

The Home Edition



Volume 13, Issue 3
July/August 2005

Back to Normal Sales

source: David Lerah, Vice President and Chief economist for the National Association of Realtors

Interest rates are climbing and major housing measures such as existing-home sales and mortgage applications are softening, but there's little reason to fear our great housing boom is ending. We've been anticipating a slowing in housing activity for a while, and it's welcome news.

Boostered by low mortgage rates and a swelling demand from equity-rich baby boomers, the housing markets have been out of balance for the past few years, with existing-home inventories alarmingly low—only 3.8 months' supply on a nationwide basis as of January—and price appreciation undesirably high. Gains hit double-digit levels in a record 62 markets in 2004.

What's more, speculative buying is on the rise. Almost 25 percent of homes bought last year were solely for investment; certainly some of those investors were looking for quick profits.

So a rise in mortgage rates might be just what the doctor ordered. I expect 30-year mortgage rates to rise to 6.7 percent by the end of this year, compared with 5.7 percent in mid-March. This one-percentage-point gain is expected to ease some of the swelling in housing demand. Consequently, existing-home sales are projected to fall by 3.2 percent this year, while new-home sales are expected to drop by almost 6 percent.

But don't think weakening housing activity will be followed by the sounds of balloons popping. Rather, markets experiencing double-digit price appreciation today could see a welcome calming, with single-digit gains this year.

On a nationwide basis, existing-home prices are expected to grow by 5.6 percent this year compared with 9.3 percent in 2004. Similarly, new-home prices are expected to grow by 4 percent this year, compared with 12.6 percent last year.

Housing fundamentals remain excellent. With mortgage rates rising, demand-and-supply conditions are expected to improve, easing price pressures. Demand will remain strong due to relatively low mortgage rates, strong demographic influences, and a job-creating economy. Housing supply is expected to replenish this year to healthier levels: a 4.5- to 5.5-month supply.

These trends suggest sales are transitioning to a more normal level—and 2005 will be the year this transition begins.

Supply grows

At the end of February, it would have taken practitioners 4.2 months to empty the country's inventory of homes for sale. That monthly inventory figure is a far cry from the six-month supply that NAR considers a stable market—when buyer demand and inventory are in balance. Yet tight inventories might be easing. February's supply number was improved over January, which was at a record low.

MONTHLY	SUPPLY	%
December	3.9	N/A
January 2005	3.8	- 2.6
February 2005	4.2	+ 10.5

Source: NAR Research

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Existing Home Sales slipped in February but remained above year-ago levels.

Business Confidence

Solid conditions for home sales are expected in the months ahead, with practitioner confidence in buyer traffic ticking up slightly and seller traffic remaining virtually unchanged from conditions in early 2005. Practitioner confidence was sampled in March and looks ahead six months.

Results are based on 337 responses to 3,000 surveys sent to large and small real estate offices. The survey asks practitioners to indicate whether conditions are strong (100 points), moderate (50), or weak (0). Responses are averaged to derive results.

Home Sales

Existing-home sales slipped in February but remained above year-ago levels. Total existing-home sales—including single-family, town homes, condominium, and co-ops—were down 0.4 percent in February to a seasonally adjusted annual rate of 6.79 million from 6.82 million* in January.

Buy Now, Retire Later-An Investment In Your Dreams

By Elaine VonCannon

Owning a Second Home is Easier Than You Think

Buying a second home is a serious financial commitment, but it can also lead to a feeling of complete freedom. It can provide you with a vacation home, a place to escape from your mundane routine and an investment in the future for when you retire. Aging and wealthier households, smaller families and new technologies that allow professionals to work from remote places are all significant demographic trends. These trends indicate that buying a second home is becoming a more reasonable option for many Americans. The recent changes in tax laws are also making second home purchases more affordable. Strategically planning your purchase, consulting a trusted professional and taking your time are the keys to making the perfect investment.

