

HOT SHEET

Market Indicators for the Twin Cities Home Building Industry



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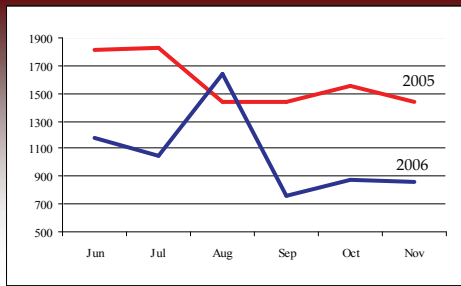


January 3, 2007

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Market Chatter:

"Builders are acutely aware of the large inventory of unsold homes that overhangs the market. While they believe that home buyer demand has stabilized, builders continue to be cautious. The ongoing drop in permits shows that builders are keeping a close eye on market conditions and working to control their inventories." David Pressly, NAHB President

"Builders sense that the tide is turning in terms of buyer demand for their product and are feeling somewhat better about the prospects for home sales." David Seiders, NAHB Chief Economist

"As the housing market recovers from its correction, existing-home sales should be rising gradually during 2007 – it looks like we may have reached the low point for the current cycle in September. We've entered a more sustainable period of home sales now, and we expect greater support for prices over time as inventory levels are eventually drawn down." David Lereah, NAR Chief Economist

Federal Reserve Expects Moderate Growth in 2007

The Federal Reserve Bank of Minneapolis recently announced expectations of moderate growth in 2007. The Minneapolis Fed is one of 12 Federal Reserve Banks, and together with its branch in Helena, Montana represents the Ninth District including the states of Minnesota, Montana, North Dakota, South Dakota, and 26 counties in northwestern Wisconsin and the Upper Peninsula of Michigan.

The housing sector slipped in 2006 after years of record setting performances, but the Minneapolis Fed predicts that housing units authorized will slightly rebound. Buyers will continue to see a good market, but overall performance should be better as inventory is drawn down. During the slowdown of 2006, commercial construction activity picked up much of the slack in residential—actually pushing up construction employment 3.6 percent more than 2005.

Employment in the district is also expected to

grow next year. In 2006, employment in district states grew 1.6 percent with some of the largest gains posted in natural resource industries, and business and professional services. Employment in Minnesota is predicted to grow by 1.5 percent in 2007. Unemployment in the state is expected to decrease slightly in the coming year.

Housing Units Authorized Percent Change Forecast 4Q 2006—4Q 2007

Minnesota	+2.4%
Montana	+8.4%
North Dakota	+2.1%
South Dakota	+4.8%
Wisconsin	+3.1%

The Minneapolis Fed expects personal income to grow in all district states except North Dakota in 2007. Minnesota is forecasted to see almost a five percent increase in personal income over the next year, while

North Dakota is expected to see a two percent decline. The Fed predicts Montana will see the largest percent increase in 2007, with just under six percent growth.

In addition to forecasting models, the Minneapolis Fed conducts a business outlook poll and manufacturing survey in the district to gauge optimism among business leaders. According to the results, many business leaders are optimistic

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Homebuilders Confident Heading into 2007

Roseville, MN (December 7, 2006) – Homebuilding activity in the Twin Cities remained cool during the month of November as builders continue to scale back activity. After focusing much of 2006 on selling inventory, builders are confident in the stability of the market heading into 2007.

According to statistics compiled by the Keystone Report for the Builders Association of the Twin Cities (BATC), 866 units were permitted last month, down from 1,432 in November 2005. Year-to-date activity continues to fall short of last year, with a total of 11,991 permitted units thus far, down from 16,132 permitted through the same month in 2005.

Builders are confident that the market rebalancing is beneficial for the industry and local economy heading into 2007. Although this year's activity has slowed significantly, builders are unflappable regarding the long-term sustainability of the Twin Cities housing market says Presi-

Actual permit and planned unit statistics for the first 49 weeks in each of the past eight years are as follows:

2006	– 6,918 permits, 11,991 planned units
2005	– 9,301 permits, 16,132 planned units
2004	– 10,073 permits, 17,010 planned units
2003	– 10,393 permits, 17,328 planned units
2002	– 9,566 permits, 15,443 planned units
2001	– 9,799 permits, 14,318 planned units
2000	– 10,667 permits, 14,810 planned units
1999	– 11,169 permits, 15,533 planned units

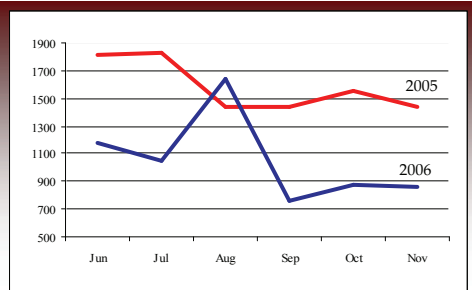
dent of Swanson Homes and 2006 BATC President Curt Swanson.

