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REAL ESTATE DIGEST

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

Section 1031 Exchanges: An Untapped Means for Reaching Reticent Home Sellers?

Real estate agents can tap a largely ignored market of home sellers by learning more about Section 1031 Exchanges, according to the Federation of Exchange Accommodators, a non-profit organization specializing in these tax-deferred exchanges of properties.

Many homeowners fear selling their homes because of the tax consequences, but a 1031 exchange, also known as a Starker exchange or a tax-deferred exchange, permits investment property owners to sell a property and defer tax payments by reinvesting the proceeds into a "like-kind" investment property.

Section 1031 of the Internal Revenue Code enables 1031 exchanges, which provide a number of benefits, according to the FEA:

- A Section 1031 exchange is one of the few techniques available

to postpone or potentially eliminate taxes due on the sale of qualifying properties.

- By deferring the tax, you have more money available to invest in another property. In effect, you receive an interest-free loan from the federal government, in the amount you would have paid in taxes.

- Any gain from depreciation recapture is postponed.

- You can acquire and dispose of properties to reallocate your investment portfolio without paying tax on any gain.

In order to completely defer the payment of tax with a 1031 exchange, among other things, the replacement property must be of equal or greater value, and all the equity from the sold investment property must be reinvested in the new investment property or properties.

More importantly, completing a 1031 exchange with a tenants in common interest ownership in a property, also known as co-ownership of real estate, allows investors not only to defer their capital gains taxes, but also to "upgrade" their investment real estate into larger, institutional-grade properties.

Any property, not just real estate, that is held for productive use in a trade or business, or for investment, may qualify for tax-deferred treatment under Section 1031. In fact, many exchanges are "multi-asset" exchanges, involving both real property and personal property. Realtor and home sellers can learn more at www.1031.org

FORECASTS

Global Bank Predicts Major Downturn



London-based HSBC bank – one of the largest global banks in the world – says it believes a bubble is forming in U.S.

housing prices and that a deflationary period could hit in the next few

years. The report came just days after the U.S. Federal Reserve declared the housing industry safe from implosion.

According to the HSBC report, "Expectations of future house price appreciation are spectacularly, and unrealistically, high. We think the party stops by mid-2005. A series of rate hikes will cause a reassessment of likely future house price risks and its associated debt, thereby triggering housing's fall."

HSBC is predicting real estate prices will deflate gradually over the next several years, rather than crash like the stock market.

MARKETS

Retirees Prefer Close-in Suburbs



Where will buyers in the 55-to-74-age range be purchasing their next home? Looking at Census data, NAHB researchers found that nine of the top 10 counties in active adult home construction are located in suburbs close to metro areas.

The No. 1 county for construction for seniors was Sumter County, Fla., which attracts buyers from the Orlando, Lakeland-Winterhaven, Tampa-St. Petersburg-Clearwater and Ocala metro areas. Following Sumter County was Nye County, Nev., a suburb of Las Vegas.

Other top counties were:

- 3 Archuleta County, Colo. (the only county not near a metro area)
- 4 Washington County, Utah (near Provo)
- 5 Collier County, Fla. (Naples)
- 6 Summit County, Colo. (Denver)
- 7 Pinal County, Ariz. (Phoenix)
- 8 Beaufort County, S.C. (Savannah, Ga.)
- 9 Yavapai County, Ariz. (Prescott)
- 10 Flagler County, Fla. (Palm Coast)

Another poll of baby boomer-aged Americans, taken by the Del Webb division of Pulte Homes, found that 25 percent of aging boomers

expect their adult children to move back in with them at some point; but only 28 percent plan to make those children pay rent.

Southwest and West Top Population Growth



The U.S. Census Bureau has named Gilbert, Ariz., as the nation's fastest-growing large city, saying that between April 2000 and July 2003, the city grew by 32 percent.

The bureau defines a "large city" as any city with a population of 100,000 or more.

The fastest growing largest cities were:

- * Gilbert, Ariz.
- * North Las Vegas
- * Chandler, Ariz.
- * Irvine, Calif.
- * Port St. Lucie, Fla.
- * Rancho Cucamonga, Calif.
- * Fontana, Calif.
- * Henderson, Nev.
- * Peoria, Ariz.
- * Cape Coral, Fla.

White House Value? A Cool \$106 Million



With tongue in cheek, the HouseValues real estate network site has determined the value of the White House to be about \$106 million.

If it weren't public housing, at current rates the monthly mortgage payment would be in the ballpark of \$667,000. The president's salary is \$400,000 per year.

HouseValues asked its network of real estate agents to estimate what the White House's listing price would be if it were on the market. After looking at price-per-foot data, reviewing the home's features and historical significance, the agents' collective answer was \$106 million. President Bush and challenger John Kerry are expected to spend in excess of \$500 million to win the residence.

MORTGAGES

Most Credit Reports Contain Some Errors



In what may come as no surprise to consumers and real estate professionals on the front lines of the mortgage wars, a new study by the Public Interest Research Group finds that one in every four credit reports contains errors that are serious enough to prevent consumers from qualifying for a home loan or even opening a bank account.

PIRG said its study showed that 79 percent of credit reports had at least some errors and 54 percent of errors included misspelled names and outdated accounts. Many reports included data that actually belonged to someone else. About eight percent were missing data on credit cards, loans or mortgage accounts that indicate creditworthiness.

PIRG Director Ed Mierzwinski blamed the sloppiness on the three largest credit-reporting agencies: Equifax, Experian and TransUnion.

"The big credit bureaus and big business tolerate big mistakes in credit reports," he said. "But those mistakes ruin the financial reputations of hardworking Americans."

