



Economic Overview and Housing Outlook

16th Annual Real Estate Trends

Richmond, VA

October 10, 2006

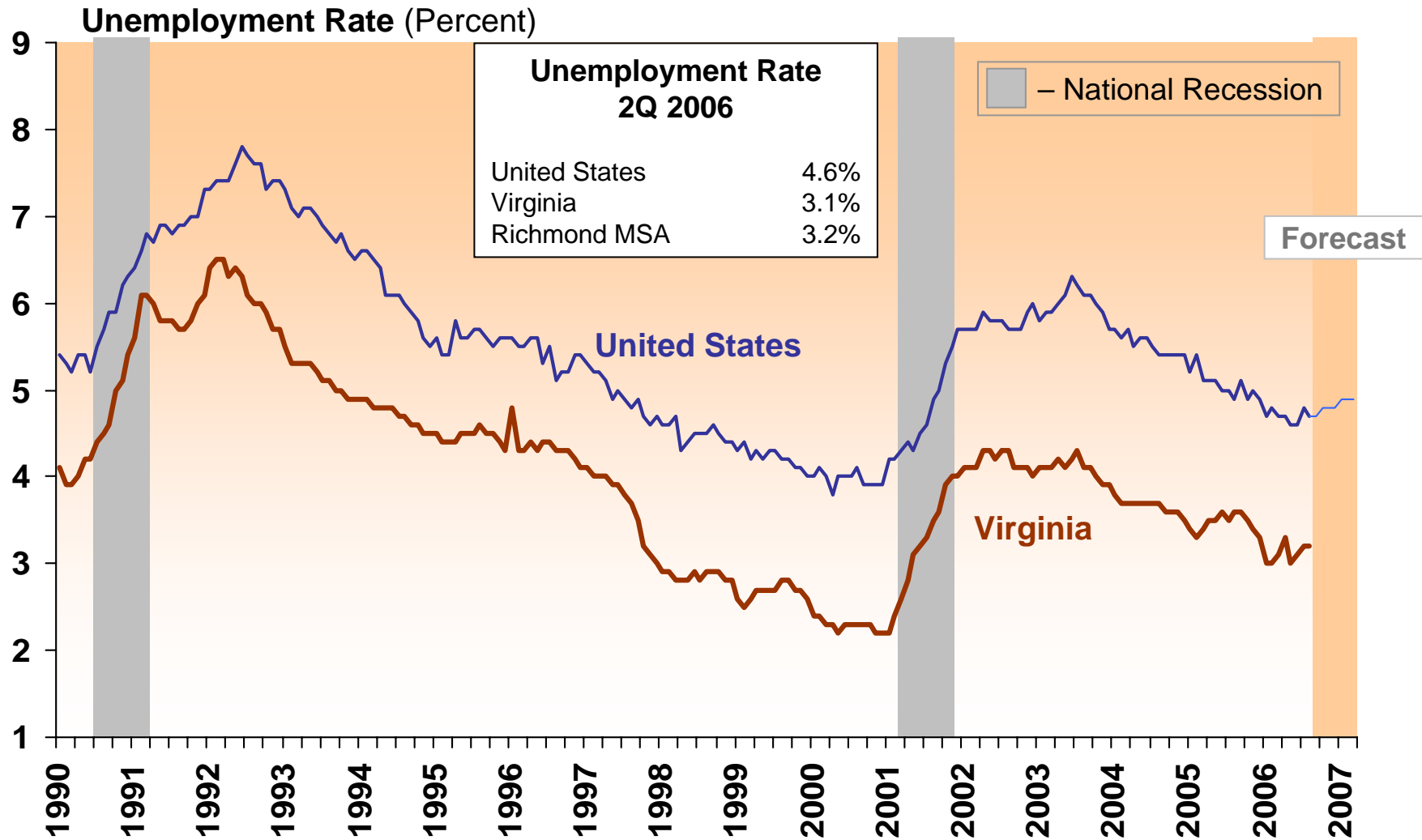
Frank E. Nothaft

Chief Economist

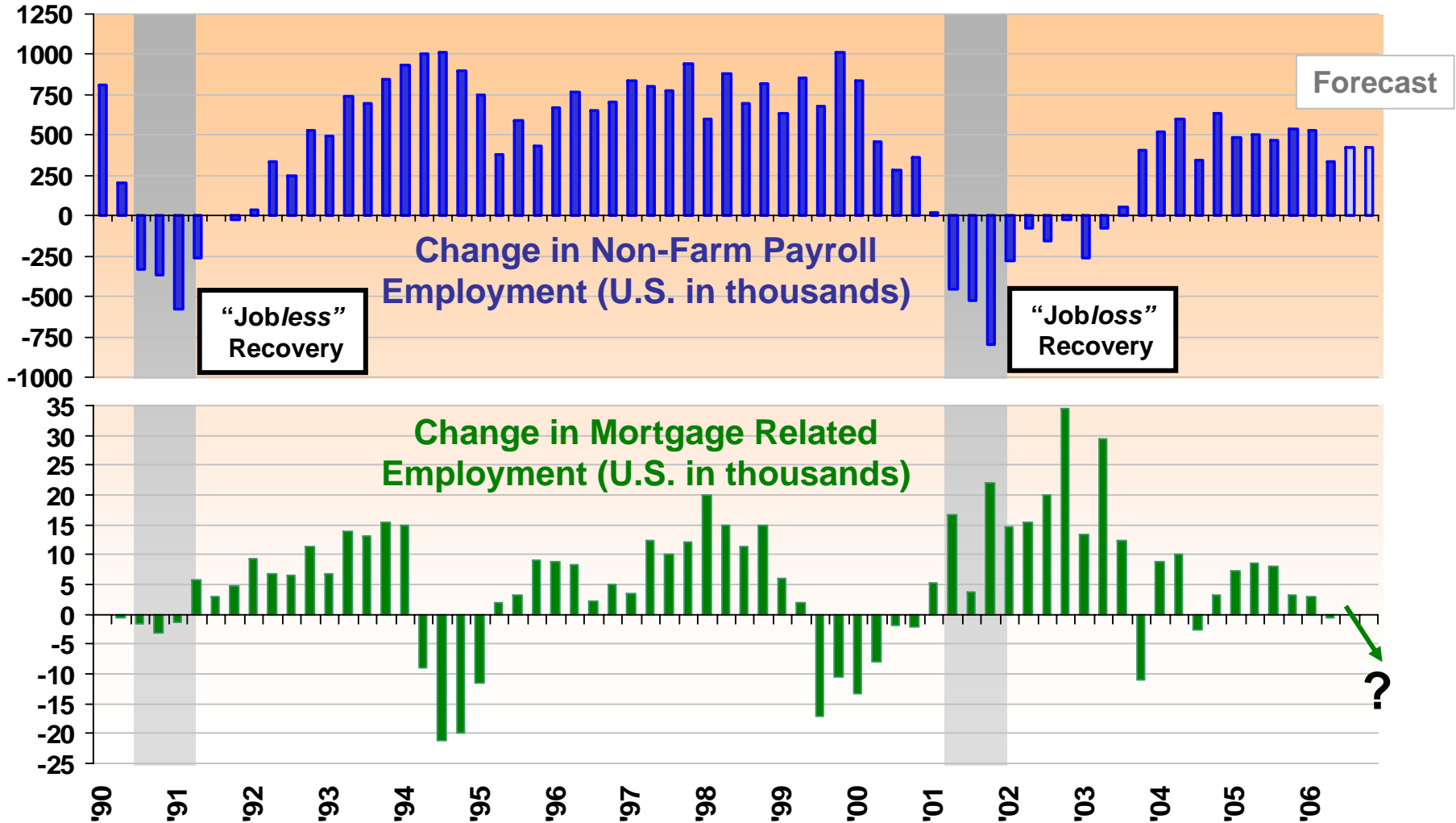
U.S. Expansion Continues

- **Economic growth slows in second half of 2006**
 - GDP growth slows from 4.1% in H1 to 2.9% in H2
 - Unemployment rate remains below 5% in 2006
- **Tame inflation will keep interest rates low**
 - Energy prices are volatile, but other signals show little inflation
 - Fed funds likely to stay at 5.25% through November
- **Housing, Mortgage Markets slow a bit further**
 - Starts down 10%, home sales down 8% in 2006
 - Loan originations: 2006 volume 17% lower than 2005 because of refi drop, but purchase-money \$ volume unchanged
 - ARM share will drop, perhaps as low as to 1-in-4 loans in late '06
- **Risks to the outlook**
 - Energy: high oil and natural gas prices act like a tax on the economy

