

Housing Outlook: Where Do We Go From Here?

May 2, 2011



Trusted Analysis for Executive Decisions

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**John Burns,
CEO**
Pulls all of our knowledge together to help our clients make great decisions



**Lisa Marquis Jackson,
Vice President**
Special topic research; directs communication efforts



**Wayne Yamano,
Vice President**
Manages analysis team and special projects



**Jody Kahn,
Vice President**
Monitors markets; former M&A advisor on 85 acquisitions



**Steve Dutra,
Vice President**
Manages our data collection team



**Holly R. Bernstein,
Business Development**
Customer service and new client development

Consulting Management



**Tim Sullivan,
Principal**
Has led 1,000s of consulting assignments across the U.S. in 27 years



**Mollie Carmichael,
Principal**
Market research expert; former home building exec



**Don Walker,
President**
Leads valuation and portfolio analysis; former home building exec



**Lesley Deutch,
Vice President**
Residential and Commercial R.E. Consultant with Wall Street experience



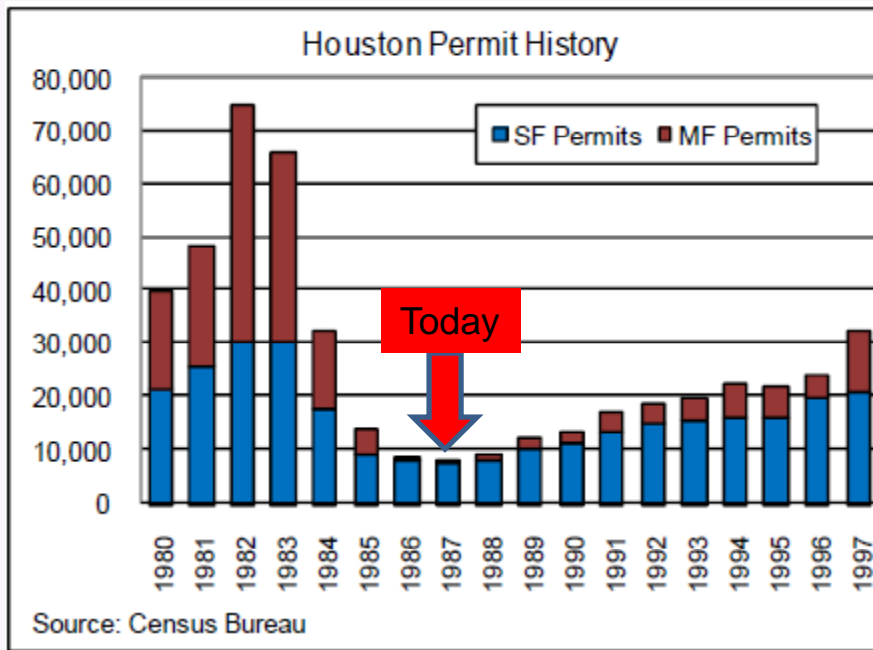
**Peter Dennehy,
Vice President**
Consultant with emphasis in urban and mixed use



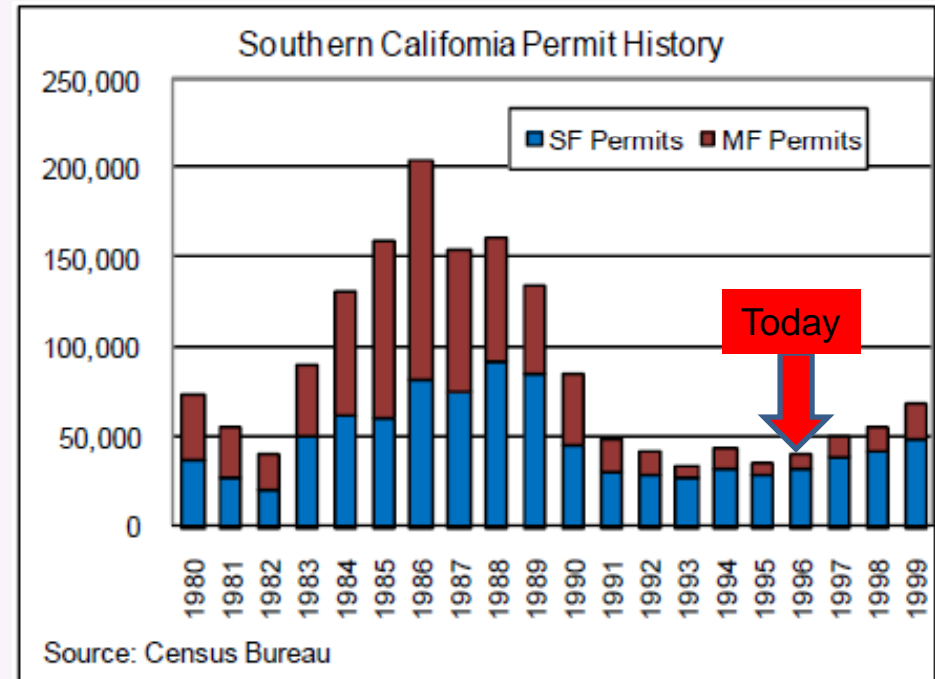
**Ken Perlman,
Vice President**
Consultant with 15 years of experience

The current national downturn mirrors past regional downturns that took many years to recover.

Houston (Overbuilt in 1984)



So. Cal. (7% job loss 1991-1994)



Source: JBREC US Analysis and Forecast, April 2011

PRESENTATION ORGANIZATION

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5. Forecast and Strategies for 2011

MAXIMIZE
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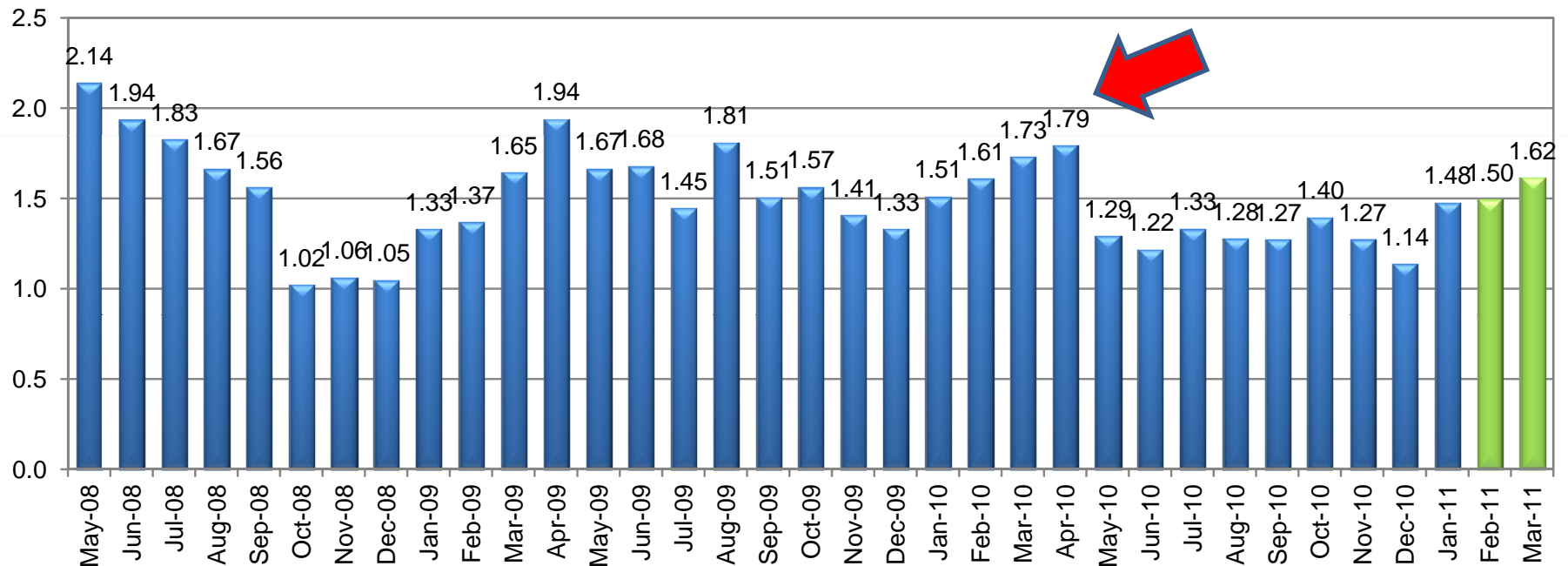


Construction Has to Be Profitable Before it Can Grow.

	<u>2006</u>	<u>Today</u>
Home Price	\$250,000	\$170,000
Construction Costs	(\$125,000)	(\$100,000)
Overhead	(\$50,000)	(\$60,000)
Required Profit	(\$25,000)	(\$17,000)
Finished Lot Value	\$50,000	(\$7,000)

New home sales have been slow since the April 30, 2010 tax credit expiration.

National Average: Net Sales Per Community Over The Last Month
 Simple Average: History includes some apples and oranges comparisons



Source: John Burns Real Estate Consulting independent survey. NSA March 11

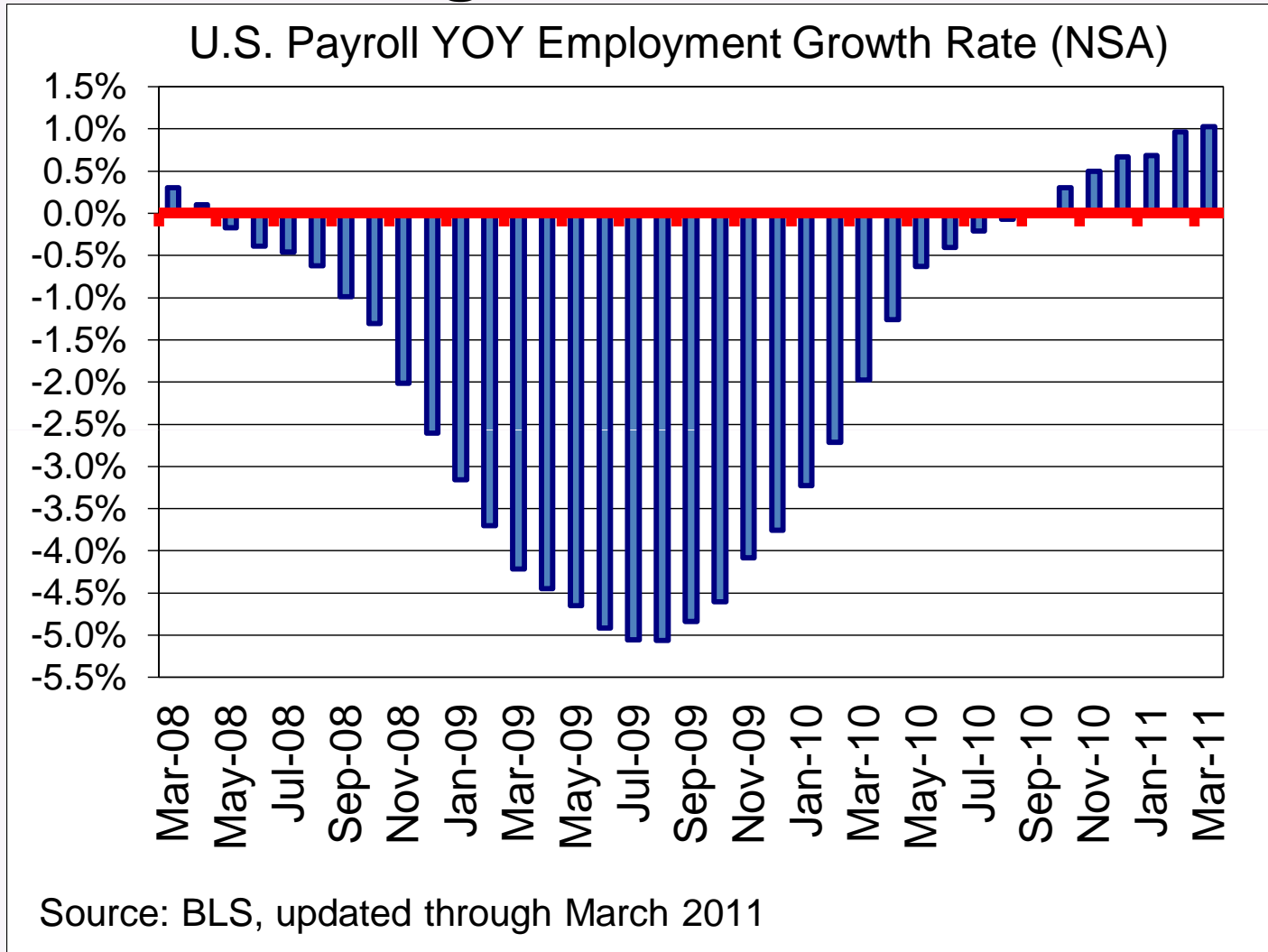
Source: JBREC Independent Builder Survey, March 2011

