

## June 2010 Archive

### **Economic effects of oil spill cut Florida's consumer confidence**

GAINESVILLE, Fla. – June 30, 2010 – The impact of the gulf oil spill combined with lingering overall economic malaise has Floridians feeling worse off than they did a year ago, according to a new University of Florida (UF) survey.

Consumer confidence fell three points in June to 67, but the biggest decline of all components in the survey was in perceptions of personal finances now compared with a year ago. That measure fell nine points to 45. Perceptions of personal finances one year from now fell four points to 75.

"We had expected consumer confidence to decline due to the effects of the oil spill," says Chris McCarty, survey director of the Bureau of Economic and Business Research. "What we did not expect was the main effect to be in the components measuring perceptions of personal finances both now and in the future. The decline in the personal finance questions suggests that on top of the weak recovery, the oil spill has caused some real economic pain, such as through jobs related to tourism and perceptions of lower property values."

Perceptions of U.S. economic conditions over the next year fell two points to 64, while perceptions of U.S. economic conditions over the next five years fell two points to 70. Perceptions as to whether it is a good time to buy big-ticket items that often require credit or loans fell one point to 79.

Overall economic news for Floridians has been mixed, McCarty says. Prior to the oil spill, housing sales had been fairly strong and prices for lower-priced homes appeared to have hit a bottom. Home sales, particularly of new homes, slipped dramatically as the tax rebates ended in April.

Unemployment in Florida registered its second straight decline of 0.3 percent and is now 11.7 percent. This is still historically high, and many of the declines may be due to temporary Census hires, which will disappear after June.

"The economic effects of the oil spill are only now starting to show up in the data, although they have been known to residents and businesses along Florida's west coast for nearly two months," McCarty says. "It is likely that sales tax revenues, already down from the recession, will decline further as tourists put off trips. This will inevitably translate to a budget deficit in next year's legislative session, which promises to be more difficult than the one that just ended."

McCarty predicts that recent losses in consumer confidence are unlikely to regain until the leaking oil is stopped and the spill's short- and long-term effects are known. "We should expect confidence, and therefore retail sales, to be anemic through the summer and perhaps well into the fall," he says.

The research center conducts the Florida Consumer Attitude survey monthly. Respondents are 18 or older and live in households telephoned randomly. The preliminary index for June was collected from 435 responses.

© 2010 Florida Realtors®

---

### **Foreclosures: One-third of Fla. sales**

WASHINGTON – June 30, 2010 – According to a new report from RealtyTrac, foreclosure homes accounted for 31 percent of all residential sales in the first quarter of 2010. Additionally, the

average sales price of properties sold while in some stage of foreclosure was nearly 27 percent below the average sales price of properties not in the foreclosure process.

A total of 232,959 U.S. properties in some stage of foreclosure – default, scheduled for auction or bank-owned (REO) – sold to third parties in first quarter 2010, a decrease of 14 percent from the previous quarter and down 33 percent from the peak during the first quarter of 2009, when sales of foreclosure homes accounted for 37 percent of all residential sales.

“First-time homebuyers and investors continue to buy foreclosure properties in large numbers and at substantial discounts,” says James J. Saccacio, chief executive officer of RealtyTrac. “As lenders have begun repossessing homes at record levels over the first half of 2010, it will be interesting to watch how they will manage the inventory levels of distressed properties on the market in order to prevent more dramatic price deterioration.”

The average sales prices on properties in some stage of foreclosure decreased 23 percent from 2006 to 2009, while the average discounts on foreclosure purchases steadily increased from 21 percent in 2006 to 27 percent in the first quarter of 2010. Discounts on REOs are larger than discounts on pre-foreclosures, although discounts on pre-foreclosures appear to be trending higher as short sales become more common.

Also from the RealtyTrac report:

