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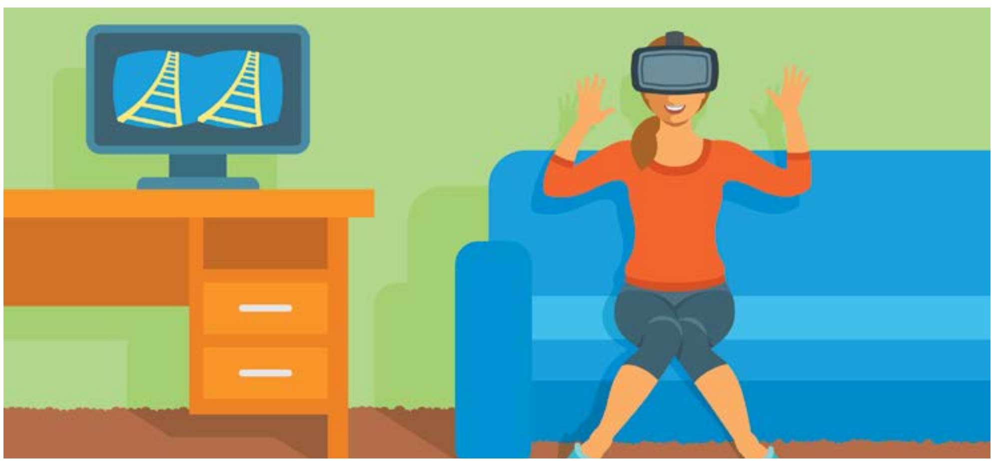
Virtual Reality Shakes Up Real Estate



Virtual reality (VR) is expected to shake up the real estate industry in the same way that internet real estate listings did. In fact, it might not be long before buyers can view their next house or apartment using a VR headset.

Now is the time, many analysts are saying. The technology has become significantly cheaper and easier to use. In addition, buyers and agents alike aren't as afraid of technology as they used to be and real estate markets have become more global than ever.

"It is a foregone conclusion that we'll be evaluating real estate this way in the future," said Gene Munster, a Twin Cities tech analyst and investor. He anticipates that VR will become the most significant development in real estate since the advent of the internet.

Already many real estate agents are giving "virtual tours" without goggles and using aerial drone tours to sell new development. These technologies allow homebuyers to shop more easily and narrow down their options without ever having to set up physical showings. Agents are also hiring companies that use sophisticated software to create 360-degree room views by piecing together still photos.

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Triggering an Emotional Response

Although these "virtual tours" are not actually three-dimensional, they allow buyers to look at every interior surface.

Moreover, it's a tool that has the power to create an emotional response that a single, static view of a room simply won't, putting buyers into spaces that could be hundreds of miles away.

Cathy Lawton, a Milwaukee homeowner, says that viewing a virtual tour of a 13-acre property near where her grandmother used to live in Minnesota was enough to convince her to make the seven hour drive to view it. When she arrived at the home, she says that it lived up to the impression provided by the virtual 360-degree tour, allowing her to quickly make an offer.

In addition to appealing to the emotions of sentimental shoppers and stimulating interest, 360-degree tours also make it difficult for sellers to hide features of the home that they'd rather buyers not see.

The new VR technology makes use of the kind of technology that gamers have been using for years by pairing headsets and goggles with a smartphone or computer. Clients can view computer-generated imagery and environments, giving them a feeling of being in the room, not just observing from a distance or from a single perspective or angle.

VR Options Expand

The major difference today is accessibility, which reached a turning point in March 2014 when Facebook bought Oculus, a leading VR headset company. This $2.3 billion investment has helped the entire VR industry to mature.

VR viewing devices are now available in a variety of models and price points, ranging from cardboard goggles that cost only a few dollars to sophisticated headsets with hand controllers costing hundreds. At the same time, the software that helps to transform images into three-dimensional environments has also become more sophisticated and accessible.

Several years ago, Silicon Valley company Matterport introduced special cameras that were designed to create virtual tours for real estate. Realvision, a company based in Minneapolis and Toronto, developed software that works with standard digital single-lens reflex cameras, including Oculus Rift, Google Cardboard, and Samsung Gear VR.

All-cash Chinese Buyers Disappearing From U.S. Real Estate Markets

In January, financial regulations in China tightened making it more difficult for investors to obtain the funds needed to invest in foreign real estate. These moves by the Chinese government, attempting to curb the massive amount of overseas investment taking place, have started to redefine how real estate deals are being made in the U.S.

Between April 2015 and March 2016, Chinese buyers paid all cash in 71 percent of U.S. real estate deals, while just 20 percent secured mortgages from U.S. lenders, according to the National Association of Realtors.

"They had the ability to pay cash, and they paid cash," said Alan Rosenbaum, CEO of Guardhill, who said the bank lends about $100 million per year to Asian buyers. "Now, it's more difficult to move money."

