

Worldwide Effects of US Crisis

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Source: <http://www.projectmanagement411.com/wp-content/uploads/2008/05/subprime1.jpg>

The ThaiAppraisal interviewed leaders in international real estate organizations and found very in-depth insight shared for your information.

AUSTRALIA



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Mr. Raine kindly gave this interview of many experts in Australia including himself to us:

While share markets have taken a big hit, the global credit crunch has affected the Australian commercial property market positively, pushing up yields on office, retail and industrial property. However these yields are expected to drop over 2009 as a result of weak retail spending and limited supply in tourist and industrial property.

Dr Shane Oliver, AMP Capital Investors, said commercial property returns had accelerate in the past few years on the back of growth in rents and investors buying on lower yields. But as the credit crunch has increased the cost of debt to fund property purchases and current worries about global economic conditions, yields have risen. "Economic conditions are likely to deteriorate leading to lower demand for property space, causing weaker rents."

It is not all doom and gloom for commercial investors. "Unlike the 1980s, though, the construction boom that contributed to the recession and double-digit interest rates is not likely to be repeated", said Mr Max Raine, Chairman, Raine & Horne Pty Limited.

Poor consumer spending, high oil prices and rising interest rates have weighed down the retail trading environment. The ANZ Property Outlook predicts retail property yields will firm up over the medium term with stronger economic fundamentals and retail spending. "Economic growth is projected to return to

above 3% by 2010, assisted by further interest rate reductions", the report stated.

Australia's tourist accommodation sector has stayed resilient. Limited new room supply means this sector is likely to remain steady. "over the year to March quarter, average takings per available room for all establishments were up 5.6% and the occupancy rate stayed above 65%", according to the ANZ Property Outlook.

The country's strong performance in manufacturing, storage and transport sectors has buoyed industrial property. As a result, demand for industrial space has increased significantly. The report warns of industrial oversupply if economic conditions deteriorated sharply, putting pressure on rental of industrial oversupply if economic conditions deteriorated sharply, putting pressure on rental growth and yields.

Max Raine, says, the longer term outlook for commercial property is strong. "the good news for the economy is the RBA's decision to cut rates. This is sure to help prop up commercial property markets moving forward".

BRAZIL



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The Brazilian economy is undergoing a stable period, in spite of the international financial crisis. The Brazilian financial institutions remain solid, while the country's real estate industry, which had been recovering and experiencing strong growth, has also experienced a reduction in product launches and sales. However, the Brazilian

real estate sector should continue to grow in 2009, since we have a large housing deficit nationwide, and this creates high demand.

In 2014, we will host the Soccer World Cup, and this ensures good prospects especially for the construction industry. Furthermore, with its stable democracy and a steady real estate market, Brazil is still recognized as a hot spot for new investments. Barack Obama's victory and the mega economic packages adopted by several countries worldwide will also help Brazil overcome its difficulties.

The Brazilian real estate industry is far from experiencing a mortgage crisis such as that faced by the USA. The granting of real estate credit loans in Brazil has always been subject to rigorous analysis and prevention measures. Furthermore, the Brazilian secondary real estate market does not work with junk bonds and is quite small by comparison, around US\$10 billion. As soon as the credit faucets open – they were partially closed due to the crisis – our real estate industry will bounce back and grow again.

Brazil is far from reaching the level of real estate financing achieved in the 1980's, when mortgage credit loans accounted for 10% of the GDP. Today, it is only 3%. In turn, we have a situation where demand for real estate is high and asset prices are low, especially when compared to international prices. Therefore, we are in a scenario there are great opportunities to grow.

CAMBODIA



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Currently, the global financial crisis had a significantly minimal effect in our economy and the real estate industry. At present, investors who come into Cambodia tend to back out because of the lack of funds coming from their own countries. Cambodia is far best the best place to invest in because we are still a developing country and that the demand for almost every type of real estate property such as commercial and office space is still high. Even residential properties are needed as of the moment primarily based on what happened in Cambodia's history during the Pol pot regime.

