



R P X M O N T H L Y HOUSING MARKET REPORT

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December 2007

Key Characteristics

- **For December 2007, of the 25 Metropolitan Statistical Areas examined, four residential markets showed price increases, one market was neutral (+/- 1%), and 20 markets showed price declines.** Milwaukee remains strong with 4.9% year-over-year appreciation. Price declines are spreading and accelerating: nine markets (Phoenix, Atlanta, Tampa, Miami, Los Angeles, San Diego, St. Louis, Las Vegas, and Sacramento) show double-digit losses, up from six last month.
- **The Economic Stimulus Act of 2008 is now law. Cities with higher price points may see increases in the liquidity of the residential mortgage market as a result, possibly sparking an end to the slide in housing prices.** Nine of the 25 cities tracked by Radar Logic will likely see an increase in the conforming loan cap. San Jose, San Francisco, Los Angeles, and San Diego are the four that will likely see the largest jumps in the local inventory covered under the new limits.
- **Transaction volumes have been a leading indicator for price declines in most cities. Boston, Cleveland, Detroit, Sacramento and San Diego are experiencing a recent increase in volume after a period of price declines.** On average, 19 cities experienced a decline in year-over-year transaction volumes 15 months before a comparable string of price declines after accounting for seasonality.

Market Characteristics

December 2007 brought to a close a year in which the housing bubble burst. Exhibit 1 ranks all 25 cities tracked by Radar Logic by year-over-year change in price-per-square-foot (PPSF) for properties sold in the 25 US Census-defined Metropolitan Statistical Areas (MSAs). Four markets show a net year-over-year appreciation, one market is neutral (within +/- 1%) and 20 are

negative. This is consistent with last month's results. However, price growth is increasing at a slower pace, and price declines are increasing at a faster pace. Of the 25 cities, 21 have weaker year-over-year numbers in December than in November. Nine markets show double-digit declines from one year ago, up from six in November. Sacramento and Las Vegas are past the 20% barrier, at -23.7%

and -21.0%, respectively. Milwaukee, on the other hand, has held the top ranking three out of the last four months and shown neutral or better growth since January 2006. Three markets changed status from last month. Philadelphia was positive last month, but negative this month, with a 2.0% decline. Washington, D.C., is positive this month with a 2.4% gain after being negative last month. Seattle is neutral year-over-year at a 0.9% annual appreciation, its worst showing in the historical data published by Radar Logic.

Exhibit 1: 25 Metro Residential Areas (1-Year % Change)

Rank	Prior Rank	MSA	Code	PPSF	% Change
1	1	Milwaukee, WI	MW	\$112.53	4.9%
2	8	Washington, DC	DC	\$229.39	2.4%
3	5	Charlotte, NC	CH	\$95.93	2.1%
4	2	New York, NY	NY	\$286.26	1.4%
5	3	Seattle, WA	SE	\$216.81	0.9%
6	4	Philadelphia, PA	PH	\$147.36	-2.0%
7	6	Columbus, OH	CO	\$91.19	-2.1%
8	10	Chicago, IL	CG	\$169.63	-4.3%
9	18	Jacksonville, FL	JX	\$114.40	-4.4%
10	7	San Jose, CA	SJ	\$437.18	-5.2%
11	12	Minneapolis, MN	MN	\$143.89	-6.2%
12	17	Detroit, MI	DT	\$101.31	-6.7%
13	9	San Francisco, CA	SF	\$394.23	-7.0%
14	13	Boston, MA	BO	\$209.83	-7.5%
15	11	Cleveland, OH	CL	\$85.37	-8.2%
16	15	Denver, CO	DV	\$133.21	-8.9%
17	19	Phoenix, AZ	PX	\$138.76	-10.3%
18	16	Atlanta, GA	AT	\$91.03	-11.3%
19	22	Tampa, FL	TA	\$120.88	-13.6%
20	20	Miami, FL	MI	\$174.13	-14.4%
21	21	Los Angeles, CA	LA	\$331.46	-14.7%
22	23	San Diego, CA	SD	\$269.96	-19.0%
23	14	St. Louis, MO	SL	\$88.71	-20.3%
24	24	Las Vegas, NV	LV	\$143.29	-21.0%
25	25	Sacramento, CA	SC	\$172.54	-23.7%

