



# CB Title

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## REAL ESTATE DIGEST

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

### Housing "Plateau" Predicted for Remainder of The Year...with no Bursting Bubble in Sight

**O**n the heels of a fifth consecutive annual housing sales record in 2005, sales activity in 2006 is expected to be the second-best year in history, according to revised estimates from the National Association of Realtors (NAR). David Lereah, NAR's chief economist, said that market conditions, while slowing, are still favorable for housing. "The slowdown amounts to a tapping of the brakes on a hot market," said Lereah. "Home sales are coming down from the mountain peak, but they will level-out at a high plateau – a plateau that is higher than previous peaks in the housing cycle. This transition to a more normal and balanced market is a good thing."

#### Rates trending upward

The 30-year fixed-rate mortgage should trend up modestly and reach

6.6 percent during the second half of 2006. Existing-home sales, which rose an estimated 4.7 percent to 7.10 million in 2005, are likely to decline 3.7 percent in 2006 to 6.84 million. New-home sales, which increased an estimated 7.0 percent to 1.29 million last year, are forecast to drop 4.8 percent to 1.23 million in 2006 – also the second best on record.

NAR President Thomas M. Stevens said that housing has always been the soundest investment for most families. Stevens said that the national median home price has never declined since good recordkeeping began in 1968. According to the Federal Reserve Survey of Consumer Finances, the median net wealth of a homeowner household is 36 times higher than a renter household.

#### Long-term gains seen

"Although there can always be a temporary decline in a given area if jobs are weak and there is an oversupply of homes on the market, people who stay in their homes for a normal period of homeownership generally see healthy returns over time. There are no guarantees, but there are very good odds," said Stevens.

The national median existing-home price for all housing types is expected to rise another 6.1 percent in 2006, to \$221,400. The median new-home price is likely to rise by 7.3 percent this year to \$250,100 as higher construction costs impact the market.

The U.S. gross domestic product should grow 4.1 percent this year, with the unemployment rate declining to 4.9 percent by the second quarter of 2006 – both good signs for a healthy real estate market.

## MORGTAGES

### Delinquent Mortgage Holders Don't Know Their Options



Nearly two-thirds of borrowers behind on their payments are unaware of the workout options available to them, according

to a study by Freddie Mac.

The Freddie Mac/Roper survey found that 75 percent of the delinquent borrowers surveyed recall being contacted by their servicers, the government-sponsored enterprise said. Mortgage servicers collect monthly housing payments on behalf of Freddie Mac or other investors.

Of the group surveyed for the study, 28 percent said there was no reason to talk to their servicers or that their servicers could not help them; 17 percent said they could take care of their payment problems without any help; and seven percent said they didn't return the call because they didn't have enough money to make the payment, Freddie Mac said.

Other reasons for not calling included embarrassment (six percent), fear (five percent), or not knowing whom to call (five percent), according to Freddie Mac.

The lack of borrower follow-up may help explain why more than six in 10 (61 percent) of late-paying borrowers said they were unaware of a variety of workout options that could help them overcome short-term financial difficulties, Freddie Mac said.

At the same time, 92 percent said they would have talked to their servicers had they known these options were available to them, according to Freddie Mac.

"The results of the Freddie Mac/Roper survey are a wake-up call to delinquent borrowers everywhere," said Ingrid Beckles, Freddie Mac's vice president of default asset management, in a statement.

While the likelihood of successful

foreclosure avoidance depends upon each individual borrower's financial situation, a 2004 Freddie Mac study concluded that repayment plans could lower the probability of home loss by 80 percent among all borrowers and by 68 percent among low-to-moderate-income borrowers.

### Fannie, Freddie, Raise Loan Limits



If you haven't heard the news, it's worth noting that Fannie Mae and Freddie Mac have raised

their loan limits on conforming loans from \$365,650 to \$417,000. It is the largest loan increase in 25 years. Fannie and Freddie conforming loans typically allow home buyers to cut a quarter of a percent off their mortgage rate. On a \$417,000 loan, the quarter percent reduction could save a homeowner \$24,000 over the life of the loan. The new limit went into effect on Jan. 1.

## MARKETS

### Mountain States Run Hot and Cold



Colorado ranks near the bottom of the nation for 12-month home-price appreciation, while homes in Arizona and Idaho are red hot.

Arizona led the country with 30.3 percent appreciation, and Idaho's housing prices were up 15.01 percent year-over-year, according to an Office of Federal Housing Enterprise Oversight. That was well ahead of the 12.02 percent average national rate, which declined by two percentage points from the third quarter of 2004.

By comparison, average home prices in Colorado gained just 5.6 percent. That growth rate ranks Colorado 45th among the states and Washington, D.C.

Nevada's one-year appreciation rate dropped by more than 10 percentage points, from 28.6 percent to 17.6 percent. For the first time since

the fourth quarter of 2003, the top 20 metropolitan areas do not include any Nevada cities.

Colorado's slower appreciation rate stems from the 2001 economic slowdown, from which Colorado was slow to recover, said Patty Silverstein, economist at Development Research Partners in Littleton.

"We are just now in 2005 starting to solidify the economic recovery," she said. "This was not a region you saw a lot of migration to in the last year because there weren't the job opportunities. What drives appreciation is migration."

While the low ranking can be unsettling to homeowners wondering how much their homes are worth, Silverstein deemed the 5.6 percent growth rate good and said it could help the state become more competitive.

### Seniors Love The Internet



A new report released by the Senior Advantage Real Estate Council found, among other things, that older Americans are making extensive use of

the Internet in searching for their next home. The study found that half of all seniors use the Internet to look for their next home and of those, 61 percent used it to find a good real estate agent and 92 percent were doing comparative home price shopping.

The study also found that most retiring seniors said they preferred to live in their home state and most moved no more than 100 miles away from their current dwelling.

