

BUILDING KNOWLEDGE SESSION

Lot Locations: Is "C" the New "B" (or "A")?

JANUARY 19, 2016 || 10:00-11:00 AM
South 231

Presenter:
Brad Hunter || *Metrostudy,*
Palm Beach Gardens, FL
(561) 573-8351
Data and commentary on
Twitter: @bradleyhunter

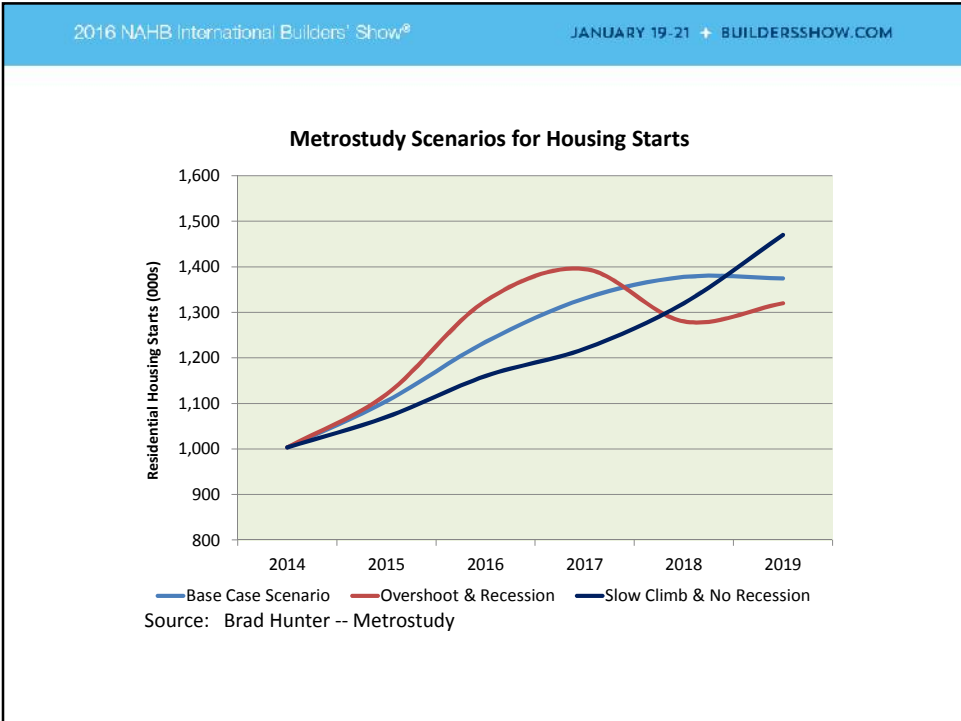
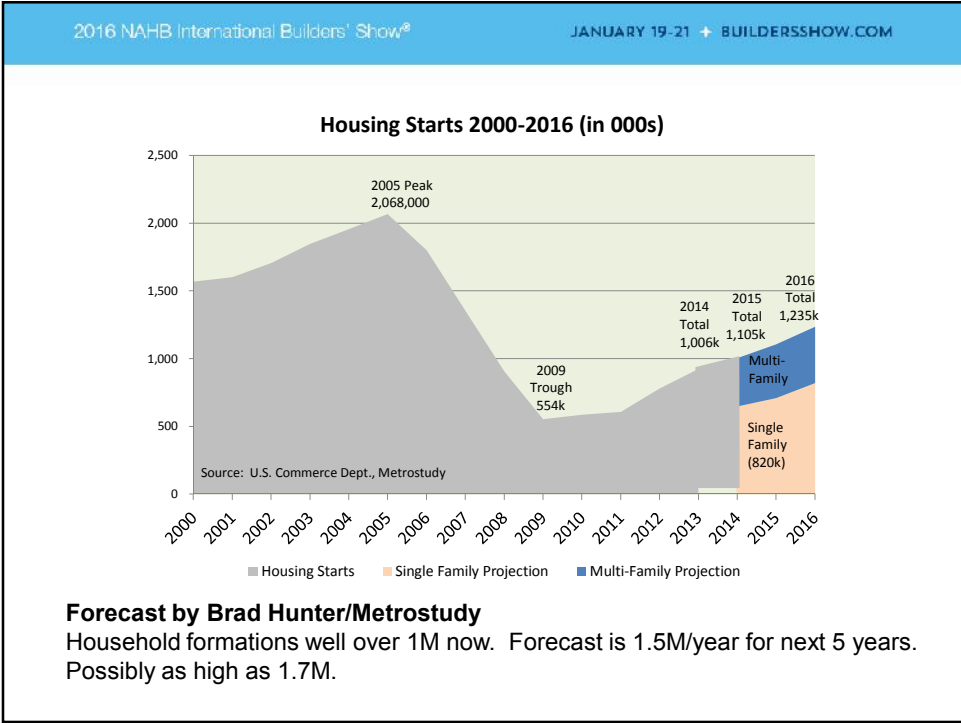
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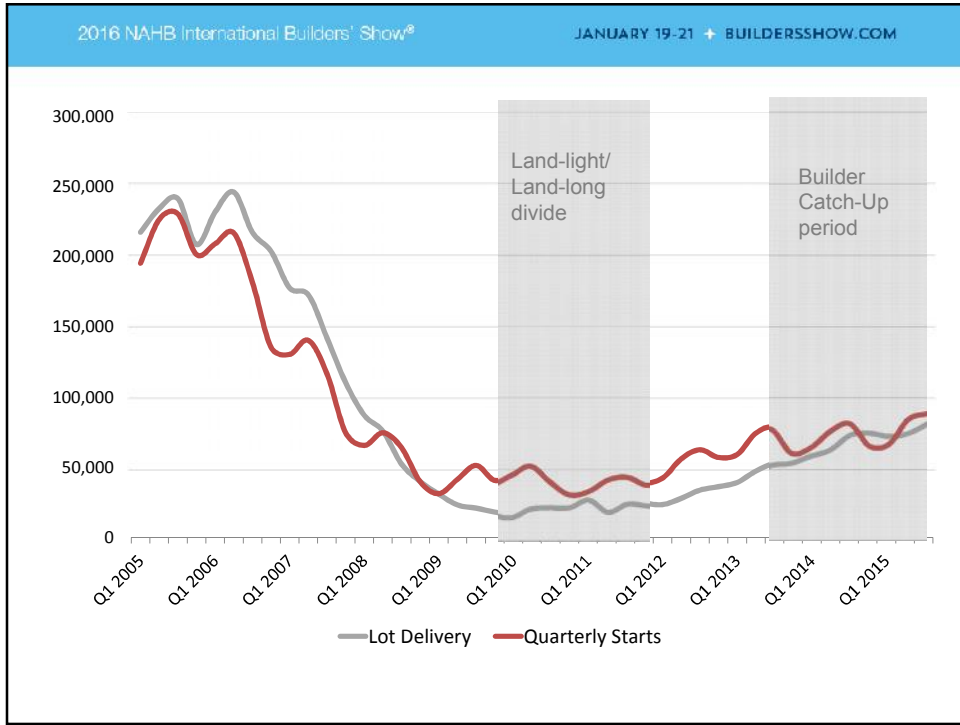


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Session Description

Builders are running low on lots and land purchased at "the bottom." Going forward, many will be utilizing lots that were bought at much higher price levels. This leads to perhaps the single-most important question facing the home building industry in 2016: Go further out or stick to the tried-and-true submarkets?





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“C” and “D” Lots: *Mostly Dead*

Movie poster for *The Princess Bride* with text: "Bring the Club of Poverty. Bring a Reel of Unlaminated Sex. Find a woman in the US of Ozland. This one has never been done." and "It's as real as the feelings on feet."

Meme image of an elderly man with the text: **MOSTLY DEAD**
IT'S SLIGHTLY ALIVE

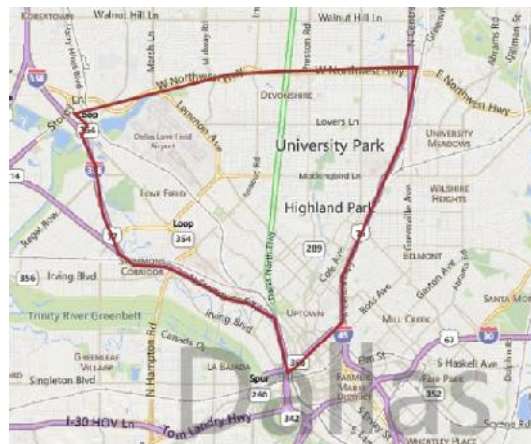
Dallas Example: Northern Submarkets



Dallas Example

Ring One: "Inside Northwest Highway"

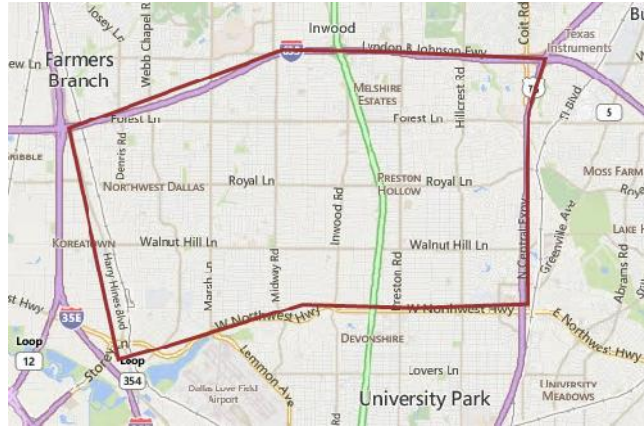
- Urban
- Built out, except for infill



Dallas Example

Ring Two: "North of Northwest Highway, Inside of Loop 635"

