

NEWSLETTER

BY JAMES D. GAVRITY

TITLE GUARANTEE INC.

2009 NEW YORK STATE PROPERTY REPORT: THE UGLY TRUTH

Plain and simply put, 2009 was the worst year in real estate since records for sales of real property have been kept. New York purchases were down 61% in 2009, with 114,000.00 units sold in 2009 compared to 295,000.00 in 2005.

New York State Purchase Volume History, All Real Property Priced From \$100,000.00 And Up

2000 to 2002 NYC sales data estimated — All Data From State County Reporting

Year To Year	2000	2001	Inc/Dec	2002	Inc/Dec	2003	Inc/Dec	2004	Inc/Dec
New York	16,900.00	16,000.00	-5%	16,400.00	2%	16,526.00	1%	18,750.00	13%
Bronx	6,000.00	5,800.00	-3%	5,400.00	-7%	5,487.00	2%	6,607.00	20%
Queens	23,500.00	23,000.00	-2%	22,500.00	-2%	22,802.00	1%	26,513.00	16%
Kings	19,000.00	18,900.00	-1%	18,100.00	-4%	18,341.00	1%	21,165.00	15%
Richmond	8,800.00	8,800.00	0%	8,100.00	-8%	8,165.00	1%	8,876.00	9%
Nassau	14,295.00	14,500.00	1%	16,063.00	11%	16,245.00	1%	18,085.00	11%
Suffolk	26,766.00	24,275.00	-9%	24,899.00	3%	24,949.00	0%	24,899.00	0%
Westchester	11,362.00	10,397.00	-8%	10,971.00	6%	10,876.00	-1%	11,839.00	9%
Total, Down State	126,623.00	121,672.00	-4%	122,433.00	1%	123,391.00	1%	136,734.00	11%
All Other NY									
Counties	130,328.00	130,575.00	0%	141,507.00	8%	145,281.00	3%	154,340.00	6%
Grand Totals	256,951.00	252,247.00	-2%	263,940.00	5%	268,672.00	2%	291,074.00	8%
Interest rates	8.06	6.97		6.54		5.82		5.84	
Employment	4.00	5.70		6.00		5.70		5.40	
Easy Credit									

New York State Purchase Volume History, All Real Property Priced From \$100,000.00 And Up

Year To Year	2005	Inc/Dec	2006	Inc/Dec	2007	Inc/Dec	2008	Inc/Dec	2009	Inc/Dec	05 Peak	2007 vs 2009
New York	17,229	-8%	17,086	-1%	19,534	14%	16,147	-17%	8,987	-44%	-48%	-54%
Bronx	6,969	5%	6,798	-2%	5,680	-16%	3,763	-34%	2,564	-32%	-63%	-55%
Queens	27,393	3%	26,847	-2%	21,000	-22%	16,938	-19%	12,574	-26%	-54%	-40%
Kings	21,893	3%	19,549	-11%	17,153	-12%	13,358	-22%	8,782	-34%	-60%	-49%
Richmond	7,656	-14%	6,326	-17%	5,345	-16%	4,060	-24%	2,852	-30%	-63%	-47%
Nassau	18,193	1%	15,329	-16%	12,842	-16%	9,776	-24%	6,579	-33%	-64%	-49%
Suffolk	26,957	8%	22,162	-18%	17,234	-22%	12,423	-28%	8,889	-28%	-67%	-48%
Westchester	12,157	3%	10,020	-18%	9,004	-10%	6,339	-30%	2,803	-56%	-77%	-69%
Total, Down State	138,447	1%	124,123	-10%	107,792	-13%	82,804	-23%	54,030	-35%	-61%	-50%
All Other NY												
Counties	157,400	2%	140,330	-11%	120,958	-14%	93,820	-22%	60,800	-35%	-61%	-50%
Grand Totals	295,847	2%	264,453	-11%	228,750	-14%	176,624	-23%	114,830	-35%	-61%	-50%
Interest rates	5.86		6.41		6.34		6.04		5.04			
Employment	5.00		4.50		5.10		7.20		11.00			
Easy Credit												

SUMMARY OF 2009

For 2009, unit sales are down a hefty 35% statewide, from 176,000 units in 2008 to 114,000 in 2009. The looming question for 2010... Is the volume and price decline over? I would like to say yes, however, I believe we may see another 10 to 20% decrease in volume and price depending on how much shadow foreclosure inventory hits the market in 2010 with the wave of mortgage modification failures and foreclo-

sure from the rise in unemployment. Interest rates and unemployment figures will be the X factor.

