Real Estate Digest

JUDICIAL TITLE

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Home Sellers Enjoy Biggest Profits Since the Peak

Remember all that equity lost during the downturn? It's back, or much of it, anyway.

In 2015, single-family homes and condos sold for more above their original purchase price than at any time since prices peaked during the real estate boom.

Homes sold for an average of 13 percent above their original purchase prices, the highest average percentage in home price gains realized by sellers since 2007, when it was 30 percent, according to Real-tyTrac.

Western Strength

Major markets where sellers recently realized the biggest average home price gains were San Jose, California (41 percent); San Francisco (37 percent); Denver (29 percent); Portland, Oregon (25 percent); Los Angeles (25 percent); and Seattle (20 percent).

"Sales activity has been strong this year and the metrics point to a solid foundation for steady growth. Growing boomerang buyer interest and first time buyer participation combined with smarter lending requirements are fostering a sustainable market," said Mark Hughes, chief operating officer with First Team Real Estate, covering the Southern California market. "Lower investor, cash, and distressed activity are three reliable indicators that peripheral buying and selling activity is settling back down and the traditional owner occupied residential market is back on solid ground and healthy," he said.

Not all markets are sharing in the wealth.

In six major markets, sellers on average sold below their original purchase price: in Chicago (seven percent below); Cleveland (seven percent below); Hartford, Connecticut (three percent below); Jacksonville, Florida (two percent below); St. Louis (one percent below); and Orlando (one percent below).

"Home price appreciation has settled into a nice groove over the past few months, and

continued on next page

October • 2015 Volume 41 • Number 10

ought to remain there going forward. This is still more proof that the for-sale market, while certainly not yet fully healed, is continuing to return to normal," said Zillow Chief Economist Dr. Stan Humphries.

Cautious Optimism

But experts warn that a few bumps remain on the road to full recovery.

"While improving, inventory is low and the housing market is still very much out of balance, particularly on the rental side, where rapid rent increases and tepid wage gains are contributing to a deepening rental affordability crisis. This will make it more difficult for current renters to save up and make the transition into homeownership, particularly for younger would-be buyers the market so sorely lacks and needs," said Humphries.

TRENDS

Down Payments Motivate Buyers More than Interest Rates

When it comes time to buy, the amount of the down payment has a much greater impact on homebuyers' willingness than a low mortgage rate, according to a new study published by economists at the New York Federal Reserve.

The survey of buyers and renters found dramatic evidence that the impact of interest rates is highly overrated compared to the impact of even small changes in down payment requirements. The study found that decreasing the required down payment from 20 percent to 5 percent increases the willingness to purchase an average of about 15 percent among all buyers and 40 percent among renters. Decreasing interest rates on a 30-year fixed-rate mortgage, though it would save the buyer much more than the lower down payment, raised the willingness to purchase a home by only 5 percent on average.

Perhaps not surprisingly, the study also found that the willingness to buy in response to a lower required down payment increases most strongly among the less wealthy respondents (particularly renters). This is consistent with many of them being severely liquidity-constrained.

Bucking Trends, Retirees Are Choosing to 'Upsize' Homes

Americans traditionally have chosen to downsize in retirement, but that may no longer be the case. A wave of retirees are choosing to upsize and enjoy the best home of their lives in retirement, according to a recent Merrill Lynch and Age Wave retirement study of more than 3,600 respondents. In fact, 65 percent of retirees recently surveyed say they're currently living in the best home of their lives.

Within the next decade, the number of age 65-plus households in the U.S. is expected to bloom by nearly 11 million.

As more Americans move into retirement, they are also looking to move into a new home. The study found that 64 percent of retirees are likely to move at least once during retirement. For retirees who do move, only half have downsized, and many are moving into larger homes, according to the study.

