

Real Estate Digest

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2008 – Year of the Rebound?

Declining home values, inventory gluts, mortgage woes – no wonder many consumers and real estate pros are happy to see 2007 come to a close. Now the big question is, will 2008 be a repeat of this year or a year of recovery?

The National Association of Realtors, which had assured members they could expect a housing turnaround by the end of 2007, says it now expects a thaw sometime in early 2008, thanks to a settling mortgage market.

“There’s been an unusual hit to home sales, starting in March when subprime problems emerged and more recently when problems spread to jumbo loans, with many potential buyers on the sidelines,” says NAR senior econ-

omist Lawrence Yun.

“However, the jumbo loan market is now beginning to settle, and FHA-insured loans are helping to fill the subprime vacuum. The volume of existing-home sales this year will be better than 2002, which was the second year of the housing boom.”

NAR projects 2007 will end with 5.92 million existing home sales and predicts 6.27 million sales in 2008, compared with 6.48 million in 2006. New-home sales should total 801,000 in 2007 and 741,000 next year, below the 1.05 million in 2006.

Existing-home prices are likely to slip 1.7 percent to a median of \$218,200 this year before rising 2.2 percent in 2008 to \$223,000, according to the NAR. The median new-home price is estimated to drop 2.2 percent to \$241,100 in 2007, and then increase 1.7 percent next year to \$245,100.

Bottomed out?

Not everyone shares the NAR’s rosy outlook. The outlook for house prices is weak

as traders on the Chicago Mercantile Exchange bet on continued price declines and inventories to grow. Traders on the CME expect home prices in 10 major cities to drop before the rebound begins, according to an analysis by Tradition Financial Services Inc., New York, of prices for housing futures traded on the exchange.

Falling prices make it more difficult for homeowners to tap their home equity or refinance their mortgages. Millions of homeowners who took out adjustable-rate loans in 2005 and 2006 face sharply higher mortgage payments this year and next, with foreclosures having already soared as a result of payment resets.

Good news for buyers

The news is great for buyers, of course, who have large inventories of unsold homes from which to choose — without the pressure of rising home values nipping at their heels. In the last housing recession of the early 1990s, it took more than eight years for home prices to return to their

peak level.

Economists at Goldman Sachs said the latest data are on track to meet its forecast for seven percent declines in home prices before the rebound, which could come as early as this spring. The biggest declines are the Rust Belt and in the formerly boom towns along the coasts. Prices are holding up in the Pacific Northwest and in areas of the South.

TRENDS

More Homeowners Attracted to Solar



For decades solar energy use was largely confined to a small fringe of diehard conservationists. And their sole option was typically a “solar thermal” system that stores heat from the sun to warm pools or hot water. But these days, solar power is going mainstream in many more homes, helped along by a proliferation of new solar technol-



MORTGAGES

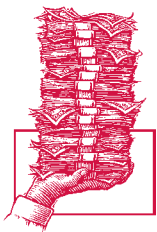
ogy like cheaper photovoltaic cells and new solar-powered gadgets.

Photovoltaic cells, most of which are made from silicon, have exploded in use around the country over the past five years as once-prohibitive costs for home use of the technology have declined. Between 2002 and 2006, the number of new photovoltaic systems installed in U.S. homes nearly tripled.

The number of solar gizmos for the home is skyrocketing as well. At a recent Solar Power Conference 2007 in Long Beach, Calif., a record 12,500 attendees — including luminaries like media mogul Ted Turner — crowded past aisles crammed with brochures and products, including everything from solar-powered water heaters to carpets.

One hurdle is that there are hundreds of photovoltaic installers to choose from in states such as California and New Jersey, which are among the most aggressive in offering consumer credits to use solar. That makes it difficult to tell who's reliable. Officials with the Solar Energy Industries Association trade group advise consumers to check out installers through their Web site, www.seia.org, as well as to make sure they are certified.

China to Require 40 Percent Down On Second Homes



In an effort to slow demand that has sent real estate prices soaring, China's banking regulator is considering requiring banks to demand 40 percent down payments on any purchases of second homes.

