Forward-Looking Statement

Information in this presentation is derived principally from publicly available information, forest products and building industry publications and websites, data compiled by market research firms, and similar sources. Although we believe that this information is reliable, we have not independently verified any of this information and we cannot assure you that it is accurate. This presentation also contains forecasts regarding future economic conditions, demand, commodity prices and similar matters. The accuracy of such forecasts is subject to a number of risks, uncertainties and assumptions that may cause actual results to differ materially from those projected, including, but not limited to, the effect of general economic conditions, including the level of interest rates, housing starts and exchange rates; the relative strength of various U.S. and global business segments; energy prices; raw material prices; transportation disruptions; the effect of governmental actions; natural disasters; and the outbreak of terrorism, war and other hostilities.
What should you consider in your state?

- Fewer home sales and at lower prices
- Downside risk to consumer spending from drop in real estate values
- Inventory correction likely to run through at least 2008
- Homeowners looking for property tax relief
- Consider the unthinkable
- Develop signposts and a tracking system so you can forewarn policymakers

Four issues for today’s discussion

- Excess stock of housing persists
- Federal government support to the housing industry
- Prospective homeownership rate
- Home prices and equity
Excess stock of 600-700,000 units

Vacancy Rate for Homeowner Units
(Seasonally Adjusted)

Homes being brought back on the market

Number of Existing Homes for Sale

Source: Census, Nat’l Assn. of Realtors

Weyerhaeuser
The future is growing
One piece of the shadow inventory

Vacant Homes Held off Market for Other Reasons

Lowest level since 1970s

Inventory of New Homes for Sale in the U.S.
(Seasonally Adjusted)
Primary means for eliminating excess supply

U.S. Single-family Housing Starts
(Seasonally Adjusted Annual Rate)

Excess supply of 300-400,000 units

U.S. Vacancy Rate in Rental Housing
Virtually all current multi-family starts are for-rent units

U.S. Multi-family Housing Starts
(Seasonally Adjusted Annual Rate)

Quarterly

Source: Census

Four issues for today’s discussion

- Excess stock of housing persists
- Federal government support to the housing industry
Tax credit just affected timing

U.S. Existing Homes Sales
(Seasonally Adjusted Annual Rate)

Million Units

3 4 5 6 7
Quarterly


Sales at a “trend” rate

Estimated Turnover Rate of Owner-Occupied Housing Stock

Percent

3 4 5 6 7 8 9

Housing was best investment
Housing Bubble


Source: NAR, Census, Weyerhaeuser
Competing with abundant supply of existing homes

U.S. New Homes Sold
(Seasonally Adjusted Annual Rate)

Government guarantee of low down-payment loans

Share of New Homes Sold via FHA and VA Mortgages

Percent

Source: Census
Four issues for today’s discussion

- Excess stock of housing persists
- Federal government support to the housing industry
- Prospective homeownership rate

2.4 million fewer owners than otherwise

U.S. Homeownership Rate
(Seasonally Adjusted)

Percent

Quarterly

Source: Census
Loss in first-time home buyers

Homeownership Rates for Married Couples Under 35 Years

A concern for the next 3-5 years

Employment Rates for 25-34 Year olds
Four issues for today’s discussion

- Excess stock of housing persists
- Federal government support to the housing industry
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- Home prices and equity

Prices are stable for now

Median Price for Existing
Single-family Homes

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<td>Thousand $</td>
<td>140</td>
<td>150</td>
<td>160</td>
<td>170</td>
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<td>190</td>
<td>200</td>
<td>210</td>
<td>220</td>
<td>230</td>
<td>240</td>
<td>(Seasonally Adjusted)</td>
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Source: Nat’l Assn of Realtors
The paper gains are gone

Homeowner Equity in Real Estate
(At year-end)

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<tr>
<th>Year</th>
<th>Assets (Trillion $)</th>
<th>Liabilities (Trillion $)</th>
<th>Net Worth (Trillion $)</th>
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<tr>
<td>2002</td>
<td>14.9</td>
<td>6.0</td>
<td>8.9</td>
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<td>2006</td>
<td>22.9</td>
<td>9.9</td>
<td>13.0</td>
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<td>2010.1</td>
<td>16.5</td>
<td>10.2</td>
<td>6.5</td>
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Source: FRB, Flow of Funds

Home price down and mortgage debt flat
Legacy issue for consumer spending

Homeowners Equity as a Percentage of Residential Real Estate Value

Little to no equity for trade-up

Median Net Cash to Existing Home Sellers in California

Source: California Assn of Realtors
The surge in sales values was short-lived

Washington State Taxable Real Estate Activity
(Seasonally Adjusted)

Similar messages to 2006

- Unprecedented situation continues
- Can traditional econometric models capture the unique circumstances at hand?
- Create a simple model to consider the what-ifs
- Develop signposts and a tracking system so you can forewarn policymakers