

**Presentation To**  
**Joint Economic**  
**Development Committee**  
**State of Georgia**



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# Introduction

This document is intended to provide insight and information about the housing crisis in Georgia. In this document, you will find sections that include:


1. **Background On Dan Forsman**
2. **The Root Causes Of The Housing Crisis**
3. **An Overview Of Several Foreclosure Scenarios**
4. **The Impact To Residential Real Estate**
5. **An Update On The Georgia Real Estate Market**
6. **Recommendations For Federal & State Solutions**
7. **Closing Summary**
8. **Frequently Asked Questions**

The facts tell us that **“It Is A Great Time To Buy In Georgia!”** However, that is not happening! We will describe the reasons and recommend solutions to fix this crisis. Please understand that **TIME IS CRITICAL**. The real estate, home builder and banking industries need your help fast. For Georgia, **the spring and early summer market drives the majority of volume and cash flow for these companies**. If we do not act quickly, many companies will simply not survive!



## Disclaimers:

These observations and recommendations represent the opinions of Dan Forsman and his staff. We do not formally represent the real estate industry in Georgia.

The information contained in this document includes facts and figures from a variety of sources including First Multiple Listing Service (FMLS), Trendgraphix, Case-Shiller Index, First American Corelogic, OFHEO, Atlanta Journal Constitution, The Atlanta Business Chronicle, NAR and other sources. Some statewide numbers were based upon extrapolations for metro Atlanta data. Metro Atlanta represents slightly over 50% of real estate sales and resources for the state of Georgia. The information is deemed reliable but not warranted. © 2002-2008, An independently owned and operated member of The Prudential Real Estate Affiliates, Inc.  Prudential is a service mark of The Prudential Insurance Company of America. Equal Housing Opportunity. Equal Opportunity Employer.

# Background On Dan Forsman

## President, CEO and Owner Prudential Georgia Realty

Under Dan's leadership, Prudential Georgia Realty has become one of the strongest real estate companies in metro Atlanta. For the past 18 months, Prudential Georgia Realty has consistently outperformed the market in unit sales, sales volume and listing marketshare growth. **Dan is a true entrepreneur and a real live American success story.** Starting as a shrimp boat captain on the coast of Georgia, Dan worked his way through college. He received his accounting degree from the University of Georgia. His career began as an auditor which explains his attention to the details of owning a successful business. Dan transitioned from accounting to the real estate business with Merrill Lynch Realty on Roswell Road. Merrill Lynch eventually became Prudential Georgia Realty. Forsman previously held positions as EVP, CFO and COO before his installation as President in 1986. Since then, he has grown the company to 24 offices with more than 1,300 agents, making Prudential Georgia Realty one of the largest and fastest growing real estate firms in the nation.



Forsman is widely recognized by his peers in the real estate and business community for his leadership and innovation. He says that the secret to his success is listening carefully to the needs of his agents and delivering solutions that help them achieve their business and personal goals. Dan was the inventor of TeamBuilder™ and DreamBuilder™. These programs were so successful that Prudential is now rolling them out across their entire real estate network.

Prudential Georgia Realty recently launched the new **Advanced Property Marketing System** - developed specifically for the current market conditions. This unique system was designed from extensive buyer feedback plus the latest innovations in technology and "best practices" in marketing and consulting. It is simply the most effective property marketing solution available today.

Prudential Real Estate is ranked "Highest in Satisfaction for Home Sellers Among National Full Service Real Estate Firms," in J.D. Power and Associates' 2008 Home Buyer/Seller Study<sup>SM</sup>. Visit [www.jdpower.com](http://www.jdpower.com) for additional details.



Prudential Georgia Realty was also awarded a 2008 Consumer's Choice Award for Executive Home Sales. This is the 5th year in a row that consumers have voted to recognize our company and associates for delivering exceptional value and service.

Although he is quick to give the credit to his agents and employees, Dan has been awarded many personal honors. Some of his many awards include:

- National Advisory Council of Prudential Real Estate Affiliates
- Trulia National Advisory Council
- Realtor.com National Advisory Council
- First Multiple Listing Service Director
- Dan was awarded “Broker of the Year” which is the highest honor available from Prudential Real Estate Affiliates.
- In 2003, Forsman served as president of the Atlanta Board of Realtors, one of the largest boards in the Southeast.
- Dan was named "Realtor of the Year" by the 7,000 member Atlanta Board of REALTORS.
- The coveted President’s Award, the Captain of Industry Award and Five-Star Circle of Service Award from the Atlanta Board of Realtors
- “Top 40 Businessmen Under the Age of 40” Gordon Brown Excellence Award for referrals and relocation
- Prudential Gibraltar Circle Award every year since 1992.
- Realty Alliance Member

Dan has been a headline speaker at many events including the Employee Relocation Council, the Metro Atlanta Relocation Council, the RIS Media's CEO Conference, the Inman Real Estate Connect, Georgia Association of Mortgage Brokers, Mortgage Bankers Association of Georgia and many other events. He has also been featured recently on 11Alive, Fox5 News and numerous local radio stations. Dan has become well-known for his series of video market reports [www.AtlantaRealEstate2008.com](http://www.AtlantaRealEstate2008.com).

Forsman is committed to the company’s core values - To deliver service that exceeds expectations between each other and our customers, with an exemplary “We Care” spirit. Forsman and Prudential Georgia Realty associates believe in giving back to the communities they serve, supporting many worthwhile initiatives such as [Habitat for Humanity](#), [March of Dimes](#) and [The Sunshine Kids](#), an organization that helps children with cancer.

Dan Forsman lives what he believes... “Climb the ladder of success, take your family with you and enjoy the ride!” He is married with four children, and enjoys his active home life in the northern suburbs of Atlanta.