To order the study, go to: [www.seniorsrealestate.com](http://www.seniorsrealestate.com)

### Indianapolis is Where The Bargains Are



The National Association of Home Builders is reporting that Indianapolis is the most affordable housing market in the country among cities

with more than 500,000 in population. According to the NAHB's Housing Opportunity Index, 89.7 percent of Indianapolis families could afford a median priced home of \$125,000.

The most expensive housing in the country was the Los Angeles-Long Beach-Glendale area, where only 2.4 percent of families could afford the median-priced home of \$495,000. For more information, see: [www.nahb.org/hoi](http://www.nahb.org/hoi)

## TRENDS

### Long-Term Housing Slowdown Predicted



A Federal Reserve economic modeling program is predicting a housing collapse around the year 2015, with prices dropping as much as 30 percent over 50 years.

The study suggests prices will peak sometime in the next five years and then stabilize until 2015, when substantial numbers of Americans begin retiring. The study factors in aging baby boomers leaving the labor pool at ever-faster rates, reducing economic output per person. The Fed noted a critical flaw that could upset its computer model is the idea that many Americans will continue working after the age of 65.

### Drop in Housing Market Could Jeopardize Economy



Even a slight cooling in the real estate market nationwide could result in the loss of five million to 6.3 million jobs, according to The Center for Economic Policy.

The Center calculates that a drop in new home construction could directly impact 1.2 million jobs nationwide and more than 5 million indirectly, once things like furniture, banking and building materials suppliers are factored in. Housing

construction is equal to about five percent of the nation's economy, and the worry is that anything other than a modest decline in construction could pull down the rest of the economy with it.

## INSURANCE

### Insurers Reluctant to Return to Gulf Coast



Most home insurance companies are proving reluctant to re-enter areas devastated by Hurricane Katrina, citing risks, safety and the uncertainty of future regulations.

According to the news agency Reuters, real estate agents are showing homes and buyers are ready to buy, but only a few companies are willing to write policies – making it virtually impossible to obtain mortgages.

Reuters said that Allstate was among the companies reducing its business in hurricane-prone states, saying it couldn't "price insurance properly." The Insurance Information Institute expects some 1.6 million claims worth a total of \$40 billion from Katrina.

Meanwhile, the Department of Housing and Urban Development has directed FHA-approved lenders to continue to delay foreclosure on families impacted by Hurricanes Katrina and Rita. The relief affects all pending foreclosures of FHA-insured properties in the disaster areas designated by FEMA as eligible for individual assistance. Additionally, it prohibits lenders from initiating new foreclosures.

## TECHNOLOGY

### Text Messaging: the Next Big Thing?



The year of 2006 will go down as the year of "the text message" in the real estate industry, according to Mark

Ford, developer of CellSigns, the first interactive text message-based marketing system for real estate agents.

"The Internet is making us re-evaluate how we as real estate agents can deliver value to the sellers and buyers we serve," said Ford.

Available 24/7, the interactive features of CellSigns allow the home buyer to schedule a showing, request a callback from the agent or request a property brochure by email.

The growth of text messaging parallels the early growth of the Internet, according to Ford. Nearly 95 percent of all active cellular telephones in the U.S. and Canada have text-messaging capability. In addition, the median ages of Internet home buyers and text message users are nearly identical: 38-39 years old.

## AGENTS' CORNER

### Real Estate Advertising: Separating Myths from Profits



Agents' reliance upon traditional advertising techniques may be traced back to several commonly held myths and misconceptions about real estate advertising. A recent report from HomePages ([www.homepages.com](http://www.homepages.com)) identifies five myths about real estate advertising:

- \* I can't afford a Web site.
- \* Internet leads don't really close.
- \* Internet buyers and sellers are just a waste of time.
- \* Newspapers are still the strongest way to reach buyers and sellers.
- \* It's more important to position myself as the best agent than to be the first agent potential buyers and sellers meet.

According to the report, agents who go beyond these myths to advertise their business put themselves in a prime position to make their success a reality.

## New Brownfields Rule Helps Developers



Brokers and agents who work with v are applauding the EPA's adoption of a new "brownfields" rule that protects developers from some liability when they buy those properties.

The new rule says a property purchaser cannot be sued for environmental contamination that took place on a property prior to the purchaser's ownership, providing the developer first performed due diligence on the land and believed it to be clean. In the past, the owner of a property could be held responsible for something done by a previous owner.

The new rule sets out what kind of investigation of property the buyer must conduct before purchase to guarantee he/she won't be held liable. Currently the U.S. has an estimated 500,000 abandoned, idled or under-used industrial sites where redevelopment has been slowed because of liability issues.

## New Site Lists and Rates Local Real Estate Agents



A new Web site, Homethinking.com, allows homeowners to view lists of real estate agents in a given area, along with information on properties currently listed by those agents and consumer reviews of those agents.

The site only has listings for California so far, but will broaden its offerings over the next few months, according to a company spokesman.

Homethinking joins RealtyRators.com, RealtyBaron.com and RealtyBaron.com, three other sites that offer ratings from consumers. Homethinking.com actively connects consumers with agents, acting as a lead-generation system.

## NAR says GAO Study is Flawed



The National Association of Realtors has fired back at a Government Accountability Office study that shows the real estate industry needs more competition because commissions are too high.

In a letter to Attorney General Alberto Gonzales, the Realtors point out that the GAO itself admits that commissions are being pushed down in the industry because of the advancement of discounters, online brokers and the fee-for-service model.

Despite making that concession, the GAO predicates its complaint against NAR on the basis of commissions being five percent to seven percent, NAR noted.

NAR said there was no legitimate data showing what real estate commission rates are at the moment and suggested someone – such as the government – should undertake such a study.



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