

U.S. Homebuilding

A Treasure Map for Housing Vol. 6

Equities

Americas
Home Construction

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Spring Selling Season off to a Warm Start

With the 2016 selling season just a few weeks old, our channel checks anecdotally point to healthy activity thus far, as increasing community counts are driving buyer interest and sales, in line with our outlook for moderate rates of growth. Based on data for a limited number of markets across the country (9), traffic and net contracts are up 9% and 6% year over year, respectively, for the first 10 weekends of the year despite difficult comparisons. More specifically, we note that: 1) coastal [California](#) and [Dallas](#) remain among the strongest markets; 2) entry level demand is improving—supported by low mortgage rates—though supply is still limited at this price point; and 3) [Houston](#) is the greatest concern, with starts expected to be down ~10% in 2016 following a similar decline in 2015. Given these trends—and the recent move in the stocks—we remain focused on our preferred names and highlight Buy rated Toll, Lennar, and Pulte.

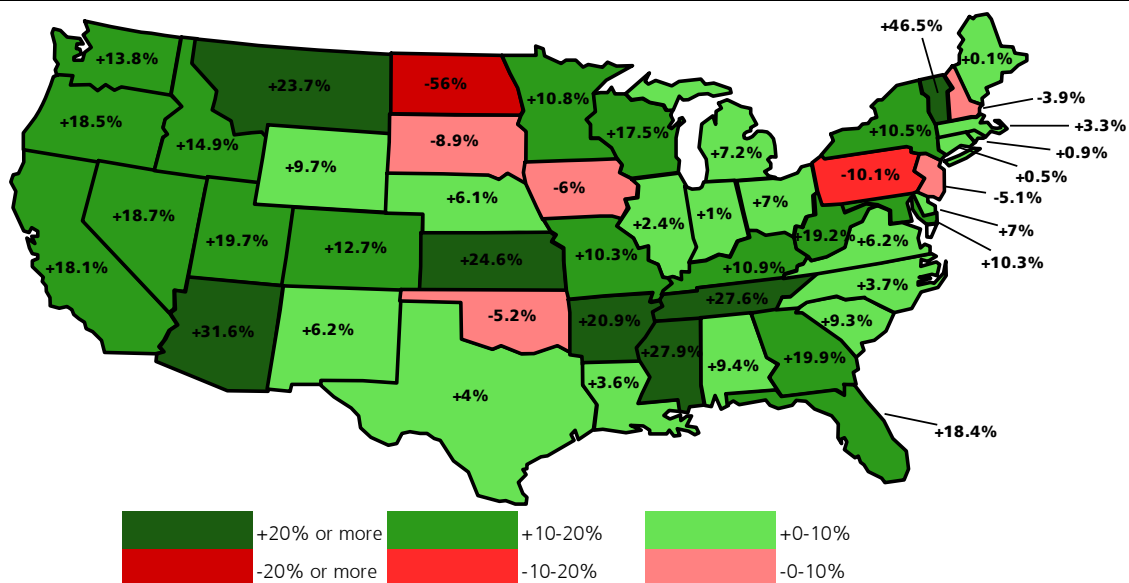
Pipeline Remains Healthy in West and South; Texas Deceleration Continues

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 32%, 28%, 20%, 18% and 18% year over year, respectively. We'd note Texas continues to be under pressure as the pace of growth decelerated year over year to +4% 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 8.4x our 2017E EPS and 1x our 2017E BVs. Our top picks in the group are TOL, LEN and PHM. We also highlight Buy-rated BZH.

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



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

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 increased. 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 new homes growth of ~10% for 2016.

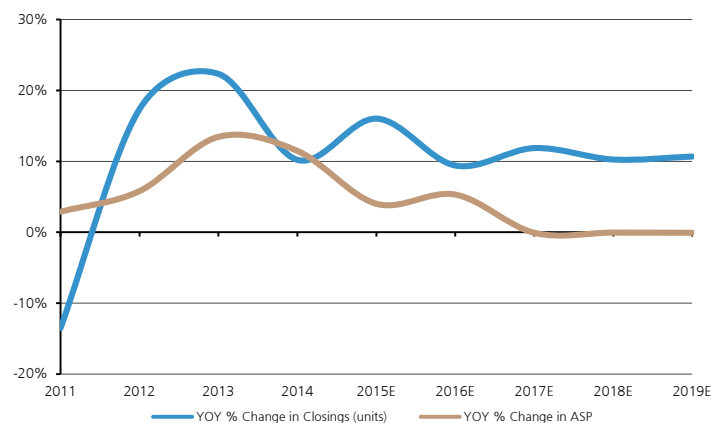
UBS VIEW

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.

Volume Growth vs. Home Price Appreciation



Investment Thesis

As outlined in our [5 Pivotal Questions for 2016 report](#), we expect the year to be characterized by cautious optimism around housing, as investors balance a generally supportive operating backdrop with moderating volume growth as we move further through the recovery. In turn, we forecast the following for 2016:

- A 10-15% increase in volumes, with greater likelihood to the lower end of the range. This comes as the industry wrestles with labor constraints and elevated land prices coupled with the public builders' focus on preserving profitability.
- Price appreciation slowing to the mid-single digit range, as new communities increasingly target more affordable product as builders respond to the dramatic home price increases earlier in the recovery and the potential for rising rates.

Looking to the early part of the selling season, among the key factors being discussed are:

- **Mortgage rates remain low and accommodating.** In contrast to concerns around the impact of a rising rate environment on housing demand, slower economic growth has allowed rates to remain attractive, supporting demand among entry level buyers.
- **Labor constraints are metering the rate of growth.** Builders continue to struggle with limited construction crews in many parts of the country, inhibiting the level of starts activity. Among the areas where this is most notable are Phoenix, Las Vegas, and Texas.
- **Increased community count is driving traffic while sales rise at more modest rate.** The increase in neighborhoods is allowing buyers to shop around more before making the purchase decision. That said, given the level of interest, coupled with limited supply, builders have refrained from broad, significant increases in incentives or discounts.

What It Means for the Stocks

Although the selling season is unfolding much as expected—with moderate being the key word to describe demand—some of the factors that we looked to impact growth are materializing (labor and land constraints), while others have turned more favorable than initially thought (rates). Further, these trends will likely persist for much of the year.

With this backdrop, the stocks have risen 10% over the last three weeks—compared to the S&P 500 up 4%—following the more dramatic declines experienced earlier in the year. That said, the multiple compression that has defined the homebuilders year to date remains a factor. The group now trades at an average of 1.3x tangible book value, with the larger cap stocks at an average of 1.6x tangible book value.

In turn, we believe investors should be cautious on selecting entry points and focus on company specific stories where earnings can grow at an accelerated rate even in a less supportive operating environment. **We highlight Buy rated Toll, Lennar, and Pulte as our top picks, which are trading at or below the large cap average.**

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

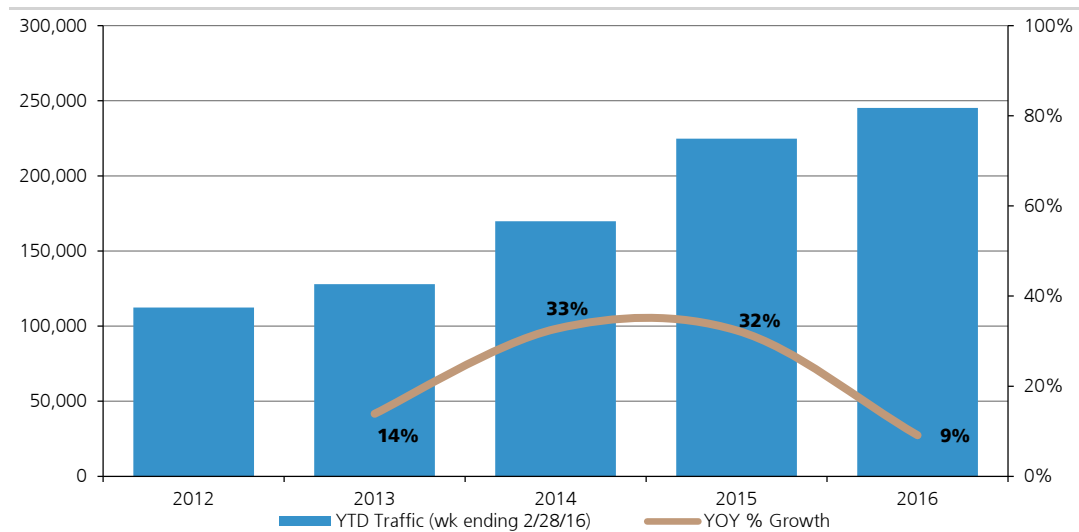
State	Jan. 2015 Growth	Jan. 2014 Growth	bps change
Vermont	46.5%	-25.0%	7,152
West Virginia	19.2%	-18.3%	3,745
Arizona	31.6%	-2.9%	3,452
Montana	23.7%	-10.4%	3,414
Kansas	24.6%	-3.8%	2,847
Oregon	18.5%	-4.6%	2,311
Mississippi	27.9%	5.1%	2,283
Arkansas	20.9%	-1.3%	2,227
Utah	19.7%	-1.4%	2,105
Idaho	14.9%	-5.4%	2,030
Wyoming	9.7%	-9.8%	1,955
Washington	13.8%	-4.9%	1,867
Nevada	18.7%	0.8%	1,786
Tennessee	27.6%	9.8%	1,780
Wisconsin	17.5%	-0.3%	1,779
Maryland	10.3%	-7.4%	1,767
California	18.1%	0.4%	1,767
Florida	18.4%	1.0%	1,733
Connecticut	0.5%	-16.2%	1,670
Nebraska	6.1%	-10.2%	1,629
Virginia	6.2%	-8.8%	1,501
Kentucky	10.9%	-2.6%	1,346
Ohio	7.0%	-2.5%	950
Georgia	19.9%	10.4%	948
New York	10.5%	1.0%	948
Missouri	10.3%	1.7%	856
Michigan	7.2%	-1.2%	841
Massachusetts	3.3%	-5.1%	835
Minnesota	10.8%	3.9%	691
Rhode Island	0.9%	-3.3%	418
Louisiana	3.6%	-0.4%	402
Colorado	12.7%	9.0%	370
New Mexico	6.2%	3.6%	253
Iowa	-6.0%	-8.5%	246
Pennsylvania	-10.1%	-12.5%	242
Indiana	1.0%	-1.2%	213
North Carolina	3.7%	2.3%	140
Delaware	7.0%	6.7%	36
Maine	0.1%	0.2%	-4
Alabama	9.4%	9.5%	-9
South Dakota	-8.9%	-8.6%	-25
Oklahoma	-5.2%	-3.8%	-146
South Carolina	9.3%	11.5%	-224
Illinois	2.4%	4.9%	-253
Texas	4.0%	10.5%	-649
New Hampshire	-3.9%	2.8%	-672
New Jersey	-5.1%	3.9%	-904
North Dakota	-56.0%	58.7%	-11,472

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

Early Read on Spring Selling Season

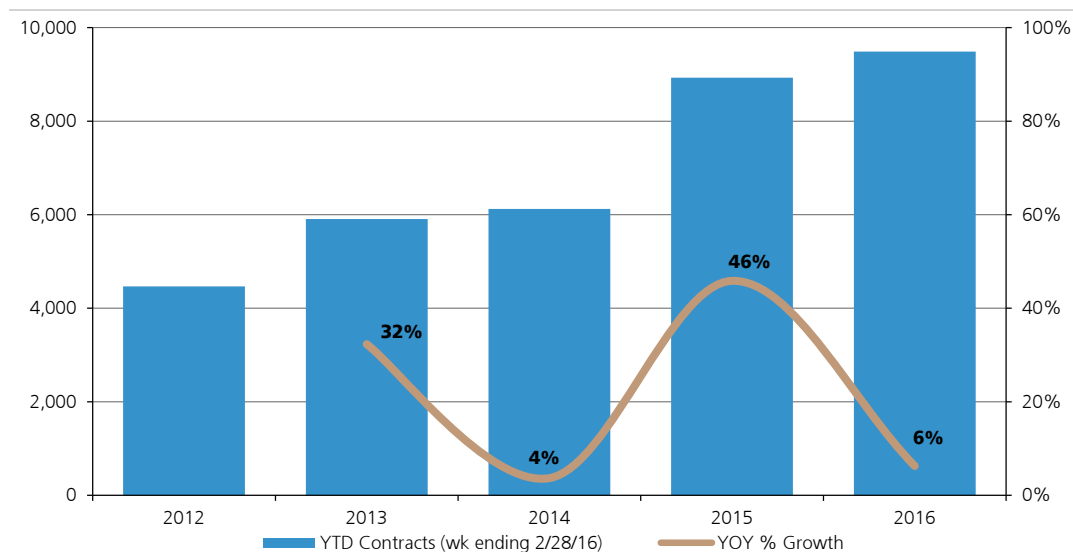
The 2016 selling season is just a few weeks old, but anecdotally our channel checks point to healthy activity thus far, with traffic and contracts roughly in line with 2015. Despite our limited sample of 9 markets around the country, data we analyzed lead us to a similar conclusion. Through the first 10 weekends of the year, traffic and net contracts are up 9% and 6% year over year, respectively though we note this is off difficult comparisons. That said, given ~10% growth in community count, absorption paces are down slightly vs. 2015 but up when compared to 2014. We are encouraged by the initial level of activity and will continue to monitor these trends as we move through the rest of the spring.