# The Root Causes Of The Housing Crisis:

- **Fannie & Freddie** – Good intentions of promoting the American Dream of home ownership led to unintended consequences. We simply allowed people to buy too many homes when they could not really afford them. And we ignored the warnings!
- **Mortgage Lenders** – We allowed people to buy homes with little or no income or credit verifications. The compensation structure incented only mortgage origination – not long-term profit of the loan.
- **Builders & Developers** – Overbuilding in many markets led to an oversupply of inventory. Some builders did not perform sufficient market analysis. It just got too easy.
- **Banks** – Many banks (especially some local community banks) gave construction loans without proper due diligence on their business plans or asset guarantees. Now larger banks or the Feds are having to take them over.
- **Wall Street Greed** – Wall Street was packaging mortgage-back securities and selling them for transaction fees or as investments where they received a management fee regardless of profit.
- **Housing Price Bubbles** – Parts of Nevada, California, Arizona plus most of Florida saw big run-ups in home prices. These were fueled by many investors as opposed to actual homeowners planning to live in the property. Those markets are correcting.
- **Negative Population Trends** – Parts of some states such as Michigan, Indiana and Ohio have populations moving in the wrong direction. Their home values and sales reflect this negative trend.
- **Outdated Accounting Rules** – Our accounting rules did not consider the current events. Rules like “mark to market” now force banks to raise immediate capital assets even though the cash flow of mortgage-backed securities is spread out over many years. This has forced the fed to take over or provide capital to the banks.

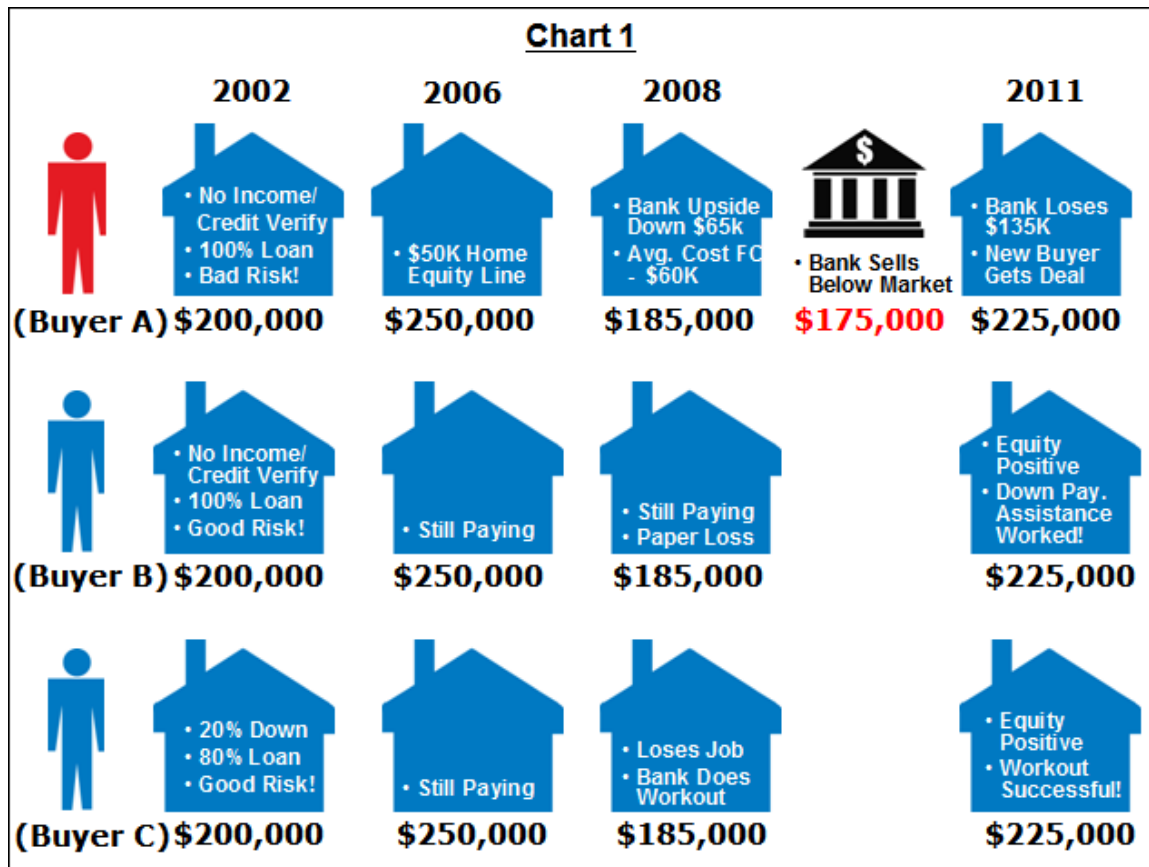


Even new rules like the proposed QFC (Qualified Financial Contracts) from the FDIC may have unintended consequences. This requires financial institutions to produce the fine details of their contracts. Sounds reasonable on the surface but it will cost banks millions and will force banks into default.

- **Accurate Information & Reports** – One of the biggest problems for everyone is that we do not know the real scope of these problems and do not have the ability to reasonably forecast the true value of all the mortgage-backed securities, construction loans and real needs for capital. The enormous size of these problems and the fast-changing nature will not allow the information technology or even the auditors to catch up as fast as needed. It will take years to unravel the mess.
- **Laws Of Supply and Demand** – The good news is that this is not that hard to fix! Remember basic economics - all markets go through cycles driven by supply and demand. Too much supply has caused home values to drop. This has gone beyond a correction to a downward spiral. Regardless of how or why we got here, we simply have too much supply and too little demand. To fix the problem, we need to stimulate demand and let the market work to rebalance supply and demand over time.

# An Overview Of Foreclosure Scenarios:

Georgia is consistently in the Top 10 for Foreclosures. We must address foreclosures to help slow down falling home values and stimulate our state economy.



