

2020 Survey of Utah's Top Homebuilders

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Key Findings

What started off as an optimistic year quickly turned uncertain as COVID-19 sank builder sentiment to record lows and brought the economy to a near standstill. But as quickly as things came to a halt, it felt like they recovered. While record unemployment plagued the economy, Utah's homebuilders had record-setting production. In 2020, revenue increased 18.4% year-over, the number of units grew by 14.8% year-over, while the average purchase price increased by only 3.1% as more affordable product hit the market.

The homebuilding community faced many challenges in 2020; however, all of these challenges led back to two words—*project delays*. The delays have been costly. As customers locked in prices for new homes, material prices increased during construction, with the burden of the increase falling on the homebuilder.

The outlook for homebuilding in 2021 is cautiously optimistic, as many feel that the worst is behind us. However, there is plenty of uncertainty as the economy recovers. Concerns over rapid price growth have many worried that the market will run out of room for price increases. While low interest rates have alleviated the price growth, any significant increases in rates have the potential for negative impacts. As costs have been one of the primary drivers for this year's price acceleration, the ability to recoup costs through price increases could be a greater challenge over the next few years.

As reported in the 2019 survey, besides greater market forces, local opposition to density continues to hinder builders' ability to deliver more units. This has led to further construction delays.

About the Survey

As housing continues to be a leading issue for the majority of Utahns, rising prices and a shortage of new housing units pose challenges from Cache to Washington County. The goal of the survey of Utah's top homebuilders is to shed light on builder sentiment, provide insights into the issues and opportunities facing our real estate market, and help those shaping Utah's

housing to make informed decisions. The Survey of Utah's Top Homebuilders was conducted in fall 2020 by the Kem C. Gardner Policy Institute. Of the 25 homebuilders contacted, 19 participated. The survey participants were identified using Construction Monitor rankings of top homebuilders. Surveys were conducted through either video chat or telephone interviews.

Participants of the survey

Alpine Homes	Ivory Homes
Arive Homes	Kartchner Homes
Cole West Homes/CW Urban	Nilson Homes
D R Horton	Oakwood Homes of Utah
Destination Homes	Perry Homes
Edge Homes	Richmond American Homes
Ence Homes	Visionary Homes
Fieldstone Homes	Weekley Homes
Flagship Homes	Woodside Homes of Utah
Holmes Homes	

Q: What expectations (positive or negative) do you have for the economy and the homebuilding industry in Utah over the next 12 months?

The Positive

The steady demand for new housing and Utah's economic strength are the driving factors for a positive outlook from the builders surveyed. Utah has weathered the economic impact of the pandemic well in comparison with the rest of the nation. As a result, builders have seen an increase in in-migration, translating to growth in demand. Declining interest rates continue to be a positive for homebuilding, incentivizing buyers to purchase new homes. Utah's homebuilding community is cautiously optimistic as they plan for 2021. With a vaccine on the horizon, the sentiment is that the worst is behind us, and we have nowhere to go but up.

The Negative

This year has brought many challenges. While the escalation in price would be perceived as a positive, the escalation was driven by a surge in material costs and material shortages. Many feel that the current price appreciation is unsustainable and that the market is “running out of room” for further price growth. Affordability continues to be a challenge and is further complicated by Utah’s supply/demand imbalance and the surge in prices. To meet this challenge, builders continue to push for denser development but find it harder this year to get denser housing projects approved. There has been an increase in local resistance towards density, and political pressures continue to add woes to the process. This delays development and limits new supply.

Additionally, labor supply continues to be an issue for homebuilders, and some have raised concerns over the national debt the government has incurred over the last year.

The Uncertainty

The current outlook for interest rates shows them remaining low for some time. However, builders worry that as the economy recovers interest rates may rise. As material prices continue to drive home price growth, an increase in rates does have the potential to slow the market. National political instability and potential federal housing policies add to homebuilders’ uncertainty about the future. Additionally, many builders feel that more stimulus is necessary to assist with the economic recovery.

Q: Please describe some of the challenges your company has faced as a result of COVID-19.

How have you overcome them?

No builder thought in late March, as COVID-19 spun the economy into a recession, that 2020 would be one of their best years, if not a record-breaker. But that has been the case. The year has also come with great challenges; however, all of these challenges lead back to two words—*project delays*. The delays have been costly. As customers locked in prices for new homes, material prices increased during construction, with the burden of the increase falling on the homebuilder.

