Real Estate Digest

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The Best, Worst Metros for Real Estate Investors

Many people enter the world of real estate investment with the hope of making extra money without having to spend a lot of time. Although buying rental property and collecting checks from tenants might seem like an easy path to financial stability, the reality can be a bit more challenging.

Investment returns aren't guaranteed and housing markets aren't predictable. In addition, finding an affordable home to lease out in an area where rents are on the rise can be tough. So where should real estate investors consider buying now? Here are the best and worst metros for real estate investors.

Out of all of the metros in the United States, for the first quarter of 2017 Cleveland was named the best for single-family investment houses, according to HomeUnion, a company based in Irvine, Calif., that helps everyday investors find, buy, and manage their properties.

Single-family homes in Cleveland are still affordable with the median price of an investment home coming in at just $75,512, according to the report. Single-family rentals in the metro appreciated 16.2% annually from the first quarter of last year to the first quarter of this year. They also delivered an 11.5% return on investment for all cash-sales in 2017.

"The Midwest and the Southeast generate the highest returns," says HomeUnion's director of research, Steve Hovland.

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"The rents are high and the prices of the homes are low compared to most of the country."

The majority of investors in these markets came from more expensive states, such as California, New York, Colorado, and Texas, where residents are having a harder time affording a home. So they've resorted to buying rental properties in cheaper parts of the country and using the income to plump up their nest eggs, finance their retirement, or even save up for a down payment on a home in their area.

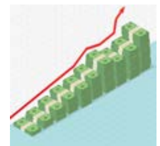
"You can buy a property, get a mortgage on a property, and then you can have a tenant who will not only pay off your mortgage, pay for your management company, pay for your repairs, and put a profit in your pockets," says James Wise, owner of the Holton-Wise Property Group, a local company that buys and sells homes for investors and offers property management services. "You can't do that in L.A."

Cleveland wasn't the only metro that made sense for potential real estate investors, according to the HomeUnion report. The other metros that ranked in the top 10 were Cincinnati, Ohio, Columbia, S.C., Memphis, Tenn., Richmond, Va., Oklahoma City, Okla., Indianapolis, Ind., St. Louis, Mo., Pittsburgh, Pa., and Philadelphia, Pa. These cities are mostly located in the Midwest or are former manufacturing metros with affordable homes on the market.

The worst markets for budding real estate investors were primarily located in the nation's highest-priced cities along the California coastline. The top 10 were San Francisco, Calif., San Jose, Calif., Orange County, Calif., Los Angeles, Calif., San Diego, Calif., Seattle, Wash., Sacramento, Calif., Salt Lake City, Utah, Oakland, Calif., and Portland, Ore.

While the cost of homeownership in the 10 worst metros has skyrocketed in recent years, home prices could decrease in the future says Hovland. That would make it possible for investors who are uncomfortable with taking on risk to invest in these areas.

Five States with the Highest, Lowest Cost of Living



Just how widely does the cost of living vary from state to state? GoBankingRates.com reviewed 2016 data from the Missouri Economic Research and Information Center, examining six categories of housing, living expenses, groceries, utilities, healthcare, transportation, and miscellaneous expenses. The site used the data to calculate an overall cost of living index for each state and the District of Columbia.

The findings ranked states by highest cost of living, with Hawaii ranked number one. Its cost-of-living expenses are 67.4 percent higher than the national average and its housing costs higher than the national average by 130 percent.

1. Hawaii
2. Washington, D.C.
3. New York
4. California
5. Massachusetts

The states with the lowest cost of living are:

1. Mississippi
2. Indiana
3. Michigan
4. Arkansas
5. Oklahoma

Mississippi is the least expensive state with a cost of living 14 percent below the national average, according to GoBankingRates.com's study. Mississippi housing costs are 31.6 percent lower than the national average and groceries are nearly 6 percent lower than the national average.

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Americans' Confidence in Economy Reaches Post-Election Low

Americans' confidence in the economy declined recently but remains higher than it was before the 2016 presidential election. Gallup's U.S. Economic Confidence Index averaged +2 for the week ending May 14, which is the lowest score recorded yet this year. This score essentially remained unchanged from the +3 recorded during the prior week, but it marks a considerable drop from the index's high point of +16 in early March when the stock market reached record highs.

