

January 6, 2020

One House, Two House, Red House, Blue House

The 2020 Presidential Election Could Have A Magnified Impact On Housing, Whoever Wins

WHAT YOU SHOULD KNOW: It's still ten months away, but investors are already asking about the potential impact of the 2020 presidential election on homebuilding. Our analysis shows that, first, presidential elections have historically negatively impacted orders in 4Q. That trend could be magnified by difficult comps later this year in 4Q20. Second, Republican ("red") voters report much higher consumer confidence levels than Democrats ("blue" voters) and have done so since the 2016 election. Third, single-family building permit growth since 2016 has been stronger in Trump-supporting counties than in Clinton-supporting ones, despite comparable job and wage growth. As such, we conclude its feasible that a change in administration might benefit trailing blue county housing dynamics, while the re-election of President Trump could continue to propel red county outperformance. Our county-by-county community count analysis shows Green Brick Partners (GRBK, Buy, \$13 PT), LGI Homes (LGIH, Sell, \$62 PT), D. R. Horton (DHI, Buy, \$67 PT) and NVR (NVR, Neutral) have the greatest exposure to red counties, with TRI Pointe Group (TPH, Neutral), Toll Brothers (TOL, Neutral) and KB Home (KBH, Neutral) have the greatest blue county presence.,

- We expect a typical seasonal decline in orders as the 4Q progresses. Our analysis over 14 election cycles indicates that the average October-to-November unit sales change was -15% during Presidential elections and -10% for non-election years, suggesting consumers pause in the face of potential Presidential change. Facing difficult comps in 4Q20 (order should grow 17% in 4Q19 by our estimate), this election's seasonal impact could be magnified.
- The consumer confidence gap between red and blue voters is very high and has been stark since the 2016 election. U Mich data shows a confidence index reading of 124 for Republicans and 78 for Democrats; Bloomberg's Consumer Comfort Index evidences a similar split (79 for red voters, 54 for blue).
- Cumulative single-family permit growth in Trump-supporting counties is up 2% since 2016, while permits have fallen 8% in Clinton-supporting counties. The difference is starker in "landslide" counties where either candidate won by a 50%+ margin – in these, Trump-county permits grew 11% while Clinton-county permits fell 9%. Meanwhile, job and wage growth have differed little. Utilizing 2Q data from the 342 largest counties, blue county job growth rose 4.7% and average weekly wage grew 10.2%, while red-voting counties saw 5.7% job growth and 9.5% AWW expansion over the last three years.
- While many factors drive economic performance, differing red and blue county permit data and consumer confidence readings since 2016 provide some support that the election will matter to housing in 2020. A change in administration might benefit trailing blue county housing dynamics. The re-election of President Trump could continue to propel red county outperformance.
- Within our coverage universe, GRBK, LGIH, DHI and NVR have greater than 60% of current communities in Trump-voting counties. Conversely, TPH, TOL, and KBH have over 60% of current communities in Clinton-voting counties.

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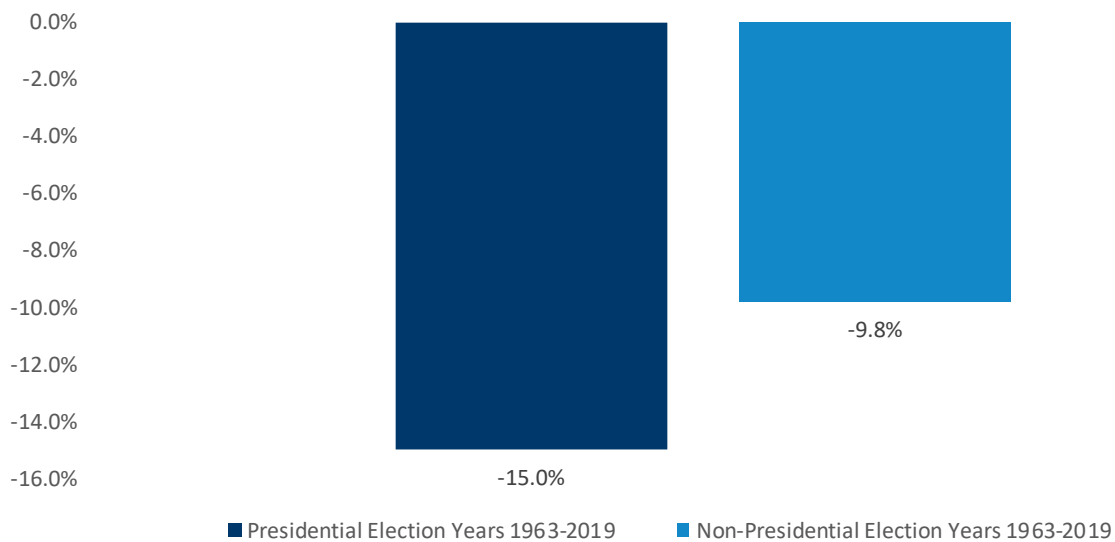
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What impact will the 2020 Presidential election have on housing?

