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OCTOBER 2007 eNEWSLETTER

Attached, you will find several market reports that are being released by Headrick-Wagner Consulting, with all statistics as of October 1, 2007. It includes our newly enhanced Monthly Market Pulse (new communities have been added) as well as our Quarterly Report. We are planning future enhancements including an attached housing report (condos, townhomes, duplexes).

We stopped sending e-mails with attachments in June 2007, asking you to visit our website for our most recent reports. Some spam blockers were preventing the PDF documents to go through, so we invited the reader to pick up the report as we continue to update the web page by the 15th of the month with the previous month's data. You can pick up past reports and the most current report at: www.headrick-wagner.com/report.asp

Moving forward, I plan to semi-regularly publish eNewsletters. Time constraints will allow me to write more or less from time to time. Please understand, even without the monthly e-mail, the market studies are always completed and uploaded to the web page by the 15th of the month, so bookmark the page.

"ALL THINGS CHANGE, NOTHING PERISHES" – Ovid

You may have already noticed, Bob Headrick and myself (Chip Wagner) now have gone back to our own separate real estate appraisal companies. Peter F. Drucker said: "The entrepreneur always searches for change, responds to it, and exploits it as an opportunity."

Change is good. Change is inevitable. And change is a real estate principle. Bob and I have elected to make a change.

A combination of the current business climate for real estate appraisals, and our common specialization in relocation appraising, made sense for us to move forward as different companies. Our clients view this as a positive, as we do, and we hope that being separate companies will allow you to continue to refer both of us for appraisal services in the future.

Moving forward, we will continue to jointly publish our market reports through Headrick-Wagner Consulting Group, and we are available to offer educational presentations to your office. As a result, we will maintain the www.headrick-wagner.com website.

BAD NEWS, GOOD NEWS, AND WOW!

A quick look at the attached market reports, as well as the statistics below show the bad news, the good news, and WOW!

The BAD news is ***sales volume continues to decline*** as the twelve-month periods below an average of 4,969 sales per month in the past year, 6,347 sales per month in the previous year (10/1/05-9/30/06), and 7,313 sales per month two years ago (10/1/04-9/30/05).

The GOOD news is the ***average prices are holding moderately stable*** – showing a modest 2.8% increase. Unfortunately, this does not partially cover a typical real estate commission when professionally represented.

The BAD news is ***contract pendings continue to decline*** as there were 1,649 fewer homes under contract on 9/30/07 versus 9/30/06; and there were 4,331 fewer homes under contract than 2 years ago (9/30/07 versus 9/30/05)

The GOOD news is ***pendings still exist***. The market, although much slower, is not dead as over 7,200 homes are currently under contract.

The BAD news is ***Days on Market (DOM) continues to climb***. Active listings: 164 DOM. Sales in past year: 120 DOM. Sales in the previous year: 84 DOM. It is a fact that it is taking homes much longer to sell today than in the recent past.

The GOOD news is ***Average Listing Prices are dropping***. As you will see in the following grid, sellers are becoming more realistic in their pricing (unfortunately desperate in some cases). Competitively pricing a house in the current marketplace is a must. Homes will sell if priced right.

The BAD news is **60% of the surveyed communities on the attached report shows a decline in year over year mean sales price**. This could be a result of new construction influence on the market (builder lowering prices to reduce their inventory or unable to sell), the lack of higher priced sales occurring, or actual market decline.

The GOOD news is **40% of the surveyed communities on the attached report shows an increase in year over year mean sales price**. This could be a result of new construction influence on the market (continued higher priced new homes outpacing the lower priced resales), the presence of higher priced sales occurring, or actual market increase.

The BAD news is ***inventory continues to climb*** to unprecedented levels. When the total number of listings increase, and the sales volume drops, this is the inevitable result. Increased inventory puts downward pressure on prices.

The GOOD news is ***it's a buyers market*** (as long as you don't have a home to sell). The additional inventory is beneficial (if not confusing) to buyers, whether they are transferring into our area, first time homebuyers, or if you are lucky enough to have sold your previous home.

The BAD news is ***we are about to enter a Presidential Election year***. Aside from the questionable newsworthiness of the shenanigans and the television ads that will follow soon, past history shows us that consumers take a "wait and see" approach on many fronts, including real estate.

The GOOD news is ***we are about to enter a Presidential Election year***. Although the Fed is not tied to the White House in any way, it is likely the current regime will do whatever they can to keep our economy moving, which should continue to keep interest rates low (for purchasing purposes).

And WOW! When will we bottom out? What is it going to take? As our housing market nationally and regionally suffers, there are certainly areas that are holding up. I continue to emphasize this as it is very true – not all sub-markets are suffering. And even in the softest of oversupplied markets, homes continue to sell. How are they selling? The WOW-Factor. What is the WOW-Factor?

The WOW-Factor is what differentiates the property from other properties competing with it. The WOW-Factor will lead to the sale.

- It could be the impeccably maintained home or an older home that is updated and modernized.

- The “crème puff” home that stands out above and beyond the competition.
- It could have a unique feature(s) – unique in a good way, of course.
- Perhaps it is an irreplaceable, one-of-a-kind location without negative issues.
- Or, unfortunately, the WOW-Factor might be, “*Wow, is it really priced that low*?”