"This year has been down considerably, but not because builders are calling it quits," said Swanson. "For a long time we focused on building to the point of excess and this year we've focused on selling that excess. I am confident that this responsible behavior will result in a better outlook next year."

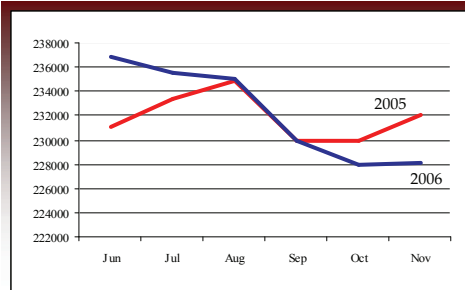
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Twin Cities Statistics

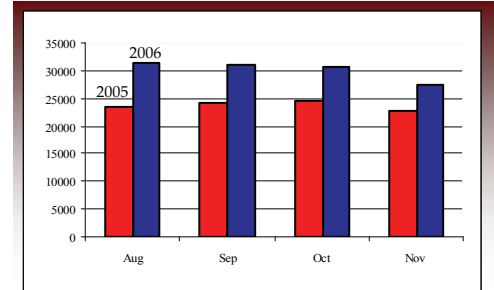
Twin Cities Housing Units Authorized



Twin Cities Median Home Price



Twin Cities Total Active Listings at Month End



	Total	Y-Y Change
Aug-05	1,438	
Aug-06	1,646	+14.5%
Sep-05	1,445	
Sep-06	759	-48.8%
Oct-05	1,547	
Oct-06	871	-43.7%
Nov-05	1,432	
Nov-06	866	-39.5
2006 YTD	11,991	

Source: Keystone Report

	Price	Y-Y Change
Aug-05	234,900	
Aug-06	235,000	0.0%
Sep-05	230,000	
Sep-06	229,900	0.0%
Oct-05	230,000	
Oct-06	228,000	-0.9%
Nov-05	232,000	
Nov-06	228,047	-1.7%
5-Year Change		+32.9%

Source: Minneapolis Area Association of REALTORS®

	Total	Y-Y Change
Aug-05	23,363	
Aug-06	31,263	+33.8%
Sep-05	24,324	
Sep-06	30,977	+27.4%
Oct-05	24,536	
Oct-06	30,491	+24.3%
Nov-05	22,721	
Nov-06	27,535	+21.2%
Supply Rate	7.0 months	

Source: Minneapolis Area Association of REALTORS®

Market Briefs

- The *Hudson Employment Index* gained nearly four points in November, climbing from 101.4 in October to 105.3. Improved hiring expectations and greater optimism regarding personal finances caused the measure of worker confidence to record its strongest reading since April. The latest *Index* is also more than five points higher than last November's 100.1.
- The U.S. Census Bureau projected the Jan. 1, 2007, population will be 300,888,812 up 2,863,990 or 1 percent from New Year's Day 2006. In January, the United States is expected to register one birth every eight seconds and one death every 11 seconds. Meanwhile, net international migration is expected to add one person every 27 seconds. The result is an increase in the total population of one person every 15 seconds.
- According to Census Estimates, California remains the most populous state with a population of 36.5 million on July 1, 2006. Rounding out the top five states were Texas (23.5 million), New York (19.3 million), Florida (18.1 million) and Illinois (12.8 million).

Mortgage Rates

Effective Rates

Date: 12/27/2006

30 Year Fixed	6.24
15 Year Fixed	6.00
5/1 ARM	6.05
Adjustable Rate	5.55
Spread/Fixed ARM	0.68

Source: NAHB/Freddie Mac

Unemployment Rate

US Avg 4.3%

Jul-06	3.5%
Aug-06	3.3%
Sep-06	3.6%
Oct-06	3.3%
Nov-06	3.5%

Source: MN DEED

Employment

Total Non-Farm

Jul-06	1,794,187
Aug-06	1,794,353
Sep-06	1,798,872
Oct-06	1,815,475
Nov-06	1,824,287

Source: MN DEED

Construction Employment

1.09% of total Employment

Jul-06	20,395
Aug-06	20,421
Sep-06	20,759
Oct-06	20,757
Nov-06	19,831

Source: MN DEED

Consumer Price Index

1982-84=100, Nat'l Avg 201.5

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
Aug-05	3,293	
Aug-06	2,331	-29.2%
Sep-05	3,574	
Sep-06	2,545	-28.8%
Oct-05	3,826	
Oct-06	2,018	-47.3%
Nov-05	3,244	
Nov-06	1,582	-51.2%
2006 YTD	25,291	

Source: US Census Bureau

Minnesota Unemployment Insurance Claims

	Total	Construction
Oct-05	17,339	4,251
Oct-06	23,395	5,630
Nov-05	33,534	13,972
Nov-06	34,184	13,938

Source: MN DEED

Minnesota Weekly Retail Gasoline Prices

Regular Grade, per Gallon	
12/11	2.177
12/18	2.270
12/25	2.223

Source: Energy Information Administration

IN THE NEWS...

