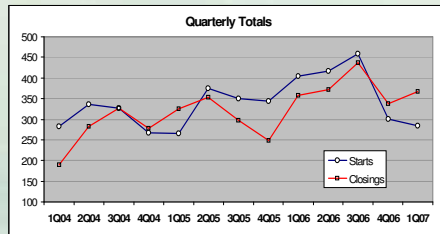




# Denton Independent School District

## Residential Growth Report 2nd Quarter 2008

August 12, 2008



Paloma Creek



Harpool Middle School

Blanton Elementary



Savannah

*New Construction*





# Current DFW Market Conditions

- Builders find mixed results for Spring market
- Quarterly starts see improve in 2<sup>nd</sup> Qtr 2008, but still below quarterly closing pace
- Finished spec homes continue to be worked down
- Market is healing from 'bottom up'
  - Inventory of lower priced homes in better shape than expensive houses
- Biggest issue continues to be tougher mortgage qualification standards
- Lot supply closes in on 4 year supply with slow down of starts
  - Actual number of lots hasn't changed much over past two years
  - Lot development pipeline has been greatly reduced
  - Don't expect much new development until at least 2010
  - Lenders and developers working through issues

## ***Market Drivers***

- Job formation continues to be one of the best in the nation



# DFW Housing Vital Signs

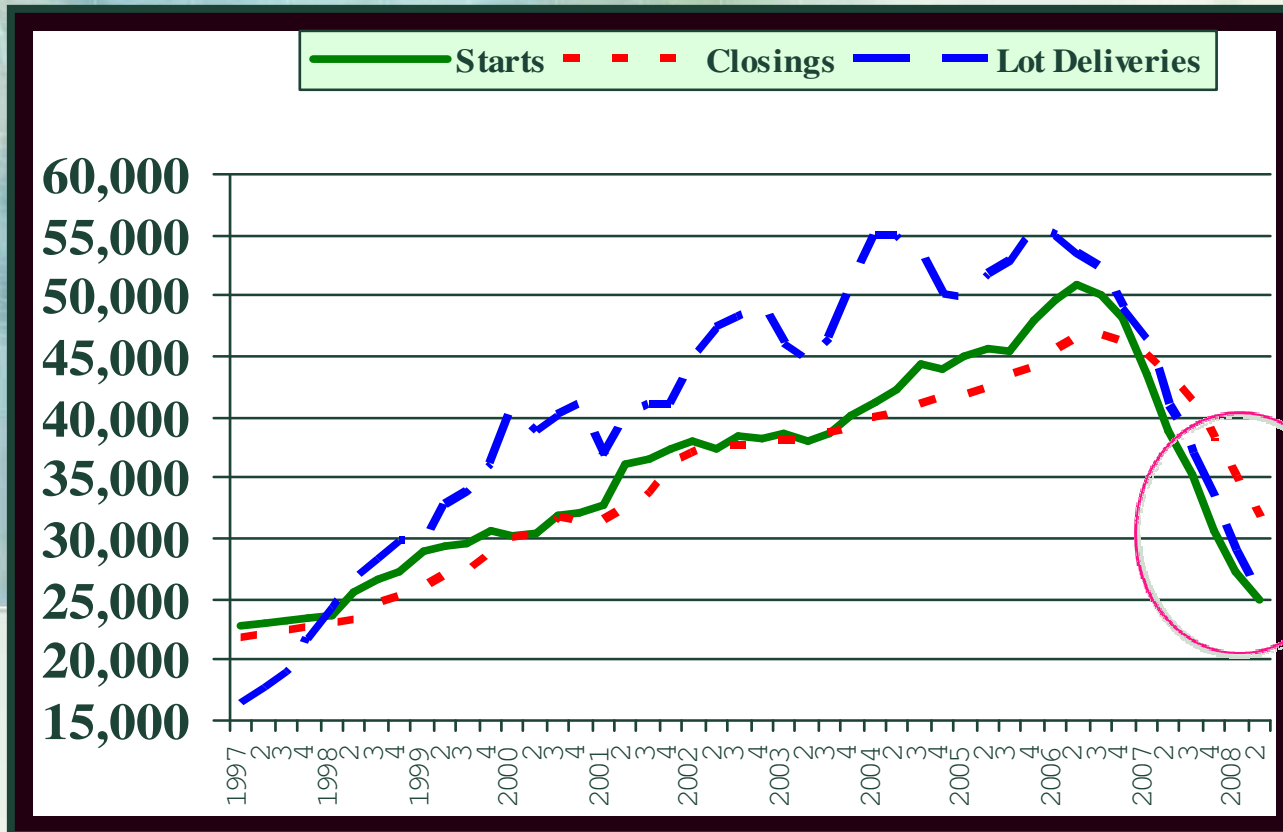
## 3<sup>rd</sup> Qtr 2007 – 2<sup>nd</sup> Qtr 2008

