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COMMENT

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Homebuilding

Equity Research

MARKET WEIGHT

Data Masks Grim Reality

- Given the seemingly boundless deterioration in housing market fundamentals, investors and analysts continue to scour industry data points for any hint of stabilization in market conditions. Nearly all of the key macro and company-specific variables highlighted in our Housing Monthly have been decelerating in concert since the start of the year, including declines in mortgage application indices, housing starts, new and existing home sales, and consumer confidence, coupled with sharp increases in inventories and cancellation rates.
- While the macro data certainly depicts a slowdown in the housing market, it has not exhibited the drastic deterioration being highlighted in recent company announcements, public builder reports or anecdotal commentary from our industry channel checks. Phrases such as “bloodbath” and “disaster” have routinely been used to describe conditions in many markets; however, the housing macro data has largely suggested a soft landing, which is not at all indicative of the dramatic decline we have seen in some areas. Given all of these mixed signals, we are frequently asked, why is there a disconnect between the data and reality?
- We attribute the recent divergence between the macro data and actual market conditions to the following key points: First, on housing starts, we believe the lack of significant deterioration is due to the double-digit increase of new community openings being brought on by builders that got caught sitting on too much land in the planning phase, despite the downturn that continues to unfold. Second, regarding new home sales, we attribute the inflated results to the Census failing to account for soaring cancellations, plus the fact that the data is extrapolated from an extremely small sample size of roughly 3% of total sales. Third, existing home sales data is based off of closings rather than sales, leading to a considerable lag effect from current market conditions.
- In the second section of the report, we take a deep dive into the topic of home prices, which continue to remain higher than the robust levels from last year despite reports of double-digit incentives being offered by builders and a flood of investor inventory sitting on the market. The disconnect in new home prices is largely a result of the macro data not accounting for the staggering levels of incentives being offered in many markets. On the existing side, there is a significant lag effect and selection bias in the pricing data. However, we do expect the more popular measures of national home prices to report year-over-year declines in the months ahead. We expect median new home prices to decline 4% in August, and median existing home prices to post a 2% year-over-year decline in October. These declines should spook the market and will likely have a significant psychological impact on homeowners as they read about their net worth declining in the Sunday newspaper.
- Although we recognize that the industry has garnered a high level of interest of late from value investors pointing to book value as a potential floor in the stocks (currently at 1.2x tangible book), or those who might be looking to bottom tick the group in anticipation of a trough in fundamentals, we continue to recommend remaining on the sidelines at this time. Our patience is primarily due to the large gap that exists between the macro data and the grim reality in many major markets, in addition to company specific expectations that remain too lofty for 2007. Finally, in our opinion, incremental bad news such as land impairments, acquisition write-offs and home price declines will likely keep the group from rebounding in the coming quarters.

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Macro Data Just Doesn't Add Up

In the first section of this report, we explain the significant disparity between recent macro housing start and home sales data versus the more dire results and commentary from public homebuilders and our industry channel checks. Key takeaways include:

1) *Housing starts* are still at alarmingly high rates. We believe the lack of significant deterioration is due to the double-digit increase of new community openings being brought on by builders that got caught sitting on too much land in the planning phase (which can be up to 1-2 years), despite the downturn that continues to unfold. Through July, unadjusted single-family starts are only down 6% on a year-to-date basis, while unadjusted new home sales are down 14%. The divergence between sales and starts has contributed to July's all-time record inventory level of 568,000 homes, up 22% year-over-year. This represents 6.5 months of supply, the highest level since November 1995.

2) *New home sales* data published by the Census Bureau is significantly overstated in comparison to public builder results, primarily due to the fact that the data fails to account for soaring cancellations. In 2Q06, our public builder universe posted a year-over-year order decline of 23% versus a more modest 13% decline nationally according to the Census. The difference predominantly lies in the recent surge in cancellations, which are netted out of the publics' results but not subtracted from the Census data. The average cancellation rate in 2Q06 was 35% (as reported by the publics in 2Q06), which is up sharply from 20% last year (most alarming is that many of these cancellations are occurring near or at closing, unlike any other period before). In addition, the data is extrapolated from an extremely small sample size of roughly 3% of total new home sales. Preliminary results released each month are based off of even smaller samples, making the data subject to large revisions in proceeding months and a poor indicator of near-term trends.

3) *Existing home sales* data released by the National Association of Realtors is based off of transactions closed rather than sales contracts. As a result, the data typically lags market conditions by several months. While the data uses a larger sample size representing nearly 40% of total existing home sales, massive year-over-year sales declines in markets such as Metro D.C. (down 37%), Phoenix (down 36%), Florida (down 33%) and California (down 30%) seem to indicate that July's national seasonally adjusted rate of 5.51 million sales (only down 11% year-over-year) is not reflective of many markets' conditions.

In the second section of the report, we take a deep dive into the topic of home prices, which continue to remain higher than (albeit at a decelerating rate) the robust levels from last year despite reports of double-digit incentives being offered by homebuilders and a flood of investor inventory sitting on the market. After scrutinizing some of the more popular measures of national home prices such as the Census Bureau's price series for new homes, the National Association of Realtors' price series for existing homes and the OFHEO Home Price Index for repeat home sale transactions, we expect both new and existing home prices to report year-over-year declines in the months ahead. Key takeaways of our analysis include:

1) *New home sales prices* are inflated as they do not account for option upgrades, giveaways, or closing cost incentives offered by builders, which range from the low single digits in stronger markets to as high as 15-20% in some of the "bloodbath" markets. July's median new home price as reported by the Census was up 0.3% year-over-year to $230,000. However, builders are doing anything they can to avoid lowering base prices, as any outright price cuts in existing communities would increase the likelihood of cancellations among buyers in backlog. These protective backlog efforts are evident, as the average public builder order price in 2Q06 was down 2% year-over-year (this includes option upgrades and financing incentives for roughly 2/3rd of the publics), versus a 4% gain in the Census' median sales price in the quarter (which does not include any incentives). Despite this methodology flaw in the macro data, we expect median home prices as reported by the Census to decline 4% year-over-year in August, and be down roughly 4-5% in the back half of the year.

2) *Existing home sales prices*, in our opinion, do not accurately represent current market conditions due to timing lags, selection bias issues and unexplained variances between local market reports and the national data. July's median existing home price as reported by the National Association of Realtors was $231,200, up 1.5% year-over-year, an all-time record. Despite the aforementioned methodology limitations, we do expect median prices as reported by the NAR to post a decline in October, falling approximately 2% on a year-over-year basis, and continuing to fall through 2007.

3) Finally, we provide commentary from our survey contacts on what pricing is really doing in local markets around the country. It is clear effective pricing trends are far worse than the data currently indicates given the high levels of incentives being offered by builders in many markets. In addition, commentary from our channel checks imply that there are distinct pricing trends developing in many markets based on price point. High-end homes are reportedly at a complete standstill regardless of incentive packages being offered. Buyers in the mid-price point are expecting incentives in the range of 7-10% of base price, and are simply moving on to the next builder down the road if an incentive package is not adequate. Lower priced homes appear to have better demand in many markets; however, without significant incentives many buyers would not qualify given the lack of affordability resulting from soaring home prices. Given these trends, our channel checks believe that "real" prices are down more than 10% year-over-year in markets such as San Diego, Sacramento, Phoenix, Northern Virginia and Southwest Florida, with more declines to come.

Summary

The warning signs were there. First the inventory began to creep up, which was followed by whispers of investors fleeing markets by the busloads. Meanwhile, interest rates continued to climb, magnifying affordability constraints already prevalent due to soaring home prices. That was roughly a year ago, marking the unofficial beginning of a housing market correction that has since erased nearly half of the industry's market capitalization. Of course it couldn't possibly be known that such a turn of events was in the cards by looking at the macro housing data such as home sales, starts and prices, which all continued to climb to record levels at the time.

Fast forward a year and market conditions are far worse than anybody could have imagined. Talk of "returning to a normal market" has been replaced with the possibility of a housing-led economic recession. However, the macro data still remains fairly solid, implying a probable soft landing outcome. By now, however, it should hopefully be apparent that macro housing data (specifically pricing data) is a lagging indicator and overall a poor reflection of current market trends. Although the data is likely to exhibit year-over-year price declines in the coming months, according to feedback from our industry channel checks, effective prices are already down significantly in several key markets including Metro D.C., Phoenix, Sacramento, San Diego, and parts of Florida. As prices continue to adjust to the weaker market conditions, we believe one of three scenarios will likely unfold:

1) The consumer pulls back on discretionary spending such as going out to dinner, taking vacations, buying expensive cars, etc. Homeowners are still able to maintain their monthly mortgage payments, although incremental spending will be scrutinized much more closely.

2) Many homeowners (specifically those with adjustable rate mortgages due to reset - $1 trillion by the end of 2007) will be unable to afford their monthly payments, forcing them to either downsize or return to the rental market. This will add inventory to the market as a new group of potential home sellers will begin to compete for a dwindling share of buyers.

3) If home prices decline considerably, home owners with adjustable rate mortgages (specifically subprime borrowers) will be unable to refinance upon the rate reset, and will foreclose on their homes. Many owners will simply decide to hand over their keys to the banks as appraisal values will most likely be lower than market value.

While it remains to be seen which scenario unfolds, we believe that the housing market is still in the early innings of a hard landing that will likely take several years to develop. We urge investors not to rely solely on the tame macro headline data, and instead pay heed to company specific reports and our channel checks, which clearly indicate that a housing recession is on the horizon in many markets.

Although we recognize that the industry has garnered a high level of interest of late from value investors pointing to book value as a potential floor in the stocks (currently trading at 1.2x tangible book), or those who might be looking to bottom tick the group in anticipation of a trough in fundamentals, we continue to recommend remaining on the sidelines at this time. Our patience is primarily due to the large gap that exists between the macro data and the grim reality in many major markets, in addition to company specific expectations that remain too lofty for 2007. Finally, in our opinion, incremental bad news such as land impairments, acquisition write-offs and home price declines will likely keep the group from rebounding in the coming quarters.

On the flip side, we believe it is possible that the group may post a short-term trading rally if the expectation for a potential Fed easing increases. However, given a massive inventory overhang, fleeing investors, and declining consumer confidence (which will likely be exacerbated by upcoming home price declines), we believe that lower interest rates will not be enough to support a turnaround in deteriorating housing market fundamentals.

Housing Starts Are Still Too High

Housing starts are down – but not nearly enough!

The topic “dú jour” from this past earnings season was land spend, and how builders plan on slowing investment. Homebuilders have begun to abandon option deposits, which many have interpreted as a first step in slowing inventory growth and fixing the supply/demand imbalance.

During 2Q06, the 14 builders in our coverage universe abandoned a combined $283 million in option deposits, or roughly 6-7% of total deposits. In addition, builders that have been more aggressive with spec units in the past have vowed to reduce the level of spec build as surging cancellations have flooded many markets with finished inventory. For example, DHI and PHM had been building between 30-40% of total starts on a speculative basis, and recently decided to lower these spec build levels given the weaker market conditions. While we would agree that both moves are steps in the right direction, we have yet to see any significant pullback in new projects and housing starts.

As shown in Exhibit 1, eight of the nine builders that still disclose community count posted double-digit year-over-year increases in 2Q06, while all nine increased community count sequentially from 1Q06. In addition, several builders indicated plans to continue increasing community count through year-end, most recently of which TOL said it plans to grow communities by 30% in 2006, and the company expects additional growth in 2007.

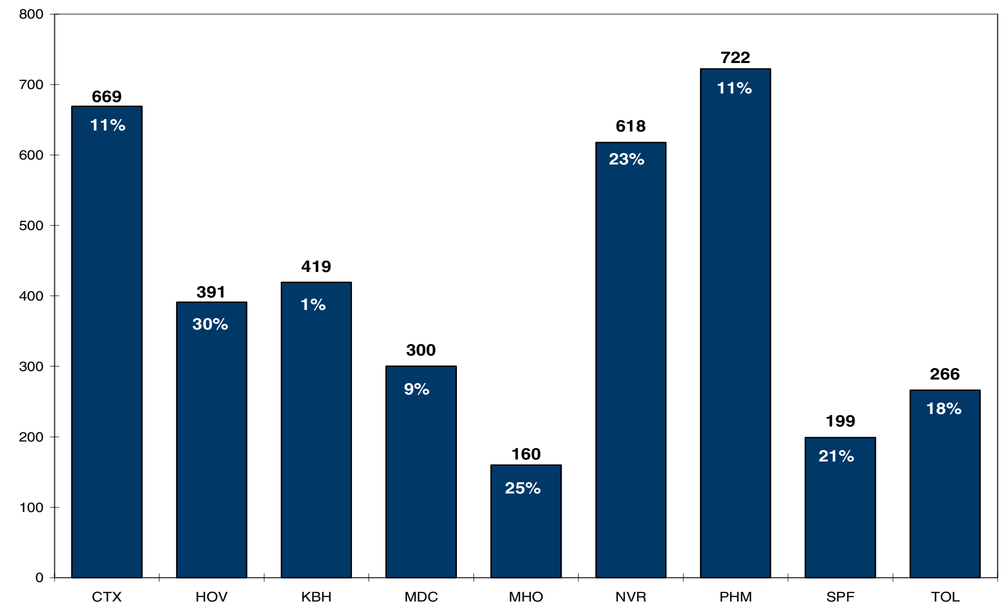
As many builders were caught off guard by the magnitude and quickness of the market slowdown, planned community openings and new projects moved forward. The public builders, in particular, got caught sitting on too much land in the planning phase, and were forced to move forward with the communities in order to maintain asset turns and get their cash back (current land supply for the publics is 6 years – See Exhibit 2). In addition, many assumed that absorptions would remain at the robust levels seen in recent years when these communities were plotted. These community openings will likely continue through year-end as builders need to work through projects in the pipeline that have already absorbed significant development costs in preparation for release. While we concur that the asset turn strategy is the only viable path, and anticipate cash flows will improve as land spend declines, plummeting net income will challenge builders to achieve the significant increases in cash flow currently expected by the Street.

Of course, community increases alone do not necessarily represent an increase in supply, but the housing start data paints a similar picture. In July, single-family housing starts were down 17% to a seasonally adjusted annual rate of 1.452 million, which seems fair given the 22% decline in seasonally adjusted new home sales in July.

The problem arises, however, when we analyze the raw data underlying these seasonally adjusted rates. Through the first seven months of the year, gross new home sales are down 14% year-to-date, and would likely be down 25-30% on a net basis when subtracting out cancellations (which the Census data does not do). However, non-adjusted single-family starts through July are down only 6%.

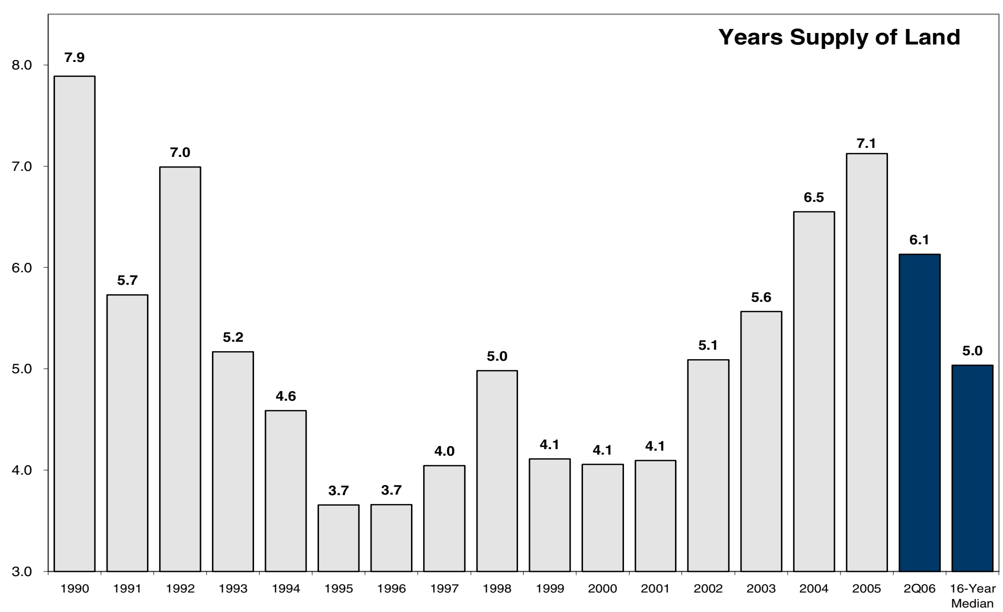
As shown in Exhibit 3, changes in starts and new home sales have been strongly correlated in the past five years. However, the divergence through the first seven months of 2006 indicates that the builders underestimated the sharp falloff in demand and are still starting new units. Therefore, we believe the builders will likely be forced to continue increasing incentives and slashing prices to spur demand in coming quarters in order to work through the excess inventory that they continue to add to the market. Exhibit 4 shows the recent surge in inventory as starts have outpaced sales. July's new single-family inventory level of 568,000 homes, up 22% year-over-year, represents an all-time record high.

