

2002 Second Quarter Homebuilder Comparables

With the recent weakness in the stock market that has reflected concerns about the economy and the potential for a war with Iraq, the business media has focused on the possibility of a housing bubble. I confess that I am somewhat puzzled by the use of the term. By bubble, I usually think of a market - however defined - that rises sharply and falls suddenly. Technology stocks, as measured by the NASDAQ composite index, can be viewed as a bubble because they more than tripled in price over a few short years, reaching a peak of 5,000 in 2000 before falling back sharply to the current level of about 1,300 just two years later.

It is hard to see a housing bubble in the same way. House prices, for example, have risen each year for the past decade, but the rate of appreciation has been modest, around 5% or less. Certainly, some markets have experienced a much faster rate of price increases - San Francisco comes to mind - but these markets are exceptions. Perhaps the rate of increase nationally has been slightly

above average in recent years, but placed in a long-term historical perspective, I believe that it would not be accurate to say that there has been a bubble in stock prices. (That does not mean, however, that housing prices are not vulnerable. Indeed, if interest rates rise, I believe that house prices will fall.)

Alternatively, you might wonder whether there has been a bubble in housing production. But here again, there has been no steep ramp up in production levels. Certainly, production has been at historically high levels for at least the past five years and there is - as I have argued for the past several years - reason to be concerned about the potential for a steep drop. Still, I would not call it a bubble.

Instead, I view it as a steady and gradual erosion of the underlying support for the housing market due to the substantial satisfaction of pent-up demand. Home ownership rates have risen rapidly, accounting for as much as 40% of the demand for housing for nearly a decade.

Immigration has also helped sustain the housing market, especially during a time when the number of traditional first-time buyers has declined due to the maturing of the "baby bust" generation. However, higher homeownership and immigration can only be sustained by a strong economy with easy mortgage money.

One of the primary threats to the housing market is the decline in employment. Simply stated, without job growth, there will eventually be little or no demand for new housing. Unless you have a benefactor, you cannot form and maintain a household unless you are employed.

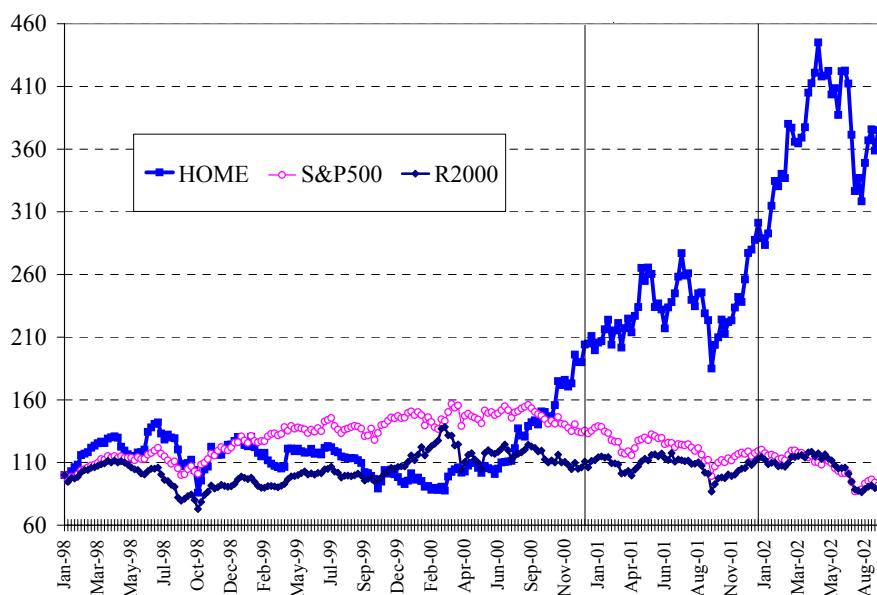
According to the Bureau of Labor Statistics, nonagricultural employment in the U.S. reached 132.5 million in February 2001. In July of this year, the figure stood at 130.8 million. Thus, the economy has lost 1.7 million jobs in 1 1/2 years. Yet, the housing market was able to complete nearly 1.9 million single-family units and 0.5 million multi-family units over this same time frame.

How can this be? Several factors may explain some of the strength of housing. First, mortgage rates are low, so affordability is high and it is generally easy to qualify for a mortgage loan these days. In many markets, it is cheaper to own than rent. Therefore, the shift of renters to owners has accelerated over the past two years. The rise in vacancy rates in multi-family rentals confirms this accelerated shift towards homeownership

Second, a lot of money that has come out of the stock market over the past two years has found its way into real estate through purchases of second or vacation homes and investment properties.

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Figure 1
Performance of Lark Research Homebuilding Index vs. S&P 500 and Russell 2000
(Jan. 1, 1998 = 100)



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	COMMON EQUITY								
	Latest Quarter	Ticker	Book Val. Common Equity	Number of Shares Outstand.	Book Value per Share	Latest Share Price	Price to Book Value	Latest 12 Months EPS	PE Multiple
Beazer Homes USA	6/30/02	BZH	745,814	12,823	\$58.16	\$71.50	1.23	\$10.20	7
Centex Corporation	6/30/02	CTX	2,210,231	60,938	\$36.27	\$49.80	1.37	\$6.27	8
D.R. Horton, Inc.	6/30/02	DHI	2,139,323	146,446	\$14.61	\$22.02	1.51	\$2.67	8
Hovnanian Enterprises	7/31/02	HOV	507,636	30,337	\$16.73	\$39.15	2.34	\$3.34	12
KB Home	5/31/02	KBH	1,136,047	41,885	\$27.12	\$51.65	1.90	\$5.97	9
Lennar Corporation	5/31/02	LEN	1,863,194	64,689	\$28.80	\$58.14	2.02	\$6.39	9
MDC Holdings, Inc.	6/30/02	MDC	730,328	27,044	\$27.01	\$41.40	1.53	\$5.59	7
M/I Schottenstein	6/30/02	MHO	314,498	15,165	\$20.74	\$35.11	1.69	\$4.06	9
Meritage Corp.	6/30/02	MTH	286,821	13,481	\$21.28	\$39.56	1.86	\$4.52	9
NVR, Inc.	6/30/02	NVR	387,685	7,291	\$53.17	\$325.30	6.12	\$31.16	10
Pulte Corporation	6/30/02	PHM	2,467,998	61,193	\$40.33	\$47.30	1.17	\$6.06	8
Ryland Group, Inc.	6/30/02	RYL	636,505	26,992	\$23.58	\$43.40	1.84	\$5.38	8
Standard Pacific Corp.	6/30/02	SPF	702,365	32,296	\$21.75	\$27.48	1.26	\$3.30	8
Toll Brothers, Inc.	7/31/02	TOL	1,059,190	70,197	\$15.09	\$25.72	1.70	\$2.91	9
William Lyon Homes	6/30/02	WLS	155,752	10,324	\$15.09	\$23.14	1.53	\$3.92	6
AVERAGES			1,022,892	41,407	\$27.98	\$60.04	1.94	\$6.78	9
MEDIANS			730,328	30,337	\$23.58	\$41.40	1.69	\$5.38	8

Homebuilding stocks peaked at the end of June and then dropped sharply along with the rest of the market during the month of July. Since then, homebuilding stocks have recovered with the rest of the market. The rebound over the past two weeks has been steep, even though the sector remains below June peak levels. Thus, the average price of the common stocks of the 15 builders covered in this report has dropped 8.7% from \$65.76 on June 28 to \$60.04 on September 13. Meanwhile the S&P 500 and Russell 2000 are down 10.1% and 15.7%, respectively, over this same period. Over the comparable one year period, which includes year-ago stock prices immediately before the 9/11 tragedy, homebuilder stock prices are up 73%, while the S&P 500 and the Russell 2000 are down 18.6% and 11.5%, respectively. At the same time, the average price-to-book value ratio has dropped from 2.37 times in June to 1.94 times currently, due to the combined effect of the drop in stock prices and increase in book equity from earnings and acquisitions. In June 2001, the average price-to-book ratio was about 1.4 times. Similarly, PE multiples have eased from 10 times trailing earnings in the 2002 first quarter to 9 times currently. Average PE multiples were about 6 times in the 2001 second quarter. Earnings per share are up 32% on average over last year (on a rolling 12 month basis).

EPS include losses on debt retirement of \$0.02 for HOV and \$0.16 for RYL, as well as a loss of \$0.03 for discontinued operations of PHM.

