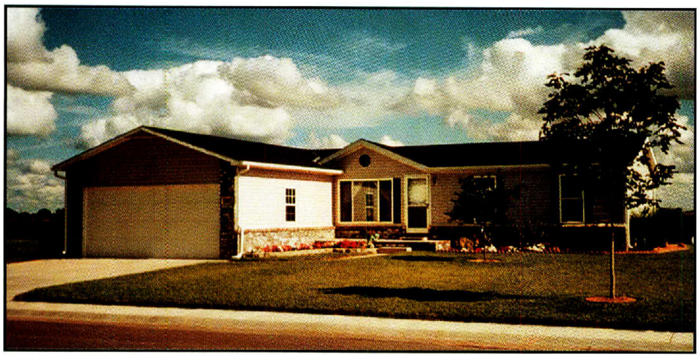
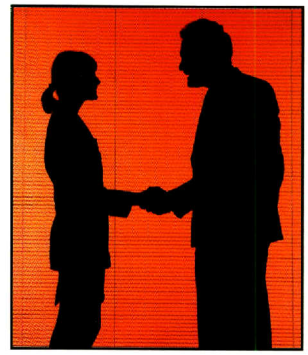
April 1998

Tierra Grande

Journal of the Real Estate Center at Texas A&M University

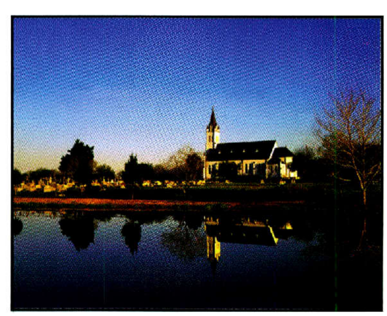
Tierra Grande Vol. 5, No. 2 Journal of the Real Estate Center at Texas A&M University





On the Cover

Simplicity and nostalgia of bygone years endure amidst the serenity of St. John the Baptist Catholic Church in Ammannsville, Texas. Parishioners made sure the place of worship, built in the late 1800s, was crafted with all the creative extras—gothic revival style arches and vaults, painted walls and ceilings, and colorful stained glass. **Photographer Laurence Parent.**



DIRECTOR, Dr. R. Malcolm Richards; **ASSOCIATE DIRECTOR,** Gary Maler; **SENIOR EDITOR**, David S. Jones; **ASSISTANT EDITOR**, Kammy Baumann; **ASSISTANT EDITOR**, Jenifer V. Hofmann; **ART DIRECTOR**, Robert P. Beals II; **CIRCULATION MANAGER**, Gary Earle; **COMMUNICATIONS INTERN,** Christi Beard**. TYPOGRAPHY**, Real Estate Center; **LITHOGRAPHY**, Wetmore & Company, Houston. **ADVISORY COMMITTEE:** John P. Schneider, Jr., Austin, chairman; Gloria Van Zandt, Arlington, vice chairman; Joseph A. Adame, Corpus Christi; Celia Goode-Haddock, College Station; Carlos Madrid, Jr., San Antonio; Catherine Miller, Fort Worth; Kay Moore, Big Spring; Angela S. Myres, Houston; Jerry L. Schaffner, Lubbock; and Pete Cantu, Sr., San Antonio, ex-officio representing the Texas Real Estate Commission. **TIERRA GRANDE** (ISSN 1070-0234), formerly *Real Estate Center Journal,* is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Telephone: 409-845-2031 or E-mail: info@recenter.tamu.edu. **SUBSCRIPTIONS** are free to all Texas real estate licensees. Other subscribers, $30 per year. **VIEWS EXPRESSED** are those of the authors and do not imply endorsement by the Real Estate Center, the Lowry Mays College & Graduate School of Business or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. **PHOTOGRAPHY/ILLUSTRATIONS:** Courtesy of Jacuzzi Whirlpool Bath, J. Allure, p. 1 top; Robert Beals, pp. 1 bottom, 5, 14 bottom, 18, 21, 22; Jeff Carroll, pp. 2, 4, 6; Superstock, pp. 7, 9; Real Estate Center files, pp. 8, 15, 16, 17; Courtesy of Alcoa, pp. 11 left, 14 top; Courtesy of Marvel Industries, wine grotto left and refrigerator, p. 11 right; Courtesy of The New American Home, pp. 12, 13.

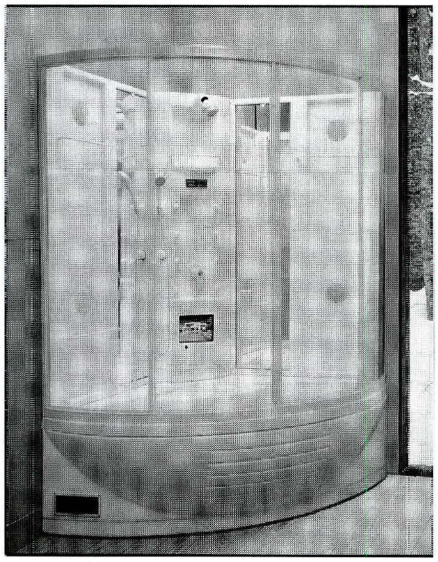
BENCHMARKS

(continued on p. 23)

New Home Building Products

The 54th International Builders' Show gave more than 1,000 manufacturers and suppliers an opportunity to showcase the latest home building products. Here are some of the new products on the market.

- **Virtually silent bath ventilation fans.** New models perform better, run quieter and cost no more than comparable premium fans.
- **"Ultimate bathing environment for two."** A whirlpool bath, shower system and steam bath complete with a stereo-compact disc system and optional television monitor.
- **Home security, energy and lighting.** At the touch of a button, operate the system from inside or outside the home using digital keypads, programmable thermostats and temperature sensors.
- **Home lighting.** A wireless whole-house radio-frequency system offers a simple, reliable and affordable solution to home lighting control.
- **Electrical power.** Homeowners receive energy savings, improved electrical power quality and guaranteed whole-house surge and spike protection with industrial strength electrical power conditioning.
- **Programmable thermostats.** They are now available with digital precision and user-friendly design.
- **Garage doors.** Installation of heavy double garage doors just became easier and safer thanks to an advanced springing system.
- Levers that replace knobs on locks to a home's entrance help the physically challenged.
- **Asphalt imprinting.** It creates the appearance of hand-laid brick and cobblestone using regular asphalt.
- **Retaining walls.** Segmental concrete retaining walls that interlock provide a lifetime of virtually maintenance-free performance. A new patented, poured-in-place, deep relief wall system can replicate color and look of stone walls.

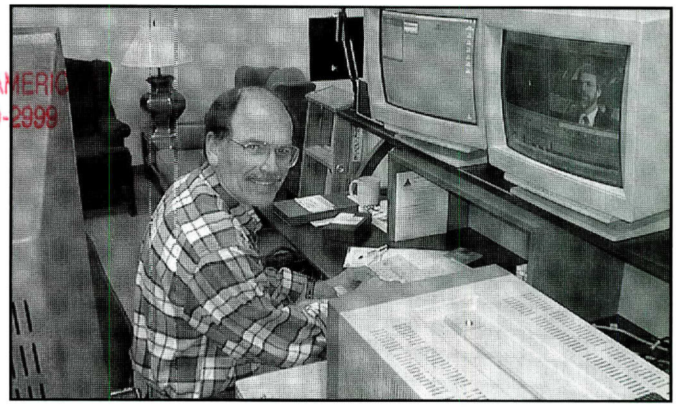


- **Headless screws for deck construction.** The deck screw has seven times the holding power of a nail.

- **Quiet floors.** The warmth and beauty of wood flooring is available without the maintenance complications of hardwood. New products make less noise than melamine laminates.
- **Combination washer and condensing dryer.** Energy-efficient DC motor, state-of-the-art timer and integrated circuit board offer years of trouble-free operation. New preheat for the dry cycle during the final stages of the wash reduces drying time that previous nonvented models require.
- **Vent-free fireplace.** No chimney is required for the flame-log fireplace system that can be installed for a fraction of the cost of installing a wood-burning fireplace.

For a free list of manufacturers of these new products, send a self-addressed envelope to: New Products, *Tierra Grande*, Real Estate Center, Texas A&M University, College Station, Texas 77843-2115.

Lights, Camera, Action: Video Returns to Center's Stage



Video news releases and programs are helping the Real Estate Center reach more Texans than ever. The Center's new video production unit is now distributing "product" from its editing bench under the direction of videographer and producer Wendell Fuqua.

The video "Your Real Estate Center" provides both new and veteran practitioners with a dynamic view of the Center's vital role in providing accurate, unbiased information about the real estate industry. Viewers of "Your Real Estate Center" learn about the Center's mission, meet the Center's staff and hear what practitioners and industry leaders have to say about the Center.

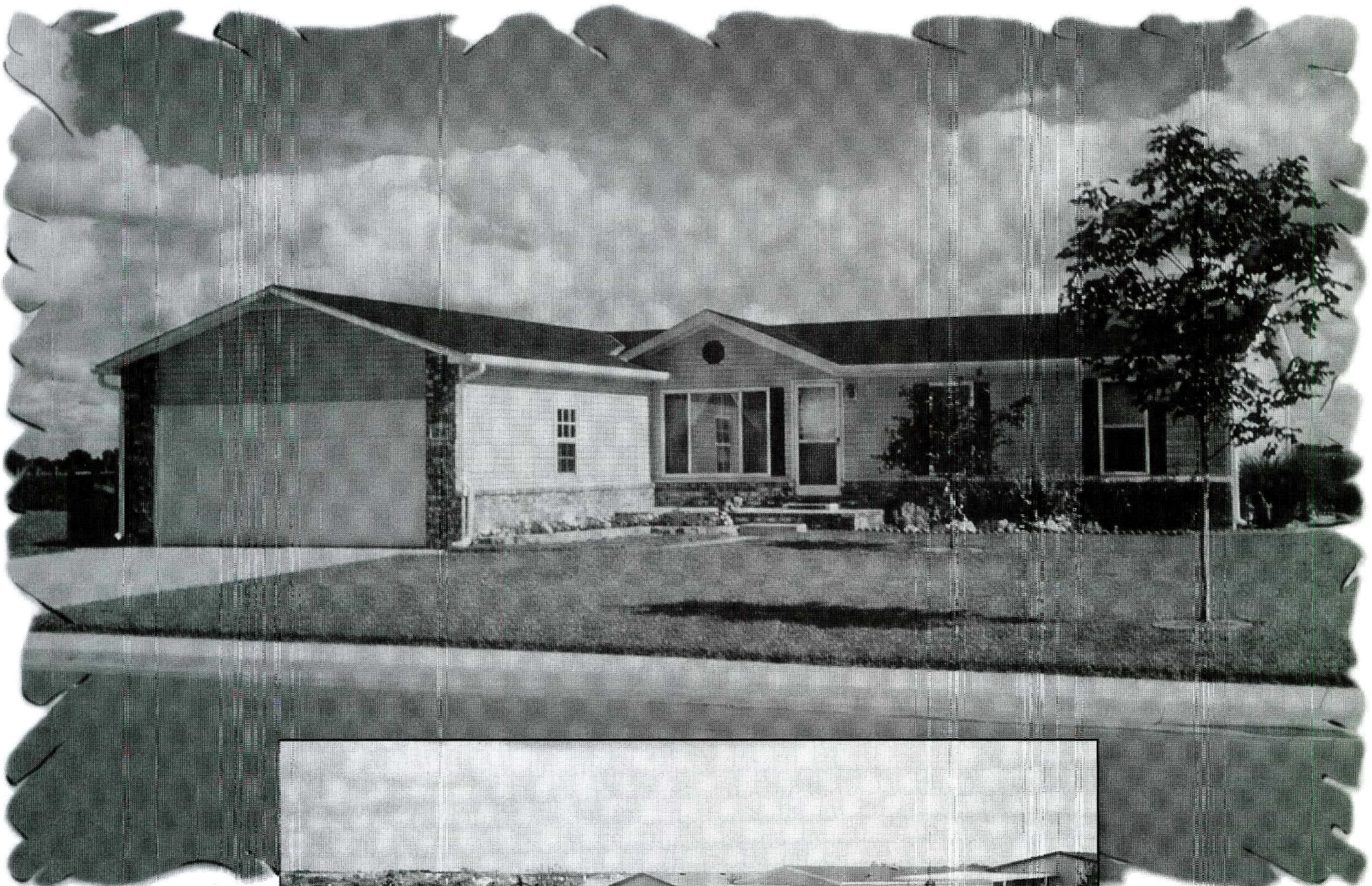
Proprietary schools, colleges, universities and others who conduct orientation classes for new or would-be licensees may qualify for a free copy of this video. Instructors should call 409-845-2031.

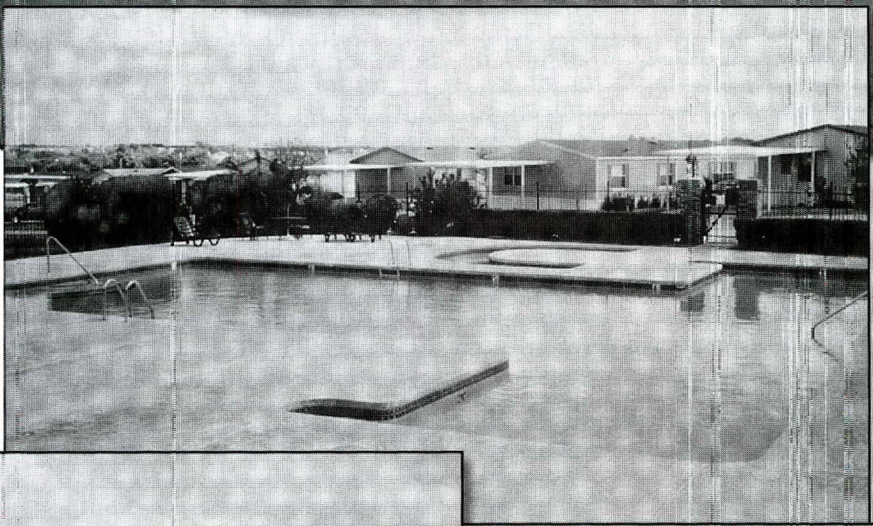
Another new video, "Careers in Real Estate," targets college graduates and mid-life career changers who want information about the major employment opportunities in real estate. This video gives viewers an "up close and personal" look at successful practitioners in real estate sales, commercial and industrial properties, development and property management.

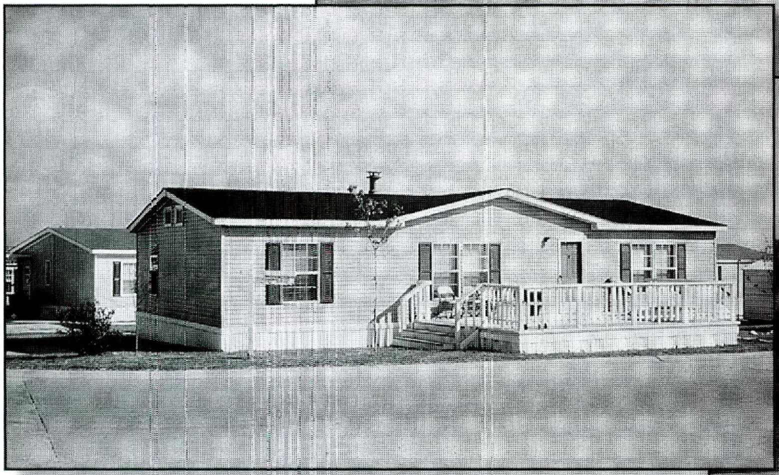
Anyone responsible for recruiting "new blood" into real estate will want to show this tape to their prospects. The videos are $10 each. Use the form on page 24 to order copies.

