

BloombergBusinessweek Housing Amid the Ruins, Big Homebuilders Gain

By [John Gittelsohn](#) January 20, 2011

With competitors driven out of business by the recession and sales likely to climb from record lows, the biggest U.S. homebuilders are poised to benefit from a rebound in demand for new houses this year. D.R. Horton ([DHI](#)), Lennar ([LEN](#)), and Toll Brothers ([TOL](#)) are among companies planning to boost the number of developments where they are selling homes by at least 10 percent in 2011 after buying land at discounted prices and obtaining financing unavailable to smaller builders.

Bigger builders have a decided advantage in the slump, says Tony Avila, chief executive officer of Avila Advisors, a San Francisco investment-banking firm that specializes in the homebuilding industry. Smaller builders are having trouble raising money to buy land or build homes because lenders have tightened their credit requirements and remain bearish on housing, he says.

Toll Brothers, the largest U.S. luxury-home builder, expects to gain market share without entering new areas, CEO Douglas C. Yearley Jr. says. In the Philadelphia area, near the Horsham (Pa.) company's headquarters, eight of the 10 builders that competed in the luxury segment have gone out of business. "Every recession, the bigger builders have gained market share," says Yearley. "The small and medium-size builder has been blown up. I'm not saying they never come back, but they have no credit. They're damaged goods."

The National Association of Home Builders expects new single-family home sales to rise to 405,000 this year, while Moody's Analytics ([MCO](#)) projects an increase to 540,000. Either figure would represent a big jump from the past two years. In 2009, sales of new single-family properties totaled 375,000 units, the lowest figure in records dating to 1963. For the first 11 months of last year, sales ran at an annual pace of 319,640, Commerce Dept. data show. Home prices are down

30 percent from their July 2006 peak, according to the S&P/Case-Shiller index. Values probably will fall an additional 6 percent before the traditional spring selling season begins, Standard & Poor's ([MHP](#)) said in a Jan. 10 report.

Washington, D.C., is an example of a metropolitan area where big builders are boosting share, says Brad Hunter, chief economist of Metrostudy, a Houston firm that tracks housing starts. The five largest builders in northern Virginia—NVR ([NVR](#)), Toll Brothers, Ryland Group ([RYL](#)), PulteGroup ([PHM](#)), and Centex Homes, a Pulte affiliate—accounted for 46 percent of 6,775 new-home starts in the third quarter of 2010, up from 38 percent in the third quarter of 2006, when ground was broken on 16,934 houses. "They increase market share 3 percent to 5 percent in every downturn," says Debbie Rosenstein, principal of Fulton Research, a real estate firm in Fairfax, Va. "It increases every time because they have access to money."

Homebuilding stocks are already reflecting the optimistic outlook. The S&P index of 12 homebuilding companies climbed 30 percent from Nov. 30 to Jan. 18, compared with a 9.7 percent increase in the S&P 500-stock index. In 2010 the homebuilder gauge rose 2.3 percent, less than the 13 percent gain for the S&P 500.

Ivy Zelman, CEO of Cleveland-based advisory firm Zelman & Associates, who rated all homebuilders "sell" in December 2006, now has "buy" ratings on five of the 13 companies she covers: KB Home ([KBH](#)), Lennar, Meritage Homes ([MTH](#)), NVR, and Ryland.

NVR, which builds in 14 states under Ryan Homes and other brands, has the best prospects, according to Zelman and Carl Reichardt, an analyst with Wells Fargo Securities ([WFC](#)). Since 2008, NVR has entered markets such as Indianapolis and Columbus, Ohio, where it faces little competition from other public companies, says Reichardt. "We think that the company is building homes at a lower cost per foot than many of its peers," he says. "That could in turn lead to additional share gain."

The bottom line: Access to funding—and less competition—will help big homebuilders gain market share as home sales begin to recover this year.