

U.S. Homebuilding

Southern Florida Call Transcript: Mid-to-High Single Digit Growth Expected In 2016

Equities

Americas
Home Construction

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Fundamentals Support Continued Strength in 2016

To get real time updates on conditions, we host calls with local experts across the country throughout the year. We recently spoke with David Cobb, Director of the South Florida market for Metrostudy, to get an on the ground perspective in this area. Demand trends—driven by domestic and foreign buyers—were strong through 2015 and are expected to remain so going forward. That said, land constraints, especially in the Southeast part of the state, are making it more difficult to achieve rapid volume gains. This, in turn, has supported an environment of rising home prices broadly. As such, our expert looks for starts to be flat year over year in the Southeast and up 5-10% to ~5,200 units in the Southwestern part of the state.

Foreign Demand Feeling Effects of FX Markets

The high-rise condo market accounts for a significant portion of sales in Miami-Dade (attached dwellings make up more than half of total closings in this MSA), with demand primarily driven by overseas buyers. The more recent strengthening of the US dollar has resulted in softening activity; with sales anecdotally down as much as 50-60% year over year. If conditions remain weak, developers are likely to take steps—including lowering required deposits and increasing concessions—to help close out buildings. That said, our expert highlighted this shift in sentiment is specifically related to movements in FX and not a fundamental change in buyer interest in this market.

No Shift in Buyer Sentiment despite Equity Market Volatility

Given fundamentals, home prices appreciated 7% year over year in 2015, ranging from 5% in more affordable sub-markets to 15% in parts of the Southwest. Despite the demographics and strong second home demand here, our expert noted there has yet to be a shift in buyer traffic or sentiment related to the increased volatility in equity markets this year, though we will continue to monitor this trend for any changes.

Valuation: Our PTs are Based on a 50/50 Blended 2017E P/E & P/BV

Our price targets are based on a blended valuation methodology using an average of 8x our 2017 EPS estimate and 1.3x our forecast 2017 book values. The stocks currently trade at 7.4x our 2017 EPS estimates and 0.9x our 2017 BV estimates. Our top picks in the group are TOL, LEN & PHM. We also highlight Buy rated BZH.

Summary of Conditions

Demand trends—driven by domestic and foreign buyers—were strong through 2015 and are expected to remain so going forward. That said, land constraints, especially in the Southeast part of the state, are making it more difficult to achieve rapid volume gains. This, in turn, has supported an environment of rising home prices broadly. Further, Miami's high-rise condo market is seeing some softening due to the strength of the dollar. We provide additional detail below:

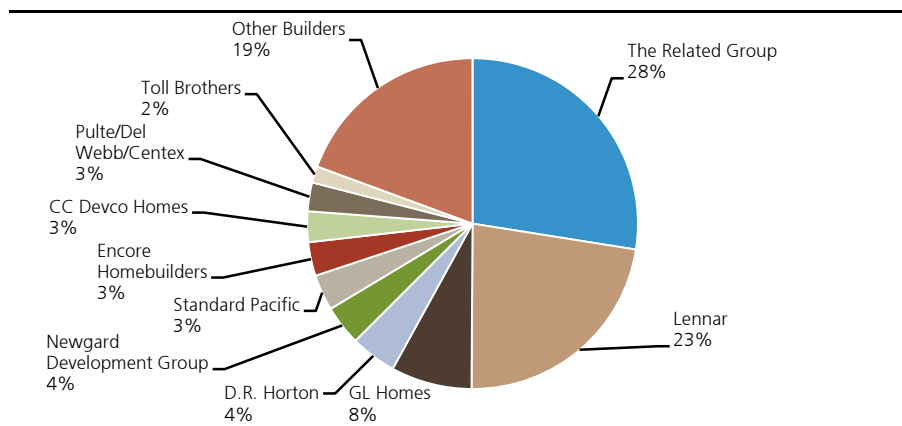
- Total housing starts for the 6 counties comprising Southeast Florida declined 2% year over year to 7,300 units. The flattening of starts in this area is primarily related to limited supply of land rather than lack of demand. In the Southwest—comprised of Lee and Collier counties—starts increased 18% year over year to 4,800 units. This area in particular continues to outperform even after double-digit increases in starts from 2012-2014.
- Pricing power remains strong in most counties for new single family detached homes as a result of the limited supply of developed land. Further, the spread in pricing between new and existing homes continues to be an area we are keeping our eyes on. The best example is in Southwest Florida where median new home prices are 80% more expensive on average (and ~1,000 square feet larger) than resales.
- The high-rise condo market accounts for a significant portion of sales in Miami-Dade (attached dwellings make up more than half of total closings in this MSA), with demand primarily driven by overseas buyers. More recently, the strengthening of the US dollar has made these units more expensive, especially relative to the Venezuelan Bolivar, resulting in softening activity. Anecdotally, it has been suggested that sales in this segment have declined 50-60% year over year. Our expert noted that if conditions remain weak, developers are likely to take steps—including lowering deposits to 20-30% of the purchase price from 50% and increased concessions—in order to close out buildings. That said, he highlighted that this shift in sentiment is specifically related to movements in FX and not a fundamental change in buyer interest in this market.
- Given limited standing inventory and land development, this area broadly saw home price appreciation of 7% year over year in 2015. This, however, ranges from a 5% increase in more affordable sub-markets to 15% in more desirable parts of the Southwest. We note that despite the demographics and strong second home demand in Southern Florida, our expert noted there has yet to be a shift in buyer traffic or sentiment related to the increased volatility in equity markets this year, though we will continue to monitor this trend for any changes.
- For 2016, our market expert, David Cobb of Metrostudy, expects starts to be flat year over year in Southeast Florida primarily due to more significant land constraints and up 5-10% to ~5,200 units in the Southwestern part of the state.

