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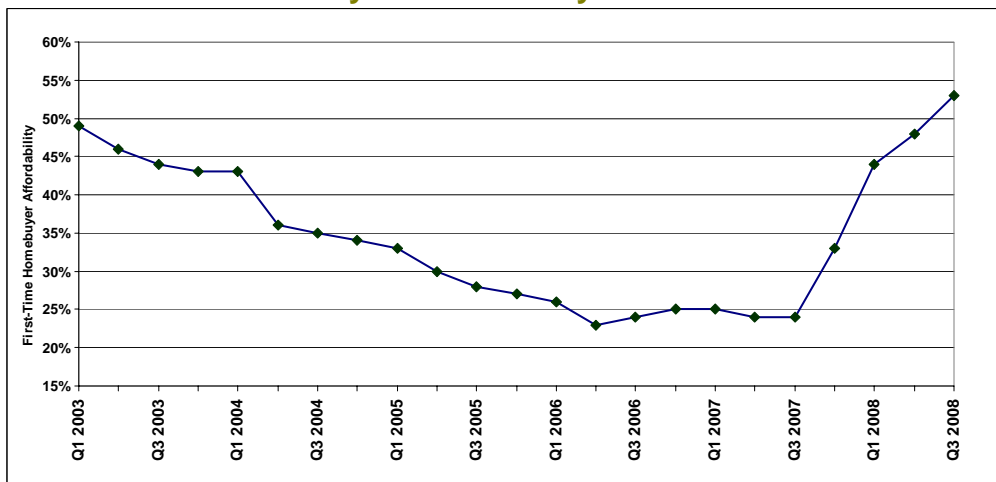
California Market Watch, February 27, 2009

Recent legislation drawing out first-time buyers?

Two new legislative measures were rolled out in the last two weeks, both specifically aimed at shoring up the housing industry. First, the federal economic stimulus package offers a 10% tax credit, or a maximum of \$8,000, for first-time home buyers purchasing their primary residence and meet income requirements. The most striking positive aspect of this component of the stimulus bill is that it does not need to be paid back, unlike the previous credit offered. According to the Treasury Department's statistics, nearly 50% of buyers purchased for the first time in 2008. More important to California buyers is the additional 5% tax credit, or maximum of \$10,000, approved by state lawmakers when passing the most recent budget. The credit will be spread out over three years and applies only to newly constructed homes that will be used as primary residences. This is a coup for local homebuilders as it will likely draw first time homebuyers out of the woodworks, offering a "double whammy" of up to \$6,000 in credits per year for those who opt to buy a new home. This is also an advantage for the new home market when considering its primary competition are the more affordable foreclosures flooding the market. We've analyzed historical trends among the state's first-time homebuyer market, a cohort that will likely be the principal beneficiaries of the new legislation.

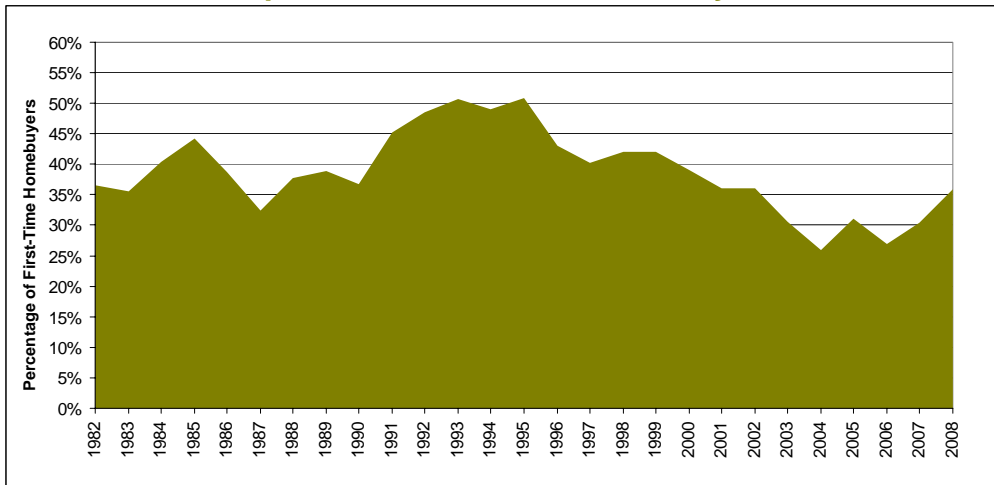
- Proportion of first-time homebuyers is increasing.** History tends to repeat itself. During the last housing boom, first-time homebuyers were locked out of the market due to high home prices. In 1987, entry-level buyers accounted for only 32% of the market but an economic slowdown resulted in falling property values and increased inventory levels. By the time of the recession's trough in 1995, first-time homebuyers comprised just over half, or 51%, of homebuyers. In the most recent housing peak, the percentage of homebuyers purchasing their first home hovered between 26% and 30%. With a combination of more available inventory, readjusted home prices, growing builder incentives, and declining mortgage rates, the federal and state tax credits may offer an additional inducement to grow this target market once again.
- Declining home values have propped affordability levels.** According to the California Association of Realtors, affordability for first-time homebuyers reached a low of 23% in the second quarter of 2006, which coincides with the run up of the state's housing market. It is important to consider that this index takes into account the changing landscape of the mortgage industry when loosened credit standards and more exotic loan products were predominant. Affordability among first-time homebuyers have ticked up sharply since the third quarter 2007 and reached 53% in the third quarter of 2008, matching the decline in home values.

CA First-Time Homebuyer Affordability Levels



SOURCE: California Association of Realtors

Historical CA Proportion of First-Time Homebuyers



SOURCE: California Association of Realtors

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, product development, strategic planning and land acquisition services. 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.

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