

BUSINESS BRIEFING



NATIONAL HOUSING MARKET OVERVIEW

2nd QUARTER 2011 | A VALUATION & ADVISORY PUBLICATION

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EXECUTIVE SUMMARY

The Residential Development Group conducts valuation and consultation services relating to residential development property. The group evaluates a wide range of product types and provides a full spectrum of services. Actively working in residential development markets across the nation, our analyses include the most current and applicable to that employed by market participants in acquisition, disposition, financing, underwriting, and investment decisions. We are pleased to present you with this informative briefing.

The credit crunch that began to unfold in the U.S. in mid-2007 was initially sparked by the sub-prime mortgage crisis, which subsequently evolved into a global financial meltdown by October 2008. The crisis was fueled primarily by the perceived strength of the U.S. residential housing market and exacerbated by lax regulations on elaborate structured finance and insurance instruments designed to earn profit and hedge against losses.

In early 2008, U.S. banks began showing cracks in their financial structure as the flaws in these practices became more apparent. At that point, the companies affected were those directly involved in home construction and mortgage lending. As the crisis emerged, however, financial institutions that had engaged in the securitization of mortgages began to falter as well. Due to the current state of the economy, household credit in the U.S. is in turmoil and the housing market has collapsed in nearly every part of the country.

Government intervention helped sustain moderate demand for home purchases in various markets around the country. However, since the expiration of the homebuyer tax credits in 2010, housing metrics suggest the possibility of additional downward correction. Economic uncertainty, low employment growth and home foreclosures will continue to put downward pressure on the market through 2011. The fallout from the financial and economic crisis is expected to last with remainder effects through 2012-14. A more in depth look at the current state of the national housing market is outlined in the sections that follow.



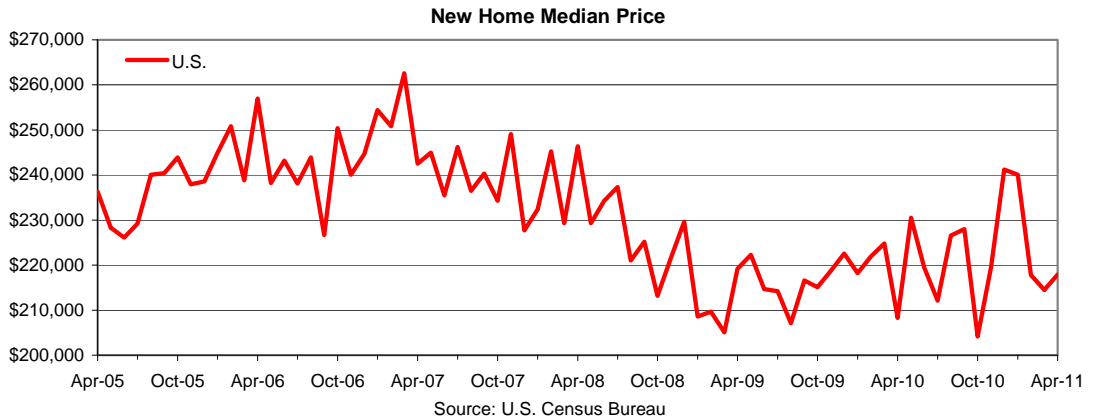
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HOME PRICING

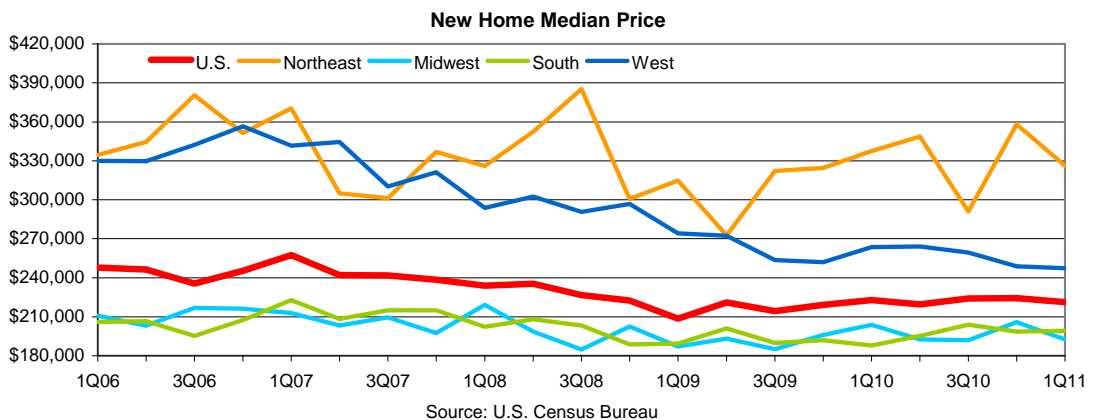
NEW HOME PRICING

The new home median price reached an all-time high in March 2007 followed by the most severe price decline in over 50 years. A new low of \$204,200 was recorded in October 2010, reflecting a 22.2 percent drop from market and a return to 2003 levels. Pricing trends suggested stabilization and positive movement in 2009 and early 2010. Since then, renewed downward pressure and erratic price fluctuations have made discerning a trend difficult. The most recent spike in the new home median price should not be construed as appreciation, but is more likely indicative of more expensive new home product comprising a larger percentage of total new home sales.

Price declines continue in many markets with poor economic conditions and a continuation of home foreclosure activity.



The South and Midwest have shown the least fluctuation in pricing, while the West and Northeast experienced the greatest declines. Recent quarterly increases are not yet indicative of a trend and studies suggest there has been no “real” price appreciation in most major markets. In fact, price declines continue in many markets with poor economic conditions and a continuation of home foreclosure activity.

