



# In the Loop Realty Newsletter

February 1, 2010 Issue

*Amerival*

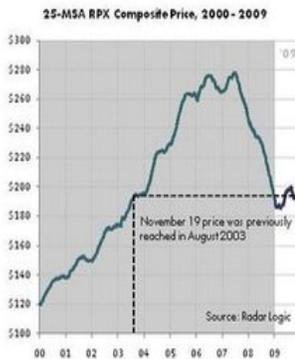
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## ***A RECOVERY IN SIGHT???***

*BY: Albert M. Cerone, IFAS, FELLOW*

### ***ABOUT TIME!-***

Lo & Behold, there is a light at the end of the tunnel.



The graph shows that the average price via 25 major cities in the US ended the decade at the same level in which it was midway of 2003—2004. As we know the peak was 2006 & 2007. But this is history and the little “tail” after the ‘09 indicator, reflects the beginning of an incline. So, there is hope.

### ***SALES UP! PRICES***

***DOWN!-*** For 2009 it is reported that housing sales were up about 5% for the year while average prices were down by 12%. So, what does this mean? Well, they are two different points of measurement. The

question is which is more important! The answer is the number of sales. Sales volume indicates the number of people who were the buying market. Up 5% from 2008 is a good number. People make the difference and the greater the number the greater the confidence factor; and, the greater depletion of housing on the market. The 12% decline in prices is due to the foreclosures, forced sales and bank liquidation of REO properties. This is not a phenomena, it is a long time occurrence... for years. Thus, this is a good thing and shows there’s life in the market.

### ***DECEMBER SALES***

***FREE FALL-*** Many pundits express concern over the 16.7 decline in sales in December. Let’s see. Annual was up 12% and December was down 16.7%?

This downturn was after the government extended the \$8,000 tax credit for new time homebuyers and added \$6,500 for others. Yet, the downturn. So, what was the cause. The weather did it. The snow storms and unusually cold spells and typical

December real estate lag which was always expected. So, the stats for December really don’t mean anything. They are just numbers people plying their trade... without thought. Ironically, the December sales prices were up 1.5% from 2008. Likely because the first time homebuyers dropped off and the incentive of the \$6,500 for others did do its job. Thus, the once again buyers typically buy more expensive housing than first time homebuyers.

Yes, we can express some excitement but temper it knowing that sales although up 21% from last year are down 25% from the real estate peak more than 4 years ago. But, it’s still a good sign. Think positive!

Clearly, the many aspects of the problem are in play, number of foreclosures, upcoming \$40+ billion in adjustables due this year, number of REO and of course employment / jobs. So, this year will wring out most of the problems and it will be an up year.

### ***NEW CONSTRUCTION***

***OUTLOOK-*** There is a chart on Page 3 which clearly demonstrates the activity for new construction from 1995 to January 2010. The January 2010 indicators are not very strong, but the perception based on the indicators is likely premature. January is like December, there is little market activity for new construction and in place housing. So, caution in your perception.

Homebuilders have a real concern, however, which is the number of foreclosed properties and REO’s of newer housing. The higher the numbers the greater the competition for new construction. This is with the strength builders recognize from several factors.

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Courtesy of

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**STORE CLOSINGS-** What does this have to do with real estate? [that's rhetorical]. Yes, a lot. It's a measure of the economic strength of business and the public with their buying ability and habits.

According to Forbes the following are likely to close their doors this year or at least most of their stores.

Ritz Camera was in bankruptcy last year and the bought. But they had closed 365 stores. The remaining 375 will depend on the management and marketing ability of the new owners.

Waldenbooks / Borders closed 110 stores in the last half of 2009. Borders will close an additional 200 in the 1st Qtr. '10. There's only an even chance they'll survive the year. Amazon is the primary reason. No retail costs allow lower prices and the public needs that desperately now.

Blockbuster has entered a 2 year plan to close 960 stores which is 12 percent of it's 7,100. They are planning to open kiosks in malls and shopping centers, but experts believe the costs will outrun the benefits. Stock shares are under \$1. Don't be too quick to buy.

KB Toys a virtual guarantee shutting the doors. Wal-Mart has totally destroyed the need for a specialty toy store for this bargain hunting public.

