

The Chairman's Report

A Message from Lawrence F. Flick, IV, Chairman and Chief Executive Officer
Prudential Fox & Roach, REALTORS® and The Trident Group



FALL/WINTER 2009

The Window is Open Wide...



People often ask me when our real estate market will hit bottom. And now I can positively say that not only has it done so, it is beginning to bounce back. The window of opportunity is open wide for those who would like to buy or sell a home. As I've said in previous reports, real estate is like the weather — it's the local forecast that matters. In our market we have what appears to be a "perfect storm" of converging factors that benefit potential buyers:

- Affordability — prices are better than they have been in years.
- Interest rates — mortgage interest rates remain at historic lows.
- Selection — there is a great selection of homes for sale, and sellers are both motivated and realistic.
- The home buyer tax credit has been extended and expanded.

The Law of Supply and Demand

The economic principle of supply and demand applies to the real estate market. When trying to determine if the time is favorable to buy a home, it's important to look at the balance between the supply of houses for sale

versus the demand for them. In a real estate boom, demand is high and supply low, so prices rise. During the past few years, the supply of houses for sale outweighed the demand. Today, however, the tables are turning. In the second half of 2009, there was a rise in the demand for houses while the supply of houses for sale fell.

Let's take a look at these supply and demand trends:

Demand for homes is increasing

Monthly home sales have increased. In 2008 and the first half of 2009, the number of homes sold each month was less than the year before. But this trend has changed. Since June 2009, more homes have sold each month than last year.

% Change in Pended Sales 2009 versus 2008

January	- 29%
February	- 25%
March	- 22%
April	- 22%
May	- 18%
June	+ 1%
July	+ 2%
August	+ 15%
September	+ 29%

Source: Trend MLS

Supply of homes for sale is decreasing

The number of homes for sale has decreased. Since February 2009, the rate of supply has decreased each month whereas in 2007 and 2008 the supply of homes increased monthly.

% Change in Number of Homes for Sale

2009 versus 2008

January	- 0.8%
February	- 0.6%
March	- 0.7%
April	- 3.5%
May	- 6.7%
June	- 9.9%
July	- 10.6%
August	- 10.9%
September	- 11.9%

Source: Trend MLS

Another way to look at the supply of homes for sale is to consider Months Supply of Inventory (MSI). MSI is determined by calculating how long it would take to sell all of the houses on the market at the present sales rate without any new properties coming on the market. In September 2008 there was an 11.4 months supply of houses for sale. A year later, MSI stands at 7.6 months — that's a 33% drop! This is good news, but in a balanced market MSI would be five to six months. So despite a dramatic improvement, there is still an oversupply of homes available for sale, especially in the higher price ranges.

The Window Will Close

Trends of increasing demand and decreasing supply prove that our market has hit bottom and is now showing signs of growth. That's why it's important for home buyers to take advantage of this opportunity before the window closes. These favorable conditions will only remain for a limited amount of time:

- As the economy recovers, more buyers will enter the real estate market.
- There will be fewer houses for sale and prices will begin to rise.

- The Fed will begin to withdraw its current support of the mortgage market as the economy recovers. This will result in higher mortgage rates.
 - The home buyer tax credit will expire.
- The window will close — it's just a matter of how soon.

Home Prices are Stabilizing

Despite the positive trends of increasing demand coupled with decreasing supply, home prices have dropped and the average sales price in our market has fallen. What does this mean?

Prices in our area have declined modestly. Changes in values of homes are determined by tracking the sales prices of properties that sell more than one time. These are called paired sales and are tracked by the Case-Shiller Home Price Index. The exact amount of decrease in value is determined by location and price range.

Case-Shiller Price Index

Prices Q2 2009 versus Q2 2008

Camden MSA	- 7.66%
Ocean City MSA	- 15.34%
Philadelphia MSA	- 3.33%
Trenton MSA	- 6.14%
Wilmington, DE-MD-NJ MSA	- 7.30%

Average Sales Price on the other hand does not reflect the value of properties sold. Rather it is the average price of all the properties that have sold in a particular period of time. Average Sales Price in our market has declined about 10% in the past two years, but is still 31% above 2002:

September Average Sales Price

2002	\$187,000
2003	\$212,000
2004	\$233,000
2005	\$263,000
2006	\$265,000
2007	\$273,000
2008	\$260,000
2009	\$245,000

Source: Trend MLS

The decrease in the values of homes as noted above has played a role in the decrease in average sales price. But even more so, it is a change in the mix of business that has caused average sales price to decline. More properties in lower price ranges are selling than those in higher price ranges. There are two reasons this is happening:

- The first-time home buyer tax credit enacted by Congress has contributed to the increase in sales in the low to mid price ranges.
- A scarcity of jumbo mortgage outlets and loss in value of individual investment portfolios has negatively impacted the sale of the higher priced homes.

