

Where Do We Go From Here?

Getting Ready to Shine in a Dull Market

**Builder 20 Club
Fall 2011**

Looking in the Crystal Ball

- ❑ Looking forward we do well to remember:
 - ❑ Markets are local; like the weather
 - ❑ Forecasting weather is easier
 - ❑ Six economists = six opinions, unless...
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The Basics: Easy as 1, 2, 3

1. YOUR COMPANY MUST HAVE...

- Right Product
 - Right Price
 - Right Promotion
 - Right Sales Process
 - Right Sales Scripts
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2. There Will be Opportunities

- Land Values will be Far Better
 - Strong Trades will be More Available
 - The Survivors will have Opportunities
 - IF they have CASH and Clear Credit
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3. To Seize the Opportunities

You MUST have Cash,
Cash comes from closings with margin,
Closings with Margins come from a good
Sales Staff and Management
Decisions

Good Management Decisions come from
YOU

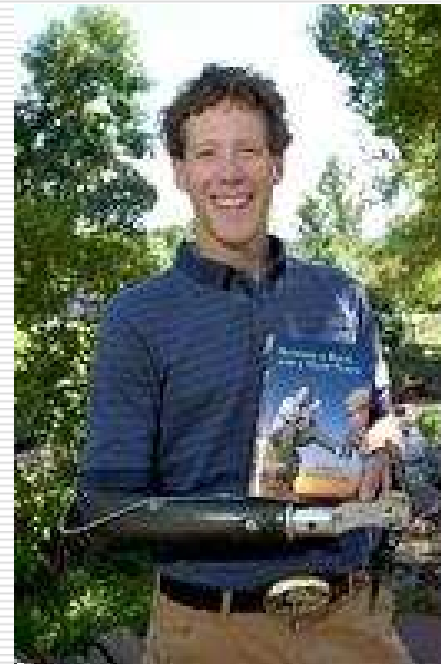
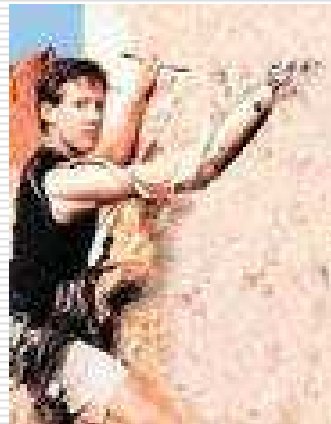
Let Me Tell You a Story



What's Your Blue John ?

- Is it Overhead?
 - Keep the Multi-tasker and become one
 - Is it Lack of Work
 - Work for Wages if You Must
 - Is it a Spec House?
 - Sell it whatever your "loss" if it gets cash
 - Find a long term investor/user
 - Move in and sell your present residence
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The Rest of the Story



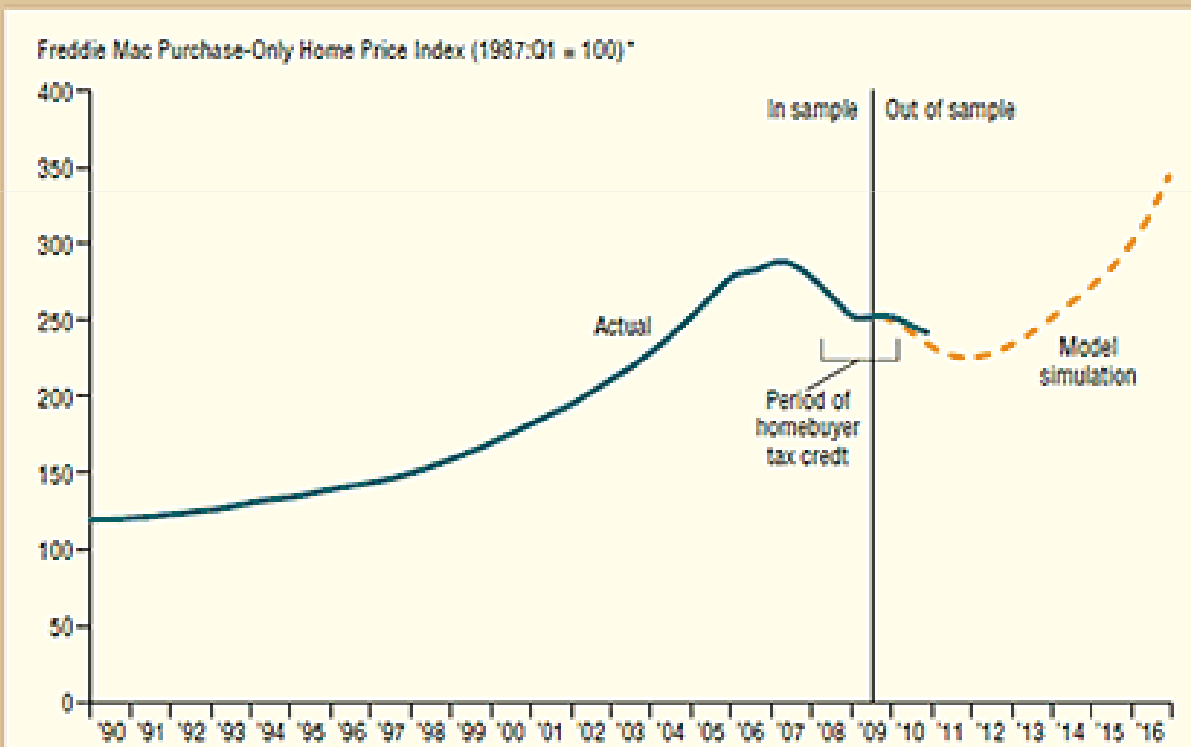
“A hand and forearm are not a life”