Home Borrowers Get Job-Loss Protection



In a sign of things to come, MassHousing, a quasi-public state agency that makes and insures home mortgage loans in Massachusetts, is providing no-cost, job-loss protection coverage to borrowers who become unemployed. The new benefit, called MI Plus, makes the principal and interest payments on a homeowner's mortgage for up to six months in the case of unemployment.

MassHousing's MI Plus coverage is included automatically on every mortgage loan that is insured by MassHousing on or after July 1, 2004. These include all MassHousing-financed loans where the borrower makes less than a 20 percent down

payment, as well as loans made by private lenders who select MassHousing as the mortgage insurer.

For decades, home buyers who put less than 20 percent down have been required to pay mortgage insurance, which protects the lender in the event of foreclosure, but provides no tangible benefit for the borrower. Although this insurance encourages lenders to make low-down payment loans, many borrowers tend to see mortgage insurance as a product that they have to pay for but that only protects lenders.

TRENDS

Good News, Bad News For Blacks, Hispanics



The Fannie Mae Foundation has released research showing that one in seven African-Americans and one in eight Latinos living in the nation's largest

cities are spending at least half of their incomes on housing.

"The research findings offer good news and bad news," said Stacey D. Stewart, CEO of the Foundation. "The good news is that the last decade was one of the best for minority home ownership in American history.

"The bad news is that the gain in minority home ownership rates during the 1990s was associated with a pronounced rise in the share of severe affordability problems for minority homeowners."

Figures showed that in the cities studied, while the number of black homeowners expanded by 16 percent between 1990 and 2000, the ranks of Black homeowners paying at least half of their incomes for housing grew by 39 percent. There was a 54 percent gain in the number of Latino homeowners, but a 98 percent jump in owners with severe affordability problems.

Fewer Transferees Going Abroad



Corporate executives are more reluctant than ever to move abroad and take their families with them, primar-

ily because of security concerns. The report by GMAC Global Relocation Services also found that 70 percent of employees moving abroad preferred that their assignments last one year or less.

The 10th annual survey found that:

- Only 51 percent of relocating employees last year had children in tow – the lowest percentage ever in the history of the survey.
- For the first time, the United States was listed as one of the world's three most challenging countries for relocating employees – behind China and Japan, respectively, largely due to the threat of terrorism and the measures put in place to prevent it.
- Nearly 40 percent indicated they were not sure about the value of international experience for an expatriate's career.

TECHNOLOGY

HUD: Fannie, Freddie Aren't Doing Enough



HUD has released figures showing that from 1999 to 2002, both Fannie Mae and Freddie Mac lagged behind in their commitment to provide afford-

able housing opportunities to low- and moderate-income families.

Focusing on home purchase loans, HUD estimates if the government-sponsored enterprises (GSEs) had performed at maximum during the period, they would have acquired an additional 264,000 loans. Of the 264,000 home loans, approximately 94,000 would have been for first-time home buyers with less-than-area-median incomes.

By law, HUD sets the annual affordable housing goals that require a percentage of Fannie and Freddie's mortgage purchases to finance low- and moderate-income borrowers. HUD and the GSEs are currently battling over a new proposal that would demand that the GSEs provide even more support at the bottom end of the housing scale.

More Home Shoppers Using The Internet



The California Association of Realtors annual survey finds that buyers who use the Internet in addition to other home search tools

spent twice as much time researching homes than counterparts who used only non-Internet means, such as newspapers and driving through neighborhoods. Those who used the Internet, however, usually spent less actual time with an agent before making a buying decision.

More than half of the respondents classified themselves as "Internet buyers." The share of buyers using the Internet reached 56 percent in 2004, and has risen steadily from 28 percent in 2000. By comparison, traditional buyers have made up a declining share of all buyers, down from 72 percent in 2000 to 44 percent in 2004.

More Smart Homes On The Horizon



A home-technology research company is predicting a rapid increase in the number of so-called "smart homes" worldwide in

the next few years.

The company, In-Stat/MDR, says interest in home networking technology is on the increase. It believes there currently are 35 million networked homes worldwide and by 2008 that number will hit 98 million.

The company says the evolution of the smart home has not been as quick as had been projected for lack of consumer education about what is available and the slow penetration of broadband service to homes.

AGENT'S CORNER

Agents Should Look Abroad to Succeed In High-End Market



Agents who work the upper end of the market need to develop an international

perspective if they hope to remain successful, according to Laurie Moore-Moore, head of the Institute for Luxury Home Marketing.

"Diverse economic conditions across the globe mean that real estate buyers may look outside their countries to invest," Moore-Moore said. "For instance, wealthy Latin Americans may buy in Miami while rich Brits invest in Vancouver real estate. Increasingly, the savvy real estate agent needs to market internationally."

Moore-Moore noted a new Merrill Lynch study has found that the number of high-net-worth individuals – people with more than \$30 million in assets – grew 7.5 percent in 2003 to a total of 7.7 million people worldwide. About 2.27 million high-net-worth individuals live in the United States.

Guides On Radon, Lead Available From Realtors



NAR is making available two guides to inform members and consumers about the dangers of lead

and radon. The guides are: "Protect Your Family from Lead in Your Home," and the "Consumer's Guide to Radon Reduction: How to Fix Your Home."

The guides may be purchased at: <http://www.REALTOR.org/Store>.

Tax Records Now Available Online



Mortgage technology provider AppIntell (www.appintell.com) recently launched 4506 DIRECT, an electronic application that aims

to process requests for income-tax records through the IRS.

The service will allow real estate loan reviewers to electronically process 4506-T forms and receive the results online in an electronic format. The charge for 4506-T form processing as a stand-alone service is \$9.95 each. When ordered in conjunction with a the company's DISSCO, PREFFIS or PREFFIS PLUS report, the cost is reduced to \$4.95 each.



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