Keeping construction crews safe and model homes open forced many builders to think fast, and they have. Builders have come up with clear protocols at construction sites and have turned to stricter schedules and technology to help customers along. Builders faced COVID-19 exposures on construction sites, forcing construction crews to quarantine. While the crews were in quarantine, some had issues replacing the exposed crew due to labor shortages. This added further delays to the construction timeline.

Material supply issues and rising prices have plagued builders in 2020. Builders dealt with major lumber price increases resulting from lumber mills shutting down due to COVID-19. As mills were shutting down, building activity picked back up, forcing mills to

play catchup. While lumber was the one shortage most builders faced, there were many other random shortages not often heard about. From dishwasher parts to garage doors to HVAC screws, builders faced a slew of material shortages due to COVID-19.

Builders are also facing issues with the timeliness of municipal approvals. As many city governments have shifted to a work-from-home model, an increase in time for approval has added to the construction delays.

The uncertainty early on in the pandemic forced some builders to pull back on their production, resulting in missed opportunities. Additionally, the surge in demand coupled with the delays has some builders capping their unit counts in order to meet construction deadlines.

Q: How is your company handling the affordability issues facing the market?

The most noted way builders are dealing with the issue of affordability is through density. In order to actively develop the product at a lower price, builders are searching for optimal land deals that satisfy both the financial and zoning requirements. Rising land prices challenge the range of affordability, pushing builders to work with cities to increase density, a difficult task in the current local political environment.

Low interest rates have helped tremendously this year, keeping the monthly mortgage payment steady for the most part when compared with the surge in home prices. However, when rates do increase, many builders are wary of the negative impacts this will have on affordability.

Builders are heavily focused this year on offering attached, smaller housing options that are more affordable. There is a sense of stewardship toward building more units as many continue to diversify their price points.

Construction efficiencies and value engineering are other areas where the homebuilding community continues to make progress. This involves streamlining design choices offered to customers, exploring ways to use less lumber, and testing new materials.

Q: What policy changes at the state or city level would you recommend to help with filling the housing gap or improving affordability?

Consistency and predictability in zoning and code interpretation is a key piece in the policy recommendations. Another mechanism, although vague, is to explore accountability measures that would enforce predictability. Builders also note that density is a major piece of the puzzle in dealing with supply and affordability. Recommendations include standardized zoning classifications and minimum density requirements per zone classification. This could be implemented through state-mandated ordinances that allow

for rezoning of any current zoning district based on meeting state criteria (i.e., within a certain radius of highways, major arterials, commercial or industrial zones), and require zoning approval for any parcel for which a third-party report determines that the highest and best use is high-density residential.

The recommendations can be summarized into the following categories:

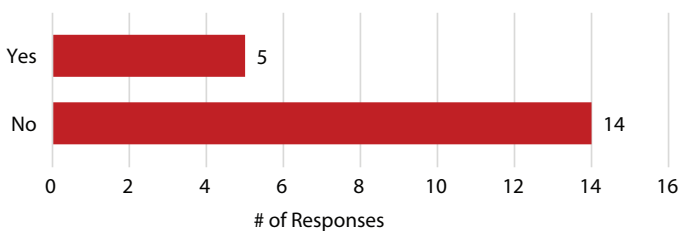
- Inclusionary zoning definitions and standards, and a process for implementation
- Creation of a State Development Code Commission to regulate municipal infrastructure standards
- Prohibition of residential design standards under certain circumstances
- Essential nexus and segregated accounts for fees collected in planning and building departments—transparency and publication of audits
- Density bonus by right, cities should let the market decide
- Multifamily zoning as a conditional use on all properties master planned or zoned commercial, mixed use, retail, or office

Q: What percentage of your company's units do you plan to build in the following counties?

County	2020	2021
Utah	44.1%	43.4%
Salt Lake	22.0%	24.0%
Davis	8.4%	6.9%
Weber	7.2%	5.5%
Washington	6.5%	7.5%
Cache	4.7%	4.7%
Tooele	4.3%	3.6%
Box Elder	1.6%	1.9%
Wasatch	1.1%	2.0%
Summit	0.2%	0.5%

Q: Are there any new markets you started building in this year outside of Utah? If so, where?

