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REAL ESTATE DIGEST

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

Condos Fast Becoming the New Vacation Homes as Owners Seek Maintenance-Free Appreciation

When it comes to purchases of second homes, condos have become nearly as popular as single-family homes. Condos accounted for 32 percent of vacation-home sales from 2003 to 2005, compared with 35 percent of single-family homes, according to a study by the National Association of Realtor's Resort Real Estate Forum. The study also confirms what real estate brokers already know: many recent buyers consider their second home a mode of diversifying their investments as much as a place to hang their vacation hat.

Guy Trusty, 2005 chair of the Forum and president of Lodging & Hospitality Realty Inc. in Coral Gables, Fla., says that NAR research indicates that the market will see another five boom years of boomer-driven growth before reaching a

plateau at a historically high level of second-home ownership.

Working equity

Many boomer buyers have seen equity in their primary homes zoom and believe it's smart to divide their home equity between two properties.

The number of recent buyers who have pulled their second-home down payment from their primary home equity has doubled since 2002, to 17 percent. Earlier, 66 percent used savings for the down payment; now, half do.

Trusty says that today's buyers believe that owning in two different markets increases the chance that their total home equity will keep growing — if not in one market, then in the other. And dividing the equity between two houses also offers more

liquidity. In a pinch, one house could be sold, and the owners could keep and live in the other, says Trusty.

"The difference between people who've bought vacation homes in the past and today is that people don't expect to make a living from renting the place. People are counting on the appreciation, not rental income," he says.

Easy maintenance

Condos are increasing in popularity because they generally don't involve maintenance headaches.

"The report is making crystal clear the trend: it's a baby-boomer concept — buy the condo, the convenience," says Trusty. "The buyers tend to be picking the new construction because they don't want to work on the houses."

"The condos are carefree. That lifestyle is very attractive to people," says Orlo Bierman, a partner with Lake Real Estate, LLC in Green Lake, Wis. "They're hiring more services than they did 30 years ago. Empty nesters don't want to come up here and work."

Market is Slowing, But Bursting Bubble Unlikely



More listings? Slowing appreciation? Weak regional markets? Sounds like a bubble burst, but it's not, according to a number of studies.

A Corzen Real Estate Indicators survey says the number of existing homes listed online (in the largest 100 metro areas) reached 2.3 million in May 2006, up from 1.3 million in May 2005.

"We do see significant decline in asking prices in certain counties, where the volume of available properties online has increased as much 400 percent," said Charles Thibault, the Corzen market analyst who conducted the detailed county-by-county survey.

However, 75 percent of the counties in Corzen's sample showed no change or increases in prices, suggesting that asking prices in the overall market are not in a downward cycle yet. The survey found the median asking prices for listed homes nationwide were up 8.4 percent in May 2006 compared to May 2005.

And while 71 of 317 urban communities are showing signs of a housing slowdown, it is unlikely that those "bubbles" will burst simultaneously and therefore there is little likelihood of a massive home price collapse, according to a new housing economics study by National City Corp.

The study points out that many markets in California and New England, which have seen dramatic run-ups, are beginning to slow. It also notes, however, that prices in Florida, Arizona and Oregon appear to still be going up. The report says only 23 percent of single-family homes are in areas subject to decline.

They're Young, Single And Homeowners



Besides their college graduation, their first "real" job and their first new car, we can add another common milestone to the list for young single adults: buying a home.

More adults under 30 are entering the real-estate market, and many are doing it at ages uncommon a decade ago. And buyers are getting still younger as Generation Y joins in.

In 1995, people 25 and younger bought 172,000 homes nationally, said Walter Molony, spokesman for the National Association of Realtors. In 2005, that number jumped to 501,000.

"The children of the baby boom generation—approximately 75 million born between 1982 and 1995—that generation is just entering the years in which people buy a first home," Molony said. "That's a strong fundamental factor for the next decade."

Couple that with historically low mortgage-interest rates, a healthy economy and rising employment, and the rate at which young people buy real estate will continue to grow, he said.

