Welcome to Good Measure – a monthly e-newsletter from Fletcher & Company Valuation Services that provides local, inside real estate information from an appraiser's point of view.

Appraisals for Foreclosures & Bankruptcy: Where to Start

Last month RealtyTrac® reported US foreclosures increased in the third quarter of 2010, though the rate of increase is slowing compared to previous quarterly reports. The third quarter saw 930,437 foreclosure filings, or one in every 139 housing units receiving a foreclosure filing in that time. With property foreclosures on the rise, it's important to understand the process and what you can do to help the situation. Filing for bankruptcy and obtaining a quality real estate appraisal are two things you can do.

The foreclosure process is different from state to state, but a general approach is common to all. Foreclosure allows a lender to recover what is owed on a defaulted loan by selling or taking ownership (repossession) of the property securing the loan. Foreclosure proceedings can legally begin after just one missed payment, but generally do not occur until at least three payments are missed.

In Georgia, both judicial sale (in court) and power of sale (out-of-court) proceedings are available. Out-of-court foreclosures are the most common and can be completed in just a couple of months. Judicial sales require a longer process and include confirmation hearings. If the sale price of the property is determined to be at least the market value of the property at this hearing, the court confirms the sale. A thorough property valuation, or appraisal, presented at the confirmation hearing can keep you from losing a lot of money.

When faced with foreclosure, some property owners consider bankruptcy as an option to delay the process or even keep their property. Filing for bankruptcy allows consumers and businesses to eliminate or repay some or all of their debts under the protection of the federal court. There are basically two types that most individuals choose – Chapter 7, or liquidation; and Chapter 13, or reorganization. Chapter 11 is another type of bankruptcy reorganization that is usually chosen by large businesses because it has no limits on the amount of debt. Its greater flexibility makes it a more expensive option and it has a lower rate of successful reorganization that Chapter 13 reorganization.

Both Chapter 7 and Chapter 13 prompt the court to issue what is known as an "automatic stay." This requires the bank to cease its collection activities immediately and the foreclosure sale of your property is postponed while the bankruptcy is pending. Chapter 13 provides an option to hold on to one's property completely if the property owner has a reliable source of income. In this case, the property owner proposes a plan to pay off the "arrearage" (or late, unpaid payments) over a specific amount of time. If all payments are made at the end of the scheduled time period, foreclosure can be avoided.

The process of filing bankruptcy requires the property owner to provide an expense report illustrating the net worth of his or her assets. In order to get a true assessment of property value, an appraisal is necessary. It is the responsibility of the property owner to provide the appraisal.

Details of the property valuations for both the foreclosure and bankruptcy process must be prepared within a document given to the court so that it is clear, can be easily understood and contains all the required information to be given fair treatment. Choosing an appraisal firm with experience in these areas is essential. You need to be sure your appraiser is skilled in all procedures and methods necessary for precise and thorough valuation of foreclosure properties and bankruptcy portfolios.

Fletcher and Company has a history of providing real estate appraisal services to a wide variety of property types that may be included in a bankruptcy portfolio. We have a proven record as expert witnesses and deliver only the most complete and well-documented appraisal reports that will stand up to cross-examination and help you make the most of your situation.

Hospitality Sector - National Hotel Investment Discussion

The hospitality industry is typically regarded as the most cyclical real estate sector and a look at hotel investments over the past 15 to 20 years shows no exception. In the early 1990s, the country experienced a recession that reduced demand and restrained room growth. At the same time, most hotel markets had become overbuilt due to the significant growth in room supply that had occurred in the late 1980s. Occupancy and ADRs declined, hotel valuations decreased, and most hotels experienced deteriorating operating performance. By 1991, approximately two-thirds of all hotel/motel loans in the United States were in bankruptcy, foreclosure, workout programs, or in default and awaiting legal action. The mid 1990s reflected a recovery in the lodging market, beginning with increasing occupancy and ADR in 1991 and strong ADR growth from 1994 through 2000.

The hotel investment market peaked in 2000 before the country entered another recession. This downturn in the industry was further exacerbated by the effects of the terrorist attacks of September 11, 2001, which had a dramatic affect on the travel industry as both business and pleasure travel plummeted. After a difficult two years, the industry started to stabilize in 2003 leading to significant increases in occupancy and ADR, and hotel valuations showed improvement. Occupancy improved significantly from 2003 through 2006 and then declined slightly in 2007. ADRs began rising in 2003 and continued to show strong growth through 2007. However, in response to the overall economic downturn/recession, market fundamentals began to deteriorate in 2008 and hotel investments took a downturn. For example, market-wide occupancy reportedly declined by 4.3 percent in 2008, which resulted in a decline in revenue per available room (RevPAR) of 1.9 percent. The economy remained weak in 2009, with unemployment rising and the gross domestic product (GDP) contracting for the year. The weakened economic situation is causing businesses to reduce spending and is negatively impacting consumer confidence. The hotel market is strongly tied to overall economic conditions and market fundamentals weakened significantly in 2009, with occupancy, ADR and RevPAR declining over the course of the year.

