

Real Estate Digest

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Home Affordability Returns to Pre-Bubble Levels

Home affordability returned to pre-bubble levels in a growing number of U.S. markets over the past year as price declines laid the groundwork for a housing recovery. And analysts believe the new affordability will lure buyers back into the market, according to an article in *The Wall Street Journal*.

Moody's Analytics tracks the ratio of median home prices to annual household incomes in 74 markets. By their measure, housing affordability last year returned to or surpassed the average reached between 1989-2003 in 47 of those markets. Most economists believe the housing boom took off in 2003.

"As affordable as it gets"

"Based on incomes, this is as affordable as it gets," said Mark Zandi, chief economist at Moody's Analytics. "If you can get a loan, these are pretty good times to buy."

During the boom, lax lending and speculation pushed house-price inflation far beyond the modest rise in household income. Nationally, the ratio of home prices to annual household income reached a peak of 2.3 in late 2005. But by last September, it had fallen to 1.6, matching the lowest level in the 35 years the data have been collected and well below the historical average of 1.9 between 1989 and 2003.

But the bad news is that those price de-



clines are leaving more borrowers underwater, or in homes worth less than the amount owed. Nearly 27 percent of homeowners with a mortgage were underwater at the end of the fourth quarter, up from 23.2 percent in the previous quarter, according to data by Zillow.com, a real estate website.



A waiting game

Many economists and housing analysts expect additional declines before prices reach bottom later this year or early next year.

Markets that now appear to be undervalued include Detroit, Las Vegas, Atlanta and Phoenix. Even in such markets, high rates of foreclosure and underwater borrowers should keep downward pressure on prices. “They’re undervalued, but they may get even more undervalued,” said Zandi.

Home prices still remain overvalued by both measures in several markets, including Seattle, Charlotte, New York and Portland, Ore.

Based on rents, “it’s still not a slam dunk to buy” in those markets, said Zandi, with markets appearing most overvalued in the Pacific Northwest, which was among the last regions to enter the housing downturn. Historical measures also showed prices were still high along the Northeast corridor from Baltimore to Boston.

TRENDS

First-Time Buyers Demand Move-In Ready Starter Homes



The term “starter home” seemingly refers to an entry-level property—one that is affordable yet needs tender love and care. But with the many homes available in today’s market, current first-time buyers want places with a little less room for improvement. In a survey of 300 consumers who purchased their first home in the last year, 87 percent said finding a move-in ready home was important to them.

According to the National Association of Realtors, first-time homebuyers accounted for half of the market in 2010.

Several consumers experienced unexpected benefits after buying their first home:

- * 67 percent said the market afforded them the opportunity to buy a home sooner than expected.
- * Half said they found a home in a more desirable neighborhood than expected.
- * 61 percent were able to get the home at a better price than expected.
- * 40 percent got more space than expected.
- * 43 percent locked in a lower interest rate than expected.

“There’s a real ‘a-ha’ moment for sellers revealed by this survey that the condition and quality of their home matters a great deal to first-time home buyers,” said Diann Patton, consumer real estate specialist, Coldwell Banker Real Estate LLC.

“On top of that, agents are reporting that on average, first-time home buyers now look at more than 11 homes before making a decision, which is higher than in the past. They can be choosy about what appeals to them and are recognizing the benefits of the low prices and wide selection of homes in many areas.”

In addition to move-in condition first-time buyer results revealed the old adage “location, location, location” still holds true:

- * 78 percent of respondents said the home had to be in an area convenient to shops and services.
- * Three-quarters of buyers said it was important to be close to their place of work.
- * Nearly two-thirds said it was important to be near “highly-rated” schools.



FSBOs Vanish As Sellers Return to Real Estate Pros



For-sale-by-owners are rare nowadays. In fact, the number of FSBOs dropped to record lows over the past year.

Unrepresented sellers make up just 11 percent of the market, down from 13 percent in 2009, according to the 2010 NAR Profile of Home Buyers and Sellers.

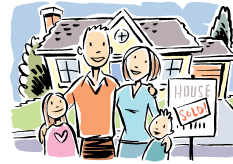
With today's more complex transactions—such as short sales and foreclosures, along with frequent changes in mortgage lending—more sellers are finding comfort in the help of real estate professionals to guide them through the process.

