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2013 PREDICTIONS

By Stephanie Sims

You've been following the market all year (at least, we hope so – it's your job!), so you know that big news included home prices bottoming earlier in the year and slowly – very slowly – increasing ever since. Construction also appeared to have bottomed and housing starts are up. And of course, with 2012 being an election year, everyone is now waiting with anticipation with what will be done for housing next year as a result of legislation.

We're also anxious as to what might happen next year for housing, and what's on the horizon. We took a look at our news for the past year, analyzed the data and graphs (thanks to the National Association of Home Builders for the ones reprinted here) and came up with our own predictions for what will happen in terms of inventory, mortgages, new construction and more. We also asked a panel of industry professionals who are at the top of their game for their opinions, too. Read on for an outlook on what next year holds.

MEASURES OF CONSUMER SENTIMENT TICK UP

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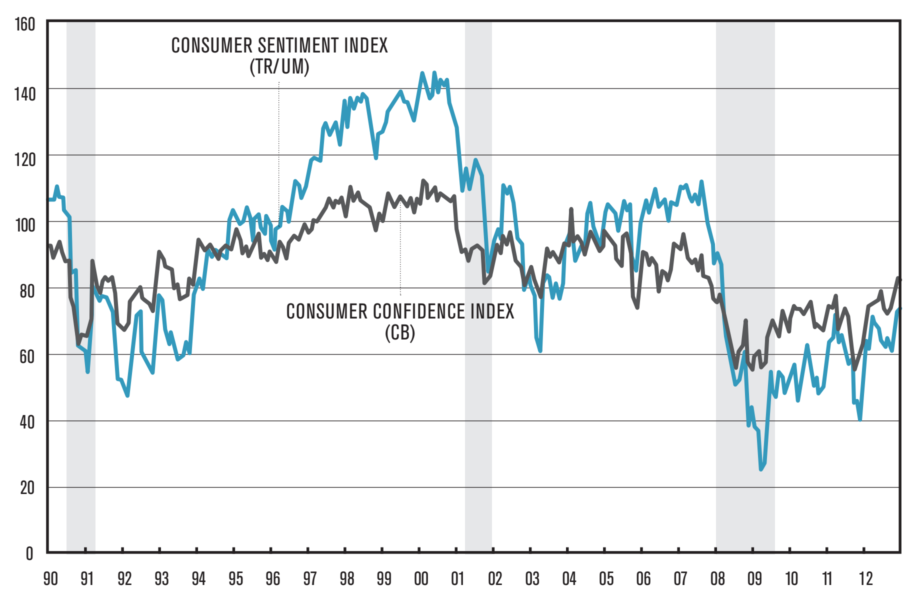

SOURCE: THOMSON REUTERS/UNIVERSITY OF MICHIGAN, CONFERENCE BOARD

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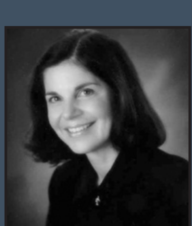