A Tale of Two Markets

Lower and mid-priced properties are selling at a reasonable pace. Higher priced properties are staying on the market longer and selling at a much lower rate. As a result, we have two markets: one is healthy with a relatively balanced supply and demand, while the other continues to be sluggish, with supply greatly exceeding demand. The following chart illustrates the difference between these two markets. Months Supply of Inventory for properties for sale in higher price ranges are substantially higher than those in the lower ranges. The market in the higher price ranges is taking longer to recover.

September 2009 Months Supply of Inventory by Price Range

All Prices	7.8 months
Over \$1,000,000	53 months
\$750,000 - \$1,000,000	27 months
\$500,000 - \$750,000	16 months
\$300,000 - \$500,000	10 months
Less than \$300,000	6 months

Source: Trend MLS

Risk versus Reward

Whether it be stocks, real estate, or other investments, we all wish we were able to predict when markets hit their peaks and their bottoms. Some are lucky and buy or sell at just the right moment. But most of us only

know a change in direction occurred after it happens. The best long-term investments are made before they are obvious to everyone but after the bottom has begun to curve upward. That time is now.

Our economy has hit the bottom and is beginning to grow

It's hard to believe that when we started this year, our country's financial system was close to collapse. Large banks were being threatened with nationalization and the stock market was in a free-fall. Credit was all but frozen. Jobless claims were rising by 600,000+ a month. Consumer confidence was at an all-time low as talk of the next Great Depression traveled the airwaves.

Since then, our financial markets have stabilized, banks are repaying their taxpayer funded bailout, and the stock market is now 60% higher than its March 2009 low. Credit is becoming available once again, though it is not as free-flowing as we might like it to be. The number of monthly jobless claims is less than half of what they were. As we end 2009, consumers are cautiously optimistic that what is now being called the Great Recession has reached its end.

Most economists predict an "L shaped" recovery with prolonged, slow growth. The worst is over and we are beginning to see economic growth.

Our real estate market has hit the bottom and is beginning to grow

If you are considering buying a home, this is the time to act before the window of opportunity closes. Your Prudential Fox & Roach sales associate and Trident mortgage consultant will work together to help you acquire the perfect home.

If you are a seller, this real estate market can also work in your favor. Even though your property may not be worth as much as it was a few years ago, any home you buy will have also decreased in value. If you are downsizing, rising mortgage rates will offset any minor increase in the value your present home may gain. If you are moving to a more expensive home, you will come out ahead.

AN INDEPENDENT VIEW



Joel L. Naroff, Ph. D., is the President and founder of Naroff Economic Advisors. He is a consultant to Prudential Fox & Roach, Realtors and The Trident Group. A nationally recognized economic forecasting expert, Joel was awarded the Lawrence Klein

Award for Blue Chip forecasting excellence and was the Bloomberg Business News top economic forecaster in 2008. In 2007, he received the National Association of Business Economists Outlook Award and was named the top economic forecaster by MSNBC in 2006.

The national economy is finally starting to rebound from the second longest recession in one hundred years. Growth in the second half of the year looks to be solid, though going forward the recovery could be somewhat sluggish. The housing market has been one of the chief beneficiaries of the turnaround. Home construction has begun to improve and in many metropolitan areas across the country, prices have clearly started to come off the bottom.

The region's economy did not suffer as greatly as many other parts of the nation, which positions us well for the upturn. With confidence beginning to improve, housing sales and prices in many areas are increasing. Those who have been sitting on the fence are beginning to realize that the bottom may be passing them by and it would not be surprising if there is a solid improvement in sales as we move through the first half of 2010.

Sellers with properties in the low to mid-price range should take advantage of the present increased buyer activity. If, however, your home is in the higher price ranges, the excess supply dictates that your home be the best available in its price range. Your Prudential Fox & Roach sales associate will work with you to create a staging plan that ensures utmost appeal, and a pricing

and marketing plan that guarantees maximum exposure. Don't put your life on hold and wait for better times to make a move. Rather, be realistic now and take advantage of the increased buyer activity before their, and your, window of opportunity closes. Contact your Prudential Fox & Roach sales associate and a Trident Mortgage Company loan consultant today!

A handwritten signature in black ink, appearing to read "Lawrence".

Lawrence F. Flick, IV
Chairman and Chief Executive Officer
Prudential Fox & Roach, Realtors® and The Trident Group