Previously most large retail banks wouldn't lend to foreign buyers because of difficulties with complying with "Know Your Customer" regulations. Now several New York City-based bankers have reported that traditional lending to Chinese buyers is on the rise since the

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January rules went into effect in China.

Despite the Chinese government's increasingly onerous capital flight controls, the demand for real estate investment from Chinese buyers is expected to climb. According to JLL, Chinese investment in real estate reached a record high of $33 billion in 2016, an increase of 53 percent from 2015.

Consumer Confidence Falls after Record High

Consumer confidence in the housing market declined from its record high in February, dropping 3.8 percentage points to a reading of 84.5 in March, according to Fannie Mae's Home Purchase Sentiment Index, a survey of about 1,000 Americans. The percentage of consumers who expressed a positive outlook on buying a home and their employment situation declined. However, the percentage of consumers who said now is a good time to sell surged 9 percentage points month over month.

"Strong home-price appreciation has turned into a double-edged sword for the housing market, as it boosted the net share of consumers saying it's a good time to sell to a record high, surpassing the plunging 'good time to buy' indicator for the first time in history of the survey," says Fannie Mae chief economist Doug Duncan.

The net share of Americans who say now is a good time to buy a home declined 10 percentage points from February. The net percentage of Americans who say now is a bad time to buy a home due to high home prices was 39 percent. Additionally, 44 percent of consumers believe home prices will rise, a decline of 1 percentage point from February.

The number of consumers who say their household income is significantly higher than it was 12 months ago declined 8 percentage points to 11 percent.

Immigrant Households Impact Success of Real Estate Market

A new study from the Urban Land Institute, "Home in America: Immigrant Housing Demand," analyzes nationwide data from the U.S. Census Bureau's American Community Survey. The study uncovers new data about the impact of immigrants on the U.S. real estate market. It makes the case that rising growth in immigration and the success of the housing market are intertwined.

The survey even suggests immigrants could one day become the primary driver of demand. According to ULI research, over the last two decades immigrants accounted for 28 percent of all household growth in the United States, and nearly all of the growth in households headed by someone under the age of 45 comes from immigrant families.

The study also found that immigrants are increasingly moving to the suburbs. Since 2000, there has been a shift in settlement patterns away from cities towards more affordable housing in the suburbs. In 2000, roughly half of the country's foreign-born population lived in the suburbs. In 2013, this figure rose to 61 percent nationally. The suburban immigrant population had also doubled in 20 major metropolitan areas.

Some of the cities, termed "remerging gateways," are those that had experienced lulls in population growth during the 20th century. Now these cities, which include Baltimore, Denver, Minneapolis, Seattle, and Tampa Bay, are expected to see resurgences in new arrivals.

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Multifamily Construction Loans Are Getting Harder for Developers to Find

Developers are finding it harder to obtain construction loans to build new apartment properties. Bank lenders — the traditional source of construction capital — are offering smaller loans in comparison to the cost of development, when they offer to lend at all.

Banks are still the largest player when it comes to financing. However, the loans they issue that once covered up to 75 percent of development costs now go only as high as 65 percent. Interest rates have increased also, typically floating between 275 basis points to 325 basis points over LIBOR.

Banks have become more cautious due to new regulations. Lenders of all types are concerned about rising vacancy rates in apartment projects. Despite increasing restrictions, developers can still rely on other sources of capital to fill in the gaps. Alternative financing options include life insurance company lenders, private equity debt funds, and the Federal Housing Administration (FHA) programs.

In addition, developers can potentially turn to new sources for money to build. “As banks face higher regulatory scrutiny and capital requirements due to Basel III HVCRE standards, non-bank lenders are entering the market with more ease,” says Justin Bakst, director of capital markets at research firm CoStar. Basel III’s “High Volatility Commercial Real Estate” (HVCRE) risk-weight requirements for lenders requires commercial acquisition, development, and construction (ADC) loans to be risk-weighted at 150% — up from pre-Basel III levels of 100%.

NAR Survey Finds Increase in Consumer Confidence in the Midwest and Rural Areas

President Donald Trump may have experienced sagging poll numbers since taking office in January, but his election appears to have lifted the spirits of a core group of his supporters when it comes to real estate and the economy. According to a new consumer survey from the National Association of Realtors, consumers in rural and middle America are convinced the best is yet to come in 2017.

In NAR’s ongoing quarterly Housing Opportunities and Market Experience (HOME) survey 1, respondents were asked about their confidence in the U.S. economy and their housing expectations. For the first quarter of 2017, the number of households who believe the economy is improving increased to its highest share in the survey’s five-quarter history (62 percent), up from 54 percent last quarter and 48 percent in March 2016.

The surge in positive sentiment about the economy was primarily from respondents living in the Midwest (67 percent; 51 percent last quarter) and rural areas (63 percent; 43 percent last quarter). In March 2016, only 49 percent of Midwesterners and 35 percent of those living in rural areas thought that the economy was improving.