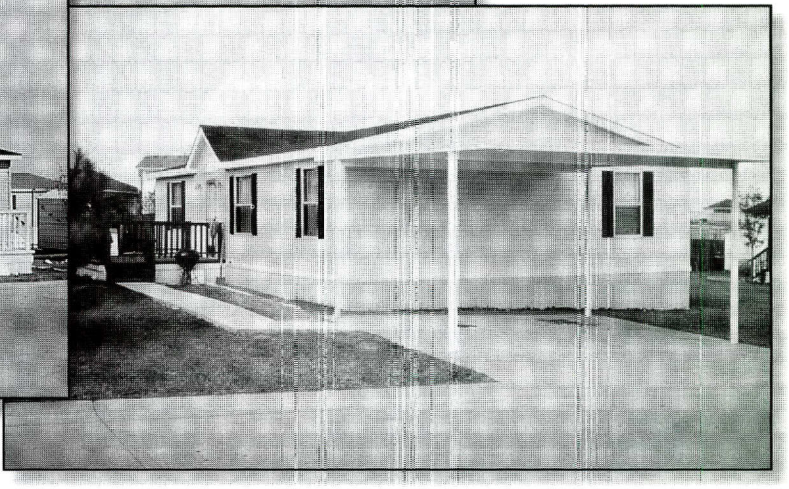
Television stations around Texas have aired several new Center video news releases. More than a dozen stations have used footage on topics ranging from impact fees on residential developments to the use of purple paint to replace traditional "no trespassing" signs.

Manufactured Homes:









More Attractive Than Ever

By Jack C. Harris and Jeff Carroll

Imagine producing new housing for less than $30 per square foot (about half the going rate for new homes). Would not such housing be welcomed in a marketplace that is asked to accommodate a growing and increasingly-diverse population? Such housing currently is available in the market and is not the product of some heavily-subsidized government demonstration.

It is *manufactured housing*, a term for factory-produced housing units that are shipped to sites intact (see sidebar). Manufactured housing is expected to become more popular, especially in rural areas. As affordability gets squeezed by regulations and growing demand, however, manufactured units may become more common in the city.

This could mean that real estate agents will increasingly encounter manufactured homes in addition to traditional site-built homes. Ordinarily, a dealer's license is required to sell more than one manufactured housing unit within a 12-month period. However, a unit that is considered a "fixture" to the land can be sold by real estate licensees. For a manufactured unit to become a fixture, it must be permanently attached to a foundation and have a certificate of attachment filed in the public record. Texas law also requires that the document of title or manufacturer's certificate of origin be canceled. (For more information, see "Listing, Advertising Legalities: Mobile Home Dilemmas" reprint 762).

Listing contracts for property containing manufactured units as fixtures—or land suitable for siting a unit—could become more common in rural and suburban settings. There are likely to be more opportunities to market manufactured housing communities. Brokers who deal in land may find a profitable niche market among manufactured housing community developers as the demand for sites increases. Conversely, agents may find that much of their future competition comes from the sale of manufactured homes. Some within the manufactured home industry think that as much as half of all new homes constructed eventually could be manufactured units.

Significance in the Texas Market

According to the 1990 *Census of Housing*, manufactured housing comprised almost 13 percent of the Texas housing stock. Since that time, the ratio of manufactured home shipments to single-family building permits has steadily increased (see chart). By 1996, manufactured units made up more than one-third of all new single-family dwellings. Furthermore, because manufactured units can be shipped and set up more rapidly than site-built homes, they could provide the means for handling housing shortages. To meet the needs of the more than 20 million Texas residents expected by the year 2000, annual shipments of approximately 30,000 manufactured units will be needed to supplement the 72,000 new single-family units and 31,000 multi-family units built annually.

Price is the primary reason for the increasing popularity of manufactured homes. According to the Texas Manufactured Housing Association, the average price of a new manufactured unit produced in Texas in 1996 was $34,725 (this price does not include site, sales tax and utility hook-up but does include delivery and installation). During that same period, the average existing home sold through Multiple Listing Services statewide cost $109,500 (with land), and the average value of a newly-built single-family unit in Texas was $103,900 (without land).

The comparatively lower price of manufactured homes brings ownership within the financial capabilities of a large number of renters. In the southern United States, renters' 1995 median household income was $21,140, compared to $35,400 for homeowners. Therefore, manufactured housing helps fill a growing need for homes and holds promise for raising Texas' relatively low homeownership rate, especially with rental housing vacancies in the state at the lowest level since the early 1980s.

Manufactured Housing Presence

This table shows the housing stock percentage in each metropolitan area that was manufactured housing in 1990. Also shown is the percentage of all new housing units (building permits plus new manufactured home sales) that were manufactured units in 1994, 1995 and 1996.

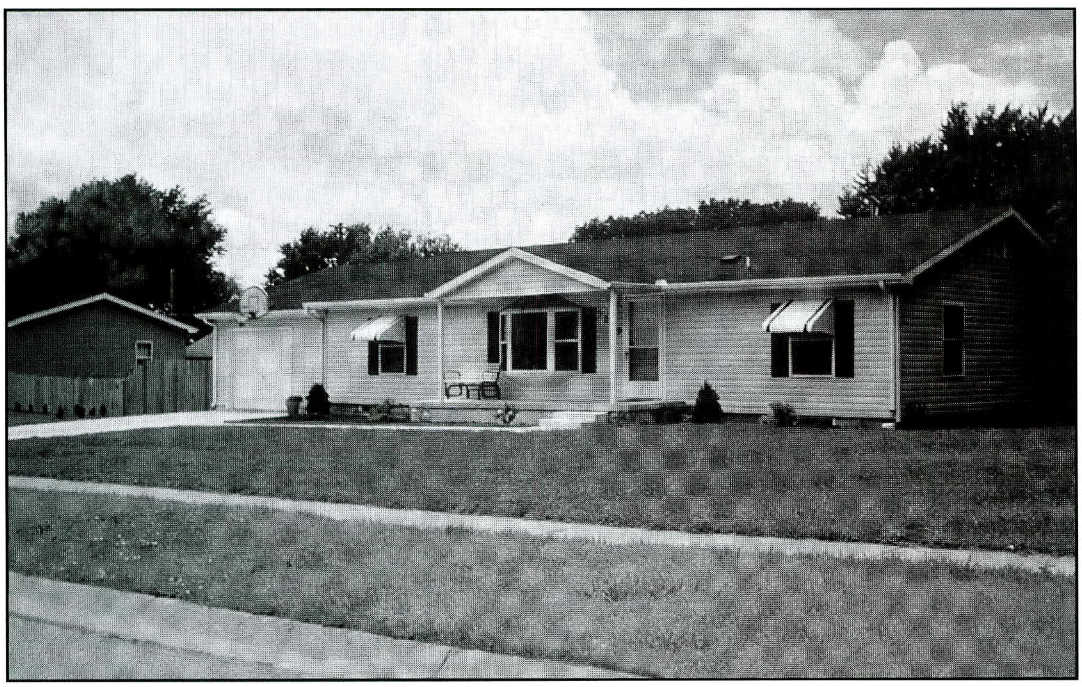
	Percentage of Housing Stock	Percentage of New Manufactured Housing Units Produced		
MSA	1990	1994	1995	1996
Abilene	6.1	12.8	22.8	22.6
Amarillo	6.6	29.3	43.9	43.8
Austin	4.3	14.1	12.9	15.4
Beaumont-Port Arthur	8.8	48.5	58.6	63.2
Brazoria	14.4	29.4	23.4	22.1
Brownsville-Harlingen	12.7	10.0	10.1	11.6
Bryan-College Station	8.1	15.2	22.2	16.2
Corpus Christi	4.5	19.9	14.8	16.8
Dallas	3.2	7.8	8.4	9.9
El Paso	5.6	14.9	23.4	17.9
Fort Worth	5.0	14.3	14.3	17.0
Galveston	5.8	12.8	9.0	12.6
Houston	3.8	13.6	17.6	19.0
Killeen-Temple	8.4	34.9	28.2	32.2
Laredo	10.1	20.8	23.7	18.3
Longview	11.3	55.5	58.2	74.7
Lubbock	5.4	19.8	28.2	28.5
McAllen	19.1	13.5	16.0	16.1
Odessa-Midland	11.2	37.0	45.8	51.2
San Angelo	5.5	16.6	34.4	22.7
San Antonio	4.4	14.2	18.8	20.5
Sherman-Denison	9.7	55.7	48.4	66.4
Texarkana	11.8	44.3	53.3	76.5
Tyler	10.0	50.4	57.3	45.6
Victoria	8.0	39.3	44.7	54.0
Waco	5.0	30.4	37.0	42.1
Wichita Falls	5.1	19.6	28.2	26.4
Statewide Average	12.8	23.8	27.5	23.7

Sources: U.S. Census Bureau; Texas Manufactured Housing Association

In general, homes are affordable in the sense that about 64 percent of Texas households have enough income to qualify for a mortgage large enough to buy a median-priced home. However, many nonhomeowners still find it difficult to accumulate the cash needed to make a down payment and pay closing costs. Reducing the initial cost of the home alleviates these barriers proportionately. Manufactured housing does this in two ways: lowering the cost of the structure and eliminating the need to purchase land with the home.

Factory-built homes can be produced at a lower cost because of efficient production lines and a lack of weather-related delays. A residential site can add tens of thousands of dollars to the cost of a home, but a manufactured homeowner can place the unit in a leasehold community without having to buy land. Finding affordable avenues to homeownership will be especially important as Texas' newly-forming households are increasingly foreign-born.

The quality of manufactured housing is changing as well, making it more acceptable to both homebuyers and their neighbors. Although factory-produced homes are not subject to local building codes, they must meet a strict federal standard that has improved quality since being instituted in the mid-1970s. The early-style mobile home, resembling a trailer with windows, has given way to units with pitched roofs and exteriors that look more like traditional houses. Double-wide units can be used to avoid the narrow, boxy look (about 46 percent of manufactured units sold in Texas are multiple-width units). Units can be ordered with wood-burning fireplaces, kitchen islands and cathedral ceilings. Site-built additions, such as garages and porches, can give an even more traditional look.



In Texas, more than one-third of all new single-family dwellings are now manufactured homes.

Producing a factory-built home that is less like the early mobile home makes it more acceptable in urbanized settings. New communities have placed limitations, through both zoning laws and subdivision regulations, on manufactured homes and trailer parks because of their association with rundown, low-quality environments. Modular or panelized housing rarely faces such restrictions. Manufactured housing proponents are attempting to overturn local laws requiring factory units to have a truck-like chassis to facilitate transport. Without these chassis, manufactured units could be sited as modular units, broadening the range of location options for owners. In addition, states and localities are increasing the limits on unit size that can be transported on public highways. Wider units allow more traditional-looking designs. There is also a greater variety of manufactured housing communities (replacing the "trailer park") from which to choose, including some with landscaping and community amenities, such as swimming pools. At the same time, site-built homes are becoming more mass-production oriented. It is estimated that 40 percent of all new homes have some factory-produced components.

Questions About Manufactured Housing

Many prospective homebuyers may find manufactured housing a good solution to their search for affordable homes, provided they can get enough information to make an educated decision. It is expected, however, that many people have preconceived opinions, as well as reservations, about manufactured homes. Often, these opinions do not reflect the current reality of the market. Here are some possible concerns that a buyer may have:

If I own a property with an old mobile home on it, can I replace the home without getting a special permit? If the existing home is legally permitted, the municipality that has permitting authority over the site must provide a permit for a replacement unit, assuming the unit was manufactured under the Department of Housing and Urban Development (HUD) code. HUD began enforcing its manufactured housing code in 1976, and any unit produced since that time must conform with the Texas Manufactured Housing Standards Act.

Isn't manufactured housing dangerous? The early "mobile home" had a reputation for being a fire hazard and somewhat flimsy in high winds. Since 1976, HUD has required every manufactured home built in the country to comply with an extensive set of standards. HUD inspects all units to enforce compliance. Safety is the primary concern of the code. Among the provisions are:

- standards for flame resistance and smoke generation for materials used in the units,
- windows in all bedrooms to allow quick escape,
- smoke detectors and
- unit design capable of withstanding winds as high as 70 miles per hour.

Also in 1994, HUD adopted the American Society of Civil Engineers standard for wind resistance for units sited in coastal areas. These are some of the toughest standards in the housing industry.

The HUD standard supercedes local building codes, but units may be produced that are customized to the codes in the locality where the unit will be sited. Much of a housing unit's ability to withstand wind depends on how well it is attached to its foundation. HUD studies have found that a manufactured home permanently attached to a foundation holds up as well as a site-built unit. A 1998 Texas law requires special siting procedures in 15 coastal counties.

Aren't manufactured houses ugly and not very durable? A manufactured unit will not be mistaken for a custom-built home, but it compares favorably with modest site-built homes closer to its end of the price range. It is now standard to make units that look more like traditional houses rather than like travel-trailers. Various studies have concluded that newer units have a life expectancy of 55 years, compared to about 19 years for pre-HUD code (1976) units. Once a unit is placed on a foundation, it rarely is moved and is often sold with the land or with a land lease assigned to the new owner. The average manufactured home owner moves about once every seven years.

Will manufactured units hold their value, or even appreciate, like a site-built home? With a long life expectancy and an appearance similar to traditional houses, manufactured units should hold value as well as comparable site-built units. Buildings, whether site-built or factory-built, inevitably depreciate as a result of obsolescence, wear and decline in value (although rising construction costs may disguise some of this decline).

With a long life expectancy and an appearance similar to traditional houses, manufactured units should hold value as well as comparable site-built units.

