Executive Market Briefing

Southern California Chapter of the Appraisal Institute's 18th Annual Inland Empire Market Trends Seminar

1Q 2015

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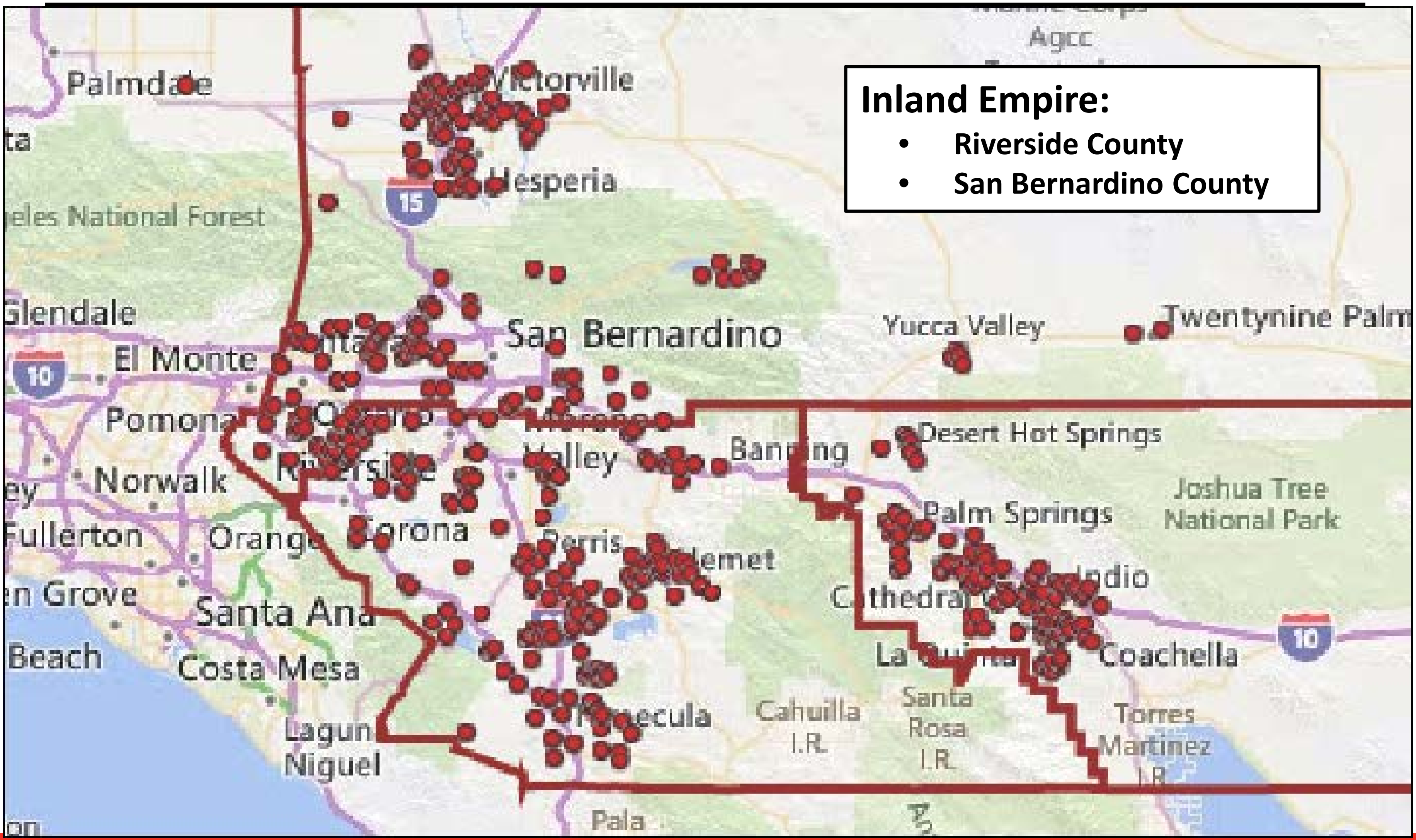


Inland Empire:

- **Riverside County**
- **San Bernardino County**

Topics…

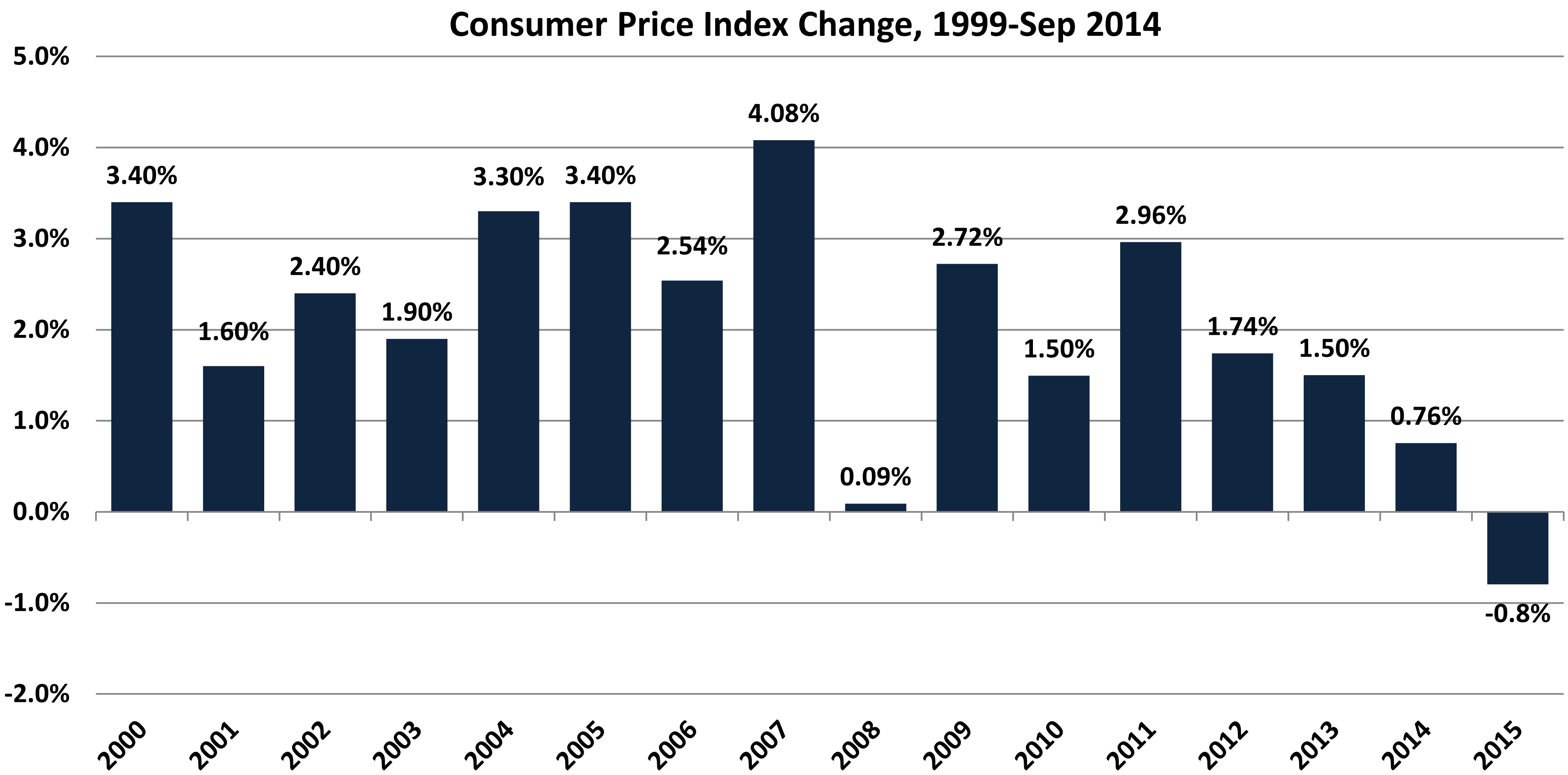
- Status of Economy: National vs. Local
- Existing (Resale) Home Market
- New Home Market
  - ✓ Sales & Traffic
  - ✓ Starts / Closings
  - ✓ Activity By Price Range
  - ✓ Inventory: Lot Trends
- Top Builders By Market

Status of Economy
National vs. Local

State of The Economy

Boosters	Threats
• Gradually Improving Job Picture	• Inflation
• Unemployment Downtrend	• Rise In Interest Rates
• Housing Production Regaining Footing	• Ongoing Employment Concerns: Stability
• Increasing Consumer Confidence	• Quality of Jobs Being Created: Career Transitions, Lower HH Income
• Low Interest Rate Environment	• Rising Material Costs / Labor Shortages

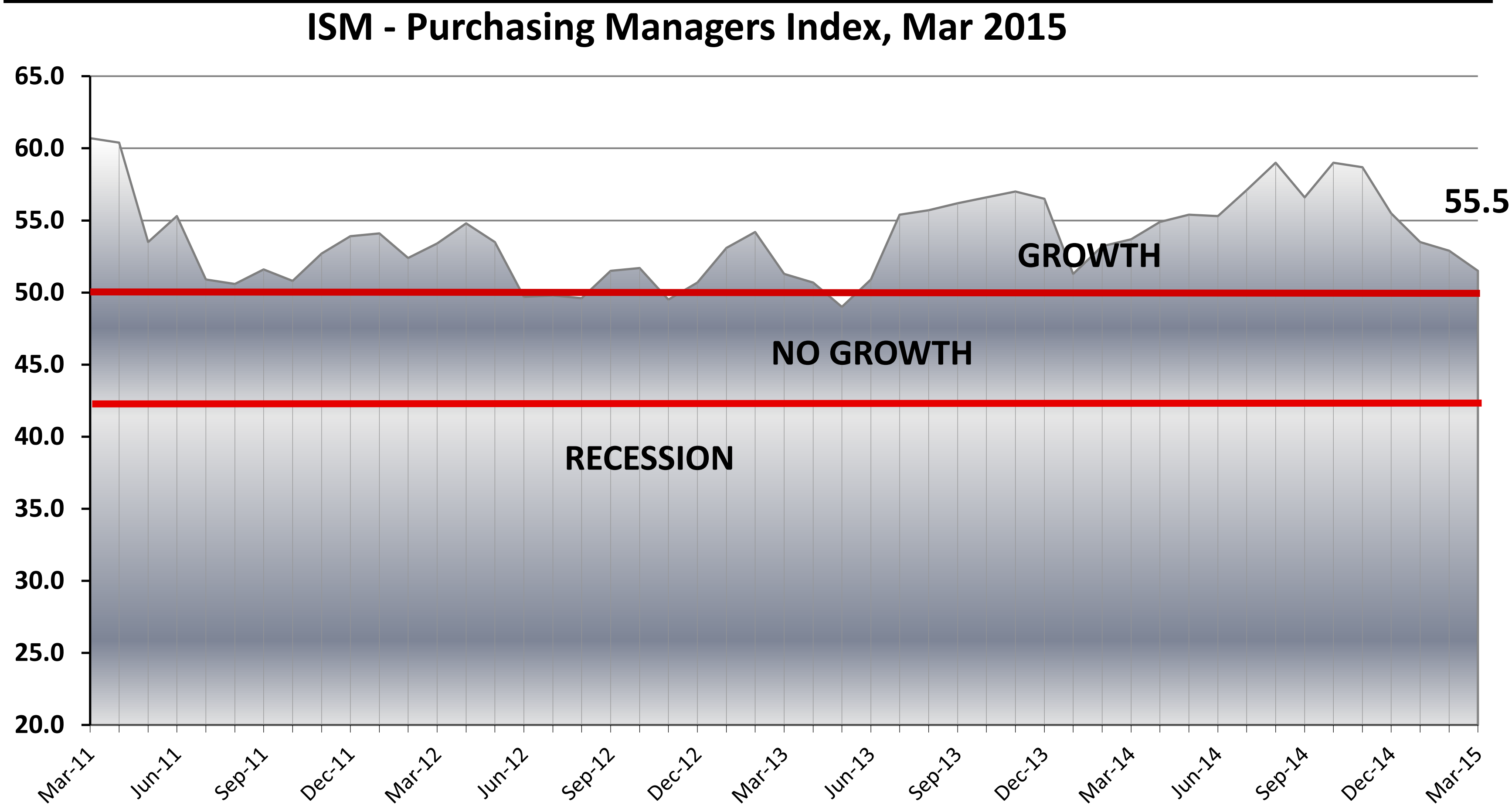
Consumer Price Index



Source: U. S. Dept. of Labor

***Gross Domestic Product - The monetary value of all the finished goods and services produced within a country's borders in a specific time period.**

