

National Summary

An Overview of National and Local Conditions

March 2006

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Positive: **Retail sales** in March were up 7 percent from the **year-earlier** level.

Industrial production in March was up 3.6 percent.

Total jobs in April were up 1.4 percent; jobs in retail trade, however, were **flat**.

Housing permits in March were up 3 percent.

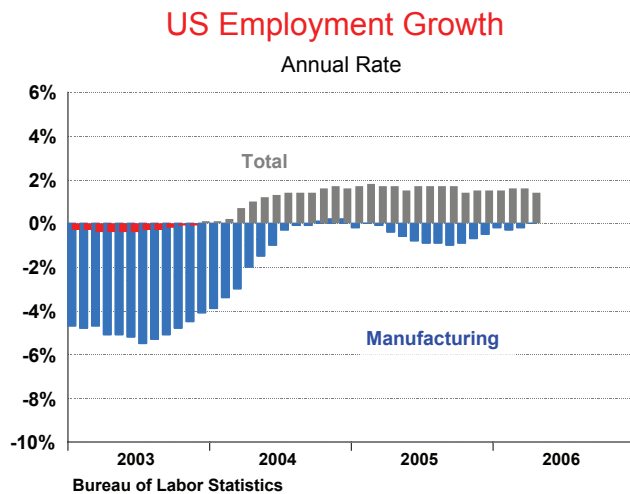
Negative: **Energy prices** remained high, with gasoline at \$2.91 per gallon in early May and spot prices for crude oil at \$70 per barrel.

New car sales in November were down 3 percent.

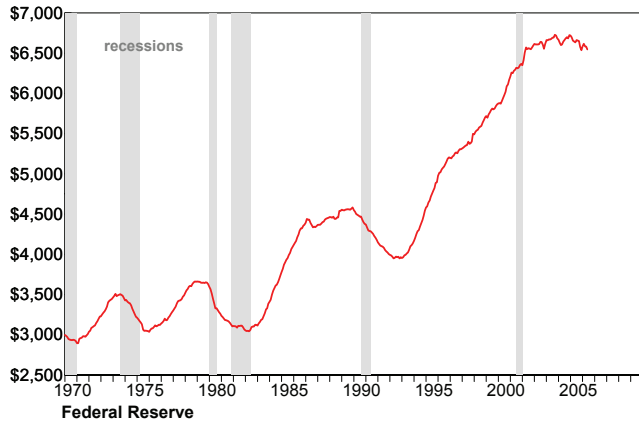
Consumer interest payments as a percent of disposable income remained at a **record high** 13.9 percent in the third quarter. Consumers have borrowed a lot of money and now have less income to spend. Because so much of recent consumer debt carries adjustable interest rates, payments could easily go higher.

Interest rates moved up. The average rate on conventional 30-year mortgages in April was 6.5 percent, the highest rate in three years.

Consumer credit—credit card and auto debt—adjusted for population and inflation, has trended downward in the last few months. Historically this has happened **just before a recession**, as consumers maxed out their credit and had to stop spending. See the chart on the next page.