The average price-to-tangible book value ratio among these 15 homebuilders was 1.70 times on October 19, 2001 and 2.81 times at June 28, 2002. Average price-to-tangible book on September 13, 2002 was 2.30 times. Book values per share and price-to-book value ratios are adjusted for goodwill in the table below:

	Goodwill	Tangible Equity		
		Book Value	Book Value Per Share	Price-to-Book Mult.
BZH	250,201	495,613	\$38.65	1.85
CTX	333,219	1,877,012	\$30.80	1.62
DHI	586,390	1,552,933	\$10.60	2.08
HOV	82,441	425,195	\$14.02	2.79
KBH	192,192	943,855	\$22.53	2.29
LEN	105,800	1,757,394	\$27.17	2.14
MTH	31,883	254,938	\$18.91	2.09
NVR	56,019	331,666	\$45.49	7.15
PHM	307,693	2,160,305	\$35.30	1.34
RYL	18,185	619,689	\$22.96	1.89
SPF	42,972	659,393	\$20.42	1.35
TOL	8,900	1,050,290	\$14.96	1.72
WLS	5,896	149,856	\$14.52	1.59

Source: Company financial statements and Lark Research calculations and estimates. Common share prices are as of Sept. 13, 2002.

REVENUE GROWTH										
Latest Quarter End	Sales or Revs.	Housing revenues (latest qtr.)	Revenue growth (latest qtr.)	Housing revenues (2 prior qtr.)	Revenue growth (2 prior qtr.)	Housing revenues (3 prior qtr.)	Revenue growth (3 prior qtr.)	Housing revenues (4 prior qtr.)	Revenue growth (4 prior qtr.)	
Beazer Homes USA	6/30/02	(R)	743,813	65.7%	503,312	34.5%	489,717	34.2%	617,005	24.2%
Centex Corporation	6/30/02	(R)	1,105,718	6.4%	1,564,176	11.5%	1,210,759	16.6%	1,170,721	14.0%
D.R. Horton, Inc.	6/30/02	(HL)	1,779,615	61.5%	1,576,200	76.6%	1,134,968	29.9%	1,515,625	41.4%
Hovnanian Enterprise	7/31/02	(R)	693,310	38.5%	552,802	39.5%	445,265	54.3%	525,377	51.1%
KB Home	5/31/02	(R)	1,116,645	6.1%	899,211	11.3%	1,426,419	16.4%	1,215,148	25.9%
Lennar Corporation	5/31/02	(R)	1,461,804	14.8%	1,142,119	11.8%	1,841,988	12.8%	1,466,792	13.8%
MDC Holdings, Inc.	6/30/02	(R)	499,171	0.0%	446,761	8.7%	665,230	25.6%	511,008	16.5%
M/I Schottenstein	6/30/02	(R)	254,156	16.7%	210,869	21.4%	304,924	10.4%	262,831	8.3%
Meritage Corp.	6/30/02	(R)	251,441	43.3%	169,731	45.4%	244,883	43.3%	207,177	53.0%
NVR, Inc.	6/30/02	(HL)	769,910	18.7%	674,982	30.0%	714,068	15.9%	677,962	12.5%
Pulte Corporation	6/30/02	(R)	1,661,670	65.2%	1,355,605	65.9%	1,980,670	48.7%	1,505,854	44.6%
Ryland Group, Inc.	6/30/02	(R)	658,304	-2.4%	525,940	4.6%	811,200	10.3%	695,247	12.8%
Standard Pacific	6/30/02	(HL)	444,731	37.3%	285,917	-0.3%	431,007	-13.8%	333,936	10.6%
Toll Brothers, Inc.	7/31/02	(R)	580,707	-0.6%	550,496	7.0%	492,179	3.6%	655,752	6.7%
William Lyon Homes	6/30/02	(HL)	129,455	21.4%	91,665	23.7%	177,915	9.4%	109,493	20.3%
AVERAGES			810,030	26.2%	703,319	26.1%	824,746	21.2%	764,662	23.7%
MEDIANS			693,310	18.7%	550,496	21.4%	665,230	16.4%	655,752	16.5%

The average builder reported revenue growth of about 26% for the 2002 second quarter. This calculation does not adjust for the pro forma effect of several key acquisitions, including Beazer's acquisition of Crossmann Communities, D.R. Horton's acquisition of Schuler Homes, Hovnanian's acquisition of Forecast Group, Meritage's acquisition of Hancock Communities, Pulte's acquisition of Del Webb and Standard Pacific's acquisitions of Westbrooke and Colony Homes, as well as other smaller acquisitions by KB Home, Lennar, MDC Holdings and others. Unadjusted average revenue growth for last year's second quarter was 23%. I estimate that on a pro forma basis, Beazer's revenue growth was 18%, D.R. Horton's was 20%, Hovnanian's was 11%, Meritage's was 20%, Pulte's was -5% and Standard Pacific's was 22%. Consequently, first quarter average revenue growth, adjusted for these six builders only, was about 11.1%, which was down from my calculations of adjusted revenue growth of 14.9% for the 2002 first quarter and 2001 fourth quarter, 20% for the third quarter and 17% for the second quarter.

Notes:

Revenue comparisons provided above are either housing and land sales or homebuilding revenues, depending upon how each individual company reports this information in its financial statements. Homebuilding revenues would typically include housing and land sales and also miscellaneous items such as interest or other income.

Growth percentages are calculated against the comparable year-ago quarter.

	MARGINS								
	Latest Quarter End	Latest Quarter				Last 12 Months			
		Gross Mgn. (w/o cap int)	Gross Mgn. (w/cap int)	SG&A/Sales	Oper. Prof. Margin	Gross Mgn. (w/o cap int)	Gross Mgn. (w/cap int)	SG&A/Sales	Oper. Prof. Margin
Beazer Homes USA	6/30/02	19.6%	17.9%	9.8%	7.7%	19.8%	18.2%	10.2%	7.4%
Centex Corporation	6/30/02	26.6%	24.4%	16.7%	7.7%	25.7%	23.5%	15.0%	8.4%
D.R. Horton, Inc.	6/30/02	21.1%	19.0%	9.9%	8.7%	21.3%	19.2%	9.9%	8.7%
Hovnanian Enterprises	7/31/02	22.3%	20.0%	9.4%	10.5%	21.4%	18.8%	10.1%	8.4%
KB Home	5/31/02	21.9%	20.5%	12.7%	7.2%	21.6%	20.2%	11.9%	7.3%
Lennar Corporation	5/31/02	29.4%	27.3%	10.8%	17.3%	28.3%	25.9%	10.4%	16.5%
MDC Holdings, Inc.	6/30/02	23.6%	22.8%	12.6%	10.2%	24.0%	22.9%	12.1%	10.8%
M/I Schottenstein	6/30/02	22.4%	20.9%	11.6%	9.4%	21.3%	19.6%	11.5%	8.3%
Meritage Corp.	6/30/02	21.8%	19.9%	10.6%	9.3%	22.3%	20.4%	10.6%	9.7%
NVR, Inc.	6/30/02	23.9%	23.9%	7.5%	16.0%	22.9%	22.9%	7.3%	15.3%
Pulte Corporation	6/30/02	20.2%	19.5%	10.7%	7.5%	20.1%	19.5%	10.0%	7.8%
Ryland Group, Inc.	6/30/02	22.6%	21.6%	11.7%	9.7%	21.1%	20.0%	11.4%	9.5%
Standard Pacific Corp.	6/30/02	20.2%	17.4%	8.7%	9.3%	21.5%	18.5%	9.0%	10.9%
Toll Brothers, Inc.	7/31/02	25.3%	22.6%	10.7%	14.6%	26.2%	23.4%	10.1%	15.2%
William Lyon Homes	6/30/02	14.5%	14.5%	9.9%	4.6%	19.0%	15.6%	10.9%	4.6%
AVERAGES		22.4%	20.8%	10.9%	10.0%	22.4%	20.6%	10.7%	9.9%
MEDIANS		22.3%	20.5%	10.7%	9.3%	21.5%	20.0%	10.4%	8.7%

Operating profit margins were 10.0% in the second quarter, up slightly from 9.8% last year and modestly above the 9.2% reported in the 2002 first quarter. Average gross margins before amortized interest declined for the second straight quarter. This quarter, they declined by 30 basis points from 22.7% last year to 22.4%. However, amortized interest as a percent of revenues also declined from 1.9% to 1.6%. So gross profit margins after amortized interest were 20.8%, essentially flat with last year. The average SG&A expense ratio rose slightly from 10.8% to 10.9%. Other factors (such as direct interest expense, restructuring charges and inventory write-downs) improved by 30 basis points from an expense of 0.2% of revenues to income of 0.1%.

Gross margins are reported both before and after capitalized interest included in cost of sales. In most cases, operating profit margins should equal gross margins (after amortization of capitalized interest) less SG&A. However, in quite a few cases, other expenses, such as FAS 121 charges, other inventory valuation reserves, amortization of goodwill, depreciation expenses and interest expensed (not capitalized) are not reflected in the calculation of gross margins or SG&A expenses, but are deducted before arriving at operating profit. I deduct corporate expenses before arriving at operating income for a number of builders, including Hovnanian, Lennar, MDC Holdings, M/I Schottenstein, Ryland, and Pulte, since all of these companies have only two business segments (homebuilding and financial services) and I assume that corporate expenses are primarily related to homebuilding operations. However, I have not made a similar adjustment for Centex, because it has other operations to which corporate expenses might apply.

