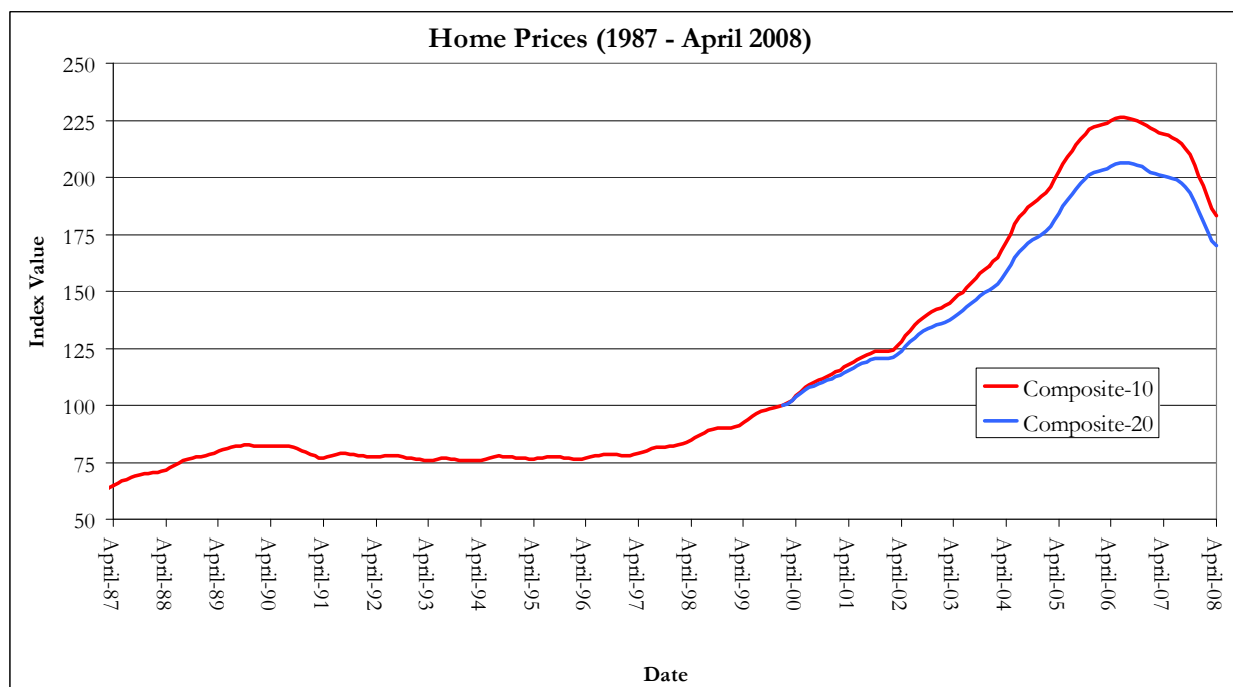


Second Quarter 2008 Knowledge College

Declining Home Prices

U.S. Home Prices

- ✓ The value of residential real estate held by households and nonprofit organizations totaled \$22.5 trillion in 2007, which is comparable to the US equity market (\$19.9 trillion) and the US Bond market (\$29.7 trillion). (source: www.indices.standardandpoors.com)

