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East St. Louis property owners being hammered by astronomical multipliers

By ALAN J. ORTBALS

East St. Louis property owners are getting whacked with huge property tax increases, thanks to a township multiplier that has gone up more than 50 percent over the past two years.

The assessed value of all properties in the township was raised by 28.87 percent in 2007 and by another 23.78 percent in 2008.

The system is "out of control," according to Don Johnson, president of CDC Development Corp. CDC has been developing residential real estate in East St. Louis for more than a decade and currently owns approximately 20 apartments and 30 houses in the community.

According to Anne Hutson, chief deputy, St. Clair County assessor, the multiplier comes from tracking the actual price of property sales compared to its assessed value. The multiplier that is applied to a particular township should reflect the median of sales in the township over the previous three years. Half of the sales exceeded the assessed

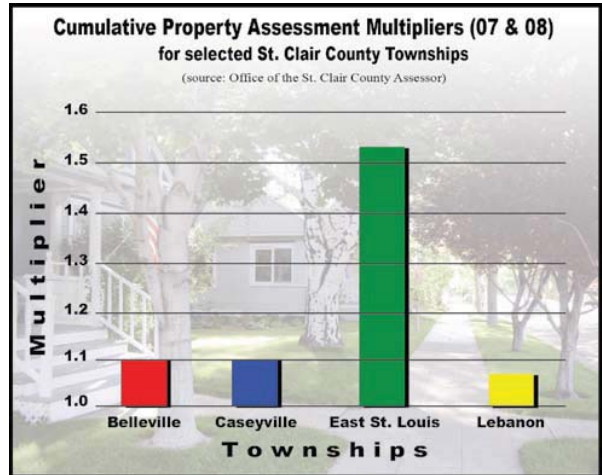
value by more than the multiplier and half were below. The goal, Hutson says, is to keep the assessed value at 33.3 percent of actual market value.

"East St. Louis' multiplier was obviously based on the sales," said Hutson. "The properties were undervalued, but we think what happened was that it was a lot of sales where the houses were in really, really poor condition and then they were rehabbed and resold...but the assessment never caught up with the rehab."

Hutson says that the last two multipliers included the year 2006. That year, she says, included a lot of properties that had undergone rehabilitation.

"A lot of the properties were bought really low, rehabbed and sold higher," Hutson said. "Then, yes, unfortunately, if the sales declaration sheet is not filled out correctly, the Department of Revenue puts it in the sales study."

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East St. Louis property assessments have been climbing much faster than those in other St. Clair County townships over the past two years, leading to huge tax increases.



photo courtesy of The Associated Press

The retail sector has been hit by measure of distressed assets - commercial property falling into foreclosure and remaining vacant. Case in point is the Circuit City chain; one of its 567 U.S. stores that closed late last year was in Fairview Heights.

Record number of commercial properties in distress regionally, nationally will increase thru 2011

By KERRY L. SMITH

Commercial real estate professionals say the cumulative total of distressed assets across the St. Louis metro region - commercial real estate in default, foreclosure or bankruptcy - is nearing the \$1 billion mark and the end is not yet in sight.

Since so many 3- to 5-year loans were made during boom times a short while back, now those loans are proving tough for many owners - hit by the recession - to make good on their payments, especially those whose occupations may have dipped in recent months.

According to the research analysis firm Real Capital Analytics, nationwide that

total is now more than \$108 billion.

A driving force behind commercial foreclosures locally and nationally, according to Tripp Hardin, senior vice president at CBRE, is the inability of property owners to refinance their properties due to stiffer credit markets. Commercial mortgage-backed securities are repackaged loans on hotel, retail, office and industrial properties.

According to Standard & Poor's, between \$15 billion and \$20 billion in CMBS loans are expected to mature nationwide in 2009 and could hit

■ See **DISTRESS**, page 17

New appraisal rules aim to put trust back into the residential mortgage market

By ALAN J. ORTBALS

New rules regarding residential appraisals are hampering home sales and having an adverse impact on the housing markets, according to the National Association of Realtors. The new regulation, called the Home Valuation Code of Conduct, went into effect May 1.

