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ALVIN L. "CHIP" WAGNER III, SRA, SCRP

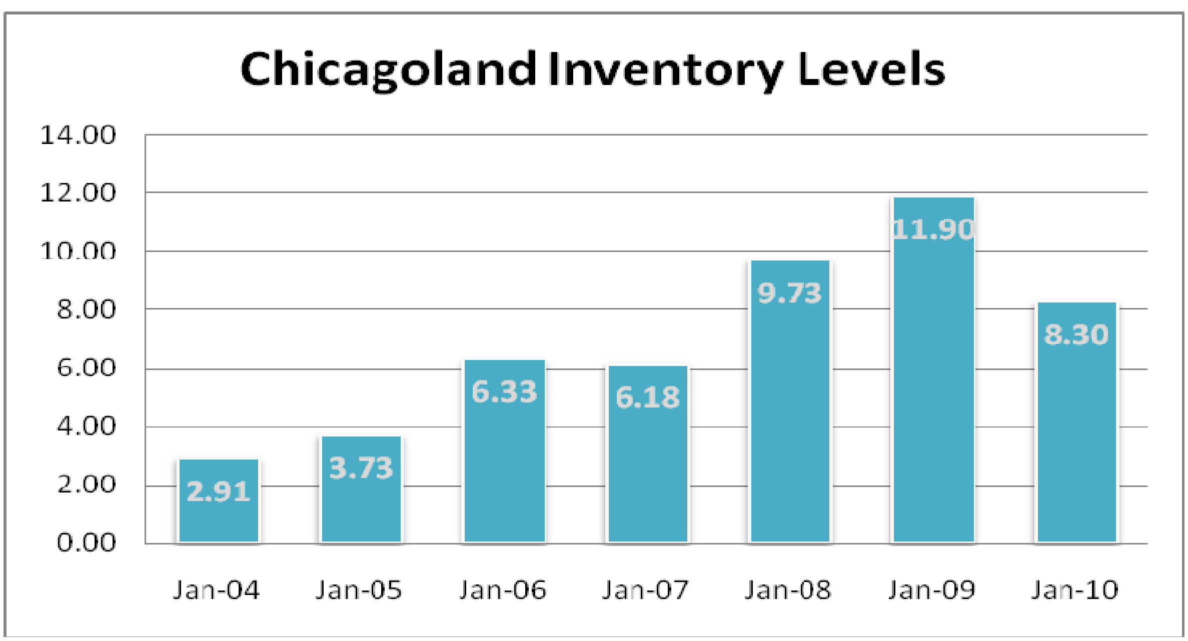
JANUARY 2010 eNEWSLETTER
"The Year of Better News?"

Dear Fellow Real Estate Professionals, clients and other interested parties:

I'm pleased to be able to provide to you the year-end quarterly market report for Chicagoland, as well as the monthly Market Pulse report for selected communities throughout our market area. And finally, I offer some optimism heading into 2010. I still have concerns, but I sense that the worst may be behind us.

Let's start out with the really good news, something we have been waiting four years to hear. As I sensed most of the year in 2009, I believe that our Chicago-area real estate markets which showed deterioration beginning at the end of 2005, have finally seen a measurable reversal, and the bottom occurred at the end of 2008. We can see that 2009 was a year of the turn-around. Inventory Levels are now showing a consistent pattern of decline, and we can report significant strides in the declining local inventory levels.

According to the attached year-end Quarterly Report, only 23 communities saw an increase in the Inventory Levels, while 160 communities saw a decrease in Inventory Levels. The entire region saw a 30% decrease in inventory, which was an 8.30 months supply at the end of 2009. In fact, this is the lowest the supply has been in 3 years.

