S&P/Case-Shiller Home Price Indices
2010, A Year In Review

News on the U.S. residential real estate market did not wane in 2010. The year was particularly noteworthy for what may be a reversal of the housing market turnaround that was occurring in late 2009 and early 2010, in spite of the November 2009 extension of tax credits for homebuyers into 2010.

The Worker, Homeownership, and Business Assistance Act created a tax credit of up to US$ 6,500 for qualified homebuyers for purchases after November 6, 2009 and up to April 30, 2010, or purchased by September 30, 2010 and under contract by April 30, 2010. Throughout most of 2010, there was much discussion and debate about whether such a credit would provide the needed stimulus to get the housing market permanently on the path of real recovery, or if it would prove to be just a temporary boost, benefiting a few at the expense of many.

After some signs of recovery in the spring, home sales, housing starts, and home price appreciation moved back to, or close to, record lows during the latter half of 2010. After moderating in late 2009/early 2010, inventories of unsold homes, as measured in both units and months' supply, are back up at levels witnessed in 2008 when the housing market was in the midst of its crisis. Mortgage delinquency rates and new foreclosures continued to increase in both the prime and sub-prime loan markets and the national unemployment rate remains high, fueling further speculation about the strength or duration of any recovery in the housing market

The S&P/Case-Shiller Home Price Indices[1] were a primary topic of discussion throughout the year. At both the national and regional levels, the indices clearly illustrate the historic declines in home prices beginning in mid-2006, the modest recovery that began in the early spring of 2009, and the recent reversal that seems to be occurring, as observed in the latest reported data.

The S&P/Case-Shiller Home Price Indices seek to accurately track the price path of single-family homes located in 20 metropolitan areas and three aggregated composites. The S&P/Case-Shiller National U.S. Home Price Index is a quarterly composite of single-family home price indices for the nine U.S. Census divisions (see Chart 1). The S&P/Case-Shiller 10-City Composite is a value-weighted average of 10 metro area indices and the S&P/Case-Shiller 20-City Composite is a value-weighted average of 20 metro area indices (see Chart 2).

[1] Case-Shiller® and Case-Shiller Indexes® are registered trademarks of Fiserv, Inc.

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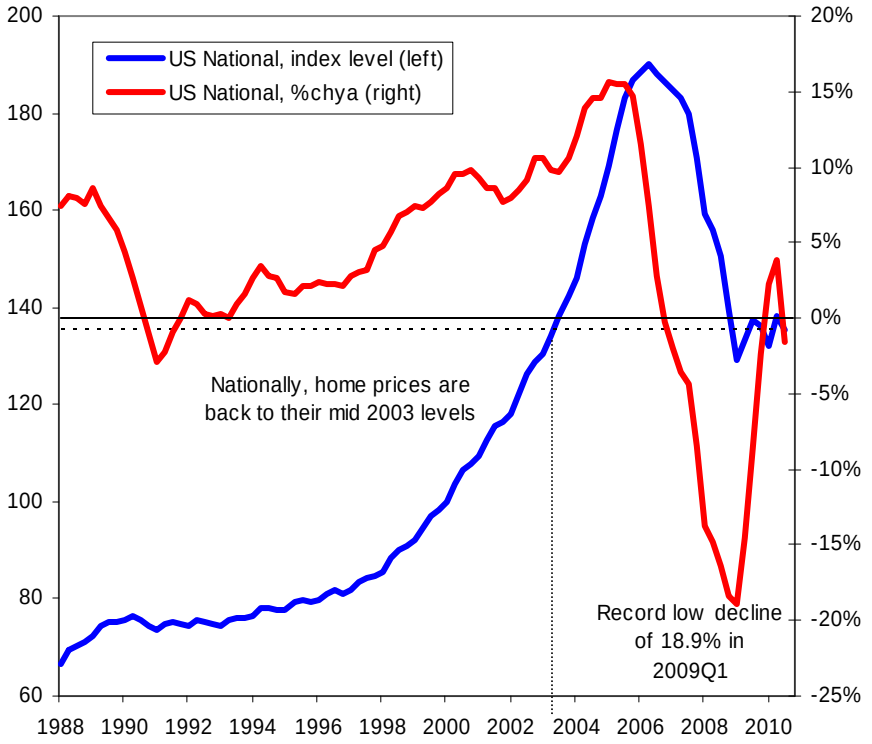
S&P INDICES

While the three composite indices cover different portions of the market, with the national being the broadest, they track each other very closely and tell the same story: nationally, home prices appreciated in value over the decade spanning 1996-2006, peaked in 2006, reached record rates of decline in early 2009, showed some modest recovery for the next year, but have fallen back into decline with data reported through October 2010.

Table 1
S&P/Case-Shiller Home Price Indices

	10-City	20-City	National
Peak date	June 2006	July 2006	2006Q2
Peak level	226.29	206.52	189.93
Recent trough date	April 2009	April 2009	2009Q1
Peak-to-trough decline	-33.5%	-32.6%	-32.0%
Peak-to-latest data decline	-29.7%	-29.6%	-28.7%
Appreciation since trough	+5.7%	+4.4%	+4.9%
Latest three months	-2.0%	-2.4%	-2.0%

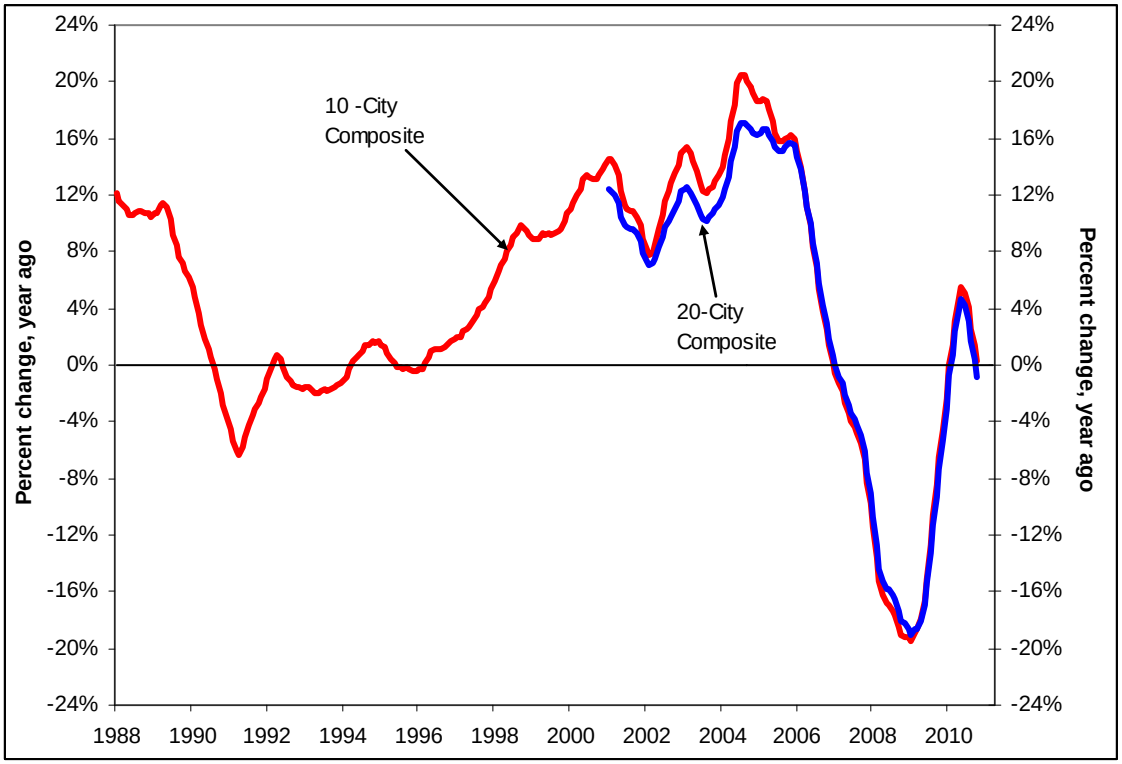
Chart 1
S&P/Case-Shiller U.S. National Home Price Index



Sources: S&P Indices and Fiserv. Data through 2010Q3. Charts and graphs are provided for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not an indication of future results.

