

HOT SHEET

Market Indicators for the Twin Cities Home Building Industry



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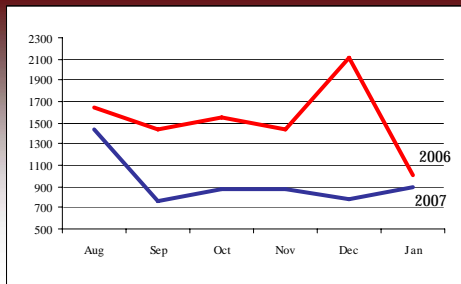


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Market Chatter:

"Builders are doing what they should be doing in the market today. NAHB's surveys of single-family builders have been showing a steady increase in confidence regarding the demand side of the market since last fall, and with sales for new homes stabilizing, builders are working to control their inventories and position themselves for the upcoming spring buying season." Brian Catalde, NAHB President

"Home sales apparently stabilized late last year, but the overhang of unsold housing inventory still is quite heavy. Builders have been cutting back on starts of new units to bring supply and demand back into balance. We expect housing starts to bottom out in the first quarter of this year before embarking on a gradual recovery path." David Seiders, NAHB Chief Economist

"There is still a bit of a rocky road and bumps ahead of us. [Builders] are seeing some light at the end of the tunnel. It will take time for affordability to improve." Frank Nothaft, Freddie Mac Chief Economist

MAAR: 2006 Residential Real Estate Activity Report

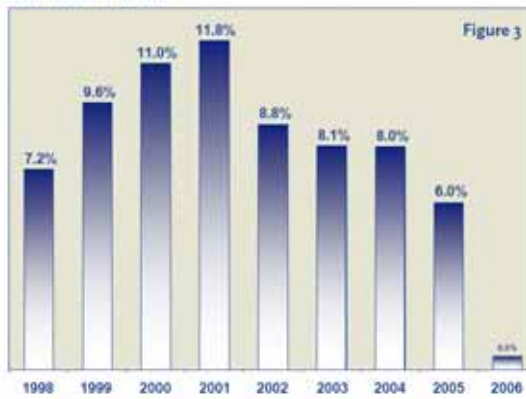
The Minneapolis Area Association of REALTORS® (MAAR) recently released the Residential Real Estate Activity Report for 2006. This year's edition is a giant leap forward, with expanded and enhanced data, analysis, charts and thematic maps never before seen.

The intent of this report is to advance understanding of the Twin Cities housing market and provide useful research tools for the business,

academia, policy and consumer arenas. This is an important step forward in meeting that goal.

For the year 2006 in the Twin Cities metropolitan area as covered by the MLS there were 47,906 closed sales, down 16 percent from 2005 when there were 57,283 closed sales, and down almost 18 percent from 2003. 2006 represents the lowest number of closed sales in the region since 1999, when there were 46,675

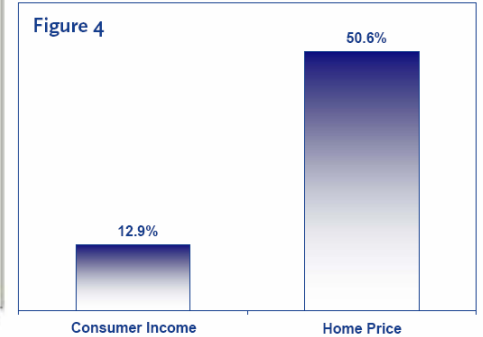
Home Price Growth



Source: Minneapolis Area Association of REALTORS®

(Continued on page 4)

Growth in Prices and Income—2000 through 2005



Source: Minneapolis Area Association of REALTORS®

Multifamily Projects Boost Building Activity

After a significant slowdown in 2006, builders are eagerly looking forward to 2007 for a stabilization in the market. Building activity started the year with a boost from multifamily projects in the Twin Cities.

According to statistics compiled by the Keystone Report for the Builders Association of the Twin Cities (BATC), there were a total of 896 permitted units in January 2007, down from 1,000 permitted units in the same month a year ago.

The Twin Cities housing market has experienced a slowdown over the past year and a half, but builders feel that the region is poised for long-term success. Local economic indicators are strong and the Metropolitan Council expects population growth of nearly a million people by 2030. Most builders feel the regional housing market will level-off in 2007 with a slow upturn towards recovery says Division President of Toll Brothers and 2007 BATC President Michael Noonan.

