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REAL ESTATE DIGEST

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

Interest Rates Fail to Rise as Predicted; 7 Percent Rates Unlikely This Year

The prediction seemed to come from every pundit, analyst and banker involved with real estate: interest rates for mortgages would come close to, if not hit, 7 percent by the end of this year.

Now, with just a few months of 2004 to go, it seems unlikely that interest rates will hit that 7 percent mark as originally predicted, and many of these same prognosticators are doing an about face.

Indeed, rates are still hovering around 6 percent, despite hikes in the federal funds target rate. Perhaps the worry of significantly higher interest rates this year was simply a myth, suggests David Lereah, National Association of Realtor's (NAR's) chief economist.

"In reality, (rates) declined in the first quarter, shot up during the second quarter and then came back

down," said Lereah. "The bottom line is mortgage rates have been lower than expected, the economy is improving and jobs are being created in an environment of strong housing demand – all favorable factors for record home sales."

Surprising results

Mortgage rates increased in anticipation of June's hike in the federal funds rate and didn't inch upwards after the actual announcement. In fact, they have declined since the announcement, and did not increase following August's rate hike. A closer look at interest rates over the past 18 months reveals mortgage rates that have hovered in the very affordable 5 percent to 6 percent range and have deviated only slightly from that. Even

the high end of that range – 6 percent – is a far cry from the rates of just a few years ago, which were closer to 8 percent.

This has kept housing sales brisk and sent economists scrambling to revise their original forecasts of an interest rate of about 7 percent by the end of the year.

Revised predictions

NAR, for example, has already revised its economic forecast to predict lower interest rates than originally expected. As recently as June, the trade association had forecast that the fixed-rate mortgage could reach 6.9 percent this year. Now it is forecasting that it will gradually rise to 6.4 percent in the fourth quarter.

David Berson, Fannie Mae's VP and chief economist, has said he believes mortgage rates will end the year well below 7 percent. And the Mortgage Bankers Association is in the same camp; Chief Economist Doug Duncan said he expects mortgage rates between 6.5 percent and 6.75 percent by the end of the year. They're not likely to go higher than that this year, but could be lower.

TRENDS

Materials Shortage Dampens Boom



The National Association of Home Builders says a shortage of cement and other building materials now threatens to curtail the country's building boom.

"Builders are reporting shortages of cement, gypsum wallboard, oriented strand board (OSB), steel framing and insulating materials," said Jerry Howard, executive vice president of NAHB. "Rising wholesale prices of building materials have added \$5,000 to \$7,000 to the cost of building an average new home, and construction delays caused by supply shortages could translate into further cost increases."

Some 41 percent of respondents to a NAHB survey said cement was in short supply. Leaders said much of the shortage was attributable to duties imposed on importing cement from Mexico.

Builders said framing lumber supplies appeared adequate, but at a high price. The price of 1,000 board feet of framing lumber recently hit a yearly high of \$472, up 52 percent from \$311 a year ago.

Developer Tries Property 'Test Drive' To Lure Buyers

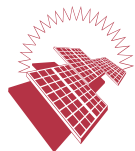


Using the logic that you can test drive a Mercedes or 40-foot yacht, so why not a piece of property, a developer has offered potential buyers the opportunity to "camp out" on upscale properties while being attended by a butler and chef.

The "test reside" is offered by The Grand Preserve Atop Saddleback Mountain in Evergreen, Colo. Homes have not been built yet, but potential buyers will be put up in "fully furnished tents" and will have available a number of upscale amenities, such as full course meals prepared by the on-site chef. Lots

from two to 11 acres are being offered for \$220,000 to \$410,000.

CA Agency: Build More Solar-Powered Homes



The California Environmental Protection Agency is recommending that half of all new homes built in the state in the next 10 years be run on solar energy. Although Gov. Schwarzenegger favors increased use of solar energy, he has not publicly backed the CEPA proposals.

