

# Real Estate Digest

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## Real Estate Industry Lacks Strategy for Climate Change, Study Finds

**T**he real estate industry has been very slow in adopting new standards to deal with the growing effects of climate change, according to a new study published by the Urban Land Institute, a nonprofit research institute and Heitman, a real estate investment firm.

In recent years numerous scientific studies have found climate change to be a major threat to real estate markets across the U.S. as the likelihood of fires and flooding increases.

The risks and impacts of climate change are increasingly being reflected in the residential real estate market. Homes located in areas at risk of flooding or sea level rise sell for less than homes without flood risk, the ULI study says, citing a previous academic study.

### Declining Values in Vulnerable Areas

The study finds climate change is an “urgent and complex challenge which must be addressed but for which the industry does not yet have a clear strategy.”

ULI said real estate investors hold many assets in cities vulnerable to the effects of climate change. It is encouraging investors to pay attention to areas where devaluations may occur. For example, a 2018 ULI study found coastal homes in several East Coast states had declined in value by roughly \$7.4 billion between the years 2005 and 2017.

The report also warns that commercial properties in areas vulnerable to climate change could face worse outcomes. Over



\$130 billion of U.S. institutional real estate is in metros that rank in the top 10 percent for risks due to sea-level rise, according to a study conducted by Heitman and climate risk firm Four Twenty Seven.

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## Higher Insurance Costs

Climate change is also impacting the insurance industry, the ULI study reports. In 2017, insurers paid out \$135 billion globally for damage resulting from natural disasters and storms. The figure is not representative of actual damages which are estimated by National Oceanic and Atmospheric Administration at \$307 billion in the U.S. alone for 2017.

“Beyond damages, climate and weather events can lead to increased insurance, maintenance, and operational costs and, potentially, a decrease in property liquidity, and value,” the study’s key findings appendix says.

“At this early stage, investment managers view insurance as the primary means of financial protection against physical damage from climate events,” the study’s key findings appendix continues.

Although some efforts have been made to improve the sustainability of buildings, thereby lowering operating costs, they are not useful for resolving the threats posed by rising sea levels in some real estate markets.

## Risk Mitigation Options

The authors of the ULI study conducted a series of interviews with real estate professionals and found many investors are considering options to mitigate climate change risks. They are exploring seawalls, dikes, and cooling systems in order to help improve the resilience of their properties.

Overall, ULI recommends the real estate industry increase its role in helping the investment community understand the risks of climate change.

The report suggests investment managers:

- ✳ Assess the climate risks to properties at the portfolio and property level.
- ✳ Include the risks of climate change in the investment decision-making processes.
- ✳ Incorporate additional adaptation and mitigation for assets at risk.

- ✳ Provide insurance coverage as a means of addressing potential concerns.
- ✳ Monitor and address regulatory risk and policy.
- ✳ Examine the risks in specific markets and engage with city-level preparatory efforts.

## Weekly Mortgage Applications at Highest Level in 9 Years



Rising rates are impacting homeowners who want to refinance. However, homebuyers are not pulling away from the market.

Mortgage applications to purchase a home increased 1 percent week-over-week in the second week of April. They were also 7 percent higher than a year ago. Purchase applications increased to their highest level since April 2010.

Total mortgage application volume declined in the second week of April by 3.5 percent from the previous week, according to the Mortgage Bankers Association’s seasonally adjusted index. However, the volume was higher by 14 percent than one year ago.

Fewer applications to refinance a home resulted in a lower total number of applications, declining 8 percent for the week while still rising 26 percent from one year ago, when higher interest rates were in place.

The average contract interest rate for 30-year fixed rate mortgages with conforming loan balances increased 0.04 percent to 4.44 percent, with points decreasing by 0.05 to 0.42 for loans with a 20 percent down payment.

“With mortgage rates up for the second week in a row, it’s no surprise that refinancings slid 8%, and average loan sizes dropped back closer to normal levels,” said Joel Kan, associate vice president of economic and industry forecasting at MBA. “The spring buying season continues to be robust.”



## Rents Increase as Airbnb Listings Increase



A new study done by researchers at UCLA and the Marshall School of Business, University of Southern California, uncovered a correlation between Airbnb and city rent increases. The study aimed to apply the findings of previous research on rental prices in Boston, Mass., in determining Airbnb's impact on U.S. rental markets overall. The Boston study revealed that as the number of active Airbnb listings in the city grew, rents increased.

The assumption of the new study was that Airbnb supply in any zip code deemed to be "touristy," meaning it has a lot of restaurants and bars, along with an awareness of Airbnb among homeowners in the area, leads to an increase in demand for short-term rentals via Airbnb.

Using this assumption, the researchers discovered a 1 percent increase in Airbnb listings was causally associated with an increase of 0.018 percent in rental rates and a 0.026 jump in housing prices. Although the effects of Airbnb may seem to be minuscule, the researchers note that Airbnb has a year-over-year average growth of 44 percent.