The Construction Bank of China has raised its down payment demand and other banks are expected to follow. The government already has increased interest rates several times in an effort to cool the housing market.

Help Coming for Home-owners Facing High Mortgage-Rate Resets



Borrowers at risk of foreclosing may be able to get into the new FHASecure loan program designed to help homeowners in trouble.

FHASecure aims to get loan rates back to around what they were before the loan rate reset, says Bill Glavin, the U.S. Housing and Urban Development's special assistant to the federal housing commissioner. The program has strict rules, which generally are the same as for a traditional Federal Housing Administration mortgage.

The chief difference: For FHASecure, homeowners must be delinquent on their mortgage for 30 days due specifically to a rate reset. They also must have made at least six consecutive payments on time prior to the reset.

Catches: Borrowers can't use this loan to refinance an FHA loan. Much like FHA loans for low-down-payment borrowers, homeowners generally must have three percent equity in their home. Also, loan limits vary by geographic region — to a maximum of \$362,790.

Additionally, borrowers can't use loans to pay for living expenses, and all properties must have a thorough home inspection and termite inspection. If applicable, a septic inspection may be required. Learn more at www.fha.gov.

The good news is that some lenders, Glavin says, may issue this type of loan even with a bankruptcy.

Can't qualify for FHASecure? The Neighborhood Assistance Corporation of America (NACA) on Oct. 1 was touting a 5.625 percent rate on a 30-year fixed-rate mortgage for refinances in many areas. NACA is a Boston-based nonprofit IRS

501(c) 4 social action organization and mortgage broker.

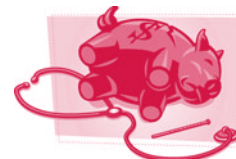
So far, the organization — at www.naca.com — has \$1 billion, obtained from large banks, specifically to refinance predatory loans. There are no down-payment requirements, points, closing costs, fees or credit score considerations.

To qualify, however, borrowers must have a predatory interest rate, currently at least 10 percent, or the home must be in need of substantial repairs and borrowers must have had their mortgage at least two years.

When considering a refinancing program, experts suggest taking these steps:

- ✱ If counseling is a requirement and a loan reset imminent, get a commitment upfront on how long the counseling session will take.
- ✱ Get a good-faith estimate of all costs before you apply.
- ✱ Always make a payment on your mortgage — even if you're behind.
- ✱ Try to refinance only with a fixed-rate mortgage.
- ✱ If you've already made payments, try to get a loan equal to the term remaining. However, if payment relief is critical, you may have no other option than to obtain a longer-term loan.

Foreclosure Rate Has Doubled Since 2006



RealtyTrac is reporting that foreclosure notices in August were up 36 percent from the preceding

month and now are up 115 percent from where they were in August 2006. The report showed 243,947 foreclosure filings — default notices, auction sale notices and bank repossessions — in August, the highest number of filings in a single month since the company began the reports in January 2005.



The national foreclosure rate of one foreclosure filing for every 510 households also is the highest figure ever issued in the report. The highest filing rate was in Nevada, where one of every 165 homes was in foreclosure, followed by California with one in every 224 homes in foreclosure and Florida, where the rate was one in every 243 homes.

Lenders Second-Guessing Loans



A mortgage survey conducted by Campbell Communications shows that a third of broker-originated mortgages last month were canceled at the last minute by lenders who backed out rather than take a risk on a low-income buyer. The research company said a survey three years ago found that only four percent of mortgages failed to close on similar loans. The Campbell survey also found that 57 percent of borrowers with resetting ARMs were unable to refinance their loans because of lender fears.

AGENTS' CORNER

Want More Clients? Learn Another Language



The U.S. Census Bureau has released a report that again emphasizes the growing need for multilingual real estate agents. According to the Bureau, 19.7 percent of those over age five spoke a language other than English in their home, compared to 17.9 percent in 2000.

With 42.5 percent, California ranks first among states where a language other than English is spoken at home, followed by New Mexico (36.5 percent) and Texas (33.8 percent).

The Bureau also said 10 percent of those living in California were “linguistically isolated,” meaning that everyone in the household 14 or older had difficulty speaking English.