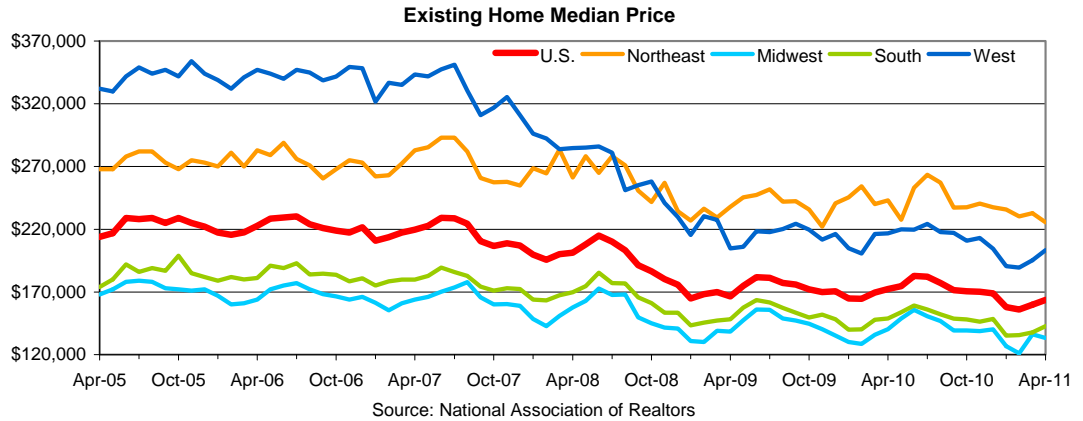




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EXISTING HOME PRICING

The U.S. existing home median price reached an all-time high in July 2006 and, like the new home market, has since suffered the most severe price decline in over 50 years. A floor may have been reached in February 2011 at \$156,100, reflecting a 32.2 percent decline from the peak. Pricing has returned to 2002 levels with April 2011 posting at \$163,700.



Pricing has returned to 2002 levels. Studies suggest there have been no “real” price appreciation in most major markets.

The Northeast recorded the lowest peak to trough decline, the South and Midwest showed slightly greater declines and the West has suffered the greatest declines overall. Like new housing, recent increases are not yet indicative of a trend and studies suggest there have been no “real” price appreciation in most major markets.

S&P/CASE SHILLER HOME PRICE INDICES

The S&P/Case-Shiller Home Price Indices are designed to measure the growth (or decline) in value of single family residential real estate in various regions. Specifically, they track repeat arms-length sales of specific homes and then analyze and aggregate them into an index. Highlights from the following charts include:

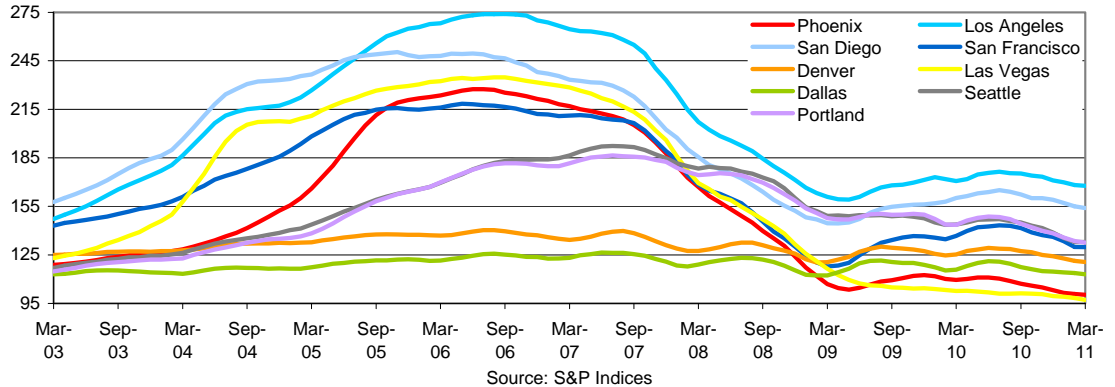
- Markets which experienced rapid price appreciation and strong speculative demand, such as those in Arizona, Nevada, Florida and California, have been the hardest hit in the downturn. Detroit was not part of the pricing boom, but the collapse of the auto industry greatly eroded home prices to 1994 levels.
- Denver, Boston, Charlotte and Dallas appreciated much slower and have fared the best, returning to 2001-2002 pricing.
- The data demonstrates that the previous regional pricing trends do not tell the whole story, as both the South and West regions include the hardest and least affected markets (i.e. Miami, -51.1 percent vs. Dallas, -11.2 percent and Las Vegas, -58.6 percent vs. Denver, -14.3 percent).
- Phoenix, Miami, Tampa, Atlanta, Chicago, Detroit, Minneapolis, Charlotte, Las Vegas, New York, Cleveland and Portland reached new lows in March 2011.
- Recent upward trends may be the result of exaggerated downward corrections caused by a greater number of lower priced homes reselling in the wake of the sub-prime fallout. As the percentage of higher priced resale activity increases, the indices may move positive. However, this may not reflect “real” price appreciation. Regardless, the index does suggest a decline in the dramatic downward momentum and relative stabilization in most markets. Notably, pricing in Los Angeles, San Diego, San Francisco and Washington D.C. is 5.0 to 10.0 percent higher from the low.



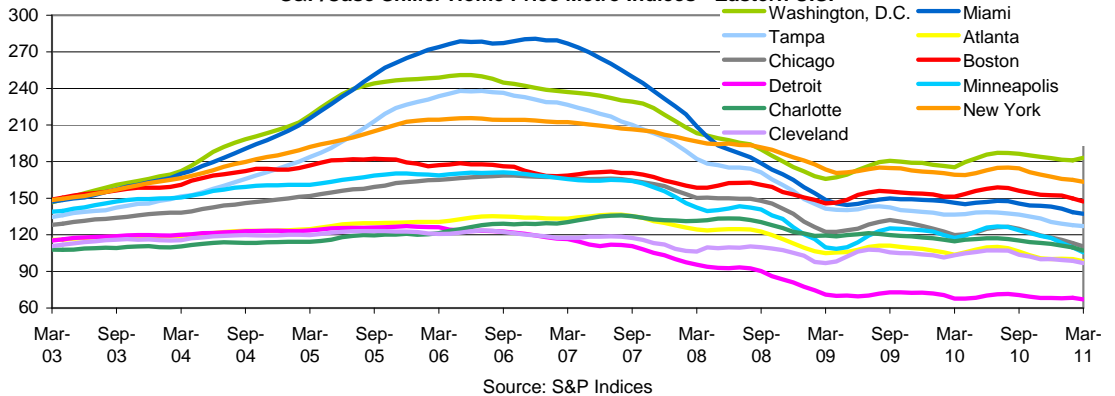
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- Most recent housing studies suggest stabilized pricing and/or potential for an additional 5.0 to 10.0 percent downward correction.