Exhibit 1: Community Count by Builder and Year-over-Year Growth, Second Quarter 2006



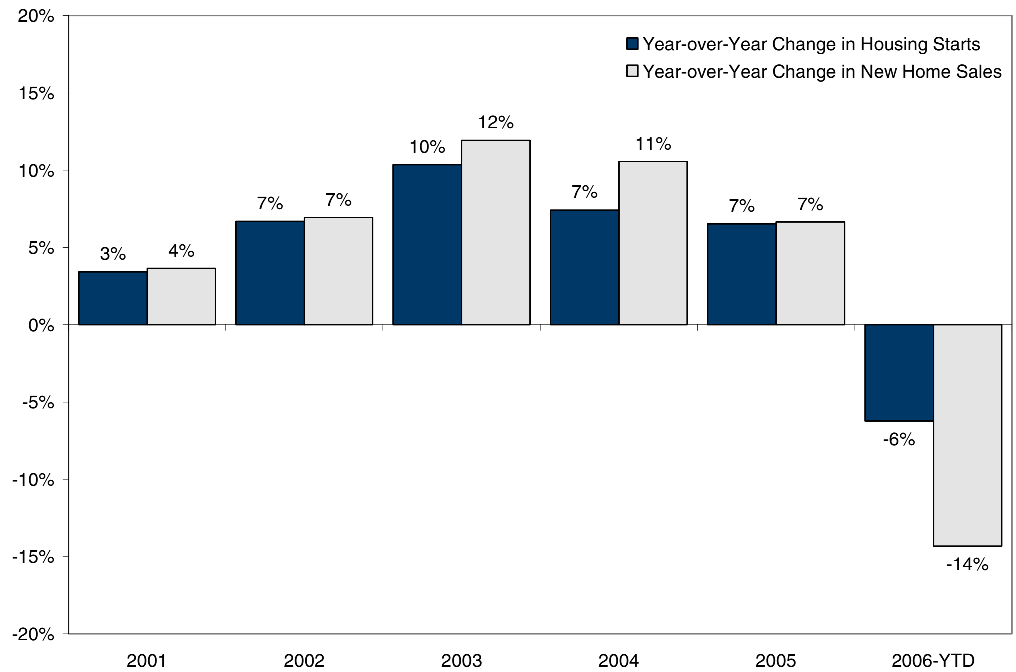
Source: Company Data, Credit Suisse estimates

Exhibit 2: Public Builders' Median Years Supply of Land, 1990-Present



Source: Company Data, Credit Suisse estimates

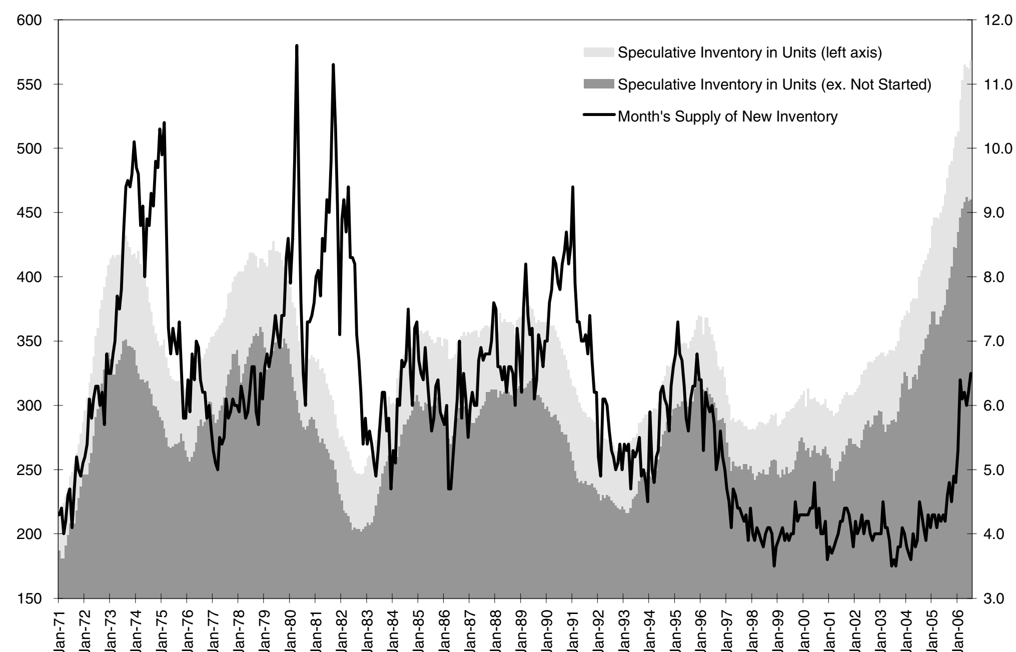
Exhibit 3: Year-over-Year Change in SF Starts versus New Home Sales, 2001-2006 YTD



Note: Rates of change are based off of non-seasonally adjusted data.

Source: U.S. Census Bureau, Credit Suisse analysis

Exhibit 4: New Home Inventory versus Months' Supply, 1971 through July 2006



Source: U.S. Census Bureau

Given the increasing divergence between supply (starts) and demand (sales), we believe that once builders are able to work through projects in the pipeline, housing starts are likely to post significantly larger than expected declines in order to “catch-up” with the shrinking demand. Therefore, we believe starts will decline significantly in 2007, falling well below many commonly cited forecasts. Exhibit 5 shows 2006 and 2007 single-family housing start forecasts from Economy.com, the Mortgage Bankers’ Association, the NAHB and NAR.

Based on feedback from our channel checks, we believe that single-family starts will eventually trend to a “normalized” near-term annual rate of approximately 1.3 million units, which would represent a 25% decline from 2005’s peak level. As builders adjust to the changing market conditions, however, we expect that starts may slow to an even lower rate temporarily until surging inventory levels begin to decline. Part of our expectation for a significant pullback in starts is attributable to the unsustainable level of demand that drove the last several years of robust activity. Particularly, the remarkable level of investor activity (which we estimate accounted for nearly 20% of home sales in 2005 compared to just 6% in 2000) was a key ingredient to the euphoric pace. Additionally, record low mortgage rates also pulled forward a considerable amount of demand in the past few years, which, in our opinion, accounted for an additional 10-15% of unsustainable demand. This fact is supported in analyzing the surge in subprime mortgage originations, which represented approximately 24% of total mortgage origination dollars in 2005, compared to just 9% in 2003.

Exhibit 5: Single-Family Housing Start Forecasts, 2006-2007

millions of units at annual rate	2005A	2006E	2007E	2005-2007 Change
Economy.com	1.719	1.590	1.360	
% Change	7.2%	-7.5%	-14.5%	-20.9%
Mortgage Bankers' Association	1.719	1.564	1.462	
% Change	7.2%	-9.0%	-6.5%	-15.0%
National Association of Homebuilders	1.719	1.533	1.419	
% Change	7.2%	-10.8%	-7.4%	-17.5%
National Association of Realtors	1.719	1.522	1.380	
% Change	7.2%	-11.5%	-9.3%	-19.7%

Source: U.S. Census Bureau, Economy.com, MBAA, NAHB, and NAR estimates.

Home Sales Data Is Misleading

New Home Sales Data Does Not Reflect Reality

Moving to the demand side of the equation, the U.S. Census Bureau publishes new home sales data each month. According to the Census, *"a sale of the new house occurs with the signing of a sales contract or the acceptance of a deposit."* Since this data is going to be the most real-time indicator of current market conditions in new housing, many focus on the data as a meaningful gauge of sales trends. However, the Census' data has significant limitations that are important to understand when making comparisons to order results from the public builders. Key limitations include:

1) Small Sample Size - The first drawback associated with the Census' new home sales data is that its sample size only captures approximately 3% of total home sales in any given time period, making it largely dependant on extrapolation assumptions and subject to sample error. In addition, preliminary results released each month are based off of even smaller samples. For quantification purposes, last year's new home sales total of 1.28 million was based off of a sample size of roughly 40,000 homes. While the data provides a decent representation of long-term market trends, the small sample size makes near-term results extremely volatile and subject to large revisions in proceeding months.

2) Cancellations - Second, and most importantly, the Census' new home sales data does not net out cancellations, which have become a growing problem for builders today. As market conditions have continued to deteriorate, builders have experienced a huge uptick in cancellation rates as buyers walk away from deposits as low as 3% of base price in some states (such as California). For the eight builders in our coverage universe that report cancellation data, the can rate in 2Q06 jumped to 35%, up from 30% in 1Q06 and 20% in 2Q05. Exhibit 6 demonstrates the recent upswing in cancellations for the public builders, which we believe is indicative of the broader market as well.

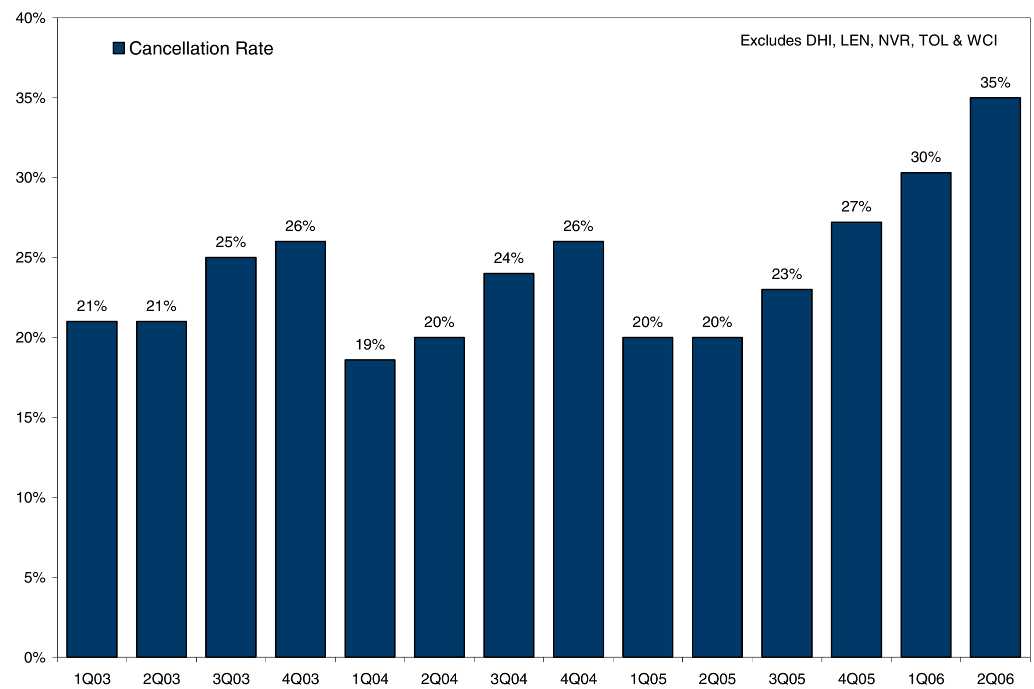
Even more concerning is that these cancellations are now predominantly occurring near or at closing. In the past, cancellations typically occurred shortly after the deposit was placed, which gave the builders time to find a new buyer as construction was still in its infancy (or not started at all). Now, with the many cancellations taking place at closing, builders find themselves sitting on finished inventory, and therefore must drastically reduce the price or risk facing carry costs associated with the finished home.

Although many investors have anticipated a decline in cancellation rates, as builders work through fleeing speculators in their backlogs, cans have surprisingly shown no signs of decelerating. We attribute the current high cancellation rates to the significant competition and compelling incentives that are stealing buyers midstream, and many at closing. Recently, statements from builders such as "make me an offer" or "take $100,000 off any home" have convinced buyers in backlog to either cancel and go to the competition, or force the original builder at closing to match the lucrative incentive. This would imply that cancellation rates would be even higher if it were not for builders matching the competition.

To counter this, we have heard anecdotes of builders proactively calling their backlogs and offering to return deposits to prospective buyers if they cancel early on, in order to avoid ending up with cancelled finished inventory. As these incentive offers show no signs of easing, we expect cancellation rates to remain at extremely elevated levels for the foreseeable future.

As cancellation rates continue to soar, the Census' data has strayed further and further from reality. While builders report orders net of cancellations, the gross data reported by the Census appears significantly inflated, as does the pricing data since it does not reflect the price cuts needed to sell the cancelled units. As shown in Exhibit 7, public builder order results have been fairly consistent with the national data reported by the Census in recent years. However, in 2Q06, our public builder universe posted a year-over-year order decline of 23% versus a much more modest 13% decline nationally according to the Census. The difference predominantly lies in the recent surge in cancellations, which are netted out of the publics' results but not subtracted from the Census data. We note that it is the year-over-year increase in can rates that ultimately drive the divergence between the two data points, so we would expect upcoming results to show similar trends.

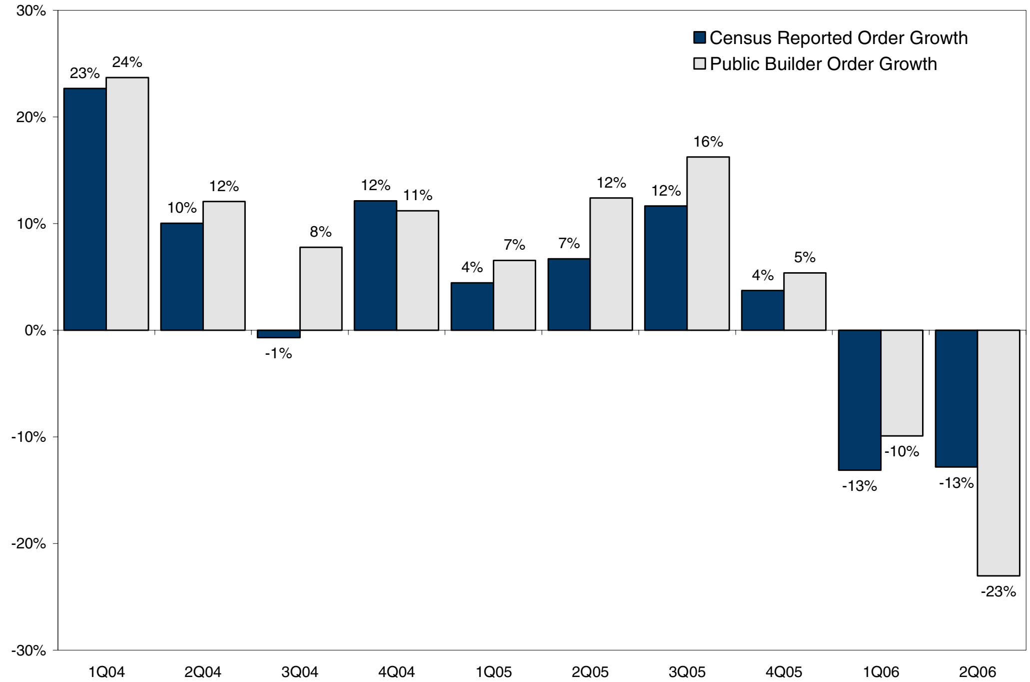
Exhibit 6: Public Builder Cancellation Rates, 2003-Present



Note: Data above includes results from: BZH, CTX, HOV, KBH, MDC, MHO, PHM, RYL and SPF.

Source: Company Data

Exhibit 7: New Home Sales Growth versus Public Builder Order Growth, 1Q04-2Q06



Note: Builder orders are reported net of cancellations. Census reported data does not net out cancellations.

Source: U.S. Census Bureau, Company Data, Credit Suisse Estimates

Existing Home Sales Are a Lagging Indicator

The National Association of Realtors releases existing home sales and pricing data each month, roughly coinciding with the release of the Census' new home sales data. The timing similarities often lead to comparisons between the two data points. However, unlike new home sales data, which is based off of sales contracts, existing home sale figures are based on transactions closed, which typically leads to a 1-2 month lag versus new home sales data. According to the NAR, the survey captures nearly 40% of all existing-home sale transactions from local Realtor Associations and Multiple Listing Services, and the data is then weighted to represent sales activity for each region of the country.

