Homebuilders

1-Positive Sector Rating

February 26, 2008

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PLEASE SEE ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES BEGINNING ON PG 29

LEHMAN BROTHERS

Homebuilding Industry Initiation

Initiating on 8 stocks with a 1-Positive sector rating

Ratings Distribution

1-Overweight
- D.R. Horton (DHI)
- Ryland (RYL)
- Toll Brothers (TOL)

2-Equalweight
- Centex (CTX)
- Lennar (LEN)
- Pulte (PHM)
- KB Homes (KBH)

3-Underweight
- Hovnanian (HOV)

Coverage Summary

Companies	Ticker	Investment Rating	Current Price	Shares Out	Market Cap. (Mil)	Enterprise Value (Mil)	12-Month Target Price	12-Month Potential Appreciation	Street View
D.R. Horton	DHI	1-OW	$15.50	315.0	$4,882	$8,010	$18.00	16.1%	2 OW's, 8 EW's, 3 UW's
Ryland	RYL	1-OW	$28.31	42.2	$1,193	$2,472	$31.00	9.5%	5 OW's, 5 EW's, 1 UW
Toll Brothers	TOL	1-OW	$21.92	157.0	$3,442	$3,314	$27.00	23.2%	3 OW's, 8 EW's, 1 UW
Centex	CTX	2-EW	$23.83	122.3	$2,913	$6,948	$23.00	-3.5%	3 OW's, 7 EW's, 3 UW's
KB Homes	KBH	2-EW	$24.99	77.3	$1,932	$3,525	$24.00	(4.0%)	2 OW's, 7 EW's, 1 UW
Lennar	LEN	2-EW	$18.78	159.9	$3,003	$5,509	$20.00	6.5%	2 OW's, 8 EW's, 3 UW's
Pulte	PHM	2-EW	$14.75	255.9	$3,775	$4,303	$15.00	1.7%	3 OW's, 7 EW's, 3 UW's
Hovnanian	HOV	3-UW	$9.90	62.2	$616	$2,699	$8.00	(19.2%)	0 OW's, 7 EW's, 2 UW's
Average					**$2,719**	**$4,598**		**3.8%**	

Please see page 13 for price target valuation methodologies.
Source: Company reports and Lehman Brothers estimates

Summary of Conclusions

The Good

- Balance Sheets are in Good Shape (Even Assuming More Writedowns)
- Cash Flows Strong
- Affordability Improving
- Long-term Demand is Solid

The Bad

- Writedowns are Not Over – but We Believe the Worst has Passed
  - Valuations still compelling even if our estimates prove conservative

The Ugly

- Oversupply is a Problem – Impact of foreclosures unknown
- 1H08 Will Likely Be Tough – Stabilization is Key

Conclusion: Homebuilding stocks likely to remain choppy in the 3 to 6 months with news flow mixed. But we expect stabilization in the industry in the back half of the year, leading to stock price appreciation.

Homebuilding Industry – Major Macro Assumptions

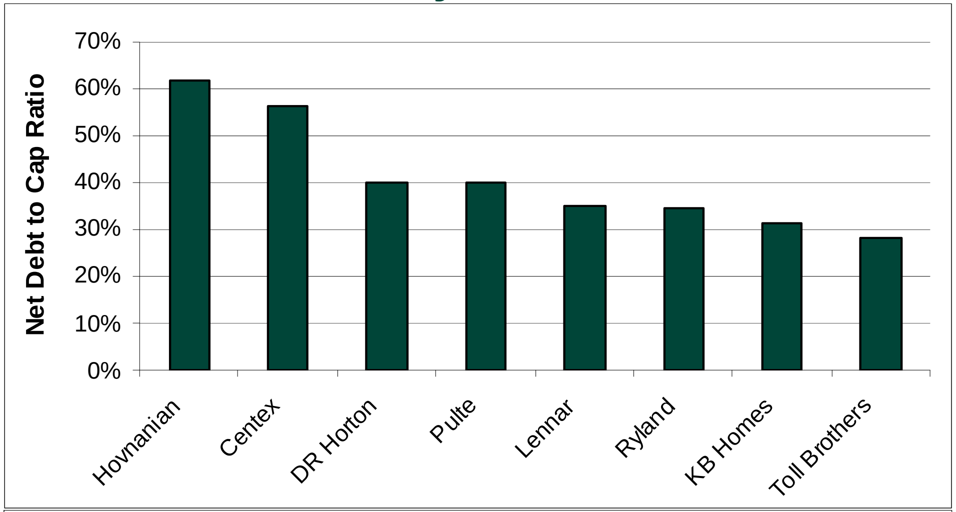
Lehman Brothers Equity Research Forecast for Homebuilding	1Q08E	2Q08E	3Q08E	4Q08E	Inflection Point	2007	2008E	2009E
New Home Sales, saar	**598**	**584**	**607**	**617**	**3Q08**	773	**601**	**649**
Y-o-y Growth	**(29.9)%**	**(31.7)%**	**(16.9)%**	**(5.8)%**	**(Sequential**	(26.1)%	**(22.2)%**	**8.0%**
Sequential growth	**(8.6)%**	**(2.4)%**	**4.0%**	**1.6%**	**Growth)**			
New Home Median Price (Avg)	**$238,018**	**$228,950**	**$233,770**	**$224,652**	**1Q09**	$242,383	**$231,348**	**$229,124**
Y-o-y Growth	**(7.0)%**	**(5.0)%**	**(3.0)%**	**(3.0)%**	**(Flat YoY Growth)**	(0.3)%	**(4.6)%**	**0.0%**
Starts	762	758	792	799	**3Q09**	1,051	778	855
Y-o-y Growth	**(35.0)%**	**(35.0)%**	**(20.0)%**	**(9.0)%**	**(Positive**	**(28.7)%**	**(26.0)%**	**10.0%**
Sequential growth	(13.2)%	(0.5)%	4.5%	0.8%	**YoY Growth)**			
Foreclosures							1.5 - 2 million	
Mortgage Rates	6.1%	6.1%	6.2%	6.2%			6.2%	6.4%
Median Income ($000s)	$60.1	$60.5	$60.9	$61.3		$59.2	$60.7	$62.2
Y-o-y Growth	2.5%	2.5%	2.5%	2.5%			2.5%	2.5%
Implied Payment as % of Income	23.0%	22.0%	22.6%	21.5%				

Source: Company reports and Lehman Brothers estimates

The Good…Balance Sheets and Cash Flow

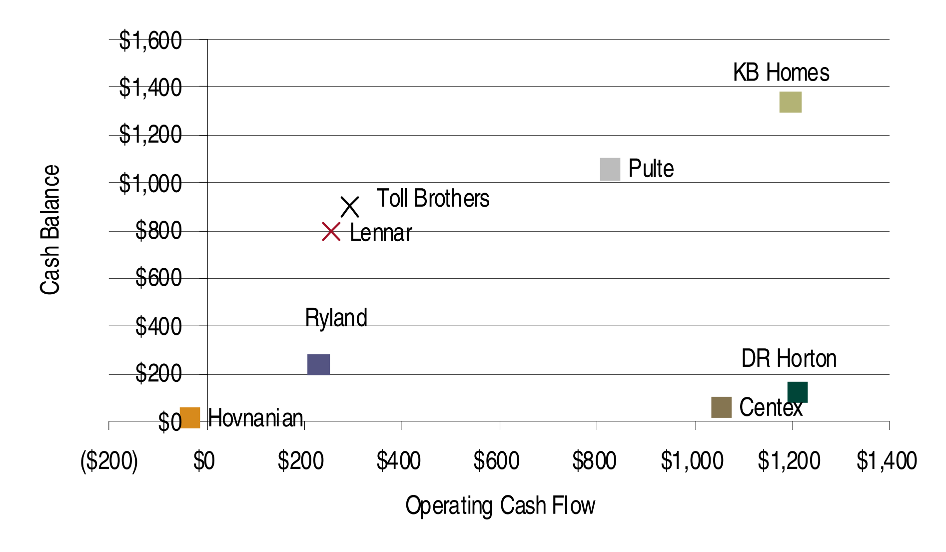
Balance Sheets are Healthy - Key to Near-Term Stability and Future Growth

- ◆Average net debt/cap of group is 41%
- ◆ Low debt to cap should allow builders to take advantage of land-buying opportunities and maintain strong bank relationships
- ◆ Maturities mostly long term in nature



Builders Generating Cash Flow

- ◆ Half the builders in our coverage have close to or more than $1 billion in cash
- ◆ We are forecasting positive cash flow for all builders in FY08
- ◆ We believe cash flow needs in 2007 may have contributed to some aggressive pricing and land sales



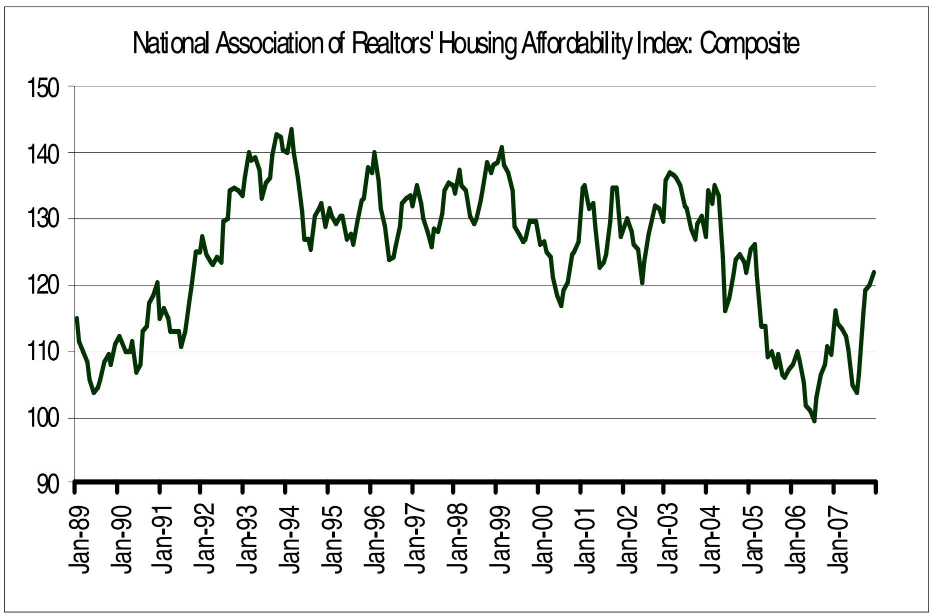
Source: Company reports, Lehman Brothers

