An RL Brown/Greg Burger Housing Market Report Volume 222 – 5/28/03

The Phoenix Housing Market Letter

The leaders in authoritative, timely and affordable housing data and analysis for Phoenix, Sedona, Flagstaff, Prescott, Casa Grande, North Pinal County, Tucson, Denver, Albuquerque, and Las Vegas

LATEST HOUSING STATS

CLOSINGS	
THIS MONTH [APR]	2,973
LAST YR	2,648
PERCENT CHANG	12.27%
YEAR TO DATE	11,294
LAST YEAR TO DATE	10,102
PERCENT CHANGE	11.80%
PERMITS	
THIS MONTH	4,317
LAST YR	3,658
PERCENT CHANGE	18.02%
YEAR TO DATE	14,302
LAST YEAR TO DATE	12,178
PERCENT CHANGE	17.44%
RESALES	
THIS MONTH	7,828
LAST YR	7,052
PERCENT CHANGE	11.00%
YEAR TO DATE	25,939
LAST YEAR TO DATE	24,149
PERCENT CHANGE	7.41%

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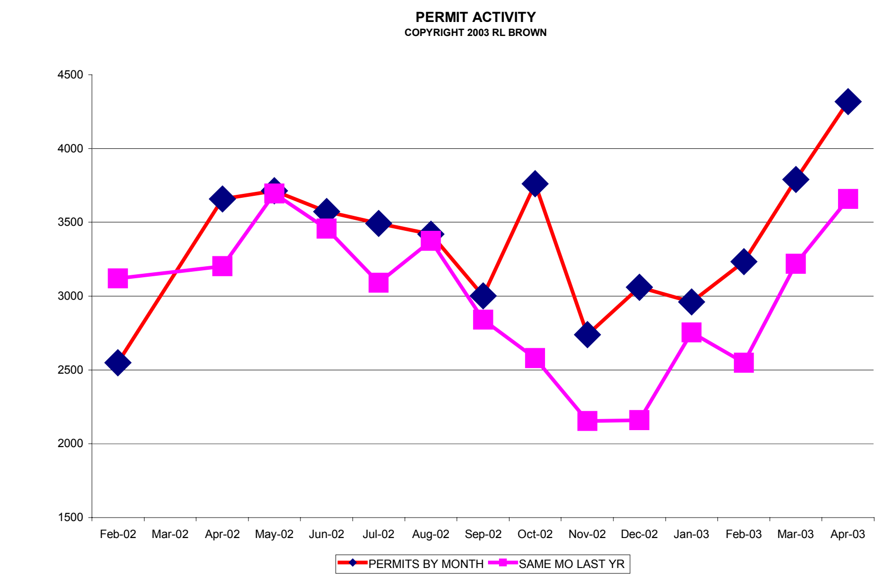
"FORECAST 45,000 PERMITS AND 81,000 RESALES FOR '03?"

Take a look at the graphic below and you can see why such a forecast is not some pipe dream by a johnny-come-lately real estate speculator.



This graphic tracks the month-by-month single-family permit activity for the last 12 months and plots it against the same month last year.

Note the strength demonstrated by the permits of the last seven months versus last year, which you will recall set a new housing record of 39,814 permits issued.

This appears to be a trend, not a flash of extra activity. The length of the "trend" could also suggests that this activity is not the result of a run-up in spec activity … a recent concern in some quarters.