The NAR claims that 76 percent of realtors say it now takes more time to complete an appraisal. Thirty-seven percent say they have lost sales because

of it. More out-of-area appraisers who are unfamiliar with the local markets are being used. One-half of the NAR member appraisers say they are receiving lower fees at the same time that consumers are paying more for appraisals. And 85 percent of NAR member appraisers claim that the quality of the appraisals being done has declined.

"I think it's been like killing a fly with sledge hammer," said Al Suguitan,

president and chief operating officer of the Greater Gateway Association of Realtors. "Whether it's done any good or not, I think it's just confused a whole bunch of people who had good, solid working relationships."

The HVCC stems from an agreement between the attorney general of the state of New York and Fannie Mae and Freddie Mac, the two largest purchasers of residential mortgages on the secondary market.

"The impetus or the beginning of this (the HVCC) comes from the years of inflated appraisals," said Chris Scheer, senior loan officer with Cornerstone Mortgage Inc. "From probably 1998 all the way to 2006, you had appraisers that were being told that either the lender or the client thought that the house was worth X and mysteriously the appraisal would come in for exactly X. Over

■ See **APPRAISALS**, page 18



News from Around the Nation

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AP Business Writer

Effort to share Wisconsin, Minnesota resources hits snags

By SCOTT BAUER and
MARTIGA LOHN
Associated Press Writers -
August 22, 2009

MADISON, Wis. (AP) - As it turns out, mating gophers and badgers isn't so easy. Just ask the bureaucrats in Wisconsin and Minnesota, who are trying to find efficiencies and save money on everything from sharing amusement ride inspectors to buying ammunition and tires.

Nearly five months after Democratic Wisconsin Gov. Jim Doyle and Republican Minnesota Gov. Tim Pawlenty announced an ambitious plan to share some state contracts and operations, many of the ideas have been scrapped as unworkable, delayed or are still being worked out.

The governors originally put the one-time savings at \$10 million apiece, but Doyle's office estimated Wisconsin's savings to date at just \$74,313, mainly from a better price on software from a Minnesota contract and piggybacking on a Minnesota transportation study. In Minnesota, the savings are even more paltry: About \$21,822 in deferred tax collections, and \$5,000 in savings on sharing the cost of a radio ad about tree-killing bugs.

It's a disappointing start to what could be one of the biggest service-sharing experiments in the country. Plenty of states cooperate on things like sharing purchases or drawing businesses to border regions, and some towns and counties have tried to consolidate services to save cash. The Wisconsin-Minnesota effort goes much farther, said Chris Whatley, Washington director of the Council of State Governments, a trade

group for state governments.

"You'd be hard-pressed to find two other states in the country who are looking for as much of a collaboration as they are," he said.

It was Pawlenty who hatched the collaboration idea in January as both states were dealing with massive budget shortfalls. It was quickly dubbed "Minnesotacon," and Pawlenty joked that the state's mascots - the gopher and badger - would lie down together.

The AP requested updates from the state agencies and governors' offices in both states detailing the status of projects and how much money had been saved to date. That survey showed the states have agreed to join together in a number of ways, but haven't captured much cash.

Wisconsin joined Minnesota contracts for package delivery, software and institutional food. Minnesota joined Wisconsin's fleet fuel card program. They're working together to fight pests such as the emerald ash borer. Minnesota's tourism agency will air radio spots highlighting both sides of the border later this month. The neighbors will have adjoining booths at a biotechnology show in Chicago in May.

But not everything was so simple.

Take a plan to swap young walleye of different sizes to stock lakes for fishing. Minnesota has extra 4- to 8-inch fingerlings, while Wisconsin has infrastructure that Minnesota doesn't to produce frylings, which are a bit smaller.

When natural resources staff for both states met to work out details, they found lots of complications. Moving fish across the state border required an array of tests and documentation for health reasons,

such as testing for deadly viruses. It also required tedious paperwork for out-of-state trips to move the fish.

"It's just making sure we think of everything before we do it," said Neil Vanderbosch, Minnesota's fish program consultant. "You get right down to it and somebody will say, 'Hey, here's a statute that says you can't do it.'"