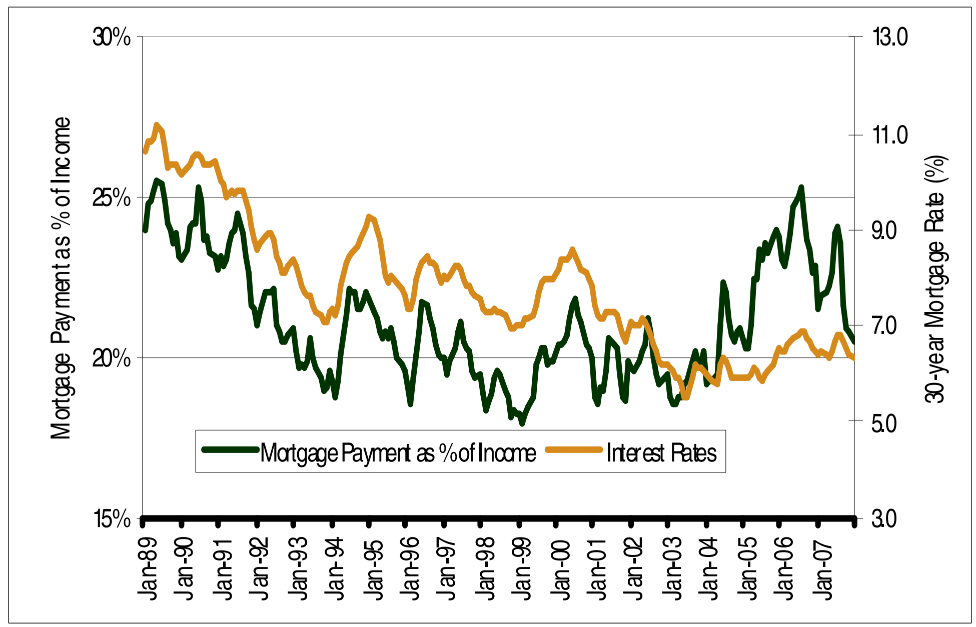
Notes: 1: Debt to Cap calculations exclude LEN's expected tax refund in excess of $800 million in 1Q08. Calendar 1Q08 is typically Centex's largest cash generation quarter; as such, this chart likely overstates its debt to capital ratio.

The Good…Affordability

Affordability & Mortgage Rates Improving

- Affordability improving with lower prices and mortgage rates
  - We estimate mortgage payment as % of income less than 20% from high of just above 25%
  - Mortgage rates have fallen to 5.76% (National 30-year Fixed)
  - Fed easing bias remains
  - Could also help reduce number of foreclosures entering the market





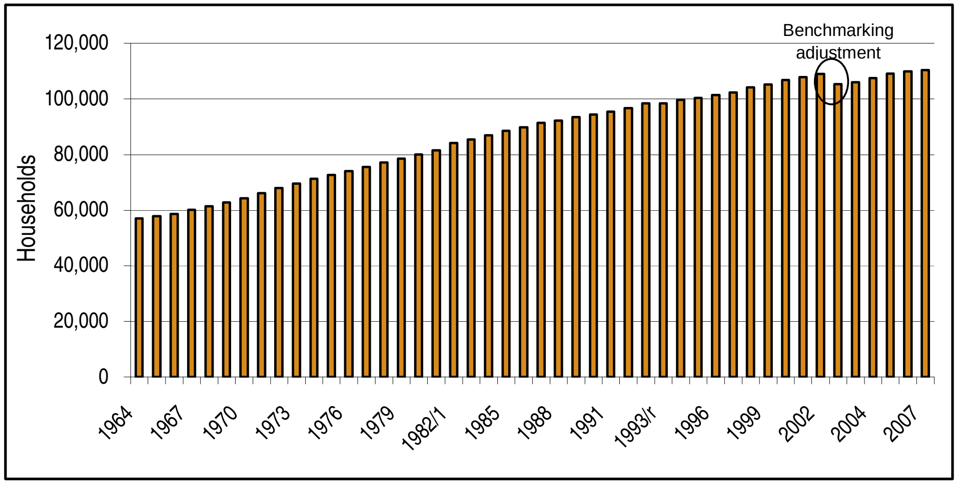
Source: Company reports, Freddie Mac Lender Survey, Lehman Brothers

The Good…Homebuilding Not Going Anywhere

Long-Term Demand Trends Solid

- Household growth, immigration, & population aging are all positives for long-term housing demand.
  - Immigration adding a net of >700,000 people annually to the population between now and 2010
  - Aging of the population should be a benefit to those builders with high exposure to second homes and active adult segments (Toll and Pulte, in particular)
- We estimate annual average demand at 1.1 million new housing units per year.
  - New home sales in 2007 were 775,000

Number of Households in the United States



Long-Term Annual Average Demand for New Housing

Annual Net New Household Formation	1,450
Second home demand	75
Replacement Demand	350
Total New Housing Demand	1,875
Less Multifamily and Manufactured Housing	763
Annual Single Family New Housing Demand	**1,113**

Source: Company reports, Lehman Brothers

The Bad…Writedowns

Writedowns Not Over, Although We Assume the Worst Has Passed

- Our 8 builders have taken $18.1 billion in total charges so far ($13.5 billion inventory related)
  - 22.6% of pre-impairment inventory (excludes non-inventory related charges)
  - 56.5% of pre-impairment shareholders equity
- We are assuming another $5.0 billion in total charges in Calendar 2008 and 2009
  - Further 12% of current inventory
  - Options and goodwill largely written down already
  - **These are taken into account in our price targets**
- However, we believe that valuations are compelling even if we are somewhat too conservative

Sensitivity Analysis on Writedowns

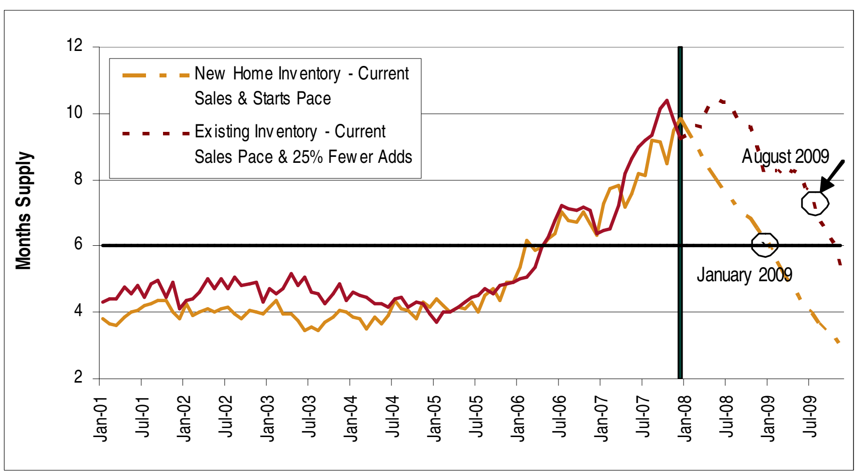
	Writedown of Current Inventory			
	12% Base Case	20%	30%	40%
Total Incremental Charges	$4,932	$8,391	$12,587	$16,782
Total Book Equity (1-yr forward)	$20,960.3	$17,501.3	$13,305.8	$9,110.2
Current Market Cap	$21,755.7	$21,755.7	$21,755.7	$21,755.7
Price to Book	**1.0x**	**1.2x**	**1.6x**	**2.4x**
10-Yr Avg.	1.67x	1.67x	1.67x	1.67x
10-Yr Median	1.65x	1.65x	1.65x	1.65x
10-Yr Max	2.97x (Jul. '05)	2.97x (Jul. '05)	2.97x (Jul. '05)	2.97x (Jul. '05)
10-Yr Min	0.63x (Nov. '07)	0.63x (Nov. '07)	0.63x (Nov. '07)	0.63x (Nov. '07)
Implied Total Writeoffs of Pre-Impairm	30.3%	36.0%	42.9%	49.9%

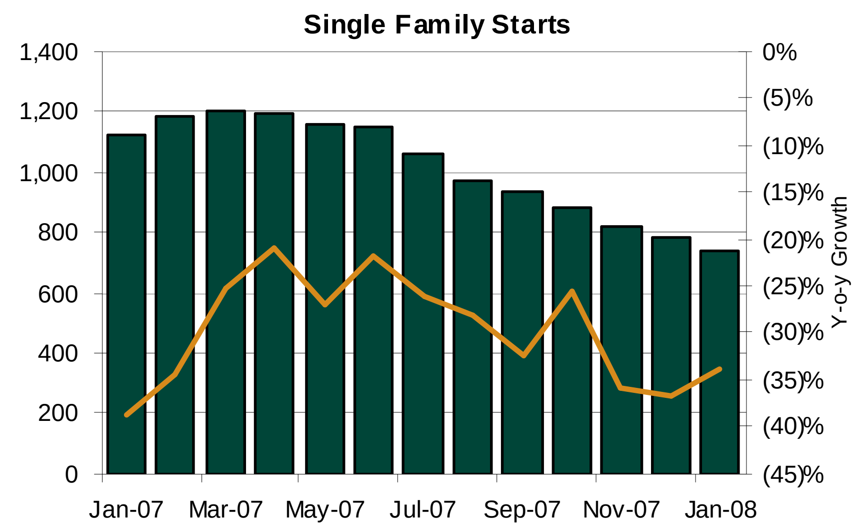
Source: Company reports, Lehman Brothers

The Ugly…Inventories

Oversupply is a Big Problem – The 800,000 Unit Gorilla

- We estimate there to be a minimum of 800,000 excess total housing units on the market today
- **We estimate it could take until January 2009 (new homes) & August 2009 (existing homes) for supply to reach equilibrium levels**
- High inventories mean weaker pricing, and weaker pricing could lead to more writedowns
- Builders are doing what they can and reducing starts and permits
- **Foreclosures are a significant uncertainty** – could be up to 2 million foreclosures in next two years – but how much do they really compete?





