

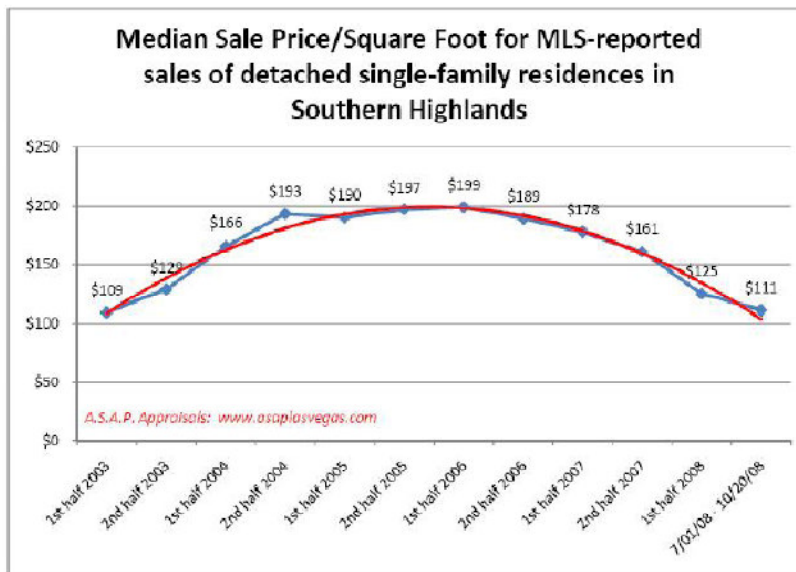
## Historical Sales in Southern Highlands:

MLS sale data for detached single-family residences located in the Southern Highlands community is shown in the below table. These figures do not include any for-sale-by-owner properties, any sales by area developers/builders not listed on the MLS (there is presently some new construction in this area, mostly of upper-end, custom residences), nor any other sales/listings not found on the MLS; however, all of the specified figures do include sales/listings of bank-owned properties, short sales, as well as offerings, if any, of new construction listed on the MLS.

TIME PERIOD	MEDIAN SALE PRICE	MEDIAN SF	MEDIAN SP/SF	MEDIAN DOM	# SALES	# REG SALES	# SHORT SALES
1st half 2003	\$246,250	2,320	\$109	45	92	not calc.	not calc.
2nd half 2003	\$268,500	2,185	\$129	18	189	not calc.	not calc.
1st half 2004	\$349,990	2,185	\$166	8	239	not calc.	not calc.
2nd half 2004	\$386,000	2,189	\$193	35	183	not calc.	not calc.
1st half 2005	\$385,000	2,038	\$190	48	341	not calc.	not calc.
2nd half 2005	\$396,500	2,045	\$197	48	371	not calc.	not calc.
1st half 2006	\$412,000	2,177	\$199	55	269	not calc.	not calc.
2nd half 2006	\$410,000	2,300	\$189	62	205	not calc.	not calc.
1st half 2007	\$372,500	2,124	\$178	76	176	not calc.	not calc.
2nd half 2007	\$355,000	2,347	\$161	57	137	67	7
1st half 2008	\$270,500	2,325	\$125	57	273	196	25
7/01/08 - 10/20/08	\$260,000	2,350	\$111	31	225	175	21

NOTE: Throughout this report, the median sale price and median sale price per square foot will be referred to, as opposed to using the "average" sale price and "average" sale price per square foot, unless otherwise specifically noted. As housing values in Southern Highlands vary widely (with a significant amount of residences valued at over \$1,000,000), median figures have been used to eliminate some of the skewing that can result from averaging wide ranges in value.

The graph below depicts the median sale price/square foot for MLS-reported sales in Southern Highlands since 1/2003:



MLS data clearly indicates a decline in current market conditions in 2008, with the median sale price/square foot in Southern Highlands declining approximately 25% from the second half of 2007 (\$161) to the first half of this year (\$125) and to \$111 in the second half 2008 to date. Most of the decline in sale price and sale price/square foot can be attributed to the large amount of housing for sale, as well as the increased number of foreclosure and short sale properties - not only in this submarket, but throughout most of the Las Vegas metropolitan area.

The presence of a large number of REO properties has had the effect, not only in Southern Highlands, but throughout most of the Las Vegas metropolitan market, of lowering sale prices and sale prices per square foot. "Short sales" typically also involve sellers who are motivated similarly to REO sellers - seeking to minimize losses, versus maximizing profits; therefore, both of these types of sales can be categorized as "dispositional" sales. Short sales, like REOs, are typically sold "as is", with their owners unable or unwilling to make any costly repairs or other "fix-ups" in order to procure the highest sale price possible. "Nondispositional" sales, for purposes of this report, are those which are not short sales or sales of bank-owned properties.