But The Long Road to Recovery is Underway

Recovery Timeline

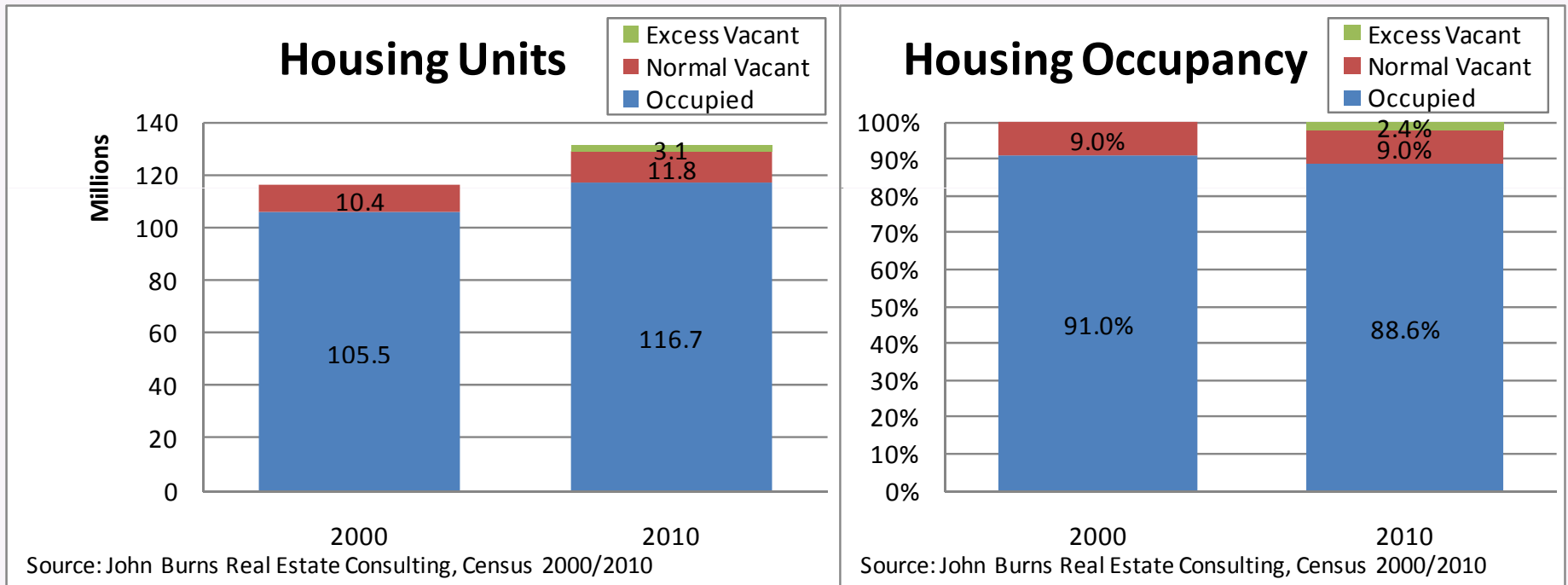


Job growth is back.



Source: JBREC US Analysis and Forecast, April 2011

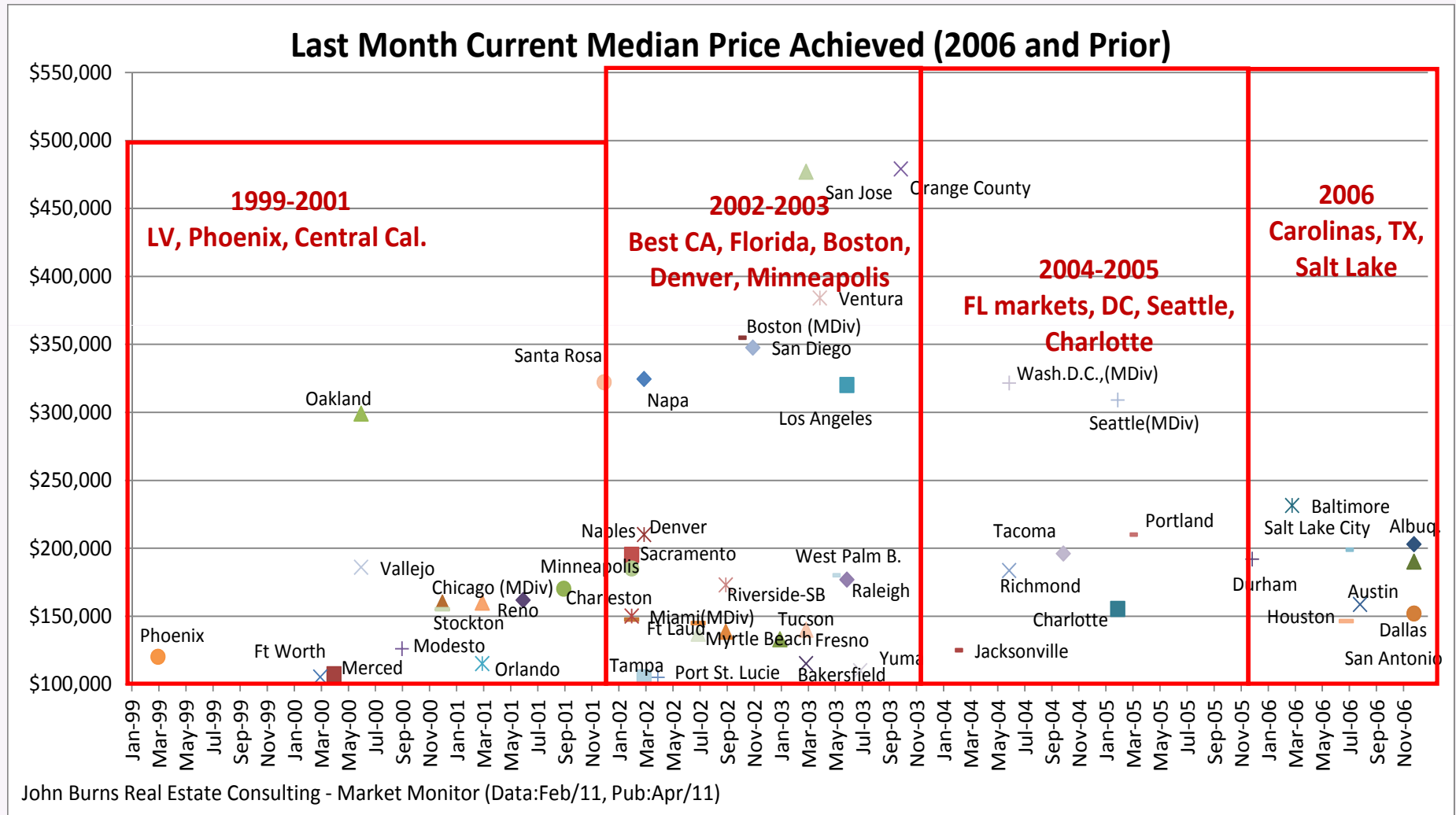
But current excess vacancy stands at 3.1 million



Source: John Burns Real Estate Consulting Special Analysis

Price corrections have varied a lot by market.

Prices have corrected to... "what year?"

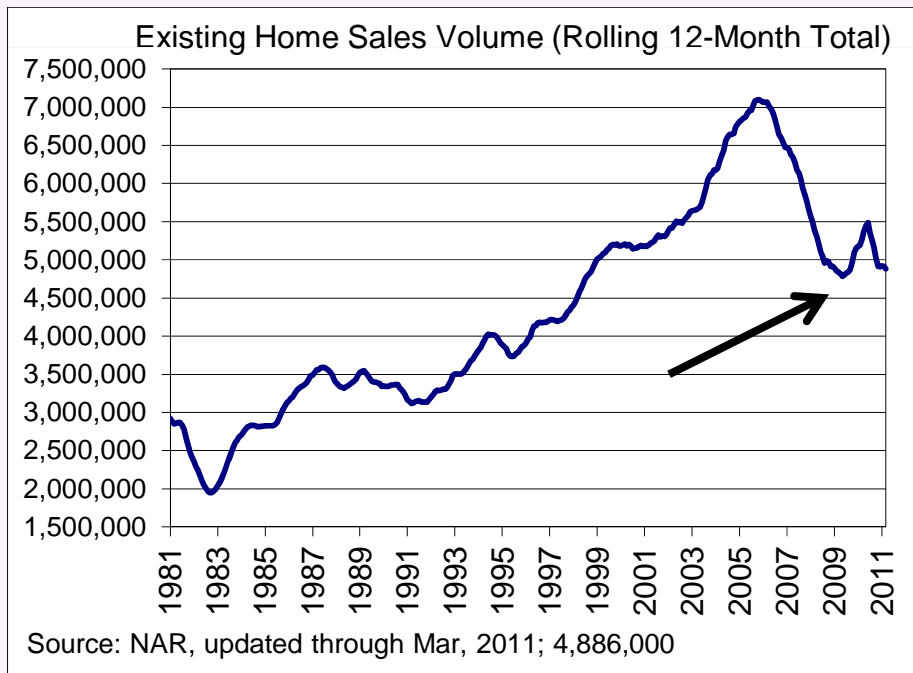


Source: JBREC Regional Analysis and Forecast, April 2011

In the short run, there are more sellers than buyers, driving prices down.

