RESIDENTIAL REAL ESTATE UPDATE

In order to give you an accurate accounting of where we are and where we have been, we have been spending much of our time gathering opinions from local real estate experts and economists as well as researching economic reports and newspaper articles from *The Wall Street Journal* to the Repeat Sales Index Report issued by ASU W.P. Carey School of Business to *Fortune Magazine* 2010 Housing Outlook and more. In these tumultuous times, we felt that major input was necessary before giving you, our friends and clients, advice as to where we are, what we should do and where we are going.

There are many different opinions and concerns that make any predictions somewhat problematical. Some of these concerns are the high unemployment rate, the vulnerability of the global economy, the number of homeowners who are financially upside down, lenders tightening their credit standards and concern about how long the government can and will continue to attempt to stimulate the real estate market.

On the upside, the real estate market has seen recent signs of stabilization. Home sales (at least at the lower end) have increased, inventory levels are down and prices in certain markets have even shown an increase.

So what have we learned? No matter what you read or who you are listening to, the one common thread is that the downswing is not quite over. Most economists and real estate professionals are predicting a decrease from 3% to 18% in home prices, that short sales will be with us for at least three more years and that the recovery will be slow. That is, once we hit bottom in any one market, the growth will be 3 to 6 percent per year. These predictions are national in scope and do not necessarily apply to all segments or geographic locations in our market. For example, there has been a somewhat stable market in the $1,000,000+ price range in DC Ranch and Arcadia. We would predict that these markets and some others may remain somewhat stable. In Paradise Valley, we began seeing the appearance of distressed properties (pre-foreclosures, foreclosures and short sales) at the beginning of 2009 (3% sold in 2008 were distressed properties) and they have increased dramatically throughout the year (32% sold in 2009). In the $700,000 to $1,000,000 price range, over 50% of the sales were distressed properties. There are currently over 45 distressed properties priced over $1,000,000 on the market at this writing. That represents over 11% of the 403 homes for sale. There was a nice run-up in the number of the properties sold in 2009 as compared to 2008 but over 45% were distressed properties and the price per square foot dropped from 2% to 18% depending upon price and location.

As for high-rise condominiums in Scottsdale and Phoenix, there are currently 100 properties for sale priced over $800,000 in buildings such as the Scottsdale Waterfront Residences, Fairway Lodge at the Biltmore, Optima Camelview Village, The Residences at 2211 and The Esplanade and there are only 5 distressed properties for sale. Of the 24 sales last year, five were distressed properties. Furthermore, there is currently a 4-year supply of homes in these buildings and as of the beginning of January; the prices are now beginning to drop. It should be noted that 28% or 45 properties priced between $400,000 and $800,000 either sold or listed in the high-rise market were distressed properties.

As for Scottsdale (south of Bell Rd and north of Indian Bend), we have seen deeper reductions in sales price from -8.6% to -32% in the $2,500,000+ price range. There was a 13 % decrease in the number of the homes sold and a 24% decrease in homes listed at the end of the year. Of those listed, 18% are distressed properties. With the decrease in inventory and the depth of sales price reductions already having taken place, it is hoped that the southern part of Scottsdale has begun to bottom out. We will know more once we have moved through the first quarter of 2010.

In summary, we are not quite out of the doghouse yet but are getting closer. Depending upon the changes in the economic factors stated above which are affecting the housing market, where it will end up is anyone's guess. We do believe; however, that we are close to the bottom and that by end of year, we will begin to see an upswing.

So what do you do?

1. Take a deep breath and relax, the worst is over and it is not a bad time to make an investment in real estate; however,
   A. If you do not have to move and desire to stay in your home for three to five years, stay put.
   B. If you know you will be moving within the next year, depending upon where you live, you might want to consider putting your home on the market sooner rather than later. Be sure, however, to price your home competitively. Remember, we are now at 2001-2002 pricing.
   C. If you are considering making a move up, now is the time.
   D. If you want to move down, you might want to wait. Remember, your home might lose some additional value in the next year so, from an economic standpoint, a detailed analysis would be appropriate.
   E. If you are considering making an investment or purchasing a home for one of your children, now is the time and, if you have friends who wish to purchase a second home in Arizona, you might suggest that they begin their search.
2. Don't be afraid to pull the trigger and don't wait until the last minute. Now is the time to buy and, in many cases, sell residential real estate in Arizona.

Once again, if you have any further questions about your current circumstance or wish us to do an analysis for you or one of your friends or family, please give us a call. We are always at your service. It is our belief that an informed consumer is our best customer. On the next page, you will find a detailed chart as to how we fared in 2009 compared to 2008.

Sincerely,

Evan R. Katz

Jamye W. Katz

Residential Real Estate Sales:
A Comparison between the Year 2008 and the Year 2009

GENERAL STATS:	YEAR BUILT	Year 2008 # Sold	Year 2008 AVSP/SF	Year 2009 # Sold	Year 2009 AVSP/SF	% Change	# Currently Listed
Paradise Valley							
$5,000,000+	2000+	5	$682	0	N/A	N/A	40
$5,000,000+	2000-	1	$789	0	N/A	N/A	8
$3,000,000-$5,000,000	2000+	26	$503	20	$446	-11.3%	55
$3,000,000-$5,000,000	2000-	7	$505	6	$494	-2.2%	28
$2,000,000-$3,000,000	2000+	9	$380	27	$334	-12.1%	41
$2,000,000-$3,000,000	2000-	26	$430	20	$398	-7.4%	58
$1,000,000-$2,000,000	2000+	7	$341	18	$271	-20.5%	20
$1,000,000-$2,000,000	2000-	56	$357	68	$298	-16.5%	143
$700,000-$1,000,000	2000+	0	N/A	1	$214	N/A	0
$700,000-$1,000,000	2000-	19	$277	41*	$225	-18.7%	40

*****_Over 50% of PV homes sold in 2009 in this price range were distressed properties._

Scottsdale (includes properties located south of Bell Road and north of Indian Bend)	YEAR BUILT	Year 2008 # Sold	Year 2008 AVSP/SF	Year 2009 # Sold	Year 2009 AVSP/SF	% Change	# Currently Listed
$2,500,000+	2000+	5	$462	3	$312	-32.5%	16
$2,500,000+	2000-	3	$652	2	$484	-25.7%	7
$1,200,000-$2,500,000	2000+	23	$340	27	$252	-25.8%	58
$1,200,000-$2,500,000	2000-	26	$309	15*	$314	1.6%	44
$800,000-$1,200,000	2000+	31	$255	25	$198	-22.3%	20
$800,000-$1,200,000	2000-	100	$268	75	$223	-16.8%	125
$600,000-$800,000	2000+	22	$221	28	$179	-19%	11
$600,000-$800,000	2000-	135	$236	107	$199	-15.6%	128
$400,000-$600,000	2000+	14	$197	33	$180	-8.6%	19
$400,000-$600,000	2000-	289	$204	245	$176	-13.7%	167

*****_In this price range, most of the properties are located in Gainey Ranch and Ancala or are situated on acre+ parcels. Only three were distressed properties._

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