Cambodia is not greatly affected with the problems happening in the United States (stock market and real estate). Cambodia has no stock market therefore investors who invest in the stock market wanting to invest in real estate and businesses in Cambodia are the ones affected by it. Real Estate mortgages and loans however are only a significant number in Cambodia because this was only introduced to Cambodia's real estate industry during 2008 and only an estimated 10% - 20% who had these real estate loans are not affected by it.

The government as well as the Valuers Association of Cambodia (of which I am president) and the newly formed Real Estate Developers Association (I was appointed as the secretary) are working hand in hand for better laws to govern land ownership and property development to benefit all. Now, the government and the private sector are working closely in overcoming the present global recession and encouraging more investors and businessmen to do business in Cambodia. The country still has a lot to offer in terms of agricultural investments and tourism is concerned as there is still a high demand in commercial and office space as well as residential properties.

This 2009, people who are in the real estate industry has to be smart and flexible. Still, proper planning is the key during these trying times and always hope for the best. This is the reason why I encourage both foreign and local investors to invest in Cambodian property market and venture into business in the country where the demand for properties are still high and more doors are opened by the government for potential investors to do business in the country.

CANADA



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Canadians are definitely concerned by the economic news out of the U.S., and much of that news stems from distress in the U.S. housing market. But this downturn in Canadian consumer confidence will pass, and when it does, housing demand will rebound – especially as interest rates narrow and economic growth starts to show signs of rebounding next year.

The Canadian economy, and its housing industry in particular, is in much better shape

than its American counterpart. Because new home listings are projected to decline, CREA is not forecasting an oversupply of homes available for sale on the Canadian housing market. This stands in stark contrast to the U.S. housing market, which is significantly oversupplied.

The Canadian housing market is undoubtedly suffering from the effects of a slowing economy, and this October's residential resale housing activity dropped to its lowest monthly level since July 2002. Canada is not seeing anything like last year's meltdown in the United States, however.

National home sales activity is now forecast to decrease by 12 per cent in 2008, and by a further three per cent in 2009. Average price is forecast to reach new heights in six of Canada's ten provinces in 2009, but lower sales activity in the high-priced province of British Columbia will continue weighing on the national average price, forecast to ease by 2.1 per cent in 2009.

Canadian economic growth is forecast to start improving in the second half of 2009 before accelerating in 2010, setting the stage for an improving housing market in 2010.

GERMANY



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Germany has a very strong export economy and has been export champion for several years. Therefore the German economy is affected strongly by the us subprime crisis which meanwhile has escalated to a global financial and economic crisis on an unexpected scale.

The German economy slowed down during the last months and the GDP which 2007 increased about 2,5 % in 2008 only will have a growth of about 1,2 % to 1,4 %. In 2009 a recession with a decrease in the GDB of about -0,5 to -0,8 % is predicted.

In our field of commercial real estate, especially in the investment market, the situation has become very difficult due to the restrictions of the banks. If you compare the first term of 2008 with the same period of 2007 the volume of investment decrease almost 50 %.

But there are a lot of good portfolios and properties in the market and in the office market the rent level and the vacancy quote is still on a high level. Even so the turnover in this market segment has decreased significantly because of the difficulty for the potential buyers to get external capital in a collapsed credit market.

My expectations for the German real estate market for 2009 are not enthusiastic, I expect a light decrease, but the value potential of German real estate is still very good and therefore German real estate will continue to be a profitable investment with good returns. But certainly higher equity quotes will be necessary to get finance anyway.

IRELAND



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Ireland experienced twelve years of unprecedented growth in residential property prices up to 2006, driven by record employment, a reversal of emigration to immigration, a huge improvement in personal wealth across most of the population, smaller household sizes, low interest rates and banks that were overflowing with money to lend.

Irish lending policies were generally more prudent than in the United States and the level of foreclosure in Ireland is low by comparison. Nevertheless, a needed correction in Irish home prices became a bubble due to the global banking crisis.

