

Quarterly Report 3Q 2006

A Review of the Phoenix Metropolitan Area Real Estate Market

Phoenix

METRO PHOENIX MARKET

Phoenix Area Sees Decline in Values

Values for single-family homes in the Phoenix area dropped in the third quarter relative to the prior quarter.

The Phoenix metropolitan region (Maricopa and Pinal Counties) real estate market experienced a decline in home values during the third quarter of 2006. While the Phoenix area Zindex™ home value indicator of \$264,215 was up 9.6% on a year-over-year basis (relative to Q3 2005), it actually declined by 1.09% on a sequential basis from the second quarter Zindex value of \$267,120. The national Zindex was up 5% in the past quarter on a year-over-year basis and up 2.4% on a sequential basis, increasing from \$263,485 to \$269,814 in the third quarter of 2006.

While the market for single-family homes also declined on a sequential basis, the condominium market saw an increase from its second quarter level. The single-family home Zindex dropped 1.74% from the prior quarter while still increasing 7.8% on a year-over-year basis (dropping to \$280,362 in Q3 from \$285,316 in Q2). In contrast, the Zindex for condominiums increased 1.17% from the prior quarter and increased 17.7% on a year-over-year basis (increasing from \$188,996 in Q2 to \$191,207 in Q3). In comparison, the national market saw year-over-year Zindex changes of 5.4% and 3.4% for single-family homes and condominiums, respectively.

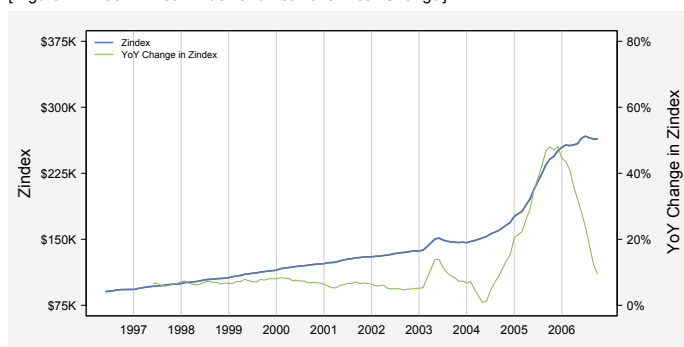
[Table 1. Metro Phoenix Market Performance]

County	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
United States	269,814	5.0	279,534	5.4	257,953	3.4
Phoenix-Mesa, AZ MSA	264,215	9.6	280,362	7.8	191,207	17.7

[Table 2. Phoenix Area Counties Market Performance]

County	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
Maricopa County	268,352	8.9	284,826	8.0	191,572	17.5
Pinal County	209,790	28.8	231,750	12.7	130,800	39.7

[Figure 1. Phoenix Area Zindex and Year-over-Year Change]

