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REALTOR® Showcase

2007 MIDYEAR FORECAST

June 7, 2007

Joel Singer
Executive Vice President
California Association of REALTORS®

Overview

- California Housing Market
- Sub-Prime/Foreclosure Situation
- Regional Outlook
- 2007 Forecast

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California Housing Market

Framing the Discussion

- Many Headlines on Housing
- Segments in Housing Sector:
  - Construction
  - Home Improvement
  - Real Estate Finance
  - Resale of Homes
- Housing Market & Economic Impacts
- Vary Across Local, State, US Markets

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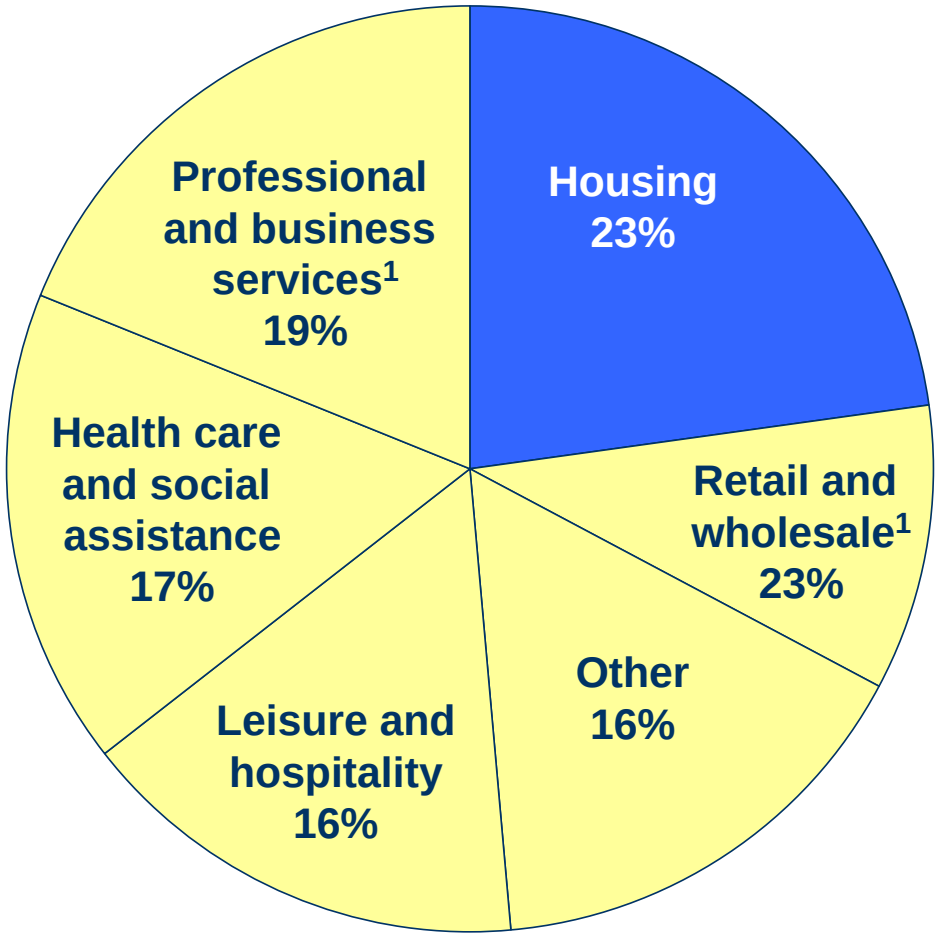
Share of Total Job Growth

Q3 2003 – Q3 2006



Source: Moody's Economy.com

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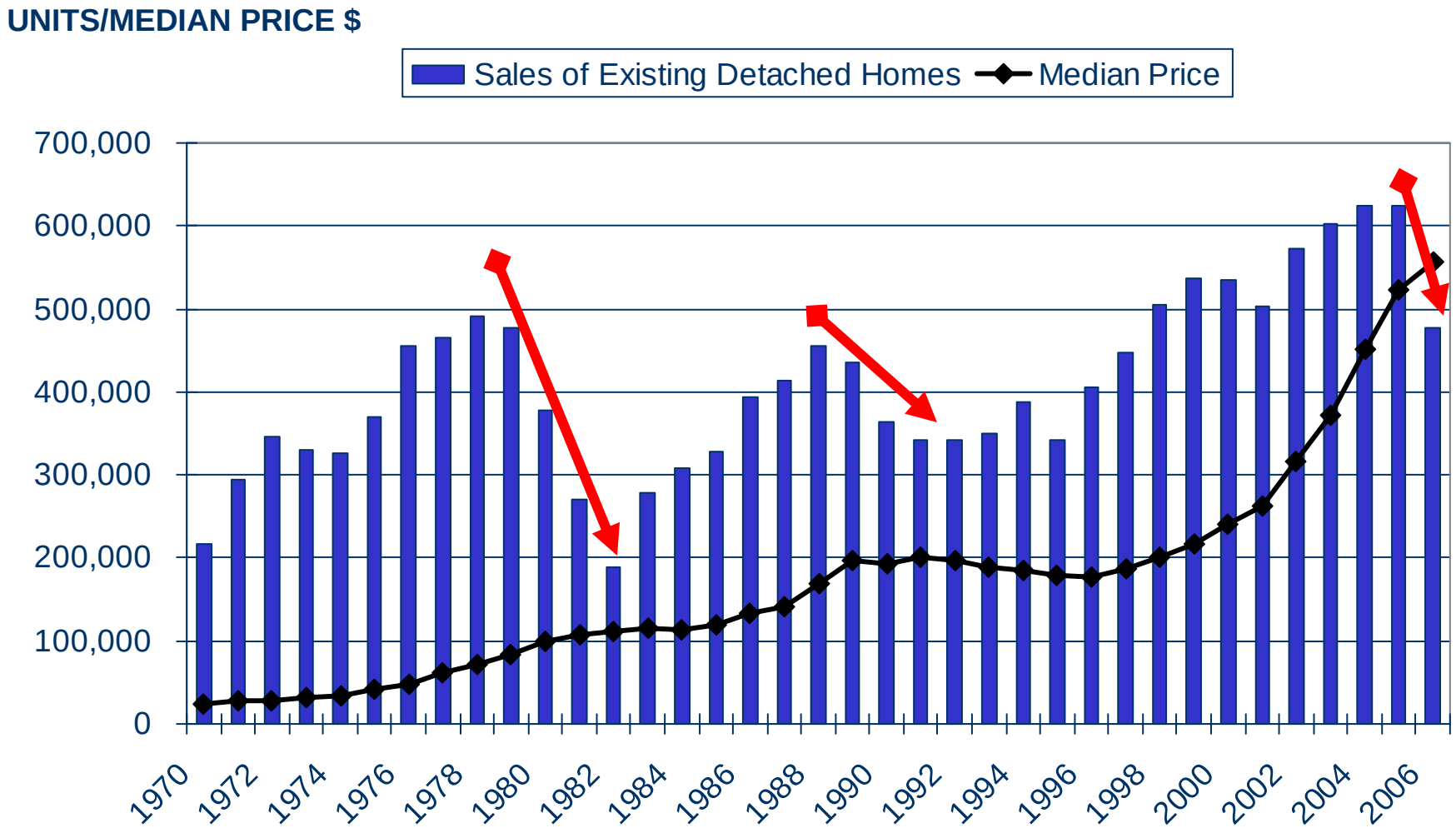
Sales More Volatile Than Prices

Price Stickiness in Down Market …Most Owners Don't Sell



SOURCE: California Association of REALTORS®

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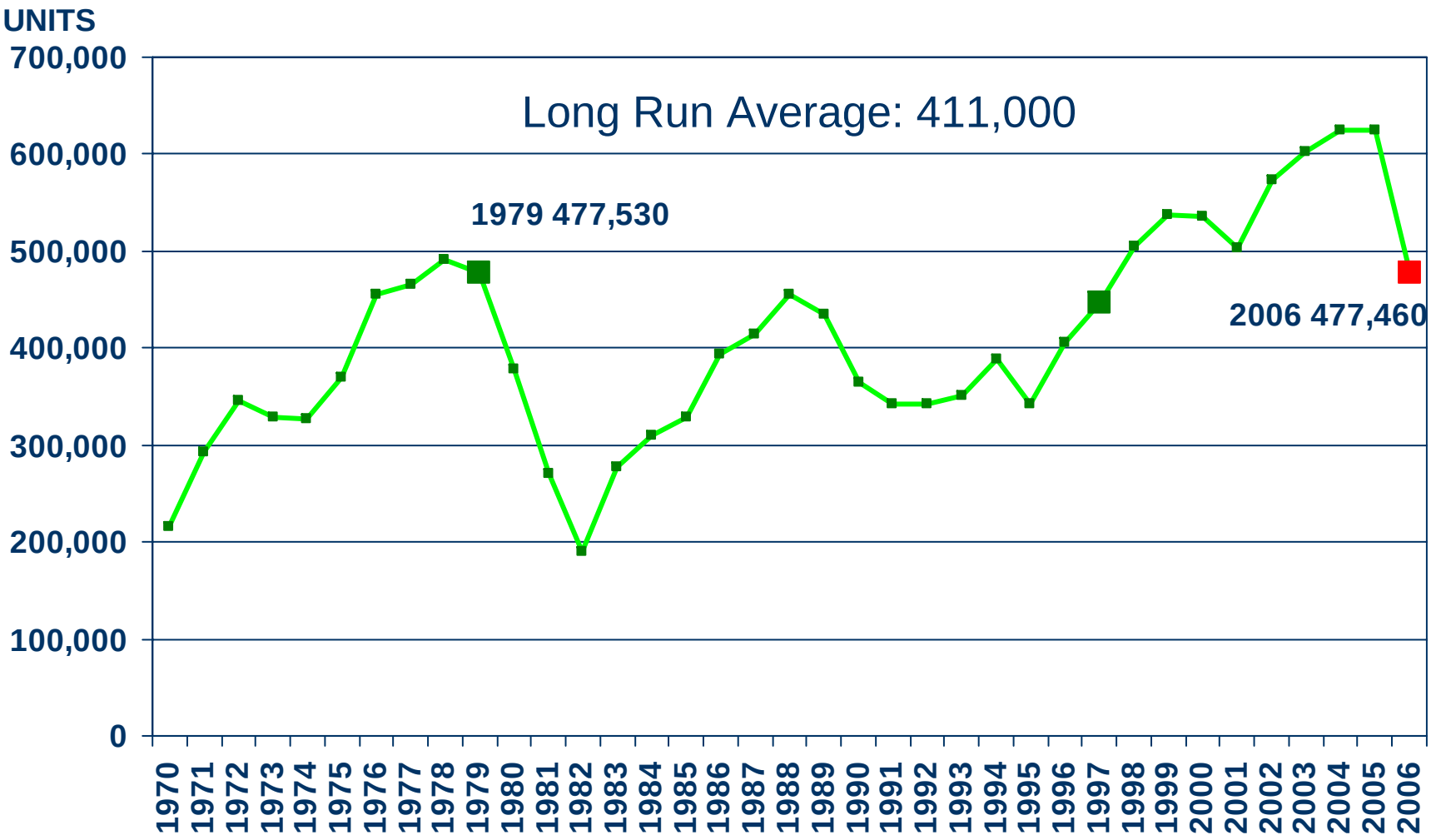
Long-Term Perspective

