

Industry Top Trends Update

# Homebuilders and Developers

## Solid demand and softer supply

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### What's changed?

**Pent-up demand and disposable income are supporting developers' sales and average selling prices.** Prices are also bottoming out in the United Arab Emirates, after years of contraction, mostly thanks to international investors.

**Demand for residential new builds is holding up,** thanks to good access to mortgage loans, favorable funding conditions, and government stimuli. Many governments intervened through bulk purchases, tax incentives, and subsidized mortgages.

**Supply is becoming constrained in several European markets,** supporting prices but limiting developers' sales volume potential. In France, for example, the number of granted permits and construction starts contracted significantly this year.

### How is recovery taking shape?

**Developers' sales and EBITDA should approach 2019 levels by 2021.** Some may be able to fully recover to pre-COVID-19 levels. By mid-2022, we expect most developers will surpass 2019 levels.

**Leverage metrics should mostly recover to 2019 levels by 2021.** This is due to solid cash flow generation and debt repayments, except in Russia where the use of project finance loans will likely constrain deleveraging efforts.

**The increase in building costs will likely exert pressure on margins this year,** given the lack of building materials and labor shortages. We think the pressure could carry into 2022, if the situation doesn't improve.

### What are the key risks around the baseline?

**Persistent cost inflation and lack of building materials.** This would likely weigh on developers' margins and the pace of construction.

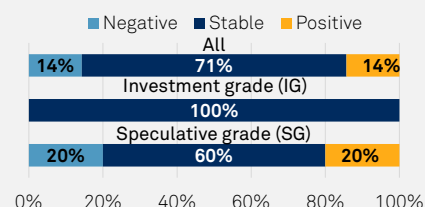
**The premature end of government stimuli or an increase in property taxation.** An abrupt ending of stimulus measures or higher tax could hamper demand for residential new builds.

**Tighter lending conditions.** Homebuilders operating in markets like France, Germany, and the U.K. rely heavily on mortgage sales. Moreover, limited access to capital by property developers could also hamper their ability to buy land.

### Latest Related Research

- [Russia's Housing Boom Isn't Likely To Burst—Or Bust](#), March 19, 2021
- [Dubai's Property Market In 2021: A Tough Year On The Road To Recovery](#), March 1, 2021
- [Industry Top Trends 2021: Homebuilders and Developers](#), Dec. 10, 2020

### Outlook Distribution



### Ratings Statistics\*

|                   | IG | SG | All |
|-------------------|----|----|-----|
| <b>Ratings</b>    | 2  | 4  | 6   |
| <b>Downgrades</b> | 0  | 0  | 0   |
| <b>Upgrades</b>   | 0  | 0  | 0   |

Ratings data as of end-June 2021. \*Year to date.

### COVID-19 Heat Map

| Homebuilders And Developers                      |                |                        |
|--|----------------|------------------------|
| Estimated recovery to 2019 credit metrics        | 2022           |                        |
| Potential negative long-term industry disruption | No             |                        |
| 2020 Versus 2019                                 |                |                        |
| Revenue decline                                  | EBITDA decline | Incremental borrowings |
| 5%-10%   | 10%-15%        | 5%-10%                 |
| 2021 Estimates Versus 2019                       |                |                        |
| Revenue decline                                  | EBITDA decline |                        |
| 0%-10%   | 0%-10%         |                        |