Real Estate Digest

JUDICIAL TITLE

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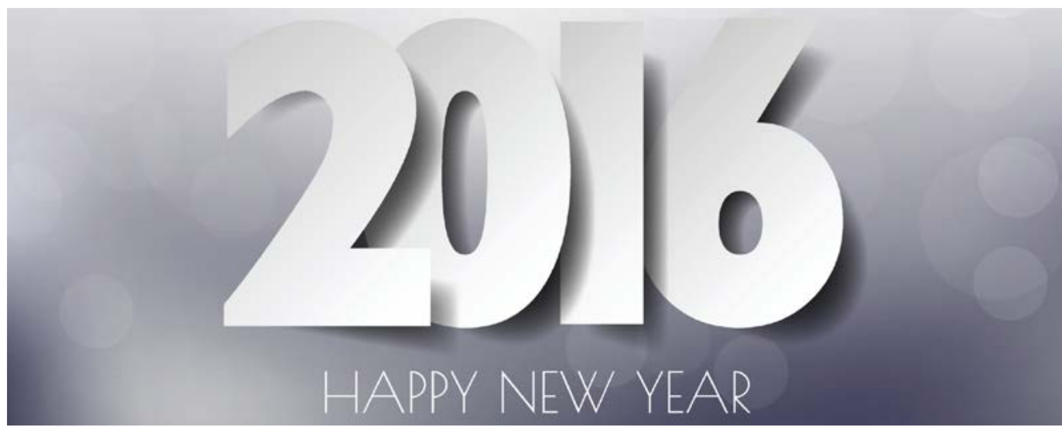
The Year Ahead: Higher Net Profits, Higher Interest Rates

Rising home prices over the last few years are finally putting more money back into home sellers' pockets, a trend that should continue through 2016. Homeowners who sold during the latter part of 2015 saw an average price gain of $40,658 — or 17 percent — from the purchase price of their property — the highest average price increase for sellers since the third quarter of 2007, according to RealtyTrac's 2015 U.S. Home Sales Report.



"An increasing number of home owners have been cashing out the home equity they've gained during the housing recovery of the past three years," says Daren Blomquist, vice president at RealtyTrac. "That may be a good decision because the data points to a plateauing market going forward. Home price appreciation is slowing, a trend that will continue if interest rates rise in the coming months as expected. Meanwhile the threat of rising interest rates combined with lowered premiums for buyers using FHA loans is spurring more demand."

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Meanwhile, Freddie recently issued a mortgage rate forecast for 2016. By their estimation, the average rate for a 30-year fixed home loan could rise steadily between now and the end of 2016, perhaps climbing to 5.2 percent by end of 2016.

This latest rate prediction was part of a broader report issued by Freddie Mac.

The economists at Freddie Mac expect mortgage rates to trend upward into 2016. They are also predicting some volatility in long-term interest rates if the Federal Reserve continues to push its stimulus policy.

How will the housing market change if mortgage rates do in fact rise steadily through 2016?

"Rising rates and continued house price appreciation will squeeze affordability even in today's low cost markets. Housing looks strong enough to weather moderately rising rates, but we need real income growth to support home buyer demand."

The problem is compounded in high-cost real estate markets. In pricier markets, rising home values and interest rates put homeownership that much further out of reach, according to the Mortgage Bankers Association.

"For 2016, we expect $791 billion in purchase originations. However, rates will likely continue to rise and cause refinances to decline to $379 billion for a total of $1.17 trillion in origination volume in 2016."

That's roughly a 70/30 split between purchase loans and refinance loans, respectively. As a result of this market mix, lenders will likely put most of their efforts (and marketing budgets) into attracting homebuyers, as opposed to homeowners.

TRENDS

Entry Level Homes Outpacing High End

The low end of the market is where it's at. That according to data from Clear Capital's Home Data Index (HDI) Market Report, which found there are drastically different dynamics going on at the extremes of nearly all markets.

"As the housing recovery continues to unfold, we are clearly seeing a growing dichotomy between the low price tier and top price tier market performance," says Alex Villacorta, Ph.D., vice president of research and analytics at Clear Capital.

"By and large, the low price tiers of the Top and Bottom Metro Statistical Areas (MSAs) are significantly outperforming their top tier counterparts. For both first time homebuyers and investors, this should signal a major opportunity in these lower tiers. For any buyers of high end properties this clear trend signals the need to be highly vigilant with investment strategies in this market segment."

When looking at the price tier growth differences in conjunction with distressed saturation, MSAs with some of the highest distressed saturation rates like Detroit, Orlando, and Miami show low tier year-over-year growth outpacing that of the top tier by large margins, in some cases by more than 20 percent. This is most likely due to high levels of investor activity in the low price tiers, which also typically represent the majority of distressed activity.

