

HOT SHEET

Market Indicators for the Twin Cities Home Building Industry



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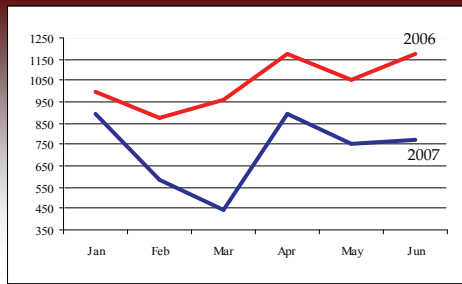


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Market Chatter:

"In view of current market challenges, we expect to see further erosion in housing starts during the second half of this year. However, we expect to see signs of stabilization by the end of this year and we're projecting a gradual recovery process in 2008." David Seiders, NAHB Chief Economist

"The gradual decline in home sales has been continuous since late 2005 and isn't showing signs of letting up. Predicting exactly when that will change is an inexact science, but it's becoming clear that our eventual recovery will be a multi-year adventure." Deb Greene, Minneapolis Area Association of Realtors President

"The bottom line is that the single-family housing market is still in a correction process following the historic and unsustainable highs of the 2003-2005 period. Builders are actively trimming prices and offering buyer incentives to work down their inventories, but meanwhile there is a large supply of vacant existing homes on the market, and affordability problems persist despite efforts to attract buyers. In spite of these challenges, we expect to see home sales get back on an upward path late this year and we expect housing starts to begin a gradual recovery process by early next year. At that point, this market will be operating well below its long-term potential, providing plenty of room to grow in 2008 and beyond." David Seiders, NAHB Chief Economist

A Gradual Recovery in New Home Market

A recovery in the residential construction industry has taken longer than expected and is likely linked to lingering issues in the existing market. Granted, the new home market has brought trouble upon itself through a build up of inventory and oversupply in some cases, but these issues have been exacerbated by other significant problems in the existing home market. As a result, there are fewer move up buyers from existing homes to new homes. They still exist, but are unable to move out and up from their current home. The new home market appears to beginning a gradual flattening, but needs a boost in consumer confidence in the existing market to make a full recovery is possible.

During the first half of the decade, homes sold quickly, buyers were eager to own, and sellers gained from accelerated price appreciation. The peak year for residential construction was 2003, when there were 19,000 units authorized according to numbers tracked by the Keystone Report for BATC. Prices in the existing market grew at unusual rates of six or more percent annually. Building activity sustained nearly that level of production with over 18,000 authorized units for two years after 2003. Compare these numbers

with the Met Council's expectation to add about 15,000 to 16,000 households annually to the region, and it becomes apparent that production had surpassed demand. In 2006, the new-home market began to respond to accelerated production, and the number of authorized units slid to just over 12,000.

As early as mid-2005, the housing market knew that reality would hit and a new market cycle was imminent. The previous five-year pace was beyond what the market demanded. To keep up that rate of production was unrealistic in this metro market and, in 2006, a correction came into focus. The new-home market began the year at a similar pace to 2005, but hit a slide in roughly May from which it is just now flattening. Building activity in 2006 ended about 31 percent below the previous year.

In early 2007, forecasts from the National Association of Home Builders (NAHB) showed the Twin Cities flattening out in the second quarter. The months began to pass with continued downward trends, and in early spring, another forecast was released that showed the flattening

(Continued on page 4)

Builders Look for Market to Flatten

In the first half of 2007, homebuilders in the Twin Cities worked through a notable market adjustment. Compared through the same point a year ago, this year's building activity is down slightly more than 31 percent. Many builders are looking towards the second half of the year as another phase of the adjustment – a flattening out.

According to statistics compiled by the Keystone Report for the Builders Association of the Twin Cities (BATC), there were a total of 773 units permitted in June 2007, down from 1,176 units permitted in the same month a year ago. Year-to-date activity continues to lag last year, with a total of 4,523 units permitted thus far, down from 6,585 units permitted through the same point last year.

