

# Real Estate Digest

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March • 2008

Volume 34 • Number 3



## Exchange Rates Give Foreigners The Edge in U.S. Housing Market

**O**ne group hasn't soured on the U.S. real estate market — foreign buyers.

With the dollar at historic lows against the euro and other currencies, real estate agents, appraisers and developers say overseas buyers are stepping up their purchases in the U.S. Some are buying vacation homes in Florida, California and Colorado that would previously have been considered out of reach.

Others are gambling that properties purchased now will translate into savvy investments down the road, when both the dollar and the U.S. housing market eventually rebound, according to an article in the *Wall Street Journal*.

### Offshore outreach

Not surprisingly, some brokers are aggressively marketing to such potential customers, translating brochures into Russian, buying ads in Irish newspapers and hitting the road

— pitching new condos to prospects in Dubai and Seoul. Corcoran Group in New York has started a specialty international division, and Engel & Völkers, based in Germany, started opening franchises in the U.S. earlier this year. There are now 12 in Florida and one each in Greenwich, Conn., and Southampton, N.Y. About 40 percent of the company's U.S. business comes from overseas, according to managing partner Timo Khammash.

In Las Vegas, foreign money is helping to bail out areas that were overrun by short-term investors during the real estate run-up. "Thank God for the European buyers," say Shanda Sumpter, an agent there with Coldwell Banker Premier Realty, who now focuses exclusively on foreign investors. "They're coming in, and they're cleaning up what the speculative investors did to our market."

### Europe bubble

Real estate markets in much

of Europe, meanwhile, are booming, leading some investors to fear a bubble. The average price of a home in Greater London, for example, was £349,838 (about \$714,000) in August, up 16.7 percent over the previous year, according to the Land Registry of England and Wales. "It's sort of time to take some of the money off the table," says Conor Headon, a 42-year-old Irish mobile-phone executive who says he owns several properties in his home country. "The question is, what do you do with it?"

For Mr. Headon, the place to put his money is the U.S., where he says the weak dollar and slow housing market make it an attractive time to invest. He and three friends are planning a real estate shopping trip to Boston next month. "I would think that we'll have come back having collectively bought about 10 condos," Mr. Headon says.

Still, foreign buyers are too few to prop up the slumping

U.S. market altogether, experts say. And sales have been heavily concentrated in a handful of states, including New York, California and Texas. Florida alone accounted for 26 percent of all U.S. sales involving foreign buyers in the year ended April 2007, according to a report by the National Association of Realtors. Foreign buyers accounted for up to four percent of all U.S. sales during that time period, according to Lawrence Yun, chief economist for NAR.

### TRENDS

## Modest Gain Seen In Pending Sales



Is the worst over? NAR Chief Economist Lawrence Yun believes the worst of the credit crunch woes are over and, as a result, existing home



sales should begin rising in 2008. Full recovery, however, likely won't come until 2009, he says.

"Now that mortgage conditions have improved, some postponed activity should turn up in existing-home sales over the next couple of months, and I expect sales at fairly stable to slightly higher levels," said Yun.

NAR said existing-home sales are likely to total 5.67 million this year, the fifth highest on record, rising to 5.70 million in 2008, in contrast with 6.48 million in 2006. Existing-home prices should be down 1.9 percent to a median of \$217,600 for all of 2007, and then rise 0.3 percent to \$218,300 in 2008.

## Home Equity Now Close To 50 Percent



The Federal Reserve is reporting the amount of equity homeowners

have in their properties is now just above 50 percent, and could go lower. The Fed reported total home equity was 50.4 percent in the third quarter, down from 51.1 percent in the second quarter.

The Fed said it believes home equity could slip below 50 percent in 2008 – marking the first time since it began keeping records in 1945 that homeowners have owed more than they own of their homes.

## Hidden Incentives Distort Home Prices



As the housing market slump deepens, disguised discounts are making it harder to tell exactly how much people are paying for homes.

Buyers, sellers and other market participants typically monitor fluctuating home values through sale records that legally have to be listed with county clerks. But incentives offered to buyers — ranging from free cars or furniture to cash rebates — are making those prices less reliable as a sign of what buyers actually paid, netting out the giveaways. And that may be misleading lenders and people shopping for homes, some real estate lawyers and appraisers warn.