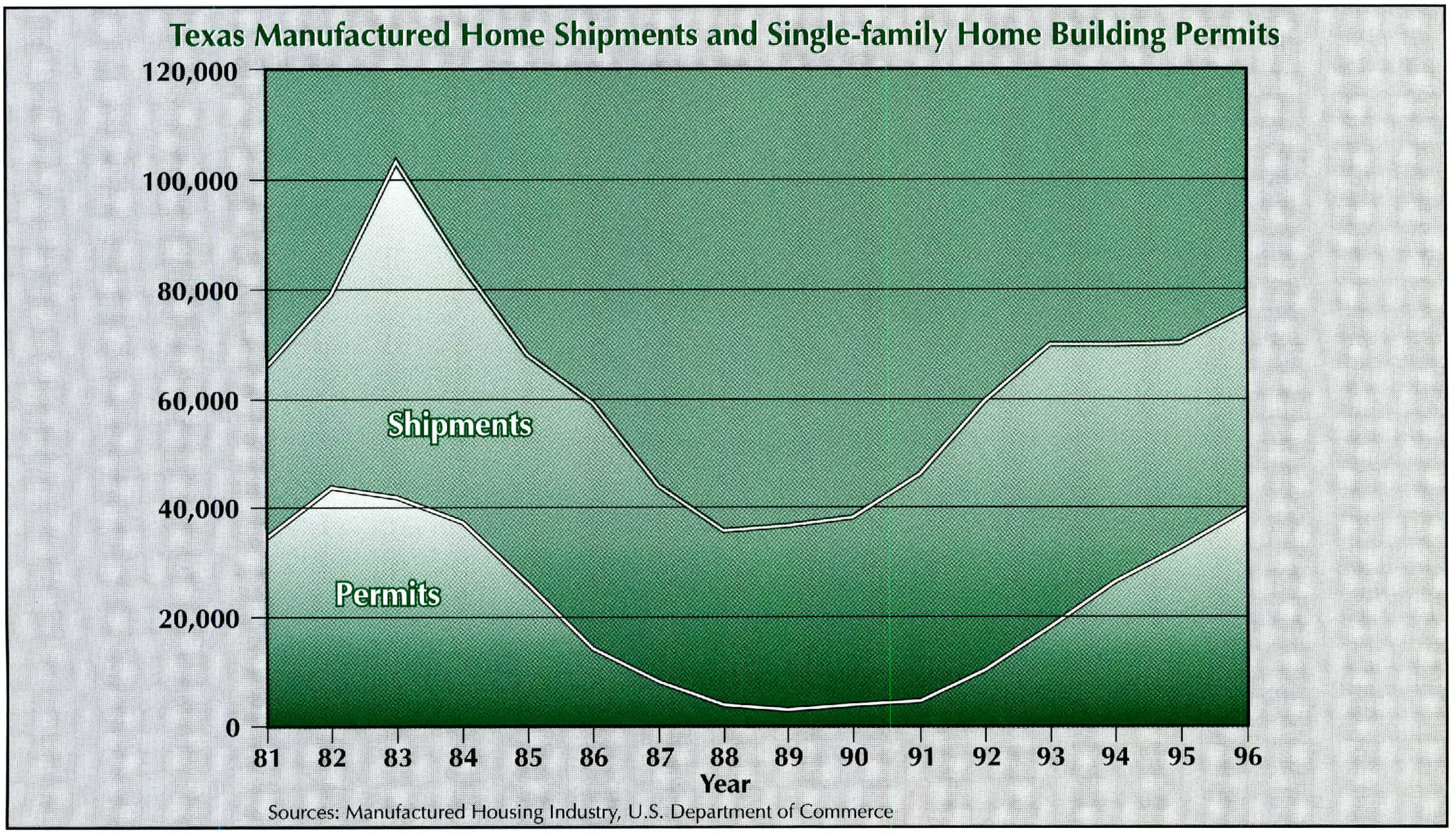
At the same time, a site in a desirable neighborhood often increases in value. Whether a home appreciates or declines in value depends on the quality of the location and market conditions, not so much on how the home was constructed. This effect was documented by a recent study at East Carolina University. Researchers found that manufactured homes in three North Carolina counties appreciated at rates comparable to site-built homes when the units were permanently attached to foundations. Results for personal property housing units were inconclusive.

City zoning authorities justify heavy restrictions on manufactured housing on the basis of detrimental effects to surrounding property values. A North Carolina study in the 1980s found no such effect. Site-built homes located near manufactured units were as likely to sell for a price greater than appraised value as those without the presence of such units.

Can you get a loan to buy a manufactured home? The type of financing available depends on whether the unit qualifies as real property (a fixture) under the law. Again, a manufactured house becomes a fixture to real property when it is permanently attached to a foundation. Texas law requires the title for the unit to be canceled and that a certificate of attachment be filed in the public records. If it does not meet this criteria, the home is considered personal property, much like an automobile, and cannot be financed with a mortgage loan. If the unit does meet the criteria, it can be financed with mortgage loans like any other single-family home. Manufactured homes that qualify as real property can be financed with loans insured through Federal Housing Authority (FHA) Title II program, just as site-built homes.

Many manufactured home buyers purchase their unit from a dealer and have the unit transported to a manufactured housing community where they rent a site. These units remain personal property and, therefore, are not eligible for mortgage financing. However, "chattel" financing, similar to an automobile loan, is readily available. Such loans tend to have shorter terms and higher interest rates than comparable mortgage loans, because the loans are considered more risky. On the other hand, personal property loans may be originated more quickly and with fewer closing costs compared to mortgage loans. The loans are usually originated by the dealer and sold to financial institutions.

The FHA also has a program for manufactured home personal property loans. The loans may be used to purchase the housing unit, a site upon which to locate the unit, or both. A loan under FHA Title I covers as much as 95 percent of the



value or cost (whichever is lower) of the home, or as much as 130 percent of the wholesale cost of a new unit. In October 1994, HUD added strict energy conservation standards to its manufactured housing code. Consequently, loans on units covered by the new code can have monthly payments up to 31 percent of monthly income and total debt payments up to 43 percent of income (regular FHA qualifying ratios are 29 and 41 percent, respectively). The idea is that the lower costs of utilities allows the homeowner to afford higher loan payments. Of course, any unit financed must comply with the HUD safety code, and there are some site requirements concerning where the unit is to be located. The FHA forbids Title I lenders to charge discount points or to require prepayment penalties on the loans.

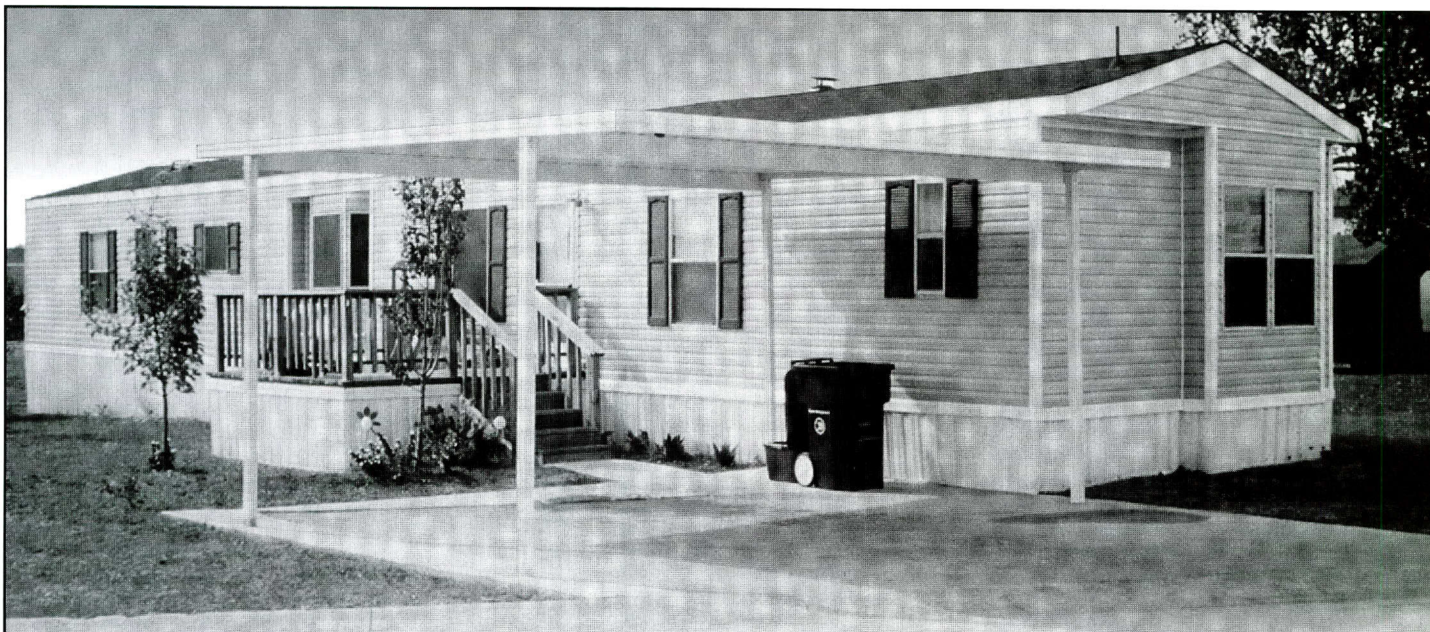
For those who are eligible, the Veterans' Administration has a loan guarantee program that covers purchase of manufactured homes.

Incidentally, even if a home is purchased with a personal loan, the interest paid is a valid itemized deduction for federal income tax purposes. Any loan used to purchase a first or second home is eligible for mortgage interest deductions. The housing unit merely needs to have sleeping, cooking and toilet facilities to qualify as a home.

In summary, personal property or chattel financing entails a higher interest rate and shorter term but is easier and less expensive to arrange; and the homebuyer does not need to purchase a homesite, thereby reducing front-end costs. Mortgage financing offers lower interest costs but requires the housing unit to qualify as a fixture to real property. In some parts of the country, developers are offering land lease communities where a manufactured homeowner can obtain a site with a long-term lease. In this way, the homebuyer may be able to obtain mortgage financing without buying a site.

Since the first federal housing act in 1949, government policy has encouraged home ownership. This public commitment reflects the desire of most citizens to own a home. Yet, the traditional home is beyond the financial capability of many, even with today's low interest rates. The alternative of rented housing is becoming less affordable as well. Faced with this dilemma, expect more families to turn to manufactured housing. Fortunately, while retaining their relatively low cost, manufactured units have improved markedly in quality, safety and appearance. They still are not welcome everywhere, but as a viable source of affordable housing, there will be pressure to make accommodations for quality subdivisions. Already a significant presence in Texas, the manufactured home has the potential to become a large part of the future housing stock. (Considering buying a manufactured home? Read "Consumers Union's Tips on Mobile Homes." This 20-page booklet sells for $2 and is available from: Consumers Union, Box EMD, 101 Truman Ave., Yonkers, New York 10703.)

Dr. Harris is a research economist with the Real Estate Center at Texas A&M University. Carroll is director of the Affordable Housing Group for Clayton Williams & Sherwood in Georgetown, Texas.



Definitions

Site-built home. A housing unit constructed entirely or predominately on the site. Structural components, such as wooden I-beams and roof trusses may be constructed in a factory and used on the site.

Manufactured home. A housing unit constructed entirely in a factory and complying with the Federal Manufactured Home Construction and Safety Standards Code. The so-called "HUD code" sets standards for strength, transportability, fire resistance, energy efficiency and quality. Housing units are produced in single or double sections and are transported to the site and installed.

Mobile home. The term applied to manufactured housing units built before the HUD code went into effect in June 1976.

Modular home. A housing unit constructed in a factory and customized to conform to state regulations and local building codes in effect where the unit will be located. Modular units may be single or double sections.

Panelized home. A housing unit composed of pre-fabricated panels built in a factory. The panels contain whole walls including interior wiring and exterior siding. Construction is governed by local codes.

Pre-cut home. A housing unit that is constructed on-site from materials cut-to-fit and finished in a factory.

Source: Manufactured Housing Institute

To Tell The Truth About PMI

By Jack C. Harris and Kurt Hopfe

Approximately 16 percent of home mortgages originated today are covered by private mortgage insurance (PMI). Many borrowers who pay PMI premiums do not understand what they are paying for and are unaware of the available alternatives. Yet, PMI premiums can be as much as $1,000 annually on a $100,000 loan.

PMI was highlighted recently by congressional efforts to make it easier for borrowers to cancel the insurance when coverage is no longer needed. It may have come as a revelation to many homeowners to learn that PMI may be canceled under certain conditions. In fact, a new Texas law requires that lenders notify borrowers annually of the cancellation procedure. It can be expected that more prospective homebuyers will have questions about PMI and the alternatives.

Understanding PMI

A mortgage loan is a secured debt in that something of value is pledged as collateral to ensure the borrower repays according to schedule. The collateral almost always is the real property being purchased, or refinanced, with the loan. A lender's recourse to sell the collateral in the case of default greatly reduces the risk of loss.

The lender's risk is reduced further if the borrower has a financial commitment to the property. A borrower who has equity in a property is a better risk. Consequently, a mortgage lender normally is willing to lend an amount that is somewhat less than the total property value. If the property is a home that the borrower will occupy, most lenders will provide a loan equal to 80 percent of the appraised value or the actual sales price, whichever is lower.

The remaining 20 percent of the purchase price must be supplied by the borrower. This requirement both provides a margin in case the value of the property declines and establishes a commitment on the part of the borrower to repay the loan. Accumulating enough cash to meet this requirement, however, is a difficult task for many prospective homebuyers, particularly those who do not already own a home.

This is where mortgage insurance comes to the rescue. There are companies that are willing to insure the lender against loss from borrower default. The insurance policy covers a certain percentage of the loan amount and is treated by the lender as a substitute for the borrower's cash investment. Through use of mortgage insurance, it is possible to obtain a mortgage loan for as much as 97 percent of the purchase price.

There are several key points that borrowers should understand about mortgage insurance.

The lender is the beneficiary of the insurance policy. The homeowner benefits from the lender's willingness to provide a loan for a higher percentage of the purchase price and relatively little cash from the borrower. If the borrower stops making payments and the lender is forced to foreclose, the insurance company will make good on its commitment for a specified percentage of the loan amount. The property is sold (and the lender or the insurance company may be the buyer) and the proceeds are applied to retire the debt and pay interest due and expenses.

New homebuyers may consider the alternative of a larger down payment to lower their private mortgage insurance premium.

The insurance company pays any deficiency within coverage limits but has no obligation to reimburse any loss incurred by the borrower. In fact, the borrower may be liable for a deficiency if sales and insurance proceeds do not fully cover the lender's costs. Until a few years ago, insurance companies could pursue borrowers for deficiency judgments, but Texas law now precludes this.

Although the borrower is not the beneficiary of a mortgage insurance policy, it is customary for the insurance premiums to be paid by the borrower. The premium is calculated as a specific percentage of the principal balance of the loan. For example, a 0.75 percent premium applied to a loan balance of $100,000 costs the borrower $750. Basically there are three ways a PMI premium can be paid:

- A one-time payment at closing.
- An annual payment made at closing and at the loan anniversary date each year. Lenders often provide for this fee in an escrow account to which the borrower contributes each month.
- A monthly payment. The premium rate is applied to the loan balance at the anniversary date, and this amount is divided into 12 equal monthly payments. Usually, a reserve of several months payments is required at closing.

For annual and monthly payments, the amount can be based on the outstanding balance at the beginning of each year or on the original balance. In the latter case, there usually is a rate reduction after so many years. The net effect of either method is to gradually reduce the fee during the life of the loan. The one-time premium can add substantially to closing costs—as much as 5 percent of the loan amount. This makes this payment plan somewhat impractical for borrowers trying to conserve cash. In some circumstances, however, the fee might be financed. The one-time and annual-level fees may be refundable if the borrower repays the loan before the end of the premium term. This potentially valuable feature is offered as an option.