Extrapolating the data to U.S. housing overall means Airbnb accounts for roughly one-fifth the average annual increase in U.S. rents and one-seventh the average annual increase in home prices.

The new study also revealed that zip codes with high housing vacancy levels, namely those with a larger share of homes that are vacant for seasonal or recreational use, were more likely to have landlords that opted to rent their properties as short-term rentals rather than placing them as long-term rentals or for sale.



## Millennials, Gen Xers Purchasing More Multi-generational Homes

According to the National Association of Realtors' 2019 Home Buyer and Seller Generational Trends,

the number of Gen Xers and millennials purchasing multi-generational homes is on the rise. One in six Gen Xers purchased a multi-generational home with 52 percent reporting they did so because their adult children have either never left home or moved back. Older millennials seem to have more in common with Gen Xers and younger boomers with 9 percent having bought a multi-generational home to take care of parents or spend more time with their parents.

"The high cost of rent and lack of affordable housing inventory is sending adult children back to their parents' homes either out of necessity or an attempt to save money," says Lawrence Yun, chief economist at NAR.

Alan Barbic, president of the Silicon Valley Association of Realtors, attributes the trend to several factors including housing affordability concerns, rising rents, and parents wanting to help their children save money. In addition, he adds that many municipalities are starting to allow homeowners to build secondary units onto single-family residential properties.

Surprisingly, the data uncovered downsizing to a smaller home is not currently common among any generations. In fact, Gen Xers and Boomers who might have been interested in downsizing may have been hindered by a lack of smaller inventory. However, the survey did find buyers and sellers from all generations prefer the assistance of a real estate agent as they search for homes to meet their complex living arrangement needs.

## Largest Metros Where Residents Pay Highest, Least Property Taxes



A new study from LendingTree reveals the impact of the new tax law on U.S. homeowners. The Tax Cuts and Jobs Act, which took effect in 2018, changed how much homeowners pay in property taxes. In fact, it has



dramatically shifted the amounts homeowners in the country's largest metro areas pay in comparison to smaller areas.

The major finding from the study was that homeowners in large metros in less populated areas pay less in real estate taxes. Conversely, homeowners in metros in more densely populated states pay a lot more in real estate taxes.

To develop its ranking of the top 50 U.S. metros by real estate tax cost, LendingTree analyzed the average amount homeowners pay in real estate taxes, mortgage interest and mortgage insurance premiums. Across all metros, the average amount of mortgage interest paid is roughly \$8,500.

Here is a breakdown of the most and least expensive metros by how much homeowners pay in real estate taxes:

5 Lowest Cost Metros by Average Real Estate Taxes Amount:

- 1 Birmingham, Ala. \$2,035
- 2 Louisville, Ky. \$2,733
- 3 Salt Lake City, Utah \$2,765
- 4 Indianapolis, Ind. \$2,773
- 5 Phoenix, Ariz. \$2,835

5 Highest Cost Metros by Average Real Estate Taxes Amount:

- 50 New York, N.Y. \$10,202
- 49 San Jose, Calif. \$9,626
- 48 San Francisco, Calif. \$8,493
- 47 Austin, Texas \$7,818
- 46 Houston, Texas \$7,384



## Homeowners Underestimate Remodeling Costs

Homeowners are not realistic when it comes to estimat-

ing the true costs of home improvement projects says a new study from Discover Home Equity Loans.

The company conducted a survey of 1,200 Americans and found 82 percent of homeowners believe their homes are a financial asset. As a result, they want to engage in home improvement projects to increase the values of their homes even more.

More than half of consumers (52 percent) plan to take on a new home improvement project in the next year. Kitchen and bathroom remodels were the top most desired renovation projects among the consumers surveyed.

However, consumers also reported they failed to save enough money for the renovations. Sixty-four percent of consumers said their home improvement projects would cost less than \$15,000. However, bathroom remodels may range in cost from \$19,000 to as much as \$61,000. Kitchen models can cost as much as \$125,000, according to the study.

As a result of their tendency to lowball their estimates for projects, homeowners are struggling to pay for their renovations. Just 25 percent of homeowners said they would have enough funds to cover the cost of the project.

## Craft Breweries Boost Local Property Values



A new study from the University of Toledo found local craft breweries boost nearby property values. In Charlotte, N.C., alone, 21 craft breweries opened between March 2009 and October 2016, a surprising find which prompted the Toledo-based researchers to investigate how the new breweries impacted the area.

Craft breweries are springing up across the country. In fact, a 2017 report from the Brewers Association found the craft brewery industry poured more than \$76.2 billion into the economy and resulted in roughly 500,000 new jobs.