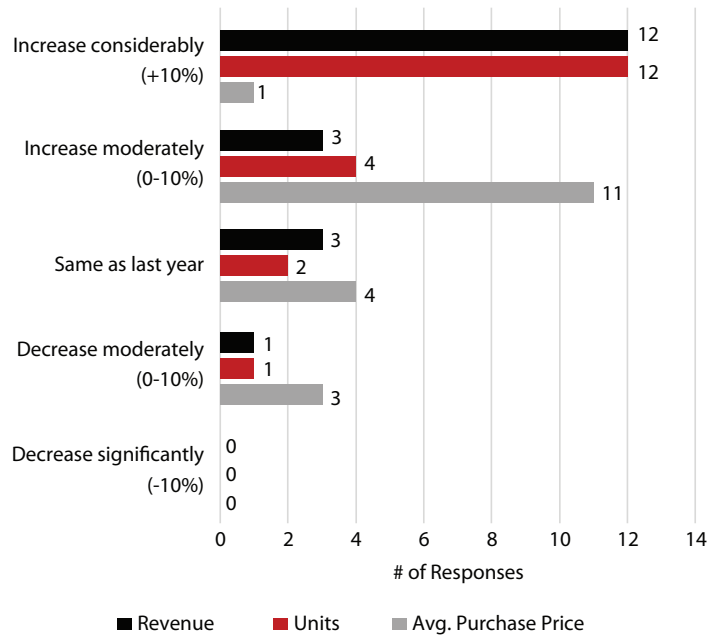
Those builders that answered yes, listed Idaho as the market they're expanding into.



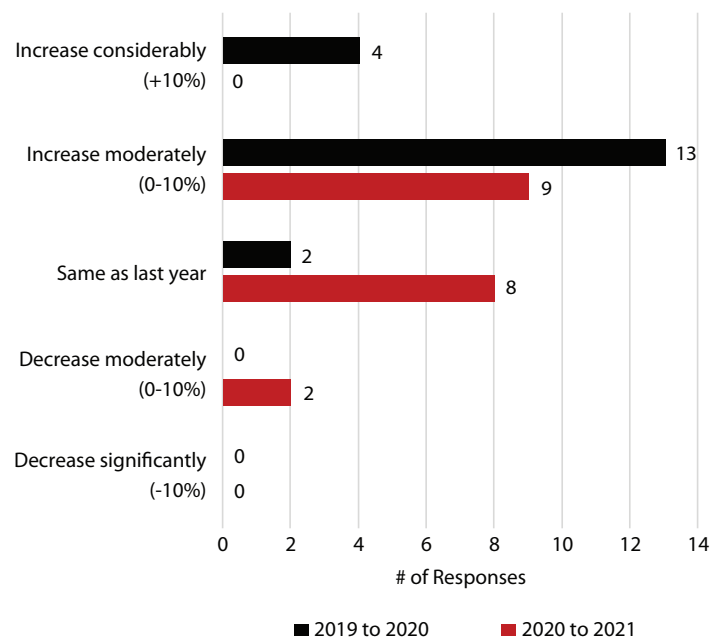
Q: What were your revenue, units, and average purchase price? (Summary of all participants)

Market Summary	2019	2020	Change
Total Revenue	\$2.89B	\$3.42B	18.4%
Units (est.)	7,427	8,529	14.8%
Avg. Purchase Price	\$388,700	\$400,800	3.1%

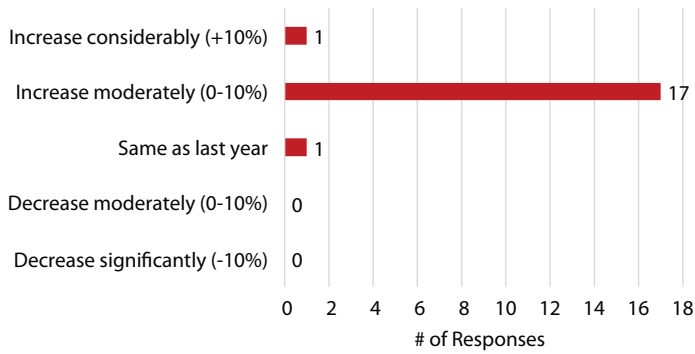
Q: What are your company's expectations for revenues, units, and average purchase price in 2021?



