

HOT SHEET

Market Indicators for the Twin Cities Home Building Industry



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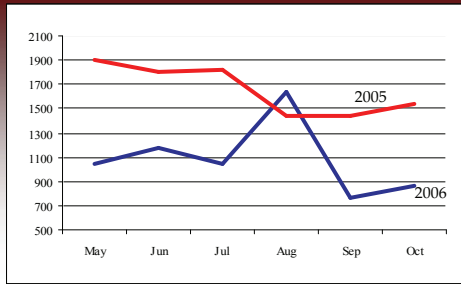


November 30, 2006

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Market Chatter:

"As builders continue to work off excess inventory, we expect that new housing starts will bottom out by the middle of 2007, with most of the decline occurring this year. Meanwhile, economic conditions and results from our recent builder surveys show that the demand side of the market appears to be stabilizing as affordability measures move up. Mortgage rates and energy prices have been declining in recent weeks, applications for new home loans are up, consumer sentiment is rising and employment and income growth are on the rise." David Seiders, NAHB Chief Economist

"More and more builders are seeing light at the end of the tunnel. Our members are telling us that the market is steadying after a significant downward correction. On the demand side, we look for sales to stabilize and gradually move up in the coming months." David Pressley, NAHB President

"Over the next year or so, the economy appears likely to expand at a moderate rate, close to or modestly below the economy's long-run sustainable pace." Ben Bernanke, Federal Reserve Board Chairman

Rebalancing the Housing Market

By Nate Duoss
Builders Association of the Twin Cities

The housing market continues to be a hot discussion, even if the activity has cooled. Local builders continue to take it slow in response to a complicated mix of factors. After record setting years, the Twin Cities housing market is in the midst of a notable slowdown. Inventory levels remain elevated and price growth has stagnated as sales have slowed. This has led to a consumer confidence issue that poses one of the biggest problems for builders to overcome in the coming year.

The problems in consumer confidence are a result of exaggerated reports detailing a demise of the housing market. In reality, the housing market is simply experiencing a much-needed correction. According to the Minneapolis Area Association of Realtors (MAAR), there have been 37,812 closed sales through the first three quarters of 2006, down from 44,650 through the same point last year. This is a decrease in sales by over 15 percent.

As sales have slowed, homes on the market have piled up and led to increased inventory levels. At the end of the third quarter 2006, 30,977 homes were for sale in the local market. This is a 27 percent increase over the same point in 2005. Inventory levels appear to be declining after peaking in August, and may be coming back down slightly as 2006 winds down. MAAR calculates that at the end of the third quarter 2006 there was more than a seven and a half month supply of homes on the market, an increase from a five-month supply through the same point in 2005.

Slowing sales and rising inventories have stalled what had been an excessive price growth in the local market. Although the average sales price continues to grow, median sales price has reached a flat line and decreased during certain months of 2006. At the end of the third quarter of 2006, median sale price was \$229,000. This is down slightly from the same point in 2005 when it was \$230,000.

(Continued on page 4)

Homebuilders Keep Activity in Check

During October, builders continued to hold back on activity in response to the sluggish regional housing market. The market has decidedly favored buyers over the year, yet many have remained tentative to purchase while waiting for better conditions.

According to statistics compiled by the Keystone Report for the Builders Association of the Twin Cities (BATC), 871 units were permitted last month, down from 1,547 in October 2005. Year-to-date activity continues to lag a year ago, with a total 11,039 units permitted thus far, down from 14,700 units permitted through the same month in 2005.

Builders are focusing on reducing inventory after a sizeable build-up in recent years and buyers are set to take advantage. Although buyers hold the upper hand, they should be cautious of waiting too long and missing an opportunity says President of Swanson Homes and 2006 BATC President, Curt Swanson.

Actual permit and planned unit statistics for the first 43 weeks in each of the past eight years are as follows:

2006 - 6,364 permits, 11,039 planned units
2005 - 8,508 permits, 14,700 planned units
2004 - 9,257 permits, 15,561 planned units
2003 - 9,553 permits, 15,598 planned units
2002 - 8,765 permits, 13,996 planned units
2001 - 9,019 permits, 12,964 planned units
2000 - 9,775 permits, 13,405 planned units
1999 - 10,294 permits, 14,296 planned units

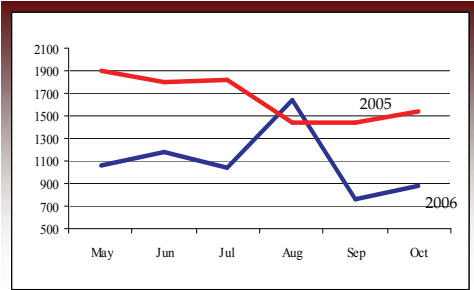
"Buyers are waiting for a better deal and not seeing what's in front of them," Swanson said. "Trying to time the market is near impossible, and fence-sitters could easily miss one of the best times to buy a home - right now."

