Real Estate Digest

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FHA, Fannie Mae, Freddie Mac Raise Loan Limits

The Federal Housing Administration (FHA), Fannie Mae, and Freddie Mac are backing larger mortgages now that the 2020 loan limits have gone into effect. The higher loan limits went into effect on January 1, 2020. The Federal Housing Finance Agency (FHFA) made the announcement in November 2019 that it would begin allowing mortgage borrowers to take out home loans over $500,000 in 2020.

Fannie Mae and Freddie Mac can back loans to a maximum of $510,400, marking an increase of $26,050 over 2019's loan limit. The FHA can back loans of $331,760, an increase of nearly $17,000 over 2019's loan limit of $314,827.

The conforming loan limits must be adjusted to reflect changes in home prices across the country. The FHFA's home price index rose in 2019, marking a near 5 percent year-over-year increase from last year's totals. As a result, the agencies adjusted their loan limits to account for the higher home prices.

For the fourth straight year, the FHFA has increased conforming loan limits. The increases come after the FHFA had not increased loan limits for a decade from 2006 to 2016.

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In some markets where homes are more expensive, the 2020 loan limits are even higher. For areas in which 115 percent of the local median home value exceeds the baseline conforming loan limit, the maximum loan limit is set at $765,600 — or 150 percent of $510,400.

In the nation's least expensive markets, which are the counties where 115 percent of the median home limit price is less than the minimum limit, the FHA's 2020 minimum national loan limit, or "floor," of $331,760 is 65 percent of the Fannie, Freddie loan limit of $510,400.

The conforming loan limits for Fannie and Freddie are determined by the Housing and Economic Recovery Act of 2008. This legislation established a baseline loan limit at $417,000 and mandated that after a period of price declines, the baseline loan limit may not be increased again until home prices reach pre-decline levels.

In 2016, the FHFA approved the first conforming loan limit increase for Fannie and Freddie in a decade. Since then, the FHFA total loan limit increase has been $93,400. In 2016, the FHA increased the conforming loan limit by $7,100 to $424,100. In 2018, the FHFA raised the loan limit again by $29,000 to $453,100 for 2018. Last year, the FHFA increased the loan limit again by $31,250 to $484,350. It is over $510,000 as of 2020.

When the loan limit was increased for the first time in 2016, it sparked enthusiasm across the mortgage industry. Lenders predicted that it would drive more people to seek home loans because the lower loan limits forced many borrowers to accept jumbo loans that did not offer competitive financing in many instances.

However, according to some market observers, the higher loan limits now are not necessarily better. They argue that by allowing Fannie and Freddie to purchase larger loans, the FHFA is increasing their risk of insolvency the next time a market downturn happens.

On the consumer side, higher limits indicate that home prices are on the rise. This makes it even harder for homebuyers to find properties amidst the current affordability crisis occurring in many U.S. housing markets. Higher home prices mean that thousands of would-be home buyers are out of the market.

Coronavirus Fears Push Mortgage Rates to 8-year Low

As coronavirus concerns continue to impact financial markets, U.S. bond yields are declining. As a result, mortgage rates, which loosely follow the 10-year Treasury yield, reached an eight-year low. They could decline even further.

The average rate on the popular 30-year fixed mortgage reached 3.34 percent during the third week of January, according to Mortgage News Daily. This is for borrowers who have strong financials and credit scores.

The last time this rate reached 3.34 percent was on one day in the summer of 2016, before it rose much higher that fall. Prior to that, rates had not been this low since 2012. While rates generally follow the 10-year yield, certain market factors can keep rates higher.

When the Mortgage Backed Securities (MBS) market fails to improve as quickly as the Treasury market, rates can fall this quickly, Graham said. Both mortgages and Treasuries are being impacted by the coronavirus crisis.

Mortgages also become less valuable to investors if they are paid off too quickly added Graham. Payoffs and refinances are surging currently with applications to refinance a home loan up 165 percent annually according to the Mortgage Bankers Association.

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The Right Words Matter When Listing Real Estate

Certain words and phrases can improve the value of a property and reduce the time it spends on the market, found researchers at the University of North Carolina at Charlotte, Sean Brunson and Richard J. Buttimer Jr., and Steve Swidler, the Hanson/KPMG professor of business and finance at Lafayette College in Easton, Pa.

The researchers analyzed more than 700,000 homes listed and sold over a decade in the Charlotte, N.C. area.

The good words and phrases include: "classic," "stunning," "turnkey," "newly renovated," "redeemed perfection," and "backyard paradise." The bad words include: "motivated seller," "basement," and "tiny."