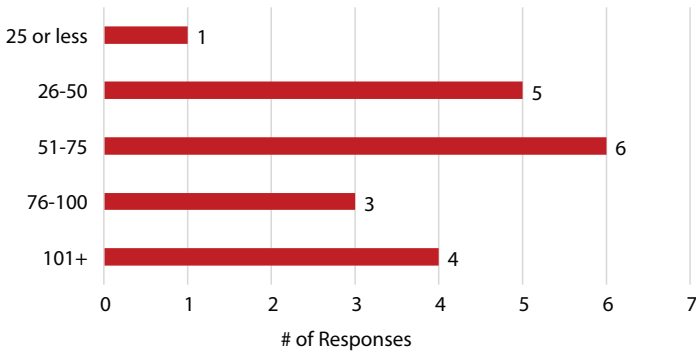
Q: How would your company describe its margins compared with the prior year?



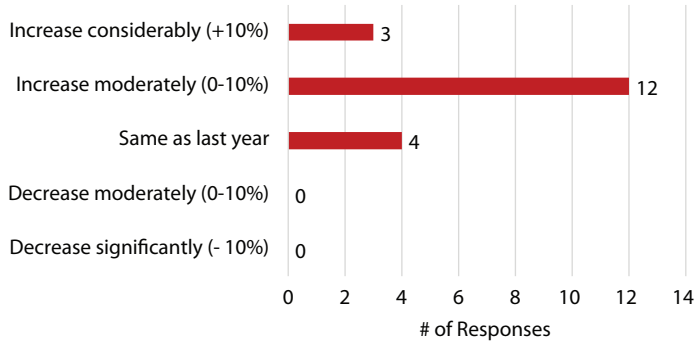
Q: What is your expectation for purchase price (for the same product) in 2021, compared with this year?



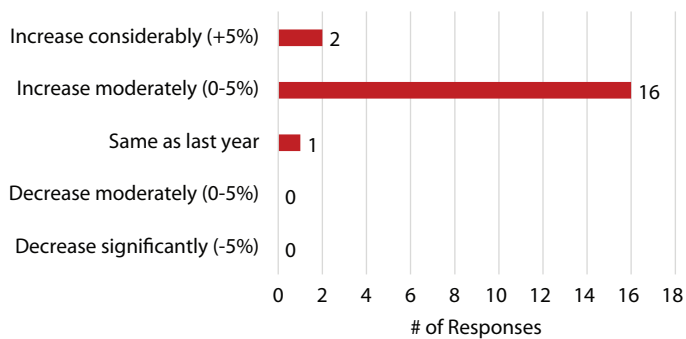
Q: How many employees does your company have on payroll (including sales)?



Q: What is your expectation for overall headcount over the next 12 months?



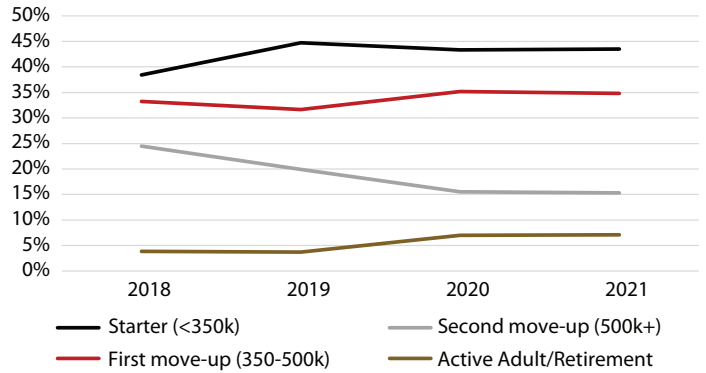
Q: What is your expectation for payroll costs per employee over the next 12 months?



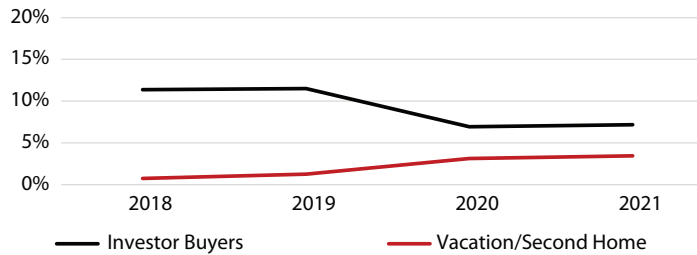
Q: How does your company anticipate changing its focus on products and geography?

