

U.S. Homebuilding

A Treasure Map for Housing Vol. 9

Equities

Americas
Home Construction

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Housing Activity Holding Up as We Enter Seasonally Slow Period

Our channel checks suggest activity remains broadly healthy, even as activity begins to seasonally slow, especially given the strength seen earlier in the spring. Based on data for a limited number of markets (9), net contracts rose 2% year over year in May, with traffic flat. This compares to sales +14% in April and +10% in March (traffic was up 24% in April and +4% in March). We note that demand among the entry level and first time segment continues to improve, especially as builders look to more peripheral submarkets where affordability is greater. For example, on our recent [Southern California](#) call, our expert noted that as infrastructure projects are completed and supply is added, activity is expected to increase in areas such as the Inland Empire. Given these trends, we remain focused on our preferred names and highlight Buy rated Toll, Lennar and Pulte.

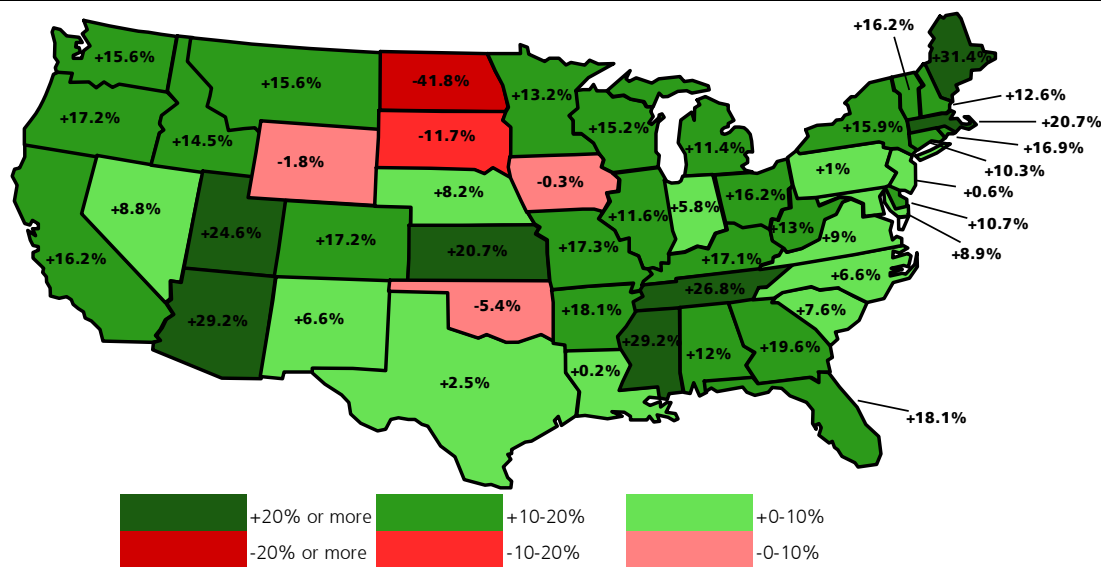
Pipeline Remains Healthy in West and South; Texas Continues Deceleration

From a broader perspective, the map below outlines areas of particular strength and weakness over the past year and aligns well with what we have heard from our recent conversations. In line with previous months and our market update calls, the West and South remain the strongest parts of the country as annual single family permits in Arizona, Tennessee, Georgia, Florida and California rose 29%, 27%, 20%, 18% and 16% year over year, respectively. We'd note Texas continues to be under pressure as the pace of growth decelerated year over year to +2% vs. +11% the prior year. We believe these trends can have implications for builder results and our outlook. As such, we provide detail on company exposure by market in this note.

Valuation: Our PTs are Based on a 50/50 Blended 2017E P/E & P/BV

Our PTs are based on a blended valuation using an avg. of 8x our 2017E EPS and 1.3x our 2017E BVs. The stocks trade at 9.1x our 2017E EPS and 1.3x our 2017E BVs. Our top picks in the group are TOL, LEN and PHM.

Figure 1: Single family permit activity has been the strongest in the West & South (April)



Source: Census Bureau and Federal Reserve Bank of St. Louis

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U.S. Homebuilding

UBS Research THESIS MAP MOST FAVORED

LEAST FAVORED

Toll Brothers, Lennar, Pulte

Meritage, KB Home

PIVOTAL QUESTIONS

Q: How much will new home sales rise in 2016?

We look for 10-15% growth this year—with greater likelihood it will be at the lower end of this range—given constraints around land and the availability of labor as well as the macro environment.

Q: Will the rate of home price appreciation slow?

We look for prices to rise in the mid-single digit range, reflecting: 1) positioning of new communities to better target entry level and first time buyers as well as volume gains; 2) difficult comparisons, as limited inventory allowed for greater levels of appreciation earlier in the recovery; and 3) increased activity in more moderately priced areas.

Q: Will the multiple compression witnessed year-to-date remain a factor in the stocks?

Yes, as we go further in time through the broader cycle, we look for this to persist. As would be expected, historically, as the rate of unit growth decelerates and volumes approach peak levels, multiples trend lower.

WHAT'S PRICED IN?

Current valuations are pricing in moderating growth as we approach peak levels of activity:

As we enter the fifth year of the recovery—and with visibility remaining limited and greater risks to macro growth—concerns around moderating rates of unit expansion have risen. This has been furthered as the builders increasingly reduce their risk appetites as it relates to land investments and, in exchange, are accepting lower margins and returns. Based on current levels, we believe the stocks are pricing in growth of new home sales of ~10% for 2016.

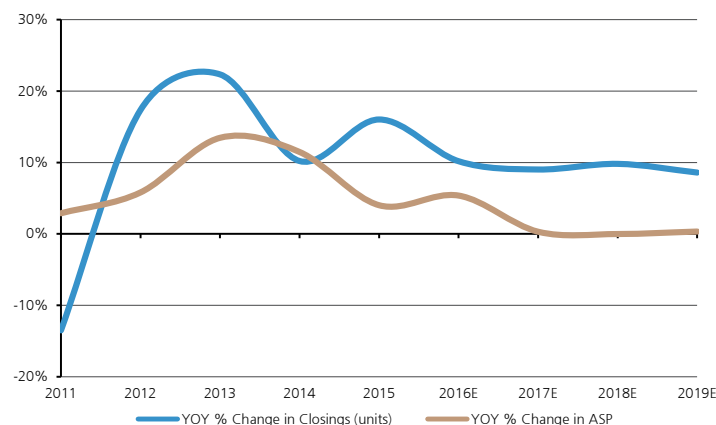
UBS VIEW

Greater participation among entry level and first time buyers will drive further gains: We expect activity in the housing market will continue to expand as the entry level and first time buyer segments gradually re-emerge, a trend that is likely to play out over the next 18-24 months, giving us confidence in our longer term view.

EVIDENCE

UBS Evidence Lab suggests intent to buy, especially among millennials, is improving: Our [Housing Intentions Survey through 2015](#) has shown a notable increase among millennials looking to buy a home, with 29% of this cohort intending to purchase up from the mid-20% range. Further, reflecting their confidence in the continuation of the recovery, the public builders have increasingly allocated capital to share repurchases, especially as valuations remain under pressure.

We expect volume growth will exceed pricing as we move further in the recovery



Source: Company reports and UBS estimates

Figure 2: Changes in Annual Growth of Single Family Permits (bps)

State	Apr. 2016 Growth	Apr. 2015 Growth	bps change
Maine	31.4%	-4.0%	3,545
Massachusetts	20.7%	-9.6%	3,034
Connecticut	10.3%	-17.8%	2,814
Arizona	29.2%	4.2%	2,497
Utah	24.6%	-0.1%	2,474
Mississippi	29.2%	9.8%	1,939
Vermont	16.2%	-2.8%	1,901
Rhode Island	16.9%	-0.9%	1,775
Kentucky	17.1%	-0.6%	1,767
Ohio	16.2%	-1.2%	1,741
Virginia	9.0%	-6.7%	1,574
Idaho	14.5%	-1.2%	1,572
New York	15.9%	0.3%	1,565
Missouri	17.3%	2.4%	1,491
Kansas	20.7%	5.8%	1,485
Oregon	17.2%	2.7%	1,454
New Hampshire	12.6%	-1.8%	1,438
Tennessee	26.8%	12.6%	1,418
Pennsylvania	1.0%	-12.6%	1,363
Illinois	11.6%	-1.9%	1,349
Nebraska	8.2%	-4.9%	1,316
Florida	18.1%	5.2%	1,292
Washington	15.6%	2.8%	1,281
West Virginia	13.0%	0.4%	1,258
Colorado	17.2%	6.8%	1,041
California	16.2%	5.8%	1,040
Arkansas	18.1%	8.6%	949
Maryland	8.9%	0.7%	816
Michigan	11.4%	3.3%	809
Montana	15.6%	7.8%	785
Wisconsin	15.2%	9.1%	613
Georgia	19.6%	14.3%	534
Minnesota	13.2%	8.3%	494
Indiana	5.8%	0.9%	487
Iowa	-0.3%	-4.0%	373
North Carolina	6.6%	3.8%	276
Alabama	12.0%	9.8%	217
New Jersey	0.6%	-1.3%	188
Delaware	10.7%	8.9%	180
New Mexico	6.6%	5.2%	137
Wyoming	-1.8%	-0.1%	-168
Oklahoma	-5.4%	-2.2%	-320
Louisiana	0.2%	3.5%	-332
Nevada	8.8%	14.6%	-580
South Carolina	7.6%	13.5%	-582
Texas	2.5%	10.7%	-826
South Dakota	-11.7%	3.9%	-1,563
North Dakota	-41.8%	2.2%	-4,405

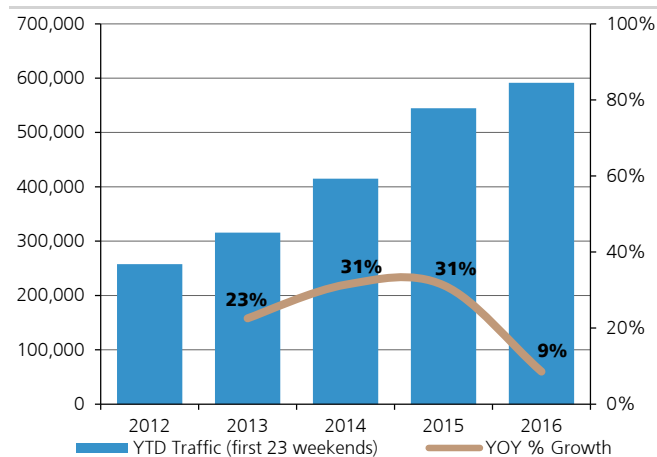
Source: Census Bureau and Federal Reserve Bank of St. Louis

Spring Selling Season Update

Our channel checks suggest activity remains broadly healthy, even as activity begins to seasonally slow, especially given the strength seen earlier in the spring. We note that demand among the entry level and first time segment continues to improve, especially as builders look to more peripheral submarkets where affordability is greater. For example, on our recent [Southern California](#) call, our expert noted that as infrastructure projects are completed and supply is added, activity is expected to increase in areas such as the Inland Empire.

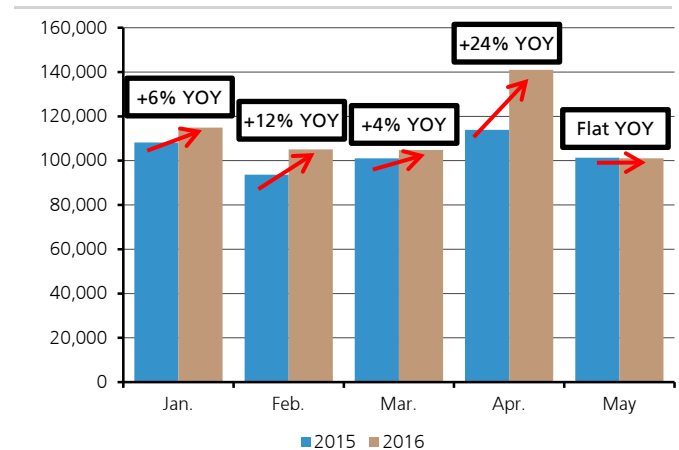
Based on data for a limited number of markets (9), net contracts for the month of May rose 2% year over year, with traffic flat over this time. (This compares to sales +14% and a 24% increase in traffic year over year for April.) More specifically, coastal areas of California remain among the strongest while Houston had its weakest 1Q since 2012, with starts down ~10% YOY. That said, demand is holding up here, with closings rising ~5%. We will continue to monitor these trends as we enter the summer months.

