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JANUARY 2008 eNEWSLETTER

Dear Real Estate, Relocation and Lending Professionals:

Will 2008 be the Year of the Housing Turnaround?

Optimists say 2008 will be the "*Year of the Turnaround*"- pessimists suggest that it will not be.

While I am not an economist or a fortune teller, I am a residential real estate appraiser who reads the same articles you do, the same press releases from NAR and IAR, the same published reports that are giving Wall Street jitters and shaking the global markets, and the same reports that are referring to the "R" word – Recession.

I follow real estate markets from a localized, statistical perspective – primarily viewing the inventory levels and what is causing the changes in inventory. This is data from no other reports than our local multiple listing service – the MLS of Northern Illinois. I understand that statistics can be manipulated, misinterpreted, and misleading. I also try to be the optimist when I can, preferring to turn lemons into lemonade. I continue to be 'just the messenger,' so please don't shoot me – I am looking for the silver lining, and closely watching these statistics, looking for something positive that could signal a turnaround. Unfortunately, I just don't see it ... yet.

From this real estate market I continue to learn, making new observations and opinions as I read local and national reports, while looking at our own statistics. The current down-market is not like anything that we have seen before. Previous housing slowdowns were short-lived, or were a direct result of rising or record high interest rates, or economic recessions that dragged housing downward. Currently, it is the housing sector that is dragging the economy downward. We are witnessing very low interest rates, with further speculation that the Fed will lower rates again next week.

The year-end statistics that are attached to this report shows reason for optimism ... as well as pessimism.

Last year on January 1st, I was "cautiously optimistic" about 2007, and in hindsight, 2007 was a "bad" year for our local real estate markets. As of January 1, 2007, only 15 of 185 communities saw a decline in average sales price over the previous year. This was 8% of our surveyed communities, and although we were reading national and regional reports, our response was "not our area."

As of January 1, 2008, 109 of 185 communities saw a decline in average sales price over the previous year. This is 59% of our surveyed communities, and the realization is yes, we have declining market conditions. We struggled through 2007, witnessing the Sub-Prime meltdown,

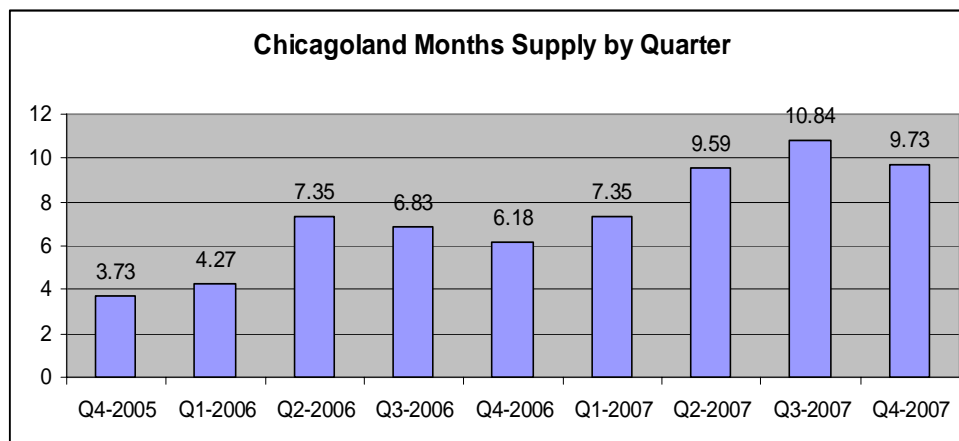
increased Foreclosures, builder bankruptcies, significant concessions in both the new and resale market, more price reductions, longer days on market, and increasing supply of homes – both new and resale. All those red flags, combined with fewer buyers actually purchasing homes.

Let's take a closer look at what is going on right now. It is all about **“Supply and Demand.”**

The laws of supply and demand help to set prices in an imperfect market.

Our supply is our active listings. Our demand is our contract pendings which leads to sales volume. Supply continues to rise, and demand continues to stall or fall.

Viewing the monthly trend or the change from the previous quarter to the current quarter in the current market is a flawed perspective due to “manipulation.” One can surmise that the inventory levels are falling from our statistics. But the attached graphs and data show that this is the same exact trend we witnessed last year at this time, as well as previous years. A decline at the end of the year, that followed up with increases into future months and quarters. The reason for this “manipulation” is because many people remove their homes from the market when our downward seasonal market is in full force, with very little activity between Thanksgiving and New Years Day. The graph bellow shows the quarterly trend over the previous 9 quarters.



