

550 Mamaroneck Avenue  
Suite 202  
Harrison, NY 10528  
Tel: (914) 381-6700  
Fax: (914) 381-3131

888 Seventh Ave., Suite 300  
New York, NY 10106  
800-281-TITLE (8485)  
Tel: (212) 432-3272  
Fax: 800-FAX-9396



**The Judicial Title Insurance Agency LLC**  
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Richard Giliotti  
President & Chief Operating Officer

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# REAL ESTATE DIGEST

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

## Home Flipping: The New Game in Town for Pros and Consumers Alike

It used to be the purview of steely speculators only, but now even Joe Homeowner is engaging in a potentially risky practice of home flipping – buying a home, perhaps fixing it up, and selling it quickly for a tidy profit.

In red hot Santa Clara County, California, for example, 1,882 houses and condos sold in the county in February. Of these, 4.5 percent – about 84 homes – had been purchased within the previous six months, according to DataQuick Information Systems. That's up from 3 percent in February 2004.

Flipping tends to increase when home prices have been rising steeply, tempting speculators to bet they can resell quickly and pocket some profit, said John Karevoll of DataQuick.

"These things lurch up and then lurch back, so it's highly localized and highly limited in time span," Karevoll said.

### High cost, high risk

It's also "a high-risk game," said Ron Rossi, a San Jose real estate attorney. "You're buying a major asset and hoping to resell it quickly. Some people can't afford the loss or can't afford to hold it."

There are no guarantees when it comes to flipping, however.

"If the market shifts, some of these people are going to get caught short," Rossi said.

He added that speculating in million-dollar-plus homes can be especially iffy, since those houses have a smaller pool of potential buyers and tend to stay on the market longer.

### Legal issues

Rossi said he's seen flipping – and associated legal problems – spike in each of the past four decades. In the past, some speculators flipped

properties – often new homes – by reselling them before escrow had even closed.

"Just to make sure we don't get into that concept, we have an addendum to our contracts that pretty tightly prohibits spinning it in less than a year," except when buyers face unforeseen circumstances such as unemployment or health problems, said Steve Delva, South Bay president of Standard Pacific Homes.

In places like Las Vegas, Miami and Arizona, speculation in new homes has been rampant in recent years, and such clauses have become common.

Developers dislike selling to investors because re-sales can diminish the price developers get for new units. A lot of for-sale signs in front of homes in a development can raise fears among potential buyers that there's something wrong with the neighborhood, pushing down prices. Also, if a speculative bubble builds and then bursts, developers can get stuck with units they can't sell.

## MORTGAGES

### Many Seniors Unaware of Reverse Mortgage Benefits



The National Council on the Aging (NCOA) has published a report showing that reverse mortgages can help an estimated 13.2 million elderly homeowners pay for long-term care, allowing many to remain independent in their homes longer.

Of the 13.2 million eligible households, an estimated 9.8 million currently have an impairment that can make it hard to live at home, according to the study, "Use Your Home to Stay at Home: Expanding the Use of Reverse Mortgages to Pay for Long-Term Care."

The NCOA study shows that while two-thirds (67 percent) of older homeowners today have heard of a reverse mortgage, only nine percent indicate that they are likely to use this financing option to pay for assistance at home. Many don't understand the program, feel that they risk impoverishment, or that they won't be able to leave a legacy to their children if they tap home equity.

A reverse mortgage is a loan that enables homeowners 62 years or older to borrow against the equity in their home, without having to sell their home, give up title, or take on a new monthly mortgage payment.

### Originators Getting Creative To Battle Rising Rates



Mortgage originators are pursuing a number of strategies to offset the ongoing decline in refinance volume and the expected decline in purchase volume as long-term rates rise.

IndyMac, for example, is "focused on more all-weather products that are less rate and term sensitive," according to Frank Sillman,

CEO of the Mortgage Professionals Group at IndyMac. Those products include, "Alt-A, home-construction lending and non-prime products. We haven't seen the tremendous highs that some other companies did, nor are we seeing the lows that other companies are having," he said.

Cotter Cunningham, chief operating officer of Bankrate.com, has seen other lenders dipping into the sub-prime market to broaden their potential pool of customers. Other lenders are emphasizing home equity loans to allow consumers to tap into the equity created by rising home prices.