Figure 3: YTD Traffic +9% Year Over Year



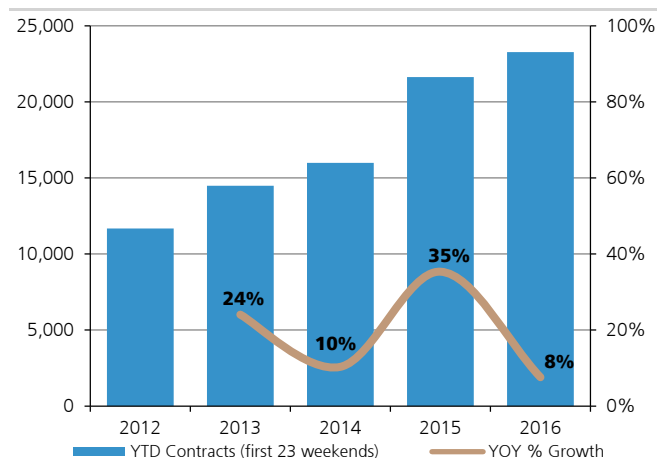
Note: Includes data from 9 markets including: Chicago, Denver, Colorado Springs, Phoenix, Las Vegas, Suburban Maryland, Northern Virginia, San Diego and Southern California
Source: Metrostudy

Figure 4: May Traffic Flat Year Over Year



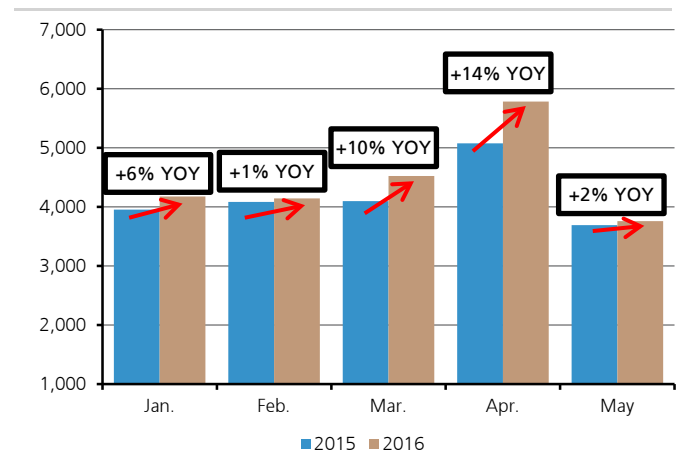
Note: Includes data from 9 markets including: Chicago, Denver, Colorado Springs, Phoenix, Las Vegas, Suburban Maryland, Northern Virginia, San Diego and Southern California
Source: Metrostudy

Figure 5: YTD Contracts +8% Year Over Year



Note: Includes data from same 9 markets as noted in Fig. 3
Source: Metrostudy

Figure 6: Contracts Up 2% in May



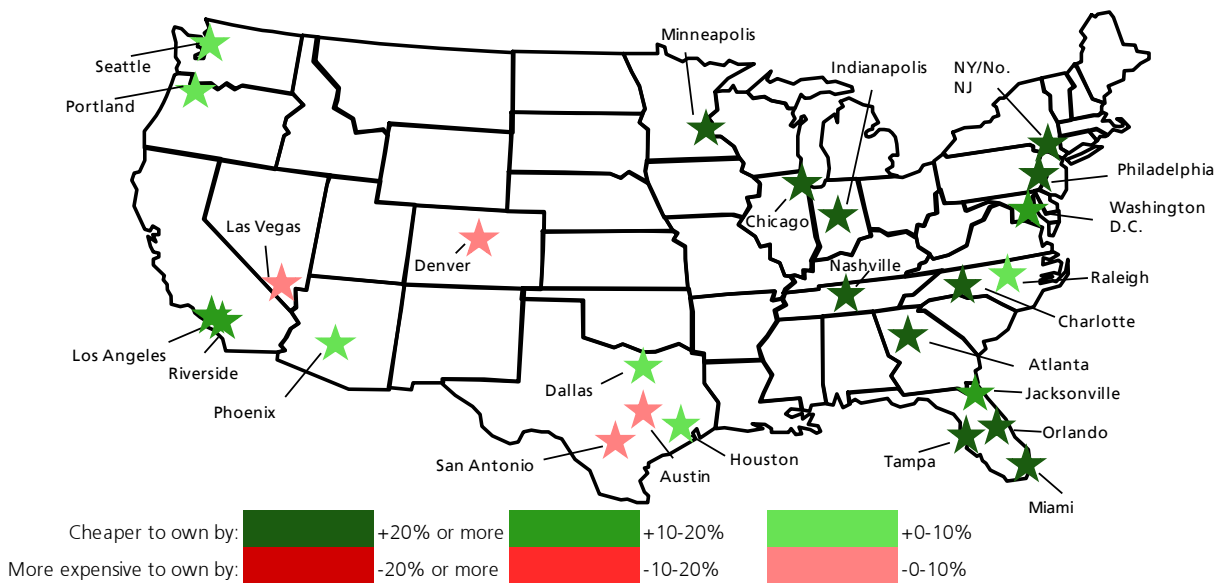
Note: Includes data from same 9 markets as noted in Fig. 4
Source: Metrostudy

Own vs. Rent Analysis

In the charts and tables below, we highlight the historical difference in the monthly after tax cost of ownership compared to renting for the top 25 MSAs based on permits. We'd note the cost of ownership is based on a 20% down payment on the median existing home price, includes property taxes (based on average rates for the given state) and excludes maintenance costs.

While we recognize there are various inputs associated with both owning and renting that are not captured in calculated recurring payments (i.e. maintenance expense, annual rent increases above inflation, etc.), we believe this is a fair proxy for how many buyers gauge their costs when making a decision.

Figure 7: Generally speaking, the monthly cost of ownership is still cheaper than renting in most major markets



Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 8: Own vs. Rent Differential by MSA (%)

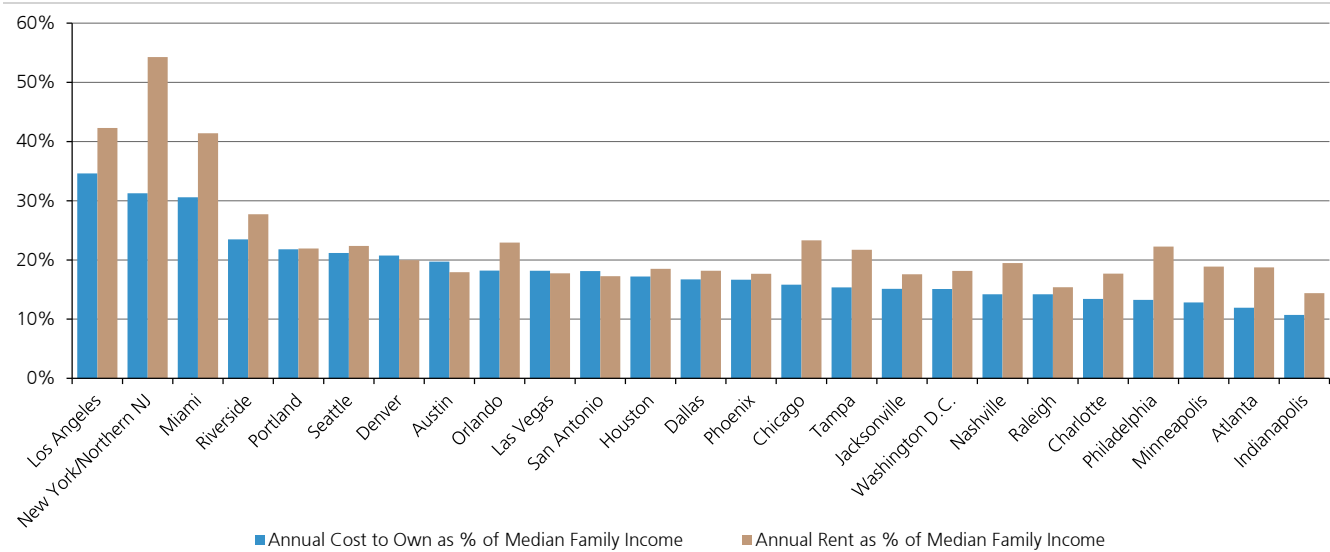
MSA		MSA	
New York/Northern NJ	42% cheaper to own than rent	Riverside	15% cheaper to own than rent
Philadelphia	40% cheaper to own than rent	Jacksonville	14% cheaper to own than rent
Atlanta	36% cheaper to own than rent	Dallas	8% cheaper to own than rent
Minneapolis	32% cheaper to own than rent	Raleigh	8% cheaper to own than rent
Chicago	32% cheaper to own than rent	Houston	7% cheaper to own than rent
Tampa	29% cheaper to own than rent	Phoenix	6% cheaper to own than rent
Nashville	27% cheaper to own than rent	Seattle	5% cheaper to own than rent
Miami	26% cheaper to own than rent	Portland	1% cheaper to own than rent
Indianapolis	26% cheaper to own than rent	Las Vegas	3% more expensive to own than rent
Charlotte	24% cheaper to own than rent	Denver	4% more expensive to own than rent
Orlando	21% cheaper to own than rent	San Antonio	5% more expensive to own than rent
Los Angeles	18% cheaper to own than rent	Austin	10% more expensive to own than rent
Washington D.C.	17% cheaper to own than rent		

Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

We'd note, for the charts on the left hand side of the page, a positive dollar figure or percentage indicates it is more expensive to own and a negative figure means it is cheaper. Based on our calculations, we'd highlight [Atlanta](#) as one of the most favorable markets for homeownership and [Austin](#) as the least.

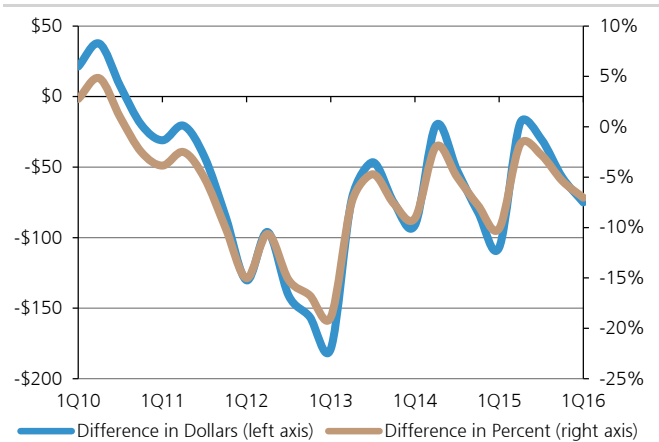
Additionally, building on this analysis, we looked at historical affordability for each market, using the National Association of Homebuilders/Wells Fargo Housing Opportunity Index as a proxy. Further, we've included a comparison of annual rent/cost to own as a percent of median family income. Among the top 25 MSA's, Atlanta, [Charlotte and Raleigh](#) are the most affordable, with annual ownership costs accounting for 12%, 13% and 14% of median family income, respectively. That said, rents were below 20% in all three cities, indicating living costs broadly are not overly burdensome here. Not surprisingly, the least affordable markets were [Los Angeles](#), New York and [Miami](#).

Figure 9: Owning a home in Atlanta, Charlotte and Raleigh provides the most bang for your buck



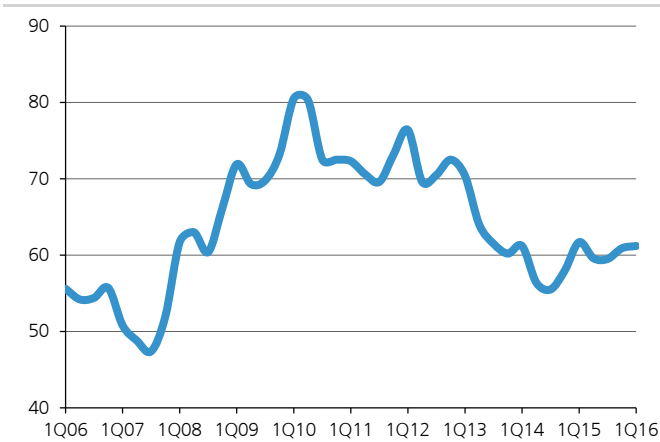
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 10: Houston MSA is cheaper to own



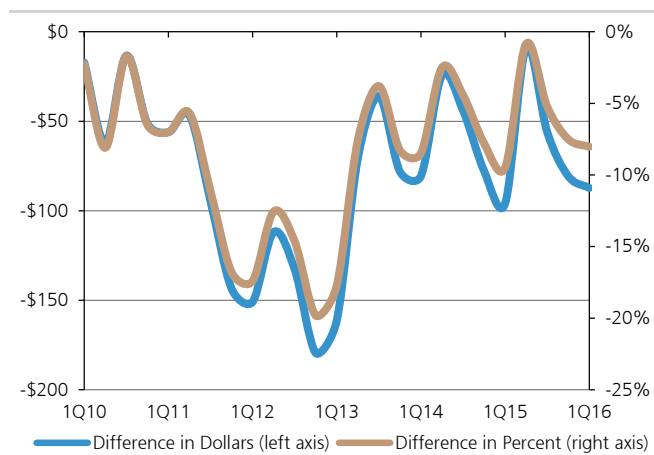
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 11: NAHB/Wells Fargo HOI, Houston Area



