

The article, [Sellers struggle as Valley home prices down 21%](#), from the *East Valley Tribune*, reports that Valley home prices have set a negative record, dropping 21 percent in just one year, according to the latest Arizona State University-Repeat Sales Index, which is based on repeat sales of the same homes as they sell over time. The drop in average home price was from May 2007 to May 2008. “Things are going down fast,” said Karl Guntermann, a real estate professor in the W.P. Carey School of Business at ASU. “Obviously it’s a very tough market to sell in. If you aren’t selling, you’re losing equity, but it’s kind of paper equity. A lot of people are losing equity, they don’t feel as wealthy and that does affect people’s spending patterns.” The declines, while painful to sellers, still haven’t matched the staggering increases in home values that peaked in 2006, he said. “Basically around mid-2006, the increase varied anywhere from 73 percent to about 80 percent, depending on which city or region,” Guntermann said. “We’re still on average way above where we were at the beginning.” Among East Valley cities, prices fell 25.1 percent in Mesa, 23.2 percent in Chandler, 16.5 percent in Tempe and 14.2 percent in Scottsdale/Paradise Valley. “In general, if you don’t have to sell, you probably shouldn’t be selling,” Guntermann said. “You’re competing with banks that are selling foreclosed properties. You’re competing with someone who has a job transfer and has to sell, or maybe they lost their job and they want to relocate to another region, and they need to sell their house.”

Sellers struggle as Valley home prices down 21%

[Edward Gately](#), Tribune

August 14, 2008 - 10:38AM

It’s all-out war for anyone trying to sell a home in the Valley’s turbulent housing market.

Valley home prices have set a negative record, dropping 21 percent in just one year, according to the latest Arizona State University-Repeat Sales Index, which is based on repeat sales of the same homes as they sell over time. The drop in average home price was from May 2007 to May 2008.

It was even more severe than the 18 percent drop recorded from April 2007 to April 2008, and the first-ever double-digit decline of 13 percent from March 2007 to March 2008.

“Things are going down fast,” said Karl Guntermann, a real estate professor in the W.P. Carey School of Business at ASU. “Obviously it’s a very tough market to sell in. If you

aren't selling, you're losing equity, but it's kind of paper equity. A lot of people are losing equity, they don't feel as wealthy and that does affect people's spending patterns."

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"In general, if you don't have to sell, you probably shouldn't be selling," Guntermann said. "You're competing with banks that are selling foreclosed properties. You're competing with someone who has a job transfer and has to sell, or maybe they lost their job and they want to relocate to another region, and they need to sell their house."

If you have to sell your home, the two most important things to keep in mind are that you must price your house aggressively and it must be in "immaculate" condition, said Jay Thompson, a broker with Thompson's Realty in Gilbert.

"Curb appeal has always worked. It worked 50 years ago, and it works today," he said. "You want people, when they pull up to the front of the house, to go, 'Wow, this house looks great,' and they carry that same feeling through when they walk into the front door. It's got to look good, it's got to smell good."

And if the foreclosure house next door or down the street is selling for less, you need to be able to show why a buyer should pay more for your house, Thompson said.

Buyers are also pickier, and they want to look at a lot more houses before making a decision, Thompson said.

"Buyers are not going to be looking at two or three houses, they're going to be looking at 20 or 30, or 50 houses," he said. "So your house better be the best-looking one at the best values."

<http://www.eastvalleytribune.com/story/123091>

The article, ***Phoenix home prices down 21 percent from a year ago***, from the *Phoenix Business Journal*, also reports on the latest Arizona State University Repeat Sales Index, which shows the average metro Phoenix home experienced a 21 percent price decline from May 2007 to May 2008. The good news is that even though the latest year-to-year figure is steep, the rate of decline has slowed. The numbers reflect a five percentage-point drop from March to April, but just three points from April to May. The Phoenix metro area has seen home prices decline for 15 straight months. That's almost as long as the

record 17-month index drop experienced during the last serious real estate recession in Arizona in the early 1990s.

Phoenix home prices down 21 percent from a year ago

Phoenix Business Journal - by [ADAM KRESS](#)

Thursday, August 14, 2008

The latest numbers on Phoenix-area home prices are painful, but the worst might be in the rearview mirror.

According to the Arizona State University Repeat Sales Index, the average metro Phoenix home experienced a 21 percent price decline from May 2007 to May 2008.

That was more severe than the 18 percent drop recorded from April 2007 to April 2008, and the first-ever double-digit decline of 13 percent from March 2007 to March 2008.

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The ASU index is based on repeat sales, which compare the selling price of a single house against itself at different points in time, instead of comparing different homes with different quality factors.

<http://phoenix.bizjournals.com/phoenix/stories/2008/08/11/daily54.html?surround=fn>

The article, ***Plunge in home prices not as bad in NE Valley***, from the *Arizona Republic*, reports that home prices in Scottsdale and the Northeast Valley are holding better than the overall market, which has plunged a record 21 percent in the past year. That is according to the latest Arizona State University Repeat Sales Index, which tracks the sale of homes

over time to gauge values. The report, released Thursday, tracked home prices over the past year ending in May. Prices have declined for 15 straight months, offsetting gains as high as 80.6 percent from 2004 to 2006. The decline in prices varied widely:

- Scottsdale/Paradise Valley off 12 percent.
- Down 12.3 percent in the Northeast Valley communities of Carefree, Cave Creek, Fountain Hills, Paradise Valley and Scottsdale.
- Tempe, minus 14.7 percent.
- Chandler, minus 17.8 percent.
- Mesa, minus 21 percent.
- Peoria, minus 26.9 percent.

Plunge in home prices not as bad in NE Valley

by **Peter Corbett** - Aug. 14, 2008 03:23 PM
The Arizona Republic

SCOTTSDALE - Home prices in Scottsdale and the Northeast Valley are holding better than the overall market, which has plunged a record 21 percent in the past year.

That is according to the latest [Arizona](#) State University Repeat Sales Index, which tracks the sale of homes over time to gauge values. The report, released Thursday, tracked home prices over the past year ending in May.

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Prices have declined for 15 straight months, offsetting gains as high as 80.6 percent from 2004 to 2006.