The premium amount varies with the loan characteristics. Features that extend the risk exposure of the insurer raise the premium and vice-versa. Here are some examples using rates quoted by Mortgage Guaranty Insurance Corporation (MGIC). Consider a $100,000 mortgage loan covering 95 percent of the cost of the home. The interest rate is fixed for the 30-year loan term. The lender requires insurance coverage for 25 percent of value, and the borrower chooses to make monthly premium payments. The annual premium is 0.67 percent of the balance or $670 for the first year of the loan. This translates into monthly premiums of $55.83. The following examples illustrate how the premium changes if certain loan characteristics are altered.

- **If the borrower chooses annual level payments** (paying at the beginning of each yearly payment cycle), the rate is lowered to 0.64 percent. The annual premium is $640 per year (comparable to $53.33 per month). In addition, the borrower can get some of the premium refunded if the loan is repaid during the year. Incidentally, if the one-time payment option has been taken, the premium at closing is $4,400 with a refund privilege or $3,600 without refund.
- **If the lender needs only 22 percent coverage**, rather than 25 percent, the premium is reduced to 0.63 percent per year. Monthly payments are $52.50. Borrowers who know they will need PMI may want to find out how much coverage is required when shopping for a loan.
- **If the loan term is shortened to 25 years**, the premium is reduced to 0.65 percent ($54.17 per month). A 15-year term results in a reduction to 0.6 percent ($50 per month). In addition, lenders may apply a lower interest rate or require fewer discount points on shorter term loans.
- **A larger down payment** reduces default risk substantially and, thereby, lowers the premium. If a 10 percent down payment can be managed, the premium drops to 0.52 percent ($43.33 per month). A 15 percent down payment drops it to 0.43 percent ($35.83 monthly).
- **If the loan payment itself has the potential of becoming larger** during the term, the risk of default is higher. If the loan is an adjustable rate mortgage (ARM) with a 1 percent interest rate cap (whereby the interest rate cannot be adjusted more than 1 percentage point in any one year), the premium increases to 0.73 percent ($60.83 per month). If the cap is 2 percentage points, the premium is raised to 0.77 percent ($64.17 per month).
- **Finally, if the home purchased is not the borrower's principal residence**, all rates are raised by 0.14 percent, adding $11.67 to the monthly premium.

Canceling PMI

As the remaining term of a mortgage loan decreases, the risk of borrower default declines, as long as the economy performs reasonably well. Also, the ratio of loan amount to value declines as the principal amount is slowly repaid and the property's value possibly increases. Consequently, the need for mortgage insurance declines over time and, at some point, the borrower may have the opportunity to cancel the coverage.

The right to cancel ultimately resides with the mortgage holder. This may be the original lender (in the case of portfolio loans), an individual or institutional investor or a major secondary market entity (Fannie Mae or Freddie Mac). Before considering cancellation, most mortgagees require a record of consistent and timely payments and verification that the outstanding mortgage principal is less than a specific portion (usually 75-80 percent) of the property's current value.

Borrowers should check with the company that services their loan for the exact requirements. This usually means a professional appraisal at the borrower's expense. The mortgagee may specify the appraiser's qualifications. If the insurance is canceled, the borrower no longer pays an insurance premium with the monthly payment. For annual and single-payment plans, the borrower may be eligible for a prorated refund, if such an option was acquired initially.

Because they are not aware of their opportunity to cancel, many borrowers pay insurance premiums even though the loan-to-value ratios on their loans have fallen enough to allow cancellation. That is why the Texas Legislature amended the state's insurance code to require lenders to notify borrowers each year regarding insurance cancellation. The requirement went into effect January 1, 1998.

U.S. Congressman James Hansen of Utah would go even further. He sponsored legislation to require lenders to automatically cancel PMI when the loan balance falls to less than 75 percent of value, assuming the borrower is current on the loan. Lenders would be required at closing to disclose how the insurance could be cancelled prior to the time of automatic cancellation. The loan servicer would have to tell borrowers each year how to cancel. Automatic cancellation would apply only to loans originated at least a year after the law is signed. (The bill, H.R. 607, passed the senate in November of 1997 but had not been signed into law as of the publication date.)

Avoiding PMI

Suppose a prospective homebuyer does not like the costs and hassles associated with mortgage insurance. What are the alternatives? (continued on p. 10)

The following tables help evaluate the relative costs of PMI alternatives: FHA, higher interest rate or a second mortgage.

Table 1 indicates the interest rate that could be paid on a FHA loan to make the monthly payments equivalent to those on a loan with PMI.

Table 2 shows the interest rate that could be paid on a self-insured loan to equate payments to a loan with PMI. Table 3 gives the interest rate that could be paid on the second mortgage in an 80/10/10 arrangement to equate payment to a 90 percent loan with PMI. This analysis does not take into account the effects of tax deductible interest expenses. Assumptions include: amount of total debt is equal to 90 percent of value for each loan, PMI is paid as monthly payments, the FHA premium is financed into the loan, the term of all first mortgages is 30 years, the term of the second mortgage is 15 years and the interest rate on the first mortgage in 80/10/10 loan is equal to that on the 90 percent PMI loan.

Here is how the tables can be used. Suppose a borrower faces the prospect of a loan at 7.5 percent interest and a PMI premium of 0.50 percent per year. If an FHA mortgage can be found at an interest rate less than 7.87 percent, it will provide lower monthly payments compared to the PMI loan (Table 1, fourth row, second column). Likewise, a self-insured loan with an interest rate of less than 8.10 percent provides lower payments (Table 2). Table 3 shows that a second mortgage less than 9.99 percent, combined with a first mortgage at 7.5 percent, provides a lower payment.

Table 1. Equivalent* Interest Rate for FHA Mortgage**

Rate on PMI Loan	PMI (Annual Percentage) .25	.50	.75	1.00
6.00	6.32	6.43	6.74	7.03
6.50	6.40	6.91	7.21	7.50
7.00	7.08	7.39	7.69	7.97
7.50	7.57	7.87	8.16	8.44
8.00	8.07	8.36	8.65	8.92
8.50	8.55	8.84	9.13	9.40
9.00	9.04	9.33	9.61	9.88

*Interest rate that results in the same monthly payment.
**Mortgage Insurance Premium (MIP) of 2.25 percent financed into loan.

Table 2. Equivalent* Interest Rate for Self-Insured Loans

Rate on PMI Loan	PMI (Annual Percentage) .25	.50	.75	1.00
6.00	6.33	6.65	6.97	7.26
6.50	6.82	7.13	7.45	7.74
7.00	7.31	7.60	7.92	8.20
7.50	7.80	8.10	8.40	8.68
8.00	8.30	8.60	8.89	9.17
8.50	8.80	9.09	9.38	9.65
9.00	9.30	9.58	9.87	10.14

*Interest rate that results in the same monthly payment.

Table 3. Interest Rate on Second Mortgage* to Make Monthly Payment Equal to 90 Percent Loan with PMI

Rate on PMI Loan	PMI (Annual Percentage) .25	.50	.75	1.00
6.00	4.93	8.33	11.40	14.27
6.50	5.56	8.88	11.92	14.74
7.00	6.17	9.43	12.43	15.22
7.50	6.79	9.99	12.95	15.72
8.00	7.41	10.56	13.48	16.22
8.50	8.02	11.12	14.00	16.72
9.00	8.64	11.69	14.64	17.23

*Fifteen-year term, principal equal to 10 percent of value.

Save the cash. The prospective buyer can delay plans to buy a home until saving the cash required to get a loan that does not require insurance. In practical terms, that means saving enough cash to pay 20 percent of the home price plus all the closing costs that buyers normally pay (or negotiate with the seller to pay these costs). At today's home prices, this can easily run into tens of thousands of dollars. Moreover, the purchase can deplete savings and leave the buyer unprepared for an emergency.

Use FHA. A popular alternative, especially for first-time buyers, is a loan insured by the Federal Housing Administration (FHA). FHA insurance works much like PMI in that the borrower must pay insurance premiums to protect the lender from default. All FHA 30-year loans require payment of an upfront, one-time premium equal to 2.25 percent of the loan amount. This may be reduced to 2 percent if the borrower agrees to special counseling. First-time homebuyers are eligible for a further 0.25 percentage point reduction. Premiums for 15-year loans are slightly lower. The fee, however, may be financed as a part of the loan. A monthly premium, equal to one-half percent of the loan balance per year, is required as well.

'Some borrowers prefer FHA to conventional loans because the qualifying ratios are more lenient, allowing a borrower to obtain a larger loan for the same qualifying income.'

This insurance cannot be canceled, although the borrower is eligible for a pro-rated refund if the loan is repaid within 84 months of origination. In addition, the monthly premium automatically stops after seven years for loans less than 90 percent of value and 12 years for those 90 to 95 percent of value. Terms are shorter for 15-year mortgages. Some borrowers prefer FHA to conventional loans because the qualifying ratios are more lenient, allowing a borrower to obtain a larger loan for the same qualifying income.

Veterans. Military veterans may qualify for 100 percent financing through loans guaranteed by the Veterans Administration (VA). Because the loans are guaranteed, rather than insured, the borrower pays no insurance premium. Instead, eligible veterans obtain a certificate of eligibility good for a specified dollar guarantee. The guarantee acts like a cash down payment. The VA charges a funding fee that varies from 1.25 to 2.75 percent depending on the veteran's status and amount of down payment. This fee may be financed into the loan. The borrower may get a loan of four to five times the amount of the entitlement with no cash investment.

Pay higher interest rate. Many lenders, particularly "portfolio" lenders who hold mortgages after origination, will make a mortgage loan for more than 80 percent of value and not require insurance. The additional risk of such "self-insured" loans is taken on by the lender. As compensation, the lender charges a higher interest rate and may insist on an impeccable and well-established credit record. According to Mary Callegari, regional vice president of CTX Mortgage Company in Dallas, this type of loan has not proven popular with borrowers because of the higher interest rate. It should be noted, however, that homeowners who itemize deductions for income tax purposes can deduct interest expenses but not insurance premiums.

Borrow the down payment. Instead of paying a higher interest rate on the entire loan, a combination of a first mortgage loan and higher-risk second mortgage can be arranged. The first lien loan covers 75 to 80 percent of cost, is priced at market rates and requires no insurance. A second mortgage, with a lien subordinate to the first mortgage, provides another 10 to 15 percent of acquisition costs and carries a higher interest rate. The borrower must provide the remaining 5 to 10 percent in cash.

Many mortgage brokerage companies offer such loan packages, relieving the borrower of the need to shop for two separate loans, with names such as "80/10/10" or "75/15/10" loans. (For examples, check the Internet at www.reliancemortgage.com/top10.html, www.missionmortgage.com/pmi.html and rampages.onramp.net/~mbtaxas/ nomi.html). The first number refers to the amount of first mortgage ("80 percent"), the second number is the second mortgage portion, and the last number is the down payment. The second mortgage not only has a higher interest rate but typically is of shorter maturity. When the second mortgage term expires, the total debt payment declines automatically.

Major purchasers of first mortgages do not allow second mortgage loans to be used as down payment. However, apparently it may be possible to arrange for the seller to take a note for a portion of the down payment and obtain a first loan without the lender's knowledge of the second loan. Not only is this a fraudulent practice, but it places the borrower at a disadvantage to the cooperating seller in negotiating a price for the home. What is saved in insurance premiums may be lost in a higher sales price.

Pledge securities. Some lenders provide 100 percent financing if borrowers pledge a portfolio of marketable securities to back up their obligation to repay the loan. These "pledged asset" loans typically require borrowers to establish an account containing the securities (stocks, bonds, funds, certificates of deposit) with the lender. The borrower can trade within the account and access any income generated, as well as recover the account when the loan is repaid.

What makes this option practical for cash-strapped borrowers is that the assets can be supplied by a relative. Thus, parents can assist with the purchase of a first home without lending or giving their children cash (which many lenders limit as a contribution to the down payment). An example of a pledged asset mortgage is that offered by Texas One Mortgage Company (www.io.com/~texasibe/pledged.html). The pledged asset they require is a certificate of deposit equal to at least 10 percent of value, but it must equal 30 percent to avoid PMI. Although the loan may cover 100 percent of value, the borrower must contribute at least 3 percent of costs (closing costs, pre-paid expenses or down payment) from their own funds.

PMI cannot be avoided without incurring costs. However, for some borrowers, one of these alternatives may be preferable. If the borrower has the ability to save enough cash to make a 20 percent down payment and does not mind committing that savings to the purchase, then delaying the purchase may be the way to go. If the borrower is eligible for a VA loan, it should be considered. Having a relative willing to pledge securities against the mortgage might enable the borrower to qualify for a pledged asset loan.

Dr. Harris is a research economist with the Real Estate Center at Texas A&M University. Hopfe is a global bank analyst with Texas Commerce Bank, a subsidiary of Chase.

Quality, Amenities Top Shopping Lists

Selling Savvy Homebuyers

By Mark G. Dotzour

Although the 65,000 home builders attending the 1998 International Builders' Show in Dallas were from around the world, they had similar questions: What do homebuyers want? What are the trends in home building? Here is what they heard.

"Today's new homebuyers are savvy consumers who demand a quality product with lots of amenities," says Kent Colton, executive vice president of the National Association of Home Builders (NAHB). "In 1996, the most recent year for which numbers are available, new homes were the largest ever — averaging 2,120 square feet. Almost half had 2.5 or more bathrooms. Almost a third had four or more bedrooms, 59 percent had a fireplace, and 81 percent had central air conditioning."

By comparison, new homes built a generation ago in 1973 averaged 1,660 square feet, and only 19 percent had 2.5 or more bathrooms. Thirty-four percent had a fireplace, and 49 percent had central air conditioning.

Back-to-Nature Buyers

Recent NAHB research points to the emerging trends. For example, there is an increasing demand for two-story homes. This is especially true for first-time buyers.

Smaller lots are gaining buyer acceptance. In fact, the New American Home '98 built in conjunction with the home builders' meeting has only 20 feet of street frontage. The 4,873-square-foot house exemplifies innovative zero-lot-line design on a pie-shaped lot.

In homes where entertaining is frequent, kitchens are a focal point. Today's popular kitchens include islands, space for multiple cooks, a visual connection with the family or media room and a big window over the sink. Walk-in pantries are increasingly in demand.

