

Real Estate Digest



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New Year Starts Chilly, but Stable Mortgages May Provide Warmth

What a difference a year makes. Last January, the real estate market was red hot, with maybe just a hint of the slowdown to come. Buyers bid, and some overbid, and still they couldn't get the houses they wanted in competitive markets. This year, sales are flat, prices are re-treating, and the *Wall Street Journal* is reporting that more and more buyers of new and existing homes are using escape clauses to get out of deals.

But the news, while sobering, isn't all that bad. Home buyers have a plentiful selection of homes and contract activity is still expected to be robust — at just above the level it was in 2001, according to National Association of Realtors economist David Lereah.

And the tepid market is helping to put the skids on mortgage rate increases. There

is now such worry about housing and what it might mean for overall economic growth that the Federal Reserve has been inclined to leave interest rates unchanged.

The seven percent solution

Predictions six months ago called for a seven percent 30-year fixed rate at the beginning of 2007. Rates will not climb that high, not this year, nor in 2008 if the latest economic forecast from the Mortgage Bankers Association proves out. That trade group says the 30-year should nudge ahead only to 6.7 percent by the end of 2007 and 6.8 percent a year later.

The MBA forecast also painted a picture of a "normalizing" home market. Existing-home sales decreased an estimated nine percent in 2006 and should slide another eight percent in 2007, Duncan said. The number of new-home sales decreased an

estimated 18 percent in 2006 and is expected to decline another eight percent in 2007.

2008 looks brighter

But after that, the decline is expected to reverse: The number of new- and existing-home sales should increase modestly in 2008, the forecast showed.

Experts say that if interest rates behave themselves, however, that puts a pretty solid floor under the housing market. With most of the speculators already having run for the hills, the remaining underlying demand for homes will keep getting a boost from mortgage rates under seven percent. And after a year or two of decelerating prices, the market will likely be back in a relatively healthy balance.

Is there some pain still ahead? No doubt. But it's not going to be as excruciating as it would be were mortgages at 10 percent or more.

MARKETS

Second-Home Fever Reduced



Baby boomers may not be as in love with second homes as once

thought. The rate of second-home ownership among 50- to 60-year-olds has remained flat during the 12-year period between 1992 and 2004, according to a report sponsored by Radian Group Inc. and the Research Institute for Housing America of the Mortgage Bankers Association.

It seems early boomers are no more likely to own a second home than older generations of homeowners. Those who do have a second home are using the residence on a limited basis, too: One-half spend two weeks or less and two-thirds spend four weeks or less per year in their second home, the report found. Only 12 percent of second-home owners said they intended to sell their main home and eventually use their second home as their primary address — debunking speculation to the contrary.



Builders Slash Prices To Sell More Homes

U.S. homebuilders slashed prices at the fastest pace in 36 years last fall. The US government reported that sales of new homes unexpectedly rose 5.3 percent in September 2006, to a seasonally adjusted



annual rate of 1.075 million, the most in three months and well above the 1.05 million expected by economists.

Home builders have piled on incentives, including vacations and new cars, to sell homes. Such incentives are not subtracted from the sales price reported to the government.

"The median price series in both the new and existing home sales reports are not good indicators of short run price swings because they are impacted by shifts in the mix of homes sold," said David Greenlaw, an economist for Morgan Stanley. In September, there was a 16 percent drop-off in the number of houses sold for more than \$200,000, and a corresponding increase in sales of homes priced under \$200,000.

Some economists said the report showed the market is stabilizing, while others said it'll take months before the bottom is reached. "This trend, if maintained, points to gradual stabilization in new residential construction," said Peter Kretzmer, an economist for Bank of America.

AGENTS' CORNER

Number of Realtors Begins to Fall, Reflecting Market Realities



With real estate markets sliding nearly nationwide, the growth in Realtor membership also appears to be wobbling. Although NAR's membership numbers are still go-

ing up — there were 1.36 million Realtors in September of last year compared to 1.35 million in August — more states are beginning to show downturns.