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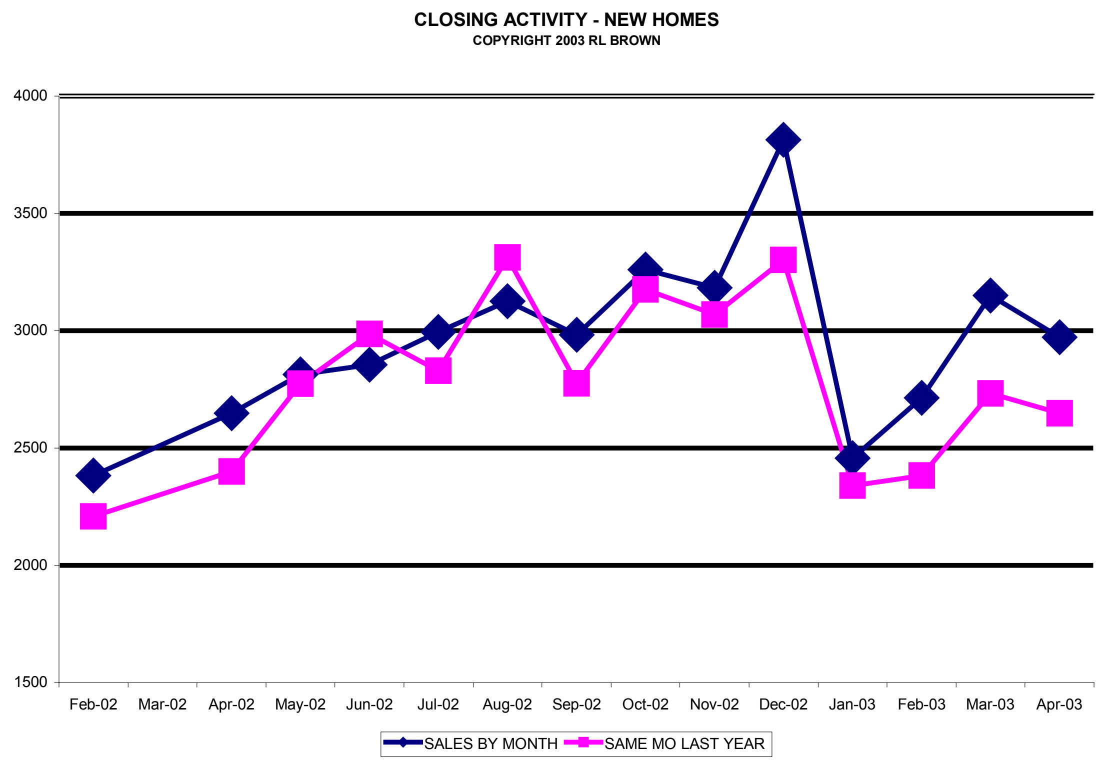
Year to date permits are up over 17%, while most forecasters forecast a downturn in 2003 from last year's record.

Escrow closings show a generally similar trend, as depicted below.



Again, closings have been up over the last eight months, albeit not as dramatically as permits. The differential between permits and closings does not necessarily raise the flag of "inventory, as a substantial portion of that differential is always made up of the custom home transactions that generate a permit but not a closing [as the buyer often already has title to the land].

You will recall that Valley-wide resale activity also set new all-time record last year, with 75,982 transactions, including for-sale-by-owner deals. This year resales are running 7.41% ahead of last year, suggesting a potential for 81,600 resale transactions for 2003, if the pace is sustained.

The graphic on the next page depicts the resale month-to-month comparisons.

