



Realty & Valuation Newsletter

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HERE COMES SUMMER!

Albert M. Cerone, IFAS, FELLOW

SUMMERTIME- It's the time when men believe that they are gourmet grillin' chefs and women close their eyes and envision themselves as svelte Sun Goddesses. Now, Now! We know all you ladies are svelte Sun Goddesses, it's just that most of us men have impaired vision and can't recognize magnificent pulchritude in front of us. As for us men, we prepare our grilled food in one of two ways, rare or burnt and will bark the infinite ability we possess to bring our creations to the table. So, let the good times roll. Enjoy Summer of 2010.

NEW HOME BUILDERS AND COMMERCIAL REAL ESTATE- It's a wonder anyone knows the status of any category of corporations these days. It seems the measurement of status changes with the press of the TV remote. Ironically, there has been a great deal of press about home builders and commercial real estate; and, much of it has been negative. However, new home builder stocks and commercial real estate investment companies have done quite well from a stock investment standpoint.

It's often said, that the investment market looks further down the road and isn't seeking notoriety, but rather a forecast of market reaction. The investment market can't create the market, they can only capitalize on it. Apparently, that segment of the investment market is recognizing growth of the new home buying market and an increased demand for commercial real estate. I can only hope they are right, but I have serious reservations.

Please remember that any statement of growth or non-growth truly can't be perceived as in your backyard. It can only reflect what is expected nationally. So, following the investment market for better public decisions about growth in their backyard is very wrong. New York City may find its commercial real estate demands increasing and vacant space being occupied, but it's not to say that other locales in its metropolitan area will ride it's coattails. Remember real estate is strictly location specific. The precursor to commercial real estate is the absorption of vacant space. When that occurs in sufficient numbers then the commercial real estate investors will respond with building acquisitions and possibly new development. This I a warning to small local investors. One cannot rely on national statistics. The only pertinent information is the local data one can ascertain. The key is a trend of absorption of vacant space. As for new construction of commercial space, one must be very cautious because if costs are not "inexpensive" the need for a certain rent roll may be unattainable and thus the project will be a negative producing asset.

As for new home builders. Again, it's locale specific. I dare say that Phoenix and Las Vegas are not good

locations for new home builders right now and likely won't be for at least 2 years. Some other locales may enjoy an upsurge in new home construction. The keys for this are the ratio of sales to inventory of existing dwellings and locations in which there is little room for new construction and the typical dwellings are older.

So, ours is not to concern ourselves with the corporate investment companies but to concern ourselves with the general public. New home construction in many areas will require a keen eye of professionals, as in order for builders to offer competitive priced housing to existing homes, they will likely be cutting corners.

Courtesy of

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HOUSING PRICES- With all the press about the real estate market recovering and the excitement in the stock market with regard to real estate, the one statistic which is bothering is this. From April of 2009 to May of 2010 housing prices in the United States dropped 10%. As just discussed, don't go looking for rope in the garage to end it all, that statistic is for the United States not your town. Yet, it is alarming for the overall recovery; and, more media negativism for real estate can permeate more and more local scenes and thereby create truth.

Here's a viable explanation for the drop in housing prices. When the press latched on to the \$8,000 federal tax credit for homebuyers the public's perception was the buyers were standing on every corner with dollars gripped tightly in their fists. Of course the real estate industry needed to promote that impression also in an attempt to create a plethora of prospective buyers. Yes, there was an increase but as evidenced now there is still a very large inventory of unsold properties. It has often been said that there are two categories of home offerings at any given time. Those houses that are *on the market* and those that are *for sale*. The former are at asking prices that are not realistic while the latter are those properties that the owners truly have a reason to sell and will respond to clear minded and well informed prospective purchasers. So many of the owners of the *on the market* housing didn't have true motivation to sell and of course didn't have the market for their homes responding with offers. However, for those that were of the *for sale* group found that having waited through the tough times were much more willing to make the selling prices very affordable. Likely many sold for less than a real market value because they just had to sell. Hence, the drop of sale prices throughout the U. S..

