Real Estate Digest

Serving Leading Lenders and Real Estate Professionals

Contact us to schedule your next closing
closing@title-smart.com
Office: 651-779-3075 • Fax: 651-779-3066

TitleSmart, Inc.

July • 2019 Volume 45 • Number 7

The Three Top Challenges Facing First-time Homebuyers in 2019

This year may prove to be one of the most challenging for some first-time homebuyers. In addition to having fewer assets than current homeowners and a lack of home equity, first-time homebuyers also face some unique market conditions.

Inventory remains tight and median home prices are unaffordable for average wage earners in 70 percent of the country, according to ATTOM Data Solutions. U.S. home prices also reached a new peak in March when the median home listing price increased 7 percent to $300,000, according to Realtor.com.

While there is a lot of bad news, there are some recent developments that benefit first-time homebuyers. The 30-year fixed mortgage rate has declined to 4.42 percent, according to the Mortgage Bankers Association. This can help with affordability since lower rates mean less interest on mortgage payments. Inventory has also loosened up slightly from last year, says Jeff Tucker, an analyst with Zillow.

“This winter there was a bit of a slowdown in the pressure on the market, but that is relative to the last several years of really fierce competition,” says Tucker. “That doesn’t mean home prices have dropped into a more affordable range — far from that. It’s that the growth has slowed down and leveled off by our metrics.”

Here are three trends that experts say will continue to affect first-time homebuyers this year.

continued on next page

July • 2019 Volume 45 • Number 7

1 **Home Prices:** Prices remain high and may continue to rise says Issi Romem, chief economist at housing-data site Trulia.

Nevertheless homebuyers will see significant home value differences depending on where they choose to live, finds ATTOM's analysis.

Even though prices are still high, first-time buyers may see some relief.

"People are negotiating more than they have been, and buyers should try to factor that in," says Sean Black, the co-founder and CEO of Knock.

He recommends that first-time homebuyers search slightly above their price range and then negotiate for concessions, such as asking sellers to cover the cost of home repairs or closing costs.

2 **Inventory:** There are fewer homes available to first-time homebuyers than in previous years, in part due to a decline in new home construction after the recession. If home building in the U.S. had continued at the same pace in the past few years, there would be 6.3 million more homes in the U.S. today.

Realtor.com also found that while overall inventory levels increased in March, the number of entry-level homes available declined. The number of for-sale homes below $200,000 declined by 9 percent in March.

The lack of available housing has led to bidding wars which can leave first-time homebuyers feeling discouraged. Financial preparation is essential for buyers, especially first-time homebuyers looking to purchase a home in expensive markets with low inventory.

"Have as much in savings as you can," Black advises. "If you can get fully approved for a mortgage, then you can feel better in making an offer."

3 **Securing Financing:** Financing is still a major hurdle for some first-time buyers. The Federal Housing Administration, which is responsible for insuring government-backed loans, said it is tightening its rules on high-risk mortgages because it is concerned about declining average borrower credit scores.

This change could make it a lot harder for some first-time homebuyers to secure a loan, say experts. First-time homebuyers should work on building up their credit scores before applying for a mortgage in order to increase their approval chances, but also to secure a lower rate.

Luxury Home Sales See Largest Annual Decline Since 2010

The demand for luxury properties is declining and it is taking a toll on their values. In the first quarter, sales of homes listed at $2 million and higher declined 16 percent, the sharpest decline since 2010, according to Redfin, a real estate brokerage. At the same time, the supply of luxury homes increased by 14 percent, marking one full fiscal year of annual inventory increases.

The average price of a luxury home, which is a home within the top 5 percent in each of the top 1,000 cities included in the study, declined 1.6 percent to $1.55 million. Non-luxury homes experienced an average price increase of 2.7 percent annually to $300,000.

Demand for luxury homes is starting to decline in part due to the recent changes in tax law. The amount of state and local taxes that homeowners can deduct was capped at $10,000. Additionally, the tax law reduces the mortgage interest deduction from $1 million to $750,000 in mortgage debt.

"It can be significant," said Jonathan Miller, CEO of Miller Samuel, a real estate analytics and appraisal firm. "You're looking at 5, 6, 7 mil-

continued on next page

lion-dollar properties that pay $100-$125,000 a year in taxes, and now you can only write off $10,000. What that does is impact value but it takes a while for buyers and sellers to agree on what that value is."

As a result, some homebuyers are opting not to buy while others are moving to states like Florida, Washington or Nevada, which have no state income tax.

In certain markets, declining luxury property prices mean that homebuyers are getting great deals. In Greenwich, Conn., median luxury home prices declined 17 percent to just over $2 million, according to Miller Samuel.

