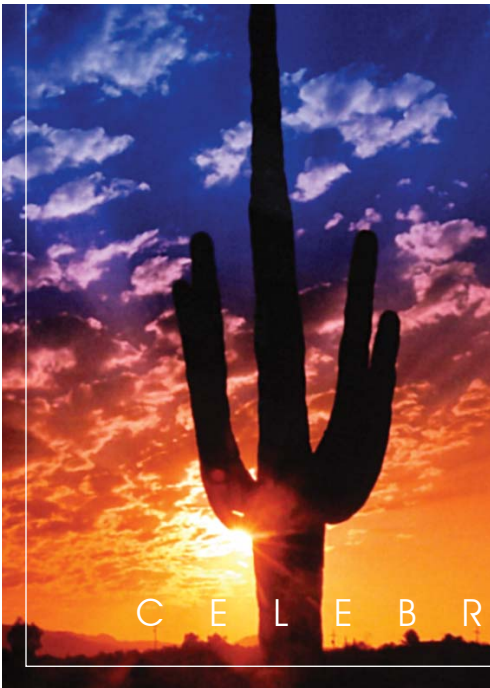




REALTY
MORTGAGE
TITLE &
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2005

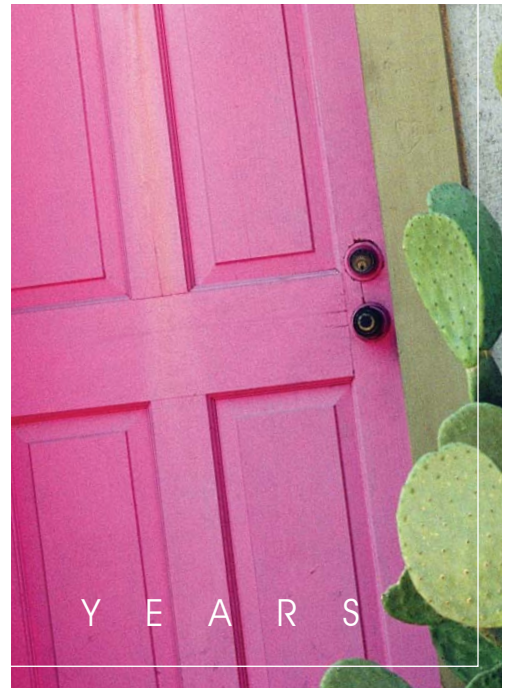
THE MARKET REPORT



C E L E B R A T I N G 8 0



Y E A R S



Y E A R S



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ANOTHER RECORD YEAR

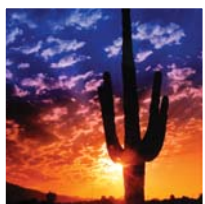


Once again, we have achieved a record year in Tucson and Pima County. Low interest rates and measured economic growth have contributed to a 9% increase in home sales and a 25% increase in the average sales price (to \$266,731). The median sales price - half way between the highest and lowest priced single family residence stood at \$220,000 at the end of December. During the summer months of 2005, the average home sold in less than 26 days.¹ It wouldn't be an exaggeration to call this a perfect storm of economic opportunity, which has benefited individual homeowners, our city and our county tremendously. There is a lively interest in understanding this phenomenon, and in being able to predict when and if it will change.

It is human nature to grow uneasy when good times seem to go on too long. There are legitimate worries about consumer debt levels, price inflation, higher oil prices, interest rates and global competition. Might they have an effect on the housing market?

In this analysis we will look both back and forward at several factors that can help you make the most of your homeownership opportunities. Let's start by looking at important factors that have changed our market forever.

