

HOT SHEET

Market Indicators for the Twin Cities Home Building Industry



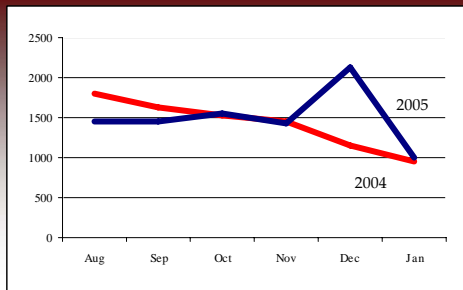
February 26, 2006

Volume 2, Issue 2

2005 Residential Real Estate Report

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- Real Estate Market Report
- Fannie Mae EVP Discusses Mortgages

Market Chatter:

"Sometimes people lose sight of the fact that real estate is cyclical. Even so, sales will continue at a historically high pace with modestly higher interest rates as the year progresses, and 2006 is forecast to be the third strongest year on record." David Lereah, Chief Economist, National Association of Realtors

"Minnesota's employment shows a solid rate of job growth. I'm very optimistic about Minnesota's economy as we go into 2006." Matt Kramer, Commissioner, Minnesota Department of Employment and Economic Development

"Some cooling of the housing market is to be expected and would not be inconsistent with continued solid growth of overall economic activity. However, given the substantial gains in house prices and the high levels of home construction activity over the past several years, prices and construction could decelerate more rapidly than currently seems likely." Ben Bernanke, Chairman, Federal Reserve Board

"I don't think you have to worry about the mortgage deduction not being a part of the income-tax law." President Bush, in response to a question from a Florida builder regarding the elimination of the mortgage interest tax deduction,

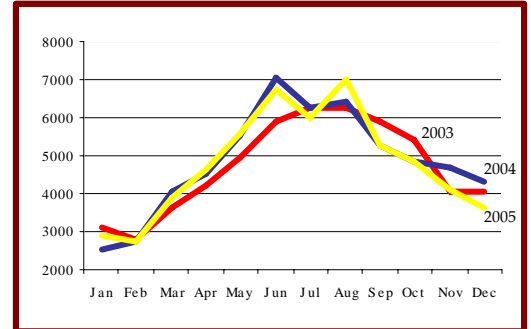
The Minneapolis Area Association of Realtors (MAAR) recently released their annual housing market analysis, *2005 Residential Real Estate Activity Report*. The report reviews annual Multiple Listing Service (MLS) data, breaking down total sales within the metropolitan region by city, size of unit, and price. Total sales within each city are also shown by type of financing for the purchases.

For the year 2005 in the Twin Cities metropolitan area as covered by the MLS, there were 57,283 closed sales. This is down from 2004 when there were 58,223 closed sales, but still up from 2003 when there were 56,528 closed sales in the region.

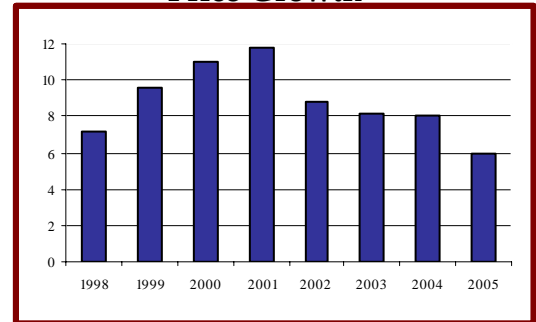
Average sale price in the region grew for the third straight year, with \$272,522 as the average sale price in the 13 county metro for the year 2005. This is more than the average sale price of \$256,252 in 2004 and the average of \$238,446 in 2003.

(Continued on page 4)

Closed Sales



Price Growth



Source: Minneapolis Area Association of Realtors

Building Permit Activity Holds Steady to Begin Year

Permits for the month of January 2006 show that the Twin Cities market is continuing to hold steady after leveling off in 2005. Most forecasters predict a further leveling off in market gains and all indicators point to a stable market in residential building for the coming year.