Irish home values are 20-40% off their peak in September 2006 but the real problem is that sales are scarce due to a lack of confidence and a shortage of finance. Having been in property since 1970, I have never before seen such a sharp decline in activity.

In estate agencies, redundancies are the order of the day. Survival will depend on retaining key staff, securing fresh income streams, closure of branch offices and curtailment of expenditure to a minimum. As always in a downturn, some will be forced to open their own enterprise and many a good business was started in such circumstances.

As we look forward to the remainder of 2009, concern will only disappear when a lasting solution to the international financial crisis is found and the American housing market yet again leads that country, and hopefully the world, out of recession.

ITALY



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Present financial crisis – so-called “sub-prime” for its initial cause - is deeply affecting world economy and Italian as well. The major worry is for banks situation and Italian banks themselves fear a lack of cash flow, even if their conditions seem to be better than the one of American and most of European similar institutions. Accordingly, they seem to be reluctant to finance operations, specially in real estate sector.

As far as 2009 it depends heavily on international situation.

So real estate activity and professions face a very grim period: week demand both for economic and psychological reasons, no bank finance for projects, very little finance for customers.

Crisis has originated from real estate and banks, now real estate companies do not find bank support.

Our hope is that in 2009 international financial situation becomes steady again and we may start again with our new projects in cooperation with banks.

LITHUANIA

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Worldwide financial crisis influenced a start of slow down in Lithuania's economy in 2008. Instead of forecasted +5,3% growth of GDP in actual fact will be about +4,0%. It is forecasting that in 2009 GDP may slip to -1,5%. Inflation in 2008 was about 10%.

We had a 10-20% fall in prices of residential land and property, due to object's age and location. In other real estate sectors haven't felt any correction of prices. However the amount of contracts in real estate market decreased up to 35%. Banks have reduced up to 50% their crediting for residential real estate.

Business and property valuation market services, in comparison with 2007 i.e. 112 enterprises, have made:

- 49984 valuation reports of real estate
- 12436 valuation reports of movables
- 193 reports of business valuation

In 2009 it is planning to have a 10% growth, because of state's booking for selling purposes valuations of land in national free land fund and property for mortgage purposes revaluing. It has offsetted valuated property for mortgage purposes and the decrease of sold real estate.

Next year also it is forecasting a 25% decrease in real estate valuation services. But in view of necessity to retrieve reliance of securities, have to strengthen their observation in sale, that would make certain validity of securities prices by property and/or actual results of the proceedings and market values, but not by buyer's „physical expectations“. Planning to have a rise of demands for accounting and for stock valuating purposes.

In other words, financial crisis and the slow down of the economy only increases demands in business and property qualitative valuation in our country.

MALAYSIA



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The US sub-prime crisis did not affect Malaysia's economy as much as some neighbouring countries, which is now in recession. Malaysia is not in recession and in fact in the 3rd Quarter 2008, we achieve a modest growth rate of 4.7%. However, with the United States, E.U. and Japan and half the world in recession, Malaysia's economy is not insulated and in 2009, our Central Bank is projecting a growth rate of only 3.5%. The hardest sector to be hit is the manufacturing sector, with downsizing and retrenchment. Other sectors affected will be the retail, hotel and hospitality, construction and services sectors. To cushion the impact of global financial and economic crisis, the Government is introducing a RM7 billion Economic Stimulus Package to stimulate the economy and encourage consumer spending.

Also, in 2009, the property market will face a gloomy outlook and weak sentiments as buyers are holding back their plans to purchase properties.

Hence, the business for real estate professionals including valuers in 2009 will be affected. To compete and survive, valuation firms should be more efficient and cost-efficient, and embark on training and computerisation.

NIGERIA



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This discussion attempts to look at the US Sub-prime crisis and its impact on Nigeria and the real estate and housing finance profession in 2009. In actual fact to be able to put this in context it is important to mention how the US Sub-prime crisis has evolved and then see where and how the Nigerian market is developing vis a vis some of the key characteristics of the U.S. subprime mortgage boom and bust.