Source: 28-Day RPX™ index value for each MSA as of 12/31/2007

Exhibit 2 ranks markets as leading and trailing for annualized 2-year and 5-year returns, as well as highest and lowest priced metro areas. The markets leading in 2-year and 5-year returns and PPSF rankings are the same as in the November 2007 report, although the rankings have shifted. St. Louis appears on the trailing 2-year, 5-year and lowest priced metropolitan areas due to a county composition shift. Excluding St. Louis from the analysis, both the trailing 5-year annualized change and lowest PPSF groups would remain the same as last month: Detroit, Columbus, Denver, Cleveland, and Atlanta for smallest 5-year annualized change and Cleveland, Columbus, Atlanta, Charlotte, and Detroit for lowest PPSF. Excluding St. Louis from the 2-year annualized change, Los Angeles would actually be ranked the 5th worst 2-year annualized change at -6.8%, a change from the November 2007 report, which included Phoenix as the market with the 5th worst 2-year annualized return.

Radar Logic computes the 28-day PPSF as the distribution median for homes sold in a 28-day period. For the purpose of the monthly report, Radar Logic uses the 28-day PPSF for the period ending on the last business day of the month. Deed records from the county level are combined with records from other counties in a US Census-defined Metropolitan Statistical Area (MSA). The derived numbers can be affected by changes in reporting levels from different counties that constitute the MSA. For December, there are three MSAs with significantly different county compositions that affect the numbers. In the Atlanta MSA, Fulton and DeKalb counties have not reported data for the last 28 days of December 2007, while Gwinnett County did report for December 2007, but not in December 2006.

Exhibit 2: Metro Areas Ranked by Price Per Square Foot, 2-Year and 5-Year Annualized Change

Leading 5 Metro Areas (2-year Annualized % Change)		
Rank	MSA	% Change
1	Seattle, WA	7.4%
2	Milwaukee, WI	6.1%
3	Charlotte, NC	4.2%
4	New York, NY	2.4%
5	Philadelphia, PA	1.8%

Trailing 5 Metro Areas (2-year Annualized % Change)		
Rank	MSA	% Change
1	Sacramento, CA	-15.9%
2	Las Vegas, NV	-11.6%
3	San Diego, CA	-11.1%
4	St. Louis, MO	-10.1%
5	Detroit, MI	-7.3%

Leading 5 Metro Areas (5-year Annualized % Change)		
Rank	MSA	% Change
1	Washington, DC	10.7%
2	Miami, FL	10.3%
3	Seattle, WA	10.1%
4	Los Angeles, CA	9.4%
5	Phoenix, AZ	9.4%

Trailing 5 Metro Areas (5-year Annualized % Change)		
Rank	MSA	% Change
1	St. Louis, MO	-1.4%
2	Cleveland, OH	-1.0%
3	Columbus, OH	-0.9%
4	Denver, CO	-0.5%
5	Detroit, MI	-0.5%

Highest Priced Metro Areas		
Rank	MSA	% Change
1	San Jose, CA	\$437.18
2	San Francisco, CA	\$394.23
3	Los Angeles, CA	\$331.46
4	New York, NY	\$286.26
5	San Diego, CA	\$269.96

Lowest Priced Metro Areas		
Rank	MSA	% Change
1	Cleveland, OH	\$85.37
2	St. Louis, MO	\$88.71
3	Atlanta, GA	\$91.03
4	Columbus, OH	\$91.19
5	Charlotte	\$95.93

In St. Louis, Madison County reported for December 2007, but not for December 2006. Meanwhile, St. Louis County and St. Charles County did not report for December 2007. For Washington, D.C., Prince George County, Fairfax County, and the District of Columbia are all now reporting, and were not in 2006. County composition, as well as other information for each MSA, is available on the Radar Logic website, www.radarlogic.com.

