Real Estate Digest

JUDICIAL TITLE

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May • 2015 Volume 41 • Number 5

Tight Inventory Brewing up Summer Bidding Wars

Housing inventories remain constrained in many markets, so some buyers may face increased competition and fiercer bidding wars as we head into the busy late spring and summer selling seasons.

The real estate brokerage Redfin reports in its latest housing report that bidding wars are already elevated in hotter markets like Oakland, Calif., Boulder, Colo., Denver, Seattle, and Dallas. These cities typically have less than a three-month supply of homes.

Multiple Offers

"It's not uncommon to see 15 to 25 offers in some of the more desirable places, and for homes to sell 35 percent above the list price or even more," says Tom Hendershot, a Redfin real estate professional.

And it's not just hot markets affected; about 80 percent of the housing markets tracked saw a drop in inventory levels, the report showed.

Inventories have had some of the steepest year-over-year declines in:

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- Las Vegas-Henderson-Paradise, Nev. (down 37 percent);
- Key West, Fla. (-36 percent)
- Colorado Springs, Colo. (-36 percent)
- Palm Bay-Melbourne-Titusville, Fla. (-35 percent)
- Columbus, Ohio (-35 percent)

Growing Confidence

The inventory squeeze will likely grow, thanks to continued strengthening in employment and consumer optimism.

The share of respondents who believe the economy is headed in the right direction increased three percentage points to an all-time survey high of 47 percent, while the share who believe it is headed in the wrong direction decreased to 45 percent, a survey low, according to results from Fannie Mae's most recent 2015 National Housing Survey.

Additionally, the share who believe it would be easy to get a home mortgage today increased to a record-high 54 percent. This exceeds the percentage who think it would be difficult to get a mortgage, which reached a survey low of 43 percent.

"Continuing improvements in consumer attitudes in this month's National Housing Survey lend support to our expectation that the remainder of 2015 will be a case of the economy dragging housing upward," says Doug Duncan, senior vice president and chief economist at Fannie Mae.

"The share of consumers who think the economy is on the right track rose to a record high since the inception of the survey nearly five years ago and for the first time exceeded the share who believes it's on the wrong track. We continue to see strength in attitudes about the current home buying and selling environment and consistently high shares of consumers saying they expect to buy a home on their next move," Duncan said.

TRENDS

So Much for Downsizing

Although many of them say they are downsizing, it seems many baby boomers and seniors are choosing to buy larger rather than smaller homes in retirement.

A recent study by Bank of America Merrill Lynch found that nearly one-third of boomers and seniors surveyed have an interest in a larger home, specifically one with extra bedrooms. The retirees say a top reason is to have a home large enough for family members to visit. When adult children, grandchildren and other family members are scattered around the country, the homes of retirees tend to function as a meeting place for extended families, particularly during holidays or summer vacations.

Only 51 percent of those boomers and seniors surveyed actually did downsize, citing greater financial freedom (64 percent) and lowered maintenance duties (44 percent) among their top reasons for doing so. The remaining 19 percent moved to a similarly sized home.

The study also underscored the importance of keeping a close eye on this population segment, noting that while growth in the number of households across all other age groups will be less than two million, the number of age 65+ households in the U.S. will increase by nearly 11 million.

"How and where our nation's aging population chooses to live will have widespread implications on how agents serve the marketplace," said Andy Sieg, head of Global Wealth and Retirement Solutions for Bank of America Merrill Lynch.

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Single, Female Baby Boomers Are Confident and Buying

Single, female baby boomers are incredibly confident and happy. In fact, 74 percent of the baby boomer women surveyed say they are as happy — or happier — than they were at age 35, according to a new survey of single, female adults ages 50 to 68 by DelWebb.

Some of that confidence stems from the fact that 54 percent of single, female boomers are financially secure. And they are active — or more active — than they were at age 35. Eighty-one percent of those surveyed rank being physically healthy as "very important," and 68 percent rank a healthy lifestyle as one of their top priorities, after time with family and friends.

And what are they looking for in a home? The survey found many of the women are looking for access to popular exercising activities including hiking, yoga, biking and swimming and other outdoor and health club activities. As a result, agents are encouraged to highlight these amenities when working with these buyers.

Energy Efficiency Tops Housing Concerns

Safety, affordability and privacy are among the top housing needs identified in a recent national survey by the Demand Institute. But the No. 1 unmet housing concern was a bit surprising: energy efficiency.

