

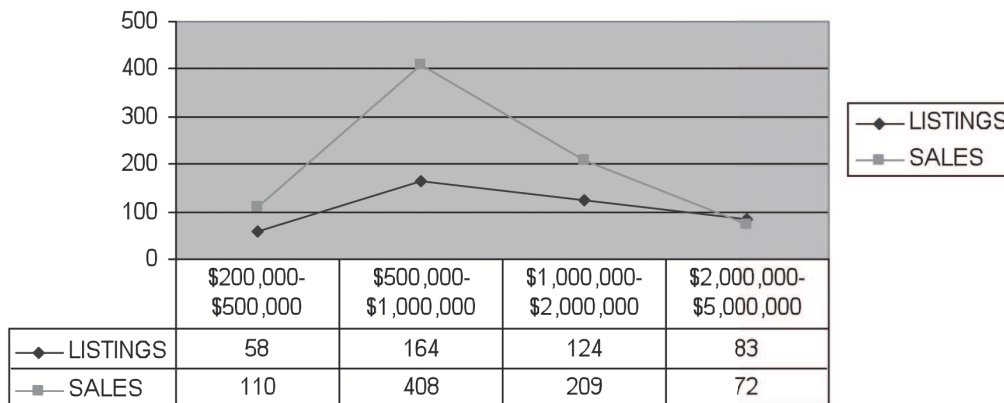
NEW JERSEY SAFETY ZONE MARKET

The SAFETY ZONE is composed of the train line towns in eastern Morris County (Madison, Chatham Borough and Chatham Township), Summit (Union County) and Millburn Township (Essex County). One year ago this area was in remorse due to the strong negative impact from the Wall Street and Financial Institution debacle that hit the headlines in September 2008. The traditional splurge of activity that would have been observed in the early part of 2009 and into the summer (primarily due to bonuses) did not occur. A year later has altered the landscape. The Wall Street and the Financial Institutions are back on their feet and back to the same bonus awards. This area is strongly driven by Wall Street and the Financial Institutions primarily because of the convenient access to New York City with the mid-town direct rail service or via automobile (20-30 miles east). The market activity has been heating up in all of the price ranges, except the very high end. Multiple bid offers are again present in most price ranges since the first of the year (2010).

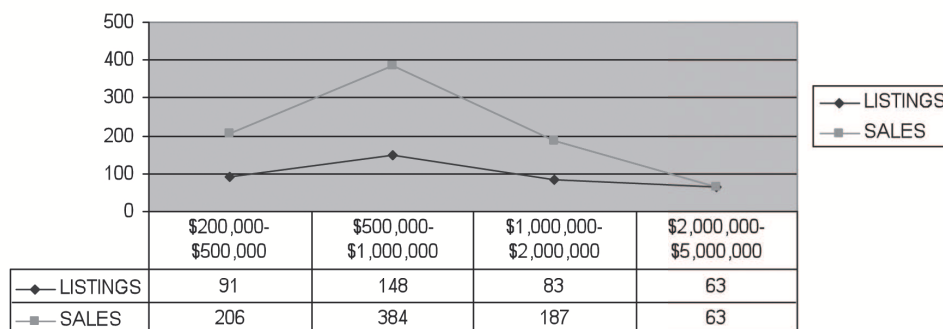
On all Federally related mortgage transactions, a new Market Condition Summary report has been implemented. The study concentrates on the absorption rates, price trends and sale price/list price ratio factors during the prior quarter, 4-6 month time frame and 7-12 month time frame. Look for a similar study in the new (not released) 2010 edition of the Worldwide ERC® report. This layout is helpful on the past history but does not project into the future or take into consideration localized neighborhood trends.

The safety zone communities have faired much better in the past year then western Morris County, urban Essex County and Union County communities which lack direct rail service to New York City. The western counties within New Jersey have suffered the largest drop in demand and value from the highs of 2005-2007.

SAFETY ZONE 2008-2009



2009-2010 SAFETY ZONE



NEW JERSEY MARKET continued

The chart data noted on the previous page reflects the MLS data supplied for the Safety Zone communities mentioned in comparison to one year ago. Obviously, the lower price segment has generated the greatest change in sales and active listings. This is a great sign for the area and economy. The lower level activity traditionally transcends into movement up the value scale. Government supplement for first time home buyers has contributed to the increase in activity within this price range. The primary purchase is on the single family detached homes. The condominium market has not responded as well over the past several months.

Our greatest area of activity remains in the \$500,000 to \$1,000,000 price range. The total number of sales and listings are down from the prior year. This market area is the most active with fewer sales than available one year ago but the current absorption rate is 4.6 months. The multiple bid scenarios are most prevalent in this market segment. The sales and listings are both lower than one year ago by the same percentage indicating there is good stability. (2008 absorption rate 4.8 month supply of homes).

The \$1,000,000 to \$2,000,000 price range of homes for the communities mentioned above indicates the greatest change from one year ago. The prior data (2008-2009) indicated an absorption period of over 7 months
(209 sales / 12 months = 17.4 sales/month)
(124 listings / 17.4 sales/month=7 month supply).

The current absorption rate within this price range supports an improved balanced market with a marketing/absorption period of under 6 months.

(187 sales/12 months = 15.5 sales/month)
(83 listings/15.5 sales/month= 5.35 month supply)

The marketing time of less than 6 months is considered to be a balanced market, especially in the finance / mortgage appraisal world. This time frame for the typical Worldwide ERC® appraisal request would require a forecasting adjustment to meet the 90-120 day marketing time.

As we move up the value ladder and into the executive and bonus money properties, we notice an improvement over the prior year but an oversupply of homes with a 12 month absorption rate. This is down from 2008/09 when the absorption rate was 13.8 months. Realtor activity in this price range has been reported as "increasing activity".

There are new homes continuing to be constructed within all of the communities mentioned. The area builders continue to demolish the smaller older homes that are currently on the site. The demand for the knock downs has declined and the price for the knock down/land has decreased approximately 20%. The lower demand from the builder community has given the typical purchaser in this price range of "tear downs" (\$750,000 to \$950,000) a better chance of purchasing the property to retain the existing dwelling.

Mortgage money is very affordable and the market conditions appear to have improved. Appraisal request for new purchase money have increased from one year ago. The inventory levels in all of the price ranges noted above, except \$200,000 to \$500,000, has decreased from the prior year. As stated in the prior year annual report, if you are in the market and think you like it - then buy it. There are still situations that the multiple bid offers continue on properly priced properties. The increase in market activity should continue through the spring marketing period, as long as, the interest rates remain at their current affordable levels.

The mid-town direct commuter rail service established in 1996 for the Dover and Peapack-Gladstone lines have proved to be a major incentive to purchasers working in New York City. The recently completed Montclair line and the Secaucus connection station completed by New Jersey Transit have enhanced the area appeal.

NEW JERSEY MARKET continued

The real estate comment about LOCATION, LOCATION, LOCATION has never been more accurate than in the past year. Homes listed for sale within a convenient distance to the local rail stations and in communities that offer good public school ratings are maintaining strong activity.

The property value decreases and increases vary on the community and price range. Many times properties within the same community have different varying value swings depending on the LOCATION.

Real estate marketing trends for various areas within New Jersey can be found on the RAC.NET website.



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:

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