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FEBRUARY 2011 eNEWSLETTER

Dear Chicago-Area Real Estate Community and other interested parties in real estate and relocation:

Attached please find my February 2011 Statistics:

- Monthly Market Pulse for Detached Housing – February 2011
- Monthly Market Pulse for Attached Housing – February 2011
- Quarterly Report – year ending 12/31/2010

This is typically the time of the year where listings and supply begin increasing, gearing up for the Spring real estate market. This influences our Month Supply of Inventory (MSI) upward. The attached monthly market supply studies support these conclusions as in most cases; the three-month trend shows an increasing inventory level from the previous month.

YEAR-END MARKET REPORT

There is a lot of interesting data here – most importantly, are the signs of improvement. The news last week from the National Association of Realtors (NAR) was positive and according to their latest survey, home sales rebounded in 49 states during the fourth quarter with 78 markets – just over half of the available metropolitan areas – experiencing price gains from a year ago, while most of the rest saw price weakness.

Total state existing-home sales rose by 15.4 percent in the 4th quarter. The median existing single-family price was $170,600 -- up slightly from the 4th quarter of 2009. Distressed properties, approximately 34 percent of 4th quarter sales, sold at a discount of 10 to 15 percent, a similar trend to what was seen a year earlier.

NAR believes a housing recovery still rests firmly on a jobs recovery. Chief Economist Lawrence Yun noted, *"An improving housing market and job growth will go hand in hand. The housing recovery will mean faster job growth."*

We are finally seeing some improvement in the jobs sector. The national, regional and local trend is reversing. The following table shows the history of our employment in the Chicago and suburban area.

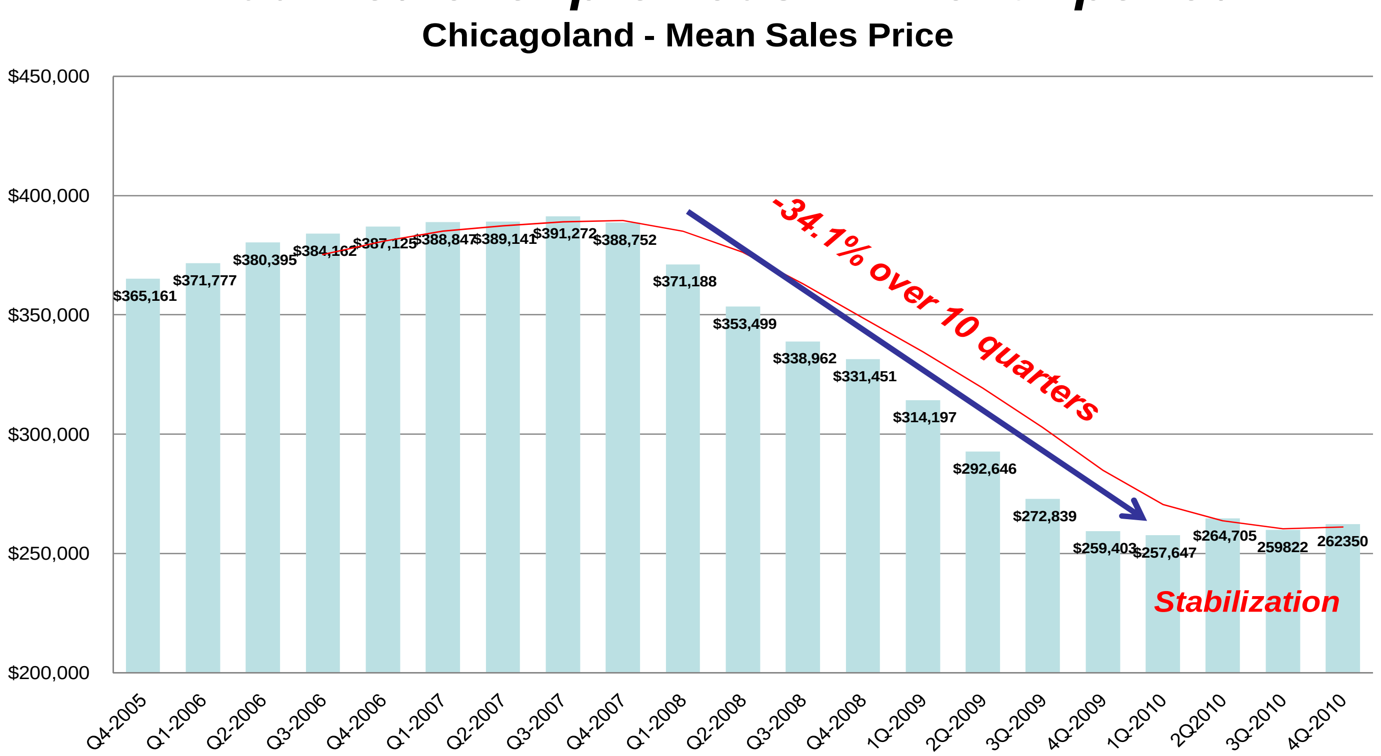
Unemployment by County-Chicago Metro Area