- Foreclosure sales increased 2,500 percent from 2005 to 2009.
- More than 1.2 million U.S. properties in some stage of foreclosure sold to third parties in 2009, an increase of 25 percent from 2008 and an increase of nearly 327 percent from 2007.
- Total foreclosure sales in 2009 were up more than 1,100 percent from 2006.
- Foreclosure sales accounted for 29 percent of all sales in 2009, up from 23 percent in 2008 and up from 6 percent in 2007.
- The average sales price of properties that sold while in some stage of foreclosure in 2009 was 25 percent below the average sales price of properties not in the foreclosure process. That was up from an average discount of 22 percent in 2008 but down from an average discount of 26 percent in 2007.
- The average foreclosure discount in 2005 was 35 percent, driven by a nearly 50 percent discount on REOs; however, the discount on pre-foreclosures trended up slightly over the same five-year period, from nearly 12 percent in 2005 to 15 percent in 2008 and 2009.
- Nevada, California, Arizona posted the highest percentage of foreclosure sales in the first quarter. Foreclosure sales accounted for 64 percent of all sales in Nevada in the first quarter, the highest percentage of any state. California posted the second highest percentage, with foreclosure sales accounting for 51 percent of all sales there in the first quarter – up slightly from 50 percent in the previous quarter but down from 70 percent of all sales in the first quarter of 2009. Foreclosure sales as a percentage of all sales were also down in Arizona from the first quarter of 2009, but the state still posted the third highest percentage in the first quarter, with foreclosure sales accounting for 50 percent of all sales.
- Other states where foreclosure sales accounted for at least one-third of all sales were Massachusetts, Rhode Island, Florida, Michigan, Georgia, Illinois, Idaho and Oregon.

## **Buyers drive hard bargains in a tough market**

NEW YORK – June 29, 2010 – Unrealistic buyers are ruining the deal for sellers who are unwilling to make extreme concessions, some real estate practitioners complain.

“We see buyers who must have learned their moves from the World Wrestling Federation,” says Glenn Kelman, CEO of the online brokerage Redfin. “They think the final smack-down occurs at the inspection, where the seller will be reluctant to refuse any demand because the alternative is putting the house back on the market as damaged goods.”

But buyers say they’re simply being smart.

“We had the position, ‘If the seller is willing to come down enough, we will buy this home,’” says Chris Dunn, a consultant in Chicago, who sought a 10 percent reduction on a property priced at more than \$500,000. “If they weren’t willing, we would have just moved on. In this market, you have a lot of options.”

Source: The New York Times, David Streitfeld (06/17/2010)

© Copyright 2010 INFORMATION, INC. Bethesda, MD (301) 215-4688

---

## **Congress’ flood insurance lapse strands residents, home sales**

BOCA RATON, Fla. – June 28, 2010 – Real estate broker Jess Acevedo expected a good month in June with the first-time homebuyer credit about to expire, but now 14 deals he carefully shepherded to closing are on hold because Congress has failed to reauthorize the National Flood Insurance Program.

Among them is a Boca Raton couple with three children who were set to close Friday on a four-bedroom, two-story foreclosure. Now they are stuck in limbo, worried that their tax-credit window is closing, Acevedo said.

“They’re all frustrated,” he said.

With hurricane season upon us, it could not be a worse time of year for Floridians to be without flood insurance.

The National Association of Realtors estimates that for each day Congress delays, 1,400 sales are tied up. In Florida, it’s affecting about 175 deals a day.

The flood insurance program expired May 31. Since then, some lenders have been willing to accept binders, or promises, to write flood insurance policies as soon as Congress reauthorizes the program. But others are refusing to allow deals to go through without insurance.

U.S. Rep. Ted Deutch, D-Boca Raton, who voted to reauthorize the program, said Congress’ delay has brought an already weak real estate market to a “total standstill.”

“To say that Florida’s economy is in a fragile state would be an understatement,” he said. “In this

uniquely perilous economy, if someone is prepared to buy a new home, they should be able to buy it.”

The halt in flood insurance isn't affecting only homebuyers.

People living in flood zones whose insurance has expired also are beginning to panic.

“It's hurricane season, and millions of people are going to be affected if there's a big hurricane,” said Roger Bash of Palm Beach Gardens.

Bash paid to have his insurance renewed more than a month ago. Last week he got a letter from Allstate saying the company could not write a new policy. All he can think about are the Louisiana residents caught without flood insurance when Hurricane Katrina roared in.

He wonders how Congress could allow so many citizens to be at risk.

Between September 2003 and September 2004, when four hurricanes slammed the state, Florida residents filed 21,758 flood insurance claims.

The National Flood Insurance Program was jammed into a controversial \$110 billion jobs package designed to extend unemployment benefits. House members stripped the insurance provision into a separate bill and passed it this week. But senators, who shot down the jobs bill, left for the weekend without taking up the insurance bill.

Florida Insurance Commissioner Kevin McCarty has called Congress' delay “irresponsible.”

Bill Richardson, president-elect of the Realtors Association of the Palm Beaches, is one of the lucky ones who said his business hasn't slowed because of the lack of flood insurance. He's seen plenty of commercial real estate deals go through with a binder.

About 1,000 deals slated to close in June in Palm Beach County will need flood insurance or a binder, Richardson said.

And if Congress doesn't act soon, he expects more lenders could balk and refuse to accept binders.

“There are a lot of deals on the table,” he said.

