

Real Estate Digest

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Recovering Economy Means Higher Household Formations, Selling Opportunities

A bedrock indicator of the real estate market is going up, up, up. Between 750,000 and one million new households will be created in 2011 as a result of the economic recovery, higher employment, and pent-up demand by young people to move from their parents' homes, according to a UBS Securities analysis of Census Bureau numbers.

The new household formations will likely put pressure on housing starts, as well as absorb the inventory of unsold existing homes, the company said.

Analysts said just 357,000 new households were formed between March 2009 and March 2010 as adult children returned to living with parents for lack of economic opportunity.

With the economy recovering, experts believe housing starts will be close to 650,000 this year and almost 900,000 in 2012 as adult children are able to find jobs and move away from their parents.





Perfect Storm

Household creation, when mixed with dropping home values and interest rates at historical lows, makes for a potent recipe: homes are more affordable now than they've been in the last 35 years, reports [Zillow.com](#).

The average buyer nowadays can expect to spend about 17 percent of her monthly gross income on a mortgage, which compares to a 25 percent average since 1975, Zillow reports.

Meanwhile, another report by the Harvard Joint Center for Housing Studies challenges the concept that renting may be a good alternative to homeownership. The report found that 25 percent of renters—about 10.1 million households—spend more than half their incomes on rent and utilities.

“In the last decade, rental housing affordability problems went through the roof,” said Eric S. Belsky, author of the study. “In real terms, it means more people have less money to spend on household necessities such as food, health care, or savings.”

Resonating Message

With affordability high, Americans seem to be getting the message about the value of home ownership. Nearly 70 percent of Americans say now is a good time to buy a home, according to a recent Gallup poll.

Men are about 16 percent more likely to say now is a good time to buy a home than women. And Americans living in the West are most favorable toward buying (75 percent), which compares to the 64 percent of Americans who live in the South who say now is a good time to buy.

Americans with higher incomes also expressed more interest in home ownership, according to the Gallup poll. Americans who make \$75,000 or more a year are 18 percent more likely to say that 2011 is a good time to buy a home than those making \$30,000-\$75,000.

TRENDS

Turmoil in Mideast to Bring More Buyers to U.S.



An international real estate attorney based in New York says he believes turmoil in the Middle East will result in more buyers for U.S. properties as wealthy refugees leave those nations for the safe haven of America.

Attorney Edward Mermelstein said in the last two quarters he has seen more buyers from the Mideast seeking properties in all categories—from class A office space, to multi-family residential and single-family residential.

Much of the money, he says, is being spent in New York City, Aspen and Florida, but “properties in Miami, San Francisco and Washington, D.C. will also experience an uptick—additionally, secondary markets that can benefit are Phoenix, Houston and Boston.”

Housing Recession Continues for Minorities



Another study has found that minorities were discriminated against during the housing recession, being far more likely to be turned down for refinancing than white homeowners in the same economic distress.

The joint study was conducted by the Woodstock Institute in Chicago, California Reinvestment, the Ohio Fair Lending Coalition, the Community Rein-



vestment Association of North Carolina and other groups.

The study found that conventional mortgage refinancing in minority communities decreased by an average of 17 percent in 2010 compared with the previous year. At the same time, refinancings in predominantly white communities were up 129 percent.

Adam Rust, director of research at the North Carolina group, said, “Lenders are loosening up credit in predominantly white neighborhoods, while continuing to deprive communities of color of vital refinancing needed to aid in their economic recovery.”

The study commented on the disparate effect of “predatory” subprime loans on minority communities, which have led to higher rates of foreclosures and vacant and abandoned properties. It noted that the homeownership gap between African Americans and whites is now at its widest since 1994.

MARKETS

Young Buyers Want Game Room, Not Living Room



With new-home sales down drastically the last few years, builders are scrambling to re-evaluate what buyers today want in new homes. Changing demographics and tighter lending standards are influencing buyers’ purchasing decisions when home shopping and changing their priorities, industry experts say.

