January 2014
Volume 10 Issue 1

Monthly Newsletter of the Georgia Real Estate Commission

GREC RENews

This Issue:

2014 Calendar

GREC Brokerage Course & Trust Accounts Class Dates:

- **January 29-30, 2014**
  Tift Area BOR
  www.tiftareaboardofrealtors.com/
- **March 26-27, 2014**
  Greater Rome BOR
  www.grbor.com/

GREFPAC Conference
March 5, 2014
Atlanta/ Cobb
Galleria
http://www.grefpac.org/

Link to the Georgia Real Estate License Laws, Rules, and Regulations

Link to GREC Disciplinary Sanctions
View Current Suspensions and Revocations

Tips & Tools for 2014

Proposed Rule Change

The Commission is proposing changes to the Advertising Rule. The purpose of these changes is to address the use of the Internet to advertise real property.

You can review and comment on the proposed Rule changes by going to www.grec.state.ga.us and following these steps:

1. On the left-hand column, under "Quick Links", click on "Real Estate License Law".
2. Click on "Proposed Rule Changes". Then click on the link to view proposed Rule 520-1-.09 Advertising.

Any party wishing to express opinions or views on the proposed Rules listed above may do so by contacting or writing Commissioner William Rogers or Deputy Commissioner Craig Coffee at the Georgia Real Estate Commission, Suite 1000 - International Tower, 229 Peachtree Street, N. E., Atlanta, Georgia 30303-1605, no later than February 1, 2014.

10th Annual GREFPAC Education Conference

March 5, 2014
Cobb Galleria Centre

The Georgia Real Estate Fraud Prevention and Awareness Coalition (GREFPAC) is comprised of professionals from all aspects of the real estate industry, working together and with federal, state and local regulators, law enforcement agencies, and concerned individuals to create environments that promote honesty, openness and fairness in real estate transactions.
http://www.grefpac.org/

Comments or Suggestions [Click Here](#).

[GREC Online CE Courses](#)

To sign up to receive the GREC RENewsletter Click Here.

[Link to the Georgia Real Estate License Laws, Rules, and Regulations](#)

Georgia Real Estate Commission
Suite 1000
International Tower
229 Peachtree Street NE
Atlanta, GA 30303-1605
Phone 404-656-3916

Georgia Real Estate InfoBase Online

5 things you can do with the InfoBase

Got a Question? Try the GA REInfobase

This web site can help the licensee in his/her everyday practice of real estate brokerage. It can be a handy reference tool and is accessible anywhere you have internet access.

1) One of the tools in the Georgia Real Estate InfoBase is the summary of Real Estate Arithmetic and Mathematics and recap of practical math problems. Maybe you need a refresher on how to calculate discount points and origination fees, interest payments or receipts, an estimate of proration or real property taxes, or even a commission calculation. Other math examples include sales price to list price ratio, appreciation and depreciation, and estimates for area measurements. This math summary has practical examples that you might want to bookmark for later use.

2) Another feature is the common questions frequently posed to the Commission staff with straight forward answers that reference the License Laws Rules and Regulations.

3) It is easy to look up real estate terms, such as commercial real estate terminology, by using the links provided to various online glossaries.

4) Go to the Property Management and Community Association Management sections to gain a more thorough understanding of how and why CAM was created and the functions and responsibilities of the property manager and the CAM.

5) If you are considering opening your own firm or maybe want a checklist to help organize your new brokerage firm, review the section titled Points to Consider When Starting a Brokerage Firm.

[GA Real Estate InfoBase](#)

The Table of Contents gives a quick guide to the subject matter of this valuable reference source, and in the near future a search function will be added to provide even more functionality. Access the Georgia Real Estate InfoBase from the Home page of the Georgia Real Estate Commission web site or http://www.grec.state.ga.us/infobase/infobase.html or by clicking anywhere on this article.

Focus on Terminology: "Economy"

Whether you practice commercial real estate or assist homeowners in relocating to Georgia, there is a wealth of free resources to help you be informed about Georgia and its economy. Economy is defined by Webster's as, production, distribution, and consumption of goods and services. Clearly real estate is a service industry.

- Georgia Department of Economic Development www.georgia.org
  - [Sites Available](#)
  - [Buildings Available](#)
  - [Business Incentives such as tax credit programs](#)
- [Digital Library of Georgia](#) http://www.galileo.usg.edu/guest/
- [New Georgia Encyclopedia](#) http://www.georgiaencyclopedia.org/
  Facts about GA http://www.georgiaencyclopedia.org/quick-facts
- Census Georgia Quick Facts http://quickfacts.census.gov/qfd/states/13000.html
  Categories are People, Business, Geography
- Georgia Economy at a glance from the Bureau of Labor Statistics
  http://www.bls.gov/eag/eag.ga.htm

The Appraisers Page

Georgia Real Estate Appraisers Board

January 2014

Useful Links:

[GREAB Web Site]