2011/2012 looks like the year of the start of stabilization. New York unit sales over the next 15 years on average should remain steady and stabilize to a baseline norm, between 100 to 115 thousand units per year statewide. What crystal ball do I have that makes me so certain, you ask? History, pure and simple.

WHAT HAPPENED?

Anyone reading this under the age of 40 in the real-estate business or law practice that is real-estate based must reinvent yourself. As the housing and mortgage market became over saturated and over-inflated, so to has the work force and number of professionals in that industry. To understand your future, you have take a que from the 1980s movie Back to the Future. Get in your Deloran and take a trip back to

1985 to understand the real estate market cycle and how our latest boom and bust was created.

The real estate boom of the last 10 years was not created by low unemployment or low interest rates. The strongest driving factor was 110% financing, no doc/no income and asset check loans, along with Wall Street's famous CDOs collateralized debt obligation that our buddies at Moody's and Fitch rate AAA. With this new formula in place, everyone was credit worthy, even if you had no job, a 500 credit score. and a bankruptcy, you can buy a home you can't afford with no money down. The first Collateralized Debt Obligation (CDO) was issued in 1987 by bankers at the now defunct Drexel Burnham Lambert Inc. for Imperial Savings Association; a savings institution that later became insolvent and was taken over by the Resolution Trust Corporation on June 22, 1990.

A decade later, CDOs emerged as the fastest growing sector of the asset-backed synthetic securities market. This growth reflected the increasing appeal of CDOs for a growing number of asset managers and investors, which now include insurance companies, mutual fund companies, unit trusts, investment trusts, commercial banks, investment banks, pension fund managers, private banking organizations, other CDOs, and structured investment vehicles. CDOs offered returns that were sometimes 2-3 percentage points higher than corporate bonds with the same credit rating. A major factor in the growth of CDOs was the 2001 introduction by David X. Li of Gaussian Copula Models, which allowed for the rapid pricing of CDOs.

This was a complex math formula that, in the end, was equivalent to the cartoon coyote strapping the Acme rocket to his ass to catch the road runner when he went by. We all know how

that ended. This skewed formula is what enabled our boom this decade.

In late 2005, the research firm Celent estimated the size of the global CDO market at USD 1.5 trillion and projected that the market would grow to nearly USD 2 trillion by the end of 2006. It did, and then it died.

The future of the real estate market over the next 25 year will follow some parallels from the 1989 crash. Let's take a ride back to the future. The 1980s. The story of a home purchase in Richmond county NY. In 1987, we had a stock market crash. Real estate gets even hotter (sound familiar after the dot.com burst of 2000. Loosely regulated savings and loans fuel the credit markets. Interest rates in 1988 were 10.3% and unemployment was 5.4%

In October 1988, a young man in his 20s buys new home for \$410,000 — five years earlier that same home would have sold for 300,000. He put 20% down and did a no income check five-year adjustable rate mortgage starting at 6.4% with a cap of 14.7% from the Dime Savings Bank of New York (yes, they did have stated income and no income check products back then). You did need good credit and a real 20% skin in the game equity deposit to get these loans. This is the future of home loans again; banks will be going back to old-school underwriting standards.

In 1989 and 1990, the savings and loan crises hit. Banks failed for a variety of reasons, mostly for making risky commercial loans and buying junk bonds on Wall Street and financing them. A recession hits. We have a 300 billion dollar bank bail out; small by today's bail out standards. Congress tightens bank regulations to increase loan loss reserve requirements for all banks. Banks have to increase cash before they can lend. We have a credit crunch until 1996. Banks start to lend heavy after 6 years of increasing reserves.