Comparing the USA and Nigeria, the crisis in US has raised questions in the minds of many Nigerian players and professionals as to the resultant crisis emanating from extending mortgage lending to low income households. This is especially true because prior to the growth of subprime lending in U.S. (during the '90s) mortgage markets already reached low and moderate-income households without suffering large losses. The contrast is true in Nigeria. In Nigeria mortgage finance is a luxury good and restricted to upper income households.

What was the primary cause of this global crisis? It stemmed from the subprime market. The market in itself is not a bad one but the active players had either compromise or undermined underwriting procedures and this were mostly by non-bank lenders. A Lot of the US non-banks developed and aggressively pursued the "originate to distribute business model," where it originated loans for sale to the capital markets indiscriminately. Nigeria doesn't even have enough mortgages yet, so how

can the country start to think of secondary market. Therefore the incentives to create subprime loan in Nigeria doesn't exist.

In the nut shell, the subprime market and the ongoing global crisis has no direct impact on the county (Nigeria). However there may be several indirect relationships / impact. Learning from the US, what we must do therefore as a matter of strategic policy framework is that when we seek to move lenders down market, we should adopt policies that include a variety of financing methods and should allow for rental or purchase as a function of the financial capacity of the household and not undermine the origination standards. It is pertinent to mention here that securitization remains a useful tool when developed in the context of well-aligned incentives and oversight.

For the real estate and housing finance profession in 2009, I think the market in Nigeria is looking up especially because we are not yet sophisticated. The effect of the credit crunch is also not felt strongly as we do not yet have a significant chunk of offshore long debt/equity capital for originating mortgages. So there are no international investment banks calling up their long term capital from Nigeria.

ROMANIA



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Romania is today an economy in transition with 20 years after a long communism period. What is a little bit strange for Romanians now an old idea of Marx becoming actual: "Owners of capital will stimulate working class to buy more and more of expensive goods, houses and technology, pushing them to take more and more expensive credits, until their debt becomes unbearable. The unpaid debt will lead to bankruptcy of banks which will have to be nationalized and State will have to take the road which will eventually lead to communism." [Karl Marx, 1867]

Because of the transition period, including a stage with few local banks bankruptcies around 10 years ago, Romanian economy is not so sophisticated and developed to experience a very deep crisis.

For the valuer profession we expect some changes:

- For short and medium term decreasing in demand for valuation for mortgage lending purpose, decreasing the importance of real estate appraisal;
- Increasing the level of attack by one or more parties (state tax authorities, beneficiaries, lenders etc.)
- Increasing the importance of valuation for financial reporting, merger and acquisition, valuation for reorganisation and liquidation, property price acquisition;
- Increasing de level of expertise asked by the clients from the appraisal profession;

- The need for working in a complex team and time for finding advantages of specialisation;

The valuers must follow: continuous education, specialization and cooperation to meet client expectations.

SOUTH AFRICA



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The South African economy has been affected to a lesser extent than Western countries, but there has nevertheless been an effect. The economy is very dependent on exports, which have decreased. Our balance of payments has been reduced by about a third. To compound the problem, interest rates have increased over the past two years and many people have lost their jobs. Retail sales are down and motor vehicle sales are the lowest in five years. The number of people seeking advice about excessive debt is expected to be five times higher in 2009 than in the previous year.

In the real estate industry, credit is more difficult to obtain than in the past. Several large development projects are being delayed because of financing difficulties, especially if the funding will be obtained from abroad. The hospitality industry has experienced a drop of 10% to 20% in turnover compared to previous years. Listed property prices fell by 31% between January and June 2008. A year ago, the average premium over Net Asset Value was 14%. South African listed property therefore represents a good investment opportunity at the moment. The residential market also has many excellent investment opportunities. Prices in some housing markets have been dropping. In the buy-to-let market, many people who invested during the past two years, without the doing the necessary market analysis, are now being forced to sell.