While Gallup's U.S. Economic Confidence Index has slumped since March, it has remained in positive territory. In the last full week before the election, the index was -11. The week of the election, it rose 11 points to a score of 0. One week later it rose again to +4. The May 14th weekly average of +2 marks the lowest score since the presidential election.

Gallup's U.S. Economic Confidence Index is the average of two components: how Americans rate the economy's conditions and whether they believe the economy is improving or getting worse. The index has a maximum of +100, which would signify that all Americans think the economy is doing well and improving.

The theoretical minimum of -100 for the index would indicate that all Americans believe the economy is doing poorly and getting worse.

EB-5 Program Extended Through September 2017

The controversial EB-5 program, which provides a way for wealthy foreigners to obtain green cards by investing in the U.S., has been extended for at least another two months thanks to a spending bill passed by the Senate.

The $1.1 trillion in federal funding that averted an impending government shutdown wrapped in an extension for EB-5 just one day before the immigrant visa program was set to expire.

The extension buys lawmakers and industry lobbyists more time to come up with a solution for reforming the program before it expires again on September 30.

For two years, lawmakers have passed extensions in lieu of permanent legislation reforming the EB-5 program, which has proved opaque and vulnerable to corruption. Critics have also said that it has failed to spark development projects in rural and depressed urban areas, in spite of legislative intentions when the program was created in 1990.

Each year, U.S. Citizenship and Immigration Services sets aside 10,000 visas for investors and their families through the program.

"American workers and local developers depend on EB-5 as a vital source of capital," said Invest in the USA, a trade organization for the EB-5 program, in a blog post, adding it hopes the end result will "shape the program into an even better economic development tool."

Flexible Workspace Real Estate Trend Set to Take Off

It was not long ago that co-working began its rapid rise in popularity disrupting the traditional office market. These days, there is a new disruptor; third-party non-core real estate providers.

These providers offer temporary meeting space, conference rooms, and event space to companies that would have traditionally leased or rented space through a landlord. The goal is to provide employers with temporary solutions, helping them shrink

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square footage and giving them more options and flexibility

"This new segment of conference and meeting events being outsourced is a whole new facet within flexible workspace that's about to explode," said Colliers International's Ryan Hoopes, senior associate of Flexible Workspace Advisory Services in Dallas.

As employers shift toward smaller leases, demand for these third-party providers is growing and companies are sprouting up who want to get into the market. In April, event space liaison Bizly launched its online platform. The platform has raised $1.5M in venture capital and is undergoing another round of fundraising soon.

Home Builders Target Millennials with Lower-Priced Homes

Millennials are finally starting to buy homes. The trouble is, there simply aren't enough homes for sale that meet their needs, at least not that they can afford.

The nation's recovering homebuilders want to step up to the plate, but doing so will hurt their bottom lines.

"Since the recovery has really been at the middle end of the market, home prices have gone up and land prices have followed," said Megan McGrath, managing director at MKM Partners. "So it is very, very hard to make a good profit at a lower price point these days."

In the wake of the Great Recession, investors both small and institutional began buying hundreds of thousands of foreclosed properties. The overwhelming majority of these properties were originally lower-priced so-called starter homes.

Some of these homes were just a few years old thanks to the massive boom in construction.

Rather than sell these homes when prices rebounded, investors have held onto them turning them into single-family rentals, causing an inventory shortage.

Now, the only way for builders to lower prices and is to take a hit to their margins and make their profit on volume, which would require big growth in orders for new homes. So far, we are not seeing that.

Builders have been increasing overall production slowly and carefully, but single-family construction is still 18 percent below its 25-year average.

Housing Starts Decline 2.6 Percent in April

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development published their findings for new residential housing starts in April. Construction of new homes declined in April, marking two straight months of declining activity, marking a five month low.

The Commerce Department says housing starts fell by 2.6 percent in April to a seasonally adjusted annual rate of 1.17 million units. This decline followed a 6.6 percent decline in March.

The number of single-family housing starts in April was 835,000 — 0.4 percent above the revised March figure of 832,000. The April rate for units in buildings with five units or more was 328,000.

As of April, homebuilding was at its lowest point since last November. The weakness was led by a large drop in the volatile apartment construction sector.

Until now, housing construction has been one of the few bright spots for the economy.

Analysts do expect to see a reversal soon of the current decline in the number of Americans seeking homes, driven by strong employment gains and low employment.

