

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

## Homeowners Overwhelmingly Support Retaining Mortgage Tax Deductions

**D**emocrat or Republican, homeowner or renter, most Americans agree on one thing: they like mortgage tax deductions and don't want any changes in system that might strip the tax advantage away.

The President's Advisory Panel on Federal Tax Reform has called for replacing the popular mortgage interest deduction with a considerably more limited 15 percent tax credit on loans up to \$350,000. Also gone would be deductions for state and local taxes (including property taxes) and interest deductions for home equity loans and second homes. The panel also is recommending elimination of any tax deduction on second homes – which NAR says would impact about 36 percent of homes sold.

The National Association of Home Builders commissioned a survey to gauge the public reaction to the

recommendations by the panel. The study found that 81 percent of voters believe it is reasonable for the federal government to provide tax incentives to promote homeownership and 76 percent oppose replacing tax incentives promoting home ownership with incentives to invest in the stock market.

"Voters are sending a loud and clear message to policymakers in Washington: don't mess with the mortgage interest deduction and other important housing tax incentives that promote homeownership," said Jerry Howard, executive vice president and CEO of the (NAHB).

### Favoring incentives

Furthermore, when asked to rate the importance of preserving tax deductions in the current tax system, 73 percent of those surveyed indicated

top support for the deduction of mortgage interest and medical expenses. These top two items were followed closely by the deduction for state and local taxes, including property taxes, at 69 percent.

And even those renting their current homes were high on preserving the mortgage interest deduction. In ranking the importance of current tax deductions, renters said this provision came in second at 62 percent, behind the deduction for medical expenses.

According to the survey results, one reason voters appear skeptical of whether tax reform will be beneficial is that few believe they will end up paying less in taxes. Only 14 percent believe their tax bill will fall if tax reform is enacted. Conversely, 30 percent expect to pay more taxes under a new tax code.

### Industry groups agree

Both the National Association of Realtors and the National Association of Home Builders are opposing the panel's recommendation that would replace the mortgage interest deduction.

## MORTGAGES

### Mortgage Rates Creep Ever Higher



Mortgage rates continued to climb, with fixed-rate mortgages reaching their highest level since September 2003. The

average 30-year fixed-rate mortgage increased from 6.37 percent to 6.42 percent in mid-November, according to Bankrate.com's national survey of large lenders.

The average 15-year fixed-rate mortgage rate increased as well, rising from 5.91 percent to 5.96 percent, while the average jumbo 30-year fixed-rate climbed to 6.6 percent from 6.54 percent last week. Adjustable-rate mortgages followed suit, with the average 5/1 adjustable-rate mortgage notching higher from 5.9 percent to 5.94 percent, while the average one-year ARM bounded higher from 5.35 percent to 5.44 percent.

Inflation concerns continue to push mortgage rates higher. The monthly employment report released in November showed a surprising jump in average hourly wages, which fueled further inflation fears. Inflation threatens to erode the fixed payments that bondholders receive, so bond yields and mortgage rates increased. Mortgage rates are closely related to yields on long-term government bonds.

After defying predictions for so long, fixed-rate mortgage rates have increased significantly since the beginning of September. The average 30-year fixed mortgage rate on Sept. 7 was 5.8 percent, meaning that the monthly payment on a loan of \$165,000 was \$968.14.

Within two months, the average 30-year fixed rate rose to 6.42 percent, meaning the same loan would carry a payment of \$1,034.25. Failing to lock in a mortgage rate during that 60-day period would have resulted in a monthly payment increase of \$66.11 per month, and would amount to additional interest costs of nearly \$23,800 over the loan term.

## TRENDS

### Neighborhood is No. 1 Concern of Home Buyers



Seventy-two percent of home buyers consider which neighborhood they want to live in before they consider what house to buy, and 73 percent said

they would pass up their dream house if it was in the wrong neighborhood. The survey, by the Kelton Research firm, also reported:

- \* 39 percent of home buyers said "safety" was the most important consideration when selecting a neighborhood.
- \* 15 percent said "good schools."
- \* 12 percent said "feel of home."
- \* 9 percent said "size of home."
- \* 9 percent said "short commute."

### Most Luxury Home Buyers Simply Pay By Cash



A survey of real estate agents who exclusively work the upper-end homes market found that most luxury home buyers pay cash, and that foreign buyers

are increasing their property holdings in the United States.

The survey was released by *Unique Homes* publisher Rick Goodwin at the Institute for Luxury Home Marketing conclave.

According to the survey:

- \* 54 percent of million-dollar-plus buyers pay all cash for their homes.
- \* 48 percent of sellers of luxury homes are downsizing by choice.
- \* 70 percent of agents said "location" and "views" were the most important elements in luxury homes.
- \* 66 percent of agents indicated

noticeable activity from foreign luxury buyers, with the United Kingdom representing 50 percent of foreign purchasers; Canada, 23 percent; India, 15 percent; Mexico, 9 percent; and China and Australia tied at 8 percent.

## MARKETS

### 2005: A Stellar Year



NAR economist David Lereah, who already has predicted 2005 will be a record sales year, now believes it would be even stronger than originally thought.

When final figures are in, Lereah is forecasting sales will have risen 4.2 percent to 7.07 million homes in 2005, with new-home sales reaching 1.29 million, a 7.1 percent increase. Lereah predicts the national median existing-home price will increase 12.5 percent in 2005 to \$208,400 when numbers are tallied, while the median new-home price should rise 3.9 percent to \$229,700.

### 2006: A Year of Transition



The U.S. economy will suffer in 2006 because home prices will rise more slowly than they have in recent years, a mortgage expert at Newport Beach-based Pimco said.

Growth in the gross domestic product will drop to one to two percent in 2006, as housing prices increase at only a single-digit pace, predicted Scott Simon, chief of Pimco's mortgage team.

