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FEBRUARY 2008 eNEWSLETTER

Dear Real Estate, Relocation and Lending Professionals:

Attached please find our **Monthly Market Pulse Reports** for both attached and detached housing in February 2008. The media continues pouring out information about a Recession and the housing statistics continue to be dismal. While there are certainly some sub-markets that are doing better than others, pretty much everyone is feeling the crunch.

A quick look at the statistics shows a majority of communities continue to see increasing inventory levels fueled by more listings and fewer sales. This is expected as many people are putting their homes back on the market in anticipation of the traditionally better Spring marketing season.

It has often been said our Spring Market typically picks up after Super Bowl Sunday, as long as the weather cooperates. With this winter the harshest on record (in 29 years) in terms of snowfall, and the continued deep-freezes that we have been in this winter, the Spring season is being delayed. Many agents are reporting increased activity working with Buyers and contracts are being offered. The official start to Spring is less than a month away so hopefully that will lead to more buyers coming out into the warming temperatures.

Next month, I plan to take a close look at the contract pendings to try to see if we are keeping pace with the activity from last year or if it is increasing (positive) or decreasing (negative). This will be the clue if our market conditions are improving or not in 2008.

LOOKS RIGHT AND PRICED RIGHT

The oversupply of inventory makes it very difficult for homeowners to sell their home. Many agents are telling me there are more buyers active right now as we are enter our Spring market, yet it remains a challenge. The buyers have many residences to look at. Homes are still selling – but unfortunately the types of homes appear to fall into two major categories: **Looks Right** and **Priced Right**, everything else in between is sitting unsold.

The houses that **Look Right** are those that stand out above the competition. They have positive attributes that their competitors cannot match. This may include Location/Site features such as a cul-de-sac lot with reduced front yard traffic, or a view of the park or Forest Preserve. It could also include homes that have been remodeled that stand out above its competition; e.g., adding trendy features such as granite countertops and stainless steel appliances to the kitchen. Or it could be about the impeccable condition of the property with brand new carpeting, recently refinished flooring and a fresh coat of neutral paint. Good interior staging is going a long way to make the home show the best that it possibly can. The homes that **look right** are being purchased, those that have a couple of faults here and there, are being overlooked and sitting on the market. This is exactly what happens when there is an oversupply and it is a **Buyers Market**.

The houses that are **Priced Right** are also getting a lot of attention. These are the homes that are sometimes called ‘short sales,’ or ‘quick sales.’ They might be properties where a seller has to sell because of a job transfer or a job loss. They could be properties in pre-foreclosure where the owner is distressed to get out of the property before they must turn the keys over to the bank. It could be a corporate-owned home, either by a bank, or a corporation who moved their transferee. These are some of the most motivated sellers on the block.

Or, it could be the builder who is willing to ‘wheel and deal’ and give away the spec home at an unbelievably low price, just to keep their sub’s paid, and able to work on that next home. I recently met a transferee who could not sell his home which was priced under the market at \$325,000 when all of the comparable homes were over \$350,000. He told me the feedback received was that people are choosing new construction of more expensive homes – of homes originally priced \$400,000 to \$450,000 that builders were selling for \$350,000 with the discounts and concessions. It remains a difficult resale market in areas where sellers are competing with builders.

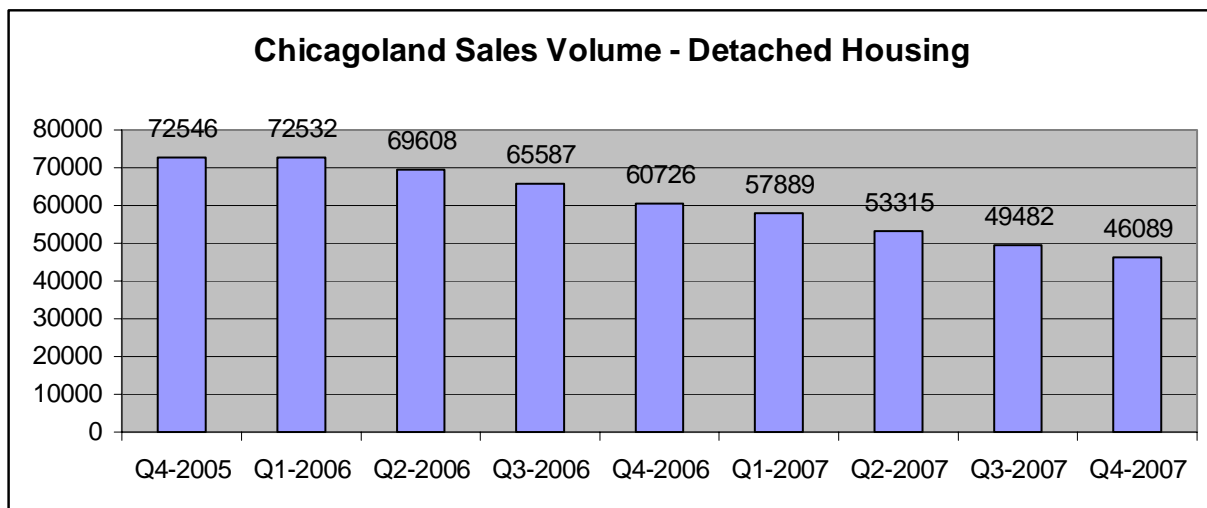
With residential mortgage rates at favorable rates, most lenders have tightened their lending practices, making it more difficult for even the most qualified buyers to purchase a home. It appears to be more difficult to get a loan right now than in the recent past.

