Real Estate Digest

JUDICIAL TITLE

Richard Giliotti
President & Chief Operating Officer

August • 2015 Volume 41 • Number 8

Meet the Millennials: Marginalized No More

Young adults are the key to boosting future household formation, but those households may look different than in previous generations. With declining marriage rates, households headed by married couples may no longer dominate the landscape.

Gen Y/millennials, born between 1980 and 2000, now makes up the largest percentage of today's buyers at 31 percent, according to NAR's Home Buyer and Seller Generational Trends study, followed by Gen X buyers at 30 percent and younger boomers at 16 percent.

At the same time, the number of 30-somethings who are married has fallen about 10 percent in the last decade, while the percentage of unmarried couples living together has nearly doubled from seven percent to 13 percent, according to Gallup Analytics.

continued on next page

Single and Satisfied

Most notably, the "rise of singledom," as Gallup calls it, is most evident among 18- to 29-year-olds. The number of people in that age range who are single and living alone has risen from 52 percent in 2004 to 64 percent in 2014. Among 30- to 39-year-olds, the number has increased from 15 percent to 19 percent in the same period.

"It is widely known that fewer young people today are getting married. But Gallup's data reveal that young adults are not simply swapping marriage for living together, but rather staying single longer," Gallup's report notes. "This doesn't necessarily mean young adults are staying out of relationships, just that they are less likely to be making the more serious commitment associated with moving in together — whether in marriage or not."

Millennials' Wish Lists

Real estate practitioners should understand what millennials want in a home in order to help this group of clients find the right property. These "must-have" elements are also important to remember when prepping a new listing for the market.

Here are four of the home features (in no particular order) highlighted by Bankrate:

- Updated kitchen and bathrooms
- Minimal upkeep
- Energy efficiency
- Home office.

Gallup's report notes "the important question for the industry is whether the dramatic shift in living arrangements seen among 20-somethings persists into their 30s, furthering the revolution in U.S. household and family structure."

TRENDS

Lending Standards Not Budging Despite Better Quality Applications

Today's lending standards were written to protect lenders and federal budgeters, not to help renters become homeowners. Despite pressure from the public, including the former chairman of the Federal Reserve, Ben Bernanke, lending standards aren't loosening. In fact, they're getting tighter.

According to Ellie Mae, the quality of the applications are 10 percent better than they were two years ago, yet approval rates have risen only .6 to .9 points. That means it's actually getting significantly tougher to get a purchase loan, not easier.

One of the critical lending standards, the debt-to-income ratio, was cemented in stone with the QM Rule last year at a 43 percent ratio of monthly debt-to-income. That struck the regulators in Washington as perfectly reasonable—if you're paying more than 43 percent of your income on debt (including the prospective mortgage), you probably shouldn't buy a home. Lenders tend to err on the super conservative side and cut off DTIs at 37 percent. Fortunately the QM Rule does not apply to FHA.

"Renters face several challenges," said Zillow Chief Economist Dr. Stan Humphries. "They need enough money on hand to start to buy homes. Even as mortgage credit becomes easier to obtain and home prices level off, renters are confronted with slow income growth and high rental rates. In addition, they face sometimes fierce competition for very few available homes in the market."

continued on next page

August • 2015 Volume 41 • Number 8

Happy Days Are Here Again for Boomerang Buyers

This year, the first wave of 7.3 million homeowners who lost their homes to foreclosure or short sale during the foreclosure crisis are now past the seven-year window they conservatively need to repair their credit and qualify to buy a home. More waves of these potential boomerang buyers will be moving past that seven-year window over the next eight years. This corresponds to the eight years of above-historically normal foreclosure activity from 2007 to 2014, according to a recent RealtyTrac report.

Markets with the most potential boomerang buyers over the next eight years are among those that were the hardest hit by the housing crisis, among metropolitan statistical areas with a population of at least 250,000. These are larger cities primarily in the Sun Belt and Rust Belt.

