

Market Trends Edition

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Mortgage Indexes, Spec Builders and Other 2007 Real Estate Market Trends

By Elaine VonCannon, ABR, SRES

The new year has begun and before us we find another interesting year of real estate adventures. According to the December 29 issue of Realtor Magazine Online (realtor.org), in an article entitled Mortgage Rates Climb for Third Straight Week, "Home-loan interest moved north for a third consecutive week, according to Freddie Mac. The mortgage financier reported the 30-year rate at 6.18 percent, up from 6.13 percent last week but still a far cry from this year's high of 6.8 percent set in July." "Rates for 15-year fixed products, meanwhile, climbed to 5.93 percent from 5.89 percent," Realtor Magazine continued, "while five-year, adjustable-rate mortgages bumped up to 5.98 percent from 5.96 percent. One-year ARMs also rose to 5.47 percent from 5.44 percent." As we enter 2007, the real estate market experts are making predictions and fear seems to be on the horizon. However, fear doesn't indicate the market trends, hard facts do, and there are many to take into consideration.

Realtor Magazine also states, "The market data also is being interpreted by the financial community as a sign that the Federal Reserve will not move quickly to lower rates early next year to prop up a softening economy. Many economists speculate, in fact, that the Fed will keep rates in a holding pattern until mid-2007." This holding pattern will be to help stabilize the ebb and flow of the current real estate market. A harmonious ebb and flow is essential to a strong market, this is why a period of adjustment experienced around the country was necessary in 2006. One of the contributing factors many buyers are unaware of is the ARMs indexes, which affect all Adjusted Rate Mortgages.

Did You Know?

As a buyer or homeowner interested in refinancing, it is essential to understand the mortgage basics, especially when choosing an ARM. First, make certain to ask the lender what index your ARM is tied into before committing. The real estate market affects each index differently and all have advantages and disadvantages. There are a wide variety of ARMs indexes available, but three are most frequently used and approximately 80 percent of all ARMs are based on one of these three indexes. The first is the Constant Maturity Treasury (CMT). The CMT index is volatile and changes with the market. The CMT is a reflection of the economy and shifts quickly with major economic changes. The 11th District Cost of Funds Index or COFI is also popular. The COFI is the slowest moving and most stable ARMs index. According to mortgage-x.com, this index reacts slowly to market changes and adjustments to your ARMs interest rate will lag behind other indicators. Many lenders believe COFI-indexed ARMs are some of the best deals on the market today.



The third index most often applied to ARMs is the London Inter Bank Offering Rate (LIBOR). The LIBOR index, as defined by mortgage-x.com, is an average of the interest rate on Eurodollars traded between banks in London. The LIBOR is an international index directly following the world economic condition. Similar to the CMT this index is more open to large fluctuations than the COFI, however, borrowers are also protected by periodic and lifetime interest rate caps. According to mortgage-x.com, all indexes have advantages and disadvantages.

"Generally, a loan tied to a lagging index (COFI, e.g.) is better when rates are rising. Leading index loans, like those tied to CMT, are best during periods of declining rates," states the mortgage-x.com site, "The best way to judge an index is to study its past performance."

The Power of Building

In addition to the prime rates and indexes that affect mortgage rates across the country, there are many other factors that influence the real estate market for 2007. One of the major issues is the p-light of the builder. Currently, a number of builders are overextended and now offering huge incentives, even waiving closing costs, to move their products and new homes. Builders have been left with inventory and it is hard to compete with new construction, so keep this in mind when you are reselling your home. When builders have finished spec homes that are ready to move in and you have to resell it is possible the spec home with incentives will win.

If you are a seller, also keep in mind that when you price your home you shouldn't price it up and then lower it. Price the home to sell or you will give the impression that something is wrong with the property. Don't use gimmicks, just offer a fair selling price and buyers will appreciate you. Also, according to What's In, What's Out 2007 by Mark Nash, avoid "as is" marketing since buyers often see it as a red flag. Plan no more than one open house per month as well, to keep buyers from thinking you are desperate.



Great News Out Of Washington For Homebuyers



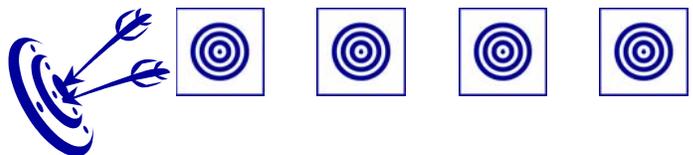
If lawmakers get their way, Private Mortgage Insurance (PMI) will become tax-deductible for home loans originated after January 1, 2007. PMI is a requirement for most home loans in which borrowers make a down payment of less than 20%. The bill has already been passed by Congress and awaits the President's signature before it becomes law. While the new deduction is restricted to homebuyers whose annual household income does not exceed \$100,000, the legislation could impact nearly 50% of all homebuyers, according to a SMR Research study of homes financed in 2005. Up until now, many homebuyers have used "piggyback" loans in order to avoid paying PMI. A piggyback loan is where the homebuyer obtains two mortgages, a first mortgage for 80% of the purchase price, and a second mortgage for the remaining funds required, outside of the down payment.

