Economic and Market Watch Report

3rd Quarter, 2002

*Click on a County to view economic and real estate information at the county and zip code level

Trend MLS Economic and Market Watch Report

TRe*N*D is one of the ten largest regional Multiple Listing Service's (MLS) in the country, delivering MLS data services to over 18,000 real estate professionals throughout a thirteen county network. TRe*N*D is committed to providing real estate professionals with superior real estate market information services and making technology accessible through education, communication, and support. The TRe*N*D family of e-products and services: MLSWeb™, REALIST.com, The GoTRe*N*D! Private Network, WyldFyre Listings™, and www.trendmls.com provides the knowledge, technology, and service REALTORS® need to succeed in today's competitive real estate marketplace.

TRe*N*D is pleased to introduce the **Economic and Market Watch Report** designed to help real estate practitioners identify current and future economic and real estate trends that affect our industry.

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Berks County

Buyer's Market	1	2	3	4	5	Seller's Market

Labor Market:

The labor market continues to be lackluster. Two thousand jobs were lost this quarter pushing the unemployment rate up to 5.9% from 5.7%. Despite these layoffs, the unemployment rate remains at relatively low levels by historical standards. The labor market is expected to weaken further, however, before it turns back up. Consequently, this pattern of layoffs should continue into the winter resulting in another increase in the unemployment rate.

Housing Market:

	Q2 '02	Q3 '02	Q4 '02
Median Price	$150,000	$155,000	↑
# Homes on the Market	4,100	3,910	↓
# Homes Sold	1,750	1,925	↑
# New Homes Built	1,200	1,050	↓
Avg # days on Market	16	18	↑

Data by Zip-codes

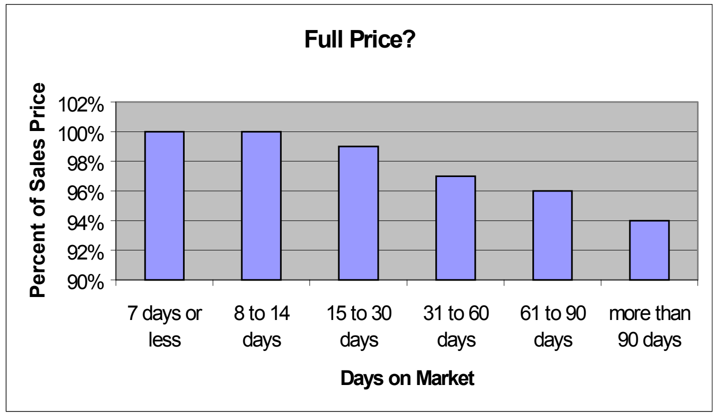
Zip Code	Median Price	Price Change (1 Year)	Total # Homes Sold (Quarter)	% change in # homes sold (1 Year)	Average Days on Market	% of asking price (sold/list price)
14566	$135,000	2.0%	500	6%	31	100.0%
14567	$137,000	1.0%	1,400	30%	20	105.0%
14568	$146,000	7.0%	1,900	-2%	35	99.7%
14569	$150,200	10.0%	750	10%	30	102.0%
14570	$135,200	-0.5%	920	-16%	27	110.0%
14571	$137,500	5.0%	2,700	9%	23	99.9%
14572	$136,000	9.0%	1,203	7%	27	100.1%
14573	$142,500	2.0%	1,539	-5%	32	100.3%
14574	$136,500	3.7%	732	13%	29	102.0%
14575	$140,500	6.0%	1,465	18%	26	99.6%
14576	$144,500	8.3%	2,198	23%	23	97.2%
14577	$148,500	10.6%	2,931	28%	20	94.8%
14578	$152,500	12.9%	3,664	33%	17	92.4%
14579	$156,500	15.2%	4,397	38%	14	90.0%
14580	$160,500	17.5%	5,130	43%	11	87.6%
14581	$164,500	19.8%	5,863	48%	8	85.2%
14582	$168,500	22.1%	6,596	53%	5	82.8%
14583	$172,500	24.4%	7,329	58%	2	80.4%
14584	$176,500	26.7%	8,062	63%	5	78.0%
14585	$180,500	29.0%	8,795	68%	16	75.6%
14586	$184,500	31.3%	9,528	73%	7	73.2%
14587	$188,500	33.6%	10,261	78%	10	70.8%
14588	$192,500	35.9%	10,994	83%	13	68.4%