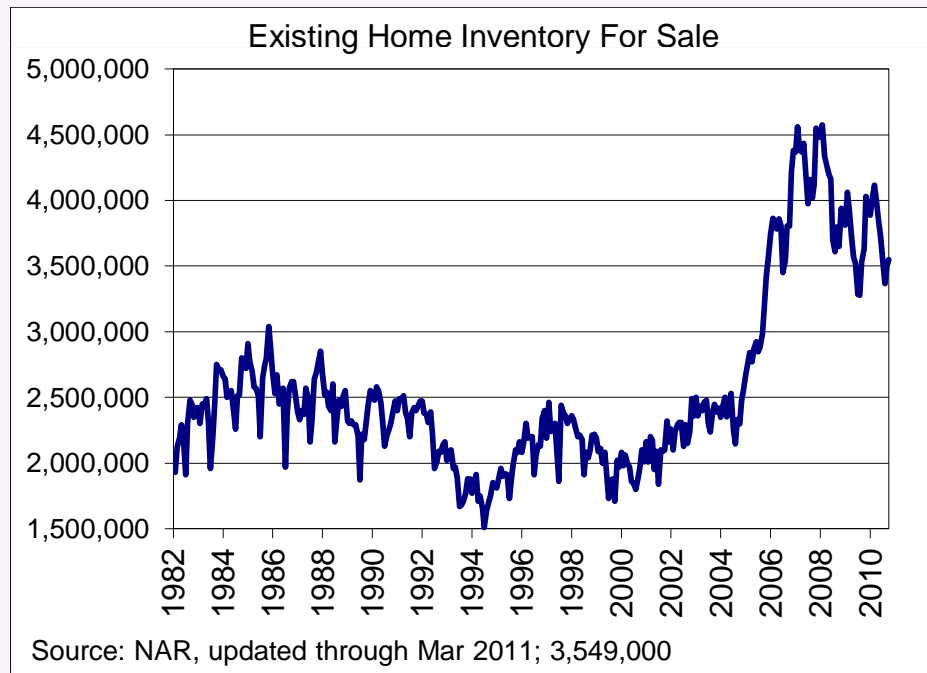
Demand

Home Buyers



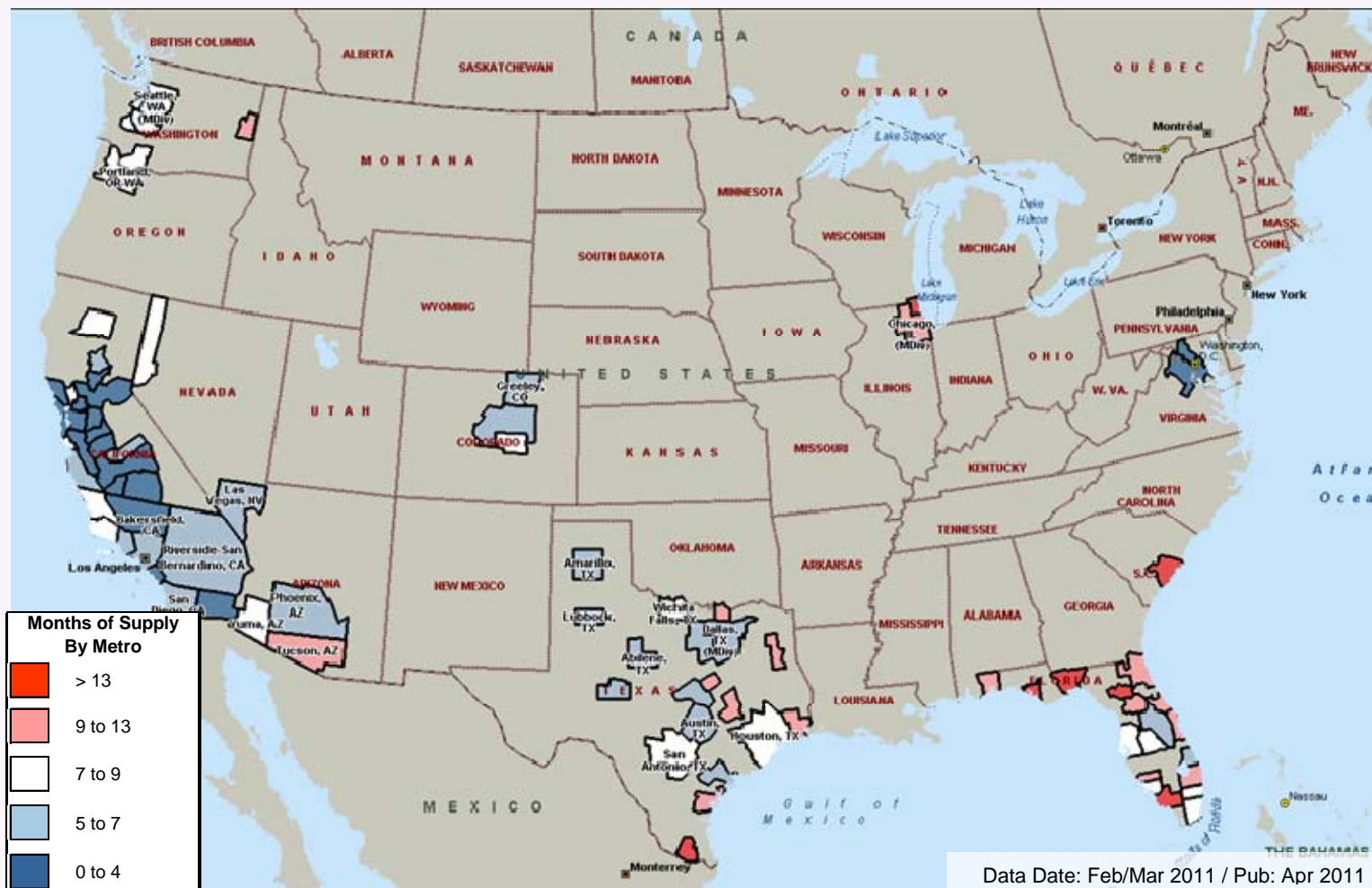
Supply

Home Sellers



Source: JBREC US Analysis and Forecast, April 2011

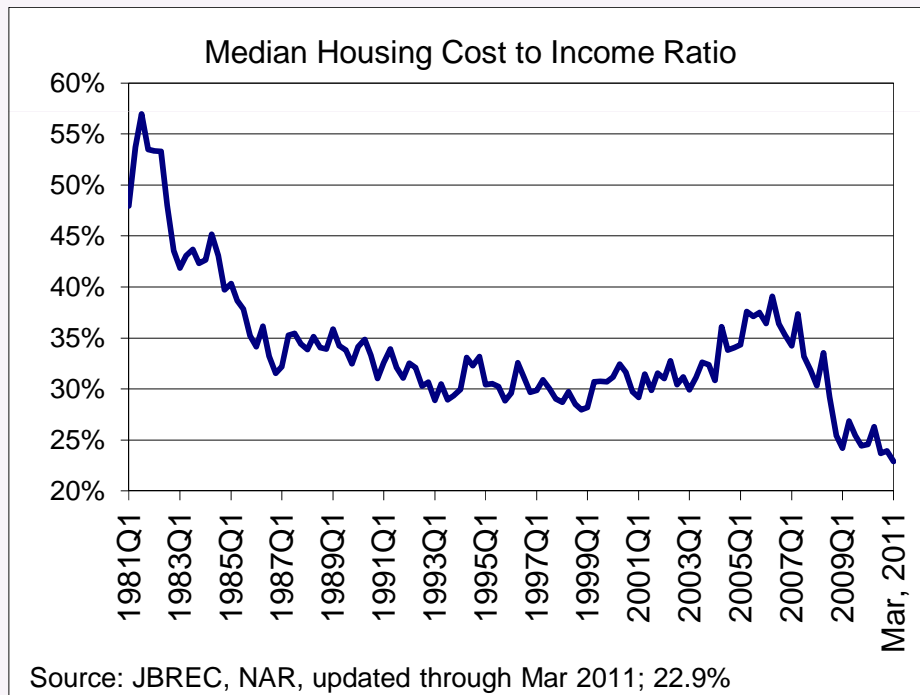
But buyer/seller imbalance gets better as you move west.



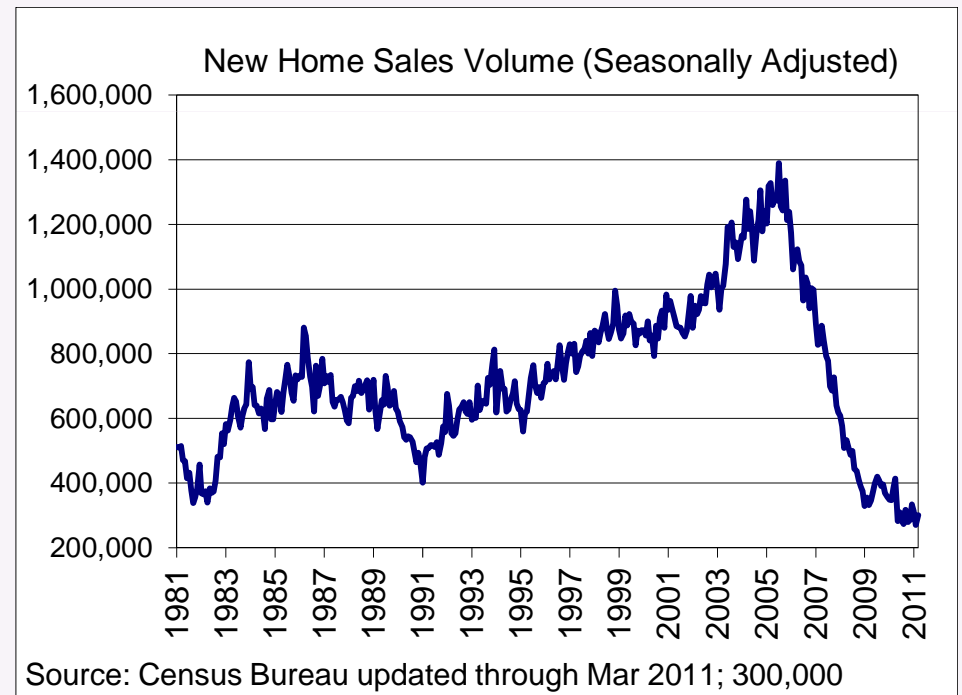
Source: JBREC Regional Analysis and Forecast, April 2011

How can we have the best affordability and the lowest new home sales at the same time?

Great Affordability

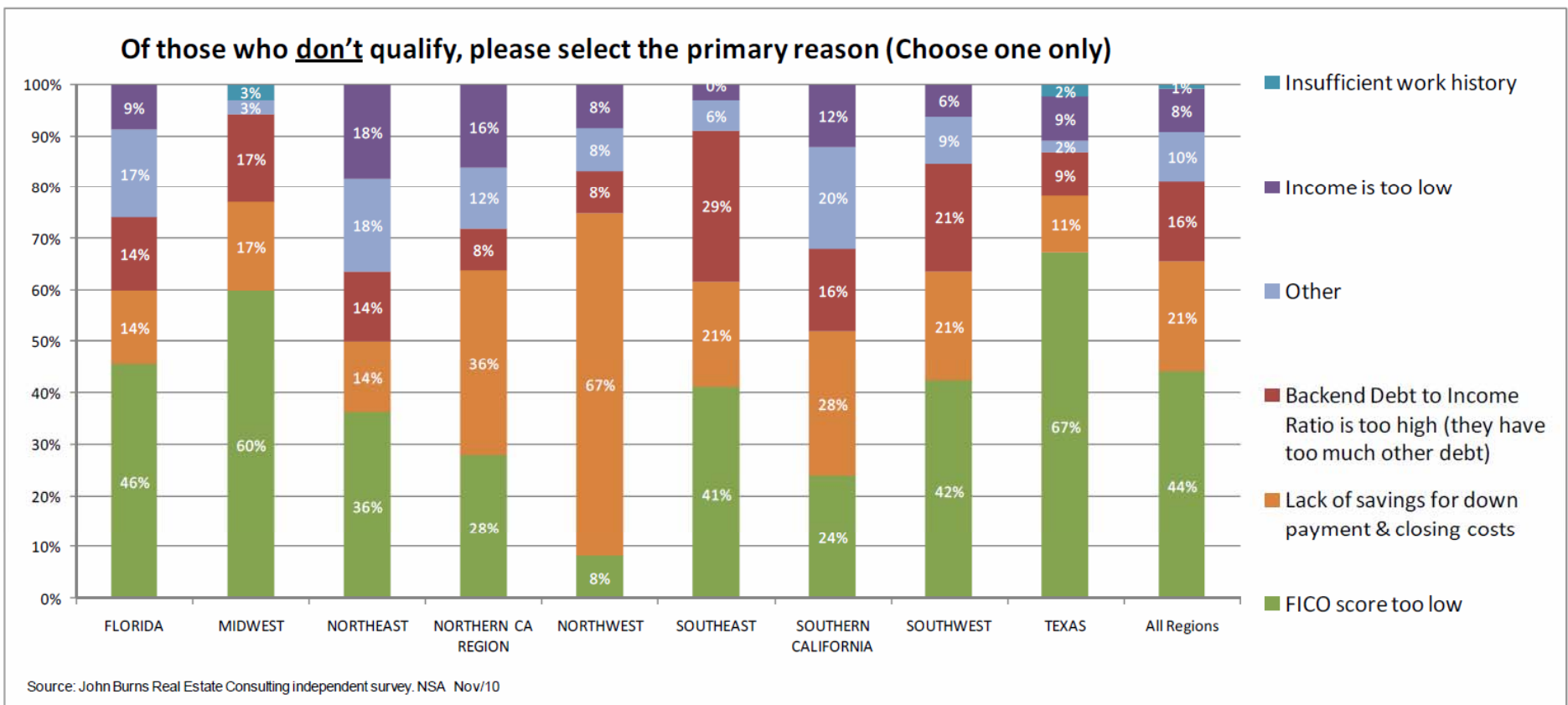


Horrible New Home Sales



Source: JBREC US Analysis and Forecast, April 2011

The real buyer pool is low because prospective home buyers have lousy credit, no savings, and too much debt!!!



Borrowers have 38% of their income going to other debts!

Select Median Characteristics of Permanent Modifications

Loan Characteristic	Before Modification	After Modification	Median Decrease
Front-End Debt-to-Income Ratio ¹	45.0%	31.0%	-14.2 pct pts
Back-End Debt-to-Income Ratio ²	76.4%	59.8%	-14.6 pct pts
Median Monthly Payment ³	\$1,430.96	\$837.86	-\$518.88

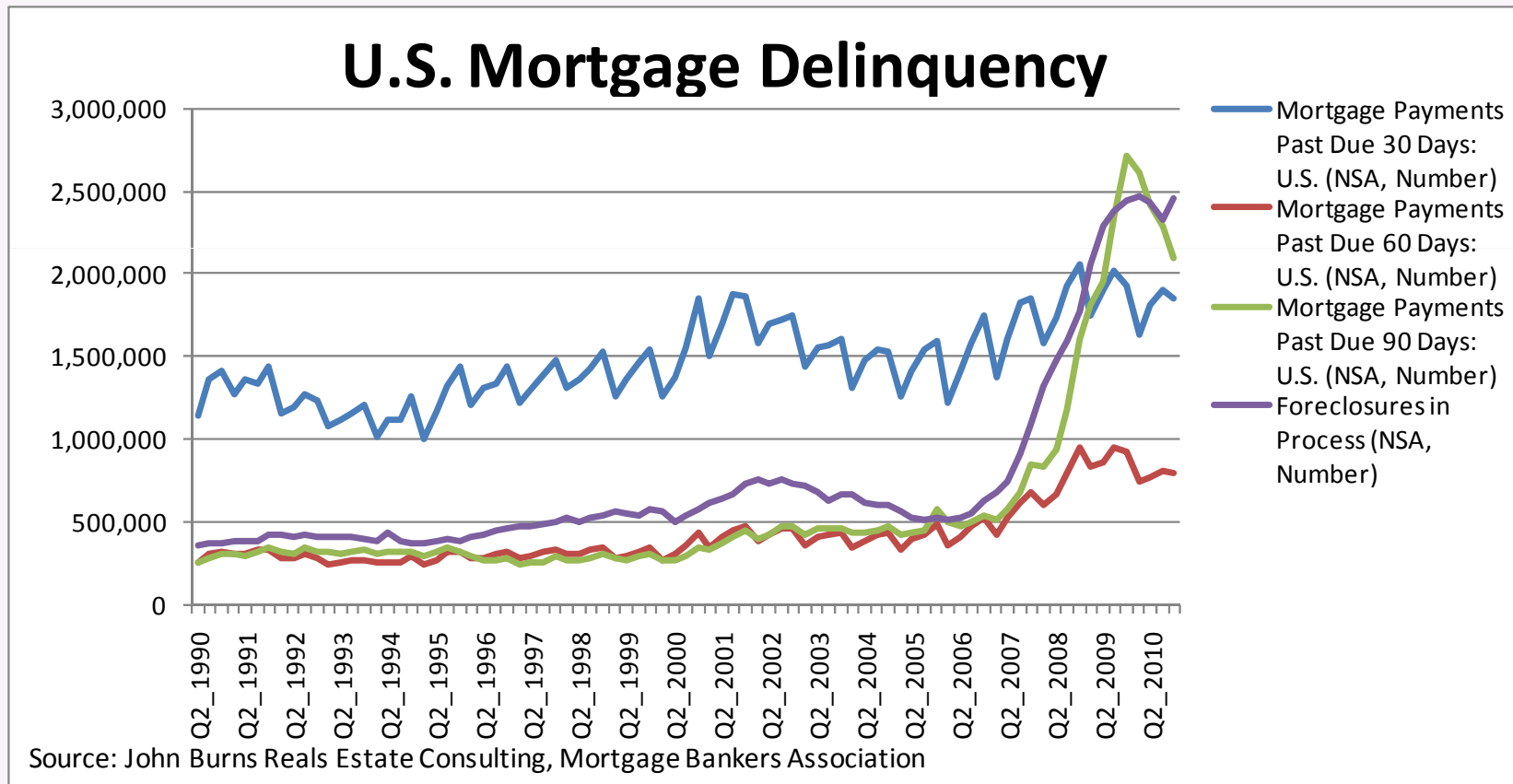
¹ Ratio of housing expenses (principal, interest, taxes, insurance and homeowners association and/or condo fees) to monthly gross income.

² Ratio of total monthly debt payments (including mortgage principal and interest, taxes, insurance, homeowners association and/or condo fees, plus payments on installment debts, junior liens, alimony, car lease payments and investment property payments) to monthly gross income. Borrowers who have a back-end debt-to-income ratio of greater than 55% are required to seek housing counseling under program guidelines.

³ Principal and interest payment.

