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U.S. Stocks Fall the Most Since January as Gold, Oil Surge



U.S. stocks fell the most since January as surging gold and oil prices increased concern the Federal Reserve will raise interest rates to contain inflation.

The Dow Jones Industrial Average ended a five-day rally that sent the benchmark about 80 points from a record. American International Group Inc. led the retreat as the world's largest insurer said first-quarter profit declined.

Gold jumped to a 26-year high as copper, nickel and zinc set records. Crude oil climbed for a third day, approaching last month's all-time high. Fed policy makers cited higher commodity prices as a concern yesterday after their 16th straight rate increase in the past two years.

The behavior of gold is grounded in a realistic concern about inflation, and it has the market spooked," said Kurt Wolfgruber, who oversees \$225 billion as chief investment officer of OppenheimerFunds Inc. in New York.

The Dow average fell 141.92, or 1.2 percent, to 11,500.73, retreating from its second-highest close. The Standard & Poor's 500 Index lost 16.93, or 1.3 percent, to 1305.92. The Nasdaq Composite Index dropped 48.04, or 2.1 percent, to 2272.70. All three indexes had their worst declines since January 20.

More than six stocks fell for every one that rose on the New York Stock Exchange, the worst ratio in seven months. About 1.83 billion shares changed hands on the Big Board, 13 percent more than the three-month average.

The Fed raised its benchmark rate a quarter percentage point to 5 percent one day ago. The central bank's accompanying statement damped speculation that an end to higher rates was imminent. Policy makers said they would monitor incoming economic data to make their next decision on rates and also said higher commodity prices had the potential to increase inflation.

Commodities Surge

Oil for June delivery rose 1.7 percent to \$73.32 a barrel after a kidnapping of foreign oil workers in Nigeria and further nuclear research tensions with Iran threatened supply. Futures reached \$75.35 on April 21 and 24, the highest since trading began in 1983.

Gold prices climbed as high as \$726.70 an ounce in London, a level not seen since January 1980, as investors bought bullion as a hedge against inflation. Copper prices soared above \$4 a pound for the first time after doubling the past six months. Zinc rose to a \$4,000 a ton, while Nickel hit \$21,201. Silver reached the highest since January 1981 at \$14.935 an ounce.

Stockpiles of the metals monitored by the London Metal Exchange decreased the most in five weeks, showing higher prices have not cut demand.

Pressures Building

We're starting to see inflationary pressures building, that's what the Fed is certainly going to focus on," said Steven Rhone, chief executive officer of Wentworth, Hauser & Violich, which manages \$8 billion in San Francisco.

Sales at retailers rose 0.5 percent last month, as higher fuel prices took their toll on consumers, the Commerce Department said. Economists expected a 0.8 percent increase.

Reports on producer and consumer prices next week may give investors and the Fed a clearer picture of how fast inflation is accelerating.

AIG lost \$3.39, or 5.1 percent, to \$63.15 for the worst performance in the Dow. AIG reported a drop of 16 percent in first-quarter profit to \$3.2 billion, or \$1.22 a share. Pretax earnings from life insurance and retirement savings products outside the U.S. rose 6.3 percent to \$1.44 billion, the second- slowest quarterly pace in at least two years.

General Motors Corp. also weighed on the Dow average, falling 78 cents to \$25.81. Banc of America Securities analyst Ron Tadross wrote in a note that GM's market-share decline will make it difficult to recover from \$10.6 billion in losses last year. Tadross rates GM "sell," saying recent stock-market gains may be nearing an end.

Commodity Funds

Four commodity exchange-traded funds set records today. Shares of gold ETFs, which trade on exchanges like stocks, have attracted almost \$9 billion in the 18 months since they were introduced in the U.S., and account for about 10 percent of global gold demand.

The StreetTracks Gold Trust gained 65 cents to \$71.03, while the iShares Comex Gold Trust rose 72 cents to \$71.27. The DB Commodity Index Tracking Fund, which invests in a range of commodities, added 26 cents to \$26.94. The iShares Silver Trust jumped \$3.34 to \$148.60.

JDS Uniphase Plunges

JDS Uniphase Corp. lost 36 cents, or 11 percent, to \$3.03 for the steepest decline in the S&P 500. The maker of communications equipment said that it plans to sell \$375 million of senior convertible notes and may use the proceeds to repay debt. Existing holders' stakes may be diluted when notes are converted to shares.

UnitedHealth Group Inc. lost \$1.80 to \$44.37. The No. 2 U.S. health insurance provider said the U.S. Securities and Exchange Commission is conducting an informal inquiry into its stock-options grants. The company said it may have to restate results and record expenses that would reduce the past three years' earnings by \$286 million.

Johnson & Johnson rose 52 cents to \$58.84 for the only gain in the Dow. Banc of America analyst Glenn J. Novarro upgraded the shares to "buy" from "neutral," writing in a note to clients that the possibility the company may use its available cash to make an acquisition could serve as a positive catalyst for the stock."

News Corp.

News Corp. Class A shares gained 58 cents to \$18.58. The company said third-quarter profit more than doubled to \$820 million, or 26 cents a share, on higher earnings at its cable-television and Fox broadcast networks. Profit, excluding one-time items, of 22 cents a share beat the 19-cent estimate of Goldman, Sachs & Co. analyst Anthony Noto. News Corp. also doubled a share-buyback program to \$6 billion.

Movie Gallery Inc. surged \$1.62, or 51 percent, to \$4.78. The No. 2 U.S. video-rental chain said first-quarter profit more than doubled, helped by lower income taxes, and that it has enough cash for the rest of the year.

