



# In the Loop Realty Newsletter

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## A TIME OF CHANGE?

BY: Albert M. Cerone, IFAS, FELLOW

### **DON'T COUNT ON IT!**

According to news reports of the first 47 presidential appointees 31 are Washington insiders. Wow! Am I surprised! And, it's a good thing, because it's not possible for any incoming president who truly doesn't know the inner workings of Washington D.C. to effectively govern without the guidance of "in the know" politicians. Lest, you forget, the new president is a politician before he's anything else and his agenda is nothing more or less, than JFK's, Nixon's, Reagan's, Clintons or either of the Bush's. He just wants to get through the honeymoon stage with as much solidarity as he can muster and then strictly look to survive the remainder of his term. Besides, after the first year, he starts running for his second term and his appointees run the country... or try to.

About "Change". I heard the best indicator via a funny story from a friend. A man who runs a company of about 150 people is facing the perils of the economic storm as are so many. He has to lay off 8 employees. What to

do? He gets up from his desk and walks to the parking lot. He finds 8 cars with Obama bumper stickers. He tracks down the owners and in their Friday pay check their pink slip reads, "You wanted change, now you have it!"

**OBAMA'S NAME-** Curiosity made me do the research. Barack is Swahili, a form of Arabic and means "blessed". His middle name, Hussein is also of Arabic origin and means "handsome". His last name is of the Luo tribe, an ethnic group in Kenya which speaks Dholuo. It means "he is crooked". So in all it translates to "Blessed Handsome Crook". Now, don't you all feel better about our new president? Ok! Ok!, I told a fib but you must admit it made you laugh or think. His last name is based on his great grandfather and in his culture a name often described something distinct of the child at birth. It is likely his great grandfather was born

with a "crooked" or slightly bent arm or leg, hence the name.

### **THE ECONOMY-**

If nothing else, this economic mess has proved one thing; and, that is the stock market has virtually no impact on the economy. Whether it is up or down, the economy moved in its own direction. To give you an idea on just how upside down things are, our financial advisor, Tom Froehlich, has made his first appearance as a lounge singer. This past Saturday he appeared with a professional singer, Joe Leo, at Luigi's Restaurant in Lakehurst, New Jersey. The packed house went wild over his incredible range and emotional performance. He was so successful he resigned as my financial advisor; and, as he came off stage, he handed me my file; and, said, "Here, I resign, besides you've got nothing left to manage. Next week as he sings, I'll be waiting tables. He made a great business decision. **ONLY KIDDING!!!**

*Not kidding about the singing though.* He was great. Tom is one of the most accomplished and honestly well intended advisors for which one could hope to have. His company is -

*Froehlich Financial Group*

*900 Hw'y 71*

*Spring Lake Hts., NJ*

*732-974-3770.*

### **HOUSING-**

You see... all this worry about housing and it is now going crazy with great demand and rising prices. Oh, yeah! Where you say? Well, Washington D.C. of course. With over 2000 political appointments to be made these people need places to live (for at least 4 years) and those losing their positions will be moving to lesser quarters or other areas of the country.

**CON'T**

Courtesy of

*Amerival*

Tel. 732-286-3000

FAX 732-612-1400

Email & Web  
myappraiser@amerival.net

<http://www.amerival.net>

## Con't

There is an insulation for the most part in the Washington D.C. area, although they've suffered more in the past year than likely ever before.

### *The Revival of the Housing Market-*

It's necessary to understand how we got to where we are in order to understand the recovery; and, for the public to anticipate a return of the housing market.

Small ticket items, daily type expenditures, are not planned for within incremental increases in income. They are too minor to be a concern of pre-planning by either the public or manufacturers or providers of goods and services. However, for larger ticket items, i.e., cars, college and housing, the public relies on incremental increases in income to match rising costs in a rising economy. When there's a disparagement between rate of increase to income, the public must have other means to meet the cost increases. If not, then the market stagnates and demand for goods and services decrease dramatically and the economy slows or regresses. The only means of offsetting this condition is to provide creative financing techniques which is exactly that which occurred over the past several years. And, as usual, just like kids, "Too much of a good thing, is no longer a good thing."

There is an economic and real estate principle termed the Principle of Balance which is a fundamental law of nature as well as of economics. In effect it states the result of a parity between supply and demand. When they are in balance you have maximized sustainable profit. It suggests that when there is greater demand than supply, there will be an exaggeration of value which shall be temporary, as that which occurred

a very few short years recently. When either supply or demand have an extended period of advantage, the result shall create a chasm which cannot be scaled; and, that too has occurred. Hence, the need for the bailout plans. The condition was incurable by itself because of the conditions employed to maintain an extraordinary demand.

The return to a "balance" will be that point in time when the demand for housing, office and retail space is matched by the absorption of the over-supply. The point of *balance* will be attained and a normalcy of market value once again set in place. Yes, then one must hope that there will be much better intended individuals who can act in those marketplaces without greed and with a great deal of ethics and good intentions. Unfortunately, government control will play a large part in this continuum of normalcy. Historically, government control is either an over-kill or regulations that have no teeth or funding for over-seeing the ongoing segments of the economy.

Statistics have shown that there is a direct relationship between the rate of comparison of average home prices versus income position. The closer the ratio of home pricing to the appropriate market's income position, the greater the opportunity for an active real estate market. Ironically, the concept for the correction of the real estate upside down positions pervasive throughout the United States, is absorption of the available units of housing, office and retail buildings and space. The only solution is to let it play out. The inventory of the housing units, etc. must be absorbed in order to complete the correction process.

*AS IT RELATES TO THE ECONOMY-* Oddly, the same process for the housing and office / retail correction is that which likely should have been the solution to the lending, insurance, banking, Wall Street and the auto industries problems. We should have let the banks fail, Lehman should have failed, the insurance companies and the auto makers should fail. Wow!!! Very frightening! However, a capitalistic country has failure as a given. There would have been bank survivors, financial institution survivors, etc. All those who depend on these institutions would have gone to another institution for their needs. The government can control a monopoly situation; they've done it before. Unionization has contributed to the downfall of this economy likely as much as any of the Wall Street and Banking moguls. Municipalities are not seeing cooperation from the unions to try to balance budgets. The auto unions, as one union supported said in an interview, [paraphrased], *the auto manufacturers are the ones who agreed to the union contracts*. So, therefore, if properly interpreted, the auto industry is the culprit because they chose to acquiesce to union demands rather than close down production. If the auto industry shuts down now, there is no contract any longer. So, shut down and then re-hire but trimmed down. There will be union families in dire straits. Wouldn't it be more reasonable for the unions to allow a 5% decrease in wages across the board and save everyone's job? Without work, there is no housing comeback and likely an entry to the next depression.