

Real Estate Digest

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Signs of Life in a Down Market

feeling the weight of a housing downturn, there are some bright spots of activity, even in markets with stagnant prices and sales.

In most of the country, inventories of unsold homes remain large but are no longer growing quickly, as they did in 2006 and 2007. The supply has shrunk modestly in Boston and Denver over the past year. But the number of for-sale signs continues to rise swiftly in the Portland, Ore.; Seattle; Raleigh-Durham, N.C.; San Francisco; and Washington, D.C. areas.

Meanwhile, investors and the wealthy are getting back in the market, said Jim Taylor, vice-chairman of Harrison Group, a market research and consulting firm. "They are buying everything they can get their hands on. Some of the larger investment groups are buying up entire residential complexes," he noted.

Seventy-seven percent of the wealthiest people surveyed think real estate presents a "real opportunity" right now, according to

the Annual Survey of Affluence and Wealth in America. And these high-income earners are putting their money where their mouths are: 40 percent said they are in the market to acquire real estate this year.

Ordinary people

The wealthy aren't alone in their belief that the real estate market represents a buying opportunity: 67 percent of the middle-class participants in the survey also agreed that now is a good time to consider real estate.

Lower prices are also attracting first-time buyers who had been priced out previously. Chief U.S. economist at Goldman Sachs, Jan Hatzius, says the share of a typical family's income needed to make mortgage payments on a median-priced home averaged about 17.5 percent from 1993 to 2003, before jumping to 26 percent in 2006. The figure now has fallen to 20 percent and is likely to keep declining as home prices fall.

"There are bargains out there," said Taylor.

MORTGAGES

New Plan Aimed at Struggling Homeowners



Struggling U.S. homeowners could receive federal loans to pay down as much as 20

percent of their principal under a proposal introduced recently by the Federal Deposit Insurance Corp. to help stem foreclosures.

The plan would be run through the Treasury Department, which would make the loans.

The program would hinge on the willingness of mortgage servicers and investors to agree to restructure troubled loans, as well as to pay the financing cost of making the federal loans.

"Only the federal government is in a position to help arrest the downward cycle in housing markets by facilitating temporary aid to borrowers facing financial difficulty and encouraging widespread restructuring of unaffordable mortgages," the FDIC said in a document outlining the plan.

FDIC Chairman Sheila Bair acknowledged that servicing firms would receive some benefit through the program. She

We're not out of the woods yet, but there are signs of life in what has been a difficult market for the past 18 months. To start, a RealTrends survey of real estate brokers finds that 64 percent of those polled believe market conditions are improving in their areas, and only 15 percent believe the market will continue to worsen.

Of the brokers surveyed, 51 percent said they "somewhat agreed" their markets are improving and 13 percent "strongly" agreed. Only two percent indicated they "strongly disagreed" with the statement.

Asked what key factors were holding down their markets, most respondents cited "buyer hesitation to purchase" in the belief that prices would continue to go down.

Market upturns

While many markets are



noted, however, that those firms would be required to cover the financing costs and would have to subordinate their claims to the federal government if they choose to take part in the program.

The FDIC is in the process of briefing the Bush administration, lawmakers and industry and consumer groups.

Banks Toughen Terms on Loans



Banks are imposing tougher lending terms for consumers and businesses across the board, according to an article in *The Wall Street Journal*.

The Federal Reserve's survey of banks' senior loan officers, one of the most closely watched gauges of lending practices, found that the credit crunch is widening. The proportion of domestic banks tightening their standards was at or near historical highs for almost all loan categories, including credit cards and student loans.

The banks' hesitancy to lend could restrain consumer spending as well as investment by businesses that depend on borrowing.

About a third of the 56 domestic banks surveyed reported raising their standards for credit card loans over the past three months, up from just 10 percent in January. Banks are being tougher on credit score requirements and are reducing credit limits on card loans. In addition, 44 percent of banks, up from 30 percent in January, tightened standards for other consumer loans.

Banks continue to get more restrictive in their real estate lending as housing woes add to their losses. About 70 percent of banks said they tightened standards for new home equity lines of credit over the prior three months. Roughly half of the banks said they tightened terms on existing home equity lines of credit over the past six months because of home prices falling below their appraised values. Most lenders also cited loan defaults and a change in borrowers' financial circumstances for tightening terms.

