




# Home Builders Outlook

## Home Builders Industry Trend Forecast



**Since 2012, the home builders industry has benefited from favorable long term economic factors and an increased demand for new homes. While the industry could be facing a slowdown, demand continues, pandemic restrictions have relaxed, and life has begun to resemble pre-COVID days in many ways. Companies will need to build strategies to compete with lingering material shortages and rising interest rates.**

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# Introduction

While many industries saw customers and profits disappear, the construction trades were busier than ever. The last two years have been challenging with labor and material shortages coupled with increased demand for new homes. The latest data<sup>1</sup> suggests the construction services industry CAGR (Compound Annual Growth Rate) will increase from 4.3% to 5.0% over the next four years. The construction output is set to reach \$165 billion by the close of 2026.

Despite the good outlook, many home builders might wonder how to deal with the uncertainty of other important construction factors and indicators.

+ **Consumer demand** – will it continue to increase, level off, or decline?

+ **Higher interest rates** – will they slow inflation, or slow down the housing market?

+ **Rising material costs** – how will they impact construction costs and the cost of buying a home?

+ **Workforce concerns** – are there enough tradespeople and installers to meet the demand?

+ **Industry consolidation** – The top five builders build 60% of new homes

Now, we'll look at factors builders need to consider to realize continued demand and growth over the next 4 years.

(1) [globenewswire.com/news-release/2022/02/22/2389055/28124/en/United-States-Construction-Industry-is-Forecast-to-Grow-by-8-8-to-Reach-USD-1-355-097-million-in-2022-Despite-Near-Term-Challenges.html](https://globenewswire.com/news-release/2022/02/22/2389055/28124/en/United-States-Construction-Industry-is-Forecast-to-Grow-by-8-8-to-Reach-USD-1-355-097-million-in-2022-Despite-Near-Term-Challenges.html)



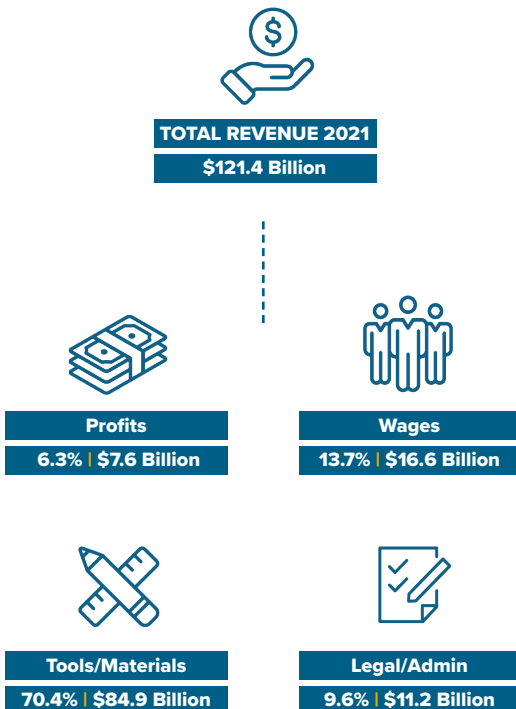
In 2021, U.S. home builders received **over 2 million inquiries on BBB.org**, which puts the industry in the top 10.

# The home builders industry today

To understand how these changes will impact home builders for the next five years, it's important to take a detailed look at the industry today<sup>1</sup>.

We'll start with an overview and drill down to reveal the emerging trends. After that, we'll discuss specific strategies for home builders looking beyond the pandemic, and into the next five years.

## Industry Snapshot: Revenue and Expense Breakdown



Despite the size of the industry, the total amount spent on marketing during 2021 totaled \$605 million, or about 0.5% of all revenue generated. Low advertising budgets suggest that most companies are small businesses with 1-50 employees. Only larger builders, with 50+ employees, rely on advertising to build brand awareness.

Currently there are 404,912 home builders in the U.S. and a total of 7 million workers<sup>2</sup>. The industry has experienced some consolidation, with a handful of builders responsible for 60% of the new homes constructed in 2021.