More specifically, terms such as "adorable," "awesome," "gorgeous," and "luxurious" were helpful in boosting property value. The larger the home, the more likely the listing described it as "beautiful."

"Adorable" was one of the top-performing keywords that was found to add more than $43,000 to the value of a property. The properties where this term is most often used are generally small and difficult-to-sell, according to the study, "An Adorable Housing Paper: The Informational Content of Agent Remarks." However, using this term did not help improve the value of homes otherwise characterized as "large," and actually lowered their value by $2,601.79.

December Home Prices Notch 4.8 Percent Gain Over November

Home values have risen in recent months thanks to improvements in the U.S. housing market beginning at the end of 2019. In December, home prices increased by 3.8 percent annually on the S&P CoreLogic Case-Shiller National Home Price Index. This marked a 3.5 percent increase from November. The 10-city composite rose 2.4 percent annually, gaining 2 percent from the previous month. The 20-city composite rose 2.9 percent, marking an increase of 2.5 percent from one month earlier.

The cities that saw the largest gains in home values were Phoenix, Ariz., Charlotte, N.C., and Tampa, Fla. Home prices in Phoenix increased 6.5 percent year over year. Charlotte home values grew by 5.3 percent. Finally, Tampa home prices were 5.2 percent higher.

Twelve of the 20 cities in the index saw larger price increases annually for the year ending in December in comparison with November's annual read. Every city in the 20-city composite saw an increase in home values. Chicago, Ill. and New York, N.Y. reported the smallest annual gains at just 1 percent for each city.

At the national level, home prices are 59 percent higher than the bottom of the market reached in February 2012. Home prices are also 15 percent higher than the peak reached prior to the finance crisis.

Low Inventory Continues to Fuel Real Estate Price Growth

Tight inventory is fueling home price increases, finds a new report from the National Association of Realtors (NAR). Median home prices in January increased 6.8 percent annually to $266,300 from $249,400 last year. Prices also rose in every region of the country.

Year-over-year, home sales rose 9.6 percent from January 2019. Existing-home sales declined by 1.3 percent to a seasonally adjusted rate of 5.46 million.

Total housing inventory at the end of January was 1.42 million units, marking an increase of 2.2 percent from December. Overall, the housing inventory level in January was the lowest recorded since 1999.

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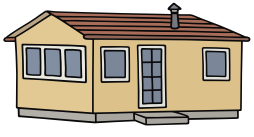
"With builder optimism high and home construction starting the year on a high note, the pieces are starting to come together for some improvement, but with the building shortage spanning more than a decade at this point, we won't see an end to the shortage overnight," said Danielle Hale, Chief Economist at realtor.com.

Unsold inventory remains at just a 3.1-month supply at the current sales pace. This is a slight improvement from the 3.0-month figure that was recorded in December. However, it is down from the 3.8-month figure that was recorded in January 2019.

Is Manufactured Housing the Next Real Estate Trend?



As Americans struggle to buy homes, a new market for single-family home alternatives is on the rise. Some real estate investors are betting that manufactured housing will become the next big thing.

Manufactured housing is typically located in land-lease communities, namely mobile home parks or communities that are owned by the residents themselves. Manufactured housing is also less prone to turnover than traditional multifamily housing, making it attractive to real estate investors, said Chad Hagwood, head of manufactured housing community production at Hunt Real Estate Capital, in an interview with BisNow. Typically, residents have invested in their homes and plan to stay for the longer term and this stability is attractive to would-be investors.

Already some major firms are using government-backed loans to buy manufactured home communities. In 2018, private equity firm TPG Capital bought dozens of mobile-home communities using over $200 million in financing from Fannie Mae.

However, experts anticipate that manufactured housing can help individual homeowners looking for affordable housing as well. Recently, the U.S. Secretary of Housing and Urban Development, Dr. Ben Carson championed manufactured housing calling it "vital" for America to meet its affordable housing needs.

More Homeowners Looking for Pet-friendly Homes

As the number of households with pets increases more Americans want homes that can accommodate their pets.

According to a Realtor.com survey, 87 percent of homebuyers with pets said that they "took their pets' needs into account when searching for a home." Roughly 45 percent of pet owners want a large yard and 36 percent say that they want outdoor space.

Pet-friendly rentals are also in high demand. A study conducted by FIREPAW, Inc., an animal welfare nonprofit research and education organization, found vacancy rates for pet-friendly rentals were lower than for housing that does not allow animals. The researchers also found that pet-friendly rentals had an average tenancy that was 28 months longer than rentals that do not allow pets.