In four weeks of January 2006, municipalities in the Twin Cities metro area issued 613 permits for 1,000 planned units at a value of \$203,036,739. Compared to January 2005, this is over one-half percent more permits (610 in 1/05), six percent more planned units (943 in 1/05), and about six percent more in total value (\$191,982,228 in 1/05). Compared to the previous six years, January 2006 permits are 22 percent less than 2004, 10.5 percent less than 2003, three percent more than 2002, 15 percent more than 2001, roughly two and a half percent less than 2000, and four percent behind 1999.

In planned units, January 2006 is six percent more than 2005, about 34 percent less than 2004,

Actual permit and planned unit statistics for the first 47 weeks in each of the past eight years are as follows:

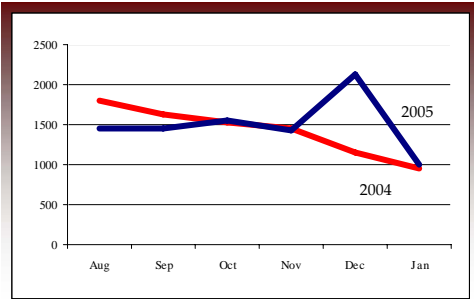
2006 — 613 permits, 1,000 planned units
2005 — 610 permits, 943 planned units
2004 — 788 permits, 1,505 planned units
2003 — 685 permits, 1,254 planned units
2002 — 596 permits, 1,273 planned units
2001 — 533 permits, 697 planned units
2000 — 628 permits, 927 planned units
1999 — 637 permits, 762 planned units

20 percent less than 2003, 21.5 percent less than 2002, about 43.5 percent more than 2001, eight percent more than 2000, and 31 percent ahead of 1999. The total value of permits issued in four weeks of January 2006 is six percent more than the value issued in January 2005, 17 percent less than 2004, and ranges from 13 to 88 percent higher than the five years prior to 2004.

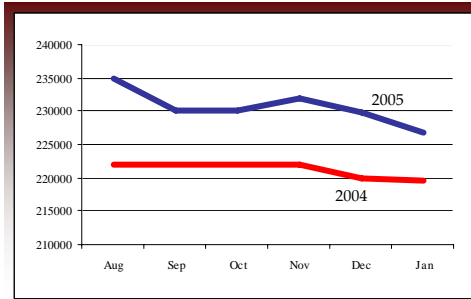
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Twin Cities Statistics

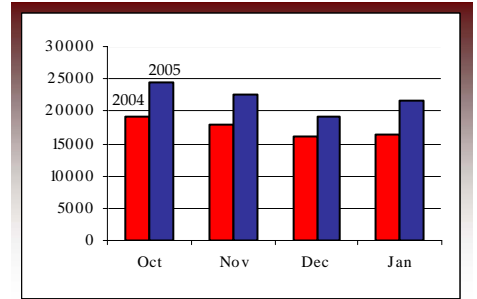
Twin Cities Housing Units Authorized



Twin Cities Median Home Price



Twin Cities Total Active Listings at Month End



	Total	Y-Y Change
Oct-04	1,533	
Oct-05	1,547	+4.9%
Nov-04	1,449	
Nov-05	1,432	-1.2%
Dec-04	1,149	
Dec-05*	2,121	+84.6
Jan-05	943	
Jan-06	1,000	+6.0%
2006 YTD	1,000	

*Minneapolis 11/05 counted with 12/05
Source: Keystone Report

	Price	Y-Y Change
Oct-04	220,000	
Oct-05	230,000	+4.5%
Nov-04	222,000	
Nov-05	232,000	+4.5%
Dec-04	219,990	
Dec-05	229,900	+4.5%
Jan-05	219,584	
Jan-06	226,700	+3.2%
5-Year Average	203,111	

