TOP 10 SIGNS OF A MARKET BUBBLE

As compiled by 73 executives at The Summit on June 13-14, 2013.

Qualitative

1. **LUXURY CARS FOR THE STAFF.** When your salesperson parks their Lamborghini in front of the model home, next to your Land Acqusition VP's Land Rover and mortgage representative's Ferrari.

2. **MULTIPLE HOMES FOR EVERYONE.** When your hair dresser, cab driver, or nanny buys multiple homes, and your trades are fighting to get on the VIP list for your next community.

3. **OUTLANDISH PARTIES.** When trades invite you to all-expenses-paid out-of-town parties featuring famous bands.

4. **CREATIVE MORTGAGES.** When radio ads and billboards advertise creative mortgages such as no documentation, no income verification, 100%+ LTV, or 40-year interest-only loans.

5. **TRUCK STOP FEASIBILITY.** When your Land Acquisition VP brings you a deal in a city you have only visited while putting gas in your car on a road trip.

6. **LAZY UNDERWRITING.** When you are outbid by someone who was told to buy the land deal, no matter what, or your bank or equity partner funds a project before the paperwork is finished.

7. **THE NEW URBAN PARADIGM SHIFT.** When a staff member suggests a podium deal or condo conversion.

8. **BOOMING REAL ESTATE CAREERS.** When real estate agent is the fastest growing occupation, the Real Estate Club is the most popular club in school, or your Division President has less than 10 years of industry experience.

9. **REALITY TV.** When builders are giving away free houses on reality TV shows, or "Flip that House" returns to the air.

10. **EXCESSIVE INVESTMENTS.** When you improve 500 lots when you only need 150 this year, or you are worried about filling your land pipeline five years from now.

Quantitative

1. **VERY HIGH SUPPLY.** When single-family construction volumes approach historic market highs.

2. **VERY POOR AFFORDABILITY.** When affordability approaches historical worst affordability.

3. **WANING DEMAND.** When annual job growth is less than annual construction.

4. **FALLING SALES.** When trailing 12 month total sales begin to trend down, while your cancellation rate spikes.

5. **FALLING BUILDER STOCK PRICES.** When home builder stocks are off 15% more than the overall market, and insiders are selling.

6. **RISING HOME EQUITY CASH-OUT.** When home equity lending is much higher than normal.

7. **IMPOSSIBLE MARKET SHARE.** When 10 builders announce they will be in the top 5.

8. **MORTGAGE DEFAULTS AND ARMS.** When mortgage defaults and adjustable rate loans are simultaneously rising.

9. **HISTORIC MARGINS.** When gross margins on multiple projects exceed 35%.

10. **DEVELOPER PROFIT DISAPPEARS.** When builders are willing to develop their own lots for no incremental profit.

In summary, our conclusion is that the smartest minds in housing believe we are in the early innings of a housing recovery that is playing out much more quickly than usual. If rates continue to rise, which they have through May and June 2013, the pace of recovery should slow. Now is the ideal time for executives to:

1. **Capitalize their company** with the right mix of debt and equity. For some, this might mean selling a few assets or part of the company, including tapping into the public markets.
2. **Invest with the discipline** and the risk/reward parameters that are appropriate for you. Investment prices generally require investors to assume that future appreciation will occur, which makes investing even trickier and riskier than usual.

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