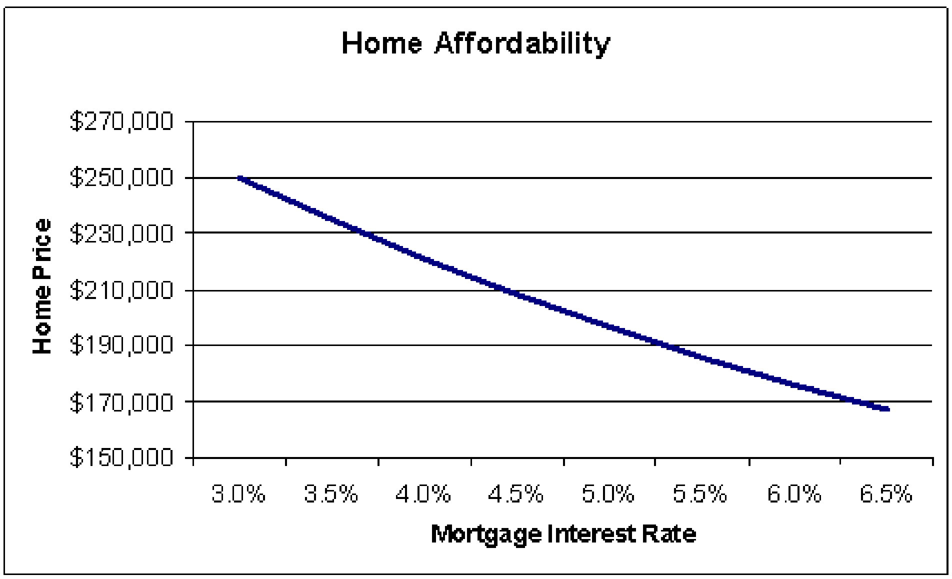
[Appraisal Act]

[GREAB Disciplinary Sanctions]

Home Affordability and Home Values

By: D. Scott Murphy, SRA, & Hudson Holder

In general homes have been increasing in value over the past year. There has been a lot of talk that interest rates may increase over the next 12-24 months. But what happens when interest rates go up? Does a rise in interest rates affect the affordability of a home? If the answer is yes, then does a drop in home affordability translate into a drop in home values?



That was the question I set out to answer.

If you bought a home today with a sales price of $250,000, let's just assume a 100% loan to value ratio, a thirty-year loan and an interest rate of 3%, your payment (principal and interest) would be $1054. If you held that same payment constant and did the math, if rates go up 1% to 4% then you could only afford a $220,772 priced home. If rates went up 1% again to 5%, then you could only afford a $196,342 priced home. It is not quite a linear relationship but pretty close to a 12% drop in affordability for each percentage point rise in the interest rate.

I anticipated a drop in affordability but was a little surprised at the amount just one or two percent rise in the interest rate would have on the home price I could afford. Most buyers are limited by the monthly payment they can qualify for from a lender. Of course my example does not include taxes, insurance, mortgage insurance or HOA fees – those amounts we can assume would be constant.

We know that interest rates are not directly tied to home values but does the drop in affordability negatively impact the value of your home? Home values are driven by supply and demand. We all know this based on the real estate market over the past 5-7 years. We had a severe drop in the demand for houses; we saw supply rise and values drop. More recently we have had a severe shortage or supply of homes with a steady demand and values have risen

…continued on page 4

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continued from page 3

All the while interest rates remained relatively stable. If we took a sampling of 100 buyers and qualified them there would be a certain percentage who could afford your home at 3%, presumably a smaller percentage who could afford your home at 4% and an even smaller percentage at 5%. Based on supply and demand – the demand side has dropped as less buyers are able to buy your home – therefore, if can be assumed the value of your home would potentially be impacted in a negative way.

While that all looks good on paper, I still have to consider what I refer to as the trickle down affect. If people tend to buy at the amount that they are qualified for there may be less people in that group of 100 who ***could*** qualify to buy your home but probably just as many who are in a reasonable range of affordability that ***would*** buy your home. What I mean is that theoretically the same number of people who now cannot qualify for your home are replaced with those who would have purchased a slightly more expensive home. Its almost like musical chairs – the music starts, everyone shifts down one chair and then the music stops. Those who will be impacted from a value standpoint are those with the more expensive homes.

To flip this around, as interest rates go down more people can afford high priced homes, the demand for those homes increases and the median home price increases. Even with stable interest rates and a steady to increasing economy the trend would move in that direction.

Now I have thrown in another variable – the economy. The economy can affect the amount someone can qualify for. You get a raise and your other expenses stay level then you can qualify for a higher payment. This is independent of interest rates.

Another variable, which I have purposely left out until now, is the availability of funding and loan qualification standards. After the recent economy breakdown both the availability of funds and the qualification standards changed significantly. Many of the buyers who would have been qualified to buy your home were no longer qualified or did not have a viable loan alternative, as they had had before. Recently, both the availability of funds has increased and the stringent loan qualification standards have relaxed to some degree.

There are obviously many different variables at work in the real estate market. It is not reasonable to isolate just a few of those to arrive at a conclusion. While a rise in interest rates creates a drop in home affordability, it must be considered with changes in the economy, lending standards and other forces at work in the real estate market. For instance, the reason rates may begin to increase is due to a rise in the economy. Buyers may very well be able to qualify for a higher payment due to greater economic gains over the impact of the rise in interest rates.

My conclusion is that interest rates have risen and fallen over the past decades and home values have not followed on a parallel track. One fact that should be considered is that the volume of loans and sales increases when rates are changing – both up and down. The steady rates of the past few years may have fostered a casual real estate environment. There is less urgency when rates are stable. During periods of fluctuating interest rates, buyers will tend to move quicker and make faster decisions.

Hudson Holder is a contributing writer for this article.