"While millennials have gotten a lot of attention lately as the generation whose below-normal homeownership rates are changing the landscape of the U.S. real estate market, the boomerang buyers — who are primarily Generation Xers or Baby Boomers — represent a massive wave of potential pent-up demand that could shape the housing market in the short term even more dramatically," said RealtyTrac.

Markets most likely to see the boomerang buyers materialize are those with a high percentage of housing units lost to foreclosure but where current home prices are still affordable for median income earners and where the population of Gen Xers and baby boomers — the two generations most likely to be boomerang buyers — have held steady or increased during the Great Recession.

MARKETS

Middle-Class Squeezed Out: Lion's Share of New Rentals Are Luxury Projects

The majority of new multifamily construction is focusing on the luxury market, and it's causing rents to soar across the country. In fact, the *Wall Street Journal* reports that of the 370,000 multifamily rental units built between 2012 to 2014 in 54 U.S. metropolitan areas, 82 percent were in the luxury sector.

This emphasis on high-end rentals is causing an affordability gap for renters in many metro areas. A new report released by the National Low Income Housing Coalition found that there isn't a state in the country where someone earning either the state or federal minimum wage could afford a market-rate one-bedroom apartment. This echoes a recent study by The NAR that found the gap between rental costs and household income is widening to unsustainable levels in many parts of the country.

It doesn't appear that rental costs in major cities will go down any time soon. In some areas, including Denver, Tampa, Baltimore and Phoenix, a staggering majority of new multifamily construction targets high-end renters. Around 95 percent of new apartments built in Atlanta are in the luxury category.

"I don't believe there ever has been a time where we have produced so much luxury rental housing," says Susan Wachter, professor of real estate at The Wharton School of the University of Pennsylvania. Low rental inventory in many cities means that middle-class and young renters have no other choice but to rent these luxury units simply because there aren't other options.

continued on next page

The high cost of rent in many cities has housing advocates concerned that the middle class is getting priced out.

"If cities become places where only the very high-income households can afford to live...that's going to be a problem for the businesses that want to locate in those cities," Ingrid Gould Ellen, faculty director of New York University's Furman Center, told the *Wall Street Journal*.

Sellers Misjudge Home Values

Encouraged by strong price increases and hot sales this summer, increasing numbers of owners are listing their homes for sale. But chances are good that millions of owners are making wrong assumptions about the value of their homes, according to two new studies.

Homeowners overprice their homes by an average of eight percent, according to a new study scheduled for publication by the *Journal of Housing Economics* by economists at CUNY. Those who bought during times of appreciating prices, such as the 2004-2006 housing boom, tend to overestimate their value even more, as high as 12 percent. Owners who bought during the boom are inflating the value of their homes an average of $26,328 on a median priced existing home ($219,400).

"Many buyers during the housing boom in the early 2000s took on large and risky financial commitments facilitated by relaxed borrowing standards and the belief that house prices would continue to appreciate. These commitments made them more dependent on price appreciation to build equity. When the (thin) equity cushions quickly evaporated during the recent housing bust, refinancing mortgaged homes became very difficult and often impossible for these individuals," wrote the authors.

The Federal Reserve's Report on the Economic Well-Being of U.S. Households in 2014 found that the majority of homeowners express optimism about the trajectory of home prices going forward. Just six percent of homeowners believe that home prices in their neighborhood will decline in the year after the survey, compared to 39 percent who expect home prices to rise.

The survey found that perceptions of the trajectory of home prices vary by income, with only 28 percent of homeowners making under $40,000 per year expecting rising home values in their neighborhood, whereas 51 percent of those making over $100,000 have similar expectations.

FINANCE

Twilight on Foreclosures?

Foreclosure inventory plunged nearly 25 percent last month as the number of completed foreclosures — which reflect the total number of homes actually lost — fell almost 20 percent year-over-year, according to CoreLogic's latest National Foreclosure Report.

There were 40,000 completed foreclosures nationwide in the month, down from 50,000 a year prior. Foreclosure levels have fallen nearly 66 percent from their peak in September 2010.