- How Memorable Would Aron Be if...?
 - Get Yourself Clear on the Goal
 - You Will Get Another Chance to Climb
 - New Opportunities Will Appear
 - You Can Reach Old Goals
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Some Economic Data

Chart 4

Nominal House Prices Likely to Bottom in 2012



* Seasonally adjusted.

SOURCES: Federal Home Loan Mortgage Corp.; authors' calculations.

Federal Reserve Bank of Dallas economists John V. Duca, David Luttrell & Anthony Murphy

- Where we are and where we're headed on the housing economy.
- First, many lenders are still cautious, requiring high down payments.
- Second, many houses are in foreclosure, and legal complications have delayed their resolution.
- Third, still other mortgage holders are deeply “underwater”. By some estimates, there are about 5 million deeply underwater homes, amounting to 10 percent of mortgaged homes and 6.5 percent of all homes. Many of these homes are at risk of foreclosure, which would further boost the supply of homes for sale and depress existing house prices and new construction.
- Conversely, affordability has improved, and the impact of the supply overhang may be overstated because deeply underwater and foreclosed homes are concentrated in a handful of states, including Arizona, California, Florida and Nevada.
- With job growth expanding in areas where less overbuilding occurred, housing starts will likely pick up in states such as Texas. Additionally, as the economic recovery continues, the pace of household formation is likely to rise, bolstering demand. On balance, many forecasters see single-family home construction recovering slowly to around 500,000 units next year from an annual rate of 400,000 in early 2011.”