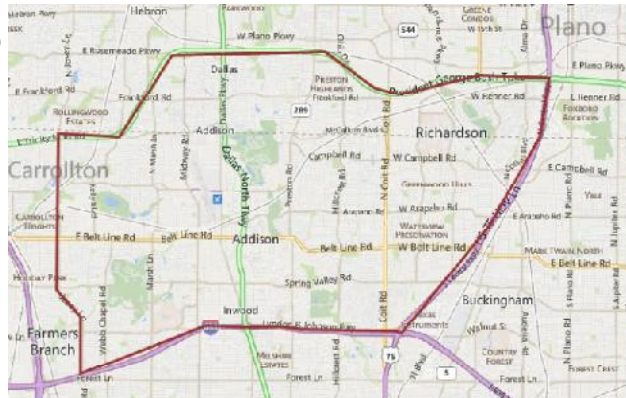
Heavily Urban



Dallas Example

Ring Three: "Inside Northwest Highway"

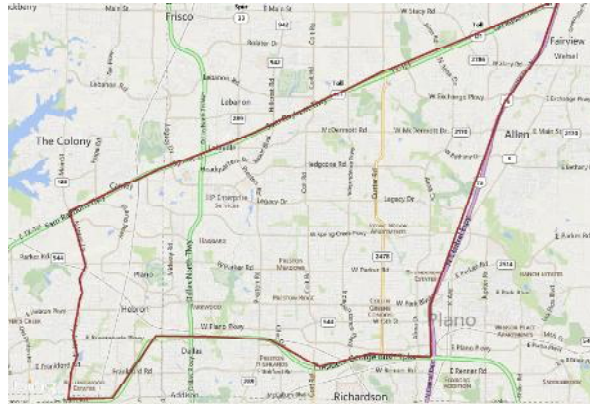
- 11 to 20 miles from CBD
-



Dallas Example

Ring Four: "North of PGBT, Inside of Highway 121"

- 21 to 28 mi. north of CBD
- Generally built out
- Median Year: 1993



Dallas Example

Ring FIVE: "North of Highway 121, Inside of Highway 380"

- 27 to 37 miles out
- Includes Frisco and Mckinney ("A")
- Median Year: 2004
- 85% built out.
- Remaning land held by long-term farming and ranching families
- Frisco pop went from 6,582 in 1990 to 136,791



Dallas Example

Ring SIX: "North of Highway 380, south of the Grayson County Line"

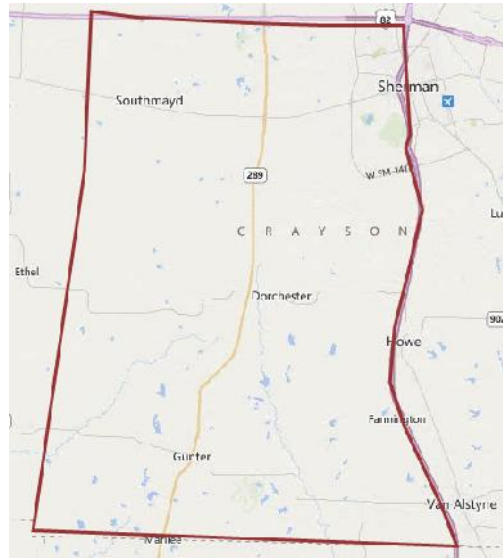
- 37 to 48 miles north.
- Town of Prosper has seen suburban development growth since 2010.
- Still "Path of Growth" land north of Prosper



Dallas Example

Ring Seven: "North of Grayson County Line, South of Highway 82"

- 48 to 68 miles north
- Exurban/rural
- Commute to Plano, Frisco Richardson





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Dallas Example

The rings closest to the Dallas CBD (Ring One and Ring Two) have achieved a higher than typical annual starts rate largely due to an

Annual Starts by Area

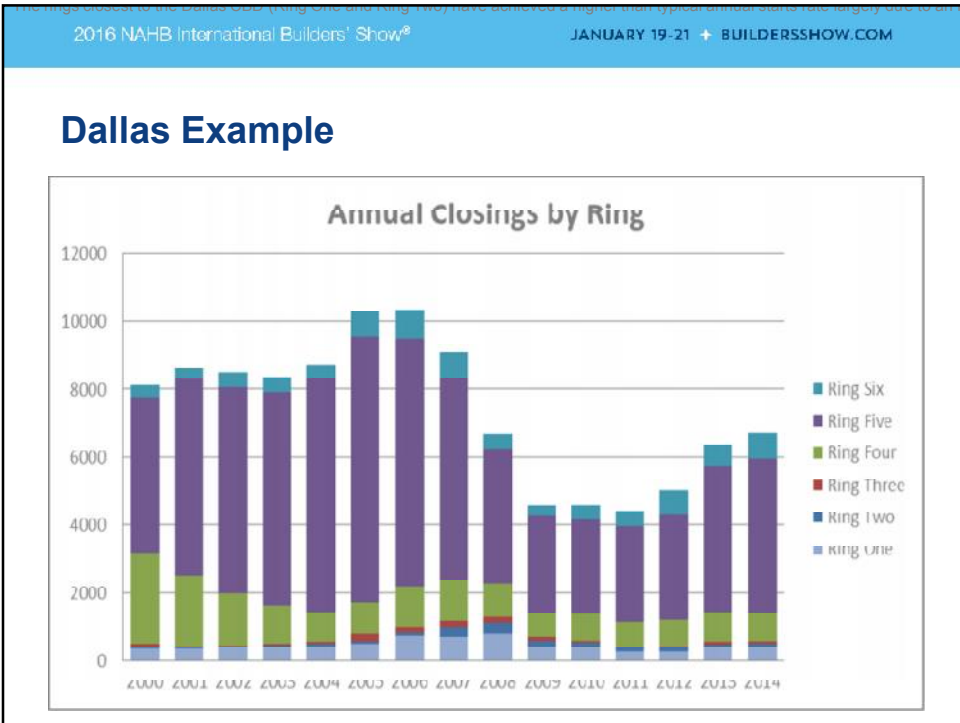
Ring	Starts
Ring One	345
Ring Two	195
Ring Three	76
Ring Four	890
Ring Five	4,653
Ring Six	892
Ring Seven	71

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Dallas Example

Annual Starts by Area

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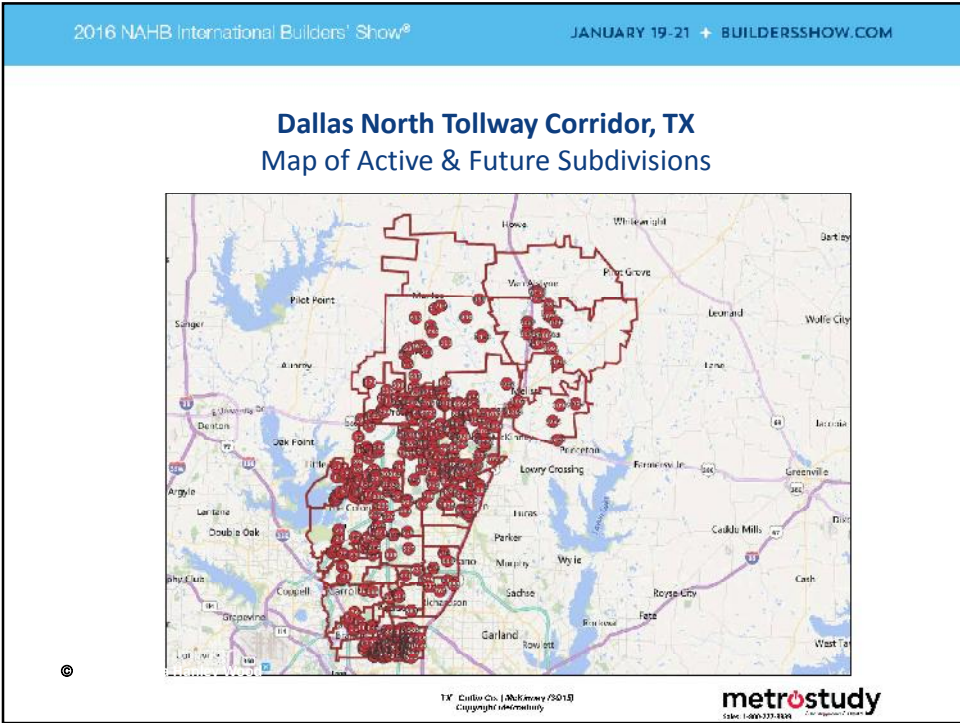