Builder Presence: Operating Stats

Miami

With approximately 9,200 new homes closed in 2014 (based on data collected by Metrostudy and reported as part of Builder Magazine's "Local Leaders" series), the Miami/Fort Lauderdale/Pompano Beach metropolitan area ranked as the 7th largest housing market in the country. In terms of market share held by the top builders, this area is less fragmented relative to other major markets. In each of the 50 largest housing markets in the US, the top ten builders were responsible for approximately two-thirds of new home closings in 2014, which compares to 81% in Miami.

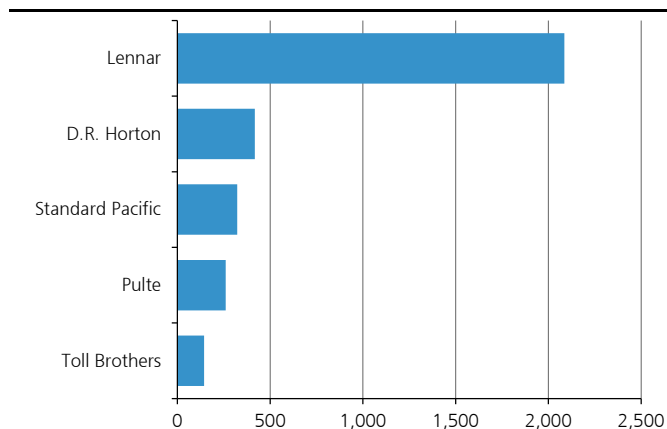
Figure 1: Share of 2014 Miami Area Closings, by Builder



Source: Builder Magazine (Metrostudy)

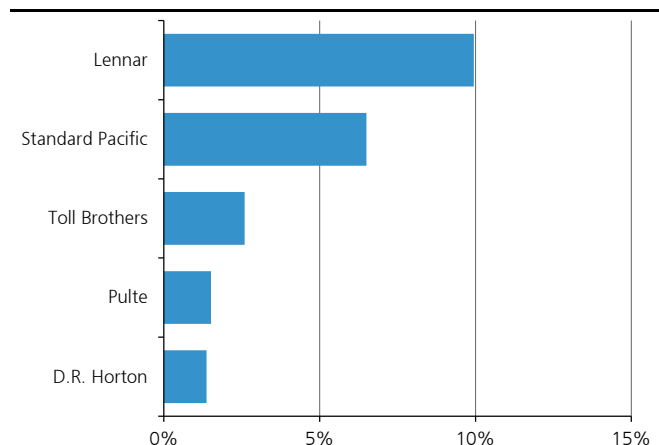
For companies in our coverage universe, this market was most significant for Lennar, the largest builder in the area in 2014.

Figure 2: 2014 Miami Area Closings



Note: Standard Pacific and Ryland merger closed October 2015.
Source: Builder Magazine (Metrostudy)

Figure 3: 2014 Miami Share of Total Company Closings



Note: Calendar year closings obtained from Builder Magazine. UBS divides these closings by closings per company reports for the four fiscal quarters most closely coinciding with the 2014 calendar year. Standard Pacific and Ryland merger closed October 2015.
Source: Builder Magazine (Metrostudy) and company reports

Conference Call Transcript

We present below the transcript from our call with David Cobb from Metrostudy, a provider of market information on real estate development and new home construction. It has been edited for clarity.

Susan Maklari: Welcome to everyone that has dialed in today. We're going to be getting an update on the Southern Florida market. This is an area that we haven't spoken on for about six months and with the weather changing up in the Northeast and Midwest, it'll be interesting to see how the selling season comes together down there.

With us today to give us an update is David Cobb from Metrostudy. With that David, I'll turn it over to you.