While the first half of 2007 continued an adjustment began last year, forecasts are beginning to show that the second half may be a flattening out says 2007 BATC President Michael Noonan.

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

2007	— 2,759 permits, 4,523 planned units
2006	— 4,155 permits, 6,585 planned units
2005	— 4,858 permits, 8,145 planned units
2004	— 5,341 permits, 8,440 planned units
2003	— 5,261 permits, 8,889 planned units
2002	— 5,060 permits, 8,221 planned units
2001	— 5,303 permits, 7,072 planned units
2000	— 6,216 permits, 8,608 planned units

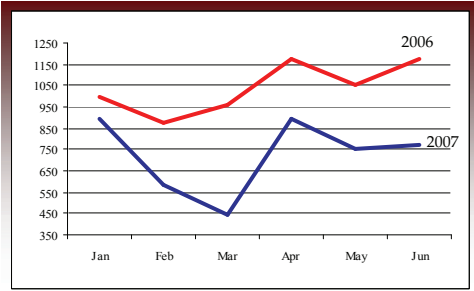
"The next six months will be a telling sign of where our market is headed," says Noonan. *"According to a recent forecast by the National Association of Home Builders, the Twin Cities market may begin to flatten out over the remainder of this year, then slightly rebound throughout 2008."*

Noonan cautions against expecting a sudden torrent of activ-

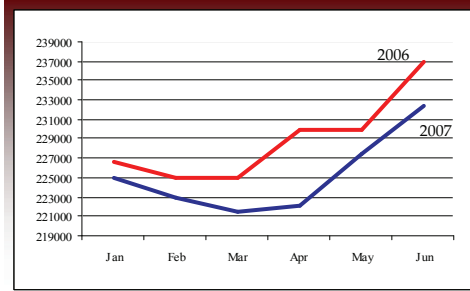
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Twin Cities Statistics

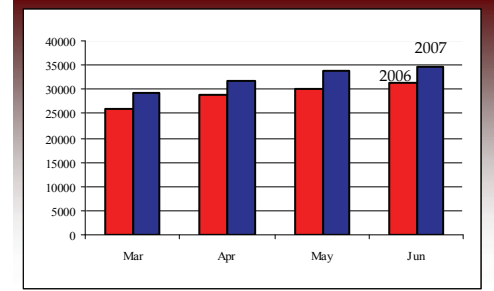
Twin Cities Housing Units Authorized



Twin Cities Median Home Price



Twin Cities Total Active Listings at Month End



	Total	Y-Y Change
Mar-06	955	
Mar-07	443	-53.6%
Apr-06	1,177	
Apr-07	895	-23.9%
May-06	1,052	
May-07	753	-28.4%
Jun-06	1,176	
Jun-07	773	-34.3%
2007 YTD	4,523	

Source: Keystone Report

	Price	Y-Y Change
Mar-06	225,000	
Mar-07	221,450	-1.6%
Apr-06	230,000	
Apr-07	222,000	-3.5%
May-06	230,000	
May-07	227,495	-1.1%
Jun-06	236,850	
Jun-07	232,500	-1.8%
5-Year Change		+23.1%

Source: Minneapolis Area Association of REALTORS®

	Total	Y-Y Change
Mar-06	26,182	
Mar-07	29,285	11.9%
Apr-06	28,801	
Apr-07	31,882	+10.7%
May-06	30,179	
May-07	33,898	+12.3%
Jun-06	31,295	
Jun-07	34,630	+10.7%
Supply Rate	9.6 months	

