



UBS View on Housing Outlook

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Analyst certification and required disclosures begin on page 30

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Long Term Demand for ~2 million New Homes

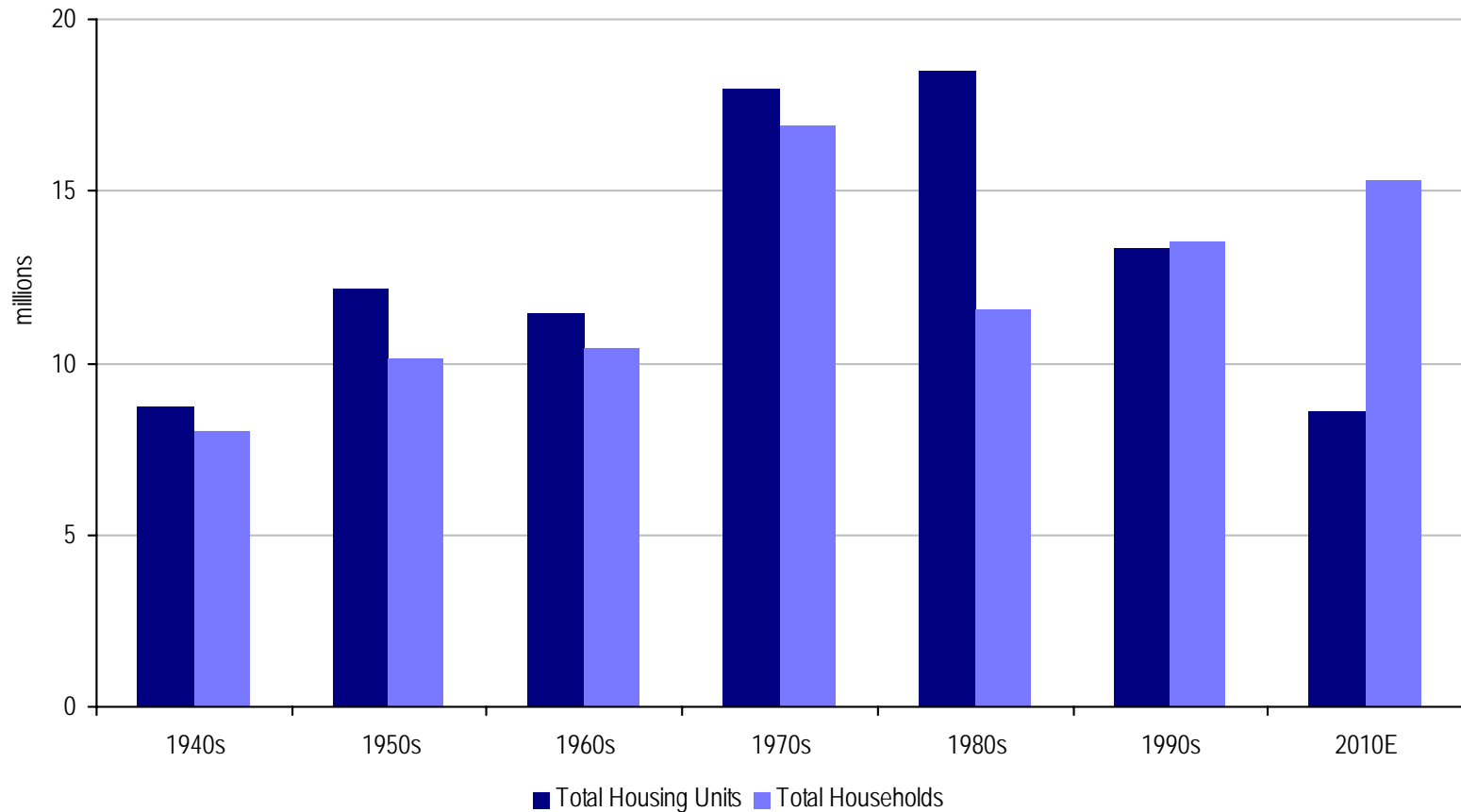
	2007E	2008E
Household Formation		
Forecast Total Households (mns)	115.2	116.6
Forecast Total YOY Δ Households (mns)	1.35	1.36
Teardowns		
Beginning of Period Housing Stock (mns)	125.9	127.4
Forecast Teardown Rate	0.44%	0.44%
Total Replacement Demand (mns)	0.56	0.56
Second Home Sales		
Beginning of Period Housing Stock (mns)	3.9	3.9
Forecast Second Home Growth	2.20%	2.20%
Total Second Home Demand	0.08	0.09
Forecast Housing Starts (SF & MF)		
Total Demand For New Construction (mns)	1.99	2.01
Less Inventory Reduction (mns)	-0.44	-0.35
Forecast Total Starts	1.55	1.65
UBS - YOY Change in Starts Forecast	-15%	6%

Source: U.S. Census Bureau, UBS estimates



Demand

U.S. Household and Housing Unit Growth by Decade

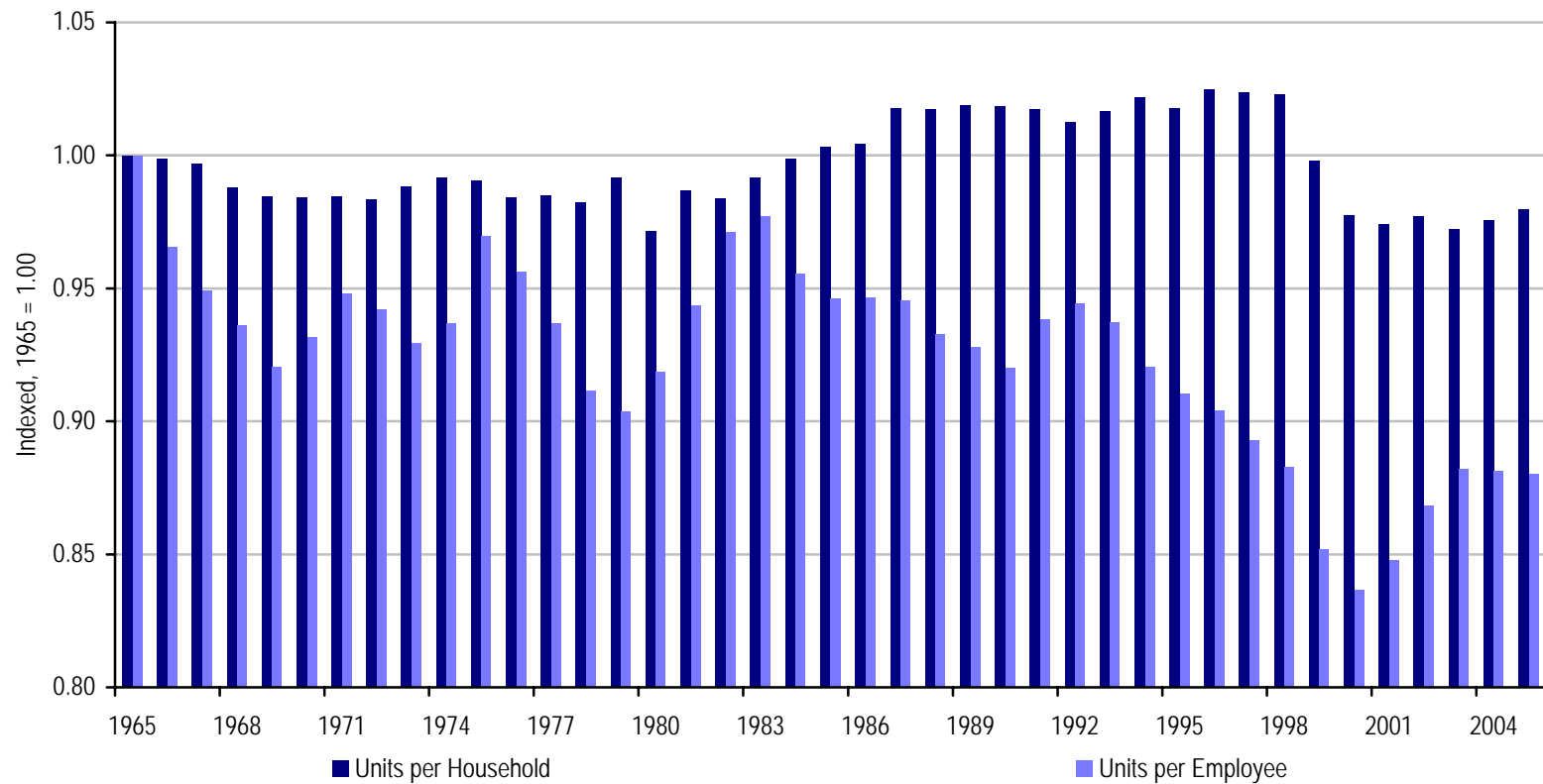


Source: U.S. Census Bureau, UBS forecasts



Household Formation and Housing Stock

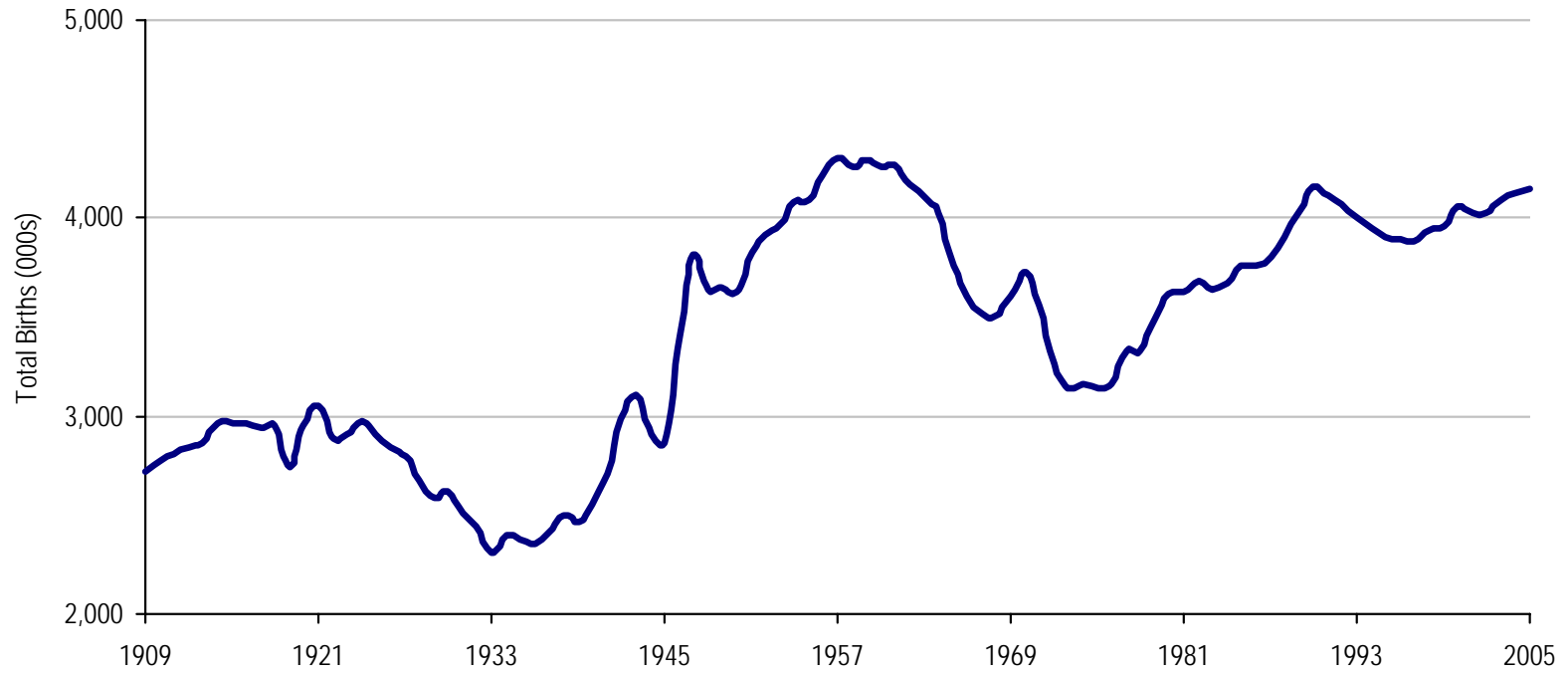
Household formation and employment growth continue to accelerate more rapidly than the housing stock.



