



California Market Watch, July 22, 2009

Where Deals Pencil in the Inland Empire

DataQuick's May figures revealed single-family existing home prices down 36% in Riverside County while San Bernardino fell 42% from a year ago. The staggering loss in resale values has subsequently pulled down new home values as homebuilders compete with the overhang of cheap distressed homes. Despite the depressed housing values, land deals have been exchanged with more frequency in recent months as builders begin to stockpile assets in hopes of positioning themselves in time for the next upswing. Some notable land offerings garnering 30 offers near or above asking price include 96 lots at Trenton Square in Eastvale and 77 finished lots at The Retreat in Corona.

Using a static residual, and blanket assumptions based on current underwriting trends, we were able to translate resale price per foot values by zip code to an estimated finished lot price. The table below ranks zip codes by finished lot values throughout the Inland Empire, showing areas where land is top dollar, and bottom rung areas where home values result in a negative land residual. New homes with values under \$69 per foot show a negative residual since the total cost to build—soft costs, hard costs and builder profit—exceed current new home values.

- **Direct costs are down substantially from the heyday of the housing boom.** The slowdown in construction resulted in more suppliers and contractors hungry for work, and consequently directs have come down significantly. Also, more builders are responding to changing buyer expectations. Affordability is clearly driving the market and builders have pared down spec levels to accommodate cost-conscious buyers. Today, some merchant builders are underwriting hard costs as low as \$38 per foot. Our analysis takes a more conservative approach with directs at \$45 per foot for a hypothetical 2,000 square foot single-family home.
- **Where is the “sweet spot” in the Inland Empire?** Of the 110 zip codes studied throughout the Inland Empire, 83% resulted in a positive finished lot price. Areas with a finished lot to home price ratio of 30% - 40% (which translates to a finished lot price of \$77K - \$149K) represent the Inland Empire's mid-market, and include zip codes within the communities of Corona, Riverside, and Mira Loma. These mid-market areas represent the region's current prime markets where land trades have been prevalent and competitive.
- **FHA loan ceiling drives market.** The FHA loan limit of \$417,000 is the price point that builders are generally targeting as a larger percentage of buyers (particularly those with less than stellar credit) are taking advantage of this government backed loan program. Zip codes highlighted in gray indicate areas where values exceed this price ceiling, and subsequently have not seen the same level of interest from homebuilders.