Source: Company reports, Lehman Brothers, US Census Bureau

The Ugly…1H08 Will Likely be Challenging

2008 is probably going to be tough:

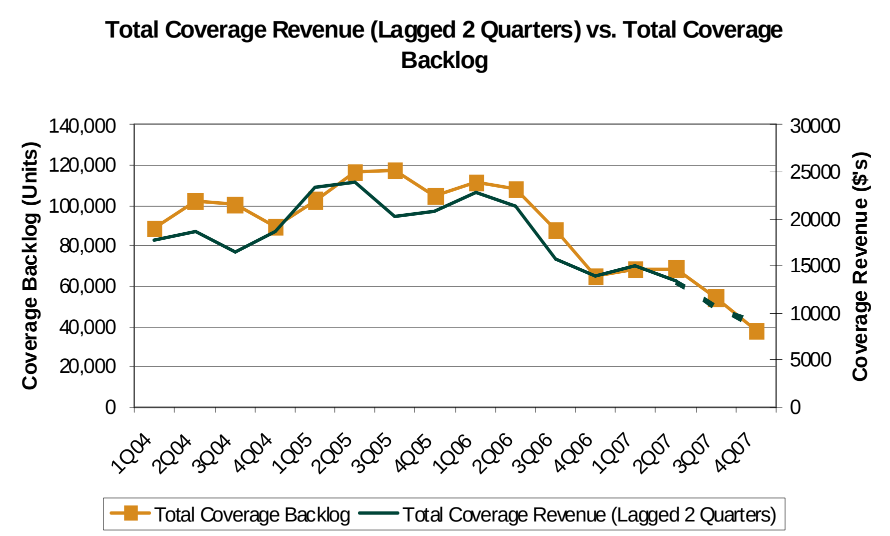
◆ We are forecasting a 22% decline in U.S. new home sales in 2008

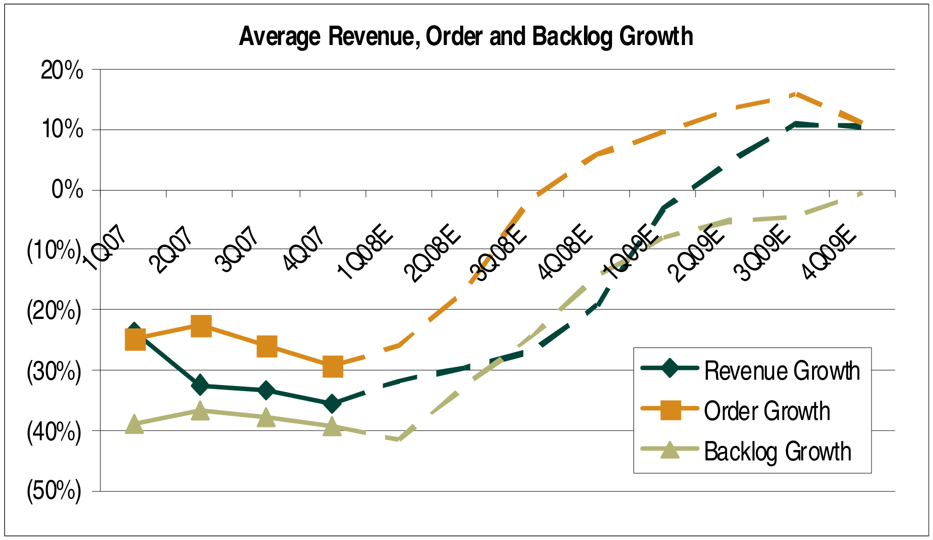
In most recent quarter:

- ◆ Order ASP's down 16%. Pricing appears to be worsening as builders get rid of spec homes
- ◆ Net Orders down 30% and backlog down 41%. From order to closing typically takes about 6

2H08 Should see Stabilization:

- ◆ We look for trends to improve and order growth to turn positive by the end of the year
- ◆ These assumptions driven by: affordability improving (mortgage rates remaining low, new home prices declining slightly), consumer confidence improving

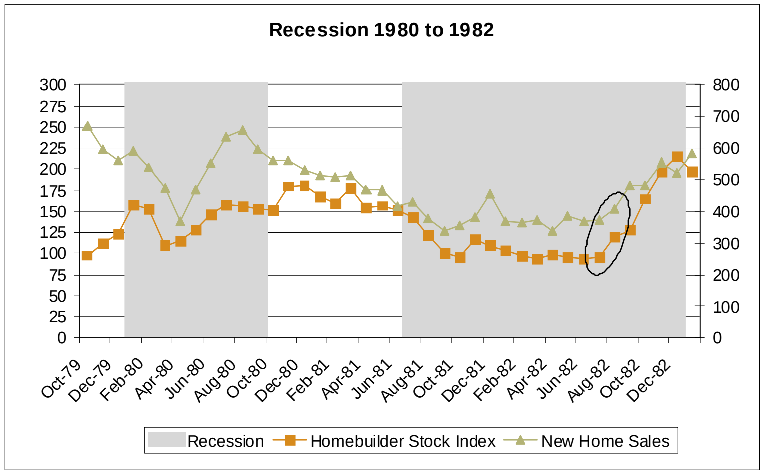


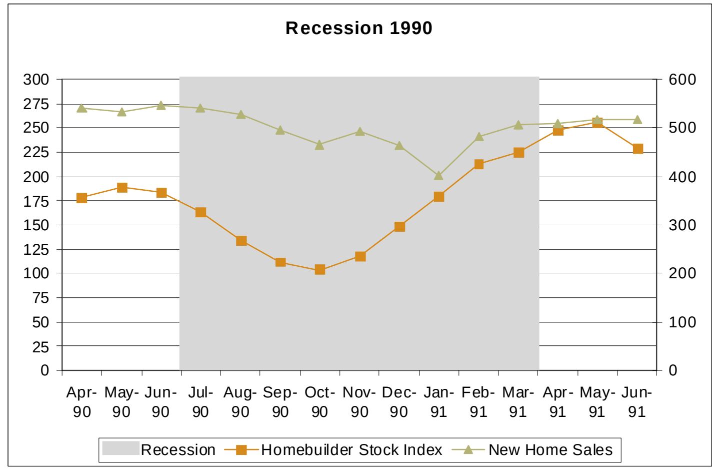


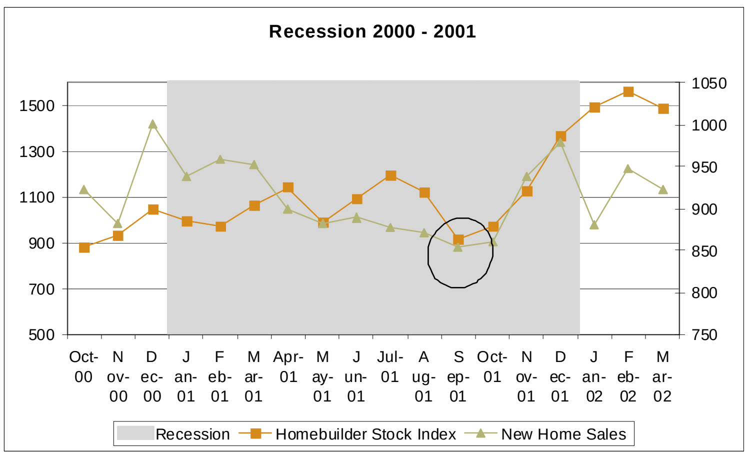
Source: Company reports, Lehman Brothers
Notes:

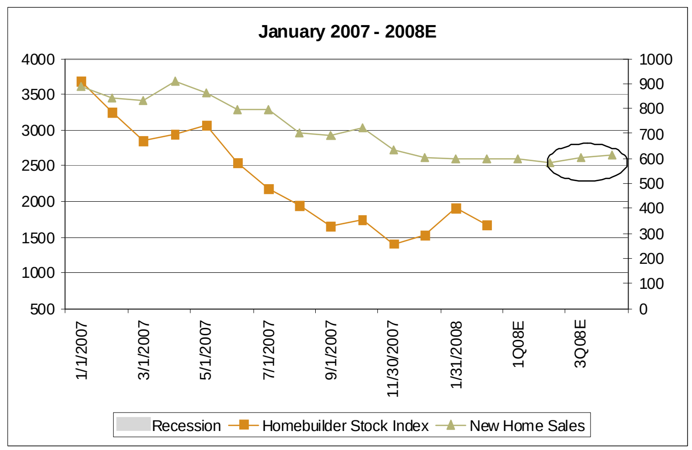
Stabilization is the Key

- Homebuilding stocks typically recover 3-6 months ahead of the end of a recession
- Home sales growth is not necessary – stabilization in trends has been the key