### Sales of REO and short sale properties in Southern Highlands:

Next looked at was the degree of bank-owned (REO) and short sale properties that recently sold and those that are currently offered for sale in Southern Highlands. In the first half of 2007, sales of REO properties and short sales were fairly minimal throughout most submarkets in Las Vegas. However, beginning in the second half of 2007, REO properties and short sales began representing a significant portion of the total sales in most submarkets, including Southern Highlands. MLS-reported closed sales in Southern Highlands beginning in the second half of 2007 through 2008 to date are shown below:

SALE TYPE	TIME PERIOD	MEDIAN SALE PRICE	MEDIAN SP/SF	MEDIAN DOM	# OF SALES
REO	2nd half 2007	\$ 314,900	\$ 146	52	67
Short Sale	2nd half 2007	\$ 350,000	\$ 161	25	7
Nondispositional	2nd half 2007	\$ 413,000	\$ 176	78	63
REO	1st half 2008	\$ 265,000	\$ 119	40	196
Short Sale	1st half 2008	\$ 265,000	\$ 128	101	25
Nondispositional	1st half 2008	\$ 335,000	\$ 147	98	52
REO	7/01/08 - 10/20/08	\$ 265,000	\$ 109	26	175
Short Sale	7/01/08 - 10/20/08	\$ 292,500	\$ 110	48	21
Nondispositional	7/01/08 - 10/20/08	\$ 319,500	\$ 136	47	29

In the 2nd half of 2007, out of 137 sales, approximately 54% were either REO or short sales. In the 1st half of 2008, there were 196 REO sales and 25 short sales, representing approximately 81% of all sales. In the period from 7/01/08 through 10/20/08, there have been 175 closed REO sales and 21 short sales, for a combined total of approximately 87% of all sales. Southern Highlands is actually about average in terms of its most recent level of recent REO and short sales, as compared to most other markets within the Las Vegas metropolitan area. However, REO sales began to seriously impact Southern Highlands a bit earlier than most other markets in this area; these sales comprised approximately 49% of the total 137 MLS-reported sales in the second half of 2007, a time when REO sales represented a much smaller (typically 15-25%) share of sales in most other markets throughout Las Vegas. Between the second half of 2007 and the second half of 2008 to date, "nondispositional" sales have fallen from 46% of all sales to the current level of approximately 13% of sales. It is clear that REO and short sale properties are the driving force in Southern Highlands in 2008.

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Note that the median sale prices/square foot of REO properties in Southern Highlands that closed between 7/01/08 and 10/20/08 [\$109] is significantly lower than this figure in the first half of 2008 [\$119], which in turn was substantially lower than the figure in the second half of 2007 [\$146]. Likewise, the median sale prices/square foot for short sale properties have also declined since the second half of 2007 [from \$161 to \$110 currently]. This indicates that the downward price pressure of the REO and short sale inventory in this market will likely continue for the foreseeable future. The percentage of REO and short sale properties sold in Southern Highlands in 2008 to date represent almost 84% of total sales (417 out of 498 sales); this is a substantially higher percentage of such than in the past 5 years. This level of REO and short sales, along with the median sale prices and median sale price/square foot of these types of property sales being so much lower than the figures for "nondispositional" properties, are the key reasons for the recent decline in sale prices not only in Southern Highlands, but throughout the metropolitan area.

The high percentage of REO and short sales in the year to date is to be expected, given the attractiveness of these lower-priced offerings, with these lower prices meaning greater affordability. Another result of these low-priced offerings has been a recent return to the Las Vegas metropolitan market by investors, who are now able to purchase single-family residential properties and obtain positive cash flows, which was typically not possible at the 2004-2006 market prices. Several foreclosure properties, which are aggressively priced for sale, are now receiving multiple purchase offers, indicating that interest in these properties is strengthening. Some of these properties end up selling at prices well over their MLS list prices.

### ***Current REO and short sale activity in Southern Highlands:***

Out of the total 435 currently active MLS listings (which includes 130 properties that are under contract, but reported either as "pending" or "contingent"), 134 are REO properties, 167 reported as short sales, and the remaining 134 being "nondispositional" offerings. The table below summarizes the MLS data on these active listings:

PROPERTY	# OF LISTINGS	MEDIAN LIST PRICE	MEDIAN SQ. FEET	MEDIAN LIST PRICE/SQ.FT.
REO	134 total 20 contingent 42 pending	\$ 247,500	2,459	\$ 105
Short Sales	167 total 49 contingent 7 pending	\$ 250,000	2,301	\$ 114
Nondispositional*	134 total 6 contingent 6 pending	\$ 688,062	3,406	\$ 185

*\*There are presently 50 residences in Southern Highlands listed for sale on the MLS at list prices over \$1 million; these high list prices, as well as the number of such residences priced at these levels, obviously affect the median figures shown above. Considering only the 84 active listings that are priced under \$1 million, these have a median list price of \$405,688, median square footage of 2,814sf, and a median list price/square foot of \$160.*