Swanson says that as builders have drastically reduced new construction, they have also offered incentives and financing options to clear

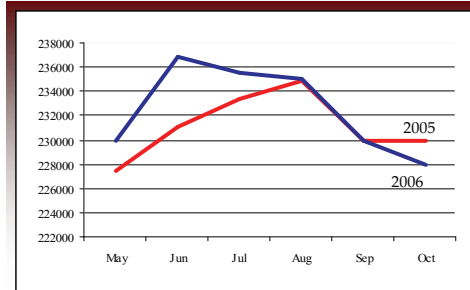
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Twin Cities Statistics

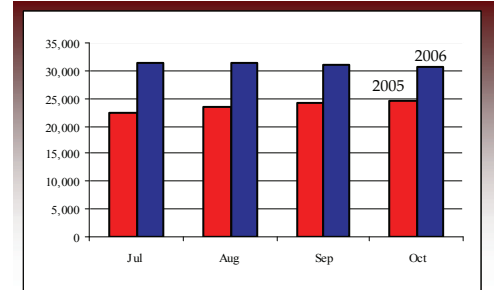
Twin Cities Housing Units Authorized



Twin Cities Median Home Price



Twin Cities Total Active Listings at Month End



	Total	Y-Y Change
Jul-05	1,827	
Jul-06	1,047	-37.6%
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%
2006 YTD	11,039	

Source: Keystone Report

	Price	Y-Y Change
Jul-05	233,300	
Jul-06	235,459	+0.9%
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%
5-Year Change		+30.3%

Source: Minneapolis Area Association of REALTORS®

	Total	Y-Y Change
Jul-05	22,419	
Jul-06	31,367	+39.9
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%
Supply Rate	7.5 months	

Source: Minneapolis Area Association of REALTORS®

Market Briefs

- Responding to slower sales and a growing inventory of units on the market, builder confidence in the condominium housing market eroded in the third quarter of 2006, according to the results of the latest NAHB/Fannie Mae Multifamily Condo Market Index. The component of the MCMI that tracks current condo supply conditions fell markedly to 19.7 during the third quarter, compared with 47.1 at the same time last year.
- Indianapolis, Ind., maintained its strong grip on the title of most affordable major U.S. housing market in the third quarter of 2006, according to the National Association of Home Builders/Wells Fargo Housing Opportunity Index (HOI). This is the fifth consecutive time that the city has been named at the top of the affordability chart.
- The Metropolitan Council expects to end with 73.8 million rides on public transit in the metro area in 2006. This is the highest level of ridership since 1984. The increase is likely stimulated by higher gas costs and increased congestion.

Mortgage Rates

Effective Rates

Date: 11/23/2006

30 Year Fixed	6.25
15 Year Fixed	6.00
5/1 ARM	6.08
Adjustable Rate	5.57
Spread/Fixed ARM	0.68

Source: NAHB/Freddie Mac

Unemployment Rate

US Avg 4.1%

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

Source: MN DEED

Employment

Total Non-Farm

Jun-06	1,814,429
Jul-06	1,794,187
Aug-06	1,794,353
Sep-06	1,798,872
Oct-06	1,815,184

Source: MN DEED

Construction Employment

1.14% of total Employment

Jun-06	19,588
Jul-06	20,395
Aug-06	20,421
Sep-06	20,759
Oct-06	20,718

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
Jul-05	3,621	
Jul-06	2,797	-22.8%
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%
2006 YTD	23,774	

Source: US Census Bureau

Minnesota Unemployment Insurance Claims

	Total	Construction
Sep-05	16,955	3,758
Sep-06	16,331	3,808
Oct-05	17,339	4,251
Oct-06	23,395	5,630

Source: MN DEED

Minnesota Weekly Retail Gasoline Prices

Regular Grade, per Gallon

11/13	2.189
11/20	2.193
11/27	2.189

Source: Energy Information Administration

IN THE NEWS...