2006 Sales Were 11th Highest On Record



SOURCE: California Association of REALTORS®

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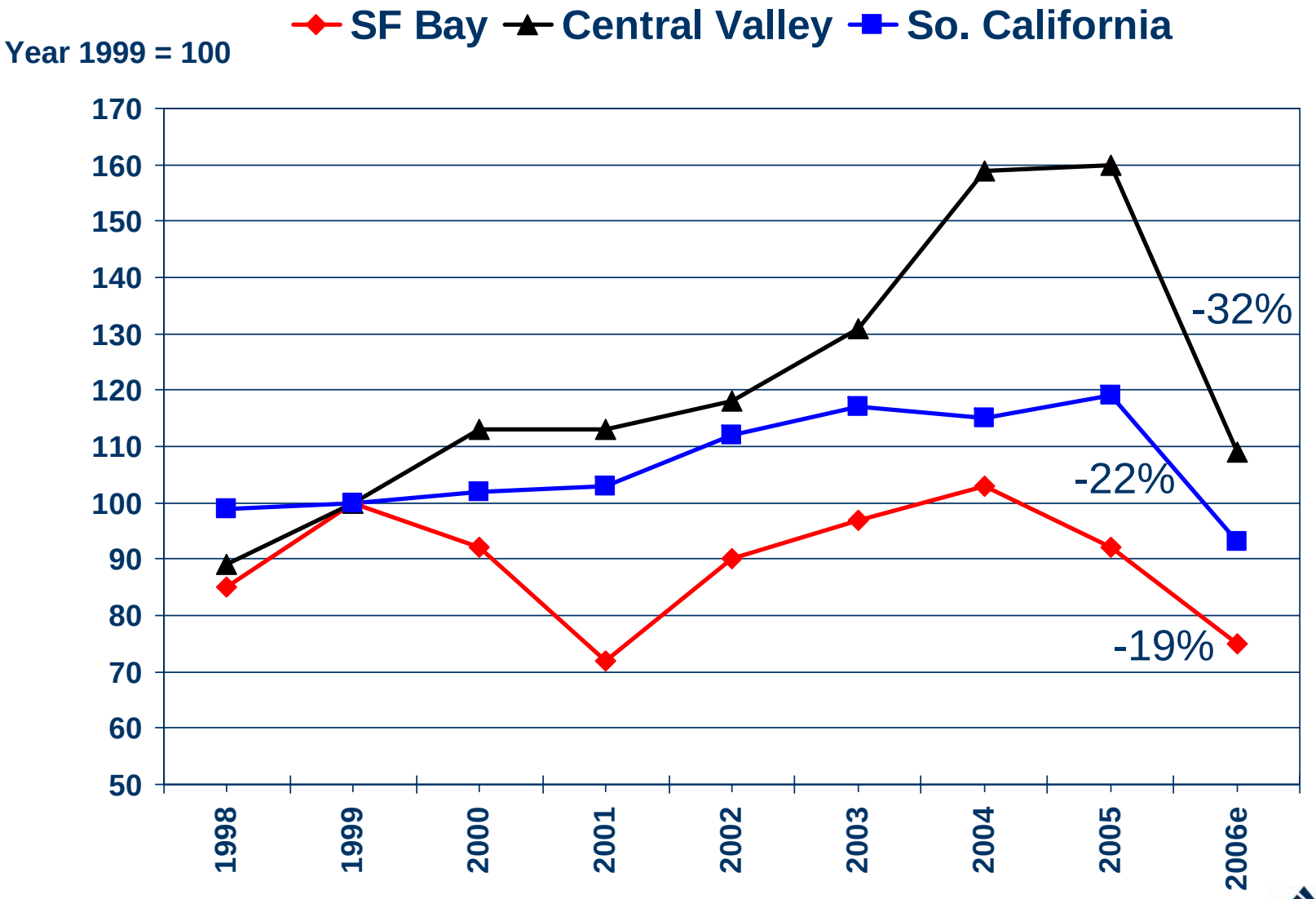
Annual Sales Index by Region

1998-2006 (1999 Sales = 100)



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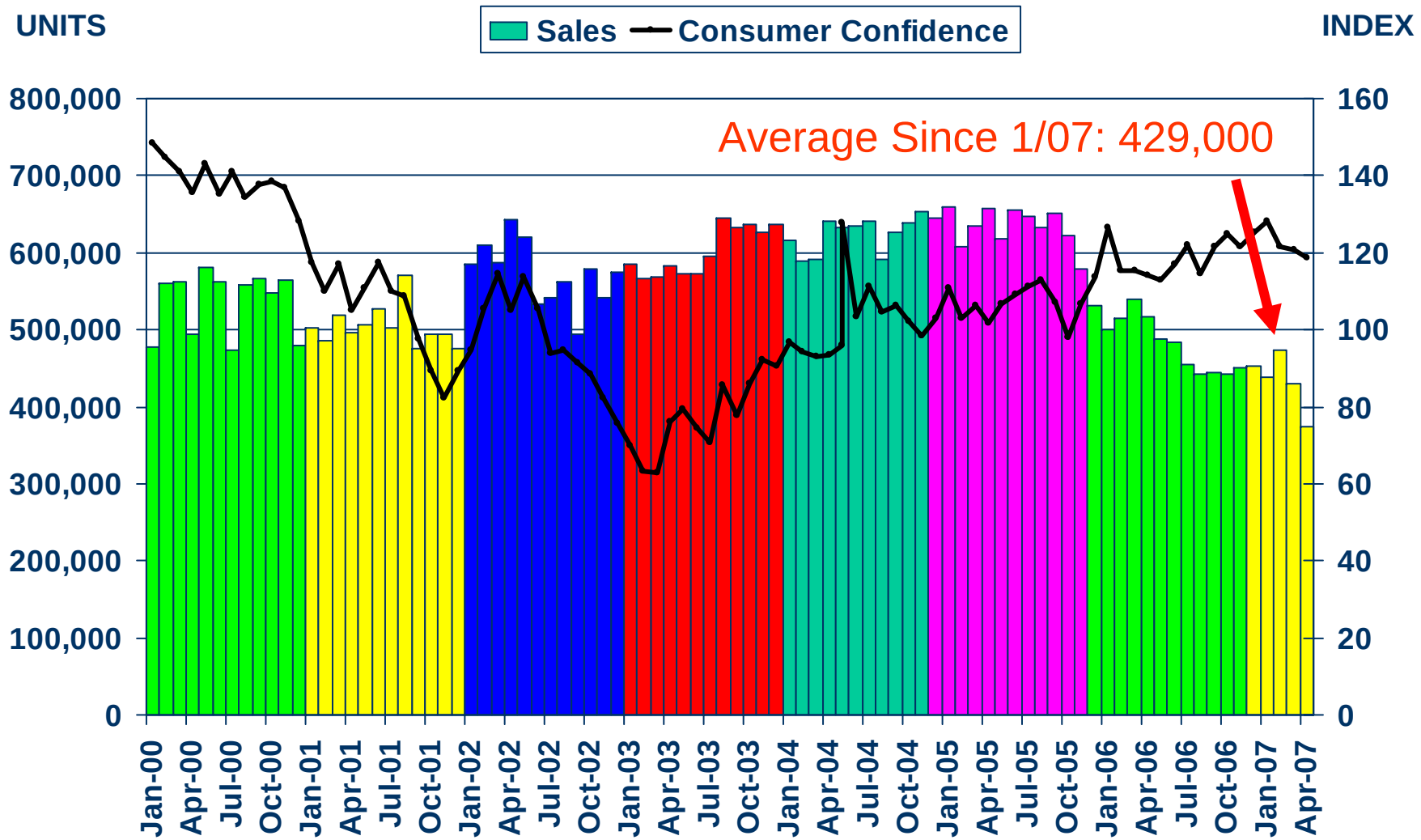
Sales of Existing Detached Homes and Pacific West Consumer Confidence

California, April 2007 Sales: 373,280 Units, Down 17.2% Y-T-D, Down 27.8% Y-T-Y



SOURCE: California Association of REALTORS®; The Conference Board

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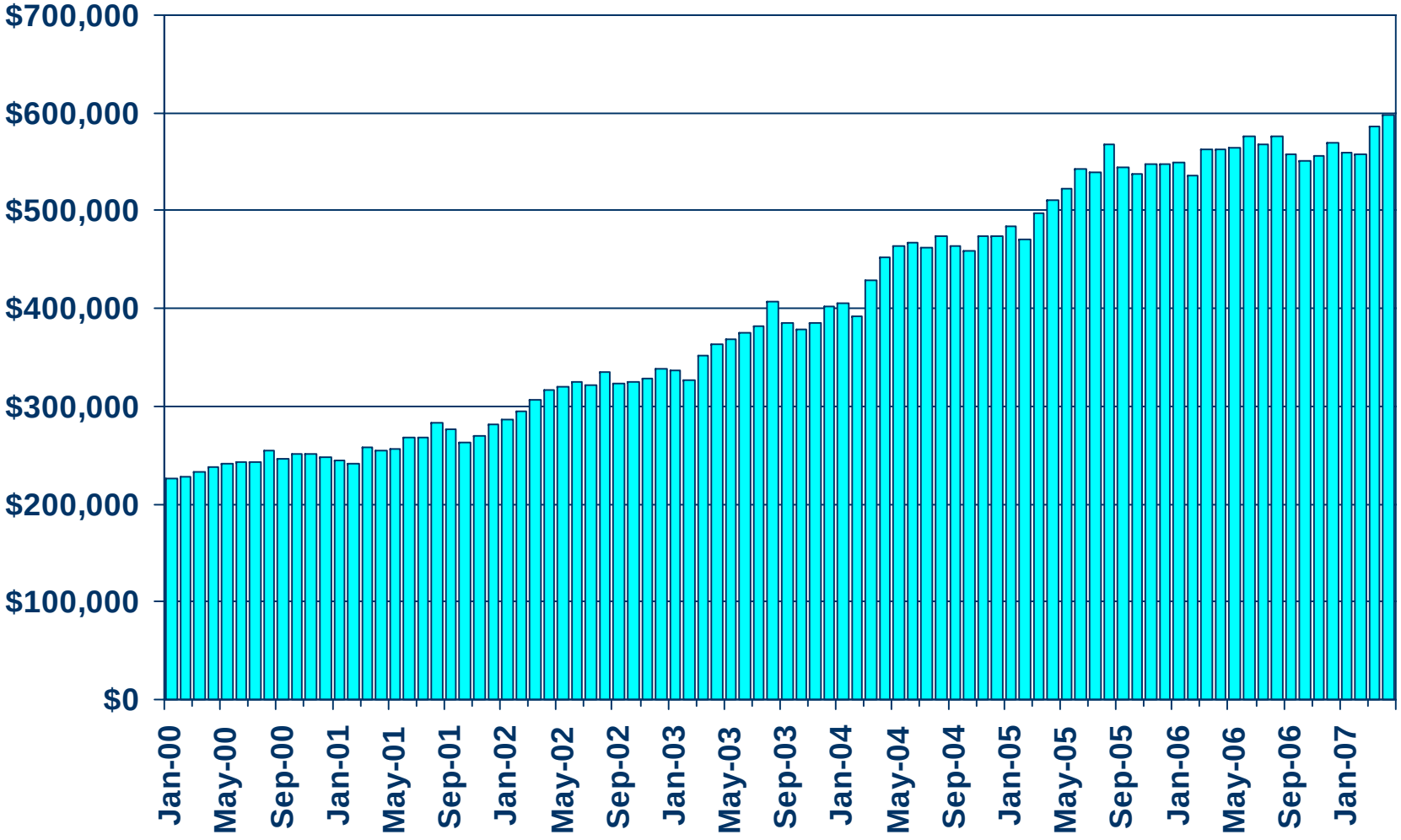
Median Price of Existing Detached Homes

California, March 2007: $580,090, Up 3.2% Y-T-Y



SOURCE: California Association of REALTORS®

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Variability Among Local Markets

Region	Peak Month	Peak Price	Median 2007-04	% Chg From Peak
Palm Springs/Lower Desert	Jun-05	$393,370	$377,830	-4.0%
Central Valley	Aug-05	$363,680	$335,090	-7.9%
Northern California	Aug-05	$440,420	$398,260	-9.6%
Sacramento	Aug-05	$394,450	$361,850	-8.3%
Northern Wine Country	Jan-06	$645,080	$608,970	-5.6%
High Desert	Apr-06	$334,860	$317,420	-5.2%
San Diego	May-06	$622,380	$610,970	-1.8%
San Luis Obispo	Jun-06	$620,540	$607,140	-2.2%
Ventura	Aug-06	$710,910	$691,710	-2.7%
Riverside San Bernardino	Jan-07	$415,160	$401,690	-3.2%

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Variability Among Local Markets

Region	Peak Month	Peak Price	Median 2007-04	% Chg From Peak
Los Angeles	Apr-07	$596,310	$596,310	0.0%
Monterey Region	Apr-07	$787,950	$787,950	0.0%
Orange County	Apr-07	$747,260	$747,260	0.0%
San Francisco	Apr-07	$843,710	$843,710	0.0%
Santa Clara	Apr-07	$868,410	$868,410	0.0%