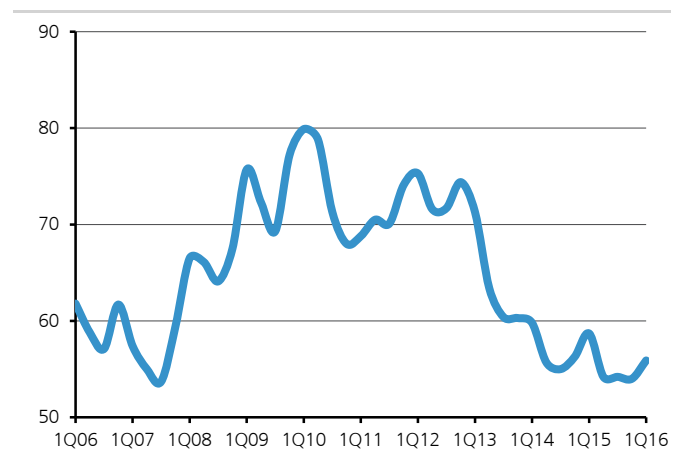
Source: NAHB and UBS

Figure 12: Dallas MSA is cheaper to own



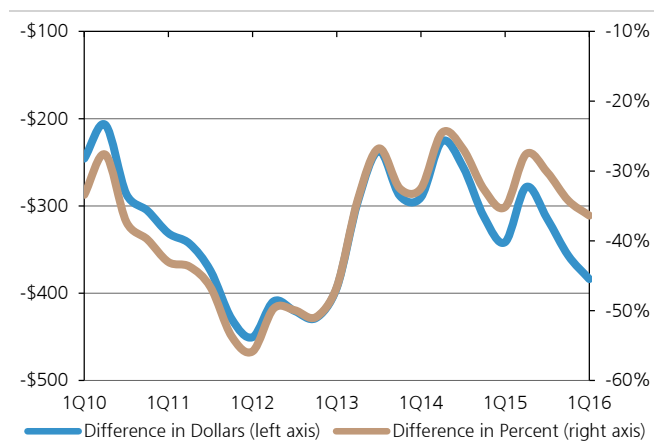
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 13: NAHB/Wells Fargo HOI, Dallas Area



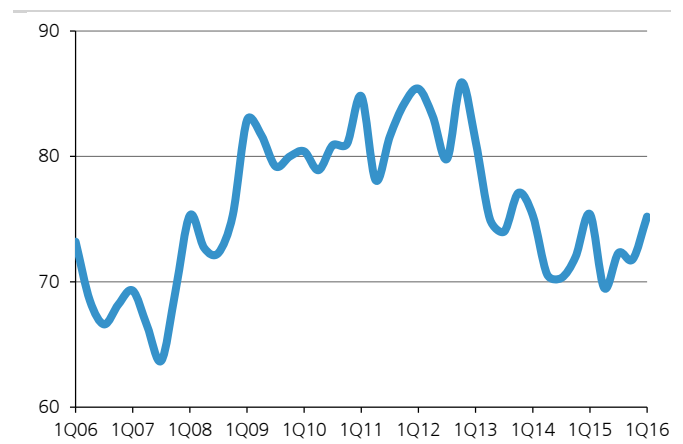
Source: NAHB and UBS

Figure 14: Atlanta MSA is cheaper to own



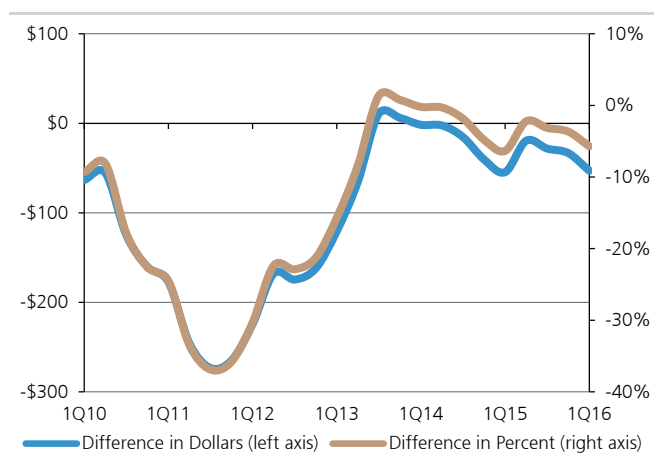
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 15: NAHB/Wells Fargo HOI, Atlanta Area



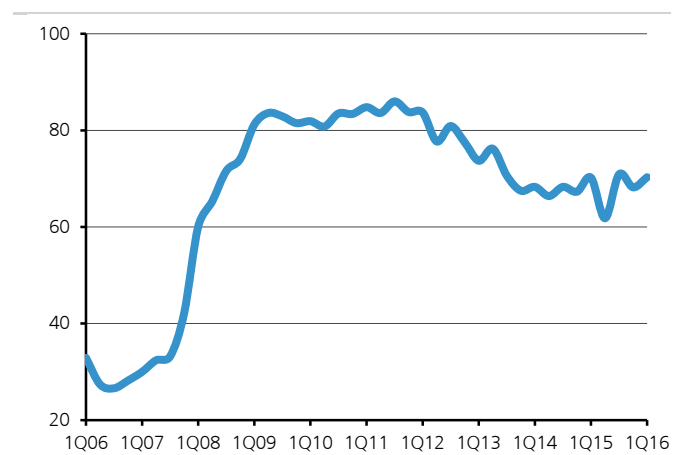
Source: NAHB and UBS

Figure 16: Phoenix MSA is cheaper to own



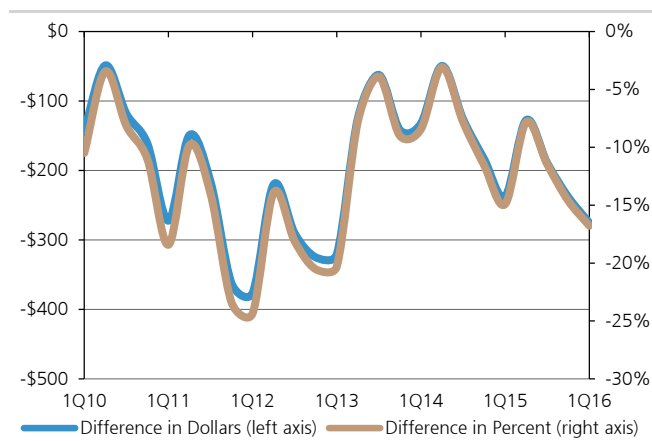
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 17: NAHB/Wells Fargo HOI, Phoenix Area



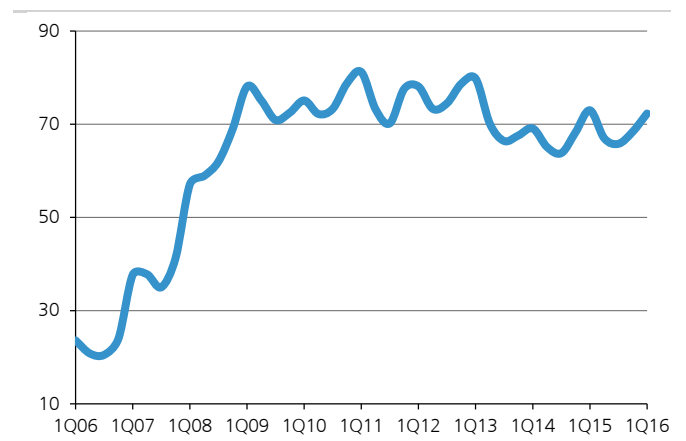
Source: NAHB and UBS

Figure 18: Washington D.C. MSA is cheaper to own



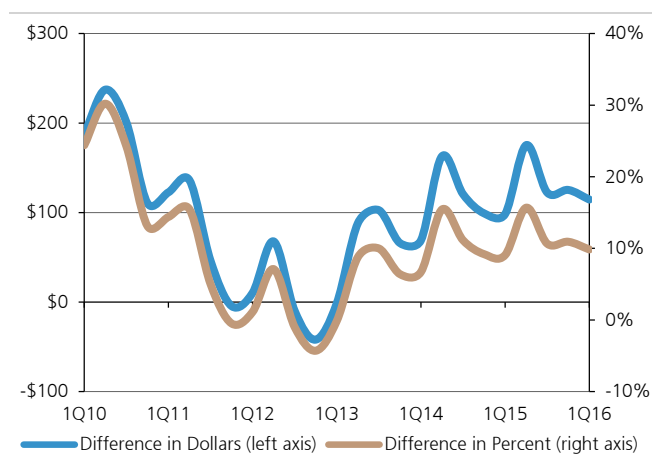
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 19: NAHB/Wells Fargo HOI, Washington D.C. Metro



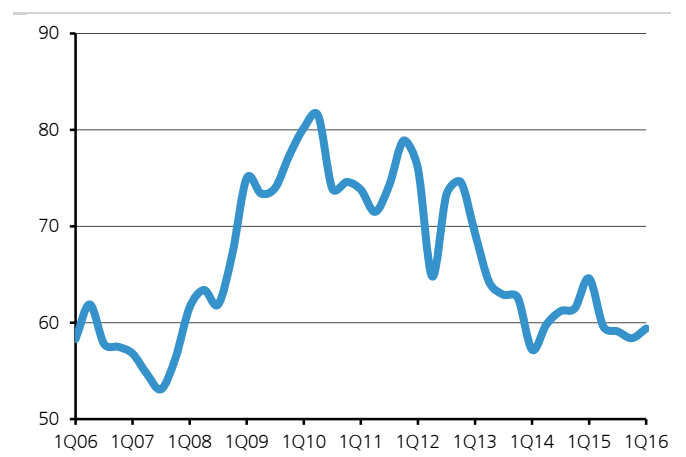
Source: NAHB and UBS

Figure 20: Austin MSA is more expensive to own



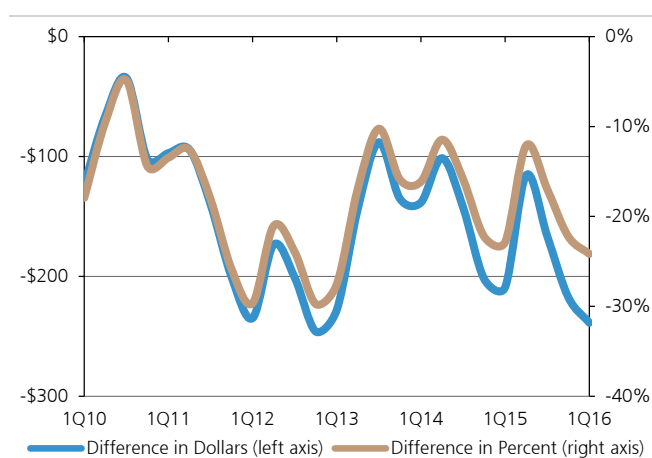
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 21: NAHB/Wells Fargo HOI, Austin Area



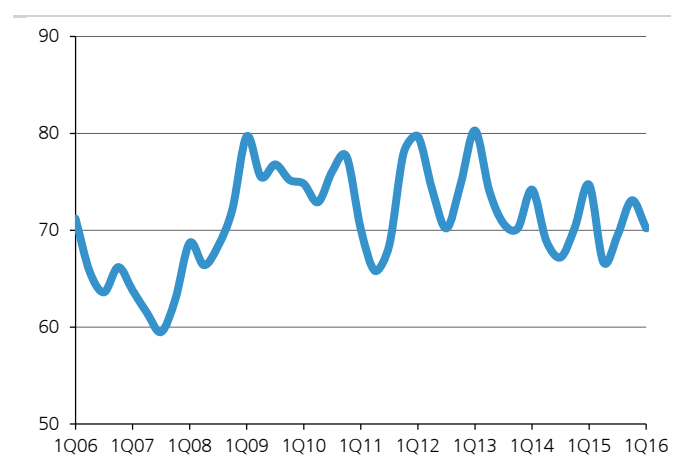
Source: NAHB and UBS

Figure 22: Charlotte MSA is cheaper to own



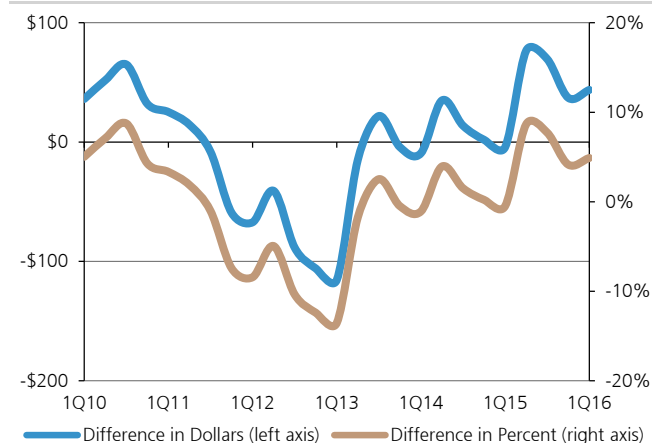
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 23: NAHB/Wells Fargo HOI, Charlotte Area