“Stronger business and consumer morale typically lead to even more hiring and spending, which in turn encourages more households to make big decisions like buying a home. These positive developments would be especially good news for prospective homebuyers in the more affordable Midwest region.” said NAR Chief Economist Lawrence Yun.

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Purchases of Vacation Homes Declined for Second Straight Year in 2016

In 2016, purchases of vacation homes declined for the second straight year, as price growth and financial uncertainty crippled demand, the National Association of Realtors (NAR) reported in its 2017 Investor and Vacation Home Buyer Survey.

Yet investment home sales increased over the same period with more investors turning to financing and choosing to rent out more of their properties on a short-term basis.

Vacation home sales in 2016 declined by 21.6 percent from 2015 to 721,000, according to the survey. That followed a 2015 year-over-year drop of 18.5 percent, meaning that vacation home sales have declined by 36 percent in the last two years.

"With fewer bargain-priced properties to choose from and a growing number of traditional buyers, finding a home for vacation purposes became more difficult and less affordable last year." said NAR Chief Economist Lawrence Yun in a statement.

Financial market volatility also hurt vacation home sales as some affluent households opted not to buy or delayed plans until after the election.

However, the decline in vacation homebuyer demand did not impact home prices. Anemic housing supply drove up prices for vacation and investment homes in 2016 to levels that had not been seen in roughly a decade. The median vacation home price rose to $200,000, an increase of 4.2 percent from 2015 and the highest since 2006.

Rising Home Prices Drive Up Homeowner Debt

Americans are increasingly paying more for homes and the results are showing up in the form of debt on families' balance sheets. In 2017, the mortgage debt accrued by the average homeowner rose to $196,014, an increase of 2.5 percent over last year and 6.4 percent higher than nine years ago, according to a new study by Experian.

The median existing-home price in February was $228,400, up 7.7 percent from February 2016 ($212,100). The price increase was the fastest since January 2016 (8.1 percent) and marks the fifth year of consecutive year-over-year gains. The annualized rate of home sales climbed to 5.48 million in February, 5.4 percent higher than a year ago. More homes also sold at higher prices, fueling an increase in the average mortgage debt.

It's also not surprising that mortgage debt is greatest where home prices are the highest. Residents of Washington, D.C., had the highest average mortgage debt at $385,000, followed by California ($336,000) and Hawaii ($331,000), mirroring the list of the top most expensive states to buy a home.

Although mortgage debt is increasing, homeowners are becoming better at managing mortgage debt.

The 10 States Investing the Most in Commercial Real Estate

New commercial real estate accounted for 6.25 million American jobs and contributed $861 billion to the U.S. GDP in 2016, according to a new study, "Economic Impacts of Commercial Real Estate,"

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published by the NAIOP Research Foundation.

The annual study measures the contributions to GDP, salaries and wages generated, and jobs created and supported from the development and operations of commercial real estate.

A key factor in the U.S. economy's growth in 2016 was the continuing expansion of the construction sector. Construction spending was up 3.4 percent in 2016 over the previous year. In 2016, roughly 410 million square feet of industrial, office, retail, and warehouse space were added to the market, which is enough to house over 1 million new workers.

"The importance of commercial development to the U.S. economy is well established, and the industry's growth is critical to creating new jobs, improving infrastructure, and creating places to work, shop, and play," says Thomas Bisacquino, NAIOP president and CEO.

The 10 states that had the highest construction values for office, industrial, warehouse, and retail combined, were N.Y., Texas, Calif., La., Fla., Ga., Mich., Ill., Pa., and Mass. according to the report.

How Sellers Can Avoid the Downsides of Hot Real Estate Markets

There are many benefits to a hot sellers' market, where there are few listings but lots of buyers, including:

- Less "keep the house perfect" strain on sellers and their families.
- Less cost and effort to improve the condition of the property to make it "sales-ready."
- Significantly higher sales price than listing price.

Hot markets don't stay hot for long though. If there's an urge to sell, it should be done as soon as possible to get the best return on investment.

But getting the best return isn't the only consideration. Sellers need to think about what their next move will be after they sell. Here are some things to consider:

- If the plan is to buy again in the same neighborhood, market research is essential. The higher price obtained selling an existing home means there will also be a higher price paid purchasing another home if it's in the same neighborhood. It's possible for sellers to spend the majority of their real estate profit buying a home that is smaller or has fewer amenities than the home they sold.
- Purchasing at peak market might not be the wisest strategy. Real estate values often increase rapidly. However, buying into a hot market can force someone to buy a home that requires renovations.
- Consider renting until the market cools down. In a hot market, it may be better to rent until the next market downturn. The downside is that hot real estate markets also mean higher rental rates. So it's important to consider how long someone is willing to live in rental housing before buying another home to live.
- Schools vary. Is the temporary rental accommodation or next buy within the catchment area of current or preferred schools?

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"There is always room to improve for the customer. At TitleSmart we're obsessed with all of the little things that make up a great customer experience."

Co-Founder and President Cindy Koebele

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