Full Price v. Price Concessions

By Lawrence Yun, Senior Research Forecaster

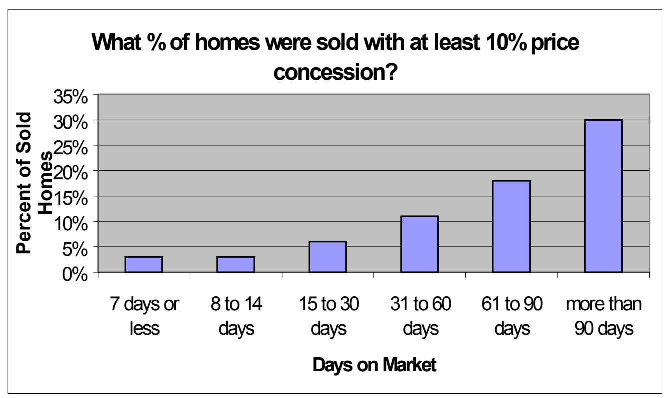
Experience and common sense tell us that price concessions may be in order for a home that remains on the market for an extended period of time. Sales data from the Philadelphia and Wilmington metropolitan area certainly supports that. Despite the relative strength of the regional market, price concessions by way of an acceptable offer below the asking price or a reduction in the asking price, are not unusual for listings that are more than 30 days old.

An examination of home sales data within the TRe*N*D MLS service area, revealed that full price sales during the third quarter of 2002 typically occurred within the first 14 days on the market. For homes listed for more than two weeks, but less than a month, a typical concession was very minor. In fact, the price concession averaged about one percent of the purchase price. But for homes that are listed for more than 90 days, concessions averaged a full six percent of the original asking price.



How Much Does Price Decline Over Time?

For those homes listed for less than 14 days, a surprising three percent were sold for less than 90 percent of the original asking price. As time on market increases, so do the number of homes being sold for less than 90 percent of the original asking price. The number of homes selling for less than 90 percent of the original asking price more than doubles when comparing homes that sold within the first 30 days and homes that sold within 31-60 days. Furthermore, a whopping 30 percent of the homes that were on the market for more than 90 days were sold at less than 90 percent of the asking price. Real estate professionals should take note of acceleration in price concessions typically found after 30 and 90 days on the market. The percentage of homes that required discounts steadily increase with the length of days a home was on the market.



Days on Market is a function of Price

While this might seem rather intuitive, it is not quite that clear. In fact, modestly priced and high-end homes typically have higher average days on market than moderately priced homes. This might be a function of fewer buyers in the market for these types of homes or the need for more repairs for moderately priced homes or a host of other factors. What is clear though, is that homes that were priced over $400,000 took an average of 33 days to sell during the third quarter of 2002. Historically, this is unprecedented but when compared to homes listed between $100,000 and $200,000, it took an

average of 15 days to sell. The same is true of homes priced under $100,000, which averaged 30 days on the market prior to being sold.

For homes priced above $400,000, only 60 percent were sold for more than 95 percent of their original asking price. Similarly, 58 percent of homes priced under $100,000 sold for more than 95 percent of their original asking price. By comparison, nearly 80 percent of homes sold between $100,000 and $200,000 received more than 95 percent of their original asking price.

Conclusions

Time on market is primarily a function of supply and demand. As real estate professionals, we try and evaluate the market demand and the relative competition (supply) in order to price a property. The more unique the property, the more difficult it is to price. This is especially true for what statisticians call "outliers." In real estate, an outlier would be properties that are priced at the extreme ranges of the market (ie. Under $100,000 or significantly above $400,000). Outliers are more difficult to price since they typically have a smaller segment of buyers with a distinct set of preferences. As such, it may be necessary and beneficial to educate sellers that properties priced in these categories might take longer to sell.

A Bird's Eye View

By David Lereah, Chief Economist

If you were able to take flight, soar 10,000 feet above the earth and look down at the U.S. economy – you could be surprised at what you saw. What you would see is an economy that is fundamentally sound with favorable prospects. Consumers are spending money on goods and services. Business inventories are relatively lean. Borrowing costs – those headline- making interest rates – are near historic lows. Both the housing and automobile markets are flourishing. Foreign capital is flowing freely. Unemployment is well below six percent, and inflation is relatively tame. Putting all this together, one would conclude that the view from 10,000 feet of this low inflation/low interest rate environment presents a favorable backdrop for a robust recovery.

