

August 20, 2009

Mid Year 2009 Boone County Real Estate Market Report

My friend Bob Lawler described our residential real estate market as “fragile”. I agree with this description. Another word that comes to mind is “uncertain”. There is tremendous uncertainty in our overall economy which puts downward pressure on major capital expenditures.

The Boone County residential real estate market peaked in the years 2004-2006 at unsustainable levels. The market began its correction in July of 2006 and we have now endured three consecutive years of downward correction. This leads to the following three questions:

- 1) Is our correction over and have we stabilized?
- 2) Is today's market the new reality from which we need to base our projections?
- 3) Or, have we corrected to a level that is less than what can reasonably be sustained and we are poised for the market to increase over the next few years?

I am no more qualified to answer these questions than anyone else. However, there is statistical information that will help to answer these questions.

First, the fundamentals of our overall market have remained steady in some areas but have eroded in the most critical statistic regarding home sales and that is unemployment. The national unemployment rate has gone from 5.5% at this time last year to over 9% today and appears to be heading north of 10%. State unemployment was 5% at this time last year and is also above 9%. The Boone County unemployment rate as of the end of June (per the REDI website) is 6.8% as opposed to 3.5% at this time last year.

Real estate purchases are typically long term in nature. Therefore, the average buyer will require a high level of confidence and stability in order to make a long term capital investment in real estate. When unemployment is on the rise and people fear for their jobs, they typically become renters rather than buyers. This is great for landlords but tough on sellers. The saving grace that we have in this area is that the fixed thirty year mortgage is identical at this time of year as it was last year at 5.5% per a local bank website. Ironically, the fixed 20 year mortgage is also at 5.5% and a 15 year fixed mortgage is at 4.875%. The fact that a 20 year mortgage rate is identical to a thirty year mortgage rate and only slightly higher than a 15 year mortgage rate is a sign of uncertainty in the long term lending markets.

Home sales for the first half of the year are interesting and open to many interpretations. In the first half of 2009, we sold 703 single family detached homes through the Columbia Board of Realtors Multi-List System (CBOR-MLS) in the Columbia Public School District. In 2008, we sold 843 for the same time period which is a decrease of 16-17% in total sales from 2008 to 2009. New construction homes sold in the same area for the

same time period were 86 for the first half of 2009 as opposed to 137 for the first half of 2008 which represents a 37% decrease.

Our inventory levels are not out of line with 893 home for sale through CBOR-MLS in the Columbia Public School District which represents a supply of just over 7 months for all homes. New construction inventory is in better shape with only 97 new construction homes on the market which represents a supply of just over 6 months. Both of the monthly supply figures are slightly higher than last year which is not great. However, I see this as a function of lesser sales and not a function of growing supply.

The answer to Question #1 is that our residential market has stabilized. Our total sales are down, but our inventory seems to be following the sales down. New construction home inventory is very solid with less than 100 homes available, which is down from over 400 in our peak years. The pre-owned market is a little over-stocked, but not such that one or two good months in a row and it will be very healthy. The two major threats to the residential market are unemployment and inflation. Tighter lending standards that have been imposed over the last 18 months knocked some buyers out of the market. Rising unemployment has knocked more out of the market. If we encounter significant inflation, which appears to be a near certainty at this point, even more buyers will be removed from the market. It has, and remains, my view that a natural level of home sales per year in Boone County when the market is healthy is 1,600 – 1,800 homes per year. We will very likely not achieve anywhere near that number for this year.

The answer to Question #2 is that I believe what we are experiencing is our new reality for the next year to 18 months. There is still significant uncertainty in the market which has a negative influence on home sales. Thankfully, the stock market has begun to show signs of life, which is very positive. However, I personally believe there is another melt-down in one of our markets in store in the near future. Last year we saw the mortgage market undergo tremendous change and we saw the stock market plummet. Both of those markets seem to have stabilized. This year the commercial capital market is under tremendous pressure and there is tremendous change under way. It can be argued that the commercial side of the market will not influence the residential side of the market. I do not buy this argument. I believe there is not a direct relationship between the commercial and residential side of the market, but a market that is in correction creates overall uncertainty and overall uncertainty puts a damper on home sales.