More than 60 percent of banks tightened standards on prime mortgages, up from just

over half in January and 15 percent a year ago. At least three out of four said they tightened standards for nontraditional and subprime mortgages in the past three months. For commercial real estate loans, about 80 percent of banks tightened their lending standards.

Freddie, Fannie Get Tough With "Walk Aways"



Both Freddie Mac and Fannie Mae have initiated programs to penalize homeowners who simply abandon their properties rather than attempt to work out solutions to their default problems.

Homeowners nationwide who find they owe more on their homes than they are worth have begun sending their keys back to their lenders rather than their payments. In response, the government-sponsored enterprises have adopted policies that will make it more difficult for those homeowners to obtain loans in the future.

A Fannie Mae spokesman has told Congress that most of the "walk aways" are actually speculators who could make payments but have decided not to. Housing leaders say those investors are adding to the number of properties on the market and are making it harder on consumers who are attempting to work out their loans.

TRENDS

Second-Home Buyers Go Condo



The second-home market is in a slump. But one type of vacation property is still showing signs of life: condos.

A new National Association of Realtors study estimates that sales of vacation homes in 2007 fell 31 percent, to 740,000, from 2006. But sales of condos dipped only slightly — down 2.8 percent. The

upshot is that condos cornered a substantially larger share of the vacation-home market last year: 29 percent, up from 21 percent in 2006.

Condos are selling better than single-family vacation houses for a number of reasons. They don't require their owners to maintain lawns, trim shrubs, paint the exteriors or replace roofs — increasingly important concerns to an aging population. Condo communities also tend to offer amenities such as pools and clubhouses. And condos usually are cheaper to buy, and easier to resell, than houses.

Yet the prices of vacation condos haven't held up. Median prices fell almost 10 percent to \$180,000 last year from the year before, while prices of single-family second homes remained flat, says the Realtor group.

Part of that decline reflects the general downturn in the housing market, but the price pressure on condos also comes from investors who bought units in resort markets during the real estate boom and now are trying to get rid of them. While the price-cutting is bad news for existing condo owners, it can make the units seem like bargains to buyers when compared to houses.

The combined total of vacation- and investment-home sales declined with the overall market in 2007, but still accounted for 33 percent of all existing- and new-home sales, which is close to historic norms, according to the National Association of Realtors.

Rate of Delinquencies Slows



There are some indications that the massive problem of borrowers falling behind on their loans may be moderating.

Data provided recently to holders of securities backed by subprime mortgages showed that the number of borrowers who were delinquent on their home loans rose at a slower pace in April than in March. It was the third month in a row in which mortgages went bad at a slower rate. The data come from so-called "remittance reports" that are distributed monthly by trustees of mortgage-backed securities.

While it is hard to predict when the subprime market will hit bottom, some analysts



think the recent data indicate that some sort of stabilization is under way.

“The trajectory is beginning to flatten out, and this could be a turning point for prices of mortgage securities,” said Glenn Schultz, a senior analyst at Wachovia. As many poorly underwritten subprime loans made between mid-2005 and mid-2007 go bad early in their lives, Mr. Schultz expects the remaining loans to perform more normally.

Still, many market participants remain skeptical about the outlook for the subprime loan market. Richard Parkus, an analyst at Deutsche Bank Securities, says the recent remittance data showed “no clear evidence of any recovery,” and his firm continues to expect high levels of losses among subprime loans.

NAR: Median Resale Home Price To Fall a Modest 2.4 Percent



The National Association of Realtors (NAR) expects resale home prices this year to fall no more than 2.4 percent, to \$213,700.

The median new-home price is expected to fall a bit more, about 3.7 percent. As a result, single-family housing starts are expected to decline 37.5 percent this year, while the NAR expects new single-family sales to fall 30.9 percent and resale home sales to fall 4.7 percent this year compared to last year.

The forecast report calls for 5.39 million resale home sales this year and 5.72 million in 2009. The group also anticipates 536,000 new single-family home sales this year, down from 775,000 in 2007, and a rise to 590,000 sales in 2009.

New single-family housing starts are expected to drop from 1.05 million units in 2007 to 653,000 units this year, and to remain roughly flat in 2009. Multifamily housing starts are expected to decline 2.4 percent this year and rise 4.4 percent in 2009.