Copyright © 2010 The Palm Beach Post, Fla., Laura Green. Distributed by McClatchy-Tribune Information Services.

---

## **Find out which U.S. cities are growing fastest**

WASHINGTON – June 24, 2010 – The U.S. Census Bureau has released its most recent population estimates for the nation's incorporated places, including cities, boroughs, and villages. It's the final estimate based on updated 2000 census numbers; the first 2010 U.S. census counts will be used after April 1, 2011. The current report covers changes from July 1, 2008, to July 1, 2009.

The numbers reverse decades of growth in the Sunshine State. Only Tampa and Orlando saw gains of more than 1 percent. No Florida city ranked above 75 in the list of top 100 growth areas and only Orlando made the list at all.

Some of the fastest growing cities during the real estate boom showed the greatest declines. Cape Coral, for example, ranked No. 6 for biggest declines; a few years ago, it hit the top 10 for growth.

"The big story is that, in the early part of this decade, we were near record levels," says Stanley K. Smith, head of the University of Florida's Bureau of Economic and Business Research. Smith said. "But what we're seeing now is the most dramatic decline since World War II. And it's because of the economic collapse. People are just not coming to Florida like they used to."

© 2010 Florida Realtors®

---

## **Fed holds interest rates steady**

WASHINGTON – June 24, 2010 – Americans showed far less appetite to buy new homes last month after the government stopped offering a homebuyer tax credit. The news signaled a renewed housing slump that threatens the broader U.S. economy.

Sales of new homes fell in May to their lowest level on record, plunging 33 percent from the month before. The bleak data followed a report earlier this week that sales of existing homes dipped, too.

The Federal Reserve, mindful of the fragility of the housing market, struck a more cautious tone Wednesday in its read on the economy. It said only that the recovery is "proceeding." It had previously said the rebound was strengthening.

The Fed repeated its pledge to hold interest rates at record lows to fuel economic growth. That has helped keep mortgage rates down, but even ultra-low rates couldn't overcome the chilling effect on new-home sales caused by the end of the tax credits.

The government offered up to \$8,000. To qualify, buyers had to sign a contract by April 30.

"We all knew there would be a housing hangover from the expiration of the tax credit," wrote Mike Larson, real estate and interest rate analyst at Weiss Research. "But this decline takes your breath away."

High unemployment and slow job growth are weighing on the housing market as well. Fed Chairman Ben Bernanke has expressed confidence that the nation won't fall back into a "double dip" recession. At the same time, the recovery remains vulnerable, and one of the chief threats is the real estate market.

New-home sales for May came in at a seasonally adjusted annual sales pace of 300,000, the Commerce Department said Wednesday. That was the slowest in the 47 years records have been kept. And it was the largest monthly drop on record. Sales have now sunk 78 percent from their peak five years ago.

The broader economy is feeling the impact. The drop in new-home sales means fewer jobs in the construction industry, which normally powers economic recoveries. This time, construction has remained lackluster.

Each new home built creates roughly three jobs for a year and generates an average of \$90,000 in taxes, homebuilders say. The effect extends to other industries, from lumber yards to makers of kitchen faucets.

The discouraging report on housing “really speaks to the sustainability of the economy without stimulus” from the government, said Wells Fargo Securities economist Anika Khan. “We are still very much in the nascent stages of the recovery.”

Buyers who signed sales contracts by the April 30 deadline have until June 30 to close on their purchases and qualify for the tax credit. Because the new-home sales report measures contracts to buy homes, it offers a glimpse of what the housing industry will endure throughout the summer.

Michael Sivage, CEO of Sivage Homes, which builds homes in Albuquerque, New Mexico, and San Antonio, Texas, said, “We had a really strong start for the year, but then when April 30th hit, it was almost like turning off the spigot.”

Homebuyers’ sentiment has shifted over the past year as prices have stabilized, said Rick Porter, president of Atlanta builder Richport Properties.

“They have determined that there’s good value in housing right now,” he said. But he added that potential buyers are still concerned about their finances and are being cautious about making a major decision.

“We don’t have them on the sidelines waiting for prices to fall,” Porter said. “They’re on the sidelines waiting for the economy to stabilize.”

Unlike new homes, sales of previously occupied homes are recorded not when a contract is signed but when a sale closes. That can sometimes take two months.

That’s why there were expectations this week for strong sales of previously occupied homes through June. But the 2.2 percent drop in May from the previous month showed the entire industry is weakening.

New-home sales fell nationwide from April’s levels. They dropped 53 percent from a month earlier in the West and 33 percent in the Northeast. Sales dropped 25 percent in the South, 24 percent in the Midwest.