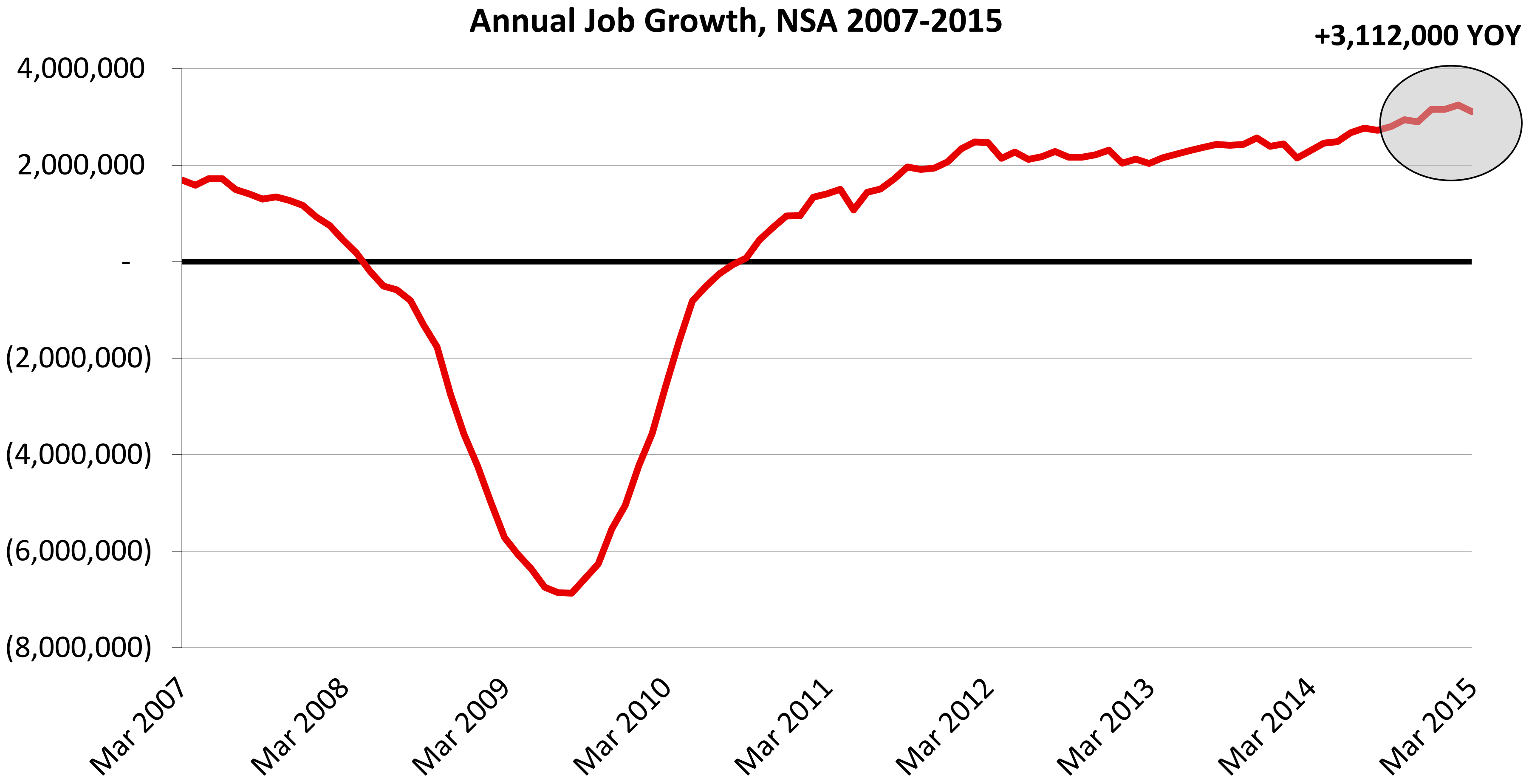
Purchasing Managers Index



Source: Institute of Supply Management

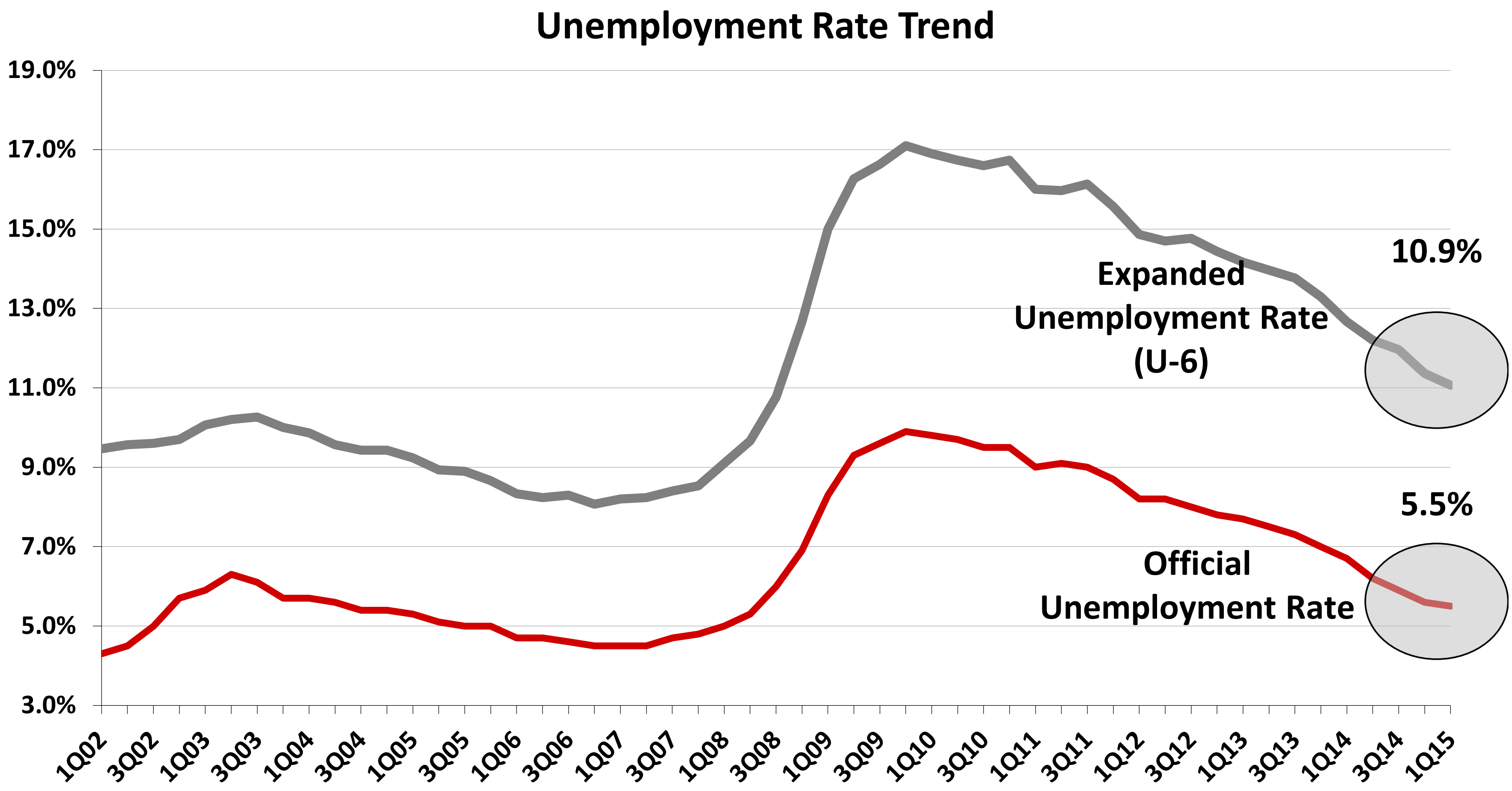
***Purchasing Managers Index – PMI is an important sentiment reading, not only for manufacturing, but also the economy as a whole. A reading of 50 or higher generally indicates that the industry is expanding.**

U.S. Annual Job Growth



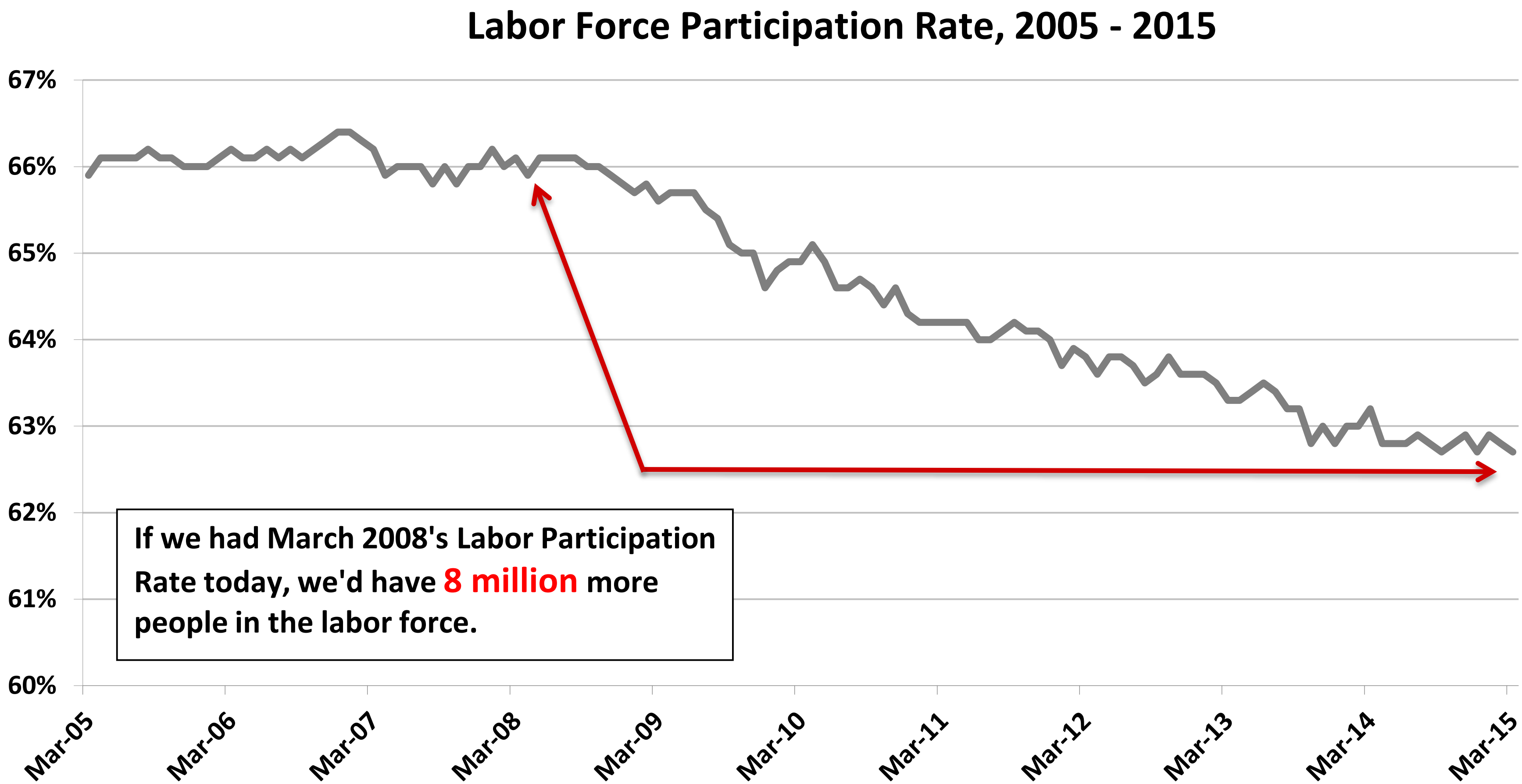
Source: U. S. Bureau of Labor Statistics