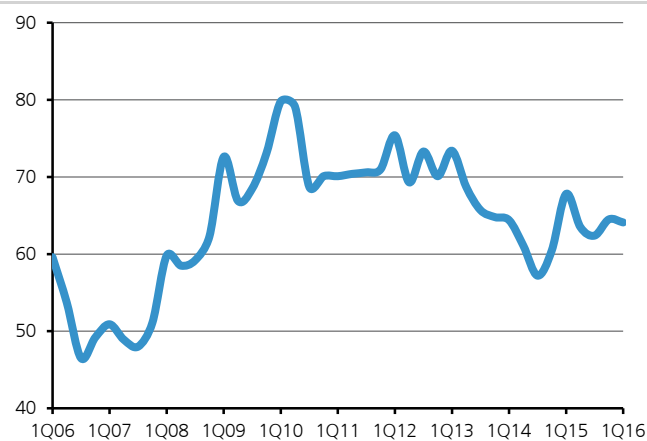
Source: NAHB and UBS

Figure 24: San Antonio MSA is more expensive to own



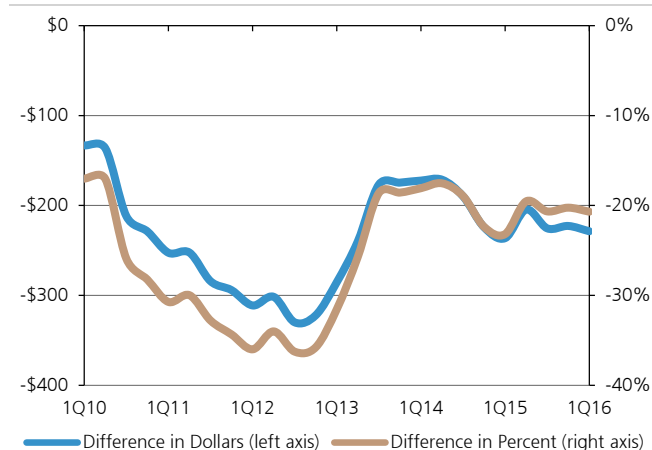
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 25: NAHB/Wells Fargo HOI, San Antonio Area



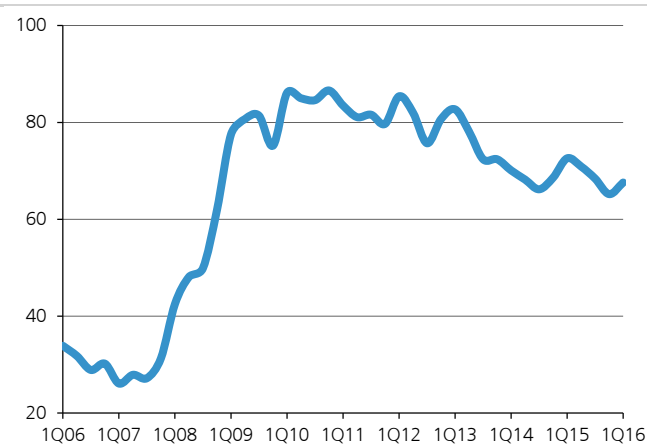
Source: NAHB and UBS

Figure 26: Orlando MSA is cheaper to own



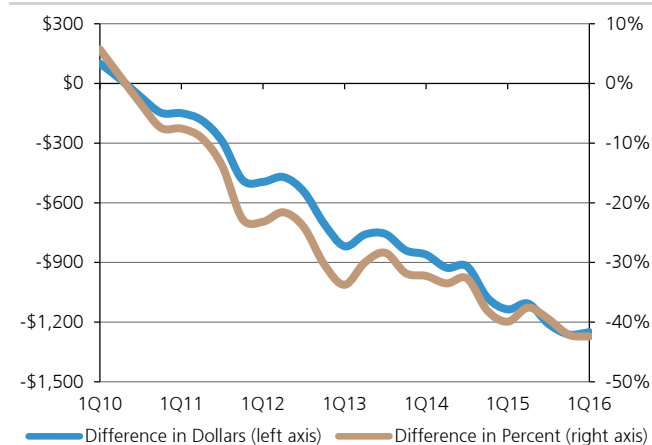
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 27: NAHB/Wells Fargo HOI, Orlando Area



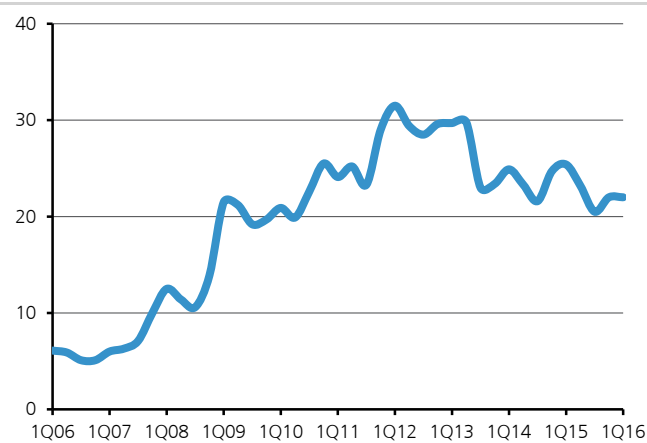
Source: NAHB and UBS

Figure 28: NY/Northern NJ MSA is cheaper to own



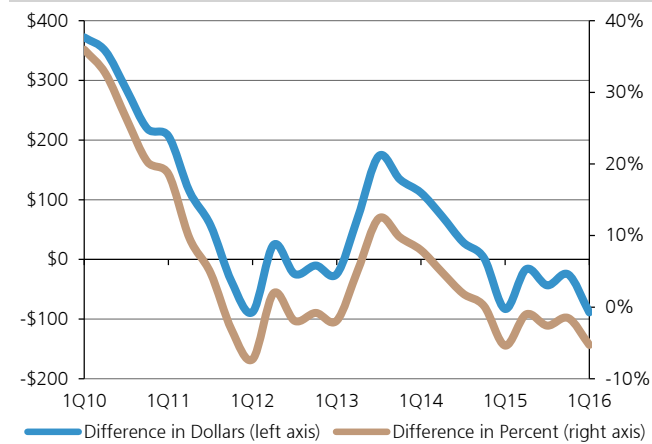
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 29: NAHB/Wells Fargo HOI, NY/Northern NJ Area



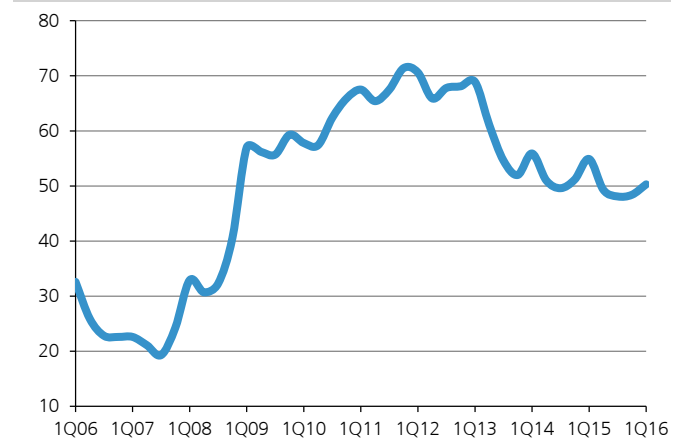
Source: NAHB and UBS

Figure 30: Seattle MSA is cheaper to own



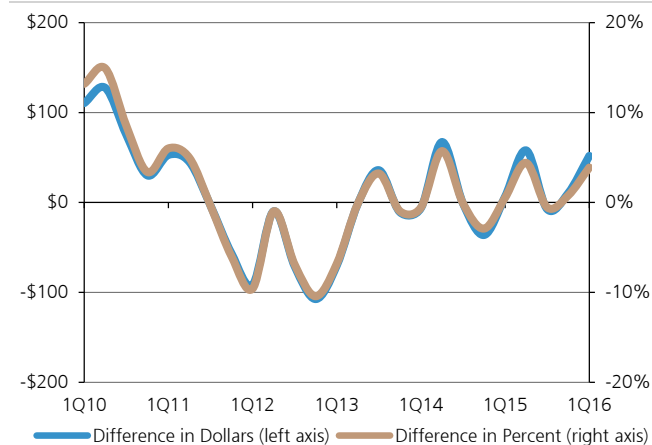
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 31: NAHB/Wells Fargo HOI, Seattle Area



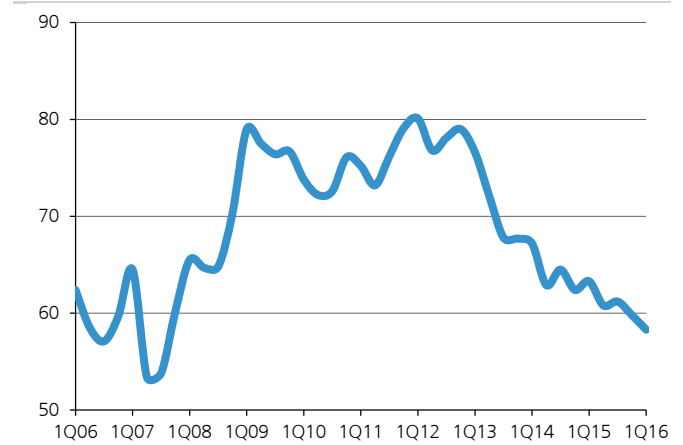
Source: NAHB and UBS

Figure 32: Denver MSA is more expensive to own



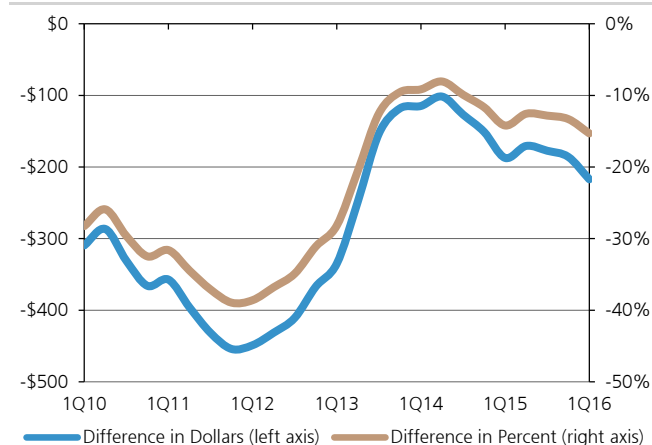
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 33: NAHB/Wells Fargo HOI, Denver Area



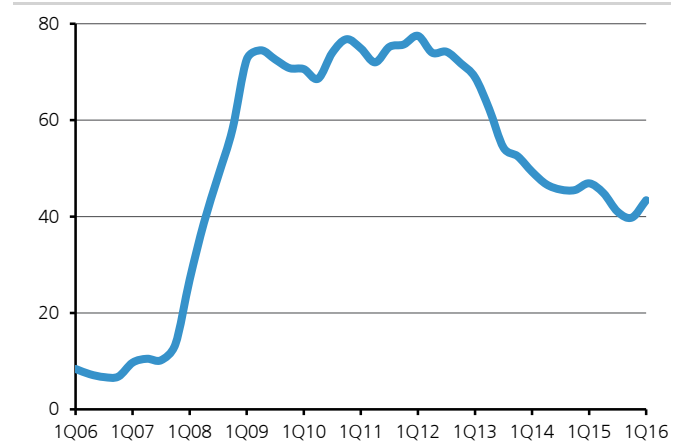
Source: NAHB and UBS

Figure 34: Riverside MSA is cheaper to own



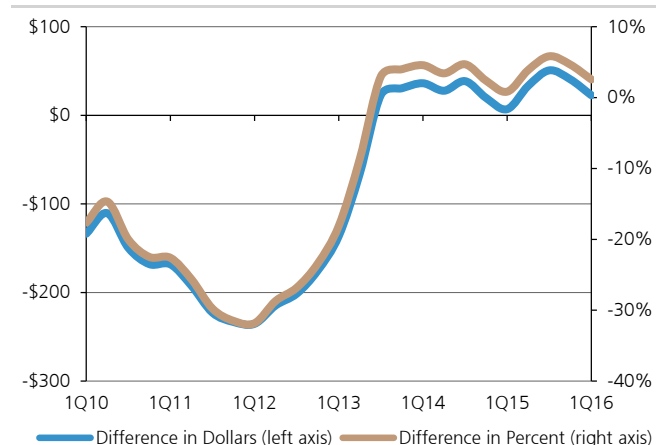
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 35: NAHB/Wells Fargo HOI, Riverside Area