Chris Christopher

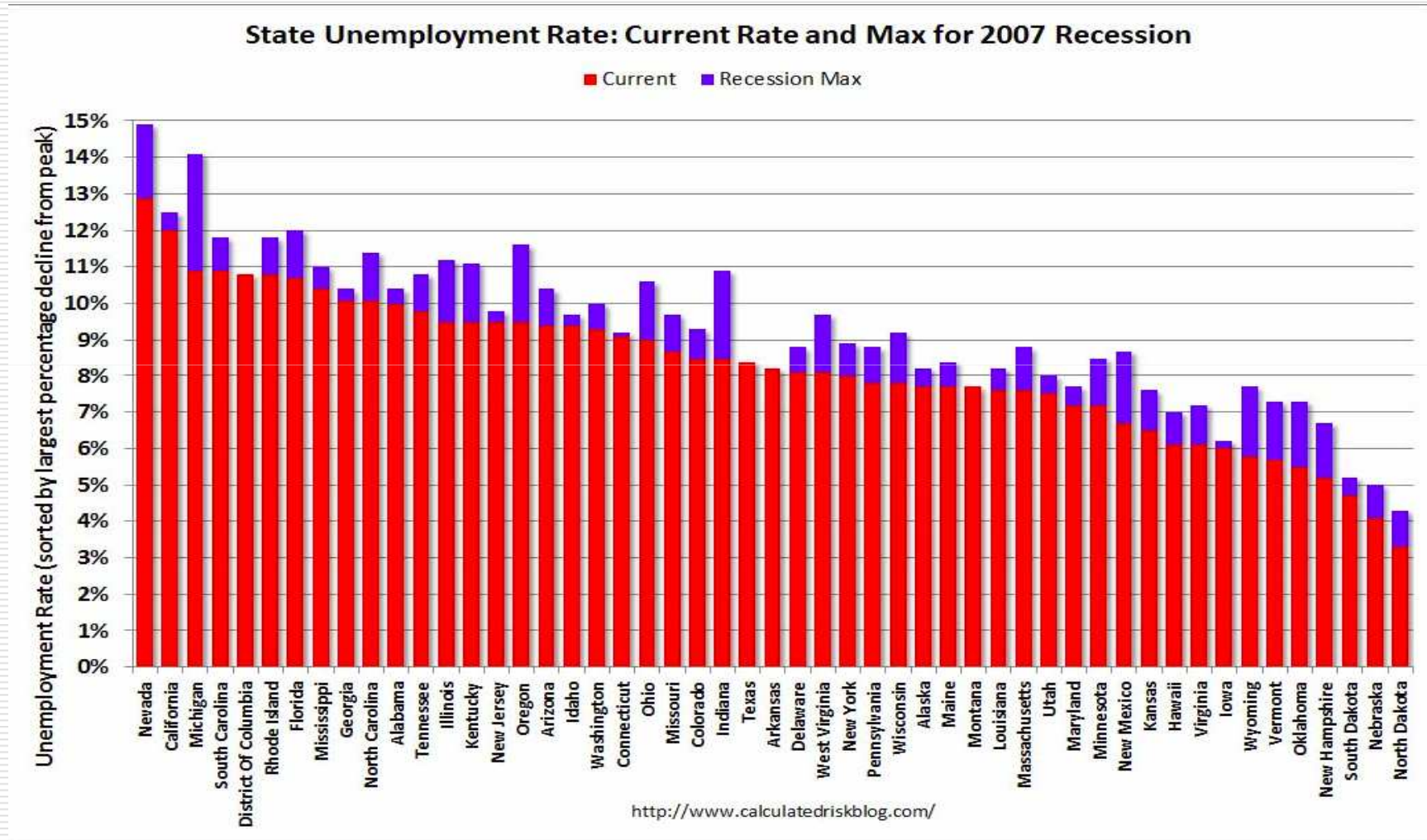
IHS Global Insight

- "Consumers are
 - Fragile,
 - Fatigued, and
 - Fed up."
-

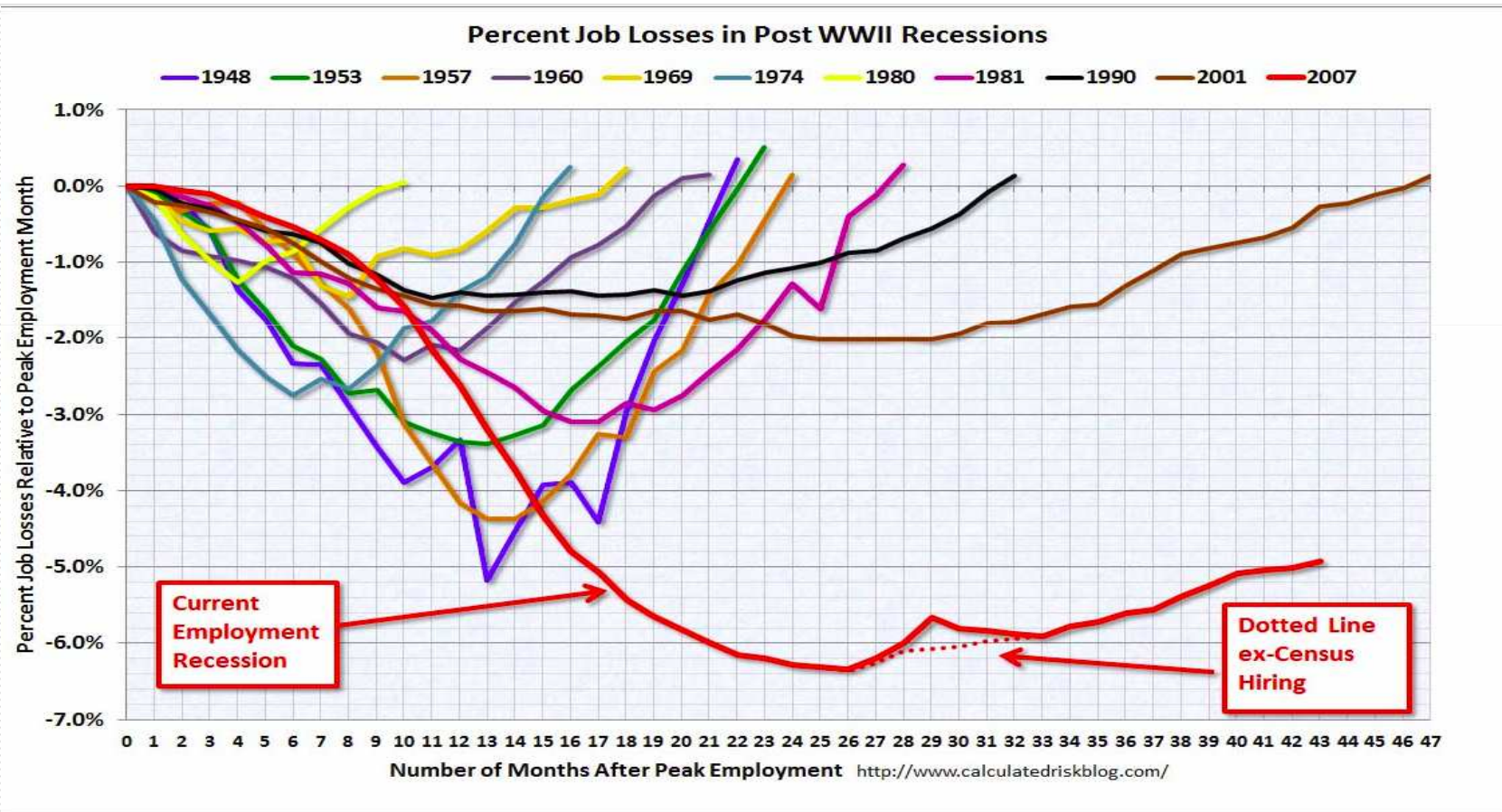
Recovery & Jobs