Builders sharply scaled back construction after the housing market bust. The number of new homes up for sale in March fell to the lowest level in nearly 40 years. But the sluggish sales pace in May means it would still take eight and a half months to exhaust that supply. A healthy level is about six months.

The median sales price in May was \$200,900. That was down 9.6 percent from a year earlier and down 1 percent from April.

New-home sales made up about 7 percent of the housing market last year. That’s down from about 15 percent before the bust. Demand for new homes has slumped, partly because builders have been forced to compete with foreclosed properties that sell at steep discounts.

One bright spot emerged Wednesday from a survey of corporate executives. It found the number of CEOs planning to ramp up hiring has reached its highest point since mid-2007.

The Business Roundtable, an association of CEOs of big U.S. companies, said its survey shows 39 percent of chief executives expect to boost their payrolls in the second half of 2010. Only 17 percent say jobs will drop. About 43 percent expect no change in the size of their work force.

© 2010 The Associated Press, Alan Zibel, AP business writer. All rights reserved. This material may not be published, broadcast, rewritten or redistributed. AP Business Writers Tali Arbel in New York, Jeannine Aversa in Washington and Alex Veiga in Los Angeles contributed to this report.

---

## **New flood insurance program considered**

WASHINGTON – June 23, 2010 – The National Flood Insurance Program (NFIP) went on hiatus May 31. Until today, the best hope for an extension was an amendment that U.S. Senators attached to a much larger bill; however, other items within that larger bill weighed it down.

But the U.S. House approved H.R. 5569, a new bill, this morning. H.R. 5569 extends NFIP through Sept. 30, 2010, and makes it retroactive to May 31, 2010. As a stand-alone bill, H.R. 5569 allows NFIP to be considered on its own merits. It now goes to the Senate for a vote.

"The National Association of Realtors is pushing U.S. Senate leadership to quickly take this up and pass it," says Florida Realtors Vice President of Public Policy John Sebree.

The House-Senate negotiation process is not always smooth, but once they agree on a version, the bill goes to President Barack Obama to be signed into law. It's not yet clear whether the Senate will agree to pass H.R. 5569 or continue to consider an NFIP extension through the larger bill's amendment.

Even if the Senate approves H.R. 5569, Realtors have a continued interest in passage of the larger bill because another amendment extends the homebuyer-tax-credit closing past its current June 30 deadline.

Florida Realtors News will report any NFIP reauthorization updates.

© 2010 Florida Realtors®

---

## **Dealing with IRS tax credit rejections**

WASHINGTON – June 18, 2010 – The IRS has been rejecting first-time homebuyer claims from anyone who shows a Form 1098 Mortgage Interest Expense in their prior year files.

In many cases, the applicants are entitled to the credit because their previous mortgage interest deduction is for a timeshare, mobile home, boat or other recreational property.

If you have a client in this unfortunate position, here is some advice from Enrolled Agent Eva Rosenberg, who authors the Web site TaxMama.com.

- Respond to the IRS immediately and tell them why their rejection is wrong. Be prepared to prove that the mortgage the IRS is seeing isn't on a personal residence. First-time homebuyers are entitled to own other types of real estate and still get the homebuyers credit, so provide proof that the previous mortgage was on something else.
- Send a letter explaining the situation and providing proof of a previous rental or other non-ownership living situation, including copies of rental contracts for the last three years, an old driver's license showing that address, utility bills, etc.
- Homebuyers who believe the IRS may view their situation in this way should be proactive, providing proof that they are a first-time buyer when they initially file for the credit.

- Anyone who is rejected after two attempts to explain the problem to the IRS should call the Taxpayers Advocate Service toll-free, (877) 777-4778, their Congressman, and their Senator, Rosenberg advises.

Source: TaxMama.com, Eva Rosenberg, EA (06/16/2010)

© Copyright 2010 INFORMATION, INC. Bethesda, MD (301) 215-4688

---

## **Home size declines; buyers opt for single story**

WASHINGTON – June 15, 2010 – The size of new single-family homes declined again in 2009, dropping to a nationwide average of 2,438 square feet, according to information about new home characteristics released recently by the U.S. Census Bureau

(<http://www.census.gov/const/www/charindex.html>).

For nearly 30 years, the average size of new U.S. homes increased, peaking at 2,521 square feet in 2007. It was essentially flat in 2008 and then dropped, so that new single-family homes were almost 100 square feet smaller in 2009 than in 2007.