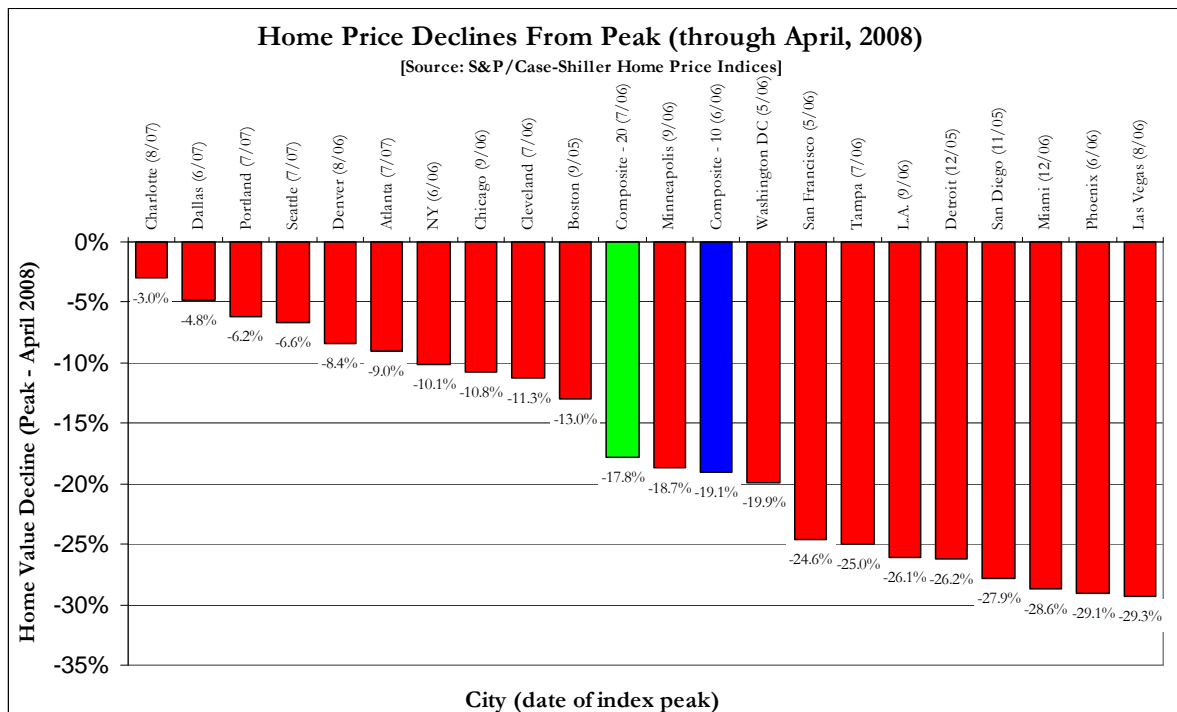


Source: S&P/Case-Shiller Home Price Indices (Composite-10 and Composite-20 Indices)
 Note: Go to www.indices.standardandpoors.com for a description of S&P/Case-Shiller Home Price Indices

U.S. Home Prices

- ✓ The Composite-10 Index is 19.1% below its June 2006 peak. The (broader) Composite-20 Index is 17.8% from its July 2006 peak. A **17.8% loss on \$22.5 trillion represents a \$4 trillion loss in value (from the peak)**. As of April 2008, both indexes have returned to their August 2004 levels (of 3.7 years prior).

- ✓ **The Composite-20 Index is down 15.3% over the past 12 months** (through April). The 10-city composite is down 16.3%.
- ✓ **8 of the metropolitan areas tracked in the 20-city composite index have sustained losses of greater than 20% from the peak**, led by Las Vegas (-29.3%), Phoenix (-29.1%) and Miami (-28.6%). In the two years leading up to market peaks, Las Vegas (+85.9%), Phoenix (+58.9%) and Miami (+39.5%) appreciated at startling rates.
- ✓ **8 metropolitan areas posted one-month increases** (vs. March readings). **However, 12 metro areas experienced monthly declines, and 8 lost more than 2%**, led by Miami (-4.1%), Phoenix (-3.4%) and San Diego (-2.6%)



Concerns

- ✓ The decline in new and existing home sales and housing starts is as steep as any post-World War II period.
- ✓ A painful negative feedback loop is roiling some of the hardest hit markets. Increasing foreclosures are driving prices down, leading to more foreclosures, driving prices down.....

- ✓ The current turmoil is occurring during a period of relatively low interest rates and low unemployment. Increases in interest rates, unemployment, and commodity prices could prolong any rebound.
- ✓ As home prices fall, the collateral backing mortgage loans fall, putting already hard-hit lending institutions in further deteriorating financial positions.
- ✓ Tightening credit and falling home prices could continue to dampen consumer spending, which accounts for about 70% of U.S. GDP.

Reason for Optimism?

- ✓ According to research by National City Corp and Global Insight, 53 metropolitan areas were considered over-valued in 2006. That number fell to 8 metropolitan areas during the first quarter of 2008.
- ✓ Population growth and other demographic trends are expected to drive growing housing demand over the next decade, according to a study by the Joint Center for Housing Studies of Harvard University.
- ✓ While significant inventories of unsold homes need to be reduced in many markets, sharp drops in housing starts have historically been a precursor to bottoming in previous housing cycles.

Summary

- ✓ Home price declines are likely to continue in many housing markets. However, real estate prices are driven by local economic conditions and supply/demand dynamics. Regions with more stable employment and more muted price increases through the first half of the decade will likely weather the storm best.

For more information, please contact any of the professionals at DiMeo Schneider & Associates L.L.C.