Community Name	ZIP Code	Median Resale PPF	Median New Home PPF (+ 15%)	Est. Median New Home Price (2,000 SF)	Est. Finished Lot Value	Finished Lot, % Home Price
San Bernardino	92401	\$37	\$43	\$85,100	(\$34,685)	-40.8%
Barstow	92311	\$41	\$47	\$94,300	(\$28,705)	-30.4%
Mecca	92254	\$44	\$51	\$101,200	(\$24,220)	-23.9%
Adelanto	92301	\$47	\$54	\$108,100	(\$19,735)	-18.3%
San Bernardino	92411	\$49	\$56	\$112,700	(\$16,745)	-14.9%
San Bernardino	92410	\$50	\$58	\$115,000	(\$15,250)	-13.3%
Homeland	92548	\$51	\$59	\$117,300	(\$13,755)	-11.7%
Dsrt Hot Springs	92240	\$52	\$60	\$119,600	(\$12,260)	-10.3%
Cabazon	92230	\$54	\$62	\$124,200	(\$9,270)	-7.5%
Victorville	92394	\$54	\$62	\$124,200	(\$9,270)	-7.5%
San Bernardino	92405	\$55	\$63	\$126,500	(\$7,775)	-6.1%
Twentynine Palms	92277	\$56	\$64	\$128,800	(\$6,280)	-4.9%
San Jacinto	92582	\$57	\$66	\$131,100	(\$4,785)	-3.6%
Lucerne Valley	92356	\$57	\$66	\$131,100	(\$4,785)	-3.6%
Victorville	92392	\$57	\$66	\$131,100	(\$4,785)	-3.6%
Victorville	92395	\$57	\$66	\$131,100	(\$4,785)	-3.6%
Apple Valley	92307	\$58	\$67	\$133,400	(\$3,290)	-2.5%
Morongo Valley	92256	\$58	\$67	\$133,400	(\$3,290)	-2.5%
Hemet	92544	\$60	\$69	\$138,000	(\$300)	-0.2%
Apple Valley	92308	\$62	\$71	\$142,600	\$2,690	1.9%
Hesperia	92344	\$62	\$71	\$142,600	\$2,690	1.9%
Dsrt Hot Springs	92241	\$63	\$72	\$144,900	\$4,185	2.9%
Thousand Palms	92276	\$63	\$72	\$144,900	\$4,185	2.9%
Hesperia	92345	\$63	\$72	\$144,900	\$4,185	2.9%
Hemet	92543	\$64	\$74	\$147,200	\$5,680	3.9%
Perris	92571	\$66	\$76	\$151,800	\$8,670	5.7%
San Jacinto	92583	\$66	\$76	\$151,800	\$8,670	5.7%
San Bernardino	92404	\$66	\$76	\$151,800	\$8,670	5.7%
Hemet	92545	\$67	\$77	\$154,100	\$10,165	6.6%
Thermal	92274	\$67	\$77	\$154,100	\$10,165	6.6%
San Bernardino	92408	\$67	\$77	\$154,100	\$10,165	6.6%
Yucca Valley	92284	\$71	\$82	\$163,300	\$16,145	9.9%
Moreno Valley	92553	\$72	\$83	\$165,600	\$17,640	10.7%
Coachella	92236	\$73	\$84	\$167,900	\$19,135	11.4%
Blythe	92225	\$75	\$86	\$172,500	\$22,125	12.8%
Moreno Valley	92551	\$75	\$86	\$172,500	\$22,125	12.8%
Perris	92570	\$77	\$89	\$177,100	\$25,115	14.2%
Sun City	92586	\$77	\$89	\$177,100	\$25,115	14.2%
Banning	92220	\$78	\$90	\$179,400	\$26,610	14.8%
Moreno Valley	92555	\$78	\$90	\$179,400	\$26,610	14.8%
Phelan	92371	\$79	\$91	\$181,700	\$28,105	15.5%
Sun City	92585	\$80	\$92	\$184,000	\$29,600	16.1%
Lake Elsinore	92532	\$81	\$93	\$186,300	\$31,095	16.7%
Moreno Valley	92557	\$83	\$95	\$190,900	\$34,085	17.9%
Indio	92201	\$84	\$97	\$193,200	\$35,580	18.4%

