January 24, 2007

Dear Real Estate, Relocation Industry, and Lending Professionals:

The year 2006 is behind us. For most real estate professionals, that is a sigh of relief. The question is what does 2007 hold in store for us?

**REFLECTIONS**

Nationally, 2006 was a year in real estate where we saw "corrections" in the real estate market. In many areas of the country, prices had risen so dramatically over the previous five to ten years (expanded like a bubble), many concluded it was about time there was a market correction (bubble deflating or popping).

Locally, we lagged behind what was taking place nationally. As early as the Fall of 2005 there were reports from either coast that the bubble was deflating. Locally, we did not see any bumps in the road until the Spring of 2006. This is when we saw both new and resale home inventory grow to levels not seen in recent or past memory. The simple "supply and demand" law of economics suggests as the supply rises and/or the demand falls, there will eventually be pressure downward on prices.

The real estate market is anything but perfect, and some stated our market in Chicago last year was "stubborn." Values seemed to hold up against national reports of declining markets, but the Chicagoland market saw something we had not seen much of since previous recessions – concessions. These concessions varied from a couple of points of mortgage costs paid by the seller, to more significant concessions such as tens of thousands of dollars in free upgrades and options by builders, Hawaiian vacations, flat screen televisions and home theaters, and new Hummers and boats left in garages in the middle and upper bracket resale homes. Our MLS statistics will not reflect all of these concessions offered in 2006 because the final price recorded will not include that concession that was made to move the home – especially personal property.

Supply nearly doubled in the Chicago market throughout 2006. As the inventory of housing grew, contract pendings slowed, and sales volume ultimately declined.

Remember, the most recent recession our economy had was different from previous ones. It was one where interest rates were held at record lows. The automotive industry sold cars with 0% financing and homes were being purchased for 5% loans – even lower for those who went into creative mortgage programs such as Adjustable Rate Mortgages.

The Automotive industry, by offering deals such as "free" financing and other incentives is an interesting example. The current demand shifted forward several years, taking buyers away from future years, eventually leading to an oversupply of used vehicles in which cars did not hold their value as well as difficulties in moving new inventory. The demand had been accelerated with the incentive of cheaper money.

A similar situation happened to housing. The availability of record-low financing created an influx of buyers newly qualified to purchase a home, and/or move up to the next level and the demand rose creating a shortage of supply, which increased the value of the homes. Once the interest rates began to rise, the buyers stopped buying – most of whom had already purchased a home. The demand had been accelerated with the incentive of cheaper money.

**WHAT IS HAPPENING NOW?**

Please find attached the most current Quarterly Housing Report and the Monthly Market Pulse absorption study for the month ending December 2006.

The table below shows the Chicagoland market's decreases in active listings, sales volume and contract pendings (includes both contingencies and pendings). It shows the current statistics and the change from the previous month, the previous quarter, and the same period one year ago.

| Entire Chicagoland | 4th Q 06 Dec 06 | Nov 06 | % Change | 3rd Q 06 Sept 06 | % Change | 4th Q 05 Dec 05 | % Change |
|---|---|---|---|---|---|---|---|
| Active Listings | 39,925 | 43,028 | *-7.2%* | 48,389 | *-17.49* | 28,329 | *+40.9%* |
| Under Contract | 6,479 | 7,417 | *-12.6* | 8,897 | *-27.2%* | 8,970 | *-27.8%* |
| Closed Sales (annualized) | 71,027 | 72,471 | *-2.0%* | 76,167 | *-6.7%* | 83,156 | *-14.6%* |
| Months Supply | 6.18 | 6.46 | *-4.3%* | 6.83 | *-9.5%* | 3.73 | *+65.7%* |

Source: MLSNI

For the third consecutive month, the Months Supply of Inventory has decreased. Again, it is premature to assume our market has changed as the less-motivated sellers remove their homes from the market during the holidays.

Although there are nearly 3,000 fewer homes listed from last month, almost 8,500 fewer homes on the market from the previous quarter, it is still nearly 11,600 more homes than the same period one year ago. Furthermore, we have not yet seen an increase in the homes under contract or a reverse in the downward trend in the pending and sales volume.

The year end reports are attached o this e-mail and they remain inconclusive as where we are going in the future. The year over year indication continues to show the market today is weaker than it was one year ago. After what we observed in 2006, this is no surprise. The fact that we are seeing positive indications from the previous quarter is welcome.

To put these statistics in perspective, from the 3rd quarter in 2005 to the 4th quarter in 2005, there was a 8.6% decline in active listings. From the 3rd quarter in 2006 to the 4th quarter in 2006, there was a 17.5% decline in active listings. The recent drop in active listings is nearly double the previous year's drop. This is the first positive that we have actually been able to measure statistically, that indicates 2007 could be a better year than 2006.

## WHATS IN STORE?

The Million Dollar question. Hopefully, in the coming months we will be able to see the decline in the Absorption Rates continue.

Buyers that were sitting on the fence, cautious as to making a move in the real estate market appear to be ready. Media reports on the housing sector are not "all negative" and we are seeing some positive reports coming out. Prospective buyers hoping to wait until the real estate markets bottom out may believe it has bottomed out and it is time to buy.

The economy is strong, unemployment is low and job growth is strong. Indications are that mortgage interest rates will continue to be favorable in 2007.

Early indications are suggesting that 2007 will be better than 2006 was. The market needs to begin eliminating some of the supply, and a better indication would be an increase in pendings which shows buyer activity. We continue to closely monitor the sales activity, and hopefully there will soon be clear indications that the real estate market has reversed its 2006 doldrums.

Until then, our opinion of 2007's Chicagoland real estate market, like many other professionals is "*cautiously optimistic*."

Happy New Year!

Bob and Chip

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