Starbucks is cutting 800 stores to prepare for an

economic recovery with a trimmed balance sheet. It will likely survive.

What does this all mean to real estate. First, there will be available space in malls and centers. With many small businesses closing their doors, the lease costs will drop substantially in many metropolitan areas and in the suburban areas as well. Ride down any one of your major arteries and count the vacancies. The Principle of Supply and Demand says that when supply is greater than demand, prices decline and conversely when supply is less than demand prices increase.

Another issue is it shows the spending habits of the general public. The U.S. public is very cost conscious now. This may be one of the reasons December saw a drop in sales although a slight increase in prices. Also, the Principle of Substitution says that if two similar items are offered for sale, the one with the lower asking price will likely sell first. When this is perceived by the selling market, the tendency is to drop the asking prices often times more than necessary so as not to lose time and dependent opportunity.

**HOW BIG IS BIG?-** We hear of foreclosures or REO numbers and they are telephone numbers. Well, how about this one.

Tishman Speyer Properties and BlackRock Realty bought an apartment rental complex of 80 acres with 110 buildings, 11,000 apartment and 25,000 tenants for \$5.4 Bil on the East River in Manhattan. This month they turned the entire project over to the banks rather than face foreclosure. It was unable to make a \$16 mil payment this month and the future prospects of payments were slim and would be lost capital to a project which is now valued at about \$2 bil. Yes, they were leveraged with all but \$800,000 +/- of their own money in the deal. You see, if the super real estate moguls can be overly aggressive and too wrapped in their own savvy. Now don't you feel better?

### **2009 DARWIN AWARDS-**

These are awards for those who have proved by actions that they are the least evolved of the human race.

#1 Winner-

When a robber's 38 caliber pistol failed to fire at his intended victim during a hold-up in California, the would-be robber, James Elliot, did something that can only inspire wonder. He peered down the barrel and tried the trigger again. This time it worked! **HERE'S YOUR SIGN!**

A Zimbabwean bus driver for a mental institution was transporting 20 mental patients from one institution to another but stopped for a drink leaving his charges alone. Upon returning he saw they escaped. Not wanting to admit his incompetence, he stopped at a bus stop and offered free rides to the first 20 people. He drove to the mental hospital and told the staff that the patients were very excitable and prone to bizarre fantasies. The deception wasn't discovered for 3 days. (Hire that dude)

When a man attempted to siphon gas from an RV, he got more than he asked for. Police arrived to find a very sick man curled up in a pile of spilled sewage. The man admitted trying to steal gas, but the owner didn't press charges. He said, "It was the best laugh I ever had."

Before you think this is all very funny, remember on thing!