U.S. Unemployment Rate Will Remain Below 5.0% in 2006



Expect About 1.7 Million New Jobs in 2006, None in Mortgage Industry

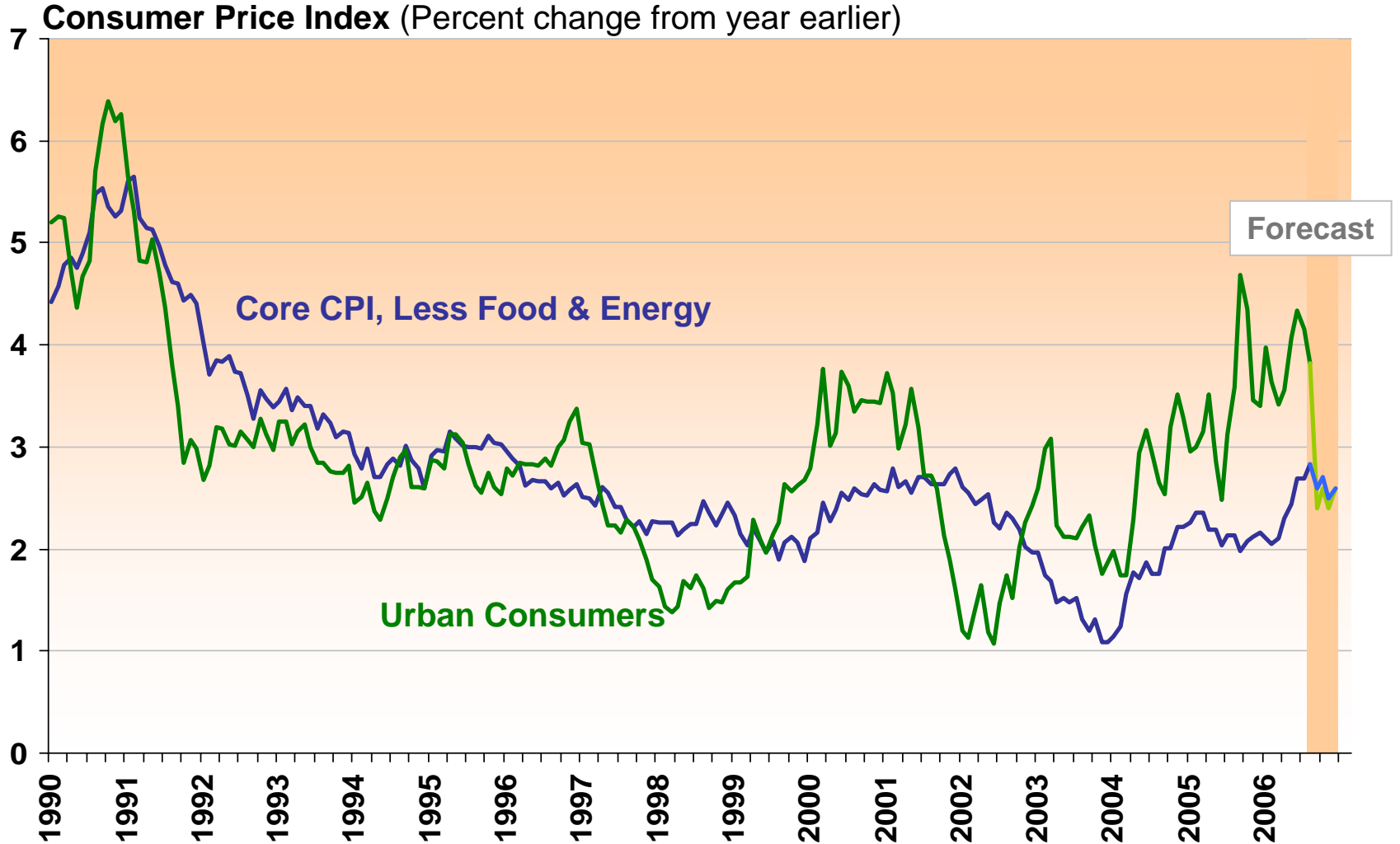


Source: U.S. Bureau of Labor Statistics

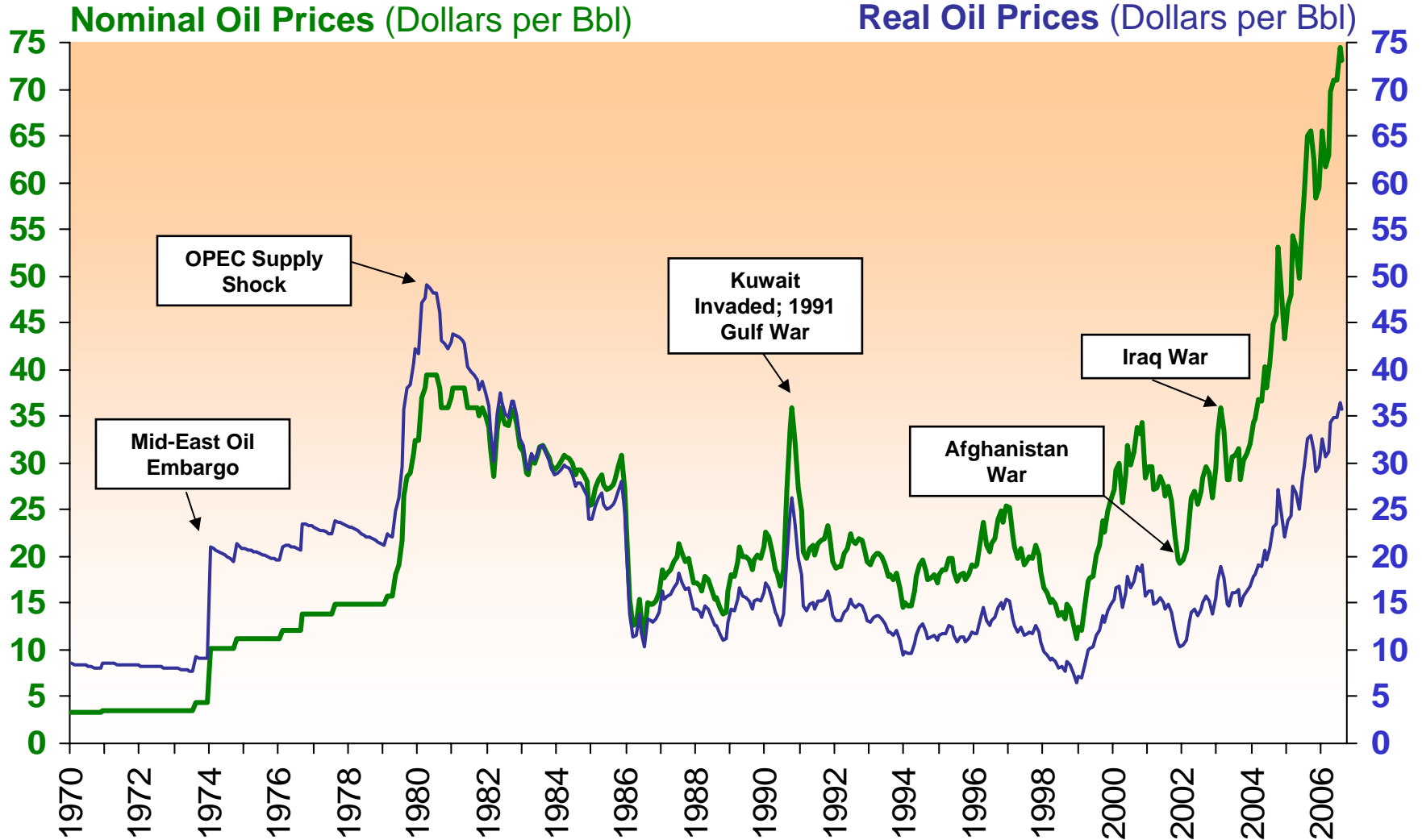
■ - Recession

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Inflation Has Picked Up, But Will Remain Low



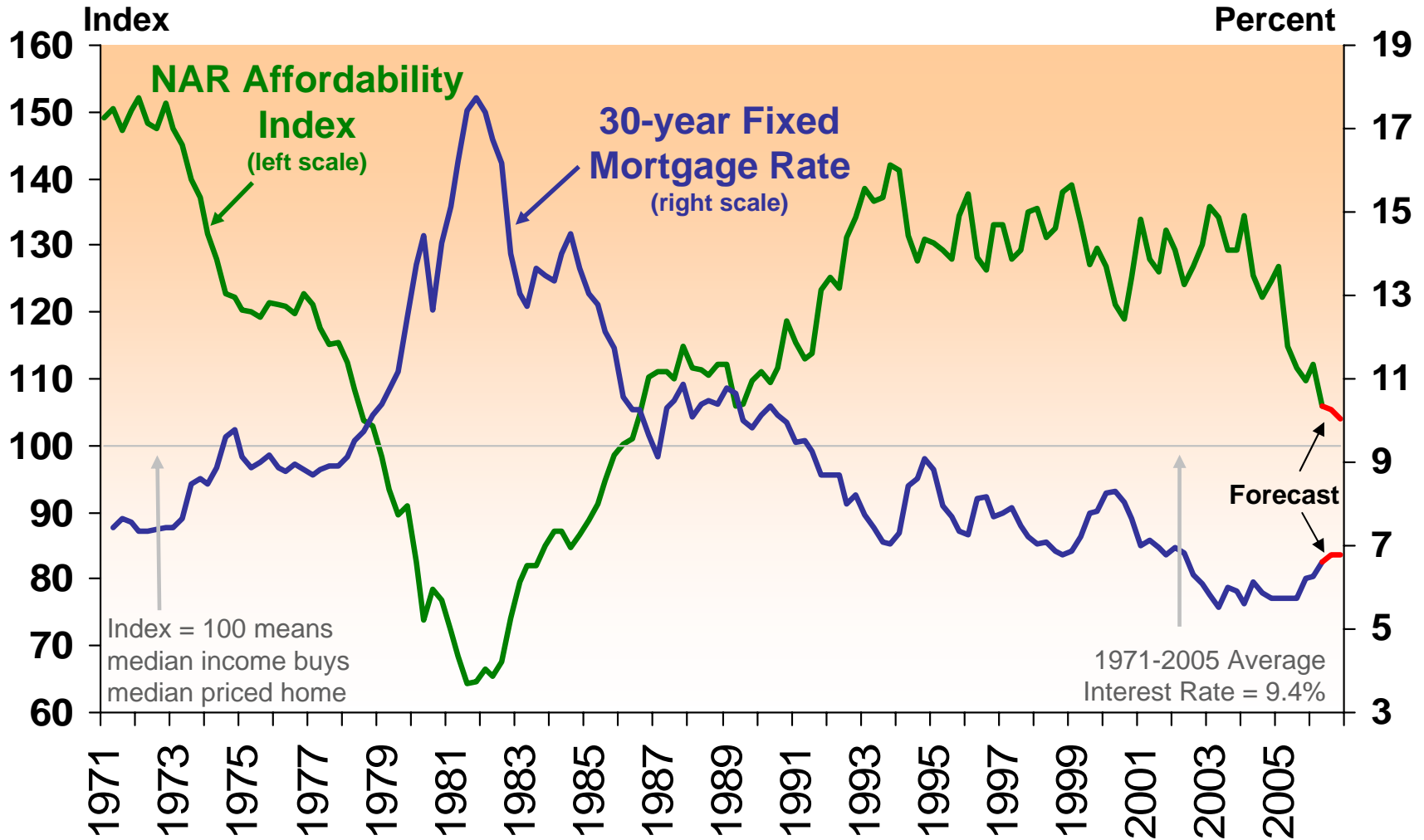
Oil Prices Remain High and Volatile



Source: U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis

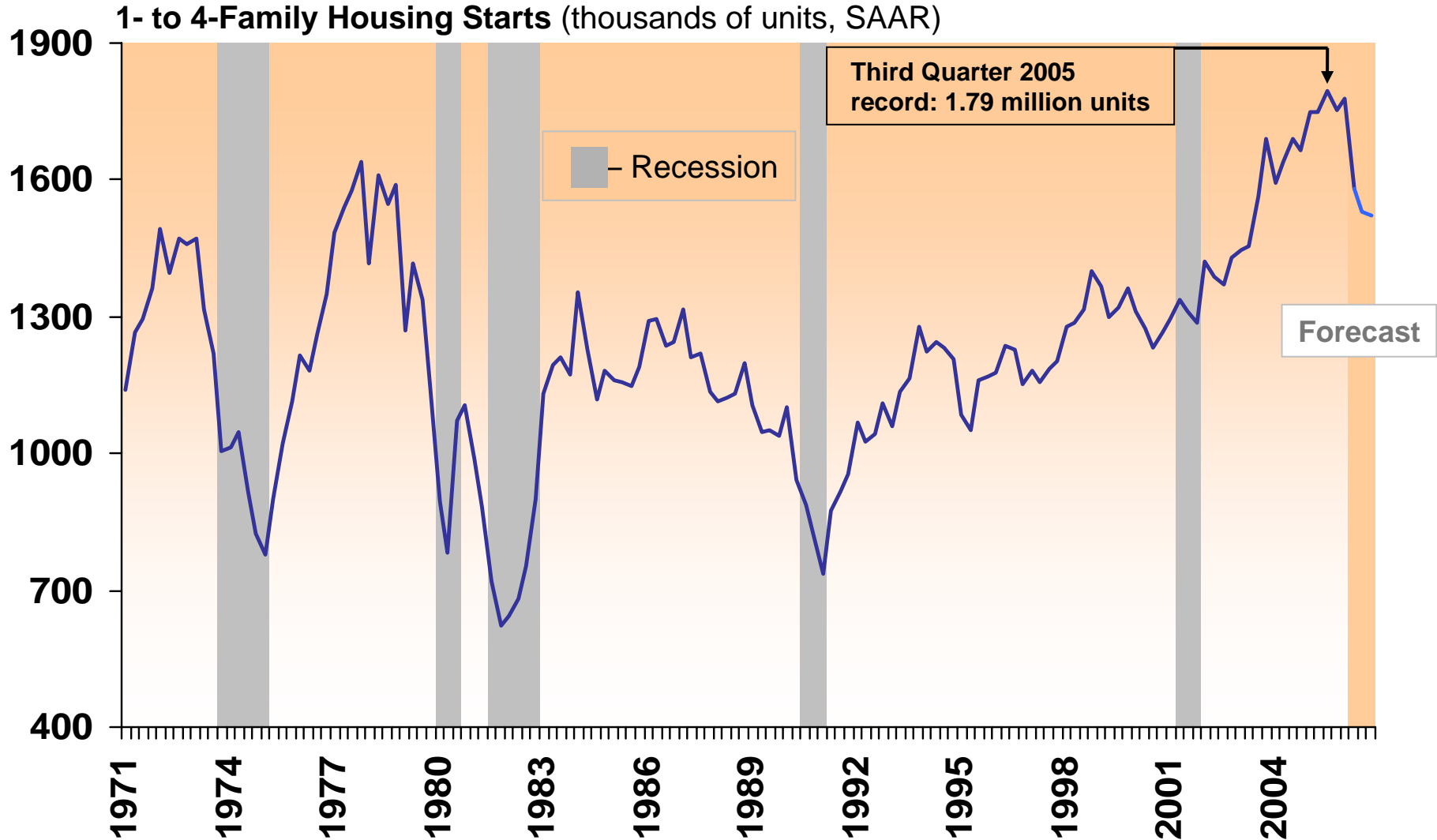
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Rising Mortgage Rates, High Home Prices Reduce Housing Affordability



Source: National Association of Realtors Composite Housing Affordability Index – (% of median priced home affordable on median income with conventional financing 30-Year fixed-rate mortgage and 20% down); Freddie Mac Primary Mortgage Market Survey® · Moody's Economy.com

