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## **THE "REAL" REAL ESTATE SITUATION**

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Ask any American who was born after D Day and they will presume that available and adequately priced shelter is theirs for the asking. Just like most Americans have come to expect fresh water, cheap food, and available petroleum; most have come to expect an affordably priced and equitably situated place called "home". While a nation with our resources and entrepreneurial talent has been able to supply these facilities, unfortunately, the nation's overall housing market is not completely segregated from the nation's overall financial marketplace. While it is true that the National Housing Act of 1930 along with many subsequent acts, and organizations created by the national legislative authorities have sought to both foster and insulate housing from the overall financial marketplaces, such separation is not limitless. No matter how many special authorities, administrative agencies, or segregated financial institutions are created, in order to supply adequate shelter, the financial instrumentation utilized in the housing market is still an integral part of the overall financial marketplace.

In reflecting upon our national supply of housing and the laws of economics, especially those associated with increasing costs, housing has become a more expensive component of household budgets over the past several decades. These increases, both in real and nominal terms, reflect a wide variety of influential forces including increasing prices for raw materials, increasing costs of infrastructure and utilities, increased ancillary costs of ownership, including real estate taxes, insurance, and associated fees. When adding these increased costs to the increased technological costs associated with shelter, including smart wiring, extensive cable, more complex electronic components, and increased complex machinery; it is clearly no wonder that the costs associated with single family shelter have placed an enlarged burden on many household budgets. Adding to the fact that suburban and ex-urban sprawl have continued to proliferate thereby increasing transportation costs in most households, the true combined costs of housing have in many times been beyond the reach of the average American household.

To counteract the above forces for both political and social economic reasons, two major forces have come into focus over the last generation. First, is the increasing reliance on cooperative and condominium housing. Here, a significant number of households are able to enjoy a large number of amenities they would be unable to afford if these amenities were constructed solely for their own usage. Items such as swimming pools, tennis courts, workout facilities, party rooms, and other auxiliary amenities normally reserved for the wealthy of Newport Beach or Palm Beach are now sought and enjoyed by a significant number of modest wage earners.

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In addition to fostering the development and usage of jointly owned facilities based on construction economics that can be built in a "high rise" mode, and constructed in areas in close proximity to employment centers; condominiums usually seek to limit excessive expenditures for dual income household transportation. A semi-luxury mid or high rise condominium constructed near the outskirts of a major developed metropolitan area can offer significantly increased lifestyle rewards as opposed to each of the condominium owners having a single family residence ten (10) miles further into suburbia.

Along with, and in conjunction with the development of condominium housing, it has been the desire of national authorities to contain mortgage rates for most moderate income households. The containment of these rates requires that the medium / long term interest rate levels be contained and / or new types of financing are constantly devised to potentially shift unaffordable housing into the realms of middle class affordability. While these goals are economically admirable, the desires of the housing market do not operate in a vacuum. If housing was the only major economic concern or variable in the overall financial marketplace, then a wide variety of special functioning financial instruments, when combined with proper tax incentives, could shelter and segregate the housing market from the overall national financial marketplace. Since this is not possible, individuals of authority must act responsibly in regards to the other major components and segments of the overall marketplace including national expenditures, Social Security allocations, and our balance of international payments.

Unfortunately, for a significant number of individuals who earnestly seek to provide the best possible shelter for themselves and their families, the often incorrect economics to achieve political goals can have broad sweeping and negative influences. When a significant sector of the commodities market increases, namely petroleum and heating products to the average household, the affordability index for the ownership of residential dwellings changes; namely, it declines as potential owners have fewer dollars available to fulfill their shelter requirements. If this change was just a minor disruption in a long established trend, then it is more than equitable to dismiss this disruption and continue funding shelter along established lines. However, with significant increases in petroleum, insurance, and local taxes, those in a position of authority must act in regard to the economy as a whole and not a segmented sliver of society. In examining the economy as a whole, the pronounced and sustained expenditure of funds well in excess of collected revenues cannot be maintained. Significantly operating deficits that need to be funded via purchases of overseas third parties cannot be cast aside in favor of low interest rates to continually support a housing market not founded on financial fundamentals for political objectives.

When one combines a significant deficit in our balance of trade, the situation usually grows and at a negative exponential rate. Here, additional dollars flow into non-American hands adding pressure to decrease the value of the United States dollar. By combining low interest rates to foster a favorable affordability index with ongoing negative operating budgets, a potentially disastrous health care and retirement system, along with sustained purchases from abroad, a formula for financial trouble is assured. Those who purchased real estate in order to enhance their own financial futures and that of their households could be labeled "innocent bystanders" in a world awash in continuing declining dollars. The instruments created to hide the fact that our

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nation was operating under the guise of political economics as opposed to prudent economics could not shield the real estate market from bearing its burden of the brunt forever.

In order to foster the growth and stability of our nation, as well as having appropriately-supported equity markets, capital markets, financial markets, and real estate markets; the excesses under which we have operated since the 1980's will either have to be brought under control by the officials and / or citizens of the nation or others outside of our control who are less and less dependent upon our "policing authority" will foster change upon us. At the present time, our ability to control our own destiny is not lost. However, as we continue to sink into a vast canyon of debt, purchase required petroleum resources from third parties with devalued dollars and watch idly by as heretofore undeveloped nations become valuable points of world focus, along with Europe seeking to jointly foster combined national growth, it is only a matter of time until we are unable to control our own destiny. The recent significant infusion of funds from overseas under the umbrella of sovereign investment funds will over time, cause a significant loss of financial control to American independence. Assets significantly controlled by third parties whose economic, financial and political goals do not always correspond with those of the American electorate will surely lose value in the international stream of business and commerce, with real estate being no exception.

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