Source: Treasury Department, Making Home Affordable Program, Feb. 2010

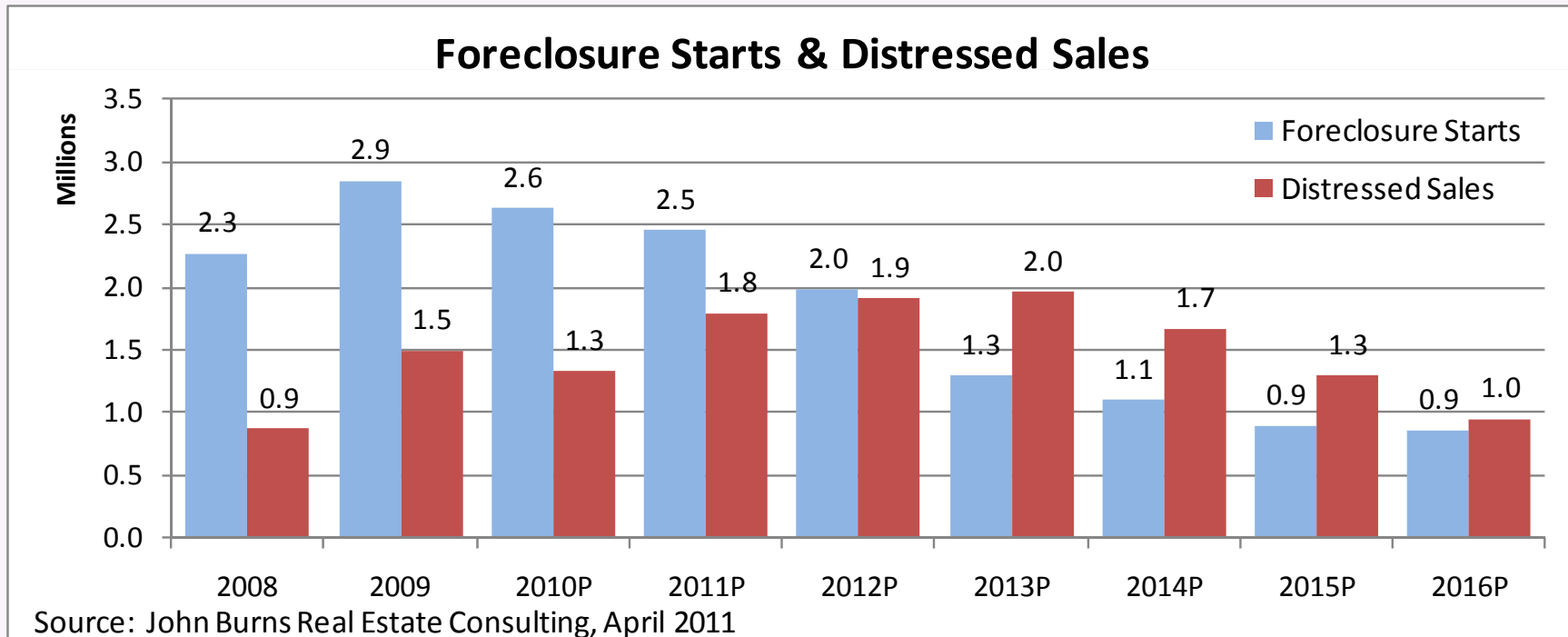
4.5 million delinquent homeowners have little prayer of staying homeowners.



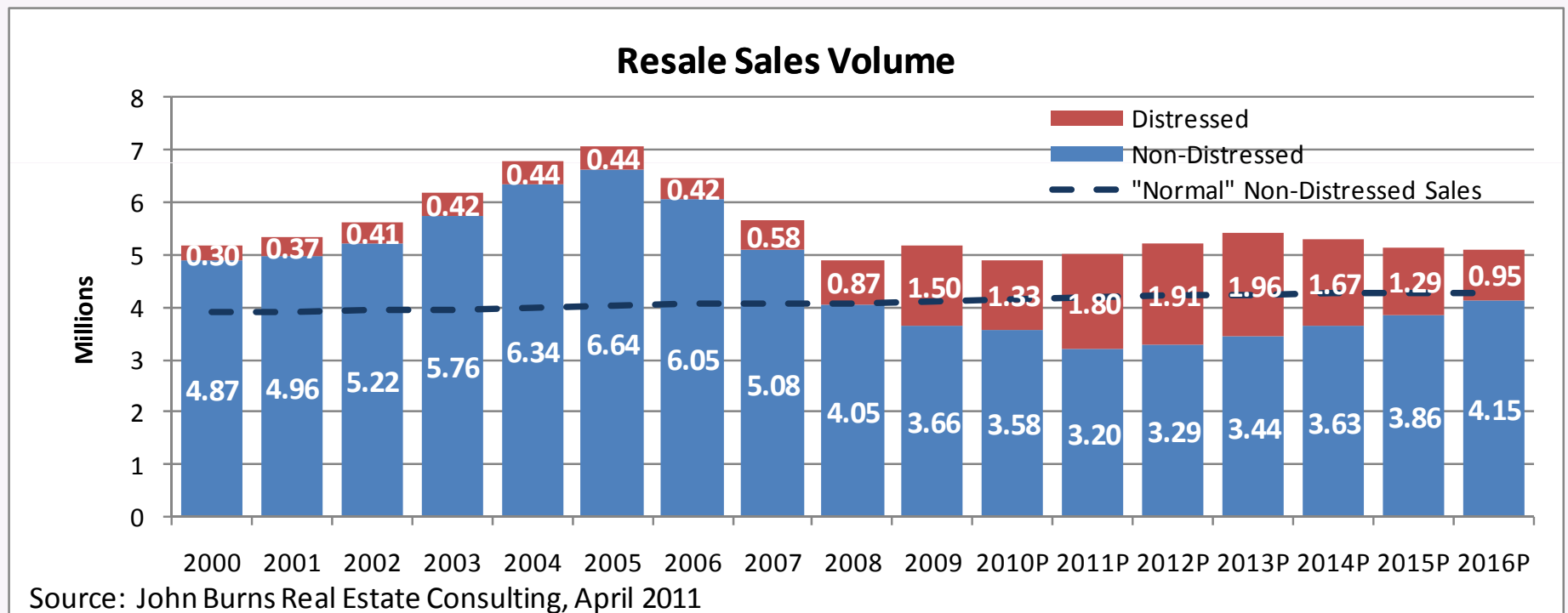
The Distressed Sales overhang will be with us for years.

According to our forecast:

- 50% of the Foreclosure Notices have been filed
- Only 30% of the distressed homes have been sold



Total resales should be about 5 to 5.4 million per year for the next several years, with distressed sales representing a large share.



The For-Sale Housing Industry Outlook

1. **Short-term Pain**: 3+/- more years of pain selling homes because:
 - the distressed mortgage situation and industry will take years to clean up, and
 - we need a growing economy to create a pool of qualified homeowners.
2. **Long term gain**: Fundamentals have plenty of upside
 - Demand: Will need 1.7 million+ new units/year
 - Supply: Only 700K per year currently
 - Affordability: Home prices back to 2003 levels with lowest mortgage rates ever

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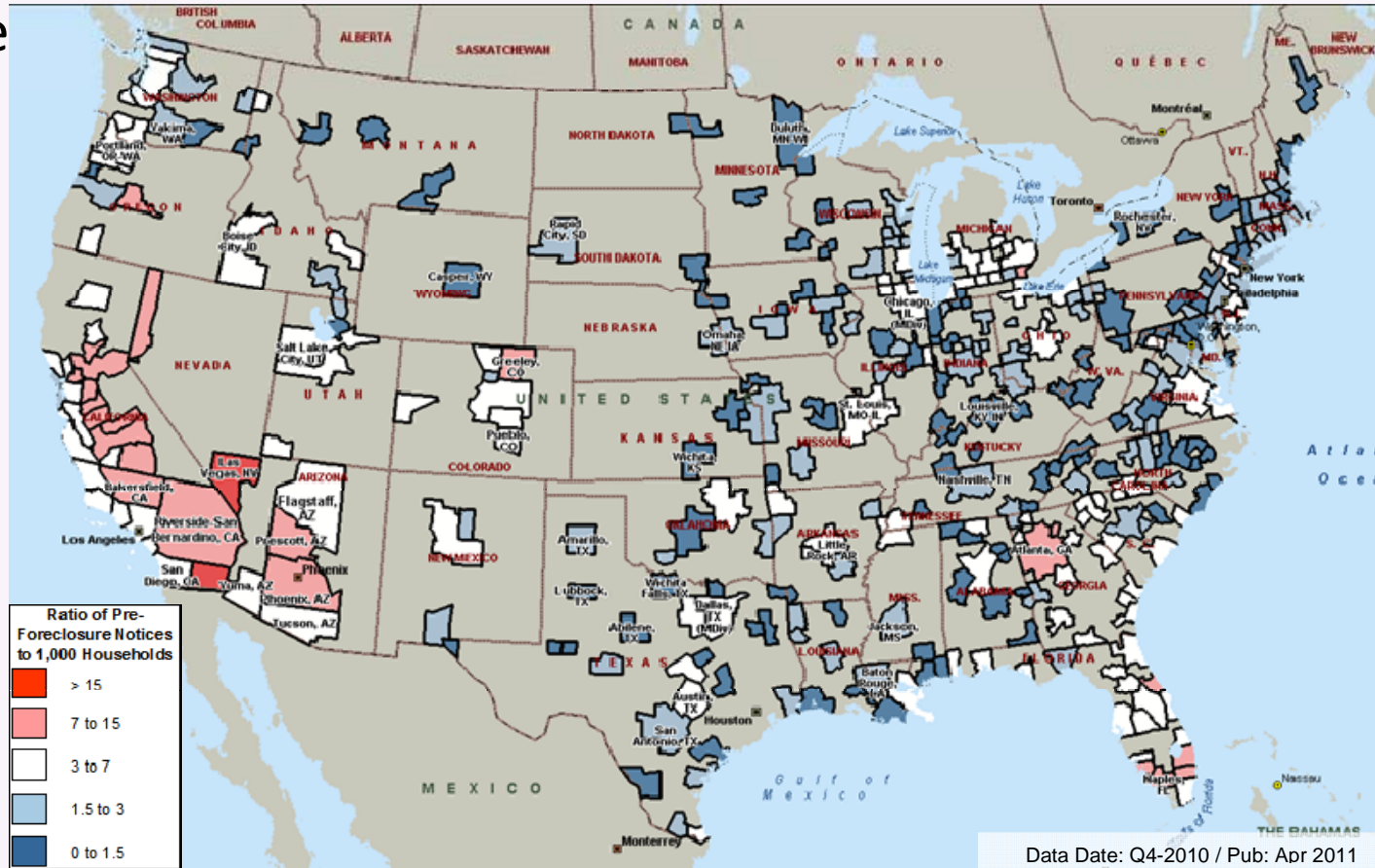


Keep a Close Eye on Government Intervention

- GSE Reform – lots of talk, don't expect much action
- Credit Availability: expect tougher sledding
 - FHA will continue to tighten in order to ease out
 - Definition of “Qualifying Residential Mortgage” (QRM) will have huge influence
 - At a minimum, we expect fixed rate, 30-yr product for all types of for-sale housing.
 - Key variables like LTV, loan limits, etc. still undetermined, but 20% down and \$417K limit are real possibilities.

Keep a Close Eye on Government Intervention

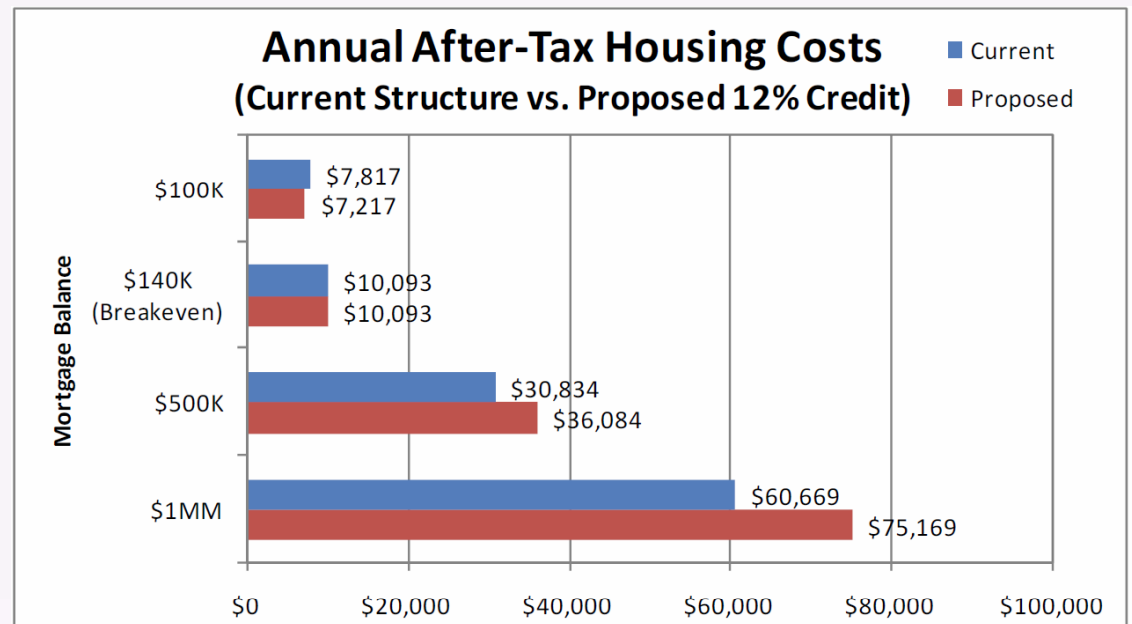
- Resolution of Shadow Inventory will vary dramatically by state



Source: JBREC Regional Analysis and Forecast, April 2011

Mortgage Interest Deduction Impact Not All That You Think

- \$500K cap will only raise \$5 billion in taxes, but almost half will come from CA, NY, MA and DC
- 12% tax credit (instead of a deduction)
 - Raises \$48 billion for the IRS
 - Hits the highend and expensive markets harder
 - Actually favors the entry-level



Source: John Burns Real Estate Consulting Mortgage Interest Deduction, Jan 2011.