David Cobb: Great Susan, thank you and welcome everybody to the South Florida Homebuilder Conference Call today. First, we'll talk about the Metrostudy South Florida Region. It is comprised of eight counties in Southern Florida. It is the six southernmost counties on the East Coast. That's Indian River, St. Lucie, Martin, Palm Beach, Broward and Miami-Dade. On the West Coast, it's the two southernmost counties; Lee and Collier.

The outline of this presentation today is we'll first take a look at the national housing market and then drill down into the local markets. Let's first take a look at the national housing perspective and see how we finished up in 2015 and what we think about 2016 going forward. According to the Census Bureau, housing starts finished the year at a seasonally-adjusted rate of 1.15 million units. That's up 6.4% year-over-year and was in line with Metrostudy's forecast of 1.1 million units. Of this, 768,000 were single-family starts or exactly 2/3 of the total. Building permits finished 2015 at 1.23 million annually, which was up 14.4% over 2014 and 7% above the starts numbers. Generally speaking, when the permit rate exceeds the starts rate, we can assume that the housing market is expanding.

Metrostudy's forecast for 2016 housing starts is an increase of 11% to 1.26 million starts. We expect single-family starts to rise a little bit better than that at 14% to 875,000 units, which would be 69% of the total. We note that the starts rate is still only about 85% of the 50-year historical average at 1.44 million units. We're basing our 2016 prediction mostly on supplier strengths versus demand issues. We think there's demand out there to crack the 1.5 million starts but labor, land and sales price constraints will prevent that from happening this year.

Let's move on to our local South Florida economy and housing market. Again, South Florida is comprised of eight counties. There are three distinct submarkets to this region: The Treasure Coast, which is Indian River, St. Lucie and Martin on the East Coast; the Gold Coast, which is Palm Beach, Broward and Dade; and then Lee Island Coast, which is Lee and Collier. Metrostudy surveys all active and future communities in the market with the exception of legacy platted subdivisions, such as Port St. Lucie, Cape Coral, Lehigh Acres and Golden Gate. If there's a new residential community within those counties, however, we will survey it. The numbers we will discuss today reflect single-family detach and attach product unless noted otherwise.

Looking at the economic trends for the region, Florida continues to be a jobs growth leader in the country with the seasonally-adjusted non-agricultural

employment increase of 21,900 positions in December of 2015. The state posted an annual job growth rate of 233,100. This is a 2.9% increase year-over-year compared to the US rate of 1.9%. Florida has now numerically recovered all of the jobs lost during the previous recession. Florida's seasonally-adjusted unemployment rate in December stood at 5%, which is down from 5.7% a year ago. Locally, the unemployment rate ranges from a low of 4.2% in Lee County to 5.9% in Indian River County with a regional average near the US unemployment rate of 5%.

In Metrostudy's South Florida Region, job creation was positive in all eight counties for the past 12 months. Southeast Florida created jobs on an annualized pace of 58,600 while Southwest Florida added 11,200 new jobs. These numbers are down about 30% from the peak growth rate that we saw in 2014 but its leveled off here and has not declined in the past four months. The rental market remains strong in South Florida in part due to the cost of for-sale housing. Vacancy rates are generally less than 5% and we have recently surveyed some rental communities that are fully leased with a waiting list. Monthly rents range from under \$1 per square foot in older projects in St. Lucie County to \$2.50 per square foot in desirable areas of Palm Beach, Fort Lauderdale and Miami.

Now let's take a look at the for-sale housing data. We'll start with Southeast Florida, which are the six counties from Indian River South to Miami-Dade. Annual starts finished 2015 at 7,295 units, which was down 2% from the annual starts pace observed in 2014. This continues the stabilization or flattening out of starts last seen since 2013. The lack of starts growth is not demand related but is due to the land constraints and to a lesser extent labor shortages. We note that in South Florida we have the same population as Dallas at about 6 million people, but only record about a quarter of the starts there due mainly to our land constraint issues.

Let's now break down the region further and look at starts and sales prices within the Treasure Coast and the Gold Coast on the East Coast of Florida. The Treasure Coast is Indian River, St. Lucie and Martin Counties. These are fairly lightly populated counties and only represent about 10% of the total in Southeast Florida. That's about 600,000 people. The Treasure Coast finished 2015 with 1,372 starts, which is up 5% from the 2014 pace. Indian River and St. Lucie Counties continue their starts growth year-over-year while Martin County declined 4% from 2014. Martin County's housing market remains roughly half that of either St. Lucie or Indian River due in part to the relative lack of housing developments, the higher price homes when compared to the other two counties and the no growth policies of the local government.

Now let's look at both new and resale home prices and how they finished 2015. The Treasure Coast is a single-family detached market for new homes, so we'll focus on that. Homes closed in 2015 were \$283,000. That's the lowest median price in all South Florida. That median size of 2,404 square feet computes to \$121 per square foot. This price was up 7% from 2014. The single-family detached regular resale median price was \$183,100. At 1,754 square feet, that computes to \$107 a square foot. This price is up 5% in Indian River and up 15% in St. Lucie and Martin County from 2014. We can see here that the new homes are about \$100,000 more expensive, command a \$14 per square foot premium and are about 700 feet larger than their median resale competition.