Through the first seven months of the year, unadjusted existing home sales are down approximately 6% on a year-over-year basis, which compares favorably to the 14% decline in new orders highlighted previously. We have been somewhat surprised that the existing home sales data has held up as well as it has, although we believe the timing lag largely explains the disconnect. On a seasonally adjusted basis, July's annual sales rate of 5.51 million units was down 11% year-over-year, which compares to May's new home sales decline of 14% (illustrating a hypothetical two-month lag). On an unadjusted basis, national existing home sales in July were down 12%, which seems somewhat innocuous given some of the massive declines reported locally in many areas.

The following is local single-family sales data from July reported by realtor associations and data collection services:

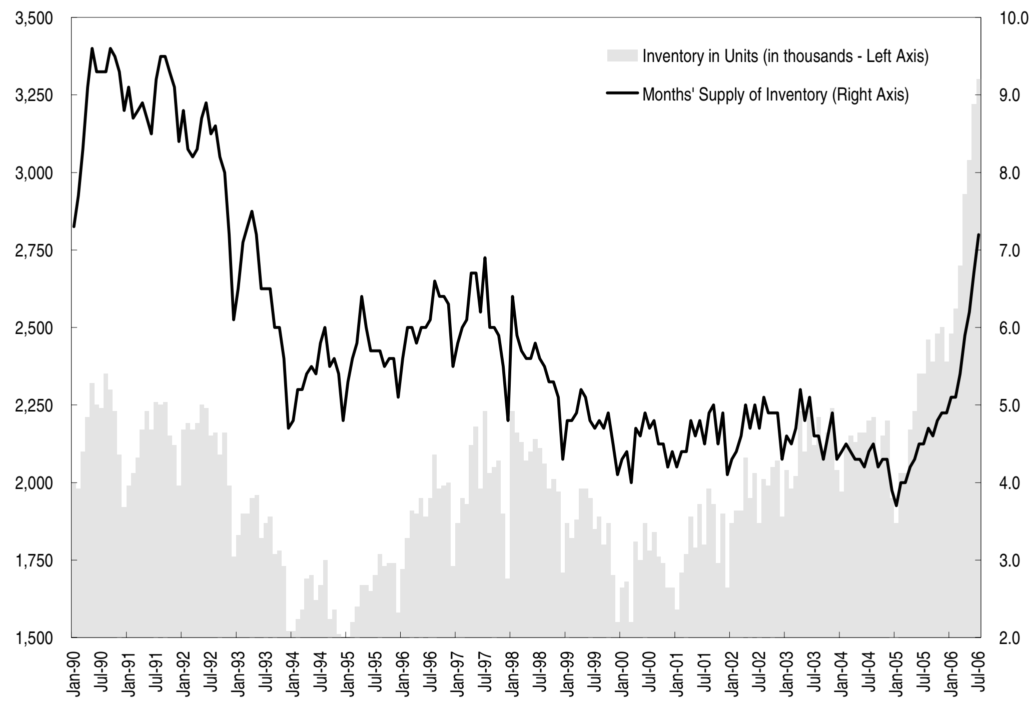
- Arizona: Total sales down 36% year-over-year in July. Sales in Phoenix declined 36% as well. (Arizona Multiple Listing Service)
- Alabama: Total sales down 7% year-over-year in July. (Alabama Association of Realtors)
- California: Total sales decreased 30% year-over-year. Major metros include Los Angeles (down 26%), Sacramento (down 45%), and San Diego (down 28%). (California Association of Realtors)
- Florida: Total sales declined 33% in July. Major markets include Miami (down 38%), Naples (down 51% in July and preliminary results indicate a 62% decline in August), Orlando (down 27%), and Tampa (down 45%). (Florida Association of Realtors)
- Illinois: Total sales down 13% year-over-year. (Illinois Association of Realtors)
- Las Vegas: Total sales declined 38% year-over-year. (Greater Las Vegas Association of Realtors)
- Maryland: Total sales decreased 26% year-over-year. (Maryland Association of Realtors)
- Massachusetts: Total sales down 25% year-over-year. (Massachusetts Association of Realtors)
- Michigan: Total sales down 17% year-over-year. (Michigan Association of Realtors)
- New York: Total sales decreased 11% year-over-year. (New York State Association of Realtors)
- North Carolina: Total sales declined 2% year-over-year. (North Carolina Association of Realtors)
- South Carolina: Total sales declined 13% year-over-year. (South Carolina Association of Realtors)
- Texas: Total sales increased 1% year-over-year. Key markets include Austin (up 11%), Dallas-Fort Worth (down 10%), Houston (up 4%) and San Antonio (up 10%). (Texas Real Estate Center at Texas A&M University)
- Virginia: Total sales declined 25% year-over-year. (Virginia Association of Realtors)
- Washington: Total sales in Western and Central Washington State (17 counties including Seattle) down 15% year-over-year. (Northwest MLS)

The states and markets above account for roughly one-third of total existing home sales in the country. Existing sales in these markets were down, on a weighted average, more than 20% in July. Since the local data is not adjusted seasonally like NAR's data is (with the exception of California), this means that existing sales in the remaining two-thirds of the country were down only 7% in order to reach NAR's reported unadjusted sales figure of down 12% in July. While this is not *completely* unreasonable, we believe the data from the select markets above are more indicative of the public builders' geographic footprints.

In addition, we find it surprising that national sales levels and prices have held in as well as they have despite the "hockey stick-like" surge in inventories seen throughout the country. July's single-family existing inventory level of 3.3 million homes (up 40% year-over-year) represents 7.2 months of supply and is an all-time high (See Exhibit 8). Also, as we will detail later in the report, inventory levels in many markets around the country have posted triple-digit year-over-year increases (including Baltimore +115%, Metro D.C. +140%, Orlando +343%, and Phoenix +175%), which indicates even the national inventory data may not be indicative of many major markets throughout the country.

Ultimately, based on feedback from our channel checks and our analysis of investor demand in recent years, we believe existing home sales will return to a "normalized" annual rate of 5.0 million units, which would be down approximately 20% from last year's record level, and would imply another 10% down from the July's seasonally adjusted annual rate. However, we believe this mark will likely be surpassed on the downside in the near-term, given the previously mentioned impact of investors fleeing the market as well as demand that was pulled forward in recent years.

Exhibit 8: Existing Home Inventory versus Months' Supply, 1990 through July 2006



Source: National Association of Realtors

Home Prices: The Data Lies

In the second section of this report, we shift our focus from starts and sales to home prices, which remarkably remain higher than (according to the data) the robust levels from last year despite reports of double-digit incentives being offered by homebuilders and a flood of investor inventory sitting on the market. For those investors that are less familiar with the various measures of home prices, we provide an overview of some of the more popular measures such as the Census Bureau's price series for new homes, the National Association of Realtors' price series for existing homes and the OFHEO Home Price Index for repeat home sale transactions. We scrutinize each of the data series mentioned above to highlight methodology limitations in an attempt to explain the recent disconnect between the macro data and actual "effective" price trends. In addition, we expect both new and existing home prices to report year-over-year declines in the months ahead.

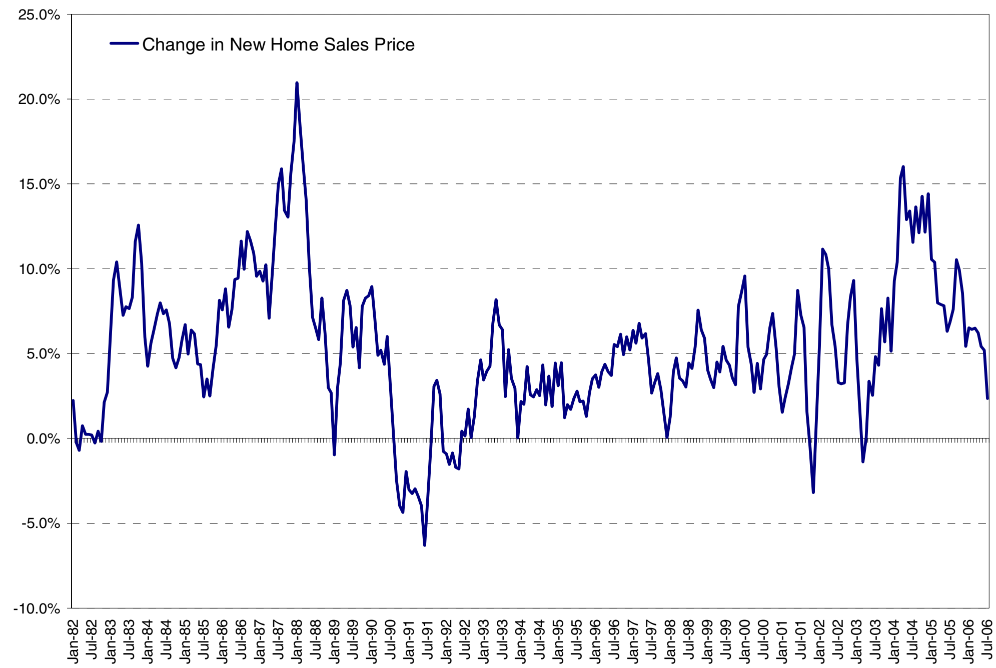
New Home Sales Prices (U.S. Census Bureau, Monthly)

As previously mentioned, the U.S. Census Bureau publishes new home unit sales and price data each month. In July, the median single-family new home price in the U.S. was $230,000, up just 0.3% year-over-year and 1.6% below June's median price (See Exhibit 9). Many casual observers of the market may be surprised that national prices are still up slightly from last year's robust levels, especially given all of the recent negative commentary from builders, analysts and the press. Still, July's median price was 11% below April's peak level, indicating that year-over-year declines are likely imminent. While we do not believe that the current modest year-over-year price gain is indicative of the terrible market conditions that homebuilders are facing currently in some markets, we are not awfully surprised to see median price data holding up for the following reasons:

1) Incentives – According to the Census, "*the sales price used in the survey is the price agreed upon between purchaser and seller at the time the first sales contract is signed or deposit made. It does not include the cost of any extras or options paid for in cash by the purchaser or otherwise not included in the original sales price reported*." In other words, the Census' new home sales price data does not account for option upgrades, giveaways, or closing cost incentives offered by builders, which leads to artificially inflated price data. Pure price cuts may or may not be reflected, as it is at the builders' discretion how they report base price to the Census' surveyors. This is an extremely important distinction to make when comparing median new home prices to effective prices, as we estimate that builder concessions are currently averaging about 5-7% nationally, with some markets such as San Diego, Sacramento, Phoenix and parts of Florida running at more than 15% of base.

Based on our channel checks, incentives continue to become more prevalent in most markets as builders are doing anything they can to avoid lowering base prices. Any outright price cuts in existing communities would increase the likelihood of cancellations among buyers in backlog. In addition, lowering prices would put appraisals at risk for homes set to close in the near future. Finally, we would argue that it remains in the builders' best interests to maintain strength in pricing data as it plays a significant role in homebuyer sentiment, even if "actual" prices are declining. Later in this report, we analyze local market pricing trends and cite specific examples of incentives and their impact on effective prices in those markets.

Exhibit 9: Year-over-Year Change in Median New Home Sales Price, 1982-Present



Note: Price changes are calculated on a moving three month basis.

Source: U.S. Census Bureau, Credit Suisse Analysis

2) <u>Cancellations</u> – As we highlighted earlier, new home sales data is reported on a gross order basis, meaning that cancellations are not stripped out of the results. While this is most important when analyzing sales unit data, it also can have a significant impact on median home prices. For example, if a homebuyer put down a deposit on a $250,000 home in March 2006 and cancelled later that month, that sale would still be factored into March's new home sales data and pricing data despite the cancellation. If that builder then resold the home in April at a 10% discount to the original price, the resale would not be included in April's sales results. Therefore, we would have a situation where March's unit results would be inflated and April's median price would not reflect the price cut needed to sell the cancelled unit. As these "resold cancellations" begin to represent a greater share of total new home sales, this will increase the divergence between reported prices and effective prices.

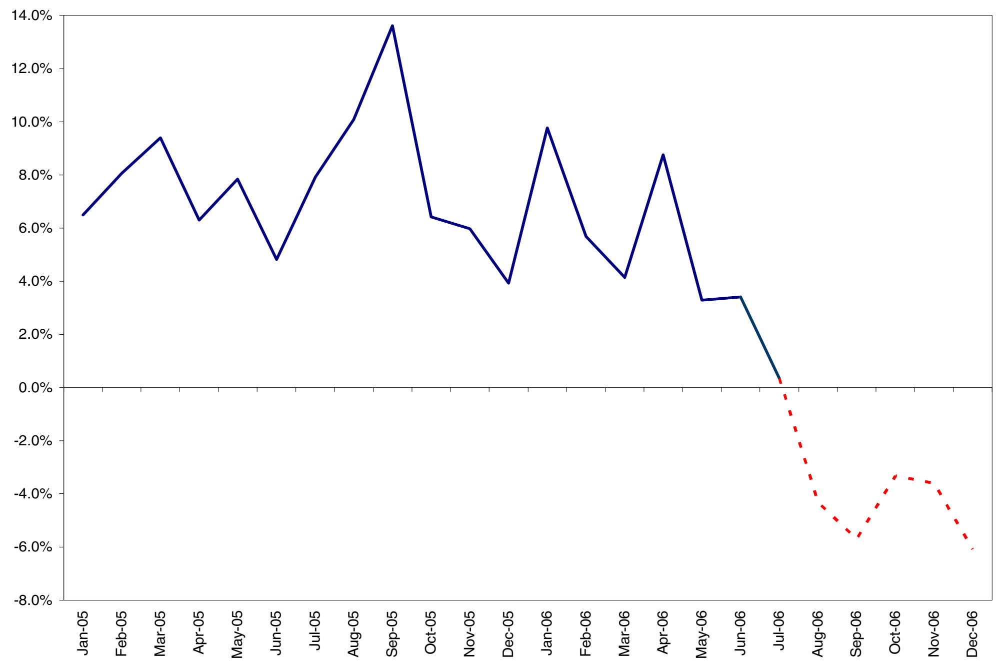
3) <u>Selection Bias</u> - In a declining housing market, "perfect" homes in "perfect" neighborhoods will be more likely to sell. With fewer transactions occurring, those more desirable homes will now have a greater weighting on results, thus providing a boost to median prices.

The "Not-So-Fearless" Forecast

Despite our diatribe, we do recognize the impact that pricing data has on consumer, builder and investor sentiment. The fact that home prices have not posted significant declines on a national level (according to the data) at this stage of the downturn does provide some market participants with the hope that the record levels of home price appreciation seen in recent years will remain preserved. This is especially important because declining home prices would greatly increase the likelihood of defaults and foreclosures resulting from "exotic" mortgages underwritten in the past few years. In addition, national home price declines will have a significant psychological impact on the entire country, as homeowners begin to read about their net worth declining in the Sunday newspaper.

Although the lack of local data and the builders' ability to control prices with incentives make median new home price forecasts a fruitless exercise, in our opinion, if prices were to remain flat through year's end (which many of our survey contacts expect to be a best-case scenario), prices would be down roughly 4% year-over-year in August, and remain in that range through the end of the year. Assuming incentives remain in the 5-7% range nationwide, this would imply nearly a double-digit effective year-over-year price decline by the end of the year.