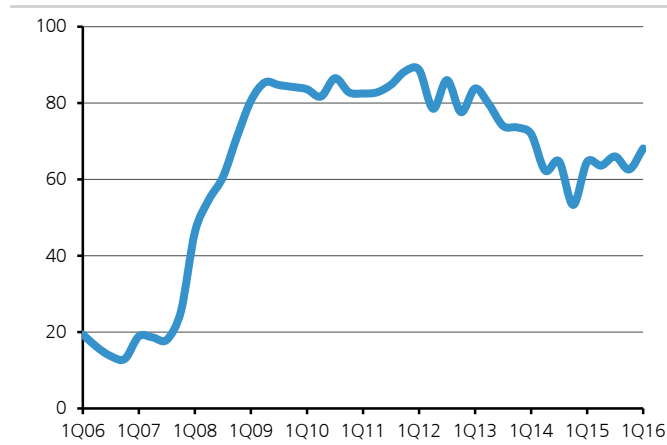
Source: NAHB and UBS

Figure 36: Las Vegas MSA is more expensive to own



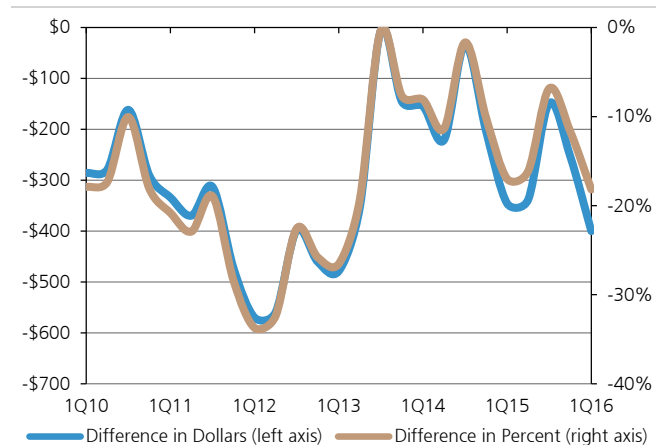
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 37: NAHB/Wells Fargo HOI, Las Vegas Area



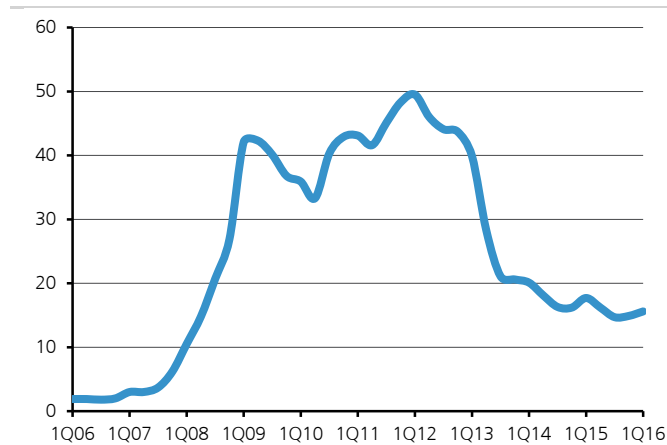
Source: NAHB and UBS

Figure 38: Los Angeles MSA is cheaper to own



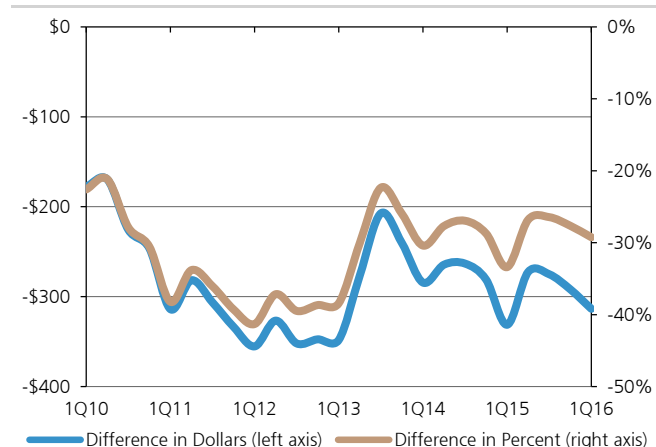
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 39: NAHB/Wells Fargo HOI, Los Angeles Area



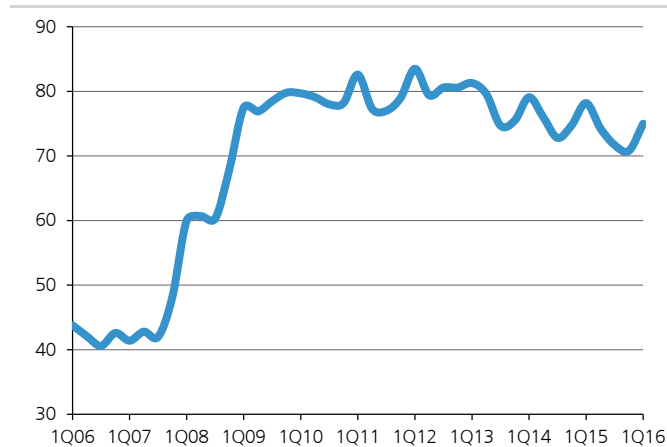
Source: NAHB and UBS

Figure 40: Tampa MSA is cheaper to own



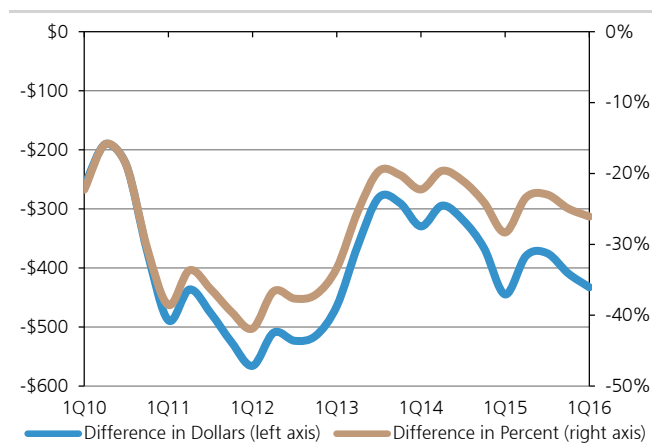
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 41: NAHB/Wells Fargo HOI, Tampa Area



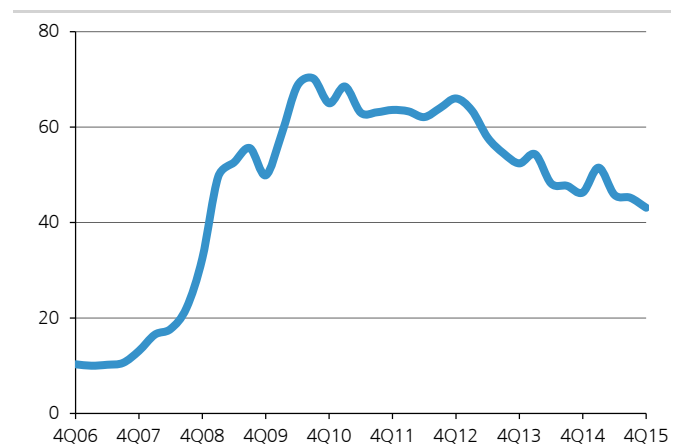
Source: NAHB and UBS

Figure 42: Miami MSA is cheaper to own



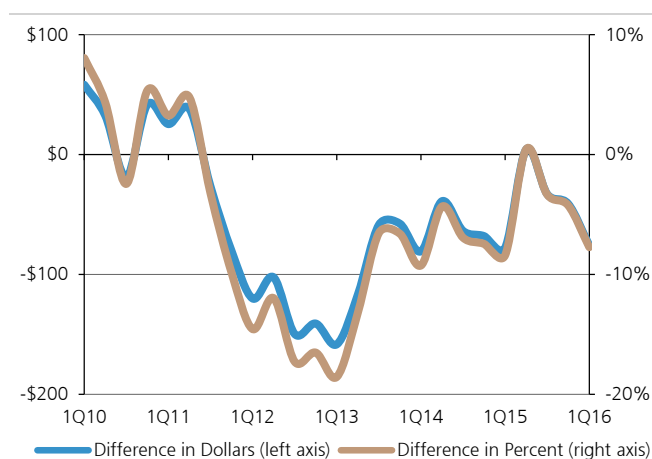
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 43: NAHB/Wells Fargo HOI, Miami Area



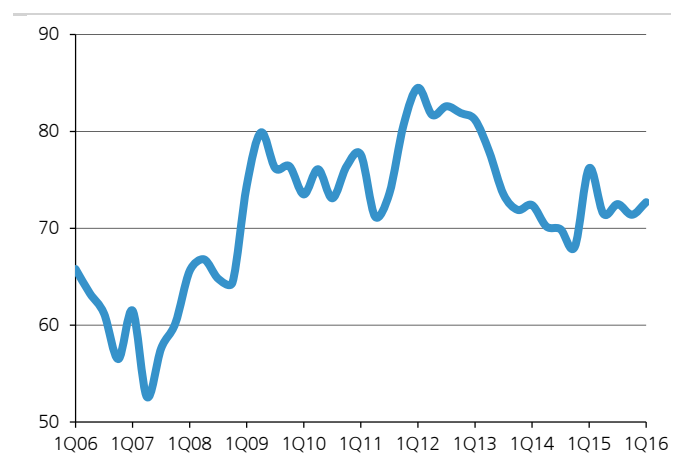
Source: NAHB and UBS

Figure 44: Raleigh MSA is cheaper to own



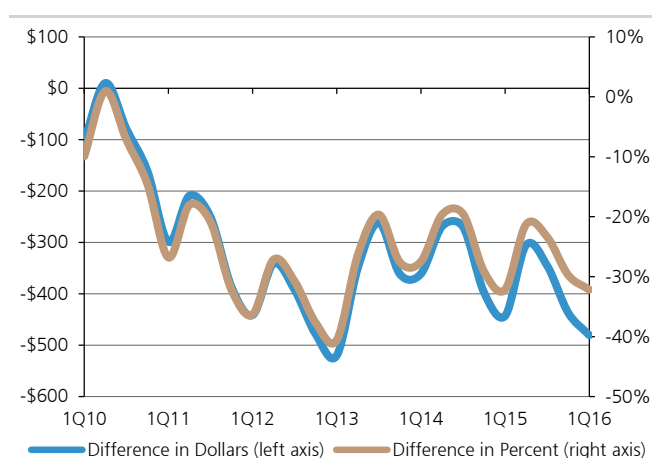
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 45: NAHB/Wells Fargo HOI, Raleigh Area



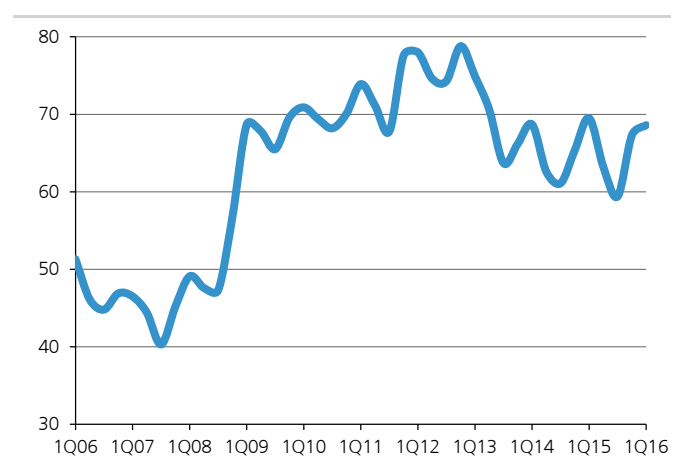
Source: NAHB and UBS

Figure 46: Chicago MSA is cheaper to own



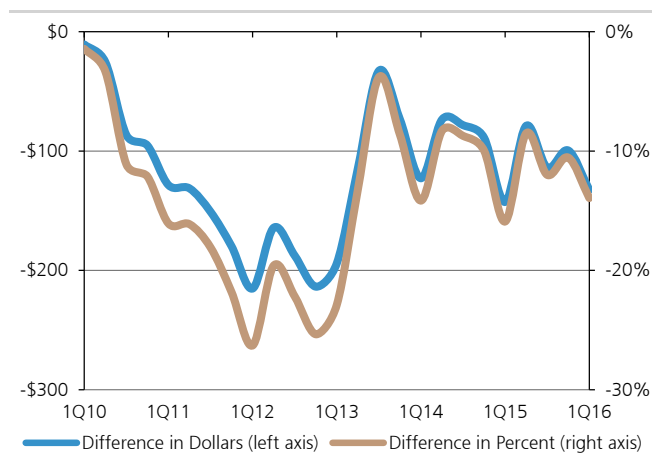
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 47: NAHB/Wells Fargo HOI, Chicago Area