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: YTD Contracts +6% 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

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.

Figure 5: Generally speaking, the monthly cost of ownership is still cheaper than renting in most major markets



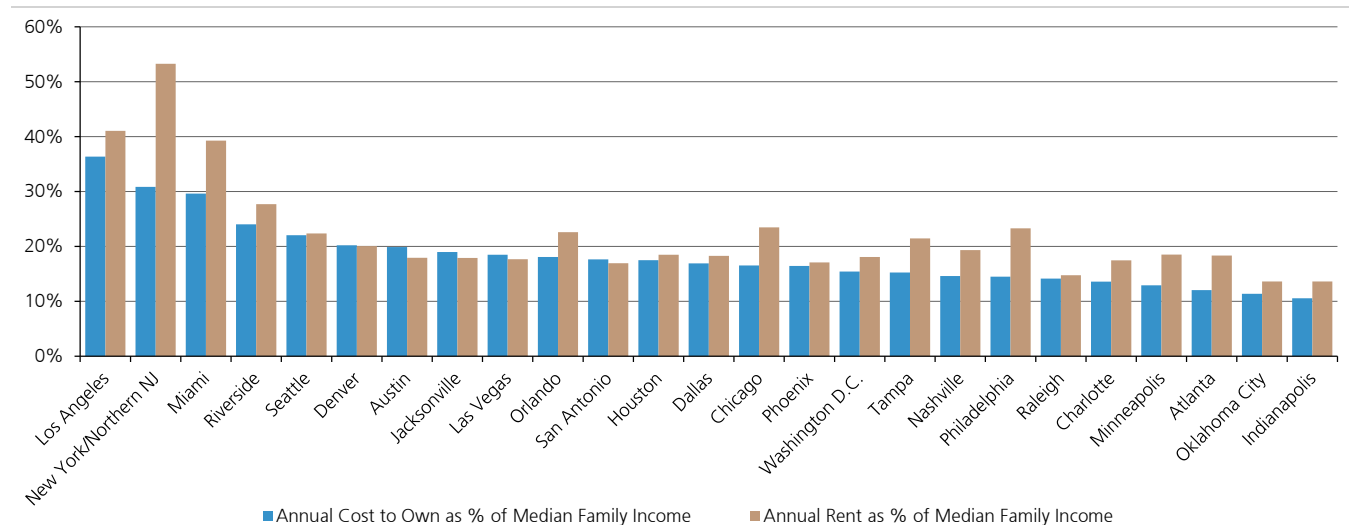
MSA		MSA	
New York/Northern NJ	42% cheaper to own than rent	Riverside	13% cheaper to own than rent
Philadelphia	38% cheaper to own than rent	Los Angeles	11% cheaper to own than rent
Atlanta	34% cheaper to own than rent	Dallas	7% cheaper to own than rent
Minneapolis	30% cheaper to own than rent	Houston	5% cheaper to own than rent
Chicago	30% cheaper to own than rent	Phoenix	4% cheaper to own than rent
Tampa	29% cheaper to own than rent	Raleigh	4% cheaper to own than rent
Miami	25% cheaper to own than rent	Seattle	1% cheaper to own than rent
Nashville	24% cheaper to own than rent	Denver	1% more expensive to own than rent
Charlotte	22% cheaper to own than rent	San Antonio	4% more expensive to own than rent
Indianapolis	22% cheaper to own than rent	Las Vegas	5% more expensive to own than rent
Orlando	20% cheaper to own than rent	Jacksonville	6% more expensive to own than rent
Oklahoma City	16% cheaper to own than rent	Austin	11% more expensive to own than rent
Washington D.C.	15% 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.

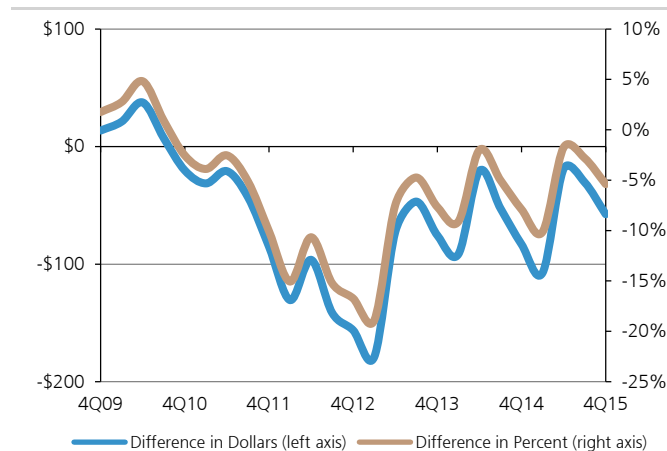
Additionally, building on this analysis, we looked at historical affordability for each market, using the National Association of Homebuilders/Wells Fargo Housing Opportunity Index as a proxy. Further, we've included a comparison of annual rent/cost to own as a percent of median family income. Among the top 25 MSA's, Atlanta, Charlotte and Raleigh are the most affordable, with annual ownership costs accounting for 12%, 14% 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 7: Owning a home in Atlanta, Raleigh and Charlotte provides the most bang for your buck



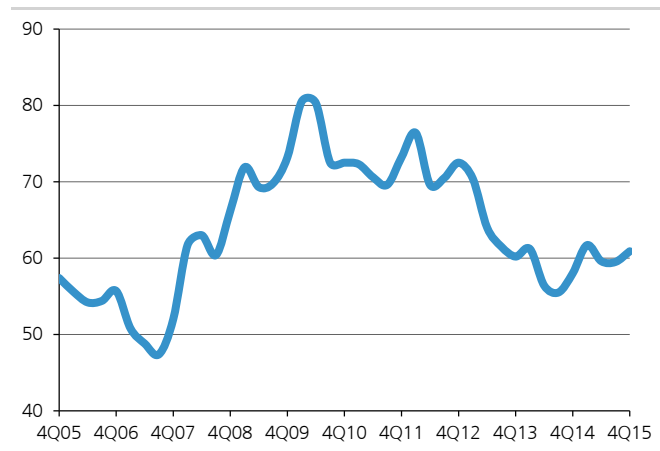
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 8: Houston MSA is cheaper to own



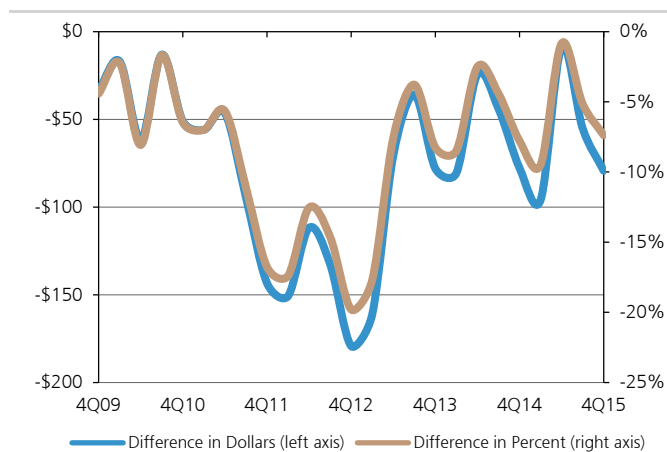
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 9: NAHB/Wells Fargo HOI, Houston Area



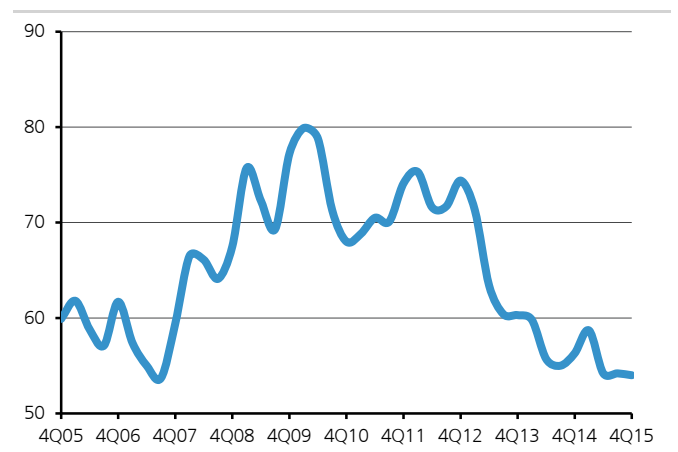
Source: NAHB and UBS

Figure 10: Dallas MSA is cheaper to own



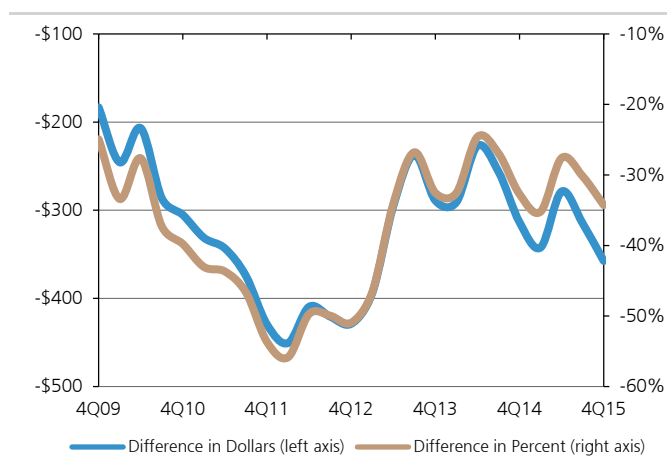
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 11: NAHB/Wells Fargo HOI, Dallas Area



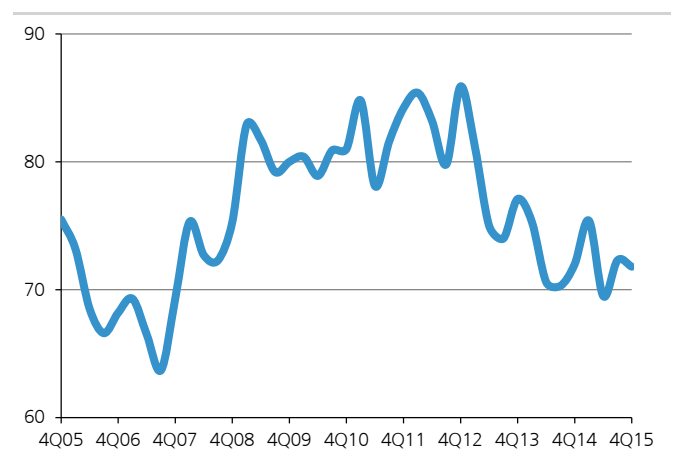
Source: NAHB and UBS

Figure 12: Atlanta MSA is cheaper to own



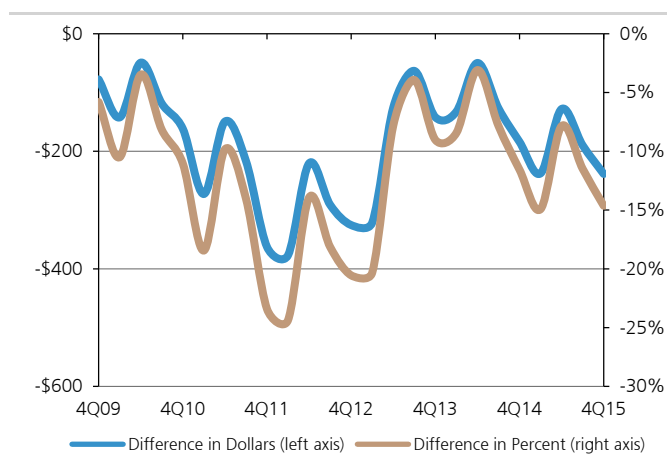
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 13: NAHB/Wells Fargo HOI, Atlanta Area