There are relatively few corporations that publish annual reports regarding the national hotel market for hotel valuation. The recognized industry leader in providing data for hotel investment is Smith Travel

Research (STR). STR publishes its annual HOST Report, which includes general information on the operations of hotel/motels for the United States as a whole, regional areas and major cities. However, we also considered the Hospitality Directions report prepared by PricewaterhouseCoopers, as well as additional published data prepared by PKF Hospitality and other sources. The following table summarizes operating performance data for the national hotel market for the past several years

Year	**Annual Avg.**	**Change**	**Annual Avg.**	**Change**	**Annual Avg.**	**Change**
1998	63.4%	-1.2%	$78.18	4.5%	$49.55	3.3%
1999	62.9%	-0.8%	$80.90	3.5%	$50.87	2.7%
2000	63.3%	0.6%	$85.25	5.4%	$53.98	6.1%
2001	59.8%	-5.5%	$84.02	-1.4%	$50.22	- 7.0%
2002	59.0%	-1.3%	$82.78	-1.5%	$48.88	-2.7%
2003	59.2%	0.3%	$82.90	0.1%	$49.11	0.5%
2004	61.4%	3.7%	$86.35	4.2%	$52.98	7.9%
2005	63.1%	2.8%	$91.10	5.5%	$57.50	8.5%
2006	63.3%	0.3%	$97.92	7.5%	$61.97	7.8%
2007	63.1%	-0.3%	$103.78	6.0%	$65.52	5.7%
2008	60.4%	-4.3%	$106.55	2.7%	$64.37	-1.8%
2009	56.5%	-6.5%	$101.05	-5.2%	$57.13	-11.2%

Source: Smith Travel Research & PricewaterhouseCoopers

National Lodging Market Trends & Projections

Occupancy and ADR levels continuously increased between 2003 and 2006, which resulted in rising RevPAR, with an average annual RevPAR growth rate of 8.0 percent exhibited for 2004 through 2006. Occupancy declined slightly in 2007, but the average ADR continued to climb, resulting in relatively strong RevPAR growth of 5.7 percent. However, hotel investments posted an overall decline in 2008 and 2009. While the ADR increased by 2.7 percent the occupancy rate declined by 4.3 percent, resulting in a decline of 1.8 percent in the average RevPAR. This represents the first decline in RevPAR since 2002. Market conditions weakened significantly in 2009 as occupancy; ADR and RevPAR all declined. The average RevPAR is estimated at $57.13 for 2009. This represents a decline of 11.2 percent from 2008 and effectively erases much of the gains made since 2004. The projected level of decline in hotel valuation is even greater than that experienced by the industry after the events of September 11, 2001.

The preceding data indicates that after posting several years of growth in the earlier part of the decade, the national hotel market clearly began to deteriorate in 2008 and 2009, and is forecast to weaken significantly through 2010. Recent data indicates that the hotel investment market is currently deteriorating at an accelerated rate. The Hotel Industry Pulse (HIP) is a composite indicator prepared by e-forecasting.com and Smith Travel Research that gauges business activity in the national hotel market. An index of 100 is equal to the 2000 HIP estimate while the January 2010 HIP factor is reported at 82.4. Reportedly, the HIP declined in January 2010 after improving by 2.8 percent in December 2009. When looking at the six-month change rate, the HIP improved from the previous month with a negative 1.9 percent in January compared to a negative 2.3% in December. The current recession matches the recessions seen in 1990 and 2000.

In addition to the preceding data, we have also considered projections prepared by PKF Hospitality Research. PKF announced in March 2009 that the current decline in the hotel industry will be deeper and last longer than the company had previously projected. PKF expects that RevPAR will have declined by 13.7 percent in 2009, exceeding the 11.2 percent decline forecast by PricewaterhouseCoopers (which was included in the table presented earlier in this section). The decline in RevPAR reflects the projected downturn forecast for both occupancy and ADR levels during 2009. The following table summarizes the year-over-year changes in operating levels forecast for the period of 2008 and 2009 as published by PKF.