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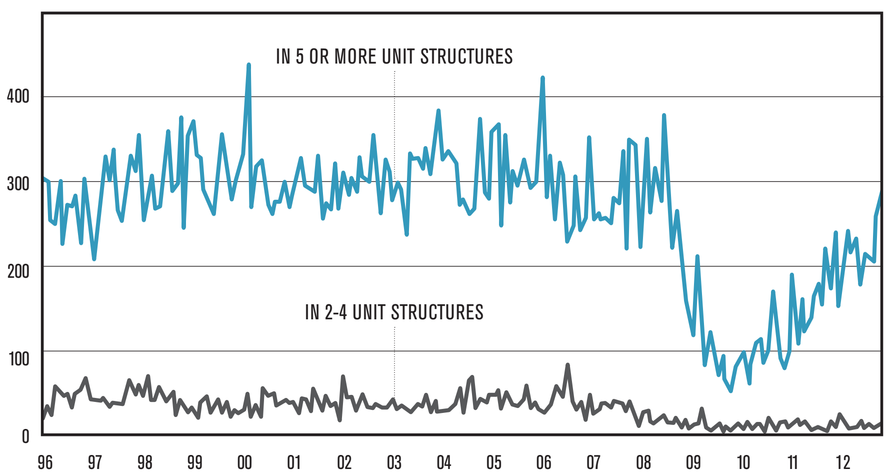
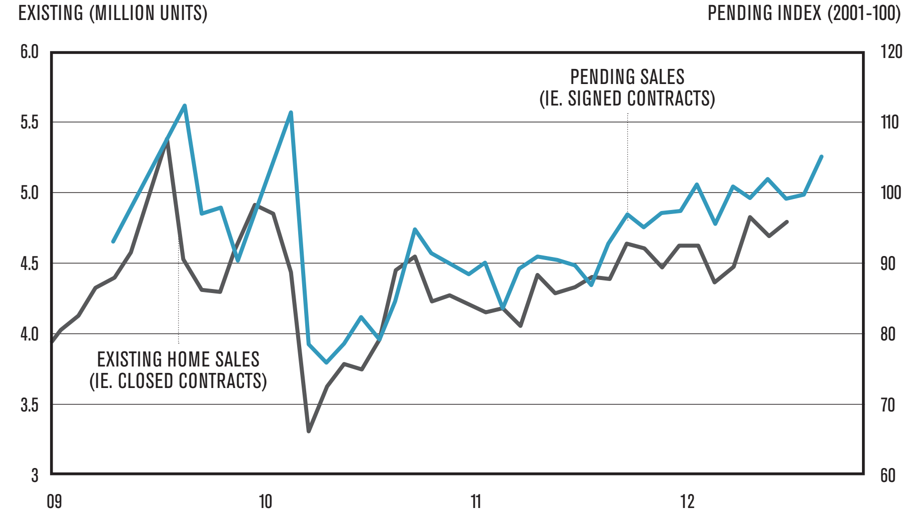
MULTIFAMILY HOUSING STARTS
(IN THOUSANDS, SEASONALLY ADJUSTED ANNUAL RATE)



PENDING AND EXISTING HOME SALES



INVENTORY

There might not be any earth-shattering data regarding home prices and home sales, but as small as the improvements are for both, at least they're headed in a positive direction. Currently, the inventory has decreased, but once 2013's spring market comes around and more people put their homes on the market, this should change.

"There will be two kinds of sellers – those who want to sell and those who have to sell," Millie Rosenbloom, a top producer with Baird & Warner, says. "These will be made of people who have to relocate because of work, or people who are 'empty nesters' and want to move. Some of these sellers will be moving from larger homes in the suburbs to smaller places in the city, or possibly from condos to larger homes to make room for a growing family."

There might be a shortage of quality inventory, and distressed properties are still a drag on the pricing side of the equation, but once they are off the market, it will be a major step towards housing recovery. Ginny Stewart, an agent with Adams & Myers in Hinsdale, says that while REOs are in high demand in her market – many can still be a "steal" for buyers as the market slowly turns away from being a buyer's market and lowball offers – it still can take what feels like ages to move them.

"I'm extremely frustrated with the lenders. They have to be more proactive," she says. "They are listing with brokers who are not from the area. And, more importantly, (to sell them), please, clean up the REOs! What would it take to get someone, or a cleaning crew, to help take care of the upkeep on an REO listing? I was at one REO and it looked like someone didn't rake the leaves in six years."

"The REO inventory in Chicago will remain above most of the rest of the nation for the next 12 to 24 months," Zeke Morris, president of the Chicago Association of Realtors, says. "Because of our state's extremely high number of homes in foreclosure and the backlog of paperwork that's accumulated in the state's judicial system, we still have a while to go before the numbers start to clear."

Thankfully, however, should Governor Quinn sign the Illinois Foreclosure Bill, the foreclosure timeline for vacant properties would decrease from 500 days to 100 days, and the bill will provide housing counseling to homeowners while raising $28 million to clean up vacant houses and lots and providing $13 million in grants to housing counselors. This should help kick-start clearing the REOs from the market next year.

Sales have increased but prices have not, therefore, there is demand for housing, "but sellers have not bought into that sentiment," Russ Bergeron, CEO of Midwest Real Estate Data, says. "A few months of increased prices, no matter how small, will spur some sellers to get off the fence and test the waters (next year)."

> "We entered this year expecting new home demand in 2012 to be comparable with 2011...(but) demand has been more robust."
>
> **MARIA WILHELM**
> **PULTEGROUP**

"If you look at the nation overall, statistics indicate that the delinquency and shadow inventory numbers are improving. However, the foreclosure trends are different for each state," Joan Sinnott, senior vice president of Century 21 Lullo, says. "Since Illinois is among the states that require foreclosures to go through a judicial review (which significantly delays the process), the Chicago area is projected to be a year or two behind any national recovery. Clearing up our inventory could take quite a few years yet. Reports I've read indicate that foreclosures may decline a bit more this year, but both foreclosures and short sales will dramatically accelerate in our area in 2013 and also into 2014. So the turnaround may not happen until 2015."