Source: Minneapolis Area Association of Realtors

	Total	Y-Y Change
Oct-04	19,159	
Oct-05	24,536	+28.1%
Nov-04	17,877	
Nov-05	22,721	+27.1%
Dec-04	15,991	
Dec-05	19,098	+19.4%
Jan-05	16,431	
Jan-06	21,529	+31.0%
Supply Rate	4.2 months	

Source: Minneapolis Area Association of Realtors

Market Briefs

- According to a recent report in USA Today, since 1981 the number of single women buying homes has almost doubled to currently 21% of all homebuyers
- Foreign buying of U.S. corporate bonds hit an all time record in 2005, with investors increased purchases by 26% over 2004 to a total of \$392 billion
- The National Association of Home Builders (NAHB) reports that builder confidence remains unchanged on the NAHB/Wells Fargo Housing Market Index (HMI). The HMI remained at 57 nationally for the third straight month.
- The Department of Commerce reports that housing starts in January increased 14.5% to a seasonally adjusted rate of 2.276 million starts annually. Most economists are attributing the sudden rise in starts to warm weather, as the areas with the greatest gains were the Midwest (+23.7%) and Northeast (+29.2%)

Mortgage Rates

30 Year	5.85%
15 Year	5.48%
5/1 ARM	5.52%

Home Equity

30K HELOC	6.68%
50K HELOC	6.86%
30K Home Equity Loan	7.85%
50K Home Equity Loan	7.74%

Source: www.bankrate.com

Date: 2/20/2006

Unemployment Rate

US Avg 4.6%

Aug-05	3.3%
Sep-05	3.7%
Oct-05	3.1%
Nov-05	3.7%
Dec-05	4.0%

Source: MN DEED

Employment

(Total Non-Farm, in 000's)

Aug-05	1,761.3
Sep-05	1,771.2
Oct-05	1,783.1
Nov-05	1,788.6
Dec-05	1,790.3

Source: MN DEED

Construction Employment

1.1% of total Employment

Aug-05	20,999
Sep-05	20,644
Oct-05	20,843
Nov-05	20,494
Dec-05	20,240

Source: MN DEED

Consumer Price Index

1982-84=100, Nat'l Avg 198.3

2001	176.5
2002	179.6
2003	182.7
2004	187.9
2005 YTD	193.9

Source: Bureau of Labor Statistics

Regional Statistics

Minnesota Housing Units Authorized

	Total	Y-Y Change
Sep-04	4,343	
Sep-05	3,574	-17.7%
Oct-04	4,340	
Oct-05	3,826	-11.8%
Nov-04	2,184	
Nov-05	3,244	+15.3%
Dec-04	2,826	
Dec-05	1,935	-31.5%
2005 Year-End		35,877

Source: US Census Bureau

Minnesota Unemployment Insurance Claims

	Total	Construction
Dec-04	42,261	17,278
Dec-05	36,690	15,422
Jan-05	32,549	11,760
Jan-06	32,526	12,141

Source: MN DEED

Minnesota Weekly Retail Gasoline Prices

Regular Grade, per Gallon

1/23	2.199
1/30	2.208
2/06	2.200

Source: Energy Information Administration

IN THE NEWS...

Builder confidence in the multifamily rental market surged in the fourth quarter of 2005, with strong consumer demand becoming evident in all segments, according to results of the National Association of Home Builders' Multifamily Housing Market Index (MMI), released today. The same survey also found that multifamily builders do not expect consumer interest in condominiums to remain as intense as it has been in the recent past.

"The reports of rising demand for rental apartments and increased apartment starts indicate that this sector of the housing market is moving toward better balance," said Leonard Wood, chairman of NAHB's Multifamily Leadership Board.