"Houses are selling," said Karl Guntermann, an ASU business professor who analyzes the data for the index with research associate Alex Horenstein. "There is enough demand to keep things from getting worse."

A disturbing factor in the market is that an estimated 35 percent of home sales in July were [foreclosure](#) deals, suggesting that the declining prices will not ease up over the next few months, the professor said.

<http://www.azcentral.com/community/scottsdale/articles/2008/08/14/20080814sr-homeprices0815.html>

The article, ***New home construction near a 17-year low***, from *MSNBC.com*, reports that construction of homes and apartments fell in July to the lowest level in more than 17 years, according to a report from the Commerce Department. The report showed that construction of single-family homes in July fell by 2.9 percent from the previous month to a pace of 641,000. That was the lowest since January 1991, when the economy also was in distress. New home construction last month was down a sharp 39.2 percent compared with July 2007, illustrating how much ground the housing market has lost in the past year. Housing permits in July fell to a rate of 937,000, a 17.7 percent drop from June, but still above analysts' expectations of 925,000. Permits are considered a reliable sign of future activity. Homebuilders are hoping the housing rescue package approved by Congress last month will boost the dismal real estate sector. The law includes a temporary \$7,500 tax credit for first-time homebuyers that essentially works out to a 15-year, interest-free loan.

New home construction near a 17-year low

Housing figures continue to show badly battered housing market

The Associated Press

updated 6:16 a.m. MT, Tues., Aug. 19, 2008

MSNBC.com

WASHINGTON - Construction of homes and apartments fell in July to the lowest level in more than 17 years, the government reported Tuesday.

The Commerce Department said that builders broke ground on 965,000 housing units on an annualized basis. That was down from a pace of 1.08 million in June and the weakest showing since March 1991.

However, July's performance was better than analysts expected. Wall Street economists forecast that housing starts would drop to a pace of 950,000.

Still, the latest housing figures continue to show a badly battered housing market, one of the biggest problems plaguing the already shaky national economy.

The report showed that construction of single-family homes in July fell by 2.9 percent from the previous month to a pace of 641,000. That was the lowest since January 1991, when the economy also was in distress.

New home construction last month was down a sharp 39.2 percent compared with July 2007, illustrating how much ground the housing market has lost in the past year.

Construction of apartments and other multifamily dwellings also fell sharply in July, after a large jump in the previous month due to a change in New York City's building codes. That change, which went into effect July 1, gave a rare lift to overall housing construction in June.

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The National Association of Home Builders/Wells Fargo housing market index, released Monday, remained at a record low of 16 in August for the second consecutive month. Readings below 50 indicate negative sentiment about the market.

But one measure of longer-term sentiment improved slightly: a measure of builders' sales expectations in six months rose two points to 25.

Still, homebuilder Toll Brothers Inc. reported dismal quarterly results last week when its revenue fell 34 percent and its order backlog plunged 52 percent.

Shares of several homebuilders, including Toll Brothers, D.R. Horton Inc. and Pulte Homes Inc., dropped Monday, partly due to renewed fears about the financial health of mortgage giants Fannie Mae and Freddie Mac.

<http://www.msnbc.msn.com/id/26286514/>

The article, ***Home builders remain gloomy as sentiment index stuck at record low***, from the *USA TODAY*, reports that the NAHB/Wells Fargo Housing Market index held at 16 in August for a second straight month as stringent lending and a flood of foreclosed homes dragged on the real estate market, according to data from the National Association of Home Builders released Monday. The August figure matched the median forecast among analysts surveyed by Reuters. Readings below 50 mean more builders view market conditions as poor than favorable. Despite the weak reading, the Washington trade group said its members hope a recently enacted home buyer tax credit will bolster housing appetite. "Builders are anticipating the stimulative effects of this legislation and are optimistic that the tax credit will give those buyers who've been sitting on the fence the reason they need to jump back into the market," NAHB President Sandy Dunn said in a statement

Home builders remain gloomy as sentiment index stuck at record low

REUTERS 

Aug 16, 2008 USA TODAY

WASHINGTON (Reuters) — U.S. home builder sentiment was stuck at a record low in August, as stringent lending and a flood of foreclosed homes dragged on the real estate market, according to data from the National Association of Home Builders released Monday.

The NAHB/Wells Fargo Housing Market index held at 16 in August for a second straight month, the group said in a statement.

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This sliver of optimism was reflected in an improvement in two of the index's three components.

The sub-index on current single-family home sales ticked up to 16 in August from a downwardly revised record low of 15 in July, and the component on the six-month sales outlook rose to 25 from a record low of 23.

But the reading on traffic of prospective buyers was stuck at a record low of 12, NAHB said.

On July 30, the Housing and Economic Recovery Act was signed into law, which included a provision that gives a temporary \$7,500 tax credit for first-time home buyers who meet certain income requirements.

Meanwhile, the performances of the four regional markets tracked by NAHB diverged in August. The Northeast and Midwest markets improved, while the Western market continued to slide. The Southern market held steady at its depressed level.

An increase in foreclosed sales at discounts hurt the new homes market in the West, NAHB said.

Demand for new homes has also been crimped by heightened anxiety among consumers facing worsening job conditions and tough times in obtaining a mortgage to buy a home, analysts said.

http://www.usatoday.com/money/economy/housing/2008-08-18-home-builders-sentiment-index_N.htm

The article, ***Private financiers now in the spotlight***, from the *Arizona Republic*, reports that hard-money lenders and the integral role they play in the Valley's real-estate market has garnered increased attention as banks have reined in lending activity. The high-profile case of Mortgages Ltd. also has brought more attention to the industry. It was thrust into the spotlight with the June 2 suicide of its chairman and chief executive officer, Scott Coles. Coles' death occurred amid lawsuits brought by borrowers and just three weeks before a developer forced the company into bankruptcy. Phoenix-based Mortgages Ltd. was considered Arizona's largest, oldest and best-known private lender. But the company is only one of dozens of hard-money lenders in Arizona that specialize in short-term, high-interest loans for real-estate projects. The term "hard money" refers to how lenders who specialize in such loans underwrite projects. Private financiers focus on the value of the hard assets being pledged as collateral, such as

existing land or buildings, when deciding whether to fund. Traditional banks put more emphasis on a prospective borrowers' credit and a future development's income projections. Most hard-money lenders assume they could end up owning property if a borrower defaults. In many cases, investors are considered owners of the loans. Mortgages Ltd.'s nearly 3,000 investors supplied almost a billion dollars for its loans. Some investors chose specific loans in which to place their money. As security, they were assigned an interest in a deed of trust on the property being financed. Other investors put their money into pools, which were used to make multiple loans. Many hard-money lenders use similar structures.