Agent Hosts First Virtual Open House



ERA agent Rudy Mayer is hosting what he believes is the world’s first virtual “open house” in which visitors — viewing his listing via the Internet — will be able to do video walk-throughs and even chat with Mayer online.

Mayer, with the Masiello Group, said he developed the online open house in the hope that busy buyers will find it easier to tour online than physically go to a property.

“With a record number of properties on the market, record gas prices and easier access to multiple photos and virtual tours online, buyers are less inclined to go out and drive around to traditional open houses,” he said.

Buyers will be able to tour a listing room by room by high definition video, as well as tour the neighborhood. Mayer will be there via a live video feed to answer questions.

Mayer’s site is www.InteractiveOpenHouse.com.

Builder Offers Home Value Guarantee



In an extraordinary marketing plan, a South Florida homebuilder is guaranteeing his homes will either maintain their value or go up. And if they decline, the builder will pay the owner the difference.

Landmark Custom Homes has begun

offering “Exclusive Value Guarantees” on homes purchased in its Equus upscale residential equestrian community in Boynton Beach, Fla.

Under the plan, one year after a buyer closes on a new home at Equus, Landmark will automatically order two independent appraisals on the property. If the appraisal is lower than the purchase price, the builder will refund the difference, up to 10 percent. Landmark will set money aside at closing for any potential refunds. The guarantee is only available to people who plan on making the home their primary residence.

MARKETS

Hot Atlanta, Chilly Minneapolis Magnets for Young Job Seekers



One’s hot, one’s cold but both Atlanta and Minneapolis are attracting twenty-somethings like never before. In the last decade, Atlanta has become a magnet for recent college graduates seeking jobs in technology, health care and law. In 2006, 12,492 new people ages 20 to 29 moved to the city, marking a 21.4 percent growth from the year before, the census reported.

Meanwhile, the population in the city’s metropolitan areas has shot up to a record four million in 2007, with the city itself experiencing the largest single-year population gain in more than 35 years, according to the Atlanta Regional Commission, an intergovernmental planning agency.

The city is home to 13 companies in the Fortune 500. Several international companies have opened offices in the past six months, including Wipro Ltd., an Indian information technology company that created 500 new jobs, and UCB, a Belgian biopharmaceutical company that produced 125 additional jobs.

For about \$1,300 a month, residents can rent a spacious two-bedroom Midtown loft apartment that's within walking distance of all types of activities: posh dance clubs blaring hip-hop, college-like neighborhood bars and a variety of restaurants and cafes.

Eleven hundred miles to the north, the Minneapolis-St. Paul region is going through a similar resurgence.

More than 11,000 adults age 20-29 moved to the Twin Cities from out of the state in 2005, almost double from 6,000 in 2004 according to the U.S. Census Bureau's 2005 American Community Survey. Last year's growth was slightly less frantic: 7,489 new residents, according to the U.S. Census Bureau's 2006 American Community Survey.

Job prospects have fueled growth in recent years. According to an April 2007 *Minneapolis Star-Tribune* poll of the 140 biggest publicly held companies in the area, nearly three out of four companies were expanding.

There are 19 Fortune 500 companies

with headquarters in the Twin Cities, including Best Buy Co., 3M Co. and Suptervalu Inc., which have been attracting young professionals looking to begin a career. Average salary last year was \$44,980 in the Twin Cities, almost \$5,000 more than the national average, according to the U.S. Bureau of Labor Statistics.

"For the past two decades, these economic prospects made the Cities one of the fastest growing metropolitan areas in the Midwest," says University of Minnesota geography professor John Adams. Adding to the growing population is an influx of African and southeast Asian immigrants.

But since 2004, new condominiums and apartment developments have run up real estate prices for newer developments. After decades of planning, the cities are undergoing an extensive redesign of downtown and riverfront properties. The downtown population has increased by 10,000 since 2001, according to Maxfield Research, a Minneapolis-based real estate research firm.

As *Minnesota Monthly's* Tim Gihring wrote in the magazine's September issue: "The Twin Cities have reached critical coolness and no amount of Cracker Barrels or jean shorts can take that away from us."



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