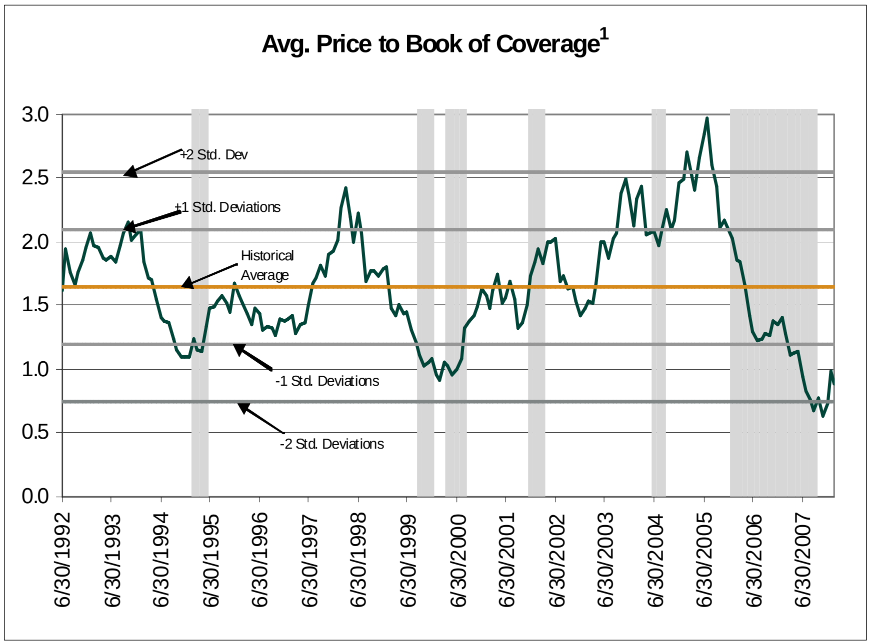




Source: Company reports, Lehman Brothers

Valuation

- Homebuilding stocks currently trading at less than 1.0x 1-year forward projected book value, roughly 39% below historical average (1.64x).
- Directionally, homebuilding stocks are exceptionally highly correlated to each other, but stock picking does matter
  - Annually (& 2008 YTD) Toll and DR Horton (Overweights) have outperformed the group in 4 out of 5 periods. Hovnanian (Underweight) has underperformed in every period
- Short interest in the names is high – over 20% of shares short for half of the builders. Could contribute to volatility



Valuation and Return Summary

	Annual Returns				
	2004	**2005**	**2006**	**2007**	**2008 (YTD)**
DHI	39.8%	18.2%	(25.9)%	(53.5)%	17.7%
RYL	29.8%	25.4%	(24.3)%	(51.7)%	2.8%
TOL	72.6%	1.0%	(7.0)%	(33.3)%	9.3%
CTX	10.7%	20.0%	(21.3)%	(60.2)%	(5.7)%
KBH	44.0%	39.2%	(29.4)%	(49.9)%	15.7%
LEN	18.1%	7.7%	(14.0)%	(61.9)%	5.0%
PHM	36.3%	23.4%	(15.9)%	(60.3)%	39.9%
HOV	13.8%	0.2%	(31.7)%	(72.3)%	38.1%
Average	33.1%	16.9%	(21.2)%	(55.4)%	15.3%

Source: Company reports, Lehman Brothers

Valuation

The Market Has More Than Priced In Downside from Impairments, In Our View

- Since March 2006, the 8 homebuilders in our space have taken $18 billion in total charges
- Book value has declined by $7.3 billion
- Market value has declined by almost $35 billion
- Our price targets include the majority of our $5 billion incremental writedown estimate

Company	Total Charges	Total Inventory Writedowns (3/06 through 12/07)	As a % of Pre-Impairment Inventory	Total Decline in Book Value (Since 3/06)	% Decline	Total Decline in Market Value (Since C1Q06)	% Decline
DHI	$2,261	$1,835	16.9%	$530	(8.9%)	$5,515	(53.1%)
RYL	$747	$657	23.2%	$290	(20.5%)	$2,167	(64.6%)
TOL	$827	$759	12.8%	($430)	13.9%	$2,136	(37.2%)
CTX	$3,103	$2,264	23.4%	$1,815	(36.2%)	$5,066	(63.5%)
KBH	$2,456	$1,619	23.3%	$1,052	(36.2%)	$3,672	(65.5%)
LEN	$3,781	$2,936	32.6%	$1,733	(31.2%)	$6,969	(70.1%)
PHM	$3,800	$2,562	25.2%	$1,863	(30.1%)	$6,297	(62.9%)
HOV	$1,160	$785	17.9%	$520	(28.2%)	$2,234	(78.1%)
Total	**$18,136**	**$13,416**	**22.4%**	**$7,372**	**(23.1%)**	**$34,056**	**(60.9%)**

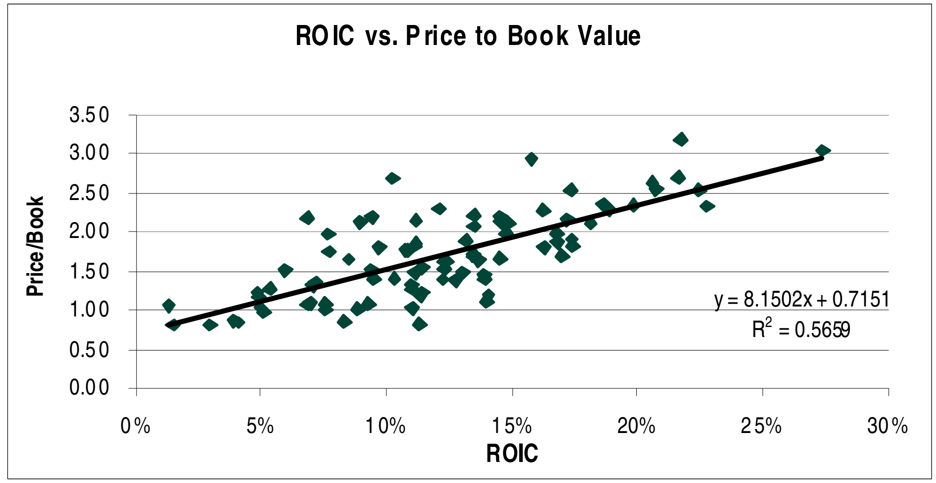
Source: Company reports, Lehman Brothers

Valuation – Price Targets

We use a combination of traditional price to book and ROIC methodology

Price Target Valuation Summary								
	Toll Brothers	D.R. Horton	Ryland	Lennar	Pulte	KB Home	Centex	Hovnanian
10-year historical average P/B multiple	1.77x	1.63x	1.74x	1.97x	1.34x	1.75x	1.63x	1.51x
Market/Individual Risk Factor	(0.20)x	(0.20)x	(0.20)x	(0.40)x	(0.20)x	(0.20)x	(0.20)x	(0.30)x
Balance Sheet Risk Factor	0.00x	0.00x	0.00x	(0.40)x	0.00x	0.00x	(0.10)x	(0.40)x
Adjusted Book Value Multiple	1.57x	1.43x	1.54x	1.17x	1.14x	1.55x	1.33x	0.81x
ROIC Analysis								
Estimated ROIC	2.3%	3.6%	5.0%	1.5%	1.5%	3.1%	2.2%	1.9%
Implied P/B From Regression	0.90x	1.01x	1.12x	0.84x	0.84x	0.97x	0.89x	0.87x
Average Price to Book Multiple	**1.24x**	**1.22x**	**1.33x**	**1.00x**	**0.99x**	**1.26x**	**1.11x**	**0.84x**
Book Value Per Share Estimate (1-yr forward)	$22.19	$14.53	$23.41	$20.34	$14.84	$19.13	$21.12	$9.64
Price Target	**$27.00**	**$18.00**	**$31.00**	**$20.00**	**$15.00**	**$24.00**	**$23.00**	**$8.00**
Current Price	$21.92	$15.50	$28.31	$18.78	$14.75	$24.99	$23.83	$9.90
Potential Upside (downside) to price target	23.2%	16.1%	9.5%	6.5%	1.7%	(4.0)%	(3.5)%	(19.2)%
Current Price/Book Multiple (1-yr forward)	1.0x	1.1x	1.2x	0.9x	1.0x	1.3x	1.1x	1.0x
Lehman Rating	1-OW	1-OW	1-OW	2-EW	2-EW	2-EW	2-EW	3-UW

- We adjust each builder's historical average price to book multiple for market and individual short-term risk factors as well as a balance sheet risk factor.
- We combine this with a return on invested capital analysis. Homebuilders are part asset managers and ROIC has been a good indicator of valuation in the past.



Source: *Company reports, Lehman Brothers*

Company Data Pages

D.R. Horton (DHI)

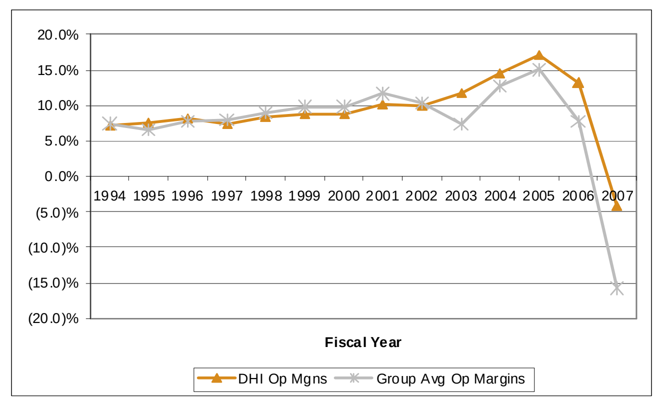
Initiating with a 1-Overweight and $18 Price Target

- Positives:
  - Strong balance sheet – net debt to cap of 40% and low risk of covenant violations (plenty of room on tangible net worth cushion)
  - Historically better operator on the build side as evidenced through above average operating margins
  - At 1.0x book value, stock is well below historical multiple of 1.8x book value (6/95 to present)
- Negatives:
  - Spec count higher than target goal of 30-35% of LTM closings
  - Land supply long at 5.6 years of owned land (NTM basis). Headline risk of future impairments

DHI Model Summary

	3Q07	4Q07	**FY2007**	1Q08E	2Q08E	**FY2008E**
Total Revenues	$2,598.1	$3,172.3	**$11,296.5**	$1,742.6	$1,620.5	**$6,803.8**
YoY Change	0.0%	0.0%	**0.0%**	0.0%	0.0%	**0.0%**
Gross Margins (ex chgs)	(17.8%)	5.3%	**4.8%**	(1.0%)	(10.4%)	**(2.9%)**
Operating Margins	(28.7%)	(4.2%)	**(5.8%)**	(14.3%)	(23.1%)	**(16.2%)**
EPS	($1.59)	($0.10)	**($1.14)**	($0.41)	($0.70)	**($1.97)**
Total Closings	9,643	11,733	**41,370**	6,549	5,631	**5,611**
YoY Change	(32.8%)	(41.5%)	**(29.1%)**	(48.6%)	(33.0%)	**(20.0%)**
Net Orders	8,559	6,374	**33,687**	4,245	6,606	**24,980**
YoY Change	(40.2%)	(38.9%)	**(35.2%)**	(51.6%)	(33.8%)	**(25.8%)**
Cancel Rate	38.0%	48.0%	**37.4%**	44.0%	40.0%	**38.1%**
Backlog	15,801	10,442	**10,442**	8,138	7,781	**7,341**
YoY Change	(36.7%)	(42.4%)	**(42.4%)**	(51.3%)	(53.9%)	**(29.7%)**
Total Charges	$1,277.6	$318.6	**$1,755.1**	$245.5	$350.0	**$1,055.5**

Operating margins have historically outperformed group. DHI Avg (ex '07) is 9.6% vs. 7.7% (group).



