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REAL ESTATE DIGEST

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

Real Estate Industry Slow to Shift Ad Spending as Consumers Move Online for Home Buying

In the last seven years, online ad spending has zoomed from \$14 to \$148 per home sold, while newspaper ad spending dropped from \$755 to \$605 per home. A variety of factors have caused the change, including cheaper rates of advertising online versus print media, and the ability to track results of Web advertising.

But for real estate analyst Bernice Ross, the shift isn't happening fast enough; of the \$11.5 billion real estate agents and brokers spend on advertising yearly, they still spend only 11.2 percent of that on Internet media.

Missed opportunities

"The most shocking news for me is that [the industry] is currently spending the vast majority of its advertising dollars offline.

In fact, we spend 56 percent of our marketing dollars on print advertising and 23 percent on Buyers' Guides. In other words, we spend 79 percent of our marketing dollars on print advertising that produces only eight percent of our sales. We are literally wasting multimillions blindly by continuing to market as if the Internet doesn't exist."

According to NAR, somewhere between 71-78 percent of clients begin their search for a home online. According to a study from the California Association of Realtors, the average Internet buyer looks at six houses and takes two weeks to purchase.

In contrast, "traditional buyers" look at 15 houses and take seven weeks to purchase. The CAR study

also shows the average Internet buyer spends \$470,000 on a home, whereas traditional buyers spend only \$350,000. Furthermore, the Internet is now the number two source for generating buyer and seller leads, second only to yard signs.

"The bottom line," says Ross, "is that Internet buyers are gold."

Follow-up essential

But online marketing isn't enough, adds Ross. Follow-up is critical. "Even when agents generate Internet leads, most do a poor job of following up. Twenty-five percent of Internet buyers expect instantaneous follow-up. Another 50 percent expect someone to follow up within two hours, and 100 percent expect follow-up within one business day.

Agents who do respond hit the jackpot; fifty-seven percent of clients who search the Internet end up doing business with the first person who contacts them.

Real Estate Prices Influence Career Choices for Many



Housing affordability is a major career issue for police officers, firefighters, teachers and nurses, according to a Bank of America

survey. About 60 percent of respondents in these occupations said their ability to own a home, based on their salary, influences their decision about whether to continue to work within their profession and within their community.

"Substantial research shows that there is a profound need to make it more feasible and possible for our 'neighborhood champions' to own a home," said Kevin Shannon, Bank of America Consumer Real Estate president.

According to a June 2003 study conducted by the National Association of Home Builders, people working in the law enforcement, firefighting, education and medical professions have about a one-in-three chance of finding a home they can afford, and a three-in-10 chance of finding a home they can afford in the surrounding suburbs. And median incomes earned by workers in these occupations is less than the minimum needed to qualify for a median-priced home, according to a study by the National Housing Conference.

New Charity to Help Military Personnel Buy Homes



A nonprofit organization has been formed for the purpose of helping U.S. service men and women afford the down

payment and closing costs for buying a home. According to the Military Housing Assistance Fund, while almost 70 percent of Americans own their own homes, only 27.3 percent of

military personnel are home owners.

The MHAF is part of Financial Counselors of America, a 501(c)3 down payment gift charity organization. For more information, visit: <http://www.MilitaryHousingAssistanceFund.org>.

South and West Top Best Retirement Cities



Florence, Oregon is the most desirable retirement city of more than 200 cities ranked

on the basis of ambiance, cost of living, climate, personal safety, services, and the economy.

The rankings come from the new book, *Retirement Places Rated* published by Wiley. According to the book, the top ten retirement cities in the nation are:

- 1 Florence, Oregon
- 2 Scottsdale, Arizona
- 3 Charleston, South Carolina
- 4 Melbourne-Palm Bay, Florida
- 5 North County San Diego, California
- 6 Tucson, Arizona
- 7 Medford-Ashland, Oregon
- 8 Lake Winnepesaukee, New Hampshire
- 9 Daytona Beach, Florida
- 10 Fayetteville, Arkansas

Existing Home Median Price to Top \$182,700



NAR is estimating that higher-than-expected sales of existing homes in the first seven months of the year will push overall 2004 sales to more than

6.5 million, which would be a record year. The trade association also said new-home sales would likely hit 1.16 million, also a record.

As a result, the national median existing-home price for all of 2004 is expected to rise 7.5 percent to \$182,700. The median new-home price is expected to grow by 8.9 percent to \$212,300.

FBI: Mortgage Fraud Runs Rampant in U.S.



Fraud is a growing problem in the nation's mortgage industry, with nearly three times as many reports of suspicious activity so far this year compared with 2001, according to a top FBI official.

"It has the potential to be an epidemic," said Chris Swecker, FBI assistant director for criminal investigations.

Through the first nine months of 2004, mortgage companies and banks have reported more than 12,100 instances of suspicious activity compared with only 4,220 in 2001. The FBI currently has 533 pending mortgage fraud investigations, compared with 102 in 2001.

Law enforcement officials say the lending and refinancing boom that accompanied record-low interest rates in the past few years is a key reason for the increased fraud. The FBI has identified several "hot spots" around the country where fraud is especially prevalent, including Florida, California, Nevada, Michigan, Missouri and Illinois.

One common mortgage fraud scheme is "property flipping," in which property is purchased, appraised fraudulently at a much higher price and then quickly sold. The mortgage holder is then left with property worth much less than the loan it issued.

Other schemes involve fake identities and credit histories, use of "straw buyers" to conceal the true buyer's name and forged loan documents.

Mortgage fraud is one of several financial crimes that the FBI has been targeting for extra attention in recent months. This effort, which involves 47 FBI field offices, has resulted in more than 151 charges since early August in cases with potential losses to banks and other businesses of an estimated \$3 billion.