- “We are just not gaining jobs at anywhere near the pace that we need to get us out of this situation”
 - Sylvia Allegretto, Institute for Research on Labor and Employment, University of California, Berkeley
 - “When you’re worried about losing your job, nothing changes spending habits more than fear”
 - Joel Naroff of Naroff Economic Advisors
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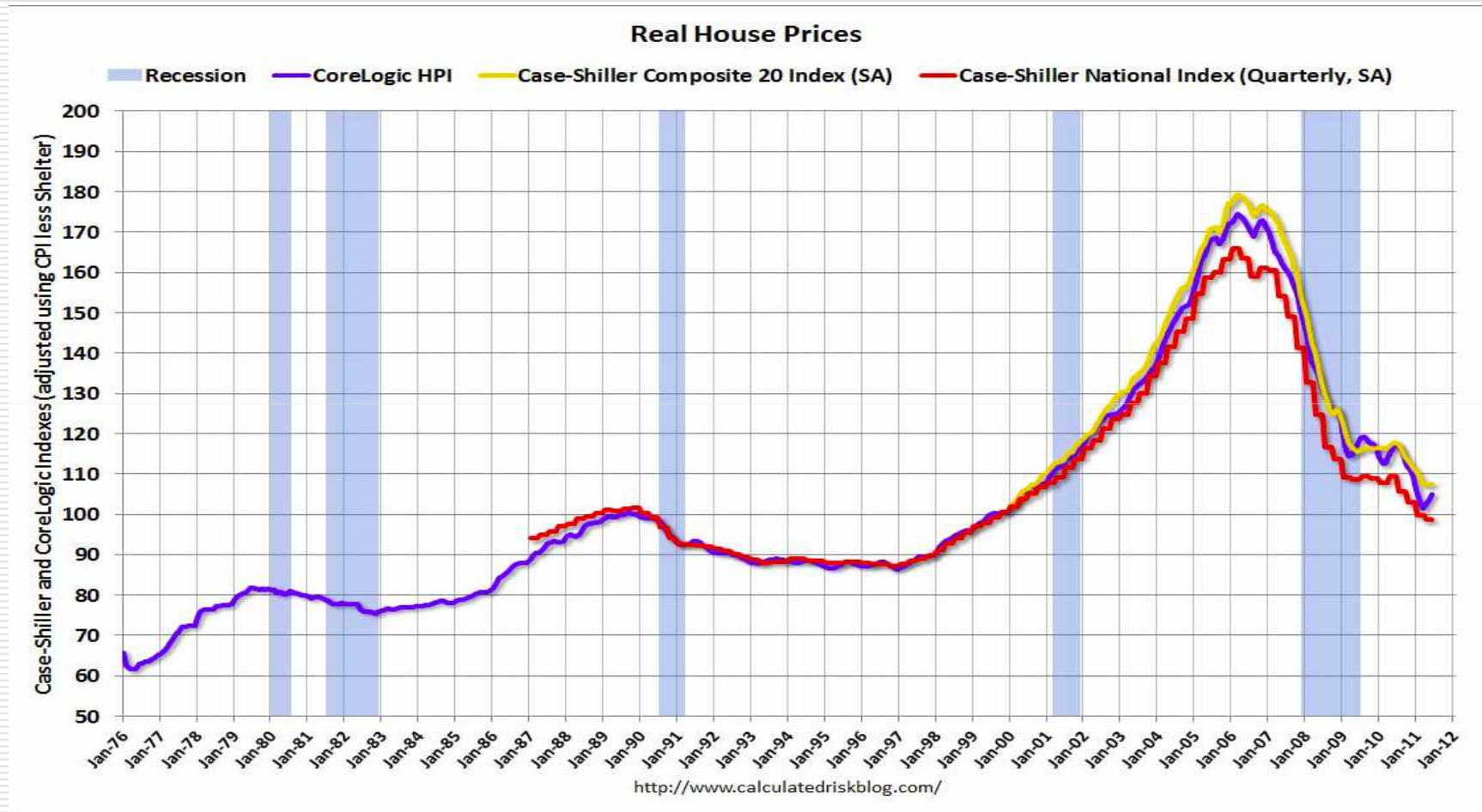
Unemployment by State



