

# Real Estate Digest



## THE B.A.D.H. BULLETIN

THE HOTTEST NEWS IN REAL ESTATE

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## Spring Thaw? First-Time Home Buyers Are Looking at Houses Again



**H**igh home prices have helped drive many first-time buyers out of the housing market. Now, with prices falling in many areas, there are some signs that buyers are beginning to drift back, reports the *Wall Street Journal*.

The share of first-time home buyers took its biggest dive last year, when it dropped to its lowest level since 1987, according to the National Association of Realtors. First-time home buyers now account for 36 percent of home purchases, according to a study released last month by the Realtors group, down from 40 percent in the three previous years.

But as more sellers begin to cut their asking prices and rates on fixed-rate mortgages have moved lower, some real-estate agents are reporting renewed interest from people shopping for their first home.

Sam Schneiderman, broker-owner of the Greater Boston Home Team, says he has seen “a real surge in first-time buyer activity” in the last two to three months as lower prices draw buyers who think the market may be close to bottoming out. Kevin Freadhoff, an agent with Realty Executives of Southern Arizona in Tucson, says he is seeing first-time buyers “start to warm back up again. They are seeing that houses have become more affordable.”

### Key buyers

First-time buyers play a key role in the housing market. They provide a source of new demand for homes, and they also make it possible for owners of entry-level properties to trade up, creating a ripple effect that affects higher-priced sectors of the market. Declining affordability has made it difficult for first-time buyers

to buy homes in many parts of the country, an important factor in the recent housing downturn.

First-time buyers are particularly sensitive to rising housing costs, in part because they don't have equity from an existing home they can tap as prices shoot higher. And lower incomes provide less of a cushion when monthly payments climb. In a sign of just how hard it is for first-time buyers to come up with the cash needed to buy a home, 45 percent of first-time buyers bought their home with no money down, according to the recent National Association of Realtors survey, up from 43 percent a year earlier.

### Assist from low rates

But recent data have been encouraging for first-time buyers, including low 30-year fixed-rate mortgage rates and

a wealth of houses to choose from. Even with the recent price declines, it's estimated that it will take a further seven percent fall in home prices, combined with a four percent annual increase in nominal incomes, to bring affordability back in line with average levels over the past decade – and that's if interest rates remain stable.

## MARKETS

### Retirement Hot Spots Spreading Far and Wide



Although people tend to think of places such as Florida and Arizona as obvious areas where people migrate to spend retirement, geographer William Bland said increased access to information about other parts of the country – and the world – via the Internet has helped retirees expand their options when selecting where they'd like to live out their golden years.

To rank the towns in



the US, Bland uses 12 criteria: landscape, climate, quality of life, cost of living, transportation, retail services, health care, community services, cultural activities, recreational activities, work/volunteer activities and crime.

“People are more sophisticated, more aware that you don’t have to live in a hot, humid or hot, dry place in order to enjoy your retirement,” said Bland, author of “Retire in Style: 60 Outstanding Places Across the USA and Canada.”

Case in point: Making the No. 7 spot on Bland’s list of top ten value cities is Pittsburgh, a city with “a lingering reputation as a dirty, steel-mill town, a blue-collar town where middle- and upper-middle class people wouldn’t want to be.”

Yet the reality, Bland said, is that the quality of life that can be found in Pittsburgh has improved tremendously over the years. Below is Bland’s list of top value towns, from the least to most expensive:

- \* Hot Springs, Ark.
- \* Winston-Salem, N. C.
- \* Fayetteville, Ark.
- \* Bowling Green, Ky.
- \* Lawrence, Kan.
- \* Columbia, Mo.
- \* Pittsburgh, Pa.
- \* Gainesville, Fla.
- \* San Antonio, Texas
- \* Colorado Springs, Colo.

## Are Low-Income Housing Programs Counterproductive?



Government programs that sell homes to low-income citizens – and then bar them from reselling for specific periods – may actually be counterproductive to cleaning up neighborhoods, according to a study released by the Pioneer Institute.

The study found that when many

low-income people buy homes in a single neighborhood, but can’t resell them, it discourages private investment in those communities because residents are unable to reap windfall profits by selling to urbanites prepared to revitalize neighborhoods.