Actual permit and planned unit statistics for each of the past eight years are as follows:

2007 — 379 permits, 896 planned units
2006 — 613 permits, 1,000 planned units
2005 — 610 permits, 943 planned units
2004 — 788 permits, 1,505 planned units
2003 — 685 permits, 1,254 planned units
2002 — 596 permits, 1,273 planned units
2001 — 533 permits, 697 planned units
2000 — 628 permits, 927 planned units

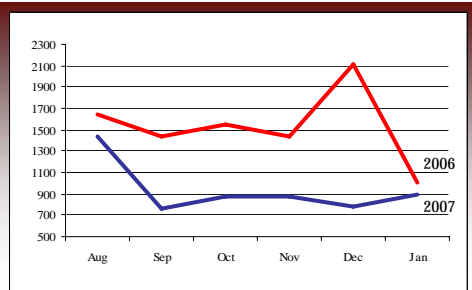
"Last year, builders changed strategies during the slowdown" said Noonan. "They scaled back building and focused on selling inventory. This year, we hope to adjust business practices with an eye towards gradually returning to a sustainable market performance."

One of the most overlooked developments in 2006 was the transition to a buyer's market.

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Twin Cities Statistics

Twin Cities Housing Units Authorized

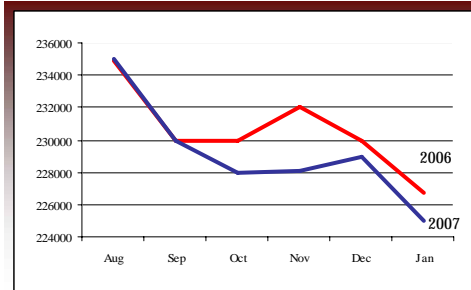


	Total	Y-Y Change
Oct-05	1,547	
Oct-06	871	-43.7%
Nov-05	1,432	
Nov-06	866	-39.5%
Dec-05*	2,121	
Dec-06	776	-63.4%
Jan-06	1,000	
Jan-07	896	-10.4%
2007 YTD	896	

*Minneapolis 11/05 counted with 12/05

Source: Keystone Report

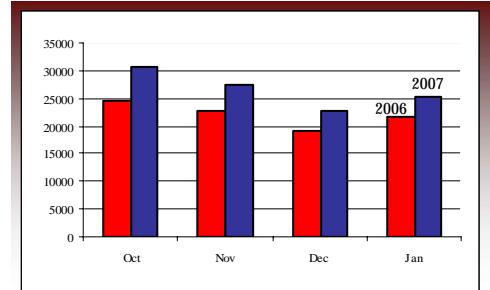
Twin Cities Median Home Price



	Price	Y-Y Change
Oct-05	230,000	
Oct-06	228,000	-0.9%
Nov-05	232,000	
Nov-06	228,047	-1.7%
Dec-05	229,900	
Dec-06	229,000	-0.4%
Jan-06	226,700	
Jan-07	225,000	-0.7%
5-Year Change		+28.6%

Source: Minneapolis Area Association of REALTORS®

Twin Cities Total Active Listings at Month End



	Total	Y-Y Change
Oct-05	24,536	
Oct-06	30,491	+24.3%
Nov-05	22,721	
Nov-06	27,535	+21.2%
Dec-05	19,098	
Dec-06	22,834	+19.6%
Jan-06	21,529	
Jan-07	25,188	+17.0%
Supply Rate	6.5 months	

Source: Minneapolis Area Association of REALTORS®

Market Briefs

- National housing starts declined 14.3 percent in January as builders worked down their inventories of unsold homes, according to figures released by the Commerce Department. The pace of construction for January 2007 slowed to seasonally adjusted annual rate of 1.408 million units. This was 37.8 percent below the January 2006 pace.
- Real gross domestic product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 2.2 percent in the fourth quarter of 2006, according to preliminary estimates from the United States Bureau of Economic Analysis
- Freddie Mac announced that it will cease buying subprime mortgages that have a high likelihood of excessive payment shock and possible foreclosure. First, Freddie Mac will only buy subprime adjustable-rate mortgages (ARMs) -- and mortgage-related securities backed by these subprime loans -- that qualify borrowers at the fully-indexed and fully-amortizing rate. Second, the company will limit the use of low-documentation underwriting for these types of mortgages to help ensure that future borrowers have the income necessary to afford their homes. In addition, Freddie Mac will strongly recommend that mortgage lenders collect escrow accounts for borrowers' taxes and insurance payments.