TAIWAN



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The outlook for 2009 remains bleak due to the prolong process of financial market realignment putting credit market under increasing strains which begins to impact the real economy. The rising unemployment and weakening asset market will further reduce

private consumption via negative wealth and confidence loss effects. However, the government will invest US\$2.58 billion in a consumption voucher program and US\$ 8.19 billion on 12 national infrastructure projects to get the economy going. The government's investments would give a big shot to the domestic market and thus stimulate the economy. TIER predicted that next year the annual rise of CPI and WPI might drop to 1.82% and 2.72%

Domestic investment growth rate would drop to 2.40 percent from 4.15 percent; the export growth might decline to 4.96 percent from 6.24 percent; and import growth could decrease to 3.84 percent from 4.77 percent. The gross domestic product may shrink by NT\$107.05 billion this year.

Taiwan new government is expected to enforce a spate of liberalization policies, including allowing entry of mainland Chinese tourists and launching direct cross-strait charter flights. This, in turn, will cause domestic spending to surge sharply.

The average growth of current land announced value in 2009 was 1.4%. As to the Taipei City Government, the average growth was 2.61%, decreasing 4.08% than 2008 and Kaohsiung City Government was 0.97% in 2009, decreasing 0.62 than 2008.

The overall vacancy rate roughly measured 8% in Q3 2008 and the average office building rent was NT\$2200/ping/month. Due to the impact of stock market, the property market has shown a decrease in the transaction volume. Potential local buyers have adopted a more cautious attitude than before. The buyers also expect that the residential price has shown a decrease. Recently there are some property projects try to allow consumers using consumers vouchers to buy the residential properties.

Influenced by the interest rate decreasing policy in the whole world, Taiwan market interest rates have been seen a slightly downward less 1% in 2009.

Taiwan's economy is expected to recover from the effects of the global financial crisis in the second half of 2009, with the growth rate projected at 2.5 percent for the year, the Council for Economic Planning and Development (CEPD). The new government's strategic investments in the 12 development projects that might largely push up the gross fixed capital formation by 7.8% for 2009, much higher than this year's minus 0.36%.

Along with the implementation of new urban plan will be more stimulating the property market. Because of the scarce land and the encouragement of central government policy, many developers began to participate in the urban regeneration work in the northern Taiwan. In the southern Taiwan, the government investments would give a big shot to the local real estate market, and thus stimulate the economy, for example Kaohsiung city will be host the world game in 2009. They believe that this event will stimulate the local economy. With the expansion of domestic demand, the government will have the policy initiatives: helping young couples from families with the ease of mind; continuing the provision of interest subsidies for home purchases or renovation loans; encouraging private participation in public construction; acting with the utmost urgency to promote foreign and mainland China investment in public construction projects; accelerating the implementation of a NT\$ 240 billion budget for large scale public construction projects and implementing the 7-8-9 program for the preferential sale of land in industrial parks.



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The impact of US subprime crisis is a global phenomenon, and Taiwan is no exception. The decline of demand in US for foreign goods has led to the falling sales figures in a diversity of industries in this island. As for Taiwan's financial institutions, at the time of March 2008, they had incurred total losses of NT\$20 billion and NT\$5 billion resulting from investment in subprime-related products by local banks and local insurers, respectively. Despite the reported loss, it is generally expected that the US subprime-incurred loss will not grow substantially. In terms of residential property market, compared to US, the loan-to-value ratio in Taiwan has returned to its long-term rate of between 80% to 85%. The interest rate also remains low. In spite of the observed recent fall in housing price, its magnitude is up to present far from alarming. In conclusion, US subprime crisis has caused general adverse effects to Taiwan's industries dominated by US market, and a limited damage to financial and banking sectors. The US subprime-type crisis is unlikely to occur in Taiwan because of the cautious mortgage lending of banks and conservative spending pattern of consumers. However, the financial regulator has urged financial institutions to further strengthen their risk management.