Single-family Building Hit a Record in 2005, but Will Be 10% Lower in 2006



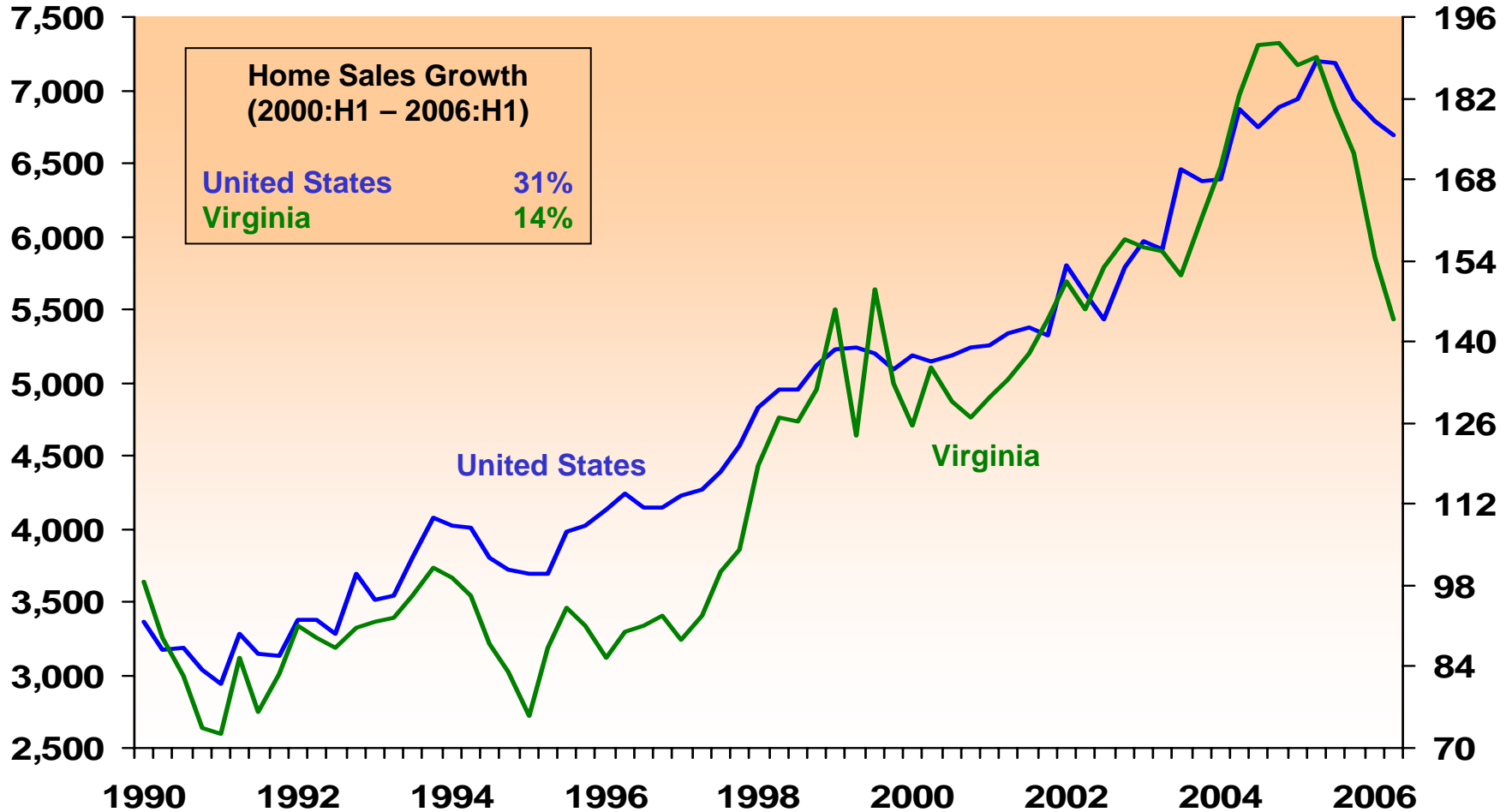
Source: Bureau of Census

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Existing Home Sales Are Down 21% in Virginia Over the Past Year

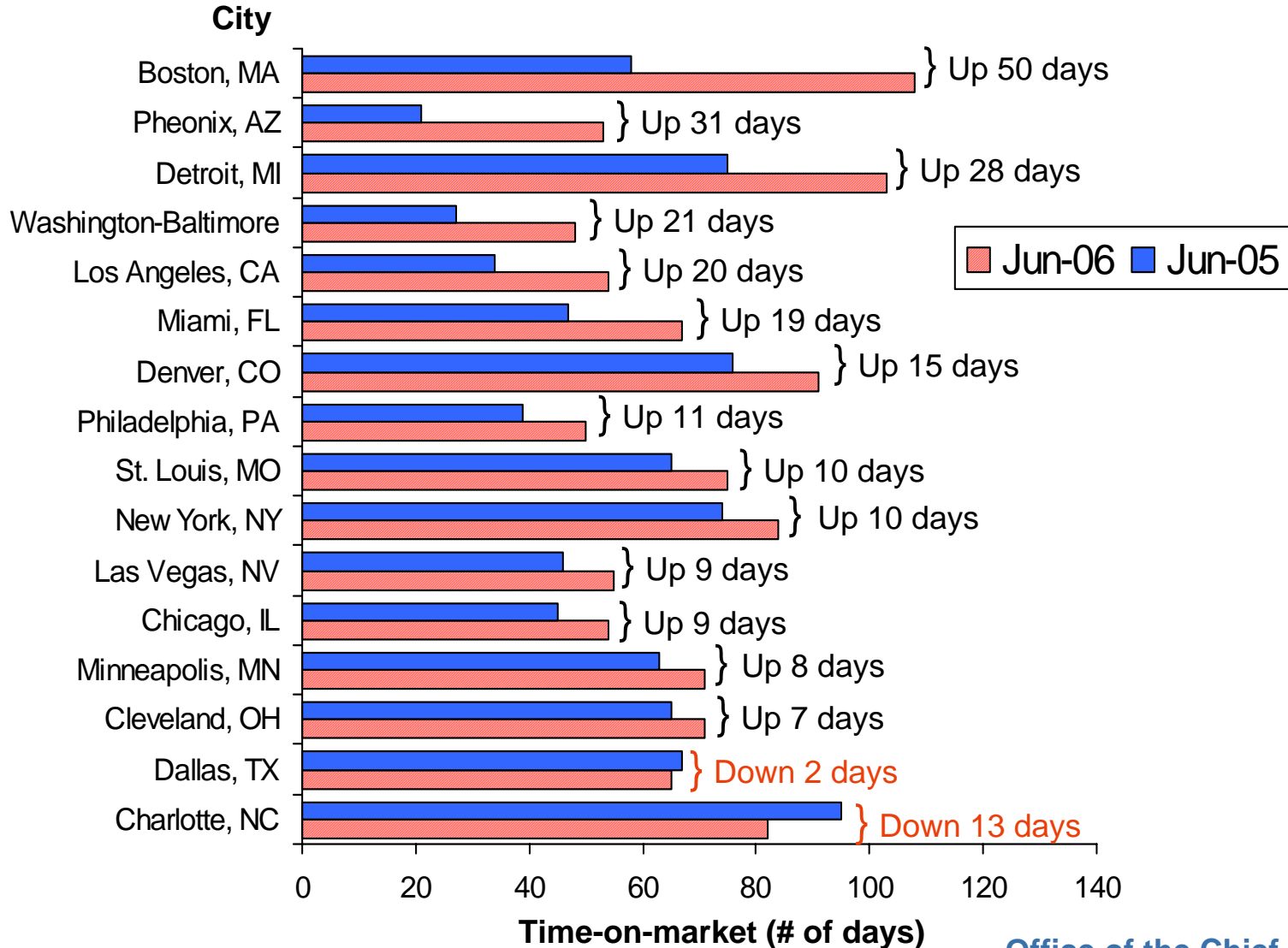
U.S. Existing Home Sales (Left Scale)

Virginia Existing Home Sales (Right Scale)

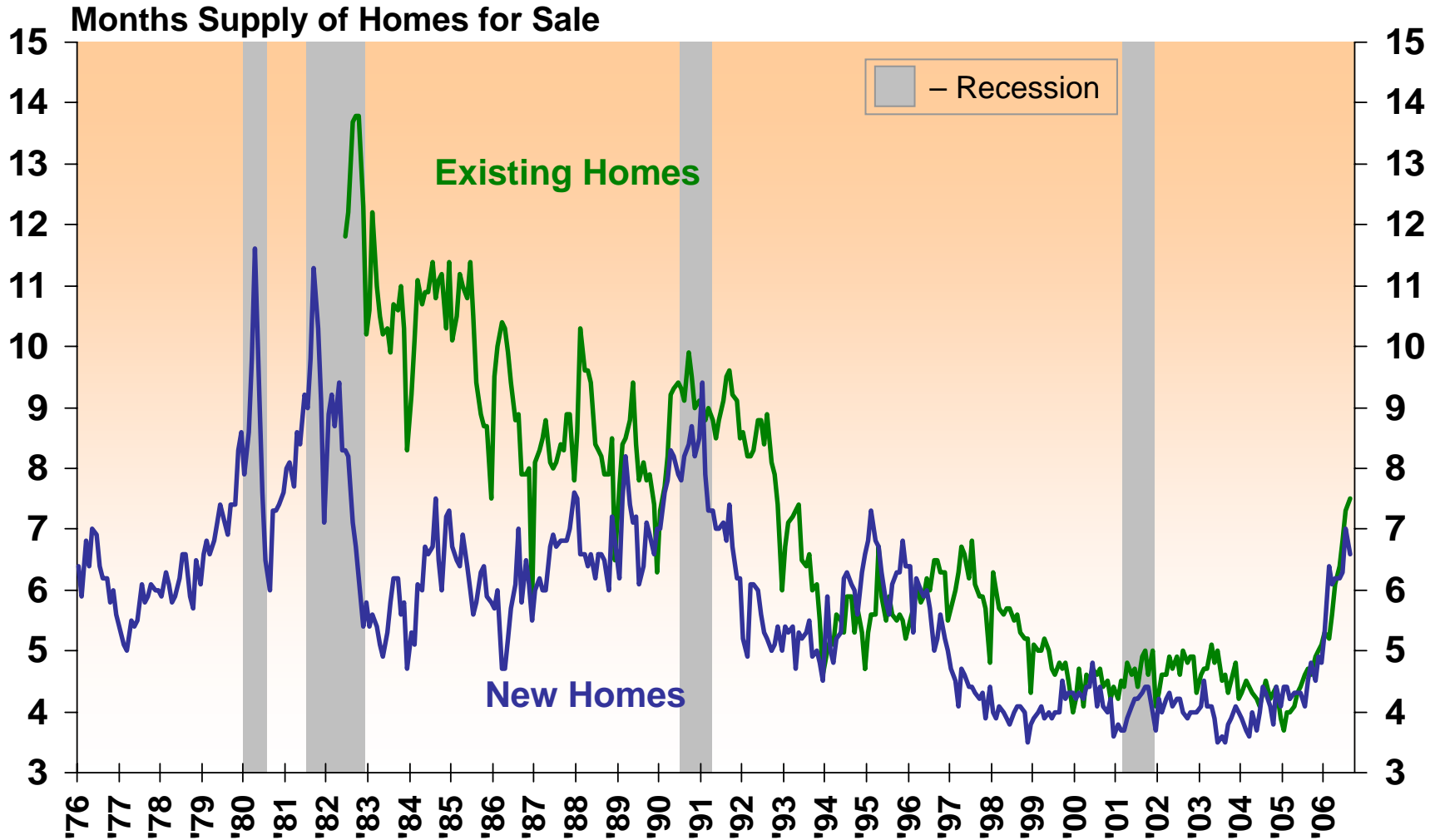


Source: National Association of Realtors
(Existing Single-Family Houses, Apartment Condos & Co-ops)