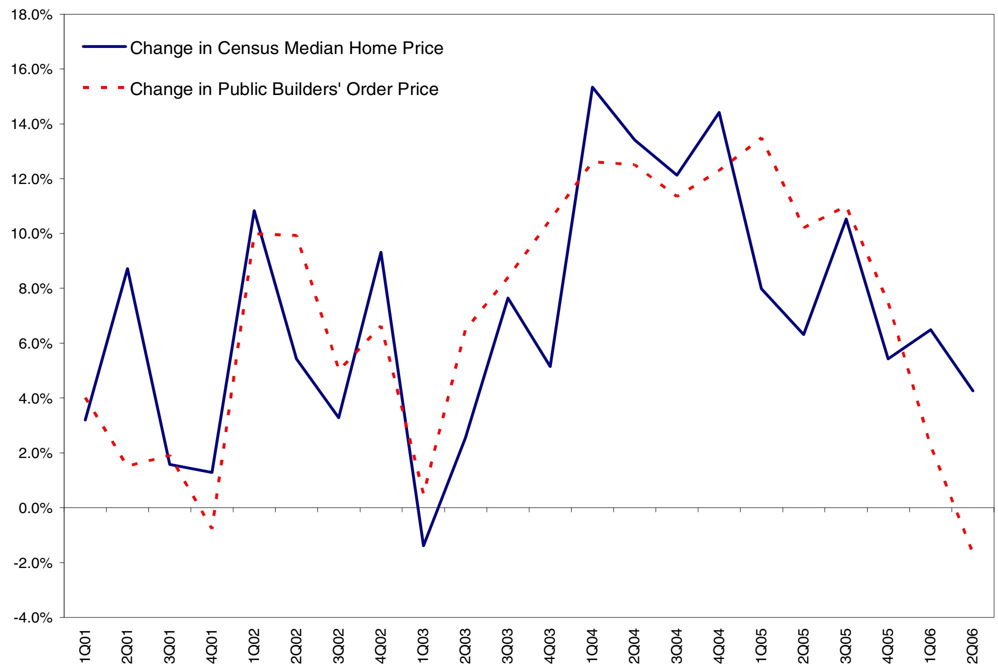
Exhibit 10: Hypothetical Year-over-Year Change Assuming Flat Prices Through Year-End



Source: U.S. Census Bureau, Credit Suisse Analysis

As a final note on the topic of new home prices, we revisit the impact that incentives and cancellations have had on "real" prices versus "paper" prices. Exhibit 11 highlights the relationship between the year-over-year change in national median home price versus the change in public builders' order prices. The correlation between the two was strong from 2001-2005 (76%), but has diverged during the first half of 2006. In 2Q06, the Census' median new home price was up 4% on a year-over-year basis. However, we estimate that new order price for our public builder universe in the second quarter actually declined 2% year-over-year. The difference lies in the treatment of incentives and cancellations. Nearly two-thirds of the publics treat option upgrades and financing incentives as net revenues, meaning these items would be included in the 2% price decline (See Exhibit 9 for public builder accounting of incentives). Additionally, the builders' order price decline includes the negative impact of cancellations, while the Census' data does not. As incentives and cancellations are likely to remain elevated for the next 12-18 months, we would expect our public builders' order prices to continue to diverge from the Census' data, absent any significant mix shifts.

Exhibit 11: Change in Median New Home Price versus Public Builder Order Prices



Note: Public builders include BZH, CTX, DHI, HOV, KBH, LEN, MDC, MHO, NVR, PHM, RYL, SPF, TOL and WCI.

Source: U.S. Census Bureau, Company Data, Credit Suisse Analysis

Exhibit 12: Public Builder Accounting Treatment of Incentives and Option Upgrades

	Price Cuts	Option Upgrades	Financing Incentives
Beazer	Net Rev	SGA	COGS
Centex	Net Rev	COGS	COGS
DR Horton	Net Rev	COGS	COGS
Hovnanian	Net Rev	Net Rev	Net Rev
KB Home	Net Rev	Net Rev	Net Rev
Lennar	Net Rev	Net Rev	Net Rev
MDC	Net Rev	Net Rev	Net Rev
M/I Homes	Net Rev	Net Rev	Net Rev
NVR	Net Rev	COGS	COGS
Pulte	Net Rev	COGS	COGS
Ryland	Net Rev	Net Rev	Net Rev
Standard Pacific	Net Rev	Net Rev	Net Rev
Toll Brothers	Net Rev	Net Rev	Net Rev

Source: Company Data

National Existing Home Prices (National Association of Realtors, Monthly)

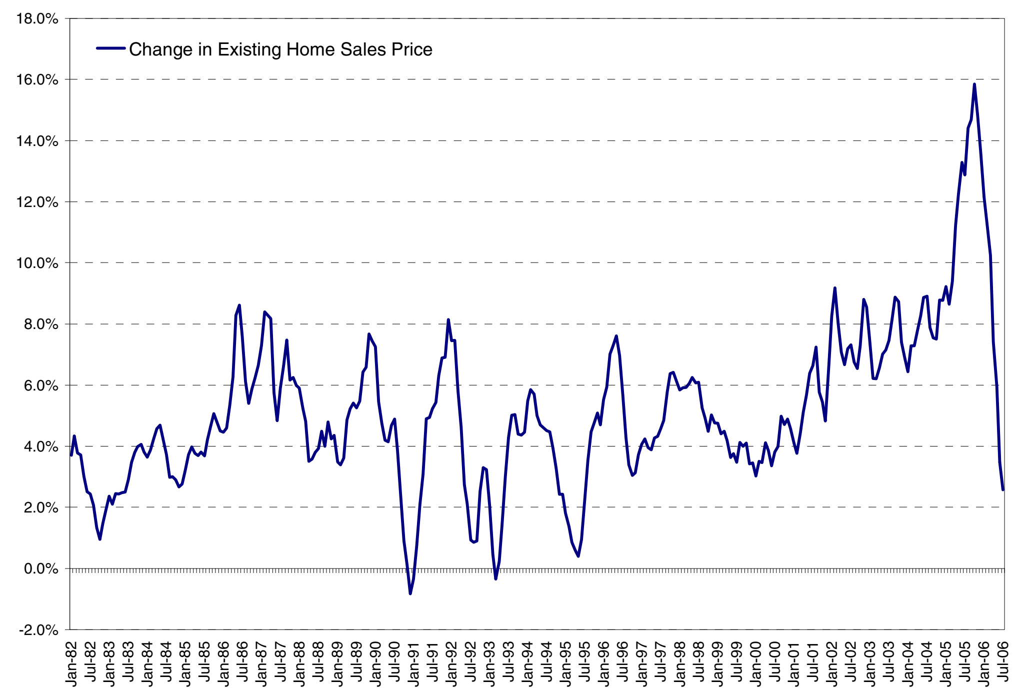
The NAR's monthly existing home price data is also used as a gauge of pricing conditions focusing on the existing home market, which represents roughly 85% of all homes sold in the country. As previously mentioned, existing home sales figures are based on transactions closed, which typically leads to a 1-2 month lag when comparing to new home sales trends.

In July, the median single-family existing home price in the U.S. was $231,200, up 1.5% year-over-year and 0.5% above June's median price. Although this is a huge pullback from the nearly 17% year-over-year gain seen in October 2005, July's median price was still a new record high despite increasing market headwinds. Nevertheless, we would argue that a 1.5% gain in price should not be interpreted as home sellers being able to get more money for their homes than last year. So the question is, why does the data not reflect reality?

1) <u>Price Discovery is a Slow Process</u> – Unlike homebuilders that have the ability to manipulate prices on a daily basis with incentives, existing home sellers, realtors and appraisers rely on comparable sales data that is often several months old and may not be reflective of current supply and demand dynamics in a particular market. As such, the price discovery process in the existing home market does not always coincide with builder pricing trends. According to Tom Lawler, former Senior Vice President of Risk Policy at Fannie Mae and founder of Lawler Economic and Housing Consulting, the price discovery process is eerily similar to Dr. Elisabeth Kubler-Ross' "Five Stages of Grief":

- *Denial* – "Denial in a previously hot real estate market occurs when a home listed at a high price doesn't sell quickly, even though just a few months ago houses sold in just a few weeks. The homebuyer says 'this is weird, but I'm sure it's just a glitch', and does not alter his/her asking price."

Exhibit 13: Year-over-Year Change in Median Existing Home Sales Price, 1982-Present



Note: Price changes are calculated on a moving three month basis.

Source: National Association of Realtors, Credit Suisse Analysis

- *Anger* – "Anger occurs when, after a few months pass, the house still hasn't sold, and little interest has been shown. The homebuyer starts to get angry (and often lashes out at his/her realtor), and sometimes responds by actually increasing the list price!"
- *Bargaining* – "Bargaining begins as the home seller starts to offer a few incentives, agrees to more open houses, starts to 'fix up' the house to make it show better, and actually agrees to lower the listing price a bit."
- *Depression* – "Depression starts to set in when the house has been on the market for about 4 months or so, and the seller realizes that his/her net worth simply isn't going to be as high as he/she thought. The seller toys with simply taking the house off the market and/or slashing prices, but simply can't decide."
- *Acceptance* – "Finally, acceptance occurs when the seller realizes that home prices in the area have fallen; that he/she will not get the 'peak price' of what is now 6 months or more ago, and that if he/she wants to sell the home, the asking price needs to be adjusted downward considerably."

Looking back at commentary from our recent Monthly Surveys, it is clear that this process has been unfolding in many areas across the country. Markets that began to notice an increase in inventory and days on the market dating back to last summer, such as San Diego, Sacramento, and Metro D.C. have just officially recorded year-over-year declines in median existing home prices. Other markets that held in a bit longer, such as Phoenix, Orlando, Tampa, Los Angeles and the Inland Empire still show year-over-year price gains, although we suspect it will only be a matter of time before home sellers reach the "acceptance" stage in these locales.

2) Selection Bias – In our opinion, selection bias is an even greater issue in the existing home market than the new home arena, since the differences between existing homes are greater than new homes (i.e. new versus old kitchen, finished versus unfinished basement). In markets such as Phoenix and Washington D.C. that have seen 20%-plus declines in existing home sales year-to-date, the massive slowdown in transactions have likely provided an unintended boost to median home prices. In today's sluggish market environment, those premium homes with the brand new kitchen or finished basements are more likely to sell, and now represent a greater share of the reduced sales volume. In addition, we are hearing tons of examples of homes sitting on the market despite several rounds of price cuts, which of course do not show up in the data until the home finally sells.

3) Lack of Transactions – We are hearing many of examples of homes sitting on the market in many areas of the country despite several rounds of price cuts, which of course do not show up in the data until the home finally sells. Ironically, it will likely take a partial rebound in volume in order for some of these massive price cuts to be reflected in the macro data.

4) Incentives – Incentives are no longer unique to the new home market. We are hearing increasing anecdotes of home sellers throwing in free plasma televisions, vacations, cars and closing cost payments to buyers in order to differentiate their homes from others. We believe that these forms of incentives currently account for roughly 3% of base price nationwide, which would not be accounted for in the NAR's data.

5) Seasonality – Seasonality has a much greater impact on existing home prices than new home prices. According to the NAR, *"sales price generally experience the largest*

gains in the summer months, as favorable weather conditions create an ideal atmosphere for buying and selling a home. Demand for homes usually hits its seasonal peak in the third quarter, and strong price appreciation generally follows suit, and then declines moderately over the next three months."

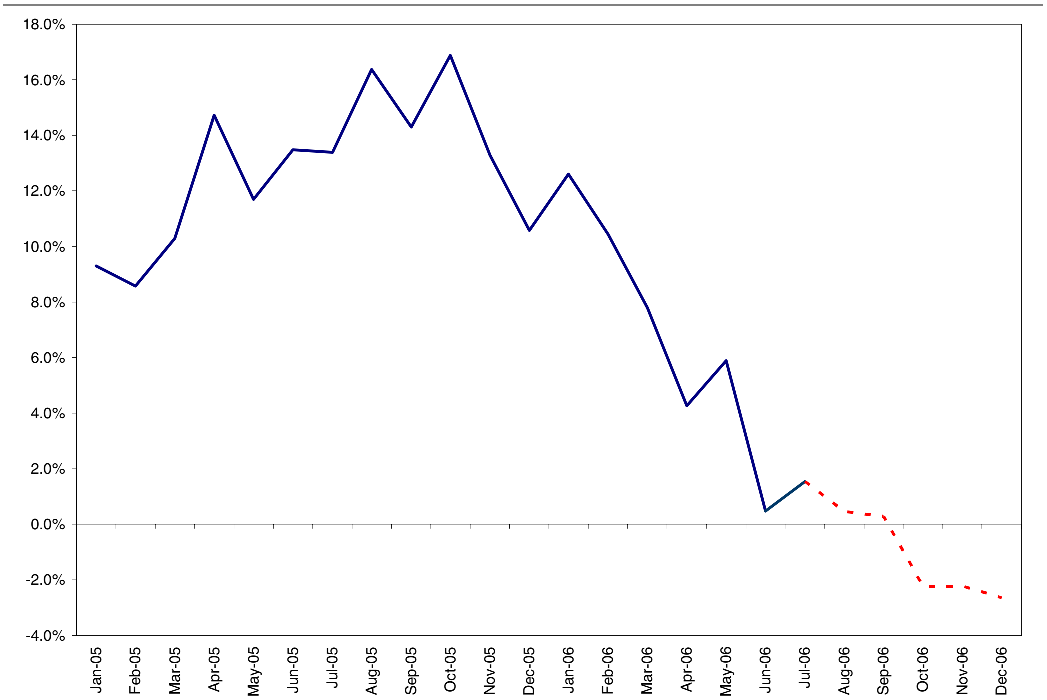
Exhibit 14: **Seasonality in Median Existing Home Prices, 1980-Present**

Average Sequential Change by Month		Worst Monthly Sequential Change Since 1980			Best Monthly Sequential Change Since 1980		
January	-0.2%	January	-3.7%	Jan-04	January	3.4%	Jan-91
February	0.1%	February	-1.8%	Feb-97	February	3.3%	Feb-87
March	1.4%	March	-0.5%	Mar-87	March	4.1%	Mar-91
April	0.9%	April	-1.0%	Apr-88	April	6.0%	Apr-05
May	1.6%	May	-0.2%	May-90	May	3.8%	May-04
June	2.7%	June	-0.7%	Jun-86	June	6.1%	Jun-05
July	0.0%	July	-3.3%	Jul-86	July	2.8%	Jul-87
August	-0.2%	August	-3.4%	Aug-90	August	2.6%	Aug-86
September	-1.2%	September	-3.3%	Sep-88	September	0.4%	Sep-90
October	-0.9%	October	-2.5%	Oct-00	October	1.7%	Oct-05
November	0.4%	November	-1.7%	Nov-05	November	2.6%	Nov-80
December	0.6%	December	-2.0%	Dec-80	December	4.4%	Dec-01

Source: National Association of Realtors, Credit Suisse Analysis

To further illustrate the effects of seasonality, consider that only twice since 1980 have median home prices declined sequentially in the month of June, with the largest decline occurring in June 1986 at a modest -0.7%. This June's sequential increase of 0.7% was well below the historical average of a 2.7% gain, and compares to the 6.1% sequential increase last June. Given these seasonal trends, combined with our belief that home sellers will continue to come to grip with the changing market conditions, we believe existing home prices will be down on a year-over-year basis in October (down 2.2%). (See Exhibit 15).

Exhibit 15: **CS Estimated Year-over-Year Change in Median Existing Home Price**



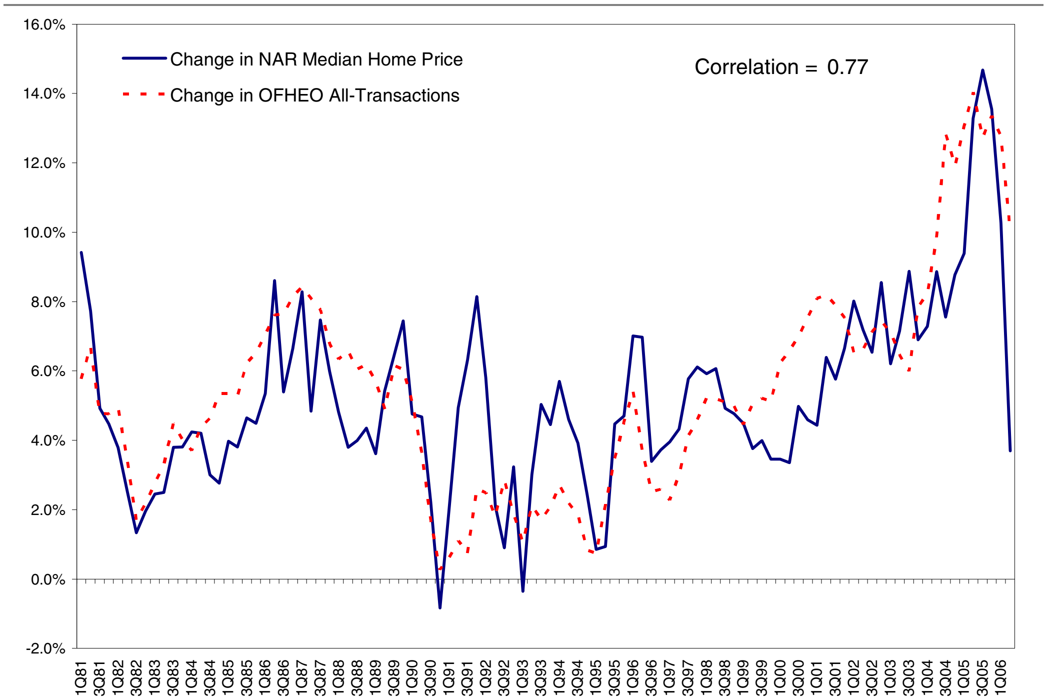
Source: U.S. Census Bureau, Credit Suisse Analysis

Local Existing Home Prices (NAR and OFHEO Index, Quarterly)

Unlike new home sales data, there are several measures of existing home pricing data on the metro level. The National Association of Realtors publishes quarterly price data for single-family homes and condos in 151 metros. It is important to keep in mind the same factors listed above for the monthly national data apply to this data, such as seasonality and mix related issues. Another limitation of the NAR metro data is that it is only released quarterly and with a significant lag (2Q06 was just released on August 15).