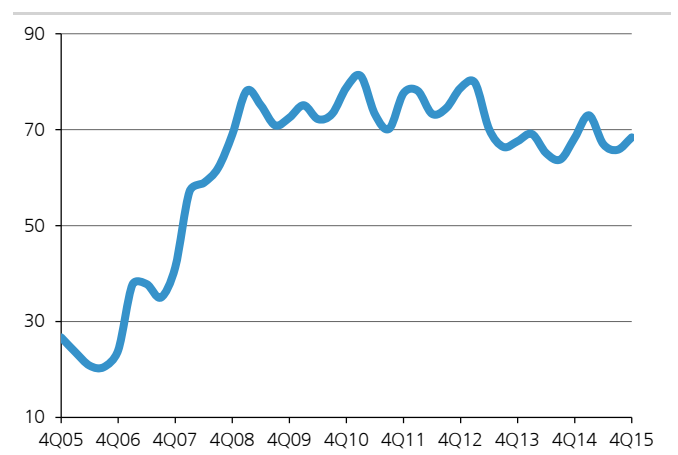
Source: NAHB and UBS

Figure 14: Washington D.C. MSA is cheaper to own



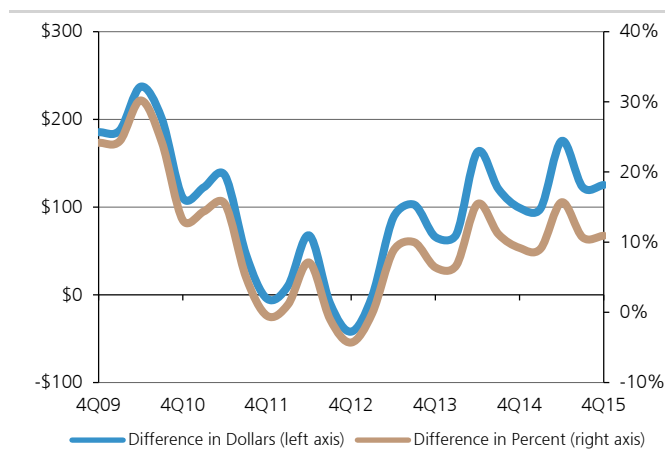
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 15: NAHB/Wells Fargo HOI, Washington D.C. Metro



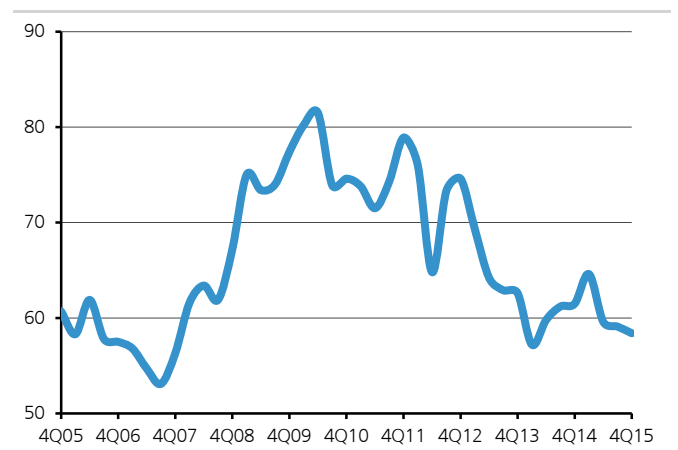
Source: NAHB and UBS

Figure 16: Austin MSA is more expensive to own



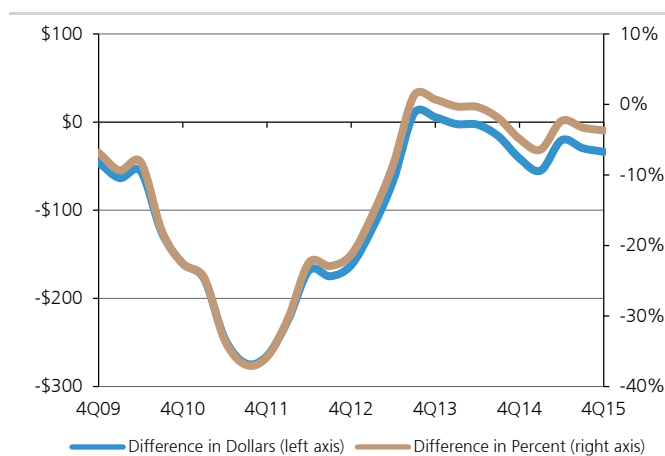
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 17: NAHB/Wells Fargo HOI, Austin Area



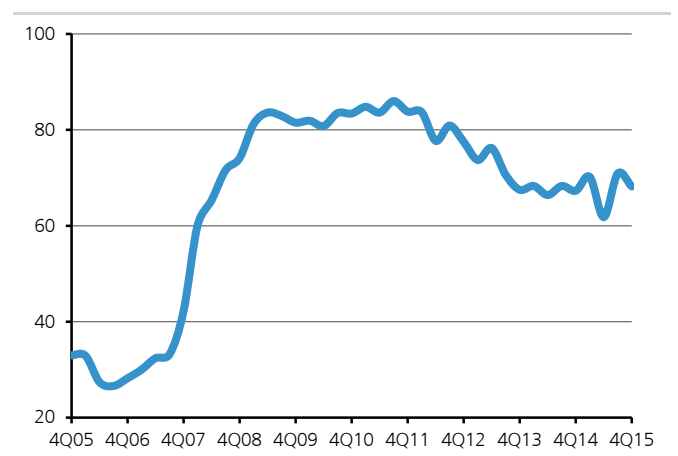
Source: NAHB and UBS

Figure 18: Phoenix MSA is cheaper to own



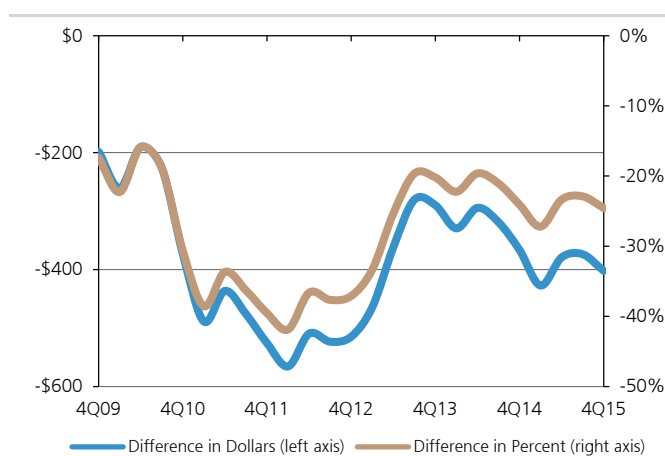
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 19: NAHB/Wells Fargo HOI, Phoenix Area



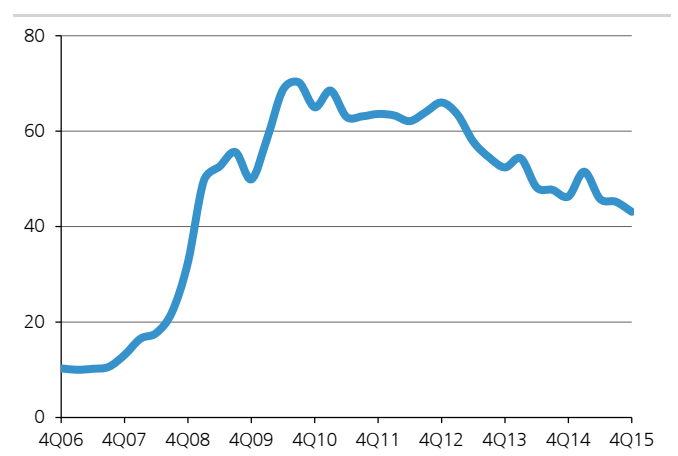
Source: NAHB and UBS

Figure 20: Miami MSA is cheaper to own



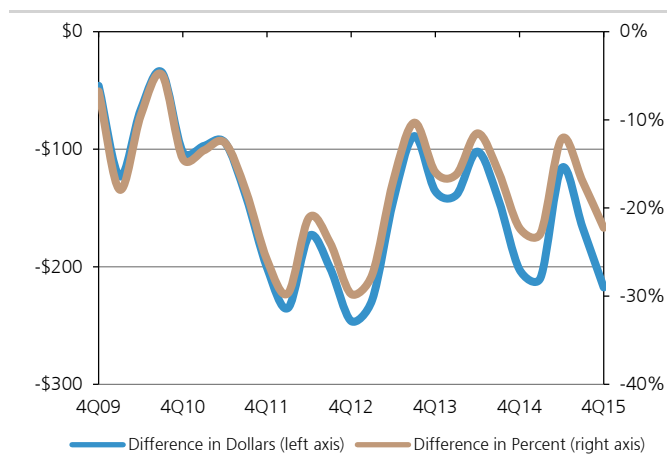
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 21: NAHB/Wells Fargo HOI, Miami Area



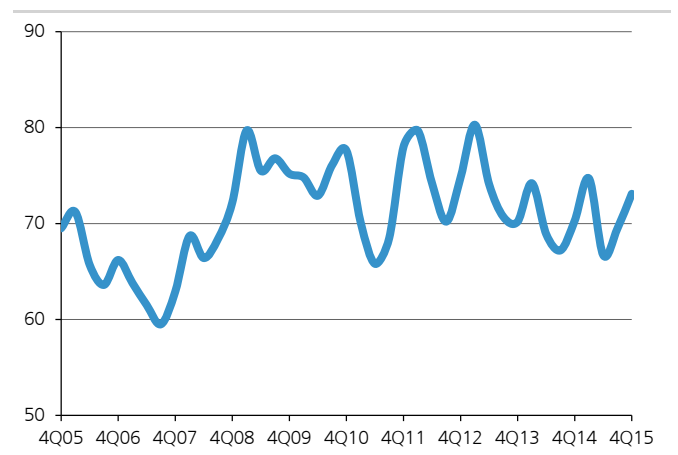
Source: NAHB and UBS

Figure 22: Charlotte MSA is cheaper to own



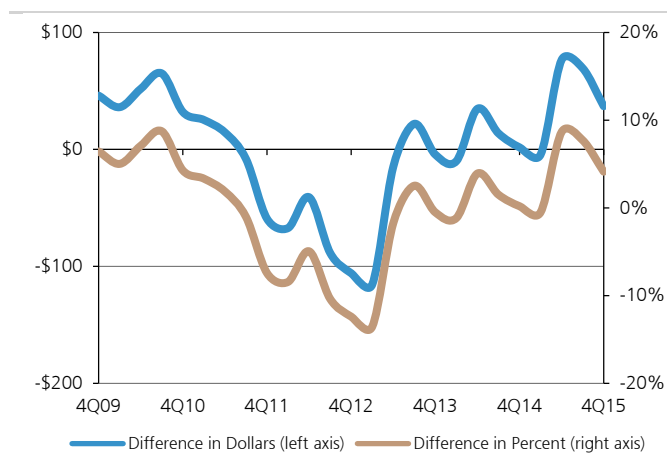
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 23: NAHB/Wells Fargo HOI, Charlotte Area



