

Quarterly Report 2Q 2006

A Review of the Phoenix Real Estate Market

Phoenix

Phoenix slows markedly but still remains hot

The metro Phoenix real estate market maintained high price appreciation in the second quarter of 2006 although the appreciation rate was substantially lower than the rate seen the previous year.

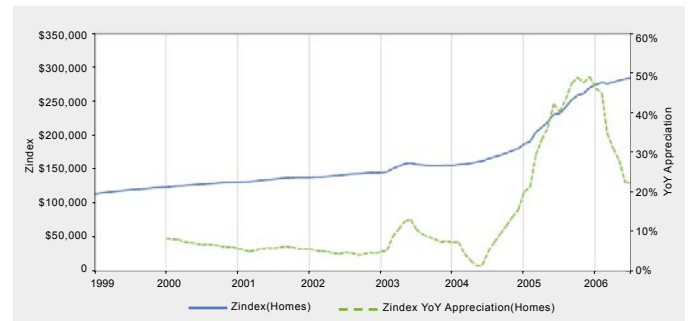
The Phoenix real estate market is typified by dramatic slowdowns in price growth over the past quarter; however, current appreciation rates are still extraordinarily high by national standards. The Zindex™ home value indicator for single-family homes rose to \$284,003 in the second quarter, up 10.7% (annualized) over the past quarter (see Table 1). While much slower than the meteoric 27.1% appreciation rate over the past year, the second quarter appreciation rate in Phoenix was still considerably higher than the overall U.S. appreciation rate for single-family homes in the second quarter (6.0% annualized). Over the past five years, Phoenix has outstripped the rest of the country with an average annualized appreciation rate of 15.9% versus 13.1% for the U.S. in general. Figure 1 shows the complete Zindex history for single-family homes in the Phoenix market.

The Phoenix condominium market also cooled substantially in the second quarter while ultimately turning in a more than respectable 16.4% annualized appreciation rate for the period. The Zindex value for condos reached \$186,024, up 33.6% over the past year and 15.8% (on an average annualized basis) over the past five years. Phoenix condo appreciation easily outpaced the U.S. second quarter average of 2.0%. Figure 2 shows the complete Zindex history for condominiums in the Phoenix market.

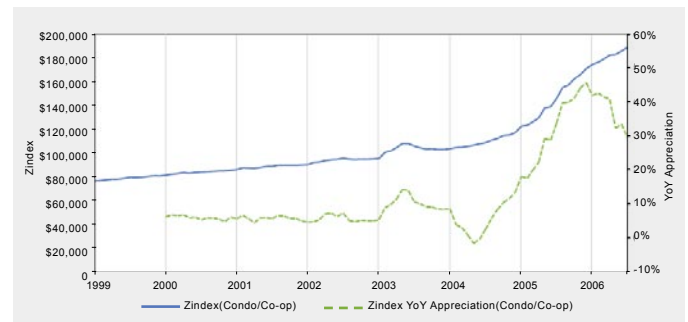
[Table 1. Overall price trends]

	Zindex June 2006	3 Month Appreciation (Annualized)	1 Year Appreciation	5 Year Appreciation (Annualized)
U.S.				
Single-family Homes	\$ 268,531	6.0%	10.2%	13.1%
Condos	\$ 254,418	2.0%	11.7%	14.8%
Phoenix				
Single-family Homes	\$ 284,003	10.7%	27.1%	15.9%
Condos	\$ 186,024	16.4%	33.6%	15.8%

[Figure 1. Single-family homes in Phoenix area]



[Figure 2. Condominiums in Phoenix area]



Real estate micro-markets: the view at the ZIP code level

Many areas of the Phoenix region continue to have phenomenal price appreciation while others are beginning to see actual price declines.

Many ZIP codes in the Phoenix metro area experienced annualized appreciation in the second quarter greater than their appreciation over the past year, indicating continued acceleration of price appreciation. Table 2 shows the 10 ZIP codes with the highest second quarter appreciation. The third column of the table provides the June 2006 Zindex; the fourth column provides the annualized three-month appreciation rate; the fifth column provides the one-year appreciation rate; and the sixth column provides the difference between the appreciation in the past quarter and the past year. This last column gives some sense of how current appreciation trends relate to the trajectory of prices over the past year. For example, positive numbers indicate that the current appreciation rate is greater than the rate seen over the past year – a sign that appreciation is accelerating. Conversely, negative numbers indicate that the current appreciation rate is less than the rate seen over the past year – a sign that appreciation is decelerating.