NEW CONSTRUCTION

According to Bill Conerly, a reporter for Forbes.com, new construction units are being built slower than needed to meet demand. Last year, just over 600,000 new construction units were built in the U.S. Next year, Conerly's prediction is about 750,000 units will be built. At the peak of construction in 2005, there were 2.5 million units built. We need about 1.5 million new units per year to accommodate population growth, the desire for vacation homes and demolition of old units.

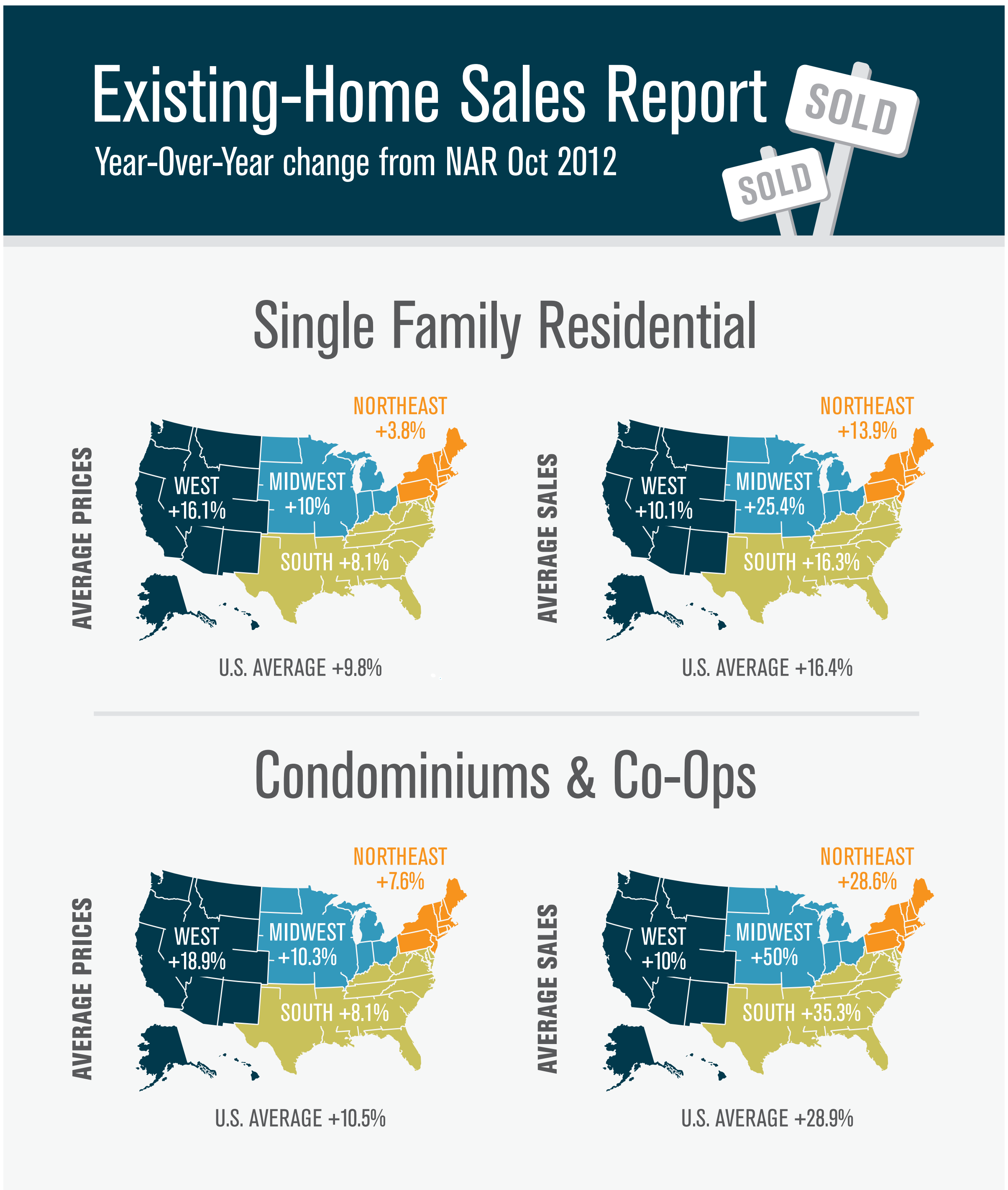
In addition, Conerly also reports that it is still too soon for housing starts to get back to normal, but he estimates that 2013 will probably have about one million total housing starts. This will be a substantial percentage gain over 2012. According to Metrostudy, in Chicagoland's counties, there were 2,628 housing starts tallied through the first nine months of this year, and new homebuilders continue to see improvement in the level of demand for their product. In the first nine months of 2011, there were 2,093 housing starts. The 535 unit improvement over the prior year-to-date total is the largest such increase (both nominally and percentage-wise) in over 10 years. Metrostudy expects the number of housing starts to reach 3,400 housing units by year's end.