So what's wrong with this picture? Why is the economy struggling to lift itself up from the recession of 2001? Upon closer inspection other items come into view. Let's take a look at some of them.

- The U.S. equities market continues to be in retreat; company stock values have dropped collectively by more than $7 trillion since March 2000.
- The industrial sector is displaying unusual weakness at this stage of the recovery.
- The manufacturing sector is contracting once again, as measured by a 49.5 ISM Index for September (below 50 reflects contraction).
- Consumer confidence, as measured by the Conference Board Consumer Confidence Index has fallen for the fourth consecutive month (September).
- The labor markets continue to display unusual sluggishness in a recovery, averaging only 40,000 payroll gains per month since May.

All of these factors help explain why the economy continues along its sluggish path, but they do not tell the full story.

The Bounce Theory

Historically, recovery periods usually have a strong "bounce back" effect from recessions. Since 1970 there have been four recovery periods (excluding the present one). GDP growth during the first year in each of those recovery periods was well above 3 percent – actually, averaging 4.6 percent growth for the four recoveries taken as a whole. But according to most projections, including our own NAR forecast (see page 6), the 2002 recovery will experience about 2.5 percent GDP growth, significantly lower than previous recoveries.

So why is there no "bounce back" effect in today's economy? While the economy appears to be fundamentally and structurally sound, there doesn't seem to be much vigor in economic activity – there's no "oomph." There are some intangible factors that might help explain today's lackluster performance.

First, the economy continues to absorb the residual effects from the bursting of the technology bubble. After climbing to higher and higher heights of both investment and profitability throughout the 1990s, the technology sector finally hit the ceiling and crashed. The magnitude of the fall more than equaled its ascent, and it has generated a significant amount of disruption for many sectors of the economy.

Similarly, the economy continues to be negatively influenced from the fallout of the equities market. The positive wealth effect of the 1990s stock market has now turned negative and is exerting downward pressure on consumer spending. The stock market decline has cut household wealth (from peak to trough) by $7 trillion from March 2000. Based on the Federal Reserve's estimates of the stock market's wealth effect, this translates into about a $280 billion reduction in consumer spending. That, in turn, slows economic activity.

And finally, there is that intangible factor that currently casts a dark shadow across the U.S. economy – negative psychology. The combination of a plunging stock market, corporate scandals and the fight against terrorism and potential war with Iraq weighs very heavily on people's minds, generating uncertainty and shattering confidence – both impediments to an economic recovery.

But there are still some good views from 10,000 feet. Housing is one. In spite of the war on terror, stock market slides, and falling consumer confidence, people are still out there buying homes. With interest rates at historically low levels and demand for homeownership unwavering, existing home sales are poised to set a record in 2002. There may be some things that don't look so nice when we're flying so high, but other scenes – like people buying homes and becoming homeowners – are beautiful to behold.

The Forecast

By Lawrence Yun, Senior Research Forecaster

Consumer spending zoomed ahead by a full percentage point in July. More importantly, real inflation-adjusted spending rose 0.8 percent. Consumers account for two thirds of the economy, so this large one-month increase assures us that the third quarter GDP will grow solidly. In addition, business spending – which has contracted for nearly two years – now appears to have turned a corner.

New orders for durable goods increased by 8.7 percent in July to their highest level in 16 months. The impressive gain was broad-based and not just in the expected categories of motor vehicles (from zero-interest incentives) and military aircraft (from the war on terrorism). Orders for primary metals, heavy machinery, computers, electronic products, and civilian aircraft all contributed to the hefty increase. A steady boost from government spending also helps in fully awaking the economy.

Is the mortgage rate honeymoon over?

Economic growth is coming at a critical point for housing. The magical influence of low mortgage rates can no longer be counted on alone to keep housing activity at its current record-setting levels. Robust housing demand during the short-lived recession arose as affordability conditions actually improved from lower mortgage rates in 2001 and then stayed at high levels in 2002. But the current 40-year-low rates have a very little room to move downward, meaning no further help to affordability. At the same time, home price appreciation of 8.1 percent in the first quarter and 7.5 percent in the second quarter is easily outrunning income growth.This misalignment will cut into future affordability conditions.

Jobs, jobs, jobs ...