ROSEY KOBERLEIN, CRB
Chief Executive Officer
Long Companies

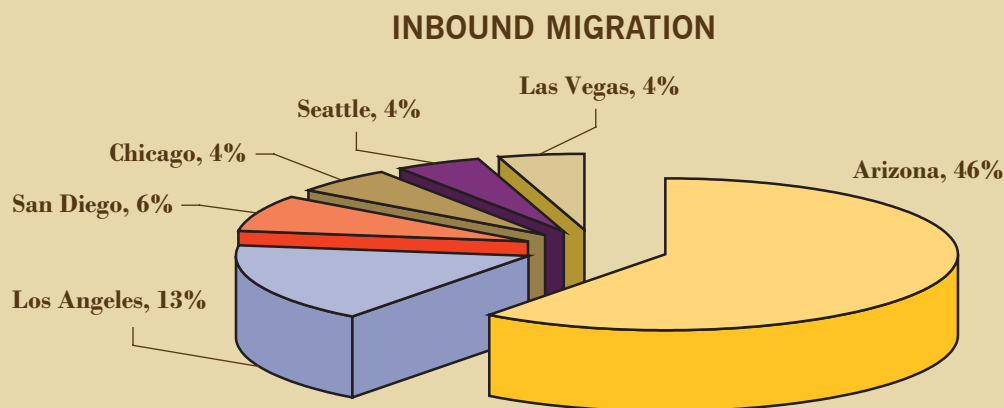


INMIGRATION

In the last decade Arizona's population has grown 3.5 times FASTER than the rest of the country, and it is predicted to continue at this pace in the year to come.

A surprising amount of the growth in the Tucson area comes from right here in Arizona. Most of the rest of newcomers arrive from communities in the West, with Los Angeles, San Diego, Seattle and Las Vegas leading the way.

46% of new Tucson residents have moved here from other Arizona communities.²



THE EQUITY LADDER

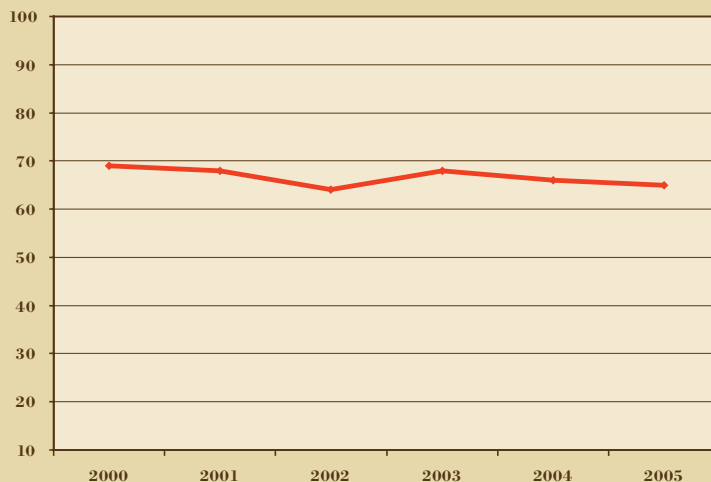
Since January 1, 2000, 57,840 homes have been sold at or below the average sales price. This represents 66% of all of the sales completed in that period. This percentage has stayed reasonably steady over the six year period.⁵

When a home is purchased, the owner places a foot on the bottom rung of the equity ladder. As with any asset, the owner hopes that its value will outpace inflation over time, protecting and building equity and security.

How have purchasers fared in the Tucson market in the last five years? While inflation has increased a cumulative 16.14%⁶, home prices have increased by 61.4% over the same period. This means that we

have just passed through an absolutely unprecedented period of wealth creation through homeownership. For the 64% of our Pima County residents who own a home, these past five years have been very, very good. Owning a home in Pima County in the past five years has been more beneficial than getting a raise or a promotion.

% OF SALES AT OR BELOW AVERAGE SALES PRICE



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AFFORDABILITY

Concerns about affordability are on the top of everyone's mind in a market where both prices and interest rates are predicted to go up. We all feel strongly about the value of homeownership and don't want anything to threaten our opportunity to reach out to all clients in our community.

There is excellent news to report about the affordability of our Tucson market.