"We entered this year expecting new home demand in 2012 to be comparable with 2011," Maria Wilhelm, vice president of sales with PulteGroup, says. PulteGroup is currently building new communities in Burr Ridge and Glenview. "Obviously, demand has been more robust, with industry-wide sales tracking roughly 25 percent above prior year levels. There are a host of reasons to support the housing market's recovery: higher rents, low home prices, low interest rates, the rapid reduction of existing-home inventory and the limited supply of new homes on the market. I think you'll see a sustained recovery in 2013."

The challenge for many developers next year will be with absorption, according to Todd Condon, vice president of Ryland Homes. "Certain submarkets will continue to see challenges in sales absorption due to existing short sale and foreclosure listings that initially seem attractive to buyers," he says. "However, Ryland has performed very well in these areas (in the suburbs) by staying competitive."

The market saw a rise in the demand of new construction, leading to more housing starts and more new developments. Price points are not back to housing boom levels, but are approaching pre-boom levels. "It's all about value," David Wolf, president of sales for Related Midwest, says. "New construction or newly renovated properties are selling much faster and for more money than comparable resale properties."

While the rental market was hot for some time, especially the last few years, the demand for rentals is now on the decline as the market starts to level. But there are a few companies that have rental developments in the works: Related Midwest, for example, is developing 500 rental residences at 500 N. Lake Shore Drive, which will open in April 2013, and another 500 at 111 W. Wacker Drive, opening in spring 2014. In fact, all the developers we spoke with for this story have several projects lined up for delivery in the next few years, like Belgravia's third 40-unit phase of CA23 in the West Loop and its Lincoln Park townhome project Montana Row; Related Midwest's redevelopment of three Museum Campus buildings in the South Loop; Ryland is opening communities in Crystal Lake, Huntley, Shorewood, Aurora and Elgin early next year; PulteGroup has a new community, Kensington Court, opening in January in Glenview; and Lexington Homes has new models opening at Lexington Square 2 in late December/early January, and two spec homes are under construction and opening at The Sanctuary Club in Kildeer next spring.



"Developers will continue to minimize risk and take baby steps with small projects," Liz Brooks, vice president of sales and marketing at Belgravia, says. "Financing larger projects is nearly out of the question. Developers that rented out unsold units during the downturn are now starting to put those units on the market."

MORTGAGES AND APPRAISALS

When it comes to mortgages, whether regulations will start becoming less stringent hinges on Basel III. Developed in response to the financial crisis, Basel III is a global regulatory standard on bank capital adequacy, stress testing and market liquidity risk agreed upon by the members of the Basel Committee on Banking Supervision last year, and scheduled to be introduced from 2013 until 2019. Whether the challenges loan officers have been having in years past – clients having trouble qualifying for financing due to down payment, credit or appraisal issues – all depends on Basel III's capital requirements, which could have unintended effects on borrowing costs for buyers, Amir Syed, private mortgage banker with Perl Mortgage, says. "Basel III capital requirements are designed as an additional liquidity safety net for lending institutions during any financial downturns," he says. "This would have a butterfly effect on homeowners (that could cause) higher rates, more costs and more red tape."

Basel III will also increase requirements for banks next year, and if that's the case, banks are going to act sparingly in giving homebuyers loans. G-fees will be passed onto loan officers, and with the record low interest rates, banks will see the ability to supply capital; but, according to some area lenders, the banks will most likely not want to give money to most buyers.