"We also saw a decline in the size of new homes when the economy lapsed into recession in the early 1980s," says National Association of Home Builders (NAHB) Chief Economist David Crowe. "The decline of the early 1980s turned out to be temporary, but this time the decline is related to phenomena such as an increased share of first-time home buyers, a desire to keep energy costs down, smaller amounts of equity in existing homes to roll into the next home, tighter credit standards and less focus on the investment component of buying a home. Many of these tendencies are likely to persist and continue affecting the new home market for an extended period."

In keeping with their slightly smaller size, new single-family homes completed in 2009 had fewer bedrooms than previously. After increasing for almost 20 years, the proportion of single-family homes with four bedrooms or more topped out at 39 percent in 2005; it was 34 percent last year. The proportion of single-family homes with three bedrooms increased from 49 percent to 53 percent between 2005 and 2009.

New single-family homes completed last year also had fewer bathrooms. The proportion of homes with three or more bathrooms was 24 percent last year, a decline from the peak of 28 percent in both 2007 and 2008. The percentage of single-family homes with two bathrooms increased from 35 to 37 percent last year, and the percentage with 2 or 2 ½ bathrooms was at 31 percent for the third consecutive year. The proportion of single-family homes with 1 or 1½ bathrooms has been below 10 percent for more than a decade.

In 1973, the first year for which the Census Bureau reports characteristics of single-family homes completed, most new single-family homes – 67 percent – had only one story. Twenty-three percent had two or more stories, and 10 percent were split-levels.

The proportion of one-story homes declined steadily for more than three decades, dropping to a low of 43 percent in 2006 and 2007. At the same time, the proportion of single-family homes with two or more stories increased, rising from 23 percent in 1973 to a high of 57 percent in 2006 (split level homes currently account for less than one percent of all single-family homes). Since 2006 the trends have been reversed, as the share of single-family homes with one-story increased to 47 percent last year, while the share with two or more stories dropped to 53 percent.

## Regional differences in completed single-family homes

- In 1973, less than half of all new single-family homes completed had air conditioning; in 2009, 88 percent were air conditioned nationwide. Regionally, the proportion ranged from a low of 69 percent in the West to a high of 99 percent in the South. The Northeast and Midwest were at 75 percent and 90 percent, respectively.
- Nationwide, 62 percent of new single-family homes completed in 2009 had two-car garages, and 17 percent had garages for three or more cars. However, there were clear regional differences. Three-car garages were found in only about 11 percent of homes in the Northeast and the South. In the Midwest, 30 percent of all homes had three-car garages, and in the West, 26 percent.
- Regional differences were especially pronounced in the selection of exterior wall material. Nationwide, 34 percent of all single-family homes completed in 2009 homes had vinyl siding, 23 percent were brick, 19 percent were stucco, and 13 percent had fiber cement siding.
- Vinyl siding predominates in the Northeast, where it accounted for 74 percent of the market; wood was a distant second with a 12 percent market share. In the Midwest, vinyl siding accounted for 62 percent of the market while wood and brick were at 15 percent and 11 percent, respectively.
- Brick was the leader in the South, where it was found in 40 percent of new single-family homes. Twenty-eight percent of new homes in the South had vinyl siding and 13 percent had stucco.
- The Census Bureau began reporting statistics on fiber cement siding, which is relatively new to the market, in 2005. It already accounts for 24 percent of the market in the West. Stucco and wood account for 52 percent and 15 percent of the market, respectively, in that region.

© 2010 Florida Realtors®

---

## **State-backed Citizens Property Insurance grows**

TALLAHASSEE, Fla. – June 15, 2010 – In the past four months, Citizens Property Insurance grew by 107,511 new policies.

The expansion – from 1,026,597 policies on Jan. 31 to 1,134,108 policies on June 11 – is considered the largest growth in several years for state-backed Citizens, Florida's largest property insurer, and it may signal a shift for the insurer, which legislators have tried shrinking in recent years.

The growth is largely due to the recent demise of two insurers that have taken on more than 100,000 Citizens policies in recent years: Magnolia Insurance in Coconut Grove and Northern Capital Insurance in Miami and its former subsidiary Landmark One Insurance. The companies have been liquidated by the state.

The Office of Insurance Regulation also recently approved allowing four insurers to return a combined 23,700 policies to Citizens: 13,506 for Sunshine State Insurance, 3,978 for Argus Fire & Casualty Insurance, 3,717 for First Home Insurance and 2,500 for Homeowners Choice Property & Casualty.

A fifth insurer also indicated it would ask to return about 2,000 policies.

A state program aimed at encouraging companies to take over Citizens policies rewarded eligible companies in past years with bonuses for doing so. Under that program, First Home received \$5.2 million in 2009 and Argus received more than \$1.9 million for policies they took from Citizens three years before.