Of the 15,799 single-family detached transactions that occurred in the Treasure Coast in 2015, 7% were new homes. The national average by the way is about

9%. Regular resales accounted for the majority of these sales at 63% of all transactions, leaving 30% to foreclosures and REO sales. I'd note that distressed properties at 30% are three times the national average. The Treasure Coast is still working through the foreclosure problems associated with the previous cycle. Townhome product is beginning to show up again with two projects in Martin County underway, but there has been no new townhome development in the Treasure Coast in several years.

The Treasure Coast has, by far, the largest supply of vacant developed lots in Southeast Florida at 11,594 lots. Nevertheless, there were 323 lot deliveries in the fourth quarter primarily in the St. Lucie County communities and PGA village, which suggests that builders will develop lots in A locations versus buying finished lots in C and D locations.

Let's now move on to the Gold Coast, which is Palm Beach, Broward and Miami-Dade, with a population of almost 6 million. This area finished 2015 with 5,922 starts which was up 3% year over year. Prices in the Gold Coast are almost double that of the Treasure Coast. The median single-family detached new home in 2015 was \$495,000 and at 2,734 square feet is \$183 a square foot. This median price is up 8% from 2014. The single-family detached resale median price in 2015 was \$287,000 and at 1,759 square feet computes to \$158 a square foot. This sales price is up 9% from 2014. The single-family new home price is over \$200,000 more than that of resales. Further, at almost 1,000 square feet bigger they command a \$25 per square foot premium.

The higher prices and larger size of these new homes certainly reflects the price of land here. Land typically is about 20-25% of the sales price in South Florida. You can see that builders are generally at around \$100,000 to \$125,000 per lot. Of the 78,000 single-family detach transactions in 2015, only 2,800 or 3.5% were new homes. This is only a third of the national average and it gives you an idea of the impact of the shortage of land in this market.

Single-family detached regular resales accounted for 62% of all transactions, which leaves just 35% or so to foreclosures and REOs. In Miami-Dade, 37% of all deed transactions were considered distressed. There were 3,847 foreclosures in Miami-Dade last year. Selected Treasure Coast distressed inventory still makes up a significant percentage of sales, but unlike in 2009-2011, these typically do not compete with new homes. It's noteworthy to mention that the resale condo market is quite robust with 41,495 transactions in 2015. The median price was only \$153,000 and at 1,057 square feet is \$143 a square foot. These types condos can be found throughout the Gold Coast in all three counties. They're typically 20-40 years old, rather small and are quite often in age-targeted or age-restricted communities. This product reflects the affordable housing portion of the market not being served by new housing.

After several quarters of declining vacant developed lot inventory, the fourth quarter showed a slight rebound due to a total of 2,573 new parcels placed into production. This is likely to be just a quarterly spike in deliveries versus a new trend. We still see vacant developed lot inventories below 20 months' supply in all three counties, which is well below the typical equilibrium of 36 months.

I would like to turn our attention right now to one portion of the market that is seeing some stress. This is the Miami-Dade condo market. First, 90% of the condo market here is high-rise. This area is located in downtown Miami in sections just to the north and in Miami Beach. This market has been on fire for the past four years

and has been primarily fueled by buyers in South America and Mexico with some domestic and Europeans as well. Presently, there are 12,000 units under construction. They have 20-40% that are unsold. That's about 4,000 out of the total. What's happened in the past 18 months is that all of the Latin American currencies have been crushed by the strong US dollar. Let's take Venezuela for example, which is a significant portion of the Miami condo and suburban market. In August of 2014, the currency ratio was VEF80 to \$1. Today, it is VEF997 to \$1. Now I'm not a math wizard but that looks like about a 90% deterioration of bolivars against the dollar in just over a year.

Similar valuation issues plagued the rest of Latin America. It's not likely that anyone trying to convert their currency into dollars today is going to have many to spend in the US, particularly on higher priced Miami real estate. We can anticipate a progression of events if there is no turnaround in this currency issue. I want to keep in mind that this is not a demand issue. South Americans and Mexicans love Miami and they want to own property here. It's a currency issue. **We're hearing anecdotally from some of our clients that sales are off 50-60%. High-rise starts have dropped from 3,500 in the third quarter of 2014 to just 200 in last quarter.** Here's a possible progression of events in the high-rise market. The first thing likely to happen is the 50% deposit schedule may become a bit more lenient and we might see deposits drop into the 20-30% range. Again, anecdotally, we're hearing it's already happening.

