



# Sep/Oct 2008 NEWSLETTER



## COMING SOON— Residential Home Sale Market Bottom?

### GREEN Chicago

According to Popular Science (www.popsci.com), Chicago ranks 9th in the country for the “greenest cities” based on electricity, transportation, green living and recycling. It was the category leader in ‘green living,’ whereby cities earn points for the number of buildings certified by the U.S. Green Building Council as well as green space for public parks and nature preserves. Portland, Oregon ranked number one.

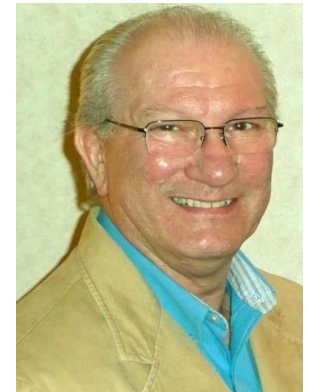
Consider these two historical factors. First, there’s ultimately always a relationship between incomes and home prices—the latter can only rise so far above income-based affordability before an inevitable adjustment occurs. Houses are useful to have—people buy them to live in. So over time houses must be priced at levels buyers

can afford. July’s median house price (half above this # and half below it) was \$204,000. Assuming a 6.4% mortgage rate, that works out to an initial after-tax monthly payment of \$795 or 20.7% of after-tax income, which historically is a relatively low share of median family in-

come. Second, look at the number of new-home sales per 1,000 of population, which hit a high of 5.7 at the peak sales year of 2005 and has since plunged to 2.2, just above the all-time low of 2.1 in 1982, after which there was a meaningful rebound. Other points of interest: (see page 2)



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### HOMES SOLD IN GREATER CHICAGOLAND AREA NORTH\*:

STANDARD HOME = Detached single family 4 bedroom, 2 1/2 baths, basement & 2 car garage.

As of 10/31/08:

MONTHS AGO	24	12	9	6	3	2	1	6 Month Period Trend
# SOLD	3,331	1,412	1,136	864	366	197	104	→
TIME to SELL (days)	149	172	171	172	161	164	169	→
SOLD \$	\$446,279	\$429,768	\$426,882	\$430,885	\$424,856	\$409,819	\$399,600	↓
FINAL ASK \$	\$466,912	\$453,314	\$450,887	\$455,629	\$452,470	\$437,239	\$429,943	↓
CHNG TM TO SELL	-	23	-1	1	-11	3	5	→
% CHNG TM TO SELL	-	15%	-1%	1%	-6%	2%	3%	.
CHNG SOLD \$	-	-\$16,511	-\$2,886	\$4,003	-\$6,029	-\$15,037	-\$10,219	↓
% CHNG SOLD \$	-	-4%	-1%	1%	-1%	-4%	-2%	.
# SOLD PER MONTH	139	118	126	144	122	99	104	→
CHNG ASK \$	-	-\$13,598	-\$2,427	\$4,742	-\$3,159	-\$15,231	-\$7,296	.
% CHNG ASK \$	-	-3%	-1%	1%	-1%	-3%	-2%	.
# CURRENT LISTINGS							1,591	↓
# MONTHS SUPPLY	11.5	13.5	12.6	11.0	13.0	16.2	15.3	→
	11/06-10/08	11/07-10/08	2/08-10/08	5/08-10/08	8/08-10/08	9/08-10/08	Oct-08	5/08-10/08

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\*MLS Areas Barringtons, Elgin, Chicago Area North, North Shore, and North West Regions & Lake County.



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# Perna's Corner

We're on the Web!

[www.PernaPropertiesGroup.com](http://www.PernaPropertiesGroup.com)



### TIP

If you use the Standard Deduction on your Federal Income Tax filing you may be able to claim up to \$500 above the standard deduction; \$1,000 if filing jointly.



### Real Mortgage Rates Still Need to Drop.

The real mortgage rate (now about 14%) is the difference between the nominal 30-year fixed mortgage rate (now about 6.5%) and the rate of appreciation or depreciation of median existing home prices (now - 7.7%). If the nominal rate falls and the rate of home-price depreciation eases, it can spur borrowers to borrow and lenders to lend.

A review of my residential sales market chart six month trends may also support the market is near to bottoming:

### Residential Sales: Six Month Trend Indicators

	8/07-1/08	9/07-2/08	11/07-4/08	12/07-5/08	1/08-6/08	2/08-7/08	3/08-8/08	4/08-9/08	5/08-10/08
# SOLD	↓	↓	→	↑	↑	↑	↑	→	→
TIME to SELL (days)	↑	↑	↑	↑	↑	↓	↓	↑	→
SOLD \$	↓	↓	↓	↓	↑	↑	↑	↑	↓
FINAL ASK \$	↓	↓	↓	↓	↑	↑	↑	↑	↓
CHNG TM TO SELL		↗	↓	↑	↓	↑	↓	↓	→
CHNG SOLD \$		↓	↑	↓	↓	↓	↑	↑	↓
# SOLD PER MONTH	↓	↓	→	↑	↑	↑	↑	→	→
# CURRENT LISTINGS	↗	↑	↑	↑	↑	↑	↓	↓	↓
# MONTHS SUPPLY	↗	↑	↑	↑	↓	↓	↓	↓	→

Bottomed? Not yet, I think. While the points made in the Lead Article are good, they are not the whole story. Number of homes in the foreclosure pipeline is unknown. Alt-A mortgages (a step above subprime) in arrears has quadrupled since last year. Many of these will have major resets next year. The credit crunch continues and some think it will last well into 2010. Job losses continue to increase monthly—undermining consumer confidence. The stock market is way down. (A home sale fell apart just a few weeks ago as the Buyer was intending to sell stock to make the down payment. By the time the Closing neared his stock value had halved and he no longer had the down payment.) Still, I think the bottom will happen in 2009. Another reason to think so that was not mentioned in the Lead Article is that rents continue to go up. Generally, if a mortgage is obtainable (credit crunch has to end) purchasing a home now is much better financially than renting (not the case in recent years). The government economic dawdling does have me very concerned for 2009 though. I am optimistic in spite of them wearing blinders.

(continued from page 1)

- ▶ New home inventory has dropped 35%.
- ▶ Home prices continue to fall, but at a lesser rate.

- ▶ July's existing homes sales was the highest in the past 17 months.

**Wealth Building thru Real Estate Continues**

Data from the Federal Reserve further affirms the long-term housing equity accumulation for homeowners even with the recent declines in

home prices. Homeowners' net housing equity (home value minus mortgage debt) rose from \$6.2 trillion to \$9.6 trillion from 2000 to 2007.