

Real Estate Digest

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Has the Market Bottomed Out? It Depends on Your Favorite Indicator

Buyers, sellers, and industry pros are asking the same question: “Have we finally reached the bottom of the real estate downturn, and if not when will it come?”

Historically, the two major turnaround indicators are a decline in the number of listings and an increase in listing and sold prices.

Good news and bad

First the good news. Based on sales data provided by MLSs, it appears that the market is beginning to realize a slight decline in listing volume. “Appears” is the operative word because seasonal and other factors may be affecting the market.

On the other hand, with a significant volume of lending institution-owned property on

the market selling at historically discounted prices, no one is anticipating an increase in sales prices in the near future.

So the answer is yes and no. With sales showing increases compared to last year in most areas and declines in listing volume, it would appear that the market is slowly changing from the buyers’ market we have experienced for the past several years, but don’t expect prices to follow suit anytime soon.

This much is for certain: The listing volume and sales figures over the next several months will offer welcome additional information on this question.

Obstacles remain

Several obstacles have to be cleared before anyone can confidently say the bounce is back.

Bank-owned property or

property in some stage of the foreclosure process has been driving the price point for real estate for some time now. And a large listing inventory will remain for some time. This, coupled with job sector losses, high fuel costs and the overall economic state of the country, will continue to dampen a turnaround, even when it begins.

The National Association of Realtors, meanwhile, has lowered expectations for total sales of resale homes this year and is projecting an 8.9 percent drop in sales compared to 2007.

In its previous forecast, the trade group projected that sales of resale homes would fall about six percent this year and rise five percent in 2009. The forecast released today calls for a seven percent increase next year.

NAR expects the median resale home price to fall 5.6 percent this year compared to 2007 and then rise 4.4 percent in 2009. Single-family housing starts are expected to drop 39.6 percent this year and 21.1 percent next year, following a 14.6 percent drop in 2006 and a 28.6 percent drop in 2007. Single-family new-home sales are expected to drop 34.3 percent this year and 8.8 percent next year, following an 18.1 percent drop in 2006 and a 26.3 percent drop in 2007.

Resale home prices are expected to fall 5.6 percent this year and rise 4.4 percent in 2009, with new-home prices projected to drop 3 percent this year and rise 5.5 percent next year, according to the forecast report.

TRENDS

Gas Prices Apply Brakes To Suburban Migration



Cheap oil, which helped push the American Dream away from the city center, isn’t so



cheap anymore. As more and more families reconsider their dreams, land-use experts are beginning to ask whether \$4-a-gallon gas is enough to change the way Americans have thought for half a century about where they live, according to an article in the *Washington Post*.

"We've passed that tipping point," U.S. Transportation Secretary Mary Peters said.

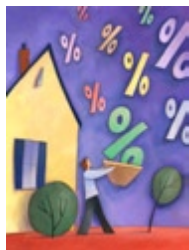
Since the end of World War II, government policy has funded and encouraged the suburban lifestyle, subsidizing highways while starving mass transit and keeping gas taxes much lower than in some other countries.

Americans couldn't wait to trade in the cramped city apartments of the Kramdens and Ricardos for the lush lawns of the Bradys. Local land-use policies kept housing densities low, pushing development to the periphery of metropolitan regions and forcing families who wanted their dream house to accept long commutes and a lack of any real transportation choices other than getting behind the wheel.

But there's been a radical shift in recent months. Americans drove 9.6 billion fewer highway miles in May than a year earlier. Last year, transit trips nationwide topped 10.3 billion, a 50-year high.

Transportation costs are now second only to housing as a percentage of the household budget, with food a distant third. Not surprisingly, a recent survey of real estate agents by Coldwell Banker found an increased interest in urban living because of the high cost of commuting.

Many Owners Misjudge Home Value Trends



In this business, perception does not always match up with reality, particularly when it comes to home prices, according to the results of a survey of homeowners released by real estate valuation and marketing company Zillow.

