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REAL ESTATE—UP or DOWN?

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CONFLICTING REPORTS?- According to reports the REITS (Real Estate Investment Trusts) are looking to dramatic increases in real estate values and activity which apparently have begun in the 1st quarter of 2012. The reason is that investors see the U.S. housing market rebounding (or at least the signs are there). This is attributed to lower interest rates which have brought many new first time homebuyers into the market.

Now, many economist have stated that the 1st quarter showed an increase in of 0.2 percent in the 20 top markets in the U. S. This is published by S&P/Case Shiller. Well, that is good news, if it is true, but is it?

According to the Commerce Department new home sales fell in March by the largest amount in more than a year. The drop is 7.1%. And, a revised figure for February is -1.6%. Unfortunately Bloomberg has the numbers reversed. It says that sales in February rose 1.% and additional 1.6% in March.

So, the question is who is right. This is beginning to sound more and more like “figures lie and liars figure”. It is just this type of guess work on which the public relies and investors succumb.

Yes, new home sales is a small part of the housing market, yet a telltale sign. New home sales represent available land developed into sites and the cost of new home construction, which in real estate valuation jargon should represent the upper limit of value. Well, new home sales are not selling well which reflects a shift from Market Value to *Pressured Price*. The underlying factor is the availability of resale housing at sale prices at less than the cost to reproduce the same dwellings minus depreciation.

A Zillow economist at least made a rational statement saying that the housing market is showing sings of recovery but it will largely depend on the job market. I think we said that here over a year ago. In order to buy, the American public must be confident that it can earn the money necessary to support their home. Congress and the banking industry has bludgeoned the American public with a hammer of “you did it to yourself”. You over spent and over indulged in Roman orgy fashion.

What many forget is the American public is not comprised of financial wizards and really don’t understand the mortgage documents and terms and conditions that are shoveled in front of them for signature. If litigation arises, they are asked, “ did you read the documents”? Of course they didn't’ but in all those papers one states they did. They were caught in a free wheeling scam created by the Congress and FNMA and Freddie Mac and lenders who saw dollar signs with every loan. And every facet of lending was in on the “money train”. There was a time when charlatans, scammers, hawkers and con artists of various names were condemned and tar and feathered for taking advantage of the public. Now, we protect them and vilify the public as ignorant and arrogant.

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FORECLOSURES- The unfortunate and fortunate news as to foreclosures in the U. S. is that foreclosures are up in 54% of the major metro areas in the country. This is not to revel in the loss of homes to many Americans, as that is always sad. It is good news in that these properties will become part of the inventory; and, when absorbed ,the normal sale of real estate will again return to a point of normality and allow the "market" to determine the real values without the stresses placed upon it via foreclosures, REO's and short sales. Only then will true Market Value again be the driving force in real estate in this country. Thus, the good and the bad of the statistic.

In Bergen and Passaic Counties in Northern New Jersey foreclosures are up dramatically for the 1st quarter from the same period in 2011, but dramatically down from the number in the same period in 2010. The reason for the uptick is there was a hold-off period due to the $25 billion settlement with 6 major U. S. lenders., in order to determine the victims in the robo-signing scandal. A state Superior Court judge in 2011 cleared the way for the foreclosure actions to begin but nearly all the lenders opted to hold off to see what was happening nationally. Now, with the ruling in the case of U. S. Bank v Guilaume, the decks are cleared to open the flood gate. It was decided in that case that the foreclosure documents must identify the actual lender and not merely the servicing agency. What we have seen and will continue to see is foreclosures rise until the these properties are disposed and out of the housing inventory. In the opinion of this writer this puts a time of mid 2013 as the real beginning of the return of the housing market. However, there is a downside to this also.

As evidenced by the review of appraisals many appraisers are building in a safety buffer in their appraisals. As an example, if a value conclusion is established as $500,000 the final value opinion (yes, appraisers, it is opinion and not "estimate" and has been for over 5 years) cited in the report will be about 5% less. This is the appraiser's safety net should a law suite be filed which includes the appraisal. The lower the value, the safer the appraisers are from being sued by the lenders who are typically the culprits in law suits brought against appraisers. Unfortunately, what the appraisers are not considering is that should there *safety net value may* be the cause of a family not receiving a loan or meeting an LTV (loan to value) and thereby being denied a lower rate. The appraiser can be sued by them and the courts will not look favorably upon the appraiser. So, appraisers, simply do your work considering all necessary factors needed to develop a supportable and defensible appraisal.

AN INVESTOR'S MARKET- Recently, I spoke with a very successful real estate investor. The last couple of years have been a boom for his portfolio, (yeah, not stocks, real estate). He purchased a $3mil trailer park and has made literally a small fortune. Since, he only owns the park, not the trailers which are a liability and wasting asset, there is little overhead and few worries. But the money keeps rolling in. I can't tell you in writing what he receives each month but I assure you it is a helluva lot of money. I was astonished. He also buys housing in some depressed markets but is cautious as to the socio-economic composition of the locale. He has had this pursuit for 15 years and is so cash plus, it's an embarrassment to even talk to him. But he's also one of the nicest people I know and totally unpretentious.

This is still an investor's market and will remain as such for another 2 years or so. As with all investments, it should only be done by those who have real estate knowledge and with discretionary funds, not household dollars.

PREPARING TO SELL YOUR HOME- There are thousands of how to books and articles on selling your home. Here are some basic tactics to which most agree.

First, if repairs are needed or updating or refreshing to be done, get it done before you begin showing your home. The public does not have the mind to envision what your house will look like when you get done with your intended work. If there is dire need of work, people viewing your home before the work will likely avoid it when you do complete it because they are subconsciously soured by what they originally saw.

Probably the best advice I remember hearing is make sure your front door doesn't creak, and is painted or stained and shiny. But even more important is that the door knob is impressive and is a tight fit. The reason from a very experienced real estate sale person told to me was, the door knob is the first thing prospective buyers touch when they enter the home. Good sales people will let a prospect open the front door. Think about it.