Private financiers now in the spotlight

'Hard-money' lenders fund risky projects

by **Andrew Johnson** - Aug. 17, 2008 12:00 AM
The Arizona Republic

For years, "hard-money" real-estate lenders have operated in relative obscurity, raising billions of dollars from investors to fund thousands of developments across Arizona.

The inner workings of such financiers, who charge high fees and interest on building projects that banks deem too risky, traditionally have been familiar only to developers and the lenders themselves.

The integral role they play in the Valley's real-estate market has garnered increased attention as banks have reined in lending activity.

The high-profile case of Mortgages Ltd. also has brought more attention to the industry.

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Phoenix-based Mortgages Ltd. was considered Arizona's largest, oldest and best-known private lender. But the company is only one of dozens of hard-money lenders in Arizona that specialize in short-term, high-interest loans for real-estate projects.

The firms' operators say they have seized a bigger piece of the construction-lending market because traditional banks and institutional players are on the sidelines. Many are still actively soliciting funds from investors, who are vital to their ability to make loans.

But Mortgages Ltd.'s problems have caused some industry experts to question whether hard-money lenders are next in line to be hamstrung by the bad real-estate market.

Their lending and fundraising practices - largely unregulated - also have come under scrutiny in lawsuits by investors and developers.

"Our industry for many years was the Wild West," said Jayne Hartley, managing director of Phoenix-based private lender Coppercrest Funding LLC.

What is 'hard money'?

The term "hard money" refers to how lenders who specialize in such loans underwrite projects.

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Traditional banks put more emphasis on a prospective borrowers' credit and a future development's income projections.

Most hard-money lenders assume they could end up owning property if a borrower defaults.

"I want to know what I can dump that (property) for tomorrow morning in the as-is condition," said David Crantz, president and chief executive officer of Landmarc Capital & Investment Co. in Scottsdale.

Landmarc, a hard-money lender, has foreclosed on several residential properties on which the company made loans to help borrowers refinance existing mortgages.

Landmarc and its competitors will lend money for projects that traditional banks won't touch. Today, that includes anything residential, along with commercial projects that are not pre-leased.

But even hard-money lenders are growing more selective.

Private lenders typically charge a premium for the risks they take. Their interest rates are often in the 10 percent to 15 percent range, which is more than a bank charges. Their fees for originating and servicing loans also are higher.

Borrowers swallow the costs because hard-money loans are intended to be temporary. Their objective is to use the money to get a project to the point where another lender is comfortable providing long-term financing.

Many hard-money borrowers also can't obtain financing elsewhere because their projects are too speculative or their credit is shaky.

"In the past, they've been more of a 'subprime' commercial lender," said Anthony Sanders, a finance and real-estate professor at Arizona State University.

A changing market

Until recently, hard-money lenders competed with banks, which offered low interest rates and required borrowers to put little equity in a deal.

In 2005, Scottsdale-based private lender Investors Mortgage Holdings Inc. pulled out of Arizona because lenders had flooded the market, making it more competitive for hard-money financiers to land deals.

"We just felt that there was too much money in the market," Chairman and CEO Shane Albers said. "The (property) prices were unrealistic. We were not willing to . . . make loans that violated our underwriting thresholds."

Now, most banks won't lend unless a borrower has pristine credit and/or a lot of money backing a deal.

Albers said his firm is looking at Arizona deals again but is being selective. "We receive about 800 loan requests a month and choose to do three or four," he said.

Brian Winski, a loan officer with AmeriCapital Mortgage & Investments LLC in Scottsdale, said his firm has seen more "bankable" loan requests in recent months. He means the requests are ones a traditional bank would have financed if the economy was stronger.

"The reality is, there are still good and viable projects that need to be financed, whether that project is construction or a refinance," Winski said.

He and other colleagues say they've helped bank borrowers who are in trouble refinance with private money, underscoring the complementary relationship that exists between both sets of financiers.

Traditional lenders may refer quality borrowers to private lenders they trust for deals they won't finance.

Private lenders rely on institutional financiers to provide their borrowers with money to pay off their hard-money loans.

"They fill a much-needed place in the financial world here," said Kevin Lewis, regional senior vice president of commercial banking for M&I Marshall & Ilsley Bank in Phoenix.

Albers estimates that nationally, private lending is a \$50 billion industry.

Quantifying the size of the state's private-lending industry is difficult because it includes everything from individuals pooling money for loans to firms with thousands of investors, such as Mortgages Ltd.

But local lenders agree hard money has been a significant catalyst for development. Lewis estimates that one-third of the deals M&I passes on in Arizona end up with a private lender.

But the languishing commercial real-estate market has caused all lenders to become more conservative.

Vacancy rates for office, industrial and retail space are rising, and developers are still adding space to the market.

With banks and large institutional lenders being more selective, many hard-money borrowers cannot secure permanent financing.

Private lenders face a tough decision: extend the maturity date of a loan, put the loan in forbearance or foreclose on the borrower.

Some have stopped making new loans; others have become as selective as banks.

"Everybody thought that all the private-money lenders would be extremely busy this year, but it's not the case," said Hartley of Coppercrest Funding.

The hard-money lenders' investors, who supply most of the money for the loans, also take a hit.

Investors are key

In many cases, investors are considered owners of the loans.

Mortgages Ltd.'s nearly 3,000 investors supplied almost a billion dollars for its loans. Some investors chose specific loans in which to place their money. As security, they were assigned an interest in a deed of trust on the property being financed.

Other investors put their money into pools, which were used to make multiple loans. Many hard-money lenders use similar structures.

Investors in many of the firms receive double-digit returns, which have been nearly impossible to achieve through banks, the stock market and other mainstream investments.