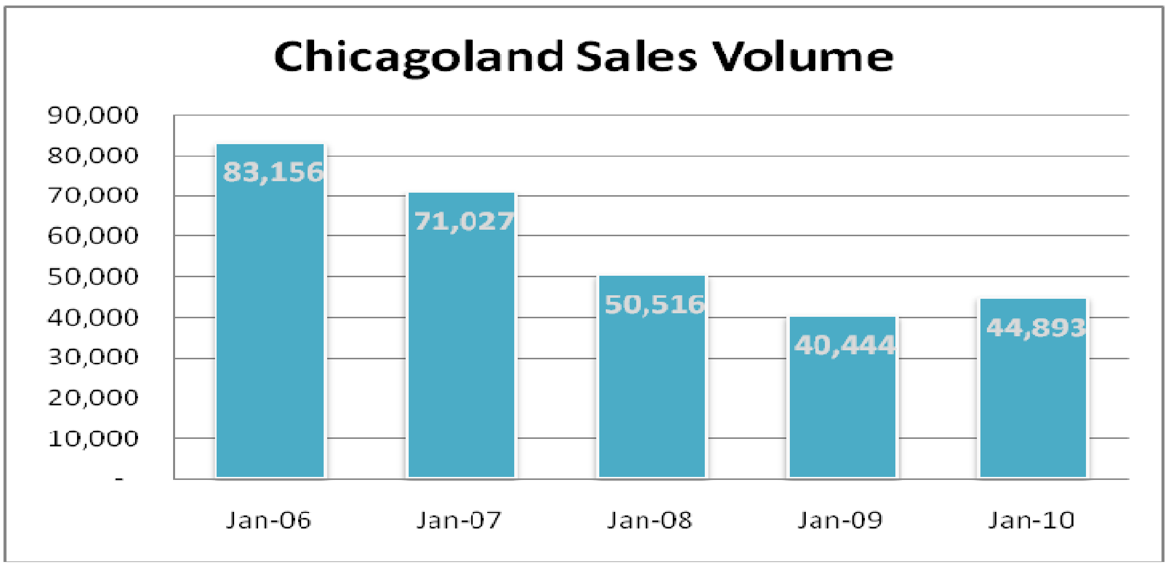


I am thrilled to see this downturn, as it tells us that the relationship of available listings is being absorbed by the sales taking place which has stabilized.

How can we be sure this is a trend that will continue? We can never be sure… there is talk of “shadow inventory” that could come onto the market in 2010 which includes a combination of home sellers who have been waiting until the economy and real estate market improves before trying to sell again, as well as the bank-owned properties that are in Foreclosure, or properties that could go into foreclosure. Some have predicted a “double-dip” real estate recession caused by this shadow inventory that is out there, but not yet on the market.

There are a couple of signs that the worst could be behind us. These include the positive strides our stock market in 2009, and our unemployment seems to have peaked, and hopefully is on its way down.

For the past 4 years, we had seen continued decrease in Sales Volume in our region, which meant fewer people purchasing homes. The graph below shows that over the four year period there was a 51% decrease. The trend stabilized in January 2009 and in the past year has increased 7.9%. The solid increase in Sales Volume is a positive in our real estate market. The $8,000 tax credit for first time home buyers as well as the $6,500 tax credit for repeat home buyers has certainly incented some people to take advantage of the low asking prices.