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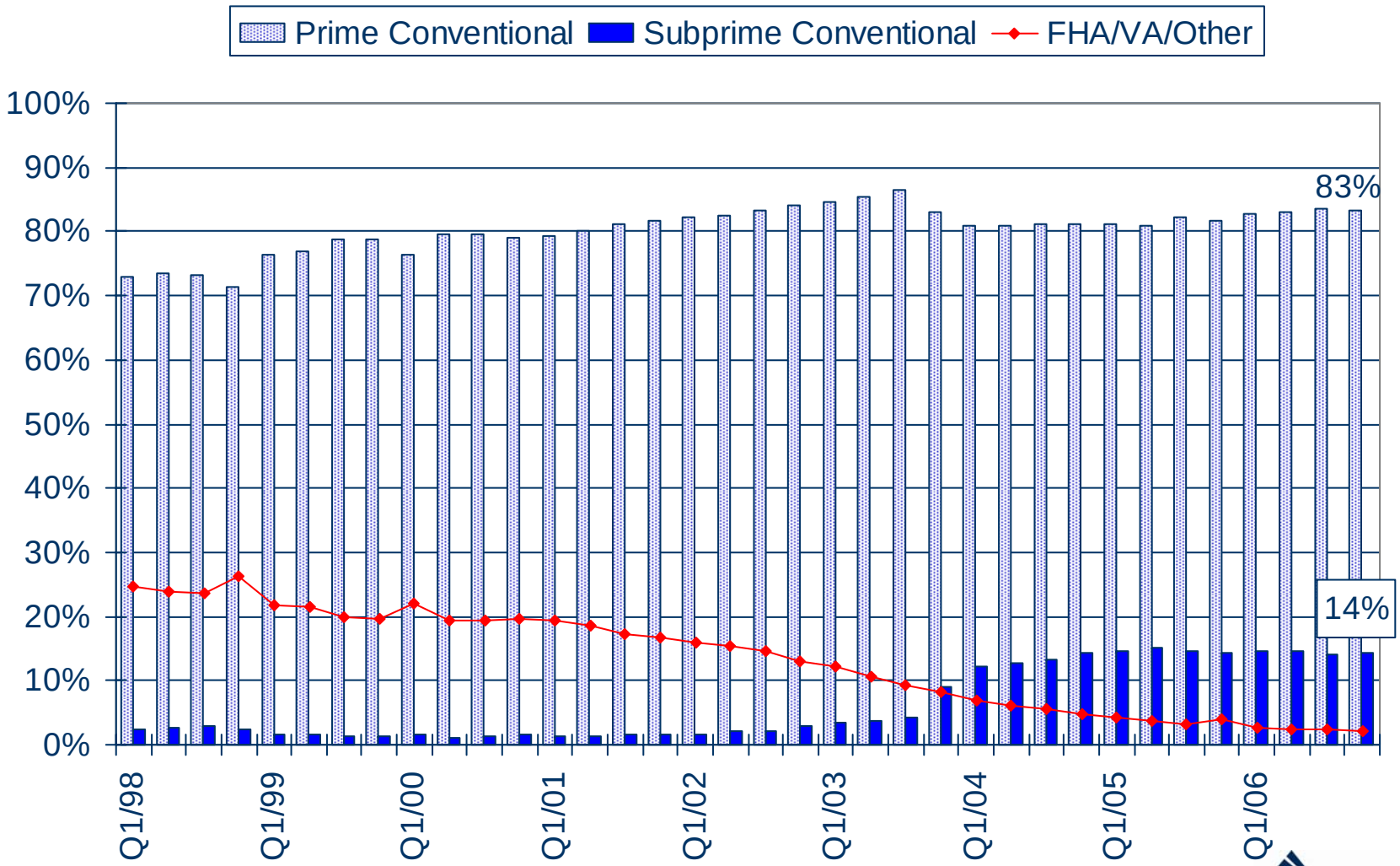
Sub-Prime/Foreclosure Situation

Prime, Sub-Prime, & Other Loans

As a Percentage of All Loans Outstanding in California



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Non-Prime Non-Agency Originations – US ($ millions)

Loan Type	2005	2006
Alt-A ARMS	$ 110,942	$ 36,580
Sub-Prime ARMS	$ 323,963	$ 102,236
Option ARMS	$ 126,329	$ 71,211
Tot Non-Prime ARMS	$ 563,239	$ 212,033
All Originations	$ 842,060	$ 340,031
Non-Prime % of Total	66.9%	62.4%

2005 Volume Much Larger Than 2006

SOURCE: UBS

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Non-Prime Non-Agency Originations – US
As Percentage of 2-Year Total

Loan Type	2005	2006	Total
Alt-A ARMS	14%	5%	19%
Subprime ARMS	42%	13%	55%
Option ARMS	16%	9%	26%
Total	73%	27%	100%

SOURCE: UBS

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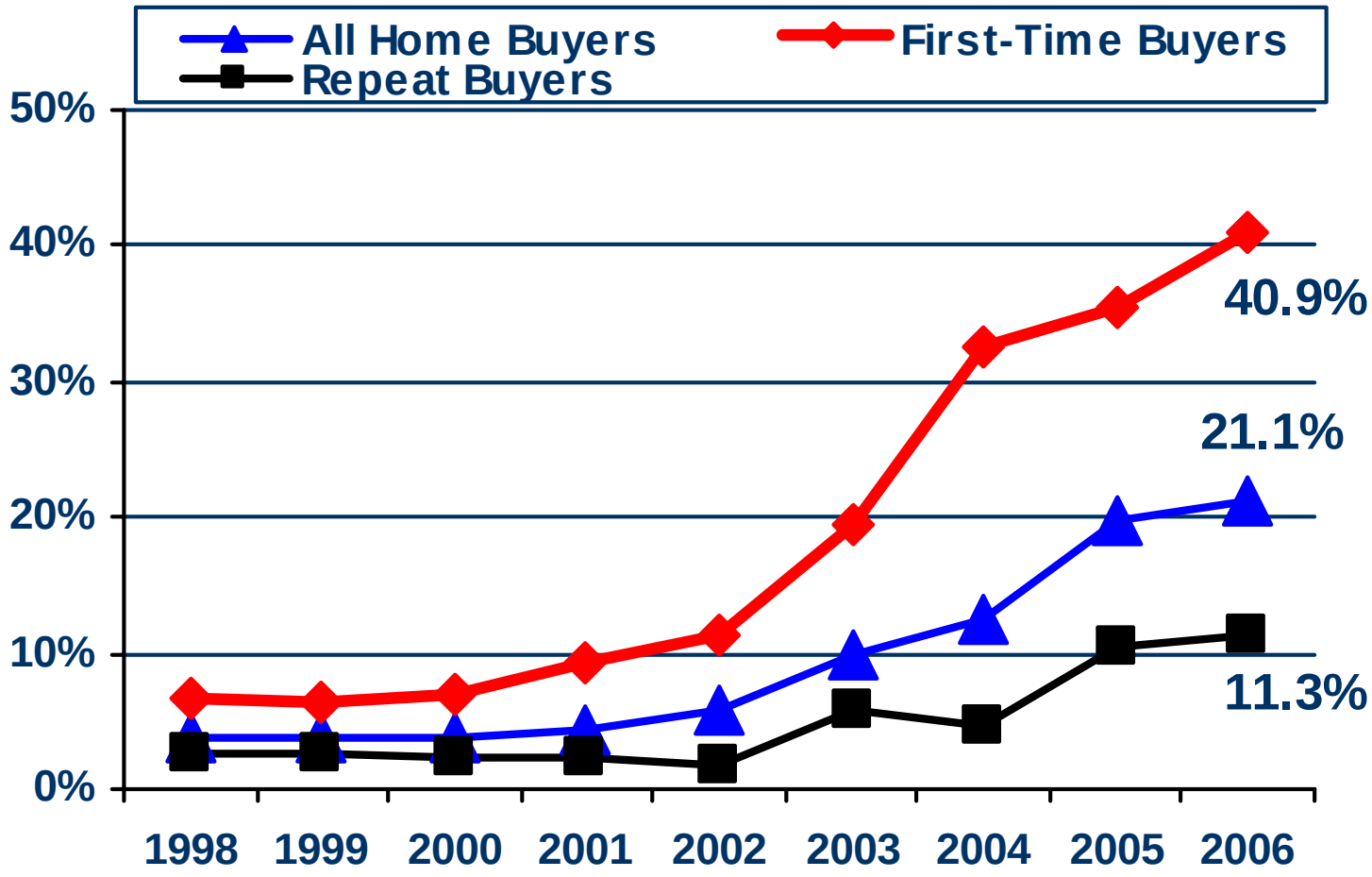
Percent of Buyers with Zero Downpayment

First-Time Buyers vs. Repeat Buyers



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Notices of Default

California & Its Regions

Region	2007-Q1	2006-Q4	2006-Q1	QTQ %Chg	YTY %Chg
So Cal	26,748	21,605	11,183	23.8%	139.2%
Bay Area	6,730	5,362	2,585	25.5%	160.3%
Central Valley	11,054	8,531	4,157	29.6%	165.9%
Rest of State	2,228	1,775	931	25.5%	139.3%
Statewide	**46,760**	**37,273**	**18,856**	25.5%	148.0%

SOURCE: California Association of REALTORS®

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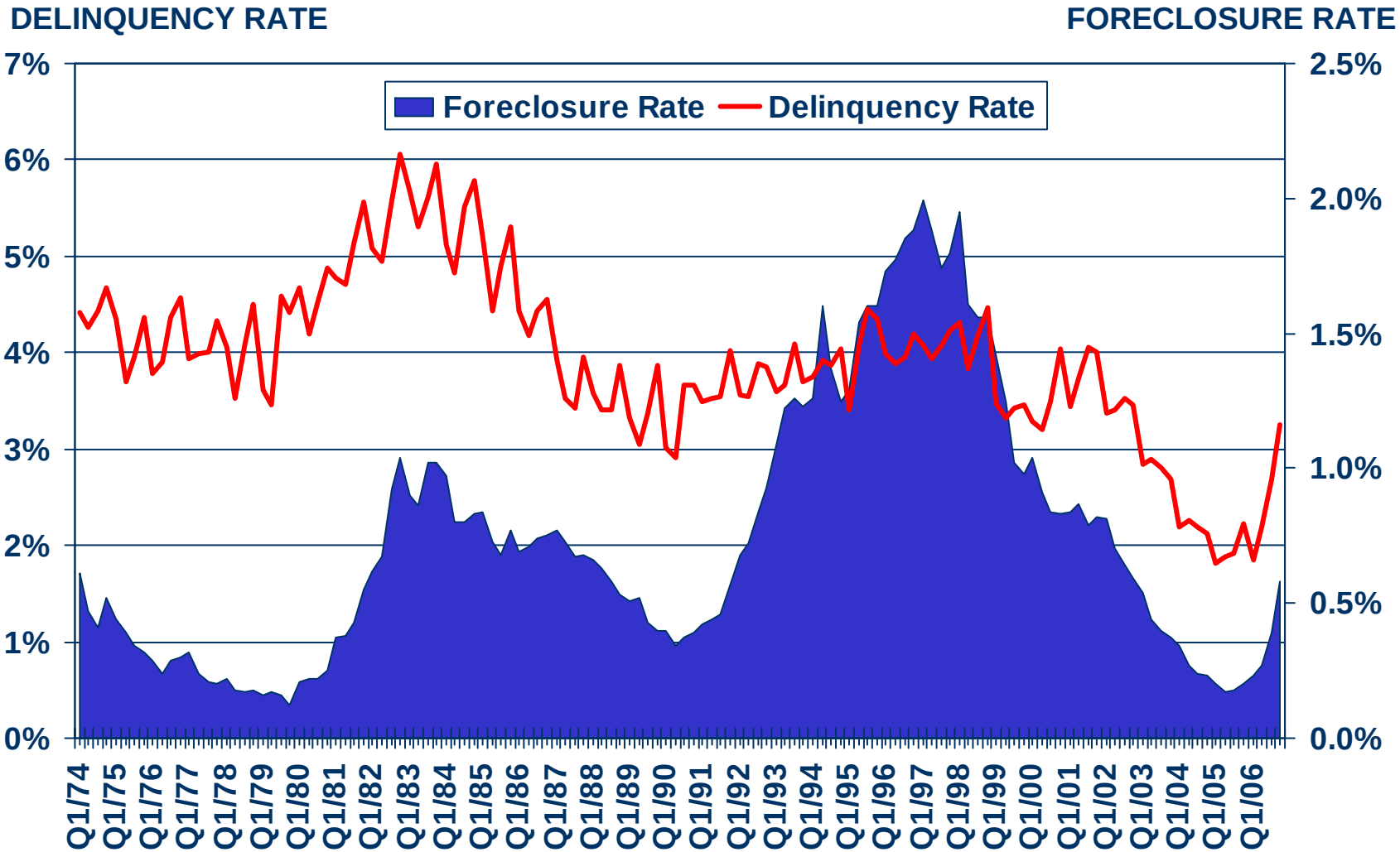
Mortgage Foreclosure Rates

California: 1974 - 2006



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Sub-Prime/Foreclosure Summary

- Sub-Prime is largest but not only problem
- 2005 loan cohort larger than 2006
- Will affect market in 2007 and 2008
- Not driven by economic weakness, but by increased use of non-Prime loans
- Direct impact limited geographically and by type of borrower
- Adversely affecting overall market outlook