In the first 3 weeks of the new year (as of January 21, 2008), we now have 50,966 listings on the market. On January 1, 2008 when the stats were run for the current attached reports, there were 44,570 active listings. This is an increase of 6,396 listings in 3 weeks, or a 14% increase in our supply side, or 304 new home listings a day if you care to measure it that way. Last year on January 1, 2007, there were 39,925 listings.

We must continue to trend the current period with the same period one year ago to really understand the current market and if it continues to decline or if it is improving.

Many say our market “picks up” after the New Year ... others say Super Bowl Sunday ... and others say not until March 1st. Who is right? Well, all are correct – the number of contract pendings will steadily increase for the next 3 months as we head toward the Spring market.

On the demand side of the equation, which is contract pendings and sales volume, things continue to look bleak. Demand is down from previous years, and with the press reporting the prospect of a recession, it could get worse before it gets better, as they wait for properties to drop further or for the economy to improve.

MONTHS SUPPLY

A total of 8 of 185 surveyed communities saw a drop in the months supply from 1/1/07 to 1/1/08, therefore 96% increased... this continues to be an unpleasant trend. The entire Chicago market (in addition to the 185 surveyed communities) showed a 9.73 month supply, up from 6.18 months on 1/1/07 and 3.73 months on 1/1/06. What is causing this?

Let's look closer at the listings, pendings and sales. To illustrate this, we look at trends, or where we were at the same period a year ago, or two years ago.

LISTINGS... in most areas, the total number of active listings have increased – overall in Chicagoland, it is up 11.6% over the past year, and up 57% from two years ago.

The good news is the rate of increase is slowing down ... hopefully a future trend that we see that will lead to an actual decline.

Once we see listings declining in the year-over-year statistics, this will be solid evidence that our market is getting better.

PENDINGS... in most areas, the total number of homes under contract has continued to decrease. We had 4,446 under contract on 1/1/08, while there were 6,448 last year at this time, and 7,970 under contract on 1/1/06. This shows continued falling demand – a 31% drop from last year, and a 44% drop from two years ago.

This continues to be a concern, as it shows what is happening right now – and the slowdown in homes under contract shows the falling demand. The contract pendings is a statistic that I am going to continue to follow very closely as we move forward. The pendings will be the first indication of a market that is reversing its downward trend.

CLOSED SALES... in most areas, the total number of sales volume has decreased. The following totals are the amount of sales that occurred in the preceding 12 month period. Two years ago, the annualized total was 83,156 sales, last year it was 71,027 home sales, and as of 1/1/08, it was down to 50,516. That is a 39% drop off from the volume of two years ago, and 29% drop from last year. This is the direct result of fewer homes purchased, which is leading to the continued increase in inventory. All this is taking place during very favorable interest rates that do not seem to be helping the housing sector.

The fact that pendings continue to trend downward at a higher rate than the sales, suggests that we will continue to see declining sales volume. Unfortunately, the high level of inventory, with declining sales volume exerts downward pressure on home prices.

Average Change in Sale Price

As of 1/1/07, only 14 of 185 communities showed a drop in annualized average Sales Price (8%). But as of 1/1/08 a total of 110 of 185 communities showed a drop (60%).

Although a majority (60% of Chicagoland) showed a drop in average sales price, 40% still showed an increase. The difficult market conditions have not lead to every sub-market experiencing declining values.

It should always be noted that the averages are influenced by new construction sales, influenced by upper end sales (or lack thereof) influence the simple averages. Therefore it does not directly lead to actual appreciation or depreciation in a specific area. Those are calculated by Sale/Resale data. For example, if a specific home sells in 2007 for \$100,000 and resells 12 months later for \$103,000, that shows a 3% increase.

In the current marketplace, when the high end sales are not selling, it helps to pull down the average, so it appears that the market may be declining when it really isn't at all price ranges and areas.

New construction in a strong real estate market inflates the average, because the new homes selling are generally higher priced than the resale data. Flaws and false indicators can influence the data when higher priced new construction sales are removed from the data pool as a result of the downturn in the new housing sector.

Furthermore, the new homes that are being sold, many have significant incentives that are not reported against the final sales price, so although it shows a home in the MLS sold for \$350,000, it doesn't take into consideration the "real" price the buyer paid – less the \$20,000, \$35,000, \$50,000 or greater incentives and/or upgrades.

