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REAL ESTATE DIGEST

PRACTICAL REPORTS ON TAXES, FINANCING, MARKETS, LAW AND TECHNOLOGY

Realtor Technology Spending Edges Past Marketing Expenditures For First Time

Marketing and promotion have always been big expenses for real estate agents, but they're no longer the biggest. For the first time ever, the typical Realtor will spend more on technology than on marketing and promotion. The National Association of Realtors (NAR) found that their typical members expect to spend in excess of \$1,300 on technology-related items in 2004, about \$100 more than their yearly marketing budget. The largest portion of the tech pie, \$856, will be allocated to products, while technology services and technology training are nearly evenly matched at about \$255.

The December 2003 survey of 11,800 NAR members revealed that virtually all work for firms that have Web sites containing real estate listings, and 50 percent have their

own Web page, up from 43 percent in 2001, while another 21 percent plan to have a Web page in the future.

Nearly all respondents use e-mail, with roughly half conducting one-quarter of their client communications via e-mail, while spending 4.6 hours per week corresponding and reviewing messages. Of the survey respondents who use e-mail, one-quarter use an account through their firm and 62 percent have personal e-mail accounts.

Among the high-tech tools Realtors are using: 95 percent use a mobile phone, 77 percent use a digital camera, 41 percent have a DSL connection, 40 percent use PDAs, and seven percent use Global Positioning Systems.

Apparently, the more

technology Realtors use, the more they want. The NAR reported that their respondents would also like wireless and PDA access to Multiple Listing Service listings, online floor plans, neighborhood crime and school stats and electronic delivery and tracking of consumer disclosure statements.

The only exception is with instant messaging (IM) for business purposes, which hasn't achieved anywhere near e-mail's high adoption rate. Only five percent of the respondents reported using IM frequently for business, and 14 percent only used IM occasionally for business.

"There is some evidence that Realtors are starting to use IM for business. It may be small at this point but it may be one of those tech tools that more will use over time," says Paul Bishop, research economist, NAR.

Realtors' 2004 technology budgets mark a 52 percent increase over 2002, which is incrementally higher when compared to the tech budget increases for many small and medium businesses (SMBs).

TRENDS

Wives More Willing To Pull Up the Stakes



Seventy-seven percent of women surveyed would relocate for their husband's careers, but only 58 percent

of men would do the same for their wives, according to a new poll by Allied Van Lines.

"These findings are somewhat surprising, considering the number of women in high-paying careers," said Wayne Sotile, who with his wife co-authored the book *Marriage Skills for Busy Couples*. "This study shows that despite the steady careers many women have, family still comes first."

Nearly 20 percent of women said their family's opinion of moving would play an important role in their decision to relocate. Only nine percent of men rate family opinion as important.

Baby Boomers Looking To Retire in Urban Style



The Baby Boomers, a massive middle-aged generation born between 1946-

64, are a promising group of home buyers, according to the latest annual study conducted by Del Webb, a developer of active adult communities. There are an estimated 27 million Baby Boomers ages 40-45, and about 4.5 million of them turn 40 this year.

According to the study, about 75 percent of Baby Boomers who are 40-45 said they plan to buy a new home when they retire. About 33 percent now own two homes or would consider owning two homes. About 60 percent of this younger group said they want to live within a one-hour drive of their present residence when they retire, while about 16 percent of the elder Boomers make that same demand.

About 25 percent of the 40-45 Baby Boomers will consider purchasing a home in an age-restricted active adult community when they retire, which represents the potential for 6 million new residents in those communities. About 20 percent of these Boomers plan to retire between the ages of 51-55, and about half said they are not sure whether they will have enough money to live comfortably in retirement.

These future active adult community residents want high-speed Internet connections, social activities and lots of security in those communities, the survey found.

That's a shift from earlier segments of Boomers, who have wanted a more suburban or resort-style setting, where leisure activities revolve around physical activities, such as golf.

Mold: What Problem?



A federal indoor air quality study has found that while exposure to excessively damp indoor spaces can trigger allergies and may even be associated with the development of asthma in some people, there is no evidence that mold causes cancer, debilitating fatigue, gastrointestinal problems or neurological problems.

The study was conducted by the non-partisan Institute of Medicine, part of the Congressionally chartered National Academy of Sciences that advises the federal government on health issues. The study was conducted over a two-year period and represents the first comprehensive analysis of the health effects associated with damp environments.

The National Multi-Housing Council was among the first to applaud the findings, saying it would help put mold in perspective.

"The study should go a long way toward quelling consumer fears about mold and should bring some relief to the real estate industry, which has been inundated with lawsuits seeking compensation for exposure to mold," said the Council.

Wanted: Improved Laundry Rooms



The National Association of Home Remodelers says home owners—who spend as much as nine hours a week

doing laundry—are starting to pay more attention to their laundry rooms, wanting them upstairs, blended with the surrounding décor and, hopefully, filled with the latest in gadgetry.

According to a survey, 95 percent of respondents said they either "desire" or "must have" a separate laundry room in their new home.

The association said, "today's laundry room has moved upstairs into the living quarters, and it is spacious, practically rivaling the kitchen in finishes and gadgets. People want comfortable workspaces no matter what activity they are doing, and they don't want to lug laundry up and down stairs."

In addition, the survey said consumers want more counter space to fold, iron or sew clothes, and also want more high-end appliances to handle larger loads. Some consumers said they wanted two dryers to help keep up with washers.