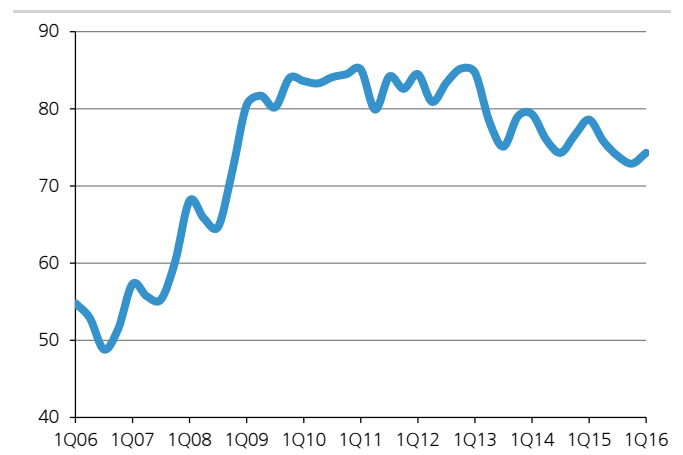
Source: NAHB and UBS

Figure 48: Jacksonville MSA is more expensive to own



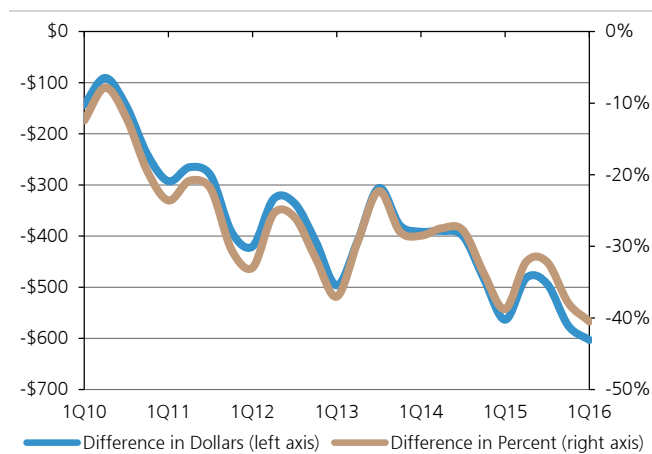
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 49: NAHB/Wells Fargo HOI, Jacksonville Area



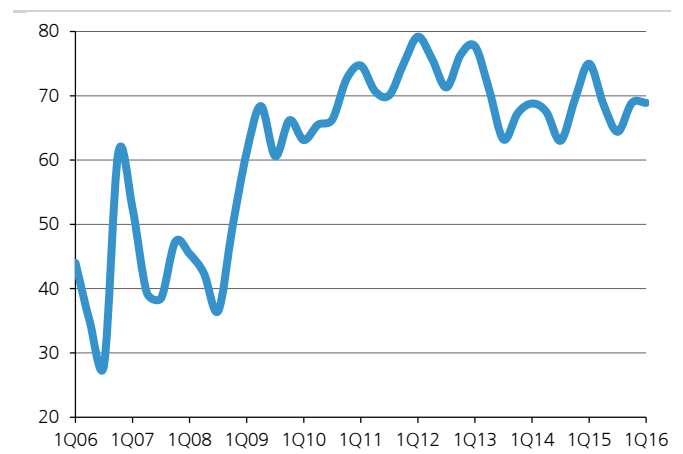
Source: NAHB and UBS

Figure 50: Philadelphia MSA is cheaper to own



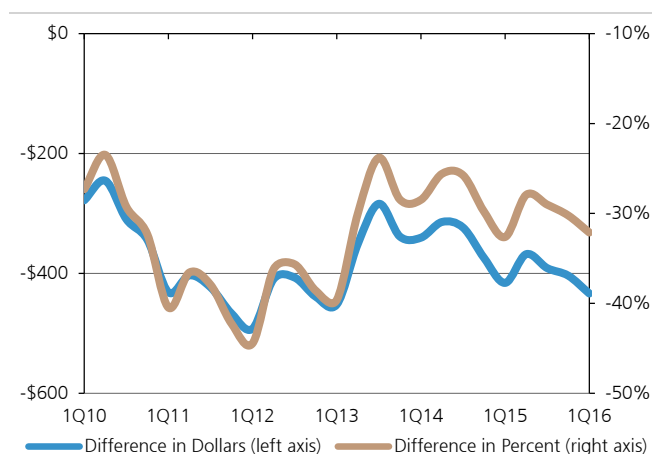
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 51: NAHB/Wells Fargo HOI, Philadelphia Area



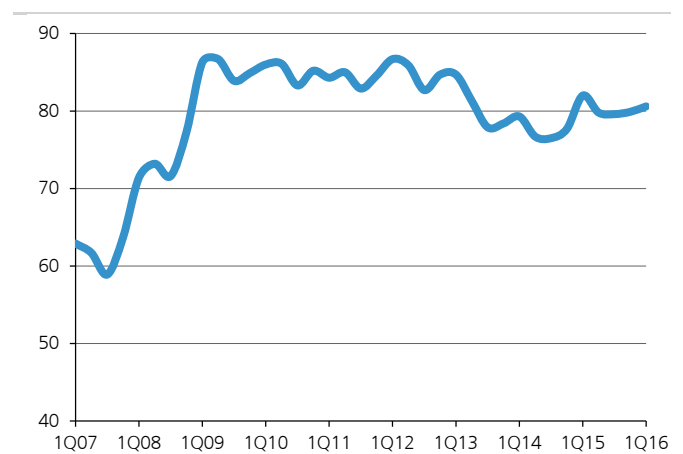
Source: NAHB and UBS

Figure 52: Minneapolis MSA is cheaper to own



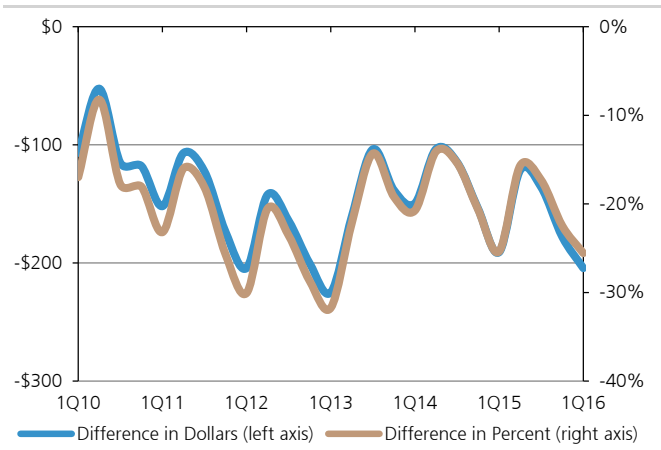
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 53: NAHB/Wells Fargo HOI, Minneapolis Area



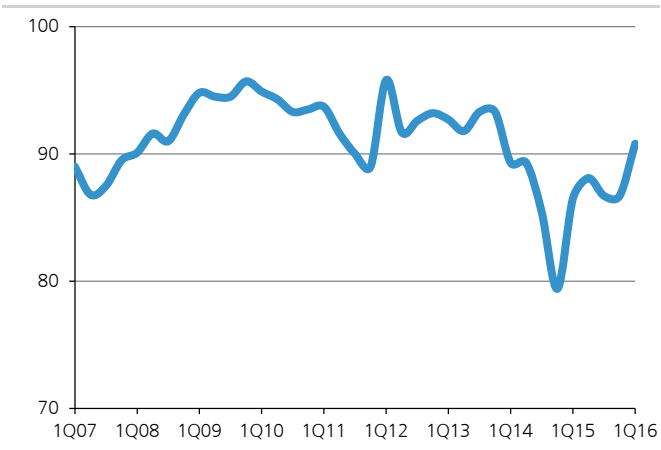
Source: NAHB and UBS

Figure 54: Indianapolis MSA is cheaper to own



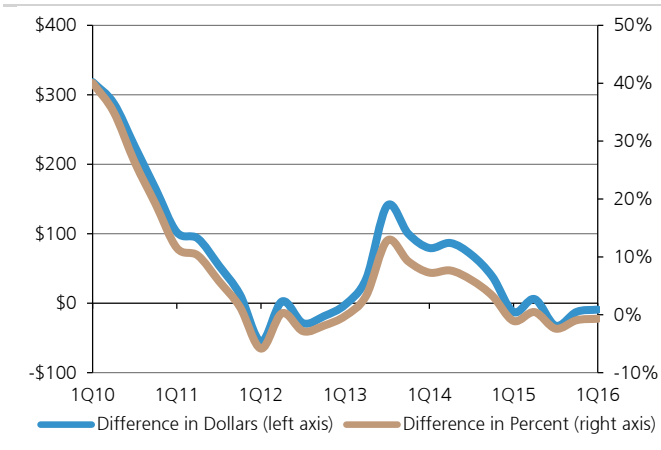
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 55: NAHB/Wells Fargo HOI, Indianapolis Area



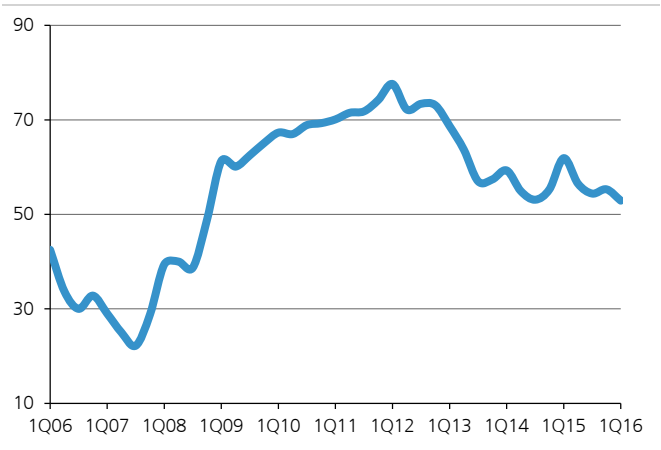
Source: NAHB and UBS

Figure 56: Portland MSA is cheaper to own



Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 57: NAHB/Wells Fargo HOI, Portland Area



Source: NAHB and UBS

Figure 58: Builder Exposure to Top 25 Housing Markets

2015 Metro Area Rank By Permits	Company Rank within Metro Area	Parent Company/Company	2015 Closings	2015 Market Share	% of Homes Closed by Company in 2015	2015 Total Closings
#1: Houston/The Woodlands/Sugar Land, Texas						
		Top 10 Total Market Share	13,965	53.4%		26,152
	1	D.R. Horton	2,587	9.9%	7%	
	2	Lennar	2,452	9.4%	10%	
	3	Perry Homes	1,536	5.9%		
	4	Taylor Morrison	1,329	5.1%		
	5	Long Lake Limited	1,290	4.9%		
	6	Hovnanian Enterprises	1,162	4.5%		
	7	KB Home	1,025	3.9%	13%	
	8	Meritage Homes	894	3.4%	14%	
	9	LGI Homes	847	3.2%		
	10	PulteGroup	843	3.2%	5%	
#2: Dallas/Fort Worth/Arlington, Texas						
		Top 10 Total Market Share	11,240	48.9%		22,986
	1	D.R. Horton	3,629	15.8%	10%	
	2	Highland Homes	1,223	5.3%		
	3	Lennar	1,116	4.9%	5%	
	4	First Texas Homes	991	4.3%		
	5	PulteGroup	838	3.7%	5%	
	6	Bloomfield Homes	791	3.4%		
	7	American Legend Homes	700	3.0%		
	8	CalAtlantic Group	673	2.9%	5%	
	9	Hovnanian Enterprises	644	2.8%		
	10	HistoryMaker Homes	635	2.8%		
#3: Atlanta/Sandy Springs/Roswell, Ga.						
		Top 10 Total Market Share	7,452	48.9%		15,239
	1	D.R. Horton	2,266	14.9%	6%	
	2	Century Communities	1,174	7.7%		
	3	Wilson Parker Homes	622	4.1%		
	4	PulteGroup	615	4.0%	4%	
	5	Ashton Woods Homes	566	3.7%		
	6	Lennar	565	3.7%	2%	
	7	Smith Douglas Communities	526	3.5%		
	8	CalAtlantic Group	418	2.7%	3%	
	9	Kerley Family Homes	366	2.4%		
	10	Rocklyn Homes	334	2.2%		
#4: Phoenix/Mesa/Scottsdale, Ariz.						
		Top 10 Total Market Share	6,411	56.0%		11,448
	1	PulteGroup	942	8.2%	6%	
	2	Taylor Morrison	903	7.9%		
	3	Meritage Homes	771	6.7%	12%	
	4	CalAtlantic Group	676	5.9%	5%	
	5	D.R. Horton	674	5.9%	2%	
	6	Shea Homes	549	4.8%		
	7	Lennar	548	4.8%	2%	
	8	M.D.C. Holdings/Richmond American	467	4.1%		
	9	Hovnanian Enterprises	457	4.0%		
	10	KB Home	424	3.7%	5%	
#5: Washington/Arlington/Alexandria, D.C./Va./Md./W.Va.						
		Top 10 Total Market Share	7,504	66.4%		11,301
	1	NVR	3,019	26.7%		
	2	Toll Brothers	712	6.3%	13%	
	3	PulteGroup	659	5.8%	4%	
	4	Hovnanian Enterprises	550	4.9%		
	5	Stanley Martin Homes	540	4.8%		
	6	Van Metre Cos.	456	4.0%		
	7	Lennar	451	4.0%	2%	
	8	TRI Pointe Group	437	3.9%		
	9	D.R. Horton	341	3.0%	1%	
	10	CalAtlantic Group	339	3.0%	3%	
#6: Austin/Round Rock, Texas						
		Top 10 Total Market Share	6,853	62.3%		11,000
	1	D.R. Horton	1,994	18.1%	5%	
	2	CalAtlantic Group	812	7.4%	6%	
	3	KB Home	793	7.2%	10%	
	4	PulteGroup	689	6.3%	4%	
	5	Milestone Community Builders	619	5.6%		
	6	Lennar	518	4.7%	2%	
	7	Gehan Homes	405	3.7%		
	8	Pacesetter Homes	352	3.2%		
	9	Taylor Morrison	337	3.1%		
	10	Meritage Homes	334	3.0%	5%	
#7: Charlotte/Concord/Gastonia, N.C./S.C.						
		Top 10 Total Market Share	6,403	69.7%		9,187
	1	Lennar	970	10.6%	4%	
	2	True Homes USA	946	10.3%		
	3	D.R. Horton	866	9.4%	2%	
	4	PulteGroup	753	8.2%	4%	
	5	CalAtlantic Group	730	7.9%	6%	
	6	NVR	723	7.9%		
	7	MI Homes	417	4.5%		
	8	Eastwood Homes	396	4.3%		
	9	AV Homes	310	3.4%		
	10	Meritage Homes	292	3.2%	4%	