Last year, Michigan was the only state showing an overall decrease in membership and it was down another 0.8 percent in September compared to August. Joining it, however, are now Nebraska, down 1.45 percent; Alaska, down 0.6 percent; North Dakota, down 0.4 percent and Virginia, down 0.1 percent.

Also, the *San Jose Mercury News* is reporting that seven percent fewer people took the California licensing exam last year over 2005 and enrollments in licensing schools appears to be lower.

The *Las Vegas Business Journal* reports the boom in licensing in Nevada may be over as well. It quotes the Nevada Real Estate Division as reporting 2,700 license holders did not renew their licenses last year and that in the Las Vegas area alone, almost 26 percent of licensees have declined to renew.

Agents Unwittingly Aid In 15 Burglaries



Police have arrested a would-be homebuyer and her boyfriend on charges that they would tour listings with their agent — they used four different ones — splitting up once they got into a house and unlocking doors or windows so they could return later and burglarize the homes.

Authorities said the couple would enter a home with one of their real estate agents. One would keep the agent occupied while the other would go through the house to unlock doors or windows.

Police believe at least 15 homes were burglarized by the pair. Officers connected the couple to the crimes when they cross-checked which agents had visited the vic-

tims' homes and with which clients.

NAR Counters Bad News



The NAR ran full-page newspaper advertisements in six nationally known newspapers to urge people who are considering

buying homes to go ahead and take action. The ads were intended to counteract almost daily headlines about a housing slump in the country. The ads note that home prices are in decline, inventories are up and interest rates are back down. It also points out that the average home has increased in value by 88 percent in the last 10 years.

INSURANCE

Homeowners Are Often Surprised By What Their Insurance Doesn't Cover



After Hurricanes Katrina and Rita struck last year, homeowners in Louisiana and Mississippi learned what disaster victims else-

where already know: Homeowners' insurance policies are not all-encompassing. But consumers all too often buy those policies without fully understanding the product.

"You get a homeowners' policy. You think it covers everything. It's 26 pages of fine print. You put it in a drawer and forget about it until it's time to make a claim," says Robert Bland, chief executive of Insure.com, an online insurance broker and information Web site.

The best homeowners can do is to know what exclusions or limitations their policies contain and to understand which types of property or events those exclusions apply to. In some cases, it may be possible to buy more-comprehensive coverage that will offset the limitations or exclusions.

For instance, the typical homeowners'



policy has a \$1,000 coverage limit for stolen jewelry, a \$1,000 limit for damage to boats and a \$200 limit for the loss of cash on hand. Most policies also offer only limited coverage for artworks or antiques. You can buy higher coverage or buy separate rider policies for high-value items.

Standard exclusions include earth movement, water damage, neglect, war and nuclear action, says Don Griffin, a vice president at Property Casualty Insurers Association of America, a trade group. You can buy additional coverage for some of those exclusions. For instance, "earth movement" includes earthquakes, and insurers offer this coverage in some areas. "Water damage" includes backed-up sewers, for which you can purchase coverage, Griffin says.

Faced with large claims for mold damage in Texas and elsewhere, some insurers have moved away from covering mold unless a peril that is covered, such as fire (and the water to put the fire out) causes the mold.

Then there's flood. All standard policies exclude flood coverage, so homeowners must purchase a flood policy separately. (The National Flood Insurance Program provides the coverage but you can often buy through your insurer.) The federal coverage has a limit of \$250,000 for property damage, but some insurers offer upgrades.

Other possible exclusions: wind and hail. After two years of major storms, insurers are re-evaluating their exposure to claims related to wind and hail, says Chad Brown, chief of staff at the Louisiana Department of Insurance.

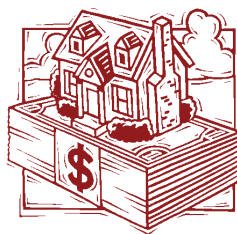
Another thing for homeowners to check: Deductibles for different events. Often, policies charge a separate deductible for wind or hurricane damage, as much as one percent to five percent of the coverage limit (that's a \$4,000 to \$20,000 deductible if you've got \$400,000 in coverage).

