Industry Top Trends Update

Homebuilders & Developers

Challenged by softer demand, higher costs and supply chain

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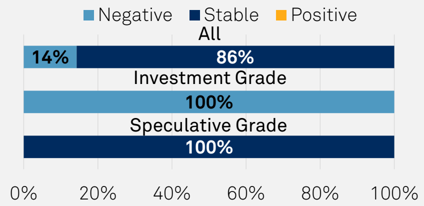
What's changed?

Higher lending rates and inflation are denting real estate purchasing power, inducing lower demand for newly built residential units. Sales are mostly paid through mortgage loans in Europe and savings accumulated during the pandemic are shrinking due to high inflation.

Costs are on the rise and might not entirely be passed on through price increases. Property developers and their subcontractors are highly exposed to raw material costs, such as steel and cement prices, which have already increased significantly.

New supply remains constrained. Supply chain bottlenecks and labor shortages are limiting volume capacity and delaying deliveries. In some countries, administrative hurdles and low land availability also limit permit granting.

Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	1	6	7
Downgrades	0	0	0
Upgrades	0	1	1

Ratings data as of end-June 2022. * Year-to-date

What to look out for?

Developers' sales growth and EBITDA margin will likely soften, mostly in 2023-2024. This is after two years of price increase and some margin expansion.

Built-to-rent investors might be the most affected. Higher interest and caps on rent indexations in some countries to limit inflation's impact on households' purchasing power could undermine expected returns and overall purchase decisions.

Government incentives could be key to supporting demand. First-time buyer schemes, tax exemptions, and bloc acquisitions of social housing initiated by some European governments have proven strong factors in developers' sales.

What if there's a recession?

Sales volume and prices would likely contract. Households' economic situations would worsen and further limit their real estate purchasing power.

Property developers would likely increase leverage to fund working capital needs. This would lead to lower cash flow and higher costs.