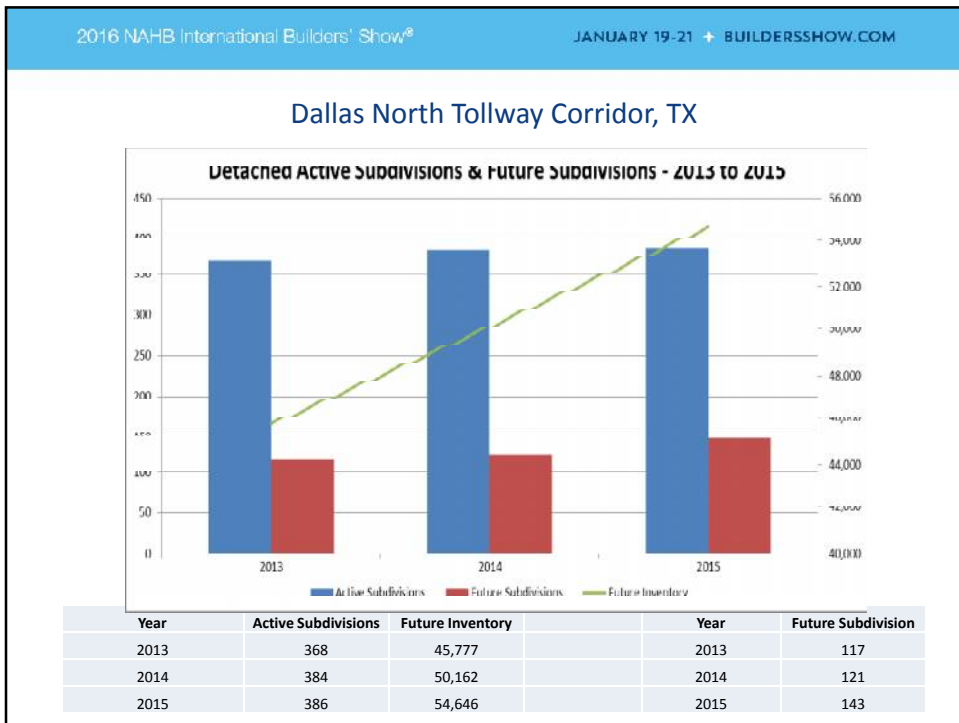
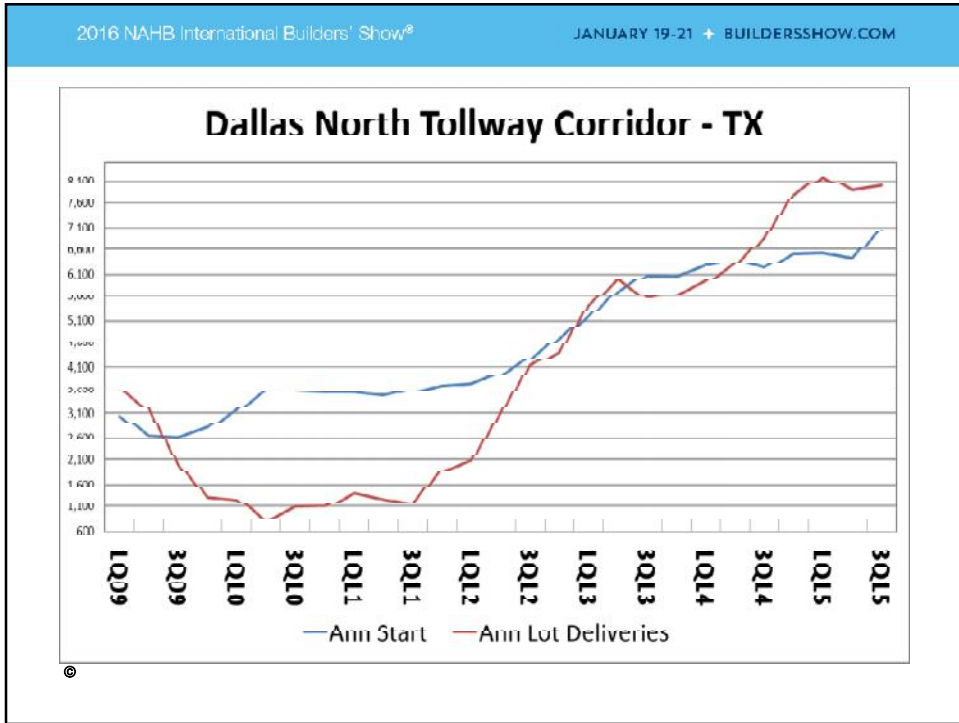
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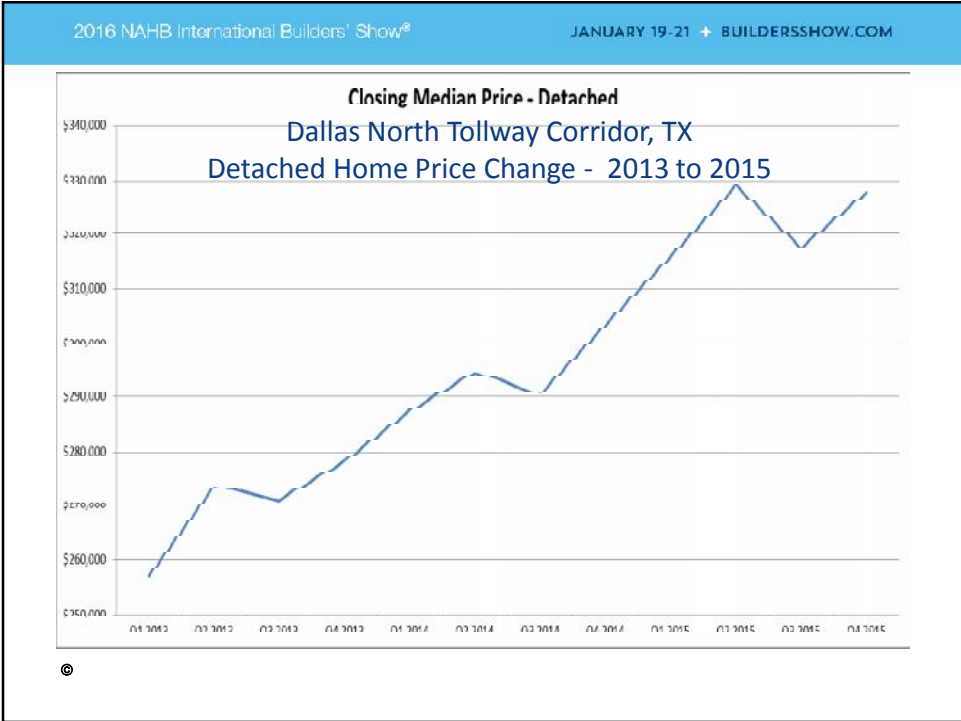
Dallas Example

Top Performing Active Community

Ring	Community	Builder(s)	Lot Size	Pricing	Annual Starts	Annual Closings
One	Courtyards at Normandy	Crescent Estates Custom Homes	50'	\$800K - \$1M	12	6
Two	Villas at Montclair	K. Hovnanian	50'	\$518K - \$550K	1	11
Three	Savoy Trace Addition	David Weekley Homes	45'	\$340K - \$368K	11	26
Four	Star Creek	Darling Homes / Highland Homes	55' - 90'	\$366K - \$658K	75	88
Five	Richwoods	Landon / K. Hovnanian / Newcastle / Toll Brothers	55' - 90'	\$398K - \$710K	250	316
Six	Light Farms	American Legend / Darling / Drees / Highland / Ryland / Shaddock	50' - 80'	\$272K - \$532K	155	84
Seven	Preserve	History Maker	60'	\$151K - \$217K	9	6







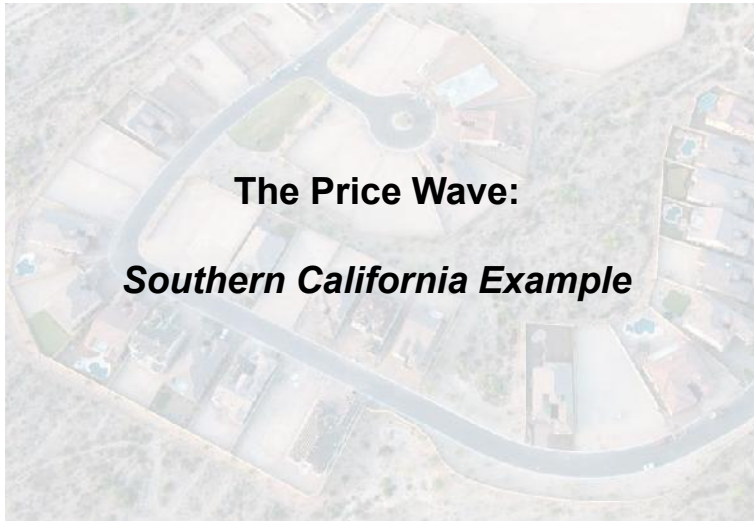
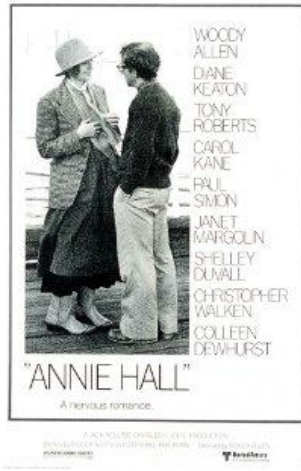
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The Obstacles for “C” Submarkets

- 1) Incomes in the peripheral areas are lower
- 2) Less savings
- 3) More difficulty qualifying for mortgages
- 4) More difficult to get A&D loans
- 5) Downpayment money
 - New form of G.I. Financing

Impact: Some households will never break out of renting, but many will, and they will support volume growth back to 1.4 million starts.

Joke: My brother thinks he's a chicken...



The Price Wave: *Southern California Example*

The Price Wave: Southern California Example

In 1900, San Francisco was the most populous county in California, followed by Los Angeles and then Alameda. By 1920, Los Angeles became the most populous. By 1960, San Diego took the number 2 spot, followed by Alameda. (San Francisco was basically built-out by 1950.) By 1980, the order was Los Angeles, Orange, San Diego, Santa Clara and then Alameda. By 2000, the order was Los Angeles, Orange, San Diego, San Bernardino, Santa Clara, Riverside, then Alameda.

The peak decades for population growth in raw numbers for the sixteen Northern California counties that Metrostudy has considered are depicted below.



The blue counties had their peak population growth first, in the 1940's; green represents the 1950's; yellow the 1960's; orange the 1970's, red the 1980's, and gray the 2000's.