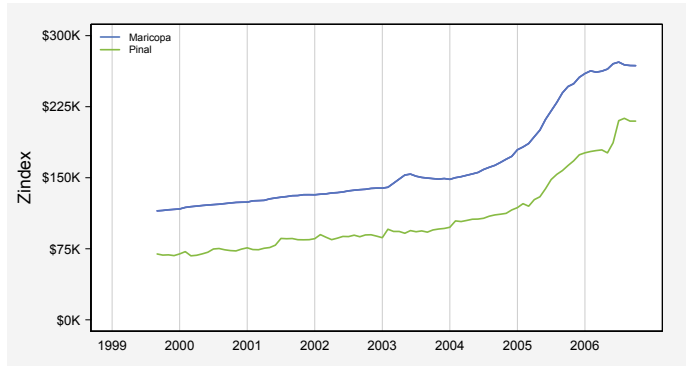


COUNTIES IN THE PHOENIX AREA

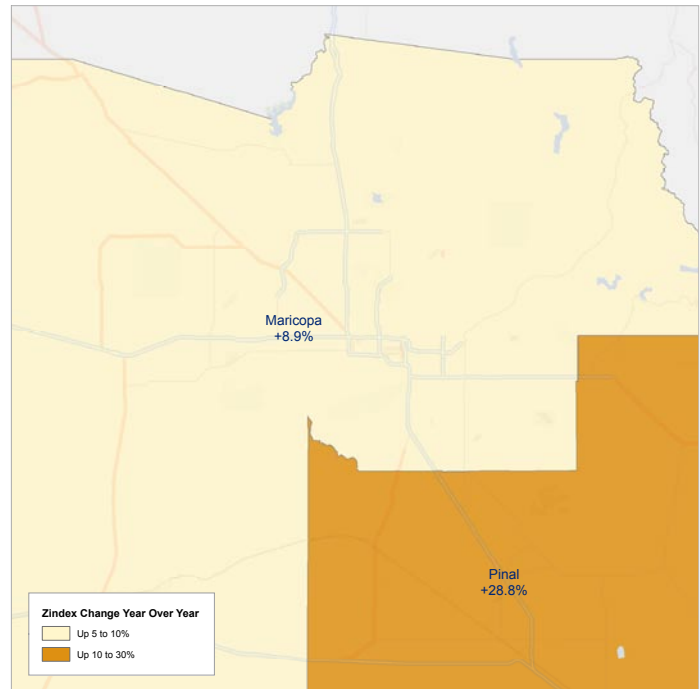
Pinal outperforms Maricopa but home values in both counties decline from second quarter levels

Pinal County significantly outpaced Maricopa County in year-over-year Zindex growth in the most recent quarter. Pinal County saw a 28.8% Zindex increase with the Q3 Zindex reaching \$209,790, whereas Maricopa saw only an 8.9% increase for a Q3 value of \$268,352. Despite both Pinal and Maricopa Counties reporting positive year-over-year results, they both also experienced negative sequential Zindex changes of -0.2% and -1.4%, respectively. As with the overall Phoenix market, the negative sequential quarter home value performance in both counties was attributable to negative Zindex changes in single-family homes, while both counties reported positive condo Zindex changes on a sequential quarter basis.

[Figure 2. Zindex Trends by County]



[Figure 3: County Map of Year-over-Year Change in Zindex]



CITIES IN THE PHOENIX AREA

Cities with high-valued real estate show sharpest declines in home values in third quarter

The three cities in the Phoenix region with the highest valued real estate (measured by the Zindex) in the third quarter of 2006 were Scottsdale (\$476,747), Waddell (\$494,601) and Cave Creek (\$540,400). All cities in the area are shown in the appendix. The three least expensive cities were Winkelman (Q3 Zindex of \$73,121), Superior (\$80,244) and Eloy (\$88,793). The three fastest appreciating cities in the area (as measured by year-over-year Zindex change between Q3 2005 and Q3 2006) were Wittmann, Queen Valley and Kearny (all with year-over-year appreciation rates above 32%), while the three slowest appreciating cities were Oracle (year-over-year Zindex change of -24.2%), Winkelman (-1.6%) and Laveen (-1.0%). Almost half of the cities in the appendix experienced sequential declines in values from the prior quarter (Cave Creek, Gilbert, Glendale, Gold Canyon, Higley, Maricopa, Mesa, Peoria, Scottsdale, Sun City and Tempe).

[Table 3. Highest and Lowest Valued/Appreciating Cities]

City/Town	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
Cave Creek	540,400	9.2	552,545	8.5	349,529	5.9
Eloy	88,793	12.2	98,577	18.8	79,239	12.7
Kearny	102,598	33.1	104,704	34.0	59,809	14.8
Laveen	303,300	-1.0	304,195	-1.9	--	--
Oracle	162,857	-24.2	176,920	-17.6	--	--
Queen Valley	104,882	32.5	228,951	13.1	--	--
Scottsdale	476,747	8.5	606,324	9.6	258,604	-0.6
Superior	80,244	21.3	85,021	24.6	--	--
Waddell	494,601	7.8	499,320	7.9	--	--
Winkelman	73,121	-1.6	85,683	10.7	--	--
Wittmann	201,084	32.2	286,350	12.6	--	--

(See appendix for the complete list of City Zindex Performance)