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Market Conditions

Market Drivers

1. Mortgage rates
2. General economy
3. Supply Conditions
4. Demand & Affordability

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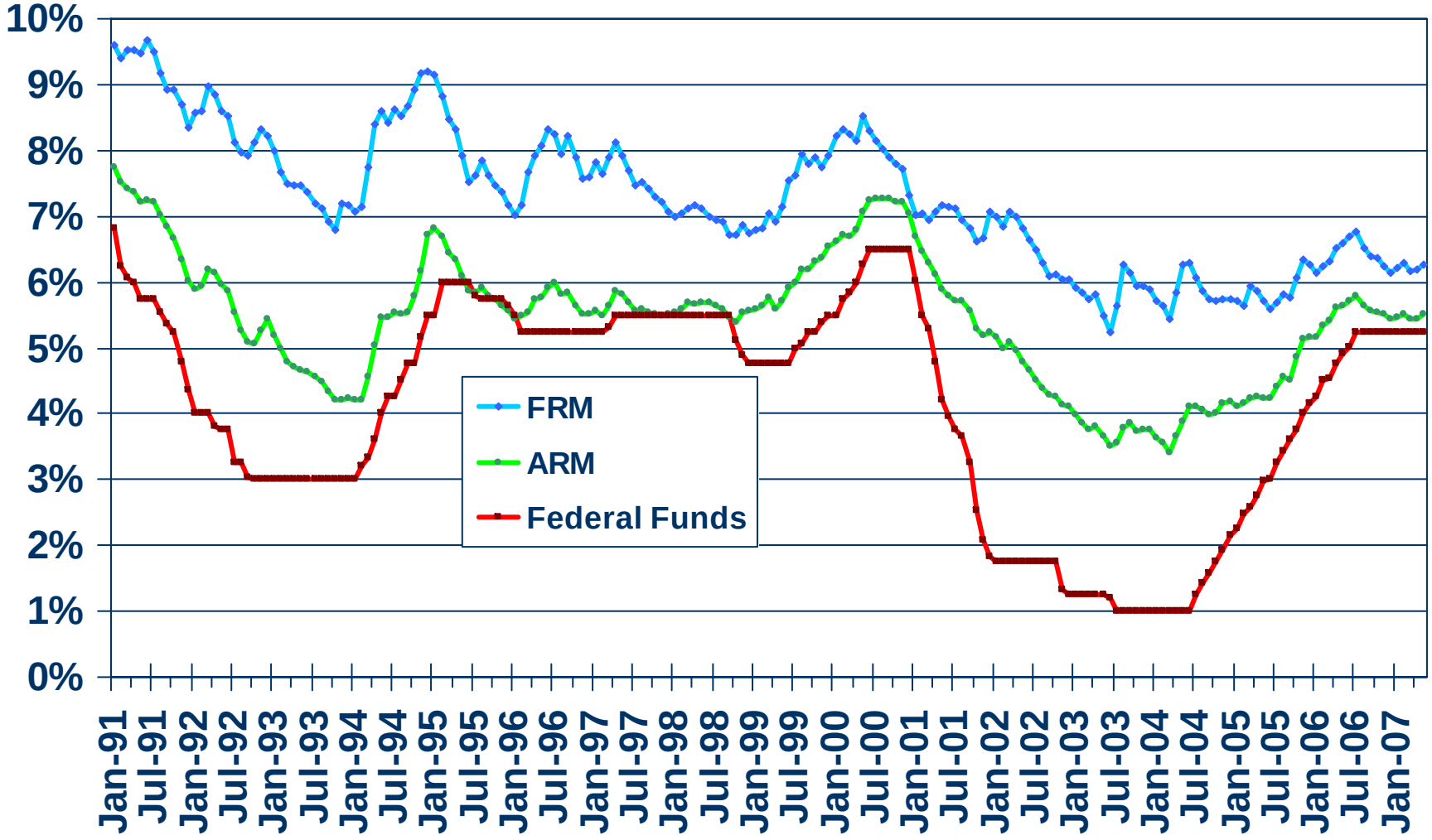
Mortgage Rates



SOURCE: Federal Home Loan Mortgage Corporation

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General Economy

- Gross Domestic Product
- Unemployment
- Inflation

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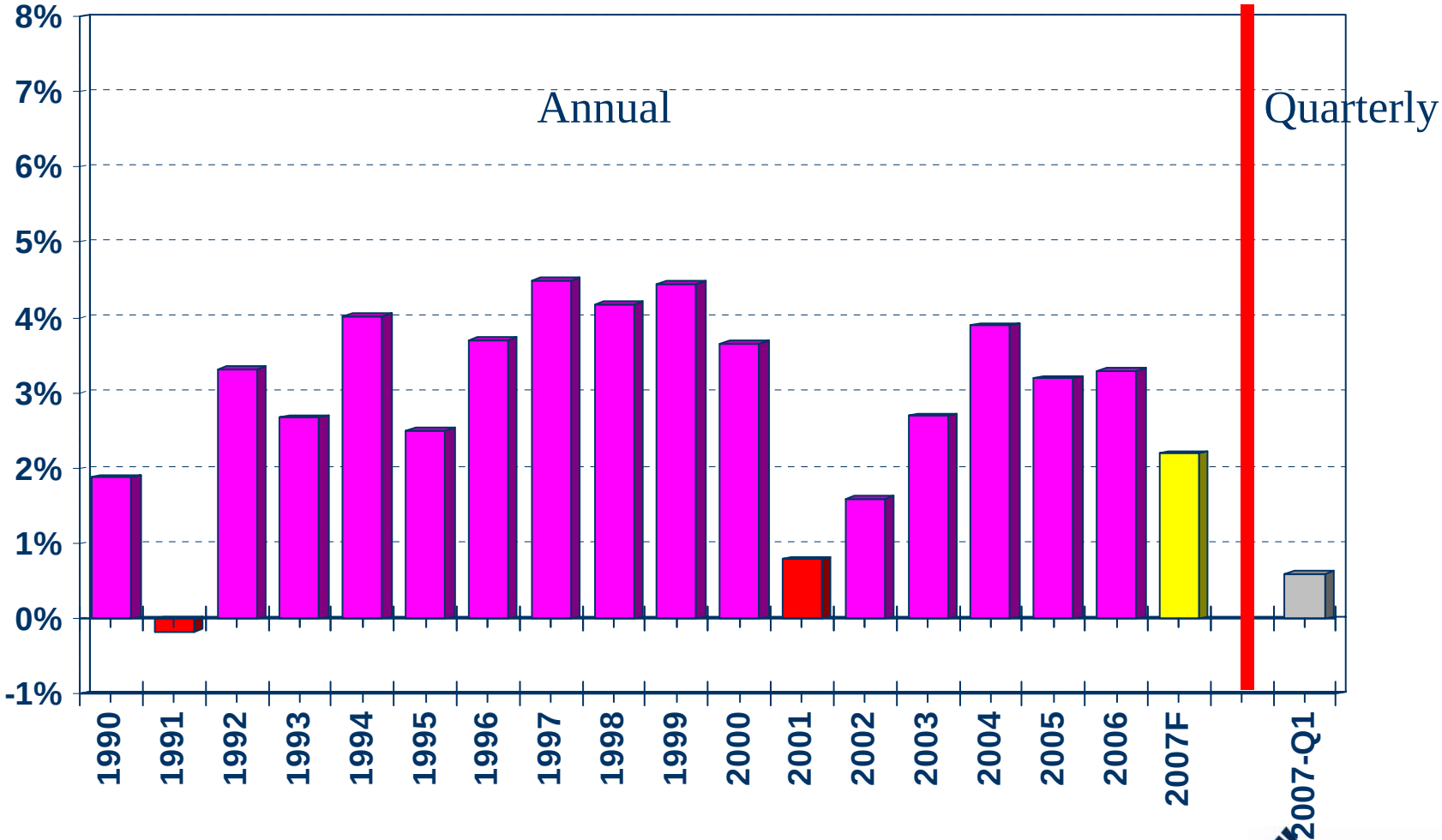
Gross Domestic Product

Year 2006: +3.3%; 2007 Q1: +0.6%

ANNUAL PERCENT CHANGE, CHAIN-TYPE (2000) $



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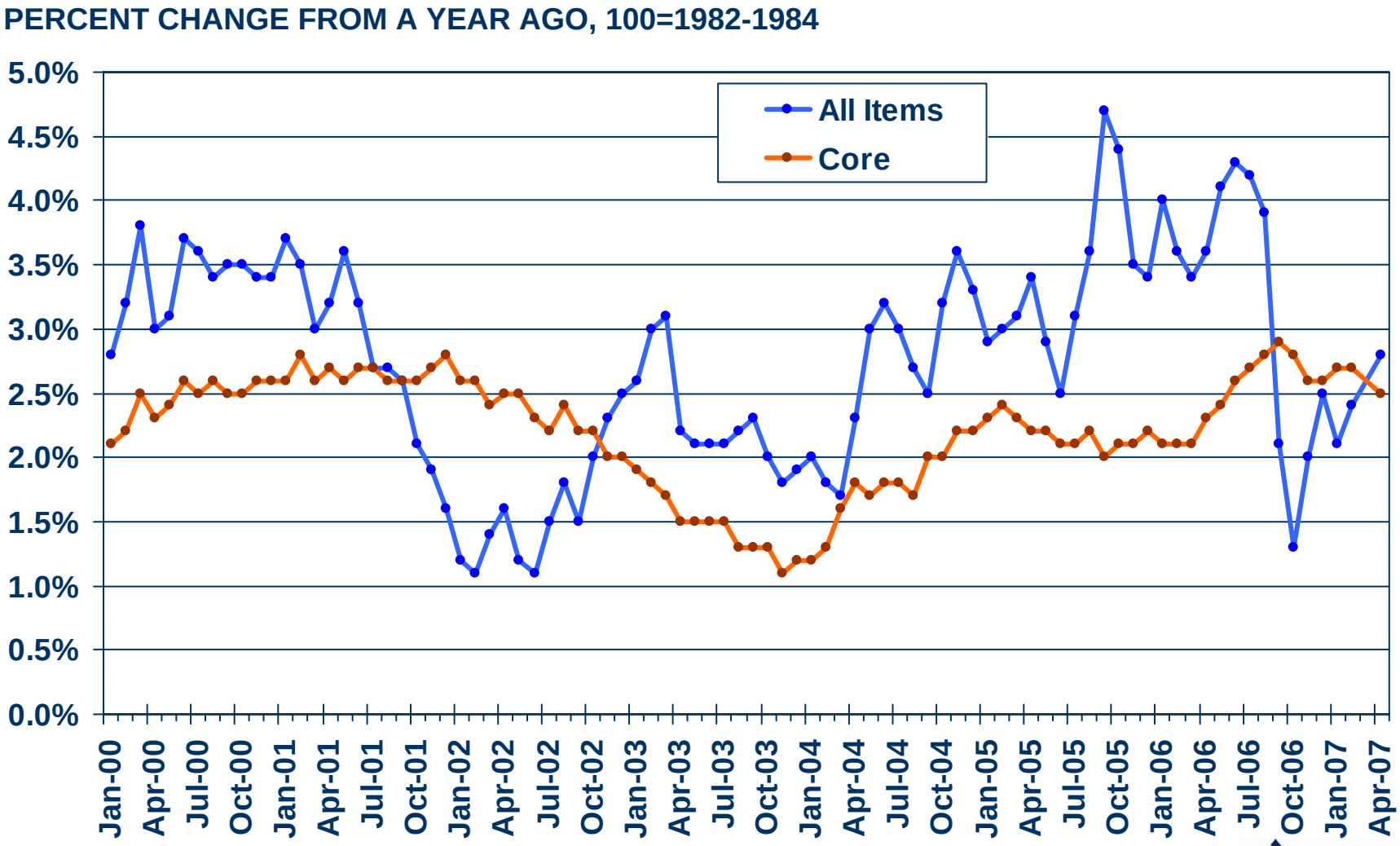
Consumer Price Index