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Regional Overview



Demand Improving

Data is through: 02/2011

Region	Employment Statistics					
	Payroll Emp		Total Emp		Unemp. Rate	Monster.com Employment Index
	1-Yr Growth	1-Yr Growth Rate	1-Yr Growth	1-Yr Growth Rate		
SOUTHERN CALIFORNIA	76,000	0.9%	2,700	0.0%	13.6%	71
NORTHERN CA REGION	21,900	0.4%	(29,800)	(0.5%)	14.7%	77
CALIFORNIA	97,900	0.7%	(27,100)	(0.2%)	14.4%	73
NORTHERN FLORIDA	35,700	0.9%	48,800	1.2%	10.5%	70
SOUTHERN FLORIDA	8,600	0.3%	58,600	1.7%	11.5%	78
FLORIDA	44,300	0.6%	107,400	1.4%	10.9%	72
TEXAS	174,200	1.9%	88,300	0.9%	7.8%	112
MIDWEST	235,000	1.0%	316,200	1.3%	8.7%	94
NORTHEAST	280,700	0.9%	78,500	0.3%	8.7%	75
NORTHWEST	45,100	0.9%	66,300	1.2%	9.5%	99
SOUTHEAST	124,800	0.8%	269,700	1.8%	9.3%	91
SOUTHWEST	30,500	0.5%	(21,900)	(0.3%)	10.1%	87
Core MSA Totals	1,032,500	0.9%	877,400	0.8%	9.5%	85

Source: JBREC Regional Analysis and Forecast, April 2011

- TX job growth is strongest
- Northern CA, Southern FL, Southwest struggling
- Regional roll-ups wash out some nuances

Job Growth in Most Major Markets

Dallas

Raleigh-Cary

D.C.

Orlando

Houston

San Diego

Seattle

Austin

Region	Metrolabel	Payroll Job Growth YOY
Northeast	Bethesda, MD (MDiv)	3.27%
Texas	Dallas, TX (MDiv)	2.73%
Southeast	Raleigh-Cary, NC	2.49%
Northeast	Washington D.C.	2.44%
Texas	McAllen, TX	2.33%
Northern FL	Orlando, FL	2.31%
Southeast	Nashville, TN	2.3%
Northeast	Pittsburgh, PA	2.18%
Southeast	Charleston, SC	2.13%
Northern CA	San Jose, CA	2.06%
Texas	Houston, TX	2.04%
Texas	El Paso, TX	1.93%
Southeast	Little Rock, AR	1.9%
Midwest	Columbus, OH	1.78%
Southeast	Louisville, KY-IN	1.7%
Southwest	Salt Lake City, UT	1.6%
Southern CA	San Diego, CA	1.59%
Northwest	Seattle, WA (MDiv)	1.58%
Texas	Austin, TX	1.51%
Northeast	Baltimore, MD	1.33%
Texas	Fort Worth, TX (MDiv)	1.31%
Northeast	Philadelphia, PA (MDiv)	1.23%
Midwest	Tulsa, OK	1.22%
Southern CA	Orange County, CA (MDiv)	1.22%
Midwest	Cincinnati, OH	1.2%
Northwest	Portland, OR-WA	1.2%
Midwest	Chicago, IL (MDiv)	1.1%
Northeast	Worcester, MA	1.1%
Southern CA	Los Angeles, CA (MDiv)	1.07%
Southern FL	Miami, FL (MDiv)	0.96%
Midwest	Oklahoma City, OK	0.80%
Northeast	Boston, MA (MDiv)	0.77%
Midwest	Indianapolis, IN	0.74%

Region	Metrolabel	Payroll Job Growth YOY
Southwest	Denver, CO	0.74%
Northeast	New York, NY-NJ (MDiv)	0.73%
Southwest	Phoenix, AZ	0.71%
Southeast	Charlotte, NC-SC	0.68%
Midwest	Omaha, NE-IA	0.61%
Midwest	Minneapolis, MN-WI	0.58%
Northern FL	Jacksonville, FL	0.57%
Northern FL	Tampa, FL	0.57%
Texas	San Antonio, TX	0.54%
Northeast	Richmond, VA	0.5%
Southeast	Fayetteville, NC	0.5%
Midwest	St. Louis, MO-IL	0.45%
Northeast	Edison, NJ (MDiv)	0.2%
Southeast	Baton Rouge, LA	0.11%
Northern CA	Oakland, CA (MDiv)	-0.08%
Southeast	Columbia, SC	-0.15%
Midwest	Des Moines, IA	-0.16%
Southeast	Atlanta, GA	-0.17%
Southeast	Virginia Beach, VA-NC	-0.24%
Southeast	Augusta, GA-SC	-0.24%
Southern CA	Riverside-San Bernardino, CA	-0.40%
Midwest	Kansas City, MO-KS	-0.55%
Southwest	Las Vegas, NV	-0.64%
Northeast	Newark-Union, NJ-PA (MDiv)	-0.79%
Southeast	Memphis, TN-MS-AR	-0.96%
Southwest	Tucson, AZ	-1.29%
Northern CA	Sacramento, CA	-1.69%

Oakland

Atlanta

Riv-SB

Las Vegas

Sac

Data through 02/2011

Source: JBREC Regional Analysis and Forecast, April 2011

Construction supply still falling

Data is through: 02/2011

Permit Statistics

Region	12-Month	12 Month	12-Month	12 Month	12-	Total	Growth
	S. Fam.	S. Fam.	M. Fam.	M. Fam.	Month		
	Permits	Growth	Permits	Growth	Total	Permits/ Peak	Permit Ratio
SOUTHERN CALIFORNIA	13,364	0%	9,296	34%	22,660	10%	3.4
NORTHERN CA REGION	10,710	(17%)	7,353	99%	18,063	14%	1.2
CALIFORNIA	24,074	(8%)	16,649	57%	40,723	12%	2.4
NORTHERN FLORIDA	16,582	(4%)	5,114	5%	21,696	14%	1.6
SOUTHERN FLORIDA	7,594	15%	4,081	70%	11,675	8%	0.7
FLORIDA	24,176	1%	9,195	26%	33,371	11%	1.3
TEXAS	62,526	(9%)	19,578	43%	82,104	27%	2.1
MIDWEST	62,042	(5%)	22,791	7%	84,833	21%	2.8
NORTHEAST	62,435	1%	33,611	18%	96,046	24%	2.9
NORTHWEST	21,681	0%	7,505	9%	29,186	23%	1.5
SOUTHEAST	78,903	(8%)	21,102	(6%)	100,005	25%	1.2
SOUTHWEST	28,817	(10%)	7,897	(2%)	36,714	16%	0.8
Core MSA Totals	364,654	(5%)	138,328	17%	502,982	20%	2.1

Source: JBREC Regional Analysis and Forecast, April 2011

- Single-family construction continues to fall in almost all regions – namely Northern CA

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Study Objective: Identify New Home Consumer Trends

- **Here's what we wanted to know...**
- **When?** Are consumers willing to buy **today**? **Why or why not?**
- **What?**
 - **Price:** Is price the motivation?
 - **Size:** Are smaller, lower-priced, box-on-box homes the key?
 - **Features:** What do buyers expect to be included in their next home, versus what do they want to personalize and pay extra for?
 - **Energy:** What **green technologies** are important?
- **Why?** What motivates purchase behavior today?
- **Who?**
 - **Gen Y:** The new entry-level buyer is Gen Y... Where are they? What do they want?
 - **Boomers:** What are their next moves? Will they move up? Down? Across? How far will they move and when?
 - **Other:** What **life stages** have pent-up demand?
- **Where?** Are there **regional differences**?

Study Methodology: Internet survey of interested home buyers.

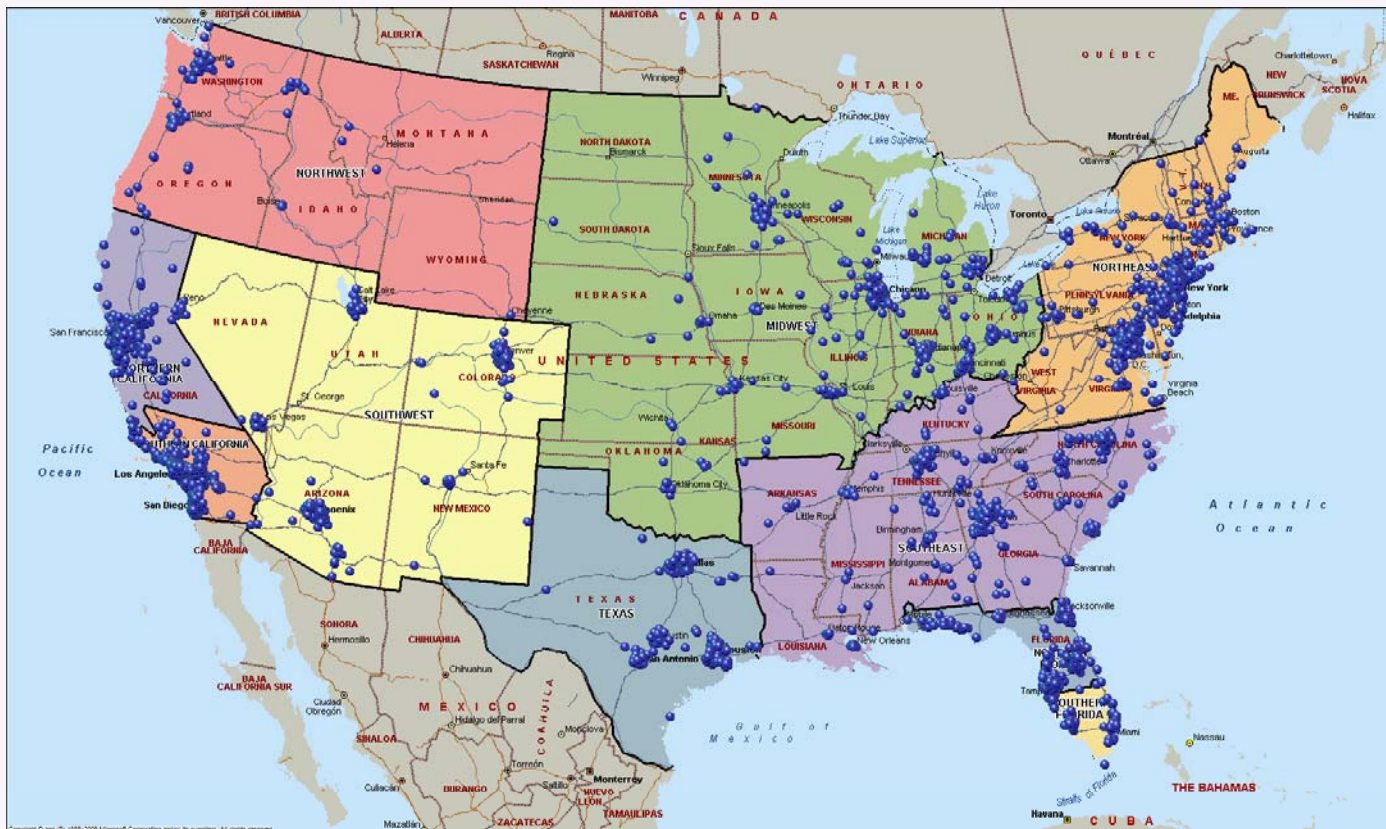


•Here's what we did...

- **Email Survey:** We invited almost 1 million consumers to participate in a comprehensive 54-question survey about their next home.
- **Partners:** Almost 30 builders and developers joined in the effort by helping write the questions and sending the email to their lists.
- **Sample Size:** Nearly 10,000 participated. The sample is not representative of all households, but is representative of those who are serious enough about home buying that they recently gave their email address to a home builder or land developer. All major states were represented, with a bias toward California (29%). Regional and local results are available separately.

Survey response covers the nation and is concentrated in large building markets.

- All major regions were represented with a strong survey response! Southern California was over-represented, which is why we are breaking our regional conclusions where significant.



2011 Top 10 Findings

- 1. HOME DESIGN BEATS PRICE:** Home style and design top price. While they anticipate price appreciation, the majority believe it will be minimal. Great rooms, bathtubs, home offices and a huge TV rate very highly.
- 2. PERSONALIZATION IS THE NEW BUZZWORD:** Personalization is a very important reason for owning. Focus on selling options and upgrades.
- 3. GREEN TECHNOLOGY IS DEMANDED:** Consumers expect green technologies and energy efficiency in their new home and won't pay a premium for it unless it saves them money. If your competitors display superior technology for the same price, they will get the sales.
- 4. USE REALTORS AND RESALE WEBSITES:** Realtors and real estate resale websites are the most effective way to attract prospects, even with Gen Y. Print ads and social media are not good tools for attracting prospects.