The answer to Question #3 is that the market has corrected to a level that is below what I believe to be natural demand. I do believe we are creating a tremendous level of pent-up demand for home buyers. The question that remains is what will it take to unleash that demand? The short answer is jobs and growth. Some growth in population has occurred and student enrollment is up for yet another year. This bodes very well for the residential rental market and creates demand in the entry level buyer market. I believe the lion's share of our growth is students and people from some of the smaller agricultural communities around the state that have little, if any, opportunity for the kids graduating from high school who do not want to go to college. Again, this creates "bottom-up" demand, which is very good. It appears this demand fizzles at around the \$300,000 home

mark. Bottom line is that I see at least another 24 months before the pent up demand that has been created from September of last year to now is unleashed.

The new construction home market has also undergone a fundamental shift in how business is conducted. The first half saw 124 single family detached residential building permits pulled in the City of Columbia versus 147 for the same period last year. New home sales in the Columbia Public School district through the CBOR-MLS is 86 for the first half of the year. It would appear that we are building more homes than are being sold, but that is an illusion. The building permits would encompass custom build jobs that do not go through the Realtor community and it also does not include speculative homes that are built and sold before they ever get listed with a Realtor. The number of new construction homes that have been sold in the first half of the year that did not go through the CBOR-MLS is a very significant number. Our inventory of detached new construction single family homes on the market at mid-year 2008 was just under 200 and this year the number is less than 100, which is a 50% decrease in inventory. Bottom line is that more new construction homes are being sold than are being built for the first half of 2009 and we have shifted from a speculative market to a custom build market.

The condominium market in Boone County has also felt the negative impact of national market forces. The first half of 2009 saw 78 condominiums sold through CBOR-MLS in the Columbia Public School district versus 84 for the same period last year. This is not a dramatic downward shift. New construction condos sold in the same area for the same period was 18 this year versus 21 for the same period last year. This is also not a dramatic shift. The issues with condos in general, but specifically new construction condos, are supply and end financing. The supply of new construction condo projects grew exponentially in the period from 2005-2008 but the demand did not follow along. The result is that many new construction condos have shifted toward rental out of necessity. Part of the issue is that the end financing markets have become very difficult for new construction condos due to problems in larger markets that have made the secondary markets and private mortgage insurers leery of new construction condo projects. The net impact is that most end financing for new construction condos is being handled by local lenders with in-house products. Thus the lending terms available are inferior to those available in a single family detached home.

The common sentiment that I hear repeatedly is that the starter home market is solid. This is accurate. There were 537 homes sold for less than \$200,000 through the CBOR-MLS in the Columbia Public School District for the first half of 2009. This is comparison to 607 for the first half of 2008 and 759 for the first half of 2007. The decrease in sales in this price point I believe to be a direct reflection of tougher borrowing standards. A portion of the people who were buyers in 2007 and 2008 are renters in 2009.

The upper end market (over \$350,000) remains depressed. Sellers in the upper end of the market face an over-supply of homes, a decreased level of demand, and tougher lending standards due to problems in the secondary markets for jumbo loans, which are loans above the \$417,000 mark. Additionally, there is a huge over-supply of developed

building lots aimed at the upper end market. In previous years I have wrote that there is a 12-15 year supply of upper end building lots developed in our market. I may have been too conservative with this estimate.

The big picture of our residential market in Boone County has shifted significantly in the last 12 months. Our level of sales is down along with our level of supply. We are still badly over-stocked with developed residential building lots. We were overstocked at this time last year as well. The difference is that our demand at this time last year was greater than the demand today, which has the net impact of increasing the number of months supply available. I do not see that there will be demand for any new residential development for the next 24 months, if not longer. The residential rental market is thriving and well located, well managed properties have likely seen an increase in rents this year. If there is new construction in any residential market for the next 12 months, it will be in the rental market.