- For Centex, I assume that 100% of reported interest expense is attributable to homebuilding operations.
- KB Home's gross margins include the results of its commercial construction business.
- The gross margins of Centex, KB Home, Pulte and Ryland are calculated off of homebuilding revenues.
- NVR does not capitalize interest on its homebuilding inventories.

NET INCOME AND EPS GROWTH										
	Latest Quarter Date	Ticker	Quarterly				Latest 12 Months			
			Net Income	Percent Change	EPS	Percent Change	Net Income	Percent Change	LTM EPS	Percent Change
Beazer Homes USA	6/30/02	BZH	34,649	80.5%	\$2.59	25.1%	105,822	56.3%	\$10.20	35.4%
Centex Corporation	6/30/02	CTX	87,755	16.7%	\$1.38	13.1%	394,765	27.8%	\$6.27	23.9%
D.R. Horton, Inc.	6/30/02	DHI	105,940	54.0%	\$0.67	11.7%	355,063	54.5%	\$2.67	30.1%
Hovnanian Enterprises	7/31/02	HOV	39,187	86.5%	\$1.20	69.0%	104,949	74.5%	\$3.34	43.3%
KB Home	5/31/02	KBH	64,062	62.2%	\$1.42	32.7%	255,621	39.4%	\$5.98	23.6%
Lennar Corporation	5/31/02	LEN	106,007	9.3%	\$1.51	7.9%	447,471	40.4%	\$6.39	37.7%
MDC Holdings, Inc.	6/30/02	MDC	34,336	-11.6%	\$1.22	-14.2%	154,261	8.9%	\$5.59	5.7%
M/I Schottenstein	6/30/02	MHO	16,898	27.4%	\$1.09	28.4%	62,594	31.3%	\$4.05	25.6%
Meritage Corp.	6/30/02	MTH	14,938	19.6%	\$1.19	12.3%	54,280	28.3%	\$4.52	23.0%
NVR, Inc.	6/30/02	NVR	83,830	41.2%	\$8.90	45.9%	290,055	46.7%	\$31.16	61.5%
Pulte Corporation	6/30/02	PHM	90,203	50.9%	\$1.45	5.1%	360,543	67.2%	\$6.06	20.0%
Ryland Group, Inc.	6/30/02	RYL	44,706	32.0%	\$1.56	32.2%	152,802	46.4%	\$5.38	45.0%
Standard Pacific Corp.	6/30/02	SPF	25,990	-1.2%	\$0.81	-4.7%	101,360	-15.3%	\$3.30	-16.5%
Toll Brothers, Inc.	7/31/02	TOL	53,500	-10.0%	\$0.70	-8.6%	219,030	7.6%	\$2.91	11.2%
William Lyon Homes	6/30/02	WLS	7,032	-26.9%	\$0.66	-26.0%	42,123	6.2%	\$3.92	4.3%
AVERAGES			53,936	28.7%	\$1.76	15.3%	206,716	34.7%	\$6.78	24.9%
MEDIANS			44,706	27.4%	\$1.22	12.3%	154,261	39.4%	\$5.38	23.9%

The average 2002 second quarter gains in net income and EPS were 29% and 15%, respectively. On a rolling 12 months basis, average net income is up 35% and EPS is up 25%.

In the latest twelve month period, pre-tax impairment and/or restructuring charges were recorded by Hovnanian (\$18.0 million) and MDC (\$7.0 million).

Earnings per share for the latest twelve months losses on discontinued operations of \$0.03 for PHM and losses on debt retirement for HOV of \$0.02 and RYL of \$0.16.

All reported EPS are diluted.

	DEBT LEVELS								
	Latest Quarter End	Total Cash and Mkt. Sec.	Total Debt	Total Capitalization	Debt-to Total Capital	Housing & Land Sales (LTM)	Debt-to Sales	Total Inventory	Debt-to Inventory
Beazer Homes USA	6/30/02	5,682	738,782	1,484,596	49.8%	2,353,847	31.4%	1,343,660	55.0%
Centex Corporation	6/30/02	45,602	1,909,870	4,120,101	46.4%	5,051,374	37.8%	3,057,710	62.5%
D.R. Horton, Inc.	6/30/02	55,927	2,750,333	4,889,656	56.2%	6,006,408	46.6%	4,381,653	62.8%
Hovnanian Enterprises	7/31/02	103,637	730,757	1,238,393	59.0%	2,216,754	33.0%	1,064,842	68.6%
KB Home	5/31/02	123,126	1,132,803	2,268,850	49.9%	4,657,423	24.3%	2,112,687	53.6%
Lennar Corporation	5/31/02	523,273	1,502,718	3,365,912	44.6%	5,912,703	25.4%	2,802,260	53.6%
MDC Holdings, Inc.	6/30/02	22,621	390,484	1,120,812	34.8%	2,122,170	18.4%	1,169,953	33.4%
M/I Schottenstein	6/30/02	15,571	156,710	471,208	33.3%	1,032,780	15.2%	479,251	32.7%
Meritage Corp.	6/30/02	14,381	156,286	443,107	35.3%	873,232	17.9%	447,314	34.9%
NVR, Inc.	6/30/02	96,555	120,094	507,779	23.7%	2,836,922	4.2%	467,101	25.7%
Pulte Corporation	6/30/02	212,767	1,949,265	4,417,263	44.1%	6,503,799	30.0%	4,244,918	45.9%
Ryland Group, Inc.	6/30/02	165,023	490,500	1,127,005	43.5%	2,690,691	18.2%	1,087,498	45.1%
Standard Pacific Corp.	6/30/02	24,060	681,511	1,383,876	49.2%	1,495,591	45.6%	1,344,480	50.7%
Toll Brothers, Inc.	7/31/02	50,744	1,100,678	2,159,868	51.0%	2,279,134	48.3%	2,525,660	43.6%
William Lyon Homes	6/30/02	14,004	309,074	464,826	66.5%	508,528	60.8%	405,072	76.3%
AVERAGES		98,198	941,324	1,964,217	45.8%	3,102,757	30.5%	1,795,604	49.6%
MEDIANS		50,744	730,757	1,383,876	46.4%	2,353,847	30.0%	1,343,660	50.7%

The group average debt-to-capitalization ratio was 45.8% compared with 50.8% last year and 47.5% in the 2002 first quarter. Average debt for the group of \$941.3 million was up 30% over last year. Equity book values rose 45% from \$724.4 million to \$1.023 billion. Average inventories increased 35% to \$1.8 billion. The increases were due both to the high rate of sales growth and recent acquisitions.

I excluded financial services debt in the total debt figures for CTX, DHI, KBH, LEN, NVR, PHM and RYL under the assumption that this debt is non-recourse. However, the alternative leverage table on the next page provides a look at leverage both excluding and including financial services debt for the homebuilding group. In the table above, I still include financial services debt for Beazer, Hovnanian, MDC, M/I Schottenstein and Standard Pacific.

Lennar recently reported that its guarantees of debt on its land development partnerships totaled \$225 million, of which \$169 million were limited maintenance obligations which apply after a default only to bring the fair value of the collateral up to a specified percentage of the outstanding loans. Off-balance sheet obligations should be treated as debt.

My leverage calculation for Centex does not include \$298 million of debt of Centex Development Co., most of which was associated with Centex's Fairclough Homes, a U.K. Builder. I also do not include \$161 million of minority interest in total capitalization that is almost entirely represented by the outstanding public equity of Centex Construction Products.

Pulte's cash balance does not adjust for book overdrafts of \$156 million. As adjusted, Pulte's net cash balance would therefore decline from \$213 million to net cash of \$57 million, excluding the potential cash from \$40 million of unfunded settlements.

ALTERNATIVE LEVERAGE CALCULATIONS									
	Latest Quarter Date	Ticker	Excl. Fin. Services Debt			Fin. Serv. Debt	Incl. Fin. Services Debt		
			Total Debt	Total Capital	Debt-to-Capital		Total Debt	Total Capital	Debt-to-Capital
Beazer Homes USA	6/30/02	BZH	738,782	1,484,596	49.8%	0	738,782	1,484,596	49.8%
Centex Corporation	6/30/02	CTX	1,909,870	4,120,101	46.4%	3,804,644	5,714,514	7,924,745	72.1%
D.R. Horton, Inc.	6/30/02	DHI	2,750,333	4,889,656	56.2%	204,630	2,954,963	5,094,286	58.0%
Hovnanian Enterprises	7/31/02	HOV	673,519	1,181,155	57.0%	57,238	730,757	1,238,393	59.0%
KB Home	5/31/02	KBH	1,132,803	2,268,850	49.9%	330,230	1,463,033	2,599,080	56.3%
Lennar Corporation	5/31/02	LEN	1,502,718	3,365,912	44.6%	408,958	1,911,676	3,774,870	50.6%
MDC Holdings, Inc.	6/30/02	MDC	339,535	1,069,863	31.7%	50,949	390,484	1,120,812	34.8%
M/I Schottenstein	6/30/02	MHO	144,210	458,708	31.4%	12,500	156,710	471,208	33.3%
Meritage Corp.	6/30/02	MTH	156,286	443,107	35.3%	0	156,286	443,107	35.3%
NVR, Inc.	6/30/02	NVR	120,094	507,779	23.7%	124,707	244,801	632,486	38.7%
Pulte Corporation	6/30/02	PHM	1,949,265	4,417,263	44.1%	272,925	2,222,190	4,690,188	47.4%
Ryland Group, Inc.	6/30/02	RYL	490,500	1,127,005	43.5%	52,244	542,744	1,179,249	46.0%
Standard Pacific Corp.	6/30/02	SPF	645,228	1,347,593	47.9%	36,283	681,511	1,383,876	49.2%
Toll Brothers, Inc.	7/31/02	TOL	1,100,678	2,159,868	51.0%	0	1,100,678	2,159,868	51.0%
William Lyon Homes	6/30/02	WLS	309,074	464,826	66.5%	0	309,074	464,826	66.5%
AVERAGES			930,860	1,953,752	45.3%	357,021	1,287,880	2,310,773	49.9%
MEDIANS			673,519	1,347,593	46.4%	52,244	730,757	1,383,876	49.8%