Mortgage Rates

Effective Rates

Date: 2/22/2007

30 Year Fixed	6.29
15 Year Fixed	6.06
5/1 ARM	6.03
Adjustable Rate	5.59
Spread/Fixed ARM	0.70

Source: NAHB/Freddie Mac

Unemployment Rate

US Avg 4.3%

Aug-06	3.3%
Sep-06	3.6%
Oct-06	3.3%
Nov-06	3.5%
Dec-06	3.8%

Source: MN DEED

Employment

Total Non-Farm

Aug-06	1,794,353
Sep-06	1,798,872
Oct-06	1,815,475
Nov-06	1,822,394
Dec-06	1,817,782

Source: MN DEED

Construction Employment

1.08% of total Employment

Aug-06	20,421
Sep-06	20,759
Oct-06	20,757
Nov-06	20,090
Dec-06	19,646

Source: MN DEED

Consumer Price Index

1982-84=100, Nat'l Avg 201.8

2002	179.6
2003	182.7
2004	187.9
2005	193.9
2006 YTD	195.1

Source: Bureau of Labor Statistics

Regional Statistics

Minnesota Housing Units
Authorized

	Total	Y-Y Change
Oct-05	3,826	
Oct-06	2,018	-47.3%
Nov-05	3,244	
Nov-06	1,582	-51.2%
Dec-05	1,935	
Dec-06	1,787	-7.6%
Jan-06	1,400	
Jan-07	1,002	-28.4%
2007 YTD		1,002

Source: US Census Bureau

Minnesota Unemployment
Insurance Claims

	Total	Construction
Nov-05	33,534	13,972
Nov-06	34,184	13,938
Dec-05	36,690	15,422
Dec-06	37,865	14,657

Source: MN DEED

Minnesota Weekly Retail
Gasoline Prices

Regular Grade, per Gallon	
2/12	2.194
2/19	2.261
2/26	2.378

Source: Energy Information Administration

IN THE NEWS...

Indianapolis, Ind. maintained its standing as the most affordable major U.S. housing market for a sixth consecutive time in the final quarter of 2006, according to the National Association of Home Builders/Wells Fargo Housing Opportunity Index (HOI).

In the nation's most affordable major housing market of Indianapolis, 89 percent of homes sold in the fourth quarter were affordable to families earning the area's median household income of \$65,100. The median sales price of all homes sold in Indianapolis during that time was \$113,000.

Also near the top of the list for affordable major metros this time around were Youngstown-Warren-Boardman, Ohio-Pa.; Detroit-Livonia-Dearborn, Mich.; Toledo, Ohio; and Buffalo-Niagara Falls, N.Y., in that order.

Source: National Association of Home Builders

MN Unemployment Rate

US Avg 4.3%

Month	Rate
Aug-06	3.3%
Sep-06	3.6%
Oct-06	3.3%
Nov-06	3.6%
Dec-06	4.2%

Source: MN DEED

MN Employment

Total Non-Farm

Month	Employment
Aug-06	2,788,896
Sep-06	2,782,746
Oct-06	2,808,930
Nov-06	2,815,367
Dec-06	2,800,729

Source: MN DEED

MN Construction Employment

4.50% of Total Employment

Month	Employment
Aug-06	146,371
Sep-06	143,995
Oct-06	143,616
Nov-06	135,656
Dec-06	126,050

Source: MN DEED

Construction Weekly Wage

Production Worker, Averaged

Month	Weekly Wage
Aug-06	1,004.60
Sep-06	1,009.17
Oct-06	974.92
Nov-06	947.16
Dec-06	910.44

Source: MN DEED

Fast Stat

Most Expensive States to Insure
Your Home 2006

By Average Annual Premium

1. Texas	\$1,328
2. Louisiana	\$975
3. Oklahoma	\$925
4. Florida	\$810
5. District of Columbia	\$806
6. Mississippi	\$793
7. Kansas	\$772
8. Colorado	\$762
9. California	\$753
10. Minnesota	\$733

Source: National Association of Insurance Commissioners, Forbes Magazine

National Statistics

Commodities Month End
Settlement Prices

	11/30	12/29	1/31
Light Crude Oil (Day)	62.46	60.53	58.14
Copper—High Grade (Day)	312.80	288.00	258.35
Lumber	263.50	268.30	251.70

Source: Anne Burden's Future's Guide

Housing Market Index

Jan-06	57
Jan-07	35

Source: National Association of Home Builders

US Housing Units
Authorized

	Total	Y-Y Change
Oct-05	172,625	
Oct-06	131,878	-23.6%
Nov-05	159,813	
Nov-06	110,370	-30.9%
Dec-05	147,560	
Dec-06	113,085	-23.4%
Jan-06	149,070	
Jan-07	112,344	-24.6%
2007 YTD		112,344

Source: US Census Bureau

Monthly Construction Spending

(in 000's)

	Total Private Construction	Residential (including improvement)	New Single-Family	New Multi-Family
Nov-05	931,311	663,103	455,186	51,735
Nov-06	905,763	589,277	362,503	60,132
Dec-05	940,237	665,615	456,278	52,860
Dec-06	896,774	582,290	355,847	57,765

Source: US Census Bureau/US Dept of Commerce

2007 BATC Market Update

Through the first part of this decade, those involved with residential construction were the beneficiaries of some of the best years in history. New activity, price growth, and sales were at record highs. A sharp increase in success led to much speculation about the future housing market and whether or not there was a "bubble."