The U.S. Commerce Department reported that sales of newly built, single-family homes rose 3.4 percent to a seasonally adjusted annual rate of 1.05 million units in November. Sales also were revised upward for the three previous months.

The latest number is up from October's 1.01 million units and well above the recent low of 979,000 units that was recorded in July.

"This is a very good report, and is consistent with the idea that the rather abrupt downward correction in home sales from the unsustainable highs of 2005 has reached its end. Furthermore, inventories of unsold units are gradually being drawn down from their mid-year highs," said David Seiders, Chief Economist of the National Association of Home Builders.

Source: National Association of Home Builders

MN Unemployment Rate

US Avg 4.3%

	Rate
Jul-06	3.6%
Aug-06	3.3%
Sep-06	3.6%
Oct-06	3.3%
Nov-06	3.6%

Source: MN DEED

MN Employment

Total Non-Farm

	Total
Jul-06	2,789,541
Aug-06	2,788,896
Sep-06	2,782,746
Oct-06	2,808,930
Nov-06	2,817,998

Source: MN DEED

MN Construction Employment

4.86% of Total Employment

	Total
Jul-06	145,455
Aug-06	146,371
Sep-06	143,995
Oct-06	143,616
Nov-06	136,997

Source: MN DEED

Construction Weekly Wage

Production Worker, Averaged

	Wage
Jul-06	998.79
Aug-06	1,004.60
Sep-06	1,009.17
Oct-06	974.92
Nov-06	950.16

Source: MN DEED

Fast Stat

Per Capita Personal Income by County

County	Per Capita Income (Dollars)
Minnesota	36,184
Anoka County	34,188
Carver County	42,599
Chisago County	29,416
Dakota County	40,788
Hennepin County	48,045
Isanti County	28,400
Pierce County (WI)	29,431
Ramsey County	38,885
Scott County	34,225
Sherburne County	27,337
St. Croix County (WI)	32,760
Washington County	41,351
Wright County	30,553

Source: Bureau of Economic Analysis

National Statistics

Commodities Month End Settlement Prices

	9/29	10/31	11/30
Light Crude Oil (Day)	62.91	58.73	62.46
Copper—High Grade (Day)	345.90	333.60	312.80
Lumber	240.60	243.90	263.50

Source: Anne Burden's Future's Guide

Housing Market Index

Nov-05	61
Nov-06	33

Source: National Association of Home Builders

US Housing Units Authorized

	Total	Y-Y Change
Aug-05	201,179	
Aug-06	158,815	-21.1%
Sep-05	191,304	
Sep-06	133,636	-30.1%
Oct-05	172,625	
Oct-06	131,878	-23.6%
Nov-05	159,813	
Nov-06	110,370	-30.9%
2006 YTD	1,722,014	

Source: US Census Bureau

Monthly Construction Spending

(in 000's)

	Total Private Construction	Residential (including improvement)	New Single-Family	New Multi-Family
Sep-05	917,338	654,959	447,302	49,828
Sep-06	919,006	608,778	388,555	57,676
Oct-05	924,011	659,259	450,887	51,126
Oct-06	905,284	597,103	373,509	58,627

Source: US Census Bureau/US Dept of Commerce

HUD: House Price Trends and Affordability

A central concern among many in the housing industry is that recent house price increases have significantly eroded affordability. The United States Department of Housing and Urban Development (HUD) recently released a report that investigates the current situation to both understand what drives price in the market, and how these drivers affect affordability.

In the demand side of the housing market, HUD finds that growth and composition of population is the main driver. Income is also central to what kind of housing is demanded, but household wealth may be almost an equal indicator of what consumers are willing to pay. The availability and price of mortgage financing, and various tax

provisions are also shown to be determinants of demand.

While there is ample information available regarding drivers on the demand side, there is little information on the behavior of decision makers on the supply side. Developers and builders make important adjustments to the housing stock through new construction, but there are also units that filter up or down the quality spectrum through neglect or renovation. HUD finds that understanding of these supply factors remains limited.

