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REAL ESTATE DIGEST

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

Red-Hot Real Estate Markets to Cool Down, As Markets Brace for "Return to Normalcy"

As the new year begins, agents will do well to counsel home sellers to price their properties judiciously instead of expecting offers beyond their wildest dreams on the first day of listing, according to Christopher Cagan, director of research and analytics at First American Real Estate Solutions. A gentle cooling of the market means buyers will look at many houses before placing a bid and will negotiate more with sellers.

In Cagan's view, these are not signs of a crashing real estate market, but more of "a raging fire returning to normal temperatures," said Cagan in his new study, "Has the Fire Burned Out?"

Business as usual

Though Cagan sees no reason to worry about a bubble, he believes

price appreciation will slow down over the next few years.

"This is basically the business cycle," Cagan said. "This is not a stock market crash, there's no reason to panic or run for the exits. This is simply a return to a normal market."

The real estate boom will end first in high-end markets, which tend to lead in both upturns and slowdowns. "The price increases have become so great they are pricing out potential home buyers, including those who use adjustable-rate mortgages and other creative financing. The affordability concern makes rapid increases simply unsustainable," he said.

Cagan uses Southern California as an example. A second bull market there began to catch on by 2002. The second quarter of 2004 was the

hottest part of the boom with prices rising at least five percent per month. Properties often had multiple offers on their first day of listing and often sold for above asking price.

"Can you double in a year? You can. But can you double in a year indefinitely? No," Cagan said.

Sideways market

Cagan predicts that housing prices in affluent areas this year will be the same as they are now, or even slightly lower. In more affordable areas, prices will be higher than they are now, since those markets have not yet reached their peaks.

Overall, he said, 2005 will likely be a sideways year, with market rises and dips, but no huge movement in either direction. "This is not apocalyptic. This is just going back to normal," Cagan said. "This is not something incredible. This is not 1929. This is what people have been doing for 100 years."

MORTGAGES

Solid Future for Hybrid Adjustables



A new report indicates that income growth over the next two years will help borrowers

make payments on their hybrid adjustable-rate mortgages (ARMs), even if their fixed-rate and interest-only periods expire simultaneously.

The report, by Michael Youngblood, an analyst with Friedman, Billings, Ramsey & Company, discounts some experts who express concerns that borrowers of ARM loans requiring only interest payments during the initial years of the loan will have difficulty making the payments after the initial period. The report concludes that income growth will outpace the rise in payments over the next two years.

Youngblood expects subprime interest-only hybrids to perform most favorably, considering the interest-only periods are set to expire a few years after the first rate adjustments, whereas conforming hybrids tend to introduce both payment shocks at the same time. Also, he believes the credit quality of these loans to be superior to traditional subprime ARMs.

Interest Rates Watch: Modest Increases Ahead



A new report from a major real estate organization points to good news for future home buyers and sellers. The consensus remains that mortgage interest rates will rise, but only modestly, over the next few years.

The Mortgage Bankers Association now predicts 30-year fixed-rate mortgages will increase gradually to 6.5 percent by the end of 2005, and to 6.8 percent by the end of 2006, largely a result of long-term Treasury rates staying well below five percent next year and climbing to 5.1

percent by the end of 2006. Short-term (one-year) Treasury rates are expected to climb more quickly, increasing from 2.2 percent to 3.2 percent by the end of next year, and to 4.0 percent by the end of 2006.

"As long as rates remain near today's low levels, home buying will remain an attractive alternative to renting and the purchase market will continue strong," said Douglas Duncan, chief economist of the Mortgage Bankers Association.

The MBA sees a number of demographic, economic and industry trends that are supporting home buying. First, low rates are keeping mortgage payments very competitive with apartment rents, so apartment vacancy rates increase as home ownership rates increase. Second, low mortgage payments are opening home ownership opportunities to many immigrant families. And third, the mortgage industry has shown itself adept at using the capital markets to bring greater liquidity to a number of innovative products like hybrid ARMs, low documentation loans and loans to borrowers who want to buy a house while they are still rebuilding their credit.

AGENT'S CORNER

Latino Home Ownership Set to Soar



A survey by a Hispanic research company suggests as many as 1.5 million Latino households will buy homes in the next six years, but that number could rise by as much as 700,000 if today's real estate professionals would reach out with bilingual counseling and innovative lending packages.

The survey was conducted by the Tomas Rivera Policy Institute of the University of Southern California. Responding to the survey, Gary Acosta, chairman of the National Association of Hispanic Real Estate Professionals, said ignorance of the real estate process was an obstacle to Latinos.

Agents "who help buyers overcome such obstacles will stand to gain in the coming years as minority populations and their buying power increase rapidly," he said. "Those difficulties constitute problems we need to solve, but they also point to important opportunities that will result from bringing members of the underserved group into the mainstream."

NAR to Release Pending Home Sales Data



The National Association of Realtors has announced development of a new leading economic indicator that will tell how many homes come under contract each month. The

index will complement the organization's other key indicator, which discloses how many homes have been sold. NAR economist David Lereah said the Pending Home Sales Index would provide a more current read of the housing market than any indicator currently available.

Complaints Up Over Unlicensed Home Inspectors



The Washington Department of Licensing is warning real estate agents not to refer home buyers to unlicensed or unqualified home inspectors or face disciplinary action and possibly lawsuits.