Indeed, the study showed that 49 percent of retirees say they didn't downsize in their last move, and 30 percent ended up moving into larger homes. Retirees' top reasons for upsizing were wanting a home large and comfortable enough for family members to visit (33

continued on next page

percent) or even live with them (20 percent). One out of six retirees — or 16 percent — says they have a "boomerang" child who has moved back in with them, according to the study.

Nineteen percent of retirees also said they upsized in retirement in order to have a more prestigious home, and 16 percent say they wanted a larger home to have more room for friends to visit, according to the study.

For those retirees who did downsize, the majority said their top reasons for choosing a smaller home was to have greater freedom from financial and maintenance burdens.

MORTGAGES

Banks Are Loosening up on Jumbo Loans

As lenders try to capture more of the high-end housing market, J.P. Morgan Chase announced that it's loosening the underwriting standards for issuing jumbo mortgages. Jumbo mortgages exceed $417,000 in most parts of the country, or $625,500 in pricier areas. The bank is lowering its minimum credit score and down payment requirements for mortgages up to $3 million.

Chase's decision follows similar steps from Bank of America Corp., Wells Fargo and other banks for jumbo mortgage requirements.

As such, the jumbo market is getting bigger. Jumbo originations in the most recent quarter climbed to an eight-year high of $93 billion — a 58 percent increase from a year ago, according to *Inside Mortgage Finance* estimates. Jumbo mortgages issued by lenders last year accounted for about 20 percent of all first-lien mortgages, up from 5.5 percent in 2009.

"There's no question that the jumbo market has probably recovered more than any sector of the mortgage market since the housing crisis," says Guy Cecala, publisher of *Inside Mortgage Finance.*

J.P. Morgan is lowering its minimum FICO credit scores for jumbo mortgages from 740 to 680 for loans on primary single-family purchases, second homes and some refinances. The bank is also allowing a 15 percent down payment for loans up to $3 million. That is less than other banks, such as Bank of America and PNC Financial Services Group Inc., which allow a 15 percent down payment for jumbo loans up to $1 million and $1.5 million, respectively.

INDUSTRY

Real Estate Firms Upbeat about Profitability

Ninety-five percent of real estate firms are confident that their net income will increase or stay the same in the next year, according to the NAR Profile of Real Estate Firms.

Commercial firms are the most optimistic, with 75 percent expecting their net income to rise and 22 percent saying it will likely stay the same. Sixty-nine percent of residential real estate firms expect their income to increase next year.

"The improving economy continues to fuel job growth, and while some markets are still recovering, the demand for real property is back, and prospects are looking good for the real estate industry," says Chris Polychron, NAR's president.

In 2014, an average residential real estate firm's brokerage sales volume was $5.6 million, while the average commercial real estate firm's brokerage sales volume was $4.4 million, according to NAR's survey.

The size of the firm had a large impact on its sales volume. For example, real estate firms with only one office had a median brokerage sales volume of $4.1 million, while firms with four or more

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offices had a median brokerage sales volume of $250 million. Firms with one office averaged 18 real estate transaction sides in 2014, while firms with four or more offices had 900 real estate transaction sides.

Firms cited the top challenges facing them in the next two years as being profitable (51 percent), followed by keeping up with technology and maintaining sufficient property inventory (both at 46 percent). Firms also cited concerns over the millennial generation's inability to purchase a home because of stagnant wage growth and a slow job market, as well as the increasing number of baby boomer agents retiring from the real estate industry.

Nevertheless, a large number of firms say they're growing. Forty-four percent of firms are actively recruiting new agents, with 88 percent citing business growth as their primary reason for hiring new agents.

AGENTS' CORNER

Five Reasons Why Blog Readers Make the Best Real Estate Clients

Let's face it, blogging for your real estate business is like another part-time job. It takes continued investment of time and creative energy. Is it worth the effort?

The answer is yes, according to real estate blogging expert Karen Highland. "All that work pays off because of the quality of real estate blog readers. These will become among your most loyal clients," Highland said.