UNITED KINGDOM



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In early 2007, the first signs of the sub-prime crisis emerged as a rise in defaults by sub-prime borrowers shook the US banking system. As that situation worsened, and vulnerabilities in other economies emerged, the sub-prime crisis extended through to the UK financial system. At the same time, the economy was hit by massive hikes in fuel prices, leading to soaring production costs and sharp rises in food and energy bills for consumers that led to a downturn in economic activity. This situation has quickly descended into the UK economy entering its first recession in 16 years. And the outlook is that things will get worse in 2009 before they get better.

Nowhere have the effects of this downturn been more evident than in the UK property

market. House prices have fallen 15% from their peak. Mortgage finance has dried up and, with unemployment likely to rise and the threat of repossessions looming, house prices are likely to adjust further downwards. Similarly, in the commercial sector, an uncertain economic outlook is depressing occupier and investor demand. That implies further downward pressure on rental values and outward yield movement. The foundations of the property market, construction sector, will be shaken as building projects are put on hold due to lack of demand and difficult financing conditions. Indeed, recent RICS surveys showed that expectations in the construction industry are at their lowest since the survey started in 1994. So far, output according to official statistics is down by just over 1% from the high water mark reached in the first quarter of the year but, looking forward, new orders are at a five year low.

The Government and the Bank of England have responded to the current climate with aggressive action - interest rates have been slashed, a massive fiscal stimulus released and improving lending activity is a definite priority. It will take time for confidence to return to the market but, in the meantime, the focus should be on improving transaction levels as people will be looking for bargains. In the construction sector, using the downturn for training and retaining skills will be essential so that, when the recovery does eventually come round, the industry will be equipped to respond to the needs of the wider economy.

UNITED STATES (USA)



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The US economy is in decline with traditional real estate being functionally obsolete and innovation being fueled by financial incentives and future operating cost benefits. Historic costs are not sustainable and carbon neutral is insufficient to provide a "Green Advantage". I have coined and share the Green Rate of Return "GRR" which integrates cost basis with operations for a holistic approach to measuring value. The US economy has a very strong base and the new leadership is utilizing technology to reach through the Congress to assess the commitment of citizens to confirm its position in the Global Economy. The United States of America is poised to re-establish balance in a stable world economy.

Professional Realtors in the US are networking with the investor community to absorb and modify existing inventory to sustainable adaptive re-use. Many unsophisticated sales people will not survive the economic tsunami. Those professionals with knowledge and commitment as well as the confidence of the investor market will lead their clients to a goldmine that will make the San Francisco Gold Rush of 1848 look

like child's play. This is the day for global investors to converge on the existing real estate inventory and discount its value by the time and cost to restore it to its "Green Advantage". Green Wealth is Sustainable.



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We understand the desire of lawmakers to bolster the economy and stem the tide of foreclosures, but new homebuyer tax credits, seller-financed downpayments and interest rate buydowns will not stimulate the economy or stop house prices from falling further.

The only issue a homebuyer tax credit addresses is the oversupply of single-family houses, which is something best left to the marketplace — not taxpayers — to correct. Oversupply situations happen in every industry, and the housing industry will recover with or without Congressional action, just as it has in past oversupply situations. Moreover, why should taxpayers help out an industry that recognized a downturn was coming and still kept overproducing?

The government should not be using taxpayer dollars to sustain inflated housing prices. When prices return to market levels, buyers will return. Such a "resettlement" will not only restore affordability to the housing sector, it will also put it on a much stronger footing going forward.

If buyers need a \$22,000 incentive to come back to the market, then home builders should absorb that cost through lower prices, not taxpayers. Furthermore, why would the government want to use taxpayer dollars to encourage people to buy an asset that is expected to lose up to 25 percent of its value in the next 12 to 24 months?

Finally, homebuyer incentives also do nothing to stimulate the economy. They don't create jobs and won't (nor should they) encourage more housing production. They simply use tax dollars to help builders move them off their balance sheets.

More disturbing is the fact that these proposals—particularly the potential return of federally financed zero down mortgages—would increase the number of owners who are "underwater" in their mortgages. In the process, they lay the groundwork for another wave of mortgage defaults and foreclosures.