CITY OF PHOENIX NEIGHBORHOODS

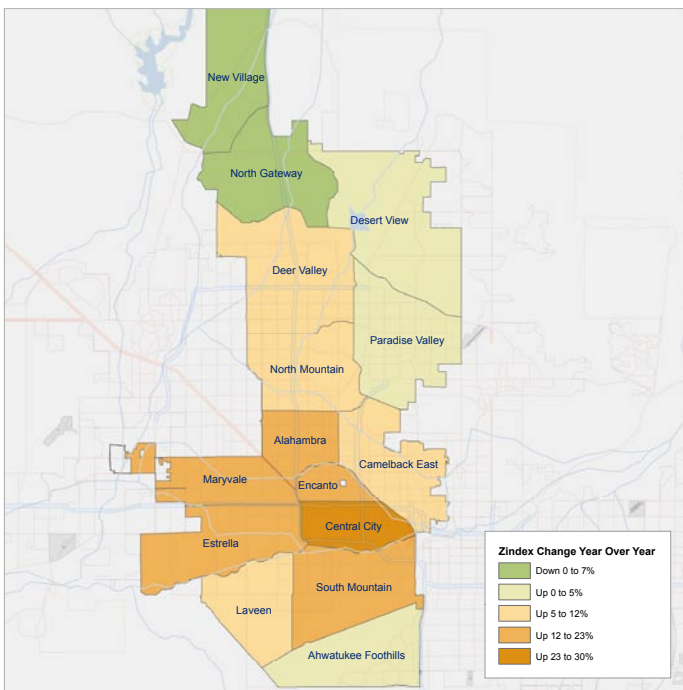
Expensive Phoenix neighborhoods cooling more than less expensive neighborhoods

Many of the Phoenix neighborhoods continuing to see appreciation were the less expensive ones whereas some of the most expensive neighborhoods saw declines in the third quarter (see neighborhood data in Table 4 and a map of year-over-year change in Zindex values by neighborhood in Figure 4). The three highest appreciating neighborhoods in Phoenix were South Mountain (year-over-year Zindex change of 21%), Maryvale (23.2%) and Central City (30.1%). The three lowest appreciating neighborhoods were New Village (-7.4%), North Gateway (-3.9%) and Ahwatukee Foothills (1.7%). The three most expensive neighborhoods in the Phoenix area in the past quarter were Ahwatukee Foothills (Q3 Zindex of \$353,022), North Gateway (\$411,963) and Desert View (\$430,053). The three least expensive neighborhoods were Central City (\$173,877), Maryvale (\$195,226) and Alhambra (\$205,805). The following neighborhoods saw declines in Zindex value on a sequential basis from the prior quarter: Ahwatukee Foothills, Camelback East, Deer Valley, Desert View, North Gateway, North Mountain and Paradise Valley.

[Table 4. Neighborhood Market Performance]

Neighborhood	Rank	Current Value (\$)	Change YoY (%)
Phoenix		232,463	16.8
Ahwatukee Foothills	3	353,022	1.7
Alhambra	13	205,805	19.7
Camelback East	5	291,023	8.9
Central City	15	173,877	30.1
Deer Valley	8	240,835	10.1
Desert View	1	430,053	2.2
Encanto	9	232,357	16.1
Estrella	11	216,509	20.2
Laveen	7	242,459	11.6
Maryvale	14	195,226	23.2
New Village	4	343,549	-7.4
North Gateway	2	411,963	-3.9
North Mountain	10	219,160	12.5
Paradise Valley	6	282,895	3.3
South Mountain	12	210,535	21.0

[Figure 4. Neighborhood Map of Year-over-Year Change in Zindex]

**About the Zindex™**

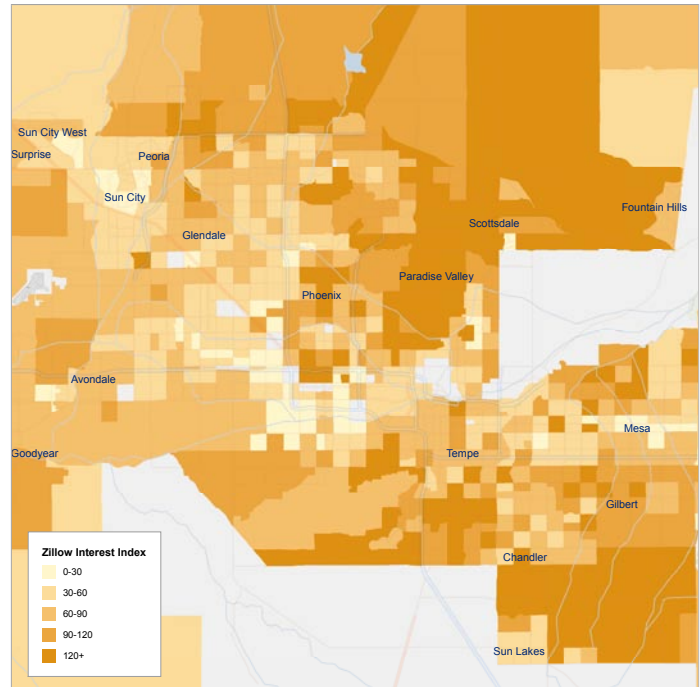
The Zindex home value indicator is the median Zestimate valuation for a given geographic area on a given day. Exactly half the Zestimates for a region are below this number and half the Zestimates are above it. It is expressed in dollars and is for a particular geographic region (e.g., Zindex = \$245,000 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.