Chart 2 depicts the annual returns of the 10-City and 20-City Composite Home Price Indices. With data through October 2010, the 10-City and 20-City Composites reported annual rates of change of +0.2% and -0.8%, respectively. These are improvements from their respective record declines of 19.4% and 19.0% set in January 2009, but have also fallen from healthier May 2010 growth rates of +5.4% and +4.6%, respectively.

Chart 2
S&P/Case-Shiller Home Price Indices
(Annual percent change)



Sources: S&P Indices and Fiserv. Data through October 2010. Charts and graphs are provided for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not an indication of future results.

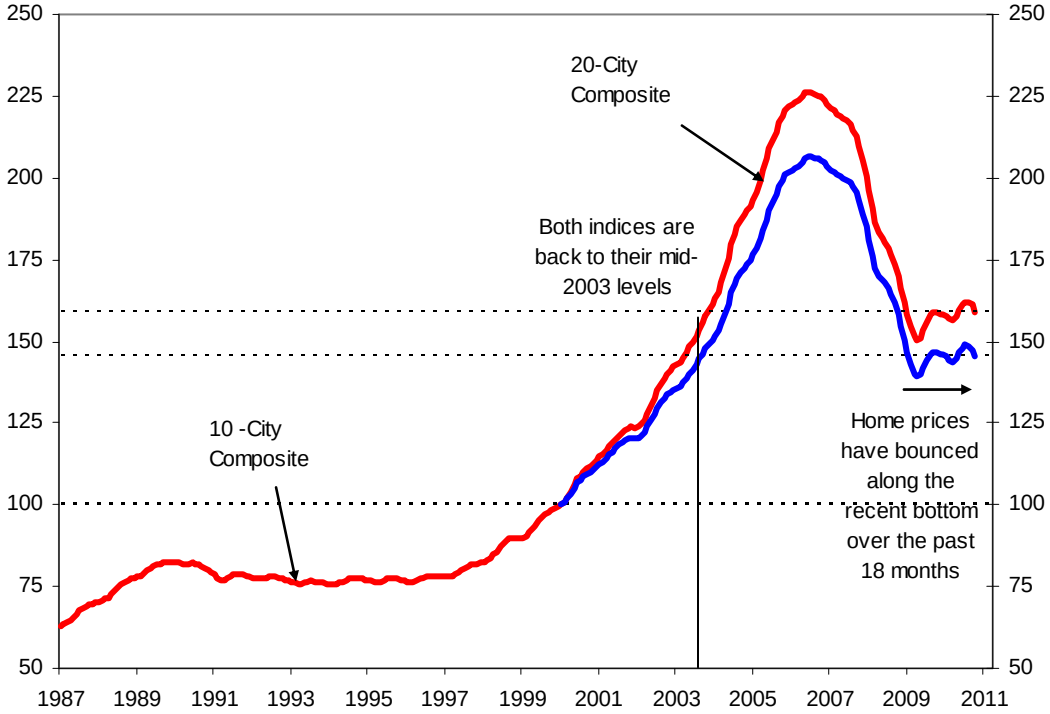
Regionally, the downturn in home prices began in late 2005 when home prices peaked in the Boston, Detroit, and San Diego markets. At the national level, the peak occurred in the spring/summer of 2006. In January 2007, national home prices entered their 3+ year decline, as measured by the percent change from the prior year. According to the S&P/Case-Shiller Indices, the annual rate of decline posted record lows in their 23-year history at the beginning of 2009. The S&P/Case-Shiller National Home Price Index posted a record low annual rate of -18.9% in the first quarter of 2009. The 10-City and the 20-City Composites posted their record declines in January 2009 at -19.4% and -19.0%, respectively.

Chart 3 illustrates how the declines have affected the wealth of U.S. homeowners. As of October 2010, the index levels for both composites were back to their mid-2003 levels. The appreciation in home prices that occurred in mid-2003 through 2006 was reversed in the following three years.

The S&P/Case-Shiller Home Price Indices are based at January 2000 = 100. This base value can be used to easily illustrate the extent to which home values have appreciated since that time. At an average national level, home prices are still about 45-60% above where they were in 2000; the 10-City and 20-City levels were 159.03 and 145.32, respectively, as of October 2010 (see Chart 3). The peak

level for the 10-City composite was 226.29 in June 2006 and 206.52 for the 20-City Composite in July 2006. At their peak, average home prices were 105-125% above their January 2000 levels.

Chart 3
S&P/Case-Shiller Home Price Indices
(Index Levels)



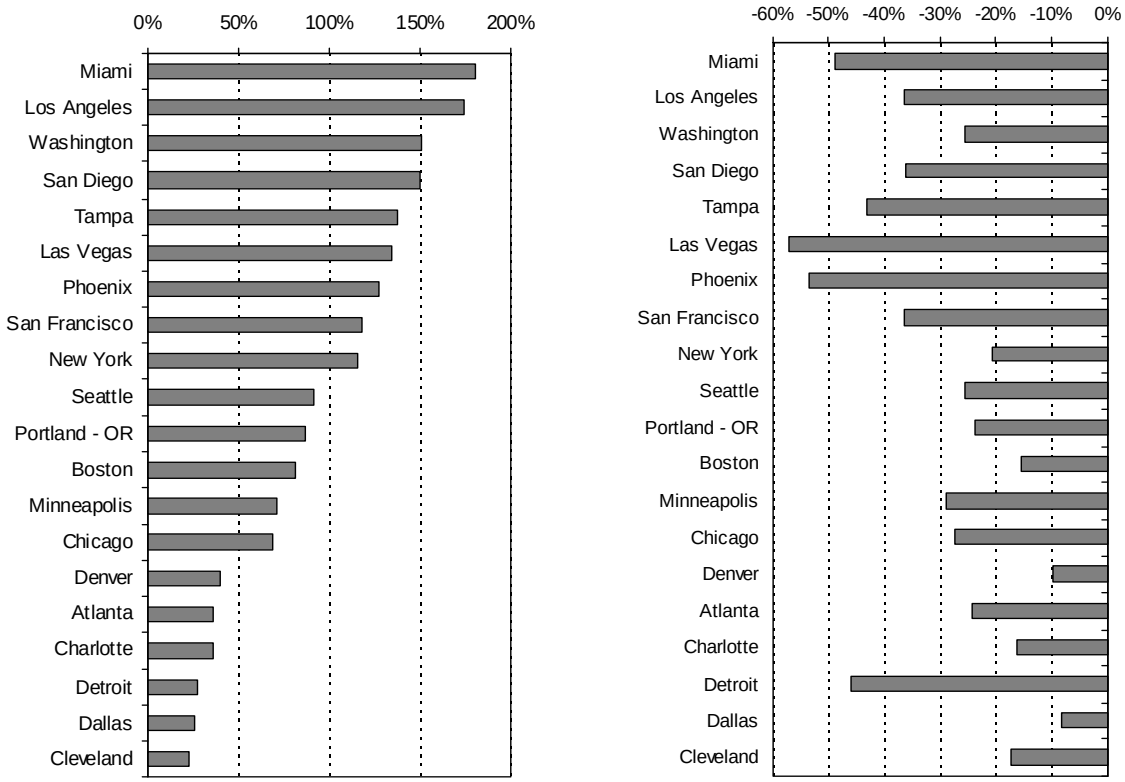
Sources: S&P Indices and Fiserv. Data through October 2010. Charts and graphs are provided for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not an indication of future results.