Note: Calendar year closings obtained from Builder Magazine. UBS divides these closings by closings per company reports for the four fiscal quarters most closely coinciding with the 2015 calendar year.
Source: Builder Magazine (Metrostudy)

Figure 59: Builder Exposure to Top 25 Housing Markets (continued)

2015 Metro Area Rank By Permits	Company Rank within Metro Area	Parent Company/Company	2015 Closings	2015 Market Share	% of Homes Closed by Company in 2015	2015 Total Closings
#8: San Antonio/New Braunfels, Texas						
		Top 10 Total Market Share	5,851	64.5%		9,071
	1	D.R. Horton	1,551	17.1%	4%	
	2	PulteGroup	847	9.3%	5%	
	3	KB Home	816	9.0%	10%	
	4	Lennar	618	6.8%	3%	
	5	Meritage Homes	430	4.7%	7%	
	6	Armadillo Homes	395	4.4%		
	7	Chesmar Homes	375	4.1%		
	8	CalAtlantic Group	288	3.2%	2%	
	9	LGI Homes	280	3.1%		
	10	David Weekley Homes	251	2.8%		
#9: Orlando/Kissimmee/Sanford, Fla.						
		Top 10 Total Market Share	6,058	68.9%		8,792
	1	Lennar	1,262	14.4%	5%	
	2	D.R. Horton	725	8.3%	2%	
	3	CalAtlantic Group	721	8.2%	6%	
	4	Meritage Homes	713	8.1%	11%	
	5	AV Homes	653	7.4%		
	6	Beazer Homes	439	5.0%	8%	
	7	Taylor Morrison	433	4.9%		
	8	KB Home	423	4.8%	5%	
	9	Mattamy Homes	345	3.9%		
	10	PulteGroup	344	3.9%	2%	
#10: New York/Newark/Jersey City, N.Y./N.J./Pa.						
		Top 10 Total Market Share	2,511	31.9%		7,871
	1	Toll Brothers	462	5.8%	8%	
	2	PulteGroup	436	5.5%	3%	
	3	Lennar	315	4.0%	1%	
	4	Hovnanian Enterprises	281	3.6%		
	5	The Beechwood Organization	227	2.9%		
	6	HFZ Capital Group	187	2.4%		
	7	NVR	163	2.1%		
	8	Premier Development	160	2.0%		
	9	Extell Development Co.	148	1.9%		
	10	Hallmark Homes	132	1.7%		
#11: Seattle/Tacoma/Bellevue, Wash.						
		Top 10 Total Market Share	3,227	44.7%		7,219
	1	D.R. Horton	903	12.5%	2%	
	2	William Lyon Homes	434	6.0%		
	3	Bosa Development	297	4.1%		
	4	Lennar	282	3.9%	1%	
	5	M.D.C. Holdings/Richmond American	260	3.6%		
	6	TRI Pointe Group	258	3.6%		
	7	Mainvue Homes	248	3.4%		
	8	Toll Brothers	224	3.1%	4%	
	9	Murray Franklin Cos.	173	2.4%		
	10	Conner Homes	148	2.1%		
#12: Denver/Aurora/Lakewood, Colo.						
		Top 10 Total Market Share	4,622	64.8%		7,133
	1	M.D.C. Holdings/Richmond American	958	13.4%		
	2	Lennar	613	8.6%	3%	
	3	Oakwood Homes	494	6.9%		
	4	Century Communities	470	6.6%		
	5	D.R. Horton	455	6.4%	1%	
	6	CalAtlantic Group	428	6.0%	3%	
	7	KB Home	415	5.8%	5%	
	8	Shea Homes	340	4.8%		
	9	Meritage Homes	243	3.4%	4%	
	10	Toll Brothers	206	2.9%	4%	
#13: Nashville/Davidson/Murfreesboro/Franklin, Tenn.						
		Top 10 Total Market Share	3,025	42.7%		7,084
	1	Ole South Properties	620	8.7%		
	2	Goodall Homes	456	6.4%		
	3	NVR	345	4.9%		
	4	Regent Homes	306	4.3%		
	5	Beazer Homes	259	3.7%	5%	
	6	The Jones Company of Tennessee	233	3.3%		
	7	Laurel Property LLC	210	3.0%		
	8	PulteGroup	200	2.8%	1%	
	9	Meritage Homes	154	2.2%	2%	
	10	The Drees Co.	121	1.7%		
	10	Celebration Homes	121	1.7%		
#14: Riverside/San Bernardino/Ontario, Calif.						
		Top 10 Total Market Share	5,525	79.7%		6,932
	1	Lennar	1,275	18.4%	5%	
	2	D.R. Horton	1,006	14.5%	3%	
	3	TRI Pointe Group	685	9.9%		
	4	KB Home	596	8.6%	7%	
	5	CalAtlantic Group	525	7.6%	4%	
	6	PulteGroup	412	5.9%	2%	
	7	Frontiers Community Builders	324	4.7%		
	8	M.D.C. Holdings/Richmond American	264	3.8%		
	9	Woodside Homes	241	3.5%		
	10	Meritage Homes	197	2.8%	3%	

Note: Calendar year closings obtained from Builder Magazine. UBS divides these closings by closings per company reports for the four fiscal quarters most closely coinciding with the 2015 calendar year.
Source: Builder Magazine (Metrostudy)

Figure 60: Builder Exposure to Top 25 Housing Markets (continued)

2015 Metro Area Rank By Permits	Company Rank within Metro Area	Parent Company/Company	2015 Closings	2015 Market Share	% of Homes Closed by Company in 2015	2015 Total Closings
#15: Las Vegas/Henderson/Paradise, Nev.						
		Top 10 Total Market Share	5,686	82.8%		6,867
	1	Lennar	1,091	15.9%	5%	
	2	D.R. Horton	828	12.0%	2%	
	3	KB Home	773	11.2%	9%	
	4	CalAtlantic Group	609	8.9%	5%	
	5	M.D.C. Holdings/Richmond American	575	8.4%		
	6	American West Homes	451	6.6%		
	7	PulteGroup	437	6.4%	3%	
	8	TRI Pointe Group	374	5.4%		
	9	Woodside Homes	286	4.2%		
	10	Century Communities	262	3.8%		
#16: Los Angeles/Long Beach/Anaheim, Calif.						
		Top 10 Total Market Share	5,068	74.5%		6,803
	1	The Irvine Co.	1,674	24.6%		
	2	CalAtlantic Group	499	7.3%	4%	
	3	Lennar	477	7.0%	2%	
	4	KB Home	465	6.8%	6%	
	5	Shea Homes	421	6.2%		
	6	Brookfield Homes	354	5.2%		
	7	TRI Pointe Group	319	4.7%		
	8	California Pacific Homes	310	4.6%		
	9	Toll Brothers	296	4.4%	5%	
	10	The Olson Co.	253	3.7%		
#17: Tampa/St. Petersburg/Clearwater, Fla.						
		Top 10 Total Market Share	4,848	71.4%		6,790
	1	Lennar	1,509	22.2%	6%	
	2	D.R. Horton	663	9.8%	2%	
	3	CalAtlantic Group	554	8.2%	4%	
	4	Taylor Morrison	420	6.2%		
	5	MI Homes	354	5.2%		
	6	PulteGroup	347	5.1%		
	7	Homes by Westbay	300	4.4%		
	8	NVR	252	3.7%		
	9	David Weekley Homes	233	3.4%		
	10	Hovnanian Enterprises	216	3.2%		
#18: Miami/Fort Lauderdale/West Palm Beach, Fla.						
		Top 10 Total Market Share	6,066	90.2%		6,725
	1	Lennar	2,208	32.9%	9%	
	2	The Related Group	1,427	21.2%		
	3	GL Homes	707	10.5%		
	4	D.R. Horton	561	8.3%	2%	
	5	CalAtlantic Group	229	3.4%	2%	
	6	ANSCA Homes	214	3.2%		
	7	PulteGroup	165	2.5%	1%	
	8	Melo Development Ltd	153	2.3%		
	9	Property Markets Group	144	2.1%		
	10	Encore Capital Management	129	1.9%		
	10	The Lynd Company	129	1.9%		
#19: Raleigh, N.C.						
		Top 10 Total Market Share	3,096	48.5%		6,384
	1	Lennar	555	8.7%	2%	
	2	CalAtlantic Group	484	7.6%	4%	
	3	PulteGroup	372	5.9%	2%	
	4	Dan Ryan Builders	359	5.6%		
	5	MI Homes	339	5.3%		
	6	Royal Oaks Building Group	294	4.6%		
	7	KB Home	199	3.1%	2%	
	8	Beazer Homes	181	2.8%	3%	
	9	Meritage Homes	167	2.6%	3%	
	10	D.R. Horton	146	2.3%	0%	
#20: Chicago/Naperville/Elgin, Ill./Ind./Wis.						
		Top 10 Total Market Share	2,835	52.4%		5,410
	1	D.R. Horton	679	12.6%	2%	
	2	CalAtlantic Group	508	9.4%	4%	
	3	PulteGroup	370	6.9%	2%	
	4	MI Homes	347	6.4%		
	5	Hovnanian Enterprises	308	5.7%		
	6	Olthof Homes	156	2.9%		
	7	Toll Brothers	137	2.5%	2%	
	8	NVR	115	2.1%		
	9	Lexington Homes	110	2.0%		
	10	The Related Group	105	1.9%		
#21: Jacksonville, Fla.						
		Top 10 Total Market Share	4,122	76.8%		5,367
	1	D.R. Horton	1,262	23.5%	3%	
	2	Lennar	481	9.0%	2%	
	3	Dream Finders Homes	448	8.3%		
	4	PulteGroup	378	7.0%	2%	
	5	Mattamy Homes	360	6.7%		
	6	KB Home	320	6.0%	4%	
	7	David Weekley Homes	283	5.3%		
	8	M.D.C. Holdings/Richmond American	220	4.1%		
	9	Providence Homes	188	3.5%		
	10	ICI Homes	182	3.4%		

Note: Calendar year closings obtained from Builder Magazine. UBS divides these closings by closings per company reports for the four fiscal quarters most closely coinciding with the 2015 calendar year.
Source: Builder Magazine (Metrostudy)

Figure 61: Builder Exposure to Top 25 Housing Markets (continued)

2015 Metro Area Rank By Permits	Company Rank within Metro Area	Parent Company/Company	2015 Closings	2015 Market Share	% of Homes Closed by Company in 2015	2015 Total Closings
#22: Philadelphia/Camden/Wilmington, Pa./N.J./Del./Md.						
		Top 10 Total Market Share	2,921	59.2%		4,934
	1	NVR	1,158	23.5%		
	2	Toll Brothers	611	12.4%	11%	
	3	CalAtlantic Group	230	4.7%	2%	
	4	Hovnanian Enterprises	198	4.0%		
	5	D.R. Horton	188	3.8%	1%	
	6	Blenheim Homes	125	2.5%		
	7	Beazer Homes	110	2.2%	2%	
	8	PulteGroup	103	2.1%	1%	
	9	Orleans Homebuilders	100	2.0%		
	10	McKee Group	98	2.0%		
#23: Minneapolis/St. Paul/Bloomington, Minn./Wis.						
		Top 10 Total Market Share	2,411	50.4%		4,784
	1	Lennar	493	10.3%	2%	
	2	CalAtlantic Group	381	8.0%	3%	
	3	Mattamy Homes	292	6.1%		
	3	PulteGroup	292	6.1%	2%	
	5	D.R. Horton	263	5.5%	1%	
	6	Hovnanian Enterprises	248	5.2%		
	7	Capstone Homes	126	2.6%		
	8	Robert Thomas Homes	124	2.6%		
	9	Hans Hagen Homes	96	2.0%		
	9	Key Land Homes	96	2.0%		
#24: Indianapolis/Carmel/Anderson, Ind.						
		Top 10 Total Market Share	3,834	84.4%		4,543
	1	Arbor Homes	734	16.2%		
	2	CalAtlantic Group	701	15.4%	6%	
	3	PulteGroup	572	12.6%	3%	
	4	Beazer Homes	485	10.7%	9%	
	5	Westport Homes	376	8.3%		
	6	MI Homes	343	7.6%		
	7	The Fischer Group	265	5.8%		
	8	The Drees Co.	142	3.1%		
	9	NVR	120	2.6%		
	10	Davis Building Group	96	2.1%		
#25: Portland/Vancouver/Hillsboro, Ore./Wash.						
		Top 10 Total Market Share	2,345	52.1%		4,501
	1	D.R. Horton	617	13.7%	2%	
	2	William Lyon Homes	535	11.9%		
	3	Lennar	339	7.5%	1%	
	4	New Tradition Homes	183	4.1%		
	5	Manor Homes	175	3.9%		
	6	Pacific Lifestyle Homes	131	2.9%		
	7	Stonebridge Homes	98	2.2%		
	8	Pahlisch Homes	95	2.1%		
	9	TA Liesy Homes	87	1.9%		
	10	Renaissance Custom Homes	85	1.9%		

Note: Calendar year closings obtained from Builder Magazine. UBS divides these closings by closings per company reports for the four fiscal quarters most closely coinciding with the 2015 calendar year.

