

Real Estate Digest



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Music to the Ears: Analysts Predict a Healthy Autumn for an Industry Singing the Summertime Blues

Sellers are lowering prices, developers are offering incentives and, by all accounts, it's still a buyer's market out there.

But the autumn chill may heat things up.

Home sales are projected to move in a relatively narrow range with a gradual upturn becoming more pronounced by the end of the year, according to the latest forecast by the National Association of Realtors.

"Home sales will probably fluctuate in a narrow range in the short run, but gradually trend upward with improving activity by the end of the year. It's important to keep in mind that all real estate is local, and many markets are expected to have higher sales and strengthening prices during the second half of this year," said Lawrence Yun, NAR senior economist.

Price shift upward

And next year, the buyer's market may well return to the seller's side: The NAR predicts that the national median existing-home price will ease by 1.3 percent to \$219,100 in 2007 but rise 1.7 percent next year.

"We continue to experience a temporary distortion in comparing median existing-home prices," Yun said. "Because the sales volume has shifted from many high-cost areas to moderately priced markets, we're not getting a true apples-to-apples comparison. When you look at other measures, such as the weekly price index from Freddie Mac, which is based on repeat sales, overall home prices are rising slowly."

Buyers today need to have a traditional view that housing as a long-term investment is an added benefit of their

shelter expense. That investment generally will build a nice nest egg over time, especially if they use a traditional mortgage instrument that reduces debt, Yun said.

Interest in interest rates

The market would get a significant boost if the Feds dropped interest rates, according to Mark Keisel, an executive vice president with PIMCO, an investment firm based in Newport Beach, Calif.

"There are only two ways to clear out the existing housing inventories: if mortgage interest rates go lower or if sellers lower their prices," said "But it doesn't look like the Federal Reserve Bank is inclined to lower interest rates too much, and sellers are holding firm."

The 30-year fixed-rate mortgage is likely to increase to 6.6 percent in the third quarter and then hover at that

level through 2008.

"Because of reductions in home sales and new home construction, the economy will expand at a sub par pace in 2007," Yun said. "As housing market conditions improve going into 2008, the economy will reach back to its growth potential next year."

TRENDS

Inflation, Unemployment Remain in Check



Inflation, as measured by the Consumer Price Index, is expected to decline to 2.5 percent this year, down from 3.2 percent in 2006, and to fall to 2.4 percent in 2008. Inflation-adjusted disposable personal income is likely to



rise 2.8 percent this year, compared with a 2.6 percent increase in 2006, and then fall back to 2.6 percent in 2008.

The unemployment rate is projected to average 4.6 percent in 2007, which is flat compared to 2006, and then rise to 4.8 percent in 2008, according to government forecasts.

Market's Cool at Home, Hot Abroad



Nearly every day, we read about the increasing popularity of second homes in a remote Mexican seaside town, or the lure of buying a Tuscan villa or the exotic real estate possibilities in Panama. But how many North Americans are actually rolling the dice and choosing to purchase a second home outside the U.S.?

According to the U.S. State Department, more than four million Americans live abroad, excluding military and government personnel. Mexico has by and far the most, with 25 percent, or one million American transplants, followed by Canada with more than 688,000. Central America is not far behind. In fact, an Urban Land Institute study on tourism developments estimated that up to 100,000 Americans live in Costa Rica alone.

However, international Realtors, residential developers and others providing second-home market services now say those numbers are outdated because of the torrid purchasing activity over the past 18 months.

Amada Sturges, director of Escape-homes.com, an online marketplace for buyers and sellers of second homes and resort properties, said the number of Americans interested in purchasing second homes in foreign countries jumped considerably on the site last year.

"More than ever people are looking for better value and natural beauty, both

of which are often difficult to find in the U.S.," Sturges said. "Many international countries, such as Mexico and Nicaragua, are great alternatives and are now making it easier for foreigners to buy and live within their borders."

Austin, Texas-based HomeAway Inc., an online company specializing in vacation rentals, said its revenue from owner listings was up 50 percent domestically the past year and about 40 percent in Europe. About 18 percent of buyers of vacation homes who participated in the survey stated that they wanted to rent their property to others. That number was up from 13 percent in 2005, according to the NAR report.

