

## December 2009 Archive

### Homebuyers are downsizing

WASHINGTON – Dec. 17, 2009 – Out of the depths of housing's worst downturn, smaller new homes are turning into a bright spot for some home builders.

The trend toward more compact new homes is being driven partly by the fact that more customers are first-time buyers who have less to spend.

Home builders are responding by offering smaller designs with features such as high ceilings and large windows that create a spacious feel and options that let buyers personalize the model they choose.

KB Home's smaller model helped it achieve a 62 percent increase in year-over-year net orders in the third quarter.

The trend cuts across the industry. The median square footage of new homes has dropped 9 percent from a peak of 2,300 square feet in the third quarter of 2006 to 2,100 square feet in the July-September period this year, according to data from the National Association of Home Builders (NAHB).

Housing size drops with each recession, but economists expect the current movement toward smaller homes to continue for some time in part because of the severity of the current housing market slump.

First-time buyers are driving the trend toward smaller homes because that is what they can afford, says David Crowe, chief economist at the NAHB.

As the economy improves, move-up buyers generally enter the market and begin buying larger homes. But this time, so many homeowners owe more on their homes than their properties are worth that many potential move-up buyers will be stuck even as the economy strengthens.

That means first-time homebuyers will still be buying smaller homes while larger homes will find fewer buyers.

"This downsizing is more sustainable," Crowe says. "The first-time buyer will continue to be a large part of the market because the move-up buyer will not have as much equity. It's going to take them awhile to climb out."

The NAHB doesn't keep data on the percentage of new home sales that are made by first-time home buyers, but about half of all home purchasers were first-time buyers in October, according to the National Association of Realtors.

For builders, smaller, less-expensive homes mean less profit. But the industry is already facing strong competition from a high supply of foreclosed homes selling at comparatively low prices.

A welcome change

Some analysts say the downsizing trend could be good news for builders.

"The appetite for smaller homes may be a welcome change for home builders as new home sales have been challenged in the past few years," says Tom Lydon, editor of ETF Trends, which

educates investors on fund choices and market trends.

Major home builders such as KB Home and Pulte Homes are responding to the shift in demand by offering more of the smaller properties.

At Pulte Homes, its most popular designs today are 100 to 200 square feet less than the most-popular plans in 2005-06.

So the lower-priced homes don't seem bare-bones to buyers, open floor plans and 9-foot ceilings provide a sense of roominess. Fireplaces are an option.

To hold down costs, Corian – a surfacing material created by DuPont – is a standard for kitchen counters instead of granite. Appliances are standard models instead of pricier stainless steel.

"It's not just making it smaller, it's maximizing the space in the home," says Caryn Klebba, a spokeswoman at Pulte Homes. "It's a 9- or 10-foot ceiling rather than a cathedral ceiling." Cathedral ceilings are 14 to 18 feet.

Getaway option

Smaller homes also are appealing as vacation homes.

Nancy Coronado, 55, a retired framer in an art gallery, has a large home in Whitehall, Mich., and bought a second Pulte home in Florence, Ariz., in March. The new home is about 1,400 square feet. "I have a big home in Michigan and didn't want another big home," she says. "I wasn't looking for that."

KB Home also has redesigned its homes to reflect the trend, because nearly 80 percent of its customers are first-time homebuyers.

Toll Bros., which builds luxury homes, says demand is down across the board, and not just for larger homes. Company officials say they, too, see an increased interest in smaller homes but believe that homebuyers will someday return to wanting larger properties.

Smaller homes, they say, reflect a down economy and tighter credit rather than an appetite for less space.

"We see the demand for smaller homes, but it's not as though there's huge demand for smaller homes but no demand for larger homes," says Kira McCarron, a spokeswoman for Toll Bros. "There is still a demand for luxury homes."

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## **Standoff ends: State Farm to remain in Fla.**

TALLAHASSEE, Fla. – Dec. 16, 2009 – The Florida Office of Insurance Regulation today announced that State Farm Florida has agreed to continue serving the Florida property insurance market.

Insurance Commissioner Kevin McCarty issued a consent order that resolves pending litigation between State Farm Florida and the Office of Insurance Regulation over the company's plan to abandon the state's property insurance market. By the terms of the consent order, State Farm Florida will remain a significant player in the Florida residential property insurance marketplace.

