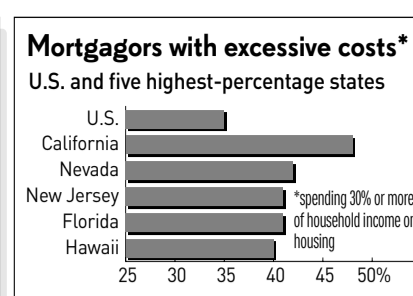
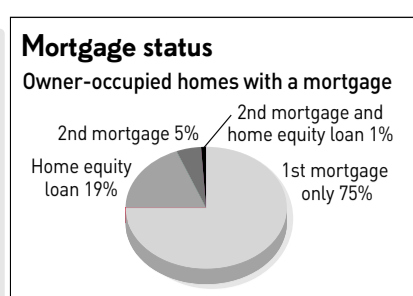
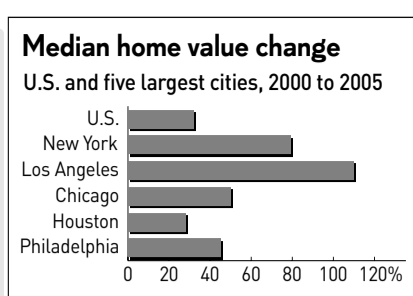
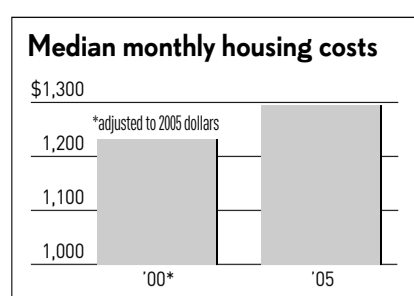


QUICK APPRAISAL

Meeting The Mortgage

Homeowners shelled out nearly 21% of their income to put roofs over their heads last year, spending a median \$1,295 on housing monthly. More than a third had excessive costs topping 30% of income. Economists say high home prices, rising interest rates and faltering income levels have all affected affordability.

Source: Census Bureau



INSIDE REAL ESTATE

Rising Foreclosure Rate Lures Investors

Resetting ARMs Could Boost It

There are many ways to tap the distressed properties market, lots of pitfalls too

BY KATHLEEN DOLER FOR INVESTOR'S BUSINESS DAILY

Savvy investors know that there's money to be made in good times and bad. Slowing home sales have wags predicting opportunities in one of the saddest segments of a falling real estate market: foreclosures.

For the past few months, analysts nationwide have been touting foreclosure opportunities, in which investors, eager for properties to flip or rent, try to buy them well under market. Though foreclosures have picked up, analysts tracking the trend say the bulk of distress sales are likely in 2007 and 2008, as many adjustable-rate mortgages reset.

Investors should research carefully as they consider getting into the foreclosures market. Keep in mind that doom-and-gloom predictors could be wrong — mortgage rates have actually fallen in recent weeks and the Fed has held off on raising interest rates lately. So it's possible all but the most strapped homeowners facing resetting ARMs will be able to refinance without ruin.

Diligent diggers should still be able to find deals. "Buying foreclosures has made a lot of people rich, in good real estate markets or bad," San Francisco Bay Area real estate agent John Nazareno said in an e-mail interview.

The quarters ahead will likely bring modest increases in delinquency and foreclosure rates, according to a September report by the Mortgage Bankers Association. The MBA says only 16.5% of homeowners have adjustable-rate mortgages. The remaining 83.5% either own their homes outright or have

fixed-rate mortgages.

In general, foreclosure specialists say, the high-growth real estate markets of the past few years — South Florida, the Denver area and Southern California — are likely to see higher foreclosure rates.

Online sites sell subscriptions for listings of properties in or close to foreclosure. RealtyTrac.com has a trend-tracking section too. The Web sites Foreclosure.com and Foreclosures.com are alternatives, as is PropertyShark.com.

Investors buy foreclosures in various ways. Each has potential gotchas to watch for. **Negotiating with a defaulting owner:** This is the most desirable option for buying a foreclosure — before it really is one. Lenders must file a public "Notice of Default" when a homeowner is in danger of losing his or her property. These end up in public records and often on foreclosure Web sites. To learn more about how notices of default and real estate auctions are handled in your area, start with a phone call to the clerk of your county court.

Gotchas: This type of sale requires cold calling and dealing with unhappy property owners. However, a buyer who negotiates this kind of deal amicably may get full information on a home, as well as title insurance and financing.