History tells us that Presidential election cycles can have short-term negative impacts on housing. While we typically see a negative change in new home sales from October to November seasonally, a recent Meyers Research Group analysis found that over the past 13 Presidential election cycles, the median change in new home sales activity from October to November fell 15%, whereas in the year after an election, the median change in sales was 8%. Our analysis over the last 14 election cycles indicates that the average October-to-November change was -15% during Presidential elections and -10% for all other years. This may indicate that potential homebuyers may become more cautious in the face of national election uncertainty. This caution is temporary, and ultimately results in deferred sales, as the economy, jobs, interest rates and consumer confidence all have far more meaningful roles in the home purchase decision than a Presidential election result in the months that follow.

Exhibit 1: October-to-November Seasonal Drop in Sales Sharper in Presidential Election Years

Percent Change in Actual Monthly New Home Sales, November vs. October

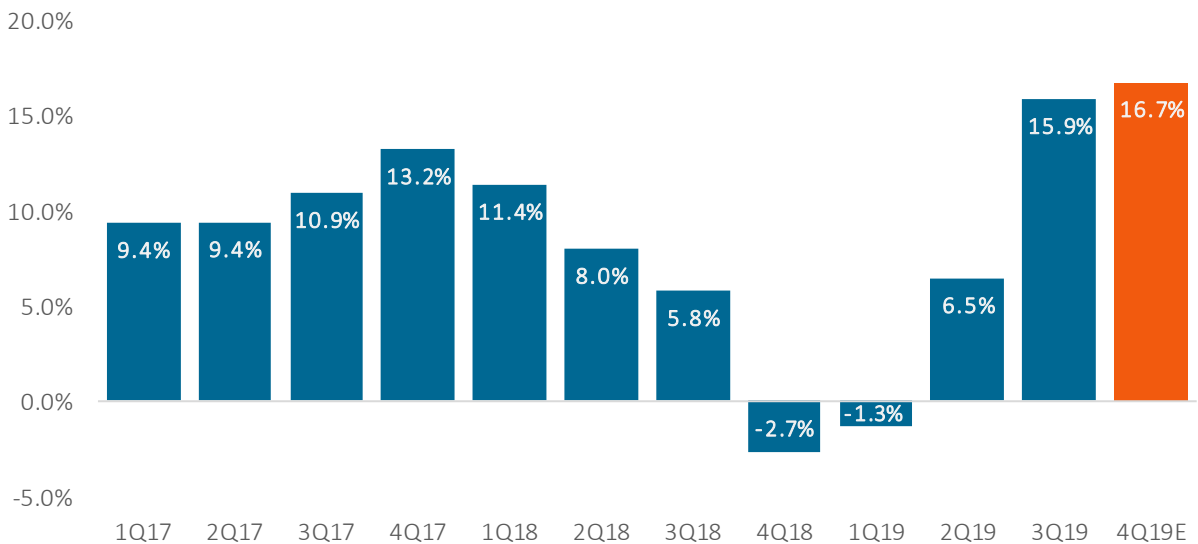


Source: FactSet, BTIG Research, U.S. Department of Commerce

This year’s Presidential election cycle may show more magnified negative trends. We already know that builders face very difficult order comps from 3Q19, and early returns from our BTIG/HomeSphere survey of private builders suggests 4Q19 orders are likely to be very strong as well. So, if typical election uncertainty has a negative impact on order trends, its likely to be more optically meaningful this year.

