Real Estate Digest

JUDICIAL TITLE

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Foreign Investors Rush to Snag U.S. Housing

The economic downturn in China and South America, along with instability in many parts of the Middle East and Europe, are prompting nervous wealthy foreigners to pour their money into U.S. residential real estate. They're paying cash and driving up home prices.

Chinese investors are leading the charge. "For economic and political reasons, Chinese investors want to protect their wealth by diversifying their assets by buying U.S. real estate," said William Yu, an economist at UCLA Anderson Forecast.

In 2015, buyers from China have for the first time ever surpassed Canadians as the top foreign buyers. They have plowed $28.6 billion into U.S. homes, at an average price of $831,800, according to the National Association of Realtors (NAR). In dollar terms, Chinese buyers accounted for 27.5 percent of the $104 billion that foreign buyers spent on U.S. homes. This has spawned a whole industry of specialized Chinese-American brokers.

"China's economic elites have one foot out the door, and they are ready to flee en masse if the system really begins to crumble," explained David Shambaugh, professor at George Washington University in Washington, D.C.

China has capital controls in place to prevent this sort of thing for the average guy. But Yu says there are ways for well-connected Chinese to transfer money to the U.S., particularly those with business relationships in Hong Kong or Taiwan.

But in the overall and immense U.S. housing market, foreign buying isn't exactly huge. According to NAR, foreign buyers

acquired 209,000 homes over a 12-month period, or only 4 percent of existing home sales. But foreign buyers go for the expensive stuff, and in dollar terms, their purchases amounted to 8 percent of existing home sales.

In most states, offshore money accounts for only 3 percent or less of total home sales. But in four states it's significant: Florida (21

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percent), California (16 percent), Texas (8 percent), and Arizona (5 percent). And in some trophy cities in these states, the percentages are huge.

Among California cities that are hot with Chinese investors: Alhambra, Arcadia, Irvine, Monterey Park, San Francisco, San Marino, and in recent years Orange County, "a once heavily white middle-class suburb that is now 40 percent Asian and becoming increasingly expensive," according to RealtyTrac.

Similar dynamics are playing out in New York, where 15 percent of all transactions are to foreign buyers.

Brazilians, meanwhile, are among the top buyers in South Florida's luxury condo market, as they fret over the economy at home. According to NBC, Miami Beach is a magnet, and Brazilians own nearly half of the condos at the W. South Beach.

Other nationalities, including Canadian snowbirds, play a role as well. Even the Japanese are increasingly worried about their government's dedication to resolving its insurmountable debt problem by crushing the yen.

TRENDS

Are REOs in Vogue Again?

A stain on housing, REOs and short sales are a reminder of the legacy of the housing downturn. In key markets, investors seeking discount prices have transformed what was once undesirable into fashion-forward, instant cash flow. In other markets, however, distressed inventory still hinders overall prices from getting a leg up.

With the effects of global economic volatility on our domestic economy and housing markets still unknown, distressed sales continue to be a critical market indicator. Right now distressed property saturation is close to historic, pre-2008 rates, which hovered around 4 percent of all sales. But increases in distressed property activity this winter could shift momentum towards peak distressed saturation levels of 40 percent. Typically, distressed saturation fluctuates with the seasons and increases in the winter season.

"Distressed saturation continues to be a challenge we face in today's housing market," says Alex Villacorta, Ph.D., vice president of research and analytics at Clear Capital. "In fact, today's 'traditional' housing market continues to be defined by distressed saturation levels. In Act One, at the start of the downturn, distressed properties were an albatross around housing's neck. In Act Two, between 2011 and 2013, investors stepped in, buying, rehabbing and selling or renting distressed properties, which gave way to higher demand and rising prices.

"While the overall effect of higher rates of distressed saturation in Act Three of the recovery is unknown, one thing is clear; when it comes to housing, REOs and short sales are not a passing fad."

The last third of the year will reveal whether the housing recovery can withstand broader global volatility. If investors pull out, oversupply of distressed inventory could bring us back to Act One. Or, a renewed source of distressed inventory could be all the rage, reviving demand from investors and traditional homebuyers alike in an inventory-starved market.

