

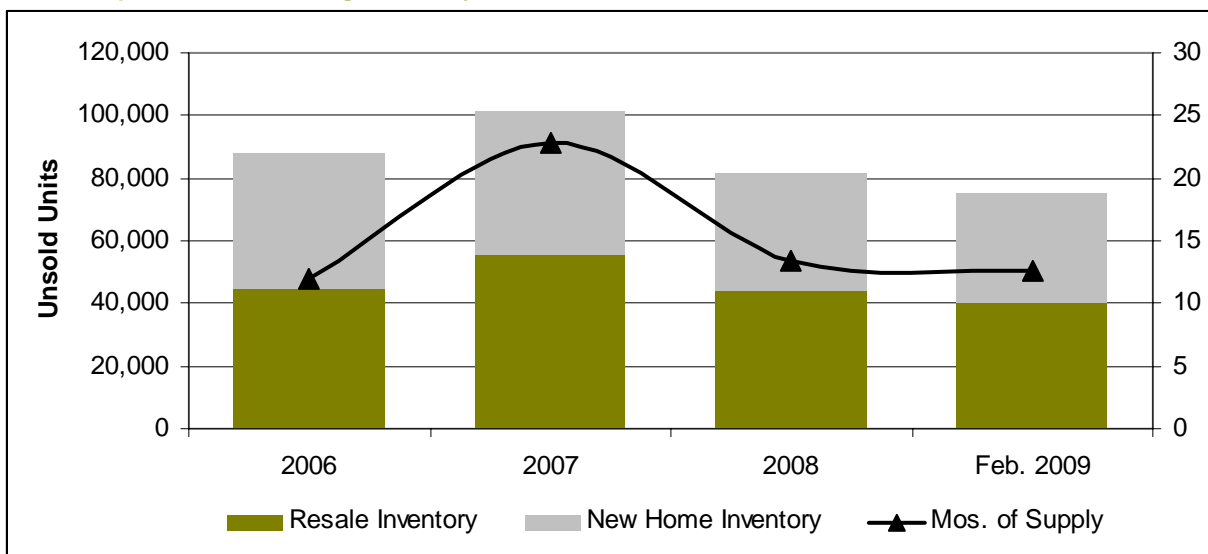


## California Market Watch, April 9, 2009

# Inland Empire's Housing Supply Contracts

The story of the Inland Empire's housing meltdown is a well known one. The inland market was the bastion of affordably priced homes in Southern California, drawing entry level buyers that were locked out of the high priced coastal markets. Loose lending standards drew a large proportion of subprime buyers and commute times lengthened as buyers headed further out into outlying areas. The implosion of the subprime market set off a chain of events which included a downturn in job growth, an increase in default notices, and a sharp decline in home values. By the end of 2008, the region was mired in foreclosures, resale values plummeted by more than 30%, and builders reported only half the new home sales volume seen a year earlier. However, 2008 also marked the year the Inland Empire saw a strong upsurge in resale activity and cautious homebuilders saw a net decline in active new home projects. The combination of events resulted in a 20% drop-off in total—new and resale—unsold inventory. In February 2009, relative supply (based on current sales activity) edged downward and is currently expected to last 12.5 months. We separately examine historical supply trends in both the resale and new home markets, and also take a look at the direction of recent housing starts to forecast its effect on short-term supply.