HomeWise Preferred Insurance Co., which also took Citizens policies, plans to drop 10,000 policies when they are up for renewal and transfer the rest of its roughly 100,000 policies to an affiliate, HomeWise Insurance Co.

Citizens is also expected to grow as State Farm drops 125,000 residential policies starting in August.

State Farm, which had planned to prevent its agents from transferring policies the company dropped to other private insurers, agreed to allow agents to do so as part of a recent agreement with regulators. The impact on Citizens is unclear.

Mike Sunberg, co-owner of Barkley Insurance in Fort Lauderdale, said private insurers want to snag some of those policies. He said his agency moved about half of the roughly 400 policies it services that were covered by Magnolia and Northern Capital to private insurers and the rest to Citizens.

But it wasn't easy. "We had over 400 policies we had to rewrite by May 30 and we had one month's notice," Sunberg said.

Copyright © 2010 Sun Sentinel, Fort Lauderdale, Fla., Julie Patel. Distributed by McClatchy-Tribune Information Services.

---

## **Mortgage fraud risk index highest since 2004**

WASHINGTON – June 9, 2010 – Interthinx released its quarterly Mortgage Fraud Risk Report that covers data collected during the first quarter of 2010. The report includes an overall analysis of national mortgage fraud risk and a closer look at the four most common types.

Based on the most current data available, overall fraud risk has increased by 4 percent from the previous quarter and 11 percent from the same quarter a year ago to 151 (n = 100). It's the first time since 2004 that the index exceeded 150.

Major findings include:

- Arizona surpassed California as the state with the highest fraud risk, possibly because of a migration from neighboring Nevada similar to that which occurred in 2004 to 2006. Nevada remains in second place with California, Florida and Michigan rounding out the top five.
- After a brief dip in the last quarter, property valuation fraud risk resumed an upward trend that began in fourth quarter 2007, and it remains the primary driver of the index.
- Identity fraud risk and employment/income fraud risk are both up around 10 percent from the last quarter. The rise in employment/income fraud risk strengthens evidence that it's starting an upward trend after a long period of decline.
- Occupancy fraud risk – buyers saying they plan to live in a property when they do not – is down by 11 percent, a sharp reversal from last quarter's rise of 16 percent. Still, it's likely that

fueled by plentiful inventories and the expected release of "shadow" foreclosure inventory, this index will trend upward in the near future.

Interthinx Inc. ([www.interthinx.com](http://www.interthinx.com)), a Verisk Analytics subsidiary, is a national provider of risk mitigation and regulatory compliance tools for the financial services industry.

© 2010 Florida Realtors®

---

## Should you buy or rent?

WASHINGTON – June 7, 2010 – To rent or to buy? For millions of Americans, that is the question. The recent housing boom and subsequent bust seem to provide a clear answer – that given an affordable mortgage, we would all rather be buyers.

With the piercing clarity that is 20-20 hindsight, many people burned by the mortgage market may now think differently. After all, you can't be foreclosed on if you don't own in the first place. For them, renting has become not only the smart move, but also the sensible one.

"Many Americans are questioning if homeownership is an inherent element of their dream," says Tara-Nicholle Nelson, real estate consumer advocate for real estate website Trulia.

Part of that dream is also based on economic common sense. Besides stability and status, owning a home can help build equity, improve credit ratings, and be a tax deduction. Given these benefits, the dream of homeownership is hard to give up. Much as sales of pickups and SUVs are rebounding, Americans seem to need only the slightest nudge to jump back into the housing market. In April, sales of existing homes rose 7.6 percent nationwide, according to the National Association of Realtors. For new homes, sales surged 14.8 percent, according to the National Association of Home Builders.

### Measuring rents vs. sales prices

In some markets, however, people are better off renting. That's because in these areas, the cost of buying a new home is still prohibitive, especially given tighter lending standards. To determine which urban areas are best for renters and which are best for buyers, Trulia surveyed the country's 50 largest cities.

"We took current list prices of the average cost to rent or own a two-bedroom apartment, condo, or town home in a city and divided it by one year's rents," says Nelson. Trulia broke the data into three categories and scored each city on a price-to-rent ratio ranging from 1 up to more than 21. If the price-to-rent ratio is between 1 and 15 – that is, if the price to buy is only one to 15 times prevailing rents – it's much less expensive to own than to rent. If the ratio is between 16 and 20, owning a home is more expensive but might still make financial sense, depending on the individual situation. If the ratio is higher than 21, the total costs of owning a home are much greater than the costs of renting.

