Workers build homes in Lillington, North Carolina, on June 15. *Photographer: Allison Joyce/Bloomberg*

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A divide is deepening among homebuilders at a crucial time for the US real estate market.

The giant publicly traded companies are having a great year, with stocks rallying and the companies welcoming an onrush of buyers frustrated by the severe shortage of existing-home listings. With stockpiles of cash and easy access to capital, their market share is ballooning, while smaller competitors – faced with rising costs and tight credit conditions – get squeezed out

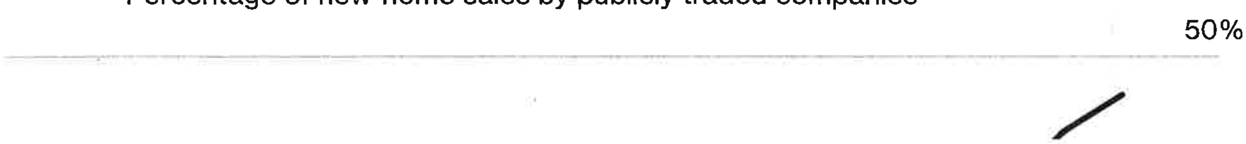
For homebuyers, it's a mixed blessing. Builders of all sizes are necessary to help solve America's housing shortage, including specialty players who add to innovation and the diversity of designs. But scale begets efficiency, and often that leads to cheaper prices for consumers. And big companies with their own mortgage arms can dangle much lower rates than borrowers would otherwise have access to – a major lure at a time when high interest costs are an obstacle for many house hunters.

"For many in the homebuilding community, it feels like the greatest time in history to be building, but that depends on the kind of builder you're talking to," said Ali Wolf, chief economist at the real estate consulting firm Zonda. "Many smaller builders are fighting a daily uphill battle to build homes and get sales."

Public Builders Edge Toward Half of New-Home Sales

Their share of the market has been climbing steadily since 2005

Percentage of new-home sales by publicly traded companies



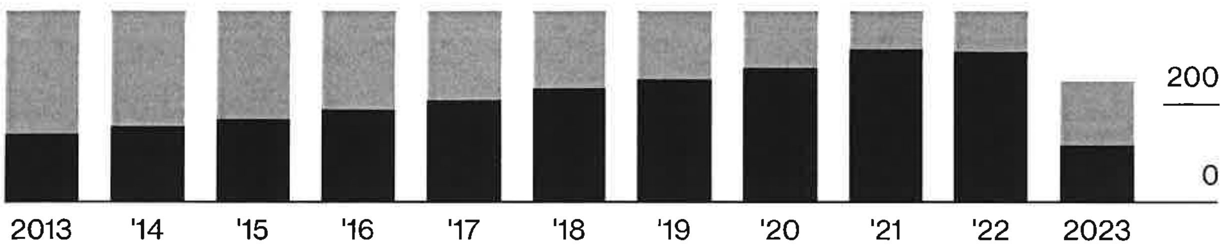
in California's Riverside-San Bernardino area.

By virtue of their size, the biggest builders are able to boost production quickly and negotiate the best deals for construction materials. Even high interest rates are working to their competitive advantage: Lennar, for example, has recently offered 30-year mortgages with rates of about 5% on certain newly completed homes – a significant discount from the average of nearly 7% charged by most lenders.

"Much of the reason now that small builders are disadvantaged is access to credit," said Kent Colton, who co-wrote a paper last year for the Harvard Joint Center for Housing Studies on the market-share consolidation. "The big builders have been growing gradually over time, but in times like this, they grow more."

One way they grow is through acquisitions, and companies with coveted land pipelines can be prime takeover targets. D.R. Horton last month said it bought the homebuilding assets of Alabama-based Truland Homes, acquiring control of more than 1,000 lots to increase its presence on the Gulf Coast.

More deals may be in the works.



Source: Zonda
Note Data from 2023 are through May

Plenty of private builders continue to thrive and are able to capitalize on the boom, especially in local markets where demand is robust. The biggest ones get similar cost advantages enjoyed by their publicly traded counterparts.

Lender Pullback

But heightened regulatory scrutiny in the wake of regional bank failures is making lenders pull back. That has hurt smaller companies, particularly when it comes to acquiring and developing raw land and constructing "spec" homes without a buyer lined up, said Michael Berke, founder of Chicago-based Tempo Capital Group, which provides financing for builders.

Mike Brown, a builder in Scottsdale, Arizona, aimed to put up 150 homes this year, but he'll likely end up with 100. Lenders are asking him for as much as 40% equity for land acquisitions instead of about 15%. That adds to his expenses and reduces the number of houses he can produce.

Because his company, Brown Homes, can't compete with the giants on cost, he's working to carve out a niche for himself: Many floor plans include attached garages for recreational vehicles.

Rino Soave, founder of Michigan-based Infinity Homes & Co., said his firm was outbid by a national company when it tried to purchase a tract from a school district.

"They're always willing to pay more for land," said Soave, who's also president of the local building association.

Whelan Advisory in 2014. "Many private builders don't have a next generation who wants to work in the business. They've hit retirement age and are ready to sell out."

Wade McGuinn said calls come in every couple weeks from big public builders asking to buy the midsize South Carolina company he founded in 1985, McGuinn Hybrid Homes. They could care less about his great team of workers or his designs – it's all about the land. He has to admit, it's tempting.

"We are either going to get super-efficient or get swallowed up," McGuinn said he tells his employees. "There's nothing proprietary about homebuilding. The person who controls the land pipeline will ultimately control the market, and that's what's going on."