

Managing Through A Changing Real Estate Market

Presented by:

Robyn Kapiloff Rosenblatt
Vice President/Senior Analyst



Virginia GFOA

May 24, 2007

Moody's Investors Service

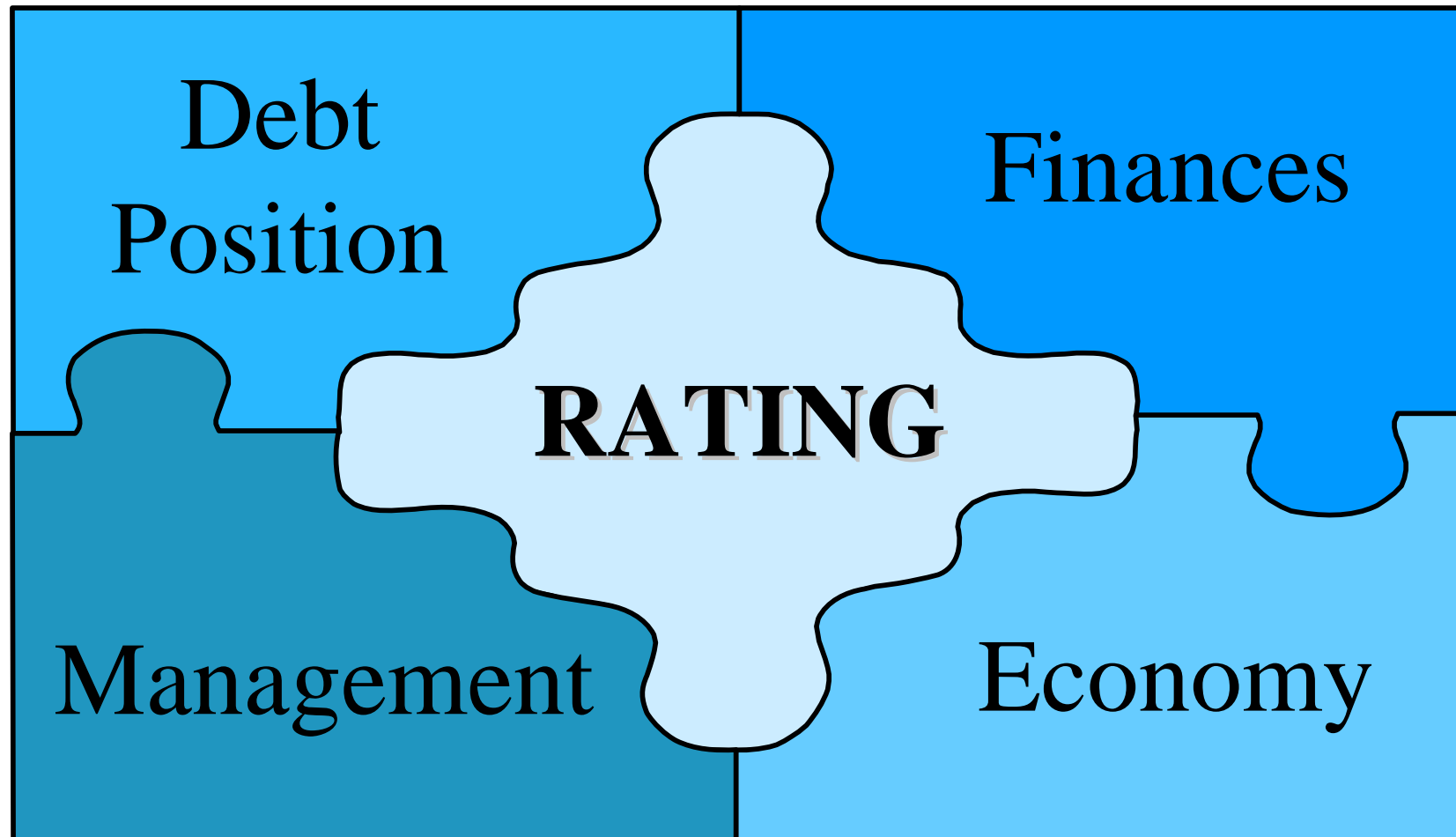


The \$1,000,000 Question:

What are the potential credit impacts of the changing real estate market?



Moody's Four Rating Factors



The Changing Housing Market

- Data varies by locality and property type
- Slowdown in certain markets
 - Reduced housing starts
 - Longer duration on market
 - Lower levels of appreciation
- More dramatic in other markets
 - Depreciation in all or some classes of property



Expectations Moving Forward

- Projections vary
- Moody's uses data provided by economists at Moodyseconomy.com as well as other data sources
- Moodyseconomy.com projects the housing correction will run for another year
- Focus on amount of new construction, population and job creation trends, and current real estate pricing relative to historical norms (i.e. overpriced)
- No crystal balls



Projections from Moody'sEconomy.com

- Northern Virginia
- Capital Region
- Hampton Roads
- Roanoke Valley
- Blacksburg
- Charlottesville
- Danville
- Lynchburg



Potential Credit Impacts

- Debt
- Finances
- Economy
- Management



Managing Budgetary Impact

- Paradigm shift for many VA municipalities
- Multiple potential revenue impacts
- Multi-year planning becomes particularly important
- Aggressively monitor and adjust budget
- Incorporate flexibility into spending assumptions
- Worst Case Scenario planning



Managing Impact on Debt Burden

- Debt burden may increase
 - Due to actual taxbase declines
 - Impact of borrowing in light of less than assumed taxbase growth
- Learn from historical cycles
- Trade-off between potentially divergent goals



Impact on Economy

- Limited ability to manage the impact on the local economy
- Active monitoring of local employers, taxpayers and economic development projects
- Impact will vary based upon
 - Employment concentration in construction sector and related industries
 - Exposure to sub-prime market



The Good News:

- In and of itself, taxbase declines due to a moderate recession in housing are not expected to impact credit quality.
- Strong Management decisions can enable a community to thrive despite a changing real estate market.

