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## **What factors influence value in real estate? Not just supply and demand or credit**

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It is too simplistic to say that supply and demand impact the value of real estate. What are the factors that are affecting supply and demand. There is no greater factor than financing. Since our economy is not a "cash only" one, the availability of credit influences all purchases, especially real estate.

Many, many loan programs that were available, even up until a short time ago, are disappearing every week. So, even buyers with great credit scores are being denied financing unless they can completely document sufficient income to pay the loan. Buyers with documented income but less than perfect credit are also being told no. Finally, even if the buyer qualifies, the property they want to buy may not. Many of the bank owned properties need at least some repair. Some have been winterized. These properties are all being sold as is. Most can not be financed through a mortgage company. The availability of financing was once the primary stimulant of the real estate market. Requirements got so lax that the saying was that "if you were breathing" you could qualify for a mortgage. Obviously that was extreme. But the availability of financing has now gone to the other extreme. Now a loan can be denied for the most irrational reasons I have seen in my career, which is now 23 years.

I have performed appraisals on many bank owned properties. The reason the banks are suffering such great losses from foreclosures is because of their own policies. Appraisers or real estate brokers are hired to price the properties, who are not even from the area or have inadequate experience. Often the properties are priced way too high which results in them sitting there. Often the brokers have never even been to the property. The information in MLS, therefore is incorrect. Some of the properties have never been properly secured and are vandalized.

On the other hand, I have also seen properties priced way too low which caused a flood of investors to bid on the properties. The paperwork involved in the bid can be difficult. Purchase and Sale agreements must be signed on the spot with no changes. Inspections are not allowed except for informational purposes. Investors are told to make their highest and best offer so there are no counter offers. The lenders often take forever to get back to the broker with answers. The dynamics of the purchase do not reflect the typical market or result in market value. So part of the losses the lenders are experiencing are caused by their own rules in how these properties are handled and purchased.

In some areas, there are so many bank owned sales that those sales become the comparables for

non bank owned properties, especially if those properties need work and also will have issues with financing. Both the buyer and the property have to make it through the financing process. Therefore, a pre-approval letter has less weight than ever. The loan you were pre-approved for, may disappear during the purchase. The letter also has no bearing on whether the property itself will pass muster. The more atypical the property is, the tougher it is to get approved. Because of all this foolishness, there continues to be a lot of fraud in the process. Appraisers are pressured to lie about the condition of the property which is more of a problem than the value. Also, if the appraiser shows that the market is declining, even slightly, it can kill the loan. So because the lenders then don't trust the appraisers, they have their own list going of what counties have overall declining values. It would be great if lenders would only hire the most qualified appraisers who then did an honest appraisal. And in return, the lenders could lend on the value and lighten up on the amount of repairs the properties need. If more construction financing were available and some of the income verification requirements were less stringent, you would see an increase in demand and way less losses for the lenders who are stuck with all these properties. Extremes in anything will cause problems and the lack of financing right now is causing havoc in the market.

A secondary concern is the weak economy (partly caused by the real estate market). The increase in the price of gas, utilities and now food is "eating up" a bigger portion of the weekly paycheck and leaves a lot less for a mortgage payment. I pray that our government does something to get all these factors under control because the problem has reached an extreme. Whoever becomes president better remember one thing. "It's all about the economy".

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