

BTIG HomeSphere Monthly Builder Survey

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March 2022: Demand Holding But Higher Interest Rate Impact Is Beginning To Seep Through

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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 (78 respondents this month). Demand trends held relatively steady in March. 46% of builders reported yr/yr increases in sales orders per community vs. 44% last month, while 44% reported an increase in yr/yr traffic vs. 47% last month. However, sales relative to expectations saw a modest drop in March; traffic relative to expectations remained in-line with February. A slightly larger percentage of builders reported raising prices in March than last month, likely in part due to higher material costs and a shortage of available inventory. We again asked about the impact of higher interest rates on traffic and sales in March, and results were more negative than February. 41.8% of builders noted a negative impact on sales/traffic vs. 25.0% in February and 21.7% in January. 8.9% saw a positive impact on demand (i.e., higher rates motivating customers to look/buy now before rates go higher) vs. 12.5% in February and 12.3% in January. The bottom line: demand appears to be generally healthy, but higher interest rates are beginning to have a detrimental impact. We believe that builders continue to benefit from a short supply environment, but absent lower rates, we expect demand to ease now. Based on our data, we believe the NAHB Housing Market index (HMI) gauging builder sentiment (to be released 4/18/22) could come in around or slightly lower than the consensus estimate of 77. The previous HMI reading was 79.

- **Sales & traffic.** The number of builders reporting higher yr/yr sales was slightly higher in Mar than Feb. 46% of respondents reported yr/yr increases in sales orders per community vs. 44% last month and 70% in March 2021. 22% saw a yr/yr decrease in orders vs. 24% last month and 8% for the same month last year. 44% reported an increase in yr/yr traffic at communities; 19% saw a decline. This compares to 47% and 21%, respectively, last month.
- **Expectations.** Sales relative to expectations dropped in March, while traffic relative to expectations was in-line with last month. 34% of respondents saw sales as better than expected vs. 39% last month, while 17% saw sales as worse than expected vs. 10% last month. 38% saw traffic as better than expected vs. 38% last month, while 8% of builders saw traffic as worse than expected vs. 10% last month. The better-minus-worse expectations ratio for both indicators continues to be positive.
- **Pricing & incentives.** The number of builders raising prices increased slightly in March, while the use of sales incentives remained limited and was relatively unchanged from February. 86% of builders raised some, most, or all base prices in March from February (95% last March). This is up from 85% last month, but down from the peak of 100% of builders in May 2021. 8% of builders increased "most/all" or "some" incentives vs. 9% last month and 4% last year.
- **Interest rates.** This month we once again asked about the impact of higher interest rates on sales/traffic since the beginning of the year. 41.8% of respondents believe higher rates have had a negative impact (i.e., a decrease in sales or traffic/increase in order cancellations) vs. 25.0% last month, while 8.9% of respondents believe that higher rates have had a positive impact (i.e., an increase in sales or customer traffic as potential buyers attempt to "beat" future interest-rate increases) vs. 12.5% in February. 49.4% of builders have yet to see higher rates have a measurable impact on business vs. 62.5% last month.

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 with, 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.

