

## Real Estate News

### Real Estate's "Wealth Effect" Insulates Against Recession

November 16, 2001 -- Realty Times Feature Article by Broderick Perkins

The home-based "wealth effect" has earned millions of home owners thousands of dollars that are likely to see them well through the recession -- and perhaps ease the recessions' impact on the nation.

Washington, D.C.-based National Association of Realtors Home Wealth Effect Survey released during the association's recent convention in Chicago says the typical homeowner now has \$50,000 in home equity -- \$100,000 for households earning more than \$75,000. Baby boomers, aged 50 or older, have still more money on the house -- \$80,000. In some California and New England areas, home-earned equity is still more -- three, four times as much and higher.

While most home owners use that equity to move up to a larger home or buy a second home, according to NAR, others bank it, use it to invest and to pay off debts, but all of it amounts to kind of consumer spending that helps keep the economy churning.

As much as two thirds of the gross domestic product -- a measure of all the goods and services produced in the United States -- is due to consumer spending, according to the U.S. Department of Commerce.

NAR says the buildup of home equity provides Americans with a financial cushion they might not otherwise have to help brace them against economic downturn. Stock market investments have not

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## Natural Facts

Donn Bree, Ph.D.

*Motivation (part 2)*

*(CONTINUED FROM THE PREVIOUS ISSUE)*

In the field of psychology, theories of motivation are typically developed in consideration of two perspectives: 1) motivation is genetically predisposed (nature); 2) motivation is derived from experience (nurture). Yet another perspective emerges when genetics and experience come together: creativity. It is creativity that allows us to adapt to continual change during one's life.

When assessing one's motivation, it may appear that a given individual is more responsive to experience than genetically predisposed, or vice versa. In fact, any such determination or generalization made about motivation is solely for the purpose of analysis. Personalities are much too complex to be accurately and comprehensively described and understood by contemporary knowledge. I believe the best approach to understanding motivation involves developing control of one's daily activities.

I understand motivation as a state of being wherein one knows what to do next. Motivation, in my estimation, is derived from how one goes about living -- one's lifestyle. As such, I believe that any attempt to cultivate sustainable motivation necessitates consideration of the entire context of one's life. For example, efforts to inspire someone to stop smoking without interrupting or altering other habitual behavior linked to smoking (friends, the place where one enjoys smoking, stress, etc.) will most likely not succeed.

Assessing motivation for the purpose of directing actions toward achieving personal goals can be thought of as part of a 7-step process:

**OBSERVATION:** this initial step requires concentration. Selecting a time during the day when

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fares nearly as well in since 2000.

"Homeowners use their home equity to get cash for emergencies as well as the purchase of big-ticket items," said NAR's chief economist Dr. David Lereah.

Also, during the last recession, home owners didn't have the added financial benefit of tax-free income of up to \$500,000 on the sale of their home.

"The capital gains people realize from the sale of their home are a significant source of down payment funds for most repeat buyers, but they are used for other purposes as well," Lereah added.

Parsippany, NJ-based Coldwell Banker says even without those tax benefits, 30 years of economic history reveals home ownership is a good financial insulator against a cool economy.

The OPEC oil embargo in October 1973, high unemployment and inflation in the late 1970s, sustained recession in 1982 and 1983, and a widespread drop in stock market values in October of 1987 all illustrate how real estate weathers economic storms.

In November 1973, the Dow dropped approximately 14 percent from the previous month and did not regain the pre-crash level until January 1976, but new home sales nearly doubled from the seasonal lows of December 1973 (300,000 homes) to seasonal highs in May 1974 (580,000 homes).

The last sustained downturn (three consecutive years) in annual new home sales occurred from 1980 to 1982, during the highest rates of unemployment in recent history -- between September 1982 and June 1983 when unemployment hovered above 10 percent. The unemployment rate did not fall below 8 percent until February 1984.

Yet, during this sustained period of high unemployment, new home sales actually increased 51 percent year over year, from 412,000 new homes sold in 1982 to 623,000 in 1983, Coldwell reported.

"Residential real estate was bound to ease off the pace from earlier this year. As the equity markets stabilize and interest rates remain low, we don't expect a significant long term reduction in home sales," said Alex Perriello, Coldwell's president and CEO.

Housing likely will remain a stable investment and inject the economy with financial support also because of demand caused by the increased population -- 30 million in the last 10 years. The influx of immigrants, looking for first homes and the well-off baby-boom generation moving up and buying second homes continue to play a part, Coldwell says, and record low mortgage rates help support the demand.

Sept. 11's terrorist attacks on America could stem the tide of immigrants somewhat and consumer confidence has begun to take a toll, but the effect of housing on the economy should remain constant.

"There are contradictory influences and pressures on the real estate market, which make it difficult to speculate on short-term performance, but the underlying long-term value is still there," Perriello said.