The overall picture of our market will be much more clear by the end of 2009. It is normal that we sell less homes in the second half of the year than we do in the first half of the year. This is to be expected. The results for the first year have very mixed interpretations. The starter home market seems to be strong with government incentives. However, this segment of the market is always solid. We endured such a negative period from September 2008 through February 2009 that the market results for the first half of the year were a breath of fresh air. However, there is a downside to this discussion. The last 3-4 months of a year in which we have a major election, such as last year, typically see a decrease in home buying demand. This then will create a pent-up demand for the first quarter of the following year. In addition, we endured a melt-down of our lending and stock markets in September and October of last year which almost completely froze home sales nationwide. Bottom line is that there should have been created an extraordinary level of pent-up demand from the last four months of 2008 which should have hit in the first half of 2009. However, our sales for the first half of 2009 are down 17% from the same period last year. This is not positive. The wild card in all of this is unemployment. The pent up demand is still there, but it will remain dormant until we see a strong growth in jobs.

The commercial markets are also extraordinarily difficult. Tougher lending practices and pressure from bank regulators has dramatically decreased the amount of capital available in the commercial lending markets. We are in the midst of a major correction in this market and no one knows where the bottom of the correction lies. What we do know is that this correction at the national level absolutely trickles down to us at the local level and is having a major impact.

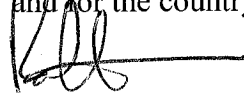
Overall, none of the information is meant to create a picture that is worse than the realities of our market. It seems like the last few years have seen tremendous negative press at the national level that painted a picture for our local market that was far worse than the reality of our market. Now, we are seeing headlines that existing home sales are up on a national level, which is obviously good. However, it now seems the pendulum has swung the other direction and the national press is beginning to put out headlines that

paint a rosier picture than the reality of our market. The truth is that our residential real estate market in Boone County is down from previous years, but it is relatively stable in comparison to other areas of the country. In other words, if a seller is ready to get serious and sell their property, there is a buyer. The seller is likely to have to drop prices to uncomfortable levels, but this is far better than other areas where it is difficult to give away certain types of property. We are blessed to be a primary home market in Boone County versus a secondary home market such as in other areas of the country. If a homeowner in Boone County would have to suffer a loss to sell their home, they will opt to stay put rather than move unless they are forced into a move due to job changes, job loss, or family changes. This creates a calming influence on overall home values which contributes to the overall stability of our market. However, removing the "discretionary buyer" from the market creates a decrease in demand, which we have seen in the first half of 2009.

The one fundamental that has not changed in Boone County is that good real estate is still good real estate. Whether a property is commercial or residential in nature, a well located, well maintained, well managed property has managed to maintain its value in the face of extreme volatility in the national markets. The location of homes, especially in the new construction markets, has become a much more important factor to homebuyers over the last 12-18 months and I expect this to continue for the next 12-18 months.

My view today is that the next 6-8 months is critical to our overall economy in general and equally critical to our local real estate market. If we can avoid the loss of a major employer and avoid any further deterioration of our national markets, we will slog along for another year as we are doing today. If we can avoid any major turmoil on a national level, we will hold steady on a local level.

I hope the remainder of the year is successful, healthy, and prosperous for Boone County and for the country in general.



Rob Wolverton

Market Indicators

30-Jun-09

| | | 30-Jun-08 | 30-Jun-09 | Change |
|-------------------------|----|-----------|-----------|--------|
| Unemployment | | | | |
| Boone County | | 3.5% | 6.8% | 3.3% |
| State | | 5.0% | 9.3% | 4.3% |
| Federal | | 5.5% | 9.4% | 3.9% |
| Fixed 30 Year Mortgage | | 5.500% | 5.500% | 0.00% |
| Prime Interest Rate | | 5.00% | 3.25% | -1.75% |
| Median Household Income | \$ | 42,163 | \$ 43,171 | 1.02% |
| Mean Household Income | \$ | 56,368 | \$ 58,116 | 1.03% |

Columbia Business Times

Unemployment rate jumps to nearly 7%

August 21, 2009

Columbia's unemployment rate in June rose to 6.9 percent, up from 5.7 percent in May and well above the 4.6 percent jobless rate in June 2008. The number of local workers who were unemployed in June was 6,307, compared with 4,378 in June 2008.

