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REAL ESTATE DIGEST

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

Housing Takes Breather, but Strong Second Half Still Expected

The housing market is "settling in" but still should experience its third-best year in 2006, with job creation and a growing economy offsetting some of the effects of rising interest rates, according to the National Association of Realtors and other key industry watchers.

David Lereah, NAR's chief economist, says the market is adjusting to higher mortgage interest rates.

"Coming off a prolonged period of record sales, housing is taking something of a breather this year," he says. "Even so, interest rates remain historically low, we've added about two million jobs over the last 12 months and the economy continues to grow – that will sustain healthy levels of home sales in 2006, but they'll stay below the peaks

experienced during the last two years."

Interest rates level off

Lereah forecasts the 30-year fixed-rate mortgage will hold at 7.0 percent for the second half of the year. The unemployment rate is expected to average 4.7 percent, compared with 5.1 percent in 2005, while growth in the U.S. gross domestic product is seen at 3.5 percent in 2006, the same as last year.

Existing-home sales are likely to fall 6.4 percent to 6.62 million in 2006 from a record 7.08 million last year. New-home sales are projected to drop 11.6 percent to 1.13 million from last year's record of 1.28 million. Housing starts should decline 3.7 percent to 1.99 million this year, compared with 2.07 million in 2005.

Normalcy returns

After years of stratospheric increases, home prices are returning to normal and very much sustainable patterns, according to NAR President Thomas M. Stevens.

"Since the supply of homes on the market has improved to roughly balanced levels, overall home price appreciation has cooled to single-digit rates," says Stevens. "Most of the country is now entering a period of equilibrium in the housing market, which is good for the long-term health of the sector. Owners in most areas can now expect steadier and more normal rates of return on their housing investment."

The national median existing-home price for all housing types is expected to rise 5.7 percent this year to \$232,200, while the median new-home price is forecast to increase 2.2 percent to \$242,500.

Inflation as measured by the Consumer Price Index is projected at 3.4 percent in 2006. Inflation-adjusted disposable personal income is likely to grow 3.4 percent this year.

Energy Costs to Shift Buyer Priorities



Priorities of new-home buyers will shift dramatically over the next two years, according to a study by The American Home-owners Foundation

(AHF). "The combination of rapidly increasing energy costs, increasing mortgage rates, and higher home prices will undermine the 'McMansion' trend that has continued for the last several decades," according to AHF President Bruce Hahn.

The average size of new homes last year increased to 2,433 square feet from 2,349 square feet in 2004, and 2,095 square feet in 1995, according to the National Association of Home Builders (NAHB).

AHF believes that home buyers will increasingly prefer a slightly smaller but more energy-efficient home to a larger home. Consumers paid an average 13.6 percent more to heat their homes last winter. It could have been much worse; thanks to a warmer than usual winter in many parts of the country, the bill came in at \$152 less than the Energy Department had predicted. Energy efficiency goals and recent tax incentives will drive more consumers to become more interested in Energy Star homes, AHF believes.

The deadly duo of higher cost of homes resulting from appreciation and higher cost of mortgage financing will also limit the size of homes many consumers can afford to buy.

Economics will also force more home buyers to give more attention to space efficiency in their home. Buyers will still want their decks and an island in the kitchen if they can afford them. But getting the room space they need without spending unnecessarily on oversized and ostentatious open foyers or other pure eye candy will become an important focus for many buyers.

Home Buyers Believe Real Prices Will Rise



Ever the optimists, a new survey of home buyers indicates those who purchased homes in the last 12 months believe the values of their properties will increase by 10 percent this year.

The survey, taken by Stewart Title Guaranty Co., asked 1,125 home buyers how much they felt their property would appreciate. The median response was 10 percent. None of those surveyed believed their homes would decline in value.