While about 62 percent of homeowners surveyed said they believe their home values

have increased or held steady in the past year, the reality is that about 73 percent of U.S. homes lost value, according to an analysis of Zillow's second-quarter real estate market reports data, due out Aug. 12.

The company created a "Home Value Misperception Index" to quantify the difference between the adjusted percentage of homeowners who believe their home values increased in the past year and the adjusted percentage of homes that have actually increased in value, according to Zillow data.

About 75 percent of homeowners expect their home values to increase or remain level during the next six months, the survey also found, with 42 percent expecting overall values in their local market to drop and 58 percent expecting values to increase or remain the same.

Misperception has its rewards: About 64 percent of homeowners are planning home investment activities in the next six months; 56 percent are planning major or minor home improvements; seven percent are planning a home financing activity; and seven percent are planning to buy or sell a primary or secondary residence.

"Homeowners who believe their home has increased in value are significantly more likely to plan major home improvements than those who believe their home's value has decreased," Zillow reported.

MARKETS

Los Angeles Attracting Global Interest



A survey of Los Angeles-area real estate agents found that about 42 percent worked with a buyer or seller in the past year who originated from outside of the United States. The client's country of origin was most commonly in continental Europe (30 percent), followed by Asia (28 percent), the United Kingdom (26 percent) and the Middle East (11 percent).

Also among those agents who reported transactions with foreign buyers, 54 percent were involved in one to three transactions in the past year, while 22 percent were involved in four to seven and 13 percent reported that they were involved in eight or more transactions, Coldwell Banker's Greater Los Angeles Co. reported.

Sixteen percent of these transactions are occurring in the zero to \$500,000 range, 43 percent in the \$500,001 to \$1 million range, and 50 percent were above \$1 million and at or below \$5 million, according to the survey, which featured 298 agent participants and was conducted in July 2008.

Pending Home Sales Index Dips Once Again



An index that gauges pending sales of resale homes, based on contracts signed in June, dropped 12.3 percent compared to the same month last year, said the National Association of

Realtors. The Pending Home Sales Index fell 16.6 percent in the South, 15.4 percent in the Northeast, 13.3 percent in the Midwest and 1.7 percent in the West year-over-year in June.

The index rose 5.3 percent from May to June to the highest level since October 2007. The index was 89 in June — a score of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined for the index and the first of several record years of resale home sales.

MORTGAGES

Consumers Expect More Foreclosures



A survey of 1,361 U.S. homeowners, conducted by Harris Interactive, revealed that about 82 percent of homeowners



AGENTS' CORNER

Snag Gen Y Buyers Through Social Networking



Interested in snagging Gen Y-ers, those young and future home buyers who are now in their 20s?

The secret to finding these buyers and interacting with them requires some of the same skills your teenager might have already mastered online, combined with a mastery of hardcore local real estate and demographic information.

The second iteration of the Internet is called Web 2.0, and at its core is social networking at sites like Facebook, MySpace, Current, Friendster, Bebo and others.

There are fewer than 14,000 members of the "Real Estate Investing" group on MySpace, and fewer than 15,000 members of the top five real estate groups on Facebook (out of 1.5 million agents in the US), so those who act now can get a jump on the competition.

You can start by joining real estate-related groups with location-specific ties, such as Chicago and Atlanta, which will provide you the opportunity to reach out and touch prospective clients. Agents with expertise in a specific neighborhood can start groups that might provide information about, say, a three-square-block area. Buyers and sellers interested in the happenings of that micro-market will be able to find out information that may be unavailable elsewhere. That can make your group very popular.