But there also is fear among young adults—and their parents—that they won't be able to afford real estate in the future.

"There seems to be a lot more peer pressure, more parental pressure to buy at a younger age," said Warren Ballard, vice president of Williams Marketing, which sells new condos and conversions. "The attitude really has changed."

But just because more young adults are buying doesn't mean the purchase is easy.

Young buyers are making major compromises and using creative financing to buy their first homes—including recruiting roommates or siblings, borrowing from parents, sacrificing space and living in less-desirable neighborhoods.

First-Time Home Buyers Want More



The lack of home amenities, rather than higher interest rates, may be what's keeping more buyers out of the marketplace, according to a Wells

Fargo Home Mortgage survey.

The survey of renters found that 90 percent believe owning a home would be a good investment and 70 percent consider home ownership to be a key to financial success. The poll found, however, that not all renters are willing to compromise on certain qualities, such as size of home, neighborhood, proximity to work and even kitchen appliances.

AGENTS' CORNER

Speed Essential in Lead Follow-Up



Speed is important in many professions, but if you plan to make a living in real estate, speed rules.

And where speed is most essential in real estate is in the time it takes to follow up with leads, according to real estate coach Bob Corcoran.

The National Association of Realtors (NAR) has found that if you call a lead within 15 minutes, you have an 85 percent chance of actually connecting with that lead. But here's an even juicier NAR statistic: 74 percent of homeowners use the first agent they talk to.

So the question is, how do you add speed to your follow-up? Here are some options:

- First make speed, and specifically the 15-minute rule, a priority, starting with yourself and then with your assistants.
- E-mail auto responders. Just make sure the auto response message is written in a way that comes across as human and not robot-like. Write something like this: "Hi! Thanks for

your message. I'll call you soon. In the meantime, click here for my newest free report on ABC neighborhood," or some other kind of news or freebie to engage them with your company.

• Phone. Yes, in the 21st century, the phone does sound old fashioned next to Interactive Voice Response systems and e-mails, but it has been proven to be the most effective way to convert leads into business.

"Remember, nothing beats a human response and a human voice," said Corcoran.

Unusual Properties Pose Valuation Challenges



It's relatively easy to establish the market value of a property located in a neighborhood where the houses are created in the mirror image of one another. Figuring out the valuation of an unusual property is another story.

In recent years, there has been plenty of sales activity, so finding comparable sales in most neighborhoods hasn't been a problem. However, in certain low-turnover markets finding comparables can be challenging. Even more taxing is finding comparables for a truly unique property, according to real estate educator Dian Hymer.

"Appraisers and agents who are faced with this predicament look to other neighborhoods that could be considered somewhat comparable in order to help determine the market value," says Hymer.

Even if a listing isn't unique, there are times when there's little comparable sales data, especially when sales activity drops. Although this hasn't been a big concern during the last few years of robust home sale activity, it has been a problem in the past.

In this case, appraisers look for similar listings that sold longer ago than the generally accepted six-month cut off date. Valuation adjustments are made for market changes during the intervening period.

MORTGAGES

Understanding Choices In Mortgage Insurance



Borrowers who make down payments of less than 20 percent are charged for the risk they impose on lenders. The charge

can take three different forms: private mortgage insurance (PMI), lender-provided mortgage insurance (LPMI), and a higher-rate second or "piggyback" mortgage. Borrowers often have a choice between two and sometimes all three.

With PMI, the borrower pays a premium to a mortgage insurance company selected by the lender. The premium covers the entire loan amount, is not tax deductible, and is in force until terminated. PMI can usually—although not always—be terminated when the loan balance declines to 80 percent of current property value.

With LPMI, the lender purchases insurance from a private mortgage insurance company and passes the charge on to the borrower in a higher interest rate. The higher rate remains in force until the loan is paid off, but it is tax-deductible.