- **Buyer A** – Buyer A should have never been allowed to purchase this home. In this scenario, downpayment assistance had serious flaws. This buyer was able to purchase a new home with 100% financing and no credit check or income verification. Worse yet, the buyer obtained a home equity line based upon the increasing value of the home. Then the bubble burst! The buyer could not afford the payments and the value of the home also dropped. The bank foreclosed and then had to sell below market to move this non-performing asset off their books. Fannie Mae reports that the average foreclosure costs \$60k to process.
- **Buyer B** – Buyer B is an example of how a downpayment assistance program can work. This buyer was actually qualified with income to afford the payments. They just needed assistance with their downpayment. There are many 1<sup>st</sup> Time Homebuyers, minorities, special needs and other qualified buyers that still need this assistance today. In this scenario, the buyer did not take out home equity loans or spend and borrow outside their means. Even though their home lost value on paper, the market will cycle back. They have achieved the American Dream of homeownership!
- **Buyer C** – Buyer C is a common example today. They had a downpayment and income to afford the home they purchased. However, they lost a job. In this environment, their home cannot be sold quickly. The homeowner contacted the bank and agreed upon a workout for payments. The buyer got another job and was able to stay in their home and execute the workout. Without the workout, this would have become a foreclosure. The result – a win/ win for both the bank and the buyer!

## The Impact Of Residential Real Estate:

- The impact of the potential job loss, lower state & local tax revenues and the potential increased costs for unemployment support for the construction and real estate industry are staggering. The AJC recently reported that 1 out of every 5 jobs in metro Atlanta are related to the real estate & construction industry. Remember, Atlanta was second only to Houston in new home starts. Since the peak in 2006, new home permits are down 80%.
- **GAR (Georgia Association of Realtors) Membership** - As of October 30, 2008, the GAR membership count is 43,030. This is a decrease of 9.7% percent from October 30, 2007. GAR predicts an approximate 10 percent decrease per year over the next two years. We believe those predictions are low and expect to see a reduction of more than 20% per year. Over half of GAR membership resides in Metro Atlanta.

We see many agents getting 2<sup>nd</sup> jobs and simply trying to hang on to their license. Many have stopped investing to keep their skills current which will increase the incidences of consumer problems and issues for the boards and the real estate commission. Real estate transactions can be very complicated and our state will not be well-served by a significant wave of our very experienced agents leaving the business. Buyers and sellers will need to ask harder questions about the expertise and value provided by their agent and brokerage. I guess that is an advantage for companies like Prudential but it is not healthy for the industry overall.

Please understand that the real estate community is hurting badly. There are countless horror stories of agents losing their homes to foreclosure or having to declare bankruptcy. Many brokerages are closing their doors or merging with other brokerages trying to survive. **The toughest months are the fall and winter. That is why we need your help – NOW. By spring, you will see a major fallout of brokerages and agents that cannot survive the winter months.**

- **Other Industries Affected** - Every real estate agent in Georgia is supported by 15 to 20 service providers. The average real estate agent spends over \$10,000 per year on technology, marketing and other services. Using GARs recent number, we lost 4781 agents which account for over \$47 million is lost revenue to these providers. We must also consider that many agents are cutting back and dropping service. If we assume that 50% of agents are eliminating 50% of their costs, that amounts to over \$215 million. **The combined impact at the agent level alone exceeds \$250 million.**

These providers include real estate websites, print advertising, graphic designers, photographers, videographers, real estate marketing providers, training providers, office technology providers like computers/ copiers/ printers, telecom companies, internet providers, sign companies, staging companies, office supplies, mortgage providers, title & closing attorneys, home warranty companies and more.

These are small businesses and large businesses that have a substantial presence here in Georgia. And, of course, this impacts tax revenues for state and local government.



- **Real Estate Brokers** - Brokers have done everything possible to lower their costs. We have gone past the easy cuts and are now into the painful cuts. Brokers have

renegotiated agreements with suppliers – some several times. Brokers have laid off employees, reduced salaries, eliminated bonuses and had to put money back in our businesses. Brokers have consolidated locations everywhere possible. Many locations have long-term lease commitments so they are being marketed for sublease – adding to the growing inventory of commercial office space. Fortunately, we are one of the lucky ones. We have the financial backing of Prudential to help us weather this storm and continue delivering superior consumer value. Even with that help, it is not easy for us. Prudential is very prudent with their money and challenges us to be “business smart” in this economic environment.

FMLS reports that 77 companies have left membership in metro Atlanta. We estimate that 110 brokerages have gone out of business across Georgia in the past year. Since most were smaller, **we estimate their impact to be approximately \$50 million.** The big number is associated with cost reductions from the approximately 4000 brokerages left in Georgia. For the remaining brokerages, **we estimate that that expense reductions (staff cuts, salary reductions and suppliers) produce an impact of over \$200 million.**

- **Lost Revenue** – Both agents and brokerages have significant lost revenue as a result of the housing crisis. For purposes of this estimation, let’s assume that 2006 through 2008 are anomaly years. In 2005, Georgia produced \$37 billion in residential real estate sales. The estimates for 2008 appear to be in the \$25 billion range. That is \$12 billion in lost sales. If we assume an average of 3% gross commission income, that translates to **\$360 million in lost revenue!**
- **Lack of Action** – If we are not successful in our efforts to create compelling incentives that get buyers back in the game, we estimate that over 50% of the Georgia real estate companies will not survive to see 2010. The impact could be disastrous. The following summary shows estimated yearly revenues for Georgia residential real estate (does not include condo):

<u>Year</u>	<u>Sales Volume</u>	<u>GCI</u>
2002	\$20 Billion	\$600 Million
2003	\$26 Billion	\$780 Million
2004	\$31 Billion	\$930 Million
2005	\$37 Billion	\$1.1 Billion
2006	\$41 Billion	\$1.23 Billion
2007	\$35 Billion	\$1.05 Billion
2008	\$25 Billion	\$750 Million

GCI (Gross Commission Income) is the commission revenue that is earned by the brokerage and the agent. **If 50% of the real estate brokerages fail, the impact would be \$375 million based upon 2008 estimates GCI volumes. The estimated impact to suppliers (2000 brokerages and 21,515 agents) is another \$200 million.**

- **The total impact to Georgia in lost revenues to real estate agents, brokers and suppliers is approximately \$860 million. If we do not act quickly, the additional impact is estimated at \$575 million. That does not include lost tax revenues!**

# The Georgia Real Estate Market

Smart Numbers reports that residential real estate closings in metro Atlanta have seen year-to-year % declines for 23 of the last 26 months. This is no better in other parts of the state. We are hurting in the mountains, the coast, west Georgia and south Georgia.