Location, Location, Location

The three-year decline in home prices was a national phenomenon. In fact, there was a 19-month period between April 2008 and October 2009 when home prices in all 20 Metropolitan Statistical Areas (MSAs) covered by the S&P/Case-Shiller Home Price Indices and both Composites were falling, as measured on a year-over-year basis. As of October 2010, 16 of the 20 metro areas are still declining on an annual basis. Since the markets began to fall in mid-2005, however, there have been some large differences in the magnitude of decline between the regions.

Chart 4 (below, on the left) shows the gain in home prices from January 2000 to each respective MSA's peak (note: the peak dates differ by MSA). Chart 5 (on the right) shows the home price decline in each MSA from its relative peak through October 2010. The MSAs are listed in the same order on both charts.

Charts 4 & 5
S&P/Case-Shiller Home Price Indices
(Percent Changes)



Sources: S&P Indices and Fiserv. Data through October 2010. Data through October 2010. Charts and graphs are provided for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not an indication of future results.

Since 2000, the area traditionally defined as the Sun Belt – Arizona, California, Florida and Nevada – experienced the largest run-up in prices and, subsequently, experienced the largest downturn. While the declines in these markets are quite large, the increases in prices during 2004-2006 were equally dramatic. In 2004, Las Vegas witnessed a peak annual growth rate of +53.2%; Phoenix was not far behind with +49.3%. In addition, Los Angeles, Miami, San Diego, San Francisco and Tampa all registered peak annual growth rates above +30% during that time. Other MSAs, such as Atlanta, Charlotte, Cleveland, Dallas, and Detroit, never saw their peak annual growth rates move above 10%.

As of October 2010, Las Vegas has seen a decline of 57.0% from its peak. Phoenix is not far behind with -53.4%, followed by Miami's -48.7% and Tampa's -43.2%. On a relative basis, only two markets – Dallas and Denver – have not seen their total decline fall below -10%. As of October 2010, their declines from their peak value measure -8.2% and -9.8%, respectively.

As of October 2010, the composite housing prices were still above their spring 2009 lows; however, six markets – Atlanta, Charlotte, Miami, Portland (OR), Seattle and Tampa – hit their lowest levels since home prices started to fall in 2006 and 2007, meaning that average home prices in those markets have fallen beyond the recent lows seen in most other markets in the spring of 2009. California markets appear to have remained fairly healthy after bottoming in the spring of 2009. San Francisco was up 18.0% since its 2009 trough, while San Diego and Los Angeles were up 10.8% and 9.3%, respectively. Only Washington DC, +12.5%, and Minneapolis, +11.7%, have seen similar recovery from recent lows.

Although they never witnessed the extreme growth rates of the Sun Belt states, many of the mid-western markets have been severely impacted by the housing market recession. Detroit is down 45.8% from its peak, well below the national average, and Minneapolis has declined 29.1%.

Other regions have fared far better on a relative basis. Los Angeles, New York and Washington DC are three metro areas that, while having experienced fairly healthy growth patterns during the 2004-2006 period, have not given back nearly as much as the MSAs listed above. Washington DC's October 2010 index level was the highest at 186.67, indicating that home prices are still about 87% above their 2000 levels. Los Angeles was not far behind at 174.05, or about 74% above 2000 levels; and New York posted an October 2010 value of 171.50, or +71.5% appreciation.

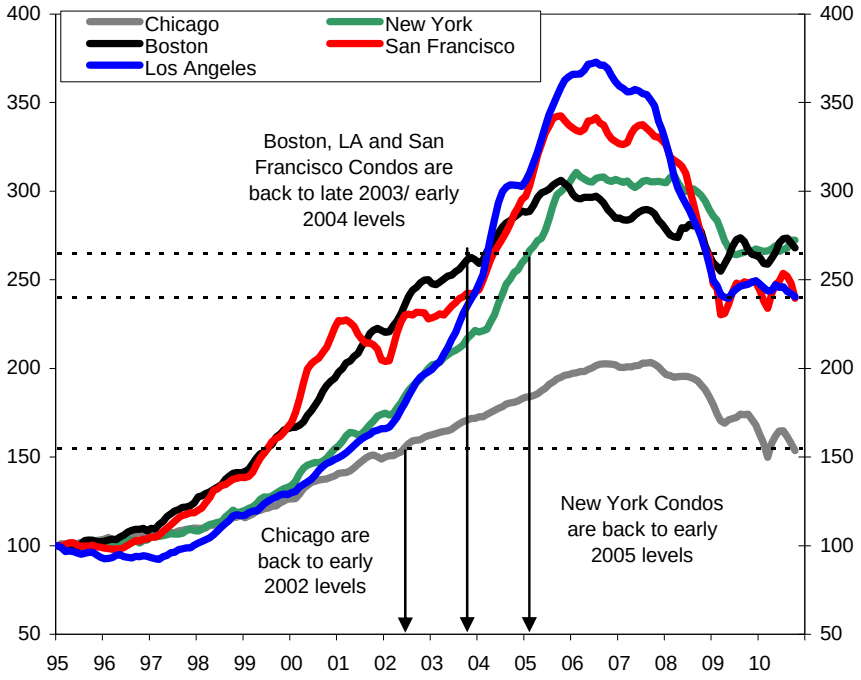
Los Angeles, San Diego, San Francisco and Washington DC were the only four MSAs that still were recording positive annual rates of change as of October 2010, at +3.3%, +3.0%, +2.2% and +3.7%, respectively. It was the relative strength of these four markets that allowed the 10-City Composite to register its meager +0.2% annual rate of return that month.

With an October 2010 index level of 68.86, Detroit is the only market below its 2000 level, down more than 31%. With levels approaching 100, Atlanta, Cleveland, Las Vegas and Phoenix may soon be four other markets that have the dubious distinction of being valued at where there were over a decade ago.

Condominium Prices

S&P also produces indices designed to track condominium prices in five major metropolitan areas – Boston, Chicago, Los Angeles, New York and San Francisco. Prices for condominiums often behave differently from those for single-family homes and also vary across regions.

Chart 6
S&P/Case-Shiller Condo Indices



Sources: S&P Indices and Fiserv. Data through October 2010. Charts and graphs are provided for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not an indication of future results.

As Chart 6 shows, the New York condominium market has, so far, fared better in the housing downturn compared to Boston, Chicago, Los Angeles and San Francisco, in terms of preserving price appreciation. Boston, Los Angeles and San Francisco prices are now back to their late-2003/early-2004 levels, whereas New York is only back to early-2005 levels. Chicago has fared the worst, with condominium values now approaching early-2002 levels. In addition, as of October 2010, Chicago is the one market that is still close to its recent low in terms of annual rates of decline, at -11.8%, which is currently the lowest rate of all the markets. The other four markets have shown improvement in this statistic since posting their relative lows in 2009.

