



Amerival Realty & Valuation Newsletter

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DOES ANYONE KNOW WHAT'S GOING ON??

BY

Albert M. Cerone, IFAS, FELLOW, CTA

UNDERWATER PROPERTIES- According to RealtyTrac, a housing data company, seriously underwater properties increased for the 1st quarter of 2015 for the first time since 2012. 7.3 million properties country wide had a combined loan amount at least 25% higher than their estimated value. Seriously underwater properties during the 1st quarter were at 13.2% up 0.4% from the previous quarter but down 4% for the same time in 2014. Remember, this is nationwide not across the board.

The key states driving this move are Florida (Lakeland mostly) at 28.7%. Las Vegas led in terms of markets with distressed properties exceeding 50%. Overall many markets experienced decreases in housing appreciation during the 1st quarter. Not the best of news.

RENTAL PROPERTIES WILL COST MORE- Based on a slow down of single family housing purchases the rental market continues to climb. Regardless of the media hype, the real estate recovery *ain't* what it should be. The market (people) in general are not comfortable with the financial position they are finding themselves let alone that of the United States. It is a known fact that China is working hard to boost their currency (termed "renminbi (RMB) meaning the "people's currency" which is most commonly known as *yuan*. Their intent is to become the international currency marker and to be used more than any other in international transactions which the U.S. dollar is today. The conversion for those interested is \$1 US equals 6.22 CNY (yuan).

This is not off the topic. It is to show that our currency is losing the strength to successfully be considered as the most stable of currencies and most important in global economics. There are other countries with currency that is much more stable than that of the U.S. but they are not traded or used as commodity exchange markers outside of their own borders for the most part. China's trade with the remainder of the world is very much in the running to be considered the replacement for the U.S. dollar. Two private sources I have believe that

China has an excellent chance of replacing the U.S. Well, this is the point. The American public is not ignorant of the media exposing the weakness of the dollar and the \$17.5 trillion in debt which is growing daily. So investing in a new house doesn't seem as wise an investment as before 2007. They would rather pay for their living quarters on a monthly basis without the worry of unexpected costs. This raises another issue. With more investors getting into the single unit rental market place, will the tide change to the renter's side. Remember, *profit breeds competition but excess profit breeds ruinous competition*. The intent of this section is to make everyone aware of the driving forces behind "change" and to be alert and aware. These are not abstract happenings from the reality of the soundness of real estate investment.

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SUPER STORM SANDY TAX APPEAL CASE- On April 13, 2015, tax court judge, Mala Sundar, issued a decision on the matter of John Jr. Cap, et al. (pro se) vs. Borough of Belmar. You can find this case on the internet. It's a quick read and worth the effort. It clearly sets forth either the ignorance or arrogance of some of our public. The property owner believed that the reduction that the assessor had provided was insufficient and that it should be reduced from its current assessment to "0". The assessor apparently attempted to help the property owner but he did not perform within the time frame demanded by statute. Hence, he did not benefit from the understanding and agreeability of the assessor.

Mr. Cap filed an appeal with the county and at the hearing he was denied any relief. The board sustained the assessment. The property owner then filed (pro se) with the NJ Tax Court. The judge heard the case and found Mr. Cap did overcome the presumption of correctness of the assessment but did not provide evidence that would support a claim of \$0. This clearly was a case that could have been won, but without supporting documentation the judge had no choice but to affirm the County Board decision.

The lesson herein is there is a reason there are experts which is that which the judge was definitive and forceful. With some expert reports it is my professional opinion that the court would have found in Mr. Cap's favor. By the way, this presumes that he accepts the site still having value. I believe the \$0 was for the improvement only. Over the past year we have worked on cases in which property owners were requesting a change in their tax position with the IRS based on the loss they encountered from Super Storm Sandy. With a specialized program we were able to establish loss based on professional information and to our knowledge each was successful. There is no doubt that what could have been proved is the cost to renovate would outweigh the return on investment considerably; and, likely would either negate any improvement value increase or possibly overtake market value completely. The concept is "Contributory Value". An expenditure is expected to return at least its cost in value or otherwise it is not a valid investment decision. This very likely could have been proved in this case. The problem in this case appears to be simply the tenacity and unrelenting position of \$0. based solely on his say so. The assessor, the Monmouth County Board and Judge Sundar all made the right decision. This is proof our system works.

The short side of this is there are some assessor's now who are giving money away by subjugating to the fear of prolonged board and / or court time. It sure saves time and energy for them but it is at the expense of the funds needed by the municipality, county and schools. Unfortunately, as I've been told it is mostly by the assessors who don't have real appraisal experience. There are many who see it as a numbers game and it's not. It's a professional ability to discern market value within the confines of realty principles and professional valuation methodology.

MORTGAGE DELINQUENCIES- According to the Mortgage Bankers Association (MBA), the delinquency rates in the U.S. are at the second lowest level since the 2007-2008 real estate meltdown. Delinquency rates dropped 57 basis point to 5.54% below the last quarter of 2014. A basis point is 1/100th (.01) of 1%. However, foreclosures remained stable from last year. Foreclosures represent 0.45% of all loans. The MBA attributes this drop to increasing employment and increasing sales' prices. But, remember the last edition. The sales of low to median priced housing is off but the expensive housing is up which drives the numbers up. It talks of sale prices in dollars not volume of all sales, so don't succumb to the hype. It's still a great deal of uncertainty and increase in the job market is not by quality of jobs but by number of jobs of which some are the working population who lost jobs and now work two jobs. It is becoming more common for families to be a 3 or 4 job family, not two.

