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REAL ESTATE DIGEST

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

Rising Tide of Identity Theft Threatens Individuals, Banks and Brokers

It's not just consumers feeling the sting and financial hardship of identity theft. The Federal Deposit Insurance Corporate (FDIC) says a specific type of identity theft known as account-hijacking has become one of the fastest-growing forms of identity theft in the country. And the losses are piling up — \$47.6 billion for businesses and financial institutions, and \$5.0 billion to consumer victims.

Phishing for IDs

Account-hijacking is the unauthorized access and misuse of existing account information primarily through a scheme known as phishing. Phishing is the process of sending tens of thousands of bogus e-mails in the guise of legitimate government agencies and businesses asking recipients to verify or provide confidential financial information.

Criminals then use the information to either steal a person's identity or to hijack their accounts. This form of identity theft is of particular concern to financial institutions and to their customers.

The Federal Trade Commission (FTC) has estimated that nearly two million Internet users in the U.S. experienced account hijacking during the 12 months ending April 2004. Of those, 70 percent do their banking or pay their bills online and over half believed they received a phishing e-mail. Many experts believe that the increase in identity theft will have the effect of slowing the growth of online banking and commerce.

"Technology is rapidly evolving and regulators need to ensure that information safeguards for consumers and banks keep pace," said FDIC Chairman Don Powell. "ID theft is

one of the fastest growing consumer issues in America and our study is an effort to address the needed changes."

Protection options

According to the FDIC, financial institutions and their regulators should consider a number of steps to help reduce online fraud, including:

- Upgrading existing password-based single-factor customer authentication systems to two-factor authentication.
- Using scanning software to identify and defend against phishing attacks.
- Strengthening educational programs to help consumers avoid online scams.
- Placing a continuing emphasis on information sharing among the financial services industry, government and technology providers.

Consumers can help prevent fraud by educating themselves about identity theft and using software to thwart attacks. Computer security experts recommend a layered approach to computer security,

because no single security technique is foolproof or sufficient to prevent identity theft. The three types of technologies that, if implemented at various levels, could be used to mitigate the risk of identity theft generally and account hijacking specifically are:

- Scanning tools
- E-mail authentication
- User authentication

The FDIC's study, *Putting an End to Account-Hijacking Identity Theft*, is available on the Web at www.fdic.gov/consumers/consumer/idtheftstudy/index.html.

LAW

Maryland Law Requires Broker Disclosures



Under a new regulation by the Maryland Real Estate Commission, sales associates must now include the phone number of their broker or branch office manager in their advertisements.

The regulation was adopted to help consumers find someone in authority when they have a complaint against a sales associate.

The commission believes many consumer problems can be solved at the company level, but because consumers don't know whom to contact, they end up filing a complaint with the commission.

INVESTING

Report: Real Estate Remains Best Bet



The National Association of Investors Corporation is recommending that individual investors put their money in real estate.

Citing data from its quarterly survey of more than 1,100 investors, NAIC said 22 percent of companies named real estate – such as real estate investment

trusts – as the place to invest now; 39 percent said named real estate as one of the top three best investment opportunities; and 54 percent said the industry's past performance is an indication of future promise.

About 16 percent of those responding said they believed the pharmaceutical industry was a good investment now and 14 percent suggested technology. Largely because of airline woes, the NAIC respondents suggested the travel sector was the worst place to invest at the moment.

Buying Stocks with Home Equity Still a Bad Idea



A recent Federal Reserve Board study found that from 2001 to 2002, 11 percent of funds from mortgage refinancings were put into the stock market. And so the National Association of Security Dealers is reminding its stock broker members that they have a duty to warn investors that taking the equity out of homes to put into the stock market could be an unwise investment.

"Many homeowners have become wealthier—at least on paper—because of escalating home values," a spokesman said. "And more of them than ever before are tapping into their increased home equity to purchase securities.

"But turning equity into cash to make financial investments isn't an appropriate strategy for many investors. That strategy poses significant and unique risks, and failure to understand those risks could cost them their biggest asset—their home."

Soft Dollar Attracts Brits to U.S. Properties



London's *Financial Times* newspaper is reporting that some Brits, watching the slide of the U.S. dollar on currency markets, are

beginning to see American real estate as a good buy.

Historically, the dollar trades in a narrow range of approximately \$1.50 to the pound. Currently, however, the range is closer to \$2 to the pound – meaning that a typical \$200,000 home that a foreigner would have paid 133,333 pounds for would now cost about 100,000 pounds. The newspaper, however, also warned readers that U.S. property values have soared in recent years and that some markets may be due for a correction.

MARKETS

NAR Says 2004 Tops All Records



The National Association of Realtors is revising upward its prediction on existing home sales for 2004, saying overall sales will have hit a record 6.58 million last year when all figures are in.

NAR researchers also said the national median existing-home price was \$182,500 for the year and the median price of a new home was \$214,600.

For 2005, NAR is projecting sales of 6.38 million existing homes and about 1.13 million new homes. Chief economist David Lereah says the 30-year fixed-rate mortgage should rise slowly over 2005 but average only 6.4 percent.

California Slips, Florida Soars



What goes up must come down. The median price of an existing home in California declined for the second straight month in November, dropping to \$460,370 from the previous month's \$463,620. The state continues to have the highest home prices in the nation.

