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## REAL ESTATE DIGEST

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

### Risky Bets: Worrisome Rise in Adjustable & Interest-Only Loans

**A**lthough record home-ownership levels and booming home construction give the impression of a perfect housing market, the increase in interest-only and adjustable-rate loans could put an end to the jubilation, according to the State of the Nation's Housing report from Harvard University's Joint Center for Housing Studies.

Subprime loans have given millions with blemished credit records, who would previously have been denied a loan, the chance to buy a home. Further, interest-only and adjustable-rate loans are helping blunt the impact of higher home prices. Adjustable-rate mortgages accounted for more than a third of all mortgage loans last year and interest-only loans for nearly one-quarter, the report found.

LoanPerformance, a San Francisco research company, says the number of interest-only loan

packages has grown enormously in the past few years. The company said in 2001 as few as two percent of loans were interest-only. Now, however, in booming markets such as San Diego, Atlanta and San Francisco, interest-only loans constitute almost 50 percent of all loans written.

#### Save now, pay later

Although interest-only and adjustable loans can initially save a typical home buyer hundreds of dollars in monthly payments, these loans also leave borrowers vulnerable to sharply higher payments when interest rates adjust or principal payments start to become due.

"With the number of borrowers vulnerable to payment shocks up, default rates predictably several times higher for subprime than prime loans, and house prices growing at such rapid rates, the housing market could deteriorate if the economy softens or

if rates increase sharply," said Nicolas P. Retsinas, director of Harvard's Joint Center for Housing Studies.

#### Payment shock

Payment shocks for most owners are still several years out. Many will sell their homes or refinance before they face these shocks. However, short-term risks of price declines and rising defaults will likely remain low if the economy continues to expand. When the economy hits a soft spot, though, housing corrections may be more painful than they would otherwise have been, according to the report.

Dr. Mark G. Dotzour, chief economist with the Real Estate Center at Texas A&M University, sees skyrocketing foreclosures ahead.

"I don't think there is any question that we will see higher foreclosure rates over the next five years. This is a byproduct of the concerted effort to increase the homeownership rate in the U.S. These buyers by definition are a higher credit risk, more likely to experience default and foreclosure. It is the price we pay for opening up the American dream to a wider segment of Americans."

## Why Buy a Home When You Can Buy The Neighborhood?



A Charlotte neighborhood of about 20 older homes has joined together and put itself up for sale, believing its lots are worth more

if sold collectively to a developer than if they are if sold piecemeal as individual residences.

Owners in the SouthPark neighborhood are asking for about \$700,000 per lot – about triple the assessed valuation – but say it would be cheaper for a developer to acquire the land that way than trying to assemble a tract parcel by parcel.

The property owners say they realize redevelopment is coming to their close-in neighborhood and they would rather all leave at once than face the prospect of condo and apartment construction destroying their community lot by lot.

## Average Square Footage Leveling Off



A new home builder survey indicates Americans are increasingly prepared to pass up more square footage in their homes

if they can get better-quality features in something with a smaller footprint. After growing steadily since 1970, the average home size leveled off during the past three years, remaining at about 2,340 square feet.

When asked to choose between a bigger house with fewer amenities or a smaller house with high-quality products and amenities, 63 percent of the home owners in the NAHB survey asked for better features. About 57 percent said they preferred the cost of those features to be included in the base price of the homes. The survey also found:

- ✱ The top features home owners want in the kitchen are a walk-in

pantry (84 percent), island work area (77 percent), special use storage (62 percent) and built-in microwave (62 percent).

- ✱ 37 percent said they wanted their kitchens visually open to the family room, with a half wall; 34 percent want the two completely open.
- ✱ The top bathroom features were a linen closet (91 percent), exhaust fan (88 percent) and separate shower enclosure (78 percent).
- ✱ Nine-foot ceilings are now a standard height, up from eight feet previously.
- ✱ Younger households prefer their washer and dryer to be located near the bedrooms; older households prefer them near the kitchen.
- ✱ 44 percent of respondents preferred a brick exterior. The remainder were divided among a variety of finishes.

## No-Win Tradeoff: Cheap Homes Offset By Longer Commute



Traffic congestion is costing Americans \$63.1 billion a year. The waste goes up another \$1.7 billion if current fuel prices are factored in. The study, by

A&M's Texas Transportation Institute, shows traffic congestion is growing as more workers move farther out from main cities in search of better lifestyles and lower home prices. Those workers are losing their savings through long commutes to employment centers.

According to the report, there are now more than 51 metropolitan areas where commuters are delayed more than 20 hours per year because of traffic. Among cities making that list this year are: Colorado Springs, Colo.; Virginia Beach, Va.; Charleston, S.C.; New Haven, Conn.; Raleigh-Durham, N.C.; Salt Lake City; and Cincinnati. The report concluded that urban areas aren't adding enough roads, improving traffic operations or managing demand well enough to keep pace with the societal changes.

## Young Buyers Replacing Boomers in New Home Market



Make room for the young couple next door. The National Association of Home Builders (NAHB) has released surprising new statistics showing

that in 2003, more than 55 percent of all new home purchases were made by consumers between 18 and 40, displacing the Baby Boomer generation as the most active purchasers of new housing.

NAHB CEO Jerry Howard said young home buyers are "viewing the housing market from an entirely different perspective than the Baby Boomers. They're techno-savvy and are more likely to be house-shopping on the Internet. They have a strong awareness of all their options."

NAHB research also showed that 63 percent of young buyers say they plan to buy a home in the next two years, compared to just 13 percent of Boomers.

## Youngstown Most Affordable In Country



New numbers from the National Association of Home Builders indicate the Youngstown area of Ohio has the most affordable housing in the country. According

to the NAHB, 90.2 percent of homes available in the Youngstown area in the first quarter were affordable to those making a median family income of \$51,300. The median price of homes in the area was \$86,000.