Once the buildings are finished, if there are still unsold units, there's likely to be some price concessions to get them closed out. We note that there's a big gap between the 2015 closing price per square foot for high-rise condos. These are new homes that closed in 2015 at \$370 a square foot and the current sales prices, which are \$450-650 a square foot and much higher than that on the beach. Resales were even less at \$239 a square foot. If there's less dollars to be had coming out of South America, it's likely that these buyers may turn to resales instead of purchasing new because of the price advantage. We know a lot of the competition is smart. They're trying to outdo each other with amenities, features and designs, and resulting in higher prices and fees.

The other issue we could see 24 months from now is the fact that a significant proportion of these 12,000 units were planned to be placed as rentals. They were investments and the purchasers were not going to live in them full time. We could have several thousand units show up on the rental markets in 2-3 years from now all at once. Needless to say, this story is still unfolding in 2016. Metrostudy will be watching it carefully to see how things continue to develop.

Now let's turn our attention to Southwest Florida. Again, that is Lee and Collier Counties and they have a population of about 1 million people. That said, this time of year it swells 15-20% as the snowbirds make their way down here to enjoy the warm weather. **Southwest Florida experienced very strong starts growth last year. Our starts totaled 4,800 units, which was up 18% year-over-year. This was on top of double-digit increases in 2012, 2013 and 2014. The annual starts pace here has increased for 18 consecutive quarters and is now 128% of the 15-year starts average.** This is one of the few markets in Florida that has exceeded the long-term average. By contrast, in Southeast Florida, the starts pace is only 48% of their long-term average.

The single-family detached median new home price in Southwest Florida was \$454,700 in 2015 and the median size was 2,583 square feet, which equals \$176 a square foot. This is a 15% sales price increase over 2014. The

single-family detached median regular resale price was \$251,000 in 2015 and the size of those homes was 1,762 square feet or \$143 a square foot. Prices were up 5% year-over-year. As we can see the single-family detached median new home is about \$200,000 more expensive, 800 square feet larger and commands a \$33 per square foot premium over resale.

Single-family detached new homes accounted for 3,450 of the 27,292 total deed transactions in 2015. This is 13% of the total, far above the 3% we saw in the Gold Coast. A more plentiful supply of land helps keep the home transaction average above the national average here. Single-family detached distress sales accounted for 22% of all transactions in 2015, well below Southeast Florida's rate but still twice the national average. Foreclosures were 2,598 while REOs were 3,625 units. The majority of the transactions are those who have already gone through the foreclosure process and are being resold to consumers.

Let's talk about condos for just a second. The Southwest Florida condo market represents about 33% of all sales. For new homes, it's 22% of the total. Unlike Southeast Florida, the condos here are primarily low-density garden variety condominiums. There were 909 new condo sales in 2015 with a median price of \$259,900. The price per square foot was \$164 while resale condos were \$147 per square foot. It's also worth noting that we have a couple of high-rise towers in presale mode and at least one under construction at this time. This represents the first high-rise tower that's broken ground in Southwest Florida since 2005. These are primarily located on or near the beach and they represent second homes and vacation homes for the clients. We don't have anywhere near the problem in the high-rise market here as we see in Miami-Dade.

Vacant developed lot inventory remains in balance for the most part. We had deliveries for the year of 5,800 lots. That's about 1,000 more than the annual starts pace. At least for now, there is not the shortage we see in Southeast Florida.

To conclude, we see that the US housing market is poised for another year of growth. Economic conditions remain solid and we don't expect a recession as of yet. Starts growth continues in Southwest Florida and are stable in the Southeast. Inventories of new and resale homes are slightly constrained. The Miami-Dade high-rise condo market is under stress, with the story to unfold in 2016. For builders, lot and labor supply remain top issues.

Susan Maklari: Have you seen any impact from the volatility that we've experienced in the stock market this year, especially given that this market tends to be a big area for second homes and active adult buyers? Have you seen any changes in activity yet as a result?

David Cobb: No, the volatility that we've seen in the markets is fairly recent and has not shown up in any of the numbers. If you consider our buyers, especially here in Southwest Florida, that are mostly coming down to retire or to purchase a vacation home, they must have some of their assets tied up in equities. If they see their portfolios being damaged by declining values, this certainly could have an effect on demand down here, but we're not seeing that as of yet.

Susan Maklari: Can you talk a little bit about the different buyer segments? Are you seeing builders try and target more entry level or first time buyers at all?

David Cobb: Yes, there's some of that going on. In the Treasure Coast where we have our median new home sales price under \$300,000, most of the builders can provide brand new single-family detached housing that's \$110-120 a square foot.

This is about as low as you can see in Florida because land prices there are fairly inexpensive. The rule of thumb in the Treasure Coast is that the land price should only be about 15% of your total sales price.

Once you get into Southeast Florida into Palm Beach, Broward and Dade, it becomes a little more problematic because of the higher land prices. We are seeing some builders such as D.R. Horton go into some infill locations. With their Express Home product, they're able to deliver single-family detached product for roughly half that of the median price and have been successful doing that.