In most cases, the returns are dependent upon borrowers repaying their loans. Mortgages Ltd.'s bankruptcy has put its investors' monthly checks in jeopardy.

Investors Mortgage Holdings has set up one general fund in which all investors place their money. The company has agreements with 40 licensed broker-dealers who solicit investments in 49 states.

IMH currently has 4,650 active investor accounts, according to Albers.

Last year, the company raised \$330 million in capital, he said, and this year he expects the number to reach \$400 million.

AmeriCapital typically limits the number of investors in its loans to one individual, although in some cases the firm allows an investor to bring in a family member, Winski said.

Lender shuts down

Market conditions and other factors have affected lenders other than Mortgages Ltd.

Schaub Financial Inc., a Tempe mortgage brokerage firm, essentially has ceased operations. When it was operating, it registered a new limited-liability company with the Arizona Corporation Commission for every loan it made.

Investors put their money in the LLCs, with the number of participants ranging from a handful of individuals to 20 or more people.

In March, Schaub Financial relinquished all administrative control over the loans it brokered, according to founder Ken Schaub.

Schaub, a licensed mortgage broker, said when the market turned bad, he decided to turn control over to the investors in each of the LLCs.

The company's investors now are managing the loans themselves.

Larry Dahl, a Phoenix attorney that several of the lender LLCs relied on to disburse their funds to borrowers, also admitted to embezzling about \$3 million from various loan accounts, court documents state.

Some of the individuals who were investors in the lending entities have hired attorneys to foreclose on borrowers who reportedly are in default.

One project that has been affected is Gilbert Tuscan Village, a 50,000-square-foot retail center on 7 acres northeast of Higley and Guadalupe roads in Gilbert.

The borrower, Gilbert Tuscan Village LLC, filed for bankruptcy in December after the lending entity, Gilbert Tuscan Lender LLC, initiated a trustee's sale of the property.

The developer believes it has a claim against its lender, though, because its loan funds were embezzled, the company stated in documents.

Regulation varies

How lenders and brokers solicit investors is key because it determines what regulatory agencies, if any, have authority over them.

The Arizona Corporation Commission oversees some investment activity in the state. State and federal law exemptions make it difficult to determine whether a firm needs to be registered as a securities broker or dealer with the agency.

IMH registered its loan fund as a public reporting company with the U.S. Securities and Exchange Commission.

That means the company files regular financial reports with the SEC, similar to what a publicly traded firm would do.

"We have in our view been active in trying to change and elevate an industry by the way we do business," Albers said.

Some firms say they are exempt from state and federal securities laws because they are offering "private placement." That means they do not solicit investments from the general public.

On the lending side, some firms are licensed as a mortgage banker, commercial mortgage banker or mortgage broker with the Arizona Department of Financial Institutions. The agency enforces state banking laws.

Possessing a license does not mean all of a company's operations are regulated. Likewise, a company not registered with the corporation commission or licensed with DFI is not necessarily breaking the law.

Both agencies urge consumers to check whether companies have or need licensing before investing their money.

Red flags

Some borrowers accuse lenders of charging excessive up-front fees.

Exorbitant fees should serve as a red flag, said Cindy Hammond, president and CEO of Churchill Commercial Capital Inc., a licensed commercial mortgage banker in Phoenix.

Hammond notes, though, that private lenders do charge a premium for the speed they provide borrowers.

Other borrowers accuse lenders of funding only portions of the agreed-upon loan.

Borrowers are suing Mortgages Ltd., claiming the firm underfunded their loans. The lender, though, says the borrowers are in default.

Will Jones, president of Encinitas, Calif.-based WJ Commercial Enterprises, said he had trouble getting Landmarc to fund the entirety of a small loan he borrowed for construction of a charter school in Surprise.

After Landmarc received angry letters from Jones' construction contractor and Jones threatened to sue, he said Landmarc released additional funds.

Crantz, Landmarc's CEO, denied the company intentionally withheld funds. He said the company, like many lenders, relies on an outside management firm that checks projects to ensure they meet certain construction timelines before releasing funds. Only when a project meets agreed-upon milestones are funds disbursed, he said.

Investors Mortgage Holdings is one of several defendants in a lawsuit an investor group brought in July against developers of a luxury home and golf-course development in northern Arizona.

The group claims IMH failed to fund a loan to one of the developers of the 440-acre Flagstaff Ranch, declared the borrower in default and then extended the loan's maturity date to make it appear the loan was current.

The company denies the allegations and plans to fight the suit, according to one of the lender's attorneys.

IMH's Albers and other private lenders say that they have heard of such activity taking place but that it is not symptomatic of the industry.

Albers is serving as vice president of the Arizona Private Lenders Association, a group started to address regulatory and ethical issues.

The group was formed in January and is accepting membership applications, said Hartley, the group's president.

"We're trying to be recognized for having a group of people who want to follow the rules both with investors and borrowers," she said.

Hard times, hard money

Private or "hard-money" lenders say they are benefiting from the lack of lending by banks. But some are also experiencing rising defaults and accusations from borrowers claiming they're underfunding loans.

How it works

1Hard-money lenders often raise capital from investors. The investors are sometimes given interest in a deed of trust on property, given shares of a limited-liability company that makes loans or are matched up with a borrower using a mortgage broker.

2The broker or the lender originates the loan. Hard-money loans typically carry higher interest and servicing fees. Borrowers typically can't obtain more favorable financing from a bank because their project is too risky, their credit is too shaky or they lack their own equity.

3Hard-money loans are typically short-term. Their purpose generally is to help a developer buy land, commence construction or carry a project to the point where another lender is comfortable making a longer-term loan.

4Investors earn returns because borrowers pay. If a borrower defaults, they often have input about whether to foreclose.

<http://www.azcentral.com/arizonarepublic/business/articles/2008/08/17/20080817biz-hardmoney0817.html>

The article, *'Liar loans' threaten to prolong mortgage mess*, from *MSNBC.com*, reports that the nation's struggling housing market, already awash in subprime foreclosures, is now getting hit with a second wave of losses as homeowners with liar loans default in record numbers. In some parts of the country, the loans are threatening to drag out the mortgage crisis for another two years. In the mortgage industry, they are called "liar loans" — mortgages approved without requiring proof of the borrower's income or assets. The worst of them earn the nickname "ninja loans," short for "no income, no job, and (no) assets." "Those loans are going to perform very badly," said Thomas Lawler, a Virginia housing economist. "They're heavily concentrated in states where home prices are plummeting" such as California, Florida, Nevada and Arizona. Losses on liar loans could total \$100 billion, according to Moody's Economy.com. That's on top of the \$400 billion in expected losses from subprime loans.