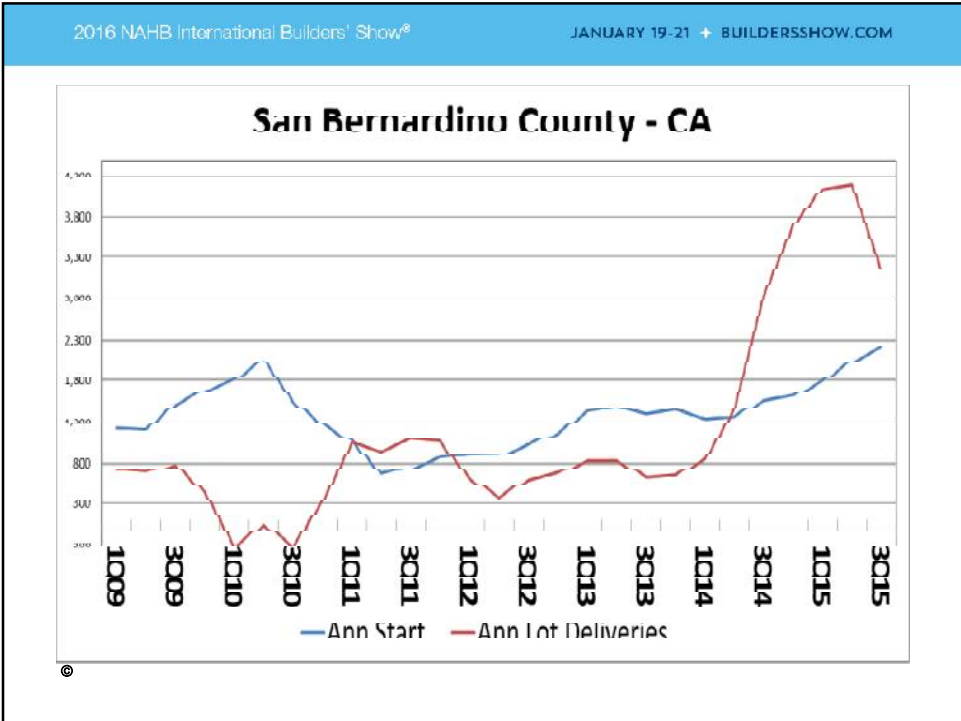
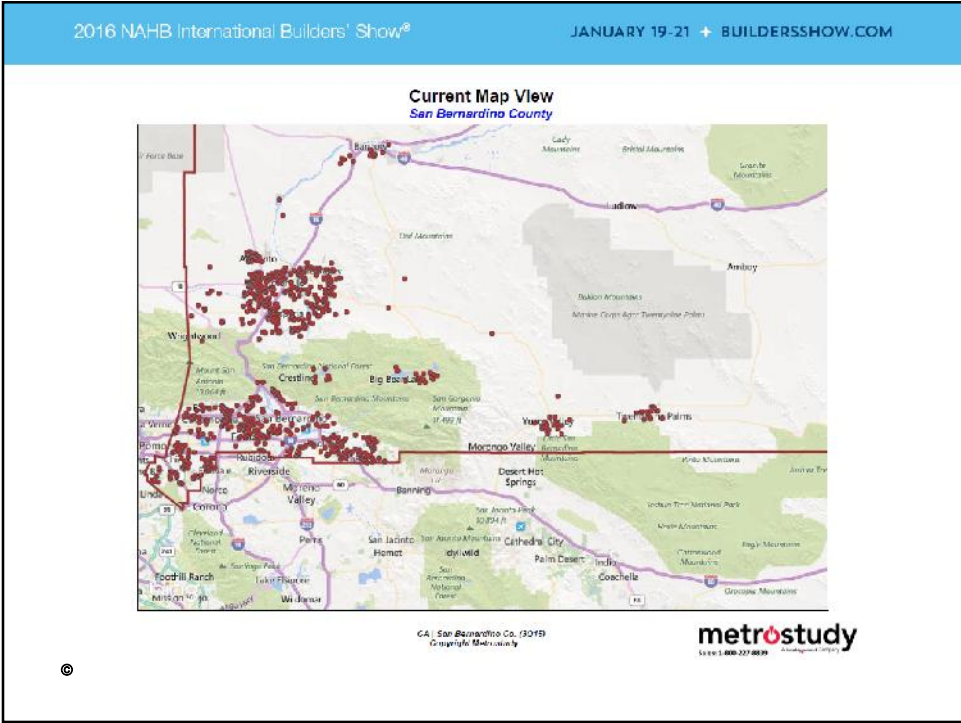
If we compare the previous picture to a similar one that shows recent (April 2011) median prices, we see the following:

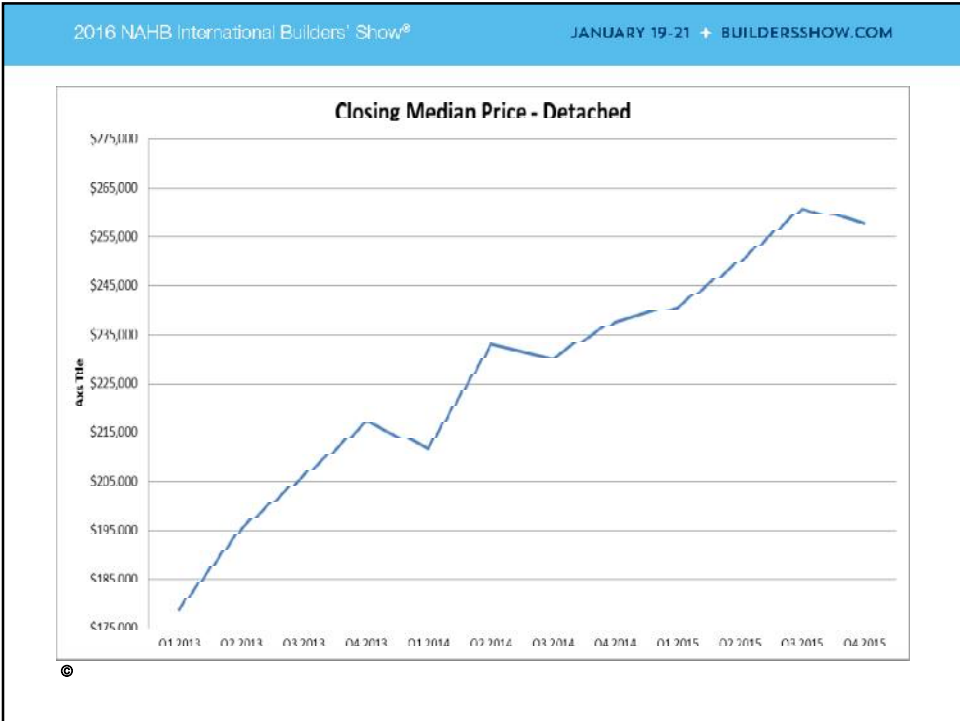
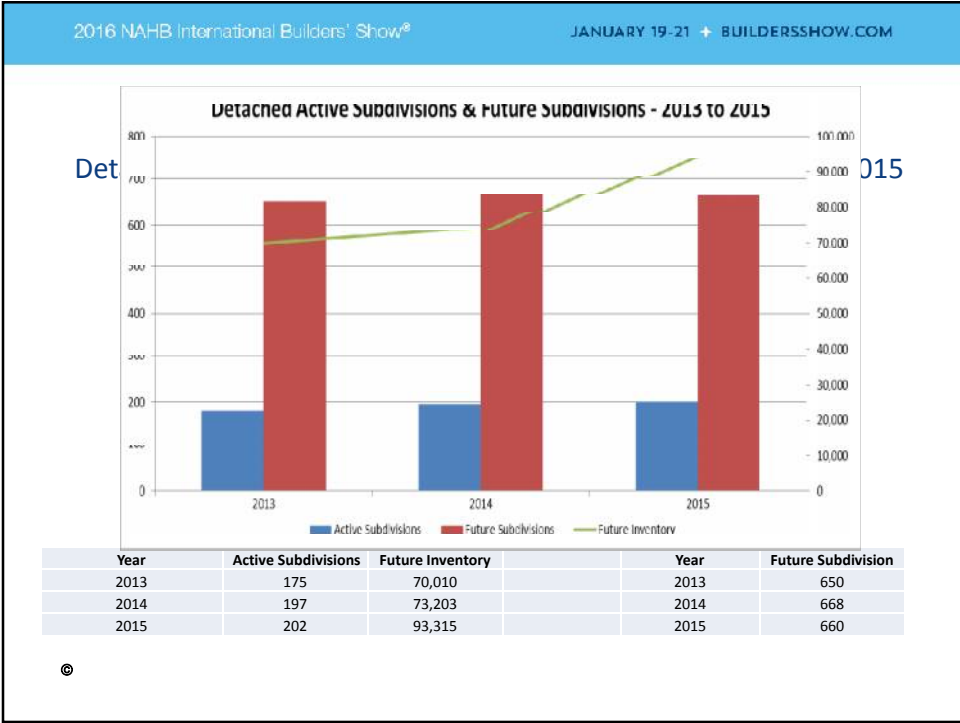


Where blue is in the \$600's, green the \$500's, yellow the \$400's, orange the \$300's, red the \$200's, and gray the \$100's.

While the order in which counties have become populated is persuasive, the relative desirability has clearly changed over time, and the prices that homes in a given county command at any given time must be the best indicator of desirability. Although there are many notable exceptions, it appears that proximity to San Francisco is the simplest indicator of desirability.