The latest monthly measurement of sales tax receipts in Columbia also indicated the local economy continues to struggle. Through May, sales taxes collected from all businesses in Columbia were down 4.3 percent compared with the same month last year. Year-to-date collections were down 3 percent, or \$383,000.

There was, however, some good news in the CBT's monthly look at local economic indicators. Housing sales in Boone County in July were higher than the same month in 2008, the value of residential building permits rose in July while the number of foreclosures decreased.

From the state perspective, the labor market conditions leveled off in July. (The calculation of the local jobless rates are a month behind the state calculation). Missouri's unemployment rate remained at 9.3 percent, with approximately 278,000 workers unemployed, according to the Department of Economic Development.

Missouri payroll employment data showed gains in durable goods manufacturing, health care and social assistance, but local government and construction showed losses.

The increase in manufacturing reflects an unusual summer production increase in the auto industry while the decrease in local government employment is related to local schools shutting down for the summer.

Carol Van Gorp, executive director of the Boone County Board of Realtors, said the increase in home sales, and a slight decrease in the median price, might be due to the \$8,000 stimulus money provided to first-time homebuyers.

Agents sold 230 single-family homes in July, compared with 205 in July 2008, a 12.2 percent increase.

For all home types, the median price was \$150,000 in July of this year and \$152,200 in July 2008. Van Gorp attributed the decrease to a higher number of new owners buying homes on the lower

end of the market.

The problem of a housing oversupply also seems to be ending. There were only 161 active listings for newly built homes at the end of July, while one year ago there were 375 on the market, Van Gorp said in a news release.

Columbia's Economic Indicators

RECEIPTS

1% Sales Tax Receipts

May 2009: \$1,542,297

May 2008: \$1,611,459

Change (#): -\$69,162

Change (%): -4.29%

1% Sales Tax Receipts

Fiscal Year-to-Date 2009: \$12,743,290

Fiscal Year-to-Date 2008: \$13,126,223

Change (#): -\$382,933

Change (%): -2.9%

LABOR

Columbia Labor Force

June 2009: 91,072

June 2008: 93,106

Change (#): -2,034

Change (%): -2.2%

Missouri Labor Force

June 2009: 3,052,784

June 2008: 3,067,710

Change (#): -14,926

Change (%): -0.5%

Columbia Unemployment

June 2009: 6,307

June 2008: 4,378

Change (#): 1,929

Change (%): 44.1%

Missouri Unemployment

June 2009: 290,270

June 2008: 186,730

Change (#): 103,540

Change (%): 55.4%

Columbia Unemployment Rate

June 2009: 6.9%

June 2008: 4.7%

Change (#): 2.2%

Missouri Unemployment Rate

June 2009: 9.5%

June 2008: 6.1%

Change (#): 3.4%

CONSTRUCTION AND HOUSING**Building Permits - Residential**

July 2009: 86

July 2008: 88

Change (#): -2

Change (%): -2.3%

Value of Building Permits - Residential

July 2009: \$5,938,553

July 2008: \$5,656,368

Change (#): \$282,185

Change (%): 5.0%

Building Permits - Detached Single Family Homes

July 2009: 37

July 2008: 27

Change (#): 10

Change (%): 37.0%

Value of Building Permits - Detached Single Family Homes

July 2009: \$5,392,050

July 2008: \$4,444,000

Change (#): \$948,050

Change (%): 21.3%

Building Permits - Residential Additions/Alterations

July 2009: 49

July 2008: 59

Change (#): -10

Change (%): -16.9%

Value of Building Permits - Residential Additions/Alterations

July 2009: \$546,503

July 2008: \$622,368

Change (#): -\$75,865

Change (%): -12.2%

Building Permits - Commercial

July 2009: 21
July 2008: 35
Change (#): -14
Change (%): -40.0%

Value of Building Permits - Commercial

July 2009: \$63,086,027*
July 2008: \$8,741,829
Change (#): \$54,344,198
Change (%): 621.7%
*includes a permit worth \$59 million for public works and utilities