- FMLS reports that November sales volume was down 36.4% from November 2007 and down 43% from last month. (See Chart #2)
- The average sales price for November dropped 19.8% from November 2007 and 20.5% from the 2006 average. The trend shows a steady decline for 5 months in a row. Every month in 2008 was lower than the same month in 2007. (See Chart #2)

Chart #2							
FMLS Four Year Review as of November, 2008							
Cumulative Sales Volume							
	2005	2006	% of Change	2007	% of Change	2008	% of Change
January	4,279	6,364	48.7%	6,661	4.7%	4,439	-33.4%
February	4,060	4,810	18.5%	5,101	6.0%	3,587	-29.7%
March	6,184	7,223	16.8%	6,649	-7.9%	4,705	-29.2%
April	6,492	7,024	8.2%	6,571	-6.4%	5,387	-18.0%
May	6,818	8,292	21.6%	7,152	-13.7%	5,232	-26.8%
June	8,237	8,949	8.6%	7,563	-15.5%	5,695	-24.7%
July	7,969	9,046	13.5%	7,262	-19.7%	5,762	-20.7%
August	8,196	8,594	4.9%	7,276	-15.3%	5,106	-29.8%
September	7,332	7,298	-0.5%	4,648	-36.3%	5,098	9.7%
October	6,505	6,895	6.0%	5,480	-20.5%	5,260	-4.0%
November	6,085	5,714	-6.1%	4,749	-16.9%	3,022	-36.4%
December	6,402	5,403	-15.6%	3,938	-27.1%	-	-
<b>YTD November</b>	<b>72,157</b>	<b>80,209</b>	<b>11.2%</b>	<b>69,112</b>	<b>-13.8%</b>	<b>53,293</b>	<b>-22.9%</b>
Average Sales Price - Residential							
	2005	2006	% of Change	2007	% of Change	2008	% of Change
January	235,658	251,223	6.6%	256,388	2.1%	244,949	-4.5%
February	240,109	239,027	-0.5%	252,464	5.6%	236,095	-6.5%
March	239,139	251,524	5.2%	256,324	1.9%	239,393	-6.6%
April	256,310	259,198	1.1%	269,153	3.8%	233,266	-13.3%
May	254,936	259,461	1.8%	266,796	2.8%	244,102	-8.5%
June	260,630	274,433	5.3%	288,077	5.0%	249,370	-13.4%
July	266,648	276,561	3.7%	279,112	0.9%	245,742	-12.0%
August	264,118	266,903	1.1%	278,341	4.3%	238,143	-14.4%
September	254,225	261,814	3.0%	258,639	-1.2%	222,504	-14.0%
October	256,957	248,771	-3.2%	251,816	1.2%	210,058	-16.6%
November	249,718	257,712	3.2%	256,657	-0.4%	205,759	-19.8%
December	258,298	253,918	-1.7%	255,107	0.5%	-	-
<b>YTD November</b>	<b>252,586</b>	<b>258,784</b>	<b>2.5%</b>	<b>264,888</b>	<b>2.4%</b>	<b>233,580</b>	<b>-11.8%</b>

- The Case-Shiller Index which tracks average home values (versus average home sales) shows a decline in average home value for metro Atlanta of 9.47% (comparing 9/2008 to 9/2007). This index shows that homes purchased in 2005 or later all show lower average values. This index is different from average sales since those numbers only reflect what was actually sold. As you can see from Chart #3, there is a definite pattern of sliding values outside the spring months where we see the majority of our sales in Georgia. Other indexes including those published by NAR, First American LoanPerformance and OFHEO (Office of Federal Housing Enterprise Oversight) all show Georgia home values declining. **We must slow the continuing slide of average home values or risk an even greater impact for Georgia.** (See Chart #3)

## Chart #3

# Case-Shiller Home Price Index

Month/ Year	Atlanta - GA Index	Change in Index +/-	% Change
January 2006	130.59		
February 2006	130.61	0.02	0.02%
March 2006	130.62	0.01	0.01%
April 2006	131.51	0.89	0.68%
May 2006	132.72	1.21	0.91%
June 2006	134.01	1.29	0.96%
July 2006	134.90	0.89	0.66%
August 2006	135.27	0.37	0.27%
September 2006	135.10	-0.17	-0.13%
October 2006	134.73	-0.37	-0.27%
November 2006	134.18	-0.55	-0.41%
December 2006	134.01	-0.17	-0.13%
January 2007	133.45	-0.56	-0.42%
February 2007	133.30	-0.15	-0.11%
March 2007	133.22	-0.08	-0.06%
April 2007	134.27	1.05	0.78%
May 2007	135.03	0.76	0.56%
June 2007	136.11	1.08	0.79%
July 2007	136.47	0.36	0.26%
August 2007	136.44	-0.03	-0.02%
September 2007	135.55	-0.89	-0.66%
October 2007	133.86	-1.69	-1.26%
November 2007	131.34	-2.52	-1.92%
December 2007	129.61	-1.73	-1.33%
January 2008	127.76	-1.85	-1.45%
February 2008	125.98	-1.78	-1.41%
March 2008	124.46	-1.52	-1.22%
April 2008	123.62	-0.84	-0.68%
May 2008	124.29	0.67	0.54%
June 2008	124.61	0.32	0.26%
July 2008	124.74	0.13	0.10%
August 2008	124.33	-0.41	-0.33%
September 2008	122.72	-1.61	-1.31%

