



MCDADE & COMPANY

REAL ESTATE APPRAISAL

2008 OUTLOOK

2008 is underway and both the residential and commercial real estate markets are experiencing significant challenges. On the national basis, the residential market has been adversely affected by the sub-prime mortgage financial crisis caused in part by the collapse of the housing price bubble. Lenient mortgage underwriting practices resulted in weak credit borrowers having overextended and rising debt loads. Rising interest rates have accelerated foreclosures and defaults to record levels in 2007-08. In the state of Texas, where the housing bubble collapse was not as catastrophic, the foreclosure rate and falling prices are not at a crisis level. Dallas area housing had the 2nd fastest selling period in the nation during February, 2008. Housing prices are flat and modest declines are expected.

The national commercial real estate markets have not seen the downward spiral exhibited in the residential market. Goldman Sachs recent outlook projected a 20-25% decline in the commercial real estate markets. J.P. Morgan Chase predicts a 20% decline in values. However, the reported delinquency rate on U.S. commercial mortgage-backed securities (CMBS) is near its historic lows. The defaults on these securities should be minimal as the cash flows are stable and there is limited overbuilding in most markets. Locally, the office market has over 6 million square feet of space in the pipeline and vacancy rates are projected to increase to 20%. This is primarily due to the declining job and population growth rates and a declining or recessionary economy. The remainder of the commercial markets should not experience severe price declines, although capitalization rates will likely trend upward (in all property types). Land prices should remain stable, except in the rural, undeveloped areas which are already experiencing declines. Developed lot inventories have increased throughout 2007 and will continue throughout 2008 due to depressed demand for the single-family housing product (in all price ranges).

On March 11, the Federal Reserve announced a \$200 billion lending allotment for banks and other financial institutions. The Fed will accept depressed CMBS and delinquent mortgage debt as collateral. The general view is that this move will help restore liquidity back into the credit markets which will enable re-financing and new purchasing loans to be made. The Fed loan also takes short-term pressure off of the banks, hopefully detouring any insolvency conditions.

On a side note; C.L. McDade & Company celebrates its 20th anniversary this year. We pride ourselves in continuing to stay current with the evolving technology advances, including changes in data collection, valuation analysis and report/communication processes. As the appraisal industry has gone through many changes in the past decades, our principal outlook on standards of professional practice and ethics have remained constant. We look forward to servicing your appraisal requirements for another 20 years. Thank you for your support and being a client of C.L. McDade & Company.