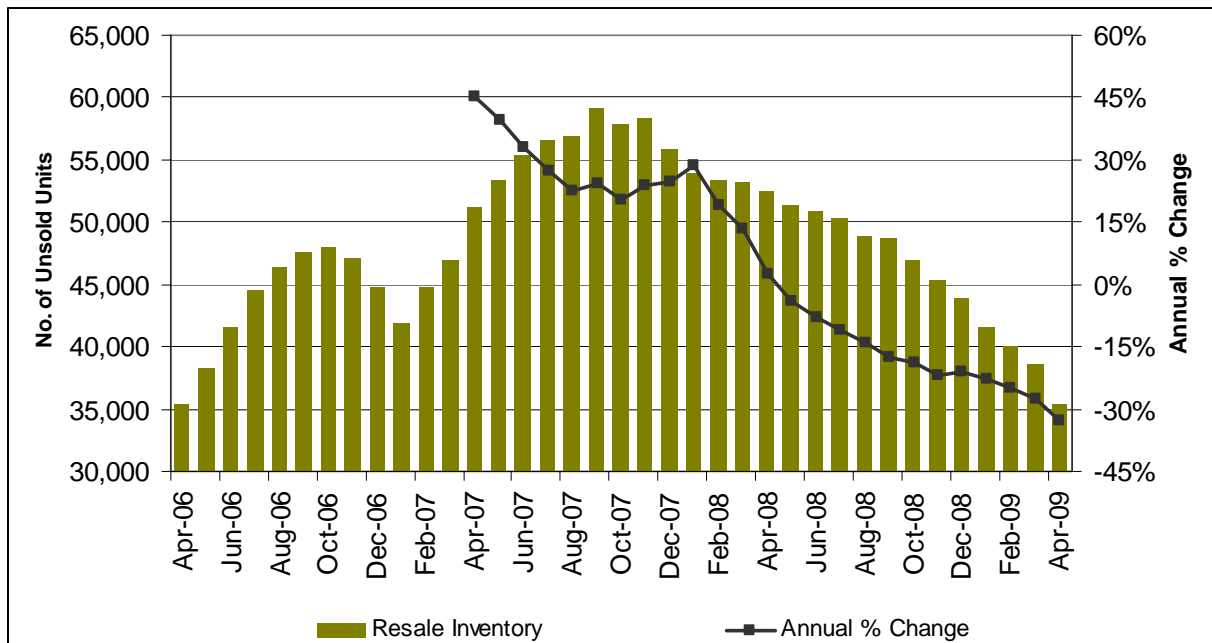
### Inland Empire: Total Housing Inventory



SOURCE: Housingtracker.net; HWM

- Year-over-year declines in resale inventory are accelerating.** Currently, Housingtracker.net reports there are 35,422 homes that are unsold in the Riverside-San Bernardino resale market. The number of units fell for the seventeenth consecutive month, representing a 33% reduction from a year earlier. It is the steepest decline reported to date and this indicator shows clear signs of accelerating. While foreclosures will continue to add to resale inventory, its effect has thus far been offset by resale activity which currently outpaces levels seen in 2008.

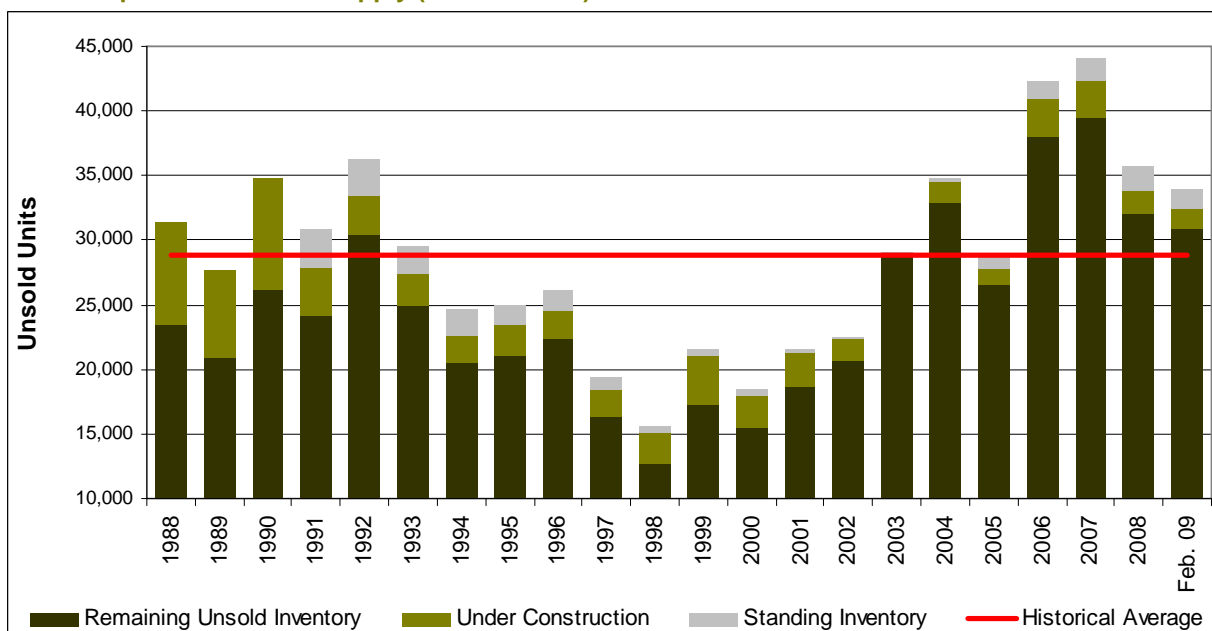
### Inland Empire: Resale Housing Inventory (2006-Present)