In 1992, the man tries to sell the

house he purchased in 1988. He was offered 325,000, a 22% loss in 4 years. He did not sell it. In 1999, he sold the house for \$410,000, exactly what he paid for it in 1988 before closing costs. The point here... It took 11 years to get his money back.

In 2005, his old house sold for 800,000. Today, it's worth about 650,000. See what I am getting at? If you purchased a home at peek prices in the last 5 years, you have a good 10 to 20 years to get your money back. Depending on location and how much you overpaid. There are small pockets in each county that will have home values in super-prime locations snap back fast and hold strong, but that is a very small segment.

When the banks failed, the government setup the RTC Resolution Trust Corporation to liquidate all the bank-owned commercial and residential properties that foreclosed. A lot of people with cash got some great deals. That dumping further depressed prices in the early and late 1990s. We have a lot more defaults today volume-wise than we did back then. And bad banks too!

WHAT IS GOING TO MAKE OR BREAK THE HOUSING MARKET NOW AND CREATE A REBOUND IN THE FUTURE IS INTEREST RATES.

For interest rate not to be a driving force, one of three things have to happen.

1. Real-estate values must retreat to 1999 levels. That's not impossible, but unlikely.
2. Incomes must increase 200%. That's not happening.
3. CDOs must become hot again. Not anytime soon. When they do, they'll do so under a new name, in a new wrapper.

So all that leaves us with is interest

rates and price to drive the market. Real estate values have out-paced wage increases to the point home ownership is not obtainable without a 5 to 7% interest rate. Some 25 years ago, homes were affordable at an 8 to 10% interest rates. Can rates get that high again? Yes they can.

HAVE WE HIT BOTTOM YET?

Get ready for further volume and price declines if interest rates break 7%. In 1998, the annual tax rate in the city of New York for a \$450,000 home was \$3,800. Today, that same home re-tax bill is \$6,200. In some areas, real estate taxes are as much as 15% of peoples gross income. For the market to improve, real estate taxes have to come down also. Will prices go lower in 2010? Yes they will. At least 8 to 15%, depending on the area.

THREE REASONS WHY

We've seen recent price stabilization because of low mortgage interest rates and the impact of the first-time home buyers tax credit, but there are good reasons to think prices and volume will now start going down additionally. There are three main reasons for the reversal: a flood of foreclosures on the horizon, rising interest rates, and the eventual end of the tax credits.

The huge number of foreclosures that remain in the pipeline is the big problem — shortcomings of the government-led mortgage modification programs. Trial workouts are not being made permanent, and completed modifications are re-defaulting at high rates. The worst-hit markets will be the ones suffering from the most foreclosures, places like Arizona, California, Florida and Nevada. Resetting option ARMs (Adjustable Rate Mortgages) will also aggravate the foreclosure problem. For many of the more than 350,000 option-ARM borrowers, their loans will change into fully-amortizing mortgages that will carry much higher monthly payments. As a result, a large percentage of these homeowners will default, We've still only seen the tip of the foreclosure iceberg. People are deliberately walking away from even fixed-rate mortgages as the value of their homes dip well below the amount they owe.

Also affecting prices will be higher interest rates. Some analysts think rates for a 30-year mortgage will pass 6% next year, as the government curtails housing market support. The Federal Reserve has helped keep rates low through purchases of mortgage-backed securities. But that program is winding down and will end in March.

THE END OF THE TAX CREDIT

As a tool for supporting housing markets and prices, the tax credit for home buyers is a double-edged sword. It reduces taxes dollar-for-dollar by up to \$8,000 for new home buyers and \$6,500 for buyers who already own a home and should support home prices. But it ends at the end of April. Many buyers will push their deals forward to get in before the deadline, but then the demand for homes could sink as a result.

HISTORY REPEATS ITSELF

Sometime between 2025 and 2030, some Wall Street banker and political lobbyist is going to invent and allow a reverse mortgage. Starting at age 20, you put 10 to 20% down on the house and the bank pays the rest. Wall street packages these homes up in 20/30/40/50/60/70/80/90/100 year maturities, based on the age you buy the house and calls them GENWRAPS, Generational Wealth Real Estate Apreating Perpetual Security.