The following states had the highest foreclosure inventory (as a percentage of all homes with a mortgage):

- New Jersey: 5.1 percent
- New York: 3.8 percent
- Florida: 3.1 percent
- Hawaii: 2.6 percent
- District of Columbia: 2.5 percent

continued on next page

August • 2015 Volume 41 • Number 8

More homeowners are keeping up with their mortgage payments, with the number of loans 90 days or more past due down 22 percent year-over-year, CoreLogic's report shows. About 1.4 million mortgages are "seriously delinquent," the lowest rate since February 2008.

"By mid-2011, after the Great Recession and at the trough of the house-price collapse, more than 1.5 million homes were in the foreclosure pipeline," says Frank Nothaft, chief economist for CoreLogic. "Employment recovery, foreclosure alternatives, and home-value gains have worked to reduce this inventory."

The foreclosure inventory has fallen to one-third of its mid-2011 level, Nothaft notes.

The NAR reports that distressed sales, including foreclosures and short sales, accounted for 10 percent of all existing-home sales in the latest reporting month, below the 15 percent share a year ago. Foreclosures sold for an average discount of 20 percent below market value while short sales were discounted by 14 percent.

Loan Demand Surges on Fear of Rising Rates

Applications for fixed-rate mortgages climbed to the highest level in nearly a year as borrowers rushed to lock in interest rates before they jump higher.

"Mortgage application volume rebounded strongly," says Mike Fratantoni, MBA's chief economist.

Applications for home purchases are now 15 percent higher than a year ago. Refinance applications still remain nearly 5 percent below last year's levels.

"These increases really help the home buying market," Matt Weaver with PMAC Lending told CNBC. "It really gets buyers to understand that ... rates are at an all-time low — let's react before they go higher."

AGENTS' CORNER

Guide to Creating Better Real Estate Facebook Ads

With Facebook pages continuing to see a decrease in organic reach, Facebook ads are an easy way to target your market and get your content in front of the right audience, promote your brand, your listings and your real estate services.

Here are our five best tips to help you create Facebook advertising that delivers more leads:

1. **Define your goal before creating your ad.** What do want to achieve? Are you trying to get people to visit your real estate website? Like your Facebook page? Claim a special offer? Facebook ads can help you do all that and measure your results; you just have to first identify your objective. If your goal is to send people to your website, be sure your ad directs to the landing page that has the most value to your selected audience, so you have the best chance of keeping and converting your new visitor. No one likes a high bounce rate!
2. **Create a custom audience to target your existing prospects.** Do you have a list of prospect and client emails or phone numbers? Advertise to this already-warm group of leads by creating a custom audience. Just upload your contact list to create

continued on next page

a campaign that will be seen by users who already know, like and trust you. Even if you don't have an email list you want to target, you can use Custom Audiences to target people who have visited your website. This is called remarketing. It's a little more complicated, but people who have visited your site will suddenly see your ads in their feed. How neat is that?

3 **Highlight a single listing with quality photos.** You can advertise a single listing to a local audience. Everyone likes to see what is for sale in their neighborhood, whether they are in the market or not. You should always upload two or more high-quality photos to pair with your ad. Facebook will automatically create two ads, and you'll be able to assess which image performs better. You can use this information to help you choose more engaging photos for Facebook ads going forward.

4 **Include a question and call to action.** Be sure to include a Call-to-Action button under your ad that tells viewers which action you want them to take. Facebook has a predefined list that includes options like "Learn More" and "Sign Up." Including a question in your ad copy is another good way to engage readers and get them to click your call to action.

5 **Skip the ad — and boost your post!** If you have a post that is performing well, even a fairly old one, and it aligns with your goals, try spending a little money to boost its reach. If that post was getting good engagement before, or seeing a high rate of click throughs, it can be just as cost effective as and more time efficient than creating a new ad.

It's a good idea to continually monitor your ads to see how they are performing. When a campaign is finished, compare it to your previous campaigns to see what worked and what didn't. Then you will be able to optimize your ads going forward.

more on next page

JUDICIAL TITLE

800 Westchester Ave,
Suite S-340
Rye Brook, New York 10573