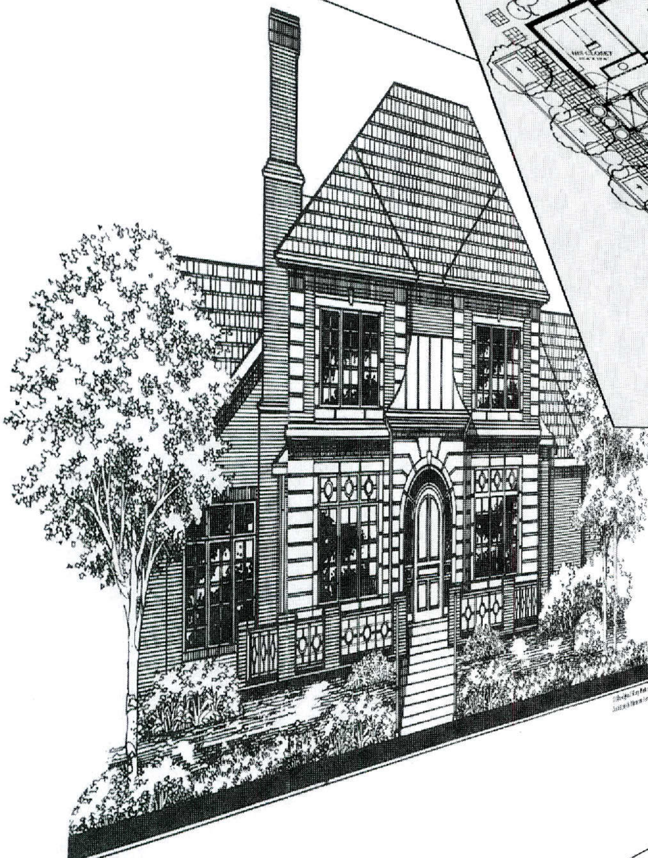
Here are some of the other home building trends.

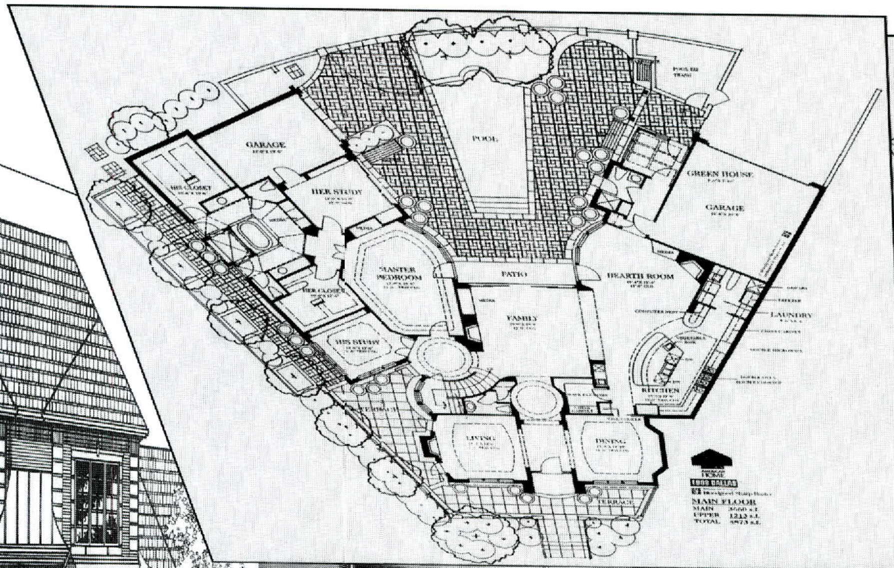
- There is a back-to-nature trend. Buyers prefer parks, walkways and gardens rather than fitness centers, tennis courts and pools.
- Media rooms—a place for the stereo, home theatre and computer games—continue in popularity.
- As buyers age, the master bedroom on the ground floor is gaining importance.
- Higher ceilings—at least nine feet—are preferred.
- Many buyers are willing to accept a great room in lieu of separate family and living rooms.
- More buyers are asking for a "reading room." This can be part of a guest bedroom.

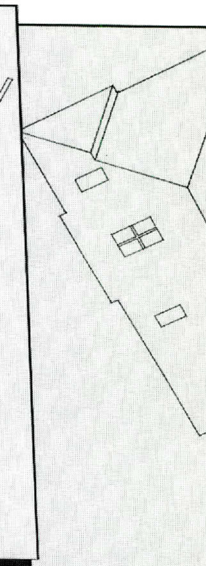
Boomers Sooner Than Later

In 1996, the first of the baby-boom generation turned 50. In the late 1990s, millions of "boomers" will reach the "big five-oh." As the biggest demographic segment, it is important to understand what they look for in housing.

Unfortunately, it is not easy to determine boomer preferences. Some have young, school-age children. Others are empty-nester grandparents. Boomer housing preferences fall into two basic categories.







A beauty is born. The NAHB Builder's Show in Dallas featured The New American Home '98 that boasted 4,873 square feet of state-of-the art design, construction and, of course, luxurious amenities.

First, there is the "let's-spend-it-before-we-die" group. Some boomers are spending big money on housing. Amenities in demand by this group include ornate formal rooms for entertaining, hidden spaces for personal protection and storage of valuables, hobby rooms, at least one office, gourmet appliances, spacious kitchens, media rooms and a suite to accommodate older parents on the ground floor.

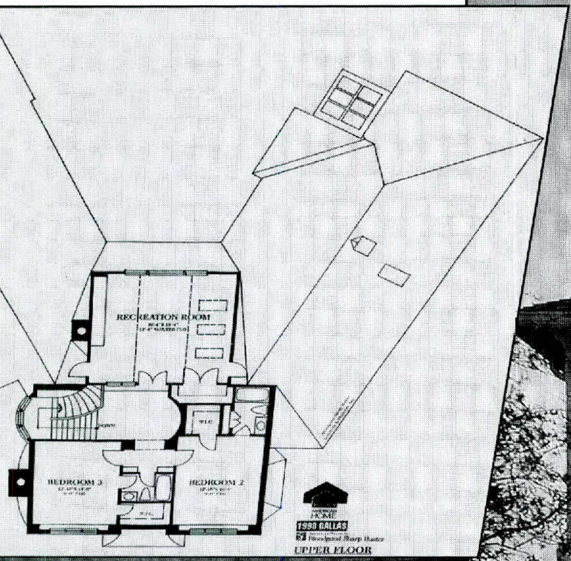
The second boomer category is the "this-is-our-last-house" group. Patio homes, zero-lot concepts and other smaller lot configurations are popular with them. They prefer houses with low exterior maintenance and minimal lawn care. They are willing to pay for lawn care, leaf raking, snow removal and house cleaning. The master suite should be large enough to arrange a king-size bed and sitting area comfortably. The kitchen should be connected to the living areas. A sizable portion of retirees who leave their roots and move south often return to their original area within three years. Boomers are more interested in buying second homes in locations they like to visit.

Security is another important aspect to the boomer market. Upscale buyers are paying for secret places to store valuables and even secret passageways for personal escape routes. Even those with modest income levels are willing to pay for gated communities.

Flexible Family Features

Traditional Homes Magazine surveyed 800 families nationwide and conducted focus groups of people who are building homes.

Here is what the editors were told.



More than one-third (36 percent) of homeowners are happy with their current home. The improvements they would most like to make to their home include:

- increasing the total amount of storage,
- more bathrooms and
- increasing the quality of light.

Half of the respondents say they either plan to remain in their current home for 20 years or never move again. New homebuyers are most pleased with the number of bedrooms, outdoor spaces, safety features and quality of construction. Women buyers seek a sense of light—10-foot ceilings, windows and lighter shades of paint.

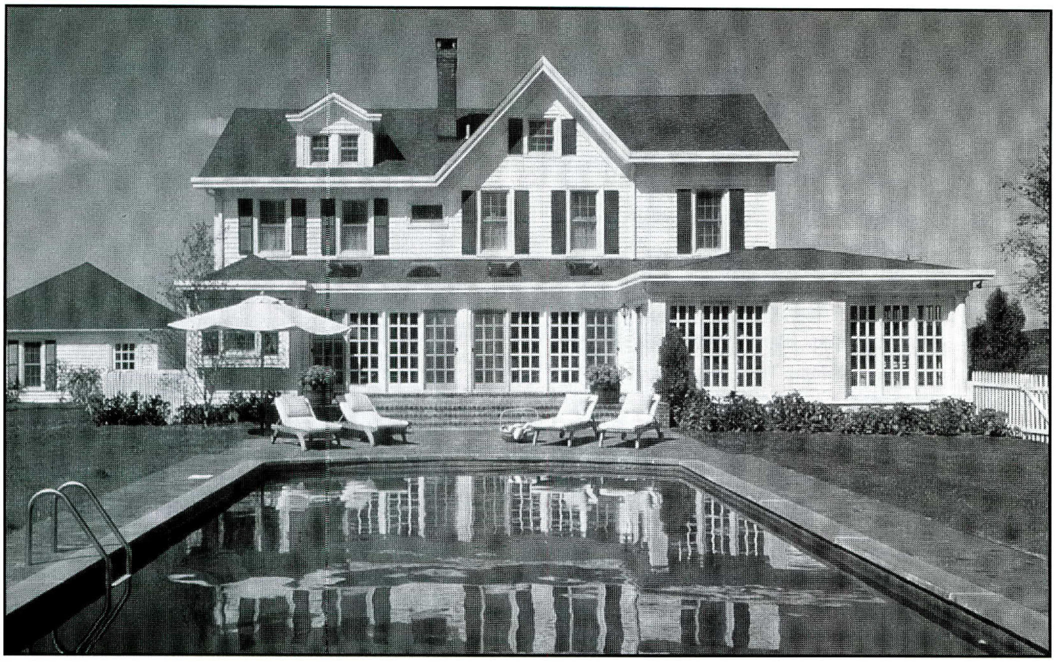
When asked what the ideal home without budget constraints would contain, women said: an oversized garage, extra large laundry room, three-season porch for entertaining, a security system and a whirlpool bath. Men wanted a workshop, home theater and shower separate from the tub.

Both men and women say they want a "flexible" home that allows them to stay in the home as their families change. Flexible space architecture can easily interchange functions as the family grows to accommodate young children, teen-agers, college-bound children, grandchildren and a home office.

At the International Builders' Show, not all the talk is about homes. Trends in apartment design and renovation of commercial properties and apartments were topics of discussion as well.

Small Apartments Out

A strategic planner specializing in multi-family properties told builders that—when it comes to apartments—small is out; large is in.



Today's demanding homebuyers want more space and customized amenities than in previous years. And, they are ready, willing and able to pay for these upgrades.

"People want space, and they're willing to pay for it," says Jennifer Nevitt of Bravo Strategic Marketing in Reno, Nevada.

Even two bedrooms are often not enough. Three- and four-bedroom units are moving more quickly.

"Galley kitchens also are outmoded, and sliding glass doors date your product to the extreme," says Nevitt.

She says better kitchen choices are U- or L-shaped layouts. A kitchen island is better than a galley plan. And French doors are so important that if cost is an issue, it would be better to add them and eliminate another feature.

Nevitt urged apartment and townhouse builders to perform a "functionality audit" of their properties to ensure their designs are current. Such examinations could reveal shortcomings, including walls that are not long enough to accommodate the large pieces of furniture that today's consumer favor.

Twelve-foot bedroom walls are no longer adequate, she points out. Instead, at least 13 feet of unbroken wall is needed. Otherwise, king-size beds and dressers will not fit. Nevitt offers a list of "quality-of-life" issues that all multi-family builders should address to survive in this "era of the never-satisfied customer who wants instant gratification."

Topping the list of consumer demands are full-size washing machines and dryers. And, they want them in their apartments, not in a laundry room. Today's tenants also want large capacity water heaters. Other concerns include sound, security and natural lighting.

"Today, you need at least five- or six-foot windows; the larger, the better," she says.

Parking is critical, too. That is not just true for the tenant or buyer but for the guests. Large-sized mail boxes to accommodate mail-order packages are another consumer hot button.

Here are some of the other non-residential trends homebuilders discussed in Dallas.

Renovating Commercial Properties

The concept of "universal design" allows people of all ages and abilities to use property. It is a user-friendly concept that is described with adjectives such as supportive, enabling, compensatory and adaptable.

Buildings with a universal design are more marketable and help building owners avoid needless litigation regarding building accessibility and premise liability. Design factors that reduce injuries also are a way for building owners to reduce their liability exposure.

"De-malling" a property is one concept of adaptive reuse of retail. This entails removing existing interior walls and creating much larger spaces within the mall. Retail space must be attractive. It has to spark customer enthusiasm. Consequently, building remodelers must focus on exterior as well as interior renovation.

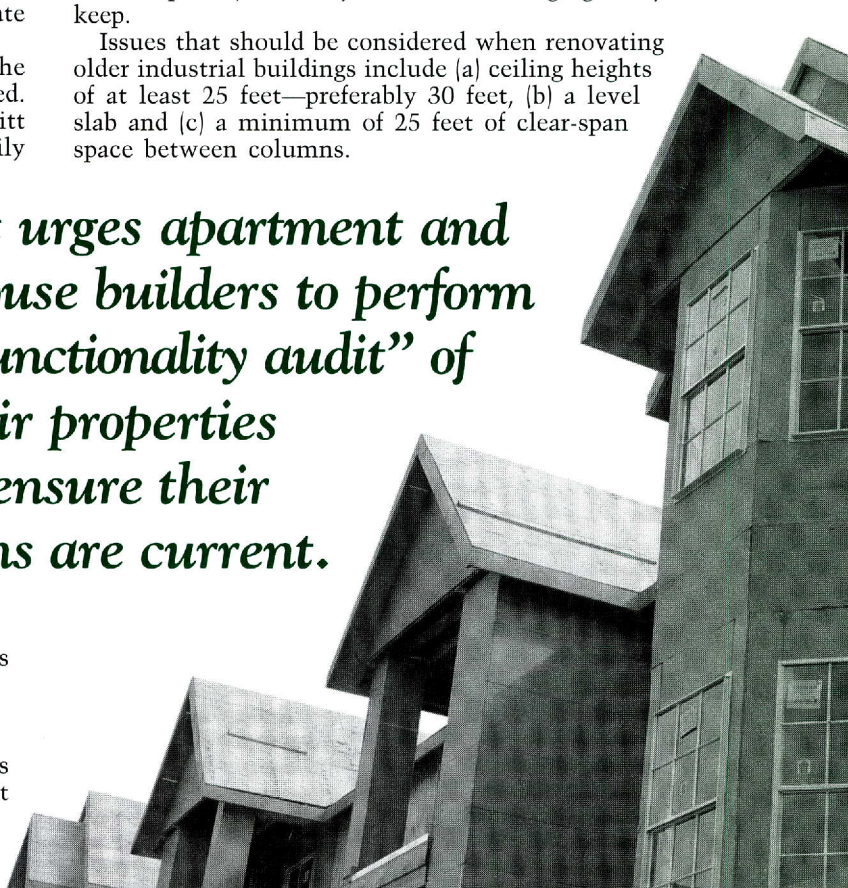
Redeveloping Class B retail properties is another area of promise identified for commercial renovation. Five significant factors should be considered for such projects. (1) Demographic analysis is essential to fully understand the make-up of the area's customer base. (2) Based on the demographic analysis, major customer groups should be identified. (3) Often the existing tenant base must be changed to create an attractive offering to the desired customer base. (4) Americans with Disabilities Act requirements must be addressed. (5) It is likely that all electrical and heating and air conditioning will need to be replaced.

Mini-Warehouses and Industrial Property

Mini-warehouses are expected to continue to be a strong market because as people get older, they tend to move into smaller places, but they still have belongings they want to keep.