Exhibit 2: Builder Order Comparisons Likely To Stiffen in 2H 2020

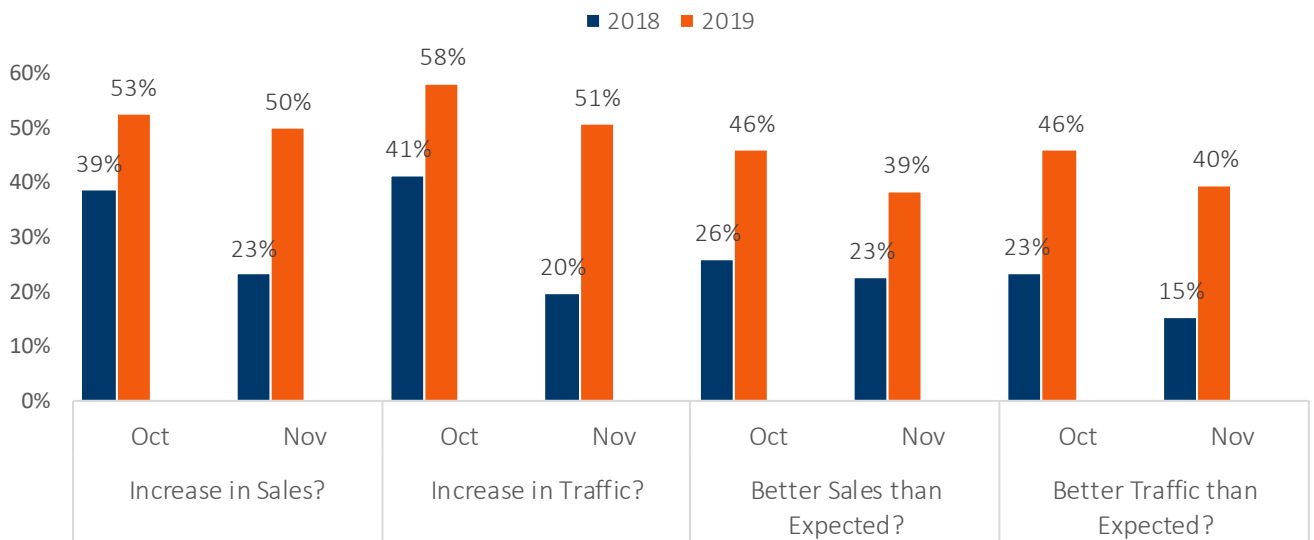
Unit Order Growth, Public Builders



Notes: Calculated as a weighted average. 4Q19 estimate based only on covered builders whereas other comps include all public builders
Sources: Company Filings, FactSet, BTIG Research

Exhibit 3: Our Builder Survey Data Indicates a Robust October and November in 2019 vs. 2018

Percent Responses To Select Questions From BTIG/HomeSphere Monthly Builder Survey



