



# CB Title

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## REAL ESTATE DIGEST

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

# Cooling Real Estate Market Places Buyers in Driver's Seat

**H**ome price appreciation is slowing down and mortgage interest rates are on their way up. Is this any time to be thinking about investing in a home? According to many experts, the answer is yes -- if consumers are buying a home for a place to live, not as a speculative investment.

"Owning a home is still financially a good deal, as long as you have the income to support the cost of homeownership," said Jim Gaines, research economist for the Real Estate Center at Texas A&M University. Gaines adds a caveat: "You better figure on living there five or six years to make any kind of profit."

Sellers no longer hold all the cards, and house flippers are in retreat, which is creating a more balanced market. Here are the benefits of home-shopping in a cooling real estate

market, according to the experts:

### Greater selection

In a growing number of local markets, buyers have more time to think about a home before they make a decision on whether to purchase it. Over the past few years, that often wasn't a luxury available to them.

### More room to negotiate

Current conditions in many markets also afford consumers a better opportunity to negotiate, particularly those who have financing in place and first-time buyers who don't carry the burden of a contingency into negotiations.

### Interest rates remain low

It's easy to get caught up in the rising of mortgage interest rates. But

interest rates are still way below what they were five or six years ago. Even if the 30-year hits seven percent by the end of the year, investors should keep in mind the double-digit rates of yesteryear. The annual average interest for a 30-year fixed-rate mortgage was 16.63 percent in 1981, which worked its way down to 9.25 percent in 1991, according to Freddie Mac records.

### A home remains a good investment

Consider this piece of information from the National Association of Realtors: Since record keeping began in 1968, the national median home price has risen every year. In a balanced market, home values typically rise at the general rate of inflation plus 1.5 percentage points. That's to say nothing of the tax benefits that come with owning your own home.

A look at the volatility of the stock market also proves the benefits of real estate as an investment, said Gaines. "The downside of real estate is better than the downside on just about anything else," he said.

## MORTGAGES

### Are You Ready for an Intergenerational Mortgage?



Just when you were getting used to the 40-year mortgage (and the 50-year mortgage), a British lender has rolled out a product that's been dubbed "the never-ending mortgage." Kent Reliance Building Society says its intergenerational mortgage lets aging borrowers take out an interest-only mortgage and make low monthly payments until they die. The mortgage debt and home are then inherited by their children.

The intergenerational mortgage can be applied to any length mortgage, but has no fixed time limit, since the borrowers never put a dent in the principal they owe. In time, the home may appreciate to the point where it is worth more than the loan, Kent Reliance says, and the mortgage may also help reduce inheritance taxes. Intergenerational mortgages are already popular in Switzerland, Japan and Ireland.

### Home Owners Not Fond of Reassigned Mortgages



Borrowers don't like it when their mortgage originator sells their loan to somebody else to service. A J.D. Power and Associates survey found 45 percent of mortgages are sold by originators and that customer satisfaction drops 32 percent when that happens. The practice, while common, "can create confusion and a sense of betrayal" among customers, says Rocky Clancy, executive director of the banking and mortgage practice at J.D. Power and Associates.

The survey also found the ability to pay mortgage bills electronically results in higher customer satisfaction

levels. Almost 50 percent of those surveyed are taking advantage of such services, compared to 34 percent two years ago.

## TRENDS

### Single-Family Housing Starts Likely To Decline Next Year



Housing starts were expected to decline 10 percent this year, and the sluggish market will result in an additional seven percent drop in nationwide single-family housing construction next year.

Areas headed for 20 percent declines include Miami; Washington, D.C.; Detroit; Omaha, Neb.; Phoenix; and San Diego and Sacramento, Calif. Likely standout gainers include Mobile, Ala.; Baton Rouge, La.; Biloxi, Miss.; Charlotte, N.C.; and San Antonio and Austin, Texas.

A sharp slide in luxury building will cause the greatest pain for suppliers of granite and marble countertops, high-end appliances, hot tubs, outdoor furniture, plasma TVs and other media room staples.

### Rented Art Used To Sell Homes



Art museums around the country are finding a new source of income — renting paintings to real estate agents who are staging upscale homes for sale, according to an article in *The Wall Street Journal*.

The newspaper said the Seattle Art Museum rents original artwork for between \$40 and \$600 per month, depending on how well the artist is known. Some museums say they receive as many as five calls or e-mails per day from real estate agents inquiring about renting art.

### Home Sales Down, but Realtor Membership Up



Sales of both new and existing home sales continued their overall decline but that hasn't stopped people clamoring to work in the real

estate industry.

According to NAR statistics, the number of Realtor members has risen in the last year by 9.8 percent to 1,341,714 from 1,210,163 a year ago. (There are 2.6 million licensees in the United States, according to the Association of Real Estate License Law Officials.) Currently, only Michigan is showing a decline in Realtor membership, 1.86 percent.

### Minority Home Ownership Lags, Despite Rising Buying Power



Hispanic and African-American buying power are each projected to account for \$800 billion—8.4 percent

of total buying power—in 2006. Hispanic buying power is projected to hit \$863.1 billion in 2007. A report from the Selig Center for Economic Growth at the University of Georgia also says Asian buying power will reach \$427 billion, or 4.5 percent, roughly equal to its share of the U.S. population.

Homeownership rates among Asian-Americans and Hispanics continue to lag the rate of non-Hispanic white Americans. While the overall American homeownership rate is 69.8 percent, the ownership rate among all minorities is just more than 50 percent, according to a recent report from Harvard University's Joint Center for Housing Studies. The Harvard report notes, however, that homeownership among both Hispanics and Asian-Americans jumped by nearly 10 percentage points from 1995 through 2005 as both

groups grew more affluent.

