

Building Through Uncertainty: How Homebuilders and Policymakers are Shaping the Future of U.S. Housing

The Evolving Foundations of U.S. Housing

The U.S. housing market is undergoing a significant transformation driven by shifting economic conditions, evolving homebuilder strategies, and policy changes under the newly elected Trump administration. Broader economic concerns on topics such as new trade policies and the effect of President Trump's tariff plans on inflation and the central bank's rate plans continue to shape the market. Homebuilders are adapting to a new landscape, while the administration's early policy decisions raise critical questions about the future of housing affordability, mortgage rates, and real estate investment strategies.

Shifts in Homebuilder Strategy: The Rise of 'Land-Light' Approaches

In response to economic uncertainty and rising capital costs, many homebuilders are shifting toward "land-light" strategies, prioritizing asset-light models and offloading large land holdings. This approach allows builders to maintain operational flexibility while mitigating financial risks associated with long-term land investments.

Major homebuilders, including Lennar and D.R. Horton, are increasingly relying on land banking and lot option contracts rather than outright land ownership. These strategies reduce upfront capital expenditures and allow companies to scale operations based on market demand. Between Q3 2019 and Q3 2024, the share of owned lots held by public homebuilders declined significantly from 54% to 32%, while the share of optioned lots surged from 46% to 68%.

Despite a slowdown in demand during the latter half of 2024-driven by mortgage rate volatility that sidelined potential homebuyers-homebuilders remain cautiously optimistic.

Industry commentary suggests a continued focus on land acquisition and development, with a strategic shift

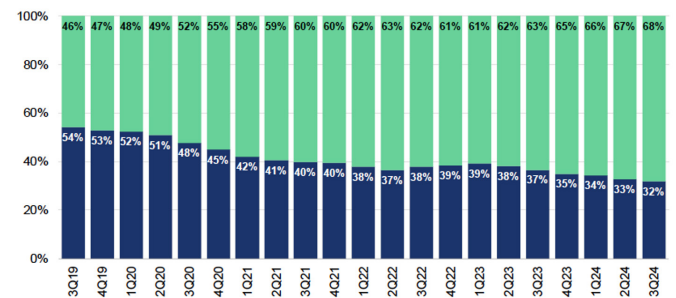
toward land banking and the use of incentives such as rate buydowns to mitigate the impact of high borrowing costs and elevated home prices.

Public Homebuilders' Share of Lots (Owned vs Optioned/Controlled) / Total Lots

Total lots = owned + optioned/controlled ■ Lots owned % ■ Lots optioned/controlled %

Lots owned % = lots owned / total lots

Lots optioned/controlled % = (total lots - lots owned) / total lots



Notes: Total lots includes both owned and optioned/controlled lots; lots owned % = lots owned / total lots; Lots optioned/controlled % = (total lots - lots owned) / total lots. UHG is not included in this graph due to inconsistency in reporting this metric historically.

Sources: Bloomberg; public homebuilder public filings; John Burns Research and Consulting, LLC (Data: Homebuilders' most recent quarter, Pub: Nov-24)

Homebuilder Sentiment & Market Conditions

Recent data from the National Association of Home Builders (NAHB) indicates a slight increase in homebuilder confidence despite ongoing economic headwinds. The Housing Market Index (HMI) rose to 47 in January 2025, marking its highest level in nine months. However, the sector remains cautious, with builders considering supply chain disruptions and policy uncertainty.

Several factors are contributing to this mixed outlook:

Interest Rate Cuts: The Federal Reserve's decision to reduce rates in 2024 initially led to a gradual decline in mortgage rates, but that progress was stifled by the uncertainties surrounding the new administration's policies, particularly among such topics as tariffs and their impact on inflation, the central bank's plan to reduce the number of cuts in 2025, and homebuilding costs on materials such as lumber.

Inventory Shortages: A persistent lack of existing homes continues to drive demand for new construction, benefiting homebuilders despite high material costs.

Regulatory Uncertainty: Early actions from the Trump administration have created uncertainty regarding infrastructure spending, environmental regulations, and labor policies, all of which influence home construction costs and timelines.



The Impact of the Trump Administration on Housing & Real Estate

The new administration has already signaled a significant shift in economic policy, with potential consequences for the housing market. Several key initiatives and proposals are likely to influence affordability, construction costs, and real estate investment.

1. Regulatory Rollbacks on Housing and Land Development

In a bid to boost the national housing supply and bring down home prices the Trump administration has pledged to reduce regulatory barriers to new construction, particularly in energy efficiency requirements and environmental permitting. While this could lower development costs and speed up project approvals, it may also create risks related to zoning disputes and local opposition to large-scale housing projects.

2. Inflation and Federal Interest Rate Policies

One of the administration's key economic priorities is tackling inflation through deregulation and energy policy shifts. However, uncertainty remains about how these measures will impact long-term interest rates. While the Federal Reserve began cutting rates last year, any future policy missteps—such as fiscal stimulus that reignites inflation—could keep borrowing costs elevated, limiting the benefits of lower mortgage rates.

3. Tax Policies and Deductions

With Republicans securing control of both houses of Congress, analysts anticipate that Trump will

successfully extend the tax provisions from his landmark 2017 Tax Cuts and Jobs Act (TCJA). These changes are expected to result in fewer Americans itemizing their deductions and will reduce tax benefits for high-income homeowners with substantial property tax obligations. As a result, middle-income families could benefit from lower overall tax rates, potentially increasing their disposable income and improving their ability to afford home purchases.

Navigating Uncertainty in the Housing Market

The U.S. housing market stands at a pivotal moment, shaped by shifting economic conditions, evolving builder strategies, and new federal policies. Ongoing regulatory uncertainty presents challenges for builders, investors, and policymakers, requiring strategic adaptability in an increasingly complex landscape.

As the Trump administration advances its policy agenda, the housing sector must remain agile. Developers, investors, and homebuyers will need to navigate a rapidly evolving environment where economic growth, affordability, and regulatory frameworks remain in flux.

The future trajectory of the housing market will largely depend on how effectively builders, policymakers, and financial institutions adjust to these changing dynamics to ensure that housing supply meets demand while maintaining long-term market stability. To achieve this, homebuilders must continue leveraging “land-light” strategies—partnering with top-tier firms and industry experts like Walton Global—to mitigate financial risk, optimize capital allocation, and sustain land acquisition and development efforts.



Sources: The Builder's Daily | John Burns Research & Consulting | AP News | Market Watch | Investopedia | National Association of Homebuilders