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REAL ESTATE DIGEST

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

NAR Introduces New 'Leading Indicator' for the Housing Market

The National Association of Realtors has developed a new leading indicator for the housing market called a Pending Home Sales Index (PHSI).

The index is designed to provide advance information on future home-sales activity and offers more solid information on changes in the direction of the market than any of the indicators currently available, the NAR says. The index is based on pending sales of existing homes, including single-family, condo and co-op. A home sale is pending when the contract has been signed but the transaction has not closed. Pending sales will typically close within one or two months of contract signing

The Pending Home Sales Index, based on data collected for January, for example, stands at 120.6, which was 2.1 percent below December but 8.6 percent above January 2004. An index of 100 equals the average contract activity during 2001, the first year for which NAR analyzed data.

Large sample

The index is based on a large national sample, representing about 20 percent of home sales. In developing the model for the index, it was demonstrated that the level of monthly sales-contract activity from 2001 through 2004 closely parallels the level of closed existing-home sales in the following two months.

"As market analysts and government agencies come to recognize the value of this new leading indicator for the housing sector, the PHSI has the potential to become the most relevant gauge of future housing market and related economic activity," said David Lereah, NAR's chief economist.

There are a few housing indicators that are thought to be leading indicators. New-home sales, which account for 15 percent of transactions, are considered a leading indicator because they are based on contracts signed in the prior month;

however, the sample is small (about two percent of new home sales), so the data is more volatile and it takes many months to establish a trend. In addition, the relationship between new-home sales and existing-home sales is not consistent over time.

Improved accuracy

Because the Pending Home Sales Index is based on a much larger national sample, it is a more accurate leading indicator of housing activity, according to analysts.

Regionally, the PHSI in the Northeast rose 3.7 percent to 105.9 in January and was 1.2 percent above a year earlier. In the West, the index of 135.3 rose 1.9 percent from December and was 21.8 percent higher than January 2004. The index in the Midwest declined 4.5 percent in January to 113.5 but was 2.4 percent higher than a year ago. In the South, the index fell 5.6 percent to 123.2 in January but was 8.0 percent above January 2004.

TRENDS

Developers Marketing Directly to Asian Buyers



The master-planned community of Sienna Plantation in the Houston suburbs is promoting its new "Paradigm Cove"

section as having been built according to feng shui principles in a direct effort to attract Asian buyers.

"Given the growing number of Asian-Americans who live in our community, we felt it was important to reach out to our Asian neighbors," said Susie Mahoney, marketing director for Sienna Plantation. "But it is important to remember feng shui also appeals to westerners. Many large corporations, including Coca-Cola, Sony, Shell, Citibank and Proctor & Gamble, actively embrace the Asian design."

Feng shui is an ancient philosophy that suggests the placement of certain elements in life can help bring "harmony and balance" to people. In Paradigm Cove most streets curve, water flows through lakes and streams and home designs are spacious and light-filled. According to Mahoney, more than 311,000 Asian-Americans currently live in the Houston area.

Analyst: Housing Market Looks a Lot Like Dot-com Bubble



Economic fundamentals associated with the housing bubble are "eerily similar" to the dot-com bubble in the late 1990s, say analysts at financial advisory giant Merrill Lynch.

In an economic commentary, "Housing Bubble Getting More Bubbly," the company compares the ratio of household equity ownership relative to GDP in the opening months of 2000 with the ratio of household real estate assets to GDP in the last few years, which now is skyrocketing toward 140 percent.

The lesson, they say, is to be wary when anything begins to approach or exceed 140 percent of GDP. Looking back to the ratio of household equity ownership and GDP just before the Internet bust, the statistics show that number falling sharply in early 2000.

What disturbs the analysts at Merrill Lynch is the magnitude of the shift in resource allocation towards residential real estate. They say loose financial market conditions and an increasing level of exuberance for real estate have contributed more to the housing bubble than increasing incomes.