Other luxury markets saw price gains as high-income tech workers who can telecommute sought more affordable markets. In Charleston, S.C., luxury prices rose by 42 percent annually to $2.3 million. In Boise, Idaho, luxury prices increased 17 percent annually to $1 million.

Agent-to-agent Referrals Become More Valuable as Housing Prices Increase

Real estate agents continue to benefit from referrals within the industry. ReferralExchange, the leading referral network for U.S. real estate agents, conducted its third annual study and found that referral fee earnings were up in 2018, with some real estate agents earning more than they did in previous years.

The researchers surveyed 1,200 agents from across the country to learn how real estate referrals contribute to their businesses. In the study, a referral was defined as an individual who is ready to act as compared to an unqualified lead. Agents have found that referrals are extremely important for building their businesses.

The number of agents who earned between $20,000 and $50,000 in referral fees grew by 3 percent to 20 percent in 2018. During the same period, the number of agents who earned between $10,000 and $20,000 in referral fees declined 8 percent to 17 percent.

The number of agent-to-agent referrals remained unchanged in 2018 from 2017. Last year, 25 percent of agents received between six and ten referrals. Additionally, 19 percent of agents received between 11 and 25 referrals in 2018.

The study also uncovered that the majority of agents surveyed belong to a referral network with 29 percent of these agents attributing more than a fifth of their overall inbound referrals to these networks. The most important takeaway was that 23 percent reported that over 20 percent of the referrals they received from their networks resulted in a closed transaction.

"Referrals are one of the key drivers of business in the real estate industry. If an agent can't assist a client in buying or selling, a solid referral is crucial. Experienced agents rely on referral networks to provide additional resources for the clients they work with," said Scott Olsen, CEO of ReferralExchange.

Buyers Who Lost Homes During Housing Crisis Return to the Market

A new buying trend is emerging among ex-homeowners who lost their homes during the 2008 housing crisis. These so-called boomerang buyers who previously lost their homes to foreclosure or a short-sale are now in the process of buying a home or planning to do so in the near future.

"I think the next phase of the housing recovery will be partly driven by people in the prime age group" of 35 to 64 that have been reluctant to buy again

continued on next page

after losing their homes during the crisis, says Kwame Donaldson, an economist with Moody's Analytics.

Some economists say homebuyers who were affected by the housing crisis have already become homeowners again. Donaldson notes that middle-aged Americans have a typical pay rate that is 14 percent higher than the U.S. average, which makes them good candidates to buy homes.

A NerdWallet survey conducted in January found that 6 percent of Americans who lost a home due to a financial event in the past ten years plan to buy a home this year. However, 39 percent plan to buy over the next three years and 58 percent say they plan to buy within five years.

In some of the areas that were hit hardest by the housing crisis, boomerang purchases are increasing, brokers say. Thomas Blanchard, managing broker of Orange Realty Group in Las Vegas, Nev. says that 15 to 20 percent of the sales handled by his firm are to boomerang buyers.

In Miami, Fla., Sonia "Gaby" Martinez, broker and owner of Xtreme International Realty says boomerang buyers account for 40 percent of purchases. Rents are rising sharply in these areas and are prompting ex-homeowners to buy again say the brokers.

The sale premium also varies by location. In Riverside, Calif., a solar energy-system helped homes sell for 2.7 percent more as compared to homes without solar power, adding a markup of $9,926 for the median-valued home. In the greater New York City metro, solar-powered homes sold for a premium that was double that of Riverside homes at 5.4 percent. The markup translated to an extra $23,989 in home value.

The study also examined three other coastal metro areas — Los Angeles, Calif., San Francisco, Calif., and Orlando, Fla. Median-valued homes with solar power in these areas sold for a premium of roughly 4 percent.

While future energy cost savings was the main reason homes with solar-energy systems sold for a premium, the researchers proposed that there was a second hidden reason why these homes tend to sell for more. The homes are more likely to have other features that are more difficult to measure, yet add significant value, such as heated floors.

The findings of the study may also come down to personal preference: more than 80 percent of homebuyers say energy-efficient features are important, according to the Zillow Group Consumer Housing Trends Report.

Homes with Solar Panels Sell for 4.1 Percent More, Zillow Study Finds

Not only are solar panels great for helping homeowners save on energy costs, they also have the potential to increase a home's value. A recent Zillow study uncovered that homes with solar-energy systems sold for 4.1 percent more in 2018 than comparable homes without solar power. This translated to $9,274 in increased home value for the median-valued home.