Source: U.S. Census Bureau



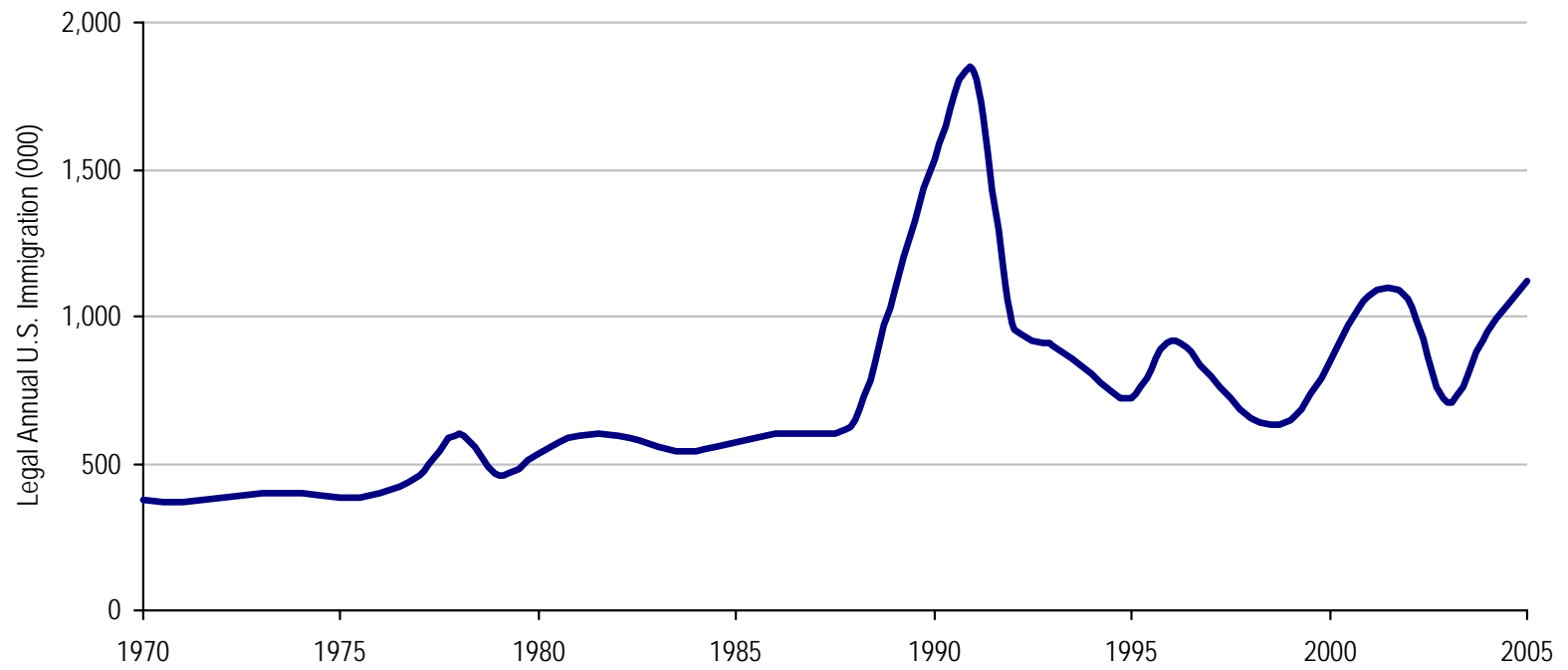
Live Births Since 1909



Source: National Center for Health Statistics



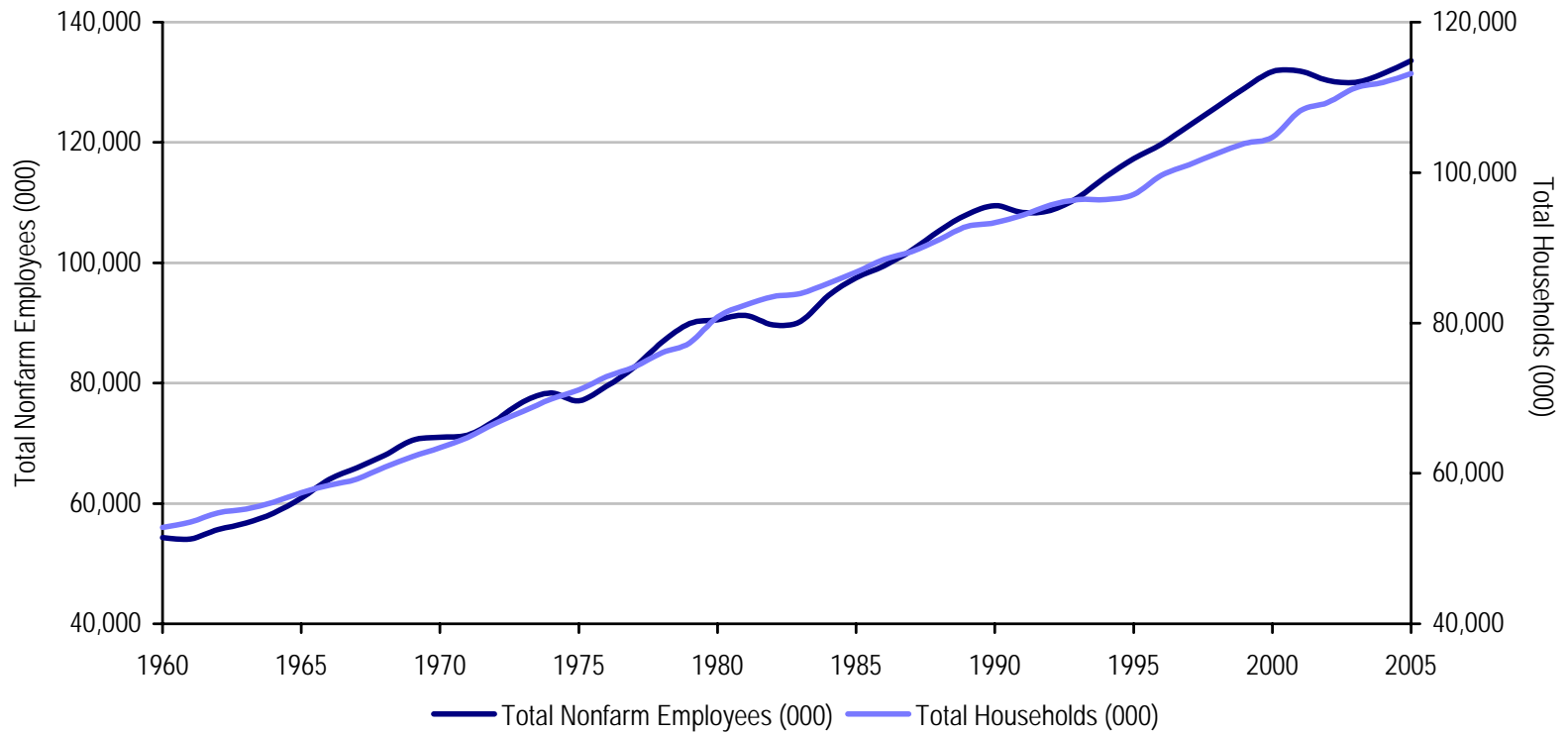
Immigration Trends



Source: U.S. Census Bureau



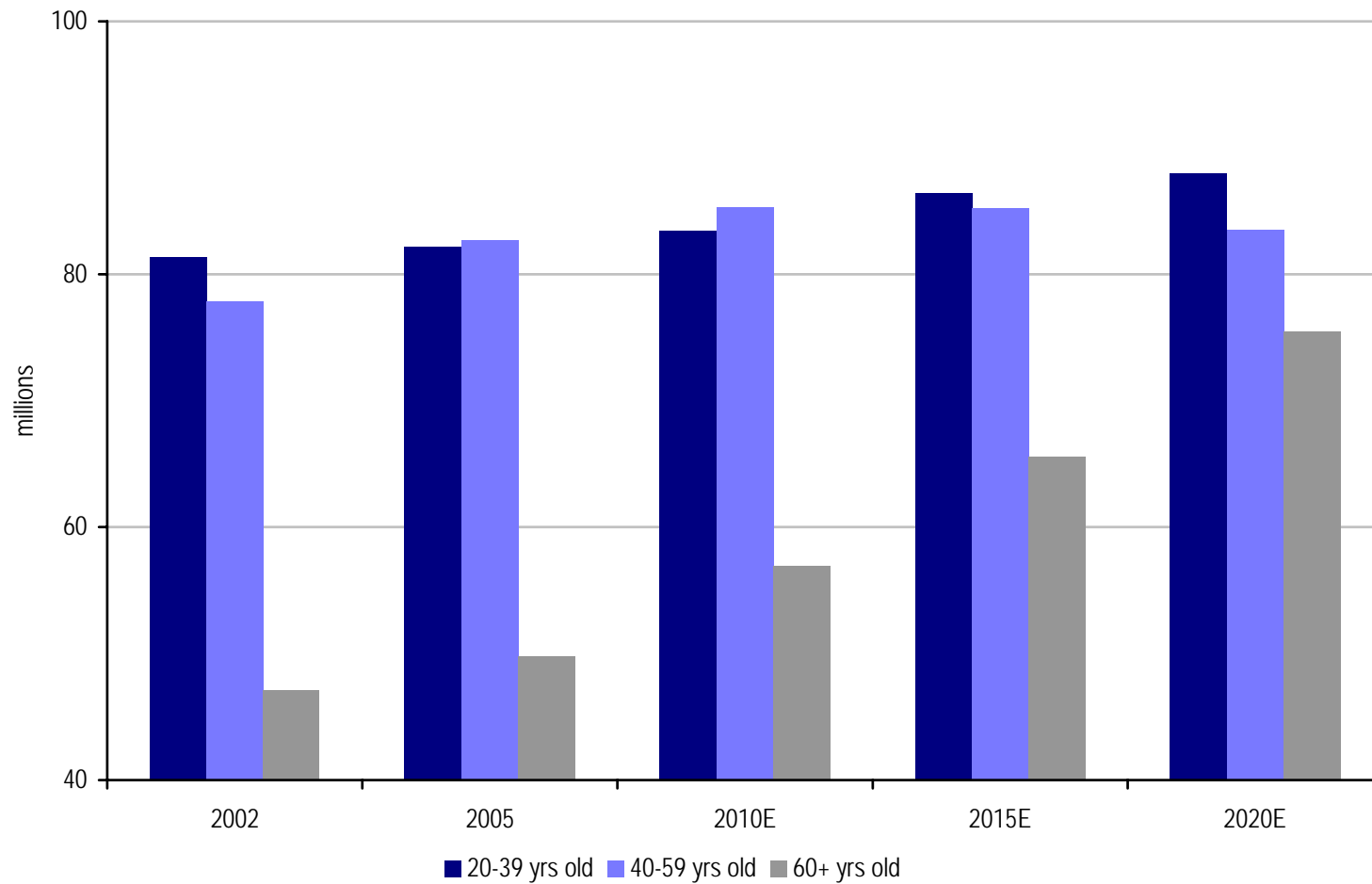
U.S. Employment vs. Household Formation