Time-on-Market Up in Most Markets

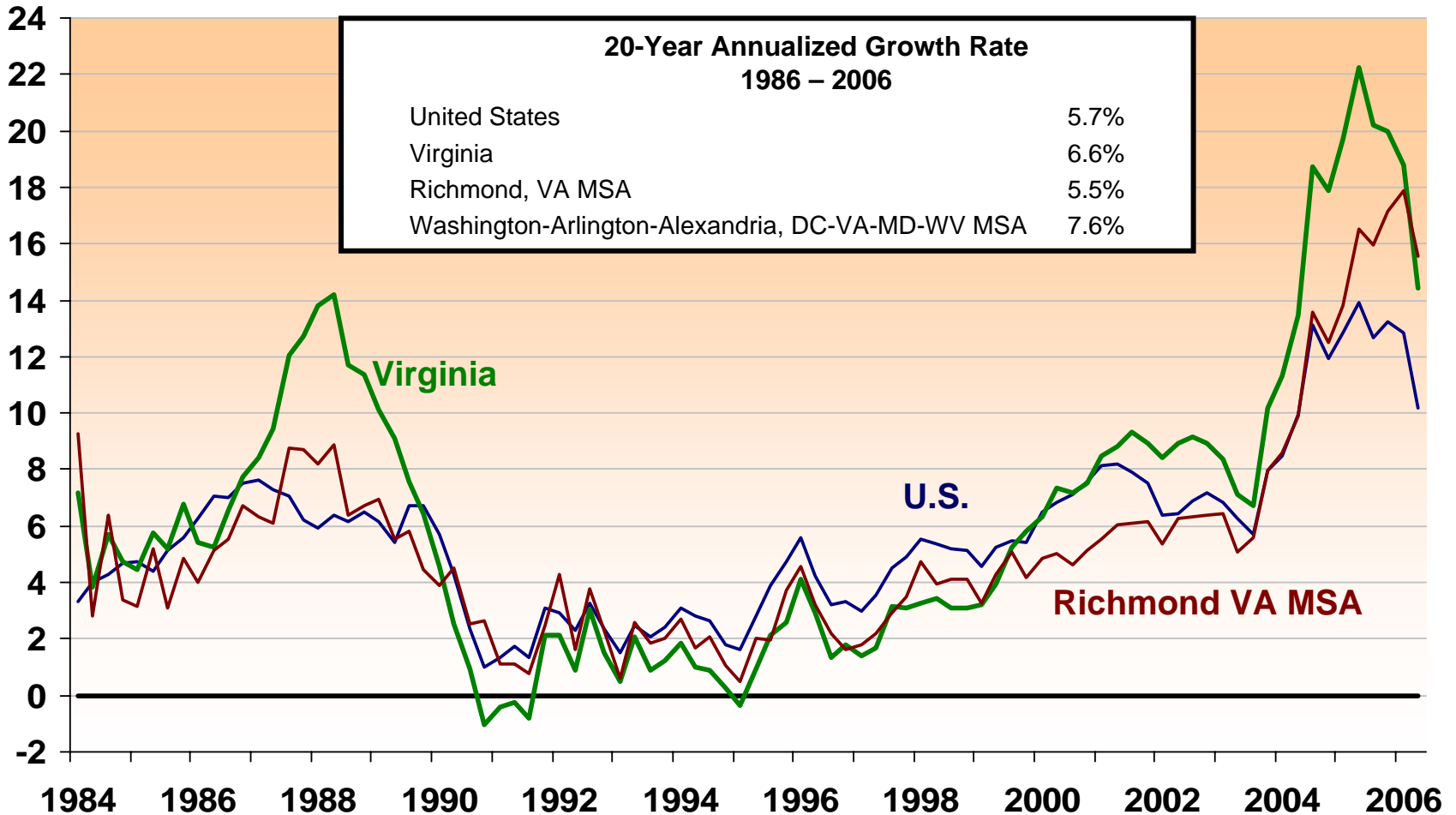


Inventories of Homes-for-sale Are Rising

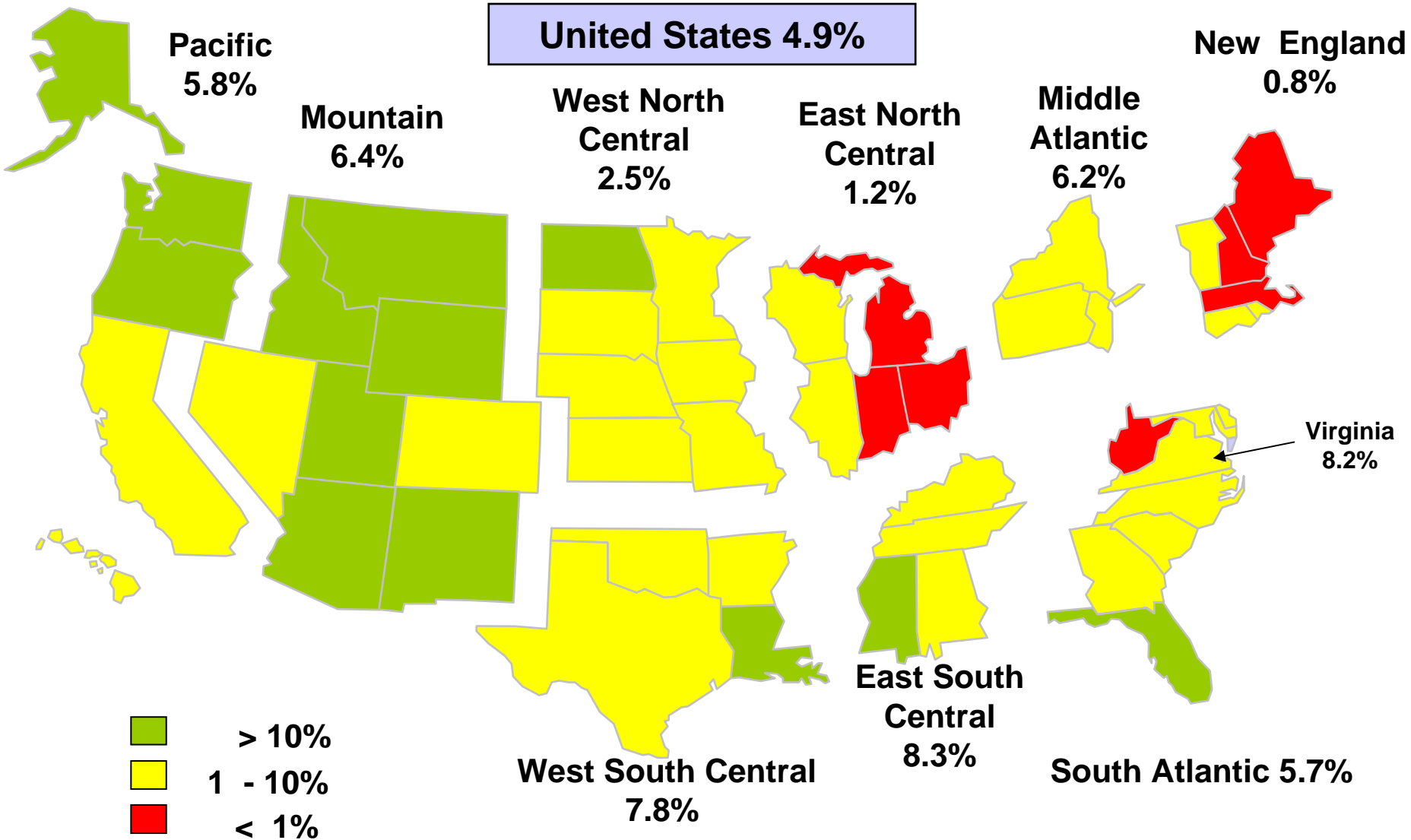


House Price Growth Has Been Strong in Northern Virginia

Annual Home Price Growth Rate (percent)

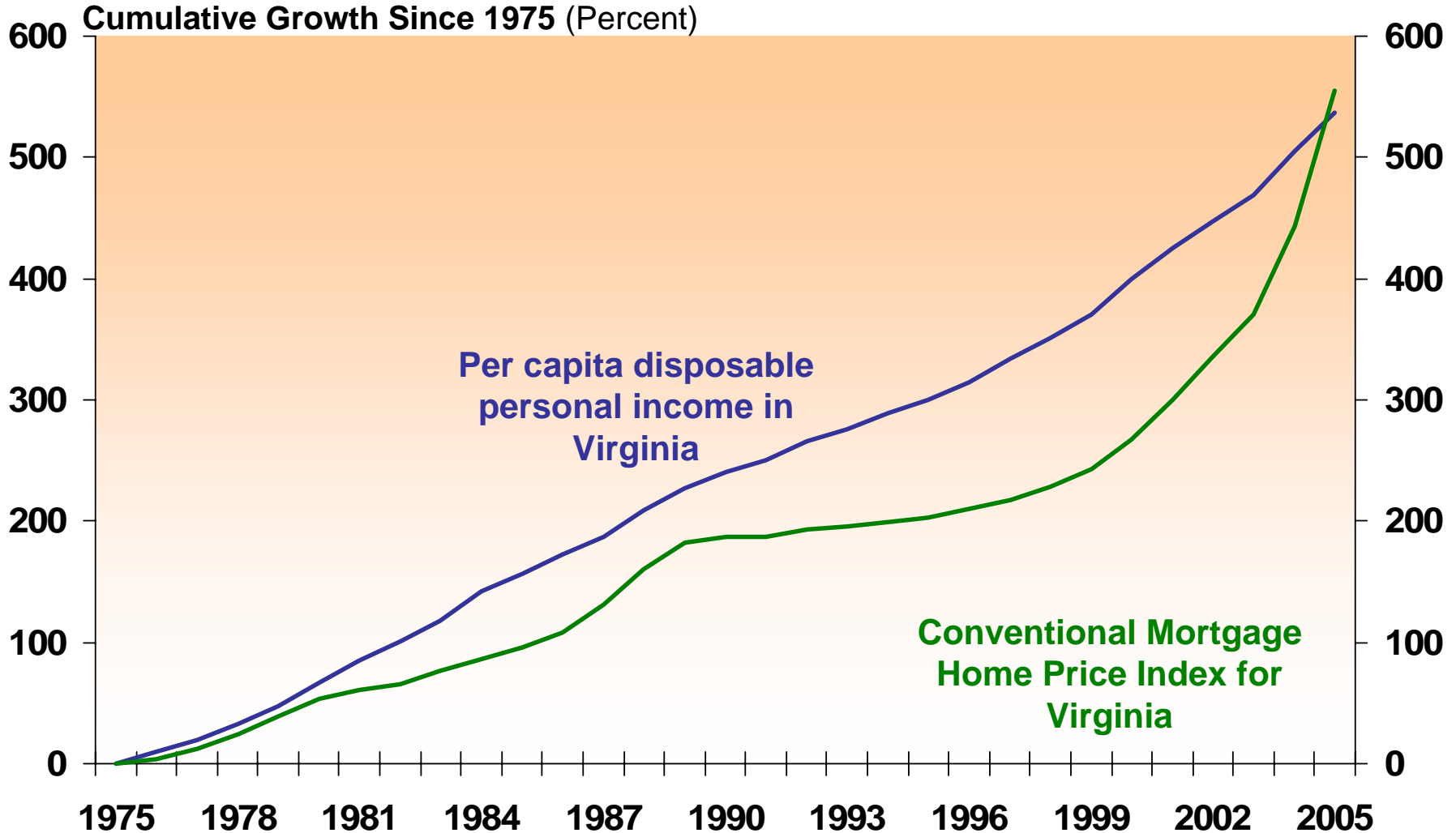


Home-Value Growth Varies Greatly By Area



Source: Freddie Mac Conventional Mortgage Home Price Index (Annualized Quarterly Rates)

Home Price Appreciation Has Outpaced Income Growth in Virginia



Source: Freddie Mac, Bureau of Economic Analysis

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MSAs With the Highest Second Home and Investor Share

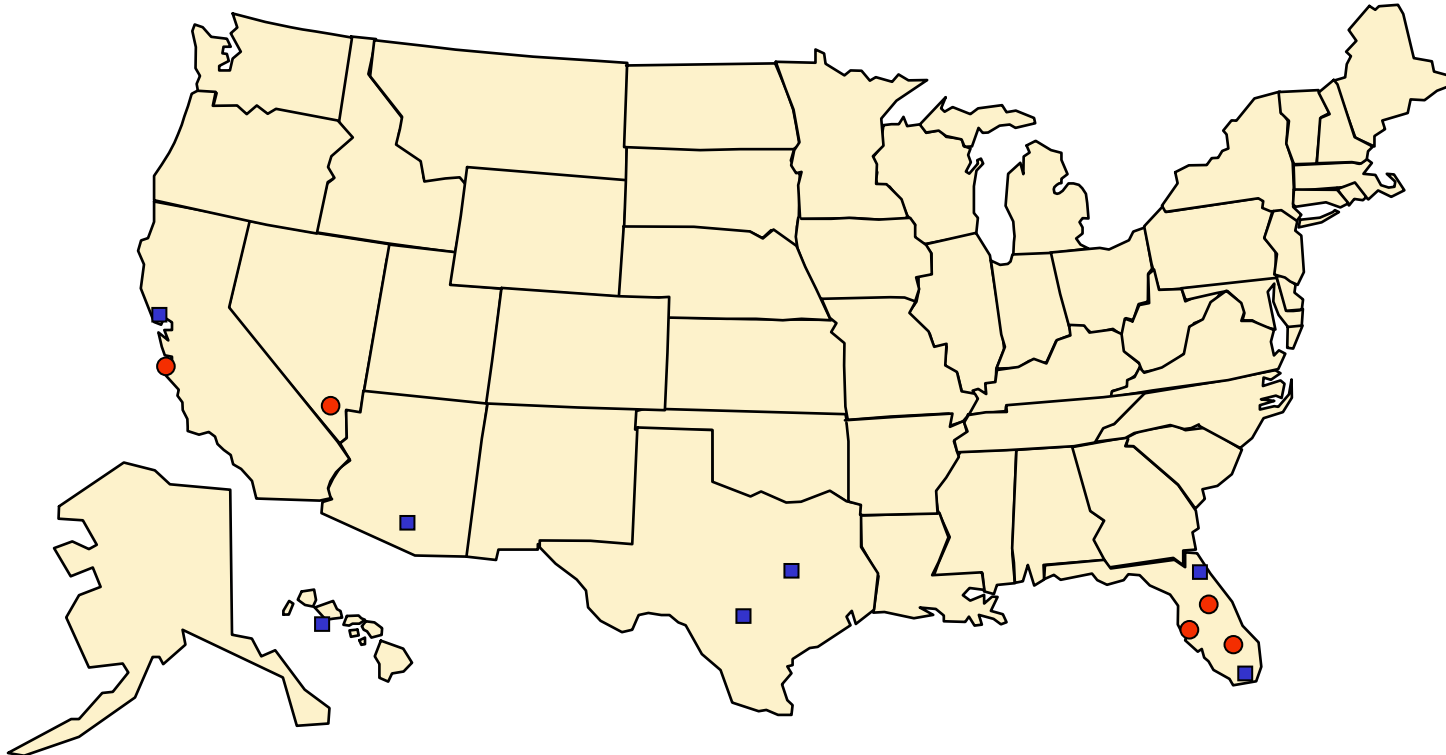
● MSAs with 34-41% 2nd home and investor share

