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REAL ESTATE DIGEST

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

2005: The Year Ahead

It's a new year, and that means real estate and economic prognosticators are out with their predictions for the next coming months. More of the same? Cool to chilly? Rates up or down? It depends on whom you ask.

Housing researcher Weston Edwards, one of the nation's most respected authors, is warning there will be a "sharp contraction in the real estate market" in both 2005 and 2006 because of mortgage interest rates that he says will likely top seven percent.

Rates the culprit

Edwards said much of the contraction will be due to current home owners who do not want to move because they are paying low interest rates.

"Major realty firms and home builders will use this period to

dramatically improve market share, taking advantage of failed competitors and making acquisitions," he said.

He added that realty firms will push for improved mortgage lending services and title and homeowners insurance to offset their realty brokerage losses.

The National Association of Realtors is taking a much rosier view. The organization is projecting that home prices will increase about five percent nationwide next year, but actual sales of homes should decline somewhat from this year's record pace. NAR economist Dr. David Lereah projects the national median existing-home price at the start of 2004 will be \$181,800, up seven percent from the start of the year.

Lereah also said he expects the 30-year fixed-rate mortgage to rise to only 6.3 percent in the first quarter of 2005, after averaging 5.9 percent this year.

Economy stalled?

Meanwhile, the U.S. leading index, a key barometer of economic conditions, has posted four consecutive months of decline, signaling continued economic weakness, according to the Conference Board.

The Board said the weakness has become more widespread. While the leading index is not yet signaling a downturn, the growth rate of the leading index has slowed below its long-term trend growth rate, which means that real GDP will continue to grow but not at the long-term trend rate.

Who's remaining upbeat? America's small business owners. Three recent surveys by American Express, the CIT Group, and MasterCard International said small business owners are bullish on the economy. The MasterCard survey of small business owners and "financial decision makers," for example, found that 33 percent expect a "substantially better year," and 42 percent a "slightly better year."

MLS: Profound Changes in Store



Every month from around the globe, 25 million people click on real estate URLs and search millions of homes on the Internet.

The MLS genie is out of the bottle and there is no turning back. The challenge for the industry now is to figure out the ultimate consequences of this revolutionary phenomenon, which confronts a business that has stayed much the same for decades.

Once entirely dependent on real estate agents for locating and visiting properties, home buyers increasingly operate without the agent, giving them more information and power than ever before. Home sellers are benefiting as well, obtaining more options for their homes through global Internet exposure and taking advantage of alternative business models.

The most profound shift may be the decrease on the "buy-side" commission split. While a tight listing market explains this trend, the Web, in effect, is becoming a de facto buy-side agent, which could fundamentally alter the commission structure.

The one area in which everyone wins is the amount of exposure a home going on the market now gets, which raises enthusiasm and increases the price—all helping to keep the market strong. Also, home buyers now can instantly scan the entire listing database, which gives them a wider view of the market and more options that realistically fit their budget and their needs. This market matching only helps to spark more sales.

Automated Bathtub Wins Smart Home Award



Smarthome Inc., a provider of smart technology for the home, has

announced the three winners of its "Smarthome Automate This!" contest. The winning entry came from Thermal Mackey of Atlanta. He submitted the idea for an automated bathtub that would draw the perfect bath with the push of a button by setting water temperature, water height and adding soap or bubble bath. It could be controlled from anywhere in the house or even by cell phone (on the way home from work).

The first runner-up was Andrew Logie of Attleboro, Mass., who created a control that would automatically turn off the television after children have watched a predetermined amount of TV.

The second runner-up was Jon Deutsch of King of Prussia, Pa., who designed a wireless pocket key that acts as a personal identification device, locking or unlocking doors, setting the alarm system and even setting the home thermostat. Acknowledged by the judges, but otherwise unrewarded, was a voice-activated toilet seat lifter.

AGENT'S CORNER

Agents Locked Out of Golf Course Sales



Seventy-nine percent of the home sales in upscale golf course communities are completed by the developer's in-house sales

staff without an agent from an outside real estate firm, according to a survey by PrivateCommunities.com.

"There is a significant amount of property listed and sold in golf communities that is not showing up on the general real estate radar screen," said Elisabeth Miller-Fox, president of PrivateCommunities.com.

She said locating homes inside gated golf course communities can be difficult for consumers. The purpose of PrivateCommunities.com is to ease the process by listings those properties on its Web site.

According to the survey, the typical golf community sales department staffs 5.9 people. Of these, 26 percent are not members of NAR.

Of NAR members, 33 percent listed all new and resale property in the community and 45 percent listed only resale property on MLS.

Agents Can Now Post Listings Internationally



The *International Herald Tribune*, one of the only newspapers distributed worldwide, has opened a luxury home section on its Web site, www.iht.com/properties, giving brokers and agents

working the upper end of the market yet another venue to advertise their listings.

Editors said the new section would be patterned after the "Friday Properties" section of the newspaper launched earlier this year. They anticipate the site will attract about two million viewers per month.

The Web site section will offer both residential luxury properties and investment properties. It also will include editorial coverage of unique properties.

Agents' Image On the Rise



Public opinion of real estate agents has improved significantly for the second straight year, according to a survey conducted to measure the effectiveness of the seventh season of

the National Association of Realtors multimillion-dollar Public Awareness Campaign.

The survey's composite score, which provides an overall picture of consumers' opinion of Realtors, improved four points over last year. Over the past two years, the score has improved 11 points, from 48 percent in 2002 to a new high of 59 percent today.