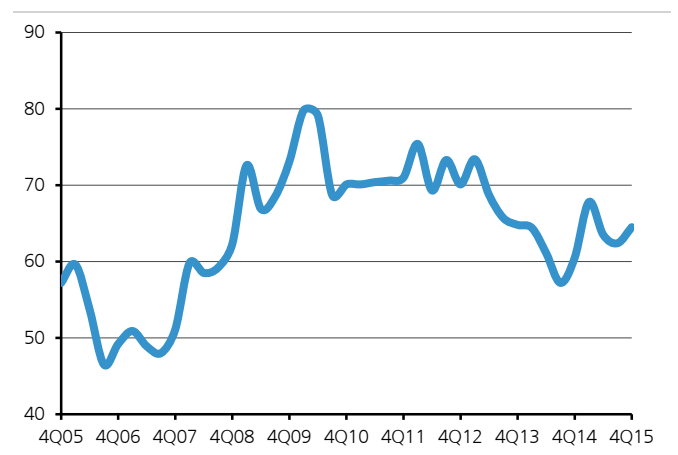
Source: NAHB and UBS

Figure 24: San Antonio MSA is more expensive to own



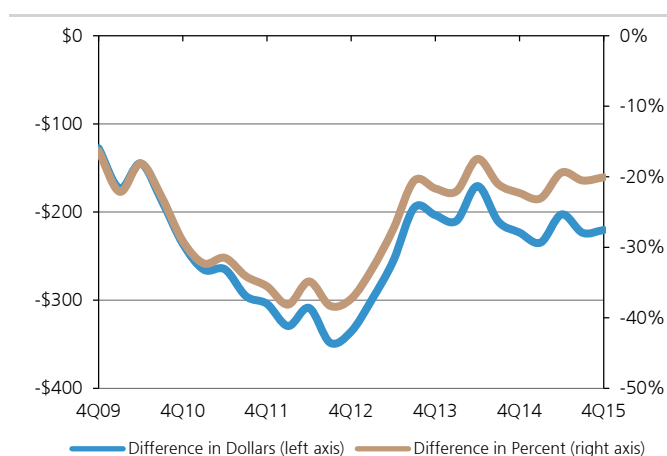
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

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



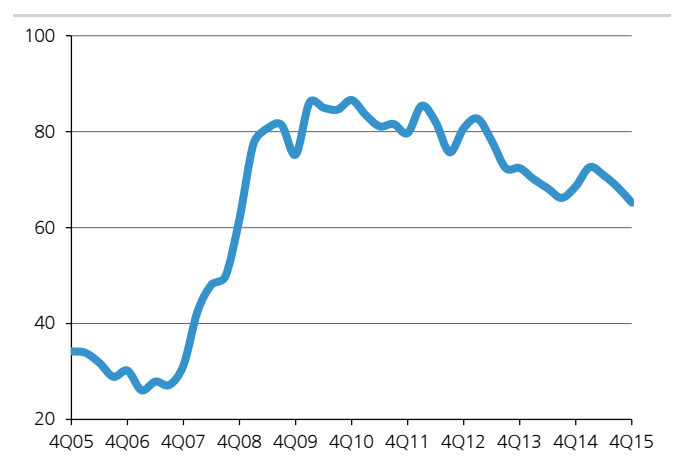
Source: NAHB and UBS

Figure 26: Orlando MSA is cheaper to own



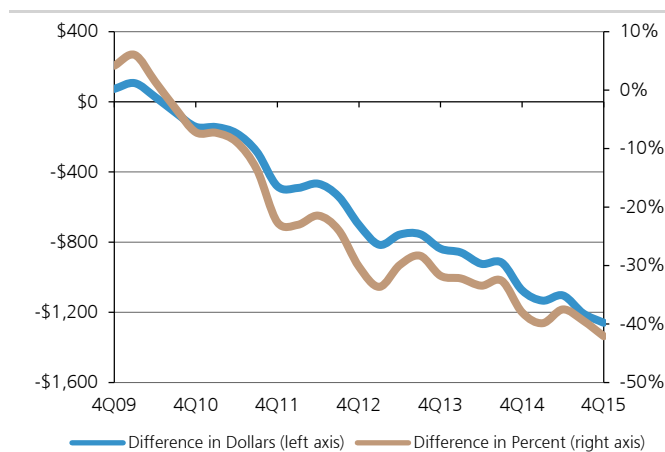
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 27: NAHB/Wells Fargo HOI, Orlando Area



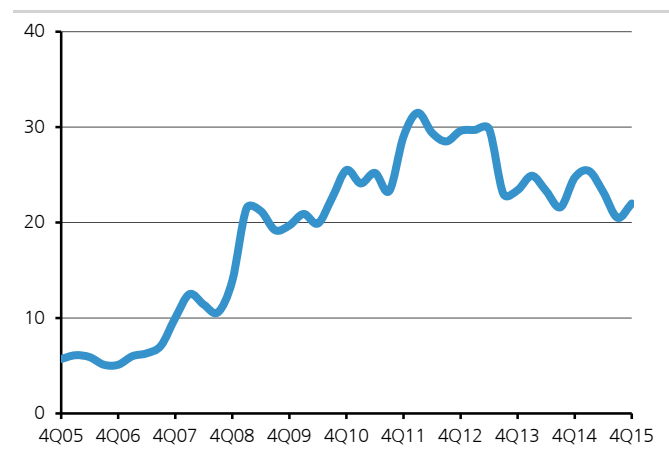
Source: NAHB and UBS

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



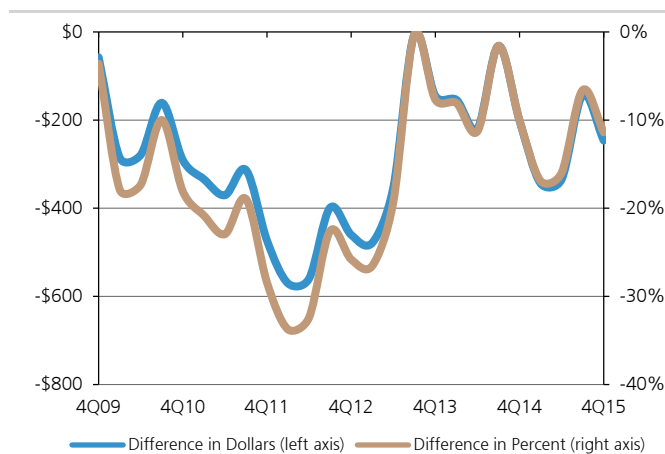
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

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



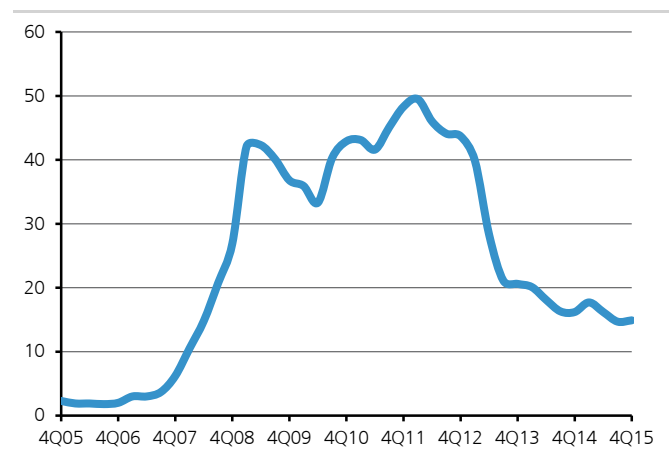
Source: NAHB and UBS

Figure 30: Los Angeles MSA is cheaper to own



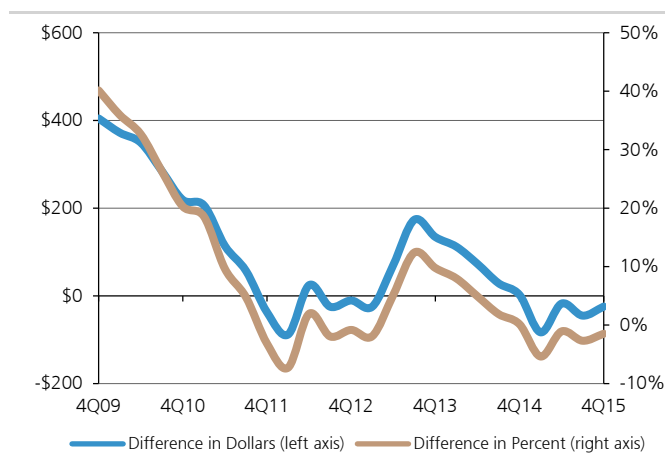
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 31: NAHB/Wells Fargo HOI, Los Angeles Area



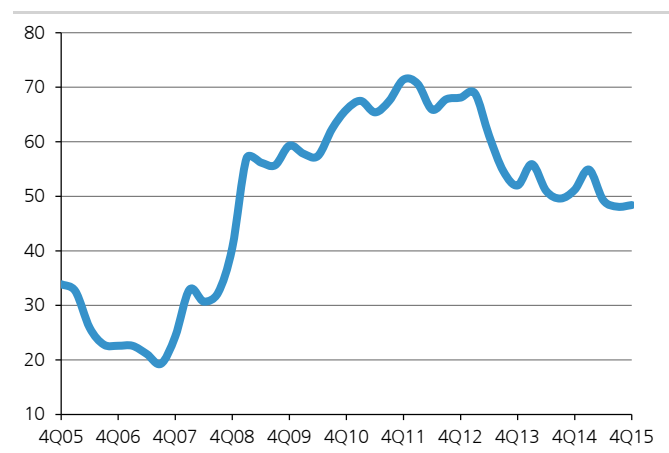
Source: NAHB and UBS

Figure 32: Seattle MSA is cheaper to own



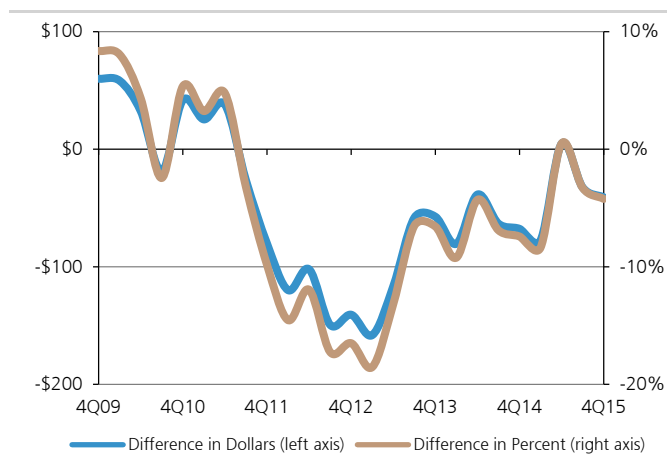
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 33: NAHB/Wells Fargo HOI, Seattle Area



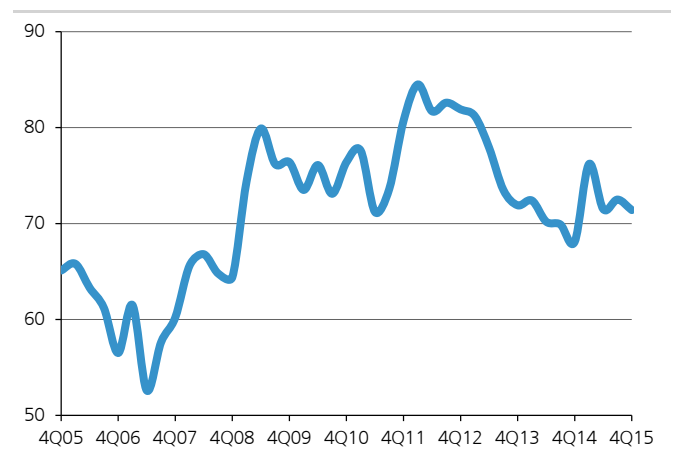
Source: NAHB and UBS

Figure 34: Raleigh MSA is cheaper to own



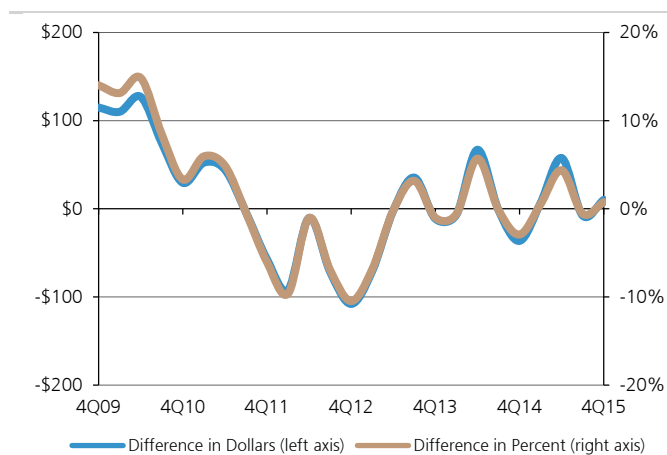
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 35: NAHB/Wells Fargo HOI, Raleigh Area