The next impetus to housing demand can only come from job creation. Hence, a solid economic growth from this point onwards is vital in keeping housing demand alive. The projected strong economic growth will force a downward trajectory to the unemployment rate. The unemployment rate will fall from 6.1 percent in the current quarter to 5.4 percent by the end of 2003.

What's Ahead

The interest rate forecast is upward. Why? There is a confluence of factors. It is likely that the Federal Reserve will hike the short-term rate by next summer. Corporate profits will improve with bonds to stocks. Economic expansion will put shifting from on prices in 2003 – bonds do not like pressure economic recovery, leading to moneyinflation! And the Federal budget deficit means an additional player competing to borrow funds. Mortgage rates will likewise be rising. The 30-year fixed rate will steadily rise from 6.3 percent to 7.3 percent by the beginning of 2004. But even though the average rate will be higher, 7.3 percent is still favorable. There have been only two times in the past 30 years, when mortgage rates averaged under 7.3 percent for the year.

Local Market – Philadelphia

The Philadelphia metro region has 26,400 fewer jobs as of August compared to one year ago. Consequently, the local unemployment rate has risen from 4.6 percent to 5.5 percent over the one-year cycle. But the worst of the job market conditions appear over. The national economic recovery will feed into the Philly region. Even though the job growth in the third quarter appears minimal, it is an improvement compared to job losses that have taken place. By the fourth quarter, job creation in the tune of 3,000 is a possibility. A much more solid job creation can be expected in 2003. Expect about 9,000 net new jobs in 2003.

The jobs will be coming in at just the right time. As mentioned, interest rates will be heading higher in 2003. So some of the slack in housing demand from rising mortgage rates will be neutralized by new household formations arising from job creations. The net effect will be for home sales to decline by 1.1 percent in 2003. This is not bad at all considering that home sales had increased in excess of 2 percent in the past two years.

Home prices will likely have risen a strong 10.3% by the year's end, which will be one of the highest appreciation rates in recent memory. The falling mortgage rates have fueled home sales.

Home prices will continue to rise even as home sales take a slight breather in 2003. The median home price is projected to be $188,800, an increase of 4.9% from 2003. The amount of new home construction coming into the market is still on the low side while the inventory of home sales are near historical lows. This limited supply of homes will continue to fuel home price to march ahead.