S&P/Case Shiller Home Price Metro Indices - Western U.S.



S&P/Case Shiller Home Price Metro Indices - Eastern U.S.



New home inventory has decreased 69.5 percent as of April 2011 to levels not seen since 1967.

SUPPLY ANALYSIS

NEW AND EXISTING HOME INVENTORY

As home sales began to decline in 2005, inventory increased due to continued construction and in part due to the large number of investors flipping homes on the resale market. Highlights from the following charts include:

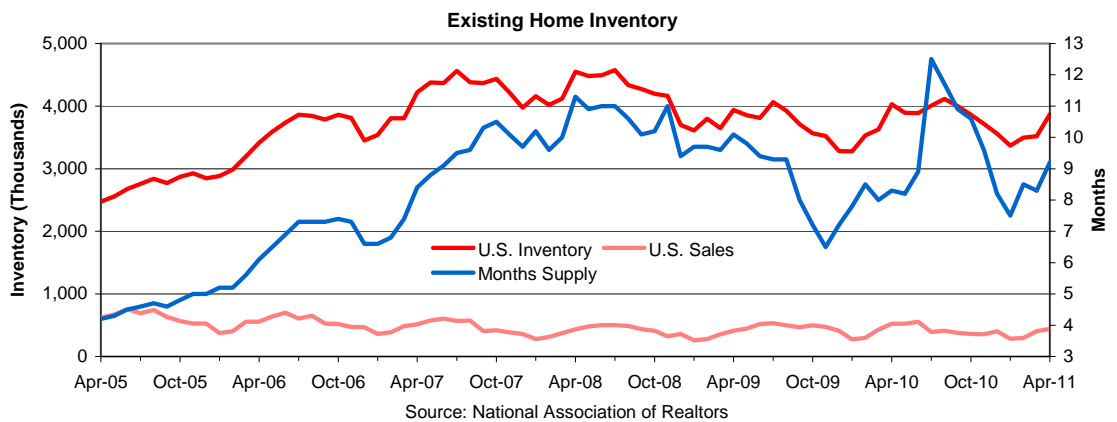
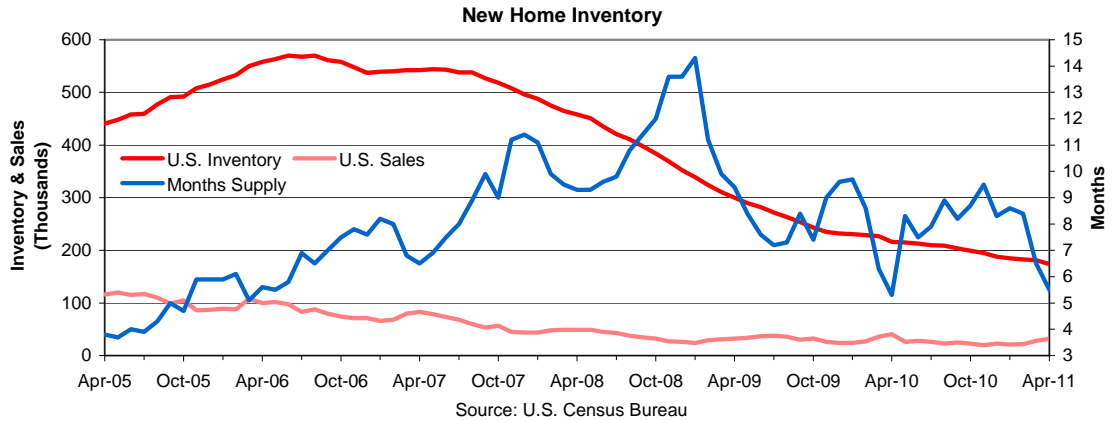
- New home inventory reached an all-time high in 2006, but with the decline in construction has decreased 69.5 percent as of April 2011 to levels not seen since 1967.
- Despite the decline in new home inventory, the months supply reached a 35-year high of 14.3 months in January 2009, as new home sales hit a 35-year low.
- A slight increase in sales, coupled with 2009 posting the lowest annual completions in over 40 years, helped lower new home supply to 5.3 months in April 2010. Another slow down in sales increased supply to 9.5 months by November 2010, which has since declined to 5.5 months in April 2011 as sales improved.
- Existing home inventory peaked in July 2008, declined 28.4 percent through January 2010 and has since remained higher. The months supply dropped from 11.3 months in April



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2008 to 6.5 months in November 2009, increased to a new high of 12.5 months in July 2010 and was last reported at 9.2 months in April 2011.

- Decreased sales activity and foreclosures have increased existing home supply.
- Foreclosures and short-sales will continue to put upward pressure on existing inventory and downward pressure on pricing.



Foreclosures and short-sales will continue to put upward pressure on existing inventory and downward pressure on pricing.

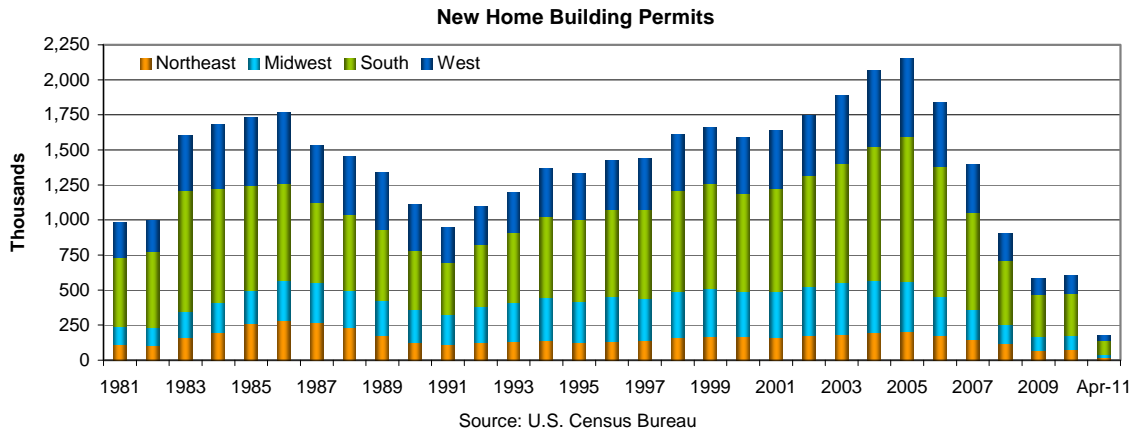
BUILDING PERMITS

Building permits are an indicator of near-term future construction. As new home sales peaked in 2005, building permits began to decline four months later. Highlights from the following chart include:

- January 2011 marked the lowest monthly permit activity (36,000) on record.
- Building permits in 2009 dropped to an all-time low (since recording began in 1959), reflecting a 73.0 percent decline from the high in 2005.
- As new home sales continue at a slow rate, building permits will follow suit. Total permits in 2010 were slightly higher than 2009 figures. As of April 2011, year-over-year permits were 12.5 percent lower.



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Of great concern is the increasing percentage of “strategic” foreclosures. Homeowners with the financial means to continue to pay on mortgages are increasingly more inclined to voluntarily choose to cease mortgage payments as their negative equity positions are perceived too substantial to be alleviated by near-term home appreciation.

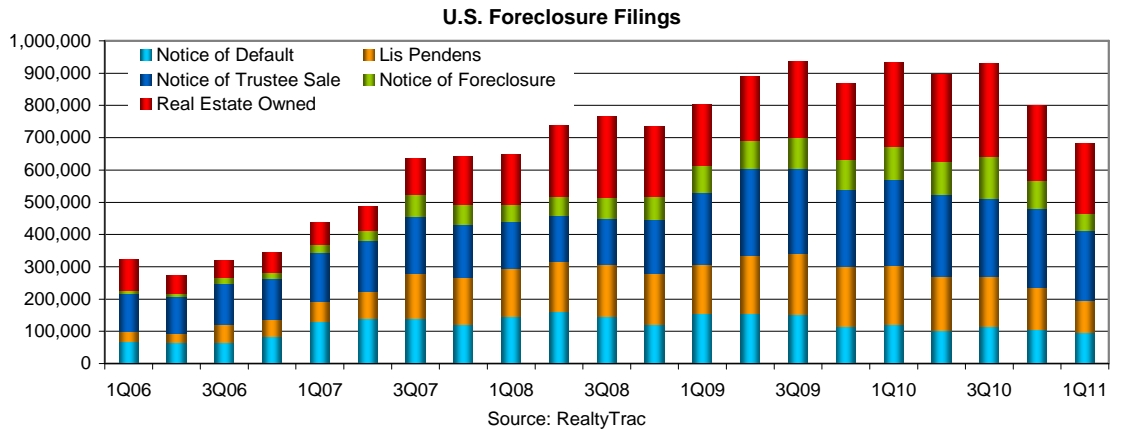
FORECLOSURES

As mentioned previously, foreclosures are exacerbating the downward trend in pricing and continue to put upward pressure on inventory. Highlights from the following chart and map, along with other estimates and projections, include:

- RealtyTrac reported 1.3 million foreclosure filings in 2006. With the credit crisis unfolding in mid-2007, a 75.0 percent increase in foreclosure filings was recorded in 2007, totaling 2.2 million. Foreclosure filings rose to 2.9 million in 2008, posting a 43.3 percent year-over-year increase.
- Foreclosure filings in 2009 totaling 3.5 million were 21.1 percent higher than 2008. This increase was likely subdued by lender delays or government imposed moratoriums on foreclosures. Total foreclosure filings in 2010 were slightly higher than 2009 figures.
- Nevada, Arizona, California, Utah, Georgia, Michigan, Florida, Colorado and Illinois had the highest rates of foreclosure filings, accounting for 64.1 percent of the nation’s foreclosure activity in 1st quarter 2011.
- Housing Predictor estimates 7.3 million properties have been foreclosed over the crisis through April 2010. Over 9.2 million additional foreclosures are forecast through 2015, resulting in over 16.5 million foreclosures through the remaining term of the depressed housing cycle.
- More than one in five homeowners is estimated to be underwater on their mortgages. Recent surveys indicate that nearly one in three mortgage holders would walk away if housing prices continue to fall.
- Of great concern is the increasing percentage of “strategic” foreclosures. Homeowners with the financial means to continue to pay on mortgages are increasingly more inclined to voluntarily choose to cease mortgage payments as their negative equity positions are perceived too substantial to be alleviated by near-term home appreciation. Reportedly, up to one-third of recent default filings were a result of strategic foreclosures as opposed to homeowners who were unable to make payments due to interest rate resets, loss of income, etc.