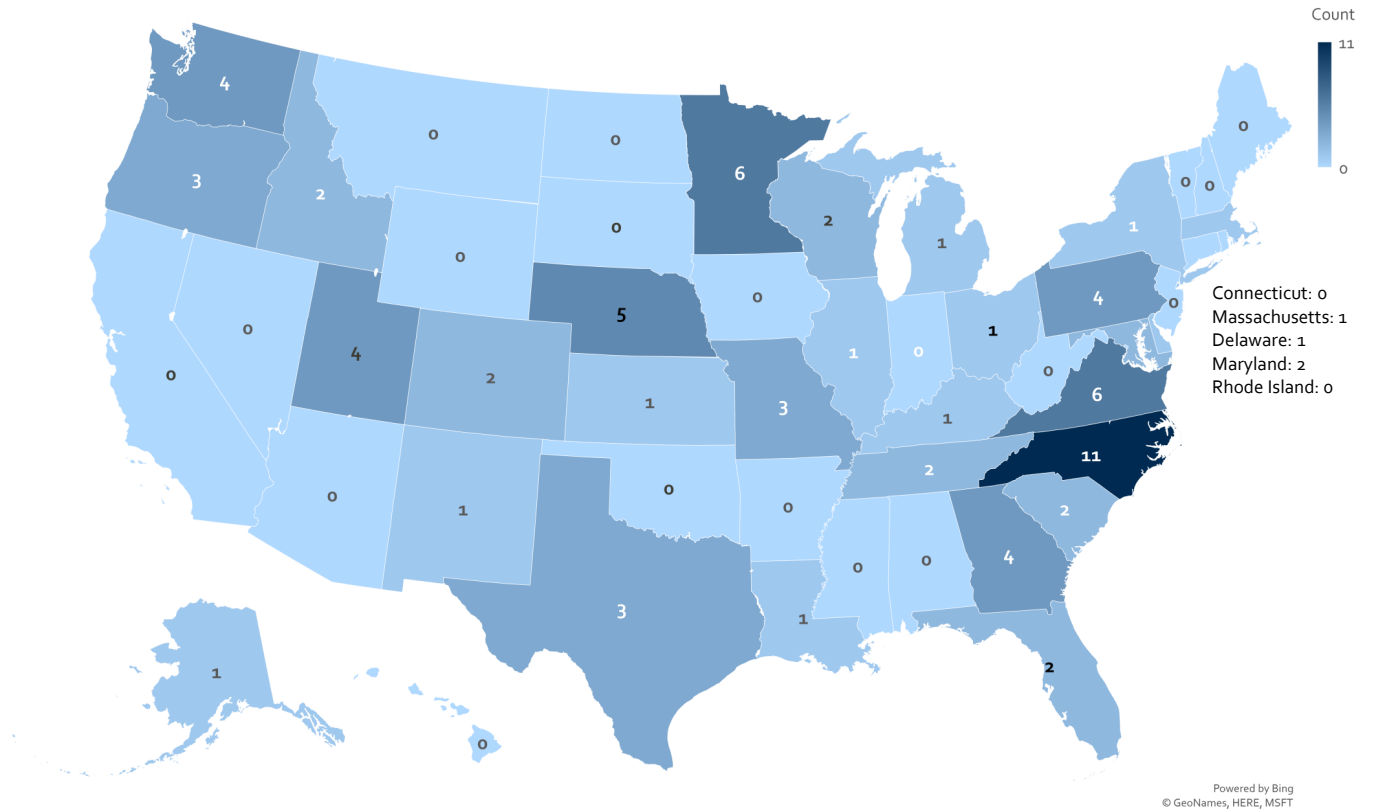
Our respondents range from CEOs of builders to operations managers, depending on the firm. Our respondents sell across a broad spectrum of price points in both urban and suburban markets. Specific responses are anonymous, although we do analyze data based on regions and price points, and some builders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