In Southwest Florida, we do have a couple of fairly large reservoirs of legacy platted communities. One is Lehigh Acres. The other is Cape Coral. Although these are not new master plan developments, there are literally tens of thousands of platted, ready-to-build-on lots available that aren't as expensive. It's not so much the larger builders but some regional builders that specialize in building on that parcel where you can deliver affordable product there as well.

Participant Question: Can I follow up that question about the first-time homebuyer by asking about activity on the multifamily rental side as well as any insight about single-family rentals?

David Cobb: There are certainly a significant number of homes that are rented. I think nationally it's around 25-30% of all homes that are in the rental pool, either shadow inventory or professionally managed. We do have that. We have seen in our recent studies of the rental apartment market, particularly in Southeast Florida, that the vacancy rate is 5% or less. We've seen a lot of multifamily permits that have been issued in the last couple of years have not been for condominiums but they've been for rental apartments.

That market is still pretty strong here. I think it'll continue to be that way until either builders can somehow figure out how to serve that first-time homebuyer market with more units or we see some relaxing in the underlying guidelines that allow people to qualify for mortgages.

Participant Question: In other markets we've seen a skew towards Class A multifamily being constructed. Could you talk about the two coasts and what you see in terms of what class of new product is being introduced?

David Cobb: Yes. In terms of Class A, you have to start with revenue. You have to start to understand what you're going to get per square foot. In many parts of South Florida, the rental average price per square foot can be just about \$1. So trying to build a luxury rental apartment complex with those types of rents just doesn't pencil. However, if you can find an infill location in a desirable area near downtown Fort Lauderdale, Las Olas, or the more desirable parts of Miami, Palm Beach and Naples, the rents are sufficient to cover that extra cost of construction. It could work, but I don't see an explosion of luxury rentals.

One thing we do see that comes to mind is in Broward County, near Fort Lauderdale, we're seeing several of what I would call luxury rental high-rises being built. What appears to be the plan here is that the developers are going to go ahead and design these buildings for future condominium conversions. We haven't seen the hot Miami-Dade market roll over into Broward County yet. Some builders are saying, "Well, let's go ahead and build these units as rentals. These are going to be relatively expensive. They're going to be \$2 a square foot and up." That's going on right now and this is the first time we see in Broward County that high-rises have been built specifically for rental use in a long time.

Susan Maklari: You mentioned the labor shortage that's hitting builders in this area and it's been in the broader national conversation as well. Can you talk a little bit more about what the constraints are down there and if you have you see them ease up at all, perhaps more recently?

David Cobb: Most of the large public builders have managed to secure a labor force that is adequate for their current needs. Quite frankly they are pacing their sales with respect to their production so they don't oversell a community and not be able to deliver the homes. We're seeing a little bit more discipline in that respect. It's also possible that if we do see a slowdown in Miami-Dade in the high-rise market and perhaps elsewhere in the suburban areas that we'll see some of those contractors make their way north into Broward and Palm Beach and help assess this situation there. Now if you're a small builder, if you're somebody trying to build five houses a year, you're at the back of the line and it's going to take you twice as long to build that house as the builder that can do several hundred a year.

Susan Maklari: You mentioned that you expect overall growth in this area to continue. Can you help us understand perhaps how much growth you're looking for this year and how to think about where this market can ultimately get to over time in terms of starts pace?

David Cobb: The problem areas of the economy, the energy and manufacturing sectors, we don't really have down here. Our South Florida economy is driven mostly by the service industry. It's leisure and hospitality, professional services, a little bit of construction employment, trade, transportation and utilities, retail/wholesale trade and so forth. We are at least initially immune from those areas that are impacting cities like Houston. The housing growth is land constrained on the East Coast. **We talked about 11% national growth for 2016. I don't think Southeast Florida is going to add much to that. I think our starts pace is going to be flat again in 2016 primarily due to our land constraints. In Southwest Florida where we're seeing double-digit starts expansion year-over-year, I do believe there's additional capacity to grow that market further. Our peak in 2005 was around 7,500 starts. We're at 4,800, so not anywhere near the peak. It wouldn't surprise me if we saw another 5-10% starts growth in Southwest Florida in 2016.**

Participant Question: I wanted to follow up on your comment on the Miami-Dade high-rise condo market and about the currency impact on demand. Are you seeing any similar impact on the single-family market in Miami-Dade in terms of currency impact or foreign demand in general at this point?

David Cobb: That's a good question. When I looked at our data that came out a couple of weeks ago for the fourth quarter, the very first thing I did is I went to look at our starts for the Miami condos. I looked at them for the single-family detached and attached product. We saw what we expected in the high-rise market, that our starts pace has dropped off to fairly minimal. We did not see that drop-off for the suburban single-family detached and attached market in the fourth quarter. The starts were fairly strong.