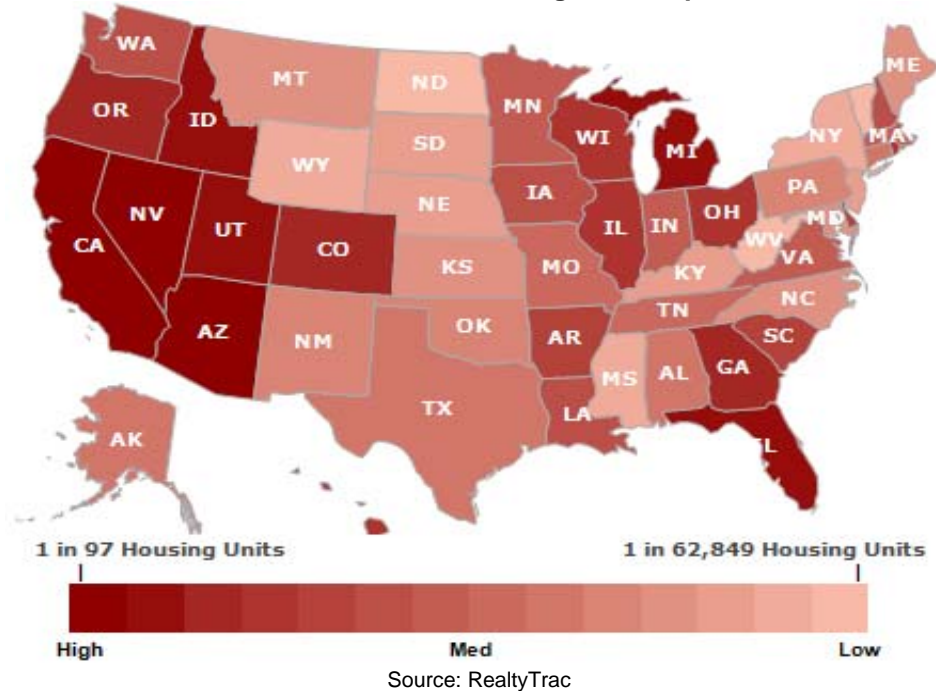


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The darkest areas of the map below indicate where up to 1 in every 97 housing units has received a foreclosure filing as of April 2011:

Foreclosure Actions to Housing Units - April 2011



Recent surveys suggest that public homebuilders have retreated from the aggressive acquisition strategies in 2009 and early 2010

HOMEBUILDER CONFIDENCE

The NAHB/Wells Fargo Housing Market Index gauges builder perceptions of current single-family home sales, prospective buyer traffic and sales expectations for the next six months. Builder perception, or confidence, of near-term sales conditions affects decisions to acquire lots and construct homes.

Builder confidence bottomed out in January 2009 at levels not seen in over 25 years. The recent increases may signify some builders perceive a bottom of the housing depression is near. In 2009,

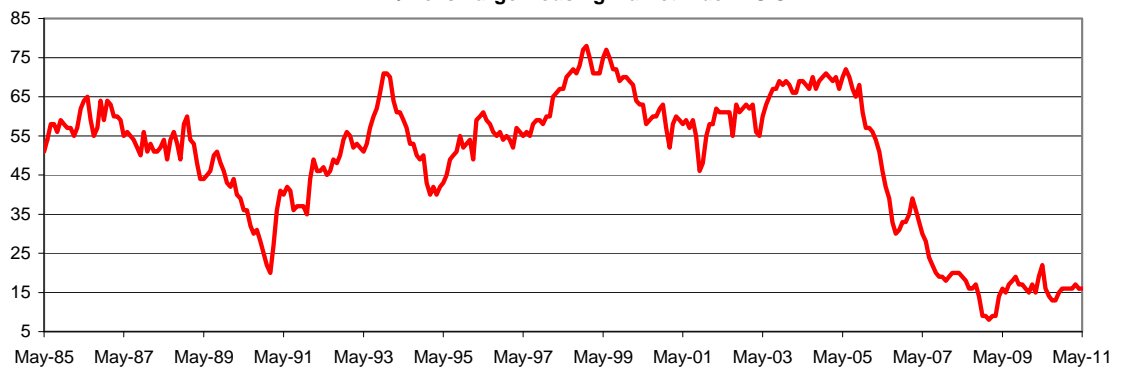


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public homebuilders re-entered certain markets (mainly built out coastal areas) to acquire lots intending to increase inventories for future housing construction. Bid prices by public homebuilders are typically much higher than private homebuilders who have difficulty financing such acquisitions and investor/speculators who are seeking greater returns over a given holding period. With continued concerns regarding the housing market and economy, more recent surveys suggest that public homebuilders have retreated from the aggressive acquisition strategies in 2009 and early 2010. Competition with the resale market (i.e. foreclosures), weak demand, the recession, and lack of acquisition, development and construction financing remain major obstacles to new construction.

Although affordability and consumer sentiment have shown improvement, sales will likely lag any recovery as potential homebuyers contemplate further price declines, job security, wage compression, and a continuation of foreclosures entering the market.

NAHB/Wells Fargo Housing Market Index - U.S.



Source: National Association of Home Builders - Economics & Housing Policy

DEMAND ANALYSIS

NEW AND EXISTING HOME SALES

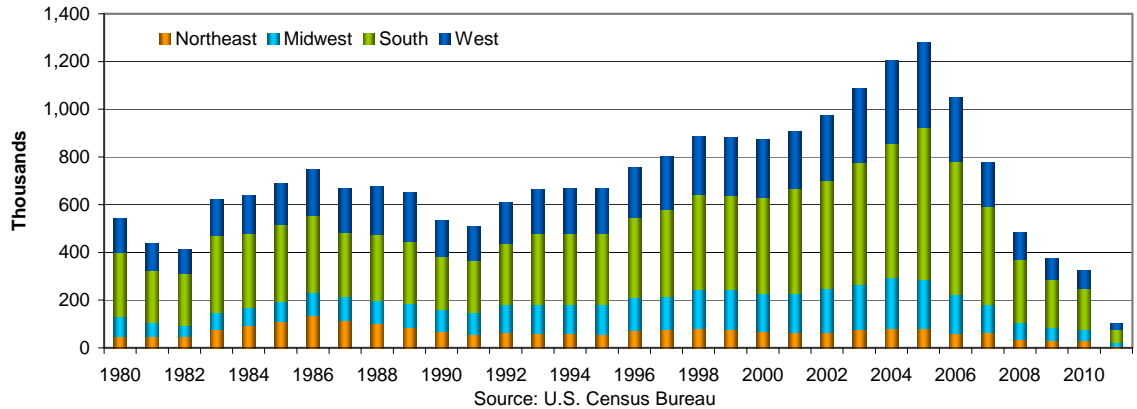
Leading up to the current crisis, new and existing home sales reached all-time highs in 2005. The sub-prime fallout and ensuing recession have battered home sales downward. Highlights from the following charts include:

- November 2010 marked the lowest monthly new home sales (20,000) since recording began in 1963. New home sales in 2010 dropped to an all-time low, reflecting a 75.0 percent decline from the high and a 13.9 percent year-over-year decline. As of April 2011, year-over-year sales were down 19.5 percent.
- Existing home sales in 2010 dropped to levels not seen since 1998, reflecting a 30.6 percent decline from the peak. January 2009 marked the lowest monthly sales (257,000) in over 10 years. As of April 2011, year-over-year sales decreased 6.5 percent.
- Although affordability and consumer sentiment have shown improvement, sales will likely lag any recovery as potential homebuyers contemplate further price declines, job security, wage compression, and a continuation of foreclosures entering the market. For those willing to buy, the difficulty in obtaining financing has further depressed sales.