Measure	Change Rate: 2008 to 2009
Supply	2.6%
Demand	-5.4%
Occcupancy	-7.8%
ADR	-6.4%
RevPAR	-13.7%
Unit-level NOI	-30.1%

Source: PKF

As indicated, supply is forecast to increase slightly while demand, occupancy, ADR and RevPAR are all projected to decline or remain flat in 2010. Analysts with STR indicate that the decline in ADR is of greatest concern as it significantly impacts profit levels. STR forecasts that sustained growth in demand and occupancy will not occur until the second half of 2010, which will most likely lead to a turnaround during 2011. The outlook indicates that hotel investments will turn positive in 2011-2012, which is agreed upon by some real estate appraisers in the hotel industry.

Forecast changes in Performance: U.S. Lodging Industry

As indicated in the preceding analysis, after exhibiting several years of growth and strength, the national hotel market exhibited an overall downturn in 2008. This downturn is forecast to continue worsening for the foreseeable future. Improvement within the hotel investment market will be strongly tied to overall economic growth and as analysts expect the economy to remain weak for at least the next several quarters, it will likely be an extended period of time before the hotel market posts renewed sustainable growth.

Conclusion

Overall, the national hotel market is experiencing soft conditions as a result of the national recession. In terms of the Georgia market, it has exhibited decreases in occupancy and ADR levels over the past year, with the trend expected to continue and to include RevPAR slides as well. Due to the current recession and credit crisis, we expect occupancy, ADR, and RevPAR rates to remain unstable in the short term.

Tech Tip

DaVinci App for iPhone & iPad

The premier sketching program for real estate professionals, DaVinci from real estate technology firm A la Mode, Inc., is now available as a free application for iPhone and iPad.

DaVinci for iPad is totally customizable to your workflow, so data entry is fast. Your WinTOTAL QuickLists pull into DaVinci automatically – with no additional configuration. Just tap a field, choose your QuickList. Since you're ditching the clipboard and pencil, accuracy goes up, and the multi-touch screen of the iPad is particularly well-suited for sketching. DaVinci pulls your Critical Items, so you never leave an inspection without everything you need for your report. Plus, all the data flows straight back to WinTOTAL with no retyping.

http://www.alamode.com/appraiser/davinci_ipad
http://itunes.apple.com/us/app/davinci-for-ipad/id372048588?mt=8

Henry County, GA Housing and Lot Inventory

Henry County, GA has experienced a tremendous population growth over the last two decades resulting in a steady increase in residential and commercial development, and a change in the landscape of Henry County real estate. The growth started around the cities of Stockbridge and McDonough and as real estate valuation continued to improve, it has spread throughout the county. From 2008 through 2009 the county experienced a vast oversupply of new homes in the market. Some analyses have stated that the area had too many homes being constructed which resulted in an oversupply of homes and developed lots. This caused an inventory which largely outweighed the demand. In more recent times, the supply of homes has diminished substantially; however the large number of foreclosures that are part of the Henry County real estate picture is currently dominating the market. Most purchasers of homes in the area since 2008 have been able to buy homes at a fraction of the price that the same homes were selling for based on real estate valuations from 2000 to 2008. The real estate data compilation service, Realtytrac, has reported that in 2009, the average foreclosure sale was 28% less than the sales of similar properties.

Henry County had a large housing inventory when the market collapsed and real estate valuations plummeted and the market is continuing to filter through this substantial inventory. Most believe that the Henry County real estate market will not see much residential development for up to five years.

In a recent meeting at Georgia Tech, Atlanta Developer Hal Barry stated that banks have become very reluctant to finance developers wanting to start new projects or just to refinance existing developments. “There is a complete drought in meeting the needs of new legitimate properties or refinancing existing loans,” said Brian Olasov, managing director for Atlanta law firm McKenna, Long and Aldridge. These credit problems are affecting not only Henry County real estate, but developers in all areas of the state. It was further stated at the meeting that the Troubled Asset Relief Program (TARP) had injected about $6.2 billion into Georgia banks thus far. The banks receiving TARP monies have been able to sell off properties at larger discounts, which may lead to a further reduction in real estate values in Henry County as well as majority of the metro area. Real Estate Appraisers in and around Henry County have confirmed that there is a noticeable difference between a typical foreclosure and a foreclosure with a bank that has received TARP monies. It appears these transactions are more liquidated than typical.

Most believe that once the unemployment problems are corrected the economy will begin to grow again, particularly considering Henry County’s steady population growth. However, unemployment rates keep rising in the metro Atlanta area.

Developers who were once trying to buy up as much land as possible in Henry County have stopped purchasing land for development. This can be attributed to the falling number of new home and developed lot sales among Henry County real estate transactions, as is the case with the majority of the counties in the metro Atlanta area. The housing market appears to have little demand but demand may be on the rise with the depleting inventories.