(Source: IDES)

	Cook	DuPage	Kane	Lake	McHenry	Will	State of IL	National
Dec-10	8.9%	6.7%	9.0%	9.6%	8.4%	9.0%	9.3%	9.4%
Dec-09	10.8%	8.6%	11.2%	11.6%	10.4%	11.0%	11.0%	10.0%
Dec-08	7.1%	5.4%	7.5%	8.3%	6.9%	7.2%	7.9%	7.6%
Dec-07	5.1%	3.8%	4.8%	5.0%	4.3%	4.7%	5.0%	4.6%
Dec-06	4.7%	3.4%	4.3%	4.2%	3.7%	4.3%	4.6%	4.6%
Dec-05	6.5%	4.7%	5.7%	4.5%	5.1%	5.5%	5.7%	5.1%
Dec-04	6.6%	5.0%	6.0%	5.3%	5.2%	5.9%	5.8%	5.7%
Nov-03	7.3%	5.2%	7. 0%	6.2%	6.3%	6.9%	6.7%	6.0%
Nov-02	7.4%	5.2%	6.6%	5.6%	5.7%	6.3%	6.5%	5.8%
Nov-01	6.1%	3.9%	5.3%	4.5%	4.5%	5.1%	5.4%	4.7%
Nov-00	4.9%	2.9%	4.3%	3.5%	3.4%	4.2%	4.4%	4.0%

The graph below shows the 7-county Chicagoland market area with the rise and fall of the mean sales price.