Instead, the study found that forbidding rapid resale kept low-income citizens together, resulting in crime going up and neighborhoods deteriorating. For information see: [www.pioneerinstitute.org](http://www.pioneerinstitute.org).

## Apartment Vacancy Rates Up



The drive toward homeownership last year resulted in more apartments remaining vacant. The vacancy rate in the 79 largest metropolitan markets rose to 5.9 percent in 2006 from 5.7 percent in 2005, and overall rents rose 4.4 percent in 2006 to an average of \$930, according to the research firm Reis, Inc.

New York City had the country’s lowest percentage of vacant apartments, with 2.3 percent of rentals standing empty. Los Angeles had a vacancy rate of 3.1 percent. Colorado Springs had the highest vacancy rate, 11.8 percent.

### CONSUMERS’ CORNER

## Sellers Should be Cautious Before Offering “Owner Financing”



Providing owner financing can help attract buyers, but be cautious. Fluctuating real estate markets can wipe out your security in the event of foreclosure. Foreclosures cost money and second trusts get paid after first mortgages, and only if there’s money left.

Make sure to check the financial records

of the buyer and make sure that they put up a substantial down payment if you’re providing owner financing.

## What If You Can’t Make a 20 Percent Down Payment on a Home?



Home buyers may now need to pull out their calculators when tackling a common dilemma: what to do if they don’t have enough money for a 20 percent down payment.

In recent years, piggyback loans, low-cost and easy to get, have been the product of choice for many cash-strapped consumers eager to purchase homes. But with short-term interest rates now sharply higher—currently above 8 percent—piggyback loans are less appealing. Now, there are signs that some borrowers are giving traditional private mortgage insurance a second look, according to *The Wall Street Journal*.

New federal tax legislation gives some consumers even more reason to turn to mortgage insurance. The new law makes the insurance premiums tax deductible for some borrowers who take out new mortgage insurance contracts in 2007. That is in addition to the tax deduction homeowners can already take on the mortgage interest they pay.

With mortgage insurance, a borrower with less than 20 percent to put down takes out a single loan and pays a mortgage-insurance premium that can vary based on the amount the borrower puts down, credit history and other factors. For a \$225,000 mortgage, for example, the insurance premium could run \$50 to \$100 a month.

Consumers should compare the monthly payments on a piggyback versus mortgage insurance. If the rate on the home-equity line is more than two per-



centage points above the rate on your primary mortgage, “you should be strongly considering a mortgage-insurance policy,” says Keith Gumbinger, a mortgage analyst with HSH Associates. “But you need to run the numbers.”

HSH offers a calculator ([www.hsh.com](http://www.hsh.com)) that helps borrowers determine how much they would pay with mortgage insurance. And the mortgage-advice Web site [www.mtgprofessor.com](http://www.mtgprofessor.com) includes calculators that borrowers can use to compare the costs of a piggyback versus mortgage insurance.

## TRENDS

### Economy to Rebound In 2007, Forecasters Say



survey of economists.

The U.S. economy is poised to shake off the housing slump and regain momentum by the end of this year, and the credit goes to techies, bankers, chefs and shoppers, according to a

On average, the economists predict that inflation-adjusted gross domestic product, a broad measure of economic activity, will grow at an annualized rate of 2.3 percent in the first half of 2007 and 2.8 percent in the second half. That's up from a sluggish two percent in the third quarter of 2006, but still far below the robust annual growth rates of 3.2 percent for 2005 and 4.1 percent for early 2006.

“As long as you don't think the labor market is going to collapse or financial conditions are going to change, then you're starting to have the conditions for better growth down the road,” says Bruce Kasman, head of economic research at J.P. Morgan Chase & Co. in New York.

The rapid expansion of technology companies such as Google Inc. and the huge bonuses lavished on New York investment bankers are just a couple of signs

of the service sector's strength. Across the country, restaurants, hospitals, software makers and consulting firms are growing and hiring. All told, service businesses, which make up about 80 percent of the nation's economy, added 1.1 million jobs from May through November of last year.