One risk of these transactions is that they can mislead other buyers into overpaying for similar houses nearby, or give owners of nearby properties an exaggerated notion of their home equity. Lenders can make loans on the basis of an artificially high value, increasing the danger of losses from any default.

It's impossible to determine how frequently such deals distort recorded prices because public records don't usually contain information about incentives. Giving cash back to the buyer isn't fraudulent if the payments are clearly disclosed to lenders and to investors who buy loans from lenders. But mortgage fraud experts say the rebates often are designed to fool lenders into making bigger loans than they otherwise would.

## Builder Confidence Remains Unchanged



The National Association of Home Builders reports member confidence in the housing market remains unchanged for a third consecutive month, holding steady at an index of 19.

A reading of 50 would suggest as many builders have confidence in the market as are pessimistic. NAHB Chief Economist David Seiders said the fact that the index has not deteriorated further is an indication that builders feel the market has hit bottom and is beginning to stabilize.

## LAW

### Fed Looking to Require Proof of Income



The Federal Reserve proposed new regulations that would require, among other things, that homebuyers provide proof of income to ensure that they are not taking on more debt than they can handle. The proposal also requires mortgage companies to do more than advertise their low "teaser" rates.

The proposals already have drawn fire from Capital Hill, where critics say the Fed has not gone far enough to protect consumers. Many of those critics wanted subprime mortgages banned. Fed Chairman Ben Bernanke said, however, the rules were crafted "with an eye toward deterring improper lending and advertising practices without unduly restricting mortgage credit availability."

## MORTGAGES

### Managing Your Way Out of Adjustable Mortgages



According to the Bank of America, \$362 billion in adjustable-rate subprime mortgages will reset this year, often increasing homeowners' monthly mortgage payments by 30 percent or more. That's a big chunk of cash for most homeowners.

What should homeowners do if their adjustable rate mortgage is about to reset?

The first step is to thoroughly review mortgage-loan documents, even if the reset date is many months in the future. Check the reset date, the reset interest rate or formula for determining the reset rate and any future rate resets, and see if there are prepayment penalties.



## AGENTS' CORNER

### 10 Ways to Utilize Downtime And Create a Profitable 2008



Slow markets mean less sales activity, but it doesn't mean you shouldn't be busy.

Here are ten things you can do during slow times to create more business.

**1** Develop short-term goals for each season and set aside four specific days each year to assess how you're reaching these goals.

**2** Define your marketing niche. Should you appeal to expecting parents? New college graduates? Retiring, older adults? What generation are you trying to target? Make sure your advertising appeals to whichever market you've selected. If you're very ambitious, look into becoming a short sales expert.

**3** Incorporate new technology into your Web site. Add moving graphics, virtual tours and request forms for potential clients to elicit more information from you. Ensure that the message "I'm available to help you" is loud and clear.

**4** Make phone calls. Set a minimum number of phone calls to make each day and stick to it. Figure out how many phone calls you usually make during the busy season and double that number during the slow months. Call past clients to "see how they're doing" and inquire if they have any friends or relatives looking to buy or sell a home.

**5** Host a seminar. Choose a topic that is pertinent to the local community.

**6** Volunteer. By getting involved in the local community you'll be able to get your name out and make connections. The more people who recognize your face, the more likely they are to turn to you for real estate advice.

**7** Master your home staging techniques. Look into a home staging training program that upon completion will provide you with a certificate as an Accredited Staging Profes-

The good news is that mortgage rates have dropped somewhat recently, and will probably be significantly less than the amount of a reset ARM mortgage.

If a fixed rate mortgage (plus taxes and insurance) would be affordable, that is probably the best way to go. Many homeowners, however, may learn that they have little or no equity in their home due to falling home values. Homeowners who fit into that group and want to refinance have to come up with cash to make up the difference.

For many, the unfortunate result of the exercise will be to find out that a conventional refinancing won't work. At that point it's a good idea to contact experienced mortgage counselors for advice. Some mortgage lenders are more flexible and forgiving than others, and locally based mortgage counselors understand the range of possibilities with local lenders and can suggest how to approach them.