Stimulus Plan Passed into Law

On February 13, 2008, President Bush signed the Economic Stimulus Act of 2008 into law. In addition to tax rebates for many Americans, the bill will allow Freddie Mac and Fannie Mae to increase the price cap at which they purchase mortgage loans. New price caps will be determined by the median price of houses in a geographic area. The limits will be temporarily set to 125% of the area median price, not to exceed \$729,750. If 125% of the median house price in an area is less than \$417,000, the bill will have no effect on loans originated for homes in that area. These new laws will apply to mortgages originated between July 1, 2007, and December 31, 2008.

The bill aims to bring mortgages from more properties under the conforming cap. While it remains to be seen how the market will price the newly-qualifying mortgages, conforming mortgages have lower interest rates than non-conforming, or 'jumbo', loans. Since the bill is likely to bring mortgages for more properties in high-priced areas under the conforming limit, it should effectively lower the cost of credit. Lower interest rates can act to buoy housing prices both through

increased demand, as prospective buyers find it cheaper to get a mortgage, and decreased supply, as homeowners struggling to make payments can refinance rather than default.

While area median prices are to be determined early this month by the Secretary of Housing and Urban Development, Radar Logic has prepared a preliminary analysis of the effect of the Stimulus Package on the 25 RPX MSAs. Based on the wording of the bill, an area needs a median home price greater than \$333,600 to see an increase in the conforming cap. Nine MSAs have median prices high enough for an increase in the conforming loan limit. Exhibit 3 shows the median price for each area, the resulting conforming loan limits, and the percent change in properties included under the conforming loan limits, assuming 75% loan-to-value. Of the nine MSAs to experience a change, all are on the East and West coasts.

In our analysis, the four markets that would experience the largest shift in the conforming limit are all California MSAs: San Jose (54% more inventory covered under the new limit), San Francisco (44%), Los Angeles (33%) and San Diego (18%). Two other MSAs that would experience large shifts are New York (18%) and Washington, D.C. (11%).

Volume as a Leading Indicator

In real estate, prices are 'sticky' against downward movement, meaning that sellers are reluctant to lower prices, even in declining markets. Meanwhile, buyers perceive that the market is falling and expect sellers to lower prices

accordingly. As prices do not fall immediately, deals are not made, and volume drops off. Eventually, owners that must sell do, and the bid-ask spread begins to close, resulting in a return of volume and post-correction appreciation.

For this analysis, volume downturns are identified as a consecutive three-month period of negative year-over-year volume changes occurring after June 2004. In the middle of 2004, the housing bubble had begun and prices were still appreciating for all 25 tracked MSAs. For the purposes of this study, transaction volumes include transactions for which there was no size measurement, which are not included in the daily price per square foot calculations. Volumes show significant seasonal volatility: the average peak to trough change in 2007 across all 25 MSAs is 46%. In contrast, the average magnitude of the year-over-year change after June 2004 for all 25 MSAs is only 17%. Requiring a consecutive three-month period of negative year-over-year volume changes highlights the point in which transaction volume dropped off. Volumes began to decline even during the rapid increase in prices, with San Diego showing the first drop in July 2004. The average initial drop in volume for the 25 cities was October 2005, with a standard deviation of roughly eight months on either side.

Presuming that prices are sticky downwards, the drop-off in volumes heralded a growing bid-ask spread that would lead to a decline in prices. Radar Logic found that in 19 cities, prices began to fall after the decrease in volume. Columbus had its first string of year-over-year depreciation before its volume trailed off. Meanwhile, five cities—Charlotte, Milwaukee, New York, Philadelphia,

Exhibit 3: Percentage of Transactions Under Conforming Loan Limits (Q3 2007)

