



# RADAR LOGIC UPDATE

December 21, 2010

## RADAR LOGIC YEAR-END PREDICTIONS FOR 2011

### FORECLOSURES

We expect foreclosures to increase moderately. Lenders have largely resolved process issues and have become more efficient. This may be most visible in the foreclosure filing numbers as total foreclosed homes will fluctuate based on REO sales activity.

### DELINQUENCIES & DEFAULTS

Likely to remain elevated and possibly increase as employment continues to lag. We also expect an increase in strategic defaults as housing values continue to decline and more borrowers conclude they have a better chance to renegotiate their loan after it is in default.

### HOUSING INVENTORY

Visible Supply: Flat to up moderately. This is seasonally sensitive and many sellers will pull homes off the market as they are not selling. That said, more REO properties will be put on the market, which we think will cause overall levels to increase. New homes will not be a meaningful increase.

Shadow Supply: We expect a substantial increase in shadow inventory. The number of underwater homes (those with mortgages larger than the home's value) will continue to increase as values slip. So far, demand has not been strong enough to offset this dynamic.

### TRANSACTIONS (As measured by RPX Transaction Counts)

Total Transactions: We expect total transaction counts to be flat to down slightly.

Motivated Sales: We expect a significant increase here as buyers pursue heavily discounted homes, sellers (mostly lenders) accept lower prices in order to clear inventories and restructurings as a result of Federal loan programs continue to falter.

Other Sales (RPX Definition): We expect these sales to decrease rapidly, not in small part as a result of a decline in short sales as lenders effect more foreclosures.

## RPX PRICES

RPX: Likely to decline during the year as a result of a shift in mix towards heavily discounted motivated sales.

Motivated Prices: We expect the motivated sector of the market to be the most active as buyers seek discounts. On its own, this would be positive for prices. However, we also expect a significant increase in inventory for this segment, which will put downward pressure on these prices. Overall, we expect motivated prices to be flat to down slightly.

Other Prices: We expect other prices at the middle and low-end of the price spectrum to decline as the other market loses a significant number of buyers to the motivated market, and the other sales that do occur in these price segments are those in which sellers cut prices to compete with motivated sales. Other prices and sales activity at the high-end of the price spectrum will be less affected by the increase in motivated sales, as there are fewer foreclosures at the high-end than in the rest of the market. As such, we expect to see a mix shift in the other market toward sales at higher price points, which could put upward pressure on MSA-wide RPX prices for other sales, as the high end tends to trade at higher prices per square foot. The question will be whether the mix shift will be significant enough to offset falling prices in the middle and low-end price segments.

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