National Unemployment Trends



Source: U. S. Bureau of Labor Statistics

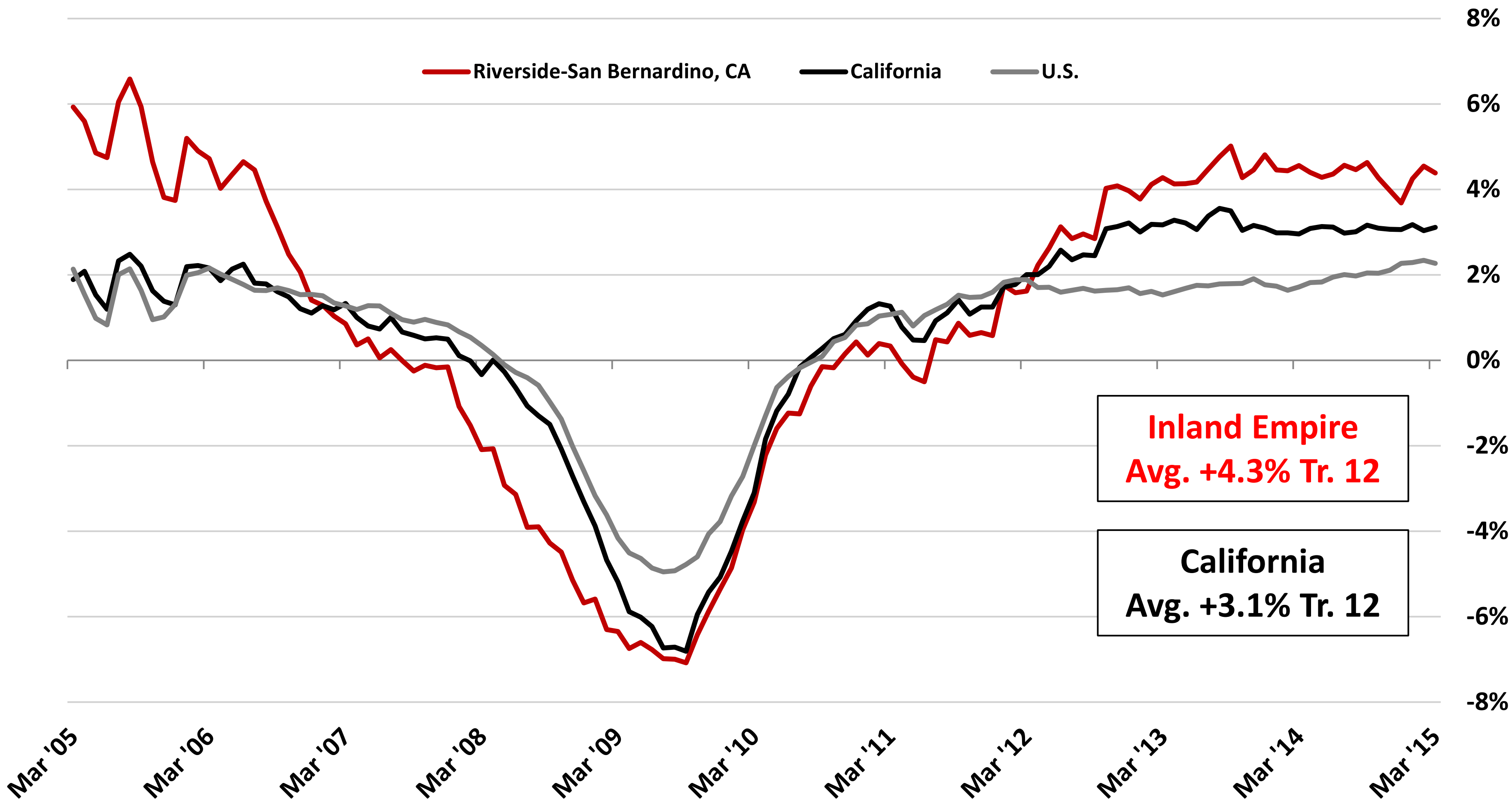
National Labor Force Participation



Source: U. S. Bureau of Labor Statistics

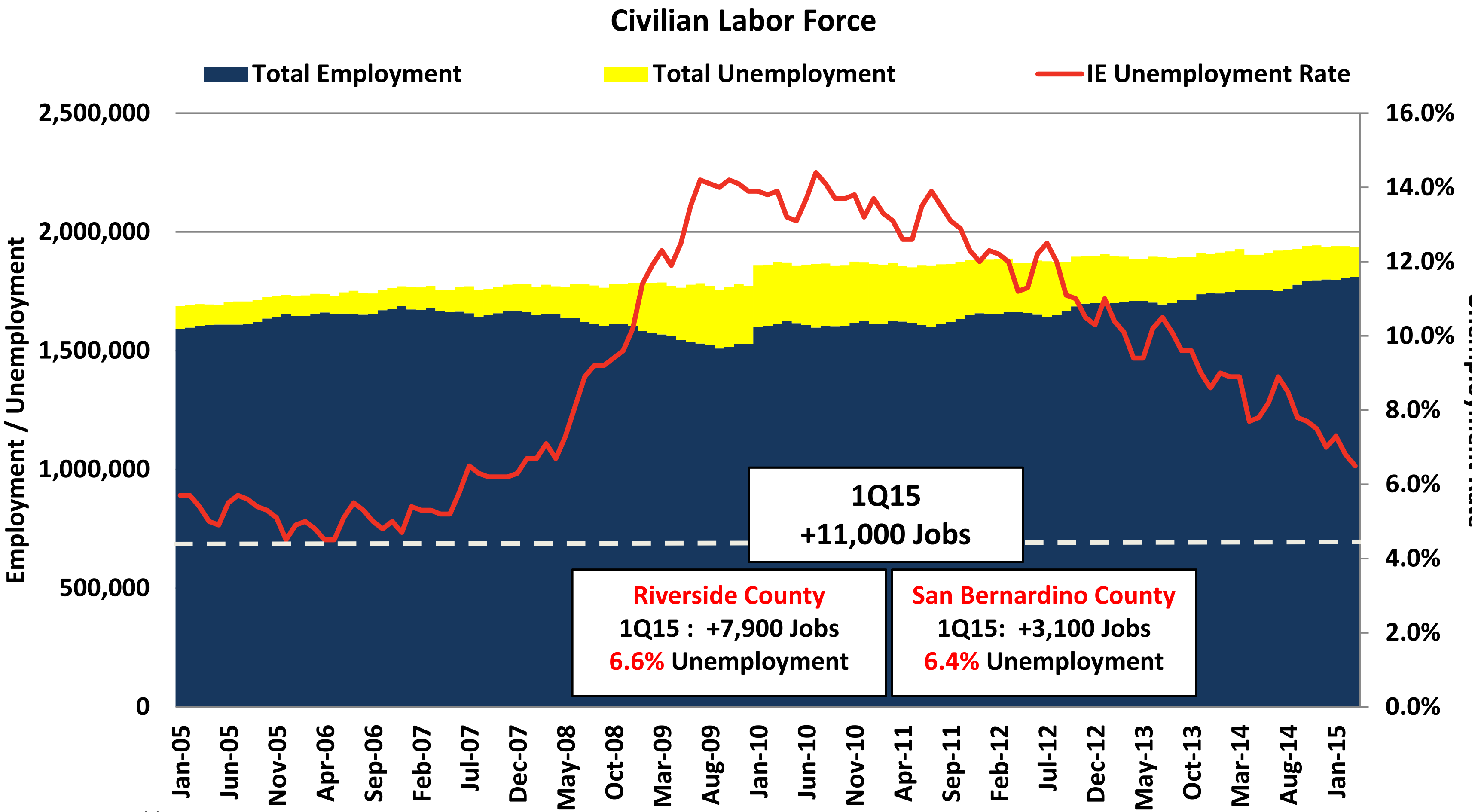
Inland Empire Economic Overview

Employment % Change



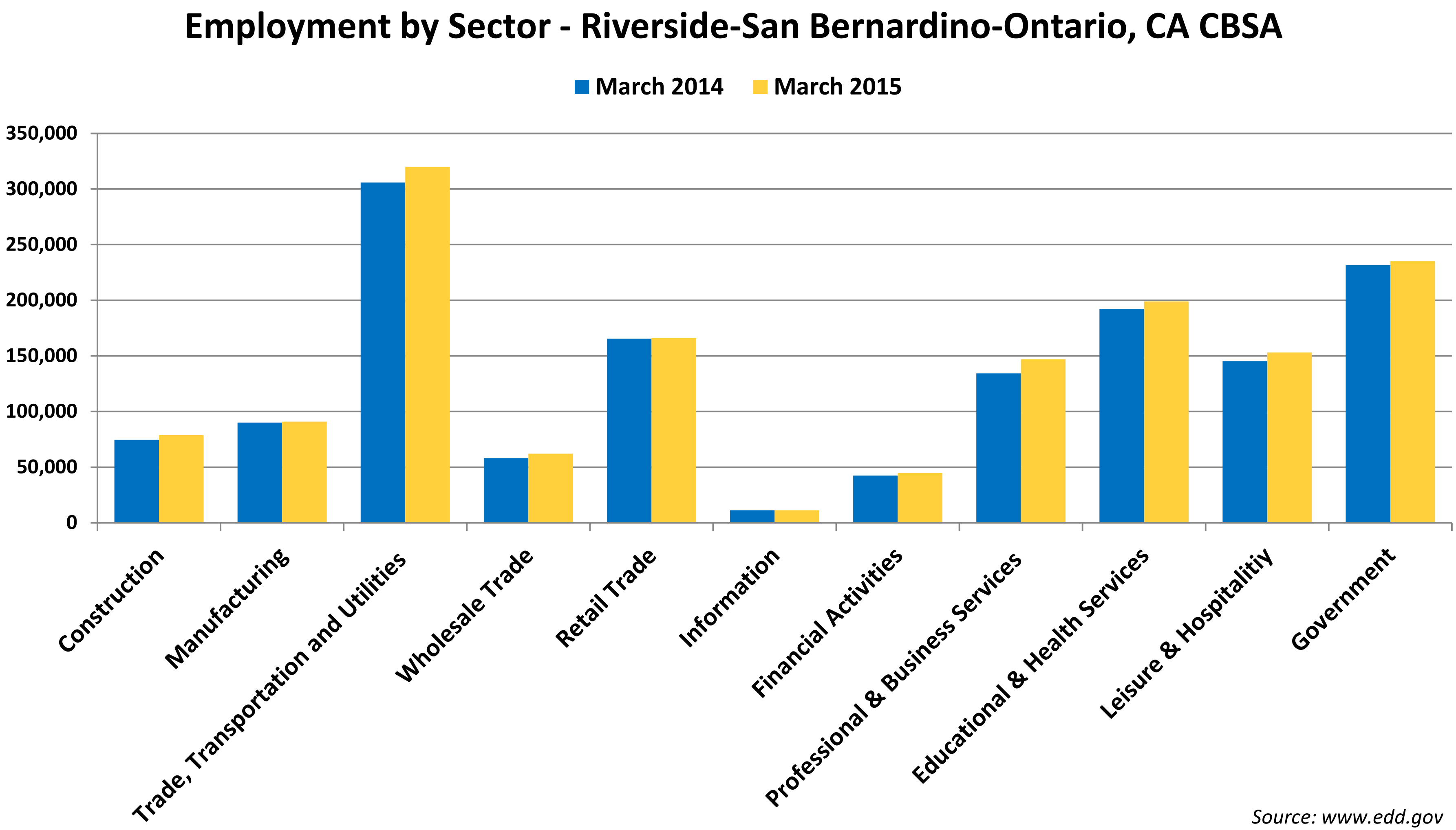
Source: www.edd.gov

Inland Empire: Employment Trends



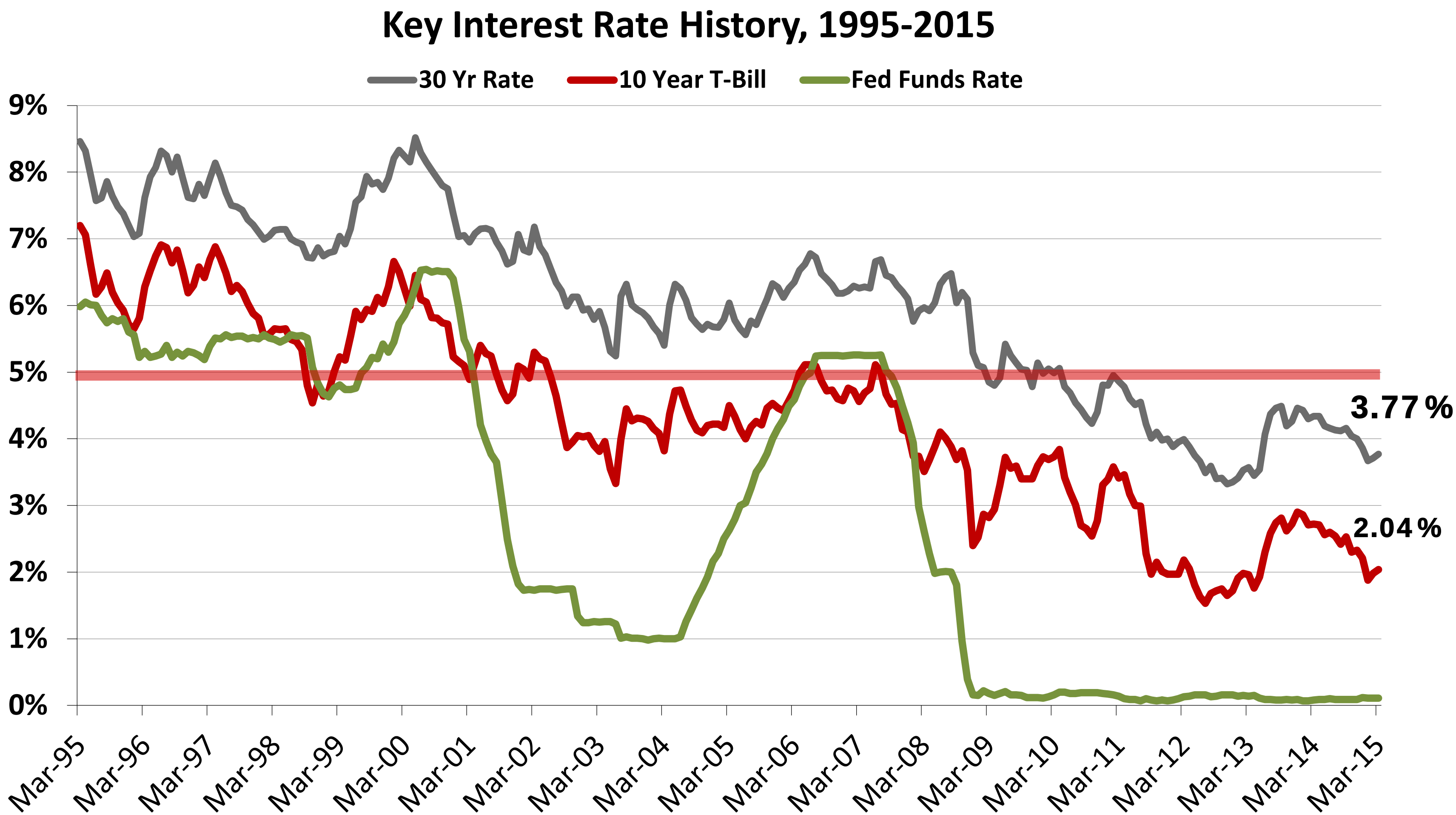
Source: www.edd.gov

Inland Empire
Annual Job Growth by Sector: Mar 2015



Source: www.edd.gov

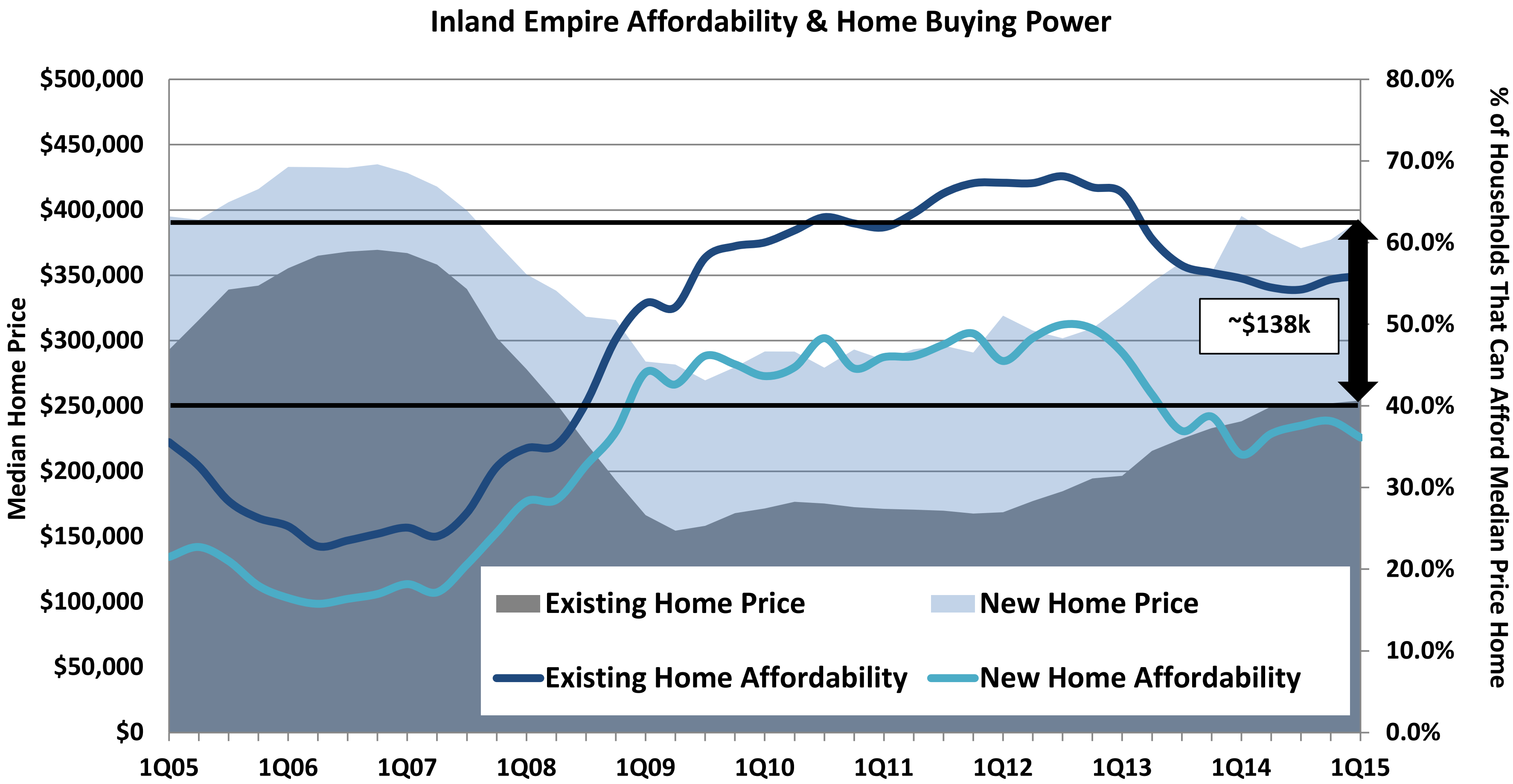
Mortgage Rate Trend History



Source: Freddie Mac Primary Mortgage Market Survey®, Federal Reserve Bank of NY

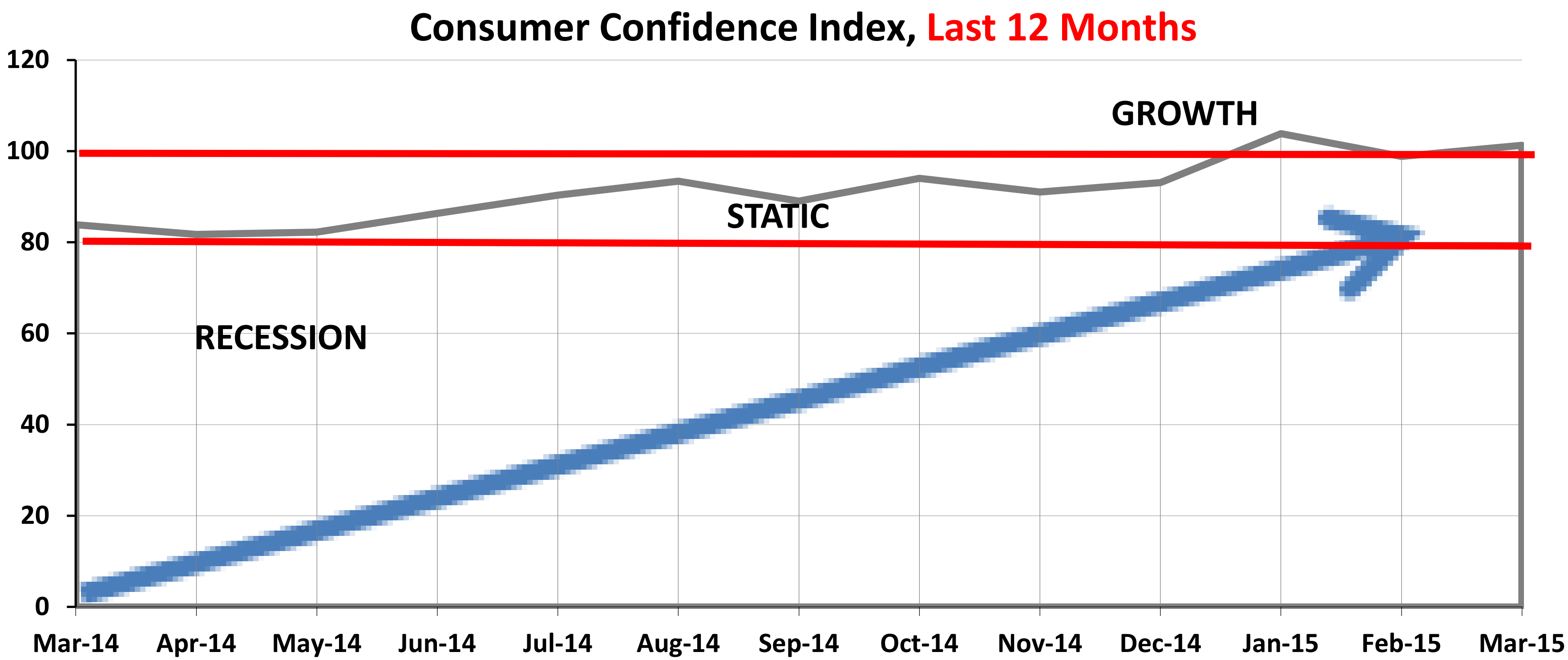
Inland Empire

Affordability & Home Buying Power



Source: Freddie Mac Primary Mortgage Market Survey®, Metrostudy

Consumer Confidence Index – Pacific Region



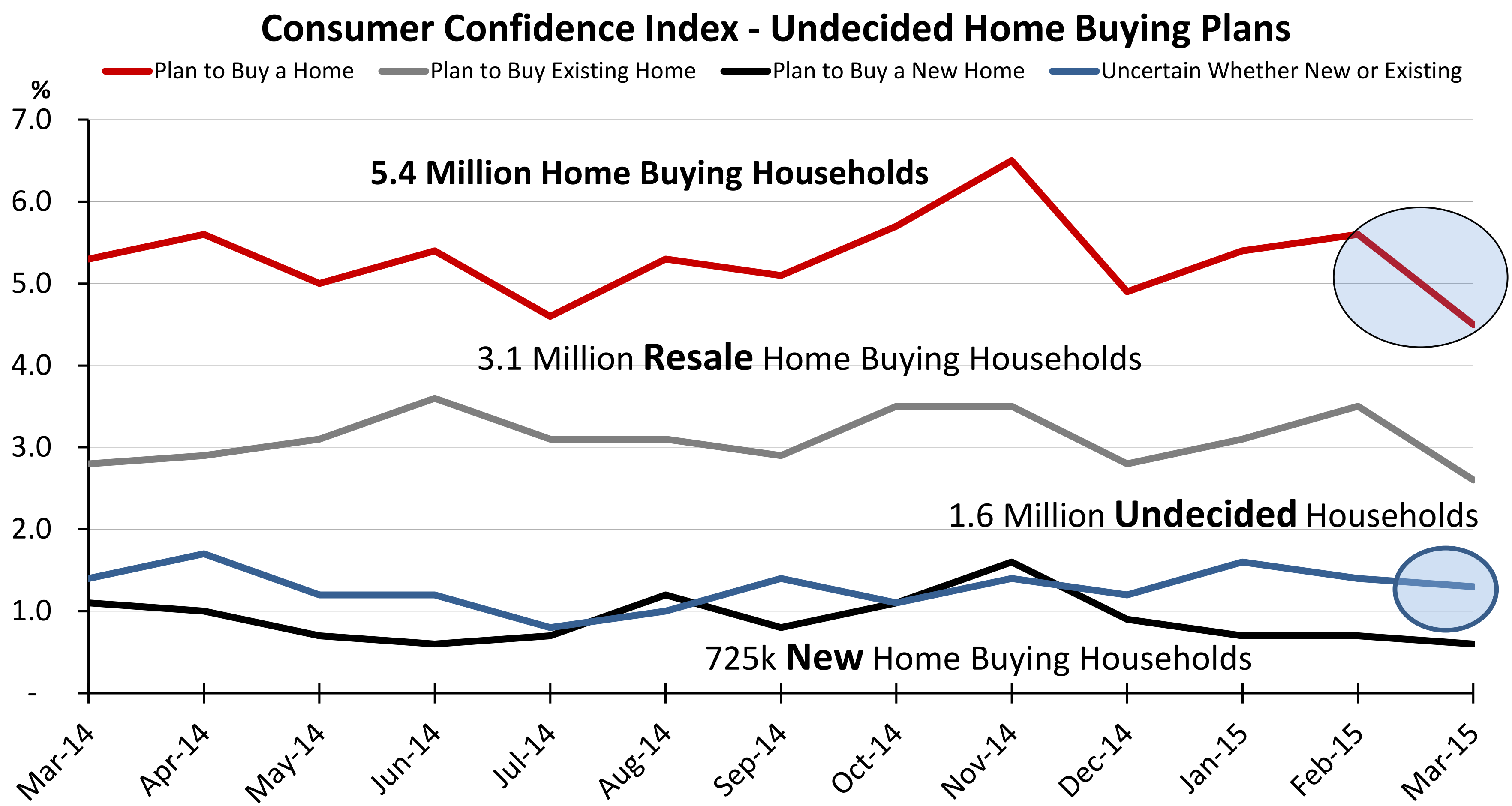
Source: Conference Board

- **Defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of saving and spending.**
- **This value is adjusted monthly based on results of a household survey of consumers' opinions on current conditions and future economic expectations.**