Source: Builder Magazine (Metrostudy)

Valuation Method and Risk Statement

The primary risk facing homebuilders currently is that the recent improvements experienced slow or reverse, driven by 1) a weaker macroeconomic backdrop and the related lower level of job creation or 2) the impact from recent increases in mortgage rates. Additional risks include increased costs for either land, labor or materials and the potential for the more limited availability of mortgage financing to negatively impact demand.

Our PTs are based on a blended valuation using an avg. of 8x our 2017E EPS and 1.3x our 2017E BVs.

Lennar—The primary risk facing Lennar to the downside is that the recent improvements experienced slow or reverse, driven by 1) a weaker macroeconomic backdrop and the related lower level of job creation or 2) the impact from increases in mortgage rates. The primary risk to the upside is that the recent improvements experienced accelerate faster than currently expected. Our price target is based on a blended valuation incorporating 10x our 2017 EPS estimate and 1.7x our 2017 adjusted BV forecast.

Toll—The primary risk facing Toll Brothers to the downside is that the recent improvements experienced slow or reverse, driven by 1) a weaker macroeconomic backdrop and the related lower level of job creation or 2) the impact from increases in mortgage rates. The primary risk to the upside is that the recent improvements experienced accelerate faster than currently anticipated. Our price target is based on a blended valuation incorporating 10x our 2017E EPS and 1.3x our 2017 adjusted book value forecast.

Pulte—Pulte's primary downside risk is related to the broader macro environment. Should economic growth slow meaningfully, we'd expect the nascent rebound in housing to moderate or reverse. Further, rising mortgage rates could lead to a slower recovery even with an improving macro backdrop. Additional risks include higher costs from labor, land and materials. Our price target is based on a blended valuation incorporating 9x our 2017 EPS estimate and 1.7x our 2017 adjusted book value forecast.

Meritage—The primary risk facing Meritage to the upside is that the recent improvements experiences accelerate faster than currently expected. Our price target is based on a blended valuation incorporating 6x our 2017 EPS estimate and 0.8x our 2017 adjusted book value forecast.

KB Home—The primary risk facing KB Home to the upside is that the recent improvements experiences accelerate faster than currently expected. Our price target is based on a blended valuation incorporating

Required Disclosures

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	26%
Sell	FSR is > 6% below the MRA.	14%	19%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2016.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
KB Home ¹⁶	KBH.N	Sell	N/A	US\$13.86	13 Jun 2016
Lennar ^{7, 16}	LEN.N	Buy	N/A	US\$46.08	13 Jun 2016
Meritage Corporation ¹⁶	MTH.N	Sell	N/A	US\$36.03	13 Jun 2016
PulteGroup, Inc. ¹⁶	PHM.N	Buy	N/A	US\$18.83	13 Jun 2016
Toll Brothers ¹⁶	TOL.N	Buy	N/A	US\$27.78	13 Jun 2016

Source: UBS. All prices as of local market close.

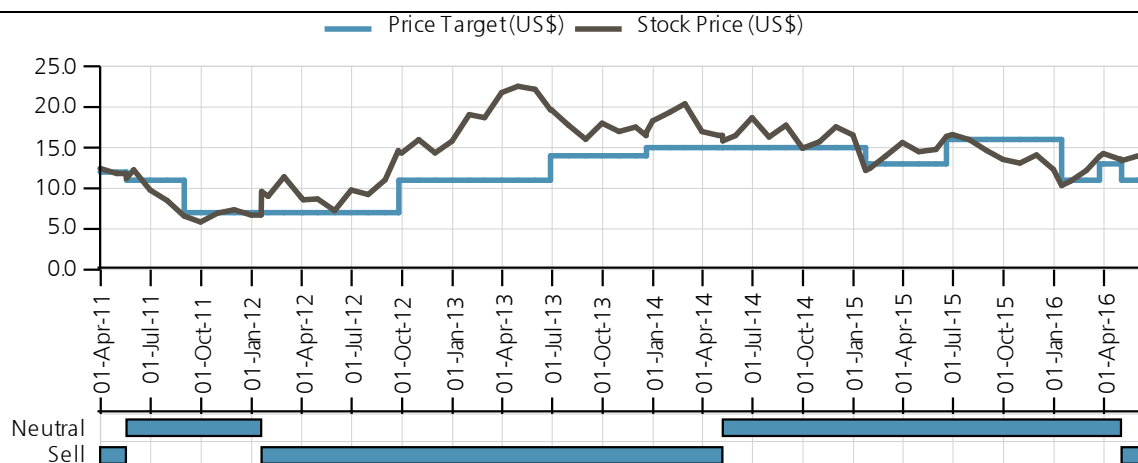
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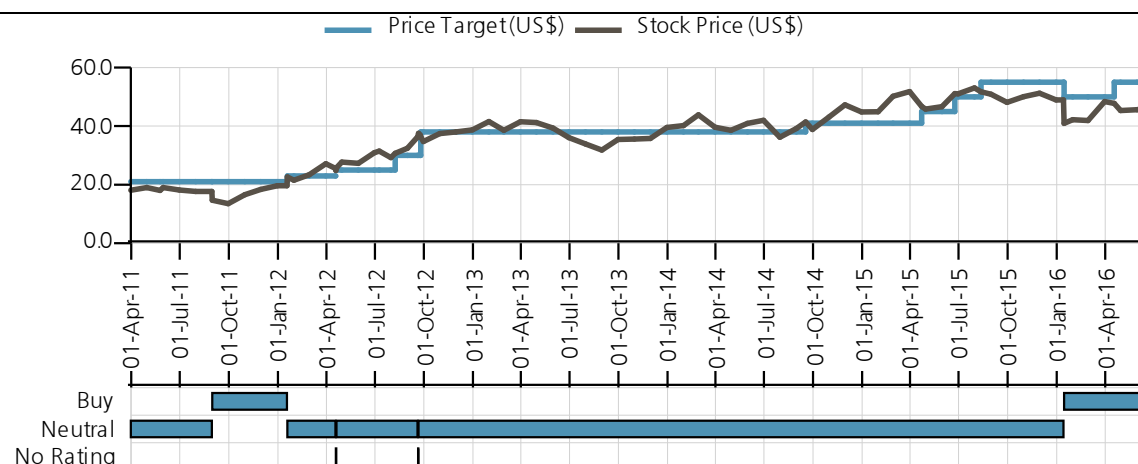
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KB Home (US\$)



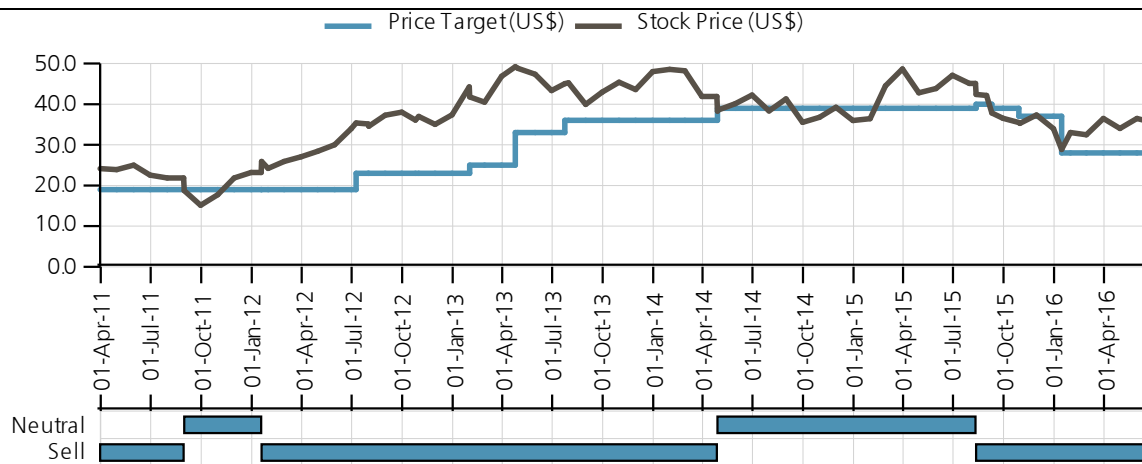
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Lennar (US\$)



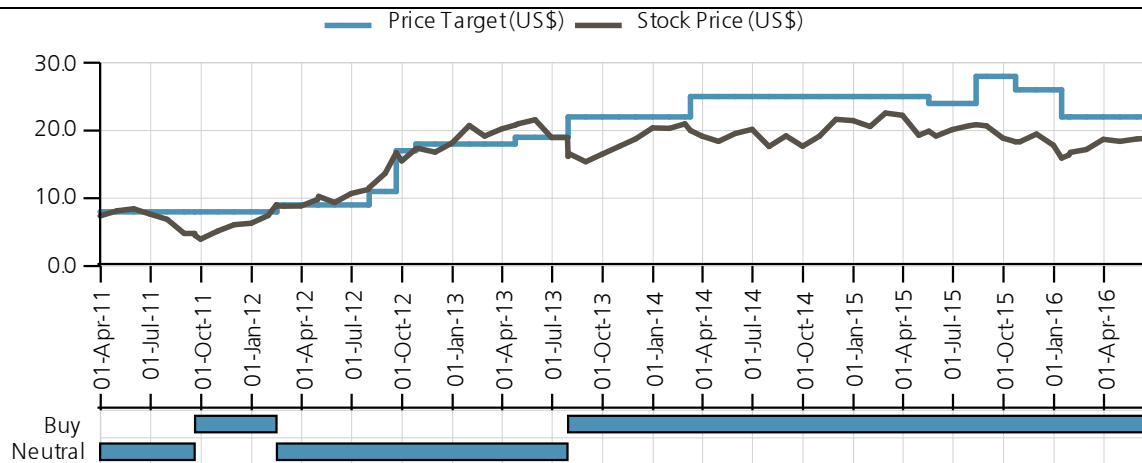
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Meritage Corporation (US\$)



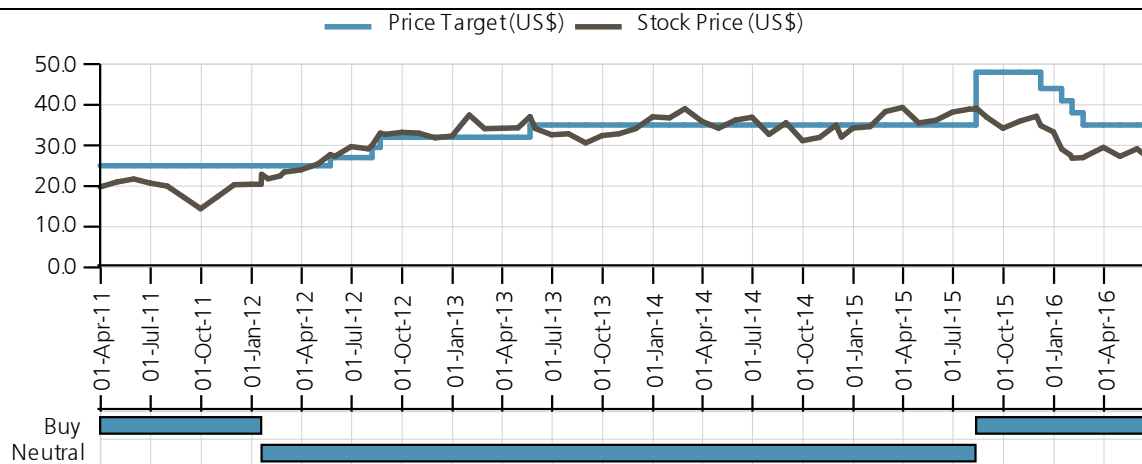
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