April 2007: All Items 2.8% Y-T-Y; Core 2.5% Y-T-Y



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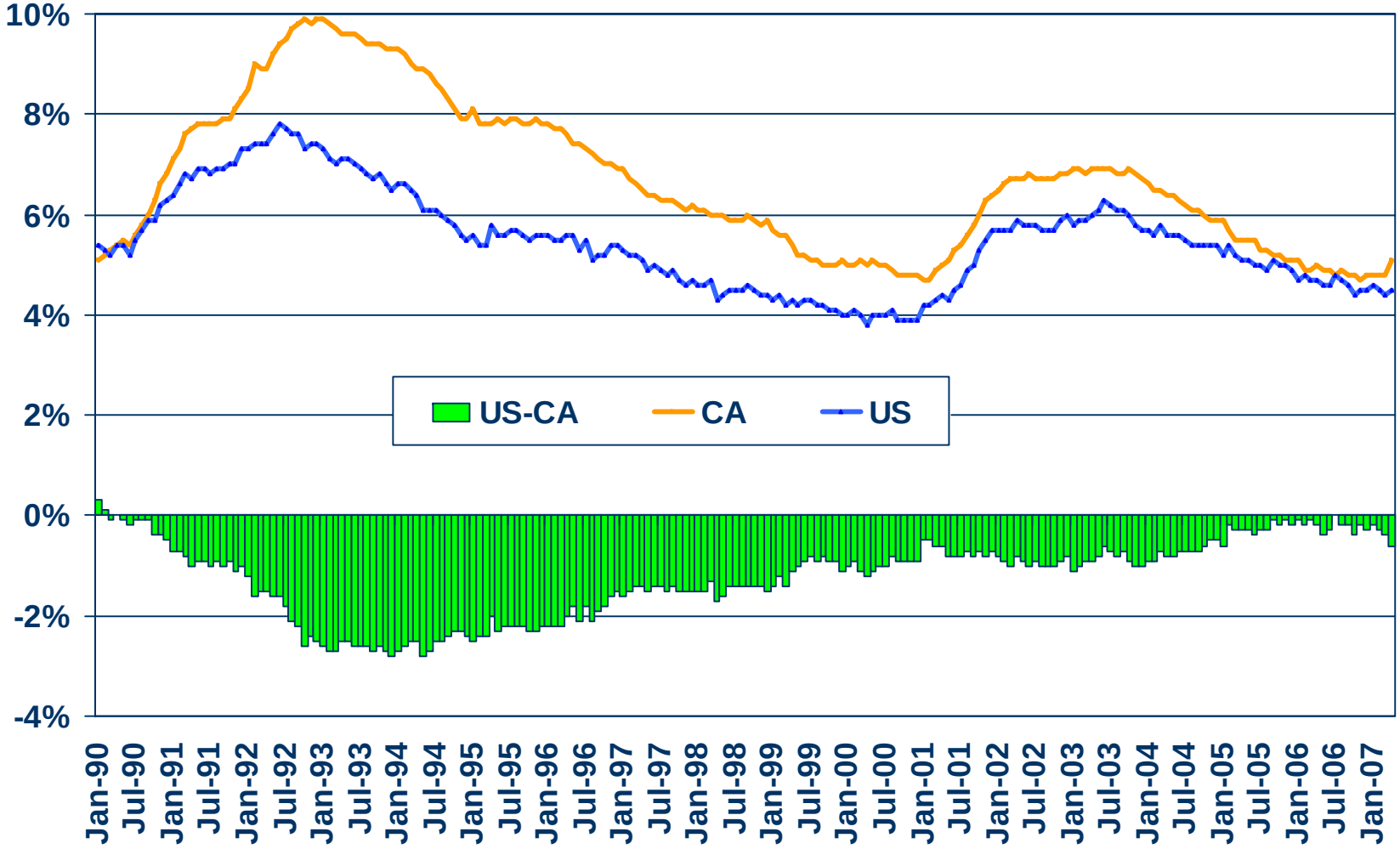
Unemployment Rate

California vs. United States



SOURCE: CA Employment Development Division

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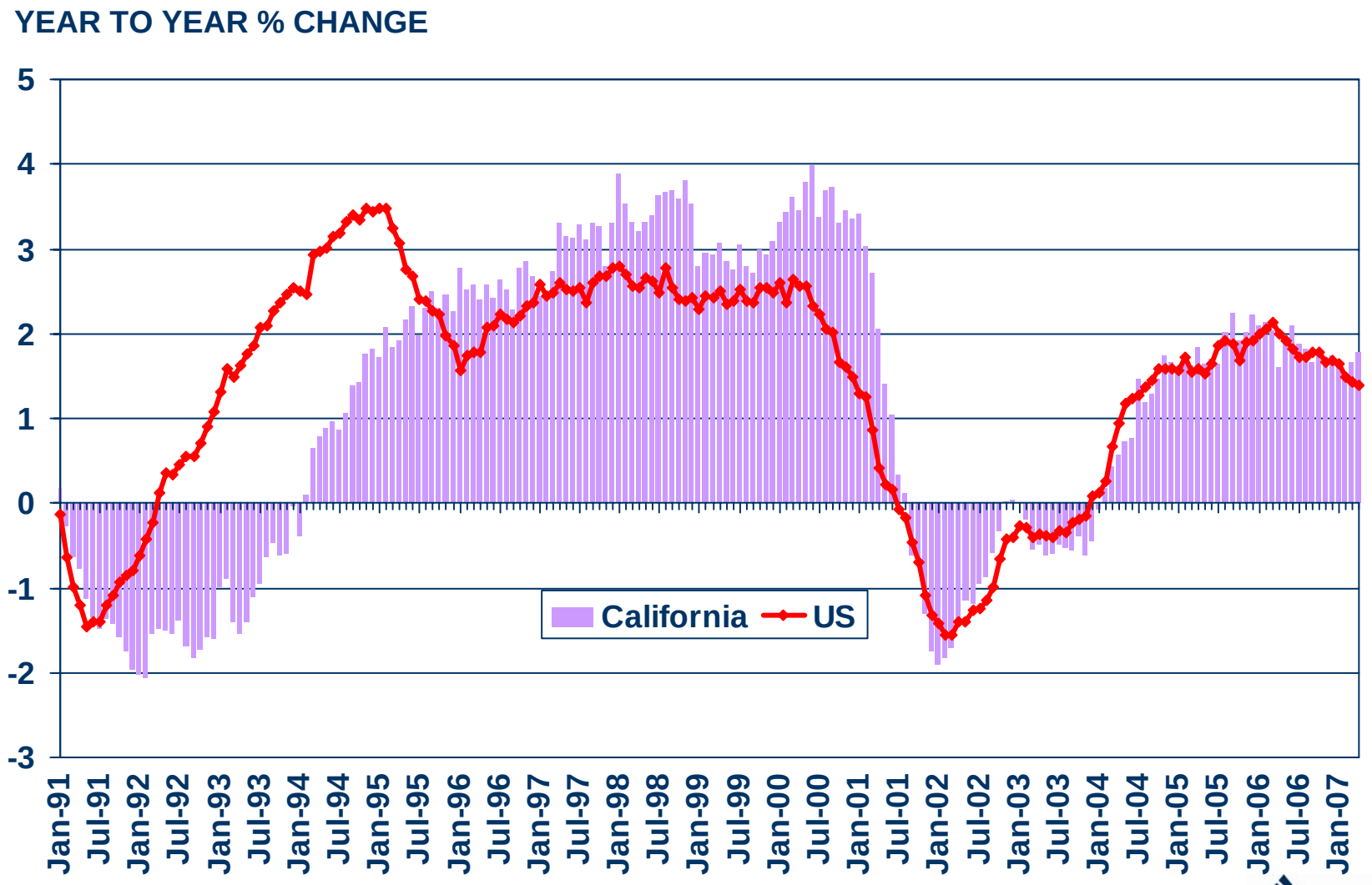
Employment Growth, California vs. U.S.



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General Economy

- Economy Moving Forward, But Below Par
- Recession Possible, Low Likelihood
- California Tracking With US Economy
- Fed Balancing Act:
  Inflation vs. Economic Growth

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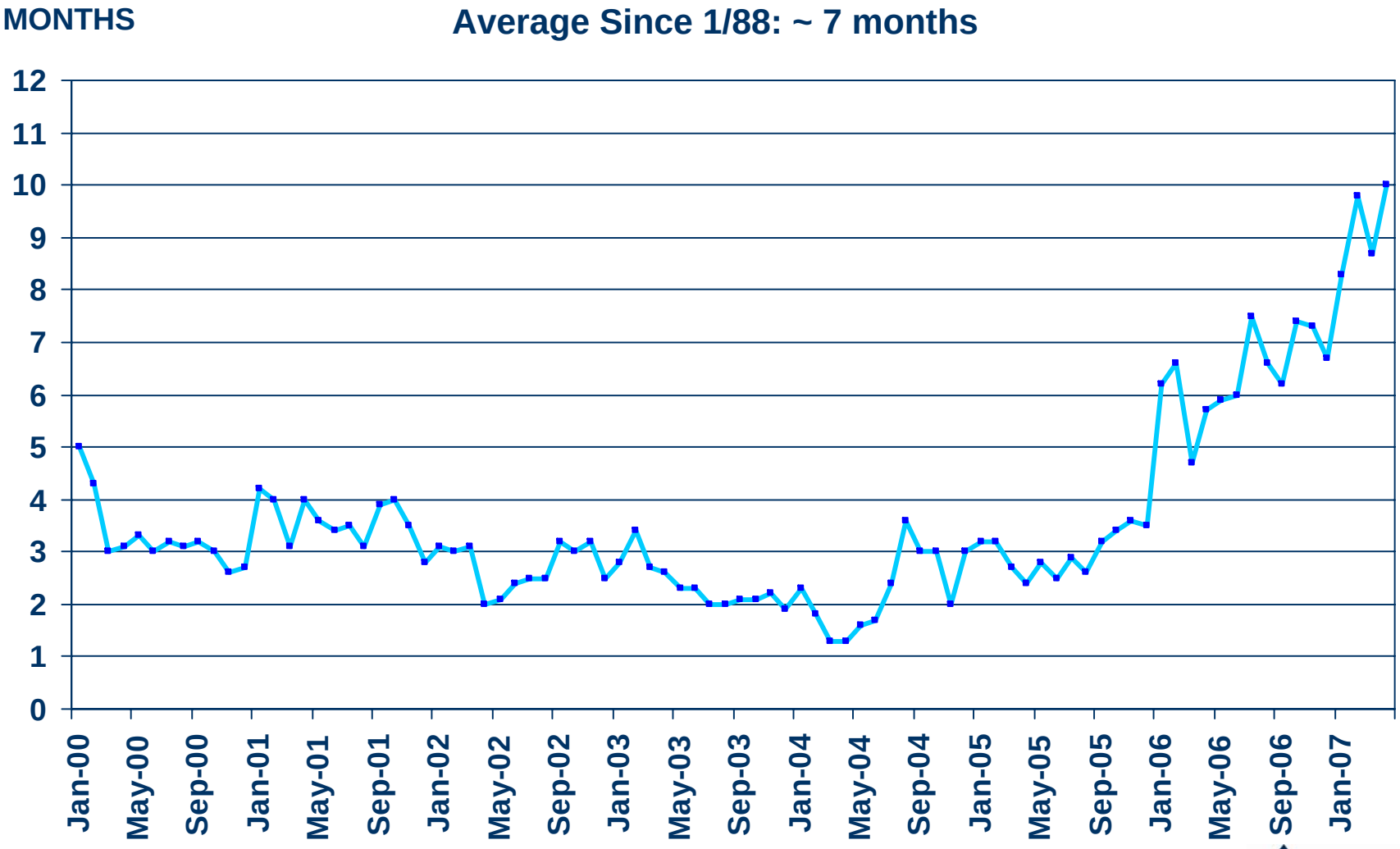
Unsold Inventory Index

