

ATTACHMENT FOUR

December 2008 Housing Report The Information Market

David R. Kotok, Chairman and Chief Investment Officer, Cumberland Advisors

"We are saying that markets change their pricing because they are forward looking. They usually bottom in the midst of the bleakest outlook and they often bottom BEFORE the economics appear to turn. History shows that over time, financial markets are able to change prices to reflect forthcoming changes in economic data. That is why markets are viewed as leading indicators. They are not forecasting the change; they are measuring the behaviors and sentiment of the investors who are forecasting the change. Markets move as a result of actions by those who are seeing a change earlier than economists can compile the data to demonstrate that the change is at hand."

Standard and Poor's

I recently read an article on Azcentral stating a dramatic drop in Phoenix home values, then I was brave enough to read the attached comments, talk about a bleak outlook, and they were just responding to October numbers. Our data is compiled and analyzed daily, when you read Mike's report below, you'll already know what Standard and Poor's will be reporting three months from now. Tracking daily numbers and current ARMLS pending listings, we already have a good idea what January will bring. No fanfare needed, here's Michael Orr and The Cromford Report.

Market Summary for Greater Phoenix

MLS sales volume recovered sharply in December, rising 28% from November. Those sales reduced the number of pending listings a little, but this count remains high for the time of year, more than 76% higher than in January last year. These numbers are being driven by transactions in lender owned properties.

More than 60% of the homes sold through MLS in December were lender owned properties and another 11% were pre-foreclosures or short sales. Only 29% of sales were "normal" transactions. This trend is expected to strengthen further in January because lender owned properties comprise 65% of pending sales. Among active

listings: 52% are normal, 21% are in pre-foreclosure or short sales, and 27% are already owned by a lender.

We saw a large drop in trustee sales in December as banks eased off for the holiday season. It's possible that this will result in a resurgence in January. New foreclosure notices also fell off, but the effect was smaller, resulting in an increase in pending foreclosures.

On a \$/SF basis we are at an average of \$100 across the valley based on December 's MLS sales, which is down 47% from the peak of \$189 reached in May 2006. Prices have fallen much less in certain areas with few foreclosures and much more in some with higher than average foreclosures. The pricing of pending listings suggests a further average \$/SF price reduction for sales in January of 4% to 6%. The median sales price dropped from \$150,325 in November to \$143,988 in December.

The low pricing of bank owned properties coupled with lower interest rates has caused a significant up tick in demand from 90% of normal at the start of December to 97% of normal at the beginning of January. Supply fell slightly to 177% of normal. This combination means that the market supply/demand balance improved even though the level of distress increased.

Unless otherwise stated, all figures quoted above are for "all areas and types" in the ARMLS database.

December Sales/Public Record

We had 5064 homes resell in Maricopa County in December with an overall median of \$145,000. Bank owned properties accounted for 3,047 (60%) with a median of \$118,000. "Normal" or traditional sales were (40%) of the market, 2,017 sales with a median of \$200,000.

January Foreclosure Numbers

I expect January foreclosure numbers to increase, and I think this increase will have more to do with November and particularly December than January itself. A period of grace took place over the holidays leaving December numbers lower than expected, with actual foreclosures coming in well below our quarterly projections. I would not be alarmed by an increase in January numbers anymore than being encouraged by December numbers. It's much easier to send the Sherriff out for an eviction in January than just before Christmas.

Suggestions for web site

It's very easy to see the effect of foreclosures on the median price, what we can't see are the conditions of the houses being foreclosed upon, and horror stories from the front lines paint an ugly picture. Each year I try to review foreclosure statutes to see if I missed anything, or, to see what I've forgotten. Wouldn't it be nice to see just one person taken to task for the damage done before moving out. Arizona 33-806 may leave an avenue. If that doesn't work, we'll just have to create a website with pictures of the houses and the people who trashed them, we'll call it Dirty Houses.

33-806. Transfers in trust of real property; uses

B. The trustee or beneficiary shall have a right to maintain an action against any person, including the trustor, for a claim for relief where damage or injury occurs or may occur to the trust property or interests therein, including but not limited to actions for damages or to prevent:

1. Physical abuse to or destruction of the trust property, or any portion thereof.
2. Waste.
3. Impairment of the security provided by the trust deed. In any such action the trustee or beneficiary, or both, shall also be entitled to recover costs and reasonable attorney's fees and shall be entitled to all remedies available. Recovery of damages under this section shall be limited to damages or injuries incurred during the time the trustor is in possession or control of the trust property. The provisions of section 33-814 shall in no manner restrict or limit the provisions of this section.

Looking Ahead

It was in late February last year when I became fully aware of the magnitude of the problems we were facing. Sales were way down, the median price was falling, listings were up, credit was drying up, gas prices were going through the roof, foreclosure notices and auctions were rapidly rising. The market still hasn't bottomed, but not all signs are negative. Yes, we currently have 31,099 properties in foreclosure, 18,122 more than the start of 2008, and January scheduled sales and new filings are running high. We're all in agreement, there's

still a lot of hay in the field, that said, some signs are positive this year. The housing market is in a far worse starting position, but strangely enough the outlook for the end of 2009 may be brighter. I've heard rumors of mortgage lenders calling people back to work as loan applications rise. I just read yesterday where the efforts of the Federal Reserve are freeing mortgage monies and lowering interest rates. I filled up my car yesterday and it was less than \$20.00, down from a high of \$54.00. Sales volume on existing homes is rising, and while new home sales are floundering, new home median prices have risen for 4 straight months. News on median prices and foreclosures will continue to be bleak the first three months, but remember what Mr. Kotok says, when the outlook is the bleakest.....

You will be seeing changes in our web sites in the coming weeks as we pursue our commercial model. The initial design for the new home page is here: <http://www.cromfordreport.com/newindex-7.html>

Cheers, Tom Ruff.