Source: Conference Board

Consumer Confidence Index – Home Buying Plans

(New, Existing and Undecided)



Source: Conference Board

Interest Rates – Affordability

- **Interest rates ended the quarter very low – still favorable. Any substantial increase in interest rates will impact ability to qualify for a home.**

- **The requirements for higher credit scores and larger down payments, combined with limited inventory of starter home product options continues to suppress housing demand for first time, first move-up home buyers.**

- **Home Affordability favors buyers of resale versus new homes, however, gradual price increases across the board continues to prohibit growth of first-time buyer purchases.**

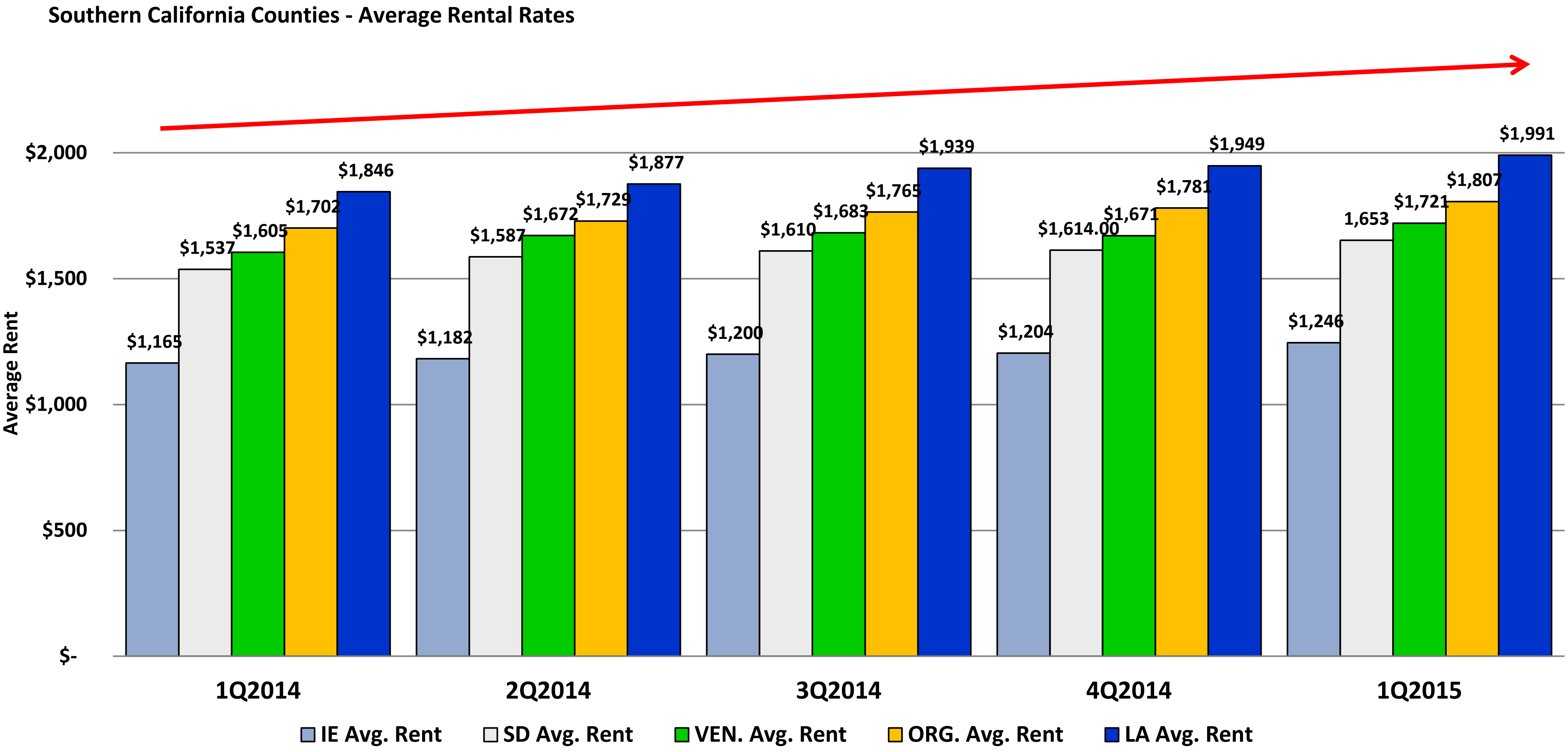
- **Builders need to address the lower end or face the risk of losing to long-term renting or out-migration.**

- **Regional results vary, but the Confidence level in the West has been comparatively stronger and experiencing steady improvement; Slight dip early in 1Q2015 but quickly shifted back to uptrend.**