"The vacation-home market has been extraordinarily robust here in the States and in Europe over the past four to five years," said Brian Sharples, founder and CEO of HomeAway. "We thought there would be more of a downturn because the appreciation had not been as high in early 2006 as in previous years, but people are still buying and building."

"The demographics for second homes are really in the sweet spot for the next few years," Sharples said. "The boomers' ages are in the area where they are hitting the top of their incomes and they have been enjoying considerable gains on these types of properties the past few years."

Big Surprise? Americans Love Big Homes



Despite higher construction and energy costs, and smaller families, one out of every five U.S. homes had at least four bedrooms in 2005, according to government figures.

The U.S. Census Bureau's American Community Survey said Utah had the largest percentage of big homes, followed by Maryland, Virginia, Colorado and Minnesota.

The report also found that in 2005, single-family homes accounted for nearly 63 percent of all housing types and comprised more than 81 percent of owner-occupied dwellings. Apartment buildings with 10 or more units constituted the next largest type of housing at 12 percent, followed by mobile homes and other similar types of housing (RV, houseboat, etc.). Townhouses ranked fourth.

MARKETS

Hurricane-Prone Areas Warned



Residents along the nation's eastern and Gulf coasts are being warned of the strong likelihood of above-normal hurricane activity through the end of November. National Weather Service forecasters expect anywhere from 13-17 tropical storms and predict seven to 10 will become hurricanes.

The National Oceanic and Atmospheric Administration says there's a 75 percent chance of above-normal hurricane activity and the National Hurricane Center also is predicting a busy season. There are estimates that as many as 34.9 million people live in the area from North Carolina to Texas most threatened by Atlantic hurricanes.

How Well Do You Know Real Estate?



Neophyte or pro? Few consumers understand fundamentals of the real estate industry and don't know that they can negotiate better prices for basic services, according to an analysis released recently from a consumer advocacy group.

The new analysis indicates that only one-third of respondents to a survey,



which was performed last year for AARP, knew, for example, that the local multiple listing service is the most complete source of information about homes for sale.

"Home sellers and buyers who think they understand a complicated industry, yet in fact do not, are at a disadvantage in obtaining effective representation, reasonable commissions, adequate redress and, for buyers, complete information about listings," said Stephen Brobeck, executive director of the Consumer Federation of America.

The lack of knowledge makes sense, according to survey authors, as consumers don't use real estate services frequently and the services are extremely complicated.

Brobeck suggested that state commissions regulating real estate should "more energetically" inform potential buyers and sellers about services.

Also, agents can help by providing clients with a brochure at their first meeting that fully explain the way real estate industry services work, Brobeck said.

David Berenbaum, executive vice president with the National Community Reinvestment Coalition, said it's important for real estate professionals to make their roles clear to consumers. For example, agents and firms should make it clear whether they are representing the buyer or seller or both.

"Purchasing a home is the single most important financial transaction of your lifetime, and most people are not prepared today for that transaction," Berenbaum said.

AGENTS' CORNER

Open House Thieves Seek Cold Medication



Here's another tip to give the owner of an open house: remove cold medications from medicine cabinets or lock them up during open houses. Cold medicines contain pseudoephedrine, which is used

in making the highly addictive illicit drug known as "crystal meth."

Theft of cold medicines is on the rise in states where cold medicine sales are restricted in an attempt to make it more difficult to obtain large quantities of pseudoephedrine for illicit use.

Is Your City on the "Best for Families" List?



What do Fort Worth-Arlington, Texas; Knoxville, Tenn.; and Provo-Orem, Utah have in common? They placed as the No. 1 large, medium and small metropolitan areas for family relocation, respectively. The 2007 Best Cities for Relocating Families survey is conducted by Worldwide ERC and Primacy Relocation, along with Bert Sperling of Sperling's BestPlaces.

The report ranks U.S. cities according to factors that may determine how well a family resettles into a new community, such as a locale's cost of living, school quality, crime rate and cultural offerings.

This year's survey also looked at real-estate variables such as housing prices, home affordability, home-price appreciation and property-tax rates. "The state of the housing market is having a huge impact on relocation decisions of both employers and the families who are being transferred," says Michelle Vallejo, president of Primacy.