Gen Xers, Yers Spend More for Housing



Generation Y (the current youngest home buyers) and Generation Xers (middle-aged buyers) are spending more of their income to buy homes than

their predecessors – the Baby Boomers (aka the older generation), according to a survey by Century 21.

Generation X and Y buyers on average spend 25 percent of their income on housing, while Boomers typically spend about 21 percent of their incomes.

The survey also found that Boomers identify price as a key concern when purchasing (51 percent) as compared to Gen-Xers (42 percent) and Gen-Yers (39 percent). Generation Xers and Yers also indicated more concern with their proximity to work than Boomers. An average of nine percent of Xers and Yers wanted to be close to work, while only four percent of Boomers considered it important.

Foreclosures on the Rise



Two different Web sites that watch foreclosure activity around the

country are reporting more Americans are losing their homes to non-payment. Boca Raton, Fla.-based www.Foreclosure.com reports Texas, Ohio, Michigan, Georgia and Indiana led the country in foreclosed homes in April, with an average increase of 33 percent over the previous month.

Also, Sacramento, Calif.-headquartered www.Foreclosures.com said the urban centers in the West – where housing price run-ups were the highest – are seeing the sharpest downturn. It said Los Angeles County recorded 6,314 pre-foreclosure filings and foreclosures through March, up from 4,911 in the fourth quarter of 2005. The sites say that "market speculation" in some markets, now hit with a downturn in prices, will likely lead to higher foreclosure rates in the near future.

Upscale Illegal Immigrants Moving North



Middle-class Mexican families increasingly are joining the poor in crossing over into the United States illegally—but

out of fear rather than poverty, according to a report in *The Dallas Morning News*.

The newspaper says middle class families are buying homes throughout Texas to escape rampant lawlessness that includes kidnapping, police corruption, drug cartel wars and a declining economy.

The *Morning News* said whole residential and commercial developments are under construction specifically to cater to wealthy people coming up from the south.

AGENTS' CORNER

Finding Referrals in A Stormy Market



With inventory down and longer listings up, the time is ripe for sales professionals to focus on lead-generation activities.

"A referral-based business can ride out the fluctuations in the market because it is based on solid foundations and is driven by your very own referral team: your past clients," according to Brian Buffini, a real estate educator. Here are a few tips for keeping the referrals coming:

- 1 Consistently mail out *items of value* to provide service to clients, such as newsletters or info on nearby home sales.
- 2 Call your database to follow up.
- 3 Write notes every day. Set a personal business standard and make sure you hit at least the minimum daily.
- 4 Get face-to-face with clients to stay connected and remind them you appreciate their referrals.

As the market shifts, listings may not sell like they have in the past, so you'll need to increase your transactions and referrals to keep yourself and your business covered.

This is also the time to lean on your support network. Don't be afraid to ask for help. Now is the time to reach out to friends, clients, family, spiritual organizations, and any groups you might be involved in. They'll be happy to help, but you've got to let them know how.

Home Selling, Buying Is Real Stress Test



A recent survey finds that most consumers underestimate the time and energy it takes

to prepare a home for sale, but—when it's over—are typically satisfied with the process.

The survey undertaken by the online lead-generation company RealEstate.com found that 48.2 percent of respondents either agreed or strongly agreed that simultaneously selling one home while buying another was taxing. Another 47.1 percent either agreed or strongly agreed that getting their home in sale-ready condition took more time and energy than expected. About 78.2 percent said they had "no regret" after

the process was completed.

Agents can help their clients by preparing them for the emotional ride of a major transaction.

Agent Income Declines



While average sales prices have doubled nationwide, agent income has actually gone down. The National Association of Realtors reports that 13 percent of Realtors did not sell a single house last year, while 25 percent of Realtors sold two homes or less.

MORTGAGES

Need to Keep House Payments Low? Try a 50-Year Mortgage



Those struggling to afford a home may be wondering how long their mortgage payments can be stretched out. The new answer: a half-century.