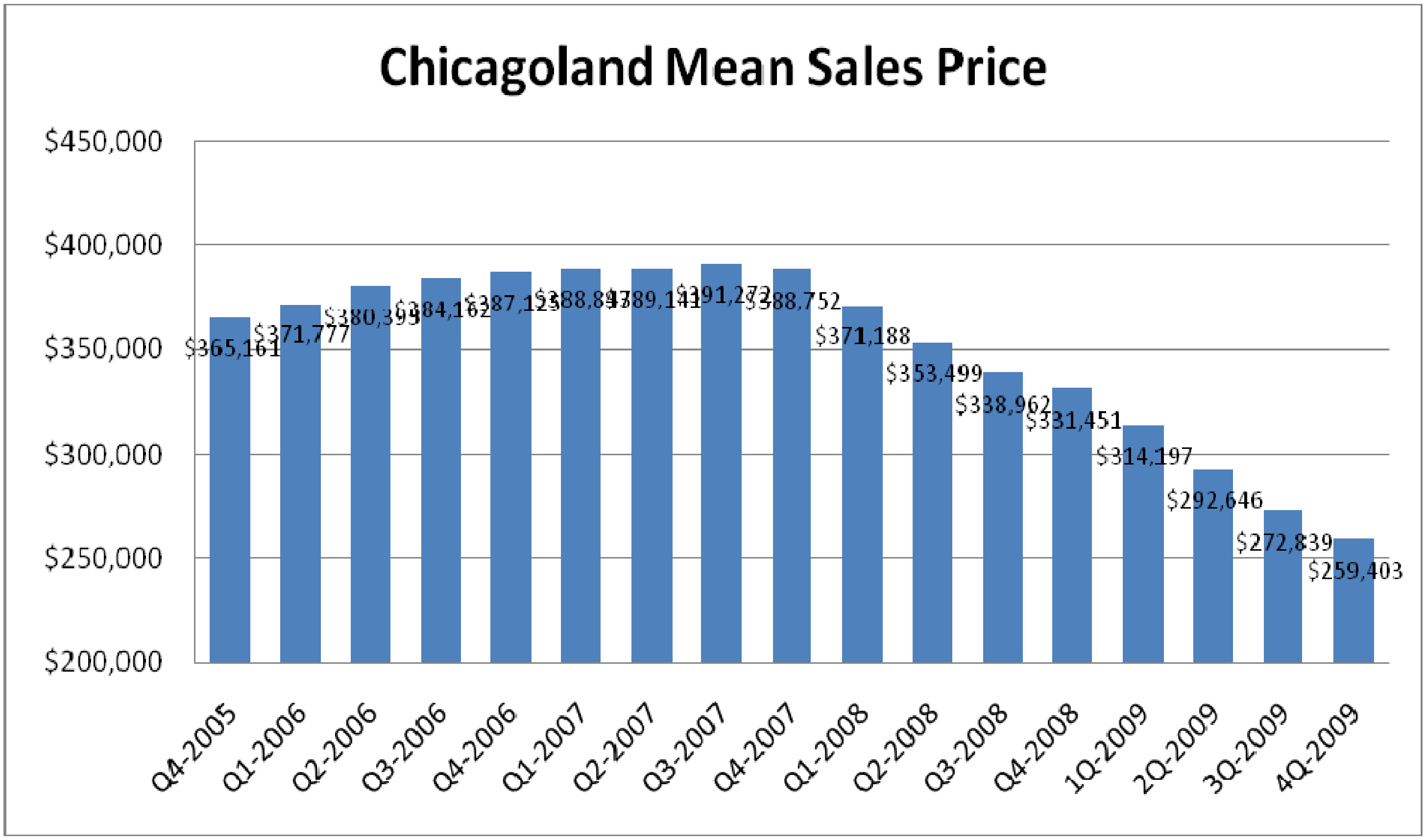


Unfortunately, while I am pleased to announce these positive trends, some not-so-good news still looms. We continue to see declining values in our marketplace. Again, it goes back to the law of ***Supply and Demand*** and in this context, the ***supply*** is the available homes *for sale*, and the ***demand*** is the number of homes *being purchased*, absorbed in the marketplace reflected in our contract pendings and closed sales. The result in this relationship is our Inventory Level, or the Months Supply of Inventory (MSI).

When there is an undersupply, prices increase. Conversely when oversupplied, they decrease. A state of balance should result in stable prices.

In our context, a balanced supply equates to a 4 to 6 month supply of inventory, anything less is undersupplied and a buyer’s market with appreciating values, and anything greater is an oversupply with declining values.

Today, the reality is that we have an 8.30 months supply of inventory which is still considered oversupplied market conditions, and continues to be a buyer’s market with declining real estate values. The graph below supports the fact that we continue to have declining values in the Chicagoland market.



The drop-off in the graph above appears to be staggering (over 30%), but it does not truly reflect price declines as these statistics represent Mean Sales Prices, or the simple average. **There are two things happening in the real estate market that are making this graph look greater than reality.**

1. The lack of sales in the upper-priced homes. As new construction has slowed dramatically across the region, and fewer higher priced homes are selling in this market, what are left are the lower priced and modest homes contributing to the average. So just because there are fewer high priced sales included in the data set, it shows a greater rate of decline.
2. Is the increase in the sales of lower priced homes that are either Short Sales or Foreclosures. The market activity for that sub-market has increased, leading to a greater amount of lower-priced homes contributing to the average.

It's true, our market is still in decline, but it is also unfair to paint a broad stroke of the brush across our entire region. There are certain towns, certain sub-markets, and certain areas that are doing better and some are doing worse. When I am doing an appraisal, to help develop the rate of decline, I am analyzing the sale/resale data taking place in the subject's market area. (i.e. what it sold for a year or two ago, compared to what it is selling for today). That is the correct way to develop a market change adjustment.

I have said this again and again, but I cannot emphasize enough, **Real Estate Markets are "local."** There are sub-markets within the broad marketplace that are doing better, and some areas are doing worse. The inventory levels measured in Months Supply, which are the backbone of our monthly and quarterly market reports, include a snapshot of the broad marketplace.

Calculating your own inventory levels in your local sub-market will tell you if your area is doing better or worse than the general market area. Feel free to use our Inventory Calculator at: http://www.wagnerappraisal.com/createreport.asp

Best regards,

Chip

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

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