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**KELLY EVANS, CNBC:**

Welcome back to The Exchange. US housing starts just fell to their lowest level since 2020 last month, driven by a sharp decline in multi-family construction while single-family rose 2% year-on-year, and despite all the talk about an apartment glut looming, my next guest predicted the drop in multifamily in May and expects single-family to remain resilient. Joining me now with his top picks in the home building space is Joe Ahlersmeyer, research analyst over at Deutsche Bank. Joe, welcome. It's good to see you.

**JOE AHLERSMEYER, DEUTSCHE BANK:**

Thanks very much, Kelly. Thanks for having me back.

**EVANS:**

What is going on with multifamily and apartments? And I guess we're not really talking about apartments. These are usually two to six tenant dwellings. That kind of thing.

**AHLERSMEYER:**

That's right. It typically means anything over one unit and that can be two units as a duplex. It can be four. It can be all the way up to a very large apartment building. But what's really going on here is, as you might predict with low rates, meaning low cost of capital for developers, before you saw inflation in building materials and obviously very strong demand and limited supply, it was a good time to be building multifamily sort of two years ago and even last year. But if you just look at what was happening with cost of capital throughout 2022, the inflation that we saw in building materials, it was our view that you would see a normalization in multifamily back to sort of typical levels. We were running anywhere from 50% to 60% above your long-term averages in multifamily, that was bound to come back down.

**EVANS:**

I know you're not this kind of analyst, but what does it mean for rents? Because we all think, well, inflation's going to drop because rents are going to fall. This glut is forming. Home prices are leveling off. Do you think that calls this into question?

**AHLERSMEYER:**

I think across the housing landscape, it's clear that we're in a very undersupplied situation. If that was the case on the multifamily rental side and that's what was driving rents higher, it continues to be the case looking forward as starts are coming in. Now, what's important to reconcile here is that starts are just one part of the equation. There's still around a million units under construction that will yet to be delivered, right? So we're looking at the starts today as something that will be delivered a year or even two years from now. So over the next couple of years, we still expect to see completion rates actually be fairly strong in the multifamily area as that units under construction number comes down, very similar to what we saw on a little bit of a tighter window in single-family over the course of last year and this year.

**EVANS:**

Sure, which is a relief that hopefully that supply is coming and it'll kind of keep a lid on prices and rents. So what is going on on the single-family side? It feels like we had this massive kind of boom the last couple of years. I'm at a loss for words to describe where we are in the cycle now because it kind of just feels frozen. So what do you think is going on here?

**AHLERSMEYER:**

Absolutely. And I spent some time thinking about what to call the cycle when I launched some building products last year. I ended up calling it a mid-cycle crisis because that's what it felt like at the time. And look, last year you had starts that were declining into the back half at a very rapid rate because of rising mortgage rates but you had builders continuing to deliver homes out of that backlog. So units under completion actually continued to rise and completions themselves were actually very stable throughout 2022 and even well into 2023 getting some help from multi-family along the way. We continue to see strength in demand on the demand side for single-family meaning housing is very need-based. It's not investor-based like it was in the global financial crisis. There's actually people that need homes, need places to live, whether that is a single-family home or a multi-family unit. So on the household formation side of the equation, the demand is very strong. It's really going to be about how much we can actually supply and how much we can meet that demand, and that's what's going to be important for really the clearing price of houses, and that's why you haven't seen very large house price declines that were predicted by many people when they saw the start numbers coming down.

**EVANS:**

I have to get your answer on this even though we're tight on time and maybe we'll come back and talk more stock-specific, which was the point of this whole thing, but your thoughts on the broad cycle are so interesting. So yesterday our guest Cole Smead told us he would never bet against Stuart Miller. He is bullish on Lennar. He thinks Miller's taking short-term margin hits for long-term profits if I'm summarizing that correctly. You have a sell on Lennar. Why is that?

**AHLERSMEYER:**

I will be very clear that my sell on Lennar is not a bet against Stuart Miller. We have a framework, right? We cover nine different builders and what we wanted to set out to do when we launched on them was not take a big view that all builders are going to be doing well or that all builders are going to be impacted by higher rates. We have a longer-term framework that doesn't really necessarily look at the quarter to quarter gyrations or the impact of mortgage rates on one builder versus another but really looks at their ability to deliver home-building operating profits in an efficient manner relative to their invested capital. And so on that basis we really like builders like DR Horton. We like builders like Meritage and Pulte, and those are our top picks really for a number of reasons that ultimately come down to we just think they have the best returns on inventory prospects.

**EVANS**

Best returns on inventory prospects. All right, Joe, I love it. Thanks so much for joining us today.

**AHLERSMEYER:**

Thanks, Kelly.

**EVANS:**

Joe Ahlersmeyer from Deutsche Bank.