

Realty & Valuation Newsletter

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AMERIVAL

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IS BUSINESS A REVOLVING DOOR?

Albert M. Cerone, IFAS, FELLOW

ADVISORY- Please be advised that our office address has changed effective immediately. The new address is:

AMERIVAL

1410 HOOPER AVENUE, SUITE 2

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Please make note of this change. All other info remains the same.

WELL! IS BUSINESS A REVOLVING DOOR?- In short, do you find yourself doing the same things day in and day out? Do you watch new business come in and then go out? How often does this happen? Independent business people far too often can't or don't want to recognize that they are at a standstill. If they did, they'd be depressed so the normal reaction to business stagnation is to *not think about it*.

Many of us have a tendency to ask at the opening of a conversation, "how's everything going" or how's business". Ever wonder why you ask that question? The answer is not a pleasant one. Very often we ask it because we're hoping the answer will be, "things are tough" or "we're keeping our heads above water.. barely". You see we want to hear that someone else has the same problem as us or worse is even better. Because we then feel better about ourselves. Sometimes it gives us a chance to commiserate and that gives us a confidence that our problem is really not our fault.

So, each time we begin a new deal, job or assignment we see the same problems and we know the ending before we start. And that Ladies and Gentlemen is the revolving door. It seems that we always end up in the same place which is what happens when using a revolving door. Frustrating, isn't it? So, what is the answer to the problem. Let me give you a story which happened just the other day. I spoke with another appraisal professional who is quite visible in our profession. We hadn't spoken in years and it was fun catching up, but more importantly, it was exhilarating as in exchanging updates in our professional lives we became aware of

each other's ideas and business concepts and practices. I believe we both realized that there is much to be learned by honest exchanges of ideas and practices with other professionals. There's much to be learned from the other guy / gal. I also spoke with another professional in NYC and in our discussion I could *hear* the light switch on as I told him something that he hadn't considered. His response proved that he was pleased with the information. I'm glad I was able to give him the heads-up. The 1st gentleman is Donald Schulte, an appraiser in Mercer County and a damned good one. The other is Dominick Pompeo who owns a highly successful NYC appraisal firm specializing in commercial properties and litigation for high powered clientele. So, start talking to others and be honest!

Courtesy of

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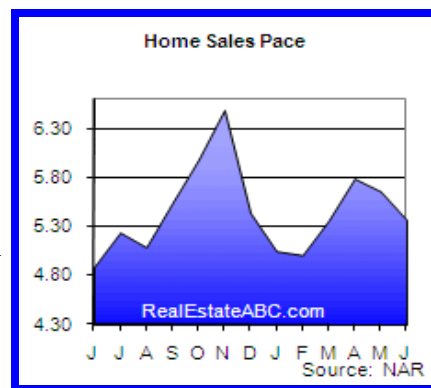
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B of A / COUNTRYWIDE SETTLEMENT- *You gotta love headlines.* This settlement set forth by a Los Angeles judge this past week was headlined with the likes of *B of A Countrywide Settlement \$600 million.* So now you have people running about screaming, “it’s about time and \$600 mil!”. Yeah, well don’t get your skivvies wrapped to tight. The settlement breaks out to \$0.40 per share of stock investors had in Countrywide. In February of 2007 the shares were worth \$45, thus if you held 100 shares it was worth \$4,500 and it is now being compensated at \$40... great return isn’t it? However, the shareholders did receive 1 share of BoA stock for every 5.5 shares of Countrywide they held when BoA took over Countrywide. So, that 100 shares based on a recent stock closing of \$14.34 is worth about \$261 in BoA stock. Much of the settlement is for legal damages (I guess someone did well).

In June BoA paid out \$108 mil for a Federal Trade Commission charge against Countrywide for collecting outsized fees from about 200,000 borrowers. Great outfit, don’t you think. The independent appraisers and mortgage providers selling to Countrywide and for their own loans knew they were in dangerous waters. Their business practices were anything but friendly and above board.

Ironically, good ol’ Angelo Mozilo, former CEO of Countrywide and board members are not part of the settlement pay back although they were named in the litigation. However, Mozilo is still facing SEC charges which can do some real damage. And the rich get richer... hopefully not in Mozilo’s case.