The OFHEO Index covers 379 MSAs and is regarded by many as the best measure of pricing trends on the metro level, since it uses “repeat-transactions” to measure price changes. This largely eliminates the mix shift problems associated with the NAR data, as a home sale is only being compared to the last time that particular home was sold. Of course any improvements made to the home in the interim will not be accounted for. The index measures home prices from agency mortgage data, which means that the index may be upwardly biased by cash-out refinancing, since these refis typically occur in areas with high levels of appreciation. To account for this issue, OFHEO began publishing a purchase-only index, which strips out refis. In 2Q06, the “all-transactions” index was up 10.1% year-over-year versus the “purchase-only” index at 8.3%. Unfortunately, OFHEO does not provide a purchase-only breakout on the metro level, making it impossible to eliminate this bias locally. Another drawback of the OFHEO index is that it is a lagging indicator of market conditions. The index for 2Q06 was not released until September 5, and even then only included loans closed during the 2nd quarter, thus omitting sales occurring at the end of the quarter with loans that did not close on time.

Exhibit 16: Year-over-Year NAR Median Price Change versus Change in OFHEO Index



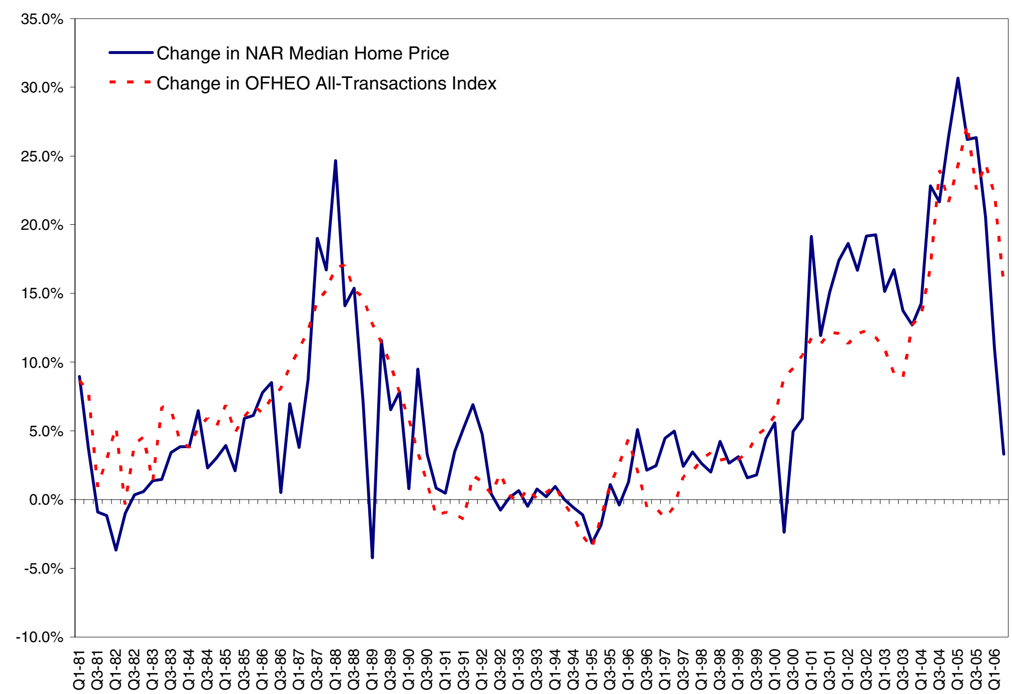
Source: NAR, OFHEO, Credit Suisse Analysis

Drilling the pricing data down to the local level, we analyze trends from a few key markets to determine which metros have exhibited the highest level of price appreciation in recent years relative to their historic norms, and which markets are at greatest risk for negative pricing in the near future. In addition, we asked our survey contacts to offer up views on “actual” pricing trends their respective markets. Based on the responses, it is clear that the data is not telling the whole story.

Washington D.C.

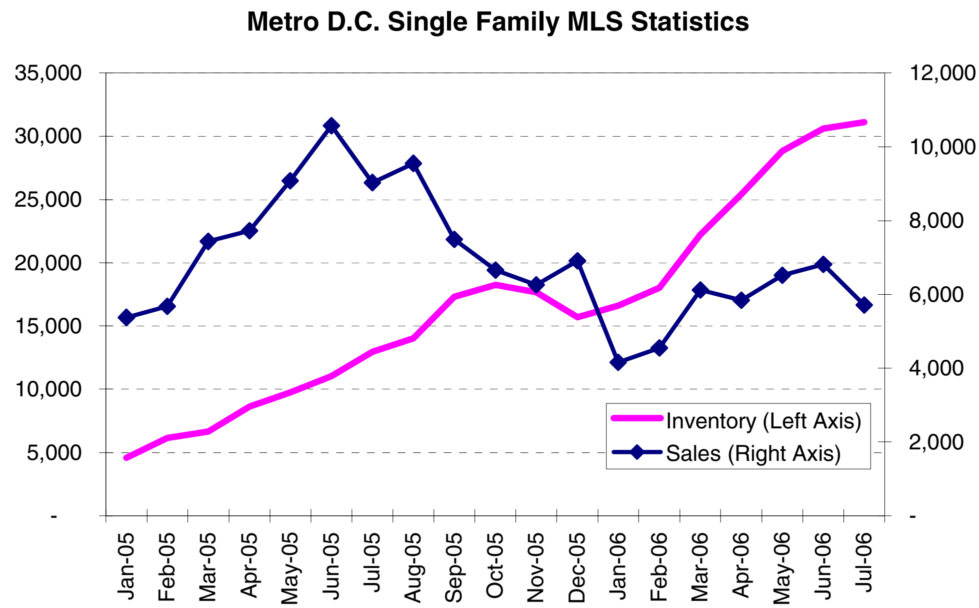
According to the NAR, Washington D.C. had seen a remarkable string of 21 consecutive quarters of double-digit price appreciation between 1Q01 and 1Q06. To put that into perspective, Metro D.C. only had six quarters of double-digit gains between 1981 and 2001. The 2Q06 NAR data indicates that the year-over-year price gain slowed to just 3.3%, while the OFHEO data showed a much stronger 15.7% price increase most likely due to its significant timing lag and upward bias from refinancings. (See Exhibit 17). Still, the trend is clearly downward, and according to the more real-time monthly data published by Metropolitan Regional Information Systems (MRIS), we estimate that single-family prices for the MSA actually crossed negative on a year-over-year basis in July, down approximately 2% from the year-ago period. In addition, existing home sales in July were down approximately 37%, along with a 140% year-over-year increase in inventory, indicating that further price declines are necessary to work through the excess inventory (See Exhibit 18).

Exhibit 17: Metro D.C. NAR Median Price Change versus Change in OFHEO Index



Source: NAR, OFHEO, Credit Suisse Analysis

Exhibit 18: **Metro D.C. Existing Inventory and Sales Trends**



Source: MRIS, Credit Suisse Analysis

While Metro D.C. has been one of the first markets to exhibit down pricing, based on commentary from our channel checks it is clear that effective pricing trends in certain parts of the market are far worse than the data indicates.

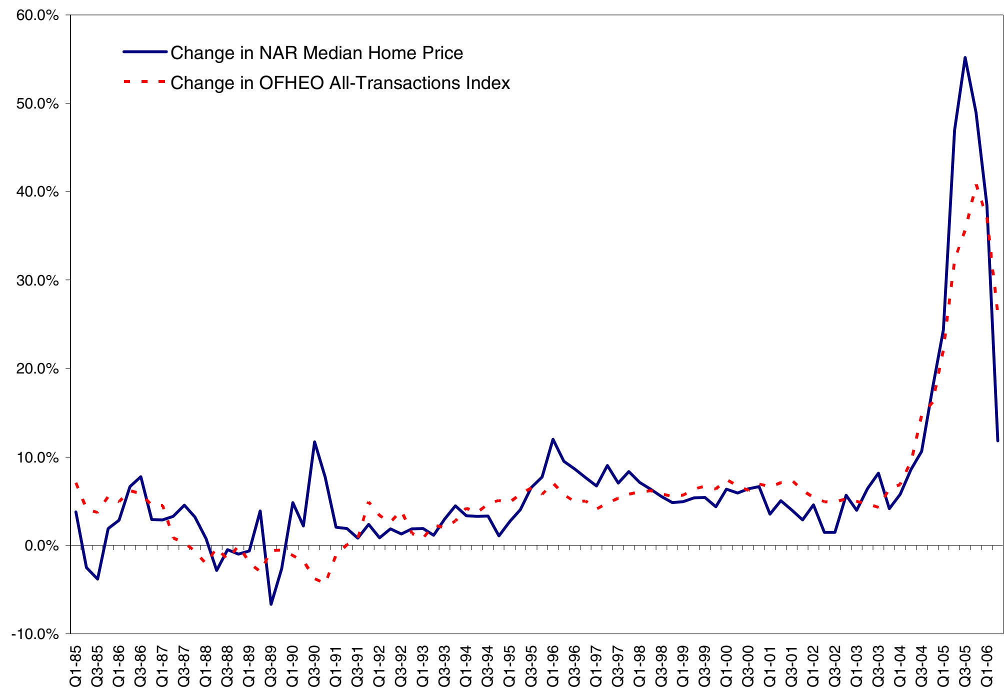
- One builder estimates that prices in Prince William County in Virginia are down 10%, while MLS data indicates a price decline of less than 2%. The difference is due to incentives. There still remain some pockets in Maryland where prices are up 5-10% year-over-year, although this contact expects prices to decline into the Fall.
- One contact reports that homes that sold in Montgomery County in Maryland in July 2005 for $740,000 are now being listed at $660,000 (down 11%) with no takers. MLS data reported a modest 1% median sales price decline in July.
- A builder with decorated model homes spread throughout Metro D.C. has reduced prices anywhere from 10-25% depending on location. No price improvement is expected in 2007.

Phoenix

There aren't any words or analysis that can accurately describe the unsustainable surge in prices that Phoenix recognized over the past three years. Prices in 3Q05 were up a remarkable 55% from the prior year according to NAR, or a more modest 36% if you believe OFHEO. Regardless, there is very little doubt that those price gains were largely driven by investors, which we estimate represented 30% of the market in 2005. Even though NAR just recently reported the median single-family home price in 2Q06 was still up nearly 12% from 2005's robust levels, more timely data released by the Phoenix Association of Realtors indicate that prices were up just 2% year-over-year in July, and 3% off June's peak. Since July 2005, prices have remained virtually flat with very little price variation. In that time period, sales are down roughly 36% and inventory is up 175% (See Exhibit 20). This indicates to us that while sellers are not yet willing to lower prices to a more realistic level, buyers are balking at current prices. Given difficult comparisons in August and September, we expect prices to be down low-to-mid single digits on a year-over-year basis in August and continue to slide through year-end as sellers come to grips with the changing market.

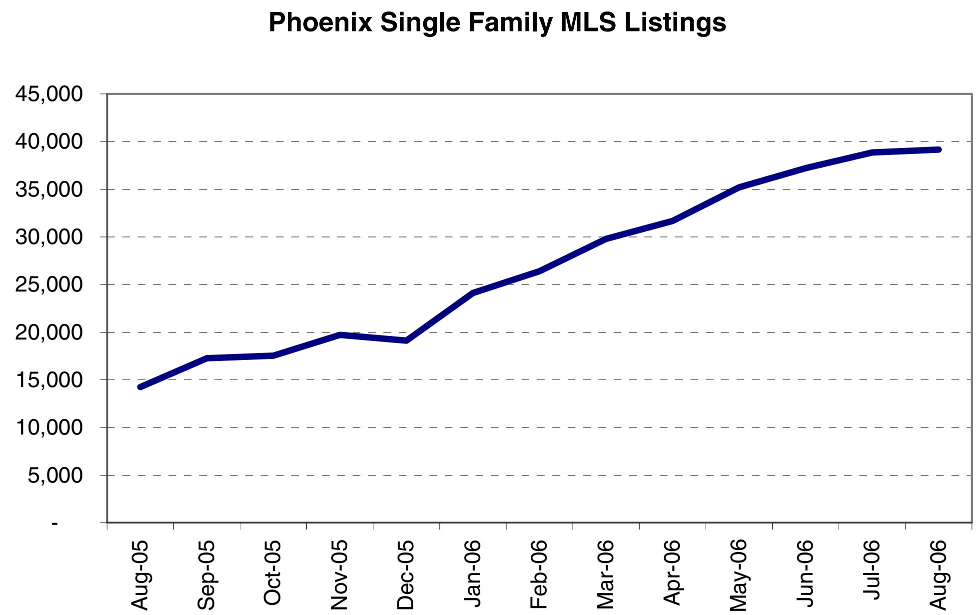
- Feedback on effective home prices when accounting for incentives ranged from down 7% to down 20% on a year-over-year basis. Incentives appear to be averaging roughly 10% of base price in the market.
- A respondent indicated that investors are back in the Phoenix market, looking to take advantage of some staggering incentives and price cuts currently being offered by builders. One builder recently sold 30 spec homes to a group of investors, with an average price cut of 40% per home! Asking prices on $400,000 homes have been reduced to $290,000. DHI is offering up to $150,000 off specs, and PHM reportedly has nearly 1,000 spec units.
- One builder reported that it lost a potential sale recently when another builder down the road upped its incentive package. With builders still in a bidding war with each other, it becomes clear that prices have not yet approached a bottom.

Exhibit 19: Phoenix NAR Median Price Change versus Change in OFHEO Index



Source: NAR, OFHEO, Credit Suisse Analysis

Exhibit 20: Phoenix Existing Inventory Trends



Source: Zip Realty

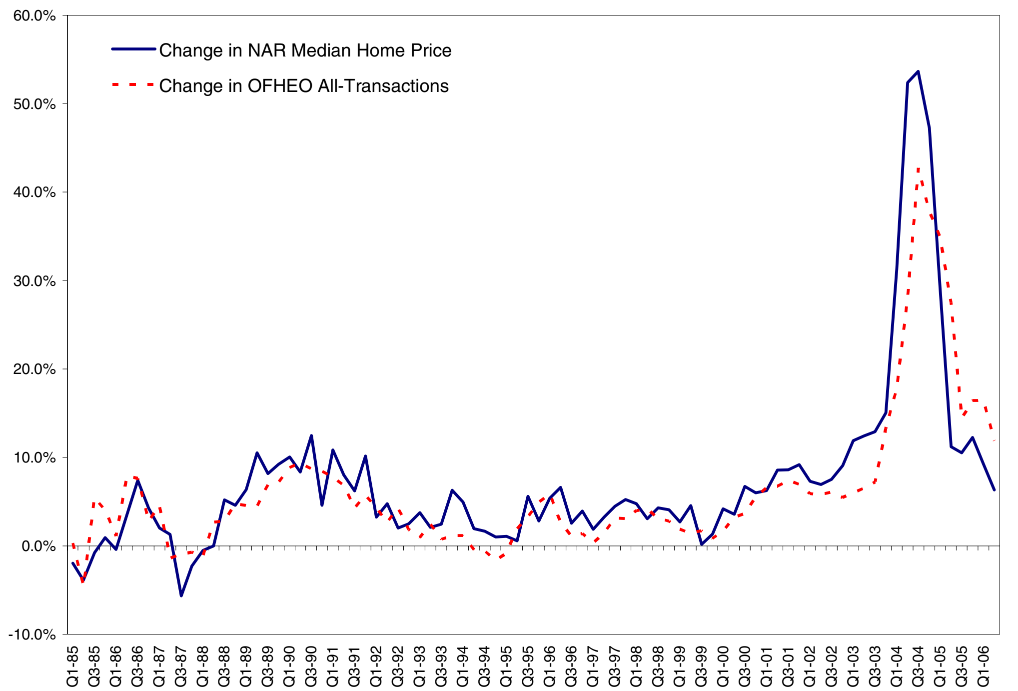
Las Vegas

Las Vegas is another market that has exhibited remarkable price gains in the past several years, largely influenced by investors. We estimate that investors accounted for approximately 30% and 33% of total Las Vegas home sales in that past two years, respectively. According to OFHEO, home prices surged 32% in 2004 and another 22% in 2005, while the NAR reported 49% and 14% gains in the past two years, respectively. Although prices have continued to increase sequentially in recent quarters, year-over-year appreciation has slowed since reaching its peak in 3Q04. According to the most recent NAR report, existing home prices in 2Q06 were only 6% above the prior year, while OFHEO reported a stronger, but decelerating, gain of 12% (See Exhibit 21). The slowing price appreciation has largely been attributed to investors fleeing the market, as single-family inventory in August was 69% higher than the year-ago period (See Exhibit 22). In addition, according to our survey contacts, the recent modest price increase is largely cosmetic, as soaring incentives both on the new and existing side have made effective prices negative on a year-over-year basis throughout the MSA.