The top tiers of these markets, however, appear to be lagging significantly in comparison. The San Jose MSA was knocked off its top spot by the Detroit, Mich. MSA, where quarter-over-quarter growth is an impressive 2.4 percent. Apart from Detroit, Mich., most markets appear to be slowing down for the winter real estate season.

Military Demand Strong, Not Enough Homes

Military buyers are showing strong demand for real estate, but a shortage of homes for sale is hampering sales in many military towns, according to ERA Real Estate's newly released Military Markets Report.

"National industry reports indicate that persistent low inventory across much of the country is driving steady price appreciation, but in many military mar-

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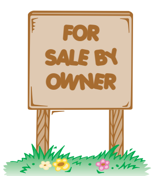
kets we are seeing that the increase is not as great," says Charlie Young, president and CEO of ERA Real Estate.

"Brokers serving military markets in California, Colorado, Florida, Louisiana, and Texas all report that low mortgage rates and military incentives are creating higher buyer traffic, but that inventory shortages at desired price points are delaying purchases for many servicemen and women."

In the report, year-over-year average sales price changes in the military markets evaluated ranged from a 9 percent increase — such as in San Diego — to a 7.6 percent decrease in Panama City, Fla. Markets in Leesville, La., and Colorado Springs, Colo., saw prices tick up by an average of around 4.3 percent. El Paso, Texas, saw home prices stay relatively flat, with a one percent year-over-year increase, according to the report.

FSBOs Fizzling?



Once all the rage, for sale by owner transactions are declining steadily in the face of a revived market, according to the NAR's 2015 Profile of Home Buyers and Sellers report. Nearly 90 percent of respondents surveyed say they worked with a real estate agent to buy or sell a home.

That has pushed for-sale-by-owner transactions to the lowest share ever, according to the survey. Eighty-nine percent of sellers said they sold their home with an agent, while for-sale-by-owner sales only accounted for about 8 percent of transactions (down from 9 percent the last three years).

"Although the Internet and digital technology have created several channels for sellers to market their listings to a wider cast of potential buyers, the preference to use an agent to sell a home has never been stronger," says Chris Polychron, NAR's president.

The majority of homebuyers reported that the Internet was their first step in their home search. Still, 88 percent of buyers who searched for homes online ended up purchasing through a real estate agent.

"Although buyers between the ages of 18-24 were the most likely to use an agent (90 percent), over 85 percent of buyers in each of the other age categories also used an agent during their home search," Polychron says.

With tight inventory conditions leading to stiff competition in several parts of the country, and what's found online sometimes not entirely accurate, buyers are turning to real estate professionals for expert advice and assistance.

The home search resources that are gaining the most popularity lately are mobile and tablet applications. The percentage of buyers using them increased from 45 percent in 2013 to 61 percent this year.

Four Amenities Trending with Buyers

Several home features are gaining momentum in real estate, according to CBSHome.com, including these four you may want to talk up in your listings:

- **Energy efficiency.** Bigger used to be better in real estate, but the cost of maintenance and particularly the heating of bigger homes has prompted some buyers to be less tempted to supersize their digs. Many buyers are being swayed toward homes that are more economical to maintain and also have a warmer, cozier vibe. Solar power is also inching up on the desirability scale, as homebuyers are seeing the advantage of reducing their electric bills.
- **Modern, up-to-date kitchens.** Remodeling a kitchen can be one of the costliest home improvement projects to take on. That's why many buyers are looking for a kitchen that already has been updated. They're looking for a sleek, modern-looking kitchen with stainless steel appliances.
- **Smart home options.** More buyers are looking for homes that they'll be able to smarten up now, or down the road. For example, homebuyers are showing greater desire for thermostats that can

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be adjusted with their mobile device and being able to unlock doors via Bluetooth. Smart home features can be a huge draw that make a home more modern.

- **Color pops.** Neutrals can help homebuyers envision the home as their own, but color has been shown to be a draw for younger buyers in particular. "With bright color making a design comeback, a brilliantly bold sink or appliance can be the type of risk that pays off and has the potential to sway the right kind of home seeker," according to CBSHome.com.

First-Timers Squeezed From Market

The share of first-time buyers declined for the third consecutive year and remained at its lowest point in nearly three decades. The overall strengthening pace of home sales over the past year was driven more by repeat buyers with dual incomes, according to an annual survey released recently by NAR.