Without financial services debt, the average ratio of debt-to-total capitalization was 45.3% at the end of the 2002 second quarter. When the average level of financial services debt of \$357 million is added in, the average leverage ratio increases to 49.9%. Last year's average financial services debt was \$275 million, which brought the average ratio of debt (including financial services debt) to total capitalization to 54.8%.

With \$3.8 billion of financial services debt this year, Centex accounts for about 71% of the average level of financial services debt. At the end of last year's second quarter, Centex carried \$2.5 billion of financial services debt. Excluding Centex, the average financial services debt level declined 3.1% from \$106.7 million to \$103.4 million.

Financial services debt for Centex has increased considerably because of a change in the method of accounting for the securitizations of Centex Home Equity Corporation (CHEC). Currently, such securitizations are accounted for as borrowings, not sales. The company's financial services debt also does not include non-recourse debt held by Harwood Street Funding I, LLC and Harwood Street Funding II, LLC, two affiliated mortgage lending warehousing entities.

Debt of financial services is used to finance conventional conforming mortgage loans (either on a wholesale or retail basis) or non-conforming loans that may be retained within the portfolio for some period of time.

The decision of whether to include financial services debt in the leverage calculation of any homebuilder is not always a simple one. For smaller builders, financial services debt is often guaranteed by the parent or holding company. I believe this debt should be considered as debt of the homebuilder and included in the basic leverage calculation.

On the other hand, several large homebuilders maintain credit facilities for their financial services operations that have no recourse to the parent company or homebuilding operations. In these instances, it may be appropriate to exclude financial services debt from the calculation of leverage. However, it is unlikely that any of these homebuilders would just simply walk away from these obligations without providing some support. If they do so, they may find it much more difficult to obtain replacement financing to continue to underwrite mortgages.

CASH FLOW									
	Latest Quarter	Latest Quarter				Last 12 Months			
		Operating Activities	Investing Activities	Financing Activities	Net Chg. in Cash	Operating Activities	Investing Activities	Financing Activities	Net Chg. in Cash
Beazer Homes USA	6/30/02	(25,503)	(314,268)	345,453	5,682	18,222	(383,516)	358,966	(6,328)
Centex Corporation	6/30/02	(318,708)	(285,229)	437,100	(166,837)	210,108	(1,694,016)	1,449,488	(34,420)
D.R. Horton, Inc.	6/30/02	(172,516)	(12,769)	51,486	(133,799)	(5,727)	(205,034)	185,285	(25,476)
Hovnanian Enterprises	7/31/02	67,348	(7,982)	6,612	65,978	141,743	(152,142)	52,724	42,325
KB Home	5/31/02	137,205	2,476	(212,705)	(73,024)	413,235	(46,858)	(260,812)	105,565
Lennar Corporation	5/31/02	(68,825)	(4,382)	33,618	(39,589)	376,056	(20,474)	(104,229)	251,353
MDC Holdings, Inc.	6/30/02	(118,681)	(8,789)	121,182	(6,288)	7,022	(10,511)	(5,478)	(8,967)
M/I Schottenstein	6/30/02	31,708	(1,288)	(26,211)	4,209	112,920	(19,059)	(85,880)	7,981
Meritage Corp.	6/30/02	(8,058)	(4,273)	26,539	14,208	(19,339)	(10,888)	40,629	10,402
NVR, Inc.	6/30/02	53,588	1,125	(35,672)	19,041	258,818	13,384	(264,944)	7,258
Pulte Corporation	6/30/02	(11,961)	895	164,061	152,995	(75,203)	14,757	171,408	110,962
Ryland Group, Inc.	6/30/02	419	(5,806)	(14,087)	(19,474)	30,793	(5,297)	(153,868)	(128,372)
Standard Pacific Corp.	6/30/02	37,238	(123,488)	97,537	11,287	52,805	(124,497)	91,557	19,865
Toll Brothers, Inc.	7/31/02	(53,972)	(6,405)	(4,341)	(64,718)	(59,232)	(14,390)	(1,162)	(74,784)
William Lyon Homes	6/30/02	(30,028)	2,182	24,470	(3,376)	(37,665)	5,455	16,062	(16,148)
AVERAGES		(32,050)	(51,200)	67,669	(15,580)	94,970	(176,872)	99,316	17,414
MEDIANS		(11,961)	(5,806)	26,539	(3,376)	30,793	(19,059)	16,062	7,258

The average builder used \$32.1 million in cash flow from operating activities in the second quarter and generated \$95 million on a rolling twelve months basis. Second quarter average cash flow from operating activities was negative \$65 million in last year's second quarter. On a rolling 12 month basis, the average builder used \$86 million of cash flow in operating activities last year. Most of the cash flow reflects changes in inventories and mortgage warehousing portfolios.

	ASSET EFFICIENCY						
	Latest Quarter End	Total Inventory	Housing Cost of Sls (last 12 mos.)	Inventory Turnover	Housing Sales (last 12 mos.)	Days Receivable	Days Payable & Accruals
Beazer Homes USA	6/30/02	1,343,660	1,926,549	1.4	2,317,389	7	43
Centex Corporation	6/30/02	3,057,710	3,865,350	1.2	4,953,323	NA	NA
D.R. Horton, Inc.	6/30/02	4,381,653	4,871,435	1.1	5,900,216	NA	42
Hovnanian Enterprises	7/31/02	1,064,842	1,799,252	1.7	2,176,533	9	42
KB Home	5/31/02	2,112,687	3,717,022	1.8	4,559,488	29	61
Lennar Corporation	5/31/02	2,802,260	4,384,267	1.6	5,722,068	3	50
MDC Holdings, Inc.	6/30/02	1,169,953	1,627,669	1.4	2,111,710	2	40
M/I Schottenstein	6/30/02	479,251	827,992	1.7	1,010,494	19	49
Meritage Corp.	6/30/02	447,314	695,476	1.6	873,232	3	30
NVR, Inc.	6/30/02	467,101	2,188,508	3.3	2,836,922	1	37
Pulte Corporation	6/30/02	4,244,918	5,238,207	1.2	6,503,799	NA	NA
Ryland Group, Inc.	6/30/02	1,087,498	2,151,941	2.0	2,690,691	NA	39
Standard Pacific Corp.	6/30/02	1,344,480	1,219,105	0.9	1,495,591	0	63
Toll Brothers, Inc.	7/31/02	2,525,660	1,703,837	0.7	2,238,243	NA	74
William Lyon Homes	6/30/02	405,072	429,001	1.1	498,414	19	47
AVERAGES		1,795,604	2,443,041	1.507	3,059,208	9	47
MEDIAN		1,343,660	1,926,549	1.4	2,317,389	5	43

Inventory turnover for the average homebuilder (calculated by dividing quarter-end inventories into cost of sales for the latest twelve month period) declined slightly from 1.607 times in last year's second quarter to 1.507. Average inventories rose 35% to \$1.78 billion, while the average cost of sales was up 23.1% to \$2.44 billion and average sales rose 24.7% to \$3.1 billion. The sales and cost of sales figures are on a rolling 12 month basis. These figures do not adjust for the pro forma affect of acquisitions, which likely played a meaningful role in the decline in inventory turnover.

The average days of payables and accruals were flat at 47 days. Days receivable were also flat at 9 days. With some companies, mortgage loans awaiting sale are classified as accounts receivable; others include mortgage loans with financial service assets, so it is difficult to make comparisons among builders.

Inventory turnover varies from a low of 0.7 for Toll Brothers to a high of 3.3 times for NVR.

The variation in inventory turnover is mostly due to each company's investment in land and the timing of lot takedowns. The more a company has invested in land, the lower the turnover. Speculative inventory can also account for some of the differences in turnover among builders, although most builders say that spec levels are currently quite low.