Among the four Southern California counties that Metrostudy considered, the peak decades for population growth in raw numbers were the 1950's for Los Angeles; the 1960's for Orange; the 1980's for San Bernardino, and the 1990's for Riverside. In both Northern and Southern California, a county on the coast is likely to be primary, and an inland county is likely to be secondary.





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YEAR - 2013 to 2015 San Bernardino County, CA

Year	Closing Price Median	YOY Change	YOY % Change
2013	\$198,300	N/A	N/A
2014	\$229,200	\$30,900	15.6%
2015	\$252,500	\$23,300	10.2%

QUARTER - 2013 to 2015

Quarter	Closing Price Median	QOQ Change	QOQ % Change
Q1 2013	\$178,800	N/A	N/A
Q2 2013	\$195,300	\$16,500	9.2%
Q3 2013	\$206,100	\$10,800	5.5%
Q4 2013	\$216,900	\$10,800	5.2%
Q1 2014	\$211,700	(\$5,200)	-2.4%
Q2 2014	\$232,700	\$21,000	9.9%
Q3 2014	\$230,500	(\$2,200)	-0.9%
Q4 2014	\$237,800	\$7,300	3.2%
Q1 2015	\$240,800	\$3,000	1.3%
Q2 2015	\$250,000	\$9,200	3.8%
Q3 2015	\$260,900	\$10,900	4.4%
Q4 2015	\$257,900	(\$3,000)	-1.1%

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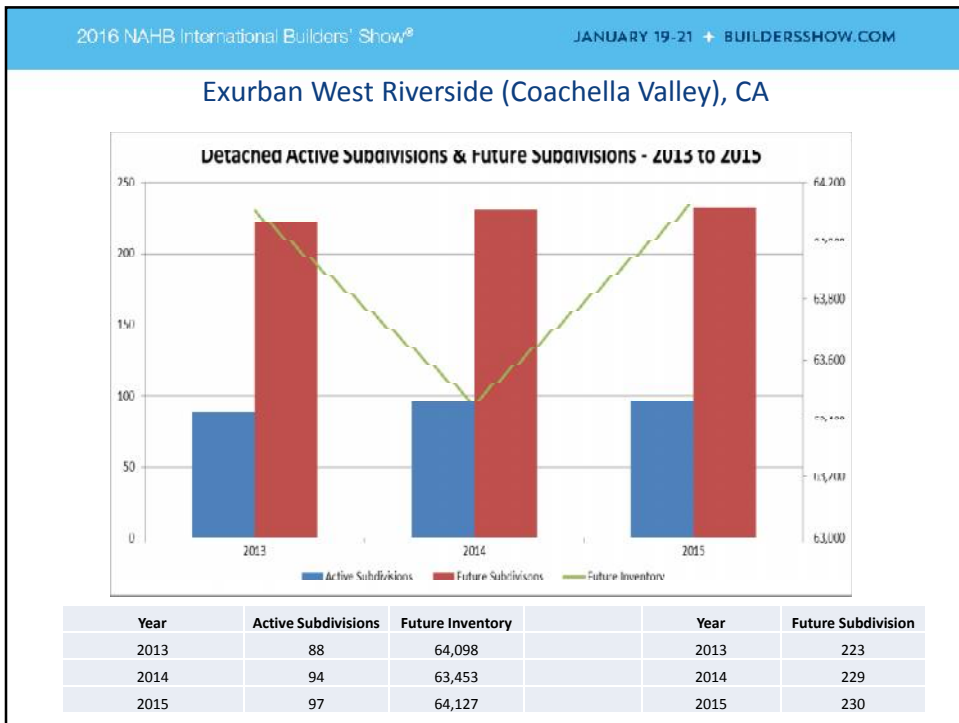
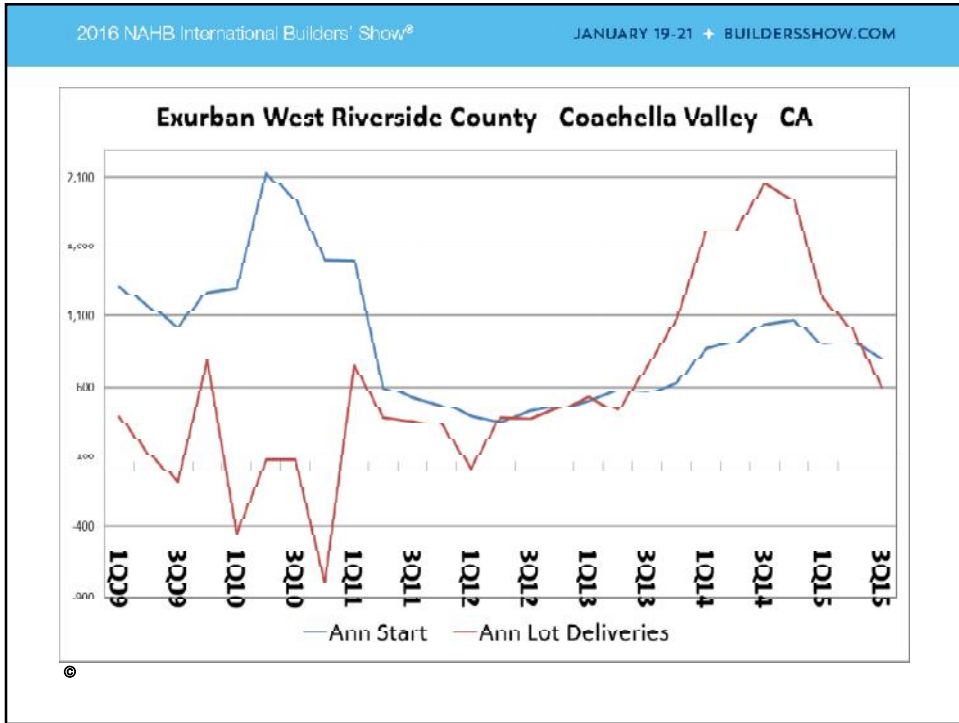
Current Map View Coachella Valley

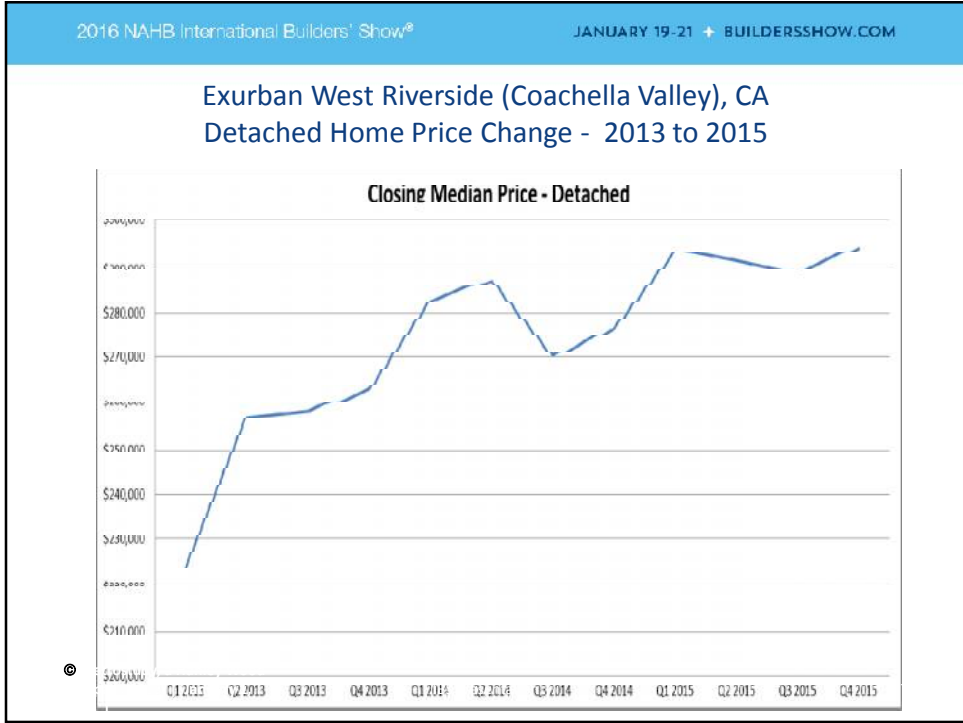
STRAIGHT
OUTTA
COACHELLA

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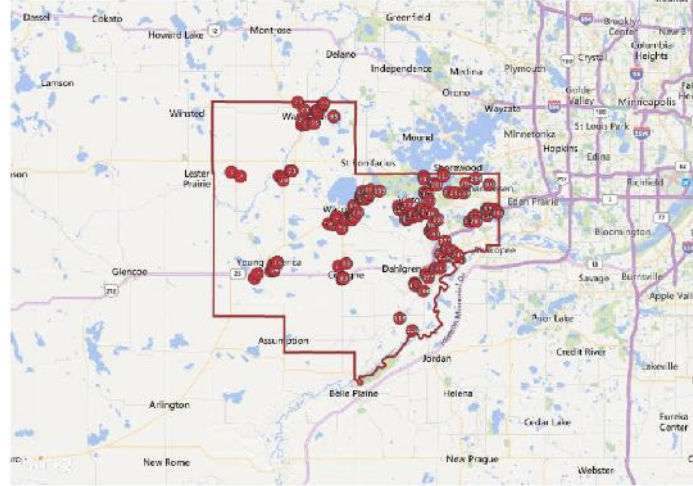
Exurban West Riverside (Coachella Valley), CA Detached Home Price Change - 2013 to 2015

Year	Closing Price Median	YOY Change	YOY % Change
2013	\$248,800	N/A	N/A
2014	\$279,500	\$30,700	12.3%
2015	\$291,600	\$12,100	4.3%