California, April 2007: 10.0 Months



SOURCE: California Association of REALTORS®

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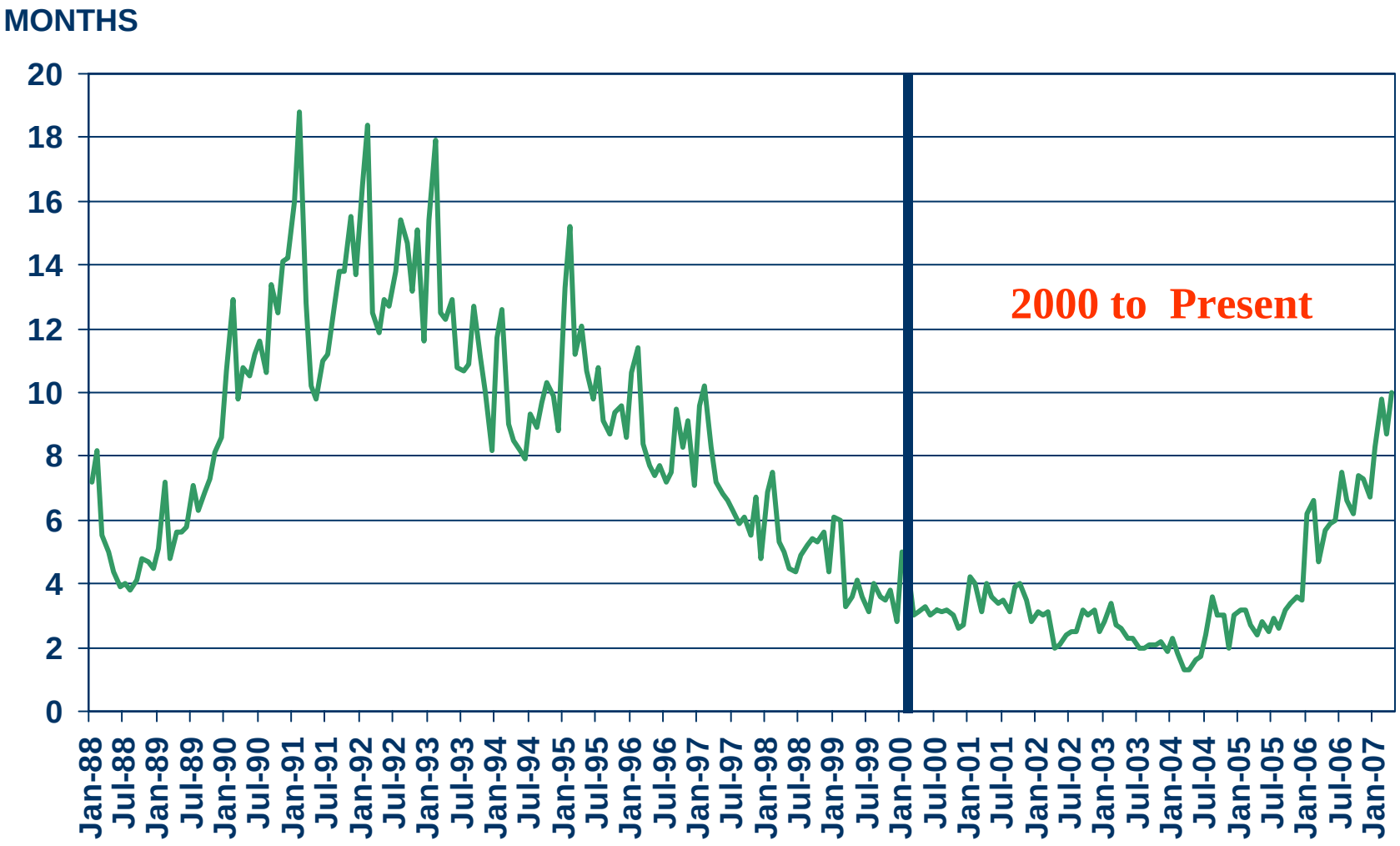
Unsold Inventory Index

California, April 2007: 10.0 Months



SOURCE: California Association of REALTORS®

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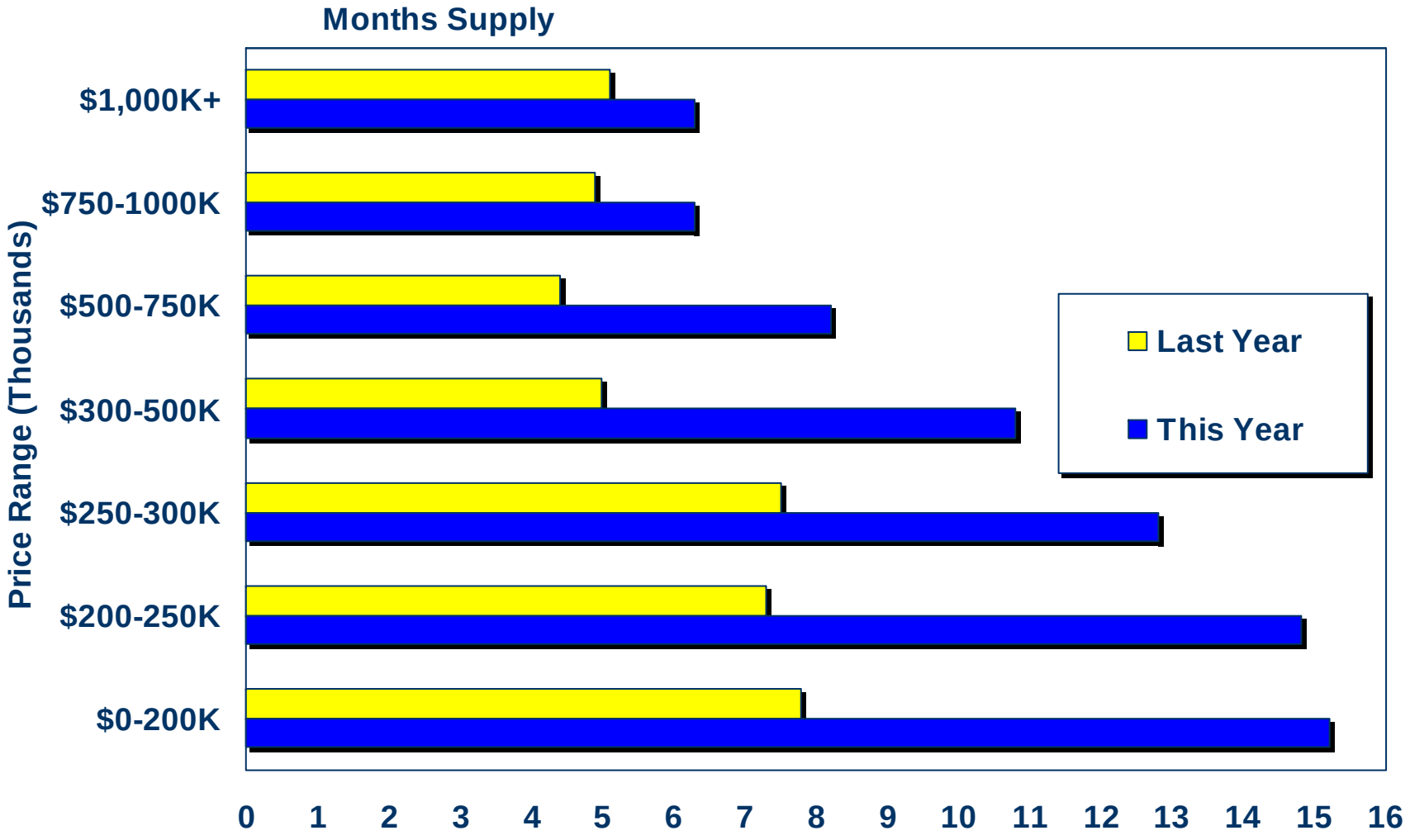
Unsold Inventory By Price Range

California - Existing Homes April 2007 vs. April 2006



SOURCE: California Association of REALTORS®

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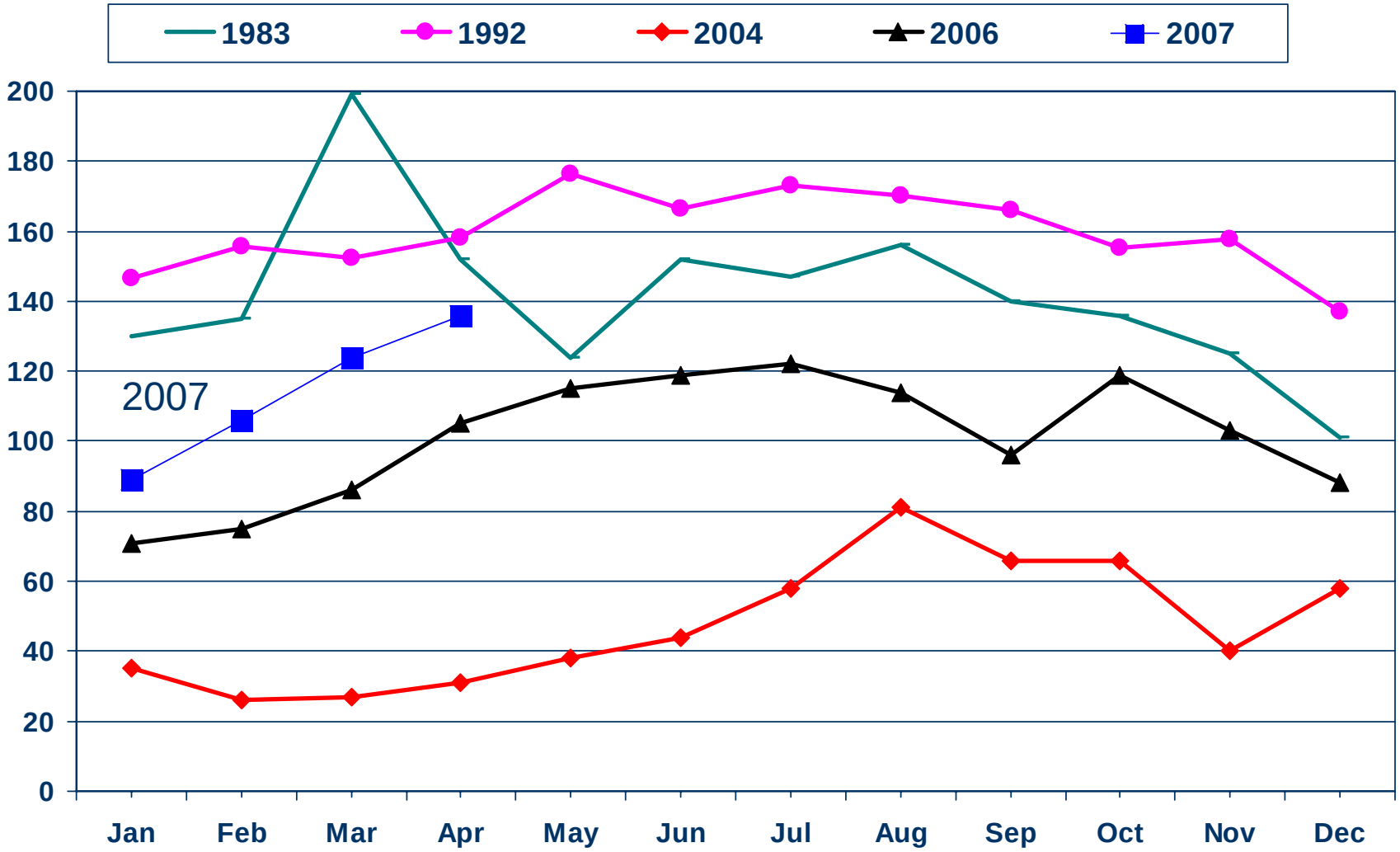
Listings by Month, Selected Years

California (1982-2006 Average=100)



SOURCE: California Association of REALTORS®

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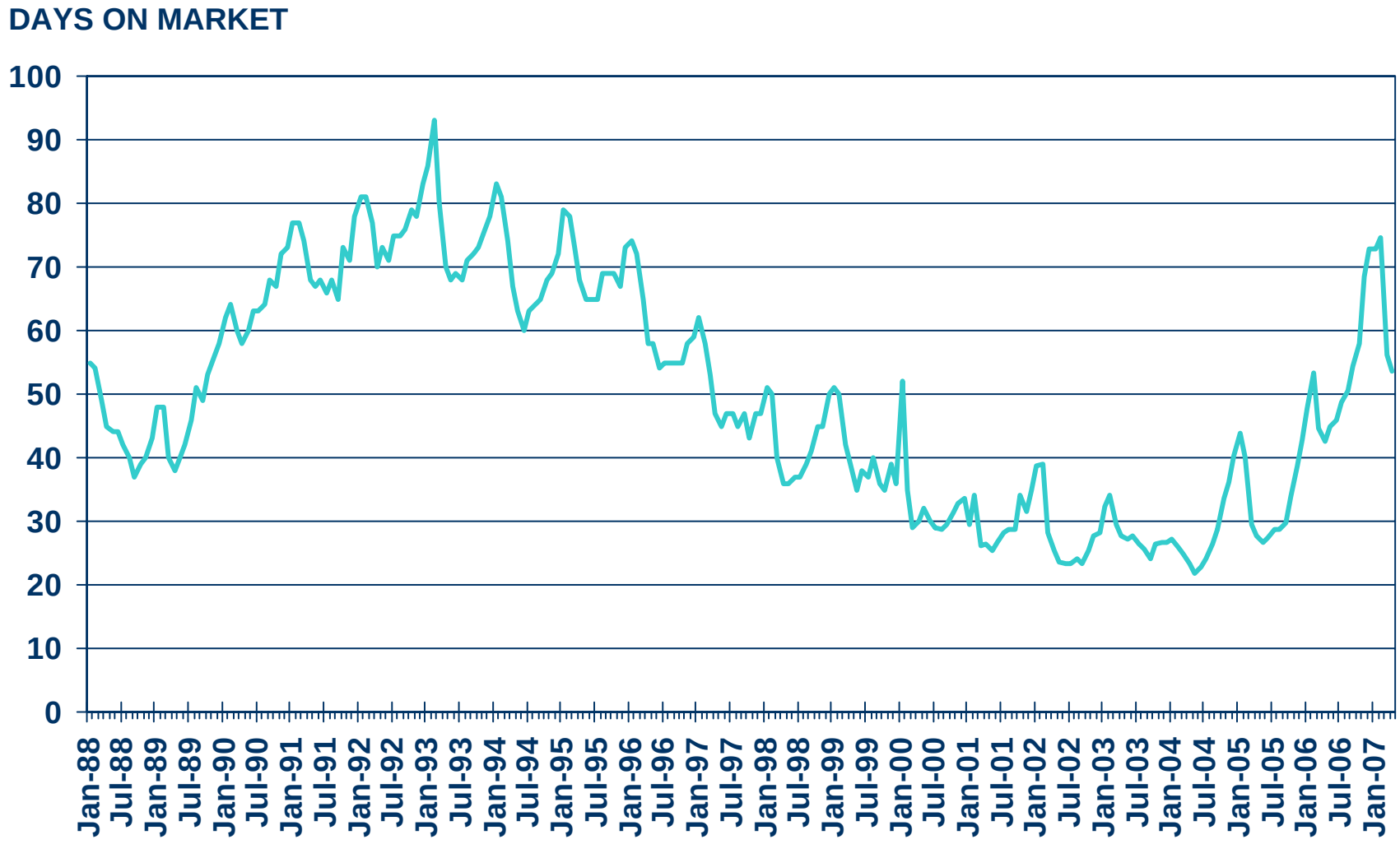
Median Time on the Market