Source: Minneapolis Area Association of REALTORS®

Mortgage Rates

Effective Rates

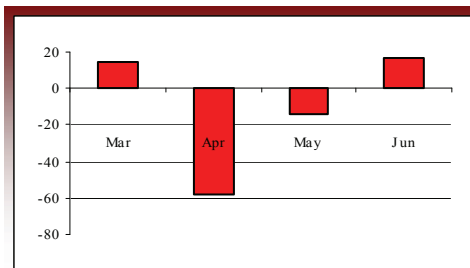
Date: 7/26/2007

30 Year Fixed	6.75%
15 Year Fixed	6.44%
5/1 ARM	6.37%
Adjustable Rate	5.76%
Spread/Fixed ARM	0.99%

Source: NAHB/Freddie Mac

Twin Cities New Home Buyer-Traffic

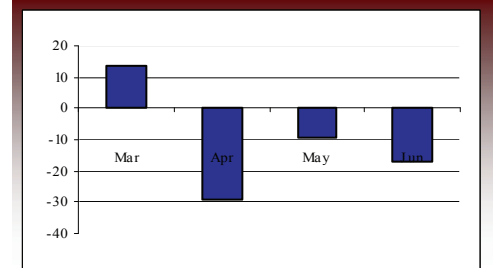
Month-to-Month Percent Change



Source: Metrostudy—Twin Cities

Twin Cities New-Home Contracts

Month-to-Month Percent Change



Source: Metrostudy—Twin Cities

Monthly Conversion Rates

New-Home Sales

Month	Rate
Mar	4.3
Apr	7.2
May	7.9
Jun	5.7

Source: Metrostudy—Twin Cities

Monthly Cancellation Rates

New-Home Sales

Month	Rate
Mar	21.7
Apr	21.4
May	18.4
Jun	22.9

Source: Metrostudy—Twin Cities

Unemployment Rate

US Avg 4.7%

Feb-07	4.5%
Mar-07	4.4%
Apr-07	4.2%
May-07	4.0%
Jun-07	4.4%

Source: MN DEED

Employment

Total Non-Farm

Feb-07	1,768,367
Mar-07	1,774,927
Apr-07	1,799,259
May-07	1,822,856
Jun-07	1,836,597

Source: MN DEED

Construction Employment

0.59% of total Employment

Feb-07	9,912
Mar-07	10,048
Apr-07	10,323
May-07	10,532
Jun-07	10,844

Source: MN DEED

Consumer Price Index

1982-84=100, Nat'l Avg 208.352

2002	179.6
2003	182.7
2004	187.9
2005	193.9
2006	197.3

Source: Bureau of Labor Statistics

Regional Statistics

Minnesota Housing Units Authorized

	Total	Y-Y Change
Mar-06	2,678	
Mar-07	1,510	-43.6%
Apr-06	2,395	
Apr-07	1,701	-28.9%
May-06	2,962	
May-07	2,109	-28.8%
Jun-06	3,251	
Jun-07	1,822	-44.0%
2007 YTD	8,781	

Source: US Census Bureau

Minnesota Unemployment Insurance Claims

	Total	Construction
May-06	20,957	4,799
May-07	20,002	4,756
Jun-06	18,313	3,335
Jun-07	18,918	3,703

Source: MN DEED

Minnesota Weekly Retail Gasoline Prices

Regular Grade, per Gallon	
7/9	3.096
7/16	3.199
7/23	2.960

Source: Energy Information Administration

Fast Stat

Money Magazine Best Places to Live 2007

1. Middleton, WI
2. Hanover, NH
3. Louisville, CO
4. Lake Mary, FL
5. Claremont, CA
6. Papillion, NE
7. Milton, MA
8. Chaska, MN
9. Nether Providence, PA
10. Suwanee, GA

Notables:

28. Apple Valley, MN
36. Vadnais Heights, MN

MN Unemployment Rate

US Avg 4.7%

Month	Rate
Feb-07	5.1%
Mar-07	4.9%
Apr-07	4.6%
May-07	4.2%
Jun-07	4.5%

Source: MN DEED

MN Employment

Total Non-Farm

Month	Employment
Feb-07	2,721,133
Mar-07	2,732,977
Apr-07	2,769,984
May-07	2,812,441
Jun-07	2,838,285

Source: MN DEED

MN Construction Employment

0.59% of Total Employment

Month	Employment
Feb-07	14,907
Mar-07	14,834
Apr-07	14,983
May-07	15,669
Jun-07	16,640

Source: MN DEED

Construction Weekly Wage

Production Worker, Averaged

Month	Wage
Feb-07	932.01
Mar-07	930.74
Apr-07	947.78
May-07	984.14
Jun-07	1,030.32

