Real Estate Digest

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TitleSmart, Inc.

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Top U.S. Markets for Buying and Selling Real Estate

As often happens during economic cycles, the dynamics of real estate markets in the U.S. have changed once again. Investors who look to buy homes at low prices and sell them at the top of the market have already missed the boat and are now facing increased competition.

These days, finding the best markets to invest in has become more challenging. Many investors are instead opting for a "buy and hold" rather than "buy and sell" business model. Across the country, real estate investors in hot markets are facing higher initial purchase prices, a much tighter inventory of properties and increased competition from large institutional investors.

Late last year, Attom Data Solutions released its findings after analyzing 473 counties with populations of 100,000 or more for the first seven months of 2016 in order to uncover the markets that had the highest potential return on investment for buy-and-hold investors.

In addition to potential returns on investment, Attom reported on five factors that can influence an investor's analysis of a market: homeownership rates, wage growth, a high population of millennials and the level of competition from institutional investors.

With many market factors influencing them, investors should think of themselves not only as investors, but as landlords so they have the opportunity to generate respectable profits from their investments.

"Given shifting attitudes toward homeown-

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ership that are showing up in stubbornly low homeownership rates and our data showing more than 18 million non-owner occupied single family homes — one in every four single-family homes — these single family rental investors will be an important and likely growing force in the real estate market for years to come," says Daren Blomquist, senior vice president of Attom Data Solutions.

The following locations are the top ten counties for the best annual gross rental yield and lowest investment property vacancy rate during the first seven months of 2016, as reported by Attom Data Solutions.

1. Monroe County, Penn.: 16 percent rental yield, 0.4 percent vacancy rate
2. Hernando County, Fla.: 14.3 percent rental yield, 2.1 percent vacancy rate
3. Lackawanna County, Penn.: 12.1 percent rental yield, 2.1 percent vacancy rate
4. Westmoreland County, Penn.: 11.8 percent rental yield, 2.8 percent vacancy rate
5. Davidson County, N.C.: 11.8 percent rental yield, 2.6 percent vacancy rate
6. Marion County, Fla.: 11.7 percent rental yield, 1.9 percent vacancy rate
7. Wicomico County, Md.: 11.7 rental yield, 2.1 percent vacancy rate
8. Randolph County, N.C.: 11.1 percent rental yield, 2.7 percent vacancy rate
9. Ulster County, N.Y.: 11 percent rental yield, 2.1 percent vacancy rate
10. El Paso County, Texas: 11 percent rental yield, 1.9 percent vacancy rate

Nationwide, Attom also reports that 2.7 percent of all single-family homes sold during the first seven months of 2016 were purchased by institutional investors. Institutional investors are defined as entities that purchase at least ten properties in a calendar year. This translates to a 29 percent increase from the same period in 2015, marking an increase after two consecutive yearly declines in institutional investor activity.

Big Institutions Sell off Commercial Real Estate

Big institutions are selling commercial real estate as the market weakens due to rising interest rates and a surge in new supply. Brookfield Asset Management is one of the major firms that sold more properties in 2016 than they bought.

The demand for trophy properties is declining. Commercial real estate sales value fell by $58.3 billion, or 11 percent during the first half of 2016, according to Real Capital Analytics. This decline marks the first dip since 2009.

In 2016, Brookfield sold a net $4 billion in real estate. This year, the firm plans to sell an additional $1 to $2 billion. The firm is currently marketing a 49 percent stake in Manhattan's Brookfield Place office complex.

"We think now is an opportune time to reduce some of our exposure to that asset," Brookfield Asset Management's senior managing partner Brian Kingston told the *Wall Street Journal*. "We can recycle the capital into higher returning investment opportunities."

Large institutions are becoming less bullish on acquisitions because rising interest rates make bonds look more profitable as compared to real estate. In addition, a surge in new construction is increasing supply and lowering prices.

A benchmark index compiled by the National Council of Real Es-

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tate Investment Fiduciaries shows that real estate returns increased in 2016. However, the pace of the increase was slower than in years prior.

Fed Chair Says Rising Real Estate Prices Put Small Banks at Risk

High real estate prices have the potential to put small banks in a dangerous position, according to remarks from the Federal Reserve in a recent report to Congress. Federal Reserve Chairwoman, Janet Yellen, said in her testimony to the Senate Banking Committee that commercial real estate prices have increased so much that if prices were to suddenly drop, small banks would be devastated.

The Federal Reserve is becoming increasingly concerned about rising commercial real estate prices, especially in cities, such as New York, San Francisco and Boston. Yellen and other officials, including Boston Fed President Eric Rosengren, are looking at the growth of luxury housing with concern.

