

# Real Estate Digest

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## Buyers Waiting for Home Prices to Drop Likely to Be Disappointed, Says New Report

*A recent report on the strength of the U.S. economy, particularly with regard to the housing market, downplays the impact of the next recession — though the report was published before the coronavirus shutdown.*

**R**esearchers at First American Financial Services looked at how the U.S. housing market has fared historically during recessions. Based on past data, the next recession is unlikely to trigger a major housing downturn.

“While the housing crisis is still fresh on the minds of many, and was the catalyst of the Great Recession, the U.S. housing market has weathered all other recessions since 1980,” wrote Odeta Kushi, deputy chief economist at First American and the report’s author.

Using the company’s own data in conjunction with information from the National Association of Realtors (NAR) and Freddie Mac, the report reveals that the housing market has traditionally remained steady during economic downturns. In the majority of other instances, aside from the 2008 downturn, home price appreciation continued at an even pace while existing-home sales growth declined only slightly.

### **Current Conditions Better than During Great Recession**

The major reasons for the housing crash during the Great Recession were the explo-

sion in home-building activity and mortgage credit. Homebuyers were able to obtain mortgages with no down payment and no documentation of their income. Also, many mortgage loans featured introductory zero interest periods to start but then grew to become more expensive as time went on.

“The housing crisis in the Great Recession was fueled heavily by the fact that job loss was paired with a significant share of



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homeowners who didn't have much equity in their homes," Kushi wrote.

Since developers constructed so many new homes, these homeowners' home values plummeted once the mortgage loan bubble burst.

### Limited Supply, Not Easy Credit, Responsible for Current Price Increases

The increase in home prices that occurred in the last decade has not been fueled by increased access to mortgage credit. Instead, it is the result of supply and demand: more Americans want to become homeowners but the supply of homes available for sale is very limited which pushed prices upward.

Although this has made homes unaffordable for millions of Americans, it also fueled home equity growth which significantly decreases the likelihood that today's homeowners would end up underwater on their mortgage loans if the country started to dip into a recession.

"Were we to have a recession, I'd argue housing would provide a cushion because the shortage of supply at the entry-level suggests builders could actually continue to build," Doug Duncan, Fannie Mae's chief economist, told MarketWatch in December.

At the local level, some home markets could even become more resilient in the event of a recession as a result of the strength of the local economy in comparison to what is occurring at the national level.



### Buyers Prefer Property Listings with 3D Tours

Buyers are no longer satisfied with static photos of real estate listings, finds a new study from Matterport.

The survey polled 1,000 U.S. property buyers and 1,000 U.S. property sellers and found that nearly 80 percent of buyers would switch realtors if it meant working with an agent whose listings feature immersive virtual walkthroughs.

Of all of the respondents across age groups, 83 percent of millennials and 94 percent of Gen Zs would switch to an agent who offered these services. In contrast, only 63 percent of Gen Xers prefer immersive real estate listings. Of the respondents who reported they would switch, 87 percent of sellers and 86 percent of buyers would recommend these agents to their friends.

Offering 3D tours also makes buyers more likely to purchase a home. In fact, 92 percent said they were more likely to buy if a property had an immersive 3D tour available. Similarly, 99.4 percent of sellers said they felt an immersive 3D tour would improve the competitiveness of their property listing. Nearly all sellers (89 percent) believe their listings would perform better and sell faster if it features a virtual walk-through tour.

### Existing Home Sales Rebound as Inventory Hits 20 Year Low



Sales of existing homes rose 3.6 percent in December despite home inventory being at historic lows as buyers struggle to find properties for sale. Existing-home sales occurred at a seasonally adjusted annual pace of 5.54 million, reports the National Association of Realtors (NAR). Overall, home sales for both new and existing homes were up 10.8 percent from a year ago.

The inventory of homes for sale declined again falling to a 3.0-month supply, down from a 3.7-month supply in November. That represents the lowest supply of homes since the National Association



tion of Realtors began to track this data in 1999. The current conditions indicate a severe shortage of homes given that NAR considers a 6-month supply of homes as indicative of a balanced market.

For home buyers, researchers at Realtor.com predict relief will likely come from the new-home market. However, the pace of home-building is still well short of what is needed and there is a housing gap of 3.84 million new homes, researchers found.

“Given the clear upward trend in mortgage demand in the fall, it would be reasonable to expect sales to be trending higher, but lack of inventory might be holding back transactions volumes in some markets,” said Ian Shepherdson, chief economist at Pantheon Macroeconomics.