The other reason for the drop of sale prices was desperation of those who could no longer hold on because of financial pressures. As discussed in one of the earlier newsletters in the past few months, banks were not holding up their part in the short sale department, so foreclosures are part of the statistics and the short sales that did occur, and there were quite a few, those prices were also included. You can also readily see that with these pressure sales evident in the marketplace, the property owners who wanted truly to sell, were forced to compete by lowering their asking prices and / or the eventual sale prices.

ANOTHER FUNDED STUDY- Just when you thought you've heard it all something else is published that has got to make you wonder.... who is driving this bus. Scientists, researchers (they've been called both) completed a study that says it is better for a woman to marry a poor man than a rich one. The study says poor guys are more reliable, and less likely to cheat; make for better fathers; are more honest and are better in bed.

SUBPRIME LOANS ARE BACK!- Just heard this from an internet site.... Subprime loans are back but not in the US, but in Great Britain. They're being offered by GE but they are being called Complex—Prime. You know those Brits having to be proper and all that. These loans are 2 years locked at 5.9% and then convert to a floating rate. Applicants are permitted to have two defaults on their credit. HSBC is offering a similar home loan product.

Let's not laugh too hard. Remember England is much more conservative in their financial practices than the U.S. Many of us have been thinking for the past 2 years that the cure to the housing decline is to permit subprime again. Should there be greater controls? Certainly, but clearly the major problem in housing today is affordability. Somehow the feds refuse to understand that people buy things when they can afford to do so. Now that understanding is post housing crash a few years ago. With all the wasted money the government has strewn over the financial landscape, it could have been better spent by underwriting less than prime loans. Active housing has always been the benchmark for the economy's position at any time. It's a primary money mover which is what the economy needs. Housing sales create spending into fixed assets that often result into an investment and not expenditure. It creates jobs and if nothing else it gives the illusion of recovery which then prompts further growth because the "feeling" is right.

So, White House, you claim to be the moving force for recovery and innovation, etc. Prove it. Put the hard earned tax payers dollars to work in a pretty sure bet for strong economic recovery, housing. If we own FNMA, then let's take over. Put some real people oriented and front line experienced professionals in charge. They're the innovative ones that can get the economy on track. The most experienced accomplished mortgage executive I know is Ms. Jackie Weed. I bet based on her track record would make it work and quickly.

A good friend and professional appraiser, Ted Ballin, forwarded this to me. It's worth the read. It will put a smile on your face.

And God Created New Jersey ...

God was missing for six days. Eventually, Michael, the archangel, found him, resting on the seventh day.

He inquired, "Where have you been?"

God smiled deeply and proudly pointed downwards through the clouds, "Look, Michael. Look what I've made."

Archangel Michael looked puzzled, and said, "What is it?"

"It's a planet," replied God, and I've put life on it. I'm going to call it Earth and it's going to be a place to test Balance."

"Balance?" inquired Michael, "I'm still confused."

God explained, pointing to different parts of Earth. "For example, northern Europe will be a place of great opportunity and wealth, while southern Europe is going to be poor. Over here I've placed a continent of white people, and over there is a continent of black people. Balance in all things."

God continued pointing to different countries. "This one will be extremely hot, while this one will be very cold and covered in ice."

The Archangel, impressed by God's work, then pointed to a land area and said, "What's that one?"

"That's New Jersey, the most glorious place on earth. There are beautiful mountains, rivers and streams, lakes, forests, hills, and plains. The people from New Jersey are going to be handsome, modest, intelligent, and humorous, and they are going to travel the world. They will be extremely sociable, hardworking, high achieving, carriers of peace, and producers of good things."

Michael gasped in wonder and admiration, but then asked, "But what about balance, God? You said there would be balance."

God smiled, "Not very far from New Jersey is Washington, DC. Wait till you see the idiots I put there."