To support the above, RealtyTrac just announced that the number of owner-occupant single unit house and condo buyers fell to a new low. Presently 63.2% of all residential property sales are from owner-occupant buyers which is the lowest since they started tracking these statistics which appears to be 2005. According to RealtyTrac there are presently 845,535 properties in the U.S. in some stage of foreclosure. In March the number of properties that filed for foreclosure rose 20% and 4% higher than the same time last year. This takes exception from what the MBA is announcing as reported above. The difference is clearly, the MBA is interested in creating demand and making everything appear positive, while RealtyTrac is strictly dealing with hard statistics.

NO, THIS IS FOR REAL!-

This property does exist and it is in Brick Township. I've seen this house and one immediately wonders if it was built for diminutively sized people (how's that for being politically correct?). It's an interesting story. It was not built for actual occupancy. It was built by the parents of young children to be used as their play house. It has electric, heat and running water. The photos are real. Allegedly, the present owners didn't know this "house" was on the property when they bought it. They thought it was a property unto itself. It appears much like a 1950's house. The question is what does one do with it? The owners are willing to give it to whomever will move it or if someone participates in fixing it up and then make it an attraction.

This is a great appraisal question. First, this "play house" for lack of a better descriptor, should be assessed because it's on a permanent foundation and is actually operable. But for how much. Well, I doubt there is a supportable comparative sales analysis that can be completed in a fashion to make it defensible.

Which brings you to the next consideration. It's presumed the property can't be subdivided and if that's the case then the structure is the only part that may be

considered of value. The only way in this appraiser's mind to value it is to complete a cost approach. You can't discount that possibly some lesser sized people would much like it, but how do you sell it to them if it can't be subdivided. Where's an attorney when you need one? OK, attorneys can you design a long term ground lease that would give the lessee the right to continue at their will? And, do you give them the right to remove it at their discretion? It clearly would demand a value be established if it did serve as a residence. But, the location doesn't allow 2 dwelling units and unless the new occupants are family of the primary residents then that's not even an option without a variance which would be precedent setting.

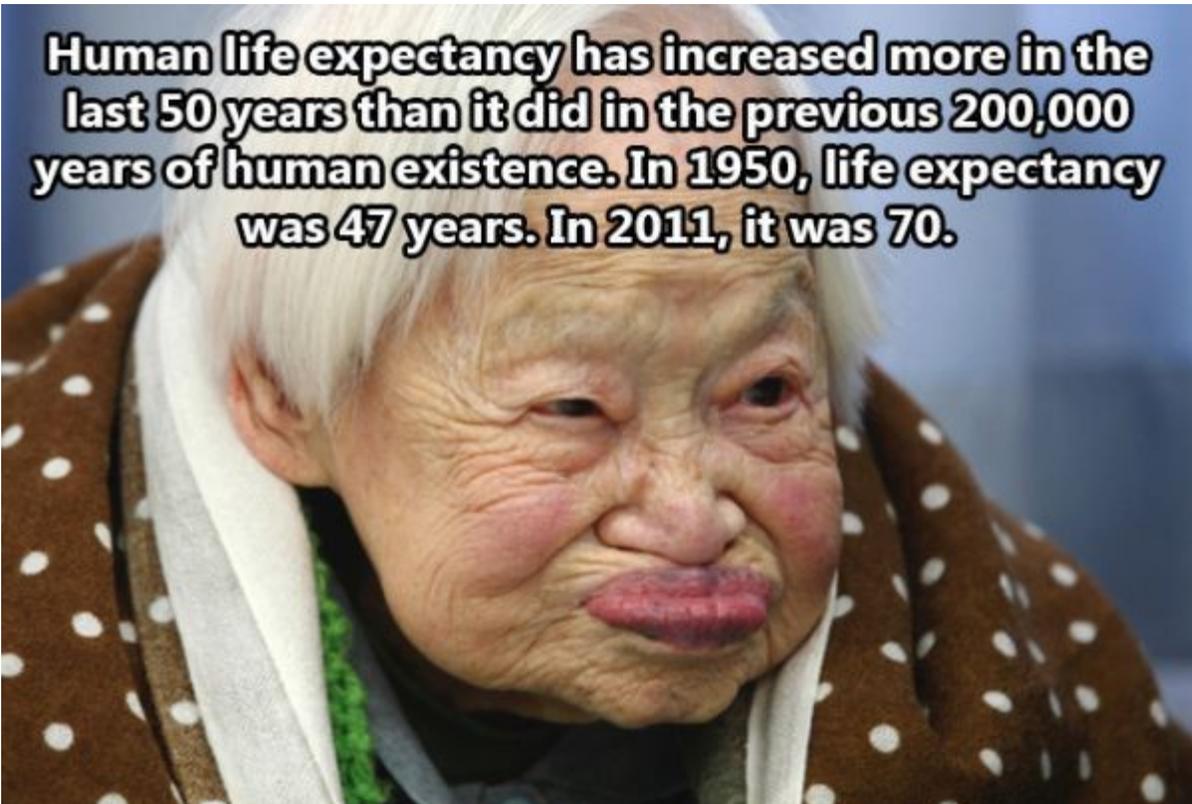
But, it still has value. If it can be carted off and placed elsewhere, then it has to have value. Yeah, just do the cost approach and what it is, it is. What if you rented it on an as need basis to the cub scouts and girl scouts or to Kids to Cure known as Alice's Lemonade Stand. Where's an accountant when you need one? There's got to be a write off if you actually don't charge them. Don't take my word for it, Just food for thought.



HAVE A GREAT WEEK!

Facts that show just how far the human race has come

Human life expectancy has increased more in the last 50 years than it did in the previous 200,000 years of human existence. In 1950, life expectancy was 47 years. In 2011, it was 70.



MORE TO COME IN THE NEXT EDITION