Under the plan, incentives including "solar mortgages" would be given to owners of new homes who install solar panels. The CEPA believes that by 2010, up to 40 percent of newly constructed homes will be powered by solar panels and the goal of 50 percent could be met by 2013.

MORTGAGES

Increasing Number of Mansions Foreclosing



As a result of the sluggish economy, an increasing number of large, upscale homes are popping up on foreclosure lists, according to Foreclosure.com.

"Many people think of foreclosed properties and envision homes that are undesirable and in disrepair, but that is not always the case," said Web site co-founder Greg Sullivan. "Many types of homeowners overextend their buying ability and are unable to keep up with payments, eventually leading to foreclosure," he added.

MARKETS

Latinos Still Face Home-Buying Hurdles



A new report by the Tomas Rivera Policy Institute says that 84 percent of Latino renters "strongly" desire to buy a home and 55 percent plan on buying in the next five years.

The report, which was funded by Freddie Mac, is based on a survey of 1,400 Atlanta, Houston and Los Angeles families of Mexican origin. It suggests that the housing industry take proactive steps such as providing more Latino renters with bilingual outreach, housing counseling and access to innovative mortgage products.

The report warns that Latino homebuyers face homebuying hurdles especially concerning obtaining accurate information about qualifying for a mortgage and buying a house. The chief difficulties anticipated by respondents who plan to buy within the next five years were a lack of familiarity with the mortgage process (64 percent), saving for a down payment (53 percent) and finding a trustworthy advisor (53 percent).

Miami, Detroit Top FSBO markets



According to a survey by ForSaleByOwner.com, the cities of Miami and Detroit are the top FSBO markets in the country, followed by Atlanta, Houston and Dallas.

The Web site said last year it listed a total of 26,000 homes, 3.3 percent of them from Miami and 3.2 percent from Detroit. Atlanta accounted for 3.1 percent of its listings; Houston, 2.2 percent; and Dallas, 1.6 percent.

Second-Home Market Remains Strong



The second-home real estate market remains strong despite rising interest rates, according to EscapeHomes.com.

The company said that the median year-over-year price increase was 22 percent in the country's top second-home markets.

"We continue to see strong price appreciation and high consumer demand in our Index markets for several reasons," said EscapeHomes CEO David Hehman. "First, the large base of Baby Boomers entering

retirement years is putting pressure on these markets. Second, the top vacation and retirement markets are limited in choice homes. And finally, people are choosing real estate to diversify their portfolios, especially since interest rates are still at historic lows."

The EscapeHomes index is based on markets in: Bend, Ore.; Holden Beach, N.C.; Incline Village, Nev.; Myrtle Beach, S.C.; Naples, Fla.; Park City, Utah; Santa Barbara, Calif.; Sarasota, Fla.; St. Helena, Calif.; and Truckee, Calif.

Looking to Get Lost? Try Boston, DC, SF



Sperling's Bestplaces Inc., a company that collects demographic and other information about the nation's cities and sorts it into a large number of categories, has determined that Boston is the nation's easiest city to get lost in. Also on its list of cities that are most "challenging to navigate" are: Washington, D.C.; San Francisco; Baltimore and New York.

Bestplaces said the most "driver-friendly" cities are: Las Vegas, San Antonio and Salt Lake City.

Condo Sales Pace Nears One Million



The pace of condo sales in the second quarter neared the one million unit mark, the first time the condo sales rate has approached that level.

The seasonally adjusted annual rate for existing condo and co-op sales was up 6.6 percent to 996,000 units in the second quarter, from a 934,000-unit rate in the first quarter.

Sales activity in the second quarter was 15.4 percent above the 863,000-unit sales level during the same period in 2003. Condo sales account for about 12.8 percent of the market. The median price of a condo in the second quarter was \$189,400.

Gay-Lesbian Web Site Opens



Jeff Hammerberg, who was among the first to capitalize on the gay-lesbian real estate market in the late '90s with HomeLounge.com, has launched a new site, www.GayRealEstate.com, which is a directory of gay- and lesbian-friendly real estate agents worldwide. Hammerberg said his directory had a database of 4,000 agents.