Economic and Housing Outlook: October 2002

	2001	2002				2003				2004				
	IV	I	II	III	IV	I	II	III	IV	I	2000	2001	2002	2003
U.S. Economy														
Annual Growth Rate														
Real GDP	2.7	5.0	1.3	3.2	2.7	3.3	3.5	3.5	2.7	3.1	3.8	0.3	2.4	3.1
Nonfarm Payroll Employment	-2.4	-1.1	-0.2	0.1	1.5	1.7	2.0	1.7	1.5	1.5	2.2	0.0	-0.8	1.4
Consumer Prices	-0.3	1.4	3.4	2.0	2.5	2.0	2.4	2.3	2.6	2.2	3.4	2.8	1.6	2.3
Real Disposable Income	-7.6	14.5	3.6	3.2	2.8	4.8	3.4	2.8	2.3	3.1	4.8	1.8	4.4	3.5
Consumer Confidence	88.3	101.2	108.4	97.2	95.1	101.8	108.2	109.8	109.9	111.8	138.9	106.6	100.5	107.4
Percent														
Unemployment	5.6	5.6	5.9	6.0	5.9	5.7	5.4	5.3	5.4	5.4	4.0	4.8	5.9	5.5
Interest Rates, Percent														
Fed Funds Rate	2.1	1.7	1.8	1.7	1.5	1.5	2.0	2.3	2.8	3.0	6.2	3.9	1.7	2.1
3-Month T-Bill Rate	1.9	1.7	1.7	1.5	1.4	1.5	1.8	2.1	2.6	2.8	5.8	3.4	1.6	2.0
Prime Rate	5.2	4.8	4.8	4.7	4.5	4.5	5.0	5.3	5.8	6.0	9.2	6.9	4.7	5.1
30-Year Government Bond	5.3	5.6	5.8	5.2	5.2	5.3	5.5	5.7	5.8	5.8	5.9	5.5	5.4	5.6
Mortgage Rates, percent														
30-Year Fixed Rate	6.8	7.0	6.8	6.3	6.2	6.4	6.7	6.9	7.2	7.2	8.1	7.0	6.6	6.8
1-Year Adjustable	5.2	5.1	4.8	4.4	4.3	4.6	4.9	5.1	5.5	5.6	7.0	5.8	4.6	5.0
Housing Indicators														
Thousands														
Existing Single-Family Sales	5,240	5,783	5,537	5,336	5,203	5,245	5,267	5,301	5,320	5,290	5,152	5,296	5,465	5,283
New Single-Family Sales	927	907	955	958	896	917	916	908	886	863	877	909	929	907
Housing Starts	1,573	1,725	1,667	1,599	1,619	1,669	1,675	1,659	1,608	1,570	1,569	1,603	1,652	1,653
Single-Family Units	1,258	1,371	1,328	1,259	1,290	1,321	1,312	1,294	1,245	1,211	1,231	1,273	1,312	1,293
Multifamily Units	315	354	338	340	328	348	362	366	364	359	338	330	340	360
Percent Change -- Year Ago														
Existing Single-Family Sales	2.1	8.6	3.9	1.3	-0.7	-9.3	-4.9	-0.7	2.3	0.9	-1.8	2.8	3.2	-3.3
New Single-Family Sales	-0.9	-4.5	7.3	10.4	-3.3	1.1	-4.1	-5.2	-1.2	-5.9	-0.3	3.6	2.2	-2.4
Housing Starts	1.9	7.1	2.6	-0.2	2.9	-3.3	0.5	3.8	-0.6	-5.9	-4.4	2.2	3.1	0.1
Single-Family Units	2.7	8.5	2.8	-1.4	2.6	-3.7	-1.2	2.7	-3.6	-8.3	-5.5	3.4	3.1	-1.4
Multifamily Units	-1.5	1.7	1.8	4.3	4.2	-1.6	7.1	7.7	10.8	3.0	-0.3	-2.4	3.0	5.9
Median Home Prices														
Thousands of Dollars														
Existing Home Prices	148.5	151.0	157.8	162.1	158.5	158.3	164.3	167.6	165.3	166.0	139.0	147.8	157.8	164.3
New Home Prices	173.2	187.2	185.0	177.1	186.8	188.9	191.6	193.6	196.2	197.8	169.0	175.2	183.7	192.7
Percent Change -- Year Ago														
Existing Home Prices	6.6	8.1	7.5	7.4	6.7	4.9	4.1	3.4	4.3	4.9	4.3	6.3	6.8	4.1
New Home Prices	1.3	10.8	4.8	3.1	7.8	0.9	3.6	9.3	5.0	4.7	5.0	3.7	4.9	4.9
Philadelphia Region														
Payroll Jobs (in thousands)	2433	2373	2400	2387	2412	2370	2410	2399	2431	2420	2398	2407	2393	2402
Home Sales	18193	15395	22234	22294	18200	14860	21880	22190	18370	15140	74904	76608	78123	77300
Home Prices (in thousand$)	162.3	166.3	181.6	191.0	176.1	175.6	190.7	199.8	184.0	183.7	152.4	163.2	180.0	188.8
Percent Change -- Year Ago														
Payroll Jobs	-0.5%	-0.8%	-1.2%	-1.0%	-0.8%	-0.1%	0.4%	0.5%	0.8%	2.1%	1.5%	0.4%	-0.6%	0.4%
Home Sales	0.2%	6.6%	3.9%	-1.2%	0.0%	-3.5%	-1.6%	-0.5%	0.9%	1.9%	n/a	2.3%	2.0%	-1.1%
Home Prices	7.9%	10.2%	11.6%	10.9%	8.5%	5.6%	5.0%	4.6%	4.5%	4.6%	n/a	7.1%	10.3%	4.9%

Quarterly figures are seasonally adjusted annual rates for national forecast.

Source: Forecast produced using Macroeconomic Advisers quarterly model of the U.S. economy and NAR Housing Model of the housing sector. Assumptions and simulations by Dr. David Lereah and Dr. Lawrence Yun.

Economic Monitor

This table reflects data available through October 4, 2002.