Needles	92363	\$84	\$97	\$193,200	\$35,580	18.4%
Canyon Lake	92587	\$85	\$98	\$195,500	\$37,075	19.0%
Lake Elsinore	92530	\$85	\$98	\$195,500	\$37,075	19.0%
Colton	92324	\$85	\$98	\$195,500	\$37,075	19.0%
Beaumont	92223	\$86	\$99	\$197,800	\$38,570	19.5%
Menifee	92584	\$86	\$99	\$197,800	\$38,570	19.5%
Indio	92203	\$88	\$101	\$202,400	\$41,560	20.5%
San Bernardino	92407	\$89	\$102	\$204,700	\$43,055	21.0%
Murrieta	92563	\$90	\$104	\$207,000	\$44,550	21.5%
Winchester	92596	\$91	\$105	\$209,300	\$46,045	22.0%
Rialto	92376	\$92	\$106	\$211,600	\$47,540	22.5%
Nuevo	92567	\$93	\$107	\$213,900	\$49,035	22.9%
Cathedral City	92234	\$95	\$109	\$218,500	\$52,025	23.8%
Fontana	92335	\$95	\$109	\$218,500	\$52,025	23.8%
Riverside	92501	\$100	\$115	\$230,000	\$59,500	25.9%
Murrieta	92562	\$101	\$116	\$232,300	\$60,995	26.3%
Wildomar	92595	\$101	\$116	\$232,300	\$60,995	26.3%
Riverside	92507	\$105	\$121	\$241,500	\$66,975	27.7%
Rialto	92377	\$105	\$121	\$241,500	\$66,975	27.7%
Riverside	92505	\$106	\$122	\$243,800	\$68,470	28.1%
Riverside	92509	\$106	\$122	\$243,800	\$68,470	28.1%
Mentone	92359	\$107	\$123	\$246,100	\$69,965	28.4%
Riverside	92504	\$109	\$125	\$250,700	\$72,955	29.1%
Highlands	92346	\$110	\$127	\$253,000	\$74,450	29.4%
Crestline	92325	\$111	\$128	\$255,300	\$75,945	29.7%
Riverside	92508	\$112	\$129	\$257,600	\$77,440	30.1%
Fontana	92336	\$113	\$130	\$259,900	\$78,935	30.4%
Calimesa	92320	\$114	\$131	\$262,200	\$80,430	30.7%
Palm Springs	92262	\$114	\$131	\$262,200	\$80,430	30.7%
Riverside	92503	\$115	\$132	\$264,500	\$81,925	31.0%
Temecula	92591	\$116	\$133	\$266,800	\$83,420	31.3%
Temecula	92592	\$116	\$133	\$266,800	\$83,420	31.3%
Fontana	92337	\$116	\$133	\$266,800	\$83,420	31.3%
Redlands	92374	\$117	\$135	\$269,100	\$84,915	31.6%
Yucaipa	92399	\$117	\$135	\$269,100	\$84,915	31.6%
Mira Loma	91752	\$119	\$137	\$273,700	\$87,905	32.1%
Corona	92880	\$120	\$138	\$276,000	\$89,400	32.4%
Corona	92883	\$121	\$139	\$278,300	\$90,895	32.7%
Corona	92879	\$138	\$159	\$317,400	\$116,310	36.6%
Norco	92860	\$139	\$160	\$319,700	\$117,805	36.8%
Corona	92882	\$142	\$163	\$326,600	\$122,290	37.4%
Grand Terrace	92313	\$143	\$164	\$328,900	\$123,785	37.6%
Loma Linda	92354	\$143	\$164	\$328,900	\$123,785	37.6%
La Quinta	92253	\$145	\$167	\$333,500	\$126,775	38.0%
Riverside	92506	\$145	\$167	\$333,500	\$126,775	38.0%
Montclair	91763	\$146	\$168	\$335,800	\$128,270	38.2%
Ontario	91762	\$146	\$168	\$335,800	\$128,270	38.2%
Ontario	91761	\$150	\$173	\$345,000	\$134,250	38.9%
Corona	92881	\$151	\$174	\$347,300	\$135,745	39.1%
Palm Springs	92264	\$151	\$174	\$347,300	\$135,745	39.1%
Ontario	91764	\$151	\$174	\$347,300	\$135,745	39.1%

R Cucamonga	91739	\$153	\$176	\$351,900	\$138,735	39.4%
Chino	91710	\$160	\$184	\$368,000	\$149,200	40.5%
R Cucamonga	91730	\$163	\$187	\$374,900	\$153,685	41.0%
Palm Desert	92211	\$165	\$190	\$379,500	\$156,675	41.3%
Palm Desert	92260	\$166	\$191	\$381,800	\$158,170	41.4%
Redlands	92373	\$171	\$197	\$393,300	\$165,645	42.1%
R Cucamonga	91701	\$182	\$209	\$418,600	\$182,090	43.5%
Upland	91786	\$182	\$209	\$418,600	\$182,090	43.5%
R Cucamonga	91737	\$183	\$210	\$420,900	\$183,585	43.6%
Upland	91784	\$185	\$213	\$425,500	\$186,575	43.8%
Rancho Mirage	92270	\$199	\$229	\$457,700	\$207,505	45.3%
Chino Hills	91709	\$203	\$233	\$466,900	\$213,485	45.7%
Indian Wells	92210	\$204	\$235	\$469,200	\$214,980	45.8%
Temecula	92590	\$210	\$242	\$483,000	\$223,950	46.4%

SOURCE: DataQuick; Meyers Builder Advisors.

NOTE: Finished lot values are based on median resale PPF values for a 2,000 square foot home and assume a 15% premium for a new home, 15% profit margin, directs of \$45 per foot, and 20% in soft costs. Any outlying zip codes/markets that do not typically see production housing were not included in this analysis.

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.

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