According to the California Association of Realtors, the median still is 21.4 percent higher than home prices were for the comparable period a year ago – when the average home

sold for \$379,120. The time it is taking to sell a home also is increasing. Homes are now on the market an average of four months, compared to just two months a year ago.

In Florida, meanwhile, the housing market has regained its momentum following the assault of four hurricanes on the state's citizens and its economy, according to The Florida Association of Realtors (FAR).

FAR said despite closing delays, difficulties obtaining homeowners' insurance and problems in completing repairs, the statewide median price rose to \$190,800 in November. At the same time a year ago, the median was \$159,600.

Vegas Homeowners Are Big Winners



NAR is reporting the strongest price growth in the nation's metropolitan areas is in Las Vegas, where the third-quarter median existing-home price of \$283,200 was 53.7 percent higher than a year earlier, the highest rate of price growth ever measured in a metropolitan area.

Following Las Vegas was Bradenton, Fla., with a median price of \$248,000, up 40.7 percent from the third quarter of 2003. Third was the Riverside-San Bernardino, Calif., area, at \$311,700, up 36.2 percent from a year ago.

The trade association said median third-quarter metro resale prices ranged from \$94,200 in Buffalo-Niagara Falls, N.Y., to nearly seven times that amount in the San Francisco Bay area, where the median price was \$646,300.

The second most expensive area was Anaheim-Santa Ana (Orange Co., Calif.), with a third-quarter median resale price of \$643,600, followed by San Diego at \$578,300.

Low-cost markets include El Paso, Texas, at \$95,100, and Beaumont-Port Arthur, Texas, with a third quarter typical resale home price of \$95,300.

TRENDS

U.S. Workers Optimistic About Salary Increases



Worker optimism, a key indicator in predicting real estate trends, has improved, according to a national

Hudson Employment Index survey on the employment outlook for 2005. Sixty-one percent of U.S. workers expect higher salaries. This includes 18 percent who expect to earn significantly more. Also, the percentage who believe their job prospects and employment situations will improve this year (44 percent) outweighs the percentage of those who do not (33 percent).

Workers also anticipate improved employment prospects in 2005, with 42 percent indicating they are somewhat to very likely to look for a new job in the coming year. Only 22 percent rule out looking for another job next year.

"Looking ahead to next year, workers are more positive overall than at the same juncture last year, though optimism has cooled since a summer peak," said Jeff Anderson, senior vice president, Hudson Global Resources, North America. "Still, fewer are worried about losing their jobs and hiring has rebounded. As a result, we expect workers will be more willing to take risks; gone is the 'better safe than sorry' mentality."

NY Home Buyers Search the Net More



HarmonHomes.com reported that New York led all states for real estate listing searches on its Web site with one million searches, followed by California with 614,833. The other top 10 most-searched states were Pennsylvania, Florida, New Jersey, Illinois, Texas, Virginia, Georgia and Maryland.

The survey found that 45 percent of home buyers spent between one and three hours per week searching online for a home and nearly 14 percent exceeded six hours a week.

Number of Unmarried Home Buyers on the Rise



Eight percent of U.S. households are owned by unmarried couples, according to a story by the Associated Press.

The story also quotes the Centers for Disease Control as reporting that more than half of all co-habitations break up within five years.

As a result, the "Alternatives to Marriage Project" (www.unmarried.org) is urging unmarried couples buying homes together to have "personal agreements" drawn up between them before they enter into any purchase agreements, hoping to prevent potential problems later.

Luxury Home Owners Want Bigger Homes



The latest survey of luxury home owners (defined as those who own million-dollar-plus properties) shows that eight percent of them plan to move to even plusher homes in the next two to three years, according to a survey by Coldwell Banker.

According to the company's Luxury Home Index, of those owners planning to move, 21 percent said they were relocating to another city; 21 percent said they wanted their next home to better reflect their success; 17 percent said they needed a larger home; and 13 percent said they were retiring.

Second home and vacation home purchases also were high on the luxury homeowner's priority list. While 31 percent indicated they already owned a second property, an additional 15 percent said they planned to buy a second home in the near future.

AGENTS' CORNER

Home Sellers May Take One to Five Years Making Their Move



From first awareness until the sold sign goes up, today's home sellers can take from one to five years to actually make a move.

A recent research study of people who had recently sold a home or were planning on selling in the near future uncovered some surprising insights into when and how long homeowners take to make the decision to sell.

One key finding of the 79-page study conducted by Hebert Research, Inc. and reported by Rismedia concluded that the home selling process can take up to five years and can be divided into four distinct phases:

- **Contemplation.** Lasting up to four years, this initial phase was described by consumers in many different ways, usually as a vague awareness that selling their home

could solve a problem, offer a financial advantage, or provide a needed change.

At some point during this initial phase, a specific event occurs that motivates sellers into the next phase of the process. The most common events mentioned include the desire/need for a larger house, wanting to live in a certain area, job relocation, and family concerns.

From this point, the research was able to quantify the selling process at an average (mean) of about a year (11.9 months). This part of the process is split into three measurable phases:

- **Thinking about selling** – 5.5 months
- **Researching a sale** – 1.4 months
- **Actively selling** – 2.4 months

How can savvy real estate agents use this information? Because the process of selling a home takes much longer than one might expect, the key to winning more business from today's consumers is creating and maintaining long-term relationships with as many prospective sellers as possible well before the prospective seller enters the more active phases of the selling cycle.



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