There are currently 305 properties listed for sale in Southern Highlands that are not under contract as of 10/21/2008 (the date that MLS data was examined for this report). Though this is still more than a sufficient amount of available inventory, it is also noteworthy that 130 additional properties are presently under contract. The reader should consider that there have already been 498 MLS-reported closed sales in this market area to date in 2008 (in 9.6 months' time), which, in turn, results in a year-to-date average of almost 52 closed sales per month. In the first half of 2008, there was an average of 45.5 closed sales per month; however, since 7/01/08 to the date of this appraisal, there has been an average of 62.5 closed sales per month. It is clear that the rate of SFR sales in this market has been, and is still, increasing this year. When the most recent rate of 62.5 closed sales per month is applied to the total 435 active listings in this market, this results in a supply of slightly under 7 months, which is not an unreasonable level of supply. The number of closed sales in Southern Highlands to date in 2008 - 498 - has already surpassed the number of sales attained in 2007 (313) and also in 2006 (474). This increasing rate of sales is echoing the same trend found overall in the Las Vegas market this year.

It is interesting to note that, of the 134 REO properties offered for sale in Southern Highlands, approximately 46% are under contract, and almost 34% of the 167 short sale listings are under contract as well. However, only about 9% of the 134 nondispositional offerings are presently under contract. REOs and short sale properties comprise 69% of the current listings found in the subject's market area; therefore, it appears very likely that these properties will continue to be the driving force behind sales in the immediate future in this market.

One alarming statistic is the high number of short sale offerings in Southern Highlands (being found in most other submarkets throughout Las Vegas as well): there are currently 167 listings in the subject's market area. Though there are reportedly 56 of these properties under contract, 49 of these are in "contingent" status (mostly contingent upon short sale approval by the lender holding the mortgage(s) on the particular property, and this approval may or may not occur). It appears that typical buyers in this market have become less interested in short sale offerings, due to the typically lengthy process of negotiation and approval of these purchases (and, in a volatile market, a property that is contracted for may well have a lower value 3 months from then, when the negotiation/approval process is completed - forcing many of these potential buyers to walk away from these transactions). Note that only 46 short sales have closed in 2008 to date, versus the 167 current offerings. This level of short sale inventory indicates that it is very likely that some of these properties may well end up being foreclosed upon before they are sold. Whether the legislation that has been recently enacted will prevent some of these short sale offerings from foreclosure remains to be seen.

## **Conclusion:**

There are presently some mixed indicators in the Southern Highlands housing market: the rate of detached single-family residence sales has been increasing this year, and, in the second half of 2008 to date, has continued to increase significantly over the 1st half of this year. The number of closed sales in 2008 through 10/20/08 (498) has already surpassed the number of sales in both 2006 and 2007. The supply of detached single-family residences for sale in Southern Highlands is not unreasonably large; using the second half of 2008 to date's rate of 62.5 closed sales per month, there is a current supply of just slightly under 7 months.

However, REO and short sale offerings still constitute approximately 69% of available listings; the percentage of closed sales of these properties, as compared with total sales, has drastically increased since the second half of 2007, and has been at a very high level (81-87%) throughout the 2008 year to date. It does not appear that the high level of REO and short sale activity will be decreasing to any significant degree anytime soon. The downward price pressure of the high level of REO and short sale properties appears to be continuing, and is also adversely affecting the sale prices of nondispositional offerings. There is also an extremely large number of current short sale offerings (167), an especially large number considering there have only been 46 closed short sales in this market to date in 2008. It is therefore likely that some of these short sales will end up as future REO inventory, unless some of the recently passed federal "mortgage rescue" legislation, including the "HOPE For Homeowners" program begins to be actively implemented by lenders - to date, it does not appear to have any measurable effect.

On top of this particular market's factors, there also remains the adverse pressure of the national economy, which has resulted in very weak consumer confidence. It remains largely unknown at this point as to what effect, if any, will result from the U. S. government's "bail out" legislation. The failure of large U. S. financial institutions, the takeover of Fannie Mae and Freddie Mac, and the elimination of the Nehemiah program for FHA financing are all factors that seriously impact potential purchasers. Tightened lending requirements by mortgage lenders, which appear to be only increasing in severity, are having a very constrictive impact on potential buyers. Local unemployment is presently near record levels, at a rate of 7.4% for Las Vegas in September 2008.

However, given the dynamics of the Las Vegas market, with the additional jobs that are expected to be created during the next 3 years (there are many large commercial projects, such as MGM Mirage's CityCenter which is anticipated to add 12,000 permanent jobs, that are proceeding as planned), many local analysts anticipate that a housing supply/demand equilibrium, at least for detached single-family residences, may possibly be attained within the next 15-18 months. The timing of this recovery will depend on many factors, including the November 2008 elections, new economic stimulus packages, the extent of aid for homeowners facing foreclosure, further interest rate cuts, availability of mortgage financing, the government's "bail out" and "mortgage rescue" legislation, as well as when consumers' confidence in the housing market and overall economy will be restored.