The department's Web site advises agents that, "By referring unlicensed inspectors to prospective home buyers or by accepting an illegal inspection report, you place yourself in a potentially litigious situation."

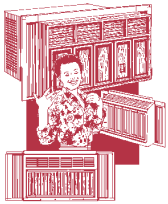
The agency said about 30 percent of the consumer complaints it received in 2004 involved home inspectors. Complaints say agent-referred inspectors are overstepping their

qualifications by discussing things like pest and water damage, rather than suggesting that structural inspectors be brought in for those assessments.

Agents are being urged to send consumers to the state's list of inspectors, rather than making referrals themselves.

TRENDS

Air Conditioning Tops "Most Wanted" List



What do buyers want in homes and what are buyers prepared to pay for? The NAR's "Profile of Buyers' Home Feature Preferences"

found that about 75 percent of home owners said they preferred central air conditioning, followed on the list by walk-in closets (50 percent).

Other top preferences were:

- Bedroom on main level, 42 percent
- Patio, 41 percent
- Oversized garage, 41 percent
- Cable or satellite TV-ready, 40 percent
- Fencing, 37 percent
- Porch, 34 percent
- Eat-in kitchen, 32 percent

The survey found that among buyers who purchased a home without a desired feature, many would have paid more for a home with that feature. For example, 66 percent said they would have paid a median of \$825 extra for a home with a walk-in closet in the master bedroom.

What's in a Name? Higher Property Values



Residents of South Belmar, a Jersey shore community once known for tourists, taverns and rowdy college kids, has

voted to change its name to Lake Como – which locals feel will help the town shed its bawdy past and, not so coincidentally, lift property values.

From its glitzy days in the '70s as a community of summer rentals and crowded bars, residents now say there are few rentals left and most citizens live there year-round. They feel, however, the community's reputation is stifling growth. The new name reflects the city's proximity to a nearby lake, which real estate agents say could instantly raise property values by as much as 20 percent.

About 56 percent of residents approved the name change in the November elections. The switch should become official by early this year.

Survey: Builders Need to Improve Customer Care



Only 44 percent of new home buyers are satisfied with their builder's customer care after purchase.

And builders should take note, according to the Owens Corning survey, because nearly 75 percent of those polled said they would happily refer their builder to their friends and family if the builder offered home maintenance and repair services beyond a standard home warranty.

Other findings from the survey showed:

- 75 percent of new home buyers are more predisposed than buyers of existing homes to turn to outside help for maintenance.
- 81 percent of new home buyers in the past two years said "fixing home maintenance and repair problems promptly" would be a "very big" or "big" influence on their satisfaction with their builder.
- 30 percent of new home buyers said they would pay a premium of \$1,000 to \$2,000 if builders offered an extended home maintenance program.

FSBO Market Shrinks



The level of for-sale-by-owner transactions has dropped dramatically to 14 percent, down from 18 percent in 1997, according to a study by the

National Association of Realtors.

The research also found that 32 percent of sellers conducting transactions without the assistance of a real estate professional knew their buyers in advance, meaning the properties were never really on the open market. The median selling price of a FSBO was 15.4 percent less than properties in agent-assisted transactions.

The survey also focused on profiles of typical home buyers and found that the typical first-time buyer is 32 years old, has a household income of \$54,500 and makes a down payment of three percent on a home costing \$139,000. The typical repeat buyer is 45 years old with a household income of \$79,100 and places a down payment of 22 percent on a home costing \$209,000. In all, 94 percent of buyers believe their home purchase is a good financial investment.

Prices Easing On Raw Materials



The National Association of Home Builders says prices for construction materials are beginning to ease off, taking pressure off a key driver in the increasing cost of new homes.

Builders say that while the price of concrete continues to go up, the prices of lumber, steel and gypsum appear to be leveling off. Industry analysts said the stabilizing is a part of a "normal commodity price cycle" that currently is at the peak.

In the past year, steel mill products increased in price by 43 percent, lumber prices rose 27 percent, gypsum was up 20 percent, and cement rose six percent.

Experts say that while the price of raw materials has peaked and will likely fall back next year, they warn that the cost of transporting materials

– led by higher oil prices – could wipe out any real savings.

MARKETS

Growing Market For Student Housing



The demand for student housing is growing dramatically, and it's expected to grow at an accelerated pace in coming years. This segment of the home building

industry is now considered one of the apartment industry's most important niche opportunities, according to the National Multi-Housing Council. This group has just completed a study of market condition for off-campus, privately owned housing in college towns nationwide.

To a large extent, the Council's projections are based on the fact that many of the 75 million "echo boomers" – persons born between 1976 and 1994 – will be heading to colleges this decade.

"Our analysis of privately owned properties show that student housing is a potentially lucrative

market niche that could help the industry counteract the effect of rising homeownership rates and a still somewhat soft economy," said NMHC Legislative Analyst Alex Hecht.

Hecht noted that student housing can differ from conventional apartments in some key aspects. "Financing can be challenging," he added. "Universities can sometimes be a bureaucratic partner and property management can be more intensive, but investors who can master the unique dynamics of this market should find it worth the effort."

National Median Tops \$186,000



The national median existing-home price topped \$186,600 in September 2004, up 8.6 percent from September 2003,

when the median price was \$171,800. The Commerce Department says sales of new homes went up 3.5 percent in September to a seasonally adjusted annual rate of 1.206 million units, the highest level since May and the third-highest on record.



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