A handful of lenders have begun offering 50-year adjustable-rate loans to buyers who need to keep payments low in the face of record home prices and rising rates.

Most big banks already offer 40-year mortgages, which account for about five percent of all home loans, according to LoanPerformance, a real estate data firm. So far, only a few small lenders have rolled out the five-decades-long mortgages.

"One of the biggest things in California is the high costs of homes," says Alex Diaz Jr. of Statewide Bancorp in Rancho Cucamonga, Calif. "And with rates going up, there's demand from customers for longer loans."

Statewide, which introduced its 50-year loan in March, has received about 220 applications, Diaz says.

For cash-squeezed buyers, the longer-term loans are another option. In California, only 14 percent of people could afford a median-priced

home in December, when the median was \$548,430, if they had to put down 20 percent, the California Association of Realtors found.

The 50-year mortgage also signals that the cooling real estate market is heating up competition among lenders.

"Mortgage lenders are getting craftier to get the attention of consumers," says Anthony Hsieh, CEO of LendingTree. But, he says, "The consumer needs to slow down and understand the product."

Two issues to keep in mind: A borrower with a 50-year mortgage builds equity very slowly. And because rates on the loans are adjustable, a borrower's monthly payments could rise.

Still, the 50-year isn't considered as risky as an interest-only loan or a mortgage that lets borrowers pay even less than the interest.

With those loans, a borrower might not build any equity and could end up owing more than a home is worth - called negative amortization.

That's why Anthony Sanchez applied for the 50-year loan to refinance his California home. "I looked at a lot of different options," says Sanchez, 30. "I didn't want to be tempted with negative amortization."

Mortgage experts caution that the 50-year mortgage is best-suited for those who plan to stay in their home for about five years, while the loan's interest rate remains fixed.

"If you're going to be there more than five years, you're gambling," says Marc Savitt of the consumer protection committee for the National Association of Mortgage Brokers. "You don't know what interest rates are going to be. I wouldn't do it."

ARM Mortgages Come Due



Thousands of people used non-traditional mortgages in the last few years to purchase a home, and now are facing higher mortgage payments as these ARMs begin to have higher interest rates after the initial "teaser"

rate period expires.

Economist say that nearly 30 percent of all home loans nationally are adjustable.

"Record numbers of people lured by low initial teaser rates have taken out adjustable rate mortgages that are putting them in vulnerable positions as interest rates rise," said Jay Luber, a vice president with First Horizon Home Loans in Phoenix.

LAW

Florida Legislature Seeks Beach Property Disclosures



With hurricane season approaching, the Florida Legislature has passed an act requiring new property disclosures for home buyers that essentially would make them aware of the hazards of living along the Florida coast. The bill, backed by the Florida Association of Realtors, was unopposed in either the House or Senate.

The law would require beachfront sellers to disclose information about beach erosion and environmental laws

restricting development. FAR said the bill would give additional protections to buyers without overburdening sellers.

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MARKETS

West, South Continue to Lead Population Growth



The Census Bureau came out with a new report on where Americans are moving to, and from, within the borders of the United States. Florida has

picked up the most new residents per year and New York has lost the most.

Top population-gaining states on an annual basis:

Florida:.....	+190,894
Arizona:.....	+66,344
Nevada:.....	+50,803
Georgia:.....	+41,298
North Carolina:.....	+39,137
Texas:.....	+36,566
Virginia:.....	+20,535
South Carolina:.....	+18,756
Tennessee:.....	+16,634
Washington:.....	+13,354

Top population-losing states:

New York:.....	-182,886
California:.....	-99,039
Illinois:.....	-71,854
Massachusetts:.....	-42,402
New Jersey:.....	-32,147
Ohio:.....	-31,613
Michigan:.....	-28,467
Louisiana:.....	-16,945
Kansas:.....	-11,469
Utah:.....	-9,495

For the full report, go to: <http://www.census.gov/prod/2006pubs/p25-1135.pdf>.



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