FSBOs once were lured to try to sell by themselves because they thought they could save on commission fees, but now sellers are realizing that if they don't use an agent, it'll likely cost them more in the long run, experts say.

“Selling by owner does not guarantee the seller will put 5 to 6 percent more in his or her pocket in trade for doing all the work and taking on potentially costly liabilities,” Margaret Woda, associate broker with Long & Foster in Crofton, Md., told *The Washington Times*. “On the contrary, prospective FSBO buyers have their eyes on that 5 percent to 6 percent as well. It's more likely the buyer will win this negotiation in a buyer's market with a huge price reduction—probably even larger than the saved commission.”

Some FSBO sellers also make the mistake of listing their home at a higher price than the market warrants. But even if they find a buyer for that price, unless it's a cash purchase, the home has to be appraised and many deals can then fall apart.

Survey Finds Strong Belief in Homeownership



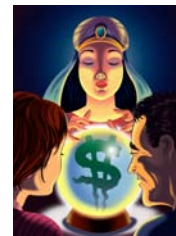
A study released by the housing Web site Trulia.com finds that 70 percent of Americans continue to believe owning a home is part of the “American Dream,” and only 20 percent feel “trapped” even though their properties are underwater.

The online survey found that 88 percent of renters in the 18 to 34 age range still aspire to be homeowners eventually.

“Contrary to popular belief, the American Dream of homeownership has not turned into an American nightmare,” said Trulia CEO Pete Flint. “In fact, we're seeing a national resurgence of buyer and seller activity on Trulia.com.”

“This winter, we experienced an unprecedented level of site traffic more than 70 percent greater than last year. We are now experiencing 100,000 property views per minute.”

Investment Firm Sees Prices Edging Up



The real estate investment company Clear Capital says its Home Data Index shows that prices have been generally trending positive since the beginning of the year. The Index shows that home prices stopped declining in early January and have posted their first uptick since mid-August 2010.

“This uptick is the first non-incentivized change in prices we've seen since the downturn began, and could provide great opportunity for buyers, sellers and investors alike. Although many markets still remain under significant



downward pressure in light of increased distressed sale activities, it is clear that the severity of the downturns observed in October and November have subsided,” said Clear Capital statistician Dr. Alex Villacorta.

MORTGAGES

Banks Push Home Buyers To Plunk Down More Cash



The down payments banks demand from home buyers have ballooned since the housing bust, forcing many people to rethink what they can afford and potentially shrinking the pool of eligible buyers.

The median down payment in nine major U.S. cities rose to 22 percent last year on properties purchased through conventional mortgages, according to an analysis for *The Wall Street Journal* by real-estate portal Zillow.com. That percentage doubled in three years and represents the highest median down payment since the data were first tracked in 1997.

The move to force home buyers to lay out more cash is driven mostly by banks, which have found that larger down payments discourage delinquencies by increasing the buyers’ exposure to loss and reducing the impact of declining prices. Many home buyers placed little, if anything, down during the boom.

A 2009 Federal Reserve Bank of St. Louis study concluded buyers who made smaller down payments were more likely to default during “unfavorable economic circumstances, such as a housing market slowdown or job loss.”

For now, borrowers who can’t afford such amounts are flocking

to alternative programs, such as loans for veterans or those backed by the Federal Housing Administration, creating a parallel—and growing—non-conventional mortgage market for riskier borrowers and those who don’t qualify for conventional loans.

The median down payment hovered around 20 percent in the late 1990s and began to creep downward in 2001 in the nine cities Zillow analyzed: Chicago; Stockton, Calif.; Las Vegas; Los Angeles; Miami-Fort Lauderdale; Phoenix; San Diego; San Francisco; and Tampa, Fla.

It fell as low as 4 percent in the fourth quarter of 2006, and in some markets came close to zero. Economists say it is no coincidence that those are the same markets sinking deeper underwater, meaning the value of homes is less than the debt owed on them.

Some analysts believe a better solution would be to demand high down payments from riskier borrowers seeking conventional loans, while allowing those with better credit histories to qualify with a lower amount, such as 10 percent, down.