"This agreement is the product of a long and arduous negotiation process," says McCarty. "The final result is beneficial to the people of the State of Florida, and beneficial to the Florida insurance marketplace. The consent order satisfies the office's requirements issued in our order dated Feb. 13, 2009, and allows State Farm Florida to remain a viable insurer in the Florida market."

Under the terms of the consent order, State Farm Florida will drop no more than 125,000 policies. The insurer had 810,416 residential properties in Florida as of October 2009. Even after shedding the 125,000 policies, State Farm Florida should remain the largest private insurer of property in the Florida.

The consent order also grants State Farm a 14.8 percent rate increase for all homeowners' and condominium unit owners' policies. The Office of Insurance Regulation says the rate increase approval is based on information provided by State Farm.

The consent order concludes a series of events that began with Florida turning down a State Farm average rate hike request of 67.1 percent on Jan. 27, 2009. A few weeks later, State Farm announced that it would stop insuring property in the state. Recent news reports, however, indicated that the state, and to a lesser extent State Farm, had softened their stance on withdrawal.

"I would say this is a successful resolution of the problem," McCarty says. "Having State Farm in Florida is better than no State Farm at all. That continues to be our position."

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## **Homebuyers need a good credit score even with 20% down**

WASHINGTON – Dec. 15, 2009 – Five years ago, if your application for a mortgage included a 20 percent downpayment, your bank would have approved your loan by sundown and sponsored a parade in your honor.

But in this new era of tight credit, having a big downpayment no longer guarantees you'll qualify for a mortgage. Starting this week, mortgage finance giant Fannie Mae will require borrowers with a 20 percent downpayment to have a credit score of at least 620. Previously, the cutoff was 580.

Fannie Mae buys loans, providing an important source of financing for lenders. For that reason, its guidelines are considered the gold standard for mortgage loans. Most banks are expected to adopt the new standards, if they haven't already.

"Credit scores have never mattered quite as much as they do now," says Bob Walters, chief economist for Quicken Loans.

In addition, Fannie Mae won't approve loans for borrowers with a 20 percent downpayment if more than 45 percent of their gross monthly income goes toward debt. Fannie Mae didn't disclose the previous debt limit, but it was higher than 45 percent, says Fannie Mae spokesman Brian Faith.

The higher standards could frustrate buyers hoping to take advantage of low interest rates, depressed home prices and generous tax breaks that were recently extended until next spring. Even buyers who qualify for a mortgage may find that they're ineligible for the best rates because lenders have tightened their standards across the board, says Gerri Detweiler, credit

adviser for Credit.com.

If you've already found a home you'd like to buy, there's not much you can do to raise your score before you apply for a loan. But if you're just starting to tour open houses, there are steps you can take to improve your credit profile, including:

- Review your credit reports for errors. Go to [AnnualCreditReport.com](http://AnnualCreditReport.com) and order your credit reports from the three main credit-reporting bureaus: Experian, TransUnion and Equifax. You're entitled to a free credit report once a year from all three of the bureaus, but only if you go through this website.

Once you receive your credit reports, go through them and look for inaccurate information, such as accounts you never opened. All of the credit bureaus provide a process to dispute errors, says Craig Watts, spokesman for Fair Isaac, which created the widely used FICO score.

- Pay off credit cards and other debts. One of the factors used to calculate your credit score is your "credit utilization ratio," which measures the amount of credit you have outstanding vs. your total available credit. This ratio accounts for 30 percent of your score. Paying off balances will increase the amount of unused credit you have available, which will help your score.

But even if you've decided never to use credit cards again, don't close your accounts. Closing a credit card account won't help your credit score and could hurt it, Watts says. When you close an account, you reduce the amount of your available credit, which could hurt your credit utilization ratio.

- Avoid opening any new accounts. "Every new account you open is likely to drop your credit score, at least a little," Watts says.

#### Checking your score

When you order your free credit reports from [AnnualCreditReport.com](http://AnnualCreditReport.com), your credit scores aren't included; you'll have to pay a fee to get them.

In recent months, though, several services, such as Quizzle, Credit Karma and Credit.com have launched programs that provide free credit profiles. These websites can provide a useful snapshot of your credit standing and provide tips on how to improve it, Detweiler says.

If you're planning to buy a home a year from now, she adds, it doesn't make sense to spend a lot of money to buy scores that could change by the time you apply for a loan.

But house hunters who plan to apply for a loan in the next few weeks should know their actual FICO scores, because that's the score most potential lenders use, Detweiler says.