- A builder believes that true net prices of homes are down somewhere between 8% and 15%, with the average being about 10%. This contact is closely monitoring the media's coverage of the local housing market. Until this week, the press has continued reporting that prices year-over-year are continuing to increase. This information was based upon data provided by the local Recorders' office. Unfortunately, the Recorder only tracks the gross sales prices for purposes of transfer tax calculations. This week's story was different. It featured an interview with a local market researcher who explained that these prices do not include the incentives, indicating that prices year-over-year are flat at best, and probably slightly down when including incentives. This contact believes that as reports of negative pricing unfold, it will only strengthen customers' belief that there is no reason to buy right now, and that doing so may be a mistake as net prices are likely to fall further.

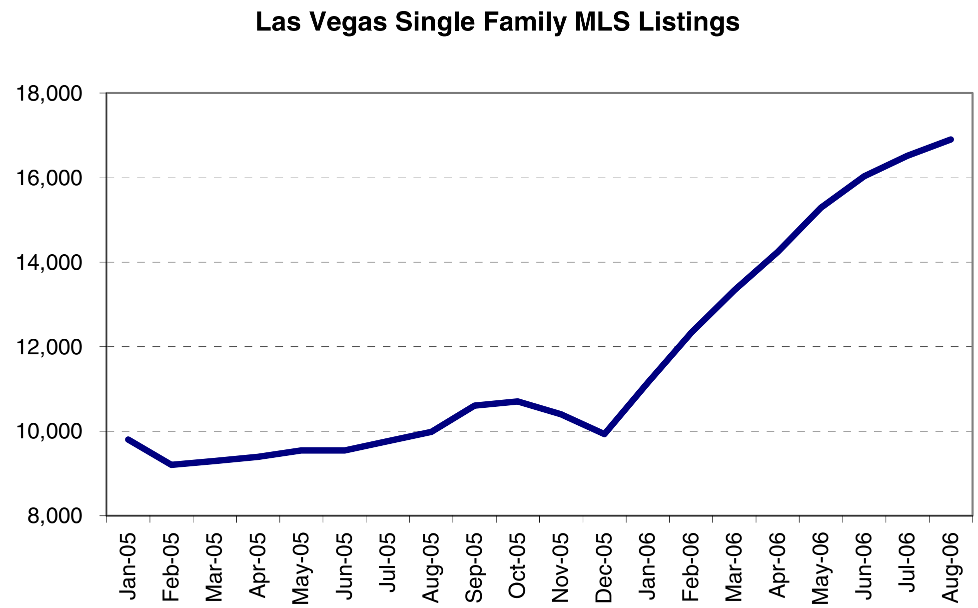
- A Las Vegas realtor indicates that builders have incentivized properties like he never could have imagined, with 9% commission being almost normal on standing inventory, and a few cases of 15%. The 15% commission deal was that the agent could do anything they wanted with the 15% (i.e. keep it all, pay toward closing costs, pay for appliances, pay for option/upgrades, etc.), so it included the commission and the buyer's incentives). Once they were giving the 3% towards closing costs, *plus* the washer/dryer/refrigerator/blinds/backyard landscaping, and eventually pool, he didn't think they could go much deeper, but the 15% incentive was a shocker.
- On the resale side, this realtor reports that prices are down about 1-2% in most parts of Las Vegas, although the contact believes this is due to sellers thinking their house is worth a particular price, and rather than lowering the price, they allow Days on Market to increase from 45 days to more than 120 days.

Exhibit 21: Las Vegas NAR Median Price Change versus Change in OFHEO Index



Source: NAR, OFHEO, Credit Suisse Analysis

Exhibit 22: Las Vegas Existing Inventory Trends



Source: Zip Realty

Florida

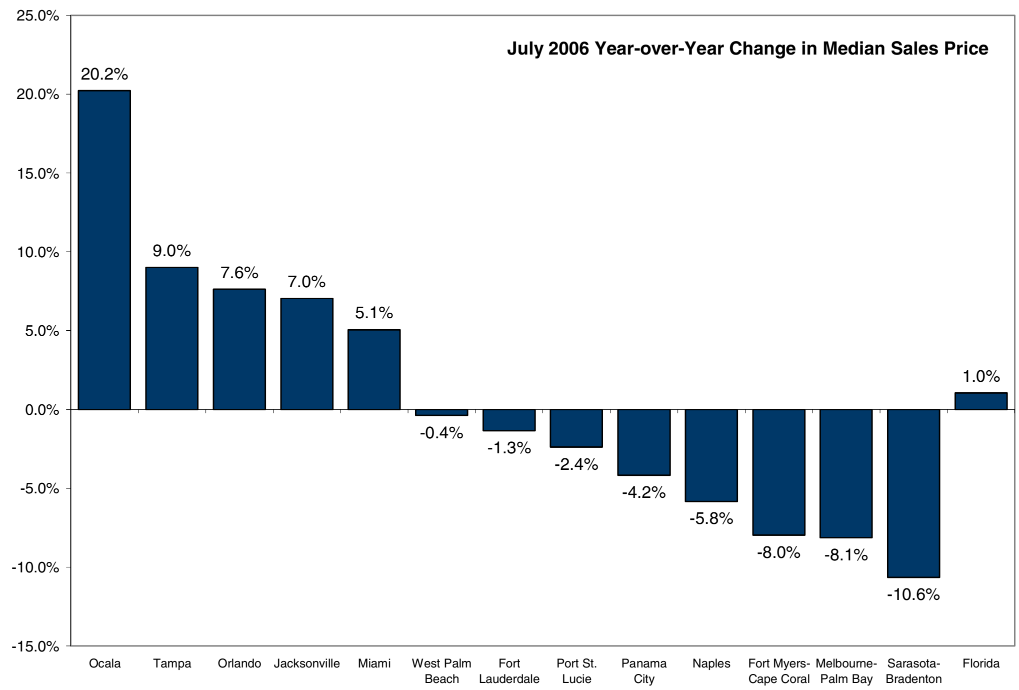
As we have highlighted in our Monthly Surveys, many of the major Florida markets held up better than the rest of the country through the back-half of 2005 and first few months of 2006. That being said, in recent months, market conditions have deteriorated drastically throughout the state. Therefore, lagging indicators such as NAR pricing data and the OFHEO index do not reflect the rapid changes occurring in these markets. According to the 2Q06 NAR report, the median sales price in Florida was up 9% year-over-year, with double-digit gains seen in five markets (Ocala +25%, Gainesville +20%, Tampa +19%, Jacksonville +19% and Orlando +17%). Still, the more timely monthly data released by the Florida Association of Realtors paints a more ominous picture. In July, 13 of the 21 MSAs in the state actually posted year-over-year declines in median sales price, including Sarasota (-11%), Fort Myers (-8%), Naples (-6%), and Panama City (-4%). In addition, since the majority of these markets held up longer than many other parts of the country, comps remain extremely difficult in the back-half of the year, which could lead to a deterioration in price gains in markets such as Orlando, Tampa and Miami, in addition to double-digit price depreciation in Fort Myers and Naples. In addition, surging inventory across the state is a major concern according to our survey contacts, with Orlando posting an incredible 397% increase in listings since last year.

- In Orlando, a builder in a high profile infill development is reportedly putting a free Mini-Cooper in the garage, which represents roughly 5% of base price.
- One builder expects effective prices to be down roughly 10% by the end of the year in Orlando, Jacksonville and Tampa, with an additional decline of 8-10% in 2007.
- According to a source, one small builder in SW Florida (between Fort Myers and Sarasota) reportedly has been seeking out investment clubs. The builder sells the clubs a land parcel, and then builds the house using their money. While the home is

under construction, the builder attempts to sell to an end user, acting as broker for the investment club and effectively creating speculative inventory. This builder has 360 homes under construction.

- A builder in Tampa reports that base prices are up 5% from last year, but incentives are up 20%, making effective pricing negative. This builder also plans on dropping base prices by 15% shortly and giving the backlog discounts as appropriate.
- A contact in Southwest Florida reports that builders in the Sarasota area are having their salespeople heavily push finished spec inventory by emphasizing to buyers recent price cuts and incentives, rather than trying to sell new, unbuilt homes. A home that sold for $575,000 last year in one community is now selling for $500,000. That same model in finished inventory is selling for $425,000 representing more than a 25% decline from last year's price. Many builders are advertising "make me an offer" programs. This contact is considering offering $350,000 for the home mentioned above, which he bets the builder will accept.

Exhibit 23: Select Florida Markets Year-over-Year Changes in Median Sales Price



Source: Florida Association of Realtors

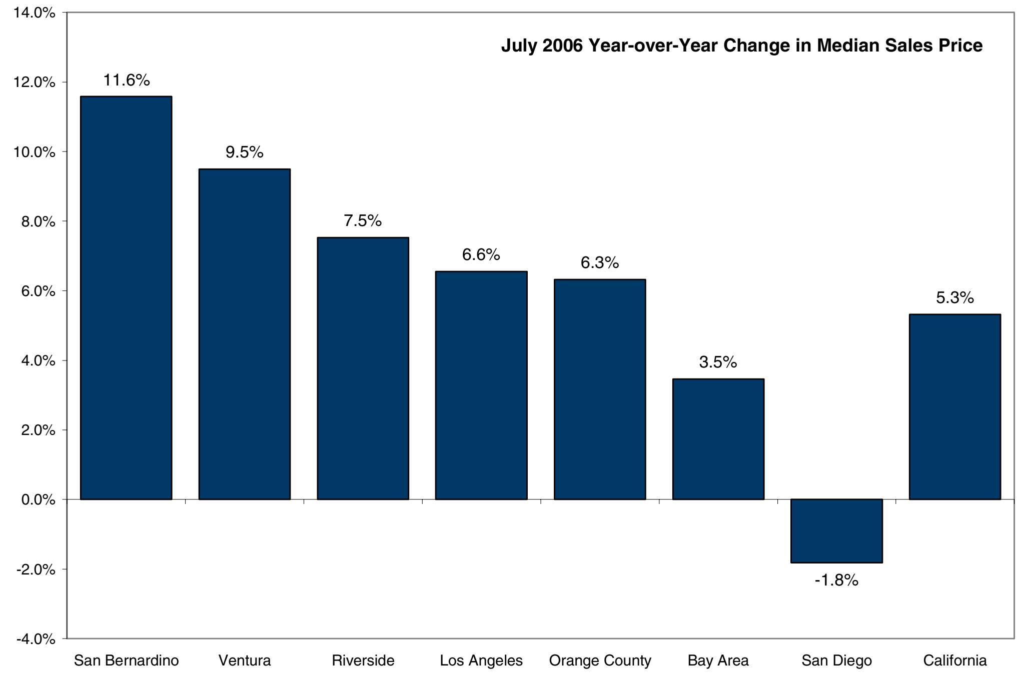
California

Last but not least is California, which represented roughly 1/3rd of total operating profits for our public builders in 2005. Unlike Florida, some markets in California such as San Diego and Sacramento began showing signs of significant slowing early in 2005. As a result, the recent 2Q06 price report from the NAR showed virtually flat pricing in both markets. More real-time data from DataQuick showed that median prices (both new and existing homes) in July were down 2% year-over-year in San Diego and 3% in Sacramento, which our survey contacts still believe is way too high especially given the plummeting sales levels seen throughout the state (See Exhibit 25). In addition, surging inventory throughout the state remains a major concern, as markets such as Bakersfield

(+233%), the Bay Area (+68%), Fresno (+131%), the Inland Empire (+119%), Los Angeles (+97%), Sacramento (+47%), and San Diego (+70%) have all posted huge year-over-year increases well above the national average of 40%, which should continue to pressure pricing in these markets in the coming months (See Exhibit 26 through Exhibit 31).

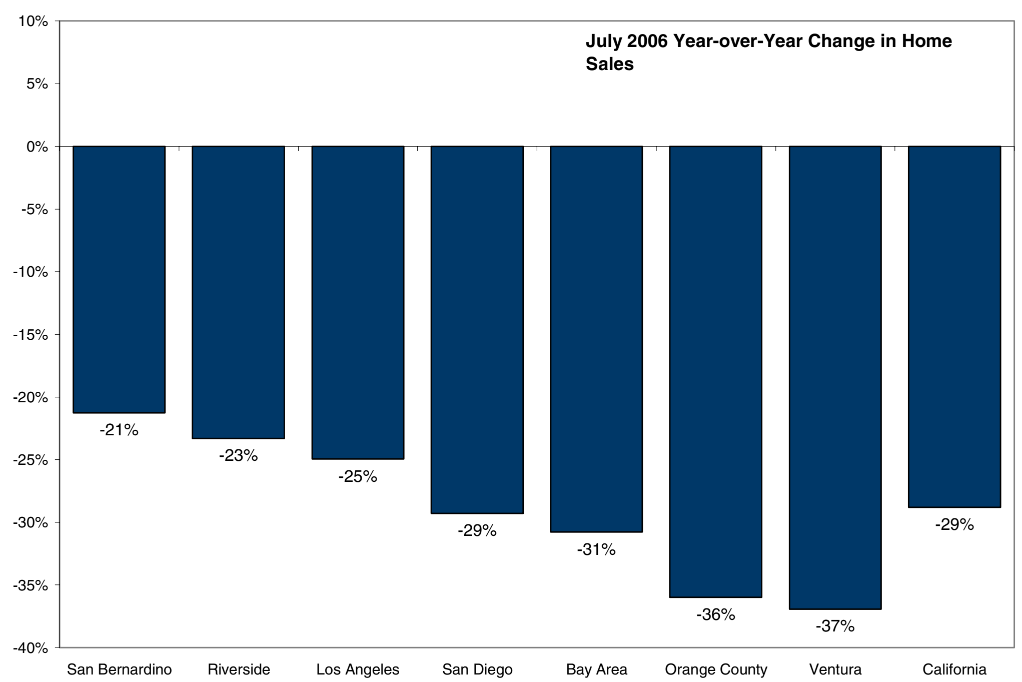
- In July, the median new home price in Sacramento was $460,000 (unchanged from July 2005). However, incentives in July 2005 averaged $4,800 (1% of base) versus the current average of $30,000 (7% of base). This builder expects base prices to remain flat for the remainder of the year with incentives continuing to increase.
- Another contact in Sacramento believes prices are down 10-15% from the peak. Incentives in the market are ranging from $5,000 to $150,000 on homes priced $450,000 to $650,000, with LEN, KBH, CTX, and DHI being the most aggressive.
- A respondent in San Diego estimates that net prices are down 12-15%, with another 10% of downside in the next 18 months. Half of this builders' buyers have a home to sell and can't. Many sellers are asking less than their mortgage appraisals.
- A realtor in San Diego notes that home sellers are incorrectly interpreting pricing data, which is causing a two-tier pricing system in the market: those sellers that think prices are still up from last year versus those that *need* to sell their home and are willing to take the market price. Interestingly, in July, homes with an average price over $2.5 million made up 5.7% of total MLS sales versus 4.5% in July 2005, which pushes up the average price data and gives people a false perception of favorable pricing trends. This is a perfect example of the product mix issue alluded to earlier in the report.
- A builder in the Inland Empire is offering 8-10% concessions with little results. DHI is reportedly offering $100,000 in concessions on finished inventory priced around $400,000. In North Los Angeles and San Bernardino, incentives are lower at roughly 1-2% of base.