Some ideas were scrapped completely. Wisconsin forecasters won't predict the air quality for Twin Cities residents, because Minnesota uses a different system. Minnesota forecasts include the air quality index, a number on a scale of 0 to 300, while Wisconsin relies on a color-coded rating system that covers ranges of air quality readings. Yellow means "moderate;" orange, "unhealthy for sensitive groups;" red, "unhealthy."

Minnesota felt some people with health concerns might want to stay home under some conditions considered "moderate" on Wisconsin's scale. So, instead of working with Wisconsin, Minnesota renewed a consulting contract, and as much as \$30,000 in savings went by the boards.

"Right now Wisconsin is furloughing state employees," said Rick Strassman, supervisor of the air quality monitoring unit at the Minnesota Pollution Control Agency. "I just can't help but wonder if they'd had the time to do this if we had gone forward."

A plan to share some amusement ride inspections also fell apart. The thought was inspections of rides in eastern Minnesota wouldn't have to be repeated when the same rides cross to fairs in western Wisconsin. But Wisconsin inspects more parts of the ride than Minnesota does, so the inspection in Wisconsin would still have to be done,

said Zach Brandon, executive secretary of Wisconsin's Commerce Department.

"What we were looking for were areas where we were duplicating effort," Brandon said. "But because we inspect different things, there would be no savings for Wisconsin."

Spokesmen for both governors said the collaboration is just getting started.

"Every taxpayer dollar counts," said Doyle spokesman Lee Sensenbrenner. "The savings so far are real and they are just the beginning to more savings and better services for Wisconsin and Minnesota."

Brian McClung, a spokesman for Pawlenty, said the savings will be clearer by next summer after the states have worked together through a budget year. He said the hurdles were expected.

"There are a number of places where the two states take a different approach to the same issue, but that's why we're doing this," McClung said.

Cooperative efforts between states are difficult and unlikely because of the federalist system, said Dennis Dresang, a retired University of Wisconsin-Madison political science professor who is an expert on federalism. Each state is unique, and merging laws, programs and regulations is difficult.

Other examples where states do work together, like on interstate highway planning, usually don't happen naturally and are forced at the federal level and tied to obtaining federal grants, Dresang said.

"You just can't count on states cooperating," he said.

"The states are much more likely to be in a competitive situation than find any use for being cooperative."



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Cash flow, integrity of appraisal are key in commercial lending today, bankers agree

By **KERRY L. SMITH**

Businesses applying for loans specific to commercial real estate need to know that now - more than ever - lenders are going to be scrutinizing their cash flow and the integrity of the appraisal rather than just the applicant's financial statements.

Across the board, commercial lenders say that operational cash flow is what tells them the true story of whether a candidate is loan-worthy. While the balance sheet and income statement are still important, they say, in today's still-uncertain lending environment, cash flow is number one. Right up there, too, is an airtight appraisal.

"Traditional mortgage lending has been formula driven," said Dennis Terry, president and chief operating officer at First Clover Leaf Bank. "But in the past year the federal government has really stepped up enforcement of the fundamental ratios that banks use, such as loan-to-value and debt-to-income. On the commercial side, there's a lot more discretion because it's not governed by the same federal standards (Freddie and Fannie) and their oversight is not there."

Terry says even more crucial than loan-to-value is the cash flow of a particular business, when it comes to granting commercial credit. "I think that before, a lot of the banks were looking at the recent history of a commercial real estate transaction," he said. "The data led them to believe the value had gone up 3 percent a year, and they (lenders) assumed that would continue...the assumption used to be made that whatever the loan-to-value ratio was at that point, it would be better a year from then because the value would appreciate. That's no longer the case," he added.

When business bankers pull those assumptions out of the commercial

"Part of the problem with the appraisal is getting good comparables because there's just not the same amount of activity as there was in good times."

Daniel Brown

*Executive Vice President and Commercial Lender
Reliance Bank*

lending equation, it becomes necessary to focus more on cash flow and the integrity of the appraisal, according to Terry.