If you're a broker in a college town with students who may be looking for a home, you might be able to link them into your site so they can get updates about various neighborhoods they might want to live in after graduation. Realtors are also connecting with each other, setting up relationships that can be profitable by increasing their referral network. A few tips:

- * **Social networking takes time.** Start with a plan but be prepared to make changes to it along the way. Be willing to try out new groups, change your profile and add different features and content.
- * **Stay attuned to new technology and Web sites.** New social networking sites pop up all the time. Most of them won't make it. But if you're among the first to sign up, you'll be able to get a jump on making connections there.
- * **The more connections, the better.** LinkedIn, Facebook, MySpace, Twitter and other social networking sites and your blog can all be linked together to help you build a strong online community.
- * **Create links from one to another.** Connect Twitter and your blog so that they automatically upload to the other sites. Try to get your friends, colleagues and online connections to try out your other sites as well.

You don't have to be a technical genius to make this work. Most of the social networking sites make it easy to get started and upload written content, photos and video.

How Well Do You Know The Real Estate Consumer?



There are 67 million people looking to buy, sell, rent or finance a home on the Internet, but real

estate professionals who want to land their business should look at them as four distinct audience segments.

Yahoo Real Estate commissioned comScore to study "in-market real estate consumers," people who plan to rent, buy, sell or finance a property in the next six months or who use the Internet to track the real estate market. They found four major segments:

Passionates. Passionates are "advanced" Internet users, early adopters who visit multiple real estate sites early in the buying process with specific goals in mind, the study found.

expect to see foreclosure activity rise or remain about the same for the rest of the year, and about 92 percent of respondents say there have been foreclosures in their local real estate market.

Forty-eight percent of respondents said homeowners who are facing foreclosures because they secured an adjustable-rate mortgage or other loan they can no longer afford should not receive government assistance to keep their homes, according to the survey data.

About 28 percent support government intervention and 24 percent responded, "I don't know."

LAW

Housing Bill Effects Could Take a While



The effects of the recently signed housing rescue act might not be immediate and they might not be large, said an economist with the Real Estate Center at Texas A&M University.

"This market is so big, once it gets momentum, it's like trying to turn an aircraft carrier in the ocean," said Dr. Jim Gaines, research economist for the Center. "It is not going to turn on a dime."

The Housing and Economic Recovery Act of 2008, which was signed into law in August, calls for several provisions intended to boost the U.S. housing market. However, Gaines said that, by nature, real estate markets move slowly, so any effects could take months to manifest themselves.

The timing of the recovery act will also delay its effects, perhaps for months, he said. The bill became law during the time of year when the housing market starts to slow down.

Gaines added that the recovery act has many individual remedies, so quantifying their cumulative effect would be difficult.

While only six percent of the audience, or about four million consumers, “Passionates” nevertheless represent “an extremely attractive target,” the study found. Some 79 percent are in the market to buy, 82 percent to finance, and 45 percent to sell real estate in the next six months.

Picture a highly educated 38-year-old male with an average household income of \$202,000 who probably owns a property worth an average of \$838,000 and you have an idea of the typical Passionate.

Conventionals. Because they tend to use offline sources such as newspapers as a first step in the real estate research process, real estate agents are the most important source of information for “Conventionals.”

This segment represents about 14 percent of in-market real estate consumers, or nine million people. Average income for the segment is \$69,000, with 82 percent owning property with an average value of \$349,000; 53 percent are male. Although Conventionals may begin the research process offline, 83 percent eventually get online when buying a home, and 40 percent turn to MLS sites as the first place they do research.

Actives. Actives are the second-largest group of real estate consumers, numbering about 13 million, or 19 percent of the audience. Actives seek out information in a thorough way, often using online sources as a first step. Most use multiple sites and many tools, with no single source considered a “one-stop shop,” the study found.

The typical Active is a highly educated 44-year-old married male with an income of \$87,000, and 82 percent own property with an average value of \$410,000.

Future Prospects. Future Prospects who are “just looking” are the largest group of real estate consumers, comprising 61 percent of the category, or 41 million people. They mostly go online to view listings and follow the market, and less than 10 percent are working with or even looking for a real estate agent. But that doesn’t mean they should be ignored.

Since they are the least knowledgeable about real estate compared to the other segments, Future Prospects are more likely to enlist outside help.



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