'Liar loans' threaten to prolong mortgage mess

Mortgages allowed without proof of pay, assets default in record numbers

The Associated Press

updated 11:46 a.m. MT, Mon., Aug. 18, 2008
MSNBC.com

In the mortgage industry, they are called "liar loans" — mortgages approved without requiring proof of the borrower's income or assets. The worst of them earn the nickname "ninja loans," short for "no income, no job, and (no) assets."

The nation's struggling housing market, already awash in subprime foreclosures, is now getting hit with a second wave of losses as homeowners with liar loans default in record numbers. In some parts of the country, the loans are threatening to drag out the mortgage crisis for another two years.

"Those loans are going to perform very badly," said Thomas Lawler, a Virginia housing economist. "They're heavily concentrated in states where home prices are plummeting" such as California, Florida, Nevada and Arizona.

Many homeowners with liar loans are stuck. They can't refinance because housing prices in those markets have nose-dived, and lenders are now demanding full documentation of income and assets.

Losses on liar loans could total \$100 billion, according to Moody's Economy.com. That's on top of the \$400 billion in expected losses from subprime loans.

Fannie Mae and Freddie Mac, the nation's largest buyers and backers of mortgages, lost a combined \$3.1 billion between April and June. Half of their credit losses came from sour liar loans, which are officially called Alternative-A loans (Alt-A for short) because they are seen as a step below A-credit, or prime, borrowers.

Many of the lenders that specialized in such loans are now defunct — banks such as American Home Mortgage, Bear Stearns and IndyMac Bank. More lenders may follow.

The mortgage bankers and brokers who survived were more cautious, but acknowledge they too were swept up in the housing hysteria to some extent.

"Everybody drank the Kool-Aid" said David Zugheri, co-founder of Texas-based lender First Houston Mortgage. They knew if they didn't give the borrower the loan they wanted, the borrower "could go down the street and get that loan somewhere else."

The loans were also immensely profitable for the mortgage industry because they carried higher fees and higher interest rates. A broker who signed up a borrower for a liar loan could reap as much as \$15,000 in fees for a \$300,000 loan. Traditional lending is far less lucrative, netting brokers around \$2,000 to \$4,000 in fees for a fixed-rate loan.

During the housing boom, liar loans were especially popular among investors seeking to flip properties quickly. They were also commonly paired with "interest only" features that allowed borrowers to pay just the interest on the debt and none of the principal for the first several years.

Even riskier were "pick-a-payment" or option ARM loans — adjustable-rate mortgages that gave borrowers the choice to defer some of their interest payments and add them to the principal.

While some borrowers were aware of their risky features and used them to gamble on their home's value or pull out money for vacations, others like Salvatore Fucile insist they were victims of predatory lending.

Fucile, who is 82, and his wife, Clara, wound up in an option ARM from IndyMac after consolidating two mortgages on their suburban Philadelphia home. Fucile was attracted by the low monthly payments, but says the mortgage broker who signed him up for the loan didn't tell him the principal balance could increase. It has risen about \$24,000 to \$276,000.

"He put me in a bad position," said Fucile, who fears he will be forced into foreclosure. "He misled me."

IndyMac was taken over by the Federal Deposit Insurance Corp. last month.

FDIC spokesman David Barr declined to discuss the Fuciles' case, but said the agency has temporarily frozen all IndyMac foreclosures and is working on a broad plan to modify mortgages held by the Pasadena, Calif.-based bank.

The low monthly payments of liar loans helped many home buyers afford to purchase in areas of the country where prices were skyrocketing. But they also helped drive up prices

by allowing people to buy more than they could truly afford. Case in point: about 40 percent of loans made in California and Nevada in 2005 and 2006 were either interest-only or option ARMs, according to First American CoreLogic.

"It was pretty evident that the only thing that was supporting these loans was higher home prices" said Tom LaMalfa, managing director at Wholesale Access, a Columbia, Md.-based mortgage research firm.

Now that prices have fallen, almost 13 percent of borrowers with liar loans were at least two months behind on their payments in May, nearly four times higher than a year earlier, according to First American CoreLogic.

Countrywide Financial Corp., now part of Bank of America Corp., was one of the top providers of liar loans. The company is now paying the price. More than 12 percent of Countrywide's \$25.4 billion in pick-a-payment loans are in default, and 83 percent had little or no documentation, according to a Securities and Exchange Commission filing last week.

Critics say Fannie Mae and Freddie Mac, which bought or guaranteed liar loans from lenders including Countrywide and IndyMac, should have stuck with traditional 30-year, fixed-rate mortgages.

"I personally think that they ventured beyond their mission," said Richard Smith, a mortgage broker in Chattanooga, Tenn. Because of their decision to back shakier loans, he said, "the home-buying public is going to have to pay."

Fannie and Freddie entered the market for risky loans just as they emerged from accounting scandals. At the time, Wall Street giants such as Bear Stearns and Lehman Brothers Holdings Inc. were backing a growing share of ever-riskier loans, and both government-sponsored companies felt pressure to compete.

Freddie Mac wanted "to stay competitive in the market and take steps to preserve market share," spokesman Michael Cosgrove said.

Fannie Mae increased its purchases of liar mortgages "at the requests of many of our customers," according to spokesman Brian Faith.

Both companies also were able to use subprime and liar-loan investments to meet government-set affordable housing goals.

Now Fannie, Freddie and other mortgage investors are reviewing defaulted loans to see if lenders committed fraud. If they find enough evidence, they could force lenders to assume responsibility for losses.

But it's unclear how much money they might recover, especially from lenders that have gone under or been seized by the government.