"If the cash flow is okay, the lender doesn't really have to be too concerned if the value of the property fluctuates over time," Terry said. "With ongoing ventures, something with history, lenders today are going to want - at a minimum - three years of cash flow or income statement information. As a lender, I want to be able to satisfy in my own mind that last year's cash flow wasn't an anomaly. Generally, if it's an ongoing business, that's easier to analyze."

In contrast, those individuals applying for commercial lending for a new business venture - budding entrepreneurs, for example - may find a limited amount of success wooing commercial lenders in the current environment when the prospective loan is based largely on projections rather than proven history.

"Lenders really have to dig into the borrower's credibility - and the credibility of his or her projections - to be able to approve those kinds of commercial loans at this time," said Terry. "Or, lenders begin to look for outside sources of cash flow. For example, if it's a married couple and one of them is going to give up his

or her job to start a business, we'd look at whether the other spouse has enough income to cushion the projection."

How saleable the business' assets are - should the bank have to acquire them in a worst-case scenario - is another consideration commercial lenders consider, according to Terry.

The integrity of the appraisal, according to Reliance Bank's commercial lending and credit executives, is indeed crucial when making a judgment call on a commercial loan app these days.

Reliance Bank's Daniel Brown, executive vice president and commercial lender, and William Springer, executive vice president and chief credit officer, agree that it's necessary to look at

comparables in terms of how current and applicable they are.

"Part of the problem with the appraisal is getting good comparables because there's just not the same amount of activity as there was in good times," Brown said. "Traditional, conventional banks like ourselves look at 1) character, 2) cash flow and 3) collateral. We want to see that the borrower is involved directly in the venture and is capable of repaying the loan."

Springer says in this economic climate, additional factors - such as the personal debt obligations of borrowers - can also come into play. "We're looking at the comprehensive picture of the commercial borrower," he said. "Traditionally, banks have done an okay job of analyzing a specific project or operating entity with regard to cash flow, but when banks get lazy, they haven't done as well looking at the situation globally. A lot of times you have business owners who dabble in other ventures. You may have real estate developers with more than one project going on. On the personal side, they may have personal financial obligations such as vacation homes or kids in college. All of that can affect their ability to repay the loan."

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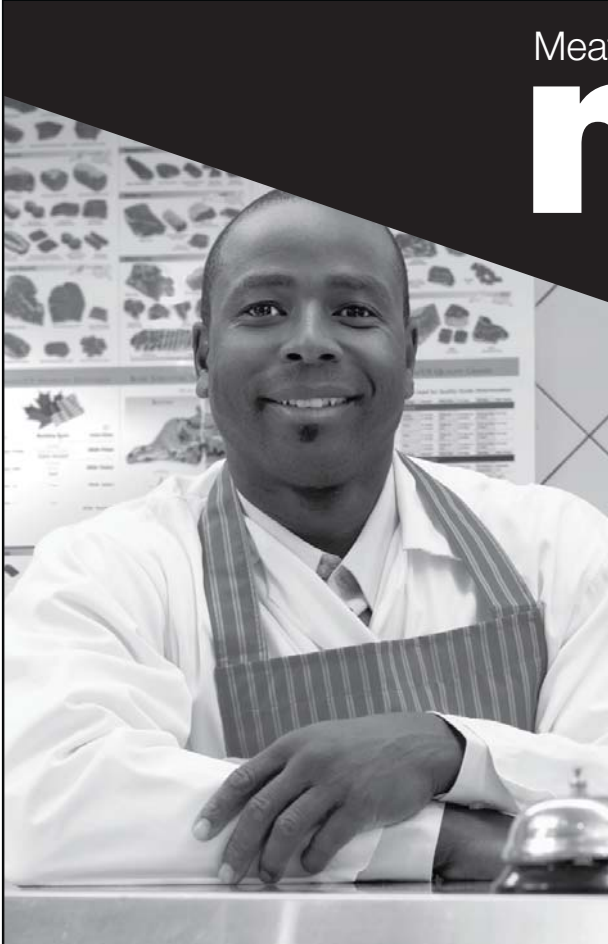
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Month by month, Southwestern Illinois starting to see housing market rebound, realtors say

By KERRY L. SMITH

From a statewide and regional perspective beginning in March 2009, each month has been better than the month before it in terms of home sales; industry players say these numbers are proof positive that the residential real estate market is finally on the upswing.

