Homebuilders and developers

Credit quality remains solid

This report does not constitute a rating action.

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

What's changed?

Construction cycle times continue to improve. Better labor and material availability has resulted in shorter cycle times relative to pre-pandemic levels, which should increase cash flow and inventory churn as the builders focus on volumes. This improvement should play out in overall operating performance as we assume financial results improve from 2023, which saw both revenues and EBITDA decline across the sector.

Ratings stability. Given that 97% of sector ratings are on stable outlook, we expect relative rating stability through the remainder of 2024 following several upgrades in 2023. Still, stronger-than-expected performance in 2024 has resulted in eight positive rating actions so far in 2024.

What to look out for?

Higher-than-expected incentives due to higher-for-longer mortgage rates. The level of incentives that builders offer helps them maintain their sales pace but also pressures profitability. If the level remains higher than normal we could see gross margins approach pre-pandemic levels.

Historically elevated cash balances should lead to reinvestment in the business. Homebuilders are maintaining historically high cash balances that we expect they will use to increase gross inventory on their balance sheets over the next 24 months. Reinvesting most of their cash in continuing operations could benefit the sector in the long term.

Timing and pace of rate cuts. We expect the first rate cut in December 2024 and subsequent cuts in 2025. Lower interest rates could ease some affordability concerns and increase demand.

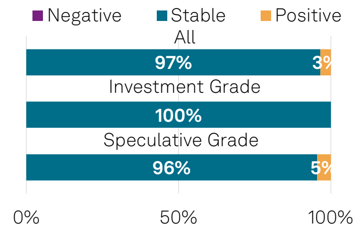
What are the key risks around the baseline?

U.S. existing home inventories increase from low levels. Lower mortgage rates could attract existing homeowners to sell, possibly siphoning sales from prospective new-home buyers.

Continued focus on volumes over profitability. As homebuilders focus on volumes in an environment of worsening affordability, we would expect the larger, better-capitalized homebuilders to maintain their market share by competing on price, either through price reductions or incentives.

Rating Trends

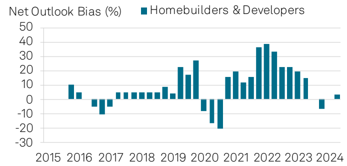
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	7	22	29
Downgrades	0	0	0
Upgrades	1	6	7

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	4.7	8.4
EBITDA growth (Y/Y%)	0.6	0.1
EBITDA margin (%)	17.7	14.5
Capex growth (Y/Y%)	4.7	14.4
Debt/EBITDA (x)	0.3	2.4
FFO/Debt (%)	197.1	28.4
FOCF/Debt (%)	67.0	8.6

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Signs Of Stability Are Emerging Amid Challenging Conditions In Real Estate, July 2, 2024

U.S. Homebuilders Are Building On Improving Credit Quality, June 3, 2024

Real Estate Monitor: Higher-For-Longer Interest Rates Will Continue To Weigh On The Sector, March 20, 2024