Real Estate Digest

JUDICIAL TITLE

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Summer Sensation: Vacation Home Sales Soar

Once a moribund market, vacation home sales have boomed to their highest level since the stratospheric conditions of a decade ago. Vacation-home sales catapulted to an estimated 1.13 million in the last full year of sales, the highest amount since NAR began the survey in 2003. 2014 vacation home sales were up 57.4 percent from 717,000 in 2013.

"Affluent households have greatly benefited from strong growth in the stock market in recent years, and the steady rise in home prices has likely given them reassurance that real estate remains an attractive long-term investment," said Lawrence Yun, NAR chief economist.

"Furthermore, the impressive increase also reflects long-term growth in the numbers of baby boomers moving closer to re-

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tirement and buying second homes to convert into their primary home in a few years."

Vacation-home sales accounted for 21 percent of all transactions in 2014, their highest market share since the survey was first conducted.

Smaller, Cheaper

Sales may be up but the median sales price of vacation homes has declined. The median vacation home price was $150,000, down 11.1 percent from $168,700 a year earlier.

According to Yun, the decrease in vacation home sales prices is likely due to the increase in vacation and second home buyers purchasing condos and townhouses. This also contributed to a decline of 200 square feet in median size for this segment of the housing market. Additionally, the rise in vacation buyers purchasing distressed properties and buying in the South, where home prices are often lower, contributed to the overall decline in the sales price of vacation homes.

The share of vacation buyers who paid cash fell to 30 percent from 38 percent. Of buyers who financed their purchase with a mortgage, nearly half (48 percent) of vacation buyers financed less than 70 percent of the purchase price.

Distressed Inventory

Forty-five percent of vacation homes purchased in 2014 were distressed properties — either a home in foreclosure or a short sale.

Although a majority (54 percent) of vacation home buyers bought a single-family house, the share of those buying a condo (27 percent) or a townhouse or row house (18 percent) increased from a year ago. Forty percent of vacation buyers purchased in a beach area, 19 percent purchased in the country and 17 percent purchased a vacation home in the mountains.

One-third of vacation home buyers plan to use their property for vacations or as a family retreat, and 19 percent plan to convert their vacation home into their primary residence in the future. Thirteen percent bought for potential price appreciation; the same share purchased because of low real estate prices and because the buyer found a good deal.

TRENDS

Exchange Rates Encourage Europeans to List U.S. Property

What gets invested, gets divested. The recent dip in the euro's trading rate has prompted European investors to put their U.S. property on the market in order to cash in on favorable trading rates.

Moneycorp, an international payments company, saw a dramatic change in the value of the euro against the dollar throughout 2014 and into 2015. The markets revealed a drop from a high of 1.39 to a low of 1.05 in the space of 12 months.

These fluctuations have created some great opportunities for European investors considering the sale of any U.S. real estate. Due to currency movements, U.S. real estate is selling for around €30,000 more per $100,000 than it was last year.

"We saw an influx of Europeans investing in the U.S. at various points throughout 2014 as they took advantage of the weak dollar," says Kelly Cutchin, Country Manager – USA, Moneycorp. "However, now it seems the tables have turned, with an 85 percent decrease in property-related transactions from the Eurozone

continued on next page

June • 2015 Volume 41 • Number 6

and a steady increase in European investors listing their properties for sale."

Hispanics Optimistic About Financial Future

Hispanics are feeling positive about their financial situation, according to new research commissioned by Massachusetts Mutual Life Insurance Company (MassMutual), despite the slow growth in wages and still rebounding economy. The study examined the perceptions Hispanics have of their finances today as compared to the past, and how prepared they are for emergencies.

The survey is part of a comprehensive research platform to foster a deep understanding of today's diverse families and the trends that may affect their finances in the coming decade. Survey results found that most Hispanics (74 percent) feel they are better off financially now than they were three years ago and may be better prepared for potential financial crises.

"Hispanics are gaining financial confidence, and we want to ensure that they will feel even more prepared for their financial future," says Dr. Chris Mendoza, vice president, Multicultural Market Development.