Source: Company reports, Lehman Brothers

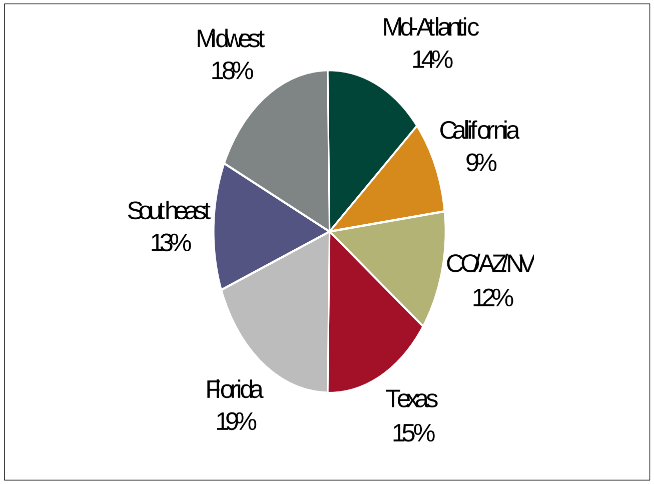
Ryland (RYL)

Initiating with a 1-Overweight and $31 Price Target

- Positives:
  - Healthy balance sheet – net debt to cap of 35% and lower land supply than most
  - Conservative, returns based approach to asset management. We expect this approach to continue to be rewarded by investors
  - Could return to share buybacks sooner than others
- Negatives:
  - May show less growth than others in a meaningful upturn

Ryland's inventory $'s are exceptionally well diversified. Company exposure to California (one of the most troubled markets in the U.S) is among lowest in group.

RYL Model Summary	3Q07	4Q07	FY2007	1Q08E	2Q08E	FY2008E
Total Revenues	$732.3	$854.1	**$3,032.6**	$536.7	$671.3	**$2,590.1**
YoY Change	(35.2%)	(36.9%)	**(36.3%)**	(24.0%)	(9.2%)	**(14.6%)**
Gross Margins (ex chgs)	17.7%	14.1%	**17.3%**	14.0%	15.5%	**15.7%**
Operating Margins	(12.9%)	(24.1%)	**(13.9%)**	(29.5%)	(2.8%)	**(6.4%)**
EPS	($1.30)	($4.81)	**($7.92)**	($2.41)	($0.29)	**($2.51)**
Total Closings	2,495	3,061	**10,319**	1,821	2,286	**8,995**
YoY Change	(32.3%)	(29.6%)	**(33.0%)**	(20.9%)	(7.1%)	**(12.8%)**
Net Orders	1,876	1,596	**8,982**	2,432	2,022	**8,008**
YoY Change	(20.9%)	(7.1%)	**(19.3%)**	(18.6%)	(19.8%)	**(10.8%)**
Cancel Rate	43.0%	46.0%	**36.9%**	35.0%	38.0%	**36.2%**
Backlog	4,334	2,869	**2,869**	3,480	3,216	**1,882**
YoY Change	(36.6%)	(31.8%)	**(31.8%)**	(28.9%)	(35.1%)	**(34.4%)**
Total Charges	$128.1	$317.8	**$673.9**	$150.0	$50.0	**$260.0**



Source: Company reports, Lehman Brothers

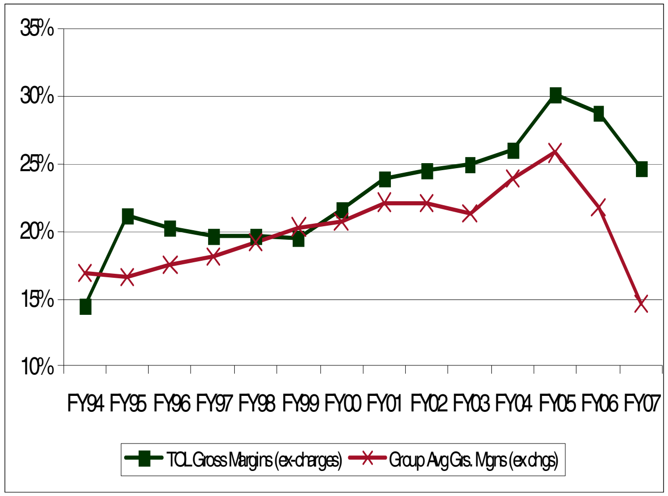
Toll Brothers (TOL)

Initiating with a 1-Overweight and $27 Price Target

- Positives:
  - Healthy balance sheet – net debt to cap of 28%
  - Historically high margins (still healthy). Average operating margins of 12.1% from FY94 to present
  - Returns consistently exceed WACC
  - At 0.9x trading well below historical multiple of 2.0x book value
- Negatives:
  - Very high land supply (nearly 12 years of land controlled on NTM basis)

TOL's gross margins have outperformed the group with only 2 exceptions since FY94. Company average (ex chgs) is 22.8% vs. group average of 20.1%

TOL Model Summary	3Q07	4Q07	FY2007	1Q08E	2Q08E	FY2008E
Total Revenues	$1,212.4	$1,169.3	**$4,647.0**	$875.2	$776.9	**$3,365.7**
YoY Change	291.5%	712.8%	**45.4%**	(25.4%)	12.0%	**(18.2%)**
Gross Margins (ex chgs)	11.1%	2.2%	**11.2%**	(8.1%)	7.7%	**6.4%**
Operating Margins	3.7%	(10.4%)	**1.5%**	(19.0%)	(4.2%)	**(4.9%)**
EPS	$0.00	$0.00	**$0.00**	$0.00	$0.00	**$0.00**
Total Closings	1,792	1,650	**6,687**	1,208	1,132	**4,932**
YoY Change	(16.9%)	(34.1%)	**(22.3%)**	(22.5%)	(32.9%)	**(26.2%)**
Net Orders	1,107	670	**4,288**	647	1,259	**3,604**
YoY Change	(22.7%)	(32.9%)	**(28.2%)**	(26.3%)	(22.9%)	**(16.0%)**
Cancel Rate	23.9%	38.9%	**26.8%**	28.4%	22.0%	**23.1%**
Backlog	4,847	3,867	**3,867**	3,306	3,433	**2,539**
YoY Change	(36.6%)	(37.0%)	**(37.0%)**	(35.4%)	(37.9%)	**0.0%**
Total Charges	$147.3	$314.9	**$687.8**	$275.0	$125.0	**$575.0**



Source: Company reports, Lehman Brothers

Hovnanian (HOV)

Initiating with a 3-Underweight and $8 Price Target

- Positives:
  - Thus far, HOV has received a waiver on its credit facility after violating covenants
- Negatives:
  - High balance sheet risk:
    - Net debt to cap of 62%
    - Almost no cash – expects to be a net borrower in 1H08
    - Negative cash flow generated per unit closed in last twelve months
  - Higher ASP makes for added exposure to affordability issues

Hovnanian looks troubled from a balance sheet perspective.

HOV Model Summary

	3Q07	4Q07	**FY2007**	1Q08E	2Q08E	**FY2008E**
Total Revenues	$1,130.6	$1,391.9	**$4,798.9**	$810.9	$839.5	**$3,423.6**
YoY Change	21.7%	55.3%	**(9.0%)**	266.6%	(30.9%)	**(25.5%)**
Gross Margins (ex chgs)	10.4%	43.7%	**38.3%**	25.0%	25.0%	**25.0%**
Operating Margins	0.0%	0.0%	**0.0%**	0.0%	0.0%	**0.0%**
EPS	($1.27)	($7.42)	**($10.11)**	($4.49)	($1.87)	**($8.64)**
Total Closings	3,179	3,969	**13,564**	2,313	2,511	**10,013**
YoY Change	(31.2%)	(19.3%)	**(24.4%)**	(29.2%)	(20.3%)	**(26.2%)**
Net Orders	2,539	2,781	**11,006**	1,789	2,337	**9,123**
YoY Change	(24.2%)	(10.3%)	**(20.0%)**	(30.4%)	(25.0%)	**(17.1%)**
Cancel Rate	35.0%	40.0%	**35.8%**	45.0%	40.0%	**38.5%**
Backlog	7,126	5,938	**5,938**	5,414	5,240	**5,047**
YoY Change	(30.9%)	(30.1%)	**(30.1%)**	(30.6%)	(32.5%)	**(15.0%)**
Total Charges	$108.6	$590.5	**$832.5**	$350.0	$100.0	**$550.0**