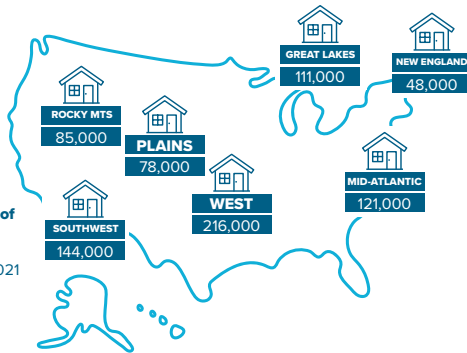
## BBB Accredited Home Builders Ranked in the Top 10 for Sales

Company	Sales	Closings
Toll Brothers	\$7.2 billion	8,107
KB Home	\$4.5 billion	11,871
Taylor Morrison	\$4.6 billion	9,964

Together, these three BBB Accredited home builders received more than 25,000 inquiries through their BBB Business Profiles in 2021.

(1) [globenewswire.com/news-release/2022/02/22/2389055/28124/en/United-States-Construction-Industry-is-Forecast-to-Grow-by-8-8-to-Reach-USD-1-355-097-million-in-2022-Despite-Near-Term-Challenges.html](https://www.globenewswire.com/news-release/2022/02/22/2389055/28124/en/United-States-Construction-Industry-is-Forecast-to-Grow-by-8-8-to-Reach-USD-1-355-097-million-in-2022-Despite-Near-Term-Challenges.html)  
(2) [statista.com/statistics/187412/number-of-employees-in-us-construction/](https://www.statista.com/statistics/187412/number-of-employees-in-us-construction/)

**Regional Breakdown of New Construction by Region in 2021:**  
New Homes Built in 2021



The home builders industry remains segmented based on growing populations within specific geographic locations. The one million U.S. homes built in 2021 corresponded with areas that had strong population growth. The New England region grew by only 50,000 homes, compared to the West which saw over 200,000 new homes added during 2021.

A closer look provides another example of industry segmentation based on the types of homes being built today. Each option has its own pros and cons, based on material costs, required labor, performance, and longevity<sup>3</sup>. While wood siding continues to lose

popularity due to sustainability concerns, required maintenance, and potential insect damage, the other four exterior options have an equal market share.

**Brick exterior** options are growing in popularity again (19.3% of new homes) due to its durability.

**Stucco exterior** options are holding steady (27.2%) thanks to available materials and lower labor costs.

**Vinyl siding** options remain popular with builders and homeowners alike (24.9%), but fire and health concerns have consumers looking for other options.

**Fiber cement siding** option continues to grow (22.1%) thanks to features like low-maintenance, fire-retardancy, and resistance to insect damage.

<sup>(3)</sup> [ibisworld.com/industry-statistics/number-of-businesses/home-builders-united-states/](https://ibisworld.com/industry-statistics/number-of-businesses/home-builders-united-states/)



## The 5 year industry forecast

According to recent data<sup>1</sup> and analysis, the industry can expect to see continued growth for the next four years. A short-term slowdown may occur as lingering material and labor shortages continue. However, medium to long term growth indicates the industry will see a CAGR of 5% through December 2026.

Interest rates are going up to help control inflation and builders may see sales decline for a period after each increase. But new home construction sales are expected to remain strong into Q2 of 2023, despite rising interest rates. As some buyers get pushed out of the housing market, rental property demand will continue to increase. Since the industry relies primarily on materials purchased from national manufacturers, global supply chain issues should have little to no impact on building material availability.



(1) [globenewswire.com/news-release/2022/02/22/2389055/28124/en/United-States-Construction-Industry-is-Forecast-to-Grow-by-8-8-to-Reach-USD-1-355-097-million-in-2022-Despite-Near-Term-Challenges.html](https://globenewswire.com/news-release/2022/02/22/2389055/28124/en/United-States-Construction-Industry-is-Forecast-to-Grow-by-8-8-to-Reach-USD-1-355-097-million-in-2022-Despite-Near-Term-Challenges.html)

# Trends Driving Change & Growth for Home Builders

The biggest risks for the industry involve factors outside of a builder's control.