LAW

Key Eminent Domain Law Overturned



Brokers and agents involved in (or opposing) land development projects need to be aware of a ruling recently by the Michigan Supreme Court that reversed the famous 1981 "Poletown decision" that allowed Detroit to bulldoze a neighborhood to make way for a General Motors plant.

In the last 25 years, the Poletown decision has frequently been cited in eminent domain cases where governments decide it is in the best public interest to take private property from some land owners and turn it over to another private owner, such as for development of shopping malls, business parks, sports stadiums and the like.

In Poletown, so named because the neighborhood was extensively Polish, citizens were forced from their homes and required to accept what the government was offering for compensation. The land was then sold to General Motors.

The reversal came in the case of *Wayne County vs. Hathcock*. Wayne County had sought to seize land south of its airport for the purpose of developing a technology center, but some home owners refused to sell. The court sided with the land owners.

The ruling does not dismantle eminent domain law, but will mean that when private property is taken to make way for other private development, compensation will likely have to be higher.

Underinsurance a Growing Problem



An estimated 64 percent of houses in the U.S. are underinsured, according to a recent article in the *New York Times*. Underinsured owners might not discover the problem until they file a claim for the complete destruction of their house, then learn that their insurance coverage will not pay enough to rebuild their house.

The problem has come up most recently on the West Coast, where homeowners are still trying to rebuild after the devastating wildfires of 2003. However, homeowners elsewhere are also vulnerable. According to the article, "...many upper-income homes in New England are underinsured by 30 percent to 40 percent."

The problem of underinsurance stems from many factors, including:

- 1 Undervaluation by the insurance agent or homeowner
- 2 Increased costs of construction due to the recent building boom, which has raised the costs of materials and construction crews in some areas
- 3 The home improvement boom. Failure to notify the insurer after a remodel can result in underinsurance.
- 4 Changes in many homeowners policies, which have shifted from providing "guaranteed replacement coverage" to providing "extended replacement coverage." Guaranteed replacement coverage pays the full cost of rebuilding the property, even if it exceeds the policy limit. Extended replacement coverage will only pay up to the policy limit, plus an additional stated percent if the loss exceeds limits—usually 20 to 25 percent.

AGENT'S CORNER

NAR Moves To Protect Online Data



NAR's Center for Realtor Technology has released new software that makes theft of online listings more difficult. The software is called "NoScrape" and it prevents unauthorized persons from "scraping" a site. Scraping occurs when a pirate program highlights all the text and photos on a Web page, and then copies them for use on another site.

"Scraping continues to be a problem for our members," said Mark Lesswing, NAR vice president and director of CRT. "Pirates attack real estate listings on the Internet and often create phantom sites that appear to be genuine. These sites are used to generate leads and other forms of business that defraud the public and misrepresent their identities."

There is no charge to NAR members for use of the application. It may be downloaded free at: www.crt.realtors.org/projects/noScrape/index.html.

Tech Skills Equated With Higher Wages



A famous quote in the real estate industry states, "Technology will not replace real estate agents, but real estate agents with technology will." And new research conducted by the Federal Reserve Bank of San Francisco suggests that those agents with technology and education will likely earn greater profits than the ones who don't incorporate the Web and technology into their business plans.

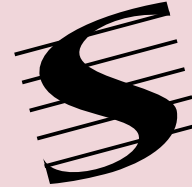
Workers who used computers during a test period earned about 10 percent to 20 percent more than workers who did not use computers, according to research cited in "The Computer Evolution."

The study used data from five surveys. The two key aspects of computer evolution examined were the spread of personal computers (PCs) at work and the evolving wage differences between people who use computers and those who don't use them.

"Our findings confirm that workers who use computers earn more than otherwise similar workers who do not. We also find that this

effect has been especially large for highly educated workers in recent years," the study concluded.

The research also found that individuals and companies with the most to gain by new technology are the first to adopt it.



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