Even if the government wants to prop up housing prices, it's not clear that they can. Leading economists warn that interventions aimed at stopping housing prices from falling further are "likely to be expensive failures" and that such "attempts to artificially boost housing prices are misguided.

Consider, for instance, the fact that the National Association of Home Builders (NAHB) says Americans are expected to buy 5.1 million houses next year without any incentives. Giving these buyers a \$22,000 tax credit, as NAHB has called for, would mean \$112 billion in wasted subsidy to buyers who would have bought a house

anyway. Lawmakers should instead focus their efforts on restructuring mortgages, an action that actually can help families stay in their houses.

Beyond that, if Congress wants to shore up the economy, it should stop favoring specific industries and instead enact proven economic stimulus policies, such as investment incentives for business, investing in our national infrastructure, extending unemployment benefits, issuing general aid to state governments and meaningful energy efficiency tax incentives for commercial real estate.



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The United States is officially now in a recession that began in December 2007. The significance of this economic downturn is worldwide in scope. This severe contraction is and will continue to impact economies everywhere. The financial services industry and all borrowers are searching for liquidity and capital creation. The debt reduction or deleveraging needed in the United States will have a dramatic impact on all asset and equity values. Housing is but the first asset class to face a reduction in current market value. Commercial, industrial, private equity and hedge funds will not be spared. Agricultural land, art and other "counter cyclical" asset values will also be tested. Too much risk, too much debt and too little return will reduce future income projections on all United States and many worldwide assets. The increase in defaults of all types of contracts is beginning in earnest with further deterioration impacting many types of counter parties. The scope of deterioration will include debt, equity and company balance sheets.

This broad based diminution in asset values will create valuation opportunities worldwide. Regulatory driven revaluations will increase dramatically as market forces drive down current asset values and banking regulators increase their scrutiny. Residential, industrial, retail and apartment defaults will all create current market condition changes necessitating new valuations. Bankruptcy and litigation will increase the necessity of a reassessment of encumbered assets of all types. Consulting and advisory services for workouts and collections will increase geometrically as credit quality continues to deteriorate. Finally, Mark to market accounting and International Financial Reporting Standards adoption will present valuation opportunities for those valuers with the proper training and experience.

Only highly skilled, fully educated, open minded, and experienced valuers with an ability to communicate clearly, succinctly and in a flexible presentation format will prosper.



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As the US economy struggles in a major recession, the impacts on world real estate markets are as challenging as at any time in history. The modern appraisal profession, born during the tumultuous 1930s Great Depression, was formed to answer the critical real estate questions of the era. It appears that history is repeating itself.

Trend analyses show that after the recent real property boom, peak values occurred in 2006 and downturns were seen by 2007 with severe contraction through 2008. In 2009, appraisers anticipate further declines in most US market segments as lenders struggle to clear foreclosure inventories. Once inventory is absorbed, market values should stabilize and a turnaround is expected, but pundits differ on when.

Appraisers need to carefully monitor the financial markets because today's economic forecasting is short-term. Where analysts had been confident with a 6-12 month forecasts in the recent past, 30-day to 60-day windows for change may be anticipated for another year or more.

Energy and commodity costs in domestic and foreign markets will likely influence market recovery times. Recognizing that global markets directly affect real property values is causing appraisers to think more like economists. In short, appraisers need to be better prepared than ever to consider the impact of economic and financial factors that have and will continue to impact real estate values.

Appraisers can create more opportunities by studying both macro and micro markets because market valuation is a function of weighing the prospects of "anticipated change," an all-important fundamental in real estate value. Investors, whether in commodities, financial products or real estate share the commonality and importance of investing in anticipation of future revenues. Appraisers who can analyze, quantify and articulate the expectations of the market will find their services in high demand.

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America's subprime loan disaster may have been the spark that ignited the ongoing U.S. financial crisis, but it is only part of a much larger problem. Too-risky investment vehicles, unbalanced corporate portfolios, lax enforcement of financial regulations, and undue political pressure all played a role as well. But the causes notwithstanding,

American consumers, investors, and businesses alike have paid an enormous—even devastating—price.