■ MSAs with 28-33% 2nd home and investor share

West Palm Beach*
 Las Vegas*
 Monterey
 Orlando*
 Tampa-St. Petersburg*

San Francisco*
 Miami
 Tucson
 Honolulu*
 San Antonio
 Jacksonville*
 Austin

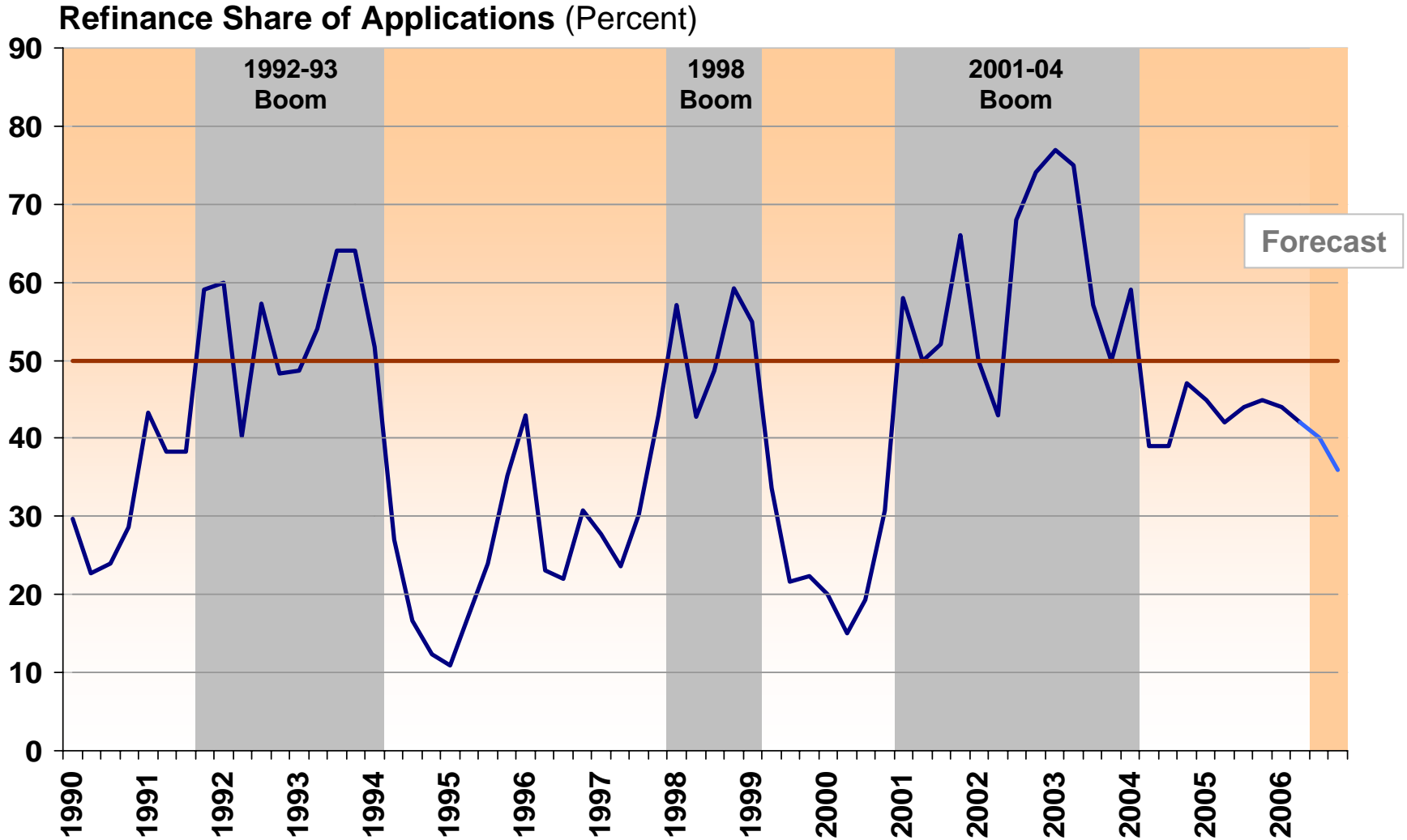
U.S. Share: 21%



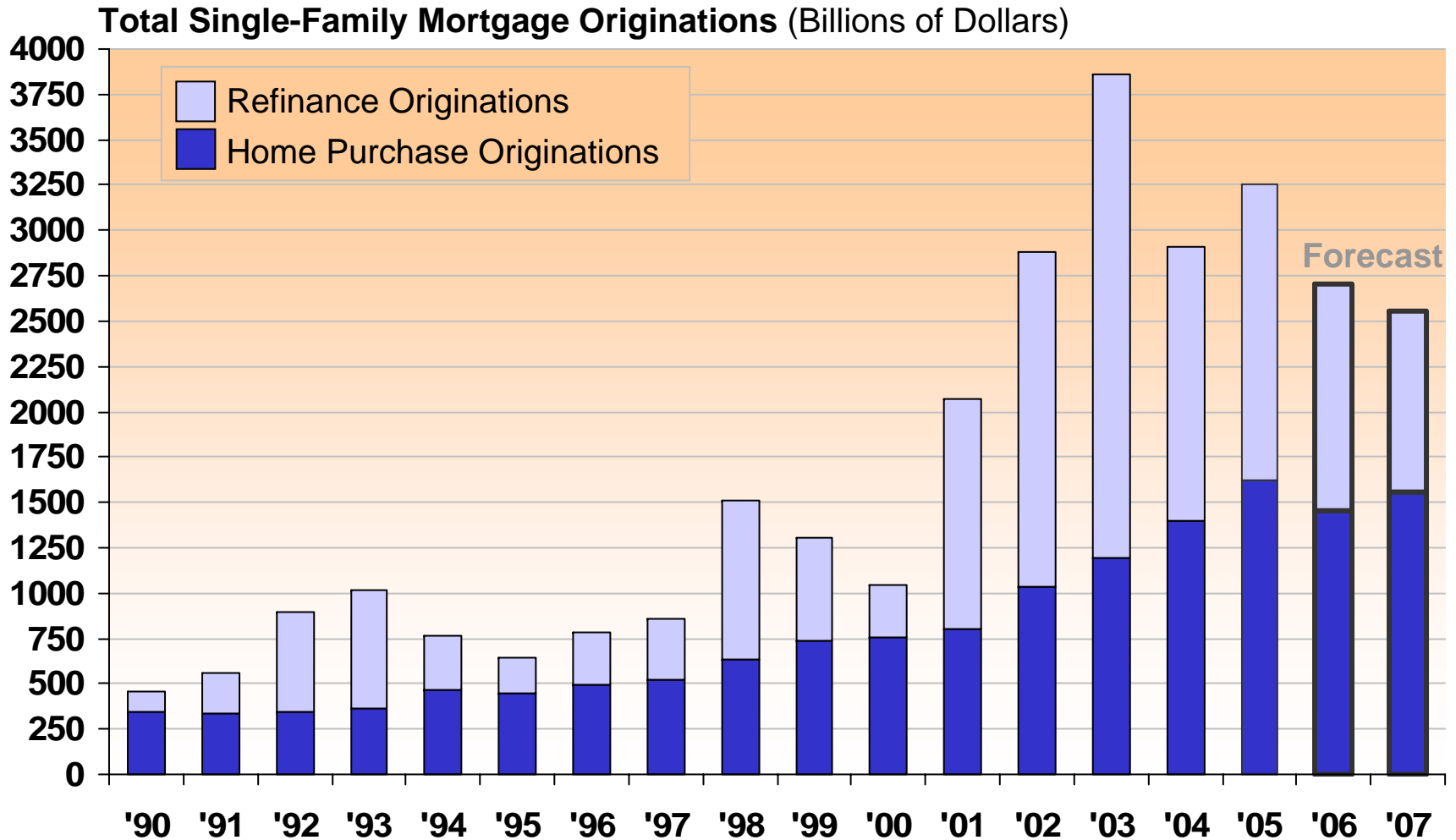
Source: LoanPerformance (a unit of First American Corp)– percent of conventional, conforming purchase-money originations through June 2006.

*MSAs with second home shares larger than investor shares are shown in green.

