Real Estate Digest

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TitleSmart, Inc.

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Commercial Real Estate Becoming More Vulnerable to Cyberattack

At one time, commercial real estate firms were considered less at-risk for cyberattacks, because compared to financial services, healthcare and retail firms, they did not maintain as much personal and intellectual property information. As a result, CRE players have been slow to invest in cybersecurity and insurance for cyber risks.

It also means that some CRE companies now have outdated insurance overages, such as crime policies, that do not include provisions for cyber risk exposures like fraudulently induced money transfers.

A new report from KPMG has revealed that one-third of real estate firms have experienced a cybersecurity event themselves or at one or more of their properties in the last two years. However, this number is likely higher since half of respondents also reported they were not adequately prepared to prevent an attack nor would they know if they were infiltrated.

CRE firms have become attractive targets to cybercriminals because they have access to both data and money. Data — such as personal information, blueprints, building technology and financial information — can be sold or used for future exploits. Money can be skimmed from vendor and tenant ac-

counts or credit cards. Ransomware also allows criminals to extort companies directly.

Last year, an Austrian hotel was forced to pay a hefty ransom after its computers were hacked. In August, property management firm BNP Paribas Real Estate reported a ransomware attack that took down most of its global systems.

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Cyber Insurance Coverages

While first-party cyber insurance typically covers lost business income, extra expenses, forensics and notification costs associated with investigating and resolving a breach, companies also need to invest in additional coverage. Third-party liability cyber insurance covers expenses related to regulatory investigations and when customers and others seek personal damages subsequent to a security breach.

For covering other losses, such as stolen money, CRE companies also must revise their traditional insurance policies, particularly crime coverage. Most crime coverage now includes endorsements to cover loss caused by social engineering, where cybercriminals manipulate a firm's employees to share confidential information that can be used to steal money.

Another risk CRE firms face is intellectual property loss and liability incurred through third parties. Many CRE firms rely on vendors to host web applications, organize customer data or facilitate financial transactions.

In one case, cyber criminals gained access to Medidata's computers through one of its vendors. Medidata's employees were tricked into wiring funds offshore through realistically fabricated emails from the company's president. Fortunately, a federal court in New York ruled that the firm's crime policy covered the $4.8 million loss because the policy was worded in such a way that included the third party vendor as an insured.

As in Medidata's situation, CRE insurance companies need to be sure their cyber liability is tailored to fit the risks they face.

It is only a matter of time before many more CRE companies face an attack against critical business programs that could result in significant financial loss for the company. With the appropriate insurance policies in place, CRE firms can minimize the damage associated with such attacks.

8 States With the Largest Housing Bubbles

Today, most experts agree we are not in a real estate bubble on a national level. However, the absence of a nationwide or statewide housing bubble does not mean they are not forming at the local level in some states.

GOBankingRates analyzed housing market data and key economic indicators and contacted several real estate experts to determine states that could be on the cusp of a housing bubble. From their research, the following eight states — ordered from highest to lowest population — are considered to be at the highest risk of a real estate bubble:

1 **California –** The state could be experiencing another bubble because the supply is so constrained, housing is becoming unaffordable to most buyers.

2 **Texas –** Some cities in Texas are at high risk of a bubble — especially those overly dependent on one or two industries for livelihood.

3 **Florida –** House flipping in the United States is reaching levels not seen since 2006 and Florida is one of the main culprits.

4-8 **Wash., Tenn., Colo., Ore., and Nev.** round out the top eight states potentially experiencing a housing bubble.

20 ZIP Codes with the Highest Real Estate Returns

Your ZIP code is pretty important, especially when it comes to the real estate market. HomeUnion, an online real estate investment management firm, identified the ZIP codes in 20 metros that account for the greatest real estate returns while minimizing risk over a five-year horizon. They

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looked at school quality and neighborhood attractiveness for single-family rentals over five years.

The study calculated Annualized Total Return, which includes HomeUnion's projections for how much the value of single-family rentals will appreciate and how much cash flow the properties are expected to generate. The following ZIP codes deliver the highest real estate returns:

20-46280
Submarket: North Indianapolis, Ind.
Metro area: Indianapolis
Annualized total return: 5.4 percent

19-91602
Submarket: North Hollywood, Calif.
Metro area: Los Angeles
Annualized total return: 5.4 percent

18-73003
Submarket: Edmond, Okla.
Metro area: Oklahoma City, Okla.
Annualized total return: 5.4 percent

17-63043
Submarket: Maryland Heights, Mo.
Metro area: St. Louis
Annualized total return: 5.5 percent

16-85259
Submarket: North Scottsdale, Ariz.
Metro area: Phoenix
Annualized total return: 5.5 percent

15-77059
Submarket: Clear Lake City, Texas
Metro area: Houston
Annualized total return: 5.6 percent

14-75022
Submarket: Flower Mound, Texas
Metro area: Dallas
Annualized total return: 5.6 percent

13-44023
Submarket: Chagrin Falls, Ohio
Metro area: Cleveland
Annualized total return: 5.6 percent

