Industry Top Trends Update

# Homebuilders and Developers

## U.S. homebuilders use boom to improve credit quality


**Maurice Austin**
New York
maurice.austin@
spglobal.com
+1 212 438 2077


## What's changed?

**We expanded the number of investment-grade companies.** We raised three ratings to investment grade in 2021 for a total of five issuers, or 19% of the companies we rate. Lower debt levels and strong profits underpin a return to investment grade a decade after the U.S. housing crisis.

**Pricing power outstrips higher input costs so far.** Lumber prices skyrocketed during the pandemic, adding to elevated land and labor costs, but new home prices to date have offset this. Lumber is 50% off its high in 2021 but remains near a multiyear high.

**Increased digitization of the homebuying process.** Slower foot traffic and a potentially slower closing process because of social distancing has accelerated the digitization of homebuying, enabling better sales conversion from more-serious buyers and potentially lower costs.

## How is recovery taking shape?

**We maintain a positive outlook bias.** We have a positive outlook on about 19% of issuers in the U.S. homebuilder industry because financial discipline before and during the pandemic has yielded stronger ratios and a growing credit buffer.

**Industry fundamentals look attractive.** The industry benefits from good long-term demand, stronger pricing amid tight supply, record-low mortgage rates, good cost management, and judicious capital allocation.

**More upgrades expected over the next 12 months.** We expect most homebuilder ratings to hold steady for the remainder of the year, but the upward bias among lower-rated issuers and moderate downside risks indicates a few more upgrades.

## What are the key risks around the baseline?

**Higher mortgage rates.** A rise in mortgage rates off record lows could sap the important price growth that has sustained margins amid higher costs and an industrywide shift to lower price points.

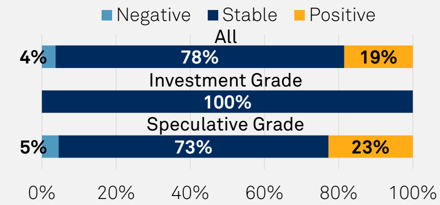
**House prices appreciate more than wage growth.** The supply/demand imbalance has caused greater home price appreciation than expected. As this occurs, first-time/entry-level homebuyers could get priced out of the market.

**Construction pace slows to limit sales to the amount that can be built**. Construction pace is limited by high lumber costs, materials bottlenecks, and a shortage of land and labor. Some builders are responding to the demand by limiting sales to ensure they don't sell more homes than they can construct at one time.

## Latest Related Research

- Peer Comparison: Built To Last? Several U.S. Homebuilders Lay The Foundations For Investment Grade, April 1, 2021
- Lennar Corp. Upgraded To 'BBB-' From 'BB+' On Robust Multiyear Performance And Lower Debt; Outlook Stable, June 9, 2021

### Outlook Distribution




### Ratings Statistics (YTD)

| | IG | SG | All |
|---|---|---|---|
| **Ratings** | 5 | 22 | 27 |
| **Downgrades** | 0 | 0 | 0 |
| **Upgrades** | 3 | 5 | 8 |

Ratings data as of end-June, 2021

### COVID-19 Heat Map

| Homebuilders & Developers | |
|---|---|
| **Estimated Recovery To 2019 Credit Metrics** | **No decline** |
| **Potential Negative Long-Term Industry Disruption** | -- |

| 2020 v. 2019 | | |
|---|---|---|
| **Revenue Decline** | **EBITDA Decline** | **Incremental Borrowings** |
| **No decline** | **No decline** | **No increase** |

| 2021 Estimates v. 2019 | |
|---|---|
| **Revenue Decline** | **EBITDA Decline** |
| **>2019** | **>2019** |