The other government program to watch? Dodd-Frank – now that Obama has been re-elected, it's likely the program will be highly impactful on the industry. "Democrats already had a strong majority in the state House and Senate, and Dodd-Frank will be very impactful moving forward," Dione Spiteri, president of US Appraisal Group, says.

"Obama has a lot of programs that he put into place. Now that he is at a second term, he can execute those programs," Tonya Corder, president of the Mainstreet Organization of Realtors, says. "He got re-elected, now he needs to get the economy moving."

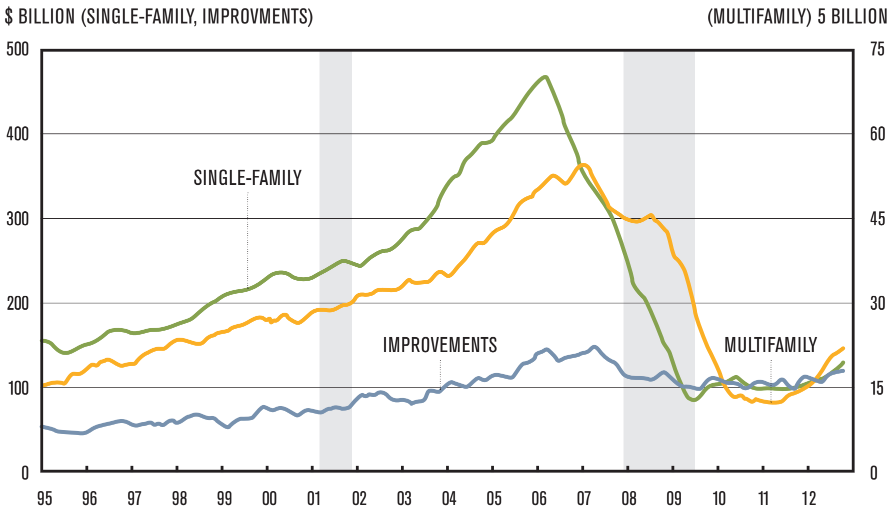
At press time, the fate of the mortgage interest deduction, or MID, was still up in the air, as well. According to HouseLogic, having a tax deduction for mortgage interest makes owning a home more affordable because the deduction lowers the amount of tax you pay. U.S. Census data shows 37 percent of homeowners with mortgages spend more than 30 percent of their income for housing. Saving on these costs is critical for homeowners as it allows them to allot funds for savings and other expenses.

Therefore, while policy makers are considering eliminating the MID, Lawrence Yun, chief economist for the National Association of Realtors, believes that such a move would lower the homeownership rate in the U.S.

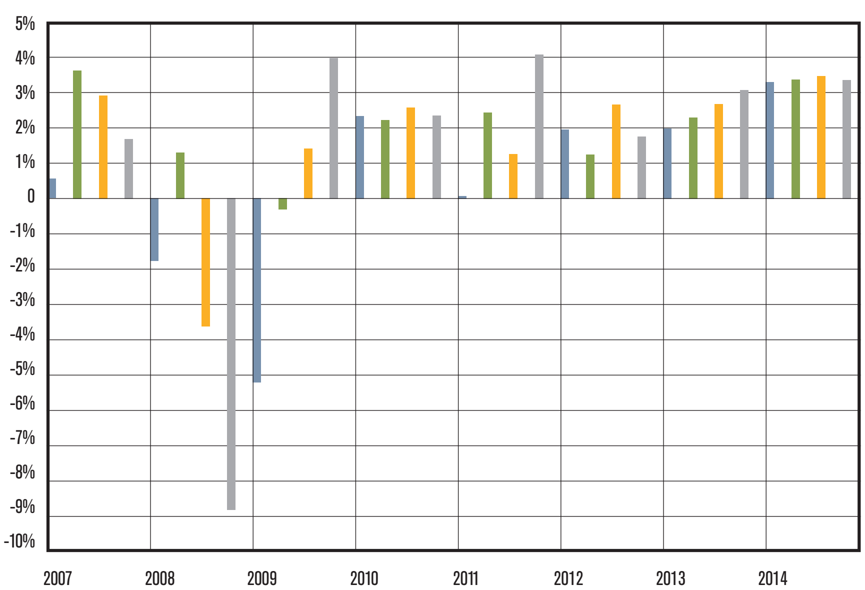
"While we must ensure that the conditions that led to the artificially inflated homeownership rate of the bubble years do not resurface, we also need to create the conditions for sustainable homeownership," he explains.