Strategies for Retirement Investments

Planning for retirement early is smart, especially now. Many experts believe that as the Baby Boomer generation gets closer to retirement property values will increase at a rapid rate. More people will be buying second homes in high demand locations so locking in a lower price now can save thousands. If you are buying a house you want to retire in later be certain to consider all the possible changes and growth for the area. Many times development and increased populations change the face of a seemingly perfect location within just a few years. Another alternative to consider is investing in a home and using it as rental property first. At retirement you can choose to improve and make the rental home your primary residence. You can then sell or exchange and buy the retirement home of your dreams.

Tax Advantages Can Be Found Everywhere

Regardless of the avenue you take to invest in your retirement, the IRS offers tax advantages in a wide variety of ways. Mortgage interest and local and state real estate taxes are all deductible if you live in your second home a portion of the year. Write offs are limited to two homes. If you rent the home for less than 15 days you do not have to claim the rental income or pay taxes on it. If you rent your second home more than 15 days you must report the rental income. However, now all of the expenses used to run the property are deductible. Property taxes, interest, insurance, repairs, utilities, supplies, cleaning and maintenance are all considered expenses. Equity in your first home can also help with the purchase of a second home as a retirement investment. A home equity loan or line of credit can be used to cover the down payment on a second home. Be aware however, that borrowing in this way only allows the first \$100,000 of equity debt to be written off.



Buy Now, Retire Later-An Investment In Your Dreams continued...

TYPICAL SECOND-HOME BUYERS		
	Investment Homes	Vacation Homes
Age	47	55
Income	\$85,700	\$71,000
Distance from primary home	18 miles	49 miles
Home price	\$148,000	\$190,000
Reasons for buying	Rental income, diversify investments	Family retreat, future retirement home
Source: NAR Research		

Get Creative About Your Investments

Another tax strategy is using the IRS Code, Section 1031. Section 1031 says no gain or loss will be recognized in the exchange of property held for use in an investment. This allows savvy investors to purchase a property and later exchange it for one of like kind. For those planning to retire this means you can purchase a second home as a rental property/vacation home and build your investment. At retirement you can then exchange the property for the dream home you have always hoped for and defer the capital gains tax. The savings is incredible. Of course, real estate deals like this can be tricky so always take advice from a real estate professional and be certain all the transactions are done legally.

On Your Way to the Retirement Plans You Hoped For

Retirement can be a stressful topic for many people. However, more and more middle aged Americans seem to be using fore-

thought and common sense to build the life they know they want to have after 65. Education, creativity, clear thinking, asking questions and knowing the kind of future you want to invest in is the way to achieve success. Using the tax system strategically to reach your goals will lead to a retirement full of joy, comfort and quality time to do what truly matters. When you are ready to search for a second home, or a place to start your retirement, enlist the help of a seasoned REALTOR. One that knows the market of the area you have targeted for your purchase and an SRES or ABR designation after their name. The SRES designation is the most important qualification to help you find the assistance you need. Now that you are ready don't wait, start making your dreams come true!

Average home price rose \$50k over '04

By Bill Tolbert, The Virginia Gazette

Local home sales were down 9% in April but were still 17% ahead of 2004 through the first four months of the year. According to figures released by the Virginia Association of Realtors, 161 homes sold in the Williamsburg market this April. That was down from the 177 that sold in April of 2004.

For the year-to-date through April, local sales totaled 586. For the same four months a year ago, the total sold was 499. Statewide, April sales were down 3% but year-to-date sales were up almost 7%.

Also in the Williamsburg market, the average price of a home sold in April was \$352,000, up \$50,000 from the same month in 2004. And for Virginia, the average sales price for April was \$256,000. That figure was up more than \$50,000 from the April 2004 figure of \$204,000.

Also, Homes in Williamsburg that sold in April had been on the market an average of 64 days, a full month less than the average 94 days homes across Virginia sat waiting for buyers.

"We continue to see strong demand from those in the home-buying market," said VAR president Tom Jewell of Leesburg. "Our population continues to grow with more and more consumers entering the typical home-buying age. Without the impact from these first time home buyers, we wouldn't see numbers nearly as strong."