Table 2 illustrates some of the differences between the single-family home and condo markets. The Boston and New York condo markets are doing better than their respective housing markets, as detailed in the annual rates of return. The opposite is true in Chicago, Los Angeles and San Francisco, with condo prices falling on an annual basis in all three markets.

Table 2
S&P/Case-Shiller Home Price vs. Condo Indices

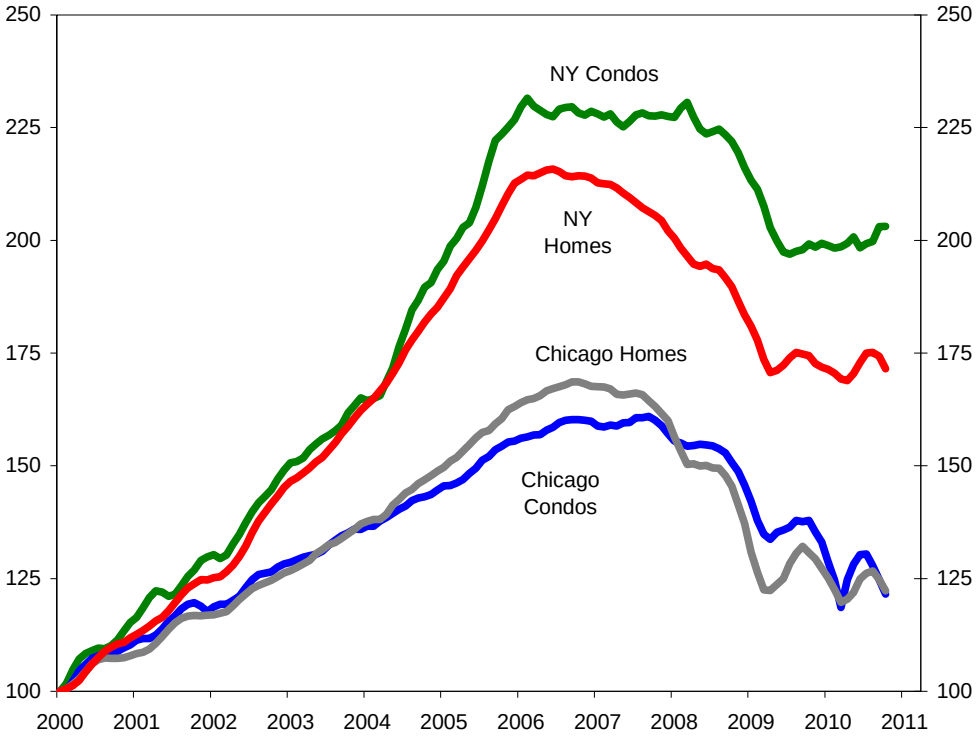
Metropolitan Area	October/September Homes	October/September Condos	1-Year Change (%) Homes	1-Year Change (%) Condos
Boston	-1.2%	-1.0%	-0.2%	0.3%
Chicago	-2.0%	-2.5%	-6.5%	-11.8%
Los Angeles	-0.8%	-0.8%	3.3%	-2.9%
New York	-1.6%	0.0%	-1.7%	2.0%
San Francisco	-1.9%	-3.4%	2.2%	-3.4%

Source: Standard & Poor's and Fiserv. Data through October 2010. Charts and graphs are provided for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not an indication of future results.

Chart 7, on the next page, illustrates some more of the regional differences across markets using Chicago and New York as examples. In Chicago, condominiums closely followed the downturn in single-family home prices. Both markets peaked in late-2006 and registered some sharp annual declines, particularly in early-2009. At their lows, home prices in Chicago were down 18.7% on an annual basis and condos were down 13.5%. More recently, both home and condo prices in Chicago have seen the resurgence of a slump after an early 2010 recovery. As of October 2010, home prices in Chicago were down 6.5%, the worst annual rate of all 20 MSAs, and condo prices were down 11.8%, the worst for the five reported condo markets.

While New York's condo market also peaked in mid-2006, it remained relatively stable for the three following years (as illustrated by the relatively flat green line during the 2006-2009 period above). The NY condo market, however, started to catch up with its single-family home counterpart, posting its lowest annual rate of decline at 12.1% in August 2009, versus the single-family home low of -12.3% in April 2009. After this trough, the condo market in New York stabilized again. As of October, NY condo prices are registering a +2.0% annual return, which is well above Chicago's condo market and both NY and Chicago's single-family home markets. The NY condo market has so far retained more of its value since January 2000. The October 2009 index level was 203.11, close to twice the average value of condos in 2000. This is illustrated by the rightmost level of the green line in Chart 7 versus the lines representing the other three markets in the chart.

Chart 7
S&P/Case-Shiller Home Prices and Condo Indices
(Chicago vs. New York)



Sources: S&P Indices and Fiserv. Data through October 2010. Charts and graphs are provided for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not an indication of future results.

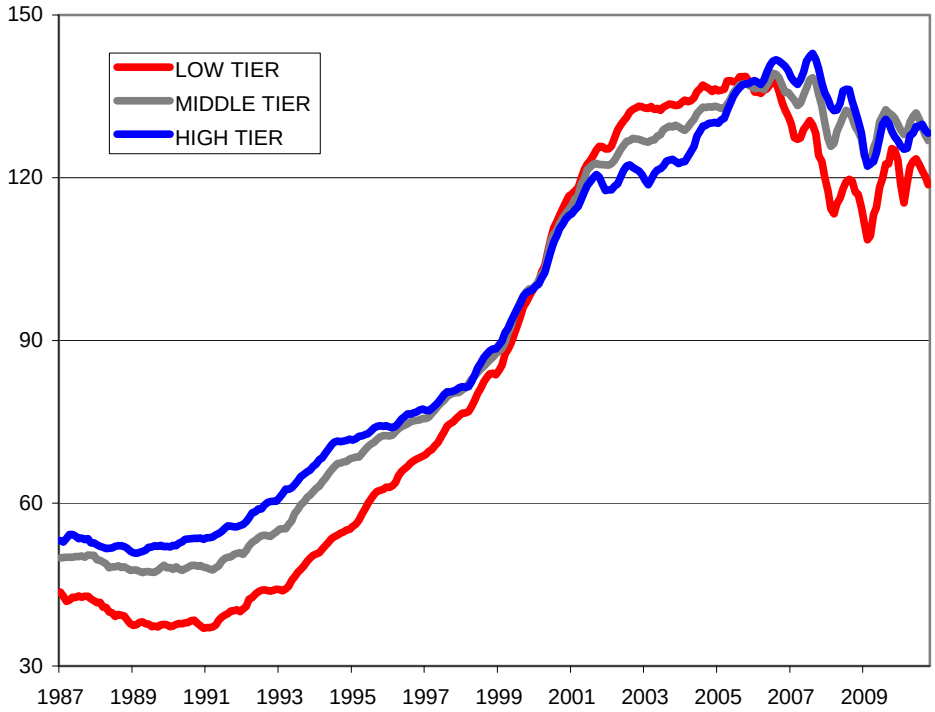
Tiered Prices

S&P Indices publishes supplemental tiered price data for 17 of the MSAs it covers. Tier breakpoints – price levels that divide recent sale prices in each market into thirds – are calculated for the period covered by the latest index points. A closer look at these data shows, as was the case with aggregate home prices, that MSAs did not behave the same across and within tiers.