Consumers Unaware of Consequences of Poor Credit Scores



A third of consumers do not understand that failure to make things like credit card payments on time could have a ripple effect that could impact their ability to buy a car or even affect the mortgage rate on their home, according to a study by the Consumer Federation of America (CFA).

CFA called on consumers to better educate themselves about their credit scores, saying that failure to understand the ramifications of a poor payment history could cost them thousands of dollars.

CFA noted, for example, according to the Fair Isaac credit-scoring Web site, on a \$150,000, 30-year, fixed-rate mortgage, consumers with credit scores over 720 will be charged a 5.72 percent rate with monthly payments of \$872, while consumers with credit scores below 560 will be charged a 9.29 percent rate with monthly payments of \$1,238 – an annual difference of \$4,392.

Consumers can purchase their credit scores and credit reports from the major credit agencies at <http://www.experian.com>, <http://www.equifax.com> and <http://www.transunion.com>. The cost is \$9 per report.

TRENDS

Agents Doubling as Loan Originators



One-stop shopping works for Wal-Mart and 7-Eleven; why not for real estate agents?

John Tuccillo, former chief economist for National Association of Realtors, is now the director of the National Association of Mortgage Counselors (NAMC), the group behind the new Certified Loan Counselor (CLC) designation program. The credential is available for real estate professionals who want to offer dual

services as a real estate professional and loan originator.

"You have to understand that consumers now demand more from their agent," Tuccillo said. "Some agents may not want to become involved, yet there are a lot of real estate professionals who do."

In short, the CLC training program (www.thenamc.org) is a full-day course that consists of seven modules designed to educate real estate salespersons on all aspects of originating mortgage loans. The course incorporates a variety of information, including regulatory compliance in assisting the client with selecting the most appropriate mortgage loan product and term, and marketing their professional services.

After completing the training program, CLC participants will work with a mortgage company approved by the NAMC to originate and fund loans. They will need to originate and fund at least two loans within the first six months in order to receive the CLC designation.

Condotels: The Next Big Thing in Real Estate



The Aqua Bamboo Hotel in Waikiki was recently converted to a "condotel," and all 248 converted condominium units were purchased in a nine-hour frenzy in early August. Condotels, which are hotel-condominium hybrids, are all the rage in some touristy U.S. markets. The sale of individual rooms in the converted hotel on the Hawaiian island of Oahu raised at least \$28.8 million, according to local news accounts – far in excess of the \$12.7 million that a California company paid for the hotel in 2001 before converting it into a condotel.

Condotels, also known as hotel-condominiums, feature privately owned condominium units for short-term rentals. Some condotels are converted hotels, others are part of a network of standard condominiums that are offered for short-term rentals, and some new condotels are high-rise condo developments built exclusively

for short-term rentals.

The prices of condotel units can be lower than standard condominiums – the Waikiki project, for example, featured prices of \$116,000 to \$225,000 for the fee-simple units.

Texas Posting Names Of Shoddy Builders



In what may be a first in the nation, the recently formed Texas Residential Construction Commission has begun releasing the names of builders and remodelers who have been denied registration for failure to meet Commission requirements.

The TRCC was formed because of the torrent of lawsuits against builders for shoddy construction. The public is urged to check the agency's Web site (<http://www.trcc.state.tx.us>) before deciding to hire a builder or remodeling contractor.

The Web site contains information on the complaint history against individual builders. Builders who are not registered with the state are prohibited from doing business in Texas.

AGENTS' CORNER

Study: Above All, Consumers Desire Responsive Agents



What quality do home buyers and sellers value most in an agent? According to a study conducted by LendingTree, the answer is speed, speed and more speed.

According to the survey:

- ✓ 43 percent of consumers said responsiveness was what they most appreciated about their agent.
- ✓ 23 percent said an agent who really listened to their needs was most important.
- ✓ 15 percent cited market expertise.
- ✓ 13 percent noted use of technology such as Web sites,

e-mail and digital photos.

✓ Six percent said negotiating expertise.

The survey also found that 86 percent of those responding said they would use the same agent in their next transaction.

Is Your Web Site an Award Winner?



Brokers and agents who believe they have high-quality Web sites are invited to enter this year's Webby Awards, which touts itself as the Oscars

of the Internet. This is the first year real estate sites have been invited to enter the competition. Real estate and 34 other new categories were added to the competition this year.

The nine-year-old Webby competition, created by the International Academy of Digital Arts and Sciences, also announced the debut of five awards that all Web sites can enter: Best Home Page, Best Navigation/Structure, Best Use of Sound, Best Use of Animation and Best Copy.

The deadline for entry is December 17, 2004. For information see: <http://www.webbyawards.com>.

LAW

Iowa Realty Defeats Flat-Fee Brokerage



In an important ruling against flat-fee real estate firms, the Iowa Supreme Court has ruled the state's mammoth Iowa Realty

Company has done nothing to harm the public in refusing to split commissions with NextGeneration Realty, a flat-fee broker.

In issuing its decision that may have national ramifications, the court made it clear that, "Antitrust is in place to protect the market, not any individual merchant doing business there. The marketplace is often unfair, sometimes brutal; sometimes tortuous acts take place there ... But, until an act impacts on the public's access to a competitive market, the injured are left to proceed with traditional tort or contract remedies."

NextGeneration filed the anti-trust lawsuit in 1996, claiming Iowa Realty was trying to put it out of business by refusing to split commissions when NextGeneration brought a buyer to the table.

Iowa argued back, however, that

NextGeneration's business model — listing homes for a flat fee that left nothing to be split with the buyer's agent — also precluded a commission split. The case is *Next Generation vs. Iowa Realty*, No. 84/03-0470, Iowa Supreme Court.



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