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iBuyers Gain Market Share in Some Cities

iBuyers are increasing their market share in some U.S. markets, finds a new Redfin analysis. iBuyers purchased 3.1 percent of homes in 18 markets during the third quarter of 2019. This figure marked a 1.6 percent increase in the market share for iBuyers since a year earlier.

The analysis included home purchases and sales made by the iBuyers on Zillow, Opendoor, Offerpad, and RedfinNow. The markets where iBuyers had the largest market share and accounted for more than 4 percent of sales were Raleigh, N.C. (6.8 percent), Phoenix, Ariz. (5.1 percent), Atlanta, Ga. (4.4 percent), and Charlotte, N.C. (4.3 percent).

What is an iBuyer?

An iBuyer is a real estate investor that uses an automated valuation model (known as an AVM) and other technology to make cash offers on homes quickly. Since they rely on a mountain of data points on comparable home sales, an iBuyer will often purchase homes sight unseen.

iBuyers charge sellers a higher fee than a seller's agent typically charges for the convenience of helping the seller offload the property quickly. Home sellers may also be required to make improvements in order to sell a home via an iBuyer.

Affordable Homes Main Target of iBuyers

The markets where iBuyers saw the most transactions are the ones where the average home is priced at or below the national median, which was $313,200 in October 2019. By focusing on neighborhoods with affordable homes, iBuyers can purchase more properties for less money. Affordable homes also sell faster than more expensive homes, allowing iBuyers to move their housing inventory and purchase additional homes faster. Over time, this helps to train the iBuyers algorithms, refining their processes with each purchase.

In Houston, Texas, the share of homes

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purchased by iBuyers increased the most (3.8 percent) in the third quarter of 2019, marking an increase of 0.1 one year earlier. Jacksonville, Fla. saw the second-largest increase (3.0 percent), up from 0 percent. The third-largest jump was in Raleigh where iBuyer market share shot to 6.8 percent from 3.8 percent.

iBuyers sold homes for less than the local median price in every market except for two: Riverside, Calif. and Dallas, Texas. In these two cities, the median home price sold by iBuyers ($390,500 and $231,250, respectively) was slightly higher than the local median home sale price ($382,000 and $223,700).

Biggest Price Gaps found in Southern US

The biggest price gap was in Austin, Texas, where the median price of homes sold by iBuyers was $235,000 — 27 percent below the $320,000 metro wide price. iBuyers sold their homes for 20 percent or more below the local median price in four other comparatively affordable metro areas: Nashville, Tenn. (23 percent), Charlotte, N.C. (21 percent), San Antonio, Texas (21 percent) and Atlanta, Ga. (20 percent).

In 17 of 18 markets the median price of homes sold by iBuyers declined in the third quarter as compared to one year earlier, even though homes prices in these markets increased last year. Phoenix was the only market where the median iBuyer sale price did not change.

Experts Say 2020 Will Be a Good Year to Buy a Home

According to Mat Ishbia, CEO of United Wholesale Mortgage, this year is especially good for homebuyers because mortgage rates are forecasted to remain low, making houses more affordable.

According to a report from Realtor.com, mortgage rates will average around 3.85 percent this year. Realtor.com also predicts home values will rise just 0.8 percent on average and that home prices will actually decline 25 percent in the 100 largest metros, providing much needed relief for potential buyers who delayed their entry into the market in recent years when home prices were rising dramatically.

However, first-time homebuyers are expected to still face challenges thanks to a lack of inventory at the entry-level section of the market. The total number of available homes could even reach a record low with buyers in the lowest-priced segments of the market facing the least number of available homes.

“There’s not enough new inventory in the market to support the millennial generation,” Ishbia said. Ishbia recommends that younger potential homebuyers consider using a broker to help them lock in better rates.

LendingTree predicts home sales will rise by 2 to 5 percent year over year, driven by low rates and millennials entering the market.

NAR Addresses Growing Housing Affordability Crisis

The National Association of Realtors (NAR) has announced to the Department of Housing and Urban Development its concern about the growing housing affordability crisis and suggested several initiatives to address the issue, including:

- **Mortgage market liquidity:** Refocus the mission of Fannie Mae and Freddie Mac on liquidity in the mortgage markets for low- and middle-income home buyers.
- **Improve underwriting criteria:** Consider whether the under-

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writing criteria used by FHA and the GSEs are restricting access to mortgage credit for first-time home buyers, who often times are saddled with student loan debt.

- **Incentivize YIMBY:** Foster a "Yes in My Backyard" mindset by encouraging states and localities that receive federal dollars to reform high-density zoning and other land-use rules.
- **Improve LIHTC:** "The Low-Income Housing Tax Credit (LIHTC) has been a very successful program which produces affordable housing in the United States," says the NAR. "The amount of tax credits allocated to each state should be increased by 50 percent over current levels. Changes should also be made to incentivize the construction or preservation of affordable housing."