And just because the housing bubble hasn't burst doesn't mean that it doesn't exist, the report states. Merrill Lynch is keeping a close eye on new housing supply levels, suggesting that a backlog of unsold new homes is beginning an upward trend. According to Census Bureau statistics, the ratio of unsold supply reached 4.8 percent in December, a five-year high.

"It's with this inventory backdrop in mind that reminds us of the 'build it and they will come' mentality in the tech space circa 1999-2000," the report concludes.

TECHNOLOGY

Consumers Can Browse 61,000 Neighborhoods With New Search Engine



Real estate agents now can integrate a neighborhood search engine into their Web sites through a new subscription program with NeighborhoodScout. The service enables home buyers to enter criteria for a neighborhood and instantly receive precise neighborhood matches. Prospective buyers then click and sign in to see homes to buy in their chosen neighborhoods.

The search engine covers 61,000 neighborhoods in the country. The system serves as a lead generator

for real estate agents or mortgage brokers using it on their Web sites. According to the company, one out of every two home buyers using NeighborhoodScout clicks to see homes in their chosen communities.

NeighborhoodScout (www.neighborhoodscout.com) is part of Location Inc., a Rhode Island-based company specializing in nationwide relocation software, retail site selection and real estate investment advising.

Broadband Access To Enable the 'Smart Kitchen'



It won't be long before you find yourself using your cell phone to

place a call to your oven at home. The smart kitchen is one of "five technologies to watch," in a report of the same name from the Consumer Electronics Association (CEA).

According to CEA, here are some things that will soon be coming to a kitchen near you:

- * refrigerators with cable-ready TV screens;
- * refrigerators that monitor the shelf life of items inside it;
- * ovens that download and execute recipes via the Internet;
- * temperature-controlled ovens that store food during the day and later cook it when prompted by a cell phone call.

Some of the technology is old, such as barcode readers that "recognize" food in the fridge. But the big technology change is being made possible by broadband-equipped home networks that connect all of your kitchen's appliances with every family member's cell phone, pager, office computer or laptop.

It's estimated that 35 million homes worldwide already have home networks. By 2008, that number will increase to 98 million. The CEA says the industry faces an uphill battle. Many consumers are intimidated by new technologies, particularly when they are linked to yet another new technology, such as home networking.

Consumers who can't even set the clock on their microwave may not be easily convinced that they need a refrigerator to tell them the milk has gone bad.

AGENT'S CORNER

Do-Not-Call FSBOs May Be Called Sometimes



The Federal Communications Commission, guardians of the Do-Not-Call registry, has issued a ruling stating that real estate agents may contact For Sale By Owners on the Do-Not-Call list only if they have a potential buyer for the property. The ruling states agents may not call FSBOs on the list for the sole purpose of soliciting their listing.

Congress Approves Small Business Health Plans



The National Association of Realtors is applauding the U.S. House Committee on Education and the Workforce for approving the Small Business Health Fairness Act, H.R. 525.

The legislation, which is one of NAR's top priorities, would allow small businesses and self-employed workers to band together through a trade or professional association to negotiate lower health insurance costs for participants.

Small business health plans would operate under the same rules as federally regulated large corporate and union health plans that provide group health insurance to all participants regardless of where they live.

The bill, which now enjoys a bipartisan list of over 110 cosponsors, is identical to legislation that passed the House twice last year with bipartisan support. Companion legislation, S. 406, was introduced in March by Sens. Olympia Snowe (R-Maine), Jim Talent (R-Mo.) and Kit

Bond (R-Mo).

A significant number of America's 45 million uninsured citizens work for small businesses that cannot afford to offer quality health insurance benefits to their workers. According to a 2004 NAR survey, 28 percent of Realtors have no health insurance at all. Only seven percent of real estate firms offer health care coverage for independent contractors, who are the largest segment of real estate agents.

RESPRO Offers New Guidelines



The Real Estate Services Providers Council (RESPRO) has released a new publication to help real estate sales associates stay within the guidelines of the Real Estate Settlement and Procedures Act in their day-to-day activities.

