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REAL ESTATE DIGEST

PRACTICAL REPORTS ON TAXES, FINANCING, MARKETS, LAW AND TECHNOLOGY

Real Estate Industry Keeping National Economy Afloat

Call it the real estate industrial complex. The real estate industry, with all the jobs it has created, is an economic engine that has become one of the few reliable sources of growth in recent years. Encompassing everything from land surveyors to general contractors to loan officers, the sprawling sector has added 700,000 jobs to the nation's payrolls over the last four years, according to the research firm Economy.com, as reported in *The New York Times*.

Combined, the rest of the economy has lost nearly 400,000 jobs over the same span, which stretches back to the start of the most recent recession, in 2001.

Few entry barriers

Unlike other industries that have boomed recently – health care and technology in particular – real estate has the advantage of relatively low

barriers to entry. A college degree, let alone one from a medical or business school, is not a prerequisite for a middle-class income.

Across the real estate sector, though, incomes are lower on average – about \$38,000 – than they are in the rest of the economy, where the typical yearly pay is about \$41,000. While mortgage brokers, architects and some real estate agents do much better, call-center employees at banks and janitors tend to make relatively little.

Parts of the business have also become far more productive, requiring many fewer workers than were once needed for the same amount of output. Mortgage bankers, for example, no longer have to sort through the mounds of paper they once did and their software for assessing risk is much more powerful.

"The story here is twofold," Mark Zandi, chief economist of Economy.com,

said. "Real estate has been an important job creator in bad times, but it's also a reason we haven't created a lot of jobs" elsewhere in the economy since the recession ended in late 2001. That is because growth in the housing industry does not put as many people to work as does growth in other industries. "It's this bright shining light in the economy," he said, "that doesn't create a lot of jobs."

As goes the industry...

Moreover, if housing prices in the hottest markets actually begin falling, as some economists fear, the vast real estate sector could act as a drag on the entire economy. About 40 percent of housing booms in rich countries over the last three decades have ended in busts, according to a recent study by the International Monetary Fund. Busts almost inevitably led to recessions, the study found.

MARKETS

High Cost of Housing Taking Its Toll On Low-Income Americans



Call it the dark side of the bubble, but a new survey from the Home Ownership Alliance indicates the real estate boom and parallel high cost of housing is having a widespread negative impact among low-income Americans. The survey found that:

- ❑ Half of respondents were concerned that the cost of housing will force their children to attend inadequate schools;
- ❑ Nearly half are considering leaving the area in which they live in order to afford more desirable housing;
- ❑ Nearly one-third of families have someone commuting an hour or more to work.

The poll also finds that a majority of Americans making annual incomes of less than \$25,000 report that the high cost of homeownership has forced them to rent rather than buy.

Meanwhile, the Harvard Joint Center for Housing Studies has issued a report suggesting that housing affordability could ultimately doom the nation's housing expansion. The study found that about a third of all Americans are spending more than 30 percent of their household income on housing and more than 12 percent of Americans are spending more than 50 percent of their incomes on shelter.

The report also pointed out that many Americans – not included in the first two categories – are spending more than \$100 per month on transportation to commute to work from suburbs where housing is more affordable. The report concluded, "There is little cause for optimism that the nation's housing affordability challenges will diminish."

Experts: Price Decline Possible In Hot Zones



Housing experts appearing at the Reuters Real Estate Summit, sponsored by the international news agency, say many U.S. markets could see a dip in the coming months, but there was little agreement on how much and how fast. The news agency quoted Toll Brothers CEO Robert Toll as saying that in the "hot" markets, "I wouldn't be surprised to see a 20 percent decline. You've got a price going from \$1 million to \$800,000; I don't have a problem with that."

While there was general agreement that current price inflation is unsustainable, the idea of a "national bubble" was dismissed in favor of strictly local problems that will hit individual markets where the run-ups have been the greatest. The leaders also said that there could be a slide in some areas, but population pressures for more housing will keep any decline from becoming too steep.

Labor Shortage Crimping New Home Starts



A shortage of workers in the building industry could dampen the ongoing boom. The National Association of Home Builders said the industry faces an annual shortfall of 60,000 to 80,000 workers, and the problem could get worse as the economy improves and workers find higher-paying jobs.

The NAHB said one way to ease the problem would be for the government to expand its immigration rules to allow more construction workers to enter the country. Another alternative, some said, would be to limit design variations among builders, thus allowing for quicker construction of homes.

TRENDS

Port St. Lucie, Fla., Fastest-Growing City

The Census Bureau has named Port St. Lucie, Fla., as the fastest-growing city in the country with a population of more than 100,000. Port St. Lucie, located near West Palm Beach, grew 12 percent from 2003 to 2004 to a population of 118,396.

Rounding out the top 10:

- 2 Elk Grove, Calif.
- 3 North Las Vegas, Nev.
- 4 Gilbert, Ariz.
- 5 Cape Coral, Fla.
- 6 Moreno Valley, Calif.
- 7 Chandler, Ariz.
- 8 Miramar, Fla.
- 9 Rancho Cucamonga, Calif.
- 10 Roseville, Calif.

New York continues to be the most populous city with 8.1 million residents, followed by Los Angeles with 3.8 million.