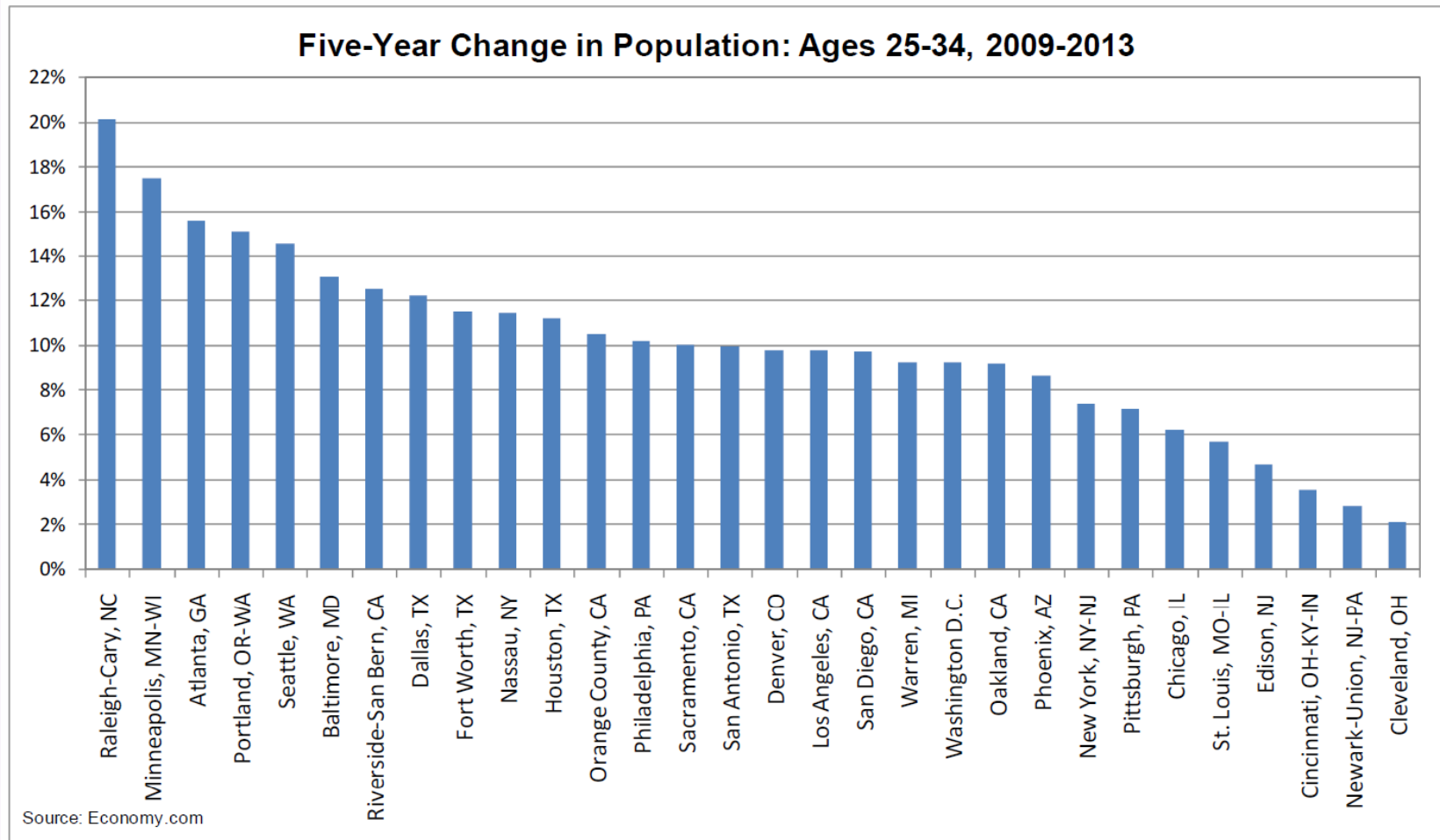
2011 Top 10 Findings

5. **CONSUMERS NEED A REASON TO BUY NOW:** 88% think that NOW is a good time to buy, and 70% will buy if you offer the exact design, location and price they want. Because only 16% are dissatisfied with their current residence and only 24% indicate they will move this year, you have to create the urgency to move and help them overcome the many reasons not to move.
6. **BIGGER IS BETTER:** 45% say their next home will be bigger than their current home, 24% want smaller and the rest want similar.
7. **RETIREEES WILL MOVE:** 62% of Boomers said they will move when they retire. They are in search of upgrades and not community amenities.

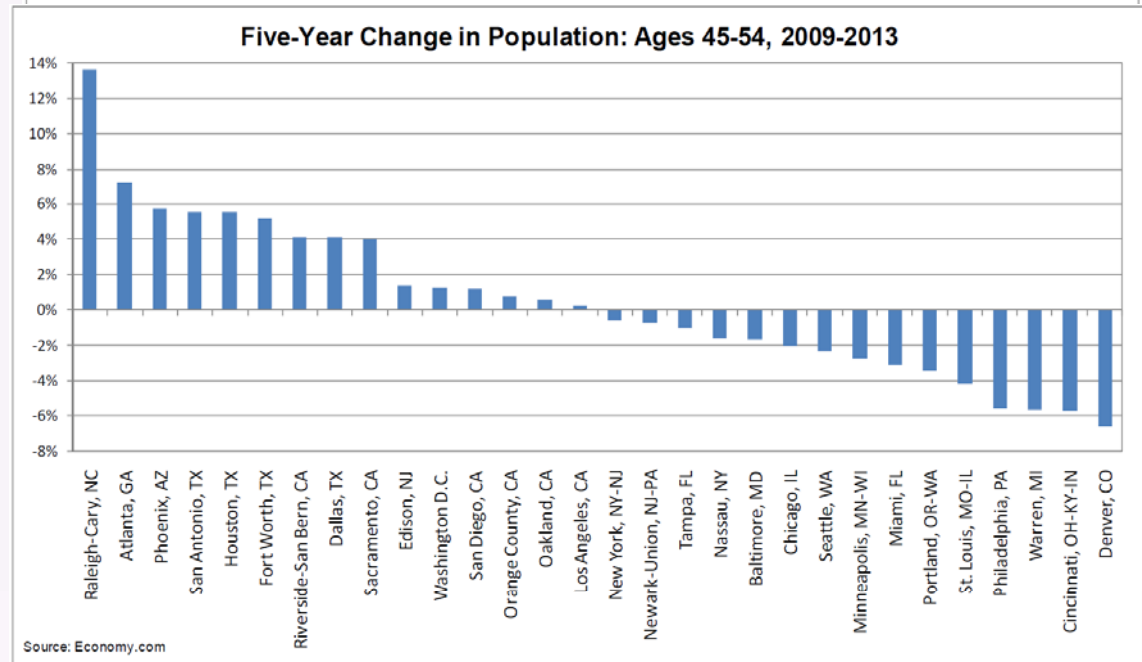
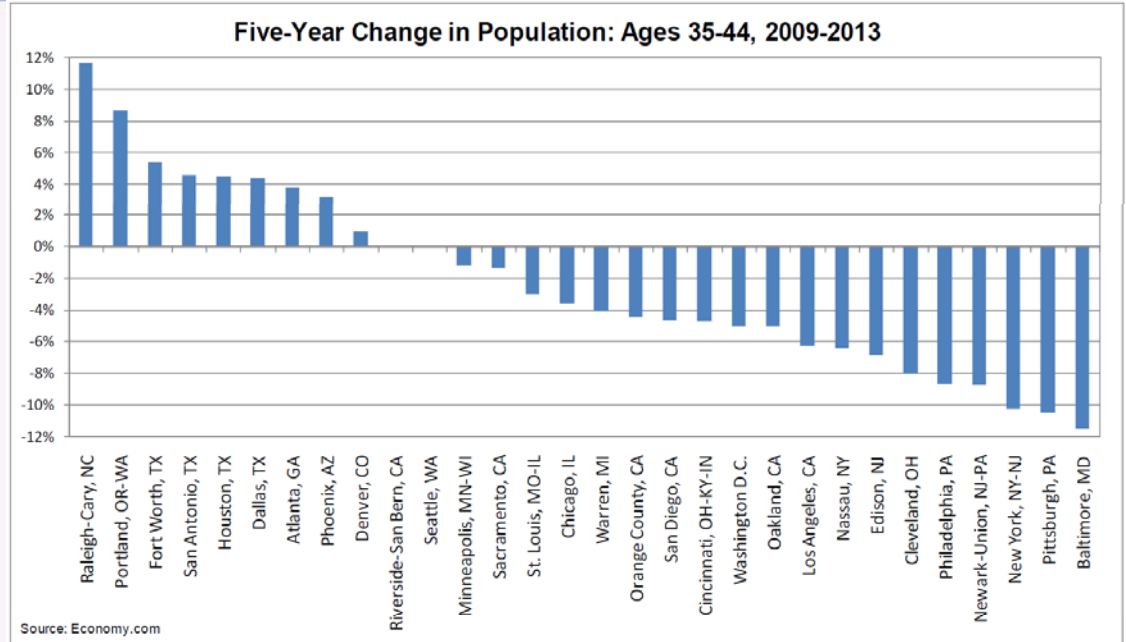
2011 Top 10 Findings

8. **GEN Y ISN'T THAT DIFFERENT:** Their buying patterns will be very similar to Gen X. Price is more important to Gen Y, and green / energy efficiency is less important. They will live in the suburbs because they get more for their money.
9. **COMMUNITY AMENITIES ARE LESS IMPORTANT:** Consumers are resistant to monthly assessments for amenities they don't want. Safety, streetscape, and proximity to neighborhood conveniences score higher than good schools and proximity to work.
10. **CONCLUSIONS VARY BY GEOGRAPHY AND TARGET BUYER PROFILE:** Different buyers are moving for different reasons, so researching and targeting the most underserved niche in your market is the key to success. Copying successful competitors will just result in cannibalization.

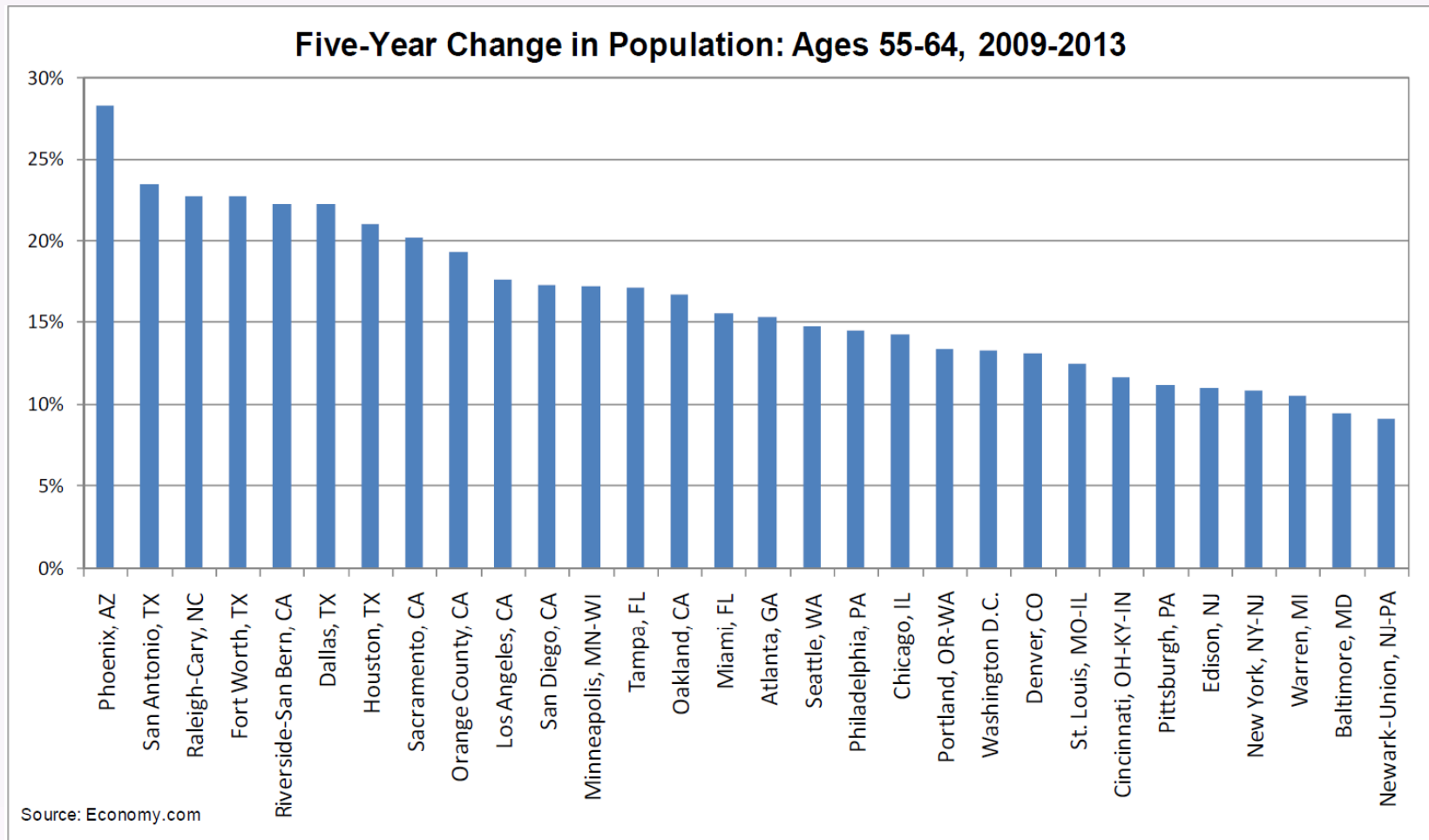
Build for growing young adult population.



Stay away from Maturing Families.



Focus on Empty Nesters and Retirees.



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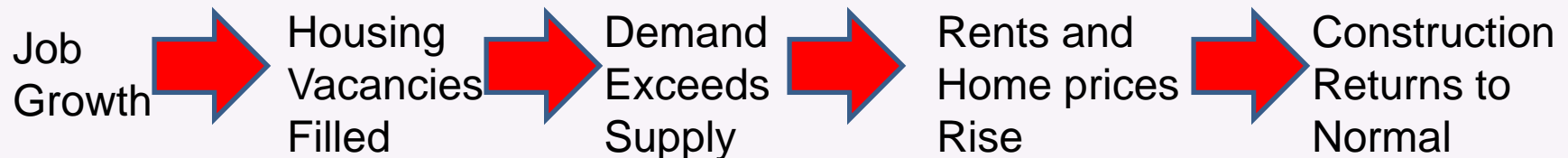
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Be very bullish long-term!!!