“There is a lot of pressure today to retool,” says Steve Brooks, CEO of Grand Homes. “We have to redesign houses and figure out what kind of product people would want to buy.”

For example, younger buyers are bypassing the typical suburban

tract of homes and showing a stronger preference for urban-style homes closer to the city.

“Trying to keep doing the same cookie-cutter houses is going to be increasingly difficult,” says James Gaines, an economist at the Real Estate Center at Texas A&M University. “Home builders worry that the demand pool for the suburban home with the quarter-acre lot and the fenced back yard will be shrinking.”

Younger buyers also are saying they don’t need a ton of extra space in a home and that they want spaces configured differently in homes, builders say.

For example, the living room is on its way “out,” builders say, as more homeowners instead show a preference toward a game room or media room. Plus, more homeowners are finding they don’t need a fourth bedroom, which was once in high demand.

However, not all builders believe the “buying small” trend will last.

“With our typical single-family buyers, we’re not seeing them willing to give up much room,” says Bill Darling, a builder in Plano, Texas. “We have seen them willing to put fewer bells and whistles in the homes.”

Some builders are focusing on ways to cut maintenance costs of home ownership as well, by setting out to build homes that are more energy-efficient.

MORTGAGES

Builders Applaud Efforts to Loosen Credit



The National Association of Home Builders is applauding a bill introduced in Congress aimed at restoring the flow of credit to builders and developers for the acquisition of new land tracts.



“We commend Reps. Gary Miller (R-Calif.) and Brad Miller (D-N.C.) for championing a legislative solution aimed at ending the freeze in housing production credit that has forced countless home building firms across the nation to shutter their doors, resulting in grave repercussions for job growth and the overall economy,” said NAHB Chairman Bob Nielsen.

The Builders Association believes the credit crunch has cost more than three million construction and housing-related jobs since 2006, eliminating \$145 billion in salaries. H.R. 1755, the Home Construction Lending Regulatory Improvement Act of 2011, would address specific regulatory obstacles to the credit needs of the nation’s home-builders.

INDUSTRY

Fees Are Biggest Determining Factor in Agent Selection



How much listing agents charge is the consumer’s No. 1 factor in deciding who will represent their property in a sale. The survey by HomeGain found that 29 percent of owners considered agent fees the most important criterion.

Following fees, these were the greatest influencers:

- * Web presence, 21 percent
- * Use of virtual tours, 13 percent
- * Office location, 11 percent
- * Sales board visibility, nine percent
- * Newspaper advertising, eight percent

- * Community involvement, six percent
- * Use of floor plans, three percent

How to Reach the ‘Camouflage’ Buyer



More buyers today are trying to camouflage themselves and downplay their interest in real estate, often telling agents they’re “just looking,” said Scott DiGregorio, sales manager at Primary Residential Mortgage in Fort Myers.

“The buyers have changed, the times have changed and the market has changed, yet real estate agents are taught to do things the way they did 35 years ago. It’s insane,” DiGregorio says.

The key today is to use your marketing to educate customers, not sell them.

Drip e-mail campaigns, social media and other marketing strategies all can help agents build trust with customers, DiGregorio says.

“Do not try to sell in these e-mails,” says DiGregorio. “Do not try to close in these e-mails. Make sure you’re doing nothing but educating.”

But in building trust and educating the buyer about home ownership, DiGregorio says that may sometimes require agents to walk away from prospects.

“I firmly believe some people shouldn’t buy a house right now,” DiGregorio says. “We have to be OK with that and we have to help people make that decision.”



AGENTS' CORNER

Advanced Negotiations: Defending Against the 'Crunch'



If you've been in the business long enough, you have likely heard about "The Crunch." That's the technique whereby you ask for a concession before you communicate a counter offer.

Here's a favorite crunch, "Is that the best you can do?" When asked after a proposal or price is conveyed, it puts pressure on one's opponent to better their position without a counter offer.

So what do we do if someone crunches *you*?