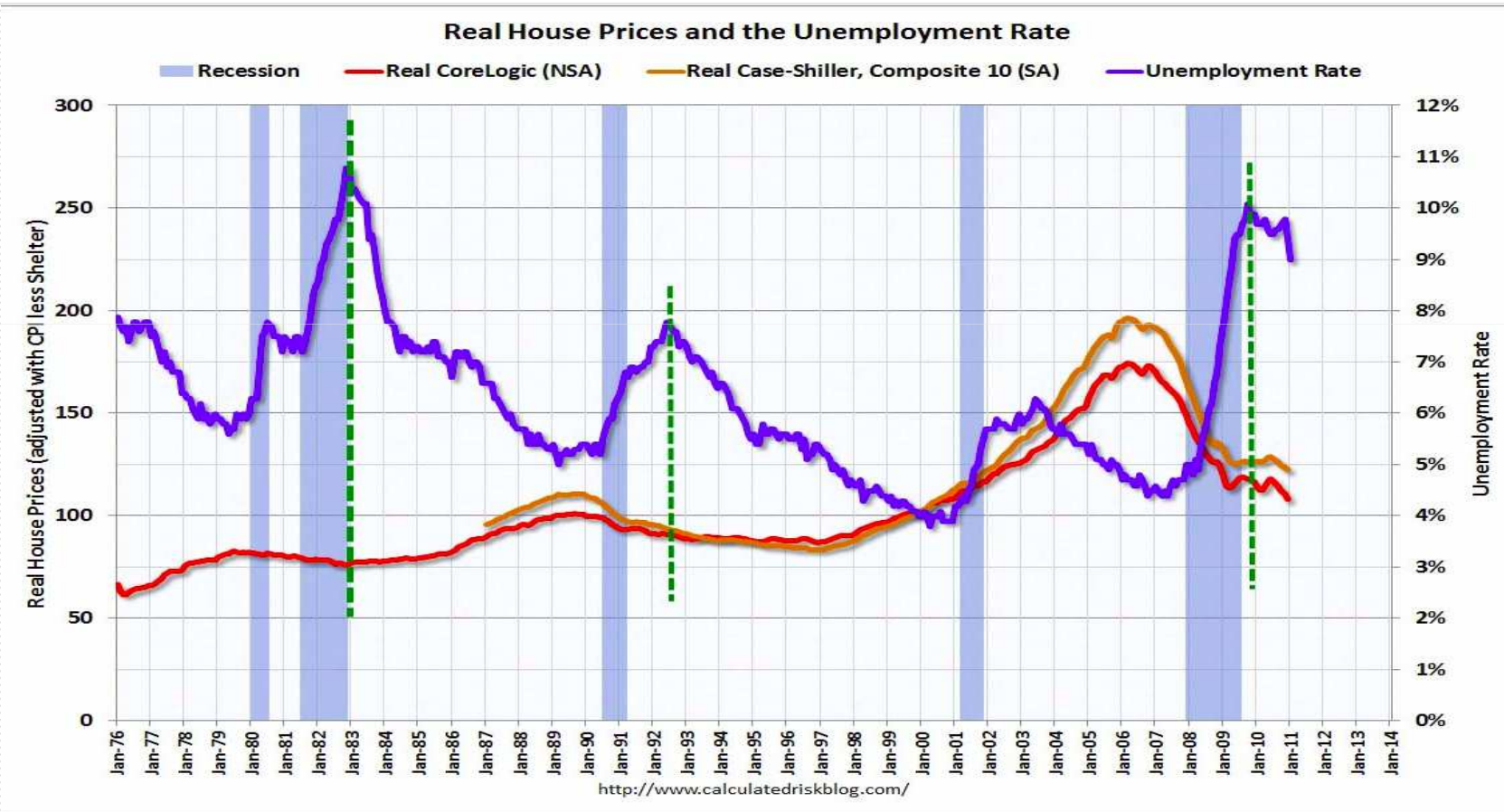
Job Loss in 11 Recession Cycles



Real House Prices



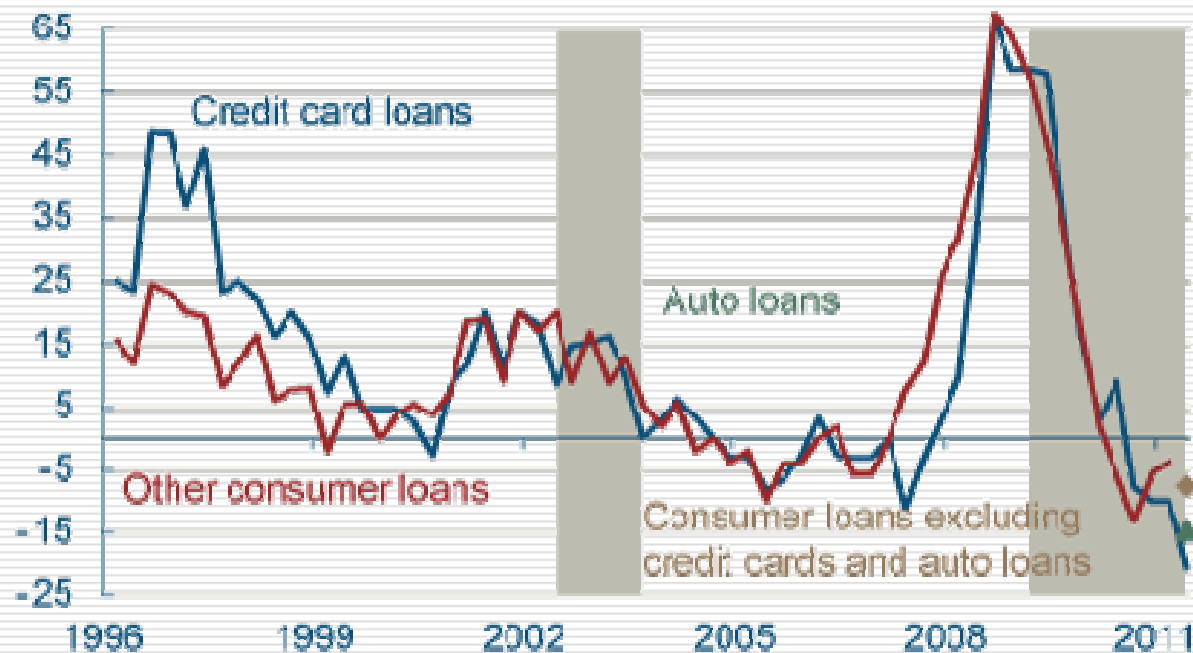
House Prices/Unemployment



Where is the Money?

Domestic Respondents Tightening Standards for Consumer Loans

Net percentage



Note: For data starting in 2011:Q2 changes in standards for auto loans and consumer loans excluding autos and credit cards are reported separately. Shaded bars indicate recessions.