Nowhere has the cost been greater than in the real estate sector. While the decline in residential property values has been widely noted, the consequences for the commercial sector have been just as grim. Real Capital Analytics Inc. reports that, within just the past year, the dollar volume of commercial property sales dropped by 80.0% and the number of transactions by 70.0%.

The services of highly trained business valuers, like those affiliated with the National Association of Certified Valuation Analysts (NACVA), are vital. Business valuers assess both tangible and intangible assets, and valuations that are too high or too low can have serious and costly repercussions. Especially now that the bottom has fallen out of so much of the commercial real estate market, the accuracy of valuations can make the difference between a viable transaction and one that is not.

Other economic factors also come into play. Declines in consumer spending, deep job losses, and curtailed manufacturing production create a hazardous though still navigable environment for businesses of all types and sizes. Only credentialed business valuers are trained to accurately read the signals and assess the tangible and intangible factors in determining business value, making them invaluable partners for real estate professionals in the certain-to-be-troubled times in the months ahead.



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The primary cause of our current economic crisis is a loss of confidence. Tied to the sub prime mortgage meltdown, 2.2 million homes have been foreclosed, leading to a lack of confidence in the bond markets which are now down over 30%. Consumer spending is down, energy costs are volatile, and stocks have lost 35% of value. Lending activity is slowing and liquidity is decreasing; all resulting in a disastrous loss of 1.3 million jobs. Real estate values continue to decline as the absence of confidence continues to spiral our economy downward. So where do we find restoration?

Within commercial and industrial real estate, tenants faced with economic hardship seek to renegotiate existing lease agreements and rent increases due to the de-valuation of assets, making it even harder to retain existing tenants and attract new tenants. Restoring confidence within the

commercial real estate industry requires professionals with elite credentials and the demonstrated know-how to build value back into troubled properties. These elite professionals are expert at appropriating resources, marketing effectively, re-evaluating the appraisal process, using operation/finance strategies, and ultimately to manage properties in such a way as to maximize market value.

It costs 5 to 6 times more to attract new tenants than it does to keep existing customers and retaining a mere 5% can increase your bottom line 25% to 125%. BOMI International provides the know-how to deal with challenging and transitional properties through professional education and experience. For almost 40 years BOMI has been the leader in education and training for the property and facilities management industries, awarding industry standard designations recognized worldwide. One of the BOMI designations, the Real Property Administrator (RPA®), involves classes like Asset Management, Real Estate Investment & Finance, Budgeting & Accounting, and Marketing & Leasing. The curriculum offers professionals the skills to recover, retain, restructure and essentially resurrect and remarket despondent and transitional properties.

When our economy is in a downturn and properties are suffering, we need well-educated property professionals that can keep owners, tenants and investors confident by preserving and building value in their real estate assets. Real estate professionals with the right skills and education that are prepared for economic setbacks are able to increase property values in troubled times.

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The economy will be played out on the world stage, so we can all watch as that happens. We as appraisers cannot change what will happen now. The question is: are appraisers part of the problem and can we be part of the cure?

Appraisers were and are still part of the problem; by letting the clients (lenders) bully us into providing false, un-supported values by threatening us with no or less work. To a large degree, appraisers allowed this to happen in order to support their families out of an ignorance of appraisal ethics, ignorance, as well as lack of proper training and education. Some appraisers just took the low road and provided appraisal assignment results that benefited the client, but did not present the client with a credible opinion of market value. The moral high road and the practice of personal ethics is a hard one to follow.

How can we be part of the cure? Appraisers need to do in-depth market analyses, report a credible opinion of market value, not reflect the contract purchase price, and then be ready to stand up for our reports and not allow the client's needs to overpower our responsibilities. This is no easy task to undertake, but a necessary one, if we are to instill in our profession the confidence the public demands.

Exclusive Interviews of 21 World's Experts from 14 Countries