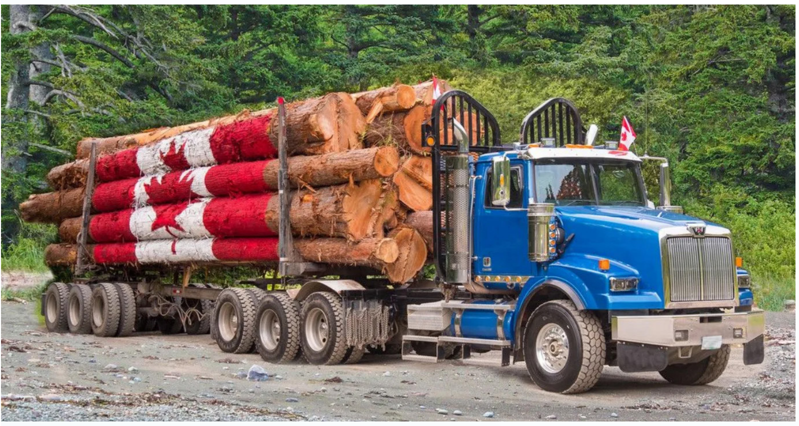
Market Outlook:
A Shifting Policy Landscape and Its Implications for U.S. Homebuilders

The U.S. housing sector enters mid-2025 navigating a complex intersection of macroeconomic volatility and evolving trade policy under the Trump administration. Central to the current climate is the administration's renewed emphasis on tariffs–particularly those targeting construction-critical imports such as lumber, steel, aluminum, and appliances. While these measures introduce short-term uncertainty around input costs, they also create new strategic opportunities for homebuilders who are optimizing margins through operational efficiency, asset-light models, and regional material sourcing.

U.S. Tariff Landscape

Reinstated tariffs on Canadian softwood lumber, set at nearly 18%, have strained trade relations with Canada and raised costs for builders. In addition, duties on steel and aluminum, alongside potential duties on appliances and finished home goods from countries like China, have compounded material inflation. Despite this, recent diplomatic efforts have added a sense of stability. Agreements with the U.K. and a temporary 90-day agreement with China have eased market tension by lowering tariffs on Chinese goods from 145% to 30% and opening a window for continued trade. This easing has helped mitigate inflationary pressure and reassured financial markets, creating a more predictable environment for builders planning long-term projects.

While the current tariff environment has narrowed builder margins modestly, many firms have already adapted their procurement practices to anticipate



these policy shifts. A growing number of builders are also sourcing materials well in advance–stockpiling essentials like lumber and windows and securing long-term supply contracts–to buffer against near-term cost

volatility. This strategy helps stabilize pricing during trade disruptions, though it introduces inventory risks if demand unexpectedly softens.

Builder Costs and Margin Resilience

Input cost inflation remains a headwind, but homebuilders are demonstrating notable flexibility. According to John Burns Research & Consulting, while framing lumber prices have increased approximately 15% year-over-year through Q1 2025–largely attributable to tariff enforcement and Canadian supply reductions–builders have responded by:

1. Accelerating domestic sourcing of lumber and steel.
    - 28% of builders surveyed at the end of March purchasing materials directly from manufacturers, and another 32% considering direct purchases.
2. Increasing the use of engineered wood products to optimize yield per board foot.
3. Revising plan designs to lower square footage while maintaining price points.

Large public homebuilder margins have shown relative resilience. As of Q1 2025, leading homebuilders like D.R. Horton and Lennar reported gross margins of 22.7% and 18.7%, respectively–below 2024 highs of 24%, but mostly in line with pre-covid and long-term averages. This durability is attributed to strong pricing power in high-demand markets, cost discipline, and a favorable labor market in southern and midwestern build zones.

Sentiment and Strategy: Builders Adapt to Policy Risk

Policy-driven cost volatility has taken a negative effect on builder confidence, with the NAHB Housing Market Index falling to 34 in May 2025. However, renewed trade clarity–particularly the short-term agreement with China–has improved the outlook. Lowered tariffs on key materials and a more transparent trade environment are expected to reduce inflation risk and support construction activity in the long-term.

Key strategic responses to tariff dynamics include:

1. "Land-Light" Development Models: Major firms are reducing upfront land holdings in favor of option contracts and land banking.
   a. Large public homebuilders optioned/controlled 69% of all their lots in 2024, compared to just 48% in 2019.
   b. D.R. Horton optioned/controlled 76% of all their lots in 2024.
2. Incentive-Based Sales Models: Builders are leveraging tools like rate buydowns and upgrade incentives to maintain absorption rates, with 61% of builders utilizing incentives in May 2025.
3. Focus on Resilient Markets: Tariff-induced cost increases have led builders to double down in markets with favorable regulatory environments, lower labor costs, and high in-migration rates.

Larger builders are also gaining speed and scale by acquiring finished lots–reducing entitlement risk and time to market. In contrast, many smaller builders are priced out of finished land deals and must handle entitlements themselves, increasing cost, project timelines, and exposure. This widening gap means larger firms are continuing to expand market share, while smaller builders struggle to compete without similar access to land or incentives. For reference, large builders' market share–including public and private builders–was nearly 60% in 2024, up from 41% in 2019.

A Constructive Outlook for Investors

While headlines around tariffs often stir investor anxiety, the on-the-ground impact on the housing sector remains largely contained–and in some cases, even constructive. For long-term investors, the tariff environment underscores the need for discernment but not alarm. In fact, the fundamentals of the U.S. housing market remain compelling:

1. Persistent Long-Term Inventory Shortages: The U.S. remains undersupplied by an estimated 3.9 million homes.
2. Supportive Demographics: Millennials and early Gen Z households are entering peak homebuying years. Despite financial pressures such as student debt and high living costs, they are actively purchasing homes—favoring smaller, affordable options with modern amenities.
3. Builder Agility: Today's leading developers have stronger balance sheets, more flexible cost structures, and deeper optionality than during prior tariff cycles.

Builders are adopting creative land planning and product design strategies that emphasize walkability, shared spaces, and affordability. These efforts are aimed at meeting evolving demographic preferences and addressing the national housing shortfall—particularly in the entry-level segment—supporting sustained market activity in the years ahead.

Building Through Policy Shifts

Tariffs remain a key variable in the U.S. housing cost equation. Yet builders and investors alike are proving adept at navigating this terrain. By localizing supply chains, embracing asset-light development models, adapting to shifting demographic preferences, and leveraging pricing power in constrained markets, homebuilders are preserving profitability and positioning themselves for long-term growth.

As U.S. trade policy continues to evolve, strategic land partners such as Walton Global offer an essential edge–helping builders reduce capital burden, accelerate time-to-market, and manage through macroeconomic cycles with confidence.

Sources: National Association of Home Builders (NAHB) | John Burns Research & Consulting | AP News | U.S. Department of Commerce | The Builder's Daily | MarketWatch | NAHB Housing Market Index Reports (Jan–May 2025) | Public filings from D.R. Horton and Lennar Corp. | The Wall Street Journal | Builder Magazine