Source: U.S. Census Bureau and Bureau of Economic Analysis



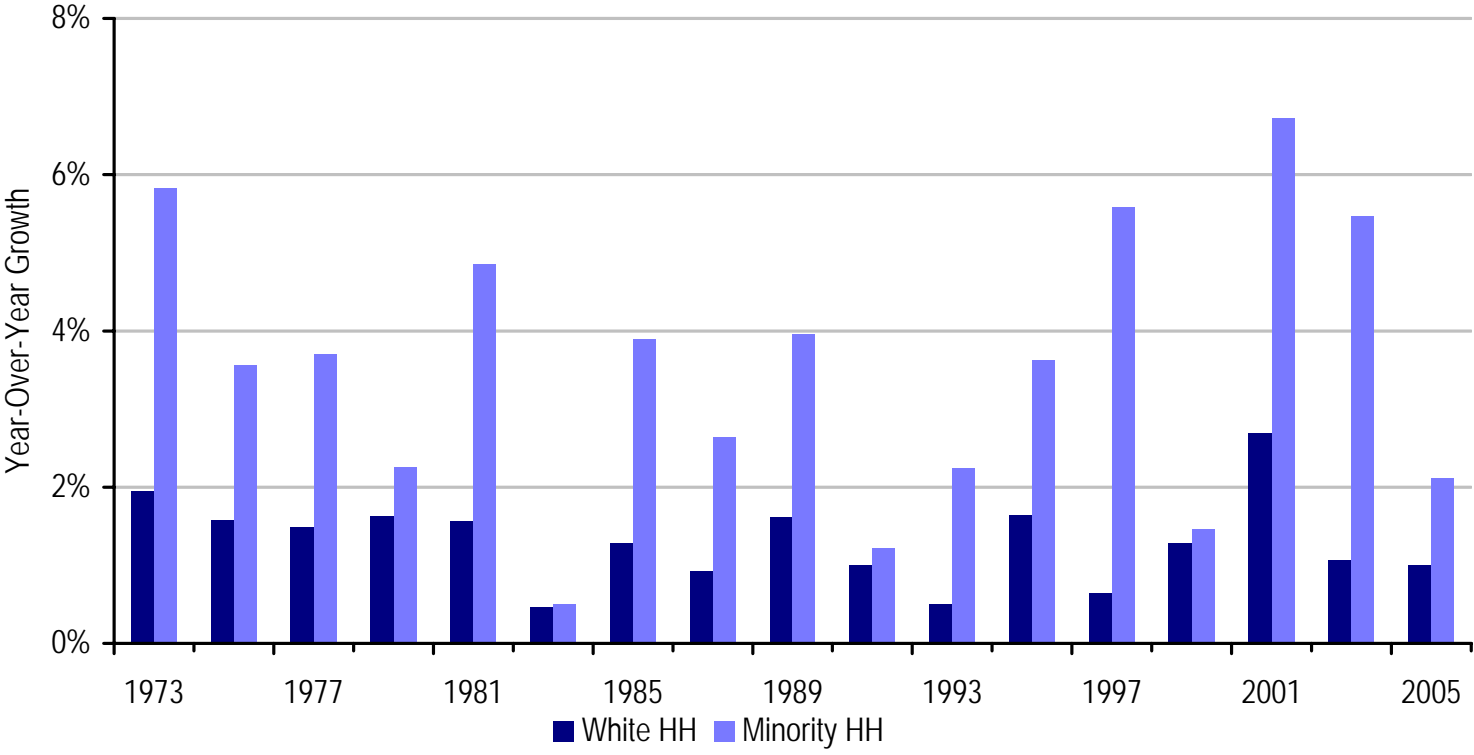
Composition of U.S. Population by Age



Source: U.S. Census Bureau, UBS forecasts



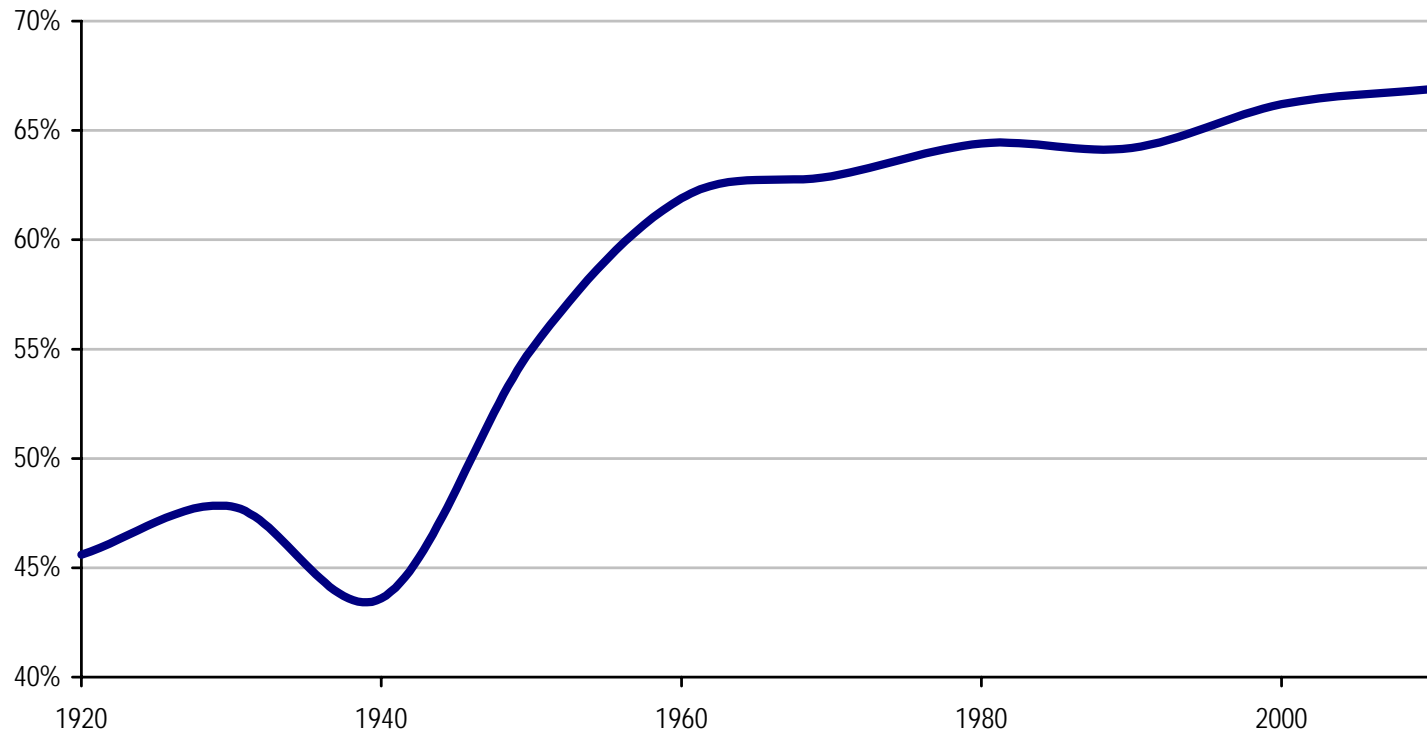
Growth of White vs. Minority Households



Source: U.S. Census Bureau



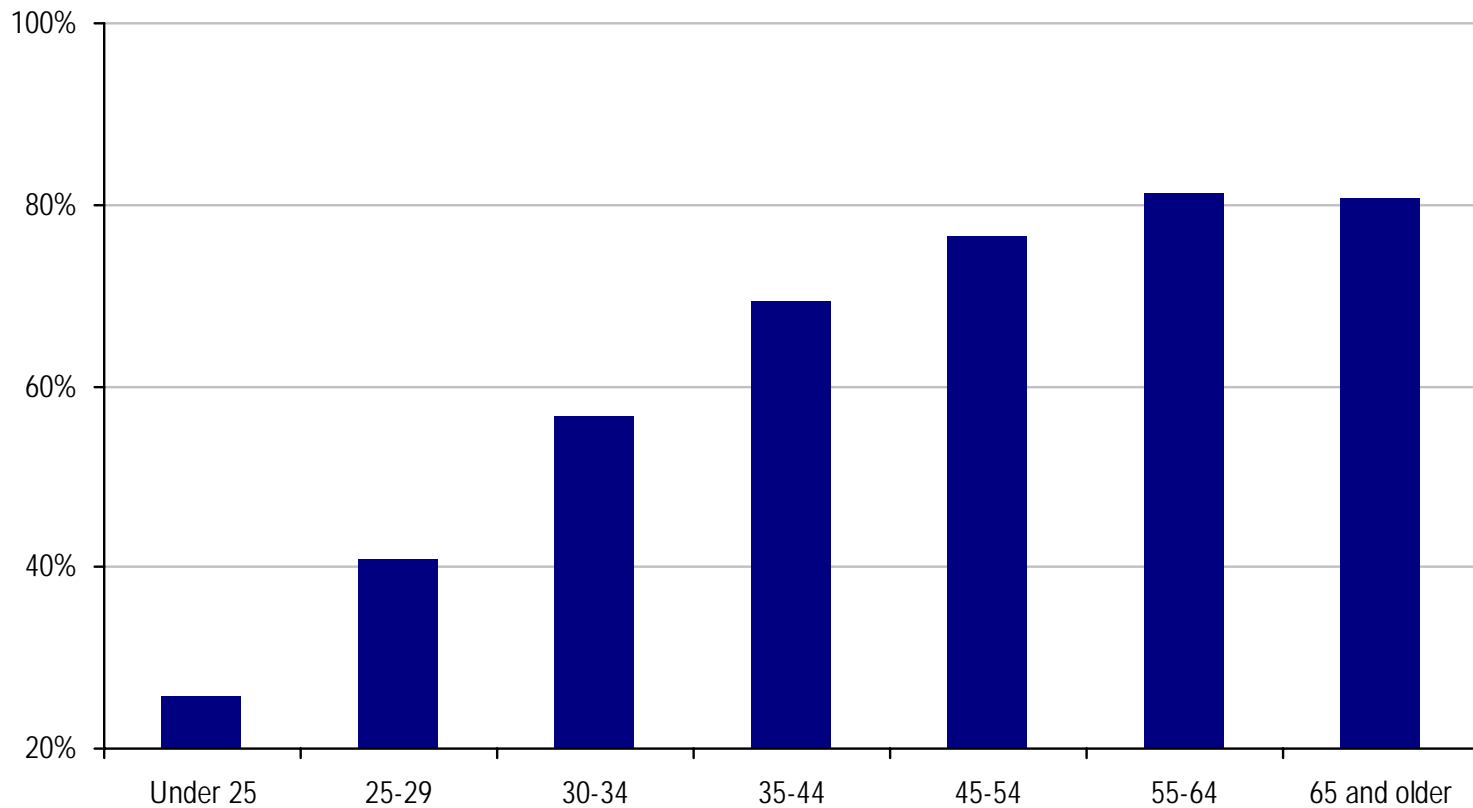