ZILLOW INTEREST INDEX

Paradise Valley and Scottsdale attract lots of eyeballs on Zillow

As with our previous quarterly reports, we are again providing detail via the Zillow Interest Index (ZII) on where people are most often looking at homes in the Phoenix metropolitan area. The ZII is a simple ratio of the number of page views of individual homes in a geographic area divided by the number of homes in that area. The more people look at homes in an area, the more page views are generated on Zillow servers and the higher the ZII. This quarter, we are displaying ZII data down to the census tract level, a finer level of geography than the ZIP code level which was used previously. The geographic distribution of the ZII across the Phoenix metro region is shown in Figure 5. As in the prior quarter, the hottest areas of interest continue to be Paradise Valley and Scottsdale.

[Figure 5. Zillow Interest Index]



APPENDIX

City Zindex Performance

City/Town	All Residential Zindex		Single Family Residence Zindex		Condominium Zindex	
	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)	Current Value (\$)	Change YoY (%)
Phoenix-Mesa, AZ MSA	264,215	9.6	280,362	7.8	191,207	17.7
Apache Junction	182,946	23.6	219,123	12.4	82,052	27.3
Arizona City	150,363	16.0	153,385	18.3	83,006	--
Buckeye	238,844	18.0	244,755	11.3	--	--
Casa Grande	176,764	30.1	199,264	18.2	138,170	16.7
Cave Creek	540,400	9.2	552,545	8.5	349,529	5.9
Chandler	304,727	9.0	318,571	7.8	195,582	16.2
Coolidge	113,262	31.3	120,979	35.5	125,947	14.2
El Mirage	221,006	6.0	221,728	5.6	--	--
Eloy	88,793	12.2	98,577	18.8	79,239	12.7
Florence	116,026	32.0	177,575	2.9	62,935	14.0
Gilbert	343,200	6.0	347,716	6.0	216,679	12.0
Glendale	250,709	11.4	262,566	12.0	152,237	26.6
Gold Canyon	314,758	3.1	316,429	2.3	259,036	51.7
Higley	308,281	2.6	316,039	4.0	218,898	-0.2
Kearny	102,598	33.1	104,704	34.0	59,809	14.8
Laveen	303,300	-1.0	304,195	-1.9	--	--
Litchfield Park	334,336	9.7	351,470	9.0	217,268	9.1
Maricopa	249,351	18.3	268,041	13.3	205,812	-2.4
Mesa	234,267	10.3	259,447	10.3	169,131	23.6
Oracle	162,857	-24.2	176,920	-17.6	--	--
Peoria	277,558	8.4	292,521	8.8	178,957	19.5
Phoenix	232,463	16.8	241,579	16.0	178,599	27.6
Queen Creek	266,981	5.7	272,048	4.4	--	--
Queen Valley	104,882	32.5	228,951	13.1	--	--
San Manuel	102,480	18.0	105,369	21.3	--	--
Scottsdale	476,747	8.5	606,324	9.6	258,604	-0.6
Sun City	186,447	11.0	203,073	5.3	144,640	6.7
Superior	80,244	21.3	85,021	24.6	--	--
Tempe	280,152	9.6	302,722	10.5	200,429	14.2
Tolleson	249,820	7.6	252,291	7.5	110,444	11.9
Tonopah	174,115	26.5	203,231	12.1	--	--
Waddell	494,601	7.8	499,320	7.9	--	--
Wickenburg	325,009	11.6	344,487	9.9	189,682	19.1
Winkelman	73,121	-1.6	85,683	10.7	--	--
Wittmann	201,084	32.2	286,350	12.6	--	--
Youngtown	179,062	24.1	189,253	28.7	119,632	19.9