	Avg. Index	Change in Index +/-	YTY % Change
1991	69.86		
1992	70.74	0.88	1.26%
1993	72.88	2.14	3.03%
1994	76.28	3.39	4.66%
1995	79.14	2.87	3.76%
1996	82.17	3.03	3.82%
1997	85.32	3.15	3.83%
1998	90.26	4.94	5.79%
1999	96.60	6.35	7.03%
2000	103.78	7.18	7.43%
2001	109.40	5.62	5.42%
2002	113.54	4.14	3.78%
2003	117.18	3.64	3.21%
2004	121.45	4.27	3.64%
2005	127.67	6.22	5.12%
2006	133.19	5.52	4.32%
2007	134.05	0.87	0.65%
2008	124.72	-9.33	-6.96%

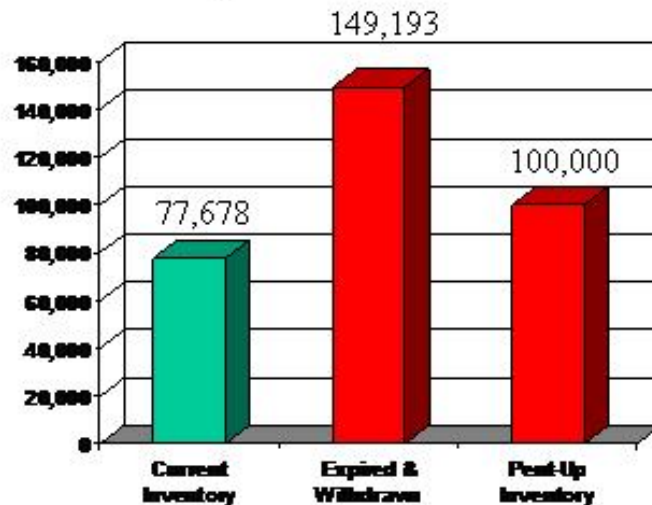
## Based Upon Case-Shiller Index

Appreciation 1991 - 2007	91.90%
Appreciation 1996 - 2006	62.09%
Drop Since Sept 2007	-9.47%
Home Value - Bought in 2003	+6.44%
Home Value - Bought in 2004	+2.70
Home Value - Bought in 2005	-2.31%
Home Value - Bought in 2006	-6.36%
Home Value - Bought in 2007	-6.96%

These Values Are Based Upon The September 2008 C-S Index As Reported On November 24, 2008.

- **Inventory of Properties** - FMLS reports that metro Atlanta has 77,678 active listings at the end of October. There were 149,193 expired and withdrawn listings. This signals the frustration of many sellers that are taking their homes off the market. Our agents also report a significant amount of “pent-up listing demand” in addition to these expired and withdrawn numbers. We estimate that there are at least 100,000 homeowners in metro Atlanta that would like to sell their homes but are waiting for the market to improve. This is important to understand when we start estimating the rebalancing of supply and demand.

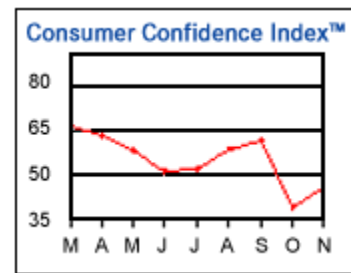
## Inventory – Metro Atlanta



**We Estimate It Will Take 2 Years To Absorb Inventory.**

Information Provided By First Multiple Listing Service.

- **Consumer Confidence** – Consumer confidence has plunged in 2008. Some of this can be attributed to the sensational headlines from our media and the election cycle. The November 2008 Consumer Confidence Index (The Conference Board) was at 44.9 as published on November 25, 2008. This was slightly up from the low of 38.8 in October reflecting a temporary bounce from the elections. We expect the index to show continued weakness unless there is a significant and compelling stimulus program.



- **Other Problem Areas:** There are several areas of real estate where big problems are brewing. These include the following:
  - ✓ **Construction Foreclosures** – Construction loan foreclosures are just starting in Georgia. Other speakers will be addressing this topic. Our builders need a lifeline from the banks to be able to survive. Nobody wins if we have massive construction loan foreclosures that end up as bank-owned properties.
  - ✓ **Intown Condominiums** – There is a significant oversupply of intown condos. Other speakers here will address these numbers in detail. That said, some exceptional properties will stand out in the market and be winners.
  - ✓ **Buckhead Commercial Real Estate** – A recent AJC article stated that Atlanta absorbs 500,000 square feet of office space per year and we have 2 million new square feet under construction. This is a predictable problem.

- ✓ **Lake Lanier & Lake Hartwell** – Our lakes have no water! The impact to real estate has been disasterous. We all know that this is caused by a combination of sharing our water and our needs for generating power.
  - ✓ **2<sup>nd</sup> Homes** – Our mountain and coastal property sales have slowed to a crawl. The new mortgage rules require larger downpayments and the rates are higher.
  - ✓ **Investment Properties** – The new mortgage rules limit an investor to 4 properties with any single bank. In total, they may own 10-12 properties depending upon certain guidelines. The mortgage rates are also higher. There are many investors that see the opportunity to purchase properties in Georgia but are limited by these new rules.
  - ✓ **Seniors That Need To Downsize** - Many Seniors want to downsize to smaller homes with less maintenance. There are plenty of these homes available but seniors feel “trapped” in their current homes due to declining homes values. The “psychology of loss” is far more powerful than the “opportunity for future gain.” Many Seniors could end up in foreclosure or their homes in disrepair as they age. This is a preventable problem.
- **The Window of Opportunity Is Officially Open!**  
 – There is no question that it is a great time to buy real estate in Georgia.
- ✓ **The selection of great properties available is unprecedented!**
  - ✓ **Prices are at or near the bottom!**
  - ✓ **Mortgage rates are historically low!**
  - ✓ **Sellers are motivated!**



## However, many buyers are still frozen on the sidelines!

We need your help with compelling incentives that motivate them to action. We are not here today asking for a handout or a bailout. As a businessman, I understand that there is nothing free in life. All our proposals today will pay for themselves. We need your support to enact them and then let the market work.