Real Estate Flippers Face Losses from Homes That Take Too Long to Sell

A new crop of real estate flippers are starting to get their first taste of losses as home sales plunge. For these newbie investors, it's their first time experiencing a slowdown as they face losses from homes that take too long to sell. At the same time, they face steep payments on the "hard-money" loans that helped to fuel the boom.

continued on next page

"Flipping only works in an appreciating market where homes move quickly," says Glen Weinberg, chief operating officer at Fairview Commercial Lending, which has recently tightened its standards for real estate investors. "Those factors are now in flux, and that's what's going to lead to the demise of a lot of flippers."

Roughly 6.5 percent of U.S. home sales in the fourth quarter were flips. This was the highest share of homes sold within a year from when they were previously sold since 2002, according to real estate data firm CoreLogic.

At the same time, fourth-quarter losses from flips were the highest since 2009. Unlike the last housing crash, many flippers relied on hard-money loans to fix up the properties rather than simply reselling them. Although Weinberg says that he now requires flippers to put 40 percent down on a home, the other larger lenders that he competes with still require zero or very little money down.

"I've seen people make foolish decisions in the past and still make money," says Bryan Pham, a Bay Area software engineer who has also purchased properties to flip. "Now you have to be conservative."

These Are the Amenities Renters Want the Most

In the past few years, rental prices across the U.S. have skyrocketed to historic highs. Millions are struggling to afford housing thanks to a median rent of $1,006 and insubstantial income growth.

The good news is that national rent prices have begun to slow in appreciation. In April, Zumper's monthly rent report found that the average rent for a one-bedroom and two-bedroom unit increased only 2.8 percent and 2.5 percent year-over-year, respectively.

As rental affordability concerns start to dissipate, renters may soon have a larger array of options to choose from when selecting a property to rent. This means competition amongst property managers will increase as renters take to the market.

So how can property managers stand out in a competitive buyer's market? Zumper says focus on amenities. According to Zumper, these are the top 5 most requested amenities:

1. **Air Conditioning**

   Renters want to stay cool. With a large portion of the U.S. experiencing hot temperatures throughout the summer, renters want this amenity even though it is not required by law in every state.

2. **In-unit Laundry**

   For many renters, having to go off-premises to do laundry is considered a huge nuisance, an in-unit washer and dryer makes doing laundry much easier and less time-consuming.

3. **Dishwasher**

   Hand washing dishes is considered to be a thing of the past. Among renters, dishwashers still rank in the top 10 most-searched amenities.

4. **On-site Laundry**

   If an in-unit washer and dryer is unavailable, having a laundry room on site is considered to be the next best option for many renters.

5. **Assigned Parking**

   For renters living in huge apartment complexes and multi-family units, finding a parking spot after work is a hassle. As a result, they prefer to have their own specific, assigned parking spot available to them 24/7.

continued on next page

July • 2019 Volume 45 • Number 7

What Agents Should Know About Working with Millennials

Each generation has its own unique characteristics and millennial homebuyers are no different. When it comes to homeownership, 72 percent of millennials consider it to be a top priority, according to a 2018 Bank of America survey.

To millennials, owning a home is not only a great option for investment, it is also their way of achieving the American dream.

Here is what agents should know about working with millennials.

1 **Millennials Are Waiting Longer to Buy Homes.** Millennials saw what their parents experienced during the 2008 real estate market crash. With student loan debt at all time highs, many are also moving back in with their parents after college to save money and pay down debts. **Pro tip:** Millennials want to move out as soon as they find steady full-time work. When someone announces a new career, this is the best time to acknowledge their success and let them know that you can help them find a great house.