Exhibit 24: Select California Markets Year-over-Year Changes in Median Sales Price



Source: DataQuick

Exhibit 25: Select California Markets Year-over-Year Changes in Home Sales



Source: DataQuick

Exhibit 26: Bakersfield Existing Inventory Trends

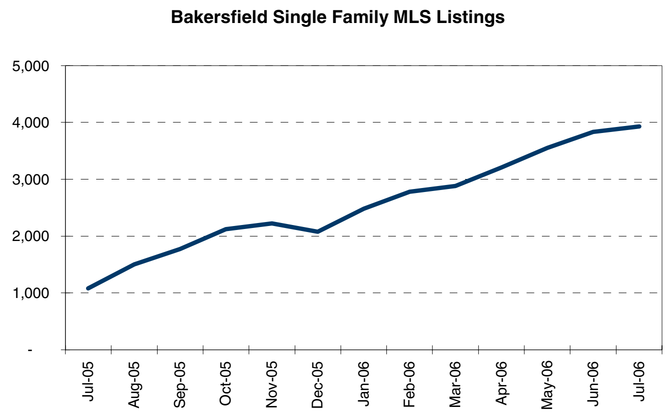


Exhibit 27: Bay Area Existing Inventory Trends

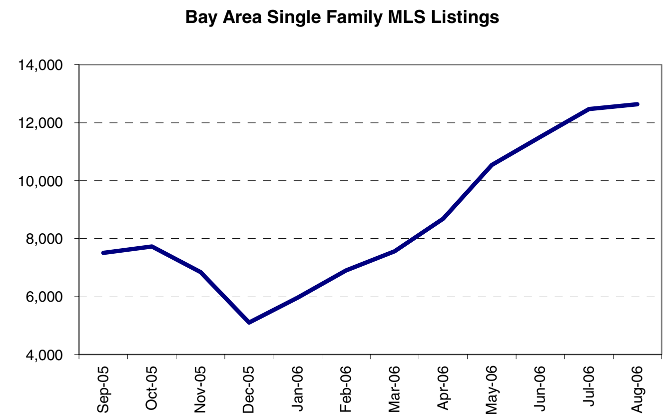


Exhibit 28: Inland Empire Existing Inventory Trends

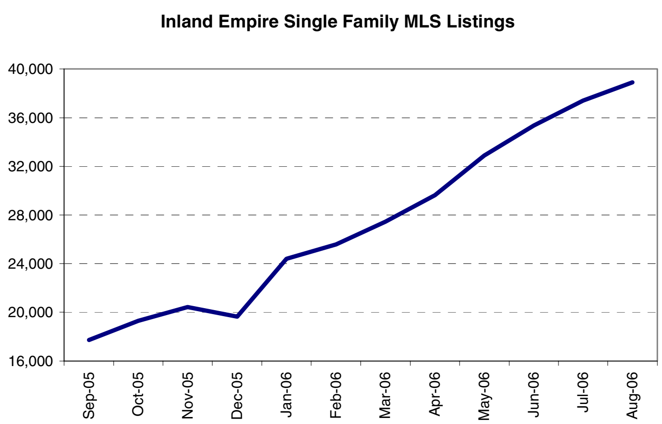


Exhibit 29: Los Angeles Existing Inventory Trends

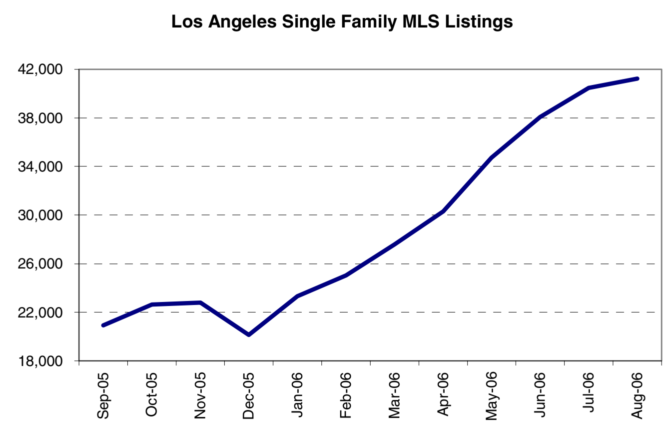


Exhibit 30: Sacramento Existing Inventory/Sales Trends

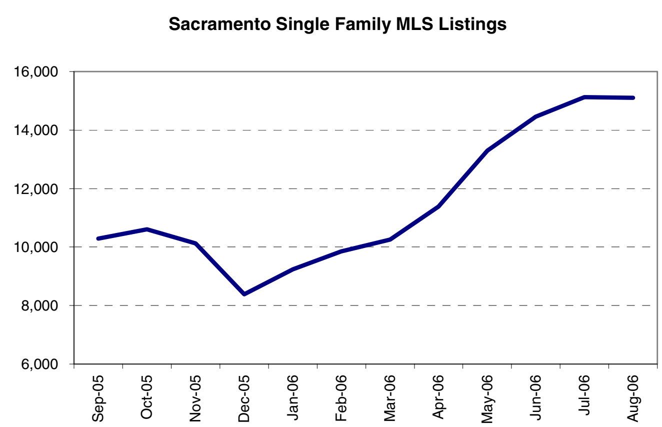
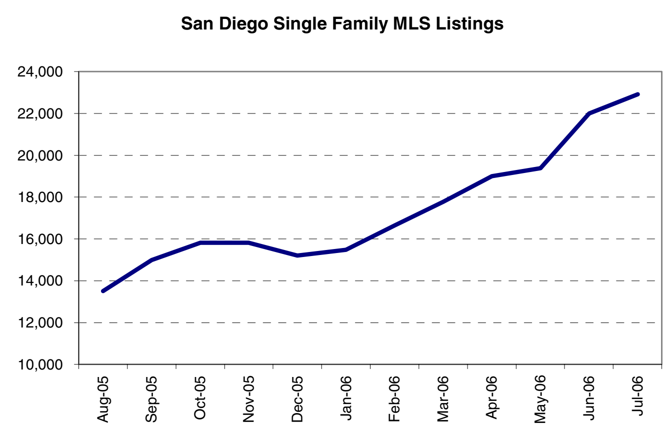


Exhibit 31: San Diego Existing Sales Trends



Source: Local MLS listings.

Other Market Commentary

- A contact in Denver reports that despite data showing resale prices being flat on a year-over-year basis, most realtors believe they are down roughly 5% from last year. The higher end (above $750,000) seems to be holding in and more high-end home sales are inflating the data, but the entry level is getting killed.
- A builder in Philadelphia reports that base prices are flat from last June, but they are now offering 3% in discounts related to rate buy-downs or cash towards closing costs.
- In Atlanta, modest sales price increases have been offset by incentives, and are flat to down 3% on an effective basis.
- In St. Louis, some builders are offering up to $25,000 (roughly 10% of base), with discounts on completed spec homes reportedly as high as $79,000.
- A contact in Detroit believes that new home prices in the market are down roughly 10% on a year-over-year basis including incentives.
- A builder in Dallas reports that base prices are up roughly 3% from last year, while incentives are virtually non-existent.
- A contact in Chicago believes that base prices are up 3% from last August, although an 8% increase in incentives has effectively eliminated that price gain.
- Home prices in Utah are reportedly up 10-14% from last July, although one builder is becoming concerned with the level of speculators that have artificially driven up prices. Another contact estimated that investors currently make up 25% of the market in Utah.

Appendix A: Housing Starts, 1975 through July 2006

housing units in thousands, SAAR

	Single Family	Yr.-to-Yr. Pct. Chg.	Total	Yr.-to-Yr. Pct. Chg.	30 Year Fixed Rate	Yr.-to-Yr. BP Chg.	CS HB Index	Monthly Pct. Chg.	Unemployment Rate
Jul-06	1,452	(16.6) %	1,795	(13.3) %	6.76 %	106	4,716.0	(4.7) %	4.8
Jun-06	1,486	(13.8)	1,841	(11.4)	6.68	110	4,948.7	(9.2)	4.6
May-06	1,587	(7.6)	1,953	(4.0)	6.60	88	5,447.6	(13.4)	4.6
Apr-06	1,524	(9.3)	1,832	(11.9)	6.51	65	6,287.8	(7.7)	4.7
Mar-06	1,615	4.2	1,972	7.6	6.32	39	6,809.6	(0.3)	4.7
Feb-06	1,812	0.2	2,132	(4.3)	6.25	62	6,828.1	(6.9)	4.8
Jan-06	1,814	2.5	2,265	3.5	6.15	44	7,332.1	2.8	4.7
Dec-05	1,633	(4.7)	2,002	(2.3)	6.27	52	7,132.7	0.3	4.9
Nov-05	1,795	21.0	2,131	17.9	6.33	60	7,111.7	7.8	5.0
Oct-05	1,726	3.6	2,046	(0.8)	6.07	35	6,595.1	(10.9)	4.9
Sep-05	1,790	15.1	2,158	12.9	5.77	1	7,404.3	(1.8)	5.1
Aug-05	1,713	1.4	2,075	2.5	5.82	(5)	7,539.0	(11.7)	4.9
Jul-05	1,740	4.8	2,070	4.2	5.70	(36)	8,541.2	8.7	5.0
Jun-05	1,724	13.0	2,078	13.7	5.58	(71)	7,857.1	9.6	5.0
May-05	1,717	4.1	2,034	3.0	5.72	(55)	7,169.7	12.9	5.1
Apr-05	1,680	3.4	2,079	5.6	5.86	3	6,350.3	(3.1)	5.1
Mar-05	1,550	(4.6)	1,833	(8.4)	5.93	48	6,555.2	(8.4)	5.1
Feb-05	1,808	18.9	2,228	17.6	5.63	(1)	7,155.1	10.3	5.4
Jan-05	1,769	13.0	2,188	13.1	5.71	(3)	6,486.4	3.8	5.2
Dec-04	1,713	3.4	2,050	(0.8)	5.75	(13)	6,251.8	16.7	5.4
Nov-04	1,484	(11.1)	1,807	(12.0)	5.73	(20)	5,355.7	6.5	5.4
Oct-04	1,666	1.3	2,062	4.0	5.72	(23)	5,029.6	(2.6)	5.5
Sep-04	1,555	1.2	1,912	(0.5)	5.76	(39)	5,163.2	8.4	5.4
Aug-04	1,689	13.1	2,025	10.4	5.87	(39)	4,762.7	8.6	5.4
Jul-04	1,661	8.1	1,986	4.9	6.06	43	4,385.1	(3.6)	5.5
2005	**1,713**	6.8 %	**2,066**	6.0 %	**5.87** %	2	**7,132.7**	14.1 %	**5.1**
2004	**1,604**	6.6	**1,950**	5.2	**5.84**	2	**6,251.8**	32.2	**5.5**
2003	**1,505**	10.4	**1,854**	8.4	**5.82**	(72)	**4,729.4**	100.7	**6.0**
2002	**1,363**	7.2	**1,710**	6.8	**6.54**	(44)	**2,356.0**	(1.1)	**5.8**
2001	**1,272**	3.2	**1,601**	1.8	**6.97**	(109)	**2,381.3**	36.7	**4.8**
2000	**1,232**	(5.7)	**1,573**	(4.5)	**8.06**	63	**1,741.4**	89.7	**4.0**
1999	**1,306**	2.2	**1,647**	1.6	**7.43**	48	**918.2**	(28.0)	**4.2**
1998	**1,278**	12.4	**1,621**	9.9	**6.94**	(65)	**1,275.1**	22.1	**4.5**
1997	**1,136**	(1.6)	**1,475**	0.4	**7.60**	(21)	**1,044.2**	45.2	**4.9**
1996	**1,154**	6.7	**1,469**	7.9	**7.81**	(15)	**719.3**	(4.0)	**5.4**
1995	**1,082**	(9.2)	**1,361**	(5.9)	**7.96**	(40)	**749.6**	49.7	**5.6**
1994	**1,191**	5.4	**1,446**	12.0	**8.36**	103	**500.9**	(38.9)	**6.1**
1993	**1,131**	9.6	**1,292**	7.5	**7.33**	(107)	**819.5**	28.6	**6.9**
1992	**1,032**	23.6	**1,201**	19.1	**8.40**	(85)	**637.3**	14.4	**7.5**
1991	**835**	(7.3)	**1,009**	(16.2)	**9.25**	(88)	**557.2**	106.3	**6.9**
1990	**901**	(10.5)	**1,203**	(12.9)	**10.13**	(19)	**270.2**	(32.7)	**5.6**
1989	**1,006**	(7.1)	**1,382**	(7.1)	**10.32**	(2)	**401.3**	(2.4)	**5.3**
1988	**1,083**	(6.2)	**1,488**	(8.8)	**10.34**	14	**411.1**	30.9	**5.5**
1987	**1,154**	(2.4)	**1,631**	(10.0)	**10.20**	2	**314.0**	(38.3)	**6.2**
1986	**1,182**	10.4	**1,812**	4.1	**10.18**	(224)	**508.8**	30.4	**7.0**
1985	**1,071**	(2.5)	**1,741**	(1.4)	**12.42**	(145)	**390.2**	4.0	**7.2**
1984	**1,098**	3.1	**1,766**	3.6	**13.87**	64	**375.2**	(7.2)	**7.5**
1983	**1,065**	60.6	**1,705**	61.3	**13.23**	(285)	**404.1**	14.2	**9.6**
1982	**663**	(6.8)	**1,057**	(3.6)	**16.08**	(55)	**354.0**	114.5	**9.7**
1981	**711**	(16.8)	**1,096**	(15.7)	**16.63**	286	**165.0**	(35.5)	**7.6**
1980	**855**	(27.0)	**1,300**	(24.3)	**13.77**	258	**255.7**	29.8	**7.2**
1979	**1,172**	(17.3)	**1,717**	(14.2)	**11.19**	156	**197.0**	58.8	**5.9**
1978	**1,418**	(1.3)	**2,001**	2.0	**9.63**	79	**124.0**	10.0	**6.1**
1977	**1,437**	23.1	**1,962**	27.8	**8.84**	(2)	**112.8**	35.5	**7.1**
1976	**1,167**	31.0	**1,535**	32.3	**8.86**	(18)	**83.2**	71.7	**7.7**
1975	**891**	0.3	**1,160**	(13.3)	**9.04**	(15)	**48.5**	76.5	**8.5**

Peak likely due to baby-boomers

Note: Home Building Index base year = 1970.

Source: U.S. Census Bureau and Credit Suisse analysis.