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"Be courteous to all, but intimate with few, and let those few be well tried before you give them your confidence. True friendship is a plant of slow grow, and must undergo and withstand the shocks of adversity before it is entitled to the appellation."

--George Washington

From Elaine's Desk....



Q: Dear Elaine,

Should we offer a home warranty with our listing?

-Jason
Smithfield, Virginia

A: Dear Jason,

If you are purchasing a home and the home is 10 years old or older I would suggest a home warranty. In fact, a lot of my first time home buyers are people relocating to the area who I give home warranties as a closing gift. If you are listing a home and the home has any age on it, or if you are in a competitive market and you know you will be getting multiple offers where people will not ask for a home inspection, then by all means offer a home warranty. A home warranty will also cover the home from the time you list it from the time you close it and it will be passed on to the buyer. The coverage period is one year after purchase of the home warranty and you may also extend your coverage every year. Some home warranties I feel are better than others. I use 2-10 which covers the roof, unlike most home warranties. Home warranties range in price depending on how many options you have. A home warranty will rarely cost you over \$400. Where else can you get this kind of insurance for such a bargain price? Thank you for your question Jason, if you need a more detailed response please feel free to call me.

Elaine

Each issue (every two months) Elaine will answer your questions on real estate related topics. If Elaine chooses your question to appear in *The Home Edition*, you will receive a \$50 gift certificate to the restaurant of your choice. Please send questions to either:

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or

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From Nana's Kitchen:

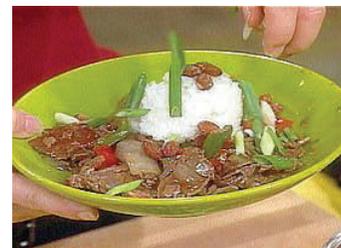
Five Spice Beef and Pepper Stir Fry

- * Jasmine rice or short grain white rice, 1 to 1 1/2 cups, prepared to package directions
- * 2 cups beef broth or stock, paper container or canned
- * 2 tablespoons wok or clear oil, 1 turn of the pan
- * 1 1/2 pounds beef sirloin or beef tenderloin tips, trimmed, placed in the freezer for 5 to 10 minutes then thinly sliced
- * 2 green bell peppers, seeded and diced into 1-inch pieces
- * 1 medium onion, diced
- * 1/2 cup dry cooking sherry
- * 2 tablespoons dark soy sauce, eyeball the amount (recommended: Tamari)
- * 2 tablespoons cornstarch
- * 1 teaspoon Chinese five-spice powder, found on Asian foods aisle of market
- * Cracked black pepper
- * 3 scallions, thinly sliced on an angle, for garnish
- * 1/2 cup smoked whole almonds, available on snack aisle, for garnish

Boil water for rice and prepare to package directions.

Place beef broth in a small pot over low heat to warm the liquid.

Heat a wok shaped skillet or pan over high heat. Add oil (it will smoke) and meat bits. Stir-fry meat 3 minutes and remove from pan or move off to the side of the wok. Return pan to heat and add peppers and onions. Stir-fry veggies 2 minutes. Add meat back to the pan. Add sherry and stir fry until liquid almost evaporates -- 1 minute. Add soy sauce to the pan. Dissolve cornstarch with a ladle of warm beef broth. Add beef broth to the pan, then add cornstarch combined with broth, the five-spice powder and black pepper. Stir sauce until it thickens enough to coat the back of a spoon. Adjust seasonings. Add more soy or salt if necessary. Remove stir-fry from heat. Fill dinner bowls with beef stir-fry and top with a scoop of rice. Scoop rice with ice cream scoop to get a rounded ball. By placing rice on top of stir-fry, rice will stay firm and not soak up too much sauce. Garnish with chopped scallions and smoked almonds.



Recipe taken from

30 Minute Meals By Rachael Ray

www.foodnetwork.com