While the Home Valuation Code of Conduct (HVCC), a document that stated that Freddie Mac Seller/Servicers must represent and warrant that the appraisal report is obtained in a manner consistent with the Code, expired

CONSTRUCTION SPENDING, 3 MONTH MA

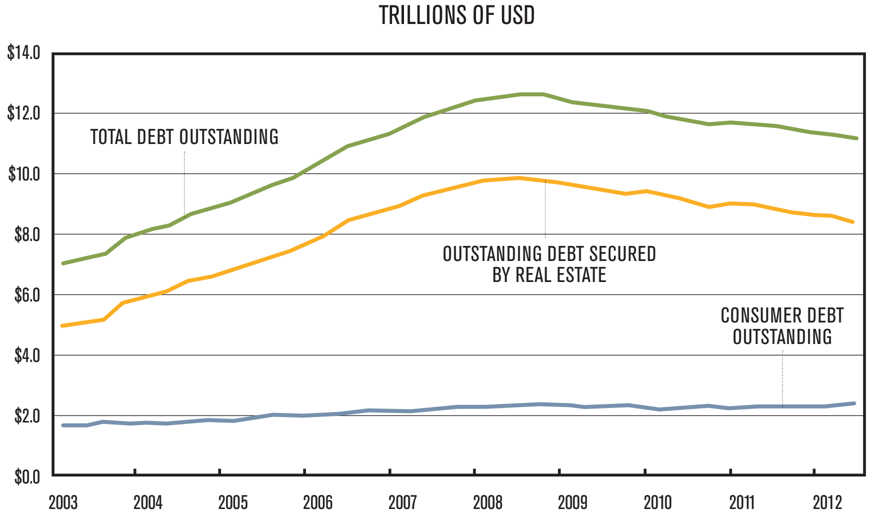


REAL GDP GROWTH - AVOIDING THE FISCAL CLIFF



HOUSEHOLD DEBT OUTSTANDING

TRILLIONS OF USD



NOTE: MORTGAGES ARE THE PRIMARY COMPONENT OF REAL ESTATE SECURED DEBT OUTSTANDING. BETWEEN THE FIRST QUARTER OF 2003 AND THE THIRD QUARTER OF 2012, THE SHARE OF MORTGAGES RANGED FROM 92.6 TO 95.3.
SOURCE: FEDERAL RESERVE BANK OF NEW YORK.

Where Are House Prices Headed?

Recently, several groups have stepped forward and given their projections as to what level of appreciation we can expect by the end of 2013.

Demand Institute Study:	+ 1.75%
Urban Land Institute:	+ 2%
Home Price Expectation Survey:	+ 2.44%
National Assoc of Business Economists:	+ 2.8%
Wall Street Journal's Survey of Economists:	+ 3.25%

Discounted REO Properties in Chicago: A Thing Of The Past?

15.5% discount

in September 2011

11.9% discount

in September 2012

Many in the Industry Predicted the Housing Market Would Fully Recover by 2014.

Do you think the market will recover this soon? Why or why not?

"I agree with that statement, but I think the market will recover quicker than 2014. In the market around here, we've already seen recovery. Typically during this time, it's slow, but here, it's busy, and there will be quite a few closings in January and February in all price ranges, not just low or just high-end. In addition, we're seeing sellers pricing their homes according to what the market says, nothing over or underpriced, and those homes aren't sitting on market for 120-plus days. I think 2013 will be a year to reeducate buyers because it won't be a buyer's market anymore, with no more 'steals.' I think next year's spring market will be interesting; with people getting homes ready now for the spring market, I think inventory will increase – part of the problem now is inventory is down. I think for the next few years, we'll have slow increases of 1 percent or so, and we'll see prices go back to a level we saw around '06, right before the bubble."

LIZ ANDERSON, CENTURY 21 KREUSER AND SEILER

"As far as pricing is concerned, the Midwest was the last to crash, so it stands to reason we'll be the last to recover, but most people are looking actively for houses, and most people want to jump in and buy, including tons of investors. I'm seeing fewer foreclosures and more short sales, so I think lenders are getting the idea to keep people in their homes and trying to do more short sales and work with homeowners.

Prior to the housing surge of '05/'06, up to that point, markets were gaining 3 percent in appreciation, so I would say if we reach 3 percent gains in home values in the next two years, that's a recovery. I would say we'd be pushing it pretty hard to get there by 2014; I'd say it's more likely for that to happen in 2015/2016."