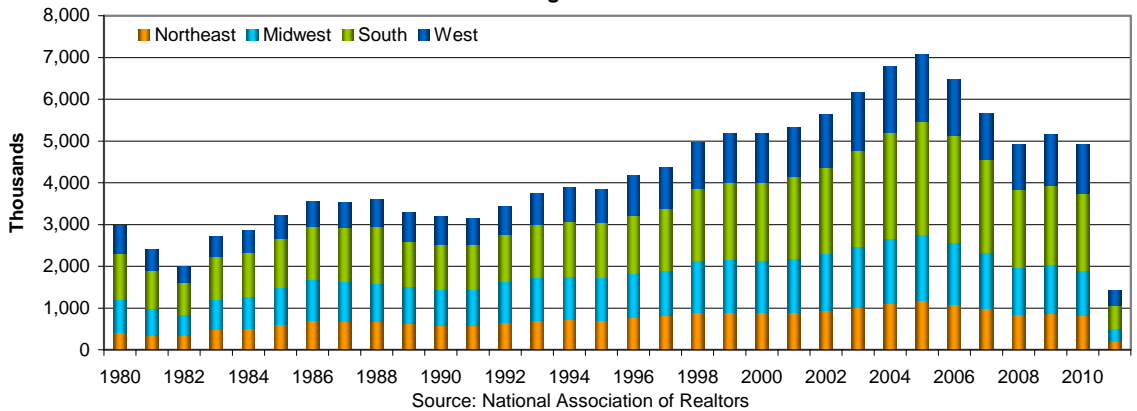


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New Home Sales



Existing Home Sales



Home purchase loans remain difficult to obtain in many stressed markets, especially for condominium units as Fannie Mae adopted strict lending guidelines to abate further losses.

Recent studies suggest an increasing percentage of cash buyers seeking out opportunities in the foreclosure/short-sale markets as lenders have tightened credit standards for conventional financing. Home purchase loans remain difficult to obtain in many stressed markets, especially for condominium units, as Fannie Mae adopted strict lending guidelines to abate further losses.

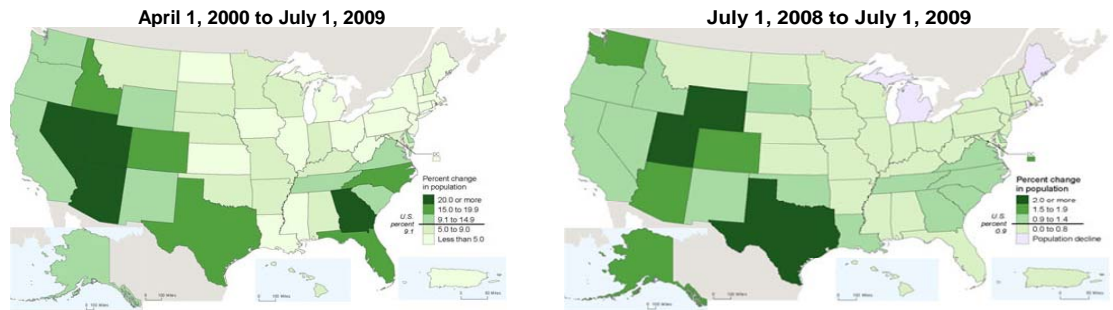
DEMOGRAPHICS

From 2000 to 2009, population growth was strongest in the Southeast, Texas, Rocky Mountain, Southwest and West Coast states. This trend fueled demand for new housing construction. Since the recession began in 2008, population growth has fared best in states least affected by the housing and economic downturn. As affordability, climate and lifestyle continue to drive purchasing decisions; population growth and demand will remain strongest in these areas.



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Percent Change in Population



Source: U.S. Census Bureau

The large “echo boomer” demographic is now moving into the housing market. This population, along with many former homeowners now renting, has contributed to positive momentum in for-rent housing.

A pending demographic shift involves the baby-boomer generation, covering an approximate 17-year span, entering retirement age. This sizeable portion of the population that represented the traditional buyers of residential properties in the entry-level and move-up markets will likely become sellers into the move-down markets. However, some retirement aged “sellers” may have difficulty selling as home equity levels have declined substantially. The massive loss of wealth in both real estate and equities over the past three years will contribute to defining housing market segmentation, pricing, and activity. Further, geographic relocation options have been decreasing resulting in a decrease in traditional move-down and re-employment migration patterns.

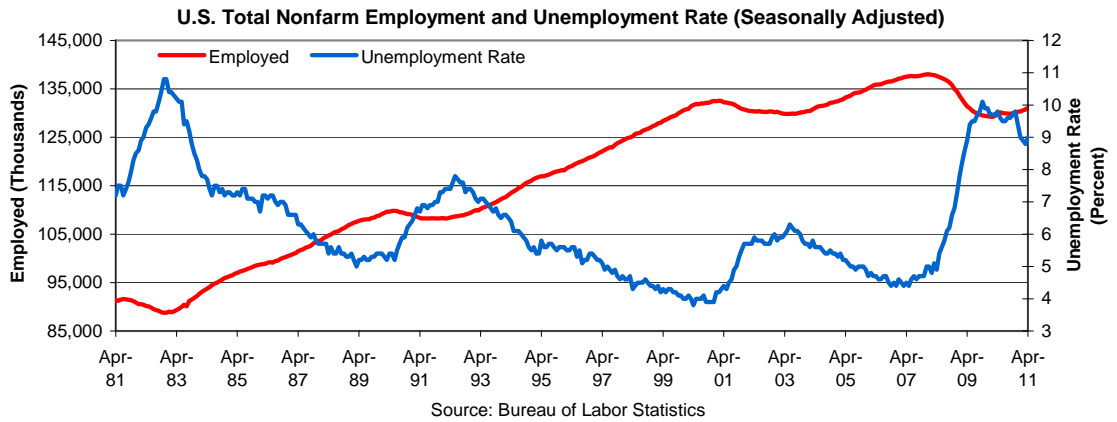
Finally, the large “echo boomer” demographic is now moving into the housing market. This population, along with many former homeowners now renting, has contributed to positive momentum in for-rent housing. In addition, several studies suggest that there may be a lifestyle shift to the rental versus homeownership across demographics, including potential move-up and move-down homebuyers. Should interest rates remain low, upward pressure on rental rates and increasing affordability may once again spur homeownership. The next several years will likely demonstrate trends in rental versus homeownership.