Depending upon your perspective, this is either .....



## Federal & State Solutions:

Lawrence Yun, Chief Economist at the National Association of Realtors (NAR), estimates that each 1% decline in mortgage rates could generate between 500,000 and 800,000 home sales. Any proposed stimulus should apply across the board to resales, new homes and all forms of foreclosures.

- **Federal Mortgage Stimulus** – This should include 4.5% interest rate buy-down. There should be impending events with dates such as 6/30/2009. Conforming loan limits should also be raised to \$1 million. The recent Fed announcement to purchase \$600 billion in mortgage-backed securities is a step in the right direction. This has driven mortgage rates lower and helped free up more general credit – but we need a more compelling real estate solution with impending events. The minimum rate to be effective is 4.5%. **This is our top priority!**
- **Federal Tax Credit** – The Fed should create a real tax credit of 5% of the purchase price (not to exceed \$7500) to be applied toward federal taxes. This credit should have an impending event such as 6/30/09. The current 1<sup>st</sup> Time Buyer loan proves that the “loan method” does not work.
- **New Georgia Home Tax Credit** - If the Fed does their job and people start buying homes, the next question is – will they buy them in Georgia? We are competing with other states. Our State solution should include a tax credit equal to 5% of the purchase price (not to exceed \$7500). This tax credit is intended to offset 1<sup>st</sup> year property taxes. This credit should be available across the board to all home purchases. It will pay for itself in new tax revenue beginning in year 2.
- **New Georgia Utility Incentives** – Georgia has the best utility companies in the nation. Utility companies should create special incentives for new companies and new residents. For example, they may offer a 50% discounted service for new residents and 1<sup>st</sup> time homebuyers for the 1<sup>st</sup> year. This credit could be targeted to buyers moving from other states and 1<sup>st</sup> time homebuyers so it drives new residents with net new revenue. Of course, this has to be approved by the state regulatory agencies. This will pay for itself with incremental new revenue.

Speaking of utilities, we have seen many local municipalities **requiring the new owners of a foreclosed property to pay the outstanding payments of the prior owner before they can receive new utility service.** Other liens have been removed after auction. We ask that the legislature create new rules that prohibit this practice. This “surprise fee” has caused harm to many uniformed buyers or Realtors and their brokers that end up eating the cost.

- **New Federal & State Down Payment Assistance Programs** – There are current proposals for the Fed to create a new program for conforming loans. We urge the State of Georgia to create a similar program. This is simply the right thing to do! The past problems were created from no verification of income or credit.
- **New Georgia Marketing Campaign** – We need an organized effort to promote our state, our new housing incentives and attract new employers for our residents. We have to move consumer sentiment to a more positive position. The program should highlight the fact that – **“It is a great time to buy in Georgia.”** We were successful with Operation Legacy for the 1996 Olympic Games and we can do it again!
- **State Tax Credit For Seniors** - Many Seniors (50+) need to downsize to smaller homes with less maintenance. We also want to attract new Senior residents from other states. We propose an additional 5% tax credit (up to \$7500) to be applied against the 2nd year of state taxes. This is intended to offset property taxes. Combined with the general Georgia Home Tax Credit, this allows Seniors to offset

property taxes for the first two years. This proposal could help Georgia compete effectively against Florida and the Carolinas for retirees. This proposal will pay for itself in incremental tax revenues generated in year 3 and beyond.

- **New Federal Guidelines for Investors/ 2<sup>nd</sup> Homes** – The Fed should relax FHA rules and loans backed by Freddie and Fannie to allow buyers to purchase investment properties and 2<sup>nd</sup> homes. Mortgage rates should be more attractive, there should be fewer limitations of the number of properties and the timeframe to re-sell.
- **State Healthcare For Independent Contractors** – We would encourage the State of Georgia to allow independent contractors such as real estate agents to be able to purchase “group insurance” from state plans. This helps with affordability and eliminates problems with *pre-existing conditions*. Many agents are one major health problem away from foreclosure or bankruptcy.

<b>Summary Of Recommended Programs</b>		
<b>Type of Program</b>	<b>Federal</b>	<b>State of Georgia</b>
<b>Mortgage Incentive</b>	4.5% mortgage rates (minimum) if purchased by 6/30/09. Raise conforming loans - \$1 mil.	
<b>Tax Credit</b>	5% of purchase price (up to \$7500) if home purchased by 6/30/2009. To be applied against federal taxes in year 1.	5% of purchase price (up to \$7500) if home purchased by 6/30/2009. To be applied against state taxes in year 1.
<b>Utility Incentive</b> (New residents & 1 <sup>st</sup> time homebuyers)		50% discount on 1 <sup>st</sup> year utilities. Only applies to new residents from other states and 1 <sup>st</sup> time homebuyers.
<b>Senior Tax Credit</b>		5% of purchase price (up to \$7500) if home purchased by 6/30/2009. To be applied against state taxes in year 2.
<b>Downpayment Assistance</b>	New Federal funds to support 10% down payments for conforming loans.	New state funds to support 10% down payments for conforming loans.
<b>New Marketing Campaign</b>		It's A Great Time To Buy Campaign. Similar to Operation Legacy for the 1996 Olympics. Let's Roll Out The Red Carpet!
<b>Relief For Lakes</b>		We must solve our water problems for Lake Lanier, Hartwell Lake and others.
<b>Investor and 2<sup>nd</sup> Home Rules</b>	Relax FHA rules and mortgage premiums from Fannie and Freddie for purchasing 2 <sup>nd</sup> homes/ investment properties.	
<b>Healthcare For Independent Contractors</b>		Allow real estate agents to participate in state of Georgia group plans