Hovnanian Balance Sheet Summary

	October 2007
Total Company	
Cash	$16.2
Total Debt	$2,332.4
Shareholders Equity	$1,321.8
Debt to Cap	63.8%
Net Debt to Cap	63.7%
Homebuilding	
Homebuilding Debt	$2,161.3
Debt to Cap	62.1%
Net Debt to Cap	62.0%

Source: Company reports, Lehman Brothers

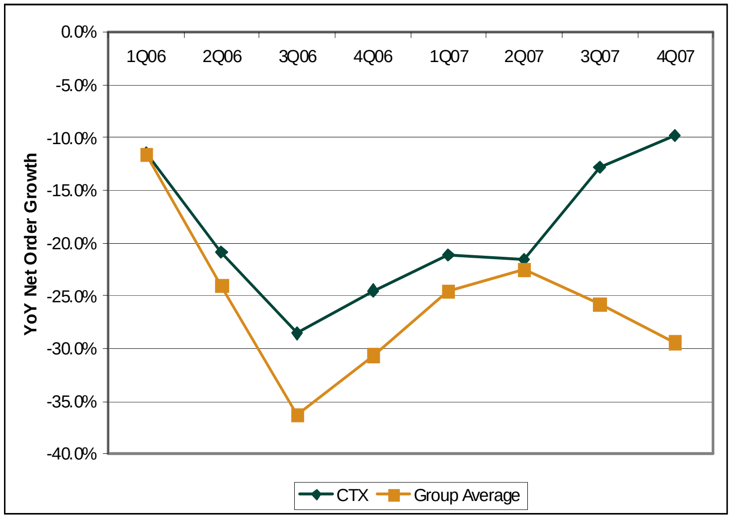
Centex (CTX)

Initiating with a 2-Equalweight and $23 Price Target

- Positives:
  - Relatively new CFO dedicated to a returns-based, asset light business model going forward
  - Aggressive "transparent" pricing may help volumes near-term
- Negatives:
  - Despite balance sheet first focus, net debt to cap 2nd highest in coverage at 56% - should improve meaningfully after next quarter
  - Revenue declined 42% in C2007 (2nd worst in coverage)
  - Returns well below WACC for the last 3 fiscal years

CTX's order trends have outperformed the group average over the last 8 quarters

CTX Model Summary	2Q08	3Q08	4Q08E	**FY2008E**	1Q09E	**FY2009E**
Total Revenues	$2,220.9	$1,906.1	$2,904.6	**$8,973.1**	$1,583.4	**$7,463.9**
YoY Change	(20.7%)	(28.9%)	(17.2%)	**(23.8%)**	(17.0%)	**(16.2%)**
Gross Margins (ex chgs	(2135.1%)	(2308.9%)	(839.9%)	**(1416.4%)**	(669.0%)	**(346.4%)**
Operating Margins	0.0%	0.0%	0.0%	**0.0%**	0.0%	**0.0%**
EPS	($5.26)	($7.94)	($1.68)	**($16.00)**	($1.13)	**($1.94)**
Total Closings	7,350	6,657	9,226	**29,328**	5,497	**26,014**
YoY Change	(13.8%)	(20.4%)	(12.8%)	**(18.0%)**	(9.8%)	**(11.3%)**
Net Orders	5,953	5,537	6,758	**24,722**	5,503	**23,783**
YoY Change	(12.8%)	(9.8%)	(13.7%)	**(14.9%)**	(15.0%)	**(3.8%)**
Cancel Rate	35.4%	33.0%	33.0%	**33.1%**	32.0%	**32.3%**
Backlog	9,633	8,513	6,045	**6,045**	8,640	**6,404**
YoY Change	(38.3%)	(36.5%)	(43.2%)	**(43.2%)**	(21.7%)	**5.9%**
Total Charges	$983.1	$1,119.2	$350.0	**$2,644.9**	$150.0	**$375.0**



Source: Company reports, Lehman Brothers

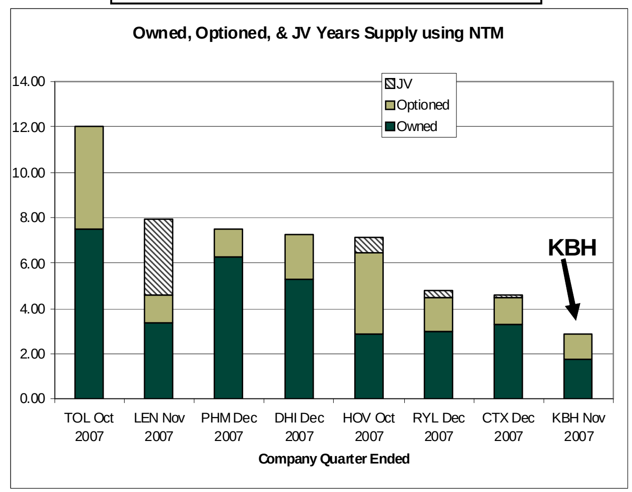
KB Homes (KBH)

Initiating with a 2-Equal weight and $24 Price Target

- Positives:
  - Healthy balance sheet – net debt to cap of 32% and $1.3 billion in cash
  - Lowest supply of controlled land in coverage at 2.6 years (1.6 owned)
- Negatives:
  - Operating margins have been below group average over the last 3 calendar years
  - At 1x book value, currently receiving one of the highest valuations in the group

KBH has the shortest land supply in our coverage. Using an estimated NTM closings, we calculate KBH owns and controls a mere 2.85 years of land.

KBH Model Summary	3Q07	4Q07	FY2007	1Q08E	2Q08E	FY2008E
Total Revenues	$1,543.9	$2,070.6	**$6,794.9**	$1,087.7	$934.4	**$4,847.0**
YoY Change	(32.4%)	(31.2%)	**(38.2%)**	(38.5%)	(33.9%)	**(28.7%)**
Gross Margins (ex chgs)	10.9%	8.2%	**12.0%**	9.0%	9.5%	**10.6%**
Operating Margins	(42.5%)	(15.8%)	**(17.6%)**	(24.9%)	(17.3%)	**(10.6%)**
EPS	($6.19)	($9.99)	**($17.97)**	($2.18)	($1.26)	**($3.85)**
Total Closings	5,699	8,132	**23,743**	4,302	3,506	**18,962**
YoY Change	(27.8%)	(21.7%)	**(26.1%)**	(16.2%)	(26.6%)	**(20.1%)**
Net Orders	3,907	2,574	**19,490**	4,102	6,074	**17,220**
YoY Change	(6.2%)	(31.6%)	**(13.2%)**	(28.6%)	(16.4%)	**(11.6%)**
Cancel Rate	50.0%	58.0%	**41.4%**	44.0%	38.0%	**38.4%**
Backlog	11,880	6,322	**6,322**	6,122	8,691	**4,581**
YoY Change	(30.9%)	(40.2%)	**(40.2%)**	(45.3%)	(36.4%)	**(27.5%)**
Total Charges	$798.0	$917.6	**$1,958.5**	$175.0	$100.0	**$325.0**



Source: Company reports, Lehman Brothers

Lennar (LEN)

Initiating with a 2-Equalweight and $20 Price Target

- Positives:
  - Aggressive pricing of inventory has likely helped current land position and helped capture tax benefits at an accelerated pace
  - Balance sheet focus, consistently generates positive cash flow (even while growing), and has $642 million in cash (excluding $850 million tax refund expected in 1Q08)
- Negatives:
  - Largest exposure to joint ventures in coverage
  - Highest cumulative total charges (as % of pre-impairment inventory)
  - 2nd highest land supply (including JV lots)

LEN has the largest exposure to joint ventures in our coverage.

	LEN
Reported Balance Sheet	
Total Cash	$795.2
Total Debt	$2,836.9
Total Shareholder's Equity	$3,822.1
Reported Data on Joint Ventures	
# of JV's	210
Total JV Debt	$5,116.7
Total JV Equity	$2,739.5
Reported Share of Equity	$934.3
Reported Share of Debt	$794.9
Maximum Liability	$1,033.6
JV Debt to Cap	65.1%
Additional Off-Balance Sheet Commitments, Liabilities, and	
Pledged Letters of Credit	$814.4
Liabilities for Inventory Not Owned	$719.1
Specific Performance Options	$0.0
Other	$0.0
Total Off-Balance Sheet	**$2,567.1**
Debt to Cap Ratios	
As Reported on Consolidated Balance Sheets	
Net Debt to Cap	34.8%
All Share of JV Debt & Liabilities and 75% of Equity Share	
Net Debt to Cap	40.5%
All JV Debt, All other Off-B/S Liabilities, and 75% of JV Equi	
Net Debt to Cap	65.8%

LEN Model Summary	3Q07	4Q07	FY2007	1Q08E	2Q08E	FY2008E
Total Revenues	$2,341.9	$2,176.9	**$10,186.8**	$1,379.5	$1,371.3	**$5,650.5**
YoY Change	(44.4%)	(50.5%)	**(36.3%)**	(51.8%)	(53.6%)	**(45.2%)**
Gross Margins (ex chgs)	14.0%	12.1%	**13.9%**	12.0%	12.0%	**13.0%**
Operating Margins	(29.8%)	(69.8%)	**(25.8%)**	(27.3%)	(18.3%)	**(16.3%)**
EPS	($3.25)	($7.92)	**($12.98)**	($1.33)	($1.01)	**($3.49)**
Total Closings	7,266	6,810	**31,582**	4,535	4,547	**18,681**
YoY Change	0.0%	0.0%	**0.0%**	0.0%	0.0%	**0.0%**
Net Orders	5,572	4,638	**24,662**	4,157	5,793	**19,619**
YoY Change	0.0%	0.0%	**0.0%**	0.0%	0.0%	**0.0%**
Cancel Rate	32.0%	33.0%	**30.5%**	35.0%	33.0%	**31.6%**
Backlog	5,817	3,645	**3,645**	3,267	4,513	**4,583**
YoY Change	(60.4%)	(64.5%)	**(64.5%)**	(62.6%)	(39.9%)	**25.7%**
Total Charges	$879.6	$1,863.5	**$3,163.8**	$245.0	$100.0	**$475.0**

