PRICES INCREASE CHICAGO MSA

MID YEAR FORECAST 2011

This is a good news bad news type of analysis. All of the supporting data can be found on our web site and you can get real time price, days on market and absorption rates using our price trends tool.

The following will summarize what happened the first 6 months of the year and what we think will happen the next 6 months and into 2012.

In our spring forecast we expected prices to rise in a normal market trend as the markets were starting to stabilize. Prices increased on a MACRO basis for the 8 County Chicago Metropolitan Area as follows.

- Detached Single Family homes 11.3%
- Attached Single Family 11% (Condos and Townhomes)
- 2-4 Unit Apt. Buildings 21.2%

However, when these MACRO prices are compared to the same time period from 1 year ago the overall picture is a little different. Overall prices are still declining.

- Detached Single Family -7.6%
- Attached Single Family - 20.3%
- 2-4 Unit Apt. Buildings 3.2%

When we look at Bank sales compared to Non Bank sales we see similar god news bad news type of results.

- Detached Single Family
    - Bank -10.3%
    - Non Bank -2.8%
- Attached Single Family
    - -23.9%
    - -7.7%
- 2-4 Unit Apt. Building
    - 11.35%
    - -6.31%

We also took a look at the top 5 Cities in the MSA to see if the trends were consistent, here is what we found:

Chicago	**Bank**	**Non Bank**
Detached	8.62%	0.37%
Attached	1.90%	0.30%
2-4 Unit	34.60%	0.50%
Aurora		
Detached	-38.90%	-10.80%
Attached	-43.50%	-19.40%
Elgin		
Detached	-22.50%	-20.00%
Attached	-44.70%	-48.80%
Naperville		
Detached	-1.40%	0.60%
Attached	-11.20%	-10.70%
Plainfield		
Detached	-13.30%	-4.20%
Attached	-21.50%	-19.40%

The City of Chicago has the highest population base and led the market decline and now is leading the market recovery. The 2-4 Unit Apt Building market saw the highest price run ups during the boom and the greatest price decline at the bust. But be careful in the high risk zip codes where a lot of this price run up is speculative, Mortgage Fraud is on the increase even without a subprime market to fuel it.

SO WHERE IS THE MARKET GOING?

The answer can be found in the following research papers:

- The Aftermath of Financial Crisis (University of Maryland and Harvard University 2008)
  - Housing price decline typically extend 5-6 years after the peak
- Housing, Housing Finance and Monetary Policy (Federal Reserve Bank of Kansas City 2007)
  - 8 of 10 recessions are preceded by a housing bust
  - Housing Recovery is sales transaction driven not price
  - Prices will increase first in areas with little buildable land
  - Most job Losses in US recession comes from Construction
- Illinois Association of Realtors R/E/A/L Forecast (June 2011)
  - Housing sales will slow down in August through year end
  - Shadow unemployment is in the 13% range
  - Prices overall are expected to decline in 2011 by 8-13% depending on area
- Illinois Association of Realtors Residential Sales Impact Study
  - 53% of Home buyers in 2010 were first time home buyers (think tax credit)
  - Statewide Average home prices have declined by 19% since 2007
  - Gross other Direct Industry Revenues generated from Real Estate Transactions has declined by 37%
  - Employment in other Direct Industries generated from Real Estate Transaction has declined by 41%
  - Sellers spend anywhere from 5% to 9% of their homes selling price in lender required repairs or fix up costs to make the home show better.

From all the research papers the items needed to sustain recovery in order of importance are as follows, obviously they are dependent on each other in some manner.

1. Sales Transactions
2. Repairs
3. Financing
4. Price

204 Dearborn Court, Unit 105 • Geneva, IL 60134 • Phone: 630-262-5277 • Fax: 630-262-3382

www.winfield-realty.com

Summary Forecast

Sales contracts reported as Transaction sides in the MLS is a key indicator to recovery.   The markets are returning to a normal seasonal trend, in the Chicago MSA as it is School Start Date sensitivity and Kicks off at tax return time and ends in July so the owner of their new home can be all moved in for the kids to start school in August.

Sales contracts rose steadily through June which have now peaked, sales contract will now fall of and inventories will increase exerting downward pressure on prices to move more inventory.

The months of supply for Detached homes is still in the 8.9 month range; 4-5 months is considered normal.

For Attached homes the Months of supply has come down the 12.5 month range.

Most 2-4 Unit Apt. Buildings are located in the City of Chicago and/or Cook County versus the suburbs. That market stabilized over a year ago with inventories in the 5 month range and stable to increasing prices.

- We anticipate Detached Home prices to stabilize to moderately decline through the rest of 2011 and expect this market to stabilize by the end of 2012 (5 years after the peak)
- Attached (Condos and Townhomes) home prices are going to continue to get crushed in 2011 and 2012. These prices did not start to show decline until a full 1-2 years after the detached home prices, so it may not stabilize until 2013. In addition there is an equilibrium point between detached and attached home prices, if detached homes are preferred then attached has to suffer.
- Loan approval continues to be a problem. The sellers are making needed lender required repairs, but the declining market lending Underwriting Guidelines currently in place are causing all kinds of problems. Lenders want to see current sales, within .5 mile away and no adjustment exceeding 10% regardless of the LTV or they kick back the appraisal as having an unsupportable value. We are clearly in what the Federal Reserve Classifies as a ‘Hedge Financing”, environment, we call it a credit crunch.

Until Lending UW Guidelines loosen up it’s going to stifle sale transactions which will prolong a reduction in the months of supply, which pushes prices down to make sales work. Now combine that with all the lenders that rented properties hoping for price recovery, all the investors that did rent to own and all the shadow short sale inventory not yet REO and we could still have another 3-5 years of a depressed housing market.