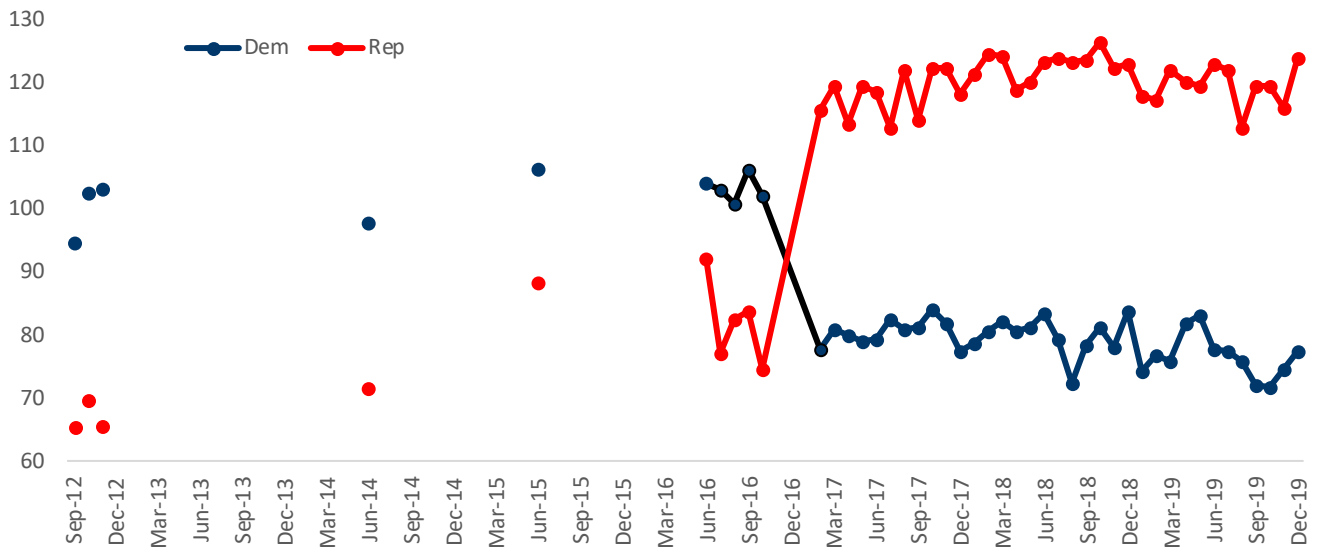
Source: HomeSphere, BTIG Research

Exacerbating this issue is the distinct split in consumer confidence between self-identified Republican and Democratic voters that became decidedly pronounced after the 2016 election. Both the Bloomberg Consumer Comfort Index and the University of Michigan’s Consumer Confidence Index indicate stark differences in current well-being dependent on the party affiliation of the survey respondent. While UM data showed a similar but transposed disparity during the President Obama’s second term, Bloomberg’s data showed a more parallel set of readings between respondents of different political

persuasion. Both indices showed an immediate change in confidence/comfort after the election of President Trump and this disparity has been maintained since the election. We therefore postulate that a change in administration might have a meaningful effect on confidence dependent on party affiliation and, by extension, the housing market. Conversely, the re-election of President Trump might continue to bolster current trends.

Exhibit 4: U Mich Data Shows A Change in Confidence Dependent on Party Affiliation Since the 2016 Election

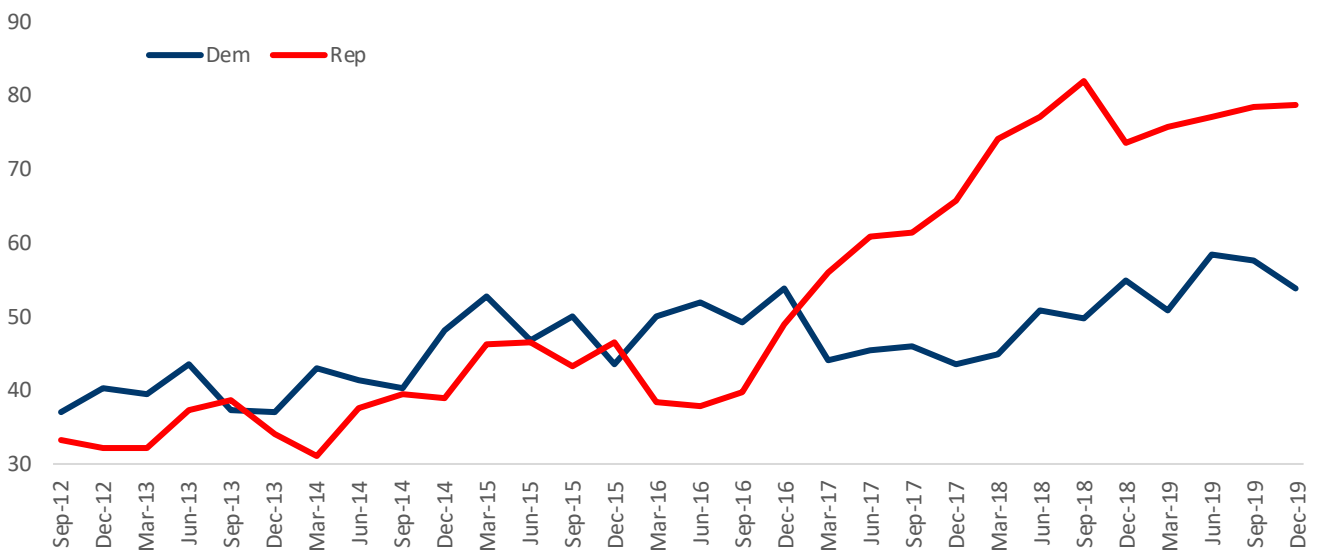
University of Michigan Consumer Confidence Index, Responses By Political Party Affiliation



Source: Michigan Consumer Sentiment, BTIG Research

Exhibit 5: Bloomberg’s Consumer Comfort Index Shows A Similar Shift, But A Less Distinct Difference Pre-Election

Bloomberg Consumer Comfort Index, Responses By Political Party Affiliation



Source: Bloomberg, BTIG Research

Our analysis suggest that 2016 Trump-voting counties have enjoyed much better new housing strength than Clinton-voting counties, as measured by single-family permit growth. Trump counties reported a 1.5% increase in single-family building permits for the ten months ended October 2019 vs. the ten months ended October 2016. Over this same period, Clinton counties reported an 8.5% decline in permits.