In the soft real estate market, it is important to identify the “Market Standard.” If the property is above or superior to the market standard, this is positive, if it is below the market standard, it is negative. For example, if your market standard is a 2 car garage, anything less (1 car or no garage) will create negative marketing concerns (leading to a lower value and/or longer DOM), and greater than the market standard (3 car) will enhance the appeal (leading to a higher sale and/or shorter DOM). Lower pricing could lead to shorter DOM, while higher pricing could lead to longer DOM if the marketplace is sensitive to pricing.

Another example is if your market standard is granite counters in the kitchen, and your property does not have it, a call to the granite salesman may be your answer to bring the property up to standards for the area. Often times the feature already available is preferred over an allowance or closing credit.

There are curable and incurable conditions relating to the WOW Factor. Examples of curable conditions could include replacing the carpet. Or the home can be neutralized. The formica counters can be replaced with granite. The bathroom can be updated. A landscaper can improve the exterior appeal by cleaning and manicuring the yard. The mechanicals can be replaced.

But the busy street to the front cannot be rerouted. The factory or interstate in the back yard cannot be moved. You cannot bring the interstate access or the commuter rail station to the edge of your neighborhood (for quicker access). A 3rd car garage cannot be added (most of the time due to lot size and home configurations). You cannot add a basement to a home on a slab foundation. These are the incurable conditions.

If the property suffers from the external issues that are incurable, to sell the home it will eventually lead to price discounts which are greater in the oversupplied market than they were in the previous balanced or undersupplied markets. That busy street influence could have detracted $10,000 from the property’s value 3 years ago in the robust and undersupplied market, but today it might be $25,000.

Remember in the softer, Buyer’s Market – buy LOCATION. You can change the inside of your house, but not where it is located.

SINGLE FAMILY DETACHED HOMES IN ALL OF NORTHEASTERN ILLINOIS

	9/30/2007		**9/30/2006**	**Percent Change 9/06 to 9/07**	**9/30/2005**	**Percent Change 9/05 to 9/07**
Active Listings	60,688 ($436,033)		48,389 ($467,113)	+25% (-6.7%)	30,991 ($496,973)	+96% (-12.3%)
Under Contract	7,203		8,897	-19%	11,534	-38%
Closed Sales	59,626 ($344,297)		76,167 ($335,038)	-22% (+2.8%)	83,757 ($315,961)	-29% (+9.0%)
Months Supply	10.90		6.83	+60%	3.90	+179%

Compiled from MLS of Northern Illinois by: Chip Wagner, SRA, IFA, SCRP

The above table shows the year-over-year change in the single family detached housing market in the entire MLS of Northern Illinois going back two years.

A majority of the time, statistics being released by various organizations report the year-over-year change. Now that we are in the second year of our deteriorating housing market, these statistics show where we were two years ago versus today. It was the third quarter of 2005 when we began seeing signs of the softening on the West Coast and the East Coast, but our Chicagoland market had not yet caught up with the other regions. Looking back, this is when our market peaked (in terms of inventory and sales volume).

The current quarter shows continued negative trends with declining contract pendings and sales volume, combined with increasing listings which is creating rising inventory, about 60% higher than the same period last year, and 179% higher than two years ago.

The oversupplied markets are putting downward pressure on asking prices, noting the 6.7% decline in average list price from 2006 to 2007, and the 12.3% decline from 2005 to 2007. Sellers are starting to budge, becoming more realistic to sell in this oversupplied market.

Although list prices are being reduced, the average sales price continues to rise, albeit at a very moderate pace. The 2.8% increase covers only a part of a typical broker commission to sell a home. These totals are influenced by new construction and the upper bracket housing market which continues to be soft throughout the region. The macroeconomic statistics of the entire region should not be generalized into the various sub-markets within the Chicago area. There are pockets of areas that continue to thrive, at a lesser pace than 2000 – 2005, but still positive.

THE UNKNOWN – WHAT TO WATCH

Mortgage interest rates continue to be favorable, but the "credit crunch" has tightened the available mortgage money available across all price ranges. It has yet to be seen the true impact, and the Fed reacted by exceeding expectations in their most recent rate cut to ward off a potential recession.

It all started with the housing slowdown, which has resulted in deteriorating real estate prices. It is now fed by adjustable rate mortgage resetting higher, that makes it difficult for homeowners to make payments on time. Without rising home values, refinancing is not an option, resale is not an option, and they are being forced into foreclosure. This has resulted in losses for sub-prime lenders, leading to the meltdown.

It is estimated that 25% of the U.S. Population falls into the sub-prime category (credit score under 620). Over 100 sub-prime mortgage lenders have closed their doors or filed for bankruptcy in 2007. The failure of these companies has caused prices in the $6.5 Trillion mortgage backed securities market to collapse. Wall Street is very leery, which is leading to difficulty in getting financing in the Jumbo Loan market (went from ¼% premium earlier this year to a 1% premium over conventional financing.)

The ultimate impact of the mortgage industry issues on our real estate market is like throwing gas on the fire. It is too early to tell where this will lead, but we know for sure it is not positively impacting our market. Let's all keep an eye on this moving forward.

If you know of someone who would benefit by this newsletter or our market studies, please feel free to pass them along. If you would like to be removed from my distribution list, please send an e-mail to: Chip@WagnerAppraisal.com. All information contained in this eNewsletter was created by Alvin L. "Chip" Wagner III, SRA, IFA, SCRP and is the opinion of the author. Market statistics were derived from the Multiple Listing Service of Northern Illinois.