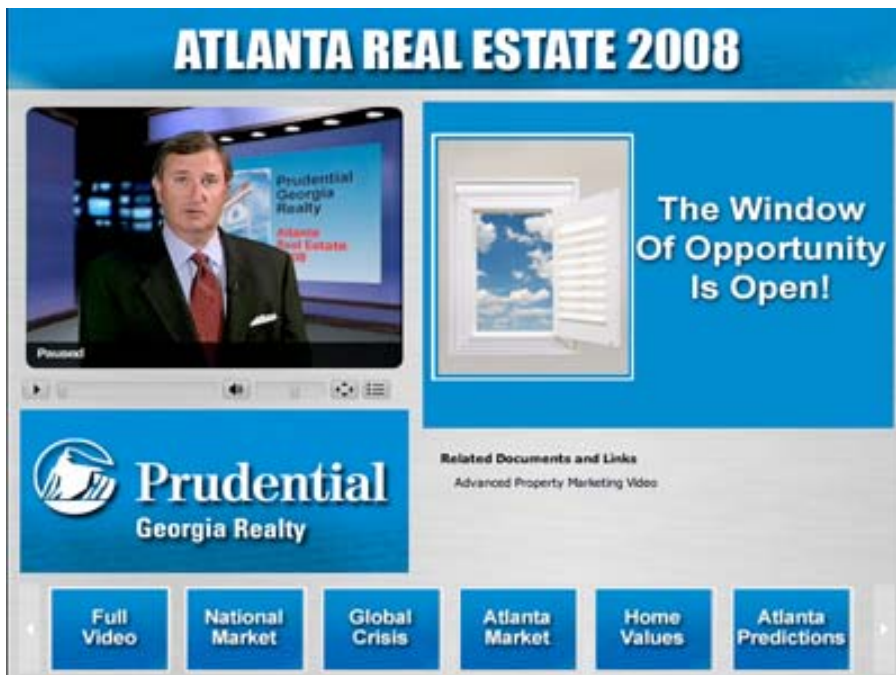
## Closing Summary:

I want to thank you for your time and attention to these important matters. I am here as an experienced Realtor® and a business owner that is right in the middle of the housing crisis. I hope that I have provided you with facts and insight that helps you see the real picture. I have also provided specific solutions that I believe will address the root causes of our housing problems and get Georgia moving in the right direction. Please understand, I am not asking for a bailout. Our government cannot be expected to bail out everybody. I am here asking for legislative solutions that will pay for themselves. Together, we can create the framework and then let the market work.

It is critical to remember that time is not our friend. We must act quickly - every day and every week counts. **The spring market is just around the corner.** Please begin the process of proposing and passing the legislation that is needed. If you need further information or assistance, we are ready to help –day or night.

There is no doubt that “It is a great time to buy real estate in Georgia.” The facts support this case but buyers are still frozen on the sidelines. With your help, buyers will get motivated and we will begin the process of recovery. The only solution to our housing crisis is to get buyers back in the game and let the market work. Even with this help, it will take several years to work through our excess inventory and foreclosures. Let’s open the window of opportunity for all Georgians and those from other parts of the world that want to share our wonderful state.

Thank you for your time and attention. Now I will be happy to answer any questions.



The image is a screenshot of a video player interface. At the top, a blue banner reads "ATLANTA REAL ESTATE 2008". Below this, on the left, is a video frame showing a man in a suit and tie speaking. To his right is a graphic of an open window with the text "The Window Of Opportunity Is Open!". Below the video frame is the Prudential Georgia Realty logo. To the right of the logo is the text "Related Documents and Links" and "Advanced Property Marketing Video". At the bottom of the interface is a row of six blue buttons with white text: "Full Video", "National Market", "Global Crisis", "Atlanta Market", "Home Values", and "Atlanta Predictions".

# Frequently Asked Questions

**Question:** Why is the Georgia market so bad when we did not see the run-up in prices like Florida, California, Arizona or Nevada or the population problems like Michigan, Indiana or Ohio?

**Answer:** The Georgia market is one of the worst markets in the country right now. We have been impacted by several factors including:

- **Oversupply of New Homes** – Georgia has been a national leader in new home starts. When the buying levels dropped, we had significant inventory.
- **Too Many Foreclosures** – Georgia is a non-judicial foreclosure state and a consistent top 10 in monthly foreclosures.
- **General Oversupply Of Inventory** – Now we have a significant oversupply of all forms of inventory (resale, new homes and foreclosure).
- **Buyers From Other Markets Can't Sell Their Old Home** – Buyers moving to Georgia have homes they cannot sell in other markets. Therefore, they cannot buy homes here.
- **Downpayment Assistance** – A significant percentage of our buyers were enabled by downpayment assistance programs and low requirements for income verification. This has impacted both sales volumes and foreclosures.
- **The Downward Spiral** – When you have too much supply, prices drop and we see a downward spiral of home values. Consumer sentiment is affected. Buyers wait for a better deal. This leads to more oversupply of homes on the market. The only way to turn this around is to get buyers back in the game!

**Question:** How do sellers feel about this market?

**Answer:** Most sellers struggle with the reality that their home has lost value. There have been numerous surveys where sellers still think their home has increased in value when their market is clearly different. This is like going through the stages of grief. Psychologists have studied the fear of loss and determined that it is 2.5 times more powerful than the opportunity for gain. This is true with stocks and other purchases as well. The common trend is that sellers finally capitulate over a lengthy period of time and then sell their home below the market value. If they priced it to the market upfront and had an agent that did a great job of marketing, they would have sold faster and for more money.