## Food Facts

Cookin' with Jan

### Shrimp & Sweep Potato Cakes

- Approx. 4 oz. shrimp-cut up
- 1/2 cup shredded sweet potato
- 2 green onions-chopped
- 1 tbsp. lemon or lime juice
- Several drops of hot sauce-to taste
- 1 egg-slightly beaten
- 1/4 cup chopped tomato
- 1 tbsp. chopped cilantro
- 2 tbsp. cornmeal
- 2 tbsp. Parmesan cheese
- Salt & pepper, to taste

Mix all ingredients and form into patties. Let "rest" on a paper towel to absorb excess moisture. Heat 1 tbsp. butter with some olive oil in a frying pan. Place patties in hot oil. Cook approx. 1-2 minutes on each side until golden brown. Drain. I make a sauce of mayo, lime juice, chopped scallions, salt and pepper. Enjoy!

## Single Shots



### **FEATURED HOME**

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## Home Values Continue To Outperform The Economy

Excerpt -- *Realty Times* Feature Article by Kenneth R. Harney

Freddie Mac's third quarter housing appreciation study, based on refinancing and sale transactions in a giant 14.8 million sample of American homes, represents the first national statistical confirmation that the cool-down in property values has begun. But Freddie Mac's principal economist, Amy Cutts, considers the 6.6 percent appreciation rate "huge" in the face of the decline in the GDP during the same quarter. The latest data do not reflect market changes in the wake of the September 11 terrorist attacks. The refinancing and home sales transactions covered by Freddie Mac's survey were closed or contracted for during July, August and September, too early to register any aftershock impacts on home values.

In an interview with *Realty Times*, Cutts said she expects a drop in the rate of appreciation during the current quarter, down to an average 2 to 3 percent annualized gain in value. That will still represent a strong performance for housing, however, since most economists are forecasting a decline in the GDP by 1 to 2 percent. Cutts believes the 2 to 3 percent national appreciation rate will continue for at least six months, but that some formerly hot local markets -- such as San Francisco, San Jose and other parts of California - will experience net housing value declines during the same period.

But even in the face of a recession, Cutts predicts that the average American home will continue to grow in value, albeit at a slower rate than during the last five years. The key reasons for housing's ability to outperform the rest of the economy? Interest rates and federal tax policies. As long as mortgage interest rates remain near their 30-year lows of the present -- and there is nothing in sight that would push them up -- consumers can continue to support rising home prices, even in a recession, according to Cutts.

Similarly, a home purchase continues to be the most tax-favored investment Americans can make, bar none. With essentially zero capital gains taxation for most sellers, plus deductions for mortgage interest and local property taxes, "there is a psychology of wealth" connected with housing expenditures unlike any other asset, says Cutts. Absent changes to those key supports, home values should continue to outperform the economy as a whole.

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distractions can be avoided is highly recommended, if not imperative. This step involves reflecting on your daily activities and thoughts. I find it very helpful to use a large piece of art paper to write down information, as I become aware of it. Again, daily activities and brief phrases describing your thoughts is the type of information noted on the art paper.

**REPETITION:** once you feel that you have noted all of your significant daily activities and thoughts, identify the activities and thoughts that are repetitive. For example, if you think about money periodically through the day, write it down. If you watch television on a regular basis, write it down. The more specific you are about the things you do and the thoughts you think, the easier it will be to make changes to the routines and habits that you choose to change.

**THEMES:** once you have identified repetitive thoughts and behaviors, cluster together those that are similar. This can be accomplished by making lists, or when using art paper, graphically representing similar thoughts and behaviors using any method that makes sense to you. The objective of this step is to cluster thoughts and behaviors that you perceive as sharing something in common. For example, watching television and taking long walks could both be thought of as recreational activities.

**CONTEXT:** placing themes into the context of the social and cultural influences operating in your daily life makes them easier to work with. I manage themes in my life using seven socio-cultural influences: spirituality; health; intellectual growth; relationships; recreation; environment; and livelihood. I associate each theme with one of these influences. Ultimately, the focus of each day for me is working towards mastering these influences through my daily activities.

**GOALS:** with respect to each influence working in your life, formulate a personal goal. For instance, you might desire to run a marathon as the goal for your health.

**DAILY ACTIVITY PLAN:** daily planning is the act of breaking down your goals into small manageable chunks. Three steps are involved: 1) identify the task (i.e. running, in anticipation of a marathon performance); 2) define specifically how you will accomplish the task (i.e. your training program); and 3) establish a routine (i.e. when you will train). Your

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ability to establish a routine is clearly the key to success. Eliminate all distractions until your routine is habitual.

**ADAPTATION TO SITUATIONS:** your life is constantly changing. You must periodically revisit the previous steps in this process to make adjustments to the changes that are occurring in your life. It is very important to set aside time when you can cycle through the entire process without distractions when the need arises. I assure you, it will become easier with each cycle. ❖

**Factoids**

**Deadly Floods**

- 1) **1970 Bay of Bengal;** 250,000 fatalities from storm surge.
- 2) **1883 Krakatau;** 36,000 fatalities from tsunami.
- 3) **1900 Galveston, Texas;** 7,200 fatalities from storm surge.
- 4) **1889 Johnstown, New York;** 2,100 fatalities from dam failure.
- 5) **1913 Ohio River;** 467 fatalities from river flood.
- 6) **1974 Big Thompson Canyon, Colorado;** 150 fatalities from flash flood.

\* Source: **Weather Facts;** Dorling Kindersley, New York.

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