Source: NAHB

MN Unemployment Rate

US Avg 4.6%

Aug-05	3.4%
Sep-05	3.7%
Oct-05	3.1%
Nov-05	3.7%
Dec-05	4.0%

Source: MN DEED

MN Employment

Total Non-Farm

Aug-05	2,730,222
Sep-05	2,732,479
Oct-05	2,752,656
Nov-05	2,747,346
Dec-05	2,745,263

Source: MN DEED

MN Construction Employment

4.43% of Total Employment

Aug-05	145,000
Sep-05	141,982
Oct-05	139,300
Nov-05	132,339
Dec-05	121,604

Source: MN DEED

Construction Weekly Wage

Production Worker, Averaged

Aug-05	931.80
Sep-05	921.50
Oct-05	954.43
Nov-05	891.70
Dec-05	871.91

Source: MN DEED

Fast Stat

Percent of Housing Units that are Owner-Occupied

State	Percent
1. Minnesota	76.6
2. Michigan	74.5
3. Idaho	74.4
4. West Virginia	73.9
5. Iowa	73.6
6. Utah	73.3
7. New Hampshire	72.9
8. Delaware	72.8
9. Wyoming	72.4
10. Indiana	71.8
11. Pennsylvania	71.8
12. Alabama	71.7
13. Vermont	71.2
14. Maine	70.6
15. Colorado	70.4
16. Missouri	70.4
17. Florida	70.2
18. Kentucky	70.2

Source: 2004 American Community Survey

National Statistics

Commodities Month End Settlement Prices

	1/27	2/03	2/10
Light Crude Oil (Day)	67.76	64.68	61.84
Copper—High Grade (Day)	229.65	231.85	222.60
Lumber	365.50	365.50	344.00

Source: Anne Burden's Future's Guide

Housing Affordability Index

Dec-04	130.7
Dec-05	116.8

Source: National Association of Realtors

US Housing Units Authorized

	Total	Y-Y Change
Sep-04	173,872	
Sep-05	191,304	+10.0%
Oct-04	154,236	
Oct-05	172,625	+11.9%
Nov-04	154,236	
Nov-05	159,813	+3.6%
Dec-04	152,432	
Dec-05	147,560	-3.2%
2005 Year-End		2,147,617

Source: US Census Bureau

Monthly Construction Spending

(in 000's)

	Total Private Construction	Residential (including improvement)	New Single-Family	New Multi-Family
Nov-04	827,827	581,672	390,779	39,215
Nov-05	894,750	642,555	445,694	48,900
Dec-04	839,795	597,756	391,124	41,178
Dec-05	904,314	648,895	446,765	49,372

Source: US Census Bureau/US Dept of Commerce

Fannie Mae Home Executive VP Discusses Mortgages

Tom Lund, Executive Vice President of single family mortgage business at Fannie Mae recently participated in a panel discussion at Morgan Stanley's "Under the Hood: Consumers, Mortgages & Housing." The discussion focused on mortgage backed securities within the single-family market.

Over the last year according to Lund, Fannie Mae experienced a moderation in the mortgage originations. The high year was 2003, with a return to more normal rates of origination in the last two years. Lund said that the housing market has been, "a truly riskless market for many, many years given the high level of home prices." During this period of an expanded market originators offered products with layered risks. This led to investors in certain markets purchasing products with no documented levels of income,

no assets, and no verification of any other kind. Investors purchased 15% of loans originated.

There have been many changes in the single-family mortgage business within the last year. Most noticeably, there has been an inversion of the yield curve, where many adjustable rate loans are higher now than a 30-fixed rate would be. Lund now believes from a mortgage standpoint that, "finally there's beginning to be a re-introduction of risk into housing." This is a good thing for mortgage-backed securities, as more risk means more chances for profitable returns.

Moving forward into 2006, Lund sees many buyers refinancing even with higher interest rates. This is due to interest only and adjustable rate products continuing to become more expensive for homeowners. These consumers are the

most likely to refinance to a more stable 30-year fixed loan.

Many of the consumers looking to refinance previously purchased Adjustable Rate Mortgages. Fannie Mae reported 36% of applications at the peak, which has now scaled back to 29%. Lund states that this is still "way too high on a relative scale compared to the benefit you get and how narrow the margin between a fixed loan and the ARM is." This is not to say that ARMs are bad product, but are, "right for the right consumers."