The Department of Housing and Urban Development has a list of HUD-approved mortgage counselors on its Web site. The non-profit Neighborworks America maintains a 24/7 toll-free help line (888-995-HOPE) to advise homeowners with mortgage problems.

One thing homeowners shouldn't do if they can help it is fall behind on mortgage payments. This hurts their credit, reduces their options and makes lenders less willing to work out solutions, in part because by that point many potential solutions may not be viable.

### Feds Outline Plan to Clean Up Subprime Lending Woes



Treasury Secretary Henry M. Paulson Jr. unveiled new details recently of a mortgage relief plan, including a proposal that would grant new powers to local governments to refinance the mortgages of struggling homeowners.

The strategy would temporarily freeze in-

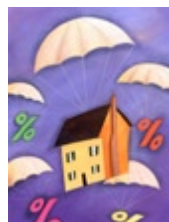
terest rates for many troubled homeowners or help them refinance, a plan that is gaining momentum among federal regulators, leaders of the mortgage and housing industries, and lawmakers of both parties. Key Democrats and administration officials agree that a major regulatory overhaul of mortgage-backers Fannie Mae and Freddie Mac is needed to help them act as a buffer from the mortgage mess.

Paulson urged Congress to expand the role of local governments in helping homeowners. "Given the local nature of housing markets, state and local solutions can be particularly effective," he said.

Municipal housing authorities now offer mortgages at lower-than-average rates to credit-worthy, first-time buyers whose earnings are at or below the average household income levels, which vary by region. Cities and states can provide such advantageous loans because they sell tax-exempt bonds backing the mortgages to investors at lower rates, passing on the savings to homeowners.

The Treasury Department wants to expand the authorities' reach to include subprime mortgage holders who want to refinance with a fixed-rate loan rather than an adjustable-rate loan.

### Preventing Problems When a Mortgage Company Fails



The Federal Trade Commission has released a new "Facts for Consumers" publication that advises people what to do if their mortgage company or mortgage servicing company closes or files for bankruptcy.

"How to Manage Your Mortgage If Your Lender Closes or Files for Bankruptcy" has several situation-based tips for consumers related to servicing transfers, escrow accounts and payment disputes.

Copies of the document are available on the agency's Web site at: [www.ftc.gov](http://www.ftc.gov) or by calling 1 877-FTC-HELP.

sional. This certificate provides you with a competitive edge and yet another free service that you can offer to potential clients.

**8** Attend open houses. Take time to see what's available in your area so you are aware of the close competition and how other real estate professionals are selling.

**9** Improve your ad copy. By practicing your writing techniques you will increase your ability to make your ads more appealing. Focus on spelling out amenities and highlighting any benefits that homeowners would want to find in their ideal home.

**10** Get a designation or certificate. The more qualifications you can add to sell yourself and widen your client base as the best agent in your area, the better.

## MARKETS

### California Primed to Lead Nationwide Turnaround



The economist for a building industry group in California reports that his "crystal ball has a slightly more optimistic scenario"

for 2008 than many other forecasts, and he predicts "a modest turnaround" in the state's housing market.

That admittedly contrarian view by Alan Nevin, chief economist for the California Building Industry Association, includes an anticipated 15.3 percent increase in single-family housing permits this year compared to 2007.

The state's economy "will have a soft landing in 2008 and begin its return to normalcy by mid-2008," Nevin's 2008 forecast report states, with job gains in the 210,000-246,000 range. Anticipated population growth is a factor in the anticipated upturn.

"The population this year will grow by more than 400,000 persons," the report states, and "population equals consumption."

Single-family building permits fell 34.4 percent in 2007 from 2006, with 70,850 single-family permits in 2007. And Nevin's forecast calls for single-family permits to rise to 81,700 in 2008. Multifamily permits, meanwhile, are expected to rise 2.9 percent, from 45,400 in 2007 to 46,700 in 2008.

Nevin's forecast also calls for single-family building permits to grow in markets across the state in 2008 compared to 2007, with permits rising 21.2 percent in the Southern California region, 13.3 percent in the San Joaquin Valley region, 11.1 percent in the San Francisco Bay Area, and 6.7 percent in the Sacramento Valley region.



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