Issues that should be considered when renovating older industrial buildings include (a) ceiling heights of at least 25 feet—preferably 30 feet, (b) a level slab and (c) a minimum of 25 feet of clear-span space between columns.

Nevitt urges apartment and townhouse builders to perform a "functionality audit" of their properties to ensure their designs are current.



The focus should be to create wide-open floor space. Gutting the interior walls and creating an interior "white box" allows the next user the most design flexibility.

Rehabbing in Big D

In Dallas, the old Sears distribution center is being converted to apartments. Other older office buildings in downtown are being converted to loft apartments. One of the difficulties in rehabilitating older office buildings is that today's office consumer does not want the electrical conduit in the ceiling overhead but wants the cable in the floor.

Office users are looking for space flexibility. They want to be able to design their layout to fit the needs of their operations rather than figure out how to fit operations into a specific building floor-plan. Consequently, one successful strategy for office rehabilitation is to clear out the interior of the older building and create an interior "white box." Tenants then use "systems furniture" and have complete flexibility to design the optimal office layout that will meet their needs and not be constrained by outdated building layouts.

Older office designs with large private offices are no longer in fashion. Many companies now prefer open plans with smaller office spaces per employee. "Hoteling" is a concept where workers do not have a permanent, individual desk space. Instead, employees who often work outside the office share workstations. Space at these workstations is reserved in advance. The employee's personal belongings are stored in a locker when not needed.

Another trend affecting demand for suburban office space is the increased use of home offices. Increasingly, traveling salespersons and others opt for a home office rather than incurring overhead associated with a commercial private office. This trend is likely to reduce demand for suburban office condominiums as well.

Dr. Dotzour is chief economist for the Real Estate Center at Texas A&M University.

Property Tax Value Protest

Successfully Negotiating With Assessors

By Charles E. Gilliland

Faced with an increased assessed value on their property—and thus the potential for higher taxes—many owners resolve to fight. Disputes with the Central Appraisal District (CAD), however, often confuse and anger the protestor further. Even when taxpayers present evidence to justify a lower value, they frequently are disappointed with the outcome because they did not understand the property tax protest process.

To taxpayers, the issues are clear. They are right, and the CAD is wrong. Taxpayers present their view, sometimes bolstered with facts, in hopes of gaining an adjustment in the assessed value. Some even understand that appraisals are based on sales or incomes of comparable properties and present evidence to substantiate their position.

When they fail to convince the appraisal district staff, taxpayers take their protest to the Appraisal Review Board (ARB). When the ARB affirms the value assessed by the appraisal district staff, taxpayers conclude board members are in cahoots with the chief appraiser.

This scenario is common, and it develops a cynical distrust for a system taxpayers feel is designed to thwart their protest. They fail to recognize that the uncertain nature of appraisal transforms the entire protest process from a battle to an exercise in negotiation.

There are steps taxpayers can take to improve their chances of a successful appeal of a property's assessed value. To negotiate successfully, taxpayers must be:

- realistic
- informed and
- open to compromise.

Property owners must exhibit reasonableness to their position. This can be done informally with the CAD staff or at a formal hearing called protest. At either level, however, valid evidence should be presented. The result ultimately depends on facts described by the evidence. Much hinges, however, on the taxpayer's approach to the CAD staff and ARB.

Official publications describing the tax protest process create an impression that a clinical evaluation of market information produces an objective taxable value. The process appears to be scientific, impartial and precise. Although real estate valuation employs scientific techniques, however, the process is fraught with uncertainty and a scarcity of evidence, especially in Texas.

Uncertainty abounds because an appraisal is an informed opinion of value based on an appraiser's assumptions about the property. These assumptions include economic, demographic and technical factors that underlie the final valuation. These factors include cost estimates, depreciation estimates, estimated income-producing potential and other required qualities and quantities. Appraisers rely on their knowledge of real estate economics and the market to formulate assumptions.

Be persuasive. Agreement with the appraiser's assumptions leads to acceptance of the assessed value. Therefore, altering an appraiser's opinion of value begins by calling into question the assumptions in the original valuation. Perhaps the appraiser misjudged the amount of physical deterioration or attributes too much income to the property. Adjusting these amounts reduces the value. The property owner must convince the appraiser to change his or her view of the property within its market context.

Be objective. Owners should conduct an objective evaluation of the market. Only by reviewing current market conditions can a property owner judge the propriety of an assessment.

Offer a realistic alternative. When the owner develops a realistic alternative to the CAD value, they are closer to an adjusted assessment. Discussions with a CAD appraiser can lead to an adjustment, agreement in principle without a value adjustment, compromise or disagreement. CAD appraisers normally refer the agreement-in-principle cases to the ARB, noting that the previous appraisal may be too high for a specified reason. This approach is used when the appraiser does not feel the evidence points to a specific lower value. The ARB then sets the value.

Uncertainty abounds because an appraisal is an informed opinion of value based on an appraiser's assumptions about the property.

Present information effectively. To prevail in negotiation, taxpayers must acquire and present information effectively. They must avoid personal confrontation. CADs respond unfavorably to emotional outbursts or attempted intimidation.

Learn the market. Just because someone paid $150,000 for a property does not mean its current value is not $225,000. Learning about local market conditions may lead property owners to abandon their protest. Furthermore, taxpayers must learn about provisions of the *Property Tax Code* that apply to their case.

Understand the appraiser. Success depends on establishing legitimacy of the taxpayer's case. Taxpayers must use this knowledge to express themselves effectively. Using analogies based on experiences common to the appraiser are effective in emphasizing important points.

Learn about the appraiser's background, hobbies, education and other personal attributes. Analogies built around these can establish rapport and convey the message. Used improperly, however, this approach makes the taxpayer appear patronizing.

Collaborate and communicate. Taxpayers should seek to create a spirit of collaboration based on sincere communication. To do so, property owners must understand needs of the appraiser. Understanding the appraiser's objectives helps predict how he or she will react to a property owner's suggestions and arguments.

Respect appraisers' work. Appraisers need to feel that the property owner appreciates their education, experience and expertise. Treating the tax appraiser's work with respect creates trust. Frequently, property owners mount a frontal assault, questioning the appraiser's competence and ridiculing their value conclusion. This approach ensures non-compliance and motivates the appraiser to justify the original appraisal at all costs.

An appraisal includes such factors as economic, demographic and technical data that underlie the final valuation.

Keys to a successful property tax value protest include being persuasive, objective and realistic. Also, try to understand the appraiser's perspective and respect their education, experience and expertise. This will prove invaluable to property owners developing their own convincing case and beginning negotiations.

Persuasion recognizes that the appraiser is a person doing a job, not someone bent on destruction. Taxpayers should convince the appraiser that the disagreement is not personal but rather an honest difference between two reasonable individuals who should be able to reach a rational conclusion.

Develop a convincing case. Property owners should realize that appraisers also must satisfy their supervisor. Convincing an appraiser to adopt a value, without submitting an overwhelming body of evidence, likely will fail to meet acceptance at a higher level. If the owner prevails using insufficient evidence, the value likely will be reviewed in the ensuing tax year, making any gains short-lived.

Rethink negotiation before formal protest. Taking their case to the ARB means the taxpayer failed to persuade the CAD staff. In other words, the property owner probably does not have an "air-tight case." Conversely, the CAD staff has failed to prove their case to the taxpayer. Most likely, neither side possesses overwhelming evidence.

Raise doubts. The ARB hearing is the property owner's opportunity to persuade the panel of the reasonable nature of their position while raising doubts about the CAD valuation.

Establish credibility. Securing an ARB adjustment depends on establishing the property owner's credibility with the board. Board members may know taxpayers professionally or by reputation. This knowledge creates a predisposition to view testimony in a particular fashion. The initial moments of a hearing are critical in establishing credibility for the property owner. ARB members need reasons to believe the testimony presented.

Appearance, demeanor, communication. If ARB members encounter a taxpayer who appears belligerent and brooding, they will anticipate an unpleasant session. Convincing the board to react favorably to a request is easier when the taxpayer appears to be a pleasant, well-dressed property owner who respects the board. Unpleasantness distracts and raises doubts. Good manners and a pleasant appearance establish credibility.

Here are some other hints for taxpayers appearing before the ARB.

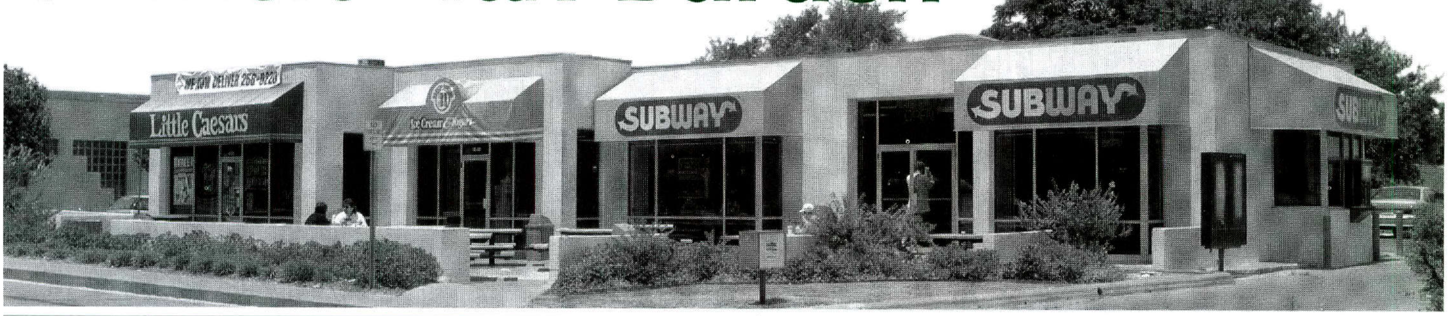
- Do your homework. Speak with others who have dealt with both the appraisal staff and board. Learn about board members' backgrounds, likes and dislikes.
- Attend a board meeting before the one scheduled for the subject property. Note the concerns of various board members. On the day of the scheduled appeal, arrive early.
- When taking the oath that the evidence is true and correct, do so without hesitation.
- Present a brief, personal introduction, and identify the subject property.
- Present facts in a logical, coherent fashion.
- Interpret the evidence and its impact on the market value of the subject property.
- Argue in terms readily understood by board members. Use analogies and examples they understand.
- Be dispassionate.
- Do not complain about the percentage increase of the proposed value without evidence that the increase is unwarranted.
- Avoid general complaints about the government.
- Only present evidence that relates to market value of the subject property.
- Do not threaten or imply further legal action, such as a lawsuit. The ARB cannot be sued over disputed values.
- Be prepared to present evidence from a new angle. Casting facts in a different context may help board members understand the taxpayer's position.
- Suggest a solution that fulfills the board's need for:
  — equality on tax rolls,
  — an equitable decision and
  — personal and professional acceptance.
- Give the board an estimated value of the subject property.
- Finish the presentation with a strong statement; invite compromise.

The Real Estate Center has several publications that shed light on issues discussed here. Information on ordering *The Texas Property Tax System* ($5), "When, Where, How? Challenging Property Taxes" ($2.50) and "Property Taxes: Making an Appeal" ($2.50).

Dr. Gilliland is a research economist with the Real Estate Center at Texas A&M University.

Shifting Taxes to Tenants

High Demand Market Eases Owners' Tax Burden



By Wayne E. Etter and Charles E. Gilliland

The desire for property tax relief is a common refrain among taxpayers, Texas taxing jurisdictions and elsewhere. Usually, the discussion focuses on how property tax changes will affect single-family homeowners, but the effect on income property values is discussed less often. Real estate investors must understand the difference between the effect of property tax changes on the value of owner-occupied single-family homes and income properties.

Property taxes, levied on owner-occupied single-family homes, are a part of the owner's total housing cost. A buyer comparing homes in a high property tax community with those in a lower property tax community can afford to buy a more expensive home in the low-tax community. If this tax difference exists for several years, housing prices in the high-tax community should decline until total homeownership costs equalize between the two communities.

This is particularly true if the public services funded by the property tax in the two communities are perceived as being nearly equal. However, if the public perceives that the quality of municipal services (police and fire protection) in the higher-tax community are superior, then that community's homes could command a premium price. When property taxes are levied on income properties, however, the effect on value is more complicated.

Income Property Valuation

Income capitalization is a common means of valuing industrial, office, retail and residential income properties. After estimating a property's net operating income (NOI), an appropriate capitalization rate is used to convert the anticipated income stream into an estimate of the income property's value (Exhibit 1-A). Because a property's value is a function of its expected income, increases in value result from increased NOI.

Property tax payments are an operating expense and, along with other operating expenses, are subtracted from rental income to determine a property's NOI. Thus, the price paid for the property allows the buyer to pay a given property tax bill from the income stream. Consequently, a permanent decrease in the property tax should increase an income property's value (Exhibit 1-B).

This immediate increase in value, however, could be offset long term, if the quality of municipal services is diminished by a lack of tax revenue. (For example, slower response time by police, fire, EMS.) Whether or not the property owner benefits from the increased value of the property depends upon the terms in the property lease agreement.

The actual change in the property's value depends on whether the property owner can retain the benefits of a tax reduction or shift a property tax increase to tenants.

Tax Shifting in the Short-Run

The more rental income a property generates relative to operating expenses, the more NOI it will generate. And, as Exhibit 2-A illustrates, market conditions have an important effect on a property's ability to generate rental income and net operating income. Market conditions and the terms of existing leases determine when rental rates can be increased to cover a property tax increase. They also determine whether the tenants or the owner captures the benefits of a tax reduction. These increases are possible when the property

Exhibit 1

	A	B	
	Initial Tax	**Tax Decrease**	**Tax Increase**
Potential gross income	$100,000	$100,000	$100,000
Less: Vacancy allowance	-5,000	-5,000	-5,000
Effective gross income	$ 95,000	95,000	95,000
Less:			
All operating expenses except property tax	-23,000	-23,000	-23,000
Property tax	-12,000	- 9,000	-15,000
Total operating expenses	35,000	32,000	38,000
Net operating income	$ 60,000	$ 63,000	$ 57,000
Net operating income	$60,000	$63,000	$ 57,000
Capitalization rate	.10	.10	.10
= Value	= $600,000	= $630,000	= $570,000

owner faces a *price inelastic demand for space*. The most important condition for price inelastic demand in the retail or office space market is the lack of close substitutes, coupled with continuing demand. If a commercial property owner secures a strategic location or other competitive advantage that makes the property unique, tenants are more likely to be willing to accept increased rental rates. A property's uniqueness makes the tenant demand for the property price inelastic, even if a significant overall vacancy in the market exists. In this situation, the property owner may be able to pass the tax increase to the tenant in the form of higher rents.

For example, when there is a continuing demand for space in a multi-family housing market that has little or no vacant space, apartment owners can increase rental rates to cover an increase in the property tax (Exhibit 2-B). But if the landlord is unable to increase rent to offset the higher taxes, there would be a decrease in value. Conversely, in an apartment market with considerable vacant space, apartment owners would most likely have to absorb the property tax increase. The resulting decrease in NOI would result in a $30,000 decrease in value (Exhibit 1-B).