	<u>Dallas</u>	<u>Ft. Worth</u>	<u>DFW</u>
\$ Vol. Starts (Billions)	\$4.34	\$2.31	\$6.65
Median Home Price	\$225K	\$185K	\$208K
Annual Starts	15,540	9,411	24,951
Annual Closings	20,147	11,488	31,635
U/C Home Inventory	4,858	2,753	7,611
Month Supply	2.89	2.88	2.89
FV Home Inventory	4,922	2,681	7,603
<b>Month Supply (1)</b>	<b>2.93</b>	<b>2.80</b>	<b>2.88</b>
Vacant Lots	62,514	34,809	97,323
<b>Month Supply (2)</b>	<b>48.3</b>	<b>44.4</b>	<b>46.8</b>
Lots Under Development	8,314	5,761	14,075

(1) 2.5 mos. is considered equilibrium (2) 24 mos. is considered equilibrium



# DFW Annual Starts, Closings & Lot Deliveries



## Year-Over-Year Change In Annual Starts By Price Point

**<\$150K**  
 2Q07 8,021  
 2Q08 4,906  
 Change -3,115  
 % Change -38.8%

**\$151-200K**  
 2Q07 12,290  
 2Q08 6,859  
 Change -5,431  
 % Change -44.2%

**\$201-300K**  
 2Q07 9,734  
 2Q08 6,894  
 Change -2,840  
 % Change -29.2%

**\$301K+**  
 2Q07 8,778  
 2Q08 6,292  
 Change -2,486  
 % Change -28.3%

**Year-Over-Year Growth**  
 Annual Starts: -35.7%  
 Annual Closings: -27.2%  
 Annual Lot Deliveries: -39.5%



# Are We There Yet?

Mounting evidence that DFW is nearing bottom of cycle

## ***Timing***

- Collapse of CDO market occurred about a year ago
- Was followed by period of tightening mortgage standards
- 4<sup>th</sup> Qtr 2007 marked first quarter with significantly slower starts
- Market has shifted from 8-9,000 starts per quarters to 5-6,000 starts per quarter with tighter restrictions

## ***Inventory***

- Rate of annual starts has been about 6,000 units below closings
- Has allowed builders to work down unsold housing inventory
- Downturn in starts deeper than closings, expect start rate to tick up slightly once housing inventory issues resolved
- 1<sup>st</sup> phase of recovery almost complete. Housing inventory <\$200K already back to normal

## ***Phase 2 of Recovery***

- Will focus on liquidation of lot inventory



# Finding Good News in a Bad Market

1. Texas best business climate in nation
  - Ranks #1 in job growth with 238,400 annual net jobs
  - DFW ranks as #1 metro area for job growth at 57,800 (Houston #2 at 54,100)
  - DFW surpasses 3 million level of total employed
2. Barnett Shale
  - Created 83,823 jobs in 2007, pumped \$8.2 billion into local economy (Perryman)
3. Corporate Relocations
  - ATT, Comerica, Research in Motion
4. Texas top relocation destination in U.S. according to Allied Van Lines
5. DFW ranks as least risky major market for house price depreciation (PMI)
6. DFW ranks as one of most affordable major markets for housing (PMI)
7. Denton 9<sup>th</sup> fastest growing area in US