The majority of Federal Reserve officials have said that they would like to address any price bubbles through financial supervision rather than quickly raising interest rates. Although the Federal Reserve opted to leave interest rates unchanged in February, experts warn that the Fed would likely resort to raising rates in order to counter the effects of overheating markets, if left without any other options.

In addition to highlighting weaknesses in small banks, the Federal Reserve's report said that overall financial vulnerabilities in the United States have remained at a moderate level since mid-2016.

Outstanding riskier corporate debt also declined over the past year. However, the issuance of leveraged loans has remained strong.

Iowa Realtor Warns Agents about Email Scam

Wire fraud scams are a trending topic in real estate. However, Sue Dietz, CRS, a sales associate with RE/MAX Advantage Realty in Dubuque, Iowa, warns about a different type of scam. She says that scammers used her identity to create fake email addresses in her name and then sent fraudulent emails to offer referrals to other real estate agents.

The emails also contained fake contact information for Dietz. Unsuspecting recipients who responded to the emails were directed to download a file from Google Drive. However, the link was actually a link to a computer virus that allowed the scammers to scrape passwords and other personal information from her clients.

"Unfortunately, it is nearly impossible on the front end to prevent a fraudster from using your name in a scam," says Jessica Edgerton, associate counsel for the National Association of REALTORS®. "If you are the victim of any kind of identity theft, the best course of action is to immediately contact the Federal Trade Commission, the FBI, and your local authorities."

Edgerton recommends that real estate agents avoid using email to send sensitive or confidential information. Agents should also consider using two-factor (or multi-factor) authentication to protect their email accounts from hackers.

Mortgage Delinquencies Spike among Some Homeowners

A troublesome signal has appeared in the housing market. In the fourth quarter of 2016, Federal Housing Administration mortgage delinquencies rose to 9.02 percent from 8.3 percent in the third

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quarter, according to data from the Mortgage Bankers Association. The jump, which followed the lowest delinquency rate since 1997, was the result of loans made since 2014 and early-stage delinquencies that are just 30 days past due.

"We had been experiencing great credit quality for so long, and to suddenly see this quarter-over-quarter reversal was a surprise, and we're looking closely at it," MBA CEO David Stevens said.

Now the Trump administration will have to consider the risks of the FHA's portfolio of loans against weakening housing affordability. Home ownership remains at a 50-year low with young, first-time homebuyers unable to afford their first homes due to high costs, tight credit and high levels of student loan debt.

Analysts say they need more data before they can determine whether the uptick is just a blip or a burgeoning trend. However, there were signs in October 2016 that FHA loans were beginning to fail at a higher rate, with foreclosure activity reaching its highest level since 2007.

Next-Generational Homes Are the Latest Real Estate Trend

Allowing two families to live under the same roof is now a big trend in the real estate market, according to Lance Billingsley, a Phoenix, Ariz. real estate broker. Multi-generational or next-generational homes are changing and the number of homes built in this style is increasing.

"You would see a little mother-in-law suite here and there but there really weren't builders specializing in it as you see now," Billingsley said.

A real estate report suggests that 20 percent of people live with two or more generations under the same roof. Billingsley says that he saw this trend start to take off after the housing crisis. He says that a big incentive for people seeking homes with these living arrangements is the ability to split the mortgage payments.

Billingsley himself decided to buy a home this way after his dad became ill and he felt it would be best if his dad came to live with him. But he also wanted a house that could provide separate spaces, one for his dad and one for him and his own family.

Billingsley also predicts that in the future, separate living spaces will replace the garage of multigenerational homes and possibly be located off the back corner of houses. These design options allow family members to be close while still being able to live their lives independently.

Silicon Valley Is the Top U.S. Real Estate Market

Silicon Valley has the strongest commercial real estate market out of any major U.S. metro, according to a new report by JLL. JLL's City Momentum Index ranks 134 major business hubs from around the world based on 42 factors.

The report factored in changes in commercial space absorption, rent, construction, and investment in retail, office and hotel sectors. Of all the markets analyzed by the study, Silicon Valley outranked them all. For the past three years straight, Silicon Valley managed to retain the top spot in JLL's City Momentum Index.

Greg Matter, JLL's managing director in its Silicon Valley office, says that the region's economy is becoming more resilient as the breadth of industries and companies in Silicon Valley expands. The changes are a result of the tech industry expanding beyond traditional software and hardware into sectors like artificial intelligence and automotive technology.

"There definitely are industries that are high-growth on the hori-

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zon that really have been nurtured and really grown here," he said. "Looking at that, the next economic resurgence will, in all likelihood, start and end in Silicon Valley again."