Building Permits - Commercial Additions/Alterations

July 2009: 19
July 2008: 28
Change (#): -9
Change (%): -32.1%

Value of Building Permits - Commercial Additions/Alterations

July 2009: \$3,214,027
July 2008: \$1,863,979
Change (#): \$1,350,048
Change (%): 72.4%

Units Sold in Boone County - Detached Single Family Homes

July 2009: 230
July 2008: 205
Change (#): 25
Change (%): 12.2%

Volume of Sales in Boone County - Detached Single Family Homes

July 2009: \$40,525,826
July 2008: \$36,731,788
Change (#): \$3,794,038
Change (%): 10.3%

Median Price of Home Sales in Boone County

July 2009: \$150,000
July 2008: \$152,200
Change (#): -\$2,200
Change (%): -1.4%

Foreclosures in Boone County

July 2009: 36
July 2008: 25
(July 2007: 35)
Change (#): -10

Change (%): xx%

COLUMBIA REGIONAL AIRPORT

Passengers on Arriving Planes

July 2009: 2,147

July 2008: 0

Change (#): 2,147

Passengers on Departing Planes

July 2009: 2,200

July 2008: 0

Change (#): 2,200

UTILITIES

Water Customers

July 2009: 44,809

July 2008: 44,428

Change (#): 381

Change (%): 0.9%

Electric Customers

July 2009: 45,293

July 2008: 45,010

Change (#): 283

Change (%): 0.6%

Sewer Customers - Residential

July 2009: 40,349

July 2008: 39,861

Change (#): 488

Change (%): 1.2%

Sewer Customers - Commercial

July 2009: 3,550

July 2008: 3,535

Change (#): 15

Change (%): 0.4%

Contributors include: Laura Peveler, Karen Johnson, Linda Rootes, Sarah Talbert and Carol Van Gorp

Compiled by David Walle

**Do You Have Enough Money
for Medical Costs?**

Detached Single Family Residential Building Permit Analysis
30-Jun-09

| Month | # Permits | | % Change | \$ Value | | % Change | Avg. Cost | | % Change |
|----------|-----------|------|----------|---------------|---------------|----------|------------|------------|----------|
| | 2008 | 2009 | | 2008 | 2009 | | 2008 | 2009 | |
| January | 23 | 12 | 52% | \$ 4,810,300 | \$ 2,334,000 | 49% | \$ 209,143 | \$ 194,500 | 93% |
| February | 14 | 6 | 43% | \$ 2,697,000 | \$ 1,368,675 | 51% | \$ 192,643 | \$ 228,113 | 118% |
| March | 24 | 22 | 92% | \$ 4,569,000 | \$ 3,121,000 | 68% | \$ 190,375 | \$ 141,864 | 75% |
| April | 48 | 28 | 58% | \$ 8,034,000 | \$ 4,112,000 | 51% | \$ 167,375 | \$ 146,857 | 88% |
| May | 23 | 18 | 78% | \$ 3,790,165 | \$ 2,891,000 | 76% | \$ 164,790 | \$ 160,611 | 97% |
| June | 15 | 38 | 253% | \$ 2,475,000 | \$ 5,654,000 | 228% | \$ 165,000 | \$ 148,789 | 90% |
| Totals | 147 | 124 | 84% | \$ 26,375,465 | \$ 19,480,675 | 74% | \$ 179,425 | \$ 157,102 | 88% |