Lenders are also beefing up their retail operations to grow their share of the purchase mortgage market. That means more branches, more joint ventures with real estate brokers and more interest in purchase leads from the online channel.

And, of course, the Internet has emerged as a major channel. A study recently conducted by Real IQ Consulting for iHomeOwners found that 64.7 percent of purchase loan requests on LoanWeb.com resulted in a new mortgage being secured by the consumer. The average time to close for those purchase leads was 61 days.

## TRENDS

### "Financial Insecurity" Tops Buyers' Worries



Twenty-four percent of consumers in a recent survey cited a lack of financial security as a primary obstacle to home ownership, while 23 percent named saving for a down payment. Together, respondents find these financial issues to be nearly as challenging as trying to find the right house to meet their needs.

Credit concerns and the evaluation of FICO scores also dominated the GMAC Mortgage survey results, as 12 percent of consumers named past or current credit problems as an obstacle to home ownership. The importance of achieving good credit early in life

is clearly understood by younger consumers, as 43 percent of survey respondents aged 18 to 24 want to learn more about FICO scores and the evaluation of credit during the home financing process, which is significantly higher than the 17 percent average for all consumers.

Consumers aged 25 to 34 were more likely to cite saving for a down payment (36 percent) and achieving financial security (39 percent) as an obstacle to home ownership than their older counterparts. Notably, a household income of \$75,000 emerged as the financial dividing line for consumers who felt financially stable enough to buy a home and those who did not.

An average of 30 percent of consumers with a household income of less than \$75,000 cited a lack of financial stability as their obstacle to achieving home ownership. Comparably, only 14 percent of households earning more than \$75,000 per year viewed this as their primary barrier.

### Some Agents Keeping Homes Out of MLS



The *Orlando Sentinel* newspaper is reporting the housing market there is so hot that some agents are not putting their best listings into the multiple listing system, instead preferring to find their own buyers and keep the entire commission.

So-called "pocket listings" that are shown only to a company's clients are not illegal per se, but they deny the larger home-buying market an opportunity to see and bid on properties. In some cases, in-house sales may result in the home seller not getting the highest possible price.

The *Sentinel* quoted Kathleen Gallagher McIver, president of the Mid-Florida Regional Multiple Listing Service, as saying she is concerned about the practice. "Is it in the best interest of the seller? By keeping it in-house and not getting it out to the public, who are the agents working for?" she said.

## HUD says Fair Housing Complaints Are Increasing



The Department of Housing and Urban Development has released its 2005 "State of Fair

Housing" report, finding that landlords and rental agents who violate the Fair Housing Act are more likely than ever to be reported.

According to the report, HUD and its state and local Fair Housing Assistance Program partners received 9,187 housing discrimination complaints last year, a 13 percent increase over the previous fiscal year. Together they settled or conciliated 3,183 cases and provided over \$11 million in monetary relief, in addition to other resolutions.

In addition to the cases settled, FHAP agencies found "reasonable cause" to believe discrimination occurred in 414 cases. Also, compared to the previous year, HUD and the FHAP agencies received 31 percent more complaints from Hispanics alleging discrimination based on national origin (for a total of 916 complaints).

## Bankruptcy Law Includes Property Owner Protections



The housing industry is applauding the House's quick passage of new bankruptcy law provisions that will stop abuses

of current law but still protect home and property owners.

The bill contains two beneficial provisions for apartment renters and home owners:

- It would stop a practice, legal under current law, in which delinquent tenants facing eviction can file for bankruptcy, triggering an automatic stay that requires the property owner to stop all eviction proceedings – even if the tenant is damaging property or

involved in illegal activity.

- It also recognizes that states should have the ability to set homestead exemptions at levels they deem appropriate.

The proposal also stipulates that home owners who file for bankruptcy within 40 months of buying a home would be able to protect no more than \$125,000 of home equity from creditors, and after 40 months existing state homestead limits would apply.

## MARKETS

### Consumer Confidence Up In Bellwether South



Consumer confidence is up 35 percent from a year ago in the East South Central region (Kentucky, Tennessee, Alabama and Mississippi), tops in the nation, according to The Conference Board.