Since many homebuyers have chosen a Home Equity Line of Credit (HELOC) as their second mortgage, their required monthly payments have increased significantly as a result of the actions of the Federal Reserve. Today, many homebuyers with a HELOC are now paying more than they would have if they had chosen PMI with their original mortgage. What does this legislation mean to you?

Under the law, homebuyers will have more financing options available that offer greater tax deductibility and lower monthly payments. This means a homebuyer could potentially afford a more expensive home! In addition, homebuyers could qualify for traditional mortgages rather than the more expensive options they were forced to pursue in the past.

*** If you would like to see all of the properties that have sold in your zip code in the past month, please email me or call me at (757) 564-1557. This is a great way to see how the market is doing in your area, especially if you are considering listing your home for sale in the near future. I am more than happy to offer you this complimentary service, so please let me know if you are interested in receiving this information. ***

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Housing Design Trends of the Past and Future

By Carole Moore, www.bankrate.com



Want to avoid owning a white elephant when it's time to sell your home? Know what housing design features have lasting value, then renovate with an eye to the future and you'll make more when your home hits the market.

The U.S. Census Department's 30-year report on housing trends, which runs from 1975 through 2005, tracks the changes that shaped today's neighborhoods. Among the biggest losers in housing design: split-levels such as the one television's "Brady Bunch" called home.

That very Brady house design

What was trendy when the Bradys enhanced their space with shag carpeting and gold and avocado decor, has given way to the modern preference for size: higher ceilings, multiple garages and more square footage.

Also hot over the past 30 years are ways to keep cool -- homes without central air conditioning, especially in the steamy South, aren't even on the radar these days. There's also little demand for places with fewer than three bedrooms and only one bath. While the Brady kids may have brushed six sets of teeth in one lonely bathroom, even today's singles crave an extra toilet and sink in their house design.

But the Bradys had one advantage over most modern homes -- a huge yard. Today's mammoth houses sit on smaller lots, one of the trends noted in the Census report.

If the Bradys had played it smart, they would have anticipated changes in taste and updated their home before little Cindy went off to college. Mike, an architect by trade, really should have been able to draw up the necessary blueprints and personally oversee the remodeling. He and homemaker wife Carol could have retired and downsized with a fatter wallet.

I (don't) love Lucy's kitchen design

Back in the 50s when Lucy and Desi rented an apartment from the Mertzes, Lucy's kitchen was smaller than most contemporary bathrooms. But when they eventually bought a home (for which they made a \$500 down payment), one big draw was the spacious kitchen. It's still the way to a buyer's heart.

Everybody wants luxurious kitchens," says Gopal Ahluwalia. "You can't sell a house unless the kitchen's upscale."

Ahluwalia should know. He's the head of research economics for the National Association of Home Builders, which makes staying on top of housing trends serious business.

Ahluwalia predicts that home size probably won't change. But new home construction will add more competition for the buyer's dollar. The solution,

Ahluwalia says, is to make every improvement count. That's why focusing on the kitchens and baths usually pays off. Remember -- the word is "usually," because in some cases, it doesn't. There's such a thing as over-doing it.

"I know of people with a \$95,000 home and they spent another \$95,000 making a big white kitchen," Ahluwalia says. "I said, 'Do you realize you won't recover your money?'"

Kitchen improvements help snag offers, but to sink more money into a house than the neighborhood can support won't help you turn a tidy profit. Instead, upgrade within reason.

Do the same with bathrooms. Ahluwalia predicts every bedroom in a home will soon have its own bathroom. It makes sense to add another if your home has less than two and a half baths. "In bathrooms, two and a half to three will be the minimum," he says.

Meet George Jetson's house plans

While robotic maids and daily space travel aren't yet part of the fabric of everyday life, at least two housing trends are predicted to grow in a futuristic direction: the move toward "green" upgrades and high-tech home improvements.

Andrew Gutowski, vice-president of Waterford Development LLC, advises homeowners to keep their eyes peeled for ultracool environmentally friendly products when it's time to replace siding or other home or garden materials. Gutowski says lots of new products have already hit the market and predicts an "increase in firms that provide environmentally sensitive services to homeowners."

Gutowski says high-tech homes will be to home buyers what Wi-Fi is to laptops. "Homeowners are seeking easy availability of broadband Internet access," he notes. Built-in wiring for computers and home entertainment systems, as well as upgraded heating and cooling, will help seal a deal.

Another feature high on everyone's list is an energy management system, or EMS, which blends technology and environmental stewardship. Industry has used EMS to cut energy costs for years. It works by using a computer to control energy use. Peter Corcell, president and CEO of EMS manufacturer Gridpoint, says skyrocketing utility bills and mammoth homes make EMS attractive to home buyers. "In the near future, we believe EMS will become as commonplace as AC," Corcell says.