EMPLOYMENT

The housing and credit crisis have led the country into the worst recession since the depression of the 1930s. Total nonfarm employment peaked in January 2008 and declined 6.3 percent through February 2010, reflecting a loss of approximately 8.8 million jobs. Although approximately 1.8 million new jobs were recorded through April 2011, the U.S. unemployment rate was reported at 9.0 percent, not far below the peak of 10.1 percent in October 2009. Shadow unemployment (those no longer receiving unemployment benefits) remains high. The continued addition of employment-aged population entering the workforce will contribute to sustained higher unemployment levels. There are however, studies that suggest the movement of the large demographic baby-boomers into retirement should open up employment opportunities and alleviate some of the upward pressure on unemployment. However, this may be slightly off-set by aging baby-boomers who are no longer able to exit the workforce due to financial inability to sustain a non-employed lifestyle. The lack of employment growth, employment insecurity, and wage compression, will continue to suppress demand, even as some sectors of the economy begin to show improvement.



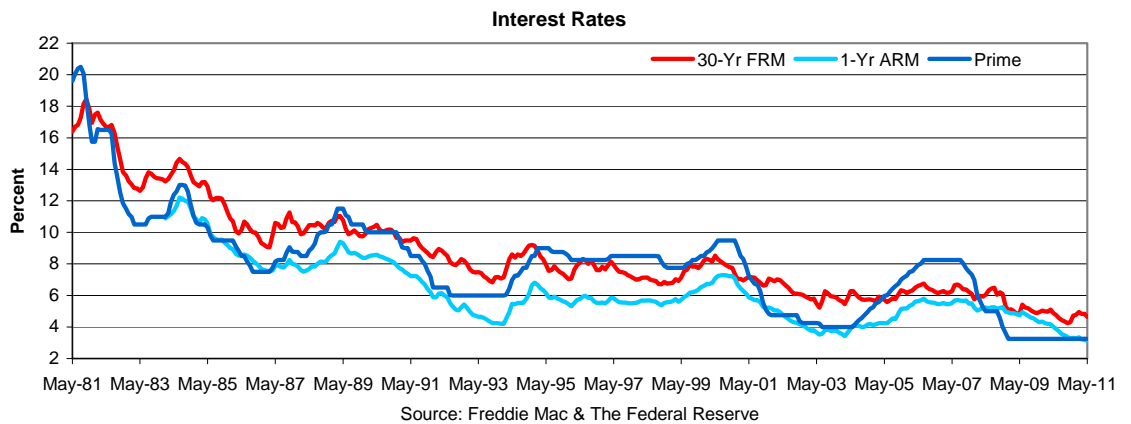
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INTEREST RATES

Fixed-rate 30-year mortgages as of October 2010 averaged their lowest in over 40 years at 4.23 percent. Rates increased to 4.95 percent as of February 2011 and have since declined to 4.64 percent. The prime rate has remained at 3.25 percent since January 2009. Lower interest rates increase affordability for housing, yet even at the lowest rates in four decades, effective demand for housing remains relatively low in the current economic climate. Recently, concerns have been raised about possible deflation. Accordingly, the Fed has continued to keep interest rates low. Most long-term projections are for increasing interest rates companion to possible inflationary concerns. If interest rates do increase, affordability levels would diminish accordingly and reduce housing demand.

Current affordability levels for all regions are at or near their highest in over 20 years.



AFFORDABILITY

One positive result of the housing crisis is increased affordability as home prices have declined and interest rates remain low. Highlights from the following charts include:

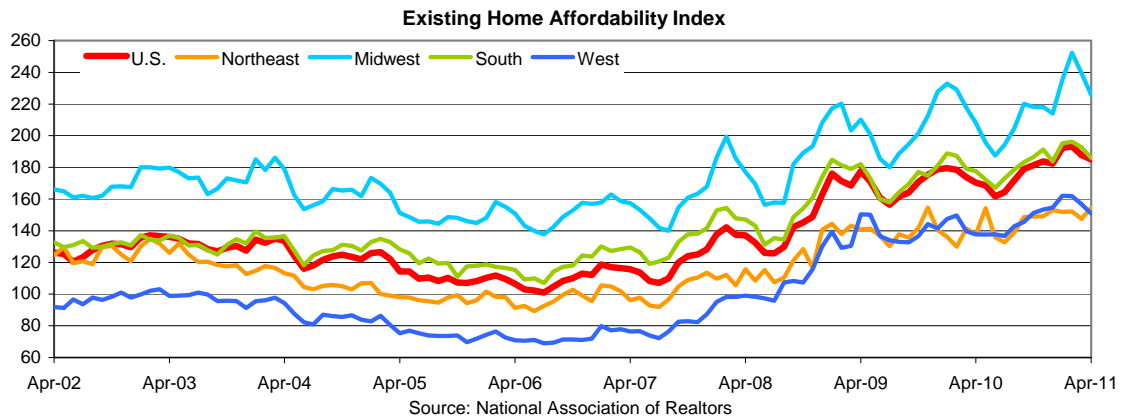
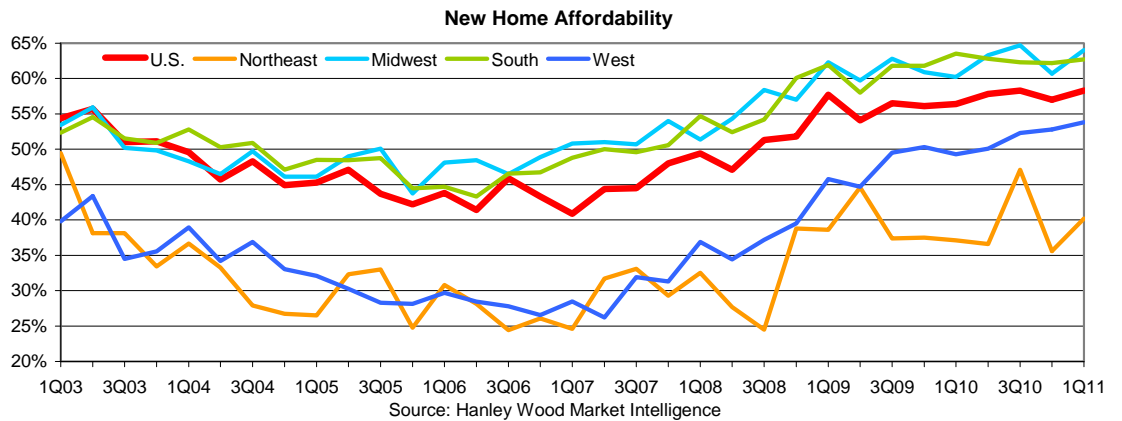
- The percentage of households that could afford the U.S. median price of a new home reached an all-time high of 58.3 percent in 1st quarter 2011, reflecting a 42.5 percent increase from the low recorded in 1st first quarter 2007.
- Existing home affordability increased 91.3 percent through February 2011 since bottoming out in mid 2006. The recent lows of 2006 were similar to those levels seen during the late