1 **Blog readers value education.** People who read blogs are generally looking for detailed information. They want in-depth explanations as well as niche neighborhood data. They want to understand as much of the process as they can before they contact an agent. If your blog provides that information, there's a far greater chance you will be the one they contact when they are ready to act.

2 **Blog readers are usually methodical and patient.** Consistency is the key to successful blogging. As you write week after week, explaining terms and concepts, and sharing stories and tips, you can trust that your readers are taking it in and educating themselves — or even better, both.

3 **Blog readers are usually already sold on you before you even meet them.** They have been reading your content, watching your videos and absorbing your expertise for a few months, sometimes longer. Most often, you don't have to do a song-and-dance presentation to win them over when you meet them the first time; they already consider you a local expert. They often even feel like they know you.

4 **Blog readers want granular, nuanced information.** They are looking for neighborhood information and expertise. They don't take it for granted that just because agents market themselves as a neighborhood expert that they really are. Readers are looking for online proof. By providing information about all the aspects of living in a community, and by using local geo-tagged photos of the neighborhoods and the amenities, you will prove to be the neighborhood expert your readers are looking for.

5 **Blog readers are Internet savvy.** No surprise here, these readers are familiar with searching and reading blogs and websites. They appreciate a good web presence, so make sure that yours is the best it can be. It's a good idea to check your links regularly to fix broken links and 404 errors.

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"Again, the best thing about this kind of lead is that they know what they are looking for," said Highland, "and if you're the one to provide it, you'll be the one they contact!"

How to Help First-Time Buyers Avoid Costly Novice Mistakes

Emotional mistakes are common among homebuyers, particularly first timers. Here's a list of common errors and tips on helping your clients navigate the unfamiliar terrain.

1 **Always looking for a better deal.** Every market has its up and downs, but many homebuyers make the mistake of thinking there's a better deal just around the corner.

The antidote is to help your buyers do their homework, understand value in their neighborhood and let them know that in the current upbeat market, today's purchase will be more expensive tomorrow.

2 **Falling in love at first sight.** The rush to buy is understandable for those waiting to get out of a less than perfect situation. But buyers who purchase the first property they see may overpay, minimize serious condition issues or become remorseful later on when they take off the rose-colored glasses and see what else is available around them. None of the outcomes will reflect well on you, and you may end up losing a valued referral source or worse, gain an *anti-referral.*

The solution is to make sure buyers look at no less than five properties before signing any contracts and to maintain a realistic attitude in the face of their enthusiasm.

3 **Overpaying for perfection.** In the remote chance that a buyer does find perfection, the emotional attachment will sometimes become so high that the buyer will overpay or overextend themselves financially.

Remind buyers that they have to think of their current finances as well as their exit strategy with each acquisition to avoid losing money when they sell. Affirm the enjoyment value of the perfect home but be clear about the risk and investment value over the long haul.

4 **Equating a short sale with a deal.** The terms "short sale" and "real estate owned," or "REO," are marketing buzzwords designed to lure bargain-hungry buyers.

A good deal, however, is a matter of the property's historic price, current market conditions and the home's features, as well as the buyer's own needs. Weighing all the factors isn't easy.

The solution is comps, comps and more comps. These will help your clients see through the marketing hype of buzzword terms designed to pressure buyers to act fast.

5 **Lowballing.** All homebuyers want the lowest possible price, but there's a big difference between firm negotiating and lowballing.

Lowball offers run the risk of being rejected out of hand or lengthening the process and annoying the sellers. Either way, buyers who lowball run a big risk of losing the property.

While all buyers are capable of lowballing, it's a problem especially common among cash buyers who don't need to borrow money. Such buyers are more attractive, especially to sellers who need to move quickly, but often the cash discount isn't worth as much as some buyers think.

A good way to counter the urge to lowball is to share with clients recent sales and bidding histories of homes nearby (you can keep names and addresses confidential). This will help them understand the high rejection rate of lowball offers and feel comfortable with terms more likely to get them the property they want.

more on next page

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