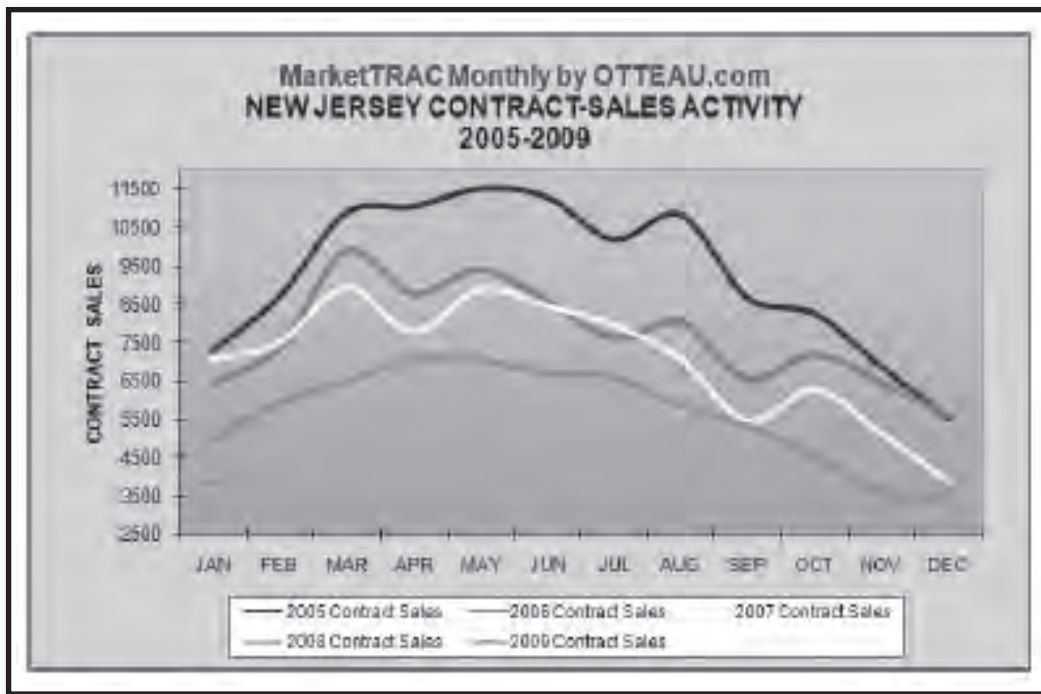


NEW JERSEY MARKET

The problems facing the housing market worsened significantly following the decision to allow Lehman Brothers to fail back in September 2008. Since then, the unraveling of the financial markets coupled with accelerating job losses has doubled the rate of home price declines to nearly 1% monthly. The New Jersey employment market has seen accelerating job losses since June 2008 at a rate of 11,000 per month with unemployment now standing at 7.3% and rising. Another concern as it relates to employment is that New Jersey continues to lose high paying private sector jobs resulting from job flight to lower labor cost markets which is having a depressing effect on luxury priced home sales.

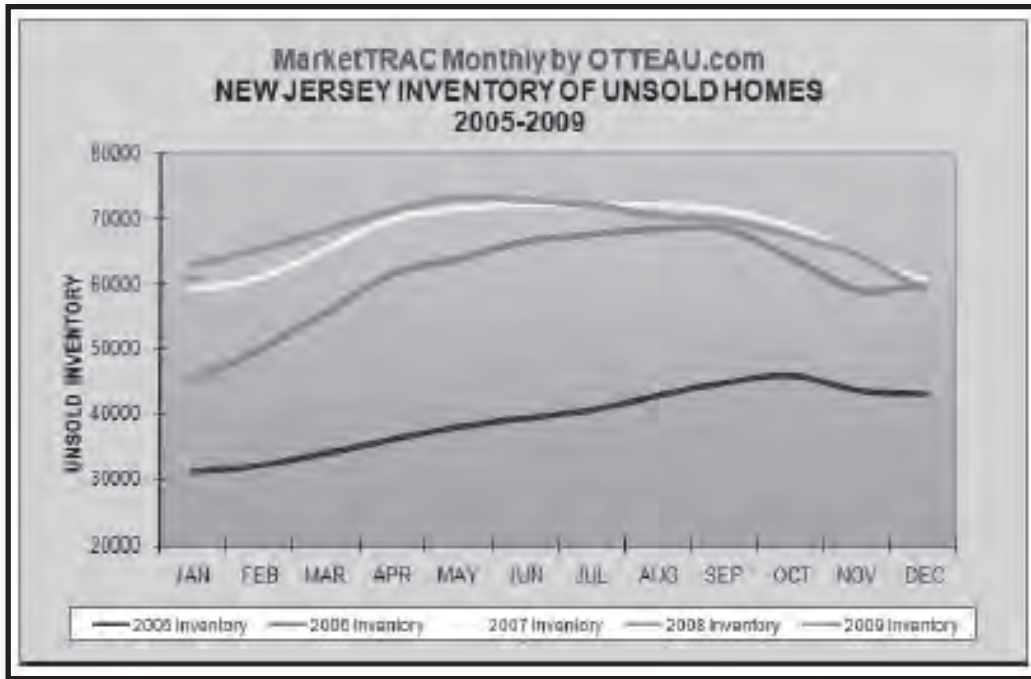
Hopes for a strong rebound in Spring home sales were dampened as the market began 2009 with its weakest performance since the housing slide began in 2005. In January, Contract-Sales were down by 27% from one year ago as the economic and financial crisis continued to depress home sales. As a measure of how far the market has fallen, consider that Contract-Sales in January were about half as many from January 2005, down by 48%. Thus it seems clear that the buoyant mood which began to take root following the 'Miracle on the Hudson' and the inauguration of President Obama will not be enough to float the housing market any time soon.