U.S. Homeownership Rate, 1920 to 2005



Source: U.S. Census Bureau



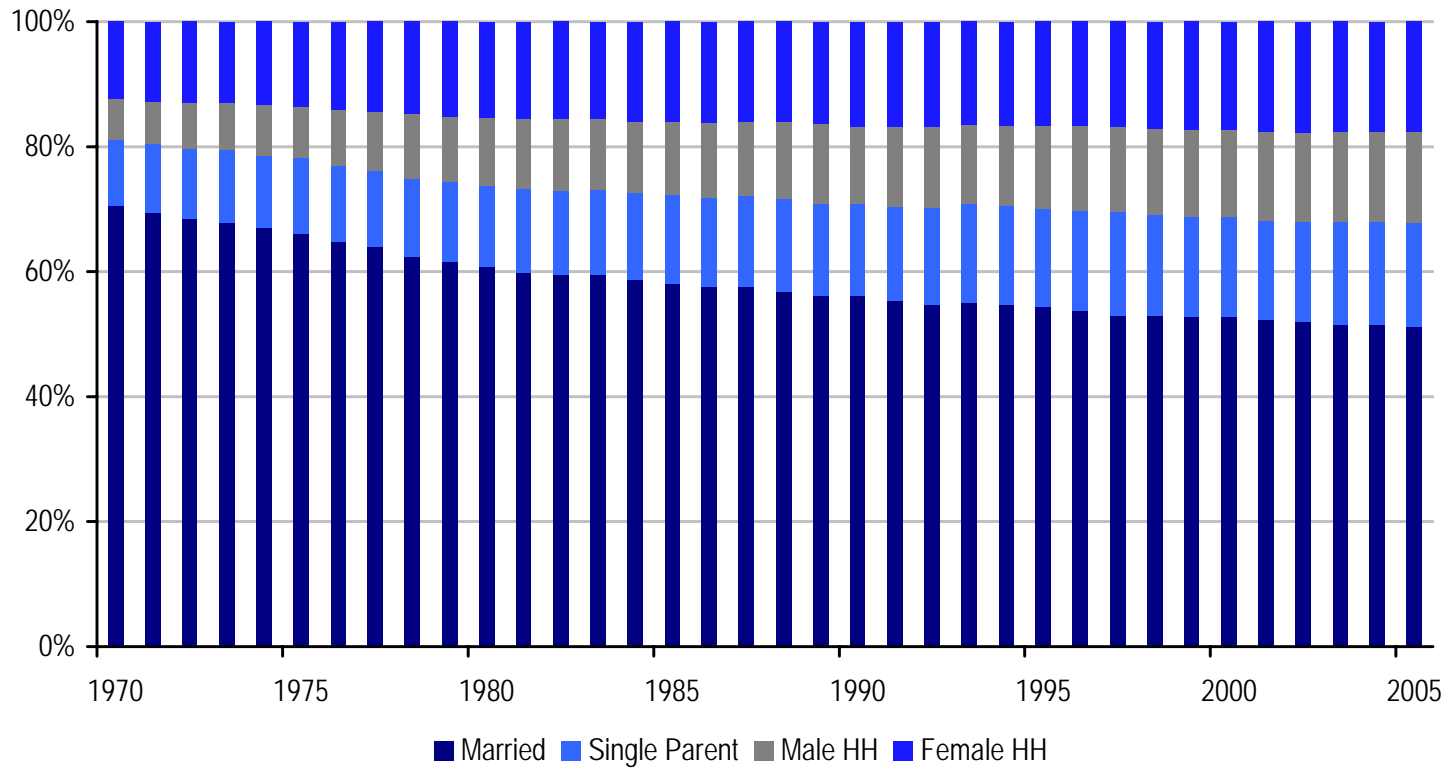
Home Ownership by Age, Total Population



Source: U.S. Census Bureau



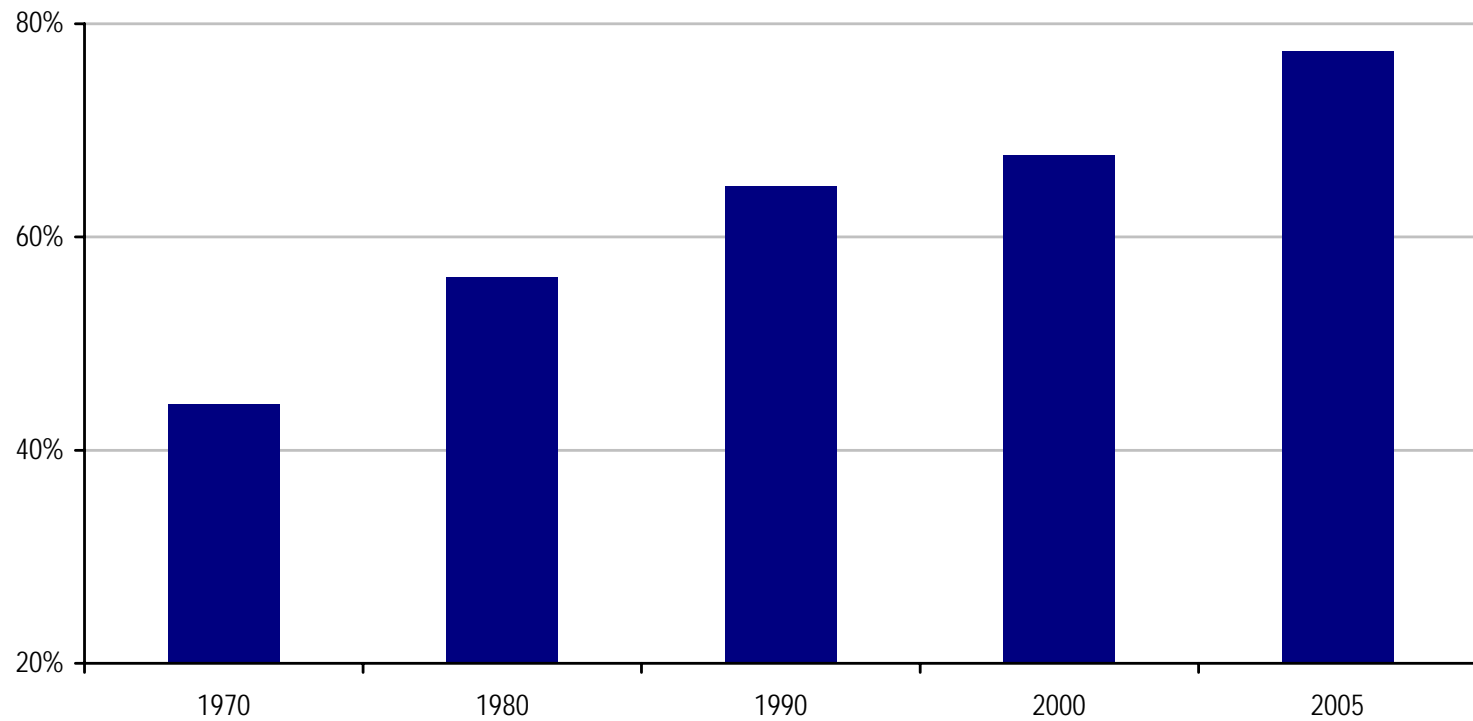
Household Mix



Source: U.S. Census Bureau



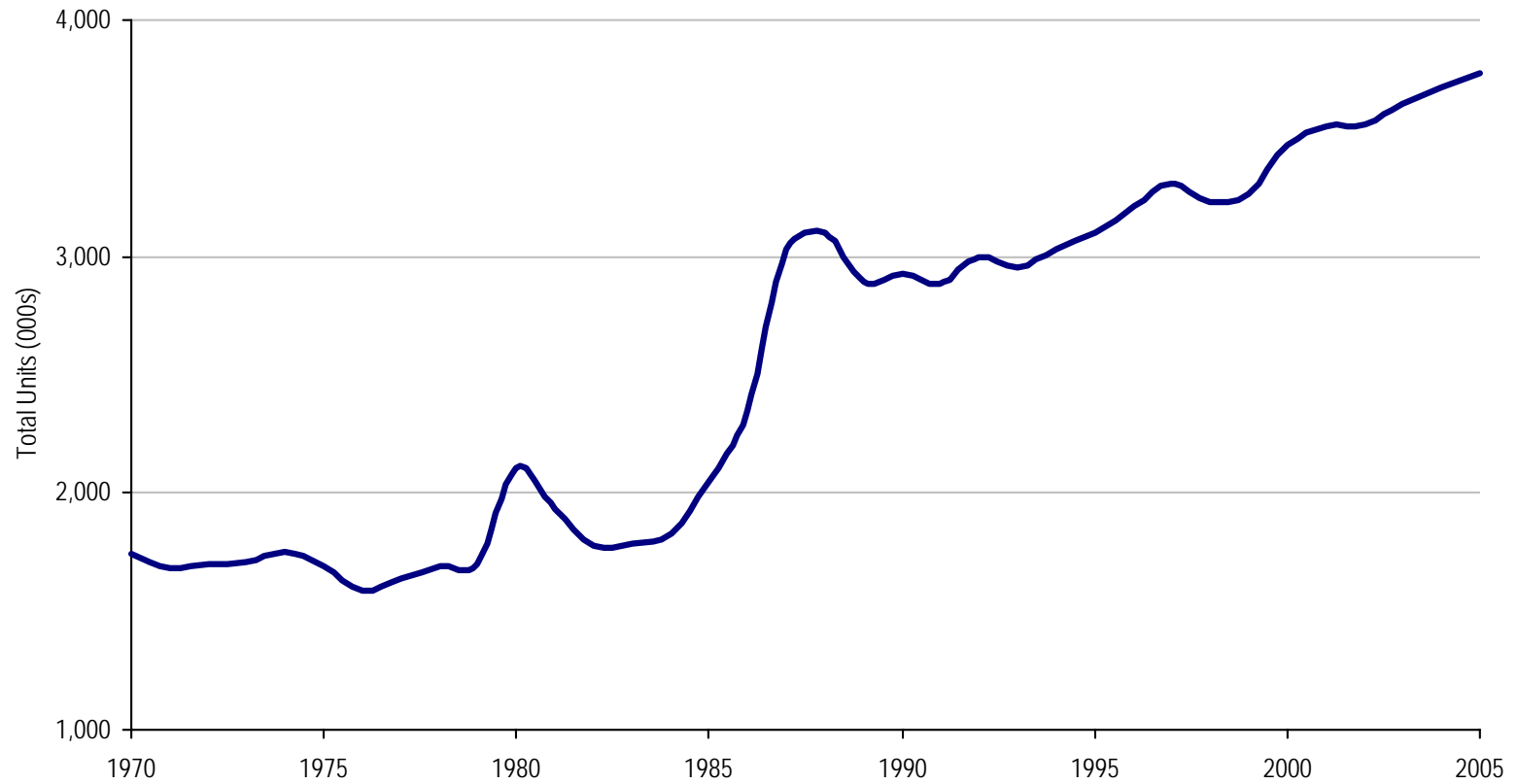
Single-Family Starts as % of Total New Supply



