TRACTION CAPITAL

TRACTION RESEARCH · FIELD NOTE 01

Why builders need finished lots.

Residential land development and America's finished-lot supply chain.

HOUSING SHORTAGE	BUILDERS REPORTING LOT SHORTAGES	D.R. HORTON LOTS UNDER CONTRACT
3.7M	64%	75%
Freddie Mac · Q3 2024	NAHB · May 2025	FY 2025

PUBLISHED MARCH 2026 · UPDATED AUGUST 2026

This field note adapts a March 2026 Equity Check research paper. Traction Capital reviewed the core public claims against primary sources and removed claims that could not be stated precisely enough for a public resource.

STRATEGY ROLES

Capital and operating execution have distinct owners.

Traction Capital is the investment platform and capital partner. It evaluates and invests in qualifying residential land-development opportunities, provides fund capital, and oversees the investment. Sage Communities, owned and operated by Wesley Greene, is the operator for the current strategy and is responsible for opportunity sourcing, builder relationships, entitlement, horizontal development, and finished-lot delivery.

THE BUILDER COMMITS FIRST. SAGE SECURES THE EXECUTED BUILDER PURCHASE AGREEMENT; TRACTION FUND CAPITAL FOLLOWS.

01 · DEFINITION

What is residential land development?

Residential land development is the work between a parcel and a build-ready homesite. It includes entitlement, engineering, grading, drainage, streets, utilities, permits, bonding, and the coordination required to deliver lots that meet a builder's product and schedule.

A homebuilder specializes in vertical construction: the house, its sales process, and the inventory turn. A land developer specializes in horizontal construction: the legal and physical groundwork underneath the house. One cannot proceed without the other, but they require different capital, teams, timelines, and local knowledge.

PARCEL → ENTITLEMENT → INFRASTRUCTURE → FINISHED LOT → HOME

02 · BUILDER MODEL

Why are large homebuilders becoming land-light?

Raw land can tie up capital for years before a home closes. Large builders have responded by controlling more future homesites through contracts, options, land banks, and third-party developers. The objective is capital velocity: hold less pre-construction land, buy finished homesites closer to need, and keep operating resources

focused on building and selling homes.

Lennar reported that controlled homesites reached 98% in its first quarter of 2025, following the Millrose Properties spin-off. Lennar described Millrose as a vehicle for land purchases, horizontal development, and just-in-time homesite option arrangements.

D.R. Horton reported a similar posture at fiscal year-end 2025: 75% of its owned and controlled lot position sat under purchase contracts. It also reported that 65% of homes closed during the year were built on lots developed by Forestar or another third party.

These figures do not mean builders have eliminated land risk. They show where portions of that risk and capital now sit. Entitlement, site work, schedule, and financing still have to be carried by someone before the homebuilder can start vertical construction.

03 · SUPPLY

Why does finished-lot supply remain constrained?

A housing shortage does not translate instantly into finished lots. Freddie Mac estimated the United States was short 3.7 million housing units as of the third quarter of 2024. The path from that demand signal to a permitted lot still runs through local land-use decisions, engineering, utilities, hearings, bonds, weather, and construction.

The National Association of Home Builders found that 64% of single-family builders rated overall lot supply as low or very low in its May 2025 survey. The shortage was sharper for the most desirable locations: 67% reported low or very low supply of 'A' lots.

That constraint is local by nature. A national housing deficit does not make an individual parcel viable. Sewer capacity, floodplain, road access, density, school assignment, product fit, finished-lot price, and municipal timing determine whether a specific site can become useful housing supply.

The work is sequential. Design depends on surveys and geotechnical information. Permits depend on design. Financing and construction bids depend on scope. Utilities and roads must be coordinated with outside agencies. A delay in one step can move the entire delivery schedule.

04 · SCALE

What does scale look like in finished-lot development?

Forestar, the largest publicly traded pure-play residential lot developer in the United States, delivered 14,240 lots in fiscal 2025. It ended the year with 99,800 lots owned or controlled across 64 markets and 23 states. D.R. Horton remained its largest customer, but Forestar closed lots to 29 distinct customers during the year.

Those numbers establish two points. First, finished-lot development can operate at institutional scale. Second, even a national platform is assembled market by market. Local entitlement and construction work cannot be standardized away; the repeatable element is the discipline used to qualify demand, underwrite the parcel, and manage delivery.

Scale should therefore be measured in more than lots. Builder concentration, contract quality, deposit terms, geographic exposure, utility certainty, construction capacity, and takedown timing all determine the quality of a pipeline.

05 · ADDITIONAL DEMAND

How does build-to-rent affect finished-lot demand?