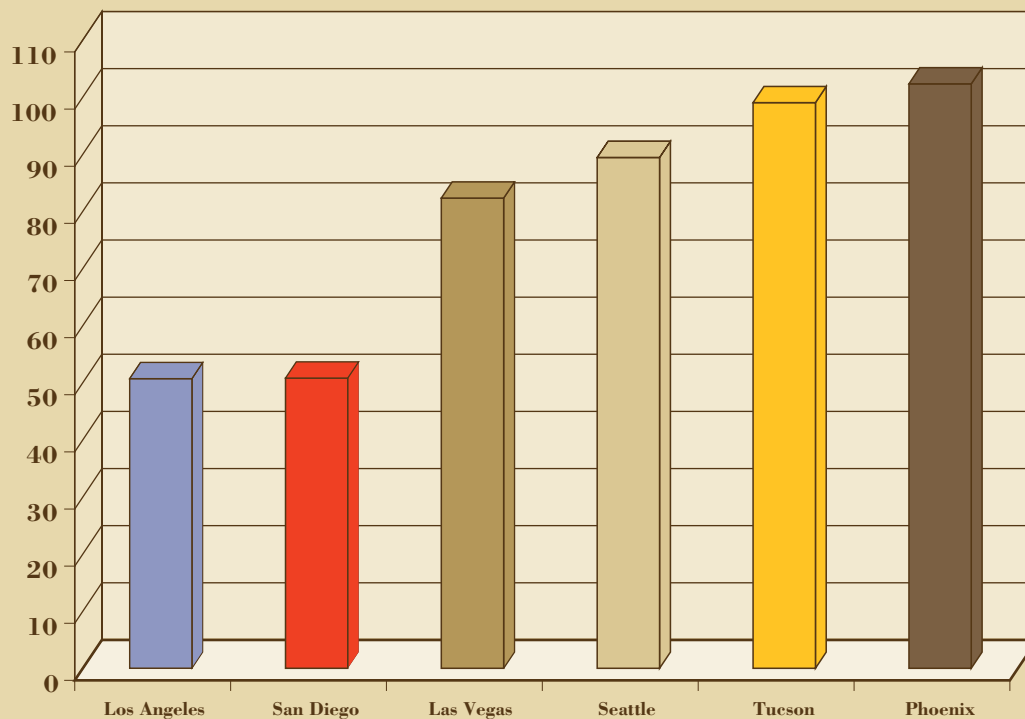
The affordability index measures the ability of the median-income family to purchase a home. When the index is at 100, that family has the exact amount of money needed to buy the median-priced home, assuming a 20% down payment and a traditional mortgage.³

Numbers under 100 aren't as favorable, since they mean that the median earner has been priced out of the market for the median home.

Purchasers in Los Angeles and San Diego can afford only 50% of the median sales price in those markets. This is one reason we continue to see immigration to Arizona from many other areas in the West.

As an example, we can look at the affordability in other Western markets.

PERCENTAGE OF HOUSE AN AVERAGE FAMILY CAN AFFORD⁴



Integrity

Excellence

Compassion

Leadership

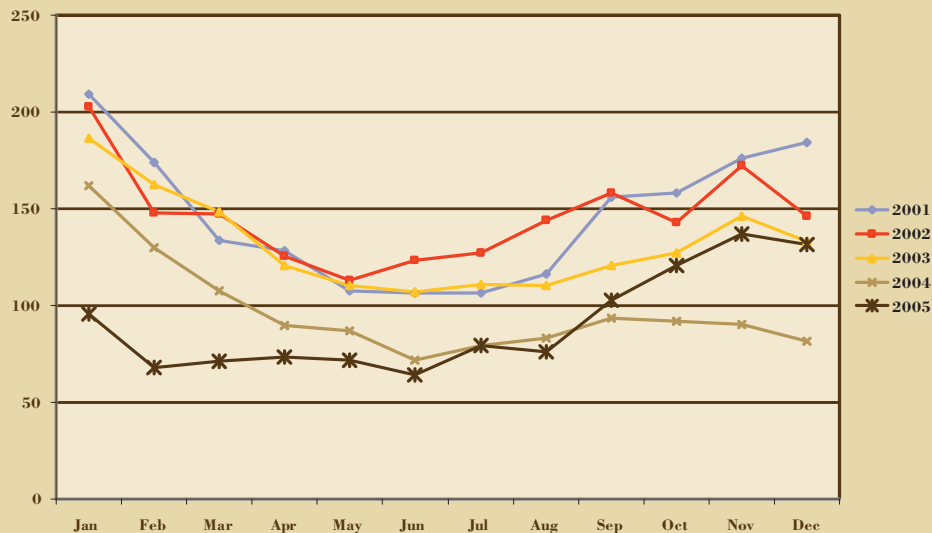
Teamwork

ABSORPTION RATES

News reports tend to focus on one or two pieces of information about a market in an effort to understand the whole market. Just lately, we have been reading about "rising inventories" and wondering if this will mean a change in our market in the year to come.