Seventy-one percent of U.S. households polled placed a great deal of importance on energy efficiency, but only 35 percent felt their homes were very energy efficient with low monthly utility costs. Based on these numbers, energy efficiency was the housing concern with the largest 'satisfaction gap,' beating out consumer needs and wants for updated kitchens, storage space, safe neighborhoods, affordability, landlord responsiveness and more.

"Utilities are a significant and regular part of households' budgets, and spending on utilities has risen more quickly than overall consumer spending — 56 percent vs. 38 percent growth since 2000," said Louise Keely, president of the Demand Institute.

This interest in reducing utility bills was likely the motivation for another poll finding: 90 percent of households reported taking measures to reduce energy use in the last five years.

MARKETS

First-Time Buyers Perplexed as Entry-Level Homes Dry Up

With the median new-home price well over $280,000 — far from what many would consider an "entry-level" home — first-time buyers are wondering what they need to do to leave the rental market behind.

Despite demand for starter homes, many homebuilders aren't interested in building them. Hence, entry-level new construction homes are becoming scarce, and likely will become scarcer in the future, according to an article in *Builder Online*.

Starter homes are losing traction among those in the building industry for a number of reasons:

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- Land costs are high, and many of the lots developed during the first part of the housing recovery in the last three years have been mostly finished lots of "A" quality, with little attention devoted to B, C, and D lots that would be more geared toward entry-level homes. Lots that could be programmed for entry-level or starter homes would — in a typical recovery cycle — involve high-density (attached) or outer-circumference tracts. Costs of lots in those two areas and relief on some gnarly construction defects litigation trends on attached homes need to come down measurably for entry-level new housing to make a significant return.
- The higher fees in building such communities may also deter entry-level buyers from the new-home market in general. In building these communities, builders often face significant infrastructure and expanded support service costs. These fees and charges usually get added on to the price of a new home, which could add an extra 20 percent to 25 percent of the cost of a new home.
- The typical "entry-level" buyer may not want a "starter" home any longer. "They've waited longer to form households, pay down student debt, hook up with significant others, and amass their 'ability to repay' profile, and now they're not going to settle for a mere deed that gets them a ticket out of monthly rental payments," the article states.

As a result, the starter home — at least the one built recently — may be a thing of the past.

Ten Metro Areas Attracting Gen Xers

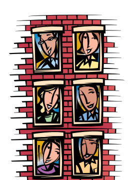
Generation X, defined as those born between 1965 and 1980 or thereabouts, has had the sharpest drop in home ownership since the recession, according to U.S. Census data. Home ownership among this age group has plunged nine percent since 1994, with researchers pinning most of the blame on unemployment.

But while there's much talk about millennials and baby boomers in real estate, Gen X is still an important generation. As the economy continues to recover, their re-entrance into home ownership is expected to recover as well.

A recent report by RealtyTrac used Census data to find which metro areas are most likely to reap the benefit of Gen-Xers' re-entry into the housing market. Based on Gen-Xers already in residence, look for more to follow into these areas:

- Raleigh-Cary, N.C.: 18.54 percent (the percentage of the population that is currently Gen-X)
- Atlanta-Sandy Springs-Marietta, Ga.: 18.01 percent
- Charlotte-Gastonia-Concord, North and South Carolina: 18.01 percent
- San Jose-Sunnyvale-Santa Clara, Calif.: 17.94 percent
- San Francisco-Oakland-Fremont, Calif.: 17.58 percent
- Washington, D.C.-Arlington-Alexandria, Va.: 17.57 percent
- Austin-Round Rock, Texas: 17.50 percent
- Dallas-Fort Worth-Arlington, Texas: 17.26 percent
- Bridgeport-Stamford-Norwalk, Conn.: 17.12 percent
- Seattle-Tacoma-Bellevue, Wash.: 17.11 percent

Multifamily Market Developers Optimistic



The National Association of Home Builders' Multifamily Production Index (MPI) held steady with a reading of 54 for last quarter. This capped the fourth straight year of quarterly readings consistently at 50 or above.

"Demand for multifamily housing remains strong

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and builders will continue to mine the market," according to W. Dean Henry, CEO of Legacy Partners Residential in Foster City, Calif., and chairman of NAHB's Multifamily Leadership Board. "Because of strong job growth, we expect to be able to keep building for the foreseeable future."