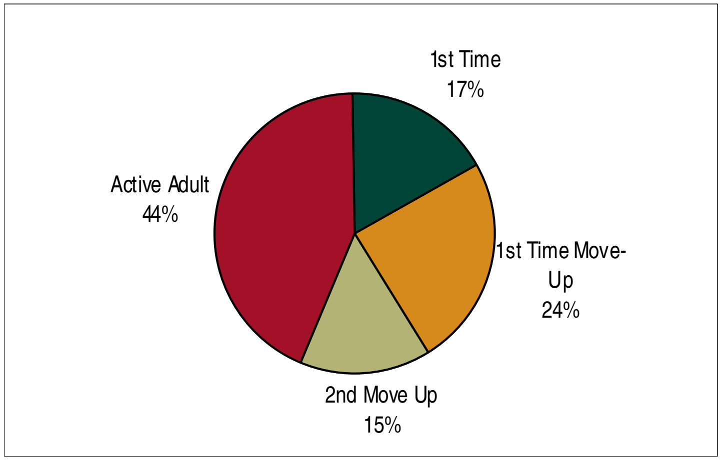
Source: Company reports, Lehman Brothers

Pulte (PHM)

Initiating with a 2-Equalweight and $15 Price Target

- Positives:
  - Balance sheet stable: net debt to cap ratio has stayed around 40% (company target) during most recent downturn and over $1 billion in cash
  - Nearly half of business in active adult (Del Webb) which may prove to be a more stable buyer-type
- Negatives:
  - Nearly $3.2 billion in charges is largest (in total dollars [2nd as a % of pre-impairment inventory]) in coverage
  - Focus on brand may cost more than it produces

PHM has the largest exposure to the Active Adult business at an estimated 44% of the company's buyers.



PHM Model Summary	3Q07	4Q07	FY2007	1Q08E	2Q08E	FY2008E
Total Revenues	$2,471.8	$2,898.6	**$9,263.1**	$1,455.6	$1,310.8	**$6,605.8**
YoY Change	(31.2%)	(35.0%)	**(36.4%)**	(22.4%)	(34.2%)	**(29.0%)**
Gross Margins (ex chgs)	(257.3%)	(72.6%)	**(74.1%)**	(110.0%)	(123.1%)	**(69.2%)**
Operating Margins	0.0%	0.0%	**0.0%**	0.0%	0.0%	**0.0%**
EPS	($3.12)	($3.54)	**($9.02)**	($1.05)	($0.82)	**($2.45)**
Total Closings	7,468	8,714	**27,540**	4,649	4,202	**21,019**
YoY Change	(28.5%)	(30.7%)	**(33.6%)**	(14.2%)	(29.2%)	**(23.7%)**
Net Orders	4,582	4,562	**25,175**	6,327	5,712	**20,857**
YoY Change	(37.2%)	(29.2%)	**(25.8%)**	(25.6%)	(24.2%)	**(17.2%)**
Cancel Rate	44.0%	40.0%	**32.7%**	31.0%	35.0%	**35.0%**
Backlog	12,042	7,890	**7,890**	9,568	11,078	**7,728**
YoY Change	(26.5%)	(23.1%)	**(23.1%)**	(28.2%)	(25.8%)	**(2.1%)**
Total Charges	$1,177.7	$1,125.4	**$3,184.6**	$350.0	$225.0	**$775.0**

Source: Company reports, Lehman Brothers

How Are We Differentiated?

Valuation/ROIC

- Focus on builders as both operators and asset managers

Positive Sector Rating

- Street Consensus is a Hold

Balance Sheet Focus

- Will likely be Key to Builders' Growth After Recovery
- Balance Sheet Issues/Liquidity Top on Investors Minds
- JV Sensitivity Analysis

Models

- Over 15+ Years of Historical Financial Statements for Each Company

Summary of Conclusions

Conclusion: Homebuilding stocks likely to remain choppy in the near-term with news flow mixed. But we expect stabilization in the industry in the back half of the year, leading to stock price appreciation.

Positives:

- Strong balance sheets and cash flows
- Affordability improving
- Solid long-term demand

Risks:

- High inventory levels
- Headline risk on results, especially in 1H08

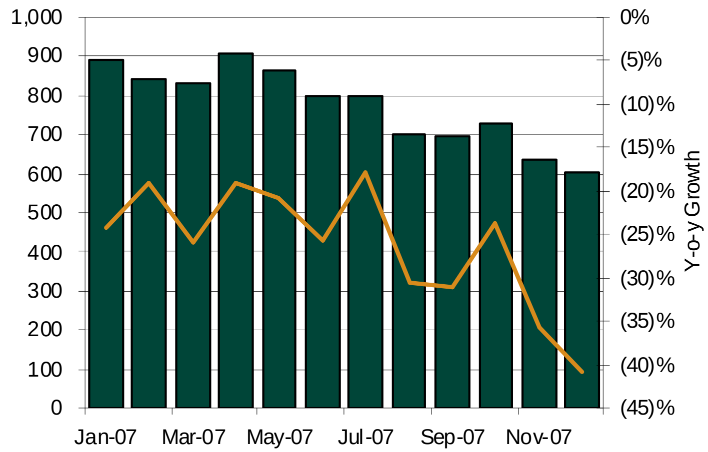
Top Picks:

- Toll Brothers
- Ryland
- D.R. Horton

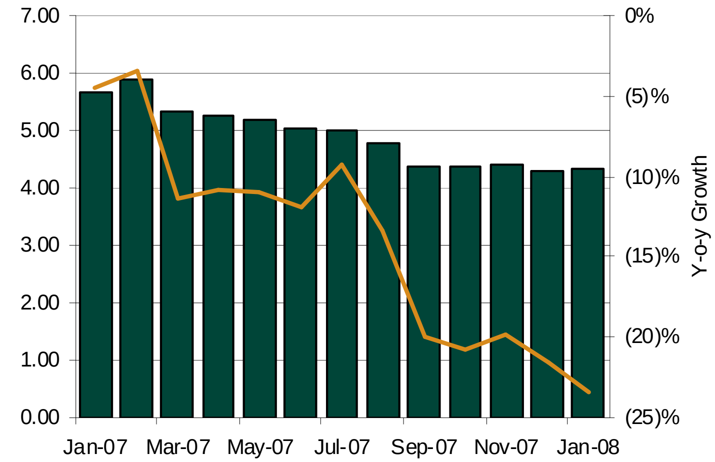
Appendix: INDUSTRY SNAPSHOT

Appendix – Industry Snapshot

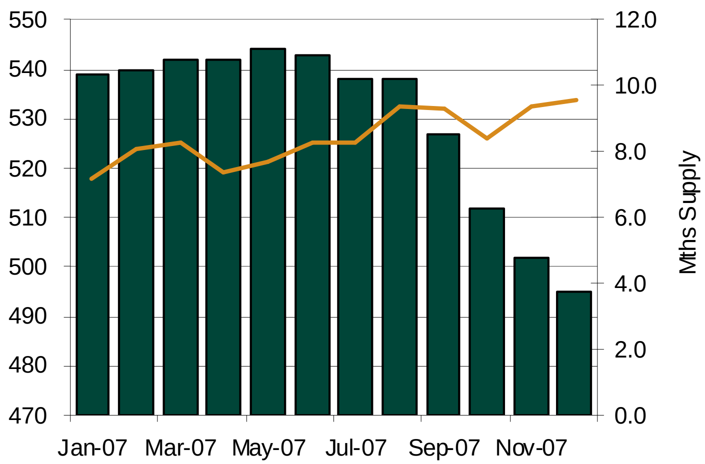
New Home Sales (Units)



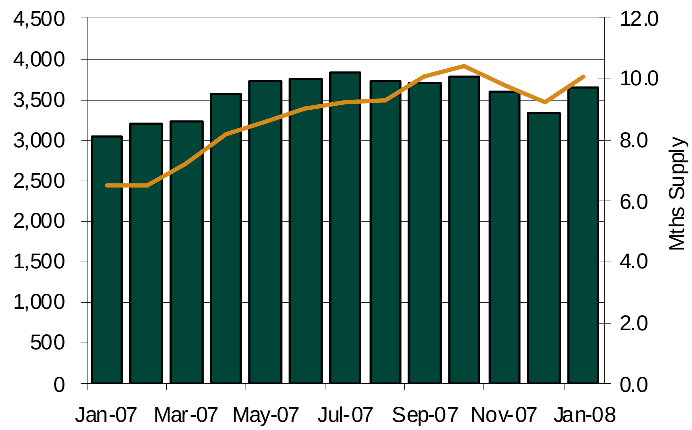
Existing Home Sales (Units)[1]



New Home Inventory (Units & Months Supply)[1]



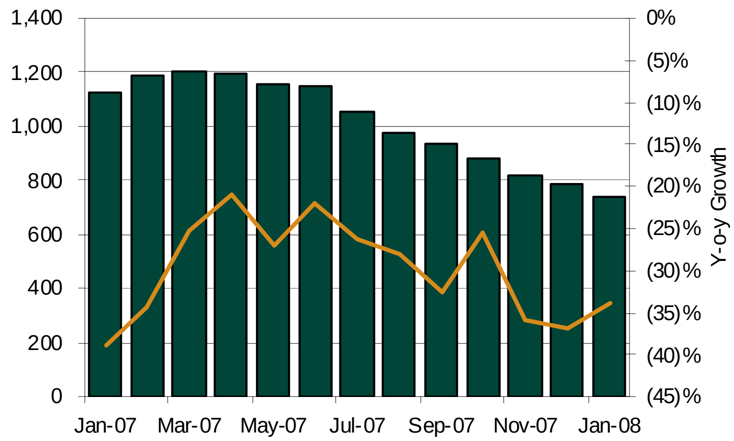
Existing Home Inventory (Units & Months Supply)[1]



