



Houses Warming

Housing is a cyclical industry that's now in the fourth year of a correction. We believe that the industry will bounce back; the question is when?

Government data suggests that home prices, now down 35% are bottoming. Single family housing starts, which averaged about 1.3 million annually over the last 40 years, fell to a record-low 357,000 in January, down about 80% from their peak of 1.8 million.

Mortgage rates are at a 40-year low and the U.S. government stimulus provides for an \$8,000 first-time buyer tax credit. Housing affordability is at a 20-year high. At the same time, new households have continued to form, consistent with the growth in population. In our opinion, we think the table has been set for renewed growth in the housing market.

To that end, Baron Fifth Avenue Growth Fund has invested in Toll Brothers (3.2% of the portfolio as of 12/31/09). With its strong balance sheet and solid management team, Toll Brothers, in our opinion, is the crème de la

crème of publicly owned home builders. Public builders now account for 25% of new home construction, and we think that can go as high as 35% to 40% over the next several years.

Alone among the public builders, Toll focuses on luxury homes and has the ability to build customized high-end homes in volume. The company's average selling price in 2008, more than \$600,000, was more than twice the average for public builders. In 2008, the company delivered about 4,200 homes.

When the housing market turns around, we believe that Toll Brothers is well positioned to take advantage of renewed demand.

(Baron Fifth Avenue Growth Fund invests primarily in large companies that we believe have significant growth potential over the next five years. In this column, Portfolio Manager Randy Haase presents his views on the companies and developments that he believes will be important in the months to come.) Current and future portfolio holdings are subject to risk. 🏠

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