2006 Refis Driven by Cash-outs & ARM Adjustments

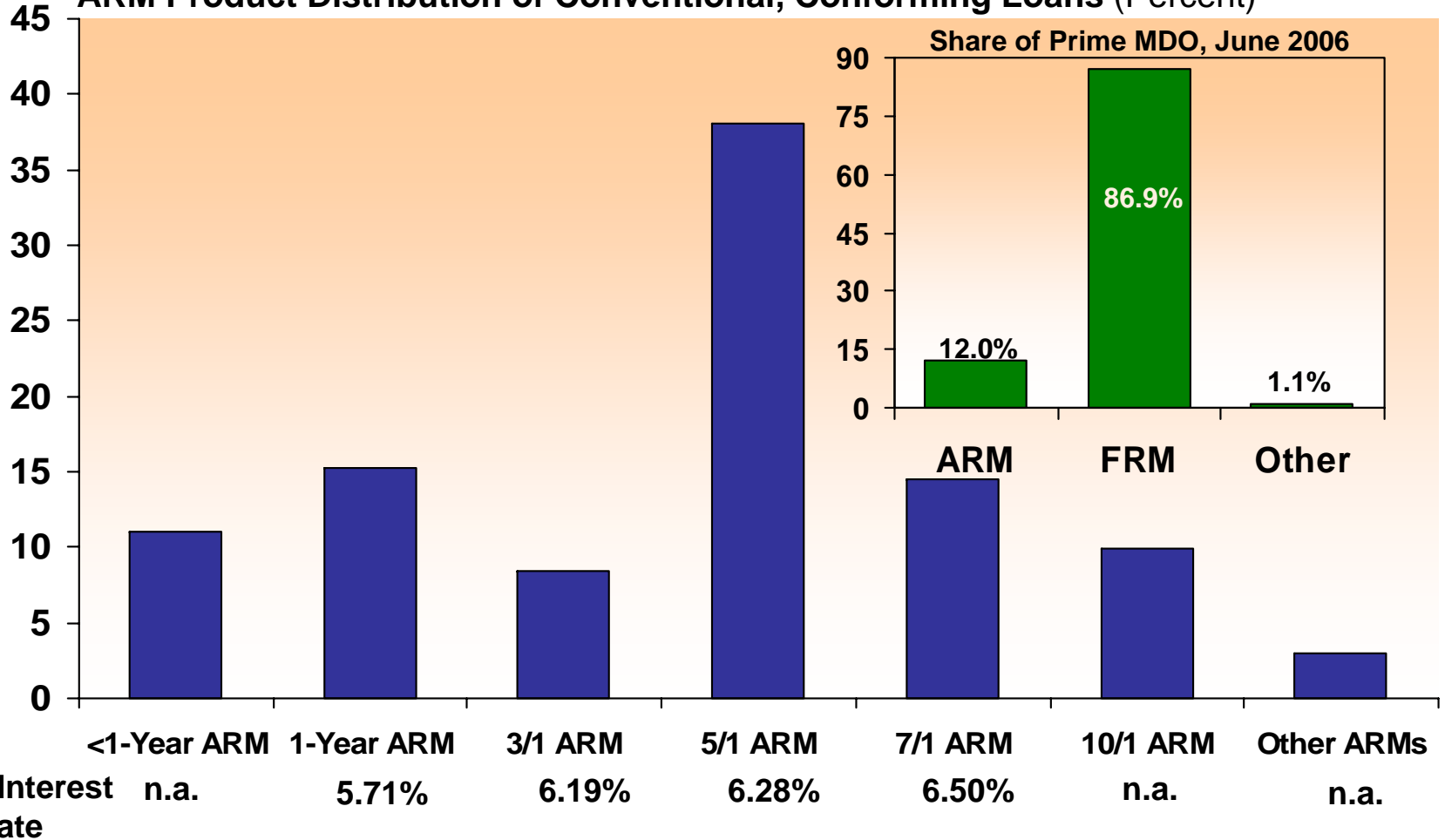


Fewer Refis Mean an 17% Drop in Mortgage Originations in 2006



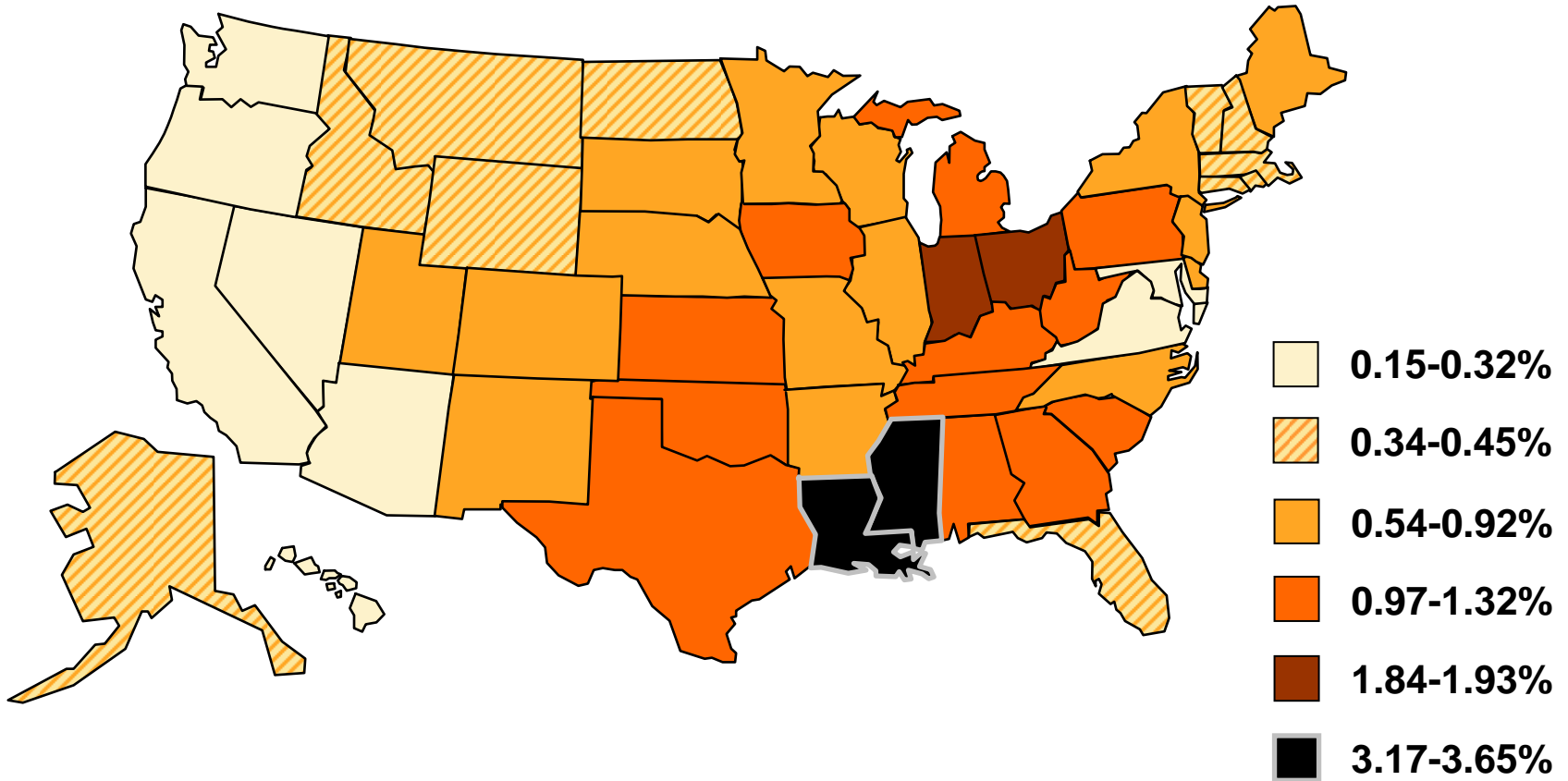
5/1 Hybrids Dominate ARM Market But FRMs Dominate the Overall Market

ARM Product Distribution of Conventional, Conforming Loans (Percent)



Source: FHFB Monthly Interest Rate Survey (Jan-July 2006), Freddie Mac's Primary Mortgage Market Survey[®] (June 2006), LoanPerformance-a unit of First American Corp (June 2006)