EXISTING HOME SALES FALL- The stock market reacted with a 0.6% loss upon the news that existing home sales sunk from May sales by 5.1 % for June of this year. The info is from the National Association of REALTORS. It’s being explained off by the REALTORS that the buyers are sitting in the wings. The question is what are they waiting for. The answer is very simple. Forget the administration and the TV pundits because their agendas are motivated by personal needs and newsworthiness. Take a look at the chart to the right. The peak is marked by the \$8,000 tax credit the government offered; not by any great demand of a knowing public. Give them something to buy already depressed property values. But as you can see it’s well on its way back down. And, it will continue until the public sees marked employment numbers. The financial data the government provides is nothing more than *liars figure and figures lie* once again. Don’t expect any movement with small companies growth because the Bush tax cuts have not been renewed. You can’t expect small companies to make any positive moves until they know the cuts will continue. If the don’t then they will have to take minimally 6 months to assess the economic climate before they make any decisions. Clearly, if there will be a greater tax bite then whatever growth they plan will have to compensate for the additional costs. This translates to less employees because they can’t cut revenue physical needs. It’s easier to pay a bit of overtime and pressure their existing staff to work harder and faster than absorb new employee costs. It appears clear that the business community hasn’t quite figured out what they are suppose to do with health care. Watch that as in 2014 when the Obama health care debacle kicks in the result of that may be devastating to both employers and employees. Right now the American public is demonstrating the *Ostrich Syndrome* by hiding its head in the sand and hoping when they pull it out the whole mess will have gone away.



So, what do we expect for home sales in the near future. It’s purely crystal ball time. No one has a clue. The variables that impact home sales are far too many and too volatile to predict with any certainty. Anyone making definitive statements is strictly seeking press time. The public needs jobs. Unemployment is about 9.6% but that doesn’t include those who no longer can collect, those that gave up looking and those that have settled for much lesser paying jobs and can longer live their lives as they had become accustomed after having worked so hard to bring it about. The pomposity of those who yell, “Well, they got themselves into this mess, so why should it be our problem.” Because the whole system fostered the debacle and the government did nothing to stop the horrendous spending and lending. And we want to blame families?

INVEST IN HUMAN CAPITAL– Fed Chairman, Bernanke during a speech at the Southern Legislative Conference of the Council of State Governments maligns municipalities, counties and states for cutting back on the services necessary to maintain the health and welfare of their publics. Of course his focus was state budgets by virtue of the venue at which he spoke.

He went to say that education in grades K-12 and college are important as is the training of skilled workers. Somehow, he neglected to mention that the U.S. ranks in the center of the 30 + industrial nations for quality education. So, what exactly are we teaching the kids that will put us back in 1st place? School budgets have been cut but the administration reacted to additional funding to maintain teachers. Frankly, the only reason they did that is for the teachers' union members votes this Fall. Police are being cut except in those locales where the unions are smart enough and truly brotherly in their actions by accepting pay cuts across the board rather than have layoffs. So, Mr. Bernanke, with all your speech you didn't give one piece of advice or set out any legislation that would help solve some of these budgetary problems. Hey, for starters, why don't we put an enormous tax on U. S. Corps who outsource to overseas and have production in other countries. Amazing, I guess prices would go up here but would that really matter if millions went back to work. Maybe we'd have a new economy.... one that works!

UNDERWATER HOUSING- *Underwater* or *Upside down* properties (housing with mortgage balances higher than the property's value), one in the same. Zillow has begun tracking housing trends. Their latest study shows that *upside down* housing went down in the 2nd quarter of this year to 21.5% from 23.3 % for the 1st quarter. Some see this as a good sign, and it's hard to dispute. The fewer *upside down* properties the better because it clears the way for stability in values and hopefully a resurgence in the housing market. The direct result of *underwater* housing diminishing throughout the U. S. is an increase in foreclosures. The short sales have not been as often as needed to stabilize the public. This was discussed in the last edition of this newsletter. Banks are opting out of short sales and allowing the foreclosures. The rhyme and reason escapes me but it's a fact. So, we have an increase in foreclosures as evidenced by the June numbers of slightly more than one out of every 1,000 houses in the U. S. being in foreclosure. Certainly a disquieting statistic. It's not just the foreclosures that is frightening, it's the damage to the families undergoing the foreclosures. Their credit is virtually ruined, their families uprooted, pets displaced or abandoned and further reliance on an already drowned economy for financial assistance.

The statistic I haven't seen is the number of foreclosed properties purchased by investors who will rent these properties. This is not a condemnation of tenants, but it is fairly common for rented properties not to be maintained. The tenant can't afford to maintain a property to the neighborhood standard and the owner owns it for income not for aesthetic reasons. This under-attended property now becomes a bane on the neighborhood. It's less than acceptable appearance based on the real estate *Principle of Progression—Regression* which relates that an inferior property will likely benefit by its association with superior properties, while, conversely, superior properties will likely suffer by their association with inferior ones. Simply, an ill kept house on a street of nicely maintained properties will likely decrease the property values of those dwellings. So, the neighborhood takes a drop in values and if this condition grows by only one, the property value fallout will cost those families some of their hard earned investment. And, the investor will benefit financially. The tax appeals will begin to rise as the impacted property owners will seek a diminution in their property assessment. So, what are the banks accomplishing by allowing the foreclosures??

ON THE BRIGHTER SIDE-

There are two types of pedestrians, the quick and the dead.

Life is sexually transmitted.

Healthy is merely the slowest possible rate at which one can die.

All of us could take a lesson from the weather. It pays on attention to criticism.

Health nuts are going to feel stupid someday, lying in the hospitals dying of nothing