

2012 Forecast Chicago & Suburbs

Based on all data available it appears 2012 should be the year we start to see a normal seasonal market trend where prices rise in the spring, flatten over midsummer and then decline over winter and then repeat. Historically that is how the pricing pattern works with prices increasing over the prior year's median.

As reported in 2010 Multi-family homes are well on their way to recovery with both Bank Owned and Non Bank owned showing price increases over the last two years from the bottom.

Prices in the bottom Quartile of each sub market for Single Family Detached Homes have hit bottom. But, there is still a lot of inventory not in the bottom quartile so expect to see the median price continue to decline.

Condos and Townhomes represent the greatest long term risk, especially the apartment building conversions to condos. Many of the Condo developments have insolvent HOA's due to a high % of delinquent HOA fees and/or unpermitted conversions. Lenders won't loan in developments with HOA delinquencies are over 15%.

In the Townhome PUD sub market many of the FHA project approvals are expiring. The HOA is either not seeking re-approval because they no longer have the documents needed for approval or the HOA just doesn't have the expertise to get re-approved. Many of these initial approvals were obtained by the developer.

The following statistics were obtained from the Midwest Real Estate Data (MRED) MLS. The data was obtained from summary reports that show a reliable trend but due to sub market and data base search criteria variation the total summary numbers may not always equal.

SUPPLY AND DEMAND

REO inventory is down as it shifted into the short sale risk bucket, the net result is statistically increasing prices in sub markets with low REO inventory and double digit declining prices in short sale Inventory.

REO sales reflected 28.23% of all closed sales compared 12.79% for short sales and 6.34% for pre-foreclosures.

REO active inventory is 5.43%, short sales is 18.21% and pre-foreclosures are 1.39%. The high % of short sales will continue to drag prices down.

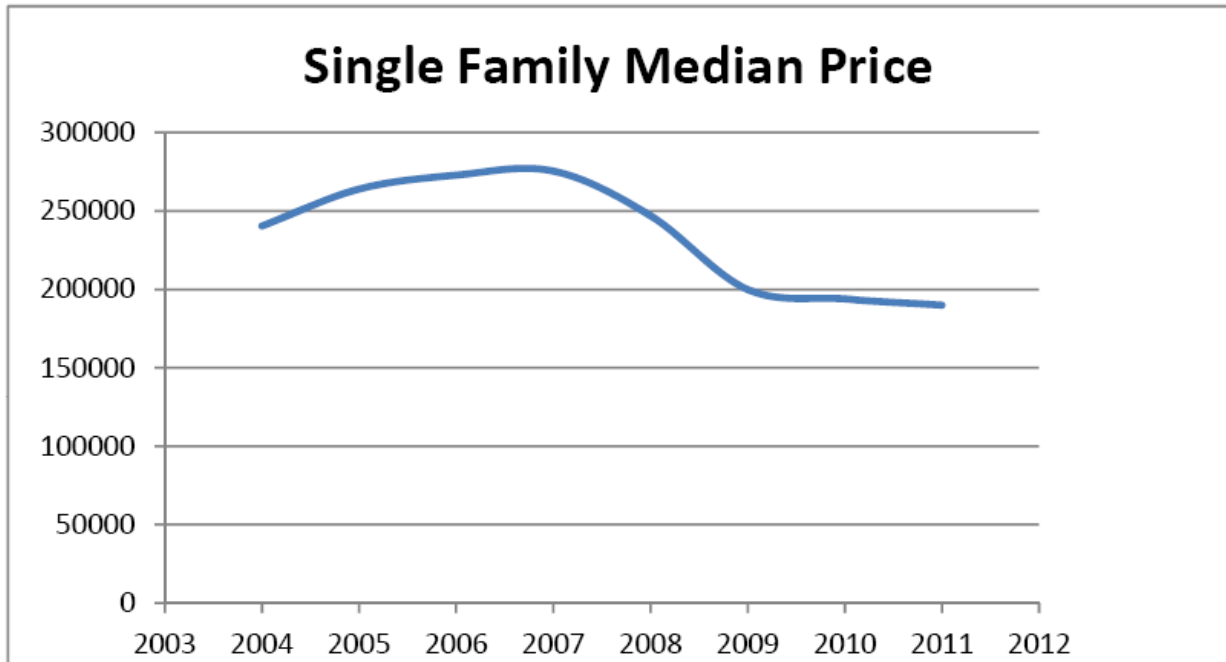
NBC News Chicago reported in December there were 174,000 vacant homes in the Chicago Metro area that lien holders are not taking title to avoid additional costs associated with taxes, insurance, utilities, HOA fees, liens and city fines. If that number is correct and based on 2011 absorption of REO, Short Sale and Pre-foreclosure sales Chicago has a 4.57 year supply of vacant abandoned properties. It is difficult to determine how that will impact the Real Estate Market but it can't be a good thing.