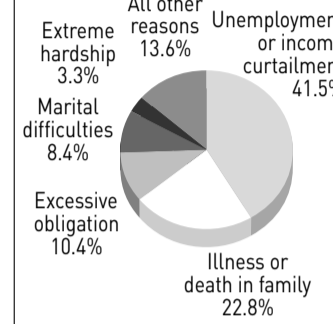
Short sale: With this type of sale, the buyer may negotiate with the lender before auction or with the lender and the defaulting homeowner. In any case, the idea is to get the lender to accept less than the amount owed on the loan. If property values have fallen since the home was purchased, this type of sale might be attractive to a lender that doesn't want to incur the costs of a full foreclosure and auction.

Gotchas: Negotiating with lenders can be daunting — being an experienced real estate investor and having a banking background are plus-

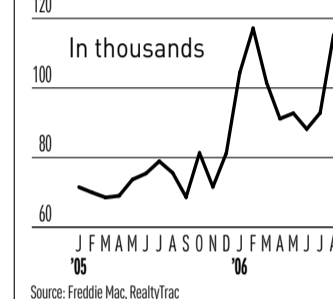
Lagging Loans

Lack of income's a top reason why borrowers get behind, a survey of loan delinquencies found

Reasons for default



U.S. foreclosure activity



Source: Freddie Mac, RealtyTrac

es. The lender may insist on a quick sale, without financing, inspections or title insurance. The buyer may have to evict the current tenant.

"Subject-to" purchase: Investors negotiate this type of deal with a defaulting homeowner, before the property moves to auction. Instead of buying the property outright, the buyer takes over the homeowner's loan at its existing interest rate, and gets a grant deed to the property. The deal may include paying money to a defaulting homeowner.

Gotchas: "It's against lenders' policies, but not against the law," said Bruce Norris, president of the Norris Group, a real estate investment service company in Riverside, Calif.

Norris says, however, that a subject-to purchase can offer advantage.

The homeowner escapes the loan burden and may receive some money. The buyer may obtain a lower interest rate than current market rates without qualifying for a loan and may buy property under market value. The lender doesn't have to incur foreclosure, auction, eviction or vacant-property costs.

A foreclosure "is the final nail in a homeowner's life falling apart... if the homeowner didn't pay utility bills, contractors or taxes those all end up in liens," said Brock Harris, owner of Brock Real Estate in Los Angeles.

Auction: Real estate experts will tell you not to buy at auction, unless you really know the process plus the neighborhood/market and have a very high threshold for risk.

One exception is a particular type of auction: a HUD sale. This is a U.S. Department of Housing and Urban Development foreclosure that the government handles. HUD sales have their own rules, are sold by closed bid (a real estate agent can help submit one), allow inspections and can be financed. The properties are uninhabited but are offered to owner-occupant purchasers first.

Gotchas: Most non-HUD auctioned properties must be purchased for cash with no financing. Also, the buyer may or may not be able to thoroughly inspect the property. The properties also are typically sold without title insurance.

REO (bank-owned property): If a lender doesn't auction a property, and instead takes over the title, it will then do an REO (real estate owned) sale. This type of sale is usually low risk to the buyer. The downside? Usually properties are offered at close to market prices, so there may be little reward to an REO buy.

Final gotcha: Foreclosure properties may be poorly maintained. And once a house is a lost cause, the owner may take pieces of it — from appliances to cabinet hardware.



Mile High Development President George Thorn looks out over a new wing of the Denver Art Museum from the Museum Residences condos built as part of the project. Museum view units sold faster than mountain view units, a phenomenon Thorn hasn't seen in his 35 years in the business. AP

Homes Forecast Calls For Fall

Moody's: 3.6% Drop In 2007

BY REUTERS

U.S. home prices are expected to fall in 2007, with drops as sharp as 20% in some areas, marking the first year-over-year decline in nominal prices since the Great Depression, according to a study out Wednesday.

Moody's Economy.com, gauging the depth of the housing market's slowdown, forecast the median existing-home price would fall 3.6% next year.

Some metropolitan areas could see double-digit declines in coming months and prices could continue to fall for several years, led by the southwest coast of Florida, the company said in a report, "Housing at the Tipping Point."

"There are a good number of metro areas that are at risk of a substantial price decline over the next several years," said Celia Chen, di-

rector of housing economics at Economy.com, in West Chester, Pa. "These are areas where we've seen exceptionally strong increases in prices over the last few years and the strength has not been supported by underlying economic and demographic fundamentals. So now it's payback time," she said.

Outside southwest Florida, the top price drops are expected in many areas of California, Arizona, Nevada and the greater Washington, D.C., and Detroit regions.

"The U.S. housing market downturn is in full swing," the report said.

Problems in the housing market started percolating just over a year ago when sales peaked, and have increased significantly in recent months. Data showing a surge in inventory of unsold homes and dwindling demand have many analysts acknowledging the housing market is rapidly deteriorating from its record-breaking five-year run.

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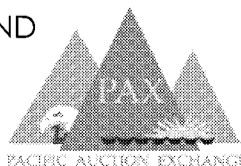
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