Here are the top fifteen cities in each category:

Large Metro Areas Pop. 1,250,000+

- | | | |
|---|-----------------------|-------|
| 1 | Fort Worth-Arlington | TX |
| 2 | Nashville | |
| | Davidson-Murfreesboro | TN |
| 3 | Kansas City | MO-KS |
| 4 | Indianapolis-Carmel | IN |
| 5 | Austin-Round Rock | TX |
| 6 | Pittsburgh | PA |
| 7 | Minneapolis | |

- | | | |
|----|-----------------------------|----------|
| | St. Paul-Bloomington | MN-WI |
| 8 | Cambridge-Newton-Framingham | MA |
| 9 | St. Louis | MO-IL |
| 10 | Cincinnati-Middletown | OH-KY-IN |
| 11 | Columbus | OH |
| 12 | San Antonio | TX |
| 13 | Dallas-Plano-Irving | TX |
| 14 | Detroit-Livonia-Dearborn | MI |
| 15 | Virginia Beach | |
| | Norfolk-Newport News | VA |

Mid-Sized Metro Areas Pop. 575,000 - 1,250,000

- | | | |
|----|-----------------------------|-------|
| 1 | Knoxville | TN |
| 2 | Wichita | KS |
| 3 | Raleigh-Cary | NC |
| 4 | Salt Lake City | UT |
| 5 | Oklahoma City | OK |
| 6 | Richmond | VA |
| 7 | El Paso | TX |
| 8 | Little Rock-No. Little Rock | AR |
| 9 | McAllen-Edinburg-Mission | TX |
| 10 | Tulsa | OK |
| 11 | Greensboro-High Point | NC |
| 12 | Columbia | SC |
| 13 | Omaha-Council Bluffs | NE-IA |
| 14 | Tucson | AZ |
| 15 | Birmingham-Hoover | AL |

Small Metro Areas Pop. 350,000 - 575,000

- | | | |
|----|------------------------------------|-------|
| 1 | Provo-Orem | UT |
| 2 | Ogden-Clearfield | UT |
| 3 | Durham | NC |
| 4 | Colorado Springs | CO |
| 5 | Corpus Christi | TX |
| 6 | Madison | WI |
| 7 | Shreveport-Bossier City | LA |
| 8 | Des Moines-West Des Moines | IA |
| 9 | Spokane | WA |
| 10 | Rockingham County-Strafford County | NH |
| 11 | Springfield | MO |
| 12 | Winston-Salem | NC |
| 13 | Augusta-Richmond County | GA-SC |
| 14 | Boise City-Nampa | ID |
| 15 | Mobile | AL |

Model Homes Making Comeback



Back during the boom years, when people would camp overnight to buy into a new community, the model home lost

some of its impact as a selling tool.

But now, with a backlog of new – and vacant – homes on the market, model-home merchandising is making a comeback. And if not the whole house, then just a room in the house to give potential buyers an idea of what's possible. Builders are trying to entice buyers by making the most popular spaces, such as the dining room and family room, seem more livable by adding furniture, tapestries, knickknacks or even fake fruit.

And the strategy works – a well-decorated model can have great impact, said Dave Kolakowski, a real estate agent who works with home buyers at Buyer's Edge in Bethesda.

"It's always a very emotional thing," he said. "When they walk in and see it done, it's a huge difference. It's what gets them excited."

Decorating has also become a powerful tool in the resale market. Real estate agents and designers said they do more "staging" of homes to make them more attractive to potential buyers. In some cases, staging can be as simple as removing clutter and rearranging furniture. In other cases, agents hire staging companies to bring in furniture and artwork.

But decorating a new home without an owner is a more elaborate undertaking.

Realizing the power of the model home, builders meticulously study their target audience to determine what decor will elicit the best response. With the public seeing so much home design in the popular media, builders and decorators recognize that expectations are high.

But there are limits to perfection. "I think the biggest mistake is to create an

image in the interior that the particular buyer cannot identify with," she said. "You don't want to put an affluent-looking interior to the first-time buyer. They'll think it's out of reach."



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