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Summary Conclusions

Special Report-Public US Homebuilders, Sales Volumes, Lot Volumes

1. Unit Volume Conclusions

- A. Units sold increased 2 Qtrs. 2010 vs. 2009 from the tax incentive programs. Expect future year over year period comparisons to be down.
- B. Assuming the Publics have a 25 to 30% market share (due especially to their ability to have construction financing) then US new home sales for 2010 will total 300,000 units or less (1st half with incentives was annualized). **2011 is likely to be under 275,000 units.**
- C. There is still at least 8 years supply on the books of the publics. Not much more land buying can be expected unless a particular homebuilder has so much tied up in raw land with no entitlements. The 8 year figure would be much higher without the mid year sales rise from the tax incentive program. **With 600,000 lots on the books, it will take a tripling of the 38,000 1st half volumes to get this supply down under 5 years.**
- D. At these volumes and at these average prices, none of the public home builders can make enough money to service their debt on a current basis, although they temporarily have excess cash to make the payments. **Have you ever had a lot of cash in the bank one day, then all your checks clear, and your balance is gone?**

2. Unit Sales Prices

- A. Unit sales prices continue to drop, but unit volumes have not, **indicating that prices have not dropped far enough**
- B. Unit sales prices are not high enough to support new land development. **House prices need to rise by at least 30% on a sustained basis before new development is justified.**

C. Backlog prices are going up, **maybe reflecting more hope than reality.**

3. Overall Observations

- A. At these low absorption rates and low prices, all builders will be negatively impacted in both earnings and cash flow. Interim cash flows have again been helped by tax refunds and other one time items. To repeat earlier observations, there is still \$22 Billion in debt in the industry, **and there is balance sheet asset and debt capacity for 800 to 900,000 units per year, but demand for only 250 to 300,000 units per year. Investors will conclude earnings not sustainable.**
- B. Look for year end downward adjustments to both earnings and cash flow. **Expect more inventory impairments based on stretched out holding periods (low absorption levels).** Possible changes to interest capitalization where assets have been on the books for extended periods and no progress made.
- C. **Cash levels will start to drop as semi annual bond interest payments are made.** Also, new land acquisitions and construction costs are starting to consume cash. With low absorption levels, inventory balances will increase.



Charlie McLaughlin