Many of the “fence-sitters” continue to sit back and wait for the market to hit rock-bottom, or wait for that home that either **looks right** or is **priced right**.

HOUSING .. FAR-REACHING EFFECTS

Recently I was discussing the impact of the current state of the Housing Market with friends and how the combination of declining real estate values and the declining sales volume is affecting so many industries and so many individuals. Many are obvious, but others are less obvious.

REAL ESTATE SALESPEOPLE ... Realtors® are certainly feeling the effects. As noted below, there is a 36.5% drop in annualized sales volume from year end 2005 to year-end 2007.



(Source: MLSNI – Detached Homes)

Combine the drop in annualized sales volume from year-end 2005 to year-end 2007 with the home prices increasing at a much lower rate, this equates to \$7.6 Billion less real estate sold, or \$459 Million less in potential commissions. The following table shows the total dollars in Chicago-area Real Estate sold – for Detached Homes only.

All of Chicagoland (MLSNI)	2005	2006	2007
Dollars in RE Sold	\$27,001,873,404	\$23,994,551,219	\$19,359,039,965
Estimated RE commission (6%)	\$1,620,112,404	\$1,439,673,072	\$1,161,542,398

(Source: MLSNI – Detached Homes)

RESIDENTIAL REAL ESTATE APPRAISERS CURRENTLY IN ‘FAMINE’ ... It is often said that appraisers work in a ‘Feast or Famine’ environment. We feast when our services are in demand, and suffer famine when there is a slowdown. Currently, there is a serious lack of demand for mortgage appraisal business. If an appraiser relies primarily on mortgage lending work, the decline in sales volume has removed almost 26,500 sales transactions that would traditionally need an appraisal according to the graph above. Also, the declining home values make it more difficult for homeowners to refinance or get equity loans, leading to fewer appraisals ordered. Combine that with the Sub-Prime meltdown and the lending industry cracking down on loose lending practices, there is a tremendous downturn for the demand for real estate appraisals for the 6,000+ licensed appraisers in IL. It is a “perfect storm” scenario and only the appraisers with a diversified clientele are able to stay afloat.

OTHER PARTIES TO THE RESIDENTIAL SALES TRANSACTION ... The sale of real estate, and its decline in volume obviously affects other businesses significantly. The decline of the mortgage lenders is well publicized. Banks and lenders are all competing for a piece of the declining business. But many other individuals and companies are being affected as well, e.g.

- Attorneys
- Title Companies
- Home Inspectors
- Moving companies
- Do-it-your-self truck rentals (U-Haul, etc.)

STATE, COUNTY AND MUNICIPALITY REAL ESTATE TRANSFER TAXES ... Many municipalities have “Transfer Taxes” that rely on the sale of real estate to support various governmental programs and municipality budgets. For example, Naperville, IL has a \$3 per \$1,000 of sales price transfer tax. Based on the decline from 3,266 housing units (attached and detached) that sold through the MLS in 2005, versus the 2,271 housing units (attached and detached) that sold through the MLS in 2007, the city will have \$999,000 less in their budget, which the short-fall will need to be realized in other areas.

HOME BUILDING INDUSTRY ... In January, the government reported that construction of new homes fell by 24.8 percent in 2007, the second biggest decline on record, exceeded only by a 26 percent plunge in 1980. This obviously not only affects the home building, but all of the different businesses, trades and professions that support the construction of a home.

- Excavators
- Concrete
- Carpenters
- Flooring industries: Carpeting, Tile, Hardwood, Staircase builders
- Roofers
- Plumbers
- HVAC: Furnaces & Central Air Conditioning
- Electricians
- Lighting companies
- Drywall finishing
- Painters
- Cabinet makers, including kitchen and bathrooms
- Landscapers
- Window treatments

HOME FURNISHINGS INDUSTRY ... with new homes not being built, the home furnishing industry is suffering from the effects. This also includes the furniture industry.

HOME REMODELING ... An article in the 2/24/2008 *Chicago Tribune* by Mary Umberger notes the negative impact on the home remodeling industry. This is affecting home improvement businesses, as well as retail giants that serve contractors and do-it-yourselfers such as The Home Depot, Lowes, Menards, and Ace Hardware.

THE RELOCATION INDUSTRY AND CORPORATE AMERICA ... Trends show there is reluctance for transferees to move as a result of their falling equity in their homes, with some people even upside down on their loans. This is leading to a corporation electing to move fewer employees than in previous years.

TAPPING HOME EQUITY ... This generation has used the equity that was built-up in their homes, through price appreciation, like an ATM/cash machine. They have used their home's equity to pay off credit card debt, purchase new automobiles, pay for college education, purchase second homes for retirement and/or vacations, additions and remodeling projects, or purchased other lavish 'toys' and other lifestyle amenities.

With a home's equity falling, as a result of the current real estate recession, many of the aforementioned products and business are suffering as well. This leads to a decline in consumer spending which we have heard about after this past holiday's shopping season. Too many people have tapped their equity line of credit to its limits. Corporations' earnings are not being realized and it is making Wall Street nervous, and those who invest in the stock markets are watching their portfolios suffer.

**As the housing sector of our economy falters, through the "domino effect,"
it affects an incredible magnitude of other industries.**

While many believe that a "correction" was expected, if not long overdue, the sooner consumers become more optimistic, the sooner these issues will begin to correct themselves.

Let's hope this Recession is short-lived. A little confidence back in our real estate markets would go a long way!

Best regards,

Chip

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

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