In this survey, the share of first-time buyers declined to 32 percent in 2015 (from 33 percent a year ago), which is the second-lowest share since the survey's inception (1981) and the lowest since 1987 (30 percent). Historically, the long-term average shows that nearly 40 percent of primary purchases are from first-time homebuyers.

Lawrence Yun, NAR chief economist, says the housing recovery's missing link continues to be the absence of first-time buyers.

"There are several reasons why there should be more first-time buyers reaching the market, including persistently low mortgage rates, healthy job prospects for the college-educated, and the fact that renting is becoming more unaffordable in many areas," he says.

"Unfortunately, there are just as many high hurdles slowing first-time buyers down. Increasing rents and home prices are impeding their ability to save for a down payment; there's scarce inventory for new and existing homes in their price range; and it's still too difficult for some to get a mortgage."

Yun says this latest survey offers additional clues to why fewer first-time buyers are reaching the market.

"With a median amount of student loan debt for all buyers at $25,000, it's likely some younger households with even higher levels of debt can't save for an adequate down payment or have decided to delay buying until their debt is at more comfortable levels."

The median age of first-time buyers was 31, unchanged for the last three years, and the median income was $69,400 ($68,300 in 2014). The typical first-time buyer purchased a 1,620-square-foot home (1,570 in 2014) costing $170,000, while the typical repeat buyer was 53 years old and earned $98,700 ($95,000 in 2014). Repeat buyers purchased a median 2,020-square-foot home costing $246,400.

MORTGAGES

More Home Buyers Bypass Banks for Loans

Homebuyers increasingly are turning to independent mortgage companies for their loans, not traditional banks. According to data from the Federal Reserve, non-depository independent mortgage companies originated 47 percent of completed home-purchase loans and 42 percent of refinance loans — up from 43 percent and 31 percent, respectively, from 2013.

That also represents the largest share of the mortgage market held by non-banks since 1995.

Nonbank lenders include companies like Quicken Loans (which is now the second largest retail mortgage lender nationwide, behind Wells Fargo), Loan Depot, and Finance of America Holdings.

The largest majority of nonbank mortgage volume still comes from conforming mortgages, backed by Fannie Mae, Freddie Mac, and the Federal Housing Administration. However, nonbank lenders are also increasing trying to increase their market share of jumbo loans, according to Guy Cecala, CEO and publisher of Inside Mortgage Finance.

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For example, Quicken Loans is allowing some jumbo mortgage borrowers with consistent income documentation to complete their transaction fully online. "In many cases, you don't have to talk to a loan officer," says Bob Walters, chief economist for Quicken Loans.

Some nonbank lenders are touting their speed as an advantage over traditional banks. For instance, company officials with Movement Mortgage, which operates in 42 states and originated $4.24 billion in mortgages in 2014, tell conforming loan borrowers that they are able to close mortgages in seven business days and jumbo borrowers in only a few days more.

While nonbank lending is catching on, bank officials say they hold one big advantage: They tend to be able to offer lower rates and closing costs to customers based on length of account history and amount of holdings.

AGENTS' CORNER

How to Build Your Credibility

Whether you have 30 years of experience or three months, you can take steps to enhance your credibility in the eyes of buyers and sellers alike.

"It's not in your connections or your long list of credentials. Your credibility is in you,"said Liz Ryan, real estate consultant and columnist.

To become more credible, Ryan says real estate professionals need to incorporate these following key traits:

1 **Have a mission.** Know your reason for coming to work every day. Consider your goals for six months, one year, two or three years out. "What can you learn, try, teach, explore, and champion while you're in this job — and how will that learning move you along your path?" Ryan notes.

2 **Name the elephant.** Don't be afraid to speak up. "Who's going to name the elephant on the table? Will anybody name it?" Ryan writes. "Sometimes, someone does name the elephant by bringing up a topic that desperately needs airtime but hadn't been getting it." You build credibility when you're that person.

3 **Understand the job in context.** Don't fall into a cookie cutter role. "The key to being successful in your company or any organization is to notice what's unique about it," Ryan says. "If we don't pay close attention to context, from the mission and leadership style of the organization to the personalities of the cast of characters, the history and hundreds of other aspects of its particular flavor, we won't be credible."

4 **Listen.** Your ability to listen to other people will build you a lot of credibility. "When you are already sure you know the answer to a question, it can be hard to listen to what someone is telling you or asking you," Ryan says. "If you can breathe through it and keep your ears open you will learn something new, I guarantee."

5 **Be honest.** "Credibility is honesty in your communication," Ryan adds. "When you are known for having one set of responses to powerful people and different responses to less-powerful people, your credibility vanishes." Say what you mean, no matter who is listening.

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