SOURCE: Housingtracker.net

- New home supply within active projects has trended downward but remains above the historical average.** By February 2009, total unsold inventory within the region's active new home projects eased to a total of 33,969 units in the Inland Empire. According to Hanley Wood, about 80% of that supply is located in Riverside County, much of which is located in the low desert area. Over the last 20 years, the region has averaged just under 29,000 units as indicated by the red line in the chart below. Supply levels dropped well below historical averages in 1994, in response to the recession, to reach a trough in 1998. From peak to trough, inventory declined 59% in 1990s yet the new home market has experienced only a 23% drop so far this cycle. In this current cycle, another 17,100 units would need to be absorbed to see the same 60% decline from peak to trough seen in the last recession. Based on last year's sales pace, it would take just over two years to reach that point or less than one year if we consider the region's 20-year average new home sales volume.

### Inland Empire: New Home Supply (1988-Present)



SOURCE: HWMI

- Year-to-date single-family home starts are down substantially.** According to statistics compiled by the California Building Industry Association, housing starts are down 59% to 422 units for the Inland Empire. This figure has fallen for three consecutive years. This barometer indicates homebuilders will remain cautious when adding to short-term inventory until the sales pace demonstrates that existing inventory levels can be quickly absorbed and home prices have stabilized.

- **Opportunities depend on location not regional housing statistics.** Interestingly, there were 51 new projects that opened last year in the Inland Empire, but nearly a third of those projects promptly closed or halted sales. While on average, these newly opened projects averaged fewer than 2 sales per month, a small handful of developments reported higher than average sales velocity of 3 to 6 sales per month. Each development will have its own set of variables that contribute to its success and should be evaluated individually and within its competitive market area rather than based on regional statistics.

## About Meyers Builder Advisors

[Meyers Builder Advisors](#) brings together a talented pool of consultants with a strong understanding of the homebuilding industry and the market dynamics that drive it. Combined, the team boasts over 100 years of market experience, with a wide range of services including site specific analysis, strategic workouts, due diligence, and forensic analysis. The group has advised on a wide range of residential product types throughout the United States and has successfully assisted a long list of builders, developers, and financial institutions.

### For more information, contact –

#### **Meyers Builder Advisors**

2712 E. Coast Highway, Suite 101

Corona Del Mar, California 92625

P: 949-640-0050

F: 949-640-0055

[www.builderadvisors.com](http://www.builderadvisors.com)

Jeffrey Meyers, Principal

M: 714-319-3888

Lorry Lynn, Managing Principal

M: 714- 329-2118

Steve Smiley, Principal, Northern California

M: 510-612-5718

Michelle Wolkoys, Principal, Southern California

M: 714-357-6005

David Hudson, Director, Asset Management Group

M: 949-375-6059

Ludmilla Schappert, Senior Consultant

M: 714-679-9282