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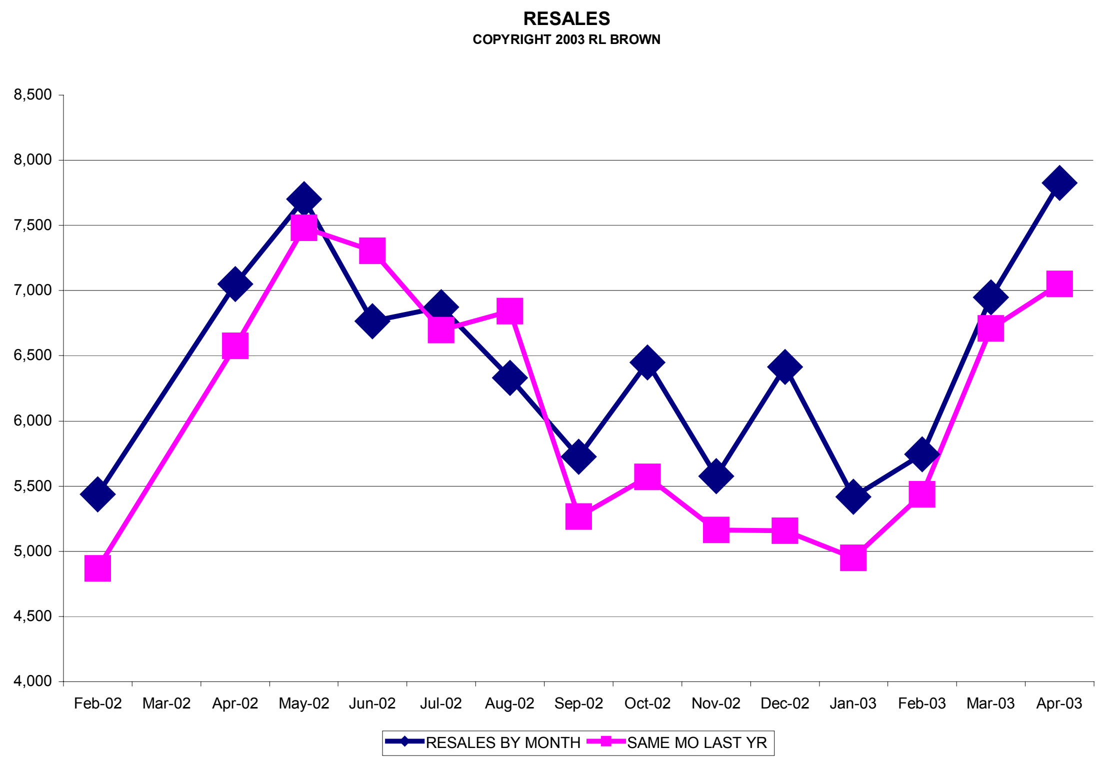

Again we note eight months of above last years pace performance, with the most recent month up 11% from the same month last year.

The Wall Street Journal features a front-page article this morning [May 28] on Alan Greenspan's economic theories re the current housing boom and the relationship between housing and the overall economy. It makes good reading, and offers some insight in the reason that housing has led the national economy through the recession. It also underscores the role of favorable mortgage rates in this scenario and gives insight into Greenspan's recent statements that mortgage rates could go even lower.

Certainly the answer to our current housing activity is in interest rates plus the relative affordability of housing [where our current median resale price is $145,000 versus the just announced national median of $163,000]. It also is in the continued strong rate of growth of our population, with the Census Bureau reporting a gain of 102,000 in the 12 months ending in July. Those folks all needed a place to live … and at 2.6 people per typical household, they needed 39,231 of those "places".

By the way, that made Maricopa County #1 among the 6 fastest growing large counties in the nation, with a growth rate of 3.2%.

Greg Burger and I will be revisiting our 2003-2008 forecast in the next couple of weeks, and will update that forecast to reflect the most recent trends. Look out Atlanta!