Our population grows every year and so does our housing stock. Since 2000, we have added 82,455 residents to Pima County and 36,996 brand new single family homes.⁷ Simply looking at the ever-increasing numbers of houses being sold each year can leave us feeling that the market is out of control and that price inflation will drive too many people out of the market. Understanding that we are adding both newcomers and new housing helps us see a more orderly and rational market.

TUCSON MLS DAYS OF INVENTORY SEASONALITY



It can be helpful to express the market's ability to process inventory as an "absorption" rate. Two factors are taken into account in understanding absorptions - the first is the current daily pace of sales and the second is the actual number of homes in inventory on any given day. When the first is divided into the second, we can see how many days are needed to absorb the number of houses available for sale. This "days of inventory" number helps us compare our current market to recent markets, and understand if we are headed for a period of adjustment.

In the past five years, our days of inventory have ranged from a high of 210 days of inventory (in January of 2001) to a low of 64 days of inventory (in June of 2005).⁸

When inventories are low, there is stiff competition for every available house, a frenzy of multiple offers causes the kind of accelerating price increases we saw last summer. As supply builds, the market returns to a more comfortable pace.

At the end of December, 2005 our inventory stood at a comfortable 130 days. This represents a middle ground between the high and low of the past five years, and is something that should be easily sustainable in the year to come.

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LUXURY MARKETS

Let's take a look at another interesting aspect of our local market. In the past five years, many beautiful homes have been added to our Sonoran desert landscape. These elegant properties have added a richness, variety and depth to our market that is bringing buyers from all over the world to southern Arizona.

Although luxury properties, which are those properties priced about \$800,000, are out of the reach of most purchasers in any market, they represent the most current innovations in architecture and design. They are marketed around the world, showcasing the unique natural beauty of our region.

NUMBER OF LUXURY PROPERTIES SOLD

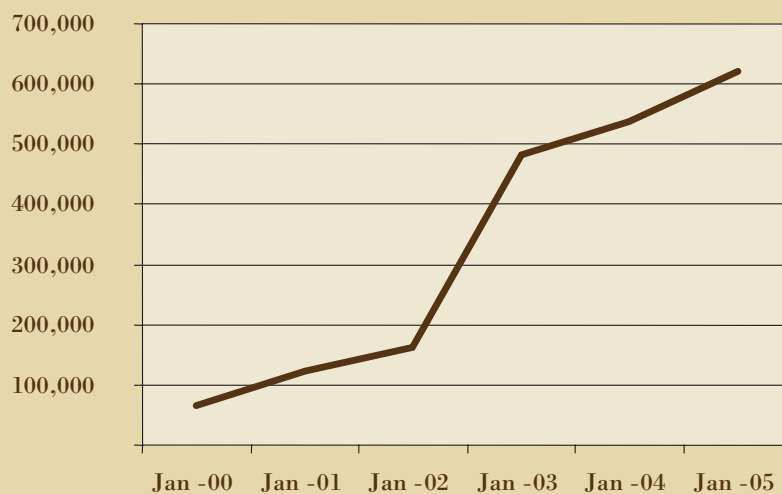


INFORMATION REVOLUTION

The World Wide Web has revolutionized the buying and selling of real estate. Almost the entire MLS database is posted on line and searchable through its own website and through any of its member organizations who elect to do so. This allows purchasers and sellers to become familiar with property styles, pricing, amenities and market factors in any market in which they are interested. The ease of use and convenience of the internet are well proven by the skyrocketing increase in visits over the years being experienced across the whole MLS system. As an example, the visits to www.longrealty.com have increased 600% in five years.