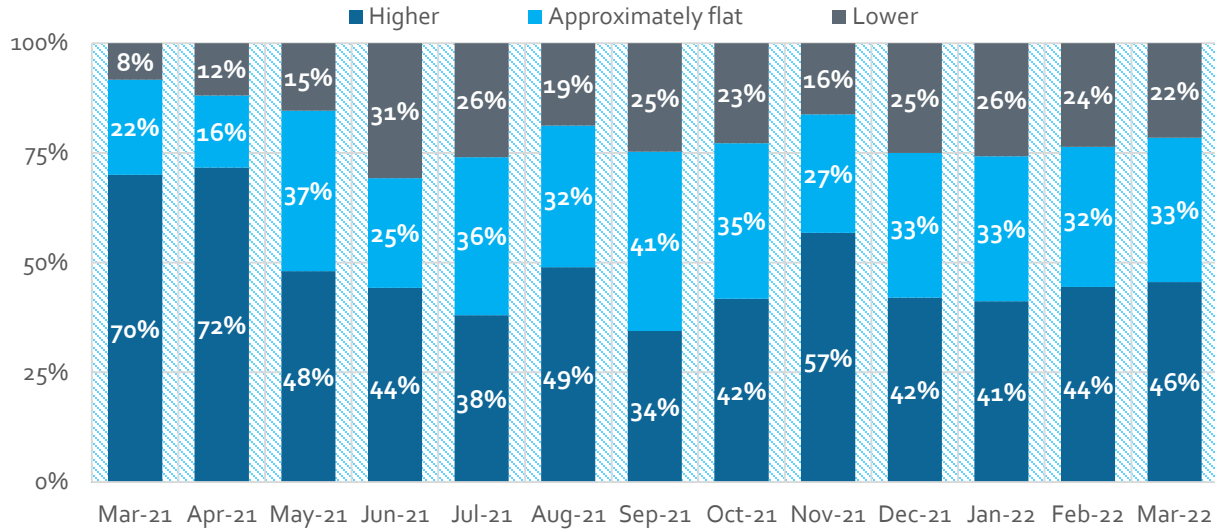
Exhibit 1 - Responses by State
 (78 Responses, March 2022)



Source: HomeSphere, BTIG Research

Sales

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

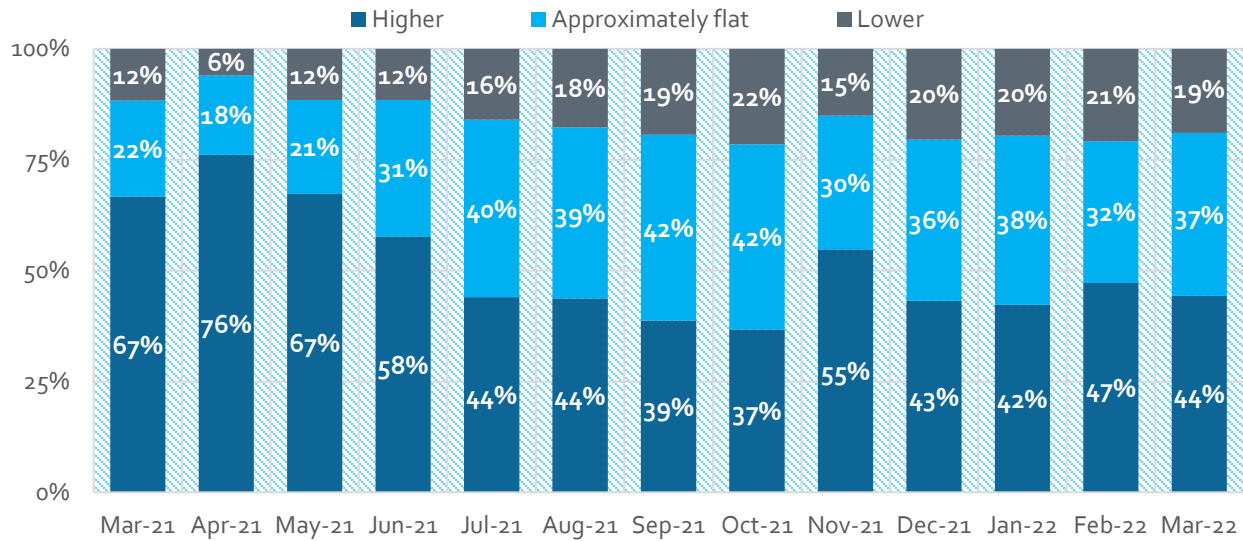


Source: HomeSphere, BTIG Research

- The number of builders reporting year/year increases in sales picked up slightly in March. 46% of respondents reported that orders increased year/year vs. 44% last month and 70% in March 2021. 22% saw a drop in orders vs. 24% last month and only 8% in March 2021. We remind readers that year/year comparisons are difficult vs. the robust pandemic recovery activity, but should begin easing in a few months. Additionally, some builders continue to purposely slow orders to match sales with production capacity given a tight supply chain environment.