Another area of concern is the government's role in artificially increasing the price of housing

through regulation. HUD finds that there is consistently empirical evidence linking higher prices and regulatory constraints, although the evidence is less clear on the impact of regulation to price changes.

Interestingly, HUD finds that in the short run prices can and do respond to changes in the expectations of market participants, but fundamental supply and demand factors will determine the long-run price change in homes.

The entire report is available online via the HUD website:

<http://www.huduser.org/Publications/pdf/RecentHousePrice.pdf>

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2007 Forecast...

heading into 2007. Business leaders expect inflation to ease, output to grow, and business investment and employment to expand in the coming year.

According to the Minneapolis Fed, 42 percent of business leaders surveyed expect real GDP growth of one to two percent, while 41 percent expect GDP growth of three percent. The most optimistic respondents within the district were those in Minnesota and Wisconsin. Many respondents are also more optimistic about inflation than they were in 2006, with only 27 percent expecting inflation of four percent or higher—compared to 62 percent with the same response a year ago.

Business leaders surveyed by the Minneapolis Fed expect to continue to feel the effects of a slow housing market in 2007, predicting housing starts to fall in 2007. While many business leaders expect the slowdown to affect consumer spending, they are optimistic that businesses would still succeed through expanded investments.

According to the survey, business leaders across the district expect to expand their companies in 2007, with the largest expansions expected in the retail and manufacturing sectors.

The entire forecast, survey results, and historic data are found online via the Minneapolis Federal Reserve Bank Website:

<http://minneapolisfed.org/>

Upcoming Events

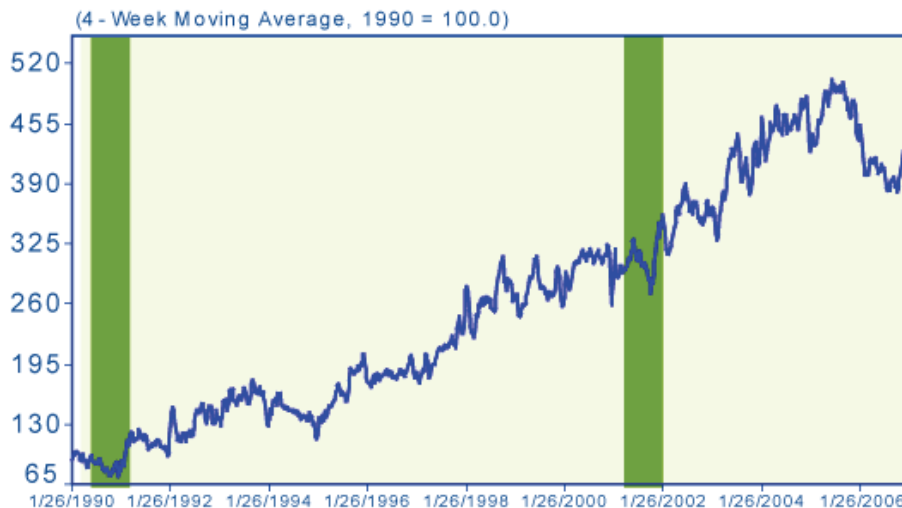
Tracking the Region's Growth January 23, 2007

Come listen to Todd Graham, Research Manager of the Metropolitan Council, discuss 1990-2005 growth patterns and emerging trends in the Twin Cities. Fitting recent land use analysis with the historical time series, Mr. Graham will provide analysis of where growth has occurred and why.

This presentation will be given at our upcoming Developer's Council Luncheon, Tuesday, January 23, 2007 in the BATC Seminar Room.

For more information contact Nate Duoss, nate@batc.org

Chart of the Month— Home Mortgage Purchase Applications



Source: NAHB/Mortgage Bankers Association

Disclaimer: Source of information are believed to be reliable, but are in no way guaranteed by the Builders Association of the Twin Cities. BATC Hot Sheet is a product of the Builders Association of the Twin Cities
Nate Duoss, Public Affairs Messaging & Research Coordinator

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November Building Activity...

Swanson says that an excess of inventory coupled with aloof buyers led to a buyer's market in 2006. Throughout the year, buyers have had an excellent opportunity to purchase a home at an affordable price due to financing incentives.

"The buying environment has been outstanding in the last year," he said. "Buyers saw affordability eroding over the past decade, but recently realized the chance to take matters into their own hands and purchase a home of their own. Without a doubt, these buyers have not missed one of the best times to buy a house in the Twin Cities."

Minneapolis continues to lead the metro area in construction year-to-date with 1,548 units permitted. Woodbury ranks second with 676, followed by Lakeville with 428, Otsego with 408, and Brooklyn Park with 402.