12-34677
Submarket: Oldsmar, Fla.
Metro area: Tampa
Annualized total return: 5.7 percent

11-97224
Submarket: King City, Ore.
Metro area: Portland, Ore.
Annualized total return: 5.8 percent

10-30078
Submarket: Snellville, Ga.
Metro area: Atlanta
Annualized total return: 5.8 percent

9 - 45255
Submarket: Forestville/Cherry Grove, Ohio
Metro area: Cincinnati
Annualized total return: 5.9 percent

8 - 60016
Submarket: Des Plaines, Ill.
Metro area: Chicago
Annualized total return: 6 percent

7 - 66223
Submarket: Overland Park, Kansas
Metro area: Kansas City, Mo.
Annualized total return: 6.2 percent

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6 - 37062
Submarket: Fairview, Tenn.
Metro area: Nashville, Tenn.
Annualized total return: 6.5 percent

5 - 33327
Submarket: Weston, Fla.
Metro area: Fort Lauderdale, Fla.
Annualized total return: 6.6 percent

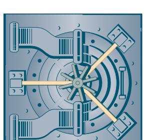
4 - 33158
Submarket: Palmetto Bay, Fla.
Metro area: Miami
Annualized total return: 6.8 percent

3 48322
Submarket: West Bloomfield Township, Mich.
Metro area: Detroit
Annualized total return: 6.9 percent

2 19035
Submarket: Gladwyne, Penn.
Metro area: Philadelphia
Annualized total return: 6.9 percent

1 33434
Submarket: Hamptons at Boca Raton, Fla.
Metro area: West Palm Beach, Fla.
Annualized total return: 8.1 percent

Banks Tightening Lending Standards for Commercial Real Estate in Q2



Loan officers at U.S. banks reported tightening lending standards on commercial real estate loans as terms for business loans remain mostly unchanged, the Federal Reserve reported in July in a quarterly survey. The officers surveyed also reported a decline in demand for both types of loans in the second quarter.

"A moderate net fraction of banks reported tightening standards for construction and land development loans and loans secured by multifamily residential properties" in commercial real estate, the U.S. central bank said in its survey.

Several Fed policymakers have warned that a run-up in commercial real estate prices could increase the intensity of any future economic downturn. The Fed also placed a bigger emphasis this year on commercial real estate when it performed its annual "stress tests" in order to determine how well big banks could potentially weather financial turmoil.

Some banks also reported a tightening in auto and credit card lending standards, with demand in that category also declining. The Fed surveyed loan officers at 76 domestic banks and 22 U.S. branches and agencies of foreign banks.

Facebook Launches Dynamic Ads for Real Estate

Facebook just launched a new ad product designed specifically for the real estate industry. Dynamic Ads for Real Estate allows brokers to automatically promote their listings across Facebook, Instagram, and Audience Network placements. It also promotes listings to those who have searched for listings on a broker's website.

Dynamic Ads for Real Estate can "leverage cross-device intent signals to automatically promote relevant listings from [a] real estate inventory," without having to create unique creatives each time, according to Facebook. This should be especially important for real estate brokerages that have many different listings, or a high volume of listing changes.

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As an additional bonus, says Facebook, advertisers never have to worry about the beginning or end of their campaigns, which can be left on so they reach the right audience at the right time on the right device. As with other Dynamic ads, this new addition is designed to work with the Facebook pixel and/or the Facebook SDK and App Events to automatically build the right audience to show ads to.

"Dynamic Ads for Real Estate is capable of always reaching the right people based on location, property price, size or other characteristics. Advertisers can also optimize their campaigns to focus on people who are more likely to take action — whether that's to submit information, or something else," according to Facebook.

Nextdoor App Rolls Out Real Estate Listings

Nextdoor, the social media platform for neighborhoods, is planning to roll out a real estate listing feature, which will showcase homes for sale in local communities.

The idea is to formalize behavior that's been happening organically, suggests CEO Nirav Tolia. "These real estate conversations are already happening," he said.

The feature is not only designed for homebuyers. It also aims to help users uncover changing real estate prices in their respective communities so they can evaluate price changes over time.

It is expected to bring in revenue for the company with real estate agents sponsoring the section. Tolia referred to it as Nextdoor's second major monetization effort, increasing the company's revenue streams beyond in-feed advertising.

While Tolia is reluctant to share user numbers, he expects at least 50 percent of the households in the San Francisco Bay Area will be using the platform by the end of 2017. He says the app's demographic is 50 percent female, with $100,000 or more in household income.

Tolia expects Nextdoor to be in 85 percent of U.S. neighborhoods by the year's end. The app is also available in Germany and Nextdoor wants to expand into India, Japan, and Brazil.

Robot Real Estate Agents to Sell Homes

Meet Rex. He's a robot slowly replacing human real estate agents in markets such as California and New York.

"If you're not a very good agent, you're gonna have problems competing against the robot but if you're good, you will still have a job," Jack Ryan, CEO of Rex Real Estate Exchange, tells FOX Business' Maria Bartiromo.