Many Owners Overvalue Homes by Larger Margin

No surprise here for agents representing enthusiastic sellers; for the seventh consecutive month, the gap has widened between what home owners say their home is worth compared to what appraisers say, according to Quicken Loans' Home Price Perception Index.

Homeowner estimates now stand 2.65 percent higher than ap-

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praiser opinions, the largest gap in more than a year, according to the index.

"The perception trend of most of this year suggests home owners may be assuming that home values have been in a steady, linear path upward," says Bob Walters, Quicken Loans chief economist. "In reality, home values have remained mostly flat this year, and this false assumption may be leaving home owners disappointed when their appraisals come in."

Sellers Still Hesitant to List

Consumers remain optimistic about the long-term prospects of the housing market. Still, homeowners say they're hesitant to list their home for sale for a number of surprising reasons, according to Berkshire Hathaway HomeServices' Homeowner Sentiment Survey.

The most common obstacles cited by homeowners for not yet listing their home are due to inventory concerns, including "waiting for the right opportunity" and "haven't found my ideal home yet."

What's more, of consumers considering selling their home but who have not yet listed, 73 percent say that home prices have not recovered from pre-recession levels enough for them to sell. Sixty-eight percent of current homeowners surveyed said underwater mortgages remain a big barrier to them. Sixty-one percent say they're uneasy about the economy, which has kept them from selling.

And some 55 percent of homeowners contemplating selling said they'd be more likely to do so if they had additional information on the home-selling process.

"The stage is set for real estate professionals to connect with consumers, learn their needs and concerns, and determine the best way for sellers and buyers to capitalize on the opportunities that exist today," says Gino Blefari, CEO of HSF Affiliates.

Overall, 71 percent of the more than 2,500 current homeowners and prospective homeowners surveyed said they were confident the housing market was heading in the right direction. However, respondents cited concerns over their credit score, stringent lending guidelines, and the competitive landscape for homes as the top barriers facing the housing market today.

MARKETS

Condos Struggle to Recover

Appreciating home values in the bottom third of the market helped pull more homeowners out of negative equity this year, but condos were more likely than houses to be underwater, according to the Zillow Negative Equity Report.

The U.S. rate of negative equity among mortgaged homeowners continued to drop in the second quarter of 2015, to 14.4 percent, but condos were more likely to be underwater than single-family homes. Nearly 20 percent of all condos with a mortgage are upside down.

Condo owners were in far worse shape than single-family homeowners in Chicago, Orlando and Las Vegas. And in only three markets — Detroit, Memphis, and Pittsburgh — single-family homeowners were more likely to be underwater than condo owners.

Is it Better to Own Near Trader Joe's or Whole Foods?

Two of our most basic needs as humans are food and shelter, and a recently released RealtyTrac report takes an enlightening look at an analysis combining these two elements. For this analysis, RealtyTrac looked at home values, appreciation and property taxes in U.S. ZIP codes

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with a Whole Foods or a Trader Joe's. The survey aimed to determine the best combination of food and shelter when it comes to these two iconic grocery store chains with cult followings.

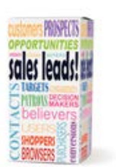
Homeowners near a Trader Joe's have experienced better home value appreciation since their purchase than homeowners near a Whole Foods, according to a report by RealtyTrac.

While the average appreciation for all ZIP codes nationwide is 34 percent, homeowners near a Trader Joe's have seen an average 40 percent increase in home value since they purchased. Homeowners near a Whole Foods saw a 34 percent increase, the same as the national average.

Homes near a Trader Joe's also have a higher value on average: $592,339, five percent more than the $561,840 average value for homes near a Whole Foods.

INDUSTRY

Are Online Leads Worth It?



More than 70 percent of real estate agents purchased online leads in 2014. But do they find it worthwhile? Inman recently surveyed real estate agents about the effectiveness of online leads in their business. Bottom line? Converting leads into business isn't easy. The majority of agents said online leads accounted for 5 percent or less of their closed business in 2014. Forty percent said online leads accounted for 2.5 percent or less of their business last year. The vast majority of respondents think one word-of-mouth referral is more valuable than 10 online leads.