Exhibit 6: Trump Voting Counties Have Seen Better Single-Family Building Permit Growth Than Clinton-Supporting Counties Since The Election

Cumulative Single-Family Building Permits, 10 Months Ending October, 2019 vs. 2016

2016 Presidential Election Result	Total Counties	Cumulative Single-Family Permits		Percent Change
		January-October 2016	2019	
Counties Won By Trump	1,277	365,243	370,728	1.5%
Counties Won By Clinton	361	290,690	267,151	-8.1%

Source: U.S. Department of Commerce, Townhall.com, BTIG Research,

The difference is even more pronounced in “landslide” counties, in which either candidate won with at least a 50% margin over his/her opponent. Trump “landslide” counties reported an 11.0% gain in building permits over the last three years, while Clinton “landslide” counties tallied a 9.0% drop. In counties where the election was closer (less than a 10% margin of victory for either candidate), building permit growth also showed contrasting performances. “Close” Trump-voting counties showed a 1.8% growth in permits, whereas “close” Clinton-voting counties saw a 12.7% drop.

Exhibit 7: “Landslide” Counties Show an Even Wider Dispersion in Single-Family Permit Performance

Cumulative Single-Family Building Permits, 10 Months Ending October, 2019 vs. 2016, County Vote Data By Victory Margin

	Counties Won By Trump						Total
	Margin of Victory						
	Over 50%	40-50%	30-39.9%	20-29.9%	10-19.9%	0.1-9.9%	
Number of Counties	341	220	234	197	167	118	1,277
SF Bldg Permits 1-10/2016	38,074	37,430	63,843	82,375	72,377	71,144	365,243
SF Bldg Permits 1-10/2019	42,252	37,619	63,370	80,958	74,134	72,395	370,728
Percent Change	11.0%	0.5%	-0.7%	-1.7%	2.4%	1.8%	1.5%

	Counties Won By Clinton						Total
	Margin of Victory						
	Over 50%	40-50%	30-39.9%	20-29.9%	10-19.9%	0.1-9.9%	
Number of Counties	40	20	44	62	76	119	361
SF Bldg Permits 1-10/2016	26,067	19,798	24,723	58,962	74,847	86,293	290,690
SF Bldg Permits 1-10/2019	23,714	19,145	23,077	53,976	71,946	75,293	267,151
Percent Change	-9.0%	-3.3%	-6.7%	-8.5%	-3.9%	-12.7%	-8.1%

Source: U.S. Department of Commerce, Townhall.com, BTIG Research

Our methodology for calculating this data is included in the Appendix.

The underlying reasons for these differences may or may not have to do with the disparate levels of consumer confidence between red and blue voters, of course. Trump counties tend to be smaller and more rural, which both helps percentage change comparisons and are likely benefitting from the gradual shift in housing activity to less expensive, more outlying regions in which the voting population tends to be more conservative. California, a heavily-blue state, as well as parts of the Northeast have seen weaker construction data in part due to the high cost of housing, and heavier levels of domestic out-migration. Having said this, job and wage growth since the election has been reasonably similar between Clinton-supporting and Trump-supporting counties since the election. Looking at 2Q 19 job and wage growth (the latest available on a county-level basis) vs. 2Q16 across the nation’s 342 largest counties for which we have comparable data, Clinton counties have seen average job growth of 4.7% and average weekly wage growth of 10.2%, while Trump counties show 5.7% average job growth and 9.5% average weekly wage growth.

Exhibit 8: Job And Wage Growth Between Trump and Clinton Counties Has Been Similar Since The Election

Payroll Job Growth and Average Weekly Wage, 2Q016 and 2Q19

Voted For . . .	Number of Counties	Q2 2016		Q2 2019		Percent Change	
		Payroll Jobs	Avg Wkly Wage	Payroll Jobs	Avg Wkly Wage	Jobs	Wages
Clinton	202	79,090,500	\$ 1,010	82,788,700	\$ 1,113	4.7%	10.2%
Trump	140	24,083,400	\$ 865	25,464,000	\$ 948	5.7%	9.5%

Source: U.S. Department of Labor, Townhall.com, BTIG Research

Note: Comparable data only available for 342 largest U.S. counties by jobs in both 2016 and 2019

In summary, we believe the data is interesting enough to suggest that a change in administration could impact consumer confidence views between red and blue voters, and also have an impact on housing activity during the next administration in the short and intermediate-run. Likewise, continuation of the current administration could, in theory, continue to benefit areas of the country that have seen recent strength.

Which public builders could be most impacted by the Presidential election?