The areas experiencing the highest appreciation rates included several areas of downtown Phoenix and the areas from Scottsdale extending out to Saguaro Lake and Canyon Lake, northwest of Sun City, west of Palo Verde, and east of Casa Grande. Appreciation rates for all ZIP codes in the metro Phoenix region are shown on the map in Figure 3.

Table 3 shows the 10 ZIP codes with the lowest appreciation rates over the past quarter, many around the southern perimeter of Phoenix (in the Gila River Indian Reservation) and the area surrounding San Manuel. What's interesting in these areas is the high appreciation rates over the past year coupled with the marked deceleration in recent months.

[Table 2. ZIP codes with highest appreciation]

ZIP	City	Zindex (\$) June 2006	3 Month Appreciation (Annualized)	1 Year Appreciation	Acceleration / Deceleration
85003	Phoenix	367,244	58.0%	24.7%	33.2%
85034	Phoenix	133,288	57.3%	51.5%	5.8%
85006	Phoenix	192,797	50.6%	38.0%	12.6%
85009	Phoenix	154,144	44.2%	40.9%	3.3%
85008	Phoenix	195,904	41.2%	41.0%	0.2%
85232	Florence	151,831	37.3%	31.0%	6.3%
85032	Phoenix	256,262	34.7%	30.6%	4.0%
85015	Phoenix	197,373	33.7%	40.2%	-6.6%
85019	Phoenix	187,717	33.5%	37.3%	-3.8%
85017	Phoenix	176,267	33.4%	42.4%	-8.9%

Note: Data includes single-family residences and condominiums (resales and new homes) and includes only ZIP codes with more than 1,000 homes.

[Table 3. ZIP codes with lowest appreciation]

ZIP	City	Zindex (\$) June 2006	3 Month Appreciation (Annualized)	1 Year Appreciation	Acceleration / Deceleration
85631	San Manuel	89,291	-18.6%	20.3%	-38.9%
85249	Chandler	382,447	-7.4%	20.4%	-27.8%
85242	Queen Creek	308,237	-4.3%	22.8%	-27.1%
85310	Glendale	378,421	-3.8%	22.8%	-26.5%
85236	Higley	319,174	-3.7%	21.7%	-25.4%
85044	Phoenix	307,235	-3.6%	24.2%	-27.8%
85353	Tolleson	247,648	-3.5%	25.2%	-28.7%
85048	Phoenix	413,911	-3.1%	19.3%	-22.4%
85379	Sun City	265,067	-2.7%	22.3%	-25.0%
85262	Scottsdale	850,598	-2.1%	18.8%	-20.9%

Note: Data includes single-family residences and condominiums (resales and new homes) and includes only ZIP codes with more than 1,000 homes.

About the Zindex™

The Zindex home value indicator is the median Zestimate valuation for a given geographic area on a given day. Exactly half the Zestimates for a region are below this number and half the Zestimates are above it. It is expressed in dollars and is for a particular geographic region (e.g., Zindex = \$245,000 for Baltimore on July 1, 2005). Zillow believes the Zindex is the best measure of market performance because it is based on estimates of the current value of every home in the area and, thus, approximates the median sale price of the whole area were every home sold on the same day. This is in contrast to the median sale price of homes which is biased potentially by the mix of housing sold in the period of time

associated with it. For example, if high-end homes are not selling very well, but mid-range homes are, then the median sale price will be lower than a true measure of the typical value of homes in the market because the median sale price is taken from the set of mid-range home sales that transact in the period, ignoring the high-end homes that don't transact.

Changes in relative rankings of neighborhood value over the past decade

Central Phoenix neighborhoods gain in ranking of neighborhood home values relative to other areas in the Phoenix market.

Table 4 shows the top 10 metro Phoenix ZIP codes in terms of their current home values as well as their rank 10 years ago. Not surprisingly, the list is flush with ZIP codes around Scottsdale and it appears that these areas were top ranked a decade ago as well. Tables 5 and 6 show the 10 ZIP codes with the biggest increase and decrease in their relative rank over the past decade, respectively, and Figure 4 shows the change in ZIP code rankings overlaid on a map of the area. Areas dropping substantially in the relative rankings include the region between Glendale and Sun City West and much of the area to the southeast of Phoenix around Chandler and Gilbert. Big advancers in the rankings included many ZIP codes in and around central Phoenix.