With a price-to-rent ratio of 33, New York City is highest on the list. The average cost to rent a two-bedroom apartment was \$3,537 and to buy a comparable unit was \$1,383,612. The next highest city, Omaha, came in at 26, where the average cost to rent a two-bedroom was \$870 and to buy was \$275,844. At the opposite end of the spectrum, with a price-to-rent ratio of 8, is Minneapolis, where an average two-bedroom unit rented for \$1,699 and sold for \$153,843.

Of course, more expensive, high-end homes are on the market in Minneapolis, but "you can own a house [here] very easily for less than you pay for rent," says Aaron Dickinson, a broker at

Edina Realty in Plymouth, Minn.

### **Some rebounding sales prices**

Dickinson says prices in many areas are still below peak levels and may have hit bottom – prices have been increasing the past four months after falling for more than 40 months, according to the Minneapolis Area Association of Realtors. One of the most dramatic changes came in North Minneapolis, where the median sale price in April jumped 171 percent year-on-year, to \$64,000, he says. It is one of the city's older neighborhoods, adjacent to downtown, with smaller homes targeted for first-time buyers. Dickinson adds that the area was hit badly by foreclosures, so the resurgence is relative.

Even in a city as expensive as New York, some argue now is the best time to buy. Neil Binder, principal of the Bellmarc Companies, says that for those who can afford to own, renting is not the better option. "Not with 5 percent interest rates. If we had a different market, and prices were higher, and interest rates were higher, it would be a different story."

### **Don't be shy about negotiating**

For the millions of New Yorkers who can't afford to buy, or choose not to, renting in the city offers other advantages. Many developers overbuilt during the boom; rather than be stuck with empty apartments, many have been willing to negotiate rent reductions and shorter leases. According to Miller Samuel, the average rental for two-bedroom units in Manhattan dropped 6.6 percent year-on-year in this year's first quarter, although brokers expect overall rental prices to stabilize for the remainder of the year.

Of course, many considerations other than price are involved – many see the flexibility of renting as a major advantage. Beth Sievers, a sales representative at the New York brokerage Bellmarc Realty, says one client who recently sold his Midtown co-op decided to rent instead, in order to stay liquid while he started his own business. He also wanted to avoid the difficulties that come with being approved by a co-op board, she says.

Another consideration: Renting might also be a better option until the economy fully recovers.

"For most people, now is not a good time to buy, for lack of security in people's jobs," says Mike Colpitts, editor of real estate forecaster Housingpredictor.com. While most analysts believe the New York market will stabilize, depending on employment, Colpitts holds a contrarian view: He expects housing prices in Manhattan to deflate by 13.8 percent this year as more foreclosures enter the market and properties remain overpriced.

Jerry Weigand, a commodity broker, also recently switched to renting after selling his Upper East Side apartment. He now lives in a two-bedroom unit for \$6,500 per month. A newlywed, he says he and his wife wanted to try a different neighborhood. Their decision to rent was driven more by the desire for a new experience than by economics. He says they will look to buy again in a few years.

"I do feel that prices have a little way to go down, but not by a lot," Weigand says. "And I don't think they will rise by a lot like they did a few years ago."

Copyright © 2010 The McGraw-Hill Cos. All rights reserved, [businessweek.com](http://businessweek.com), Venessa Wong.

---

## **How to save on home repairs**

ORLANDO, Fla. – June 3, 2010 – Making some home improvements not only can brighten or expand a property's living space, it can also help cut utility costs and increase the value of the residence.

Several websites offer useful home improvement tips on everything from remodeling a bathroom to hiring a contractor. Here are a few:

### **411 Home Repair**

<http://www.411homerepair.com/ideas/index.shtml>

Covers a variety home improvement topic, including do-it-yourself suggestions and hiring contractors.

### **Federal Trade Commission**

<http://www.ftc.gov/bcp/edu/pubs/consumer/products/pro20.shtm>

Features insights on finding a reliable home improvement contractor.

### **HGTV**

<http://www.hgtv.com/real-estate/30-tips-for-increasing-your-homes-value/pictures/index.html>

Serves up 30 home improvement tips under different spending cost categories.

### **National Association of the Remodeling Industry**

<http://www.nari.org/homeowners/tips/>

Offers wide variety of general and specific interiors remodeling tips.

### **U.S. Department of Energy**

<http://www.energystar.gov>

Select "Home Improvement" to find home renovation tips that can reduce energy bills.

© 2010 McClatchy-Tribune Information Services.

---

## **Foreclosure has oft-unforeseen risk: lawsuits from lenders**

FORT LAUDERDALE, Fla. – June 3, 2010 – Before Larry Thomas unloaded his Pompano Beach, Fla., home last fall for a fraction of what he paid, he cut a deal that will keep him from worrying about a huge debt hanging over his head.