Chicagoland Mean Sales
Annualized over previous 12 month period



Source: A.L. Wagner Appraisal Group, MRED, Inc. & MLSNI, Inc.
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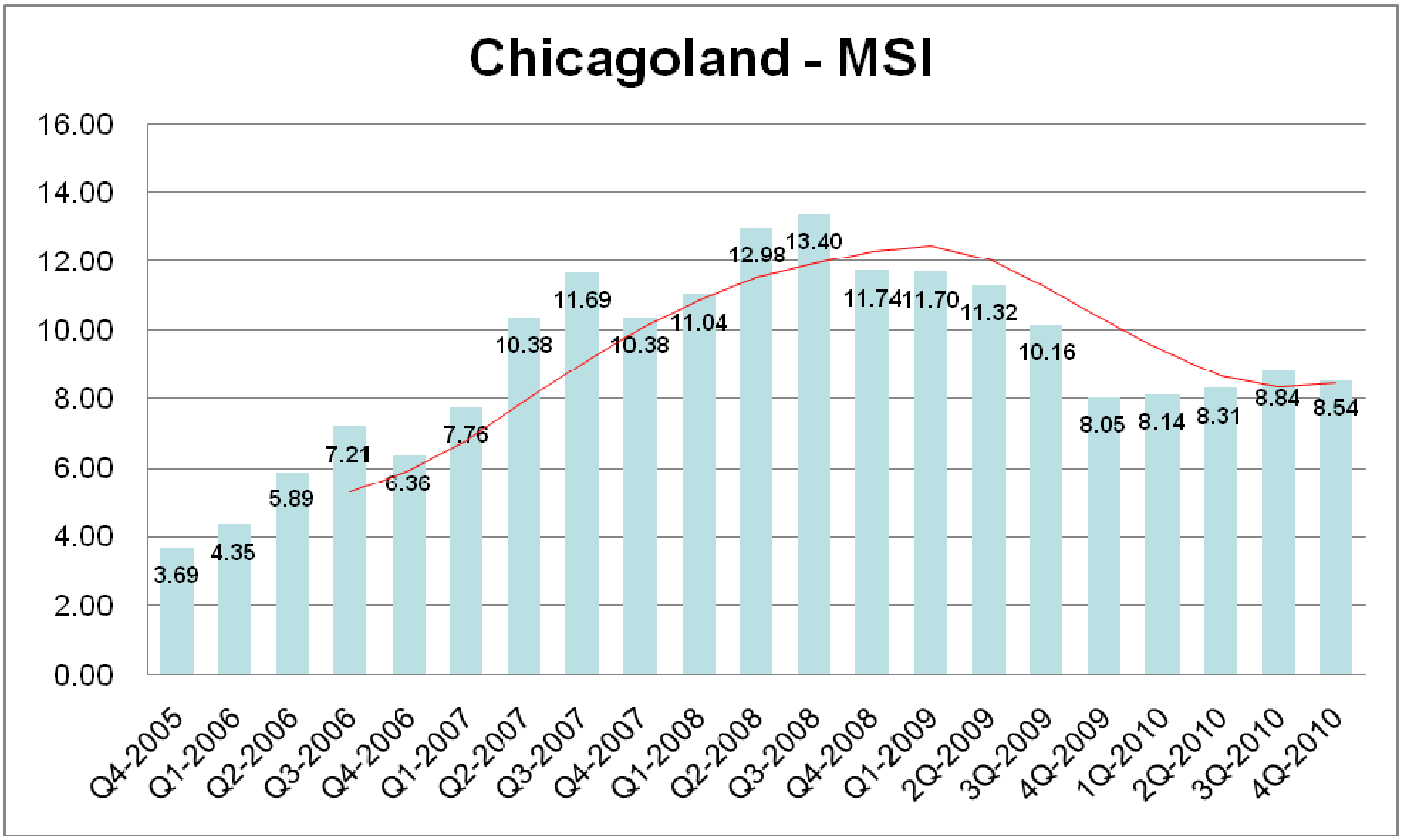
It shows that over the 2.5 year period, there was a 34% decline in mean sales price. But in 2010 the downward trend has stabilized, and there was actually a +1.14% increase from the 4th quarter of 2009 versus the 4th quarter of 2010.

As I conduct appraisals in various communities, when viewing the year-over-year data, I am seeing about one-half of the areas with a slight increase while the other half has a slight decrease.