However, some agents have luck with online leads, attributing 46 percent or more of their deals in 2014 to online leads. These agents might have more discipline than others when it comes to converting leads. They might also do a better job of selecting the type of online leads that deliver the best results.

Half of agents reported buying leads from third-party listing portals, such as Zillow, Trulia, realtor.com and Homes.com, making portals the most commonly used type of online lead purchase. But many agents reported minimal success. The number of agents who gave the portals poor ratings was higher than all agents who gave them a rating of mediocre, good or great combined.

Agents complained that quality and quantity of leads have decreased while costs have increased. Others complained about how the portals handled their business, including tacking ads for competing agents onto their listings after they had paid for competitors' ads not to appear, or sending the same leads to more than one agent.

Inman suggested that agents may be underutilizing paid ads through Facebook and search engines. Only about one-quarter of agents invested in these lead sources, which yielded the highest return on investment. Agents also could get more online leads without paying, by beefing up their agent profiles on listing portals or becoming more active on Facebook.

Half Baths May Be Worth More Than Whole

If a home has more than five bathrooms, putting in an extra half-bath can do more to raise the price of the property than adding a full bathroom, according to a number of recent surveys.

The median listing price per square foot for homes with two full bathrooms was 15 percent more than for homes with only one full bath, while homes with 1.5 bathrooms commanded only a 10 percent premium over those with just a single full bath, according to the data. But the median listing price for homes with 6.5 bathrooms was 10 percent higher

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per square foot than for homes with seven bathrooms—suggesting that once a property has a certain number of tubs and showers, the added convenience of an extra toilet may make a bigger difference.

"You get to the point of diminishing returns with the full bath," says Stephen Melman, director of economic services for the National Association of Home Builders. A half-bath, also known as a powder room, on the first floor of a house may get more use than any of the home's other bathrooms, he notes.

And in high-end homes, extra half-baths are often included with luxury features such as pool houses, catering kitchens and home theaters that contribute to the price of the property.

AGENTS' CORNER

Four Ways to Turn Facebook Followers into Clients

In 2015, Facebook passed 1.49 billion monthly active users, 874 million mobile users, and 728 million daily users. Combine those staggering numbers with recent NAR stats that show that more than half of all homebuyers learn about houses on social media sites, and you'll quickly understand why establishing a Facebook network to interact with clients is necessary for success.

Here are four ways to turn those Facebook followers into clients.

1 **Utilize Facebook Analytics.** Facebook offers a series of free tools for real estate pros to measure the effectiveness of their Facebook marketing efforts. In addition to a business page, Facebook also offers insights, analytics and targeted advertising as a way to improve your branding presence and increase your conversion rate. Analytics can tell you which of your posts are engaging followers, allowing you to create similar content for more interaction. Also, use your Facebook insights to determine the type of audience most frequently interacting with your posts, and then tailor your content and marketing accordingly.

2 **Target a Custom Audience.** Another way to interact with potential clients through Facebook is by creating customized ads and targeting them to reach a custom audience, specifically users who have visited your website. This Facebook tool allows you to reengage with these users to make your ads more impactful. Creating this custom audience involves adding a Facebook-generated code to your web pages, but it's not as difficult as it sounds. View the Facebook help page for more details.

3 **Create New Carousel Ads.** Until recently, Facebook only allowed you to promote a single listing in a paid advertisement. However, now they've created a carousel option with multiple images and links. With this new ad option, you can create three to five images for a single ad unit, along with headlines and links or calls to action for each. If you have multiple listings in the same community, this is an ideal way to feature each of those properties. Then, take it one step further by targeting the ad to users who live in that area and may be looking to move.

4 **Engage through Featured Videos.** According to the NAR, homes listed with video get four times more inquiries than homes listed without video. Furthermore, Facebook studies show that Facebook accounts for 60 percent of all video content sharing worldwide. By taking advantage of the featured video tool, you'll be able to create another lead generating source. This tool allows you to pin an uploaded video to the top of the video tab on your profile. Each time a user checks the video page of your profile, your featured selection will be the first thing they see.

Developing relationships with your Facebook followers can take time, but it will be worth the effort once the conversion begins.

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