Source: U.S. Census Bureau, UBS estimates



Second Homes, Total Units

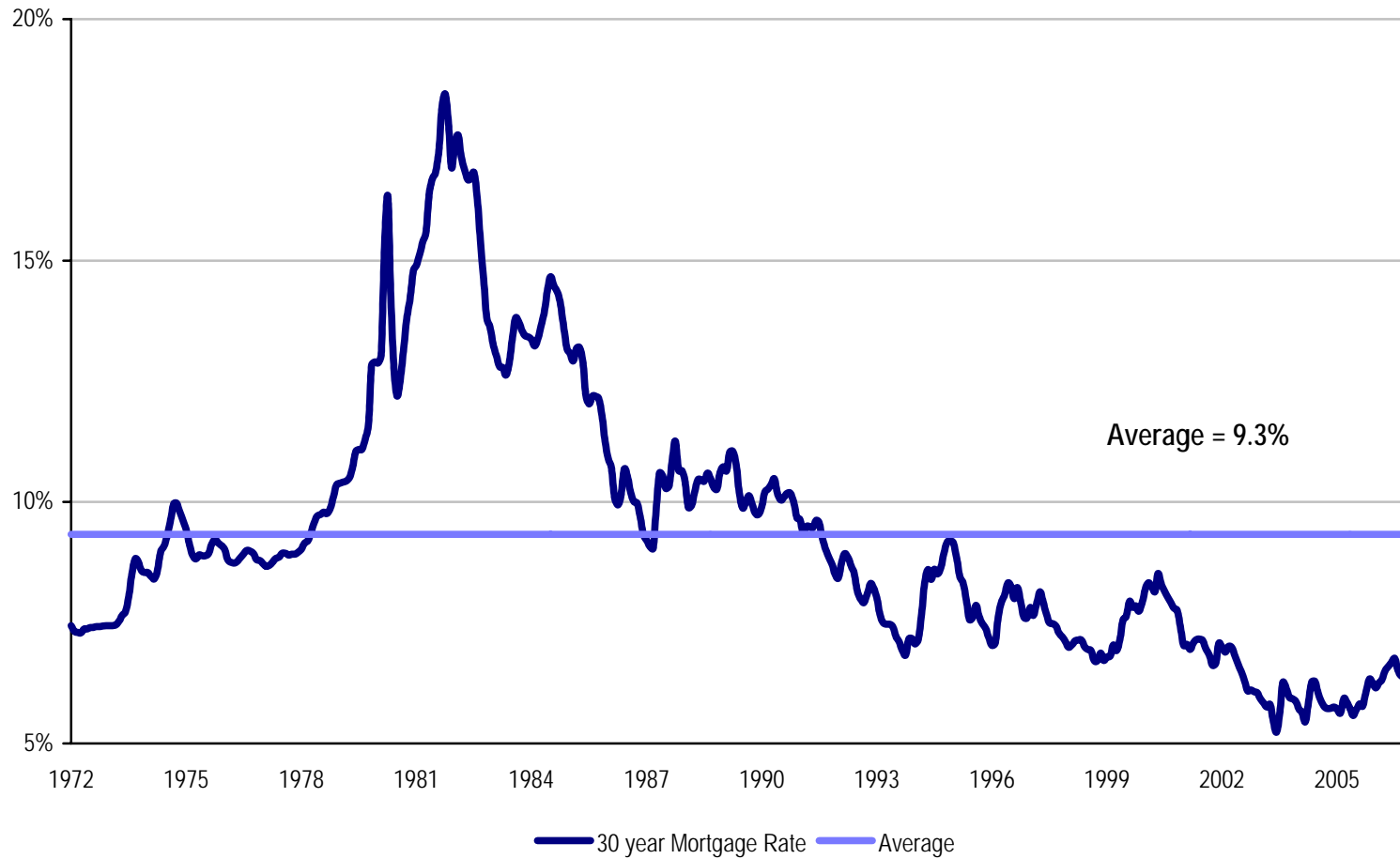


Source: U.S. Census Bureau



Supply

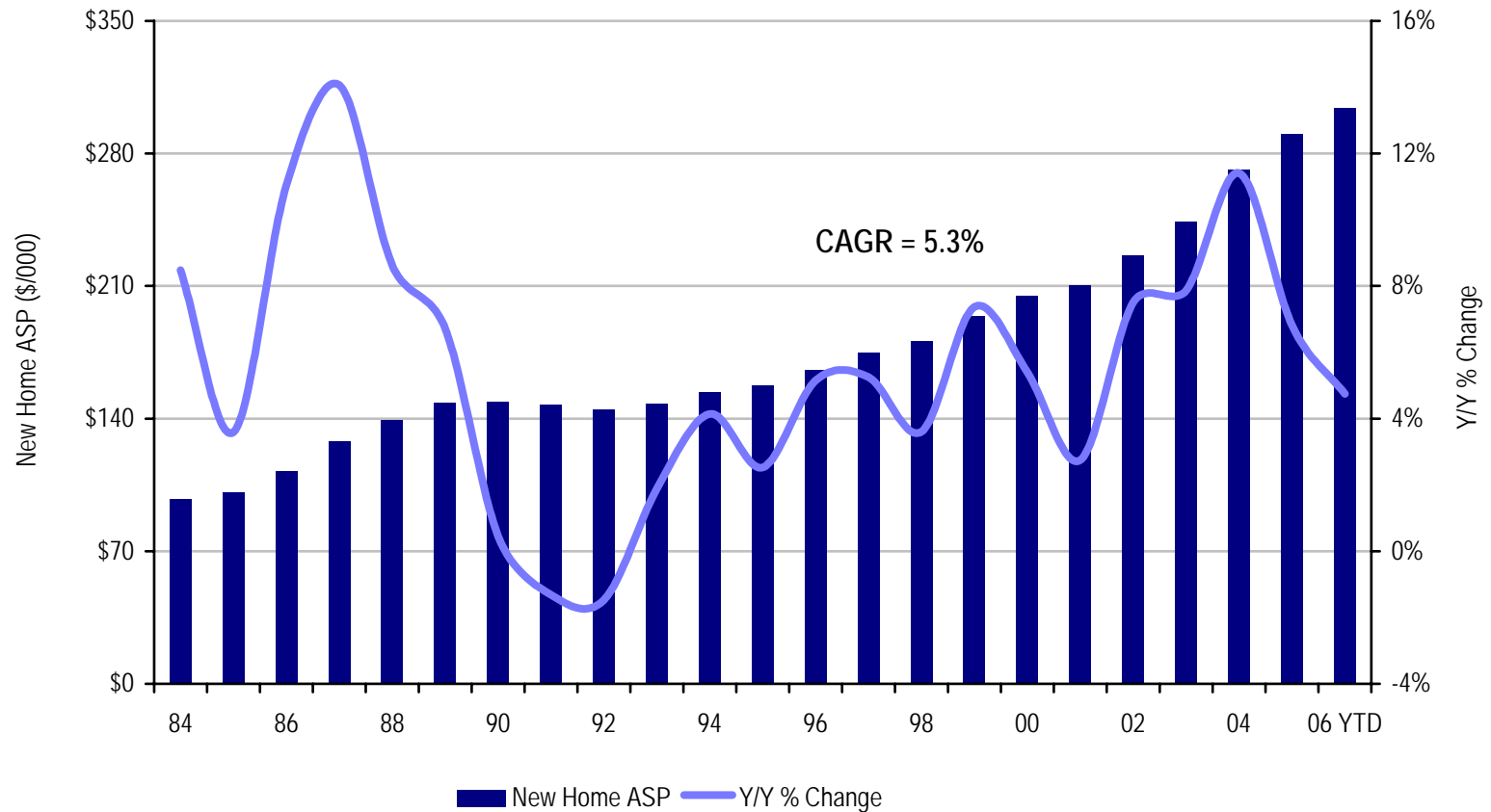
U.S. 30 Year Mortgage Rates



Source: Mortgage Bankers Association



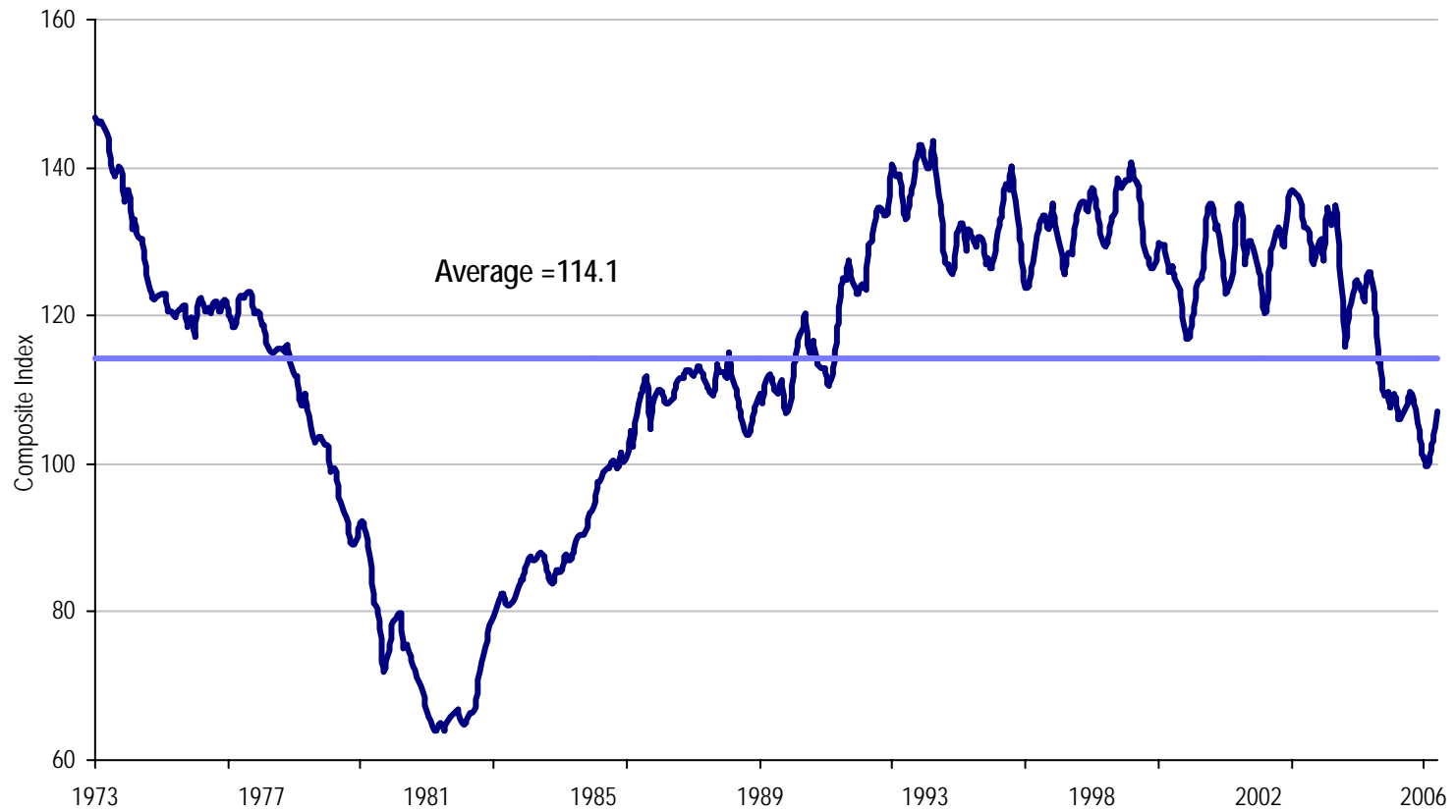
Historical Home Price Appreciation: 1970 – 2006