EBITDA Multiples and Ratios											
	Latest Quarter End	Total EBITDA LTM	Book Value of Debt	Market Value of Equity	Market Value of Capitalization	Market Cap/ EBITDA	Total Debt	Total Debt/ EBITDA	EBITDA Margin	Interest Incurred	EBITDA/ Interest Incurred
Beazer Homes USA	6/30/02	222,695	738,782	916,872	1,655,654	7.4	738,782	3.3	9.5%	43,765	5.1
Centex Corporation	6/30/02	831,521	1,909,870	3,034,722	4,944,592	5.9	1,909,870	2.3	10.5%	124,463	6.7
D.R. Horton, Inc.	6/30/02	727,091	2,750,333	3,224,741	5,975,074	8.2	2,750,333	3.8	12.3%	177,763	4.1
Hovnanian Enterprises	7/31/02	235,294	730,757	1,187,706	1,918,463	8.2	730,757	3.1	10.4%	53,466	4.4
KB Home	5/31/02	527,935	1,132,803	2,163,339	3,296,142	6.2	1,132,803	2.1	11.1%	101,599	5.2
Lennar Corporation	5/31/02	889,477	1,502,718	3,761,018	5,263,736	5.9	1,502,718	1.7	14.0%	125,957	7.1
MDC Holdings, Inc.	6/30/02	301,635	390,484	1,119,622	1,510,106	5.0	390,484	1.3	13.9%	19,695	15.3
M/I Schottenstein	6/30/02	119,973	156,710	532,447	689,157	5.7	156,710	1.3	11.4%	16,000	7.5
Meritage Corp.	6/30/02	112,208	156,286	533,321	689,607	6.1	156,286	1.4	12.8%	19,519	5.7
NVR, Inc.	6/30/02	497,314	120,094	2,371,805	2,491,899	5.0	120,094	0.2	17.5%	12,253	40.6
Pulte Corporation	6/30/02	716,627	1,949,265	2,894,441	4,843,706	6.8	1,949,265	2.7	10.9%	159,459	4.5
Ryland Group, Inc.	6/30/02	339,830	490,500	1,171,457	1,661,957	4.9	490,500	1.4	12.3%	47,388	7.2
Standard Pacific Corp.	6/30/02	220,723	681,511	887,508	1,569,019	7.1	681,511	3.1	14.8%	53,430	4.1
Toll Brothers, Inc.	7/31/02	419,507	1,100,678	1,805,468	2,906,146	6.9	1,100,678	2.6	18.4%	88,649	4.7
William Lyon Homes	6/30/02	73,881	309,074	238,895	547,969	7.4	309,074	4.2	14.5%	21,941	3.4
AVERAGES		415,714	941,324	1,722,891	2,664,215	6.5	941,324	2.3	13.0%	71,023	8.4
MEDIANS		339,830	730,757	1,187,706	1,918,463	6.2	730,757	2.3	12.3%	53,430	5.2

EBITDA multiples as of September 2002 (using 2002 second quarter financial data) averaged 6.5 times. This is down from 7.0 times last quarter and up from 5.1 times last year.

I have not made pro forma adjustments for Beazer, D.R. Horton, Hovnanian, Meritage, Pulte and Standard Pacific following their recent acquisitions.

In the latest twelve month period, pre-tax impairment and/or restructuring charges were recorded by Hovnanian (\$18 million) and MDC (\$7.0 million). Following my standard practice, I do not add these charges back in calculating EBITDA.

Debt as a multiple of EBITDA is about 2.3 times, compared with 2.3 times in the 2001 second quarter and 2.3 times in the 2002 first quarter. Rolling 12 month EBITDA margins were 12.9%, compared with 12.7% last year.

EBITDA equals income before taxes plus depreciation and amortization plus interest included in cost of sales plus (homebuilding and corporate, if any) interest expense. Debt is reflected here at its face or carrying amount. I have included financial services debt in the calculation of total debt for some companies, but have not adjusted EBITDA by adding back the interest on such debt. Consequently, EBITDA multiples are overstated at least slightly for HOV, MDC, MHO and SPF.

The market value of equity is based upon common stock closing prices as of September 13, 2002. Book values are calculated as of the close of the quarter closest to June 30, 2002.

INTEREST CAPITALIZED AND EXPENSED										
	Latest Quarter End	Total Inventory	Cap. Int. incl. in Inventory	Cap. Int. as % of Inventory	Latest Quarter			Last 12 Months		
					Interest Incurred	Int Exp & Amort	Int Exp/ Int Incur	Interest Incurred	Int Exp & Amort	Int Exp/ Int Incur
Beazer Homes USA	6/30/02	1,343,660	21,964	1.6%	16,729	12,887	77.0%	43,765	39,345	89.9%
Centex Corporation	6/30/02	3,057,710	41,038	1.3%	33,919	23,726	69.9%	124,463	112,250	90.2%
D.R. Horton, Inc.	6/30/02	4,381,653	143,725	3.3%	58,349	39,276	67.3%	177,763	127,649	71.8%
Hovnanian Ent.	7/31/02	1,064,842	21,425	2.0%	15,746	15,849	100.7%	53,466	56,860	106.3%
KB Home	5/31/02	2,112,687	NA	NA	20,276	26,146	129.0%	101,599	112,706	110.9%
Lennar Corporation	5/31/02	2,802,260	NA	NA	31,690	30,530	96.3%	125,957	120,967	96.0%
MDC Holdings, Inc.	6/30/02	1,169,953	17,604	1.5%	4,915	4,248	86.4%	19,695	21,594	109.6%
M/I Schottenstein	6/30/02	479,251	11,866	2.5%	3,382	3,894	115.1%	16,000	16,772	104.8%
Meritage Corp.	6/30/02	447,314	10,050	2.2%	4,782	4,657	97.4%	19,519	16,717	85.6%
NVR, Inc.	6/30/02	467,101	NA	NA	3,154	3,154	100.0%	12,253	12,253	100.0%
Pulte Corporation	6/30/02	4,244,918	107,447	2.5%	39,062	21,188	54.2%	159,459	82,201	51.5%
Ryland Group, Inc.	6/30/02	1,087,498	39,758	3.7%	11,494	7,905	68.8%	47,388	43,205	91.2%
Standard Pacific	6/30/02	1,344,480	31,722	2.4%	14,744	14,007	95.0%	53,430	49,041	91.8%
Toll Brothers, Inc.	7/31/02	2,525,660	120,257	4.8%	22,307	15,626	70.0%	88,649	62,999	71.1%
William Lyon Homes	6/30/02	405,072	NA	NA	5,574	5,424	97.3%	21,941	22,403	102.1%
AVERAGES		1,795,604	51,532	2.5%	19,075	15,234	88.3%	71,023	59,797	91.5%
MEDIANS		1,343,660	31,722	2.4%	15,746	14,007	95.0%	53,430	49,041	91.8%

Average capitalized interest as a percent of inventories declined from 2.7% to 2.5%. The average amount of capitalized interest in inventories rose by 40% to \$52 million and inventories are up 35% to \$1.8 billion.

Interest amortized and expensed as a percent of interest incurred eased from 89% last year to 88% this year. The average amount of interest incurred increased 20% from \$16.0 million to \$19.1 million and interest expensed and amortized rose 8.6% from \$14 million to \$15.2 million.

Four of the fifteen companies in this universe do not report the amount of capitalized interest included in inventories. Centex changed its policy some time ago and now capitalizes interest on homebuilding inventories. NVR does not capitalize interest on inventories. For several companies, I estimate interest incurred and expensed on an interim basis. Since actual average balances may differ substantially from the simple methods that I use, my estimates may not be accurate.

UNIT SALES DATA - CLOSINGS									
	Latest Quarter	Latest Quarter				Last 12 Months			
		Unit	%	Avg Sales Price	%	Unit	%	Avg Sales Price	%
	End	Closings	Change		Change	Closings	Change		Change
Beazer Homes USA	6/30/02	3,960	74.0%	185	-4.5%	11,831	39.0%	196	1.0%
Centex Corporation	6/30/02	4,995	3.0%	214	1.5%	23,105	9.5%	214	2.6%
D.R. Horton, Inc.	6/30/02	7,877	44.1%	222	11.4%	27,491	42.0%	215	9.3%
Hovnanian Enterprises	7/31/02	2,647	31.0%	257	4.6%	8,551	40.5%	255	2.1%
KB Home	5/31/02	6,005	4.9%	184	3.5%	25,214	9.5%	181	4.9%
Lennar Corporation	5/31/02	5,899	10.2%	237	1.0%	24,184	12.1%	237	2.0%
MDC Holdings, Inc.	6/30/02	1,956	1.7%	254	-1.7%	8,121	4.7%	260	7.8%
M/I Schottenstein	6/30/02	1,040	6.1%	236	10.1%	4,356	7.7%	231	5.3%
Meritage Corp.	6/30/02	1,022	32.2%	241	6.9%	3,761	47.4%	231	-0.8%
NVR, Inc.	6/30/02	2,824	7.4%	273	10.5%	10,989	7.9%	258	10.0%
Pulte Corporation	6/30/02	6,593	44.9%	239	9.1%	26,691	37.6%	233	8.9%
Ryland Group, Inc.	6/30/02	3,185	1.5%	204	-2.5%	12,854	6.3%	207	3.0%
Standard Pacific Corp.	6/30/02	1,428	34.2%	330	3.6%	4,754	13.8%	379	5.2%
Toll Brothers, Inc.	7/31/02	1,093	-3.2%	517	1.8%	4,437	1.9%	504	3.1%
William Lyon Homes	6/30/02	562	-6.5%	346	27.0%	2,532	-1.1%	325	10.6%
AVERAGES		3,406	19.0%	263	5.5%	13,258	18.6%	262	5.0%
MFDIANS		2,824	7.4%	239	3.6%	10,989	9.5%	233	4.9%

Average unit closings increased 18.6% and average selling prices rose 5.9% above prior year levels. The greatest gains in unit closings were recorded by Pulte (up 45%), Beazer (up 74%), D.R. Horton (up 44%), Meritage (up 32%), Hovnanian (up 31%), and Standard Pacific (up 27%), all of whom benefited from acquisitions. Only two builders reported declines in second quarter closings, compared with one in the first quarter.