Charts 8, 9 and 10 highlight some differences using Denver, New York and San Francisco as examples. On a relative basis, all three tiers closely followed each other in Denver (chart 8). Even at their peak, none of the indices went above a level of 145, which means that none of the tiers saw more than 45% price appreciation from their January 2000 levels. From their peak, low-tiered homes are down 14.4% in Denver, the high-tiered market is down 10.3%, and the aggregate market is down 9.8%.

Whereas in San Francisco low-tiered homes (chart 10) were the most responsible for the run-up and subsequent contraction in home prices. At their peak, San Francisco's low-tiered market saw a level of 276.13, which means that average prices were more than 175% above their January 2000 level. The high-tiered market was up about 90% versus 2000; while still significant, high-tiered homes about doubled in price whereas low-tiered almost tripled. From their peak, San Francisco's low-tiered homes are down 56.5%, the high-tiered market is down 21.3%, and the aggregate market is down 36.4%.

Chart 8
S&P/Case-Shiller Denver Tiered Price Indices



Sources: S&P Indices and Fiserv. Data through October 2010. Charts and graphs are provided for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not an indication of future results.

New York low-tiered homes (chart 9) also were the most responsible for the run-up in home prices in their market, but did not witness as severe a subsequent contraction as San Francisco. At their peak, New York's low-tiered market saw a level of 259.78, which means that average prices were about 160% above their January 2000 level. The high-tiered market was up about 95% versus 2000; very similar to San Francisco's results above. From their peak, however, low-tiered homes are down 26.9% in New York, the high-tiered market is down 15.6%, and the aggregate market is down 20.5%. The downside turmoil in the New York markets was less severe than that of San Francisco, even in the low-tiered market. In October 2010, the low-tiered market level for New York was 189.95, or 90% above its January 2000 level; whereas in San Francisco it was only 120.08, a far more modest 20% retention in price appreciation.

Chart 9
S&P/Case-Shiller New York Tiered Price Indices

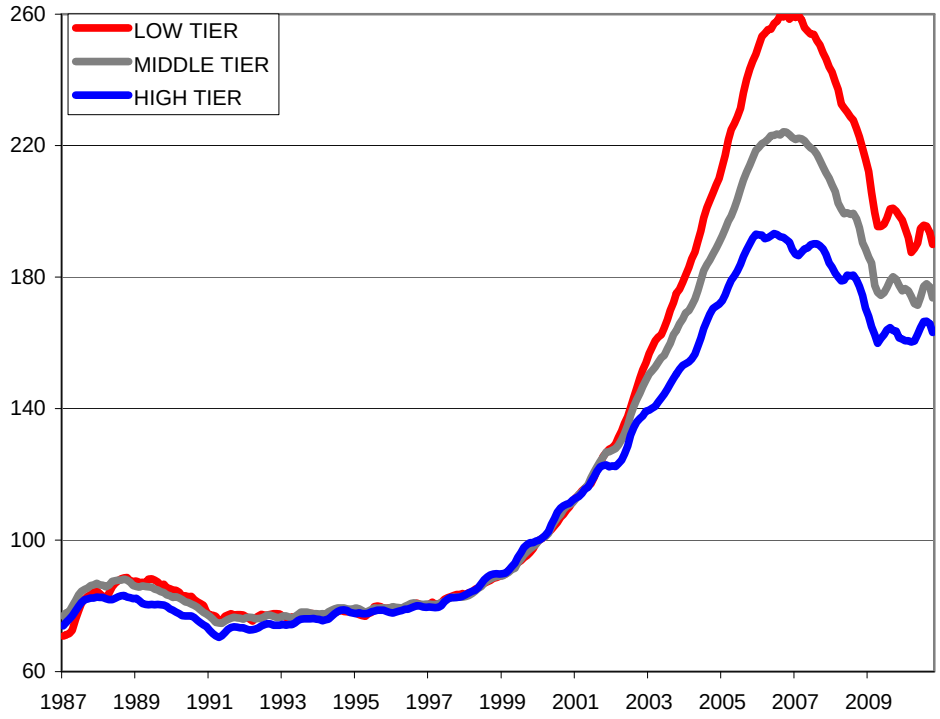
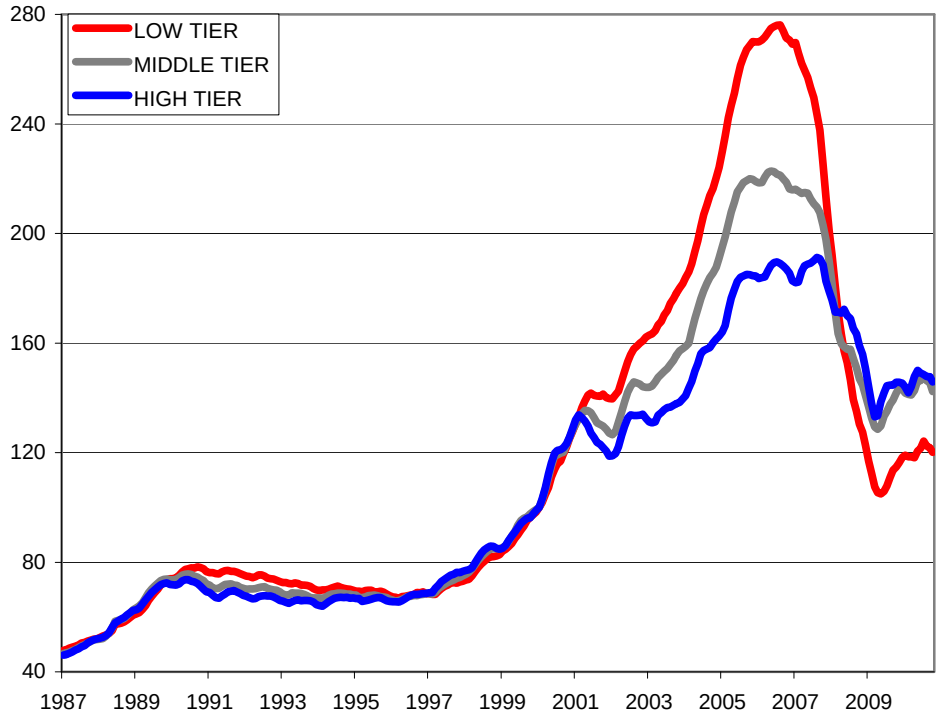


Chart 10
S&P/Case-Shiller San Francisco Tiered Price Indices



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It has been frequently cited that the low-tiered markets are where many of the sub-prime loans were made. Table 3 and Charts 11 and 12 show mortgage delinquency and foreclosure rates. While all types of homes and mortgages have been affected by the recent housing crisis, the absolute percentage of homes that are either behind payment or have entered foreclosure is much higher for sub-prime loans. It became apparent in 2009 and 2010, however, that even homes with prime mortgages were not immune to the housing crisis. Within that sector, both the rate of delinquencies and the percentage of homes entering foreclosure hit new highs in 2009 or 2010.