According to RESPRO, the "2005 RESPA Guide to Referral Fees: Do's & Don'ts for Salespersons" addresses increased marketplace confusion over what referral activities are and are not allowed in today's marketplace."

"Employees and real estate sales associates are often offered fees, part-time employment, chances to win prizes, and other incentives in exchange for referrals," says RESPRO Executive Director Sue Johnson. "We updated our RESPA Guide to help educate front-line salespersons about which offers are covered under the Act and which are not."

For more info, visit www.respro.org and click on "publications & audio cassettes."

MORTGAGES

Fannie Mae Tightens Financial Controls



Under an agreement with the Office of Federal Housing Enterprise Oversight, Fannie will beef up rules for accounting ledger entries, institute a plan to stamp out shortcomings in portfolio

accounting, separate its chairman of the board and chief executive officer and take other steps.

The beleaguered government-sponsored enterprise is investigating massive losses that led to the replacement of Franklin Raines, its chairman and CEO, in December over an accounting scandal.

Armando Falcon Jr., the director of OFHEO, said it's necessary to put into place reforms not only to correct past problems but to safeguard against future problems. Stephen Ashley, the chairman of Fannie Mae's board, said the company is committed to implementing the agreement as it works to complete a restatement of its earnings.

Rising Rates Don't Bother Home Builders



A modest increase in home mortgage rates over the past few months hasn't dampened builder enthusiasm for the market for new single-family homes, according to the latest National Association of Home Builders/Wells Fargo Housing Market Index (HMI).

"Robust buyer demand continues to sustain the new-home market, with no sign of letting up in the near future," said Dave Wilson, NAHB president and a custom home builder from Ketchum, Idaho. "Many builders are solidly optimistic about their prospects in coming months."

"Builders have good reason for confidence even as interest rates gravitate upward," agreed NAHB Chief Economist David Seiders. "Demand for new homes still exceeds supply in many markets, while financing conditions remain quite favorable and jobs and incomes are on the rise."

On a regional basis, the index gauging builder confidence in the Northeast rose six points to 74 in March, while the index for the West rose four points to 83. Builders in the South posted a one-point HMI decline to 73, while builders in the Midwest – where the job market remains relatively weak – posted a two-point decline to 53.

MARKETS

Florida Median Home Price Tops \$200,000



The statewide median sales price in Florida in January rose 24 percent to \$204,900, up from \$164,900 a year ago and nearly double the media sales price

of January 2000, when the average home could be purchased for a mere \$109,200.

Buffalo, Niagara Top Most Affordable List



The National Association of Home Builder's Housing Opportunity Index shows that Buffalo-Niagara

Falls, N.Y. is the nation's most affordable housing market. According to the HOI, nearly 90 percent of homes sold in the fourth quarter were affordable to families earning the area median income of \$53,600. The median price of homes sold in the market during

that period was \$79,000.

Nationally, 52 percent of homes sold nationwide in the final months of 2004 were affordable to families earning the median U.S. household income of \$57,500. Los Angeles-Long Beach, Calif. tied with Salinas, Calif., for the least affordable area, where only 5.2 percent of homes sold were affordable to families earning the median income of \$53,300. The median home price there was \$415,000. For a complete list, please see: www.nahb.org/hoi.

California's Housing Hinged to Economy



The best-case scenario for California's economy the next two years is tepid growth, according to a forecast made public recently. The worst case: The housing bubble bursts, leading to a recession.

Hailed as an economic savior in recent years, the booming real-estate market "is clearly unsustainable," according to the UCLA Anderson Forecast, whose quarterly forecasts are among the most widely watched in the state.

And if other sectors do not pick up the slack, "look for another downturn in the state," the forecast predicts.

Home price appreciation created more than \$1 trillion in wealth in the state from 2001 to 2004, according to the forecast. But because home values can fluctuate, some of it is paper wealth and can disappear if values rise more slowly or decline.



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