Source: U.S. Census Bureau



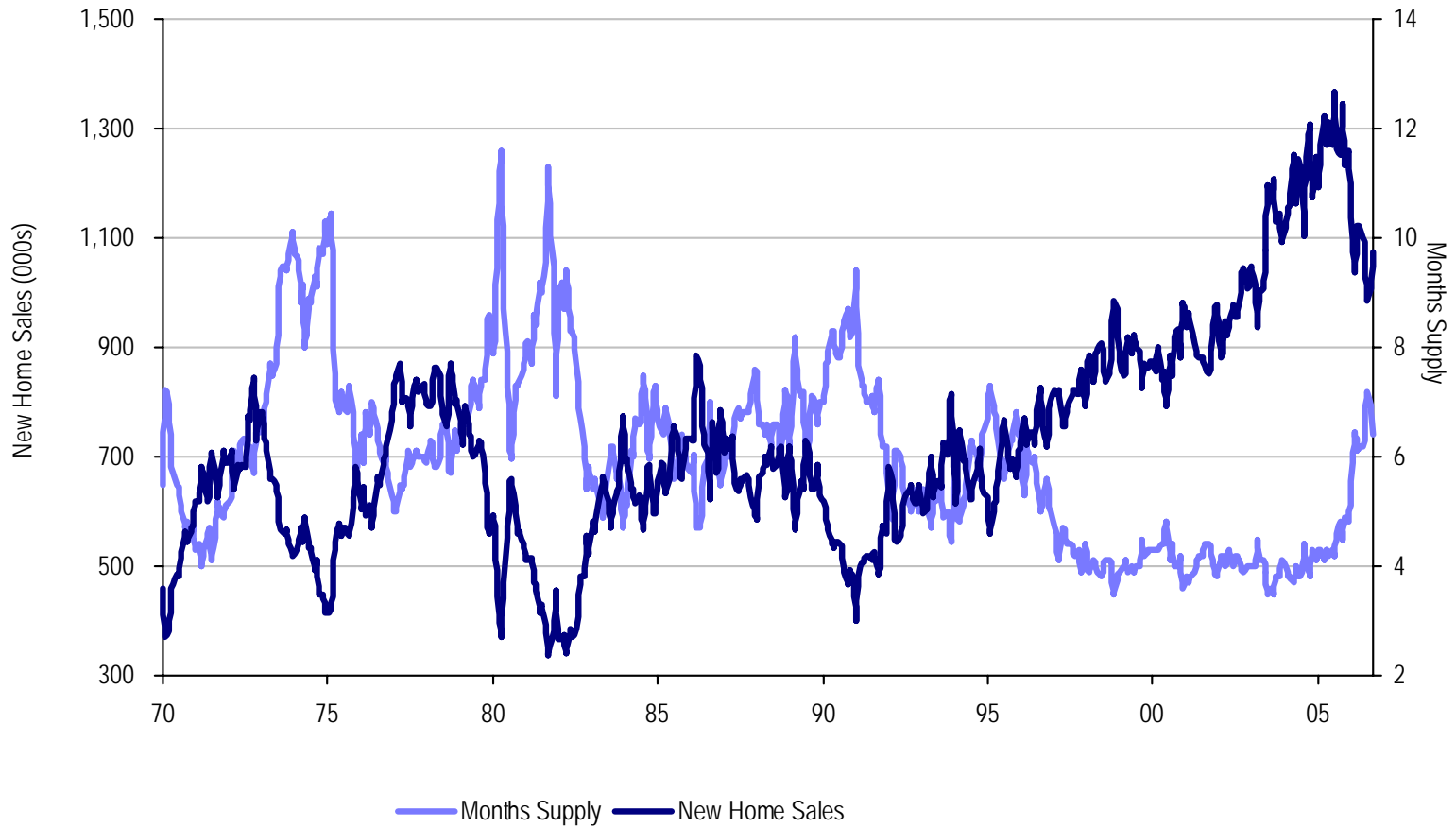
Housing Affordability Index



Source: U.S. Census Bureau



New Home Sales Versus Supply

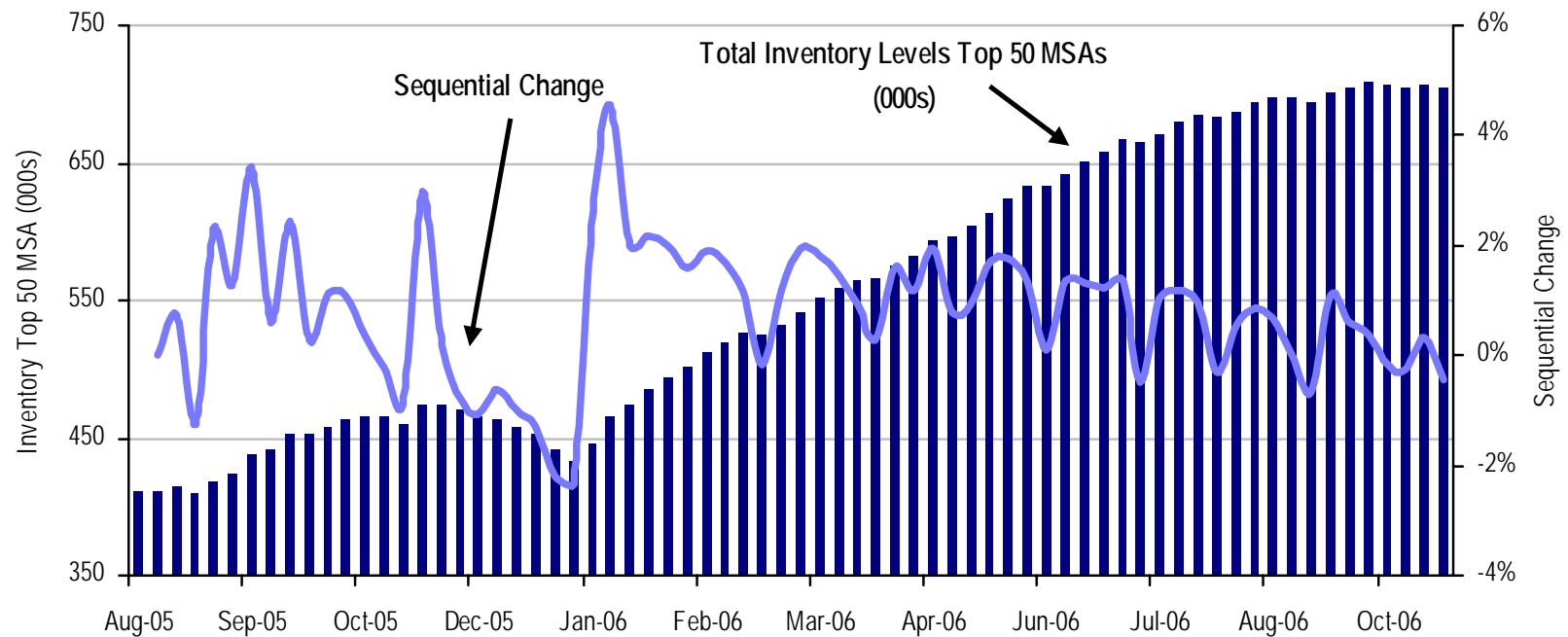


Source: U.S. Census Bureau



Top 50 MSAs Total Inventory Level

Inventory up 51% YOY, starting to plateau?



Source: U.S Census Bureau



Inventory Overhang Quantified

Excess Inventory Estimate—Months of Supply

EHS Normalized Months Supply	5.0
NHS Normalized Months Supply	6.0
Existing Homes For Sale (000s)	3,746
New Homes For Sale (000s)	557
Total For Sale (000s)	4,303
TTM EHS (000s)	6,642
TTM NHS (000s)	1,118
Total Sales (000s)	7,760
Current Months Supply	6.7
Normalized Months Supply	5.1
Estimated Excess Inventory (000s)	986

Source: U.S. Census Bureau, National Association of Realtors, and UBS estimates

Excess Inventory Estimate—Vacant For-Sale Units

Current Vacant For-Sale Level (000s)	1,935
Normalized Vacant Level, Avg '01-'03 (000s)	1,276
Excess Vacant For Sale (000s)	659
Current Unsold, In Process (000s)	310
Normalized Unsold, In Process, Avg '01-'03 (000s)	212
Excess Unsold, In-Progress Inventory (000s)	98
Estimated Excess Inventory (000s)	757

Note: Normalized levels based on 2001-03 averages.