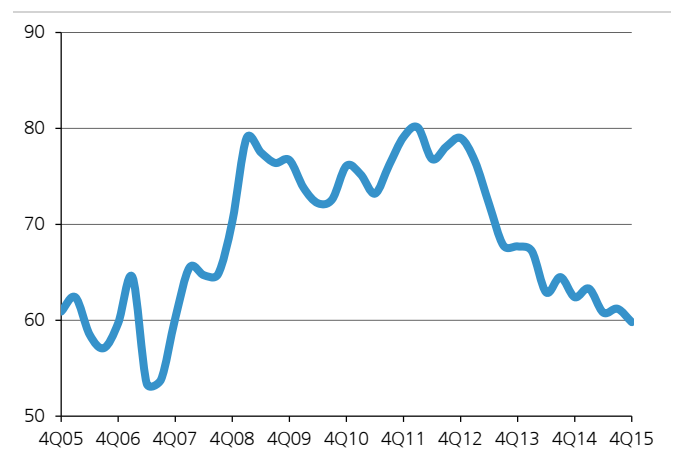
Source: NAHB and UBS

Figure 36: Denver MSA is more expensive to own



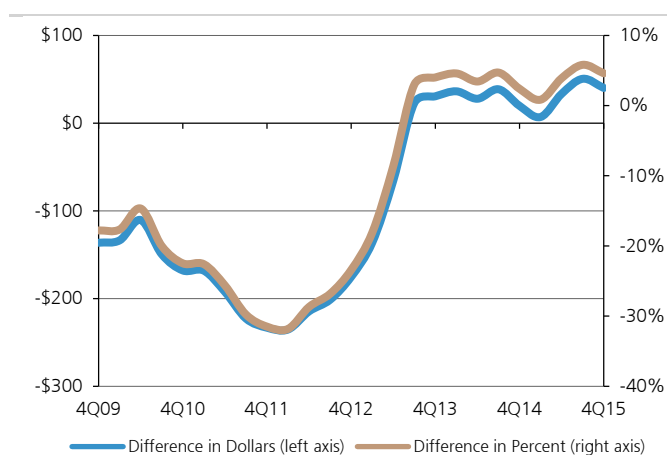
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 37: NAHB/Wells Fargo HOI, Denver Area



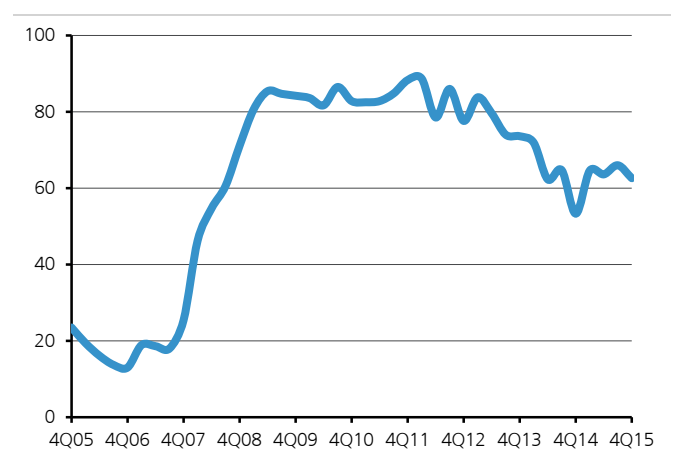
Source: NAHB and UBS

Figure 38: Las Vegas MSA is more expensive to own



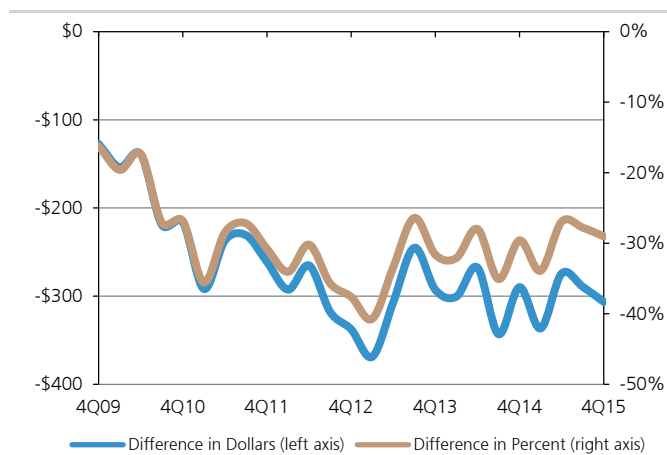
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 39: NAHB/Wells Fargo HOI, Las Vegas Area



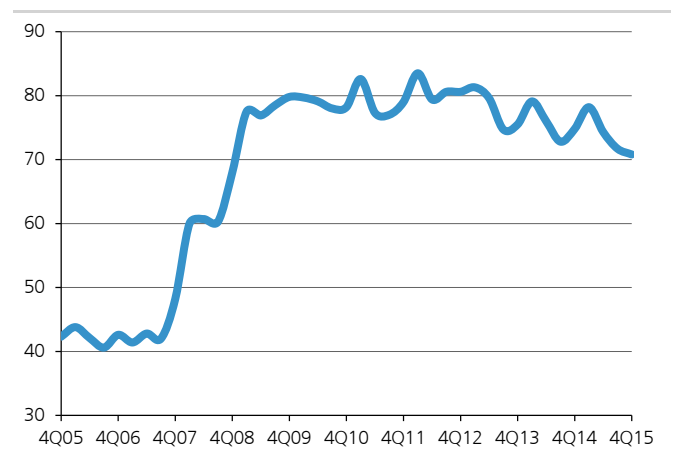
Source: NAHB and UBS

Figure 40: Tampa MSA is cheaper to own



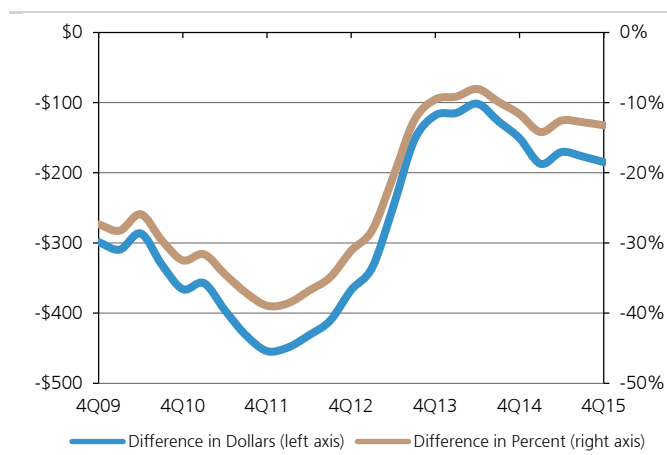
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 41: NAHB/Wells Fargo HOI, Tampa Area



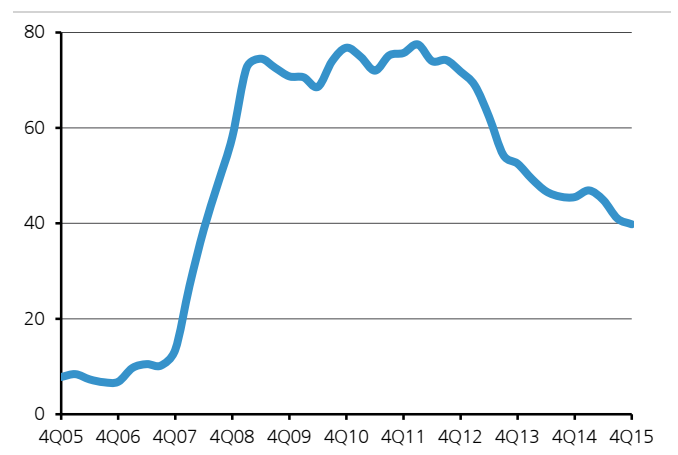
Source: NAHB and UBS

Figure 42: Riverside MSA is cheaper to own



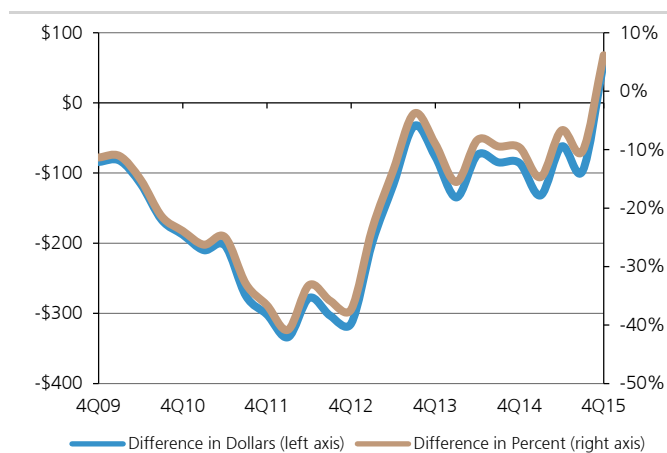
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 43: NAHB/Wells Fargo HOI, Riverside Area



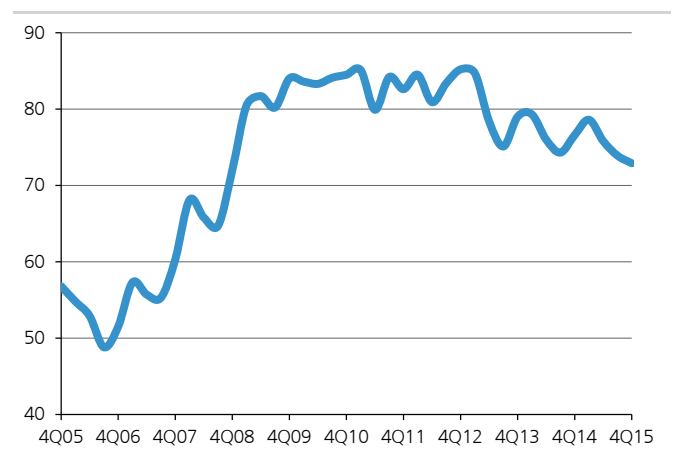
Source: NAHB and UBS

Figure 44: Jacksonville MSA is more expensive to own



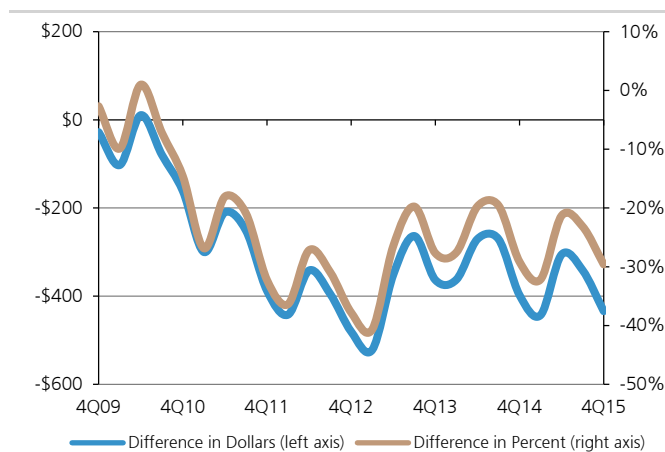
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 45: NAHB/Wells Fargo HOI, Jacksonville Area



