



In the Loop Realty Newsletter

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SMILE, THE WORST IS OVER!!

BY: ALBERT M. CERONE, IFAS, FELLOW

HAPPY NEW YEAR!!!-

2008 can't be a more financially stressing year than 2007, because there's a national election. I think this is the first time in US history, that an Italian American, woman, African American (can't say Black anymore, Right?) and Mormon are running for the presidency. No, I'm not getting into politics and won't write about it. Frankly, I think the Disney Corporation should be hired by the American public to run this country. The US will finally make a profit and we'll be laughing all the way to the bank!! So, you now know how I'll vote. *Mickey for Prez!!!!*

Seriously, an election year always provides relief of some sort to keep the public happy at the polls. My predictions for 2008. There will be troops withdrawn from Iraq, but not as many as we'd all like to see. There will be a strong emphasis placed on capturing Bin Laden again. The US will take advantage of the political chaos in Pakistan to place pressure

on the Pakistani government to support our efforts by garnering more intel on the whereabouts of Bin Laden. The US dollar will diminish further against foreign currencies, because the government needs to bolster the credit problem; and, it will insure a substantial declination of overseas travel by US citizens, thus they'll be spending vacation money in the US. Smart, huh? There will be even a bigger push to go "green" and to force auto makers to dramatically increase gas mileage for all the autos to meet the fuel costs. By the way, as an aside but in that vein of fuel. Many oil rich nations such as Indonesia, Russia, Mexico and Saudi Arabia are experiencing dramatic increases in fuel demands by their own populous. Indonesia charges \$0.07 per gallon for its gas provided to its people. All the countries are finding the demand for fossil fuel products increasing beyond that calculated as their countries are experiencing increased wealth. It is estimated that in several years many of the countries will

have to reduce their oil exports by 40% which places the US in very bad straits unless we find ways to decimate our demand for fossil fuel products. Presently, the US consumes 25% of all crude oil provisions.

Now, aside from the costs of fuel products and demand for same lessening, how will it impact the affect on other aspects of our economy? The 2008 auto roll-outs are reflecting nearly all manufacturers offering hybrid models. Albeit, the array is small to the overall production models and the MPG increase nominal (28-35) which some independent testing companies are saying are overstated. However, the move is on and shall grow. Presently, the increase cost to buy may not see the savings in return for more years than a car is typically retained by the first owner.

The good news is US companies will in earnest develop more fuel efficient cars which will also increase employment and

if US auto manufacturers become competitive once again more manufacturing jobs will be created.

In addition, the US will be forced to open other oil field locations which also will create jobs and hopefully result in lower fuel costs. A combination of lower fuel costs and less demand bodes well for the American consumer.

HOUSING- 2007 was a year of turbulence for the housing sector. Statistics put the fear of God in the American public, business and government. The why's and wherefore's are no longer a concern. It happened and it's irreversible. While we're at statistics, the National Association of REALTORS reported a 20% decline in existing home sales in 2007 but a modest gain for November of 0.4% to 5 million annual units and home inventory fell 3.6% last month to a 10.3 month supply. New home (*Con't*)

Courtesy of

Amerival

Tel. 732-286-3000

FAX 732-286-3187

Email:

myappraiser@amerival.net

Web: <http://amerival.net>

sales are up in some places by some major developers but their revenue from sales is down dramatically because of the incentives needed to incite the sale of the inventory. In November new home sales fell farther than anticipated at 9% and existing inventories again grew. It's noteworthy that new home sales is a small part of the overall housing market. These sales are based on contracts and not closing as are the existing home sales statistics. However, the new home sales is a more accurate depiction of the market as they are reflecting the "now" decisions of homebuyers, while the existing home sales are based on closings which is an historical perspective of market activity. So, each is to be viewed differently. The existing is retrospective and the new home sales indicate a current perspective. Thus, a several month trend of existing home sales allows for greater "reading" of the marketplace and impacts.

All of the down trends indicate another negative impact to the economy by loss of jobs in the construction fields, sales and marketing and the mortgage, title and valuation industries. Some say this is a good "thing" as the less accomplished in these businesses will be forced out and the strong and competent shall survive. I'm not so sure this is totally true but one can only hope it is true. The next step is expansion in other businesses so those employees losing jobs in these industries can be gainfully employed and continue to contribute to the economy.

STOCK MARKET- The stock market reacted to the housing and credit crunch for the past year but somehow ended on the upside after all was said and done. On December 31st the Dow, S & P and Nasdaq all ended down, but the year was up

for all. The Dow gained 6.4%, the S & P rose 3.5% and the Nasdaq closed up by 9.8%. But as all stats they don't always tell the immediate truth. The fact is that each of the three indicators had substantial drops in the last quarter of 2007 with the Dow down 4.5%, the S & P down 3.9% and the Nasdaq lower by 1.8%. One must remember that the stock market is not reflective of the consumer but of the investment market which is not of the same ilk as the real estate investing market and certainly not the home buying market. The stock market is volatile as often proved and its movement can be almost whimsical on occasion. It also is not a predictor but rather a reporter of economic turns and occurrences.

THE FED- A positive or negative impact on the economy? It is thought that the fed may once again lower interest rates which is hoped to spur borrowing for the large business sector. It certainly doesn't help the dollar's position versus other world currencies, but it may keep major corporate borrowing on the move. For one, the Joint Venture segment of the housing market may be able to stay afloat if there's available funds. Many major developers have entered into JV's with LLC's of families with land but not the cash for development. Each of the major players like Hovnanian, Toll Brothers, etc. have equity positions and were waiting for the time of market acceptance for the projects they could create. The current market conditions do not allow more development and need for equity by these companies for other sectors of their businesses and relief from operating costs of holding these lands, are creating

pressures. Lower interest rates may help them somewhat. But simply available funds is not the whole answer, many of the ratings of these real estate empires have been downgraded, thus, their financials now to include possibly their impairments may "red flag" their borrowing or re-casting that is needed. If this occurs, then other segments of their businesses will suffer also and relief may be further reductions in asking prices for their inventory and certainly, preclude any further development during this period which is anticipated to last until mid 2009 at least.

But, there is relief if all of the real estate business sectors pull together. Once the public accepts that the values of 2004—2006 + were a fleeting mirage and it's time to see real estate values for what they are, the sale market will begin. The prices during the escalating market period were temporary and not indicative of guarantee values, but just a blip in the screen of real estate. The new blip says prices are lower in most locales across the country. Certainly, not by the same differentials in every locale, but most likely in the vast number of them. To sell for less doesn't change the position of the seller in the marketplace, as the next acquisition will reflect the same differential. All the market needs is smart real estate sales people showing this equitable sell—buy scenario. We also need FNMA and Freddie Mac to knock off their standard "we fix the problem mode" which they created in the 1990's and now again doing. They are pointing fingers at everyone but themselves which are the biggest perpetrators of this latest debacle. Banks need to be more involved in residential lending with sound but reasonable underwriting.