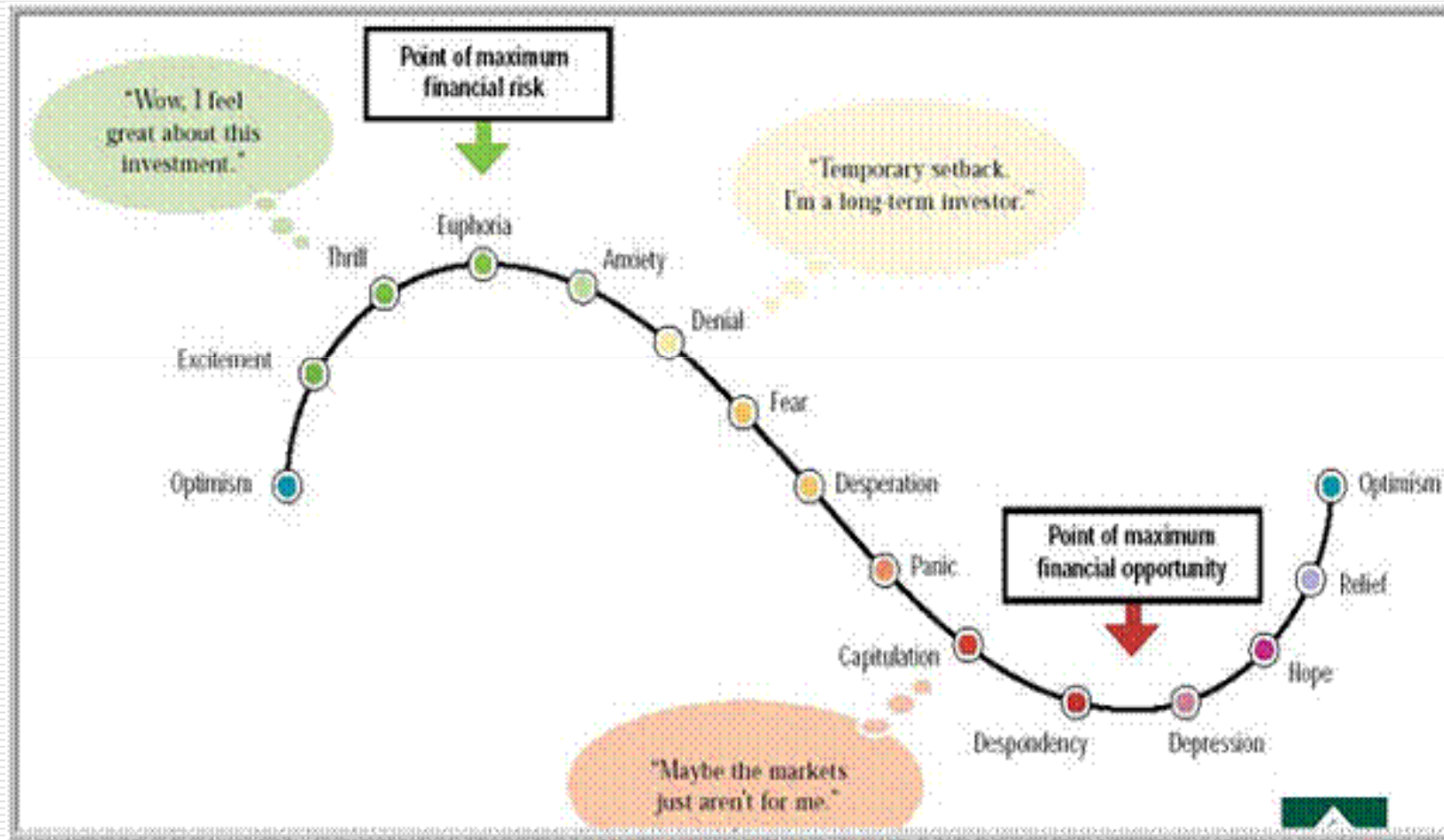
Source: Federal Reserve Board's Senior Loan Officer Survey.

Why are Buyers Waiting?



Source: Conference Board

Some Basic Emotionomics



Builders Typically Miss Cycle Turns

The up-turn as well as the down-turn

Remember What We Said...

This is a cyclical business.

Be ready for the next part of the Cycle

Why Will We Miss It?

- We Have Been So Battered
 - We Have No Cash
 - The Banks Say No More Real Estate -
EVER
 - Gloom and Doom are Pervasive

 - And, Most of All, We Are Herd
Animals
-

Silver Lining in the Clouds

- ❑ Will weed out some of the bad competitors
- ❑ Can potentially increase your market share
- ❑ Allow you time to improve your systems and staff
- ❑ Bank workouts will become available
 - Can be great for cash flow
- ❑ Project Foreclosures
 - These will come towards the end of the cycle
- ❑ Land Acquisition
 - Availability, Terms and conditions, Pricing

Well...It's Almost Time

Here's How to Beat the Herd...

- ❑ Establish Predictor Trend Charts
 - ❑ Develop Action Plans (Strategies)
 - ❑ Tie the Action Plans to Predictors with Pre Established Triggers
-

Establish a most probable business plan for your current housing market

Then, Bracket the business plan with a

- a. Probable plan
 - b. More optimistic plan
 - c. More pessimistic plan
-
- Tie each plan to the leading predictors
 - Create trigger points to take action
 - Follow the Plan exactly
-

Leading Predictors to Watch

Chart three sets of leading predictors

- General local economic housing market predictors
 - Existing home market predictors
 - Typically leads new home market by 3 to 6 months
 - Internal predictors
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General Housing Market Predictors (monthly)

- Mortgage interest rates
 - Housing foreclosures
 - Building permits
 - Retail sales revenue
 - New automobile sales
 - Net employment change
 - E/P ratio
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Existing Home Market Predictors

- Inventory - Number of homes listed
 - Average days on the market
 - Average existing home sales price
 - Sold price to asking price ratio
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Internal Predictors