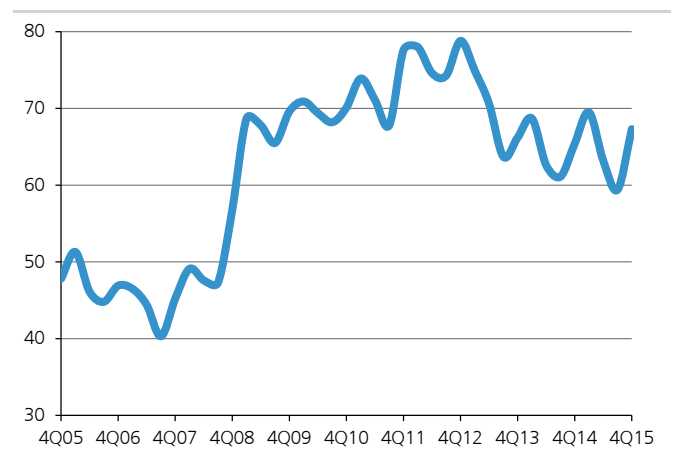
Source: NAHB and UBS

Figure 46: Chicago MSA is cheaper to own



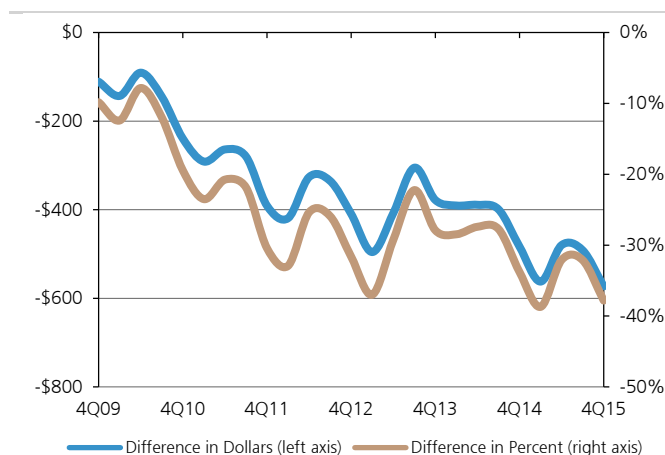
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 47: NAHB/Wells Fargo HOI, Chicago Area



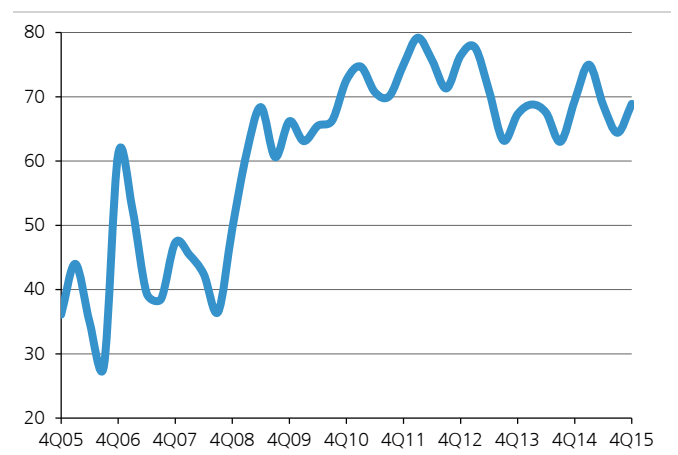
Source: NAHB and UBS

Figure 48: Philadelphia MSA is cheaper to own



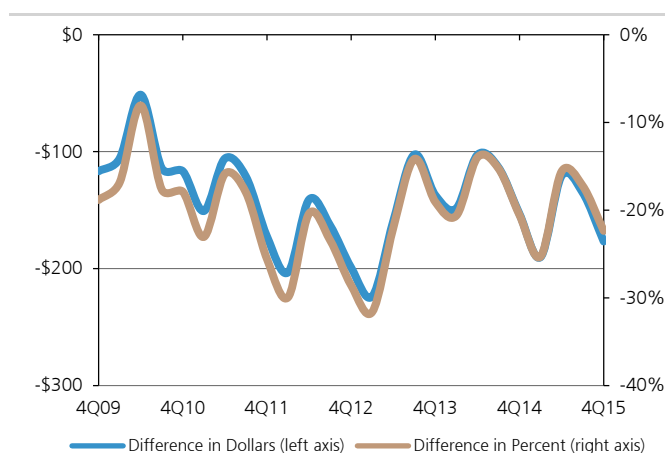
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 49: NAHB/Wells Fargo HOI, Philadelphia Area



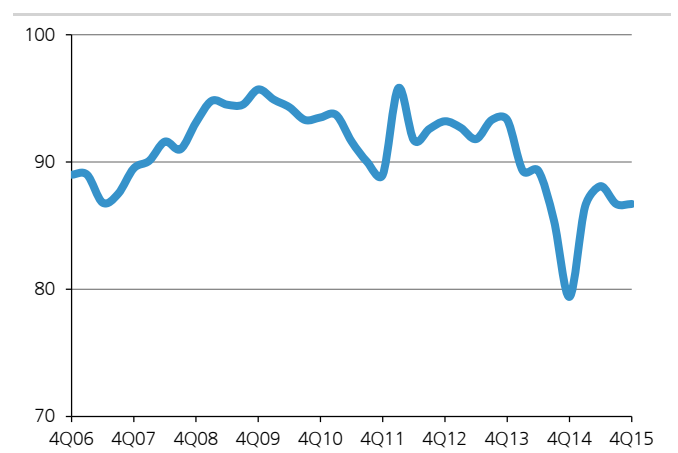
Source: NAHB and UBS

Figure 50: Indianapolis MSA is cheaper to own



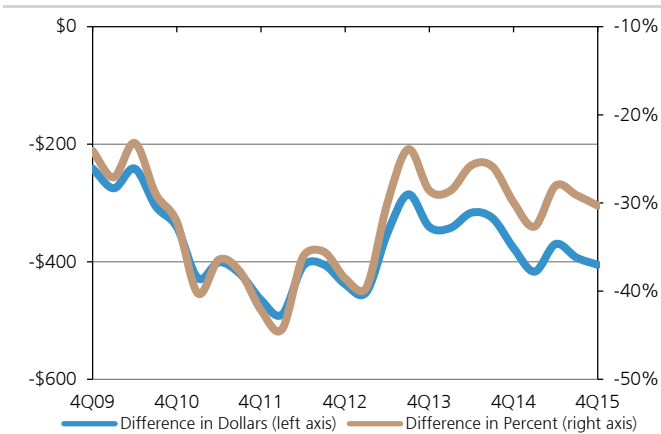
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 51: NAHB/Wells Fargo HOI, Indianapolis Area



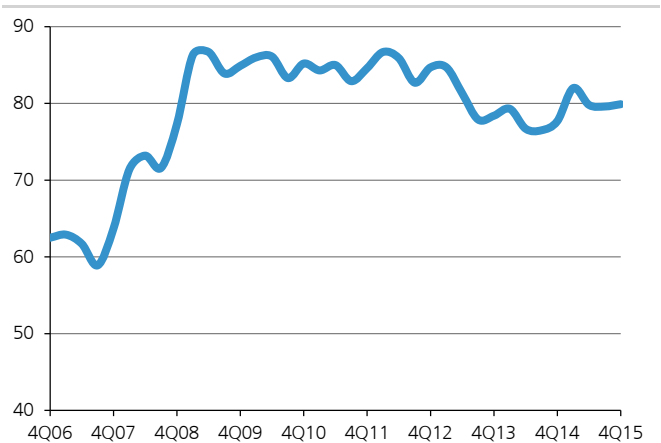
Source: NAHB and UBS

Figure 52: Minneapolis MSA is cheaper to own



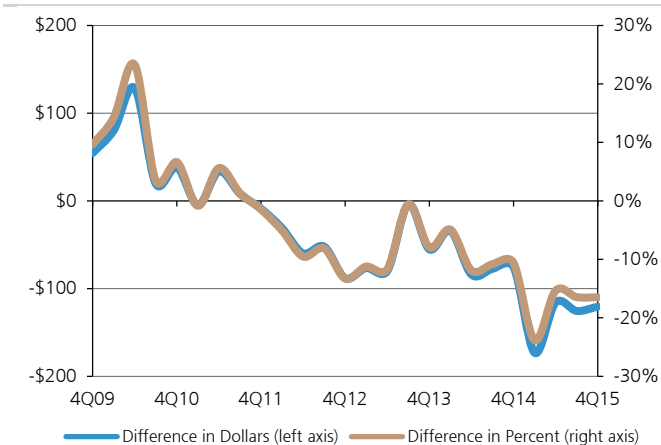
Source: Axiometrics, Freddie Mac, National Association of Realtors, Census Bureau and UBS estimates

Figure 53: NAHB/Wells Fargo HOI, Minneapolis Area



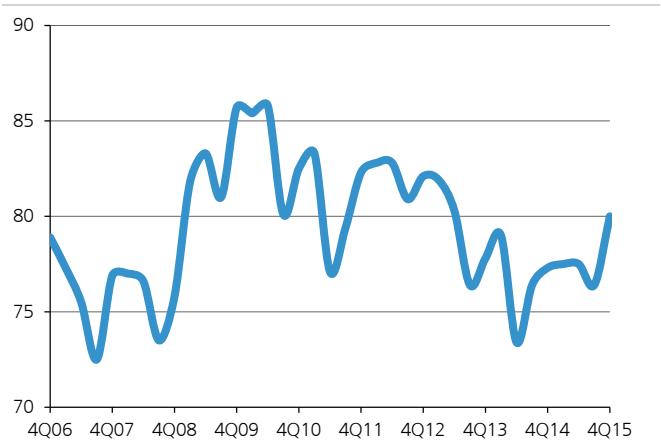
Source: NAHB and UBS

Figure 54: Oklahoma City MSA is cheaper to own



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

Figure 55: NAHB/Wells Fargo HOI, Oklahoma City Area



Source: NAHB and UBS

Figure 56: Builder Exposure to Top 25 Housing Markets

2014 Metro Area Rank By Permits	Company Rank within Metro Area	Parent Company/Company	2014 Closings	2014 Market Share	% of Homes Closed by Company in 2014	2014 Total Closings
#1: Houston/The Woodlands/Sugar Land, Texas						
		Top 10 Total Market Share	13,627	51.8%		26,307
	1	Lennar Corp.	2,527	9.6%	12%	
	2	D.R. Horton	1,920	7.3%	6%	
	3	Perry Homes	1,578	6.0%		
	4	Long Lake Ltd.	1,384	5.3%		
	5	Hovnanian Enterprises	1,312	5.0%	23%	
	6	Taylor Morrison	1,188	4.5%		
	7	Pulte	1,003	3.8%	6%	
	8	KB Home	913	3.5%	13%	
	9	LGI Homes	901	3.4%		
	10	Meritage Homes	901	3.4%	15%	
#2: Dallas/Fort Worth/Arlington, Texas						
		Top 10 Total Market Share	9,845	50.1%		19,651
	1	D.R. Horton	3,134	15.9%	10%	
	2	First Texas Homes	1,226	6.2%		
	3	Pulte	944	4.8%	5%	
	4	Highland Homes of Texas	940	4.8%		
	5	Lennar Corp.	800	4.1%	4%	
	6	Bloomfield Homes	651	3.3%		
	7	Hovnanian Enterprises	623	3.2%	11%	
	8	HistoryMaker Homes	562	2.9%		
	9	Beazer Homes	500	2.5%	10%	
	10	Meritage Homes	465	2.4%	8%	
#3: Atlanta/Sandy Springs/Roswell, Ga.						
		Top 10 Total Market Share	5,950	49.1%		12,118
	1	D.R. Horton	1,478	12.2%	5%	
	2	Century Communities	980	8.1%		
	3	Pulte	652	5.4%	4%	
	4	The Ryland Group	491	4.0%	6%	
	5	Smith Douglas Communities	472	3.9%		
	6	Lennar Corp.	444	3.7%	2%	
	7	Ashton Woods	427	3.5%		
	8	Green Brick Partners	405	3.3%		
	9	Wilson Parker Homes	301	2.5%		
	10	Kerley Family Homes	300	2.5%		
#4: Washington/Arlington/Alexandria, D.C./Va./Md./W.Va.						
		Top 10 Total Market Share	7,234	65.6%		11,027
	1	NVR	2,752	24.9%		
	2	Pulte	663	6.0%	4%	
	3	Toll Brothers	650	5.9%	12%	
	4	Hovnanian Enterprises	559	5.1%	10%	
	5	Van Metre Cos.	521	4.7%		
	6	Lennar Corp.	504	4.6%	2%	
	7	Stanley Martin Homes	495	4.5%		
	8	Beazer Homes	449	4.1%	9%	
	9	Miller and Smith	339	3.1%		
	10	TRI Pointe Homes	302	2.7%		
#5: Austin/Round Rock, Texas						
		Top 10 Total Market Share	5,893	60.5%		9,740
	1	D.R. Horton	1,596	16.4%	5%	
	2	KB Home	789	8.1%	11%	
	3	Pulte	767	7.9%	4%	
	4	Meritage Homes	470	4.8%	8%	
	5	Standard Pacific Corp.	438	4.5%	9%	
	6	Milestone Community Builders	426	4.4%		
	7	Lennar Corp.	403	4.1%	2%	
	8	Gehan Homes	361	3.7%		
	9	Taylor Morrison	337	3.5%		
	10	The Ryland Group	306	3.1%	4%	
#6: Phoenix/Mesa/Scottsdale, Ariz.						
		Top 10 Total Market Share	5,826	60.0%		9,710
	1	Pulte	888	9.2%	5%	
	2	Taylor Morrison	885	9.1%		
	3	Meritage Homes	793	8.2%	14%	
	4	D.R. Horton	583	6.0%	2%	
	5	Shea Homes	554	5.7%		
	6	Lennar Corp.	547	5.6%	3%	
	7	Hovnanian Enterprises	454	4.7%	8%	
	8	M.D.C. Holdings/Richmond American	379	3.9%		
	9	Fulton Homes	372	3.8%		
	10	Beazer Homes	371	3.8%	8%	
#7: Miami/Fort Lauderdale/Pompano Beach, Fla.						
		Top 10 Total Market Share	7,433	80.6%		9,222
	1	The Related Group	2,534	27.5%		
	2	Lennar Corp.	2,086	22.6%	10%	
	3	GL Homes	730	7.9%		
	4	D.R. Horton	417	4.5%	1%	
	5	Newgard Development Group	358	3.9%		
	6	Standard Pacific Corp.	322	3.5%	6%	
	7	Encore Homebuilders	308	3.3%		
	8	CC Devco Homes	274	3.0%		
	9	Pulte	260	2.8%	2%	
	10	Toll Brothers	144	1.6%	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 2014 calendar year.
Source: Builder Magazine (Metrostudy)

