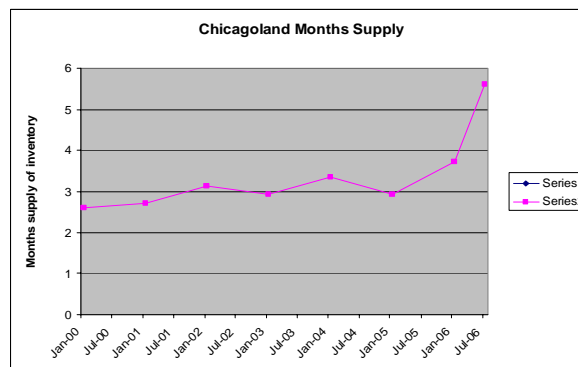
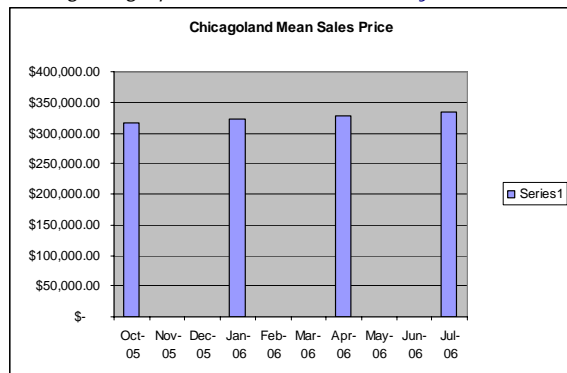


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SECOND QUARTER SALES TREND HIGHER, BUT INVENTORY INCREASES

Residential detached home prices continue to trend upward, providing some balance to the housing market. However, while the mean sales price in the in Northeastern Illinois increased 1.6% from the first quarter to the second quarter, and 3.3% since the beginning of the year, the inventory of homes available has increased substantially throughout the first half of 2006.

The Chicagoland market, which includes all communities listed in the MLS of Northern Illinois, is now holding a 5.60 month supply, which is up 67% from the same period last year when the inventory was 3.36 months on July 1, 2005.

While there are very real reasons for the current deceleration in the residential market, the extent of that change goes beyond what can be explained by underlying fundamentals alone. Certainly the record high home prices achieved in 2005 when coupled with lagging salary increases, rising interest rates and slower population growth are solid reasons for a market slowdown. More positive indicators are also in play however such as mortgage rates which remain low by historical standards.

Clearly, the sweeping change that has enveloped the residential market over the past 6 months extends beyond market metrics and is at least partly attributable to fears of a housing price collapse. Apparently the chorus of voices predicting this collapse and the attention they received from the media, have played a role in bringing the market to it's current state.....as always perception becomes reality!

As we look forward to what's ahead, expect the current situation of fewer sales (demand) and higher inventory (supply) to continue for the next several years. As a result, downward pressure on values will result and some of the increases in home prices which occurred over the past several years will likely be reversed as motivated Sellers trade-off lower prices for quicker sales.

Ironically, this is not necessarily good news for home buyers as rising mortgage rates will likely offset any savings derived from lower home prices. In fact, some home buyers will actually lose purchasing power despite a downward drift in home prices. Thus, buyers should consider whether the current combination of affordable mortgage rates, higher inventory levels and negotiable-sellers are reason to buy now rather than wait.

ATTENTION REALTORS: We appreciate your continued support and referrals. In today's transitional real estate market, there is more risk due to the uncertainty of future market trends. We can help you. To discuss how we can work with you, please contact us at info@headrick-wagner.com.

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