On a pro forma basis for the Crossmann acquisition, Beazer's unit closings rose 9.2%, while its average price rose 7.9%. D.R. Horton's pro forma unit closings, reflecting the acquisitions of Schuler Homes and two others, rose 19.6%, while its average price rose 4.7%. Meritage's pro forma unit closings rose 5% and its average selling price was up 14.2%. I calculate that Pulte's pro forma unit closings, adjusting for the Del Webb acquisition, declined 1.3%, while its average closing price dropped 3.7%. Hovnanian's pro forma closings were up 22.2%, while its average closing price declined by an estimated 9%. Finally, Standard Pacific's pro forma closings were up an estimated 13%, while its average selling price rose about 10%. Adjusted for these differences, average total unit closings for the 15 builders increased by 5.8% in the 2002 second quarter (compared with 10.4% for the 2002 first quarter and 12.2% in the 2001 fourth quarter) and average closing prices increased 5% (vs. 5% and 4%). Several other builders, including KB Home, Lennar and MDC Holdings benefited from acquisitions in the quarter, but they provided no pro forma information.

Average Unadjusted Changes in Unit Closings and Sales Prices by Quarter

	Pct. Chg. in	Pct. Chg. in		Pct. Chg. in	Pct. Chg. in
		Avg. Sales			Avg. Sales
2002 Q4			2000 Q4	8.8%	9.8%
2002 Q3			2000 Q3	10.0%	7.4%
2002 Q2	19.0%	5.5%	2000 Q2	7.1%	9.2%
2002 Q1	19.4%	5.6%	2000 Q1	11.6%	7.9%
2001 Q4	23.3%	6.1%	1999 Q4	19.9%	8.0%
2001 Q3	25.6%	5.4%	1999 Q3	20.7%	7.6%
2001 Q2	20.3%	5.3%	1999 Q2	28.0%	8.2%
2001 Q1	9.3%	7.7%	1999 Q1	34.0%	8.2%

UNIT SALES DATA - NET NEW ORDERS									
	Latest Quarter End	Latest Quarter				Last 12 Months			
		New Orders in units	% Change	New Orders in \$000s	% Change	New Orders in units	% Change	New Orders in \$000s	% Change
Beazer Homes USA	6/30/02	4,227	47.1%	810,612	52.8%	12,219	26.1%	2,517,490	35.1%
Centex Corporation	6/30/02	6,771	19.7%	NA	NA	24,100	8.0%	NA	NA
D.R. Horton, Inc.	6/30/02	9,065	50.7%	2,034,600	67.5%	28,050	28.7%	5,921,500	33.7%
Hovnanian Enterprises	7/31/02	2,549	54.7%	652,643	63.4%	8,338	28.7%	2,132,020	37.2%
KB Home	5/31/02	7,194	-2.4%	1,456,439	34.1%	24,853	1.9%	4,779,170	14.8%
Lennar Corporation	5/31/02	7,831	13.8%	1,987,719	26.7%	24,270	4.4%	5,889,312	9.3%
MDC Holdings, Inc.	6/30/02	2,753	39.5%	746,862	40.3%	8,530	3.4%	2,301,710	7.5%
M/I Schottenstein	6/30/02	1,081	-11.0%	256,424	-7.8%	4,021	-10.3%	936,258	-6.9%
Meritage Corp.	6/30/02	1,144	51.1%	297,648	70.2%	3,823	38.6%	939,082	42.4%
NVR, Inc.	6/30/02	3,634	8.8%	1,027,351	21.6%	11,241	4.0%	3,094,260	16.3%
Pulte Corporation	6/30/02	8,279	59.9%	2,041,000	89.3%	30,850	51.6%	7,494,000	71.9%
Ryland Group, Inc.	6/30/02	3,843	1.7%	840,197	9.2%	12,946	-2.4%	2,745,977	0.6%
Standard Pacific Corp.	6/30/02	1,849	56.8%	682,380	66.0%	5,274	21.1%	1,982,383	28.4%
Toll Brothers, Inc.	7/31/02	1,274	17.4%	704,200	29.7%	4,878	8.6%	2,580,341	14.1%
William Lyon Homes	6/30/02	768	0.1%	292,779	25.3%	2,736	-1.0%	985,094	21.9%
AVERAGES		4,151	27.2%	987,918	42.0%	13,742	14.1%	3,164,185	23.3%
MEDIANS		3,634	19.7%	778,737	37.2%	11,241	8.0%	2,548,915	19.1%

Average new orders increased 27.2% in units and 42% in dollar value in the second quarter, better than the previous three quarters.

On a pro forma basis, I estimate that Beazer's new orders declined 1% in units, but rose 12% in dollar value. D.R. Horton's pro forma new orders rose 16% in units and 18% in dollar value. Meritage's estimated pro forma orders rose 20%, while the estimated dollar value of those orders increased 39%. Pulte's new orders adjusted for the acquisition of Del Webb were up 17% and 22% in dollar value. Hovnanian's estimate orders were up 14% in units and 23% in dollar value. Finally, Standard Pacific's pro forma new units are estimated to have risen 32% in units and 75% in dollar value. It is also possible that other builders may have made smaller undisclosed acquisitions which have increased orders and backlogs.

Adjusted for these figures, I estimate that average new order increased 12% in units and 26% in dollar value in the second quarter. This is up from adjusted growth of 7% in units and 17% in dollar value in the first quarter. Three out of 15 builders posted actual or pro forma declines in unit orders, down from four in the first quarter. Still, the overall results are incredibly strong given the apparent weakness of the economy.

Standard Pacific's and William Lyon Homes's new orders include those of their joint ventures.

Lennar's new orders are reported excluding joint ventures. Since the company reports the dollar value of backlog with joint ventures, I make an adjustment to reduce the dollar value of the backlog for joint ventures, which has a corresponding impact on the estimated dollar value of new orders.

New orders data is either as reported or derived from company disclosures on closings and backlogs. When a company does not report the dollar value of the backlog (as in the case of Centex), it is not possible to derive the dollar value of new orders.

BACKLOG DATA									
	Latest Quarter End	Backlog in units (latest qtr.)	% Change (prior qtr.)	% Change (prior yr.)	Backlog in \$000s (latest qtr.)	% Change (prior qtr.)	% Change (prior yr.)	Avg. Price in Backlog (latest qtr.)	Backlog as % of LTM Closings
Beazer Homes USA	6/30/02	7,627	58.1%	64.5%	1,447,144	42.8%	62.3%	190	64.5%
Centex Corporation	6/30/02	11,150	19.0%	9.8%	NA	NA	NA	NA	48.3%
D.R. Horton, Inc.	6/30/02	13,586	9.6%	28.1%	2,948,200	10.7%	30.4%	217	49.4%
Hovnanian Enterprises	7/31/02	4,403	-2.2%	19.9%	1,205,471	0.0%	29.8%	274	51.5%
KB Home	5/31/02	13,732	9.5%	-2.1%	2,637,352	15.3%	9.7%	192	54.5%
Lennar Corporation	5/31/02	11,718	19.4%	7.3%	2,974,983	24.4%	13.1%	254	48.5%
MDC Holdings, Inc.	6/30/02	4,935	23.9%	12.9%	1,300,000	23.8%	17.1%	263	60.8%
M/I Schottenstein	6/30/02	2,609	1.6%	-11.4%	621,000	1.8%	-10.4%	238	59.9%
Meritage Corp.	6/30/02	2,126	6.1%	3.0%	549,510	10.3%	14.8%	258	56.5%
NVR, Inc.	6/30/02	6,729	13.7%	3.9%	1,956,655	15.2%	16.0%	291	61.2%
Pulte Corporation	6/30/02	12,950	15.0%	47.3%	3,277,000	16.5%	63.0%	253	46.4%
Ryland Group, Inc.	6/30/02	6,491	11.3%	1.4%	1,390,735	16.0%	6.1%	214	50.5%
Standard Pacific Corp.	6/30/02	3,172	49.3%	56.6%	1,075,729	44.5%	51.6%	339	67.8%
Toll Brothers, Inc.	7/31/02	3,441	5.2%	12.6%	1,904,500	7.6%	20.6%	553	77.6%
William Lyon Homes	6/30/02	1,278	19.2%	19.0%	492,941	25.0%	49.3%	386	50.5%
AVERAGES		7,063	17.2%	18.2%	1,698,659	18.1%	26.7%	280	56.5%
MEDIANS		6,491	13.7%	12.6%	1,418,940	15.6%	18.9%	256	54.5%

Backlogs as of the end of the 2002 second quarter were up 18% in units and 27% in dollar value on average from last year. This increase was driven by the recent acquisitions by Beazer, D.R. Horton, Hovnanian, Meritage, Pulte and Standard Pacific. Adjusting for these builders, I estimate that average backlogs were up 5% in units and 13% in dollar value.