## Home Price Gains Rise Again, Says index



After cooling off for much of 2019, home prices are on the rise again in recent months. Nationally, home prices rose by 3.5 percent annually in November, up 0.3 percent from October, according to the S&P CoreLogic Case-Shiller National Home Price Index.

The 10-City Composite saw a 2.0 percent annual increase, up 0.3 percent from the previous month. The 20-City Composite increased 2.6 percent annually, up 0.4 percent from October.

Home prices have risen the most in Phoenix, Ariz., Charlotte, N.C., and Tampa, Fla. In Phoenix, Charlotte, and Tampa home prices rose 5.9 percent, 5.2 percent, and 5.0 percent, respectively.

Home prices are currently nearly 60 percent higher than the bottom reached in February 2012 and 15 percent above their peak prior to the financial crisis said Craig J. Lazzara, managing director and global head of Index Investment Strategy at S&P Dow Jones Indices.

“November’s results were broad-based, with gains in every city in our 20-city composite,” he added.

Experts speculate that lower mortgage rates could be fueling the home price gains since buyers have greater purchasing power when rates fall and may tend to bid up prices. In November 2019, mortgage rates were a full percentage point lower than they were one year ago.

## New Home Construction Rose to 13-Year High in December



New home construction was up 17 percent in December and was 41 percent higher than a year ago.

Building permits for privately owned homes were authorized at a seasonally-adjusted rate of 1.42 million, marking a pace that was 4 percent below the 1.47 million revised figure set in November. It was a 6 percent increase over the rate set the previous year in December 2018.

Economists believe the surge was the result of milder winter weather in many parts of the country. Thanks to rising sentiment among home builders and low mortgage rates, experts predict construction activity will remain elevated at least through the remainder of the first quarter of 2020.

Despite the uptick, home builders still face some hurdles. The unemployment rate in the private construction industry, which includes home builders, is still well below the rate it was during the last housing boom of the early 2000s, noted Federal Reserve Governor Michelle. Land prices are also at historic highs, making it costly for home builders to purchase parcels to develop.

However, home builders may soon get some relief on one front. The cost of materials is expected to decline as a result of the U.S.-Mexico-Canada Agreement on trade, according to the National Association of Home Builders.



## Renting Nearly as Expensive as Owning in Many Markets, Finds Study



Renting is now only slightly less expensive than owning a home, finds a new Realtor.com study. Nationally, the median rental was \$1,319 per month while the average mortgage payment was \$1,600 at the end of 2019. Rentals climbed 4 percent year over year while home loan settlements declined 1 percent, according to the study. The study examined the costs of renting versus buying in 593 U.S. counties.

While it is still more expensive to purchase a home than rent in 84 percent of the nation’s largest counties — disregarding the home’s investment potential — 26 of those counties switched from being more affordable to rent in to becoming more affordable to buy in. Nationally, buying a median-priced home accounts for an average of 30 percent of the national median income while renting takes an average of 25 percent.

“Lower mortgage rates really benefit the buy side of the equation. The fact that rates are down is really helping narrow the gap between buying and renting,” said Danielle Hale, chief economist at Realtor.com.

The top areas of the country where buying is more affordable than renting include Clayton County, Ga., Delaware County, Ind., and Baltimore City, Md. Santa Cruz, Calif. is the county where the gap between renting and buying has improved the most.

## Single Women Pay More, Sell for Less, Finds Yale Study



Single women are not enjoying the full financial benefits of their real estate transactions whether

buying or selling, finds a new study from Kelly Shue and Paul Goldsmith-Pinkham of the Yale School of Management.

The researchers analyzed data from more than 50 million home sales between 1991 and 2017 and found that single women, on average pay 2 percent more for a home compared to single men and sell for 2 percent less.

“We find that women purchase properties when they are listed at higher relative prices, and also choose to list for lower relative prices,” wrote the researchers. “In addition, women negotiate worse discounts relative to the listing price.”

“People are more offended by low-ball offers from female buyers,” Shue told NPR. Our culture “may expect that women are more willing to share the pie and share the surplus from negotiation.”

Another reason for the discrepancy is related to market timing: when women and men choose to buy and sell.

“Women earn lower returns on housing partly because they tend to buy when aggregate house prices are high and sell when they are low,” they write.

The gender gap disappears almost entirely when housing market conditions are tight. For better results, the researchers suggest women buy or sell when the economy is doing well if they can wait it out.

## Top 10 Cities Where Homeowners Never Leave



Real estate website 55places.com, which provides information about active adult communities in the United States, recently conducted a study to uncover which cities have the highest number of long-term homeowners.