The upbeat attitude in services contrasts sharply with the recent pain in the housing and manufacturing sectors. Housing-related industries shed 145,000 jobs from May through November of last year, according to Zoltan Pozsar, an economist at Moody's Economy.com. Falling home values have also left people with less power to extract cash from their homes through home-equity loans and refinancings, a factor that many economists expect to take a bite out of consumer spending.

“It's really two very different economies, depending on whether you're looking at the goods or service industries,” says J.P. Morgan's Mr. Kasman.

The bottom line is that the strength in services will help to keep the job market relatively healthy. The economists surveyed expect year-to-year inflation to decline. As a result, they expect the Fed to shift its focus from fighting inflation to helping the economy grow, lowering short-term interest rates to 4.75 percent by the end of 2007 from the current 5.25 percent.

### 2007 Sales Likely to Decline, But Prices Should Be Slightly Up



NAR says it expects existing-home sales to rise gradually in 2007 with annual totals comparable to 2006, but new-home sales will continue to slide.

Existing-home sales for 2006 were 6.47 million, a decline of 8.6 percent from 2005. In 2007, the trade association believes sales will further decline to 6.4 million.

Sales of new homes in 2006 fell 17.7 percent to 1.06 million. NAR expects another 9.4 percent decline in 2007 to 957,000. The national median existing-home price for all of 2006 rose 1.4 percent to \$222,600, with another 1.0 percent gain predicted this year for an average of \$224,700. The median new-home price eased by 0.5 percent in 2006, and should rise by 0.8 percent in 2007 to \$241,700.

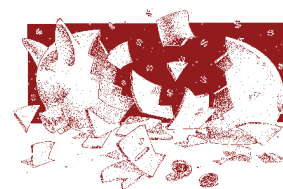
## MORTGAGES

### Women Paying High Rates For Mortgages



A new study by the Consumer Federation of America shows that women typically pay more for a home loan than men, even if they have a high income. According to the CFA, women made up 30 percent of the country's pool of mortgage borrowers last year, but accounted for 38.8 percent of the subprime borrowers, who pay more because they usually have lower incomes or worse credit. The study said middle-income women were 28.1 percent more likely to be in the subprime loan category than men with similar incomes.

### Nevada Leads Foreclosures



The number of housing foreclosures rose sharply nationwide in 2006, with the largest increase in Nevada, up 166 percent, and the smallest in Washington State, up 18 percent, according to Default Research Inc.

“You can expect to see the foreclosure rate to continue to increase in 2007 – but not as much as 2006,” said Default Research CEO Serdar Bankaci. Contributing

factors to high foreclosure activity were the number of sub-prime mortgages that were granted in the past few years; followed by the dramatic increase in energy costs, slowing home sales and higher interest rates.

Meanwhile, The Center for Responsible Lending estimates 2.2 million families will lose their homes – and as much as \$164 billion – due to foreclosures in the subprime mortgage market. Researchers project that 19.4 percent of subprime loans issued during 2005-2006 will fail.

CRL President Mike Calhoun said, “At \$164 billion, the losses from foreclosures could pay for the college educations of 4 million kids.”

Calhoun said in recent years, because of high home appreciation rates, problems in the subprime market have been masked. With declining prices and higher interest rates, however, the impact could be devastating in the months ahead. For more information see: [www.responsiblelending.org](http://www.responsiblelending.org).

## TECHNOLOGY

### Internet Changing the Home Buying Experience



Information is power, and home buyers have lots more of it these days, thanks to the Internet. The Internet has enabled home buyers to research the inventory of homes on the market easily and at their own convenience.

The sea change is leading many home buyers to think they may not need a real estate agent to make an offer, but it's not always the wisest course of action for unsophisticated home buyers.

“Hiring an experienced exclusive buyers agent (EBA) is a wise decision for home buyers who don't have the full array of skills needed in the purchase of a home,” noted American Homeowners Foundation President Bruce Hahn.

The Internet is also helping buyers better understand the process. Websites of independent nonprofit consumer education organizations, such as the American Homeowners Foundation ([www.AmericanHomeowners.org](http://www.AmericanHomeowners.org)) as well as federal and state governments, offer free objective information to help home buyers better understand the many nuances of home purchase.



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March  
Thought of the Month:

Just as a coin has

*two sides,*

recognize

that situations

also have

*two sides.*

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