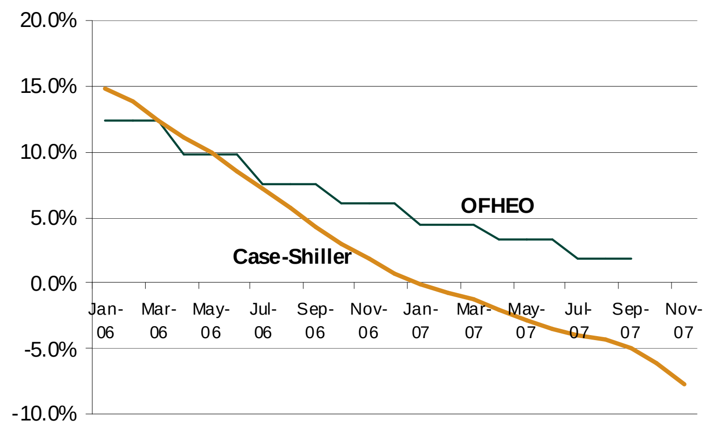
Source: Company reports, Lehman Brothers
Notes: 1: represents single-family units exclusively

Appendix – Industry Snapshot

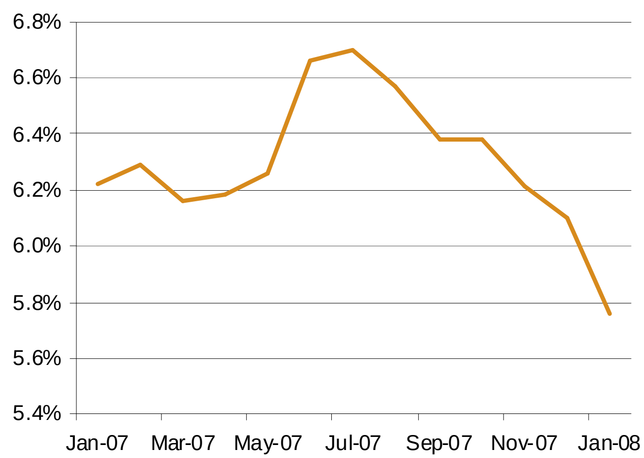
Starts



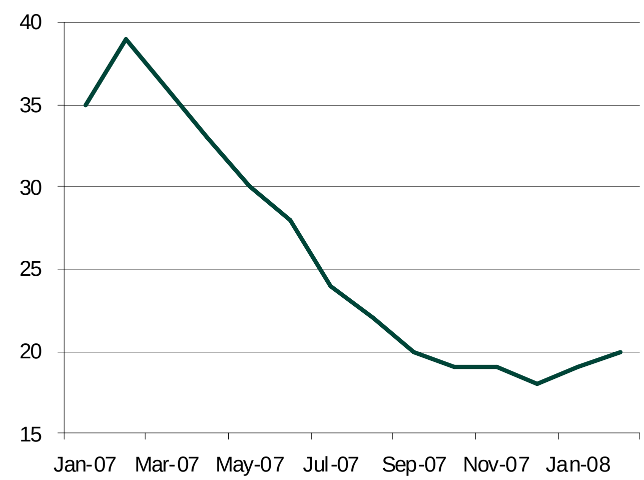
Existing Home Prices Growth



Mortgage Rates



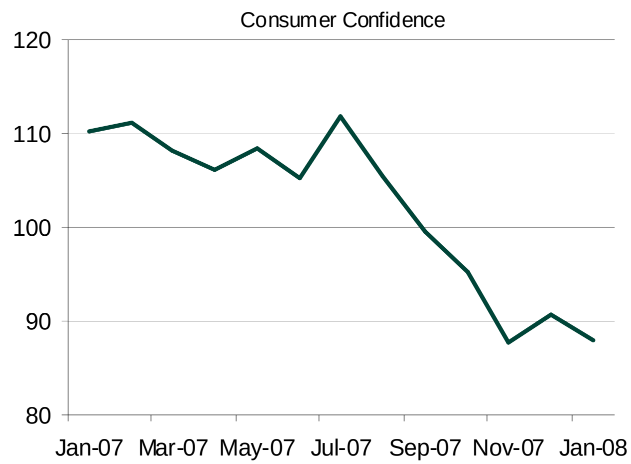
NAHB/Wells Fargo Housing Market Index



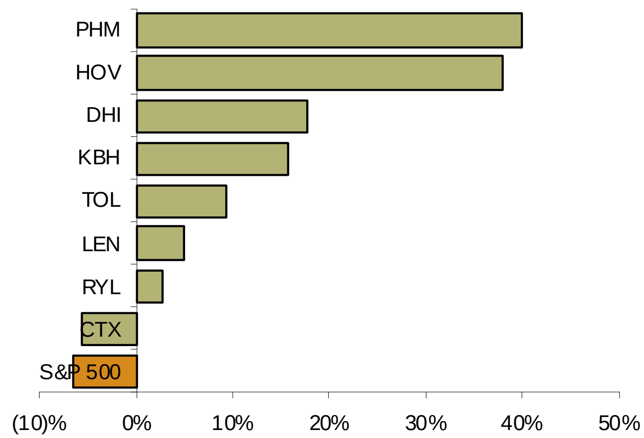
Source: Company reports, Lehman Brothers
Notes: 1: represents single-family units exclusively

Appendix – Industry Snapshot

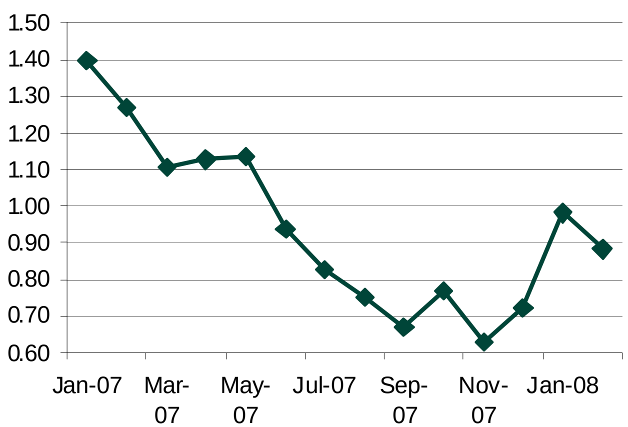
Consumer Confidence



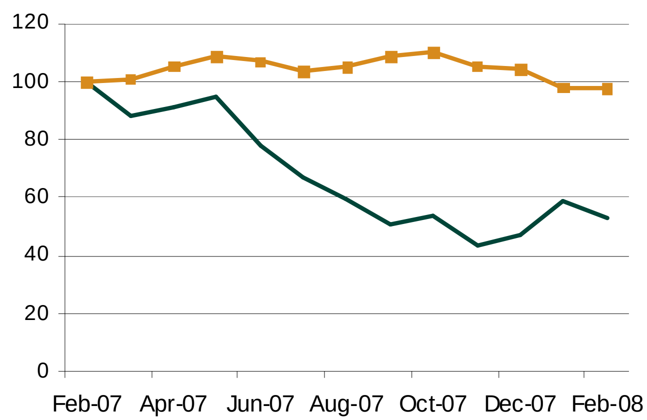
Performance of Stocks YTD[2]



Homebuilding Price/Book[2]



Homebuilding Composite vs. S&P 500 (LTM)[2]



Source: Company reports, Lehman Brothers
Notes: 1: represents single-family units exclusively
2: As of market close on 2/25/08

Other Considerations, Continued

Peak to Trough – We Are In Uncharted Waters

Peak to Trough Declines & Data for Selected Metrics								
	Starts		Permits		New Home Sales		Existing Home Sales	
Cycle	Decline	Low	Decline	Low	Decline	Low	Decline	Low
1973-1975	(53.4)%	667	(54.2)%	527	(49.9)%	422	(10.8)%	2,230
1978-1982	(64.5)%	541	(67.2)%	411	(61.1)%	339	(54.5)%	1,890
1988-1991	(52.9)%	604	(50.9)%	587	(53.2)%	401	(29.5)%	2,630
Average:	**(56.9)%**	**604**	**(57.4)%**	**508**	**(54.8)%**	**387**	**(31.6)%**	**2,250**
Avg time (mths) peak to trough		37		38		42		38
2005-December 2007	(59.6)%	743	(62.6)%	673	(55.8)%	604	(31.9)%	4,310

Source: Company reports, Lehman Brothers

Other Considerations, Continued

Important Ratios and Data Points

	DHI	LEN	CTX	PHM	KBH	HOV	RYL	TOL	Total/Average
Net Debt to Cap	39.9%	34.8%	56.4%	39.8%	31.1%	61.5%	34.6%	27.9%	40.8%
Years Supply, NTM (Includes Owned, Optioned, and JV)	7.3	8.0	4.6	7.5	2.8	7.1	4.8	12.0	6.8
Total Charges to Date	$2,260.7	$3,781.2	$3,103.3	$3,800.4	$2,455.7	$1,160.4	$747.1	$826.7	$18,135.6
Inventory Impairments as % of Pre-Impairment	16.9%	32.6%	23.4%	25.2%	23.3%	17.9%	23.2%	12.8%	21.9%
Joint Venture Exposure/Risk	○	●	⦿	⊙	⦿	⊙	⊙	⦿	
Price/Book (12-mth forward book)									
10-year Historic Price/Book Average	1.63x	1.97x	1.63x	1.34x	1.75x	1.51x	1.74x	1.77x	1.67x
Expected Writedowns	$935.0	$475.0	$675.0	$775.0	$355.0	$560.0	$260.0	$615.0	$4,650.0
LTM Closing Growth	(29.4%)	(32.8%)	(18.3%)	(33.6%)	(26.1%)	(24.4%)	(33.0%)	(23.5%)	(27.6%)

Note: ● represents the greatest exposure to JV's while ○ represents the least.

Source: Company reports, Lehman Brothers

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES

Analyst Certification:
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