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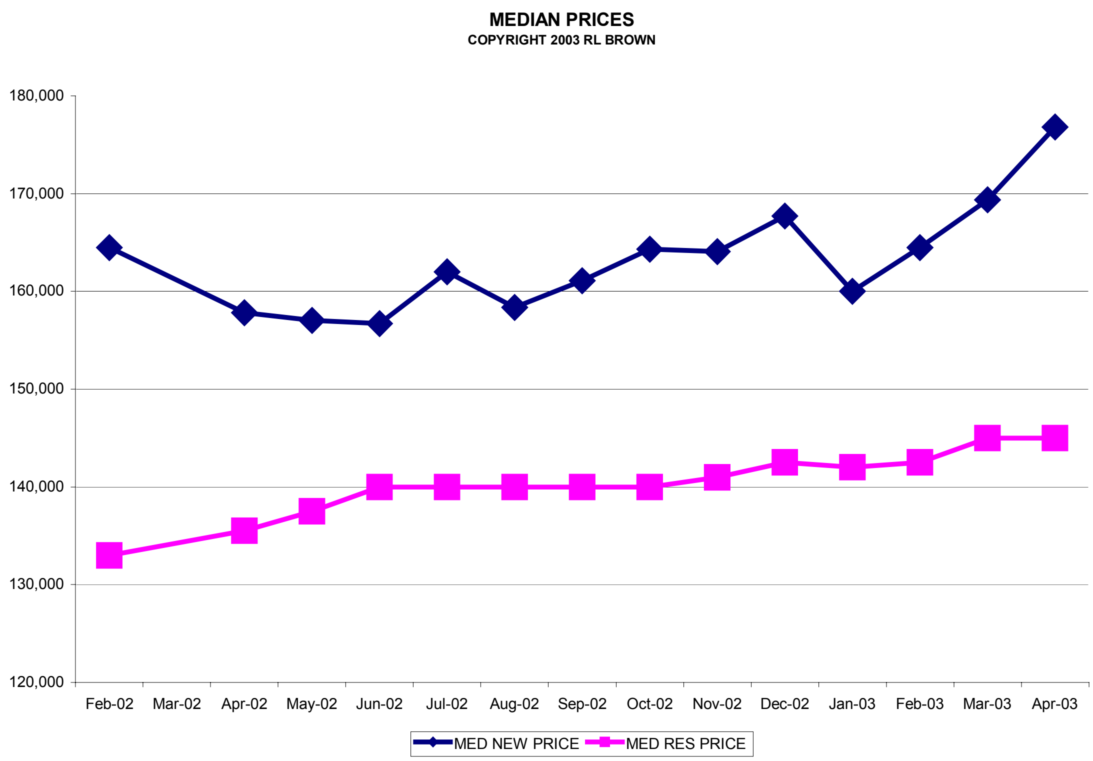
We have moved … make a note of our new address and phone! 623-523-0188 … 19446 Willowcreek Circle, Sun City, AZ 85373.

"AFFORDABILITY REMAINS A KEY TO THE HOUSING MARKET'S RECORD VELOCITY…"

Affordability, especially affordability enhanced by record low mortgage rates, is the key to the market's current velocity. Absent affordability, buyers would be renters and renters would be forced to stay renters. Affordability is a function of hard costs, intense competition, and availability fringe land … the antithesis of the central-core guys.

The graphic below plots median new and resale housing prices over the last 12 months.



The resale market trend shows a growth of $10,000 over a 12-month period while the new home trend shows a gain of nearly twice that, or an average of $1,600 per month … or 1% per month. That is a worrisome stat that bears some watching, especially in light of the more modest rate of increase in the resale market.

City governing bodies should pay careful attention to these pricing trends, less the goose die.

We recently performed an interesting analysis for a client using our MAGIC software. We demonstrated the pricing difference geographically amongst a number of identical floor plans. One builder's 2314 square foot plan varied in price from $144,000 - $315,000 amongst the 15 locations he offered this plan in. Another had a range of $21,000 on a basic $124,000 1805 square foot home offered in eight locations. While we are ware that there were some nuances in the spec level amongst the various locations, the major difference in pricing was a function of the land and impact fee costs.

Impact fee increase by the cities that are trying to "upgrade" their housing from their first blush of success in attracting builders and buyers will dampen their future housing market velocities and could have the effect of dampening the all-important commercial development that they rely on for sales tax revenues. Fee increases by one city spur development activity in the next area down the road, as buyers have demonstrated over and over again that they seek out “high value” housing and pay little attention to the “name” and pr image of the town.

“CONTINENTAL HOMES DIVISION OF DR HORTON LEADS PERMIT PARADE FOR THE MONTH…”