California Single-Family Homes, April 2007: 53.5



SOURCE: California Association of REALTORS®

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Supply Conditions

- Listings, Inventory Levels, Time on Market Up Significantly in 2006
- From Record/Near-Record Lows to Levels in Range of Long-Run Average
- Inventory Levels Below Long-Run Highs
- Higher Inventories -> Softness in Prices

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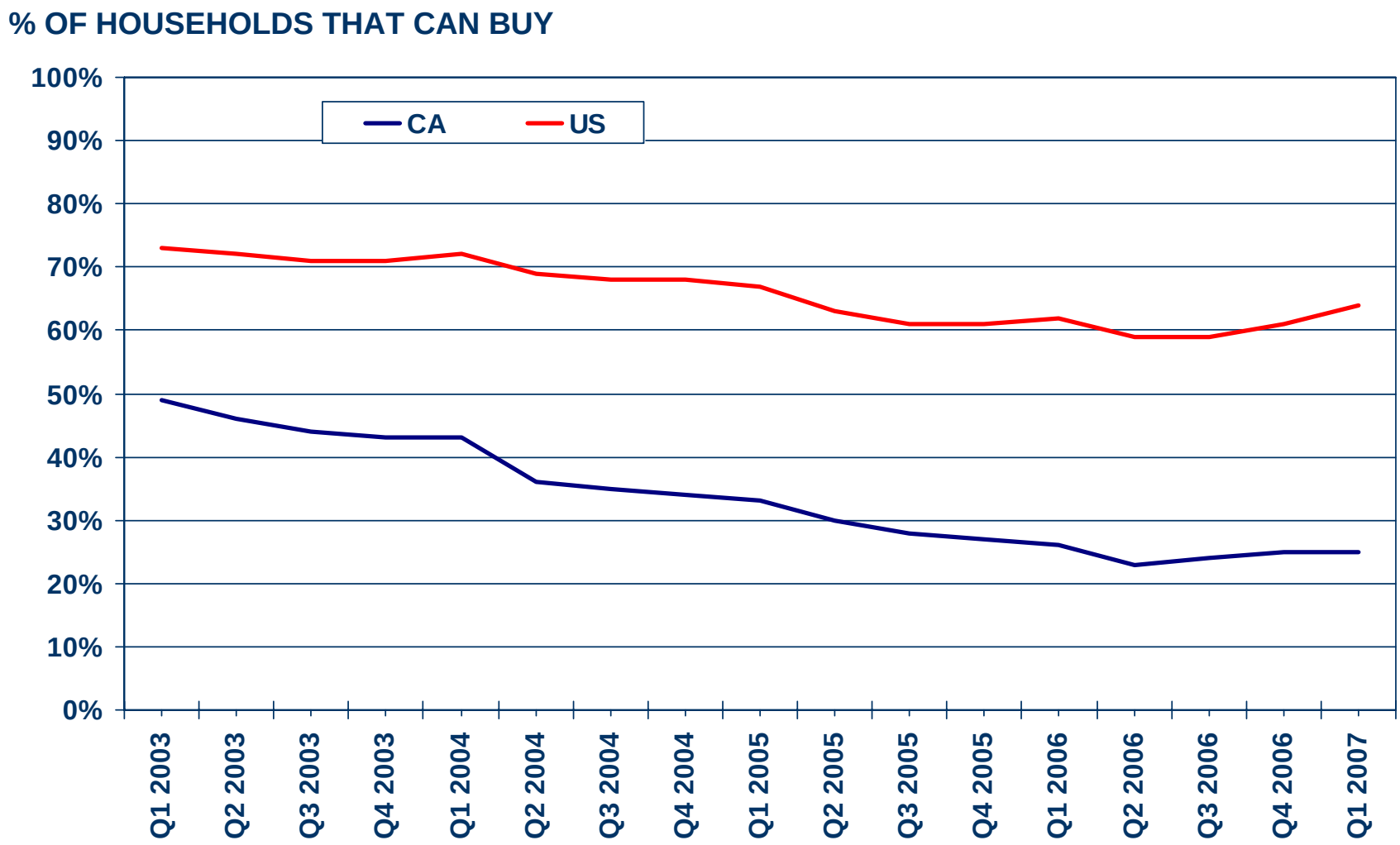
First-time Buyer Housing Affordability Index

California Vs. U.S.



SOURCE: California Association of REALTORS®

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Housing Costs Have Doubled

		First-time Buyer Income: $75,000	Median Household Income: $60,000
Year	Monthly Payment	% of Income	% of Income
1999	$1,200	19%	24%
2006	$2,400	38%	49%

SOURCE: California Association of REALTORS®

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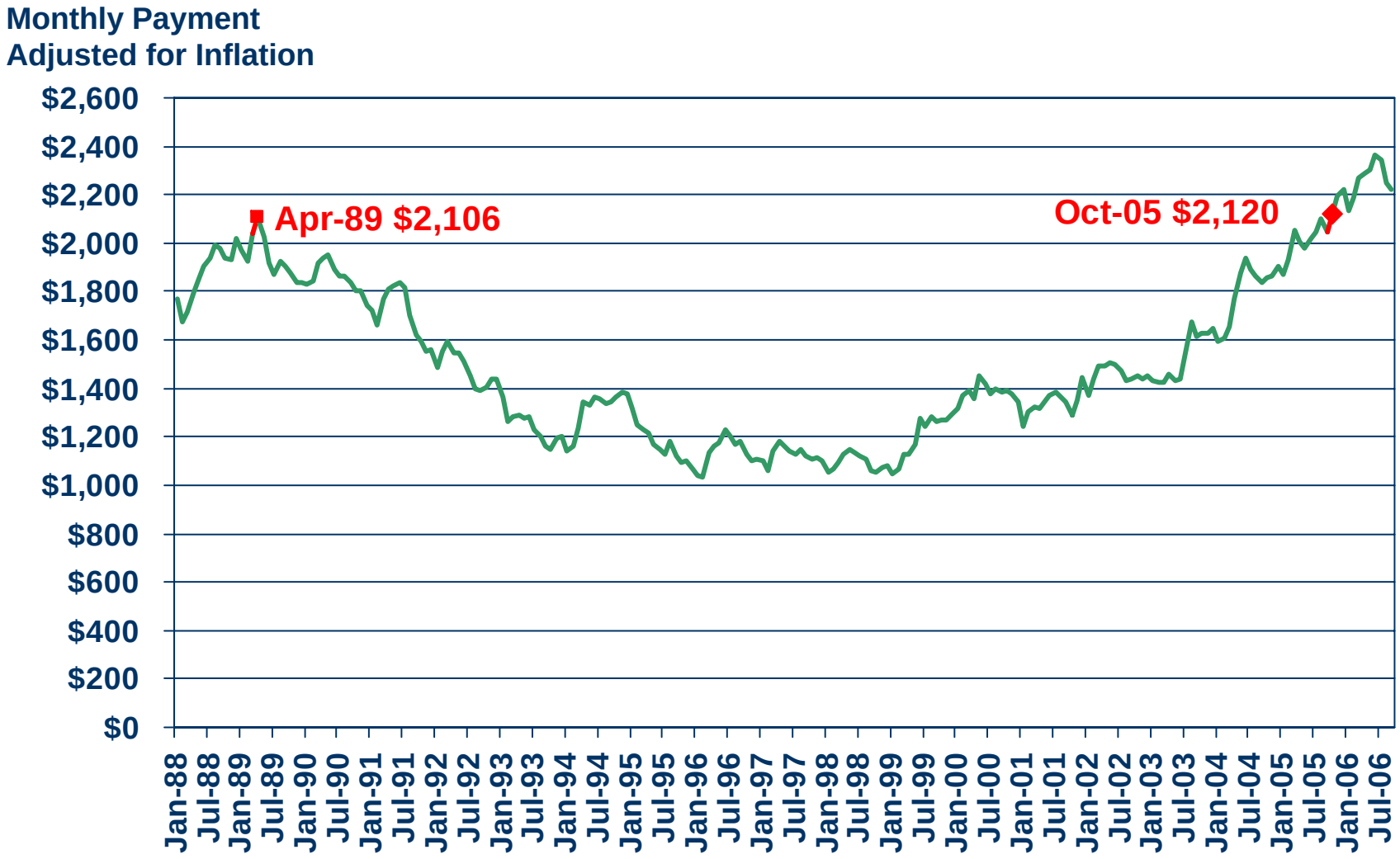
Inflation Adjusted Monthly Payment



SOURCE: DataQuick Information Systems

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Demand & Affordability

- Affordability Key to Health of Market
- Market Hit Wall When Affordability Fell to Record Low
- Steady/Lower Prices & Steady Interest Rates >>> Affordability Improves

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Q: So Where Are We Now?

- Affordability Constraints
  - Tighter Credit Standards
- Uncertainty About Market & Economy
- Non-Prime Fallout in 2007 & 2008
- Economy Should Be OK
- Rates Steady Now, Headed Up?

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1990s vs. Now

	1990s (1990-96)	Now (2005-2007)
Economy	US: +2.6%, CA in Shambles	US GDP: +3.1% CA ~ US
Labor Market (Jobs)	-450,000 (1990-93)	+453,000*
Unempl. Rate	8.1%	5.1%
Mortgage Rates	8.0%	6.3%
Sales (# Homes)	362,500	483,000**
Median Price	-12% (1991-96)	+10%**

*CA 2003-06: +680,000 jobs!

**Since 2005-Q3

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Regional Outlook

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Bay Area Region

Nonfarm Employment

Bay Area Region

Nonfarm Employment (Thousands)				
Metro Area	**Apr 2007**	**Apr 2006**	**Change**	**% Change**
San Francisco	976.4	951.7	24.7	2.6%
Oakland	1,053.7	1,036.8	16.9	1.6%
San Jose	908.7	883.9	24.8	2.8%
Napa/Solano	131.8	128.5	3.3	2.6%
Sonoma	192.6	187.3	5.3	2.8%
Total	3,263.2	3,188.2	75.0	2.4%

SOURCE: California Economic Development Dept.