Appendix B: New Home Sales, 1975 through July 2006

housing units in thousands

	Total U.S.	YOY % Change	Median Sales Price	YOY % Change	30 Year Fixed Rate	Total U.S. Inventories	YOY % Change	Total Inv Ex. Not-Started	YOY % Change	Afford. Index	YOY % Change	CS HB Index	Monthly Pct. Chg.	Unemploy Rate
Jul-06	**1072**	-21.6%	**230000**	0.3%	6.76	**568**	22.4%	**460**	21.7%	**102.8**	-8.6%	**4,716.0**	-4.7%	**4.8**
Jun-06	**1120**	-11.9%	**233800**	3.4%	6.68	**562**	23.5%	**459**	22.7%	**104.3**	-6.7%	**4,948.7**	-9.2%	**4.6**
May-06	**1130**	-13.8%	**235800**	3.3%	6.60	**563**	25.1%	**462**	25.2%	**105.1**	-9.8%	**5,447.6**	-13.4%	**4.6**
Apr-06	**1121**	-11.7%	**257000**	8.8%	6.51	**565**	27.0%	**458**	26.2%	**108.7**	-6.6%	**6,287.8**	-7.7%	**4.7**
Mar-06	**1121**	-14.2%	**238800**	4.1%	6.32	**553**	24.0%	**453**	24.8%	**111.9**	-10.0%	**6,809.6**	-0.3%	**4.7**
Feb-06	**1038**	-16.8%	**250800**	5.7%	6.25	**538**	20.6%	**446**	19.6%	**113.1**	-16.3%	**6,828.1**	-6.9%	**4.8**
Jan-06	**1173**	-1.8%	**244900**	9.8%	6.15	**522**	19.5%	**435**	16.6%	**111.3**	-17.0%	**7,332.1**	2.8%	**4.7**
Dec-05	**1259**	1.0%	**238600**	3.9%	6.27	**509**	20.6%	**422**	16.3%	**110.3**	-15.6%	**7,132.7**	0.3%	**4.9**
Nov-05	**1236**	5.2%	**237900**	6.0%	6.33	**500**	19.3%	**423**	19.2%	**109.1**	-17.2%	**7,111.7**	7.8%	**5.0**
Oct-05	**1346**	3.1%	**243900**	6.4%	6.07	**490**	18.9%	**408**	15.9%	**109.4**	-17.9%	**6,595.1**	-10.9%	**4.9**
Sep-05	**1253**	2.5%	**240400**	13.6%	5.77	**487**	18.5%	**399**	16.3%	**112.4**	-15.3%	**7,404.3**	-1.8%	**5.1**
Aug-05	**1271**	9.1%	**240100**	10.1%	5.82	**477**	17.5%	**390**	14.7%	**110.3**	-14.0%	**7,539.0**	-11.7%	**4.9**
Jul-05	**1367**	23.8%	**229200**	7.9%	5.70	**464**	16.0%	**378**	14.2%	**112.5**	-10.5%	**8,541.2**	8.7%	**5.0**
Jun-05	**1,272**	5.6%	**226,100**	4.8%	5.58	**455**	18.8%	**374**	16.9%	**111.8**	-9.6%	**7,857.1**	9.6%	**5.0**
May-05	**1,311**	5.5%	**228,300**	7.8%	5.72	**450**	17.5%	**369**	13.9%	**116.5**	-12.1%	**7,169.7**	12.9%	**5.1**
Apr-05	**1,270**	9.3%	**236,300**	6.3%	5.86	**445**	16.5%	**363**	12.7%	**116.4**	-17.7%	**6,350.3**	-3.1%	**5.1**
Mar-05	**1,307**	4.3%	**229,300**	9.4%	5.93	**446**	17.1%	**363**	16.0%	**124.3**	-12.8%	**6,555.2**	-8.4%	**5.1**
Feb-05	**1,247**	7.7%	**237,300**	8.1%	5.63	**446**	19.9%	**373**	19.6%	**135.2**	-3.3%	**7,155.1**	10.3%	**5.4**
Jan-05	**1,194**	3.4%	**223,100**	6.5%	5.71	**437**	17.5%	**373**	15.5%	**134.1**	-5.2%	**6,486.4**	3.8%	**5.2**
Dec-04	**1,247**	10.5%	**229,600**	17.1%	5.75	**422**	14.1%	**363**	11.3%	**130.7**	-3.5%	**6,251.8**	16.7%	**5.4**
Nov-04	**1,175**	8.2%	**224,500**	8.4%	5.73	**419**	14.8%	**355**	12.0%	**131.8**	-4.8%	**5,355.7**	6.5%	**5.4**
Oct-04	**1,306**	14.5%	**229,200**	18.1%	5.72	**412**	14.4%	**352**	15.0%	**133.3**	-2.7%	**5,029.6**	-2.6%	**5.5**
Sep-04	**1,223**	8.5%	**211,600**	10.2%	5.76	**411**	17.4%	**343**	16.3%	**132.7**	-1.6%	**5,163.2**	8.4%	**5.4**
Aug-04	**1,165**	-2.0%	**218,100**	14.5%	5.87	**406**	18.0%	**340**	18.5%	**128.3**	-4.7%	**4,762.7**	8.6%	**5.4**
Jul-04	**1,104**	-4.5%	**212,400**	11.7%	6.06	**400**	17.3%	**331**	14.5%	**125.7**	-9.6%	**4,385.1**	-3.6%	**5.5**
2005	**1,280**	6.7%	**231,350**	6.2%	5.87	**469**	18.6%	**415**	14.3%	**122.1**	-8.7%	**7,132.7**	14.1%	**5.1**
2004	**1,200**	10.0%	**217,817**	13.8%	5.84	**395**	13.4%	**363**	11.3%	**133.7**	-4.0%	**6,251.8**	32.2%	**5.5**
2003	**1,091**	11.7%	**191,383**	3.4%	5.82	**348**	6.4%	**326**	10.1%	**139.3**	3.5%	**4,729.4**	100.7%	**6.0**
2002	**976**	7.6%	**185,025**	7.2%	6.54	**328**	8.5%	**296**	9.6%	**134.6**	-1.8%	**2,356.0**	-1.1%	**5.8**
2001	**907**	3.1%	**172,608**	3.6%	6.97	**302**	-0.7%	**270**	3.1%	**137.1**	5.6%	**2,381.3**	36.7%	**4.8**
2000	**880**	0.2%	**166,542**	4.2%	8.06	**304**	2.8%	**262**	-4.7%	**129.8**	-7.0%	**1,741.4**	89.7%	**4.0**
1999	**879**	-1.2%	**159,842**	5.2%	7.43	**296**	3.0%	**275**	7.0%	**139.6**	-1.5%	**918.2**	-28.0%	**4.2**
1998	**889**	10.3%	**151,975**	4.8%	6.94	**287**	-0.6%	**257**	1.6%	**141.7**	7.9%	**1,275.1**	22.1%	**4.5**
1997	**806**	6.7%	**145,050**	3.8%	7.60	**289**	-17.0%	**253**	-11.5%	**131.3**	0.1%	**1,044.2**	45.2%	**4.9**
1996	**756**	12.9%	**139,767**	4.7%	7.81	**348**	-1.0%	**286**	-11.2%	**131.3**	0.5%	**719.3**	-4.0%	**5.4**
1995	**670**	0.3%	**133,433**	2.3%	7.96	**352**	11.8%	**322**	8.4%	**130.6**	-1.7%	**749.6**	49.7%	**5.6**
1994	**667**	-1.1%	**130,408**	3.4%	8.36	**314**	12.6%	**297**	18.8%	**132.8**	-4.1%	**500.9**	-38.9%	**6.1**
1993	**674**	9.9%	**126,142**	4.0%	7.33	**279**	3.3%	**250**	13.1%	**138.6**	7.8%	**819.5**	28.6%	**6.9**
1992	**614**	20.5%	**121,300**	1.1%	8.40	**270**	-9.1%	**221**	-5.6%	**128.5**	10.4%	**637.3**	14.4%	**7.5**
1991	**509**	-4.4%	**120,017**	-1.8%	9.25	**297**	-14.7%	**234**	-11.4%	**116.4**	3.3%	**557.2**	106.3%	**6.9**
1990	**533**	-18.4%	**122,275**	1.6%	10.13	**349**	-5.8%	**264**	-11.1%	**112.7**	3.9%	**270.2**	-32.7%	**5.6**
1989	**653**	-3.1%	**120,383**	6.2%	10.32	**370**	1.5%	**297**	-5.7%	**108.4**	-3.0%	**401.3**	-2.4%	**5.3**
1988	**674**	0.8%	**113,350**	8.3%	10.34	**365**	1.4%	**315**	1.0%	**111.8**	2.1%	**411.1**	30.9%	**5.5**
1987	**669**	-10.4%	**104,708**	13.5%	10.20	**360**	3.4%	**312**	5.1%	**109.5**	5.4%	**314.0**	-38.3%	**6.2**
1986	**746**	8.0%	**92,233**	9.4%	10.18	**348**	-1.5%	**297**	1.4%	**103.8**	11.4%	**508.8**	30.4%	**7.0**
1985	**691**	8.6%	**84,275**	5.3%	12.42	**353**	6.0%	**293**	-4.9%	**93.2**	7.8%	**390.2**	4.0%	**7.2**
1984	**637**	1.5%	**80,017**	6.0%	13.87	**333**	17.9%	**308**	20.8%	**86.4**	5.4%	**375.2**	-7.2%	**7.5**
1983	**627**	50.0%	**75,458**	8.9%	13.23	**283**	10.1%	**255**	23.8%	**82.0**	20.0%	**404.1**	14.2%	**9.6**
1982	**418**	-4.0%	**69,300**	0.7%	16.08	**257**	-17.7%	**206**	-10.8%	**68.3**	1.3%	**354.0**	114.5%	**9.7**
1981	**436**	-20.1%	**68,825**	6.4%	16.63	**312**	-11.3%	**231**	-20.1%	**67.4**	-13.4%	**165.0**	-35.5%	**7.6**
1980	**545**	-22.5%	**64,708**	3.1%	13.77	**352**	-15.0%	**289**	-16.0%	**77.9**	-16.3%	**255.7**	29.8%	**7.2**
1979	**704**	-13.7%	**62,750**	12.5%	11.19	**414**	0.5%	**344**	-3.6%	**93.0**	-12.9%	**197.0**	58.8%	**5.9**
1978	**816**	-0.5%	**55,792**	13.9%	9.63	**412**	9.5%	**357**	4.1%	**106.8**	-9.0%	**124.0**	10.0%	**6.1**
1977	**820**	25.6%	**48,983**	10.6%	8.84	**376**	13.1%	**343**	13.6%	**117.4**	-3.1%	**112.8**	35.5%	**7.1**
1976	**652**	17.7%	**44,283**	12.8%	8.86	**332**	1.8%	**302**	14.0%	**121.2**	0.7%	**83.2**	71.7%	**7.7**
1975	**554**	6.7%	**39,242**	9.3%	9.04	**326**	-5.7%	**265**	-8.9%	**120.3**	-7.7%	**48.5**	76.5%	**8.5**

Note: Total new home sales and inventories are seasonally adjusted annual rates. Inventory not started represents lots with a permit, but ground has not been broken or started.

Source: U.S. Census Bureau, National Association of Realtors, and Credit Suisse analysis.

Appendix C: Existing Home Sales, 1980 through July 2006

housing units in thousands, SAAR

	Total U.S.	Yr.-to-Yr. Pct. Chg.	Total U.S. Inventories	YOY % Change	30 Year Fixed Rate	Yr.-to-Yr. BP Chg.	CS BP Stock Index	Monthly Pct. Chg.	Unemployment Rate
Jul-06	**5,510**	-11.4%	**3,300**	40.4%	6.76 %	106	**1,640.8**	-5.9%	**4.8**
Jun-06	**5,800**	-8.4%	**3,220**	37.0%	6.68	110	**1,744.1**	-3.0%	**4.6**
May-06	**5,860**	-5.9%	**3,040**	36.3%	6.60	88	**1,797.6**	-5.5%	**4.6**
Apr-06	**5,910**	-5.7%	**2,930**	35.0%	6.51	65	**1,902.2**	3.0%	**4.7**
Mar-06	**6,040**	-1.0%	**2,700**	33.0%	6.32	39	**1,846.4**	3.8%	**4.7**
Feb-06	**6,050**	-0.3%	**2,560**	26.1%	6.25	62	**1,778.4**	-1.8%	**4.8**
Jan-06	**5,790**	-4.5%	**2,480**	32.6%	6.15	44	**1,811.5**	4.0%	**4.7**
Dec-05	**5,860**	-2.5%	**2,390**	22.6%	6.27	52	**1,741.8**	1.0%	**4.9**
Nov-05	**6,150**	0.3%	**2,500**	13.6%	6.33	60	**1,724.0**	3.6%	**5.0**
Oct-05	**6,180**	3.0%	**2,480**	15.3%	6.07	35	**1,663.5**	-2.0%	**4.9**
Sep-05	**6,290**	7.0%	**2,390**	16.0%	5.77	1	**1,696.7**	-1.7%	**5.1**
Aug-05	**6,280**	6.6%	**2,460**	11.3%	5.82	(5)	**1,725.4**	-6.0%	**4.9**
Jul-05	**6,220**	3.8%	**2,350**	6.8%	5.70	(36)	**1,836.5**	4.0%	**5.0**
Jun-05	**6,330**	2.8%	**2,350**	8.8%	5.58	(71)	**1,766.6**	2.5%	**5.0**
May-05	**6,230**	3.5%	**2,230**	3.2%	5.72	(55)	**1,723.1**	2.4%	**5.1**
Apr-05	**6,270**	5.4%	**2,170**	1.9%	5.86	3	**1,683.1**	-1.7%	**5.1**
Mar-05	**6,100**	3.9%	**2,030**	-5.6%	5.93	48	**1,712.8**	-1.2%	**5.1**
Feb-05	**6,070**	7.2%	**2,030**	-4.2%	5.63	(1)	**1,733.3**	-2.0%	**5.4**
Jan-05	**6,060**	12.6%	**1,870**	-5.1%	5.71	(3)	**1,768.5**	-3.0%	**5.2**
Dec-04	**6,010**	5.4%	**1,950**	-4.4%	5.75	(13)	**1,823.6**	3.4%	**5.4**
Nov-04	**6,130**	11.9%	**2,200**	-1.8%	5.73	(20)	**1,764.3**	4.3%	**5.4**
Oct-04	**6,000**	6.6%	**2,150**	-0.5%	5.72	(23)	**1,691.8**	1.2%	**5.5**
Sep-04	**5,880**	1.4%	**2,060**	-1.0%	5.76	(39)	**1,672.0**	6.1%	**5.4**
Aug-04	**5,890**	2.3%	**2,210**	0.0%	5.87	(39)	**1,575.3**	2.3%	**5.4**
Jul-04	**5,990**	8.3%	**2,200**	3.8%	6.06	43	**1,540.0**	-0.1%	**5.5**
2005	**6,170**	4.4%	**2,390**	22.6%	**5.87**	2	**1,741.8**	-4.5%	**5.1**
2004	**5,912**	8.6%	**1,950**	-4.4%	**5.84**	2	**1,823.6**	42.0%	**5.5**
2003	**5,443**	8.9%	**2,040**	7.9%	**5.82**	(72)	**1,284.2**	20.6%	**6.0**
2002	**4,998**	5.7%	**1,890**	13.9%	**6.54**	(43)	**1,065.1**	-5.6%	**5.8**
2001	**4,727**	2.4%	**1,660**	0.0%	**6.97**	(109)	**1,128.4**	19.5%	**4.8**
2000	**4,614**	-0.5%	**1,660**	7.1%	**8.06**	63	**944.2**	9.6%	**4.0**
1999	**4,636**	3.2%	**1,550**	-9.4%	**7.43**	49	**861.9**	-5.0%	**4.2**
1998	**4,492**	13.1%	**1,710**	1.2%	**6.94**	(66)	**907.2**	1.4%	**4.5**
1997	**3,973**	5.0%	**1,690**	-2.3%	**7.60**	(20)	**895.0**	18.0%	**4.9**
1996	**3,783**	7.6%	**1,730**	9.5%	**7.80**	(15)	**758.2**	17.7%	**5.4**
1995	**3,514**	-1.1%	**1,580**	14.5%	**7.95**	(40)	**644.4**	39.1%	**5.6**
1994	**3,554**	3.9%	**1,380**	-9.2%	**8.35**	102	**463.1**	-12.7%	**6.1**
1993	**3,421**	8.8%	**1,520**	-13.6%	**7.33**	(107)	**530.7**	15.2%	**6.9**
1992	**3,143**	9.7%	**1,760**	-11.6%	**8.40**	(85)	**460.8**	14.6%	**7.5**
1991	**2,867**	-1.9%	**1,990**	3.6%	**9.25**	(88)	**402.0**	51.9%	**6.9**
1990	**2,921**	-3.7%	**1,920**	12.9%	**10.13**	(19)	**264.6**	-26.0%	**5.6**
1989	**3,033**	-12.9%	**1,700**	-21.3%	**10.32**	(2)	**357.5**	12.1%	**5.3**
1988	**3,483**	1.6%	**2,160**	0.0%	**10.34**	14	**318.8**	14.9%	**5.5**
1987	**3,428**	-1.4%	**2,160**	9.6%	**10.20**	2	**277.4**	-4.1%	**6.2**
1986	**3,478**	11.4%	**1,970**	-10.5%	**10.18**	(224)	**289.1**	15.2%	**7.0**
1985	**3,122**	10.8%	**2,200**	-2.7%	**12.42**	(145)	**250.9**	27.8%	**7.2**
1984	**2,817**	4.9%	**2,260**	15.3%	**13.87**	64	**196.3**	-5.5%	**7.5**
1983	**2,684**	34.9%	**1,960**	2.6%	**13.23**	(285)	**207.7**	26.7%	**9.6**
1982	**1,990**	-17.7%	**1,910**	NA	**16.08**	(55)	**163.9**	52.6%	**9.7**
1981	**2,418**	-18.6%	**NA**	NA	**16.63**	286	**107.4**	6.7%	**7.6**
1980	**2,972**	-22.4%	**NA**	NA	**13.77**	258	**100.7**	-22.9%	**7.2**

Note: Building Products Index base = January 1979 and includes: BDK, DTL, MAS, SHW, and SWK. SAAR = seasonally adjusted annual rate.

Note: In February 2005, the NAR revised existing home sales, affecting the series from 1989 through 2004. The above data reflects single-family homes excluding co-ops and apartment condos.

Source: U.S. Census Bureau.

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