First-Time Home Buyers Use Internet to Buy Cross Town



About 44 percent of first-time home buyers moved across town into their homes, while nine percent relocated to another state, according to a survey conducted by RealEstate.com, a part of InterActiveCorp, which also owns Lending Tree, Domania and iNest, among other companies. The survey of 2,000 first-time home buyers also found that 41 percent of first-time buyers are first turning to the Internet to research home listings. Among the other findings:

- ✓ 30 percent of first-time buyers were "ill at ease with the time and effort they spent obtaining a mortgage;"
- ✓ 29 percent "found themselves very anxious during the time spent 'in limbo' between making the offer and closing on the house;"

- ✓ 62 percent of homeowners cited "being patient with the home-buying process" as paramount to staying sane throughout the process;
- ✓ 39 percent of first-time buyers said spending the first night in their new home was the emotional high point of the experience, while 28 percent said finally closing on the house was the best part.

Eight percent said celebratory champagne on the first night is a must.

Newspapers Losing Advertising Luster



Once the king of real estate advertisements, the newspaper classified is losing its

crown to the Internet. This according to study by the Corzen Research Company, which tracks the location of auto and employment classified advertising, and has begun tracking real estate indicators of new and existing homes in 100 top markets.

"The data we see indicates that real estate classified revenue streams of traditional media companies are coming under the same pressure from the Internet that we have seen in the recruitment and automotive classified categories," said CEO Bruce Murray. "The volume of real estate listings online far exceeds real estate listings in print. Home buyers — like job seekers or car buyers — will go to look for a new home wherever they find the have the most choice."

New Homes in Mexico To Have Internet Access



The Mexican government's home financing agency, Infoavit, says beginning immediately it will only underwrite the construction of homes that include broadband

Internet access. Infoavit says the Internet has become a staple of living, just as water, electricity and telephone communication.

Infoavit anticipates granting more than 375,000 mortgages this year. Mexico has an approximate population of 105 million in 22 million households.

LAW

Texas House Committee OKs Landowner Protection



Inflamed by what it sees as a judicial assault on property rights, a Texas House committee unanimously adopted a proposed constitutional amendment that would limit when governments could seize private property, according to an article in the *San Antonio Express-News*.

The bill, authored in the House by Rep. Frank Corte Jr., R-San Antonio, and supported by most House members, is similar to measures being pushed through Congress and a number of other states that would bar governmental entities from seizing property strictly for economic development purposes.

The rush around the nation to enact limits on eminent domain powers comes in the wake of last month's U.S. Supreme Court ruling that granted local governments broad powers to seize private property.

The 5-4 decision allows the city of New London, Conn., to condemn an aging residential neighborhood so that private developers can build offices, a hotel and river walkway. Critics said the ruling means states and local governments can seize property not just for "the public good," as has historically been permissible, but for "the private good" as well.

States can set stricter eminent domain laws than what the Supreme Court deems permissible. Corte and many other Texas lawmakers vow to tighten state law to do

just that. Corte's constitutional amendment would bar state and local governments from seizing property from one owner and then turning it over to another owner.

AGENTS' CORNER

Earnings Up For Some Realtors, Not All



Realtor income in 2004 was 7.2 percent higher than in 2002, according to the recently published 2005 NAR Member Profile.

Those who manage Realtor offices but do not sell had a median income of \$86,000, up 26 percent. Those who manage and sell had an \$82,200 average income, up 19 percent. Broker-owners banked \$89,100 or 13 percent more. Broker-associates averaged one percent more, earning \$67,900.

Median income for sales associates, however, declined some eight percent to \$38,300. NAR research analysts attribute the drop to the influx of new sales associates who may take years to reach their earning potential. Sales associates who have been in real estate six to ten years had a 2004 median income of \$57,100. Those with more than 26 years had an \$83,400 median income.

Internet Site Strives for After-Sale Relationship



Keeping a long-term relationship with real estate clients beyond the closing table has stumped industry professionals for many years. Real estate agents are busy and consumers generally only need them once every seven years.

Minneapolis-based Divide's (www.adigida.com) strategy is to create customized Web sites as destinations where consumers will come back again and again. The company has launched a new broker

edition of its HomeHubConnect (www.homehubconnect.com) lead conversion product, which enables users to create individual Web sites for each real estate consumer.

HomeHubConnect consumer Web sites offer home buyers and sellers a place to keep an online family photo album, calendar, an online game section for kids and a home inventory safe, among other features. Some other features on a include file safes where clients can store documents, a tool that tracks home maintenance projects, and a community section where users can track community events, restaurants, classifieds and local businesses.

Now Available: "Buyers Guide To Home Owner Associations"



The Community Associations Institute has released a home buyer guide to help consumers understand what they are facing when they buy properties governed by home owner associations.

"Community Matters—What

You Should Know Before You Buy," explains the nature, benefits and obligations of the community association lifestyle, addressing governance, rules, assessments, homeowner expectations and more. The brochure can be downloaded for free at: www.caionline.org/bookstore.cfm

MORTGAGE

Delinquencies Dip



Mortgage delinquency rates for the first quarter of 2005 were 4.31 percent, down slightly from year-ago levels, according to The Mortgage Banker Association's (MBA) National Delinquency Survey.

The percentage of loans in the foreclosure process was 1.08 percent at the end of the first quarter, a drop of 21 basis points from the previous year and a drop of seven basis points from the fourth quarter of 2004.

MBA Chief Economist Doug Duncan said growth in the economy

and continued low interest rates allowed consumers to improve their household finances. The number of consumers making mortgage payments on time was nearly 96 percent.



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