# Final Thoughts on DFW Housing Market

## ***DFW Starts and Closings***

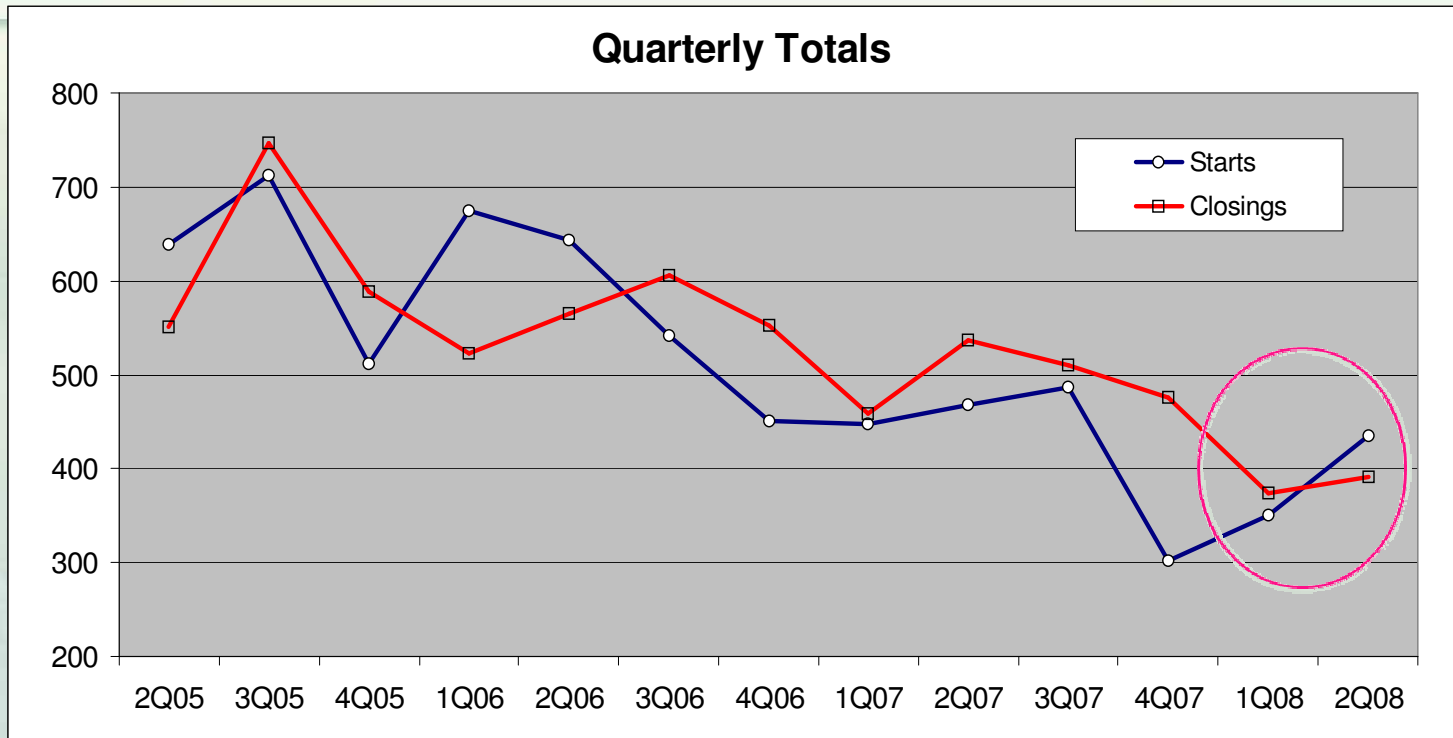
- Starts should bottom around 20-22,000 near year end, rebound in 2009
- Closings should bottom around 26-27,000 at Year End 2008
- Watch job formation rate
  - A consistent rate of 60k+ jobs would indicate new home demand returning to 30,000+ level
- Foreclosures represent phantom inventory
  - Approximately 10,000+ units of demand have shifted to foreclosures
  - Foreclosures should begin to subside in '09 returning demand to new homes

## ***Long Term Outlook Looks Bright***

- Texas A&M 2030 population forecast shows a growth range of between 2.8 to 6.7 million people by 2030 for DFW
  - Implies 1-2 million new single family homes
  - Minimum of 45,000 new homes per year
  - Minorities will account for 2/3 of future home growth
  - Emphasis on first time buyers