Southern California Rental Market

Rental Trends

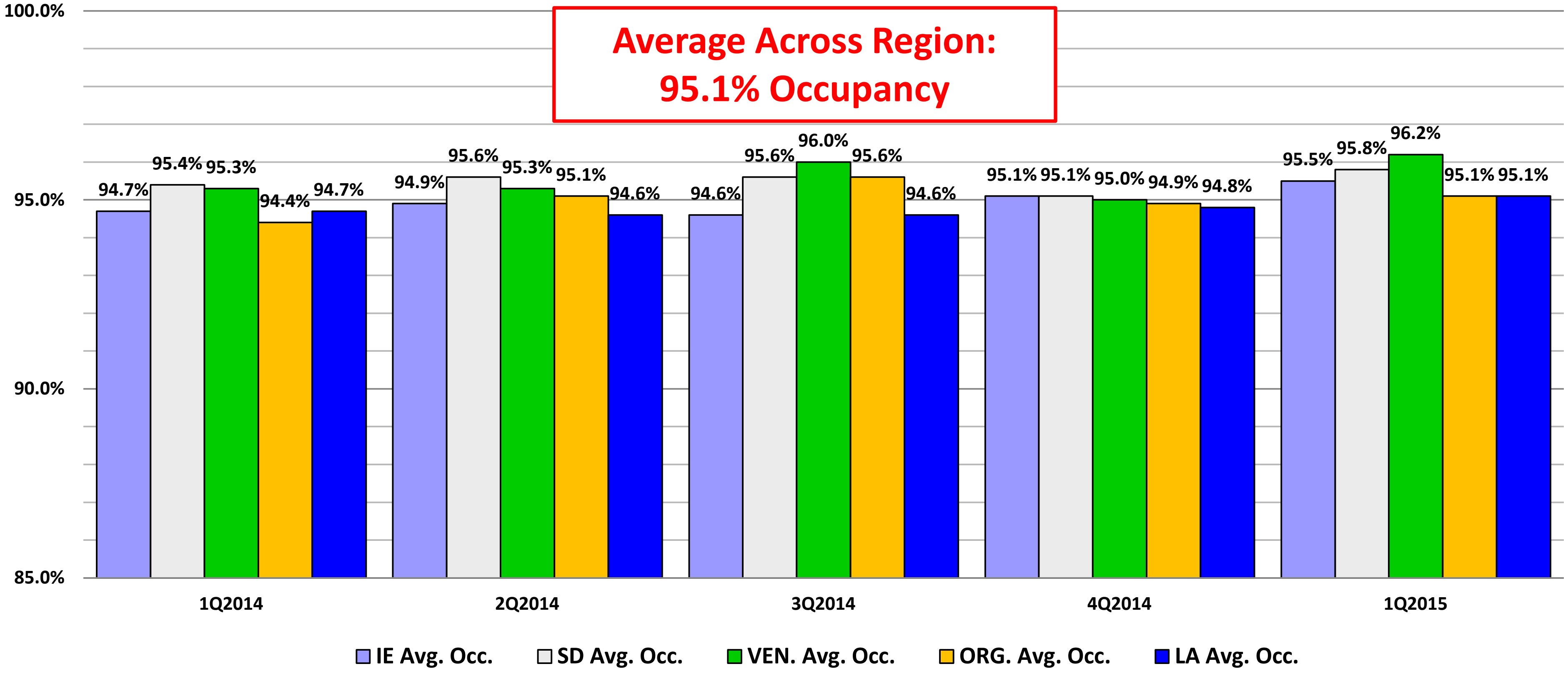
Average Rental Rates



Source: RealFacts

Rental Trends
Average Occupancy Rates

Southern California Counties - Average Occupancy Rates

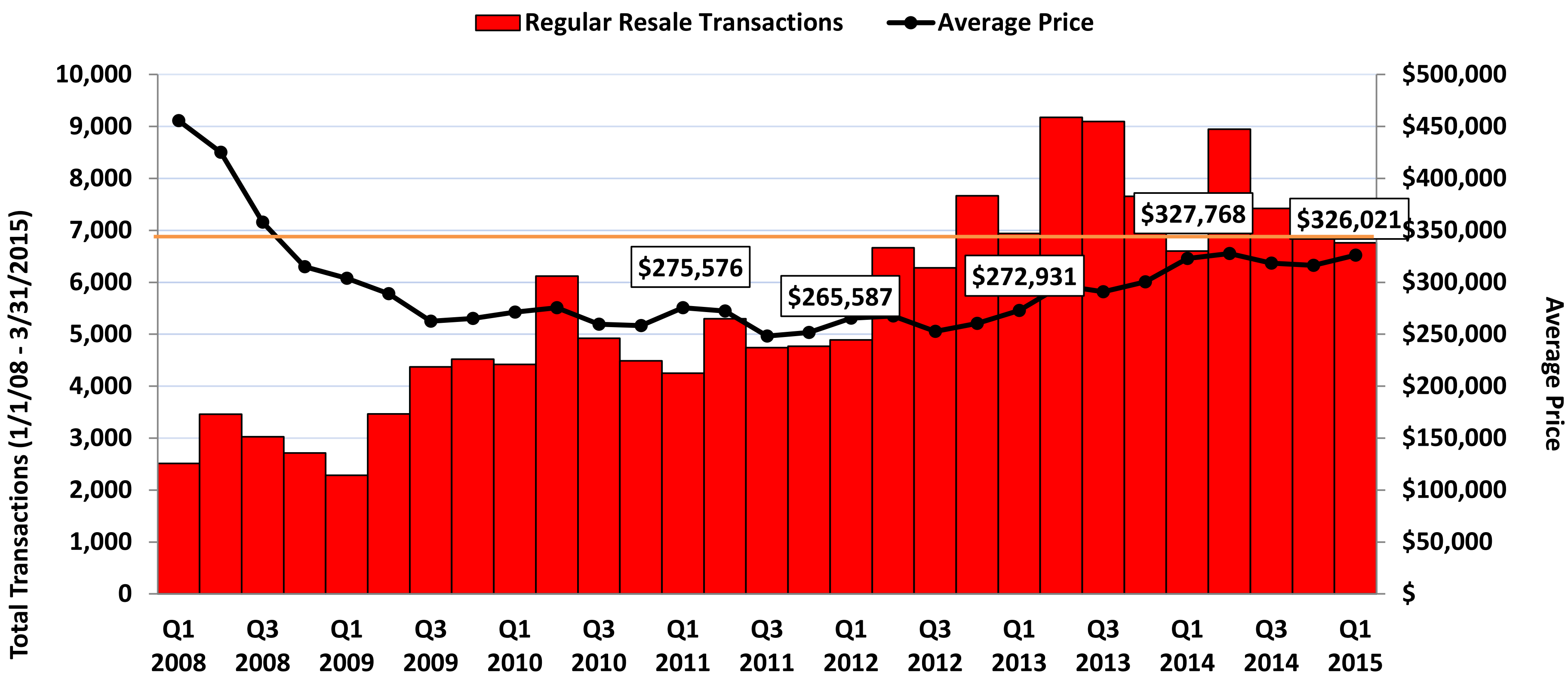


Source: RealFacts

Inland Empire
Resale Home Market

Riverside County – Since 1Q2008

Resale Market - # Transactions, Avg. Px

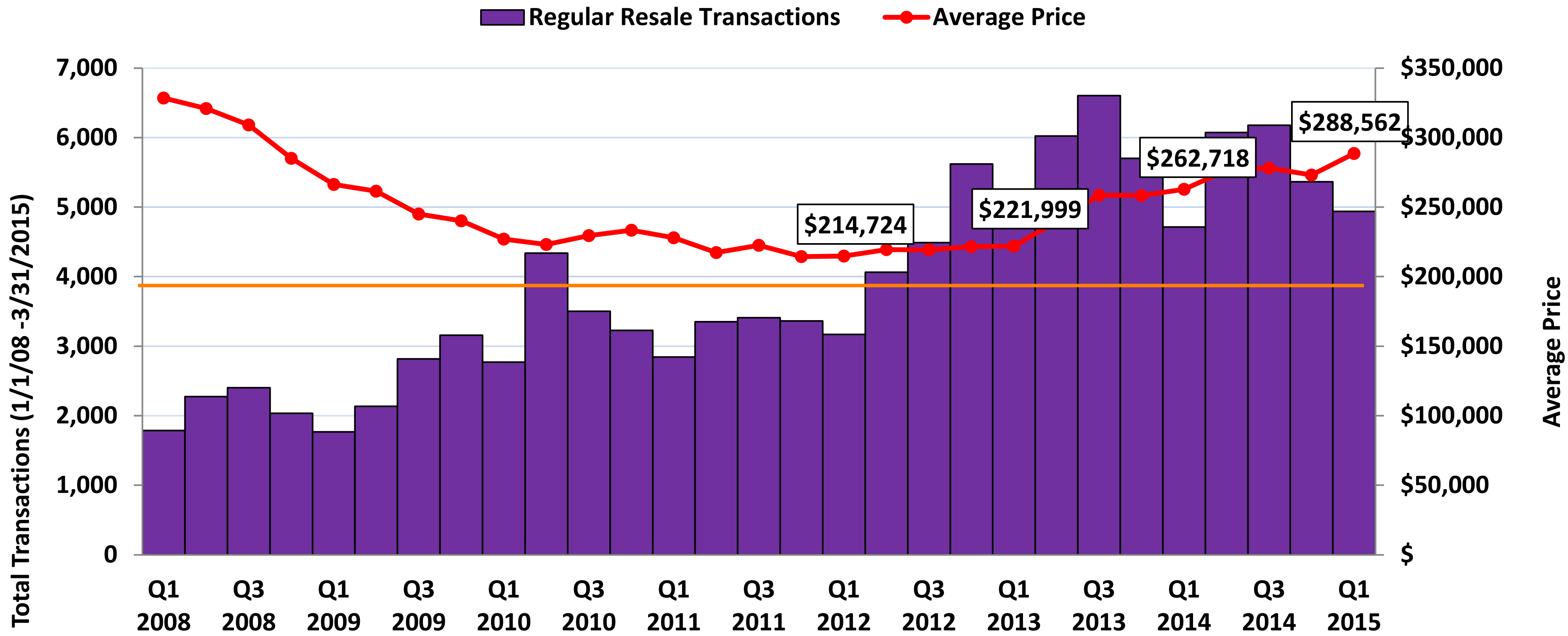


	Curnt vs. Prev Month			Curnt vs. Same Month 1 Yr Ago			Curnt vs. Same Qtr 1 Yr Ago		
	Apr. 15	Mar. 15	% Change	Apr. 15	Apr. 14	% Change	Feb. 15 to Apr. 15	Feb. 14 to Apr. 14	% Change
Days on Market	118	112	5.4% ▲	118	116	1.7% ▲	116	115	0.9% ▲
Sold/Orig LP Diff. %	92	93	-1.1% ▼	92	92	0%	93	92	1.1% ▲

Source: MLS

San Bernardino County – Since 1Q2008

Resale Market - # Transactions, Avg. Px

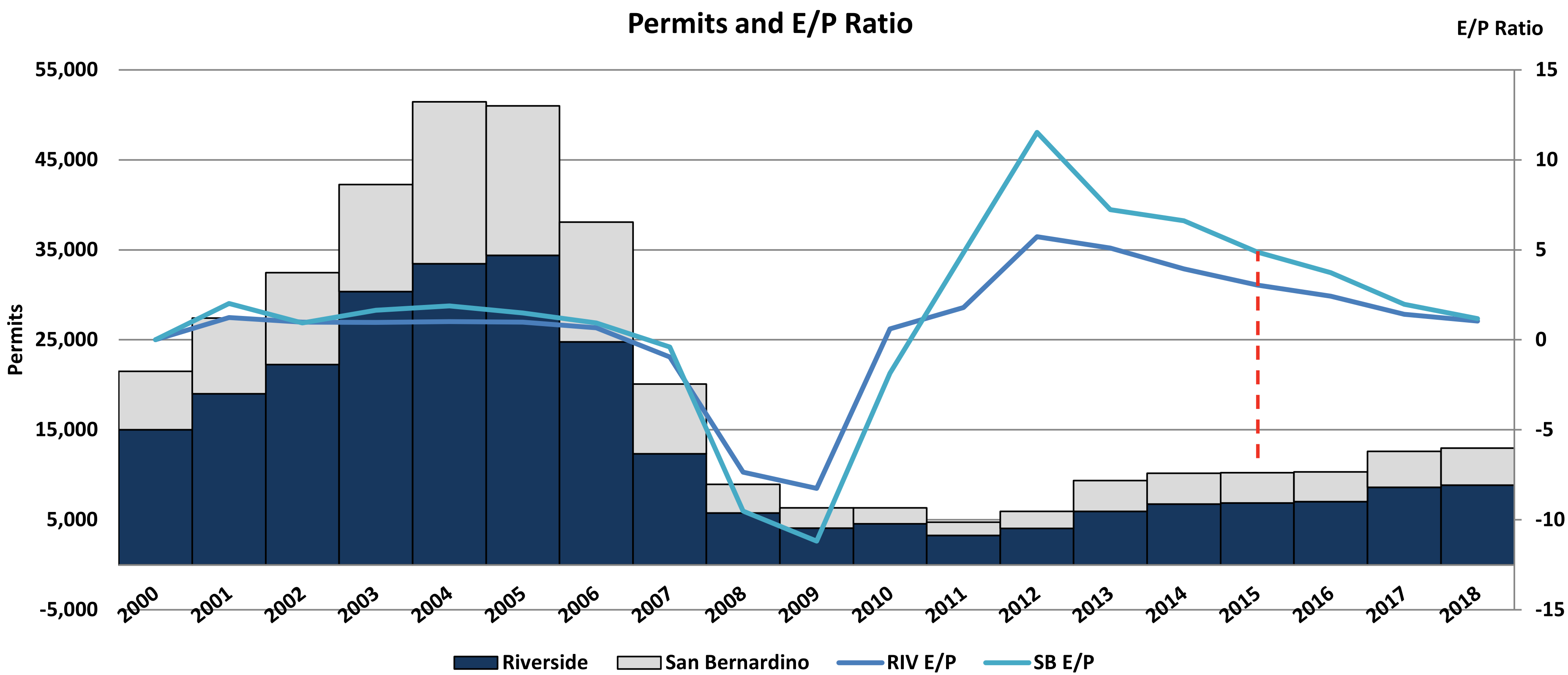


	Curnt vs. Prev Month			Curnt vs. Same Month 1 Yr Ago			Curnt vs. Same Qtr 1 Yr Ago		
	Apr. 15	Mar. 15	% Change	Apr. 15	Apr. 14	% Change	Feb. 15 to Apr. 15	Feb. 14 to Apr. 14	% Change
Days on Market	116	84	38.1% ▲	116	120	-3.3% ▼	111	110	0.9% ▲
Sold/Orig LP Diff. %	95	98	-3.1% ▼	95	94	1.1% ▲	96	96	0%