Homebuilders continue to streamline their product as they focus on affordability. This consists of eliminating wasted space and increasing offerings of attached housing. Additionally, builders are shifting volume into Summit and Wasatch counties.

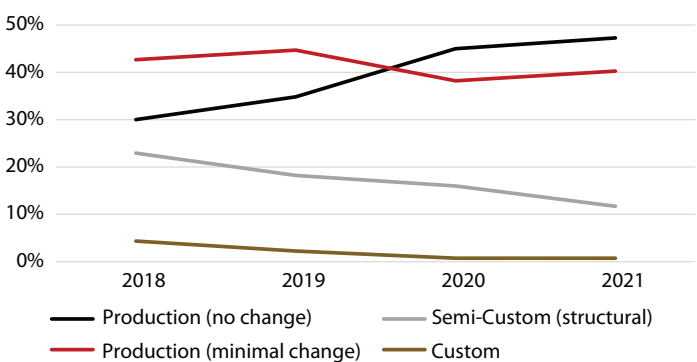
Q: What percentage of your units fall into the following price point/buyer type categories?



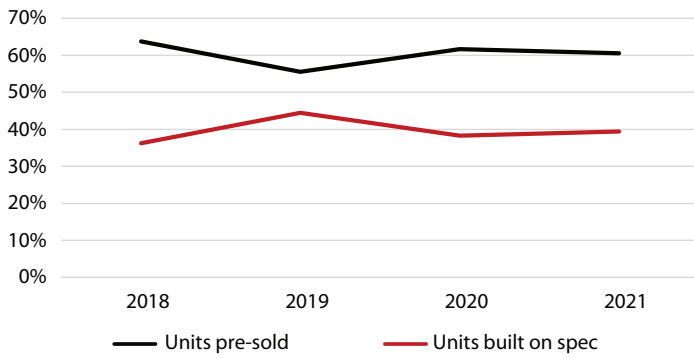
Q: What percentage of your units are purchased by vacation/second-home and investor buyers?



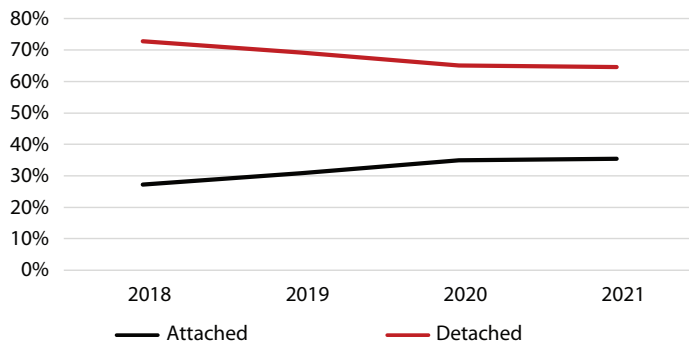
Q: What percentage of your units fall into the following production type categories?



Q: What is the ratio of spec to pre-sold units?

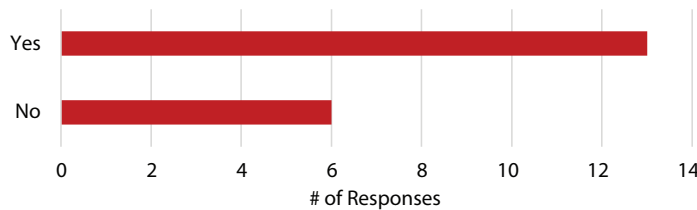


Q: What is the ratio of attached to detached units?

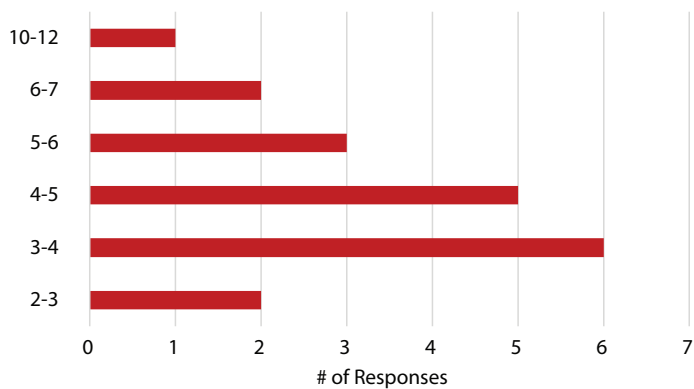


Q: In the past year, has your company had a project rejected by a planning commission or city council?