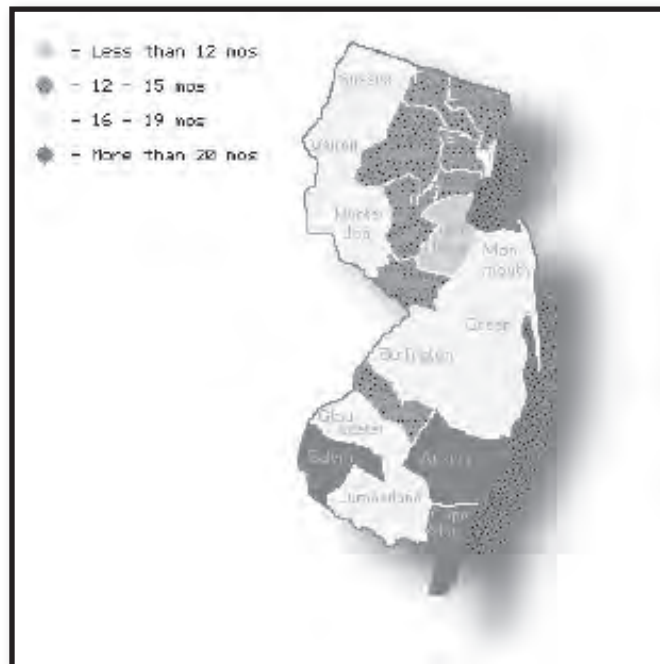
One positive note in the latest New Jersey housing stats is the number of homes for sale now stands at 3,000 less than one year ago representing a 3.3% decline. Despite this decline, however, the projected sellout of this inventory has risen to 16 months up from 13 months in January '08 due to today's slower sales pace.

It is also interesting to note that New Jersey Contract-Sales in January increased 9% from the December level. While this is primarily attributable to a seasonal trend that sees higher sales activity once the December holiday season has passed, any increase is impressive given the daily unfolding of today's dour economic events.

NEW JERSEY MARKET continued

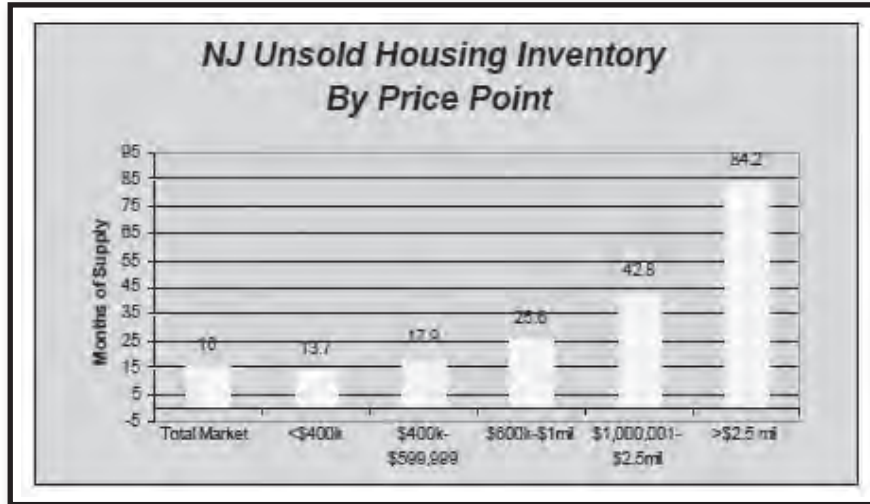


From an Unsold-Inventory perspective the overall market now reflects 16 months of housing supply, up from 13 months one year ago with the highest levels being found in southern and western submarkets.



NEW JERSEY MARKET continued

An analysis of Unsold Inventory by home price indicates the greatest weakness is found in upper price points with 42 months of unsold inventory priced between \$1M - \$2.5M and 84 months above \$2.5M. This compares with 14 months below \$400k.



The take-away from all of this is that the decline in home prices will likely continue over the short term before hitting the bottom in the 2nd half of the year. It now appears that overall price declines may actually over-correct as housing affordability in New Jersey has now increased to 107%, up from a low of 81% in 2006. Given the probability that home prices will continue to decline over the short term we can expect a relatively fast paced sell off of excess inventory once the economy and financial markets have stabilized.



So the one consolation in further price declines should be a faster recovery pace once the economy gets back on firm footing. Don't expect that to occur soon, however given the staggering rate of monthly US job losses which have been averaged more than 600,000 since October. So for now, the best advice is to buckle-up as the 1st half of 2009 will likely continue to be a bumpy ride.



For additional or more current information on the residential market in New Jersey, visit www.rac.net and select "The RAC Report," or contact the following RAC member:

Christopher J. Otteau, Otteau Valuation Group, Inc.

Phone: (800) 458.7161, Ext. 722 ♦ Fax: (800) 273.3295 ♦ christopher.otteau@otteau.com ♦ www.otteau.com