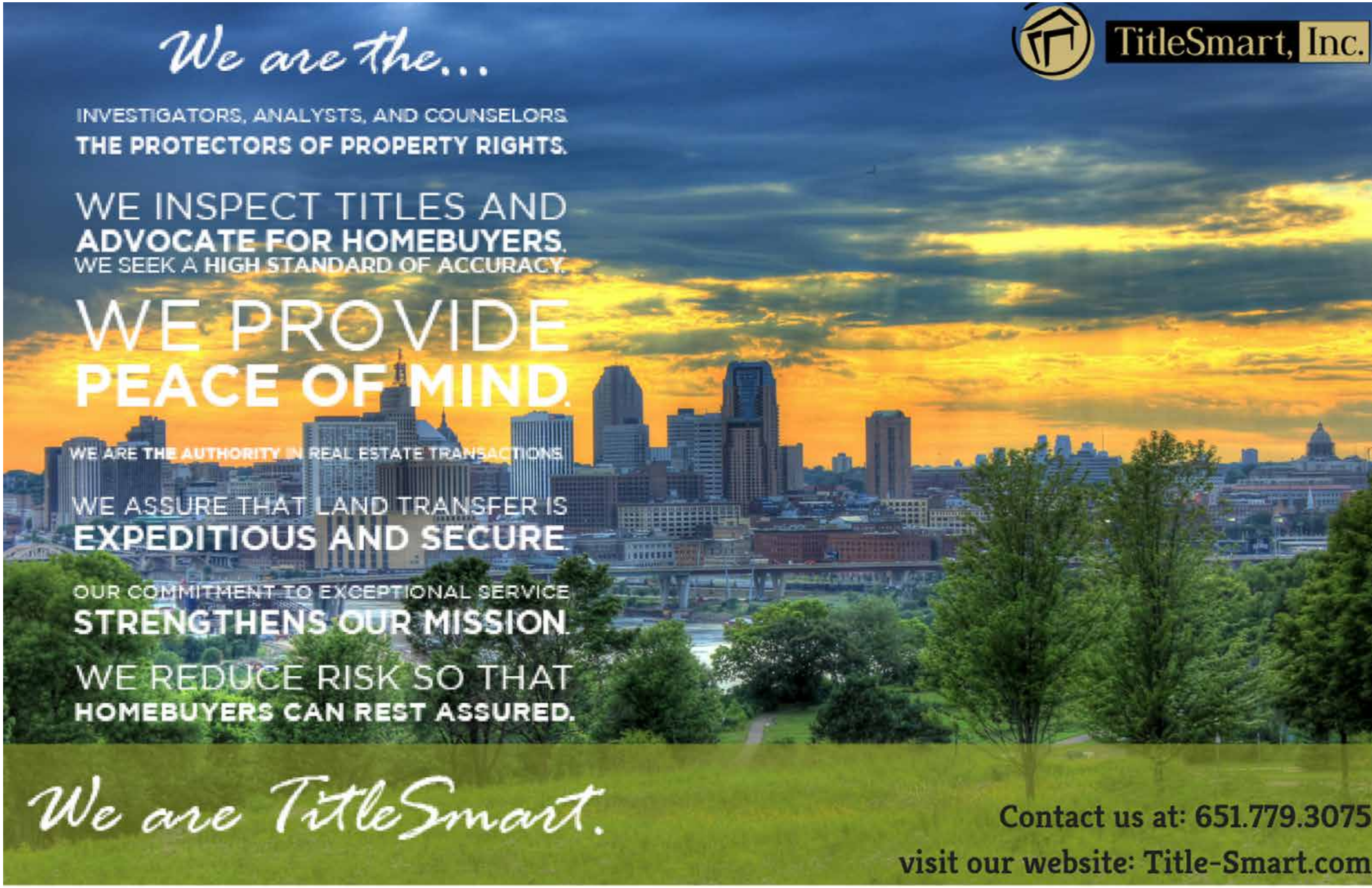
2 **The American Dream Lives On.** The majority of millennials plan to buy a home and will need help with the process. That is why one of the first steps for most millennial homebuyers is to make sure they are working with an experienced agent they can trust. **Pro tip:** By helping millennials understand the home buying process and delivering real value as a local real estate expert, you can establish yourself as an agent your millennial clients can count on.

3 **Single Homeownership Is Common.** Among millennials, marriage has become less popular and for those who choose to get married they are doing so later in life. The Pew Research Center estimates that 25 percent of millennials will never marry. However, many millennials are also buying homes with their partners before they get married. **Pro tip:** You should not be afraid to target single millennial buyers. Many are buying homes by themselves.

4 **Millennials Are Patient When It Comes to Purchasing a Home.** Millennials do their research and they are happy to wait when it comes to buying a home. On average, millennials require eight weeks of searching before they choose a home to buy, which is less time than it took prior generations. **Pro tip:** While some millennials move quickly when it comes to purchasing a home, others will take longer as they enjoy doing their research and making informed buying decisions.

5 **Trust Is Essential.** Although millennials prefer to conduct their home search themselves, when they're ready to buy they want an agent they can trust. More than 90 percent of millennial buyers purchase their home via a real estate agent. Millennials want someone on their side to help them navigate the process so they can understand what is involved. **Pro tip:** Be authentic and let your clients know what you think about their home buying plans, even if it is not what you think they want to hear. They will appreciate and respect you which will help establish you as an agent they can trust.

more on next page



The information presented and conclusions stated in this newsletter are based solely upon our best judgement and analysis of information sources. It is not guaranteed information and is not necessarily a complete statement of all available data. Web site citations are current at time of publication but subject to change. This material may not be quoted or reproduced in any form, including copy machines or any electronic storage or transmission medium, in whole or in part, without permission from the publisher. A special edition of Real Estate Digest is available for real estate agents specializing in commercial property or high-end residential, and for mortgage brokers. Please call 866-762-7879 to order your personalized copies today.

SMARTS PUBLISHING