With the loss of demand for residential development tracts due to the current market conditions, the demand for vacant land tracts has also fallen. With the developers no longer influencing land prices in

Henry County, the prices have fallen. Therefore those with tracts for sale have started selling land at a significantly lower price per acre and price per unit price than just two years ago.

In conclusion, based on our analysis of lot absorption rates over the last three years, there currently appears to be a vast oversupply of vacant developed lots and land in Henry County with very low demand for these property types. Typically when there is an oversupply in conjunction with a low demand, real estate values decline.

Population

Henry County's population has more than doubled from 1990 to 2000 and continued to grow at a rapid pace until 2008. The growth in the county can most likely be attributed to the high demand for Henry County real estate in areas with a relatively easy commute to the Atlanta area.

Population Trends - Henry County and the State of Georgia							
	1990	2000	2010 Estimate	2015 Projection	Annual % Change from 1990-2000	Estimated Annual % Change from 2000-2010	Projected Annual % Change from 2010-2015
Henry County	58,741	119,341	206,271	239,672	10.32%	8.09%	3.24%
State of Georgia	6,478,216	8,186,453	10,014,045	10,762,778	2.64%	2.48%	1.50%

In 1990, Henry County's population was estimated to be 58,741; in 2000 the population had grown to 119,341 which equates to a compound annual increase of 10.32%. The 2010 population estimate is 206,271, indicating a compound annual increase of 8.09% between 2000 and 2010.

In conclusion, Henry County was one of the fastest growing counties in the state and the nation for an extended period during the period from 1990 to 2010. The high population growth rates can mostly be attributed to the location of the county in relation to the City of Atlanta. We feel that once funding for new homes is more available, Henry County will begin to grow at a rapid rate but perhaps at a lower rate than what was experienced from 1990 to 2010.

Demographic Profile

The highest concentrated age group of the county's inhabitants is between the ages of 35-54, which make up 31.3% of Henry County's population. In terms of household size, in 2010 the number of households stood at 71,726 in Henry County with an average household size of 2.86 persons.

Demographic Profile - Henry County and State of Georgia			
Category		Henry County (2010 statistics)	State of Georgia (2010 Statistics)
Age Distribution:	0-19	30.3%	28.1%
	20-34	18.9%	21.6%
	35-54	31.6%	28.9%
	55+	19.3%	21.3%
Estimated Average Household Size:		2.86 persons	2.66 persons
Median	$0 – $14,999	4.7%	11.9%
	$15,000 - $24,999	3.5%	8.8%
	$25,000-$34,999	4.9%	9.5%
	$35,000 - $49,999	12.7%	13.6%
	$50,000 & $74,999	26.2%	21.9%
	$75,000 & Over	48.0%	34.3%
Median Household Income:		$72,468	$56,761

Source:US Census Bureau & ERSI

As of 2010, the statistics indicate that 74.2% of the households in Henry County earned over $50,000 per annum, which is indicated in the table above. This is considered a fairly high level of income for the area.

The median household income for Henry County in 2010 was reported at $72,468. The median household income in the subject's five mile radius was $65,437 in 2010. These were well above the average household income for the State of Georgia which was reported to be $56,761 in 2010.