QUARTER - 2013 to 2015

Quarter	Closing Price Median	QOQ Change	QOQ % Change
Q1 2013	\$224,000	N/A	N/A
Q2 2013	\$257,200	\$33,200	14.8%
Q3 2013	\$258,300	\$1,100	0.4%
Q4 2013	\$262,800	\$4,500	1.7%
Q1 2014	\$282,800	\$20,000	7.6%
Q2 2014	\$287,000	\$4,200	1.5%
Q3 2014	\$270,200	(\$16,800)	-5.9%
Q4 2014	\$276,400	\$6,200	2.3%
Q1 2015	\$293,300	\$16,900	6.1%
Q2 2015	\$291,500	(\$1,800)	-0.6%
Q3 2015	\$289,300	(\$2,200)	-0.8%
Q4 2015	\$294,200	\$4,900	1.7%

Current Map View
Carver County, MN

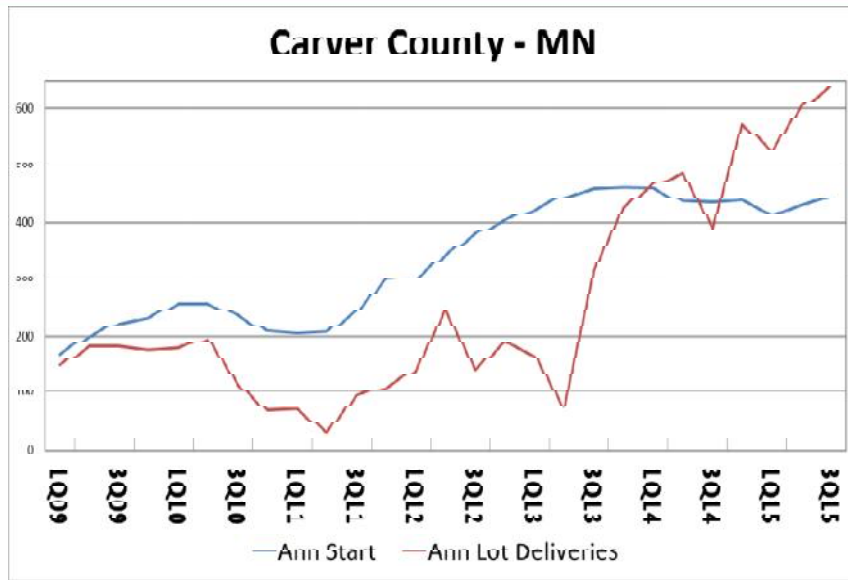


MW Carver Co. (2015)
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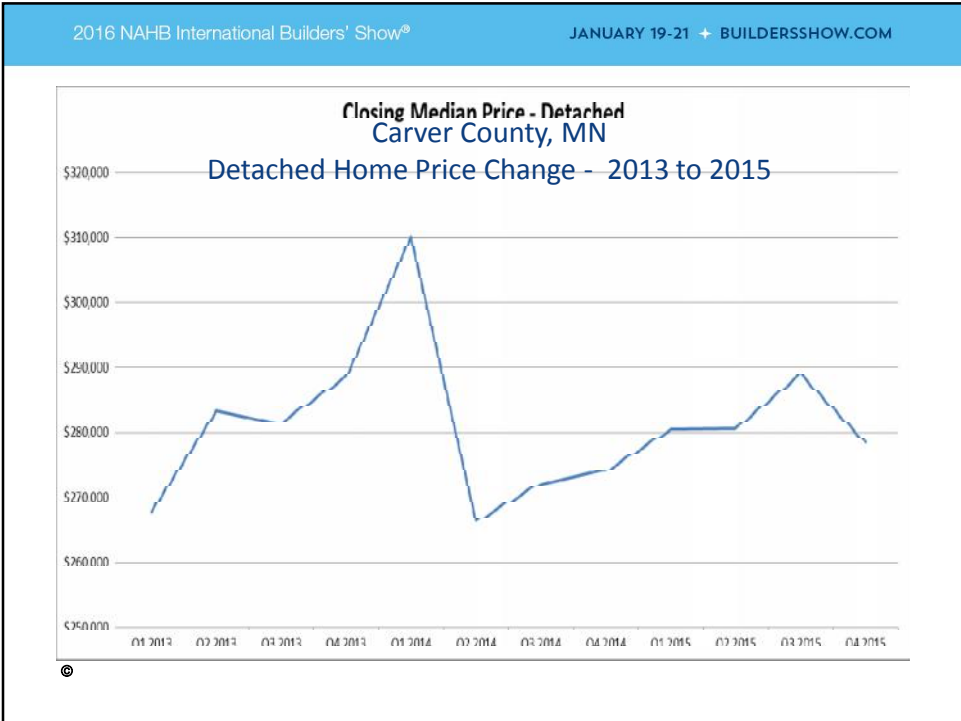
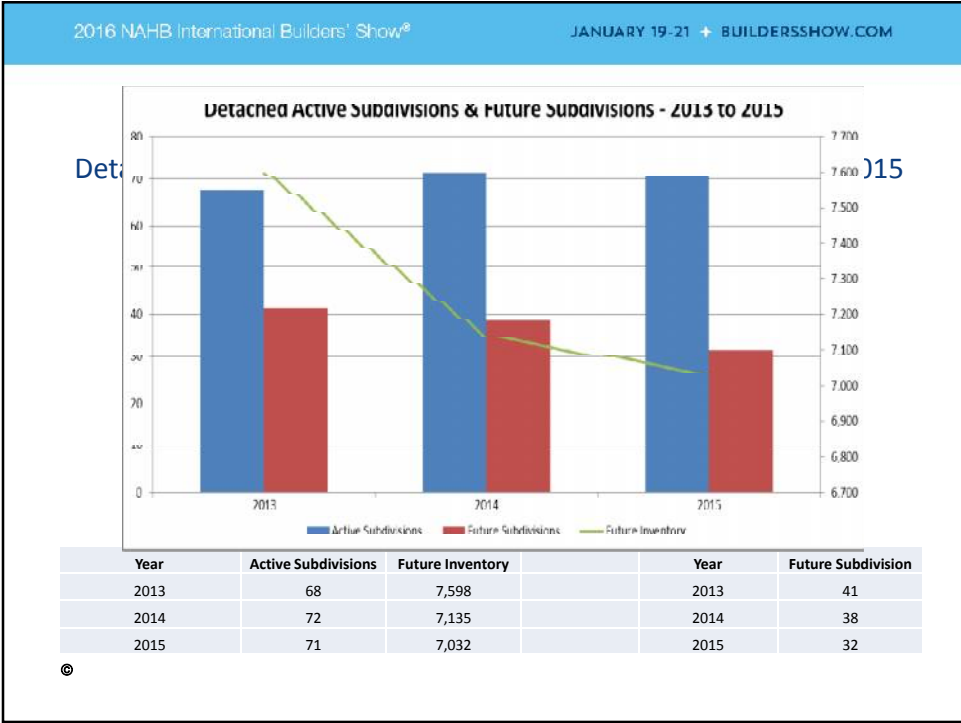
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Carver County - MN



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YEAR - 2013 to 2015
Carver County, MN

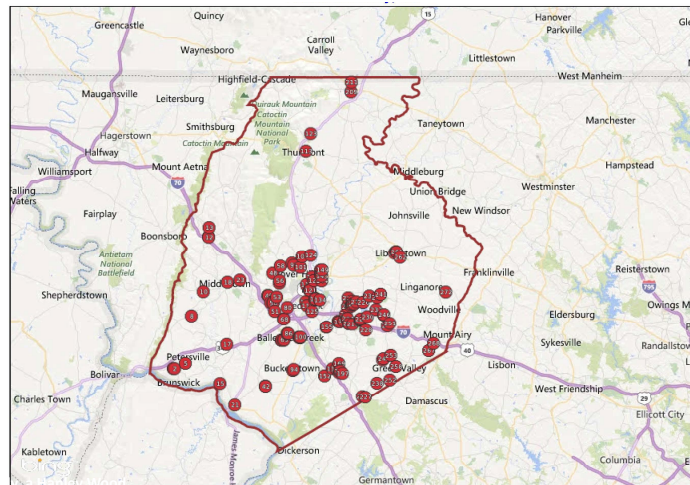
Year	Closing Price Median	YOY Change	YOY % Change
2013	\$282,500	N/A	N/A
2014	\$277,500	(\$5,000)	-1.8%
2015	\$283,000	\$5,500	2.0%

QUARTER - 2013 to 2015

Quarter	Closing Price Median	QOQ Change	QOQ % Change
Q1 2013	\$267,700	N/A	N/A
Q2 2013	\$283,100	\$15,400	5.8%
Q3 2013	\$281,500	(\$1,600)	-0.6%
Q4 2013	\$288,500	\$7,000	2.5%
Q1 2014	\$310,100	\$21,600	7.5%
Q2 2014	\$266,100	(\$44,000)	-14.2%
Q3 2014	\$272,100	\$6,000	2.3%
Q4 2014	\$273,900	\$1,800	0.7%
Q1 2015	\$280,400	\$6,500	2.4%
Q2 2015	\$280,500	\$100	0.0%
Q3 2015	\$288,900	\$8,400	3.0%
Q4 2015	\$278,300	(\$10,600)	-3.7%