Table 3
Mortgage Delinquency and Foreclosure Rates (%)

	2010			2009				2008			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Delinquency Rates											
All Loans	9.13	9.85	10.06	9.47	9.64	9.24	9.12	7.88	6.99	6.41	6.35
Prime Loans	6.29	7.10	7.32	6.73	6.84	6.41	6.06	5.06	4.34	3.93	3.71
Sub-prime	26.23	27.02	27.21	25.26	26.42	25.35	24.95	21.88	20.03	18.67	18.79
Foreclosures Started in Quarter											
All Loans	1.32	1.17	1.17	1.14	1.42	1.47	1.34	1.01	1.07	1.19	0.99
Prime Loans	1.11	0.96	0.86	0.83	1.12	1.07	0.91	0.63	0.61	0.67	0.54
Sub-prime Loans	3.33	2.97	3.29	3.51	3.70	4.49	4.55	3.72	4.13	4.70	4.06

Chart 11
Mortgage Delinquency Rates (%)

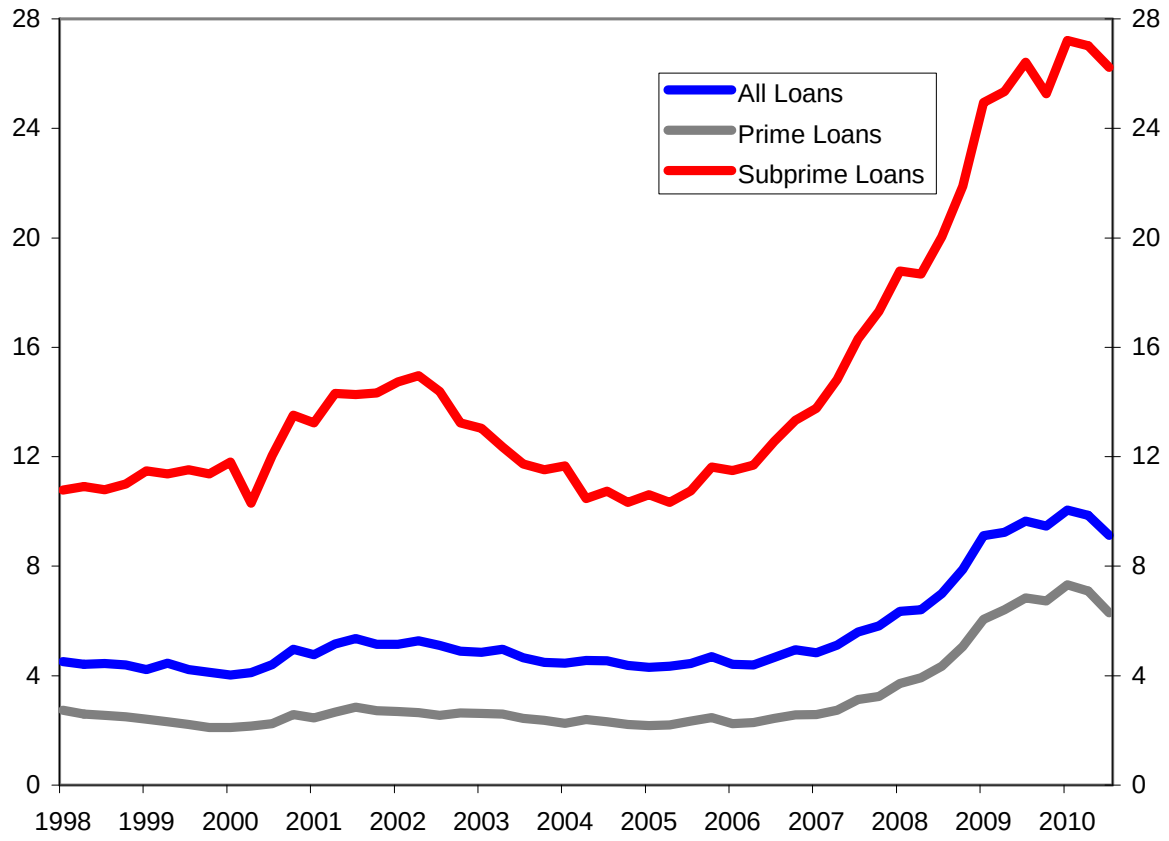
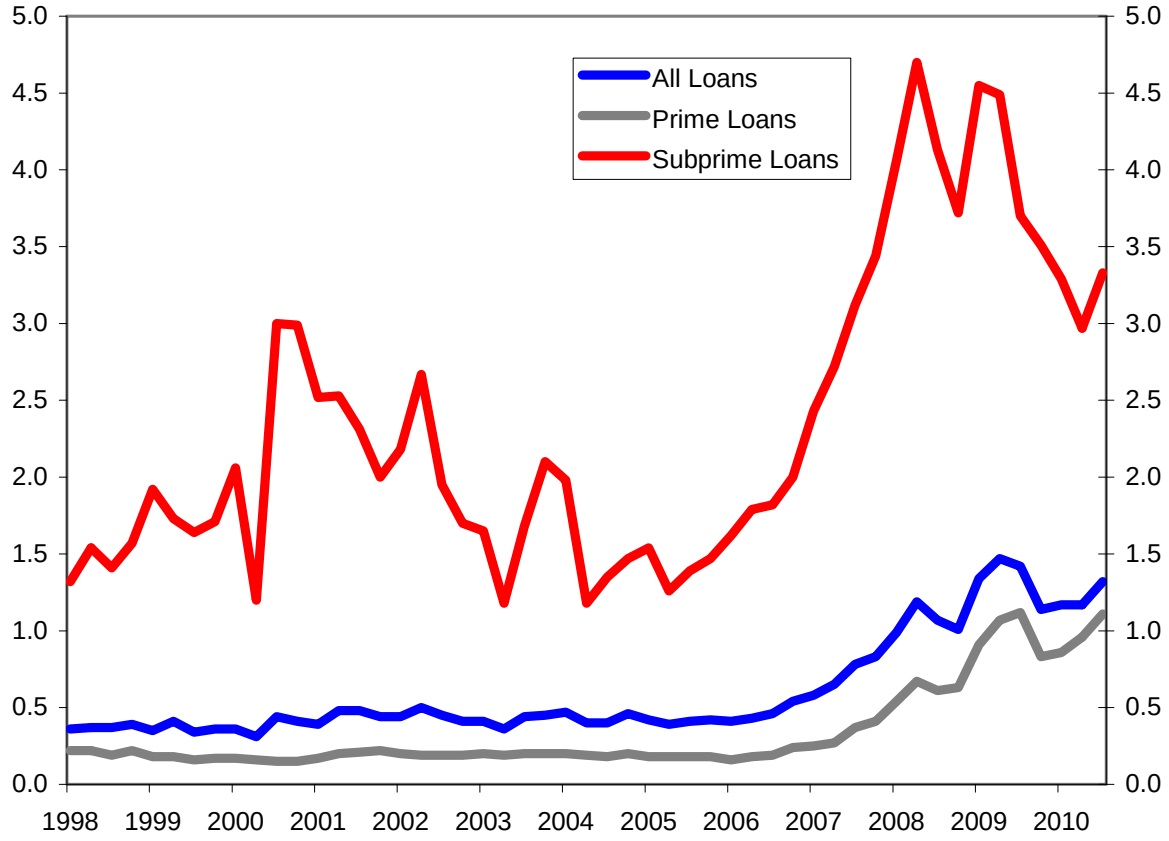


Chart 12
Mortgage Foreclosure Rates (%)



Sources: Mortgage Bankers Association. Data through 2010Q3.

Seasonality

S&P Indices produces seasonally-adjusted versions of the S&P/Case-Shiller Indices. Single-family home prices (particularly the month-to-month percent changes) follow a seasonal pattern since they are largely occupied by families with children. Home buying patterns typically revolve around the school year, with the belief that new home buyers want to be settled in their homes when the school year begins each September, thus boosting relative demand for home purchases in the spring/summer months.