Traffic

Exhibit 3 - Traffic Per Community vs. 1 Year Prior

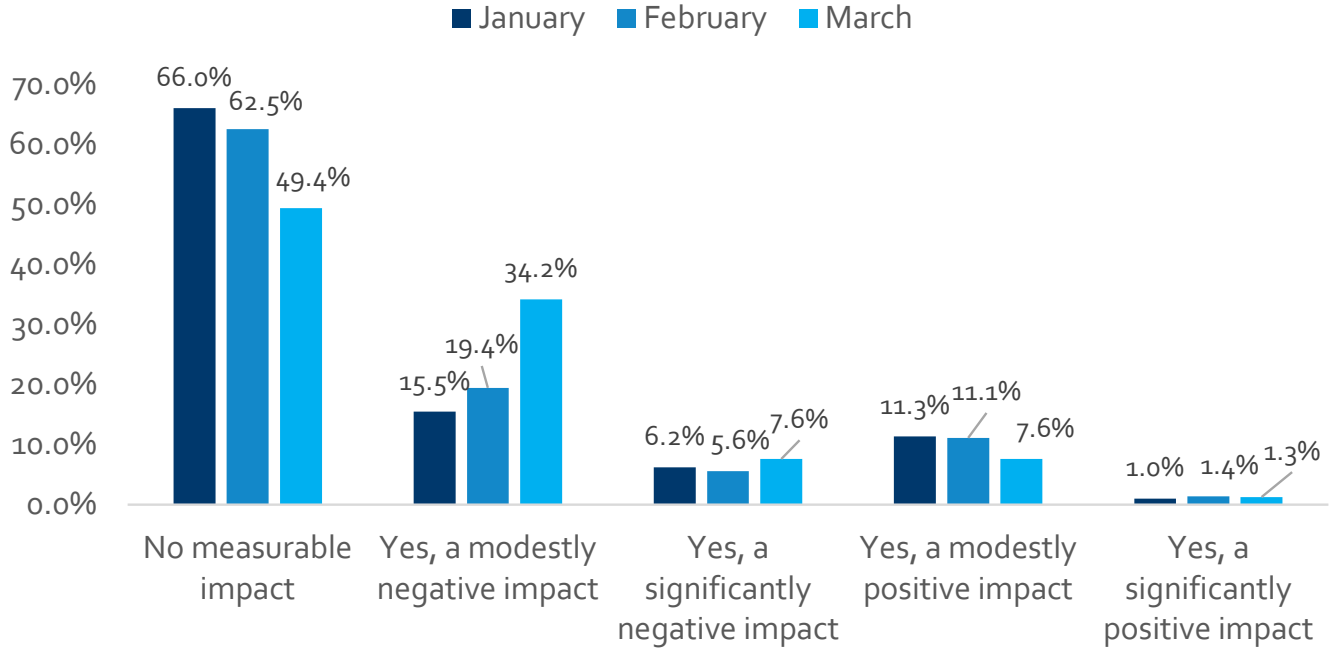


Source: HomeSphere, BTIG Research

- Traffic trends slowed a bit in March as 44% of builders reported year-over-year growth in community traffic vs. 47% in February and 67% in March 2021. 19% of builders saw a drop vs. 21% last month and 12% last year. Anecdotal reports suggest traffic levels have been robust at new community openings and new lot releases in existing communities; traffic trends likely could have been even stronger this month if builders were not restraining spec releases and purposely metering sales. We also believe builders likely are benefiting from virtual selling tools.

Special Question: Interest Rate Impact on Business

Exhibit 4 - Do you believe higher mortgage rates since the beginning of the year have had an impact on your business?