MARKETS

Decade of Rising Home Prices Predicted



A nice, steady climb. That, in a nutshell, describes top economists' predictions for home prices over the next decade. Continued immigration, population increases and a tightening market for new homes will fuel prices.

On a national average, economists with the National Association of Realtors and other groups say home prices could accelerate five percent per year for the next 10 years. The only potential sour note on the horizon, said the experts, was the possibility of tightening restriction on credit due to government deficits.

Community Investments Help African-Americans



African-American communities nationwide are benefiting from "community investing" spurred by local funds and banks, with first-time homeowners and small businesses among those benefiting most, according to the Social Investment Forum.

According to the Forum study, community investing is the fastest-growing category of socially responsible investing in the United States: Total assets held by community development financial institutions (CDFIs) nearly doubled from \$7.6 billion to \$14 billion between 2001 and 2003.

Community investing is financing from banks, credit unions, loan funds, venture capital firms, foundations and other organizations that is directed to support African-Americans and other individuals, businesses and non-profits usually overlooked by "traditional" financial institutions. For more information, see: <http://www.communityinvest.org>.

TECHNOLOGY

Asian Real Estate Web Site Launched



The Asian Real Estate Association of America, which says it has about 1,000 members, has launched a new Web site, www.areas.org, to serve as "both a resource and voice for real estate professionals who serve the Asian American population."

The group said it would use the site to provide members with updated information on trends in the Asian real estate community, including reporting results from its latest home ownership study.

The association, which already has been recognized by NAR and HUD, said it was currently waiving

membership fees in an effort to drive up membership in the organization. Membership is open to members of all races who "share the common interest that everyone has the right to compete fairly for the privilege of owning his or her home."

Women Log On More



Women dominate the online home-shopping population, according to a survey conducted by American Home Guides, an Internet marketing service for the home-building industry.

The typical person who shopped for homes on the Web in 2003 was a 26- to 35-year-old woman with an annual household income between \$50,000 and \$100,000. She searched for a single-family home to purchase in about three months that was priced between \$100,000 and \$250,000 somewhere in the southern United States.

The prototypical online homebuyer used the Web as her primary source of new home information for about one to three hours per week during the home search, which was conducted without a real estate agent.

More than 1,000 participants, or 23 percent, said they were using a real estate agent in their new home search. But the majority of this group still said it considers the Internet the primary source of information.

MORTGAGES

New Look At Shared Appreciation Mortgages



Shared appreciation mortgages (SAMs) are again emerging in today's real estate marketplace. This is a special type of mortgage loan where the lender charges a fixed rate of interest plus a share of the profit derived from the future sale of the property.

It's a concept that became somewhat popular years ago, but then

faded away. Currently, developers are using it as a form of financing the construction of housing projects, particularly those perceived to be risky investments, according to a report carried in Grant Thornton's "Building Business."

This type of arrangement presents an interesting challenge regarding taxes. Is the payment a deductible interest expense? Or does the sharing of profits from the sale of the property create a partnership for tax purposes between the borrower and the lender?

"If it's an interest expense, then the borrower would most likely have an ordinary tax deduction," said Jerry Williford, a tax executive director with the Grant Thornton office, an accounting advisory firm. "On the other hand, if the lender is deemed to be a partner with the borrower, then the lender will have less capital gain on sale and the tax effect can be significant."

He noted that IRS rules and court cases in the past involving SAM arrangements indicate the borrower and lender are not partners for tax purposes. "Taxpayers should be aware that the IRS could raise the issue and argue that the lender is a partner with the borrower with the payment of the share of appreciation not being deductible as interest," Williford said.

Seniors Given New Mortgage Options



Fannie Mae has launched a new mortgage loan program that recognizes the income of seniors who live with their adult children. It's called the "Seniors and Family Together" pilot loan program.

An increasing number of seniors reside with their offspring, due to cultural traditions of immigrants and child-care needs, among other reasons. Lenders generally have not included income from grandparents when qualifying a family for a mortgage loan, even when they consistently contribute to household expenses. The only time that income is usually considered is when the seniors

explicitly co-sign as borrowers on the mortgage note.

The new Fannie Mae product allows all the senior's income to be counted, up to 30 percent of the principal borrower's income, without the senior being listed on the note. The program is currently available only in Florida and Mississippi, but is expected to expand to other states soon.

Coming Soon: No Money Down Home Mortgages

\$0 Zero, zilch, zipo. That's what some first-time homebuyers may be asked to pay as a down payment on their new homes. A subcommittee in the House of Representatives has cleared enabling legislation that would make this possible. The bill would allow buyers to roll the down payment and closing costs into the total loan amount when the Federal Housing Administration (FHA) guarantees the mortgage.

Some legislators resist the idea, saying that families taking

advantage of the offer could end up with negative equity and they could become trapped in communities with declining property values. With that thought in mind, the bill now includes strengthened eligibility criteria for the zero-down financing.

AGENT'S CORNER

Many Pre-qualification Letters Prove Worthless



Roughly 10 percent of mortgage pre-approval letters given by lenders turn out to be worthless, with lenders using escape clauses to avoid closing under the written terms. That's the finding of a study commissioned by *Inside Mortgage Finance*.

Both homebuyers and real estate agents say the sudden inability to receive financing has killed many deals. Lenders counter, however, by saying that often agents and buyers do not spend the time to understand the details of the letters.



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