Next year, many utility companies will offer time-of-use rates to homeowners, as they already do for industrial operations. Since energy rates are cheaper during times of lesser demand, EMS systems will operate some

House Design Trends (continued from page 3)

aspects of a home's appliances, and heating and cooling systems during periods when energy usage is at its lowest level.

While it's preferable to build an EMS into a home, not to worry: Your castle can be retrofitted. After all, as Corsell observes, in the case of energy prices, what goes up may not always go down. And there's a nice side benefit, too. EMS can be used to recharge the hybrid vehicles of the future - whether they carry you over the open road or, as in the Jetsons' case -- high above the ground.

Greener Acres

Whether you live in the middle of a city or prefer to be miles from your nearest neighbor, the outside of your home can turn off -- or charm -- potential buyers as much as the inside. In fact, Scott Cohen, garden artisan of green-scenelandscape.com, who's appeared on several HGTV shows, says if you don't make the outside inviting, you'll blow potential sales.

One way to increase your home's curb appeal and value is both simple and timeless -- plant a tree. In fact, plant several of them. "It's 15 degrees cooler under the shade of trees than solid patio covers," Cohen says. "Plants transpire and evaporate moisture and cool the area."

Cohen advises that even if you don't hire a professional, consult with one early in the process to avoid planting the wrong types of trees. "Your selection should take into account whether they're root invasive, the amount of leaf debris and how they affect shade and sun," he says. "For example, use an evergreen where you want shade all year round."

Trees can be worth their weight in buyer's dollars. "Money grows on trees," Cohen says, explaining a tree that costs \$100 today, will be worth \$250 in a year and \$700 in two years. Add those values right to your home's bottom line.

Another good outdoor strategy is to enhance your home's beauty with well-placed lighting. Cohen says an attractive entry pays for itself in lasting value. He recommends using good quality, timeless materials to dress up flowerbeds. "Don't get caught up in trends," he says. Instead, go for natural products like stone and brick. "They never go out of style."

Planting colorful shrubs and flowers add to a home's appeal, but Cohen says be careful not to use poisonous or noxious-smelling flora. A beautifully lit home with majestic trees in front and sweet-smelling bushes can prove very enticing to buyers.

Outdoor kitchens are gaining momentum. Gone are the days when a barbecue pit or a small metal grill piled high with charcoal represented the ultimate in outside entertaining. Cohen says outdoor kitchens are huge and predicts their use will grow. "As travel gets more expensive, more and more people would rather be in their own homes," he says.

Outdoor accoutrements vary, but range from rotisseries to beverage centers. Cohen says you can add ambience by breaking the space into smaller conversational areas -- but keep it simple. You can be up-to-date and classic at the same time.

Just like Bill Cosby

As a paternal doctor and head of television's Huxtable clan, Bill Cosby worked from a home office. Who would have ever thought Cliff Huxtable would ride the crest of a future trend?

"Home offices are a must," says Bob McLemore, founder and president of HouseRaising Inc. With technology allowing more workers to operate from their residences, home offices are becoming the rule rather than the exception. They also provide a nice space to pay bills.

While you're adding an office, consider expanding that master bedroom closet of yours. Although it's a pricey move and you may not recoup all the cost when you sell, adding a large, spacious closet can be a future selling point and provide extra space for putting all that "stuff" you collect.

McLemore and Cohen both agree that the front door and entryway are critical considerations. He recommends adding double-entry doors if you have the space. If not, consider a high-end door with sidelights, to dress up the front and let in extra light. Another biggie in McLemore's book -- spacious covered porches. Decks, which aren't as popular as they were a few years ago, have slipped out of general favor, with both builders and buyers tilting toward patios and porches.

Natural light and lots of windows that overlook a lovely, green view -- perhaps of all those trees you've planted in your yard -- add value to a home and will continue to do so. "People love to go inside a house and see the outside," McLemore says.

He adds that living spaces will be more open and less boxy. Instead of walls as boundaries, some rooms -- such as the family room and kitchen -- will be divided by columns. But while broad open spaces curry favor with buyers, don't do away with your formal areas in the process. "People still need that formal dining room," McLemore says. "Without it, you'll kill off 50 percent of your buyers."

While upgrading from cheaper materials to pricier ones, look for timeless quality, not trendiness. Today's dream countertop may be the butcher block of tomorrow.

Tomorrow -- that's what a lot of home buyers should consider both for future sales or their own well-being if they decide to age in place. A handicapped-accessible home that doesn't look like one, with wider doors and halls, can add value, as well as utility.

McLemore adds that the most important thing to remember when remodeling is: Make it consistent. If you modernize your kitchen, make sure the rest of the house is style-compatible. And do quality work. A cheap job may seem like a bargain at the time, but when you're trying to sell a house with walls that aren't square and floors that aren't level, you're going to take a beating.

So whether you own a bungalow or a bona fide mansion, remember -- it's never too early to start preparing for the day you put a "For Sale" sign in your well-lit, tree-lined yard.



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