Employment

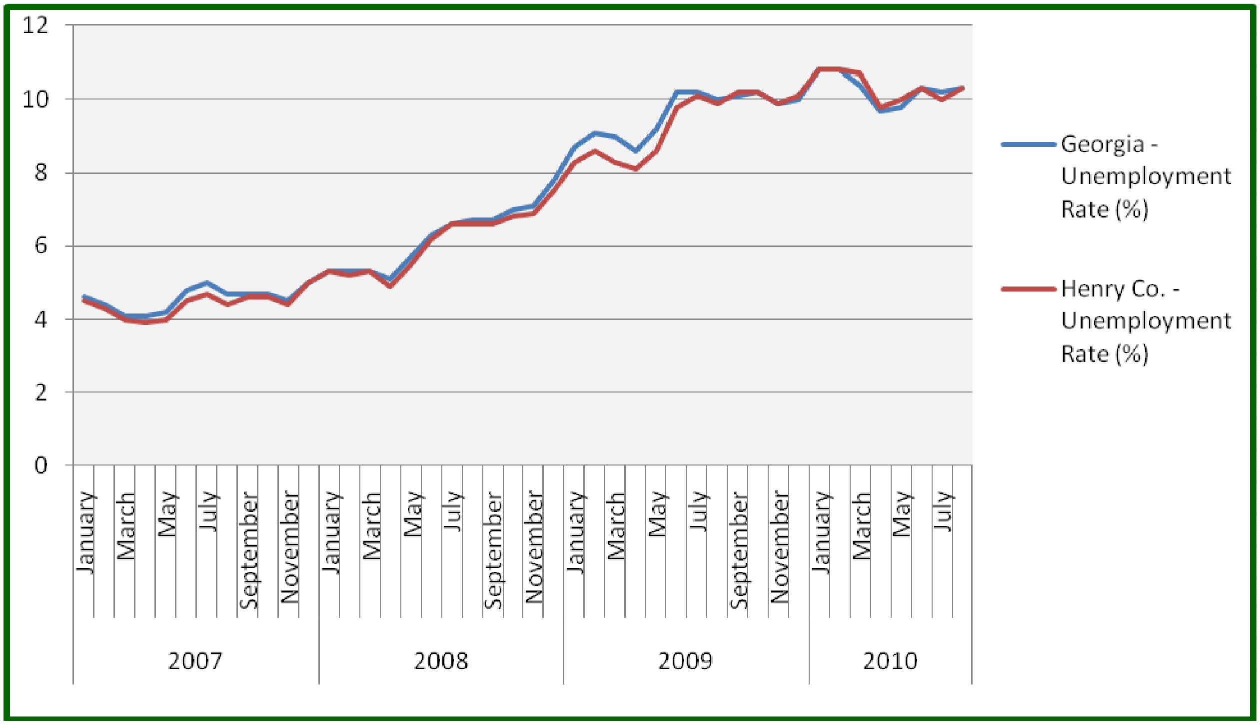
Unemployment rates in the county, state and nation have increased at alarming rates since 2007. The unemployment levels seem to have leveled off around the 10% range in all of these areas. However the unemployment numbers may be a little skewed as the total number of people in the work force has diminished by over 3,000 persons since December 2009.

According to the Georgia Department of Labor, the labor force in Henry County was reported at 95,266 as of August 2010. The number of employed people in Henry County in August 2010 was 85,443, resulting in an unemployment rate of 10.3%, or 9,823 persons. Henry County's unemployment rate has increased dramatically since April 2007 when the unemployment rate was 3.9%.

According to the Georgia Department of Labor, the labor force in the State of Georgia was reported at 4,686,423 as of August 2010. The number of employed people in Georgia in August 2010 was 4,201,647, resulting in an unemployment rate of 10.3%, or 484,776 persons. Georgia's unemployment rate has dramatically increased since March 2007 when the unemployment rate was just 4.1%.

The graph below shows employment trends for Henry County since January 2007. Unemployment rates in the county have risen dramatically over the past two years but unemployment rates for Henry County over the past decade have been relatively low.

Unemployment Rates for Henry County and the State of Georgia
(January 2007 to August 2010)