With additional features such as an array of photos, maps and neighborhood information, the web serves both as a readiness tool and as the means to find the ideal house. Fully 24% of users found the house they purchased on the web, with 77% reporting that they used the web in their most recent home purchase.¹⁰

VISITS TO LONGREALTY.COM



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FORECAST FOR 2006

There appears to be no real estate bubble in Tucson and Pima County. Our growth has been orderly; it has embraced local families and sales have been appropriately distributed across the affordable, move-up and luxury bands of the market. Although there is always investor activity in any market, low interest rates tend to increase vacancy factors by moving tenants out of rentals and into ownership. To the extent that rates stay low in the coming year, a normal pattern of investment participation will continue in our market.

Prices of real estate decline when purchasing power declines. We will add jobs and population to our area, which will increase the need for housing. Equity reserves in properties purchased in the last five years should support purchase activity for move-up properties.

When the economy is stable, inflation is mild and job formation occurs across a broad industry base, the market remains flexible and resilient. If a community suffers a downturn in a major industry sector (such as oil, aerospace, technology or automobile manufacturing, for example) it will experience a corresponding real estate market correction. None of the employers in Pima County appear to be under economic strain of the type that would trigger catastrophic job lay-offs.

Price increases will be moderated if interest rates rise, since every increase in rates reduces demand by excluding buyers at the lower end of the market. Mortgage interest rates are predicted to rise by no more than 1% in the coming year.¹²

Although supply and demand forces appear to be well-aligned, there are some factors that could unbalance the market. Slowing price increases might incline investors to capture profits, which could mean the delivery of more inventory than the market could absorb. Continued price escalation coupled with higher interest rates could rapidly decrease the purchasing power of much of the market. A poor supply of move-up properties could keep purchasers in place in their current residences.

Move-up purchasers can afford to make a leisurely inspection of the market. They will insist on a genuine improvement in their circumstances when buying. This means that they will want a combination of more rooms or square footage, improved schools or commute time and better amenities, such as more luxurious fixtures and finishes.

As a matter of fact, a dearth of high-quality move-up properties is a greater challenge to market movement than any other factor in our market at this time. The addition of new construction properties (targeted at over 10,000 permits for Pima County in the coming year¹³) and renovated in-city properties typically provide good quality move-up properties to our market.

Inflation is still modest, and demand is still strong. The economic and social benefits of homeownership are as valuable as they have always been. This is a wonderful time to buy a home.

Best wishes for a prosperous 2006.



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OUR MISSION

To create an exceptional real estate services experience that builds long lasting relationships.

END NOTES

- ¹ Tucson Association of Realtors, Multiple Listing Service; 16 January 2006 <http://www.tucsonrealtors.org/>
- ² Taylor, Dave, Planning Administrator, Department of Urban Planning and Design. "Migration stuff" Email to Karmen Ashmore. 31 January 2006
- ³ Walls Street Journal Online. Moody's Economy.com: National Association of Realtors. 16 February 2006. http://online.wsj.com/public.resources/images/PJ-AH107A_HOMEj_20060215202557.gif
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- ⁵ Tucson Association of Realtors, Multiple Listing Service. 31 January 2006. <http://www.tucsonrealtors.org/>
- ⁶ http://inflationdata.com/Inflation/Inflation_Rate/CurrentInflation.asp
- ⁷ Taylor, Dave, Planning Administrator, Department of Urban Planning and Design. "mo stuff" Email to Karmen Ashmore. 7 February 2006
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- ⁹ Tucson Association of Realtors, Multiple Listing Service. 16 January 2006. <http://www.tucsonrealtors.org/>
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- ¹¹ WebTrends. Fidelity National Real Estate Solutions. 10 February 2006 <http://stats.fnistools.com:7099/wrc/bin/WebTrendsReportingCenter>
- ¹² Mortgage-X, Mortgage Information Service. 20 February 2006. <http://www.mortgage-x.com/x/indexes.asp>
- ¹³ Strobeck, John. "New Construction Review, Analysis and Forecast." Bright Future Consulting. La Paloma Resort, Tucson, AZ. 3 February 2006

Information contained herein is deemed accurate and correct.



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