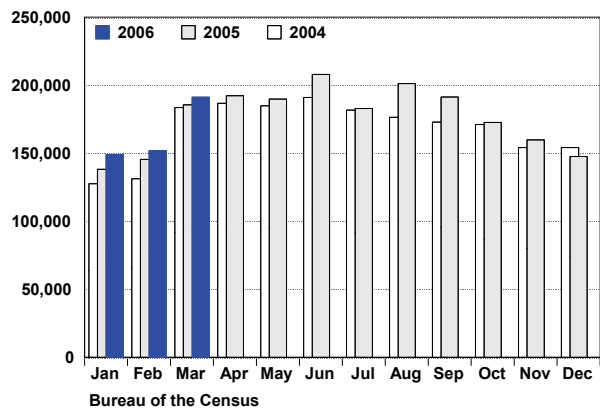


Consumer Credit Per Capita - Inflation Adjusted



US Home Building Activity

New Housing Permits Issued



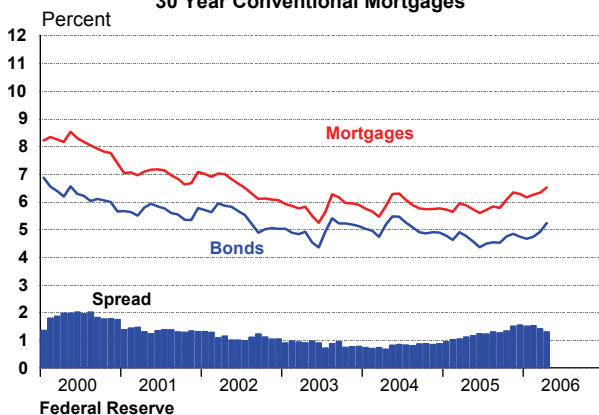
Housing: Home prices continued to rise sharply in a number of markets in the fourth quarter of 2005. In some markets, prices **accelerated**—that is, they increased more in the fourth quarter than in previous quarters: Albuquerque, Boise, Cape Coral-Fort Myers, Deltona-Daytona Beach, El Paso, Lakeland, Naples, Ocala, Orlando, Phoenix, Portland, Salt Lake City, Seattle, Tampa, Tucson, and Wilmington NC. It is very likely that prices will continue to increase at above-average rates in these markets for at least another year.

With interest rates rising and consumers already spending a record proportion of their income on interest payments, the **risk of investing** in some real estate markets is now very high. Of the 10 most over-priced markets—where a lengthy price readjustment will eventually take place—Santa Barbara, Naples, Modesto, San Diego, Stockton, Riverside-San Bernardino, San Jose, Vallejo-Fairfield, Sacramento, Los Angeles—9 are in California. In these markets, the most likely outcome is a long period of **flat prices**.

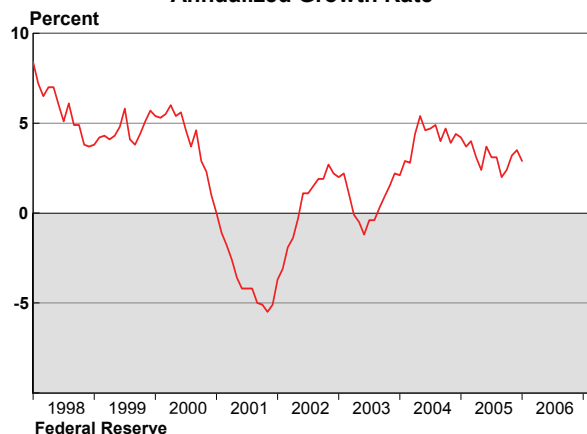
In the 10 markets where **investors** have been most responsible for driving up prices—Myrtle Beach, Naples, Panama City, Cape Coral-Fort Myers, Wilmington NC, Vero Beach, Port St. Lucie, Sarasota-Bradenton, Deltona-Daytona Beach, and Lakeland—which are mainly in Florida, I expect that the eventual outcome will be **falling prices**.

Reminder: I believe that we are near the end of the national real estate boom that started in the late 1990s. Home buyers, home builders and mortgage lenders must become more cautious, a difficult thing to do because of strong demand and rising home prices. The value of homes will drop in some markets, the number of home sales will decrease, and the number of mortgage foreclosures will rise in the next few years.

Interest Rates 20 Year Treasury Bonds 30 Year Conventional Mortgages



Industrial Production Annualized Growth Rate



Quick Review

Economic Growth

Best Employment Growth

1. Las Vegas-Paradise NV	6.9%
2. Myrtle Beach-Conway SC	6.5%
3. Phoenix-Mesa AZ	6.2%
4. Cape Coral-Fort Myers FL	5.9%
5. Boise City-Nampa ID	5.9%
6. Reno-Sparks NV	5.8%
7. Sarasota-Bradenton FL	5.5%
8. Wilmington NC	5.5%
9. Naples-Marco Island FL	5.4%
10. McAllen-Edinburg TX	5.4%
11. Baton Rouge LA	5.3%
12. Orlando FL	5.0%
13. Provo-Orem UT	4.8%
14. Vero Beach FL	4.7%
15. Port St. Lucie-Fort Pierce FL	4.5%
16. Salt Lake City UT	4.5%
17. Greeley CO	4.4%
18. Seattle-Tacoma WA	4.2%
19. Fayetteville-Springdale AR	4.2%
20. Raleigh-Cary NC	4.1%
21. Tucson AZ	4.1%
22. Vallejo-Fairfield CA	4.0%
23. Deltona-Daytona Beach FL	3.9%
24. Austin-Round Rock TX	3.8%
25. Jacksonville FL	3.8%