It's early in the negotiations when the crunch is typically used. That known, you don't want to communicate the idea that we're not open to movement. The crunch typically puts one's opponent on notice that an early settlement won't be reached. It also tests the negotiating skill and resolve of the parties.

If you make a proposal, convey a price or state a position and our opponent flinches and crunches us, what should you do? First, recognize that your opponent knows how to play the negotiating game. That's good!

Second, don't modify your original position, price or proposal until you get a better response (counter offer) from your opponent. You may want to have some power language ready to pry that counter offer loose.

For example, if they say, "Is that the best you can do?" Simply reply, "Based on what I know now, it probably is. What would work for you?" Again, you want to encourage a counter

offer from them.

If they refuse to state a counter offer and insist on you bettering your proposal, come back with, "I may have some room to move, but I won't negotiate with myself. What would you accept?"

If your opponent is motivated to reach a settlement, the power language stated above will prompt them to offer a counter. Once that is stated, the game is on. Anchors are set and the bargaining is underway. If you still can't get a counter, consider moving on. Getting a crunch is a good sign that your opponent knows how to bargain and is likely open to reaching a settlement as you keep negotiating.

Seven Things Every Internet Advertiser Should Know



More people now get their news online than in newspapers. Then there's Facebook, where over 550 million users are attracting an overwhelming majority of today's marketers. According to Morning Falls, a Denver-based interactive media firm, it's no longer *should* you be online—it's *where, when* and *how*. Here are some tips.

- 1 Show up on search. This is a no-brainer. Analysts estimate that 75-90 percent of companies and consumers search the web before they buy. If you can't make the first page of the organic results, which is essential to the viability of your inbound marketing efforts, do some serious optimization work. Investing in a



sponsored link can be an option, depending on your brand.

- 2 Too many blasts can blow up in your face. Email is the most common Internet activity and most used form of digital advertising. Over 80 percent of marketers employ it to connect directly with customers, many of whom now check email on their mobile. Stay on top of your open, click-through and conversion rates to refine content and frequency. Unless you have a good reason to email more than twice a month, such as with timely offers or high-value content, don't do it.
- 3 It's not a slam dunk. Just because you show up on search engines, run banner ads, blog and get "liked" by lots of Facebook fans doesn't mean you're going to score big right away. There's more clutter and competition than ever, making it more challenging to stand out. Experiment. Be flexible. Use sites like Quantcast.com and Alexa.com to track your clicks, bounce rates and page views. Find what works and continue to enhance it with the repetition, consistency and synergy needed for higher sales.
- 4 Know your customers. Knowing your target's age, income and other demographic data is no longer enough. What are their behavioral skews and lifestyle choices? What really motivates them to buy your brand? Are they into parenting or partying? Do they like to cook, cruise, camp, chill or collect cars? Collect this data. Stay up on consumer trends related to your brand with the wide variety of market research sites available today. Knowing the types of searches, sites and activities your audiences are likely to pursue is the key to engaging them more effectively online.
- 5 You don't have to splurge to make a splash. Pardon the expression, but when it comes to getting the 'biggest bang for your buck,' digital is the real deal. In terms of cost-versus-reach, online ads cost less to run. Plus, you can maximize your exposure by using dynamic pricing and pay-for-performance options. Online ads bring better results too. A study by Millward Brown showed that

a single exposure to a web banner generates greater awareness than a single exposure to a print or TV ad, and boosts brand awareness by up to 200 percent.

- 6 Don't put all of your eggs in one basket. Sure the Internet is the most efficient form of advertising known to man. That doesn't mean you should abandon your basics. Stick with the positioning, testimonials, guarantees, special offers and venues that have been working. Re-allocate spending to bring digital into your mix for added traction and sales interaction.
- 7 Great ads need great back-end support. Click on an ad or link, and you go to a landing page that gets you to buy. That's the idea anyway. So while you may get your clicks, your site needs to be your salesperson and close the deal with friendly navigation and a strong call to action. No matter how good your offer is, your site could still drop the sale. Track conversion rates and return-on-investment (ROI) daily and be ready to adjust your messaging and media accordingly.

Judicial Title



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