Source: MLS

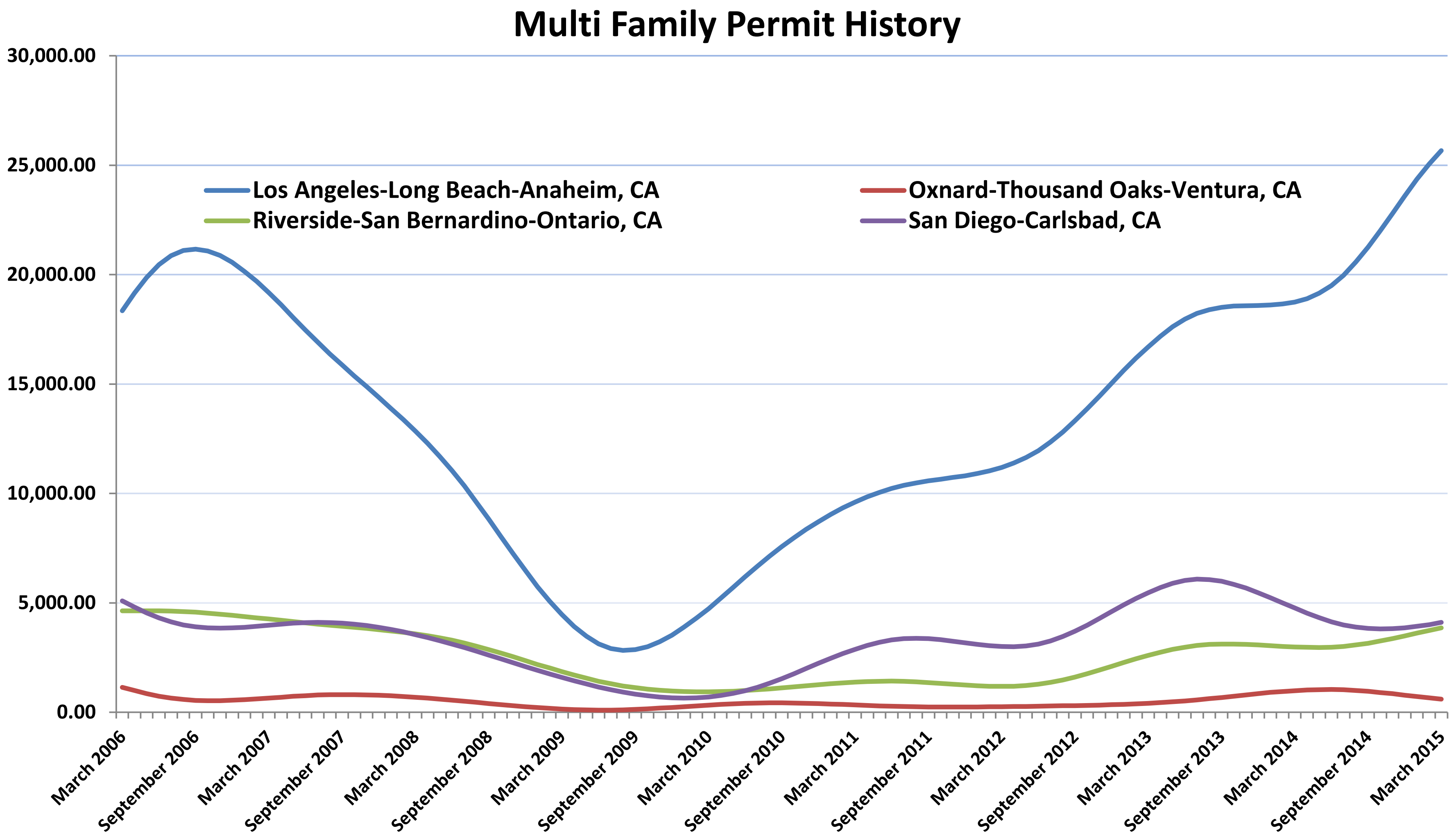
Inland Empire
New Home Market

Permits and E/P Ratio



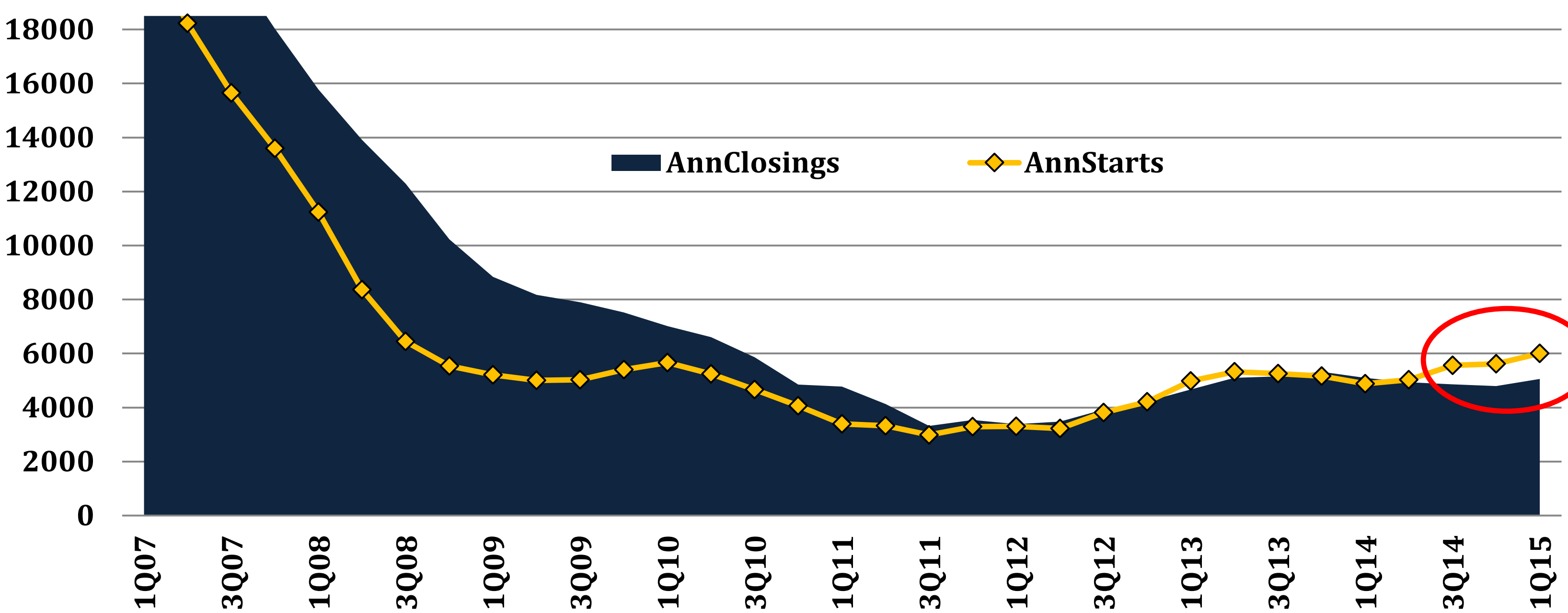
Demand/Supply Ratio	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Riverside	1.5	1.2	1.2	1.2	1.2	0.8	-1.2	-10.0	-12.0	0.9	2.6	7.9	6.7	4.9	3.7	2.9	1.7	1.2
San Bernardino	2.2	1.0	1.8	2.0	1.5	1.0	-0.4	-10.7	-13.2	-2.2	5.7	13.0	7.9	7.0	5.0	3.8	2.0	1.2

Multi-Family Permits



Inland Empire

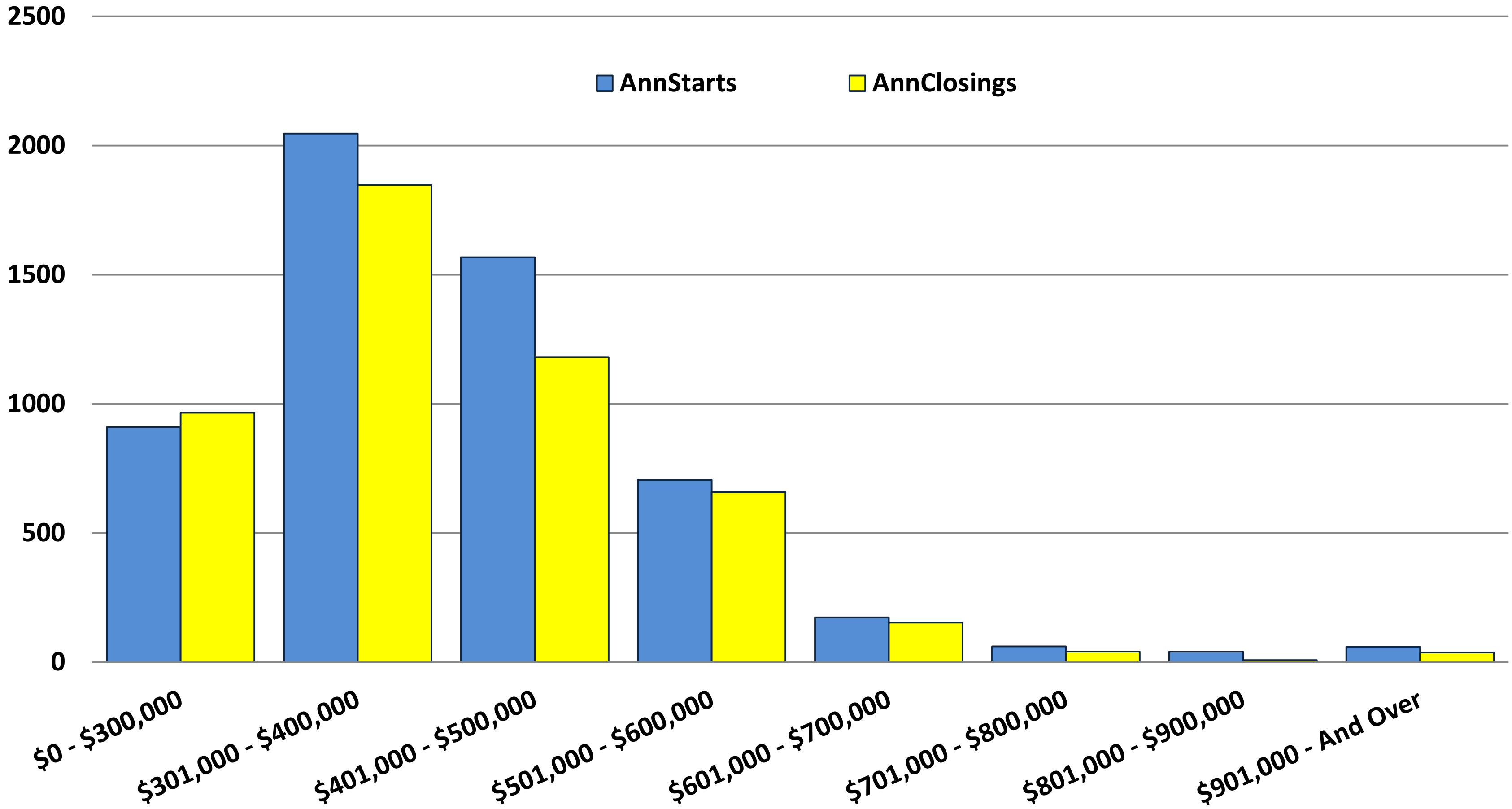
Annual Starts and Annual Closings Trends



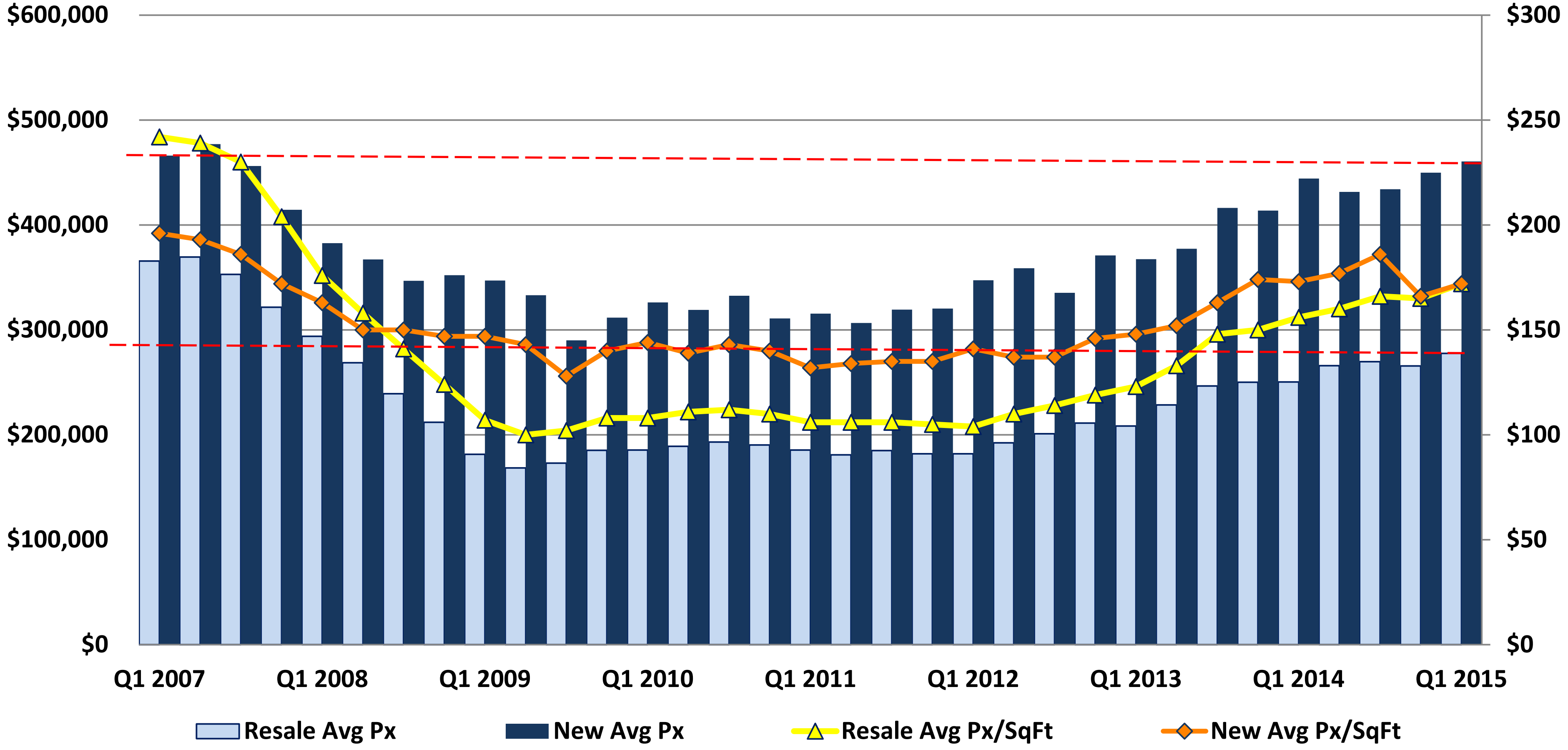
	Starts					Closings				
	2Q13 - 1Q14		2Q14 - 1Q15		% Change	2Q13 - 1Q14		2Q14 - 1Q15		% Change
	Total	Monthly Rate	Total	Monthly Rate		Total	Monthly Rate	Total	Monthly Rate	
Single Family	5,432	452.7	6,297	524.8	15.9%	5,408	450.7	5,385	448.8	-0.4%
TH/Plex/Other	278	23.2	531	44.3	91.0%	409	34.1	473	39.4	15.6%
Condominium	155	12.9	123	10.3	-20.6%	169	14.1	156	13.0	-7.7%
Selection Totals	5,865	488.8	6,951	579.3	18.5%	5,986	498.8	6,014	501.2	0.5%

Inland Empire

Annual Starts and Closings By Price Range



New vs. Resale Average Price Comparison



"New" Home Price Change By Product Type / County

Riverside County

	Average Floor Plan Price							Avg SqFt	Average Floor Plan Price Per Square Foot						
	2Q14	3Q14	4Q14	1Q15	Average	2Q13 - 1Q14 Average	% Change	1Q15	2Q14	3Q14	4Q14	1Q15	Average	2Q13 - 1Q14 Average	% Change
Single Family	$390,506	$401,669	$403,044	$406,740	$400,490	$356,846	12.2%	2,736	$145.99	$149.06	$150.70	$151.45	$149.30	$137.48	8.6%
TH/Plex/Other	$284,067	$290,233	$294,824	$288,199	$289,331	$283,900	1.9%	1,548	$191.05	$195.31	$173.71	$187.99	$187.01	$199.91	-6.5%
Condominium	$281,323	$444,917		$438,900	$388,380	$274,749	41.4%	2,410	$195.81	$192.13		$182.12	$190.02	$192.70	-1.4%
Selection Totals	$387,116	$399,765	$399,652	$404,652	$397,796	$354,585	12.2%	2,713	$147.46	$150.50	$151.42	$152.20	$150.40	$138.92	8.3%