Prime Delinquencies Are Lowest in the Northeast and West

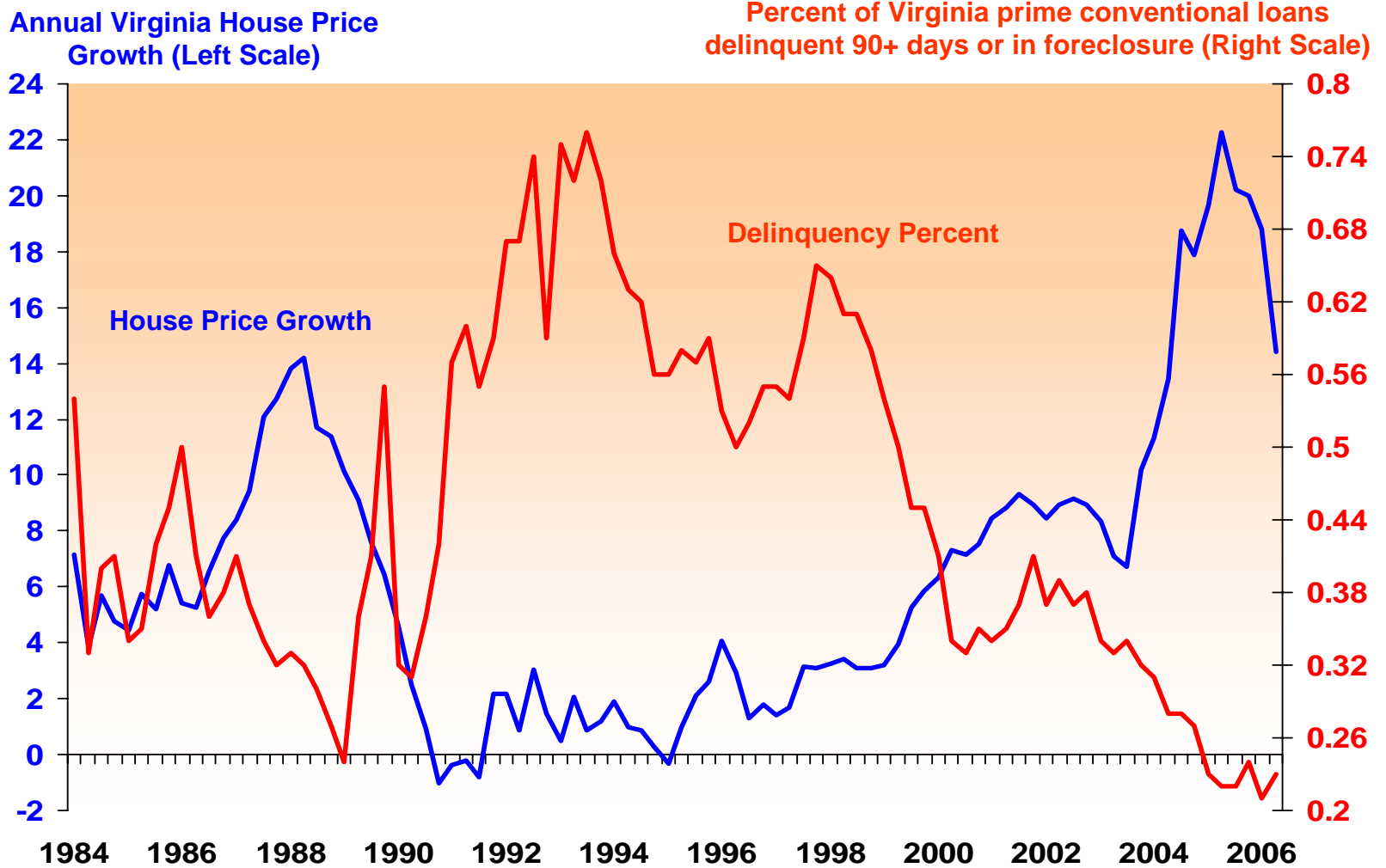


Virginia = 0.23%

**National = 0.75% Seriously Delinquent
(90+ days delinquent or in foreclosure, prime conventional)**

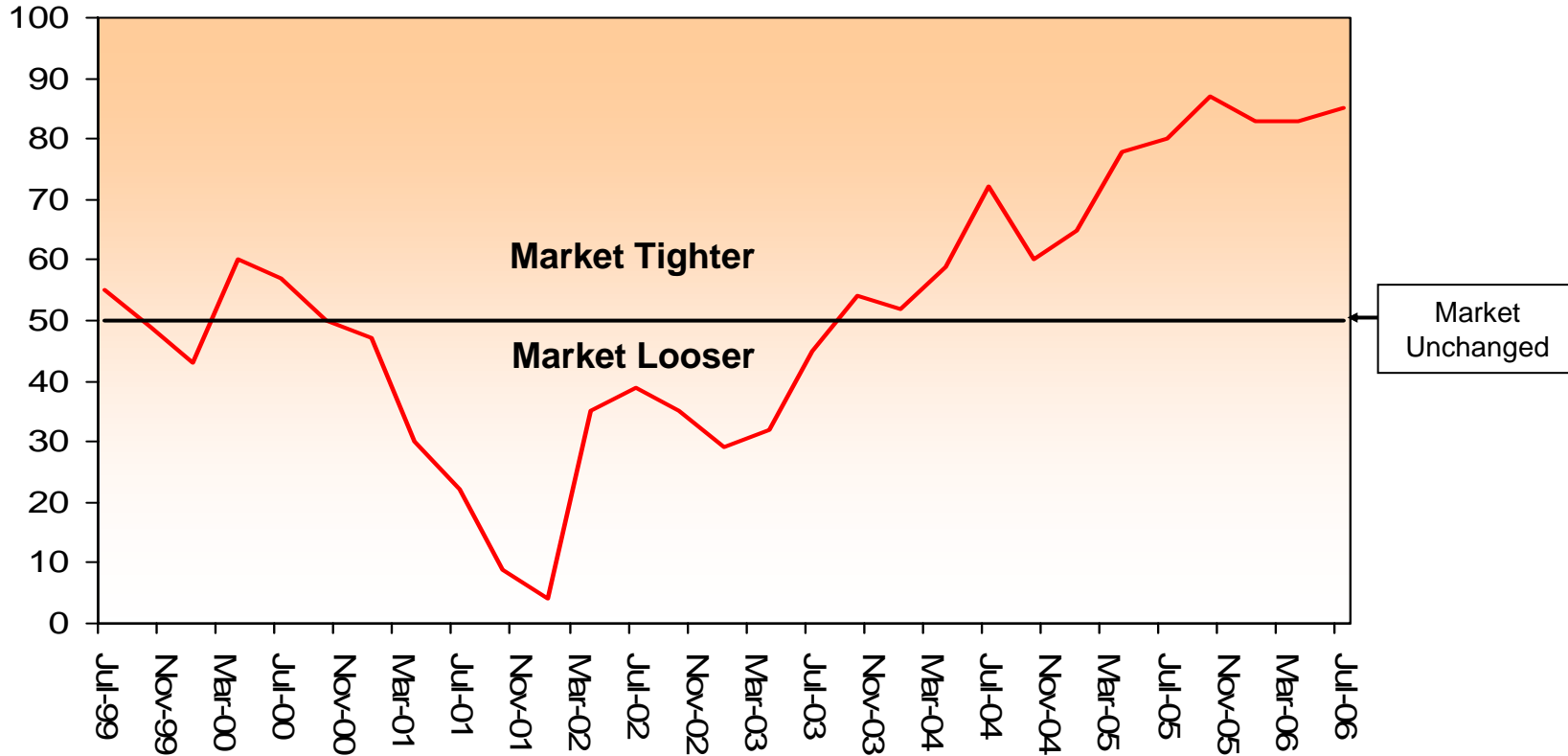
Data as of June 2006

Default and Home Value Growth Are Inversely Related



Apartment Market Conditions Have Tightened

Market Tightness Index

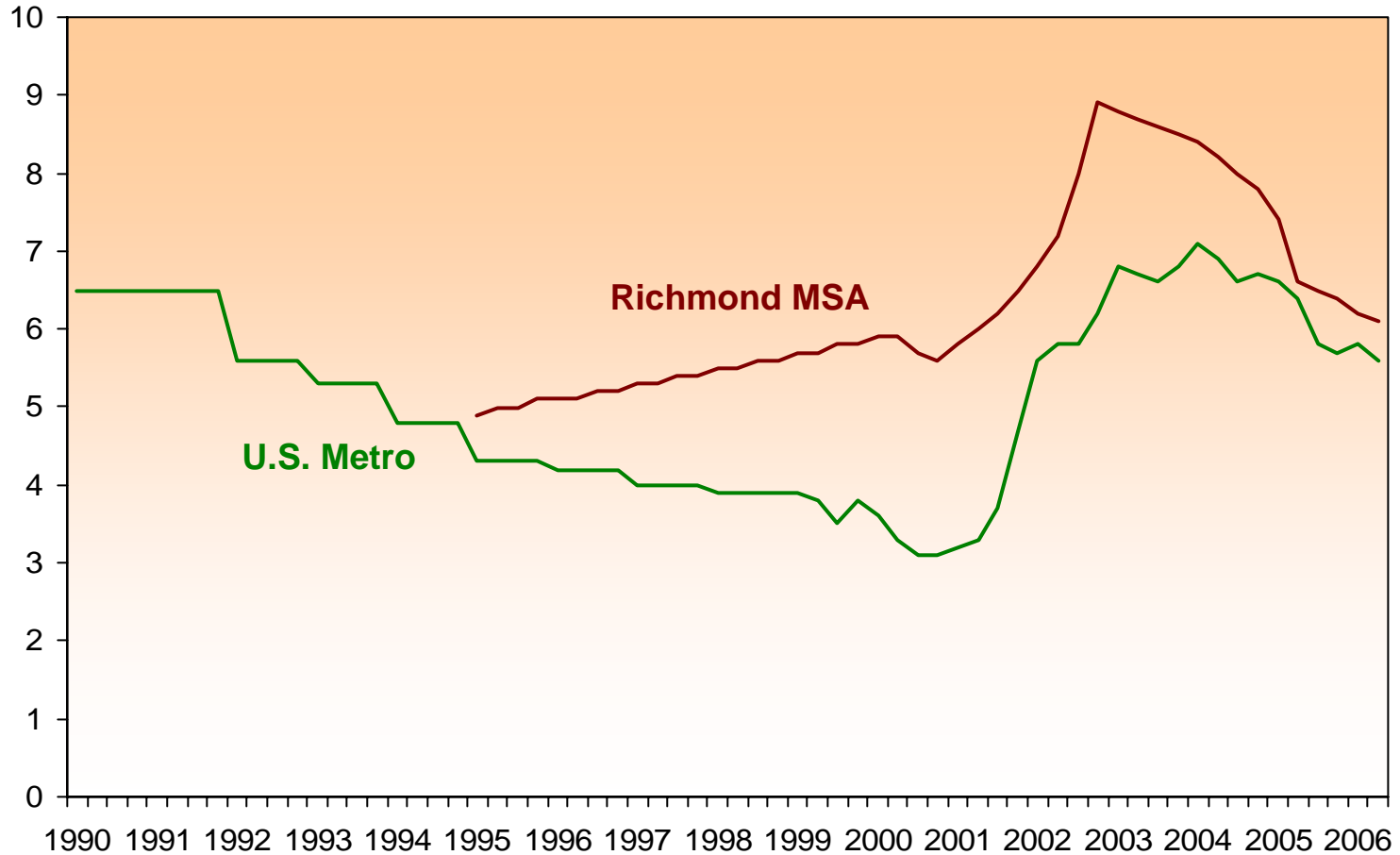


Survey question for Market Tightness Index:

How are apartment market conditions in the local market that you watch? “Tight” markets are those with low vacancies and high rent increases. Conditions obviously vary greatly from place to place, but on balance, apartment market conditions in your markets today are: 1) Tighter than three months ago 2) Looser than three months ago 3) About unchanged from three months ago 4) Don’t know or not applicable.

Rental Vacancy Rates Have Declined over the Past Two Years

Apartment Vacancy Rate (Percent)

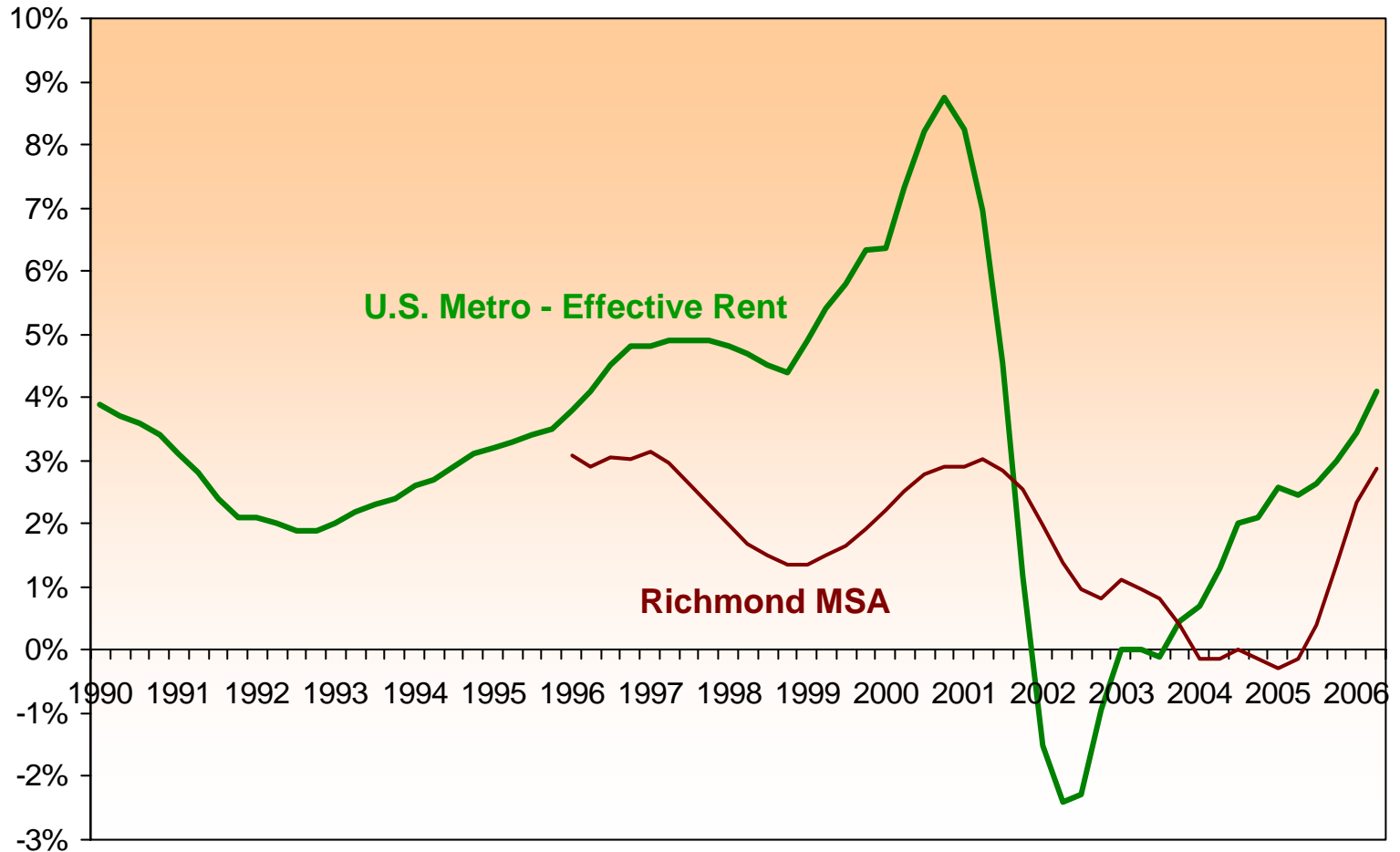


Source: REIS (U.S. metro), Property & Portfolio Research, Inc. (Richmond MSA)

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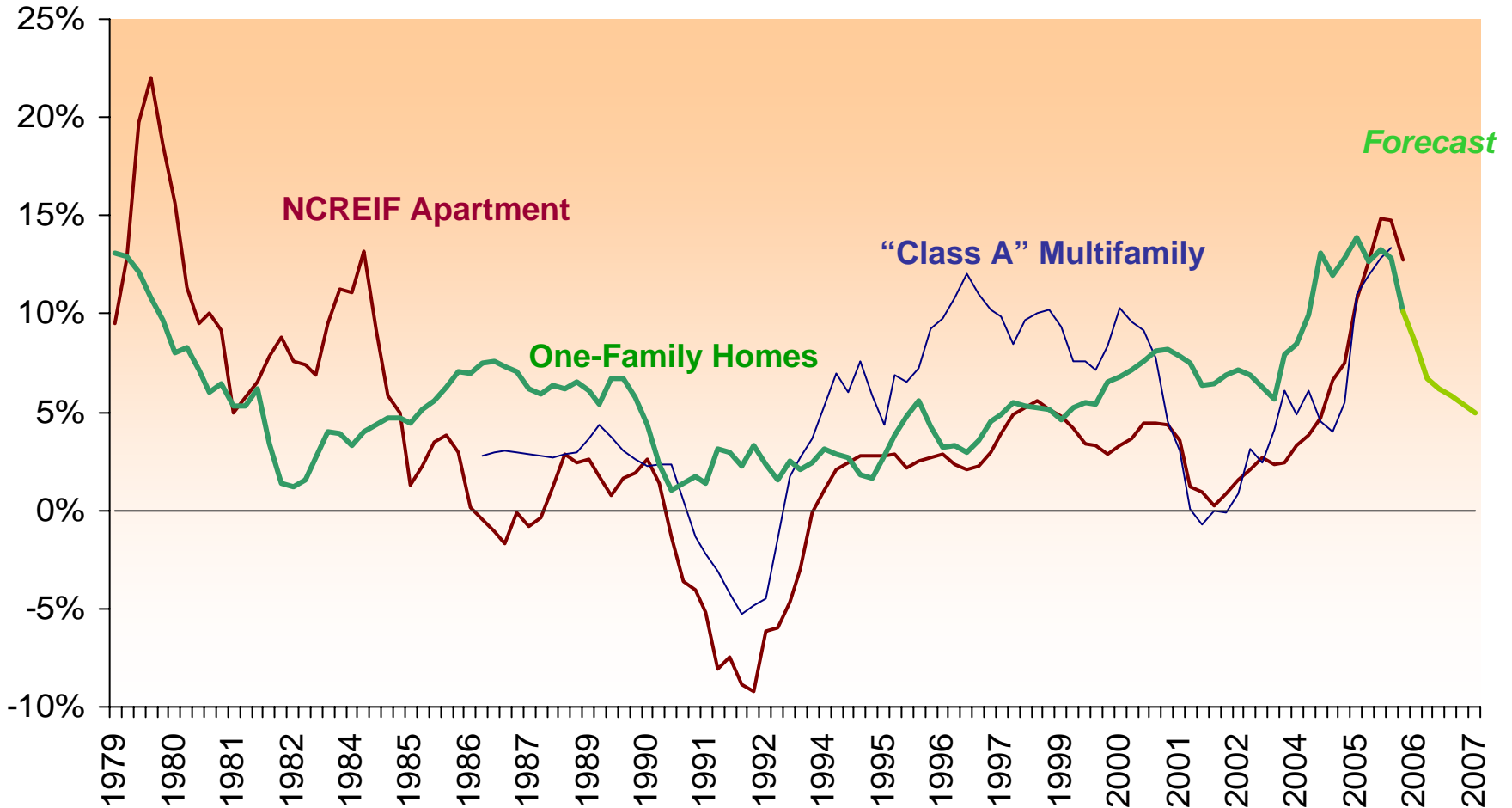
Vacancy Decline Has Led to Pick-up in Rent Growth