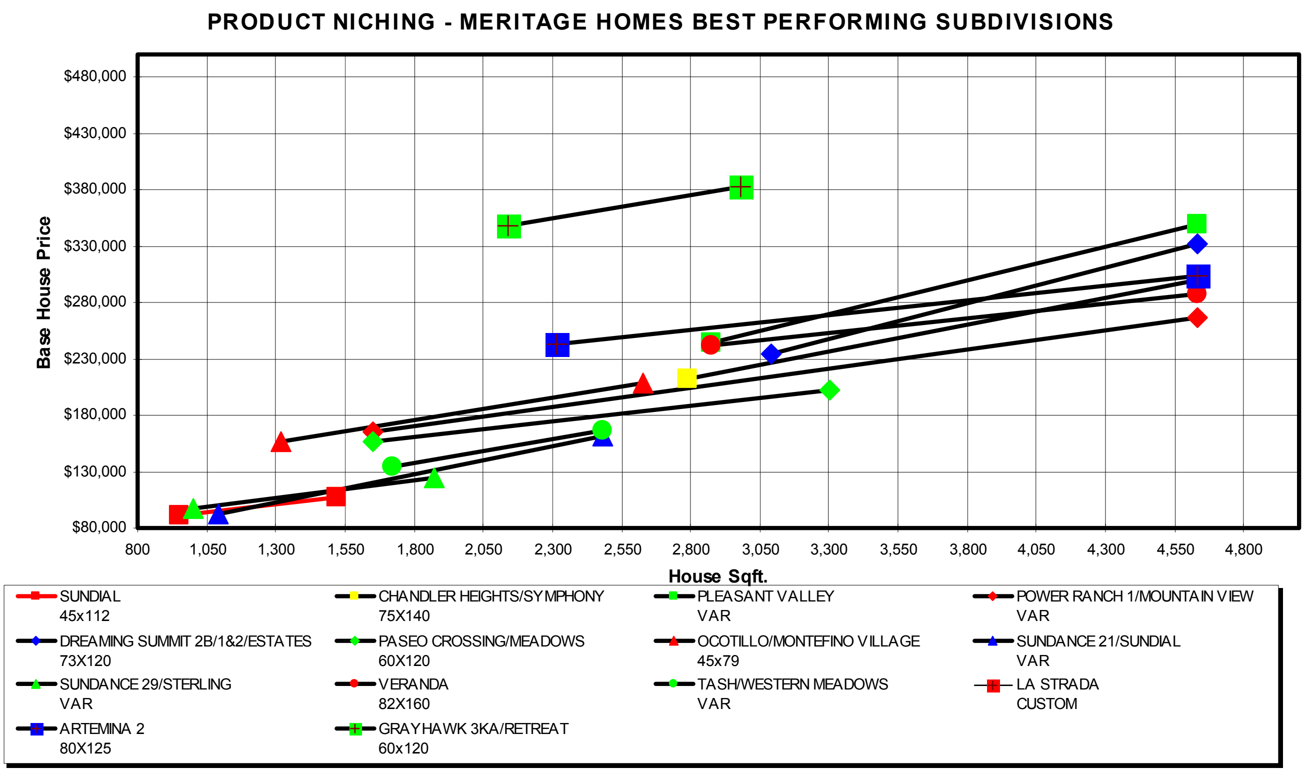
The Market Overview section of THE SALES AND PERMIT REPORT contains the rankings of all of the major homebuilders activity in the marketplace.

BUILDER	APRILPERMITS	APRILCOE
D R HORTON/CONTINENTAL	328	173
RICHMOND AMERICAN	295	177
BEAZER HOMES	197	78
KB HOME	172	92
PULTE HOMES/DEL WEBB	172	187
SHEA HOMES	147	171
FULTON HOMES	141	113
D R HORTON/DIETZ-CRANE	133	107
MERITAGE HOMES/HANCOCK	129	22
STANDARD PACIFIC HOMES	117	114
SQUAW PEAK CONDO LLC	112	3
PULTE HOMES	104	86
HACIENDA BUILDERS	97	36
LENNAR HOMES/GREYSTONE	79	40
TOWNE DEV	78	16
GREAT WESTERN HOMES	73	26
SIVAGE-THOMAS HOMES	63	30
LA STRADA VILLAS LP	60	2
TREND HOMES	60	112
ELLIOTT HOMES	59	35
TAYLOR-WOODROW HOMES	56	56
CENTEX HOMES	54	35
BROWN FAMILY COMMUNITIE	53	45
RYLAND HOMES	50	57
ENGLE HOMES	49	59
LENNAR HOMES/US HOME	48	32
MORRISON HOMES	48	27
CENTEX/FOX & JACOBS	47	31
D R HORTON/SCHULER	46	25
FARNSWORTH DEV	46	24
COURTLAND HOMES	45	15
MARACAY HOMES	40	46
WILLIAM LYON HOMES	36	20
SCOTT HOMES	33	26
D R HORTON	32	28
MIRAGE HOMES	30	1
CACHET HOMES	28	29
SANTA ANNA HOMES	28	13
ROBSON COMMUNITIES	25	34
T W LEWIS COMPANY	25	21

"BUILDER PROFILES … MERITAGE HOMES….."