[Table 4. Highest ranked ZIP codes by 2006 Zindex]

ZIP	City	2006		1996		Change in Rank
		Zindex (\$)	Rank	Zindex (\$)	Rank	
85253	Scottsdale	1,626,147	1	417,026	1	--
85264	Scottsdale	1,202,686	2	263,811	5	+3
85262	Scottsdale	872,269	3	289,723	2	-1
85255	Scottsdale	790,057	4	281,618	3	-1
85259	Scottsdale	781,850	5	266,225	4	-1
85263	Scottsdale	736,516	6	225,460	7	+1
85256	Scottsdale	677,263	7	238,666	6	-1
85258	Scottsdale	638,395	8	216,985	8	--
85068	Phoenix	629,615	9	211,897	9	--
85054	Phoenix	597,888	10	125,913	44	+34

Note: Data includes single-family residences and condominiums (resales and new homes).

[Table 5. ZIP codes with greatest positive change in relative Zindex rank over decade]

ZIP	City	2006		1996		Change in Rank
		Zindex (\$)	Rank	Zindex (\$)	Rank	
85361	Wittmann	294,508	66	62,380	124	+58
85239	Maricopa	263,193	85	56,113	135	+50
85046	Phoenix	464,431	25	100,054	73	+48
85387	Sun City	364,507	39	97,962	75	+36
85054	Phoenix	597,888	10	125,913	44	+34
85396	Buckeye	371,933	35	100,763	68	+33
85249	Chandler	383,340	31	105,507	63	+32
85241	Picacho	243,086	93	63,131	123	+30
85335	El Mirage	224,619	110	54,521	139	+29
85016	Phoenix	\$313,726	57	91,376	85	+28

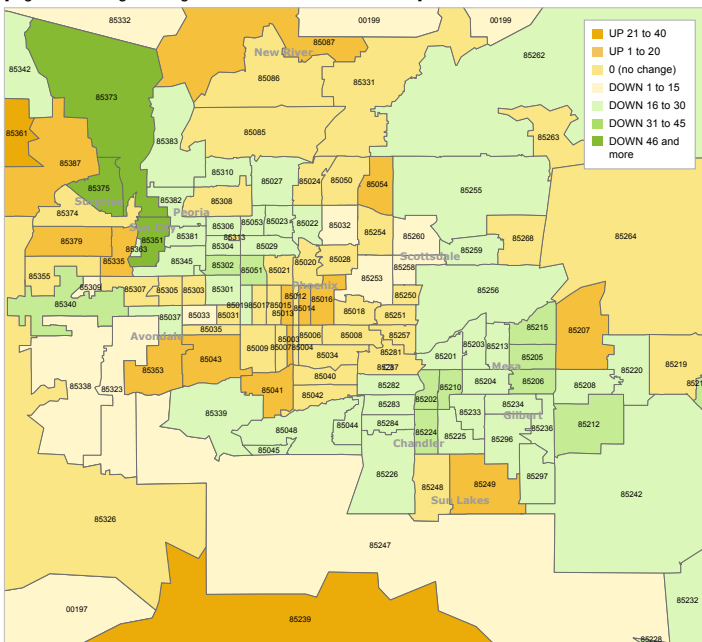
Note: Data includes single-family residences and condominiums (resales and new homes).

[Table 6. ZIP codes with greatest negative change in relative Zindex rank over decade]

ZIP	City	2006		1996		Change in Rank
		Zindex (\$)	Rank	Zindex (\$)	Rank	
85230	Casa Grande	238,491	98	157,723	21	-77
85373	Sun City	232,618	103	108,664	61	-42
85211	Mesa	187,804	130	90,416	89	-41
85351	Sun City	192,123	128	87,193	92	-36
85375	Sun City	277,105	73	130,590	38	-35
85340	Litchfield Park	345,587	45	148,148	23	-22
85206	Mesa	257,713	87	104,128	65	-22
85623	Oracle	167,616	138	69,866	116	-22
85210	Mesa	228,284	109	90,770	88	-21
85218	Apache Junction	323,728	54	135,051	34	-20

Note: Data includes single-family residences and condominiums (resales and new homes).