Apartment Rent Growth (Percent, Year-over-Year)



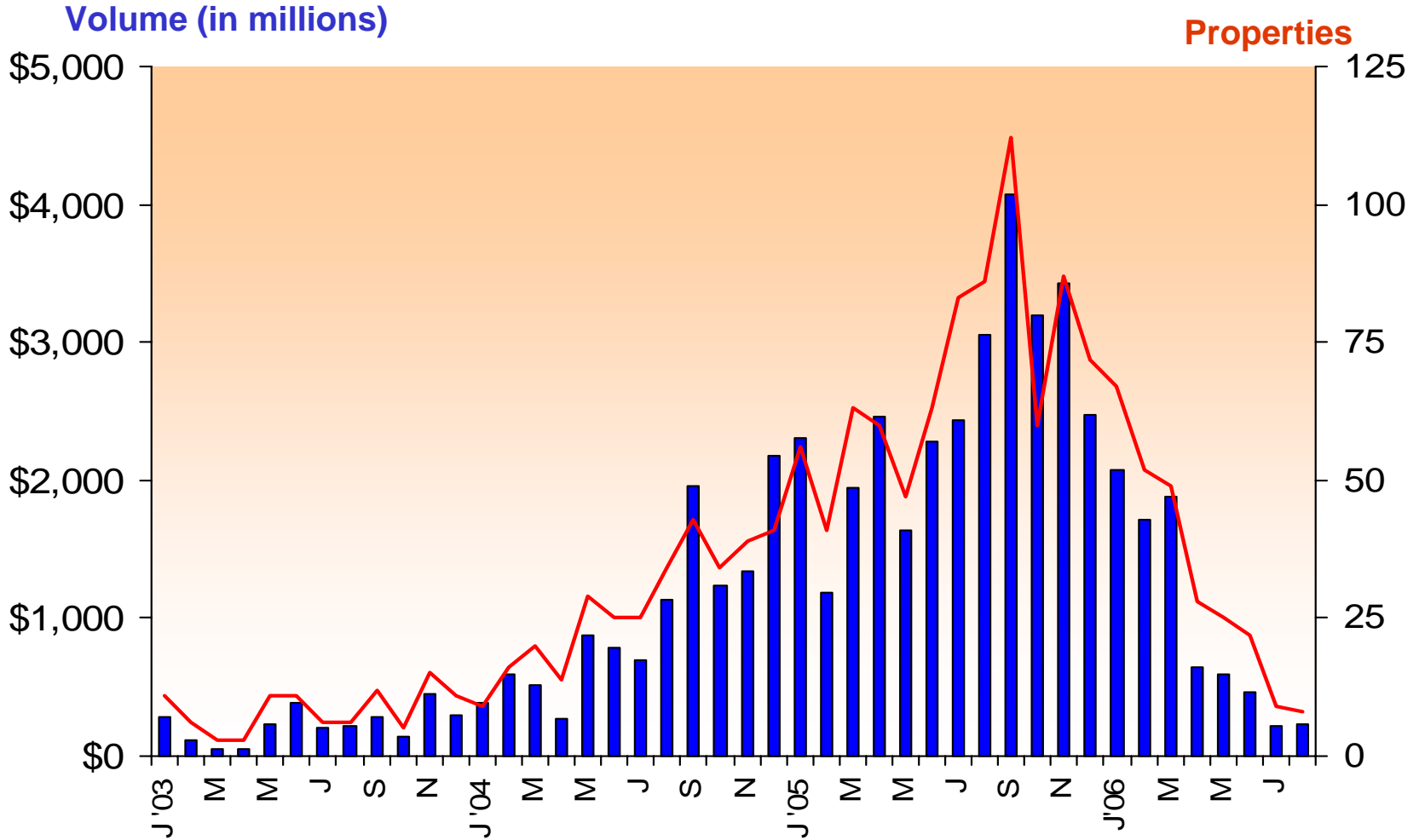
Apartment Values Up Since 2003

Appreciation (Annual Percent Change)



Source: Freddie Mac CMHPI, NCREIF Property Index, Global Real Analytics (formerly National Real Estate Index)

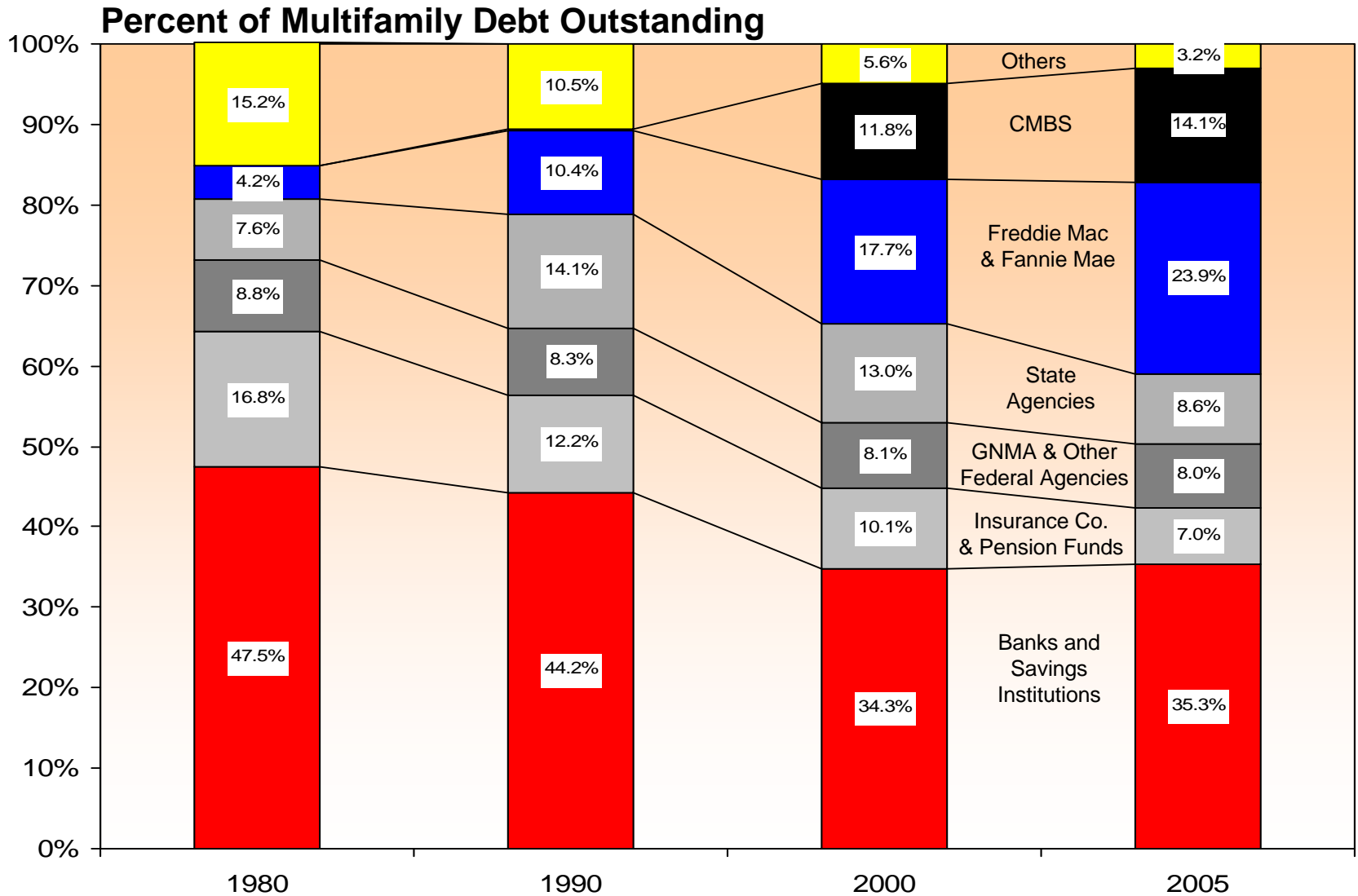
Monthly Sales for Condo Conversion



Source: Real Capital Analytics

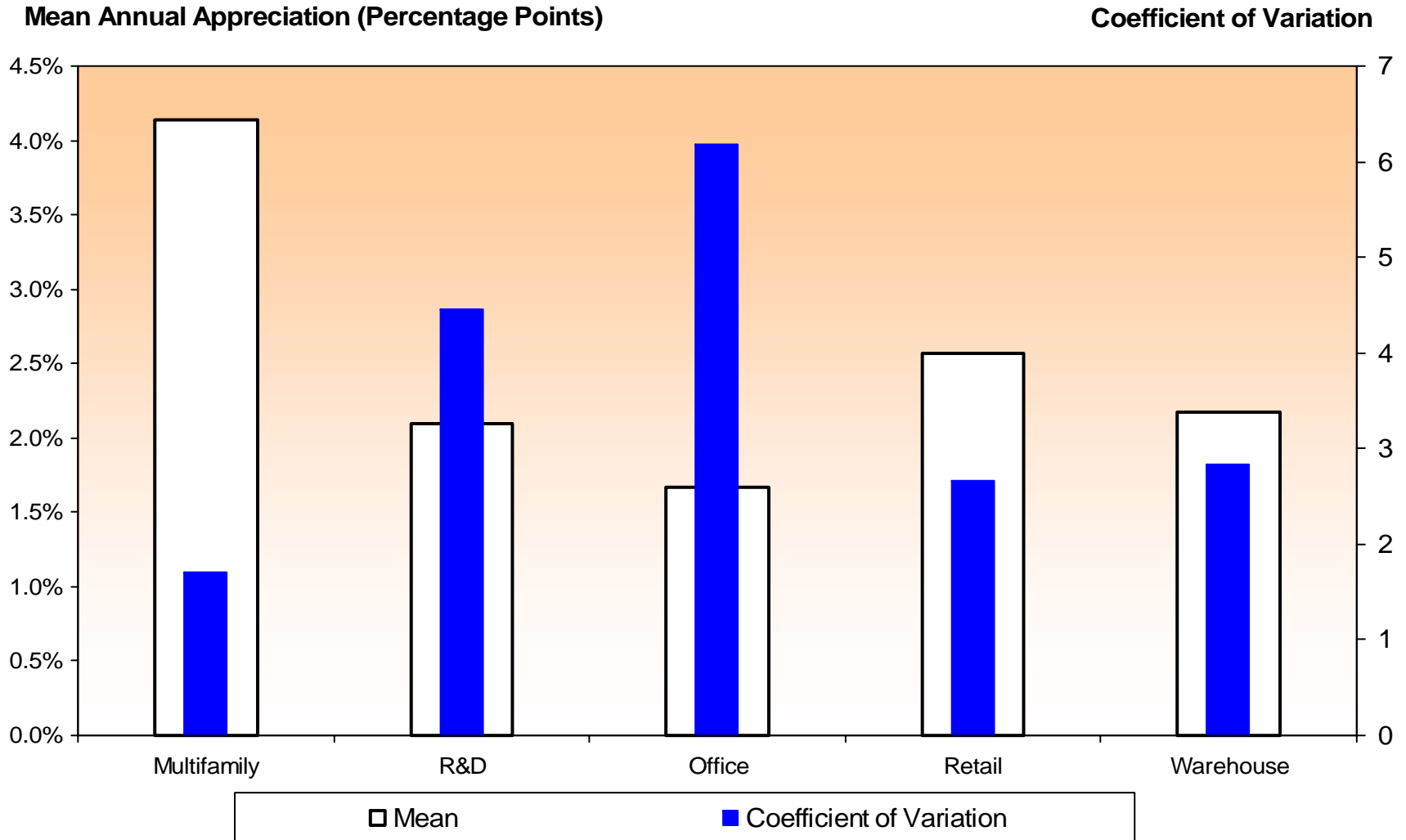
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Secondary Market Investors Hold More than 40% of Debt



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Multifamily Has The Most Appreciation and the Least Variance



Source: NCREIF, 1978Q2- 2006Q2.

U.S. Expansion Continues

- **Economic growth slows in second half of 2006**
 - GDP growth should continue at about 2.9% during H2
 - Unemployment remains under 5% in '06
- **Tame inflation will keep interest rates low**
 - Strong labor productivity growth
 - Fed funds stays at 5.25% through November
- **Third best year for single-family housing**
 - Starts at 1.6 million in '06, surpassed only by '04 and '05
 - Expect more decline in early '07 before leveling off
- **Risks to the outlook**
 - Energy prices remain the biggest risk to outlook – expect a lot of volatility



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www.freddiemac.com/news/finance/data.html

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