More than one-third (37 percent) of U.S. workers anticipate not using all of their time off this year, according to a new Hudson survey. In fact, one in four workers (24 percent) have not taken any time off this year, and an additional 14 percent have not taken a vacation longer than a long weekend.

When they do get away from work, 39 percent of employees check in with the office most days, if not every day. Add in those who call the office or check email occasionally and a resounding 72 percent of the work force stays in touch with the office to some extent when they are supposed to be winding down. Nearly all managers (87 percent) also keep in contact with the office while taking time off. That said, it is not surprising that two-fifths (38 percent) of workers and managers return from vacation no more relaxed.

Source: Hudson

MN Unemployment Rate

US Avg 4.1%

Jun-06	3.6%
Jul-06	3.6%
Aug-06	3.3%
Sep-06	3.6%
Oct-06	3.3%

Source: MN DEED

MN Employment

Total Non-Farm

Jun-06	2,818,602
Jul-06	2,789,541
Aug-06	2,788,896
Sep-06	2,782,746
Sep-06	2,807,038

Source: MN DEED

MN Construction Employment

5.10% of Total Employment

Jun-06	142,291
Jul-06	145,455
Aug-06	146,371
Sep-06	143,995
Oct-06	143,023

Source: MN DEED

Construction Weekly Wage

Production Worker, Averaged

Jun-06	1,041.73
Jul-06	998.79
Aug-06	1,004.60
Sep-06	1,009.17
Oct-06	966.38

Source: MN DEED

Fast Stat

Top Metro Areas by Highest Annual Rates of House Price Growth

Metro Area	1-Yr Growth
1. Bend, OR	30.37%
2. Boise City - Nampa, ID	26.48%
3. Gulfport-Biloxi, MS	23.26%
4. Miami-Miami Beach-Kendall, SC	22.14%
5. Wenatchee, WA	21.96%
6. Myrtle Beach-Conway, SC	21.74%
7. Flagstaff, AZ-UT	21.67%
8. Longview, WA	20.60%
9. St. George, UT	20.58%
10. Salt Lake City, UT	20.43%
11. Naples-Marco Island, FL	19.85%
12. Lakeland, FL	19.54%
13. Wilmington, NC	19.04%
14. El Paso, TX	18.61%
15. Orlando-Kissimmee, FL	18.37%
16. Salem, OR	17.82%
17. Bremerton-Silverdale, WA	17.67%
18. Provo-Orem, UT	17.55%
19. Eugene-Springfield, OR	17.54%
20. Mobile, AL	17.52%

Source: OFHEO HPI (3Q 2006)

National Statistics

Commodities Month End Settlement Prices

	8/31	9/29	10/31
Light Crude Oil (Day)	70.26	62.91	58.73
Copper—High Grade (Day)	346.90	345.90	333.60
Lumber	288.50	240.60	243.90

Source: Anne Burden's Future's Guide

Housing Market Index

Oct-05	68
Oct-06	31

Source: National Association of Home Builders

US Housing Units Authorized

	Total	Y-Y Change
Jul-05	182,916	
Jul-06	145,463	-20.5%
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%
2006 YTD	1,610,510	

Source: US Census Bureau

Monthly Construction Spending

(in 000's)

	Total Private Construction	Residential (including improvement)	New Single-Family	New Multi-Family
Aug-05	902,729	650,776	441,263	49,801
Aug-06	929,382	617,041	400,086	56,365
Sep-05	917,338	654,959	447,302	49,828
Sep-06	922,714	610,014	390,138	57,670

Source: US Census Bureau/US Dept of Commerce

RMLS Economic and Market Watch Report

As 2006 winds down in the Twin Cities, final calculations through three fourths of the year's housing market have been tabulated. The Regional Multiple Listing Service of Minnesota (RMLS) recently released the *Economic and Market Watch Report*, for the third quarter 2006. The report is a comprehensive look at 15 counties in the Twin Cities metropolitan area. The RMLS breaks down each county by zip code, and analyzes each for average price, total sales, average days on market, and percent change from the previous year.

Hennepin County, MN had the most homes on the market as well as the highest number of

homes sold. The number of homes on the market in the county during the third quarter of 2006 was 13,624, down from 14,282 in the second quarter of 2006. During the third quarter, there were 4,994 homes sales in the county.

RMLS Forecast		
	2005	2006
Payroll Jobs <i>(in 000's)</i>	1790.2	1827.8
Home Sales	64,042	65,510
Home Prices <i>(in 000's)</i>	251.2	255.0

Goodhue County, MN had the fewest number of homes on the market during the second quarter of 2006. The number of homes on the market in the county during the quarter was 706, up from 693 in the second quarter of 2006. Goodhue County also had the fewest homes sold during the period with 155 home sales in the third quarter.