# Denton ISD New Housing Activity



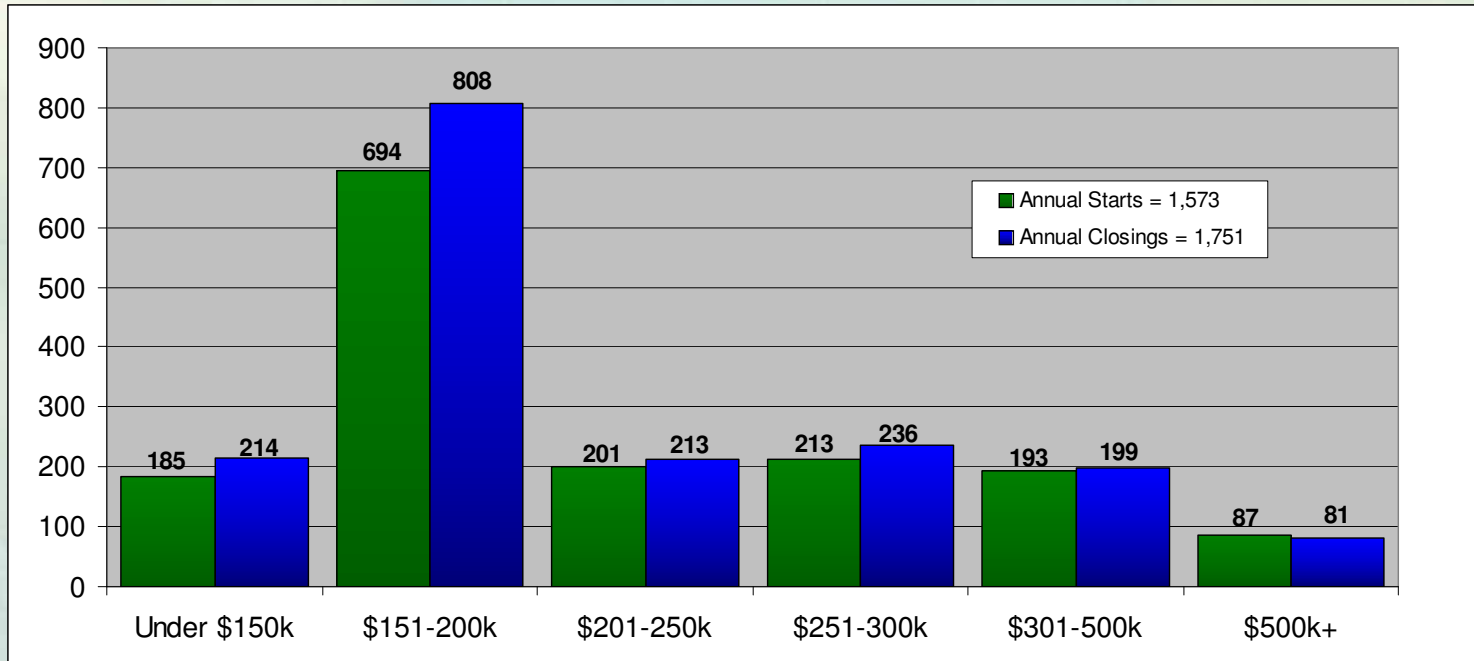
Starts	2003	2004	2005	2006	2007	2008
1Q	404	609	479	674	447	350
2Q	648	805	639	644	468	435
3Q	572	782	712	542	486	
4Q	680	387	512	451	302	
<b>Total</b>	<b>2,304</b>	<b>2,583</b>	<b>2,342</b>	<b>2,311</b>	<b>1,703</b>	<b>785</b>

Closings	2003	2004	2005	2006	2007	2008
1Q	356	510	520	523	459	374
2Q	497	639	551	565	537	391
3Q	589	751	746	606	510	
4Q	580	616	589	552	476	
<b>Total</b>	<b>2,022</b>	<b>2,516</b>	<b>2,406</b>	<b>2,246</b>	<b>1,982</b>	<b>765</b>





# Price Range Analysis & Lot Supply



- Annual Average Start Price                    \$244,770
- Annual Median Start Price                    \$193,469
- 2Q08 Average Start Price                    \$232,178
- Vacant Lot Supply                                4,624 lots (35.3 months)
- Future Lot Supply                                3,966 lots (30.3 months)

**5 Year Supply for Growth**



# Top Performing Subdivisions



**US 380 East 1<sup>st</sup> Growth**

		Starts	
	Annual Closings	1-year Forecast	2-year Forecast
1. 🚧 Paloma Creek (US-380)	310	220	255
2. Wheeler Ridge (Corinth)	179	0	0
3. 🚧 Savannah (US-380)	162	142	142
4. 🚧 Cross Oak Ranch (US-380)	112	25	17
5. Villages of Carmel (Shady Shores)	91	81	45





# Savannah

- 5 active villages
- 1,000 total occupied homes as of 2Q08
- 438 vacant lots on the ground
- 1,039 prelim lots planned
- 142 starts expected in next 12 months

**US 380 East**





# Paloma Creek North & South

- 748 occupied homes
- 241 lots remaining to close
- 15 starts projected for the next 12 months

**US 380 East**





# The Preserve at Pecan Creek

- 440 occupied homes
- 67 vacant developed lots
- 210 prelim lots planned
- 40 starts expected over the next 12 months

**Shady Shores**





# Villages of Carmel

- 393 total lots
- 130 occupied homes
- 239 lots remaining to close
- 91 starts projected for the next 12 months

**Shady Shores**





# Denton ISD

## 2<sup>nd</sup> Qtr 2008 Summary

- Starts decline 18% to an annual total of 1,573 units (vs. 1,908 in 2Q07) **35% DFW**
- Annual closings fall 19% to 1,751 units (vs. 2,154 in 2Q07) **27% DFW**
- Quarterly starts and closings activity up versus 1Qtr 08
  - Starts up for the second straight quarter
- Finished vacant inventory remains low at 1.9 months supply (277 total units)
- No new lots delivered outside of Robson Ranch
- 4,624 vacant developed lots on the ground (down 7%)
- 3,966 future lots under development (up 4%)
- 39,733 preliminary lots planned (up 47%)
  - Majority of prelim lots are in Cole Ranch (11,015) and Inspiration/Harbor Ranch (12,206)
- New home forecast for 3<sup>rd</sup> Qtr 2008 – 2<sup>nd</sup> Qtr 2009 = 1,478 starts