The top reasons why Hispanics feel more optimistic about their financial future this year than they did three years ago include getting a new job (40 percent), receiving a promotion or raise (34 percent) or gaining money on investments (18 percent). Some of this financial optimism could also be partially attributed to perceived preparedness — as most Hispanics say they have a plan to bounce back from financial challenges (85 percent).

Renters Feeling the Heat

The gap between rental costs and household income continues to widen to unsustainable levels in many parts of the country, and the situation could worsen unless new home construction meaningfully rises, according to new research by the NAR.

NAR's latest findings reveal that renters are being squeezed in many metro areas throughout the country due to the disproportionate growth in rental costs versus income. New York, Seattle and San Jose, Calif. are among the cities where rent growth is far exceeding wages.

The disparity between rent and income growth has widened to unhealthy levels and is making it harder for renters to become homeowners, said Lawrence Yun, NAR chief economist.

"In the past five years, a typical rent rose 15 percent while the income of renters grew by only 11 percent," he says. "The gap has worsened in many areas as rents continue to climb and the accelerated pace of hiring has yet to give workers a meaningful bump in pay."

The report found that the share of renter households has been increasing and homeownership is falling. Those financially able to buy a home in recent years were insulated from rising housing costs, since most take out 30-year fixed-rate mortgages with established monthly payments. Furthermore, a typical homeowner's net worth climbs because of upticks in home values and declining mortgage balances. The result has been an unequal distribution of wealth as renters feel the pinch of increasing housing costs every year.

The markets where renters have seen the highest increase in rents since 2009 are New York (50.7 percent), Seattle (32.38 per-

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cent), San Jose, Calif., (25.6 percent), Denver (24.14 percent) and St. Louis (22.26 percent).

Looking ahead, Yun says a way to relieve housing costs is to increase the supply of new home construction — particularly for entry-level buyers. Builders have hesitated since the recession to add supply because of rising construction costs, limited access to credit from local lenders and concerns about the re-emergence of younger buyers. Yun estimates housing starts need to rise to 1.5 million, which is the historical average. Housing starts have averaged about 766,000 per year over the past seven years.

“Many of the metro areas that have experienced the highest rent increases are popular to millennials because of their employment opportunities,” adds Yun. “With a stronger economy and labor market, it’s critical to increase housing starts for entry-level buyers or else many will face affordability issues if their incomes aren’t compensating for the gains in home prices.”

MARKETS

Distressed Homes Closing the Price Gap

The median sales price of distressed homes — those in the foreclosure process or bank-owned — increased 13 percent from a year earlier to $127,000 in the most recent reporting period, but still remained 33 percent below the median sales price of non-distressed properties of $190,000.

“While still significant at 33 percent, the average discount buyers are realizing on distressed homes has been shrinking over the past 18 months after hitting a high of 40 percent in September 2013,” says Daren Blomquist, vice president at RealtyTrac.

“Inventory of distressed properties is drying up in many markets even while demand for those properties — which typically fall into the target market for both investors and first-time homebuyers — is ramping up. That is in turn resulting in nationwide home prices skewing higher as a smaller share of homes sell at the lower end of the market.”

Home Price Appreciation Slows in Hot Metro Markets

A torrid pace can’t last forever goes the real estate axiom, and it’s true of the nation’s hottest metro areas. Many are now experiencing slowing price appreciation. Cities seeing a slowdown include:

- New York (annual appreciation of three percent compared to six percent last year)
- Los Angeles (annual appreciation of nine percent compared to 20 percent last year)
- Chicago (annual appreciation of six percent compared to 16 percent last year)
- Washington, DC (annual appreciation of six percent compared to seven percent last year)
- Miami, Florida (annual appreciation of 10 percent compared to 20 percent last year).

The market uptick has helped many long-suffering markets increase to new heights including:

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- Detroit, Michigan (up 154 percent)
- Grand Rapids, Michigan (up 118 percent)
- Modesto, California (up 72 percent).

"We actually see this as a good thing because if home prices were to continue appreciating in the double digits for too long, we could run into the same boom/bust market of years past," says OB Jacobi, a real estate market watcher in Seattle. Annual price appreciation there has slowed to six percent, compared to 13 percent a year ago.

