National Economic Overview

BOOSTERS TO THE ECONOMY

• Very Strong Government Spending
• Low Inflation Rate
• Relatively Low Energy Prices
• Low Mortgage Rates
National Economic Overview

THREATS TO THE ECONOMY

- Falling Housing Demand due to the absence of mortgage money
- Collapsing Mortgage backed securities market
- Liquidity Crisis
- Declining GDP Growth
- Massive Job Loss
NATIONAL ECONOMIC OVERVIEW

Annual Job Growth Trend

Source: U.S. Bureau of Labor Statistics
NATIONAL ECONOMIC OVERVIEW

Initial Unemployment Claims

Source: U.S. Bureau of Labor Statistics
NATIONAL ECONOMIC OVERVIEW
Top 25 US Job Growth Markets

Source: U. S. Bureau of Labor Statistics
NATIONAL ECONOMIC OVERVIEW
Bottom 20 US Job Growth Markets

Los Angeles-Long Beach-Santa Ana CA
New York-Northern New Jersey-Long Island NY-NJ-PA
Detroit-Warren-Livonia MI
Chicago-Naperville-Joliet IL-IN-WI
Phoenix-Mesa-Scottsdale AZ
Atlanta-Sandy Springs-Marietta GA
San Francisco-Oakland-Fremont CA
Miami-Fort Lauderdale-Miami Beach FL
Orlando FL
Riverside-San Bernardino-Ontario CA
Philadelphia-Camden-Wilmington PA-NJ-DE-MD
Minneapolis-St. Paul-Bloomington MN-WI
Seattle-Tacoma-Bellevue WA
Tampa-St. Petersburg-Clearwater FL
Charlotte-Gastonia-Concord NC-SC
Denver-Aurora CO
Las Vegas-Paradise NV
Cleveland-Elyria-Mentor OH
San Diego-Carlsbad-San Marcos CA
Portland-Vancouver-Beaverton OR-WA
Cincinnati-Middletown OH-KY-IN
Dallas-Fort Worth-Arlington TX
Milwaukee-Waukesha-West Allis WI
St. Louis MO-I L
Naples-Marco Island FL

Source: U. S. Bureau of Labor Statistics
National Economic Overview
THE ECONOMY & EMPLOYMENT

• GDP Growth reflects a severe recession

• CPI (inflation) is expected to continue to fall as consumers spend less

• Job losses are accelerating at an alarming rate

• The unemployment rate is above 8% and expected to continue upward

• The Purchasing Managers’ Index is predicting a recession in the manufacturing sector and the overall economy for next 12 months

• Initial Unemployment Claims are moving up signaling an increase in the difficulty in finding new jobs
Consumer Confidence
NATIONAL ECONOMIC OVERVIEW

Consumer Confidence Index

Source: Conference Board

GROWTH
STATIC
RECESSION
NATIONAL ECONOMIC OVERVIEW
Consumer Confidence Index - ALL REGIONS

Source: Conference Board
NATIONAL ECONOMIC OVERVIEW
WEST (California)
Consumer Confidence Index

Source: Conference Board
2.5 Million Home Buying Households

Source: Conference Board

NATIONAL ECONOMIC OVERVIEW
Consumer Confidence Index - Home Buying Plans
NATIONAL ECONOMIC OVERVIEW
Consumer Confidence Index - Home Buying Plans

Source: Conference Board

1.6 Million Resale Buying Households

Intend to Purchase - Used Home

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0.3 Million New Home Buying Households
NATIONAL ECONOMIC OVERVIEW

Consumer Confidence Index - Home Buying Plans

Source: Conference Board

0.6 Million Undecided Households

- Intend to Purchase
- Used Home
- New Home
- Undecided

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Interest Rates
NATIONAL ECONOMIC OVERVIEW

Short Term Mortgage Rate Trend

Source: Freddie Mac
NATIONAL ECONOMIC OVERVIEW

Mortgage Rate Trend History

Source: Freddie Mac
Top 25 US Housing Markets by Annual Permits

Source: U. S. Dept of Commerce
The Bottom Line

- The outlook for the housing market, and the U.S. economy remains very bleak.
- The “bailout” plan has done little to free up mortgage loans, as Wall Street and the banks deal with massive investment losses.
- It is unlikely that anyone in Washington or on Wall Street knows what to do to avoid further collapse in the economy.
- The primary signal that we are on the right track toward recovery will be action by the Congress and the administration, to set aside political interests and focus on decisions that will help the economy recover.
Current Market Conditions

• Great time to buy
  – Lots of deals and incentives
  – Low prices
  – New homes are affordable now
  – Great Interest Rates

• Mortgage qualification is more difficult

• Foreclosure properties have created opportunity
New v. Resale
Advantages of Resales

• Character
• Location
• Large lots
• More cabinet space
• Some remodeled already
• Sellers willing to negotiate
• Foreclosure properties represent unique opportunities
  – Sense all have been taken
  – Significant repairs
Disadvantages of Resales