Most markets that have new construction competition seem to be suffering; this includes two types of new construction competition:

1. The tract and planned subdivisions on the outskirts of suburbia. These include the growing communities with vast amount of vacant land being developed into subdivisions by single builders. The builder influence in the regional and national chains with their tract-built subdivisions. The drop-off in new home starts in 2007 is well publicized in the media, and builders who made significant profit in the boom times, can usually weather the storm. In any case, they are surviving with significant discounts, free upgrades, and concessions, many times are not even recorded as the final purchase price.
2. The established "Metra Commuter Areas" communities that are established with vacant land being very scarce. These are the areas with the significant tear-down activity. These areas are doing better overall at the median price ranges and lower, but suffering most at the upper price point where these custom homes are being built.

**To repeat the opening question and theme of this newsletter ...
Will 2008 be the year of the housing turnaround?**

At this point it is very hard to tell. The Fed continues to lower interest rates to help the economy. President Bush is considering drastic methods with bi-partisan support to stave off the Recession we may or may not already be in. Other creative proposals are being discussed at the grass roots level, including James Weichert, president of Weichert Realtors who is proposing a tax credit for homes purchased, which is gaining support with NAR for a congressional strategy to be an economic stimulus.

Our monthly reports, which now include attached housing (condos and townhomes) will be closely followed to note potential trends that result in positive signs that buyers are increasing and

inventory are decreasing. Our quarterly reports will continue to watch the year-over-year change in inventory levels, as well as average list and sales pricing.

The buyers are still there, and our demographic population in the region continues to rise as well. Some communities are faring better than others – areas with good schools, good transportation and near employment centers seem to be doing better than others.

In my opinion, I believe that 2008 will be the year that we do stabilize (in terms of inventory levels) which may start this later this year. But at the same time, we will see continued decline in the average sales price into next year and quite possibly beyond. This is the continued correction from the strong markets we experienced in previous years. There is just too much housing inventory built up, and it will take a long time for it to drop down to balanced levels in our marketplace. Therefore, it will take a long time to change from a “Buyer’s Market” to a “Seller’s Market.” It will be a long and slow recovery that may take several years to return to a market similar to what we saw in the first half of this decade.

A New Member of the Team

I am proud to announce my strategic alliance with Maureen Sweeney, SRA. Maureen is no stranger to many real estate agents in the City of Chicago, where she is a resident. She has been appraising for nearly 20 years, and will be exclusively handling A.L. Wagner Appraisal Group’s assignments in the City of Chicago. The Wagner-Sweeney duo will expand the firms Chicago presence, which goes back to the days of Wagner’s father who originally lived and worked in the Beverly neighborhood in the early 1960’s, bringing extensive knowledge of the nuances of the City of Chicago marketplace.

Maureen's experience and expertise runs the gamut from condominium units, single-family homes, small income properties, as well as multi-million dollar dwellings in the Chicago area's most prestigious neighborhoods and its suburbs. A graduate of the University of Illinois, she serves on the Illinois State Appraisal Board, a position appointed by the Governor.

The Chicago address is 1000 W. Diversey Parkway, Suite 214, Chicago, Illinois 60614.

Concluding Thoughts

To my clients and real estate agent friends and colleagues, I appreciate your business, referrals and your support. I strive to be as fair, objective and as accurate as possible in my appraisal business. Everyone knows, it is not the real estate agents or the appraisers that “make the market,” we interpret the market. It is a very difficult market to interpret these days, and cooperation between appraisers and agents is vital. Thank you for your cooperation and referrals. This data continues to be published as my thank you, and allows me to be as accurate as possible in my appraisal work. Let’s all understand the challenges that we face in our day to day business, and how we can use the statistics to accomplish our goals.

If you and your office would like me to come in to discuss these market studies, how to interpret them, or any other appraisal/valuation or relocation topics, please do not hesitate to contact me.

Current and archived reports are available at www.headrick-wagner.com. Archived reports can also be viewed along with Chip Wagner's eNewsletters and Inventory Supply Calculator at www.WagnerAppraisal.com.

I wish everyone a successful 2008 – we know one thing – we are all working harder to achieve our goals to participate in the transfer of residential real estate. Let's all hope we see a hint of improvement in the statistics as we get through this year.

With Warm Regards,

Alvin "Chip" Wagner III, SRA, IFA, SCRIP (RAC Member)

A. L. Wagner Appraisal Group, Inc. is proud to have been serving the Chicago metropolitan area since 1970 by its founder Alvin Wagner Jr. Currently lead by his son Alvin III, known as "Chip," we specialize in corporate relocation appraisals and complete residential appraisals for all purposes including lending, REO/Foreclosure, Legal (divorce, estates, trusts, litigation support), market value appraisals for Realtors and individuals for both listing and selling purposes. Visit www.WagnerAppraisal.com for more information on our qualifications and services. Thank you for your referrals!

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