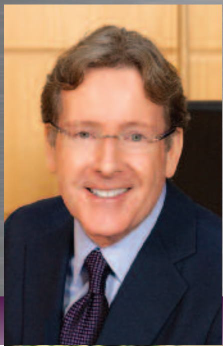

THE Chairman's Report 2016

A Message from Lawrence F. Flick, IV Chairman and Chief Executive Officer
Berkshire Hathaway HomeServices Fox & Roach, REALTORS® and The Trident Group

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A Look Back, While Looking Ahead

It's always best to end the year on a high note, and we can do just that as we take stock of our real estate market performance in 2016.

There was notable growth in BHHS Fox & Roach's market area this year. The number of pended sales YTD October grew 9.5% over the same period of 2015. However, after hitting a peak in May, the percent increase has declined each month. This tells us that the pent-up demand generated during the Great Recession is likely satisfied. What remains is traditionally "normal" demand that will positively affect the year ahead.

We expect steady yet moderate growth to continue in 2017, and are forecasting a yearly increase of 4% in the number of houses sold. We are also forecasting a modest increase in home prices. Economist Kevin Gillen of Drexel University's Lindy Institute notes home prices in Center City Philadelphia have outperformed prices in the suburbs. The value of a city home increased almost 13% from the low point after the recession, recovering all of the value lost, and then some (+1.8%). Overall, home prices in Philadelphia and its Pennsylvania suburbs increased 8-9% since the 2011 bottom of the market, but in many areas remain off from their 2008 peak. Of course, any change in home prices is tied to location and price range.

Change in Home Prices

Location	One Year Change	Change Since 2011	Change Since 2000
Philadelphia MSA*	2.3%	9.4%	107.7%
Montgomery MSA*	2.3%	8.2%	76.0%

Source: Federal Home Finance Agency Home Price Index Q2 2016 compared to Q2 2015
*Philadelphia MSA: Delaware and Philadelphia Counties
*Montgomery MSA: Bucks, Chester and Montgomery Counties

Some challenges exist, especially the lack of inventory. So far this year, the number of pending sales is significantly higher than new listings on the market:

New Housing Inventory versus Pended Sales

County	Change in New Listings	Change in Pended Sales
Bucks	-8%	3%
Chester	-4%	2%
Delaware	-4%	10%
Montgomery	-5%	6%
Philadelphia	-2%	9%

Source: Trend MLS YTD October 2016 compared to YTD October 2015

The adage that every challenge presents an opportunity is true here, as most home sellers can benefit from reduced inventory. Houses that are priced right and in excellent condition are "flying off the shelves." That said, today's buyers are cautious. They are willing to wait for a home that meets their needs, is in move-in condition, and is a good value. They are less emotional about "falling in love" with a house, and will patiently wait until a property that fits their needs becomes available. Even then, and even if there are multiple offers, buyers are not willing to pay more for a house than they believe it is worth. These exacting standards make it important for sellers to receive expert advice on staging and pricing a home, to generate maximum interest from the first day it is listed for sale. Your BHHS Fox & Roach sales associate will guide you through the entire process, helping you effectively negotiate offers, and ensure a timely settlement with the least amount of stress.

The exception to this seller's opportunity is the suburban luxury market, which has been slow for years. The priorities for high-end buyers are less aspirational, so they are making different lifestyle choices. Though an oversupply of high-end homes exists, the situation is improving. In 2010, there was a 44-month supply of inventory of high-end homes. Now there is a 20-month supply. That's a big improvement, but there is still quite a way to go for this market to achieve more balanced supply and demand, usually indicated by a six-month supply of inventory.

Contact your Trident Mortgage Company mortgage consultant to find out just how much rising rates may affect your buying power.

Throughout 2016, the economy remained steady. We've seen wage growth this past quarter, which has been the missing link in stronger economic growth. This bodes well for an even stronger economy in 2017. The Federal Reserve has already noted the uptick, and interest rates will rise as a consequence. Even so, they will remain at historic lows, and adjustable rate mortgages will once again become a viable tool to home buyers. Contact your Trident Mortgage Company mortgage consultant to find out just how much rising rates may affect your buying power.