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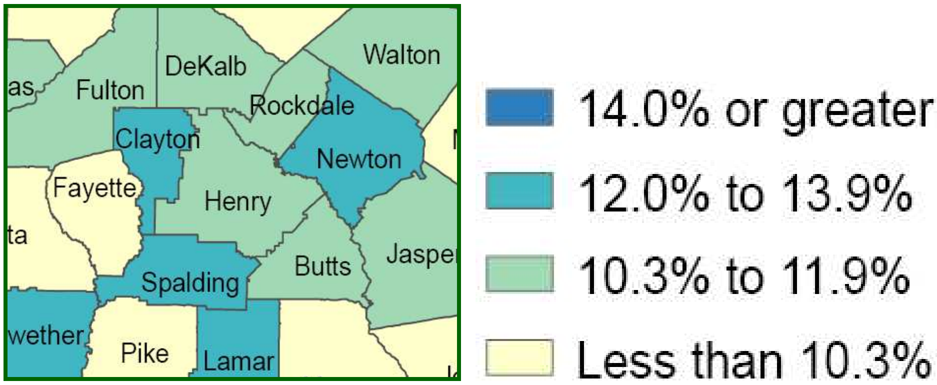
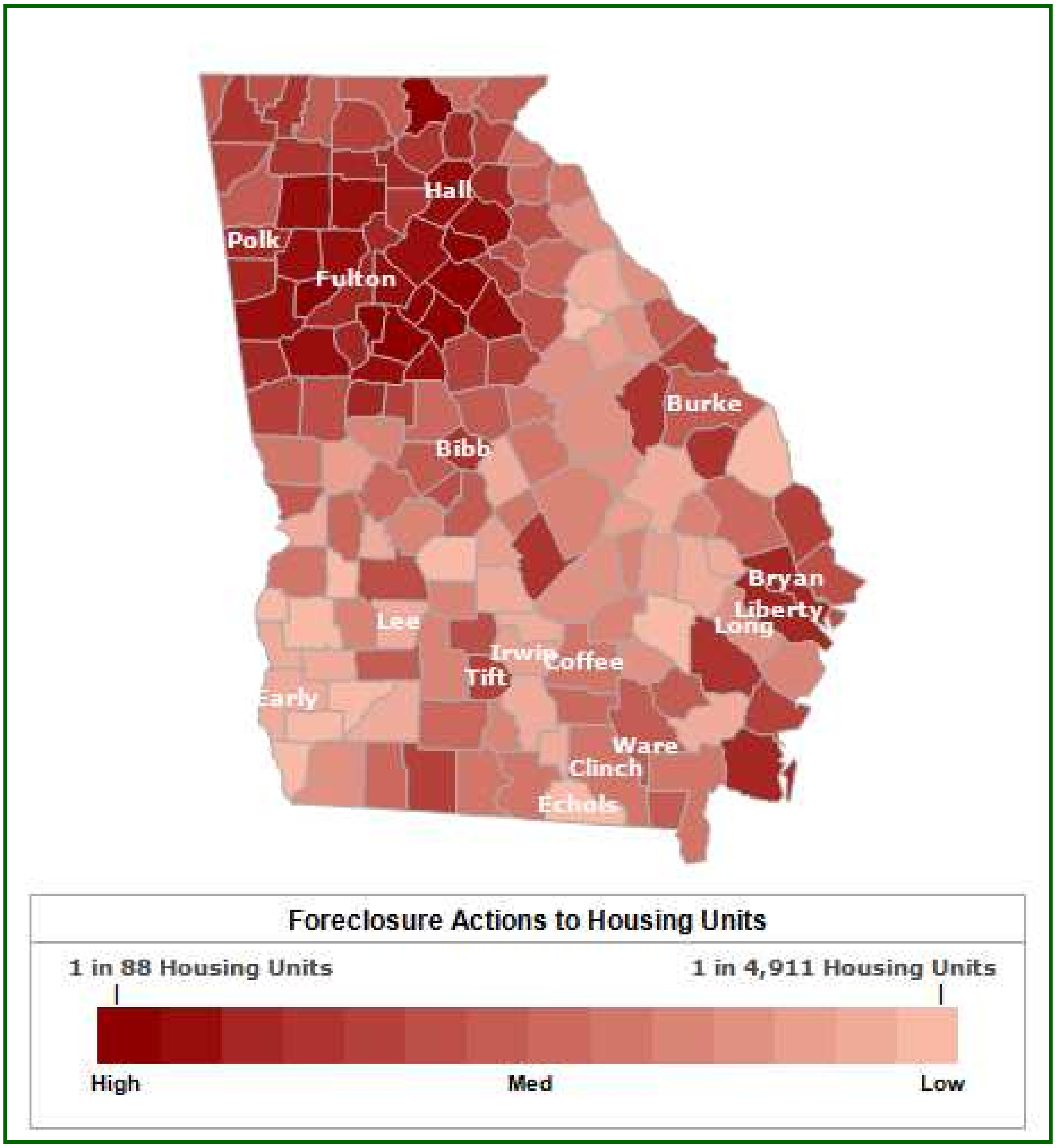
Georgia - Unemployment Rate (%)
Henry Co. - Unemployment Rate (%)

Map of Unemployment Rates by County (Subject Area)