Consumer opinions about Realtors improving the most this year were that Realtors use the latest technology (up 14 percent), that

Realtors are a good source about what sellers can do to ready a home for sale (up nine percent), that Realtors are a good source of information about services related to buying and selling a home (up nine percent), and that Realtors are professionals you can trust (up five percent). Of the 16 opinions and beliefs measured in the survey, 11 improved and none declined during the year.

TRENDS

Rentals Gaining New Strength



As the housing market appears to be cooling off, the rental market appears to be heating up, according to the National Multi-Housing Council.

"The apartment industry is now seeing signs of a real recovery," said NMHC Chief Economist Mark Obrinsky. "The combination of modest economic growth, strong demographic trends, and the rising cost of home ownership compared with renting is leading to greater demand for apartment residences."

The group's "Market Tightness Index" hit 60, indicating stronger demand for rentals. (A score above 50 means more respondents saw improving conditions than deteriorating conditions.)

Also, apartment building sales are posting record highs, as rental rates also begin going up. "The only thing holding the industry back is the still-weak labor market," said Obrinsky.

MORTGAGES

Lenders Still Rejecting Minority Borrowers



Despite talk of wanting to improve minority home ownership, a new study shows that lenders turned down more black and Hispanic borrowers for mortgages than

white borrowers last year, compared to 10 years ago.

The study by the Association of Community Organizations for Reform Now (ACORN) found that Hispanic borrowers are 1.6 times more likely than whites to be turned down for a conventional mortgage, up from 1998, when Hispanics were 1.4 times more likely to be denied.

Nationally, blacks were 2.2 times more likely than whites to be denied when applying for a conventional loan in 2003, up from 1998, when blacks were 1.8 times more likely than whites to be denied.

MARKETS

Hurricanes' Impact? No One Knows for Sure



The *Port Charlotte Sun-Herald* is reporting that so far, at least, there has been no mass real estate exodus from Florida because of the hurricanes, but says the market generally seems to have slowed.

Unlike when Hurricane Andrew hit in 1992 and some 75,000 residents never moved back to their homes, real estate agents and builders say they are seeing a steady return so far.

At least one agent said she had talked to some bargain hunters hoping to pick up damaged properties cheap so that homes could be bulldozed and new homes built. Ultimately, the newspaper said, most real estate professionals believe that after a short lull, home prices will again start going up.

Four in Five Families In California Can't Afford to Buy Homes

The California Association of Realtors is reporting that only 18 percent of the state's citizens can now afford a median-priced home.

CAR says the median price of a house in the state is now \$474,370. The minimum

household income needed to purchase such a house is \$111,180, based on an average mortgage rate of 5.8 percent and a 20 percent down payment. A year ago, 23 percent of the state's residents could afford to buy homes there if their household income was at least \$93,790.

LAW

Hispanic Group: Let Illegal Aliens Buy Homes



A new study released by the National Association of Hispanic Real Estate Professionals says if income-qualified undocumented Hispanic workers were allowed to buy homes, they would add almost \$44 billion in new mortgages to the U.S. economy.

The study suggests there are more than 216,000 undocumented Latinos in the United States who could afford to buy homes if various roadblocks were removed. It said as many as 173,000 workers could afford homes costing as much as \$94,500.

The study said the primary obstacles to illegal immigrants buying homes is that they lack proper identification and credit histories, as well as having difficulty understanding transactions that primarily are in English. The study also indicated it would be politically difficult for laws to be enacted that would allow illegal aliens to purchase property.

Apt. Owner May Refuse Rental to Topless Dancer



The Nebraska Attorney General's office has decided not to pursue a Fair Housing complaint filed by a topless dancer, saying people involved in the adult sex industry are not a protected class.

Dancer Charleigh Greenwood had filed a complaint after the Richdale Group apartment owners

refused to rent her an apartment. At first, the attorney general said he would pursue the case as an act of discrimination against women, who comprise 98 percent of professional dancers in the state.

He later withdrew the action, however, finding that topless dancers are not a protected class and because, "I don't believe this case is a priority for the hardworking taxpayers of Nebraska."

Agent, Mortgage Broker Charged in Credit Scam



The Justice Department has filed mortgage fraud charges against a real estate agent and mortgage broker for forging documents that helped

marginally qualified home buyers purchase homes they couldn't afford, many of which have ended in default.

The government charged Real Estate Center agent Patrick Balf and mortgage officer Donald Stone with wire fraud and conspiracy. Prosecutors say Balf and Stone worked together on hundreds of transactions between 1998 and 2003.

The two would help people with damaged credit falsify mortgage documents so that they could buy homes in excess of what they could afford. Many of the homes are now in default.

HUD Warned Not To Pass New RESPA Regs



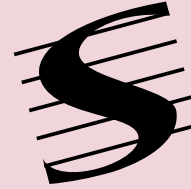
An apparently suspicious House Committee on Small Business is warning HUD Secretary Alfonso Jackson not to try to slip any new

RESPA regulation into effect while the House is in recess, saying lawmakers want to be able to look at any new proposal before it becomes law. RESPA, the Real Estate Settlement Procedures Act, requires that home buyers receive disclosures at various times in the transaction.

Reps. Donald Manzullo, R-Ill., and Nydia Velazquez, D-N.Y., took note of Jackson's controversial attempt to circumvent congressional oversight last year when he sent a final proposal to the Office of Management and Budget while Congress was on Christmas recess.

"Such action to end-run Congress is simply unacceptable and will not

be tolerated by this chairman," Manzullo wrote. Jackson was forced to withdraw the new proposal last year after numerous housing groups lined up to complain they hadn't had a chance to review the regulations.



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