Phoenix, AZ – Buyers Step Back as Concerns Grow over Higher Pricing Levels

(7,389 single-family permits in 2011, 4th largest market in the country)

December Market Trends
Traffic
Home Prices
Incentives

"Investors are moving out."

Traffic misses expectations as prices are once again too high. Buyer traffic fell below expectations in December, as our index slipped to 40 from 48 in November, short of a neutral reading of 50 (points to lower than expected traffic for this time of year). Phoenix generated some of the strongest traffic readings in our survey earlier this year, though this now marks the second time in three months that traffic has missed expectations. Agents attributed the weaker activity to a lack of attractive inventory, and buyers' perception that some prices are too high to warrant any serious interest. This commentary is similar to what we observed in our October survey (when traffic last missed expectations) in which buyers felt that the higher price levels were not justified. In addition, one agent noted that investors, integral to better demand seen in Phoenix, have started to move out of the market. Agents indicated that low inventories have also discouraged this segment of the market. However, some agents highlighted that snowbirds have shown interest, while other buyers were actually motivated by lower inventories, dismissing the idea that prices were too high. This segment was also motivated by low interest rates.

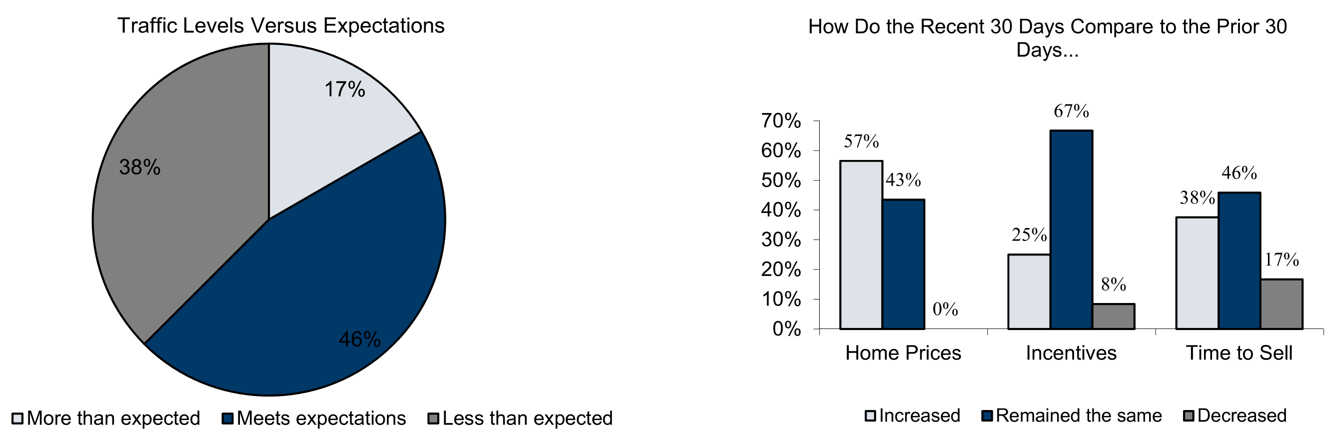
Prices increase, but higher inventories and time to sell point to challenges. Prices were higher in December, as our home price index came in at 78 (from 82 in November), remaining above a neutral reading of 50 (higher prices), marking the thirteenth consecutive month of higher prices. However, agents indicated that inventories increased in December, as our home listings index came in at 40 (from 48 in November), short of a neutral reading of 50 (higher inventories). We view this as a negative indicator for future prices. This also marks the second time in three months that inventory levels have increased. Furthermore, our time to sell index came in at 40 (from 58 in November), short of a neutral reading (increased time to sell), another negative indicator for future prices.

Comments from real estate agents:

- "Prices are too high and inventory is too low on good properties."
- "Buyers aren't motivated by the current selection of inventory and financing is still pretty tight."

Meritage and MDC Holdings have the greatest exposure. MTH has the largest exposure to Phoenix, which represents approximately 12% of total company sales, followed by MDC (10%), BZH (7%), PHM (6%), TOL (5%), DHI (4%), and KBH (3%).

Exhibit 19: **Prices Higher, but Increased Time to Sell Suggests Urgency Levels May be Easing**



Source: Credit Suisse