Homeowners will have less spending money even though home prices won't decrease, he said.

"For the past few years, you could take equity out of your house, refinance your mortgage and lower your mortgage payment at the same time, which was a beautiful thing,"

Simon said in a statement released by the bond-trading firm. "People are not only going to feel a lot less rich, but they are going to have less money to spend."

"Our view isn't that housing is going to collapse," Simon said. "Our view is that housing is going to moderate."

But even that will impact the economy, because homeowners no longer will be able to use "their houses like ATM machines," he said. If things turn out worse — and home prices actually decline next year — that "would lead to a recession." National Association of Home Builders economist David Seiders believes housing prices are now the chief concern of the Federal Reserve and that the Fed will continue to push up interest rates until home buying flattens. Seiders believes the Fed will increase rates at least until early this year in an effort to squeeze out some buyers.

In his housing forecast, Seiders is predicting that long-term mortgage rates will rise by another 60 basis points by the third quarter of this year, bringing them to about 6.6 percent. Seiders said, however, that as long as lenders were creating a variety of exotic mortgage options, the government would have difficulty blunting demand.

## Prices Driving Families Out of San Francisco



In a report that may serve as a warning to all urban communities with rapidly escalating home prices, San Francisco State University has found that among families in the city with children under age six, more than half hope to move out of the city within the next three years. Most of those polled cited housing costs as a deterrent to long-term living in the city, especially among those who hope to own their own homes someday.

The report said although birth rates in the city are relatively flat, school enrollments are declining. The median price of a home in San Francisco is more than \$700,000.

## INVESTING

### Real Estate: Not as Good, But Still Better Than Stocks



Investors believe real estate in America is overvalued, but is still a better bet than the stock market. The study, conducted by Roper Public Affairs, found that 73 percent of investors believed housing values are inflated and only 19 percent said values were about right.

Despite that belief, however, they still overwhelmingly saw real estate as a better investment than the stock market. In a head-to-head match-up, 69 percent of investors preferred real estate compared to the 24 percent who favored stocks.

## TECHNOLOGY

### Cell Phones Become Maps, Info Sources For Agents, Buyers



Real estate agents and homebuyers are depending more and more on mobile technology, and it's easy to see why. Mobile devices, including cell phones, are providing information like never before.

A new service from a company called Smarter Agent ([www.smarteragent.com](http://www.smarteragent.com)), for example, slated to roll out in early 2006, will make it possible to see not just a list of addresses, but a map of a neighborhood with icons of houses you can click on to get an idea of the properties in an area, the company's vice president of product

development said.

Currently, you can get a list of homes in a neighborhood by address with their prices and other information. In the first quarter of 2006, you'll be able to see where those houses are on a map of the neighborhood.

Conceivably, a home buyer could stand in front of a school and bring up the map to find homes for sale within a five-mile radius. It's also possible to call up the map from a remote location. The maps are part of a partnership with Mapquest and Onboard.

Smarter Agent detects callers' locations via satellite-based Global Positioning System, and then relays the property information back to callers in real time.

The consumer side of location-based services, or LBS, the technology behind Smarter Agent, is projected to become an \$18.5 billion industry by 2006, according to Strategis Group. And 40 million consumers search annually for homes, according to the Pew Foundation. With these facts in mind, a number of companies are jumping on the real estate mobile technology bandwagon.

When used by consumers, Smarter Agent functions as a lead-generation device, said Brad Blumberg, CEO of Camden, N.J.-based Smarter Agent. Agents can use the technology to better help their clients.

"On your cell phone you download Smarter Agent as you would a ringtone," said Blumberg. "Then you click on an icon to access the system." At that point, the GPS system identifies where the home buyer is, locates the homes for sale in that area and displays them in the order of proximity.

Clicking on, "For sale – go!" yields a list of homes, displayed four at a time. Because the cell phone display screen is so narrow, the addresses scroll from left to right so the viewer can see the whole address.

"We show the house's address; last sold price; last sold date; bedrooms; baths; property type; and taxes," said Blumberg.

Double-clicking on a property brings up the MLS feed with further information on the property. It's also possible to call up a map that displays the property location.

"You can also display the public data on recently sold houses in the area," said Blumberg. This "recent sales" feature is a new addition that makes it possible for agents and sellers to get a better idea of the comparable value of homes in a given neighborhood, Blumberg said.

## AGENT'S CORNER

### NAR Releases Advanced Data Retrieval Application



The Center for REALTOR Technology of the National Association of Realtors has released ezRETS, a new data retrieval tool designed for real estate that allows Re-

altors to download and use property listing information in the Real Estate Transaction Standard format.

The new application helps

Realtors select information that can then be integrated into reports such as comparative market brochures, studies of return on investment or neighborhood trend reports. ezRETS is an Open Data Base Connectivity driver: ODBC drivers are designed to make it possible to access any data from any application, regardless of which database management system is handling the data. RETS is the industry standard for exchanging real estate information and providing easier access and movement of data. More information on RETS can be found at [www.rets.org](http://www.rets.org).

"Software wizards built into familiar desktop applications like MS Word and Excel can take advantage of ezRETS to simplify the information retrieval process. With ezRETS, specialized real estate reports, graphs and analyses can now be easily produced," said Mark Lesswing, NAR vice president and director of CRT.

The CRT applications suite includes offerings for brokers, agents, associations, MLSs and industry vendors. ezRETS and other CRT applications are freely available from CRT under an open-source listing. There is no charge to NAR members for use or licensing of the applications.

ezRETS is available for downloading at [www.realtor.org/CRT](http://www.realtor.org/CRT) or by contacting CRT at [info@crt.realtors.org](mailto:info@crt.realtors.org).



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