A change in Presidential administration might result in a change in consumer perspective of future economic conditions, and therefore impact builder business. Trump-voting counties have outgrown Clinton-voting counties in terms of single-family permits, and consumer confidence readings are markedly different dependent on party affiliation, with Republicans much more positive. It is possible builders with high levels of exposure to Trump-voting counties could be negatively impacted should Trump lose in 2020, or positively impacted should he won. The reverse might be true should a Democratic candidate win.

Within our coverage universe, Green Brick Partners (GRBK, Buy, \$13 PT), LGI Homes (LGIH, Sell, \$62 PT), D. R. Horton (DHI, Buy, \$67 PT) and NVR (NVR, Neutral) have greater than 60% of current communities in Trump-voting counties. Conversely, TRI Pointe Group (TPH, Neutral), Toll Brothers (TOL, Neutral) and KB Home (KBH, Neutral) have over 60% of current communities in Clinton-voting counties.

Exhibit 9: Builder Concentration in Trump- And Clinton-Supporting Counties Varies Widely

Builder Communities (Including “Coming Soon”), Concentration By County

Percent of Total Open Communities, January 2020 In Counties Voting for Trump in 2016 (BTIG Coverage Universe With Over 60%)	
Builder	
GRBK	68%
LGIH	67%
DHI	63%
NVR	61%

Percent of Total Open Communities, January 2020 In Counties Voting for Clinton in 2016 (BTIG Coverage Universe With Over 60%)	
Builder	
TPH	73%
TOL	67%
KBH	63%

Source: U.S. Department of Commerce, ZIPexpress, Townhall.com, company websites, BTIG Research

Our methodology for counting builder communities is included in the Appendix below.

We recognize that a number of factors complicate this analysis. Builders with lower-end focus tend to be located in more ex-urban and rural counties, which have had a tendency to vote along Republican lines, and can grow faster than more urban counties. Likewise, entry-level builders tend to concentrate in less expensive markets generally, which tend to be found in the southeast and Midwest, which were Republican strongholds during the 2016 election. Still, we believe investors should bear in mind the connected elements of permit growth and consumer confidence differentials, difficult comps, and varying exposure of builders by county when thinking about how 2020 shapes up for the group overall and specific company stocks.

Appendix: Data Collection Methodology

To determine building permits by county and votes by county, we examined the year over year change in single-family building permits for U.S. counties for the ten months ending October 2019 and compared this to the same data for the ten-month period ending October 2016 (i.e. before the 2016 Presidential election). 71 U.S. county jurisdictions did not report building permit data for these periods, and an additional 1,403 reported no single-family permits pulled for either period. In addition, we exclude Alaska given the difference in voting jurisdiction reporting and permit collection data, and other state permit data not associated with specific counties (combined, this amounted to 1,919 building permits in 2019). We then compared the change in permit data to how each county reported voting in the 2016 Presidential election per Townhall.com data.

To determine builder presence by county, we analyzed the zip code data of each community listed on each respective builder's website. We discarded communities listed as "Sold Out." We included communities listed as "Coming Soon" by the builders if zip code data for the tract was available. In cases in which builders offer two or three product types within a master plan, we counted these as separate communities. In one case (GRBK's GHO Homes subsidiary), in which multiple communities are sold out of a single sales center, we utilized inventory home zip code data to determine county location of the community. We ignored build-on-your-lot operations. Data on county locations was determined utilizing the ZIPexpress online zip code look-up tool and cross-referenced with Townhall.com vote tabulation data from the 2016 Presidential election.



BTIG Covered Companies Mentioned in this Report

- GREEN BRICK PART (GRBK, Buy, \$13.00 PT; Current Price: \$11.44; Analyst: Carl.Reichardt)
- LGI HOMES, INC. (LGIH, Sell, \$62.00 PT; Current Price: \$71.06; Analyst: Carl.Reichardt)
- D.R. HORTON, INC. (DHI, Buy, \$67.00 PT; Current Price: \$52.96; Analyst: Carl.Reichardt)
- NVR, INC. (NVR, Neutral, \$NA PT; Current Price: \$3,781.43; Analyst: Carl.Reichardt)
- TRI POINTE GROUP, INC. (TPH, Neutral, \$N/A PT; Current Price: \$15.61; Analyst: Carl.Reichardt)
- TOLL BROTHERS, INC. (TOL, Neutral, \$N/A PT; Current Price: \$40.78; Analyst: Carl.Reichardt)
- KB HOME (KBH, Neutral, \$NA PT; Current Price: \$34.91; Analyst: Carl.Reichardt)

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