American International Group Inc. (AIG US)

DB Commodity Index Tracking Fund (DBC US)

General Motors Corp. (GM US)

iShares COMEX Gold Trust (IAU US)

iShares Silver Trust (SLV US)

JDS Uniphase Corp. (JDSU US)

Johnson & Johnson (JNJ US)

Movie Gallery Inc. (MOVI US)

News Corp. (NWS/A US)

streetTRACKS Gold Trust (GLD US)

UnitedHealth Group Inc. (UNH US)

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Housing development Ebbs as Outlook Cools

In the latest sign that some of the steam is seeping out of the region's housing market, Bay Area real estate developers are trimming prices, converting residential projects to commercial uses and, in some cases, walking away from certain properties altogether.



After years of rampant building spurred by soaring home prices, some developers now are getting squeezed by rising interest rates and construction costs, an uncertain housing market and a jump in the number of units on the market – or coming soon.

Two years ago, developer Monahan Pacific bought a 1/3-acre site at 535 Mission St. with an eye toward erecting a 34-story, 273-unit condo tower. Last month the company sold it to Beacon Capital Partners, which is expected to turn the property into offices.

The developer pulled the plug because he felt it was too risky – high-profile developments from Mission Bay to Rincon Hill are adding several thousand condos to San Francisco's SoMa district.

“We just don't think it's prudent to bank on further price increases because there's more supply, and rates on mortgages are going up and impacting the prices people can pay” said Jeff Hutchinson, Monahan Pacific's director of acquisition and finance, who confirmed published reports about the transaction.

While investment in housing remains strong around the Bay Area, it is clear that builders – who must ramp up projects years in advance to clear regulatory hurdles and find financing – face a shaky market:

- Developer Opus West last month scrapped plans to build 100 condos on the south side of Mission Creek

in the sprawling Mission Bay development in San Francisco, though the firm just opened a sales center for the 110 condos it still expects to build on the north side.

- Home builder Shea Homes recently dropped plans to build nearly 100 townhomes and live-work lofts on a 5-acre site in San Jose.
- Lennar Corp., after beginning negotiations to develop several hundred units on a downtown block in Oakland late last year, decided in early March not to move forward.

“It's certainly a different market than it was a year ago,” said Adam Lubow, principal at Praedium, a new-home sales and marketing firm in Pleasanton. “Then, if you had product that was well positioned and properly priced, there were lines out the door and lotteries. Now we have higher interest rates, gas prices that are going up and fewer buyers in the market and fewer mortgage programs as readily available.”

Despite some developers' reluctance to invest in certain areas, the overall market for new homes – which represents a relatively small portion of the region's total housing market – remains healthy. The number of new houses and condos sold edged up less than 2 percent between March 2005 and March 2006, but the median price paid for a new unit jumped nearly 12 percent, from \$594,000 to \$663,000.

Thomas Davidoff, an assistant professor of real estate at UC Berkeley, doesn't believe the market for new or existing homes is in danger of crashing. Instead, he said, developers are simply adjusting to a more measured pace of growth. Although he expects construction to ratchet down further, the region's population and job growth will continue to drive a certain level of building.

Of course, Davidoff and others point out, if building activity were to slow to a crawl, it could ultimately create a whiplash effect – driving prices higher if supply slipped too far behind demand.

“It's a high-risk, high-stakes game – it's the art of development,” said Seth Nodelman, senior director of retail services at commercial real estate firm Cushman & Wakefield.

“Good developers have great timing, and they understand where demand will be and they build for it.

Meanwhile, Mark Ritchie, president of Ritchie Commercial in San Jose, hears about deals falling

through every week. One of them was his own: A large builder just backed out of a 300-unit apartment complex on a 60,000-square-foot downtown plot in San Jose. Ritchie estimated that the builder had shelled out several hundred thousand dollars in planning costs but could not make the project pencil out because of a slower market and pressure from neighbors to reduce the number of units.

Other builders find they must work harder to sell the homes they have ready.

Their incentives range from swanky events to straight-up cash discounts to free cars.

“Much of it depends on how much inventory they have and how quickly they need to move it,” said Joseph Perkins, president of the Home Builders Association of Northern California, noting that many large, publicly traded builders must meet quarterly sales projections.

Even ecologically friendly projects are finding the Bay Area a tough market to crack.

At GreenCity Lofts, a 62-unit development in Emeryville that touts sustainably harvested wood floors, a 1,100-square-foot one-bedroom loft is being offered at \$499,000. Recently, a similarly sized unit sold for \$640,000 – although it had some perks, such as views of the Berkeley hills.

To help attract more interest, sales manager Teresa Marlow said, the firm will be upgrading units with chic appliances, breakfast bars and ceiling fans. Recently, Marlow hosted an invitation-only art viewing at the complex with hors d'oeuvres from a noted chef.

“It all helps in terms of driving traffic to the door,” she said.

Doug Krah, president of Standard Pacific's Northern California division, is hoping to appeal to consumers' wallets – particularly the fence-sitters who may need an extra push. His firm is offering packages worth as much as \$75,000 in the form of discounts, incentives to brokers and upgrades. With those tactics necessary to sell homes in some developments, Krah is hesitant about laying out lofty sums for new land.

“We're just like the buyer who's wondering whether this house is going to cost more or less this year,” he said. “If they think it's going to cost less, they don't buy. If I think that land is going to cost less next year, I don't buy.”