Rank	MSA	Median Price	Estimated Limit	% Change Covered
1	San Jose, CA	\$720,000	\$729,750	54.3%
2	San Francisco, CA	\$680,000	\$729,750	44.1%
3	Los Angeles, CA	\$560,000	\$700,000	32.5%
4	San Diego, CA	\$470,000	\$587,500	18.4%
5	New York, NY	\$465,000	\$581,250	17.6%
6	Washington, DC	\$409,109	\$511,386	10.9%
7	Sacramento, CA	\$360,000	\$450,000	3.1%
8	Seattle, WA	\$354,950	\$443,688	2.6%
9	Boston, MA	\$353,000	\$441,250	2.3%
10	Las Vegas, NV	\$299,950	\$417,000	0.0%
11	Miami, FL	\$290,500	\$417,000	0.0%
12	Chicago, IL	\$259,000	\$417,000	0.0%
13	Phoenix, AZ	\$245,000	\$417,000	0.0%
14	Denver, CO	\$240,000	\$417,000	0.0%
15	Minneapolis, MN	\$236,985	\$417,000	0.0%
16	Philadelphia, PA	\$232,000	\$417,000	0.0%
17	Tampa, FL	\$199,000	\$417,000	0.0%
18	Atlanta, GA	\$197,500	\$417,000	0.0%
19	Jacksonville, FL	\$186,000	\$417,000	0.0%
20	Milwaukee, WI	\$186,000	\$417,000	0.0%
21	Charlotte, NC	\$185,000	\$417,000	0.0%
22	Columbus, OH	\$155,700	\$417,000	0.0%
23	St. Louis, MO	\$147,000	\$417,000	0.0%
24	Detroit, MI	\$143,500	\$417,000	0.0%
25	Cleveland, OH	\$136,000	\$417,000	0.0%

and Seattle—have yet to experience a period of three consecutive months with a year-over-year depreciation, but still show declines in volumes. Cities that have already seen a string of year-over-year depreciation waited an average of 15 months after the initial volume drop-off to start showing a similar trend of weakness in prices, with a standard deviation of 7 months. The city to show weakness in prices the quickest after volume dropped off was Cleveland, at 3 months, followed by Boston (9 months), while the longest wait was San Jose (30 months). Of the six cities that have yet to show a price decline after a volume decline, all are less than 30 months out from their first volume decline.

Five cities show recent increases in volume that could foreshadow a closing of the bid-ask spread and possibly the beginning of the recovery. These five cities are Boston, Cleveland, Detroit, Sacramento, and San Diego. Boston, Cleveland, and Detroit are all cities with prices that never reached the heights approached by some of the more speculative markets. Their price corrections could be nearing an end, since the required magnitude of correction was never very large. Sacramento and San Diego, on the other hand, are prime examples of speculative markets that rode the housing bubble to great heights. They are also two of the markets that have fallen the furthest, ranking 22 and 25 on this month's chart of year-over-year appreciation,

and having been in the bottom half since April 2005. The increase in volume that these five cities are experiencing could indicate that a correction may have occurred and the bottom may be in sight.

About Radar Logic

Radar Logic Incorporated, a real estate data and analytics company, calculates and publishes the Radar Logic Daily™ Prices. The prices track housing values for major U.S. metropolitan areas and are the basis of the Residential Property Index™ (RPX™), a market that enables real estate to be traded as a liquid asset, via property derivatives marketed by major financial institutions.

RPX allows real estate and financial professionals to manage opportunity and risk, invest in real estate values without owning physical assets and effectively analyze markets using a consistent metric: price per square foot.

Data in the RPX Monthly Housing Market Report reflects the 28-day aggregated value of Radar Logic Daily™ Prices. The price per square foot metric used significantly reduces the influence of property sizes on overall housing price trends, which can skew results. The Daily Prices for each MSA are not adjusted for seasonal variations. In some cases, Daily Prices may vary based on reporting characteristics within individual MSAs.

The RPX Monthly Housing Market Report is published 63 days after the last transaction date of every month, providing insight and detailed analysis of Radar Logic's 25 MSAs. This study is based on the premise that there is not a national housing market; rather, each MSA, while having some economic influences in common, is influenced primarily by local conditions.

The January 2007 RPX™ Monthly Housing Market Report will be released on April 3, 2008 at 9:00 AM EST.

For additional insight on this report or for inquiries about research products, please contact:

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