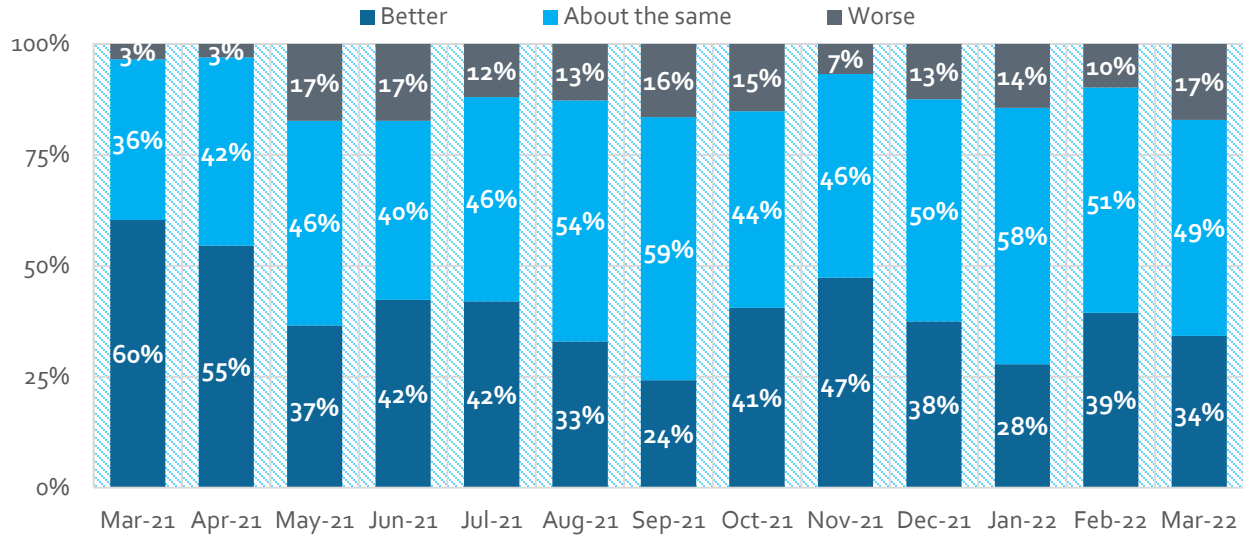


Source: HomeSphere, BTIG Research

- For the third straight month we added a special question to our survey, in which we asked builders about the business impact of higher mortgage rates since the beginning of the year. Results were more negative than last month's reading, although nearly half of builders have yet to see higher rates have a measurable impact on business vs. nearly two-thirds last month. 41.8% of respondents believe higher rates have had a negative impact (i.e., a decrease in sales or traffic/increase in order cancellations) vs. 25.0% last month, with 7.6% seeing a "significantly negative" impact vs. 5.6% last month. 8.9% of respondents believe that higher rates have had a positive impact (i.e., an increase in sales or customer traffic as potential buyers are buying now to beat future interest rate increases) vs. 12.5% last month, with only 1.3% seeing a "significantly positive" impact vs. 1.4% last month.

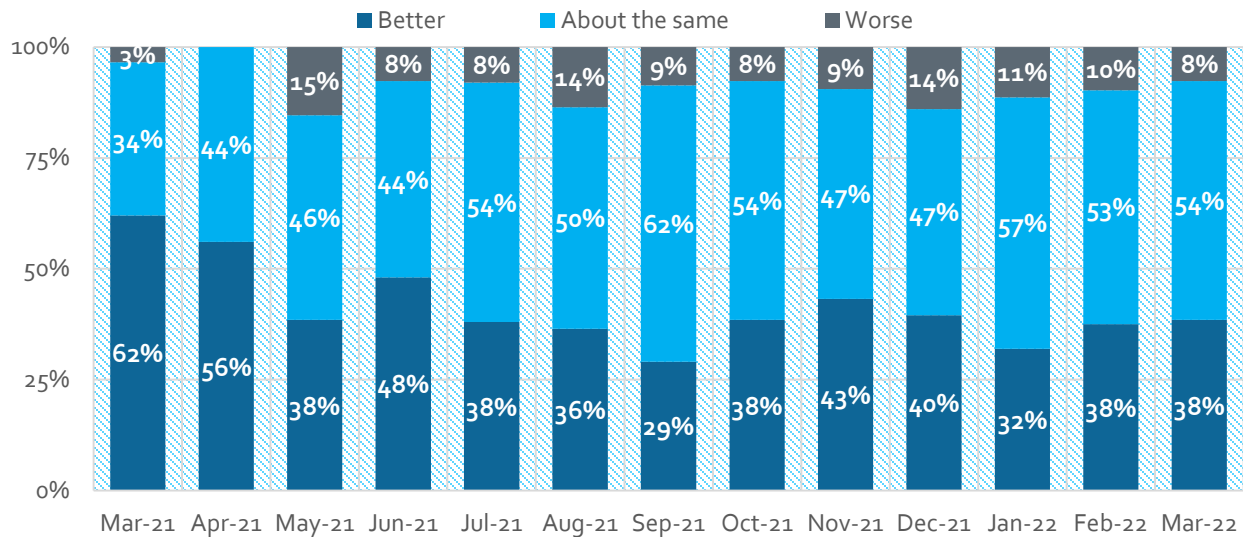
Trends Relative to Expectations: Sales and Traffic