As a result of investigating the impact of craft breweries on Charlotte, N.C., home prices, the researchers found if a brewery opened within a half mile, there was a 3 percent increase in home sales. The increase was 10 percent for single-family homes in city-center neighborhoods. However, the researchers also noted in cities where real estate values are already very high, the effects of breweries on home prices are far more muted.

“Being able to walk to a craft brewery in the evening or late afternoon on the weekend is considered a positive amenity that would — for some people — be attractive when looking at a house,” explained Dr. Neil Reid, lead author of the study and a professor of geography and planning at the University of Toledo. “There is a different attitude toward a craft brewery. It’s perceived differently than a liquor store or bar.”

## Going Green Increases Home Prices



A recent Zillow analysis found it pays to go green if you are trying to sell your home. Homes that feature solar energy systems sold for 4.1 percent more on average than their non-green counterparts in 2018, according to the study.

Additionally, the report revealed over 80 percent of homebuyers say energy efficiency is mandatory when it comes to buying a home even if it comes at a slightly higher price. Many homeowners seek out energy-efficient home features as a means of reducing their energy bills.

“Energy conservation isn’t only good for the environment, it can also translate into big savings on electricity bills as well as help to reduce the strain on the electrical grid,” Zillow Senior Economist Sarah Mikhitarian said.

California is currently leading the country with a new energy initiative that is expected to transform the state’s housing market. In 2018,

the California Energy Commission voted for the mandatory implementation of solar panels for nearly every newly built home in the state. The benefits of energy conservation are likely the motivation behind the recently passed California energy initiative.

Across the country, Zillow found there are enough solar electricity systems in the U.S. to provide power to 12.3 million homes.

## Builder Confidence Rises, Affordability Remains a Concern



The nation’s homebuilders enjoyed strong demand this spring. However, they continue to see potential buyers being hindered by high home prices.

In April, builder confidence increased 1 point to 63 according to the monthly National Association of Home Builders/Wells Fargo Housing Market Index. The figure marks a decline of 5 points from last April. It hit a 2018 high of 70 in May.

For the first quarter of the year, sentiment remained in the low 60s. Anything higher than 50 is considered positive.

“Builders report solid demand for new single-family homes, but they are also grappling with affordability concerns stemming from a chronic shortage of construction workers and buildable lots,” said NAHB Chairman Greg Ugalde, a homebuilder and developer from Torrington, Connecticut.

The current sales conditions component of the index rose by 1 point to 69. Buyer traffic increased 3 points to 47, although it still remains in negative territory. Sales expectations for the next six months declined by 1 point to 71.

Builders have made attempts to cater to strong demand among entry-level homebuyers. However, the bulk of new production efforts are still focused in the move-up market.

Builders have made some concessions in an attempt to lower costs



for buyers. However, home prices remain very high in major markets. The high costs of finished lots and skilled labor continue to prevent builders from helping buyers save money.

## 5 Tips for Selling New Construction



Most experienced real estate agents will say selling a new construction project is significantly different from selling an existing property. In many cases, selling new construction is quite challenging and requires both perseverance and patience from the real estate agent.

Here are 5 tips for real estate agents selling new construction projects.

### 1 Selling New Construction Is a Different Ballgame

The process for selling new construction is not the same as a resale transaction. There are extra steps real estate agents should be aware of. Firstly, pay attention to the builder contract which outlines the buyer's rights, including the deadline by which a buyer can terminate the contract without forfeiting their deposit money.

Real estate agents should also ask the builder about financing options, incentives, and inclusions they may offer buyers in order to close the deal. Find out which options are included with the basic home and which are upgrades. Analyze all the information provided by soil surveys, blueprints and floor plans so your buyer can make an informed decision.

### 2 Buyers Need to Know Why They're Hiring a Real Estate Agent

Many buyers wonder if they really need the services of a real estate agent when buying new construction. Your job as an agent is to let buyers know that without your expertise important details could be easily forgotten or overlooked. It is also your duty as a real estate agent to ensure your buyer receives the custom features and upgrades the builder agreed to deliver.

### 3 Analyze the Builder's Contract Closely

The key to new construction deals is to analyze the wording of the builder's contract. In many cases, the verbiage of the builder's contract favors the builder. As a result, it is a good idea to obtain a copy of the contract from the builder's sales person right away. When you know the contract inside and out it will be easier to explain it to a buyer in simple terms.

### 4 Financing Is Trickier for New Construction

In comparison to resale transactions, financing is often trickier for new construction deals. Consider that mortgage lenders are usually unable to lock in an interest rate for more than 90 days in advance. As a result, if a buyer barely qualifies at the time of the contract to purchase the home, they may not be able to buy the home if mortgage rates increase.

### 5 Real Estate Agents Should Take on the Challenge

Although selling new construction is significantly different from the average resale transaction, don't be afraid to take on the challenge. Not only will you help buyers find their dream homes, new construction can also provide you with additional inventory during periods when you're low on resale home transactions.

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