Sunnyvale and Santa Clara Calif. were also named in the report as two of the top U.S. tech submarkets.

Top Three Legal Issues Facing Brokers

There are several legal issues that affect real estate companies today: website accessibility, copyright infringement and cyber fraud. During the 2017 REALTOR® Broker Summit in San Diego in February, National Association of Realtors General Counsel Katie Johnson summarized how brokers can mitigate these risks.

ADA Website Accessibility

The Americans with Disabilities Act mandates that physical places of public accommodation provide access to all people with disabilities. Some experts believe that these accommodations will eventually be broadened to include online accessibility standards.

Johnson recommends that businesses post accessibility notices on their websites that let users know the company is striving to become compliant or already is.

Copyright Infringement

VHT, Inc., a nationwide photography services company, recently took Zillow to court for copyright infringement and won a judgement for $8.3 million for violations. Agencies should make sure that they have ownership or unrestricted permission for the use of all of their listing and marketing photos.

Cyber Fraud

Real estate companies are at particular risk of becoming victims of cyber fraud with hackers stealing email passwords and then sending bogus messages to clients asking them to wire funds. Companies should take care when asking clients to wire funds and avoid using email to send them instructions.

Trump Cut Causes FHA Applications to Decline by 3.2 Percent

Applications for government-insured loans declined in January, resulting in an overall drop in mortgage volume. Total mortgage applications declined 3.2 percent on a seasonally adjusted basis, according to the Mortgage Bankers Association. Volume was down by 18 percent for the last week of January as compared to the same week one year ago.

FHA applications dropped by 13 percent as a direct result of the Trump administration decision to reverse a cut to the FHA's annual mortgage insurance premium just hours after the presidential inauguration ceremony. That cut would have decreased monthly payments for thousands of new, lower-income borrowers.

"Following the decision to suspend a proposed decrease in the FHA mortgage insurance premium, FHA refinance applications dropped more than 25 percent, while FHA purchase applications fell almost 6 percent," said Michael Fratantoni, chief economist for the MBA.

After declining slightly at the beginning of 2016, mortgage rates increased following the presidential election and now continue on an upward trajectory. The average contract interest rate for 30-year fixed-rate mortgages for conforming loan balances ($424,000 or less) increased to 4.39 percent, with points increasing to 0.34 for 80 percent loan-to-value ratio loans.

Although mortgage applications declined, home price gains con-

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tinue to increase. As housing affordability weakens across the country, demand for housing is also rising. Fratantoni predicts that home sales will grow in 2017, despite the lack of inventory.

Real Estate Agents: Stop Commoditizing Your Services

Across the country, there are thousands of real estate brokerages. Even though the overwhelming majority of real estate agents are earning regular commissions, agents everywhere are constantly worrying about the day when technology replaces their jobs. Knowing that there are companies already working towards that goal doesn't inspire confidence either.

The threat of automation completely replacing real estate agents is likely many years away. Right now that is not even the problem for agents who worry about their jobs. Too often real estate agents are putting themselves out of business by commoditizing their own services.

You may be commoditizing your services without even realizing the damage that you are doing to your business. The good news is that there are a few things you can do right now to save your job as a real estate agent from both automation and competing agents. Here are a few tips to help you turn things around and stop commoditizing your services.

Rethink Your Job Title

When real estate agents answer the question, "What do you do?" most respond by saying that they help people buy and sell homes or that they help buyers to find the perfect properties for their needs. However, that's where they start to go wrong.

Statements like this don't differentiate your services from other real estate agents in your area working for competing firms, especially since you know that your job is much more than that. Successful real estate transactions are important for demonstrating your competence as a real estate agent. But that's just a starting point. Your job is really about helping buyers and sellers get from the start of a real estate transaction to the end of that transaction as quickly and with as little hassle as possible.

Explain What You Do and Why You Do It

The reason the majority of the general public thinks all real estate agents are alike and equally capable is because so many fail to add a qualitative dimension when explaining to clients what they do and why they do it. When you tell a client that you are a real estate agent without any further explanation, you are commoditizing yourself.

Instead, when people ask about what you do for a living, say that your job is to reduce the stress of the real estate process. You can go into detail about how your services help to make navigating real estate transactions easier for your clients. Tell a story about or give examples of how your expertise made a real estate transaction more satisfying for a client. As you present the details of your examples or stories you have an opportunity to demonstrate passion for what you do, further differentiating yourself from the competition.

By reframing your job in terms of the guidance and expertise you offer clients, you'll demonstrate that you cannot be easily replaced by a computer or another agent.

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Co-Founder and President Cindy Koebele