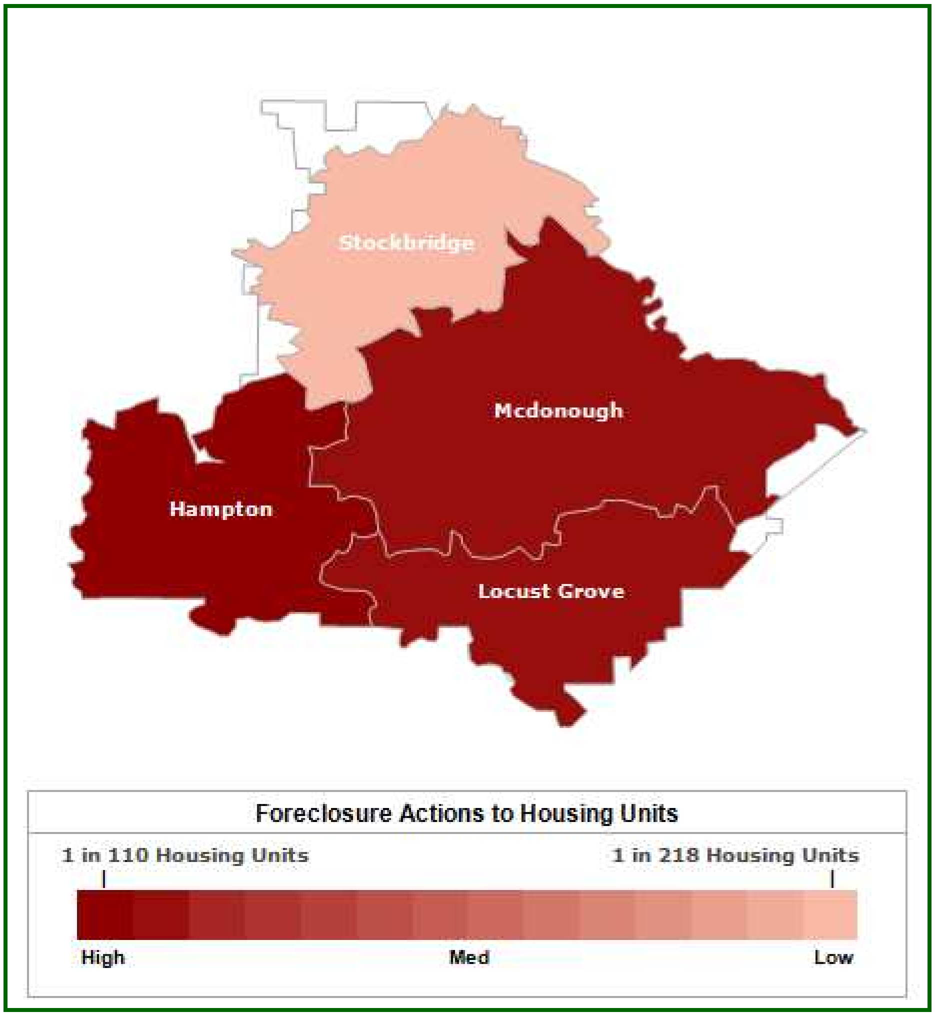


Below are maps indicating the foreclosure activity in Georgia and Henry County. The Henry County foreclosure rate is similar to the current rates of surrounding counties.

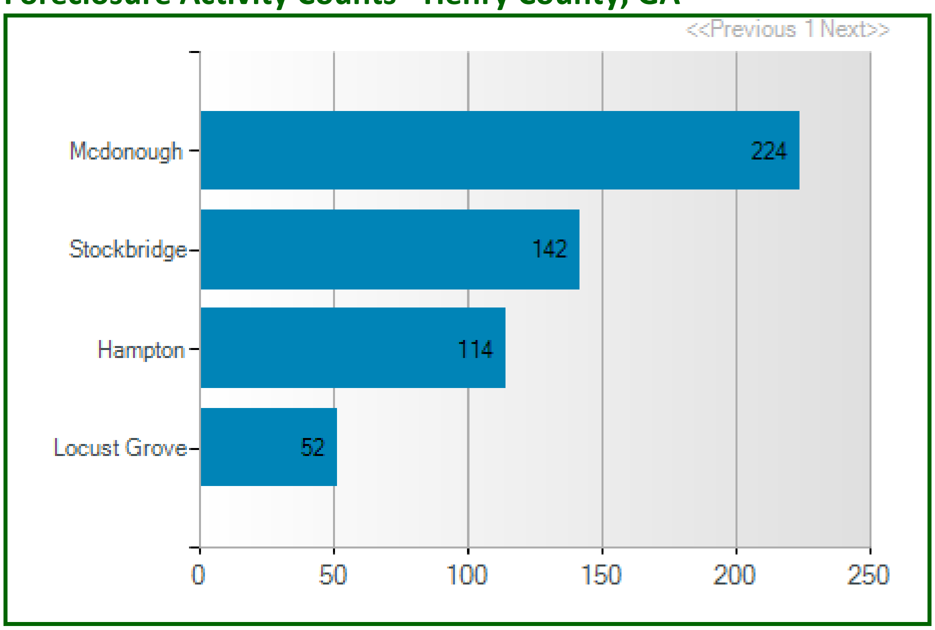
August 2010 Foreclosure Rate Heat Map – State of Georgia



August 2010 Foreclosure Rate Heat Map – Henry County Real Estate



Foreclosure Activity Counts - Henry County, GA



Lot Supply Analysis

In order to establish the current absorption rate of new homes we have utilized data from Smartnumbers, LLC. The absorption rate is calculated by taking the number of new home sales over a period, which in this case is the past twelve months, and dividing that number into the current lot inventory. The appraiser has calculated the current absorption rate to be approximately 38 new home sales per month.

The data indicates there are approximately 8,934 developed and platted lots available in the immediate area of the subject development. Smartnumbers projects that the lots will take approximately 235.11 months to absorb based on the current absorption rates. Furthermore, the data indicates there were 456 new home sales in the subject area from October 2009 through September 2010.