Pat Callan, president of the Illinois Association of Realtors and broker/owner of Realty Executives Premiere in Wheaton, says two factors are undoubtedly at play in the housing market's early recovery: 1) the first-time homebuyer tax credit of \$8,000 and 2) investors buying up distressed properties.

"There's also a certain amount of seasonality," said Callan. "But on a statewide basis, we're definitely seeing a healthy response to the federal tax credit program for first-time homebuyers, which ends Dec. 1 of this year. Any buyers with average to decent credit will need 3.5 percent down with an FHA loan. That, coupled with still-low interest rates and the \$8,000 credit, is creating energy in the market and we're seeing it across Illinois."

In many cases, investors who are buying up residential property that is either deeply discounted by the owner or properties that are in foreclosure, Callan says, more often than not are local buyers. "They're generally local consumers who have some capital available and are buying the property to fix it up and rent it for awhile to add value. It's not really a market where they're going to be able to flip the property right away. Investors recognize that we're still at a low end," he added.

In Madison and St. Clair counties, stats from the Illinois Association of Realtors based on the Multiple Listing Service indicate that second quarter 2009 (single-family) sales for Madison County were down 11.9 percent compared to second quarter of 2008. Second quarter 2009 sales for St. Clair County were down 10.3 percent, compared to -17.8 percent for the same period a year earlier.

A total of 780 homes were sold in Madison County from April through June of this year, compared to 885 sold during the second quarter of 2008. In St. Clair County during the second quarter of 2009, a total of 625 homes were sold, compared to 697 sold during that period in 2008.

Average sales prices in both counties decreased during the period of April through June 2009, compared to the same period during 2008. In Madison County, the average price from April through June of this year was \$131,341, 5.9 percent lower than second quarter of 2008. St. Clair County's average sales price in second quarter of 2009 was \$131,288, 9.9 percent lower than the same time last year.

Al Suguitan, president and chief operating officer of the Greater Gateway Association of Realtors, says Southwestern Illinois is a region that follows "the longstanding tradition of lagging the national markets."

"From one sense, it's good because it takes awhile for this steam engine to rev up," says Suguitan, "but it also takes awhile to power down. Nationwide, when the numbers start to increase, and even in Illinois when the numbers statewide start to show greater activity in sales, Southwestern Illinois could be 30 days behind some of these trends."

Suguitan says in Madison County, for the month of July in 2009 compared to July 2008, the county only dropped by 12 units in terms of closed residential real estate transactions.

"Even though this is the prime time for selling, the drop in the number of units sold may be the indication that we've bottomed out," he said. "The crucial element here is the second half of the year...if we see the turnaround beginning and all the national indicators - employment figures, bank lending statistics and more - point to an upswing overall, it will likely also be the case with the residential real estate market. Where are we at? I'd say we're in a pretty good position right now. If you were a seller who has had your house on the market for 250 days, anything is good news to you. My estimation of where we're going is upward," he added.

Pent-up demand also contributed to the seasonal boost in buying statewide during the second quarter of 2009, according to Callan. The total number of homes sold across Illinois (single-family and condos) increased by 61.8 percent in the second quarter of 2009.

"We are moving through inventories and that's a good sign for the Illinois housing market," said Callan. "Year-over-year sales are still lower, but one promising trend is the rate of decline that has slowed in recent months."

The IAR president stresses that buyers - and sellers - ought to focus their attention more on the available interest rate than the ultimate sales price, because that's what impacts their finances more over the long-term life of that mortgage.

"Let's say you sell a \$300,000 home at 20 percent lower than you'd hoped (for \$240,000) but you're going to go out and buy in the next tier up, getting 20 percent - or \$80,000 off - of a home originally listed at \$400,000," Callan said. "You're really trading one investment for the next and continuing the long-term spectrum...you're able to lock in that discounted value moving forward for when prices in the market head back upward."



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