

We wanted to take this opportunity to use our website as a Real Estate/Economic tutorial. We were the first local real estate company to offer a website and now we are the first to offer such commentary. Some of it is factual and some is opinion. Both will be clearly defined. This information is not readily available to most people and some may not understand information provided to them. We will try to break it down as simply and briefly as possible.

We are not claiming to be economists, but we have a good handle on the economy and how it affects the real estate market. I, Sean Fitzgerald, have a B.S. in Marketing from Niagara University, four years experience on Wall Street with Morgan Stanley, The New York Mercantile Exchange and a private trading firm. I have five years real estate sales experience and two as a licensed real estate appraisers apprentice. Couple these together and I have been an active student of the markets for 10 years. Again, I am not claiming to be an expert, but I can say with confidence, that I understand the basics of the economy and the affect it has on us.

Let's start off with three economic conditions:

**Recession:** Defined as two consecutive quarters of declining GDP.

**Inflation:** The rate at which the price/cost of goods and services increases.

**Stagflation:** When economic growth slows, unemployment rises and the cost of goods and services is increasing.

Economic components:

**GDP:** Gross Domestic Product. The broadest measure of economic activity. It encompasses all sectors of the economy.

**CPI:** Measure of inflation. Measures costs of goods and services.

**PPI:** Measures prices at the producer level.

We are in the middle of very unique times. Crude oil is trading over \$100 per barrel, Gold is closing in on \$1,000 an ounce and the U.S. dollar is trading at all time lows against the Euro and yearly lows against the Japanese Yen. These are all inflationary. These levels of Crude will likely push the cost of gas towards \$4.00 per gallon this summer. Gold and oil are trading this high because investors are moving towards safer, hard assets due to the dollar's weakness. What does this mean for us? For one, it will hurt our pockets at the gas pump. We will be hurt again with "gas surcharges" imposed by every industry from the airlines to pizza delivery. Corn prices have also risen due to the demand for ethanol production. So, farmers have to pay more to feed their cattle, hogs, chickens, etc. Most of the livestock in our great country feed on corn and grains. In another inflationary move, these costs get passed down to the consumer at the supermarket and when we eat out at restaurants.

Consumer spending is slowing in the retail sector as well. Target reported that 4<sup>th</sup> quarter profit was down 8.1% from the same period one year ago. Target Chairman and CEO, Bob Ulrich stated "As we enter 2008, it seems likely that we will continue to face a challenging economic climate at least through the first half of the year". Home Depot posted its first drop in annual sales in its **30 year** history and said 2008 will be worse. Has anyone been in a Home Depot or Lowe's lately? Try going in on a Saturday. One year ago, the places were mobbed. Now it's like a library. The slowdown is even reaching the internet. Consumer clicks on Google ads, the internet's leading search engine, are down in January versus a year ago, according to Score, Inc. Finally, General Motors announced last week that it plans to implement a 20-factory production slowdown due to lackluster car and truck sales. This move will affect upwards of 30,000 employees.

Due to the “mortgage meltdown” as some have called it, major banks have been hit hard. The financial industry has had to writedown upwards of \$100 billion in losses due to their lending practices and shaky investments. Citigroup has announced 20,000 layoffs, Bank of America, the country’s second largest bank, announced 3,000 job losses. All told, the financial industry eliminated over 150,000 jobs last year, according to Challenger, Gray and Christmas, a corporate placement firm based in Chicago. Countrywide Financial, the largest mortgage lender in the country, announced it was filing bankruptcy in the fourth quarter of last year.

According to RealtyTrac, Inc., bank foreclosures of homes were up 90 % to 45,327 last month versus the same period a year ago, as homeowners failed to make payments on higher adjustable mortgage payments. Approximately \$460 billion in adjustable rate mortgages (ARMS) are due to reset this year, according to Citigroup. Here is a prime example of this increasing problem. Two years ago homeowners were able to purchase homes, which they could barely afford, with no money down via an adjustable rate mortgage, say at 4.25% for two years. Now, they have to refinance. Now, their rate will jump to approximately 6.25%. This two-point jump can cost them upwards of \$500 per month in their mortgage payment plus closing costs. If they were just getting by two years ago, how are they going to make it now? What if they work for one of the above mentioned companies and get laid off? This reality is growing and yes, it is even affecting Rockaway.

Towards the end of January, the Federal Reserve, the monetary authority of the U.S., cut the Federal Funds Rate by a total of 125 “basis points”, which is the equivalent of 1.25%. This is the overnight lending rate that banks charge to lend money overnight to other banks. This rate affects everything from the rate credit cards charge users, to mortgage rates. First, on January 21, at an emergency meeting, the Fed cut the rate by 75 basis points, or .75%. Nine days later at their regular meeting, they cut the rate another 50 basis points, or .50%. This was an unprecedented move! Yet, I have read that some real estate brokers, think this was a sign of bullishness. They believe that this move would make money cheap (mortgages) and were doing it to spur real estate purchases. I see it another way. The Fed knows that we are in an economic mess and they are doing anything within their power to stop the ship from sinking. By the way, the Fed’s economic forecast for 2008: Little or no growth. I predict another rate cut in the coming weeks.

Nine years ago, I listened to a market commentary by Morgan Stanley’s Chief U.S. Economist, Richard Berner. In so many words, he stated that the economy is like a 125,000 ton ocean freighter. It cannot turn on a dime and cannot make a 180-degree turn quickly. He is absolutely correct with that analogy. We are witnessing this phenomena today. The economy is cyclical. We have been in a great economic period for the last five plus years. Now, due to the above-mentioned reasons, we are cooling off and will continue to do so for the foreseeable future.

Now, more than ever, it is important to hire a broker who knows what they are talking about. Hopefully I have convinced you that **We Are That Broker**. Home valuations are contracting and if you would like your home to sell expeditiously, choosing a realistic price point is crucial. The days of picking an arbitrary number out of the sky and getting that number are long gone. Am I doom and gloom? No. I am a realist. You must take a number of things into consideration when formulating your sales price. Of course the New York market is still strong. We will always be one of the stronger markets in the country, but valuations are weakening....that is the key...**VALUATION**.

In closing, we have been calling for this slowdown since the Fall of 2006. Finally, the newspapers and news media are talking about the slowdown and the dreaded "R" word (recession). We were way ahead of the curve and our clients benefited from our resources. I was only able to scratch the surface here in this article. The economy is a lot more complex. I will be adding commentary on the site in the future. We hope it was helpful. Feel free to give us a call so that you can benefit from our advice and expertise.

Sean Fitzgerald

As you are reading this, and are wondering why your house has not sold over the past six months, please feel free to give us a call. We would be happy to provide a market analysis of your home. Let us go to work for you.