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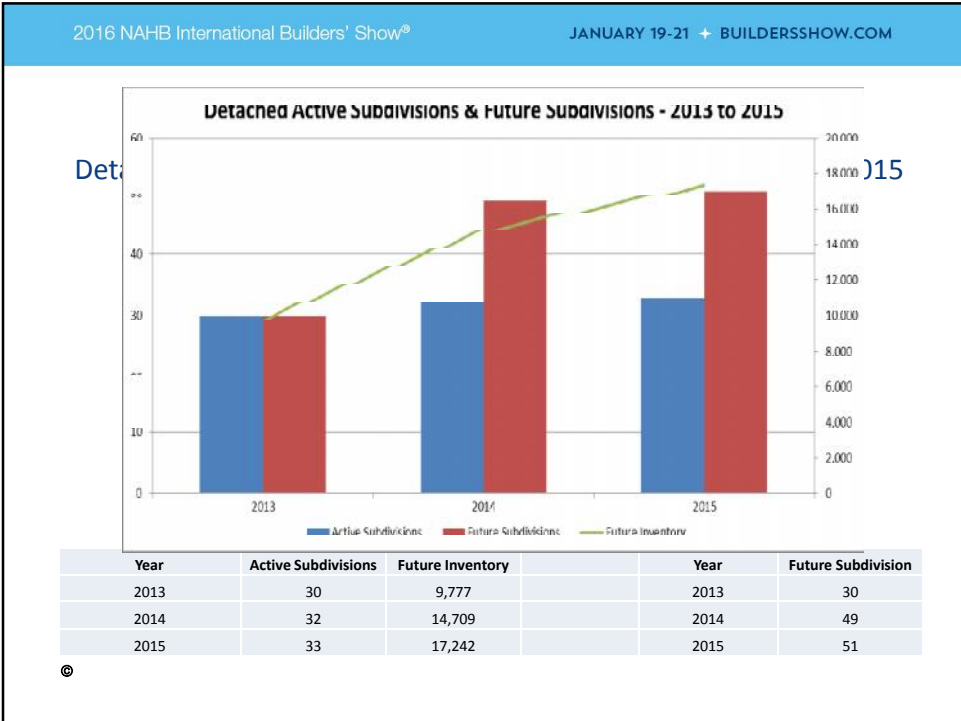
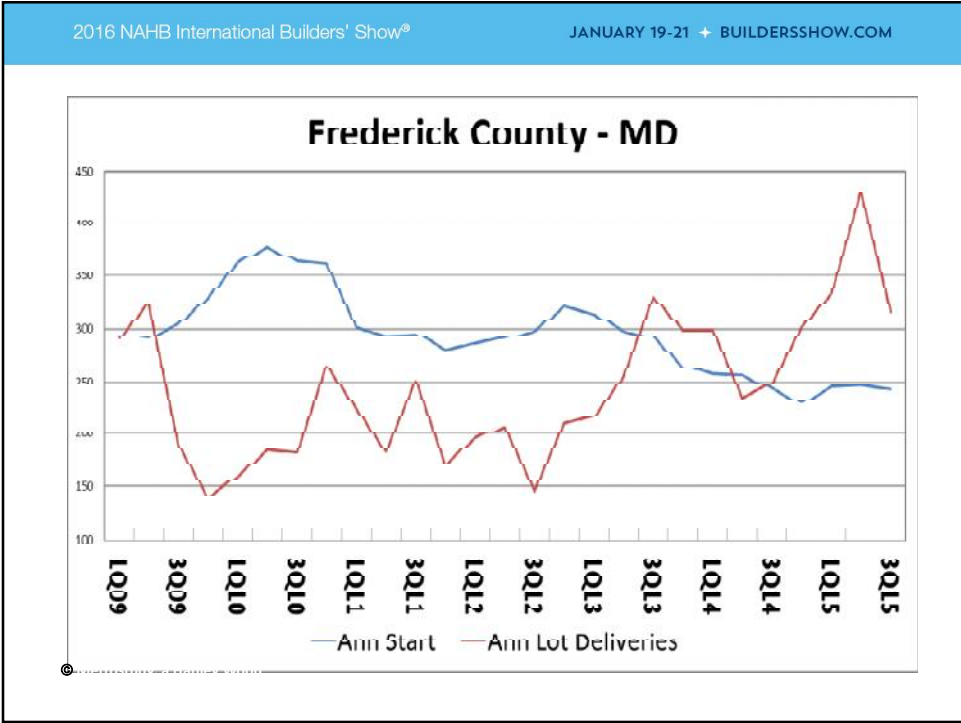
Frederick County, MD
Map of Active & Future Subdivisions

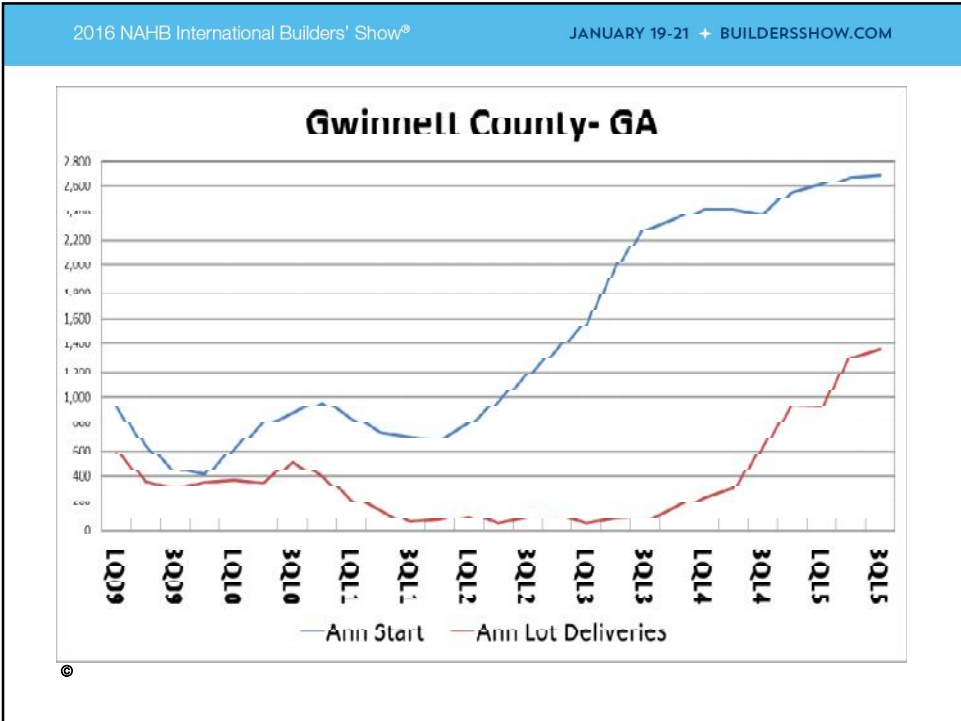
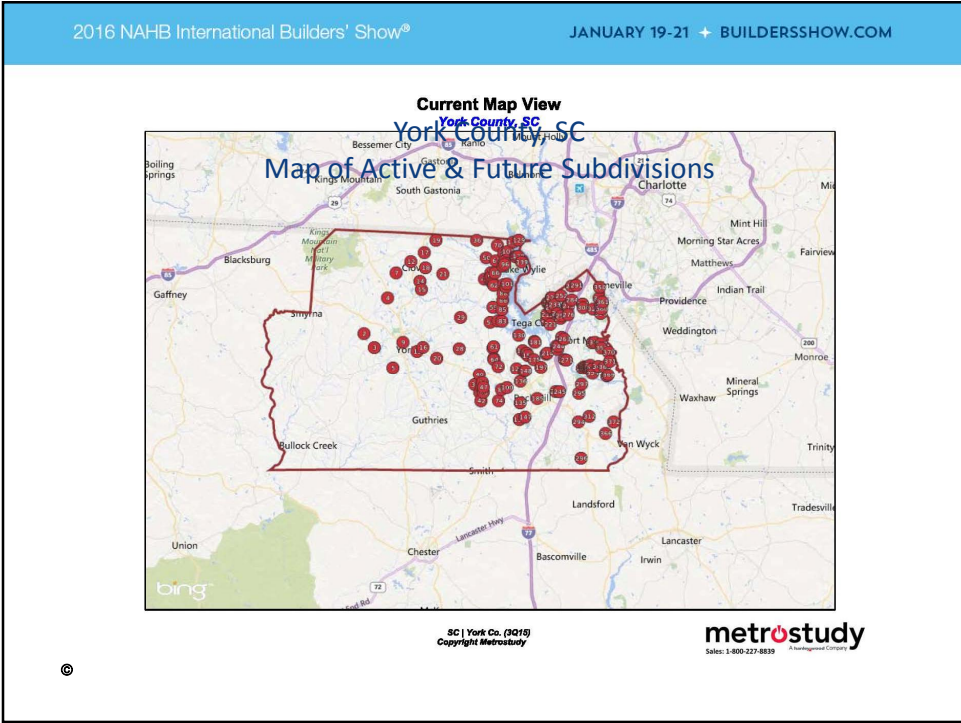


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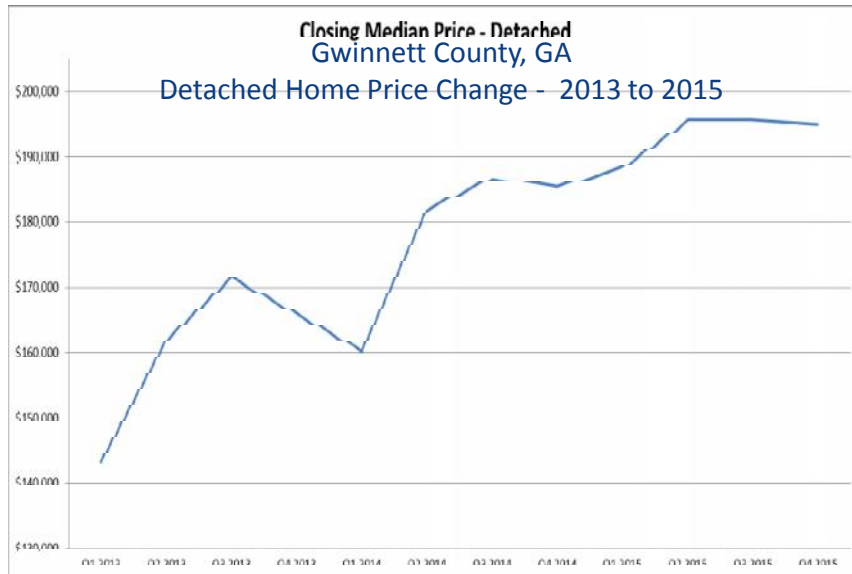