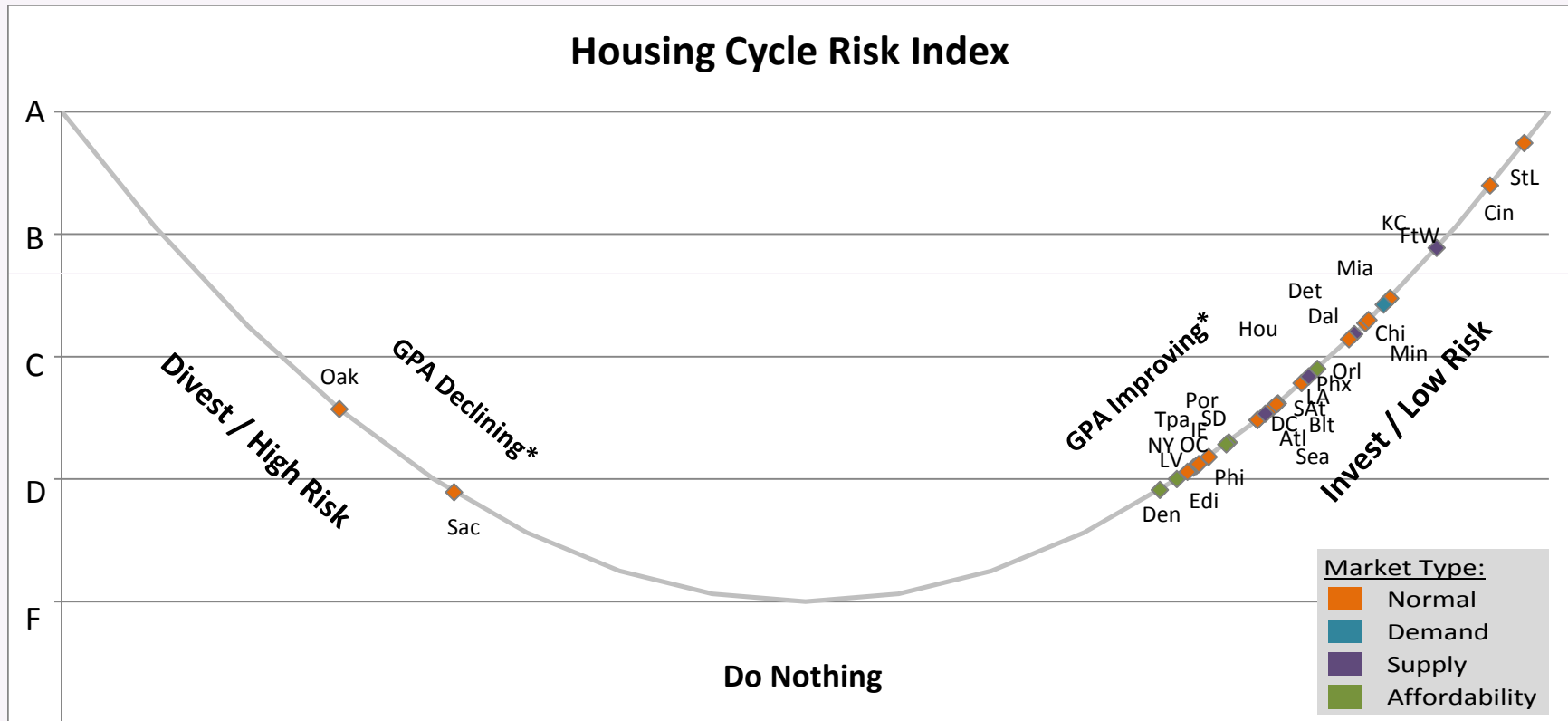
- **High Demand**: Census Bureau says population will grow by 3.2 million per year and they will need to live somewhere.

Recovery Timeline



- **Recovery is Underway**: Rents and home prices have stabilized in many of the best middle class neighborhoods today.
- **Full Construction Recovery Will Take 6+ Years**: It will take years to reach 1.7 million+ construction starts due to land locations and feasibility

Remember to Have a Long-Term Perspective Too.

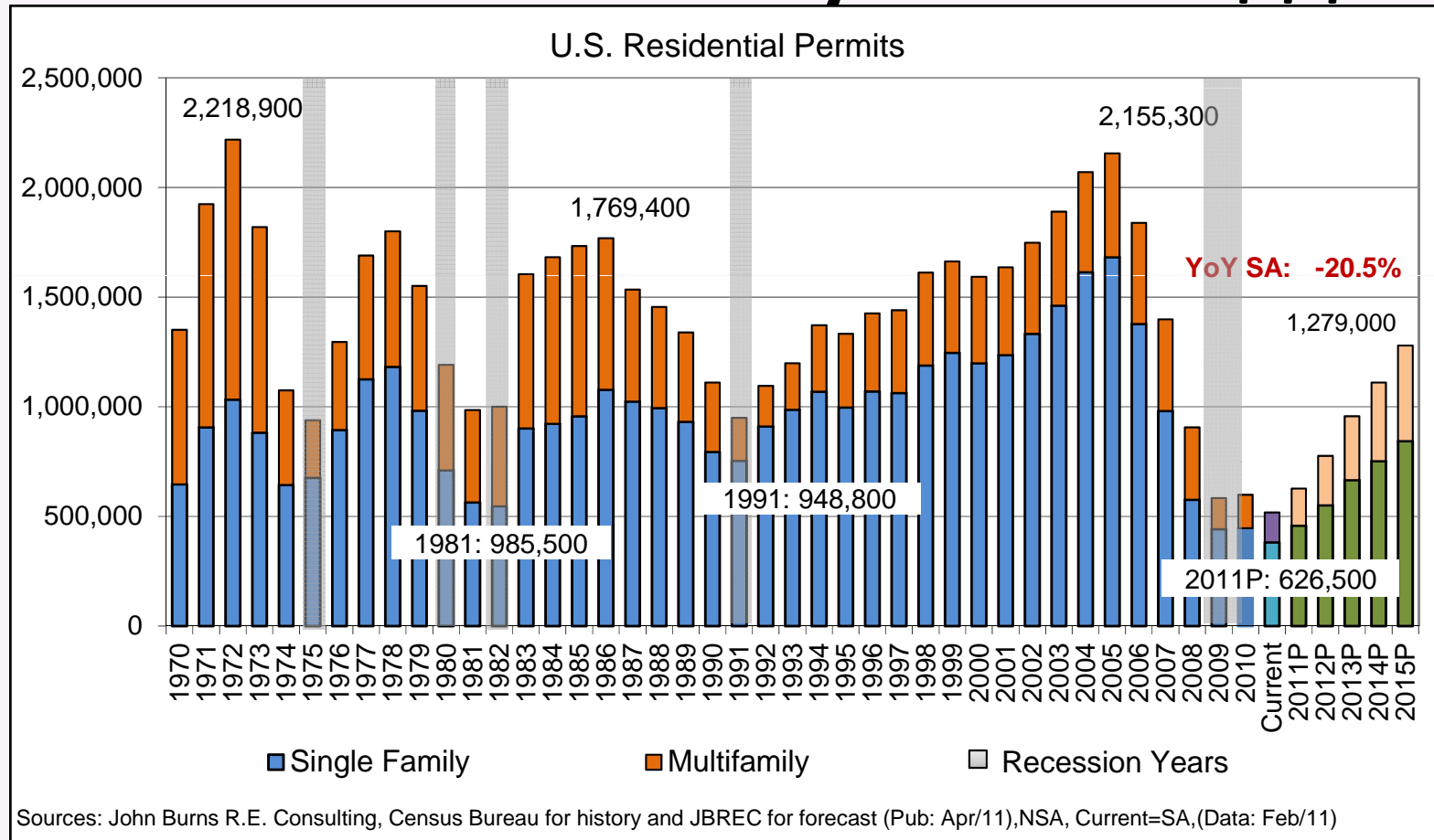


*Risk Index Improving/Declining based on 12-mo change of 6-mo moving average

Source: John Burns Real Estate Consulting (Data: Feb/11, Pub: Apr/11)

Source: JBREC Regional Analysis and Forecast, April 2011

Construction will come back steadily as: 1) we add jobs, 2) vacancy is filled, and 3) builders can find ways to make \$\$\$.



Source: JBREC US Analysis and Forecast, April 2011



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Know Which Geographies Have Better Economies than Others

Largest Apartment Markets and Current YOY Payroll Job Growth

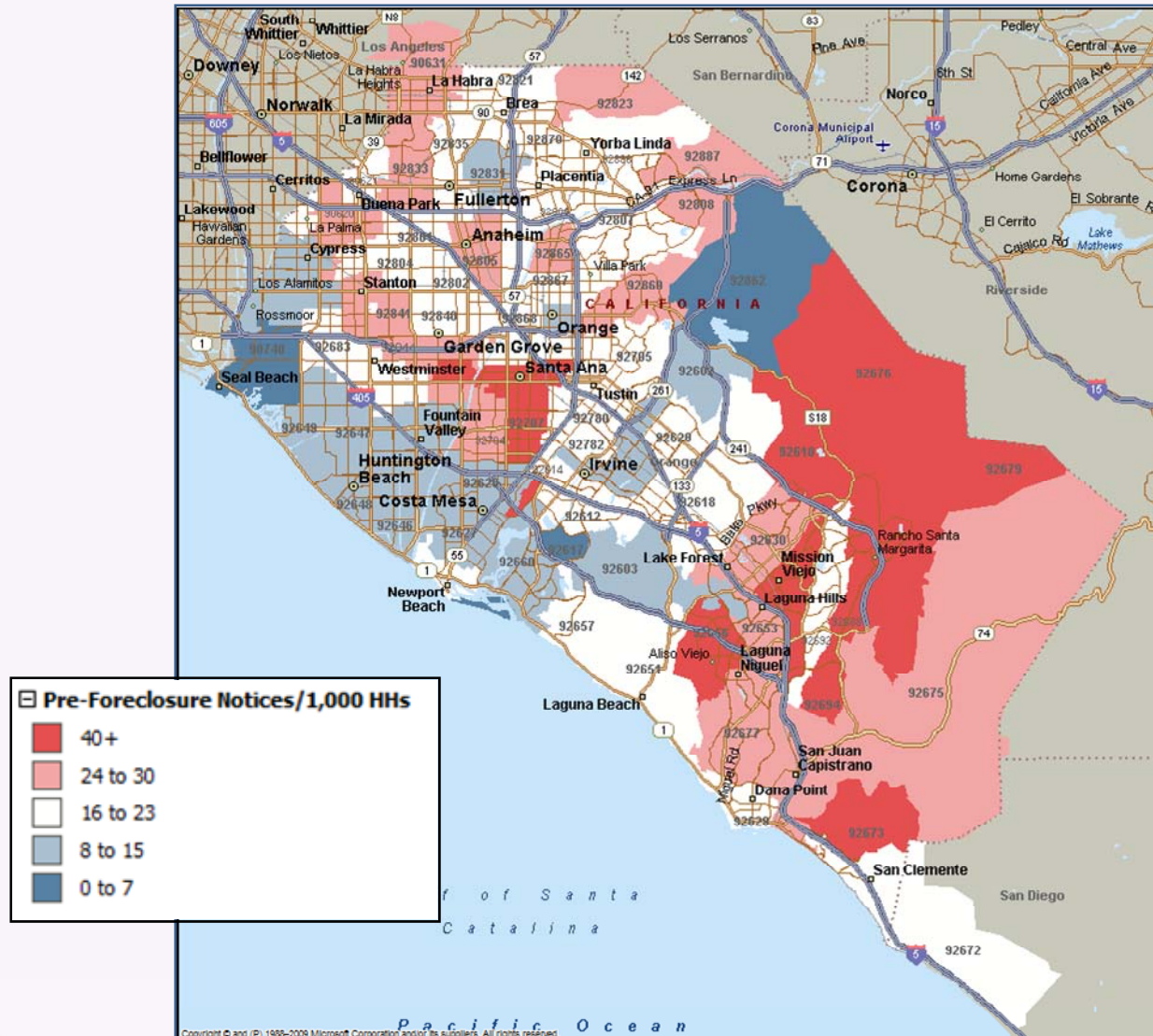
Metrolabel	Payroll Job Growth YOY
Dallas, TX (MDiv)	2.73%
Washington D.C.	2.44%
Houston, TX	2.04%
San Diego, CA	1.59%
Seattle, WA (MDiv)	1.58%
Austin, TX	1.51%
Fort Worth, TX (MDiv)	1.31%
Philadelphia, PA (MDiv)	1.23%
Orange County, CA (MDiv)	1.22%
Chicago, IL (MDiv)	1.1%

Metrolabel	Payroll Job Growth YOY
Los Angeles, CA (MDiv)	1.07%
Boston, MA (MDiv)	0.77%
Denver, CO	0.74%
New York, NY-NJ (MDiv)	0.73%
Phoenix, AZ	0.71%
Minneapolis, MN-WI	0.58%
Tampa, FL	0.57%
San Antonio, TX	0.54%
Atlanta, GA	-0.17%