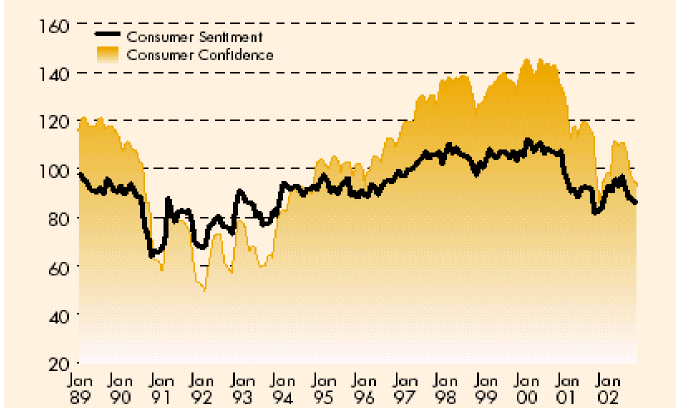
Monthly Indicator	Recent Statistics		Likely Direction Over the Next Six Months	Forecast
Mortgage Rates Thirty-year fixed mortgage rates decreased to 6.09% — the sixth consecutive monthly decrease. This is the lowest level since 1972 and 73 basis points lower than last September. One-year adjustable mortgage rates declined to 4.29%	July Aug Sep	6.49 6.29 6.09	↔	Low inflation is holding down mortgage rates.
Existing Home Sales declined in August to a seasonally adjusted annualized rate of 5.28 units – a 1.7% slip from July's level. While the 3-month moving average (5.25 million units) is lower than in the preceding three months, it is still very close to last year's record home sales volume of 5.3 million.	June July Aug	5.10 5.37 5.28	↔	Low rates will continue to support home sales.
New Home Sales Contrary to expectations, new home sales rose as existing homes sales and housing starts slipped. New sales continued strong, increasing 1.9% in August to 996,000 units – a new record as July's figure was revised downward.	June July Aug	996 977 996	↓	The wealthy are getting hit in the stock market.
Housing Starts declined 2.2% in August to 1.61 million seasonally adjusted annualized units. Single family starts declined 4.4% while multifamily starts increased 6.3%. With June and July figures revised downward, this is the third consecutive monthly decline, but starts overall remain high.	June July Aug	1,692 1,645 1,609	↔	Rising housing permits will put an end to the decline of starts.
Employment Growth The economy shrank by 43,000 jobs in September – the first monthly decline in the last five months. August figures were revised upward to a fairly strong gain of 107,000. Real estate and mortgage banking employment each increased by 6,000 each, showing the strength of the housing sector.	July Aug Sep	54 107 -43	↑	Work hours are up; jobs are next.
Purchase Applications Purchase applications advanced 2.5% in September to 369.5 – the third strongest reading year to date. Purchase activity is still robust. Historically low mortgage rates and the variety of mortgage products keep homebuyers in the market.	July Aug Sep	374.3 360.6 369.5	↔	Applications will easily set a record in 2002.
Housing Affordability Housing affordability rose to 134.4 in August. Despite the increase in the median price of an existing single-family home, the rise in the index was due to the decline in the mortgage rates.	June July Aug	129.3 132.7 134.4	↔	Forty-year low mortgage rates will neutralize rising home prices.
Inflation The Consumer Price Index increased 0.3% in August. The Housing Index also increased 0.3% — home price appreciation has increased, but low mortgage rates have limited increases in monthly payments. The core index (excluding Food and Energy) increased 0.3% as well.	June July Aug	+0.1% +0.1% +0.3%	↔	Not an issue, given excess capacities at U.S. factories.

Notes: All rates are seasonally adjusted. Existing home sales, new home sales and housing starts are shown in thousands. Employment growth is shown as month-to-month change in thousands. Inflation is shown as month-to-month percent change in the Consumer Price Index. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics, Mortgage Bankers Association, and Freddie Mac.

Consumer Confidence and Sentiment

Consumer Confidence and consumer sentiment, two measures of the degree of comfort consumers feel in their employment and financial prospects, are very important determinants of short-run home sales activity. The Consumer Confidence Index, published by the Conference Board, evaluates how consumers feel about their present situation and future expectations. Consumer Sentiment, published by the University of Michigan Consumer Research Center, is based on a survey of 500 consumers who are asked questions about personal finances, business and buying conditions. The two measures tend to move in the same direction. But the consumer confidence index usually records sharper declines and increases. In September, both indicators declined for a fourth consecutive month, with consumer confidence lower than its level of a year ago and consumer sentiment higher than last September's reading.

By Hristina Toshkova



Sources: The Conference Board, Univrsity of Michigan