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Sales of Existing Detached Homes

Bay Area Counties

County	Apr-07	Mar-07	Apr-06	M-t-M	Y-t-Y	Y-t-D
Alameda	576	737	797	-21.8%	-27.7%	-14.3%
Contra Costa	299	316	312	-5.4%	-4.2%	-1.5%
Marin	210	173	192	21.4%	9.4%	7.5%
San Francisco	258	287	345	-10.1%	-25.2%	-13.3%
San Mateo	388	402	415	-3.5%	-6.5%	-4.4%
Santa Clara	886	890	1066	-0.4%	-16.9%	-14.4%
Santa Cruz	136	148	181	-8.1%	-24.9%	-5.6%
Solano	213	260	348	-18.1%	-38.8%	-26.2%
Sonoma	291	356	379	-18.3%	-23.2%	-16.5%

SOURCE: California Association of REALTORS®

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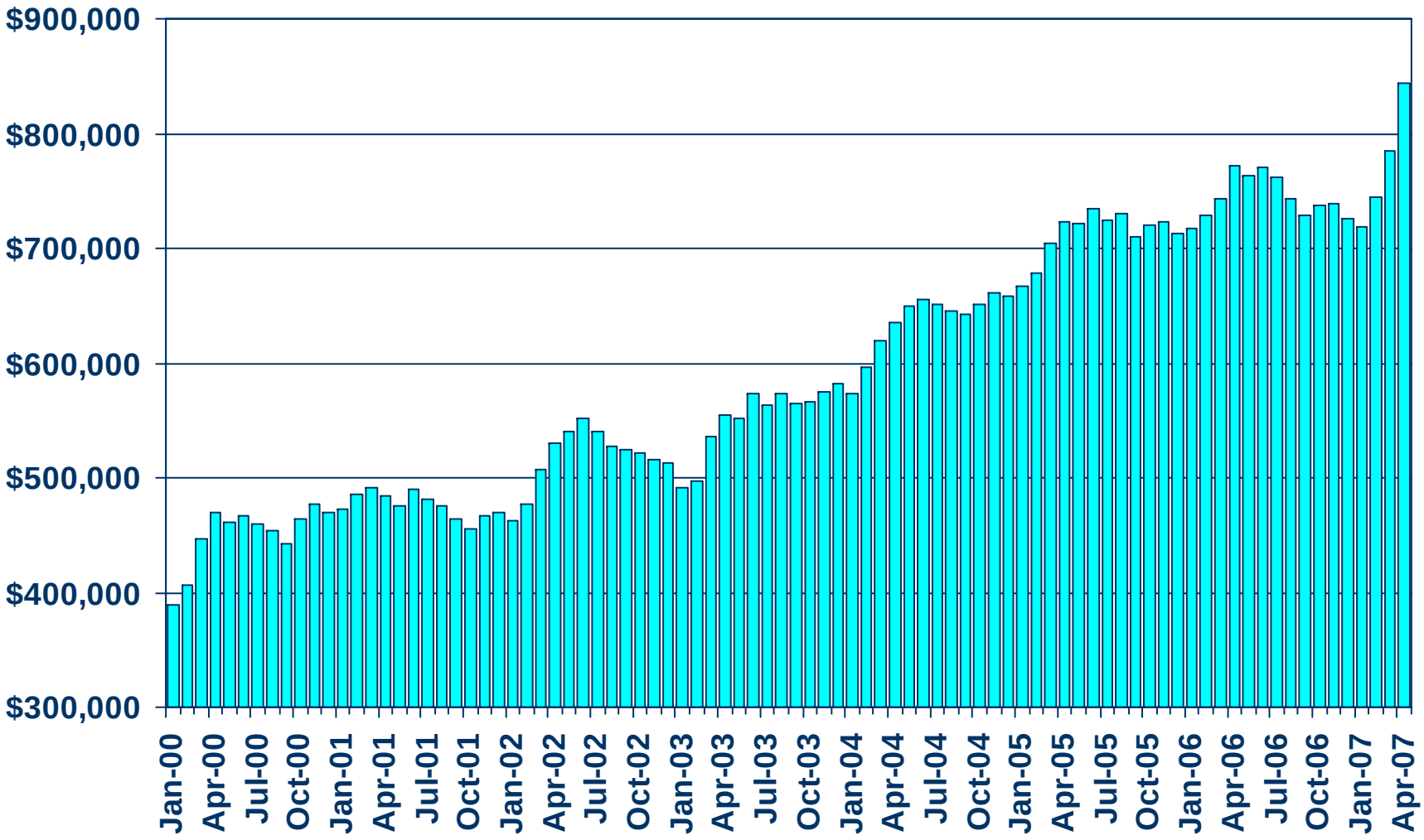
Median Price of Existing Detached Homes

Bay Area, April 2007: $843,710, Up 9.3% Y-T-Y



SOURCE: California Association of REALTORS®

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Median Price of Existing Detached Homes

Bay Area Counties

County	Apr-07	Mar-07	Apr-06	M-t-M	Y-t-Y
Alameda	$ 701,219	$ 690,962	$ 696,646	1.5%	0.7%
Contra Costa	$ 855,654	$ 827,127	$ 861,445	3.4%	-0.7%
Marin	$ 1,115,853	$ 1,015,625	$ 985,074	9.9%	13.3%
San Francisco	$ 889,880	$ 837,963	$ 862,500	6.2%	3.2%
San Mateo	$ 976,000	$ 906,000	$ 900,000	7.7%	8.4%
Santa Clara	$ 868,406	$ 830,000	$ 775,000	4.6%	12.1%
Santa Cruz	$ 777,500	$ 751,000	$ 744,000	3.5%	4.5%
Solano	$ 448,507	$ 446,835	$ 483,593	0.4%	-7.3%
Sonoma	$ 608,739	$ 590,764	$ 639,217	3.0%	-4.8%

SOURCE: California Association of REALTORS®

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Central Valley Region

Nonfarm Employment

Central Valley Region

	Nonfarm Employment (Thousands)			
	Apr 2007	Apr 2006	Change	% Change
Sacramento	915.9	890.8	25.1	2.8%
Merced	60.4	58.3	2.1	3.6%
Bakersfield	239.1	231.1	8.0	3.5%
Fresno	307.7	302.1	5.6	1.9%
Modesto	158.4	158.0	0.4	0.3%
Stockton	209.2	205.6	3.6	1.8%
Tulare	114.3	112.3	2.0	1.8%
Sutter-Yuba	41.4	40.3	1.1	2.7%
Total	2,046.4	1,998.5	47.9	2.4%

SOURCE: California Economic Development Dept.

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Sales of Existing Detached Homes

Central Valley Regions

	Apr-07	Mar-07	Apr-06	M-t-M	Y-t-Y	Y-t-D
Bakersfield	234	292	497	-19.9%	-52.9%	-36.4%
Fresno	421	485	590	-13.2%	-28.6%	-19.0%
Lodi	42	43	52	-2.3%	-19.2%	-24.0%
Manteca	55	88	91	-37.5%	-39.6%	-23.3%
Merced	52	64	114	-18.8%	-54.4%	-42.1%
Modesto	259	273	424	-5.1%	-38.9%	-37.1%
Oakdale	23	28	18	-17.9%	27.8%	30.0%
Sacramento	862	1,022	1,191	-15.7%	-27.6%	-23.7%
Stockton	154	183	304	-15.8%	-49.3%	-38.1%
Tracy	64	93	132	-31.2%	-51.5%	-36.2%
Turlock	65	72	77	-9.7%	-15.6%	-21.4%

SOURCE: California Association of REALTORS®

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Median Price of Existing Detached Homes

Central Valley Regions

County	Apr-07	Mar-07	Apr-06	M-t-M	Y-t-Y
Bakersfield	n.a.	n.a.	n.a.	n.a.	n.a.
Fresno	$286,339	$280,813	$298,518	2.0%	-4.1%
Lodi	$ 350,000	$362,499	$ 364,515	-3.4%	-4.0%
Manteca	$ 381,034	$391,176	$448,437	-2.6%	-15.0%
Merced	$ 276,923	$267,500	$327,659	3.5%	-15.5%
Modesto	$ 340,254	$336,979	$360,679	1.0%	-5.7%
Oakdale	$ 450,000	$425,000	$400,000	5.9%	12.5%
Sacramento	$ 361,846	$362,999	$374,356	-0.3%	-3.3%
Stockton	$ 349,152	$335,119	$357,894	4.2%	-2.4%
Tracy	$ 539,062	$530,555	$537,671	1.6%	0.3%
Turlock	$ 340,909	$336,363	$357,954	1.4%	-4.8%

SOURCE: California Association of REALTORS®

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Southern California Region

Nonfarm Employment

Nonfarm Employment (thousands)				
	Apr 2007	Apr 2006	Change	Percent Change
Los Angeles	4,128.4	4,080.2	48.2	1.2%
Orange County	1,528.8	1,513.0	15.8	1.0%
Riverside/SB	1,313.0	1,268.4	44.6	3.5%
San Diego	1,305.8	1,295.1	10.7	0.8%
Ventura	301.1	297.2	3.9	1.3%
Total	8,577.1	8,453.9	123.2	1.5%

SOURCE: California Economic Development Dept.

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Sales of Existing Detached Homes

County	Apr-07	Mar-07	Apr-06	M-t-M	Y-t-Y	Y-t-D
High Desert	511	637	1,051	-19.8%	-51.4%	-40.1%
Los Angeles	3,993	4,769	4,919	-16.3%	-18.8%	-10.2%
Orange	1,120	1,509	1,576	-25.8%	-28.9%	-15.0%
Palm Springs	519	590	840	-12.0%	-38.2%	-28.3%
Riverside/SB	803	1,017	1,451	-21.0%	-44.7%	-36.5%
San Diego	1,526	1,562	1,755	-2.3%	-13.0%	-13.3%
Sta. Barbara Area	159	166	132	-4.2%	20.5%	-0.9%
Ventura	389	444	493	-12.4%	-21.1%	-19.0%

SOURCE: California Association of REALTORS®

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Median Price of Existing Detached Homes

Southern California Regions

County	Apr-07	Mar-07	Apr-06	M-t-M	Y-t-Y
High Desert	$ 317,424	$ 320,833	$ 334,858	-1.1%	-5.2%
Los Angeles	$ 596,306	$ 584,527	$ 567,478	2.0%	5.1%
Orange	$ 747,258	$ 706,650	$ 729,373	5.7%	2.5%
Palm Springs	$ 377,829	$ 389,763	$ 384,728	-3.1%	-1.8%
Riverside/SB	$ 401,667	$ 394,371	$ 395,760	1.9%	1.5%
San Diego	$ 610,973	$ 605,946	$ 601,067	0.8%	1.6%
Sta. Barbara-So. Coast	$ 1,475,000	$ 1,200,000	$ 1,250,000	22.9%	18.0%
Sta. Barbara-North Cnty.	$ 406,522	$ 407,143	$ 455,555	-0.2%	-10.8%
Ventura	$ 691,706	$ 672,548	$ 681,188	2.8%	1.5%

SOURCE: California Association of REALTORS®

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Economic & Market Forecast

U.S. Economic Forecast

	2003	2004	2005	2006	2007f
US GDP	2.7%	3.9%	3.2%	3.4%	2.2%
Nonfarm Job Growth	-0.3%	1.1%	1.7%	1.8%	1.2%
Unemployment	6.0%	5.5%	5.1%	4.6%	4.7%
CPI	2.3%	2.7%	3.4%	3.2%	2.5%
Real Disposable Income	2.4%	3.4%	1.2%	2.6%	3.0%

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California Economic Forecast

	2003	2004	2005	2006	2007f
Nonfarm Job Growth	-0.5%	1.0%	1.8%	1.9%	1.3%
Unemployment Rate	6.8%	6.2%	5.4%	4.9%	5.2%
Population Growth	1.7%	1.5%	1.3%	1.3%	1.1%
Real Disposable Income, % Change	2.1%	4.1%	1.0%	2.5%	2.8%

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Three Scenarios

Optimistic Scenario:

No recession, fed funds rate steady 5.25% in 2007
Moderate sales decrease in 2007
Improving sales thereafter but well below 2004-2005 records

Pessimistic Scenario:

•Weak economic conditions + tighter credit
•Another large decline sales in 2007
•Possible recession + rate increases = affordability crisis

Most Likely Scenario:

No recession, fed funds rate settles at 5.25%
Modest decline in 2007, slight improvement thereafter

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Housing Sales Forecast Scenarios

Sales of Detached Homes (thousands)						
Scenario	**2002**	**2003**	**2004**	**2005**	**2006**	**2007f**
Pessimistic	572.6	601.8	624.7	625.0	477.5	392.0
Optimistic	572.6	601.8	624.7	625.0	477.5	430.0
Most Likely	**572.6**	**601.8**	**624.7**	**625.0**	**477.5**	**410.5**

Annual Percentage Changes						
Scenario		**02-03**	**03-04**	**04-05**	**05-06**	**06-07**
Pessimistic		5.1%	3.8%	0.0%	-23.6%	-17.9%
Optimistic		5.1%	3.8%	0.0%	-23.6%	-9.9%
Most Likely		**5.1%**	**3.8%**	**0.0%**	**-23.6%**	**-14.0%**

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California Housing Market Forecast

	2003	2004	2005	2006	2007f
SFH Resales (thousands)	601.8	624.7	625.0	477.5	410.5
% Change	5.1%	3.8%	0.04%	-23.6%	-14.0%
Median Price ($ thousands)	$372.7	$450.8	$524.0	$556.6	$566.5
% Change	17.9%	20.9%	16.2%	6.2%	1.8%
30-Yr FRM	5.8%	5.8%	5.9%	6.4%	6.4%
1-Yr ARM	3.8%	3.9%	4.5%	5.5%	5.5%

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Recap

- Market *May* Bottom Out in 2007
- Sales to Recover Before Prices
- Sub-Prime/Foreclosure Situation A Concern
  - Direct Impact Narrow
  - Psychological Impact Broader

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Thank You

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