Absorption for the Henry County		
Lots Absorbed by the Market (new home sales)	456	
Total Number of Lots in Henry County	8934	
Overall Absorption Rate	38.00	Lots per month
Estimated monthly absorption rate:	**38.00**	Lots per month
Estimated months Supply:	**235.11**	Months

Below is a chart indicating the absorption rates of the zip codes in Henry County. Please note that the lot count here may slightly differ from the total number of lots reported above as some of the zip codes cross county lines and other portions of the county may have zip codes which primarily serve another county. Please note the months of supply is based on current absorption rates.

Absorption Statistics by Zip Code

Area	Zip Code	Available Lots	Home Sales	Monthly Absorptio Rate	Months Supply
Hampton	30228	1154	97	8.08	143
Locust Grove	30248	1730	83	6.92	250
McDonough	30252	1700	87	7.25	234
McDonough	30253	3308	130	10.83	305
Stockbridge	30281	571	41	3.42	167

Housing Inventory Statistics

The data in the grid below was provided by GAMLS Pro. This grid depicts recent housing statistics. The current absorption rate for the county is higher than the previous two periods. The supply of all homes and new homes is depleting.

Housing Inventory Statistics – Henry County – Past Twelve Months

ALL INVENTORY			
Inventory Analysis - All Inventory	**Prior 7-12 Months**	**Prior 4-6 Months**	**Current-3 Months**
Total Number of Comparable Sales (Settled):	1,329	793	561
Absorption Rate (Total Sales/Month):	221.5	264.33	187
Total Number of Comparable Active Listings:	2,046	1,991	1,693
Months of Housing Supply (Total Listings/Abs. Rate):	9.2	7.5	9.1
Median Sales & List Price, DOM, Sale/List% Ratio	**Prior 7-12 Months**	**Prior 4-6 Months**	**Current-3 Months**
Median Comparables Sale Price:	$111,000	$115,000	$105,000
Median Comparables Sales Days on Market:	51	56	49
Median Comparable Listings List Price:	$154,950	$149,900	$149,900
Median Comparable Listings Days on Market:	89	90	99
Median Sale Price as % of List Price:	94.87%	95.91%	94.70%
Median Seller Concession Percent (for SC > 0):	3.04%	3.00%	3.00%
NEW CONSTRUCTION - Entire County			
Inventory Analysis - New Construction	**Prior 7-12 Months**	**Prior 4-6 Months**	**Current-3 Months**
Total Number of Comparable Sales (Settled):	307	162	93
Absorption Rate (Total Sales/Month):	51.17	54	31
Total Number of Comparable Active Listings:	362	322	255
Months of Housing Supply (Total Listings/Abs. Rate):	7.1	6	8.2
Median Sales & List Price, DOM, Sale/List% Ratio	**Prior 7-12 Months**	**Prior 4-6 Months**	**Current-3 Months**
Median Comparables Sale Price:	$135,000	$147,450	$127,000
Median Comparables Sales Days on Market:	70	83	66
Median Comparable Listings List Price:	$171,750	$179,990	$191,300
Median Comparable Listings Days on Market:	111	104	125
Median Sale Price as % of List Price:	90.06%	94.64%	90.78%
Median Seller Concession Percent (for SC > 0):	3.00%	3.02%	3.42%

According to these statistics there are 93 new homes for sale within in the county which way down from the previous three months from 162. The absorption rate over the past three months has been 31 new home sales per month. The new homes that are selling are being purchased within a range of 66 to 83 days of marketing time. This indicates that new homes are being purchased and that the supply of these homes is depleting. New homes are currently being purchased at a rate of approximately 87.36% of the list price. The average new home sales price has fallen over the past year.

Market Analysis Conclusion

Henry County has grown at a fairly steady rate over the past twenty years. Henry County is expected to continue to grow just at a lower rate at least for the foreseeable future. The population estimate on the preceding pages indicates the population in the subject area (five mile radius) will grow at projected rate of 18% to 19% over the next five years, which is lower than the estimated annual rate from 2000 to 2010.

The type of growth in Henry County real estate has been, in our opinion, good quality growth. This good quality growth can be attributed to the high development standards most developers demanded in their developments. These high standards were the most demanded type developments over the past 10 years. This will most likely continue into the foreseeable future.

Appraisals

Fletcher & Company is your single source for the most current and accurate real estate news and data from the Georgia counties where you need it most. Our local focus gives you an insider's perspective on valuable research you need for your business. As appraisers and real estate advisors we are experienced and equipped to handle any type of standard and specialty property appraisal that you need.