You can buy your FICO score and credit report from TransUnion and Equifax at [www.myfico.com](http://www.myfico.com) for \$15.95 each.

Earlier this year, Experian stopped selling to consumers the FICO scores it provides lenders, Watts says. You can buy a credit score based on Experian's own scoring model for \$15 at [www.experian.com](http://www.experian.com). Experian's website also promotes a "free credit report and score," but to get this deal, you must enroll in a credit-monitoring service that costs \$14.95 a month.

## **Cities with the most overpriced properties**

ORLANDO, Fla. – Dec. 7, 2009 – Despite having no luck selling their properties, homeowners in some parts of the country have clung tenaciously to their notions of the value of their homes.

Forbes magazine ranked markets it considered the most overpriced based on the ratio of the median initial list prices compared to the median list prices at the time the properties actually sold. It also factored in how long the properties stay on the market.

In addition, the magazine considered expert forecasts of price increases in the areas, which could be what encourages homeowners to price high.

The top 10 areas where Forbes found the most over-priced properties were:

1. Orlando
2. Miami-Fort Lauderdale-Pompano Beach
3. Jacksonville, Fla.
4. Baltimore-Towson
5. Chicago-Naperville-Joliet
6. San Antonio, Texas
7. Denver-Aurora
8. Tampa-St. Petersburg-Clearwater
9. Indianapolis-Carmel
10. Austin-Round Rock

Source: Forbes, Francesca Levy (12/03/2009)

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## **Fla. 2009 Profile of Homebuyers and Sellers**

ORLANDO, Fla. – Dec. 4, 2009 – The real estate market constantly evolves, and Realtors must continually have a clear picture of today's homebuyers and sellers. The "2009 Profile of Homebuyers and Sellers, Florida Report" describes the characteristics and motivations of the state's recent homebuyers and sellers.

The complete 211-page report, compiled by the National Association of Realtors, is available on the research page of [floridarealtors.org](http://www.floridarealtors.org/Research/Index.cfm) at: <http://www.floridarealtors.org/Research/Index.cfm>

### **Highlights:**

#### **Characteristics of homebuyers**

- Forty-one percent of recent homebuyers were first-timers, compared to 47 percent nationwide.
- The typical first-time homebuyer was 31 years old, while the typical repeat buyer was 54 years old. Nationwide, first-time buyers were typically 30 and repeat buyers were typically 48 years old.
- The 2008 median household income of buyers was \$71,100 – lower than the median income of buyers nationwide at \$73,100.
- The median income was \$59,300 for first-time buyers and \$83,300 for repeat buyers.
- Single females made up 18 percent of recent homebuyers, and single males made up 11 percent. Nationwide, 21 percent were single females, and 10 percent were single males.
- For 29 percent of buyers, a desire to own a home was the primary reason for the home purchase.

#### **Characteristics of homes purchased**

- New home purchases dropped to their lowest level in eight years nationwide –18 percent of all

recent home purchases. But in Florida, new homes made up 26 percent of purchases.

- The typical home purchased was 1,850 square feet in size and built in 2000.
- Seventy-eight percent of homebuyers purchased a detached single-family home.
- The median price of a Florida home purchased was \$176,500, compared to \$185,000 nationwide.
- Three in four buyers (77 percent) considered commuting costs as "very" or "somewhat" important.

### **The home search process**

- More than one-third of homebuyers started their home search process by looking online for listings.
- Seventy-five percent of buyers used the Internet to search for homes.
- Buyers had a high opinion of real estate agents, with 81 percent of those who used an agent saying they received very useful information.
- The typical homebuyer searched for 12 weeks and viewed 15 homes, compared to 12 weeks and 12 homes nationwide.

### **Homebuying and real estate professionals**

- Sixty-seven percent of buyers purchased their home through a real estate agent or broker.
- Sixteen percent of buyers purchased a home in foreclosure. Nationally, 10 percent of buyers purchased a home in foreclosure.
- Thirty-nine percent of buyers found their agent through a referral from a friend or family member.
- Sixty-four percent of buyers would definitely use their real estate agent again or recommend the same agent to others.

### **Financing the home purchase**

- Florida had more cash sales, with 81 percent of buyers financing their recent home purchase. Nationwide, 92 percent financed their recent home purchase.
- The typical buyer financed 93 percent of the home purchase price.
- Nearly half (45 percent) of homebuyers reported they made some sacrifices to buy the home, such as reducing spending on luxury items, entertainment or clothing.
- Thirty-one percent of first-time buyers reported their mortgage application and approval process was "somewhat" more difficult than they expected, and about one-in-ten reported it was "much more" difficult than expected.