"In recent years, the region has begun to diversify more and pick up more of the higher value-adding jobs. The success of these efforts is showing up in a level of confidence not shared in the other eight regions of the country," said Ken Goldstein, senior economist at The Conference Board.

"This helps explain why – despite soaring prices at the gas pump and modest job growth in recent months – consumers in these four major states are relatively confident that both the economy and their career prospects are improving. This region is becoming something of a bellwether – as Tennessee goes, so could go the nation," said Goldstein.

### Baghdad Prices Start Inching Up Again



Think home prices in your neighborhood are rising quickly? Home prices in war-torn

Baghdad are soaring, according to *USA Today*.

The newspaper said prices dropped in the chaos just after

Saddam Hussein's fall, then soared as speculators moved to snatch up homes for cash in advance of an expected return of exiles from abroad. Prices declined again, however, as violence grew under U.S. control. But according to the newspaper, prices have soared since the elections. A 3,000-square-foot home in the "upscale" Mansour district now sells for about \$300,000 – about four times what it did under the Saddam regime.

### Florida Leads List of Fastest-Growing Counties



Once-bucolic Flagler, Fla., located along the Atlantic coast between

Daytona Beach and Jacksonville, was the country's fastest-growing county last year, experiencing a 10.1 percent population increase, according to the Census Bureau. The bureau also said 14 of the country's fastest-growing counties were in Florida.

The agency said of the 100 fastest-growing counties, 60 were in the South and 23 in the West. There were 17 in the Midwest and none were located in the Northeast. Other top 10 fastest-growing counties were:

- Kendall County near Chicago, growing at 8.3 percent.
- Loudoun County near Washington, D.C., at 8.1 percent.
- Hanson County near Sioux Falls, S.D., 7.9 percent.
- Lincoln County near Sioux Falls, S.D., 7.5 percent.
- Lampasas County near Austin, Texas, 7.3 percent.
- Lyon County near Carson City, Nev., 7.2 percent.
- Camden County, N.C., near Norfolk, Va., 7.2 percent.
- St. Johns County, Fla., north of Flagler, 6.7 percent.
- Dallas County in Iowa, near Des Moines, 6.6 percent.

### NAR Adjusts Predictions For 2005 Prices & Sales



The National Association of Realtors is projecting that home sales this year will likely decline by about

2.4 percent to a total of 6.62 million, a drop from last year's record sales of 6.78 million. It also is forecasting that new home sales will decline to about 1.14 million this year, compared to 1.2 million last year.

The trade association believes the median existing-home price for all housing types – including homes and condos – will be up by about 6.3 percent in 2006 to \$196,900. The median new-home price is projected to increase 5.6 percent this year to \$232,800.

On the downside, NAR economist David Lereah said he expects interest rates to creep up to an average of 6.3 percent on 30-year fixed-rate mortgages during the year.

## New AOL Latino Channel Includes Real Estate Info



AOL Latino, a major Spanish-language Internet portal owned by America Online, has announced the opening of a new channel, Dinero y Exito (Money and Empowerment), largely sponsored by Century 21, Wells Fargo and the Ford Motor Company. The channel will have extensive informa-

tion about home buying and selling.

Homestore will be a major provider of information and listings for the channel. Other facets of the channel will include information on retirement and budgeting.

A spokesman said the purpose of AOL Latino was to “help the Hispanic community succeed in the United States by offering the information our members need to improve their daily lives.”

## Immigrants Will Be Next Wave of Homeowners



What will happen to the market after the baby boomers' demand for housing declines? Demand among immigrants could take up much of the slack, according to NAR's *Real Estate Outlook* (April 2005), although it takes time for this demand to be felt in the market. An immigrant household takes an average of nine to 13 years from the time of its arrival in this country to the time of its first home purchase, according to data from the American Housing

Survey. However, homeownership rates among immigrants who become naturalized citizens approach those of native-born citizens—68.8 percent to 71.7 percent—and this rate increases with the length of their stay. Noncitizens tend to have lower rates of homeownership, regardless of the length of their stay. Immigrants will make up 32 percent of U.S. households by 2015, up from 28 percent today.



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Harrison, NY 10528

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