According to the study, real estate investors who offer pet-friendly rentals can actually increase their bottom-line profits thanks to the ability to charge a pet deposit. The pet deposit can be as much as between 40 and 85 percent of the rent. Landlords can even charge higher rent overall, between 20 to 30 percent of the average rate. Therefore, by allowing pets, landlords can actually earn a net increase of $2,731 per unit annually.

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Home Renovations That Deliver the Best Returns for Homesellers

Americans are not moving as much as they used to, reducing mobility to record lows. This lifestyle change among Americans is fueling growth in the home remodeling market. However, not all renovations translate to home price gains.

Overall, remodeling returns are declining. The cost-to-value ratio for 2020 stands at 63.7 percent, a decline from last year and below the last decade's high of slightly more than 71 percent, according to an annual report from *Remodeling Magazine*. This is because increased labor and material costs are driving up project costs.

"The cost part of it is working against us, but the values are down as well," said Clayton DeKorne, editor-in-chief of *Remodeling Magazine*.

Still, there are renovation projects that do lead to significantly improved resale values, particularly exterior improvements. Nine of the top 10 leading investments are for the exterior of the home.

Manufactured stone veneer leads all renovations with a nearly 96 percent return on investment in resale value. A garage door delivers a 94.5 percent return. A mid-level kitchen remodel came in third with a 78 percent return. However, bathroom renovations did not even make the top ten. Window replacements, a new front door, upgraded siding, and new decking delivered better returns.

January U.S. Home Sales Hit Highest Peak Since 2012

In January U.S. homebuilders received so many orders for homes that the market experienced a surge it had not seen in years. Home sales rose 34 percent in January, marking the highest point for January since 2012, according to a survey conducted by John Burns Real Estate Consulting.

"We've never gone into a spring selling season with mortgage rates lower than they are now," said Rick Palacios Jr., director of research at the real estate consulting firm. "That's a big kick in the butt for customers who are thinking about buying and were putting it off."

In 2019, there was a minor decline in home sales due to a rise in borrowing costs. However, the market has since rebounded from this. The spike is especially surprising since home sales typically do not see a rise until late January, said Sheryl Palmer, CEO of homebuilder Taylor Morrison.

Existing inventory remained tight in January which also helped to boost homebuilders. Orders increased 46 percent from one year ago said Palmer.

"The unique part of this January is that it happened on Jan. 2," she said. "Normally, things start building in the second or third week."

6 Things Top Agents Do to Succeed

When it comes to success top agents have a few things in common. Fortunately, anyone can learn and apply these methods to become a top agent. Here are six things you need to succeed in real estate as a top producer.

1 Work on Your Vision

If you want to become a top agent, you must have a vision of the success you want to achieve to help motivate you.

However, it is not enough to have a vision. You also need a plan. Ask yourself questions like:

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- What is your ultimate goal?
- Where do you want to be in 5 years?
- How will you achieve each step of your plan?

Write your vision down along with the exact steps you plan to take in order to achieve it.

2 Know Why You Do What You Do

Top agents know why they strive for success. Not only do you need a vision, you also need to know why that specific dream is what you want. Focusing on the "why" can help motivate you toward success.

As for what drives you, it could be almost anything but generally it is something that makes you feel fulfilled, passionate, and happy. Whether you love to travel, want financial freedom or enjoy working with people, think of these things whenever you become unsure of yourself as a reminder to keep going.

3 Understand That It Will Take Sacrifice

Top agents sometimes must do things that they do not want to do. With the highs and lows of working in real estate, there will be many times when the journey is simply not fun.

Planning and understanding now that you will need to make sacrifices will help you when things get tough. It will also help you to avoid feeling overwhelmed. You will be able to continue even when you want to quit.

4 Be Fearless

Being successful means getting comfortable with being uncomfortable. Your path to becoming a top agent will require a lot of experimentation until you uncover your own unique recipe for success. Willingness to accept change is what separates the best agents from average ones.

As a top agent, achieving and maintaining success in real estate also depends on your ability to market yourself. This means that you will have to learn and use new technology and methods that may put you in situations where you are uncomfortable.

5 Confidence

One defining skill that all top agents have is the ability to appear confident in almost any situation. The secret is that you might not always be as confident as you look. Successful agents learn to fake it and appear confident even when they feel uncertain.

6 Learn to Give

Top agents know that giving is the key to success. Many take on the role of leading teams or mentoring newer agents. They also give back to their communities. All of these serve as excellent ways to expand your network, make connections, and grow your business.

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