Build-to-rent communities add another institutional buyer for horizontal development. The resident may rent rather than own, but the homes still require entitled land, streets, drainage, utilities, and build-ready pads. For the land developer, the buyer changes; the physical product is substantially similar.

Fannie Mae estimates build-to-rent production remains below 10% of single-family completions, but materially above its historical level. Its October 2024 market commentary ranked Dallas-Fort Worth second nationally with 14,198 existing build-to-rent units and a 21,354-unit development pipeline. Charlotte ranked eighth, with 4,375 existing units and 15,729 in the pipeline.

The implication is not that build-to-rent removes cyclicality. It broadens the buyer set in select markets. For-sale builders and rental operators respond to different capital markets and consumer constraints, which can create more than one disposition channel for a properly located finished-lot project.

06 · RISK REGISTER

What risks remain in residential land development?

A builder commitment can improve visibility, but it does not erase risk. The relevant question is which risks have been defined, transferred, priced, or retained.

Entitlement risk Approvals can be denied, conditioned, appealed, or delayed.	**Construction risk** Weather, labor, materials, utilities, and unforeseen site conditions can change cost and timing.
Counterparty risk A buyer may seek to renegotiate, delay, default, or exercise contractual rights.	**Financing risk** Debt availability, covenants, interest expense, and capital timing affect project liquidity.
Absorption risk Even contracted takedowns can extend if home sales slow or product fit changes.	**Concentration risk** One market, builder, engineer, contractor, or utility can become a single point of failure.

Deposits, fixed-price contracts, contingencies, phased capital, performance security, and near-entitled acquisitions can mitigate specific risks. Their strength depends on the actual documents and counterparties. None should be treated as a guarantee.

07 · WHAT FOLLOWS

What should an investor or builder take from the research?

The finished lot is a small physical product with a long chain of work behind it. The land-light shift makes that chain more visible: homebuilders still need lots, but they increasingly prefer not to own every acre throughout the development process.

For builders, the value of a third-party developer is reliable delivery against product specifications and schedule. For capital providers, the work is to distinguish a defined, builder-aligned project from speculative land exposure. That distinction lives in the contract, entitlement status, budget, schedule, deposit, financing plan, and downside cases - not in the headline market size.

The durable thesis is narrower than 'housing is undersupplied.' A constrained housing market still requires local, parcel-level execution before a builder can place a foundation. Finished-lot developers occupy that interval.

08 · QUESTIONS

Common questions about finished lots.

What is a finished residential lot?

A homesite prepared for vertical construction, with required approvals and horizontal infrastructure substantially complete.

Why do builders buy finished lots?

Doing so can reduce the capital and time held in pre-construction land and keep operating focus on vertical construction and sales.

What is a land-light builder?

A builder that controls more homesites through contracts, options, land banks, or third-party developers rather than owning every parcel through development.

Does a builder contract eliminate risk?

No. Entitlement, construction, financing, counterparty, weather, cost, and market risks remain.

How does build-to-rent affect demand?

Build-to-rent adds another buyer category for finished lots in selected markets, using substantially the same horizontal infrastructure as for-sale housing.

09 · SOURCE REGISTER

Primary research and company filings.

1. Freddie Mac. Housing Supply: Still Undersupplied by Millions of Units. freddiemac.com/research/insight/housing-supply-still-undersupplied
2. National Association of Home Builders. Lots Still in Relatively Short Supply. eyeonhousing.org/2025/09/lots-still-in-relatively-short-supply/
3. Lennar. First Quarter 2025 Results. investors.lennar.com/press-releases/2025/03-20-2025-210025354
4. Lennar. Millrose Properties Spin-off. investors.lennar.com/press-releases/2025/02-07-2025
5. D.R. Horton. Fiscal 2025 Annual Report. investor.drhorton.com
6. Forestar. Fiscal 2025 Annual Report. investor.forestar.com
7. Fannie Mae. Build-to-Rent Overview. multifamily.fanniemae.com/news-insights/build-rent-overview
8. Fannie Mae. October 2024 Build-to-Rent Market Commentary. fanniemae.com/media/53426/display
9. U.S. Census Bureau. New Residential Construction. census.gov/construction/nrc/current/

TRACTION CAPITAL

END NOTE · FIELD NOTE 01

The interval matters.

A constrained housing market still requires local, parcel-level execution before a builder can place a foundation. Finished-lot developers occupy that interval.

Read the current research and source links at tractioncapitalfund.com/research/residential-land-development.

INFORMATIONAL ONLY. This research does not constitute an offer to sell or a solicitation to buy securities. Sources are believed reliable but have not been independently audited. Forward-looking statements and projections are uncertain. Investments involve risk, including possible loss of principal.