Figure 57: Builder Exposure to Top 25 Housing Markets (continued)

2014 Metro Area Rank By Permits	Company Rank within Metro Area	Parent Company/Company	2014 Closings	2014 Market Share	% of Homes Closed by Company in 2014	2014 Total Closings
#8: Charlotte/Concord/Gastonia, N.C./S.C.						
		Top 10 Total Market Share	5,722	69.5%		8,233
	1	True Homes	917	11.1%		
	2	Lennar Corp.	891	10.8%	4%	
	3	D.R. Horton	813	9.9%	3%	
	4	Pulte	733	8.9%	4%	
	5	NVR	604	7.3%		
	6	The Ryland Group	419	5.1%	5%	
	7	Eastwood Homes	396	4.8%		
	8	MI Homes	359	4.4%		
	9	Bonterra Builders	303	3.7%		
	10	Standard Pacific Corp.	287	3.5%	6%	
#9: San Antonio/New Braunfels, Texas						
		Top 10 Total Market Share	5,346	66.8%		8,003
	1	D.R. Horton	1,220	15.2%	4%	
	2	Pulte	907	11.3%	5%	
	3	KB Home	831	10.4%	12%	
	4	Lennar Corp.	517	6.5%	2%	
	5	Meritage Homes	388	4.8%	7%	
	6	Chesmar Homes	360	4.5%		
	7	Armadillo Homes	336	4.2%		
	8	The Ryland Group	302	3.8%	4%	
	9	David Weekly Homes	254	3.2%		
	10	MI Homes	231	2.9%		
#10: Orlando/Kissimmee/Sanford, Fla.						
		Top 10 Total Market Share	5,189	67.5%		7,687
	1	Lennar Corp.	1,114	14.5%	5%	
	2	D.R. Horton	786	10.2%	3%	
	3	Meritage Homes	636	8.3%	11%	
	4	The Ryland Group	462	6.0%	6%	
	5	KB Home	462	6.0%	6%	
	6	Beazer Homes	442	5.7%	9%	
	7	Standard Pacific Homes	343	4.5%	7%	
	8	Taylor Morrison	330	4.3%		
	9	MI Homes	315	4.1%		
	10	Mattamy Homes	299	3.9%		
#11: New York-Northern New Jersey-Long Island, NY-NJ-PA						
		Top 10 Total Market Share	2,463	34.7%		7,098
	1	Toll Brothers	655	9.2%	12%	
	2	Hovnanian Enterprises	454	6.4%	8%	
	3	Pulte	277	3.9%	2%	
	4	The Beechwood Organization	239	3.4%		
	5	Lennar Corp.	231	3.2%	1%	
	6	Hallmark Homes	195	2.7%		
	7	NVR	141	2.0%		
	8	Premier Development	119	1.7%		
	9	Sharbell Development Co.	77	1.1%		
	10	Edgewood Properties	75	1.1%		
#12: Los Angeles/Long Beach/Santa Ana, Calif.						
		Top 10 Total Market Share	4,846	70.0%		6,923
	1	The Irvine Co.	1,462	21.2%		
	2	William Lyon Homes	521	7.5%		
	3	Lennar Corp.	485	7.0%	2%	
	4	Shea Homes	464	6.7%		
	5	Standard Pacific Corp.	390	5.6%	8%	
	6	Toll Brothers	345	5.0%	6%	
	7	Taylor Morrison	326	4.7%		
	8	TRI Pointe Homes	299	4.3%		
	9	Brookfield Homes	298	4.3%		
	10	KB Home	256	3.7%	4%	
#13: Seattle/Tacoma/Bellevue, Wash.						
		Top 10 Total Market Share	2,838	45.6%		6,224
	1	D.R. Horton	941	12.3%	3%	
	2	Lennar Corp.	279	4.5%	1%	
	3	Mainvue Homes	274	4.4%		
	4	Toll Brothers	255	4.1%	5%	
	5	Pulte	248	4.0%	1%	
	6	M.D.C. Holdings/Richmond American	247	4.0%		
	7	Polygon Northwest Co.	226	3.6%		
	8	TRI Pointe Homes	213	3.4%		
	9	Pacific Ridge Homes	175	2.8%		
	10	Conner Homes	155	2.5%		
#14: Raleigh, N.C.						
		Top 10 Total Market Share	2,723	44.6%		6,105
	1	Lennar Corp.	468	7.7%	2%	
	2	Standard Pacific Corp.	369	6.0%	7%	
	3	MI Homes	348	5.7%		
	4	Pulte	310	5.1%	2%	
	5	Dan Ryan Builders	298	4.9%		
	6	KB Home	212	3.5%	3%	
	7	Ashton Woods	207	3.4%		
	8	Royal Oaks Building Group	203	3.3%		
	9	NVR	167	2.7%		
	10	ForeverHome	141	2.3%		

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 2014 calendar year. The percent of D.R. closings in Seattle reflects its acquisition of Pacific Ridge Homes in 2015.

Source: Builder Magazine (Metrostudy)

Figure 58: Builder Exposure to Top 25 Housing Markets (continued)

2014 Metro Area Rank By Permits	Company Rank within Metro Area	Parent Company/Company	2014 Closings	2014 Market Share	% of Homes Closed by Company in 2014	2014 Total Closings
#15: Denver/Aurora/Lakewood, Colo.						
		Top 10 Total Market Share	4,090	73.7%		5,550
	1	M.D.C. Holdings/Richmond American	1,060	17.8%		
	2	Lennar Corp.	570	14.6%	3%	
	3	Oakwood Homes	445	7.5%		
	4	KB Home	393	6.6%	5%	
	5	D.R. Horton	383	6.4%	1%	
	6	Century Communities	321	5.4%		
	7	Shea Homes	302	5.1%		
	8	Standard Pacific Corp.	233	3.9%	5%	
	9	Meritage Homes	229	3.8%	4%	
	10	Taylor Morrison	154	2.6%		
#16: Las Vegas/Henderson/Paradise, Nev.						
		Top 10 Total Market Share	4,800	84.6%		5,674
	1	Lennar Corp.	872	15.4%	4%	
	2	D.R. Horton	829	14.6%	3%	
	3	M.D.C. Holdings/Richmond American	564	9.9%		
	4	The Ryland Group	543	9.6%	7%	
	5	KB Home	458	8.1%	6%	
	6	American West Homes	401	7.1%		
	7	Pulte	305	5.4%	2%	
	8	Beazer Homes	290	5.1%	6%	
	9	TRI Pointe Homes	280	4.9%		
	10	Century Communities	258	4.5%		
#17: Tampa/St. Petersburg/Clearwater, Fla.						
		Top 10 Total Market Share	3,565	64.5%		5,527
	1	Lennar Corp.	1,106	20.0%	5%	
	2	D.R. Horton	467	8.5%	2%	
	3	Pulte	333	6.0%	2%	
	4	MI Homes	299	5.4%		
	5	Taylor Morrison	296	5.4%		
	6	Standard Pacific Corp.	244	4.4%	5%	
	7	Homes by Westbay	243	4.4%		
	8	Beazer Homes	223	4.0%	5%	
	9	Hovnanian Enterprises	186	3.4%	3%	
	10	The Ryland Group	168	3.0%	2%	
#18: Riverside/San Bernardino/Ontario, Calif.						
		Top 10 Total Market Share	4,581	85.1%		5,383
	1	Lennar Corp.	963	17.9%	5%	
	2	KB Home	647	12.0%	9%	
	3	D.R. Horton	559	10.4%	2%	
	4	TRI Pointe Homes	506	9.4%		
	5	Standard Pacific Corp.	500	9.3%	10%	
	6	Pulte	432	8.0%	3%	
	7	Frontiers Community Builders	273	5.1%		
	8	Woodside Homes	254	4.7%		
	9	M.D.C. Holdings/Richmond American	253	4.7%		
	10	Hovnanian Enterprises	194	3.6%	3%	
#19: Nashville/Davidson/Murfreesboro/Franklin, Tenn.						
		Top 10 Total Market Share	2,400	45.4%		5,286
	1	Ole South Properties	505	9.5%		
	2	Goodall Homes	363	6.9%		
	3	Pulte	276	5.2%	2%	
	4	NVR	262	4.9%		
	5	Regent Homes	238	4.5%		
	6	The Jones Co. of Tennessee	194	3.7%		
	7	Meritage Homes	178	3.4%	3%	
	8	Beazer Homes	164	3.1%	3%	
	9	The Drees Co.	114	2.2%		
	10	Ford Custom Classic Homes	106	2.0%		
#20: Jacksonville, Fla.						
		Top 10 Total Market Share	3,871	75.7%		5,114
	1	D.R. Horton	1,214	23.8%	4%	
	2	Dream Finders Homes	428	8.4%		
	2	Lennar Corp.	351	6.9%		
	4	KB Home	329	6.4%	5%	
	5	Pulte	327	6.4%	2%	
	6	Matthews Homes	316	6.2%		
	7	David Weekley Homes	313	6.1%		
	8	M.D.C. Holdings/Richmond American	257	5.0%		
	9	Providence Homes	186	3.6%		
	10	SEDA Construction	150	2.9%		
#21: Chicago/Naperville/Elgin, Ill./Ind./Wis.						
		Top 10 Total Market Share	2,851	57.3%		4,976
	1	The Ryland Group	548	11.0%	7%	
	2	D.R. Horton	516	10.4%	2%	
	3	Pulte	481	9.7%	3%	
	4	MI Homes	337	6.8%		
	5	Hovnanian Enterprises	290	5.8%	5%	
	6	Related Midwest	178	3.6%		
	7	Olthof Homes	159	3.2%		
	8	Orleans Homebuilders	141	2.8%		
	9	Toll Brothers	112	2.2%		
	10	William Ryan Homes	89	1.8%		

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 2014 calendar year.
Source: Builder Magazine (Metrostudy)