"This is one of your most important assets. You might want to spend at least

that long or perhaps a few hours once a year going over what you have and don't have and what you need and might need to purchase with your agent or your company to protect your home," said Brown.

TRENDS

Homeowners Remain Confident



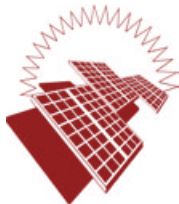
Wells Fargo has released its annual homeowner survey, which this year shows that 72 percent of Americans believe the equity

in their homes is their best investment.

The survey asked participants about their financial behaviors and attitudes regarding their homes and the roles their homes play in their future.

- 25 percent said homeownership gave them a sense of security.
- 24 percent said they considered their home an investment.
- 90 percent said they expect their own home value to stay the same or increase in the next 12 months.

Homeowners Increasingly Environmentally Aware



When offered a list of possible home-improvement options and a hypothetical gift of \$50,000 to make those improvements, 24 percent

of homeowners said they'd make environmentally friendly additions, followed by 12 percent who said they'd install a state-of-the-art kitchen; 11 percent pointed to a luxury master bedroom suite or bath, eight percent said swimming pool or hot tub, six percent said a dedicated play area for their children, one percent said an in-home wine storage area, 18 percent said none of the above, and 13 percent weren't sure.

Families Not Saving By Moving Farther Out



The National Housing Conference has released a report showing that homebuyers who move

away from urban cores in an effort to find cheaper home prices are spending whatever they save in transportation costs.

The study covered 28 major metropolitan areas. It found that the combined burden of transportation and housing costs for working families was remarkably constant across all the areas studied: 57 percent of annual income.

In 17 of the 28 areas studied, the average transportation expenses for working families with annual incomes ranging from \$20,000 to \$50,000 are actually higher than their housing costs. Overall, working families spend an average of 28 percent, or \$9,700, of their incomes on housing and nearly 30 percent, or \$10,400, on transportation.

Average Homebuyer Spends \$9,000 on Move-Related Products

A new survey shows that the average household spends \$9,000 on move-related products and services in the period just before and just after their move.

According to the report released by Move Inc., half of spending involves household goods and services, including home decorating, improvement and repair. Most other expenditures involve vendor changes, such as opening new bank accounts and switching things like cable or satellite TV, telephone service and Internet access.

The study found that many buying decisions were clustered around the two

weeks immediately before and immediately after a move. The majority of people surveyed reported purchasing major appliances, home electronics, furniture, window treatments, bedding and linens, as well as home repair, lawn and garden and pest control supplies, within the first two weeks of moving in.

MORTGAGES

ARM Borrowers Worried Over Rates



While homeowners overall are optimistic about the housing market, those with adjustable-rate mortgages — 14 percent of those surveyed had an ARM as their primary mortgage — did express concern: 79 percent of homeowners with an ARM said they're worried about rising interest rates.

Still, while a good portion of these

homeowners expressed concern, 21 percent said they will not take any action when their rate adjusts. Of those who do plan to take action, most say they will refinance. Sixty percent of these ARM-borrowers said they know when their loan rate resets, while 27 percent said they don't know and 13 percent were not sure, according to the survey.

More Homes in Foreclosure



Some 103,000 properties entered some stage of foreclosure in the third quarter last year — an increase of more than 14 percent compared to the same quarter of 2006. According to the report by Web site bargain.com, there is now one home in foreclosure for every 1,122 households nationwide.

In Florida there is one foreclosure fil-

ing for every 254 households in the state, the highest in the country. The Web site, which urges investors to become involved in the foreclosure market, said following Florida in foreclosures were California, Michigan, Texas and Colorado, and that collectively these states account for nearly 66 percent of all homes in the foreclosure process.



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