



In the Loop Realty Newsletter

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SPRING HAS SPRUNG????

BY: Albert M. Cerone, IFAS, FELLOW

GET YOUR HOUSE IN ORDER- Part of all recoveries is to make everything around you fresh smelling, colorfully new looking and comfortable. First, let's look at the reality of real estate. All 'values' are temporary. We've been conditioned to believe that values go up.... just ask virtually any real estate sales person. As all of you are so very much aware that was a myth, always was and always will be. Individual house prices can go down simply by the property not receiving the attention it needs to keep up with the neighborhood and it's value range in general. However, aside from that, economic conditions can, as recently proved, raise and then steal back value. Hence, an old rule of thumb for the future. NEVER, NEVER owe more in mortgage than 80% of the value at the time of inception of that mortgage. If everyone and the lenders followed that rule over the past several years, there would be no 'upside down' or 'underwater' or whatever term suits you in existence today. So, we've learned a lesson. Now, remember it. Don't listen to pie in the sky

financing schemes. Also, be cautious of federal programs like FHA and of course anything that comes out of FANNIE MAE AND FREDDIE MAC which today are virtually owned by YOU via our government's overly generous give-away programs. Also, be careful of the politicians who spew 'protectionism for the consumers' while they really are only concerned about their own political futures. The likes of Andrew Cuomo who seeks to be governor of NY is trying to write federal law with his investigations into property values determination and now bonuses paid by some of the companies which were bailed out.

By the way AIG was a big stimulus receiver and they paid huge bonuses. However, there was a good reason which received little or no press. The bonuses were for their London operation which was charged with 2.7 trillion dollars of invested funds. They have to close all the funds out thus the London

operation had to stay in place. The bonuses were via contract which is a requisite in Britain. In order to not pay those bonuses the cost via penalties and legal fees would have been twice as much as the bonuses. Thus, a business decision was made. If we are to be angry, be angry with those Brits who took the bonuses laughing all the way to the bank.

REITs- Real Estate Investment Trusts became very popular in the 1970's & 80's. Their popularity was because of the sizable and constant stream of dividends they paid. Retail operations were flourishing and retail space was at high demand. Shopping strips and malls became the construction of the times and each needed financing. Thus, the establishment of the REITs which via investors provided funds for much of the major developments (i.e., Simons). However, now that retail sales have dropped dramatically over the past year, many

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name brand tenants in these shopping centers—malls are closing their doors. The latest and most notable is Fortunoff. Did you know they also owned Linens and Things. Now Fortunoff is closing its doors right after Linens and Things. Get ready for the next store in their stable - Lord and Taylor. This is a clear indication that not just middle America has been hurt, but the upper middle and lower upper classes are also much impacted with the economic crisis.

Malls and shopping centers with the highest vacancy rate in 10 years are bleeding profits profusely and investors are trying to bail out. Hence, a source of funding is being removed and the losses incurred by those already in REITs are creating further havoc.

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For a year the 'hand writing was on the wall' for the investors and their patience is gone. Loyal patrons have been and will cry at each closing. Driving by a location of a closed personal favorite place to shop, will bring tears to some; and, utterances of "how could this happen". Well, ladies and gentlemen it's not important how, it simply did. But don't fret, change is usually a good thing, in time of course, but a good thing nevertheless. As the economy improves, new stores will open up. You may even see some recognizable names once again. You'll have new places in which to become comfortable. Maybe we'll go back to the home town stores in which people attending to you will remember your name; and, ask "how are the kids or "how did your holiday party go". Maybe you'll deal with people who will help you and offer a 'friendly discount because they just like you. Maybe you'll get that favor to tailor your new purchase before the next day so you can look your best at a function that evening. May be the 'ol' times weren't so bad at all.

US BANKING AND OVERSEAS REACTIONS- At a meeting earlier this month Treasury Secretary Tim Geithner completed an extended tour of European and British Countries in which he met with finance ministers in an attempt to garner support for O'Bama's plan for them to infuse huge sums into their banking systems to bolster

the global economy. His less than warm reception basically resulted in a unanimous 'why don't you fix your banks first' before trying to dump good money after bad. Apparently, that is the tact being taken throughout the rest of the world. Some how, it's just not good enough for our government.

GUANTANAMO DETAINEES- This has nothing to do with real estate or economics but has worldwide attention and possible repercussions which will affect the economy here. There are 240 inmates at Guantanamo of which 16 are Chinese Muslims which the Bush administration didn't find threatening to the US. They may be kept in the US and used as a means of placating many of the European Countries who originally said they would help and take some of the detainees. That offer was in an attempt to win favor with the O'Bama administration. Now, there are many second thoughts. If these detainees pose no threat then why doesn't the US take a good number of them. Why should Europe take them? This was posed by Wolfgang Schauble, Germany's Interior Minister. A simple straight forward question. Unfortunately, the US doesn't have an answer. The administration hasn't been very forthcoming with the backgrounds of the detainees. It appears, as if Europe is beginning to realize that Bush had good reason to keep these people. Several already released are

operating as heads of militant groups in Pakistan and Afghanistan.

HOUSING STARTS- It is reported that housing starts jumped 22.2 % in February. Yes, good news and real. What must be added to fully envision what really happened is that these starts also included apartment buildings which historically are an up and down roller coaster ride during any economic times. Overall the starts in February are still over 47 % lower than last year. So, figures can be manipulated to brighten any picture. But don't think ill of this. They were up and that's what is most important. It signals that the investors and market wary participants are very anxious. So, as said in the last newsletter, watch the 3rd Qtr. of this year for the beginning of the upswing.

Also, there has been a marked increase in home remodeling materials and equipment. It's logical as since so many aren't or can't buy new housing, remodeling makes the most sense. This is bringing about increased sales, production and employment at the factory level and for home remodelers. This is what we need. The public is doing this, not our government. So, thank the guy next door for helping, not the government.

INVEST IN REAL ESTATE- Actually now is the time. But be shrewd in your choices. For New Jerseyites skip Florida, Arizona and Nevada investments. Also don't consider N. & S. Carolina. The exception is if you have a VERY good friend or relative that lives near where you're considering and can help you avoid the market pitfalls. Consider properties that have the largest market... typically this means stay away from high end or any projects in which there is more room to develop. Remember a real estate investment is still risky and will likely have to be held for 5—7 years. Call us if you need some guidance.

ON THE LIGHTER SIDE- From old time vaudevillians.

I just got back from a pleasure trip. I took my mother-in-law to the airport.

I've been in love with a woman for 49 years. If my wife finds out, she'll kill me.

My wife and I got a hotel room with a waterbed. She called it the Dead Sea.