The market conditions permitting an income property owner to benefit from a property tax reduction are the same as those that permit passing on an increase to tenants. When there is little or no vacant space in the multi-family market, an apartment owner can maintain rental rates and, thereby, increase value if there is sufficient demand for space, despite the property tax decrease (Exhibit 2-C). When a significant vacancy in the market exists, an apartment owner who receives a property tax decrease might be tempted to reduce rents to maintain occupancy, offsetting the benefits of the tax reduction.

When triple-net commercial property leases are used, operating expenses are paid by the tenants. Consequently, if there is a property tax increase, the tenant pays the increased property tax, and the property owner's NOI is unaffected. Conversely, if there is a property tax decrease, the tenant would reap the benefits. Again, the property owner's NOI is unaffected. In the short run, changes in property taxation do not affect the owner's NOI and market value is unchanged. Of course, this is the purpose of a triple-net lease—to eliminate variability in NOI caused by fluctuating operating expenses. It shifts the risks of tax increases to the tenant. However, the property must have a competitive advantage to cause tenants to accept lease terms that require them to pay increases in property taxes and other operating expenses.

Tax-Shifting in the Long-Run

Market conditions where property owners can pass tax increases on to tenants or benefit from tax reductions can be transitory because supply tends to adjust to meet demand. As competing developers respond to the profit potential implied by an inelastic demand, more substitute properties enter the market and erase short-term advantages.

Owners of existing properties see demand for their space become more elastic as tenants have more options from which to choose. Ultimately, rents fall for most property owners, with the exception of those who have a uniquely desirable building and have maintained its competitiveness through maintenance and good property management.

Otherwise, the long-run market dynamics tend to approximate the situation described in Exhibit 1-B, with property owners bearing the tax increase. In fact, because labor and capital are mobile resources, some economists argue that property tax increases will ultimately reduce land values for all properties. Of course, the long run may be years in materializing.

Conclusion

In the short run, the effect of changing property taxes on property values is determined by supply and demand conditions in the market. If there is excess space in the market, owners cannot raise rents when property taxes are increased and vice-versa. However, owners of unique properties that are well managed and well maintained may escape the tax burden even in the long term by passing on the increased taxes to their tenants.

Dr. Etter is a professor with the Real Estate Center and of finance at Texas A&M University. Dr. Gilliland is a research economist with the Real Estate Center.

Exhibit 2

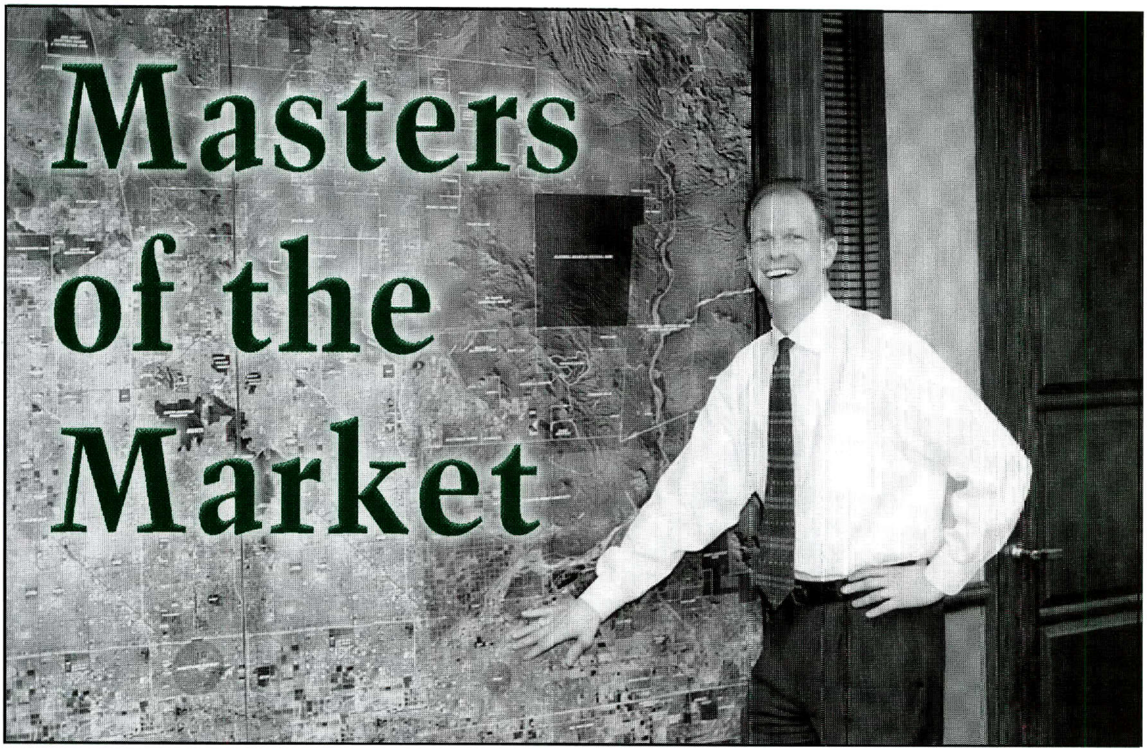
A	Market condition: Little or no vacant space with continuing demand for space	Market condition: 20 Percent Vacancy
Potential gross income	$100,000	$100,000
Less: Vacancy allowance	-5,000	-20,000
Effective gross income	$ 95,000	$ 80,000
Less: Operating expenses	-35,000	-35,000
Net operating income	$ 60,000	$ 45,000
Value (NOI capitalized at 10%)	$600,000	$450,000

B	Market condition: Little or no vacant space with continuing demand for space	Market condition: 20 Percent Vacancy
Change in property tax levy	+$3,000	+ $3,000
Change in potential gross income	+ 3,000	-0-
Change in net operating income	- 150	- 3,000
Change in value	- 1,500	- 30,000

C	Market condition: Little or no vacant space with continuing demand for space	Market condition: 20 Percent Vacancy
Change in property tax levy	- $3,000	- $3,000
Change in potential gross income	-0-	- 3,000
Change in net operating income	+ 3,000	+ 600
Change in value	+30,000	+3,000

Masters of the Market

Program Produces Productive Practitioners



LERE graduate and JPI Development Associate Richard Furr specializes in apartment development in Irving, Texas.

By Jenifer V. Hofmann

An old adage says the only constant in life is change itself. This constant is alive and well in commercial real estate. For example, consider the following changes recently identified by Barry Libert, managing director of Arthur Andersen's Real Estate Transformation Group:

- 40 percent of all shoppers are using mail order magazines, television shopping channels or other nontraditional shopping methods, resulting in a weakened dependence on traditional shopping malls; and
- telecommuting is predicted to expand from its current level of 11 million individuals to more than 20 million by the year 2000, significantly reducing the amount of office space required by many organizations.

In addition to these trends, the movement from private ownership to public ownership of commercial real estate continues to expand dramatically. The National Association of Real Estate Investment Trusts (REITs) reports that more than 8.3 percent of all commercial real estate is now owned by REITs.

These trends are changing the competitive landscape of commercial real estate. As the demand for traditional commercial real estate changes, the professional environment must be quick to respond. In an environment of increased competition, it is incumbent upon real estate practitioners to keep pace with changes in the industry. As noted by Libert, "To avoid the necessity for change is to invite obsolescence."

The Master of Land Economics and Real Estate (LERE) degree at Texas A&M University is designed to provide the necessary skills to succeed in the highly competitive business of commercial real estate. The LERE program prepares students for real estate career opportunities such as consulting, brokerage, asset management, lending, appraisal and valuation. This program provides students with cutting edge knowledge and skills required both now and in the future.

The program was transferred to the Department of Finance in the College of Business Administration in 1995 and provides graduate students interested in real estate a wide variety of opportunities. Until recently, most graduates sought careers in real estate appraisal, but current graduates are more likely to work for large public accounting firms specializing in real estate consulting and valuation, development, or in corporate real estate departments like Wal-Mart or General Electric.

"Essentially, the questions that they all will be answering are: How is this property valued? How much is it worth? How much should we pay for it? How much can we sell it for? How much can we lend against it?" says Dr. Wayne E. Etter, current LERE director.

This change in the focus of the LERE program reflects larger changes in the profession of commercial real estate. For example, Richard Furr, who recently joined JPI, a real estate firm specializing in apartment development and a 1990 LERE graduate notes, "There are infinitely more positions available today for kids coming out of school in those (financial) arenas than there were a few short years ago."

Along similar lines, Robert Jordan, an investment analyst with Stockton, Luedemann, French and West and 1997 LERE graduate suggests, "The emphasis on business has been very beneficial in the students' eyes as well as the employers' eyes."

The LERE program itself consists of core courses in the following areas:

- real estate development,
- real estate finance,
- real estate valuation,
- real estate investment,
- real estate law,
- real estate market research,
- land economics,
- principles of building and construction and
- accounting.

Typical elective courses include:

- financial management,
- investment management and
- money and capital markets.

Course work within the LERE program is supplemented by a professional internship. Firms such as Wal-Mart Realty, GE Capital Client Services and Deloitte & Touche find that internships are important in recruiting students for permanent jobs, and that they provide important assistance for special projects as well as regular operations.

"A lot of the companies view the internship process as a way to get a look at somebody," says Etter. "It's a screening process. They view them as potential employees."

Speaking of his internship experience, Victor Grant, a 1988 graduate and now a property tax specialist for Crescent Real Estate Equities says, "It taught me how to think outside the box." And when asked what kind of doors the experience and master's degree has opened for him, he said, "All of them."

"If you want to enter the real estate business," Grant advises, "it's probably the best year and a half you can spend. It's a great education, and the networking opportunities are remarkable. . . . Everything pulled together is a phenomenal package."

Grant, who interned in real estate appraisal says, "The valuation background helps you understand the inner workings of all types of real estate. Once I moved into the property tax side, I still talked about value in the same manner as I did as an appraiser, but I now argue and am an advocate for an ownership group that fights the assessor. By having that appraisal background, I'm well-versed in market value, value and use, and true value. It's good for me to know all three, and I practice them on an everyday basis."

Another unique aspect of the Master of Land Economics and Real Estate program is the close network of former students. Now numbering nearly 200, the Society of Texas A&M Real Estate Professionals, or "STAMREP," provides an unparalleled opportunity for graduates, as well as current LERE students, to network with people already practicing in the business.

"Networking is the life blood of the real estate business," says Grant. "It does open up doors and it does make a difference," he continues about STAMREP. The organization not only provides opportunities to meet others, but it also hosts annual business meetings, provides scholarships to LERE students, hosts field trips around the state and raises money for the LERE program.

"I have made lifelong friends in the real estate industry," says Furr about the people in STAMREP, "but they're not doing the exact job that I'm doing. Maintaining relationships with them has helped me understand other disciplines within real estate."

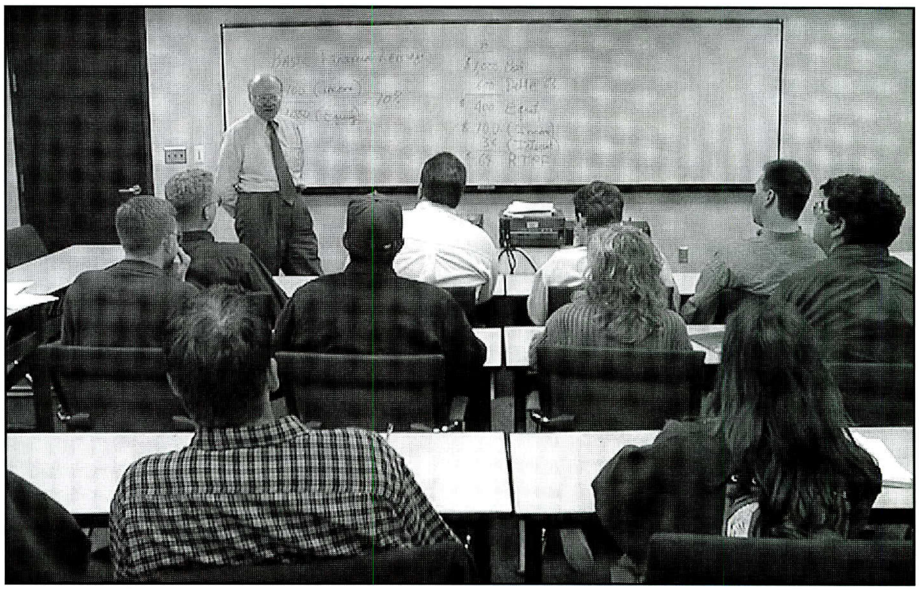
So what are employers looking for in today's graduates? "Companies are looking for people who have a good technical background, so the companies don't have to spend a lot of time, money and energy training. Companies appreciate the fact that LERE graduates are already trained to some degree and are prepared for the job," according to Furr.

'If you want to enter the real estate business,' Grant advises, 'it's probably the best year and a half you can spend.'

"Because we are in the technological age, and it's getting more so all the time, we want our students to be aware of as much technology as possible. We want them to know what it can do for us, but we also want them to know what it **can't** do for us," says Etter. "Yes, technology will have a lot of effect on the way the business itself operates, but ultimately, somebody has got to get the information, think about it and sift out what it means."

For additional information on the Master of Land Economics and Real Estate program, call Dr. Wayne E. Etter at 409-845-2006, or e-mail him at w-etter@tamu.edu.

Hofmann is an assistant editor for the Real Estate Center at Texas A&M University.



Dr. Wayne E. Etter teaches finance classes that are integral to the master's degree. He also is director of the LERE program.

A Program With Deep Roots

Although the LERE program currently has a strong emphasis and placement in business, its historical roots are in the College of Agriculture and Life Sciences at Texas A&M. Originating in the early 1970s, the development of the program recognized the need for students trained in real estate and land economics.

"There's always been a need for valuations and real estate appraisals," says current program director Dr. Wayne E. Etter. "But in the early 1970s, those needs were spread across a wide spectrum. There was a strong need for appraising farms and ranches, as well as urban properties. LERE students accepted jobs as appraisers in big and small cities and appraised a wide variety of properties."

"Gradually, as the '70s progressed into the '80s, there was an increasing demand for ubran property specialists. In light of this trend, the emphasis of the LERE program gradually shifted its focus more and more to urban properties and increased its business and financial orientation. In 1995, this shifting focus was formalized when the program officially became part of the Lowry Mays College and Graduate School of Business.

Lower Rates Accompany Increased Complexity

Capital Gains: Good News, Bad News

By Jerrold J. Stern

The 1997 Tax Act brings good news and bad news to real estate investors. The good news is that tax rates on long-term capital gains are lower for virtually all investors, even those in the lowest tax bracket (15 percent). But the bad news is that capital gains rules and computations are more complicated, especially for real estate investors.

Capital gains and losses arise from the sale of capital assets, such as investment real estate, stocks and bonds. Dealers, in the business of selling real estate, typically do not benefit from preferential capital gains tax rates because gains from selling inventory (i.e., real estate properties) are taxed as ordinary income.