That has not materialized as of yet. I'll be meeting a couple of folks down there in the coming weeks and will be asking how things are shaping up for this quarter. You would have to think that in Doral, where Venezuelan buyers are so heavily represented in the submarket, there's going to be some kind of effect. Now what we don't know really is what the lag is between when people got their money out and when they're making decisions to buy homes. It's possible that this is an

instantaneous thing that people have moved their money over here a year or two ago and have been making plans to do this and now they're ready. There's a possible lag factor.

Anybody who is in Venezuela that didn't get their money out and has plans to do so is going to be faced with a conundrum. This is not likely going to affect the super wealthy down there. But, we know that a lot of the people who have bought real estate that came out of South America are upper middle class and maybe a little bit above. They're entrepreneurs, they want to establish some type of business here and they want to have a residence here either to live in or for investment, as well as one back home. The desirability factor, the demand, is still there. These people want to come here. They love Miami. They like the fact that compared to their cities of Caracas and Rio de Janeiro and other places, Miami is cleaner. It's safer. This is just simply a currency issue that has knocked their decision back until things get better if they haven't gotten their money out by now.

Susan Maklari: Well, David, I think that we will end it there. Thank you for all the information on what's going on. Thank you to everyone that has dialed in. We will be back next week with another update.

Valuation Method and Risk Statement

The primary risk facing homebuilders currently is that the recent improvements experienced slow or reverse, driven by 1) a weaker macroeconomic backdrop and the related lower level of job creation or 2) the impact from recent increases in mortgage rates. Additional risks include increased costs for either land, labor or materials and the potential for the more limited availability of mortgage financing to negatively impact demand.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	48%	36%
Neutral	FSR is between -6% and 6% of the MRA.	39%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2015.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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UBS Securities LLC: Susan Maklari.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Beazer Homes ¹⁶	BZH.N	Buy	N/A	US\$6.98	17 Feb 2016
Lennar ^{4, 6, 7, 16}	LEN.N	Buy	N/A	US\$40.52	17 Feb 2016
PulteGroup, Inc. ¹⁶	PHM.N	Buy	N/A	US\$16.61	17 Feb 2016
Toll Brothers ¹⁶	TOL.N	Buy	N/A	US\$25.23	17 Feb 2016

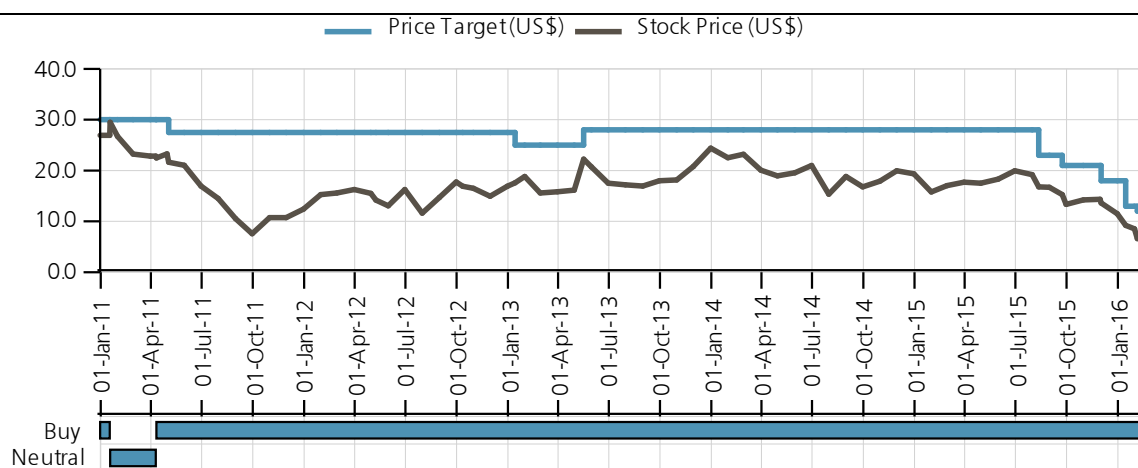
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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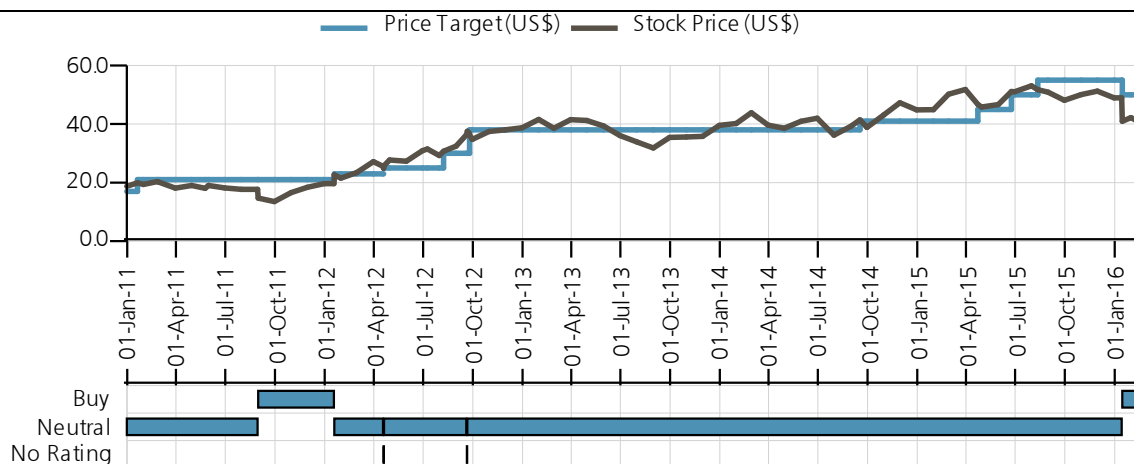
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Beazer Homes (US\$)