"This quarter's MPI reading of 54 is in line with our view that the multifamily segment of the industry has largely recovered from the downturn," said NAHB Chief Economist David Crowe. "After increasing steadily over the past several years, multifamily production has now reached a healthy, sustainable level."

Historically, the MPI and MVI have performed well as leading indicators of U.S. Census figures for multifamily starts and vacancy rates, providing information on likely movement in the Census figures one to three quarters in advance.

MORTGAGES

FHA Mortgage Premiums Cost Borrowers up to $12k More

Homeowners paying mortgage insurance through the Federal Housing Administration versus private mortgage insurance may be shelling out as much as $12,000 more.

FHA mortgage insurance premiums have nearly doubled since 2008, according to the Mortgage Insurance Report from WalletHub. Private mortgage insurance was hard to come by in the years following the housing market collapse, as the companies that offer it incurred significant losses, with several even going bankrupt.

FHA loans therefore became the primary option for low-down-payment consumers, and their volume grew by more than 355 percent from 2007 to 2009. However, in recent years, the cost of FHA loans has increased significantly. A borrower now has to pay $17,398 in premiums during the first five years after the purchase of a median-price home ($212,100), compared to just $9,210 in 2008.

Now that the housing market has rebounded in many areas, private mortgage insurance has once again become a more viable and affordable option for many consumers. Many consumers with down payments below 20 percent can save $2,251 to $12,026 in just five years by choosing private mortgage insurance.

Unlike private mortgage insurance, FHA premiums continue to be assessed throughout the life of a loan, even if the loan to value ratio drops below 80 percent.

Mortgage Underwriters Move to the Home Office

In an increasingly competitive hiring environment, some mortgage lenders are letting underwriters work from home to attract and retain top talent.

"We would rather have someone that is more qualified but works remotely rather than someone who is less qualified but lives a block away from the office," said David Zugheri, co-founder of Envoy Mortgage, whose company is increasingly taking the telecommute approach.

Secondary market investors are generally OK with lenders letting underwriters telecommute.

"We would be concerned with issues such as system access and security, the protection of private personal information, pipe-

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line management, employee training and communication," said Freddie Mac spokesman Brad German. And the practice doesn't violate Consumer Financial Protection Bureau compliance guidelines, an agency spokesperson confirmed.

"Whether underwriters meet this standard depends on the work they do on behalf of a creditor, and not on where that work is conducted," said CFPB spokesman Samuel Gilford.

The downside? A remote staff can be recruited from a bigger talent pool across the country, but companies may face security issues and lose the ability to have interaction between underwriters in solving problems.

AGENTS' CORNER

Three Ways to Serve Multigenerational Clients

With aging grandparents on the rise and adult children returning home from college, multigenerational living is becoming more prevalent. In 2012, a record 57 million Americans lived in multigenerational households, double the number from 1980. And the trend continues to rise.

In fact, according to NAR, four percent of U.S. home purchases last year involved a multigenerational household of adult children, plus parents, grandparents or both. How will this growing trend affect the agent's role in the home searching and buying process?

Here are three things to keep in mind:

1. **Know the backstory.** While the reasoning for the multi-gen home may vary with each client, it will be important for the agent to take the time to understand the back story. For example, an elderly woman may be moving in with her daughter's family so that they can help care for her as she ages. In this situation, agents would need to approach the search process much differently than if they were looking for a newly married couple with a baby on the way who are moving in with their in-laws to save money. A first-floor bedroom and bathroom would be important for an elderly person.
2. **Rethink your traditional strategy.** In a traditional setting, you're usually dealing with the requests of one person or two people. With multi-gen housing, you'll be tasked with complying to the demands of multiple people from various generations — each with their own needs and preferences. Ahead of time, do your best to think of all the logistical challenges each generation may face and then work to find a happy medium. Balance is key.
3. **Bigger may not always be better.** When you begin searching for options to show your clients, keep an open mind. A larger home with a traditional open floor plan may sound like the best option for a bigger family, but that's not always the case. Smaller homes with separate living quarters like split-levels or an in-law apartment can also provide your clients with the best of both worlds: everyone living under the same roof, but with enough space and privacy to transition comfortably.

At the end of the day, helping a family embark on this new path requires dedication beyond professional skill. Don't forget to approach the situation with understanding, empathy and patience in order to achieve a successful and positive outcome for all parties involved.

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