- + **The unemployment rate**
- + **Stock market volatility**
- + **Unstable energy prices**
- + **Lingering material and labor shortages**

## 1 Consumer Demand

Consumer demand for new homes during the pandemic was fueled by low interest rates, and the option to work from home (WFH). The pandemic also brought the work-life balance issue into the spotlight. Many workers moved to where they wanted to live, not their employer's location. As workers return to the workplace, new home demand is projected to decrease, although many companies believe the WFH option increased productivity levels and is here to stay.

## 2 Rising Interest Rates

Rising interest rates have historically spelled disaster for new home sales, but not this time. The U.S. Federal Reserve announced months ago that interest rates could go up to help slow the inflation rate<sup>4</sup>. The Federal Reserve's plan includes small increases (0.25 to 0.5%) at a time. Inflation and unemployment rates will be monitored to determine if another increase is warranted. Interest rates are expected to land at around 3.5% by the end of 2022. With personal income expected to increase<sup>5</sup> by 3.4% in 2022, fewer consumers will get "priced out" of the new home market.

## 3 Material Costs

Material costs will continue to fluctuate based on current supply and demand levels. Replenishing inventories and stabilizing prices to pre-pandemic levels will require several months to attain.

Transportation costs will follow a similar pattern of continued short term uncertainty as fuel prices settle.

## 4 Employee Shortage

Employee shortage concerns will remain a high priority for home builders, thanks to an aging workforce and The Great Resignation. Current data<sup>6</sup> suggests that the industry will need to hire 300,200 more workers in 2029 than in 2019. This is a compound annual rate of change of 0.4%, which is on par with the predicted rate of a 0.4% increase for all jobs in the U.S. during that same timeframe. 88% of the home builders surveyed have difficulty finding enough subcontractors for their projects, resulting in substantial wage increases for carpenters, electricians, and HVAC installers.

## 5 Consolidation of Services

Consolidation of the industry continues to expand. The 10 largest builders combined built over 60% of the homes built in 2021. Corporate builders enjoy better pricing on materials and equipment (leasing and sales) compared to smaller, independent home builders.

(4) [bankrate.com/banking/federal-reserve/how-much-will-fed-raise-rates-in-2022/](https://bankrate.com/banking/federal-reserve/how-much-will-fed-raise-rates-in-2022/)

(5) [cnbc.com/2022/01/18/us-companies-are-expecting-to-pay-a-3point4percent-raise-to-workers-in-2022.html](https://cnbc.com/2022/01/18/us-companies-are-expecting-to-pay-a-3point4percent-raise-to-workers-in-2022.html)

(6) [zipia.com/advice/us-construction-industry-statistics/](https://zipia.com/advice/us-construction-industry-statistics/)



# The Sign of a Better Business<sup>SM</sup>

## Be a Top Business in Your Industry

Home builders that embrace industry trends and deliver on their promises should continue to grow and flourish. **Let BBB help your company stand out from the competition.**



### Differentiate your company

**Standing out in a crowded marketplace isn't easy, but adding the BBB Accredited Business Seal to your advertising does just that!** It tells everyone that you're committed to the BBB Standards of Trust to provide extraordinary customer care.

Your accreditation adds you to BBB's exclusive community of trustworthy businesses where **over 140 million searches occur every year.**



### Bridge the trust gap

Whether a prospect is tech-savvy or tech-challenged, they can click through and see your company details from an independent third-party perspective. **This results in instant credibility and trust using the dynamic BBB Accredited Business Seal. Offline, you can use the seal to raise awareness in ads, on company vehicles, your storefront, or wherever you advertise.**

### Attract the best employees

Great companies need good, dependable employees to handle increasing demands. And high performing employees want to work for companies that have shown they're honest, dependable, and trustworthy.

**BBB Accredited Business Seal tells job hunters and customers that your business is one that does the right thing, one they can trust.** When they see the seal in your ads on your website, they can be confident in signing an offer letter or a contract, thanks to your BBB Accreditation.



### Build a better business

**BBB.org is full of resources to help you start, manage, or expand your business.** Use our business tips, branding assets, business resources, and customer resolution services to help you engage and keep your most valued stakeholders.

You can learn more about these BBB benefits, the accreditation process, and our complete library of business resources. Contact your local BBB today or visit **BBB.org/get-accredited.**





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