Data through 02/2011

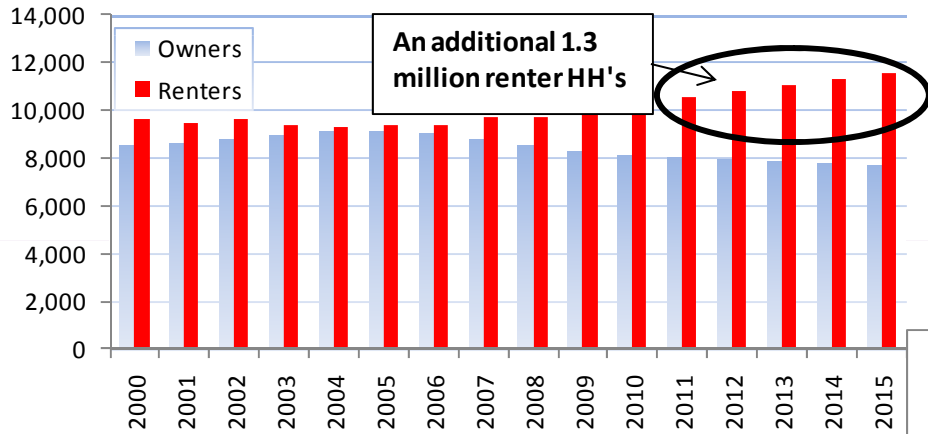
Source: JBREC Regional Analysis and Forecast, April 2011

Know Your Submarkets



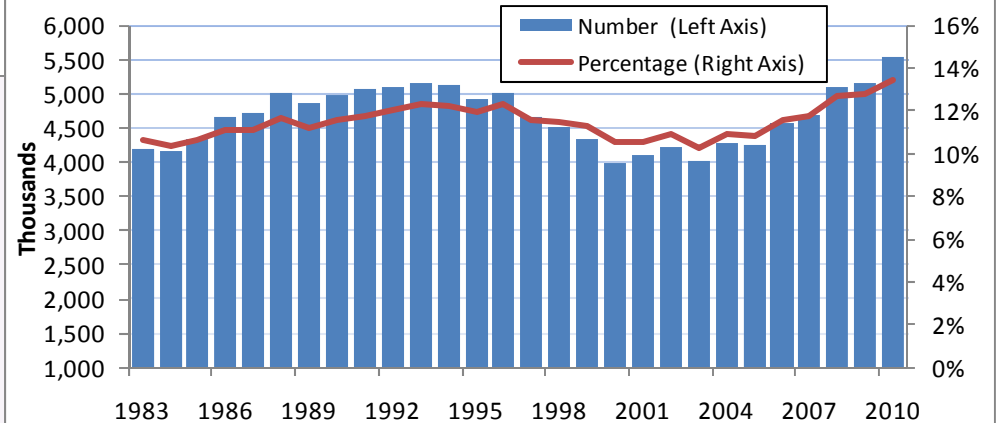
Know Which Demographic Will Drive New Construction Demand.

Owners vs. Renters 25-34 Year-Olds



Sources: US Census Bureau, John Burns Real Estate Consulting

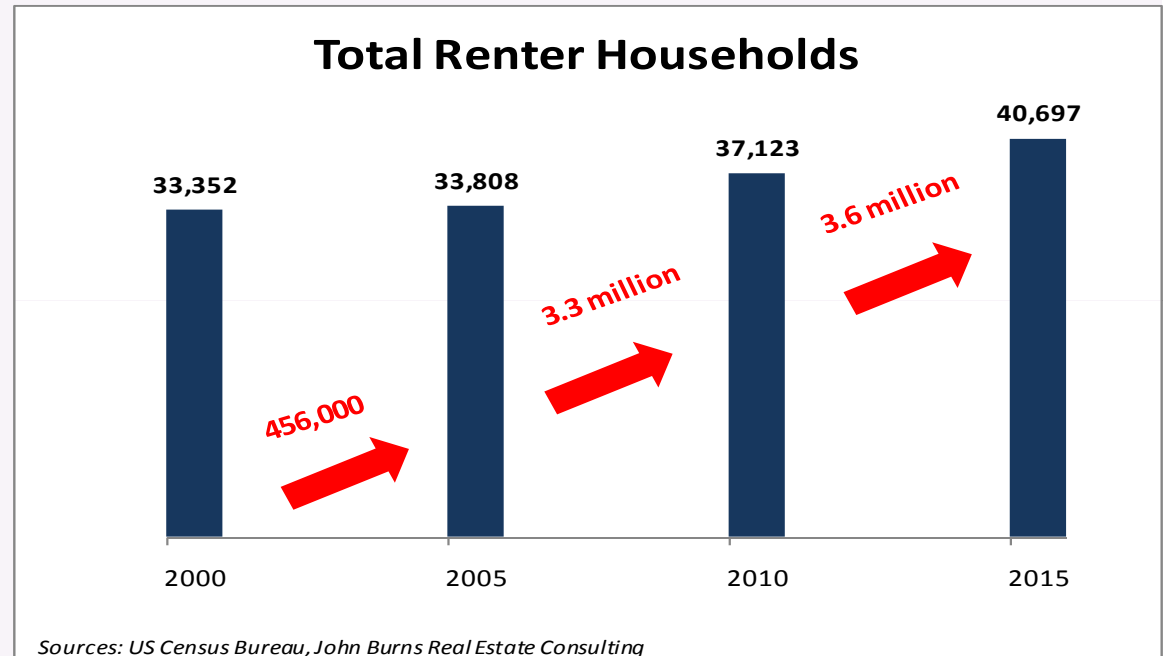
25 to 34 Year Olds Living with their Parents



Sources: US Census Bureau, JBREC

Know Whether Growth Will Be Owners or Renters

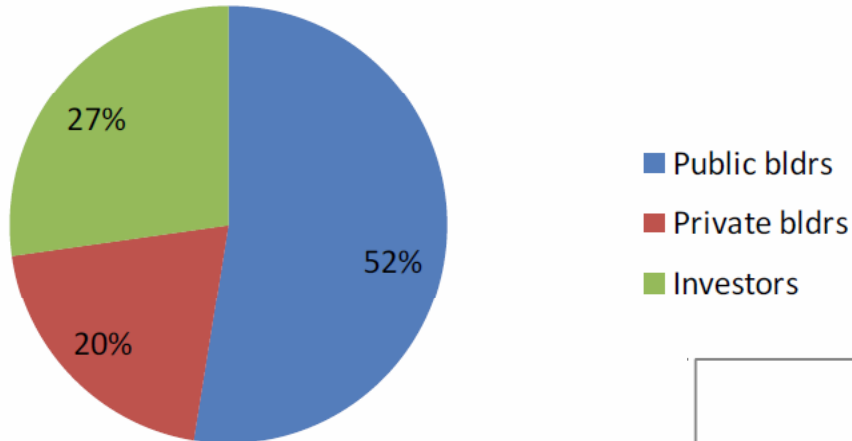
- Likely rising mortgage rates
- Young buyers don't have down payments
- Retirees will need may need to rent if they don't use reverse mortgages
- Rental stock has been underbuilt for 20 years.



Know Who Will Be Building

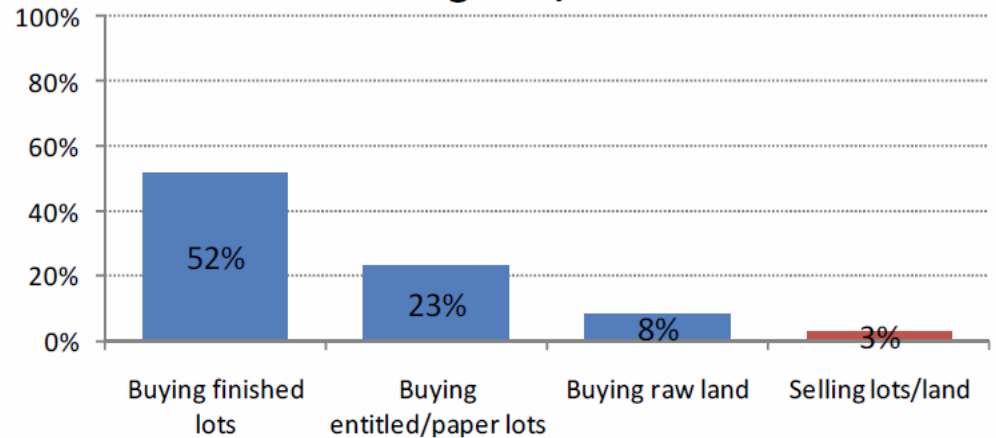
Who is buying finished lots now?

National averages for December 2010



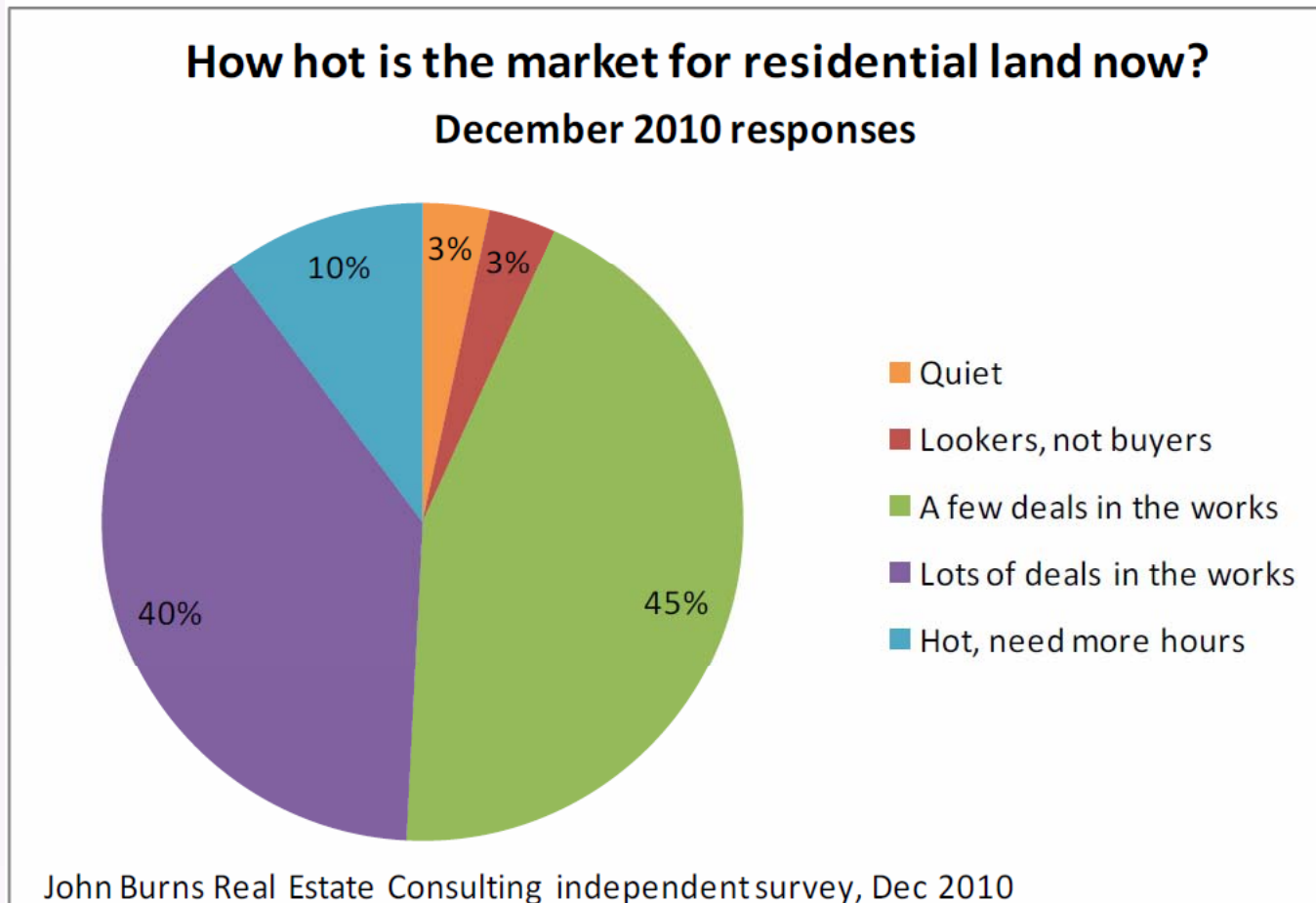
John Burns Real Estate Consulting independent survey, Dec 2010

Public Builders' Share of Buying and Selling Lots/Land



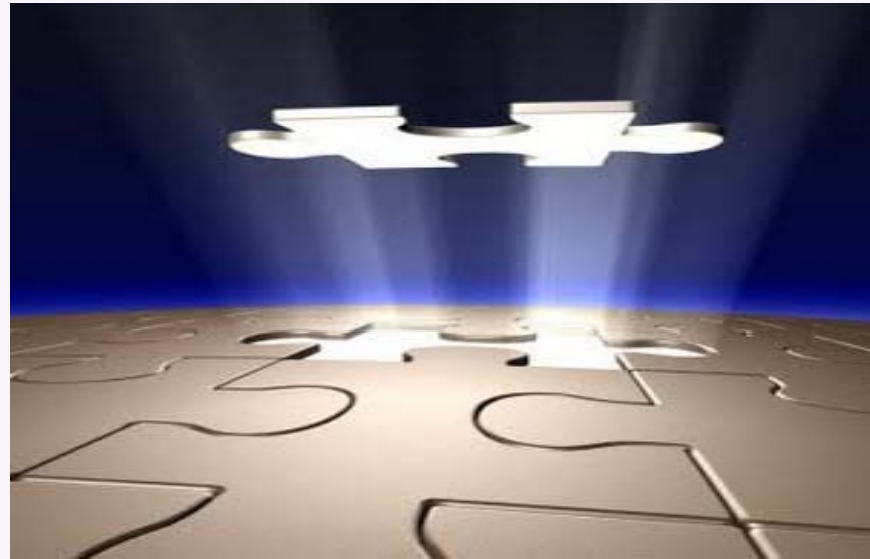
John Burns Real Estate Consulting independent survey, Dec. 2010

Know if the Land Market Is Heating Up or Cooling



Knowledge is Power!

Make Great Decisions Using Great Analysis



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