At the other end of the scale, Los Angeles-Long Beach-Glendale, Calif., was rated the least affordable major metropolitan area. There, just 5.2 percent of homes sold in the beginning of this year were affordable to families earning the median income of \$54,500. The

median price of homes that sold in and around Los Angeles in the period was \$430,000.

## Hispanic Population Continues to Soar



Brokers and agents working the Hispanic market can expect to see continued growth in that sector. According to the Census

Bureau, the population of Hispanics reached 41.3 million as of July 2004, accounting for one-half of the nation's population growth between July 2003 and July 2004.

The 3.6 percent growth rate of the Hispanic population is more than three times that of the nation's overall growth rate, which is about one percent. Looking at the U.S. population by race, the Asian population growth rate is 3.4 percent, while the population growth rate for blacks is 1.3 percent and for whites, 0.8 percent.

## Million-Dollar Homes: A Dime a Dozen?



Median home prices are steadily rising and so is the number of homes valued at one million dollars or more, according to American Com-

munity Survey (ACS) data from the U.S. Census Bureau. Nationally, the median home value in 2003 was about \$140,000, an increase of 16 percent over the last three years, while the percentage of homes priced at \$1 million or more doubled, from 0.5 percent to 1.0 percent.

California leads the U.S. with the highest median home value at \$316,600, while Arkansas bottoms out the list with a median home value of \$79,902. California also had the highest percentage of million-dollar homes at 4.1 percent.

## MORTGAGES

### HUD Softens FHA Home Repair Policy



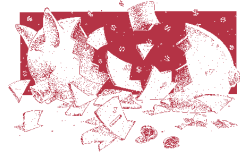
HUD is urging real estate agents working with buyers to look at FHA's new 203(k) Home Repair program, saying it loosens the agency's demand that homes meet certain repair standards before an FHA-insured loan is granted.

In the past, some buyer agents have not encouraged buyers to use FHA financing because of concerns about FHA's pre-sale repair requirements. The new Streamline(K) Limited Repair program, however, permits borrowers to add \$5,000 to \$15,000 to the loan amount and make the required repairs after loan closing.

The new product can also be used for other repairs that the new homeowner wants to accomplish without the need for an additional loan.

The 203(k) is intended to assist homeowners with basic repairs and was developed in response to the call for a purchase-rehabilitation loan alternative that is easier to administer, provides shorter processing time frames, and expedites cost estimates and approval.

### Foreclosures Inch Up



The number of properties in foreclosure increased again in April, the second month of increases, according to RealtyTrac, which produces data on the foreclosure market. However, the pace dropped from the March high, suggesting there was no trend toward more foreclosures.

In April there were 64,057 properties in foreclosure, compared to 62,422 the month before. Texas and Florida lead the nation in homes in the foreclosure process, RealtyTrac said. In Texas, one in every 694 households was in foreclosure and in Florida, one

in every 719 homes was in process. The county with the highest level of foreclosures was Rockwall County near Dallas, where one in every 136 homes was in foreclosure.

## TECHNOLOGY

### Reporter: Thieves Casing Homes Via Virtual Tours



*San Francisco Chronicle* real estate columnist David Lazarus is warning his readers to be careful before

allowing real estate agents to post virtual tours on public Web sites, saying the feature has been picked up on by burglars and thieves and helps them case homes.

Lazarus points out that virtual tours allow anyone to look inside a home, identify valuables, artwork and even furnishings that can be stolen and quickly resold for cash. Many virtual tours, he points out, allow Internet surfers to get closeups of entryways so they can look for alarms or other security devices.

Lazarus said some home sellers have become so concerned about the 360-degree photo displays of their property that they have asked agents to only post still photos on Web sites.

### More Real Estate Advertising Dollars Being Spent Online



By 2009, more real estate advertising dollars will be spent online than on newspaper classified ads, according to the researching firm Borrell Associates Inc.

The company is estimating that in four years, online real estate advertising will reach \$3 billion, slightly more than projected to be spent in newspapers.

"The growth signals that agents, brokers and developers have moved

from the experimentation stage and now view online advertising as a viable, efficient way to reach customers," a Borrell director said.

The company believes online real estate advertising this year will exceed \$1.8 billion, more than 55 percent higher than in 2004. A copy of the full memo can be found at [www.borrellassociates.com](http://www.borrellassociates.com), via the "Reports" tab.

## AGENT'S CORNER

### Institute to Study Real Estate Practices, Competition



The American Anti-trust Institute (AAI) has launched a study of competition in the real estate business that will look at "standard industry commissions and practices, including barriers to competition that may lead to higher costs for consumers."

"AAI has received a range of complaints from consumers, real estate brokers, lenders and other sources. We believe the time is ripe for a critical examination of the need to

enhance competition in the real estate industry," said AAI President Albert Foer.

Foer said research would include a study of transaction costs and services provided. It also will "examine controls over multiple listing services, membership and licensing requirements, regulatory structures, price-fixing and anti-rebate restrictions, as well as trade association restraints on competition at the federal, state and local levels."

### New Mexico Eliminates "Sales Associate" Rank



New Mexico has become the latest state to do away with the sales associate real estate license, raising the bar for entry from 60 hours of pre-license education to 90 hours and making the agents – now titled associate brokers – more responsible for their own deals.

The law takes effect next Jan.

1. The state's current 5,500 sales associates will become associate brokers automatically without taking the additional coursework. Qualifying

brokers who supervise associate brokers will now be required to have 120 hours of pre-license education, and must have two years of active salesperson or associate broker experience. Currently, a sales associate only needs a total of 90 hours of education to sit for the broker exam.



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