My calculations include the following pro forma percentage increases in backlog units and dollar value: Beazer Homes (-10.7%, 2.6%), D.R. Horton (1.0%,-0.9%), Hovnanian (3.8%, 14%), Pulte (3.8%, 9.1%) and Standard Pacific (23.1%, 30.5%). Since the acquisition of Hancock Homes occurred on May 30, 2001, I did not adjust Meritage's backlog. I also do not adjust Lennar's backlog figures for its recent acquisitions, because of insufficient available information.

PERCENTAGE OF BACKLOG DELIVERED								
	Latest Quarter Date	Ticker	Latest Quarter	One Quarter Ago	Two Quarters Ago	Three Quarters Ago	Four Quarters Ago	Average Latest 4 Quarters
Beazer Homes USA	6/30/02	BZH	82.1%	59.2%	59.5%	66.2%	56.4%	66.7%
Centex Corporation	6/30/02	CTX	53.3%	75.2%	55.8%	53.4%	52.3%	59.4%
D.R. Horton, Inc.	6/30/02	DHI	63.5%	76.2%	61.4%	68.7%	56.3%	67.5%
Hovnanian Enterprises	7/31/02	HOV	58.8%	64.8%	57.7%	54.4%	50.0%	58.9%
KB Home	5/31/02	KBH	47.9%	45.5%	57.3%	46.2%	46.2%	49.2%
Lennar Corporation	5/31/02	LEN	60.1%	59.3%	67.9%	56.1%	57.0%	60.9%
MDC Holdings, Inc.	6/30/02	MDC	49.1%	58.1%	61.5%	47.5%	44.5%	54.1%
M/I Schottenstein	6/30/02	MHO	40.5%	36.3%	48.6%	39.6%	36.2%	41.2%
Meritage Corp.	6/30/02	MTH	51.0%	47.3%	56.4%	45.4%	52.6%	50.0%
NVR, Inc.	6/30/02	NVR	47.7%	47.3%	50.0%	42.3%	45.6%	46.8%
Pulte Corporation	6/30/02	PHM	61.7%	63.4%	70.9%	81.2%	44.9%	69.3%
Ryland Group, Inc.	6/30/02	RYL	54.6%	54.6%	66.1%	52.1%	54.5%	56.9%
Standard Pacific Corp.	6/30/02	SPF	63.6%	64.0%	70.0%	54.7%	55.7%	63.1%
Toll Brothers, Inc.	7/31/02	TOL	33.4%	40.8%	35.9%	41.9%	36.3%	38.0%
William Lyon Homes	6/30/02	WLS	52.4%	74.7%	94.3%	55.4%	66.2%	69.2%
AVERAGES			54.7%	57.8%	60.9%	53.7%	50.3%	56.7%
MEDIANS			53.3%	59.2%	59.5%	53.4%	52.3%	58.9%

In the 2002 first quarter, the average homebuilder delivered 54.7% of its opening backlog. This compares with 50.3% a year ago. With the recent increase in new order growth rates, backlog delivery rates should be less favorable going forward.

<u>Recent Stock Splits/Dividends</u>		<u>Recent/Pending Acquisitions</u>
D.R. Horton	3-for-2	<u>Beazer Homes</u> acquired Crossman Communities on 4/17/02. It acquired Sanford Homes of Colorado in August 2001.
M/I Schottenstein	2-for-1	<u>D.R. Horton</u> acquired Schuler Homes on 2/21/02, as well as the Florida operations of Fortress Group in May 2001 and Emerald Builders in July 2001.
Meritage Corp.	2-for-1	<u>Hovnanian</u> acquired the Forecast Group on 1/10/02.
Ryland Group	2-for-1	<u>KB Home</u> acquired Trademark Home Builders of Jacksonville on 7/19/01. It announced the acquisition of American Heritage Homes of Orlando on 9/18/02.
Toll Brothers	2-for-1	<u>Lennar</u> acquired the Carolina operations of Fortress on 12/21/01, also announced the acquisition of Patriot Homes of Baltimore in November 2001. In June 2002, it announced its intention to buy the rest of Fortress, which now consists of The Genessee Company, a Colorado and Arizona builder. In July 2002, it announced the acquisitions of Pacific Century Homes and Cambridge Homes, two California builders. In August, it completed the acquisition of Concord Homes of Chicago and expects to close on Summit Homes of Chicago in October.
MDC Holdings	10% dividend	<u>MDC</u> acquired the Salt Lake City operations of W.L. Homes (d/b/a John Laing Homes) in mid-April 2002. It will acquire 400 lots from John Laing in northern VA..
		<u>Meritage</u> acquired Hancock Homes on 5/30/01. Its acquisition of Hammond Homes of Texas is pending.
		<u>Standard Pacific</u> acquired Colony Homes of Orlando on 5/15/02. Its acquisition of Westfield Homes of Tampa is pending.
		Pulte acquired Del Webb Corp. on July 31, 2001.

FINANCIAL SERVICES SEGMENT							
	Latest Quarter End	Total Assets	Total Capital Invested	Total Revenues (last 12 mos.)	Operating Income (last 12 mos.)	Op. Inc./ Tot. Revs.	Pretax Return on Capital
Beazer Homes USA	6/30/02	NA	NA	35,589	15,451	43.4%	NA
Centex Corporation	6/30/02	3,975,974	493,226	717,707	113,869	15.9%	23.1%
D.R. Horton, Inc.	6/30/02	319,258	103,781	102,060	47,099	46.1%	45.4%
Hovnanian Enterprises	7/31/02	79,005	16,769	37,978	14,925	39.3%	89.0%
KB Home	5/31/02	432,575	48,420	84,070	46,969	55.9%	97.0%
Lennar Corporation	5/31/02	653,968	144,102	440,384	98,353	22.3%	68.3%
MDC Holdings, Inc.	6/30/02	108,871	31,099	40,504	22,401	55.3%	72.0%
M/I Schottenstein	6/30/02	NA	NA	23,540	15,251	64.8%	NA
Meritage Corp.	6/30/02	NA	NA	NA	NA	NA	NA
NVR, Inc.	6/30/02	162,254	24,652	68,959	40,570	58.8%	164.6%
Pulte Corporation	6/30/02	286,484	13,559	86,236	42,894	49.7%	316.4%
Ryland Group, Inc.	6/30/02	78,981	14,608	71,525	42,783	59.8%	292.9%
Standard Pacific Corp.	6/30/02	51,806	14,401	11,342	5,714	50.4%	39.7%
Toll Brothers, Inc.	7/31/02	NA	NA	NA	NA	NA	NA
William Lyon Homes	6/30/02	NA	NA	NA	NA	NA	NA
AVERAGES		614,918	90,462	143,325	42,190	46.8%	120.8%
MEDIANS		224,369	27,876	70,242	41,677	50.1%	80.5%

Homebuilders continued to report strong performance from their financial services operations. In the table below, I present average figures for ten of the builders in this group (CTX, DHI, HOV, KBH, LEN, MDC, NVR, PHM, RYL and SPF).

Operating income as a percent of revenues and return on average capital have continued at exceptionally high levels. Average total assets rose from the first quarter, but remain below the 2001 fourth quarter peak. Capital investment nearly doubled, raising the capital-to-assets ratio to nearly 15%. Revenues and operating income continued to rise, keeping profit margins, return on assets and return on average capital at record levels. Going forward, this performance should continue for awhile due to recent declines in mortgage rates.