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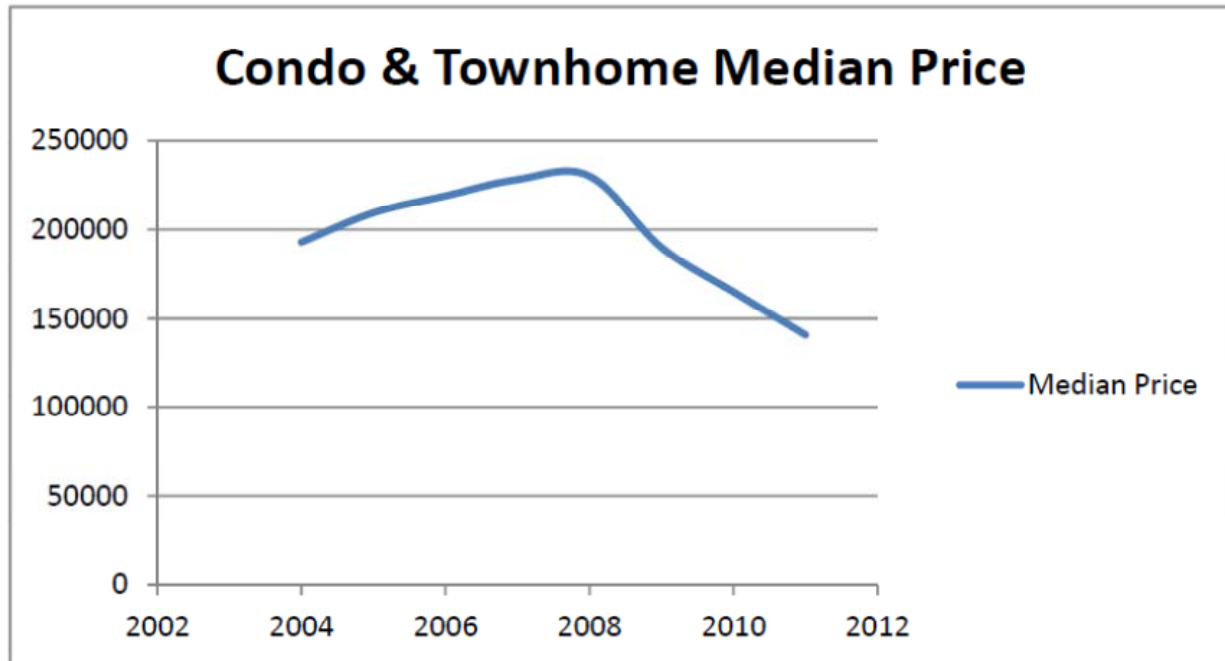
	Active	Under Contract	Closed	Active/Total	Under Contract/Active Total	Closed/Total Closed
Non Distressed	55,430	7,453	42,303	74.97%	10.08%	52.64%
REO	4,013	2,306	22,687	5.43%	3.12%	28.23%
Short sale	13,465	8,347	10,275	18.21%	11.29%	12.79%
Pre Foreclosure	1,027	437	5,098	1.39%	2.36%	6.34%
Total	73,935	18,543	80,363			

PRICING

On a Macro level the trend will be negative on an annualized basis. On a sub market basis it will vary. We have already seen increasing prices annualized in some the core high demand sub markets. The slope of the price decline trend line is flattening on the Single Family Detached homes but still very steep on the Condos and townhomes.



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There is a clear price difference in the rate of price change between Non Distressed, Short Sale and REO prices.

On average REO sales sell for 68-69% less than a Non Distressed sale with the rate of price decline for the last 12 months ranging from 2.6% to 4.76% as the active supply for sale has been sold off.

Short sales for single family and condos/townhomes sell at 39% and 49% of Non Distressed sales but declined in prices by 11% to 13% resulting in the shift from REO bucket to Short sale bucket. The high volume/oversupply of short sales will drag overall prices down in 2012.

REO sales sell at 48% and 38% of the Short Sale price.

The highest rate of price decline is at 22% in the Non Distressed Condo/Townhome sub market.

The biggest risk in 2012 is in the Short Sale bucket for both single family and condo/townhome but also condos/townhomes in the Non Distressed Bucket.

Prices during the boom for condo/townhome peaked one year after the single family market and started to decline two years later. Based on the decline slope above this market will probably see double digit declines for another year maybe two before the curve flattens out.

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Type	Distressed	Month 6.11	Month 9.11	Month 12.11	% Change	Avg	ss/no	reo/no	reo/ss
<i>Detached</i>	No	\$260,000	\$265,980	\$224,000	-13.85%	\$249,993			
	Short Sale	\$162,500	\$150,000	\$143,500	-11.69%	\$152,000	-39.20%		
	REO	\$77,000	\$84,900	\$75,000	-2.60%	\$78,967		-68.41%	-48.05%
<i>Attached</i>	No	\$225,000	\$211,750	\$175,000	-22.22%	\$203,917			
	Short Sale	\$110,000	\$101,000	\$94,983	-13.65%	\$101,994	-49.98%		
	REO	\$63,000	\$66,000	\$60,000	-4.76%	\$63,000		-69.11%	-38.23%

SUMMARY

- Unpermitted apartment to condo conversion buildings represent the greatest charge off risk
- Developments with HOA delinquencies over 15% can't be financed so cash buyers are needed
- Townhome development FHA approvals are expiring and not getting renewed so cash buyers are needed
- Cash buyers expect big price discounts
- Short sales will lead the price decline in 2012
- Non Distressed Condo/Townhome have the greatest price decline risk
 - Short sale Condo/Townhome sell at 49% of Non Distressed

Overall prices will still decline in 2012 but some sub markets will have increasing prices. You can visit our Price Trend Tool on our web site to get real time trends by Property Type, Zip Code, and City.