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REAL ESTATE DIGEST

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

Mortgage Housing Market Will Cool with a Hiss, Not a Pop

A hiss, not a pop, will herald the cooling of the hot housing market, the Mortgage Bankers Association (MBA) said Tuesday in a report analyzing the impact of economic fundamentals on the future of housing prices.

From the MBA's view, the landing appears soft thanks to fundamentals, such as job and income growth, that will remain solid.

Doug Duncan, the association's senior vice president and chief economist, said there has been a "crescendo" building on the issue of housing prices since 2001. "There is no national housing bubble. (But) there are risks and they are far less dramatic than the hyperbole of the last several months."

Local bubbles possible

Some regional or local markets where prices are out of line with fundamentals may see some decline. But "there is some overstatement of the degree to which declines might occur," Duncan said. Those most likely are markets where there is one large, dominant employer whose prospects are in question.

That seems to rule out Southern California, which has a diverse employment base. "There is still significant population and job growth in California. Barring a turnaround in the economy, it's reasonable to expect price appreciation," Duncan said.

Modest gains next year

The housing market will

cool, though, with appreciation rates slowing. The association anticipates sales to decline by four to five percent next year and price appreciation to be about 4 percent.

That could cause a modest slowing of the economy, but it would still continue to grow.

Duncan said, "We do not see doom and gloom nor are we being Pollyannaish. We just think there will be a rebalancing of activity."

The MBA's view reflects that of some independent market watchers, who have been predicting a narrowing of price gains and not a wipeout of the robust price appreciation of recent years.

Jack Kyser, chief economist at the Los Angeles County Economic Development Corp., notes there have been a rash of reports on the bubble issue and many contradict each other. He agrees with Duncan, though.

"When you look at California, for example, you see a healthy and diverse economy that is growing. And you have the strong (housing) demand."

Lessons from Hurricane Katrina Extend Nationwide



Early estimates indicate that Hurricane Katrina may be the costliest natural disaster in history. This means the insured dam-

ages could easily far exceed Hurricane Andrew's \$22 billion tab. All Americans are affected by natural disasters, regardless of where they live. Case in point, rates for all homeowners policies are expected to rise five to six percent upon renewal nationwide, and 15 to 20 percent in affected states.

Often it's not always clear what policies cover and what they don't. Standard business and homeowner policies cover wind damage from hurricanes, according to the Insurance Information Institute (I.I.I.). However, such policies do not cover damage from flooding. Flood damage is covered under policies written by the National Flood Insurance Program, which are available from many companies.

If the roof of a home blows away during a hurricane and rain damages the house, the homeowner should be covered under any basic homeowners policy. However, if the wind creates a storm surge or causes stream and river flooding, the homeowner is left uninsured and needs to rely on a separate flood insurance policy.

Katrina's Unintended Legacy

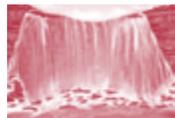


The devastation from Hurricane Katrina could turn out to help the housing industry, mainly through falling interest rates.

Investors pushed rates lower shortly after the catastrophe in anticipation that Katrina and the

resulting surge in energy prices would act as a drag on economic growth and could persuade the Federal Reserve to pause in its 14-month campaign to push rates higher.

Buffalo/Niagara Falls Most Affordable Region



The National Association of Home Builders has named the Buffalo/Niagara Falls region of New York as the most

affordable part of the country, and the Los Angeles-Long Beach-Glendale, Calif., area as the least affordable.

Following Niagara Falls on the NAHB's Housing Opportunity Index were Indianapolis, Dayton and Youngstown. According to the HOI, nearly 90 percent of new and existing homes sold in the Niagara Falls area in the second quarter were affordable to families making the area's median income of \$57,000. The median price of homes there was \$75,000.

In L.A., just 3.6 percent of all homes sold were affordable to those making the median income of \$54,500 when the median sales price was \$461,000.

When it comes to the expense of living in a city, a Boston housing group has determined that the northern metropolis is the most expensive city in the country to live in, followed by Washington, D.C., and New York. The Boston Foundation and Citizens Housing and Planning Association says a family of four needs \$64,600 per year to be able to afford food, shelter, transportation, health insurance and other necessities. The total is \$3,000 higher than in Washington and \$6,000 higher than New York.

Detroit tops FSBO List



ForSaleByOwner.com has released a research report of its FSBO listings and determined that Detroit is the most active by owner market in the country. The company

says it listed some 40,000 homes in 2004, and four percent of them were in the Detroit area.

Other top markets were:

- 2 Dallas
- 3 Atlanta
- 4 New York
- 5 Houston
- 6 Washington, D.C.
- 7 Chicago
- 8 Portland, Ore.
- 9 Indianapolis
- 10 Seattle.

Santa Barbara Housing Overheated By 69 Percent, Other Markets Close Behind



National City Corp., one of the nation's largest financial holding companies, has released a report suggesting 31 percent of the country's housing markets are "extremely overvalued." Chief economist Richard DeKaser looked at 299 markets over the last 20 years and determined that in almost 100 communities, home prices were at least 30 percent over fair market value.

DeKaser said Santa Barbara, Calif. – at 69 percent above market value – was at risk of experiencing a severe "price correction." Alternatively, he said College Station, Texas, was one of the most undervalued communities – with prices running about 19 percent below where they should be. For more information, see: www.nationalcity.com/economics. Click on "Financial Market Outlook."

AGENT'S CORNER

Justice Dept. Files Lawsuit Against NAR Web Policy



The National Association of Realtors (NAR) recently announced that it would no longer allow brokers to discriminate against

competing brokers in the Internet display of listings. However, the U.S. Justice Department said NAR's new policy did not go far enough and immediately filed an anti-trust lawsuit against the 1.2 million-member trade association.