For more information on what sellers should be doing in this market, please view [www.AdvancedPropertyMarketing.com](http://www.AdvancedPropertyMarketing.com).

**Question:** There are so many different reports on home values. What are we to believe?

**Answer:** We must remember that real estate is local and all markets are different. The indexes can only track macro numbers such as a metro area or state. Your Realtor<sup>®</sup> can tell you the numbers in your specific area. In general, home values are driven by the competition from new homes, foreclosures and other resales. Other factors may include mortgage rates (i.e. 2<sup>nd</sup> homes), area trends, population trends, job growth trends, economic trends and replacement cost trends.

**Question:** What will be the impact of the potential Federal program for 4.5 mortgage rates?

**Answer:** The critical factors are timing and the target market. This is already in the news. If we do not act quickly, it will freeze the market and buyers will wait! Since mortgage rates have dropped recently, we have seen a 40% increase in new mortgage applications and a 200% increase in refinancing. If the new program is too general, our system will get swamped with refinancing and miss the target of getting homes sales (new homes, resale or foreclosures) moving again.

**Question:** If the Federal program is structured properly, do we really need a state program?

**Answer:** As previously mention, Georgia is one of the worst markets in the country right now. Yes, we need extra help. All the proposals we have recommended have a way to pay for themselves over time. We must remember that we are competing for new residents with other states. If we want them to move to Georgia, we must act now. If we do not at quickly, the economic impact to Georgia could be devastating.

**Question:** What are the estimated costs for these programs?

**Answer:** The current closings run-rate for metro Atlanta is 3000 units per month. If we assume that metro Atlanta is just over half the state volume, we can estimate the current Georgia closings run-rate at around 6000 per month. The run-rate from a more normal year such as 2005 was double these numbers or 12,000 units per month. It will take a few months to build to that level again. The average sales price is slightly over \$200,000. We recommended a cap of \$7500 for the tax credit. Therefore, the new Georgia Home Tax Credit would cost around \$75 million per month or \$450 million for 2009 (10,000 units/ month x \$7500 x 6 months = 450 mil). This is much less than the current economic impact of \$860 million or the expected economic impact of an additional \$575 million if we do nothing! If another 30,000 seniors (5000 units/ month) purchased a home using the Georgia Home Tax Credit for Seniors, it would cost \$37.5 million per month or 225 million for the 6 month period (5000 units/ month x \$7500 x 6 months = 225 million). In total, we expect the costs for our proposals to be in the \$800 million range plus the contributions from the Utility industry. That is less than the predicted impact to Georgia of \$1.435 Billion. These costs also begin to pay for themselves in new tax revenue in the subsequent years.

**Question:** If we do these things you ask, how long will it take to get our real estate market back to normal?

**Answer:** We believe it will take approximately two years to work through the oversupply and return to normal.

**Question:** We have given billions to banks. Why are they not fixing the foreclosures problems?

**Answer:** Our banks are struggling to survive. The accounting rules like “mark to market,” plus growing non-performing assets and other problems such as credit cards and home equity lines put our banks in a precarious position with their balance sheets and cash flow. Our “bailouts” have simply given them the capital to stay in business. We have not properly addressed the solutions for more proactive workouts with potential consumer foreclosures or construction loans. These are good people but are struggling with their own bureaucracy and ability to change while trying to survive at the same time. That is why we recommend creating these buying incentives that allow the market to fix the problem.

**Question:** What is the impact of potential construction loan foreclosures?

**Answer:** This is a critical factor. Many of our builders will not survive until spring if we do not implement these incentives and the banks agree to workout plans. If this massive inventory hits the market as bank-owned property, it will continue to drive down home values. The builders need workout plans.

**Question:** What do builders and banks need to do to sell their properties?

**Answer:** They need a great marketing plan which we see lacking in the industry. It starts with overcoming the objection that every builder is going out of business. Any consumer today is going to ask that question. The banks and the builders need excellent marketing and PR plans or their sales efforts will be wasted. The banks do not understand how to market and sell new home communities. This is a whole different business from selling bank-owned properties. Even on resales, their REO (Real Estate Owned is a term banks use to describe their bank-owned properties) teams tend to be focused on processing documents but not very good at ensuring they have a winning marketing plan. This is why we created our new REO Division. We see the opportunity to help with a winning formula.

**Question:** Should we not do something to give consumers that are going to foreclose a lower rate? What are our options?

**Answer:** That is a viable solution for some. Remember, we simply have some homeowners that were never qualified to buy those homes in the first place. Some have a history of not being able to manage their finances and no workout is going to make it better. We just need to push them through the process and get those homes sold. For others, a lower interest rate could help. For yet others that might have lost a job, a lower rate will not work. They might need another form of workout that can be successful.

If we can get banks focused on the workouts before going to auction, we can slow foreclosures. To accomplish that, we will need to change some accounting rules. Today, a consumer that misses a single payment becomes a non-performing asset and the bank must begin taking reserves against that account. Banks also cannot build large staffs for workouts given their financial situations.

The other problem is that it takes an average of 6 months to get a property sold – even if it is marketed and priced right. The current timeframe to accomplish a short sale is not sufficient. Sellers just give up. We would like to see a framework that allowed consumers to raise their hand and say help. If they had 6 months to sell their property, it could also save the bank staff to deal with as many REO properties on the other side. Freddie Mac reports that the average cost to process a foreclosure is \$60,000. This “extended short sales” approach would dramatically lower to staffing needs and overall costs. We would also recommend a process where the banks agree to certain pricing standards based upon a recent appraisal. This eliminates the need to staff resources to review every deal. The key is to create simplified solutions that can be implemented quickly and do not require large staffs to administer.



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