Using our MAGIC software, this month we profile the 14 best selling subdivisions of Meritage Homes [including their Hancock Communities entity]. This combination of 14 communities out of their 31 total generated 993 closings in the last 12 months. The breadth of the spectrum of product offerings of this group is staggering.

For all of the detail select MERITAGE in the REPORTS SECTION of MAGIC Volume 222 and track the performance of each subdivision and each plan within all 31 subdivisions.



You can get a demo of MAGIC or any of our reports … in your office at your convenience. Call Greg Burger at 480-614-0211 or on his cell at 480-363-3700. MAGIC is easy to use .. works with your present software .. and is very affordable.

"OUR VIEW OF THE MARKETPLACE AND OTHER IMPORTANT MATTERS….."

We continue to meet with builders from out of state that are looking at market entry possibilities. While we would all agree that competition is fierce and margins are low compared with other areas, the overall opportunity for homebuilders in this marketplace remains startling to them and to us.

Last week we took a comprehensive helicopter tour with a new builder prospect … ranging from Anthem to Vistancia to Sun Valley to Sundance and Verrado to Casa Grande to Apache Junction. We were reminded of a similar tour way back in 1985 when we kept circling over Mountain Park Ranch … as the only spot with any new rooftops in the Valley.

The depth of the activity Valley-wide is apparent in such a tour, and it pointed out that this housing market is really a collection of generally contiguous and dissimilar markets, not "one" cohesive marketplace.

This was pointed out again in the data we looked at depicting the spread in pricing for similar plans across the market spectrum. And reinforced when we look at the diversity in land prices in this month's LAND AND LOT SALES REPORT.

We have spent several hours in recent days in our own aircraft focused on new and pending developments in the NW Valley. It's clear from an aerial view that this area is about to explode with growth rivaling any that we have seen elsewhere. Look at the paving in place on the Loop 303 on Air Grid E09 in the latest Air Photo Book [1st Quarter 2003 – available by calling Al Wheeler at 602-678-4186] Look at the massive development activity underway at Vistancia. Look at the plans for regional shopping at Jomax and Lake Pleasant Parkway. Look at the velocities and pricing at the communities along the Lake Pleasant Parkway and nearby.

If you can't take an aerial tour on your own, buy this quarter's Air Photo Book, and take the same tour through its up to date photography. Look at the current development activity that is obvious and at the future activity that we have depicted on the photos. It will be an eye opener. Then look at the current issue of THE LAND AND LOT SALES REPORT and see what land costs in the areas of interest. [This $80 per month report is a compendium of land sales activity for the last 12 months … updated each month … and depicts the actual sales information on every wholesale land transaction that occurs in the region. No fluff, no stuff … the real prices.]

If you aren't currently a NW Valley homebuilder …. Consider it as a "new town" that you can manage from your Scottsdale office!

Speaking of offices … we have moved ours. After 12 years in Munds Park we have relocated our offices to 19446 Willowcreek Circle, Sun City, Az 85373. Our new phone is 623-523-0188 our fax is 623-523-0189. Our new location will allow us to meet the expanded demands on our time as this market grows to reach from Wickenburg to Wenden to Stanfield and to Superior.

Greg, Joann, David, Al, Lana, Sheila and I plan an exciting new series of housing data products geared to the demands for effective product niching and informed land acquisition decisions. These products will allow large and small builders an "equal opportunity" for the kind of market data that has so long been the province of only few "big guys". Our new location will free up "commute time" and also enhance our ability to continue to provide the most succinct and affordable comprehensive market analysis and feasibility/due diligence reports in the region. A new website [due shortly] will allow you to have an electronic suite of special data reports. Man it's hot down here!