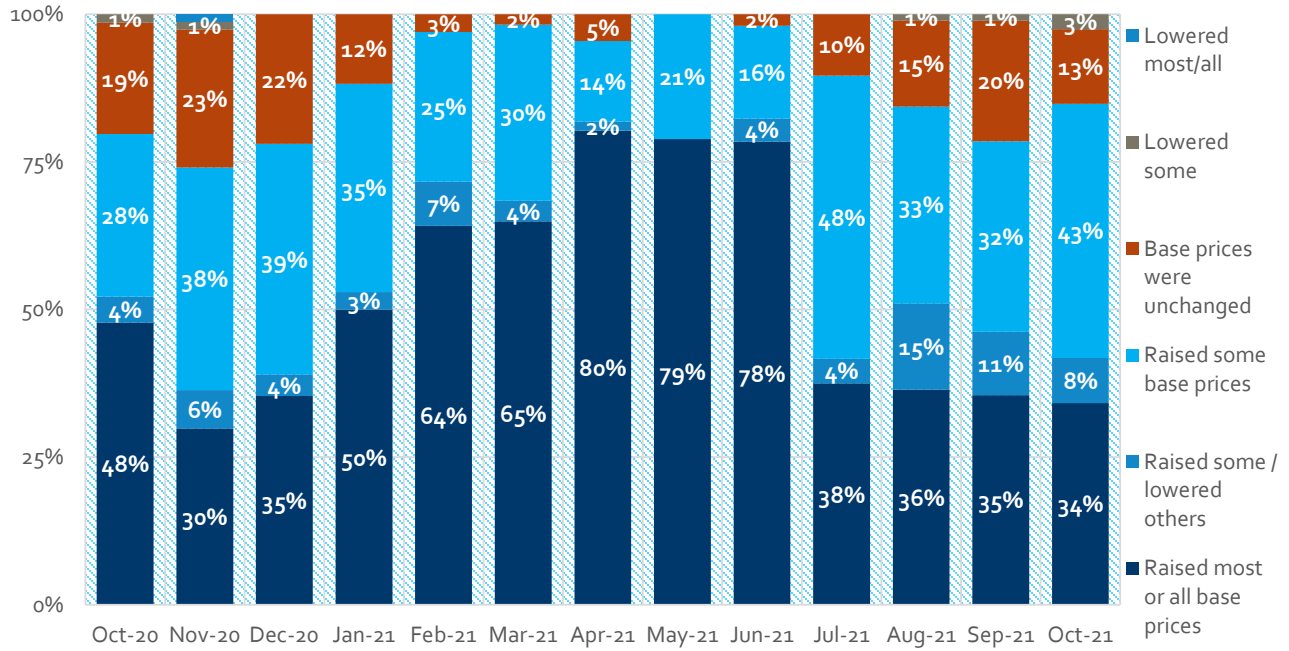


Source: BTIG Research, HomeSphere

- More builders continue to see sales and traffic ahead of expectations than below, which is a trend that has persisted since May 2020. 41% of survey respondents saw October orders above plan vs. 24% in September, while 15% saw orders below expectations vs. 16% last month. 38% of builders saw traffic above expectations, while 8% saw traffic below. This compares to 29% and 9%, respectively, last month. With overall slowing continuing in 2H21, we believe builders' expectations are being reset slightly lower as we head into more seasonally-normal fall/winter compared to 2020. However, we note that the better-minus-worse expectations ratio for both indicators continues to be positive, and the gap widened compared to last month.

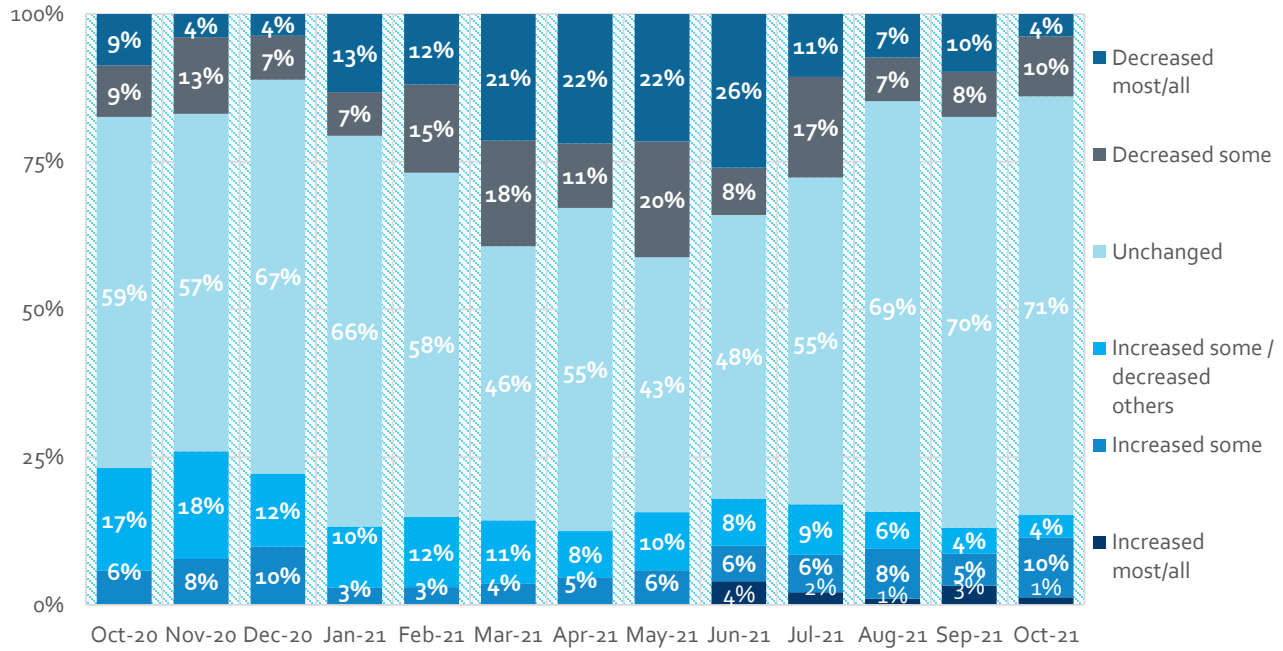
Changes in Pricing and Incentives

Exhibit 7 - Changes In Base Pricing From Prior Month



Source: BTIG Research, HomeSphere

Exhibit 8 - Changes In Sales Incentives From Prior Month



Source: BTIG Research, HomeSphere

- Builders continued to take a more cautious approach to price increases in October compared to earlier in the year. 67% of builders reported raising either "most/all" or "some" base prices vs. 67% last month and 76% this time last year. Only 34% reported raising "most" or "all" base prices, the lowest reading of 2021. 13% of builders kept base prices flat vs. 20% last month. We continue to view this moderation in price increase activity as positive, decreasing the risk of a "negative feedback loop" in which builders reduce price and potentially depress, rather than increase, demand. Incentive use continues to be moderate, as only 11% of respondents reported increasing "most/all" or "some" incentives vs. 8% last month. 14% of builders reported lowering "some" or "most/all" incentives vs. 18% last month. Seasonally, we would expect incentives to increase as we near the winter holidays.

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