To improve rates, the Home Builders Association and the National Association for the Advancement of Colored People have issued a joint report citing five areas that must be addressed if minorities are to become home owners in greater numbers. The report said key obstacles to minority ownership are:

- \* A lack of homebuyer education for minorities;
- \* Excessive development regulations that drive up the cost of housing;
- \* Predatory lending practices that increase the cost of mortgages and the risk of default;
- \* Restrictions on multifamily housing that diminish the supply of moderately priced for-sale and rental housing.
- \* Fair Housing Act violations that diminish minority families' access to quality housing in many neighborhoods.

## MARKETS

### To Woo Families, Builders Add Water Parks, Swanky Playrooms



Time was when a patch of outdoor space with a swing set and a sandbox was enough to draw young parents with children. But now, new developments are playing to Type A parents by playing up the kid stuff, according to *The Wall Street Journal*. In a strategy developers and builders started during the booming housing market – and one they say will help them stand out in a slowing one – they're spending millions of dollars on elaborate water parks and fake fossil digs and promoting couture romper rooms by name-brand designers.

In Lakewood, Colo., the developers of Belmar, a mixed-use downtown community, spent \$600,000 on a kidney-shaped ice-skating rink and \$200,000 on an interactive water fountain with an 11-ton, six-foot-high

granite ball that children can rotate. At One Carnegie Hill in New York City's Upper East Side, a just-completed luxury building where one-bedrooms start at \$895,000, the amenities include two play houses on the roof with child-size loft-style furniture.

Even Donald Trump is thinking family friendly: His recently announced Trump Hollywood, a 40-story oceanfront glass tower in Hollywood Beach, Fla., where three-bedroom apartments start at \$1.5 million, will feature an on-call nanny.

Developers are adding these perks to gain attention and marketing mileage, of course. But they're also responding to the second U.S. baby boom, with about 73.5 million children currently under the age of 18, according to 2005 Census estimates, up from about 64 million in 1990

The amount of money parents spend on their 3-to-11-year-old children is up as well – \$115.6 billion annually, according to Packaged Facts, a New York-based consumer-research company. The cost of raising a child to age 18 is now \$191,000 for a middle-income family, a 15 percent increase from five years ago, according to an annual survey by the Department of Agriculture.

For parents, such amenities also signal that a development is family-friendly, where children won't become persona non grata with other residents.

### Bozeman, Mont., Tops 'Best Quality of Life' List



Bozeman, Mont., is the best small community in the country in terms of quality of life, according to American City Business Journals. The national chain of weekly business newspapers looked at hundreds of cities with populations between 10,000 and 50,000 based on their per capita income and income growth, small business growth, ease of commuting, taxation, education, and the number

of available managerial and professional jobs.

Rounding out the top 10 are:

- \* Jackson, Wyo.
- \* Durango, Colo.
- \* Easton, Md.
- \* Laramie, Wyo.
- \* Edwards, Colo.
- \* Kill Devil Hills, N.C.
- \* Pierre, S.D.
- \* Silverthorne, Colo.
- \* Los Alamos, N.M.

### Less Than One in Four Can Afford California



The California Association of Realtors (CAR) has released its first "first-time home buyer

index," showing that only 23 percent of first-time buyers in the state could afford a median-priced home.

First-time buyers needed a minimum household income of \$98,720 to purchase a home at \$482,000 in California in the second quarter of 2006, based on an adjustable interest rate of 6.48 percent and assuming a 10 percent down payment.

CAR said first-time buyers typically purchase a home equal to 85 percent of the prevailing median price. The monthly payment for that \$482,000 house, including taxes and insurance, was \$3,290 for the second quarter of 2006.

The trend isn't affecting California luxury home prices. A housing survey that tracks prices of luxury homes is reporting that California's most prestigious addresses are continuing to gain in value.

According to First Republic Bank's Luxury Home Index, elite homes in the Los Angeles area are up 12.8 percent from a year ago, to an average of \$2.36 million. San Diego's upper-end market is up 6.4 percent to an average of \$2.14 million, and San Francisco is up 4.8 percent to \$2.93 million. Experts say that even though luxury home prices are up, they are accelerating at a slower pace than in the past.

## Insurance Rates Hurting Florida Homeowners



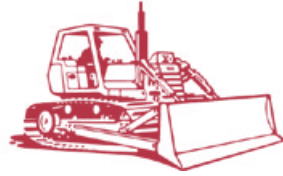
Homeowner insurance rates in Florida have doubled in the last two years and companies say rates need to go up even more

if the state government expects them to continue to operate in the state. Insurance companies are canceling some policies and in some cases going out of business because of high claims from hurricanes.

Industry representatives say unless they are allowed to raise rates even more, they will not be profitable. State officials are considering offering incentives to bring new insurance companies into the state, hoping competition will drive down prices.

## AGENTS' CORNER

### Agent Mans Bulldozer to Save Clients' Homes



A real estate agent in Red Lodge, Montana is being credited with

saving dozens of homes from a massive forest fire by personally driving a bulldozer across the rugged terrain to cut a fire break.

Agent Sonny Todd reportedly worked 13 hours cutting the opening. Firefighters followed behind him, setting backfires that were effective in bringing the blaze under control. Todd said he had sold many of the vacation homes that he helped save. Evacuated residents began returning late in the week.

### City Makes it Tougher To Find Homes for Sale



Real estate agents in Loma Linda, Calif., are protesting the city's removal of Open House directional signs from public

rights of way, saying the practice makes it even more difficult to sell homes in a declining market.

Agents said code enforcement officials had been removing signs since a new ordinance took effect in mid-July, which is making it more difficult for consumers to find homes on the market. The agents said if consumers could not find homes for sale, sales would slump and eventually home values would decline.



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