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

2014 Metro Area Rank By Permits	Company Rank within Metro Area	Parent Company/Company	2014 Closings	2014 Market Share	% of Homes Closed by Company in 2014	2014 Total Closings
#22: Philadelphia/Camden/Wilmington, Pa./N.J./Del./Md.						
		Top 10 Total Market Share	2,604	53.1%		4,904
	1	NVR	889	18.1%		
	2	Toll Brothers	594	12.1%	11%	
	3	The Ryland Group	224	4.6%	3%	
	4	Orleans Homebuilders	167	3.4%		
	5	Beazer Homes	166	3.4%	3%	
	6	Hovnanian Enterprises	149	3.0%	3%	
	7	D.R. Horton	113	2.3%	0%	
	8	Blenheim Homes	107	2.2%		
	9	Pulte	99	2.0%	1%	
	10	Westrum Development Co.	96	2.0%		
#23: Indianapolis/Carmel/Anderson, Ind.						
		Top 10 Total Market Share	3,642	86.7%		4,201
	1	Arbor Homes	628	14.9%		
	2	The Ryland Group	615	14.6%	8%	
	3	Pulte	588	14.0%	3%	
	4	Beazer Homes	512	12.2%	11%	
	5	Westport Homes	339	8.1%		
	6	MI Homes	335	8.0%		
	7	The Fischer Group	250	5.9%		
	8	NVR	162	3.9%		
	9	The Drees Co.	134	3.2%		
	10	Epcon Communities	79	1.9%		
#24: Minneapolis/St. Paul/Bloomington, Minn./Wis.						
		Top 10 Total Market Share	2,305	56.6%		4,072
	1	Lennar Corp.	558	13.7%	3%	
	2	The Ryland Group	344	8.4%	4%	
	3	D.R. Horton	277	6.8%	1%	
	4	Mattamy Homes	276	6.8%		
	5	Pulte	243	6.0%	1%	
	6	Shamrock Cos.	138	3.4%		
	7	Capstone Homes	124	3.0%		
	8	Hans Hagen Homes	122	3.0%		
	9	Hovnanian Enterprises	117	2.9%	2%	
	10	Robert Thomas Homes	106	2.6%		
#25: Oklahoma City, Okla.						
		Top 10 Total Market Share	1,809	47.1%		3,841
	1	Home Creations	429	11.2%		
	2	Ideal Homes	320	8.3%		
	3	Rausch Coleman Homes	246	6.4%		
	4	Homes by Taber	202	5.3%		
	5	4Corners Homes	187	4.9%		
	6	D.R. Horton	146	3.8%	0%	
	7	Westpoint Homes	74	1.9%		
	8	Mashburn Faires Homes	73	1.9%		
	9	Blue Ribbon Construction	67	1.7%		
	10	R & R Homes	65	1.7%		

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 2014 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.

Required Disclosures

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	48%	36%
Neutral	FSR is between -6% and 6% of the MRA.	39%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
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 December 2015.

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.

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UBS Securities LLC: Susan Maklari.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Beazer Homes ¹⁶	BZH.N	Buy	N/A	US\$7.99	10 Mar 2016
Lennar ^{4, 6, 7, 16}	LEN.N	Buy	N/A	US\$44.86	10 Mar 2016
Meritage Corporation ¹⁶	MTH.N	Sell	N/A	US\$34.00	10 Mar 2016
PulteGroup, Inc. ¹⁶	PHM.N	Buy	N/A	US\$17.96	10 Mar 2016
Toll Brothers ¹⁶	TOL.N	Buy	N/A	US\$27.43	10 Mar 2016

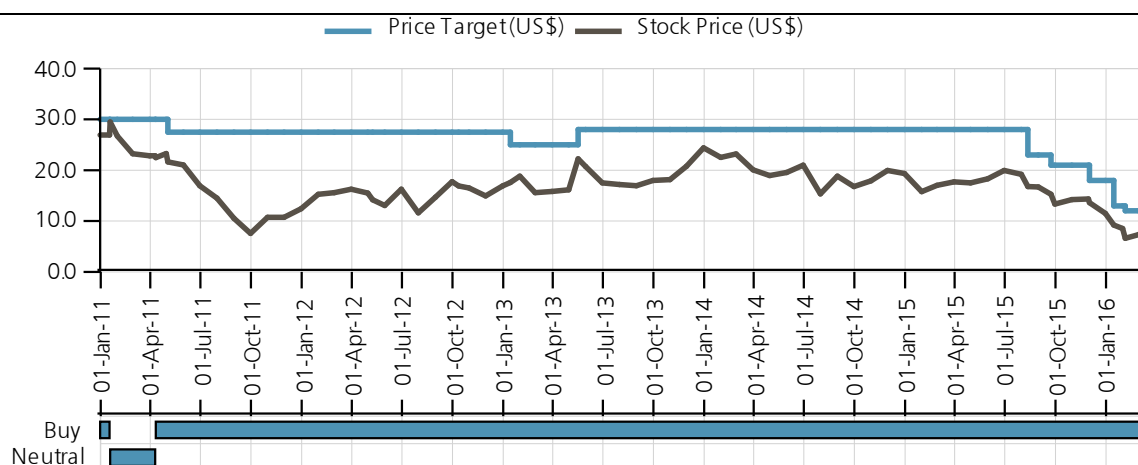
Source: UBS. All prices as of local market close.

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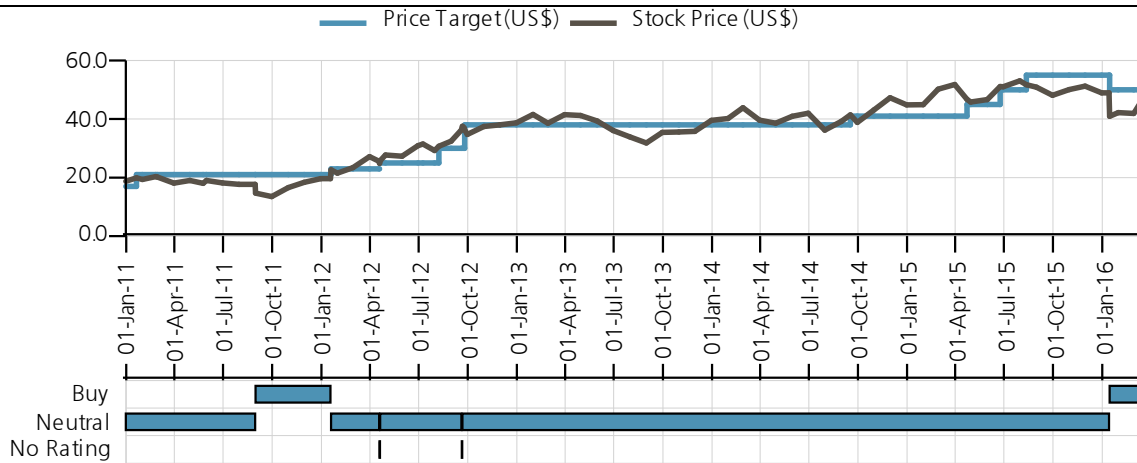
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Beazer Homes (US\$)



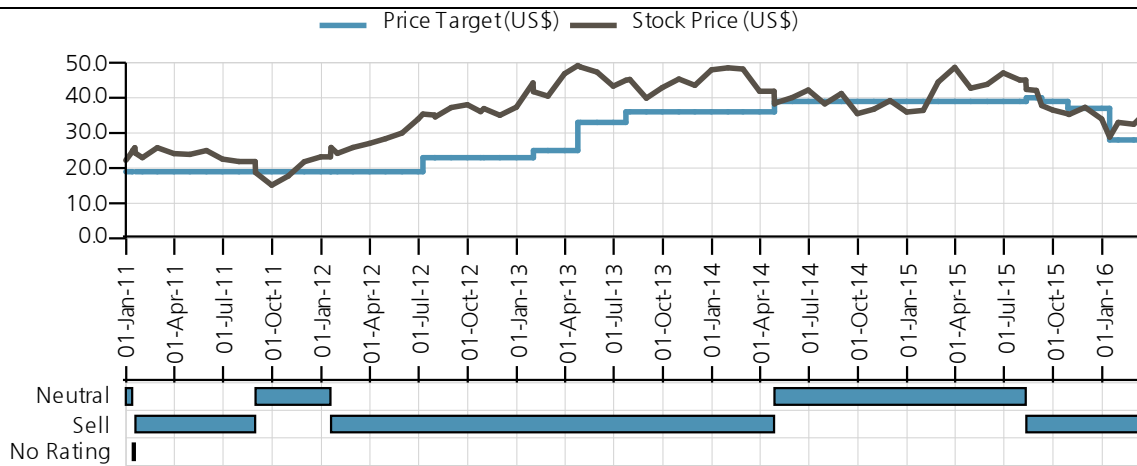
Source: UBS; as of 10 Mar 2016

Lennar (US\$)



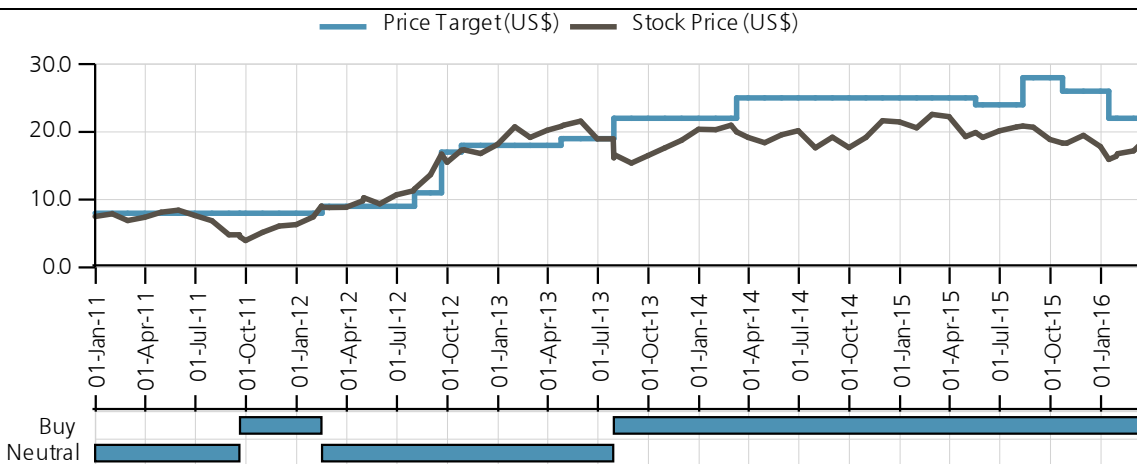
Source: UBS; as of 10 Mar 2016

Meritage Corporation (US\$)



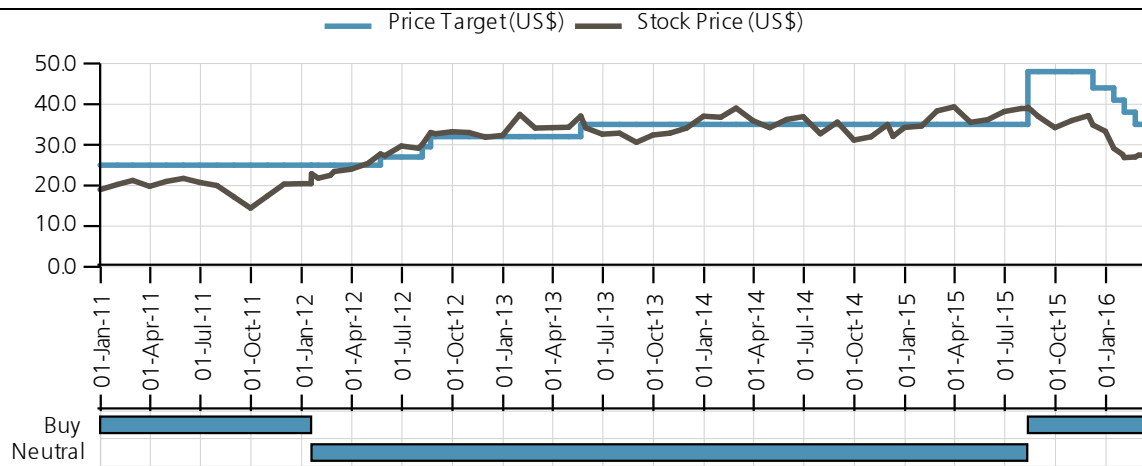
Source: UBS; as of 10 Mar 2016

PulteGroup, Inc. (US\$)



Source: UBS; as of 10 Mar 2016

Toll Brothers (US\$)



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