Source: MN DEED

National Statistics

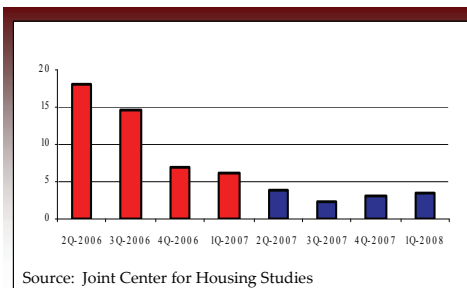
Commodities Month End Settlement Prices

	4/30	5/31	6/29
Light Crude Oil (Day)	65.71	64.01	69.57
Copper—High Grade (Day)	354.15	339.35	342.95
Lumber	232.20	277.80	280.50

Source: Anne Burden's Future's Guide

Leading Indicator for Remodeling

Annualized Growth Rate by Quarter



Source: Joint Center for Housing Studies

US Housing Units Authorized

	Total	Y-Y Change
Mar-06	191,266	
Mar-07	139,222	-27.2%
Apr-06	164,884	
Apr-07	128,055	-22.3%
May-06	184,470	
May-07	144,440	-21.7%
Jun-06	180,178	
Jun-07	131,908	-26.8%
2007 YTD	767,239	

Source: US Census Bureau

IN THE NEWS...

Home improvement expenditures will hold stable in the low single digit range according to the leading indicator developed by Harvard's Joint Center for Housing Studies. According to the Leading Indicator for Remodeling Activity (LIRA), which builds on the Remodeling Activity Indicator that the Joint Center has been releasing since 1998, homeowner spending for home improvement activity will essentially remain constant through the first quarter of 2008. Overall growth in spending for 2007 is projected to be 3.0%.

Source: Joint Center for Housing Studies

Remodeling Market Indices

	Current Conditions	Future Expectations
1Q 2006	48.1	1Q 2006 48.9
1Q 2007	46.1	1Q 2007 46.5

Source: National Association of Home Builders

Monthly Construction Spending

(in 000's)

	Total Private Construction	Residential (including improvement)	New Single-Family	New Multi-Family
Apr-06	948,467	657,807	446,517	56,120
Apr-07	887,638	553,570	328,288	51,703
May-06	954,433	665,893	440,036	54,231
May-07	892,114	548,989	323,559	51,873

Source: US Census Bureau/US Dept of Commerce

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Market Recovery...

moving to the third quarter of 2007 and a gradual recovery through 2008. Essentially, correction has taken longer than expected but it is beginning to occur.

While the new-home market flattens from correction, the existing-home market continues to adjust. A great majority of new-home buyers move up from an existing home but, unfortunately, are unable to purchase a new home because they cannot sell their current one. There are three primary factors influencing the existing market – inventory levels, price corrections, and consumer confidence.

Inventory in the existing market continues to be too high. Currently there is over a nine-month

supply of homes according to the Minneapolis Area Association of Realtors. While new listings through the first two quarters are down over two percent compared through the same point last year, closed sales are actually down almost 16 percent. This has led to total active listings at the end of the first half to be up nearly 11 percent when compared to the same time in 2006.

Due to the supply imbalance - coupled with previously accelerated rates of growth - price corrections are influencing the existing market. Annual price growth throughout the first half of the decade exceeded six percent. Compared with a normal return of about three percent annually, the trend was not expected to continue endlessly. Towards the end of 2006, price growth began to correct and median price has actually slightly declined for each month in 2007 compared to a year earlier. As stated previously, part of the declining rates are due to an over-supply

but another part is surely correction from over-inflated prices in some cases. When prices grew at an unnatural rate while incomes maintained steady but unequal growth, prices were bound to correct themselves.