A transcript and recording of the panel is available online (registration required):

<http://www.fanniemae.com/ir/index.jhtml>

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Real Estate Report...

Price growth as a year-to-year percentage is returning to normal after substantial increases in the early part of the decade. There was a six percent price growth within the last year. This is a healthy rate and above historic returns of around four percent, but below returns as high as 12 percent in 2001.

The total inventory of homes on the market ended the year 2005 at 20 percent higher than 2004, a significant increase as market supply began to

catch up with buyer demand in the region.

Many of the inner-ring suburbs experienced a slowdown in sales from the record years to begin the decade, a trend that occurred through much of the outer metro as sales numbers were fueled by buyers in the central neighborhoods in the city of Minneapolis.

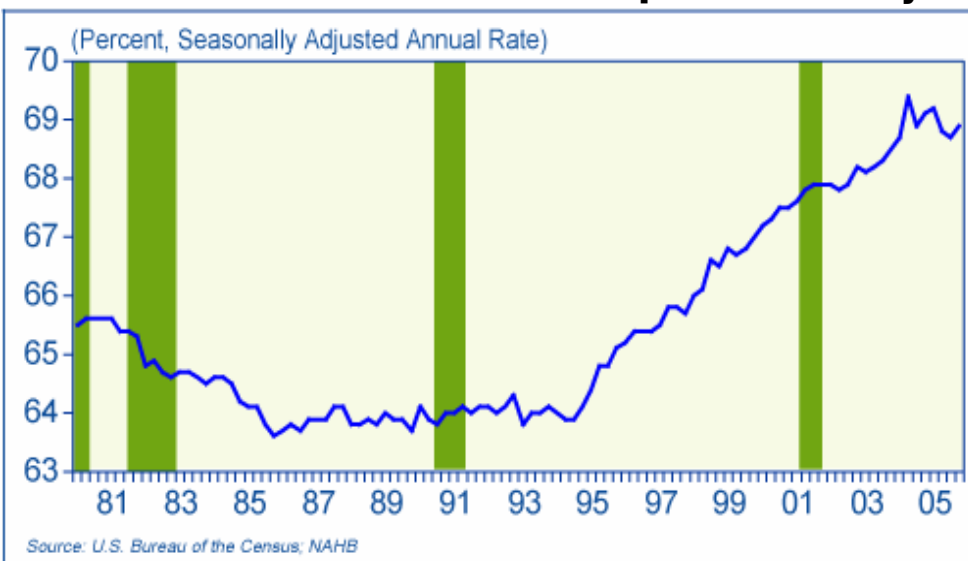
Central Minneapolis experienced a significant expansion in sales within the last year, as 1,328 total sales were processed. This is up from 539 the year before, an increase of almost 150 percent. Most of this growth occurred in smaller units with one to two bedrooms, following the trend of smaller multifamily housing units be-

coming more popular in the central urban settings. Total sales of units with one bedroom in central Minneapolis increased from 206 in 2004 to 792 in 2005, an increase of almost 285 percent. Units with bedrooms in central Minneapolis increased from 277 total sales in 2004 to 449 in 2005, a 62 percent year-to-year increase.

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

<http://www.mplsrealtor.com/Segments/Realtors/ResActRpt2005.pdf>

Chart of the Month— Homeownership Rate Nationally



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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January Permits...

Attached or multi-family housing is less than half of permitted units, with a total of 465, or 46.5 percent of the total planned units for the month (four weeks recorded). This compares to multi-family units running 52 percent annually for 2005, 52.7 percent in 2004, 48.6 percent in 2003, 43.7 percent in 2002, 41.5 percent in 2001, and 37.5 percent in 2000.

"There should be a normalization of the housing market this year," says Curt Swanson, 2006 President of the Builders Association of the Twin Cities and president of Swanson Homes, "This is simply a maturation process in the local market, and a cycle that we all expected as early as last winter".