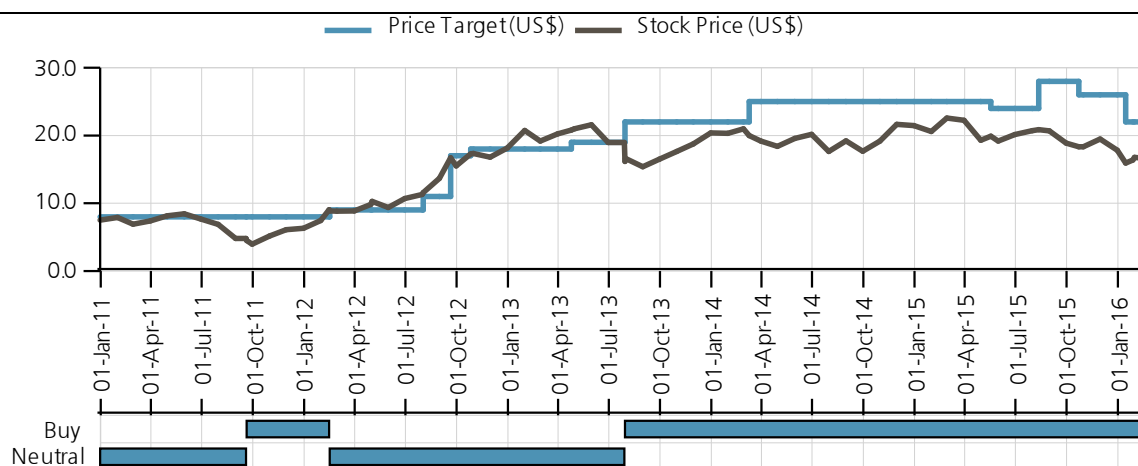
Source: UBS; as of 17 Feb 2016

Lennar (US\$)



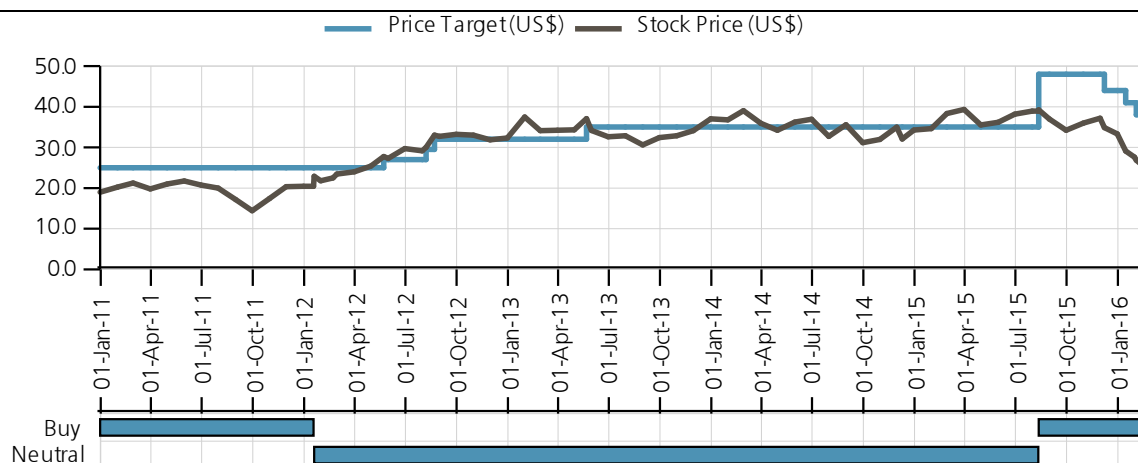
Source: UBS; as of 17 Feb 2016

PulteGroup, Inc. (US\$)



Source: UBS; as of 17 Feb 2016

Toll Brothers (US\$)



Source: UBS; as of 17 Feb 2016

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