February 2005 - February 2006

Worst Employment Growth

New Orleans-Metairie LA	-30.7%
Detroit-Warren MI	-1.3%
Milwaukee-Waukesha WI	-0.9%
Greensboro-High Point NC	-0.8%
Cleveland-Elyria OH	-0.2%
Ann Arbor MI	-0.1%
Winston-Salem NC	0.7%
Greenville SC	0.8%
Augusta-Richmond County GA	0.8%
San Jose-Sunnyvale CA	0.9%
Columbus OH	0.9%
Columbia SC	0.9%
Pittsburgh PA	1.0%
Indianapolis IN	1.0%
Boston-Cambridge MA	1.0%
Hartford-West Hartford CT	1.0%
Louisville KY	1.1%
New York-Northern New Jersey N	1.1%
Grand Rapids-Wyoming MI	1.1%
Philadelphia-Camden PA	1.2%
Chicago-Naperville IL	1.2%
Omaha-Council Bluffs NE	1.4%
St. Louis MO	1.4%
Los Angeles-Long Beach CA	1.5%
Baltimore-Towson MD	1.5%

Home Building Activity

Largest Increase in Permits

1. Lakeland FL	63%
2. Austin TX	62%
3. Las Vegas NV	37%
4. Ocala FL	37%
5. San Francisco-Oakland CA	32%
6. Knoxville TN	31%
7. Tulsa OK	31%
8. Greensboro NC	28%
9. Honolulu HI	28%
10. Charleston SC	27%
11. Des Moines IA	25%
12. Provo-Orem UT	25%
13. Charlotte NC	23%
14. San Antonio TX	23%
15. Greenville SC	21%
16. Palm Bay-Melbourne FL	19%
17. Myrtle Beach SC	19%
18. Pittsburgh PA	19%
19. Raleigh NC	18%
20. Chicago IL	18%
21. Brownsville-Harlingen TX	17%
22. Tucson AZ	16%
23. Wichita KS	16%
24. Reno NV	16%
25. Dallas-Fort Worth TX	14%

Latest Six Months to February 2006

Worst Increase in Permits

New Orleans LA	-73%
Santa Barbara-Santa Maria CA	-59%
Vallejo-Fairfield CA	-53%
Ann Arbor MI	-50%
San Jose CA	-43%
Louisville KY	-42%
San Diego CA	-41%
Stockton CA	-41%
Detroit MI	-38%
Modesto CA	-35%
Sacramento CA	-33%
Grand Rapids MI	-30%
Fresno CA	-24%
Milwaukee WI	-19%
Minneapolis-St. Paul MN	-17%
Colorado Springs CO	-17%
Lexington KY	-15%
Cleveland OH	-15%
El Paso TX	-14%
Hartford CT	-13%
Pensacola FL	-11%
Washington-Arlington DC	-11%
Nashville TN	-11%
Fayetteville NC	-9%
Columbus OH	-8%

Quick Review

Overpriced Home Markets

Santa Barbara-Santa Maria CA	83%	Reno NV	32%
Naples FL	76%	Deltona-Daytona Beach FL	31%
Modesto CA	71%	Las Vegas NV	30%
San Diego CA	67%	Phoenix-Mesa AZ	28%
Stockton CA	64%	Tucson AZ	28%
Riverside-San Bernardino CA	63%	Honolulu HI	26%
San Jose CA	62%	Pensacola FL	25%
Vallejo-Fairfield CA	58%	Orlando FL	24%
Sacramento CA	57%	Jacksonville FL	21%
Los Angeles-Anaheim CA	56%	Baltimore MD	17%
Miami-West Palm Beach FL	55%	Portland-Vancouver OR	16%
San Francisco-Oakland CA	53%	Virginia Beach-Norfolk VA	16%
Fresno CA	51%	Provo-Orem UT	16%
Port St. Lucie-Fort Pierce FL	45%	Ocala FL	15%
Sarasota-Bradenton FL	44%	Wilmington NC	15%
New York-North New Jersey NY	43%		
Vero Beach FL	43%		
Atlantic City NJ	41%		
Palm Bay-Melbourne FL	39%		
Panama City FL	39%		
Bakersfield CA	38%		
Washington-Arlington DC	37%		
Cape Coral-Fort Myers FL	36%		
Tampa-St. Petersburg FL	35%		
Boston MA	32%		

High Foreclosure Risk Rating

Detroit MI
Greensboro NC
Milwaukee WI
New Orleans LA