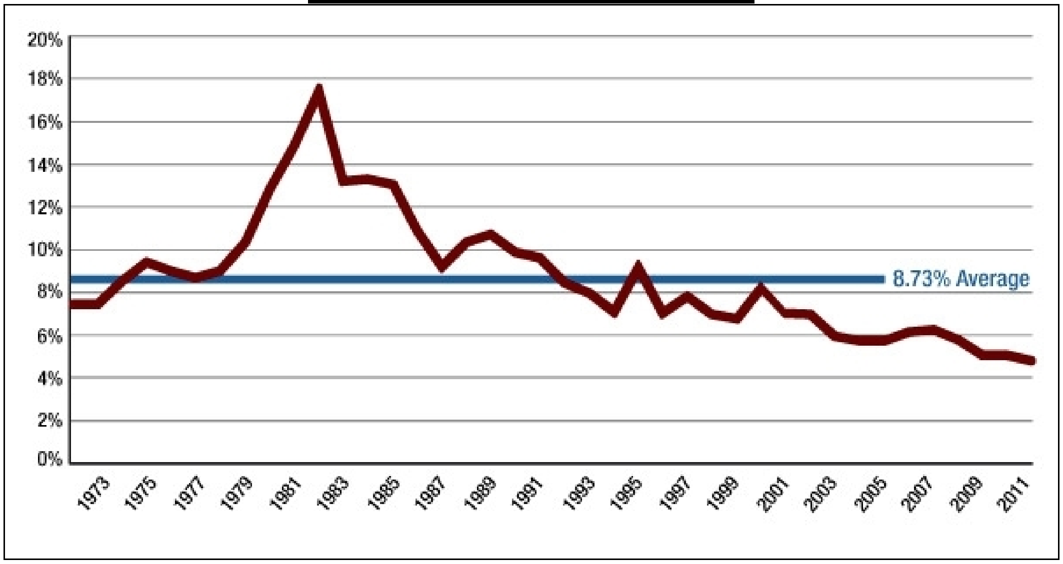
The following graph shows the Months Supply of Inventory (Relationship between the numbers of current listings versus homes being absorbed per month).



The graph shows an 8.54 months supply of inventory in Chicagoland for detached housing. This number is still considered oversupplied, as a balanced market will be in the 4 to 5 months supply range.

Finally, mortgage interest rates remain positive for the housing market. See the graph below.

MORTGAGE RATE HISTORY



The message is clear – take advantage of the low interest rates while you can.

Thanks to my friend [Tom Cryer, SCRP](#) for this graph.

All of the positive signs in the real estate market are present: falling unemployment, slightly increasing mean sales price, decreasing supply, and low interest rates. But there is one storm cloud still looming. That is the continued distressed market competition. Some refer to this as the '*Shadow Market*' because there are homes in foreclosure that have not yet been marketed in the MLS. The NAR report stated that 34% of the national market was distressed (short sales and foreclosures); these homes sell for 10% to 15% less than market value.

There does not appear to be a way to compile these statistics to produce distressed market totals in the Chicago area, and the only way would to be manually count them. With almost 46,500 sales in the past year, that would be a lengthy and time-consuming task.

In my experience completing real estate appraisals in and around Chicagoland, my definition of a "market segment" is the competitive market area to the property that I am appraising. Then I count the number of short sales and foreclosures within that market segment. I consistently see about one-third of the market being distressed, which is in line with the national report. I also see some areas where it is less than 10% and other areas where it is greater than 75% of a market segment.

The areas seeing an improvement in prices tend to have fewer short sales and foreclosures competing with the traditional market sales transactions. Areas that continue to see falling values, usually have higher levels of short sales and foreclosures. This is likely to be the continued theme in 2011.

APPRAISAL/VALUATION ISSUES

If the number of questions and conversations that I have had in recent months with clients and friends involved in real estate is any indication, ***valuation issues*** on properties under contract seem to be as prevalent as ever. My concern has been that once the real estate market hits bottom, it will be a difficult transition into an improving (appreciating) market after 4-5 years of decline. This seems to be happening right now, with much of the difficulty being the distressed market activity competing with the arm's length transactions.

While there are no fool-proof solutions to these challenges, it is important for the real estate community to work together with appraisers valuing properties to help them understand the nuances that are occurring from market to market.

I recently had an agent tell me “good luck with comps on that one…” Agents should be looking at the market – the listings, the pendings and the sales, and finding comparables that support their list price and the purchase price of the property.

Sincerely,

Chip

Alvin “Chip” Wagner III, SRA, SCRP (RAC Member)

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