55places.com used housing data from the Census Bureau to analyze more than 300 cities with a population of 100,000 or more to



find the cities with the most tenured homeowners. Specifically, the study looked at owner-occupied homes where the homeowners have lived in the same home for at least 30 years.

Detroit, Mich., topped the list with nearly 40 percent of Detroit homeowners having lived in their homes for three decades or longer. However, the region with the greatest number of long-term homeowners was actually in the West. California had the most cities on the list with six cities in the top 30 rankings.

These are the top 10 cities with the largest number of homeowners that never leave their homes:

- 1 Detroit, Mich.
- 2 Daly City, Calif.
- 3 Cleveland, Ohio
- 4 Berkeley, Calif.
- 5 Honolulu, Hawaii
- 6 Pittsburg, Penn.
- 7 Buffalo, N.Y.
- 8 Miami Gardens, Fla.
- 9 Birmingham, Ala.
- 10 Inglewood, Calif.

## Rates Decline on Coronavirus Fears, Fueling Rise in Weekly Mortgage Applications



Mortgage rates declined to their lowest level since November, sending potential homebuyers rushing to obtain financing. Rates declined as a result of the increased concern about the economic impact of the coronavirus outbreak and trade risks with China, said Joel Kan, an MBA economist.

Mortgage application volume increased 7.2 percent in the third week of January from the previous week, according to the Mortgage

Bankers Association's seasonally adjusted index.

The average contract interest rate for a 30-year-fixed-rate mortgage with a conforming loan balanced (\$510,400 or less) declined 0.06 percent to 3.81 percent, with points rising to 0.28 from 0.27 for loans with a 20 percent down payment.

Mortgage applications to purchase a home increased by 5 percent for the week, marking a 17 percent year-over-year increase. Applications to refinance a home loan increased 8 percent for the week and 146 percent compared to the previous year. Last year, the 30-year fixed rate was almost one percentage point higher.

The spring buying season appears to have started very early this year. Housing demand is high and real estate agents report seeing much higher buyer traffic than normal for this time of year. The only thing preventing more buyers from getting into the market is the tight supply of homes, especially for entry-level properties.

## How to Turn Buyers into Sellers: 8 Tips for Securing Repeat Business



Client retention is the key to success as a real estate agent. To persuade clients to work with you again in the future, use every interaction as an opportunity to demonstrate your value and earn your clients' trust.

Here are 8 tips to incorporate into your daily business practices to ensure that your buyers always come back to you as sellers.

### 1 Treat Every Initial Interview Like a Pitch

Appeal to your clients by learning more about their long-term financial goals and plans for the future. By thinking beyond that first transaction from the start, you will convince them to consider you next time they need help finding home.



## **2 Keep the Door Open**

Trust is key in establishing a good relationship with your client. While it might feel uncomfortable at first, sharing some personal information will help create a relationship that is a two-way street with your clients. This will make your clients feel like you are always acting in their best interest rather than just out to earn a commission.

However, take care to establish a relationship that is open without being unprofessional. Never reveal information that could cause your clients to question your judgement.

## **3 Stay on Top of Your Clients Expectations**

Let your clients know what they can expect during the process of buying or selling a home and how you will help them each step of the way. By doing this you will better understand their emotions and concerns about working with you.

## **4 Remain Steadfast**

Bending to the client's whims, especially when it comes to pricing, is not usually your best tactic. In fact, it will cause the client to doubt you as an expert. By demonstrating your knowledge and sticking to reasoning backed by data, you will earn your clients' respect.

## **5 Keep Clients in the Loop**

Transparency is key if you want your clients to work with you again and again. Even when there is bad news, you need to be forthright. Give them feedback at every step of the process, so they feel comfortable with leaving their real estate transactions in your care.

## **6 Have Those Uncomfortable Conversations**

Difficult issues sometimes arise during a real estate transaction. Establishing a personal relationship with your clients makes it easier to have uncomfortable conversations about these kinds of matters.

While things might not work out as planned, your clients will appreciate that you are upfront with them. Explain to them what went wrong and come up with a solution to fix the problem.

## **7 Lead With Data**

Sometimes it is easy to offer an opinion based on your experience. However, if you want your client to believe that your opinion is the right one every time, lead with data.

## **8 Keep Up with a Changing Industry**

The best real estate agents keep up with continuing education and follow industry trends. By providing exceptional service to your clients that is always ahead of the curve, your clients will never question working with you versus someone else.





It's the *little* things  
that make the  
**BIG** difference!™



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