URL: <http://www.msnbc.msn.com/id/26270434/>

The article, *Condo living, light rail set to re-energize Mill Avenue*, from the *Arizona Republic*, reports that Tempe's Mill Avenue has been in a state of evolution for more than three decades, going from a dilapidated strip of old buildings to a hip '80s hangout to a '90s college hotspot. This time, community leaders are hanging their hopes on an influx of posh high-rise condos and the December opening of light rail, changes they believe will bring Mill Avenue to a new pinnacle as a center of urban living. About 600 new residences are expected to be completed near Mill Avenue this year. Chris Wilson, vice president of Downtown Tempe Community, a non-profit organization that provides management services for the area, said residential adds a "constant factor." "Residential is the holy grail of downtown development," he said. "Most people shop, dine and spend time within 1 or 2 miles of their home, and that gets intensified in an urban setting where they do it within a couple blocks." Tempe Mayor Hugh Hallman said the number of developers that are still building in Tempe is symbolic of the advantages Tempe has. The city is a Valley focal point nestled among metropolitan Phoenix, Phoenix Sky Harbor International Airport and the Valley's southeast suburbia.

Condo living, light rail set to re-energize Mill Avenue

by **William Hermann and Dianna M. Nández** - Aug. 18, 2008 12:00 AM
The Arizona Republic

Tempe's Mill Avenue has been in a state of evolution for more than three decades, going from a dilapidated strip of old buildings to a hip '80s hangout to a '90s college hotspot.

Now hit hard by a tough economy and the opening of a major retail competitor, Tempe Marketplace, the downtown district is facing its latest identity crisis.

This time, community leaders are hanging their hopes on an influx of posh high-rise condos and the December opening of light rail, changes they believe will bring Mill Avenue to a new pinnacle as a center of urban living.

When community activists saved older downtown buildings in the 1970s and early 1980s and some restaurants and shops opened on Mill, it seemed as if the street had a new lease on life.

In 1989, DMB Associates opened Centerpoint, a 21-acre project including offices, restaurants, retail and entertainment on the northwestern corner of Mill Avenue and University Drive. Though restaurants and retail came to Centerpoint and points north on Mill, big, steady crowds never followed.

Ten years later came the opening of Tempe Town Lake. Downtown is home to big nights after football games, a successful New Year's party and crowded art festivals. But consistent crowds of shoppers still are not there.

Residential space in the urban core was the missing ingredient, many say.

About 600 new residences are expected to be completed near Mill Avenue this year.

"We had an 18-hour downtown; we wanted a 24-hour downtown," Neil Calfee said. Formerly a Tempe deputy community development manager, Calfee is now Arizona State University's director of real-estate development.

Chris Wilson, vice president of Downtown Tempe Community, a non-profit organization that provides management services for the area, said residential adds a "constant factor."

"Residential is the holy grail of downtown development," he said. "Most people shop, dine and spend time within 1 or 2 miles of their home, and that gets intensified in an urban setting where they do it within a couple blocks."

City officials, developers and merchants say the fall opening of the Centerpoint Condominiums high-rise in particular will have a significant impact.

Developer Ken Losch said he will open Centerpoint in late October, despite financing complications brought on by the recent bankruptcy of his main financier, Mortgages Ltd.

Losch said several factors are coming into play that will help residential properties on Mill Avenue succeed, including the rising cost of commuting due to high gasoline prices, the opening of light rail through downtown Tempe and Tempe's proximity to jobs and freeways.

Tempe is in what Losch calls the "A Circle" for Valley development. In contrast with "C Circle" areas like east Mesa and Queen Creek, where distances to drive to work are great and house prices have plummeted, he said central Tempe has stronger real-estate values and is becoming a place where people want to live and work.

Losch said that his research shows that within a 1-mile radius of Mill, there are 11,000 jobs; within 2 miles, 20,000 jobs; and 3 miles, 60,000 jobs.

"Mill Avenue is the next spot to be in town," Losch said.

Tempe Mayor Hugh Hallman said the number of developers that are still building in Tempe is symbolic of the advantages Tempe has. The city is a Valley focal point nestled among metropolitan Phoenix, Phoenix Sky Harbor International Airport and the Valley's southeast suburbia.

"Yeah, there's lots of opportunity to look for black clouds in the economy," Hallman said. "(But) if there's anyplace to look for silver linings, it's in Tempe."

Julian Wright, who recently opened LaBocca restaurant and was the originator of The Library bar and Jax Thai Bar, agreed.

"Mill Avenue is slowly growing up," he said. "The type of projects that are being opened are starting to cater to an older, more mature clientele, people who enjoy urbanism."

Tempe realty agent Will Daly, who operates the Web site WeKnowUrban.com, said that downtown Tempe now has the finite geography that large urban areas like Chicago have. Daly said Town Lake and light rail have helped create these artificial boundaries that force cities to build upward and not outward.

"Tempe is vertical, very walkable. Everything is within walking distance," Daly said. "With the light rail, you're adding a 20-mile focal point and providing a boundary, just like the lake. Most urban settings have either a boundary or a focal point. With Mill Avenue, you've got both."

Developer Ross Robb is a veteran of downtown Tempe development. Robb oversaw the financing and administration of Hayden Square, a Mill Avenue residential and commercial center, and the Casa Loma and Andre buildings, with office and retail space.

Robb agrees that high gas prices are convincing people to move closer in, that freeways create a "power center" around Tempe and that light rail will bring people by the thousands to Mill Avenue.

"But a lot depends on the national and local economy," he said. "Whether this perfect storm happens in the next few months or 24 or 48 months, I don't know."

<http://www.azcentral.com/arizonarepublic/news/articles/2008/08/18/20080818millfuture0813.html>

The article, *Apartments offering freebies, other deals*, from the *Arizona Republic*, reports that apartment owners are dangling freebies in front of new tenants who sign 12-month leases. Renters can thank the struggling real-estate market and its deflated housing prices, increased foreclosure rates and depressed rents on single-family homes, condominiums and apartments. Add to that the condominium-conversion flop, which has led to condos reverting to rental apartments. "This is a great time to be a renter," said Pete TeKampke, a commercial real-estate broker and board member of the Arizona Multihousing Association. With a glut of cheap rental homes on the market, apartments are facing more competition than ever and many are sitting with empty units as vacancy rates soar. Some cities, especially north Scottsdale, are getting hit by a double whammy as condo-conversion projects revert to apartment rental units. During the Valleywide condo craze, 30,616 apartment units were converted or sold to investors who planned to convert them to condos, TeKampke said. By the middle of last year, 18,000 units had reverted to apartment rental units and many investors had scrapped their conversion

projects. The result has left some apartment complexes with a patchwork of owner-occupied condos, investor-owned condo rentals and apartment rentals.