The entire report is available online via the Minneapolis Area Association of Realtors website: http://www.mplsrealtor.com/Segments/Realtors/emwr_2006_q3.pdf

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Rebalancing...

Stalling price growth may seem a negative side effect of slowing sales, but this may likely benefit the market in the end. During the peak years, price growth accelerated to the point that housing affordability became a major concern. Over the past 14 years, median price grew 161 percent, while at the same time income had only grown 51 percent. The current situation should last long enough to give price growth a break and allow income levels to regain ground.

In response to the slowing market, builders have been scaling back activity and focusing on reducing inventory in 2006. There were 10,168 units permitted through the third quarter 2006, down almost 23 percent from 13,153 through the same point last year. Building activity is down almost 27 percent from the peak year of 2003. Due to what has been traditionally a market that does

not build high levels on speculation, local builders have been pulling back some projects and canceling plans for others in reaction to the current market conditions. Although the numbers look striking on the surface, this decline in building activity may be a good sign as we near the end of 2006.

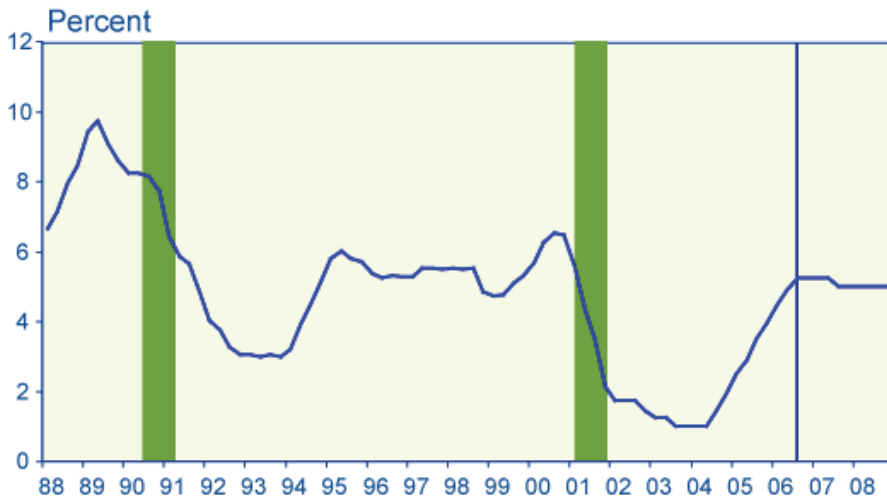
The peak year of building activity was 2003, a year in which a surge of 19,000 permitted units were recorded. This was followed by 18,591 units in 2004 and 18,255 units in 2005. If demographic experts are correct, the number of sustainable new units in the region is about 16,000 annually. If the region drops to around 12,000 permitted units in 2006 – which is highly likely – this short market correction should begin pushing back towards a healthy pace of activity. In short, builders were producing at a pace that was not sustainable and this correction is necessary for the long-term stability of the local housing market.

While the housing market is not on the same path that it was in the earlier part of the decade, the footsteps are familiar. This is simply another phase of the market cycle as different parts correct and mature. Unfortunately, the wild card in this scenario is consumer confidence. Some buyers are holding off in anticipation that the market will slow further, while others are just not sure of market stability. Buyers need to understand that this is the best time to buy in the last decade. There are numerous housing choices available with low interest rates and financing incentives unheard of during the peak years.

While the slow market will be shown on this year's financial statements, fewer sales will allow everyone to take a step back and catch their breath. Next year holds a new chapter for the Twin Cities housing market.

(This article will also appear in the January/February Builders' Digest)

Chart of the Month— Federal Funds Target Rate



Source: Federal Reserve Board; NAHB

Continued from page 1...

October Building Activity...

inventory. Buyers may be waiting for prices to drop and not noticing the significant long-term savings of purchasing a new home presently. As new inventory goes down, these deals may become much less common.

"Price growth has leveled-off over the year, meaning that homes will be more affordable for both first-time and move-up buyers," he said. "Not only is there an opportunity to purchase at a great price, but they will purchase in one of the best regions of the country."

Minneapolis continues to lead the metro area in construction year-to-date with 1,518 units permitted. Woodbury ranks second with 620, followed by Hugo with 385, Lakeville with 382, and Brooklyn Park with 375.