The 30-year fixed mortgage rate is projected to average 6.1 percent this year and increase only slightly to 6.3 percent in 2009.

TECHNOLOGY

New Features Beef Up Industry Web Sites



Popular Web sites [RealEstate.com](#), [Trulia.com](#), [DotHomes.com](#) and [PropertyMaps.com](#) have added new features to their sites, including such enhancements as topography and traffic maps and neighborhood

information.

Chief among these new features is Google Street View, a tool that allows users to virtually tour an area by viewing digital 360-degree street-level images in some metro areas.

[RealEstate.com](#) has also added more neighborhood data, such as statistics on crime, house prices, cost of living and commute times, for about 22,000 U.S. cities.

Users also have the option to view a neighborhood’s topography through the site’s new terrain maps, and the site’s new tools allow users to view traffic pattern maps supplied by Google Maps.

Numbers Add up At Krunching.com



[Krunching.com](#), a Web site that launched last month, combines real estate information from multiple listing services with digital tools that allow investors to crunch numbers on properties.

Krunching, which has some free data tools but requires a subscription (a monthly subscription costs \$39.95) to access its more advanced features, taps into about 11 data feeds from MLSs in California, with plans to expand to other states, and also has a range of property records that contain details about loans and financing. The property records date back three years.

In addition to pricing trends and other trend information, such as “market heat,” “median inventory” and rental comparables,

the site provides projections about cash flow on individual properties based on a range of factors.

The site, which focuses on residential properties, provides an annual outlook for the next five years on maximum possible rent, net operating income, and cash flow before taxes, among other factors, and also provides a hypothetical sale price of the property over time.

AGENTS' CORNER

Learn What Hooks Buyers Online



Did you know that 80 to 85 percent of home buyers begin their real estate search

online? If you know what they are looking for, you can attract new clients.

Home buyers turn to the Internet to view listings based on three main location factors — proximity to work, quality of school districts and lifestyle. That said, here are important pieces of information you can add to every listing:

- ✦ **The Commute.** Highlight a home’s proximity to large organizations or areas of business, as well as commute times for driving and public transportation. Internet buyers are looking to make informed decisions, so ensure that you provide accurate information.
- ✦ **The Kid’s School.** Provide links to parents’ forums and Web sites like [school-matters.com](#). Remember to highlight or mention the proximity to specific schools in your postings. The key here is specifics. Referring to a property as “close to good schools” is useless to a buyer. When buyers are searching for homes close to a particular school, they do not want to have to cross-reference.
- ✦ **The Neighborhood.** Lifestyle is still very important for families but can be one of the largest factors for buyers without school-age children. There are some forum-based resources such as [City-Data.com](#), but an

agent's knowledge of the neighborhood and region will take the prize here and give online researchers exactly what they are looking for.

- ✱ **Web Tools.** Consider adding new Web tools like WalkScore.com and StreetAdvisor.com to further emphasize the area's offerings. With products like IDXPro, you can create specific map searches that relate to each neighborhood, making searching the MLS listings in a small, specific area easy and effective.
- ✱ **Photos.** With the large amount of inventory online, you've got to put a listing's best foot forward. Be thoughtful and strategic when choosing photos to post online. And ask the homeowner to make the minor improvements needed to make every photo shine.
- ✱ **Point of View.** Hone in on specific details and use your listing description to provide a window into specifically what the location offers. Listings that speak to the ideal buyer, not every buyer, are the most effective way to intrigue buyers to pick up the phone and call you.

With all the information available online, it's your job to make sure potential buyers find what they're looking for with you.

LAW

10,000 Fair Housing Complaints Filed Last Year



The Department of Housing and Urban Development says more than 10,000 people filed housing discrimination complaints last year, mostly persons with disabilities.

Of the complaints, 43 percent alleged discrimination against persons with disabilities while 37 percent alleged racial discrimination. Most complainants claimed to be victims of discrimination in the terms and conditions of the sale or rental of housing, or outright refusal to rent. Kim Kendrick, HUD Assistant Secretary for Fair Housing and Equal Opportunity, said the report showed the importance of HUD's continued enforcement, education and outreach activities.



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