Gwinnett County, GA

Future subdivisions up 43% in two years

Year	Active Subdivisions	Future Inventory	Year	Future Subdivisions
2013	375	11,942	2013	109
2014	364	13,572	2014	145
2015	354	13,522	2015	143

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Gwinnett County, GA Detached Home Price Change - 2013 to 2015

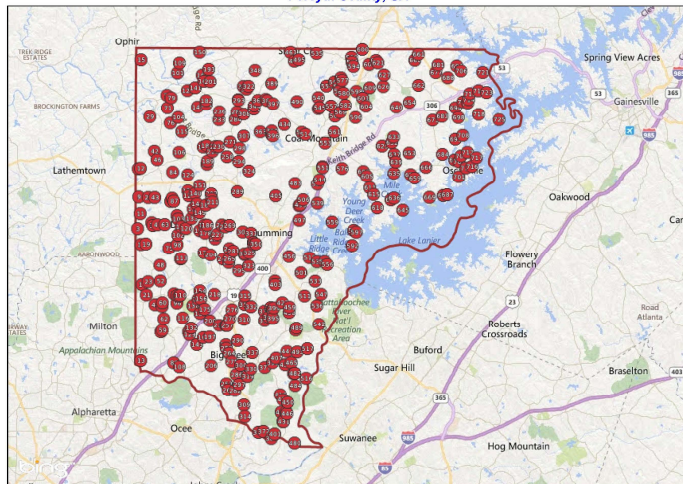
Year	Closing Price Median	YOY Change	YOY % Change
2013	\$161,800	N/A	N/A
2014	\$180,200	\$18,400	11.4%
2015	\$194,000	\$13,800	7.7%

QUARTER - 2013 to 2015

Quarter	Closing Price Median	QOQ Change	QOQ % Change
Q1 2013	\$143,100	N/A	N/A
Q2 2013	\$161,800	\$18,700	13.1%
Q3 2013	\$171,400	\$9,600	5.9%
Q4 2013	\$165,900	(\$5,500)	-3.2%
Q1 2014	\$160,200	(\$5,700)	-3.4%
Q2 2014	\$181,900	\$21,700	13.5%
Q3 2014	\$186,700	\$4,800	2.6%
Q4 2014	\$185,400	(\$1,300)	-0.7%
Q1 2015	\$188,300	\$2,900	1.6%
Q2 2015	\$195,500	\$7,200	3.8%
Q3 2015	\$195,500	\$0	0.0%
Q4 2015	\$194,900	(\$600)	-0.3%

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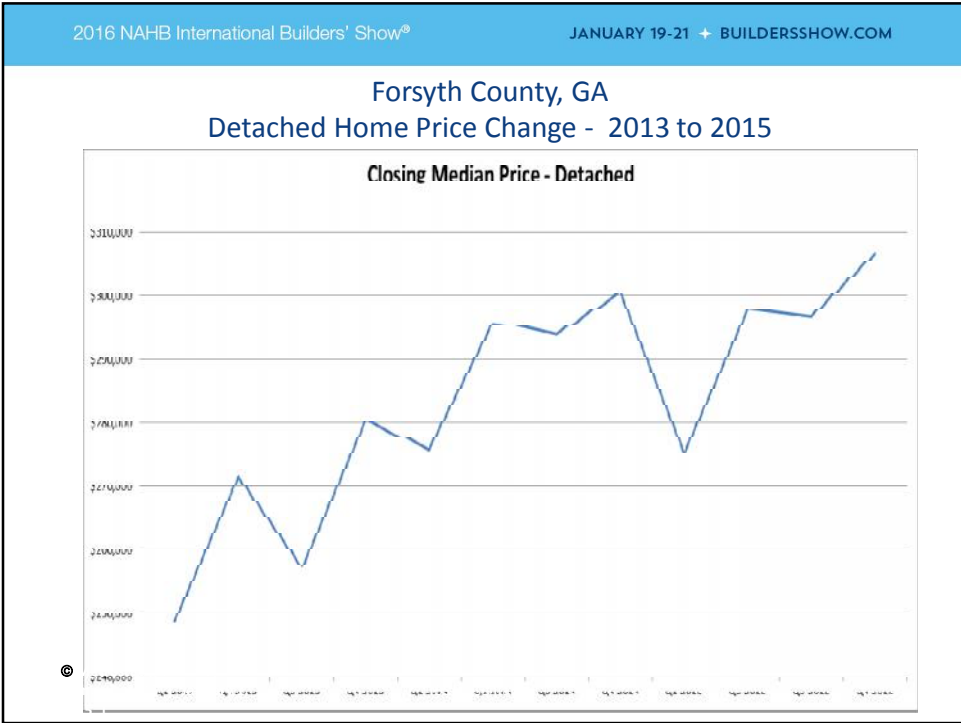
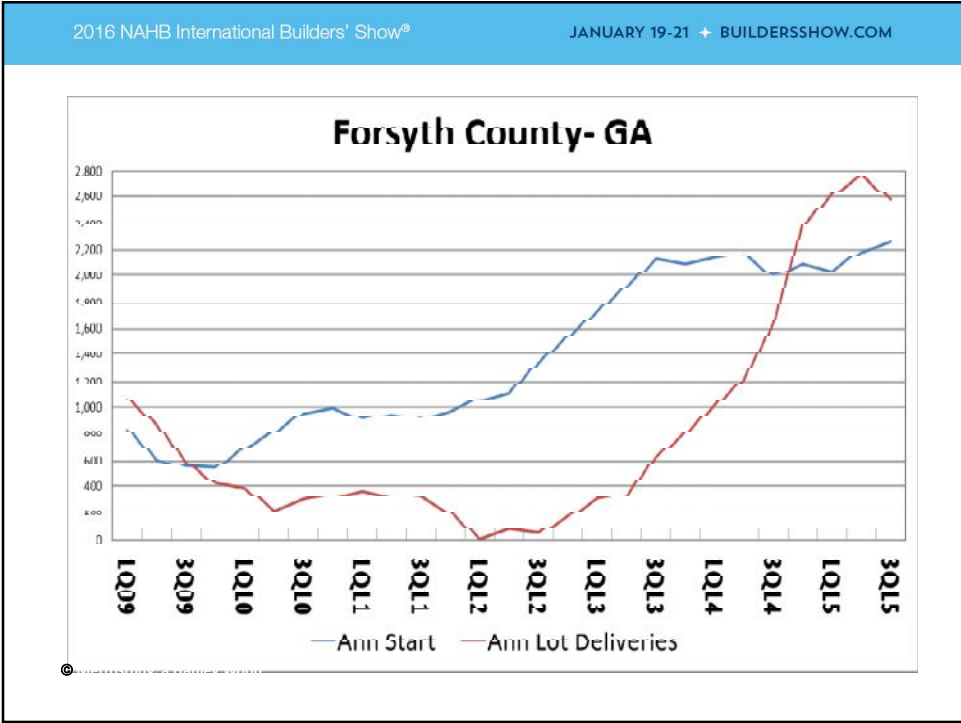
Current Map View Forsyth County, GA



GA | Forsyth Co. (3Q15)
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Forsyth County, GA			
Detached Home Price Change - 2013 to 2015			
Year	Closing Price Median	YOY Change	YOY % Change
2013	\$264,600	N/A	N/A
2014	\$292,800	\$28,200	10.7%
2015	\$294,600	\$1,800	0.6%
Quarterly			
Quarter	Closing Price Median	QOQ Change	QOQ % Change
Q1 2013	\$249,000	N/A	N/A
Q2 2013	\$271,700	\$22,700	9.1%
Q3 2013	\$257,400	(\$14,300)	-5.3%
Q4 2013	\$280,500	\$23,100	9.0%
Q1 2014	\$276,100	(\$4,400)	-1.6%
Q2 2014	\$296,000	\$19,900	7.2%
Q3 2014	\$294,200	(\$1,800)	-0.6%
Q4 2014	\$300,600	\$6,400	2.2%
Q1 2015	\$275,500	(\$25,100)	-8.3%
Q2 2015	\$297,900	\$22,400	8.1%
Q3 2015	\$296,900	(\$1,000)	-0.3%
Q4 2015	\$306,800	\$9,900	3.3%

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What Will Determine Builders' Success in 2016?			
Next year, an <i>additional</i> 110,000 units of potential single-family demand.			
Who and where?			
<ul style="list-style-type: none"> - The "A" submarkets? ---Not enough lots. - The \$500,000 move-up market? ---Not enough buyers. - The former "C" submarkets that are now "B" (or "A")... 			
<p>Builders will come out ahead if they get creative about how to <i>serve</i> the lower-priced tranche. If they don't, they'll likely bunch up in the same niches.</p>			

Speaker Contact:

Brad Hunter
Chief Economist/Director
of Strategic Consulting
Metrostudy
561.573.8351
@bradleyhunter