NEIL PIKET, JOHN GREENE REALTOR

"I expect recovery in the traditional housing market by 2014; already we're seeing multiple offers in some areas, and sales volume and prices beginning to stabilize. The distressed market is another story, and htat has much to do with the high unemployment rate in Illinois and our state's judicial system's approach to foreclosure. Illinois is currently No. 1 in the U.S. for its percentage of mortgage defaulters and we're even seeing instances of re-defaulters. Re-defaulting can be due to a new job that didn't work out. But too often, it's because people are trying various ways to avoid foreclosure that don't get them to the root of their real problem. Our judicial system allows a seven-month redemption period before people lose their homes, which can encourage people to try solutions that aren't right for them. We're trending in the right direction but have a way to go. Realtors can play a significant role by helping increase our emphasis on distressed homeowner education."

MARKI LEMONS RYHAL, KELLER WILLIAMS PREFERRED REALTY

"I don't know if I can accurately predict a date when markets will fully recover, but I'll say two things: one, if you're looking at a recovery in terms of price recovery, where the prices will be back at what they were at their peaks in 2007 and 2006, I don't see a realistic chance of that happening by 2014. I think we've got a long way to go for prices to stabilize and start having consistent year-over-year price increases. The single-family market in Cook County, for instance, is down 38 percent from the peak, so I don't really see us getting back to that point by 2014.

If we're talking about a normally functioning housing market, where you can have access to credit, or a buyer who personally wants to sell their house can easily do so, (and) go out there and find a reasonable supply of housing to purchase and have limited impediments to purchase, I would say (that) whether it's by 2014 or 2015, we're moving in that direction. The date for that recovery will vary by city, and some cities are further along than Chicago is, so for Chicago, 2014 may be very optimistic."

GEOFF SMITH, EXECUTIVE DIRECTOR OF THE INSTITUTE FOR HOUSING STUDIES, DEPAUL UNIVERSITY

in 2010, in most agents' and loan officers' opinions, it made appraisals more difficult.

"The basis of the HVCC stemmed from relationships between unscrupulous loan officers and appraisers inflating and manipulating home values," Syed says. "The HVCC, in my opinion, was actually a good idea, however, it needed more refining in terms of the arbitrary appraiser selection process. Many homeowners are experiencing appraisers that do not have direct or recent knowledge in their neighborhood."

"I think the HVCC had such a huge impact, which unfortunately led to a separation of lender and appraiser," Lisa Trace with Griffith, Grant & Lackie in Lake Forest, says. "I had a property where the appraiser compared the property to a section of Lake Bluff that wasn't even apples to apples. There is no comparison between the two areas, and the appraiser didn't even know the area, which is the case with most appraisers (in my experience)."

Looking to next year, there should be an increase in sales, especially once the spring market hits. Interest rates should stay low through next year, and with more sales, recent comparable sales and appraisals will improve.

"I'm hoping that next year, there will be federal regulation of appraisal management companies as opposed to state regulation," Spiteri says. "The variance of state laws and requirements are exhausting and prohibitive and counter-productive. As always, next year, bring data, a list of improvements, plat map/survey and any other available information to the appraisal inspection to ensure it goes smoothly."

Regarding REO transactions and short sales pulling home values down and causing problems with appraisals into next year, the hope is that as more are sold and taken off the market, over time, this challenge will be solved. But as for next year, again, home values and the market are creeping back slowly, meaning while the challenge of having a home appraise out is getting better, it won't be completely gone until REO properties are off the market, and short sales will continue to be challenging next year, as well, according to some agents.

"One of the biggest challenges in 2013 will be in the way short sales are handled," Sinnott says. "Despite continued improvements to the process, it still can take excessive amounts of time, which often results in cancelled contracts because the buyer can't wait that long to make a purchase."

"I think collateral is getting better and appraisals are starting to come in line with expectations," Syed says. "In the city, we're starting to see values coming more in line with what people think their properties are worth. But as long as shadow inventory and low comps exist, some homes may appraise low."

Additionally, everyone on our panel said their companies have all experienced some sort of growth. "We can't seem to hire fast enough," Spiteri says. "We want to streamline through technology and innovation in a way that is unparalleled in our industry." We have a feeling we'll see several companies keep growing and improving to provide impeccable services to clients as the market continues to improve. C.A.