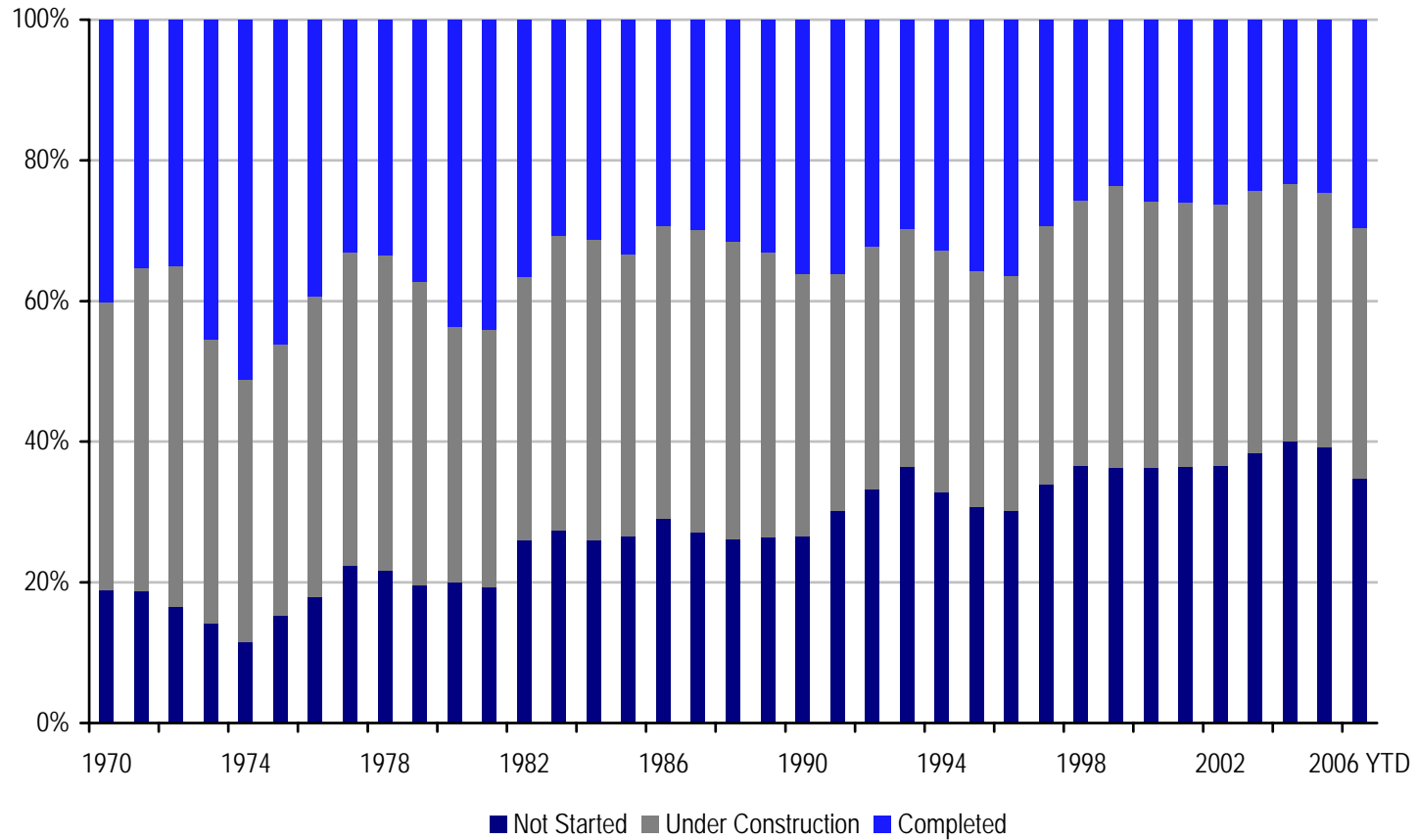
Source: U.S. Census Bureau, National Association of Realtors, and UBS estimates

Source: U.S. Census Bureau, National Association of Realtors, and UBS estimates



Build to Order, not to Inventory

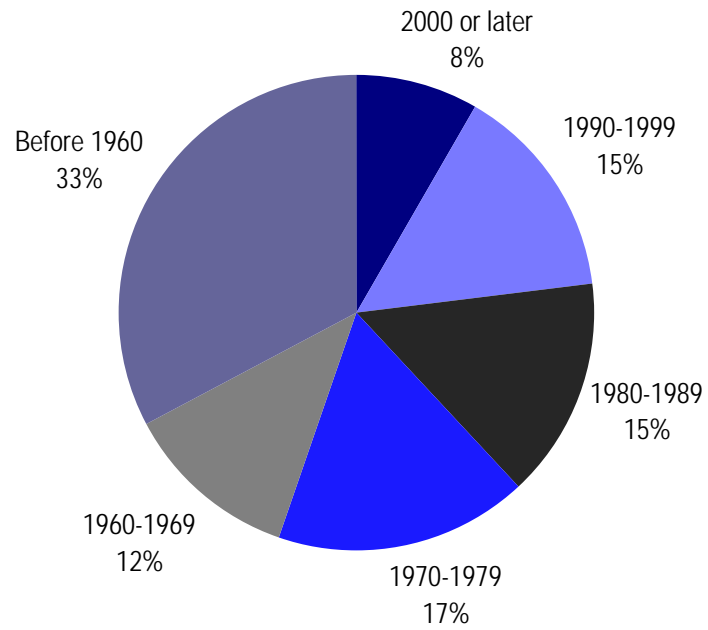
Since 1970, the rate of speculative building has dropped to 30% from 40%



Source: U.S Census Bureau



U.S. Housing Stock – 33% of the housing stock is ~50 years old



Source: U.S. Census Bureau



Net Removals

<u>Period</u>	<u>Total Removals</u>	=	<u>Removed From Demo/Disaster</u>	+	<u>Removed From Changed to Non Res</u>	+	<u>Removed From Damaged/Condemned</u>	<u>Average Annual Removals</u>	<u>Annual Removals % of Total Stock</u>
1985-1987	1,116		465		242		409	558	0.57%
1987-1989	1,057		408		235		414	529	0.52%
1989-1991	1,012		414		227		371	506	0.48%
1991-1993	837		286		166		385	419	0.40%
1993-1995	898		335		217		346	449	0.43%
1995-1997	1,020		331		331		358	510	0.47%
1997-1999	971		431		199		341	486	0.44%
1999-2001	1,036		421		248		367	518	0.45%
2001-2003	<u>989</u>		<u>382</u>		<u>354</u>		<u>253</u>	<u>495</u>	0.42%
TOTAL (1985-2003)	8,936		3,473		2,219		3,244	496	

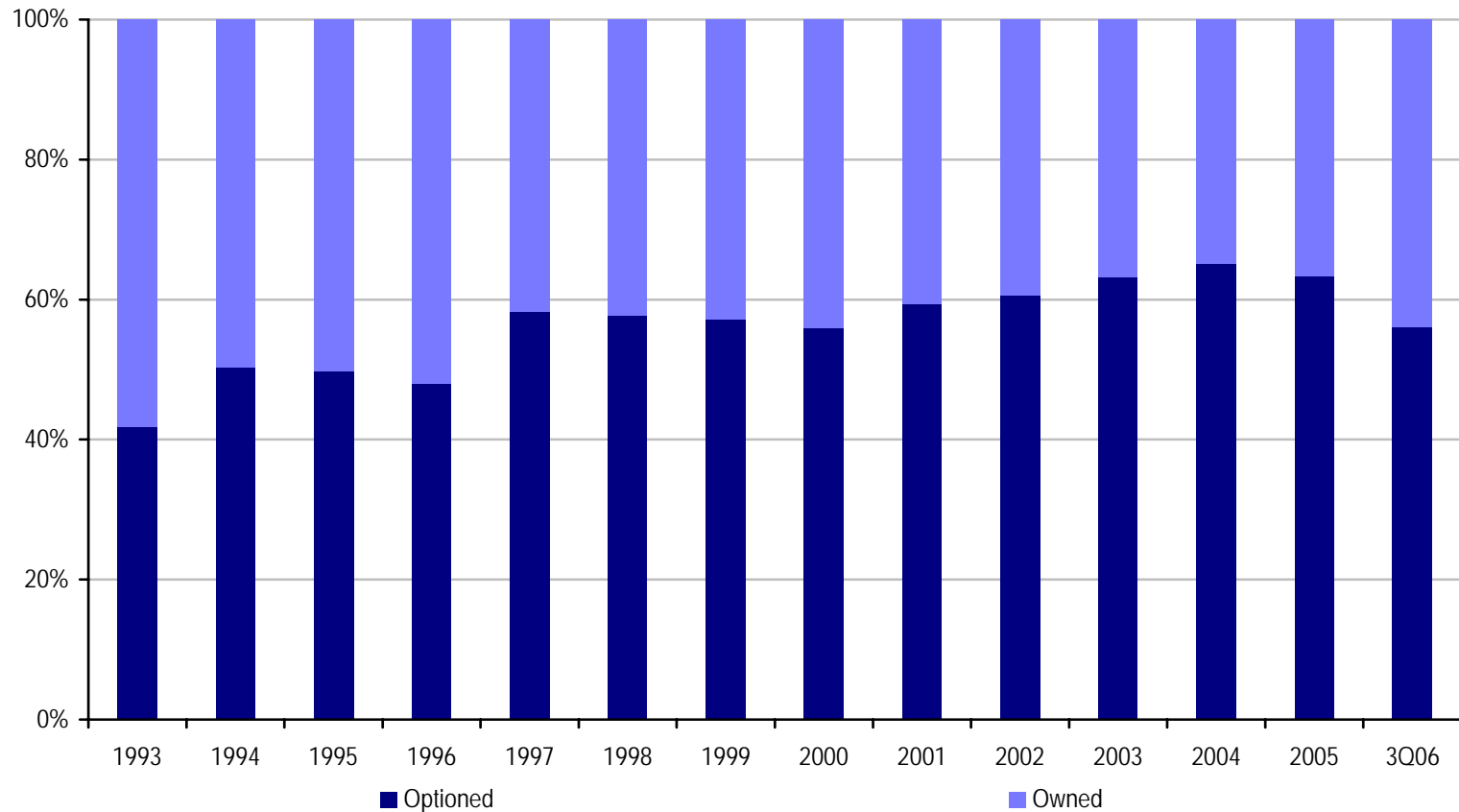
Note: All data in thousands
Source: HUD and UBS estimates