Exhibit 5 - New Sales Contracts Per Community Relative To Expectations



Source: HomeSphere, BTIG Research

Exhibit 6 - Customer Traffic Per Community Relative To Expectations

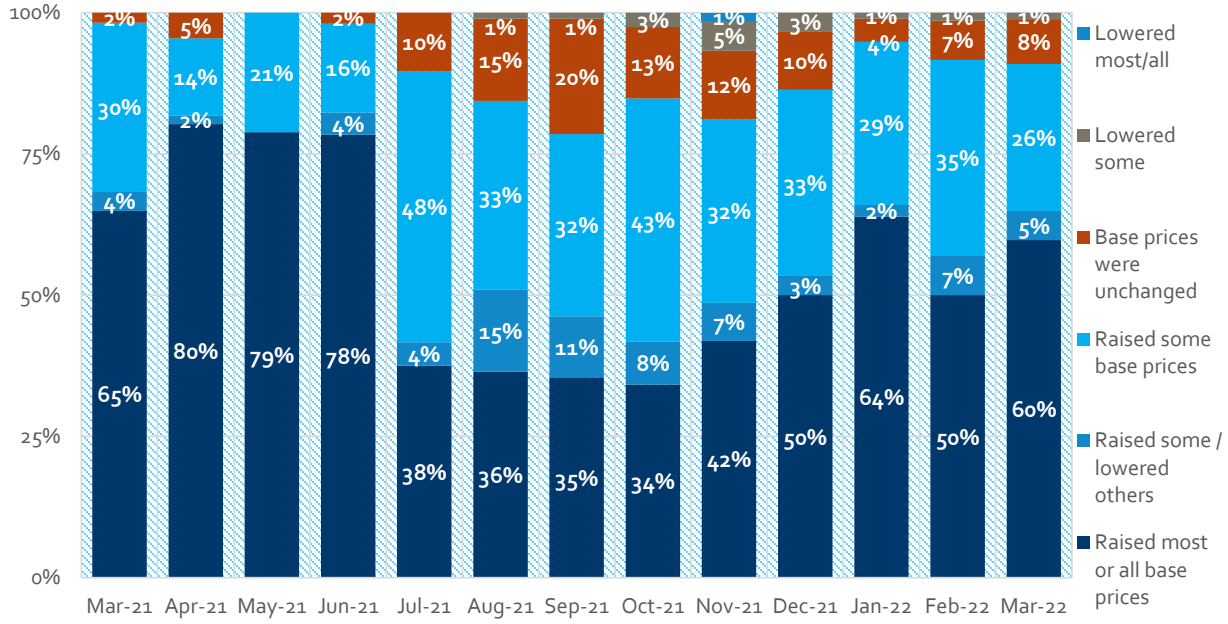


Source: HomeSphere, BTIG Research

- Sales relative to expectations decreased in March, while traffic relative to expectations remained relatively in-line with February. We note that more builders continue to see business as better than expected than worse than expected. 34% of survey respondents saw March orders above plan vs. 39% in February, while 17% saw orders below expectations vs. 10% last month. 38% of builders saw traffic above expectations, while 8% saw traffic below. This compares to 38% and 10%, respectively, last month. We note that the better-minus-worse expectations ratio for both indicators continues to be positive.