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1980s and early 1990s. Current affordability levels for all regions are at or near their highest in over 20 years.

- The Midwest and South have historically been the most affordable regions of the country for new and existing housing due to much lower home prices.
- Increases in interest rates, which are expected over the long-term, and/or reductions in income levels, which are now being realized due to the latest recession, would negatively affect affordability.



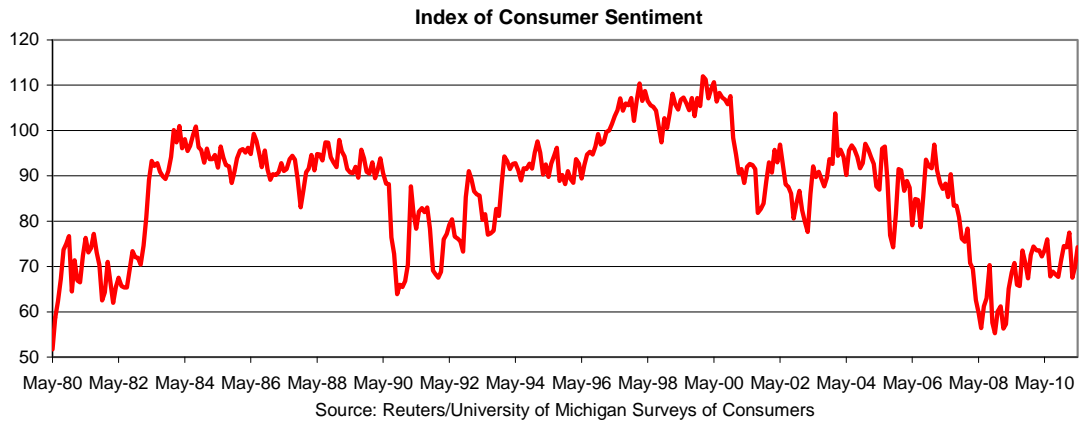
Increases in interest rates, which are expected over the long-term, and/or reductions in income levels, which are now being realized due to the latest recession, would negatively affect affordability

CONSUMER SENTIMENT

The Index of Consumer Sentiment questions 500 households each month on their financial conditions and attitudes about the economy, which directly relates to the strength of consumer spending (i.e. home purchases). Consumer sentiment reached a near record low in November 2008 with the crash of the financial market and the ensuing recession. Recent gains may signify that consumers perceive the worst of the recession is over. However, consumer sentiment survey indicators have not held over consecutive months, making it difficult to discern a longer-term trend.



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CONCLUSION

An economic recovery with companion job growth and affordability by way of home purchase financing will be the necessary precursors to a healthy rebound in housing market conditions

Debate continues with regard to the health of the economy and housing market. Home prices have decreased substantially over the past 36 months and home purchase affordability indexes are at or near new highs. Government intervention, in the form of first-time and move-up homebuyer tax credits, home affordable modification programs, exceptionally low interest rates, and financial support of FNMA, FHLMC, and FHA, helped sustain moderate demand for home purchases in some markets. On the other hand, economic instability reflected in yet to be realized employment growth and staggering statistics on the potential for new increases in foreclosure inventories instills pessimism as to whether the housing market has indeed hit a true bottom in this cycle. Rental housing is increasingly becoming an alternative to homeownership. Homebuilder confidence had slightly improved with public homebuilders re-entering certain markets (mainly built out coastal areas) to acquire lots for future construction. However, recent surveys suggest that public homebuilders have retreated somewhat from the aggressive acquisition strategies in 2009 and early 2010.

Population increases continue in the traditional growth markets and interest rates are very favorable for qualified buyers. Despite increasing numbers of buyers and investors seeking out opportunities for distressed property, absorption of resale product has slowed amid continued economic concerns. For those willing to buy, lenders have tightened credit standards making it difficult to obtain financing. Any upward movement in interest rates, combined with any wage decreases, could dramatically affect future demand for housing. Federal homebuyer tax credits have expired and placed many buyers back on the fence. Further, the major demand generator in the housing market is employment, which remains weak. Hence, an economic recovery with companion job growth and affordability by way of home purchase financing will be the necessary precursors to a healthy rebound in housing market conditions.



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The team is actively working in residential development markets across the nation. Our analyses include the most current and applicable to that employed by market participants in acquisition, disposition, financing, underwriting, and investment decisions. The team stays current on residential development transactions and supply & demand factors at the national and submarket level. Methodology often includes an analysis of pertinent transaction activity and sophisticated builder and developer down residual cash flow modeling.

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