Apartments offering freebies, other deals

Units revert as condo craze dies

by **Kerry Fehr-Snyder** - Aug. 16, 2008 08:00 AM
The Arizona Republic

Renters rejoice.

Apartment owners are dangling freebies in front of new tenants who sign 12-month leases.

One company, Mark Taylor, is even going so far as to offer a free iPod, a \$25 iPod tunes gift card and two months of free rent to new tenants who lease any apartment in its 34 Valley complexes, including eight in Chandler, four in Tempe, four in Ahwatukee and two in Gilbert.

Renters can thank the struggling real-estate market and its deflated housing prices, increased [foreclosure](#) rates and depressed rents on single-family homes, condominiums and apartments. Add to that the condominium-conversion flop, which has led to condos reverting to rental apartments.

"This is a great time to be a renter," said Pete TeKampke, a commercial real-estate broker and board member of the [Arizona](#) Multihousing Association.

Rent increases have leveled off after climbing as much as \$44 a year during the Valley's real-estate boom two years ago.

With a glut of cheap rental homes on the market, apartments are facing more [competition](#) than ever and many are sitting with empty units as vacancy rates soar.

That has prompted 68 percent of apartment landlords to offer concessions worth several months of rent, TeKampke said.

"Flat-rent growth will exist as long as those rent concessions are in place and until they burn off," he said.

"The most commonly offered concession is one month free with a 12-month lease.

"In extreme cases, landlords are offering three months free."

TeKampke, vice president of investments for Marcus & Millichap, recently analyzed rents and vacancy rates collected by RealData Inc. and found declines in most cities.

Valleywide, rents increased just \$9 in the second quarter of this year compared with the same three-month period last year. Rent growth also was relatively flat from the first quarter to the second of this year.

But even with relatively cheap rents, the Valley's apartment-vacancy rate climbed to record high of 12.4 percent for the second quarter of this year.

Vacancy rates are skewed in some cities, such as Tempe, because of the seasonality of rentals. Tempe's vacancy rate peaks each spring as students graduate from Arizona State University or leave for the summer.

Conversely, the city's vacancy rates typically dip in August as ASU students start the fall semester.

But Tempe's apartment market also is changing as hundreds of new apartment units are built. Developers built 523 units last year and an additional 700 units in the first half of this year. In addition, about 1,000 units are under construction or planned.

Rents tend to be higher in Tempe than in Chandler, Gilbert and other outlying areas, TeKampke said.

Some cities, especially north Scottsdale, are getting hit by a double whammy as condo-conversion projects revert to apartment rental units.

During the Valleywide condo craze, 30,616 apartment units were converted or sold to investors who planned to convert them to condos, TeKampke said. By the middle of last year, 18,000 units had reverted to apartment rental units and many investors had scrapped their conversion projects.

The result has left some apartment complexes with a patchwork of owner-occupied condos, investor-owned condo rentals and apartment rentals.

Rent trends

Growth in average apartment rental costs has been relatively flat and vacancy rates have been rising in many areas, prompting landlords to offer incentives to new tenants.

- **Northwest Mesa:** \$687 and 14.5 percent vacancy rate in the second quarter of 2008, compared with \$667 and 7.9 percent in the fourth quarter of 2006.

- **Southwest Mesa:** \$733 and 12 percent vacancy rate, compared with \$721 and 7.8 percent.

- **Chandler:** \$879 and 9.6 percent, compared with \$890 and 10.8 percent.

- **North Tempe:** \$868 and 17 percent, compared with \$808 and 8.6 percent.
- **South Tempe:** \$861 and 13.6 percent compared, with \$844 and 8.2 percent.
- **Ahwatukee:** \$877 and 8.4 percent, compared with \$921 and 7.5 percent.
- **Gilbert** (including part of southeast Chandler and southeast Mesa): \$854 and 13.9 percent, compared with \$832 and 7.4 percent.

Source: RealData Inc. and Pete TeKampe, a commercial real estate broker

<http://www.azcentral.com/community/gilbert/articles/2008/08/16/20080816ev-apartments0816.html>

The article, ***State jobless rate rose to 5.1% in July***, from the *Arizona Republic*, reports that according to the state Department of Commerce, Arizona's unemployment rate in July jumped to 5.1 percent with the state losing 37,500 jobs over the past month because of the slowing economy and seasonal factors. The construction sector struggled through another difficult month with the reduction of 3,000 jobs. Arizona has lost 54,900 construction jobs since employment in that sector peaked June 2006. The state's real-estate downturn also has hurt rental and leasing jobs, which dipped 1.4 percent from a year earlier, and finance and insurance jobs were down 4.3 percent. Dennis Doby, the department's senior director of research administration, sees some optimism for Arizona. There were job gains in five of Arizona's 11 main sectors over the past year.

State jobless rate rose to 5.1% in July

Ariz. lost 37,500 jobs from slow economy, tourism season's end

by **Ken Alltucker** - Aug. 15, 2008 12:00 AM
The Arizona Republic

Arizona's unemployment rate in July jumped to 5.1 percent with the state losing 37,500 jobs over the past month because of the slowing economy and seasonal factors, a new state report shows.

Part of the reduction was due to the normal summer churn led by the school break and the winding down of Arizona's tourism season, but the state's slowing economy was an overriding reason in the state's job decline.

Overall, the state Department of Commerce reported that non-farm jobs totaled nearly 2.6 million in July, a 1.6 percent dip from one year earlier.

"There is some work out there, but it's just going to be harder for people to find jobs," said Dennis Doby, the department's senior director of research administration.

The construction sector struggled through another difficult month with the reduction of 3,000 jobs. Arizona has lost 54,900 construction jobs since employment in that sector peaked June 2006.