Under the piggyback arrangement, the borrower takes out two mortgages—a first mortgage for 80 percent of property value, and a second mortgage for the balance of the funds needed. The second mortgage carries a higher rate and is tax-deductible.

What's the best option? The answer, of course, is it depends. In a market setting, different loan providers are likely to offer different options, in which case there can also be differences in points and other lender fees. These complicate the issue enormously if you are trying to sort it out in your head.

Many advisors suggest LPMI for its simplicity. LPMI makes it easy for borrowers to shop, and provides maximum incentive to lenders to

negotiate insurance prices with mortgage insurers. But as long as the system offers the three options, borrowers need to be able to figure out which option is best for them. None of them is best for everyone.

LAW

Legislature Trying to Curb "Mansionization" of Massachusetts



The Massachusetts Association of Realtors (MAR) is battling legislation designed to stop the so-called "mansionization" of the state by builders who buy large

tracts of lightly regulated properties and put up oversized homes.

The Legislature is attempting to tighten controls on "Approval Not Required" tracts typically found in far suburbs and rural areas where local authorities have limited control over what is built.

Developers have bought up tracts, subdivided them and built large homes, sometimes with little regard to roads, sewers, school districts and other impacts on public services. The bill would give local officials more control over ANR land. MAR and builders, however, say the real result will drive up the cost of housing.

MARKETS

New Study Pinpoints Where Real Estate Prices May Fall



Some of the nation's hottest housing markets are cooling, and some 13 metropolitan areas have a greater

than 50 percent chance of seeing home price declines in the next year, according to PMI Mortgage Insurance Co.'s U.S. Market Risk Index.

"We'd reached a point where prices had gotten too far away from economic fundamentals," according to Milner. "A return to a more

normalized appreciation climate is a natural outcome."

The 13 areas are somewhat of an anomaly, with appreciation still positive in most of the country's largest metropolitan areas—with half of them maintaining appreciation rates in the double digits.

Below are the metropolitan areas most likely to see home-price declines, minus New Orleans:

- * San Diego-Carlsbad-San Marcos, Calif.
- * Nassau-Suffolk, N.Y.
- * Boston-Quincy, Mass.
- * Santa Ana-Anaheim-Irvine, Calif.
- * Sacramento-Arden-Arcade-Roseville, Calif.
- * Riverside-San Bernardino-Ontario, Calif.
- * Oakland-Fremont-Hayward, Calif.
- * Los Angeles-Long Beach-Glendale, Calif.
- * Providence-New Bedford-Fall River, RI-Mass.
- * San Francisco-San Mateo-Redwood City, Calif.
- * San Jose-Sunnyvale-Santa Clara, Calif.
- * Cambridge-Newton-Framingham, Mass.
- * Edison, N.J.

Builders Cautious About Sales Gains



The National Association of Home Builders says consumers are beginning to take advantage of incentive programs and price cuts being offered by builders

around the country.

"If the sales gain holds true, it's likely due at least partly to the extra efforts that builders are making to attract the many potential buyers who are still out there," said NAHB President David Pressly. "Many are stepping up incentives or trimming prices to help maintain sales volume."

Nevertheless, NAHB Chief Economist David Seiders said, "We don't think the cooling process for housing is over yet."

Elk Grove, Calif., is Fastest-Growing City



Newly released Census Bureau numbers identify Elk Grove, Calif., as the fastest-growing city in the country.

Just south of Sacramento, Elk Grove incorporated less than six years ago. In the past year, its population grew to 112,338, a 12 percent increase over the previous year.

The other top-gaining cities were:

- 2 North Las Vegas
- 3 Port St. Lucie, Fla.
- 4 Gilbert, Ariz.
- 5 Cape Coral, Fla.
- 6 Morena Valley, Calif.
- 7 Rancho Cucamonga, Calif.
- 8 Miramar, Fla.
- 9 Chandler, Ariz.
- 10 Irvine, Calif.

New York continues to be the nation's most populous city with 8.1 million residents, followed by Los Angeles with 3.8 million.



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