The device, nicknamed Rex, was created in 2015 by a team of entrepreneurs in finance, tech and real estate. The Woodland Hills-based startup says the concept is already paying off in big markets. One of the main benefits of Rex is that the robot charges a 2 percent fee versus the 6 percent fee charged by traditional agents, boasts Ryan.

"So we're listing and closing a home a day in California. And, we just launched in New York last week and we already have three homes listed in New York in a week. So, it's going really well," Ryan said.

The robots have been trained to use artificial intelligence to target potential buyers through social media using Facebook, Instagram, and Snapchat ads. The concept has even attracted the attention of big investors such as the founders of Best Buy and Crate & Barrel. The company has raised over $16 million to date.

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U.S. Home Sales to Foreigners Surge by 49 Percent

As homes in the United States have become relatively more affordable than in Canada, Canadian real estate investors nearly doubled their purchases of American homes lately. Many Canadians have struggled to purchase homes in markets such as Toronto and Vancouver where there have been rapid price gains.

The National Association of Realtors released a report that said foreign buyers and recent immigrants have spent an estimated $153 billion on American properties in the year ending March 2017. That was an increase of 49 percent over the previous year and the highest level since record-keeping began in 2009.

"The political and economic uncertainty both here and abroad did not deter foreigners from exponentially ramping up their purchases of U.S. property over the past year," said Lawrence Yun, chief economist at the National Association of Realtors.

Roughly half of all foreign sales were made in just three states: Florida, California and Texas. Canadians preferred Florida. Chinese buyers focused on California. Mexican buyers bought properties in Texas. New Jersey and Arizona were the fourth and fifth most popular states.

The report estimated the average foreign buyer paid just over $302,000 per property, an increase of 9 percent from 2016. Roughly 10 percent of foreign buyers paid over $1 million.

What Real Estate Agents Need to Know About Zero-down Loans

Several commercial lenders are offering mortgages that allow one percent down or nothing at all. In hot markets where the cost of a down payment has been on the rise, super low down loans have become one of the few ways a young family can afford to buy a home before they get locked out by rising interest rates or higher home prices.

Many lenders offering zero-down loans are doing so in partnership with Fannie Mae or Freddie Mac, whose low down payment programs (HomeReady and HomeSteps) require a 97 percent loan-to-value ratio or three percent down. Lenders make up for the difference by charging higher interest rates.

Today's zero-down loans are also considered to be safer than the nothing down loans marketed during the housing boom. Nearly all the super low down payment loans are 30-year fixed rate, not the adjustable-rate mortgage (ARM) loans that got so many borrowers in trouble a decade ago. Zero-down loans also require stricter underwriting standards, which protect both lenders and buyers.

They also usually cost more. Zero-down payment loans typically carry higher interest rates. Rates for zero-down loans are typically around 4.6 percent or 4.7 percent. The current average rate on a 30-year fixed rate mortgage is currently just under four percent.

Four Costs Homebuyers Often Forget to Factor Into Their Budgets

Out-of-pocket costs that crop up during the purchasing process or even as the new homebuyers are moving in are straining homebuyers' budgets. Experts suggest that homebuyers budget between two and five percent of the home's purchase price for closing costs, including appraiser, lender, and title fees.

New regulations passed in the last year require lenders to be more transparent about these fees. But closing costs only are a portion of the additional expenses that new homeowners will face.

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According to a recent TD Bank survey, nearly half of homebuyers incurred more than $2,000 in unexpected charges during the homebuying process. Ten percent of homebuyers spent at least $5,000 more than they expected to.

"Most people just look at the sticker price of the house and the mortgage payment," says Svenja Gudell, chief economist at the housing site Zillow. "But there are a lot of additional costs that can shock first-time homebuyers."

Here are a few of the costs that homebuyers often do not budget for:

1. **The inspection –** Once an offer has been made on a property, a homebuyer usually needs to pay a home inspector to inspect the home. However, if the home inspector finds any potential problems, a specialist may also need to perform an assessment.
2. **Taxes and mortgage payments –** Some homebuyers are surprised to learn their lenders require them to pay a year's taxes and mortgage upfront at closing. Additionally, if the seller prepaid any homeowner's association fees, the buyer is responsible for paying the prorated amount for the rest of the year or quarter.

   "Once you're done with all the fees and the deposits for reserves, you may end up bringing many more thousands of dollars than you thought to the closing," says Keith Gumbinger, vice president of HSH.com.
3. **The move –** Moving costs vary considerably depending on where the homebuyer lives, the distance of the move, and the amount of stuff that needs to be hauled. In general, homebuyers should expect to pay at least a few thousand for professional movers.
4. **Immediate costs –** Changing the locks, setup fees for utilities, and unplanned maintenance costs are just a few of the expenses that can surprise new homeowners within the first few months of owning a home.

   "Set up an emergency savings account with at least six months of expenses that you can tap if your roof springs a leak or the heater suddenly stops working. That way you won't have to turn to credit cards to cover the unexpected, and you can spend some time enjoying your experience as a new homeowner, rather than worrying about how you're going to pay for it," says Beth Braverman, freelance journalist for CNNMoney.

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