Tax rates for capital gains are summarized in the table. There are five "baskets" or tax rate categories based on a **combination** of (1) holding period and (2) the investor's marginal tax rate on ordinary income ("t" in the table). Capital gains from assets held one year or less (Basket #1) are taxed at "t". Thus, if an investor in the 31 percent tax bracket (t = 31 percent) sold stock held for ten months at a $1,000 gain, the tax would be $310 ($1,000 x .31).

Categories of Capital Gains and Losses

"Baskets" (based on holding period)	Capital gains tax rate if t = .15*	if t > .15
Short-term capital gains (STCGs):		
#1 < 12 months	15%	t
Long-term capital gains (LTCGs):		
#2 > 12 months and < 18 mos.	15	28%
#3 > 18 months - certain real estate	15	25
#4 > 18 months	10	20
#5 > 5 years (not relevant until Year 2000)	8	18

*t = marginal tax rate (i.e., tax bracket tax rate for ordinary income—either 15 percent, 28 percent, 31 percent, 36 percent or 39.6 percent)

If the same investor held the stock for 15 months (Basket #2), the tax would be $280, computed at 28 percent. In contrast, an investor in the 15 percent tax bracket (t = 15 percent) would pay $150 tax.

A three-year holding period for most capital assets (Basket #4) produces $200 tax ($1,000 x .20) for the 31 percent tax bracket taxpayer, while a 15 percent tax bracket taxpayer pays only $100 tax ($1,000 x .10). Under prior law, taxpayers in the lowest tax bracket (t = 15 percent) did not receive any advantage from capital gains taxation, and taxpayers in higher tax brackets paid a maximum capital gains tax rate of 28 percent. Thus, all investors benefit under the new law if their holding period exceeds 18 months. The five-year holding period (Basket #5) is not relevant until the year 2000.

Now consider Basket #3—certain real estate held more than 18 months. The only gains included in Basket #3 are those arising from the sale of buildings on which **depreciation** has been deducted by **noncorporate** sellers. Thus, investment land is never included in Basket #3—it is treated exactly like stock, as in the previous examples. Corporate-owned real estate has its own set of rules.

The general rule for Basket #3 is that the portion of gain attributable to depreciation deductions is taxed at 25 percent (or 15 percent if t = 15 percent), while the portion of gain resulting from a sales price more than the original cost is taxed at 20 percent (or 10 percent if t = 15 percent).

Example: Claudia (t > 15 percent) purchased an office building (cost = $100,000) and land (cost = $20,000) several years ago. During the holding period, she deducted a total depreciation of $15,000, reducing the building's tax basis to $85,000 ($100,000 less $15,000). In 1998, she sold the entire property for $220,000: $30,000 for the land and $190,000 for the building. The $10,000 gain on the land ($30,000 less $20,000) becomes a Basket #4's gain, taxable at 20 percent. The building generates a $105,000 gain ($190,000 less $85,000).

Basket #3's gain is $15,000 (taxable at 25 percent), which is the portion of gain that arises from $15,000 of depreciation deductions. The balance of the building's gain, $90,000 ($105,000 total gain less $15,000 gain taxed at 25 percent; or alternatively, $190,000 sales price less $100,000 original cost), is Basket #4's gain, taxable at 20 percent. If the sale price of the building had been $91,000, then all $6,000 gain ($91,000 less $85,000) would have been Basket #3's gain, taxable at 25 percent.

As discussed, the new law provides benefits for capital gains. Yet, the rules and computations for certain real estate are more complex. Consultation with an accountant or attorney regarding specific issues is recommended.

Dr. Stern is a research fellow with the Real Estate Center at Texas A&M University and a professor of accounting in the Kelley School of Business at Indiana University.

Ad Valorem Taxation Seminars

Two seminars sponsored by the Real Estate Center have been scheduled for coming months. For more information on either program, contact Margaret Benedict at 409-845-9691.

- **12th Annual Legal Seminar on Ad Valorem Taxation.** This popular program will be held September 2-4 at the Hyatt Regency Downtown in San Antonio. Rooms are $129 per night. Registration is $250 in advance and $275 at the door.
- **Refining, Petrochemical and Gas Processing Plant Appraisal for Ad Valorem Taxation.** After skipping 1997, this seminar makes its third appearance on the Real Estate Center calendar. It will be held November 16-18 at the Westin Galleria in Houston. Rooms are $119 per night. Registration is $460 in advance or $510 at the door.

New Editor Has Realtor Background

Jenifer Hofmann, the Center's newest editor, comes to Texas A&M University from Lafayette, Indiana, where she sold real estate for five years. As new home sales manager for Southern Meadows, LLC, she was responsible for advertising, marketing and selling the new subdivision.

Before that, she was a commercial real estate agent with F.C. Tucker Real Estate Agency, also in Lafayette. She was a licensed Indiana salesperson where she sold and leased commercial buildings and properties. Hofmann has a bachelor's degree in journalism from Indiana University where she graduated in 1991.

Table Turned on Exemptions

The January issue of *Tierra Grande* contained a table of property tax exemptions authorized by the Texas Constitution. Despite the best efforts of researchers to compile an accurate list, observant readers noted two errors.

First, there is no exemption for commercial fishing equipment. Although the legislature passed the exemption, voters turned it down.

Second, the disabled veterans' exemption is higher than listed in the magazine. It actually ranges from $5,000 to $12,000.

Zero Lot Line Elegance

"The New American Home '98" exemplifies innovative zero-lot-line design. The 15th in a series of show homes built in conjunction with the NAHB convention, this 4,873-square-foot house is located in Glen Lakes, an exclusive gated community in North Dallas. The list price was $985,000.

The home features these design, construction and product innovations:

- arches and two rotundas that define and separate formal, informal and private sections;
- two separate, fully-equipped home offices with privacy and ease of access;
- privacy on a challenging infill, wedge-shaped lot;
- a hearth kitchen that doubles as a casual dining room and den;
- stock windows, doors, cabinets, hardwood floors and molding; and
- ample space for grandchildren and guests in an upstairs suite.

According to Dallas builder Gage Prichard, it was built with empty-nesters in mind, and that is who bought it. It was designed for an active couple who likes to travel, entertain and work out of the home.

"The next ten years will see unprecedented spending by baby-boomers," says Doug Sharp, president of Bloodgood Sharp Buster, architects for the project. "There will be more custom housing for the affluent buyer."

Accessing Property

Check Your Easement IQ

By Judon Fambrough

The lack of access to land greatly diminishes value, not to mention enjoyment. As rural land becomes more and more divided, the question of access is critical. The Real Estate Center report *Easements in Texas* contains an overall view of how both private and public easements are created and terminated. The answers to these questions are found in the report, as well as on page 24.

	True	False	
1.	❑	❑	In Texas, it is impossible to own landlocked property—i.e., property having no access.
2.	❑	❑	A written document is necessary to create a valid easement in Texas.
3.	❑	❑	An easement *in gross* is a personal easement that is generally nonassignable and terminates with the death of the recipient.
4.	❑	❑	An appurtenant easement is not given to an individual, rather it attaches to a tract of land. The owner of the tract automatically has the right to use the easement.
5.	❑	❑	According to Chapter 251 of the Texas Transportation Code, the commissioners court **must** condemn an easement to a landlocked tract once all the requirements are satisfied.
6.	❑	❑	One requirement for an implied easement by necessity is that the tract blocking access was once under common ownership with the tract needing access.
7.	❑	❑	The key requirement for an easement to arise by prescription is that a person continually cross another's property without permission for a minimum of seven years.
8.	❑	❑	The servient estate associated with an appurtenant easement is the burdened tract—the one being crossed.
9.	❑	❑	Nonuse of an easement for 15 years is sufficient to constitute abandonment.
10.	❑	❑	In Texas, foreclosure on the servient estate may terminate an appurtenant easement if the easement was created after the mortgage was placed on the land.

Fambrough is an attorney, member of the State Bar of Texas, senior lecturer with the Real Estate Center at Texas A&M University and author of Easements in Texas.

Publications Order Form

CALL TOLL-FREE FOR FASTEST DELIVERY 1-800-244-2144

REAL ESTATE CENTER
Publications, Real Estate Center
Texas A&M University
College Station, Texas 77843-2115
Voice: 409-845-2031
FAX 409-845-0460
E-mail: info@recenter.tamu.edu

Method of Payment

☐ Check/Money Order Payable to Real Estate Center

☐ MasterCard ☐ Visa ☐ Discover ☐ American Express

Account no. ____________________

Expiration date __________ Signature ____________________

Telephone __________ Print name ____________________

Quantity	Title	No.	Price	Total
______	☐ *Profiling Texas Real Estate Licensees: Determining Income*—NEW	TG-1221	$10	______
______	☐ *Texas Real Estate Resource Directory*	TG-1203	$10	______
______	☐ *National Real Estate Resource Directory*	TG-1207	$10	______
______	☐ *Real Estate Career City*	TG-1180	One free copy	______
______	☐ "Your Real Estate Center" Video—NEW	TG-1224	$10	______
______	☐ *The Fiscal Impact of New Residential Subdivisions on the City of San Antonio, Texas*	TG-1209	$10	______
______	☐ *The Fiscal Impact of New Residential Subdivisions on the City of Tyler, Texas*	TG-1204	$10	______
______	☐ *The Texas Property Tax System*—NEW	TG-1192	$5	______
______	☐ One-of-Everything*	TG-533	$250/$500	______
	*(One copy of every active publication in Center inventory–technical reports, special publications, references and directories would cost more than $430 if purchased separately. Not included are quarterlies and reprints.)	Texas licensees deduct 20%		______
			Total	______

In a hurry? Use your credit card, and FAX your order to 409-845-0460.

Ship to: ____________________

____

____

License no: ____________________

ADDRESS CHANGE

Or, incorrect address? Please indicate the correct address on this form; include your broker or salesperson license number. Attach the mailing label from the back cover.

Special delivery. ☐ Give us your e-mail address, and we will send you research news as it happens. ____________________

READER RAPID REPLY

The editors want to be responsive to *Tierra Grande* readers. Tell us what you liked best and least about this issue, and we will do what we can to make the magazine even better. Fax this form to: Editor, *Tierra Grande*, 409-845-0460.

What I liked best about this issue was ____________________

What I disliked most about this issue was ____________________

I wish you had told me more about ____________________

In a future issue, I would like to see an article on ____________________

I give this issue a grade of (circle one): A (outstanding) B (excellent) C (average) D (below average) F (failing)

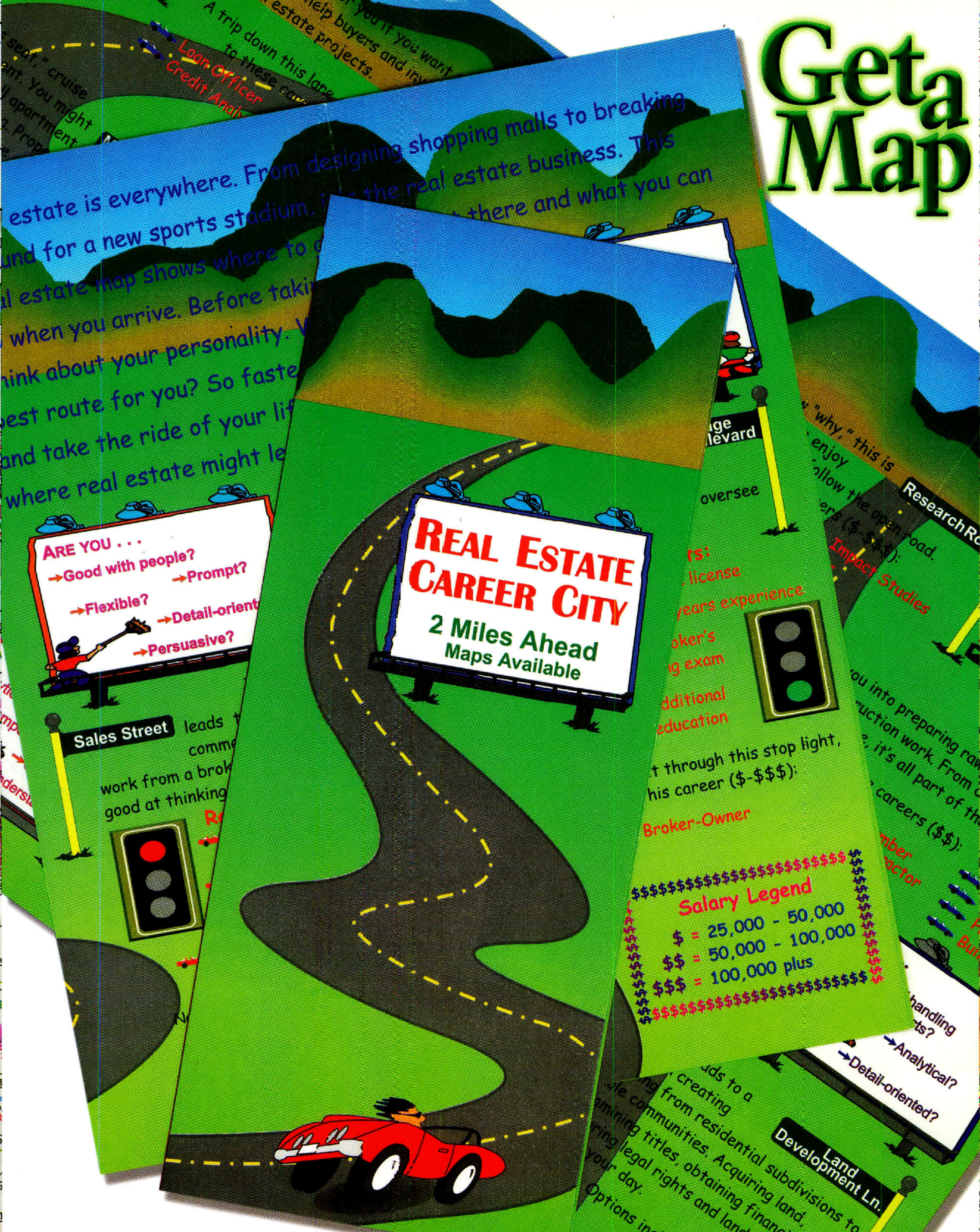
Other comments: ____________________

If you would like a personal reply from the editor, complete the following:

Name (print) ____________________ Fax number or e-mail address ____________________

☐ Check here if we may publish your comments.

ANSWERS TO EASEMENT QUIZ 1. False 2. False 3. True 4. True 5. False 6. True 7. False 8. True 9. False 10. True



Get a Map

It's a long,
long road from high school to career.
Students wondering where to turn need a
map to *Real Estate Career City*. Explore skills
and education on the road to a real estate career.
Where to start. Where to $top.

How do I get there?

Order a FREE sample copy with form on facing page.

REAL ESTATE CENTER

THE TEXAS A&M UNIVERSITY SYSTEM

REAL ESTATE CENTER

LOWRY MAYS COLLEGE & GRADUATE SCHOOL OF BUSINESS
TEXAS A&M UNIVERSITY
COLLEGE STATION, TEXAS
77843-2115

NON-PROFIT ORG.
U.S. POSTAGE PAID
HOUSTON, TEXAS
PERMIT NO. 8833

In This Issue

SOLUTIONS THROUGH RESEARCH