The NAR would also like to see **private flood insurance regulations updated,** and **the elimination of unnecessary fees** from the VA, FHA and the GSEs, which have increased fees to help fund other programs, which is "unfair to those purchasing a home, and can prevent otherwise eligible buyers from qualifying for a home."

"Although NAR believes there is no single solution to promoting affordability and increasing housing supplies," said the NAR. The association holds "that a broad-based policy approach to bring safe, decent and affordable housing can be achieved."

AI Could Help Boost Minority Homeownership Rate

Artificial intelligence software could reduce discrimination against some minority groups when it comes to applying for a mortgage online, finds a new study by the National Bureau of Economic Research. The Bureau has called on banks to adopt AI as a means of ending bias in home loan decisions.

The study found mortgage lenders who met with a borrower in person rejected minority applicants at a rate 6 percent higher than those with comparable economic backgrounds. However, when applicants completed their mortgage application online, the acceptance and rejection rates were roughly the same.

Economists believe the disparity in homeownership rates is one of the primary drivers of the racial wealth gap in the United States.

The National Bureau of Economic Research said the data indicates that lenders who embraced AI-powered lending saw a fivefold increase in African American and Hispanic borrowers aged between 30 and 40 in the last year.

"It's important to note that 45 percent of the country's largest mortgage lenders now offer online or app-based loan origination, as FinTech looks to play a major role in reducing bias in the home lending market," an article in Forbes.com noted.

More Gen Z-ers Will Own Homes Than Millennials

The oldest millennials, who will turn 40 this year, experienced a turbulent decade of housing marked by the Great Recession and subsequent extraordinary rise in home values. As a result, the homeownership rate among this generation has significantly declined in the past decade. However, in the next 15 years, Gen Z will age into a more favorable housing market, which analysts predict will allow a larger number of people in this generation to become homeowners.

The findings were the result of the Zillow Home Price Expectations Survey, sponsored by Zillow and conducted quarterly by Pulsenomics LLC, which asked more than 100 economists, real estate experts, and investment strategists for their predictions on the U.S.

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housing market. The Q4 survey also asked panelists their thoughts on future homeownership rates.

When home values were at their lowest, would-be millennial buyers graduated into a recession with record levels of student debt. Then as home values increased in the next decade millennials had trouble affording a down payment and they remained renters. As a result, the homeownership rate for 35- to 44-year-olds fell from 66 percent to 60 percent in the past decade.

Mortgage Rates Decline Further As 2020 Home Sales Get Underway

The average rate on the 30-year fixed mortgage declined again in the first week of January, falling to its lowest since October. According to Mortgage News Daily the rate was 3.69 percent. The decline in mortgage rates comes as the 2020 home buying season gets off to an early start.

Low rates are bringing buyers to the market as competition heats up in January, a time when open houses used to be rare. The home buying season now starts in January as a result of buyers hoping to get in before the competition worsens during the spring.

Buyer sentiment remained high in December according to Fannie Mae's Home Purchase Sentiment Index (HPSI). Americans responded to the survey saying they did not expect mortgage rates to rise. Their confidence in both their employment and household incomes also rose.

"The continued strength in the HPSI attests to the intention among consumers to purchase homes. This is consistent with the Fannie Mae forecast for 2020," said Doug Duncan, senior vice president and chief economist at Fannie Mae.

The HPSI reached an all-time high in 2019 as a result of a 16 percentage point year-over-year increase in the number of consumers who believe that now is a good time to buy a home, he added.

Record Number of Homes Sold for More Than $100 Million in 2019

A record number of homes sold for record-high prices in 2019. The top 10 most expensive home sales for 2019 totaled nearly $1.2 billion, according to a *Wall Street Journal* report. Citadel founder Ken Griffin's purchase of a 24,000-square-foot Billionaires Row apartment in New York City for $238 million ranked at No. 1.

Other purchases that topped the list were a $111 million Palm Beach, Fla. estate purchased by hedge-fund billionaire Steven Schonfeld and an estate in the same town purchased by an unknown buyer for $110.25 million.

California also topped the list for record-high home sale prices in 2019. Lachlan Murdoch, CEO of FOX Corps. and co-chairman of New Corp., purchased a $150 million estate in Bel Air known as Chartwell.

The purchases highlight the debate over wealth inequality in the U.S. Some lawmakers have called for higher taxes for high net worth individuals. At the same time, wealthy individuals have complained about high taxes in states such as New York where some have sold their homes in order to relocate to more tax-friendly states, such as Florida.