### **Home sellers and their selling experience**

- Real estate agents assisted 85 percent of sellers in Florida, the same percentage nationally.
- Recent sellers typically sold their homes for 93 percent of the listing price, and 65 percent reported they reduced the asking price at least once. Among all sellers nationally, sellers typically sold their homes for 95 percent of the listing price, and 60 percent reported they reduced the asking price at least once.
- Forty-two percent of sellers offered incentives to attract buyers, most often assistance with home warranty policies and closing costs.

### **Home selling and real estate professionals**

- Thirty-four percent of sellers who used a real estate agent found their agents through a referral by friends or family, and 24 percent used the agent they worked with previously to buy or sell a home.
- Eighty-six percent of sellers reported that their home was listed or advertised on the Internet.
- Among recent sellers who used an agent, 84 percent reported they would definitely (57 percent) or probably (27 percent) use that real estate agent again or recommend that person to others.

### **For-Sale-by-Owner (FSBO) sellers**

- FSBOs made up 10 percent of Florida sales, which is slightly less than the national rate of 11 percent.
- Almost half of the FSBO sellers (40 percent) knew the buyer prior to the home sale.
- If a seller wasn't dealing with a buyer he already knew, the primary reason (62 percent) for going FSBO is that the seller did not want to pay a fee or commission.
- Over half of FSBO sellers took no action to market their home, and 58 percent did not offer any incentives to attract buyers.
- Fifteen percent of FSBO sellers reported that completing a transaction within their planned timeframe was the hardest part of selling their home.

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### **Fed economic report: Florida recovery lags**

ATLANTA – Dec. 3, 2009 – The national economy is perking up, even as Florida and the Southeast continue to struggle with a weak job market, depressed lending and a gloomy commercial real estate sector, the government said Wednesday.

The economic snapshot was provided in the Beige Book – a compilation of economic anecdotes from the nation's 12 Federal Reserve districts.

While the report found that in eight out of the 12 districts "economic conditions have generally improved," four others – including the Atlanta District, which serves Florida – reported mixed economic news.

The bright spots in the Southeast: "The majority of retailers described activity as exceeding their modest expectations," and new and used home sales were seen as improving, particularly in the lower-priced category.

Otherwise, the report painted a picture of continued weakness.

Manufacturers said orders were down, car sales have slipped since the days of the "cash for clunkers" program and "commercial real estate conditions were widely characterized as weak and, in many cases, deteriorating further," the report found.

Of particular concern for Florida's business community, banks said they were maintaining tight lending standards as they focus on repairing their balance sheets.

"Some financial contacts commented that increased lending was not anticipated given the current economic environment," the report found.

The Beige Book is produced eight times a year, usually a few weeks before the Federal Reserve Open Market Committee meets to set monetary policy. Federal Reserve Chairman Ben Bernanke has suggested the government will keep interest rates low to spur the economic recovery.

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### **Flood insurance program awash in red ink**

WASHINGTON – Dec. 1, 2009 – Federal flood insurance has long been cheap in Florida, at least in comparison to private and state windstorm coverage. That may not last.

With the National Flood Insurance Program running some \$17 billion in the red after Hurricane Katrina losses, federal budget watchers have expressed growing concerns about its financial stability and rate structure.

The stakes for Florida, with 2.2 million policies, are considerable.

"It's called national flood insurance, but in reality if you take Florida and Texas, you're talking about more than half of the program," said Erwann Michel-Kerjan, a risk management expert at the Wharton School of Business at the University of Pennsylvania who authored a recent study on the flood rates in Florida.

A Government Accountability Office report in October 2008 singled out FEMA's policy of grandfathering in older, more vulnerable properties at lower rates, calling it a subsidy that could force taxpayers to again bail out storm victims in another Katrina-like catastrophe. Florida has most of those properties.

FEMA spokesman Clark Stevens said paying down Katrina debts did not factor into a rate hike announced in October. He would not say if the agency was considering annual hikes, capped at 10 percent, or other overhauls.

But congressional panels are pondering options. Among them: Phasing out grandfathering, raising rates for high-risk properties, requiring multiyear policies. Michel-Kerjan said the government could also forgive the Katrina debt.

"It's a touchy subject. At some point, we will have to make a political decision."

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