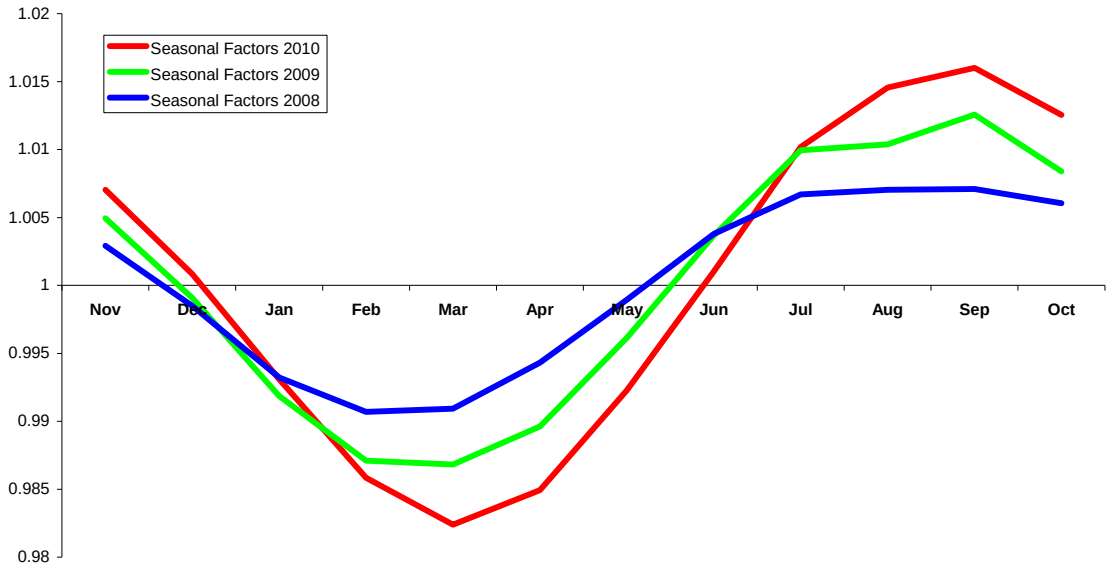
Early in 2010, the S&P/Case-Shiller Home Price Index Committee released a document stating that the turmoil in the housing market may have distorted the normal seasonal patterns in home prices[2]. As a result we felt that while seasonality certainly still exists in home prices, seasonally-adjusted statistics were less reliable indicators than the non-seasonally adjusted data and their annual rates of change.

Chart 13 illustrates this point. The three lines represent the seasonal factors that were calculated in December of each year, with October data representing each year's latest data point. Between 2008 and 2010, the seasonal factors grew from a range of 0.9907–1.0071 in

[2] See *S&P/Case-Shiller Home Price Indices and Seasonal Adjustment*, April 2010.

2008 to a range of 0.9824–1.0160 in 2010, as illustrated by the increasing amplitude from the blue line to the red line below. In stable markets, seasonal factors are expected to remain fairly stable through time, giving analysts a means to predict the true patterns of certain economic statistics. It is clear that, while home prices do follow a seasonal pattern, seasonal factors have become more volatile.

Chart 13
Seasonal Factors for the S&P/Case-Shiller 20-City Composite



Sources: S&P Indices and Fiserv. Data through October 2010. Charts and graphs are provided for illustrative purposes only.

Table 4, on the next page, breaks out the seasonal patterns of the 10-City and 20-City Composite Indices. The seasonality of data is most readily apparent in the difference in the monthly percent changes between the seasonally adjusted (SA) and the not-seasonally adjusted (NSA) data. For both Composites during the months of April, May, June, and July, the monthly percent changes for the NSA data are, on average, 0.7% higher (more positive) than their SA counterparts, meaning that in the buying season there is a natural increase of about 0.7% in prices versus the other months, likely due to the increase in relative demand. The opposite is true for the months of November through February, where the monthly percent changes for the NSA data are, on average, 0.7% lower (less positive) than their SA counterparts.

It should be noted that this difference is larger than what we reported in the last two years, when the average differences between the same months were approximately 0.5% in 2009 and 0.4% in 2008. This supports the view that the seasonal patterns seen in more stable housing markets have become more volatile in the past few years. Some analysts we have spoken with believe this is the result of the shift in mix among sales of homes in foreclosure during the past few years (versus the historic average). Such a shift in the mix of a traditionally non-seasonal variable could skew the pattern from its historic trend. In other words, since foreclosures are a market-driven rather than a seasonal issue, any increase/decrease in the relative mix of foreclosed homes in sales data could have magnified traditional seasonal patterns seen in home prices.

Table 4
S&P/Case-Shiller Home Price Indices
Seasonal Comparison

	Monthly Percent Change				Differences	
	Composite-10, SA	Composite-10, NSA	Composite-20, SA	Composite-20, NSA	Composite-10	Composite-20
Nov-09	0.2%	-0.2%	0.3%	-0.2%	-0.5%	-0.5%
Dec-09	0.5%	-0.1%	0.4%	-0.2%	-0.6%	-0.6%
Jan-10	0.5%	-0.2%	0.4%	-0.4%	-0.6%	-0.8%
Feb-10	0.1%	-0.6%	-0.1%	-0.9%	-0.7%	-0.7%
Mar-10	0.0%	-0.4%	-0.1%	-0.5%	-0.4%	-0.3%
Apr-10	0.5%	0.7%	0.6%	0.9%	0.2%	0.3%
May-10	0.6%	1.3%	0.6%	1.3%	0.7%	0.7%
Jun-10	0.2%	1.0%	0.2%	1.0%	0.8%	0.9%
Jul-10	-0.1%	0.7%	-0.3%	0.6%	0.8%	0.9%
Aug-10	-0.5%	-0.1%	-0.7%	-0.3%	0.4%	0.4%
Sep-10	-0.8%	-0.6%	-1.0%	-0.8%	0.2%	0.1%
Oct-10	-0.9%	-1.2%	-1.0%	-1.3%	-0.3%	-0.3%

Sources: S&P Indices and Fiserv. Data through October 2010.