INDUSTRY

Move Over, Kickstarter: Real Estate Equity Crowd Funding Is Coming

The same online technique used to support the early production of indie films and tech gadgets is coming to real estate.

Yes, that Kickstarter model is being extended to many industries, real estate among them. "Equity crowd funding" — the sale of corporate equity stakes through online platforms — became possible in 2012 when Congress passed the JOBS Act. The move legalized equity crowd funding, albeit only for accredited investors (those with a net worth of $1 million, excluding their primary residence, or an annual income of at least $200,000).

Yet this year the idea of using crowd funding in real estate seems to have caught on. There are several firms vying to become the Kickstarter of real estate. One is Beverly Hills-based Realty Mogul, which oversaw the campaign that raised $1.5 million for a hotel in Palm Springs for owner Kittridge Hotels & Resorts. Another is Fundrise, a Washington, D.C.-based platform backed by a list of notable players like Silverstein Properties, developer of the new World Trade Center. The *Wall Street Journal* reported in June that collectively these and "dozens" of other real estate crowd-funding firms had raised $135 million in debt and equity for various owners and developers.

Crowd funding may offer novices an opportunity to get in on the action. It may also bring some of the problems that real estate syndications brought us in the 1980s. It's far too soon to know either way.

The crowd-funding industry at large, though, seems to practically double in size every year. According to Crowdsourcing.org, the total funds raised grew from $2.7 billion in 2012 to $5.1 billion in 2013 to a projected $10 billion this year.

The portion of that likely to go to real estate is small but growing. According to Nav Athwal, cofounder and CEO of RealtyShares, "over the last year, crowd funding for real estate platforms has been responsible for raising over $100 million for hundreds of real estate properties across the U.S."

AGENTS' CORNER

How to Attract Single Female Clients

There are about 105 million unmarried adults — age 18 or over — living in America, according to the U.S. Census Bureau's 2013 data. Of that, 53 percent are women (never married, widowed or divorced). That's a market segment 55.65 million strong.

Before the Fair Lending laws were passed in the 1960s, the

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single female homebuyer market segment was virtually non-existent. Today, the group represents 16 percent of all homebuyers. So if you're looking for untapped opportunities to grow your business, the single female homebuyer segment represents excellent potential for real estate professionals.

Of course, not all of these women are in the pool of potential homebuyers. But take a look around your local market and you might be surprised by how many single ladies need your expertise. So, how can you capture your share of single female clients?

1 **Set aside preconceived notions.** No one likes to be stereotyped. Single women are no exception.

"Spend time getting to know the client so that you can show the properties that fit her unique needs. Not only is it more efficient and productive, it helps to ensure satisfied clients who will eagerly send referrals your way," says Kathy Cummings, senior vice president, consumer education and consulting executive for Bank of America Home Loans.

2 **Don't assume in advance what property type a prospective buyer prefers.** The idea that single female buyers only want to purchase condos, townhouses or other low-maintenance properties is based on outdated gender roles.

"Some women are not interested in DIY home repairs; however, others find satisfaction in looking after the maintenance and other chores," said Cummings.

3 **Don't assume a single woman cannot afford to buy a home, or can only afford lower-priced homes.** The wage gap between men and women has narrowed, particularly among 25- to 34-year-olds. In fact, a 2014 Pew Research Center study noted that "in 2012, among workers ages 25 to 34, women's hourly earnings were 93 percent those of men. In 1980, the ratio was less than 70 percent."

However, it's still in everyone's best interest to encourage single homebuyers to talk with a mortgage loan professional at the earliest possible time.

4 **Don't assume that single female homebuyers want or need oversimplified explanations.** According to Pew Research, one-third of never-married women ages 25 and older have either a bachelor's or advanced degree, with similar figures among women who were previously married, but now divorced or widowed.

Freely share resources that help your client understand the home-buying process. Many individuals crave information and pride themselves on being in control of their financial lives. Many organizations offer step-by-step tools and resources that can help inform and guide prospective buyers.

"No doubt, we've come a long way," says Cummings. "So seize the opportunity and grow your business by expanding and cultivating your relationships with prospective single female buyers."

more on next page

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