The truth is that building activity in the Twin Cities slowed down significantly in 2006 - but this is a trend that was both expected and necessary. Through recent years, the market has moved at an unsustainable rate. This pace caused production to outperform demand and inventory rose to unsteady levels. Essentially, the slowdown in 2006 was a correction that the market needed to scale back new supply and shed built-up inventory.

2003 was the peak year of residential construction activity, when 19,000 new units were permitted in the Twin Cities region. Over 18,000 units were permitted in both 2004 and 2005. Estimates

show a market need of about 16,000 new units annually in the Twin Cities. This is the sustainable rate of production, and a rapid rate of production through the peak years overshot this need. In 2006, building activity sharply declined to 12,644 permitted units. While this is troubling at an initial glance, it really is only a correction from an overly accelerated pace. The industry simply reached the tipping point for new construction and needed to take a step back to revise strategy.

Many builders did take 2006 as an opportunity to take a breath, switching gears from creating new supply to selling existing inventory. Homebuyers found a variety of choices at historically low interest rates with some homes even offering incentives. Of course, these incentives are just a footnote to one of the largest developments in

the market over the last year: a shift to a buyer's market. During the first half of the decade, many became concerned about housing affordability. One of the long-term benefits of the current slowdown is that it will help curb price growth to more historical rates and give buyers a chance to catch-up to the market.

The Twin Cities market has changed in 2006, and the record years are gone for the time being. The best strategy for now is to gain understanding of how to effectively operate in this changed environment.

The 2007 Market Update is a walk-through of demographic and market information from the Twin Cities metropolitan area. This is a review of what has happened in the market through 2006, with a brief outlook towards the future.



Continue reading the 2007 BATC Market Update at: www.batc.org

Continued from page 1...

Real Estate Report...

Average sale price in the region grew again during the year, although at a slower pace than experienced previously. The average sales price for the region in 2006 was \$278,462. This is a year-over-year change of two percent from the average sale price of \$272,522 in 2005. Compared to previous years, the average sales price was \$256,252 in 2004, and \$238,446 in 2003.

Comparatively, median sales price growth as a year-to-year percentage is down significantly but most likely is simply experiencing a correction from peak growth. There was a half-percent median sales price growth within the last year. This is below historic returns of around four percent, but a correction from previous returns as high as 12 percent in 2001.

MAAR's report includes notable regional data found only in this resource. Data includes fin-

ished square footage of sales, price per square foot, price reduction calculations, and data on new construction

The entire report is available online through the Minneapolis Area Association of Realtors website:

www.mplsrealtor.com

Chart of the Month

Twin Cities Residential Real Estate Activity
1997—2006

Year	Listings Processed	Total Dollar Volume (in billions)	Unit Sales	Average Sales Price
1997	63,189	\$5.68	41,441	137,085
1998	64,280	\$7.09	47,836	147,346
1999	57,573	\$7.62	46,675	163,277
2000	59,618	\$8.76	48,208	181,605
2001	71,861	\$10.22	50,298	203,136
2002	73,940	\$11.33	51,212	221,275
2003	86,378	\$13.48	56,528	238,446
2004	97,737	\$14.92	58,233	256,252
2005	99,211	\$15.61	57,283	272,522
2006	108,022	\$13.34	47,906	278,462

Source: Minneapolis Area Association of REALTORS®

Continued from page 1...

January Building Activity...

For the first time in nearly a decade buyers have an opportunity to choose from a variety of housing choices at attractive rates and competitive prices. Noonan expects the buyers market to continue through 2007 and welcomes it.

"Without doubt, 2007 is going to be a great time to purchase a home in the Twin Cities," he said. "This is a great place to live and the economy is firing on all cylinders. All of this makes it a great time to buy, and not a prospect many people should pass up."

St. Paul leads the metro area in construction for the year with 137 units permitted. Chaska and Minneapolis both rank second with 129 permitted units, followed by Vadnais Heights with 47, Woodbury with 32, and Eden Prairie with 24.