The state's real-estate downturn also has hurt rental and leasing jobs, which dipped 1.4 percent from a year earlier, and finance and insurance jobs were down 4.3 percent.

Doby sees some optimism for Arizona. There were job gains in five of Arizona's 11 main sectors over the past year.

<http://www.azcentral.com/arizonarepublic/business/articles/2008/08/15/20080815biz-unemployment0815.html>

The article, ***Former mayor, Paul Johnson, driving \$500M real estate equity fund***, from the *Phoenix Business Journal*, reports that former Phoenix Mayor Paul Johnson is putting together a \$500 million real estate equity asset management fund and wooing U.S. and foreign institutional investors. Johnson serves as president of the fund, dubbed Southwest Next Capital Management. The vice presidents are Joseph Meyer, a former principal of Gray Development Group, which has built high-end rental communities in the Valley; Jay Michalowski, previously an institutional trader in Europe, an executive with Lehman Brothers and founder of First IRA, a wholesale residential and commercial finance firm; and James Mullany, co-founder of Berkana Homes, which builds upscale housing developments at affordable prices. Mullany and Johnson have been partners in Berkana for several years. "We met with a dozen groups in New York, and five have flown out to Arizona," he said. "There certainly is an interest." The fund, which grew out of a \$50 million pool that Johnson started two years ago, has been used to purchase a mix of properties in Arizona including residential subdivisions, raw land, a resort, commercial parcels and infill sites. Craig Henig, managing partner of CB Richard Ellis in Phoenix, said institutional investors have money to spend, but they're choosing not to -- yet. "We've heard of several unnamed groups with a war chest of capital, waiting on the sidelines for opportunities in all sectors of the real estate market," Henig said. "To our knowledge, none are ready to jump in right now. They just don't feel as though we've seen the bottom of the market."

Former mayor, Paul Johnson, driving \$500M real estate equity fund

Phoenix Business Journal - by [JAN BUCHHOLZ](#) Phoenix Business Journal

Friday, August 15, 2008

Former Phoenix Mayor Paul Johnson is putting together a \$500 million real estate equity asset management fund and wooing U.S. and foreign institutional investors.

Johnson, a homegrown developer and landowner, has attracted three local partners with experience in high finance and complicated infrastructure construction to take their show on the road, which included stops in the Big Apple two weeks ago.

"We're not a huge national fund or a hedge fund. What we are is very focused on the Southwest, which we all know," he said.

Johnson serves as president of the fund, dubbed [Southwest Next Capital Management](#). The vice presidents are Joseph Meyer, a former principal of [Gray Development Group](#), which has built high-end rental communities in the Valley; Jay Michalowski, previously an institutional trader in Europe, an executive with Lehman Brothers and founder of First IRA, a wholesale residential and commercial finance firm; and James Mullany, co-founder of [Berkana Homes](#), which builds upscale housing developments at affordable prices. Mullany and Johnson have been partners in Berkana for several years.

Because of Johnson's long-standing political and professional connections, he believes he brings something extra to the table to help lure big money to the Southwest.

"We met with a dozen groups in New York, and five have flown out to Arizona," he said. "There certainly is an interest."

The fund, which grew out of a \$50 million pool that Johnson started two years ago, has been used to purchase a mix of properties in Arizona including residential subdivisions, raw land, a resort, commercial parcels and infill sites.

The next goal is to raise \$150 million, and several soft commitments have been made toward that end, Johnson said. The fundraising is on a fast track, with plans to raise the entire amount and have it spent by the end of this year. Ultimately, Johnson hopes to net \$500 million -- which might not be a far-fetched notion.

In fact, money to invest probably is not an issue. Many opportunity funds, investment trusts and high-net-worth individuals are flush with cash -- they're just holding on to it as economic experts pontificate about the bleak real estate landscape. But most savvy investors know times will change, and they will be in a spending mood again.

Craig Henig, managing partner of [CB Richard Ellis](#) in Phoenix, said institutional investors have money to spend, but they're choosing not to -- yet.

"We've heard of several unnamed groups with a war chest of capital, waiting on the sidelines for opportunities in all sectors of the real estate market," Henig said. "To our knowledge, none are ready to jump in right now. They just don't feel as though we've seen the bottom of the market."

That's where Johnson hopes to come in, attracting money to Southwest Next by selling his team's expertise. They can tell the good buys from the bad deals, he said, so when the market becomes ripe once again, Southwest will be ready to move before others have a chance to analyze any proposals.

"What we bring is a real understanding of the market itself. We have understanding of (local) zoning and repositioning assets. It's our relationships that count," Johnson said.

Market focus plays another important role in separating Southwest Next from the competition, he added.

"We're not interested in single-family homes. We're interested in unfinished infrastructure. We like inside the Loops (101 and 202), because we think inside parcels will come back quicker," Johnson said. "We're looking at broken assets -- it's being able to work with the different components of a broken property and making it work."

In other words, Southwest Next is looking for troubled real estate: stalled projects, parcels that the owners can't afford to hold on to, distressed commercial buildings, and nonperforming promissory notes that can be purchased at steep discounts. The fund also is looking to provide mezzanine financing for larger developments that have run out of construction money.

Johnson believes many of the investments that recently failed eventually will prove profitable and become assets to the Valley. Real estate is cyclical, he said, and he's been through more than one downturn.

"I was there during the last crash. People here started losing faith, but what people here failed to pay attention to was that other people continued to move to Arizona," Johnson said. "The U.S. is going to come back, and Arizona, California and the Southwest will all come back better than anywhere else."

Another major player in the real estate brokerage community agreed. He expects Johnson will parlay his experience into something good for Phoenix.

"I don't doubt that they'll be successful. There is all kinds of money sitting on the sidelines," said Chris Toci, executive director of Cushman & Wakefield of Arizona Inc.

Still, Toci said the more important factor for institutional investors involves sellers. When prices come down, institutional investors will jump at the chance to invest in Arizona. But if sellers and other deals look better in California, Florida or Nevada, they'll head that way.

"It's going to take capitulation by the sellers," he said.

Still, anything to get cash flowing through the Arizona real estate community is good, Toci said. "Right now, there's no liquidity."

<http://phoenix.bizjournals.com/phoenix/stories/2008/08/18/story1.html>