Builders' Response

Increased Use of Options

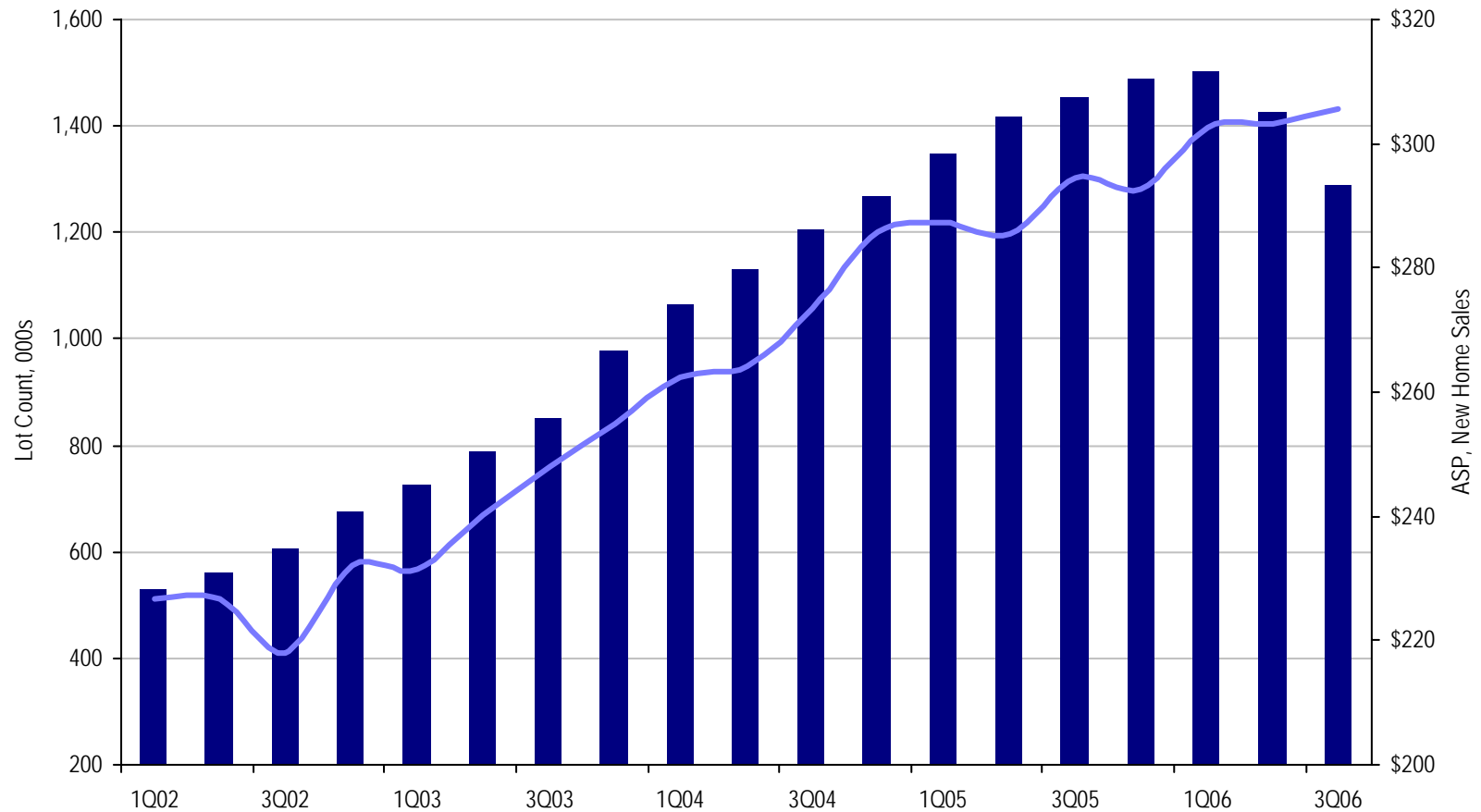
Options represent 56% of land controlled, up from 25% in 1990



Source: UBS estimates and company reports



Land Options Provide Financial Flexibility

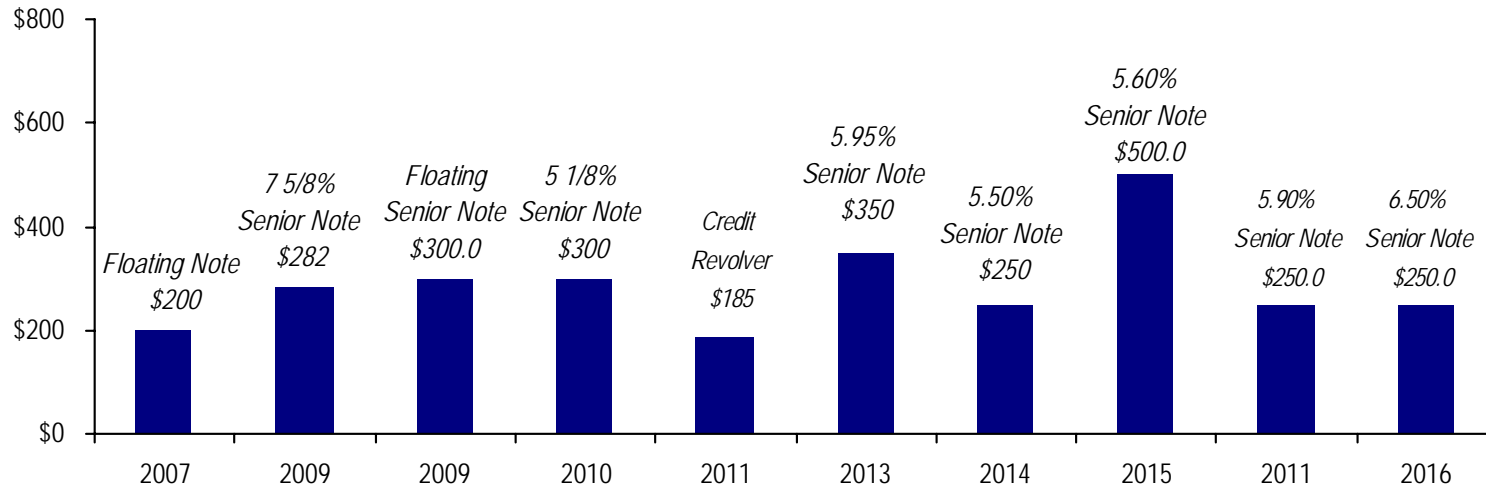


Source: Company reports and UBS estimates



Strengthened Financial Condition

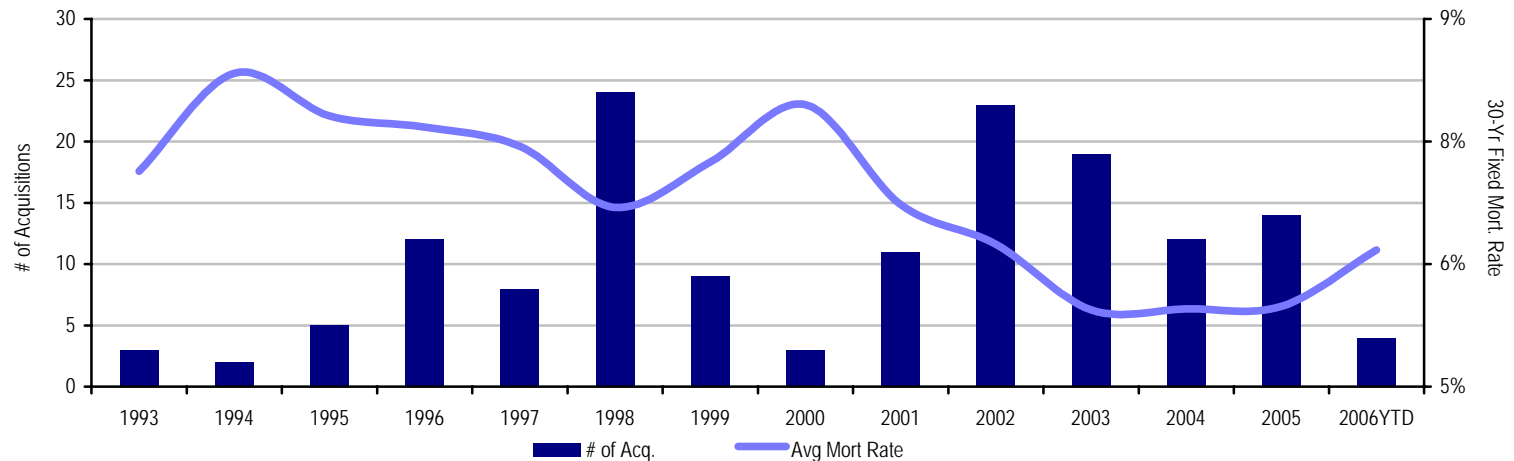
- HB net Debt/Cap is 46%, down from 56% in 1990
- In most cases, builders have lengthened portfolio duration and diversified capital sources to reduce exposure



Note: Lennar
Source: Company reports and UBS estimates



Acquisition Activity Remains Robust



Source: Company reports

Recent M&A transactions

- Hovnanian – Town and Country Homes and First Homebuilders
- Technical Olympic – Transeastern by TOA
- Meritage – Greater Homes of Orlando
- January 2006, WY buys Maracay for 9x EPS
- June 2006, Emaar buys WL Homes for an estimated 3.2x BV



Risk statement

Risks for the homebuilders in our coverage universe involve the overall health of the economy and its impact on consumers and employment, which could result in a sharp slowdown in demand for housing.

Also significant over the intermediate term is the outlook for mortgage rates, as an increase in rates could have an impact on consumer behavior, in our view.

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UBS rating	Definition	UBS rating	Definition	Rating category	Coverage ¹	IB services ²
Buy 1	FSR is > 6% above the MRA, higher degree of predictability	Buy 2	FSR is > 6% above the MRA, lower degree of predictability	Buy	49%	34%
Neutral 1	FSR is between -6% and 6% of the MRA, higher degree of predictability	Neutral 2	FSR is between -6% and 6% of the MRA, lower degree of predictability	Hold/Neutral	38%	32%
Reduce 1	FSR is > 6% below the MRA, higher degree of predictability	Reduce 2	FSR is > 6% below the MRA, lower degree of predictability	Sell	12%	27%

1: Percentage of companies under coverage globally within this rating category.

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

Source: UBS; as of 30 September 2006.



Definitions & exceptions

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).

Predictability Level The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

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.

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UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Companies Mentioned

Company Name	Reuters	Rating	Price	Price date/time
Beazer Homes ^{2a,4a,6a,16}	BZH.N	Buy 1	US\$41.94	06 Nov 2006 19:55 EST
Centex Corp ^{2b,16}	CTX.N	Buy 1	US\$50.34	06 Nov 2006 19:55 EST
D.R. Horton Inc. ^{2a,4a,6a,6b,7,16}	DHI.N	Buy 1	US\$22.89	06 Nov 2006 19:55 EST
Hovnanian ^{2a,4a,5,6a,16,23}	HOV.N	Buy 1	US\$29.61	06 Nov 2006 19:55 EST
KB Home ^{2c,4b,6b,7,16}	KBH.N	Buy 1	US\$43.54	06 Nov 2006 19:55 EST
Lenna ^{2a,4a,5,16,23}	LEN.N	Neutral 2	US\$46.48	06 Nov 2006 19:55 EST
MDC Holdings, Inc. ¹⁶	MDC.N	Not Rated	US\$48.28	06 Nov 2006 19:55 EST
Meritage Corporation ^{2c,4b,5,16}	MTH.N	Buy 1	US\$42.59	06 Nov 2006 19:55 EST
NVR, Inc. ¹⁶	NVR.A	Neutral 1	US\$534.00	06 Nov 2006 19:55 EST
Pulte Homes ^{2a,4a,6b,7,16}	PHM.N	Buy 1	US\$30.18	06 Nov 2006 19:55 EST
Ryland Group ^{2a,4a,6a,16}	RYL.N	Buy 2	US\$44.74	06 Nov 2006 19:55 EST
Standard Pacific ^{2c,6b,6c,7,16}	SPF.N	Buy 2	US\$23.50	06 Nov 2006 19:55 EST
Technical Olympic	TOA.N	Buy 1	US\$10.79	06 Nov 2006 19:55 EST
Toll Brothers ¹⁶	TOL.N	Buy 1	US\$28.05	06 Nov 2006 19:55 EST
WCI Communities ^{2c,4a,6a,6b,7,16}	WCI.N	Reduce 2	US\$15.27	06 Nov 2006 19:55 EST

Source: UBS. EST: Eastern standard time.

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