Thomas insisted that his lender, American Home Mortgage Servicing, agree not to come after him for the estimated \$174,000 he still owed on his two mortgages. "I feel incredible relief," the 32-year-old restaurant manager said last week.

Others may not be as fortunate.

Lenders will file a tidal wave of lawsuits against homeowners in the next few years as a way to recoup losses when home sales or foreclosure auctions don't result in enough money to pay the mortgages in full, real estate and legal analysts say.

"It will be a dramatic problem because the borrowers will not know it's coming," said Frank Alexander, a law professor at Emory University in Atlanta.

Laws vary from state to state. In Florida, banks have five years from the date of the sale to file for so-called deficiency judgments and up to 20 years to collect. Lenders can garnish wages or make claims on borrowers' assets.

Before the housing meltdown, few lenders filed these lawsuits. Foreclosures and short sales – selling for less than the mortgage amount – were relatively rare at the time, and many of the homeowners didn't have sufficient assets to make it worth the banks' time and expense.

But following the heady days of the housing boom that spawned millionaire investors seemingly overnight, it's not uncommon for borrowers to default on mortgages while still holding lucrative investments.

As the next wave of the housing crisis plays out, those most in danger of getting slapped with lawsuits include angry homeowners who ransack properties they're losing in foreclosure and borrowers who walk away from "underwater" mortgages. In both cases, analysts say, banks will want to discourage other people from such behavior.

More than four in 10 homeowners said they would consider abandoning properties that are underwater, or worth less than the mortgages, according to a national online survey released last week by real estate firms Trulia and RealtyTrac.

Mortgage companies typically won't sue homeowners who negotiate in good faith or those who default on their loans because of job losses or other unforeseen circumstances, said Anthony Manno, an executive with Steelbridge Real Estate Services. The Miami-based company works with lenders on the resale of foreclosed homes.

Still, borrowers shouldn't rely on a lender's verbal commitment, Manno said. "Get something in writing."

Critics insist that spite will play a role in some of these lawsuits. Lenders deny it.

"We certainly would not do that," said Russell Greene, president of Grand Bank & Trust of Florida in West Palm Beach. "It's a business decision – not an emotional decision. It's very time-consuming to take someone to court."

Even if lenders don't pursue the judgments, they could sell mortgage debt to collection agencies at deep discounts. And it will be those debt collectors that will hound borrowers, said Shari Olefson, a Fort Lauderdale real estate lawyer.

"They paid money to be able to hassle you," she said.

Thomas, the former Pompano Beach homeowner, said he didn't have money for a downpayment but was approved for 100 percent financing on two loans in spring 2006. He bought a three-bedroom home for \$245,000.

Thomas said he soon became responsible for the entire mortgage after his roommate lost his job.

That became even more difficult after Thomas took a pay cut.

So he attempted a short sale, eventually finding plenty of prospective buyers interested in a property that had plummeted nearly 70 percent in value. He and American Home Mortgage accepted one offer for \$80,000. After closing costs, the lender netted about \$71,000, said his Fort Lauderdale lawyer, Joe Kohn.

But before the sale closed, Kohn had American Home Mortgage waive its right to collect on the remaining mortgage debt.

Christine Sullivan, a spokeswoman for the lender, wrote in an e-mail that she can't discuss Thomas' case because of privacy issues. But when homeowners seeking short sales demonstrate legitimate hardship, "we provide a full release of liability, and we do not pursue deficiency judgments."

Some banks say they won't file a lawsuit, though they aren't willing to put that in writing, Kohn said.

"I have no choice but to accept that," he said. "Even when you play by the rules, banks don't always do what we'd like."

Under new government guidelines for short sales that took effect this spring, lenders aren't supposed to hold homeowners responsible for any remaining mortgage debt. But not all short sales fall under the guidelines, while some lenders choose not to implement them, Kohn said.

A forgiven mortgage balance through 2012 is not considered taxable income on a primary residence as long as the debt was used to buy or improve the house. But borrowers who walk away from investment properties risk having to pay federal income taxes on the forgiven amount.

Homeowners who hand their properties back to the bank through so-called deeds in lieu of foreclosure also should make sure they won't be on the hook for any mortgage debt.

With friends facing deficiency judgments, Thomas said he's grateful he sought legal advice on how to avoid a lawsuit. He now rents a home west of Boca Raton, but he just found out the owner is in foreclosure.

"I've escaped my own problem, only to inherit someone else's," Thomas said. "But this is nothing. It's just a matter of picking up the pieces and moving on to the next rental."

© 2010 Sun Sentinel, Paul Owers. Distributed by McClatchy-Tribune News Service.