MARKETS

Buying is Cheaper Than Renting in Most Cities



Research conducted by Trulia.com finds that buying a home is actually cheaper than renting in 36 of the country’s top 50 markets, and it’s about break-even in most of the others.

The company said its study showed that only in New York, Seattle, Kansas City and San Francisco is it cheaper to rent than buy.

“Since the start of the recession, many former homeowners have



flooded the rental market. Following the principles of supply and demand, renting has become relatively more expensive than buying in most markets,” said Pete Flint, CEO and co-founder of Trulia.

The study was based on the cost of renting or buying a two-bedroom.

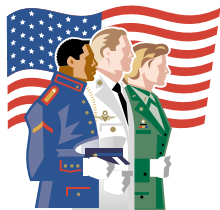
African American Niche Growing



Brokers and sales associates who work with African-American buyers and sellers are seeing their niche grow in both numbers and affluence. The Census Bureau reports blacks currently represent 13.6 percent of the U.S. population, and that number is expanding by 500,000 per year.

The annual median income of single-race black households in 2009 was \$32,500. About 44 percent of blacks are homeowners.

Homes for Heroes Spreads to Wisconsin



Wisconsin has become the latest state to adopt the Homes for Heroes program, which helps teachers, police officers, firefighters, military personnel and first responders buy homes at discounts.

The program offers rebates on commissions from participating sales associates. There also may be discounts on lender, title and inspection fees. The non-governmental program was created in 2002 by real estate professionals in Minnesota and is now available in 30 states.

Senior Housing Market Caught in Economic Squeeze



Despite encouraging numbers on several housing fronts, the National Association of Home Builders is seeing little good news in the 55+ housing market because of tight credit all along the housing chain.

The NAHB says confidence in the senior new homes market fell to an index point of just 14. An index of 50 would indicate builders see a good outlook for the future.

Builders’ economist David Crowe said Baby Boomers trying to downsize or get into retirement properties are being hampered by the fall in the value of their current homes and the inability of those in the move-up market to get financing.

He also said that because of tight lending, builders are unable to initiate new developments—meaning there is not a good supply of mature market homes available.

INDUSTRY

Zillow Makes Agent Ratings Available to Public



Zillow.com has begun making agent and mortgage broker ratings available to the public.

The company says it has collected ratings from thousands of consumers over the past several weeks, and consumers searching for a



sales associate or mortgage assistance will be able to find them in the Zillow Directory.

“Zillow was created to help people make smarter real estate decisions, and choosing an agent is one of the most important decisions a buyer or seller can make,” said Zillow CEO Spencer Rascoff. “Agent reviews are another huge step towards transparency for buyers and sellers. For good agents, it’s a terrific way to stand out from the crowd—the next best thing to a referral.”

The ratings can be found at: www.Zillow.com/directory.

AGENTS’ CORNER

Use Video to Create A Positive First Impression



The truth is, when we have a choice, we deal with people we like.

For that very reason, video provides the power and persuasion to drive clients to your door like nothing else. It’s an irony that most agents and brokers think of video as something to use in a home tour to help sell a house. The problem is, you need to sell yourself before trying to get the listing.

“That’s why people usually do business with people they like, trust and have confidence in,” said Stephen Schweickart, the co-founder of Vscreen.

The smiling face on the billboard, business card or website is OK, but it doesn’t begin to tell the real story. Video gets under the skin and helps reveal the person inside—the personality, the demeanor, the communication skills and the likeability. It’s all part of the whole package that sets you apart from the competition, and nothing does

it better than video.

What does it all mean? If your online video marketing does not include a personal touch point, you’re missing a huge opportunity.

“It doesn’t have to be long or elaborate, but it should be something people can identify and connect with. Even a 20-second personal greeting and ‘welcome to my website’ clip is a hundred times better than a photo. Your tone of voice, body language, and personality can all combine to make a positive first impression,” said Schweickart.

Even if you don’t think you’re that good on camera, practicing a few well-chosen lines, doing a number of takes, and asking friends to help you pick the best one can make the whole process a lot easier than you imagined.

Professional firms are also available to coach you through the process and even record your videos. Remember, first impressions are lasting ones. Harness the power of video to make yours the best.

Judicial Title



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