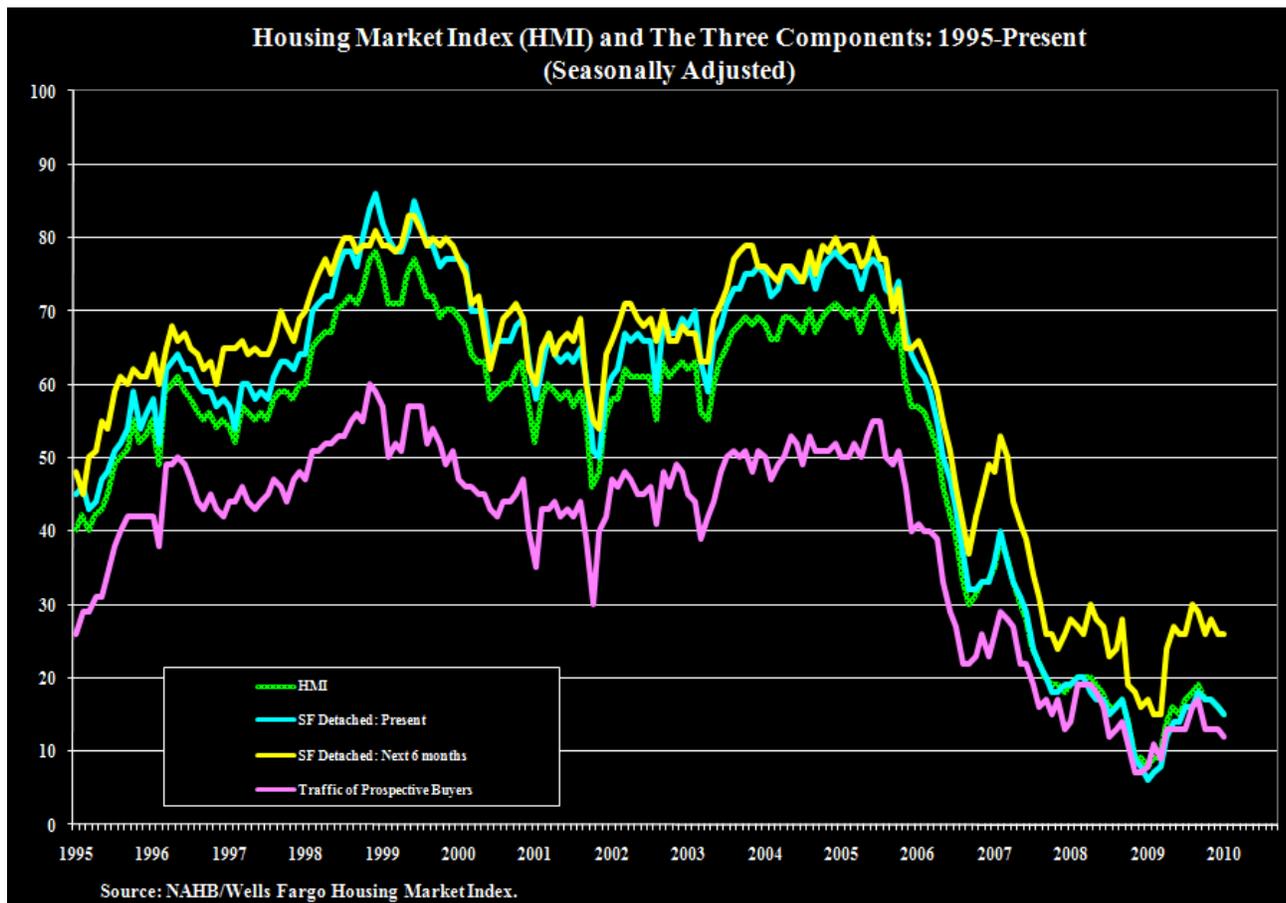
*They Walk Among Us*

*They Drive Vehicles*

*They Vote*

*And.. They Breed*

***Have A Great Day!***



1st time homebuyer \$8,000 credit is still in place and the \$6,500 credit for previous buyers is now in effect. These are in place until March 31, 2010. Interest rates are remaining low with the Feds not moving rates on January 27th.

Another positive factor is there are many sub-contractors available and daily labor who will all work for much less than that which they demanded several years ago. These are all positive points, yet home builders are very concerned about the prospects of increased sales.

The primary reason behind the concern is the employment situation and the economic concerns of the general public. It seems that they anticipate a "wait and see" approach from a very wary public; and, frankly I believe they are right with their fears.

It seems clear to most businesses and the American public that the primary concern is the labor market. Only after the loss of the senate seat in Massachusetts does the administration now believe it is an issue.

Unfortunately, the key to this recovery is still dependent on the corporate businesses and the small and medium sized businesses. If they can begin to step forward with more aggressive plans of action, the employment picture will brighten; and, the recovery will take hold.

This first quarter of 2010 will tell the tale for the whole year. Wish us Luck!

### ***BPO's MAYBE OUT!***

The NJ Real Estate Appraisal Board through its director, Charles Kirk, is pursuing the issue of BPO's by licensed real estate people. BPO's are not to be for any purpose other than for the explicit sale or purchase of a property when retained by the seller of a property or intended purchaser. However, they are being used for finance purposes and even worse by some judges in New Jersey for various cases in which property value is an issue.

In January Monmouth County judge set aside a

professional appraiser's valuation report and relied on a BPO with an explanation that he / she just didn't think the appraised value was correct. Hope the judge has an appraiser's license because I doubt there's a law that says judges can make that determination without professional testimony.

Mr. Kirk is establishing a hearing with the Real Estate Commission and the attorney general's office to challenge the use of the BPO's.