[Figure 4. Change in neighborhood rank over the decade]



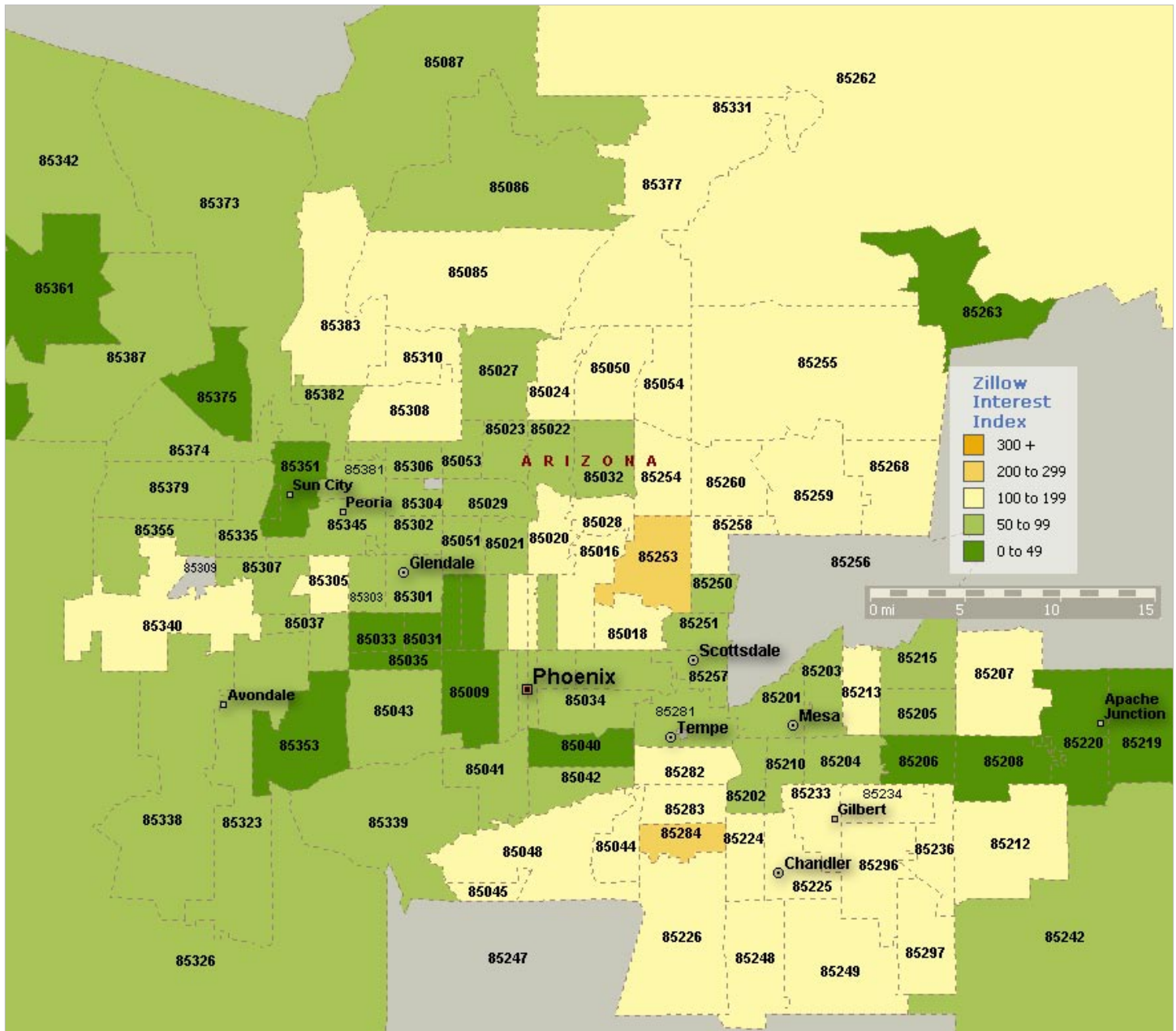
What's hot on Zillow.com?

The expensive areas of Phoenix attract the most eyeballs on Zillow.

So where are people looking at homes the most in the greater Phoenix region? To answer this question, we've constructed the Zillow Interest Index (ZII) which is a simple ratio of the number of page views of individual homes in a ZIP code divided by the number of homes in the ZIP code. The more people look at homes in a ZIP code, the more page

views are generated on Zillow servers and the higher the ZII. The ZIIs for the ZIP codes in the Phoenix region are shown in Figure 5. The hottest areas of interest include the expensive areas of Paradise Valley, Scottsdale, Fountain Hills, and Rio Verde as well as some areas to the south including the region around Tempe, Gilbert, Chandler and Higley.

[Figure 5. Zillow Interest Index(ZII) map]



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