The builders who experienced rejections list opposition to density and Nimbyism as the leading causes. Requests to rezone the proposed property was the other leading reason for rejection.



Q: On average, how many plan revisions do you go through with the city before a project is approved?



Q: What are the most significant obstacles you face with city approvals?

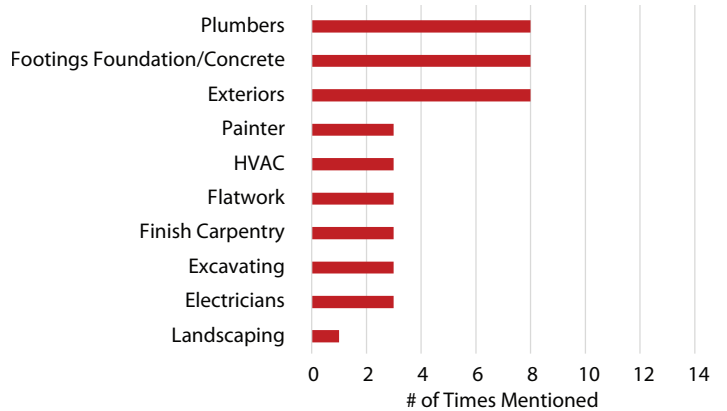
Nimbyism/Density—Builders note issues with entitling new projects that ask for higher density and/or attached product even when meeting zoning requirements. There is a sense that denser and affordable should be built in another community. Continued concerns over the referendum of approved projects persist.

Design Requirements—Continued increases in architecture or landscape elements that don't add market value to a home are a major issue. Builders report this is adding to the cost of homes unnecessarily as customers usually don't find them valuable.

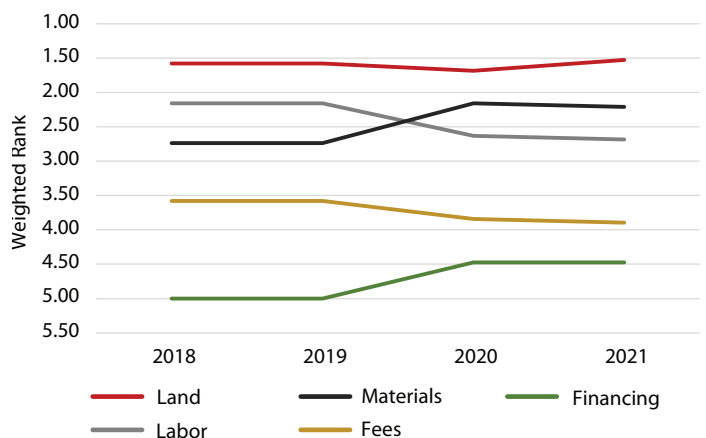
Code Interpretation—Consistency in code interpretation is a major issue homebuilders continue to face. Some cities are implementing new requirements mid-project, especially on certain engineering standards, adding time and cost to the project.

Timing—Approvals are getting slower as work-from-home continues. Builders sense that the building departments are understaffed, leading to further project delays.

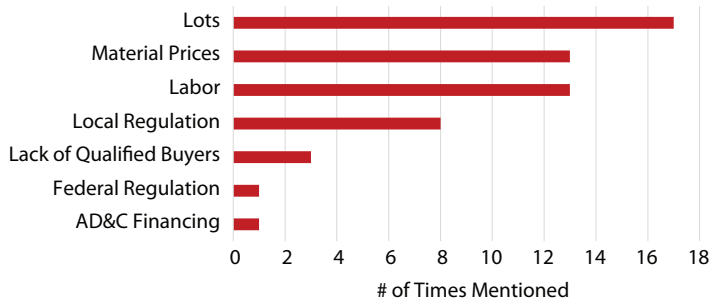
Q: What are the top three construction trades your company is in most demand of?



Q: Rank the following cost drivers from 1 to 5 with 1 being most costly.



Q: Please indicate the top three factors most influential to your success as a homebuilder in 2020.



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