In addition to looking ahead, this year our company has also had an incredible opportunity to look back. For the devoted professionals who make up our BHHS Fox & Roach/Trident company family, 2016 was a time to celebrate our 130-year history. We did so with enormous pride in our growth over the generations, and with hope for the future.

When asked what I am most proud of as our company celebrates its 130th Anniversary, there is so much to acknowledge. But I'm especially proud of our company's contributions to the communities it serves through Fox & Roach Charities. When we started Fox & Roach Charities in 1996, we raised $15,000 that inaugural year. Since its inception, our sales associates and employees have led the way, donating more than $5 million to benefit children and families across our market area. Our incredible team also provides countless volunteer hours on our annual Community Service Day and throughout the year.

Our company's 130th Anniversary helped us gain a wonderful perspective on where we have been and where we are now. And it shines a light on our continued commitment to help future generations achieve the American Dream of homeownership. I can't imagine a more deeply meaningful year-end high note for any company than that.

Larry

Lawrence F. Flick, IV
Chairman and Chief Executive Officer
Berkshire Hathaway HomeServices
Fox & Roach, REALTORS® and The Trident Group

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A Trusted Name in Real Estate for 130 Years

AN INDEPENDENT VIEW

***Joel L. Naroff, Ph.D**. is the President and founder of Naroff Economic Advisors. A nationally recognized economic forecasting expert, Joel was awarded the Lawrence Klein Award for Blue Chip forecasting excellence and was the Bloomberg Business News top economic forecaster in 2008. In 2007, he received the National Association of Business Economists Outlook Award and was named the top economic forecaster by MSNBC in 2006.*

National Economic Outlook: The U.S. economy continues to expand at a moderate pace but the growth rate is accelerating, though modestly. GDP grew by 2.9% in the third quarter, the fastest pace in two years. Consumers continue to spend, especially on big-ticket items. This is increasing debt and debt payments, which is cutting into more traditional consumer spending patterns. Business investment is stabilizing. With the price of oil rising, the sharp decline in energy sector activity has moderated. Despite a strong dollar, exports continue to grow and the trade deficit is not widening as expected. All these factors point to 3% growth in the final quarter of the year.

The Federal Reserve has remained on hold all year, but that will change. The labor market continues to tighten and wage increases are finally accelerating. With oil prices nearing last year's levels, the negative impact on inflation is fading and the Fed's 2% inflation target is within sight. The Fed is expected to raise rates with two or even three increases in 2017. Mortgage rates should rise faster, especially if Congress passes the massive government spending program and tax cuts that President-elect Trump has proposed. This will add greatly to the deficit, placing upward pressure on rates.

Regional Economic and Housing Outlook: The BHHS Fox & Roach regional economy is generally in good shape with job gains solid and the unemployment rate near or even below national levels. Growth is expected to remain at current levels well into next year as the national economy is projected to expand at a moderate pace. While mortgage rates may be rising, changing household patterns bode well for Philadelphia and the suburbs in Pennsylvania, New Jersey and Delaware.

City of Philadelphia: The Philadelphia economy remains solid and with Millennials and baby-boomers continuing to relocate to the city, that trend is expected to continue for an extended period. Job growth is keeping pace with the nation and is enough to keep the unemployment rate declining. The city's housing market is showing no signs of faltering and prices are rising strongly.

Southeastern Pennsylvania Suburbs: Growth in the Montgomery-Bucks-Chester-Delaware County area moderated over the summer, but job growth is still at the national average. The unemployment rate here is the lowest in the region and labor shortages are limiting growth. The improving commercial real estate market, where vacancy rates are falling, is another indicator Pennsylvania suburbs are in good economic condition. Housing activity may be lagging the city, but is expected to improve more solidly over the next year.

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