Leveling home prices have caused considerable consumer confidence issues. Many sellers are reluctant to lower asking price, and buyers are throwing lowball offers with the awareness that the market has decidedly shifted in their favor. Add into the mix a lot of negative press on the overall housing market, and consumer confidence is really taking a hit. Until consumers are able to see an alternative perspective on the housing market – one that shows the benefits of being a homeowner – their confidence will not recover. For builders, this means that there will be a limited number of buyers willing to purchase a new home. They will not be able to move up because they cannot move out.

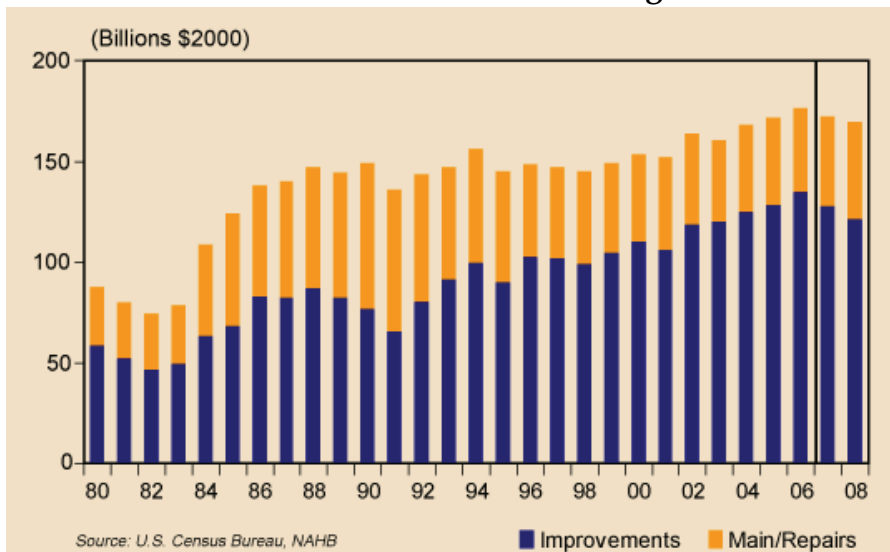
Builders and other industry professionals understand that the market is going through a natural and needed correction, but the average consumer may not. The new-home market will likely flatten out during the remainder of 2007 and begin to recover gradually in 2008. The final six months will be a sign of where the market is headed. If the existing home market continues to lag, there may be a prolonged sense of trouble among consumers. However, many realize that the economy is doing well, population growth remains steady, and homes will continue to be a safe haven for investment. It may be a gradual return for the market, and a shift in consumer confidence will lead the way.

(This article will also appear in the August/September Builders' Digest)

Market Briefs

- A surplus of unsold homes on the market, combined with ongoing concerns in the subprime mortgage arena and affordability issues associated with tightened lending standards and higher interest rates, continues to take a significant toll on builder confidence, according to the latest National Association of Home Builders/Wells Fargo Housing Market Index (HMI). The HMI declined four points to 24 this month, which is its lowest level since January of 1991.
- The Metropolitan Council estimates that 2.82 million people lived in the Twin Cities area as of April 1, 2006. Population growth since 2000 totaled 180,000 people, or 6.8 percent. Economic stability continues to be a factor in attracting new residents. The Twin Cities ranks in the top 10 among major metro areas in per capita income, workforce participation, and housing affordability. The region remains on course to add nearly one million people between 2000 and 2030.
- A recent study by the National Association of Home Builders (NAHB) found that every \$819 rise in fees paid at the beginning of the construction process – such as an increase in the price of a construction permit, a tap fee, a proffer or an impact fee – adds an additional \$1,000 to the final price of the home. A \$1,000 increase on a home in the Twin Cities prices out almost 1,400 households as buyers.

Chart of the Month: Residential Remodeling



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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June Building Activity...

ity. Instead, the market will return slowly to healthy and sustainable rates of production.

“It’s not practical to expect a record pace year after year,” says Noonan. “The rates of production during the first half of this decade were unsustainable and an adjustment was needed to bring this market back into alignment.”

Minneapolis leads the metro in year-to-date activity with 410 units permitted. St. Paul ranks second with 368 units permitted, followed by Woodbury with 250, Lakeville with 179, and Chaska with 161.