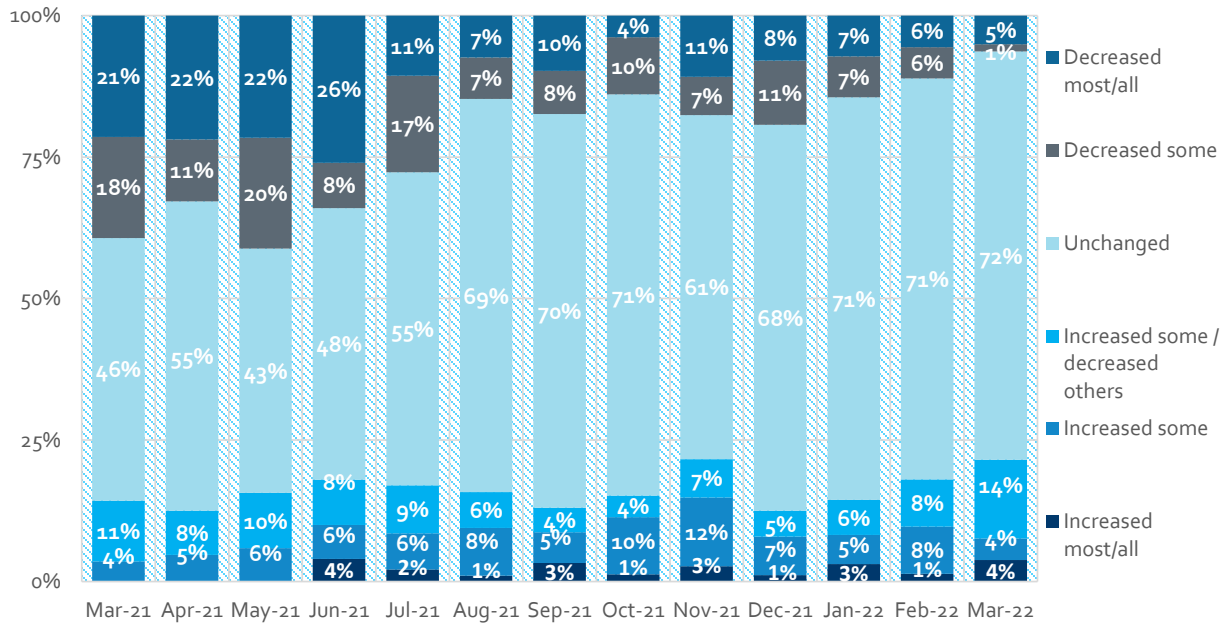
Changes in Pricing and Incentives

Exhibit 7 - Changes In Base Pricing From Prior Month



Source: HomeSphere, BTIG Research

Exhibit 8 - Changes In Sales Incentives From Prior Month



Source: HomeSphere, BTIG Research

- Builders' pricing activity saw a slight pickup in March as 86% of builders reported raising either "most/all" or "some" base prices vs. 85% last month and 95% this time last year. Additionally, 60% of builders reported raising "most" or "all" base prices vs. 50% last month. 5% of builders kept base prices flat vs. 7% last month. Aggressive pricing could increase the risk of a later "negative feedback loop" in which builders reduce price and potentially depress, rather than increase, demand. We would expect builders to continue to raise prices somewhat in the near term to offset elevated material costs, labor and lot costs. With higher interest rates looming, and lumber prices currently falling, we expect those increases to moderate substantially later this year. Incentive use continues to be modest as only 8% of respondents reported increasing "most/all" or "some" incentives vs. 9% last month. 6% of builders reported lowering "some" or "most/all" incentives vs. 12% last month.

Appendix: Analyst Certification and Other Important Disclosures

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