Under NAR's old Virtual Office Website policy, some brokers (such as large traditional brokers) could instruct the MLS to prohibit some competitors (such as discount brokers) from displaying the larger broker's listings. NAR's new policy, announced in September, attempted to accommodate the DOJ. It stated that brokers could not single out competitors – but must either allow listings to be displayed on all competing MLS member Web sites or on no other competing sites at all. Under the revised NAR policy, any broker who refused to allow its listings to be displayed on competitor sites also would be prohibited from displaying competitor listings on their site.

In filing the lawsuit, J. Bruce McDonald, deputy assistant attorney general for the DOJ's Antitrust Division, said the "all or nothing" component was just as bad as the policy that allowed large brokers to single out competitors. The industry worries that large regional brokers, which sometimes control up to 50 percent of local listings, will be able to block small competitors from showing those listings, dramatically hampering their ability to participate in the sale.

The decision leaves plenty of room for confusion. A federal judge in Madison, Wis., ruled that it is not anticompetitive to limit membership in a multiple listing service to Realtors, the National Association of Realtors reported this week.

Federal District Judge John C. Shabaz dismissed a lawsuit brought by a real estate broker in south central Wisconsin against the South Central Wisconsin MLS Corp. and the Realtor Association of South Central Wisconsin. The broker wants to remain a member of the MLS but wishes to terminate his membership in the local Realtor association.

Judge Shabaz found that the

plaintiff had failed to offer evidence that any organizations compete with Realtor organizations and are damaged by the purported tie between participation in the MLS and being a Realtor. In his ruling, he rejected the plaintiff's claim that the membership requirement is an illegal "group boycott," noting that "plaintiff has not demonstrated that he or any other real estate professional was denied access to the MLS."

Local Agents Disgruntled Over MLS Consumer Fee



A handful of real estate agents in the Real Estate Information Network, the MLS for Hampton Roads, are asking the MLS to reconsider charging consumers to search the database, saying they have received complaints from clients.

RIN charges consumers \$3.95 for 24 hours' worth of searching and \$4.95 for a monthly "E-Pass." Protesting agents, however, say they are seeing a backlash from consumers who say agents are getting greedy, especially in this time of soaring home prices.

The MLS has about 370 broker members covering some 6,000 agents. One agent likened the fee to a car dealer who has lots of cars for sale but charges consumers to come onto his lot.

TRENDS

Move Afoot to License All Home Inspectors



While many inspectors are certified and have the experience and credentials to do a thorough job, a person with little or no experience can give an opinion about the condition of a house, commonly the most significant financial investment people make.

A national group of home inspectors is hoping that will change. A group called The American Society of Home Inspectors wants to get laws passed that would create certain standards and licensing requirements for home inspectors.

"An inspection is an objective visual examination of the physical structure and systems of a home, from roof to foundation," according to the American Society of Home Inspectors' Web site. "When problems or symptoms of problems are found, the inspector may recommend further evaluation or remedies."

According to a study by the American Society of Home Inspectors, just 30 states have any kind of law regarding home inspectors, and Georgia is in last place of those states. Key factors used to determine ranking includes emphasis on education, experience requirements, standards of practice and code of ethics.

Bill Chester, owner of Informed Decisions Inspection Services, a home inspection company in Perry, Ga., said he has warned real estate agents, who often refer inspectors to potential home buyers, to be careful who they recommend.

"All you need is a clip board and a pickup truck," he acknowledged. "Overall I think the home inspection business should be regulated. Some home inspectors are not qualified. We need to have some kind of code of ethics and tie it to qualifications and training and education."

How to Kill A Housing Boom



The South Korean government is hoping to kill its housing boom by adopting new real estate rules intended to keep prices down, drive out speculators and make homes affordable for average workers.

Rules up for adoption would impose a 50 percent capital gains tax on the sale of second homes beginning in 2007. Also, "luxury housing,"

valued in excess of 600 million won (about \$585,000), would carry additional one to three percent taxes. While penalizing owners of multiple homes, the new law also would end taxes and registration fees for new home owners. Money also would be made available to increase the supply of affordable housing.

LAW

Judge To Decide If Building is Haunted



It sounds like a Halloween prank, but it's not: a judge is being asked to determine whether a proposed restaurant location is haunted and, if so, whether the ghosts are good or bad and

whether the haunting would deter customers from eating there.

Restaurant owners are refusing to move into a renovated space at Church Street Station in Orlando, Fla., saying renovation crews and others have seen ghosts on the premises. The building owners are asking a judge to

require the restaurant owners to fulfill their contract and move into the space. Construction has halted until the issue is resolved.

MORTGAGES

NAR Publishes Mortgage Brochure



The National Association of Realtors and Center for Responsible Lending has published a brochure to help educate consumers about various loan types, including riskier packages that are attractive early on but can end up being more expensive.

"We're warning homebuyers to approach these new mortgages carefully," said Mike Calhoun, general counsel of the CRL. "They should be cautious about accepting a mortgage they can't afford."

The publication is part of a new NAR consumer education campaign addressing specialty loans and lending practices. It can be found at www.realtor.com or www.responsiblelending.org.

Illegal Immigrants Obtaining Mortgages



The *Los Angeles Times* is reporting that some large U.S. banks are making an effort to provide mortgage loans to illegal aliens to help them buy homes. The newspaper named Citibank as one financial institution accepting Taxpayer ID Numbers, rather than Social Security numbers, on loan applications. Illegal workers are not supposed to have Social Security numbers but receive TINs from the IRS. The *Times* noted that banks are being urged by the FDIC to reach out to the Latino community.



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