• “Someone else’s home”
• Require remodeling
• Extensive repairs (particularly distressed)
• Potential for more repairs
  – Old plumbing
  – A/ C units
  – Old appliances
• Resales have unusable yards (slope)
• Homes do not feel “open,” particularly in the kitchen
• Even if remodeled, may not match their tastes
Advantages of New Homes

• Incentives
  – Closing costs
  – Appliances
  – Options
• First ones to occupy
• Ability to customize
  – Specs have “modern” finishes
• Can create and design backyard
• Less likely to require repairs
  – Those have new homes disagreed
  – Did not note that repairs were at builder’s cost
• New homes are now affordable—were not during the boom
Disadvantages of New Homes

• Quality of construction and craftsmanship?
  – Concerns about quality of construction were pervasive, particularly in Group Two
  – Quick build equated with low quality

• “Tract home” look

• Too close

• Small lots

• Quality of the neighborhood, particularly if affordable

• Potential foreclosures and values
Weekly Conversion Rate

- 2007
- 2008
- 2009

J F M A M J J A S O N D
Weekly Net Contracts per Subdivision
## Southern California Housing Market

### New and Used (DQ)

### Total Sales March. 2009

<table>
<thead>
<tr>
<th>City</th>
<th>Sales 2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Diego</td>
<td>3,020</td>
<td>+43.3%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>5,971</td>
<td>+40.1%</td>
</tr>
<tr>
<td>Orange</td>
<td>2,413</td>
<td>+45.1%</td>
</tr>
<tr>
<td>Riverside</td>
<td>4,409</td>
<td>+63.8%</td>
</tr>
<tr>
<td>Ventura</td>
<td>776</td>
<td>+41.3%</td>
</tr>
<tr>
<td>San Bern.</td>
<td>2,897</td>
<td>+88.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19,486</strong></td>
<td><strong>+52.1%</strong></td>
</tr>
</tbody>
</table>
Inland Empire

Median Price of New Units Sold: $304,228.
Inland Empire Market
Quarterly Starts & Closings History
All Housing 902 Starts and 1,414 Closings

Starts
Closings
L.A./ O.C./ I.E./ CV/ Ventura Regional Market

Annual Starts by Market Area

- West Riverside: 3,135
- Los Angeles: 2,287
- San Bernardino: 1,710
- Coachella Valley: 902
- Orange: 914
- Ventura: 332
Los Angeles County
Annual Starts by Market Area / Housing Type

Detached  Attached
Orange County
Annual Starts by Market Area / Housing Type

Detached
Attached
Ventura County
Annual Starts by Market Area / Housing Type

Detached  Attached

3Q04 4Q04 1Q05 2Q05 3Q05 4Q05 1Q06 2Q06 3Q06 4Q06 1Q07 2Q07 3Q07 4Q07 1Q08 2Q08 3Q08 4Q08 1Q09

1Q09  © Copyright Metrostudy 2009
Inland Empire Market Housing Inventory All – Finished Vacant Inventory declined 4% in the 1st quarter.
Southern California Coastal Regional Market

Housing Inventory - New home production inventory attached/detached UNCHANGED in the 1ST Quarter

-3.0  2.0  7.0  12.0  17.0  22.0

1Q05  2Q05  3Q05  4Q05  1Q06  2Q06  3Q06  4Q06  1Q07  2Q07  3Q07  4Q07  1Q08  2Q08  3Q08  4Q08  1Q09

Under Construction  Finished Vacant  - Housing MOS
Southern California Coastal Regional Market
Attached Housing Inventory - New home attached
Finished inventory increased 10%
Southern California Coastal Regional Market
Detached Inventory - New home production inventory

[Bar chart showing inventory levels by quarter from 1Q05 to 1Q09, with categories for Under Construction, Finished Vacant, and Housing MOS.]
Inventory is moving in the right Direction

- Consumers have reacted well to the Tax Rebates
- Small price increases have been reported at a few projects
- The Elephant in the corner is the Foreclosure Inventory and the timing of the next wave.
National Comparison and Other Trends
National Comparison
Resale market softest in Florida, healthiest in CA, TX

Markets by Months of Supply of Resale Listings

Technically in equilibrium per NAR
National Comparison
Finished Vacant units an issue in FL, western markets

Markets by Months of Supply of Finished Vacant Units
Inland Empire Market

Vacant Developed Lots - The Inland Empire has 24,834 Vacant Developed Lots on the Ground, a 61.5 MOS...
The New Market

• The next cycle will emerge on I.E. finished lots, lots of lots.
• Consumers need to gain more confidence in the economy over the next year
• The first step will be a shelter driven market
• Markets near employment centers will correct first
New Products

• Green Building embracing all aspects of planning and building
• Energy consumption will take on more importance
• Water utilization is the bane of the industry.
• Vehicle trip miles is the elephant in the corner
New Product

- More urbanized
- Higher density
- Close to employment centers

These products will be targeted to the next generation of home buyers. Many genexers and gen y value time and do not wish to commute.
Product Utility

- Smaller homes
- More utility in floorplan
- Optional upgrades
- Less volume inside
- Fewer garage spaces
The Picture Heard Around the World