The stock holder can't lose, as they get 20% equity right off the bat. AIG insures the life of the homeowner — no medical exam, pre-existing conditions OK — for 200% of the value of the home should the homeowner die or the bank be forced to take the house back for any reason.

Purchases From 100k and Up

Price Range	Totals 2009	100-200k	200-500k	500k-1m	1-2m	2-5m	5-10m	10-30m	30-50m	5-100m	100-500m	500m+	Highest Sale
New York	8,987	200	1,836	3,267	2,000	1,234	310	111	16	5	6	2	\$1,760,000,000
Bronx	2,564	536	1,385	479	76	70	12	6	-	-	-	-	\$20,000,000
Queens	12,574	2,043	6,486	3,678	242	80	23	20	1	1	-	-	\$78,961,000
Kings	8,782	789	3,864	3,400	487	173	42	20	2	2	-	-	\$9,275,000
Richmond	2,853	285	1,989	543	21	9	5	-	-	1	-	-	\$83,500,000
Nassau	6,579	179	3,925	1,985	385	89	11	4	1	-	-	-	\$30,200,000
Suffolk	8,889	1,235	5,710	1,475	278	144	37	9	1	-	-	-	\$32,600,000
Westchester	2,803	86	1,118	1,147	311	122	11	6	-	1	1	-	\$322,500,000
Totals Units	54,031	5,353	26,313	15,977	3,800	1,921	451	176	21	10	7	2	\$2,337,036,000

WHERE DO WE GO FROM HERE?

Looking for hope in catchy headlines from CNN Money, "Will Bonuses Save the Day for Manhattan Real Estate?" New home sale up 2% is not going to save the next two decades for the real estate professional. It might save a quarter or two, but

unfortunately, that's it.

This above 2009 purchase snap shot of the top 8 counties in the state account for half the volume out of 62 counties.

It's clear how much business there is to go around and in what price range that volume is in. Tight, to say the least.

We are so full that the trunk slammers and carpet baggers must get out of the game now.

TIME TO REINVENT YOURSELF

If you're in your 30s, you got your law degree, real estate licenses, and underwriting agreement in the boom years. That was your main bread and butter. Now, you have a good 20 year wait to ride another mortgage and real-estate title wave. From this day on for the next quarter century, it's going to be hard work to build your business and make your fortune. The easy ride is over.

If you're an attorney, what's hot now are bankruptcies, loan workouts, foreclosures, and defense debt collection. You don't get paid at the table, but it will keep you busy. For the real estate agents, they have rentals and REO management. The mortgage banker falls back to hard money FHA and purchase money mortgages, as refis every two years on the same house are gone. For the Title Agents, bigger is not better. You have it the hardest. The guys over 40 years old are going to be OK, but the young bucks are going to have the hardest time adjusting. Underwriters that spent big money on direct operations during the last 10

years may very well push it back to the agents. That can mean a boost to agency revenue.

The most important thing that you can do is to make use of the tools that are available to network yourself. Networking takes on many forms, but affiliations with successful companies such as Title Guarantee, Inc. of Long Island, New York is a good start. They have a "Gold Standard Attorney" Program, where they give you a free listing on their web site for your legal practice, giving you access to consumers who are looking for clients on the web. In addition to this, their program allows you to connect with other industry professionals who may be in need of your services. Check out their web site at www.titleguarantee.com, call them at 877-TITLES-I, or email their director or marketing, jgavrity@titleguarantee.com.

Many challenges face the real estate industry in the upcoming years. New leaders and affiliations will emerge. Stay connected as well as informed, and work your business. Your survival depends on it.

— by James D. Gavrity, President, Title Guarantee Inc.

**TITLE GUARANTEE INC.
1900 Hempstead Turnpike, Suite 304
East Meadow, New York 11554
516-222-2444**

**TITLE GUARANTEE INC.
100 Church Street
8th Floor
New York NY 10007
212-361-9131**

**1-877-TITLES-I
FAX: 646-607-5988**

TITLEGUARANTEE.COM