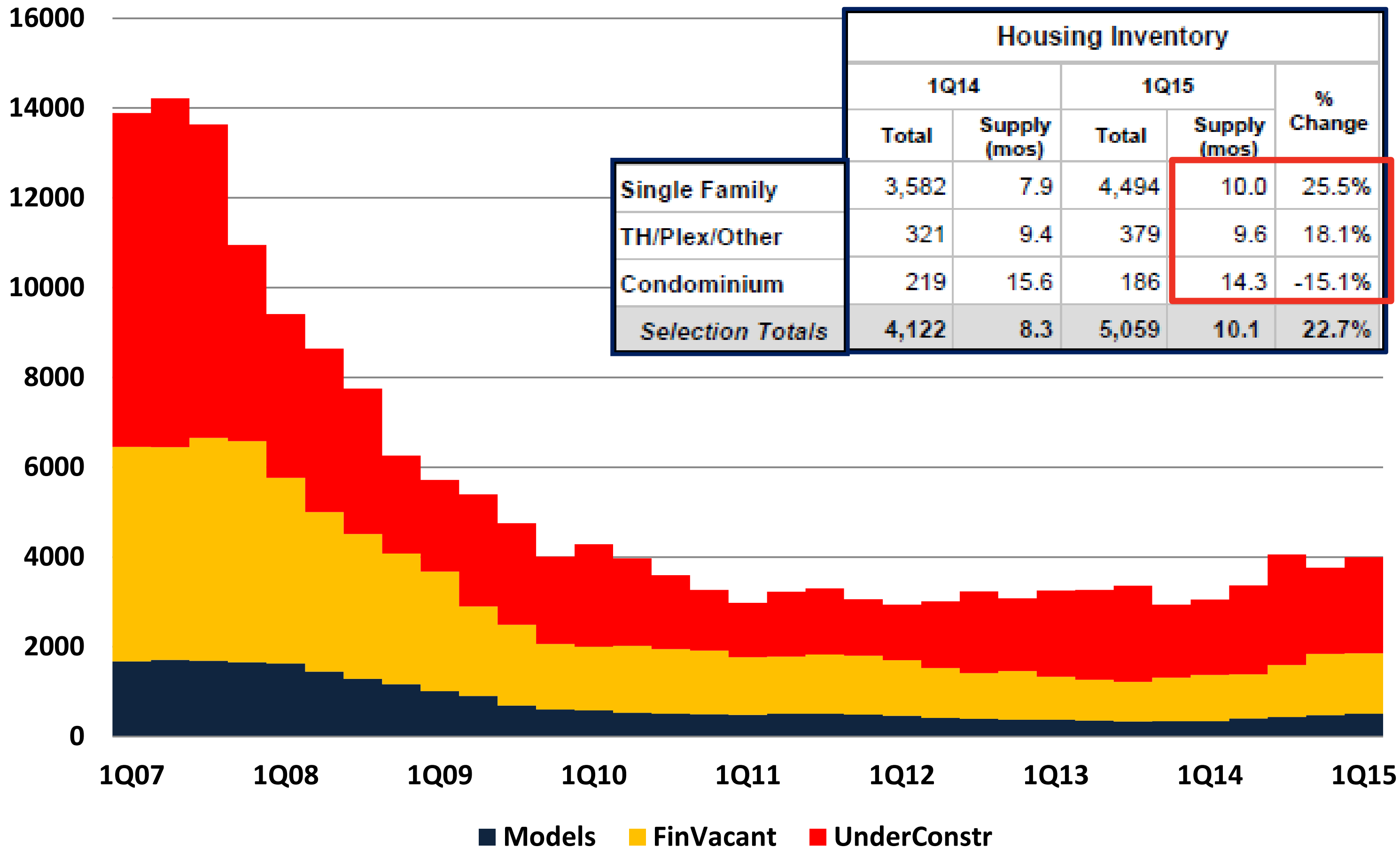
San Bernardino County

	Average Floor Plan Price							Avg SqFt	Average Floor Plan Price Per Square Foot						
	2Q14	3Q14	4Q14	1Q15	Average	2Q13 - 1Q14 Average	% Change	1Q15	2Q14	3Q14	4Q14	1Q15	Average	2Q13 - 1Q14 Average	% Change
Single Family	$421,396	$473,627	$480,418	$478,074	$463,379	$346,017	33.9%	2,731	$163.24	$178.66	$182.39	$177.31	$175.40	$142.21	23.3%
TH/Plex/Other	$328,000	$367,421	$373,376	$480,431	$387,307	$412,863	-6.2%	1,842	$218.68	$222.39	$225.21	$255.82	$230.53	$214.72	7.4%
Condominium	$335,115		$358,490	$369,990	$354,532	$323,018	9.8%	1,294	$216.28		$196.22	$286.45	$232.98	$216.53	7.6%
Selection Totals	$416,282	$466,937	$471,002	$476,210	$457,608	$349,708	30.9%	2,642	$166.34	$181.42	$185.90	$184.88	$179.64	$152.36	17.9%

Inland Empire
Lot Trends

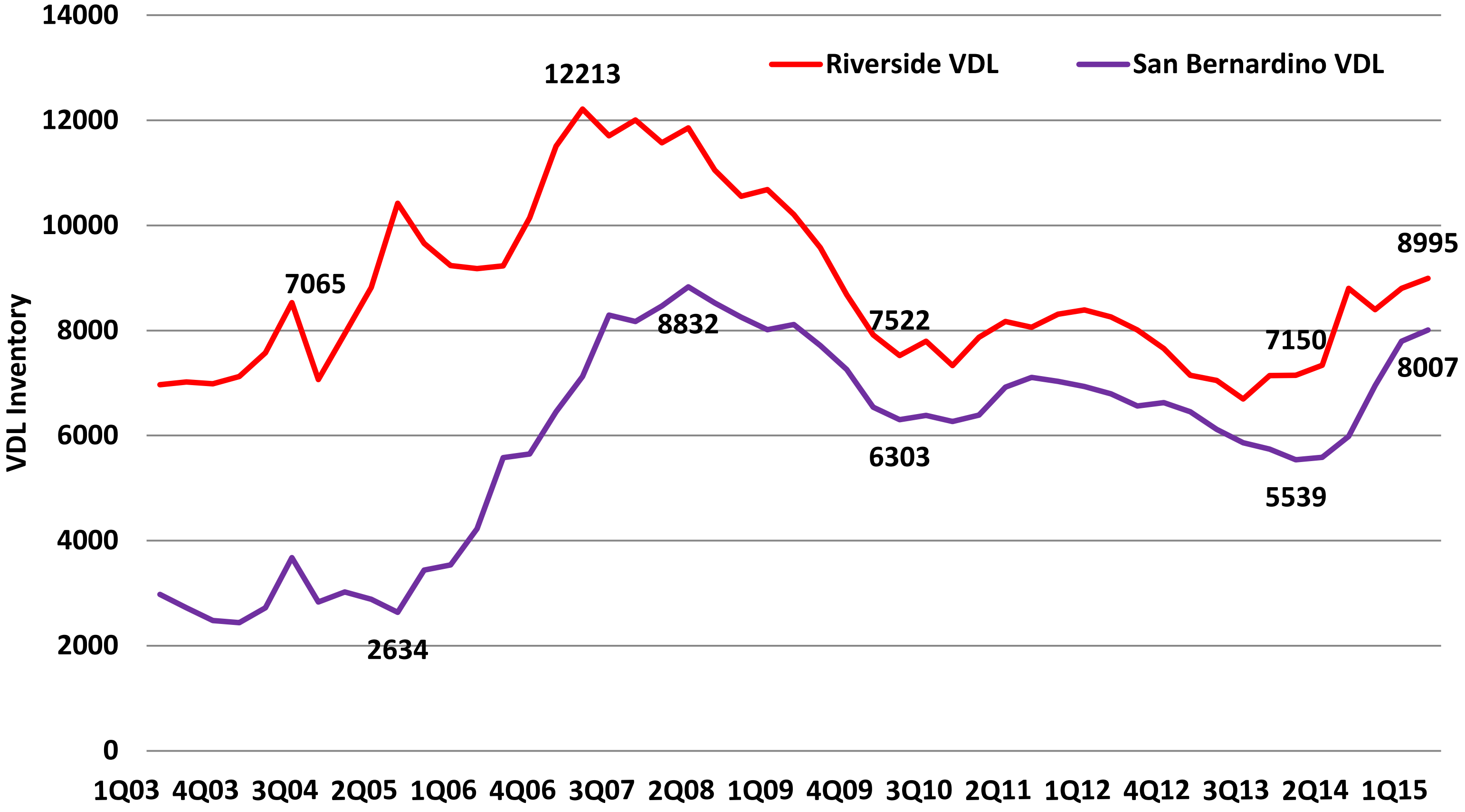
Inland Empire

Housing Inventory



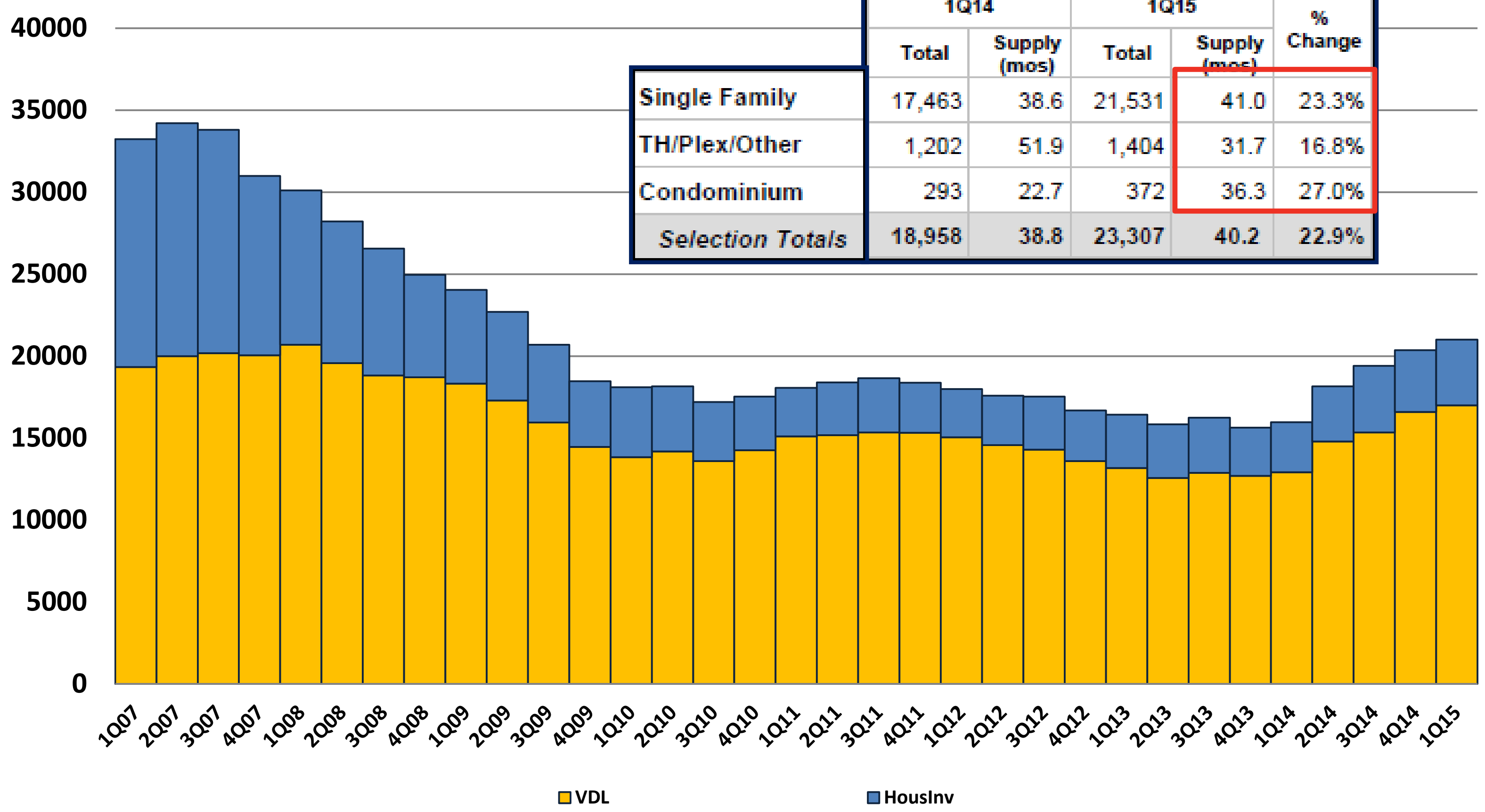
Housing Inventory	1Q14		1Q15		% Change
	Total	Supply (mos)	Total	Supply (mos)	
Single Family	3,582	7.9	4,494	10.0	25.5%
TH/Plex/Other	321	9.4	379	9.6	18.1%
Condominium	219	15.6	186	14.3	-15.1%
Selection Totals	**4,122**	**8.3**	**5,059**	**10.1**	**22.7%**

Vacant Developed Lot Historical Trend



Inland Empire

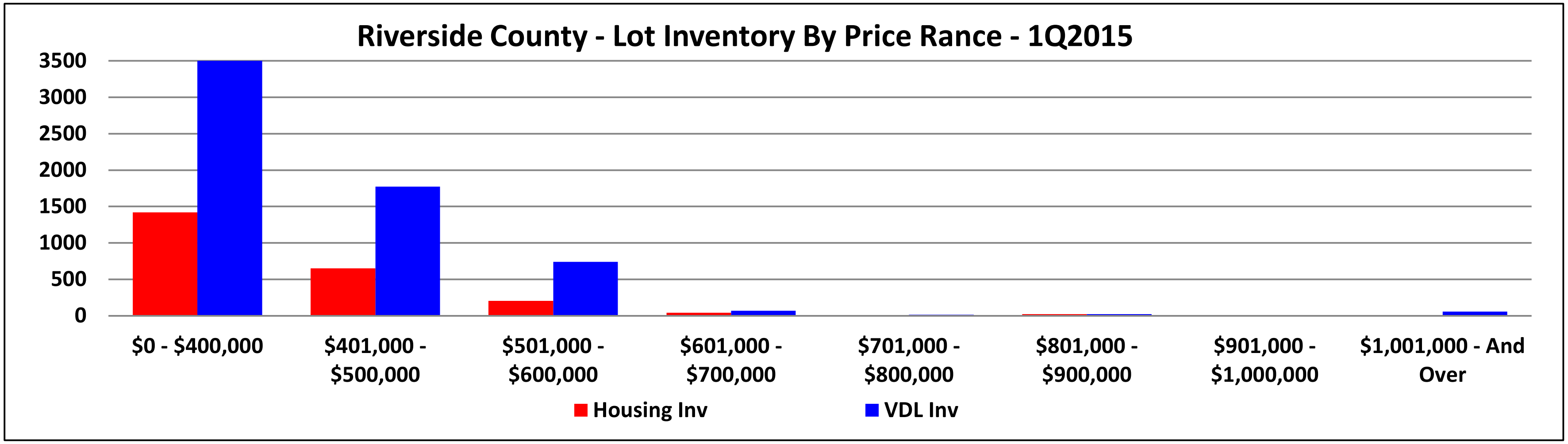
Vacant Developed Lots

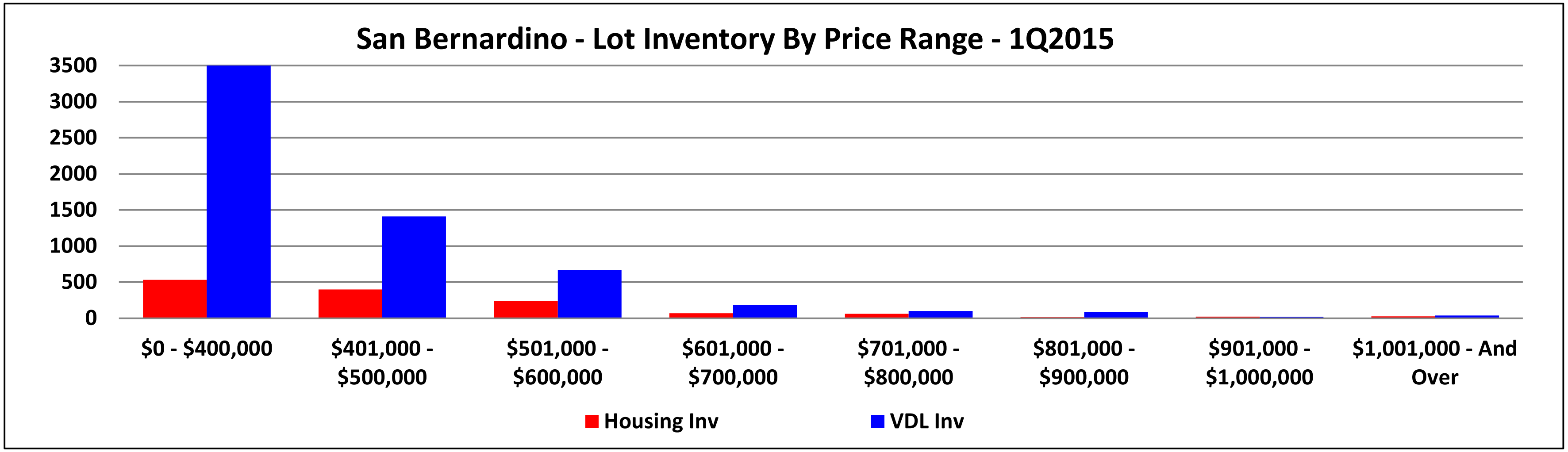


Vacant Developed Lots	1Q14		1Q15		% Change
	Total	Supply (mos)	Total	Supply (mos)	
Single Family	17,463	38.6	21,531	41.0	23.3%
TH/Plex/Other	1,202	51.9	1,404	31.7	16.8%
Condominium	293	22.7	372	36.3	27.0%
Selection Totals	18,958	38.8	23,307	40.2	22.9%