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Luxury Real Estate Starting to Cool Off

After several years of rapid growth, luxury real estate demand across the globe is slowing. Sales of homes priced at $1 million and higher increased just 1 percent in the last year, after enjoying increases of 8 percent in 2015 and 16 percent in 2014, according to a new report from Christie's International Real Estate.

Sales for 2016 and the first part of 2017 are starting to show "a shift toward more of a buyer's market," Christie's International Real Estate CEO Dan Conn said in a statement.

The report also confirmed that consumer sentiment is the most important factor affecting the movement of luxury home prices. The election of Donald Trump, restrictions on Chinese capital flows, and Brexit are some of the political developments causing uncertainty amongst high-end buyers.

Prices for luxury homes have increased 2 percent worldwide, but fell 3 percent in the United States. It's also taking sellers longer to move these properties with luxury homes sitting on the market an average of 7 months longer than last year, an increase of 13 percent from 2015.

However, there are still U.S. markets where luxury sales are strong. The report ranked New York City, Los Angeles, San Francisco, and Miami as four of the top 10 cities for luxury real estate.

Market Competition Intensifies for Millennial House-Hunters

After many years of experts lamenting how Millennials weren't interested in becoming homeowners, it turns out that many are actually looking for homes. However, they're facing a lot of competition.

Millennials are the largest group of homebuyers. They also represented around 45 percent of all purchase loans in January 2017, up from 42 percent a year ago, according to Ellie Mae, a software company that analyzes mortgage data.

"Millennials are mostly first-time buyers and they are competing against repeat buyers who have more buying leverage and experience," said Javier Vivas, manager of economic research for Realtor.com.

New buyers are also facing competition from buyers who started looking last year, but still haven't found homes to buy.

A shortage of available homes has also resulted in higher prices, particularly among starter homes that tend to fall within the budgets of first-time homebuyers.

As compared to February 2016, there were 3 percent fewer homes available on the market in February, according to a recent report from Zillow, which also says home values are up nearly 7 percent.

That's led to bidding wars and intense competition among buyers, especially at the lower end of the market. Millennials are also facing a tighter lending environment compared to a decade ago. However, they do have one major advantage: low interest rates.

How Realtors Are Using Mobile Technology

The immense growth in the use of mobile technology — specifically consumer-facing real estate technology — has resulted in some significant changes for Realtors.

A recent data report by Flurry, an analytics firm, found that the average U.S. smartphone user spends at least five hours per day using a mobile device, an increase of 20 percent as compared to 4Q 2015. 92 percent of that time was spent inside an app.

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In addition to consumers, mobile devices are very important to Realtors. A survey conducted by Realtors Property Resource (RPR) found that 98 percent of Realtors believe a mobile device is "moderately important," "important" or "very important" for their day-to-day work.

How Apps Have Changed Real Estate

Apps are enabling Realtors across the nation to perform job-specific tasks while on the go. Realtors can view data, aggregate buyer queries, schedule real estate showings, and open lockboxes. Certain apps also enable agents to send custom reports to clients via app-based messaging.

Mobile apps allow Realtors to send information to buyers and sellers by text or email. These streamlined communication channels save Realtors valuable time.

Most and Least Popular Mobile Activities for Realtors

Client communication and housing research topped the list of the most popular mobile activities for Realtors, according to the RPR study. Other activities that are popular include researching housing data (72 percent), performing financial calculations (44 percent), prospecting (34 percent) and client presentations/home showings (26 percent).

The least popular activities performed by Realtors on a mobile device include tours (21 percent), open houses (19 percent) and listing presentations (11 percent).

Knowledgeable agents and brokers understand that smartphones are a key part of today's real estate marketplace. According to the 2017 Realtor Mobile Usage Report, 87 percent of Realtors agree that clients want to receive new housing alerts, market activity reports, and engage more directly with real estate communications on their mobile devices.

The majority of Realtors also reported that they frequently text their clients new house alerts, neighborhood reports, and financial information, instead of sending it via email. Realtors often work from a remote location — such as a car or an open house — which makes their smartphone their preferred option for quickly accessing data.

When asked about how much time they spend on a mobile device every day, 42 percent of Realtors reported they either spend "five to seven hours" or "eight or more hours."

Mobile technology is no longer just a helpful a tool to make Realtors better at their jobs, it's now a mandatory medium for the delivery of data.

Successful Realtors use the tech-driven consumer's lifestyle to their advantage by sharing thousands of home characteristics, reports and information about school districts and neighborhoods, directly to buyers or sellers via a mobile device.

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