"What are these states thinking? If you keep raising taxes, what's going to happen to their citizens? They're moving. They can't pay those taxes. And it's impossible to do business up there. So they're going to just keep moving and moving — moving to Florida. It's a death spiral," said Sen. Rick Scott, R-Fla., during a Nov. 1 interview with Fox News' Neil Cavuto.

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The Housing Markets Where Sales Are Expected to Decline in 2020

This year is expected to be a tepid one for the U.S. housing market, according to Realtor.com's 2020 Housing Market Predictions. While home prices are expected to continue to rise, with the average U.S. home value forecasted to grow this year by 0.8 percent, it is the lowest predicted gain for home values in years. Some markets experts even say it may be far weaker than the U.S. average.

The study analyzed the 100 largest real estate markets in the United States. The ten markets where sales volume and home prices may decline the most are:

1. Des Moines, Iowa, – 10.5 percent
2. Palm Bay-Melbourne-Titusville, Fla., – 9.8 percent
3. Las Vegas-Henderson-Paradise, Nev., – 9.5 percent
4. Richmond, Va., – 7.7 percent
5. Riverside-san Bernardino-Ontario, Calif., – 7.6 percent

Although the predictions are based on the best information currently available, Realtor.com warns that predications are only informed guesses. In fact, in 2019 U.S. home prices increased nearly twice the 2.2 percent gain Realtor.com predicted.

The Top 5 Cities for Middle Class Families

Here are the top 5 cities for America's middle class and the percentage of households that are middle class in each state, according to SmartAsset:

1. **Utah** has 47.3 percent of households that are middle class.
   Median household income adjusted for the cost of living: $73,342
   Median home value: $303,300
   Homeownership rate: 70.5 percent
2. **Idaho** has 48.8 percent of households that are middle class.
   Median household income adjusted for the cost of living: $59,474
   Median home value: $233,100
   Homeownership rate: 70.7 percent
3. **Iowa** has 47.3 percent of households that are middle class.
   Median household income adjusted for the cost of living: $65,831
   Median home value: $152,000
   Homeownership rate: 71.3 percent
4. **Nebraska** has 46.4 percent of households that are middle class.
   Median household income adjusted for the cost of living: $65,225
   Median home value: $161,800
   Homeownership rate: 66.1 percent
5. **Indiana** has 47.1 percent of households that are middle class.
   Median household income adjusted for the cost of living: $61,153
   Median home value: $147,300
   Homeownership rate: 68.9 percent

For this study, SmartAsset defined a middle class household as one with earnings between $35,000 and $100,000. In order to rank the states, Smart Asset weighed the percentage of households in the middle class, the change in median household incomes from 2014 to 2018, the homeownership rate, the median home value, job growth from 2014 to 2018 for jobs that pay between $30,000 and $70,000 annually, and the statistical measurement of income inequality.

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How to Win Sellers Back From iBuyers

When sellers want to sell their home quickly, they might be tempted to consider an instant home-purchasing option via an iBuyer. Usually this is because they want to avoid the hassle of the home selling process via a traditional real estate agent. Although an instant offer might seem like a quick fix to your potential client, the reality is there are hidden aspects that make them less than ideal.

As an agent, it is your job to identify the best opportunities for your clients. Thanks to your experience in the local market, you will be able to negotiate the deal in the seller's best interest and close the deal.

Here are three concerns of clients who are considering iBuyers and how you convince them to work with you instead.

1 Undervaluing the Listing Price

Online programs that provide an instant listing price, such as the Zestimate from Zillow, may be off by as much as 5 percent. When you consider the average price that a home sells for is roughly $220,000, a 5 percent margin of error could cost sellers as much as $11,000. In the long run, a seller can benefit by working with an agent who is experienced in home pricing.

2 It is Still a Seller's Market

When it comes to sale price, sellers do not have to accept quick, low-ball offers. In most U.S. markets, home inventory is limited which means that buyers have to compete if they want to buy a home.

If a client is pushing for a quick sale rather than using an agent to sell their home and they plan to rent after they move out, point out that paying a mortgage is likely cheaper than rent. Show them the cost difference of renting versus staying in their current home until the right buyer comes along. Remind them that their patience will yield better results than they can get from an instant home-purchasing program.

3 Let Clients Know That the Relationship Is Mutually Beneficial

When sellers work with an agent, both parties benefit from the sale. The agent seeks out the best deal for their client in exchange for a commission, a positive review, and potential referrals down the line. However, an instant home-purchasing program only seeks to make a profit from any sale regardless of the effect on the seller.

If a seller wants to skip out on the agent's commission by choosing an instant home-purchasing program, remind them they not only will likely get a lower offer for their home but that these companies actually charge higher fees than an agent.

While winning out over an iBuyer might be a challenge, especially if the seller is looking to make a quick sale, let them know the benefits of selling their home with an agent are worth the extra effort and time.

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