Inland Empire

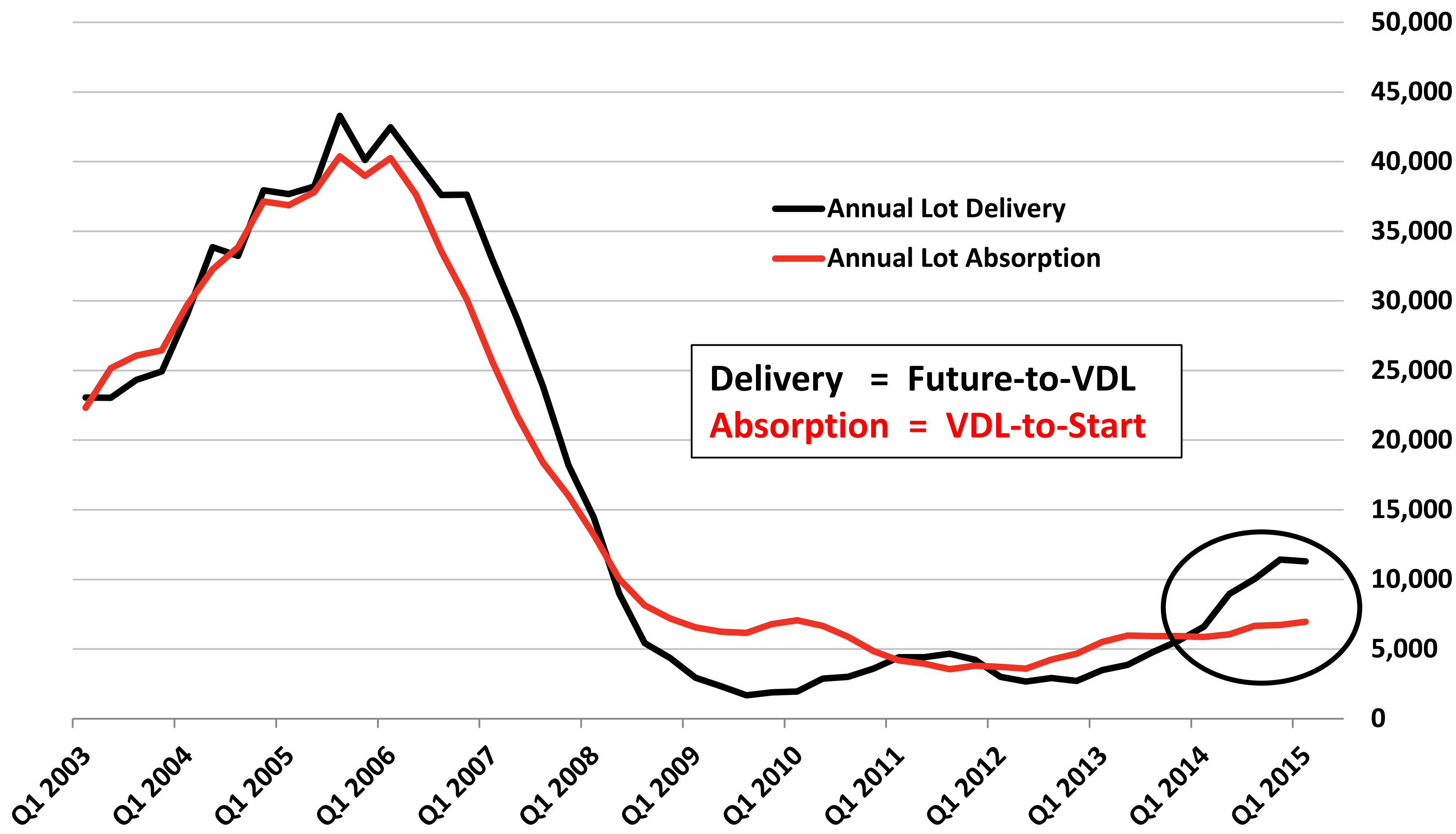
Lot Inventory By Price Range



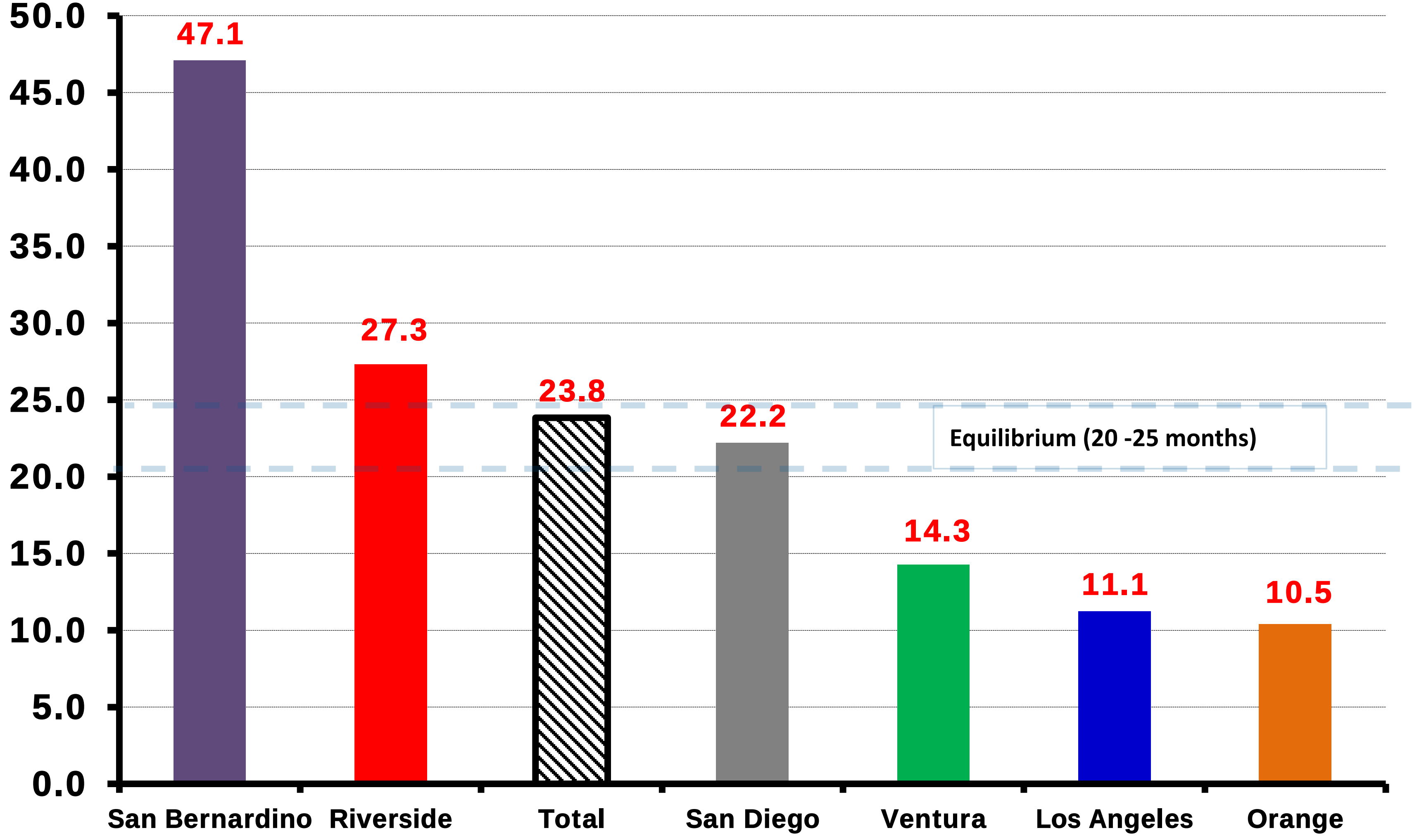


Inland Empire

Lot Deliveries vs. Absorptions

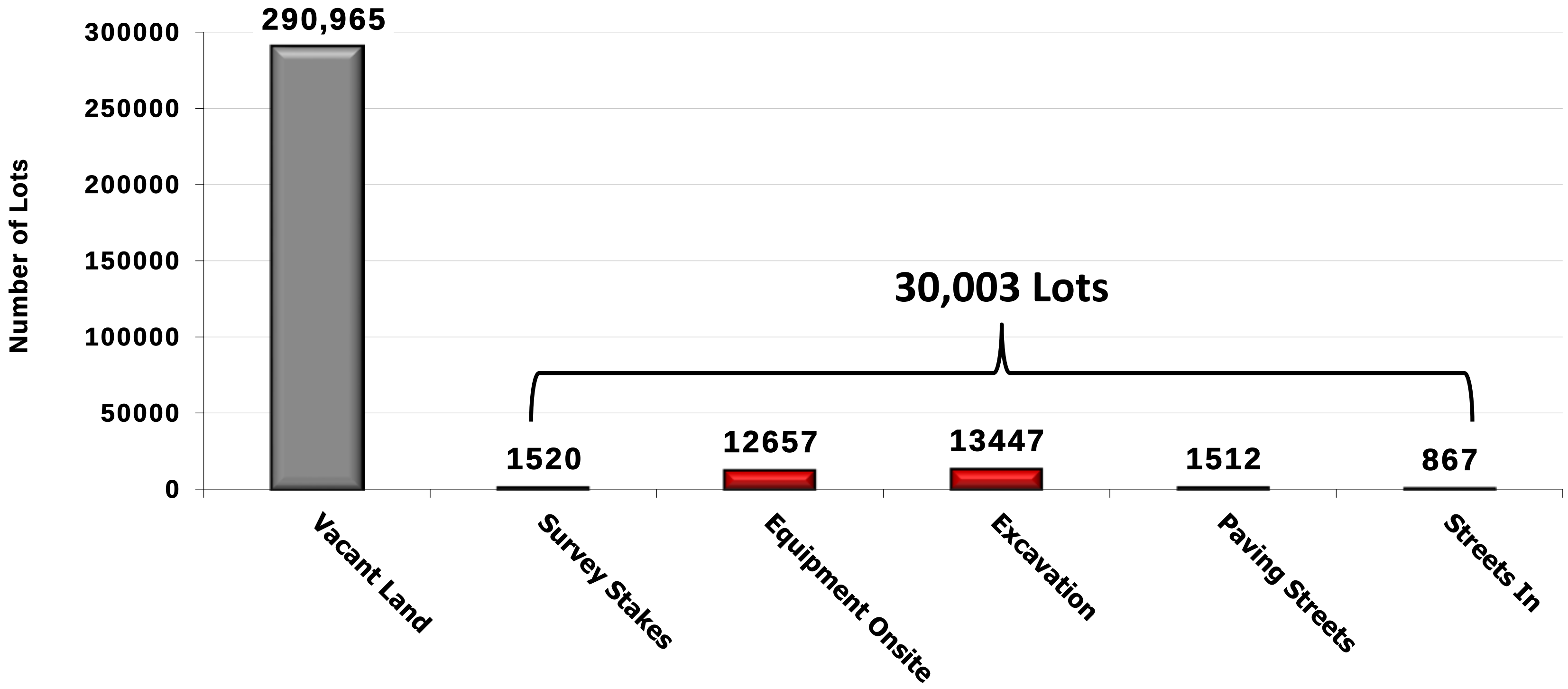


Southern California
VDL Months of Supply



Inland Empire

Future Lot Detail



Lot Size Segment	< 3501	3501-5000	5001-7000	7001-8000	8001-9000	9001-10000	10001-12000	12001 >
Future Inv %	1.2 %	12.3 %	29.5 %	41.5 %	4.7 %	1.5 %	2.0 %	7.3 %

1Q15 “Top” Builders

- Observed Annual Closings

Inland Empire

1Q2015 – Market Share By Annual Closings

Rank	Builder Name (Production)	2Q14	3Q14	4Q14	1Q15	Annual
1	Lennar	164	253	333	256	1006
2	KB Home	198	157	125	141	621
3	D.R. Horton	128	115	152	173	568
4	Standard Pacific Home	85	123	182	112	502
5	Pardee Homes	120	76	151	97	444
6	Richmond American Hom	72	72	87	57	288
7	Frontier Communities	92	62	65	65	284
8	Del Webb	49	73	85	69	276
9	Woodside Homes	66	70	65	35	236
10	Meritage Homes	37	31	42	36	146
11	K. Hovnanian Companie	35	30	27	20	112
12	Beazer Homes	19	13	40	15	87
13	Van Daele Development	20	19	17	24	80
14	TRI Pointe Homes	2	7	38	31	78
15	Ryland Homes	32	10	24	10	76
16	Centex Homes	16	3	25	28	72
17	Comstock Homes	24	48	0	0	72
18	Shea Homes	11	3	19	33	66
19	Master Craft Homes	2	27	7	15	51
20	Alta Verde Group	15	9	11	11	46
21	Far West Industries	13	7	9	17	46
22	GHA Companies	12	11	12	7	42
23	Coachella Valley Hous	2	17	17	4	40
24	Brookfield Residentia	17	1	11	5	34
25	Pacific Communities	5	1	13	13	32

Conclusions…

- Economic indicators are positive and fairly stable; Consumer Confidence levels are generally improving.
- Unemployment levels continue to drop along with jobless claims; labor force participation rate is still very low; quality of jobs being created is below pre-recession levels.
- Builders still have a shortage of supply in highly desirable areas, while inventories are larger in other areas.; subdivision traffic, conversion rates, and cancelations are still sub par.
- Closing transactions followed typical seasonal patterns, with a drop in 1Q2015 and appear to resemble a typical rebound in 2Q.
- Closing trends to remain relatively stable with moderate growth through first few quarters.
- Builders to remain cautious yet positive; carefully monitor absorption rates and inventory levels.
- First-time, first move-up buyers continue to struggle with affordability/qualifying as price differential for median priced resale versus new homes approximates $138k.
- Competitive Market: Builder need to more effectively target buyers and differentiate brand: "Segmentation" and Product Positioning Analysis incorporated into pre-development planning and sales and marketing strategies is critical to success.

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Thank You!