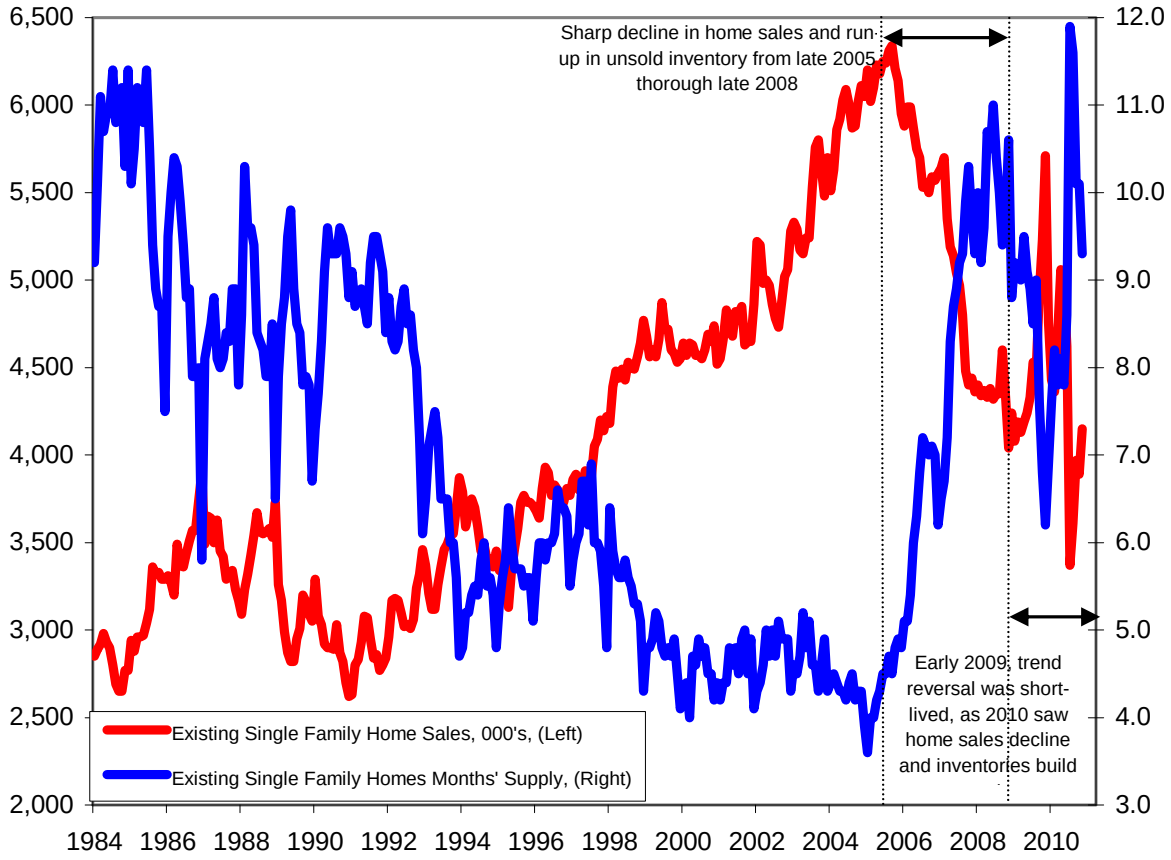
What are the other data telling us?

This paper summarizes the 2010 housing market as seen through the eyes of the S&P/Case-Shiller Home Prices Indices. Charts 14 and 15 tell the same story through sales and construction. The housing market has been in a four-year recession and the turnaround has not yet completely materialized. Although there were some signs of a bottoming in 2009, more recent data have called that into question.

After seeing some improvement in late 2009, existing home sales fell back to 15-year lows in July 2010. During the same month, the number of months needed to work off the current inventory rose to a record high in the near 30-year history of those statistics. Both statistics have only seen modest improvement since then.

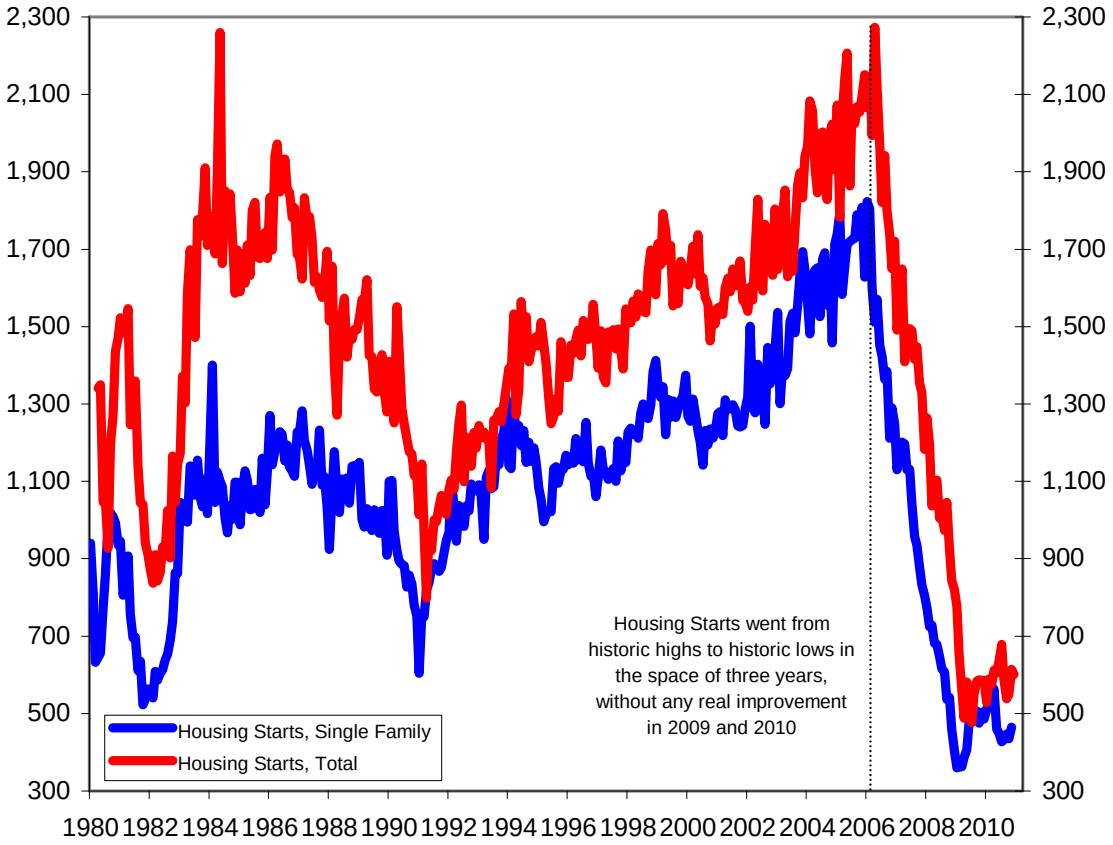
As of the end of 2010, housing starts are still registering lower levels than they have in at least 30 years, below the lows of the early '80s and early '90s recessions. They reached their recent lows in early 2009, but have shown very little recovery in the two years since.

Chart 14
Existing Home Sales



Source: National Association of Realtors, SAAR. Data through November 2010.

Chart 13
Housing Starts



Source: National Association of Realtors, SAAR. Data through November 2010.

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Standard & Poor's chief economist, David Wyss, has provided us with his forecast for the residential housing market. His team expects housing sales and starts to drop over the winter, but to remain well above their early 2009 lows, and to recover in the spring. He expects 670,000 total housing starts in 2011, up from the postwar low of 550,000 in 2009. Starts are expected to rise to 1.04 million in 2012. Prices are expected to fall over the winter months by about 6%, bringing the peak-to-trough decline in the S&P/Case-Shiller 20-City Composite to 34%; the index is currently down 30% from its July 2006 peak. November data will be available with January's release on January 25, 2010, and full year 2010 data will be available with the February 22nd release.

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The S&P/Case-Shiller Home Price Indices are published on the last Tuesday of each month at 9:00 am ET. They are constructed to accurately track the price path of typical single-family homes located in each metropolitan area provided. Each index combines matched price pairs for thousands of individual houses from the available universe of arms-length sales data. The S&P/Case-Shiller National U.S. Home Price Index tracks the value of single-family housing within the United States. The index is a composite of single-family home price indices for the nine U.S. Census divisions and is calculated quarterly. The S&P/Case-Shiller Composite of 10 Home Price Index is a value-weighted average of the 10 original metro area indices. The S&P/Case-Shiller Composite of 20 Home Price Index is a value-weighted average of the 20 metro area indices. The indices have a base value of 100 in January 2000; thus, for example, a current index value of 150 translates to a 50% appreciation rate since January 2000 for a typical home located within the subject market.

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