- Weekly buyer traffic units
 - Traffic capture rate (contracts/traffic units)
 - Percentage of contingent contracts
 - Contract fall out rate
 - Voluntary cancellation rate
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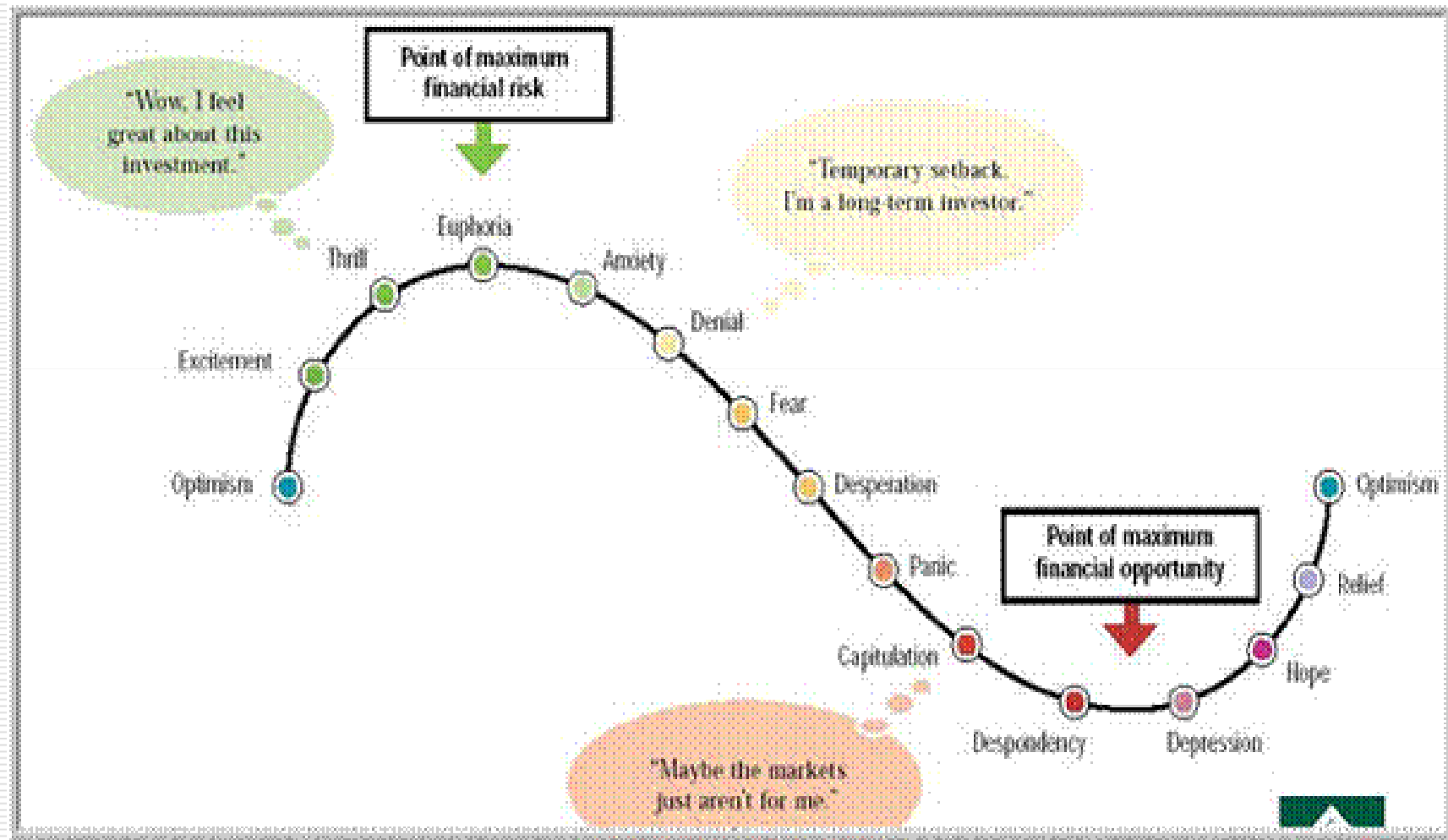
Now...Taking Action

- a. Ask a series of “what if” questions
 - b. Develop strategies to implement
 - c. Establish trigger points for leading predictors
 - Tie strategies to trigger points
 - Do It! Pull the Trigger!
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The Message...

There will be a lot of opportunities created by this transition. Be proactive with plans of actions and strategies tied to leading indicators to take advantage of these opportunities as the market continues to cycle, reaches bottom and begins to turn.

Where Are the Opportunities?



The Last Word

- ❑ Back in 1987 this bumper sticker appeared on a lot of builders and Realtors cars in Denver

 - ❑ **Dear Lord, Please let there be one more Real Estate boom, and this time I promise not to piss it away!**
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Ross S. Robbins, MIRM

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