

Foundation is Set for Continued Regional Consolidation

Deals on the Wire

Pulte Homes acquires Sivage-Thomas Homes: Pulte Homes has acquired Sivage-Thomas Homes, one of the country's top 100 home builders, for an undisclosed amount. Last year, Sivage-Thomas posted revenues of \$149mm on unit sales of approximately 1,100 homes at an average selling price of \$142,000 in the Phoenix and Albuquerque markets. The transaction offers Pulte an immediate presence in the Albuquerque market.

Lennar Corporation acquires Newhall & Coleman Homes: Lennar Corp., which has acquired 14 companies over the past 24 months, recently announced two additional deals, picking up Newhall Land & Farming and Coleman Homes. Newhall, a developer of residential communities in California, reported revenues of \$224mm with EBITDA of \$45mm in 2002. The deal was priced at \$944mm. Combined with Coleman Homes, which developed over 400 homes at an average sales price of \$176,000 in the Central Valley area of California, the transactions give Lennar an additional backlog of approximately 300 homes and 3,000 home sites.

Hovnanian Enterprises purchases Summit Homes: Hovnanian has acquired Canton Ohio based Summit Homes for an undisclosed amount of cash. Summit Homes is a "build-on-your-own-lot" homebuilder throughout Ohio, Western Pennsylvania, and West Virginia. In 2002, Summit Homes closed more than 500 homes with an average sales price of \$128,000. This acquisition marks the entrance of Hovnanian into the Ohio market.

KB Home acquires Colony Homes: KB Home, one of the nation's leading homebuilders, has acquired Colony Homes, one of the largest privately owned homebuilders in the Southeast. In 2002, Colony generated revenues of \$244mm, delivered 1,872 homes that included 1,052 in Atlanta, 544 in Raleigh and 276 in Charlotte. The Atlanta-based company controls approximately 8,200 lots across its three markets. The deal was priced between \$142mm and \$144mm including the assumption of debt.

Centex Homes purchases The Jones Company: Centex, the home building subsidiary of Dallas based Centex Corporation, has acquired the St. Louis and Indianapolis home building operations of The Jones Company. The specific terms of the transaction were not disclosed, but included all homes currently under construction as well as roughly 5,000 lots owned or controlled throughout the greater St. Louis and Indianapolis areas.

Sector Snapshot

Ambitious Consolidation Forecast: Mergers and acquisitions activity is expected to continue for the next several years as growth barriers escalate for privately held builders and their larger public counterparts aggressively seek to expand their footprint across the country. The top tier of the publicly traded builders now own 24% of the market share, and industry analysts are anticipating an increase to 40% market share by 2010.

Favorable Demographics: Household formation is expected to grow by 24mm from 2000-2020, a pace of 1.2mm new households per annum. In addition, the entry level housing market has been significantly bolstered by the immigration influx during the mid to late 1990's.

Interest Rates Remain Moderate and Accommodating: A 40-year low in interest rates are stimulating demand, which should remain relatively unchanged in the near term. Comments by the Federal Open Market Committee suggests that any modest increases in 2003 and 2004 will not impact the current forecasted demand across the building sector.

Baby Boomers Fuel Long-Term Optimism: The youngest and most populous group of baby boomers are moving into their prime "trade up" years. Subsequently, this segment will drive the demand for retirement homes in the next 10 to 15 years. Their children are expected to maintain the demand for first-time and starter homes through 2015.

Public Equity Valuations

Company Name	Operating Data			Valuation Data		
	EBITDA MARGIN	EBIT MARGIN	EARNINGS MARGIN	EV / REVENUE	EV / EBITDA	EV / EBIT
Centex Corporation (CTX)	11.6%	10.4%	11.0%	1.3x	10.9x	12.2x
D.R. Horton Inc. (DHI)	10.9%	10.8%	21.5%	0.9x	8.1x	8.2x
Hovnanian Enterprises (HOV)	14.0%	13.7%	24.3%	0.8x	6.1x	6.1x
KB Home (KBH)	10.7%	10.3%	21.8%	0.8x	7.2x	7.4x
Lennar Corporation (LEN)	15.0%	14.3%	15.4%	0.8x	5.1x	5.3x
Pulte Homes, Inc. (PHM)	10.3%	9.9%	9.9%	0.8x	7.6x	7.9x
Ryland Group, Inc., The (RYL)	11.8%	11.2%	23.3%	0.6x	5.4x	5.7x
Standard Pacific Corp. (SPF)	9.4%	9.3%	19.3%	1.0x	10.5x	10.6x
Toll Brothers, Inc. (TOL)	17.4%	16.9%	27.1%	1.3x	7.4x	7.6x
Average	12.3%	11.9%	19.3%	0.9x	7.6x	7.9x
Median	11.6%	10.8%	21.5%	0.8x	7.4x	7.6x
Harmonic Mean	11.9%	11.5%	17.2%	0.9x	7.1x	7.4x

Enterprise Value (EV) = (Market Cap + Net Debt + Minority Interest + Preferred Stock)

Acquirers on the Hunt

Large National Builder actively seeking acquisition targets with capacity to build 200+ homes in the "move up/empty nest" category across the Southwest, Northeast and Midwest regions.

National Community Developer seeking to expand existing footprint in the Southwest and Mountain range. The ideal targets will have revenues from \$20-\$150mm and expertise in the "move up" category.

Large Regional Builder pursuing companies with a Mid-Atlantic and Southwest presence that have the capability to build 600+ homes. They will also consider companies with large undeveloped land holdings.

Top National Residential Developer actively seeking acquisitions of companies within the Mid-Atlantic and Southeast regions. They are willing to acquire any size candidate with an established management team and proven track record.

Large Regional Builder targeting companies with substantial land positions in California and the Southwest. They will consider first time, "move up", and luxury home developers.

Target Profiles

Key characteristics of target acquisition candidates that have been most commonly communicated by the currently active consolidators include:

- ▶ Established regional residential builders;
- ▶ Revenues between \$10-\$200 million;
- ▶ Established and proven management team;
- ▶ Concentrated ownership seeking liquidity;
- ▶ Core management team willing to remain;
- ▶ Strong land position in markets with 100,000+ households; and
- ▶ Geographic footprint in the Southeast and Southwest corridors.

Capstone maintains a proprietary and confidential network for middle market companies (the "Capstone Watchlist") who have expressed an interest in evaluating the M&A market on a continual basis. For further inquiries or to be included in the Capstone Watchlist, please contact Charlie Galland below.