Average Performance of Financial Services Operations of 10 Large Homebuilders

	Total Assets	Capital Invested	Capital/ Assets	R12 Revenues	R12 Oner Income	OI/ Revenues	Ret. on Avg. Assets	Ret. on Avg. Capital
02O2	614.918	90.462	14.7%	166.077	47.558	28.6%	8.0%	64.2%
02O1	572.721	47.810	8.3%	161.485	44.874	27.8%	8.0%	63.0%
01O4	640.241	84.633	13.2%	130.050	34.848	26.8%	6.8%	51.1%
01O3	540.422	73.558	13.6%	119.315	28.109	23.6%	6.3%	44.1%
01O2	479.036	78.880	16.5%	126.598	24.705	19.5%	6.4%	40.1%
01O1	399.087	35.595	8.9%	113.311	18.028	15.9%	5.4%	31.9%
00O4	370.194	67.164	18.1%	103.891	12.686	12.2%	4.5%	23.1%
00O3	301.554	64.778	21.5%	99.731	12.736	12.8%	5.0%	24.0%
00O2	262.461	58.262	22.2%	99.248	10.734	10.8%	4.3%	21.5%
00O1	185.971	29.728	16.0%	101.127	13.057	12.9%	5.0%	26.1%
99O4	262.406	59.238	22.6%	105.198	18.646	17.7%	6.4%	37.9%
99O3	297.444	52.646	17.7%	104.930	19.796	18.9%		
99O2	304.740	58.269	19.1%	102.043	22.756	22.3%		
99Q1	302.749	26.555	8.8%	98.468	22.481	22.8%		

SUSTAINABLE GROWTH									
	Return on Sales (LTM)	Return on Equity (LTM)	Return on Assets (LTM)		Sales/ Assets (LTM)	Assets/ Equity	Net Inc./ Sales (LTM)	Dividend Payout Ratio	Sustainable Growth Rate
Beazer Homes USA	4.5%	14.2%	6.1%		1.36	2.33	4.50%	0.0%	14.2%
Centex Corporation	5.0%	17.9%	4.2%		0.83	4.28	5.01%	2.6%	17.4%
D.R. Horton, Inc.	5.9%	16.6%	6.2%		1.04	2.69	5.91%	0.0%	16.6%
Hovnanian Enterprises	4.7%	20.7%	7.0%		1.51	2.93	4.65%	0.0%	20.7%
KB Home	5.4%	22.5%	7.5%		1.38	3.02	5.39%	4.8%	21.4%
Lennar Corporation	7.0%	24.0%	9.8%		1.39	2.45	7.04%	0.7%	23.8%
MDC Holdings, Inc.	7.1%	21.1%	10.9%		1.53	1.94	7.13%	4.9%	20.1%
M/I Schottenstein	6.0%	19.9%	10.1%		1.70	1.96	5.96%	0.0%	19.9%
Meritage Corp.	6.2%	18.9%	10.3%		1.66	1.83	6.22%	0.0%	18.9%
NVR, Inc.	10.0%	74.8%	26.9%		2.70	2.78	9.98%	0.0%	74.8%
Pulte Corporation	5.5%	14.6%	5.9%		1.08	2.47	5.47%	2.7%	14.2%
Ryland Group, Inc.	5.5%	24.0%	9.9%		1.79	2.42	5.53%	-0.9%	24.2%
Standard Pacific Corp.	6.7%	14.4%	6.3%		0.94	2.30	6.66%	9.6%	13.1%
Toll Brothers, Inc.	9.6%	20.7%	7.9%		0.82	2.62	9.61%	0.0%	20.7%
William Lyon Homes	8.3%	27.0%	8.0%		0.97	3.37	8.28%	0.0%	27.0%
AVERAGES	6.5%	23.4%	9.1%		1.38	2.63	6.49%	1.6%	23.1%
MEDIANS	6.0%	20.7%	7.9%		1.38	2.47	5.96%	0.0%	20.1%

Average return on equity (calculated by taking net income for the rolling 12 month period divided by shareholders' equity at the end of the period) declined surprisingly from an annualized rate of 25.2% in last year's second quarter to 23.2% this year. The average ratio of net income to sales rose from 6.1% last year to 6.5% this year. Asset turnover, as measured by sales/assets declined from 1.43 to 1.38 times. Effective leverage, as measured by the ratio of assets to equity declined from 2.95 times to 2.63 times. Overall average return on assets improved from 8.7% to 9.1%. On the surface, the ratios represent an improvement, because lower return on equity was accompanied by lower effective leverage.

My ratios are calculated on end of the period results. Most analysts typically calculate certain ratios, like return on equity or return on assets, using figures from the beginning of the period or an average over the entire period. I believe that that approach has merit and may indeed be preferable. However, my data does provide a reasonable indication of relative performance differences from period to period.

Clearly these performance figures are exceptionally strong and so it is unlikely that they can be sustained indefinitely, especially if conditions in the housing market are deteriorating. Earnings quality issues remain a concern.

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Third, every market maintains some forward momentum, even past the peak. So it is likely that demand would not drop precipitously merely at the first signs of a decline in employment.

These factors, however, can only sustain the housing market temporarily. A housing market built upon a foundation of declining employment is vulnerable to a sharp slowdown. Indeed, the housing market may not be as strong as suggested by the national production figures. Any underlying weakness can only be masked for so long, however. If job growth does not resume soon, there is no way that the record housing production pace can be sustained.

Another ominous sign was the recent that home foreclosures have reached a thirty-year high. According to the Mortgage Bankers Association, fully 1.23% of all mortgages were in foreclosure during April, May and June. This was up sharply from less than 1% a year ago. Many newer mortgage products, such as interest-only and low-down-payment loans are being tested for the first time in a tough economy.

In some ways, the rise in foreclosures is surprising. Government figures do not show significant weakness in the economy. Therefore, the economy may be considerably weaker than it appears to be. In addition, the jump in foreclosures was not preceded by a jump in delinquencies. Aggressive mortgage workout and refinancing programs may have helped to keep delinquency rates down until now, but the rise in foreclosures suggests that such programs may only delay the inevitable.

Foreclosures could reach unprecedented levels, if the economy continues to weaken. And as we know so well from California's experience during the early 1990s, foreclosed properties can be tough competition for new home sales.

Second quarter comparables. Results for the 15 homebuilders included in this comparables analysis were somewhat

mixed in the second quarter. On the one hand, there still was some evidence of a slowing trend in current performance. However, growth rates in new orders have picked up. Some builders explained this apparent dichotomy by saying that slowing growth in deliveries was the result of the slowdown in new orders immediately following 9/11. At the same time, they say that new orders have starrisen due to extremely low mortgage rates.

Overall, homebuilding revenues for the average builder rose 26% in the second quarter, about equal with the 2002 first quarter's rate of growth. In both cases, however, this apparently strong revenue growth was bolstered by acquisitions. After adjusting for these, I estimate that the underlying second quarter revenue growth rate was 11%, down from 15% in the first quarter.

Unit closings increased 19% on average (or 6% pro forma for acquisitions) while averaging selling prices rose by a little more than 5%.

On the other hand, average new orders rose 27% in units and 42% in dollar value. Adjusted for acquisitions, orders were up 12% in units and 26% in dollar value, still a surprisingly strong showing.

With all of this activity, the average builder closed out the quarter with backlogs that were up 18% in units and 27% in dollar value. On a pro forma basis backlogs rose 5% in units and 13% in dollar value adjusted for the effect of acquisitions.

Operating profit margins still rose, but there were signs of slippage. Gross margins before amortized interest slipped 30 basis points from 22.7% last year to 22.4%. Offsetting this, amortized interest as a percent of sales declined from 1.9% to 1.6%. Thus, gross margins after amortized interest were unchanged at 20.8%.

At the same time, the average SG&A expense ratio rose slightly from 10.8% to 10.9%. Other items improved from a

cost of 20 basis points to income of 10 basis points. As a result, operating profit margins improved from 9.8% to 10.0%. Similarly, EBITDA on a rolling 12 month basis rose 30% to \$416 million. EBITDA margin improved slightly from 12.7% to 13%, while interest coverage rose from 7.0 to 8.4 times.

Average debt levels also rose 30%, but debt as a percent of total capitalization declined from 50.8% to 45.8%, due mostly to the expansion of the equity basis through retained earnings and stock issued in acquisitions. This occurred despite a 35% jump in inventories and a modest slowing in average inventory turnover from 1.6 to 1.5 times.

Financial services income remained strong. With mortgage rates at exceptionally low levels, this strength should continue for the balance of the year.

Average EPS increased 15% during the quarter, well below the average 29% growth in net income, due primarily to new share issuance.

Since my last report, average homebuilder stock prices have declined 9%, although they have recovered from a 25% plunge in early August. At these levels, the average homebuilder carries a PE multiple of 9 times and price-to-book value ratio of 1.9 times. This is high by historical standards but well off of peak levels achieved earlier this year. Likewise, EBITDA multiples at 6.5 times are down from 7.0 last quarter.

While homebuilder stock prices are well off their highs, it is difficult to say whether this is the beginning of a serious downward trend or merely a correction. The next few weeks are critical to determining what path these stocks are on. Certainly, homebuilder stocks have, in my view, defied poor fundamentals to post superior performance over the past two or so years. Large builders do enjoy key advantages over their smaller competitors. Even so, the risk of a further decline remains high, especially if job growth does not resume.